

Statement of the Monetary Policy Committee 23 November 2022

The Monetary Policy Committee (MPC) of the Central Bank of Iceland has decided to raise 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 6%.

Inflation picked up again slightly in October, to 9.4%. Price increases are widespread, and underlying inflation has continued to rise. Inflation is expected to average 9.4% in Q4/2022 and then begin to ease gradually, measuring about 4½% in Q4/2023.

The króna has depreciated since the MPC's October meeting, and the long-term breakeven inflation rate in the bond market has risen somewhat. Furthermore, indicators imply that inflation expectations have become less firmly anchored to the target, and it could therefore take longer than it would otherwise to bring inflation back to target.

According to the Central Bank's new macroeconomic forecast, GDP growth is projected to measure 5.6% in 2022. The outlook for 2023 has improved, and growth is now projected at 2.8%, up from the August forecast of 1.9%. This is due to the prospect of more rapid growth of domestic demand than was previously assumed. The labour market is still quite tight, although tension has eased somewhat.

The MPC will continue to ensure that the monetary stance is tight enough to bring inflation back to target within an acceptable time frame. Near-term monetary policy decisions will depend on developments in economic activity, inflation, and inflation expectations. Decisions taken at the corporate level, in the labour market, and in public sector finances will be a major determinant of developments in interest rates in the coming term.