

## Statement of the Monetary Policy Committee 26 June 2019

The Monetary Policy Committee (MPC) of the Central Bank of Iceland has decided to lower the Bank's interest rates by 0.25 percentage points. The Bank's key interest rate – the rate on seven-day term deposits – will therefore be 3.75%.

The most recent data on economic developments do not change the assessment of the economic outlook as presented to the Committee at its last meeting. GDP growth in Q1/2019 was in line with the Bank's May forecast; furthermore, a contraction in the domestic economy is still anticipated and is expected to show more clearly in coming months. However, stronger private consumption in Q1 and leading indicators could imply that domestic demand has been more resilient than previously assumed. On the other hand, the outlook is for the contraction in tourism to be deeper than previously expected.

As yet, inflation has been in line with the Bank's last forecast. According to that forecast, inflation has peaked and will ease back to target as the year progresses. Further depreciation of the króna could change these prospects, however. Inflation expectations have fallen since the MPC's last meeting, and the monetary stance has therefore tightened again.

Although the economic contraction will be challenging for households and businesses, the economy is much more resilient than before. Furthermore, monetary policy has considerable scope to respond to the contraction, particularly if inflation and inflation expectations remain close to the target, as is currently envisioned. The proposed fiscal easing will pull in the same direction.

Near-term monetary policy decisions will depend on the interaction between developments in economic activity, on the one hand, and inflation and inflation expectations, on the other.