



The Monetary Policy Committee of the Central Bank of Iceland

Minutes of the Monetary Policy Committee meeting

Extraordinary meeting in March 2020 (92nd meeting)

Published 1 April 2020

The Act on the Central Bank of Iceland stipulates that it is the role of the Monetary Policy Committee (MPC) to set Central Bank interest rates and apply other monetary policy instruments. Furthermore, the Act states that “[m]inutes of meetings of the Monetary Policy Committee shall be made public, and an account given of the Committee’s decisions and the premises upon which they are based.” In accordance with the Act, the MPC has decided to publish the minutes of its meetings two weeks after each interest rate decision. The votes of individual Committee members are also included in the minutes.

The following are the minutes of the MPC’s extraordinary meeting held on 17 March 2020, during which the Committee discussed economic and financial market developments, decisions on the application of the Bank’s monetary policy instruments, and the communication of those decisions on 18 March. In addition, the Committee’s new rules of procedure were approved at the meeting.

I Decisions on the Bank’s monetary policy instruments

The Committee discussed developments since its last meeting, with the spread of COVID-19 accelerating even further, both in Iceland and abroad. They discussed the impact of the authorities’ measures to slow the further spread of the disease, including the impact of worldwide border closures on tourism and transport. It was pointed out that both the recently implemented ban on gatherings and self-quarantine among Icelanders would reduce domestic demand significantly. The Committee discussed different scenarios illustrating the pandemic’s possible impact on GDP growth, noting that Iceland was highly likely to see an economic contraction in 2020. It emerged in the discussion that marine product exports were also affected, both by a drop in demand, particularly for fresh products, and by disruptions in product distribution in export markets. It was pointed out that households’ and businesses’ financial conditions had deteriorated and that there were signs that interest premia on corporate loans had risen, offsetting declining real rates. Both future developments and the repercussions of the pandemic were still highly uncertain, and the situation was changing rapidly day by day.

The MPC discussed the foreign exchange market situation, as the króna had depreciated since the last meeting and the Bank had intervened in the market three times. Members considered the intervention to have been successful in mitigating excess volatility in the market. It was noted in the discussion that a depreciation of the króna was part of a necessary adjustment of the real exchange rate to the current circumstances. However, it would give cause for concern if the

depreciation should prove excessive and lead to a persistent increase in inflation and a rise in long-term inflation expectations. It was pointed out that the recent decline in oil and commodity prices would, to some extent, pull in the other direction. It emerged at the meeting that, after meeting with the Governor to discuss the current economic uncertainty, the Icelandic Pension Funds Association had issued a unilateral statement strongly encouraging pension funds to refrain from purchasing foreign currency for the next three months. The MPC agreed that with this action, the pension funds had taken a responsible position for the good of the economy.

The Committee discussed the commercial banks' situation, noting that their position was sound because of the strong capital and liquidity positions they had built up in recent years. Members agreed on the importance of ensuring that the banks had enough liquidity to support households and businesses. It was pointed out that recent actions by the Central Bank – including lifting the countercyclical capital buffer, easing minimum reserve requirements, and lowering interest rates – should give the commercial banks scope to grant grace periods and to restructure their loan portfolios. Members agreed that it was very important that financial institutions not use that scope to pay out dividends.

The Governor proposed that the Bank's interest rates be lowered by 0.5 percentage points. The Bank's key rate (the seven-day term deposit rate) would be 1.75%, the current account rate 1.5%, the seven-day collateralised lending rate 2.5%, and the overnight lending rate 3.5%. All Committee members voted in favour of the proposal.

The Committee agreed that this action would ease the monetary stance still further, in view of the continued deterioration in the economic outlook following the accelerated spread of COVID-19 and the broad-based actions taken by Iceland and other countries in an attempt to slow the spread of the virus. It was stated at the meeting that the MPC would continue to monitor economic developments closely and would use the tools at its disposal to support the domestic economy.

The following Committee members were in attendance:

Ásgeir Jónsson, Governor and Chair of the Monetary Policy Committee

Rannveig Sigurdardóttir, Deputy Governor for Monetary Policy

Gunnar Jakobsson, Deputy Governor for Financial Stability

Gylfi Zoëga, Professor, external member

Katrín Ólafsdóttir, Assistant Professor, external member

Chief Economist Thórarinn G. Pétursson was in attendance for the entire meeting.

Karen Áslaug Vignisdóttir wrote the minutes.

The next scheduled Statement of the Monetary Policy Committee will be published on Wednesday 20 May 2020.