



*The Monetary Policy Committee of the Central Bank of Iceland*

## Minutes of the Monetary Policy Committee meeting

Extraordinary meeting in June 2020 (96th meeting)

Published 8 July 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 MPC’s minutes from the joint meeting of the Monetary Policy Committee and the Financial Stability Committee, held on 23 June 2020, during which the Committees discussed decisions on the application of the Bank’s monetary policy instruments.

### **I Decisions on the Bank’s monetary policy instruments**

On 25 May 2020, the Central Bank of Iceland and the Ministry of Finance and Economic Affairs made an agreement under which the Bank will handle the granting of Treasury guarantees vis-à-vis credit institutions in connection with COVID-19-related support loans to business operators. It emerged at the meeting that the aim of the support loans was to maintain employment and economic activity by supporting small businesses that have suffered a temporary drop in revenues because of the pandemic and the associated public health measures. Furthermore, the loans should make viable small companies less likely to fail, thereby supporting financial system stability. It emerged at the meeting that it was important to encourage credit institutions to participate in the measure.

By law, credit institutions will grant loans bearing a Treasury guarantee at an interest rate equivalent to the Central Bank’s key rate (i.e., the seven-day term deposit rate, currently 1%), which is below the cost of their new funding. The loans will erode credit institutions’ liquidity position and liquidity ratios, all else being equal. The Committee noted that, in order to ensure the success of this measure, it would be necessary to develop a special collateralised lending framework that would provide credit institutions with short-term funding from the Central Bank, on the same terms as the support loans bearing a 100% Treasury guarantee.

In view of the discussion, the Governor proposed that, because of the uniqueness of support loans bearing a 100% Treasury guarantee and the circumstances currently prevailing due to the

pandemic, the Central Bank would develop a separate temporary collateralised lending framework for support loans, subject to the terms offered at any given time on seven-day term deposits with the Central Bank. All members voted in favour of the proposal.

Developments in the real estate market were also discussed at the meeting, in view of the pandemic and the recent reductions in Central Bank interest rates. It was mentioned that there are signs that households are increasingly refinancing their mortgage loans in response to lower interest rates. Committee members noted that mortgage lending had shifted somewhat from pension funds to commercial banks, as the latter were offering lower interest rates, and from indexed loans to non-indexed variable-rate loans. It emerged that nearly one-third of households' mortgage debt was non-indexed at the end of April. The Committees also discussed various macroprudential tools and the interactions between various Central Bank policy instruments.

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. In addition, a number of Bank staff members attended part of the meeting.

Karen Áslaug Vignisdóttir wrote the minutes.

The next scheduled Statement of the Monetary Policy Committee will be published on Wednesday 26 August 2020.