

Statement of the Monetary Policy Committee

8 February 2012

The Monetary Policy Committee (MPC) of the Central Bank of Iceland has decided to keep the Bank's interest rates unchanged.

According to the updated Central Bank forecast, published in *Monetary Bulletin* today, Iceland's economic recovery continues despite weakening global growth and elevated uncertainty. The outlook for the real economy is broadly unchanged from the November forecast. Short-term inflation developments are also in line with expectations, although inflation is now projected to subside at a slightly slower pace over the course of 2012. Assuming a broadly unchanged exchange rate, inflation is forecast to remain above the Bank's inflation target for somewhat longer than was projected in November.

Moving forward, it will be necessary to withdraw the current degree of monetary accommodation as the recovery progresses and the slack in the economy disappears. The degree to which such normalisation takes place through higher nominal Central Bank rates will depend on future inflation developments. In the absence of an improvement in the inflation outlook, an increase in nominal interest rates will probably be required in the near term in order to bring the monetary policy stance, which is still quite accommodative, to an appropriate level.