



# MONETARY BULLETIN

2007 • 1

## Contents

- 3 *Monetary policy statement by the Board of Governors*  
Policy rate left unchanged
- 5 *Economic and monetary developments and prospects*  
Extensive adjustment ahead  
*Boxes:*  
Financial market analysts' assessments of the economic outlook 30  
The impact of foreign labour on inflation 37  
Increased stocks of foreign assets and liabilities heighten volatility in net investment income 45  
Base effects in the CPI 50  
Calculation of confidence intervals 56  
Alternative scenarios 58  
*Appendix 1:*  
Financial dollarisation and the effectiveness of monetary policy 60  
*Appendix 2:*  
Similar economic situations in Iceland and New Zealand 64  
*Appendix 3:*  
Macroeconomic and inflation forecast 2007/1 66
- 67 *Financial markets and Central Bank measures*  
Lively trading in the markets
- 71 *Publication of its own policy rate path boosts the effectiveness of central bank monetary policy*  
Thorvardur Tjörvi Ólafsson
- 87 *Monetary policy and instruments*
- 91 *Economic and monetary chronicle*
- 95 *Featured statistic*  
Household overdrafts
- 97 *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

Sturla Pálsson

Tómas Örn Kristinsson

Tryggvi Pálsson

Jónas Thórdarson

Rannveig Sigurdardóttir

Helga Guðmundsdóttir

Bernard Scudder

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. 9 no. 1 March 2007

Printing: Íslandsprent 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.