

Economic and monetary chronicle 2012

January 2012

On 3 January, it was announced that the Republic of Iceland and the Central Bank of Iceland had decided to draw the full amount of the Nordic loan facilities. The loans concerned were negotiated in connection with the Government-IMF Stand-By Arrangement programme that concluded in 2011. The decision to draw on the loans was made in view of the situation in the global credit markets. In all, the Nordic loan facilities totalled 1,775 million euros (just under 300 b.kr. at the current exchange rate) and were to expire at the end of the year. The amount of the loan was 140 b.kr.

On 9 January, the Financial Supervisory Authority announced that it had imposed per diem fines on Stapi Pension Fund in the amount of 200,000 kr. per day due to shortcomings in the Authority's access to the fund's financial information.

On 10 January, the Financial Supervisory Authority approved the merger of Tindar verðbréf hf. and Auður Capital hf. under the name of the latter, on the basis of the Act on Financial Undertakings.

On 12 January, the Central Bank of Iceland offered to purchase euros in exchange for Icelandic krónur for long-term investment in the Icelandic economy, or in exchange for payment in Treasury bond series RIKS 30 0701. The Central Bank offered to purchase up to a maximum of 100 million euros in the two auctions combined. The objective of the measures was to sell Icelandic krónur for foreign currency to parties that have decided to invest in the Icelandic economy or in Icelandic Treasury bonds for at least five years. The deadline for submittal of bids was 15 February 2012.

On 20 January, the negotiating committees of the member organisations of the Icelandic Federation of Labour (ASÍ) and the Confederation of Icelandic Employers (SA) announced that the review committee had decided not to terminate the wage agreement signed on 5 May 2011, even though the commitment given by the Government in its statement at the time of the settlement had not been fulfilled. In the parties' opinion, other conditions considered during the review of the wage settlement had been met: that purchasing power must have grown in 2011, that prices must have been stable, and that the króna must have appreciated markedly.

On 23 January, it was announced that the board of directors of the Central Bank of Iceland Holding Company ehf. (ESI) had decided to drop claims against holders of guarantee capital in Sparisjóður Svarfdæla. The claims in question were loans granted by Saga Investment Bank to over 100 parties at the end of 2007 in connection with an increase in Sparisjóður Svarfdæla guarantee capital.

On 25 January, the Financial Supervisory Authority ruled that Íslensk verðbréf hf. was eligible to own a qualifying holding of up to 50% in T Plús hf., in accordance with the Act on Financial Undertakings.

On 26 January, Parliament passed Act no. 5/2012, authorising the Government to approve an increase in Iceland's International Monetary Fund (IMF) quota and confirm amendments to the IMF Articles of Agreement on Iceland's behalf. The Act authorises the Government to negotiate an increase in Iceland's IMF quota from SDR 117.6 million to SDR 321.8 million. The Central Bank of Iceland is to contribute the funds needed for the quota increase. The Government is also authorised, on behalf of Iceland, to approve the amendments to the IMF Articles of Agreement that concern the arrangements for the Executive Board and were approved by the Board of Governors of the Fund on 15 December 2010.

On 26 January, the Supreme Court ruled that the Icelandic Government was not liable to compensate the losses of those who owned shares in Landsbanki money market funds at the time the banks collapsed in 2008.

February 2012

On 1 February, Parliament passed Act no. 8/2012 Amending the Act on Public Limited Companies and the Act on Private Limited Companies (simplification of merger and division rules, etc.). The Act primarily incorporates into Icelandic law EU Directive 2009/109/EC, which amends four directives in the field of company law. The main purpose

of the Directive is to reduce the administrative burden in limited liability companies, which are subject to a variety of information requirements. Those obligations are reduced under certain conditions as regards preparation and publication of documents and reports. The authorisation to utilise companies' websites, among other things, is expanded.

On 8 February, the Central Bank of Iceland Monetary Policy Committee decided to keep the Bank's interest rates unchanged. The overnight lending rate therefore remained 5.75%, the seven-day collateralised lending rate was 4.75%, the maximum rate on 28-day certificates of deposit (CDs) was 4.5%, and the current account rate was 3.75%.

