



Annual Report 2005

ANNUAL REPORT 2005

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Board of Governors.

From left: Eiríkur Guðnason, Davíð Oddsson chairman, Jón Sigurðsson.

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The Central Bank of Iceland,

Kalkofnsvegur 1, 150 Reykjavík, Iceland.

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

E-mail: sedlabanki@sedlabanki.is

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I Objectives and policy

The main objective of monetary policy is price stability. The Central Bank of Iceland Act (No. 36/2001) includes a provision that the Bank's main objective is to promote price stability. By agreement with the Prime Minister, the Central Bank may declare a numerical target for inflation. In the joint declaration by the Government of Iceland and the Central Bank of Iceland on March 27, 2001, an inflation target was set for the Bank, i.e. a rate of inflation, measured as the twelve-month increase in the CPI, of as close to 2½% as possible.¹ Furthermore, the Act states that the Central Bank shall promote the implementation of the economic policy of the government as long as it does not regard this to be inconsistent with its main objective of price stability. The Bank shall also undertake such tasks as are consistent with its role as a central bank, such as to maintain external reserves and promote an efficient and secure financial system, including payment systems domestically and with foreign countries. In other words, the Bank shall address tasks concerning financial stability. The Act furthermore clarified provisions on accountability, transparency of monetary policy and the Bank's activities in general.

Monetary policy

Monetary policy implementation is based on the Central Bank's inflation forecast which is made over a horizon of nine quarters and is published in *Monetary Bulletin*. Alongside the inflation forecast, the Bank publishes its own macroeconomic forecast and a detailed analysis of economic and monetary developments and prospects. *Monetary Bulletin* was published quarterly until the end of 2005. As of 2006 it will be published three times a year. Each issue will contain an inflation and macroeconomic forecast.

Until the end of 2005, the Central Bank did not follow a prearranged schedule for interest rate fixing decisions, apart from publishing a detailed explanation of its monetary policy decisions – whether or not these involved a change in the policy interest rate – four times a year when *Monetary Bulletin* was published. In November 2005, the Bank announced that in 2006 it would adopt a formal calendar for its interest rate decisions. Six scheduled dates for interest rate decisions will be announced for each year, three of them coinciding with the publication of *Monetary Bulletin*. The Board of Governors may change the policy interest rate between the scheduled decision dates if it considers that there are grounds for doing so.² In accordance with the provisions of the Central Bank Act, the Board of Governors has laid down internal rules on the preparations of, arguments for and presentation of its monetary policy decisions.³

The Bank's main instrument is its policy interest rate, i.e. the rate of interest on the liquidity facilities that it provides to credit undertakings

1 The declaration was published in *Monetary Bulletin* 2001/2 and on the Bank's website.

2 This new arrangement was discussed in *Monetary Bulletin* 2005/4.

3 Published in their entirety in *Monetary Bulletin* 2002/1. The rules will be reviewed in early 2006.

through repurchase agreements. Auctions of repos with a maturity of one week are held on a weekly basis.

The Central Bank sets a minimum reserve requirement for credit undertakings equivalent to 2% of specified liabilities with a maturity of less than two years.

Financial stability

The Central Bank seeks to have a constant, clear overview of the position of credit undertakings and financial markets. It publishes a regular analysis of factors affecting financial stability which includes an in-depth examination of both macroeconomic and aggregate microprudential indicators. Until 2004 this was published twice-yearly in *Monetary Bulletin*. In 2005 the Bank launched *Financial Stability* as a separate report which is published once a year.

As authorised by law, the Central Bank has set rules on minimum liquidity of credit undertakings and on their foreign exchange balance.

In special circumstances when the Central Bank deems it necessary in order to preserve confidence in the domestic financial system, it is authorised by law to issue guarantees to credit institutions which are in liquidity difficulties or grant loans to them other than those classified as regular transactions. In other words, the Central Bank may act as a lender of last resort, provided that certain conditions are met.

In addition to the above, the Central Bank promotes an efficient and secure financial system by evolving Icelandic payment and settlement systems in line with internationally recognised standards.

The Central Bank cooperates on financial stability tasks with the Financial Supervisory Authority (FME) on the basis of a cooperation agreement made with reference to legislation on the Central Bank and on official supervision of financial operations. Likewise, the Central Bank and FME have signed an agreement on oversight and supervision of payment and settlement systems.⁴

Other tasks

By law, the Central Bank has the sole right to issue bank notes and coin. It maintains and invests Iceland's foreign reserves. The Bank cooperates and conducts business with international institutions in its field of activities, including serving as a financial agent with the International Monetary Fund on behalf of the State.

Accountability and transparency

No less than four times a year, the Central Bank is obliged by law to give a public account of its monetary policy and monetary, exchange rate and foreign exchange developments, and its measures in these areas. The Central Bank also issues an annual report in which it explains its activities in detail.⁵ The Central Bank strives to explain its activities to the fullest possible extent. This includes the assumptions underlying its monetary policy decisions and many other aspects of its activities.

⁴ Both agreements are published on the websites of the Central Bank and FME.

⁵ A list of Central Bank of Iceland publications in 2005 is on p. 54 of this Annual Report.

Transparency and accountability are ensured with defined tolerance limits for the inflation target. This entails that, if inflation deviates by more than 1½ percentage point from the target, the Central Bank is obliged to submit a report to the Government explaining the reasons for the deviation from the target, how the Bank intends to react and how long it will take to reach the inflation target again in the Bank's assessment. This report shall be made public.

II Monetary policy and economic developments

The macroeconomic imbalances that emerged in the second half of 2004 were substantially amplified in 2005. Inflation, which had been just below target in the second half of 2004, rose in 2005. It twice breached the upper tolerance limit which is 1½ percentage points above the target. When this happens, the Central Bank is obliged to submit a public report to the Government explaining the reasons for the deviation. The rising rate of inflation was mostly demand-driven. Structural changes in the housing mortgage market in 2004 fuelled domestic demand, which compounded the macroeconomic effect of investments in the energy and aluminium sectors. Labour market pressures built up in the course of the year, driving wage inflation. On the other hand, the appreciation of the króna exerted sizeable downward pressure on goods prices.

A forward-looking monetary policy such as inflation targeting enables a timely response to foreseeable macroeconomic shocks such as investments in the energy and aluminium sectors. The Central Bank assessed the impact of those investments at the beginning of 2003 and concluded that, with a coordinated monetary and fiscal mix, it would be possible to contain inflation. However, the original scale of the project and construction schedules were revised considerably. Unforeseen changes in the credit market in 2004 compounded the effect of these investments on domestic demand. The Central Bank was therefore unable to make a timely response to these events, given the long lag in transmission of monetary policy measures.

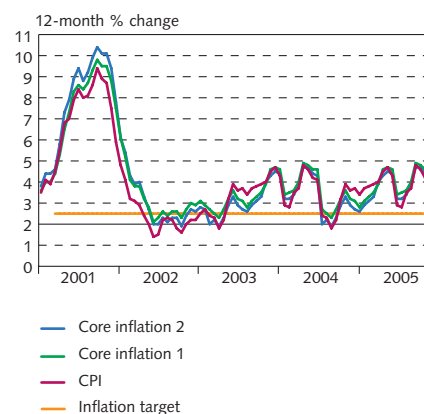
The Central Bank began raising its policy interest rate in May 2004 and by the end of 2005 had increased it by 5.4 percentage points, to 10.5%. In its last interest rate decision in 2005, in *Monetary Bulletin* which was published simultaneously, the Central Bank implied that further hikes could be expected. The Bank's measures had a relatively muted impact on the longer end of the yield curve until autumn 2005. Tightening of the stance therefore had an inadequate effect on demand and inflation, apart from the impact that the stronger króna had on components of the CPI that are sensitive to exchange rate movements. The policy rate hike of 0.75 percentage points in September marked a turning point in the transmission of monetary policy across the yield curve. The rise was transmitted in full in real terms, and indexed bond yields went up for the first time since the Central Bank began raising its policy rate rises in May 2004. Lending rates of most banks, savings banks and the Housing Financing Fund were raised as a result.

Inflation breached the tolerance limit

Inflation remained persistent throughout 2005. The CPI rose by 4% between annual averages and 4.4% over the year. The core indices showed broadly the same rate of increase.

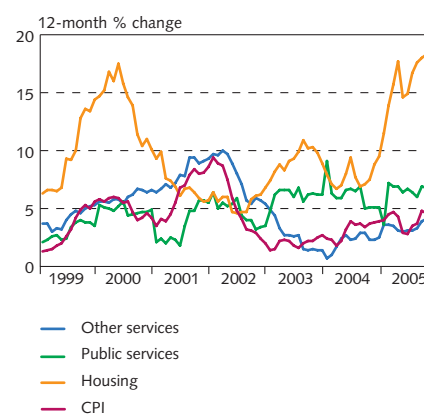
Inflation breached the tolerance limit twice during the year, in February and September. The reasons for the deviation from target are described in the Central Bank's two reports to the Government and in

Chart II-1
Consumer price inflation 2001-2005



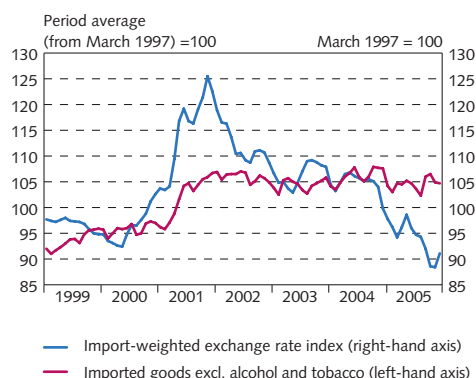
Source: Statistics Iceland.

Chart II-2
Consumer prices: housing and services 1999-2005



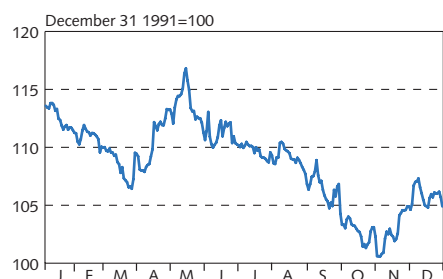
Source: Statistics Iceland.

Chart II-3
Prices of imported goods in the CPI and
import-weighted exchange rate of the
króna 1999-2005



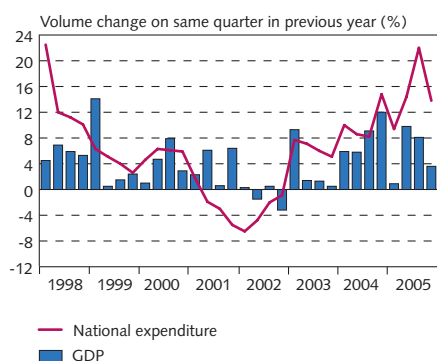
Source: Statistics Iceland, Central Bank of Iceland

Chart II-4
Exchange rate index of the króna in 2005
Daily data January 4 - December 30, 2005



Source: Central Bank of Iceland.

Chart II-5
Economic growth and national expenditure
1998-2005



Source: Statistics Iceland.

Monetary Bulletin. Inflation remained above the upper tolerance limit from February to May. A change in mortgage interest cost calculations in the CPI, the appreciation of the króna and fiercer competition in the food market caused a slowdown in inflation in the middle of the year. At the end of the summer inflation picked up again, partly because the fall in groceries prices from the spring unwound. In September inflation breached the 4% limit for the second time in 2005 and remained above it for the rest of the year, although it slowed slightly towards the end of the year when house price inflation began to inch down.

Demand was the main driver of inflation, and stepped up as the year wore on. The impact was clearest in the components of the CPI that are most sheltered from foreign competition, i.e. in house prices and local services. Surging demand for housing following structural reforms in the mortgage market caused house price inflation to soar in 2005. The housing component of the CPI rose by 17.5% over the year, and accounted for more than three-quarters of the total annual rise in the index. Excluding the housing component, the CPI went up by only 0.9% over the year. The services component of the index rose far in excess of the inflation target and explains one-quarter of the annual rise in the CPI.

Inflation was constrained by the appreciation of the króna in 2005. The króna strengthened until March, followed by a depreciation until mid-May. From then until November the króna appreciated and the exchange rate index reached its lowest value for the year – 100.6 – on November 4. The average monthly exchange rate value was 8% stronger in January 2006 than in January 2005, while the annual average rate in 2005 was almost 11.5% stronger than the year before. However, imported goods prices fell by 0.8% between the years. Thus, little of the currency appreciation was transmitted to lower prices of imported goods. While higher fuel prices offer a partial explanation, this development was largely driven by robust domestic demand which enabled sellers to increase their margins.

Market agents' inflation expectations, expressed as the breakeven inflation rate between indexed and non-indexed eight-year Treasury instruments, fluctuated in pace with inflation during the year, and so did consumer expectations. Surveyed expected inflation turned out

Table II-1. Macroeconomic aggregates 2002-2005: Annual growth and percentages

	2002	2003	2004 ¹	2005 ²
Private consumption	-1.6	5.9	7.2	11.8
Public consumption	5.1	1.6	2.9	3.2
Gross fixed capital formation	-18.9	16.3	29.2	34.5
National expenditure	-3.5	6.4	10.4	14.9
Gross domestic product (GDP)	-1.0	3.0	8.2	5.5
Current account balance, % of GDP	1.6	-5.0	-9.3	-16.3
Unemployment, % of labour force	2.5	3.4	3.1	2.1
Inflation, %average	6.7	2.1	3.2	4.0

1. Preliminary. 2. Estimate.

some way above target, straddling the tolerance limits when it peaked in the spring and September.

Surge in domestic demand

According to estimates by Statistics Iceland, national expenditure grew by 14.9% in 2005. Private consumption growth continued to gain pace, with an estimated increase of almost 12% over the year, the fastest rate since the "tax-free year" of 1987 when Iceland adopted a PAYE tax system. Easier access to credit was the main driver of private consumption, because real disposable income increased by much less, at 3.7%.

GDP grew by 5.6% during the year, at a much slower rate than national expenditure due to the negative contribution from foreign trade. The current account deficit doubled year-on-year to reach the equivalent of 16.3% of GDP. Less than half the deficit derived from imports connected with investments in the energy and aluminium sectors.

Export growth slowed sharply in 2005 and amounted to 3.5% after growth in excess of 8% the year before. Higher export prices in foreign currency softened the impact of the stronger króna and near-stagnation in merchandise export volume. Merchandise imports – driven by the strong króna, robust private consumption and investments in the energy and aluminium sectors – increased by an estimated one-fifth over the year.

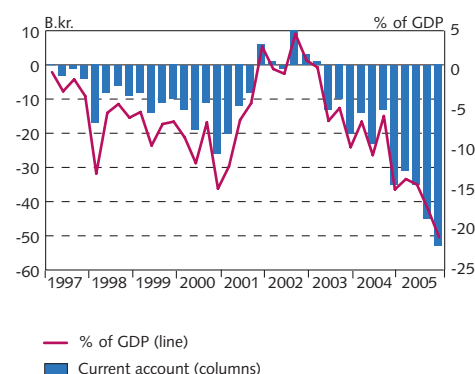
Estimated business investment was also up by more than half, which is double the growth rate of the preceding year. Around half of business investment is estimated to have been in power stations and aluminium smelters. Investments driven by domestic demand, i.e. in services and construction, also increased.

Higher policy rate began to be reflected in higher mortgage interest rates towards the end of the year

The development catalysed by structural reforms in the credit market in 2004 continued in full swing in 2005. A surge in lending to households at lower interest rates, with higher loan-to-mortgage ratios and longer maturities than before, unleashed a wave of refinancing and demand for credit which was deployed on housing purchases, prepayment of older loans on less favourable terms, and consumption.

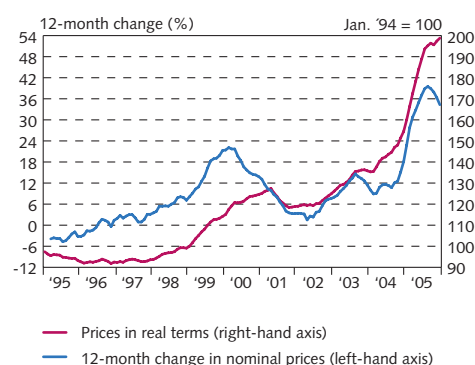
Twelve-month growth of household credit gained momentum for most of 2005. However, there was some reduction in new lending by banks around the end of the year. The impact of policy rate hikes began to be reflected in higher mortgage rates in the autumn. The banks' willingness to lend is likely to have waned after the middle of the year, as they probably regarded fully mortgaged housing as risky collateral if house prices had become overstretched. Lending by deposit money banks (DMBs) to households grew by 235 b.kr. over the year, or almost 78%. Annual growth of lending to households by the credit system as a whole in 2005 amounted to just over 23%, while total credit system lending increased by 30%. Lending to businesses grew by 49%, although much of it was used in investments abroad.

Chart II-6
Quarterly current account balance 1997-2005



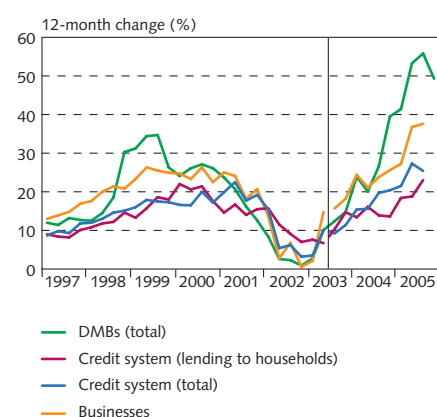
Sources: Statistics Iceland, Central Bank of Iceland.

Chart II-7
Residential housing prices
Price per m² in Greater Reykjavik Area, 3-month moving averages 1995-2005



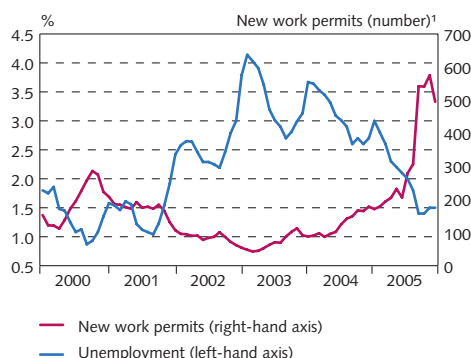
Sources: Land Registry of Iceland, Statistics Iceland.

Chart II-8
Domestic lending by the credit system 1997-2005¹



1. Due to a reclassification of lending, data by sector from Q3/2003 inclusive are not comparable with earlier data.
Source: Central Bank of Iceland.

Chart II-9
Unemployment and new work permits
2000-2005



1. 3-month moving averages.
Source: Directorate of Labour.

Growing labour market pressures

The effects of excess demand for labour intensified in the course of 2005. Unemployment fell by 1.2 percentage points during the year to an average of 2.1%. Registered vacancies with employment agencies more than doubled year-on-year. The participation rate went up 1.2 percentage points in all, most markedly in the youngest age-group.

Excess demand for labour was partly met with imported labour: issuance of new work permits increased by almost 170% year-on-year. In the construction sector, excess demand for labour had already emerged in 2004 and was met with foreign labour, which held wage drift in check temporarily. As the year progressed, it apparently became more difficult to fill this gap with imported labour, causing wage drift to gain momentum in the last months of the year.

With inflation well above the target, a review of whether to revoke private sector wage settlements was triggered. The Federation of Labour (ASÍ) and Confederation of Employers (SA) agreed to raise wage rates under current settlements by 0.65% as of December 2005. Basic wages in the labour market rose by 6.8% year-on-year, as measured by the wage index, which represents an increase of 2.6% in real terms – twice as great as in the previous year, despite a faster rate of inflation. Wages have therefore risen by considerably more than in main trading partner countries, and given the state of the labour market it is unlikely that productivity has increased sufficiently to sustain them.

High real exchange rate has hit profitability of companies in export and traded goods sectors

Tightening of monetary policy inevitably produced difficult side-effects for the export and traded goods sectors. Besides the appreciation of the króna, wage costs of Icelandic businesses increased much faster than in trading partner countries. In terms of both unit labour costs and consumer prices, the real exchange rate in 2005 was the strongest since the 1980s. Offsetting this were higher prices of main export products in overseas markets. In foreign currency terms, prices of marine products rose by an average of 8.4% between 2004 and 2005, and aluminium by 11%.

Companies listed on Iceland Stock Exchange (ICEX) expanded vigorously in 2005, as in the year before. Turnover was up by 65% year-on-year, and share prices by 65% as well. Rising turnover and share prices affected companies to differing extents, but those with foreign subsidiaries were among the best performers. EBITDA increased by just over 11% year-on-year, with some rise in after-tax profit. The stronger króna and higher international interest rates caused financial conditions of businesses to tighten in 2005. The higher policy rate was also transmitted to nominal short-term interest rates, although Eurobond króna issues held interest rates down lower than otherwise.

Increased public sector revenues improve performance

The public sector (central and local government) balance improved from a deficit of 0.5 b.kr. in 2004 to an estimated surplus of 36 b.kr.

in 2005. This sharp turnaround is explained by increased revenues from turnover in the economy, amounting to 9.9% in real terms. Cost constraint was also effective. Deflated by estimated GDP prices, public sector expenditure increased by 1.5% in real terms.

The budget for 2005 was passed by Parliament with a 10 b.kr. surplus, with revenues projected to rise by 2.8% year-on-year in real terms and expenses by 1.2%. These figures are based on Ministry of Finance estimates from January on a national accounts basis. Preliminary figures indicate a 12% increase in regular revenues in real terms, excluding proceeds from the sale of Iceland Telecom. The extra revenue mostly accrued from consumer taxes, but business tax revenues and stamp duty also far outstripped budget estimates. Treasury expenditures were marginally higher than budgeted in real terms, up by 1.6%. Most of the deviation lies in greater outlays on education, foreign affairs and the health service. Under the standard national accounts presentation, the Treasury budget is heading for its largest-ever surplus over the 26 years for which comparable data are available, equivalent to 4.3% of GDP.

Iceland Telecom was privatised in August 2005 for 66.7 b.kr. Part of the proceeds, together with the budget surplus, was allocated on Treasury debt repayments and a one-off pension fund contribution. Another part was put aside to fund infrastructure investments over the coming years. Besides amortisation, exchange rate movements reduced the Treasury's foreign debt even further. Net Treasury debt and liquidity were equivalent to 3% of GDP at the end of the year, excluding pension fund commitments corresponding to roughly 20% of GDP.

Estimates indicate that the local government deficit was broadly in line with forecasts made at the beginning of 2005, at 0.6% of GDP. Revenues increased by more than expected, at almost 6% in real terms instead of 2%, but expenditures by 1.6% instead of 2.6%. However, the basic position for 2004 turned out considerably poorer than assumed in January 2005 – with a deficit equivalent to 1.2%

Chart II-10
 Public finances 1997-2005

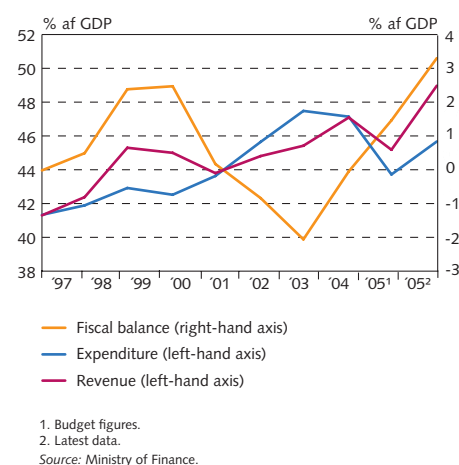


Table II-2. Public sector finances 2001-2005, % of GDP¹

	2001	2002	2003	2004	2005 Bud- get	2005 Est.
Treasury surplus ²	-0.3	-2.2	-2.5	0.0	-0.1	2.9
Net credit budget surplus ³	-2.9	-1.3	1.6	2.7	1.0	8.4
Treasury surplus	0.6	-0.4	-1.7	1.0	1.2	3.8
Local government surplus	-0.7	-0.4	-0.5	-1.2	0.3	-0.6
Public sector surplus	0.2	-0.8	-2.1	-0.1	1.5	3.3
Public sector revenues	43.8	44.8	45.4	47.1	45.2	49.0
Public sector expenditures	43.6	45.7	47.5	47.1	43.7	45.7
Gross public sector debt	45.5	44.5	41.2	36.9	31.6	28.1
Net public sector debt	25.4	24.3	24.1	23.5	18.5	13.1

1. National accounts basis unless otherwise stated. 2. Treasury and budget cash basis, excluding privatisation proceeds. 3. Treasury accounts and budget. Including increase in pension fund commitments and accrued interest.

Sources: Ministry of Finance Economic Outlook January 2005 and January 2006. Budget and Treasury accounts.

of GDP instead of the expected broad balance. The upturn in 2005 therefore did no more than level out a poorer starting position. Net local government debt does not appear to have changed much over the year, at 5% of GDP.

Balance of payments and external position

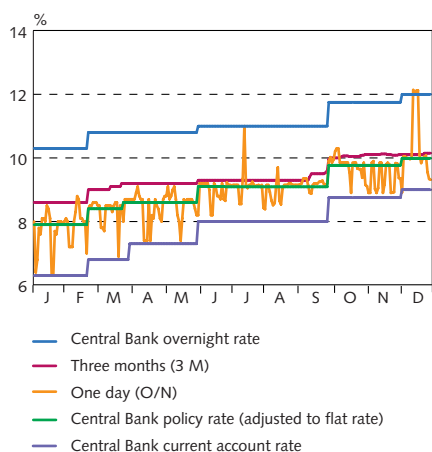
The estimated current account deficit corresponded to 16.3% of GDP in 2005. In addition, there were heavy capital outflows into both direct and portfolio investments. Iceland's foreign debt soared as a result and was probably equivalent to 294% of GDP at the end of the year. Large-scale capital formation overseas, however, left the estimated net external position of the economy at 161% of GDP at the end of 2005.

Brisk turnover in capital markets

Record turnover in interbank markets

Turnover in the foreign exchange market more than doubled from 2004 to 2005. Some of the increase may be traced to the build-up in economic activity in connection with investments in the energy and aluminium sectors, but heavy portfolio trading also played a part, both inward and outward portfolio investments. The exchange rate index began the year at a value of 113 and ended at 104.9. Early in the year the króna appreciated and the index dropped to 106.4 in the second half of March. A mild tremor went through the FX market in May when the Treasury announced plans for stepped-up purchases of foreign currency. As a result, the króna slipped to an index value of 116.8 around the middle of the month, followed by a fairly continuous phase of appreciation until November. The index reached a trough of 100.59 on November 4, the lowest value recorded since November 23, 1992. By contrast, the Treasury's September announcement of increased regular currency purchases until the end of the year aroused little response. At the end of August, issuance of króna-denominated Eurobonds began, which had a tangible impact on market turnover and on interest rate and exchange rate developments.

Chart II-11
Central Bank of Iceland interest rates
and Reibor rates 2005
Daily data January 4 - December 30, 2005



Source: Central Bank of Iceland.

Table II-3. Turnover on interbank market and trading with the Central Bank

Turnover, b.kr.	2000	2001	2002	2003	2004	2005
FX market	768	1,218	834	1,186	950	2,077
Króna market	524	426	421	585	1,073	1,579
Swap market	0	21	763	110	96	45
O/N loans	274	630	326	138	144	105
Certificates of deposit	0	0	0	5	356	165
Repos	828	1,583	1,583	1,632	1,178	2,092
ICEX	534	749	749	1,577	2,218	2,527
Listed equities	199	138	138	554	721	1,202
Listed bonds	335	611	611	1,024	1,496	1,322

Sources: Iceland Stock Exchange, Central Bank of Iceland.

