

Chronicle of economic events 2008

December

On December 1st, Prime Minister Geir H. Haarde wrote an open letter to those nations that have publicly pledged to contribute financial support in addition to Iceland's Stand-By Arrangement with the IMF. [Further ...](#)

On December 4th, Moody's reduced the Treasury's credit rating to Baa1. Prospects were viewed as negative. Moody's report may be seen [here](#).

On December 8th, the IMF released two staff reports on Iceland, its 2008 Article IV Consultation Report and its Financial System Stability Assessment - Update. These reports may be accessed [here](#).

On December 11th, a new report by Fitch Ratings on the Treasury's credit rating was issued. See [here](#).

On December 16th, the Central Bank revised its rules on foreign currency transactions. [Further ...](#)

On December 17th, the Central Bank decided to increase the margin between the highest and lowest interest rates offered by the Bank. The policy interest rate remained unchanged. See [here](#).

On December 19th, the IMF staff mission completed its consultation with the Icelandic authorities on Iceland's economy. The staff mission issued a [news release](#) on this occasion.

November

On November 6th, the Central Bank announced that the policy interest rate would remain unchanged.

On November 16th the Prime Minister's Office announced that agreement had been reached through the intermediation of the European Union with the Netherlands and the United Kingdom regarding the insurance of deposits in foreign branches of Icelandic banks in the European Economic Area. [Further ...](#)

On November 17th, the Icelandic Government's program with the IMF was issued. [Further ...](#)

On November 19th, IMF documents related to Iceland's request for a Stand-By Arrangement were made available. See [here](#).

On November 20th, the Executive Board of the IMF approved a Stand-By Arrangement with Iceland of 2.1 billion dollars.

On the same date, the central banks of Iceland, Sweden, Norway and Denmark decided to extend their existing currency swap arrangements to the end of 2009. These arrangements were originally concluded on May 16th. Each agreement provides the Central Bank of Iceland with access to up to 500 million euros, a total of 1.5 billion euros. The news releases of the respective central banks can be found on their websites:

Danmarks Nationalbank (<http://www.nationalbanken.dk>)

Norges Bank (<http://www.norges-bank.no>)

Sveriges Riksbank (<http://www.riksbank.se>)

On November 24th, Standard & Poor's reduced the credit rating of the Treasury to BBB-. The report of the rating agency may be seen [here](#).

October

Measures of the Central Bank and the Government

On October 7th the Central Bank announced that it would reintroduce an interbank foreign exchange market based on an exchange rate index of 175, equivalent to a krónur-euro rate of 131 krónur per euro. This represents an attempt by the Central Bank to re-establish a workable foreign exchange market. [Further ...](#) This attempt lasted only two days. [Further ...](#)

On the same date, the Central Bank announced that the ambassador of Russia had confirmed to the chairman of the Board of Governors of the Central Bank that Russia would lend 4 billion euros to Iceland and that Prime Minister Putin has approved the loan. [Further ...](#)

On October 9th, the Central Bank issued a statement regarding its attempts and those of the Government to conclude foreign exchange swap agreements with foreign central banks in the course of this year. [Further ...](#)

On October 10th the Central Bank issued a statement regarding temporary modifications on sales of foreign exchange. [Further ...](#)

On October 14th, a team of representatives from the Central Bank and the Ministry of Finance travelled to Moscow to discuss a possible loan to Iceland. [Further ...](#)

On the same date, the Central Bank announced that it had drawn 400 million euros on its currency swap agreements with Norway and Denmark, 200 million from each. [Further ...](#)

On October 15th, the Central Bank lowered its policy interest rate to 12 per cent. [Further...](#)

On the same date, a joint press release from the Central Bank of Iceland and the Russian Ministry of Finance was issued regarding a potential loan from the Russian Federation to the Republic of Iceland. [Further ...](#)

On October 16th, the Central Bank issued a statement regarding payment intermediation between Iceland and other countries. [Further ...](#)

On October 21st, the Central Bank issued a statement regarding its collateralised loans to banks. [Further ...](#)

