

# Statement of the Monetary Policy Committee

## 16 May 2012

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 macroeconomic forecast published in *Monetary Bulletin* today confirms that the recovery that began in late 2010 is continuing and is broadly based. Domestic demand is quite strong, and the labour and real estate markets are showing clear signs of recovery. Private sector financial conditions continue to improve.

The outlook is for slightly stronger output growth than in the Bank's February forecast. On the other hand, inflation has been higher than was forecast in February and the inflation outlook has deteriorated, in part because of a weaker króna. Other things being equal, the outlook is for inflation to remain above the inflation target longer than was forecast in February, particularly if the króna remains weak.

Moving forward, it will be necessary to continue withdrawing the current degree of monetary accommodation as the recovery progresses further and the margin of spare capacity diminishes. The degree to which such normalisation takes place through higher nominal Central Bank rates will depend on future inflation developments. If inflation does not subside in the next few months, other things being equal, it will be necessary to raise nominal interest rates further in order to ensure that inflation returns to target.