Turnover in the interbank króna market rose by 47% in 2005, on the back of an increase of more than 83% the previous year. As before, the lion's share of turnover was at the shortest end. More than 83% was in overnight loans, and 99% of loans had a maturity of a fortnight or less. The Central Bank continued its cycle of policy rate rises during the year, which were reflected in interbank króna market rates. Liquidity was generally ample, but the privatisation of Iceland Telecom caused a heavy inflow of capital into the Treasury's account in the Central Bank, which market agents tapped with repos. The average repo stock increased by more than 30 b.kr. as a result. Treasury liquidity was very easy during the year due to the favourable economic climate, and the average balance on the Treasury's account in the Central Bank in 2005 was 20 b.kr., as against 12.7 b.kr. the year before – and not including the 32 b.kr. share of privatisation proceeds from Iceland Telecom that was paid in Icelandic currency. Minimum reserve requirement volume increased substantially during the year as a result of higher deposit levels and financial institutions' issuance of short-term notes. The minimum reserve requirement was roughly 12 b.kr. at the beginning of 2005, but had risen to 17 b.kr. at the end. Turnover shrank by almost 53% in the currency swap market, which market agents apparently have little use for at present.

Currency purchases on behalf of the Treasury

The Central Bank's foreign reserves grew slightly in 2005, although this was partly due to an exceptional Treasury deposit. The Central Bank purchased 25 b.kr. during the year to meet the Treasury's requirements. Part of this sum was held in a currency account at the end of 2005, earmarked for use in 2006. Treasury foreign debt to the tune of almost 41 b.kr. was amortised during the year, in addition to interest payments on foreign borrowing. An important contribution was made with the privatisation of Iceland Telecom – roughly half the proceeds were in foreign currency, which was used in full to retire foreign debt.

Securities markets

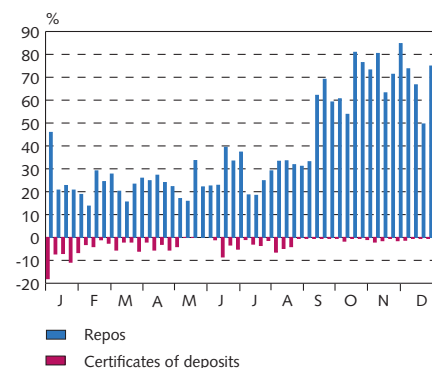
Equity trading was brisk on Iceland Stock Exchange (ICEX) and the ICEX-15 index climbed by almost 65% in 2005, on the back of a 59% increase the previous year. Three companies recorded a rise in share price of more than 100% in 2005. Two new companies were listed on ICEX, one of them foreign, while ten were delisted. A total of 26 companies were listed on ICEX at the end of the year, of which two were on the Alternative (OTC) market. Six financial sector companies accounted for 67% of the total value of all listed shares on ICEX at year-end. Bond trading was also brisk, although turnover was down by 11.6% from the previous year. Some 86% of turnover in bonds and notes was accounted for by the ten highest-traded instruments. At the end of 2005, market value of equities on ICEX was 1,816 b.kr. and of bonds 1,085 b.kr.

Mortgage loans

Mortgage loans, which were launched by the banks in the second half of 2004, surged in 2005 to an outstanding stock of 203.6 b.kr.,

Chart II-12
Outstanding stock of Central Bank
repos and CDs

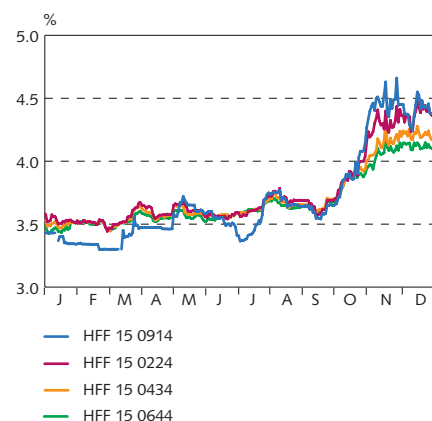
Weekly data January 4 - December 27, 2005



Source: Central Bank of Iceland.

Chart II-13
HFF bond yields 2005

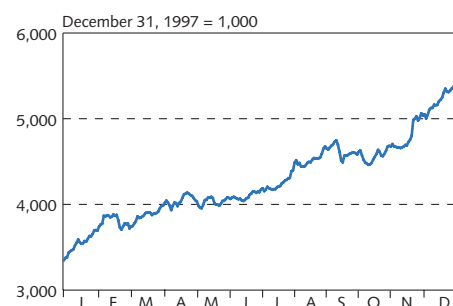
Daily data January 4 - December 30, 2005



Source: Central Bank of Iceland.

Chart II-14
The ICEX-15 equity price index 2005

Daily data January 4 - December 30, 2005



Source: Iceland Stock Exchange (ICEX).

compared with 119.5 b.kr. the year before. New lending by the Housing Financing Fund (HFF) amounted to 73.7 b.kr., as against 69.2 b.kr. in 2004. Prepayment of HFF loans were 128.6 b.kr. in 2005, up from 83.8 b.kr. in 2004.

Cross-border securities trading

Net foreign portfolio investment by Icelandic residents soared in 2005 to 123.5 b.kr., up from 75.8 b.kr. the previous year. Gross investment amounted to 337.8 b.kr. and disinvestment 214.3 b.kr. The bulk of trading was in equities, with net investment of 71.4 b.kr.

Non-residents made net investments of 18.2 b.kr. in Icelandic securities. Roughly half was in Treasury notes, 5.8 b.kr. in equities and 5 b.kr. in HFF bonds. Non-residents also made net sales of domestic bonds issued by non-residents amounting to 2.3 b.kr., and 1.3 b.kr. in domestic mutual fund units.

III The financial system

Financial companies and markets

Promoting an efficient and safe financial system

By law, the Central Bank of Iceland is obliged to promote price stability and an efficient and safe financial system, including payment systems domestically and with foreign countries. These are the main functions of central banks in most countries. Safety is emphasised for the obvious reason that bank and financial system shocks are closely related to changes in financial asset prices, interest rates and the exchange rate of the local currency. Through their monetary policy implementation and the statistical data available to them, central banks are able to evaluate and warn against the risk of financial shocks.

In performing its role of promoting an efficient and safe financial system, the Central Bank of Iceland focuses on assessing the risk of liquidity problems among financial companies and problems in payment and securities settlement systems which could be systemically important. It also promotes the efficiency and positive development of the financial system. Financial stability is an important precondition for economic stability, and vice versa. In its work the Central Bank has taken into account international agreements and other standards for best practices along with the work of leading central banks in this field. The Central Bank cooperates closely with the Financial Supervisory Authority (FME) on financial stability tasks, on the basis of an agreement that the two institutions are mandated by law to make.¹ In light of the increasing prevalence of banks with cross-border establishments, the central banks of the five Nordic countries have signed a memorandum of understanding (MoU) on managing financial crises.

Although there is no unambiguous definition of financial stability, it broadly hinges upon “the stability of the key institutions and markets that make up the financial system. This requires (1) that the key institutions in the financial system are stable, in that there is a high degree of confidence that they continue to meet their contractual obligations without interruption or outside assistance; and (2) that the key markets are stable, in that participants can confidently transact in them at prices that reflect the fundamental forces and do not vary substantially over short periods when there have been no changes in the fundamentals.”²

Separate Financial Stability report launched

In line with the general trend in central banking and to distinguish more clearly between the message of monetary policy and its priorities for financial stability, the Central Bank published its first

¹ Published on the Central Bank of Iceland website.

² Crockett, Andrew (1997), Why is Financial Stability a Goal of Public Policy?, in *Maintaining Financial Stability in a Global Economy*, a Symposium sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming, 7-36.

separate *Financial Stability* report in April 2005. Regular publication of financial stability reports began in *Monetary Bulletin* in February 2000 with the Bank's first survey of the strengths and weaknesses of the financial system. The purpose is to promote informed dialogue, strengthen risk management and explain how the Bank carries out its mandatory tasks in this field.

Financial system broadly sound

The finding of the Central Bank's analysis in April 2005 was that in spite of rapid expansion and the macroeconomic imbalances that need to be tackled in the coming years, the Icelandic financial system was broadly sound. It was sound in the sense of being equipped to withstand shocks to the economy and financial markets, to mediate credit and payments, and to redistribute risks appropriately.

Smooth trading in financial markets

Trading in all domestic financial markets, i.e. for equities, bonds, interbank króna loans, FX and currency swaps, proceeded smoothly and without setbacks in 2005, although the small number of interbank market participants is something of a weakness.

Ongoing acquisitions of foreign banks

The scope of activities by Icelandic commercial banks changed quite substantially in 2005. Their balance sheets were swollen not only by

Takeovers of foreign financial companies

At the end of 2004, Íslandsbanki bid for all the shares in Bolig- og Næringsbanken ASA (BNbank) of Norway. BNbank is a commercial bank specialising in long-term real estate finance, focused on the urban areas around Oslo and Trondheim. Offering price was 35 b.kr. for all the share capital in BNbank. Íslandsbanki financed the acquisition with issues of new share capital and subordinated debt. In March 2005 the acquisition was finalised, which more than doubled the Íslandsbanki Group's balance sheet.

In April, Kaupthing Bank made a takeover bid for Singer & Friedlander (S&F) of the UK. S&F is a specialist banking group in corporate and private banking, investment management and asset finance. The offer price was roughly 65 b.kr. for all issued share capital in S&F; Kaupthing Bank already held a 20% share before the bid. The acquisition was finalised in July 2005 and S&F became part of the Kaupthing Bank Group in Q3. The takeover increased the Group's assets by more than 300 b.kr. and both its assets under management and deposits doubled.

In 2005, Landsbanki Íslands acquired three European securities companies. At the beginning of the year it took over Teather & Greenwood of the UK, which became part of the Landsbanki Group as of Q2. In September Landsbanki acquired an 81% share in the European securities company Kepler Equities, which became part of the Landsbanki Group in Q4. In November, Landsbanki acquired a 50% share in Merrion Capital of Ireland.

increased lending but also by acquisitions of foreign banks, notably when the Norwegian BNbank became part of the Íslandsbanki Group in Q2 and the UK bank Singer & Friedlander became part of the Kaupthing Bank Group in Q3. In both cases acquisitions were largely financed with new share capital issues and subordinated debt. Icelandic banks' acquisitions of foreign banks in 2005 are described in more detail in the Box above.

Credit ratings of banks

International ratings agencies assess the credit ratings of Iceland's three large commercial banks, i.e. Kaupthing Bank, Landsbanki Íslands and Íslandsbanki, as well as Straumur-Burðarás Fjárfestingabanki investment bank. The Republic of Iceland, Housing Financing Fund and Landsvirkjun (national power company) also have international credit ratings. Ratings become increasingly important for the banks as more and more of their funding is raised in the markets and progressively less from deposits.

In 2005, Moody's Investors Services upgraded Landsbanki's long-term deposit and senior debt ratings. Moody's affirmed Kaupthing Bank's ratings during the year, but downgraded Íslandsbanki's financial strength rating. At the end of 2005 Kaupthing Bank and Íslandsbanki had the same rating from Moody's, but Landsbanki's long-term rating was one grade lower.

In November 2005, Fitch Ratings assessed Kaupthing Bank for the first time. Fitch had already rated Landsbanki and Íslandsbanki. All Icelandic commercial banks have the same rating from Fitch. In the beginning of 2006, Straumur-Burðarás Fjárfestingabanki investment bank was rated by Fitch. In February 2006 Fitch affirmed the ratings for the commercial banks. The banks' ratings are shown in Tables 1 and 2.

Robust profits at commercial banks and savings banks ...

Profitability was very strong at the commercial banks and savings banks in 2005. The main explanations are increased interest income following strong lending growth, large income from fees and commissions and substantial gains on securities portfolios, especially

Chart III-1
Largest commercial banks

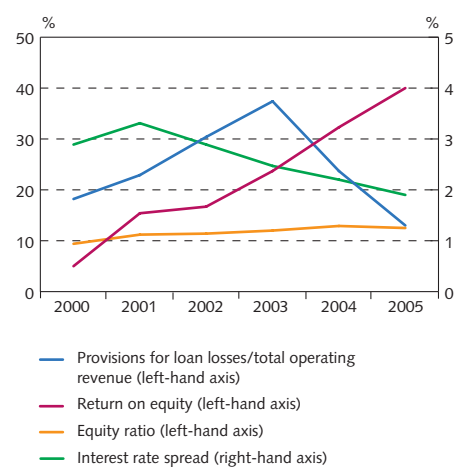


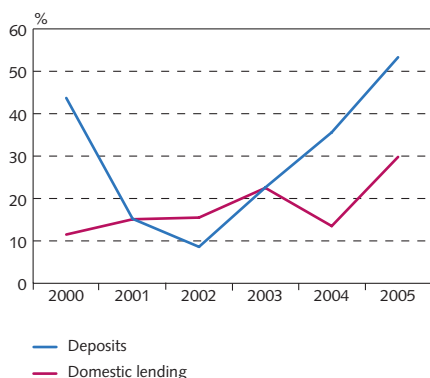
Table III-1. Moody's ratings of Icelandic commercial banks

	<i>Affirmed</i>	<i>Long-term</i>	<i>Short-term</i>	<i>Financial strength</i>	<i>Outlook</i>
Kaupthing Bank	May 2005	A1	P-1	C+	Stable
Íslandsbanki	May 2005	A1	P-1	C+	Stable
Landsbanki	March 2005	A2	P-1	C	Stable

Table III-2. Fitch's ratings of Icelandic commercial and investment banks

	<i>Affirmed</i>	<i>Long-term</i>	<i>Short-term</i>	<i>Individual</i>	<i>Support</i>	<i>Outlook</i>
Kaupthing Bank	Feb. 2006	A	F1	B/C	2	Stable
Íslandsbanki	Feb. 2006	A	F1	B/C	2	Stable
Landsbanki	Feb. 2006	A	F1	B/C	2	Stable
Straumur-Burðarás Fjárfestingabanki	Jan. 2006	BBB-	F3	C/D	3	Stable

Chart III-2
Domestic lending and deposits of DMBs
12-month changes



equities. Profits of the largest commercial banks almost tripled year-on-year. In 2005 almost half the banks' income originated outside Iceland, compared with less than one-third in 2004. Their capital adequacy went down slightly compared with the previous year.

... and the surge in lending continued

Lending by deposit money banks (DMBs) surged in 2005, and so did the value of their marketable securities portfolios. Outstanding lending and marketable securities at DMBs grew by 53% during the year and total foreign lending and foreign marketable securities by 202%. Deposits rose by 30% over the year and DMBs' securities issues by 94%. The bulk of securities were issued in foreign markets and foreign currencies. DMBs relied increasingly on foreign currency-denominated issues during the year, especially within medium-term note (MTN) programmes instead of conventional direct foreign borrowing or syndicated loans. At the end of 2005, deposits at DMBs accounted for 22% of their total liabilities.³ The corresponding ratio in 1995 was 75%, which clearly illustrates how sharply borrowing has been replacing deposits on the financing side. Outstanding credit at other credit institutions⁴ increased by just over 2% in 2005. Lending by the Housing Financing Fund (HFF), which accounted for 65% of total outstanding lending by other credit institutions at the end of 2005, shrank by 12% over the year. Securities issues by other credit institutions grew by just under 7% during the year, the bulk in the form of HFF bonds.

Record Icelandic investment in foreign securities ...

Foreign portfolio investment by residents soared in 2005 with net purchases at their highest figure since 1994, when systematic compilation of these data began. Residents' net foreign portfolio investment amounted to almost 123.5 b.kr., compared with 75.8 b.kr. the previous year, an increase of 63%. The bulk of investment was in foreign equities (71 b.kr.), along with 40 b.kr. in mutual funds and 11.9 b.kr. in bonds. The preference for equities over mutual fund units probably reflects Icelandic business expansion overseas, involving large investments in shareholdings of less than 10% in certain companies. As before, pension funds dominated foreign equity investments, but DMBs increased their share substantially in 2005.

... while foreign investors' appetite for domestic securities issues waned

Foreign investors' net purchases of securities issued in Iceland amounted to 18.2 b.kr. in 2005, compared with just over 33 b.kr. in 2004. The decrease is largely accounted for by a drop in equity investment. Investments in bonds outstripped those in equities in 2005, reversing the trend of the previous year.

³ Excluding capital stock and subordinated debt.

⁴ Other credit institutions comprise the Housing Financing Fund, investment banks, leasing companies, payment card companies and investment credit funds.

Net foreign purchases of Icelandic bonds amounted to just under 13 b.kr. in 2005, compared with 11.7 b.kr. in 2004. The bulk was in Treasury notes, for 9.5 b.kr., while net purchases of housing bonds, housing authority bonds and HFF bonds was 5 b.kr.

Statistics for non-residents' trading in securities issued in Iceland do not extend to derivatives. At one time, foreign investors' bond exposures could be estimated from the banks' interim and annual accounts. As a rule of thumb, foreign investors could be assumed to account for most of the derivative contracts on behalf of clients which the banks reported. After FIH Bank was included in the consolidated statements of Kaupthing Bank, and Kredittbanken and BNbank in the consolidated statements of Íslandsbanki, the position of derivatives with foreign investors and involving securities issued in Iceland cannot be estimated with as much certainty.

Króna-denominated Eurobonds were issued on a large scale in 2005; in spite of their currency denomination, they are not classified as securities issued in Iceland, but are issued offshore and generally by non-residents. Offshore króna bond issuance – involving non-indexed bonds and mainly with a maturity of one or two years – totalled 149 b.kr. in 2005. Icelandic residents' purchases of króna bonds are recorded as foreign portfolio investment by them. Resident counterparties can conceivably participate in króna bond trading through derivatives, but precise data on these transactions are not available.

Non-residents' net purchases of Icelandic equities amounted to 5.8 b.kr. in 2005, as against just under 22 b.kr. the year before. At the beginning of 2005 the Iceland Stock Exchange ICEX-15 index stood at 3,359.6 but at the end of the year it had risen to a record value of 5,534.49. With a 65% increase in the ICEX-15 index over the year, investors who focused on domestic equities clearly gained outstanding returns.

Depositors' and Investors' Guarantee Fund

The Depositors' and Investors' Guarantee Fund operates in two divisions as provided for by Act No. 98/1999, on Guarantees for Depositors and Investors, Regulation No. 120/2000 on the same subject and the articles of association approved at its founding meeting on December 28, 1999. By law, the total assets of the Fund's deposit division shall amount to a minimum of 1% of the average amount of guaranteed deposits in commercial banks and savings banks during the preceding year. In 2005, guaranteed deposits increased by just over 22% year-on-year to an average of 609 b.kr. Total assets of the deposit division should therefore have been 6,094 m.kr. However, the Fund's assets amounted to only 5,068 m.kr. at end-2005, or 0.83% of guaranteed deposits, which meant that it did not meet the legal requirements in this respect. The amount by which the deposit division's assets fall short of the mandatory requirement needs to be collected from commercial banks and savings banks in 2006, and additional guarantees collected. The estimated required in-payment is 914 m.kr., with a further 112 m.kr. in guarantees. This is the fourth successive year when the Fund needs to collect from members. Sums

collected have been 366 m.kr. in 2003, 459 m.kr. in 2004 and 506 m.kr. in 2005. The main reason is rapid growth in guaranteed deposits in recent years. It should be underlined that, so far, the Fund has not needed to draw on its assets on account of difficulties faced by member companies in meeting their obligations.

By law, total minimum assets of the securities division shall be 100 m.kr. In 2005, the sixth round of payments, amounting to 20 m.kr., was collected from member companies. Capital stock of the securities division at the end of the year was approximately 86 m.kr. and member companies have issued letters of guarantee for the outstanding approximately 14 m.kr. The seventh round of contributions to the securities division, amounting to 14 m.kr., will be collected in 2006 as provided for by law. In November 2001 one of the fund's members, Burnham International in Iceland, was taken into official receivership. The company is still in receivership and it is not known when this process will be completed. Claims were made against the Guarantee Fund – Securities Division amounting to 226.5 m.kr. Some claims were withdrawn and the majority of others were rejected. The securities division of the Depositors' and Investors' Guarantee Fund is likely to incur some outlays relating to this matter. Prudential provisions totalling 52 m.kr. have been expensed for this contingency and entered in the balance sheet as a liability. This consideration has been taken into account in calculation of the division's capital stock.

Pension funds

According to provisional figures based on a survey of the largest pension funds, their net assets amounted to almost 1,200 b.kr. at the end of 2005. They grew during the year by 213 b.kr., or 21.6%, compared to a 19.7% increase in 2004. Average net assets in 2005 were equivalent to 110.6% of GDP in comparison with 102.3% in 2004.

Pension funds' securities portfolios are divided roughly equally between fixed-income securities (bonds) and variable-income (equities and mutual fund units). The latter grew by 35.6% over the year, slightly faster than the 32.1% growth recorded in 2004. Most of the increase was due to a positive revaluation of more than 120 b.kr. over the year, while net purchases amounted to only 30 b.kr. Pension funds' domestic equity portfolios grew by 58 b.kr. and their positive revaluation amounted to 75 b.kr., driven by the surge in Icelandic share prices during the year, with the ICEX-15 index up by 65% and ICEX-Main by 62%.

The funds' foreign securities portfolios amounted to 297 b.kr. at the end of 2005 after increasing by 36.3% over the year, an almost identical growth rate to the year before. At the end of the year, securities issued abroad accounted for almost one-quarter of the pension funds' net assets, and this ratio has been steadily growing in recent years. However, pension funds still have considerable scope for foreign investment – Act No. 129/1997 on the Mandatory Guarantee of Pension Rights and the Operation of Pension Funds sets a ceiling on their foreign currency exposures amounting to 50% of net assets.

Payment and settlement systems

Two types of payment system are in operation in Iceland, both of them settlement systems, i.e. the Central Bank's real-time gross settlement (RTGS) system and the netting system operated by Fjölgreiðslumiðlun hf. (FGM). Settlements of securities transactions are processed by the RTGS system. Participants are the commercial banks, savings banks and Central Bank. The Icelandic Banks' Data Centre (RB) provides software services for the systems and the Central Bank acts as a settlement provider.

RTGS system

The Central Bank is in charge of and responsible for operation of the RTGS system. The Bank's duty is to manage system operating risks and strengthen the efficiency and independence of the system, in line with prevailing international practice.

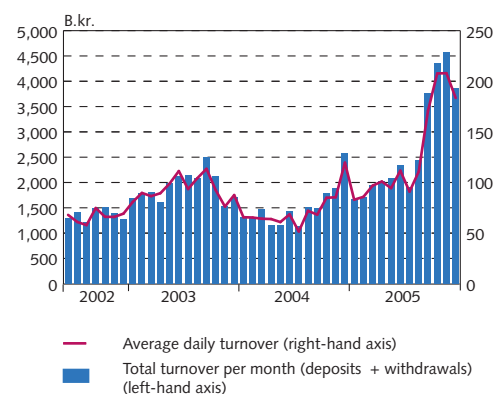
The Central Bank's RTGS system entered service in December 2000. It handles final settlement of individual payment orders of 10 m.kr. or above as soon as the deposit in the payer's account allows this to be done. The system thereby transfers payment orders which are above the minimum needed to qualify for the RTGS system directly to or from participants' current accounts in the Central Bank. The RTGS system is subject to the provisions of Central Bank Rules No. 788/2003.

Chart III-3 shows turnover in the RTGS system from 2002 to the end of 2005. Turnover in the system increased substantially in 2005. Total monthly turnover in the system during the year, i.e. deposits and withdrawals, grew from just under 1,700 b.kr. in January to more than 3,800 b.kr. in December. Daily average turnover increased correspondingly from 85 b.kr. to almost 200 b.kr. over the same period. Average monthly turnover in 2005 was 2,721.2 b.kr. and average daily turnover 128.7 b.kr., up by 79% from 72.5 b.kr. per day the previous year.

Netting system

The Central Bank has taken part in development of the FGM netting system in recent years. FGM is jointly owned by the commercial banks, payment card companies and the Central Bank, and operates the netting system. The system handles netting of accumulated payment orders between participants lower than 10 m.kr. Settlements are made on participants' RTGS accounts in the Central Bank at 17.00 hrs. on banking days. Real-time netting positions between system participants are visible so that they can monitor and manage payment intermediation risks. Customers have access to money deposited in accounts as soon as payment is made. Participants negotiate overdrafts for netting positions between them and pledge securities as collateral for the highest intraday overdraft. They can also deposit liquid funds in dedicated accounts to meet temporary imbalances in payment positions between them. The netting system is subject to the provisions of Central Bank Rules No. 789/2003.

Chart III-3
RTGS system turnover
June 2002 - December 2005



Securities settlement system

The Icelandic securities settlement system is operated on the basis of a cooperation agreement between the Central Bank, Central Securities Depository (CSD) and Iceland Stock Exchange (ICEX). The settlement system performs a key role for the securities market, financial system and financial stability in Iceland. It includes all institutional arrangements for confirmation, determination of rights and obligations, clearance and settlement of securities trades and safekeeping of securities. Securities settlement includes the final transfer of securities (delivery) and funds (payment) between the buyer and the seller. The following institutions divide settlement tasks between them: (a) ICEX confirms the terms of securities trades (confirmation); (b) CSD calculates and records the mutual obligations of market participants for the exchange of securities and money (clearing) and carries out the final transfer of securities (delivery); (c) the Central Bank executes the final transfer of funds (payment), through its RTGS system, based on payment orders calculated by the CSD; (d) CSD handles custody/safekeeping of the securities.

The Central Bank's role and policy for payment and settlement systems

One of the Central Bank's mandatory roles is to promote an efficient and safe financial system, including payment systems domestically and with foreign countries. It performs an important function in promoting reliable and efficient operation of payment systems and the securities settlement system in Iceland. This function may be divided into policy-making, regulatory, catalyst, operational and oversight roles. Furthermore, the Central Bank has representatives on the boards of the companies involved in implementation of payments and settlements, i.e. RB, FGM and the ICEX holding company, which work towards furtherance of the Bank's objectives in this field.

The Central Bank's policy on these issues is to bring domestic payment and settlement systems into line with international requirements. Its reference standards in this respect are the Core Principles for Systemically Important Payment Systems and the CPSS/IOSCO recommendations for securities settlement systems. Since 2002, the Central Bank has been systematically engaged on development of payment systems with the aim of bringing them into compliance with the Core Principles. This has included setting clearer rules about system activities, introducing requirements for settlement guarantees, revising settlement procedures, informing participants about systemic risk, implementing risk management, drawing up a contingency plan and increasing system transparency. The programme has been implemented in close cooperation with FGM, RB and credit institutions.

Rules on the activities of payment systems

An important aspect of the development and adaptation of Iceland's payment and settlement systems was to set rules on the main elements of their operation. As of November 1, 2003, the Central Bank adopted two sets of Rules on payment systems: Rules No. 788/2003 on the

Central Bank's Real-Time Gross Settlement System and Rules No. 789/2003 on Activities of Netting Systems. The Rules are based on the Central Bank of Iceland Act No. 36/2001. Furthermore, they expand on provisions in Act No. 90/1999 respecting the Security of Transfer Orders in Payment Systems, which in turn is based on Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998, on settlement finality in payment and securities settlement systems. The principle aim of the Rules is to promote financial stability and enhance legal certainty and transparency in system operations. These Rules clarify the role and responsibilities of the Central Bank, credit institutions and other parties involved in payments and settlement. At the end of 2004 the systems were designated and notified to the EFTA Surveillance Authority in accordance with Act No. 90/1999. The RTGS system and netting system have thereby been recognised as legitimate payment systems in Iceland and across the European Economic Area.