On October 27th, the Government reached agreement ad referendum with a mission from the IMF on an economic stabilisation program that could be supported by a stand-by arrangement with the fund.. The statement says that “we are confident that the IMF’s management will support the program and submit it for approval by the IMF’s executive board as soon as possible. The economic program will be supported by an SDR 1.4 billion (USD 2 billion) loan under a two-year Stand-By-Arrangement. Iceland would be able to draw SDR 560 million (USD 830 million) immediately after the Board approval. It is also expected that an agreement with the IMF will encourage lending from other sources.” See the statement of [the Central Bank](#) and [the IMF](#).

On October 28th, the Central Bank raised its policy interest rate to 18 per cent. [Further ...](#)

Measures regarding the takeover of the commercial banks

On October 6th, emergency legislation was passed to amend the Act on Depositors' and Investors' Guarantee Fund. [Further ...](#)

On October 8th, the Prime Minister issued a statement following discussions between the governments of Iceland and the United Kingdom regarding depositors of *Landsbankinn Icesave* accounts. [Further ...](#)

On October 11th, representatives of the governments of Iceland and the United Kingdom issued the following statement, following their discussion regarding the status of so-called Icesave accounts: "Delegations of Iceland and the United Kingdom have met in a friendly atmosphere in Reykjavík to discuss issues of mutual interest related to the current financial crisis, with the objective to reach a mutually satisfactory solution on the issues concerned.

Significant progress was made on retail depositors of Icesave with arrangements agreed in principle for an accelerated payout to depositors. The delegations agreed to work closely on the other remaining issues over the coming days."

On the same date, an understanding was reached between Iceland and the Netherlands regarding the settlement of IceSave accounts of Dutch depositors. See the [statement](#) of the Netherlands Ministry of Finance. An identical statement in Icelandic was issued by Iceland's Prime Minister's Office.

Changes in credit ratings of Treasury debt

During the month of October, all credit rating agencies amended their ratings of Treasury debt.

On October 6th, Standard & Poor's reduced its rating on debt in foreign currency to BBB/A from A-/A-2 and in domestic currency to BBB+/A-2 from A+/A-1. [Further ...](#)

On October 8th, Moody's Investors Service reduced its rating to A1 from Aa1. [Further ...](#)

On the same date, Fitch Ratings reduced its ratings for Iceland to BBB- from A- for long-term foreign currency and to A- from AA for long-term local currency. [Further ...](#)

On October 14th, Moody's Investors Service confirmed Iceland's rating of A1 for long-term debt in foreign currencies and P-1 for short-term foreign debt. The ratings were under review. [Further ...](#)

Following the rating amendments of October, the ratings of Iceland's Treasury debt can be seen [here](#).

September

On September 29th an agreement was concluded between the Government and the major shareholders of Glitnir Bank, after conferring with the Central Bank and the Financial Supervisory Authority, that the Treasury would provide a capital infusion for the bank in view of Glitnir's tight liquidity and unusually severe difficulties in international financial markets. The Treasury will, with the intermediation of the Central Bank, provide Glitnir with a capital infusion equivalent to 600 million euros (about 84 billion krónur) and thereby acquire a 75 per cent stake in the bank's share capital.

On September 17, Moody's Investors Service issued its credit opinion for the Republic of Iceland; Aa1 for long-term obligations in foreign and domestic currency and P-1 for short-term obligations in foreign and domestic currency. [More ...](#)

August

On August 22nd, the Housing Finance Fund announced that it would accept applications for temporarily postponing repayments of mortgage debt by homeowners that had acquired a new home and were unable to sell their existing property. Such loans are subject to conditions:

- (1) The new property must have been acquired after July 1st 2007.
- (2) Efforts to sell the existing property have so far proven unsuccessful.
- (3) The mortgage amount may not exceed 90 per cent of the selling price.

July

As of July 1st, the stamp tax on a person's first purchase of a housing unit and on associated debt documents was abolished. The annual revenue to the Treasury of this measure is estimated at 500 million krónur.

