

Nr. 26/2011  
21 September 2011

## Statement of the Monetary Policy Committee 21 September 2011

The Monetary Policy Committee (MPC) of the Central Bank of Iceland has decided to keep the Bank's interest rates unchanged.

Newly released data broadly confirm the updated Central Bank forecast, published in the August *Monetary Bulletin*, according to which recovery of output and employment is underway and, in the absence of a significant appreciation of the króna, inflation will remain well above the Bank's inflation target for some time but return to target over the medium term.

Global financial market unrest and weaker-than-expected output growth in the world economy create uncertainty about inflation and growth prospects in Iceland. The risk of an adverse effect on the domestic economy has grown since the last MPC meeting.

Nevertheless, inflation prospects suggest that, over the medium term, it is appropriate to continue the gradual withdrawal of monetary accommodation begun in August. The risk that a modest interest rate hike will derail the economic recovery is low. However, somewhat more favourable than expected inflation figures in August, continued strengthening of the króna, and a weaker outlook for the global economy allow the Committee to keep rates on hold at present.

The Committee remains of the view that, in order to contain inflation, it may prove necessary to raise interest rates further. As always, however, monetary policy decisions depend on recent developments and prospects.