

SEÐLABANKI ÍSLANDS

# Monetary Policy Meeting 2019

## Blazing a low-interest trail



# GDP Outlook



## Domestic economic outlook



Uncertainty increases and global growth softens due to US-China trade dispute



Setbacks in the airline industry weigh heavily in export contraction



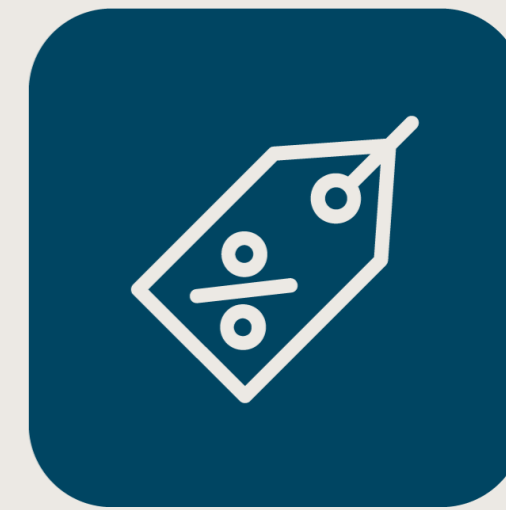
Expenditure switch towards domestic goods and services



Decline in job numbers and rise in unemployment



Mild contraction this year and recovery projected from 2020

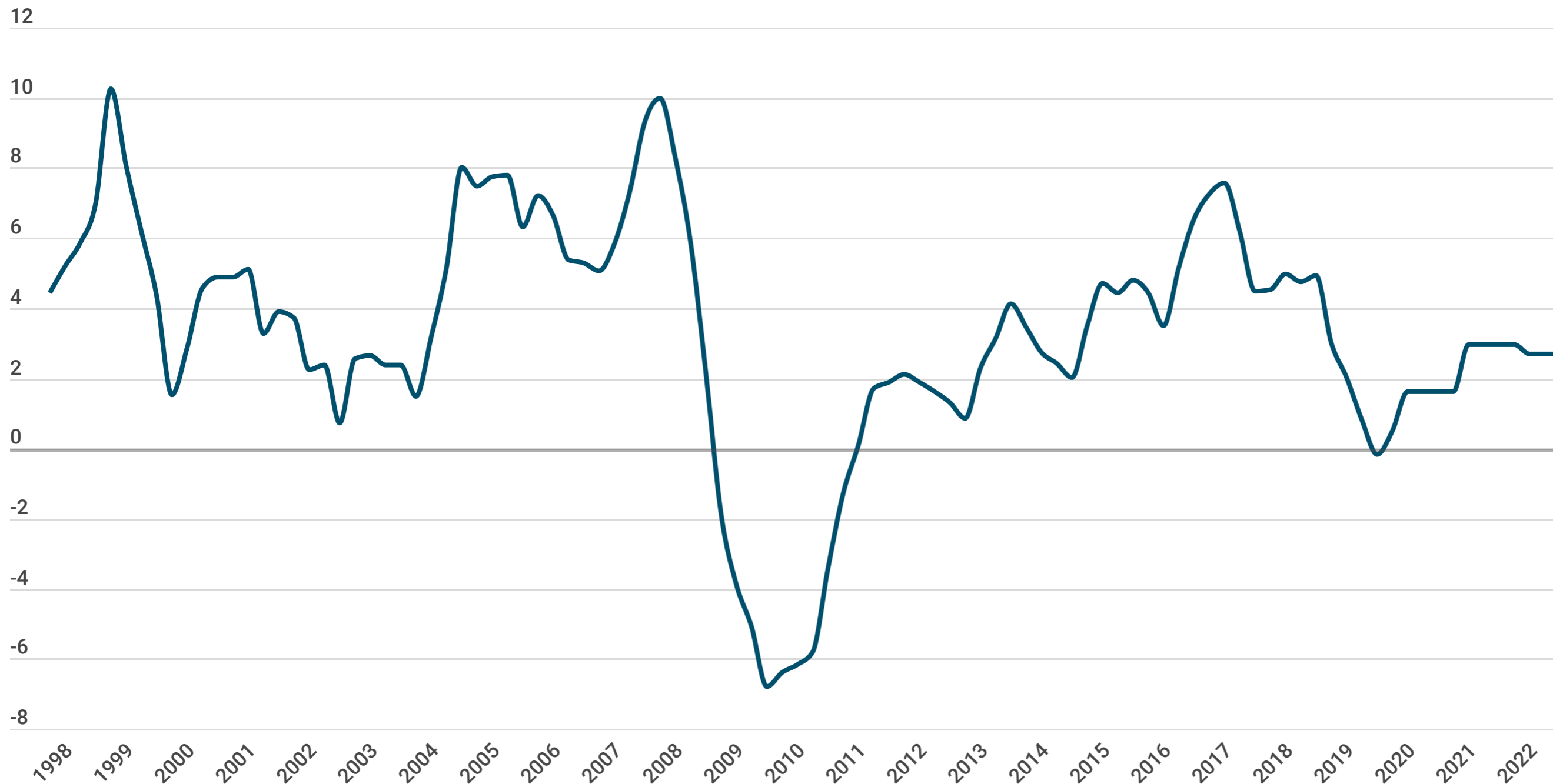


Inflation expected to hit target in Q4 and remain there for the horizon

# The economy has begun to slow down but expected recovery in 2020

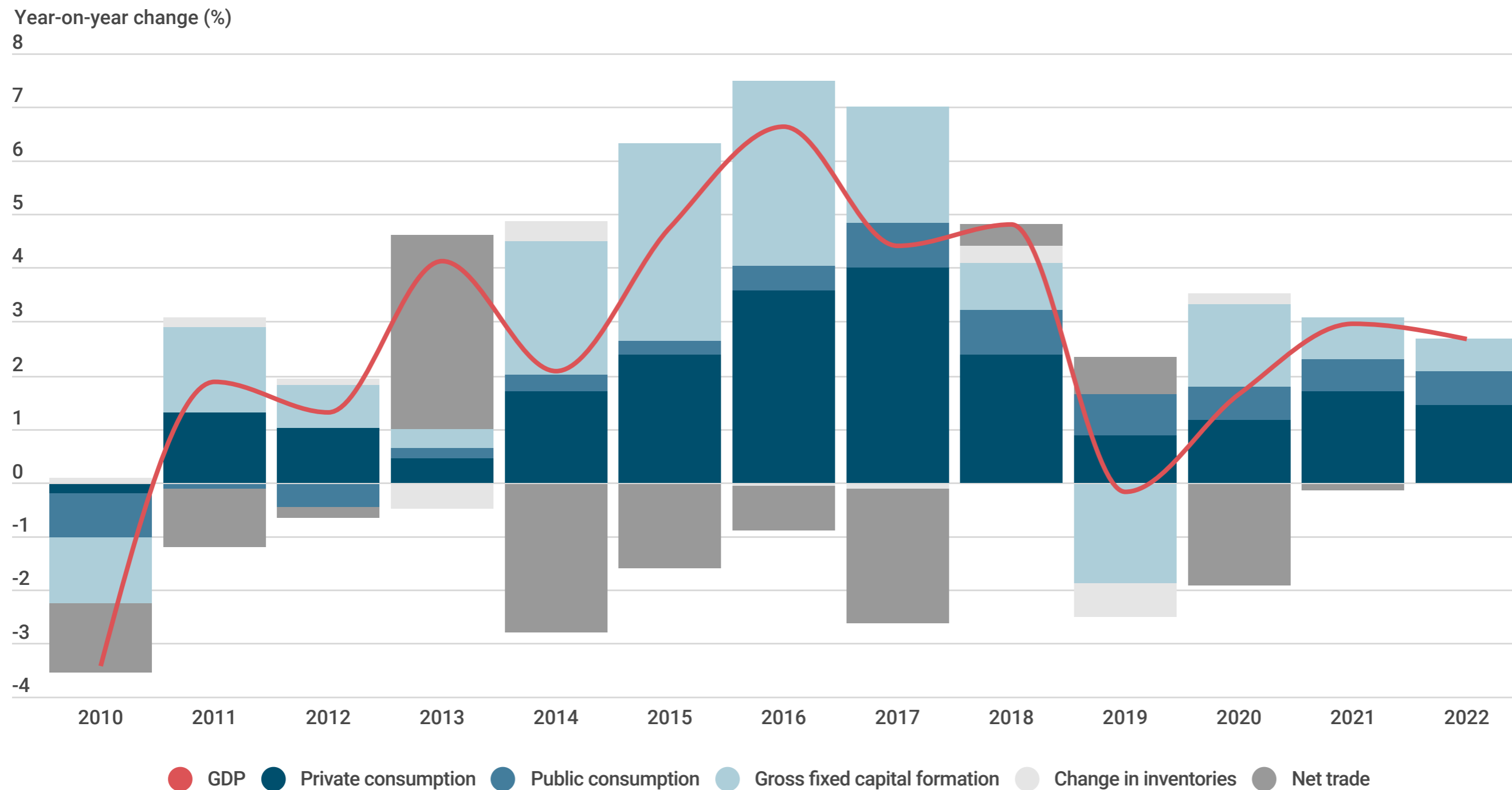
## GDP growth 1998-2022

Year-on-year change (%)