On July 1st the Minister of Fisheries announced the fish catch quotas for the coming fisheries year, beginning on September 1st. The quotas are as follows:

Fish catch quotas			
<i>(Thousand tons)</i>			
	Catch quota 2008/2009	Proposals of the Marine Research Institute for 2008/2009	Catch quota 2007/2008
Cod	130	124	130
Haddock	93	83	100
Saithe	65	50	75
Catfish	13	12	12.5
Redfish	50	40	57
Greenland halibut	15	5.0*	15
Dab	1	***	1.5
American plaice	1	***	1
Plaice	6.5	5	6.5
Lemon sole	2.2	1.6	2.2
Witch	2.2	1.6	2.4
Tusk	5.5	5.0*	5.5
Ling	7	6.0*	7
Monkfish	3	2.5	2.5
Lobster	2.2	2.2	1.9
Herring	150	131	150
Deepsea shrimp	7	7.0**	7

*Including catch of foreign vessels.
 **Initial catch proposal
 *** Catch quota is limited to the incidental catch incurred through other fisheries.

On July 9th the Central Bank of Iceland announced that it would keep its policy rate unchanged at 15.5 per cent. For further information, go to the [Bank's monetary policy statement](#).

June

On June 19th the Government announced measures to strengthen the financial and real estate market. The Housing Finance Fund will establish new loan classes to enable banks and other financial institutions to refinance already outstanding mortgage loans and provide new mortgage loans. Furthermore, the Fund will henceforth lend up to 80 per cent of market value of a property instead of the previous reference to the property's fire insurance value. The maximum mortgage loan will be increased from 18 million to 20 million krónur. Unsold housing units held by builders for sale can, with assistance from the Fund, be converted into rental units.

The full statement of the Government can be accessed [here](#).

In order to relieve the substantial pressure on the bond and foreign exchange markets, it has been decided, on the basis of an authorisation granted by Althingi, to increase the issuance of short-term Treasury notes. The Ministry of Finance will prepare such issuance in consultation with the Central Bank.

May

On May 16th, the Central Banks of Sweden, Norway and Denmark announced that they have entered into euro/Icelandic króna bilateral swap facility agreements with the Central Bank of Iceland.

The facilities are a precautionary measure made to provide the Central Bank of Iceland with access to euro if needed. Each agreement provides up to EUR 500 million, where the Central Bank of Iceland can acquire euro against Icelandic króna. The swap agreements are facilities that may be drawn upon by the Central Bank of Iceland when and if necessary.

The above agreements significantly enhance the available international liquidity of the Central Bank of Iceland. The Bank intends to further bolster its external liquidity in the period ahead.

The press announcements of the participating central banks are available on their respective websites:

Danmarks Nationalbank (<http://www.nationalbanken.dk>)

Norges Bank (<http://www.norges-bank.no>)

Sveriges Riksbank (<http://www.riksbank.se>)

May 20th: Moody's downgrades Iceland's Ratings to Aa1

Moody's Investors Service has downgraded Iceland's government bond ratings to Aa1 from Aaa (negative), and has also lowered the foreign currency country ceiling for bank deposits to Aa1 from Aaa.

All other ratings -- including the foreign currency country ceiling for debt, the local currency bank deposit ceiling, and the local currency ceiling for bonds -- are affirmed at Aaa, and all ratings now carry a stable outlook.

[Moody's press release can be approached here \(pdf-file\)](#)

April

On April 1st, Standard & Poor's placed its long-term ratings on the Sovereign of Iceland on credit watch with negative implications.

On the same date, Fitch Ratings revised the Outlooks on the Republic of Iceland's Long-term foreign and local currency Issuer Default Ratings (IDR) to Negative from Stable. See [further ...](#)

On April 9th, Moody's Investor Service, the credit rating agency, issued its annual report on Iceland. In the report, it is observed that the fundamentals of the Icelandic economy are strong, but the foreign debt exposure of the commercial banks poses a problem for monetary authorities. For a summary of the report see [here](#), and the text of the full report is [here](#).