On 9 February, the Central Bank announced that the swap rate for the Bank's foreign currency purchases in connection with the sale of RIKS 30 0701 Treasury bonds would be based on the auction price and the fixed price of the Treasury bond, which was 115.675833 kr. per bond unit including accrued interest and indexation (dirty price), assuming settlement on 17 February 2012 (yield 2.50%). The formula is as follows: Swap rate = auction price/(bond price/100).

On 9 February, the Financial Supervisory Authority approved the transfer of Saga Capital hf. Corporate Finance to MP Bank hf.

On 10 February, the Ministry of Finance announced that it had finalised an agreement with the Icelandic Pension Funds Association concerning the pension funds' share in the financing of special interest rebates as stipulated in the 3 December 2010 memorandum of understanding concluded by the Government, the financial institutions, and the pension funds.

On 15 February, an auction took place in connection with the removal of restrictions on movement of capital as set forth in the Central Bank's capital account liberalisation strategy, published on 25 March 2011. In all, 77 bids totalling 173.6 million euros were submitted, and bids in the amount of 141.3 million euros were accepted. All approved bids were accepted at the same price, which was set at 240 kr. per euro. Investors selling foreign currency according to the Treasury bond option received indexed RIKS 30 0701 bonds as payment. Bonds sold in the series had a total nominal value of 17.1 b.kr. As payment for foreign currency sold, investors participating in the Investment Programme received Icelandic krónur for long-term investment in the Icelandic economy. Euros purchased in the auction totalled the equivalent of 14.2 b.kr.

On 15 February, the Supreme Court ruled that Frjálsi Investment Bank was prohibited from demanding increased interest, pursuant to Article 4 of the Act on Interest and Price Indexation, for interest periods that concluded prior to the date of the judgment in the same parties' case concerning the illegality of exchange rate-linked loans in Icelandic krónur (14 February 2011), subject to the existence of a receipt for full payment according to the loan agreement. Following the Court decision, the Competition Authority authorised financial institutions to work together to resolve the matter and recalculate comparable loans.

On 16 February, the Financial Supervisory Authority published a statement to the effect that the Supreme Court judgment of 15 February 2012 on recalculation of exchange rate-linked loans did not jeopardise financial stability.

On 17 February, international credit rating agency Fitch Ratings upgraded the Republic of Iceland's credit rating for long-term obligations in foreign currency from BB+ to BBB-. The rating for short-term obligations in foreign currency was also raised, from B to F3. The outlook remained stable.

March 2012

On 2 March, a mission from the International Monetary Fund (IMF) concluded its visit to Iceland. The mission's assessment was that the outlook was for a good economic recovery. For the medium term, the source of output growth would shift from domestic demand (investment in particular) to foreign demand (with increased exports). In spite of this, however, the mission was of the opinion that a number of hurdles of domestic and foreign origin remain.

On 5 March, the Minister of Economic Affairs appointed Dr. Katrín Ólafsdóttir to a position on the Central Bank of Iceland Monetary Policy Committee. Katrín replaced Anne Sibert on the Committee.

On 5 March, the District Court of Reykjavík handed down a decision in the case Saga Capital hf. vs. Financial Supervisory Authority. Saga Capital filed suit in an attempt to have the Court nullify the Financial Supervisory Authority's decision to revoke the company's licence to operate as a credit undertaking. The Court ruled in favour of the Financial Supervisory Authority; therefore, the Authority's decision stands unchanged.

On 6 March, the Central Bank of Iceland sold 12 million euros in the interbank foreign exchange market. There had been unusually large foreign exchange outflows in previous weeks, a situation that the Bank considered temporary. Exemptions from the Foreign Exchange Act granted by the Bank had entailed substantial purchases of foreign currency in the market. The sale was carried out in accordance with the Central Bank's policy of intervening in the foreign exchange market when necessary in order to mitigate exchange rate volatility.

