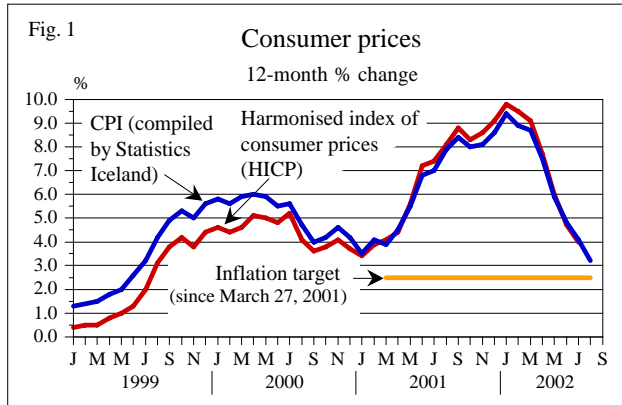


Economic indicators

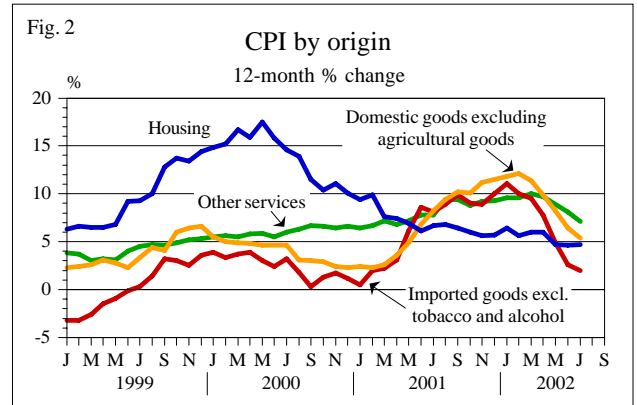


Central Bank of Iceland
September 2002

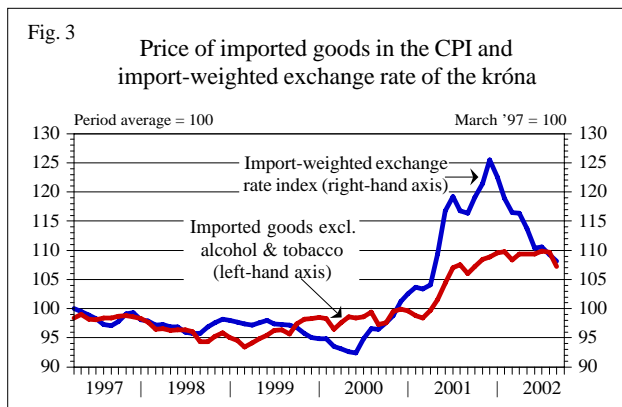
I Inflation



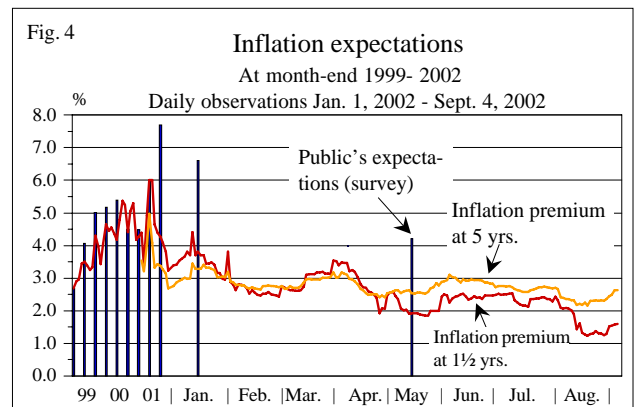
The CPI rose by 3.2% over twelve months to August. The HICP rose 4% in the 12 months to July.



Prices of domestic goods excluding agricultural products rose by 3.7% during the twelve months to August, prices of imported goods less tobacco and alcohol rose by 1.2%, residential housing prices by 4.8% and prices of marketable services by 5.8%.

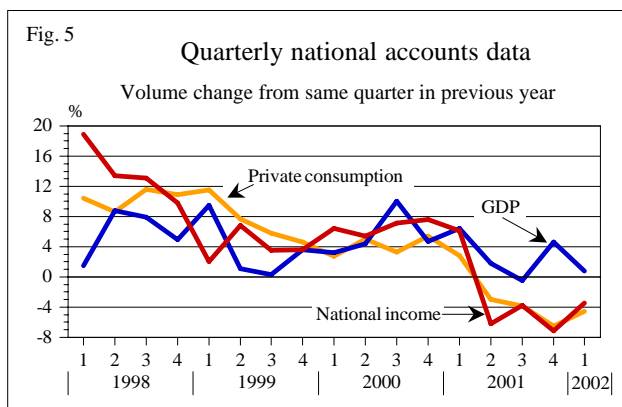


Last year, price increases of imported goods did not fully reflect the depreciation of the króna, but the gap has closed in the summer due to the appreciation of the króna.

