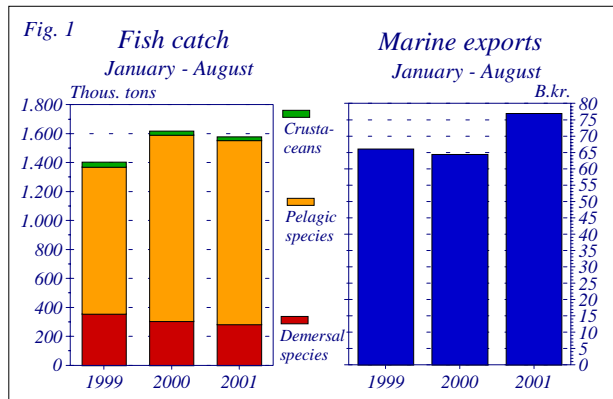




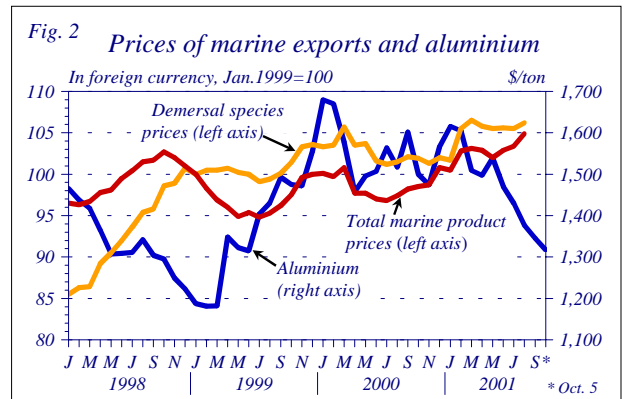
Economic indicators

October 9, 2001

I External conditions

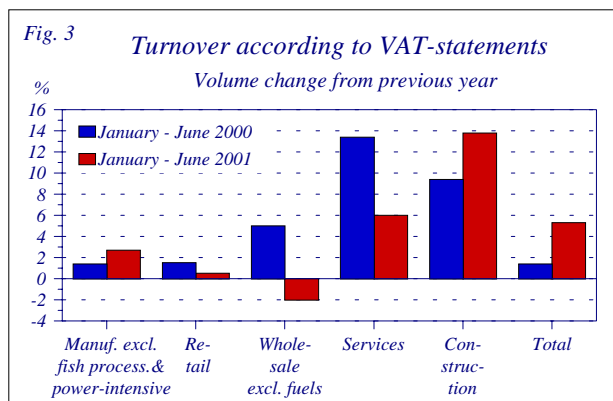


The volume of groundfish catch Jan.-August was down by one-fifth in the last two years and 7% since 2000, due to cutbacks in quotas. Increased catch of pelagics, however, has more than compensated for the decline in groundfish catch and total catch this year is ¼ higher than in 1999. In spite of 2.5% decline in volume, the domestic currency value of marine export Jan.-August was up by one-fifth from year ago, reflecting depreciation of the króna as well as higher prices in terms of foreign currency.

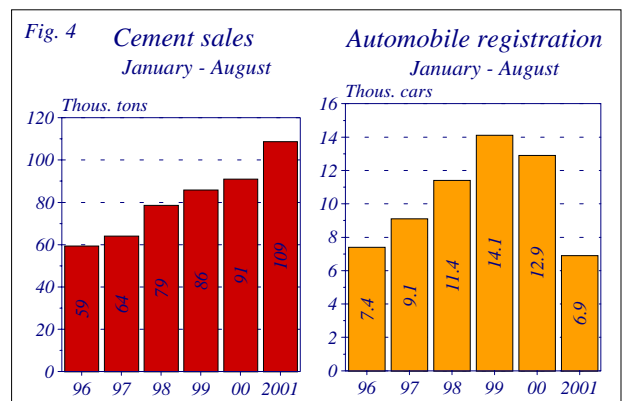


In terms of domestic currency, the price of marine exports was on average 24% higher in the first eight months of 2001 than year ago. In terms of foreign currency the average price was 5.6% higher this year. The price of aluminium is down by 25% from the peak in January. Weaker growth in the world economy has caused lower demand and downward pressure on prices of base metals such as aluminium.

