

## *Chronology of financial markets*

### *July 1999 - July 2000*

#### **July 1999**

On July 22, the Central Bank presented an inflation forecast of a 3.0 percent average increase in consumer prices between 1998 and 1999 and an increase of 4.0 percent in the course of 1999. Prices were projected to rise by 1.0 percent during the third quarter, or 5.2% on an annual basis.

#### **September 1999**

The Housing Financing Fund sold housing bonds for 2.0 billion kr. from two classes, BN20-0101 and BN38-0101.

On September 15, The treasury announced, at the request of the Minister of Finance, its intention of redeeming government securities and reducing the outstanding government benchmark securities.

On September 20 and 21, the Central Bank raised its interest rates by 0.6 percentage points.

#### **October 1999**

On October 25, the Central Bank presented an inflation forecast of a 3.3 percent average increase in consumer prices between 1998 and 1999 and an increase of 4.6 percent in the course of 1999. Prices were projected to rise by 1.0 percent during the fourth quarter, or 4.1% on an annual basis.

The Treasury sold its 51% holding in FBA (The Icelandic Investment Bank) for 9.7 billion króna.

On October 25, the Central Bank began publishing statistics on the Icelandic economy on its website [www.sedlabanki.is](http://www.sedlabanki.is). Statistics mainly relate to areas directly under the Bank's field of activities and are upgraded weekly.

#### **November 1999**

The first issue of the Central Bank's Monetary Bulletin was published on November 24. This quarterly publication contains coverage of economic and

monetary issues and financial market developments, in addition to articles and statistics.

#### **December 1999**

The treasury sold 15% of its holdings in Landsbanki and Búnaðarbanki. Shares in the banks were sold both by subscription and bid. The sales value was just under 6 billion kr.

The US credit rating firms Moody's Investor Service and Standard & Poor's confirmed their credit ratings for the Republic of Iceland. Ratings are Aa3 and A+ for long-term liabilities and P-1/A-1+ for short-term liabilities denominated in foreign currency. For liabilities in Icelandic króna the Republic received the top rating, Aaa from Moody's and AA+ from Standard & Poor's.

On December 8, the Althingi (parliament) passed Act no. 90/1999 on the Security of Payment Orders in Payment Systems. The Act covers the payment systems operated in Iceland.

On December 21, parliament passed Act no. 96/1999 amending the Central Bank Act no. 36/1986, with later amendments. The amendment extended the definition of liquidity specified in Art. 8 of the Act.

New rules on liquidity of credit institutions which have required deposits went into effect on December 31. Based on different principles from earlier rules, these involve a comprehensive assessment of their liquid assets and liquid liabilities.

#### **January 2000**

New rules on indexation of savings, credit, etc. went into effect on January 1. The permissible difference between credit institutions' indexed assets and liabilities was extended from 20% to 30% of equity. Scheduled provisions in the Central Bank's rules from June 1995, changing authorization for indexation of savings and lending, were not implemented.

The minimum term for indexation to apply will remain 3 years for deposits and 5 years for loans.

On January 1, an amendment to the Central Bank Act no. 36/1986 entered into effect, transferring responsibility for the Bank from the Minister of Commerce to the Prime Minister.

On January 1, Greidslumidlun hf. (Visa Iceland) was granted a permit to operate as a credit institution.

On January 12, the Central Bank raised its interest rates by 0.8 percentage points.

On January 24, the Central Bank presented an inflation forecast of a 5% average increase in consumer prices between 1999 and 2000 and an increase of 3.8% in the course of 2000. Prices were projected to rise by 0.9% during the first quarter, or 3.7% on an annual basis.

#### February 2000

New rules on the interbank market for króna went into effect on February 1. The main change was that market participants undertake to make offers for specified sums with a maturity of 9 and 12 months. The Central Bank will calculate and publish REIBOR and REIBID 9- and 12-month rates.

New rules on Central Bank transactions with credit institutions which have required deposits went into effect on February 1. The main changes involved the formal incorporation of provisions concerning correction of transaction errors, and switching of the Central Bank's deadline for announcing forthcoming weekly repo auctions from Friday after closing to the Monday morning. A new bond category was announced, SLST023/2, which may be used in transactions with the Central Bank.

On February 3, the international credit rating firm Fitch IBCA gave the Republic of Iceland a credit rating of AA- for long-term liabilities in foreign currencies. The Republic was given the rating F1+ for short-term foreign liabilities and AAA for its domestic liabilities, which is the highest rating given by the firm.