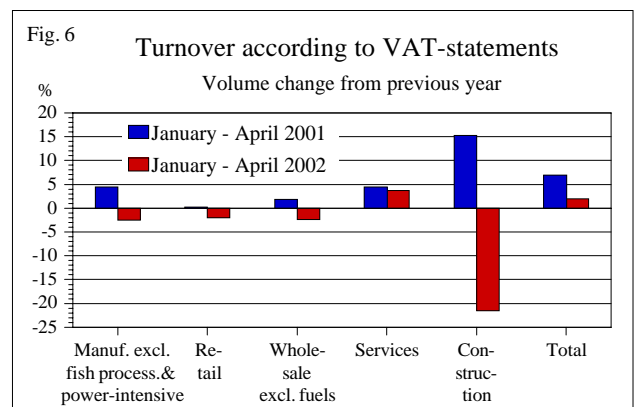


Inflation premium on 5-year non-indexed treasury bonds has diminished somewhat in the course of this year and was on average 2.4% in August compared with 3.1% on average in January. In May, the public expected on average an inflation of 4.2% in the coming twelve months.

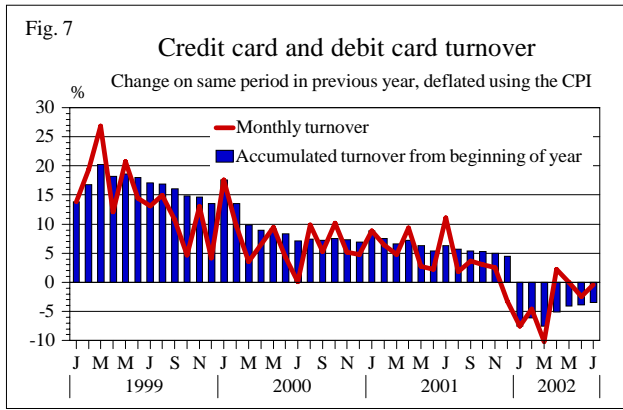
II Production and turnover



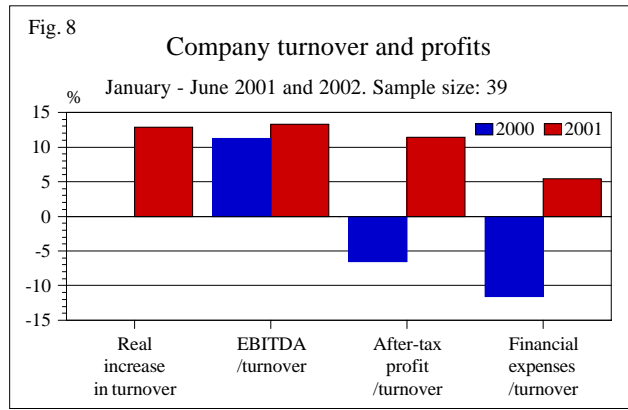
As a result of sharp contraction in Q1 imports, which outweighed weak exports, the estimated annual growth rate of GDP remained slightly positive, notwithstanding continued contraction in domestic demand.



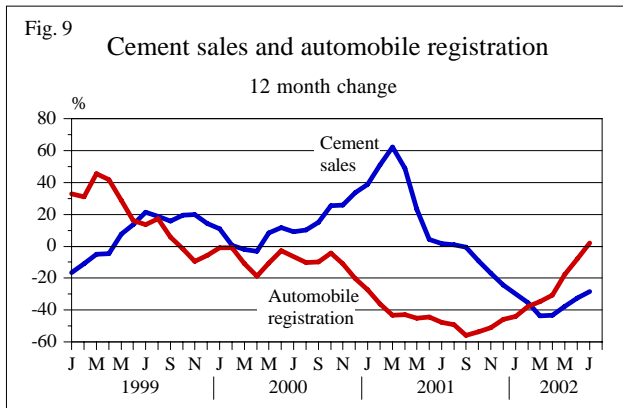
Based on VAT tax returns January to April, turnover was 1.1% higher in real terms than year ago (deflated by CPI and adjusted for exchange rates changes). In the corresponding period in 2001 real turnover increased by 6.9%. Contraction in industrial production for the domestic market, the retail sector and wholesale was 2%-3% and construction activity dropped 21.5%. Growth in the export sector remains robust.



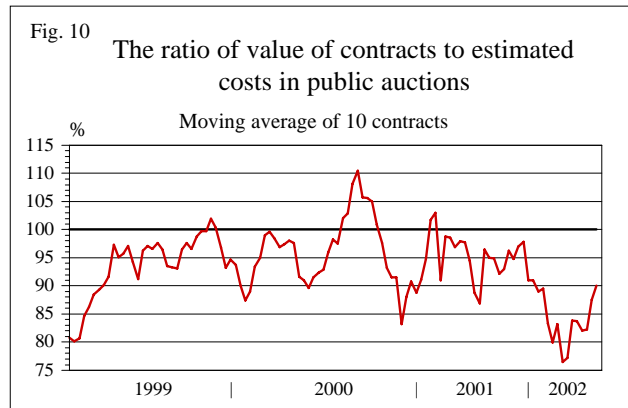
Credit and debit card turnover (in real terms) has begun to recover from the sharp contraction in the beginning of the year.



According to financial statements of 39 plc companies for the first half of 2002 the real turnover increased by 13% from first half 2001. EBITDA as a percentage of turnover came out at 13.3% (11.2% in first half 2001) and profit after tax also as a percentage of turnover increased to 11.4% (-6.5% in 2001). The turnaround is mainly caused by much lower net financial expenses.

