



MONETARY BULLETIN

2010 • 4

Contents

- 3 *Statement of the Central Bank of Iceland Monetary Policy Committee*
Central Bank interest rates lowered
- 5 *Economic and monetary developments and prospects*
Inflation at target by year-end 2010
Boxes:
Foreign direct investment and output growth 22
Assumptions concerning investment in heavy industry in the Central Bank's baseline forecasts 35
The Icelandic contraction and timing of recovery in international context 37
National Budget 2011 45
Productivity development and employment growth 52
- 63 *Monetary policy and instruments*
- 67 *Economic and monetary chronicle*
- 77 *Tables and charts*
- 87 *Boxes and appendices*

The objective of the Central Bank of Iceland's monetary policy is to contribute to general economic well-being in Iceland. The Central Bank does so by promoting price stability, which is its main objective. In the joint declaration made by the Government of Iceland and Central Bank of Iceland on 27 March 2001, this is defined as aiming at an average rate of inflation, measured as the 12-month increase in the CPI, of as close to 2½% as possible. Professional analysis and transparency are prerequisites for credible monetary policy. In publishing *Monetary Bulletin* four times a year, the Central Bank aims to fulfil these principles.

Monetary Bulletin includes a detailed analysis of economic developments and prospects, on which the Monetary Policy Committee's interest rate decisions are based. It also represents a vehicle for the Bank's accountability towards Government authorities and the public.

The framework of monetary policy and its implementation and instruments are described in the chapter entitled "Monetary policy and instruments", on pp. 63-69 of this edition of *Monetary Bulletin*.

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

Website: www.sedlabanki.is

Editorial Board and staff:

Thórarinn G. Pétursson, chairman

Sturla Pálsson

Tómas Örn Kristinsson

Tryggvi Pálsson

Rannveig Sigurdardóttir

Helga Gudmundsdóttir

Vol. 12 no. 4 3 November 2010

Printing: Ísafoldarprentsmiðja

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.