

## Periodical Part

# Monetary Policy Committee report to Parliament / Sedlabanki Islands. 2023

Monetary Policy Committee report to Parliament / Sedlabanki Islands

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# REPORT

MONETARY POLICY COMMITTEE REPORT TO PARLIAMENT









# REPORT

MONETARY POLICY COMMITTEE REPORT  
TO PARLIAMENT 2023/1

29 June 2023

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# Monetary Policy Committee Report to Parliament 29 June 2023

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 new Act on the Central Bank of Iceland, which entered into force on 1 January 2020, requires that the Monetary Policy Committee meet at least six times each year. Since the last report was sent to Parliament, the Committee has held three meetings, most recently on 24 May 2023. The following report discusses the work of the Committee between January and June 2023.

## 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, including the assessment 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 first half of 2023.

## Developments from January to June 2023

The MPC decided at its February meeting to raise the Bank's interest rates by 0.5 percentage points, to 6.5%,

Table 1. Central Bank of Iceland interest rate decisions H1/2023 (%)

Date	Current accounts	Seven-day term deposits <sup>1</sup>	Collateralised loans	Overnight loans
8 February	6.25	6.50	7.25	8.25
22 March	7.25	7.50	8.25	9.25
24 May	8.50	8.75	9.50	10.50

1. Central Bank key interest rate.

Chart 1

Central Bank of Iceland key interest rate<sup>1</sup>

3 January 2001 - 28 June 2023



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.

as the inflation outlook had worsened and it appeared that it would take longer than previously anticipated to bring inflation down again. The deterioration in the outlook stemmed in particular from the recently finalised private sector wage agreements, which entailed considerably larger pay rises than previously assumed. There was also the prospect of a larger positive output gap and a more accommodative fiscal stance.

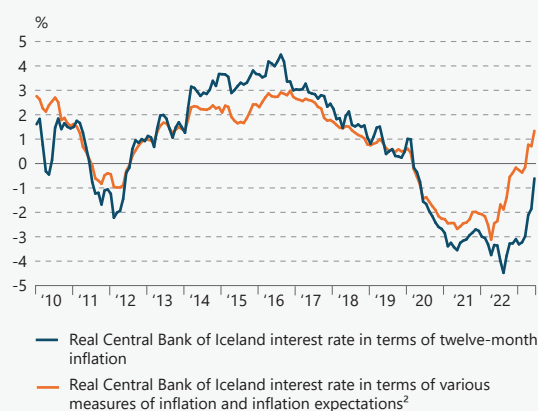
At its March meeting, the Committee decided to raise interest rates by an additional 1 percentage point, as inflationary pressures were still growing, price increases were ever more widespread, and the Bank's real rate had fallen between MPC meetings. GDP growth turned out to have been strong in 2022, domestic demand had grown more than projected, and the labour market was still very tight. Under such circumstances, it was important to prevent a wage-price spiral.

According to the Bank's new macroeconomic forecast, issued in May, the GDP growth outlook for 2023 had improved markedly since February. This was due in large part to the prospect of stronger growth in domestic demand and robust activity in the tourism industry. Underlying inflation had continued to increase, steep price hikes could be seen in a steadily growing share of the consumption basket, and the inflation outlook had worsened. Furthermore, long-term inflation expectations had risen and thus there was greater risk that inflation would become entrenched. The Committee considered it important to prevent a wage-price spiral, particularly in view of the strong demand pressures in the economy and how soon the next round of wage negotiations would begin. The Committee therefore decided to continue tightening the monetary stance and raised interest rates by 1.25 percentage points. The Bank's key rate was therefore 8.75% at the end of June 2023, or 2.75 percentage points higher than at the beginning of the year, when the Committee sent its last report to Parliament.<sup>1</sup> At the May meeting, the MPC also decided to increase deposit institutions' fixed reserve requirement from 1% to 2%.

The monetary stance as measured in terms of the Central Bank's real rate tightened in H1/2023, in the wake of the increase in the key rate. In terms of the average of various measures of inflation and one-year inflation expectations, the Bank's real rate was 1.2% at

Chart 2

Real Central Bank of Iceland interest rates<sup>1</sup>  
January 2010 - June 2023



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. Based on data through 28 June 2023. Sources: Gallup, Statistics Iceland, 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.

the end of June, or 1.5 percentage points higher than at the end of 2022. The real rate in terms of twelve-month inflation rose by 3.1 percentage points over the same period, to -0.1% at the end of June.

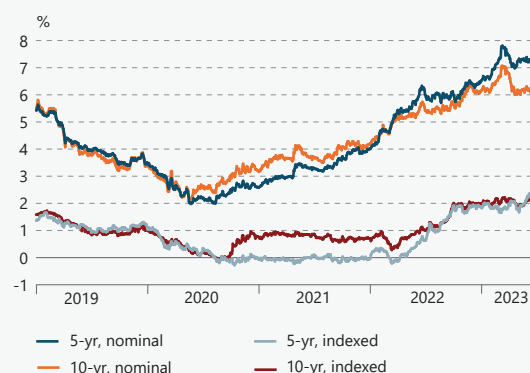
Nominal Treasury bond yields spiked early in the year, but at the beginning of March, yields on long-term nominal Treasury bonds began to fall, after having risen virtually uninterrupted since mid-2020. The yield on ten-year nominal Treasury bonds was 6.1% at the end of June, having fallen by 0.2 percentage points since the beginning of the year; however, it was 0.6 percentage points higher than at the end of June 2022. The yield on ten-year indexed Treasury bonds was around 2% at the end of June, and long-term indexed interest rates were therefore broadly at the end-2022 level, albeit 1 percentage point higher than at the end of June 2022.

Annual growth in M3 ranged between 7% and 9% in the first five months of the year and had eased somewhat relative to 2022. Households' share in growth increased, whereas businesses' share declined. Year-on-year growth in credit system lending to households eased in H1/2023. It measured 8.2% in April, down from the H2/2022 average of 9.7%. Higher interest rates and tighter borrower-based measures therefore seem to have begun affecting household lending. Interest rates on non-indexed residential mortgages continued to rise in H1/2023, in tandem with Central Bank rate hikes, although deposit rates offered to households have risen more rapidly. Indexed mortgage lending rates rose marginally in H1/2023. Interest rates on corporate loans also rose in H1, and credit spreads on corporate loans have widened relative to rates on the deposits available to businesses. Credit system lending to businesses picked up early in 2022, after contracting in 2021. It has continued to grow strongly in 2023 to date, increasing by an average of 14.6% over the first four months of the year.

Inflows of capital for new investment totalled around 37.8 b.kr. in the first five months of 2023 and were due almost exclusively to purchases of listed equities and Treasury bonds. Outflows of capital previously imported for new investment totalled 22.6 b.kr., mostly due to sales of listed shares. Net inflows relating to new investment therefore totalled 15.2 b.kr. in the first five months of 2023, as compared with 70.2 b.kr. in H2/2022.

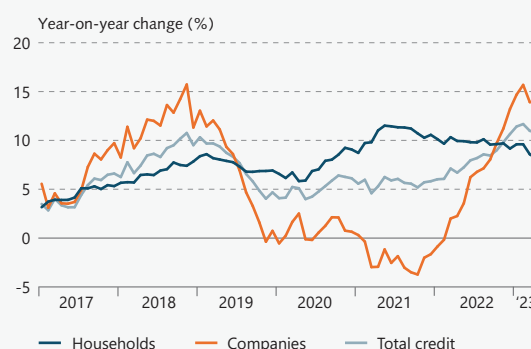
The króna began to depreciate in autumn 2022, and there were general downward pressures on the exchange rate as the winter progressed. This probably reflected rapidly growing imports and the current

Chart 3  
Government-guaranteed bond yields<sup>1</sup>  
2 January 2019 – 28 June 2023



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.

Chart 4  
Credit system lending<sup>1</sup>  
January 2017 – April 2023



1. Credit stock adjusted for reclassification and effect of Government debt relief measures. Excluding loans to deposit institutions, failed financial institutions and the Treasury. Companies include non-financial companies and non-profit institutions serving households.  
Source: Central Bank of Iceland.

account deficit, together with a shrinking interest rate differential with abroad. Towards the end of January, however, the króna began to strengthen despite the continued current account deficit, as the interest rate differential with abroad had widened in the wake of increased domestic interest rate hikes, positive capital flows due to new investment, and optimism about tourist arrivals in 2023. The exchange rate rose by over 3.4% in trade-weighted terms in H1/2023. The Central Bank sold foreign currency in the amount of 2.8 b.kr. in early January. This transaction, the Bank's only intervention in the foreign exchange market in H1, was equivalent to 2.2% of market turnover during the period.

Inflation peaked at 10.2% in February, and the outlook deteriorated relative to December. Inflation has begun to ease, however, measuring 8.9% in June, as compared with 9.6% in December 2022, when the last report was sent to Parliament. Inflation averaged 9.4% in Q2/2023, in line with the forecast in the May *Monetary Bulletin*. Inflation excluding housing measured 7.9% in June and has also subsided in recent months, after peaking at 8.9% in February 2023. Underlying inflation was 7.3%, according to the average of various measures, and has risen since December 2022, when it measured 7%.

The contribution of the housing component to headline inflation has tapered off recently, as housing market activity has slowed down. Owner-occupied housing costs were up by 13.1% year-on-year, as compared with a twelve-month increase of just over 19% at the end of 2022. The contribution from other subcomponents has increased, however.

Domestic goods prices have increased by 11.5% in the past twelve months, largely because of higher food prices, although most subcomponents have increased somewhat in price. Private services prices are up as well, by 9.4% year-on-year, and price increases have been spread across a range of services subcomponents, although rising airfares and restaurant prices have weighed heavily. Therefore, given the strength of domestic demand, there are signs that firms are passing a sizeable share of their cost increases through to prices. Imported inflation increased as well in the first few months of the year, after having held relatively stable in H2/2022. Food and other imported goods, such as clothing and furniture, weighed heavily in the increase. The year-on-year rise in imported food prices totalled 11.6% in June and has gathered pace since December, when it measured 7.6%. Petrol prices fell in H1, however, and were down 7.7% year-on-year in June.