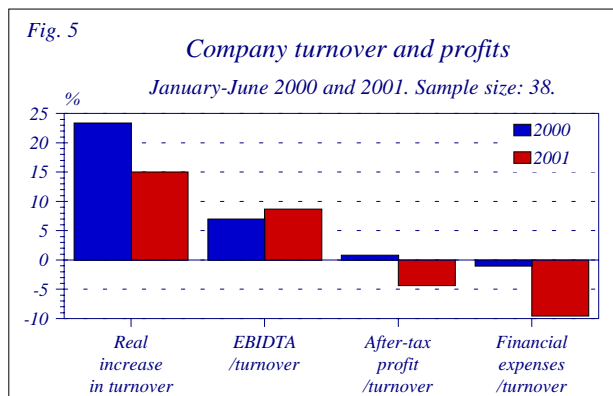
II Production and turnover



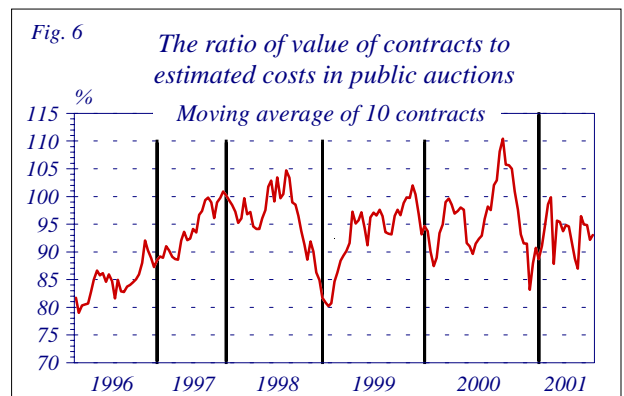
In the first half of this year, total turnover rose by 5.3% in real terms from last year, compared to a 1.4% increase between 1999 and 2000. Wholesale turnover (except liquid fuel) contracted by 2% in real terms and the retail turnover increased by 0.5%. Turnover in manufacturing, services and construction has continued to grow briskly.



The y-o-y. increase in sale of cement in Jan-August this year was 20% higher than last year. This was due to an unusually high level of activity in the construction sector. Cement sales have been rising relentlessly since 1996, at an annual rate of 14%. Car registration continues to fall. In the first eight months of this year 45% fewer cars were registered than in the same period last year.

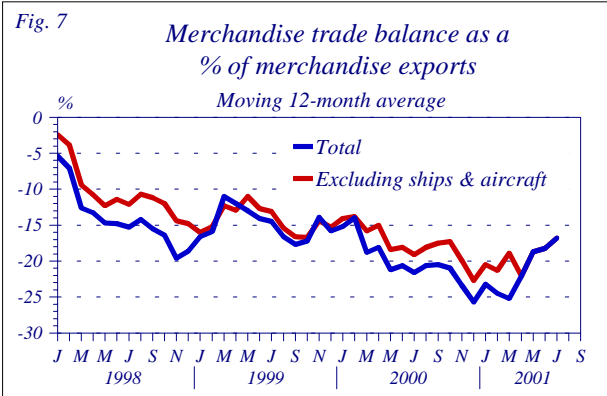


In real terms, the turnover of plc. companies was 15% higher in the first half of this year than in same period 2000. Operating profits before depreciation (EBITDA) was at 8.7% better than last year (7%), but net profit after tax was negative by 4.3% (+0.8% in 2000). This is due to the rise in the calculated cost of capital, which stems from increased currency loss on long-term foreign debt.