Settlement collateral

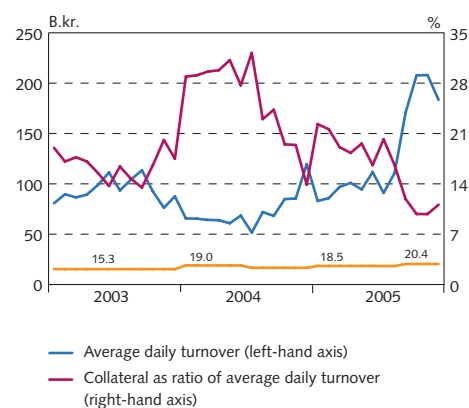
Adequate collateral for payment system settlement is vital for ensuring the sound and efficient operation of the financial system in the event that a credit institution cannot honour its settlement obligations. At the beginning of 2005, collateral of all credit institutions totalled 18.5 b.kr. in the RTGS system and 3.2 b.kr. in the FGM netting system. Collateral amounts were revised in mid-2005 and set at 18.4 b.kr. in the RTGS system and 3.1 b.kr. in the FGM netting system. A further review set total collateral at 29.2 b.kr. for the beginning of 2006, divided between 23.3 b.kr. in the RTGS system and 5.9 b.kr. in the FGM netting system.

Agreements on settlement collateral for payment systems were amended when they were renewed on December 29, 2005. The main change involved extending the eligible collateral that credit institutions can pledge. Besides securities that qualify for repo transactions, institutions may now pledge electronic bonds issued by local governments, central or local government-owned enterprises and companies listed on ICEX. Foreign securities that are eligible as Central Bank foreign reserve investments may also be pledged.

On December 29, 2005, agreements with credit institutions on payments systems were split into separate agreements on the RTGS system and FGM netting system. FGM, which is responsible for operation of the netting system, thereby became a direct party to the agreement on overdrafts and settlement guarantees in the netting system. This change is a step in the further development and differentiation of the payment systems, aimed at sharpening the focus and responsibility of individual system participants.

The Central Bank reviews collateral amounts on the basis of the highest daily settlement exposure that it has recorded for each credit institution. Credit institutions may not exceed the intraday overdraft limit that their collateral covers. They aim to arrange their cash management in such a way as to reduce the amount of funds tied up as collateral. The Central Bank has also tried to reduce the collateral requirement by lowering the minimum payment amount that qualifies for the RTGS system and by combining reserve accounts and RTGS

Chart III-4
Average daily turnover in the RTGS system and settlement collateral
January 2003 - December 2005



settlement accounts. If necessary, RTGS system participants can raise their intraday overdraft limits provided that adequate additional collateral is pledged.

Preparations were made during the year for technical locks on the RTGS system, which were activated on September 16, 2005. From that time on, the RTGS system automatically rejects all payment orders which would entail an uncollateralised overdraft. It is planned to introduce the same kind of locks in the FGM netting system in 2006, along with further system development.

Operational risk in payment systems

In recent years the Central Bank has focused on the chief risks connected with payment systems and has attempted to limit the legal, credit, liquidity and settlement risks. Operational risks came under focus in 2005, with efforts to clarify and extend responsibility for payment system operations and arrangements for risk management. Close collaboration has been maintained with RB, which is largely in charge of system software and hardware operation, and FGM on this project. A formal collaboration agreement was signed in 2005 between RB and the Central Bank on operation and development of software for the RTGS system. It extends to awareness and knowledge of operational risk, transparency in system functionality and operation, risk measurement and testing, information exchange and contingency plans.

Report on the Central Bank's RTGS system

As described in the *Annual Report* for 2004, the Central Bank requested experts from the Central Bank of Sweden (Sveriges riksbank) to visit Iceland for fact-finding about the environment, development and operation of the RTGS system. They made an in-depth study of information and viewpoints from the Central Bank, RB, commercial banks and FGM. The Swedish consultants examined RB's legal position and management, Central Bank ownership of the RTGS, dissemination of information about RB risk analysis and the draft agreement between the Central Bank and RB on system operation. In their report submitted in May 2005, the Swedish experts point out various important points for consideration during further development and expansion of the payment systems.

The report points out that Iceland has a unique infrastructure for payment and settlement systems with a high degree of integration between systems in the RB environment, which makes them efficient but creates risks. The authors suggest that while a highly disciplined process is required for management of risks in the short term, in the long run they need to be eliminated by separating the systems. A number of points were made about system participants. It was pointed out that the legal status of RB is unclear and its relationship with the Central Bank and other owners should be clarified. RB is the sole provider of payment infrastructure in Iceland.

Furthermore, the authors of the report advocate further review in this area within the Central Bank. Among other things, the Central Bank should take on greater responsibility for the RTGS as an owner

and become more active. User fees must take account of both the costs of RB and transaction cost for participants. The authors indicate that pricing should meet all operating costs so the system should be self-financing; the RTGS system should be financially independent and separate from the rest of the Central Bank's operations.

In 2005 further reforms were made to the RTGS system, in particular addressing operational risk and external factors. The focus in 2006 will shift to internal factors highlighted in the Swedish report. The netting system will also be brought into line with the changes already made to the RTGS system, in close cooperation with FGM, RB and credit institutions.

Payment instruments

Cash in circulation

At the end of 2005, notes and coin in circulation outside the Central Bank amounted to 13.2 b.kr., an increase of 1.6 b.kr. from 2004. This large increase is noteworthy given the growing use of other payment instruments. In October 2005, the Central Bank put into circulation an upgraded version of the 500 kr. banknote. The version that it replaces remains legal tender but will gradually be withdrawn from circulation. The new banknote is essentially the same as its predecessor but incorporates a number of new security features, making it easier to recognise and more difficult to counterfeit.

The Bank gives high priority to maintaining the credibility of Icelandic banknotes, among other things with security features in notes and by regular processing of them. Note processing includes counting, identification of forgeries and sorting of notes into fit and unfit. Fit notes are recirculated and unfit destroyed. The note processing department received 13.3 million notes from commercial banks and savings banks in 2005, and 4.6 million notes were destroyed.

Slower contraction in cheque turnover, but payment card turnover still on the increase

Credit and debit card turnover is still growing year-on-year but the contraction in cheque turnover is slowing down. Credit card turnover increased by 28 b.kr. (15.5%) in 2005, to 206 b.kr. The increase in credit card transaction volume was divided between 21 b.kr. in domestic transactions and 7 b.kr. outside Iceland. Debit card transaction volume increased by 7.4% in 2005, to 424 b.kr., with domestic transactions accounting for the bulk of the growth. Cheque transaction volume decreased by just under 9% year-on-year and amounted to 266 b.kr. at the end of 2005.

The number of domestic transactions increased year-on-year by 11.1% for debit cards and 12.8% for credit cards. However, the rise in number of transactions for debit cards was proportionally larger than for credit cards. The number of cheque transactions fell by 28%.

Chart III-5
Turnover: cheques and payment cards

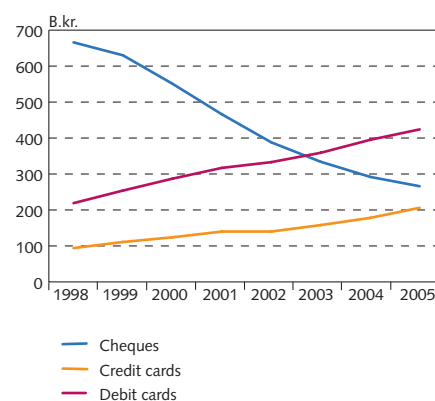
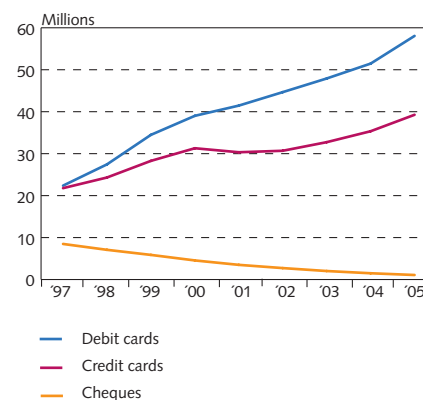


Chart III-6
Number of transactions
Number of domestic transactions



IV Various Central Bank activities

International cooperation

The Central Bank of Iceland has extensive responsibilities and obligations in the field of international finance. The Bank cooperates closely with other central banks and international economic and monetary organisations.

The International Monetary Fund (IMF)

The Central Bank represents Iceland at the International Monetary Fund. Birgir Ísleifur Gunnarsson, Chairman of the Board of Governors of the Central Bank, represented Iceland on the IMF Board of Governors until his retirement, when Davíð Oddsson, the new Chairman of the Board of Governors, took his place. Bolli Þór Bollason, Secretary General at the Office of the Prime Minister, was Iceland's alternate on the IMF Board. Iceland cooperates with the Nordic and Baltic countries through a Constituency at the IMF and they jointly elect an Executive Director as one of the Fund's 24 Executive Board members.

Norway's Minister of Finance, Per-Kristian Foss, represented the Nordic and Baltic countries in 2005 on the Fund's International Monetary and Financial Committee (IMFC), which acts in a consultative capacity to the IMF Board of Governors. Jarle Berge, Deputy Governor of Norges Bank, the Central Bank of Norway, was chairman of the Nordic-Baltic Monetary and Financial Committee (NBMFC), whose role is to coordinate and manage cooperation within the Constituency. Jón Þ. Sigurgeirsson, Director of the International Department at the Central Bank of Iceland, chaired the NBMFC Alternates, which addresses various common Constituency issues and reports to the NBMFC, from 2004 to 2005. The constituency's permanent representative on the IMF Executive Board in Washington during the year was Jon A. Solheim from Norway and his alternate was David Farelius from Sweden.

The spring and autumn meetings of the International Monetary and Financial Committee were held in Washington. In connection with these events, the Central Bank of Iceland published on its website the Nordic and Baltic Constituency Office's reports to the IMF on the main activities of the Fund and its Executive Board. Nordic-Baltic speeches that were presented to the IMFC and the IMF Annual Meeting were also published.

An IMF staff mission visited Iceland in June 2005. Its concluding statement was published on the Central Bank of Iceland and IMF websites the same month. After being discussed in the Executive Board of the IMF, the Staff Report for the Article IV Consultation was published on the IMF website in October 2005.

The Bank for International Settlements (BIS)

The Central Bank is a shareholder in the Bank for International Settlements (BIS) in Basel and takes part in its work. BIS is an

important forum for consultation among central banks as well as being an information and research centre in economics, especially in the monetary field. In recent years, BIS has increasingly focused on financial stability, surveillance of financial institutions and their soundness. Central Bank representatives participate in a number of BIS meetings.

Other central banks

Extensive cooperation takes place among the Nordic central banks in a number of areas. The governors of the Nordic central banks hold an annual meeting to discuss monetary issues and other relevant topics of joint interest. Their experts in various areas cooperate and share information on issues including reserve management, market operations, legal matters, economic research, general monetary matters, financial stability, administration, human resources, communication of information, etc. The Nordic central banks have exchanged staff each year as well. The Central Bank of Iceland also cooperates with various other central banks, including the European Central Bank. The Chairman of the Board of Governors meets regularly with the President of the ECB. Other Central Bank representatives have met ECB experts to discuss aspects of monetary policy formulation and implementation.

The Organisation for Economic Cooperation and Development (OECD)

Central Bank representatives participate on a regular basis in the work of various OECD committees and groups, including the Economic Policy Committee, Working Party 1, the Committee on Financial Markets and an expert committee on government debt management. OECD experts visit Iceland regularly for discussions with the authorities on economic developments. Similar discussions are held with all the member countries. Following the visits, the OECD publishes reports which contain its assessment of economic conditions. An OECD mission visited Iceland for talks with representatives of the authorities in October 2004 and subsequently published its Country Survey in February 2005.

Other financial institutions

In connection with the management of international reserves, the Treasury's foreign borrowing and other tasks, the Central Bank is engaged in business relations with a number of financial institutions.

Foreign reserves

The Act on the Central Bank of Iceland stipulates that one of its functions is to maintain Iceland's foreign reserves. Accordingly, the Board of Governors lays down rules on management of the reserves, which are approved by the Supervisory Board. Foreign reserves comprise the Central Bank's holdings of foreign securities, deposits in foreign banks and money market funds, gold, Special Drawing Rights (SDRs) and the reserve position at the IMF. SDRs refer to the Bank's position in its SDR account at the IMF.

The requirement for secure investment of the reserves gives rise to strict conditions regarding the institutions that the Bank transacts with and the securities it purchases. Funds may be deposited in international financial institutions and invested in money market funds and listed securities issued by entities in member countries of the OECD. Issuers can be sovereigns, local governments, state enterprises, international organisations and financial institutions. The Central Bank's policy for investment choices stipulates minimum credit rating requirements. A minimum rating of A+/A1/A1 from recognised ratings agencies (Moody's/S&P/Fitch) is required for long-term securities. Short-term securities require minimum ratings of A-1/P-1/F-1, respectively, from the same agencies. The same demands are made towards deposit-taking institutions. In accordance with internal rules set by the Board of Governors, the bulk of the reserves are invested in securities with a lifetime of more than one year, but a share of the reserves must be held in sight accounts. The average duration of securities and deposits in the foreign reserves should not exceed five years. The Bank's gold reserves amounted to just over 64 thousand ounces at end-2005. The gold is held in the Bank of England and may be lent against gold interest rates.

The Central Bank has made agreements for short-term credit facilities (secondary reserves) with foreign banks, in order to strengthen its foreign reserves when necessary. Committed credit facilities were available at the end of 2005 for the equivalent of 21 b.kr.

In 2005, the Bank's foreign reserves strengthened by 1.7 b.kr. to reach 67.3 b.kr. at the end of the year. Together with available credit facilities, primary and secondary reserves therefore totalled 88 b.kr. In addition, the Central Bank has non-committed access to credit lines with a number of international financial institutions.

The Central Bank's net foreign balance is its foreign-denominated assets net of foreign-denominated liabilities. Currency composition of the net foreign balance is adjusted with the aim of minimising risk. Currency composition of the Central Bank's foreign reserves is regularly reviewed and confirmed in the Board of Governors' working rules. The weight of currencies is determined by using a model that minimises volatility in the foreign value of the reserves. Foreign reserves are comprised of the four most important currencies in Iceland's external trade: the US dollar (accounting for 40% in 2005), euro (40%), pound sterling (15%) and yen (5%).

Currency-by-currency investment of the foreign reserve

Table IV-1 shows the returns on investment of individual currencies comprising the foreign reserves over the past four years. The MSCI Sovereign Bond Index is used as a reference in measuring investment performance for bonds with a maturity of 1-3 years and 3-5 years, respectively. The average duration of the Central Bank's portfolios lies between these indices. Returns on short-term investments are referenced against LIBOR rates in the respective currency; deposits are generally very short-term investments. The benchmark for returns on short-term investments is 12.5 basis points below LIBOR (LIBID).

Table IV-1. Returns on investment of Central Bank foreign reserves

<i>US dollar</i>	2002	2003	2004	2005
Interest income	5.07%	3.89%	3.74%	3.84%
Price gain/loss	5.60%	-0.62%	-1.99%	-2.35%
Total return	10.67%	3.27%	1.75%	1.49%
Average maturity at year-end	2.96	2.88	2.64	2.33
MSCI 1-3 year index	5.88%	1.90%	0.91%	1.66%
Average maturity at year-end	1.62	1.80	1.65	1.69
MSCI 3-5 year index	11.35%	2.50%	2.12%	0.86%
Average maturity at year-end	3.58	3.80	3.66	3.52
Time deposits	1.65%	1.07%	1.37%	3.16%
LIBOR (annual average)	1.75%	1.20%	1.48%	3.30%
<i>Euro</i>				
Interest income	4.80%	3.95%	3.59%	3.33%
Price gain/loss	2.80%	-0.19%	1.75%	-0.46%
Total return	7.60%	3.76%	5.34%	2.87%
Average maturity at year-end	2.76	3.26	3.31	2.8
MSCI 1-3 year index	5.67%	3.19%	3.21%	2.16%
Average maturity at year-end	1.73	1.63	1.61	1.73
MSCI 3-5 year index	8.29%	3.68%	5.62%	2.91%
Average maturity at year-end	3.35	3.42	3.47	3.5
Time deposits	3.24%	2.35%	2.02%	2.08%
LIBOR (annual average)	3.31%	2.36%	2.07%	2.12%
<i>Sterling</i>				
Interest income	6.29%	5.76%	5.58%	5.50%
Price gain/loss	1.25%	-1.79%	0.09%	0.15%
Total return	7.54%	3.97%	5.67%	5.65%
Average maturity at year-end	2.19	2.78	3.31	2.95
MSCI 1-3 year index	6.70%	3.35%	4.66%	4.90%
Average maturity at year-end	2.00	1.10	2.05	1.51
MSCI 3-5 year index	8.74%	2.83%	5.15%	5.62%
Average maturity at year-end	3.69	3.47	3.53	3.36
Time deposits	3.77%	3.52%	4.31%	4.66%
LIBOR (annual average)	3.91%	3.63%	4.42%	4.71%

Treasury foreign borrowing

By an agreement with the Minister of Finance, the Central Bank is assigned the implementation of Treasury foreign borrowing and other specific tasks as authorised under Act No. 43/1990 on the National Debt Management Agency. Under this agreement, the Central Bank implements the Minister of Finance's decisions on foreign borrowing, interest rate swaps and currency swaps outside Iceland and management of short-term borrowing facilities, along with management of other foreign loans of the Treasury. The agreement also assigns to the Central Bank a consultative role on borrowing and debt management policies, and relations with international ratings agencies. Furthermore, the Bank supervises the credit terms of entities enjoying Treasury guarantees which intend to borrow in the international market. The Bank oversees the Treasury's foreign loan accounts and provides related services. In managing the Treasury's

foreign borrowing, the Central Bank aims to secure the reputation of the Republic of Iceland in international markets and procure foreign credit on the best available terms.

Foreign borrowing

Long-term credit is procured with issues based on a European Medium-Term Note (MTN) Programme. Short-term credit is issued through two commercial paper programmes: a Euro-Commercial Paper (ECP) Programme and a United States Commercial Paper (USCP) Programme. The Treasury also has a committed credit facility under a five-year agreement.

EMTN Programme

The EMTN programme was first signed in 2001. It is renewed regularly and the ceiling now amounts to 2 billion US dollars. The agreement ensures access for the Treasury to credit in various currencies and also offers greater flexibility in issuance. On the basis of this agreement, both public transactions and private placements can be made.

Refinancing of Treasury long-term foreign borrowing

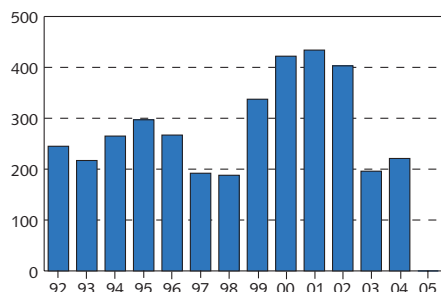
Four liabilities came to maturity in 2005 and prepayment options were exercised on five others. The Treasury also bought back its own foreign currency-denominated bonds for 5.8 b.kr. Total amortisation of long-term debt in 2005 amounted to 27.7 b.kr. No new bonds were issued by the Treasury in foreign markets during the year.

The Treasury renewed its committed credit facility for 250 m. US dollars in 2005. Ten banks in all were involved in extending the syndicated five-year facility, which was lead-managed by Citibank and SEB.

Table IV-2. Foreign long-term borrowing and Treasury bonds maturing or prepaid in 2005

	Amount (millions)		Date of issue	Maturity	Date paid
	Currency	Kr.			
<i>Liabilities maturing</i>					
Loan	15,000 JPY	8,994	1/31/1995	1/31/2005	1/31/2005
Loan	3.0 USD	184	3/30/1998	3/30/2005	3/30/2005
MTN	90.0 EUR	7,025	10/5/2001	5/4/2005	5/4/2005
Loan	40.0 EUR	3,115	8/28/1995	7/25/2005	7/25/2005
<i>Prepayments</i>					
Loan	32.2 EUR	2,466	6/5/1996	5/20/2006	1/9/2005
Loan	0.8 EUR	57	2/24/2000	10/7/2010	7/10/2005
Loan	0.9 EUR	67	4/2/2001	10/7/2012	7/10/2005
Loan	0.2 EUR	17	6/15/1995	5/17/2007	11/17/2005
Loan	0.3 USD	16	11/15/1995	12/28/2007	12/28/2005
<i>Buybacks</i>					
MTN	50.5 EUR	3,770	3/14/2000	3/14/2007	23/9/2005
MTN	25.0 EUR	1,828	3/14/2000	3/14/2007	5/10/2005
Bonds	1.7 GBP	190	1/19/1981	1/2/2016	5/12/2005
Total:		27,728			

Chart IV-1
Republic of Iceland ECP Programme
1992-2005
Outstanding at end of year in millions of US dollars



ECP and USCP issues used to retire Treasury debt

ECP and USCP issues were used to retire Treasury long-term foreign debt in the first half of 2005. In the second half of the year, the outstanding stock of Treasury commercial paper was paid up in full, using part of the proceeds from the privatisation of Iceland Telecom that were paid in foreign currency. No ECP or USCP issues were therefore outstanding after October 10, 2005.

The Republic of Iceland's ECP programme was established in 1985 and the current agreement is from 1995. The maximum outstanding balance is 500 million US dollars with a multi-currency option allowing for issuance in other major currencies. Euro-Commercial Paper was issued with an average spread of 10 basis points below LIBOR. There were three dealers on the programme: Citibank International, SEB and Deutsche Bank.

The USCP Programme established in 2001 is linked with the Euro-Commercial Paper Programme whereby the total amount in the two issues may not exceed 1 billion US dollars. Dealers are Salomon Smith Barney and J.P. Morgan of New York. Average spread was 7 basis points under LIBOR.

Total issuance under the programme during 2005 amounted to 774 million US dollars (of which 261 million US dollars were issued in the US market), €214 million and 54 billion yen, or the equivalent of 97 b.kr. in all. At the end of 2005, there were no outstanding issues under either the ECP or the USCP programme. The average maturity of paper issued in 2005 was 48 days.

Debt management and risk analysis

The Central Bank's strategy for Treasury foreign debt management aims to spread debt service as evenly as possible over coming years as well as to optimise its composition with particular regard to interest rates, maturity and currency denomination. In recent years prepayment options have been exercised in order to refinance debt on more favourable terms. Interest rate and currency swaps have also been used to achieve debt management objectives. Total Treasury foreign debt at the end of 2005 amounted to 86 b.kr., a reduction of 56 b.kr. from the end of the previous year. Net repayments amounted to 48 b.kr. and most of the remaining 8 b.kr. is explained by the appreciation of the króna. Currency composition of Treasury debt is shown in the table in the margin. At the end of 2005, 55% of the Treasury's total foreign debt carried fixed interest rates and 45% floating rates.

The average weighted maturity of foreign long-term debt on December 31, 2005 was 3.9 years and the average duration 2.9 years. At the end of 2005, 23% of the Treasury's foreign borrowing, including service of long-term debt, was scheduled to mature over the following 12 months.

Treasury foreign debt by currency in %, at end of year

	2004	2005
US dollar	26.6	30.1
Euro	49.9	50.0
Japanese yen	8.5	3.5
Swiss franc	3.8	6.2
Pound sterling	11.2	10.1
	100.0	100.0

Source: Central Bank of Iceland.

Sovereign credit rating of the Republic of Iceland

In the global financial environment, rating agencies perform a vital role in providing objective assessment of the creditworthiness of sovereign and corporate borrowers.

Internationally, the best known rating agencies are Moody's Investors Service, Standard & Poor's and Fitch Ratings. Experience shows that the ratings given by these agencies facilitate access to international capital markets. Ratings also provide an indication of the terms that a borrower will enjoy. International financial institutions rely heavily on these ratings with regard to credit-term decisions. The Republic of Iceland enjoys confidence as a borrower in international markets and all main markets on either side of the Atlantic are open to the Treasury.

Moody's rating is now Aaa for long-term foreign and domestic obligations and P-1 for short-term obligations, which are the highest ratings that the agency issues. In its analysis on Iceland in July 2005, Moody's cites the government's low debt and the economy's unusual flexibility among the reasons for the country's Aaa rating and stable outlook. The rating is "secure in view of the government's modest direct debt, high labour force participation rates, low unemployment, young population and well-funded pension system" and "the key immediate challenge ... is the careful coordination of monetary, fiscal and income policies to contain the financial risks posed by the credit boom."

Fitch assigns a rating of AA- for foreign long-term obligations and F1+ for short-term obligations. Its rating of AAA for domestic long-term obligations is the highest that the agency gives. The outlook was stable in 2005. Fitch affirmed its ratings in August. According to Fitch, "these ratings balance the near-term concerns of the overheating domestic economy, escalating asset prices and growing net external indebtedness against the longer term benefits that should accrue from the huge investments underway in the aluminium and power-related sectors of the economy."

In February 2005, Standard & Poor's upgraded its sovereign rating for long-term foreign obligations to AA- from A+. The agency affirmed its rating for long-term domestic obligations of AA+ and for short-term domestic obligations of A-1+, and the outlook is stable. In its report published in October, Standard & Poor's stated that "the ratings on Iceland are supported by its stable political institutions, a very wealthy and flexible economy and healthy public finances," while they "remain constrained by very high levels both of external financing needs and of external debt throughout the economy."

Chart IV-2
Treasury foreign debt
As % of GDP at end of year

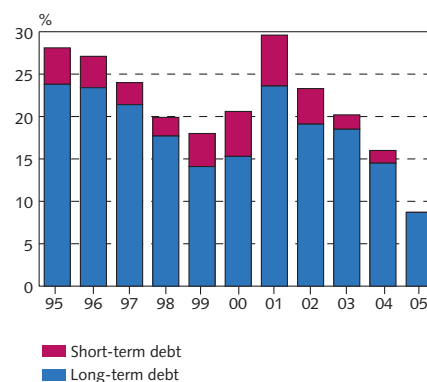


Table V-1. Employees

	Foreign currency			Domestic currency			Affirmed
	Long-term	Short-term	Outlook	Long-term	Short-term	Outlook	
Fitch	AA-	F1+	Stable	AAA		Stable	August 2005
S&P	AA-	A-1+	Stable	AA+	A-1+	Stable	October 2005
Moody's	Aaa	P-1	Stable	Aaa	P-1	Stable	July 2005

Nordic central banks' MoU on financial crisis management

At their meeting in Stykkishólmur, Iceland, in June 2003, the Governors of the central banks of Denmark, Finland, Iceland, Norway and Sweden signed a Memorandum of Understanding (MoU) on financial crisis management. The MoU has been published in its entirety on the websites of all the signatory banks. Nordic central banks cooperate closely on financial stability tasks and contingencies for meeting challenges to the financial system, especially illiquidity.

Data collection

The Central Bank collects information on a regular basis about the domestic credit market, balance of payments and external position of the economy. Most institutions and companies operating in the domestic credit market report monthly on balance sheet items. They are obliged to provide the Central Bank with information about interest rate changes immediately. The balance of payments and external position are prepared on a quarterly basis. These data form the basis for the Bank's assessment of important aspects of monetary developments as well as for regular publication of statistical information both in printed form and on the Statistics pages of the Bank's website.

