



The Monetary Policy Committee of the Central Bank of Iceland

Minutes of the Monetary Policy Committee meeting

Extraordinary meeting in April 2020 (94th meeting)

Published 22 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 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 2 April 2020, during which the Committee discussed economic and financial market developments, and decisions on the application of the Bank’s monetary policy instruments.

I Decisions on the Bank’s monetary policy instruments

The Committee discussed economic developments since its previous meeting and the impact of Government measures to curb the spread of COVID-19. Members also discussed new scenarios describing the potential impact of the pandemic on unemployment, private consumption, GDP growth, and inflation, and they agreed that the outlook for 2020 had deteriorated since the previous two scenarios were presented in late March. The MPC noted that the global economic outlook had deteriorated further, as the pandemic had continued to spread around the world and governments had adopted stringent measures in response to it. The domestic inflation outlook for 2020 was relatively unchanged under the new scenarios, despite the current economic turmoil, as plunging commodity and oil prices, lower global inflation, and the prospect of a significant slack in the domestic economy could offset the inflationary impact of the depreciation of the króna. In the MPC’s opinion, however, developments would depend on keeping inflation expectations firmly anchored and securing long-term inflation expectations at the target.

Committee members also discussed different scenarios for potential developments in the balance of payments following the crisis. They discussed the foreign exchange market as well, as the Bank had intervened in the market once since the MPC’s last meeting. It was noted in the discussion that the depreciation of the króna in recent weeks was part of a necessary adjustment of the real exchange rate to the current circumstances.

The Governor updated the Committee on the status of the ongoing work on a framework for the quantitative easing programme announced on 23 March and said that proposals would be presented to the Committee when they were ready. The MPC also discussed changes in the supply of one-month term deposits and the potential impact on the monetary stance. Members decided to discuss the execution and impact of such changes at a later date.

The Governor requested the Committee's approval of the Bank's establishment of a special temporary collateralised lending facility, with a temporary expansion of the list of collateral deemed eligible for Central Bank facilities for financial institutions. All members approved the measure.

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 present 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.