



MONETARY BULLETIN

2008 • 3

Contents

- 3 *Monetary policy statement by the Board of Governors*
Of vital importance to stabilise the foreign exchange market and strengthen the króna
- 5 *Economic and monetary developments and prospects*
Financial crisis causes sharp contraction and high inflation

Boxes:
Global financial crisis deepens 12
Domestic asset prices and the Bank of England financial market liquidity index 20
Sudden stop of international capital inflows 25
Sustainability of public sector debt 29

Appendix 1: Baseline macroeconomic and inflation forecast 2008/3 40
- 41 *Monetary policy and instruments*
- 45 *Economic and monetary chronicle*
- 49 *Tables and charts*
- 59 *Boxes and appendices*

The objective of the Central Bank of Iceland's monetary policy is to contribute to general economic well-being in Iceland. The Central Bank does so by promoting price stability, which is its main objective. In the joint declaration made by the Government of Iceland and Central Bank of Iceland on March 27, 2001, this is defined as aiming at an average rate of inflation, measured as the 12-month increase in the CPI, of as close to 2½% as possible.

Professional analysis and transparency are prerequisites for credible monetary policy. In publishing *Monetary Bulletin* three times a year, the Central Bank aims to fulfil these principles.

Monetary Bulletin includes a detailed analysis of economic developments and prospects, on which the Board of Governors' interest rate decisions are based. It also represents a vehicle for the Bank's accountability towards government authorities and the public.

The framework of monetary policy and its implementation and instruments are described in the chapter entitled "Monetary policy and instruments", on pp. 41-44 of this edition of *Monetary Bulletin*.

Published by:

The Central Bank of Iceland, Kalkofnsvegur 1, 150 Reykjavík, Iceland

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

E-mail: sedlabanki@sedlabanki.is

Website: www.sedlabanki.is

Editorial Board and staff:

Editorial Board: Arnór Sighvatsson, chairman

Sturla Pálsson

Tómas Örn Kristinsson

Tryggvi Pálsson

Rannveig Sigurdardóttir

Helga Gudmundsdóttir

Vol. 10 no. 3 November 2008

Printing: Gutenberg ehf.

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

ISSN 1607-6680

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

Icelandic letters:

ð/Ð (pronounced like th in English this)

þ/Þ (pronounced like th in English think)

In *Monetary Bulletin*, ð is transliterated as d and þ as th in personal names, for consistency with international references, but otherwise the Icelandic letters are retained.

Symbols:

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

Interest rate decision dates and changes in the publication of *Monetary Bulletin* in 2009

The publication schedule for *Monetary Bulletin* will change in 2009. The publication will appear in its customary form twice per year: at the beginning of May and the beginning of November. In between editions of the full-length *Monetary Bulletin* – in January and August – an updated forecast will be published on the Central Bank's website together with the Bank's report on economic and monetary developments and prospects. Publication of papers in *Monetary Bulletin* will also be discontinued. Instead, papers will appear in a special online publication as they are completed, and they will be compiled in printed form at the end of the year. The Bank's fixed interest rate announcement dates for 2009 will thus be eight in number: four concurrent with the publication of *Monetary Bulletin* and four interspersed between publication dates.

Publication dates for *Monetary Bulletin* and interest rate announcement dates in 2009

Date of interest rate decision	Commentary published in	Weeks since prev. interest rate decision announcement
January 29, 2009	<i>Monetary Bulletin</i> 2009/1 – forecast update	11
March 19, 2009	Press release	7
May 7, 2009	<i>Monetary Bulletin</i> 2009/2	7
June 25, 2009	Press release	7
August 13, 2009	<i>Monetary Bulletin</i> 2009/3 - forecast update	7
September 24, 2009	Press release	6
November 5, 2009	<i>Monetary Bulletin</i> 2009/4	6
December 17, 2009	Press release	6