



# MONETARY POLICY COMMITTEE REPORT TO PARLIAMENT

2019 • 2



# Monetary Policy Committee Report to Parliament

17 January 2020

The Act on the Central Bank of Iceland stipulates that the Monetary Policy Committee (MPC) of the Central Bank of Iceland shall submit to Parliament (Alþingi) a report on its activities twice a year and that the contents of the report shall be discussed in the Parliamentary committee of the Speaker's choosing.

The Act requires that the MPC meet at least eight times each year. Since the last report was sent to Parliament, the Committee has held four regular meetings, most recently on 11 December 2019. The following report discusses the work of the Committee between July and December 2019.

## Monetary policy formulation

According to the Act on the Central Bank of Iceland, the principal objective of monetary policy is to promote price stability. This objective is further described in the joint declaration issued by the Bank and the Icelandic Government on 27 March 2001 as an inflation target of 2½%, based on the consumer price index. By law, the MPC takes decisions on the application of the Bank's monetary policy instruments; furthermore, the MPC's decisions shall be based on a thorough and careful assessment of developments and prospects for the economy as published in the Bank's *Monetary Bulletin*. The MPC's statements and minutes, enclosed with this report, contain the arguments for the Committee's decisions in the latter half of 2019.

## Developments from July to December 2019

At its meetings in August, October, and November, the MPC decided to lower the Bank's key interest rate (currently the rate on seven-day term deposits)<sup>1</sup> by a total of 0.75 percentage points. At the December meeting, the Committee kept the key rate unchanged. In the first half of 2019, interest rates were lowered by 0.75 percentage points. The Bank's key rate therefore fell by 1.5 percentage points during the year as a whole, to 3.0% at the end of December.

The monetary stance in terms of the Central Bank real rate eased in H1/2019, concurrent with the series of policy rate cuts beginning in May, but it was broadly unchanged in H2, as the Bank's nominal

Table 1. Central Bank of Iceland interest rate decisions in H2/2019 (%)

| Date    | Current accounts | Seven-day term deposits | Collateralised loans | Overnight loans |
|---------|------------------|-------------------------|----------------------|-----------------|
| 11 Dec. | 2.75             | 3.00                    | 3.75                 | 4.75            |
| 6 Nov.  | 2.75             | 3.00                    | 3.75                 | 4.75            |
| 2 Oct.  | 3.00             | 3.25                    | 4.00                 | 5.00            |
| 28 Aug. | 3.25             | 3.50                    | 4.25                 | 5.25            |

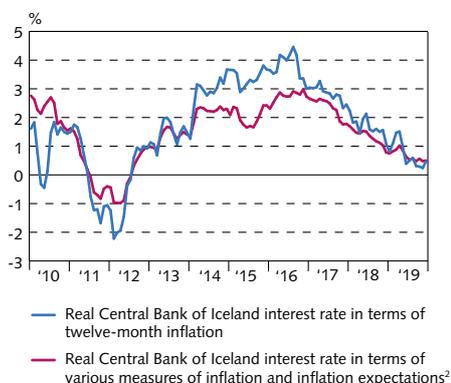
Chart 1  
Central Bank of Iceland key interest rate<sup>1</sup>  
Daily data 3 January 2001 - 31 December 2019



1. The Central Bank's key interest rate is defined as follows: the 7-day collateralised lending rate (until 31 March 2009), the rate on deposit institutions' current accounts with the Central Bank (1 April 2009 - 30 September 2009), the average of the current account rate and the rate on 28-day certificates of deposit (1 October 2009 - 20 May 2014), and the rate on 7-day term deposits (from 21 May 2014 onwards).  
Source: Central Bank of Iceland.

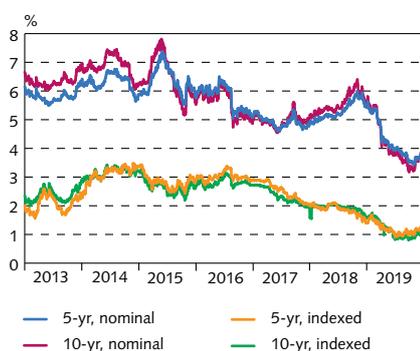
1. The key rate is the interest rate that is the most important determinant of short-term market rates and therefore is the best measure of the monetary stance. At present, this is the interest rate on seven-day term deposits with the Central Bank.

Chart 2  
Real Central Bank of Iceland interest rates<sup>1</sup>  
January 2010 - December 2019



1. From 2010 to May 2014, the nominal policy rate was the average of the current account rate and the maximum rate on 28-day CDs. From May 2014, the policy rate has been the seven-day term deposit rate.  
2. Until January 2012, according to twelve-month inflation, one-year business inflation expectations, one-year household inflation expectations, the one-year breakeven inflation rate, and the Central Bank forecast of twelve-month inflation four quarters ahead. From February 2012 onwards, according to the above criteria, plus one-year market inflation expectations based on a quarterly Central Bank survey.  
Sources: Gallup, Statistics Iceland, Central Bank of Iceland.

Chart 3  
Government-guaranteed bond yields<sup>1</sup>  
2 January 2013 - 30 December 2019



1. Based on the zero-coupon yield curve, estimated with the Nelson-Siegel method, using money market interest rates and government-guaranteed bonds.  
Source: Central Bank of Iceland.

interest rates fell in tandem with the decline in inflation and inflation expectations. In terms of the average of various measures of inflation and one-year inflation expectations, the Bank's real rate was 0.6% at the end of December, as opposed to 0.5% at the end of June. The Bank's real rate in terms of twelve-month inflation was 1% at the end of December but averaged 0.4% in H2/2019 as a whole.

Nominal Treasury bond yields began to fall in late 2018 and continued to decline until early November 2019, when they rose temporarily, probably owing in part to changed expectations concerning developments in Central Bank interest rates. The yield on ten-year nominal Treasury bonds was 3.4% at the end of December, having fallen by 0.4 percentage points since end-June and by 2.2 percentage points since the beginning of the year. Long-term indexed rates also fell during the year. The yield on indexed ten-year Treasury-guaranteed bonds was 1.1% at the end of December, 0.5 percentage points lower than at the beginning of the year.

Interest rates offered to households fell during the year, and household lending growth remains relatively robust. On the other hand, the spread between the commercial banks' rates on new corporate loans and the Bank's key rate began to widen towards the end of the year, and corporate lending growth eased. This slowdown in corporate lending growth was expected in view of strong growth in recent years coupled with declining demand. In addition, various factors in financial institutions' operations affect access to credit, including revaluation of loan pricing and credit risk in the wake of recent changes in the financial institutions' operating environment.

Capital inflows for new investment amounted to nearly 21 b.kr. in H2/2019, well below the 50 b.kr. total for H1. Over the same period, outflows of capital previously imported for new investment amounted to nearly 18 b.kr. H2 inflows were due largely to equity securities purchases and, by the same token, outflows were primarily due to sales of listed equities.

The króna depreciated in autumn 2018, following news of airline WOW Air's financing difficulties and because of the deterioration in terms of trade. At the same time, signs of increased pessimism about the economic outlook and the outcome of wage negotiations began to come to the fore. The króna held relatively stable in H1/2019 despite WOW's collapse and concerns about a sudden economic slide. In H2, the króna appreciated slightly, and by the end of December it was some 3½% stronger than at the end of June.

In line with the Central Bank's declared objective of intervening to mitigate excess short-term exchange rate volatility, the Bank traded in the interbank foreign exchange market twice in H2/2019. It bought foreign currency for 2.4 b.kr., or about 3% of total foreign exchange market turnover during the period.

Inflation fell markedly in H2, to 2.0% by December. It is now below the inflation target and is at its lowest in two years. House price inflation slowed significantly in the first three quarters of 2019. Even so, the housing component was the major determinant of developments in the CPI in H2, mainly because of price hikes in regional Iceland in Q4. Other factors included miscellaneous imported

goods, particularly furniture and housewares, which had a moderate impact on the index. Twelve-month inflation excluding housing has also tapered off in recent months, to 1.7% in December. Underlying inflation measured 2.4% in December, according to the median of various measures, as compared with 3.3% in June.

The contribution of the rise in the housing component to inflation has diminished substantially since June 2019. The twelve-month rise in imputed rent, which represents the cost of owner-occupied housing and consists of the market value of housing plus real mortgage interest expense, totalled 2.3% in December, as compared with 3.4% in June. The interest component of imputed rent has lowered inflation recently, as real mortgage interest expense has fallen in response to Central Bank rate cuts. Annual inflation is estimated to have been lower by roughly 0.3 percentage points as a result. The contribution of imported goods to inflation has also weakened since June, owing to a relatively stable króna in H2/2019. The twelve-month rise in imported goods prices peaked at 4.3% in August but had tapered off to 1.3% by December. On the other hand, the contribution from private services has increased recently and now accounts for nearly a third of twelve-month inflation, about the same as the contribution from the housing component. This is mainly because the decline in telephone service prices lost pace and airfares rose in 2019, after having fallen significantly in recent years. Furthermore, home maintenance, package tours, and restaurant services rose in price in H2/2019.

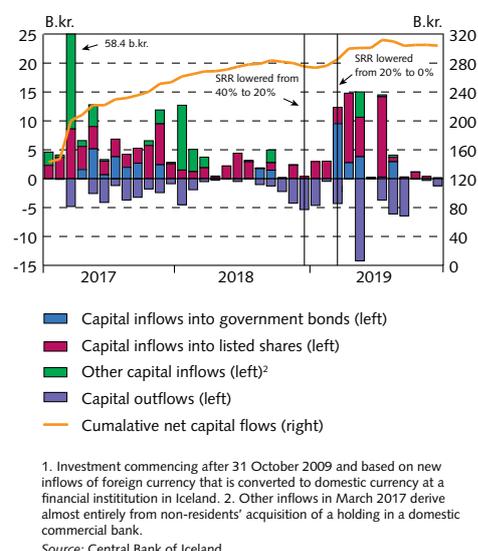
Inflation averaged 2.5% in Q4/2019, as was forecast in the November *Monetary Bulletin*. According to that forecast, the outlook is for inflation to be at or near the target for most of the forecast horizon, although it may dip temporarily below target in H2/2020.

Inflation expectations have fallen by nearly all measures since mid-2019, when the MPC sent its last report to Parliament. According to recent surveys, market agents' and corporate executives' one-year expectations are at target, whereas household expectations measure 3%. Market agents' long-term inflation expectations according to surveys and bond pricing are also at target, whereas long-term corporate and household expectations are around 3%. At the end of December 2019, the five- and ten-year breakeven inflation rate measured 2.2%, just over ½ a percentage point lower than at the end of June.

At its December meeting, the MPC considered it appropriate to wait and see what impact the measures already in place would have. In the Committee's opinion, lower interest rates had supported demand, and based on the Bank's forecast, the current interest rate level should suffice to ensure medium-term price stability and full capacity utilisation.

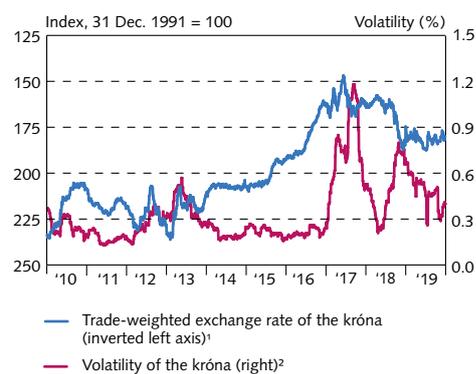
According to the MPC's last statement, near-term monetary policy decisions will depend on the interaction between developments in economic activity, on the one hand, and inflation and inflation expectations, on the other.

Chart 4  
Capital flows due to registered new investments<sup>1</sup>  
January 2017 - December 2019



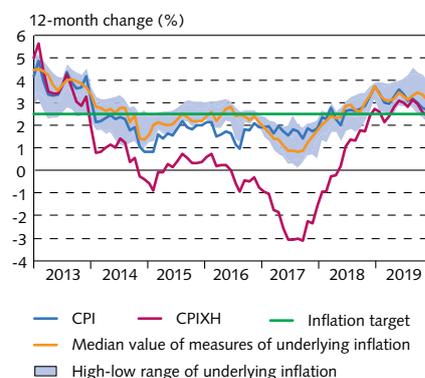
1. Investment commencing after 31 October 2009 and based on new inflows of foreign currency that is converted to domestic currency at a financial institution in Iceland. 2. Other inflows in March 2017 derive almost entirely from non-residents' acquisition of a holding in a domestic commercial bank.  
Source: Central Bank of Iceland.

Chart 5  
Exchange rate and volatility of the króna  
Daily data 4 January 2010 - 31 December 2019



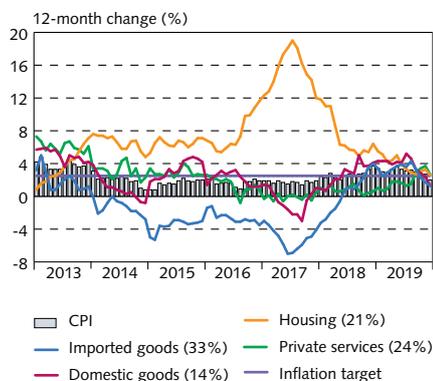
1. Price of foreign currency in terms of the króna. Inverted axis shows a stronger króna as a rise. 2. Volatility is measured by the standard deviation of daily changes in the past 3 months.  
Source: Central Bank of Iceland.

Chart 6  
Headline and underlying inflation<sup>1</sup>  
January 2013 - December 2019



1. Underlying inflation measured using a core index (which excludes the effects of indirect taxes, volatile food items, petrol, public services, and real mortgage interest expense) and statistical measures (weighted median, trimmed mean, a dynamic factor model, and a common component of the CPI).  
Sources: Statistics Iceland, Central Bank of Iceland.

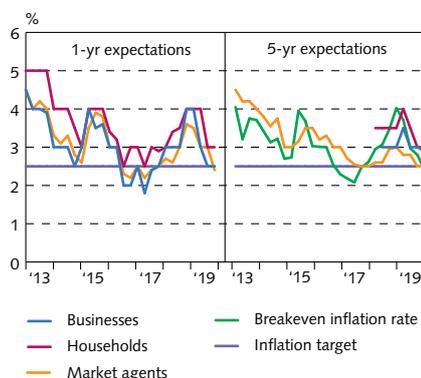
Chart 7  
Imported and domestic inflation<sup>1</sup>  
January 2013 - December 2019



1. Imported inflation is estimated using imported food and beverages and the price of new motor vehicles and spare parts, petrol, and other imported goods. The figures in parentheses show the current weight of these items in the CPI.

Sources: Statistics Iceland, Central Bank of Iceland.

Chart 8  
Inflation expectations  
Q1/2013 - Q4/2019



Sources: Gallup, Central Bank of Iceland.

## Accompanying documents

The following documents are enclosed with this report:

1. Monetary Policy Committee statements from July to December 2019.
2. Minutes of Monetary Policy Committee meetings from July to December 2019.
3. Governor's presentation on the financial crisis, Government measures, and economic rehabilitation in Iceland, at an international conference held by the Central Bank at Grand Hotel, 12 July 2019.
4. Governor's presentation, delivered in Ísafjörður, Akureyri, Neskaupstaður, and Árborg during the week of 12-19 August 2019, on the Central Bank's operational objectives, monetary and economic policy performance during the post-crisis period, and major challenges ahead (in Icelandic).
5. Chief Economist's presentation on the domestic economy at business cycle turning points, delivered at the Icelandic Federation of Trade, 4 September 2019 (in Icelandic).
6. Governor's presentation, "A new Central Bank — what to expect?", delivered at a meeting of the Association of Business Specialists and Economists [IS: Félag viðskipta- og hagfræðinga], 19 September 2019 (in Icelandic).
7. Governor's presentation on the Central Bank and the fishing industry, delivered at Fisheries' Day, held in Harpa Conference Centre by Fisheries Iceland, 25 September 2019 (in Icelandic).
8. Press release on changes to Central Bank exchange rate listings, 9 October 2019.
9. Press release on restrictions on credit institutions' transactions with the Central Bank, 14 October 2019.
10. Governor's presentation on the economic outlook, delivered at a meeting at Kvika banki, 29 October 2019 (in Icelandic).
11. Press release on amendments to the Rules on Indexation of Savings and Loans, no. 877/2018, 4 November 2019 (in Icelandic).
12. Governor's presentation on economic developments and prospects, delivered at the Chamber of Commerce monetary policy meeting, held at the Hilton Hotel, Thursday 7 November 2019 (in Icelandic).
13. Governor's presentation on economic policy and poverty, delivered at the University of Iceland, 19 November 2019 (in Icelandic).
14. Deputy Governor's presentation on the state of the Icelandic economy and the medium-term outlook, delivered at a meeting of Samiðn, 19 November 2019 (in Icelandic).
15. Governor's presentation on a century of economic policy, delivered at a symposium held by the Central Bank and the University of Iceland Institute of Economic Studies, 21 November 2019 (in Icelandic).

16. Governor's presentation on developments in the banking system and the current outlook for the financial market, held at Icelandic Financial Services Association Day in Harpa Conference Centre, 28 November 2019 (in Icelandic).
17. Deputy Governor's address on the importance of sound organisational and governance practices in the battle against cyberattacks, delivered at an annual conference of Nordic central banks in Stockholm, 28 November 2019.
18. Report on responses to some of the proposals from the task force on the review of monetary policy.
19. Joint declaration by the Government and the Central Bank on inflation targeting, March 2001.

On behalf of the Central Bank of Iceland Monetary Policy Committee,



*Ásgeir Jónsson*

*Governor of the Central Bank of Iceland  
and Chair of the Monetary Policy Committee*

## Accompanying documents

|   | Page |
|---|------|
| Statement of the Monetary Policy Committee 28 August 2019   | 9    |
| Statement of the Monetary Policy Committee 2 October 2019   | 10   |
| Statement of the Monetary Policy Committee 6 November 2019  | 11   |
| Statement of the Monetary Policy Committee 11 December 2019   | 12   |
| Minutes of the Monetary Policy Committee meeting August 2019  | 13   |
| Minutes of the Monetary Policy Committee meeting October 2019   | 20   |
| Minutes of the Monetary Policy Committee meeting November 2019  | 27   |
| Minutes of the Monetary Policy Committee meeting December 2019  | 35   |
| Crisis, Policy Responses and Recovery in Iceland  | 42   |
| The Central Bank's operational objectives, monetary and economic policy performance during the post-crisis period, and major challenges ahead | 55   |
| The domestic economy at business cycle turning points   | 70   |
| A new Central Bank — what to expect?  | 78   |
| The Central Bank and the fishing industry   | 83   |
| Changes to Central Bank exchange rate listings  | 95   |
| Restrictions on credit institutions' transactions with the Central Bank   | 96   |
| The economic outlook this autumn  | 97   |
| Amendments to the Rules on Indexation of Savings and Loans, no. 877/2018  | 108  |
| Chamber of Commerce and monetary policy meeting 2019 – low interest rate environment  | 109  |
| Economic policy and poverty   | 122  |
| The state of the Icelandic economy and the medium-term outlook  | 127  |
| A century of economic policy – what have we learned and can we improve?   | 138  |
| The banking system and the current outlook for the financial market   | 155  |
| The importance of sound organisational and governance practices in the battle against cyberattacks  | 167  |
| Responses to some of the proposals from the task force on the review of monetary policy   | 169  |
| Joint declaration by the Government and the Central Bank on inflation targeting, March 2001   | 180  |

## Statement of the Monetary Policy Committee 28 August 2019

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 3.5%.

According to the Bank's new macroeconomic forecast, published in the August *Monetary Bulletin*, this year's economic contraction will measure 0.2%, slightly less than was forecast in May. This is due mainly to more resilient private consumption growth, although the contribution of net foreign trade is also more positive, as demand has shifted towards domestic production, partially offsetting the stronger contraction in tourism. The GDP growth outlook for 2020 has deteriorated, however, as it now appears that it will take longer for tourism to recover after this year's setbacks.

Inflation measured 3.4% in Q2 but fell to 3.1% in July. Underlying inflation has developed in a broadly similar manner. Furthermore, inflation is expected to subside faster than was forecast in May and align with the target in H1/2020. The króna has appreciated by just over 2% between meetings, and the foreign exchange market appears well balanced. Inflation expectations have fallen back to target since the MPC's last meeting, and the monetary stance has therefore tightened slightly.

Near-term monetary policy decisions will depend on the interaction between developments in economic activity, on the one hand, and inflation and inflation expectations, on the other.

## Statement of the Monetary Policy Committee 2 October 2019

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 3.25%.

According to preliminary national accounts figures, output growth continued to ease in H1/2019, even though it was somewhat stronger than was forecast in the August *Monetary Bulletin*. This relatively stronger growth is due mainly to a more favourable contribution of net trade, as demand has shifted towards domestic production, partially offsetting the contraction in exports. Leading indicators imply that economic activity will continue to slow, although there are signs that the economy may be regaining a foothold.

Headline inflation measured 3.1% in Q3, after falling between quarters, while underlying inflation rose month-on-month in September. Headline inflation was slightly lower than was forecast in August, and the outlook is for it to ease faster than was assumed there. The króna has appreciated, and inflation expectations have fallen since the MPC's last meeting. The monetary stance has therefore tightened slightly.

Recent developments suggest that economic activity has been stronger than previously assumed. On the other hand, the outlook is uncertain, particularly for the global economy. As a result, domestic GDP growth could weaken more rapidly than is currently expected.

Near-term monetary policy decisions will depend on the interaction between developments in economic activity, on the one hand, and inflation and inflation expectations, on the other.

## Statement of the Monetary Policy Committee 6 November 2019

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 3%.

According to the Bank's new macroeconomic forecast, published in the November *Monetary Bulletin*, the GDP growth outlook for H2/2019 has deteriorated relative to the August forecast. In H1, however, GDP growth exceeded the forecast, and a contraction of 0.2% is therefore expected for the year as a whole, as was projected in August. The outlook for 2020 has also deteriorated, with GDP growth now forecast at 1.6%.

Inflation has been at or above 3% since the spring but eased to 2.8% in October. Underlying inflation has been more persistent, however. Headline inflation is expected to subside faster than was forecast in August and align with the target towards the end of this year. Inflation expectations have continued to fall and are at target by most measures. The monetary stance has therefore tightened slightly between MPC meetings.

The Bank's interest rates have been cut by 1.5 percentage points since the spring, and the impact of this has yet to come fully to the fore. Lower interest rates have supported demand, and based on the Bank's forecast, the current interest rate level should suffice to ensure medium-term price stability and full capacity utilisation. The forthcoming fiscal easing will pull in the same direction. The economic outlook could be overly optimistic, however, particularly in view of global economic uncertainty.

Near-term monetary policy decisions will depend on the interaction between developments in economic activity, on the one hand, and inflation and inflation expectations, on the other.

## Statement of the Monetary Policy Committee 11 December 2019

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 3%.

According to recently published national accounts figures, output growth measured 0.2% for the first nine months of the year. Although this is slightly stronger growth than the Central Bank forecast in November, overall developments year-to-date are in line with the Bank's projections.

Headline inflation measured 2.7% in November and has fallen between months, as has underlying inflation. The inflation outlook is broadly unchanged since the MPC's last meeting, and inflation expectations are at target by most measures. The monetary stance has therefore remained largely unchanged between MPC meetings.

Near-term monetary policy decisions will depend on the interaction between developments in economic activity, on the one hand, and inflation and inflation expectations, on the other.



*The Monetary Policy Committee of the Central Bank of Iceland*

## Minutes of the Monetary Policy Committee meeting

August 2019 (86th meeting)

Published: 11 September 2019

The Act on the Central Bank of Iceland stipulates that it is the role of the Monetary Policy Committee (MPC) to set Central Bank interest rates and apply other monetary policy instruments. Furthermore, the Act states that “[m]inutes of meetings of the Monetary Policy Committee shall be made public, and an account given of the Committee’s decisions and the premises upon which they are based.” In accordance with the Act, the MPC has decided to publish the minutes of its meetings two weeks after each interest rate decision. The votes of individual Committee members are also included in the minutes.

The following are the minutes of the MPC meeting held on 26 and 27 August 2019, during which the Committee discussed economic and financial market developments, the interest rate decision of 28 August, and the communication of that decision.

### **I Economic and monetary developments**

Before turning to the interest rate decision, members discussed the domestic financial markets, financial stability, the outlook for the global economy and Iceland’s international trade, the domestic economy, and inflation, with emphasis on information that has emerged since the 26 June 2019 interest rate decision, as published in the updated forecast in *Monetary Bulletin* 2019/3 on 28 August.

#### **Financial markets**

Since the June meeting, the króna had appreciated by 2% in trade-weighted terms. Over this same period it rose by 2% against the euro and 3.5% against the pound sterling but fell by 0.5% against the US dollar. Between meetings, the Bank bought foreign currency for 3 million euros (0.4 b.kr.). The Bank’s transactions accounted for just under 2% of total turnover in the foreign exchange market.

In terms of the Central Bank’s real rate, the monetary stance had tightened slightly since just after the Committee’s June interest rate decision. The Bank’s real rate in terms of the average of various measures of inflation and inflation expectations had risen by 0.1 percentage points between meetings, to 0.6%. In terms of twelve-month inflation, it was also 0.6% and had risen by 0.2 percentage points.

Interest rates in the interbank market for krónur fell in line with the Central Bank's rate cut in June, and turnover in the market totalled roughly 12 b.kr. over the period.

Yields on long-term nominal Treasury bonds had fallen by 0.2 percentage points since the June meeting, and yields on long-term indexed Treasury and Housing Financing Fund (HFF) bonds had declined by 0.1 percentage points. Average non-indexed residential mortgage rates had fallen more or less commensurably, whereas indexed mortgage rates had fallen less.

In terms of three-month interbank rates, the interest rate differential with abroad had remained broadly unchanged between meetings. It measured 4.7 percentage points against the euro area and 2.2 percentage points against the US. The long-term interest rate spread, however, had widened slightly, and measured 4.4 percentage points versus Germany and 2.2 percentage points versus the US. Measures of the risk premium on the Treasury's foreign obligations were also largely unchanged. The CDS spread on the Treasury's five-year US dollar obligations was 0.7%, and the spread between the Treasury's eurobonds and comparable bonds issued by Germany was 0.5-0.7 percentage points.

Financial institutions' analysts all expected the MPC to lower the Bank's interest rates by 0.25 percentage points, on the grounds that although inflation and inflation expectations remained above target, both had subsided; furthermore, the exchange rate of the króna had risen since the Committee's June meeting. The monetary stance had therefore tightened, and the expected contraction was likely to be more pronounced than had been forecast in May.

According to the Central Bank's quarterly market expectations survey, conducted in mid-August, respondents expected the Bank's key rate to be lowered by 0.25 percentage points in Q3/2019, to 3.5%, followed by another rate cut of 0.25 percentage points before the end of the year. They also expected the key rate to be 3.25% in one and two years' time. These are lower interest rates than they expected in the Bank's May survey. As in the previous survey, three out of every four respondents considered the monetary stance too tight at present, whereas the share considering it far too tight was 20 percentage points smaller than in the previous survey. About 22% of respondents considered the monetary stance appropriate, which is broadly in line with the last survey.

Annual growth in M3 measured just over 8% in Q2/2019, after adjusting for deposits held by the failed financial institutions, but had fallen to around 6½% by July. As before, the increase is due largely to growth in household deposits. After adjusting for the effects of the Government's debt relief measures, the stock of credit system loans to domestic borrowers grew in nominal terms by almost 9% year-on-year in Q2/2019. Over the same period, household lending grew by just under 8% year-on-year and corporate lending by just under 10%.

The Nasdaq OMXI10 index had fallen by some 3% between meetings. Turnover in the main market totalled 365 b.kr. during the first seven months of the year, about 23% more than over the same period in 2018.

### **Global economy and external trade**

According to the forecast published by the International Monetary Fund (IMF) in July, the global GDP growth outlook has deteriorated since the Fund's April forecast. The IMF estimates global GDP growth at 3.2% in 2019 and 3.5% in 2020, or 0.1 percentage points below its April forecast. Weaker global GDP growth can be attributed to a poorer outlook in emerging and developing economies, particularly Brazil and Mexico. However, the Fund has revised its GDP growth forecast for advanced economies upwards by 0.1 percentage points, to 1.9%, owing mainly to

Q1 GDP growth in the US, which exceeded the April forecast. The Fund continues to consider the uncertainty in the output growth forecast to be concentrated on the downside, partly because of the risk that global trade disputes will escalate further. It expects growth in world trade to be even slower in 2019 and 2020 than it assumed in the April forecast. Inflation among advanced economies is forecast at 1.6% in 2019, which is unchanged from the April forecast. The outlook is for 2% in 2020, slightly less than in the spring forecast.

According to preliminary figures from Statistics Iceland, Iceland's goods trade generated a 67 b.kr. deficit in the first seven months of the year, at constant exchange rates. The deficit over the same period in 2018 was 115 b.kr., also at constant exchange rates. The smaller deficit now is due to the exportation of aircraft early in the year, although import values have also contracted by 8% in 2019 to date. The contraction in import values excluding ships and aircraft has grown larger as the year has progressed. Import values have shrunk by a full 12% year-on-year in the past three months, the largest contraction by this measure since 2009. The main difference lies in reduced import values of passenger cars and fuels and lubricants, although commodity prices contracted as well. Export values excluding ships and aircraft contracted by just over 3% year-on-year in the first seven months of 2019, particularly for aluminium exports, while marine product exports rose in value by 1%.

Between MPC meetings, the listed global price of aluminium fell by about 2% and was 16.5% below the price seen at the same time last year. Preliminary figures from Statistics Iceland indicate that foreign currency prices of marine products were up by just over 6% year-on-year in H1/2019. The global price of oil had fallen by just under 9% between MPC meetings, to about 60 US dollars per barrel just before the August meeting. This is 22% lower than at the same time in 2018.

The real exchange rate in terms of relative consumer prices was virtually unchanged month-on-month in July, when it was 7% above its 25-year average but 16.5% below its June 2017 peak. In July, it had fallen 10.6% year-on-year, as the nominal exchange rate of the króna was 11.8% lower and inflation in Iceland was 1.4 percentage points above the trading partner average.

### **Domestic economy and inflation**

According to the Statistics Iceland labour force survey (LFS), total hours worked increased by 2% year-on-year in Q2. The rise in total hours is due to a 2.7% increase in job numbers, offset by a shortening of the average work week by 0.7% between years. Although the number of jobs increased year-on-year, it fell 0.2% between quarters after adjusting for seasonality. The reversal in employment can be seen even more clearly in pay-as-you-earn (PAYE) data, which suggest that employment contracted by 1% year-on-year and by 0.9% quarter-on-quarter in Q2. According to the LFS the labour participation rate also fell quarter-on-quarter, and the employment rate declined for the third quarter in a row. Seasonally adjusted unemployment rose by 0.7 percentage points between quarters, to 3.8% in Q2.

Year-on-year population growth measured 2.1% in Q2, including 1.6 percentage points due to immigration of foreign nationals. The increase in foreign labour has eased somewhat in recent quarters, but the increase in Q2 remains similar to that observed in late 2016. Issuance of new temporary work permits slowed between years in the first seven months of 2019, and the number of active employees working for employment agencies and foreign services firms has held relatively steady year-to-date.

In Q2, the general wage index rose by 2.1% between quarters and by 5.4% year-on-year. Real wages were 1.9% higher in Q2 than in the same quarter of 2018.

Key indicators of developments in private consumption at the beginning of Q3 suggest that growth may have slowed. New motor vehicle registrations declined in number, and the rise in payment card turnover was relatively moderate. The Gallup Consumer Confidence Index rose slightly month-on-month in July, to 89.6 points. Nevertheless, this was still well below the July 2018 measurement.

Statistics Iceland's nationwide house price index, published in late July, was virtually unchanged month-on-month when adjusted for seasonality, but rose 3.5% year-on-year. The capital area house price index, calculated by Registers Iceland, rose by 0.2% month-on-month in July when adjusted for seasonality, and by 2.9% year-on-year. The number of purchase agreements registered nationwide fell by 10% year-on-year in the first seven months of 2019, while the number of contracts for new construction declined by nearly 21% over the same period. The average time-to-sale nationwide was 3.3 months in the first seven months of 2019, some 0.4 months longer than over the same period in 2018.

The CPI fell by 0.21% month-on-month in July. Twelve-month inflation measured 3.1% and had declined by 0.5 percentage points since the MPC's June meeting. The CPI excluding housing rose by 2.8% year-on-year in July, and the difference between inflation including and excluding housing has continued to narrow in recent months. However, inflation according to the HICP, which also excludes owner-occupied housing costs, was lower, measuring 1.6% in July. Underlying inflation measured 3.1% in July, according to the median of various measures, and also fell between meetings.

Seasonal sales had a stronger impact in July than at the same time last year or in January 2019. Owner-occupied housing costs were up 2.6% year-on-year in July, the smallest twelve-month increase since the beginning of summer 2013.

According to the Central Bank survey carried out in mid-August, market agents' inflation expectations declined between surveys. Respondents now expect inflation to measure just under 3% in one year and 2.5% in two years. They also expect inflation to average 2.5% over the next five years, which is 0.5 percentage points less than in the August 2018 survey. Their ten-year expectations have fallen back to the target as well. The breakeven inflation rate has also fallen marginally since the MPC's June meeting. The five- and ten-year breakeven rate has averaged 2.9% in Q3 to date, some 0.6-0.9 percentage points lower than in the same quarter of 2018.

According to the updated forecast published in *Monetary Bulletin* on 28 August, because of a better initial position, inflation is now expected to be lower for the remainder of the year than was projected in May. It is forecast to measure 3.2% in Q3 and then fall to 2.9% in Q4. The outlook for 2020 has also improved, due mainly to the prospect of lower imported inflation. Inflation expectations have fallen as well, after rising in 2018. Inflation is projected to align with the target in H1/2020, but as was forecast in May, it is expected to dip temporarily below the target in H2. According to the forecast, it will inch back up to the target in 2022.

Trading partners' GDP growth is projected to average 1.6% this year, some 0.1 percentage points below the May forecast. The prospects for GDP growth in the next two years are slightly weaker as well. Terms of trade improved by 1.7% between quarters in Q1/2019, supported by lower oil prices and favourable developments in marine product prices. They are expected to

remain broadly flat in 2019, in line with the May forecast. The outlook for 2020 has improved, however, driven mainly by lower oil prices and more modest rises in import prices in general.

The króna depreciated last autumn following news of WOW Air's financing difficulties and the deterioration in terms of trade. It held relatively stable in H1/2019 but has appreciated since early July; nevertheless, it was broadly the same at the August meeting as it was at the time of the May *Monetary Bulletin*, and still about 10% weaker in trade-weighted terms than it was in August 2018. The trade-weighted index has been around 181 in the recent past, and the baseline forecast is based on the assumption that it will remain close to that level for the remainder of the forecast horizon. This is a slightly lower exchange rate than was assumed in May.

GDP growth measured 1.7% in Q1/2019, in line with the May forecast. The outlook is for GDP to contract this year by 0.2%, a slightly smaller contraction than was projected in May, even though tourist arrivals are projected to fall more than previously assumed and exports to contract more sharply. This is partly because underlying growth in private consumption appears more resilient, but no less because consumption spending is switching more towards domestic production, as can be seen in a marked contraction in imports. As in May, the economy is expected to rebound in 2020, with GDP measuring 1.9%. This is markedly below the May forecast, as it now appears that the tourism industry will take longer than previously assumed to recover after this year's setbacks. GDP growth is forecast to rise to 2.7% in 2021, broadly in line with the May forecast.

The assumptions concerning wage developments have changed little since May. The outlook for productivity growth is similarly unchanged, and unit labour costs are therefore expected to develop as in the May forecast. They are expected to rise by 6.8% this year and 4% per year, on average, in the two years thereafter.

Job numbers fell in Q2/2019, and unemployment rose to its highest since 2015. Capacity pressures that had accumulated after the recent boom have therefore eased. The output gap is estimated to have almost closed, and a modest slack is expected to develop by the end of this year. As 2020 progresses, unemployment will taper off again, and the slack will close by the end of the year.

## **II The interest rate decision**

MPC members discussed the monetary stance in view of the most recent information on the economy. They discussed whether the monetary stance was appropriate in view of the inflation outlook, as the Committee had decided in June to lower interest rates because there were signs that the economic contraction could turn out deeper and longer than was assumed in May. In addition, inflation expectations had fallen between MPC meetings and the monetary stance had therefore tightened again.

The MPC discussed economic developments and prospects and, in this context, took account of the Central Bank's updated macroeconomic forecast, published in *Monetary Bulletin* on 28 August, according to which this year's economic contraction would measure 0.2%, slightly less than was forecast in May. Members agreed that this was due mainly to more resilient private consumption growth, although the contribution of net foreign trade was also more positive. It emerged in the discussion that this was because demand had shifted towards domestic production, partially offsetting the stronger contraction in tourism. The MPC noted, however, that the GDP growth outlook for 2020 had deteriorated, as it now appeared that it would take

longer for the tourism sector to recover after this year's setbacks. The global GDP growth outlook had deteriorated as well, and uncertainty and pessimism had increased. Committee members agreed, however, that the previous assessment of the economic outlook was broadly unchanged and that despite the negative shocks to the economy in H1/2019, the outlook was for a relatively moderate adjustment, other things being equal.

The Committee discussed developments in inflation, which measured 3.4% in Q2 but eased to 3.1% in July. Members noted that underlying inflation had developed in a broadly similar manner. The outlook was for inflation to subside faster than was forecast in May and align with the target in H1/2020. MPC members also noted that the króna had appreciated by just over 2% between meetings, and the foreign exchange market appeared well balanced. They highlighted that inflation expectations had fallen back to target since the MPC's last meeting, and the monetary stance had therefore tightened slightly. The Committee discussed developments in the real rate and what real rate would be appropriate at this point in the business cycle. There was also a discussion of the recent slowdown in both real estate market activity and growth in lending to households and businesses. It was considered likely that this stemmed from declining demand, coupled with the liquidity position of some commercial banks, which must ensure that they comply with permissible liquidity ratios.

All members were of the opinion that it was appropriate to lower the Bank's interest rates still further. It emerged in the discussion that the GDP growth outlook could be overestimated, partly because of the possibility that global output growth could turn out weaker than is currently assumed — not least in view of growing global economic uncertainty. It was also pointed out that it had yet to come to light how tourism companies would fare in the coming winter. It emerged in the discussion that reduced real estate market activity and the contraction in investment and imports despite increased real disposable income could indicate a general perception that the economy was weaker than it actually is. In that case, it was appropriate to lower the Bank's interest rates in order to stimulate investment and the real estate market, as well as mitigating pessimism. On the other hand, it was pointed out that inflation was still above target, domestic inflationary pressures had increased by several measures, the outlook was for a nearly 7% rise in unit labour costs this year, and public sector wage settlements were still pending. As a result, it was also important to proceed with caution.

MPC members agreed that efforts to provide a firmer anchor for long-term inflation expectations had been successful, thereby providing the scope to respond to the economic contraction by easing the monetary stance. It was also pointed out that the pass-through from the depreciation of the króna to the price level had been relatively modest, and that this was probably due in part to increased credibility of monetary policy and more firmly anchored inflation expectations.

In view of the discussion, the Governor proposed that the Bank's interest rates be lowered by 0.25 percentage points. The Bank's key rate (the seven-day term deposit rate) would be 3.5%, the current account rate 3.25%, the seven-day collateralised lending rate 4.25%, and the overnight lending rate 5.25%. All Committee members voted in favour of the proposal.

In the MPC's view, near-term monetary policy decisions would depend on the interaction between developments in economic activity, on the one hand, and inflation and inflation expectations, on the other.

The following Committee members were in attendance:

Ásgeir Jónsson, Governor and Chair of the Monetary Policy Committee

Rannveig Sigurdardóttir, Deputy Governor

Thórarinn G. Pétursson, Chief Economist

Gylfi Zoëga, Professor, external member

Katrín Ólafsdóttir, Assistant Professor, external member

In addition, a number of Bank staff members attended part of the meeting.

Karen Áslaug Vignisdóttir wrote the minutes.

The next Statement of the Monetary Policy Committee will be published on Wednesday 2 October 2019.



*The Monetary Policy Committee of the Central Bank of Iceland*

## Minutes of the Monetary Policy Committee meeting

October 2019 (87<sup>th</sup> meeting)

Published: 16 October 2019

The Act on the Central Bank of Iceland stipulates that it is the role of the Monetary Policy Committee (MPC) to set Central Bank interest rates and apply other monetary policy instruments. Furthermore, the Act states that “[m]inutes of meetings of the Monetary Policy Committee shall be made public, and an account given of the Committee’s decisions and the premises upon which they are based.” In accordance with the Act, the MPC has decided to publish the minutes of its meetings two weeks after each interest rate decision. The votes of individual Committee members are also included in the minutes.

The following are the minutes of the MPC meeting held on 30 September and 1 October 2019, during which the Committee discussed economic and financial market developments, the interest rate decision of 2 October, and the communication of that decision.

### **I Economic and monetary developments**

Before turning to the interest rate decision, members discussed the domestic financial markets, financial stability, the outlook for the global economy and Iceland’s international trade, the domestic economy, and inflation, with emphasis on information that has emerged since the 28 August 2019 interest rate decision.

#### **Financial markets**

Since the August meeting, the króna had appreciated by 1.8% in trade-weighted terms. Over this period, it appreciated by 2.5% against the euro, 0.3% against the pound sterling, and 0.6% against the US dollar. Between meetings, the Bank bought foreign currency for 15 million euros (2 b.kr.). The Bank’s transactions accounted for roughly 11% of total turnover in the foreign exchange market.

In terms of the Central Bank’s real rate, the monetary stance had tightened since just after the Committee’s August interest rate decision. The Bank’s real rate in terms of the average of various measures of inflation and one-year inflation expectations had risen by 0.3 percentage points between meetings, to 0.7%. In terms of twelve-month inflation, it was 0.5% and had risen by 0.1 percentage points.

Interest rates in the interbank market for krónur declined in line with the Central Bank's rate reduction in August, and turnover in the market totalled roughly 1 b.kr. over the period.

Yields on long-term nominal Treasury bonds had fallen by 0.3 percentage points since the August meeting, and yields on long-term indexed Treasury and Housing Financing Fund (HFF) bonds had declined by 0.1 percentage points. Average non-indexed residential mortgage rates had fallen more or less commensurably, whereas average indexed mortgage rates had fallen less.

In terms of three-month interbank rates, the interest rate differential with abroad had narrowed between meetings. It measured 4.6 percentage points against the euro area and 2.1 percentage points against the US. The long-term interest rate spread had narrowed by 0.5 percentage points, to 3.9 percentage points versus Germany and 1.7 percentage points versus the US. Measures of the risk premium on the Treasury's foreign obligations were largely unchanged between meetings. The CDS spread on the Treasury's five-year US dollar obligations was 0.8%, and the spread between the Treasury's eurobonds and comparable bonds issued by Germany was 0.5-0.7 percentage points.

Financial institutions' analysts expected the MPC either to lower the Bank's interest rates by 0.25 percentage points or to hold them unchanged. Their main rationale for a rate cut was that inflation expectations had fallen and the króna had appreciated between meetings. The main arguments for unchanged interest rates were the uncertainty about still-pending public sector wage agreements, and the tourism sector's apparently stronger-than expected performance during the summer season.

Year-on-year growth in broad money (M3) measured just under 5% in August, after adjusting for deposits held by the failed financial institutions. As before, the increase is due largely to growth in household deposits. After adjusting for the effects of the Government's debt relief measures, the stock of credit system loans to domestic borrowers grew in nominal terms by an estimated 6½% year-on-year in August. Over the same period, household lending grew by 6½% year-on-year and corporate lending by just under 5%.

The Nasdaq OMXI10 index had fallen by 4% between meetings. Turnover in the main market totalled 410 b.kr. during the first eight months of the year, about 23% more than over the same period in 2018.

### **Global economy and external trade**

According to the Organisation for Economic Cooperation and Development's (OECD) updated forecast, published in September, the global economic outlook has deteriorated. The OECD estimates global GDP growth at 2.9% in 2019 and 3% in 2020, or 0.3-0.4 percentage points below its May forecast. If this forecast materialises, the growth rate will be the weakest since the financial crisis. Weaker global GDP growth is attributable to a poorer outlook for both advanced economies and emerging market economies, as the OECD has revised its output growth forecast downwards for most G20 countries. Among advanced economies projected to record weaker output growth are the US and Australia, as well as the UK and the euro area. The OECD considers the uncertainty in the forecast to be concentrated on the downside. GDP growth could turn out weaker if global trade disputes escalate further and if the UK leaves the European Union (EU) without an exit agreement.

Iceland's goods account deficit totalled 79 b.kr. in the first eight months of 2019, at constant exchange rates. The deficit over the same period in 2018 was 134 b.kr., also at constant

exchange rates. The smaller deficit now is due to the exportation of aircraft early in the year, although import values have also contracted by 10% in 2019 to date. The contraction in import values excluding ships and aircraft has grown larger as the year has progressed. Import values have shrunk by nearly 15% year-on-year in the past three months, the largest contraction by this measure since 2009. The main difference lies in reduced import values of fuels and lubricants, although the value of transport equipment, commodities, and operational inputs contracted as well. Export values excluding ships and aircraft contracted by just under 6% year-on-year in the first eight months of 2019, particularly manufacturing export values, although marine product exports also fell in value by a full 1%.

Between MPC meetings, the listed global price of aluminium fell just over 2% and was 17% below the price seen at the same time last year. Preliminary figures from Statistics Iceland indicate that foreign currency prices of marine products were up 7% year-on-year in the first eight months of 2019. Global oil prices spiked suddenly in mid-September in the wake of an attack on oil processing facilities in Saudi Arabia. The increase reversed, however, and oil was selling at just under 59 US dollars per barrel just before the MPC's October meeting. This is roughly the same as just before the August meeting but over 30% below the price in early October 2018.

The real exchange rate in terms of relative consumer prices rose by 2.6% month-on-month in August, when it was 9.7% above its 25-year average but 14.4% below its June 2017 peak. In the first eight months of 2019, it was down by 9.5% compared with the same period in 2018, as the nominal exchange rate of the króna was 10.9% lower and inflation in Iceland was 1.5 percentage points above the trading partner average.

### **Domestic economy and inflation**

According to preliminary figures published by Statistics Iceland in late August, GDP growth measured 2.7% for the second quarter of the year. Domestic demand increased by 0.2%, but the contribution of net trade to output growth was positive by 2.6 percentage points. Both exports and imports contracted year-on-year during the period, although imports contracted much more strongly.

GDP growth measured 0.9% in H1/2019. Consumption and investment fell by 1.4% between years during this period, but due to a strong contraction in inventory changes in Q1, the contraction in domestic demand was much stronger, at 2.4%. In spite of the contraction in exports, the contribution of net trade to output growth was positive by 3.3 percentage points, as imports were down 10.6% year-on-year. GDP growth was nearly  $\frac{1}{2}$  a percentage point above the forecast published in the August *Monetary Bulletin*. Developments in private consumption, residential investment, and public expenditure in H1 were in line with the forecast, but business investment contracted more than expected. The contribution from net trade was more favourable than expected, primarily because of weaker imports.

The current account balance was positive by 11.1 b.kr. in Q2, a major improvement over the Q2/2018 deficit of 4.4 b.kr. The change is due for the most part to a smaller deficit on goods trade. In addition, the balance on primary and secondary income was more positive this year than in 2018. The surplus on services trade grew slightly between years, a more positive outcome than was assumed in the Bank's August forecast.

Key indicators of private consumption were weaker in Q3 than in Q2, suggesting that private consumption growth will continue to lose pace. The Gallup Consumer Confidence Index

measured 99.2 points in September, an improvement from the previous month and from the previous year. The index also rose slightly between Q2 and Q3.

The fiscal budget proposal for 2020 assumes that the Treasury outcome will be in line with estimates contained in the fiscal plan for 2020-2024. According to the Ministry of Finance and Economic Affairs' revision of the 2019 outcome in comparison with the National Budget for the year, the outcome has deteriorated by 1.3 percentage points of GDP. According to the Ministry's estimate for 2019 as a whole and Statistics Iceland figures for 2018, the fiscal outcome deteriorated by 1.2 percentage points of GDP between the two years. The Ministry also estimates that the unadjusted primary surplus will decline by as much as 1.4 percentage points of GDP between 2018 and 2019. The extent to which this estimate entails a change in the Bank's assessment of the fiscal stance in 2019 and 2020 will depend on developments in forecasts of fiscal performance and the output gap.

According to the results of Gallup's autumn survey, conducted in September among Iceland's 400 largest firms, respondents' assessment of the current economic situation was more positive than in the summer survey, but somewhat more negative than in the survey taken in autumn 2018. Executives' attitudes towards the outlook six months ahead is more positive, however, than in both the summer survey and the autumn 2018 survey. About 56% of respondents considered the current situation neither good nor poor, and about 29% considered it good. Some 30% of executives are of the view that economic conditions will deteriorate in the next six months, and 49% expect conditions to be neither better nor worse. About one-fifth of executives expect conditions to improve in the next six months – an increase since the summer. Executives are marginally more pessimistic about developments in domestic demand than they were in the summer survey, particularly those in construction and retail and wholesale trade.

According to the survey, attitudes towards the operational outlook are more positive than in the spring survey, and the number of respondents who expect their profit margins to increase between 2018 and 2019 is roughly the same as the number expecting a decrease. Sentiment has improved among executives in all sectors, particularly among those in the fishing industry and the financial and insurance sector. As before, a larger number expect investment in 2019 to be less than in 2018.

According to the seasonally adjusted results of the autumn survey, the balance of opinion on staffing plans (i.e., firms planning to recruit as compared with those planning redundancies) was negative by 7 percentage points. Therefore, survey respondents were somewhat less pessimistic than in the summer survey, when the same balance of opinion was negative by 12 percentage points. As before, the outlook is for increased job numbers in miscellaneous specialised services. Furthermore, downbeat sentiment receded markedly between surveys in the fishing and transport, transit, and tourism sectors, where the balance of opinion on staffing plans was broadly neutral. On the other hand, sentiment among executives in construction and utilities and in retail and wholesale trade deteriorated since the summer survey. In both of these sectors, as well as in financial services, the outlook is for a drop in job numbers.

After adjusting for seasonality, 15% of executives considered themselves short-staffed. This is a slightly higher percentage than in the summer survey. The shortage is still most pronounced in miscellaneous specialised services, where 25% of respondents consider themselves understaffed, and in fishing, where the share considering themselves short-staffed rose by 17 percentage points between surveys, to 21%. Worker shortages were negligible in retail and wholesale trade, and no respondents in the financial and insurance sector reported a shortage of staff. Staffing shortages were below their long-term averages in all sectors except fishing.

About 41% of executives reported that they would have difficulty responding to unexpected demand, after adjusting for seasonality. This percentage was broadly unchanged from the summer survey and has been close to its long-term average since the autumn 2018 survey. Nearly three-fifths of executives in the specialised services sector reported that they would have difficulty responding to unexpected demand, as opposed to only a fourth in retail and wholesale trade, financial services, and the transport, transit, and tourism sector.

In August, the wage index was virtually unchanged month-on-month and rose by 4.3% year-on-year, and real wages were 1.1% higher during the month than at the same time in 2018.

Statistics Iceland's nationwide house price index, published in late September, rose by 0.2% month-on-month when adjusted for seasonality, but rose 3.3% year-on-year. The capital area house price index, calculated by Registers Iceland, rose by 0.7% month-on-month in August when adjusted for seasonality, and by 3.6% year-on-year. The number of purchase agreements registered nationwide fell by 8.5% year-on-year in the first eight months of 2019, while the number of contracts for new construction declined by 14.1% over the same period.

The consumer price index CPI rose by 0.09% month-on-month in September. Headline inflation measured 3% and had declined since the MPC's August meeting. The CPI excluding the housing component had risen by 2.9% year-on-year in September. Underlying inflation picked up between meetings, however, measuring 3.4% in September, according to the median of various measures. Price hikes due to the end of seasonal sales were the main driver of inflation in September, albeit offset in part by lower airfares. The year-on-year rise in imputed rent (i.e., owner-occupied housing costs) continued to ease, measuring just over 2% in September.

According to Gallup's autumn surveys, households' and businesses' one-year inflation expectations fell between surveys. Households expect inflation to measure 3% in one year's time, and businesses' expectations have fallen back to the inflation target. Households' and businesses' two-year inflation expectations are around or slightly above 3%, and have fallen in the past year. Both groups' long-term expectations also measure 3%, and households' long-term expectations have fallen since the summer survey. The five- and ten-year breakeven inflation rate in the bond market was about 2.4% just before the MPC meeting, after falling by 0.3 percentage points since the August meeting. In Q3, the ten-year breakeven rate was down by 1 percentage point year-on-year, to 2.7%.

## **II The interest rate decision**

The Committee discussed proposed restrictions on transactions with the Central Bank and, in this context, amendments to rules on Central Bank facilities for credit institutions and other entities and the reserve requirements of credit institutions. The proposals were discussed and then approved by the Committee.

MPC members discussed the monetary stance in view of the most recent information on economic developments and the fact that the Bank's real rate had risen since the August meeting. They discussed whether the monetary stance was appropriate in view of the inflation outlook, as the Committee had decided in August to lower interest rates because the GDP growth outlook for 2020 had deteriorated and the outlook was for inflation to subside faster than had been forecast in May. In addition, it was possible that the GDP growth outlook was too optimistic, given the worsening conditions in the global economy.

The Committee discussed the preliminary national accounts figures, which indicated output growth had continued to ease in H1/2019, even though it was somewhat stronger than had

been forecast in the *August Monetary Bulletin*. Members noted that this relatively stronger growth was due mainly to a more favourable contribution of net foreign trade, as demand had shifted towards domestic production, partially offsetting the contraction in exports. They agreed that leading indicators implied that economic activity would continue to slow down, but they considered it positive that there were visible signs that the economy might be regaining a foothold. It emerged in the discussion that indicators suggested that executives were slightly more positive about the current situation and economic outlook than they had been in H1/2019. It was noted, however, that there was uncertainty in the labour market and that conditions could deteriorate over the winter, especially for the tourism sector.

The MPC discussed developments in inflation, which measured 3.1% in Q3 and had fallen between quarters. Members noted, though, that underlying inflation had risen month-on-month in September. Headline inflation was slightly lower than had been forecast in August, and members also noted that the outlook was for it to ease faster than had been assumed there. Members stressed that the króna had appreciated and inflation expectations had fallen since the MPC's last meeting. The monetary stance had therefore tightened slightly. It emerged in the discussion that it was positive that inflation expectations had continued to fall, and that this was a sign of increased credibility of monetary policy.

Members agreed that recent developments suggested that economic activity had been stronger than previously assumed. It emerged that the real economy was relatively strong given the economic shocks that had struck early in the year. In members' view, this was due in part to the recent easing of monetary policy. The economic outlook was uncertain, however, particularly the global outlook, and domestic GDP growth could therefore contract more rapidly than was currently assumed. It was also noted that despite a slowdown in lending growth, particularly in lending to the corporate sector, growth in lending to both households and businesses was still relatively robust. It also emerged in the discussion that, in view of the fact that lenders appeared to have tightened lending requirements, Central Bank interest rate cuts might in some cases be transmitted less effectively to market rates than they would be otherwise. On the other hand, mortgage lending rates had fallen somewhat, and there were signs that companies were increasingly seeking financing outside the bank lending market. The MPC discussed the outlook for the real estate market, noting that, in the recent term, the number of purchase agreements had fallen and the supply of housing had increased, particularly the supply of relatively more expensive properties. It was noted that the number of residential purchase agreements was close to its seven-year average, and roughly at the level seen in 2006.

The Committee discussed two possibilities: keeping interest rates unchanged or lowering them by 0.25 percentage points. The main grounds for holding rates constant were that the economy had been more resilient than expected in H1/2019, and the recent increase in the real policy rate could be in line with that development. It was not impossible that private consumption would turn out stronger than expected, as disposable income had risen markedly in the recent term, saving had increased, and household net worth was high in historical terms. In addition, inflation and several measures of inflation expectations were still above target, and underlying inflation had inched upwards. Furthermore, the easing of the fiscal stance meant that less monetary easing would be needed, and moreover, public sector wage agreements were still pending.

The main grounds for easing rates further were that even though the current economic situation was better than had been forecast, there was increased risk that the GDP growth outlook was too optimistic, particularly because of the bleaker economic outlook abroad, and

uncertainty had increased. As a result, it could be appropriate to lower interest rates in order to reduce the risk of a further weakening of demand. Furthermore, inflation had been slightly lower than expected in Q3, and the outlook was for it to align with the target earlier than previously anticipated. Inflation expectations had continued to fall, and the króna had appreciated in the recent past.

In view of the discussion, the Governor proposed that the Bank's interest rates be lowered by 0.25 percentage points. The Bank's key rate (the seven-day term deposit rate) would be 3.25%, the current account rate 3%, the seven-day collateralised lending rate 4%, and the overnight lending rate 5%. All Committee members voted in favour of the proposal.

In the MPC's view, near-term monetary policy decisions would depend on the interaction between developments in economic activity, on the one hand, and inflation and inflation expectations, on the other.

The following Committee members were in attendance:

Ásgeir Jónsson, Governor and Chair of the Monetary Policy Committee

Rannveig Sigurdardóttir, Deputy Governor

Thórarinn G. Pétursson, Chief Economist

Gylfi Zoëga, Professor, external member

Katrín Ólafsdóttir, Assistant Professor, external member

In addition, a number of Bank staff members attended part of the meeting.

Karen Áslaug Vignisdóttir wrote the minutes.

The next Statement of the Monetary Policy Committee will be published on Wednesday 6 November 2019.



*The Monetary Policy Committee of the Central Bank of Iceland*

## Minutes of the Monetary Policy Committee meeting

November 2019 (88th meeting)

Published 20 November 2019

The Act on the Central Bank of Iceland stipulates that it is the role of the Monetary Policy Committee (MPC) to set Central Bank interest rates and apply other monetary policy instruments. Furthermore, the Act states that “[m]inutes of meetings of the Monetary Policy Committee shall be made public, and an account given of the Committee’s decisions and the premises upon which they are based.” In accordance with the Act, the MPC has decided to publish the minutes of its meetings two weeks after each interest rate decision. The votes of individual Committee members are also included in the minutes.

The following are the minutes of the MPC meeting held on 4 and 5 November 2019, during which the Committee discussed economic and financial market developments, the interest rate decision of 6 November, and the communication of that decision.

### **I Economic and monetary developments**

Before turning to the interest rate decision, members discussed the domestic financial markets, financial stability, the outlook for the global economy and Iceland’s international trade, the domestic economy, and inflation, with emphasis on information that has emerged since the 2 October 2019 interest rate decision, as published in the new forecast and analysis of uncertainties in *Monetary Bulletin* 2019/4 on 6 November.

#### **Financial markets**

Since the October meeting, the króna had depreciated by 1.7% in trade-weighted terms. Over this same period, it fell by 1.9% against the euro and 4.5% against the pound sterling but rose by 0.2% against the US dollar.