Chart 5  
Exchange rate and volatility of the króna<sup>1</sup>  
4 January 2010 - 28 June 2023

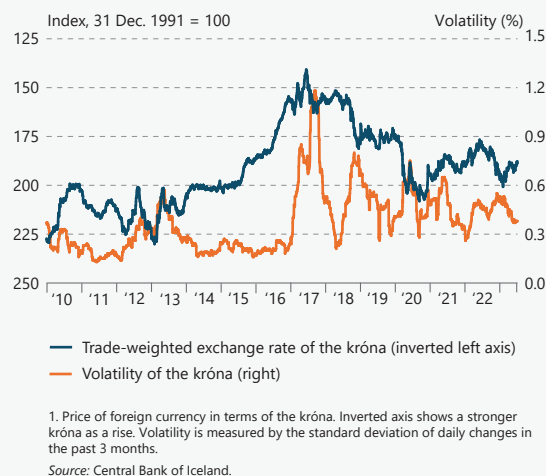


Chart 6  
Various measures of inflation  
January 2015 - June 2023

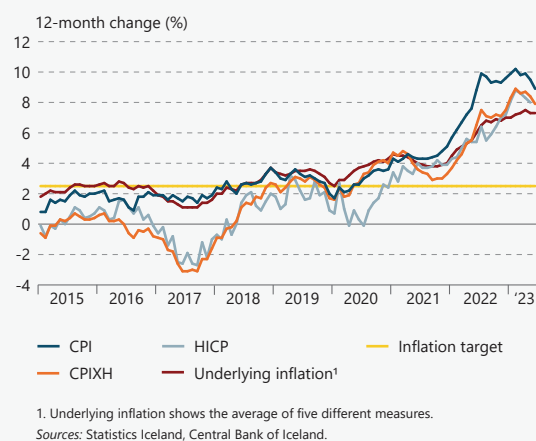
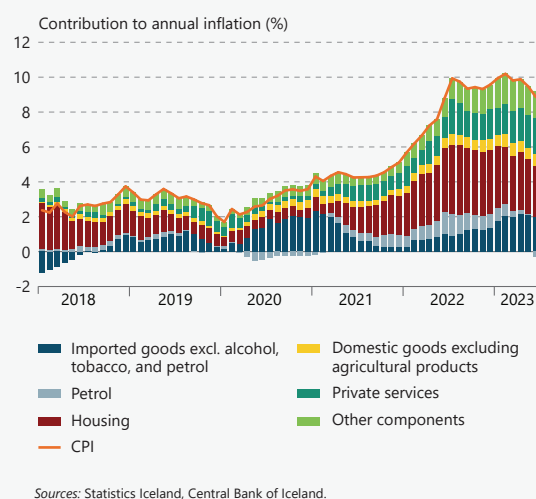


Chart 7  
Components of CPI inflation  
January 2018 - June 2023



Inflation outpaced forecasts in Q1, as inflationary pressures were stronger and more broad-based than previously anticipated. According to the forecast in the May *Monetary Bulletin*, inflation appears to have peaked. It is expected to ease gradually but not fall below 4% until the end of 2024. The inflation outlook has therefore deteriorated since December, when the last report was sent to Parliament. The deterioration of the inflation outlook is due in particular to poorer near-term prospects, which in turn stem from a weaker initial position. Furthermore, a larger positive output gap is expected, mainly because private consumption and investment are projected to be stronger.

Inflation expectations have risen by most measures since December. Short-term inflation expectations have been affected by the fact that inflation has been more persistent than expected. According to a recent market expectations survey, respondents' two-year inflation expectations had increased to 4.5%. According to Gallup's summer surveys, households' inflation expectations rose between surveys as well, to 7%, while corporate executives still expected inflation to measure 5% in two years' time.

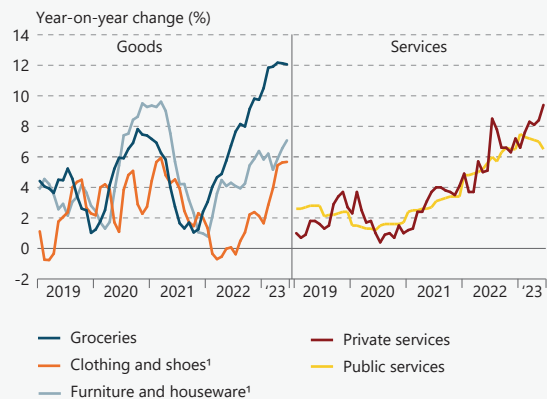
Long-term inflation expectations have developed similarly: market agents' inflation expectations five and ten years ahead have risen to an average of 4% over the next five years and 3.5% over the next ten years. Households expected inflation to average 6% over the next five years, the same as in the winter survey, while firms' long-term inflation expectations had increased to 5%. The breakeven inflation rate in the bond market declined in H1/2023, however: the five-year breakeven rate five years ahead was just over 3% at the end of June, down from 3.6% at the end of December.

At the MPC's May meeting, members agreed to tighten the monetary stance, as economic activity had been strong year-to-date and domestic demand was expected to grow more strongly than previously assumed. Furthermore, inflation had risen slightly between months, underlying inflation had continued to rise, and the anchoring of inflation expectations to target had weakened. The MPC discussed how soon the next round of wage negotiations were due to begin and how little time there was to make discernible progress. The labour market remained quite tight, unemployment was low, and worker shortages were widespread. In this context, Committee members discussed how the past few years' developments in real wages in Iceland had differed from those in other advanced economies. Robust real wage growth was one of the reasons inflation had been above target for so long

Chart 8

### Goods and services prices

January 2019 - June 2023

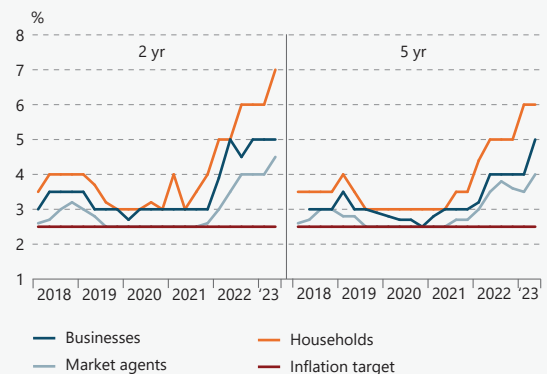


1. Based on a three-month moving average.  
Sources: Statistics Iceland, Central Bank of Iceland.

Chart 9

### Two- and five-year inflation expectations¹

Q1/2018 - Q2/2023

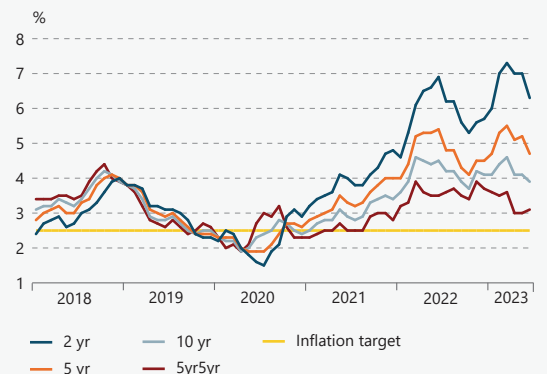


1. Gallup surveys of households' and businesses' inflation expectations and Central Bank survey of market agents' inflation expectations. Median responses.  
Sources: Gallup, Central Bank of Iceland.

Chart 10

### Breakeven inflation rate¹

January 2018 - June 2023



1. Monthly averages.  
Source: Central Bank of Iceland.



and had apparently become persistent. The Committee was therefore of the view that, in view of circumstances, it would be necessary to tighten the monetary stance still further. It was important to prevent a wage-price spiral, particularly in view of the strong demand pressures in the economy and how soon the next round of wage negotiations were due to begin. The outlook was for further rate hikes in order to ensure a better balanced economy and bring inflation back to target.

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

A handwritten signature in black ink, appearing to read 'Ásgeir Jónsson', with a stylized, cursive script.

*Ásgeir Jónsson*

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

# Statement of the Monetary Policy Committee

8 February 2023

The Monetary Policy Committee (MPC) of the Central Bank of Iceland has decided to raise the Bank's interest rates by 0.5 percentage points. The Bank's key interest rate – the rate on seven-day term deposits – will therefore be 6.5%.

Headline inflation gained pace in January, reaching 9.9%, while underlying inflation remained flat at 7%. Although the housing market has begun to cool and global inflation has eased slightly, inflationary pressures are still pronounced and price increases widespread.

The inflation outlook has worsened since the MPC's last meeting, and although inflation has most likely peaked, bringing it back to target will take longer than previously anticipated. The deterioration in the outlook stems in particular from the recently finalised private sector wage agreements, which entail considerably larger pay rises than previously assumed. Furthermore, the króna has depreciated, and the outlook is for a larger positive output gap during the forecast horizon. Added to this is the prospect of a more accommodative fiscal stance than was provided for in the Bank's November forecast, even though the fiscal deficit will narrow this year. Long-term inflation expectations are still well above target, and the Bank's real rate has declined since the MPC's last meeting.

According to the Bank's new macroeconomic forecast, year-2022 GDP growth measured 7.1%, far above the November forecast and, if the forecast materialises, the strongest GDP growth rate since 2007. GDP growth is set to weaken in 2023 but the labour market is expected to remain tight, however.

The MPC considers it likely that the monetary stance will have to be tightened even further in coming term so as to ensure that inflation eases back to target within an acceptable time frame.

# Statement of the Monetary Policy Committee

22 March 2023

The Monetary Policy Committee (MPC) of the Central Bank of Iceland has decided to raise the Bank's interest rates by 1 percentage point. The Bank's key interest rate – the rate on seven-day term deposits – will therefore be 7.5%.

Inflationary pressures are still growing, and price increases are becoming ever more widespread. Headline inflation is currently 10.2%, and underlying inflation is 7.2%. Long-term inflation expectations are still well above target, and the Bank's real rate has declined since the MPC's last meeting. The outlook is for inflation to be higher in the near future than was forecast in February, even though the housing market has cooled.

GDP growth was strong in 2022, and well above the level the domestic economy can sustain in the long run. Domestic demand grew more than was projected in February, and indicators imply that it was stronger at the beginning of 2023 than previously anticipated. Furthermore, the labour market is very tight.

Under these circumstances, it is important to prevent a wage-price spiral, particularly in view of the strong demand pressures in the economy and the upcoming wage negotiations. The MPC will apply its policy instruments so as to ensure a better balanced economy and bring inflation back to target.

## Statement of the Monetary Policy Committee

### 24 May 2023

The Monetary Policy Committee (MPC) of the Central Bank of Iceland has decided to raise the Bank's interest rates by 1.25 percentage points. The Bank's key interest rate – the rate on seven-day term deposits – will therefore be 8.75%.

The Committee has also decided to increase deposit institutions' fixed minimum reserve requirement from 1% to 2%.

Economic activity has been strong in 2023 to date, and the Central Bank's new macroeconomic forecast assumes that GDP growth will measure 4.8% this year instead of the 2.6% projected in February. This is due in large part to the prospect of stronger growth in domestic demand, although the outlook is also for more robust activity in the tourism industry.

Inflation measured 9.9% in April and rose slightly between months. Underlying inflation is still increasing, and steep price hikes can be seen in a steadily growing share of the consumption basket. The outlook is for considerably stronger inflationary pressures in 2023 and 2024 than was previously assumed.

Furthermore, long-term inflation expectations have risen and are well above target. Therefore, there is a greater risk that inflation will become entrenched.

In light of this, it is necessary to tighten the monetary stance still further. It is especially important to prevent a wage-price spiral, particularly in view of the strong demand pressures in the economy and how soon the next round of wage negotiations will begin. Therefore, the outlook is for further rate hikes in order to ensure a better balanced economy and bring inflation back to target.



# MINUTES

## MONETARY POLICY COMMITTEE



2023

February  
113th meeting  
Published 22 Feb. 2023

## Minutes of the Monetary Policy Committee meeting

February 2023 (113th meeting)

Published: 22 February 2023

The Act on the Central Bank of Iceland states that decisions on the application of the Bank's monetary policy instruments shall be taken by the Monetary Policy Committee (MPC). It also states that the minutes of MPC meetings shall be made public and an account given of the Committee's decisions and the premises on which they are based. On the basis of this statutory authority, the MPC publishes the minutes of each meeting two weeks after the announcement of each decision. The minutes also include information on individual members' votes.