The Central Bank's Statistics pages were revamped and expanded in the autumn. The old format presenting only Excel tables and several time series was expanded to include charts, explanatory texts and more tables and time series. Metadata are also presented explaining the underlying methodology, terms and definitions, data processing and other statistical descriptions. Links are given to material elsewhere on the website which is relevant to the statistics. All the statistics are also published in English.

In cooperation with the Ministry of Finance, the Central Bank operates a FAME time-series database management system (DBMS). The DBMS now houses fourteen different databases with a total of 340,000 time series. A further fifteen databases, with a total of 480,000 time series, contain data from corporate accounts with restricted access. The DBMS also contains extensive metadata for all the time series in the system. Implementation of the DBMS has transferred all storage, processing, analysis and distribution of data to a new, state-of-the-art environment which speeds up all data handling and greatly enhances facilities for economic research. Similar systems are in use among most of the largest central banks and many international institutions.

The Central Bank of Iceland has subscribed to the IMF's Special Data Dissemination Standard (SDDS) since 1996 and publishes an advance release calendar on its website in accordance with the standard.¹

¹ See discussion in previous annual reports and on the Central Bank website.

Data Module Assessment and ROSC

The International Monetary Fund conducted an extensive Data Module Assessment in Iceland in 2005. The assessment covered national accounts, price indices (consumer and producer), government finance statistics, monetary statistics and balance of payments statistics. Statistics Iceland, the Ministry of Finance and the Central Bank of Iceland participated in this assessment. The exercise falls under the domain of the IMF Reports on the Observance of Standards and Codes Data Module (ROSCs) and aims at summarising the extent to which countries observe certain internationally recognised standards and codes relating to the processing, quality and dissemination of official statistics. The objective of the exercise is also to encourage increased international harmonisation in the processing and integrity of disseminated official statistics. The report was published on the IMF website in November 2005 and was broadly favourable for Iceland, but a number of areas for improvement were identified.

Research and seminars

A wide range of research is conducted within the Central Bank in areas connected to its main tasks. Most of the research is conducted in the Economics Department. On occasion, the Central Bank commissions or supports outside research.

To pursue a forward-looking monetary policy, a central bank needs models for assessing the economic outlook, especially inflation. A considerable share of research at the Central Bank of Iceland is devoted to this task. In recent years a quarterly macroeconomic model has been under design which will play a key role in inflation forecasting and monetary policy decision-making. This project is nearing completion and the model will take over as the Economics Department's main forecasting and analytical tool as of 2006. Projects undertaken in 2005 included development of a model for leading indicators of the domestic business cycle, design of new currency baskets for the Icelandic króna, and studies of the impact of króna-denominated Eurobond issues, structural reforms in the housing market, the domestic nominal and real yield curve, statistical properties of inflation in Iceland, the relationship between market and liquidation value of fisheries companies, and automatic fiscal stabilisers.

In 2005, the Financial Stability Department also conducted research in connection with the development of extensive institutional stress tests, which were not completed during the year.

In order to create a framework for the Bank's research activities and communicate its findings to professionals and the general public alike, regular presentations are organised at which researchers inside and outside the Bank report their findings and discuss them with other Bank employees and researchers. Twelve presentations were made in 2005, seven of which were delivered by Central Bank experts. Central Bank staff presented their findings at seminars outside the Central Bank as well, both in Iceland and abroad. They also attended local and international conferences to present their own findings and hear those of other researchers, and lectured at public, specialist and academic venues.

Work by Central Bank researchers is also published in its own journals, which are described below. Likewise, the Bank regards it as important for research by its experts to be published in internationally recognised academic journals.

Publications and information

Strict requirements are made of central banks to explain clearly their monetary policy objectives and implementation and other activities. In Iceland, the Central Bank is obliged by law to publish reports on its monetary policy, monetary, exchange rate and foreign exchange developments, and its measures in these areas. The forum it uses is *Peningamál*, which is published in English translation as *Monetary Bulletin*. This publication also presents research findings by Bank employees connected with monetary policy, financial stability and the Bank's general activities.

In 2005 the Central Bank launched a new report, *Financial Stability*, which discusses the position and strength of the Icelandic financial system and financial stability in a macroeconomic context. Financial stability issues had previously been addressed in articles in *Peningamál/Monetary Bulletin*. Initially at least, it is planned to publish *Financial Stability* once a year.

In its *Annual Report*, the Bank outlines various aspects of its operations. The Chairman of the Board of Governors gives an account of the Bank's policy at its annual meeting.

Eleven editions of *Hagvísar/Economic Indicators* are published a year along with regular statistical data in Icelandic and English on the Statistics pages of the Central Bank's website.

Through these extensive publishing and information activities the Central Bank considers that it well fulfils the legal requirements on dissemination of information.

Another regular publication (in Icelandic) is *Fjármálatíðindi*, a platform for academic articles on economics. A series in English, *Central Bank of Iceland Working Papers*, publishes economic research conducted within the Bank and outside it. The annual *Economy of Iceland* has been published for many years and contains information on the Icelandic system of government and economic structure and developments. Central Bank publications in 2005 are listed in an appendix on p.66.

The Central Bank publishes regular announcements of decisions by the Board of Governors and various other aspects of its activities. Other news is posted on the Bank's website without an official press release being issued.

Electronic versions of most of the Bank's publications are available on its website, in some cases before they appear in print. Press releases, news, statistics and various information on the Bank's activities are also published on the website, which is heavily browsed by both Icelandic and international users.

The Bank also makes a point of promoting its activities to the public, among other things by arranging visits by students and other groups.

Internal rules for the preparation of, arguments for and presentation of monetary policy decisions

Article 24 of the Central Bank Act No. 36/2001 states that “the Board of Governors lays down internal rules to be approved by the Supervisory Board on the preparation of, arguments for and presentation of its monetary policy decisions.” These rules have been applied since they were formally set in the beginning of 2002.² The main principles on which the rules are based concern utilisation of information and expertise, professionalism, transparency and the documentation of arguments behind monetary policy decisions. Their provisions cover the production of inflation forecasts, procedures for evaluating economic and monetary developments and outlook and appraising monetary policy, and the Board of Governors’ decision-making process and the announcement of such decisions. The rules were revised at the end of 2005 and new rules are expected to be set early in 2006.

Central Bank participation on the boards of other institutions and companies

The Central Bank has an equity interest in the Banks’ Data Centre (RB) and according to a collaboration agreement on it from 1994 originally contributed one-fifth of its initial capital. Representatives from the Bank serve on the RB Board, auditing committee and consultative committee.

The Central Bank has an 11% equity interest in Eignarhaldsfélag Verðbréfabings hf., which owns Kauphöll Íslands hf. (Iceland Stock Exchange) and Verðbréfaskráning Íslands hf. (The Central Securities Depository), and has one member on its board.

The Financial Supervisory Authority is governed by a three-person board appointed by the Minister of Commerce. One of them is appointed on the recommendation of the Central Bank.

The Central Bank has an 8% equity interest in the Fjölgreiðslumiðlun (FGM) netting service provider and appoints one member to its board.

The Depositors’ and Investors’ Guarantee Fund is managed by an employee of the Central Bank.

Employees of the Central Bank are members of the Bank Employees’ Pension Fund. The Bank has a representative on its board.

Cooperation with the Financial Supervisory Authority

Legislation on the Central Bank and Official Supervision of Financial Activities states that the Central Bank and Financial Supervisory Authority (FME) shall conclude a special agreement further stipulating the cooperation between them. An agreement on cooperation was first made in 1999 and most recently renewed in 2003. In 2003 the two institutions concluded a separate agreement on payment and settlement systems. The Central Bank Act states that the Bank shall grant the FME all the information which it holds and may be utilised

² The internal rules were published in *Monetary Bulletin*, February 2002 and are accessible on the Central Bank’s website.

for the latter's activities. These institutions regularly exchange statistics and other information and the Board of Governors of the Central Bank and the Director of the FME hold regular consultative meetings. The Central Bank and FME conducted a joint contingency exercise in 2004 and another was planned for early in 2006.

Tasks related to Treasury debt management

According to an agreement with the Minister of Finance, the Central Bank provides specific services to the Treasury, such as foreign borrowing and services connected with domestic borrowing. It assigns the Central Bank tasks including the management of Treasury foreign borrowing, overseeing of foreign borrowing by parties enjoying Treasury guarantees, accounting of specific foreign loans taken by the Treasury, and supervision of debt service. Central Bank tasks connected with Treasury domestic borrowing are largely a thing of the past, although the agreement states that the Bank shall redeem the Treasury's marketable securities in accordance with their terms. It also stipulates that the Ministry of Finance, Central Bank and National Debt Management Agency shall operate a consultative committee whose chief purpose is to serve as a forum for exchanging views about the financial market position and outlook, and about current and planned domestic and international borrowing by the Treasury.

Agreement with the Ministry of Finance on current accounts and interest rates

In 1992 the Ministry of Finance and the Central Bank made an agreement on current accounts and interest rates whereby the Treasury ceased to use its overdraft facility with the Central Bank. This agreement has been renewed several times, most recently in May 2005. The Central Bank Act which was approved by Parliament in May 2001 removed Treasury access to credit with the Central Bank. The present agreement stipulates interest rates on the Treasury's current account in the Central Bank. Under the agreement in effect until the end of May 2005, the Central Bank paid the same rate of interest on deposits in the Treasury's current accounts as on those held by credit institutions. However, on an average monthly deposit in the Treasury's current accounts in excess of 2.5 b.kr., the Central Bank paid a rate of interest which was 0.5% below the yield on Central Bank repurchase agreements with credit institutions. From June 1 to the end of 2005 the Central Bank's interest rate on all average deposits was 1% below the repo yield. As of the beginning of 2006, the rate of interest on average deposits is the same for the Treasury's current accounts and those held by credit institutions.

Risk analysis and risk management

The aim of the Central Bank's risk analysis activities is to identify, measure, monitor and manage the risks inherent in the Bank's main tasks, in order to enable it to perform its mandatory role. Risk management at the Central Bank differs from that of other financial institutions, on account of the strategic decisions taken by the Bank on behalf of the financial system as a whole.

Broadly speaking, the Central Bank's risk may be divided into four areas: management risk, reputational risk, financial risk and operational risk. Management risk involves decisions in connection with monetary policy implementation and other responsibilities assigned to the Bank by law. Although difficult to define precisely, it is determined by factors including management competence, working processes and internal controls. Reputational risk concerns the Central Bank's credibility and may be crucial for the Bank itself and even the financial system as a whole. Financial risk mainly lies in credit risk, interest rate risk, liquidity risk and exchange rate risk, in connection with the maintenance of foreign reserves and monetary policy implementation. Internal rules are in effect on the maintenance and investment of foreign reserves, and are reviewed by the Board of Governors at regular intervals and confirmed by the Supervisory Board. Rules address investment strategy, investment options, eligibility, duration of securities and the share of liquid assets in foreign reserves. Operational risk is divided into several subcategories including employee risk, accounting risk, technical risk and the general operational risk posed to the Central Bank's activities.

Efforts are made to minimise risk in the work and responsibilities of all the Bank's departments. Risk management, which is under the charge of department directors, is based on the findings of risk analysis, while internal audit focuses on the highest-risk aspects of operations and reports its findings to the Supervisory Board and Board of Governors.

National Festival Fund

The National Festival Fund operated for its 28th year in 2005. Its founding capital was the proceeds from the Central Bank's commemorative coin issue for the National Festival of 1974, and its revenue base has been the Bank's proceeds from other commemorative coins since then. One of the Fund's five board members is appointed by the Central Bank. The board was appointed for a four-year term from 2002 to the end of 2005. The board decided to award 4.1 m.kr. in grants in 2005, to 32 applicants. The Fund's capital was just over 92 m.kr. at the end of 2005.

Central Bank premises – library and archive

The Central Bank's premises at Kalkofnsvegur in Reykjavík also housed the Banks' Data Centre (RB) at the end of 2005. Most of the Central Bank library and archive is housed at Einholt 4 in Reykjavík, along with the joint Central Bank and National Museum numismatic collection which is open by arrangement. There is also a library of journals and reference books at the Bank's head office at Kalkofnsvegur. The Central Bank's extensive library on the Icelandic economy and industry has been incorporated into the National and University Library of Iceland computerised card catalogue. It had more than 23 thousand entries in the catalogue at the end of 2005.

V Accounts and organisation

Central Bank accounting principles

According to Article 32 of the Central Bank of Iceland Act No. 36/2001, the preparation of the annual accounts "shall be in accordance with the law and with recognised accounting principles. The Prime Minister shall lay down further rules on the accounting principles and preparation of the annual accounts." Changes were made to the Rules on Central Bank Accounting and Annual Accounts in 2005 and apply to the compilation of the annual accounts for that year. First, beginning with the annual accounts for 2005, the Central Bank's fixed assets are now entered in the balance sheet. Previously, fixed assets were expensed on purchase and mentioned in the notes to the accounts. The notes to the present accounts state the amount of this new entry with a breakdown into asset groups. In total, the Central Bank of Iceland's balance sheet expanded by 4.9 b.kr. with the inclusion of fixed assets. This change is in line with common central bank practice in the industrial countries. The other main change was that calculated exchange rate gain and loss are deducted from profit as in the profit and loss account before the allocation to the Treasury is calculated in accordance with Article 34 of Act. 36/2001.

Operating results

According to its profit and loss account, the Central Bank of Iceland made a net loss of 2,819 m.kr. in 2005, compared with a loss of 6 b.kr. in the previous year. The expensed foreign exchange loss, which was caused by the impact of the appreciation of the króna on the local currency value of the foreign reserves, amounted to 2,633 m.kr. Depreciation was posted to the profit and loss account for the first time and amounted to 90 m.kr. Interest income on domestic deposits and securities increased year-on-year by 1,748 m.kr. and on foreign deposits and securities by 51 m.kr. Interest expense on domestic deposits increased by 2,473 m.kr. from 2004 and on foreign liabilities by 13 m.kr. Operating expenses excluding depreciation amounted to 1,201 m.kr.

In 2005, the Central Bank's balance sheet total increased by 55,704 m.kr. to 162,294 m.kr. at the end of the year. Particularly sharp increases were seen in repurchase agreements (repos) with credit institutions on the asset side and on the Treasury current account on the liability side. Accordingly, the composition of the Central Bank's balance sheet shifted considerably in 2005. In 2003 and 2004, the Bank's domestic assets were much smaller than its foreign assets, at 33% and 39% of total assets for the respective years. This was reversed in 2005, when domestic assets accounted for more than 58% of total assets at the end of the year. One main reason for the turnaround was that the Treasury deposited its proceeds from the privatisation of Iceland Telecom, which were paid in the autumn, in its current account in the Central Bank. Liquidity of credit institutions tightened firmly as a result and repos with the Central Bank increased substantially. Outstanding repo stock stood at 37.6 b.kr. at the end of 2004 but 87.8 b.kr. at the end of 2005.

Since the middle of 2004 the Central Bank has significantly narrowed its interest rate corridor, i.e. the spread between its highest and lowest interest rates. The lowest rates are on financial institutions' sight deposits in the Central Bank, and the highest on overnight loan facilities. In the middle of the corridor lies the interest rate on Central Bank repos. Interest rates on interbank market loans in domestic currency fluctuate around the repo rate, between the ceiling and the floor for Central Bank rates. In mid-2004 the Central Bank's interest rate corridor was 5 percentage points, but at the end of 2005 it had narrowed to 3 percentage points. The purpose of this change was to improve the effectiveness of the Central Bank's monetary policy measures and smooth out interest rate volatility in the interbank market. A narrower spread also means that, other things being equal, the Bank will produce less profit than otherwise.

An amendment was made in 2005 to the agreement with the Minister of Finance on interest rates on the Treasury's current accounts in the Central Bank. A provision was removed whereby an interest rate surcharge would be paid on deposits above a specified amount. As of 2006, the Central Bank will pay the same rate of interest on the Treasury's current account deposits and those of credit institutions. The Treasury placed the proceeds from the privatisation of Iceland Telecom as time deposits in the Central Bank until they are allocated to projects for which they have been earmarked. The Central Bank pays interest on these deposits – which have different maturities over the period 2007-2010 – corresponding to the average of Central Bank current account rates and repo rates at any given time.

In September 2005 it was decided that the Central Bank would purchase foreign currency in the market on behalf of the Treasury to service foreign loans maturing in 2006. The currency purchased in the market was immediately deposited in the Treasury's currency account in the Central Bank. At the end of the year, the Treasury's foreign deposit amounted to 9.1 b.kr.

Returns on foreign investments remained fairly poor in 2005 although they were satisfactory under the circumstances, cf. Chapter IV. Interest rates in international markets were still low in historical terms although they had begun to creep up from the trough. Rising interest rates produce exchange rate losses on the foreign securities portfolio.

Maintaining foreign reserves exposes the Central Bank to currency risk from changes in the exchange rate of the króna against which it is unable to hedge – and increasingly so, the larger the reserves. On the other hand, changes in the exchange rate of the króna have no effect on the value of the reserves denominated in foreign currency. They serve their purpose irrespective of changes in the exchange rate of the domestic currency. The Central Bank's foreign assets and liabilities are entered in the accounts at market price, translated into domestic currency at the end of the year. Changes in the exchange rate have a direct impact on its calculated profit. Foreign exchange rate loss and gain are expensed in full in the profit and loss account, directly affecting the Bank's result. In 2005, the Rules on Central Bank Accounting and Annual Accounts were altered whereby calculated changes in

income and expense due to exchange rate movements are excluded from the profit figure before the transfer to the Treasury is calculated.

The Central Bank's accounts along with detailed explanatory notes for individual items are presented later in this report.

Supervisory Board

The Central Bank Act No. 36/2001 stipulates that there shall be seven members of the Supervisory Board, to be elected following a parliamentary election. At the end of 2005, the Supervisory Board comprised Ólafur G. Einarsson (Chairman), Helgi S. Guðmundsson (Deputy Chairman), Hannes H. Gissurarson, Jón Þór Sturluson, Jónas Hallgrímsson, Ragnar Arnalds and Sigríður Stefánsdóttir. Ingibjörg Sólrún Gísladóttir, who was elected to the Supervisory Board in 2003, resigned in October 2005. Jón Þór Sturluson, an alternate member, was elected to the Board in her place. Ellert B. Schram was then elected alternate member.

Board of Governors

Birgir Ísleifur Gunnarsson retired as Chairman of the Board of Governors of the Central Bank of Iceland at the end of September 2005. Davíð Oddsson, former Prime Minister of Iceland and Minister for Foreign Affairs, was appointed to the post effective from October 20, 2005. Other Governors are Eiríkur Guðnason and Jón Sigurðsson. Eiríkur Guðnason was reappointed Governor for a term of seven years from May 1, 2005. Jón Sigurðsson's term of appointment as Governor expires at the end of September 2010, Eiríkur Guðnason's at the end of April 2012 and Davíð Oddsson's in October 2012.

Birgir Ísleifur Gunnarsson was appointed Governor of the Central Bank of Iceland on February 1, 1991. He was elected Chairman of the Board of Governors in May 1994. He had therefore served as Governor for almost fifteen years, including almost twelve and a half years as Chairman of the Board of Governors.

Davíð Oddsson is a law graduate. He was Mayor of Reykjavík from 1982 to 1991, Prime Minister of Iceland from 1991 to 2004 and Minister for Foreign Affairs from 2004 to 2005.

Central Bank organisation

The Bank's activities were divided into seven departments in 2005, plus internal auditing (see staff list at the end of this section). Several units are separate from the main departments. The Governors' Office provides secretarial services to the Governors, handles public relations and information communications activities, and oversees publication of the Bank's Annual Report and its website. Legal Services handles the preparation of contracts, legal documents and debt documents. It participates in the preparation of laws and regulations regarding the banking system, as well as legal opinions. Library and Collection oversees the Bank's library along with the joint numismatic collection of the Central Bank and the National Museum. The library and numismatic collection are housed at Einholt 4.

The International Department manages the foreign exchange reserves and issues related to the Treasury's foreign borrowing. A

related activity is regular relations with international credit rating agencies. Furthermore, the Department handles the Bank's regular relations with the International Monetary Fund, including Nordic and Baltic cooperation, and is involved in production of one of the Bank's publications, *Economy of Iceland*.

The Accounting Department keeps the Central Bank's main accounts, as well as those of the Greenland Fund and the Depositors' and Investors' Guarantee Fund which are under the Bank's custodianship. In addition, the Department keeps the accounts related to the redemption of government bonds and the Treasury's foreign borrowing operations. It also supervises the Bank's SWIFT system and payments for the Central Bank, Treasury and State enterprises.

The Financial Stability Department covers all aspects of the stability and safety of financial institutions and markets, and analysis of financial system fundamentals. The department is also responsible for the Bank's tasks regarding payment and settlement systems and publishes an annual *Financial Stability Report*. The Cashier's Unit belongs to the Financial Stability Department and its tasks include the issue, distribution, collection and processing of notes and coin.

In the Economics Department, economic and monetary research is conducted with special emphasis on topics connected to the Bank's responsibilities. The Department prepares the Bank's regular macroeconomic and inflation forecasts and assessments of the Bank's policies and activities, along with analyses of economic and monetary developments. The Economics Department is responsible for publishing *Peningamál/Monetary Bulletin*, *Fjármálatíðindi*, *Hagvísar/Economic Indicators* and *Economy of Iceland*.

The Monetary Department has two broad main roles. First, it prepares all the Bank's interest rate decisions, collects information on interest rates in financial markets in Iceland and abroad, and consults with the Ministry of Finance and the Debt Management Agency concerning the sale of government securities. Second, it handles all the Bank's transactions in domestic foreign exchange and money markets and the quotation of the official exchange rate of the króna, as well as overseeing the interbank króna market.

The Operations Department has the largest number of staff and is divided into several units. It handles the operation of the Bank's real estate and equipment, security, procurement, budgeting and expenditure control. The Department also handles human resources and payroll as well as a variety of in-house services. The Information Technology Unit supervises the Bank's computer system operations and handles software system design and maintenance.

The Statistics Department collects, processes and provides preliminary analysis of data from credit institutions on their operations and balance sheets, etc. It also collects data on payment intermediation, securities brokerage, currency movements in connection with preparation of the external service and capital account balance, and foreign debt. The Department is responsible for the publication of statistical material on the Bank's website, including the Central Bank Statistics pages, and operation of the harmonised database.

The Internal Auditing Department enjoys a special position in that the Bank's chief auditor is appointed by the Supervisory Board rather than by the Board of Governors. The Internal Auditing Department audits the Bank's accounts and handles internal audit of the activities of the Bank and funds managed by it.

Human resources

Considerable changes took place in Central Bank staffing during 2005. Thirteen employees left or retired from the Bank and fourteen were hired. The number of summer employees was similar to previous years. Hallgrímur Ásgeirsson, Deputy Director at the Financial Stability Department, left the Bank during the year and Guðmundur Kr. Tómasson was appointed to the post.

The number of positions increased by 1 each at the Financial Stability, Economics, Monetary and Statistics departments, but decreased by 1 each at Library and Collection, the Accounting Department and Internal Audit.

At the end of the year the Bank had 116 employees – 63 males and 53 females – one more than at the end of 2004. The number of full-time equivalent positions was 107.1. Five employees were in part-time posts equivalent to 3.1 positions, and the Banks' Data Centre was responsible for 7 of the 15 positions in the joint cafeteria, security and maintenance and janitorial services it shares with the Central Bank. Average man-years were 115.9, an increase of 0.2 from 2004. The table in the margin shows the number of employees per department at the end of the year, not including the 12 regular cleaning staff who are in effect part-time employees of the Bank.

Wage agreements

Most Central Bank employees are members of the Federation of Bank Employees and are paid salaries according to its wage agreements. The current wage settlement is in force until September 2008. It provides for pay rises of 3.75% on January 1, 2006, 3% on January 1, 2007 and 2.25% on January 1, 2008.

Equal opportunities committee

The Board of Governors confirmed the Bank's equal opportunities strategy in 1996. An equal opportunities committee has been active since then. The equal opportunities strategy has been reviewed regularly, most recently in 2005.