In terms of the Central Bank’s real rate, the monetary stance had tightened slightly since just after the Committee’s October interest rate decision. The Bank’s real rate in terms of the average of various measures of inflation and one-year inflation expectations had risen by 0.2 percentage points between meetings, to 0.7%. In terms of twelve-month inflation, it was 0.4% and had risen by 0.2 percentage points.

Interest rates in the interbank market for krónur fell in line with the Central Bank’s rate reduction in October, but there was no turnover in the market between meetings.

Yields on long-term nominal Treasury bonds had risen by 0.2 percentage points since the October meeting, but yields on long-term indexed Treasury and Housing Financing Fund (HFF) bonds had risen by 0.1 percentage points. Average rates on non-indexed mortgage loans had fallen slightly between meetings, whereas average rates on indexed mortgage loans were broadly unchanged.

In terms of three-month interbank rates, the interest rate differential versus the euro area had narrowed by 0.3 percentage points between meetings, to 4.3 percentage points, and the spread versus the US narrowed by 0.1 percentage points, to 2 percentage points. The long-term interest rate spread had narrowed slightly, to 3.8 percentage points versus Germany and 1.6 percentage points versus the US. Measures of the risk premium on the Treasury's foreign obligations were largely unchanged between meetings. The CDS spread on the Treasury's five-year US dollar obligations was 0.8%, and the spread between the Treasury's eurobonds and comparable bonds issued by Germany was 0.5 percentage points.

Financial institutions' analysts expected the MPC either to lower the Bank's interest rates by 0.25 percentage points or to hold them unchanged. They noted that lower inflation and inflation expectations had created scope for interest rate cuts and that there were signs that a further slack was opening up in the economy. Their views diverged, however, on whether it was more appropriate to lower rates this time or wait until December, once inflation had fallen further.

According to the Central Bank's quarterly market expectations survey, conducted on 21-23 October 2019, respondents expected the Central Bank's key interest rate to remain unchanged at 3.25% in Q4/2019 and then fall to 3% in Q1/2020. They expected rates to remain at 3% one year ahead but then fall slightly after that. This is a change from the August survey, where they did not expect further rate cuts in 2020. A majority of respondents considered the monetary stance too tight at present, or 56%, as compared with 74% in the last survey. On the other hand, there was an increase in the number of respondents who consider the monetary stance appropriate. As in the previous survey, few respondents considered the monetary stance too loose, or 4%.

Annual growth in M3 was about 5½% in Q3, after adjusting for deposits held by the failed financial institutions. This is a weaker growth rate than in the past year. Although lending growth has eased in the recent term, the stock of credit system loans to domestic borrowers grew in nominal terms by an estimated 6½% year-on-year in Q3/2019, after adjusting for the effects of the Government's debt relief measures. Over the same period, household lending grew by just under 7% year-on-year and corporate lending by 5%.

The Nasdaq OMXI10 index had risen by 6.9% between meetings. Turnover in the main market totalled 447 b.kr. during the first nine months of the year, about 24% more than over the same period in 2018.

### **Global economy and external trade**

According to the forecast published by the International Monetary Fund (IMF) in October, the global GDP growth outlook has deteriorated still further relative to the Fund's previous forecasts. Global GDP growth measured 3.6% in 2018, and the IMF expects it to shrink to 3% in 2019. This is 0.2 percentage points below the Fund's July forecast and 0.3 points below its April forecast. If this forecast materialises, global GDP growth will be the weakest since 2009. The deterioration in the outlook since the spring is due in particular to a poorer GDP growth outlook for some emerging market economies, but also for advanced economies. The IMF still expects

global GDP growth to pick up in 2020, to 3.4%, which nevertheless is 0.2 percentage points below its spring 2019 forecast. The Fund continues to consider the uncertainty in the output growth forecast to be concentrated on the downside, especially because of the risk that global trade disputes will escalate further. It forecasts that world trade will grow by only 1.1% in 2019, instead of the previously projected 3.4%.

According to preliminary figures from Statistics Iceland, Iceland's goods trade generated a 17.5 b.kr. deficit in September, as opposed to a deficit of 15.4 b.kr., at constant exchange rates, in September 2018. The deficit for the first nine months of the year was 95.5 b.kr., as compared with 149 b.kr. for the same period in 2018. The smaller deficit now is due to the exportation of aircraft early in the year, although import values have also contracted by 9% in 2019 to date. The contraction in import values excluding ships and aircraft eased in September. In the past three months, import values have shrunk by 11% year-on-year. The main difference lies in reduced import values of fuels and lubricants, although the value of transport equipment, commodities, and operational inputs contracted as well. Export values were unchanged year-on-year in the first nine months of 2019. Excluding ships and aircraft, they contracted by 5% year-on-year, particularly manufacturing goods exports, while marine product export values were unchanged between years.

Between MPC meetings, the listed global price of aluminium rose by just over 6% but was just over 7% below the price seen at the beginning of November 2018. Preliminary figures from Statistics Iceland indicate that foreign currency prices of marine products were up just over 8% year-on-year in the first nine months of 2019. The global price of oil had risen by 7% since the October meeting, to just under 63 US dollars per barrel at the time of the November meeting. Nevertheless, oil prices remain 14% lower than in November 2018.

The real exchange rate in terms of relative consumer prices rose by 0.4% month-on-month in September, when it was 9.2% above its 25-year average but 14.7% below its June 2017 peak. In the first nine months of 2019, it was down by 9.1% compared with the same period in 2018, as the nominal exchange rate of the króna was 10.5% lower and inflation in Iceland was 1.6 percentage points above the trading partner average.

### **Domestic economy and inflation**

According to the Statistics Iceland labour force survey (LFS), total hours worked increased by 0.4% year-on-year in Q3/2019. The labour force also shrank by 0.4% year-on-year, but the average work week was about the same as in 2018. The seasonally adjusted labour participation rate was 80.9%, after falling by 0.4 percentage points between quarters. At the same time, the employment rate fell by a similar amount, 0.5 percentage points, to a seasonally adjusted 77.7%.

Seasonally adjusted unemployment fell by 0.1 percentage points between quarters, to 3.7%; however, it had risen by 0.6 percentage points since Q1, before WOW Air failed.

Figures from Registers Iceland on the number of foreign nationals living in Iceland suggest that the foreign labour force is still growing. In Q3, the foreign population increased by nearly 1,600 quarter-on-quarter, somewhat more than in the first two quarters of the year. Workers from temporary employment agencies and foreign services firms increased slightly in number, to just under 1,300, or 0.6% of the labour force, as of September. Issuance of new temporary work permits has continued to lose pace, however, with the number of new permits down by nearly 80 year-on-year in the first nine months of 2019.

The general wage index rose by 0.6% between quarters in Q3, and by 4.3% year-on-year. Real wages were 1.2% higher in Q3 than in the same quarter of 2018.

Leading indicators of developments in private consumption in Q3 suggest that the growth rate had eased relative to the first half of the year. New motor vehicle registrations declined less markedly in Q3, however, while growth in payment card turnover subsided more.

The Gallup Consumer Confidence Index measured 86.9 points in October, a decline of 12.3 points between months and of 5.2 points between years. All components of the index fell during the month, led by the assessment of the economic situation, which was down nearly 14 points. Apart from the assessment of the current situation, all components measured below 100 points, indicating that pessimistic respondents outnumber optimistic ones.

Statistics Iceland's nationwide house price index, published in late October, rose by 1.5% month-on-month when adjusted for seasonality, but rose 4.2% year-on-year. The capital area house price index, calculated by Registers Iceland, rose by 0.5% month-on-month in September when adjusted for seasonality, and by 3.5% year-on-year. The number of purchase agreements registered nationwide fell by 5.7% year-on-year in the first nine months of 2019, while the number of contracts for new construction declined by 3.5% over the same period.

The CPI rose by 0.36% month-on-month in October. Headline inflation measured 2.8% and had declined since the MPC's October meeting. The CPI excluding the housing component had risen by 2.6% year-on-year in October. Underlying inflation has been more persistent, however, at 3.4% in terms of the median of various measures. Rising house prices were the main driver of developments in the CPI in October. The "travel and transport" component also rose somewhat month-on-month, owing in particular to an increase in airfares and the price of new motor vehicles.

The interest component of imputed rent has lowered inflation recently, as real mortgage interest expense has fallen in response to Central Bank rate cuts. As a result, the CPI is estimated to be 0.2-0.3 percentage points lower than it would be otherwise.

According to the Central Bank survey conducted in late October, market agents' short-term inflation expectations are at target, and their one-year expectations have fallen significantly since the August survey. Their long-term inflation expectations remain at target and are down by  $\frac{1}{2}$  a percentage point since autumn 2018. The five- and ten-year breakeven inflation rate in the bond market is unchanged since the last MPC meeting, averaging 2.4% in Q4 to date. This is a full  $1\frac{1}{2}$  percentage points lower than it was in Q4/2018.

According to the forecast published in *Monetary Bulletin* on 6 November 2019, the inflation outlook has improved since the Bank's August forecast. Inflation was slightly below the August forecast in Q3 and is expected to fall even faster in Q4. It is projected to average 2.5% during the quarter, as opposed to the August forecast of 2.9%. The changed outlook is due primarily to a faster-than-projected decline in inflation this autumn, but in other respects, the inflation outlook for the rest of 2019 is largely unchanged. According to the forecast, inflation will be at target for most of the forecast horizon, although it will fall slightly below target in H2/2020 and remain below it into 2021. From mid-2020 onwards, the inflation outlook is therefore very similar to the August forecast.

The trade-weighted exchange rate index (TWI) has hovered around 180 points in the past year, after the króna had depreciated by over 10% in autumn 2018. In H2 to date, the króna has developed broadly as was projected in August. As a result, the exchange rate assumptions in the baseline forecast are similar to those in the August forecast. The TWI is projected to average about 181 points this year and about 182 points in the years to follow. Therefore, the

adjustment of the exchange rate to recent external shocks has already come largely to the fore through a decline in the equilibrium real exchange rate (i.e., the real exchange rate consistent with internal and external balance in the economy) and a narrowing of the exchange rate differential with abroad.

Among Iceland's main trading partners, output growth averaged 2.3% in H1/2018 but had receded to 1.8% by Q4. The downward trend has continued in 2019 to date. Output growth among trading partners averaged 1.6% in Q2. GDP growth among Iceland's main trading partners is forecast to average 1.5% in 2019 and 2020, and about 1.6% in the years thereafter. Headline inflation among Iceland's trading partners is projected to average 1.5% in 2019, 0.1 percentage points below the August forecast, and is expected to be slightly lower in 2020 as well.

Terms of trade deteriorated by 3.6% in 2018, after improving substantially from 2014 well into 2017. They are forecast to deteriorate by 0.4% this year. This reflects offsetting factors: the positive impact of lower imported goods prices (i.e., alumina, oil, and other commodities) and higher marine product export prices, on the one hand, and the negative impact of lower aluminium prices and lower foreign currency prices of services exports, on the other. As in the August forecast, terms of trade are expected to improve by a total of 3% over the next three years.

The outlook is for exports to contract more in H2 than was forecast in August. The contraction in air transport is expected to be larger, albeit offset by a smaller contraction in tourists' spending while in Iceland. Furthermore, figures on net trade suggest that goods exports contracted strongly in Q3, driven largely by reduced aluminium exports in the wake of production problems in the domestic aluminium industry. In 2019 as a whole, combined goods and services exports are expected to contract by 5.8% year-on-year. As in the August forecast, they are expected to pick up slightly in 2020 and then grow by an average of 3% per year in 2021 and 2022.

According to preliminary figures from Statistics Iceland, GDP growth measured 0.9% in H1/2019, down from 3.2% in H2/2018 and 6.7% in H1/2018. Even though domestic demand contracted more in H1 than was assumed in the August forecast, GDP growth turned out 0.4 percentage points above that forecast, mainly because of a stronger-than-anticipated expenditure switch towards domestic goods and services. GDP is assumed to have contracted in Q3, owing largely to a sharp contraction in goods exports. According to the forecast, GDP is expected to contract by 1.2% in H2 and by 0.2% in 2019 as a whole, the same as in the August forecast. The output growth outlook for 2020 has been revised downwards, however, reflecting the bleaker outlook for growth in domestic demand, albeit offset by a more favourable contribution from net trade. GDP growth is projected to measure 1.6% in 2020 and align with long-term potential in 2021.

The outlook is for total hours worked to fall still further in Q4 and to be an average of 0.1% fewer in 2019 than in 2018. The employment rate is therefore expected to fall for the third year in a row. Although this will be mitigated by a declining labour participation rate, unemployment is set to continue rising, measuring 3.7% for the year as a whole, or 1 percentage point more than in 2018. Total hours worked are projected to pick up again in 2020, as is the employment rate; however, unemployment will keep rising during the year, measuring 3.8% for 2020 as a whole, before starting to ease once more. Wages have risen steeply in the recent term, and based on estimated productivity growth, unit labour costs are expected to rise by an average of just over 6% this year. This is a slightly smaller increase than was forecast in August, owing in

part to more favourable developments in productivity. The outlook for the next three years is broadly unchanged, however, with unit labour costs forecast to rise by 4% per year.

Leading indicators imply that capacity utilisation has begun to improve again and that the contraction following the recent economic shocks will be relatively brief. The output gap that developed following the past several years' surge in output growth is estimated to have closed and a small slack to have opened up. The slack in output is expected to peak in mid-2020 and close by the end of the year.

The Bank's baseline forecast reflects the assessment of the most likely economic developments during the forecast horizon. It is based on forecasts and assumptions concerning domestic economic policy, developments in the external environment of the Icelandic economy, and assessments of the effectiveness of individual markets and how monetary policy is transmitted to the real economy. All of these factors are subject to uncertainty. Changes in key assumptions could lead to developments different from those provided for in the baseline forecast.

However, the inflation outlook is less uncertain than it was in 2018, when the outcome of private sector wage negotiations was still entirely unknown. Added to this was increased uncertainty following the depreciation of the króna and the rise in inflation expectations in the autumn. Although uncertainty has diminished, it has not disappeared, as wage agreements for a large segment of the public sector work force are still pending. Furthermore, there is always uncertainty about wage drift and about the degree to which large pay rises for the lowest-paid workers will spread up the pay scale. Underlying inflationary pressures could therefore be underestimated, as the share of wages in domestic value creation has risen steeply in the recent term, cutting into firms' profit margins. Another major uncertainty concerns the exchange rate of the króna. The exchange rate assumptions in the baseline forecast could prove overly optimistic; for instance, if the setbacks in the tourism industry prove more long-lasting, or if terms of trade deteriorate further. Furthermore, the impact of recent export sector shocks on potential output could be underestimated and the slack in the economy therefore smaller than is assumed in the baseline forecast. Moreover, inflation expectations may be less firmly anchored to the target than is currently assumed.

Neither can the possibility be excluded that inflation will turn out lower than is assumed in the baseline forecast. The króna could appreciate further, for instance, if external conditions improve. The global economic outlook could prove to be overestimated, and exports and GDP growth could therefore turn out weaker than is currently forecast. Inflation could therefore subside faster if the króna does not lose ground. Furthermore, it could take longer than currently expected to resolve the supply problems in the airline sector, and the forecast for the recovery of tourism could prove too optimistic. The productivity growth forecast could also be too pessimistic, and the slack in the economy could turn out deeper and more persistent than is currently projected.

## **II The interest rate decision**

MPC members discussed the monetary stance in view of economic developments and the fact that the Bank's real rate had risen marginally since the October meeting. They discussed whether the monetary stance was appropriate in view of the inflation outlook, as the Committee had decided at the October meeting to lower interest rates because of the increased risk that the GDP growth outlook was too optimistic. This was due in particular to the poorer economic outlook abroad, the outlook for domestic inflation to align with the target sooner than previously expected, and the continued decline in inflation expectations.

The MPC discussed economic developments and prospects and, in this context, took into consideration the new macroeconomic forecast as published in *Monetary Bulletin* on 6 November, which stated that the GDP growth outlook for H2/2019 had deteriorated relative to the August forecast. It emerged, however, that GDP growth in H1 had exceeded the forecast, and a contraction of 0.2% was therefore expected for the year as a whole, as had been projected in August. Committee members agreed that the outlook for 2020 had also deteriorated, as the Bank's baseline forecast assumed that GDP growth for the year would measure 1.6%. The MPC discussed the importance of a rebound in investment in the coming term, noting that one of the risks was that such a rebound would not occur. It emerged in the discussion that the Bank's interest rate cuts should stimulate investment and demand in the coming term. It was also noted that if the Bank's interest rates had not been lowered, and all else being equal, the outlook would have been for investment to grow by a full 1½ percentage points less in 2020-2021, according to the Bank's macroeconomic model. GDP growth would also have been nearly 1 percentage point lower in each of the two years.

MPC members discussed developments in inflation, which had been at or above 3% since the spring but had eased to 2.8% in October. They noted, however, that underlying inflation had been more persistent, measuring 3.4% in October, according to the median of various measures. Headline inflation was expected to subside faster than was forecast in August and align with the target towards the end of this year. Committee members welcomed the fact that inflation expectations had continued to fall and were at target by most measures. They noted that the monetary stance had therefore tightened slightly between MPC meetings.

They discussed how the Bank's rate cuts since the spring had been transmitted to private sector interest rates. Rates had been cut by 1.25 percentage points since spring, and the impact on the real economy had yet to come fully to the fore. According to the Bank's data, the rate cuts had for the most part been transmitted effectively to long-term market rates and to rates offered to borrowers, yet access to credit had tightened, particularly access to corporate loans. Members were of the view that lower interest rates had supported demand, and based on the Bank's baseline forecast, the current interest rate level should suffice to ensure medium-term price stability and full capacity utilisation. They also discussed the Bank's new assessment of its neutral real rate, which indicated that the neutral real rate had fallen in the past decade and was now around 2%. It emerged that the rate cuts since the spring would therefore support demand now, when economic activity had slowed. MPC members also agreed that the forthcoming fiscal easing would pull in the same direction by boosting disposable income and stimulating demand. It was pointed out, however, that the economic outlook could be overly optimistic, particularly in view of global economic uncertainty.

The Committee discussed two possibilities: keeping interest rates unchanged or lowering them by 0.25 percentage points. The main reason to keep rates unchanged was that underlying inflation had fallen more slowly and was somewhat above target. Easing the fiscal stance meant that less monetary easing would be needed than would otherwise be required; furthermore, interest rates were well below the estimated neutral real rate. There were several signs that the cycle could be turning and that the contraction could therefore prove relatively short-lived. In addition, according to the baseline forecast, the slack in the economy was relatively small even though GDP growth had slowed markedly, as significant strains on capacity had built up after several years of strong output growth. It could therefore be appropriate to wait and see what impact the measures already in place would have.

The main rationale for lowering interest rates still further was that the GDP growth outlook had deteriorated and pessimism had increased. Headline inflation was expected to subside faster

than was forecast in August and fall temporarily below target during the forecast horizon. Inflation expectations had also continued to fall, and the Bank's real rate had therefore risen slightly between meetings. In view of the uncertainty at hand, it could be appropriate to lower rates further in order to reduce the risk of a stronger economic contraction.

In view of the discussion, the Governor proposed that the Bank's interest rates be lowered by 0.25 percentage points. The Bank's key rate (the seven-day term deposit rate) would be 3%, the current account rate 2.75%, the seven-day collateralised lending rate 3.75%, and the overnight lending rate 4.75%. All Committee members voted in favour of the proposal.

In the MPC's view, near-term monetary policy decisions would depend on the interaction between developments in economic activity, on the one hand, and inflation and inflation expectations, on the other.

The following Committee members were in attendance:

Ásgeir Jónsson, Governor and Chair of the Monetary Policy Committee

Rannveig Sigurdardóttir, Deputy Governor

Thórarinn G. Pétursson, Chief Economist

Gylfi Zoëga, Professor, external member

Katrín Ólafsdóttir, Assistant Professor, external member

In addition, a number of Bank staff members attended part of the meeting.

Karen Áslaug Vignisdóttir wrote the minutes.

The next Statement of the Monetary Policy Committee will be published on Wednesday 11 December 2019.



*The Monetary Policy Committee of the Central Bank of Iceland*

## Minutes of the Monetary Policy Committee meeting

December 2019 (89th meeting)

Published: 25 December 2019

The Act on the Central Bank of Iceland stipulates that it is the role of the Monetary Policy Committee (MPC) to set Central Bank interest rates and apply other monetary policy instruments. Furthermore, the Act states that “[m]inutes of meetings of the Monetary Policy Committee shall be made public, and an account given of the Committee’s decisions and the premises upon which they are based.” In accordance with the Act, the MPC has decided to publish the minutes of its meetings two weeks after each interest rate decision. The votes of individual Committee members are also included in the minutes.

The following are the minutes of the MPC meeting held on 9 and 10 December 2019, during which the Committee discussed economic and financial market developments, the interest rate decision of 11 December, and the communication of that decision.

### **I Economic and monetary developments**

Before turning to the interest rate decision, members discussed the domestic financial markets, financial stability, the outlook for the global economy and Iceland’s international trade, the domestic economy, and inflation, with emphasis on information that has emerged since the 6 November 2019 interest rate decision.

#### **Financial markets**

Since the November meeting, the króna had appreciated by 2% in trade-weighted terms. Over this same period it rose by 2.4% against the euro and 1.9% against the US dollar but fell by 0.2% against the pound sterling.

In terms of the Central Bank’s real rate, the monetary stance had remained broadly unchanged since just after the Committee’s November interest rate decision. The Bank’s real rate in terms of the average of various measures of inflation and one-year inflation expectations had risen by 0.1 percentage points between meetings, to 0.5%. In terms of twelve-month inflation, it was 0.3% and had also risen by 0.1 percentage points.

Interest rates in the interbank market for krónur fell in line with the Central Bank’s rate reduction in November, but there was no turnover in the market between meetings. Yields on long-term nominal Treasury bonds had risen by 0.3 percentage points since the November

meeting, however, and yields on long-term indexed Treasury and Housing Financing Fund (HFF) bonds had also risen by 0.3 percentage points. Average rates on non-indexed mortgage loans had fallen slightly between meetings, whereas average rates on indexed mortgage loans were broadly unchanged.

In terms of three-month interbank rates, the interest rate differential had narrowed by 0.2 percentage points between meetings, to 4.1 percentage points against the euro and 1.8 percentage points against the US dollar. The long-term interest rate spread versus Germany had widened by 0.3 percentage points, to 4.1 percentage points, and the spread versus the US had widened by 0.4 percentage points, to 2 percentage points. Measures of the risk premium on the Treasury's foreign obligations had risen marginally between meetings. The CDS spread on the Treasury's five-year US dollar obligations was 0.8%, and the spread between the Treasury's eurobonds and comparable bonds issued by Germany was 0.5-0.6 percentage points.

Financial institutions' analysts had all projected that the MPC would hold interest rates unchanged, citing the Committee's November statement, which indicated that the then-current interest rate level should suffice to ensure medium-term price stability. They also noted that the Bank's real rate had remained largely unchanged since November and that the newly published national accounts had been broadly in line with the Central Bank's last forecast.

Annual growth in M3 was about 3% in October, after adjusting for deposits held by the failed financial institutions. This is a weaker growth rate than in the past year. Although lending growth has eased in the recent term, the stock of credit system loans to domestic borrowers grew in nominal terms by an estimated 5% year-on-year in October, after adjusting for the effects of the Government's debt relief measures. Over the same period, household lending grew by just under 7% year-on-year and corporate lending by 1½%, somewhat less than in recent quarters.

The Nasdaq OMXI10 index had risen by 4.3% between meetings. Turnover in the main market totalled 558 b.kr. during the first eleven months of the year, nearly 22% more than over the same period in 2018.

### **Global economy and external trade**

According to the Organisation for Economic Cooperation and Development's (OECD) November forecast, global GDP growth is projected at 2.9% in both 2019 and 2020. This is similar to the OECD's forecast from September but below its May forecast by 0.3 and 0.5 percentage points, respectively. If this forecast materialises, the growth rate will be the weakest since the financial crisis. Weaker global output growth can be attributed to a poorer outlook in both advanced and emerging economies, as growth has slowed in nearly all economies worldwide in 2019. The OECD continues to consider the uncertainty in the forecast to be concentrated on the downside. GDP growth could turn out weaker, for instance, if global trade disputes escalate further, if the UK leaves the European Union (EU) without an exit agreement, or if the EU and the UK do not reach an agreement on future trade arrangements between them within the timeframe specified in the exit agreement. The global economy could also grow more slowly if GDP growth in China slows more, and faster, than is assumed in the OECD's baseline forecast.

According to preliminary figures from Statistics Iceland, Iceland's goods trade generated a 3.1 b.kr. deficit in November, as opposed to a deficit of 18.2 b.kr., at constant exchange rates, in November 2018. The deficit for the first eleven months of the year was 96 b.kr., as compared with 176 b.kr. for the same period in 2018. The smaller deficit now is due partly to the exportation of aircraft early in the year, although import values have also contracted by 10.4%

in 2019 to date. The contraction in import values excluding ships and aircraft grew stronger in November. In the past three months, import values have shrunk by 13.5% year-on-year. The main difference lies in reduced import values of commodities and fuels and lubricants, although the value of imported investment goods contracted as well. Export values were unchanged year-on-year in the first nine months of 2019. Excluding ships and aircraft, export values contracted by 4% year-on-year, particularly for industrial goods, whereas the export value of marine products and agricultural products rose year-on-year by 2% and 41%, respectively, owing in particular to aquaculture products.

Between MPC meetings, the listed global price of aluminium fell just over 3.5% and was more than 10% below the price seen in December 2018. Preliminary figures from Statistics Iceland indicate that foreign currency prices of marine products were up 6.7% year-on-year in the first ten months of 2019. The global price of oil had risen by 2% since the November meeting, to just over 64 US dollars per barrel at the time of the December meeting. The price of oil was also up by more than 7% year-on-year at the time of the December meeting.

The real exchange rate in terms of relative consumer prices rose by 0.3% month-on-month in November, when it was 9.5% above its 25-year average but 14.4% below its June 2017 peak. In the first eleven months of 2019, it was down by 7.5% compared with the same period in 2018, as the nominal exchange rate of the króna was 8.7% lower and inflation in Iceland was 1.5 percentage points above the trading partner average.

### **Domestic economy and inflation**

According to preliminary figures published by Statistics Iceland at the end of November, GDP contracted by 0.1% year-on-year in Q3. Domestic demand increased by 3.2%, as there was a significant positive contribution from inventory changes during the quarter, in addition to 2.5% growth in consumption and investment. Offsetting this was the contribution of net trade to GDP growth, which was negative by 3.2 percentage points. Both exports and imports contracted year-on-year during the period, although exports contracted somewhat more strongly. GDP growth for the first three quarters of 2019 measured 0.2%. Consumption and investment fell by 0.4% between years during this period, but due to a strong negative contribution from inventory changes in H1, the contraction in domestic demand was stronger, at 0.9%. Although the contribution of net trade to output growth was negative in Q3, it was positive by 1 percentage point for the first three quarters of the year.

GDP growth for the three-quarter period was 0.3 percentage points stronger than was forecast in the November *Monetary Bulletin*. Growth in residential investment year-to-date has been surprisingly strong, but this probably reflects a lag in registration of new construction rather than a steep rise in construction activity. Furthermore, private consumption was stronger and the contribution from inventory changes more favourable than previously forecast, albeit offset by a less favourable contribution of net trade to output growth. The lion's share of the deviation in the forecast of the contribution from net trade can be attributed, however, to the part of services exports that includes intellectual property-related services, which will show in Q4 instead of Q3, as was previously expected.

The current account surplus was 63 b.kr. in Q3/2019. This is a smaller surplus than in Q3/2018, when it measured 74 b.kr. The contraction in the surplus is due to a smaller surplus on services trade, although the balance on primary income improved. In spite of this, the current account surplus in 2019 to date measures 5.5% of GDP, more than in the previous two years but slightly

below the post-crisis average. More favourable goods trade and a larger surplus on primary income offset the smaller surplus on services trade thus far in 2019.

Leading indicators of private consumption at the beginning of Q4 developed broadly as they have in recent months. Payment card turnover increased modestly and new motor vehicle registrations contracted, albeit at a reduced rate. The Gallup Consumer Confidence Index measured 95.7 points in November, an increase of 8.8 points month-on-month and nearly 20 points year-on-year.

The 2020 National Budget was approved with a deficit of 0.3% of GDP, whereas the forecast in *Monetary Bulletin* assumes that the fiscal outcome will be in balance at that time. The outcome provided for in the Budget is 0.5 percentage points within the boundaries provided for in the 2018-2022 fiscal strategy.

According to the results of Gallup's winter survey, conducted in December among Iceland's 400 largest firms, respondents' assessment of the current economic situation was more positive than in both the autumn survey and the winter 2018 survey. Executives are considerably more upbeat about the outlook six months ahead, however, than they were in autumn 2019 and winter 2018. About 55% of respondents considered the current situation neither good nor poor, and about 31% considered it good. Just under 28% of executives are of the view that economic conditions will improve in the next six months, and 46% expect conditions to be neither better nor worse. Just over a fifth expect conditions to be worse in six months' time, a somewhat smaller share than in the autumn survey. Executives are slightly more pessimistic about developments in domestic demand than they were in the autumn survey, however, especially those in the construction industry and in transport, transit, and tourism. Expectations about external demand improved slightly since the autumn, particularly among executives in financial services and retail and wholesale trade.

According to the seasonally adjusted results of the winter survey, the balance of opinion on staffing plans (i.e., firms planning to recruit as compared with those planning redundancies) was negative by 11 percentage points. Survey respondents were somewhat more pessimistic than in the autumn survey, when the same balance of opinion was negative by 7 percentage points. Prospects are bleakest in the construction sector, where the outlook is for a marked decrease in job numbers. Furthermore, there is once again considerable pessimism in the transport, transit, and tourism sector, where the outlook is similar to that in the construction sector. The only sector expecting an increase in staffing levels is miscellaneous specialised services, where the balance of opinion was positive by 18 percentage points.

After adjusting for seasonality, 16% of executives considered themselves short-staffed, about the same as in the previous survey. As before, the reported shortage was largest in miscellaneous specialised services, where about 28% of firms considered themselves understaffed. On the other hand, there was no reported shortage of workers in the construction and financial/insurance sectors. Staffing shortages were at or below their long-term averages in all sectors.

The share of executives who reported difficulty in responding to unexpected demand declined marginally between surveys, to 36%. Nearly half of fishing industry executives and more than two of every five in miscellaneous specialised services were of the view that their firms would have difficulty responding to unexpected demand. In transport, transit, and tourism, as well as in the construction and financial/insurance sectors, the strain on production factors was least, with ratios in the 20-25% range.

The general wage index rose by 0.4% month-on-month in October and by 4.2% year-on-year, and real wages were 1.3% higher during the month than at the same time in 2018.

Statistics Iceland's nationwide house price index, published in late November, rose by 1% month-on-month when adjusted for seasonality, and by 4.8% year-on-year. The capital area house price index, calculated by Registers Iceland, rose by 0.8% month-on-month in October when adjusted for seasonality, and by 3.6% year-on-year. The number of purchase agreements registered nationwide fell by 4.6% year-on-year in the first ten months of 2019, while the number of contracts for new construction increased by 5.2% over the same period.

The consumer price index CPI rose by 0.13% month-on-month in November. Headline inflation measured 2.7% and had declined since the MPC's previous meeting. The CPI excluding the housing component had risen by 2.4% year-on-year in November. Underlying inflation measured 3.1%, according to the median of various measures, and fell between months. The decline in international airfares made the strongest impact on the CPI in November. For the second month in a row, imputed rent (owner-occupied housing costs) rose somewhat, owing mainly to higher house prices in regional Iceland.

The interest component of imputed rent has lowered inflation recently, as real mortgage interest expense has fallen in response to Central Bank rate cuts. Because of this, twelve-month inflation was an estimated 0.3 percentage points lower than it would have been otherwise.

According to Gallup's winter survey, households' and businesses' one-year inflation expectations were unchanged between surveys, at 2.5-3%. Households' two-year inflation expectations fell, however, to 3%. Corporate long-term inflation expectations also fell slightly, to 2.9%. The five- and ten-year breakeven inflation rate in the bond market was about 2.5% just before the MPC meeting, after rising slightly since the November meeting. The ten-year breakeven rate has averaged 2.5% in Q4 to date, some 1.6 percentage points lower than in the same quarter of 2018.

## **II The interest rate decision**

The Committee discussed draft amendments to the Rules on Minimum Reserve Requirements and a draft of new Rules on Central Bank Facilities for Financial Undertakings, in accordance with its approval at the October meeting of proposed restrictions on Central Bank facilities and amendments to the Rules on such facilities. The drafts were discussed and then approved by the Committee.

MPC members discussed the monetary stance in view of economic developments and the fact that the Bank's real rate was broadly unchanged since the November meeting. They discussed whether the monetary stance was appropriate in view of the inflation outlook, as the Committee had decided in November to lower interest rates because the GDP growth outlook had deteriorated and the outlook was for inflation to subside faster than previously forecast. Inflation expectations had also continued to fall, and the Bank's real rate had therefore risen slightly.

The MPC discussed the recently published national accounts figures, according to which output growth measured 0.2% for the first nine months of the year. Members noted that this was slightly stronger growth than the Bank forecast in November, but they agreed that overall developments year-to-date had been broadly in line with the Bank's projections. It emerged in the discussion that the slowdown in tourist numbers had eased and that recent developments had been more favourable than expected.

Committee members discussed inflation, which measured 2.7% in November and had fallen between months, as had underlying inflation. They noted that the inflation outlook had held broadly unchanged since the previous meeting and that inflation expectations were at target by most measures. The monetary stance had therefore remained largely unchanged between MPC meetings.

Members discussed how the Bank's rate cuts since the spring had been transmitted to private sector interest rates. Rates had been lowered by 1.5 percentage points, and the impact on the real economy had yet to come fully to the fore. They noted that household lending rates had fallen in the wake of reductions in the Bank's key rate and that lending growth to households was still relatively robust. On the other hand, it emerged in the discussion that the spread between the Bank's key rate and rates on new corporate loans granted by the commercial banks had widened recently, and that net new corporate lending had continued to ease. The Committee was of the opinion, however, that the slowdown in corporate lending was expected in light of the strong increase in recent years and the possibility that expected returns on firms' activities could now be lower than before, owing to declining demand. Furthermore, various elements in financial institutions' operations had affected access to credit, including their revaluation of loan pricing and credit risk in the wake of recent changes in their operating environment. The Committee agreed that it was appropriate to keep abreast of this situation in the near future, and its potential impact on monetary policy formulation.

The Committee considered it appropriate this time to wait and see what impact the measures already in place would have. Spare capacity was relatively limited, according to the Bank's baseline forecast from November, although GDP growth had slowed markedly. Furthermore, in view of the easing of the fiscal stance, less monetary easing would be needed than would otherwise be required; furthermore, interest rates were well below the estimated neutral real rate. Although underlying inflation had subsided in November, it was still above the inflation target.

In view of the discussion, the Governor proposed that the Bank's interest rates be held unchanged. The Bank's key rate (the seven-day term deposit rate) would be 3%, the current account rate 2.75%, the seven-day collateralised lending rate 3.75%, and the overnight lending rate 4.75%. All Committee members voted in favour of the proposal.

In the MPC's view, near-term monetary policy decisions would depend on the interaction between developments in economic activity, on the one hand, and inflation and inflation expectations, on the other.

The following Committee members were in attendance:

Ásgeir Jónsson, Governor and Chair of the Monetary Policy Committee

Rannveig Sigurdardóttir, Deputy Governor

Thórarinn G. Pétursson, Chief Economist

Gylfi Zoëga, Professor, external member

Katrín Ólafsdóttir, Assistant Professor, external member

In addition, a number of Bank staff members attended part of the meeting.

Karen Áslaug Vignisdóttir wrote the minutes.

The next Statement of the Monetary Policy Committee will be published on Wednesday 5 February 2020.

# Crisis, Policy Responses and Recovery in Iceland

Looking back and looking forward  
CBI conference



Már Guðmundsson, Governor  
Grand Hotel Reykjavík, 12 July 2019

## The autumn of 2008

- Iceland's three internationally active banks failed in the first week of October 2008 (almost 10 times GDP and 90% of the banking sector).
- Combined, this was the 3<sup>rd</sup> biggest corporate failure in the history of mankind.
- At that point, Iceland was already in a currency crisis and on its way into recession after an unsustainable boom during 2005-2007.
- Icelandic private sector was heavily indebted and there were big currency mismatches in domestic balance sheets.
- Many expected a very deep recession and even that the sovereign might default on its obligations.

## Two separate but interrelated stories

- Iceland's boom-bust cycle and problems with macroeconomic management in small, open, and financially integrated economies.
- The rise and fall of three cross-border banks operating on the basis of EU legislation (the European "passport").

## The immediate policy response

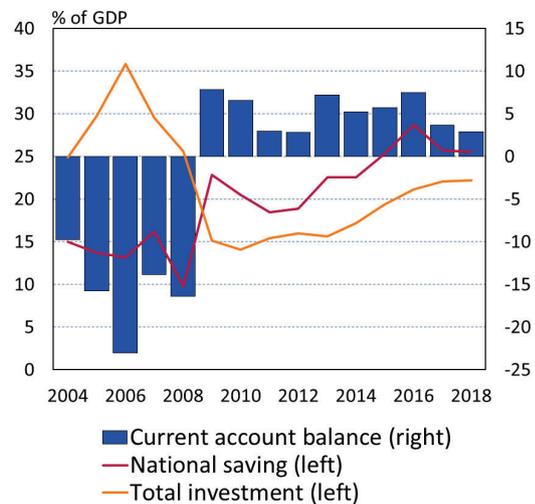
- Failing banks placed in resolution regimes and domestic banks carved out (1.7 times GDP).
- Focus on keeping payment intermediation working – deposit preference introduced.
- IMF programme three key goals: exchange rate stability, fiscal sustainability, and financial sector reconstruction.
- Comprehensive capital controls were a key element in the programme:
  - Stabilise the exchange rate.
  - Space to clean up balance sheets.
  - Space for domestic economic policies.

# Recession and recovery

## Real depreciation and rebalancing



**Investment, saving and current account balance 2004-2018<sup>1</sup>**



1. Current account balance and national saving based on estimated underlying current account balance in 2008-2015.  
Sources: Statistics Iceland, Central Bank of Iceland.

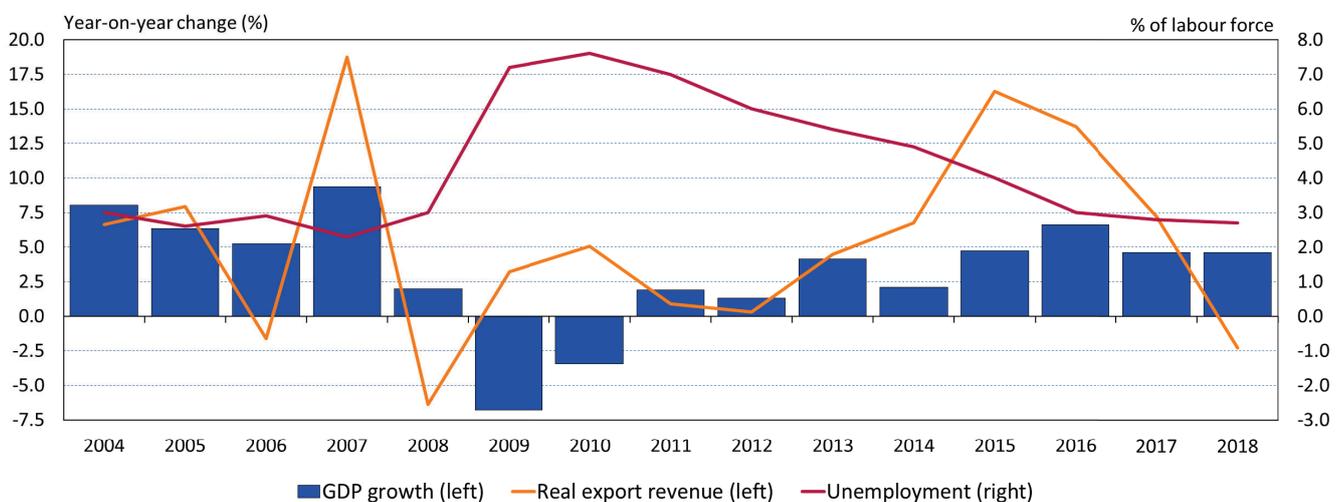
## Deepest recession since around WWI and longest expansion since the end of WWII

- GDP contracted by 13% from Q1/2008 to Q1/2010.
- Unemployment peaked in Q4/2010 at just over 8% (post-war high)
- A relatively weak recovery began in Q2/2010 but gained strong momentum during 2015-2017 with record tourism and strong improvements in the terms of trade.
- Pre-crisis peak in GDP reached in 2015 and per capita in 2016.
- Total employment (man years) reached pre-crisis peak in 2014.

## Deep recession but full recovery with strong growth in export sectors



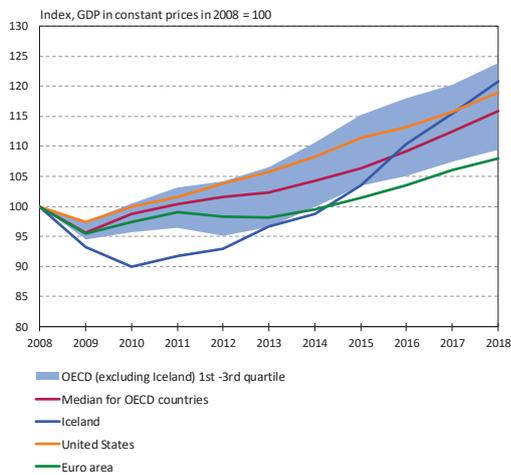
GDP growth, unemployment and real export revenue 2004-2018



Sources: Statistics Iceland, Central Bank of Iceland.

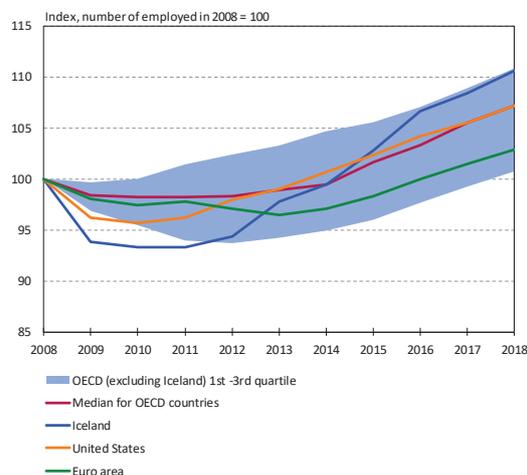
# Iceland's GDP recession was relatively deep, but its employment recovery relatively strong

Post-crisis economic recoveries in output in selected countries<sup>1</sup>



1. Estimates for 2018 are based on IMF's WEO database.  
 Sources: IMF, Statistics Iceland, Central Bank of Iceland.

Post-crisis economic recoveries in employment in selected countries<sup>1</sup>



1. Estimates for 2018 are based on IMF's WEO database.  
 Sources: IMF, Statistics Iceland, Central Bank of Iceland.

## Economic and financial policies

## The IMF programme

- Approved in November 2008.
- Total financing 3.9 b € or 44% of GDP in 2008 (1.6 b € from IMF and 2.3 b € from Nordic countries and Poland).
- Interest rates: IMF: initial 3.3%. Nordic: initial 3.15% (2.75%+Euribor).
- Fully drawn but not used except to increase the level of reserves.
- Loan from the Faroe Islands amounting to 300 m DKK (40 m €). No conditionality.
- Ended in August 2011.
- Nordic loans repaid 2012-2014, IMF 2012-2015 and Polish loan in spring 2015.
- All main goals were reached – strong local ownership.

## Comprehensive capital controls on outflows

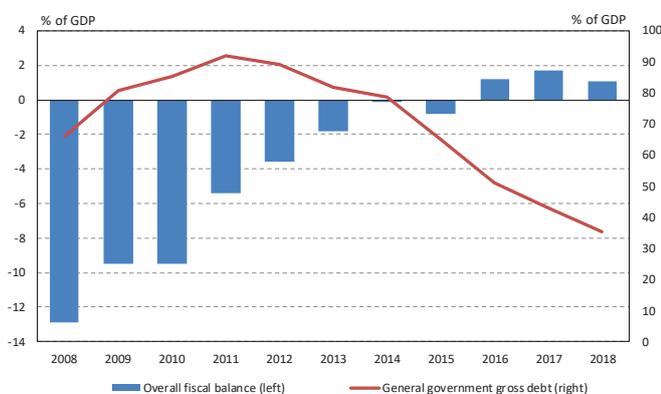
- Helped to stabilise the exchange rate after 50% fall in 2008.
- Big currency mismatches in domestic balance sheets.
- Direct foreign króna positions 40% of GDP.
- Created space for monetary policy, the domestic financing of the fiscal deficit and the cleaning up of domestic balance sheets.
- Mostly lifted 2015-17 without derailing economic and financial stability, without tapping the Central Bank's FX reserves excessively, and without discernible legal repercussions from the measures taken to lift the controls.

## Fiscal consolidation

- A medium term fiscal consolidation programme was a key element in the programme with the IMF.
- It worked well.
- Automatic stabilisers were allowed to work in the beginning as the fiscal deficit went to almost 10% of GDP in 2009.
- Fiscal consolidation then eliminated the deficit over 2010-2014 without derailing the economic recovery.
- Effort was big in international comparison.

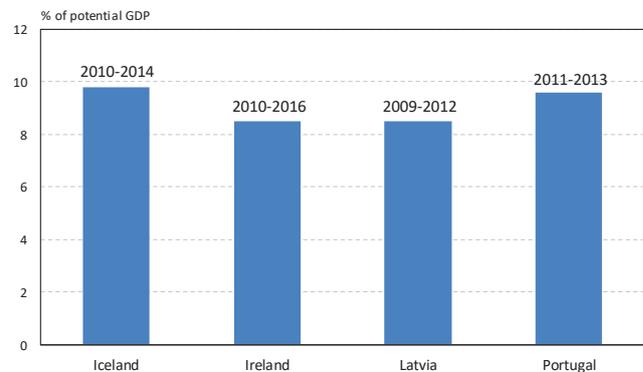
## Fiscal consolidation and falling public debt

General government overall fiscal balance and gross debt 2008 - 2018<sup>1</sup>



1. Adjusted for stability contributions.  
Sources: IMF Fiscal Monitor, Central Bank of Iceland.

Fiscal consolidation: period and positive change in the cyclically adjusted primary balance of general government



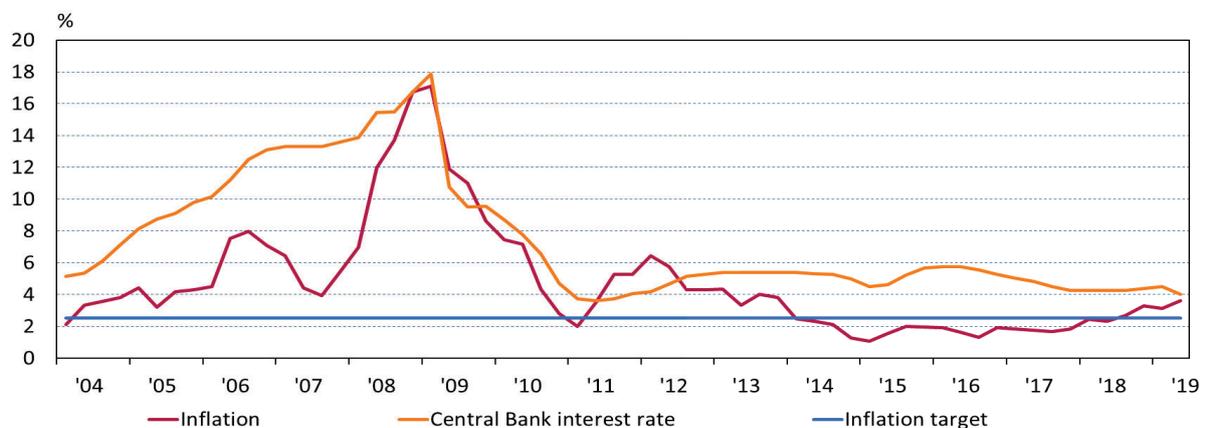
Sources: IMF Fiscal Monitor October 2017 & 2018.

## Monetary policy

- Inflation fell to target as the exchange rate stabilised in 2009 and appreciated in 2010.
- Created scope to cut the policy rate.
- Monetary policy was successful in bringing inflation expectations down to target after 2012 and keeping inflation close for five years without employment costs.

Inflation peaked in 2009 but declined steadily after the exchange rate stabilised. Monetary policy succeeded in keeping inflation close to target in recent years.

Inflation and policy rate Q1/2004-Q1/2019 and latest

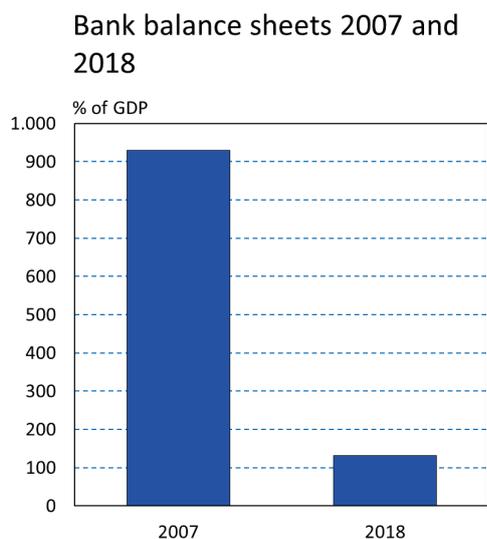


Sources: Statistics Iceland, Central Bank of Iceland.

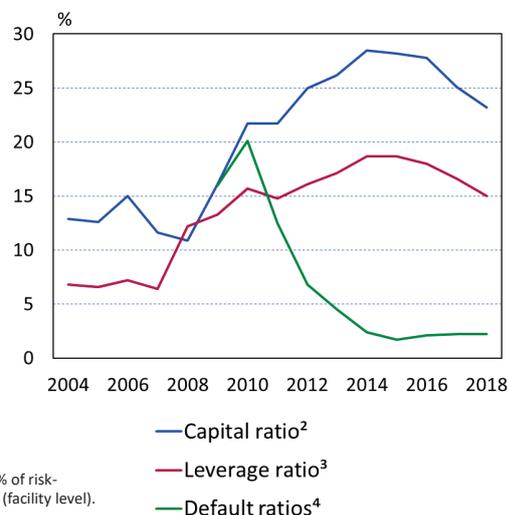
## Rebuilding the banking system

- The banking system primarily serves domestic households and business.
- 15% of the size of the pre-crisis banking system.
- Bank regulation has been greatly improved.
- Resilient with high capital adequacy ratios and sound liquidity position.

## Banking system now focuses mainly on domestic households and businesses and is much more resilient than before



Deposit institutions: capital, leverage and default ratios<sup>1</sup>



1. Domestic systemically important banks, consolidated figures. Average of ratios. 2. Capital base as % of risk-weighted assets. 3. IFRS Tier 1 leverage ratio. 4. Loans in default; i.e., loans past due by over 90 days (facility level).  
Sources: Deposit institutions' financial statements. Statistics Iceland, Central Bank of Iceland.

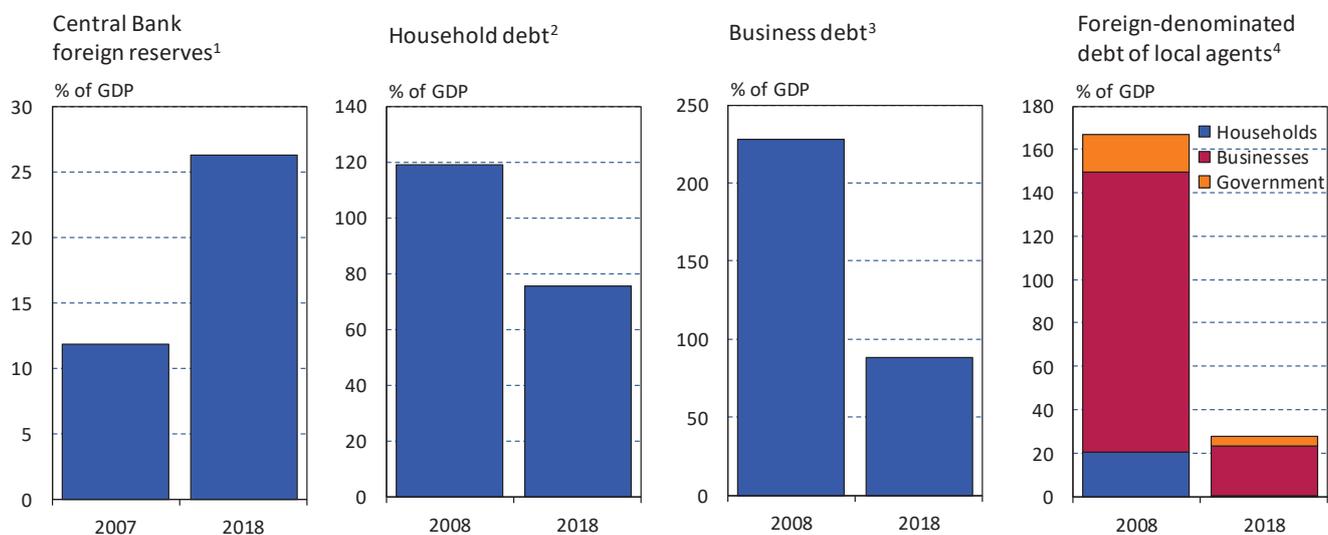
## Where are we now?

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## Where are we now?

- National income per capita 12% higher in 2018 than in 2007; we rank higher relative to other countries than before the crisis.
- Above full employment for the past three years – large importation of labour.
- Total employment (man years) was in 2018 11% above the pre-crisis peak.
- External assets exceed external liabilities by 21% of GDP (NIIP negative by 130% of GDP in 2008 excluding failed banks).
- Overall we have built strong resilience, have policy space and can face temporary setbacks.

# Increased resilience



1. Foreign reserves as % of GDP. 2. Total debt of households as % of GDP. 3. Total debt of businesses (debt and issued bonds) as % of GDP. Businesses excluding financial services firms (including holding companies). 4. Foreign-denominated debt or debt linked to foreign currencies as % of GDP. Businesses excluding financial services firms (including holding companies). Figures for 2008 are September figures for households and businesses but August figures for the government.  
Sources: Statistics Iceland, Central Bank of Iceland.

## What explains this success?

## What explains the success?

- The nature of the shocks:
  - Bank losses shared across borders.
  - Downsizing of unsustainable sectors and unwinding of imbalances.
- The policy response:
  - Dealing with failed banks.
  - Programme with the IMF.
  - Solution to the balance of payments crisis and lifting capital controls.
  - Policy reforms and good monetary and fiscal policies compared to the past
- Real economic integration with trading partners – cross-border labour mobility.
- Luck:
  - Growth of tourism.
  - Big improvements in the terms of trade 2015-2017.

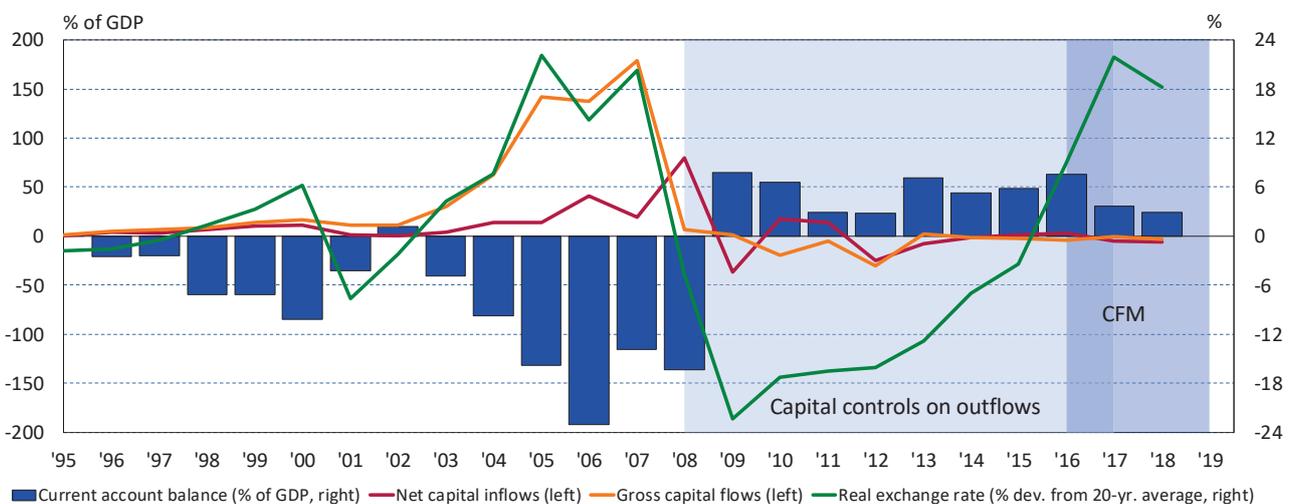
## Key lessons regarding capital flows and the exchange rate

## Key lessons regarding capital flows and the exchange rate

- The exchange rate can both be a shock amplifier and a shock absorber. There are policies that can affect the outcome.
- It is becoming more difficult to preserve monetary and financial stability in small, open and financially integrated economies.
- It requires sound regulation and supervision of FX risk and more policy tools: FX intervention, macroprudential and sometimes capital flow management.

## The capital flow problem in Iceland and the exchange rate

Capital flows, current account balance, and real exchange rate 1995-2018<sup>1</sup>



1. Capital flows excluding change in reserves. Gross capital flows is the average of gross capital inflows and outflows. Current account excluding the effect of failed financial institutions 2008-2015 and the pharmaceuticals company Actavis 2009-2012 on primary income. Also adjusted for the failed financial institutions' financial intermediation services indirectly measured (FISIM). Real exchange rate relative consumer prices (20-year average, 1998-2017).  
Sources: Statistics Iceland, Central Bank of Iceland.

