

Statement of the Monetary Policy Committee 23 August 2023

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 9.25%.

Inflation has eased recently, measuring 7.6% in July. The contribution of the housing component to inflation has diminished, global price hikes have subsided, and the króna has appreciated. Nevertheless, domestic price increases have proven persistent and remain widespread. Underlying inflation has therefore fallen more slowly than headline inflation, to 6.7% in July.

GDP growth measured 7% in Q1/2023, and unemployment has continued to fall. The labour market is therefore still very tight and strong demand pressures remain in the overall economy, although there are signs that economic activity has begun to slow down.

The long-term inflation outlook is broadly unchanged, even though the short-term outlook has improved since May. Furthermore, long-term inflation expectations are well above target, and the risk remains that inflation will become entrenched.

In light of this, it is necessary to tighten the monetary stance still further. It is particularly important to prevent a wage-price spiral. Indicators imply that the effects of recent interest rate hikes are coming more clearly to the fore, and near-term monetary policy will be determined by developments in economic activity, inflation, and inflation expectations.