# Underlying components of recovery

## GDP growth and contribution of underlying components 2010-2022

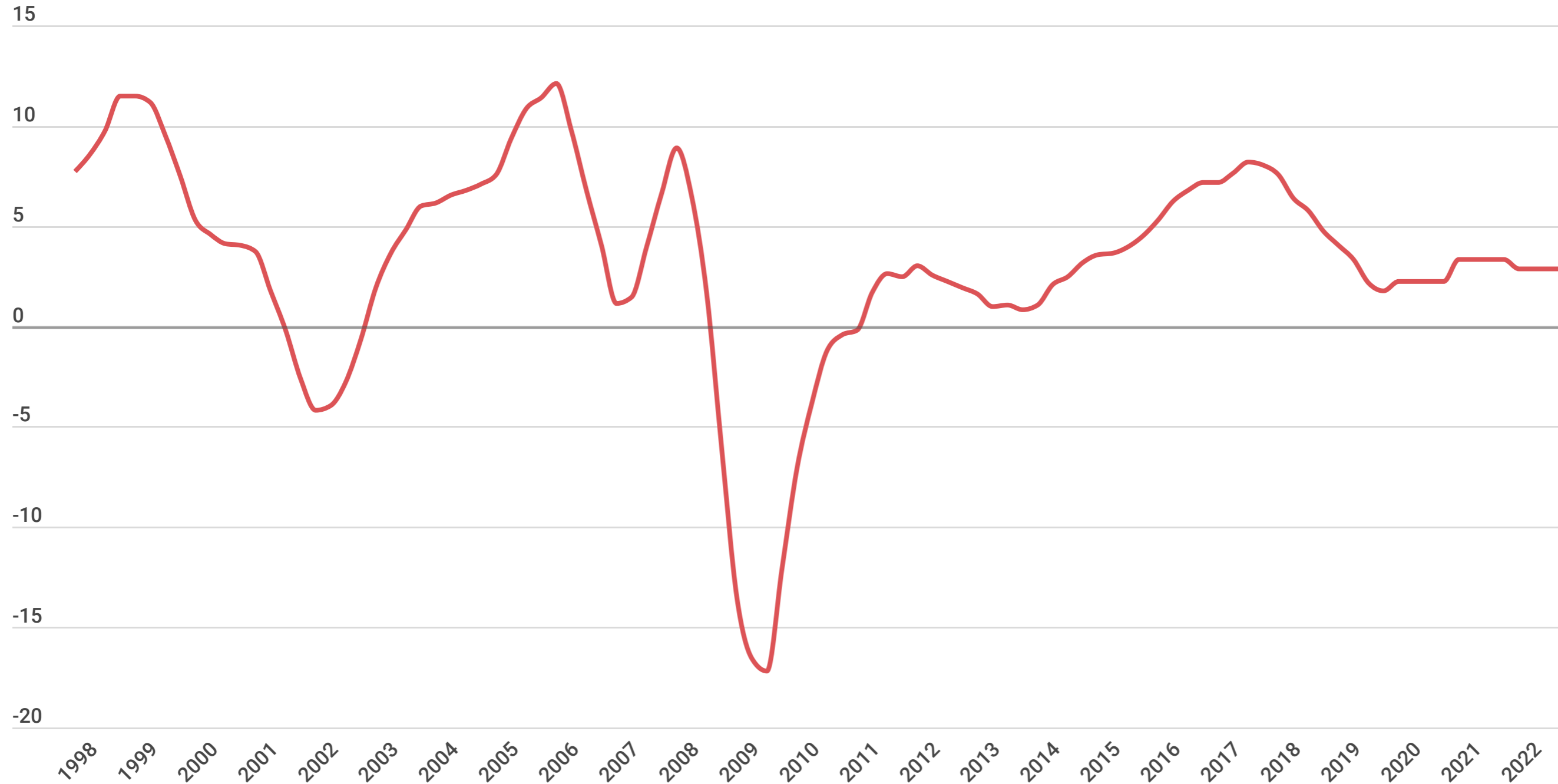


# Private consumption growth has eased this year but is expected to gain steam in coming years



## Private consumption and disposable income 2012-2022

Year-on-year change (%)

