

# Statement of the Monetary Policy Committee

## 15 November 2017

The Monetary Policy Committee (MPC) of the Central Bank of Iceland has decided to keep the Bank's interest rates unchanged. The Bank's key interest rate – the rate on seven-day term deposits – will therefore remain 4.25%.

According to the Central Bank's new macroeconomic forecast, published in *Monetary Bulletin* 2017/4, GDP growth will slow significantly this year, and more than the Bank projected in August. It is forecast at 3.7%, down from last year's GDP growth rate of 7.4%, as a result of a slowdown in export growth, after several strong years, and a pickup in import growth.

The outlook is for inflation to align with the target in mid-2018 and stay close to target for the remainder of the forecast horizon. House price inflation has eased, which will contribute to lower headline inflation if the trend continues. Counteracting this are the diminishing effects of a strong króna. The króna has appreciated since the last MPC meeting, and exchange rate volatility has eased in recent months. Inflation expectations are well in line with the target, and fluctuations in the exchange rate during the year have had limited impact on inflation and inflation expectations.

There are indications that the output gap may have peaked. Significant demand pressures remain, however, which calls for a tight monetary stance so as to ensure medium-term price stability. Reduced demand pressures and an improved inflation outlook are consistent with the MPC's expectations in October, and the Bank's real rate is broadly as it was after the October interest rate decision. The current monetary stance appears sufficient at present to keep inflation broadly at target. Whether this turns out to be the case in the coming term will depend on economic developments, including fiscal policy and the results of wage settlements.