The following are the minutes of the MPC meeting held on 6 and 7 February 2023, during which the Committee discussed economic and financial market developments, decisions on the application of the Bank's monetary policy instruments, and the communication of those decisions on 8 February.

### I Economic and monetary developments

Before discussing monetary policy decisions, 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 Committee's previous meeting, on 23 November 2022, as published in the updated forecast in *Monetary Bulletin* 2023/1 on 8 February.

#### Financial markets

Since the November meeting, the króna had depreciated by 2.8% in trade-weighted terms. Between meetings, the Bank sold foreign currency for 18 million euros (2.8 b.kr.). The Bank's transactions during the period accounted for 5% of total turnover in the foreign exchange market.

In terms of the Central Bank's real rate, the monetary stance eased since the November meeting. In terms of the average of various measures of inflation and inflation expectations, the Bank's real rate was -0.7%, or 0.5 percentage points lower than just after the announcement of the November interest rate decision. In terms of twelve-month inflation, it was -3.5% and had fallen by 0.4 percentage points over the same period.

Interest rates on unsecured overnight loans (the Icelandic króna overnight rate, or IKON) and rates in the interbank market for krónur rose in line with the increase in the key rate in November, with turnover in the market totalling 15 b.kr. between meetings. Yields on long-term nominal Treasury bonds had risen by as much as 0.3 percentage points since the November meeting, and yields on long-term indexed Treasury bonds had risen by up to 0.1 percentage points. Furthermore, average non-indexed mortgage

lending rates had risen following the rise in the key rate in November, and average indexed mortgage rates had risen marginally.

In terms of three-month interbank rates, the interest rate differential had narrowed against the euro by 0.4 percentage points between meetings, to 4.2 percentage points, but had widened by 0.2 percentage points against the US dollar, to 1.9 percentage points. At the same time, the long-term interest rate differential versus Germany had narrowed by 0.1 percentage points between meetings, to 4.3 percentage points, whereas the spread versus the US had widened by 0.3 percentage points, to 2.9 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 0.7%, and the spread between the Treasury's eurobonds and comparable bonds issued by Germany was 1.1 percentage points.

According to the Central Bank's quarterly market expectations survey, conducted in January 2023, respondents expected the Bank's key rate to rise to 6.25% in Q1 and then be lowered to 6% in Q4/2023. They expected it to measure 4.75% in two years' time. This is a higher interest rate than market agents expected at the time of the November survey. The share of respondents who considered the monetary stance too loose was 28%, up from 18% in the November survey. The share who considered it appropriate fell from 67% in November to 56% in January, while 16% of respondents considered the stance too tight.

Financial institutions' analysts expected the MPC to raise the Bank's interest rates by 0.5 percentage points, as inflation had picked up again and was widespread. Furthermore, the breakeven inflation rate in the bond market had risen, inflation expectations were still high, the króna had depreciated in the recent term, and the labour market was quite tight. They noted, however, that the real estate market had begun to cool and that indicators implied a slowdown in private consumption growth.

Growth in M3 had eased slightly in H2 but measured 8.9% in December. Annual growth in credit system lending is estimated to have measured just over 9% at the same time, with growth easing slightly towards the end of the year. Annual growth in lending to businesses grew markedly in 2022 and measured 13% in December.

The Nasdaq OMXI10 index had risen by 0.2% between meetings. Turnover in the Main Market totalled 1,032 b.kr. in 2022 as a whole, nearly 3% less than in 2021.

## **Global economy and external trade**

According to the International Monetary Fund's (IMF) late January forecast, global GDP growth is projected to measure 2.9% in 2023. This is 0.2 percentage points above the Fund's October 2022 forecast but well below the twenty-year average. Furthermore, GDP growth is expected to increase to 3.1% in 2024, slightly below the October forecast. Central bank interest rate hikes aimed at lowering inflation and Russia's war against Ukraine continue to weigh heavily on the global economy. The rapid spread of COVID-19 in China also lowered year-2022 GDP growth, although the recent easing of public health measures by the Chinese authorities suggests that this year's recovery will be stronger than previously anticipated. The IMF therefore projects that global inflation will fall from 8.8% in 2022 to 6.6% in 2023 and 4.3% in 2024. This is somewhat higher inflation than was forecast in October. Inflation in advanced economies is expected to measure 4.6% this year and 2.6% in 2024, which is also above the October forecast.

According to preliminary figures from Statistics Iceland, the deficit on goods trade measured 240 b.kr. in 2022, as compared with a deficit of 165 b.kr. at constant exchange rates in 2021. The deficit therefore grew by nearly 46% year-on-year, primarily because of strong growth in imports in H2 – fuel and investment goods in particular. Goods export values rose 37% in 2022, with all key subcategories up sharply year-on-year, mainly because of steep price increases. The strongest impact was from industrial goods, particularly aluminium products, whose prices rose markedly in H1. At the same time, the value of imported goods rose by 38%, while its share in GDP in H2/2022 was the highest since 2006. All key subcategories of goods imports contributed to the increase in 2022, led by fuels, which rose in value by 173% year-on-year.

Global aluminium prices had risen by just over 3% since the MPC's November meeting, to 2,500 US dollars per tonne. This is about 22% below the price seen at the beginning of February 2022, however. Preliminary figures from Statistics Iceland indicate that foreign currency prices of marine products rose by 2% quarter-on-quarter in Q4/2022 and by just under 21% year-on-year in 2022 as a whole. The global price of Brent crude fell by just over 5% between MPC meetings, to 84 US dollars per barrel by the time of the February meeting, a decline of nearly 10% relative to early February 2022.

The real exchange rate in terms of relative consumer prices fell by 1% month-on-month in December, when it was 2.1% above its 25-year average but 5.9% lower than in December 2019. It rose by 3.5% year-on-year in 2022, as the nominal exchange rate rose by 3.1%, while inflation in Iceland was 0.3 percentage points above the trading partner average.

## **Domestic economy and inflation**

Private consumption grew by 10.9% year-on-year in the first three quarters of 2022. Household spending remained strong in Q4, although indicators suggest that year-on-year private consumption growth lost pace during the quarter. Furthermore, households have grown more pessimistic as inflation and debt service have risen, indicating that year-on-year growth in private consumption will continue to lose pace in Q1/2023.

In December, the National Budget for 2023 was approved by Parliament with a deficit amounting to 3% of GDP. This is a larger deficit than was originally provided for in the fiscal budget proposal, and the outlook is for a considerably more accommodative fiscal stance than was assumed in the Bank's November forecast.

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 somewhat more negative than in the autumn survey. Their expectations six months ahead were also more negative than in the autumn. About 39% of executives – slightly fewer than in the autumn – expect economic conditions to improve over the next six months, while just under 40% expect them to be unchanged. In general, executives were more optimistic about foreign demand than about domestic demand, but their assessment is broadly unchanged since the autumn. The most optimistic among them were executives in manufacturing and in the transport, transit, and tourism sectors.

According to the seasonally adjusted survey results, many firms were still planning to add on staff. The balance of opinion on staffing plans was positive by 29 percentage points, and has remained close to that level since the summer 2021 survey. About 54% of executives considered themselves short-staffed, which is still close to the historical average. Furthermore, a comparable share of respondents reported that their firms would have difficulty responding to an unexpected increase in demand.



According to the Statistics Iceland labour force survey (LFS), total hours worked increased by 5.9% year-on-year in Q4/2022, owing entirely to a rise in the number of employed persons. The number of persons on the pay-as-you-earn (PAYE) register increased by about the same amount between years, or 5.7%.

Seasonally adjusted LFS figures for Q4/2022 show that the labour participation rate rose by 1 percentage point between quarters, to 80.4%. The employment rate increased slightly more, and unemployment therefore fell marginally between quarters, measuring 3.7%. At the same time, registered unemployment was even lower, at a seasonally adjusted 3.4%.

Iceland's population grew by 3.1% year-on-year in Q4/2022. The increase is attributable for the most part to growth in the foreign labour force, as net inward migration of foreign nationals was positive by 2,170 persons in Q4.

In Q4, the general wage index rose by 9.4% between quarters and by 8.3% year-on-year. At the same time, real wages in terms of the index were unchanged relative to Q4/2021.

Statistics Iceland's nationwide house price index, published in January, rose by 0.2% month-on-month, after adjusting for seasonality, and by 18.2% year-on-year. The capital area house price index, calculated by the Housing and Construction Authority, fell by 0.4% month-on-month in December when adjusted for seasonality, but rose by 17.4% year-on-year. The number of purchase agreements registered nationwide fell by 28.4% year-on-year in 2022, while the number of contracts for new construction increased by 27.1% over the same period. The number of homes for sale has increased markedly in recent months, and the average time-to-sale in the capital area was 3.3 months in December, considerably more than the December 2021 figure of 0.8 months.

The CPI rose by 0.85% month-on-month in January, and twelve-month inflation increased to 9.9%, thereby realigning with its July 2022 peak. Inflation excluding housing rose as well, to 8.3%. Underlying inflation was unchanged between December and January, however, at 7% in terms of the average of various measures.

A large share of the increases in January are attributable to price and price list increases set by the public sector, and the price of public services has risen by 7.5% in the past twelve months. Food and beverage prices have continued to rise unabated and are up 10.8% over the same period. A share of the recent price increases is due to the depreciation of the króna. Price cuts due to winter sales pulled in the opposite direction, however, and the effects of the sales were slightly stronger than they were last year.

Recent surveys show that inflation expectations are broadly unchanged between surveys by most measures. According to the Bank's market expectations survey, respondents still expect inflation to measure 4% in two years' time. Corporate executives and households are more pessimistic, however, and expect inflation to fall even more slowly. Executives still expect it to average 4% over the next five years, whereas households expect it to average 5% over the same period. Market agents are more upbeat about the long-term outlook, however. They expect inflation to average 3.5% in the next five years and 3.3% in the next ten years. Their expectations have also fallen marginally between surveys, as has the breakeven inflation rate in the bond market. The five-year breakeven rate five years ahead was 3.6% at the beginning of February, down from an average of 3.9% in November.

According to the updated forecast published in *Monetary Bulletin* on 8 February, the inflation outlook has deteriorated once again. Inflation is projected to average 9.5% in Q1/2023, which is 1 percentage point above the November forecast but in line with the August 2022 forecast. Long-term inflation expectations are broadly unchanged and remain well above the inflation target. It is still considered to have peaked but is now expected to ease considerably more slowly than was forecast in November:

Although pessimism about the global economy has receded, the GDP growth outlook for advanced economies remains poor. GDP growth in trading partner countries is expected to be only 0.6% this year, far below the average of recent decades. Global inflation remains high, although it has receded from last year's peak. It will probably take some time to bring it back to target, as underlying inflation is still high.