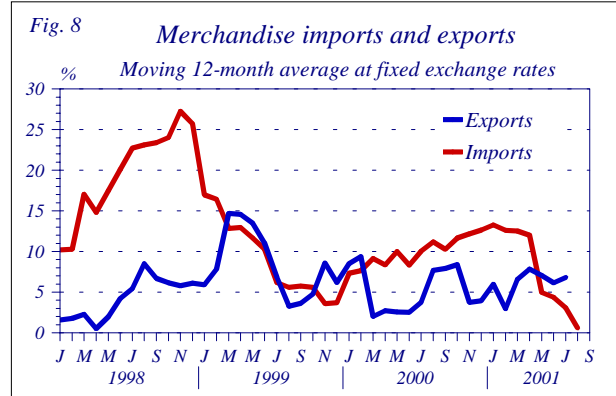


Negotiated prices have recently been slightly lower than cost estimates but similar to last year's average ratio.

III External trade



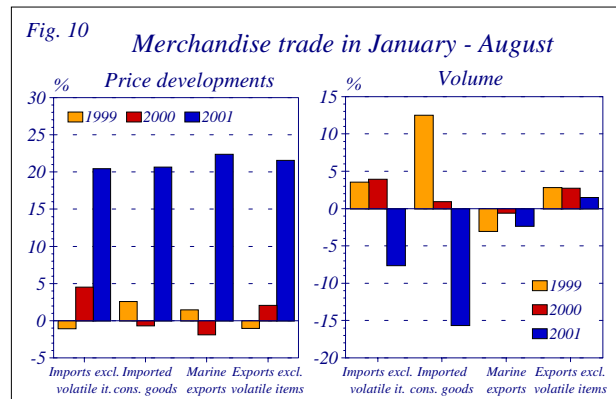
The accumulated deficit January - August was 11.9 billion króna, compared to 22.1 billion króna over the same period in 2000. Excluding ships and aircraft, the accumulated deficit was 4.5 billion króna compared to 15.3 billion króna last year. The króna has depreciated 18.9% from the corresponding period last year.



Reflecting depreciated króna and some increase in prices and volume, exports during the first eight months of the year were 123.2 billion króna, up from 98 billion króna last year. The first eight months of 2001, imports were 135.2 billion króna, up from 120.1 billion króna last year.

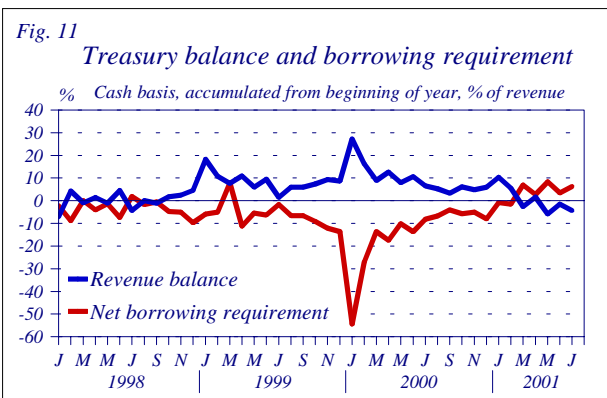


Abstracting from volatile trade in aircraft and vessels, seasonally adjusted imports have been on a declining trend for a year.

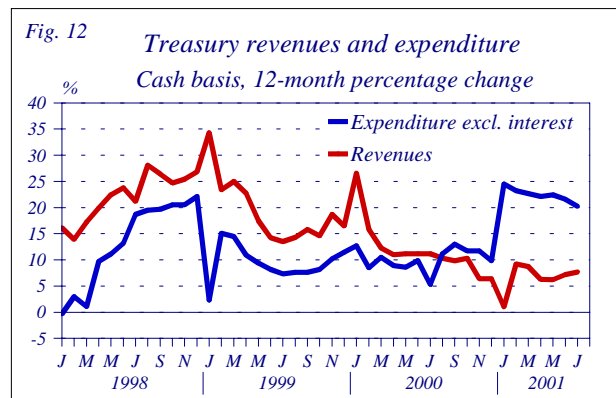


In the first eight months of the year, the volume of export rose by 3½% and prices by 21½%, mainly because of 18.9% depreciation of the króna. The volume of marine exports declined by 2.3% from year ago. Exports of manufactured goods increased by 9.8% in volume. The volume of consumer imports declined by 15.6% from last year, mainly caused by less import of vehicles and durable goods.

