

Statement of the Monetary Policy Committee 24 March 2021

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 0.75%.

According to newly published national accounts data, GDP contracted by 6.6% in 2020, whereas in the February forecast the Bank had projected a contraction of 7.7%. Economic activity in Q4 turned out stronger than projected, and the contraction in the first three quarters of the year was somewhat smaller than previous figures had indicated. Recent surveys and high-frequency indicators suggest a continuing recovery in 2021 to date. Uncertainty is pronounced, however, and economic developments in Iceland and abroad will depend to a considerable degree on the path the pandemic takes and the progress made in vaccinating the public.

Inflation eased to 4.1% in February. The effects of last year's depreciation of the króna still weigh heavily but have probably begun to subside, as the króna has appreciated somewhat in the recent term. As a result, the outlook is for inflation to start tapering off this spring, although the near-term outlook has probably deteriorated since February. Global oil and commodity prices have risen recently, and there have been cost increases that can be attributed to pandemic-related disruptions in production. Furthermore, inflation expectations have risen slightly, although it is too soon to determine whether they have become less firmly anchored to the Bank's inflation target.

The MPC will apply the tools at its disposal to support the domestic economy and ensure that inflation eases back to the target within an acceptable time frame.