SEÐLABANKI ÍSLANDS

Seðlabanki Íslands

Markmið, árangur og áskoranir



Ísafjörður, Akureyri, Neskaupstaður og Árborg  
12.-19. ágúst 2019

Már Guðmundsson  
seðlabankastjóri



Markmið og verkefni

## Hvað er seðlabanki?

- Verkfæri ríkisvaldsins sem nýtur skilgreindra sérréttinda og notar sjóð til að eiga viðskipti við fjármálastofnanir og á fjármálamarkaði. Markmiðin, form tengsla við ríkisvaldið og aðferðirnar breytast í áranna rás.
- Banki bankanna og banki ríkisins.
- Nú á tímum er algengast að seðlabankar hafi verðstöðugleika og fjármálastöðugleika að markmiði

## Markmið Seðlabanka Íslands

### Verðlag

Seðlabanki Íslands skal stuðla að stöðugu verðlagi – heimild til að lýsa yfir tölulegu verðbólgu markmiði með samþykki ráðherra

### Fjármála- stöðugleiki

Seðlabanki Íslands skal stuðla að fjármálastöðugleika

### Stefna ríkis- stjórnar

Seðlabankinn skal stuðla að framgangi stefnu ríkisstjórnarinnar í efnahagsmálum, enda telji hann það ekki ganga gegn markmiðum bankans

## Önnur helstu verkefni Seðlabankans

- Varðveita gjaldeyrisvarasjóð
- Stuðla að virku og öruggu fjármálakerfi, þ.m.t. greiðslukerfi í landinu og við útlönd
- Útgáfa seðla og myntar
- Bankþjónusta fyrir ríkissjóð og ráðgjöf við ríkisstjórn varðandi gjaldeyrisráðgjöf, erlendar lántökur og fleira
- Samskipti við alþjóðlegar stofnanir (t.d. Alþjóðagjaldeyrissjóðinn og Alþjóðagreiðslubankann)
- Tölfræðiupplýsingar, rannsóknir og útgáfur

## Úrlausn fjármálakreppunnar og efnahagsleg endurreisn

- Endurreisn greiðslumiðlunar gagnvart útlöndum
- Efnahagsáætlun með Alþjóðagjaldeyrissjóðnum 2008-2011
- Framkvæmd og losun fjármagnshafta
- Endurheimtur krafna á fallin fjármálafyrirtæki: Eignasafn Seðlabanka Íslands (ESÍ)
- Endurreisn fjármálakerfisins á öruggari grunni

# Árangur við úrlausn kreppunnar

## Efnahagsáætlun með Alþjóðagjaldeyrissjóðnum

- Í kjölfar bankahrunsins óskuðu íslensk stjórnvöld formlega eftir samstarfi við AGS – áætlun samþykkt í nóvember 2008.
- Samkomulag var gert á grundvelli efnahagsstefnu sem hafði þrjúþætt markmið.
  - Gengisstöðugleiki
  - Sjálfbær ríkisfjármál
  - Endurreisn fjármálakerfisins
- Fjármögnun í tengslum við áætlunina var mikil og nam 3,9 milljörðum evra eða um 44% af VLF 2008.
- Dregið var á lánin að fullu til að efla traust (fjármunum ekki ráðstafað í annað en að efla gjaldeyrisforða).
- Efnahagsáætluninni lauk 2011 og markmiðum var náð.
- Lánin voru endurgreidd fyrir gjalddaga á árunum 2012-2015.

## Fjármagnshöft

- Tókst að fá höftin til að virka eins og að var stefnt með breytingum á reglum haustið 2009, uppbyggingu gjaldeyriseftirlits og með því að setja bú föllnu bankanna undir þau á árinu 2012
- => skjól til endurreisnar og tiltektar í efnahagsreikningum banka, heimila og fyrirtækja
- Framkvæmd varðandi eftirlit og undanþágur gekk vel en vandamál komu upp varðandi rannsóknir (að hluta vegna annmarka við setningu laga og reglna)
- Greiðslujafnaðarvandinn:
  - Aflandskrónur: rúm 40% af landsframleiðslu
  - Óvarðar innlendar eignir slitabúa: nærri 50% af landsframleiðslu
  - Of stuttur greiðsluferill erlendra skulda aðila sem gátu þá illa endurfjármagnað (skuld nýja Landsbankans við þann gamla)
  - Upphlaðin þörf innlendra aðila fyrir erlendar eignir (lífeyrissjóðir)

## Losun fjármagnshafta

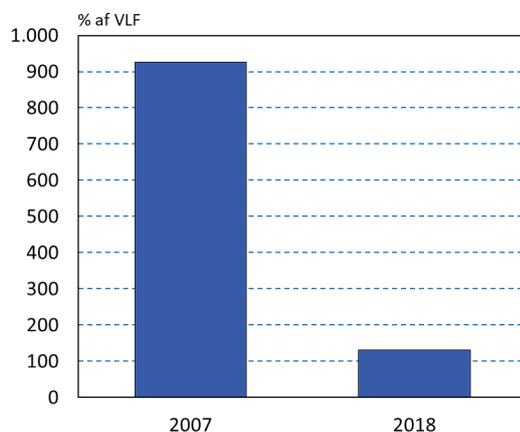
- Lækkun stöðu aflandskróna með gjaldeyrisútboðum og samningum 2010-2017 (Avens, útboð 2011-15, stórútboð með forða 2016 og viðskipti 2017)
- Eftir þessar aðgerðir var staðan komin niður í 7% af landsframleiðslu og hrein erlend skuldastaða lækkaði um 8% af landsframleiðslu vegna þeirra
- Uppgjör slitabúa á grundvelli nauðasamninga með stöðugleikaframlögum 2015: 16,5% af VLF bein framlög, lækkun erlendrar skuldastöðu: 13,5% af VLF
- => Hrein erlend skuld þjóðarbúsins lækkaði í heild um 22% af VLF vegna ofangreindra aðgerða
- Losun á innlenda aðila 2016-2017 (stóra skrefið í mars 2017)
- Fjármagnshöftin voru losuð án efnahagslegs og fjármálalegs óstöðugleika, án þess að nýta um of gjaldeyrisforða Seðlabankans og án teljandi lagalegra eftirmála vegna þeirra aðgerða sem gripið var til í því skyni að losa höftin – vakið athygli erlendis sem árangursrík aðgerð

## Endurheimta krafna á fallin fjármálafyrirtæki

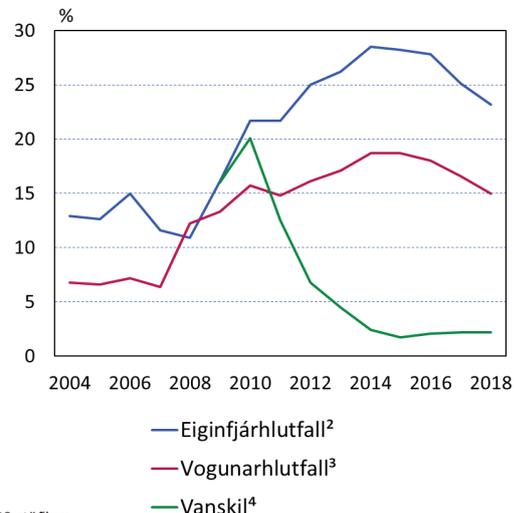
- Bókfært verðmæti eigna sem fóru inn í ESÍ í upphafi var um 491 milljarður króna.
- Til viðbótar við þá fjármuni hefur ESÍ skilað um 161 milljarði króna til Seðlabankans og ríkissjóðs í formi vaxta, arðs og skattgreiðslna, þrátt fyrir að m.a. hafi þurft að afskrifa háar fjárhæðir vegna „Kaupþingslánsins“ svokallaða.
- ESÍ var slitið í upphafi árs 2019, ríflega 9 árum frá stofnun þess.

## Endurreisn bankakerfisins

Eignir innlánsstofnana 2007 og 2018



Innlánsstofnanir: eiginfjár- og vogunarhlutföll og vanskil<sup>1</sup>



1. Samstæður kerfislega mikilvægra banka. 2. Eiginfjárgrunnur sem hlutfall af áhættugrunni. 3. Skv. IFRS-stöðlum. 4. Útíán sem ekki hefur verið greitt af í 90 daga eða lengur (lánaaðferð).

Heimildir: Ársreikningar innlánsstofnana, Hagstofa Íslands og Seðlabanki Íslands.

# Árangur í efnahagsmálum

## Staðan fyrir 10 árum

- Í miðjum mesta efnahagssamdrætti frá fyrri heimsstyrjöldinni
- Landsframleiðsla dróst saman um 13% og náði botni á fyrsta ársfjórðungi 2010
- Atvinnuleysi var á uppleið og náði hámarki yfir 8% á fjórða ársfjórðungi 2010
- Verðbólga var 19% í janúar 2009 – 12% um mitt ár
- Stýrivextir 18% í janúar 2009 – 12% um mitt ár
- 10% halli á ríki og sveitarfélögum 2009
- Erlendar skuldir umfram eignir þjóðarbúsins 130% ef horft var í gegnum bú föllnu bankanna

## Staðan fyrir 10 árum - 2

- Gjaldeyrisforðinn var allur fenginn að láni erlendis
- Við vorum að forminu til með altæk fjármagnshöft en þau voru ekki að virka eins og stefnt var að
- Aflandskrónur rúm 40% og vandinn í búunum óþekktur
- Öll þrjú meginmarkmið áætlunar með AGS voru í óvissu eða uppnámi (gengisstöðugleiki, sjálfbær ríkisfjármál og endurreisn bankakerfisins)

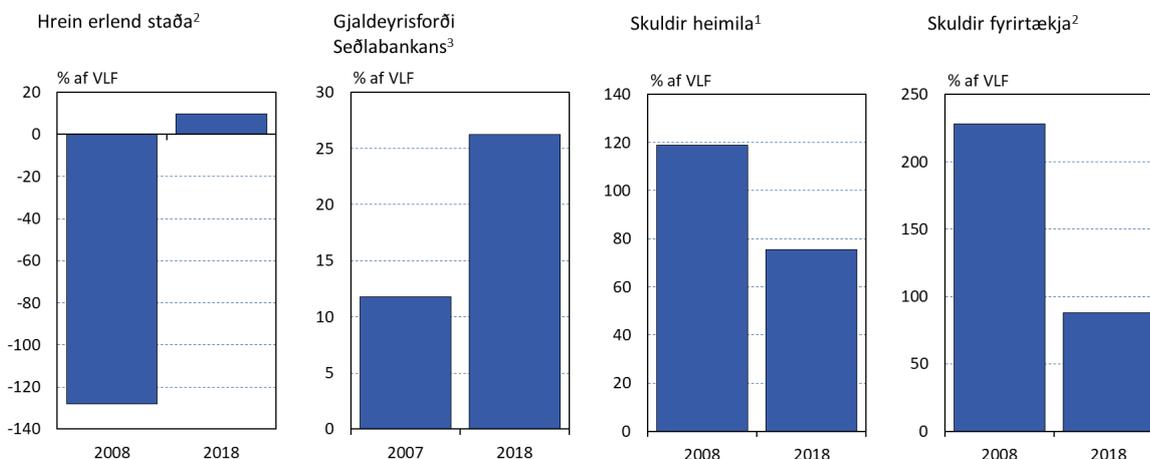
## Hvar erum við nú?

- Þjóðartekjur á mann 2018 12% hærrí en árið 2007 og við stöndum frammar meðal þjóða en fyrir kreppu
- Kaupmáttur launa 24% hærrí
- Full atvinna og gott betur þrjú sl. ár
- Verðbólga hefur verið nálægt markmiði í bráðum sex ár – nú 3,1%
- Hið opinbera stendur sterkt
- Vextir lágir í sögulegu samhengi: meginvextir Seðlabankans 3,75% og vextir 10 ára óverðtryggðra ríkisskuldabréfa undir 4%

## Hvar erum við nú? 2

- Gjaldeyrisforði sem nemur um fjórðungi af landsframleiðslu er nær allur fjármagnaður innanlands
- Þjóðin á eignir umfram skuldir erlendis sem nema 21% af landsframleiðslu

## Stóraukinn viðnámsþróttur



1. Viðskiptajöfnuður sem % af VLF. 2. Hrein erlend staða þjóðarþúsins sem % af VLF. 3. Gjaldeyrisforði sem % af VLF. 4. Frávik raungengis frá metnu jafnvægisraungengi.  
 Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

# Peningastefnan

## Endurbætur á peningastefnunni eftir fjármálakreppu (rit Seðlabankans 2010)

### Verðbólguþéttunni plús

Sveigjanlegt  
verðbólguþéttunni

Stýrt flotgengi

### Fleiri tæki

Gjaldeyrisinngrip

Fjárstreymistæki

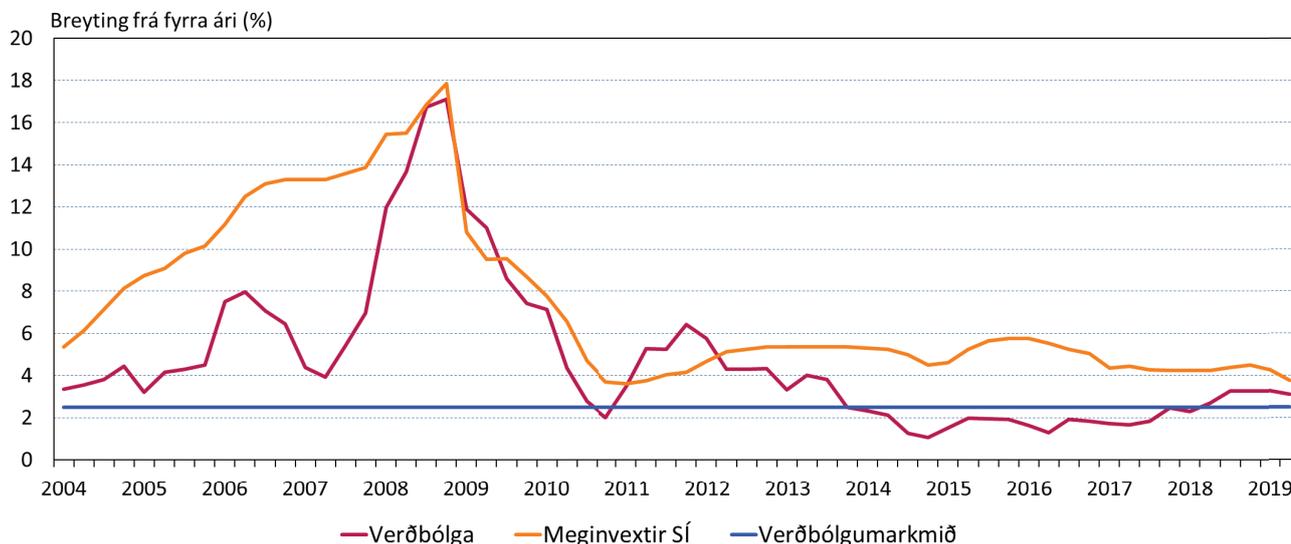
### Samspil við ríkisfjármál og varúðarstefnu

Fjármálareglur

Þjóðhagsvarúð

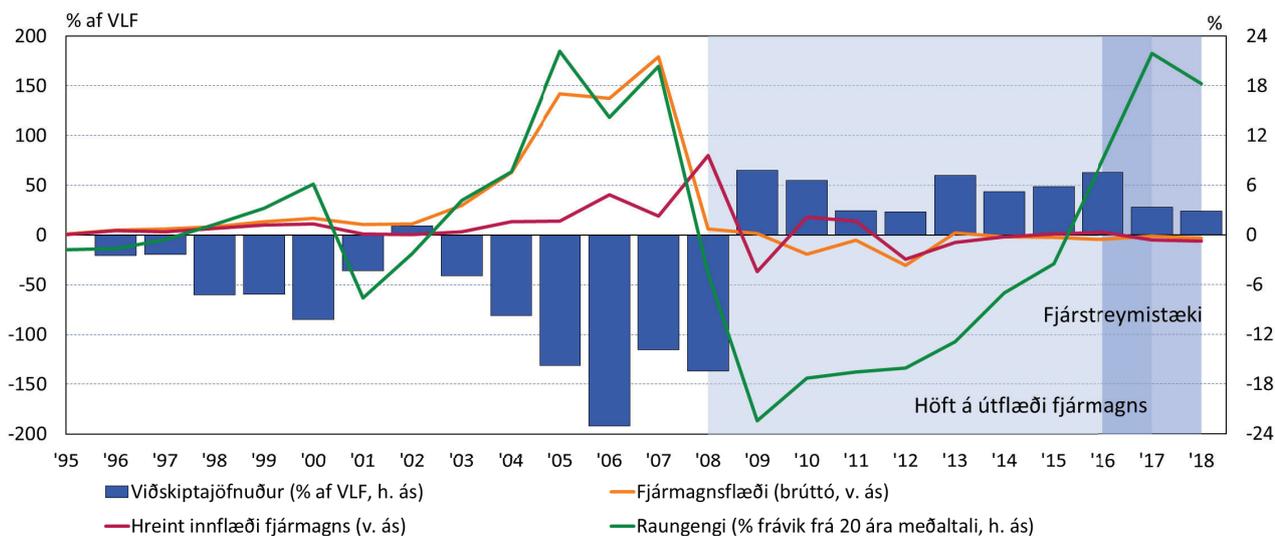
# Verðbólga náði hámarki 2009 en minnkaði samfelld eftir því sem gengi krónunnar náði jafnvægi. Peningastefnan hefur náð að halda verðbólgu nálægt markmiði nú í bráðum sex ár

Verðbólga og meginvextir Seðlabankans 1. ársfj. 2004 - 3. ársfj. 2019



## Fjármagnsflæði og gengi krónunnar

Fjármagnsflæði, viðskiptajöfnuður og raungengi 1995-2018<sup>1</sup>



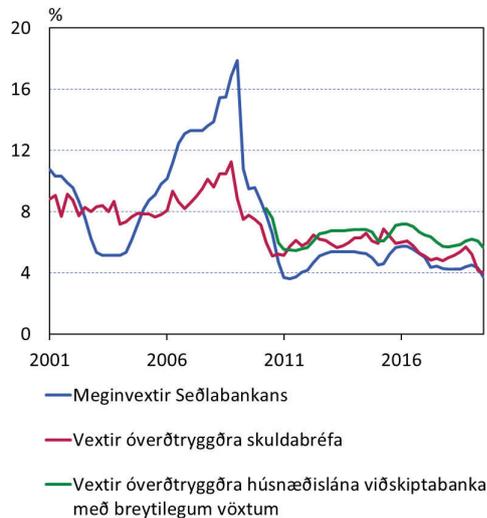
1. Fjármagnsflæði utan breytinga á gjaldeyrisforða. Brúttó fjármagnsflæði er meðaltal heildarinnstreymis og heildarúttreymis fjármagns. Viðskiptajöfnuður án áhrifa fallinna fjármálafyrirtækja 2008-2015 og lyfjafyrirtækisins Actavis 2009-2012 á jöfnuð frumþáttatekna. Einnig hefur verið leiðrétt fyrir óbeint mældri fjármálaþjónustu (FISIM) fallinna fjármálafyrirtækja. Raungengi miðað við hlutfallslegt verðlag (20 ára meðaltal 1998-2017).

Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

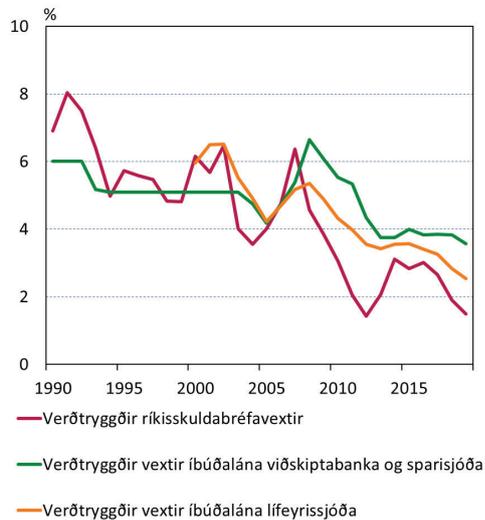
## Vextir í sögulegu lágmarki

### Meginvextir Seðlabanka Íslands og nafnvextir á markaði<sup>1</sup>

1. ársfj. 2001 - 3. ársfj. 2019



### Raunvextir á löngum lánum 1990-2019<sup>2</sup>



1. Gögn til og með 31. júlí 2019. Vextir skuldabréfa 5 ára vextir út frá metnum nafnvaxtaferli. Vextir húsnæðislána einfalt meðaltal lægstu útlánsvaxta þriggja stærstu viðskiptabankanna. 2. Ársmeðaltöl, gögn til og með 30. júlí 2019. 5. Verðtryggðir ríkisskuldabréfavextir eru samsettir úr gögnum um frumútbóð spariskirteina og ávöxtun íbúðabréfa og verðtryggðra ríkissbréfa. Vextir verðtryggðra íbúðalána viðskiptabanka og sparisjóða eru vextir Húsnæðisstofnunar/Íbúðalánasjóðs til og með júní 2004 en frá þeim tíma vegið meðaltal lægstu vaxta verðtryggðra íbúðalána hjá bönkum og sparisjóðum. Vextir lífeyrissjóða eru ársmeðaltöl lægstu vaxta.

Heimildir: Íbúðalánasjóður, Almenni lífeyrissjóðurinn, Arion banki, Festa lífeyrissjóður, Gilði lífeyrissjóður, Íslandsbanki, Landsbankinn, Lsj. verslunarmanna, LSR, Hagstofa Íslands, Seðlabanki Íslands.

## Stöðugleiki fjármálakerfisins

## Endurbætur á sviði fjármálastöðugleika eftir fjármálakreppuna: skipulag og regluverk

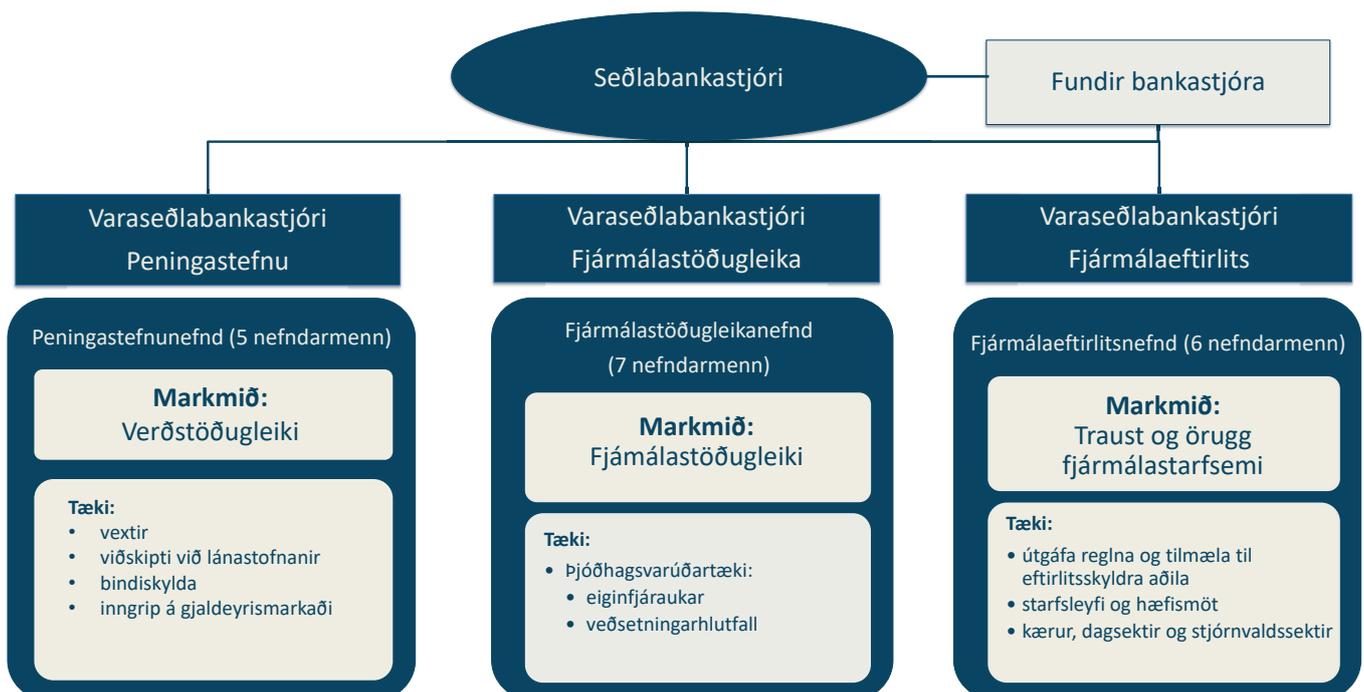
- Varúðarstefna eftir fjármagnshöft (rit Seðlabankans 2012)  
Fjármálafyrirtæki:
  - Hertar lausafjárreglur
  - Reglur um stöðuga fjármögnun í erlendum gjaldmiðlum (takmarka skammtímafjármögnun erlendis)
  - Auknar eiginfjárkröfur
  - Takmarkanir á gjaldeyrisójafnvægi
- Lántakendur:
  - Hámark veðsetningarhlutfalls
  - Heimild í lögum að takmarka gjaldeyrislán til óvarinna aðila
- Fjármagnsflæði:
  - Fjárstreymistæki beitt til að stemma stigum við óstöðugu innflæði erlends fjármagns
- Umgjörð um fjármálastöðugleika bætt 2014. Kerfisáhættunefnd og fjármálastöðugleikaráð stofnað – tilmælavald um beitingu þjóðhagsvarúðartækja. Aðkoma Seðlabankans, Fjármálaeftirlitsins og fjármála- og efnahagsráðuneytisins

## Traustara bankakerfi

| Ár                                     | 2007 | 2018 |
|--|------|------|
| Stærð bankakerfisins (% af VLF)        | 900  | 130  |
| Eiginfjárfrafa (%)                     | 8,0  | 20,4 |
| Eiginfjárhlutfall án víkjandi lána (%) | 6,8  | 21,8 |
| Vogunarhlutfall                        | 6,4  | 15,0 |
| Heimild: <i>Seðlabanki Íslands.</i>    |      |      |

# Áskoranir framtíðarinnar

## Skipulag, nefndir og tæki sameinaðs Seðlabanka



## Hagkvæm og örugg greiðslumiðlun

- Rafrænar greiðslulausnir hérlendis byggja flestar á innviðum erlendra kortakerfa ólíkt því sem víða þekkt og innlendar greiðslur fara í miklum mæli í gegnum útlönd – í þessu felst áhætta
- Mikilvægt að tryggja hagkvæmar varaleiðir í rafrænni smágreiðslumiðlun
  - Óháð og sjálfstæð innlend greiðslulausn sem byggir á innlánareikningum bankakerfisins gæti þjónað sem varaleið
  - Rafkróna, útgefin af Seðlabankanum sem myndi gegna sama hlutverki og seðlar og mynt, gæti einnig þjónað sem varaleið
- Greiðslumiðlun getur varðað þjóðaröryggi

## Samandregið

- Úrlausn fjármálakreppunnar er lokið með miklum árangri
- Tekist hefur að ná markmiðum peningastefnunnar og varðandi fjármálastöðugleika á undanförunum árum
- Með því að taka í notkun fleiri tæki hefur tekist að láta gengi krónunnar þróast til sveiflujöfnunar fremur en sveiflumögnunar eins og var raunin fyrir fjármálakreppuna
- Við erum betur í stakk búin til að takast á við efnahagsleg áföll en kannski nokkru sinni fyrr í sögu okkar

## Þjóðarbúskapur við hagsveifluskil



Fyrirlestur hjá Félagi atvinnurekenda  
4. september 2019

Þórarinn G. Pétursson  
Aðalhogfræðingur Seðlabanka Íslands



## Efnahagspróun og -horfur



Aukin óvissa og  
svartsýni í  
alþjóðlegum  
efnahagsmálum



Mikill  
samdráttur í  
flugi og  
ferðaþjónustu



Hægir á  
hagvexti þótt  
hliðrun  
eftirspurnar  
vegi á móti



Störfum farið  
að fækka og  
atvinnuleysi  
hefur aukist



Verðbólga tekin  
að hjaðna eftir  
aukningu sl.  
haust

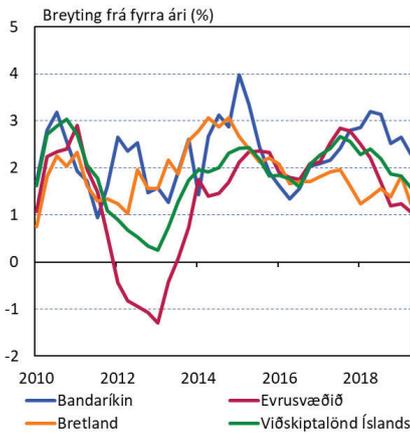


Horfur á  
lítilegum  
samdrætti í ár  
og hægfara  
bata á næsta ári

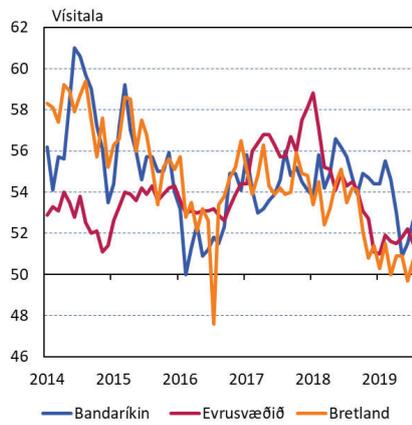
# Alþjóðlegur hagvöxtur gefur eftir og svartsýni eykst

- Áfram dregur úr alþjóðlegum hagvexti: var að meðaltali 2,2% í helstu viðskiptalöndum í fyrra en minnkaði í 1,6% á Q2/2019
- Vísendingar um að þessi þróun haldi áfram: framleiðsluvísitölur hafa víða gefið eftir og fyrirtæki verða æ svartsýnni ...
- ... á sama tíma og verulega dregur úr vexti alþjóðaviðskipta

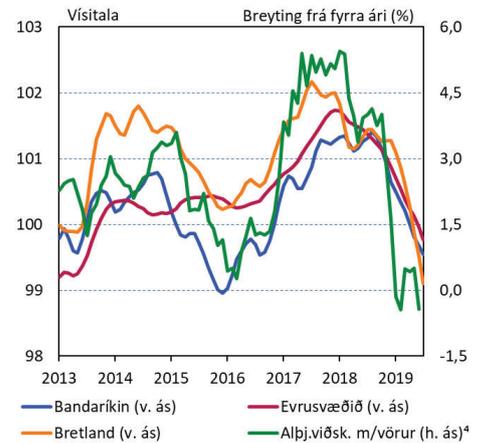
Alþjóðlegur hagvöxtur<sup>1</sup>  
1. ársfj. 2010 - 2. ársfj. 2019



PMI-vísitala fyrir framleiðslu og þjónustu<sup>2</sup>  
Janúar 2014 - ágúst 2019



Væntingar fyrirtækja og alþjóðaviðskipti<sup>3</sup>  
Janúar 2013 - júlí 2019



1. Grunnspá Seðlabankans 2. ársfj. 2019 fyrir helstu viðskiptalönd. 2. Vísitala Markit fyrir framleiðslu og þjónustu (Composite Purchasing Managers' Index, PMI). Vísitalan er birt mánaðarlega og er árstíðarleiðrétt. Þegar gildi vísitölnunnar er yfir 50 tákna það vöxt milli mánaða en ef hún er undir 50 tákna það samdrátt. 3. Væntingavísitölur OECD fyrir fyrirtæki í framleiðslugreinum (e. OECD business confidence index, BCI). 4. Magnbreyting. Þriggja mánaða hreyfanlegt meðaltal.

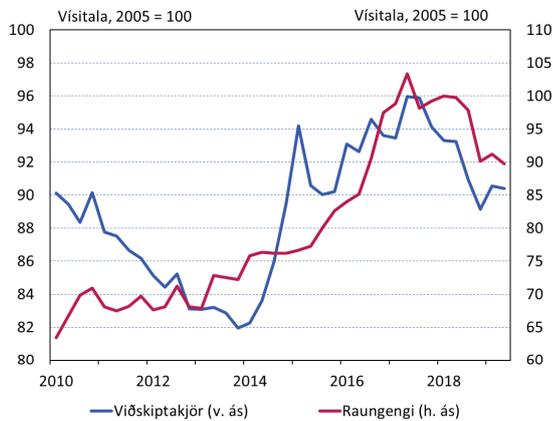
Heimildir: CPB, OECD, Thomson Reuters, Seðlabanki Íslands.

# Viðskiptakjör batna á ný og ISK tiltölulega stöðug

- Viðskiptakjör tóku að rýrna er leið á 2017 eftir samfelldan bata frá 2013 ... rýrnuðu um 4½% sl. haust sem, ásamt áhyggjum af stöðu WOW Air, kjarasamningum og efnahagshorfum, urðu til þess að gengi ISK lækkaði nokkuð
- Viðskiptakjör bötnuðu hins vegar aftur á Q1 og viðskiptavegið gengi ISK hefur haldist tiltölulega stöðugt í kringum 181 stig

Viðskiptakjör og raungengi<sup>1</sup>

1. ársfj. 2010 - 2. ársfj. 2019



Gengi krónunnar<sup>2</sup>

2. jan. 2018 - 30. ágúst 2019



1. Raungengi m.v. hlutfallslegt verðlag. 2. Verð erlendra gjaldmiðla í krónum.

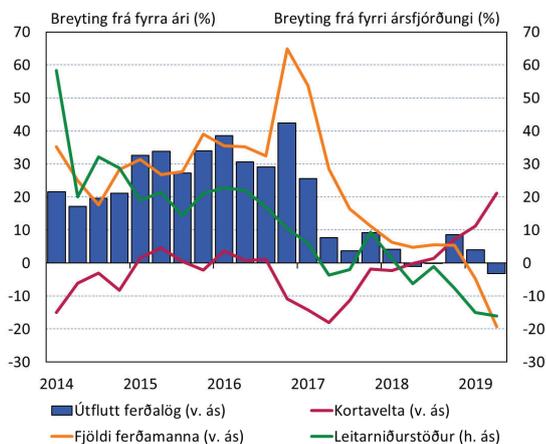
Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

# Samdráttur í ferðapjónustu og útflutningi almennt

- Viðsnúningur í ferðapjónustu er leið á 2018 – m.a. vegna minnkandi umsvifa WOW Air og við fall þess varð snarpur samdráttur sem varð enn meiri fyrir vikið vegna MAX-potu vanda Icelandair ... ferðamönnum fækkaði en á móti vega aukin útgjöld á mann
- Við bætist samdráttur í öðrum útflutningi – sérstaklega sjávarafurða en sala flugvéla úr rekstri WOW Air vegur á móti

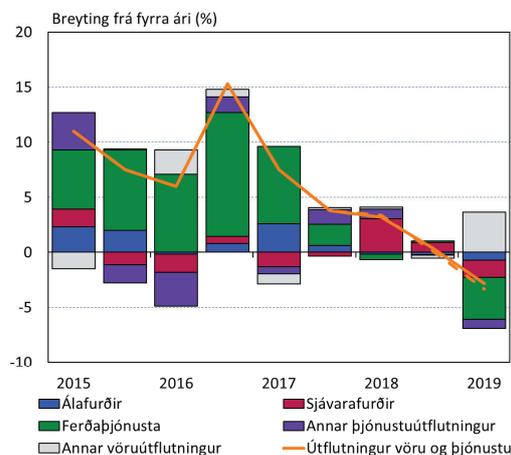
Vísbendingar um umsvif í ferðapjónustu<sup>1</sup>

1. ársfj. 2013 - 2. ársfj. 2019



Útflutningur og framlag undirliða<sup>2</sup>

1. árshluti 2015 - 1. árshluti 2019



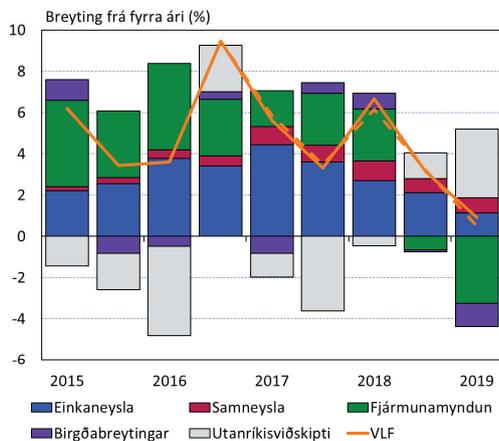
1. Útflutt ferðalög eru á föstu verðlagi og kortavelta á hvern ferðmann (án farþegaflutninga og opinberra gjalda) staðvirk með vísitölu neysluverðs. Fjöldi ferðamanna út frá brottförum erlendra farþega um Keflavíkflugvöð. Leitarniðurstöður út frá þáttalíkani sem tekur saman tíðni fimm ólíkra leitarniðurstæða sem tengjast ferðalögum til Íslands samkvæmt Google-leitarvélinni (árstíðarleiðrétt, tveggja ársfjórðunga hreyfanlegt meðaltal). 2. Áútflutningur skv. skilgreiningu þjóðhagsreikninga. Ferðapjónusta er samtala á „ferðalögum“ og „farþegaflutningum með flugi“. Vegna keðjutengingar getur verið að summa undirliðanna sé ekki jöfn heildarútflutningi. Brotalína sýnir spá frá PM 2019/3. Heimildir: Ferðamálastofa, Google Trends, Hagstofa Íslands, Isavia, Rannsóknarsetur verslunarinnar, Seðlabanki Íslands.

# Tekið að hægja á hagvexti

- Hægja tók á hagvexti er leið á 2018 og á fyrri hluta þessa árs var hann kominn niður í 0,9%: hægði á vexti einkaneyslu, fjárfesting dróst saman og birgðir minnkuðu ... en á móti vógu hagstæð utanríkisviðskipti þrátt fyrir útflutningssamdrátt
- Þetta er heldur meiri hagvöxtur en sá 0,5% vöxtur sem gert var ráð fyrir í nýbirtri spá Seðlabankans

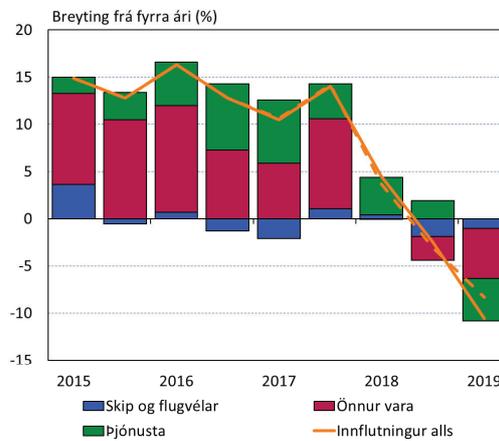
Hagvöxtur og framlag undirliða<sup>1</sup>

1. árshluti 2015 - 1. árshluti 2019



Innflutningur og framlag undirliða<sup>2</sup>

1. árshluti 2015 - 1. árshluti 2019

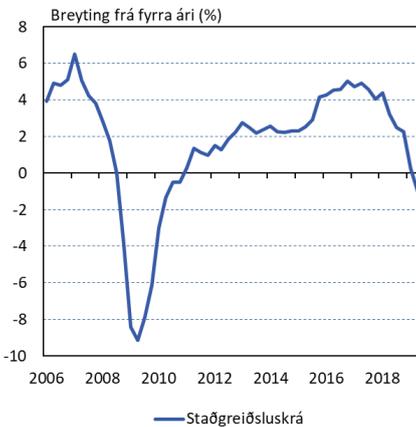


1. Vegna keðjutengingar getur verið að summa undirliðanna sé ekki jöfn hagvextinum. Brotalína sýnir spá frá PM 2019/3. 2. Vegna keðjutengingar getur verið að summa undirliðanna sé ekki jöfn heildarinnflutningi. Brotalína sýnir spá frá PM 2019/3. Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

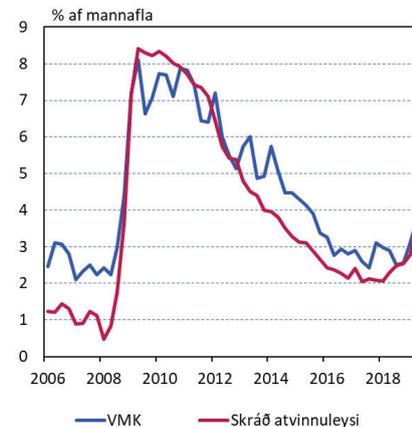
# Störfum tekið að fækka og atvinnuleysi eykst

- Störfum fækkaði um 1% frá fyrra ári á Q2 skv. staðgreiðslugögnum – fyrsta skipti sem störfum fækkar frá 2010
- Atvinnuleysi hefur jafnframt aukist nokkuð: var 3,8% á Q2 (upp um 0,7 pr. milli fjórðunga) og hefur ekki verið hærra síðan 2015
- Hratt hefur dregið úr spennu undanfarið en visbendingar eru um að þjóðarþúið sé mögulega nálægt botni hagsveiflu

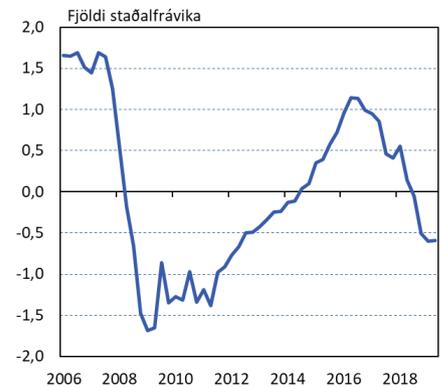
Fjöldi starfandi fólks<sup>1</sup>  
1. ársfj. 2006 - 1. ársfj. 2019



Atvinnuleysi<sup>2</sup>  
1. ársfj. 2006 - 2. ársfj. 2019



NF-vísitalan<sup>3</sup>  
1. ársfj. 2006 - 2. ársfj. 2019

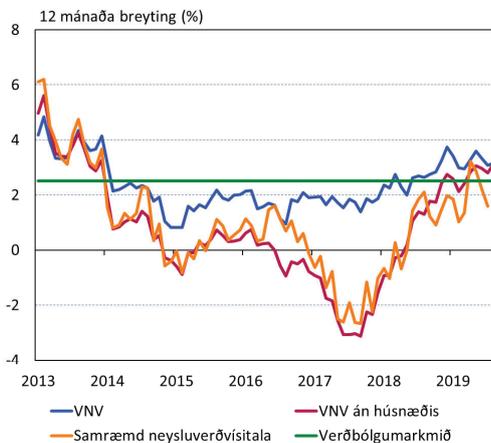


1. Fjöldi starfandi fólks skv. staðgreiðsluskrá byggist á gögnum um 16-74 ára einstaklinga sem höfðu einhverjar tekjur af vinnu sem gert er grein fyrir í uppgjöri ríkisskattstjóra um staðgreidda skatta, þ.á m. þeir sem voru í fæðingarorlofi frá vinnu og þeir sem eru með reiknað endurgjald. 2. Árstíðarleidiréttar tölur fyrir atvinnuleysi skv. vinnumarkaðskönnun Hagstofunnar (VMK) og skráð atvinnuleysi skv. Vinnuálastofnun. Skráð atvinnuleysi árstíðarleidirétt af Seðlabankanum. 3. NF-vísitalan er fyrsti frumpáttur valinna visbendinga um nýtingu framleiðslubáttá sem er skalaður til svo meðaltal hans er 0 og staðalfrávik 1. Ítarlegri lýsingu má finna í rammagrein 3 í PM 2018/2. Heimildir: Hagstofa Íslands, Vinnuálastofnun, Seðlabanki Íslands.

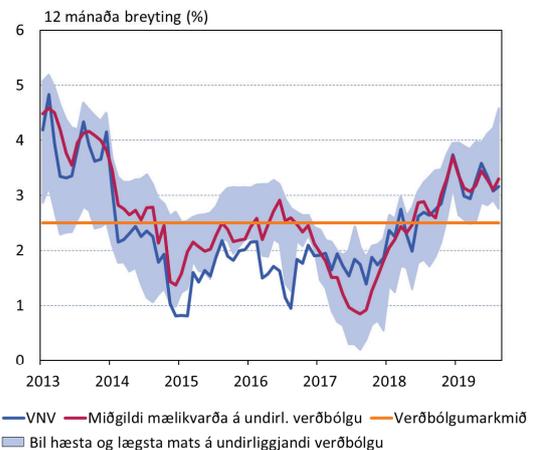
# Verðbólga tekin að hjaðna ...

- Verðbólga jókst fram eftir síðasta ári og náði hámarki í 3,7% í desember sl., var 3,3% á fyrri hluta ársins og 3,2% í ágúst
- Undirliggjandi verðbólga og verðbólga miðað við VNV án húsnæðis mælist svipuð ...
- ... en miðað við HICP er verðbólga nokkru minni eða 1,6% (júlímæling)

Verðbólga á ýmsa mælikvarða  
Janúar 2013 - ágúst 2019



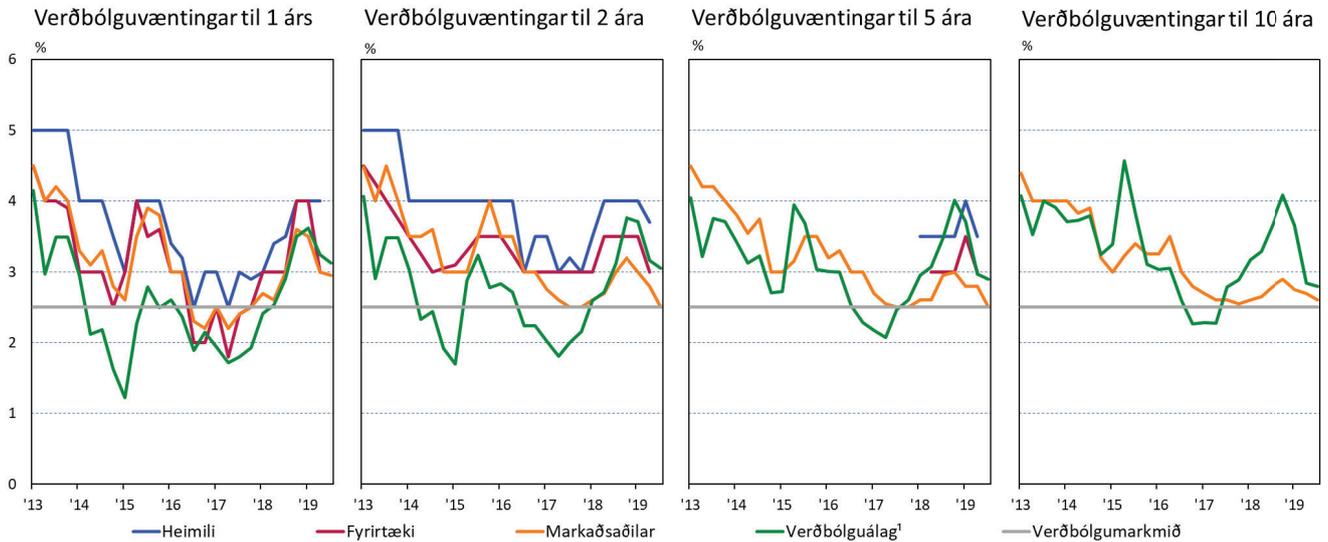
Mæld og undirliggjandi verðbólga<sup>1</sup>  
Janúar 2013 - ágúst 2019



1. Undirliggjandi verðbólga er mæld með kjarnavísitölu (áhrif óbeinna skatta, sveiflukenndra matvöruhlíða, bensins, opinberra þjónustu og raunvaxtakostnaðar húsnæðislána eru undanskilin) og tölfraðilegum mælikvörðum (vegð miðgildi, klippt meðaltal, kvikt þáttalíkan og sameiginlegur þáttur VNV). Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

## ... og verðbólguvæntingar lækka að markmiði á ný

- Verðbólguvæntingar tóku að hækka nokkuð sl. haust en hafa lækkað undanfarið hjá öllum hópum og yfir allar tímalengdir
- Verðbólguvæntingar á markaði komnar í markmið á ný en væntingar heimila og fyrirtækja enn heldur yfir því

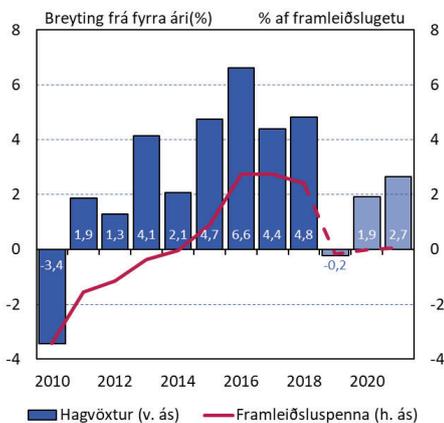


1. Talan fyrir verðbólguálag á 3. ársfj. 2019 er meðaltal daglegra gilda frá byrjun júlí til loka ágúst 2019.  
Heimildir: Gallup, Seðlabanki Íslands.

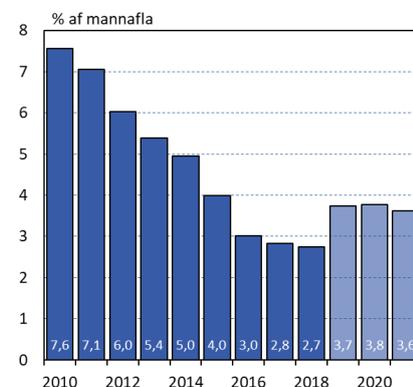
## Efnahagshorfur samkvæmt spá PM 2019/3

- Gert er ráð fyrir 0,2% samdrætti í ár en hægfaða bata frá næsta ári ... slaki myndast í lok árs en hann hverfur er líður á næsta ári
- Atvinnuleysi verður að meðaltali 3,7% í ár og eykst í 3,8% á næsta ári en tekur síðan smám saman að minnka á ný
- Verðbólga minnkar í 2,9% á Q4 og 3,1% að meðaltali á árinu öllu en fer síðan í markmið á fyrri hluta næsta árs

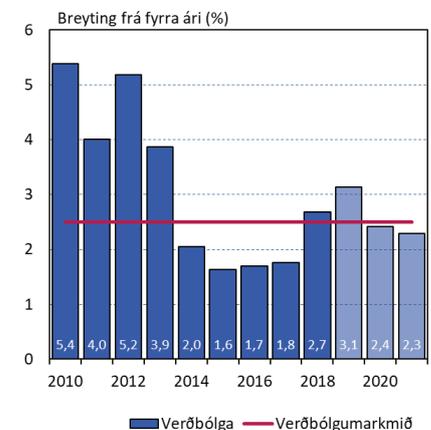
Hagvöxtur og framleiðsluspenna<sup>1</sup>



Atvinnuleysi<sup>1</sup>



Verðbólga<sup>1</sup>



1. Ljósítar súlur sýna grunnsþá Peningamála 2019/3 fyrir 2019-2021.  
Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

## Aukin óvissa og áhætta en meiri viðnámsþróttur



Efnahagshorfur hafa versnað mikið á skömmum tíma



Alþjóðleg óveðursský hafa hrannast upp



Viðnámsþróttur þjóðarbúsins er meiri nú en við hagsveifluskil 2007-8

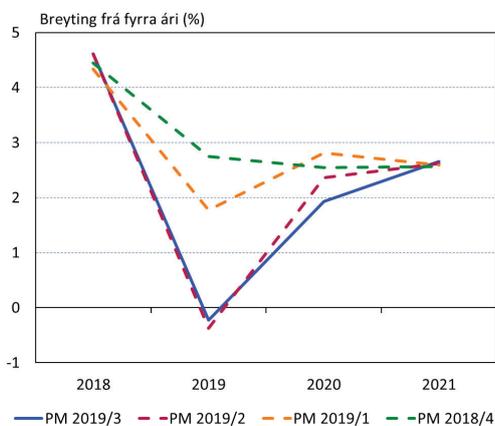


Vextir hér og erlendis í sögulegu lágmarki

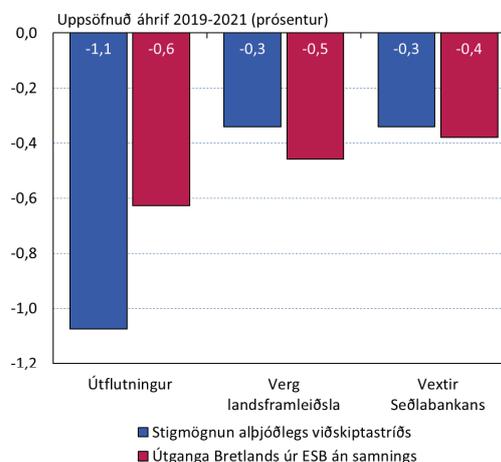
## Hagvaxtarhorfur hafa versnað og hætta á ofmati

- Hagvaxtarhorfur hafa versnað mikið á skömmum tíma – þar vega þýngst áhrif aukins vanda og minnkandi umsvifa WOW Air sem leiddu til endurskoðunar á febrúarspá bankans og síðan endanlegt fall þess sem breytti töluvert máispá bankans
- Utanaðkomandi óvissuþættir – sérstaklega stigvaxandi viðskiptastríð og Brexit – benda til hættu á ofmati á hagvaxtarhorfum

Hagvaxtarspár Peningamála



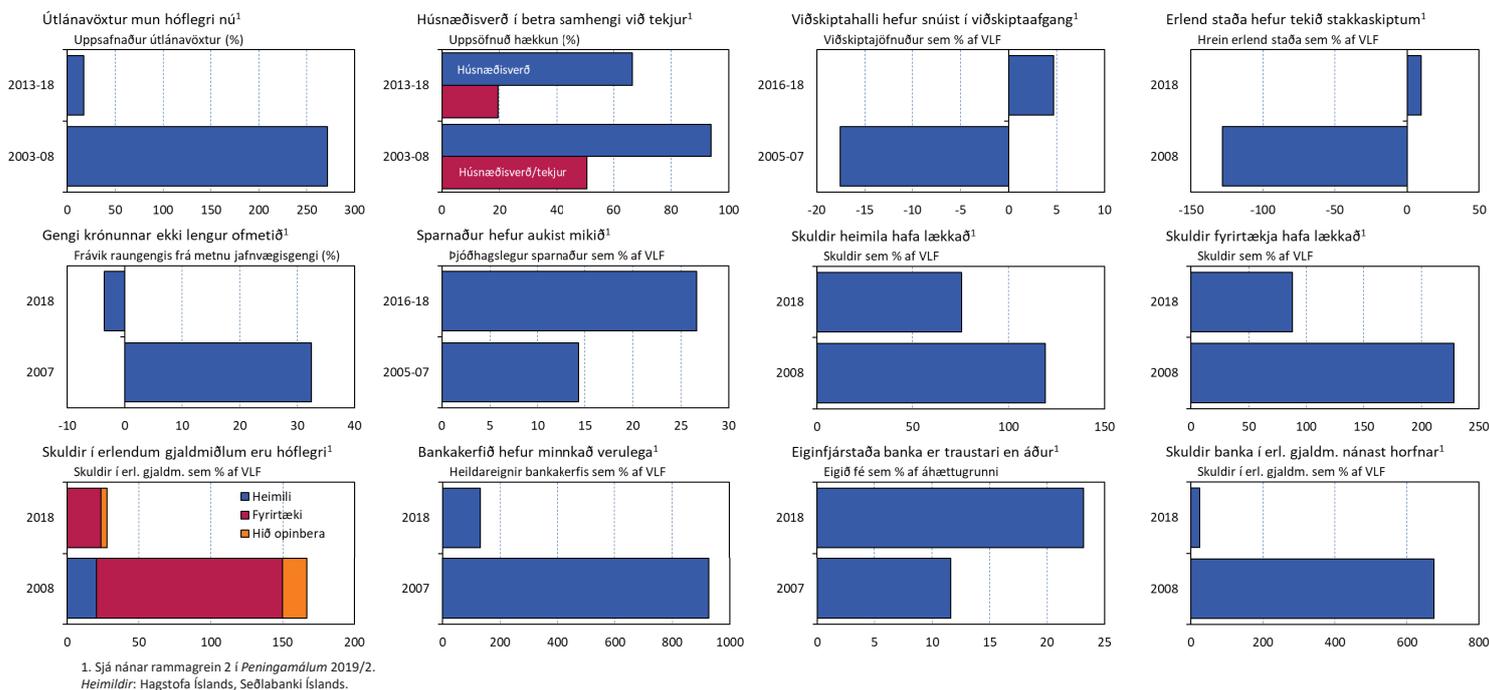
Áhrif viðskiptastríðs og Brexit<sup>1</sup>



1. Áhrif alþjóðlegrar viðskiptadeilu milli Bandaríkjanna og annarra ríkja annars vegar og útgöngu Bretlands úr ESB sambandinu án samnings hins vegar á innlendir efnahagshorfur. Sjá nánar frávíksdæmi í Peningamálum 2018/4 og 2019/2.

Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

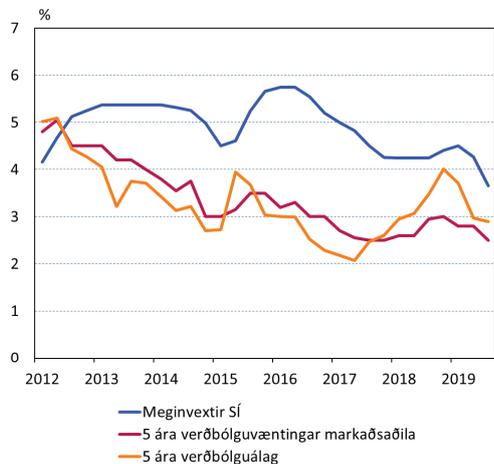
# Viðnámspróttur þjóðarbúsins meiri nú en áður



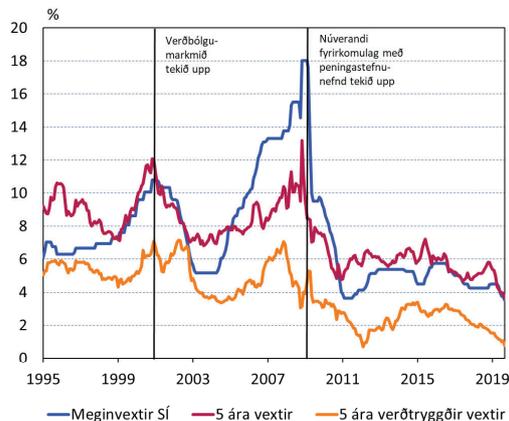
## Vextir í sögulegu lágmarki á Íslandi ...

- Vextir Seðlabankans hafa farið lækkanði eftir því sem betri tók hafa náðst á verðbólgu og verðbólguvæntingum – en bankinn hefur sýnt að hann er tilbúinn til að hækka þá aftur ef vísendingar sjást um að kjölfesta verðbólgu markmiðsins sé að losna á ný
- Skammtíma- og langtíma vextir á Íslandi hafa smám saman farið lækkanði og eru nú í sögulegu lágmarki

Vextir og langtíma verðbólguvæntingar<sup>1</sup>  
1. ársfj. 2012 - 3. ársfj. 2019



Innlendir vextir frá 1995<sup>2</sup>  
Janúar 1995 - september 2019



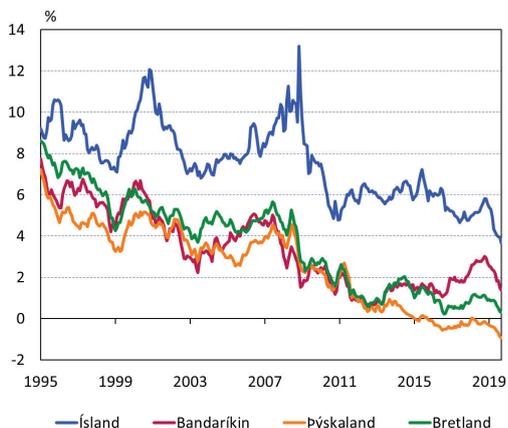
1. Meginvextir Seðlabankans og 5 ára verðbólguvæntingar markaðsaðila og út frá verðbólguálagi á skuldabréfamarkaði. 2. 5 ára óverðtryggðir og verðtryggðir vextir ríkisskuldabréfa metnir út frá eingreiðsluferli ríkisskuldabréfavaxta. Septembar meðaltöl eru nýjustu gildi vaxtanna.  
Heimild: Seðlabanki Íslands.