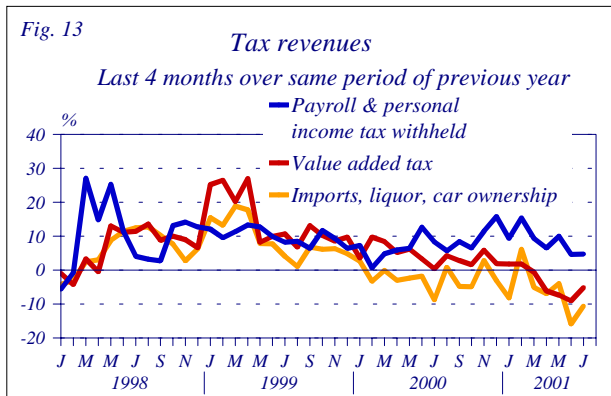
IV Public finances



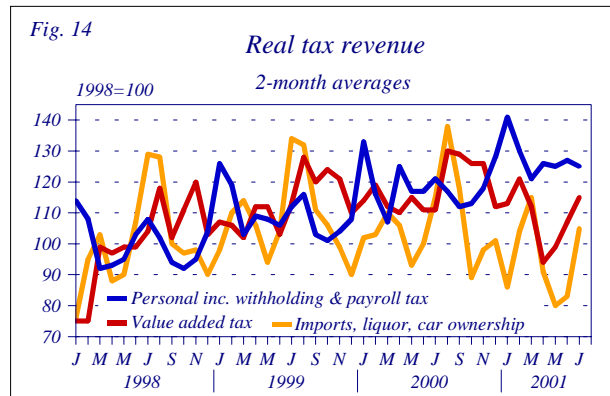
In the first 7 months of 2001, treasury revenues were 5 b.kr. behind expenditures. This was a sharp reversal from a 7.5 b.kr. surplus the same period in 2000. The change is partially due to special, non-recurrent circumstances, but more importantly due to weak consumption related revenue and a general increase in expenditures. The net borrowing req. was 8 b.kr., 17 b.kr. more than year ago. A large inflow of delayed revenue, which occurred early 2000, was absent this year, but other asset movements contributing to the borrowing requirement were slightly better.



In the first 7 months of 2001 revenue collections was 7.7% above last year's level. Taxes on incomes and wealth yielded 18.5% more this year, while taxes on goods and services showed a mere 1% increase, in spite of a 9% rise in wages and a 5.5% higher price level. Expenditure is up by 20% compared to last year. Nonrecurring special circumstances include 1.3 billion króna as a result of Supreme Court decision and a similar amount due to early redemption of treasury bonds. Other expenditure, however, was up by 18%, well in excess of wages and prices.

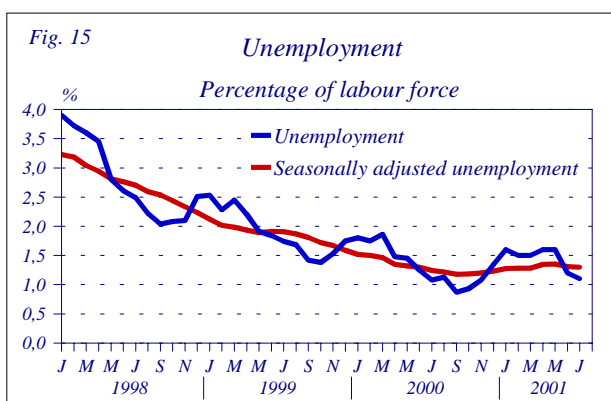


Tax revenues have grown slower this year than last years. Looking at 4-month averages, though, overall revenues have kept up with inflation. There are considerable differences in the performance of different revenue sources. Taxes paid without a lag have weakened more than lagged ones and expenditure taxes have weakened more than income related ones. As the data show considerable randomness, separate charts show a) the percentage growth comparing the last 4 months to the same period last year; b) indices of inflation-adjusted revenue of two-month periods.

