



A Quarterly Publication of the Central Bank of Iceland

# MONETARY BULLETIN

2005 • 3

## Contents

- 3** *Introduction*  
Tight monetary policy will be maintained for longer than was expected
- 7** *Economic and monetary developments and prospects*  
Inflation outlook still unacceptable
- Boxes:*  
National accounts – chain-linking and revision for 1990-2003 21  
Errors and omissions in the balance of payments 37  
Financial market analysts' assessments of the economic outlook 43
- Appendices:*  
Inflation target misses: A comparison of countries on inflation targets 58  
What do exchange rate indices measure? 63
- 67** *Financial markets and Central Bank measures*  
An eventful summer
- Box:*  
Non-residents' issues of króna-denominated bonds 68
- 75** *Report to the Government on inflation beyond the tolerance limit*
- 79** *Central bank foreign reserves*  
Haukur C. Benediktsson and Sturla Pálsson
- 87** *Article IV Consultation: Concluding Statement*  
International Monetary Fund
- 93** *Monetary policy and instruments*
- 95** *Economic and monetary chronicle*
- 99** *Tables and charts*

Published by:

The Central Bank of Iceland, Kalkofnsvegur 1,  
150 Reykjavík, Iceland

Tel: (+354) 569 9600, fax: (+354) 569 9605

E-mail: [sedlabanki@sedlabanki.is](mailto:sedlabanki@sedlabanki.is)

Website: [www.sedlabanki.is](http://www.sedlabanki.is)

Editorial staff:

Editorial Board: Arnór Sighvatsson, chairman

Ingimundur Fridriksson

Jón Th. Sigurgeirsson

Sveinn E. Sigurdsson

Tómas Örn Kristinsson

Tryggvi Pálsson

Others: Rannveig Sigurdardóttir

Elín Gudjónsdóttir

The opinions expressed by authors writing under their own names do not necessarily represent the views and policies of the Central Bank of Iceland.

Vol. 7 no. 3 September 2005

Printing: Gutenberg hf.

*Monetary Bulletin* is also published on the Central Bank of Iceland website.

ISSN 1607-6680

Material may be reproduced from the *Monetary Bulletin* but an acknowledgement of source is kindly requested.

**Icelandic letters:**

ð/Ð (pronounced like th in English this)

þ/Þ (pronounced like th in English think)

In *Monetary Bulletin*, ð is transliterated as d and þ as th in personal names, for consistency with international references, but otherwise the Icelandic letters are retained.

**Symbols:**

- \* Preliminary or estimated data.
- 0 Less than half of the unit used.
- Nil.
- ... Not available.
- . Not applicable.