

Statement of the Monetary Policy Committee 3 February 2021

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 0.75%.

According to the Bank's new macroeconomic forecast, published in the February *Monetary Bulletin*, domestic demand appears to have been stronger in 2020 than was previously assumed, and the economic contraction therefore smaller than the Bank forecast in November. For 2021, the outlook is also for domestic demand to grow more than previously projected, whereas the outlook for exports has deteriorated. Economic developments will be affected by the path the pandemic takes, however.

Inflation rose in January, measuring 4.3%, as the exchange rate pass-through from the depreciation of the króna still weighs heavily in imported goods prices. At the same time, domestic goods prices have risen as well, to some extent reflecting strong domestic demand. This is compounded by the rise in global oil and commodity prices and unfavourable base effects from January 2020. According to the Bank's forecast, the outlook is for inflation to measure 3.9% in Q1/2021 but then fall relatively quickly over the course of the year, as there is still a sizeable slack in the economy and the króna has appreciated in recent months.

The MPC will apply the tools at its disposal to support the domestic economy and ensure that inflation eases back to the target within an acceptable time frame.