Table V-1. Employees

	No.	Man-years
Secretariat	11	10.5
Governors' Office	4	4.0
Legal Services	2	2.0
Library and Collection	5	4.5
International Department	6	6.0
Accounting Department	10	10.0
Financial Stability Department	15	14.5
Financial Stability	6	5.5
Cashier's Unit	9	9.0
Economics Department	16	15.7
Monetary Department	5	5.0
Operations Department	41	34.0
Operations Divisions	35	28.0
Computer Services	6	6.0
Statistics Department	10	9.4
Internal Auditing Department	2	2.0
Total	116	107.1

Central Bank of Iceland December 31, 2005

Supervisory Board

Principal members

Ólafur G. Einarsson, Chariman

Helgi S. Guðmundsson, Deputy Chariman

Hannes Hólmsteinn Gissurarson

Jón Þór Sturluson

Jónas Hallgrímsson

Ragnar Arnalds

Sigríður Stefánsdóttir

Alternates

Birna M. Olgeirsdóttir

Ellert B. Schram

Erna Gísladóttir

Hilmar Gunnlaugsson

Kristrún Heimisdóttir

Sigfús I. Sigfússon

Tryggvi Friðjónsson

Board of Governors

Davíð Oddsson, Governor and Chairman

Eiríkur Guðnason, Governor

Jón Sigurðsson, Governor

Assistant Governor

Ingimundur Friðriksson

Principal Officers

Sigurður Sturla Pálsson, Director of International Department

Erla Árnadóttir, Chief Accountant

Lilja Steinþórsdóttir, Chief Auditor

Tryggvi Pálsson, Director of Financial Stability Department

Arnór Sighvatsson, Chief Economist

Sigríður Logadóttir, Chief Attorney

Tómas Örn Kristinsson, Director of Monetary Department

Ingvar A. Sigfússon, Director of Operations and IT

Sveinn E. Sigurðsson, Director of Statistics Department

Employees

SECRETARIAT

Governors' Office

Ágústa Johnson
Ellen Hrefna Haraldsdóttir
Ingimundur Friðriksson
Stefán Jóhann Stefánsson

Legal Services

Sigfús Gauti Þórðarson
Sigríður Logadóttir

Library and Collection

Anton Holt
Magný Gyða Ellertsdóttir
Sigurbór Sigurðsson
Unnur Björk Lárusdóttir
Valborg Stefánsdóttir

INTERNATIONAL DEPARTMENT

Björn G. Ólafsson
Hallgrímur Ólafsson
Haukur C. Benediktsson
Lilja D. Alfreðsdóttir
Oddgeir Gunnarsson
Sigurður Sturla Pálsson

ACCOUNTING DEPARTMENT

Alf H. Pedersen
Anna S. Árnadóttir
Arndís Leifsdóttir
Árni Þórðarson
Erla Árnadóttir
Halldóra Konráðsdóttir
Ísólfur Sigurðsson
Jónína Guðbjartsdóttir
Ólöf Jónsdóttir
Örn Jónasson

INTERNAL AUDITING DEPARTMENT

Guðmundur Björnsson
Lilja Steinþórsdóttir

FINANCIAL STABILITY DEPARTMENT

Guðmundur Kr. Tómasson
Hrafn Þórðarson
Jónas Þórðarson
Pálína Kristinsdóttir
Perla Ösp Ásgeirsdóttir
Tryggvi Pálsson

Cashier's Unit

Auður Gísladóttir
Birna Friðriksdóttir
Hannes Haraldsson
Ingibjörg Jakobsdóttir

Ingveldur S. Kristjánsdóttir
Jóhanna Pétursdóttir
Kolbrún Jóhannsdóttir
Kristján Guðmundsson
Stefán Arnarson

ECONOMICS DEPARTMENT

Arnór Sighvatsson
Ásgeir Daníelsson
Daníel Svavarsson
Guðmundur Guðmundsson
Guðrún Yrsa Richter
Helga Guðmundsdóttir
Hjördís Dröfn Vilhjálmisdóttir
Kirstín Þ. Flygenring
Kristjón Kolbeins
Lars Bruno Eklund
Magnús Fjalar Guðmundsson
Markús Möller
Ólafur Örn Klemensson
Ragnhildur Jónsdóttir
Rannveig S. Sigurðardóttir
Þorvarður Tjörvi Ólafsson
Þórarinn G. Pétursson

MONETARY DEPARTMENT

Bergur Barðason
Gerður Ísberg
Guðrún Sóley Gunnarsdóttir
Helga Rún Helgadóttir
Tómas Örn Kristinsson

OPERATIONS DEPARTMENT

Anna María Pétursdóttir
Bernard Scudder
Birna K. Jónsdóttir
Hólmfríður M. Ingibergsdóttir
Ingvar A. Sigfússon
Þórður Gautason

Maintenance and Janitorial Services

Berglind Þorsteinsdóttir
Bylgja Þorvarðardóttir
Dóra Matthíasdóttir
Elsa Jónsdóttir
Eygló Ingvadóttir
Guðný Harpa Hallgrímsdóttir
Kristinn Unnarsson
Marteinn Jóhannesson
Ólafía Egilsdóttir
Sigrún Jónsdóttir
Sigurlaug Jósepsdóttir
Sólveig Kristinsdóttir
Stefanía Hrönn Guðnadóttir
Svala Sigurðardóttir
Sören P. Madsen

Cafeteria

Bergþóra Óskarsdóttir
Guðlaug Erla Ingólfssdóttir
Halla Kristín Björnsdóttir
Sigríður Laufey Guðmundsdóttir
Sigurberg Jónsson

Printing and Postal Services

Hólmgeir H. Hákonarson
Klara Jóhannsdóttir
Sigríður María Jónsdóttir
Sveinn A. Blöndal

Secretaries

María Skúladóttir
Sigríður Bogadóttir
Þórey Þórarinsdóttir

Archives

Eva Sóley Sigurðardóttir
Guðrún Sigmarsdóttir
Hilmar Gunnþór Garðarsson
María Jenny Jónasdóttir
Sveinbjörg Rut Helgadóttir

Transport

Garðar Halldórsson
Karl G. Smith

Security

Brynjólfur Samúelsson
Guðleifur Svanbergsson
Gunnlaugur Magnússon
Hannes Ólafsson
Jóhann Gunnar Friðjónsson
Sveinbjörn Kristjánsson
Þorsteinn Þorvaldsson

Information Technology Unit

Arnar Freyr Guðmundsson
Einar Örn Ólafsson
Guðmundur Harðarson
Indriði I. Stefánsson
Mark R. Eldred
Tryggvi Eyvindsson

STATISTICS DEPARTMENT

Anna Sif Gunnarsdóttir
Bryndís Ásbjarnardóttir
Bryndís Pétursdóttir
Eiður H. Einarsson
Hrönn Helgadóttir
Jakob Gunnarsson
Kristjana Baldursdóttir
Pétur Örn Sigurðsson
Sigfríður Fanney Úlfjótssdóttir
Sveinn E. Sigurðsson



FINANCIAL STATEMENTS 2005

Confirmation by the Supervisory Board and the Board of Governors

The Supervisory Board and the Board of Governors of the Central Bank of Iceland hereby confirm the Bank's financial statements for the year 2005 with their signatures.

Reykjavík, February 23, 2006

Supervisory Board

Ólafur G. Einarsson
Chairman

Helgi S. Guðmundsson
Hannes Hólmsteinn Gissurarson
Jón Þór Sturluson

Jónas Hallgrímsson
Ragnar Arnalds
Sigríður Stefánsdóttir

Board of Governors

Davíð Oddsson
Chairman

Eiríkur Guðnason

Jón Sigurðsson

Erla Árnadóttir
Chief Accountant

Lilja Steinþórsdóttir
Chief Auditor

To the Supervisory Board and Board of Governors of the Central Bank of Iceland

The National Audit Office has audited the financial statements of the Central Bank of Iceland for the year ended December 31, 2005. These financial statements comprise a profit and loss statement, balance sheet, statement of cash flows and notes no. 1-14. These financial statements are the responsibility of the Bank's management. The National Audit Office's responsibility is to express an opinion on these financial statements based on our audit.

Our audit was made in accordance with generally accepted auditing standards. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The National Audit Office believes that our audit provides a reasonable basis for our opinion.

In the National Audit Office's opinion, the accompanying financial statements give a true and fair view of the financial position as at December 31, 2005, and the results of operations and cash flow for the year then ended, in conformity with the law, regulations on Central Bank accounting and its annual accounts, and generally accepted accounting principles.

Reykjavík, February 23, 2006

Sigurður Þórðarson
Auditor General

Confirmation by the Prime Minister of Iceland

With reference to the statements of the auditors and the Supervisory Board, the financial statements are hereby ratified.

Reykjavík, March 31, 2006

Halldór Ásgrímsson
Prime Minister

Profit and Loss Account for the year ended 31 December 2005

	Notes	2005	2004
Interest income			
On domestic loans		3,896,257	2,147,765
On foreign deposits and securities		2,146,434	2,095,180
		<u>6,042,691</u>	<u>4,242,945</u>
Interest expense			
On deposits		4,891,769	2,418,719
On foreign liabilities		143,522	129,995
Foreign exchange loss		2,632,620	6,506,000
		<u>7,667,911</u>	<u>9,054,714</u>
Net interest expense	1, 13	1,625,220	4,811,769
Other income and expenditure			
Income from services		144,589	143,302
Expenditure on services		(47,405)	(49,647)
		<u>97,184</u>	<u>93,655</u>
Operating expenses			
Salaries and payroll costs	7,9,14	813,008	804,471
Other operating expenses	10	387,725	496,322
Depreciation for the year	4	90,261	-
		<u>1,290,994</u>	<u>1,300,793</u>
Net loss for the year	8	<u><u>2,819,030</u></u>	<u><u>6,018,907</u></u>

Balance Sheet at December 31, 2005

ASSETS	Notes	2005	2004
Foreign assets			
Foreign deposits		21,048,708	23,171,237
Gold	3	2,073,527	1,707,210
Foreign securities and Treasury bills		42,474,693	38,909,735
Currency balance with the IMF	5	1,680,986	1,772,808
Assets not included in foreign reserves	2	227,627	148,190
		<u>67,505,541</u>	<u>65,709,180</u>
Foreign assets	1,3		
Domestic assets			
<i>Deposit money banks</i>			
Repurchase agreements	6	77,772,034	31,771,322
<i>Other financial institutions</i>			
Listed securities		1,832,121	3,231,616
Repurchase agreements	6	10,069,962	5,761,787
		<u>11,902,083</u>	<u>8,993,403</u>
<i>Central government</i>			
Listed securities		-	32,347
<i>Other</i>			
Miscellaneous accounts	2	150,786	39,476
Securities		37,758	44,534
		<u>188,544</u>	<u>84,010</u>
<i>Fixed assets</i>			
Property and equipment	1,4	4,926,054	-
		<u>94,788,716</u>	<u>40,881,082</u>
Domestic assets	1		
Total assets		<u>162,294,257</u>	<u>106,590,262</u>
Off-balance sheet items	12		

All amounts in thousand kr.

Balance Sheet at December 31, 2005

<i>LIABILITIES</i>			2005	2004
	<i>Notes</i>			
Foreign liabilities				
Short-term			149,657	142,307
Counterpart of SDR allocated by the IMF	5		1,484,141	1,560,677
		Foreign liabilities	1,633,798	1,702,984
Domestic liabilities				
Notes and coin			13,201,909	11,632,308
<i>Deposit money banks</i>				
Sight deposits including required deposits	6		31,955,976	22,521,954
Certificates of deposit			2,294,138	4,403,811
			34,250,114	26,925,765
<i>Other financial institutions</i>				
Sight deposits including required deposits	6		144,989	13,680,750
<i>Central government</i>				
Government, deposits			33,572,676	16,256,773
Tied deposits			32,858,889	-
Foreign deposits			9,112,649	1,038,650
Government institutions, deposits			371,389	519,370
			75,915,603	17,814,793
<i>Other liabilities</i>				
Miscellaneous			438,069	288,782
Pension fund obligations	7		339,971	346,726
			778,040	635,508
		Domestic liabilities	124,290,654	70,689,124
Equity				
Capital			13,501,000	13,501,000
Revaluation of property and equipment			4,990,681	-
Other reserves			17,878,124	20,697,154
		Equity	36,369,805	34,198,154
Total liabilities and equity			162,294,257	106,590,262
Off-balance sheet commitments				
	12			

All amounts in thousand kr.

Statement of Cash Flows for the year 2005

CASH FLOWS FROM OPERATING ACTIVITIES:	2005	2004
Loss for the year	(2,819,030)	(6,018,907)
Operating activities not affecting cash flows:		
Depreciation of fixed assets	90,261	–
Price indexation and foreign exchange loss on assets	(540,674)	(84,684)
Foreign exchange gain on liabilities	(60,066)	(175,084)
Foreign exchange loss on cash and cash equivalents	2,751,486	6,397,390
Operating activities not affecting cash flows	2,241,007	6,137,622
Change in assets and liabilities related to operating activities	191,236	62,849
Net cash from (to) operating activities		(386,787)
181,564		
INVESTING ACTIVITIES:		
Gold, (increase)	(10,923)	(16,277)
Foreign securities and Treasury bills, (increase)	(77,880)	9,564
Repurchase agreements, (increase)	(50,357,570)	(12,550,261)
Miscellaneous accounts, decrease	1,625,017	949,335
Fixed assets (increase)	(25,634)	–
Net cash to investing activities	(48,846,990)	(11,607,639)
FINANCING ACTIVITIES:		
Foreign borrowing, (decrease)	(16,469)	1,086
Notes and coin, increase	1,569,601	1,048,815
Reserve requirement, (decrease)	(2,927)	(3,826,870)
Treasury time deposits, increase	32,858,889	(11,516,867)
Certificates of deposit, (decrease)	(2,109,673)	(97,362)
Net cash from financing activities	32,299,421	(14,391,198)
Change in cash and cash equivalents, (decrease)	(16,934,356)	(25,817,273)
Foreign exchange loss on cash and cash equivalents	(2,751,486)	(6,397,390)
Cash and cash equivalents at beginning of year	9,726,914	41,941,577
Cash and cash equivalents at end of year (liquidity position)	(9,958,928)	9,726,914
Liquidity position:		
Deposits of deposit money banks	(32,250,622)	(36,342,084)
Deposits of central government	(42,912,693)	(17,814,781)
Deposits and securities of banks	65,204,387	63,883,780
	(9,958,928)	9,726,914

All amounts in thousand kr.

Notes to the Financial Statements

1. The accompanying financial statements have been prepared in accordance with the Annual Accounts Act, the provisions of Act No. 161/2002 on Financial Undertakings and Rules No. 1088/2005 on Central Bank Accounting and Annual Accounts.

Amendments were made to the Rules on Central Bank Accounting and Annual Accounts in 2005. Fixed assets are now entered in the accounts, and equity is increased correspondingly. Depreciation of fixed assets is now expensed in the Profit and Loss Account for the first time, which results in 90 m.kr. higher operating expenses than otherwise during the year. The base for calculating the allocation of profit to the Treasury was also changed to exclude unrealised exchange rate gains and losses. This change does not affect calculation of the allocation to the Treasury for the year, because of the loss on the Bank's operations. The effect that changes in Rules No. 1088/2005 have on the Profit and Loss Account is to increase the loss by 65 m.kr., assets by 5.0 b.kr and capital by 4.9 b.kr.

- The financial statements are based on cost price accounting principles. Assets are valued at market rates. The changeover to market valuation is entered through the Profit and Loss Account, apart from fixed assets, which are posted as an increase in the Bank's capital. All foreign securities portfolio transactions are now converted according to the exchange rate on the date of trading, instead of the date of settlement used previously. Prepaid costs of printing banknotes and minting coins are now posted to assets. The cost of printing notes is now expensed in three years and minting cost in two years.
- In other respects than the above, accounting is conducted according to the same principles as in the past
- Assets and liabilities in foreign currency are translated into Icelandic króna (kr.) using the exchange rate at the end of 2005. Income and expenses in foreign currency are converted using the exchange rate on the date of transaction. Exchange rate gain/loss is posted to the Profit and Loss Account. The book value of the Bank's assets is recorded at market value, apart from shareholdings in companies.
- Assets and liabilities linked to price indices are shown in the Balance Sheet with accrued indexation at year-end, stated according to the relevant index figures for January 2006. Index compensation is entered in the Profit and Loss Account under *Interest income/On domestic loans*.
- In the statement of cash flows, cash and cash equivalents are defined as assets and liabilities that are liquifiable within two working days and are used in day-to-day cash management. Cash and cash equivalents thus defined show the actual liquidity of the Bank.

Accounting policies and principles

Holdings

2. At the beginning of the year, the Bank held 1,000 shares in the Bank for International Settlements (BIS) in Basel to the amount of 5,000 SDR each. One quarter of the shares have been paid up. The Bank is obliged to pay the outstanding 75% of the total value of the shares if they are called; they have not been entered as an asset. A further 70 shares were bought during the year for 86 m.kr. At the end of 2005 the Bank's total holding in BIS therefore amounts to 1,070 shares with a book value of 184 m.kr. This holding is entered under the item *Foreign assets/Assets not included in foreign reserves*, together with non-marketable securities in the amount 43 m.kr. Foreign assets other than these items constitute the Central Bank's foreign reserves.

	<i>Market value m.kr.</i>	<i>Book value m.kr.</i>	<i>Nominal value m.kr.</i>
Bank for International Settlements ...	481.4	184.5	144.0

The item *Other/Miscellaneous accounts*, amounting to 150.8 m.kr., includes the Bank's equity interest in two limited liability companies:

	<i>Share</i>	<i>Book value m.kr.</i>	<i>Nominal value m.kr.</i>
Eignarhaldsfélag Verðbréfaþings hf. (Stock Exchange holding company)	11%	5.6	14.9
Fjölgreiðslumiðlun hf. (netting system provider).....	8%	1.2	1.2
		<u>6.8</u>	<u>16.1</u>

Foreign assets and gold

3. The Bank's foreign assets amounted to 67.5 b.kr. at the end of 2005 but were 65.7 b.kr. at the end of the previous year. These figures include the gold reserves of the Central Bank which amounted to 64,179 troy ounces. Gold at year-end 2005 was valued at the London gold fixing of 513 USD per troy ounce, or 32,309 kr. At the end of 2005 the Bank's gold reserves amounted to 2.1 b.kr. The Bank's gold increased by 324 ounces from leasing income, while income on the equivalent of a further 32 ounces was paid in USD.

Return on bonds and deposits in the Bank's foreign reserves during the year was as follows:

	<i>Bonds</i>	<i>Deposits</i>
US dollars.....	1.5%	3.2%
Euro	2.9%	2.1%
Sterling	5.7%	4.6%

4. Fixed assets are entered in the annual financial statements for the first time in 2005.

Real estate, land, used fixtures and furnishings, and motor vehicles are valued at market price. Machinery, office equipment and new fixtures and furnishings are valued at cost price less depreciation. The Bank's collections, comprising its library, coin and art collection, are stated at insurance value at year-end 2005.

Depreciation is calculated using the straight-line method to allocate the cost of assets to their residual values over their estimated useful lives.

	<i>Land</i>	<i>Real estate</i>	<i>Equip./ furnish.</i>	<i>Motor vehicles</i>	<i>Collec- tions</i>	<i>Total</i>
Balance 1/1	24.0	4,575.3	158.8	21.2	237.0	5,016.3
Depreciation for the year	-	48.2	39.3	2.7	-	90.2
Balance 31/12	24.0	4,527.1	119.5	18.5	237.0	4,926.1
Depreciation ratio		1.25-3%	10-33%	20%		
Land Registry valuation 31/12	12.6	3,091.5				3,104.1
Insurance valuation		3,672.4	304.6	18.5	237.0	4,232.5

5. Iceland's quota with the International Monetary Fund amounted to 117.6 million SDR at the end of 2005. Up to 25% is paid in SDR and the rest is in Icelandic currency (7.9 b.kr.). The Bank's reserves with the Fund were 18.6 million SDR. Iceland's allocation of Special Drawing Rights with the Fund amounted to 16.4 million SDR.

<i>Assets:</i>		
	<i>SDR</i>	<i>M.kr</i>
Central Bank of Iceland's quota	117,600,000	10,581.6
Total currency holdings	-99,014,282	-8,909.3
	18,585,718	1,672.3
Currency holding, Account no. 2	3,061	0.3
Reserve tranche position	18,588,779	1,672.6
Accrued remuneration	60,406	5.5
	18,649,185	1,678.1
Holdings of SDR	32,588	2.9
	18,681,773	1,681.0
<i>Liabilities:</i>		
	<i>SDR</i>	<i>M.kr</i>
SDR allocation with IMF	16,409,000	1,476.5
Currency holding, Account no. 2	3,061	0.3
Accrued charges on allocations	81,856	7.3
	16,493,917	1,484.1

Fixed assets

International Monetary Fund

Financial institutions

6. Credit institutions that are participants in the Central Bank Real-Time Gross Settlement system pledge collateral for payments in the system. Collateral is in the form of liquid funds deposited in accounts at the Central Bank, and securities. The amount corresponds to the intraday overdraft for participants to meet fluctuations on their RTGS system accounts.
- At the end of 2005, total guarantees in connection with the RTGS system amounted to 20.4 b.kr. in securities at market value.
 - Credit institutions pledge collateral to the custody of the Central Bank in connection with their repurchase agreements in accordance with Rules No. 997/2004.

Pension commitments

7. According to actuarial valuations the Bank's total pension commitments towards the former Governors of the Bank, their spouses and the directors of the National Economic Institute amounted to 340 m.kr. at the end of 2005. The Bank's contribution for the year 2005 is 37 m.kr. and is posted to the Profit and Loss Account under *Salaries and payroll costs*.

Allocation to the Treasury

8. The allocation to the Treasury, according to Article 34 of Act No. 36/2001, is equal to two-thirds of the profit of the Central Bank in the year, provided that its equity exceeds 2.25% of the outstanding lending and domestic securities stock of the credit system at the end of the year, but otherwise one-third. The Bank's equity was below this limit at the end of 2005. No allocation is made to the Treasury for the year, since the Bank did not make a profit.

Emoluments of the Supervisory Board and Board of Governors

9. Total remuneration and fees to the Board of Governors and Supervisory Board amounted to 65 m.kr. in 2005. Governors are not remunerated for sitting on boards and committees that institutions and companies on the financial markets in Iceland establish together or to which the Central Bank appoints representatives by law.

Total emoluments of the Board of Governors and Supervisory Board in 2005 were as follows:

<i>Board of Governors</i>	<i>M.kr.</i>
Birgir Ísleifur Gunnarsson	21.7
Davíð Oddsson	3.3
Eiríkur Guðnason	15.2
Jón Sigurðsson	15.2
<i>Supervisory Board</i>	
Ólafur G. Einarsson, Chairman	2.0
Other members, incl. alternates (12)	7.6
	<u>65.0</u>

Auditor's fee

10. The fee paid by the Central Bank to the National Audit Office for auditing the accounts and other audit services for 2005 amounted to 1.5 m.kr.

11. Over the past five years, the Bank's equity has developed as follows (in m.kr. based on current prices):

	2001	2002	2003	2004	2005
Capital	1	19,001	13,501	13,501	13,501
Reserves 1/1	21,601	25,326	26,753	26,716	20,697
Dividend Fund 1/1	(1,847)	-	-	-	-
	19,755	34,327	40,254	40,217	34,198
Treasury capital contribution	9,000	4,500	-	-	-
Net price-level adjustm.	3,202	-	-	-	-
Net income (loss) before allocation	785	2,141	(37)	(6,019)	(2,819)
Allocation to Treasury	(262)	(714)	-	-	-
Revaluation of assets	-	-	-	-	4,991
Dividend Fund to other reserves	1,847	-	-	-	-
	14,572	5,927	(37)	(6,019)	2,172
Capital 31/12	9,001	9,001	13,501	13,501	13,501
Reserves 31/12	25,326	31,253	26,716	20,697	22,869
Equity 31/12	34,327	40,254	40,217	34,198	36,370
<i>Position at end of year in b.kr.</i>					
Total assets	115.9	116.7	87.3	106.6	162.3
Credit system lending and dom. securities	1,920.0	1,981.9	2,208.3	2,658.1	3,234.8
Equity 31/12	34.3	40.3	40.2	34.2	36.4
Equity excl. fixed assets	34.3	40.3	40.2	34.2	31.4
<i>As % of total assets</i>					
Equity	29.6%	34.5%	46.1%	32.1%	22.4%
Equity excl. fixed assets	29.6%	34.5%	46.1%	32.1%	19.7%
<i>As % of credit system lending and domestic securities</i>					
Equity	1.79%	2.03%	1.82%	1.29%	1.13%

12. The Central Bank of Iceland is committed to pay the outstanding 75% of its total holding in the BIS (Bank for International Settlements) if called by the BIS. The amount involved is 338 m.kr.

- In 1998, the Central Bank settled in full its employees' pension fund commitments towards the Bank Employees' Pension Fund in accordance with actuarial assumptions and calculations based on them. In a letter on behalf of the Bank Employees' Pension Fund, law firm Lögstofan Ármúla 21 ehf. has presented new claims on organisations participating in the fund, of which the Central Bank's share is considered to be 612 m.kr., or 17% of total claims on participating organisations. The case is being heard before Reykjavík District Court.

Equity and performance

Off-balance sheet commitments

- The Central Bank's equity interest in the Banks' Data Centre is not reflected in the accounts. In formal terms, this is a joint operation under the auspices of all banks and savings banks in Iceland, in accordance with an agreement to that effect. The partnership agreement states that the Central Bank's contribution was one-fifth of the Banks' Data Centre's starting capital. The book value of owners' equity in the Banks' Data Centre was 1.5 b.kr. at the end of 2005.
- At the end of 2005 the Central Bank had access to committed credit facilities with foreign financial institutions in the amount of 500 million USD, which was equivalent to approximately 32 b.kr.

Net interest expense

13. Net interest expense amounted to 1.6 b.kr. in 2005 compared with 4.8 b.kr. the previous year, a reduction of 3.2 b.kr. This may be attributed to a reduction of 3.9 b.kr. in exchange rate losses, which was partially offset by a 0.7 b.kr. increase in net domestic interest expense.

Net interest income is specified as follows:

	2005	2004
<i>Domestic items</i>		
Transactions with credit institutions.....	1,930,652	529,373
Return on domestic securities.....	96,837	325,986
Interest expense on central govt. deposits	(3,023,001)	(1,126,313)
Total	<u>(995,512)</u>	<u>(270,954)</u>
<i>Foreign items</i>		
Interest income & market val. of gold	309,994	103,920
Foreign deposits	492,319	548,995
Exchange rate (loss) gain		
on currency transactions.....	95,279	(7,928)
Interest on foreign short-term liabilities... ..	-	(40,242)
Foreign securities, interest income	1,557,761	1,375,182
Foreign securities, market valuation	(452,440)	(14,742)
Total	<u>2,002,913</u>	<u>1,965,185</u>
<i>Exchange rate revaluation</i>		
Gold.....	57,242	(275,534)
IMF items	(10,380)	(24,037)
Foreign deposits	(1,404,866)	(2,281,597)
Foreign securities	(1,848,846)	(4,114,833)
Foreign short-term liabilities.....	21,635	20,374
Forward contract	-	382,000
Domestic accounts in foreign currency ...	552,594	(212,373)
Exchange rate loss, total	<u>(2,632,621)</u>	<u>(6,506,000)</u>
Net interest expense, total	<u>(1,625,220)</u>	<u>(4,811,769)</u>

14. At the end of the year the Bank had 116 employees – 63 males and 53 females – one more than at the end of 2004. The number of full-time equivalent positions was 107.1. Five employees were in part-time posts equivalent to 3.1 positions, and the Banks' Data Centre was responsible for 7 of the 15 positions in the joint cafeteria, security and maintenance and janitorial services it shares with the Central Bank. Average man-years were 115.9, an increase of 0.2 from 2004.