On 7 March, the Ministry of Finance published preliminary figures on Treasury finances for 2011. According to these figures, collected revenues totalled 468 b.kr., an increase of 1½% year-on-year in nominal terms. Expenditures excluding final accounting items totalled 526 b.kr., a decrease of 1%. Expenditures net of revenues totalled 57 b.kr. by that measure, as opposed to 69 b.kr. in 2010.

On 13 March, Parliament passed Act no. 17/2012 amending the Foreign Exchange Act, no. 87/1992, with subsequent amendments. The Act entered into force the same day, implementing the following amendments: First, it rescinded the exemption for payments from a bankruptcy estate and payments of contractual claims in accordance with composition of creditors agreements (cf. Act no. 21/1991) in domestic currency when payment is disbursed from the payer's account with a financial institution in Iceland. The purpose of the amendments was to provide the Central Bank of Iceland with a prudential tool to prevent disbursements from domestic bankruptcy estates from disrupting the balance of payments or undermining the capital account liberalisation strategy. Second, the Act amended Article 13(j) of the Foreign Exchange Act. According to the amendment, it is no longer permissible to purchase foreign currency for the value of indexation on bond principal; furthermore, it is prohibited to purchase foreign currency for instalments of bond principal. Third, the amendment rescinded the exemption from the statutory prohibition against cross-border movement of foreign currency, which was previously enjoyed by the resolution committees and winding-up committees of the old banks.

On 13 March, the Competition Appeals Committee confirmed the Competition Authority's decision to authorise the merger of Íslandsbanki and Byr Savings Bank, with respect to the provisions of the Competition Act pertaining to firms in distress.

On 14 March, the Central Bank offered to purchase euros in exchange for Icelandic krónur for long-term investment in the Icelandic economy, or in exchange for payment in Treasury bond series RIKS 33 0321. The Bank also advertised for bids on the sale of Icelandic krónur for cash payment in foreign currency. The three auctions were an element in the removal of restrictions on movement of capital as set forth in the Bank's capital account liberalisation strategy of 25 March 2011, and in the Bank's Terms of foreign exchange transactions according to the Investment Programme for capital account liberalisation, dated 18 November 2011, with subsequent amendments. The deadline for submittal of bids was 28 March 2012.

On 15 March, it was announced that the Treasury of Iceland and the Central Bank of Iceland had partially prepaid loans from the International Monetary Fund (IMF) and the Nordic countries. The prepayments totalled SDR 289 million (55.6 b.kr.) to the IMF and 366 million euros (60.5 b.kr.) to the Nordic countries, and are about 20% of the loans taken from these parties. The transaction was an element in paying down short-term debt and reducing the expense associated with maintenance of the Central Bank's foreign exchange reserves.

On 19 March, the Financial Supervisory Authority approved the merger of Alfa verðbréf hf. and MP Bank hf. under the name of the latter, on the basis of the Act on Financial Undertakings.

On 21 March, the Monetary Policy Committee of the Central Bank of Iceland decided to raise the Bank's interest rates by 0.25 percentage points. The overnight lending rate was raised to 6.0%, the seven-day collateralised lending rate to 5.0%, the maximum rate on 28-day certificates of deposit (CDs) to 4.75%, and the current account rate to 4.0%.

On 22 March, the Financial Supervisory Authority approved the transfer of the operation of 10 mutual funds, three investment funds, and eight institutional investment funds from Landsvaki hf. to Landsbréf hf., effective 31 March.

On 28 March, the Central Bank of Iceland held auctions for the purchase of euros against payment in Icelandic krónur and for the purchase of Icelandic krónur against payment in foreign currency. In the euro purchase auction, 79 bids totalling 92.9 million euros were submitted, and bids in the amount of 22.5 million euros were accepted. All approved bids were accepted at the same price, which was set at 239 kr. per euro. Investors selling foreign currency according to the Treasury bond option received indexed RIKS 33 0321 bonds as payment. Bonds sold in the series had a total nominal value of 416.7 m.kr. As payment for foreign currency sold, investors participating in the Investment Programme received Icelandic krónur for long-term investment in the Icelandic economy. In the króna purchase auction, the Bank purchased euros for a total of 4.9 b.kr., with the minimum price set at 235 kr. per euro.

