

Statement of the Monetary Policy Committee 7 October 2020

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 1%.

According to preliminary national accounts figures, GDP growth was slightly stronger in H1/2020 than was forecast in the August *Monetary Bulletin*. On the other hand, high-frequency indicators and surveys suggest that demand growth eased in late summer. Because of increased spread of the coronavirus in the recent past, the economic outlook has deteriorated relative to the August forecast. Uncertainty is pronounced, however, and economic developments will depend to a considerable degree on the path the pandemic takes.

Inflation rose between quarters in Q3/2020, to 3.2%, which is somewhat above the August forecast. The exchange rate pass-through from the depreciation of the króna continues to affect imported goods prices. Other things being equal, the considerable slack in the domestic economy will cause inflation to subside as the effects of the depreciation taper off. Medium- and long-term inflation expectations are broadly unchanged, however, and appear to remain anchored to the Bank's inflation target.

More firmly anchored inflation expectations provide monetary policy the scope to respond decisively to the deteriorating economic outlook. Lower interest rates, together with actions taken by the Bank this spring, have supported domestic demand. The impact of these measures has yet to emerge in full, however, and they will continue to support the economy and facilitate a more rapid recovery than would otherwise occur.

The MPC will continue to monitor economic developments and will use the tools at its disposal to support the domestic economy and ensure that the more accommodative monetary stance is transmitted normally to households and businesses.