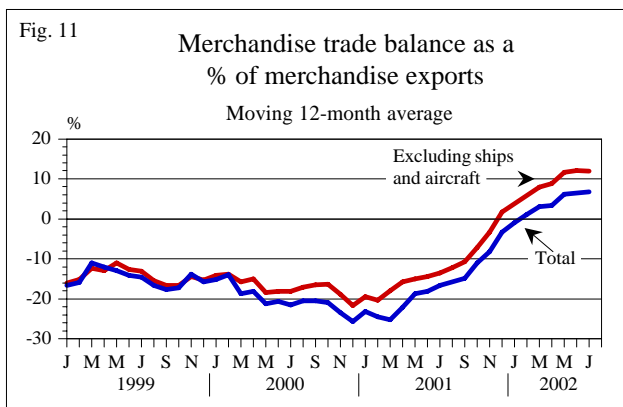


The sale of cement in July was one-fifth lower than year ago and the accumulated sales in January-July was one-third lower. The import of cars is picking up. In July car registration was 15% up from July 2001, but in preceding months registration was 25-40% less than year ago.

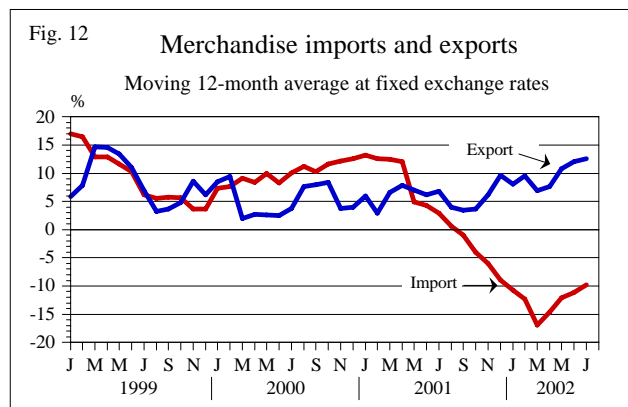


The average value of the latest 10 contracts was 10% below cost estimates.

III Foreign trade and external conditions



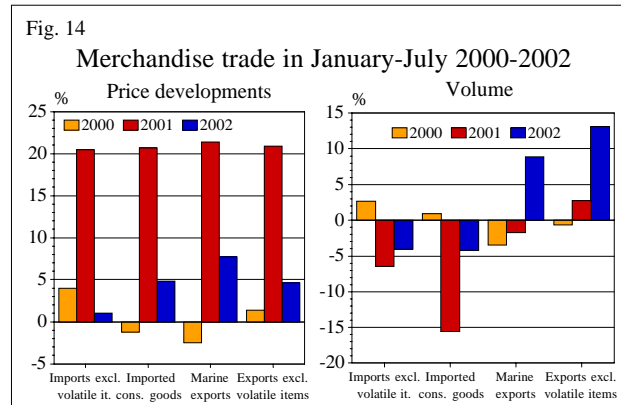
In the first seven months of the year, the merchandise trade surplus was 9.1 b.kr., compared to 11.3 b.kr. deficit one year earlier. Excluding ships and aircraft the surplus was 17 b.kr.



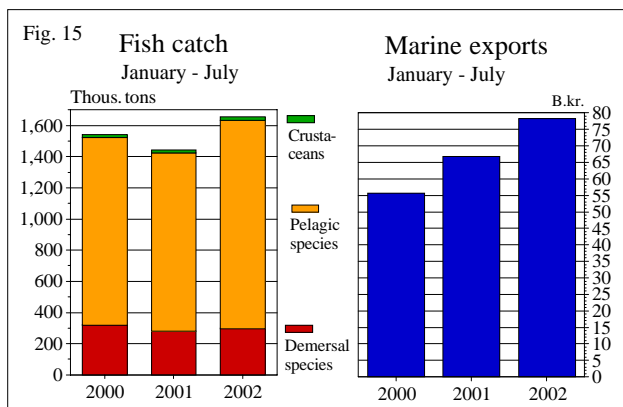
In the first seven months of the year, exports grew by 13%, at fixed exchange rates, but imports contracted by 5.4%.



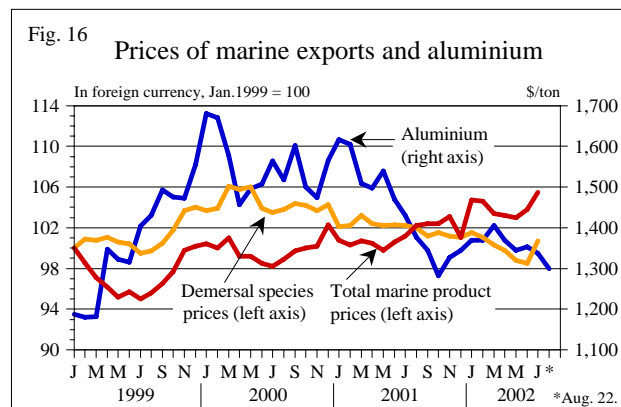
Seasonally adjusted imports rose between the first and the second quarter, after a sharp fall in 2001.



The volume of export in the first seven months of the year rose by 10.9% year on year and export prices by 4.8%. The volume of marine goods export rose by 8.9% and manufactured goods exports by 23½%. The volume of consumer goods imports contracted by 4.2%.