In Iceland, GDP growth measured 7.4% over the first nine months of 2022, outpacing the Bank's November forecast. To a large degree, the deviation reflects Statistics Iceland's upward revision of H1 GDP growth. Although indicators suggest that GDP growth eased in Q4, the growth rate for 2022 as a whole has been revised upwards from 5.6% to 7.1% – the fastest calendar-year growth rate since 2007, if the forecast materialises. GDP growth is still expected to lose pace in 2023. It is estimated at 2.6%, slightly below the November forecast. The outlook for the forecast horizon as a whole has also deteriorated marginally.

The new wage agreements are clearly costlier and more front-loaded than was assumed in the Bank's last baseline forecast, and the outcome is similar to that in the alternative scenario from *Monetary Bulletin* 2022/4 providing for larger pay rises. In the last baseline forecast, wages per hour were estimated to have increased by 7.8% between annual averages in 2022 and were projected to rise another 6% in 2023, for a total of 14.3% over the two years combined. They are now estimated to have risen by 8.6% in 2022, followed by 9.4% this year, or 18.8% over the same two-year period.

As before, the economic outlook is highly uncertain. The global economic situation will depend in large part on developments in the war in Ukraine, which unavoidably affects Iceland as well. Added to this is pronounced uncertainty about developments in the wake of the wage agreements, which provide for hefty pay rises at a time of little or no productivity growth, worsening terms of trade, a weakening currency, and less firmly anchored inflation expectations. Under such conditions, it is possible that the falling exchange rate and rising wages will push inflation higher than it has been in the past decade. Moreover, not all wage agreements have been finalised, and pay rises could turn out larger than is currently anticipated. Similarly, if the new wage agreements expiring a year from now are renewed on terms similar to those recently negotiated, wages could rise by more in the latter half of the forecast horizon than is provided for in the baseline.

## II Decisions on the Bank's monetary policy instruments

The MPC discussed the monetary stance in view of economic developments and the fact that the Bank's real rate had fallen since the November meeting. Members discussed whether the monetary stance was appropriate in view of the inflation outlook, as the Committee had decided at its November meeting to raise interest rates still further. At that time, both observed and underlying inflation had risen, and the economic outlook for 2023 had improved.

Members noted that inflation had gained pace in January, reaching 9.9%, while underlying inflation had remained flat at 7%. Although the housing market had begun to cool and global inflation had eased slightly, inflationary pressures were still pronounced and price increases widespread. Furthermore, the correlation between price increases of CPI subcomponents was growing stronger.

The Committee noted that the inflation outlook had worsened since the MPC's last meeting, and that although inflation had most likely peaked, bringing it back to target would take longer than previously anticipated. It emerged that the deterioration in the outlook stemmed in particular from the recently finalised private sector wage agreements, which entailed considerably larger pay rises than had been assumed in November. Furthermore, the króna had depreciated, and it emerged that the outlook was for a wider positive output gap over the forecast horizon. MPC members noted that this was

compounded by the prospect of a more accommodative fiscal stance than had been provided for in the Bank's November forecast, even though the fiscal deficit would narrow this year. Moreover, long-term inflation expectations were still well above target, and the Bank's real rate had declined since the MPC's last meeting.

Members noted that according to the Bank's new macroeconomic forecast, year-2022 GDP growth had measured 7.1%, far above the November forecast and, if the forecast materialised, the strongest single-year GDP growth rate since 2007. The deviation was due mainly to private consumption growth, which had exceeded forecasts. It emerged that GDP growth was set to weaken in 2023, although the labour market was still expected to remain tight.

All members agreed that the Bank's key rate needed to be raised further, and they discussed rate increases ranging from 0.5-1 percentage point. The main arguments discussed centred on the significant worsening of the inflation outlook. Although the bleaker outlook could be traced in part to the initial position, owing to the steep increase in inflation in January, MPC members agreed that the January measurement had little effect on the decision now. What was important was that it would probably take longer than previously assumed to bring inflation back to target, due to steep pay rises and other signs of increased inflationary pressures. Inflation had remained high for some time, and consequently, there was greater risk of it becoming entrenched. It was pointed out that there were few signs that inflation had begun to subside, and the share of CPI components that had risen far in excess of the inflation target in the past year was still growing. Inflation excluding housing was still rising rapidly. Furthermore, the labour market was still considerably tight, and domestic demand was strong. The newly negotiated wage agreements were costlier and more front-loaded than had been assumed at the MPC's last meeting. The Committee was concerned that when large pay rises coincided with a tight labour market, it could lead to wage drift and stronger inflationary pressures. Moreover, not all wage agreements had been finalised, and pay rises therefore could turn out larger than is currently anticipated. Furthermore, the króna had depreciated recently, which would lead to higher imported inflation, all else being equal. This was particularly relevant when inflation was high and inflation expectations less firmly anchored to the target. The impact of a weaker króna and general cost increases could therefore turn out stronger than in the past decade. In the same vein, it was pointed out that this would make it less likely for recent reductions in commodity prices to pass through to prices in Iceland. In addition to this was the prospect that the fiscal stance in the National Budget would be more accommodative than had been provided for in the fiscal budget proposal. Furthermore, the monetary stance had eased between meetings despite the interest rate hike at the Committee's last meeting.

On the other hand, there were clear signs of a slowdown in the housing market, and nominal house prices in greater Reykjavík had fallen marginally. The Bank's policy actions had clearly begun to affect the market; for example, growth in lending to households had lost pace. Furthermore, there were signs of slower private consumption growth, and pessimism among households had grown in the recent term. It was pointed out that underlying inflation had been unchanged in January, although it was too soon to say whether it had peaked.

In view of the discussion, the Governor proposed that the Bank's interest rates be raised by 0.5 percentage points. The Bank's key rate (the seven-day term deposit rate) would be 6.5%, the current account rate 6.25%, the seven-day collateralised lending rate 7.25%, and the overnight lending rate 8.25%. All members voted in favour of the Governor's proposal, although Herdís Steingrimsdóttir would have preferred to raise rates by 0.75 percentage points.

It emerged at the meeting that the Committee considered it likely that the monetary stance would have to be tightened even further in the coming term so as to ensure that inflation eases back to target within an acceptable time frame.

The following Committee members were in attendance:

Ásgeir Jónsson, Governor and Chair of the Monetary Policy Committee

Rannveig Sigurdardóttir, Deputy Governor for Monetary Policy

Gunnar Jakobsson, Deputy Governor for Financial Stability

Gylfi Zoëga, Professor, external member

Herdís Steingrímsdóttir, Associate Professor, external member

Thórarinn G. Pétursson, Chief Economist of the Central Bank, was present for the entire meeting. In addition, several Bank staff members attended part of the meeting.

Karen Á. Vignisdóttir wrote the minutes.

The next Statement of the Monetary Policy Committee will be published on Wednesday 22 March 2023.



# MINUTES

## MONETARY POLICY COMMITTEE



2023

March  
114th meeting  
Published 5 April 2023

## Minutes of the Monetary Policy Committee meeting

March 2023 (114th meeting)

Published 5 April 2023

The Act on the Central Bank of Iceland states that decisions on the application of the Bank's monetary policy instruments shall be taken by the Monetary Policy Committee (MPC). It also states that the minutes of MPC meetings shall be made public and an account given of the Committee's decisions and the premises on which they are based. On the basis of this statutory authority, the MPC publishes the minutes of each meeting two weeks after the announcement of each decision. The minutes also include information on individual members' votes.

The following are the minutes of the MPC meeting held on 20 and 21 March 2023, during which the Committee discussed economic and financial market developments, decisions on the application of the Bank's monetary policy instruments, and the communication of those decisions on 22 March.

### I Economic and monetary developments

Before turning to monetary policy decisions, 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 Committee's last meeting, on 8 February 2023.

#### Financial markets

Since the February meeting, the króna had appreciated by 1.5% in trade-weighted terms. The Central Bank conducted no transactions in the market during the period.

In terms of the Central Bank's real rate, the monetary stance eased since the February meeting. In terms of the average of various measures of inflation and inflation expectations, the Bank's real rate was -0.5%, or 0.3 percentage points lower than just after the announcement of the February interest rate decision. In terms of twelve-month inflation, it had fallen by 0.3 percentage points over the same period, to -3.4%.

Interest rates on unsecured overnight loans (the Icelandic króna overnight rate, or IKON) and rates in the interbank market for krónur rose in line with the increase in the key rate in February, with turnover in the market totalling 3 b.kr. between meetings. Yields on long-term nominal Treasury bonds had risen by as much as 0.6 percentage points since the February meeting, while yields on long-term indexed Treasury bonds had only risen marginally. Furthermore, average non-indexed mortgage lending rates had risen following the rise in the key rate in February, and average indexed mortgage rates had risen marginally.

In terms of three-month interbank rates, the short-term interest rate differential versus the euro area had widened by 0.5 percentage points between meetings, to 4.6 percentage points, while the spread

versus the US had widened by 0.6 percentage points, to 2.5 percentage points. At the same time, the long-term interest rate differential versus Germany had widened by 0.7 percentage points between meetings, to 5 percentage points, whereas the spread versus the US had widened by 0.7 percentage points, to 3.7 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 1.2 percentage points.

Financial institutions' analysts expected the MPC to raise the Bank's interest rates by 0.75 percentage points, as inflation had picked up, price increases were widespread, and underlying inflationary pressures were strong. Furthermore, the breakeven inflation rate in the bond market had increased and the Bank's real rate had fallen. Moreover, the labour market was tight and domestic demand could prove more resilient than expected. Analysts mentioned, however, that the króna had strengthened recently and that higher interest rates and tighter borrower-based measures had cooled the housing market.

Growth in M3 had eased slightly in H2/2022 but measured 9.2% in January 2023. At the same time, annual growth in credit system lending to households was estimated at just under 10%. Year-on-year growth was still strong, but net new lending to households had begun to ease. Annual growth in corporate lending had continued to gain pace, measuring about 14.8% in January.

The Nasdaq OMXI10 index had fallen by 4.8% between meetings. Turnover in the Main Market totalled 171 b.kr. in the first two months of 2023, just over 3% less than during the same period in 2022.

## **Global economy and external trade**

According to the Organisation for Economic Cooperation and Development's (OECD) mid-March forecast, global GDP growth is set to measure 2.6% this year and 2.9% in 2024. This is 0.4 and 0.2 percentage points more, respectively, than in the OECD's November 2022 forecast, but is still below the average of recent decades. Global economic activity has proven more robust year-to-date than the OECD had expected in November, and labour market conditions have remained favourable, supporting private consumption growth. Furthermore, expectations about the economic situation have improved, and leading indicators suggest that economic activity has gained pace in major advanced economies. A major factor in this is the slide in global energy and commodity prices, which contributes to the decline in global inflation and has a positive effect on households' purchasing power. In addition, the relaxation of public health measures in China and the ensuing improvement in the economic outlook there will have a positive impact on the global economy. On the other hand, financial conditions have deteriorated in line with the continued rise in central bank interest rates. The OECD expects inflation in the G20 countries to ease from last year's 8.1% to 5.9% this year, slightly below its November forecast. In addition, inflation is projected to fall to 4.5% in 2024, or 0.9 percentage points lower than in the previous forecast.

