

Katrín Jakobsdóttir, Prime Minister
Prime Minister's Office
Reykjavík

According to the Statistics Iceland measurement published on 26 January 2021, twelve-month inflation in terms of the consumer price index (CPI) measured 4.3% in January; i.e., 0.3 percentage points above the upper deviation threshold of the 2½% inflation target specified by the Government and the Central Bank in the joint declaration of 27 March 2001. The declaration states that if inflation deviates from the target by more than 1½% in either direction, the Bank is obliged to send a report to the Government, explaining the reasons for the deviation, how the Bank intends to respond, and how long the Bank anticipates that it will take to bring inflation back to the target. The Bank's report shall be made public. Attached is the Central Bank of Iceland's report to the Government.

Since February 2009, decisions on the application of the Bank's monetary policy instruments have been taken by a five-member Monetary Policy Committee comprising the Governor, the Deputy Governor for Monetary Policy, the Deputy Governor for Financial Stability, and two external members. Responses to a breach of the deviation threshold are therefore under the auspices of the Committee. In accordance with the joint declaration from 2001, the attached report is the responsibility of the Central Bank; however, however, the Bank consulted with members of the MPC in preparing it. This letter and the accompanying report will be published on the Central Bank website today, 5 February 2021.

Also attached is the Central Bank's *Monetary Bulletin 2021/1*, released on 3 February 2021, which contains the Bank's new inflation forecast.

Respectfully yours,

Central Bank of Iceland

Ásgeir Jónsson
Governor