

Statement of the Monetary Policy Committee

2 November 2011

The Monetary Policy Committee (MPC) of the Central Bank of Iceland has decided to raise interest rates by 0.25 percentage points.

Recent data and the Central Bank forecast published today in the *Monetary Bulletin* confirm that Iceland's economic recovery continues, despite weakening global growth and increased uncertainty. Output is expected to grow slightly faster in 2011 and 2012 than was forecast in August, and inflation is projected to be somewhat lower in coming quarters as a result of a stronger króna and lower imported inflation.

The nominal policy rate path required to bring inflation back to target is highly uncertain. In the near term, the current level seems broadly appropriate in light of the economic outlook, the continued appreciation of the króna, and potential international headwinds. Looking further ahead, however, it will be necessary to withdraw the current degree of monetary accommodation as the recovery progresses and the slack in the economy disappears. The degree to which such normalisation takes place through higher nominal rates will depend on future developments in inflation.

