

Economic and monetary chronicle

January 2010

On 5 January, the president of Iceland refused to sign an act of law amending the Minister of Finance's authorisation to grant a Treasury guarantee of loans taken by the Depositors' and Investors' Guarantee Fund (DIGF) due to Icesave deposit accounts. In so doing, the president referred the matter to a national referendum. Three days later, Parliament passed an act of law stipulating that the referendum should take place as soon as possible, and no later than 6 March.

On 5 January, rating agency Standard and Poor's announced an unchanged rating for the Republic of Iceland, citing the risk of isolation in credit markets and heavy pressure from abroad to resolve the Icesave dispute.

On 5 January, rating agency Fitch Ratings announced a downgrade of Iceland's sovereign credit ratings for domestic and foreign currency obligations. Iceland's long-term foreign and domestic currency ratings are now BB+ and BBB+, and the short-term foreign currency rating is B. The country ceiling was lowered from BBB- to BB+.

On 6 January, rating agency Moody's announced that it was keeping Iceland's sovereign rating unchanged for the present, in spite of the president's veto of the Icesave guarantee legislation. The agency considered it likely that domestic political instability and external pressure to resolve the Icesave dispute would result, both of which could have a negative effect on Iceland's credit rating.

On 7 January, the Financial Supervisory Authority (FME) granted ISB Holding ehf. permission to own a qualifying holding in Íslandsbanki on behalf of Glitnir Bank hf. The permission was granted following a 13 September 2009 agreement between Glitnir and the Icelandic Ministry of Finance, authorising Glitnir to acquire a 95% holding in Íslandsbanki upon fulfilment of specified conditions.

On 8 January, Japanese rating agency R&I Rating announced that Iceland's sovereign credit rating would remain on the Rating Monitor with a view to possible downgrade. The agency affirmed its previous rating of BBB-.

On 11 January, the Financial Supervisory Authority (FME) authorised Kaupskil ehf. to own qualifying holding in Arion Bank hf. (Arion) on behalf of Kaupthing Bank hf. (Kaupthing). The permission was granted following a 3 September 2009 agreement between Kaupthing and the Icelandic Ministry of Finance, authorising Kaupthing to acquire an 87% holding in Arion upon fulfilment of specified conditions.

On 22 January, the Financial Supervisory Authority (FME) authorised Landskil ehf. to own a qualifying holding in NBI hf. on behalf of Landsbanki Íslands hf. The permission was granted following a contractual agreement with Landsbanki Íslands hf. and the Icelandic Ministry of Finance, dated 15 December 2009, stipulating, *inter alia*, that Landsbanki Íslands hf. was authorised to acquire an 18.7% holding in NBI hf., upon fulfilling specified conditions.

On 27 January, the Monetary Policy Committee of the Central Bank of Iceland decided to lower the Bank's interest rates by 0.5 percentage points. Interest rates were lowered to the following amounts: interest on deposit institutions' current accounts, to 8.0%; maximum rates on 28-day certificates of deposit (CDs), to 9.25%; seven-day collateral loans, to 9.5%; and overnight loans, to 11.0%.

On 29 January, the Minister of Fisheries authorised a 130,000 tonne capelin quota for the winter fishing season. A quota of 97,100 tonnes was allocated to Icelandic fishing vessels.

February 2010

On 1 February, rating agency Standard and Poor's announced an unchanged rating for the Republic of Iceland but indicated that the rating would remain on CreditWatch negative due to uncertainty about external financing, capital account liberalisation, and the status of the Icesave dispute.

On 8 February, the Minister of Transport, Communications, and Local Government appointed a financial supervisory board for the municipality of Álftanes, upon the recommendation of the surveillance committee for municipal finances.

On 17 February, it was announced that the Financial Supervisory Authority had established a three-member advisory committee to assess the eligibility of board members in supervised financial companies.

On 24 February, the European Commission issued an opinion on Iceland's application for EU membership. Its conclusion was that Iceland met all of the conditions required of an EU applicant, and it was recommended that membership negotiations with Iceland begin.

On 25 February, Parliament passed an amendment to the Act on Forced Sale (Case no. 389 at the 138th Legislative Session), so that until 1 August 2010, a debtor can, upon filing an application, have the forced sale of his or her own residence deferred for up to three months. The amendment took effect the same day. Previously, the Act contained a provision deferring forced sale of residential housing through 28 February.

On 26 February, rating agency Moody's expressed its concerns about the downward pressure that the stalemate in the Icesave dispute placed on Iceland's Baa3 credit rating. No changes in the credit rating were announced.

March 2010

On 4 March, Parliament passed amendments to the Act on Public Limited Companies (Case no. 71 at the 138th Legislative Session). The amendment restricts the role of the Chairman of the Board, thereby eliminating the position of Acting Chairman of the Board. Explicit provisions on gender equality in the boards of companies were also passed into law.

On 4 March, the Financial Supervisory Authority confirmed joint financial institution rules on corporate financial restructuring. This was done with Act no. 107/2009 on measures to assist individuals, households, and businesses due to extraordinary circumstances in the financial market.

On 5 March, the Financial Supervisory Authority announced the conclusion of information exchange agreements with the Financial Services Commission of the British Virgin Islands and the Alberta Securities Commission in Canada.

On 6 March, a national referendum was held on the authorisation to issue a Treasury guarantee for loans related to the Icesave accounts. The authorisation to grant the guarantee was rejected with 98% of valid votes. Hence the previous act of law authorising the guarantee with reservations, Act no. 136/2009, regained its validity.

On 10 March, the Financial Supervisory Authority granted Arev Securities hf. expanded authorisation to operate as a securities company. The company's operating licence was reissued to take account of this.

On 17 March, the Monetary Policy Committee of the Central Bank of Iceland decided to lower the Bank's interest rates by 0.5 percentage points. Interest rates were lowered to the following amounts: interest on deposit institutions' current accounts, to 7.5%; maximum rates on 28-day certificates of deposit (CDs), to 8.75%; seven-day collateral loans, to 9.0%; and overnight loans, to 10.5%.

On 22 March, Parliament passed an act of law prohibiting the air mechanics' strike that had begun at midnight the previous night (Case no. 483 at the 138th Legislative Session). The term of the wage agreement that expired on 31 October 2009 was extended through the end of November 2010.

On 23 March, the committee for foreign investment ruled that there was no occasion to make formal comment on Magma Energy Sweden AB's investment in HS Orka hf. The committee's ruling is considered final.

On 25 March, Parliament passed an amendment to the Income Tax Act (Case no. 386 at the 138th Legislative Session), which authorises the Director of Internal Revenue to demand that the assets of parties suspected of major violations of tax reporting rules be frozen, if it is considered that there is a significant risk of large-scale default in tax payments.

On 29 March, the Financial Supervisory Authority granted Arctica Finance hf. a licence to operate as a securities undertaking in accordance with the Act on Financial Undertakings. Concurrent with this, Arctica Holding Company ehf. received an authorisation to own and administer a stake of over 50% in Arctica Finance.

On 30 March, rating agency Standard & Poor's affirmed the Republic of Iceland's sovereign credit ratings for long- and short-term obligations in foreign currency at BBB-/A-3. The ratings for long- and short-term obligations in domestic currency were downgraded from

BBB+/A-2 to BBB/A-3. The ratings were removed from CreditWatch status, where they have been with negative implications since 5 January 2010. The outlook remains negative.