Salaries and payroll costs

	2005	2004
Basic salaries	646,257	619,694
Pension fund contributions	37,371	52,349
Other employee-related expenses	129,380	132,428
	<u>813,008</u>	<u>804,471</u>

APPENDICES

Press releases 2005

No. 1	January 6, 2005	Publication dates for Monetary Bulletin, the new Financial Stability Report and Economic Indicators 2005
- 2	January 9, 2005	Central Bank Balance Sheet at end December 2004
- 3	February 4, 2005	Central Bank Balance Sheet at end January 2005
- 4	February 10, 2005	Standard & Poor's raises Iceland's foreign currency sovereign rating
- 5	February 18, 2005	The Central Bank of Iceland raises interest rates
- 6	March 4, 2005	Balance of payments in the fourth quarter of 2004 and the external position at the end of the year
- 7	Marc 4, 2005	Central Bank Balance Sheet at end-February 2005
- 8	March 22, 2005	Central Bank of Iceland raises its policy rates
- 9	April 6, 2005	Central Bank Balance Sheet at end-March 2005
- 10	April 26, 2005	Financial Stability
- 11	May 2, 2005	Special repayment of Treasury foreign debt
- 12	May 3, 2005	Eiríkur Guðnason re-appointed Governor of the Central Bank of Iceland
- 13	May 6, 2005	Central Bank Balance Sheet at end-April 2005
- 14	June 3, 2005	The Central Bank of Iceland raises its policy interest rate
- 15	June 3, 2005	Balance of payments in the first quarter of 2005 and the external position
- 16	June 6, 2005	Central Bank Balance Sheet at end-May 2005
- 17	June 13, 2005	Summary of the concluding statement of the IMF mission in Iceland
- 18	June 16, 2005	Concluding Statement by IMF mission in Iceland
- 19	July 6, 2005	Central Bank Balance Sheet at end-June 2005
- 20	July 19, 2005	Moddy's affirms Iceland's rating of Aaa
- 21	August 4, 2005	Fitch Affirms Iceland AtAA-/AAA; Outlook Stable
- 22	August 5, 2005	Central Bank Balance Sheet at end-July 2005
- 23	September 2, 2005	Balance of payments in the second quarter of 2005 and the external position
- 24	September 6, 2005	Central Bank Balance Sheet at end-August 2005
- 25	September 7, 2005	Birgir Ísleifur Gunnarsson to retire as Chairman of the Board of Governors
- 26	September 7, 2005	Mr. Davíð Oddson appointed Governor and Chairman of the Board of Governors
- 27	September 8, 2005	Foreign currency purchases to meet repayment of Treasury debt
- 28	September 19, 2005	The Central Bank of Iceland reports to the Government on inflation beyond tolerance limit
- 29	September 29, 2005	The Central Bank of Iceland raises its policy interest rate
- 30	October, 6, 2005	Central Bank Balance Sheet at end-September 2005
- 31	October 17, 2005	Upgraded 500 króna banknote
- 32	October 17, 2005	IMF Concludes 2005 Article IV Consultation with Iceland
- 33	October 31, 2005	Standard & Poor's affirms Iceland's AA-/A-1+ foreign currency sovereign rating on Healthy Public Finances; Outlook Stable
- 34	November 4, 2005	Central Bank Balance Sheet at end-October 2005
- 35	November 10, 2005	Amendment to the joint declaration of the Government of Iceland and Central Bank of Iceland from March 27, 2001
- 36	November 30, 2005	IMF Report on the Observance of Standards and Codes (ROSC): Data Module Mission in Iceland
- 37	December 1, 2005	Balance of payments in the third quarter of 2005 and the external position
- 38	December 2, 2005	The Central Bank of Iceland raises its policy interest rates
- 39	December 6, 2005	Central Bank Balance Sheet at end-November 2005

Publications by the Central Bank of Iceland in 2005

In English:

Annual Report 2004

Monetary Bulletin 2005, four issues

Financial Stability 2005

The Economy of Iceland 2005

Central Bank of Iceland Working Papers No. 27: Aggregate business fixed investment by Björn A. Hauksson

Central Bank of Iceland Working Papers No. 28: The dynamic behavior of the real exchange rate in sticky price models by Jón Steinsson

In Icelandic:

Ársskýrsla 2004

Fjármálatíðindi 2004 og 2005

Fjármálastöðugleiki 2005

Peningamál 2005, four issues

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Table 1 Survey

<i>Main economic indicators</i>		1997	1998	1999	2000	2001	2002	2003	2004	2005	
Gross domestic product ¹	% change from prev. year	4.9	5.8	4.3	4.1	3.8	-1.0	3.0	8.2	5.5	
National expenditure ¹	% change from prev. year	5.7	13.3	4.4	5.7	-2.3	-3.5	6.4	10.4	14.9	
Exports ¹	% change from prev. year	5.6	2.5	3.9	4.3	7.4	3.8	1.6	8.4	3.5	
Imports ¹	% change from prev. year	8.0	23.4	4.4	8.6	-9.1	-2.6	10.8	14.4	28.4	
Current account balance ¹	% of GDP	-1.8	-6.8	-6.8	-10.2	-4.4	1.6	-5.0	-9.3	-15.6	
Terms of trade ¹	% change from prev. year	2.0	5.2	-0.7	-2.4	0.3	0.6	-4.1	-1.3	0.5	
National saving ¹	% of GDP	17.9	17.2	14.9	12.7	16.9	19.0	14.8	14.1	13.3	
International investment position	% of GDP	52.5	58.2	68.4	90.2	100.4	100.6	99.3	130.7	161.4	
Employment (man-years)	% change from prev. year	1.8	3.4	2.7	2.2	1.6	-1.1	-1.3	1.9	4.0	
Unemployment	% of labour force	3.9	2.8	1.9	1.3	1.4	2.5	3.4	3.1	2.1	
<i>Prices and wages</i>		<i>% change</i>									
Consumer price index	from prev. year	1.8	1.7	3.4	5.0	6.7	4.8	2.1	3.2	4.0	
Wage index	from prev. year	5.4	9.4	6.8	6.6	8.8	7.2	5.6	4.7	6.8	
Real wages (deflated by CPI)	from prev. year	3.6	7.6	3.3	1.6	2.0	2.2	3.4	1.4	2.6	
<i>Asset prices</i>		<i>% change</i>									
Residential housing	Q4 on Q4	1.9	7.8	22.2	13.3	3.1	7.5	9.1	23.3	31.0	
Share prices	within year	13.6	9.8	47.4	-19.3	-11.2	16.7	56.4	58.9	64.7	
<i>Money supply and credit</i>		<i>% change</i>									
M1	within year	16.5	20.2	19.3	4.4	-2.3	23.8	22.6	30.1	22.8	
M3	within year	8.7	15.1	17.1	11.2	14.9	15.3	17.5	15.0	23.4	
Credit system lending and market securities	within year	11.8	15.1	17.3	17.3	19.2	3.2	11.4	20.2	30.1	
DMB lending	within year	12.7	30.3	23.0	50.0	12.6	0.8	14.8	39.5	37.0	
<i>Exchange rate and real exchange rate</i>		<i>% change</i>									
Nominal effective exchange rate	from prev. year	-1.3	-1.6	-0.2	0.1	20.1	-3.0	-6.0	-2.0	-10.3	
Icelandic króna vis-à-vis US dollar	from prev. year	-6.1	-0.2	-1.8	-8.2	-19.3	6.8	19.2	9.5	11.6	
Icelandic kr. vis-à-vis euro (ECU '97-'98)	from prev. year	4.2	0.4	3.5	6.3	-17.0	1.5	-0.6	-0.5	11.5	
Real exchange rate, relative prices	from prev. year	0.9	1.6	1.8	2.9	-13.0	5.7	6.3	3.2	13.3	
Real exchange rate, rel. unit lab. cost	from prev. year	3.3	5.3	1.7	1.2	-12.2	6.1	4.7	1.6	14.5	
<i>Central Bank rates</i>		<i>average</i>									
Banks' current accounts	% p.a.	2.7	3.0	3.8	5.9	6.8	5.5	2.9	3.7	7.7	
Repurchase agreements	% p.a.	6.9	7.3	8.3	10.4	10.9	8.4	5.4	6.1	9.4	
Overnight loans	% p.a.	.	8.5	9.3	11.5	12.3	10.7	7.8	8.3	11.0	
<i>Yields in the money and bond market (ICEX)</i>		<i>average</i>									
1-3-month Treasury bills	% p.a.	6.9	7.3	7.9	11.0	11.1	8.0	5.0	6.0	8.8	
5-year Treasury notes (non-indexed)	% p.a.	8.7	7.7	8.4	11.1	9.6	7.8	7.6	7.6	7.6	
Treasury bonds (> 5 yrs.) (indexed)	% p.a.	5.3	4.7	4.4	5.1	5.1	5.2	4.4	3.9	3.7	
Housing bonds (> 7 yrs.) (indexed)	% p.a.	5.5	4.9	4.5	5.6	5.7	5.6	4.7	4.5	4.7	
<i>Commercial banks' interest rates</i>		<i>% p.a.</i>									
Non-indexed secured loans	% p.a.	12.9	12.8	13.6	16.7	18.0	15.4	12.0	12.2	14.8	
Indexed securities	% p.a.	9.0	8.8	8.6	9.5	10.2	10.1	9.1	8.0	7.2	
Yield on new standard loans ²	% p.a.	13.5	13.5	14.2	17.5	.	.	.	.	.
Penalty interest ³	% p.a.	16.3	16.5	17.3	21.9	23.7	21.3	17.3	17.3	20.3	
<i>International comparison</i>		<i>% p.a.</i>									
Economic growth in OECD countries	% p.a.	3.6	2.7	3.3	3.9	1.1	1.6	2.2	3.6	2.9	
Inflation in OECD countries	% p.a.	4.6	3.9	3.4	4.0	3.5	2.6	2.5	2.4	1.7	
<i>General government finances</i>		<i>% of GDP</i>									
Treasury fiscal balance	% of GDP	0.5	1.1	2.5	2.5	0.6	-0.4	-1.7	1.0	1.2	3.8
Treasury net borrowing requirement	% of GDP	-0.4	-0.9	2.2	0.3	-2.9	-1.3	1.6	2.7	1.0	8.4
General government expenditure	% of GDP	41.3	41.9	42.9	42.5	43.6	45.7	47.5	47.1	43.7	45.7
General government fiscal balance	% of GDP	0.0	0.5	2.4	2.5	0.2	-0.8	-2.1	-0.1	1.5	3.3
General government gross debt	% of GDP	53.8	48.7	44.1	39.8	45.5	44.5	41.2	36.9	31.6	28.1

1. Preliminary data for 2004-2005. 2. Cf. Art. 10. of Act No. 25/1987. 3. Cf. 10. of Act No. 25/1987 and (from July 2001) Art. 10. of Act No. 38/2001.

Sources: Directorate of Labour, Iceland Stock Exchange, Land Registry of Iceland, OECD, Statistics Iceland, Central Bank of Iceland.

Table 2 Balance of payments

M.kr.	2000	2001	2002	2003	2004	2005 ¹
Current account	-69,439	-33,365	12,627	-41,039	-85,313	-164,060
<i>Balance on goods, services and income</i>	-68,677	-32,406	11,457	-39,873	-84,133	-162,341
Exports	240,934	316,046	332,632	316,775	348,806	406,701
Imports	-309,611	-348,452	-321,175	-356,648	-432,939	-569,042
<i>Balance on goods and services</i>	-49,117	-7,485	13,364	-25,050	-50,974	-133,241
Exports	229,520	299,412	305,474	288,227	316,291	313,216
Imports	-278,637	-306,897	-292,110	-313,277	-367,265	-446,457
Balance on goods	-37,480	-5,936	14,082	-15,900	-36,547	-93,039
Merchandise exports f.o.b.	149,272	196,582	204,303	182,580	202,373	194,356
Marine products	94,497	122,046	128,592	113,693	121,746	110,130
Aluminium and ferro-silicon	31,572	44,412	43,507	40,276	42,640	42,072
Ships and aircrafts	3,136	3,311	2,330	1,382	787	9,644
Other goods	20,067	26,813	29,874	27,229	37,200	32,510
Merchandise imports f.o.b.	-186,752	-202,518	-190,221	-198,480	-238,920	-287,395
Investment goods	-44,204	-44,233	-38,398	-45,830	-52,551	-66,850
Transport equipments	-31,824	-28,181	-25,810	-26,894	-39,807	-57,903
Fuels and lubricants	-17,250	-17,677	-15,903	-15,282	-21,746	-26,888
Industrial supplies	-43,236	-55,429	-53,838	-52,761	-60,770	-68,745
Consumer goods	-50,238	-56,998	-56,272	-57,713	-64,046	-67,009
<i>Balance on services</i>	-11,637	-1,549	-718	-9,150	-14,427	-40,202
Exports of services, total	80,248	102,830	101,171	105,647	113,918	118,860
Transportation	38,721	46,986	48,477	50,195	63,232	62,354
Air transport	30,194	36,959	38,658	41,118	54,148	50,642
Sea transport	8,527	10,027	9,819	9,077	9,084	11,712
Travel	17,967	22,881	22,835	24,531	26,079	25,752
Other receipts	23,560	32,963	29,859	30,921	24,607	30,754
Communications services	820	2,337	704	640	717	563
Insurance services	435	577	606	543	605	525
Government services	8,457	8,091	7,666	7,429	6,730	5,376
Other services	13,848	21,958	20,883	22,309	16,555	24,290
Imports of services, total	-91,885	-104,379	-101,889	-114,797	-128,345	-159,062
Transportation	-32,697	-36,721	-38,610	-39,685	-48,799	-56,244
Travel	-37,082	-36,401	-33,406	-39,818	-48,501	-61,232
Other expenditures	-22,106	-31,257	-29,873	-35,294	-31,045	-41,586
Communications services	-155	-2,742	-3,429	-3,480	-1,464	-2,242
Insurance services	-432	-714	-1,748	-1,865	-1,352	-1,825
Government services	-1,205	-1,560	-1,645	-1,692	-1,464	-1,405
Other services	-20,314	-26,241	-23,051	-28,257	-26,765	-36,114
<i>Balance on income</i>	-19,560	-24,921	-1,907	-14,823	-33,159	-29,100
Receipts	11,414	16,634	27,158	28,548	32,515	93,485
Compensation of employees	5,516	5,772	5,417	6,236	5,624	4,639
Investment income	5,898	10,862	21,741	22,312	26,891	88,846
Dividends and reinvested earnings	2,534	7,408	16,932	18,002	18,477	67,440
Interest payments	3,364	3,454	4,809	4,310	8,414	21,406
Expenditures	-30,974	-41,555	-29,065	-43,371	-65,674	-122,585
Compensation of employees	-844	-533	-702	-465	-817	-1,533
Investment income	-30,130	-41,022	-28,363	-42,906	-64,857	-121,052
Dividends and reinvested earnings	-1,262	302	829	-13,484	-29,379	-59,999
Interest payments	-28,868	-41,324	-29,192	-29,422	-35,478	-61,053
<i>Current transfer, net</i>	-762	-959	1,170	-1,166	-1,180	-1,719
Public transfer, net	-813	-1,169	-822	-651	-1,345	-1,573
Private transfer, net	51	210	1,992	-515	165	-146
<i>Exchange rate indices (1994=100)</i>	96.1	115.4	112.0	105.3	103.2	92.6

Table 2 Balance of payments (cont.)

M.kr.	2000	2001	2002	2003	2004	2005 ¹
<i>Capital and Financial Account</i>	87,471	22,845	-8,396	16,340	127,793	178,183
<i>Capital transfer, net</i>	-222	362	-122	-402	-234	-1,691
<i>Financial account ²</i>	87,693	22,483	-8,274	16,742	128,027	179,874
<i>Financial account excl. reserves</i>	81,899	17,664	-2,610	40,143	142,257	184,594
Direct investment, net	-17,510	-16,801	-21,306	-4,087	-134,506	-274,655
Abroad	-30,969	-33,734	-29,646	-28,518	-179,754	-421,331
Equity capital	-31,714	-27,012	-21,898	-20,655	-143,615	-257,301
Reinvested earnings	-421	-4,449	-12,509	-13,707	-9,442	-58,943
Other capital	1,166	-2,273	4,761	5,844	-26,697	-105,087
In Iceland	13,459	16,933	8,340	24,431	45,248	146,676
Equity capital	16,548	21,195	10,275	5,226	6,952	93,608
Reinvested earnings	-1,552	-2,394	-3,267	5,820	25,515	53,763
Other capital	-1,537	-1,868	1,332	13,385	12,781	-695
Portfolio investment, net	54,928	65,413	13,650	228,000	483,150	853,104
Assets	-38,593	-1,752	-28,838	-45,320	-98,695	-210,898
Equities	-44,481	-3,812	-23,750	-40,579	-104,293	-127,896
Debt securities	5,888	2,060	-5,088	-4,741	5,598	-83,002
Bonds and notes	6,949	-291	-5,151	-5,086	5,307	-59,826
Money-market instruments	-1,061	2,351	63	345	291	-23,176
Liabilities	93,521	67,165	42,488	273,320	581,845	1,064,002
Equities	-1,266	9,836	4,508	-5,598	20,200	4,526
Debt securities	94,787	57,329	37,980	278,918	561,645	1,059,476
Bonds and notes	90,579	32,292	41,957	220,362	538,989	1,051,707
Money-market instruments	4,208	25,037	-3,977	58,556	22,656	7,769
Financial derivatives, net	-93	0	0	0	0	0
Assets	1,218	0	0	0	0	0
Liabilities	-1,311	0	0	0	0	0
Other investment, net	44,574	-30,948	5,046	-183,770	-206,387	-393,855
Assets	-7,112	-47,101	-30,426	-156,116	-237,570	-814,995
Loans	-3,151	-30,902	-38,977	-89,947	-169,566	-582,286
Currency and deposits	-2,530	-15,473	6,629	-68,907	-64,255	-232,993
Trade credits	-1,431	-726	2,424	2,708	-3,742	76
Other capital	0	0	-502	30	-7	208
Liabilities	51,686	16,153	35,472	-27,654	31,183	421,140
Loans	51,791	20,643	28,230	-42,537	14,176	389,224
Long-term	27,795	30,288	-22,100	-35,549	-21,457	161,381
Short-term	23,996	-9,645	50,330	-6,988	35,633	227,843
Deposits	-1,032	608	7,522	4,820	18,750	24,573
Trade credits	79	-3,102	-243	10,049	-1,455	7,095
Other capital	848	-1,996	-37	14	-288	248
Reserve assets	5,794	4,819	-5,664	-23,401	-14,230	-4,720
Net errors and omissions	-18,032	10,520	-4,231	24,699	-42,480	-14,123
Memorandum items:						
Debt securities, loan etc., net	146,473	73,482	73,452	251,264	592,828	1,480,616
Long-term borrowing, net	118,374	62,580	19,857	184,813	517,532	1,213,088
Monetary authorities	0	0	0	0	0	0
General government	4,875	41,603	14,432	5,081	8,624	-19,551
Deposit banks	76,077	-4,962	-4,351	176,238	507,237	1,131,982
Other sectors	37,422	25,939	9,776	3,494	1,671	100,657
Short-term borrowing, net	28,099	10,902	53,595	66,451	75,296	267,528
Monetary authorities	10,740	-5,800	4,823	-15,852	41	33
General government	11,456	720	-4,721	-15,468	1,316	-12,659
Deposit banks	-2,105	14,013	53,746	88,094	75,666	272,798
Other sectors	8,008	1,969	-253	9,677	-1,727	7,356
Average exchange rate: ISK per USD	78.65	97.57	91.38	76.57	70.04	62.70
Average exchange rate: ISK per SDR	103.55	124.08	118.10	107.17	103.64	92.60

1. Preliminary figures. 2. Positive number represents inflow of capital due to foreign borrowing or decrease in assets. Negative number accounts for outflow of capital, i.e. debt repayments or increase in assets.

Table 3 Quarterly balance of payments

M.kr.	2004				2005 ¹			
	I	II	III	IV	I	II	III	IV
<i>Current account</i>	-13,899	-23,008	-13,193	-35,213	-31,209	-34,841	-44,960	-53,050
Balance on goods	-252	-13,636	-12,106	-10,553	-15,316	-20,954	-34,324	-22,445
Merchandise exports f.o.b.	51,275	47,845	50,355	52,898	46,688	51,860	42,331	53,477
Merchandise imports f.o.b.	-51,527	-61,481	-62,461	-63,451	-62,004	-72,814	-76,655	-75,922
Balance on services	-5,841	-5,516	5,582	-8,652	-8,515	-9,751	-3,563	-18,373
Exports of services, total	21,688	27,169	39,518	25,543	23,268	29,979	39,633	25,980
Imports of services, total	-27,529	-32,685	-33,936	-34,195	-31,783	-39,730	-43,196	-44,353
Transportation, net	988	2,636	8,331	2,478	1,582	2,947	3,951	-2,370
Travel, net	-5,774	-6,481	-1,456	-8,711	-8,038	-9,655	-5,559	-12,228
Other services, net	-1,055	-1,671	-1,293	-2,419	-2,059	-3,043	-1,955	-3,775
Balance on income	-7,471	-3,525	-6,432	-15,731	-7,191	-3,842	-6,477	-11,590
Current transfer, net	-335	-331	-237	-277	-187	-294	-596	-642
<i>Capital and Financial Account</i>	3,160	42,718	13,415	68,500	120,814	17,938	56,586	-17,155
Capital transfer, net	31	-201	-22	-42	-374	-499	-268	-550
Financial account	3,129	42,919	13,437	68,542	121,188	18,437	56,854	-16,605
Assets	-90,514	-88,245	-153,782	-197,708	-97,014	-434,888	-191,842	-728,200
Liabilities	93,643	131,164	167,219	266,250	218,202	453,325	248,696	711,595
Financial account excl. reserves	10,641	45,776	16,671	69,169	117,580	18,677	68,660	-20,323
Direct investment, net	-14,523	-16,897	-87,254	-15,832	-21,026	-98,567	-77,199	-77,863
Portfolio investment, net	92,776	63,343	140,978	186,053	188,249	306,584	143,404	214,867
Other investment, net	-67,612	-670	-37,053	-101,052	-49,643	-189,340	2,455	-157,327
Long-term loan, net	-19,494	29,363	-12,768	-18,558	1,371	8,344	24,522	127,144
Other capital, net	-48,118	-30,033	-24,285	-82,494	-51,014	-197,684	-22,067	-284,471
Reserve assets	-7,512	-2,857	-3,234	-627	3,608	-240	-11,806	3,718
Net errors and omissions	10,739	-19,710	-222	-33,287	-89,605	16,903	-11,626	70,205
Exchange rate indices (1994=100)	102.7	105.0	104.0	101.1	94.2	95.4	92.4	88.5

1 Preliminary figures.

Table 4 Long-term external debt

M.kr. at end of year	1999	2000	2001	2002	2003	2004	2005 ¹
Long-term foreign debt, total	404,243	585,783	752,309	673,429	847,740	1,256,607	2,301,575
Central Bank	0	0	0	0	0	0	0
General government	110,515	131,270	194,219	191,267	193,523	166,944	125,455
Treasury	89,692	102,962	152,552	148,806	149,756	126,595	92,477
Municipalities	20,823	28,308	41,667	42,461	43,767	40,349	32,978
Deposit money banks	133,728	298,796	342,910	308,022	487,115	934,989	1,938,666
Other financial institutions	60,388	21,780	34,131	16,493	11,286	9,047	26,974
Industries	99,612	133,937	181,049	157,647	155,816	145,627	210,480
Exchange rate per US dollar	72.35	84.47	102.95	80.58	70.99	61.04	62.98
Total debt in per cent of: ²							
GDP	67.7	82.8	97.4	94.9	104.5	154.6	252.4
Export revenue	186.2	226.9	228.0	218.6	263.1	380.9	608.8
Debt service in % of export revenue	26.9	37.5	47.4	49.7	56.5	59.3	80.3
Amortisation	18.8	27.7	36.7	41.9	49.6	51.9	68.6
Interest	8.1	9.8	10.7	7.8	6.9	7.4	11.7

1 Preliminary. 2 Based on average exchange rates each year.

Table 5 International investment position

B.kr. End of year	Direct investment			Portfolio investment			Other investment ¹			Net position	
	Assets	Liabilities	Net	Assets	Liabilities	Net	Assets	Liabilities	Net	B.kr.	% of GDP
1996	16.1	13.3	2.8	17.6	147.6	-130.0	53.4	153.9	-100.5	-227.8	-48.0
1997	19.6	24.2	-4.6	35.1	146.8	-111.6	60.3	190.7	-130.3	-246.6	-47.9
1998	23.7	32.3	-8.6	67.1	152.5	-85.5	61.7	256.8	-195.1	-289.2	-49.8
1999	33.0	34.9	-1.9	137.6	226.2	-88.6	73.5	285.3	-211.8	-302.3	-49.2
2000	56.2	42.1	14.0	173.6	347.7	-174.1	73.3	376.2	-302.9	-462.9	-65.1
2001	86.8	70.7	16.1	197.3	471.3	-274.0	131.8	470.2	-338.4	-596.3	-76.3
2002	101.3	64.3	37.0	159.7	490.2	-330.5	148.4	434.6	-286.2	-579.8	-79.9
2003	122.5	84.6	37.9	262.3	776.1	-513.7	323.3	405.4	-82.1	-557.9	-69.9
2004	245.0	121.9	123.1	374.2	1,302.3	-928.1	534.3	395.1	139.3	-665.7	-82.2
2005 ²	597.0	242.0	355.0	627.6	2,297.9	-1,670.3	1,173.8	687.5	486.3	-829.0	-86.2

1. Including gross reserves. 2. Preliminary.

Table 6 Foreign positions of the Central Bank and deposit money banks

M.kr. End of period	Central Bank of Iceland				Deposit money banks			Exchange rate USD
	Gross reserves ¹	Foreign assets ²	Foreign debt	Net position	Foreign assets	Foreign debt	Net position	
1997	27,793	33,274	5,418	27,856	12,399	67,164	-54,765	71.98
1998	29,753	35,138	9,072	26,066	12,201	106,257	-94,056	69.32
1999	35,787	37,051	4,900	32,151	19,563	162,766	-143,203	72.35
2000	34,231	34,440	15,765	18,675	28,608	352,829	-324,221	84.47
2001	36,572	36,824	14,978	21,846	51,486	425,474	-373,988	102.95
2002	37,194	37,380	16,499	20,881	102,423	459,575	-357,152	80.58
2003	58,114	58,314	124	58,190	293,269	722,828	-429,559	70.99
2004	65,569	65,717	142	65,575	632,866	1,212,415	-579,549	61.04
2005	68,453	68,678	559	68,119	1,474,880	2,396,101	-921,221	62.28

1. Monetary gold, SDRs, IMF reserve tranche and foreign assets in convertible currencies. 2. Reserves and other foreign assets.

Table 7 Exchange rate indices

	Official exchange rate ¹ 31/12 1991 = 100	Average exchange rate index ² 31/12 1994 = 100			Real exchange rate ³ 1980 = 100			
		Average	Based on import weights	Based on export weights	Based on relative prices		Based on unit labour cost	
			Index	% change ⁴	Index	% change ⁴		
1995	116.1	98.9	99.3	98.4	89.4	0.1	81.0	4.4
1996	116.2	99.0	100.0	98.1	89.7	0.3	81.9	1.1
1997	114.7	97.7	98.3	97.2	90.5	0.9	84.5	3.3
1998	112.8	96.2	96.7	95.7	91.9	1.6	88.7	5.0
1999	112.6	96.0	96.5	95.6	93.6	1.8	90.2	1.6
2000	112.7	96.1	96.3	95.7	96.2	2.9	91.4	1.3
2001	135.4	115.4	115.1	115.3	83.7	-13.0	78.7	-13.8
2002	131.4	112.0	111.7	112.0	88.5	5.7	84.1	6.8
2003	123.5	105.3	104.8	105.4	94.1	6.3	88.5	5.2
2004	121.0	103.1	102.4	103.5	97.2	3.2	90.5	2.2
2005	108.6	92.6	91.9	93.0	107.0	10.1	102.9	13.7

1. The index shows the average exchange rate of foreign currencies against the Icelandic króna for each period. From September 6, 1995 the trade-weighted basket (goods and services) of 16 currencies replaced the former basket of US dollar (18%), ECU (76%) and Japanese yen (6%). 2. The index shows the average exchange rate of foreign currencies against the Icelandic króna for each period. Since 1995 country weights are based on trade in goods and services but before that on trade in goods only. 3. Based on quarterly information on prices (consumer prices), wages, employment and output in main trading partner countries. 4. Change from previous year.