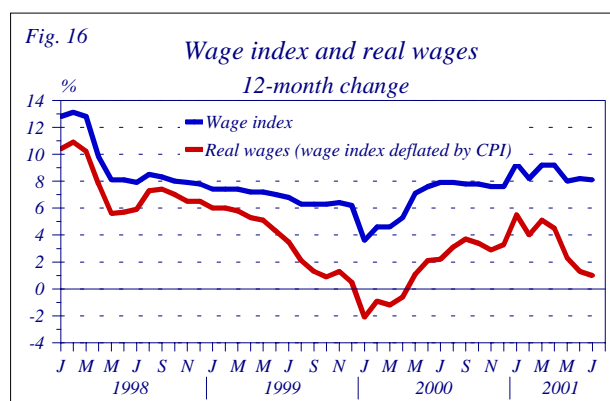


Looking at the 4-month period to July, the 12-month growth rate of revenue from payroll-taxes and withheld personal income taxes was around 5%. Considering just the last two months, the pace of growth falls to 3%. VAT revenue in the last 4 months was 10% lower than year ago, but have recovered slightly in the last two months. The steepest fall has occurred in import-related tax revenue. Combined revenues from import-, liquor and car-ownership taxes were 10% lower in the last four months to July than in the corresponding period in 2000.

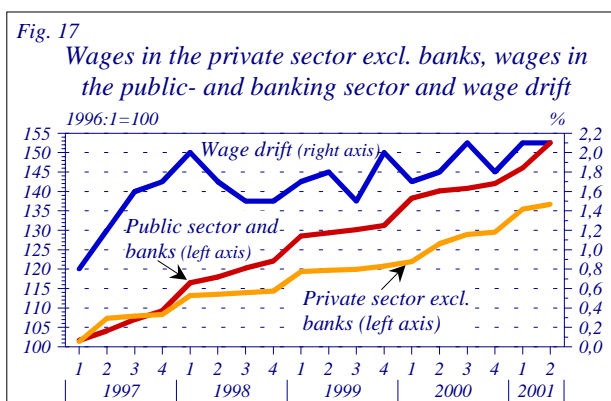
V Labour market



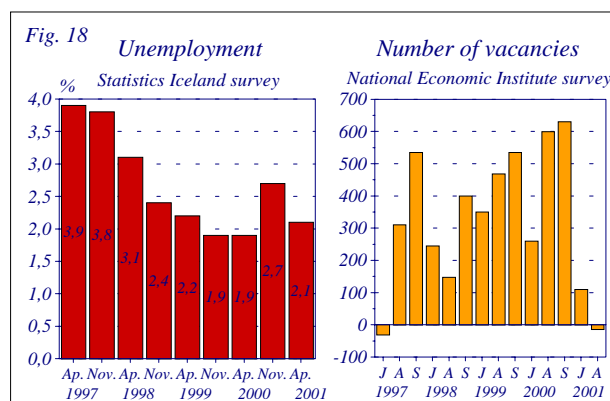
Unemployment in August was 1.1% and on average 1.3% in the last twelve months. Seasonally adjusted unemployment has been steady at approximately 1.2-1.3% for 1½ year.



The wage index rose by 8.8% last twelve months to August. Real wages increased by 0.8% in the same time period.