On February 11, the Central Bank raised its interest rates by 0.3 percentage points and announced that it had widened the exchange rate band from  $\pm 6\%$  to  $\pm 9\%$ .

#### March 2000

On March 21, new rules took effect on interbank transactions in domestic currency. The main change involved setting a maximum interest rate margin between deposits and lending in participants' bids for one month or more. The maximum margin is 25 points. No maximum margin is stipulated for transactions of a shorter term.

On March 30, the Minister of Commerce granted FBA a licence to operate as a commercial bank in accordance with Art. 4 of the Commercial Banks and Savings Banks Act no. 113/1996.

#### April 2000

On April 10, Íslandsbanki and FBA signed a memorandum of intent on a merger which led to the creation of a new company under the name Íslandsbanki-FBA.

#### May 2000

The Central Bank presented an inflation forecast of a 5.5% average increase in consumer prices between 1999 and 2000 and an increase of 5.0% in the course of 2000. Prices were projected to rise by 1.4% during the first quarter, or 5.7% on an annual basis.

In the middle of May two of the declared market makers for treasury instruments on the Iceland Stock Exchange announced, with one month's notice, that they intended to cease market making.

#### June 2000

On June 2, Íslandsbanki-FBA formally commenced operations.

The US credit rating firm Moody's Investors Service gave Íslandsbanki-FBA a credit rating of A2 for long-term obligations, Prime-1 for short-term obligations and C for financial strength.

On June 7, following a tender, the Debt Management Agency signed an agreement with Kaupthing, Búnadarbanki Íslands, Íslandsbanki-FBA and Icebank. From the date of signature these banks are authorized to title themselves approved market makers for treasury bonds. The agreement defines the market makers' obligations regarding presentation of bids on ISE and the maximum spread between buying and selling yields. The Debt Management Agency will pay the market makers a turnover commission for market making. The agreement stipulates

four benchmark treasury bond classes, three of them indexed and one unindexed. At the same time, the Debt Management Agency undertook to improve its dissemination of information.

On June 19, the Central Bank raised its interest rates by 0.5 percentage points.

The Housing Financing Fund made an agreement with Landsbanki Íslands and Búnadarbanki Íslands on market making for housing bonds and housing mortgage bonds. From the date of signature these banks are authorized to title themselves approved market makers for housing bonds and housing fund bonds. The Housing Financing Fund selected its market makers in the same way as the Debt Management Agency and its agreement is comparable in all respects. At the same time, the Housing Financing Fund announced that henceforth it would seek to notify the market on a regular basis about information which may have an impact on bond price formation.

On June 30, the Minister of Commerce approved the merger between Samvinnfund and Fjárvangur Securities into Frjalsi Investment bank, which is a credit institution in accordance with Act no. 123/1996.

#### July 2000

On July 6, Icebank notified the Central Bank of its decision, effective one month later, to withdraw from participation in the interbank foreign exchange market.

On July 13, the interbank foreign exchange market was closed between 10:00 and 12:00 hrs, on the decision of market makers. The decision was made because of heavy trading in the foreign exchange market and a sharp weakening of the króna that morning. The króna fell somewhat in June and July in several speculative attacks.

On July 20, the currency basket was revised on the basis of Iceland's foreign trade in goods and services in 1999. The table below shows the new basket and the change from the former basket.

New currency basket (%)					
Based on foreign trade in 1999					
<i>Country</i>	<i>Currency</i>	<i>Exports</i>	<i>Imports</i>	<i>Average</i>	<i>Change from prev. basket</i>
USA .....	USD	25.57	24.95	25.26	0.57
Britain .....	GBP	15.14	13.58	14.36	1.36
Canada .....	CAD	1.83	1.02	1.42	0.09
Denmark .....	DKK	8.41	9.37	8.89	0.52
Norway .....	NOK	6.85	8.37	7.61	0.26
Sweden .....	SEK	2.58	5.57	4.07	0.35
Switzerland .....	CHF	3.16	1.06	2.11	-0.39
Euro zone .....	EUR	32.21	30.64	31.43	-2.92
Japan .....	JPY	4.25	5.44	4.85	0.16
<i>North-America</i> .....		27.40	25.97	26.68	0.66
<i>Europe</i> .....		68.35	68.59	68.47	-0.82
<i>European Union</i> .....		58.34	59.16	58.75	-0.69
<i>Japan</i> .....		4.25	5.44	4.85	0.16
Total .....		100.00	100.00	100.00	0.00