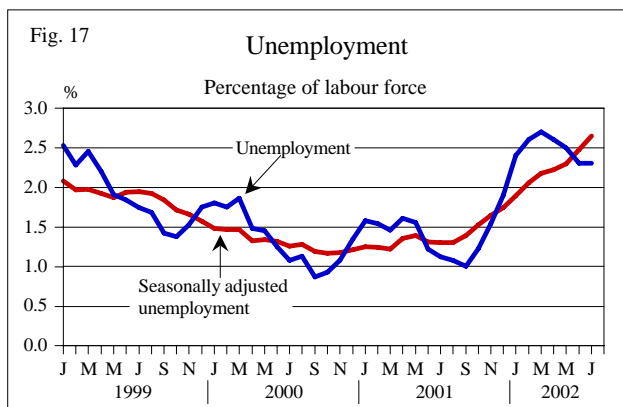


Marine export was up by 17% at current exchange rates in first half of the year. January to July the volume of total fish catch was 15% higher than in the same period 2001. There was an increase in all fish categories, 17% increase in pelagics, 27% rise in crustaceans and 6% in ground fish.

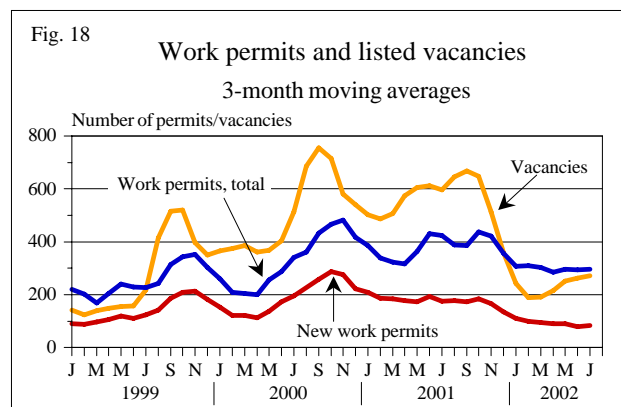


In the first seven months of the year, the average price of marine products was 5% higher than year ago. In July the average price for marine products was nearly 10% higher than year ago. The international market price of aluminium has been around US\$1,300 per tonne in recent weeks and the forward price (27 months) around US\$1,400.

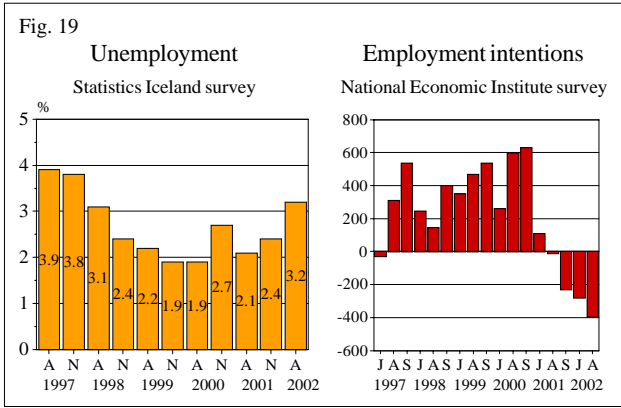
IV Labour market



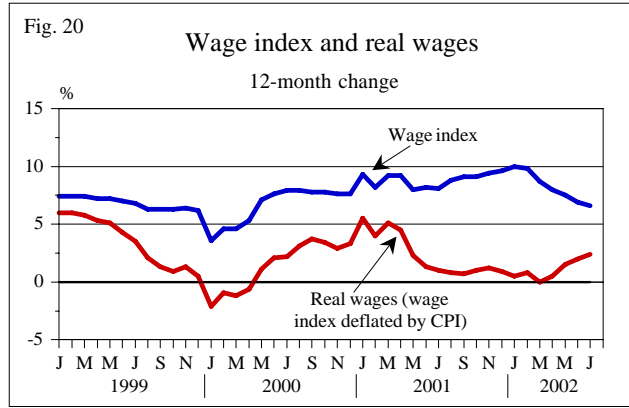
Unemployment was on average 2.0% in the last twelve months to July and 2.3% in July. Seasonally adjusted unemployment has risen gradually since late 2000 and was 2.6% in July.



Number of work permits (particularly new ones) and listed vacancies at employment agencies has been declining for over a year.

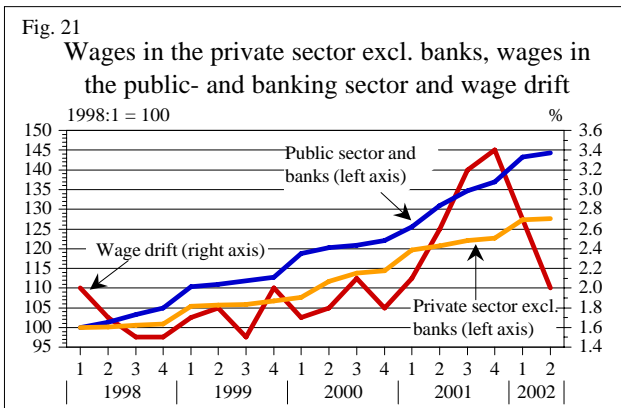


The labour market survey conducted by the National Economic Institute in April indicated that the labour market was getting less tight and employers wanted to lay off ½% of the estimated labour force.