According to preliminary figures from Statistics Iceland, the deficit on goods trade measured 28 b.kr. in the first two months of 2023, as compared with a deficit of 10 b.kr. at constant exchange rates over the same five-month period in 2022. Imported goods values increased by 13% at constant exchange rates in the first two months of 2023, and all key subcomponents of imports apart from transport equipment are still growing markedly. At the same time, exported goods values rose by around 2% at constant exchange rates, due to the offsetting effects of higher marine and industrial goods export values and lower aluminium and ferrosilicon values, which declined because of falling prices.



Global aluminium prices fell by 10% after the MPC's February meeting, to just over 2,200 US dollars per tonne, about a third below the March 2022 price. Preliminary figures from Statistics Iceland indicate that foreign currency prices of marine products fell by 0.5% month-on-month in January but had risen by 12% year-on-year. The global price of Brent crude fell by 12% between MPC meetings, to 74 US dollars per barrel by the time of the March meeting, about 36% below the March 2022 price. The recent decline in oil prices is due largely to increased global economic uncertainty following the collapse of a few financial institutions in the US earlier in March.

The real exchange rate in terms of relative consumer prices rose by 1.6% month-on-month in January, when it was 3.1% above its 25-year average but 5.8% lower than in December 2019. In the first two months of 2023, it was down by 3.6% compared with the same period in 2022, as the nominal exchange rate of the króna was 5.5% lower and inflation in Iceland was 2.2 percentage points above the trading partner average.

## Domestic economy and inflation

According to preliminary figures published by Statistics Iceland at the end of February, GDP growth measured 3.1% in Q4/2022, somewhat below the forecast in the February *Monetary Bulletin*. For the most part, the deviation is due to the fact that Statistics Iceland no longer includes intellectual property with services trade, whereas if it had been included, GDP growth would have measured 6.7%, thereby exceeding the forecast. Domestic demand remained relatively strong during the quarter, even though the pace eased slightly. National expenditure increased by 3.4% in Q4 and was therefore stronger than forecast, if public consumption and residential investment are excluded.

GDP growth measured 6.4% in 2022, as compared with the Bank's forecast of 7.1%, but it would have measured 6.6% if intellectual property had been included. Last year's GDP growth is attributable to a strong increase in private consumption and investment. According to Statistics Iceland's figures, private consumption growth was in line with the February forecast and investment growth somewhat above it. Exports were up 20.6% year-on-year and imports by 19.7%, and the contribution from net trade was therefore negative by 0.1 percentage points.

Key indicators of developments in private consumption in Q1/2023 suggest continued strong demand. Year-on-year growth in payment card turnover was robust, exceeding expectations. Households are still relatively pessimistic according to the Gallup Consumer Confidence Index, which averaged 96.5 points in January and February. Nevertheless, they are slightly less pessimistic than in Q4/2022, when the index averaged 93.7 points.

According to the results of Gallup's spring survey, conducted in February and March among Iceland's 400 largest firms, respondents' attitudes towards the current economic situation were slightly more negative than in the winter survey. Their expectations six months ahead were also negative, albeit less so than in the winter, as just under 28% of executives expected the economic situation to improve in six months' time, a somewhat larger share than in the winter. Nearly 35% of executives expected economic conditions to deteriorate in the next six months. Executives were marginally more optimistic about domestic demand and far more optimistic about foreign demand than in the winter survey, particularly those in miscellaneous specialised services and retail and wholesale trade.

Companies' earnings prospects have deteriorated since the autumn survey, with only a fourth of executives expecting this year's profits to exceed those in 2022, while a third of them expected profits to be lower this year. Some 32% of firms saw their margins contract in the previous six months, while



26% of firms' margins increased. Executives' expectations about margins in the next six months had also worsened, with a third of respondents expecting margins to contract over the period and another 44% expecting them to remain unchanged. Furthermore, the number of executives expecting to invest more this year than in 2022 declined between surveys, although 52% of respondents expect their investment to remain unchanged year-on-year.

The seasonally adjusted results of Gallup's spring survey show that firms still expect to recruit large numbers of workers, although they have scaled down their plans since the previous survey. The balance of opinion on staffing plans (i.e., firms planning to recruit as compared with those planning redundancies) was positive by 18 percentage points, whereas it had been positive by 28 percentage points in the winter survey. Nevertheless, it was still a full 10 percentage points above its historical average. About 44% of executives considered themselves short-staffed, a somewhat smaller share than in the previous survey but still large in historical context. The share of companies operating at close to full capacity rose between surveys, though, to 58%, and is therefore near its historical peak of 60%.

The wage index rose by 0.2% month-on-month in January and by 8.6% year-on-year, and real wages were 1.3% lower during the month than at the same time in 2022. According to preliminary figures from Statistics Iceland, the wage share (wages and related expenses relative to gross factor income) was 59.2% in 2022, or 1.2 percentage points lower than in 2021 and 0.5 percentage points below the twenty-year average. Statistics Iceland revised salaries and related expenses downwards, mostly in 2020 and 2021; therefore, the increase in 2022 was somewhat smaller than had been assumed in the Bank's February forecast.

Statistics Iceland's nationwide house price index, published in late February, declined 0.2% month-on-month when adjusted for seasonality, but rose 15.9% year-on-year. The capital area house price index, calculated by the Housing and Construction Authority, was flat month-on-month in January when adjusted for seasonality, but rose by 14.9% year-on-year. The number of purchase agreements registered nationwide fell by 42% year-on-year in January, while the number of contracts for new construction declined by nearly 62% over the same period. The average time-to-sale in the capital area was 4.2 months in January, considerably more than the January 2022 figure of 0.8 months, as the number of homes for sale has increased significantly in recent months.

The CPI rose by 1.39% month-on-month in February, and twelve-month inflation increased to 10.2%, its highest since September 2009. Inflation excluding housing also rose in February, to 8.9%. The difference between inflation including and excluding housing has shrunk recently. Underlying inflation also increased between months, to 7.2% according to the average of various measures.

As is customary at this time of year, end-of-sale effects were discernible in February, and the price of clothing, footwear, furniture, and housewares rose. Furniture and housewares prices rose well in excess of end-of-sale effects. Food prices continued to rise and are now more than 12% higher than they were a year ago. The price of various subcomponents of services has increased as well, and private services prices are now up 7.6% year-on-year. Price increases were therefore very widely distributed in February.

Households' and businesses' two-year inflation expectations were unchanged, according to Gallup's spring survey. Corporate executives expect inflation to measure 5% in two years' time, while households expect it to measure 6%. Businesses' long-term inflation expectations were unchanged as well, at 4%, whereas households' long-term expectations rose, and they now expect inflation to average 6% over the next five years. The breakeven inflation rate in the bond market had risen since the Committee's February meeting, and the five-year breakeven rate five years ahead was around 3.7% in mid-March.

## II Decisions on the Bank's monetary policy instruments

The MPC discussed the monetary stance in view of economic developments and the fact that the Bank's real rate had fallen since the February meeting. Members discussed whether the monetary stance was appropriate in view of the inflation outlook, as the Committee had decided at its February meeting to raise interest rates still further. At that time, inflation had risen and the inflation outlook had continued to deteriorate. The bleaker outlook stemmed mainly from the recently finalised private sector wage agreements, which entail considerably larger pay rises than previously assumed, and the prospect of a larger positive output gap and a more accommodative fiscal stance.

Committee members noted that inflationary pressures were still growing and price increases were becoming ever more widespread. Headline inflation was currently 10.2%, and underlying inflation was 7.2%. Moreover, long-term inflation expectations were still well above target, and the Bank's real rate had declined since the MPC's last meeting. The Committee discussed the outlook for inflation, which was set to be higher in the near future than had been forecast in February, even though the housing market had cooled.

Members noted that GDP growth had been strong in 2022, and well above the level the economy could sustain in the long run. Furthermore, domestic demand had grown more than was projected in February, and indicators implied that it was stronger at the beginning of 2023 than had previously been anticipated. Furthermore, the labour market was tight.

All members agreed that the Bank's key rate needed to be raised further, and they discussed rate increases ranging from 0.75-1 percentage point. The main arguments expressed were that inflationary pressures were still considerable and the domestic economy strong. Domestic demand had been more resilient than expected, and large pay rises and tension in the labour market manifested themselves in increased cost pressures. Committee members agreed that the concerns expressed at the February meeting, which centred on the inflationary impact of wage agreements and the depreciation of the króna at the beginning of the year, had apparently materialised. It seemed that a large proportion of the increased cost pressures had been passed directly through to the price level, and there was the risk that this would continue in coming months. Given the strength of overall demand, it was possible that last year's decline in global oil and commodity prices and the reduction in shipping costs would be less likely to lead to lower prices in Iceland. Furthermore, inflation was still on the rise in many trading partner countries. It emerged that growth in credit system lending to businesses was still gaining pace in spite of interest rate hikes, and that the majority of the loans bore variable interest rates. Nominal year-on-year growth in total credit system lending was therefore still strong even though net new lending to households had lost pace. The MPC also discussed the fiscal stance and the forthcoming fiscal plan, but as had emerged at the February meeting, the outlook was still for a more accommodative fiscal stance than had previously been assumed. As a result, the MPC considered it apparent that few factors were in place at present that would dampen the strength of the domestic economy. However, housing market activity had slowed down, and it was clear that the Bank's actions affected the market. Members also discussed the past few weeks' unrest in international financial markets. They noted that poorer financial conditions could accelerate the downturn in economic activity and that inflation could therefore fall faster than was currently projected. The Committee was therefore of the view that the global economic outlook had grown more uncertain.

In the Committee's opinion, it was vital to make discernible progress quickly, given how widespread inflation was, how high inflation expectations were, and how little time there was until the next wage agreements. Members therefore considered it crucial to ensure that inflation would fall swiftly and reliably in the near future, even though the measures taken could have a substantial impact on economic

activity. It was essential to push back against the second-round effects of cost increases on the price level that now appeared to have emerged, and to ensure that the monetary stance would tighten quickly.

In view of the discussion, the Governor proposed that the Bank's interest rates be raised by 1 percentage point. The Bank's key rate (the seven-day term deposit rate) would be 7.5%, the current account rate 7.25%, the seven-day collateralised lending rate 8.25%, and the overnight lending rate 9.25%. All Committee members voted in favour of the proposal.

Members agreed that under these circumstances, it was important to prevent a wage-price spiral, particularly in view of the strong demand pressures in the economy and the upcoming wage negotiations. The MPC would apply its policy instruments so as to ensure a better balanced economy and bring inflation back to target.

The following Committee members were in attendance:

Ásgeir Jónsson, Governor and Chair of the Monetary Policy Committee

Rannveig Sigurdardóttir, Deputy Governor for Monetary Policy

Gunnar Jakobsson, Deputy Governor for Financial Stability

Herdís Steingrímisdóttir, Associate Professor, external member

Ásgerdur Ósk Pétursdóttir, Assistant Professor, external member

Thórarinn G. Pétursson, Chief Economist of the Central Bank, was present for the entire meeting. In addition, several Bank staff members attended part of the meeting.

Karen Á. Vignisdóttir wrote the minutes.