## ... og alþjóðlega

- Þessi þróun endurspeglar að hluta alþjóðlega þróun en vextir hafa víða lækkað mikið undanfarin ár og nafnvextir jafnvel orðnir neikvæðir ...
- ... þróun sem hagfræðingar og seðlabankar hafa ekki náð að skýra fyllilega

5 ára alþjóðlegir nafnvextir<sup>1</sup>

Janúar 1995 - september 2019



5 ára alþjóðlegir raunvextir<sup>2</sup>

Janúar 1995 - september 2019



1. 5 ára vextir óverðtryggðra ríkisskuldabréfa metnir út frá eingreiðsluferli ríkisskuldabréfavaxta. Septembermeðaltöl eru nýjstu gildi vaxtanna. 2. 5 ára vextir verðtryggðra ríkisskuldabréfa metnir út frá eingreiðsluferli ríkisskuldabréfavaxta nema fyrir Þýskaland (væntir 5 ára raunvextir). Septembermeðaltöl eru nýjstu gildi vaxtanna.  
Heimildir: Bundesbank, Thomson Reuters, Seðlabanki Íslands.

## Seðlabanki Íslands

### Nýr Seðlabanki - við hverju er að búast?



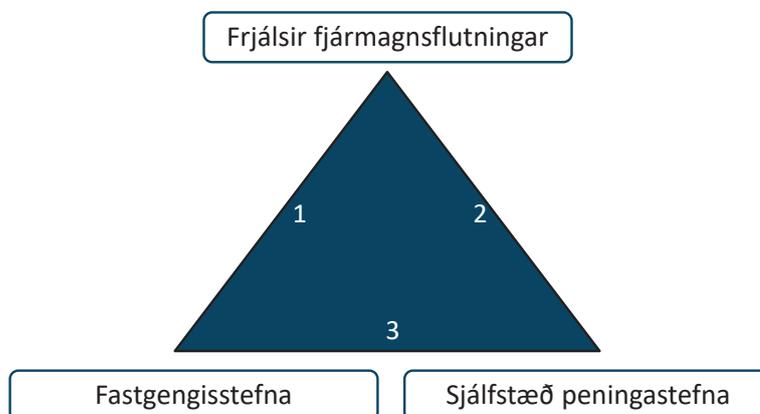
Félag viðskipta- og hagfræðinga

19. september 2019

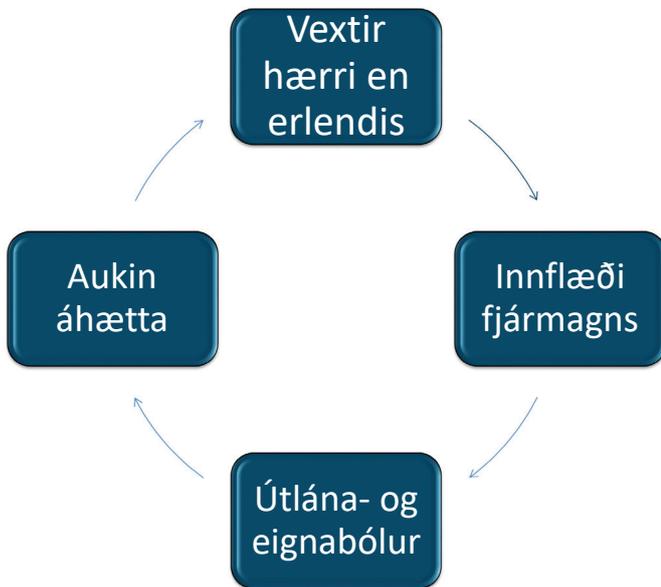
Ásgeir Jónsson  
Seðlabankastjóri

## Þríprautarval eða tvíprautarval (e. trilemma or dilemma)? Hvaða val hafa þjóðir raunverulega?

- Hélène Rey: **Dilemma not Trilemma**: *The Global Financial Cycle and Monetary Policy Independence*
- Hefðbundið að tala um þríprautarval, val um 1, 2 eða 3
- Tvíprautarval – valið stendur aðeins á milli möguleika 1 og 3
- Ósamrýmanlega parið (e. the irreconcilable duo): fullkomið frelsi í fjármagnsviðskiptum ósamrýmanlegt sjálfstæði í peningamálum



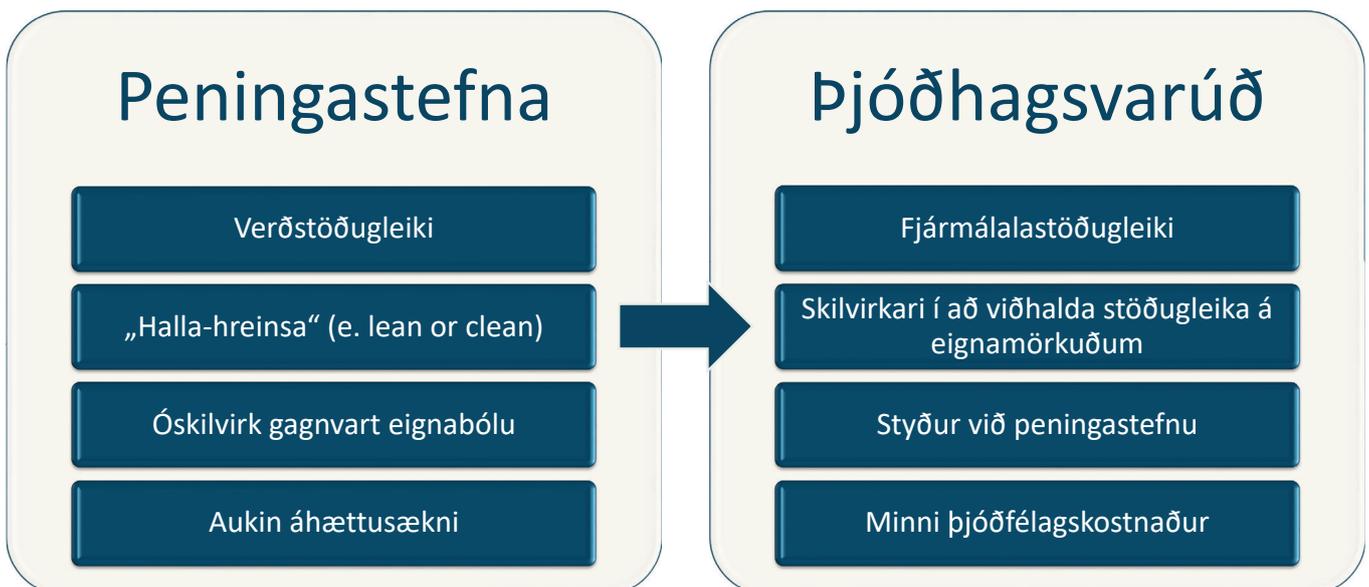
## Þríprautarval eða tvíprautarval? Hvaða val hafa þjóðir raunverulega?



### Mögulegar aðgerðir (Hélène Rey):

1. Hnitmiðuð höft (e. targeted capital controls) – mikill velferðarkostnaður
2. Alþjóðleg samhæfing peningamálastefnu
3. Styrking á miðlun peningastefnunnar í gegnum svokallaða lánaleið (e. credit channel)
  - Með því að beita **þjóðhagsvarúð** – s.s. hafa hemil á útlánavexti (e. credit growth) og vogun (e. leverage)
  - Ströng varanleg takmörk á vogun fyrir alla fjármálalega milligönguaðila

## Samhæfing peningastefnu og þjóðhagsvarúðar



# Sameining Seðlabanka Íslands og Fjármálaeftirlitsins

## Markmið nýs Seðlabanka

### Stöðugt verðlag

Seðlabanki Íslands skal stuðla að stöðugu verðlagi og er heimilt með samþykki ráðherra að lýsa yfir tölulegu markmiði um verðbólgu.

### Fjármála- stöðugleiki

Seðlabanki Íslands skal stuðla að fjármálastöðugleika.

### Traust og örugg fjármála- starfsemi

Seðlabankinn skal fylgjast með að starfsemi eftirlitsskyldra aðila sé í samræmi við lög og stjórnvaldsfyrirmæli og að hún sé að öðru leyti í samræmi við heilbrigða og eðlilega viðskiptahætti, sbr. lög um opinbert eftirlit með fjármálastarfsemi.

## Sameining tveggja stórra stofnana

### Seðlabanki Íslands

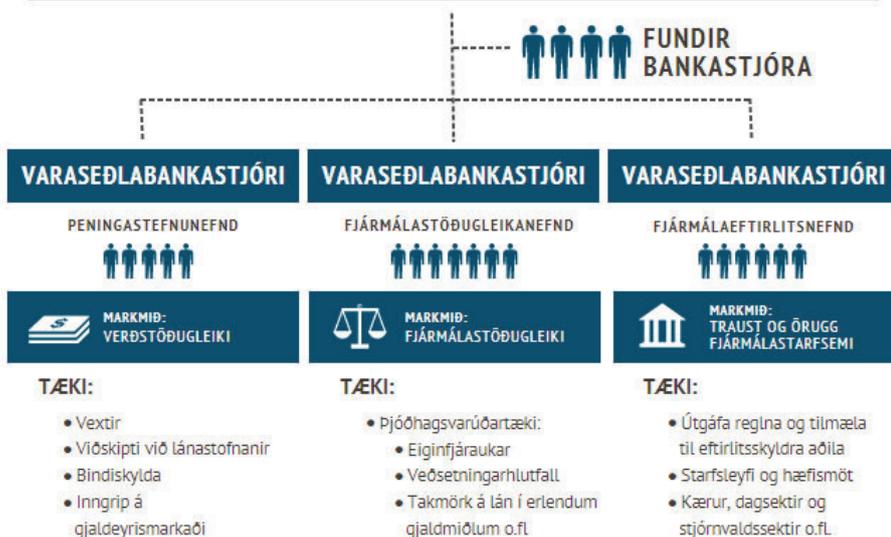
- 179 starfsmenn
- Rekstrargjöld 2018: 4,2 ma.kr.

### Fjármálaeftirlitið

- 117 starfsmenn
- Rekstrargjöld 2018: 2,1 ma.kr.

## SEÐLABANKASTJÓRI

FUNDIR  
BANKASTJÓRA



# Framtíðaráskoranir

## Þjóðhagsvarúð og loforð framtíðar

### Þjóðhagsvarúð

- Kreppan mikla gerði þjóðhagfræði að sérstakri grein innan hagfræðinnar – meðal annars vegna bókar Keynes lávarðar, *The General Theory of Employment, Interest and Money* sem kom út árið 1936
- Fjármálakrísan 2008 hefur orðið til þess að þjóðhagsvarúð (e. MacroPru) hefur hafist upp sem sérstök grein innan hagfræðinnar
- Þessi nýja grein er þó enn heldur laus í reipum – enda hefur hún ekkert eitt „manifesto“
- Beiting þjóðhagsvarúðar er sá vettvangur sem býður upp á mesta möguleika til þess að bæta íslenska peningamálastjórnun eins og nú er komið að málum – hvað sem síðar kemur á daginn

# Seðlabankinn og sjávarútvegurinn



Sjávarútvegsdagurinn  
25. september 2019

Ásgeir Jónsson  
Seðlabankastjóri



# Samkeppnishæfni nýja Íslands

## Nýja Ísland er með varanlegan viðskiptaafgang...

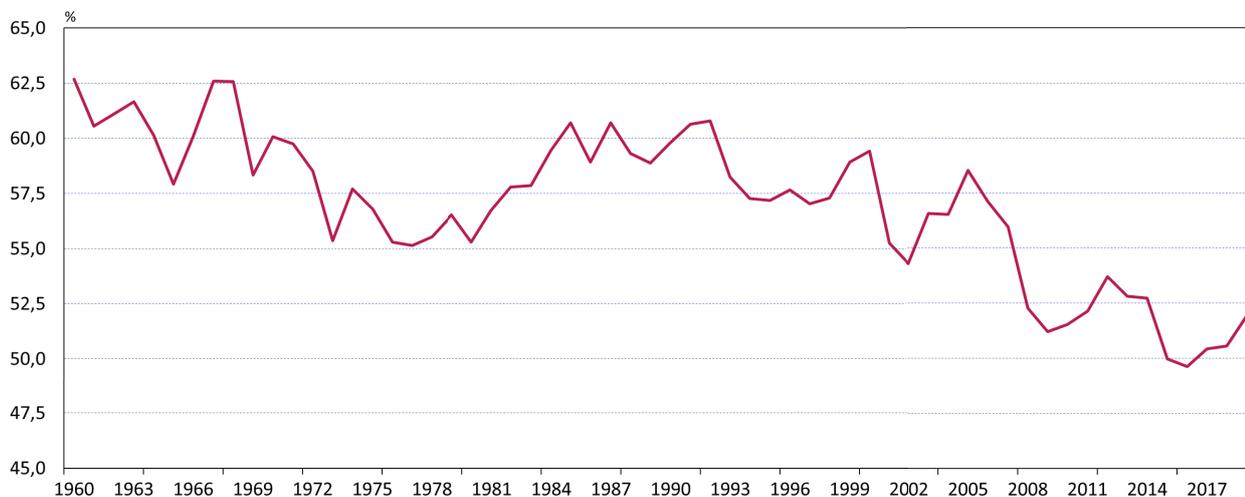
Viðskiptajöfnuður sem hlutfall af útflutningi 1864 - 2019<sup>1</sup>



1. Þriggja ára hlaupandi meðaltal, vöruskiptajöfnuður frá 1864 - 1945.  
Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

## vegna aukins sparnaðar...

Hlutfall einkaneyslu af vergri landsframleiðslu 1960 - 2019



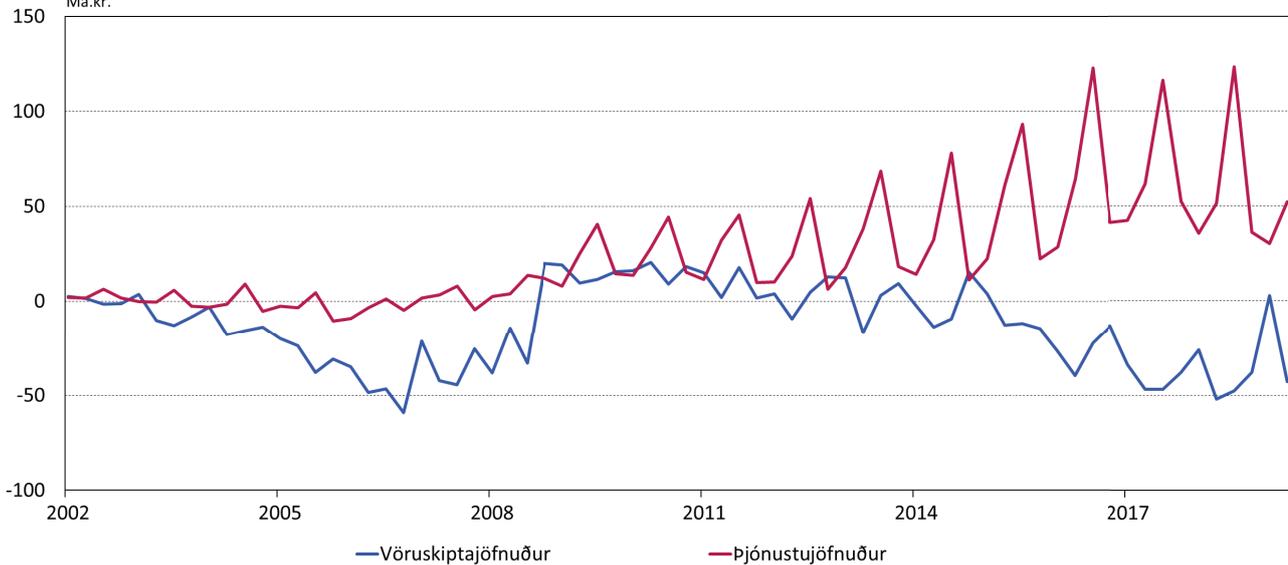
Heimild: Hagstofa Íslands.

## ...og vaxtar í þjónustuviðskiptum

### Vöruskipta- og þjónustujöfnuður

1. ársfj. 2002 - 2. ársfj. 2019

Ma.kr.



Heimild: Hagstofa Íslands, Seðlabanki Íslands.

## Ísland sem fjármagnsútflytjandi?

- Viðskiptaafangur er vitnisburður um sparnað - sem héraendis er m.a. knúinn fram með skylduframlögum í lífeyrissjóði.
- Hér áður greiddi fólk með annarri hendi til lífeyrissjóðanna en sló lán með hinni. En heimilin eru hætt að safna skuldum.
- Ísland hefur í kjölfarið breyst frá því að vera fjármagnsinnflytjandi með krónískan viðskiptahalla (líkt og var á árunum 1945-2008) og til þess að vera fjármagnsútflytjandi með viðskiptaafgang.
- Það mun leiða til lækkunar á langtímaraunvöxtum þegar litið er til framtíðar.

# Sjávarútvegurinn og gengið

## Sjávarútvegurinn og peningastefnan 1972-1989

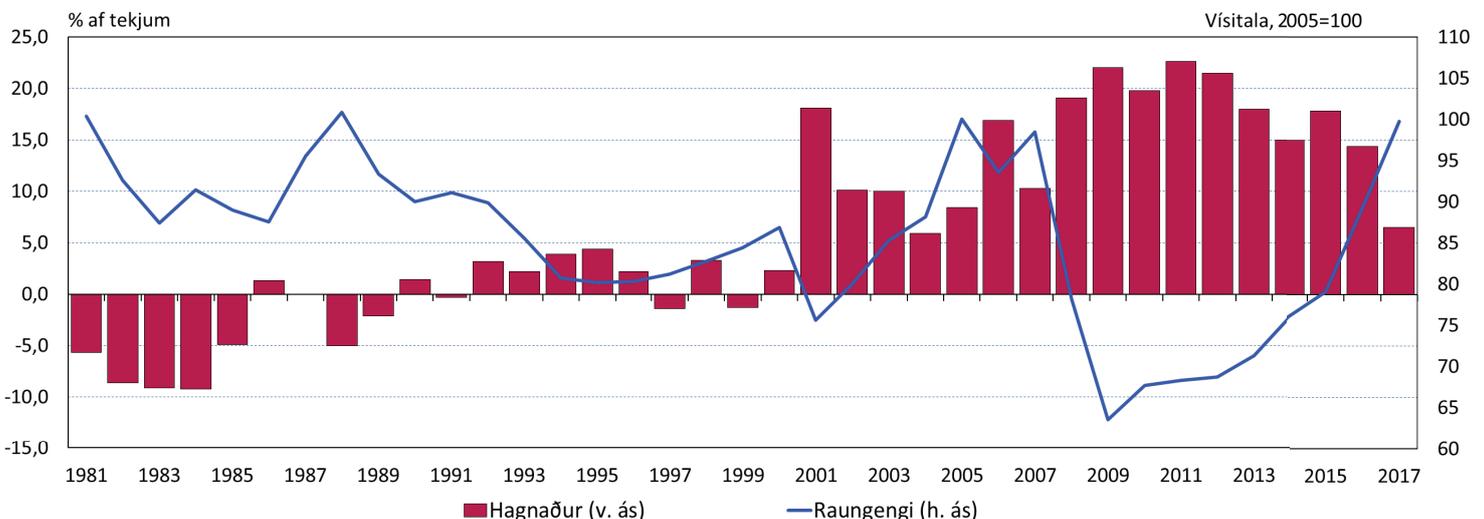
- Sjávarútvegurinn var lengi vel viðmið peningastefnunnar – oft sett fram með hinni sk. 0 reglu.
- Ef sjávarútvegur var rekinn með tapi var gengið fellt til þess að færa stöðuna aftur að núlli.
- Ef sjávarútvegur var rekinn með hagnaði hækkaði raungengið með verðbólgu og launahækkunum þar til aftur stóð á núlli.
- Landsmenn voru farnir að geta spáð fyrir um gengisfellingar (t.d. með því að horfa á fréttir af ársfundi LÍU).
- Þessi stefna fól í sér:
  - Stöðugar gengisfellingar og verðbólgu.
  - Lítinn hvata til hagræðingar eða áhættudreifingar.
  - Falið auðlindagjald þar sem hátt gengi færði fjármagn frá sjávarútveginum.

## Sjávarútvegurinn og peningastefnan frá 1993

- Síðasta gengisfellingin vegna sjávarútvegsins var árið 1993.
- Kvótakerfið hefur komið á stöðugleika í greininni – útgerðarmenn bíða ekki lengur eftir gengisfellingum til þess að rétta af rekstrarreikninginn.
- Sjávarútvegur vel í stakk búinn til þess að takast á við gengissveiflur vegna hlutaskiptakerfisins og öflugs alþjóðlegs markaðsstarfs.
- Hagræðingin getur hins vegar verið sársaukafull.

## Hagnaður í sjávarútvegi er nátengdur gengi krónunnar

### Hagnaður í sjávarútvegi og raungengi 1980-2017



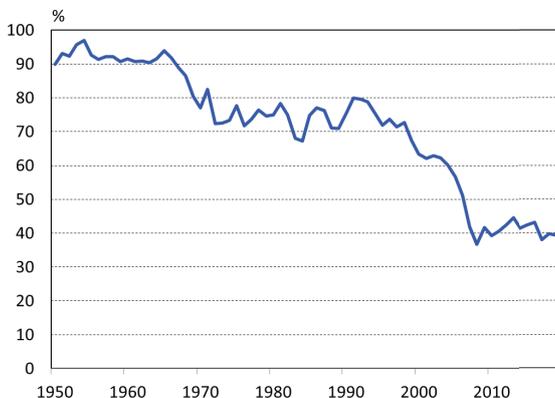
Heimild: Hagstofa Íslands, Seðlabanki Íslands.

## Lögmálið um sértæka áhættu – breytt staða sjávarútvegs í hagkerfinu

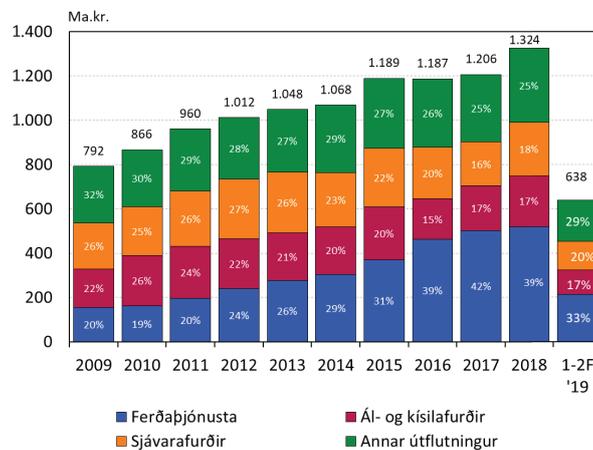
- Ef ein atvinnugrein hefur mikla sértæka áhættu (e. ideosyncratic risk) sem hefur ekki fylgni við áhættu í öðrum greinum...
- ...mun hátt efnahagslegt vægi valda þjóðhagslegum óstöðugleika – þar sem hún hefur mátt til þess að hreyfa hagkerfið af eigin afli...
- ...en um leið og vægi hennar minnkar fer hin sértæka, ófylgna áhætta að skila áhættudreifni...
- Sjávarútvegur er því farin að verka sveiflujafnandi fyrir hagkerfið.

## Vægi sjávarútvegs í útflutningi vöru og þjónustu hefur tekið miklum breytingum

Hlutdeild sjávarafurða í heildarvöruútflutningi 1950-2019



Útflutningur vöru og þjónustu 2009 - 2019



Ferðabjónusta er samtala á þjónustuflokknum „ferðalög“ þ.e. tekjur af erlendum ferðamönnum á Íslandi, og „farþegaflutningum með flugi“, þ.e. tekjur íslenskra flugélaga af því að flytja erlenda farþega. Árlegar og uppsafnaðar ársfjórðungslegar tölur.

Heimildir: Hagstofa Íslands, Seðlabanki Íslands

## Hlutverk sjávarútvegsins á nýrri öld

### Stöðugleiki

Sértæk áhætta og minni sveiflur í greininni skila áhættudreifni fyrir þjóðarbúið

### Nýsköpun

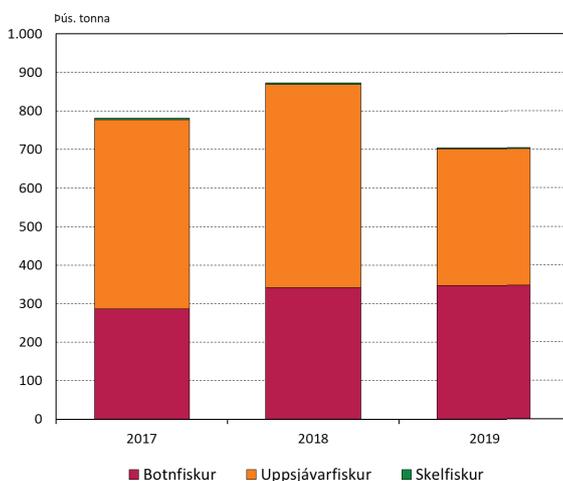
Hliðarstörfum fjölgað, tækni-breytingar, breytt mannaflapörf, markaðsstarf, virðiskeðjur

### Framleiðni

Aðlögun rekstrar, samþjöppun, tækni-nýjungar

## Verð sjávarafurða í erlendri mynt hefur hækkað og vegið upp á móti loðnubresti og minni veiða en í fyrra

Uppsafnað aflamagn frá ársbyrjun



Matvöruverð á heimsmarkaði og útflutningsverð sjávarafurða 2002 - 2019



Heimildir: Fiskistofa, World Bank, Hagstofa Íslands.

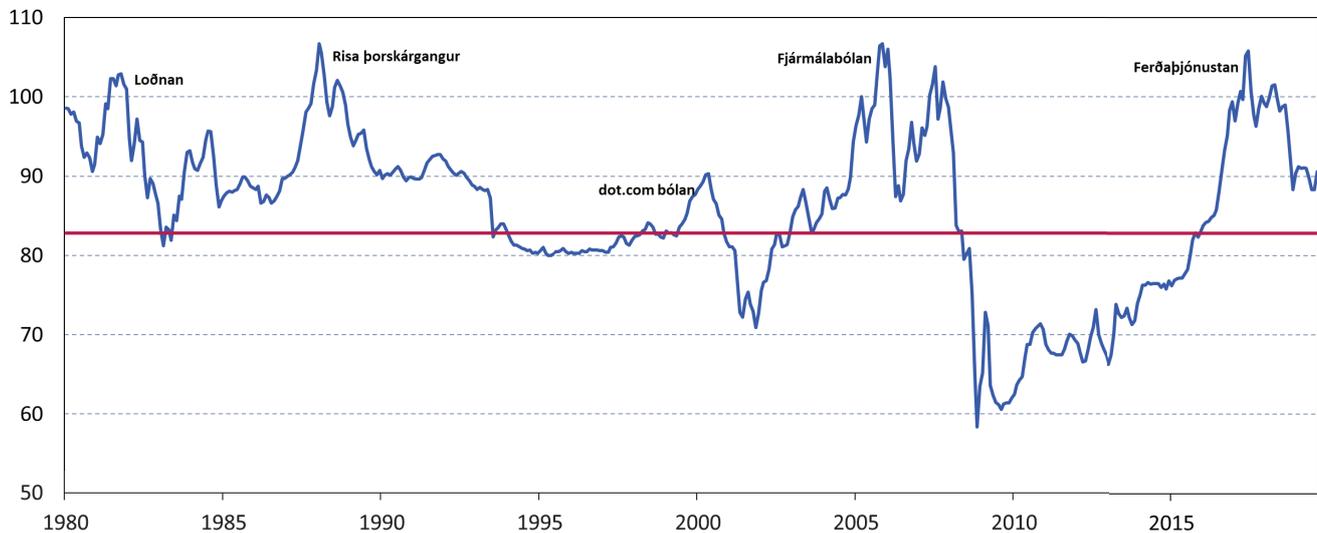
# Seðlabankinn og sjávarútvegurinn

## Tæki Seðlabankans sem hafa áhrif á gengi krónunnar:

- Vextir
- Gjaldeyrisinngrip
- Fjárstreymistæki

# Sögulegar gengissveiflur krónunnar

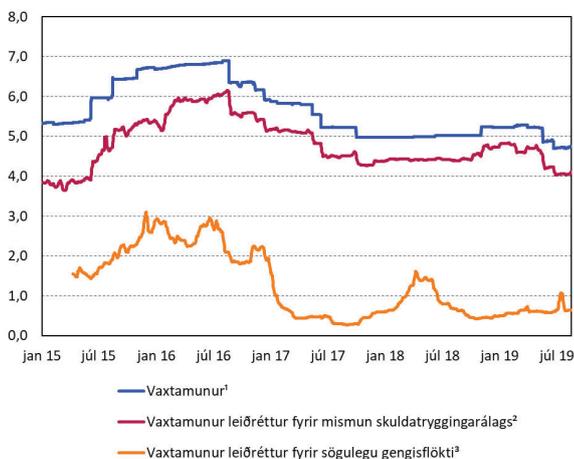
## Raungengi 1980-2019



Heimild: Hagstofa Íslands, Seðlabanki Íslands.

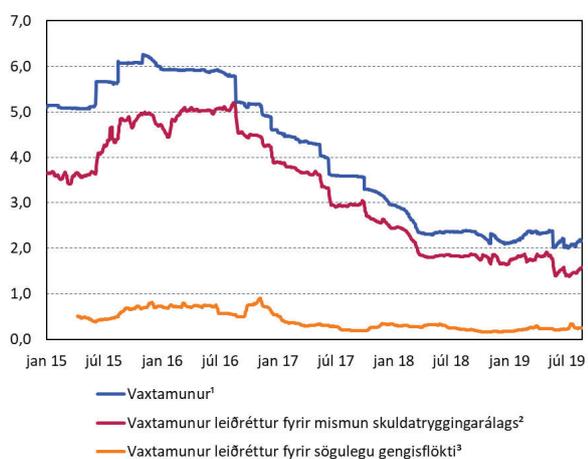
# Skammtímavaxtamunur við útlönd

Skammtímavaxtamunur gagnvart evrusvæðinu  
2. janúar 2015 - 21. ágúst 2019



1. Vaxtamunur miðað við þriggja mánaða millibankavexti. 2. Munur á fimm ára skuldatryggingarálagi á ríkissjóð. 3. Hlutfall vaxtamunar og þriggja mánaða staðal fráviks daglegra gengisbreytinga.  
Heimildir: Thomson Reuters, Seðlabanki Íslands.

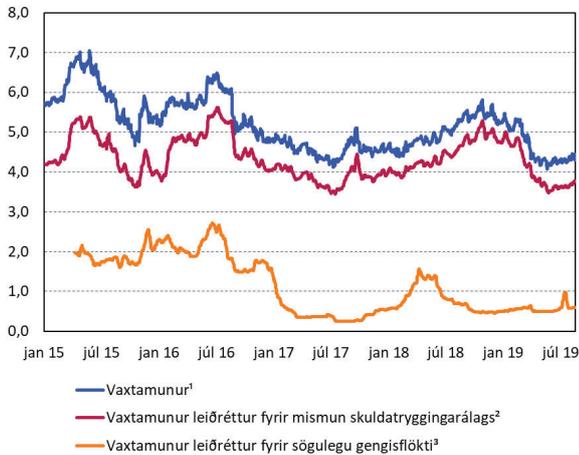
Skammtímavaxtamunur gagnvart Bandaríkjunum  
2. janúar 2015 - 21. ágúst 2019



1. Vaxtamunur miðað við þriggja mánaða millibankavexti. 2. Munur á fimm ára skuldatryggingarálagi á ríkissjóð. 3. Hlutfall vaxtamunar og þriggja mánaða staðal fráviks daglegra gengisbreytinga.  
Heimildir: Thomson Reuters, Seðlabanki Íslands.

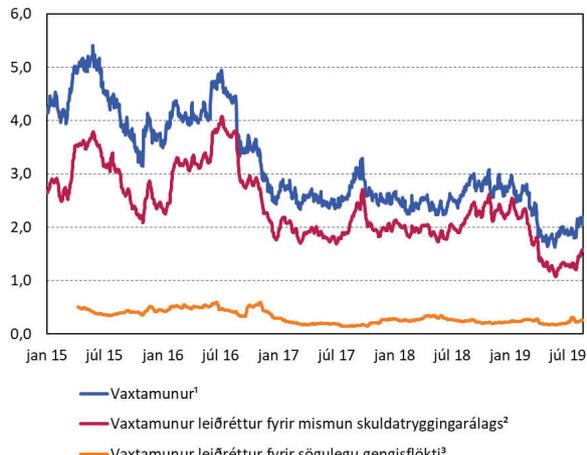
# Langtímavaxtamunur við útlönd

Langtímavaxtamunur gagnvart evrusvæðinu  
2. janúar 2015 – 21. ágúst 2019



1. Vaxtamunur miðað við 10 ára ríkisskuldabréf. 2. Munur á fimm ára skuldatryggingarálagi á ríkissjóð.  
3. Hlutfall vaxtamunar og þriggja mánaða staðal fráviks daglegra gengisbreytinga.  
Heimildir: Thomson Reuters, Seðlabanki Íslands.

Langtímavaxtamunur gagnvart Bandaríkjunum  
2. janúar 2015 – 21. ágúst 2019



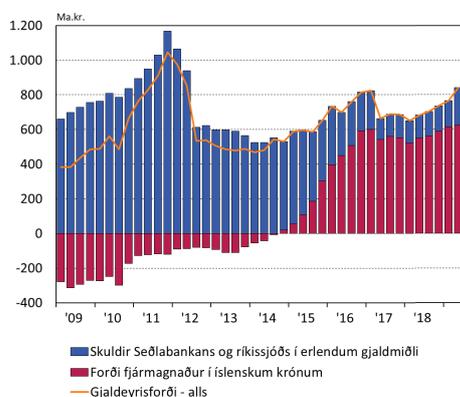
1. Vaxtamunur miðað við 10 ára ríkisskuldabréf. 2. Munur á fimm ára skuldatryggingarálagi á ríkissjóð.  
3. Hlutfall vaxtamunar og þriggja mánaða staðal fráviks daglegra gengisbreytinga.  
Heimildir: Thomson Reuters, Seðlabanki Íslands.

## Um vaxtamun við útlönd

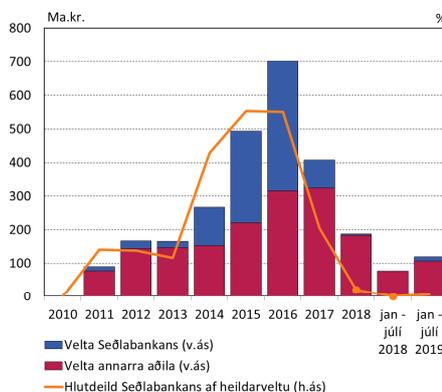
- Háir nafnvextir á Íslandi bera vitni um:
  - Mikla verðbólgu og miklu hærri takt í launahækkunum – sem valda háum verðbólguvæntingum.
  - Mikinn hagvöxt og fólksfjölgun sem hækkar raunvaxtastig.
- Mikill vaxtamunur við útlönd dregur að erlent fjármagn, hækkar nafngengið og rýrir samkeppnisstöðu útflutningsatvinnuvega.
- Seðlabankinn hefur náð árangri við framfylgd verðbólguþéttumarkmiðs sem hefur leitt til lægri verðbólguvæntinga – og mun leiða til lægri vaxtamunar við útlönd.

# Gjaldeyrisinngrip Seðlabankans

Gjaldeyrisforði Seðlabankans



Velta á millibankamarkaði með gjaldeyri og hlutdeild Seðlabankans



Uppsöfnuð gjaldeyriskaup Seðlabankans  
Sept. 2008 til sept. 2019



Forði fjármagnaður í íslenskum krónum er gjaldeyrisforðinn að frádrögnum skuldum Seðlabankans og ríkissjóðs í erlendum gjaldmiðli.  
Heimild: Seðlabanki Íslands.

## Hlutverk forðans

- Seðlabankinn býr yfir 800 milljarða gjaldeyrisforða til þess að geta tryggt stöðugleika.
- Forðinn hefur skapað nýja tiltrú á krónunni og peningastefnunni.
- Forðanum er nú beitt til þess að draga úr óhóflegum skammtímasveiflum í gengi krónunnar – eða sk. skrófumyndun.
- Ekki hlutverk Seðlabankans að hindra breytingar á gengi krónunnar sem drifnar eru áfram af undirliggjandi efnahagsþáttum.

SEÐLABANKI ÍSLANDS

# Sjávarútvegurinn og peningastefnan



## Changes in exchange rate listing

According to the Act on the Central Bank of Iceland, the Bank shall quote the exchange rate of the Icelandic króna against major foreign currencies. This rate shall be used as the reference rate for official agreements, court cases, and other contracts between parties when another reference exchange rate is not specified. The Central Bank's exchange rate listing does not stipulate a rate at which individuals and businesses conduct transactions with financial institutions, nor does it indicate how the exchange rate of the króna versus foreign currencies develops within a given day. The Bank's exchange rate listing is solely a reference indicating the position of the foreign exchange market at a specific time on the day in question.

The Bank's daily exchange rate listing is based on the average mid-rate derived from market makers' bids on one euro (expressed in ISK per EUR) between 10:45 hrs. and 11:00 hrs. The EURISK exchange rate and the exchange rate of all other currencies versus the euro are then used to calculate the exchange rate of those currencies versus the króna.

Since 2006, the Central Bank's exchange rate listing has been in two parts. The first part is the exchange rate of the króna versus major currencies and special drawing rights (assigned currency code: XDR) at the International Monetary Fund (IMF). This has been termed the official reference exchange rate, and the Bank has listed the selling rate, and the buying rate, and the mid-rate, which lies at the centre of the range between the buying and selling rates. On the other hand, the Bank has listed the mid-rate of other currencies even though they do not fall into the official reference exchange rate category in the sense of the Act on the Central Bank of Iceland. The Bank began listing the mid-rates of these currencies when it changed its methods for calculating exchange rate indices in December 2006.

From 1 April 2020 onwards, the Bank will publish only the mid-rate of all currencies included in its listing, and this mid-rate will be the official reference exchange rate. Publication of the buying and selling rates will be discontinued. This is consistent with the practice of central banks in comparison countries.

Further information can be obtained from Gerður Isberg, Deputy Director, Treasury and Market Operations, Central Bank of Iceland, at tel: +354 569-9600.

Press release no. 21/2019  
9 October 2019

## Restrictions on transactions with the Central Bank

The Central Bank of Iceland has decided that, effective 1 April 2020, it will reduce the number of parties eligible to hold current accounts with the Bank. These parties currently include banks, savings banks, [credit institutions](#), governmental institutions, and various Government-owned funds. From 1 April onwards, however, only deposit-taking institutions – commercial banks, savings banks, and Part A governmental institutions – will be eligible to hold such accounts.

Current accounts owned by credit institutions and funds not classified as Part A institutions will be closed on 31 March 2020. This closure does not affect settlement accounts. Furthermore, as of 28 February 2020, these parties will no longer be eligible for Central Bank facilities.

In accordance with the above, the Central Bank of Iceland will amend the Rules on Minimum Reserve Requirements, no. 585/2018, and the Rules on Central Bank Facilities for Financial Undertakings, no. 553/2009, so that credit institutions with operating licences pursuant to Article 4, Paragraph 1, Item 3 of the Act on Financial Undertakings, no. 161/2002, will not be subject to reserve requirements from 21 March 2020 onwards and will not have access to Central Bank facilities from 28 February 2020 onwards.

The objective of Central Bank facilities and liquidity management is to promote monetary policy transmission along the yield curve. In view of this, the Bank considers it more consistent with its role as a central bank to channel interest rates through those financial institutions that can transmit them onwards to individuals and businesses in an effective and transparent manner through deposits and loans. Furthermore, the Central Bank is of the opinion that refraining from competing with financial institutions for deposits is more consistent with the substance of Article 17, Paragraph 2 of the Act on the Central Bank of Iceland. As such, deposit accounts with the Bank should not be a vehicle for investment or risk diversification beyond what is necessary for commercial banks, savings banks, and fiscal administration.

Further information can be obtained from Gerdur Isberg, Deputy Director, Treasury and Market Operations, Central Bank of Iceland, at tel: +354 569-9600.

Press release no. 22/2019  
14 October 2019

# Markaðshorfur að hausti



Erindi á hádegisfundi Kviku banka  
29. október 2019

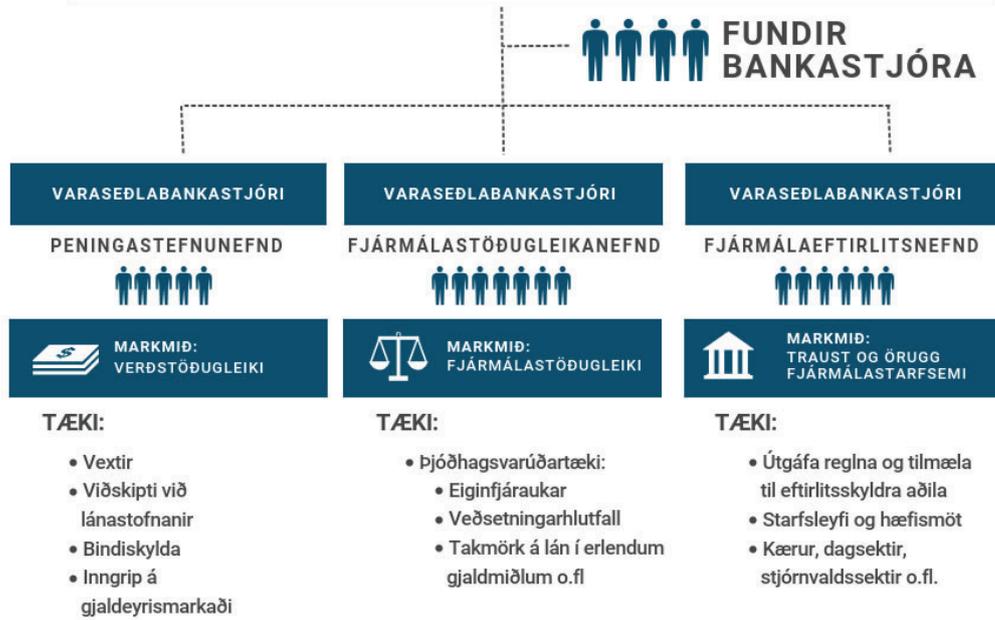
Ásgeir Jónsson  
seðlabankastjóri



**Nýr Seðlabanki:**  
Sameining Seðlabanka Íslands og  
Fjármálaeftirlitsins og horfurnar fram á við



# SEÐLABANKASTJÓRI



## Markmið nýs Seðlabanka



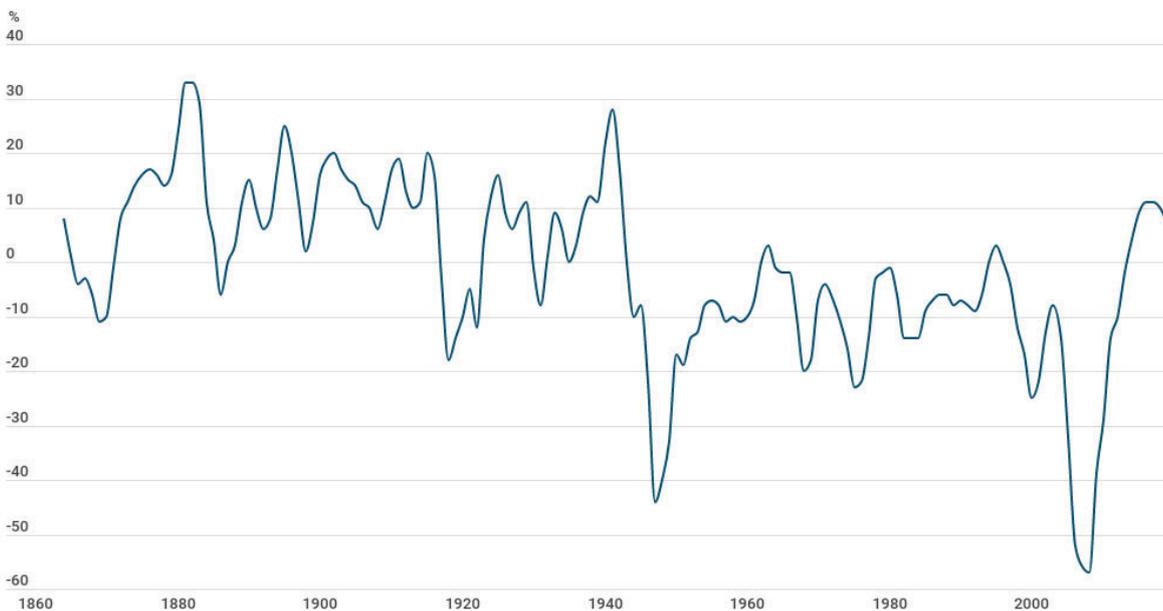
| Stöðugt verðlag   | Fjármálastöðugleiki                                   | Traust og örugg fjármálastarfsemi   |
|---|---|---|
| Seðlabanki Íslands skal stuðla að stöðugu verðlagi og er heimilt að lýsa yfir markmiði um verðbólgu | Seðlabanki Íslands skal stuðla að fjármálastöðugleika | Seðlabankinn skal fylgjast með að starfsemi eftirlitsskyldra aðila sé í samræmi við lög |

# Samkeppnishæfni nýja Íslands



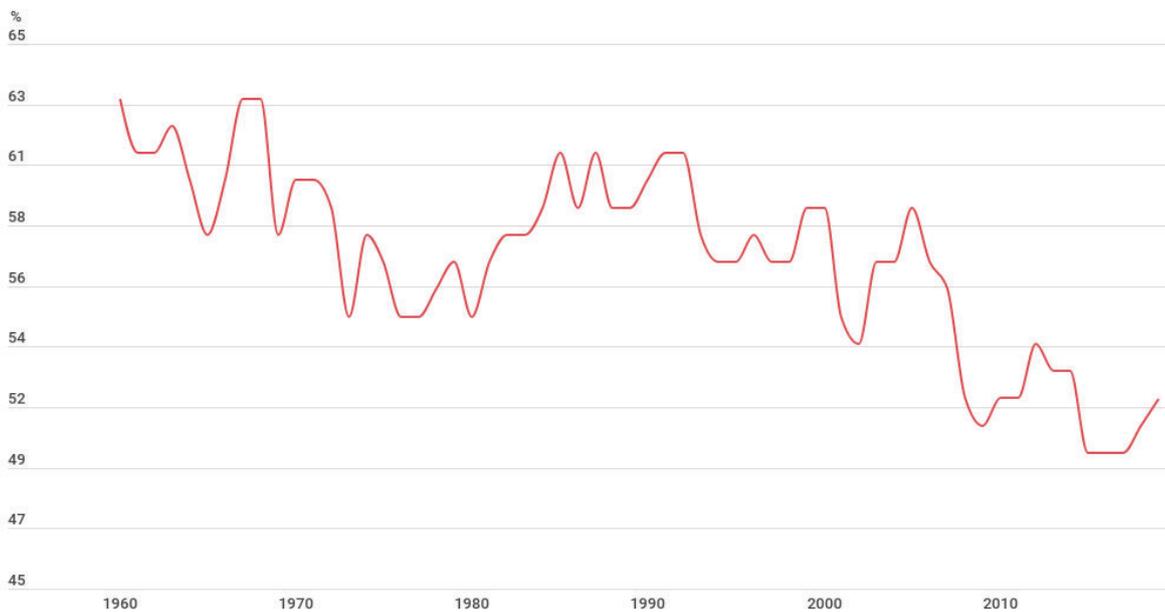
## Nýja Ísland er með varanlegan viðskiptaafgang ...

Viðskiptajöfnuður sem hlutfall af útflutningi 1864 - 2019



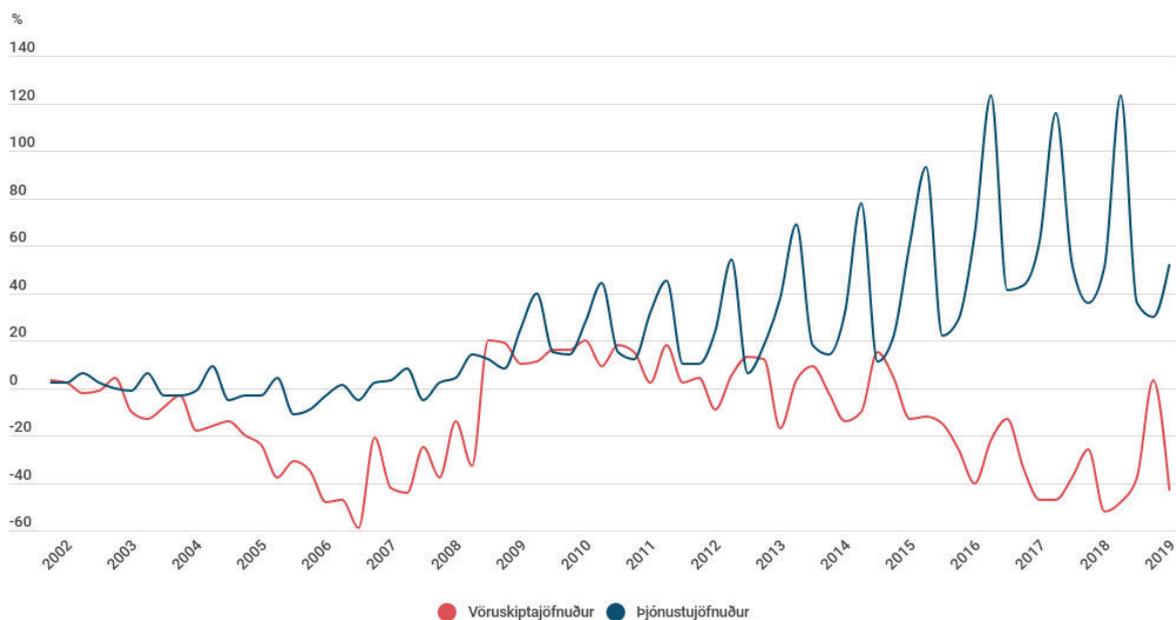
## ... vegna aukins sparnaðar ...

Hlutfall einkaneyslu af vergri landsframleiðslu 1960 - 2019



## ... og vaxtar í þjónustuviðskiptum ...

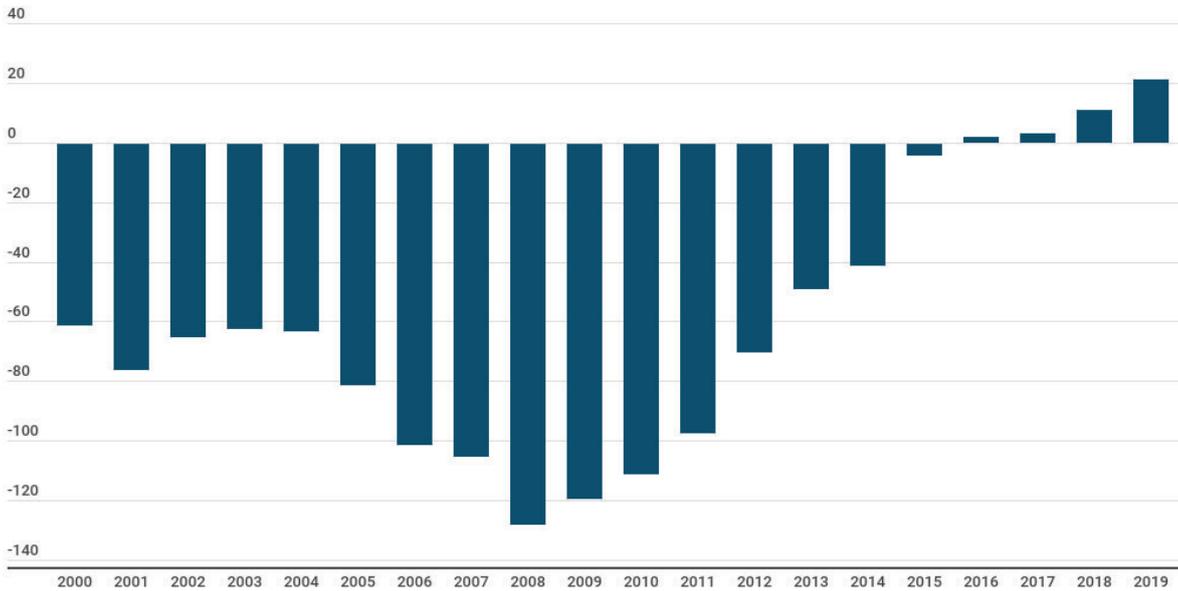
Vöruskipta- og þjónustujöfnuður 1. ársfj. 2002 - 2. ársfj. 2019



## ... sem endurspeglast í umskiptum á erlendri stöðu þjóðarbúsins

Erlend staða þjóðarbúsins 2000 - 2. ársfj. 2019

% af VLF



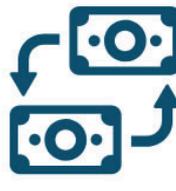
## Ísland sem fjármagnsútflytjandi?



Viðskiptaafgangur er vitnisburður um sparnað - sem hérlendis er m.a. knúinn fram með skylduframlögum í lífeyrissjóði.



Hér áður greiddi fólk með annarri hendi til lífeyrissjóðanna en sló lán með hinni. Nú eru heimilin hætt að safna skuldum og eru skuldir þeirra litlar í sögulegu samhengi.



Ísland hefur í kjölfarið breyst frá því að vera fjármagnsinnflytjandi með viðskiptahalla (líkt og á árunum 1945-2008) yfir í að vera fjármagnsútflytjandi með viðskiptaafgang.



Það mun leiða til lækkunar á langtímaraunvöxtum þegar litið er til framtíðar.

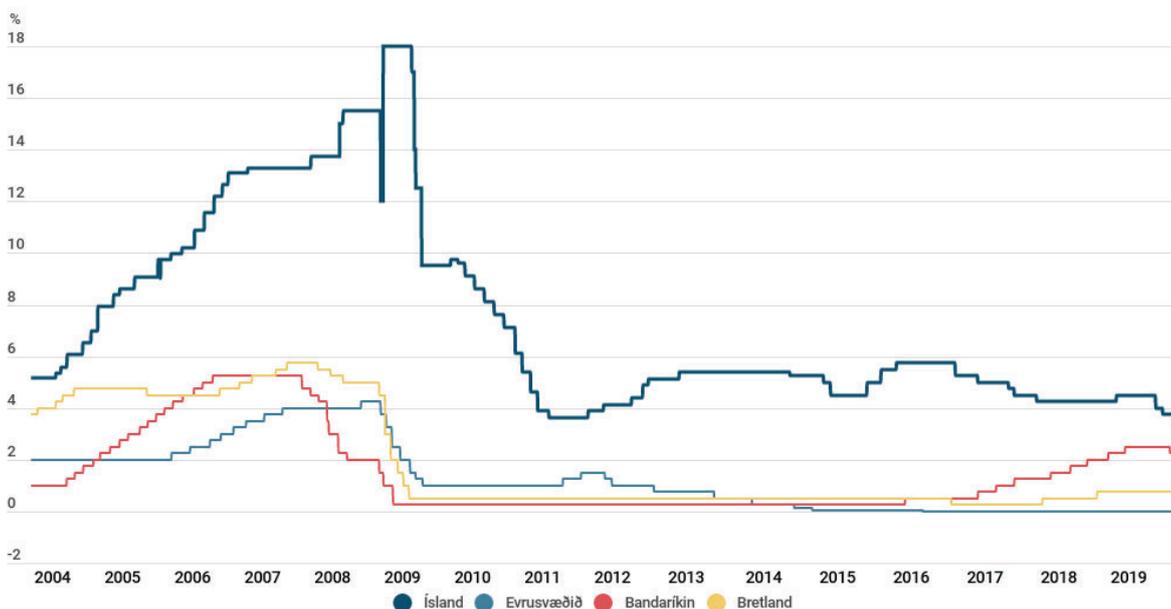
# Lágvaxtaumhverfið alþjóðlega

## Af hverju er Ísland öðruvísi?



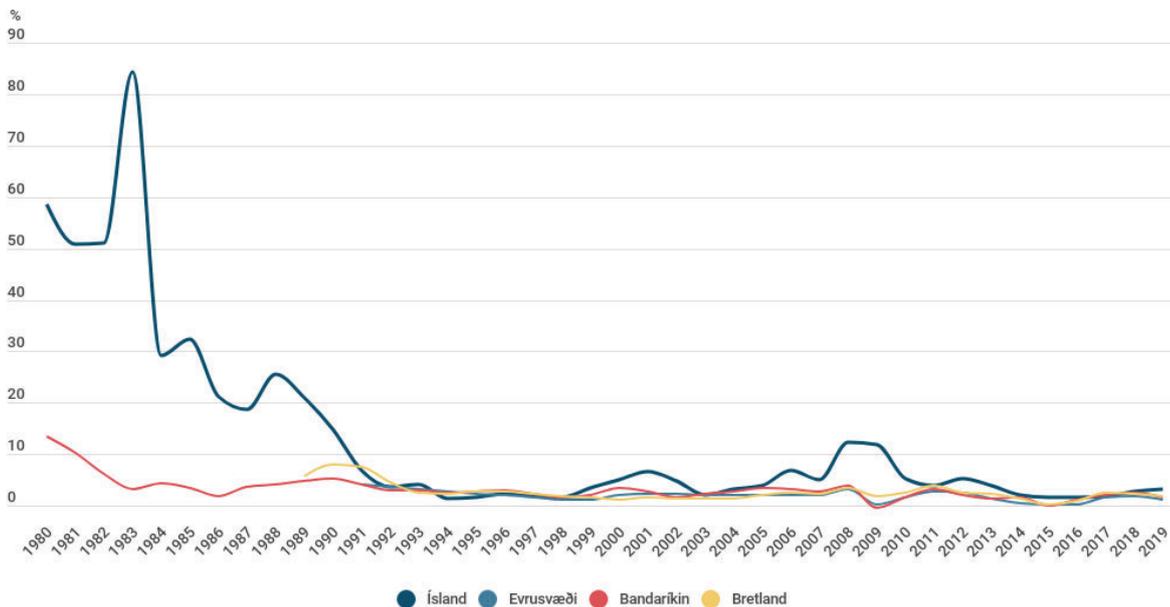
## Háir nafnvextir á Íslandi ...