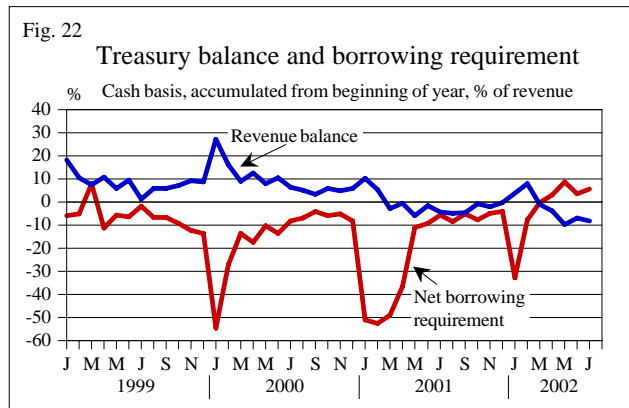


The wage index rose by 6.6% over twelve months to July 2002, which implies an increase in real wages of 2.4%.

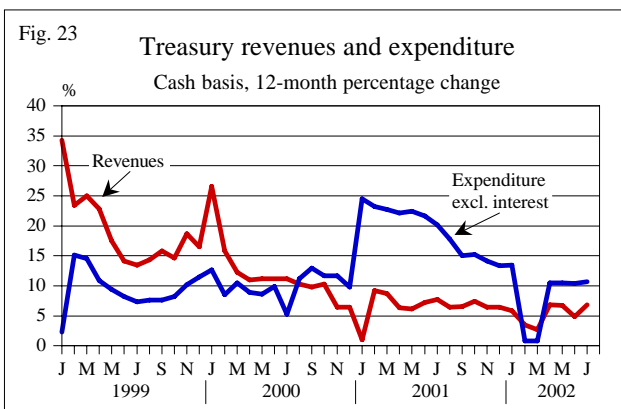
V Public finances



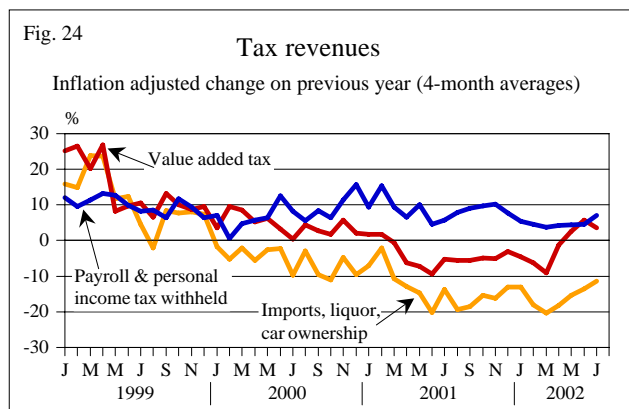
The wage index for public sector and bank employees rose by 10.1% in one year to the second quarter of 2002. Wages in the non-financial private sector rose by 5.7%. Wage drift in the non-financial private sector measured 2.7% over the same period.



Through July, expenditure disbursements were 11 b.kr. higher than revenue collections. Because of net collections of outstanding loans and the sale of 20% of the shares in a government owned bank, the net borrowing requirement was near zero through July.

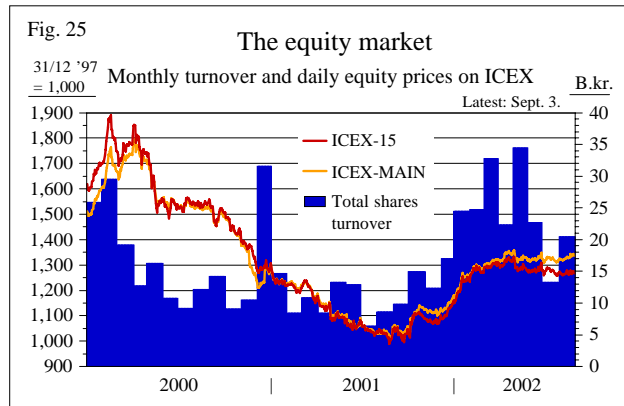


Through July, revenue collections were up 7% from last year (4% for revenues excluding asset sales), vs. 11% for expenditure disbursements, while consumer prices rose 7%. The increase in expenditures is concentrated in the health sector and unemployment insurance.

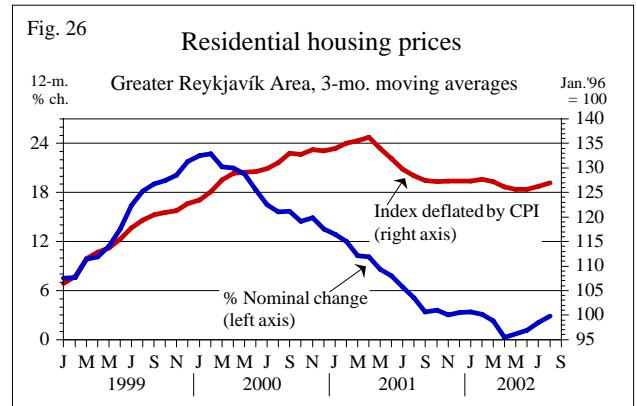


In four months through July, payroll and personal income taxes yielded 13% more in nominal terms than in 2001 with VAT collections up 9% and broad import levies down 6%.