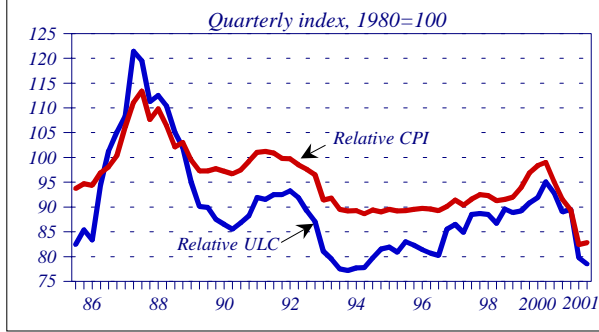
In the first half of 2001 the wage index (year on year) for the private sector rose at a faster rate than the wage index for public and bank employees, which has not been the case since late 1997. Measured wage drift remained the same 2.1% between first and second quarter.



Recent labour market surveys conducted by Statistics Iceland and National Economic Institute indicated that the labour market was barely getting less tight.

Fig. 25

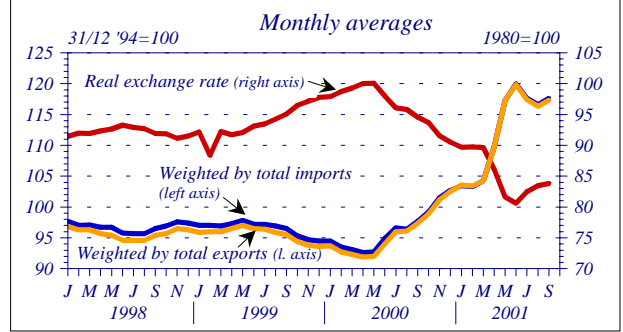
Real exchange rate of the króna 1986:I-2001:III



In the third quarter the real effective exchange rate of the króna (relative CPI) was 13% lower than last year and 11% lower than on average in the last ten years.

Fig. 26

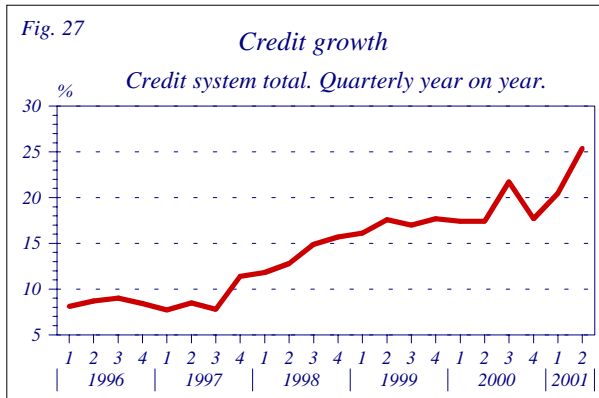
Nominal and real effective exchange rate of the króna



In the first eight months of the year, the effective exchange rate of the króna was on average 16% lower than last year.

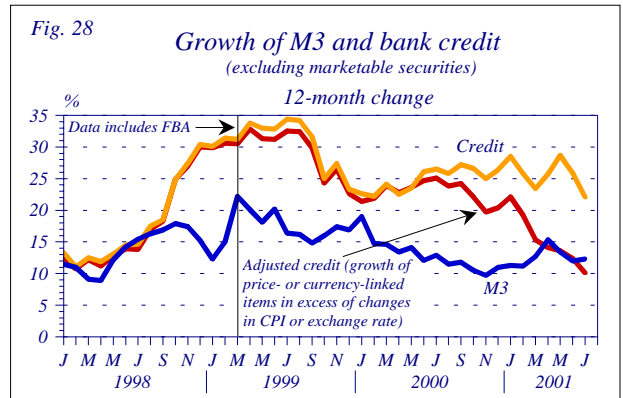
VII Monetary aggregates, credit and interest rates

Fig. 27



Total credit grew by 20½% in twelve months to March. Credit to non-financial businesses grew by 25½% and credit to households by 16%.