The next Statement of the Monetary Policy Committee will be published on Wednesday 24 May 2023.



# MINUTES

## MONETARY POLICY COMMITTEE



2023

May  
115th meeting  
Published 7 June 2023

## Minutes of the Monetary Policy Committee meeting

May 2023 (115th meeting)

Published 7 June 2023

The Act on the Central Bank of Iceland states that decisions on the application of the Bank's monetary policy instruments shall be taken by the Monetary Policy Committee (MPC). It also states that the minutes of MPC meetings shall be made public and an account given of the Committee's decisions and the premises on which they are based. On the basis of this statutory authority, the MPC publishes the minutes of each meeting two weeks after the announcement of each decision. The minutes also include information on individual members' votes.

The following are the minutes of the MPC meeting held on 22 and 23 May 2023, during which the Committee discussed economic and financial market developments, decisions on the application of the Bank's monetary policy instruments, and the communication of those decisions on 24 May.

### I Economic and monetary developments

Before discussing monetary policy decisions, 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 Committee's last meeting, on 22 March 2023, as published in the new forecast and analysis of uncertainties in *Monetary Bulletin* 2023/2 on 24 May.

#### Financial markets

Since the March meeting, the króna had depreciated by 0.6% in trade-weighted terms. The Central Bank conducted no transactions in the market during the period.

In terms of the Central Bank's real rate, the monetary stance had eased since the March meeting. In terms of the average of various measures of inflation and one-year inflation expectations, the Bank's real rate was 0.3%, or 0.2 percentage points lower than just after the announcement of the March interest rate decision. In terms of twelve-month inflation, however, it was -2.2% and had risen by 0.3 percentage points over the same period.

Interest rates on unsecured overnight loans (the Icelandic króna overnight rate, or IKON) and rates in the interbank market for krónur rose in line with the increase in the key rate in March, but there had been no turnover in the market since the MPC's last meeting. Yields on long-term nominal Treasury bonds had fallen by 0.6 percentage points since the March meeting, whereas yields on long-term indexed Treasury bonds were virtually unchanged. Furthermore, average non-indexed mortgage lending rates had risen following the rise in the key rate in March, and average indexed mortgage rates had increased marginally.

In terms of three-month interbank rates, the short-term interest rate differential had widened by 0.7-0.8 percentage points between meetings, to 5.3 percentage points versus the euro area and 3.3 percentage points versus the US. At the same time, the long-term interest rate differential had narrowed by 0.7-0.8 percentage points, to 4.2 percentage points versus Germany and 2.9 percentage points versus the US. Measures of the risk premium on the Treasury's foreign obligations had fallen marginally between meetings. The CDS spread on the Treasury's five-year US dollar obligations was 0.6%, and the spread between the Treasury's eurobonds and comparable bonds issued by Germany was 1.1-1.4 percentage points.

According to the Central Bank's quarterly market expectations survey, conducted in May 2023, respondents expected the Bank's key rate to rise to 8.5% in Q2 and then begin to fall in Q1/2024. They expected the key rate to be 8.25% one year ahead and 6% two years ahead. The share of respondents who considered the monetary stance too loose had more than doubled between surveys, from 28% to 66%. The share who considered it appropriate declined accordingly, from 56% to 17%, while another 17% considered the monetary stance too tight.

Financial institutions' analysts expected the MPC to raise the Bank's interest rates by 1 percentage point, on the grounds that inflation had been more persistent than expected and increasingly broad-based. Furthermore, underlying inflation had continued to rise and inflation expectations were still high, and it was important to bring expectations down because of how soon the next round of wage negotiations was set to begin. They also mentioned the tight labour market, strong demand, and the improved outlook for year-2023 GDP growth. On the other hand, there were signs that demand could ease in coming months.

Year-on-year growth in M3 slowed marginally at the beginning of the year and measured 9% in March. The weight of household deposits in year-on-year growth increased again, while growth in corporate deposits eased, although it remains robust. Year-on-year growth in household lending eased at the same time, measuring 8.5% in March, while corporate lending growth remained strong, at 13.9% year-on-year as of March. According to the lending survey conducted by the Central Bank in April, commercial banks assume that the supply of credit to businesses will decline somewhat in the next six months.

The Nasdaq OMXI10 index had fallen by 7.4% between meetings. Turnover in the Main Market totalled 312 b.kr. in the first four months of 2023, some 28% less than over the same period in 2022. The difference between years is due in large part to the March 2022 auction of a portion of the State's holding in Íslandsbanki.

## **Global economy and external trade**

According to the International Monetary Fund's (IMF) April forecast, global GDP growth is projected to shrink from 3.4% in 2022 to 2.8% in 2023 and then ease upwards to 3% in 2024. This output growth rate is broadly in line with the Fund's January 2023 and October 2022 forecasts, but far below the twenty-year average. According to the forecast, growth will subside particularly in advanced economies, falling from 2.7% in 2022 to 1.3% in 2023. Global GDP growth could turn out even weaker this year, however, if there is further turmoil in the financial markets. According to the likely alternative scenario presented by the IMF, global output growth could fall to around 2.5% this year and dip below 1% in advanced economies if such turmoil materialises. The IMF forecasts that global inflation will subside from 8.7% in 2022 to 7% in 2023, in tandem with the decline in global commodity prices. For 2024, global inflation is forecast at 4.9%. The Fund is of the opinion that underlying inflation will probably ease more slowly,

however. Furthermore, in most cases inflation will not fall back to central bank targets until 2025 at the earliest.

According to preliminary figures from Statistics Iceland, the deficit on goods trade measured 45 b.kr. in Q1/2023, as compared with a deficit of 20 b.kr. at constant exchange rates over the same period in 2022. Export values rose by 1% year-on-year during the quarter, reflecting an increase in the value of marine products and pharmaceutical and medical equipment, offset by a decrease in the value of aluminium and ferrosilicon as a result of lower prices. At the same time, goods imports rose in value by 12%, with all key import components still growing rather strongly, apart from transport equipment.

Global aluminium prices had declined by just over 1% since the MPC's March meeting, to about 2,200 US dollars per tonne, which is one-fourth below the May 2022 price. Preliminary figures from Statistics Iceland indicate that foreign currency prices of marine product exports fell by 1.2% quarter-on-quarter in Q1/2023 but were around 13% higher than in the same quarter of 2022. The global price of Brent crude rose by 2% between MPC meetings, to 77 US dollars per barrel by the time of the May meeting. Nevertheless, this is about a third below the May 2022 price.

The real exchange rate in terms of relative consumer prices rose by 1.4% month-on-month in April, when it was 7.6% above its 25-year average but 1.8% lower than in December 2019. In Q1/2023, it was down by 2.1% compared with the same period in 2022, as the nominal exchange rate of the króna was 4.5% lower and inflation in Iceland was 2.7 percentage points above the trading partner average.

## **Domestic economy and inflation**

According to the seasonally adjusted results of Gallup's spring survey among executives from Iceland's 400 largest companies, 30% of firms were planning to recruit staff in the next six months, and only 12% were planning to downsize. The balance of opinion is therefore positive by 18 percentage points, or more than 10 percentage points above the historical average, even though it has narrowed relative to the winter survey. Furthermore, 44% of respondents considered their firms short-staffed, and 58% were of the opinion that they would have difficulty responding to an unexpected increase in demand.

According to the Statistics Iceland labour force survey (LFS), total hours worked rose by 4.4% year-on-year in Q1/2023, as the number of employed persons increased by 4% and the average work week was longer by 0.4%. Seasonally adjusted job numbers and hours worked increased only marginally between quarters, after strong job growth in Q4/2022. The number of workers on the pay-as-you-earn (PAYE) register rose accordingly, and seasonally adjusted figures show that employment in most sectors is broadly back to the pre-pandemic level.

According to seasonally adjusted LFS data, the labour participation rate fell quarter-on-quarter by 0.1 percentage points and the employment rate by fell by 0.2 percentage points in Q1/2023. Unemployment therefore rose by 0.1 percentage points between quarters, to 3.7%. The LFS measure of the slack in the labour market increased more between quarters, however. Nevertheless, it, like unemployment, is still  $\frac{1}{2}$  a percentage point lower than just before the pandemic hit Iceland. Seasonally adjusted registered unemployment continued to fall, however, to 2.6% by April, its lowest since summer 2018.

Iceland's population grew by 3.6% year-on-year in Q1/2023. The increase is due mostly to immigration, as net migration of foreign nationals was positive by 2,790 persons during the quarter.

The general wage index rose by 3.5% between quarters in Q1, and by 8.9% year-on-year, while real wages rose 1% quarter-on-quarter but fell by 1% year-on-year.



Key indicators of developments in private consumption in Q1/2023 suggest continued strong growth during the quarter. Payment card turnover in Iceland and abroad grew markedly between years in Q1, and the Gallup Consumer Confidence Index suggests that consumers are slightly less pessimistic than they were in H2/2022. The Central Bank's baseline forecast therefore assumes considerably stronger private consumption growth in Q1 than was projected in February.

Statistics Iceland's nationwide house price index, published in late April, rose by 1.2% month-on-month, after adjusting for seasonality, and by 12.4% year-on-year. The capital area house price index, calculated by the Housing and Construction Authority, rose by 0.2% month-on-month in April when adjusted for seasonality, but rose by 8.6% year-on-year. The number of purchase agreements registered nationwide fell by 25.5% year-on-year in the first four months of 2023, and the number of contracts for new construction declined by 29.4% over the same period. The average time-to-sale in the capital area was 5.4 months in April, considerably more than the April 2022 figure of 0.9 months, as the number of homes for sale has increased significantly in recent months.

The CPI rose by 1.31% month-on-month in April, pushing twelve-month inflation up slightly, to 9.9%. Inflation excluding housing rose as well, to 8.7%. Underlying inflation also increased between months, to 7.5% according to the average of various measures.

The main driver of the April rise in the CPI was the cost of owner-occupied housing. House prices rose month-on-month throughout the country but increased the most in regional Iceland. Food and beverage prices continued to climb in April, when the year-on-year increase measured 12.5%. Private services also jumped in price between months, driven largely by the rise in airfares. In the past year, however, price increases have been distributed across a large number of services items.

According to the Central Bank's market expectations survey, respondents' two-year inflation expectations have risen since the previous survey and now measure 4.5%. Their long-term inflation expectations have also risen between surveys. Market participants expect inflation to average 4% over the next five years – the highest measurement since 2013 – and 3.5% over the next ten years. However, the breakeven inflation rate in the bond market has fallen since the last MPC meeting. The ten-year breakeven rate was just over 4% in mid-May, after falling by ½ a percentage point between meetings, and the five-year breakeven rate five years ahead had fallen by a similar amount over the same period.

According to the forecast published in *Monetary Bulletin* on 24 May 2023, the outlook is for inflation to ease more slowly than previously projected. Underlying inflation has increased, and steep price hikes can be seen in a steadily growing share of the consumption basket. Although offset by declining global inflation, domestic inflationary pressures are strong, and more so than was assumed in the Bank's February forecast. As a result, the outlook is for inflation to exceed that forecast in both 2023 and 2024. This is due largely to a more unfavourable initial position, but also to greater demand pressures in 2023, albeit mitigated by a stronger króna. According to the forecast, inflation will exceed 8% throughout this year. It will not fall below 4% until late in 2024 and will not fall below 3% until well into 2026.