On 30 March, the Financial Supervisory Authority approved the merger of Íslandsbanki hf. and Kreditkort hf. Íslandsbanki hf. will take over all rights and responsibilities of Kreditkort hf., and the two companies will be merged under the name Íslandsbanki hf.

April 2012

On 6 April, the Executive Board of the International Monetary Fund (IMF) completed its 2012 Article IV Consultation on the status and outlook for the Icelandic economy. At the same time, the Board discussed its report on the follow-up evaluation of the Stand-By Arrangement between the Fund and the Icelandic authorities, which concluded in August 2011.

On 13 April, the Financial Supervisory Authority issued a memorandum concerning the Supreme Court judgment of 15 February 2012 on the validity of full-payment receipts. The memorandum summarises the Authority's conclusions concerning the potential effect of the judgment on the book value of exchange rate-linked loans in credit institutions' loan portfolios. The Authority concluded that the Supreme Court judgment did not jeopardise financial stability; however, it reiterated that all uncertainty about settlement of exchange rate-linked loans was detrimental to the financial system and stressed the importance of eliminating such uncertainty.

On 16 April, the Financial Supervisory Authority announced rules on insurance companies' bonus systems. The new rules are similar to those on financial institutions' bonus systems, dated 30 June 2011. They took effect upon publication, 27 March. An employee's bonus may not exceed 25% of his or her annual salary exclusive of bonuses. Furthermore, payment of a portion of the bonus shall be deferred for at least three years so as to take into account business cycle fluctuations that might affect performance. The rules also provide for reduction, revocation, or reimbursement of bonuses when performance targets are not reached.

On 19 April, the Ministry of Economic Affairs received a Letter of Formal Notice from the EFTA Surveillance Authority (ESA), in which ESA announces that a general prohibition of exchange rate linkage of loans disbursed in Icelandic krónur, as is stipulated in the Act on Interest and Price Indexation, no. 38/2001, is in contravention of Article 40 of the EEA Agreement.

On 30 April, the Financial Supervisory Authority announced that it had revoked its confirmation of the mutual fund Stefmir – Lausafjársljóður [Stefmir – Liquidity Fund], operated by Stefmir hf. The fund was confirmed by the Authority on 27 January 2011 but has now discontinued its operations. The Authority has confirmed a new investment fund operated by the company under the same name.

May 2012

On 3 May, the Republic of Iceland finalised contractual agreements for the issuance of a bond in the amount of 1 billion US dollars (124 b.kr.). The bond bears fixed interest and is issued for 10 years at a yield of 6.0%. Demand amounted to roughly 4 billion US dollars.

On 4 May, the Financial Supervisory Authority granted Negotium a licence to operate as a securities company.

On 4 May, Íslandsbanki announced that it had expanded two covered bond series previously admitted for trading on the stock exchange. The seven-year bond ISLA CBI 19 was expanded by 635 m.kr. at a yield of 2.90%, and the 12-year ISLA CBI 24 was expanded by 850 m.kr. at a yield of 3.48%. In all, Íslandsbanki has issued covered bonds in the amount of 8,815 m.kr. since its first issuance in December 2011.

On 9 May, the Central Bank of Iceland purchased euros in exchange for Icelandic krónur for long-term investment in the Icelandic economy, or in exchange for payment in Treasury bond series RIKS 33 0321. The Bank had also advertised for bids on the sale of Icelandic krónur for cash payment in foreign currency. The auctions were an element in the liberalisation of restrictions on movement of capital. In the euro purchase auction, the Central Bank accepted bids in the amount of 38.6 million euros. The auction was structured with a single-price format, so that all accepted offers were made available to primary dealers at the same price, which was set at 238.8 kr. per euro. In the króna purchase auction, bids in the amount of 9.1 b.kr. were accepted. All accepted bids were made available to primary dealers at the same price, which was set at 239 kr. per euro.

On 11 May, Parliament passed Parliamentary Resolution no. 20/140, which authorised the Government to confirm an agreement with Norway, the Faeroe Islands, Russia, and the European Union on fishing from the Atlanto-Scandinavian herring stock in 2012, with reciprocal fishing rights in territorial waters. The agreement permits Iceland to fish 120,000 tonnes per year from the stock.