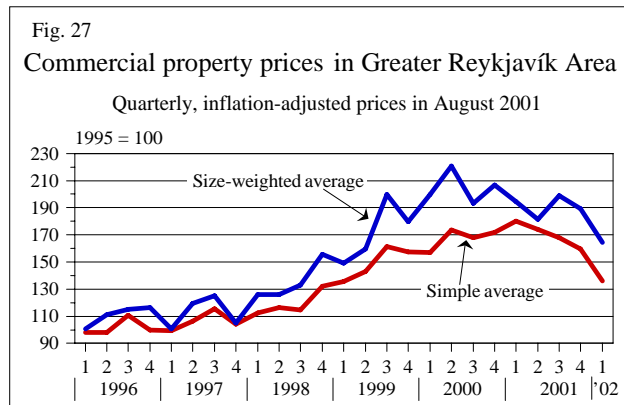
VI Exchange rates and asset prices



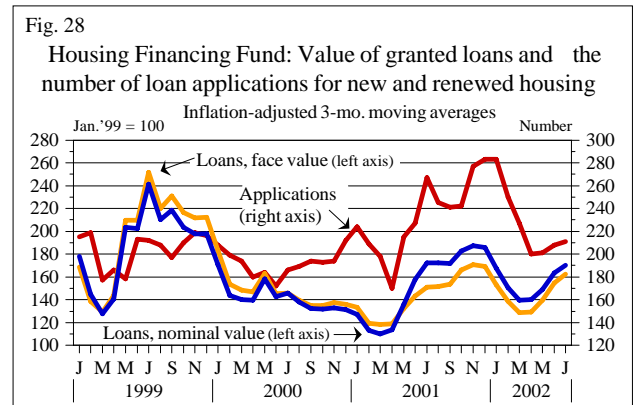
Turnover on ICEX in August was one of the highest in the history of the Icelandic equity market. ICEX-Main index rose by 30% in the last 12 months and 15% from the beginning of the year. Pharmaceutical companies share prices have doubled this year and shares in fisheries companies risen by 58%.



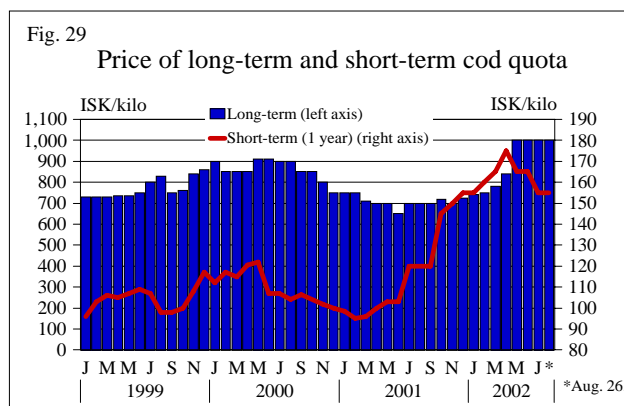
The rate of increase in house prices has moderated in the last two years. In July, the three-month moving average of residential housing prices in the Greater Reykjavík Area had risen by 2.3% from year ago.



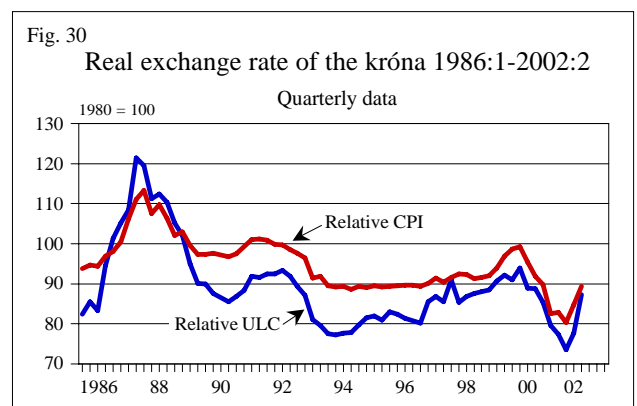
There are signs that the rise in inflation-adjusted prices of commercial real estate in the Reykjavík region is reversing. However, the number of observations in each quarter is very low. Hence, small changes should be interpreted with care.



The number of granted housing loans for new homes and renovations has been higher in recent months than year ago. The value of housing bonds issued in the first seven months of the year is somewhat higher than in the same period last year.

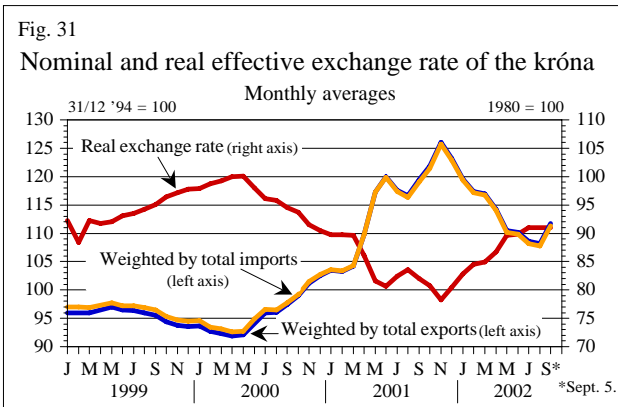


The price of quota was broadly unchanged in July and August. The fishing year 2001/2002 ended in August 31. It is anticipated that the price of long-term quota will be ISK100 per kg lower at the beginning of the fishing year 2002/2003.