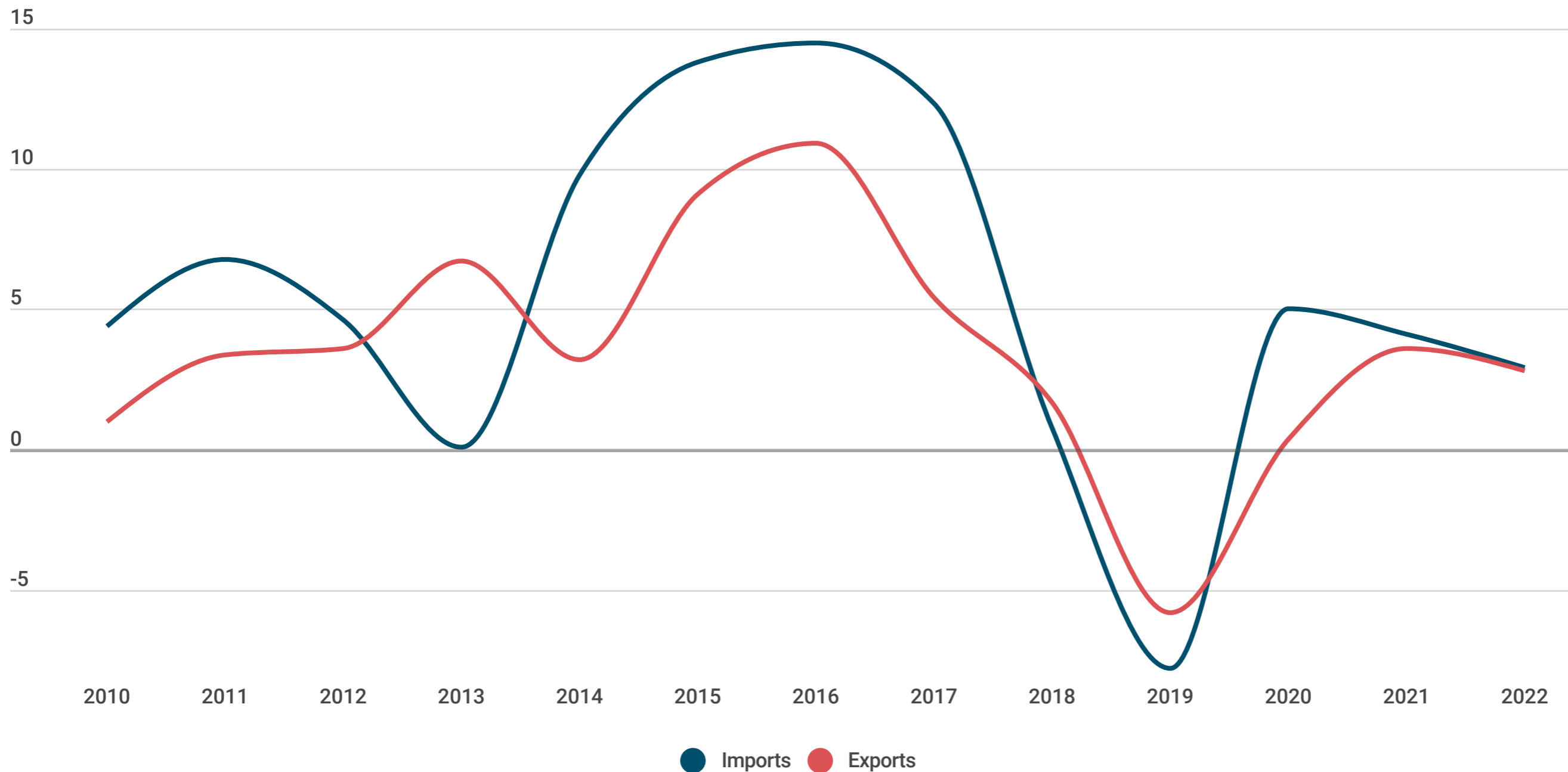




# Stronger-than-anticipated expenditure switch towards domestic goods and services ...

## Imports, exports and current account 2010-2022

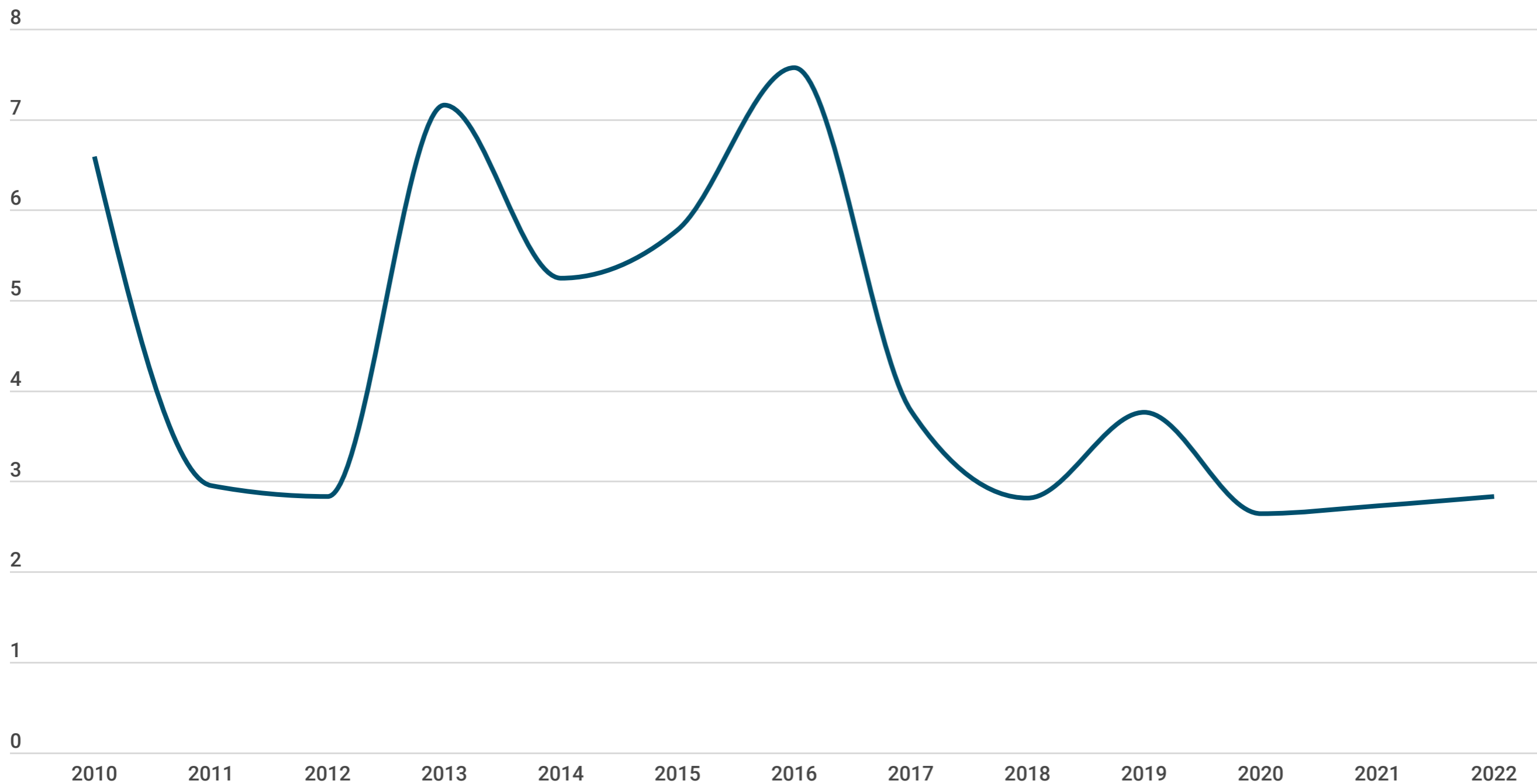
Year-on-year change (%)



# ... and current account balance remains positive

## Current account 2010-2022

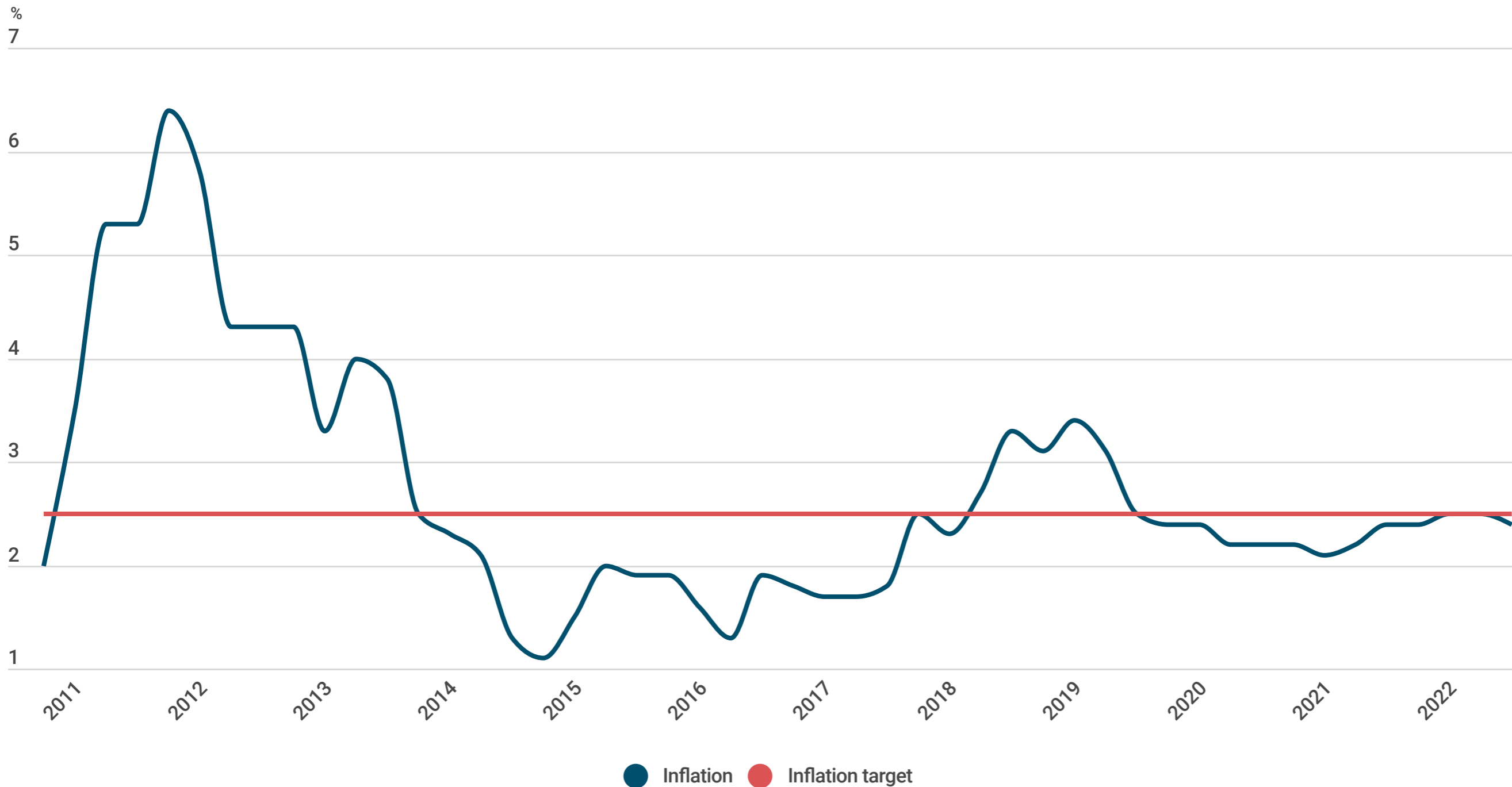
% of GDP





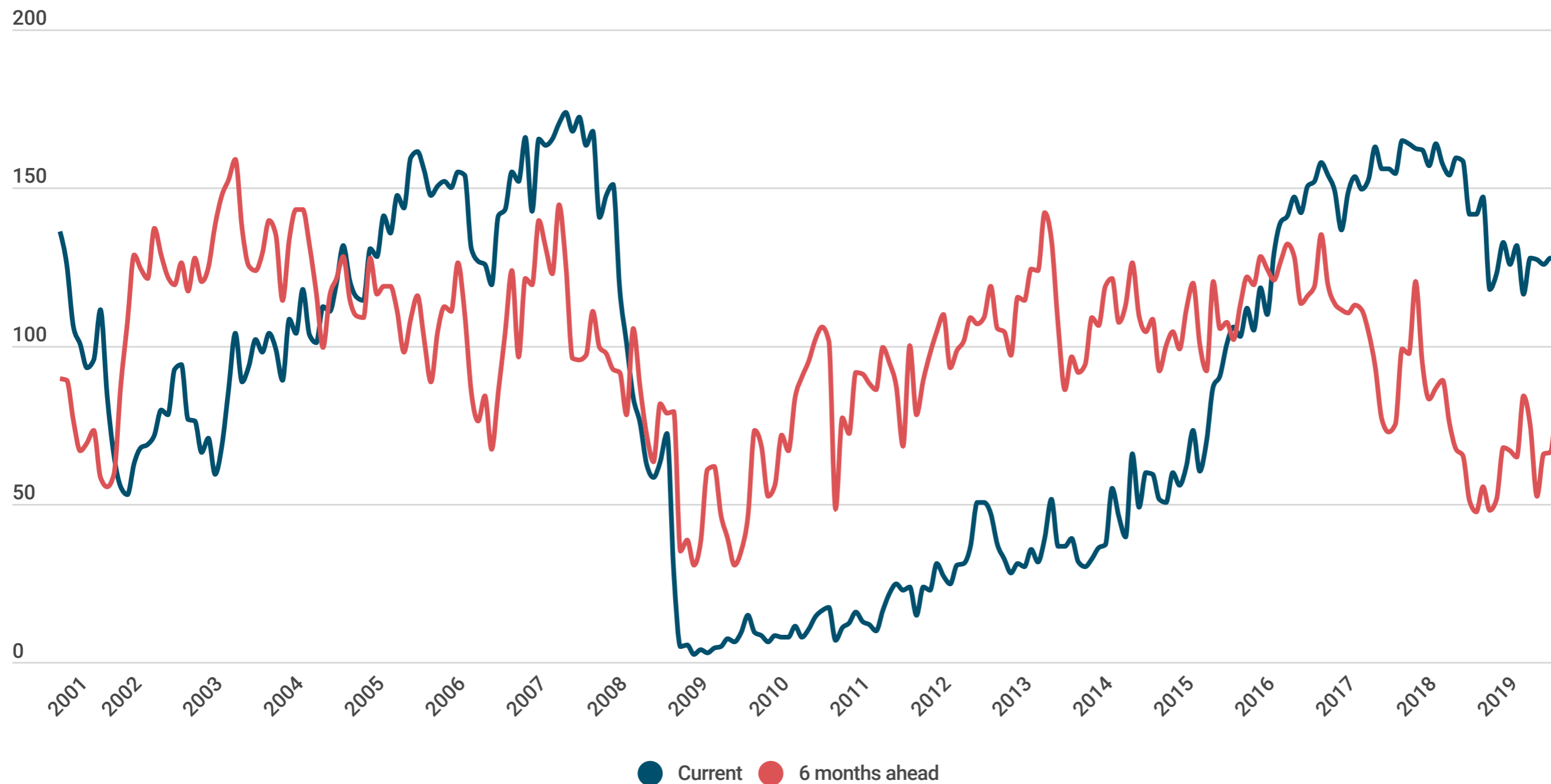
# Inflation is expected to subside faster than was previously assumed and align with the target in H1/2020