On 11 May, Arion Bank announced the conclusion of its first auction of non-indexed covered bonds. Bonds were sold to institutional investors in the nominal amount of 1.22 b.kr. in the Arion CB 15 series.

On 16 May, the FME authorised Landsbankinn hf. to acquire all of the operations and assets of Sparisjóður Svarfdæla.

On 16 May, the Monetary Policy Committee of the Central Bank of Iceland decided to raise the Bank's interest rates by 0.5 percentage points. The overnight lending rate was raised to 6.5%, the seven-day collateralised lending rate to 5.5%, the maximum rate on 28-day certificates of deposit (CDs) to 5.25%, and the current account rate to 4.5%.

June 2012

On 8 June, a ruling was announced by the committee appointed to determine the fee to be paid by the Government to Landsbankinn hf. for its takeover of deposits and assets of SpKef savings bank. The committee concluded that the Government must pay Landsbankinn hf. 19 b.kr.

On 13 June, the Monetary Policy Committee of the Central Bank of Iceland decided to raise the Bank's interest rates by 0.25 percentage points. The overnight lending rate was raised to 6.75%, the seven-day collateralised lending rate to 5.75%, the maximum rate on 28-day certificates of deposit (CDs) to 5.5%, and the current account rate to 4.75%.

On 15 June, it was announced that Landsbankinn hf. and the old Landsbanki Íslands hf. had concluded an agreement to the effect that Landsbankinn hf. would prepay one-fourth of the principal of so-called A-bonds, which were issued in 2010 due to the value mismatch between assets and liabilities transferred from Landsbanki Íslands hf. The prepayment is in euros, US dollars, and pounds sterling, in the equivalent of 73 b.kr.

On 18 June, it was announced that the Treasury of Iceland and the Central Bank of Iceland prepaid a total of 171 b.kr. on loans taken from the International Monetary Fund (IMF) and the Nordic countries in connection with the IMF-led Stand-By Arrangement (SBA). The transaction included the prepayment of SDR 319 million (the equivalent of 62 b.kr.) to the IMF, and 674 million euros (the equivalent of 109 b.kr.) to the Nordic countries.

On 18 June, Parliament passed Act no. 78/2012 Amending the Act on Collections; namely, the rules on repossession by collection agents. In the future, collections agents must obtain the written consent of a debtor in default before repossessing non-real estate assets. Otherwise, the collection agent must obtain authorisation in accordance with the Act on Execution, no. 90/1989.

On 18 June, Parliament passed Act no. 84/2012 Amending the Housing Act, no. 44/1998, with subsequent amendments. The main purpose of the Act is to comply with EFTA Surveillance Authority (ESA) guidelines requiring that the Icelandic authorities take the necessary action to ensure that the Housing Financing Fund's (HFF) lending arrangements are more consistent with the provisions on State aid in the EEA Agreement; that is, that the Fund shall not enjoy a Government guarantee in the form of an owner guarantee, interest subsidies, exemptions from profitability requirements, and payment of income tax. The Act strengthens the HFF's social role and revokes its authorisation to grant loans to firms, including construction contractors. As a result, it will only be permissible to grant loans to individuals for renovation, construction, or purchase of residential property. Loans from the Fund may not exceed 80% of the appraised value of the property (as opposed to the previous 90%), and the total HFF bond amount may not be less than 40% of the official property valuation. This means that the HFF will be prohibited from lending for the purchase of property with an official valuation exceeding 50 m.kr. The Act also incorporates a fundamental but temporary change in the HFF's operations: that one of its roles will be to own and operate a leasing company for property repossessed by the Fund.

On 19 June, Parliament passed Act no. 69/2012 Amending the Value-Added Tax Act. Among the amendments are authorisations to reimburse municipalities for value-added tax on fire and pollution control equipment and to reimburse a portion of the value-added tax on hydrogen-powered, electric, and hybrid motor vehicles.

