

Statement of the Monetary Policy Committee 14 March 2018

The Monetary Policy Committee (MPC) of the Central Bank of Iceland has decided to keep the Bank's interest rates unchanged. The Bank's key interest rate – the rate on seven-day term deposits – will therefore remain 4.25%.

According to the national accounts published by Statistics Iceland on 9 March 2018, year-2017 GDP growth measured 3.6%, which is close to the Bank's forecast as published in the February *Monetary Bulletin*.

Inflation measured 2.3% in February, down from 2.4% in January. Underlying inflation also declined slightly. The year-on-year rise in house prices has eased, and the effects of previous appreciation of the króna have diminished. This trend will probably continue in the near term. The króna has appreciated since the last MPC meeting, and the foreign exchange market has remained well balanced. The inflation outlook is broadly unchanged since the last meeting, although inflation expectations appear to have risen marginally. It is too soon, however, to determine whether inflation expectations have become less firmly anchored to the Bank's inflation target.

The high real exchange rate has slowed export growth, and the outlook is for the positive output gap to narrow. Nevertheless, a tight monetary stance is needed in order to contain rapid domestic demand growth. The recent decision not to terminate wage settlements reduces the short-term risk of unsustainable wage increases, but there are still underlying pressures in the labour market.