Seðlabankavextir 2004 - 2019



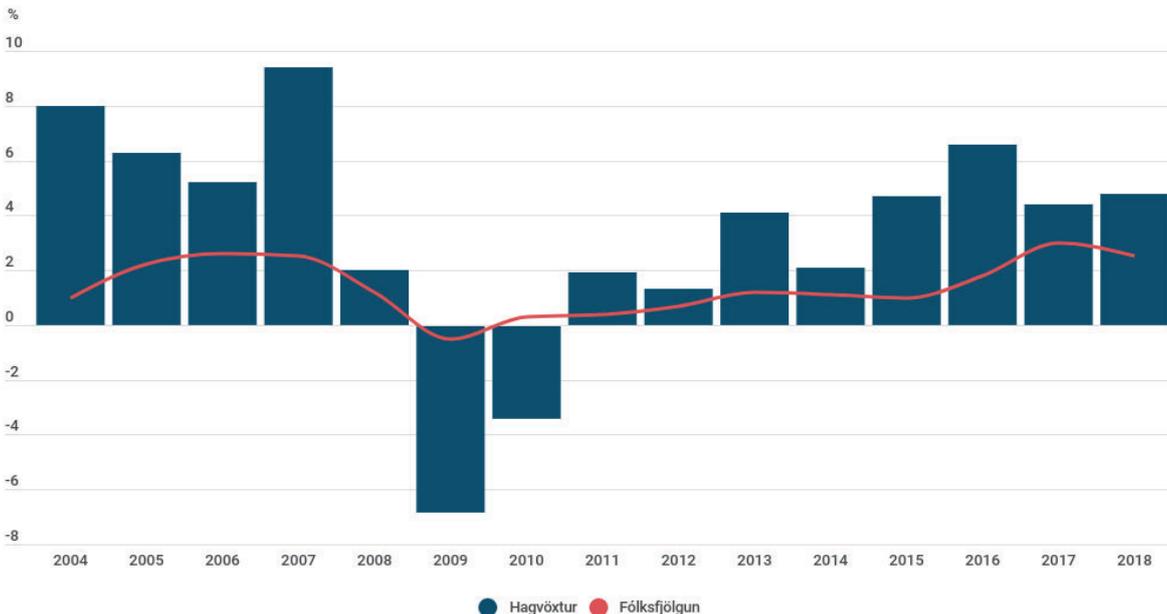
## ... bera vitni um mikla verðbólgu sögulega sem veldur háum verðbólguvæntingum

Verðbólga 1980 - 2019



## Mikill hagvöxtur og fólksfjölgun hækkar einnig raunvaxtastig

Hagvöxtur og fólksfjölgun 2004 - 2018



## Mikill vaxtamunur við útlönd dregur að erlent fjármagn, hækkar nafngengið og rýrir samkeppnisstöðu útflutningsatvinnuvega



Hærri vextir en erlendis



Innflæði fjármagns



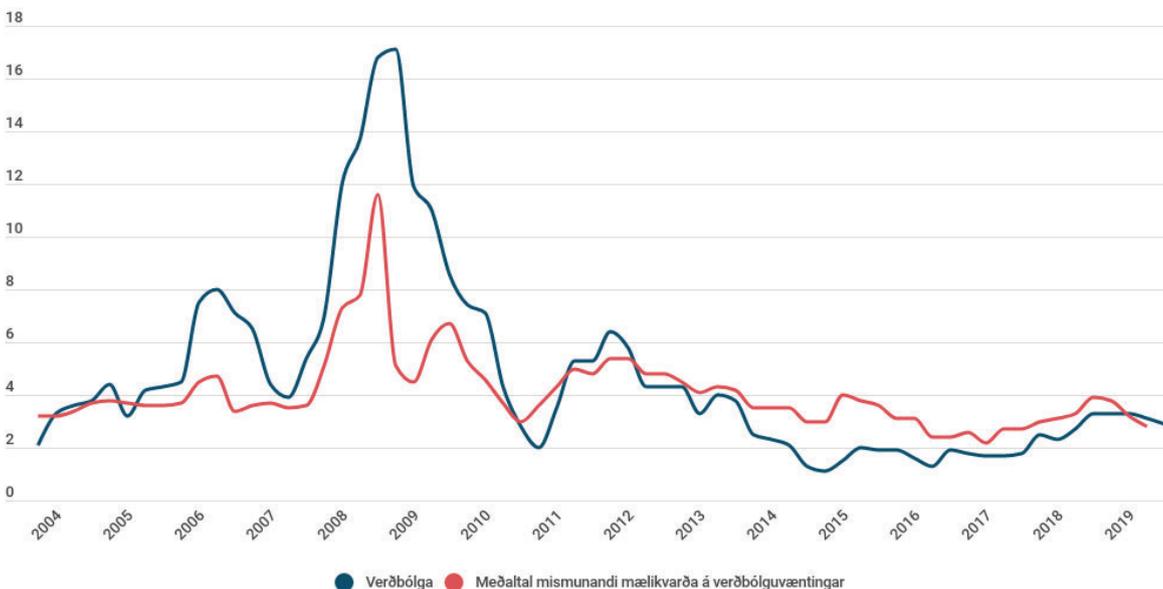
Hækkun nafngengis



Versnandi samkeppnisstaða

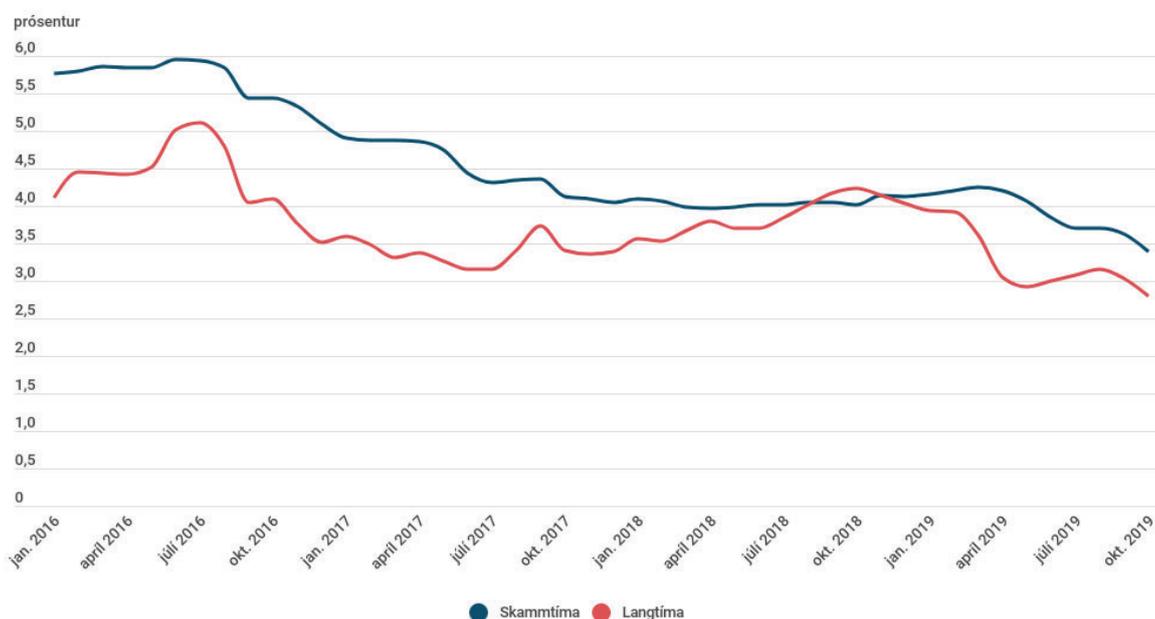
## Seðlabankinn hefur náð árangri við framfylgd verðbólguþvæntinga undanfarin ár sem hefur leitt til lægri verðbólguþvæntinga ...

Verðbólga og verðbólguþvæntingar til eins árs 2004 - 2019



## ... og mun leiða til minni vaxtamunar við útlönd ...

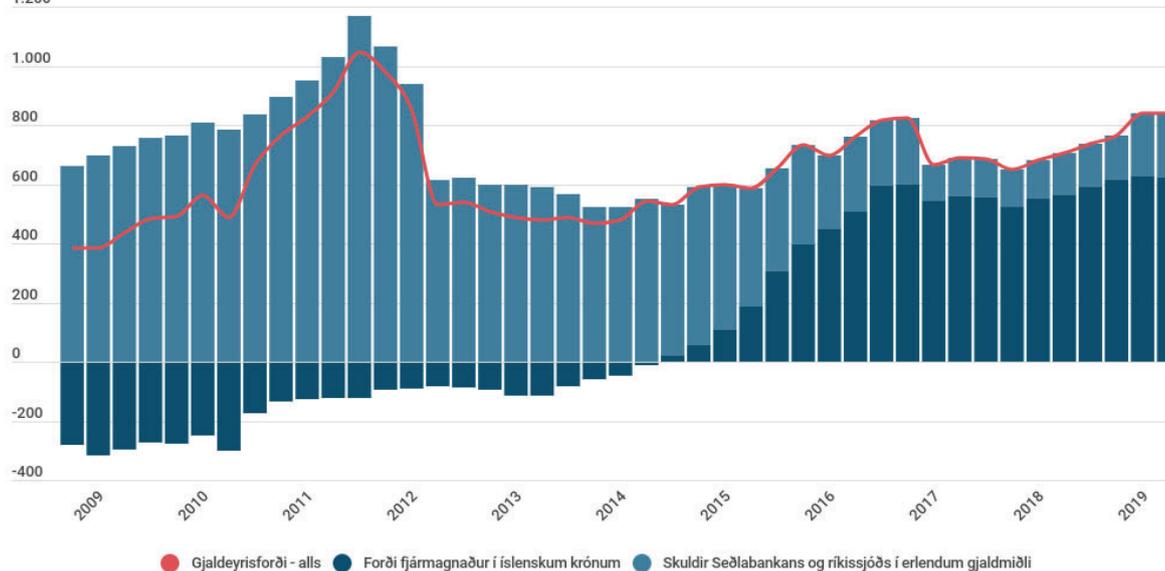
Viðskiptavegin vaxtamunur við útlönd jan. 2016 - okt. 2019



## Seðlabankinn býr yfir 800 milljarða gjaldeyrisforða til þess að geta tryggt stöðugleika

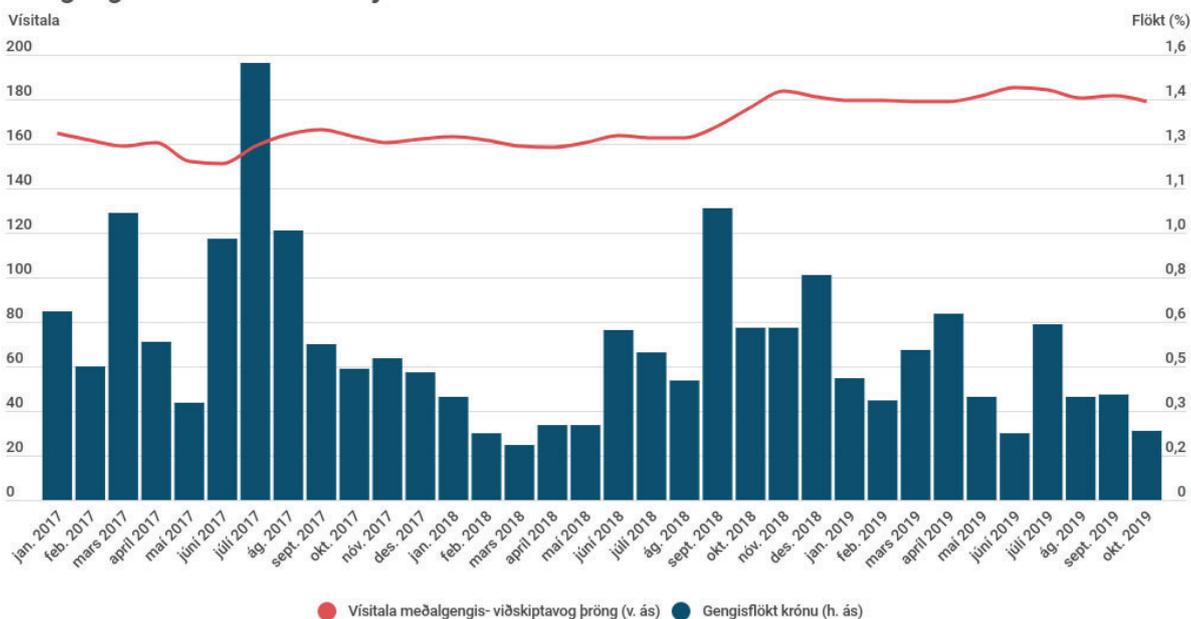
Gjaldeyrisforði Seðlabankans 1. ársfj - 3. ársfj. 2019

Ma. kr.  
1.200



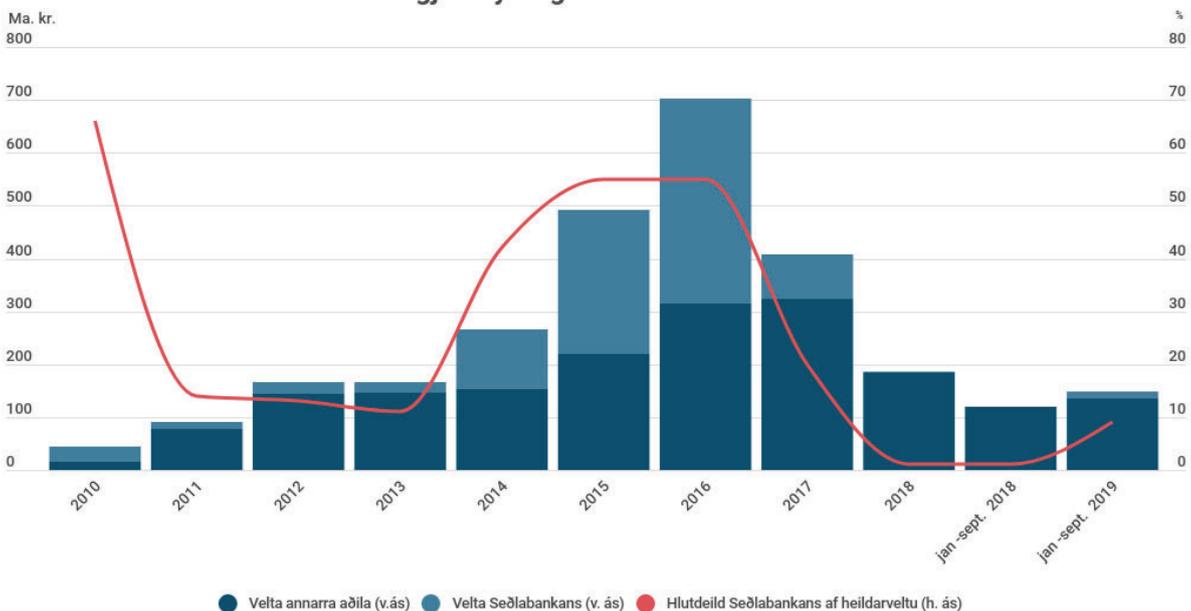
# Forðanum er nú beitt til þess að draga úr óhóflegum skammtímasveiflum í gengi krónunnar ...

## Gengi og sveiflur krónunnar jan. 2017 - okt. 2019



# ... en það er ekki hlutverk Seðlabankans að hindra breytingar á gengi krónunnar af völdum undirliggjandi efnahagsþátta

## Velta á millibankamarkaði með gjaldeyri og hlutdeild Seðlabankans



## Horfurnar framundan ...



Aukin óvissa og svartsýni í alþjóðlegum efnahagsmálum



Áhrif áfalla í ferðaþjónustu líklega ekki að fullu komin fram og óvissa um framboð á flugi



Hliðrun eftirspurnar í átt að innlendri framleiðslu



Þróun verðs og veltu á húsnæðismarkaði óviss og áhrif ferðaþjónustu þar á



Horfur á fyrsta samdrætti frá árinu 2010



Horfur á að verðbólga verði komin í markmið fyrr en gert var ráð fyrir

04.11.2019

## Reglur um verðtryggingu

Reglur nr. 877/2018 um verðtryggingu sparifjár og lánsfjár tóku gildi sl. föstudag, 1. nóvember 2019. Gildistöku reglnanna var frestað í tvígang að undanskildu ákvæði þeirra um að ríkissjóði sé heimilt að gefa út verðtryggð ríkisverðbréf til skemmri tíma en 5 ára.

Þær breytingarnar sem reglur nr. 877/2018 kveða á um felast fyrst og fremst í einföldun á útreikningi verðbóta innan mánaðar.

Frá gildistöku reglnanna miðast verðbætur innan mánaðar við breytingu á vísitölu neysluverðs á milli gildis vísitölunnar þegar útreikningur er gerður og gildis hennar á fyrsta degi næsta mánaðar þar á eftir, í hlutfalli við fjölda daga sem liðinn er af mánuðinum. Binditími verðtryggðra innlánsreikninga verður eftir sem áður að lágmarki 36 mánuðir og gera reglurnar ráð fyrir því að semja megi um reglulegan mánaðarlegan sparnað í minnst 36 mánuði.

Til að auðvelda fjármálafyrirtækjum, lífeyrissjóðum og öðrum sem sýsla með verðtryggð lán og innlán, það millibilsástand sem kann að skapast vegna tæknilegrar yfirfærslu frá eldri reikniaðferð til nýrrar hefur Seðlabankinn gefið út reglur nr. 941/2019 sem fela í sér bráðabirgðaákvæði við reglur nr. 877/2018.

Bráðabirgðaákvæðið felur í sér heimild til að beita eldri reikniaðferðum samanber eldri reglur nr. 492/2001 um verðtryggingu sparifjár og lánsfjár fram til 1. janúar 2021. Í bráðabirgðaákvæðinu er jafnframt ákvæði þess efnis að sé verðtryggingu hagað samkvæmt eldri aðferð á neytandi rétt á endurgreiðslu á þeim mismun sem kann að verða á verðbótum miðað við reikniaðferð nýju reglnanna sé niðurstaðan honum í óhag.

Reglur 941/2019 má finna hér: [Vefur Stjórnartíðinda. Reglur um breytingu á reglum nr. 877/2018 um verðtryggingu sparifjár og lánsfjár.](#)

# Peningamálafundur 2019

## Ótroðnar lágvaxtaslóðir



Peningamálafundur Viðskiptaráðs  
7. nóvember 2019

Ásgeir Jónsson  
seðlabankastjóri



## Hagvaxtarhorfur



## Horfurnar framundan



Alþjóðleg viðskiptadeila eykur á svartsýni og dregur úr hagvexti



Samdráttur í fluggeiranum á stóran þátt í útflutnings-samdrætti



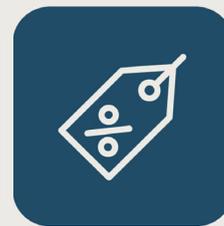
Hliðrun eftirspurnar í átt að innlandri framleiðslu



Störfum tekið að fækka og atvinnuleysi hefur aukist frá ársbyrjun



Vægur samdráttur í ár en hægfara bati frá næsta ári

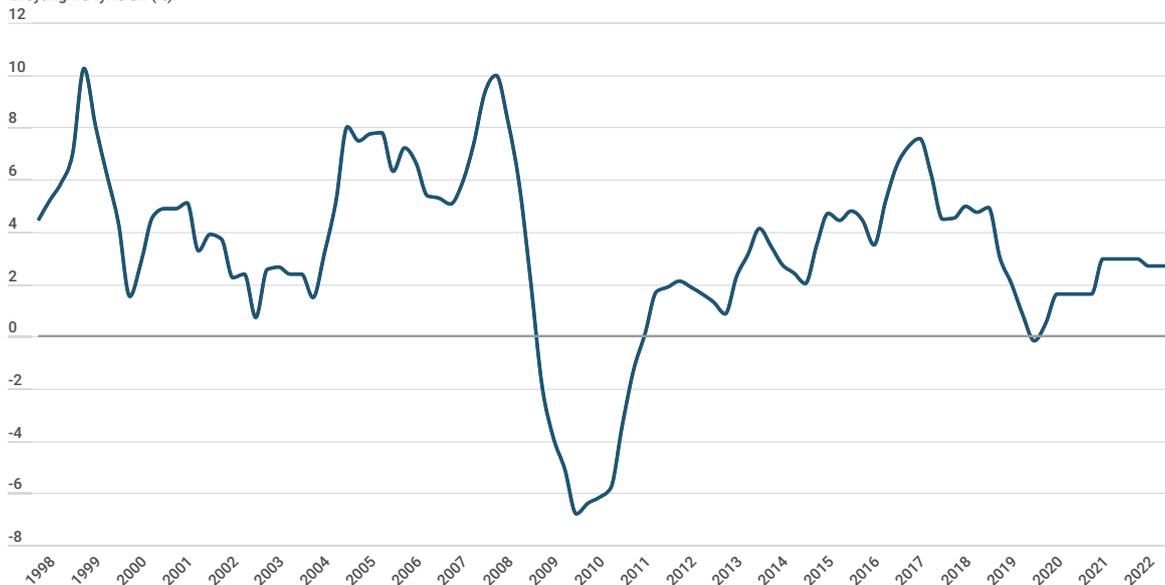


Verðbólga í markmið í lok árs en þrálátari undirliggjandi verðbólga

## Hagkerfið tekið að hægja á sér en bati á næsta ári

### Hagvöxtur 1998-2022

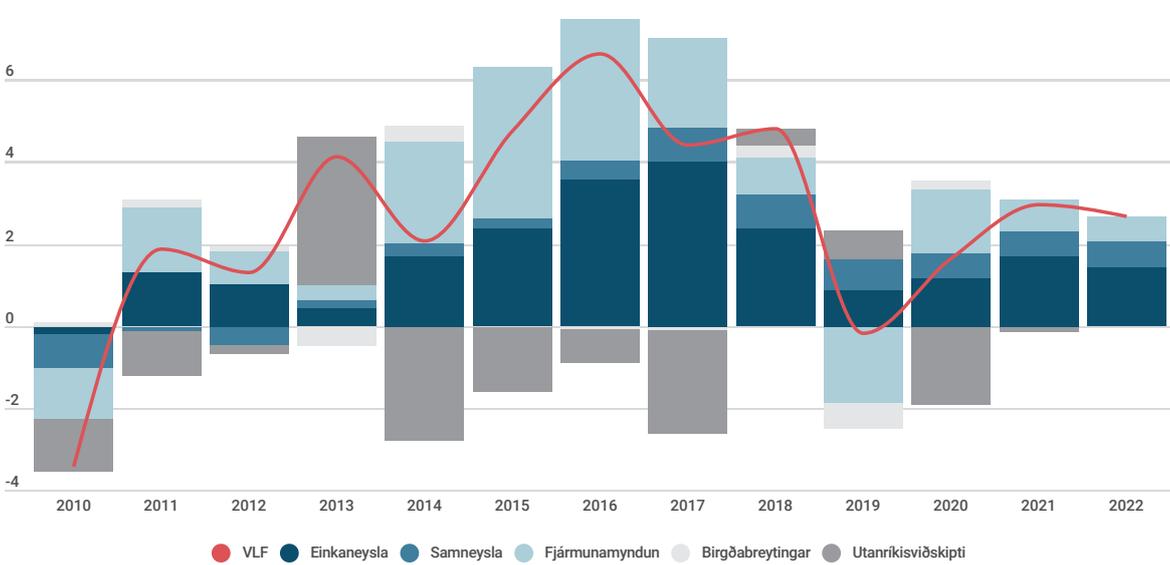
Breyting frá fyrra ári (%)



# Hvaðan kemur vöxturinn?

## Hagvöxtur og framlag undirliða 2010-2022

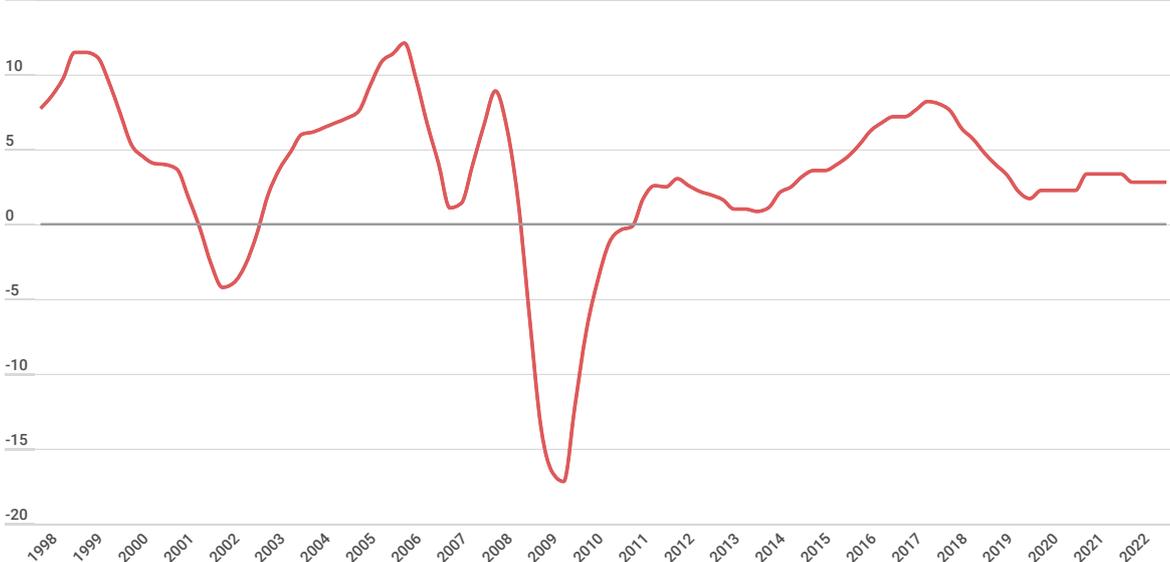
Breyting frá fyrra ári (%)



# Hægir á vexti einkaneyslu

## Einkaneysla 1998-2022

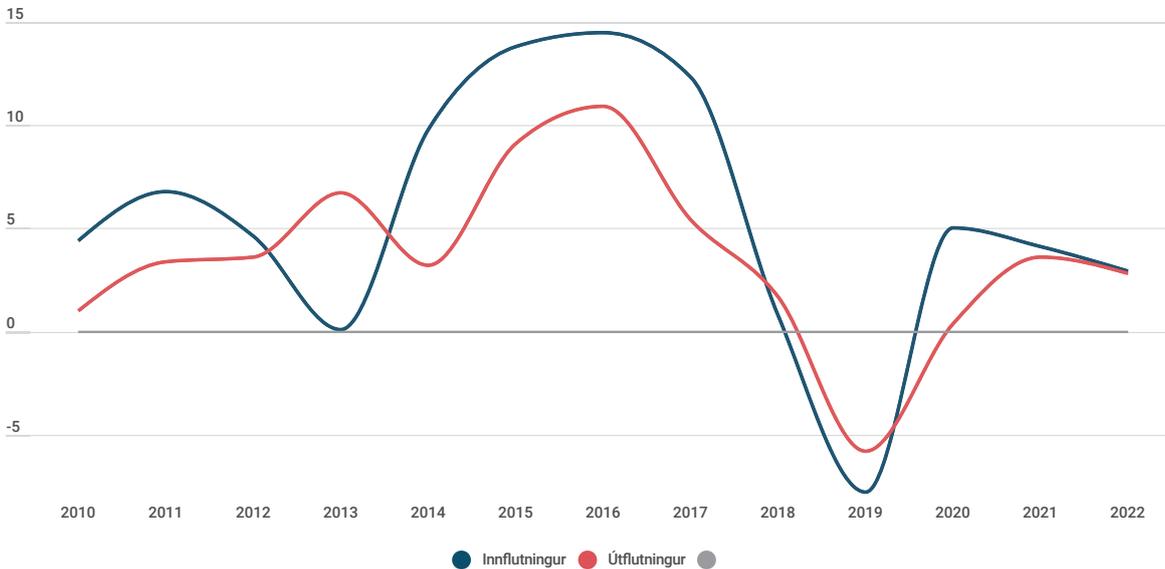
Breyting frá fyrra ári (%)



## Samdráttur í flestum útflutningsgreinum í ár en meiri samdráttur í innflutningi ...

### Inn- og útflutningur 2010-2022

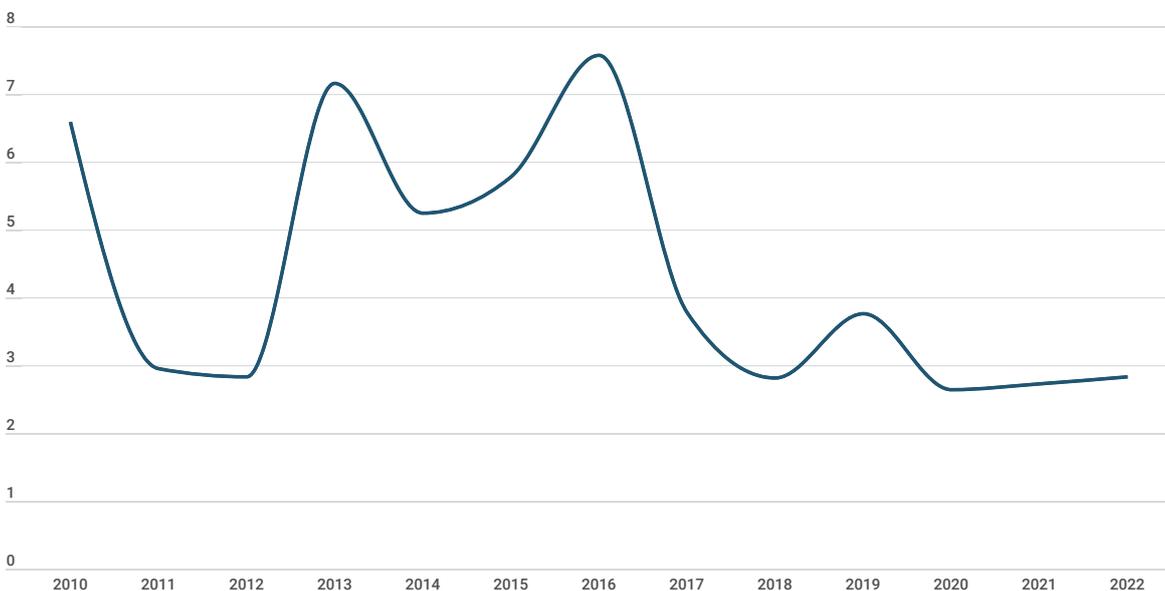
Breyting frá fyrra ári (%)



## ... og gert ráð fyrir áframhaldandi viðskiptaafgangi út spátímann

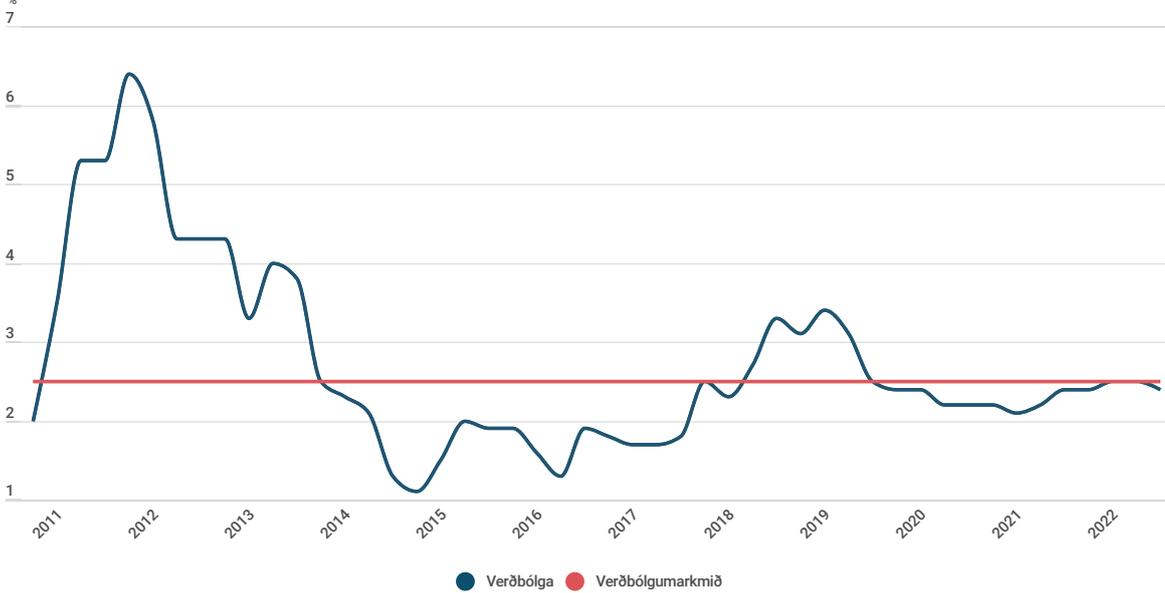
### Viðskiptajöfnuður 2010-2022

% af VLF



# Horfur eru á að verðbólga hjaðni hraðar en gert var ráð fyrir og að hún verði komin í markmið undir lok þessa árs

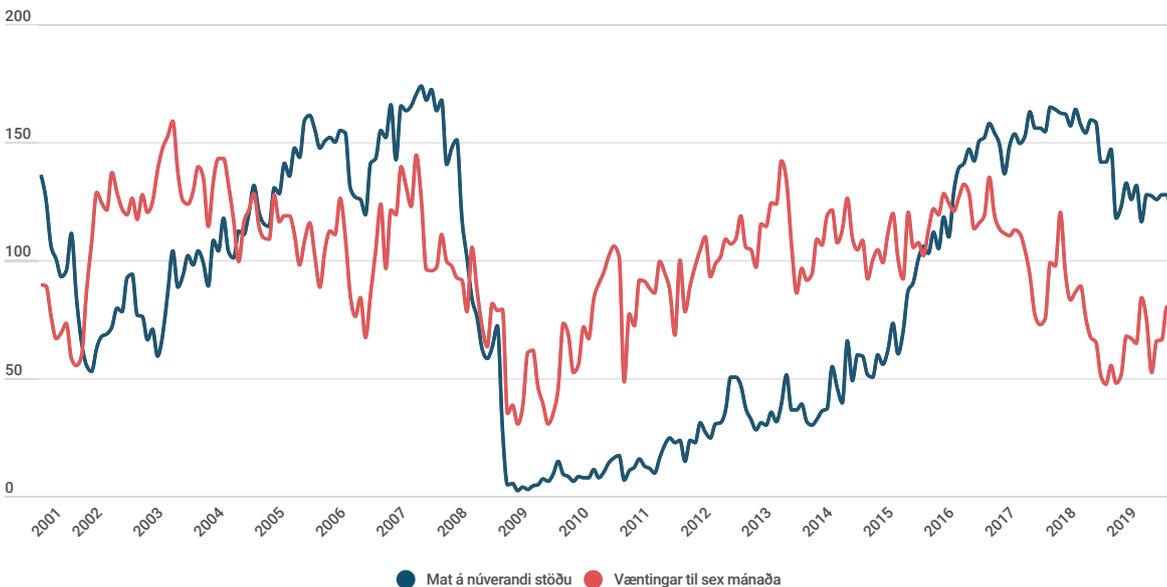
## Verðbólga 2011-2019



# Heimilin enn með áhyggjur ...

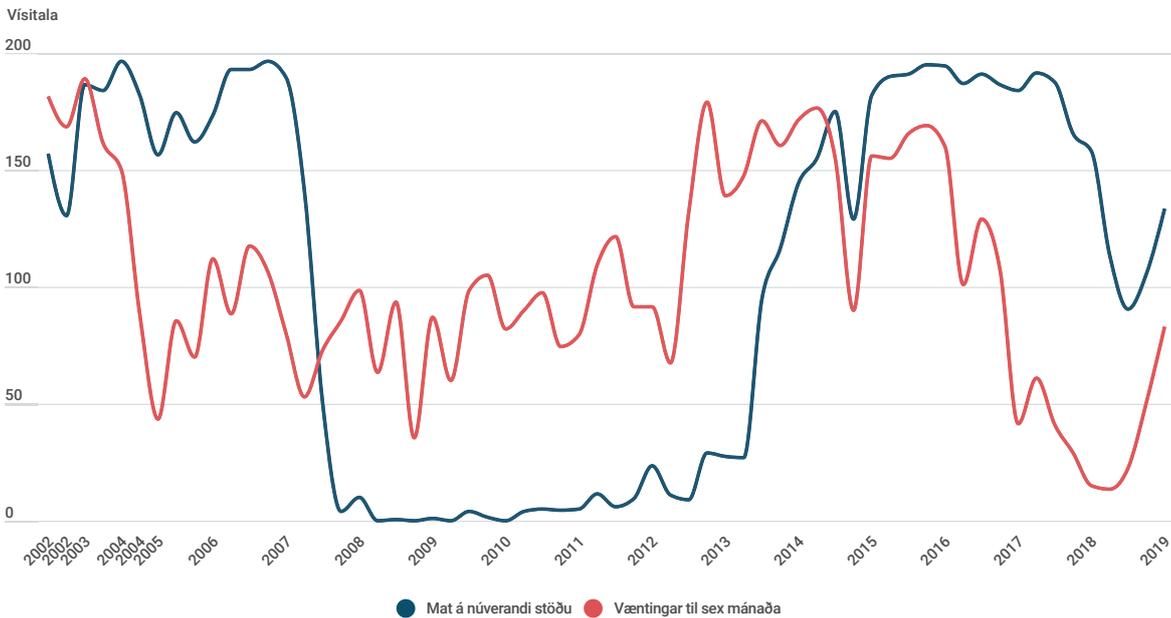
## Mat íslenskra heimila á núverandi ástandi og væntingar til næstu sex mánaða 2001-2019

Visitala



## ... en aukin bjartsýni hjá fyrirtækjum

### Mat íslenskra fyrirtækja á núverandi ástandi og væntingar til næstu sex mánaða 2003-2019



## Samkeppnishæfni nýja Íslands

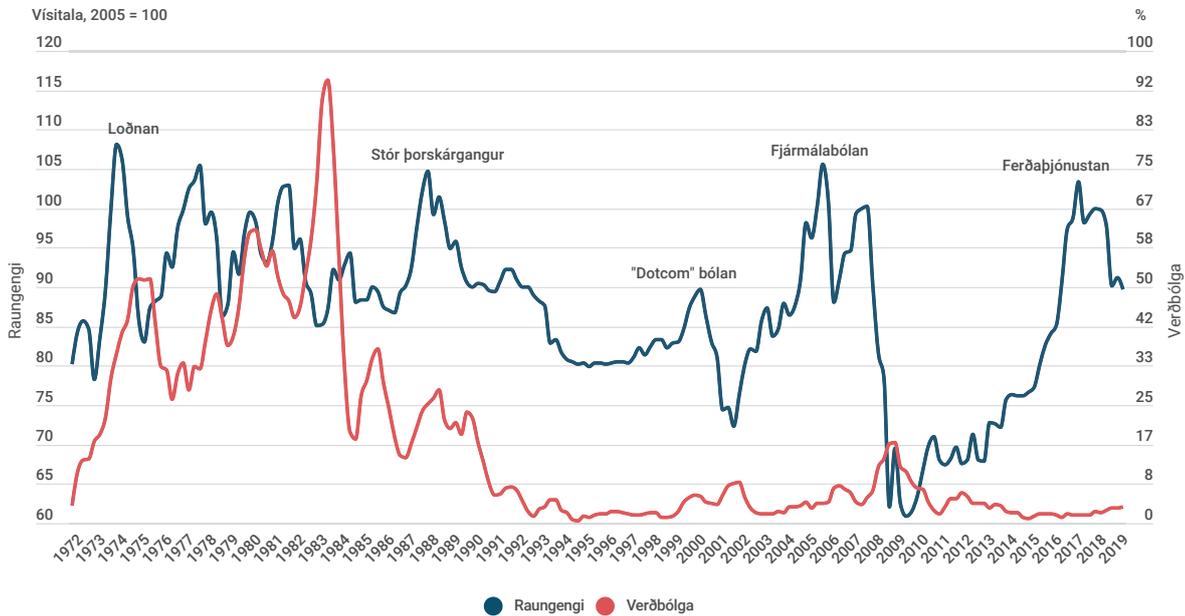


# Sögulega hefur gengisfall og verðbólga fylgt niðursveiflum



## Raugengi og verðbólga 1972-2019

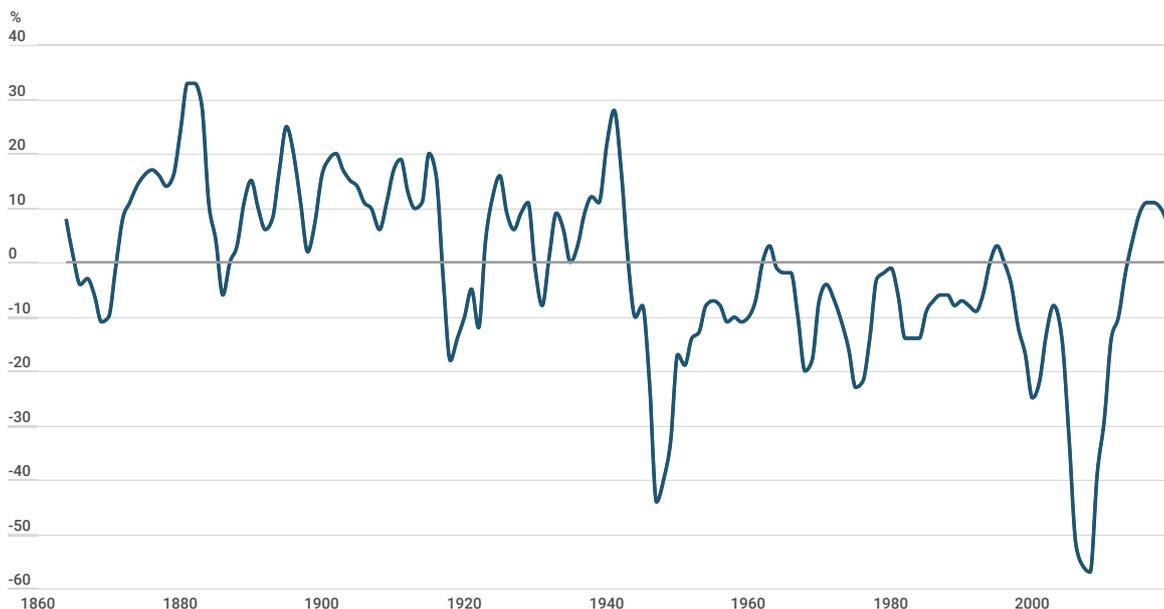
Vísitala, 2005 = 100



# Nýja Ísland er með varanlegan viðskiptaafgang ...

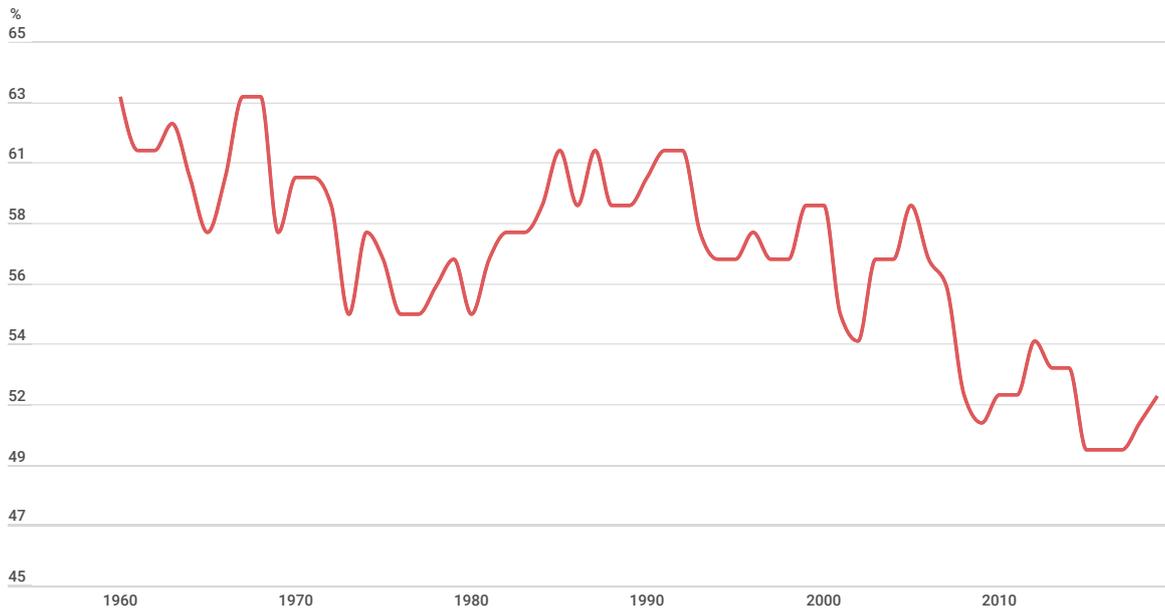


## Viðskiptajöfnuður sem hlutfall af útflutningi 1864-2019



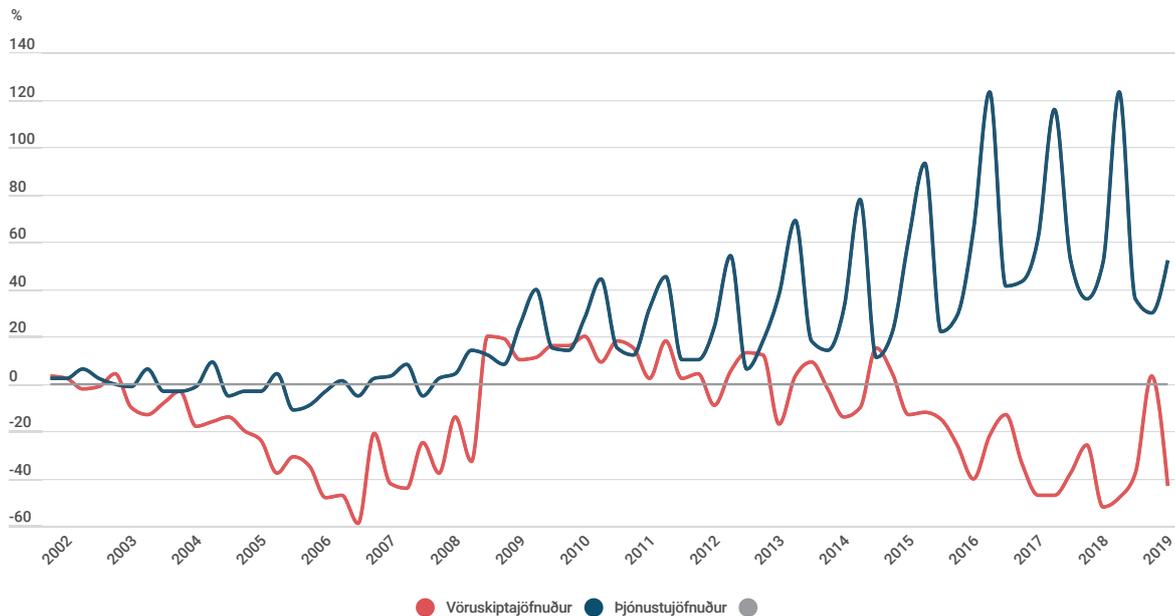
## ... vegna aukins sparnaðar ...

Hlutfall einkaneyslu af vergri landsframleiðslu 1960-2019



## ... og vaxtar í þjónustuviðskiptum ...

Vöruskipta- og þjónustujöfnuður 1. ársfj. 2002-2. ársfj. 2019

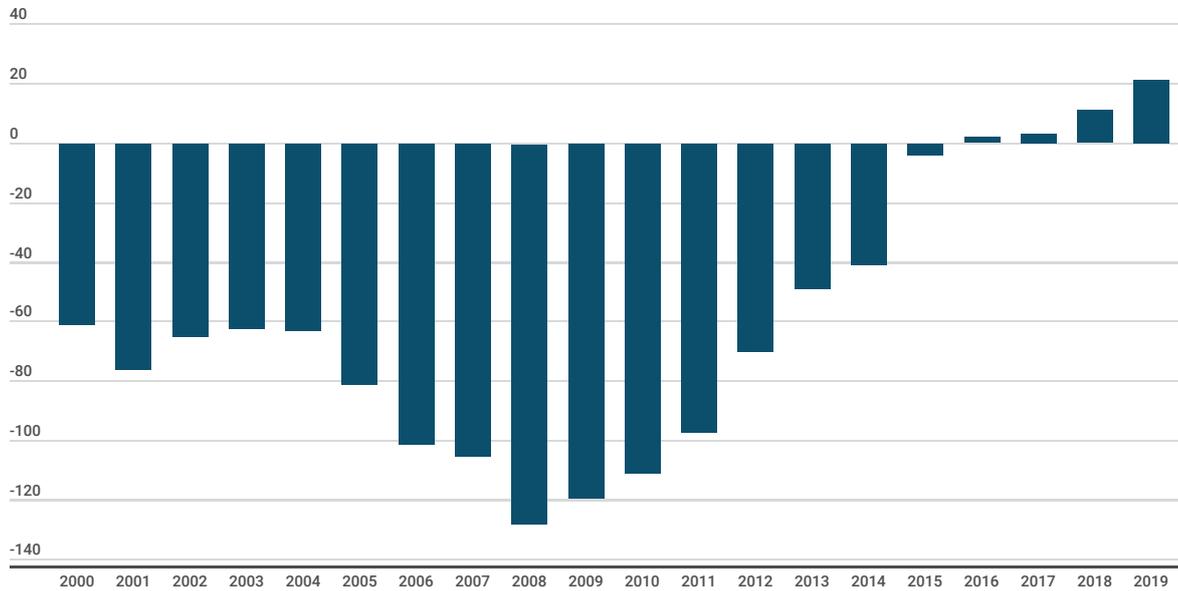


# ... sem endurspeglast í umskiptum á erlendri stöðu þjóðarbúsins



Erlend staða þjóðarbúsins 2000-2. ársfj. 2019

% af VLF



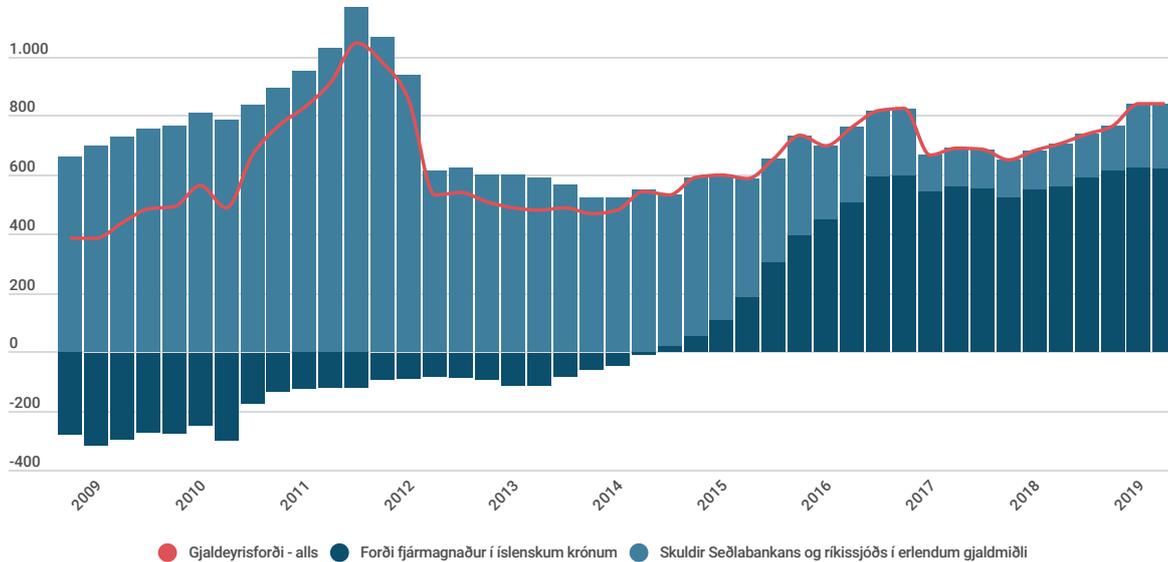
## Trúverðugleiki Seðlabankans



# Seðlabankinn býr yfir 800 milljarða gjaldeyrisforða sem eykur trúverðugleika

## Gjaldeyrisforði Seðlabankans 1. ársfj. 2009-3. ársfj. 2019

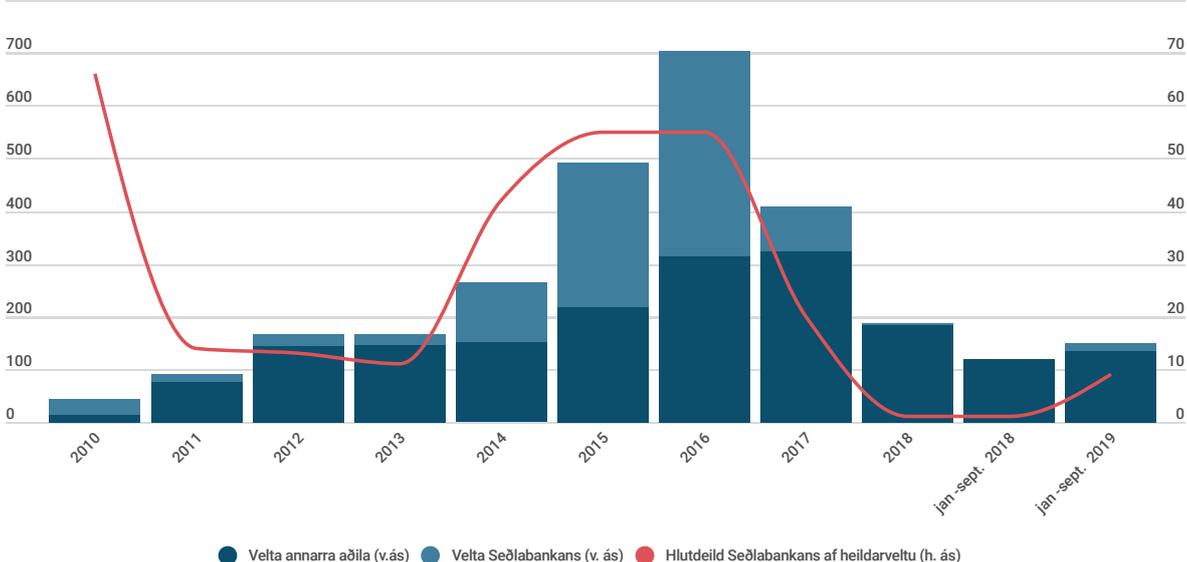
Ma. kr.  
1.200



# Forðanum er beitt til að draga úr skammtímasveiflum en ekki til að hindra breytingar á gengi krónunnar af völdum undirliggjandi efnahagsþátta

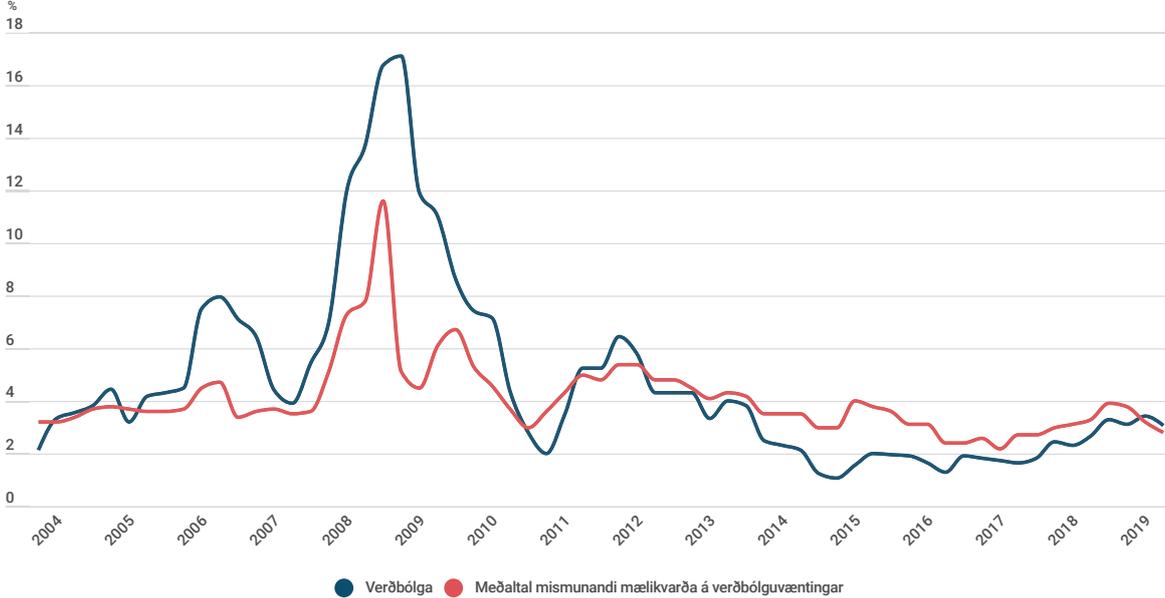
## Velta á millibankamarkaði með gjaldeyri og hlutdeild Seðlabankans 2010-2019

Ma. kr.  
800



# Seðlabankinn hefur náð árangri við framfylgd verðbólguþróunar markmiðs undanfarin ár sem hefur leitt til lægri verðbólguvæntinga

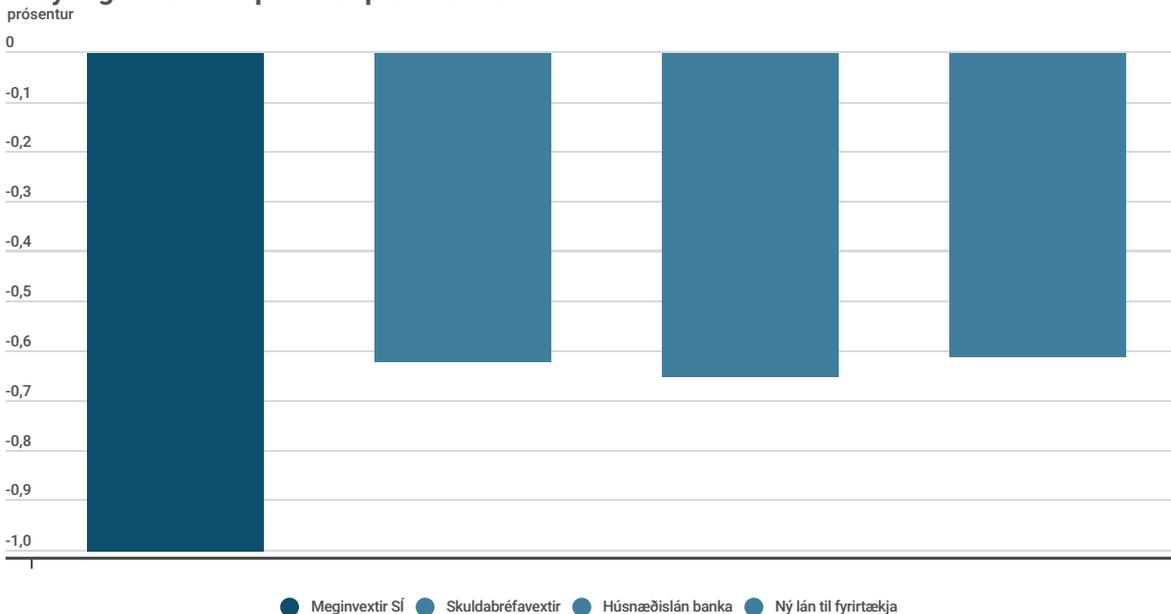
Verðbólga og verðbólguvæntingar til eins árs 2004 - 2019



● Verðbólga ● Meðaltal mismunandi mælikvarða á verðbólguvæntingar

# Vextir hafa verið lækkaðir og styðja við eftirspurn

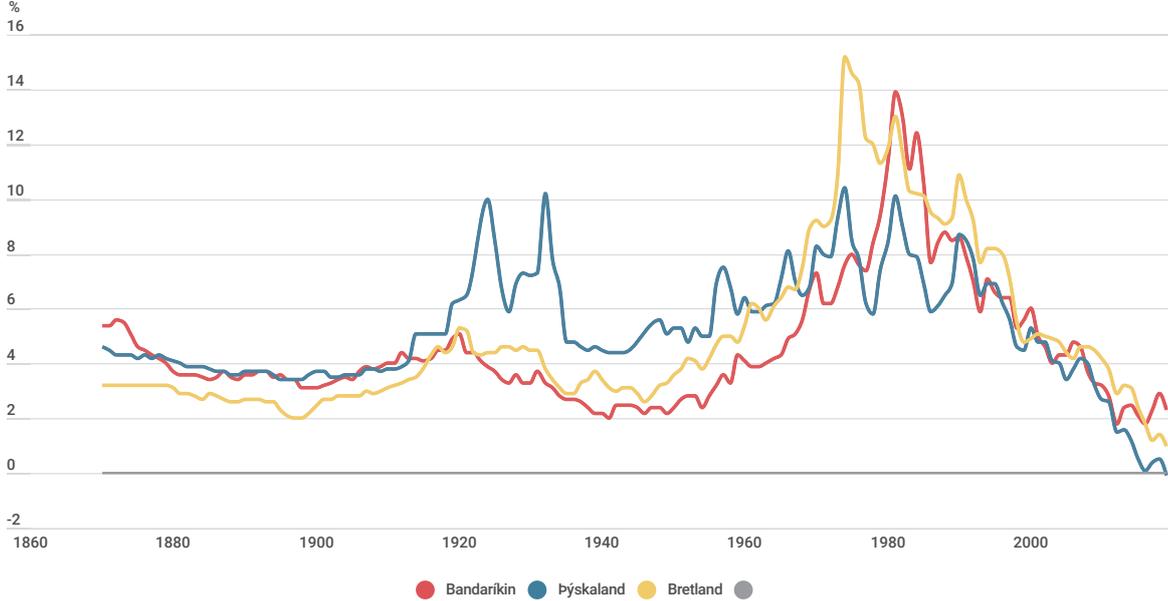
Breyting vaxta frá apríl til september 2019



● Meginvextir Sí ● Skuldabréfavextir ● Húsnaðislán banka ● Ný lán til fyrirtækja

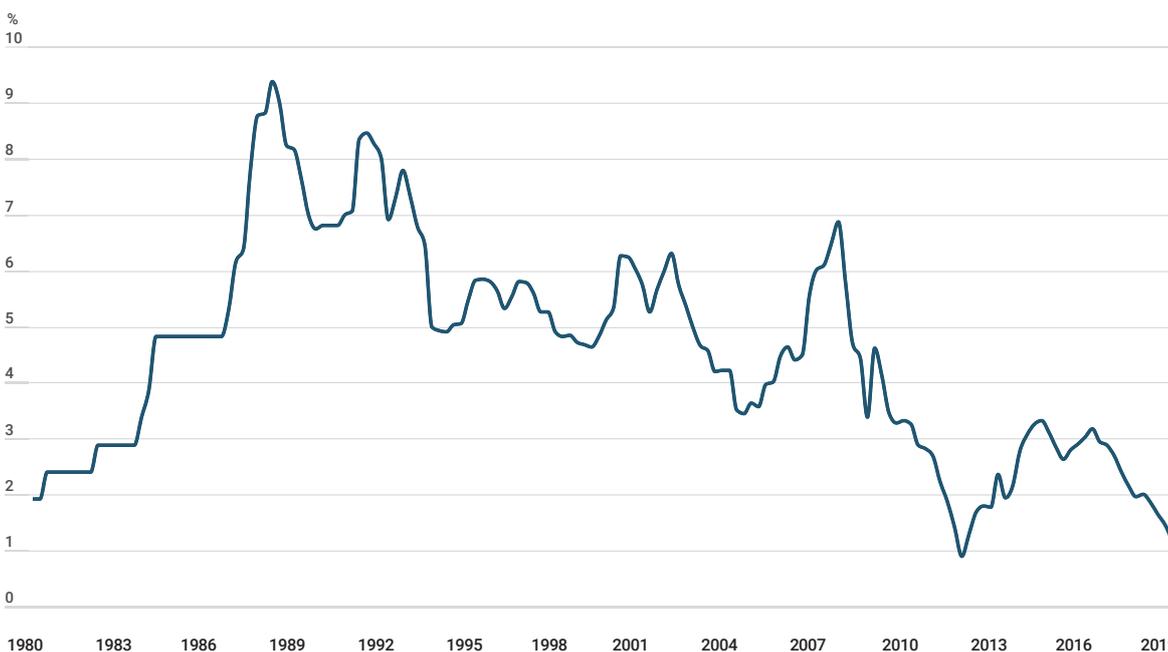
# Alþjóðlegir vextir eru í sögulegu lágmarki ...