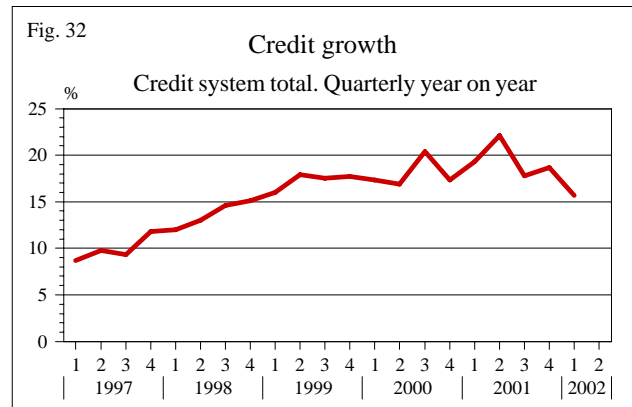


Real effective exchange rate of the króna (relative CPI) in the second quarter 2002 had appreciated 8½% from year ago due to higher nominal exchange rate and was 2.8% lower than on average in the last ten years.

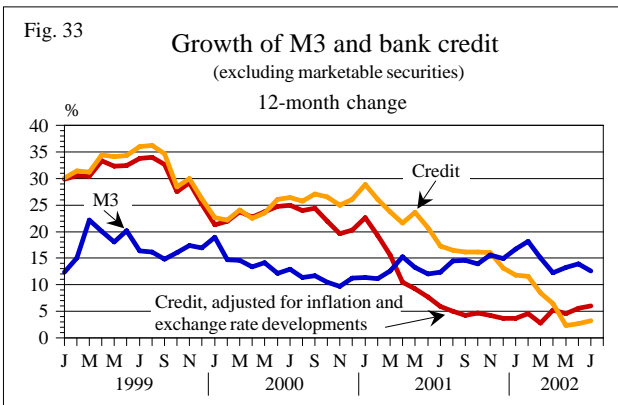
VII Monetary aggregates, credit and interest rates



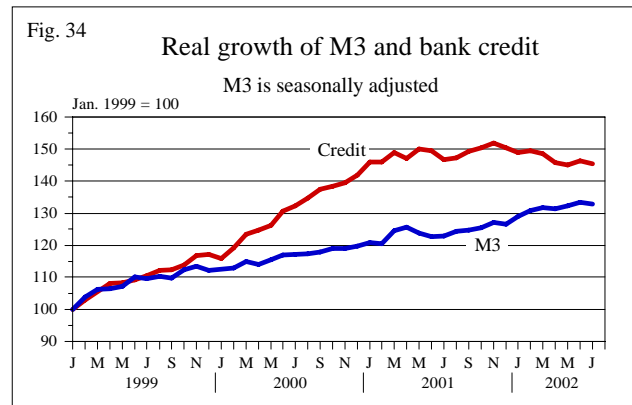
On September 5, the exchange rate of the króna had appreciated by 9% from beginning of the year 2002, but depreciated by 4.1% from August 7, when it peaked.



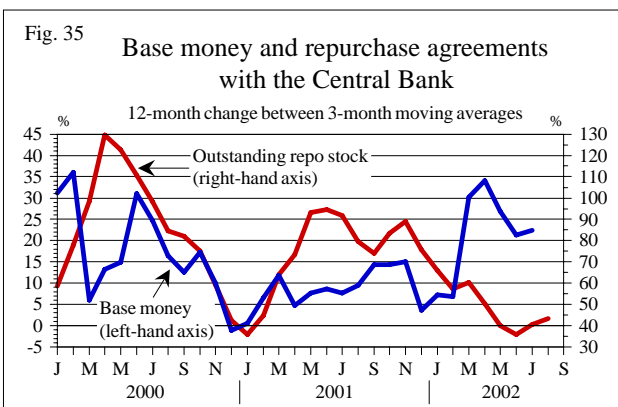
Credit growth slowed down to 15.7% over 12 months to the end of March. Credit to households grew at slightly faster rate than 3 months ago, mainly as result of robust growth in housing loans, but the rate of growth in credit to the business sector slowed down.



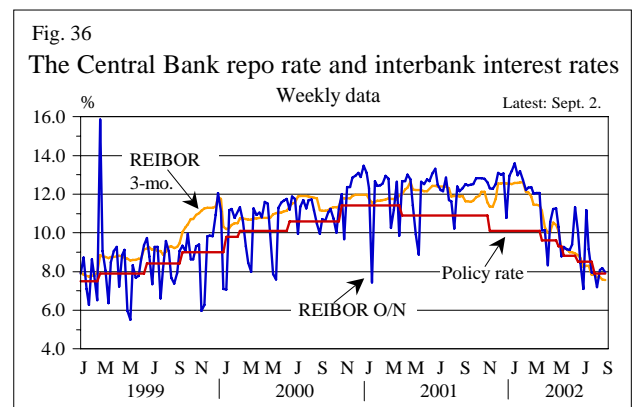
| Change to end of July 2002 (%) | Credit | | |
|--|--------|----------|----------|
| | M3 | non-adj. | adjusted |
| Last change (M3 seasonally adjusted): | -0.4 | -0.6 | 0.2 |
| Change over 3 months, annualised (M3 seasonally adjusted): | 5.2 | 1.1 | 6.9 |
| Change over 12 months: | 12.6 | 3.2 | 6.0 |



