

# Progress of the Plan for Removal of Capital Controls

This report is published by the Minister of Finance and Economic Affairs as provided for in Paragraph 2 of the Temporary Provision I in Act No. 87/1992 on Foreign Exchange, which reads as follows:

The Minister shall make public a report on the progress of plans to remove restrictions on cross-border capital movements and foreign currency trading at six-month intervals until such restrictions are finally removed. The report referred to in the first sentence shall be published for the first time within six months of the entry into force of this act.

Former reports are available at the website of the Ministry of Finance and Economic Affairs<sup>1</sup>.

## The stock of offshore krónas has slightly decreased

After the capital controls on holders of offshore krónur were lifted in March 2019, the stock of offshore krónur shrank by 11 b.kr. Most of this capital was converted to foreign currency and exported from Iceland. Since then, the offshore stock has shrunk by another 10 b.kr., to around 62 b.kr. as of end-September (see table below). Interest rates on the Central Bank's CBI2016 certificates of deposit were lowered from 0.5% to 0% in June; therefore, the vast majority of remaining offshore krónur now bear no interest.

Offshore króna assets	Market value (bn. ISK)
Treasury bonds and bills and other gov't guaranteed bonds	12.9
Deposits and Central Bank CDs	43.8
Other securities and unit shares	5.3
<b>Total amount</b>	<b>62.0</b>

Source: The Central Bank of Iceland

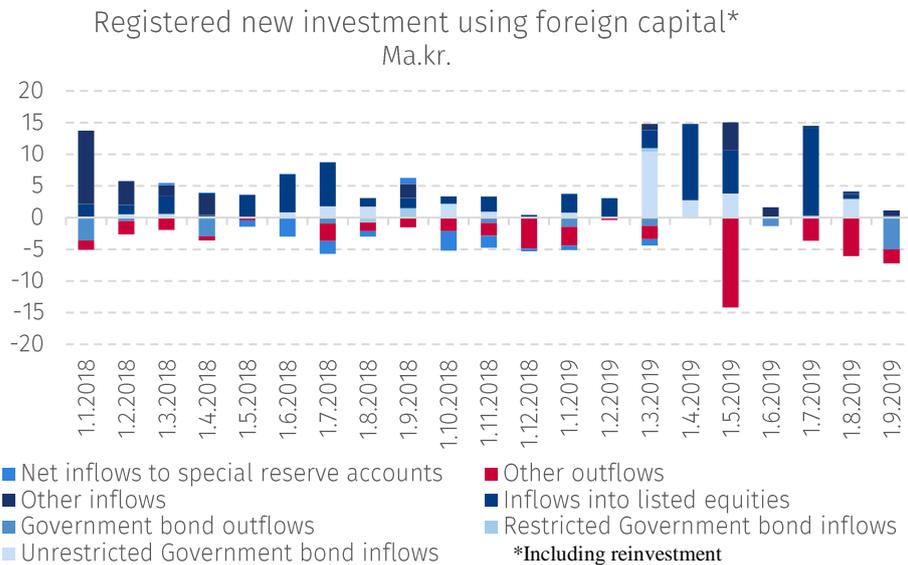
## Government bond's mostly held by domestic residents

Net inflows of foreign capital for new investment in Iceland amounted to 32 bn. ISK in January to September 2019 compared to 35 bn. ISK last year.<sup>2</sup> Inflows into treasury bonds and listed equities are substantially larger than last year, however, so are outflows. Investment in Treasury bonds increased in March, after the special reserve requirement (SRR) on capital inflows was lowered to 0%, but

<sup>1</sup> <https://www.government.is/topics/economic-affairs-and-public-finances/progress-of-plans-to-remove-capital-controls/>

<sup>2</sup> Inflows net of outflows

was limited over the summer months. Foreign investors now hold 14% of outstanding treasury bonds issued in ISK which is low both historically and internationally. In comparison, the ratio stood at 56% ten years ago.



Source: The Central Bank of Iceland's Financial Stability Report 2019/2

### A working group on revising the foreign exchange framework

The Minister of Finance and Economic Affairs has appointed a working group to revising the framework on foreign exchange. This includes Act no. 87/1992, on Foreign Exchange, Act no. 37/2016, on the Treatment of Króna-Denominated Assets Subject to Special Restrictions, and rules set on the basis of those acts. The working group is tasked with submitting a draft legislative bill on a new and comprehensive Act on Foreign Exchange and, as necessary, amendments to other acts, no later than June 2020.

### Remaining restrictions

Restrictions on the following transactions remain in place:

1. Cross-border transfers of domestic currency due to transactions with offshore króna assets that are subject to special restrictions;
2. Foreign exchange transactions carried out between residents and non-residents without the intermediation of financial institution, if domestic currency is a constituent of the transaction;
3. Derivatives transactions involving domestic currency against foreign currency and undertaken for purposes, except if the derivative is related to trade or risk used for hedging against risk, provided that a foreign currency imbalance exists over the duration of the contract.