On 19 June, Parliament passed the Fishing Fee Act, no. 74/2012. The new Act provides for a basic fishing fee of 9.50 kr. per allocated cod equivalent kilogram and a special fishing fee totalling 65% of a base, which takes account of the value of the catch and/or product, less i) operating expenses other than cost of capital, and ii) a calculated annual payment in lieu of interest and depreciation, which shall be based on a return of 8%. The basic fishing fee will be subtracted from the special fee. At the same time, Parliament passed Act no. 75/2012 Amending the Fisheries Management Act to accord with the Act on Fishing Fees and extending the Temporary Provisions in the Fisheries Management Act.

On 19 June, Parliament passed Act no. 77/2012 Amending the Act on Financial Undertakings, no. 161/2002, with subsequent amendments. The aim of the Act is to strengthen the operational foundations of the savings bank system, which has been under pressure in recent years. In order to enable savings banks to meet their need for increased capital, it is permissible to operate them as limited liability companies. The term "savings bank" will therefore no longer be restricted to a specific type of non-profit organisation but will be a collective term for a specific type of financial institution that is operated either as a non-profit organisation or as a limited liability company but is nonetheless required to restrict its operations primarily to conventional commercial banking activities and to devote at least 5% of the profit from the previous year's operations to social projects in its geographical region of operation. In addition, the merger opportunities for savings banks operated as non-profit organisations are expanded. Moreover, savings banks with a minimum of 5 million euros in guarantee capital or share capital will be authorised to conduct securities trading. Finally, Temporary Provision VI of the Act on Financial Undertakings, concerning the Financial Supervisory Authority's authorisation to intervene in operations, is extended until year-end 2013, as the future structure of these issues has not been decided by the European Union.

On 19 June, Parliament passed Act no. 79/2012 Amending the Act on Deposit Guarantees and an Investor-Compensation Scheme, no. 98/1999, with subsequent amendments. The Act permanently incorporated the Temporary Provisions set with Acts no. 15/2011 and 55/2011, which pertained only to premiums for the year 2011, into the body of the Act on Deposit Guarantees and an Investor-Compensation Scheme. The main changes that appear in the new Act and were not included in Temporary Provision II are that the general premium decreases from 0.3% to 0.225% and the Board of the Depositors' and Investors' Guarantee Fund is now authorised to grant permission to defer payment of the premium in extraordinary circumstances.

On 20 June, the Financial Supervisory Authority revoked the operating licence of EA fjárfestingarfélag ehf., as the company was subjected to winding-up proceedings with a ruling by the District Court of Reykjavík on 1 June.

On 20 June, the Central Bank of Iceland purchased euros in exchange for Icelandic krónur for long-term investment in the Icelandic economy, or in exchange for payment in Treasury bonds in the RIKS 33 0321 series. The Bank had also advertised for bids on the sale of Icelandic krónur for cash payment in foreign currency. The auctions were an element in the liberalisation of restrictions on movement of capital. In the euro purchase auction, the Central Bank accepted bids in the amount of 23.7 million euros. The auction was structured with a single-price format, so that all accepted offers were made available to primary dealers at the same price, which was set at 245 kr. per euro. In the króna purchase auction, bids in the amount of 7.5 b.kr. were accepted. All accepted bids were made available to primary dealers at the same price, which was set at 246 kr. per euro.

On 21 June, the Supreme Court confirmed the District Court ruling in Saga Capital's case against the Financial Supervisory Authority, which had revoked Saga Capital's operating licence. Saga Capital had subsequently been subject to winding-up proceedings with a District Court ruling. Saga Capital appealed the District Court ruling to the Supreme Court, which upheld the ruling with reference to the general rule that an appeal to the courts does not defer the legal effect of an administrative decision.

On 29 June, the EFTA Surveillance Authority (ESA) approved the State aid granted in connection with the recapitalisation and reconstruction of Íslandsbanki. According to the ESA decision, the Government's actions related to the establishment and restructuring of the bank entailed State aid that is permissible under the EEA Agreement, as the Government had provided the bank with a capital contribution in the form of share capital and a subordinated loan, as well as liquidity facilities.

