

Statement of the Monetary Policy Committee

16 May 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 May issue of *Monetary Bulletin*, the outlook is for GDP growth to ease between 2017 and 2018, owing to weaker export growth and a less rapid increase in domestic demand. Output growth has developed in line with the Bank's February forecast and, as was projected then, is expected to ease further in the next two years.

Inflation measured 2.5% in Q1/2018 and 2.3% in April. Underlying inflation is similar. Therefore, inflation has been broadly in line with the Bank's 2½% inflation target in recent months. The year-on-year rise in house prices has eased further, and the opposing effects of previous appreciation of the króna on inflation have diminished. This trend will probably continue in the near term. The exchange rate of the króna has been broadly stable since the last MPC meeting, and the foreign exchange market has remained well balanced. Neither the inflation outlook nor inflation expectations have changed to any marked degree since the Committee's last meeting.

The outlook is for the positive output gap to narrow. Nevertheless, a tight monetary stance is still needed in order to contain rapid demand growth. The short-term risk of unsustainable wage increases has receded, but there are still underlying pressures in the labour market.