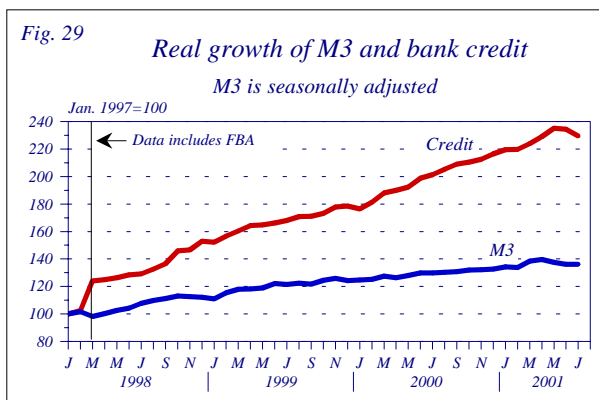
Fig. 28



Change to July 2001 (%)

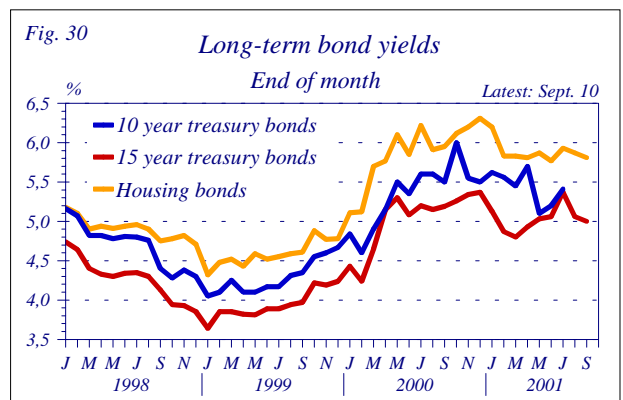
	Credit		
	M3	non-adj.	adjusted
Last change (M3 seasonally adjusted):	0.6	-1.4	-0.6
Change over 3 months, annualised (M3 seasonally adjusted):	3.1	16.6	6.6
Change over 12 months:	12.3	22.1	10.1

Fig. 29

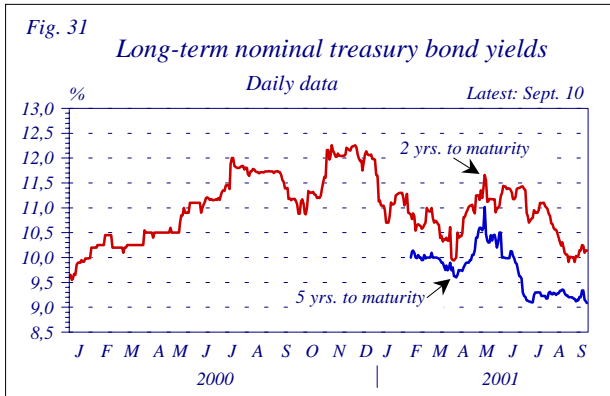


Change to July 2001 (%)	M3	Credit
Last change (M3 seasonally adjusted):	0.0	-2.1
Change over 3 months, annualised (M3 seasonally adjusted):	-9.2	0.7
Change over 12 months:	4.9	14.1

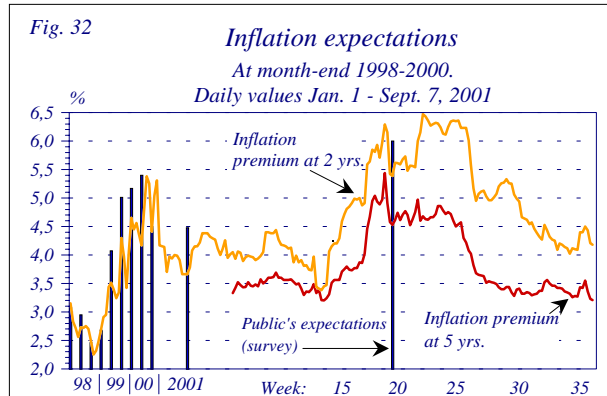
Fig. 30



The real yield on 15-year indexed treasury bonds was 5% on September 10 and has been relatively stable since April this year. The real yield on housing bonds has also been relatively stable since February and was 5.8% on September 10.

