



21 February 2019

Governor's introductory remarks at an open meeting of the Parliamentary Economic Affairs and Trade Committee on the work of the Monetary Policy Committee

This is the last time I meet with the Committee to discuss the Monetary Policy Committee's report, as a new governor will have taken my place by the time the next meeting is held. However, Rannveig Sigurðardóttir is here today for the first time as Deputy Governor.

You have received a copy of the MPC's report on its work in H2/2018, together with a range of other material. Among those materials are the newest issue of Monetary Bulletin, with the Bank's most recent macroeconomic and inflation forecasts; the Monetary Policy Committee's last statement; and the minutes from its last meeting, published yesterday. I can therefore limit my remarks to a few introductory words.

Five months have passed since representatives of the Central Bank Monetary Policy Committee (MPC) last attended a meeting of the Parliamentary Economic Affairs and Trade Committee. The króna is now 7% weaker than it was then, and inflation has risen from 2.6% to 3.4%. Inflation expectations have risen as well, and the inflation outlook has deteriorated. At the same time, the GDP growth outlook for 2019 has worsened, and the Bank's forecast indicates that this year's growth rate will be the weakest since 2012. Both the Bank's forecast and a range of indicators suggest that demand pressures in the economy are subsiding rapidly, although a contraction is not expected unless new shocks should set in.

The MPC raised the Bank's key rate by 0.25 percentage points last November, owing to the poorer inflation outlook and the rise in inflation expectations. The key rate has been unchanged since then. The MPC's next moves will depend on developments, particularly to include how fast demand pressures ease and how the exchange rate and inflation develop. The outcome of wage negotiations could have a major impact in this regard, as could developments in airline operations and tourism, and global economic developments more broadly.

As can be seen in the MPC minutes published yesterday, at its last meeting, the Committee discussed whether conditions were developing that would permit lowering the special reserve requirement (SRR) on

capital inflows further, or setting it at zero. MPC members agreed that conditions warranted taking the next step to scale down the SRR. By law, the SRR is a policy instrument under the purview of the MPC. Nevertheless, I have considered it appropriate that the Committee be able to express its opinion before the Bank prepares a proposal to the Minister. In view of this position and the Central Bank's comments on the bill of legislation on the release of offshore krónur, it is now highly likely that the Bank will propose that the SRR be lowered substantially, and perhaps to zero, if the bill of legislation on offshore krónur is passed in the near future.