Inflation 2011-2019



# Consumer confidence remains weak ...

Gallup Consumer Confidence Index 2001-2019



# ... while business confidence is picking up

Gallup Business Sentiment Indicator 2003-2019



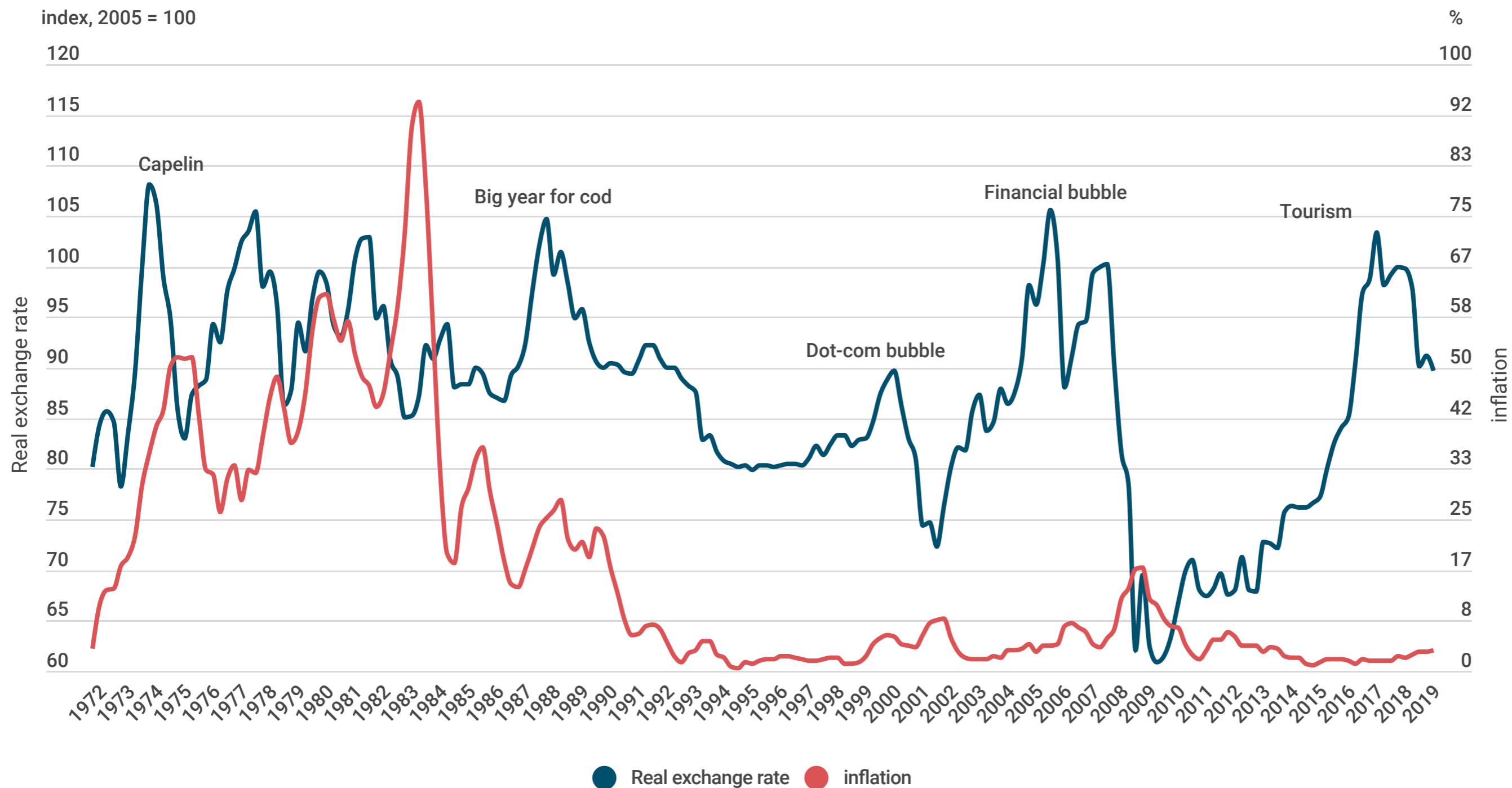
# Structural changes



# Historically, downward cycles have been accompanied by currency deprecation and inflation