Langtímavextir 1870-2019



# ... og sambærileg þróun á vöxtum hérlendis

Raunvextir ríkisskuldabréfa 1980-2019





#### Fyrsta niðursveiflan í sögunni sem er án gengisfalls og kreppuverðbólgu

- Mögulegt að beita peningastefnunni til þess að skapa atvinnu án þess að ógna verðstöðugleika
- Mögulegt að takast á við niðursveiflu án þess að skerða kjör almennings með verðbólgu



#### Langtímabreytingar hafa lækkað vaxtastig hér á landi

- Tækifæri til þess að bæta lífskjör almennings með lægri vöxtum
- Tækifæri til þess að fjármagna innviðafjárfestingu með hagstæðum kjörum



#### Peningastefnan hefur sín takmörk – verðstöðugleiki setur okkur skorður

- Samkeppnishæfnin verður ekki endurnýjuð með gengislækkun líkt og áður
- Samkeppnishæfnin verður aðeins bætt með aukinni framleiðni



#### Gríðarlegar breytingar í farvatninu í fjármálakerfinu

- Mikilvægt að tryggja að peningastefnan virki – ný lán verði veitt til nýrra fjárfestinga
- Mikilvægt að huga vel að afleiðingum þessara kerfisbreytinga til langs tíma

## Hagstjórn og fátækt



Háskólinn og heimsmarkmiðin  
19. nóvember 2019

Ásgeir Jónsson  
seðlabankastjóri



## 975 - Upphaf hreppa á Íslandi

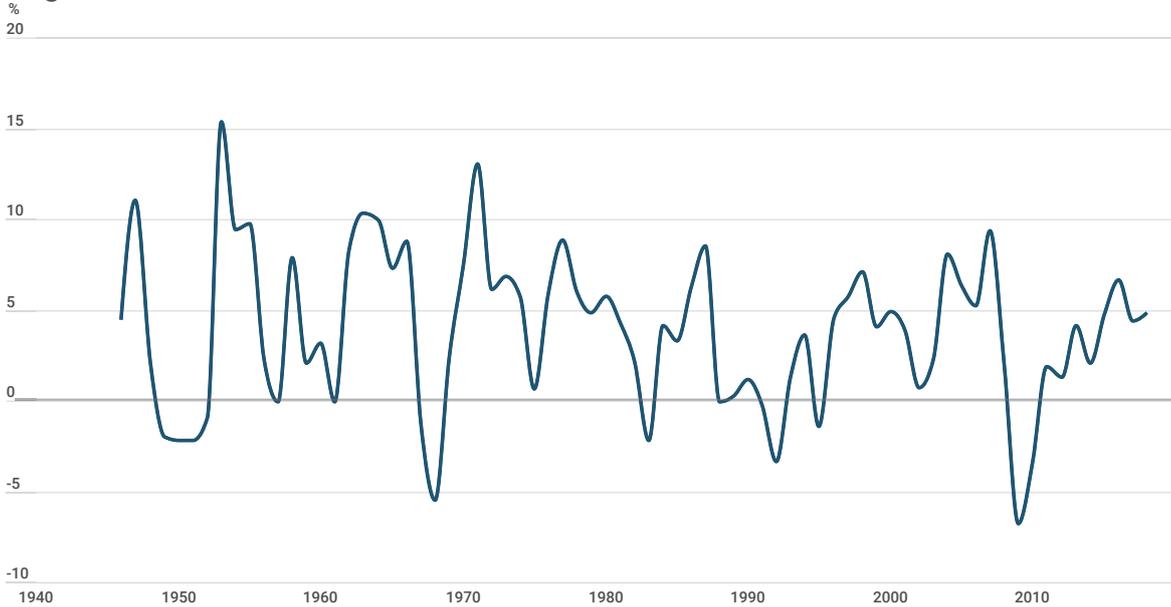
*"Óaldar vetur varð mikill á Íslandi í heiðni í þann tíma er Haraldur konungur Gráfeldur féll, en Hákon jarl tók ríki í Noregi. Sá hefur mestur verið á Íslandi. Þá átu menn hrafna og melrakka og mörg óátan ill var eginn, en sumir létu drepa gamalmenni og ómaga og hrinda fyrir harma. Þá sultu margir menn til bana, en sumir lögðust útað stela, og urðu fyrir það sekir og drepnir."*

Landnáma



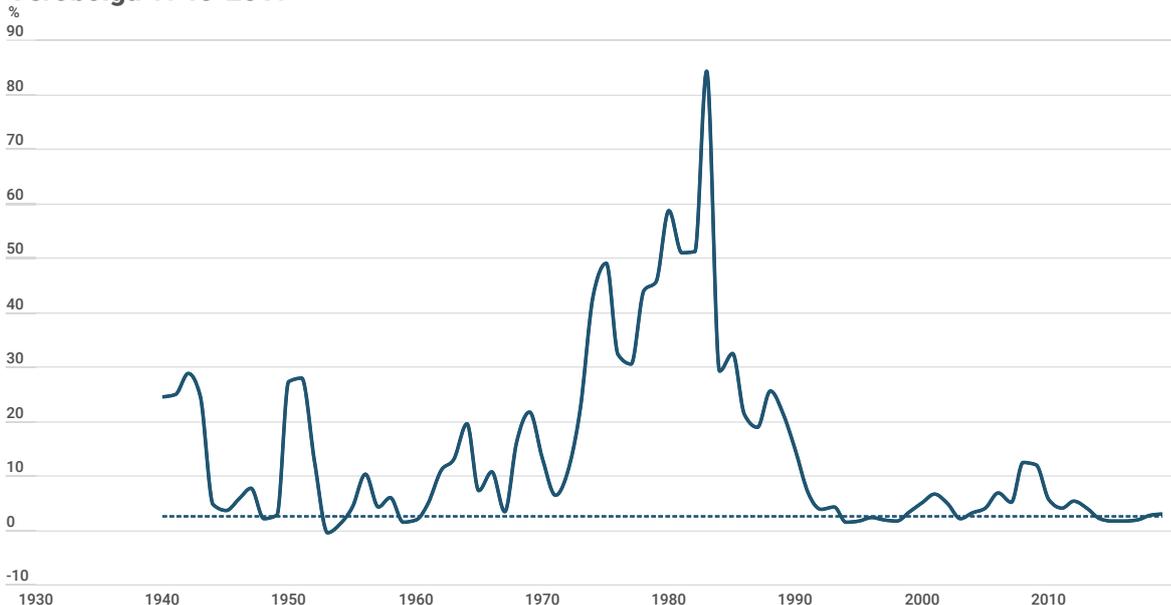
## Hagvöxtur er forsenda aukinnar velmegunar en hagsveiflur leiða til óvæntra breytinga á högum fólks sérstaklega tekjulágra

Hagvöxtur 1945-2019



## Kostnaður vegna verðbólgu fellur einnig þyngra á tekjulága ...

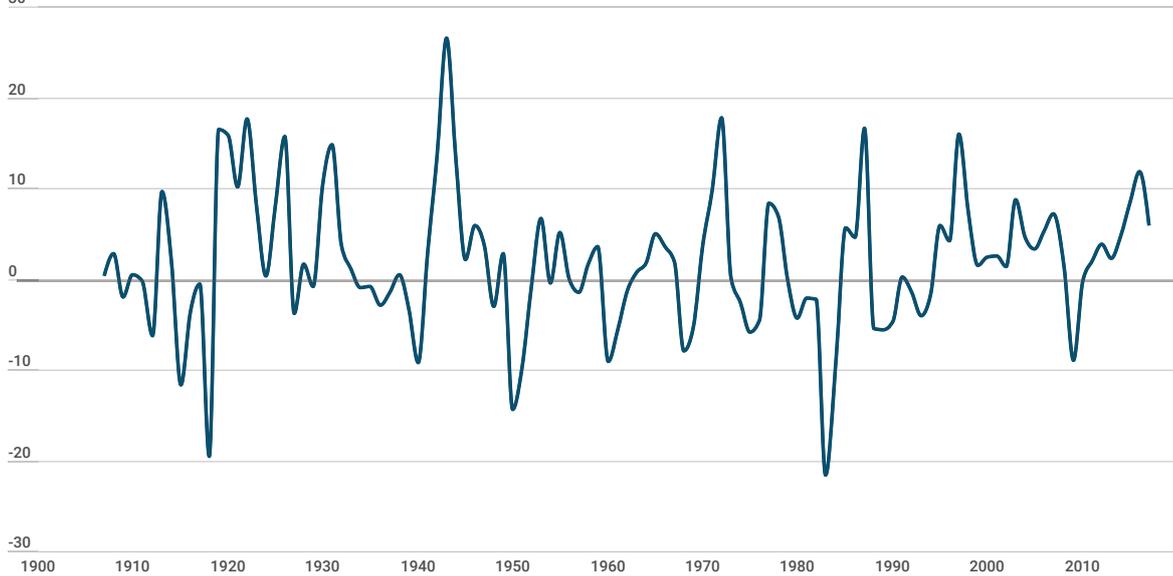
Verðbólga 1940-2019



## ... og hefur valdið miklum sveiflum í kaupmætti ...

### Kaupmáttur lágmarkstaxta 1907-2017

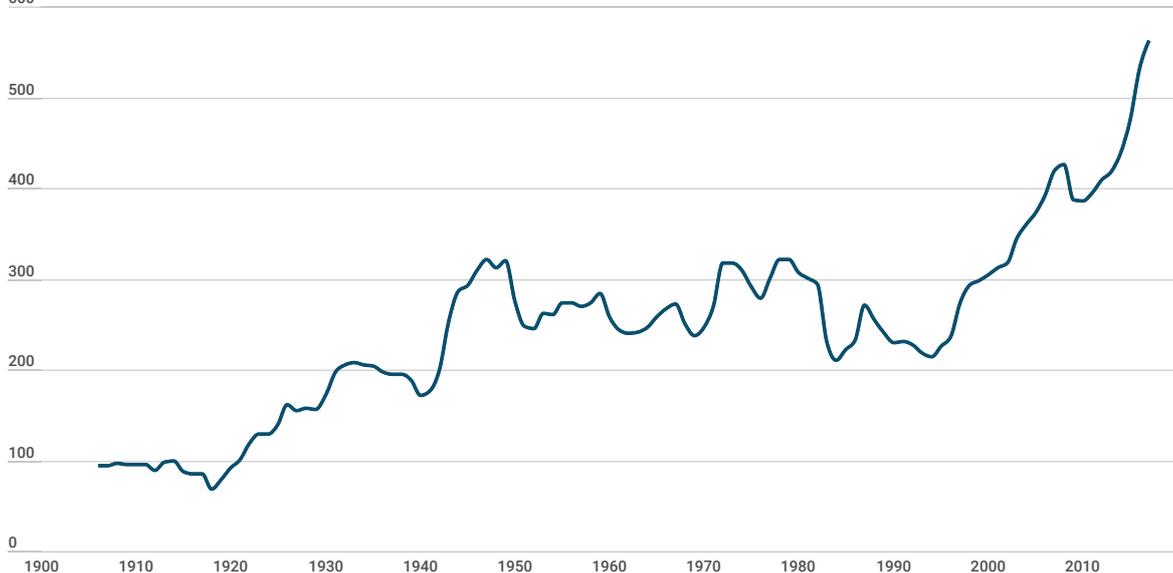
Breyting milli ára (%)



## ... en aukinn verðstöðugleiki hefur leitt til þess að launahækkunarir skila sér í auknum kaupmætti

### Kaupmáttur lágmarkstaxta 1907-2017

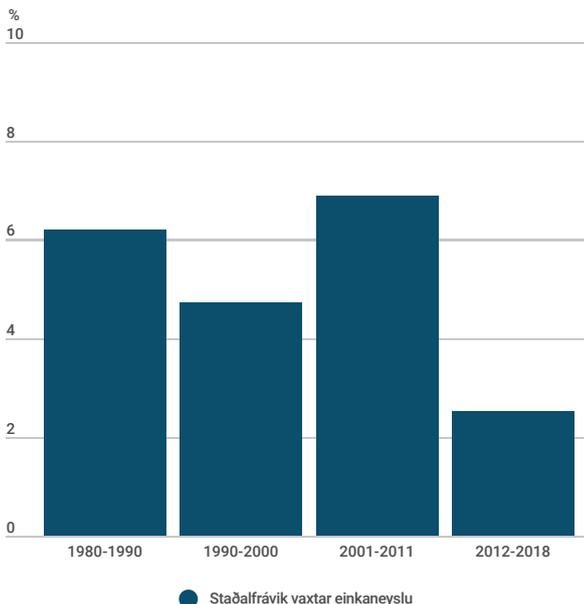
Visitatala, (júli 1914 = 100)



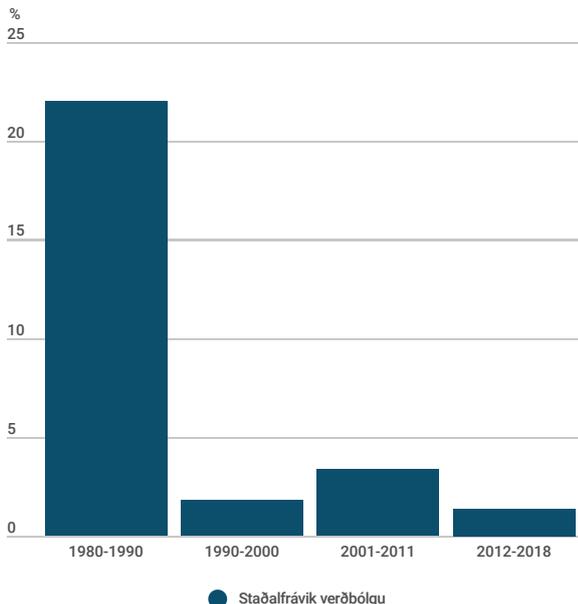
# Árangursrík hagstjórn getur því minnkað óvæntar breytingar í lífi fólks ...



Breytileiki einkaneyslu 1980-2018



Verðbólga 1980-2018



## ... og skapað umhverfi þar sem minni líkur eru á fátækt



Verðstöðugleiki viðheldur stöðugum kaupmætti og minnkar líkur á tekjumissi í niðursveiflu



Efnahagslegur stöðugleiki tryggir stöðuga atvinnu og minnkar líkur á atvinnuleysi



Trúverðugleiki peningastefnunnar leiðir til lægri vaxta og bætir hag þeirra sem skulda



Fjármálastöðugleiki minnkar líkur á fjárhagslegum erfiðleikum og skuldavandræðum



Góð hagstjórn skapar öryggi sérstaklega fyrir þá sem eru í lægstu tekjuþrepunum



Árangursrík peningastefna skiptir því miklu fyrir almenna velferð og minnkar líkurnar á fátækt



Mistök í hagstjórn eru dýrkeypt fyrir hina tekjulægstu

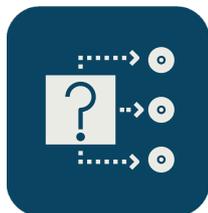
## Viðhorf til ójöfnuðar

- **Nytjahyggja** (e. utilitarianism): Tekjutilfærsla á að miða að því að jafna tekjur allra samfélagsþegna til þess að hámarka heildarvelferð
- **Frjálsslyndi** (e. liberalism): Tekjutilfærsla á aðeins að beinast til þeirra sem eru verst staddir í samfélaginu og hámarka velferð þeirra
- **Frjálshyggja** (e. libertarianism): Jöfnun tækifæra er mikilvægari en jöfnun tekna

## Greining á orsakabáttum og sértækar aðgerðir



Viðmið um  
fátækt



Staðfesta  
orsakasamhengi



Skilgreina  
markmið út frá  
áhrifaþáttum



Sértækar  
aðgerðir sem  
miða að hverjum  
áhrifaþætti

## Vægur samdráttur og verðbólga við markmið Hvað hefur breyst?



Erindi hjá Samiðn  
19. nóvember 2019

Rannveig Sigurðardóttir  
Aðstoðarseðlabankastjóri Seðlabanka Íslands

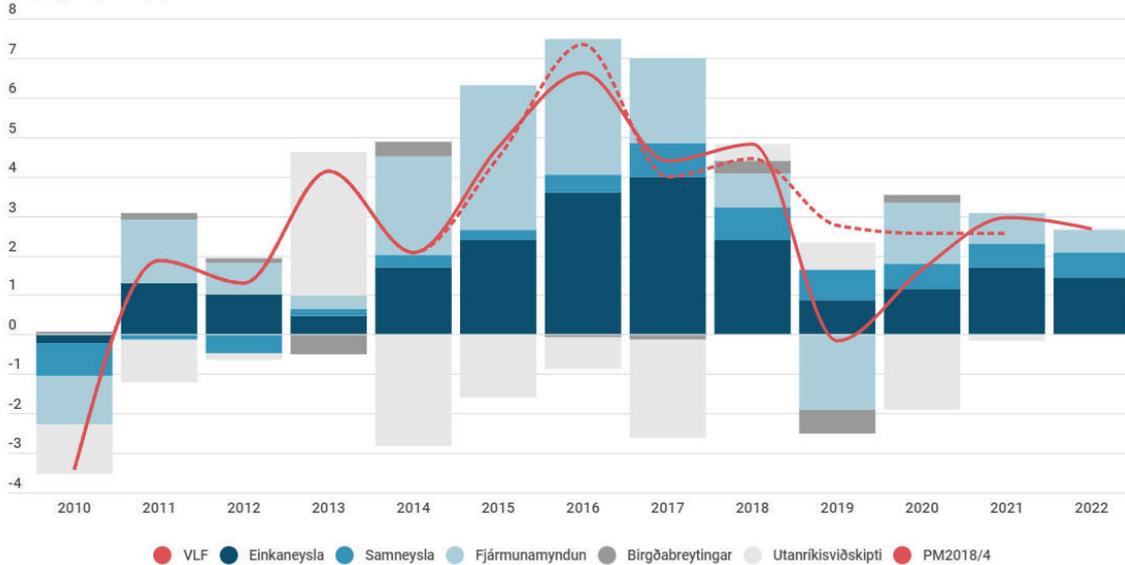


## Staða og horfur í efnahagsmálum

## Hratt dregur úr hagvexti eftir mikinn vöxt síðustu ára en gert ráð fyrir að hagkerfið taki við sér á ný á næsta ári

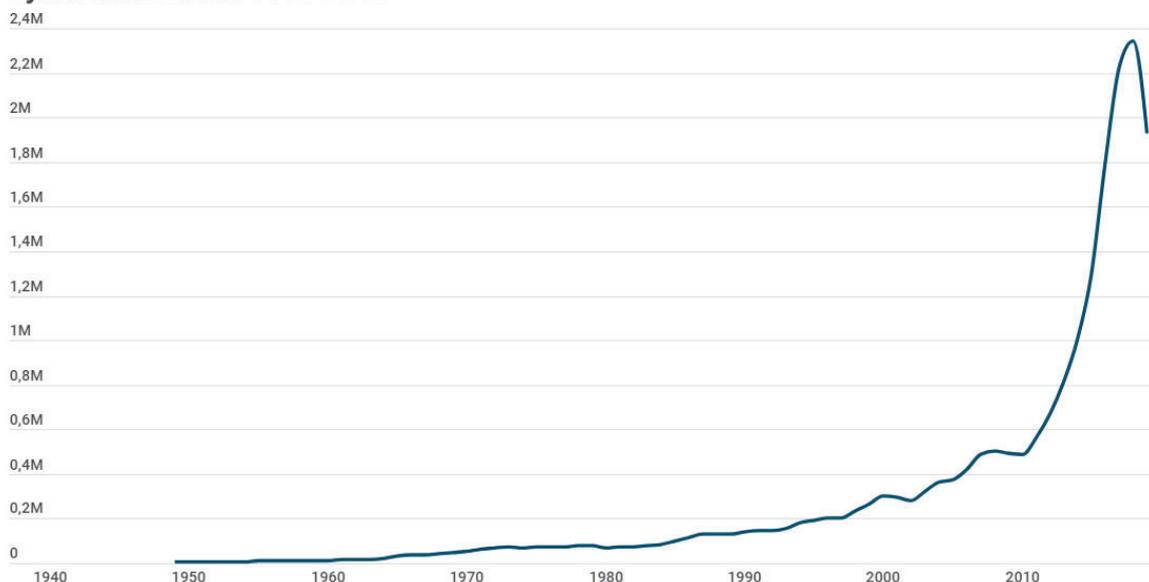
### Hagvöxtur og framlag undirliða 2010-2022

Breyting frá fyrra ári (%)



## Gert ráð fyrir 18% fækkun ferðamanna í ár í kjölfar áfalla í fluggeiranum

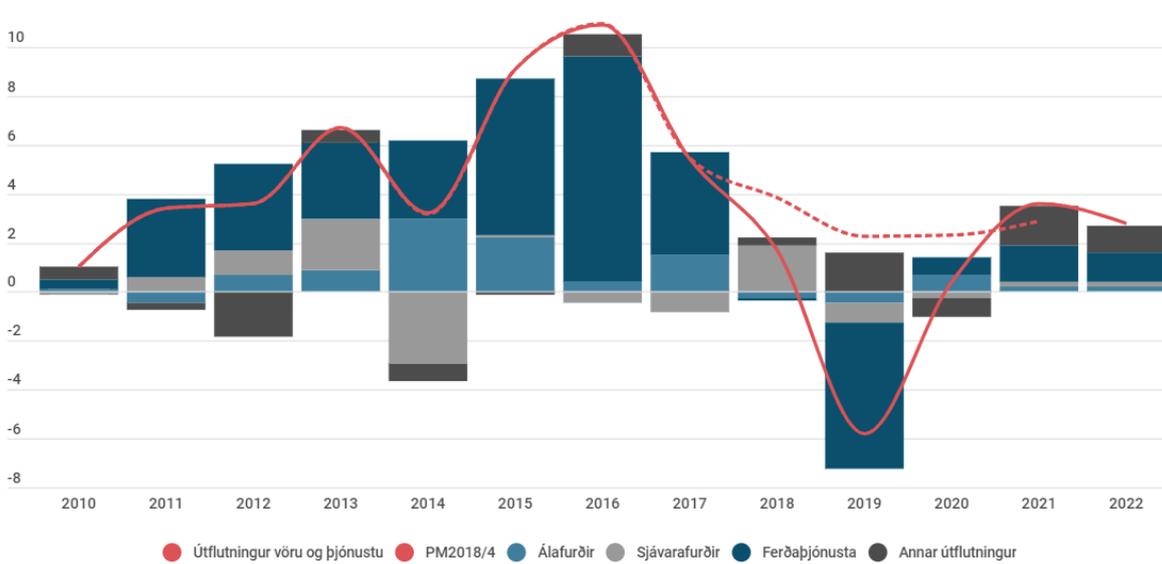
### Fjöldi ferðamanna 1949-2019



# Samdráttur í flestum útflutningsgreinum

## Útflutningur og framlag undirliða 2010-2022

Breyting frá fyrra ári (%)

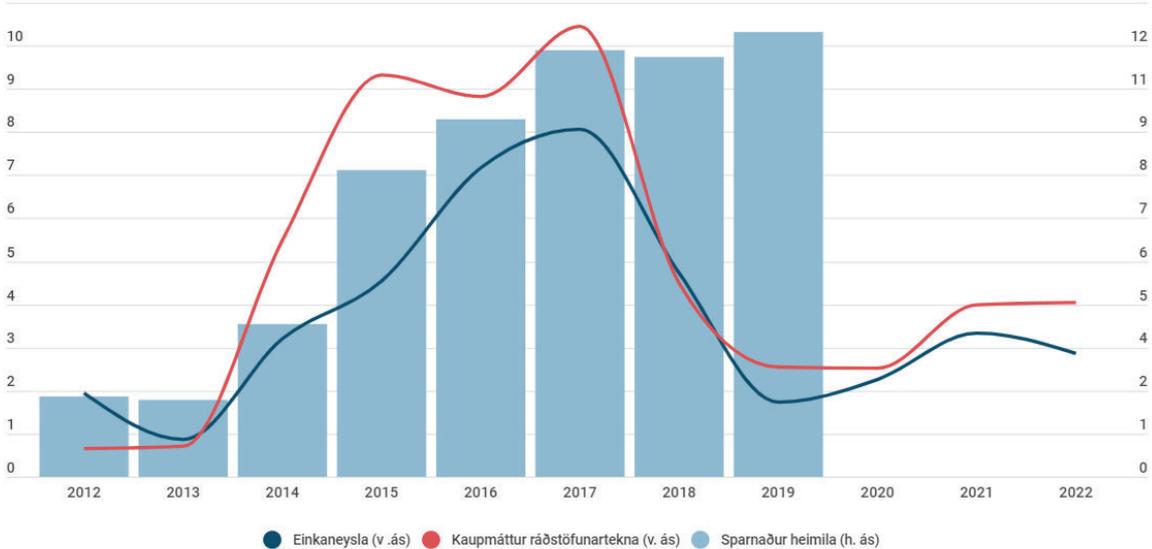


# Dregið hefur úr vexti einkaneyslu líkt og búist var við

## Einkaneysla og ráðstöfunartekjur 2012-2022

Breyting frá fyrra ári (%)

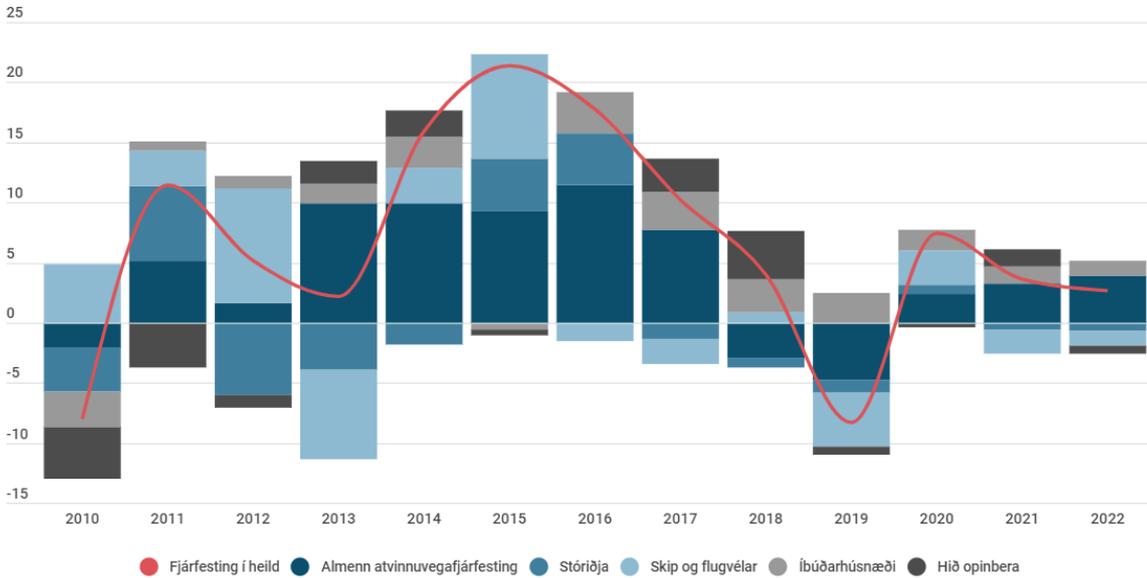
% af ráðstöfunartekjum



# Allir undirþættir atvinnuvegafjárfestingar dragast saman milli ára

## Fjármunamyndun og framlag undirliða 2010-2022

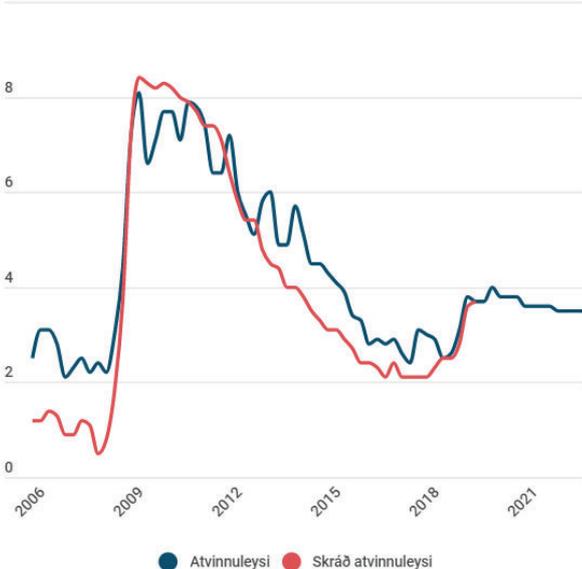
Breyting frá fyrra ári (%)



# Störfum hefur fækkað og atvinnuleysi aukist

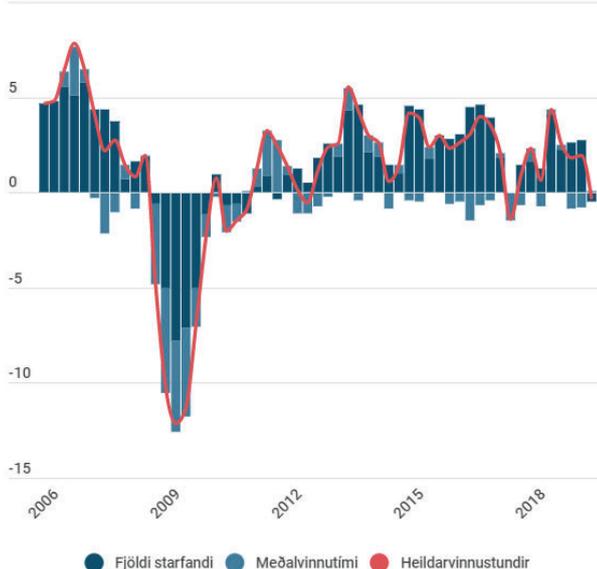
## Atvinnuleysi 2006-2022

% af vinnuafli



## Atvinna og vinnutími 2006-2019

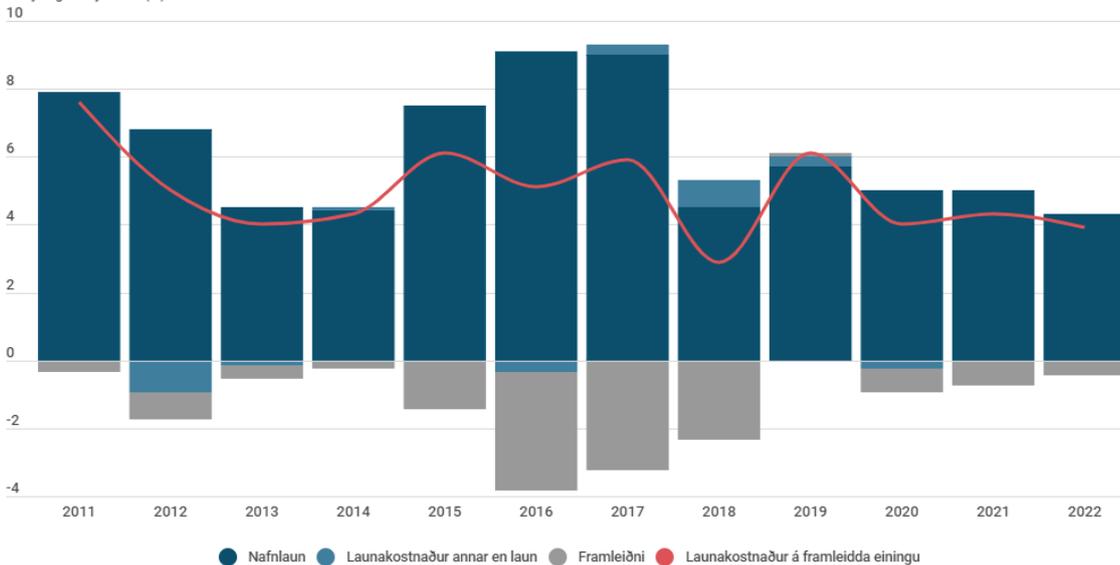
Breyting frá ári (%)



# Spáð er um 4% hækkun launakostnaðar á framleidda einingu á ári næstu þrjú ár

## Launakostnaður á framleidda einingu og framlag undirliða 2011-2022

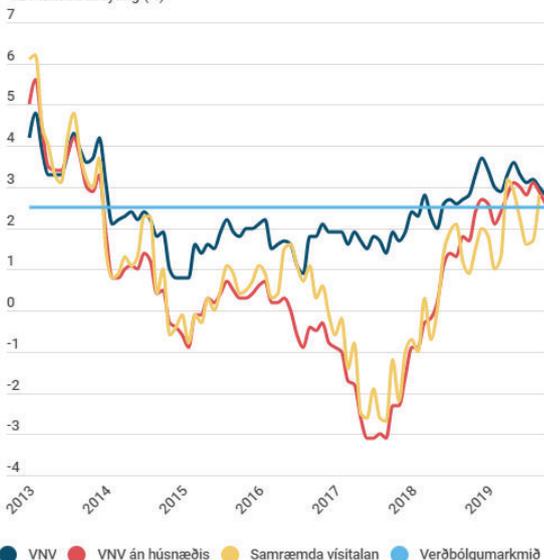
Breyting frá fyrra ári (%)



# Mæld verðbólga í markmið á fjórðungnum og innflutt verðbólga hefur hjaðnað á ný

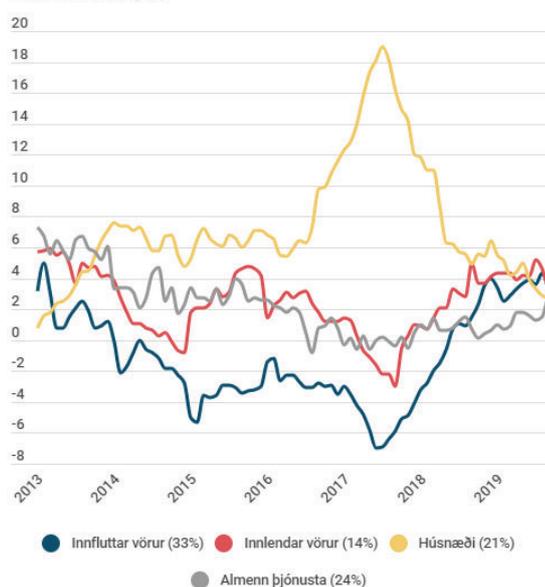
## Verðbólga á ýmsa mælikvarða

12 mánaða breyting (%)



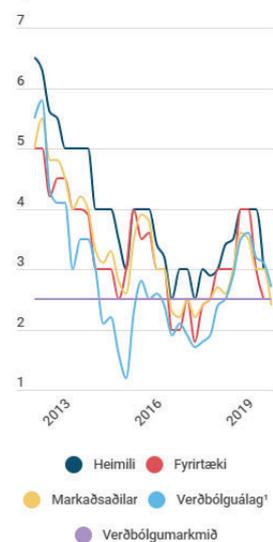
## Innflutt og innlend verðbólga

12 mánaða breyting (%)

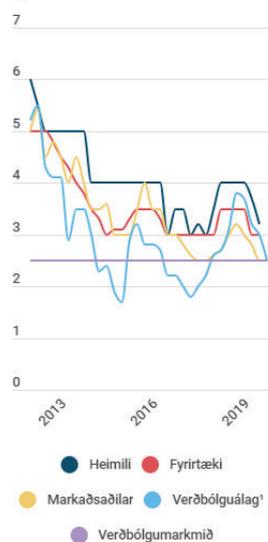


# Verðbólguvæntingar í markmið á flesta mælikvarða

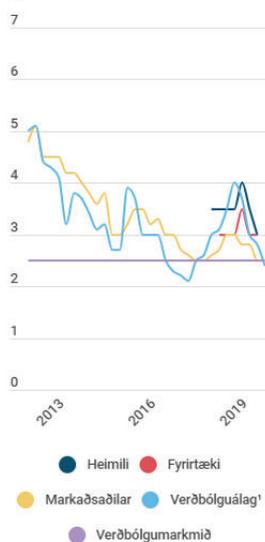
Verðbólguvæntingar til 1 árs



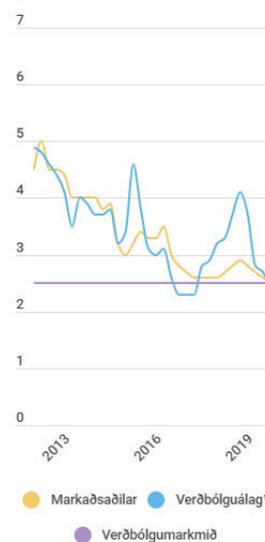
Verðbólguvæntingar til 2 ára



Verðbólguvæntingar til 5 ára



Verðbólguvæntingar til 10 ára

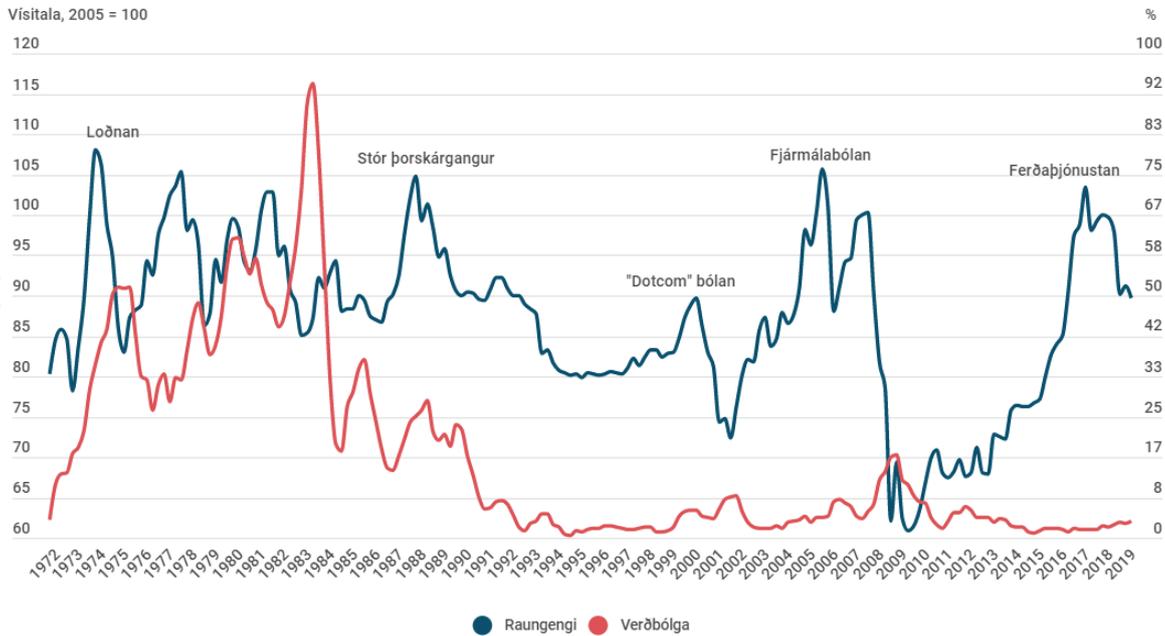


## Hvað hefur breyst?

# Niðursveifla án gengisfalls og verðbólgu?

## Raugengi og verðbólga 1972-2019

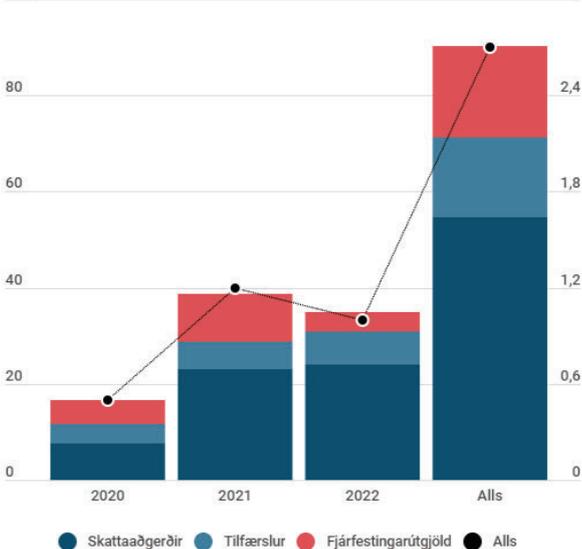
Vísitala, 2005 = 100



# Ríkisfjármálastefnan vegur á móti áföllum

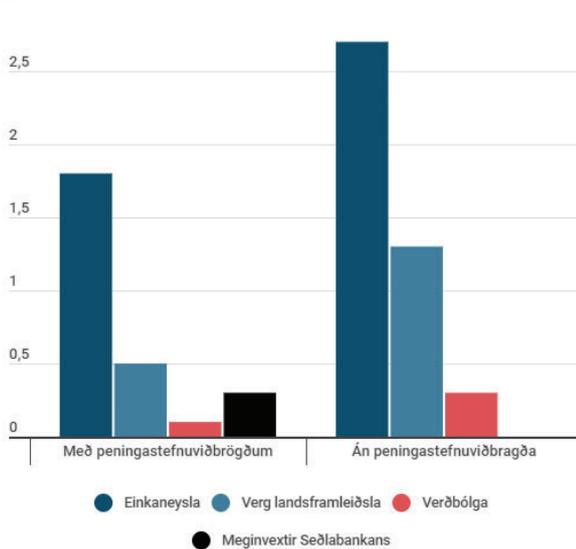
## Aðgerðir í ríkisfjármálum 2020-2022

Má.kr. 100 % of GDP 3



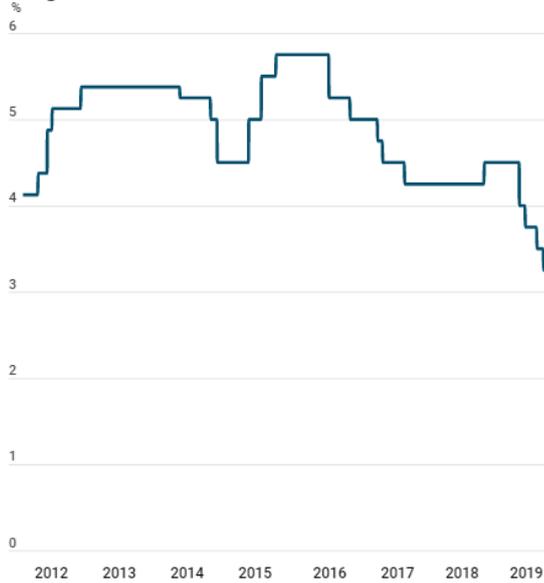
## Efnahagsleg áhrif aðgerða í ríkisfjármálum

Frávik frá grunnspá 3

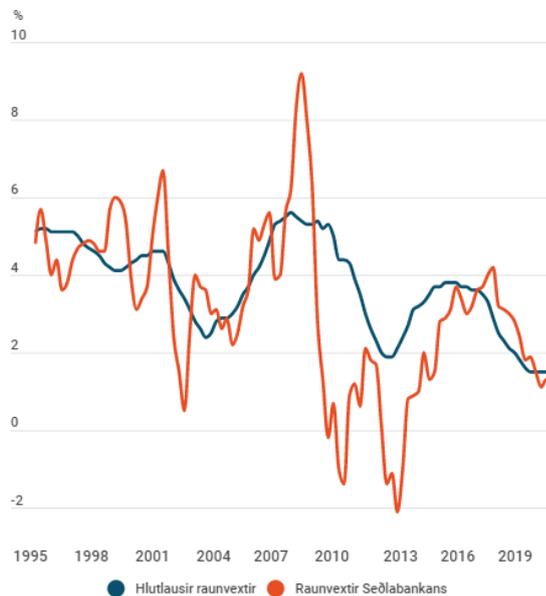


# Vextir bankans aldrei hafa aldrei verið lægri

Meginvextir Seðlabankans

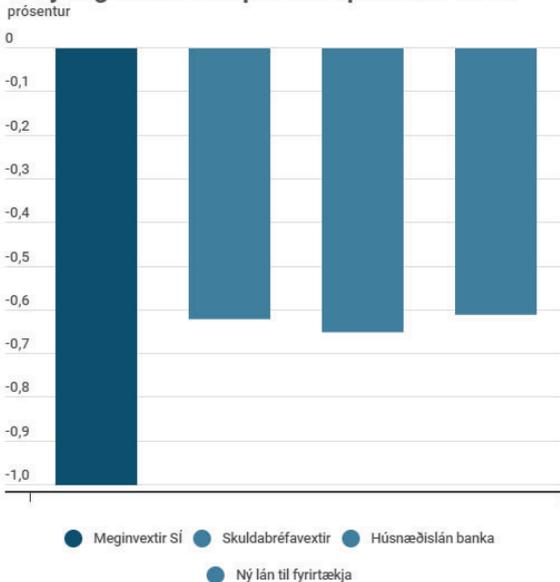


Hlutlausir raunvextir Seðlabanka Íslands

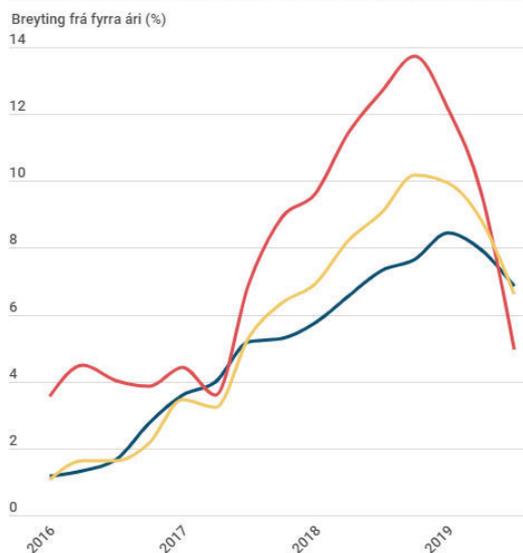


# Vaxtalækkarnir hafa stutt við eftirspurn en lánsaðgengi þrengist á sama tíma

Breyting vaxta frá apríl til september 2019



Útlán lánakerfisins til innlendra aðila 2016-2019



# Raunverð húsnæðis stendur nánast í stað milli ára en þróunin á næstunni er háð óvissu

## Raunhækkun íbúðaverðs

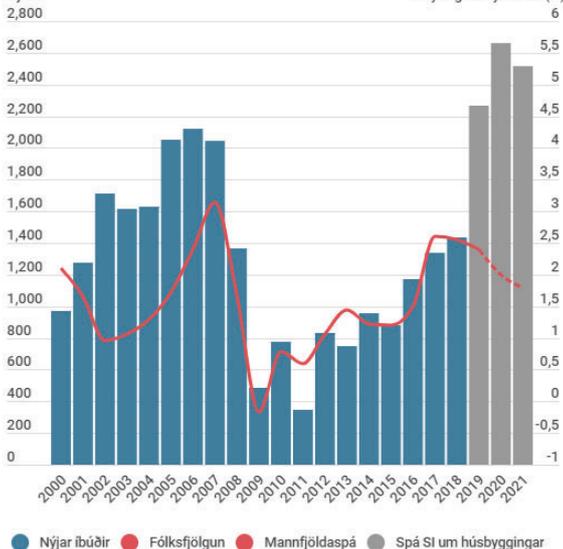
Breyting frá fyrra ári (%)



## Fjöldi nýbygginga og fólksfjölgun á höfuðborgarsvæðinu

Fjöldi

Breyting frá fyrra ári (%)

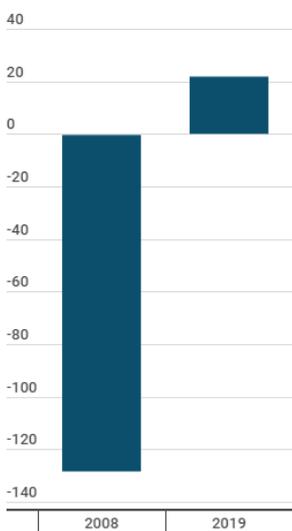


● Nýjar íbúðir ● Fólksfjölgun ● Mannfjöldaspá ● Spá SI um húsbyggingar

# Viðnámsþróttur þjóðarbúsins allt annar en í aðdraganda síðustu niðursveiflu

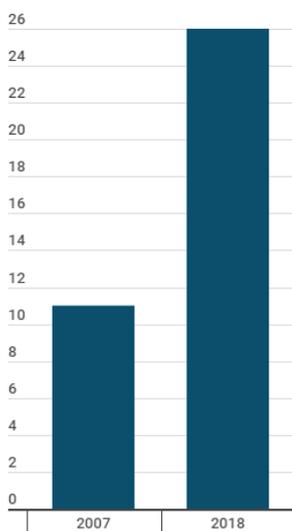
## Hrein erlend staða

% af VLF



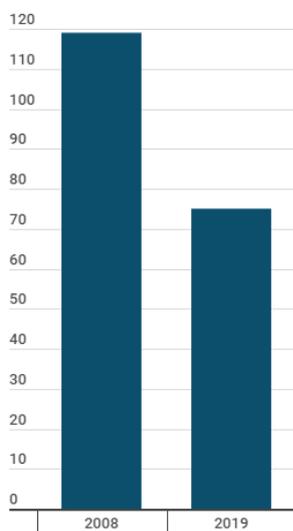
## Gjaldeyrisforði

% af VLF



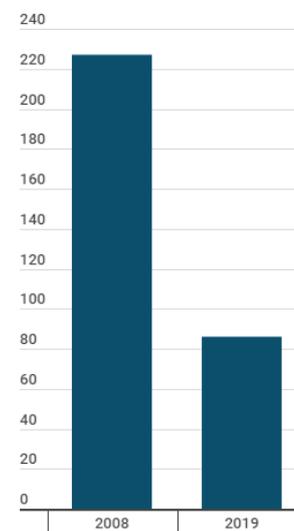
## Skuldir heimila

% af VLF



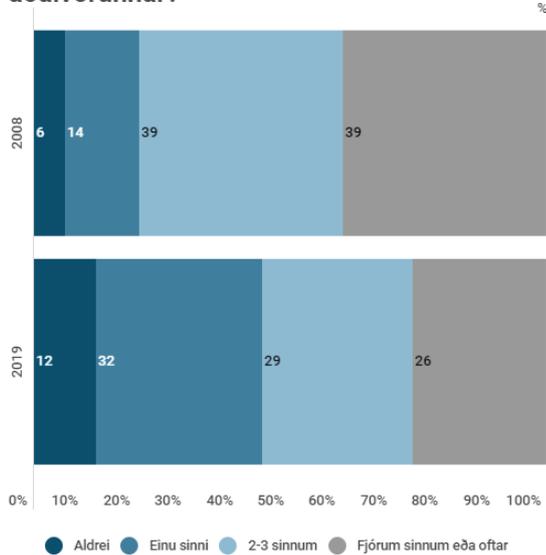
## Skuldir fyrirtækja

% af VLF

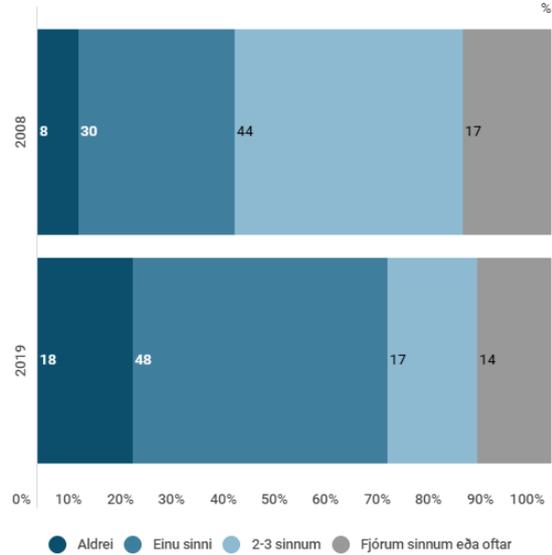


## Dregið hefur úr tíðni verðbreytinga fyrirtækja ...

Hversu oft á sl. 12 mánuðum athugaði fyrirtæki þitt hvort ástæða væri til þess að breyta verði aðalvörunnar?

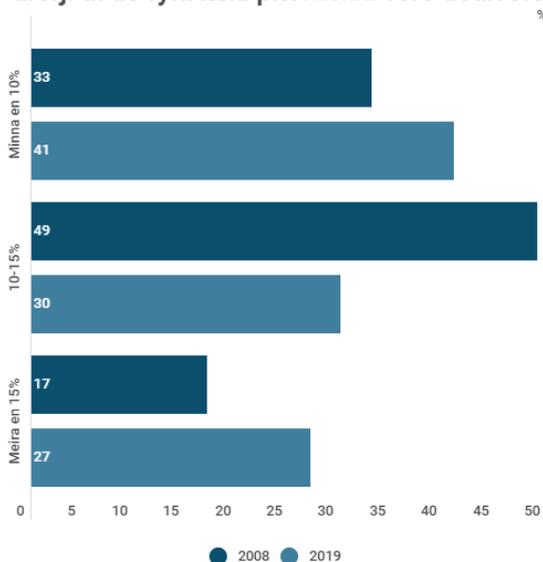


Hversu oft á sl. 12 mánuðum breytti fyrirtæki þitt verði aðalvörunnar?

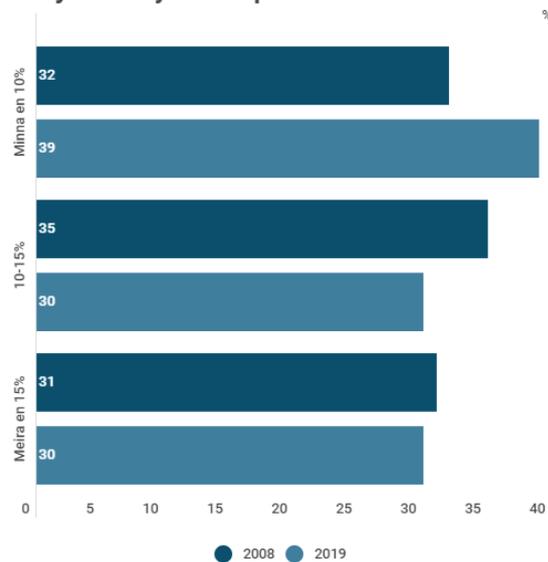


## ... og áhrif gengisbreytinga á verð virðast samhverfari

Hvað þarf gengi krónunnar að lækka mikið á einum ársfj. til að fyrirtæki þitt **hækki** verð aðalvörunnar?



Hvað þarf gengi krónunnar að hækka mikið á einum ársfj. til að fyrirtæki þitt **lækki** verð aðalvörunnar?



## Peningamál í hnotskurn



Alþjóðleg viðskiptadeila eykur á svart-sýni og dregur úr hagvexti



Samdráttur í fluggeiranum á stóran þátt í útflutnings-samdrætti



Hliðrun eftirspurnar í átt að innlendri framleiðslu



Störfum tekið að fækka og atvinnuleysi hefur aukist frá ársbyrjun



Vægur samdráttur í ár en hægfara bati frá næsta ári



Verðbólga í markmið í lok árs en þrálátari undirliggjandi verðbólga



Ritið í heild



Kynning aðalhogfræðings



Power Point myndir



Myndagögn



Tíst



Skýringarmyndband bankastjóra

# Hundrað ára hagstjórn

Hvað höfum við lært og hvernig munum við standa okkur betur?



