

Statement of the Monetary Policy Committee 9 February 2022

The Monetary Policy Committee (MPC) of the Central Bank of Iceland has decided to raise the Bank's interest rates by 0.75 percentage points. The Bank's key interest rate – the rate on seven-day term deposits – will therefore be 2.75%.

According to the Bank's new macroeconomic forecast, published in the February *Monetary Bulletin*, GDP growth measured 4.9% in 2021, about 1 percentage point above the November forecast. Similar growth is projected for 2022. Job numbers have continued to rise and unemployment to fall, and the slack in output that opened up in the wake of the COVID-19 pandemic is estimated to have closed. Significant uncertainty remains, however.

The inflation outlook has deteriorated markedly since the MPC's last meeting, and headline inflation measured 5.7% in January. Underlying inflation has also risen and is estimated at just over 4%. Furthermore, inflation expectations have risen by some measures. The rise in house prices is a major factor, although other domestic cost items have risen as well. Added to these is the increase in global oil and commodity prices. According to the Central Bank's forecast, the outlook is for inflation to measure 5.8% in Q1/2022 and remain above 5% well into this year. It is assumed that headline inflation will ease when house price inflation slows down and global price hikes taper off; however, it is not expected to align with the target until the end of the forecast horizon.

The MPC reiterates that it will apply the tools at its disposal to ensure that inflation eases back to the target within an acceptable time frame.