## Real exchange rate and inflation 1972-2019

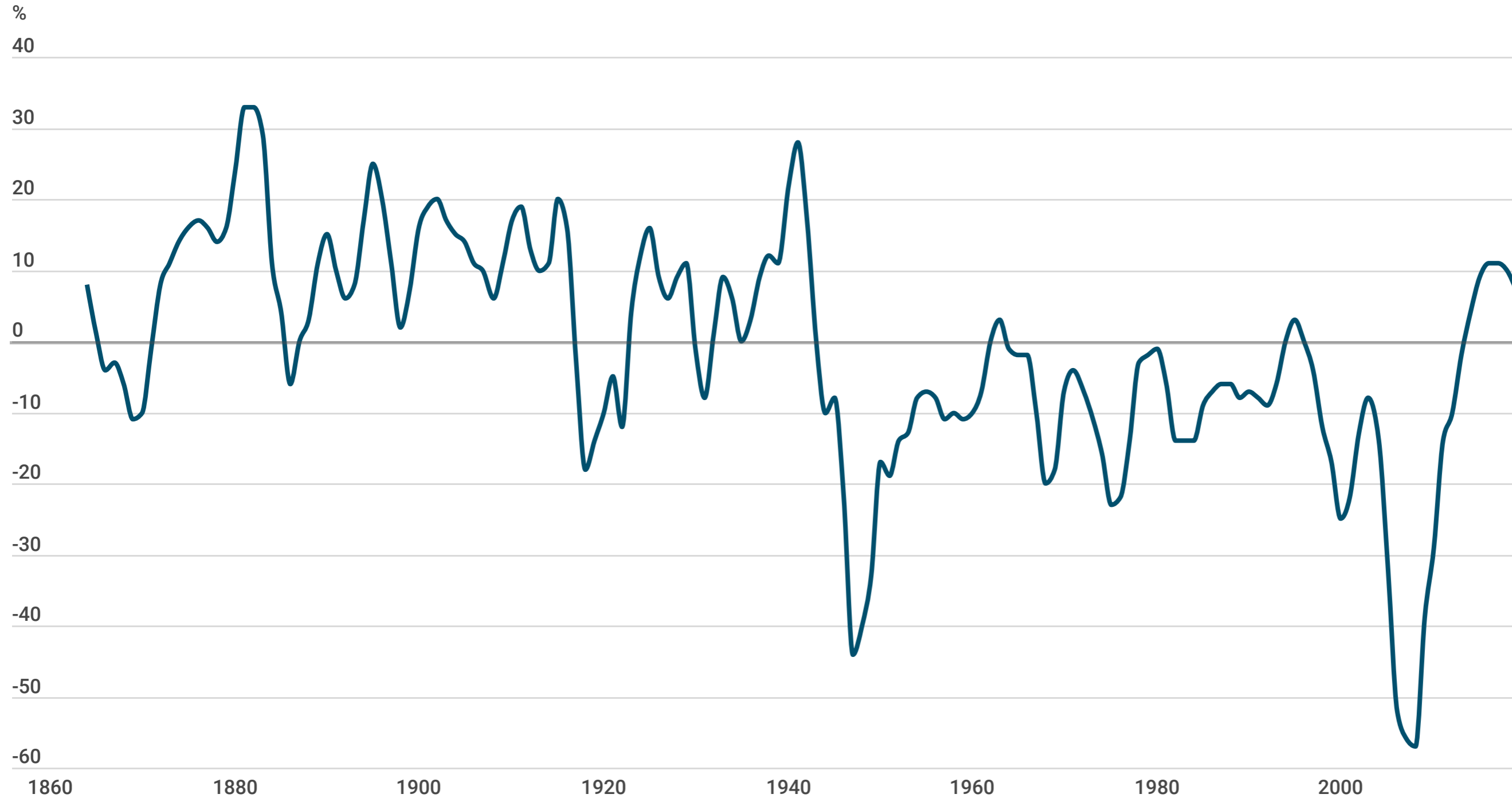
index, 2005 = 100



# Permanent current account surplus ...

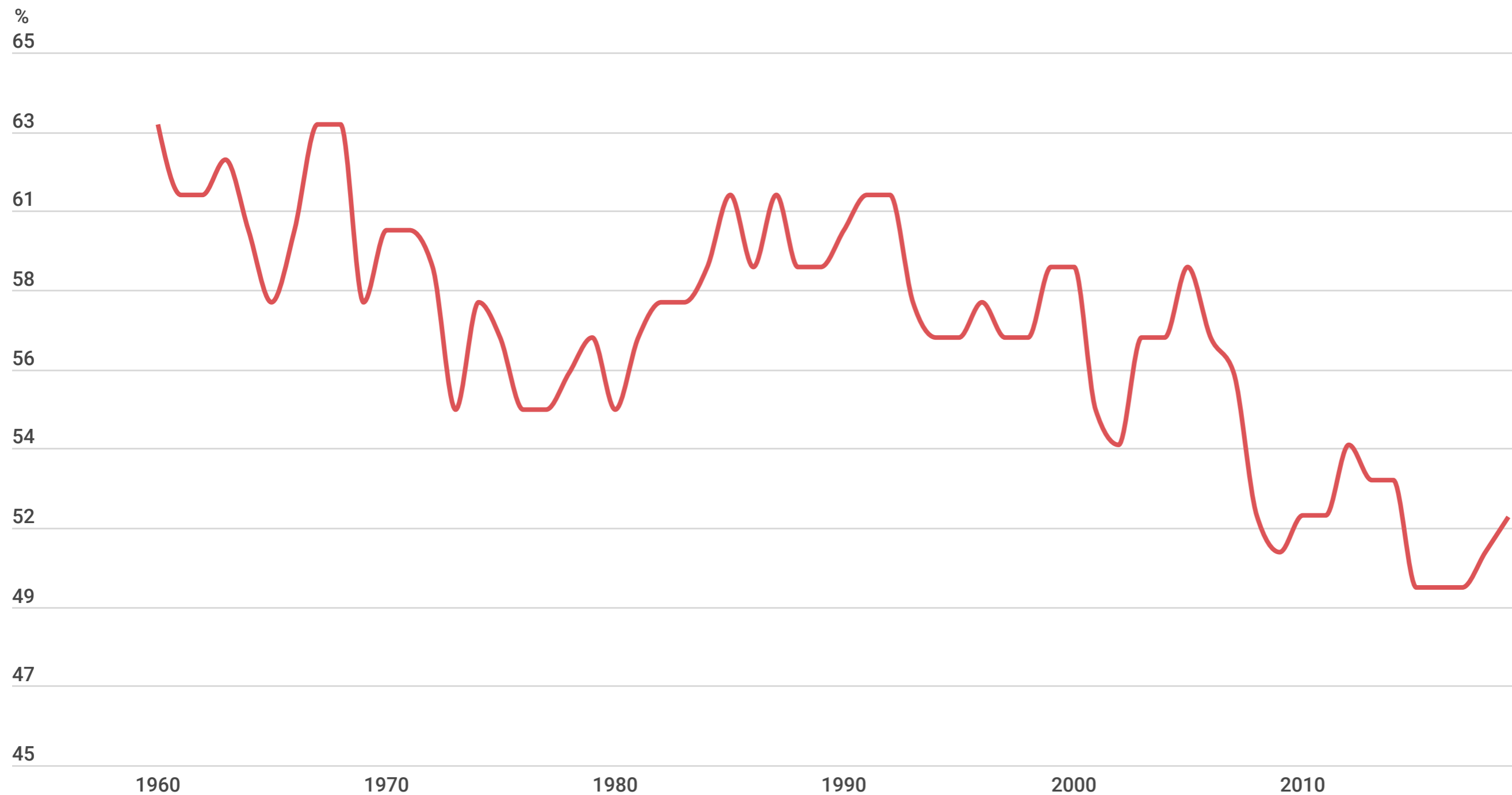


Current account balance (% of exports) 1864 - 2019



# ... due to increased saving ...

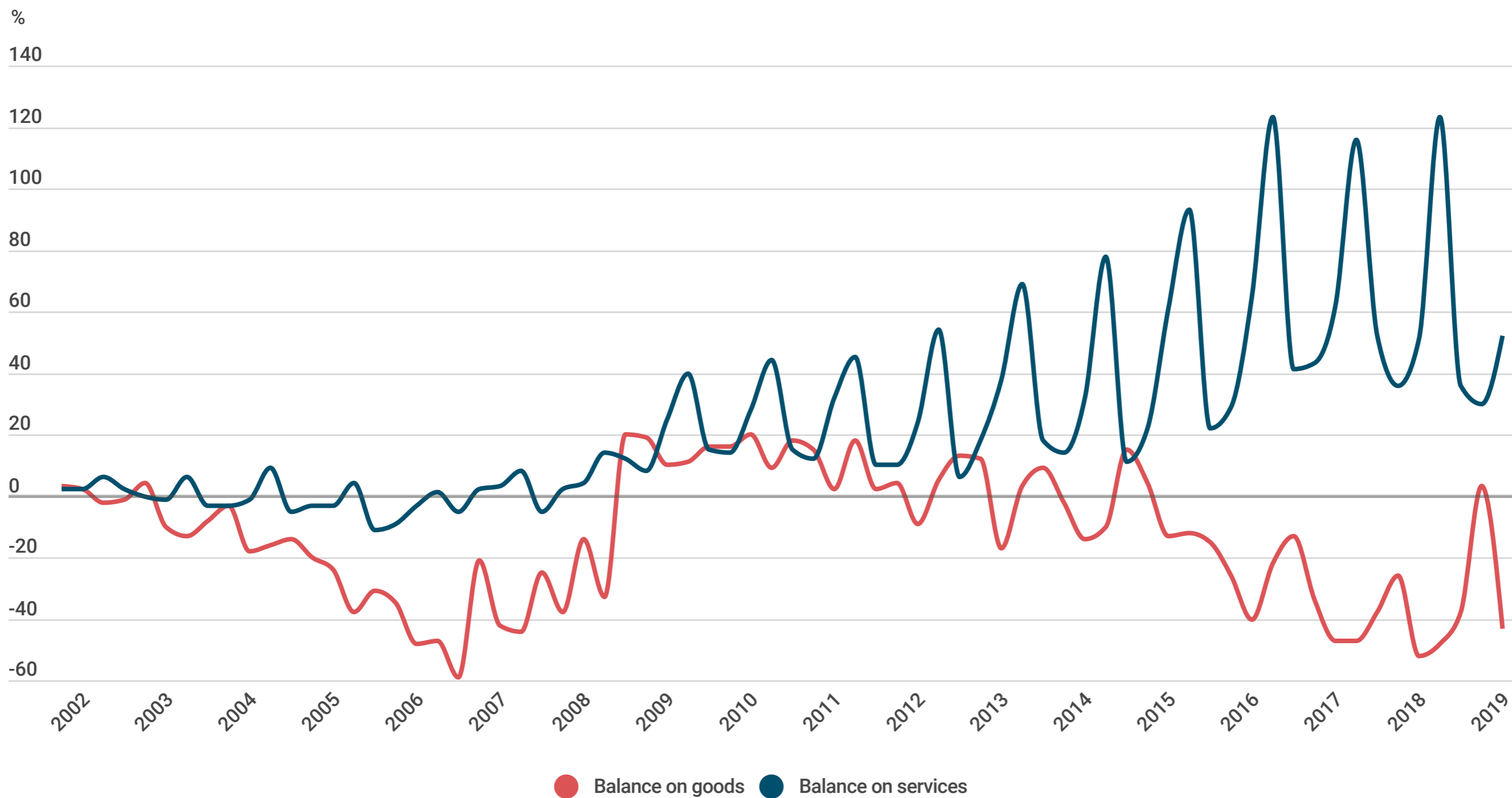
Private consumption (% of GDP) 1960 - 2019





