

Statement of the Monetary Policy Committee 7 February 2024

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 9.25%.

The effects of monetary policy are coming ever more clearly to the fore. The real rate has risen and inflation has fallen since the MPC's November meeting. Underlying inflation has eased as well. Indicators suggest that economic activity is subsiding faster than previously expected. According to the Central Bank's new forecast, the positive output gap is narrowing and will give way to a slack towards the end of the year. The inflation outlook has therefore improved.

Nevertheless, long-term inflation expectations are virtually unchanged and remain above target. Although labour market tightness has eased somewhat, pressures remain. As a consequence, inflation could remain persistent. Furthermore, there is uncertainty about the results of the ongoing wage negotiations and about possible fiscal measures relating to the wage negotiations and the seismic unrest in the Reykjanes area.

As before, near-term monetary policy formulation will be determined by developments in economic activity, inflation, and inflation expectations.