

# Statement of the Monetary Policy Committee 18 November 2020

The Monetary Policy Committee (MPC) of the Central Bank of Iceland has decided to lower 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 0.75%.

The autumn surge in COVID-19 cases and the tightened public health measures have weakened the economic rebound that began in Q3, following a historically large contraction in Q2. The economic outlook has therefore deteriorated, and according to the forecast in the November *Monetary Bulletin*, GDP growth is set to contract by 8.5% this year, a full 1 percentage point more than was forecast in August. GDP growth is projected to be weaker in 2021 as well. The economic outlook is highly uncertain, and economic developments will depend to a considerable degree on the path the pandemic takes.

The króna depreciated after the pandemic reached Iceland but has been relatively stable in the recent term. Inflation has risen since the spring, measuring 3.6% in October; however, medium- and long-term inflation expectations are broadly unchanged. According to the Bank's forecast, the outlook is for inflation to average about 3.7% until early 2021 and then begin to ease, owing to the sizeable slack in the economy.

Although inflation has risen temporarily and appears set to be higher than was assumed in August, more firmly anchored inflation expectations provide the MPC the scope to respond decisively to the deteriorating economic outlook. Interest rate reductions and other measures taken by the Central Bank in the past few months have supported domestic demand and mitigated the adverse impact of the economic shock.

The MPC will continue to use the tools at its disposal, including Treasury bond purchases by the Central Bank, to support the domestic economy and ensure that the more accommodative monetary stance is transmitted normally to households and businesses.