# ... and growth in services exports

Trade balance on goods and services Q1/2002 - Q2/2019

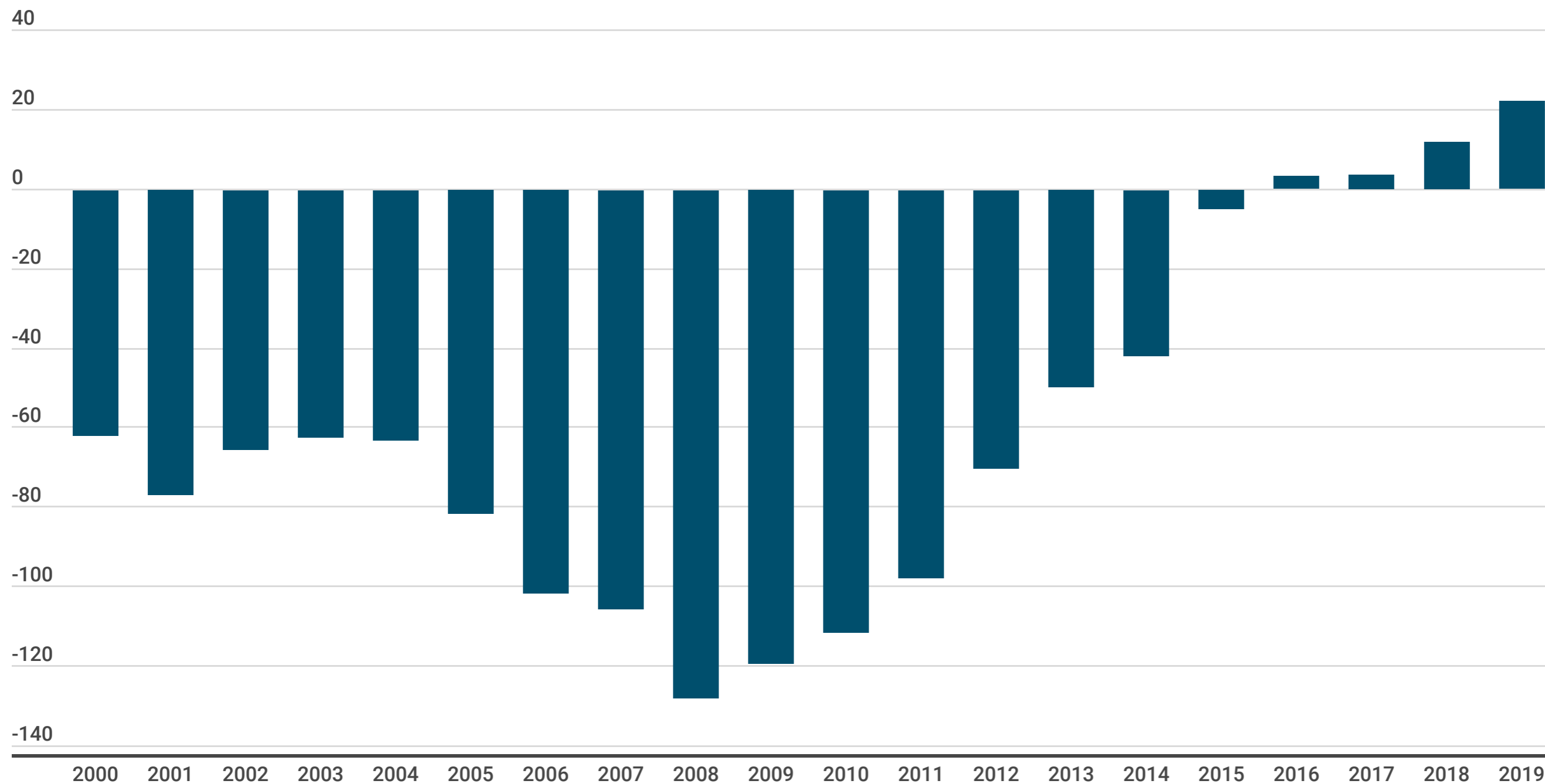


# ... reflected in transformation in net international investment position ...



## Iceland's net international investment position 2000-Q2/2019

% of GDP



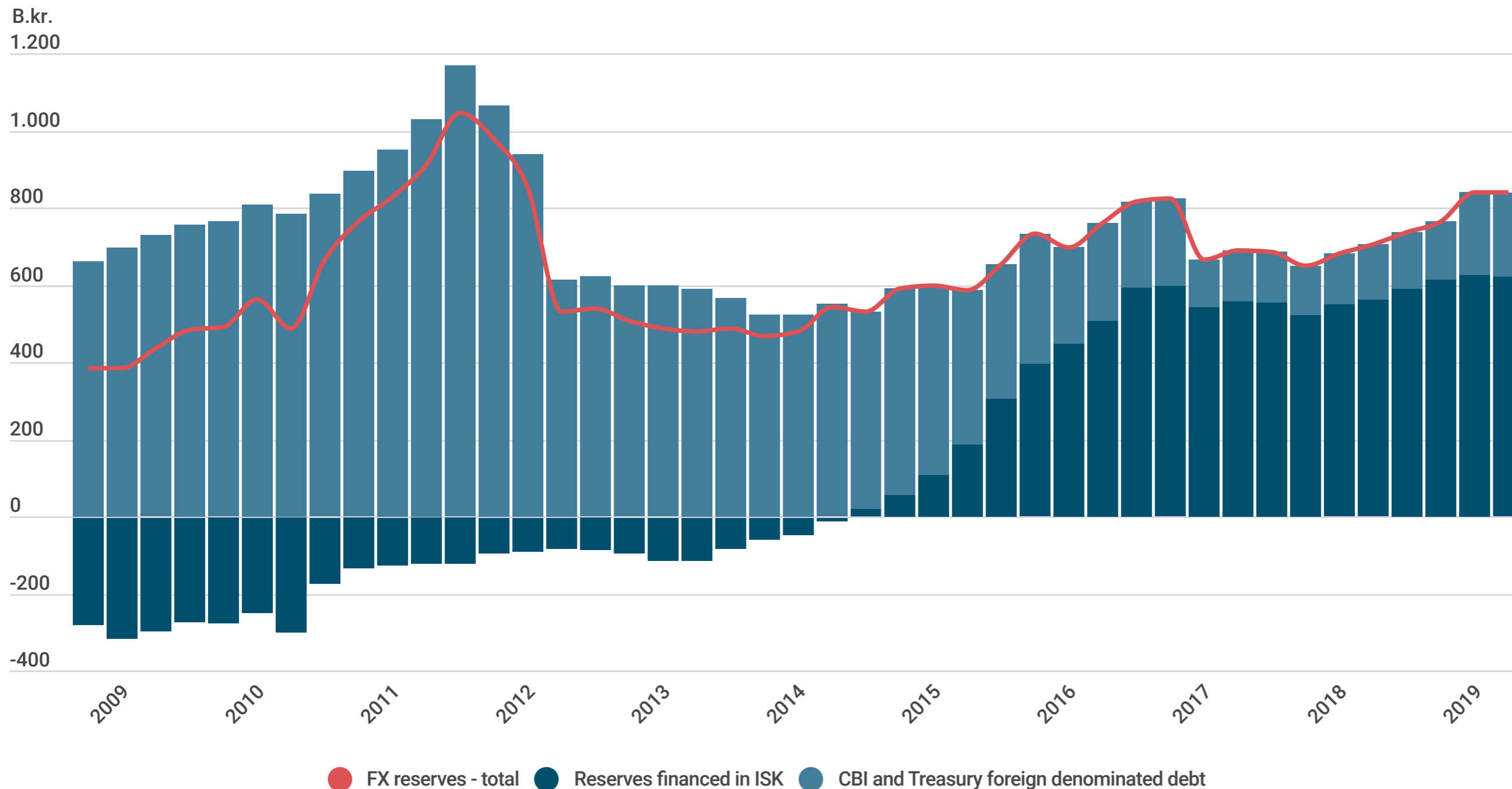


# Credibility of the Central Bank of Iceland



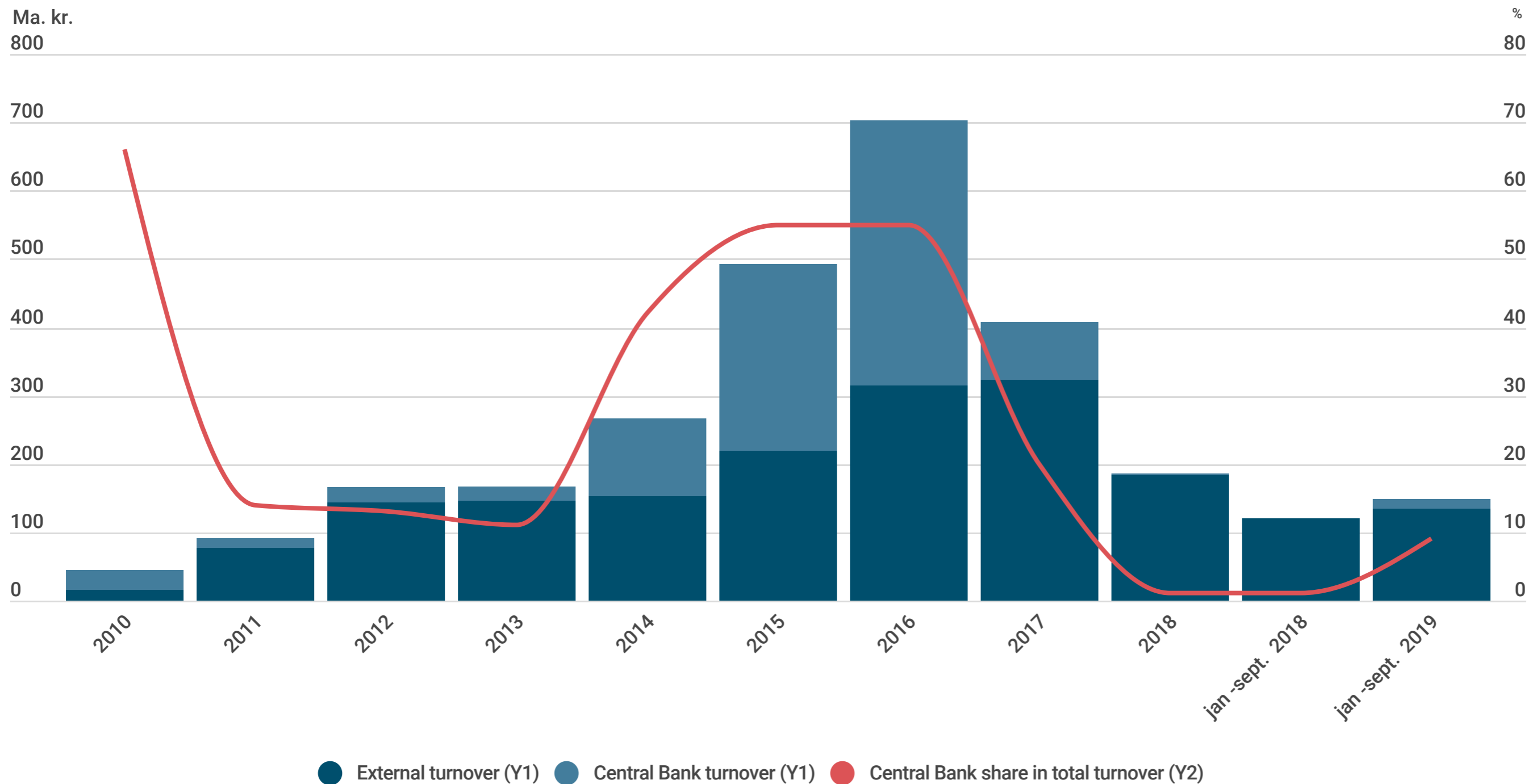
# The Central Bank's foreign exchange reserves amount to 800 b. ISK

