

# M O N E T A R Y   B U L L E T I N

A Quarterly Publication of the Central Bank of Iceland 2000/1

---

## *Contents*

<i>Introduction</i>	
Tight monetary policy and financial stability .....	1
<i>Economic and monetary developments and prospects</i>	
Higher inflation and current account deficit call for restrictive economic policies .....	3
<i>Financial markets and Central Bank measures</i>	
Interest rate rises and wider exchange rate bands .....	12
The financial system: Strengths and weaknesses.....	20
<i>Thórarinn G. Pétursson</i>	
Exchange rate or inflation targeting in monetary policy? .....	36
<i>Tómas Örn Kristinsson</i>	
Payment intermediation – evolution and current status .....	46
<i>Stefán Arnarson</i>	
Icelandic foreign direct investment .....	53
Chronology of financial markets .....	57
Tables and charts .....	59

---

### *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: <http://www.sedlabanki.is>

Vol. 2 no. 1 February 2000

Printing: Steindórsprent-Gutenberg ehf.

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

ISSN 9979-9446-1-7

### *Editorial staff:*

Editorial Board: Már Guðmundsson, chairman  
Ingimundur Friðriksson  
Sveinn E. Sigurðsson  
Yngvi Örn Kristinsson

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

Others: Arnór Sighvatsson, secretary  
Elín Guðjónsdóttir

---

### *Symbols:*

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

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