Although trading partner GDP growth has softened recently, it has been more resilient than was assumed in the February forecast. The GDP growth outlook for 2023 has therefore improved. Nevertheless, growth is still expected to be sluggish in 2023 and 2024, averaging about 1% per year. Global inflation has fallen, but underlying inflation remains high, indicating that there is still some ground to cover before measured inflation can be brought back to target.

Preliminary figures from Statistics Iceland indicate that GDP growth in Iceland measured 6.4% in 2022, the strongest growth rate since 2007. It was driven by a surge in domestic demand – especially private consumption, which grew by 8.6% year-on-year. GDP growth was slightly below the Bank's February



forecast, however, reflecting, on the one hand, less favourable external trade and the effects of changes in Statistics Iceland's treatment of intellectual property in the pharmaceuticals sector, and on the other, stronger growth in domestic demand. GDP growth for Q1/2023 appears to have far outpaced the February forecast and therefore looks set to exceed it for the year as a whole as well. This year's GDP growth is now projected at 4.8%, as compared with 2.6% in the February forecast. This mainly reflects the impact of stronger growth in domestic demand, plus improved prospects for tourism and the effects of the above-mentioned methodological changes by Statistics Iceland. The outlook for output growth in the coming two years is more or less unchanged from the February forecast, however.

The global economic situation has been unusually uncertain for quite some time and still remains so. The shocks of recent years have been numerous and unprecedented: a global pandemic and war in Europe led to severe supply chain disruptions and soaring energy and commodity prices, which the global economy is still grappling with. The global economic outlook could therefore be overestimated. The same is true of the domestic inflation outlook, as the anchoring of inflation expectations to the target has weakened, thereby exacerbating the risk of larger pass-through of exchange rate and wage shocks, which in turn increases the risk that a wage-price spiral will develop.

## II Decisions on the Bank's monetary policy instruments

The MPC discussed the monetary stance in view of economic developments and the decline in the Bank's real rate since the March meeting. Members discussed whether the monetary stance was appropriate in view of the inflation outlook, as the Committee had decided at its March meeting to raise interest rates still further. At that time, inflationary pressures had continued to grow, the Bank's real rate had fallen, and domestic demand had grown more than anticipated.

Committee members noted that economic activity had been strong in 2023 to date and that the Central Bank's new macroeconomic forecast assumed that GDP growth would measure 4.8% this year instead of the 2.6% projected in February. This was due in large part to the prospect of stronger growth in domestic demand, although the outlook was also for more robust activity in the tourism industry.

The MPC noted that inflation had measured 9.9% in April, after rising slightly between months. It emerged that underlying inflation was still increasing and that steep price hikes could be seen in a steadily growing share of the consumption basket. Members noted as well that the outlook was for considerably stronger inflationary pressures in 2023 and 2024 than had previously been assumed. They also observed that long-term inflation expectations had risen and were well above target. Thus, there was a greater risk that inflation would become entrenched.

All members agreed that the Bank's key rate needed to be raised further, and they discussed rate increases ranging from 1-1.5 percentage points. The main arguments expressed were that inflationary pressures were still growing and the domestic economy remained quite strong. Although monetary policy had clearly had an impact on the housing market, there were few other definite indications of a turnaround. There were signs that firms' cost increases were being passed through to the price level to a large extent, as domestic demand was strong. Furthermore, the real rate had fallen between meetings, although it was slightly positive. The MPC was also concerned about how soon the next round of wage negotiations were due to begin and how little time there was to make discernible progress. The labour market remained quite tight, unemployment was low, and worker shortages were widespread. In this context, Committee members discussed how the past few years' developments in real wages in Iceland had differed from those in other advanced economies. Real wages had risen far more in Iceland in 2020-2021 and had fallen less in H2/2022 than in Iceland's main trading partner countries. Robust real wage

growth was therefore one of the reasons inflation had been above target for so long and had apparently become persistent. Committee members also discussed the fiscal stance, and asserted that tighter fiscal policy would support monetary policy and result in a more effective economic policy mix. Furthermore, they agreed that all else being equal, with a more favourable policy mix, interest rates might not have to be raised as high and the opportunity cost in the form of weaker economic activity might turn out lower in the long term than it would be otherwise.

It was pointed out that there were several countervailing factors that could cause demand to weaken rapidly. Households had drawn down their accumulated savings more quickly than previously estimated in order to finance increased consumption, and the outlook was for a slowdown in private consumption growth. Housing market activity had eased, and financial conditions were growing tighter. Moreover, a large share of households would be faced with mortgage interest rate reviews in the coming term and could expect their debt service burden to rise, all else being equal. It was also pointed out that the impact of recent rate hikes had not yet come fully to the fore.

The MPC considered it important to bring inflation and inflation expectations down over the course of the current year. High inflation expectations could lead to higher wage demands in the upcoming negotiation round, and large pay rises could lead to a wage-price spiral, particularly if demand were still strong enough to make it easy to pass cost increases through to prices. This could result in even more persistent inflation, which would necessitate larger rate hikes and rates would have to be higher over a longer period of time. In view of this, it would be better to raise interest rates now and take larger steps, in order to make progress sooner than to take smaller steps and be faced with the need to keep interest rates high for a longer period of time. Although it could put strain on the real economy in the short run, it would be beneficial in the long run to bring inflation down rapidly, and then be able to start cutting rates sooner than would otherwise be possible. If bringing inflation and inflation expectations under control required an abrupt cooling of the economy, that was what would be done.

Members discussed whether deposit institutions' minimum reserve requirements should be increased, as the MPC had decided in March 2020 to lower them to give those institutions greater flexibility to respond to the changed circumstances brought on by the pandemic. Members were of the view that increasing minimum reserve requirements would lead to a rise in deposit institutions' marginal funding costs, which would reduce their scope for lending, all else being equal. They agreed, however, that increasing reserve requirements would not substitute for an increase in interest rates, which were the main monetary policy instrument.

In view of the discussion, the Governor proposed that deposit institutions' fixed reserve requirement be increased from 1% to 2%. All Committee members voted in favour of the proposal. It also emerged that if the need arose, the MPC could decide later to apply reserve requirements to a greater extent.

The Governor also proposed that the Bank's interest rates be raised by 1.25 percentage points. The Bank's key rate (the seven-day term deposit rate) would be 8.75%, the current account rate 8.5%, the seven-day collateralised lending rate 9.5%, and the overnight lending rate 10.5%. Ásgeir Jónsson, Rannveig Sigurdardóttir, Ásgerdur Ósk Pétursdóttir, and Herdís Steingrimsdóttir voted in favour of the proposal. Gunnar Jakobsson voted against the Governor's proposal and wanted to raise rates by 1 percentage point, as he was of the opinion that the impact of previous rate hikes had not yet fully come to the fore and a larger rate increase was therefore not necessary at this time.

It emerged at the meeting that, in view of circumstances, it would be necessary to tighten the monetary stance still further. The Committee considered it especially important to prevent a wage-price spiral, particularly in view of the strong demand pressures in the economy and how soon the round of next

wage negotiations was due to begin. In the MPC's opinion, the outlook was therefore for further rate hikes in order to ensure a better balanced economy and bring inflation back to target.

The following Committee members were in attendance:

Ásgeir Jónsson, Governor and Chair of the Monetary Policy Committee

Rannveig Sigurdardóttir, Deputy Governor for Monetary Policy

Gunnar Jakobsson, Deputy Governor for Financial Stability

Herdís Steingrimsdóttir, Associate Professor, external member

Ásgerdur Ósk Pétursdóttir, Assistant Professor, external member

Thórarinn G. Pétursson, Chief Economist of the Central Bank, was present for the entire meeting. In addition, several Bank staff members attended part of the meeting.

Karen Á. Vignisdóttir wrote the minutes.

The next Statement of the Monetary Policy Committee will be published on Wednesday 23 August 2023.

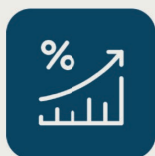
## Vaxtaákvörðun PSN og Peningamál 2023 | 1

BHM  
15. febrúar 2023

Rannveig Sigurðardóttir  
Varaseðlabankastóri peningastefnu



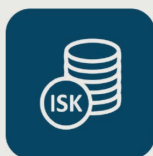
### Hvað breyttist á milli funda peningastefnunar?



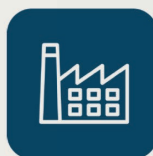
Verðbólguhorfur versnuðu og lengri tíma tekur að ná verðbólgu niður í markmið



Kjarasamningar á vinnumarkaði fela í sér töluvert meiri launahækkun en gert var ráð fyrir



Gengi krónunnar lækkaði



Útlit fyrir meiri framleiðsluspennu

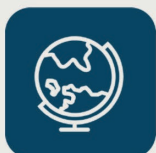


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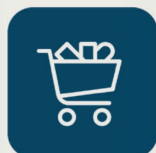


Raunvextir bankans lækkuðu

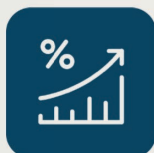
## Peningamál í hnotskurn



Alþjóðlegar  
efnahagshorfur  
áfram lakar þótt  
dregið hafi úr  
svartsýni



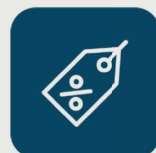
Mikill vöxtur  
einkaneyslu í  
fyrra og mesti  
hagvöxtur  
síðan 2007



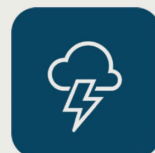
Áframhaldandi  
hagvexti spáð  
en minni en í  
fyrra



Störfum heldur  
áfram að fjölga  
og viðvarandi  
skortur er á  
vinnuafli



Verðbólgu-  
horfur versna  
vegna mikilla  
launahækkana  
og lægra gengis



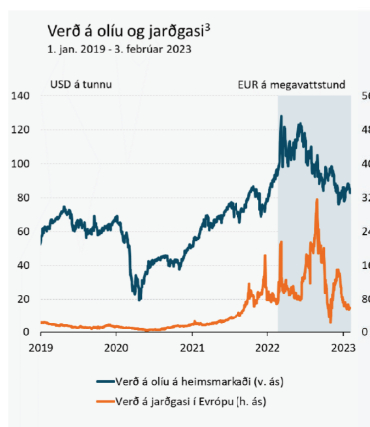
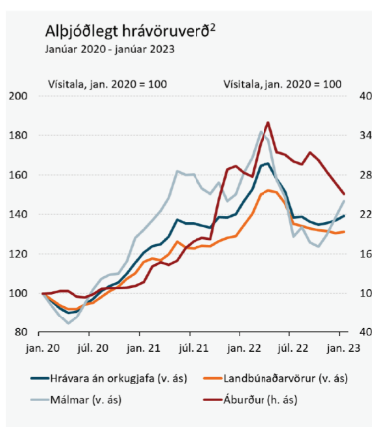
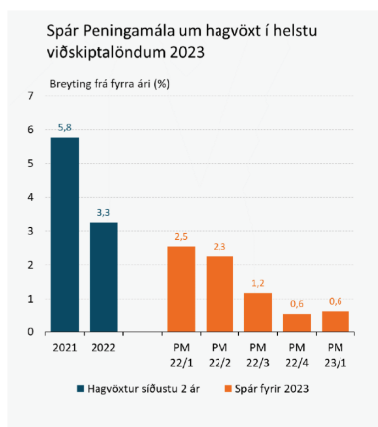
Mikil óvissa um  
efnahagshorfur  
og hversu þrálát  
verðbólgan  
verður