On April 10th the Central Bank raised its policy rate by 0.5 per cent to 15.5 per cent. See [further ...](#)

On April 17th, Standard & Poor's Ratings Services lowered the long-term foreign currency rating on the Republic of Iceland to 'A' from 'A+' and its long-term local currency rating to 'AA-' from 'AA'. The 'A-1' short-term foreign currency and 'A-1+' short-term local currency ratings were both affirmed. [Further ...](#)

March

On March 5th, Moody's Investors Service changed its outlook to negative from stable on Iceland's Aaa government bond ratings and Iceland's country ceiling on foreign currency bank deposits. The outlooks on the Aaa/P-1 long- and short-term country ceilings for bonds and notes, both domestic and foreign currency, and the Aaa local currency bank deposit ceiling remain stable. See [further](#)

On March 25th, the Central Bank increased its policy rate by 1.25 per cent to 15 per cent. See [further ...](#)

February

On February 17th, the Government issued a statement on economic measures in association with recently concluded wage agreements. See [further ...](#)

January

As of January 1st 2008, the personal income tax rate of the Treasury will be 21.75 per cent and the local government income tax collected at source 12.97 per cent, for a total of 35.72 per cent. These rates are all unchanged from the previous year. The actual local government tax rate may differ from one locality to another, ranging from 11.24 per cent to 13.03 per cent.

The annual personal income exempt from income tax increases as of January 1st from 385,800 a year to 408,408 krónur, an increase of 5.86 per cent, the same increase as in the consumer price index in the twelve months to December.

The income tax credit of seamen increases from 834 to 874 krónur a day.

For 2008, the interest tax credit will amount to a maximum of 179,713 krónur for a single person, 231,125 krónur for a single parent and 297,194 krónur for married or co-habiting couples. Interest expenses that qualify for interest tax credits can amount to a maximum of 524,469 for a single person, 688,517 for a single parent and 852,562 for a couple. The interest amount is subject to a ceiling of 5 per cent of debt undertaken to acquire housing for one's own use. The

interest tax credit is computed on the basis of the above limits and can not exceed 6 per cent of the income tax base. The interest tax credit is also subject to a ceiling of net assets of 5,273,425 krónur for a single person or a single parent and 8,437,481 krónur for a couple. The amount of interest tax credit is curtailed by 60 per cent after reaching the net asset limit and are fully erased at a net asset limit of 8,437,480 krónur for a single person and 13,499,970 krónur for a couple.

Child benefits in 2008 will be as follows (krónur for the full year):

Child up to the age of seven (not an income-tested benefit):	51.891
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Children under the age of 18:

First child	144.116
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Each additional child	171.545
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Children of single parents

First child	240.034
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Each additional child	246.227
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Income limits for benefit curtailment:

For couples	2.415.492
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For single parents	1.207.746
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Benefit curtailment percentage

First child	2%
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Two children	6%
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Three children or more	8%
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A per capita tax of 7,103 krónur is levied on all persons between the age of 16 and 69 with annual income in excess of 1,080,067 krónur. The proceeds of the tax go the Construction Fund for Homes of the Elderly.

On January 14th, the Central Bank of Iceland decided to alter the rules on collaterals in regular transactions with the Bank. The changes aim at aligning the rules closer to practice in other European countries to ensure that the relative operating environment and competitive position of Icelandic banks will be in line with that of foreign competitors in transactions with their respective central banks. Foreign currency denominated bonds will now be accepted as collateral and restrictions on covered bonds will be modified, as will be further defined in rules to be issued by the Central Bank.

Several central banks have expanded their potential liquidity provision in recent weeks and months. The Icelandic interbank market has functioned very smoothly and continues to do so. Rates have been in line with the policy rate of the Central Bank and the transmission of liquidity has without exception been very smooth.

On the same date, January 14th, the Central Bank announced its Treasury debt issue programme for 2008. The Bank emphasised that the Treasury was not in need of borrowing but would only issue debt in order to promote an active secondary market and to strengthen price formation of the domestic fixed income market. [More ...](#)

