

## *Chronology of financial markets*

### *April 2000 - April 2001*

#### **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 authorised 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 non-indexed. 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 fund bonds. From the date of signature these banks are authorised 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 Frjálsi 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.

On July 18 trading began on Nasdaq in DeCode Genetics' shares.

On July 18 an announcement was made of Landsbanki's purchase of a majority of shares in British

investment bank The Heritable and General Investment Bank Ltd. (HGI).

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

New currency basket (%)					
Based on foreign trade in 1999					
Country	Currency	Exports	Imports	Average	Change from prev. basket
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
North America.....		27.40	25.97	26.68	0.66
Europe.....		68.35	68.59	68.47	-0.82
European Union.....		58.34	59.16	58.75	-0.69
Japan.....		4.25	5.44	4.85	0.16
Total.....		100.00	100.00	100.00	0.00

#### August 2000

On August 8, Icebank withdrew from participation as a market maker in the interbank foreign exchange market.

#### September 2000

On September 4, the Danish Internet bank Basisbank began operations. Íslandsbanki-FBA owns a one-quarter share in Basisbank.

On September 11, the number of market makers for housing bonds and housing fund bonds increased from two to five when Íslandsbanki-FBA, Kaupthing Investment Bank and Icebank began participation. Prior market makers were Búnadarbanki and Landsbanki.

On September 29, Búnadarbanki announced that it has applied to the banking authorities in Luxembourg for a permit to operate a bank there.

#### October 2000

On October 2, the draft treasury budget for 2001 was presented to parliament, assuming a surplus of 30 billion kr.

On October 13, the government of Iceland instructed the boards of directors of Búnadarbanki and Landsbanki to initiate discussions on merging these banks, and announced that a prior ruling would be sought from the Competition Council.

On October 20, revised rules on the interbank foreign exchange market went into effect. Two main changes were made from the earlier rules. A provision authorising market makers to agree on temporary suspension of trading was withdrawn, and the minimum binding amount for trading was raised from USD 1 million to USD 1½ million.

On October 26, Kaupthing hf. was listed on Iceland Stock Exchange.

On October 27, Íslandsbanki-FBA launched a 250 million floating rate note issue, the largest eurobond issue ever made by an Icelandic financial institution.

#### November 2000

On November 1, the Central Bank raised its interest rates by 0.8 percentage points. After the rise, prepaid interest on Central Bank intraday lending is 12.4% and interest on repurchase agreements with deposit institutions is 11.4%.

On November 7, Bonus Dollar Stores, a subsidiary of Baugur hf., announced it had signed an agreement with Institutional Equity of Dallas which would act as lead manager for the listing of Bonus Dollar Stores on Nasdaq Small Caps in connection with its IPO. The company aims for listing in February 2001.

On November 10, the Minister of Finance announced that, instead of amortising the 15 billion kr. of its foreign debt which matures in 2001, the treasury would roll over the debt with new foreign borrowing.

On November 14, Íslandsbanki-FBA, Landsbanki and Icebank signed an agreement on issuance of T-bills and trading in the secondary market. The agreement aims to secure T-bill issues and boost secondary market price formation. Primary dealer auctions will take place at intervals of two months.

#### December 2000

On December 4, Íslandsbanki-FBA announced plans to purchase a 56.2% shareholding in Rietumu Banka of Latvia. The Íslandsbanki-FBA board approved the terms of the acquisition subject to due diligence and approval by the Central Bank of Latvia.

On December 18, the Competition Board ruled that the proposed merger of Búnadarbanki Íslands and Landsbanki Íslands would contravene the Competition Act.

On December 22, the Central Bank of Latvia approved Rietumu Banka's purchase of a 100% holding in another Latvian Bank, Saules Banka. The merger has created one of the largest corporate and private banking entities in the Baltic.

Trading on Iceland Stock Exchange reached a record volume on 29 December at 12.5 b.kr.

On December 31, Kaupthing and its clients signed a declaration of intent with Olúfúlagid oil company, Samvinnulífeyrissjóður pension fund, Traustfang investment company and Vátryggingarfélag Íslands insurance company, together with Isoport A.S., whereby Kaupthing undertook to purchase at least 2/3 of total share capital in Frjálsi Investment Bank from the above parties. The declaration of intention was signed subject to approval by the sellers' boards and due diligence.

#### January 2001

On January 10, Búnadarbanki Íslands announced that it had been notified by the Financial Supervisory Authority on January 5 of the need for a further investigation into trading by the bank and its equity fund with shares in Pharmaco hf. over the period from June 7, 1999 to March 2000. In the FSA's opinion, Búnadarbanki and its equity fund were in possession of confidential information during the said period.

On January 24 the Central Bank traded in the inter-bank foreign exchange market following a dive in the króna index after the market opened at 9:15. The Central Bank sold US dollars for 2.06 b.kr., which served to restore calm to the market.

On January 26, the Central Bank signed an agreement with the German bank DePfa Europe on a USD 250 million credit facility, to increase its scope for taking measures in the foreign exchange market.

#### February 2001

The US credit rating agency Moody's Investor Service affirmed its credit rating for the Republic of Iceland in a news release on February 7. In its new report on Iceland, Moody's considered Iceland's credit rating stable, reflecting substantially improved public sector debt levels and the government's firm economic policies which have laid the foundation for robust growth and stability. Comprehensive structural reforms undertaken over the past decade have "involved budget consolidation, financial and product market deregulation, enhanced diversification of the productive and export base, and increased monetary stability. When combined with the refinement of fisheries management and a more liberal attitude toward foreign investment, the favorable macroeconomic environment facilitated a burst of growth and a dramatic improvement in living standards," Moody's reported. However, it warned that "this rapid growth has engendered serious imbalances that could imperil Iceland's hard-won economic stability going forward."

The National Debt Management Agency announced results of an issue of RIKB 07 0209, a new non-indexed, zero coupon bullet note maturing on February 9, 2007.

On February 13, it was announced that the marketing division of Frjálsi Investment Bank would be discontinued, following the acquisition of a majority holding in it by a group led by Kaupthing hf.

#### March 2001

On March 16, the National Debt Management Agency held its last auction under the agreement on a new system of authorised dealers for T-bills treasury bills and market makers for them.

From March 23 to 27, the Central Bank of Iceland repeatedly needed to sell US dollars for domestic currency with the aim of defending the fluctuation band of the króna. In all, it sold dollars for 6.8 b.kr. The main cause of the unease was uncertainty about the outcome of the Central Bank's annual meeting which had been announced for March 27.

On March 27, the Central Bank and the Prime Minister of Iceland signed a declaration on a reform of the monetary policy framework which went into effect on March 28. Instead of its intermediate objec-

tive of maintaining the exchange rate within a fluctuation band, the Central Bank will henceforth target monetary policy towards an inflation rate as close as possible to 2½%, with specified tolerance limits. The government of Iceland grants the Central Bank of Iceland full independence to apply its instruments in order to achieve its inflation target.

At the same time as the announcement of the reform in monetary policy, the Central Bank announced that it had lowered the interest rate on its repo agreements with credit institutions by 0.5 percentage points.

#### April 2001

On April 17, the treasury took a 250 million euro credit facility managed by Dresdner Bank.

On April 26, Frjálsi Investment Bank was de-listed from Iceland Stock Exchange. After a takeover bid, Kaupthing hf. and an investor group that it led had acquired 98.64% of total capital stock in Frjálsi Investment Bank, which thereby no longer fulfilled conditions for listing on ICEX.