July 2012

On 2 July, trading in real estate company Reginn hf.'s shares began on the NASDAQ OMX Iceland exchange. The company was the second to be listed on the exchange after the 2008 financial crisis.

On 13 July, the Minister of Fisheries announced catch quotas for the 2012-2013 fishing year. Cod quotas were increased by 18,000 tonnes from the previous year, haddock quotas were reduced by 9,000 tonnes, and other demersal fish quotas increased by a total of 1,400 tonnes from the 2011-2012 quotas.

On 20 July, it was announced that the European Central Bank (ECB) had recovered, in full, 4 billion euros loaned against collateral to subsidiaries of Glitnir, Kaupthing, and Landsbanki Luxembourg in October 2008, as a part of regular ECB facilities in the euro area. Close collaboration on the issue took place between the Central Bank of Iceland and the Banque centrale de Luxembourg, in part to prevent the sale of hypothecated assets under extremely adverse conditions.

On 30 July, the Central Bank of Iceland announced that it had decided to increase its regular foreign currency purchases from market makers for an unspecified period beginning on 31 July 2012. From September 2010 onwards, the Bank had bought half a million euros per week from each of the market makers in the interbank foreign exchange market. After the change, the Bank bought 1 million euros per week from each market maker.

August 2012

On 20 August, the Financial Supervisory Authority granted Straumur fjárfestingarbanki hf. [Straumur Investment Bank hf.] expanded authorisations to operate as a credit institution.

On 22 August, the Central Bank of Iceland Monetary Policy Committee decided to hold the Bank's interest rates unchanged. The overnight lending rate remained 6.75%, the seven-day collateralised lending rate was 5.75%, the maximum rate on 28-day certificates of deposit (CDs) 5.5%, and the current account rate 4.75%.

On 29 August, the Central Bank of Iceland purchased euros in exchange for Icelandic krónur for long-term investment in the Icelandic economy, or in exchange for payment in Treasury bond series RIKS 33 0321. The Bank had also advertised for bids on the sale of Icelandic krónur for cash payment in foreign currency. The auctions were an element in the liberalisation of restrictions on movement of capital. In the euro purchase auction, the Central Bank accepted bids in the amount of 18.6 million euros. The auction was structured with a single-price format, so that all accepted offers were made available to primary dealers at the same price, which was set at 235 kr. per euro. In the króna purchase auction, bids in the amount of 3.8 b.kr. were accepted. All accepted bids were made available to primary dealers at the same price, which was set at 236 kr. per euro.

On 30 August, it was agreed at a Cabinet meeting to entrust a work group with assessing the status and outlook for the Housing Financing Fund (HFF) balance sheet. The work group was to include representatives from the Ministry of Finance and Economic Affairs, Prime Minister's Office, Ministry of Welfare, and Ministry of Industry, in consultation with the HFF and its Board.

September 2012

On 1 September, the Ministry of Economic Affairs, Ministry of Industry, Energy, and Tourism, and Ministries of Agriculture and Fisheries merged to form the new Ministry of Industries and Innovation.

On 7 September, it was announced that the savings bank Sparisjóður Svarfdæla and Landsbankinn hf. had come to an agreement that Landsbankinn would abandon its plans to acquire the savings bank's operations and assets, as the Savings Banks' Guarantee Fund had agreed to contribute new guarantee capital to Sparisjóður Svarfdæla and grant a subordinated loan so that the savings bank would meet the Financial Supervisory Authority's 16% capital adequacy requirement.

On 11 September, the Financial Supervisory Authority granted Landsbréf hf. expanded authorisations to operate as a UCITS management company.

On 14 September, the Financial Supervisory Authority approved the merger of savings bank Sparisjóður Ólafsfjarðar and Arion Bank hf. Arion Bank will take over all rights and responsibilities of Sparisjóður Ólafsfjarðar, and the two companies will be merged under the name Arion Bank hf.

On 28 September, a mission from the International Monetary Fund (IMF) concluded its visit to Iceland in connection with post-programme monitoring of the Iceland's Stand-By Arrangement with the IMF.