

Statement of the Monetary Policy Committee 17 November 2021

The Monetary Policy Committee (MPC) of the Central Bank of Iceland has decided to raise the Bank's interest rates by 0.5 percentage points. The Bank's key interest rate – the rate on seven-day term deposits – will therefore be 2%.

According to the Bank's new macroeconomic forecast, published in the November *Monetary Bulletin*, the outlook is for GDP growth to measure about 4% in 2021, broadly in line with the August forecast. However, better prospects for exports result in an improved outlook for year-2022 GDP growth, which is expected to measure just over 5%. Nevertheless, significant uncertainty remains, and as before, economic developments will depend on the path the pandemic takes.

Inflation rose to 4.5% in October. The contribution from domestic cost pressures, rising house prices, and wage growth has accounted for a large share of inflation recently, but the effects of rising global oil and commodity prices have also grown stronger. Underlying inflation is lower, however, and has declined in recent months.

The inflation outlook has deteriorated somewhat since August, owing in part to more persistent global price increases, a more rapid rebound in domestic economic activity, and rising wage costs. The outlook is for inflation to continue rising in coming months but then start to ease, given that inflation expectations remain anchored to the target.

The MPC reiterates that it will apply the tools at its disposal to ensure that inflation eases back to the target within an acceptable time frame.