

9 September 2016
1609092

Bjarni Benediktsson
Minister of Finance and Economic Affairs
Ministry of Finance and Economic Affairs
Arnarhvoll, Lindargata
150 Reykjavík

Re: Report to the Government on inflation below the lower deviation limit

Attached to this letter is the Central Bank's report to the Government on inflation below the lower deviation limit, sent pursuant to the joint declaration issued by the Government and the Bank on 27 March 2001. According to the joint declaration, if inflation measures below 1% or above 4%, the Central Bank of Iceland is to send a special report to the Government. According to measurements published by Statistics Iceland on 26 August 2016, twelve-month inflation in terms of the consumer price index (CPI) measured 0.9% during the month of August.

A breach of the aforementioned limits does not entail any other formal requirement vis-à-vis the Central Bank except to oblige the Bank to submit a report explaining the reasons for the deviation from the 2½% inflation target, estimating how long the deviation will endure and, as applicable, stating whether the Bank considers it necessary to take action in response to it. Since February 2009, decisions on the application of the Central Bank's main monetary policy instruments have been taken by a five-member Monetary Policy Committee (MPC) comprising the Governor and Deputy Governor of the Central Bank, a Central Bank officer in the field of monetary policy, and two external members. Responses to a breach of the deviation limits are therefore under the auspices of the Committee. In accordance with the joint declaration, the attached report is the responsibility of the Central Bank; 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 early next week.

Respectfully yours,
CENTRAL BANK OF ICELAND

Már Guðmundsson
Governor

enc:
Report to the Government on inflation below deviation limits

cc:
Prime Minister