Table 8 Public finances¹

B.kr.	General government						Central government				Municipalities		
	Revenues	Expenditures	Gross savings	Fiscal balance	Net debt ²	Gross debt	Gross savings	Fiscal balance	Net debt ²	Gross debt	Fiscal balance	Net debt ²	Gross debt
1985	43.1	45.1	6.5	-2.0	7.6	40.0	4.2	-2.0	7.8	36.5	0.0	0.5	3.7
1986	57.2	63.7	8.4	-6.5	14.0	49.3	5.8	-6.4	14.1	44.3	-0.1	0.7	5.3
1987	75.0	76.8	10.3	-1.8	17.5	58.8	6.9	-1.6	16.9	52.0	-0.2	1.4	7.0
1988	102.1	107.3	12.1	-5.2	26.3	77.3	7.0	-5.0	25.1	68.3	-0.2	2.0	9.3
1989	122.9	136.9	11.7	-14.0	51.8	110.3	6.4	-12.2	49.1	97.2	-1.8	4.0	13.4
1990	141.6	153.7	13.2	-12.1	69.2	134.5	4.8	-12.3	65.2	119.3	0.2	6.3	15.9
1991	159.8	171.4	18.1	-11.6	83.8	154.2	8.8	-11.0	79.0	137.5	-0.6	7.3	17.5
1992	163.9	175.1	16.2	-11.2	102.4	185.6	8.1	-9.5	94.3	166.1	-1.7	10.2	20.4
1993	161.4	179.9	8.8	-18.4	137.4	220.1	3.2	-13.7	124.8	195.6	-4.7	14.6	25.2
1994	169.7	190.4	9.2	-20.6	159.6	245.1	5.5	-13.8	139.0	213.9	-6.8	22.2	31.8
1995	179.7	193.1	9.6	-13.4	174.6	267.6	3.2	-12.0	150.7	232.6	-1.4	25.1	35.6
1996	197.2	204.9	18.1	-7.7	187.2	274.4	11.1	-7.3	163.9	239.2	-0.4	24.2	35.7
1997	213.2	213.3	25.6	-0.1	192.0	279.4	17.9	2.9	167.7	241.6	-3.0	25.0	38.4
1998	242.9	240.0	34.5	2.8	167.7	280.5	25.1	7.1	138.3	237.8	-4.3	30.1	43.3
1999	278.6	264.0	49.5	14.6	131.6	271.5	38.6	17.5	103.5	226.0	-2.9	28.7	46.1
2000	301.1	284.6	50.7	16.6	141.8	278.0	39.1	19.1	110.5	228.5	-2.6	31.7	49.8
2001	328.5	327.2	43.1	1.3	181.2	354.6	30.4	6.6	150.7	298.3	-5.3	30.7	56.6
2002	350.6	357.1	29.4	-6.6	165.7	340.7	19.3	-3.2	133.0	281.1	-3.4	32.8	60.2
2003	368.4	385.1	20.4	-16.7	178.9	342.0	12.8	-13.0	142.3	277.2	-3.8	36.7	65.3
2004	416.7	417.2	50.3	-0.5	178.5	329.5	41.0	9.9	132.2	253.0	-10.3	46.4	77.0
2005	479	443	87	36	87	270	74	43	35	185	-6	52	85
% of GDP													
1985	35.2	36.9	5.3	-1.6	5.4	28.6	3.5	-1.6	5.6	26.1	0.0	0.4	2.6
1986	35.3	39.3	5.2	-4.0	8.2	28.7	3.6	-4.0	8.2	25.8	-0.1	0.4	3.1
1987	35.5	36.3	4.9	-0.8	7.5	25.2	3.3	-0.7	7.2	22.3	-0.1	0.6	3.0
1988	39.2	41.2	4.6	-2.0	9.4	27.6	2.7	-1.9	9.0	24.3	-0.1	0.7	3.3
1989	39.1	43.6	3.7	-4.5	15.1	32.2	2.0	-3.9	-4.3	28.4	-0.6	1.2	3.9
1990	38.8	42.1	3.6	-3.3	18.5	36.0	1.3	-3.4	17.5	32.0	0.1	1.7	4.2
1991	40.5	43.5	4.6	-2.9	20.6	37.9	2.2	-2.8	19.4	33.8	-0.2	1.8	4.3
1992	41.6	44.5	4.1	-2.8	25.8	46.8	2.1	-2.4	23.8	41.9	-0.4	2.6	5.2
1993	39.7	44.3	2.2	-4.5	33.3	53.4	0.8	-3.4	30.3	47.4	-1.2	3.5	6.1
1994	39.3	44.1	2.1	-4.8	36.7	56.3	1.3	-3.2	31.9	49.2	-1.6	5.1	7.3
1995	40.4	43.4	2.2	-3.0	38.9	59.6	0.7	-2.7	33.6	51.8	-0.3	5.6	7.9
1996	41.3	42.9	3.8	-1.6	38.8	56.8	2.3	-1.5	33.9	49.5	-0.1	5.0	7.4
1997	41.3	41.3	5.0	0.0	36.8	53.6	3.5	0.6	32.2	46.3	-0.6	4.8	7.4
1998	42.4	41.9	6.0	0.5	29.1	48.6	4.4	1.2	24.0	41.2	-0.7	5.2	7.5
1999	45.3	42.9	8.1	2.4	20.8	43.0	6.3	2.9	16.4	35.8	-0.5	4.5	7.3
2000	45.0	42.5	7.6	2.5	20.8	40.7	5.8	2.9	16.2	33.5	-0.4	4.6	7.3
2001	43.8	43.6	5.8	0.2	23.2	45.5	4.1	0.9	19.3	38.3	-0.7	3.9	7.3
2002	44.8	45.7	3.8	-0.8	21.0	43.2	2.5	-0.4	16.9	35.7	-0.4	4.2	7.6
2003	45.4	47.5	2.5	-2.1	21.8	41.7	1.6	-1.6	17.3	33.8	-0.5	4.5	8.0
2004	47.1	47.1	5.7	-0.1	19.8	36.5	4.6	1.1	14.7	28.1	-1.2	5.1	8.5
2005	48.5	45.0	9.0	3.5	9.0	27.0	7.5	4.5	3.5	18.5	-0.5	5.0	8.5

1. Accruals on national accounts basis. 2. Including bank deposits.

Sources: Ministry of Finance, Statistics Iceland, Central Bank of Iceland estimates.

Table 9 Sales of government securities¹

M.kr.	Treasury bonds			Treasury bills, net	Treasury notes, net	Total
	Sales	Redemptions	Net sales			
1988	4,867	3,413	1,454	-219	-	1,235
1989	5,049	4,170	879	5,171	-	6,050
1990	8,275	1,825	6,450	2,166	75	8,691
1991	5,584	4,433	1,151	298	1,158	2,607
1992	3,661	1,495	2,166	4,645	1,244	8,055
1993	8,200	3,706	4,494	742	3,444	8,680
1994	9,447	6,189	3,258	894	-355	3,797
1995	9,252	9,859	-607	830	1,004	1,227
1996	20,051	27,410	-7,359	391	3,772	-3,197
1997	18,454	15,449	3,005	-7,294	2,932	-1,357
1998	8,957	16,855	-7,898	2,912	-6,320	-11,306
1999	2,975	12,302	-9,327	-5,310	-6,231	-20,868
2000	3,531	13,299	-9,768	-3,928	1,015	-12,681
2001	146	5,690	-5,544	6,033	11,285	11,774
2002	0	18,546	-18,546	1	12,790	-5,755
2003	0	9,453	-9,453	8,500	8,202	7,249
2004	0	11,100	-11,100	-6,000	13,010	-4,090
2005	0	21,963	-21,963	-500	10,099	-12,301

1. Sales and redemption of Treasury bonds include accrued interest and indexation, but Treasury bills and Treasury notes, net, are at face value.

Table 10 Notes and coin in circulation by denomination

	2001		2002		2003		2004		2005	
	Thous. kr.	%	Thous. kr.	%	Thous. kr.	%	Thous. kr.	%	Thous. kr.	%
<i>Notes:</i>										
5,000 kr.	5,166,000	66.0	5,400,000	65.8	6,105,500	66.9	6,755,000	67.1	7,932,500	69.3
2,000 kr.	207,400	2.6	231,000	2.8	233,000	2.6	277,000	2.7	279,000	2.4
1,000 kr.	1,694,500	21.6	1,778,500	21.7	1,928,500	21.1	2,113,500	21.0	2,264,000	19.8
500 kr.	643,500	8.2	681,750	8.3	735,500	8.1	810,000	8.0	846,750	7.4
100 kr.	96,900	1.2	96,450	1.2	95,800	1.1	95,600	0.9	95,700	0.8
50 kr.	11,025	0.1	11,500	0.1	11,475	0.1	11,625	0.1	11,800	0.1
10 kr.	11,020	0.1	11,015	0.1	11,010	0.1	11,055	0.1	11,055	0.1
Total	7,830,345	100.0	8,210,215	100.0	9,120,785	100.0	10,073,780	100.0	11,440,805	100.0
<i>Coin:</i>										
100 kr.	663,700	49.4	691,000	50.1	747,100	51.4	799,300	51.3	924,500	52.5
50 kr.	309,191	23.0	308,090	22.3	322,040	22.2	353,440	22.7	388,740	22.1
10 kr.	229,914	17.1	236,660	17.2	245,750	16.9	261,330	16.8	292,130	16.6
5 kr.	65,839	4.9	66,725	4.8	68,780	4.7	72,239	4.6	78,240	4.4
1 kr.	65,141	4.8	66,907	4.9	69,101	4.8	72,218	4.6	77,494	4.4
50 aurar	5,119	0.4	5,160	0.4	.	.	.	.	.	.
10 aurar	4,141	0.3	4,173	0.3	.	.	.	.	.	.
5 aurar	609	0.0	644	0.0	.	.	.	.	.	.
Total	1,343,653	100	1,379,358	100.0	1,452,770	100.0	1,558,528,100	100.0	1,761,104	100.0

Table 11 Payment intermediation

<i>Turnover in m.kr.</i>	1997	1998	1999	2000	2001	2002	2003	2004	2005
Cheques	707,838	666,193	629,949	551,460	466,457	388,212	334,068	291,757	266,300
Credit cards	82,408	94,026	111,412	123,595	139,949	139,778	158,216	178,370	205,981
Domestically	70,410	79,499	93,977	104,522	121,665	123,463	137,799	152,760	173,561
Abroad	11,998	14,526	17,439	19,072	18,283	16,318	20,417	25,610	32,420
Debit cards	177,934	218,586	254,313	286,546	316,904	333,162	359,179	394,972	424,106
Domestically	176,605	216,606	251,670	283,062	312,473	328,516	353,234	387,816	415,069
Abroad	1,333	1,982	2,642	3,483	4,430	4,648	5,945	7,156	9,038
Total	968,180	978,805	995,674	961,601	923,310	861,153	851,464	865,099	896,387
<i>Number of transactions in thous.</i>									
Cheques	8,480	7,079	5,866	4,548	3,496	2,726	2,025	1,493	1,079
Credit cards	21,775	24,313	28,278	31,289	30,334	30,687	32,735	35,341	39,265
Domestically	20,262	22,540	26,143	29,086	28,521	28,974	30,566	32,609	35,720
Abroad	1,513	1,773	2,136	2,204	1,812	1,713	2,169	2,731	3,545
Debit cards	22,371	27,445	34,480	39,014	41,450	44,662	47,913	51,463	58,061
Domestically	22,213	27,241	34,220	38,635	40,984	44,152	47,256	50,634	56,937
Abroad	158	202	261	376	466	511	657	829	1,124
Total	52,626	58,837	68,624	74,851	75,280	78,075	82,673	88,296	98,405

Table 12 Accounts of the Central Bank¹

<i>M.kr. at the end of year</i>	1999	2000	2001	2002	2003	2004	2005
Net foreign exchange reserves	32,232	18,736	21,844	20,879	58,150	65,576	67,356
Domestic items, net ²	3,932	13,680	5,972	11,747	-36,450	-27,008	-19,904
Claims on Treasury and government institutions, net	-11,575	-12,119	-31,099	-20,851	-22,185	-17,800	-75,916
Claims on other financial institutions	9,672	13,074	22,774	8,227	4,193	8,993	11,902
Claims on deposit money banks	29,520	38,978	54,053	69,141	24,038	31,771	77,772
Other claims	169	156	105	65	87	84	189
Deposits of other financial institutions (-)	-2,278	-1,504	-2,126	-1,334	-33	-13,681	-145
Other items, net	-21,575	-24,903	-37,735	-43,500	-42,549	-36,376	-33,706
Base money	36,164	32,416	27,817	32,626	21,699	38,568	47,452
Reserves of deposit money banks	29,027	25,264	20,410	24,961	13,314	29,415	36,952
Required reserves ³	17,274	21,249	17,678	21,874	3,830	.	.
Certificates of deposit	.	.	.	.	4,501	4,404	2,294
Cash and liquid reserves	11,753	4,015	2,732	3,087	4,980	25,008	34,658
Notes and coin in circulation	7,137	7,152	7,406	7,666	8,391	9,153	10,500

1. Further breakdown in Table 26. 2. Deposits are marked as negative (-). 3. Separate reserve accounts were merged with deposit accounts after 2003.

Table 13 Summary of the accounts of deposit money banks¹

M.kr.	1999	2000	2001	2002	2003	2004	2005 ²
Central Bank position, net	-4,058	-13,125	-33,493	-44,017	-10,769	-2,409	-40,860
Claims on domestic credit institutions	48,098	67,184	80,324	81,977	59,508	89,757	106,507
Domestic credit and marketable securities	478,035	686,703	790,772	859,043	1,053,143	1,427,888	2,189,417
Domestic lending	400,088	600,169	675,925	694,524	805,376	1,123,510	1,677,908
Treasury bills	5,795	1,635	10,591	7,066	14,849	2,440	4,759
Marketable bonds	59,402	63,668	71,108	114,049	157,758	191,913	253,303
Equities and other variable-income securities	12,426	20,557	32,747	43,266	58,717	91,287	234,538
Leasing contracts	323	674	401	139	16,442	18,739	18,909
Shares in affiliated undertakings	2,430	5,892	5,185	10,436	38,182	44,731	66,768
Shares in associated undertakings	10,200	8,190	11,577	16,217	8,655	11,159	27,947
Foreign assets, total	19,309	27,383	69,397	129,003	307,665	632,866	1,477,070
Foreign credit and equities	1,221	5,323	33,931	59,239	132,762	237,393	716,237
Foreign lending	0	0	28,393	46,296	113,267	190,455	500,844
Marketable bonds	1,221	2,277	1,408	2,248	3,098	4,517	67,254
Equities and other variable-income securities	0	3,046	4,131	10,695	16,397	42,421	148,139
Shares in affiliated undertakings	0	1,603	5,501	5,740	24,246	117,499	204,934
Other foreign assets	18,088	20,458	29,965	64,023	150,656	277,974	555,900
Total	554,013	782,227	923,762	1,052,659	1,456,384	2,203,993	3,826,851
Deposits of residents, total	261,362	291,384	335,497	387,562	456,104	524,689	649,084
Domestic bond issues	60,329	71,704	49,711	72,800	76,372	95,689	146,145
Other domestic borrowing	13,139	23,514	23,270	19,656	36,446	72,359	128,237
From credit institutions	7,480	10,428	16,354	13,500	26,164	42,448	41,077
From the HFF	0	0	0	0	0	26,948	82,944
Foreign liabilities	145,677	320,032	403,144	428,266	716,458	1,140,435	2,248,069
Domestic deposits of non-residents	0	0	0	0	18,839	14,501	52,001
Securities issues abroad	0	93,012	195,423	196,611	478,829	896,934	1,781,258
Foreign long-term loans	120,455	170,820	173,023	131,474	104,448	86,194	144,492
Foreign short-term loans	25,222	56,200	34,699	100,181	114,340	142,806	270,318
Capital and subordinated liabilities	45,818	70,018	96,159	116,685	157,014	339,081	543,264
of which subordinated domestic loans	11,682	16,081	17,761	24,457	24,304	25,080	30,392
of which subordinated foreign loans	0	3,696	14,367	11,749	20,641	71,980	149,375
Other items, net	20,880	-849	11,708	26,678	19,672	36,016	114,089

1. When FBA investment bank merged with Íslandsbanki in June 2000, its balance sheet was reclassified under "deposit money banks". Kaupthing was licensed to operate as a commercial bank in January 2002 and was thereby reclassified from an investment bank, then merged with Búnaðarbanki in May 2003. Glitnir leasing company merged with Íslandsbanki in May 2003. 2. Preliminary.

Table 14 Summary of the accounts of the banking system¹

<i>M.kr.</i>	1999	2000	2001	2002	2003	2004	2005 ²
Foreign assets, net	-94,136	-275,515	-317,404	-295,953	-350,645	-441,405	-703,643
Foreign credit and equities	1,221	5,323	33,931	59,239	132,762	237,393	716,237
Foreign assets, short-term, net	51,499	39,194	51,809	73,074	233,050	461,638	828,189
External liabilities	.	-93,012	-195,423	-196,611	-478,829	-896,934	-1,781,258
Foreign assets unacc. for elsewhere	-146,856	-227,020	-207,721	-231,655	-237,629	-243,501	-466,811
Domestic credit	463,874	667,256	749,805	803,219	976,520	1,327,879	1,891,054
Treasury and government institutions	14,437	5,443	-2,291	12,976	14,452	-1,759	-52,274
Municipalities	10,450	16,225	18,070	19,194	13,762	13,505	10,749
Non-bank financial institutions	52,761	73,182	81,969	89,709	150,567	192,026	208,068
Enterprises	257,299	408,066	472,031	486,905	592,653	808,165	1,171,272
Households	128,927	164,340	180,025	194,435	187,886	305,840	541,253
Other	.	.	.	.	17,199	10,103	11,985
Other financial institutions (-)	-2,278	-1,504	-2,126	-1,334	-33	-13,681	-145
Other items, net	-37,918	-17,040	-47,138	-61,513	-107,425	-262,190	-487,838
Broad money and bonds (M4)	328,829	370,239	392,614	468,028	540,687	629,531	805,729
Bonds	60,329	71,704	49,711	72,800	76,372	95,689	146,145
Broad money (M3)	268,499	298,536	342,904	395,228	464,315	533,842	659,584
Time savings deposits	131,810	166,864	196,723	235,482	275,184	291,753	354,238
Money and demand sav. dep. (M2)	136,689	131,672	146,180	159,746	189,131	242,089	305,346
Demand savings deposits	67,228	59,125	75,311	71,990	81,545	102,125	132,556
Money supply (M1)	69,462	72,546	70,869	87,755	107,586	139,963	172,790
Demand deposits	62,325	65,395	63,463	80,089	99,197	130,811	162,291
Notes and coin in circulation	7,138	7,152	7,406	-1,924	8,389	9,152	10,500
Other domestic borrowing	13,139	23,514	23,270	19,656	36,446	72,359	128,237

1. Lending was reclassified among sectors with the introduction of the ÍSAT 95 standard in September 2003. 2. Preliminary.

Table 15 Balance sheet of miscellaneous credit undertakings¹*M.kr. at end of year*

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005 ²
Assets:										
Credits	282,234	310,360	332,527	385,771	352,773	430,289	446,864	508,605	527,919	533,495
Cash and deposits	2,791	2,954	2,730	1,150	1,670	1,870	1,336	188	14,929	53
Claims on credit institutions	3,045	2,110	9,991	18,165	29,111	22,211	22,668	33,631	64,750	126,637
Leasing contracts	.	.	.	.	.	.	.	28,821	37,268	45,338
Marketable bonds and bills	.	8,260	15,836	16,742	19,685	30,866	8,374	7,288	29,491	36,245
Equities and equity fund units	.	3,441	6,357	12,832	16,150	29,099	9,576	6621	56,525	154,580
Foreign assets, net	.	0	749	1,056	187	14,622	151	74	487	8,495
Sundry assets, net	-573	596	3,325	-5,752	-19,102	-18,539	-26,232	-23,247	-17,577	-7,167
Assets = Liabilities	287,497	327,720	371,514	429,965	400,474	510,418	462,737	561,981	713,792	897,676
Liabilities:										
Borrowing	123,009	132,035	153,440	167,368	115,309	148,713	69,036	82,111	131,738	188,248
Central government	21,446	23,037	24,350	29,445	22,370	20,728	18,675	17,427	9,367	0
Central Bank	330	17	4,738	6,559	10,209	19,817	4,781	969	2,568	488
Deposit money banks	877	8,095	8,556	5,804	12,084	15,386	7,922	33,226	97,979	136,461
Pension funds	56,028	52,553	45,667	40,370	35,615	31,815	24,996	17,756	12,207	8,301
Unemployment Insurance Fund	1,164	1,097	1,017	813	695	591	446	314	188	84
Other domestic borrowing	809	1,491	7,439	6,518	6,148	12,590	1,687	1,389	1,767	12,402
Foreign borrowing	42,354	45,745	61,674	77,858	28,188	47,786	10,529	11,030	7,662	30,512
Securities issues	107,503	145,605	173,547	229,632	255,234	319,791	359,460	437,786	509,009	543,881
Other securities	826	20,307	22,383	27,048	20,082	27,716	23,510	34,347	45,578	72,548
Housing bonds	92,459	107,849	127,328	168,634	186,997	226,381	259,171	307,739	98,159	53,596
Housing authority bonds	14,218	17,450	23,837	33,950	48,155	65,694	76,779	95,700	24,963	24,333
HFF bonds	.	.	.	.	.	.	.	.	340,309	393,404
Compulsory savings	12,631	582	417	52	42	38	38	.	.	.
Capital	44,354	49,498	44,109	32,912	29,889	41,876	34,203	42,083	73,045	144,048

1. As of May 2003 statistics for investment funds and leasing companies have been combined in statistics for miscellaneous credit undertakings. Interfund transactions eliminated. As of 1998, a more detailed disaggregation of investment funds' assets was presented. 2. Preliminary.

Table 16 The credit system¹

M.kr.	Assets					Liabilities				
	Lending					Domestic liabilities				Foreign credit
	Central government	Municipalities	Industries	Households	Total	Notes & deposits	Pension funds	Other	Total	
1990	67,472	22,684	264,005	170,726	524,887	120,079	125,569	108,233	353,881	171,006
1991	83,518	25,612	285,168	211,270	605,568	136,332	153,954	129,521	419,807	185,761
1992	94,361	29,919	315,299	237,367	676,946	139,569	177,472	139,939	456,980	219,966
1993	118,306	35,686	335,469	262,518	751,979	148,920	204,540	144,768	498,228	253,751
1994	127,479	39,075	330,090	289,054	785,698	152,132	229,660	162,480	544,272	241,426
1995	145,059	41,273	328,132	317,915	832,379	155,481	258,090	176,725	590,296	242,083
1996	145,124	43,103	370,974	350,947	910,148	166,124	301,990	191,079	659,193	250,955
1997	151,600	45,951	433,696	386,246	1,017,493	181,755	345,607	221,850	749,212	268,281
1998	150,222	54,833	523,966	442,560	1,171,581	207,533	398,235	263,695	869,463	302,118
1999	135,897	61,996	654,241	522,045	1,374,179	241,979	507,252	302,882	1,052,113	322,066
2000	124,277	71,837	801,250	613,835	1,611,199	268,727	557,283	301,293	1,127,303	483,895
2001	156,345	88,378	966,904	708,705	1,920,332	308,793	633,477	344,130	1,286,400	633,932
2002	159,102	91,967	972,569	758,603	1,982,241	350,306	664,599	363,833	1,378,738	603,502
2003	159,329	113,049	1,170,996	772,129	2,215,503	427,077	805,091	414,217	1,646,385	569,118
2004	197,688	118,807	1,457,705	877,044	2,651,244	468,997	964,596	485,080	1,918,673	732,571
2005	72,685	121,267	2,172,192	1,082,455	3,448,599	597,003	1,176,131	613,460	2,386,594	1,062,005

1. Included are the banking system, miscellaneous credit undertakings, pension funds, state credit funds, insurance companies, mutual funds and foreign sector. The figures are partly estimated. Figures for 2005 are preliminary. Lending was reclassified among sectors with the introduction of the ISAT 95 standard in September 2003.

Table 17 Assets of pension funds

B.kr. at end of year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005 ¹
Cash and deposits	5.5	5.7	7.1	9.1	10.3	8.8	11.3	14.3	18.9	21.9	23.6
Lending and portfolios, total	241.4	286.8	342.0	394.0	504.3	552.8	629.0	657.4	788.7	950.3	1,166.3
Fixed-income securities	229.5	264.1	290.8	294.7	319.1	334.7	390.7	427.7	466.3	524.3	588.6
Central government	20.5	27.0	23.6	22.8	21.4	18.2	14.9	16.3	16.0	27.9	26.3
Municipalities	12.6	15.3	18.1	17.3	18.5	16.9	17.2	16.6	21.6	26.3	34.9
Deposit money banks	18.8	22.6	27.7	37.0	41.7	44.1	54.2	59.0	61.0	70.7	86.2
Miscellaneous credit undertakings	125.9	135.1	151.5	141.4	148.0	153.3	179.0	194.6	206.8	226.7	226.1
thereof housing bonds	48.4	58.4	69.9	67.5	75.7	81.9	100.6	117.9	131.4	68.1	38.6
thereof housing auth. bonds	5.8	9.9	13.4	14.5	14.1	16.0	19.5	25.3	31.0	18.4	18.7
thereof HFF bonds	...	...	...	...	...	...	...	...	...	103.2	133.4
Industries	13.3	24.6	30.3	34.0	41.2	43.1	50.7	55.2	65.8	79.1	108.9
Households	37.6	38.5	38.2	39.4	44.5	55.9	71.4	83.4	90.8	86.8	94.5
Foreign bonds	0.8	1.0	1.4	2.9	3.8	3.0	3.3	2.6	4.3	6.8	11.7
Variable-income securities	11.9	22.7	51.2	99.3	185.2	218.2	238.3	229.7	322.4	426.0	577.7
Mutual funds	4.5	8.4	13.4	31.7	45.6	57.5	63.6	72.0	91.4	118.6	157.7
Equity funds	-	-	8.1	18.1	52.7	58.0	68.2	56.6	98.3	141.1	189.0
Equities	7.4	14.3	29.8	49.5	86.8	102.7	106.5	101.1	132.7	166.3	231.0
Other assets, net	15.7	14.0	3.6	4.2	3.0	4.4	4.4	7.1	16.4	14.3	9.8
Assets, net	262.6	306.5	352.7	407.3	517.6	566.1	644.7	678.8	824.0	986.5	1,199.7
Foreign securities owned by the pension funds: ²											
Foreign mutual funds	3.9	7.5	9.6	8.9	8.5	19.9	16.3	15.2	21.4	38.2	58.8
Foreign bonds	0.8	1.0	1.4	2.9	3.8	3.0	3.3	2.6	4.3	6.8	11.7
Foreign equity funds	-	-	7.5	16.9	44.2	51.5	61.7	52.6	90.6	134.2	180.8
Foreign equities	0.4	1.2	7.1	21.1	41.5	53.7	53.3	32.5	43.6	38.4	45.2
Total	5.0	9.6	25.6	49.7	98.1	128.0	134.6	102.9	159.9	217.6	296.5

1. Estimation based on sample of the largest pension funds. 2. Included in "Lending and portfolios, total".

Table 18 Securities offerings

	<i>M.kr.</i>						<i>Change 2004-2005</i>	
	2000	2001	2002	2003	2004	2005	<i>M.kr.</i>	%
Treasury savings bonds	3,535	146	-	-	-	-	-	-
Treasury notes	3,860	6,881	10,212	18,536	12,835	10,146	-2,689	-21.0
Housing bonds	25,599	28,596	32,200	49,597	22,584	-	-	-
Housing authority bonds	1,664	10,545	15,946	18,048	3,853	-	-	-
HFF bonds ¹	-	-	-	-	25,730	47,968	22,238	86.4
Municipalities	0	435	821	5,473	4,682	2,063	-2,619	-55.9
Banks	2,849	6,551	24,441	6,629	14,172	9,446	-4,726	-33.3
Savings banks	1,494	138	377	1,305	2,940	3,799	859	29.2
Other credit institutions	2,822	7,744	2,575	4,959	3,406	3,730	324	9.5
Enterprises	907	8,804	12,269	23,301	43,874	99,146	55,272	126.0
Foreign bonds	-	85	2,800	-	-	2,411	-	-
Total	42,726	69,925	101,641	127,849	134,221	182,989	48,768	36.3

