

# Statement of the Monetary Policy Committee

## 6 February 2013

The Monetary Policy Committee (MPC) of the Central Bank of Iceland has decided to keep the Bank's interest rates unchanged.

Recent economic indicators suggest that output growth was weaker in 2012 than previously anticipated, and the outlook for 2013 is for more modest growth than was forecast in November. Total hours worked have also risen less than previously forecast. Although a slower rate of growth will ease inflationary pressures somewhat as the forecast horizon progresses, near-term inflation is projected to be higher than was forecast in November, owing to a weaker króna. The inflation outlook for the forecast horizon as a whole is therefore broadly unchanged since then.

In the recent term, poorer terms of trade have reduced the trade surplus at a time of extensive currency accumulation for foreign loan payments. The króna has depreciated as a result. There is considerable uncertainty about the persistence of these effects and therefore about near-term exchange rate developments. There is also the risk that self-fulfilling expectations of a depreciation will weaken the króna still further. In view of these conditions, the Central Bank has decided to suspend its programme of regular foreign currency purchases for the time being and support the króna through foreign exchange intervention.

The accommodative monetary stance has supported the economic recovery in the recent term. The rise in interest rates in the past year and a half and the decline in inflation have withdrawn a considerable amount of that accommodation. As spare capacity disappears from the economy, it is necessary that monetary policy slack should disappear as well. The degree to which such normalisation takes place through higher nominal Central Bank rates will depend on future inflation developments, which in turn will depend on exchange rate movements and wage-setting decisions in the near future.