Statement of the Monetary Policy Committee 7 February 2018

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 4.25%.

According to the Central Bank's new macroeconomic forecast, published in the February *Monetary Bulletin*, the outlook is for GDP growth to be somewhat weaker in 2017 and 2018 than was forecast in November. This is largely because exports grew more slowly than expected last year although it is offset to a degree by stronger domestic demand growth in both years, which stems mainly from increased investment and a more accommodative fiscal stance.

Inflation rose from 1.9% in December to 2.4% in January, mainly because of increased house prices in regional Iceland. Underlying inflation also rose somewhat. In the past six months, house price inflation has subsided, but the effects of previous appreciation of the króna have tapered off. This trend will probably continue in the near term. The króna has been broadly stable since the MPC's last meeting, as the foreign exchange market has been well balanced. The outlook is for inflation to remain close to target over the forecast horizon, and on the whole, inflation expectations have been in line with the target for some time.

The high real exchange rate has slowed export growth, and the outlook is for the positive output gap to narrow. Nevertheless, a tight monetary stance is needed to contain rapid domestic demand growth, in part because the outlook is for a less restrictive fiscal stance than previously expected. Furthermore, the outcome of wage settlements is still uncertain.