1. Housing Financing Fund.

Table 19 Marketable securities

<i>M.kr.</i>	2000	2001	2002	2003	2004	2005	<i>Change 2004-2005</i>	
							<i>M.kr.</i>	%
<i>Marketable bonds</i>	535,898	697,355	772,290	1,187,916	1,736,015	2,768,769	1,032,754	59.5
Government bonds	72,620	68,991	55,770	53,130	45,096	27,203	-17,893	-39.7
thereof indexed	72,593	68,967	55,749	53,121	45,089	27,198	-17,891	-39.7
thereof currency-linked	27	24	21	9	7	5	-2	-28.6
Treasury notes	14,384	25,669	38,459	46,661	59,671	69,770	10,099	16.9
Bank and savings bank bonds	159,076	238,560	257,244	547,843	973,316	1,861,356	888,040	91.2
thereof indexed	40,776	42,229	57,722	66,239	71,864	81,646	9,782	13.6
thereof currency-linked	118,300	196,331	199,522	481,604	901,452	1,779,710	878,258	97.4
Housing bonds	186,997	226,381	259,171	307,739	98,159	53,596	-44,563	-45.4
Housing authority bonds	48,155	65,694	76,779	95,700	24,963	24,333	-630	-2.5
Other credit institutions' bonds	25,717	34,532	31,167	34,257	45,481	72,135	26,654	58.6
Listed corporate bonds	22,413	31,020	43,761	68,940	109,652	197,406	87,754	80.0
Listed bonds of municipalities	5,937	6,508	6,943	12,614	19,077	28,258	9,181	48.1
Listed foreign bonds	-	-	2,996	21,032	20,291	41,307	21,016	103.6
Other bonds	600	-	-	-	-	-	-	-
<i>Marketable bills</i>	16,404	22,156	29,238	36,863	39,407	84,096	44,689	113.4
Treasury bills and older								
Treasury notes	5,970	12,006	12,004	20,504	14,500	14,000	-500	-3.4
Bank and savings bank bills	6,948	8,133	17,109	16,268	24,811	70,096	45,285	182.5
Investment credit fund bills	3,486	2,017	126	91	96	0	-96	-100.0
<i>Equity funds</i>	78,071	100,081	133,072	198,116	272,741	328,246	55,505	20.4
<i>Marketable shares</i>	388,662	427,994	529,292	658,844	1,083,736	1,815,896	732,160	67.6
ICEX Main list	372,415	379,985	470,294	589,315	1,018,856	1,814,858	796,002	78.1%
ICEX other lists	16,248	48,010	58,998	69,529	64,880	1,038	-63,842	-98.4%

Table 20 Equity market

M.kr.	1998	1999	2000	2001	2002	2003	2004	2005
<i>Trading volume</i>								
Total trading in listed shares	40,224	119,841	198,799	138,308	321,331	553,595	721,423	1,201,733
Trading on Iceland Stock Exchange	12,717	40,075	56,240	31,970	65,149	90,968	192,098	270,836.6
ICEX Main List	12,552	38,309	56,106	31,588	64,289	90,656	718,533	1,134,335
ICEX Growth List ¹	165	1,769	133	192	74	67	.	.
ICEX Alternative Market	.	.	.	190	783	245	2,888	67,397
Off-exchange trading	27,227	79,758	142,537	106,338	256,182	462,627	529,325	930,896
<i>Market capitalisation at end of period</i>								
ICEX total	231,909	369,835	392,976	427,259	522,443	658,844	1,083,736	1,815,896
ICEX Main List	216,317	349,465	376,582	379,985	464,942	589,315	1,018,856	1,814,858
ICEX Growth List ¹	15,592	20,370	16,394	4,421	3,736	3,595	.	.
ICEX Alternative Market	.	.	.	42,853	53,765	65,934	64,880	1,038
<i>Number of listed companies</i>								
ICEX total	67	75	75	72	64	48	34	26
ICEX Main List	45	51	55	56	50	35	30	25
ICEX Growth List ¹	22	24	20	13	9	7	.	.
ICEX Growth List Index1 (ICEX-GROW)	.	.	.	3	5	6	4	2
<i>Price changes over year, %²</i>								
Selected Shares Index (ICEX-15)	9.8	47.4	-19.3	-11.2	16.7	56.4	58.9	64.7
ICEX Main List Index (ICEX-MAIN)	4.7	44.5	-13.8	-9.4	21.6	44.5	52.9	61.3
ICEX Growth List Index (ICEX-GROW) ¹	0.0	14.6	4.6	-27.7	-5.8	-5.9	.	.
<i>Key ratios, %</i>								
Market capitalisation at end of year/GDP ³	40.4	58.8	58.3	55.1	66.4	80.6	119.7	182.1
Turnover rate (total turnover) ⁴	17.3	32.4	50.6	32.4	61.5	84.0	66.6	66
Turnover rate (excl. off-exchange trading)	5.5	10.8	14.3	7.5	12.5	13.8	17.7	14.9
On-exchange turnover/total turnover ⁴	31.6	33.4	28.3	23.1	20.3	16.4	26.6	22.5

1. The ICEX Growth List was discontinued on January 1, 2004. Companies on the Growth List will remain listed on ICEX with a deadline until January 1, 2007 to fulfil requirements for inclusion in the Main List. 2. Indices were introduced in March 1998 and calculated retrospectively. 3. Gross domestic product at year-end prices. 4. Based on annual turnover and market capitalisation at end of year.

Sources: Iceland Stock Exchange, Central Bank of Iceland.

Table 21 Liquidity and reserve ratios in %¹

<i>Effective as of:</i>	<i>Reserve requirement ratio</i>	<i>Effective as of:</i>	<i>Reserve requirement ratio</i>
June 1 1979	28.0	January 1 1992	7.0
April 17 1985	18.0	November 1 1992	6.0
March 1 1987	13.0	December 1 1992	5.0
August 1 1988	12.0	November 1 1993	4.0 (2.5) ²
March 1 1989	11.0	May 21 1998	4.0 (1.5) ²
May 1 1990	10.0	March 21 2003	3.0 (1.0) ²
June 1 1990	7.0	December 21 2003	2.0 (0.0)
October 31 1991	6.0		

1. Percentage of bank total deposits as of June 1, 1979, of domestic disposable funds as of March 1, 1989 and of all disposable funds as of May 21, 1998. 2. Figure in parentheses refers to the reserve ratio for bond issues and time deposits.

Table 22 Main interest rates announced under paragraph 2, Art. 10 and provisional clause III of Act No. 38/2001 on Interest and Price Indexation

General interest rates, rates on damage claims and penalty interest, in % p.a.

	<i>General interest on non-indexed loans</i>	<i>General interest on indexed loans</i>	<i>Interest on damage claims</i>	<i>Penalty interest on claims in</i>								
				<i>ISK</i>	<i>USD</i>	<i>GBP</i>	<i>DKK</i>	<i>NOK</i>	<i>SEK</i>	<i>CHF</i>	<i>JPY</i>	<i>EUR</i>
				January 1, 2005	10.0	4.15	6.7	20.0	5.5	8.0	5.5	5.5
February 1	10.0	4.15	6.7	20.0	5.5	8.0	5.5	5.5	5.5	5.0	5.0	5.5
March 1	10.0	4.15	6.7	20.0	5.5	8.0	5.5	5.5	5.5	5.0	5.0	5.5
April 1	10.5	4.15	7.0	20.0	6.0	8.0	5.5	5.5	5.5	5.0	5.0	5.5
May 1	11.0	4.15	7.3	20.0	6.0	8.0	5.5	5.5	5.5	5.0	5.0	5.5
June 1	11.0	4.15	7.3	20.0	6.0	8.0	5.5	5.5	5.5	5.0	5.0	5.5
July 1	11.5	4.15	7.7	20.5	6.0	8.0	5.5	5.5	5.5	5.0	5.0	5.5
August 1	11.5	4.15	7.7	20.5	6.5	8.0	5.5	5.5	5.5	5.0	5.0	5.5
September 1	11.5	4.15	7.7	20.5	6.5	8.0	5.5	5.5	5.5	5.0	5.0	5.5
October 1	11.5	4.15	7.7	20.5	7.0	7.5	5.5	5.5	5.5	5.0	5.0	5.5
November 1	12.0	4.15	8.0	20.5	7.0	7.5	5.5	5.5	5.5	5.0	5.0	5.5
December 1	12.0	4.15	8.0	20.5	7.0	7.5	5.5	5.5	5.5	5.0	5.0	5.5
Average 2004	8.3	5.3	5.6	17.3	5.2	7.5	5.5	5.6	5.7	5.0	5.0	5.5
Average 2005	11.0	4.15	7.4	20.3	6.2	7.9	5.5	5.5	5.5	5.0	5.0	5.5

Table 23 Yields in the money and bond markets at the end of period

	Money market		Bond market (bid on ICEX)		
	3-month bills	3-month REIBOR interbank loans	5-year Treasury notes	10-year Treasury notes	25-year Housing/HFF bonds
January	7.23	8.56	7.72	3.49	3.51
February	7.99	9.00	7.75	3.44	3.45
March	8.85	9.19	7.92	3.63	3.64
April	8.88	9.20	7.73	3.54	3.57
May	8.64	9.20	7.60	3.62	3.59
June	9.16	9.30	7.68	3.56	3.58
July	8.97	9.30	7.57	3.66	3.69
August	9.46	9.30	7.44	3.60	3.66
September	9.40	9.96	7.55	3.59	3.75
October	9.78	10.09	7.79	4.04	4.05
November	9.65	10.09	8.00	4.22	4.24
December	9.27	10.15	7.94	4.09	4.13

Table 24 Selected Central Bank interest rates

	<i>Bank's current accounts</i>	<i>CB notes, 90-day</i>	<i>Required deposit normal terms</i>	<i>O/N loans, discount rates</i>	<i>Repurchase agreements, auctions</i>	<i>Certificates of deposit, 7-day</i>
January 12, 2000	4.50	9.30	7.30	10.80	9.00	.
January 18	4.50	9.30	7.30	10.80	9.80	.
January 21	5.30	9.30	8.10	10.80	9.80	.
February 14	5.30	9.60	8.10	11.10	9.80	.
February 15	5.30	9.60	8.10	11.10	10.10	.
February 21	5.60	9.60	8.40	11.10	10.10	.
June 19	5.60	10.10	8.40	11.60	10.60	.
June 21	6.10	10.10	8.90	11.60	10.60	.
November 1	6.90	10.90	9.70	12.40	11.40	.
March 28, 2001	6.70	10.70	9.50	12.40	10.90	.
November 11	6.70	9.60	8.70	12.00	10.10	.
April 1, 2002	6.20	9.10	8.20	12.00	9.60	.
May 1	5.90	8.80	7.90	11.70	9.30	.
May 21	5.70	8.30	7.40	11.20	8.80	.
June 21	5.70	8.00	7.10	10.90	8.50	.
August 21	5.40	7.40	6.70	10.30	7.90	.
September 1	5.10	7.10	6.40	10.00	7.60	.
September 21	4.60	6.60	5.90	9.50	7.10	.
October 21	4.30	6.30	5.60	9.20	6.80	.
November 11	3.80	5.80	5.10	8.70	6.30	.
December 17	3.30	5.30	4.60	8.20	5.80	.
February 28, 2003	2.80	4.80	4.10	7.70	5.30	.
May 11	3.00	5.00	4.30	7.90	5.50	.
June 8	3.25	5.25	4.50	8.00	5.75	.
July 6	3.75	5.75	5.00	8.25	6.25	.
September 21	4.25	6.25	5.50	8.75	6.75	.
November 1	5.00	6.75	6.00	9.25	7.25	.
December 10	6.25	7.75	7.25	10.25	8.25	.
February 21, 2005	6.75	8.25	7.75	10.75	8.75	.
March 29	7.25	8.50	8.00	10.75	9.00	.
June 7	8.00	9.35	8.75	11.00	9.50	9.35
October 4	8.75	10.10	9.50	11.75	10.25	10.10
December 11	9.00	10.35	9.75	12.00	10.50	10.35
<i>Time-weighted averages:</i>						
1998	3.00	7.00	5.50	8.50	7.30	.
1999	3.80	7.80	6.60	9.30	8.30	.
2000	5.90	9.90	8.70	11.40	10.40	.
2001	6.70	10.60	9.40	12.30	10.90	.
2002	5.50	7.80	7.00	10.70	8.40	.
2003	2.80	4.80	4.10	7.70	5.30	.
2004	3.65	5.59	4.88	8.28	6.09	.
2005	7.69	9.05	8.50	11.02	9.35	9.70

Table 25 Annual selected interest rates in deposit money banks and penalty rates in % p.a.

	<i>General savings accounts</i>		<i>Time deposits¹</i>		<i>Bills of exchange, 60-day</i>		<i>Non-indexed secured loans²</i>		<i>Indexed securities</i>		<i>Penalty rates</i>		<i>Credit terms index</i>
	<i>Nom-inal</i>	<i>Real</i>	<i>Nom-inal</i>	<i>Real</i>	<i>Nom-inal</i>	<i>Real</i>	<i>Nom-inal</i>	<i>Real</i>	<i>Nom-inal</i>	<i>Real</i>	<i>Nom-inal</i>	<i>Real</i>	<i>12-month change³</i>
1960	8.7	2.0	9.4	2.6	11.1	4.2	10.7	3.8	.	.	..		6.6
1961	7.0	-6.5	8.0	-5.6	9.5	-4.3	9.5	-4.3	.	.	..		14.4
1962	7.0	-0.9	8.0	0.0	9.5	1.4	9.5	1.4	.	.	..		8.0
1963	7.0	-6.4	8.0	-5.5	9.5	-4.2	9.5	-4.2	.	.	..		14.3
1964	7.0	-4.3	8.0	-3.4	9.5	-2.1	9.5	-2.1	.	.	..		11.8
1965	6.0	-6.1	7.0	-5.2	8.4	-4.0	9.0	-3.5	.	.	12.0	-0.8	12.9
1966	7.0	-1.2	8.0	-0.3	9.5	1.1	10.0	1.6	.	.	12.0	3.4	8.3
1967	7.0	2.5	8.0	3.4	9.5	4.9	10.0	5.4	.	.	12.0	7.3	4.4
1968	7.0	-8.0	8.0	-7.1	9.5	-5.8	9.2	-6.1	.	.	12.0	-3.7	16.3
1969	7.0	-12.2	8.0	-11.3	9.5	-10.1	9.2	-10.3	.	.	12.0	-8.0	21.8
1970	7.0	-8.8	8.0	-7.9	9.5	-6.6	9.2	-6.9	.	.	12.0	-4.5	17.3
1971	7.0	3.9	8.0	4.9	9.5	6.3	9.2	6.0	.	.	12.0	8.7	3.0
1972	7.0	-7.2	8.0	-6.3	9.5	-5.0	9.2	-5.3	.	.	12.0	-2.9	15.3
1973	8.3	-17.3	9.7	-16.3	10.9	-15.3	12.1	-14.4	.	.	16.0	-11.5	31.0
1974	10.8	-28.1	12.3	-27.1	14.4	-25.8	15.9	-24.8	.	.	20.8	-21.6	54.1
1975	13.0	-19.9	14.5	-18.8	17.6	-16.6	18.8	-15.7	.	.	24.0	-12.1	41.0
1976	13.0	-12.5	14.5	-11.3	18.2	-8.4	19.5	-7.4	.	.	24.7	-3.4	29.1
1977	13.3	-15.0	24.0	-7.0	19.2	-10.6	20.7	-9.5	.	.	32.5	-0.6	33.3
1978	18.6	-19.2	31.6	-10.4	26.6	-13.8	27.2	-13.4	.	.	36.0	-7.4	46.8
1979	22.8	-20.6	35.5	-12.4	29.1	-16.5	30.9	-15.4	.	.	45.0	-6.3	54.7
1980	33.3	-12.6	45.0	-5.0	40.0	-8.3	39.9	-8.3	56.1	2.3	55.8	2.1	52.6
1981	34.4	-8.9	45.9	-1.2	39.8	-5.3	45.1	-1.7	51.3	2.5	55.3	5.2	47.6
1982	35.3	-15.7	61.8	0.8	40.4	-12.5	45.4	-9.4	65.2	2.9	58.0	-1.6	60.5
1983	38.7	-20.0	74.7	0.7	44.6	-16.6	48.8	-14.2	78.6	3.0	58.2	-8.8	73.4
1984	16.1	-2.4	22.7	3.2	23.2	3.6	23.0	3.4	25.4	5.5	31.5	10.6	18.9
1985	22.7	-9.5	39.4	2.8	36.0	0.3	32.5	-2.3	42.4	5.0	44.0	6.2	35.6
1986	11.5	-2.8	18.0	2.9	20.3	4.9	19.6	4.3	20.7	5.2	30.5	13.8	14.7
1987	13.3	-7.3	26.1	3.2	28.7	5.3	27.9	4.7	31.6	7.7	35.9	11.2	22.2
1988	16.7	-2.0	23.2	3.4	34.0	12.5	33.2	11.8	30.1	9.2	43.9	20.8	19.1
1989	11.2	-8.6	24.8	2.6	29.4	6.4	29.5	6.5	31.1	7.8	35.9	11.8	21.6
1990	3.7	-3.2	13.6	6.0	17.0	9.2	17.1	9.3	15.7	8.0	26.0	17.6	7.1
1991	4.8	-2.7	15.2	7.0	19.0	10.5	18.4	10.0	17.5	9.2	25.0	16.1	7.6
1992	1.2	-0.3	8.2	6.5	13.3	11.5	13.5	11.8	11.0	9.3	19.5	17.7	1.6
1993	0.8	-2.1	9.4	6.2	15.1	11.8	14.8	11.5	12.4	9.1	17.7	14.3	3.0
1994	0.5	-0.7	6.1	4.8	11.9	10.5	10.9	9.5	9.3	7.9	14.2	12.8	1.3
1995	0.6	-1.0	7.1	5.4	12.5	10.7	11.9	10.1	10.5	8.7	14.6	12.8	1.6
1996	0.7	-1.3	7.9	5.7	13.3	11.0	12.8	10.5	11.1	8.9	15.8	13.5	2.1
1997	0.9	-1.1	7.8	5.7	13.9	11.7	13.3	11.1	11.2	9.0	16.3	14.0	2.0
1998	0.7	-0.5	6.7	5.4	13.8	12.4	13.2	11.8	10.1	8.8	16.5	15.1	1.3
1999	0.8	-4.6	11.1	5.2	15.2	9.0	14.1	8.0	14.7	8.6	17.3	11.1	5.6
2000	1.4	-2.6	10.1	5.7	18.8	14.0	17.4	12.7	14.1	9.5	22.0	17.2	4.2
2001	1.7	-6.4	15.1	6.0	20.1	10.6	18.8	9.4	19.7	10.2	23.7	13.9	8.6
2002	0.7	-1.3	8.0	5.9	17.1	14.8	16.0	13.7	12.3	10.1	21.3	18.9	2.0
2003	0.2	-2.4	7.7	4.9	13.1 ⁴	10.1 ⁴	12.4 ⁴	9.4 ⁴	12.0	9.1	17.3	14.2	2.7
2004	0.3	-3.5	8.0	3.9	13.7	9.4	12.6 ⁴	8.3 ⁴	10.5 ⁵	6.3 ⁵	17.3	12.9	3.9
2005	1.3	-2.8	7.8	3.5	17.2	12.5	15.3	10.7	10.3 ⁵	5.9 ⁵	20.3	15.5	4.2

1. The period 1960-1976: 6-month savings deposits; 1977-1981: 12-month time deposits; 1982-1989: 6-month indexed deposits; 1990-1993: 15-24-month indexed deposits and 1994-2004: 48-60-month indexed deposits. 2. Based on two due dates per year. 3. January to January. 4. Revised figures based on new baskets for weighted average interest rates. 5. New price-indexed HFF loans and mortgage loans are now included in calculations of real interest rates on new indexed loans.

Table 26 Balance sheet of the Central Bank of Iceland

M.kr.	End of year					
	1999	2000	2001	2002	2003	2004
Assets						
<i>Foreign assets</i>	46,955	45,394	36,823	37,378	58,274	65,709
Foreign accounts	14,183	8,260	5,228	9,509	22,740	23,172
Gold	1,231	1,386	1,752	1,727	1,873	1,707
Foreign bonds and Treasury bills	19,874	22,794	27,423	24,093	31,695	39,058
IMF reserve position and SDRs	1,844	2,059	2,420	2,050	1,966	1,773
Counterpart to IMF deposits	9,823	10,894	0	0	0	0
<i>Domestic assets</i>	43,336	56,682	79,321	79,248	29,033	40,881
<i>Deposit money banks</i>	29,520	38,978	54,053	69,141	24,038	31,771
Securities	1	1	131	105	0	0
Repurchase agreements	29,518	36,825	50,020	69,035	24,038	31,771
Short-term loans	0	2,152	3,902	0	0	0
<i>Other financial institutions</i>	9,672	13,074	22,774	8,227	4,193	8,993
Listed securities	3,104	2,865	2,954	3,445	3,223	3,232
Repurchase agreements	6,569	10,209	18,790	4,782	969	5,762
Short-term loans	0	0	1,030	0	0	0
<i>Central government</i>	3,975	4,475	2,389	1,816	715	32
Treasury current account	624	793	244	0	0	0
Listed securities	3,350	3,575	2,144	1,816	715	32
Listed Treasury bills	0	106	0	0	0	0
<i>Other sectors</i>	169	156	105	65	87	84
Sundry accounts	83	104	77	25	43	40
Securities	86	52	28	41	44	45
<i>Real estate and liquid assets</i>	0	0	0	0	0	0
Real estate	0	0	0	0	0	0
Other assets	0	0	0	0	0	0
Assets = Liabilities	90,291	102,076	116,144	116,627	87,307	106,590
Liabilities:						
<i>Foreign liabilities</i>	16,433	28,477	17,108	18,301	1,858	1,703
Short-term	3,721	15,763	14,979	16,499	124	142
Long-term	1,179	0	0	0	0	0
IMF SDR allocation	1,710	1,820	2,130	1,802	1,735	1,561
IMF deposits	9,823	10,894	0	0	0	0
<i>Domestic liabilities</i>	55,175	51,996	64,709	59,499	40,729	70,689
Notes and coin	8,661	8,672	9,174	9,590	10,583	11,642
<i>Deposit money banks</i>	27,504	23,744	18,643	23,037	6,616	26,926
Sight deposits	6,606	2,495	965	1,163	2,786	22,522
Required reserves	17,274	21,249	17,678	21,874	3,830	0
					4,501	4,404
<i>Foreign currency accounts</i>	3,623	0	0	0	0	0
<i>Investment credit funds</i>	2,278	1,504	2,126	1,334	31	13,681
Sight deposits	430	745	837	75	31	13,681
Required reserves	1,848	759	1,288	1,259	0	0
<i>Central government</i>	15,550	16,594	33,488	22,667	22,901	17,815
Treasury current account	9,853	11,339	11,232	8,771	9,689	16,257
Government institutions	764	733	1,575	1,977	1,208	519
Foreign exchange deposits	4,933	4,522	4,544	399	487	1,039
Tied deposits	0	0	16,137	11,520	11,517	0
<i>Other liabilities</i>	1,183	1,482	1,279	2,872	597	636
Equity						
<i>Estimated profit before Treasury allocation</i>	.	.	.	.	.	.
Capital and reserves	18,682	21,602	34,327	38,827	40,217	34,198

End of month 2005

January	February	March	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.
65,107	60,185	59,682	61,643	61,934	62,621	59,065	58,500	70,885	59,682	64,417	67,506
21,468	16,789	16,800	16,513	17,135	16,573	12,170	12,314	25,717	14,288	17,885	21,049
1,677	1,680	1,656	1,760	1,713	1,820	1,778	1,752	1,868	1,839	2,010	2,074
40,197	39,992	39,521	41,582	41,315	42,465	43,371	42,723	41,642	41,909	42,847	42,702
1,765	1,723	1,705	1,788	1,771	1,762	1,747	1,711	1,658	1,646	1,675	1,681
0	0	0	0	0	0	0	0	0	0	0	0
23,537	27,114	28,611	24,532	24,776	39,642	31,281	35,261	62,870	75,339	75,636	89,863
14,147	18,127	21,767	17,285	15,911	29,983	20,432	26,572	48,981	64,261	62,756	77,772
0	0	0	0	0	0	0	0	0	0	0	0
14,147	18,127	21,767	17,285	15,911	29,983	20,432	26,572	48,981	64,261	62,756	77,772
0	0	0	0	0	0	0	0	0	0	0	0
9,203	8,834	6,693	7,107	8,762	9,571	10,764	8,597	13,786	10,980	12,811	11,902
2,588	2,541	2,545	2,201	2,185	2,210	2,056	2,013	2,054	1,862	1,824	1,832
6,614	6,293	4,148	4,907	6,578	7,361	8,708	6,584	11,732	9,118	10,988	10,070
0	0	0	0	0	0	0	0	0	0	0	0
32	33	33	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
32	33	33	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
155	120	117	139	103	88	85	92	102	98	68	189
110	76	76	100	63	47	46	55	65	60	30	151
45	43	42	40	40	41	39	38	37	38	38	38
0	0	0	0	0	0	0	0	0	0	0	4,926
0	0	0	0	0	0	0	0	0	0	0	4,527
0	0	0	0	0	0	0	0	0	0	0	399
88,644	87,299	88,293	86,175	86,710	102,263	90,347	93,762	133,755	135,021	140,053	162,294
1,836	1,796	1,777	1,860	1,831	1,817	1,540	1,682	1,628	1,606	1,634	1,634
282	278	276	284	269	264	0	172	164	155	158	150
0	0	0	0	0	0	0	0	0	0	0	0
1,554	1,517	1,501	1,576	1,561	1,553	1,540	1,510	1,463	1,451	1,476	1,484
0	0	0	0	0	0	0	0	0	0	0	0
52,893	52,882	54,652	49,748	50,653	66,245	54,890	59,559	101,248	103,192	107,079	124,291
11,235	11,090	11,376	11,474	11,848	12,422	13,257	12,619	12,675	12,455	12,409	13,202
22,444	15,907	18,935	14,570	21,700	28,815	25,046	18,119	14,744	23,729	28,883	34,250
9,767	13,026	11,047	7,203	16,825	21,824	21,882	15,842	12,453	20,965	25,805	31,956
0	0	0	0	0	0	0	0	0	0	0	0
12,677	2,881	7,888	7,367	4,875	6,991	3,164	2,277	2,291	2,764	3,078	2,294
0	0	0	0	0	0	0	0	0	0	0	0
100	102	111	90	87	87	87	87	89	89	109	145
100	102	111	90	87	87	87	87	89	89	109	145
0	0	0	0	0	0	0	0	0	0	0	0
18,605	24,994	23,223	22,504	15,880	24,264	15,856	28,039	73,025	66,204	65,024	75,916
17,098	23,429	21,335	20,994	14,291	22,619	14,273	26,440	25,578	29,463	25,364	33,573
273	416	705	466	462	522	660	663	507	546	376	371
1,234	1,150	1,183	1,044	1,127	1,123	923	935	14,862	3,855	6,691	9,113
0	0	0	0	0	0	0	0	32,078	32,340	32,593	32,859
509	788	1,006	1,111	1,139	656	644	695	715	715	654	778
-283	-1,576	-2,334	368	28	3	-748	-1,677	-3,318	-3,976	-2,858	0
34,198	34,198	34,198	34,198	34,198	34,198	34,198	34,198	34,198	34,198	34,198	36,370