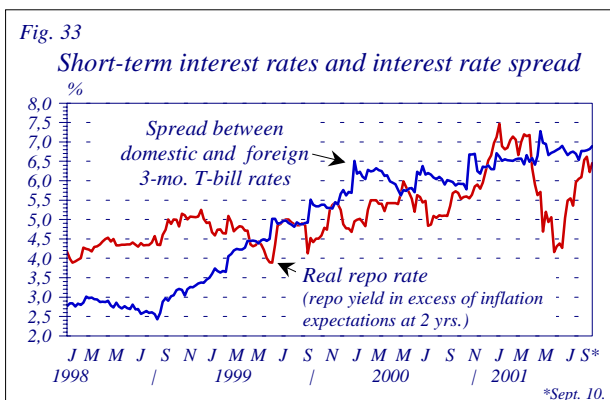


Yields on long-term non-indexed treasury bonds have been falling for the last few months. On September 10, the yield on 2-year bonds was 10.1% and 9.1% on 5-year bonds. The long end of the yield curve is therefore downward sloping. Long-term nominal interest rates have fallen by 0.1-1 percentage point since the change of monetary policy regime on March 27 and from the last inflation forecast on July 20. The negative slope of the long end of the yield curve has however decreased by 0.8 percentage points.

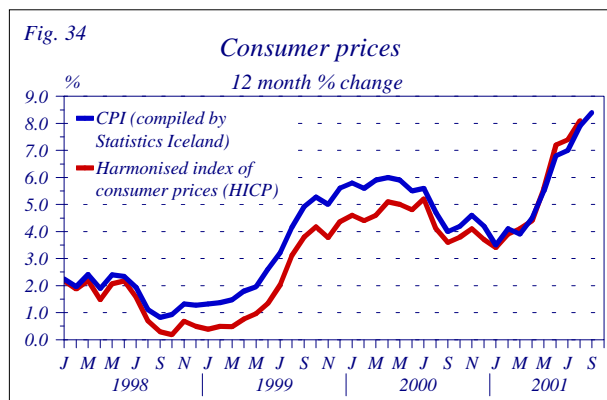


The inflation premium on approximately 2 year non-indexed treasury bonds was 4.2% on September 7 and has fallen considerably recently. The premium was 1.2 percentage points lower than on July 20, at time of the last inflation forecast, and 0.2 percentage points lower for the 5 year inflation premium. On September 11, the 2-year premium rose by 0.59 percentage points from the previous day, which reflected increased uncertainty due to the terrorist attacks on the USA.

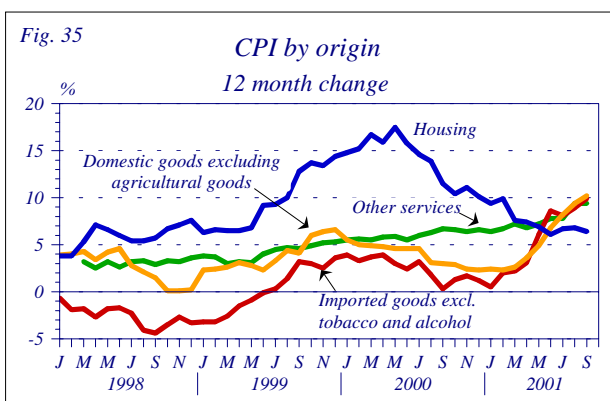
VIII Consumer prices



The short-term real interest rate, measured using the inflation premium, was 6.45% on September 7, more than 1 percentage point higher than on March 27, when the inflation target was adopted, and 0.9 percentage point higher than on July 20, when the last inflation forecast was done. The short-term interest rate differential vis-à-vis abroad is now 6.89% and has increased by 0.65 percentage points since March 27 and by 0.16 percentage points since July 20.



The CPI rose by 8.4% over twelve months to September. HICP rose 8.1% in the 12 months to August.



Prices of domestic goods excluding agricultural products rose by 10.2% during the twelve months to September, prices of imported goods rose by 10.0%, residential housing prices by 6.4% and prices of marketable services by 9.4%.