Málþing um hagstjórn  
21. nóvember 2019  
Hagfræðistofnun Háskóla Íslands  
Seðlabanki Íslands

Ásgeir Jónsson  
seðlabankastjóri



## Tíu lærdómar úr íslenskri peningasögu Hundrað ára einsemd



## Lærdómur 1:

### Að fylgja leikreglum skiptir meira máli en hvaða leikur er valinn

- Röng peningastefna er ekki ástæða þess að Íslendingar hafa meira og minna búið við óstöðugleika og verðbólgu frá fullveldi
- Ástæðan er sú að leikreglum hefur ekki verið fylgt varðandi beitingu viðeigandi hagstjórnartækja og viðhalds almenns efnahagslegs stöðugleika
- Það hefur orðið til þess að hver peningastefna sem hefur verið í gildi hefur molnað í sundur og þjóðin búið við þrálátan óstöðugleika
- Ísland er ekki einsdæmi, sbr. gullfóturinn, Bretton Woods, evrusamstarfið
- Frávik frá leikreglum er þó meira á Íslandi en annarsstaðar. Þjóðin hefur ekki reynt að fylgja þeim reglum sem peningastefnan krefst af henni



## Lærdómur 2:

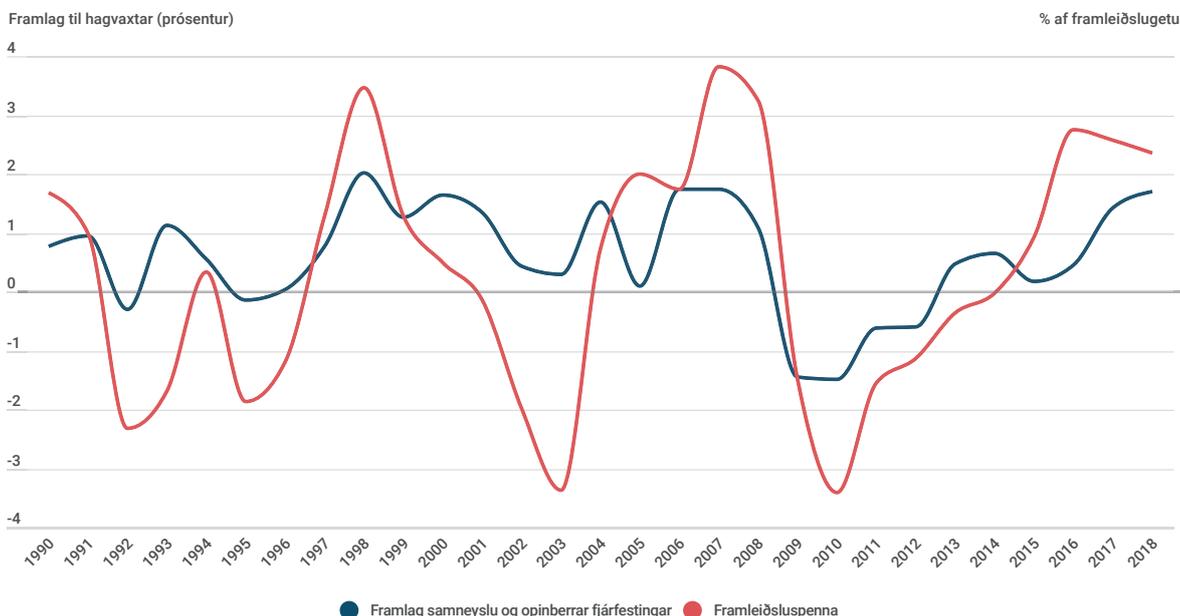
### Hagstjórnin þarf pólitískan stuðning

- Íslenskt flokkakerfi byggðist á stéttabaráttu - þar sem önnur pólitísk markmið hafa haft forgang yfir það verkefni að viðhalda efnahagslegum stöðugleika
- Seðlabanki landsins hafði ekki pólitískt umboð til beitingar stýrivaxta – fyrr en við byrjun 21. aldar
- Ríkisfjármálum hefur ekki verið beitt til þess að viðhalda stöðugleika
- Gengur gegn hagsmunum þjóðarinnar – hinn þjóðfélagslegi kostnaður birtist í:
  - Víðtækri haftasetningu á árunum 1931-1960
  - Óðaverðbólga á árunum 1971-1989
  - Kollsteypum árin 2001 og 2008
- Seðlabankinn hefur yfirleitt staðið nánast einn og óstuddur í baráttu sinni gegn verðbólgu. Ný lög um opinber fjármál hafa þó bætt úr skák



## Lærdómur 2: Hagstjórnin þarf pólitískan stuðning

### Hagsveifluaukandi áhrif samneyslu og opinberrar fjárfestingar til hagvaxtar 1990-2018



## Lærdómur 3: Stöðugleiki á vinnumarkaði er undirstaða verðstöðugleika

- Hér á landi hafa nafnlaun jafnan hækkað á mun meiri hraða en getur samrýmst eðlilegum vexti kaupmáttar
- Kaupmáttur stafar af framleiðni – hver vinnustund skilar auknu verðmæti - að baki framleiðninni eru t.a.m. tæknibreytingar, bætt menntun og góðar félagslegar undirstöður
- Þegar litið er til lengri tíma er hægt að búast við 1-2% framleiðniaukningu á ári og kaupmáttur hefur almennt vaxið í samræmi við það að meðaltali
- Nafnlaunahækkunar umfram þetta mark skila aðeins verðbólgu
- Í litlu og opnu hagkerfi er stór hluti neysluvara innfluttur. Hægt er að ná fram kaupmáttarstökkum ef þróun viðskiptakjara og útflutnings er mjög hagstæð – en slíkar aðstæður eru jafnan skammvinnar
- Launahækkunar umfram framleiðni hljóta að rýra samkeppnishæfni landsins og draga úr útflutningi en á sama tíma hvetja til innflutnings. Afleiðingin er viðskiptahalli sem verður að fjármagna með erlendum lántökum



## Lærdómur 3:

### Stöðugleiki á vinnumarkaði er undirstaða verðstöðugleika

Árið 1980 flutti Jónas Haralz, þá bankastjóri Landsbankans, erindi hjá Félagi viðskiptafræðinga og hagfræðinga um ástæður þess af hverju Ísland væri svona mikið verðbólgu­land:

- Sveiflur í sjávarútvegi sem reglulega kölluðu á gengisfellingar
- Deilum um skiptingu þjóðarkökunnar þar sem verðbólgan væri „eins konar gerðardómur í félagslegri togstreitu“
- Jónas vísaði þannig til þess að markmið kjarasamninga hefði löngum verið það að viðhalda launabili á milli stétta. Stéttirnar ósammála um hvað launabilið ætti að vera sem veldur „höfrungahlaupi“ þar sem skipst er á að berja fram „launaleiðréttingar“
- Afleiðing þessarar togstreitu birtist síðan með miklum nafnlaunahækkunum sem hagkerfið hlaut að létta sér með verðbólgu og lækkun raunlauna – oft eftir mikla lækkun gengisins
- Ef Jónas Haralz hefur rétt fyrr sér er það stéttaspenna sem er hin upprunalega orsök verðbólgunnar – eða að Íslendingar séu ekki sammála um hvert launabilið eigi að vera á milli hinna ýmsu þjóðfélagshópa

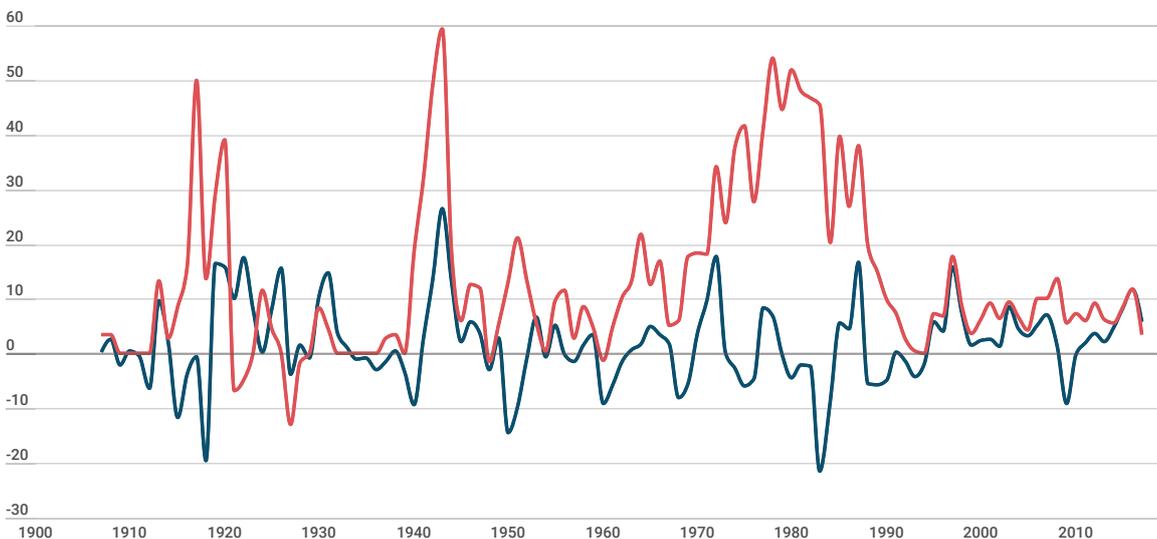


## Lærdómur 3:

### Stöðugleiki á vinnumarkaði er undirstaða verðstöðugleika

#### Þróun lágmarkstaxta og kaupmáttar 1907-2017

Breyting milli ára (%)



● Kaupmáttur lágmarkstaxta ● Lágmarkstaxti (nýkr.)



## Lærdómur 4:

### Íslendingar þrá stöðugt gengi en hafa ekki úthaldið sem þarf

- Landsmenn hafa yfirleitt tekið beinan eða óbeinan þátt í því fastgengissamstarfi sem hefur verið í boði á hverjum tíma í Vestur-Evrópu
- Gengishreyfingar hafa gríðarlega víðtæk áhrif á allt samfélagið en geta þjónað góðum þjóðhagslegum tilgangi ef þær eru í takti við gang hagsveiflunnar
- Sveigjanlegt gengi getur til dæmis mykt áhrif breytinga í útflutningstekjum á efnahagslífið – líkt og sú hækkun sem fylgdi vexti ferðaþjónustunnar og sú lækkun sem átti sér stað í fyrra
- Þjóðin hefur ekki getað staðið við þá efnahagsstefnu sem er nauðsynleg til þess að fastgengi haldi. Genginu hefur því gjarnan verið viðhaldið með höftum
- Allar uppsveiflur frá seinna stríði hafa endað með ofhitnun hagkerfisins og miklum kostnaðarhækkunum með tilheyrandi gengisfalli og verðbólgu
- Fastgengi er aðeins mögulegt með nýjum háttum við hagstjórn

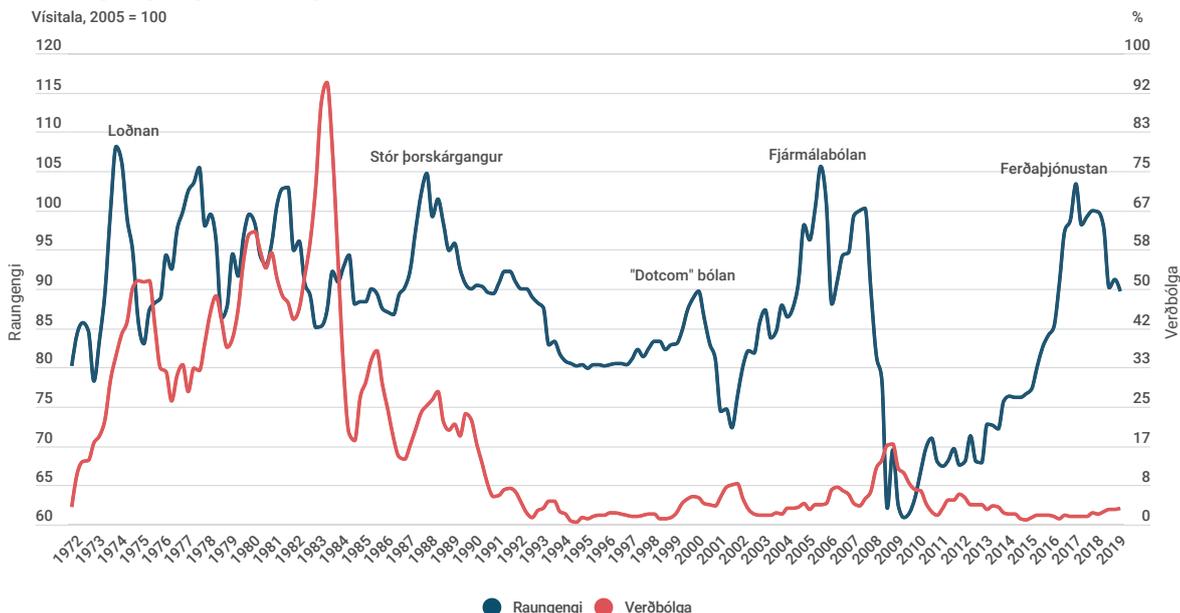


## Lærdómur 4:

### Íslendingar þrá stöðugt gengi en hafa ekki úthaldið sem þarf

#### Raugengi og verðbólga 1972-2019

Vísitala, 2005 = 100





## Lærdómur 5:

### Greiðslujöfnuður er öxull íslenskrar hagstjórnar

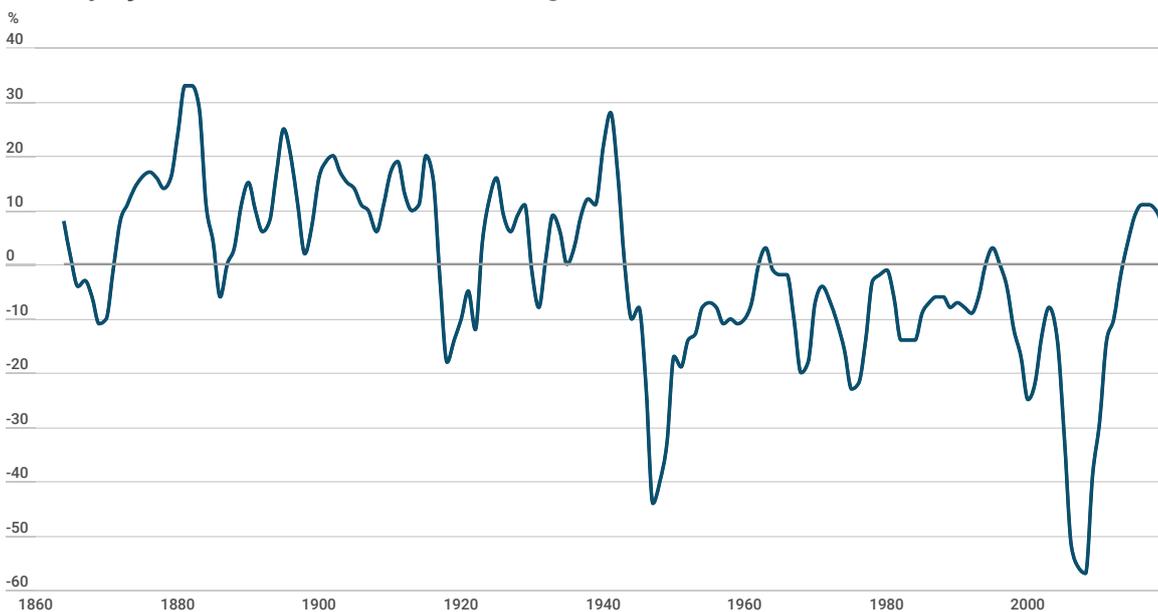
- Greiðslujöfnuður Íslands hefur verið mjög sveiflukennður af tveimur sökum:
  - Einhæfar útflutningsgreinar
  - Vöxtur innlendrar eftirspurnar kemur fram í miklum innflutningi
- Niðurstaðan verður viðskiptahalli sem þarf að fjármagna með:
  - Erlendum lántökum
  - Eða sölu úr gjaldeyrisforðanum
  - Annars hlýtur gengi krónunnar að lækka
- Fjármagnsinnflutningur leiðir oft til þenslu, eignabólu og mikils viðskiptahalla Skapar töluverð vandamál fyrir íslenska peningastjórnun
- Seðlabankinn verður að hafa áhrif á þróun greiðslujafnaðar til þess að geta tryggt stöðugleika í verðlagi og efnahagslífi og framfylgd peningastefnu sinnar. Hann getur gert það með því að:
  - Beita innflæðishöftum
  - Beita gjaldeyrisforðanum
  - Beita þjóðhagsvarúðartækjum til þess að hafa hemil á skuldsetningu og útlánamyndun



## Lærdómur 5:

### Greiðslujöfnuður er öxull íslenskrar hagstjórnar

Viðskiptajöfnuður sem hlutfall af útflutningi 1864-2019





## Lærdómur 6:

### Fjármálastöðugleiki hlýtur að vera annað markmið Seðlabankans

- Í aðdraganda fjármálakreppunnar stóð peningastefnan frammi fyrir óviðráðanlegu verkefni:
  - Mikill vaxtamunur við útlönd,
  - 20-30% viðskiptahalli sem var fjármagnaður með erlendum lántökum
  - Vaxtamunarviðskipti erlendra aðila
- Tilraunir til að ná fram lögboðnu markmiði um verðstöðugleika með stýrivextina eina að vopni urðu til þess að grafa undan fjármálastöðugleika
- Kostnaðurinn vegna fallsins varð mun meiri en ella vegna þess mikla ójafnvægis sem hafði skapast í greiðslujöfnuði árin á undan
- Gjaldeyrisáhætta reis upp fyrir öll mörk
- Eftirköstin fólust annars vegar í gríðarlegum skuldavandræðum heimila og fyrirtækja vegna gengisbundinna lána og því erfiði að losa „snjóhengjuna“ eða 650 milljarða króna eftirstöðvar vaxtamunarviðskiptanna

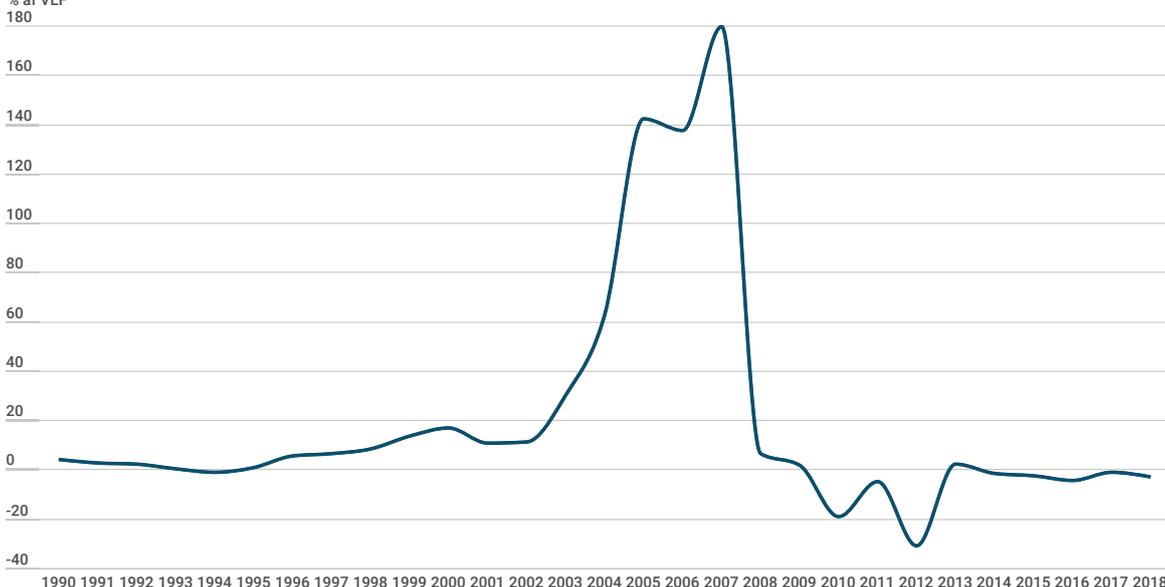


## Lærdómur 6:

### Fjármálastöðugleiki hlýtur að vera annað markmið Seðlabankans

#### Fjármagnsflæði 1990-2019

% af VLF





## Lærdómur 7:

### Þjóðhagsvarúð er grundvöllur peningastefnu til framtíðar

- Sagt er að kreppan mikla hafi orðið til þess að þjóðhagfræði varð að sérstakri grein innan hagfræðinnar
- Sömuleiðis varð fjármálakreppan til þess að þjóðhagsvarúð varð sérstök grein innan hagfræðinnar
- Þjóðhagsvarúð miðar að því að viðhalda fjármálastöðugleika sem er erfitt að mæla með meginlegum leiðum ólíkt verðstöðugleika
- Eitt vandamál frjálsra fjármagnsflutninga felst í því þegar mikið innflæði fjármagns veldur útlána- og eignabólu – sem síðan kemur efnahagslífinu í uppnám
- Beiting þjóðhagsvarúðar getur skarast á við hefðbundna peningastefnu eða skerpt bit hennar með því að hafa hemil á þróun útlána fjármálastofnana. Beiting þjóðhagsvarúðar er sá vettvangur sem býður upp á mesta möguleika til þess að bæta íslenska peningamálastjórn



## Lærdómur 7:

### Þjóðhagsvarúð er grundvöllur peningastefnu til framtíðar

#### Útlán lánakerfisins 2002-2019

Breyting frá fyrra ári (%)





## Lærdómur 8: Höft rýra velferð

- Hin þrálátu vandamál í greiðslujöfnuði þrýstu ávallt lengra á háskabraut hafta og ríkisafskipta á árunum 1930-1960 - það var ekki fyrr en árið 1994 – við inngöngu í EES – að undið hafði verið ofan af þessu
- Setning hafta felur þó ekki endilega í sér raunverulega lokun fjármagnsviðskipta – þau halda áfram og samhengið á milli utanríkisviðskipta og fjármagnsjafnaðar er áfram hið sama - en höftin aftur á móti stjórnmalavæða fjármagnsviðskiptin
- Setning fjármagnshafta á nýjan leik árið 2008 var neyðarráðstöfun – og færa má rök fyrir því að hún hafi verið nauðsynleg í endurreisnarstarfinu - en leiði svo til ýmissa galla þegar frá líður
- Virkni peningastefnunnar byggir að einhverju leyti á því að tryggja ákveðna stjórn á fjármagnsjöfnuðinum - hægt að takmarka frjálst fjármagnsflæði með þjóðhagsvarúðarreglum
- Hins vegar felst gríðarlegur ábati í alþjóðlegri samþættingu íslensks fjármagnsmarkaðar - hún skilar lægri langtíma vöxtum og tryggir nauðsynlega áhættudreifingu



## Lærdómur 9: Árangur felst í því að forgangsraða markmiðum

- Skortur á forgangsröðun við þjóðhagslega markmiðasetningu – talið að hægt sé að ná fleiri markmiðum samtímis en mögulegt er
- Beiting hagstjórnartækja að eigin geðþótta leiddi til verðbólgu, atvinnuleysis og óstöðugleika. Röng nálgun eða misbeiting peningastefnunnar getur valdið miklum skaða í efnahagslífinu og peningastefnan getur ekki ein og óstudd tryggt stöðugleika í efnahagslífinu
- Það sem peningastefnan getur gert er að tryggja verðstöðugleika innan ákveðins ramma - framfylgd annarra markmiða veltur á öðrum þáttum í efnahagslífinu
- Fórnarskipti eru á milli markmiða til skemmri tíma – svo sem hvað varðar verðbólgu og atvinnuleysi. Þjóðir geta haft mismunandi viðhorf gagnvart verðbólgu og öðrum þáttum
- Eftir því sem segir í almannavalsfræðum eiga stjórnmalamenn við ákveðinn skuldbindingarvanda að etja þegar kemur að stórum, erfiðum og mögulega óvinsælum ákvörðunum



## Lærdómur 10:

### Verðbólguþolmið ætti að ganga upp á Íslandi

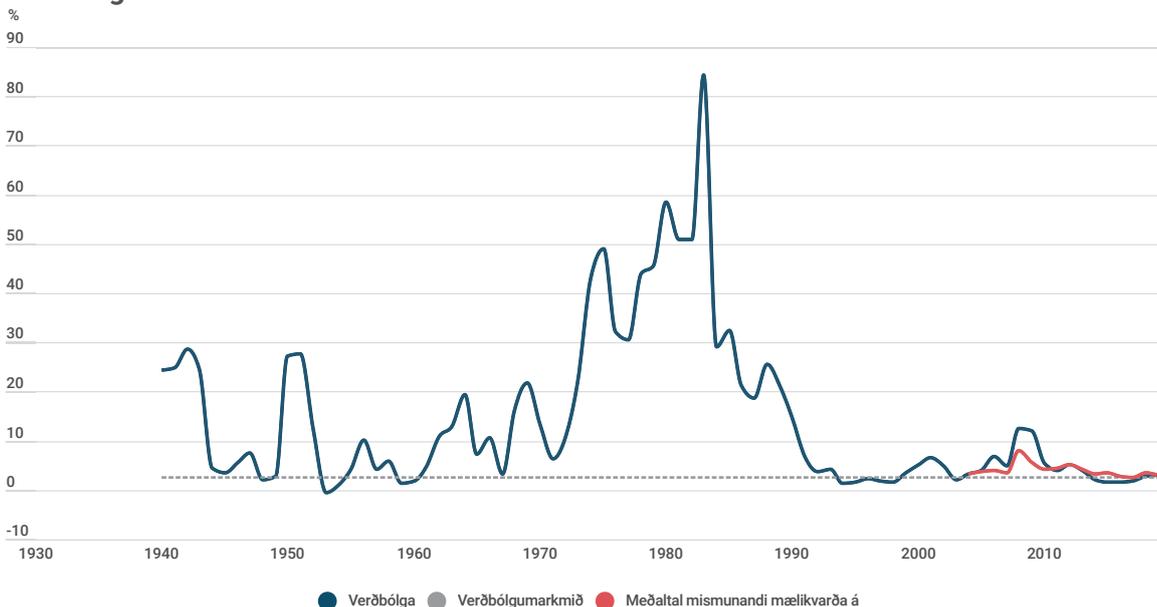
- Ísland býr við mörg sérkenni sem ljóst er að gera peningamálastjórnun erfiða, sögu og landfræðileg sérkenni sem verður ekki breytt en þau eru ekki meginvandamálið
- Vandamálin eru stofnanaleg, pólitísk og jafnvel samfélagsleg: ákvarðanataka í ríkisfjármálum, framkvæmd kjarasamninga og almenn þjóðfélagssátt - á öðrum Norðurlöndum hefur heppnast að fara eftir leikreglunum
- Leikreglur verðbólguþolmiðs ættu að henta lýðræðisfyrirkomulagi vel – þau gera kröfur um gagnsæi og opinbera ábyrgð og ekki verður séð hvers vegna það ætti ekki að geta gengið upp héraðs – ef það næst sátt
- Stofnanaumbætur á framkvæmd peningastefnunnar fram til þessa hafa sannanlega skilað árangri: ljóst er að sú breyting að fela vaxtaákvarðanir sérstakri peningastefnunefnd hafi aukið trúverðugleika við stjórn peningamála
- Það er einnig efalaust að beiting þjóðhagsvarúðar með markvissum hætti á síðustu árum hefur orðið til þess að styrkja peningastefnuna í sessi. Sama á við um nýja lagaumgjörð í opinberum fjármálum sem að einhverju leyti hafa haldið aftur af aukningu ríkisútgjalda



## Lærdómur 10:

### Verðbólguþolmið ætti að ganga upp á Íslandi

Verðbólga 1940-2019



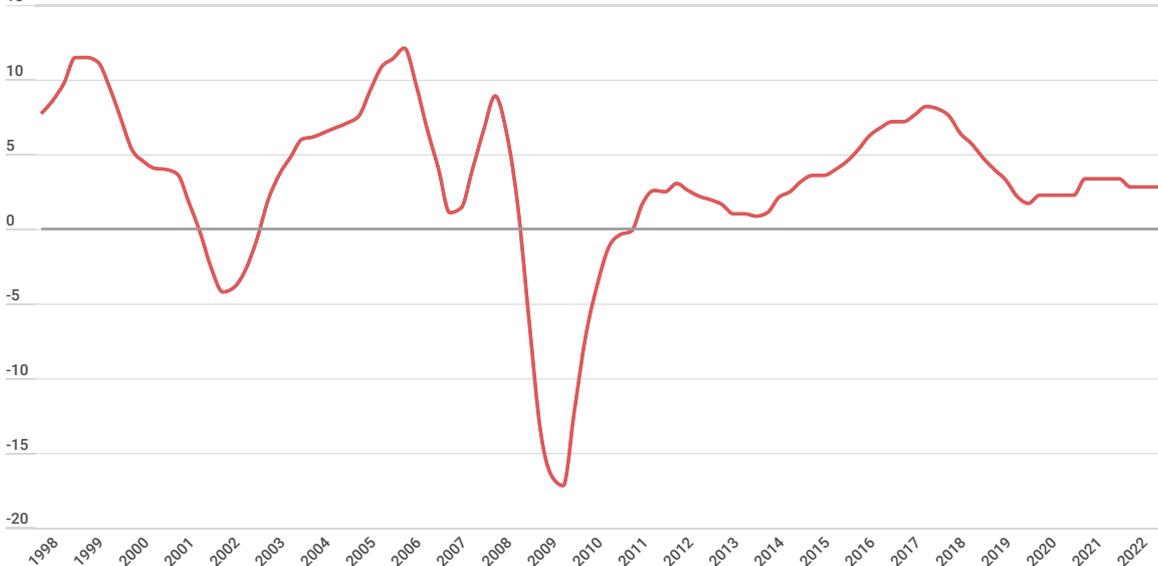
# Samkeppnishæfni nýja Íslands



## Fyrsta niðursveiflan þar sem ekki er búist við samdrætti í einkaneyslu

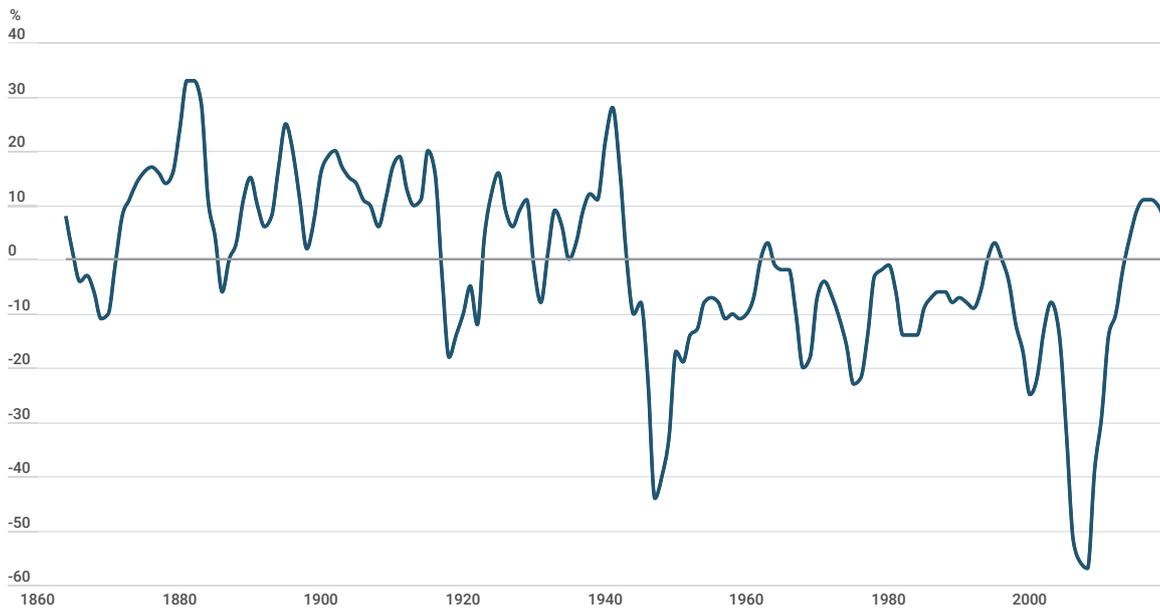
### Einkaneysla 1998-2022

Breyting frá fyrra ári (%)  
15



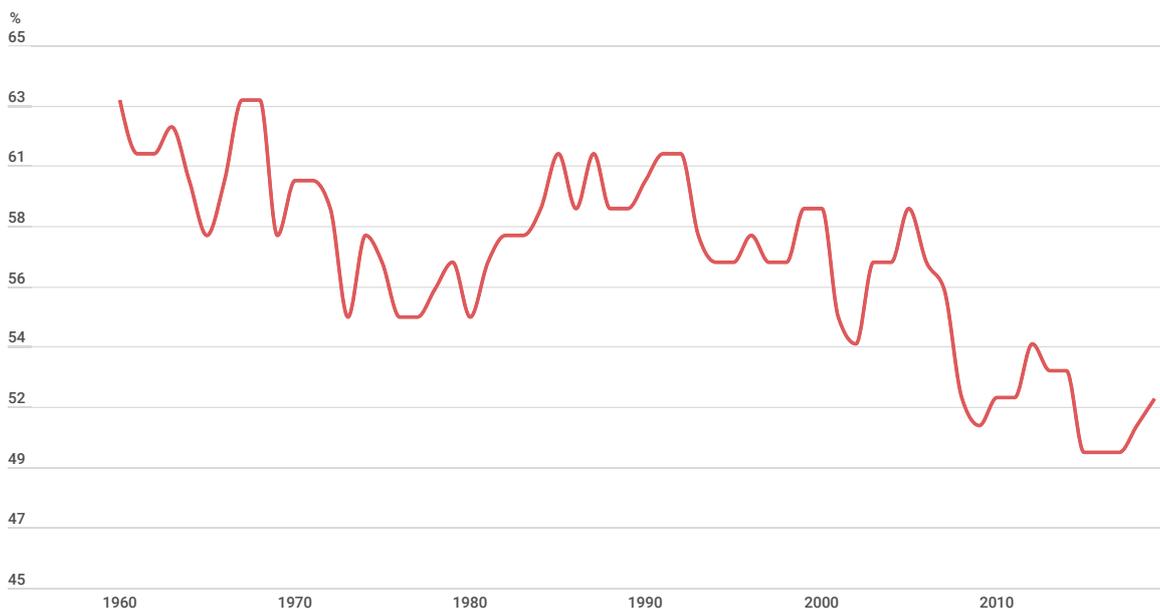
# Nýja Ísland er með varanlegan viðskiptaafgang ...

Viðskiptajöfnuður sem hlutfall af útflutningi 1864-2019



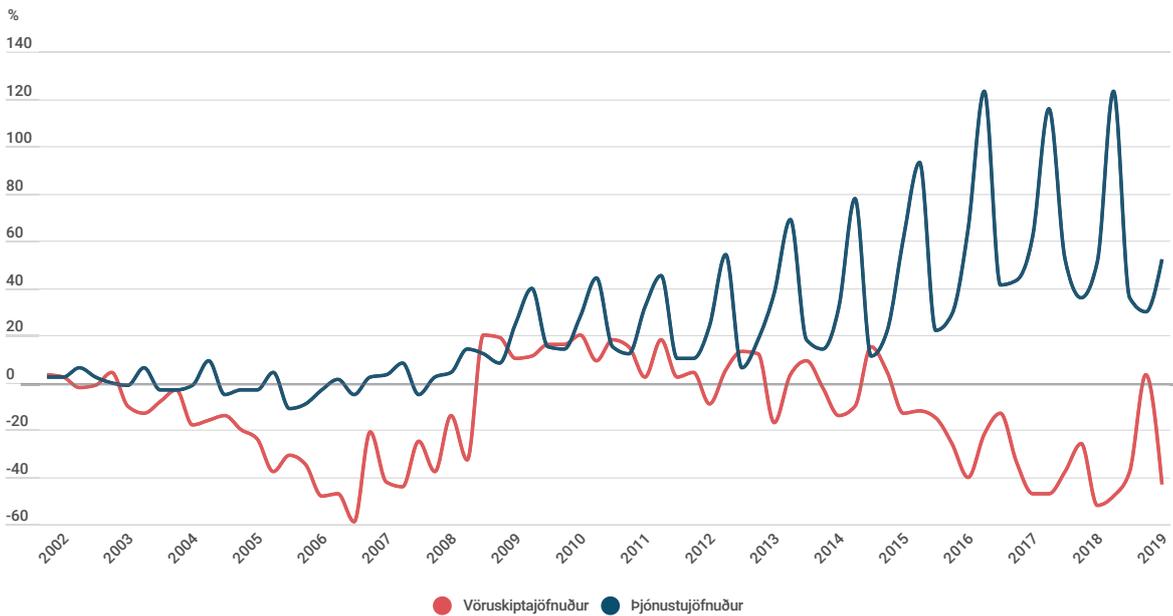
# ... vegna aukins sparnaðar ...

Hlutfall einkaneyslu af vergri landsframleiðslu 1960-2019



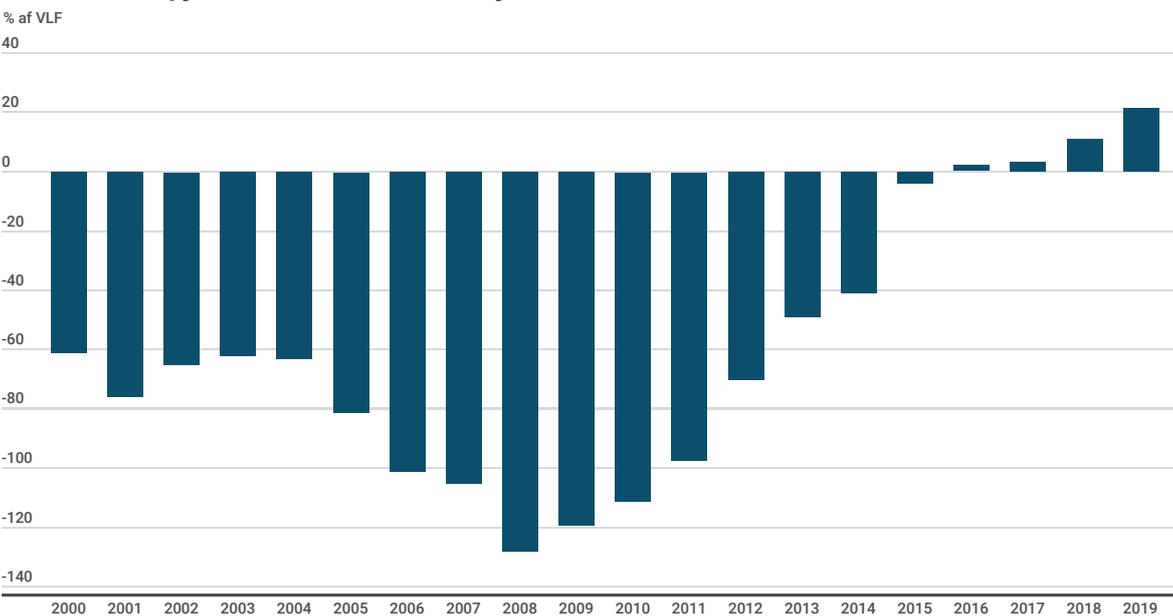
## ... og vaxtar í þjónustuviðskiptum ...

Vöruskipta- og þjónustujöfnuður 1. ársfj. 2002-2. ársfj. 2019



## ... sem endurspeglast í umskiptum á erlendri stöðu þjóðarbúsins

Erlend staða þjóðarbúsins 2000-2. ársfj. 2019



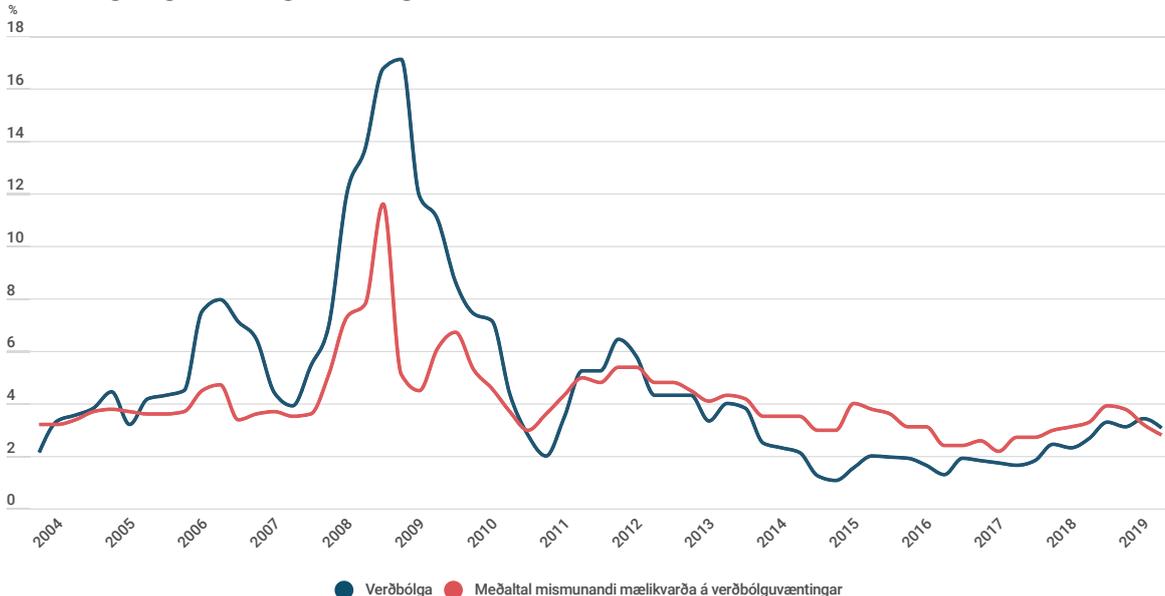
# Trúverðugleiki Seðlabankans



## Seðlabankinn hefur náð árangri við framfylgd verðbólguþröngunarmarkmiðs undanfarin ár sem hefur leitt til lægri verðbólguvæntinga



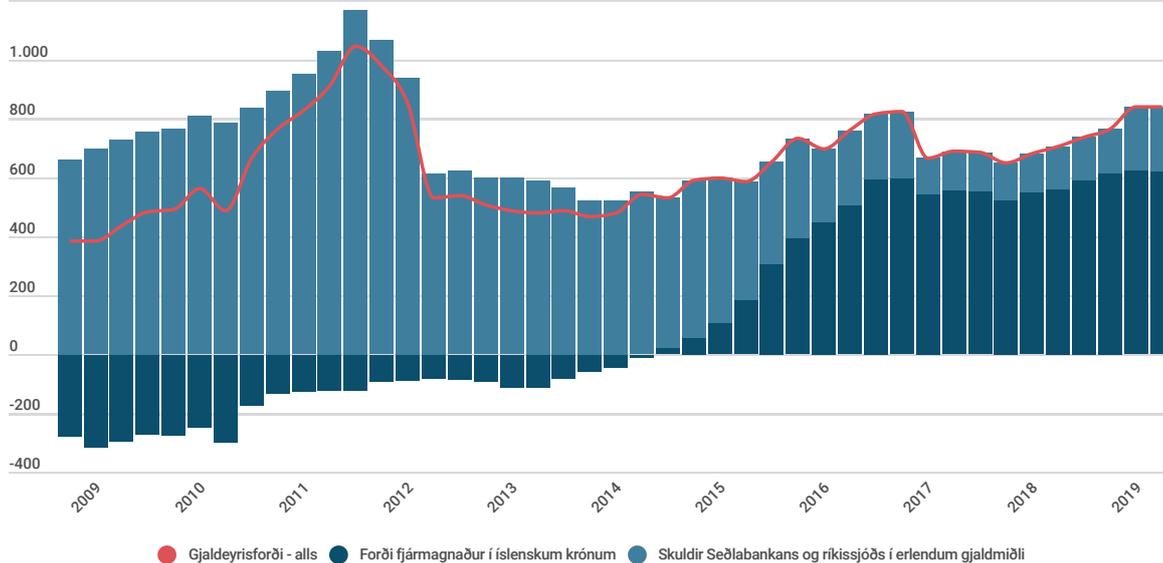
Verðbólga og verðbólguvæntingar til eins árs 2004 - 2019



# Seðlabankinn býr yfir 800 milljarða gjaldeyrisforða sem eykur trúverðugleika

## Gjaldeyrisforði Seðlabankans 1. ársfj. 2009-3. ársfj. 2019

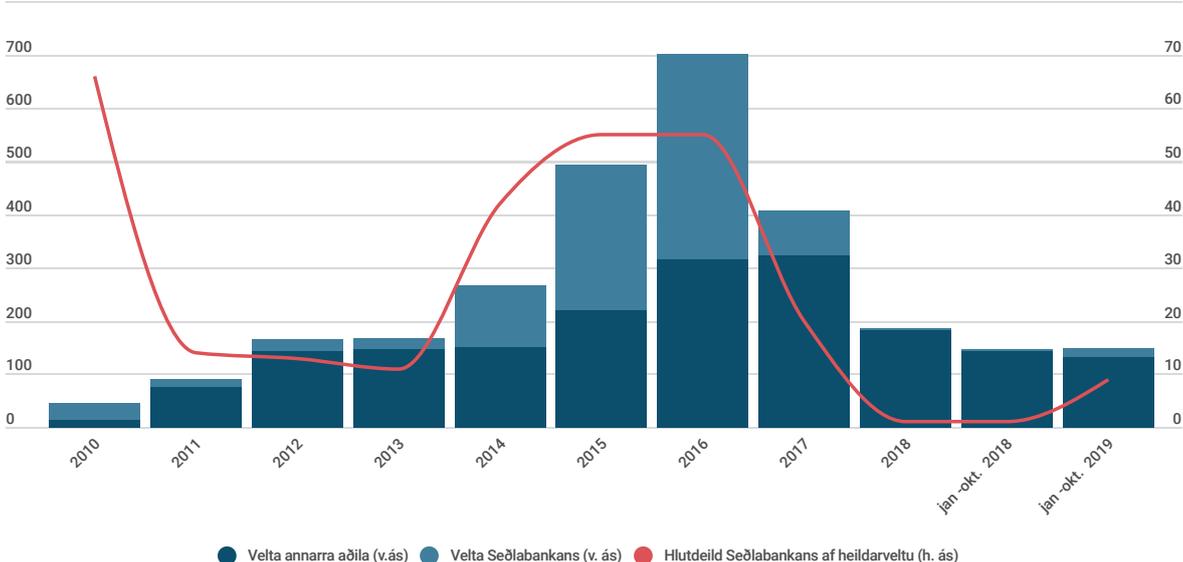
Ma. kr.  
1.200



# Forðanum er beitt til að draga úr skammtímasveiflum en ekki til að hindra breytingar á gengi krónunnar af völdum undirliggjandi efnahagsþátta

## Velta á millibankamarkaði með gjaldeyri og hlutdeild Seðlabankans 2010-2019

Ma. kr.  
800



# Nýr Seðlabanki

Nýtt fyrirkomulag liður í bættum árangri til framtíðar?



## SEÐLABANKASTJÓRI



FUNDIR  
BANKASTJÓRA

VARASEÐLABANKASTJÓRI

PENINGASTEFNUNEFND



MARKMIÐ:  
VERÐSTÖÐUGLEIKI

TÆKI:

- Vextir
- Viðskipti við lánastofnanir
- Bindiskylda
- Inngrip á gjaldeyrismarkaði

VARASEÐLABANKASTJÓRI

FJÁRMÁLASTÖÐUGLEIKANEFND



MARKMIÐ:  
FJÁRMÁLASTÖÐUGLEIKI

TÆKI:

- Þjóðhagsvarúðartæki:
  - Eiginfjáraukar
  - Veðsetningarhlutfall
  - Takmörk á lán í erlendum gjaldmiðlum o.fl.

VARASEÐLABANKASTJÓRI

FJÁRMÁLAEFTIRLITSNEFND



MARKMIÐ:  
TRAUST OG ÖRUGG  
FJÁRMÁLASTARFSEMI

TÆKI:

- Útgáfa reglna og tilmæla til eftirlitsskyldra aðila
- Starfsleyfi og hæfismöt
- Kærur, dagsektir, stjórnvaldssektir o.fl.



#### Fyrsta niðursveiflan í sögunni sem er án gengisfalls og kreppuverðbólgu

- Mögulegt að beita peningastefnunni til þess að skapa atvinnu án þess að ógna verðstöðugleika
- Mögulegt að takast á við niðursveiflu án þess að skerða kjör almennings með verðbólgu



#### Langtímabreytingar hafa lækkað vaxtastig hér á landi

- Tækifæri til þess að bæta lífskjör almennings með lægri vöxtum
- Tækifæri til þess að fjármagna innviðafjárfestingu með hagstæðum kjörum



#### Peningastefnan hefur sín takmörk – verðstöðugleiki setur okkur skorður

- Samkeppnishæfnin verður ekki endurnýjuð með gengislækkun líkt og áður
- Samkeppnishæfnin verður aðeins bætt með aukinni framleiðni



#### Gríðarlegar breytingar í farvatninu í fjármálakerfinu

- Mikilvægt að tryggja að peningastefnan virki – ný lán verði veitt til nýrra fjárfestinga
- Mikilvægt að huga vel að afleiðingum þessara kerfisbreytinga til langs tíma

# Nokkur atriði um banka



SFF-dagurinn  
28. nóvember 2019

Ásgeir Jónsson  
seðlabankastjóri

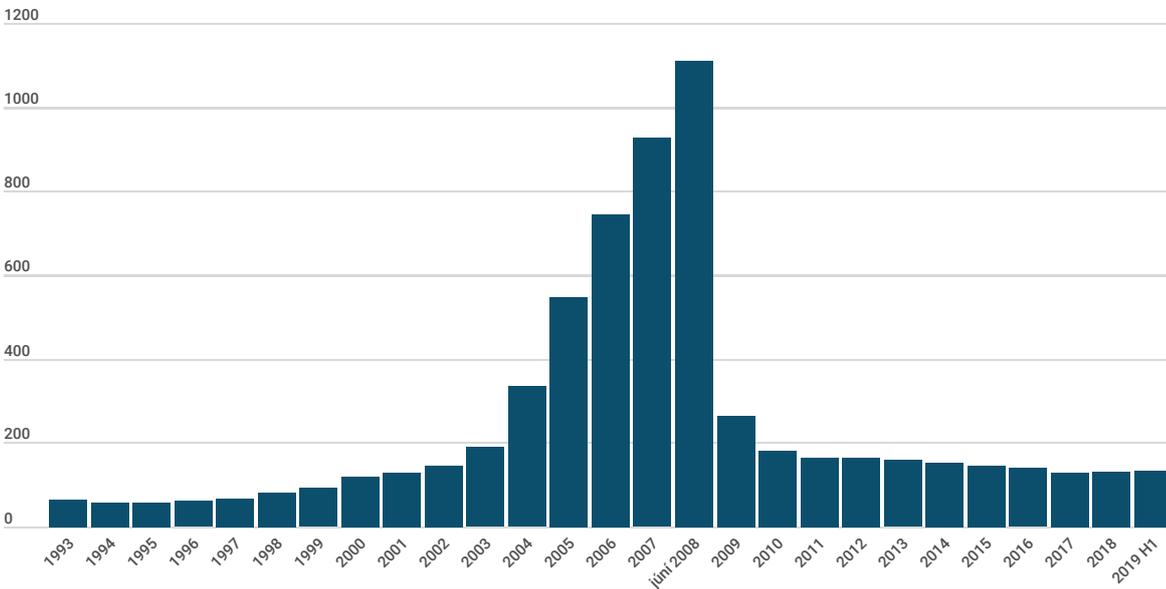


## Stærð og samsetning fjármálakerfisins Hvað þurfum við stórt bankakerfi?

# Íslenska bankakerfið hefur skroppið saman ...

Hlutfall heildareigna innlánsstofnana (móðurfélög) af landsframleiðslu 2002-2019

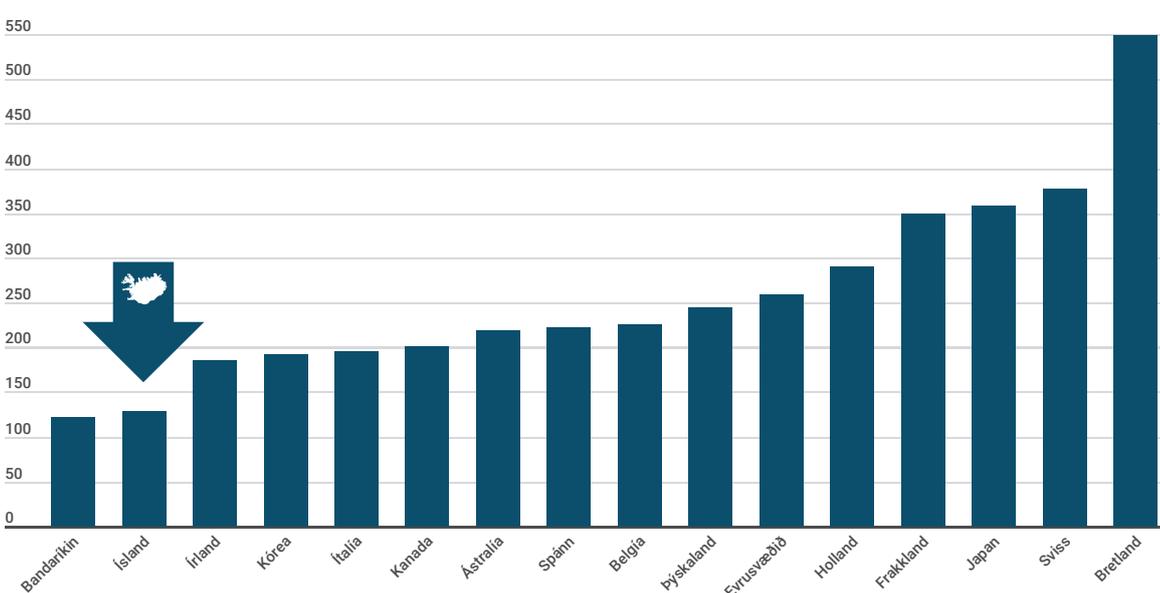
% af VLF



# ... og er lítið í alþjóðlegu samhengi

Heildareignir bankakerfisins í nokkrum iðnríkjum 2017

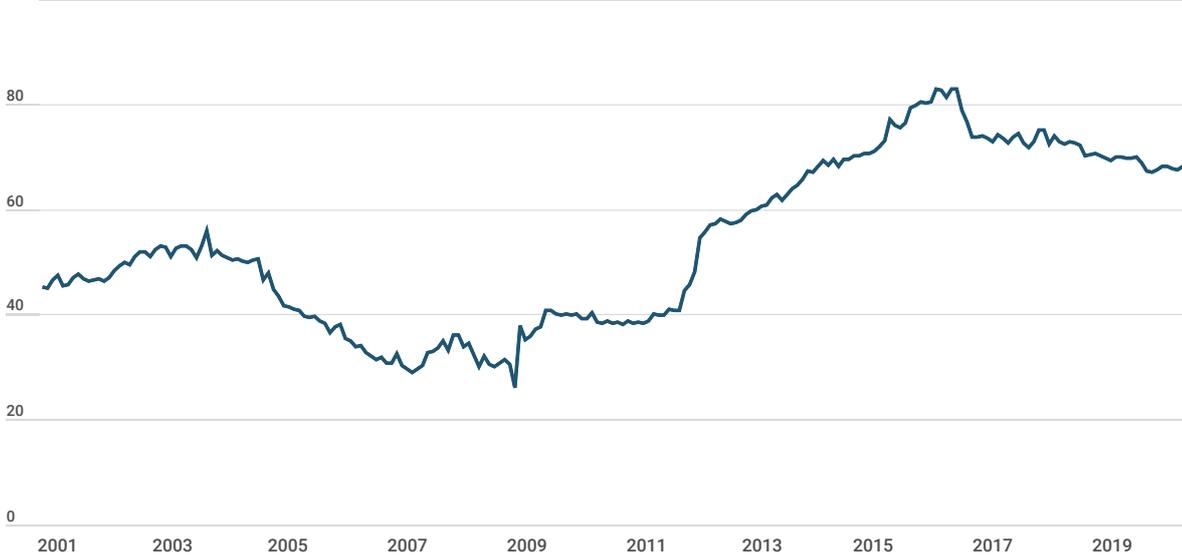
% af VLF



## Stærð bankanna markast af innlánnum ...

Peningamagn í umferð (M3) í hlutfalli af innlendum útlánnum innlánsstofnana 2001-2019

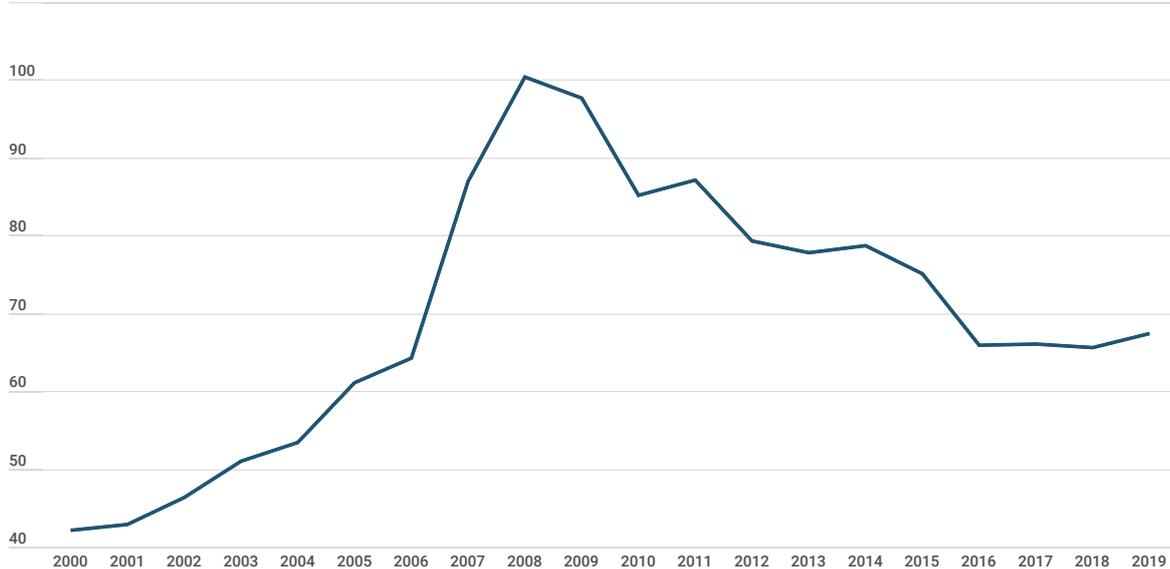
% af útlánnum  
100



## ... en peningamagn í umferð hefur dregist saman sem hlutfall af landsframleiðslu

Peningamagn í umferð 2000-2019

% af VLF  
110



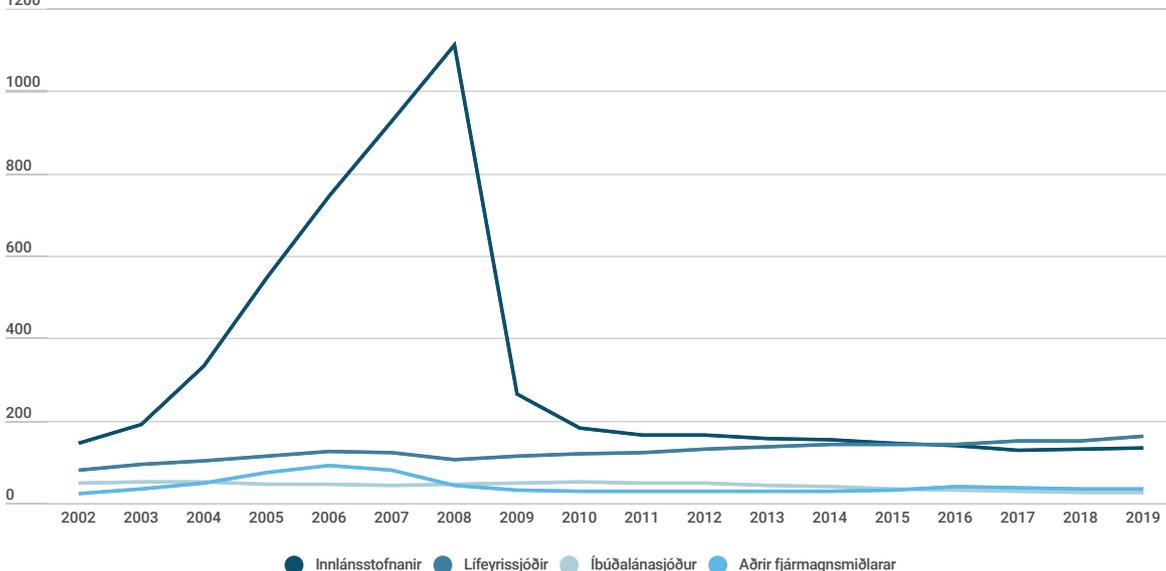
## Hið nýja íslenska bankakerfi markast af heildarinnlánum – eða peningamagni í umferð

