

# Statement of the Monetary Policy Committee 24 May 2023

The Monetary Policy Committee (MPC) of the Central Bank of Iceland has decided to raise the Bank's interest rates by 1.25 percentage points. The Bank's key interest rate – the rate on seven-day term deposits – will therefore be 8.75%.

The Committee has also decided to increase deposit institutions' fixed minimum reserve requirement from 1% to 2%.

Economic activity has been strong in 2023 to date, and the Central Bank's new macro-economic forecast assumes that GDP growth will measure 4.8% this year instead of the 2.6% projected in February. This is due in large part to the prospect of stronger growth in domestic demand, although the outlook is also for more robust activity in the tourism industry.

Inflation measured 9.9% in April and rose slightly between months. Underlying inflation is still increasing, and steep price hikes can be seen in a steadily growing share of the consumption basket. The outlook is for considerably stronger inflationary pressures in 2023 and 2024 than was previously assumed.

Furthermore, long-term inflation expectations have risen and are well above target. Therefore, there is a greater risk that inflation will become entrenched.

In light of this, it is necessary to tighten the monetary stance still further. It is especially important to prevent a wage-price spiral, particularly in view of the strong demand pressures in the economy and how soon the next round of wage negotiations will begin. Therefore, the outlook is for further rate hikes in order to ensure a better balanced economy and bring inflation back to target.