Central Bank of Iceland foreign exchange reserves Q1/2009-Q3/2019



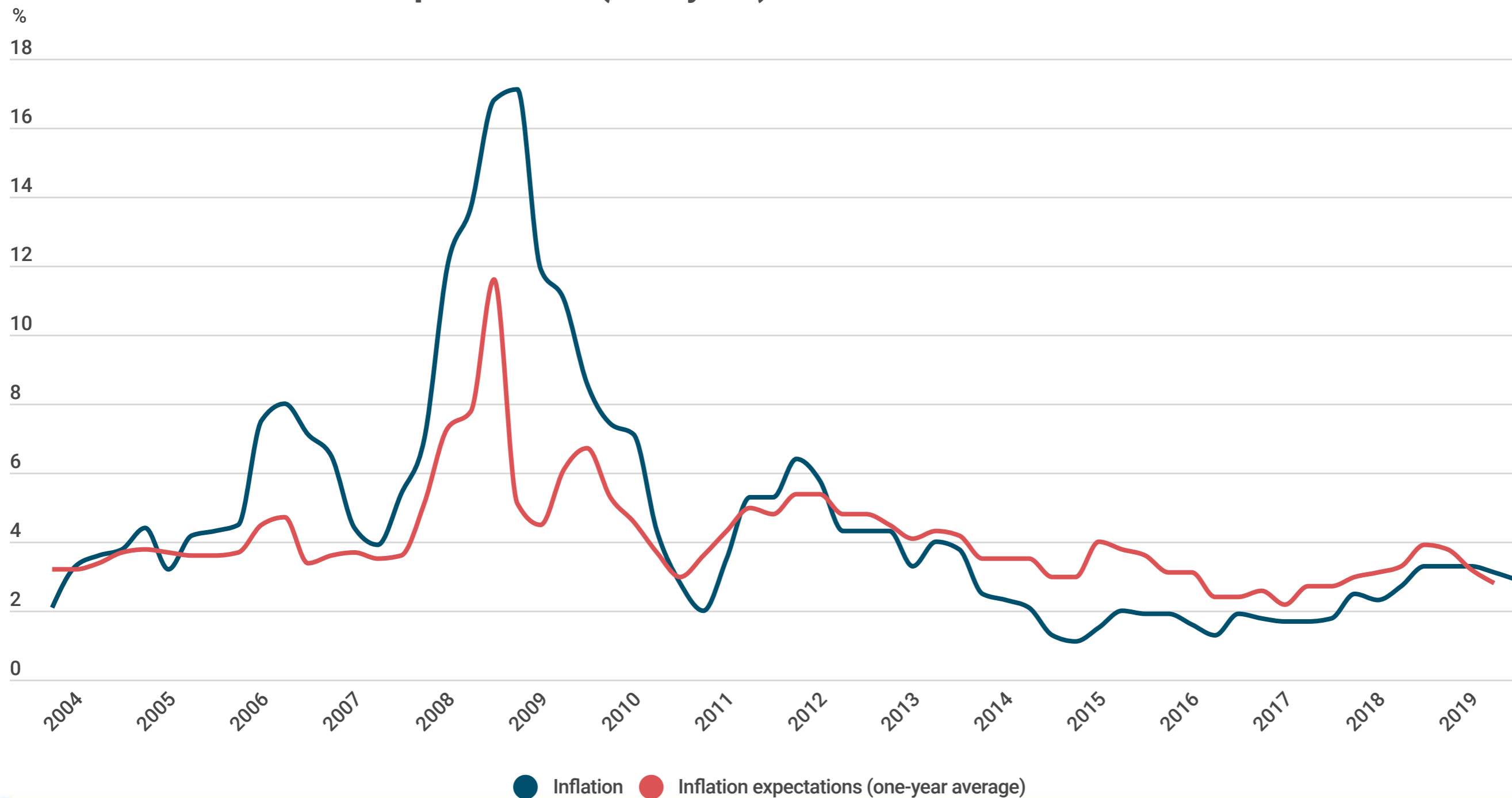
# The Central Bank intervenes to mitigate excess short-term exchange rate volatility - not to affect changes due to underlying economic conditions

Turnover in the foreign exchange market 2010-2019



# The bank has been successful in enforcing the inflation target in recent years, which has led to lower inflation expectations

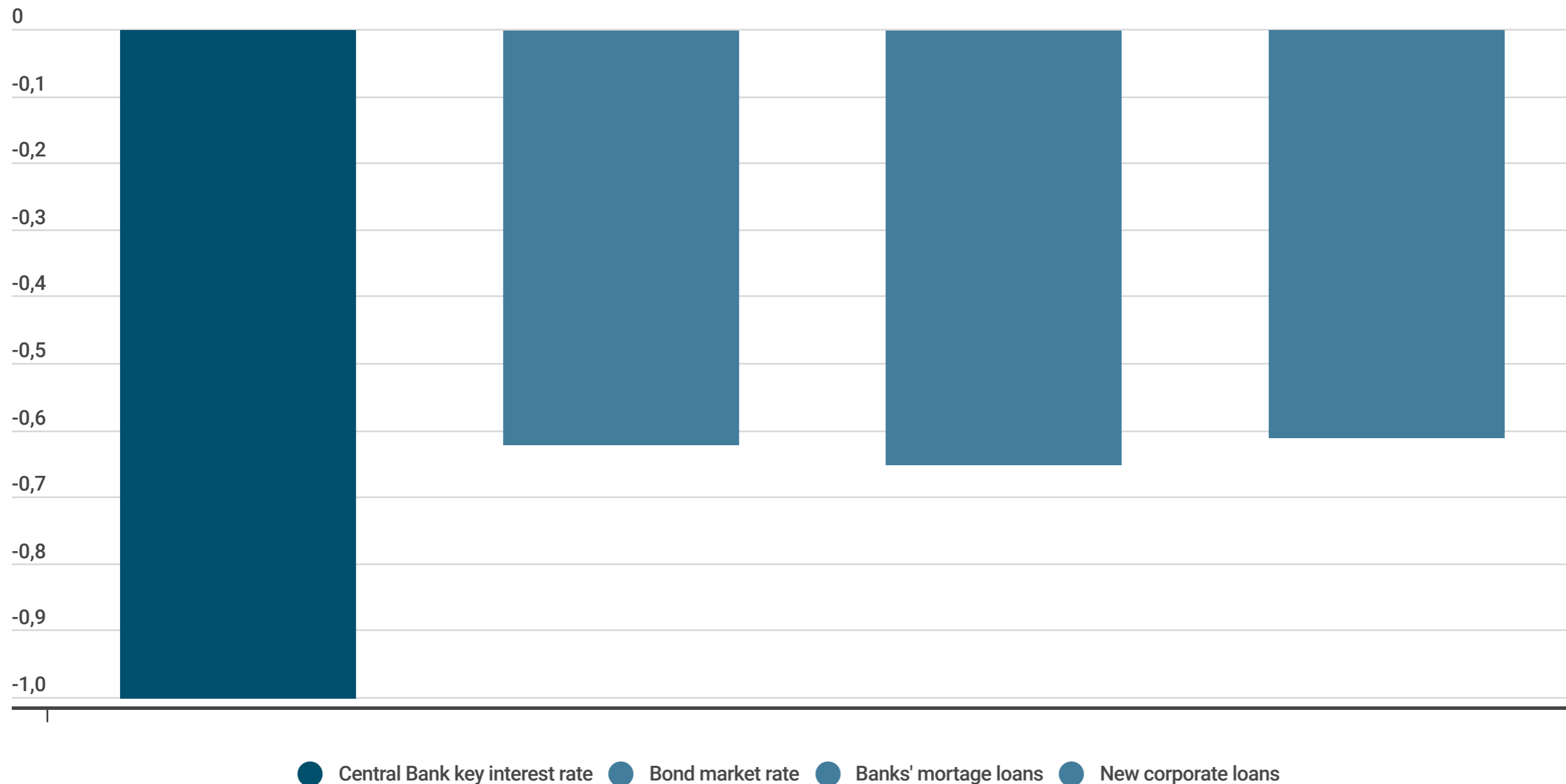
Inflation and inflation expectations (one-year) 2004-2019