- Peningamagn í umferð ræðst af mörgum þáttum:
  - Efnahagsreikningi Seðlabankans – s.s. gjaldeyriskaupum eða beinni peningaprentun
  - Lausafjárreglum og eiginfjárkröfum innlánsstofnana – sem hafa áhrif á peningamyndun
  - Viðskiptum í hagkerfinu – sem skapar þörf fyrir greiðslumiðil
  - Lausafjárþörf fjárfesta - aukið efnahagslegt öryggi minnkar eftirspurn eftir peningum
  - Vaxtastigi í landinu - sem hefur áhrif á veltuhraða
- Þegar til lengri tíma er litið ætti hlutfall peningamagns í umferð að vera stöðugt – og innlán vaxa á sama hraða og landsframleiðsla. Útlán innlánsstofnana ættu að vaxa á sama hraða
- Peningamagn sem hlutfall af landsframleiðslu hefur verið að dragast saman – það var í kringum 100% árið 2009 en er nú um 70%
- Íslenska bankakerfið er að skreppa saman – þar sem innlánaþjármögnun er ekki að vaxa í takt við hagvöxt

## Breytt samsetning: lífeyrissjóðir eru nú orðnir umfangsmeiri í íslensku fjármálakerfi en bankarnir ...

Heildareignir innlánsstofnana, lífeyrissjóða og annarra fjármagnsmiðlara 2002-2019

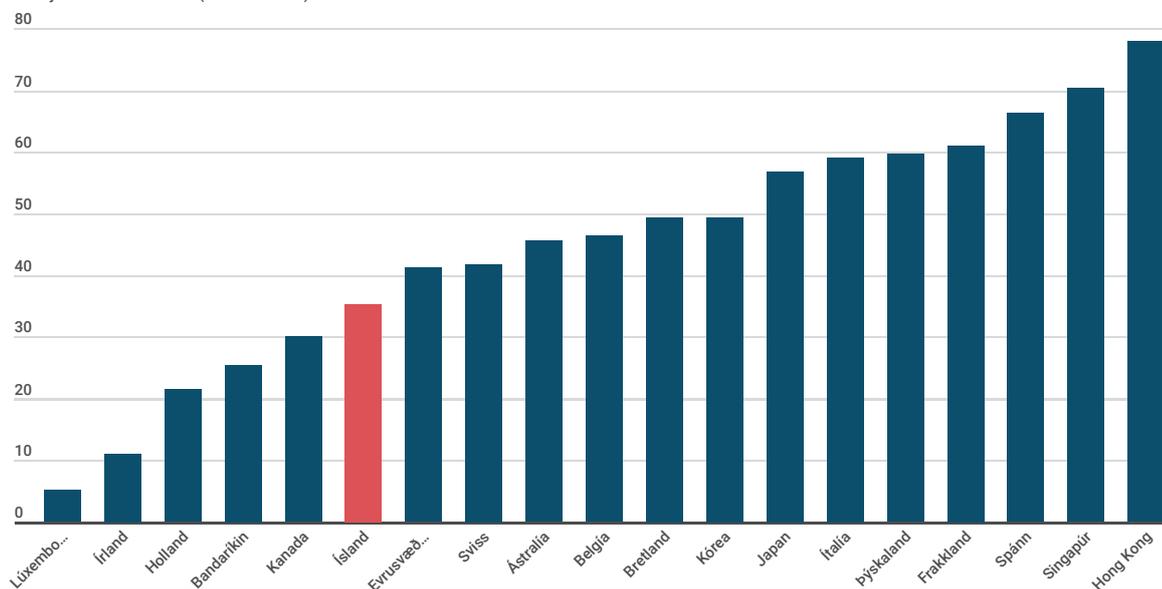
% af VLF



## ... og hlutfallslegt umfang bankanna lítið í alþjóðlegu samhengi ...

### Hlutfall banka af fjármálakerfinu í heild í nokkrum ríkjum 2017

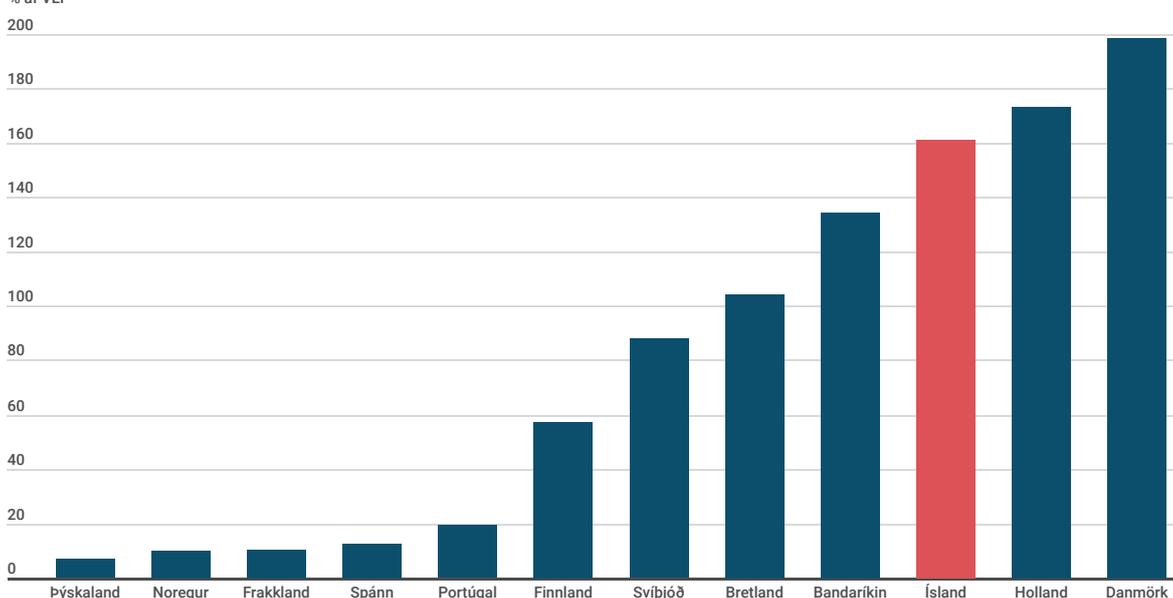
% af fjármálakerfinu í heild (án seðlabanka)



## ... á meðan lífeyrissjóðirnir vega þungt ...

### Hlutfall heildareigna lífeyrissjóðskerfa af landsframleiðslu í nokkrum ríkjum 2018

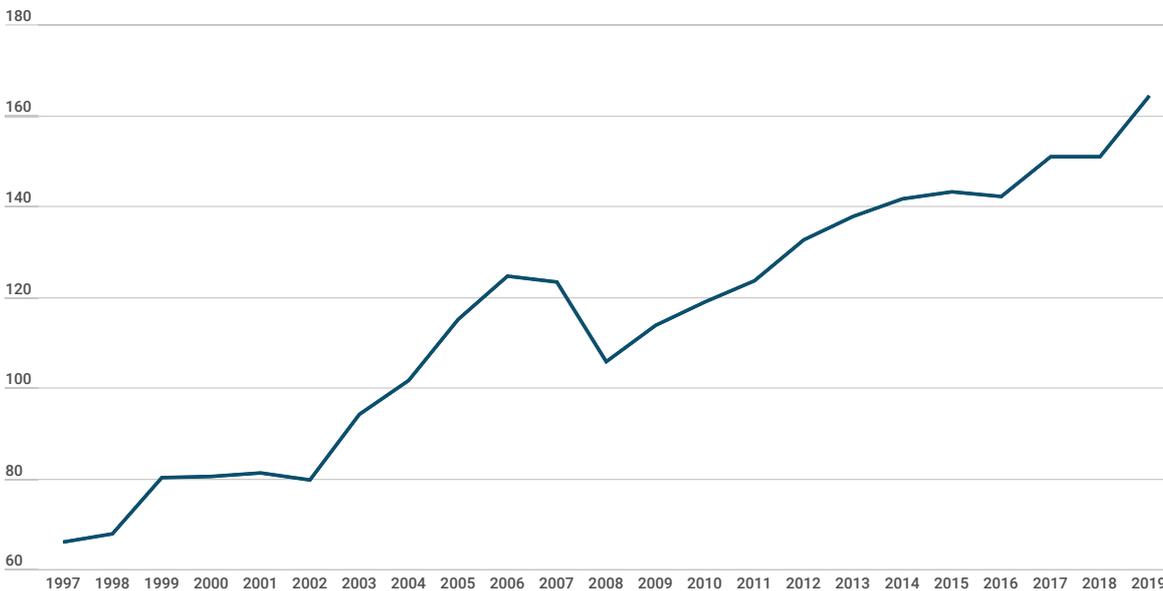
% af VLF



## ... og mikilvægi þeirra eykst stöðugt

### Hlutfall heildareigna lífeyrissjóða á Íslandi af landsframleiðslu

% af VLF



## Lífeyrissjóðirnir eru orðnir umfangsmestu aðilarnir í fjármálakerfinu

- Launafólk á Íslandi leggur 15,5-20% af tekjum til lífeyrissjóða
- Lífeyrisframlög eiga að ávaxtast á árum og áratugum – lífeyrissjóðir hafa því yfirburði í langtíma fjármögnun
- Lífeyrissjóðir gegna höfuðhlutverki við fjármögnun húsnæðislána hérlandis – spurningin snýst um hvort einhverjir milliliðir komi að verki eða hvort markaðir séu nýttir við milligönguna
- Uppsöfnun lífeyrissparnaðar hvetur til lægra seljanleikaálags (lægri halla á vaxtarófi) og lægri langtímaxta
- Bankar eru með mjög stutta skuldahlið sem er byggð á innlánnum – og tímaumbreytingu með því að lána út langt. Þeir geta ekki boðið sömu langtímaxesti og lífeyrissjóðir
- Þunginn í íslenska fjármagnskerfinu er að færast frá bönkum til lífeyrissjóða

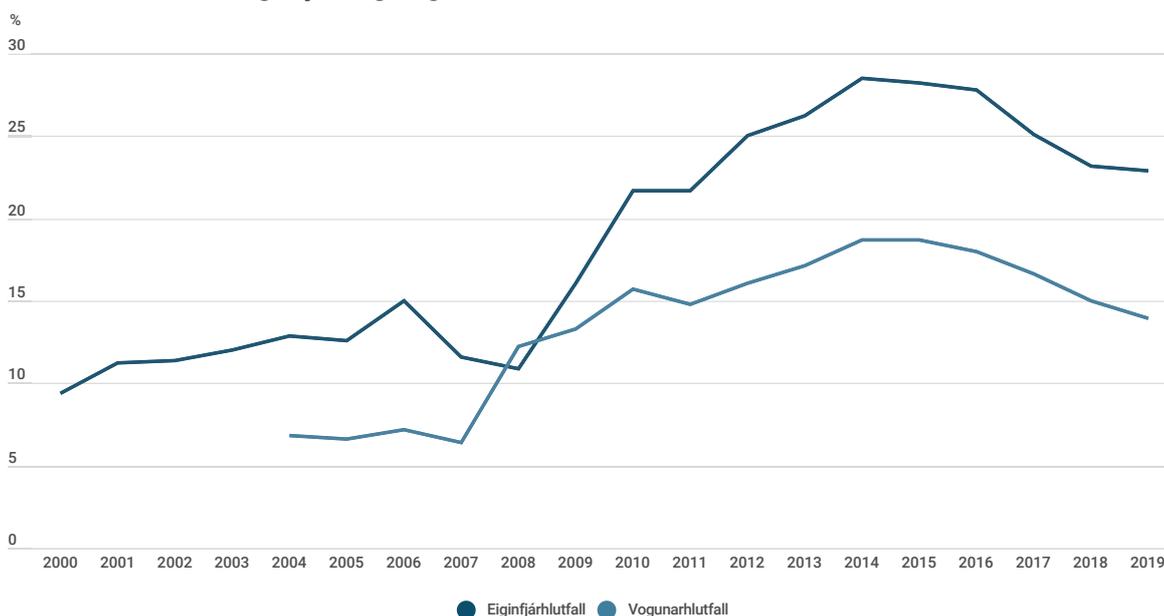
# Miðlun peningastefnunnar í breyttu kerfi



## Bankarnir hafa mjög sterka eiginfjárstöðu ...



Innlánsstofnanir: eiginfjár- og vogunarhlutföll 2000-2019

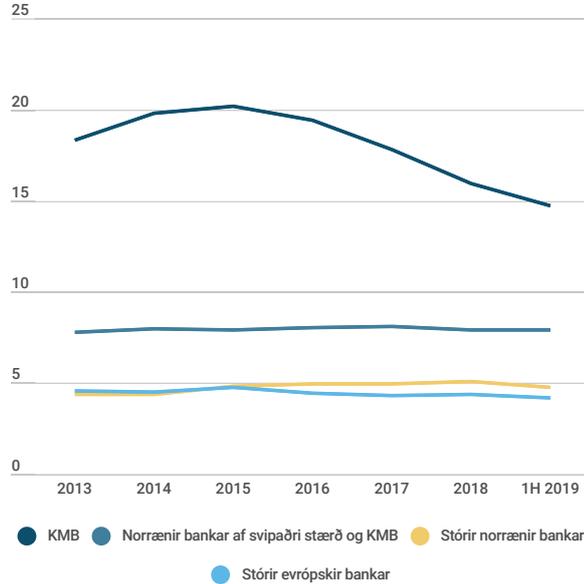


## ... og skuldsetning þeirra er minni en víða annars staðar

Innlánsstofnanir: eiginfjárlutföll



Innlánsstofnanir: vogunarhlutföll

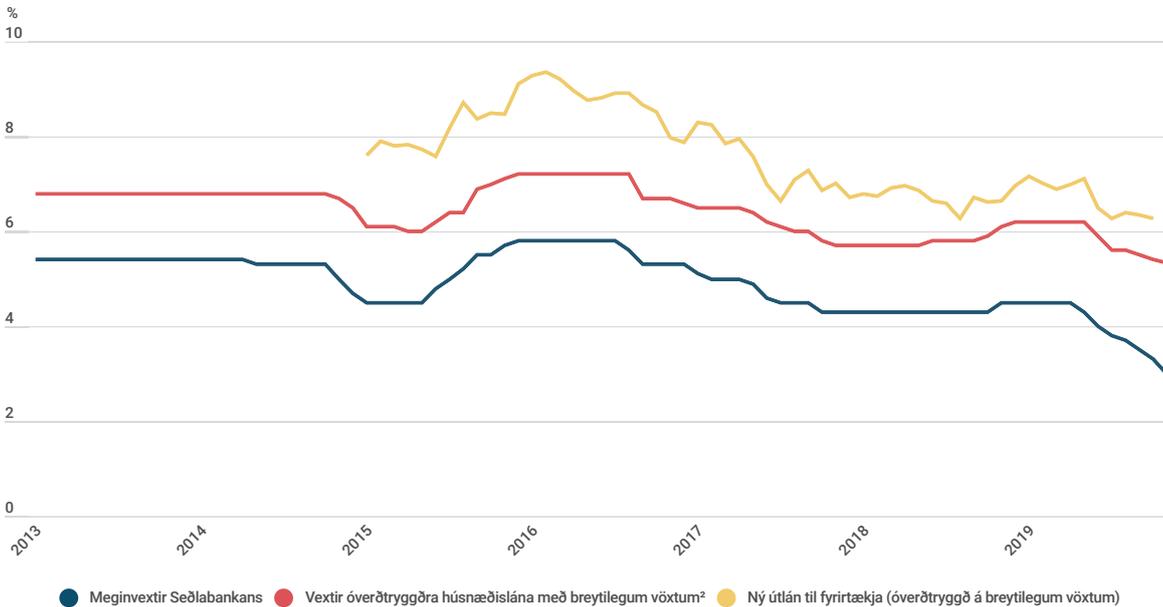


## Eiginfjárvæðing bankanna eru sveigjanlegar

- Eiginfjárvæðing á banka hafa áhrif á vaxtamun – og fórnarkostnað við útlán. Þær hafa einnig áhrif á áhættuprófíl – verðsetningu áhættu við útlán
- Fyrirséð að eiginfjárvæðing bankanna munu lækka um 0,6-1,25 prósentustig á næstu árum vegna innleiðingar á Evrópulöggjöf um afslátt vegna lítilla og meðalstórra fyrirtækja
- Einnig – er fyrirséð að sveiflujöfnunarauki verði lækkaður ef að kreppir í efnahagslífinu til að viðhalda útlánagetu bankakerfisins og styðja við miðlun peningastefnunnar
- Íslensku bankarnir beita allir staðalaðferð við útreikninga á eiginfjárbindingu en erlendir bankar sem þeir eru oft bornir saman við beita innrímats líkönum. M.a. vegna þessa eru vogunarhlutföll íslensku bankanna mun hærri en erlendra

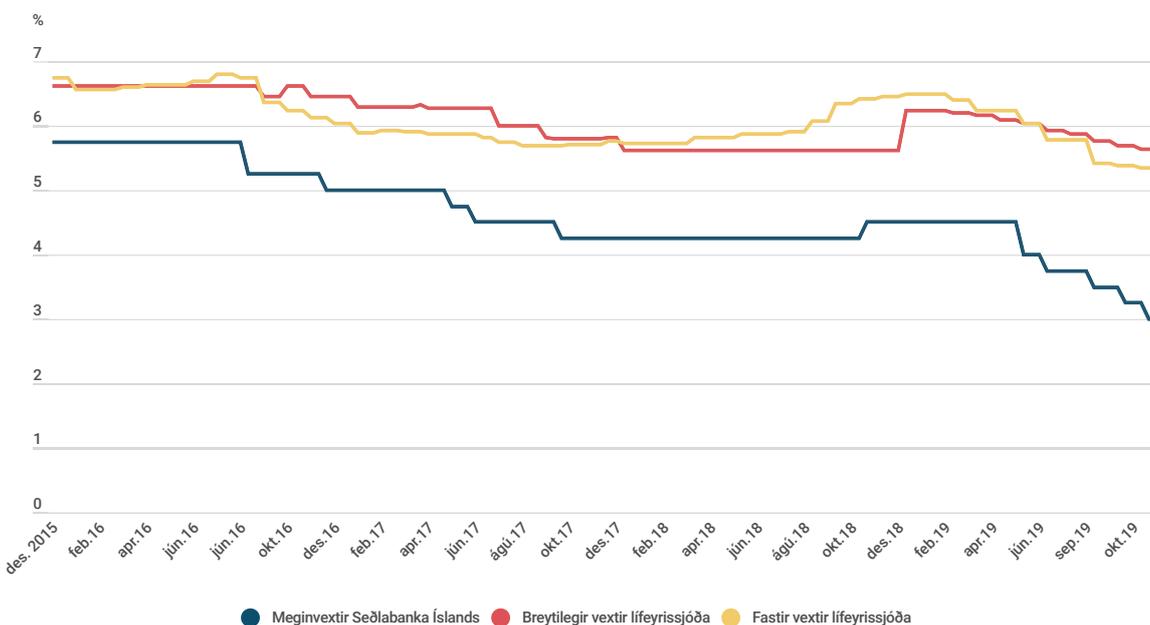
# Óverðtryggðir vextir viðskiptabanka hafa í meginatriðum þróast í takt við meginvexti Seðlabankans ...

Meginvextir Seðlabankans og óverðtryggðir vextir viðskiptabanka 2013-2019



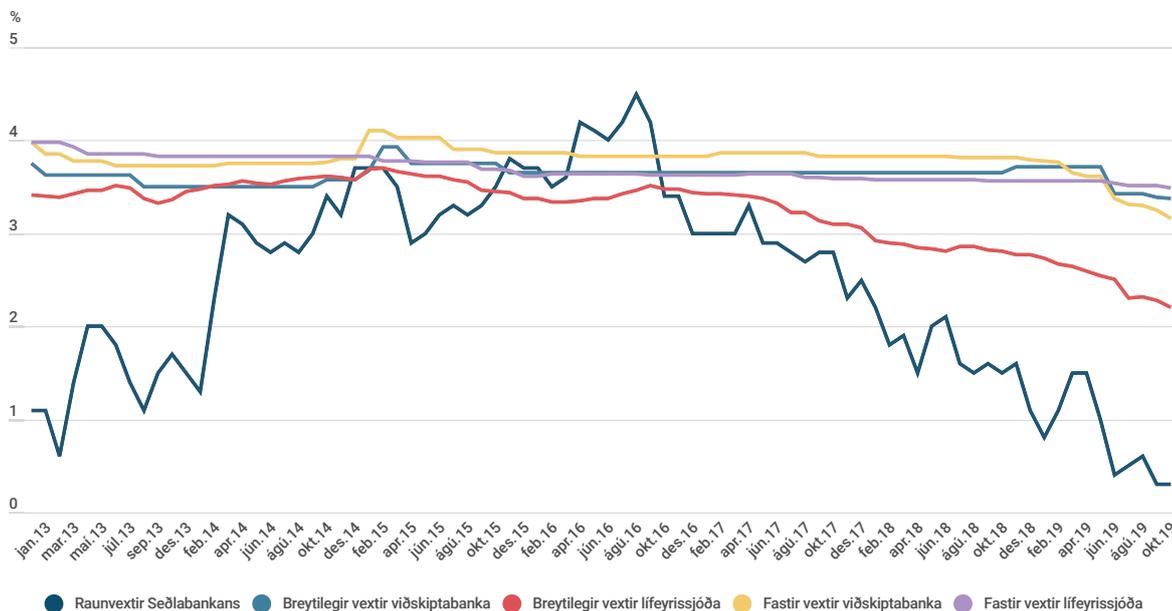
# ... og lífeyrissjóðir hafa einnig lækkað óverðtryggða vexti ...

Meginvextir Seðlabankans og óverðtryggðir vextir lífeyrissjóða 2015-2019



## ... en minni breytingar hafa orðið á verðtryggðum vöxtum eins og við er að búast

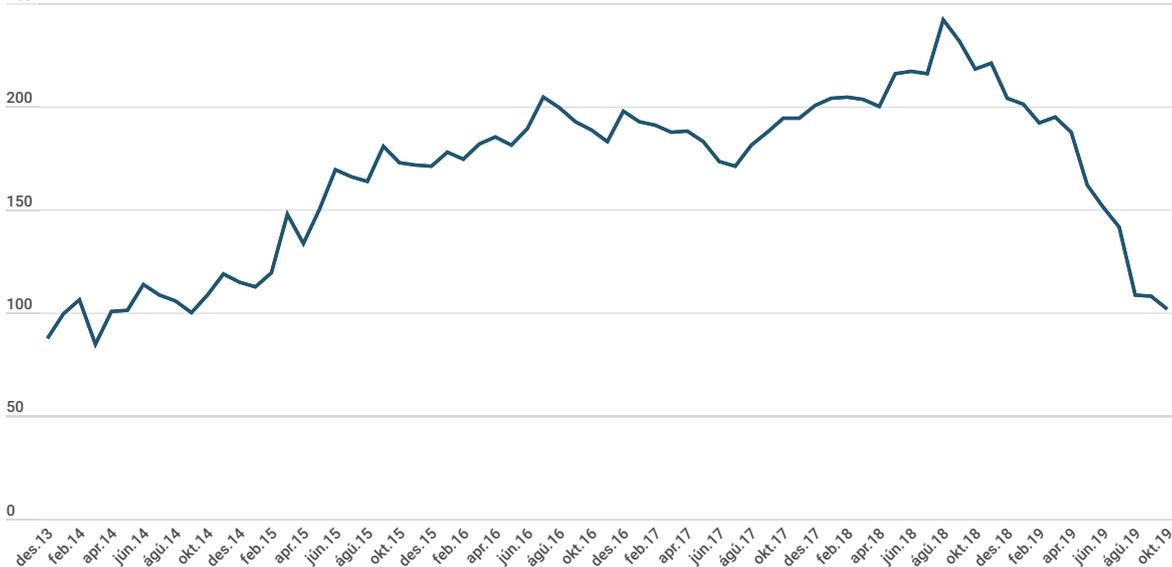
Raunvextir Seðlabankans og verðtryggðir vextir banka og lífeyrissjóða 2013-2019



## Vaxtakjör hafa því batnað en vísbendingar eru um að þrengt hafi að aðgengi að lánsfé

Hrein ný útlán KMB til atvinnufyrirtækja, 12 mánaða hlaupandi summa

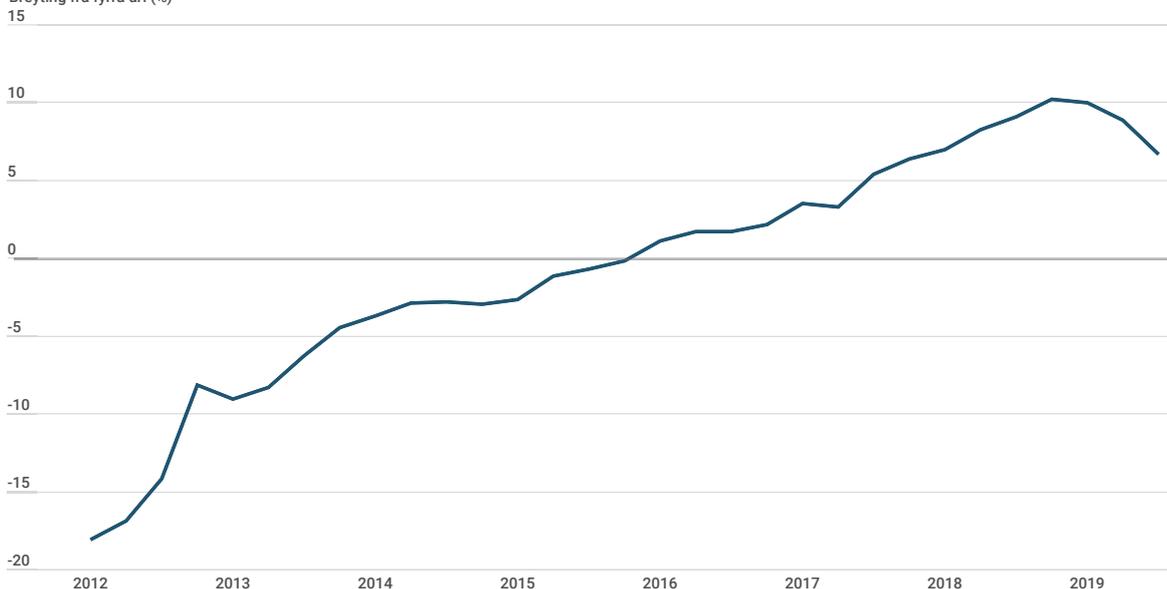
Ma.kr. á verðlagi ársins 2019  
250



# Útlánavöxtur hefur verið mikill undanfarin ár en nú er tekið að hægja á

Útlán lánakerfis til innlendra aðila 2012-2019

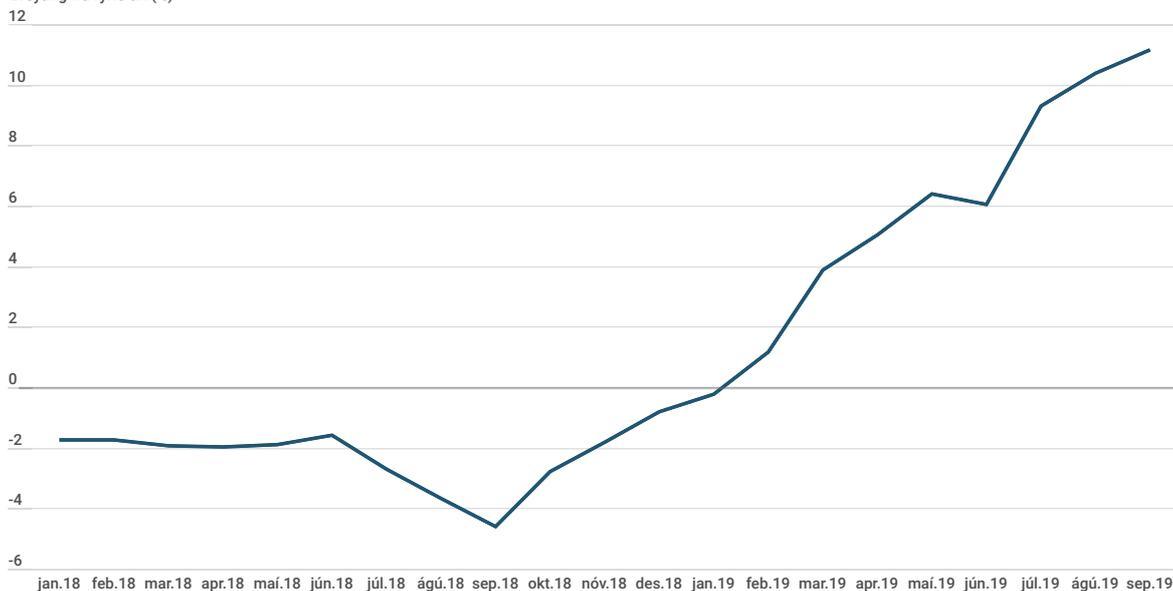
Breyting frá fyrra ári (%)



# Vísbendingar um aukið hlutverk sjóða

Þróun skulda fyrirtækja við verðbréfa-, fjárfestingar- og fagfjárfestasjóði

Breyting frá fyrra ári (%)

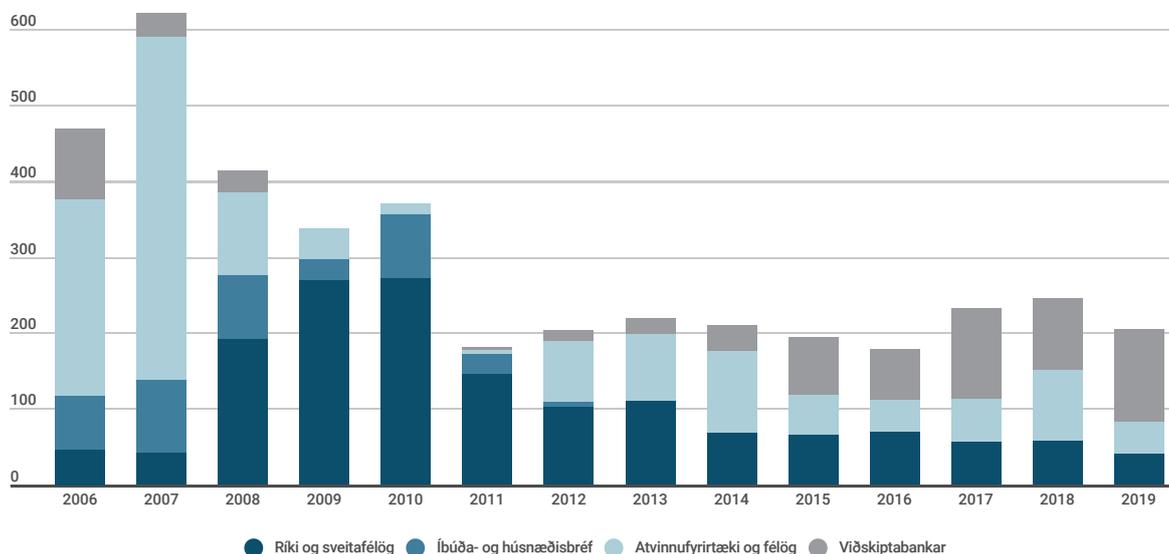


# Meðan lítilla breytinga gætir á markaði með skuldabréf atvinnufyrirtækja



## Útgáfa markaðsskuldabréfa

Ma.kr. á verðlagi ársins 2019



## Tæki sem ná til allra



- Umbreyting bankanna frá því endurlána erlent heildsölufjármagn og til þess að reiða sig á innlán – hefur styrkt miðlun peningastefnunnar
- Íslensku bankarnir eru fyrst og fremst fyrirtækjabankar – Seðlabankinn hefur því veruleg áhrif á verðsetningu fjármagns með vaxtaákvörðunum sínum
- Hins vegar – eru ýmsir langtímaþættir sem þrýsta á minnkun bankakerfisins. Atvinnulífið verður í auknum mæli að reiða sig á nýjar fjármagnsuppsprettur
- Fyrirséð að þjóðhagsvarúðartæki munu fá aukið vægi á komandi árum – bæði til þess að tryggja virkni peningastefnunnar og halda áhættu í skefjum
- Þjóðhagsvarúðartæki verka á alla leikendur á fjármagnsmarkaði - ekki einungis bankana

Rannveig Sigurdardottir  
Deputy Governor, Central Bank of Iceland  
Introductory remarks  
Third Annual Nordic Cyber in Finance Conference  
28 November 2019  
Stockholm

***Panel – Cyber-Risk Governance (morning session)***

I welcome the opportunity to be here today and participate in this conference on Cyber in Finance, and I am especially delighted to have a chance to participate in this panel on *Cyber Risk Governance*. Unfortunately, figures show that cyberattacks are on the rise, and consequently, so is our awareness of how threatening cyber-risk is to institutions, markets, and society as a whole.

Cyberattacks are difficult to foresee; indeed, some say that we are always behind the curve when it comes to cyberattacks. But one thing we can do is have a proper framework in place when they do occur, so as to prevent them from escalating to a systemic level.

It is widely accepted that sound governance is a key factor in countering cyberattacks. And this is consistent with other forms of risk management.

But what are the ingredients for good cyber-governance?

Good cyber-governance entails ensuring that a proper cyber-resilience framework is available and endorsed by an institution's board or equivalent body – a framework consisting of policies, procedures, and controls aiming to identify, protect, detect, respond to, and recover from a cyberattack. The framework should accord high priority to the safety and efficiency of the institution's operations while supporting broader financial stability objectives.

The framework should also be guided by a cyber-resilience strategy that defines how cyber-resilience objectives are determined and identifies the people, processes, and technology requirements for managing cyber-risks.

The fact that cybercrime is a relatively new category of operational risk – one that is driven by highly innovative criminals – means that an event like this one is of vital importance in raising awareness and sharing information and best practices. We still have much to learn when it comes to cyber-risks and how to manage them.

And in the spirit of information sharing, I would like to share with you some of what is happening on the small island of Iceland, a country with 350,000 inhabitants that operates one of the world's smallest central banks.

The Parliament of Iceland has just recently passed a law that implements the NIS Directive (Net- and Information Security Directive). That law will enter into force in September 2020. Until then, a constructive mapping of who may fall under the scope of the new law is to take place.

With respect to the banking sector and financial market infrastructure, the new law entrusts the Financial Supervisory Authority with deciding this. At the same time, the Central Bank of Iceland has both an oversight role to play and the duty to promote a sound and efficient financial system – a role it can only fulfil by promoting proper cyber-risk governance.

And to conclude, these are also interesting times for the aforementioned institutions: on 1 January 2020, the Central Bank of Iceland and the Financial Supervisory Authority will merge into a single institution under the name of the Central Bank of Iceland. For a nation of 350,000, the merger will give us the opportunity to perform more effectively in the field of cyber-resilience for the financial market and to promote the importance of proper cyber-risk governance. Furthermore, the Central Bank of Iceland plans to launch a Financial Sector Forum for Operational Robustness in 2020, with emphasis on enhancing the sector's resilience against cyberattacks. Having said this, I look forward to fruitful discussions and to this afternoon's session on how to increase cyber-resilience in finance.



27 December 2018

## Responses to some of the proposals from the task force on the review of monetary policy

At the Monetary Policy Committee's (MPC) meeting earlier this month, the Committee discussed the Central Bank's forthcoming report to the Prime Minister concerning the Bank's position on the proposals presented by the task force on monetary policy pertaining to changes in working procedures of the MPC and the Bank more generally (Jónsson *et al.*, 2018). The Bank's position on specific proposals can be found below.

Although this document is formally presented by the Central Bank, the text it contains represents the results of discussions within the MPC and is supported unanimously by the Committee. All proposals discussed here pertain to matters under the purview of either the MPC or the Governor of the Central Bank. The task force made other proposals as well, but their implementation requires statutory amendment, ministerial involvement, and/or revision of the agreement between the Government and the Bank.

***Proposal 6:*** *The Central Bank of Iceland shall use the Reserve Bank of New Zealand's traffic light system to create clear ground rules for decision-making and communication of information on foreign exchange market intervention. Furthermore, there is need for a clearer and more transparent sterilisation policy in connection with intervention. Moreover, the Bank shall publish its assessment of the equilibrium real exchange rate on a regular basis.*

This proposal actually centres on two separate issues: i.e., the foreign exchange market intervention policy and the publication of additional information on the Bank's assessment of the equilibrium real exchange rate.

*(1) Intervention in the foreign exchange market*

The task force recommends that the Central Bank adopt the “traffic light system” used by the Reserve Bank of New Zealand (RBNZ), and it calls for a clear, transparent sterilisation policy.

The Central Bank agrees that it is necessary to explain the views underlying the Bank’s foreign exchange market intervention as well as possible. The intervention policy may need to change over time, however, depending on the conditions prevailing in the economy and the financial system. The policy is discussed regularly by the MPC, which oversees intervention as a part of monetary policy. The intervention policy has also been explained in the Committee’s statements and in Central Bank publications. For a while, intervention was aimed at building up Iceland’s international reserves and mitigating the risk of an overshooting of the exchange rate during the prelude to capital account liberalisation, as was explained at the time. At present, however, the intervention policy aims at smoothing out excessive short-term volatility but does not pinpoint a specific exchange rate target. This has also been explained publicly.

In this context, it is appropriate to emphasise that there are limits on how predictable a central bank’s foreign exchange market intervention can be without creating the risk that market agents will corner the central bank and profit on unilateral speculation. Experience has shown that it can be risky for central banks to draw a line in the sand in this way.

In the Central Bank’s opinion, the suggestion that the Bank adopt the RBNZ’s traffic light system is worth examining more closely, but it needs to be thought out more fully and experiences from other countries should be considered as well. Conditions in New Zealand are entirely different than those in Iceland, as the New Zealand dollar is one of the most-traded currencies in the world. The foreign exchange market there is deep, and the Reserve Bank of New Zealand is less concerned about short-term volatility. In small countries, however, it is much more common that foreign exchange market intervention aim at mitigating volatility than it focus on a given exchange rate. This is also true of Iceland.

As regards sterilisation of foreign exchange market intervention via market transactions by the Central Bank, it should be noted that sterilisation is largely built into monetary policy instruments, as short-term market interest rates have deviated very little from the Bank’s key interest rate. This has been explained by the Bank, but it should probably be done more thoroughly.

The Central Bank will establish a working group whose task will be to submit recommendations to the MPC in H1/2019 on the intervention policy and information disclosure about its execution.

*(2) Assessment of the equilibrium real exchange rate*

The Bank reviews its assessment of the equilibrium real exchange rate while preparing each forecast and publishes the assessment regularly in *Monetary Bulletin* (most recently in Box 3 in *Monetary Bulletin* 2016/2). Furthermore, a historical assessment can be found in the Bank's QMM database, which is updated on the Bank's website following each forecast. The Bank has also been considering launching a new annual publication on Iceland's balance of payments, which would also contain further discussion of the equilibrium real exchange rate. In addition, the Bank intends to expand its research in this area and, in this context, plans to engage a foreign expert in H1/2019.

***Proposal 8:*** *The Central Bank shall publish the policy rate path in Monetary Bulletin four times a year. In this way, it will be possible to strengthen market expectations and enhance transparency of the Bank's long-term interest rate policy.*

From the beginning of 2007 until the onset of the financial crisis in autumn 2008, the Bank published the policy rate path for its baseline forecast, together with confidence intervals. Early on, the publication of the interest rate path appeared to deliver results, in that market expectations concerning future developments in interest rates moved closer to the path in the baseline forecast, thereby strengthening the transmission of Central Bank rates to other interest rates (*Monetary Bulletin* 2007/3), but unclear ownership of the policy rate path seemed gradually to undermine the usefulness of publishing it. During the financial crisis, there were no premises for continued publication of the policy rate path, but when conditions normalised, it would have been possible to resume publication. By then, however, a multi-member Monetary Policy Committee with external members had been established, and the Committee was not convinced of the usefulness of publishing a policy rate path at that time. There are two primary reasons for this.

First of all, the forecast is prepared by the Economics and Monetary Policy Department, and it is the Bank and not the MPC that is responsible for it. The view has been expressed within the MPC that as long as this is the case, there is the risk that the conditions prevailing before the crisis will develop again; i.e., unclear ownership of the policy rate path could undermine the efficacy of publishing it. Furthermore, the

publication of a policy rate path that differs fundamentally from the majority view of the MPC could create greater uncertainty in the market and exacerbate uncertainty about future developments in interest rates if, for instance, the forward guidance from the MPC majority runs counter to the published path.

As Table 1 indicates, some central banks in advanced economies publish a policy rate path with their baseline forecasts, but they are still in the minority. In all instances where the policy rate path is published, the macroeconomic and inflation forecast is the forecast of those who make interest rate decisions, not central bank experts' forecast; therefore, there should not be any inconsistency between the published path and rate-setting authorities' expectations about future developments in interest rates.

It appears that if this step were taken in Iceland, it would be necessary to shift ownership of the Bank's forecast preparation to the MPC. It is not clear, however, how this would work in a situation involving external MPC members.<sup>1</sup> It is clear, however, that such a change would call for a fundamental change in the forecast preparation process and the external MPC members' involvement with it. The forecast preparation process would be lengthened considerably, and the interest rate decision, the forecast, and the decision on the policy rate path would have to be prepared much earlier than they currently are – and well before the publication of the interest rate decision and *Monetary Bulletin*. It also appears clear that this would require much more work from external MPC members, as well as more time spent by them in the Bank.<sup>2</sup> This could be expected to require additional staffing for forecast preparation and support of the MPC.

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<sup>1</sup>If this step were taken in Iceland, the Central Bank would actually become the first central bank to publish a policy rate path for an MPC with external members. Of the four central banks that publish a policy rate path, those in Sweden and the Czech Republic have internal members only. In the case of New Zealand, interest rates are formally determined by the Governor of the RBNZ alone, but there are plans to establish a monetary policy committee that will presumably include external members. In Norway as well, there are changes in the offing, but until now, the Governor of Norges Bank has decided the published interest rate path, even though interest rate decisions are taken by a multi-member committee that includes external members.

<sup>2</sup>This also gives rise to the question of how easy it would be to find outside experts with enough expertise to function as external Committee members if their participation required that they leave their full-time jobs.

Table 1. Information disclosure on future developments in central bank interest rates

| Central bank | Arrangement  |
|--------------|--|
| Australia    | Does not publish own policy rate path <sup>1</sup>                               |
| US           | Publishes individual committee members' assessment of interest rate outlook      |
| UK           | Does not publish own policy rate path <sup>1</sup>                               |
| ECB          | Does not publish own policy rate path <sup>1</sup>                               |
| Japan        | Does not publish own policy rate path <sup>1</sup>                               |
| Canada       | Does not publish own policy rate path <sup>2</sup>                               |
| Norway       | Publishes conditional policy rate path as part of baseline forecast              |
| New Zealand  | Publishes conditional policy rate path as part of baseline forecast              |
| Sweden       | Publishes conditional policy rate path as part of baseline forecast              |
| Czech Rep.   | Publishes conditional policy rate path as part of baseline forecast <sup>3</sup> |

1. The forecast is based on forward interest rates, which can be determined from financial market rates, although forward guidance is sometimes provided. 2. The Bank of Canada bases its forecast on its own interest rate path, which is not published. Sometimes the BoC provides forward guidance, however. 3. The Czech National Bank's interest rate path which is published for three-month interbank rates.

*Sources:* Central bank websites and Hammond (2012).

The other reason for doubts within the MPC about the efficacy of publishing a policy rate path for the baseline forecast, at least at the present time, centres to a degree on a fundamental view of the nature of monetary policy during times of uncertainty. According to this view, monetary policy is not a “scientific” matter that can be solved using mathematical maximisation models, as is done in many textbooks. The uncertainty about many key variables is simply too great. Monetary policy is therefore more like risk management where an attempt is made to avoid costly errors. Publishing a policy rate path could suggest greater certainty than actually exists and could therefore be misleading.

An example of this is the uncertainty about the Bank's equilibrium interest rate. Of course, this uncertainty is not limited to Iceland during times when long-term real rates have gradually been declining and the equilibrium rate has probably been quite variable. The problem also centres on the fact that within the MPC, opinion varies greatly on what the equilibrium rate is, and members are concerned that publishing a single policy rate path would not help inform the market and the general public of probable developments in Central Bank interest rates.<sup>3</sup>

As Table 1 indicates, some central banks have used forward guidance to inform the market and the public of probable medium-term developments in interest rates instead of publishing a formal policy rate

<sup>3</sup>To address this, the US Federal Reserve Bank has opted to publish so-called dot plots showing individual committee members' expectations concerning future developments in interest rates and their long-term equilibrium. Opinion is divided on how useful this is, however, and taking such a step in Iceland would require a substantial investment in expert support for individual MPC members so as to enable them to prepare their own interest rate forecast (and thus their own macroeconomic and inflation forecast).

path.<sup>4</sup> This forward guidance entails specifying that interest rates will develop in a given way if economic developments align with the forecast. Sometimes, it is even specified how much rates will change or what they will be at a certain point in the future. Furthermore, forward guidance varies in form and frequency, but in most instances it is used when it is considered particularly necessary (such as in the past few years, when interest rates have widely been at or near their lower bounds). The same applies to Iceland: If the MPC has considered it warranted, it has signalled clearly that interest rates will develop in a given way in the coming term. A recent example can be seen in the MPC statements from the second half of 2015, when the Committee raised rates and stressed that further rate hikes would be forthcoming, all else being equal, after inflation and inflation expectations began to rise in the wake of large pay increases that spring.

Transparency is an important premise for successful monetary policy. On the other hand, care must be taken to ensure that publishing a policy rate path will actually enhance transparency and predictability of monetary policy. On the whole, the Central Bank does not consider it appropriate to publish a policy rate path for the baseline forecast at the present time, but it does not rule out the possibility of doing so in the future.<sup>5</sup> That said, it could be appropriate to examine whether the MPC's forward guidance could be further formalised and strengthened in some other way.

Finally, it is appropriate to stress that forward guidance or policy rate path publication as such is not a prerequisite for successful monetary policy. Successful monetary policy is based on forward-looking decision-making that responds systematically to economic conditions so as to ensure that inflation remains at target over the medium term. Therefore, "forward guidance" on future developments in interest rates consists of these systematic monetary policy responses. Circumstances could arise, however, where more detailed guidance on future developments in interest rates could enhance the impact of monetary policy, as has been the case in recent years, when central bank interest rates have been locked in at their lower bounds.

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<sup>4</sup>In all instances, these interest rate forecasts are conditional, no matter whether they are based on forward guidance or a formal interest rate path; i.e., they depend on medium-term economic developments. As a result, they do not constitute a formal pledge (i.e., an unconditional forecast) of future developments in interest rates, although markets and the public sometimes misconstrue them as such.

<sup>5</sup>The foreign experts who were entrusted with assessing the monetary policy framework also recommend against publishing a policy rate path. See Andersson and Jonung (2018) and Honohan and Orphanides (2018).

***Proposal 9:*** *The responsibilities of and support given to external Monetary Policy Committee members needs to be increased. Decision-making should be made more transparent with the publication of individual members' votes at the time of the decision. The Committee should give increased consideration to Delphic forward guidance in connection with interest rates.*

This proposal actually centres on two separate issues: first, expanding external MPC members' responsibilities and increasing the support provided to them, and second, further enhancing the transparency of monetary policy.

*(1) Responsibilities of and support for external MPC members*

MPC members bear responsibility for their decisions in that they must explain them publicly. By law, the MPC has submitted a twice-yearly report to Parliament, followed by a meeting with a Parliamentary committee to discuss the contents of the report. Often, one of the external MPC members has attended these meetings with the Governor and expressed his/her views there. Perhaps this channel for expression by external members could be formalised more fully. On the other hand, it is not in the Bank's power to decide to what extent MPC members attend Parliamentary committee meetings, and in recent years the MPC's time with the Economic Affairs and Trade Committee has grown increasingly shorter.

In response to the task force's suggestions on increased visibility and responsibility for external MPC members, the Committee has decided that beginning in 2019, external members will submit a separate annual report to Parliament after the full Committee's second report is sent. Thereafter, external members would be prepared to attend a Parliamentary committee meeting to discuss the contents of their report. Such an arrangement would give them a formal channel for clear communication of their own views on economic developments and monetary policy formulation.

Ever since the MPC was established, the Central Bank has attempted to provide external members with as much professional support as possible. During the prelude to each decision, all Committee members are sent a large volume of data, as well as appraisals and analyses. Members may also ask questions and request specific analyses. On the other hand, the Bank's Economics and Monetary Policy Department is relatively sparsely staffed, and the workload is heavy during each forecast preparation period.<sup>6</sup> As a result, it can be difficult to respond to

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<sup>6</sup>As is mentioned in the task force's report, the department's staff is small in international comparison. Edwards' (2018) appraisal of the Central Bank's monetary

requests from MPC members – internal and external alike – within the specified time frame.

As a result, the Bank has decided to expand the Economics and Monetary Policy Department staff by one employee who will assist external MPC members with analysis, presentations, and other matters. The job description will specify that support for external MPC members shall take priority but that otherwise the employee will participate in the department’s regular work.

*(2) Enhanced transparency of monetary policy*

Ever since the MPC began its work early in 2009, the minutes of its meetings have been published two weeks after each decision. This is a major departure from the previous arrangement and has greatly enhanced the transparency of monetary policy in Iceland.<sup>7</sup> As Table 2 indicates, this has placed the Central Bank in a category with most other inflation-targeting central banks, although there are some that still do not publish minutes of their meetings.

As can be seen in Table 3, whether and when individual committee members’ votes are published varies greatly. The central banks in the US, UK, Japan, and Sweden have gone furthest in this respect, publishing the results of voting and each member’s vote in the MPC statement. The Czech National Bank publishes this information in the minutes of the meeting, and the central banks in Australia, Canada, New Zealand, and Norway do not publish voting results or individual members’ votes.<sup>8</sup>

Table 2. Publication of minutes

| Central bank | Arrangement  |
|--------------|--|
| Australia    | Minutes published 2 weeks after decision                 |
| US           | Minutes published 3 weeks after decision                 |
| UK           | Minutes published concurrent with decision               |
| ECB          | Minutes published 4 weeks after decision                 |
| Japan        | Minutes published 6-9 weeks after decision               |
| Canada       | Minutes not published                                    |
| Norway       | Short summary of minutes published on an irregular basis |
| New Zealand  | Minutes not published                                    |
| Sweden       | Minutes published 2 weeks after decision                 |
| Czech Rep.   | Minutes published 2 days after decision                  |

*Sources:* Central bank websites and Hammond (2012).

policy framework notes in particular how much high-quality work this small department manages to do.

<sup>7</sup>International comparison shows that monetary policy transparency has increased significantly in Iceland in recent years and is now similar to that in, for example, Australia, the UK, Canada, and Norway. See Dincer and Eichengreen (2014) and Karen Áslaug Vignisdóttir (2016).

<sup>8</sup>This may change in Norway and New Zealand, however, where there are plans to establish monetary policy committees that may publish minutes and voting results.

The Central Bank of Iceland Monetary Policy Committee's arrangements are very similar to those in the Czech Republic, in that the voting results are published in the minutes of each meeting. In Iceland, however, the votes of individual members are not published until the *Annual Report* is released in the spring of the following year. The Bank agrees with the task force that it is appropriate to enhance monetary policy transparency in Iceland still further. The MPC has therefore decided that, beginning in 2019, each member's vote will be specified in the minutes of the meeting in question.

Table 3. Publication of individual MPC members' votes

| Central bank   | Arrangement   |
|----------------|---|
| Australia      | Does not publish information on individual votes                  |
| US             | Individual members' votes published in interest rate announcement |
| UK             | Individual members' votes published in interest rate announcement |
| ECB            | Does not publish information on individual votes                  |
| Japan          | Individual members' votes published in interest rate announcement |
| Canada         | Does not publish information on individual votes                  |
| Norway         | Does not publish information on individual votes                  |
| New Zealand    | Does not publish information on individual votes                  |
| Sweden         | Individual members' votes published in interest rate announcement |
| Czech Republic | Individual members' votes published in minutes                    |

*Sources:* Central bank websites and Hammond (2012).

As regards the suggestion that the MPC consider Delphic forward guidance, reference is made to the discussion on Proposal 8 above.

***Proposal 10:*** *The Central Bank shall contribute to increased information on monetary policy and the value of the inflation target, with the aim of enhancing the general public's understanding of the possibilities available and the limitations in place, and with the objective of contributing to greater consensus on policy.*

Transparency is an important premise for successful monetary policy. Transparency is no less important for enhancing understanding of the options available to monetary policy at any given time and of the reasons individual decisions have been made. Transparency is also an important foundation for the democratic authorisation that an independent central bank is granted to apply the instruments it has at its disposal, with the overall long-term interests of the country in mind.

Ever since the inflation target was adopted in 2001, the Central Bank has emphasised maximum transparency of its analyses, so that outside experts can assess the professional basis for the Bank's analysis and forecasting. On the other hand, it was clear that transparency about

monetary policy decisions was lacking at first. This changed significantly, however, when the Central Bank Act was amended in 2009 and the Monetary Policy Committee established. In addition to publishing the minutes of its meetings, the MPC is required to submit a twice-yearly report to Parliament and to attend open Parliamentary committee meetings twice a year. Monetary policy transparency has therefore increased markedly in the past decade (see Dincer and Eichengreen, 2014, Karen Áslaug Vignisdóttir, 2016, and Qvigstad and Schei, 2018).

Furthermore, the Bank has made a concerted effort to make the material it releases on monetary policy both more accessible and more comprehensible. The Bank's main publication on economic developments and prospects, *Monetary Bulletin*, has been made shorter, and metrics of its readability indicate that the text published there is easier for the public to understand than it was previously (see Thórarinn G. Pétursson, 2018).

It can therefore be said that the Bank performs well in communicating information to experts and explaining the premises for its decisions (see, for example, Honohan and Orphanides, 2018). The Bank has also sought ways to communicate more effectively with the public, including by using social media and by publishing articles on monetary policy and economic affairs in the press. Presentations on monetary policy and the economy are also held regularly at upper secondary schools and universities, as well as various non-governmental organisations. Moreover, the Bank regularly receives visits from a wide range of groups and gives presentations to them on its activities. On the other hand, the Bank agrees wholeheartedly with the task force that it needs to do a better job at educating the public about monetary policy and inflation targeting. This is actually a challenge for all central banks, and worldwide efforts to find new ways to explain monetary policy frameworks and decisions are underway. To some extent, this task has ended up on the back burner at the Central Bank in recent years, owing to the heavy workload related to crisis resolution, particularly the liberalisation of the capital controls. The Bank has already begun work aimed at improving this aspect of its activities, but it is clear that additional funding and staff will be needed for information and public relations work. This will be included in its budget for 2019.

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March 27, 2001

## **Declaration on inflation target and a change in the exchange rate policy**

(From March 27, 2001 – as amended by agreement between the Prime Minister of Iceland and the Board of Governors of the Central Bank of Iceland on November 11, 2005, cf. Press release no. 35/2005)

On March 27, 2001 the Prime Minister and the Governors of the Central Bank of Iceland signed a declaration on changes in the framework of monetary policy in Iceland. The declaration is as follows:

The Government of Iceland and the Central Bank of Iceland have decided the following changes in the framework of monetary policy in Iceland, effective March 28, 2001:

- (1) The main target of monetary policy will be price stability as defined below. The Central Bank shall also promote financial stability and the main objectives of the economic policy of the Government as long as it does not deem it inconsistent with the Bank's main objective of price stability.
- (2) Rather than basing monetary policy on keeping the exchange rate within a fluctuation band, the Central Bank will aim at keeping inflation within defined limits as specified below.
- (3) The change described above implies that the fluctuation limits for the króna are abolished. Nevertheless, the exchange rate will continue to be an important indicator in the conduct of monetary policy.
- (4) The Government grants full authority to the Central Bank to use its instruments in order to attain the inflation target.
- (5) Later this week, the Government will submit to Parliament a bill on a new Central Bank Act which, once enacted, will legally confirm the decisions described above on making price stability the main objective of monetary policy and on the independence of the Central Bank to use its instruments.
- (6) The inflation target of the Central Bank will be based on 12-month changes in the consumer price index as calculated by Statistics Iceland. Statistics Iceland will also be asked to calculate one or more indices which may be used to assess the underlying rate of inflation, as will be further agreed between the Central Bank and Statistics Iceland. The Central Bank will take note of such indices in its assessment of inflation and in the implementation of monetary policy.
- (7) The Central Bank will aim at an annual inflation rate of about 2½ per cent.

(8) If inflation deviates by more than 1½ percentage point from the target, the Central Bank shall bring it inside that range as quickly as possible. In such circumstances, the Bank will be obliged to submit a report to the Government explaining the reasons for the deviations from the target, how the Bank intends to react and how long it will take to reach the inflation target again in the Bank's assessment. The report of the Bank shall be made public.

(9) The Central Bank shall aim at attaining the inflation target of 2½ percent not later than by the end of 2003. In the year 2001, the upper Declaration on inflation target and a change in the exchange rate policy limit for inflation shall be 3½ percentage points above the inflation target but 2 percentage points above it in the year 2002. The lower limit for inflation will always be 1½ percentage point below the inflation target. Should inflation move outside the target range in 2001 and 2002, the Bank shall respond as set out in item 8 above.

(10) Despite the elimination of the fluctuation limits for the króna, the Central Bank will intervene in the foreign exchange market if it deems such action necessary in order to promote the inflation objective described above or if it thinks that exchange rate fluctuations might undermine financial stability.

(11) The Central Bank shall publish inflation forecasts, projecting inflation at least two years into the future. Forecasts shall be published in the Bank's Monetary Bulletin. This shall also contain the Bank's assessment of the main uncertainties pertaining to the inflation forecast. The Bank shall also publish its assessment of the current economic situation and outlook.

**[Amended text by agreement between the Prime Minister of Iceland and the Board of Governors of the Central Bank of Iceland on November 11, 2005]**

(12) The Central Bank shall in its publications explain how successful it is in implementing the inflation target policy. The Governors will also report to the Minister, the Government and committees of the Parliament on the policy of the Bank and its assessment of current economic trends and prospects.