

# Statement of the Monetary Policy Committee 5 February 2025

The Monetary Policy Committee (MPC) of the Central Bank of Iceland has decided to lower 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 8.0%. All Committee members voted in favour of the decision.

Inflation has continued to fall and was down to 4.6% in January. Underlying inflation has eased as well and is at its lowest in three years. The outlook is for continued disinflation in coming months.

Demand growth has subsided in line with a tight monetary stance, and the positive output gap in the economy is narrowing. Housing market activity has eased, and house price inflation has lost pace. There are signs that economic activity is stronger than preliminary national accounts figures imply, however, and wage costs continue to rise.

Although inflation has eased and inflation expectations have fallen, inflation pressures remain, which calls for a continued tight monetary stance and caution regarding decisions going forward. This is compounded by elevated global economic uncertainty.

As before, near-term monetary policy formulation will be determined by developments in economic activity, inflation, and inflation expectations.