# Lower rates supported by demand

## Interest rate changes, April-September 2019

Percentage points

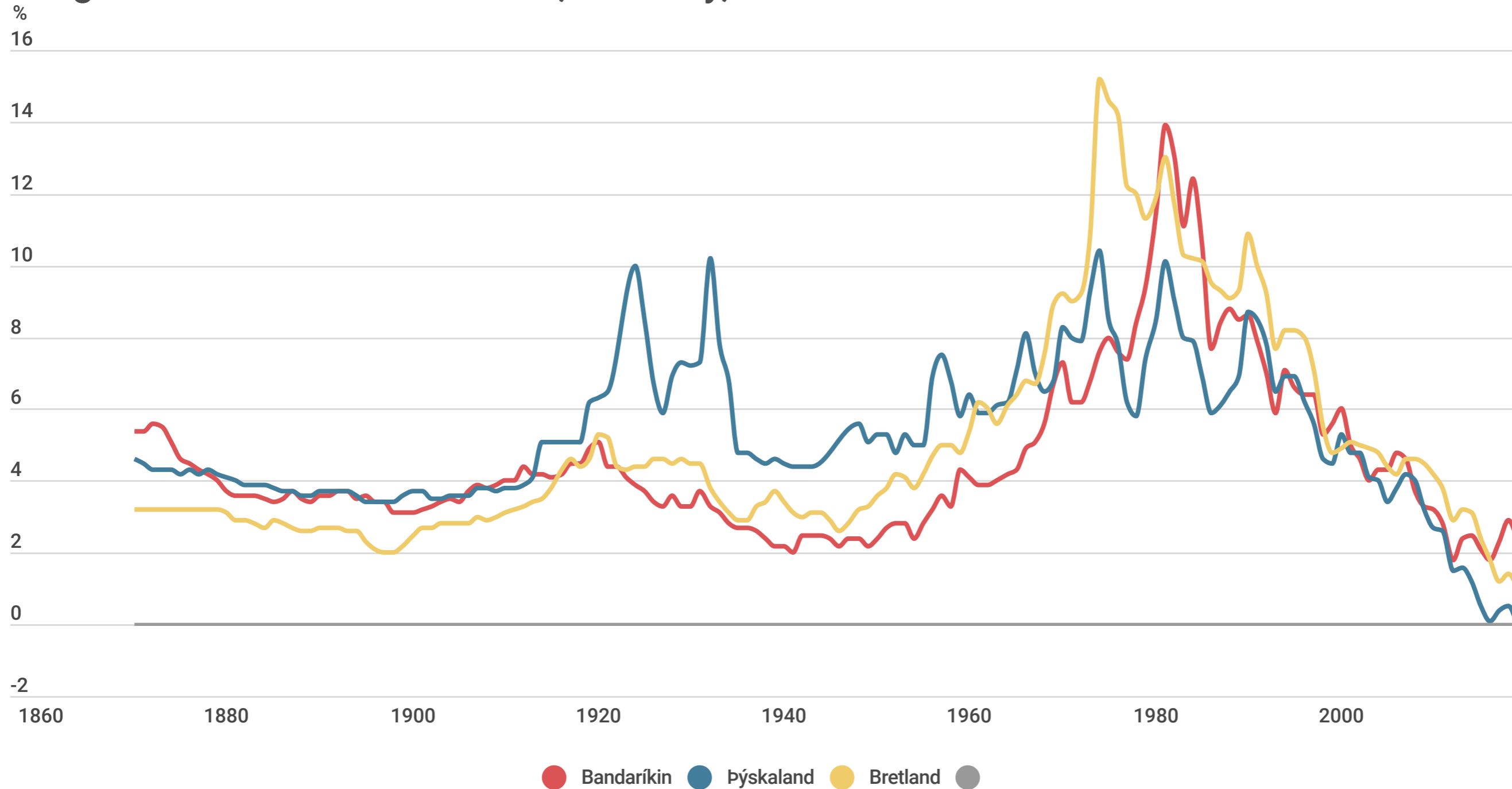




# Global interest rates have fallen to historical lows ...



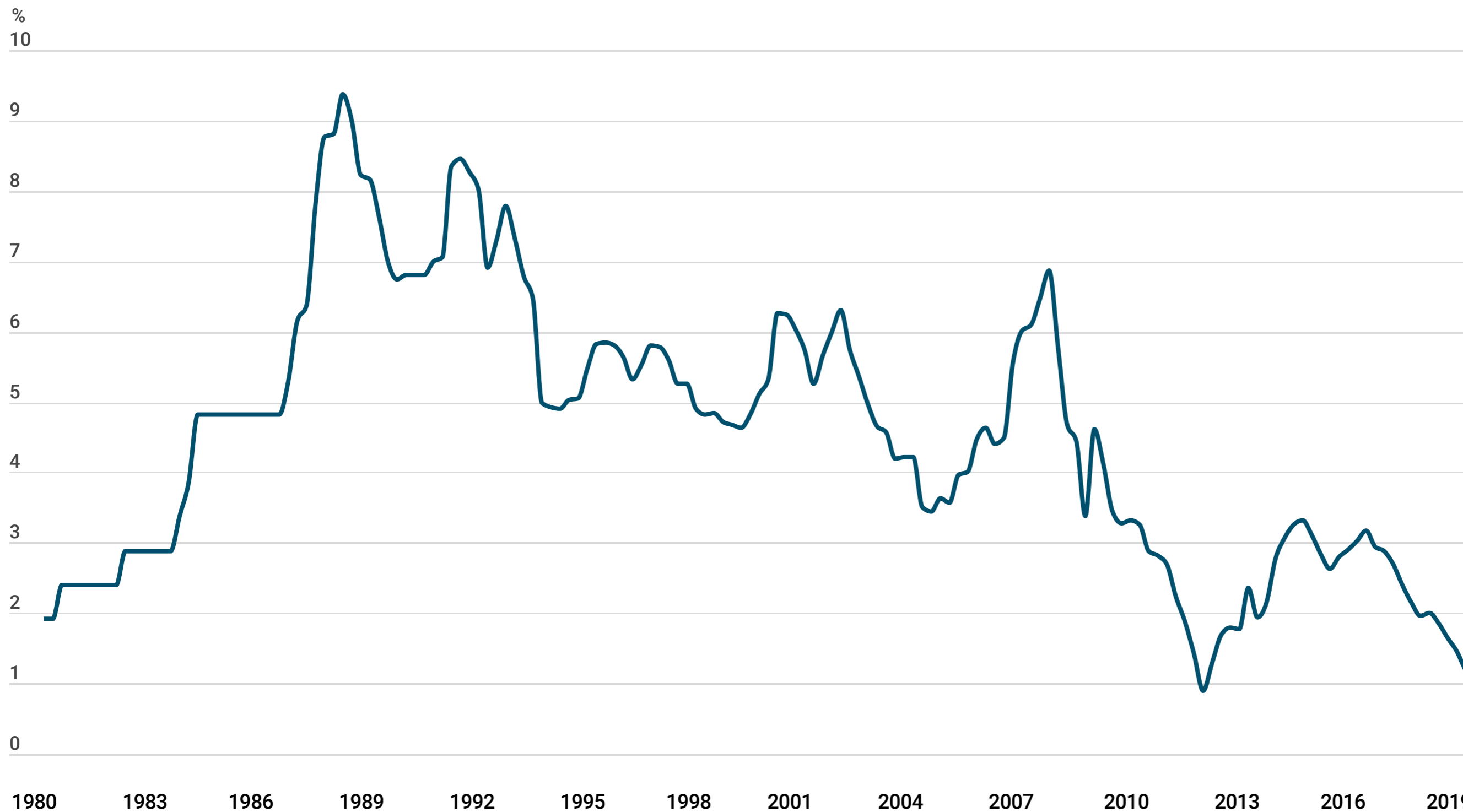
Long-term interest rates in the US, Germany, and the UK 1870-2019



# ... and the same trends can be observed in Iceland



Real government bonds 1980-2019





**The first downward cycle in history without a currency depreciation and inflation spike**  
Monetary policy can be applied to create jobs without jeopardizing price stability  
It is possible to respond to a downward cycle without eroding private sector conditions via inflation



**Long-term changes have lowered Iceland's interest rate level**  
Opportunity to improve living standards through lower interest rates  
Opportunity to finance infrastructure investment on favourable terms



**Monetary policy has limitations – price stability places restrictions on it**  
Competitiveness can no longer be reclaimed with a currency depreciation  
Competitiveness can only be improved through increased productivity



**Enormous changes ahead in the financial system**  
It is vital to ensure that monetary policy works – that new loans are granted to new investors