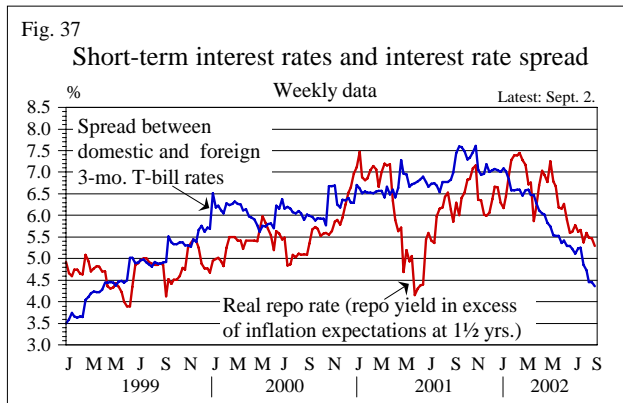
| Change to end of July 2002 (%) | M3 | Credit |
|--|---------------------------------------|--------|
| | Last change (M3 seasonally adjusted): | 0.4 |
| Change over 3 months, annualised (M3 seasonally adjusted): | 4.9 | -0.9 |
| Change over 12 months: | 8.1 | -0.9 |



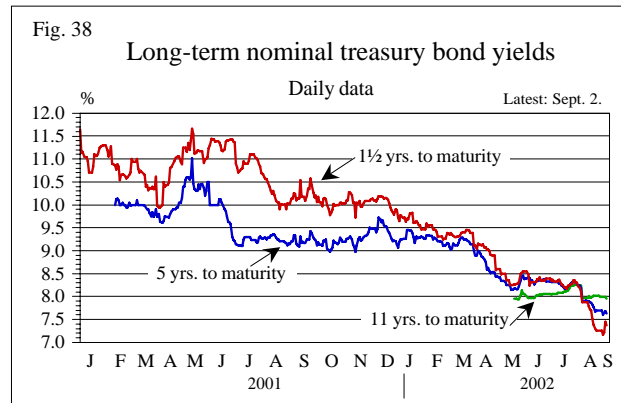
In July, the 12 month increase in the Bank's base money was 26.7% (three-month moving averages). Over the same period, repurchase agreements increased by 43.4%.



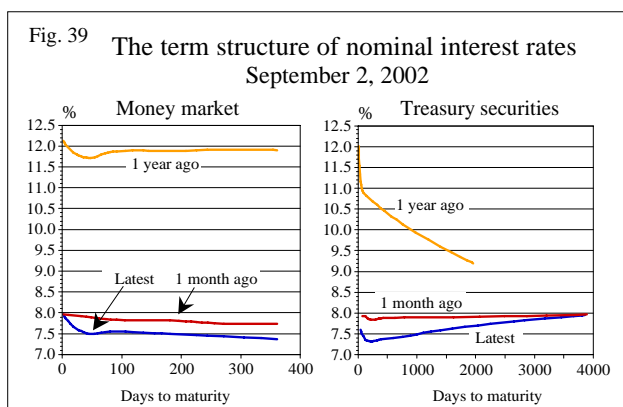
The repo rate has been lowered by 2½ percentage points since late March 2002, in six steps. The overnight interbank rate and the three-month interbank rate did not follow at first because of tight liquidity position of financial institutions, but have declined since the second quarter by roughly 4½ percentage points.



The real repo rate (using the inflation premium) was 5.3% on September 2. The short term interest rate differential vis-à-vis abroad was at the same time 4.4% and had fallen by roughly 2.7 percentage points since January 8.

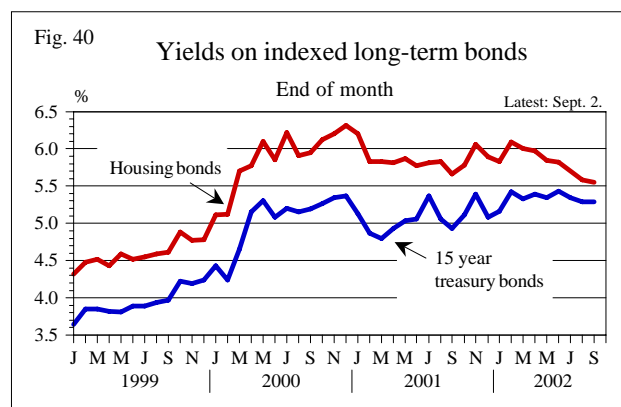


In the beginning of September, the yield on 1½-year and 5-year non-indexed government bonds had fallen from the beginning of 2002 by 4.8% and 4.6%, respectively. The yield on 11-year bonds was broadly unchanged since they were issued in May.



The yield curve for interbank interest rates has been almost flat for some time, indicating market confidence in stable inflation and stable interest rates in the coming months. The yield curve has also shifted downwards since last year.

The yield curve for treasury bills has also been flat for some time. The curve has shifted downwards since last year but the long end is upward sloping.



The yield on indexed government and household bonds has been broadly stable this year. On September 2, the real yield on 15-year government bonds was 5.3% or 0.4 percentage points higher than year ago. The real yield on 25-year housing bonds was 5.5%, slightly lower than year ago.