## Alþjóðleg efnahagsmál og ytri skilyrði

## Alþjóðlegar efnahagshorfur lakar og hrávöruverð lækkar

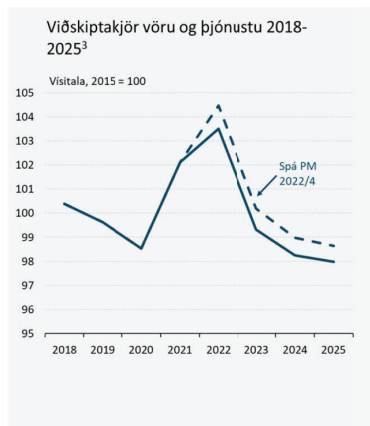
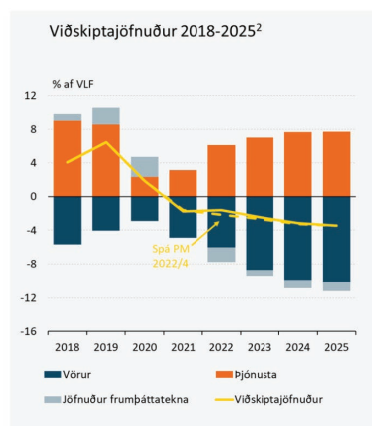
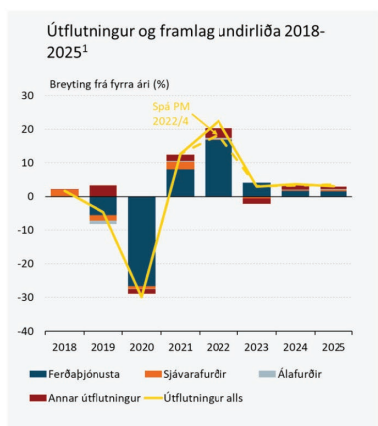
- Hagvaxtarhorfur áfram lakar (spáð 0,6% hagvexti í ár) en bjartsýni um að takist að forðast almennan efnahagssamdrátt
- Hrávöruverð hefur lækkað áfram – nema verð málma sem hefur hækkað aftur nýlega
- Olíu- og gasverð hefur einnig lækkað og er orðið lægra en fyrir innrásina í Úkraínu



1. Árstíðarleiðréttar tölur. Grunnspá Seðlabankans fyrir 4. ársfj. 2022 og 1. ársfj. 2023. 2. PMI-framléiðsluvísitala IHS Markit fyrir framléiðslu- og þjónustu (Composite Output Purchasing Managers' Index). Visitalan er birt mánaðarlega og er árstíðarleiðrétt, þegar gildir visítölunnar er yfir 50 gefur það vísbendingu um vöxt í framléiðslu milli mánaða en samdrátt ef hún er undir 50.  
Heimildir: Refinitiv Datastream, Seðlabanki Íslands.

## Hægari útflutningsvöxtur, viðskiptahalli og verri viðskiptakjör

- Útflutningur í fyrra drifinn áfram af mikilli fjölgun ferðamanna samhliða auknu flugframboði
- Viðsnúningur á viðskiptajöfnuði endurspeglar minnkandi þjóðhagslegan sparnað – sérstaklega hins opinbera en líka einkaaðila
- Útflutningsverð (án sjávaraf.) gaf hratt eftir í fyrra og viðskiptakjör tóku að rýrna samhliða mikilli hækkun innflutningsverðs



1. Frávik geta verið á milli samtölu framlags undirliða og heildarútflutnings vegna keðjutengingar þjóðhagsreikninga. Ferðabjónusta er samtala á „ferðalögum“ og „farþegaflutningum með flugi“. Áútflutningur skv. skilgreiningu þjóðhagsreikninga. Grunnspá Seðlabankans 2023-2025. Brotalína sýnir spá frá PM 2022/4. 2. Viðskiptajöfnuður án áhrifa fallinna fjármálafyrirtækja árið 2015. Jöfnuður rekstrarframlaga talinn með frumþáttajöfnuði. Grunnspá Seðlabankans 2023-2025. Brotalína sýnir spá frá PM 2022/4. 3. Grunnspá Seðlabankans 2023-2025. Brotalína sýnir spá PM 2022/4.  
Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

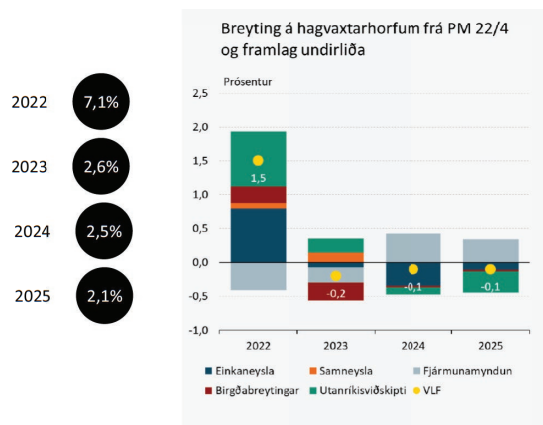
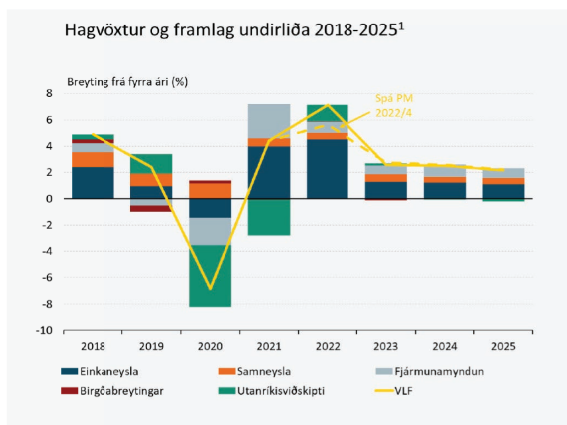




## Innlent raunhagkerfi

### Hagvöxtur meiri í fyrra en lakari horfur fram á við

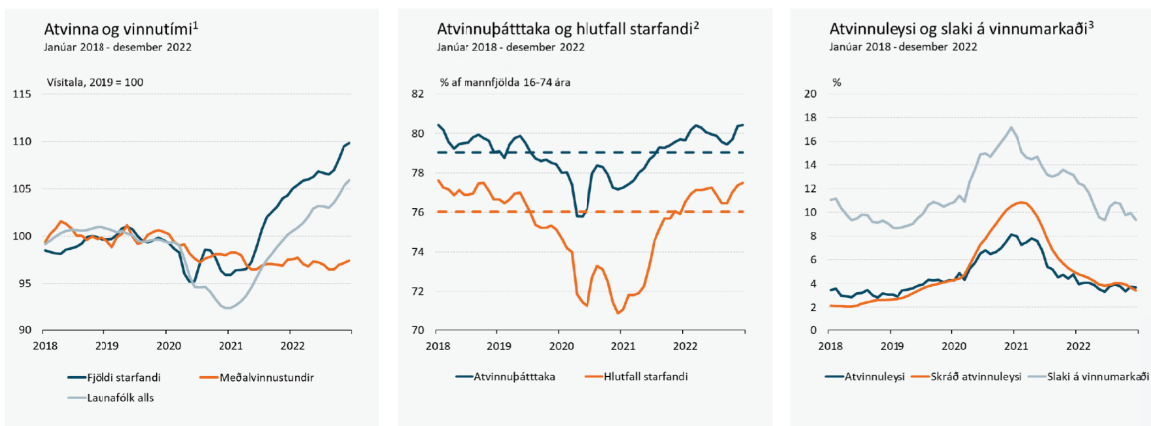
- Talið að hagvöxtur hafi verið um 6,3% á F4 í fyrra og 7,1% á öllu síðasta ári – mesti hagvöxtur á einu árið síðan árið 2007 ...
- ... og meiri vöxtur en spáð var í nóvember (kröftugri einkaneysla og jákvæðara framlag utánríkisviðskipta vega þýngst) ...
- ... en lakari horfur fram á við (hægari vöxtur einkaneyslu og óhagstæðari utánríkisviðskipti en á móti vegur meiri fjárfesting)



1. Grunnspá Seðlabankans 2023-2025. Brotalína sýnir spá PM 2022/4.  
Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

## Áframhaldandi fjölgun starfa ...

- Samkvæmt VMK fjölgaði störfum um 2,7% milli fjórðunga á F4 í fyrra og 5,9% milli ára – skráningargögn segja sömu sögu
- Atvinnuþátttökuhlutfall og hlutfall starfandi hafa einnig haldið áfram að hækka og eru vel yfir því sem þau voru fyrir farsótt
- Atvinnuleysi var 3,7% að meðaltali á F4 skv. VMK og hefur lítið breyst undanfarið þótt skráð atvinnuleysi minnki áfram

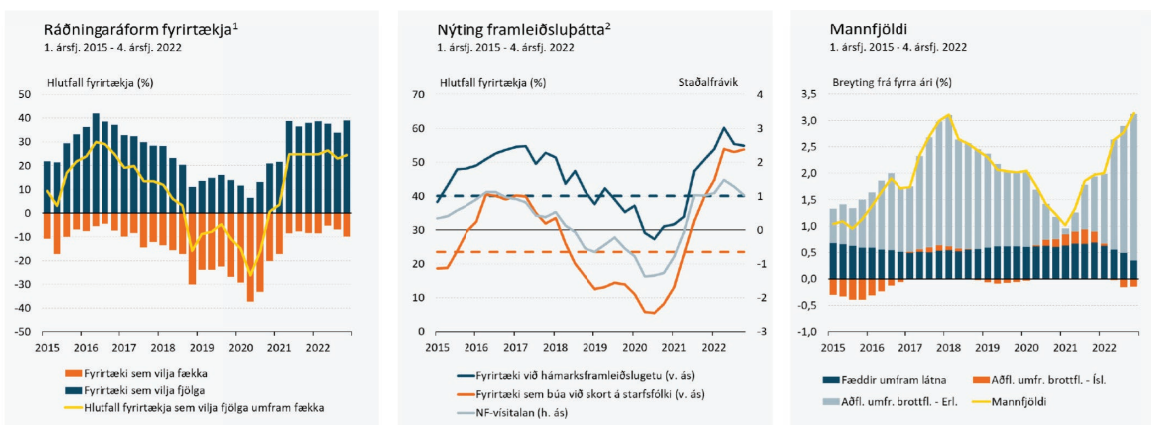


1. Launafólk samkvæmt tölum úr staðgreiðsluskrá ríkisskattstjóra en önnur gögn eru úr vinnumarkaðsskönnun Hagstofu Íslands. Fólk á aldrinum 16-74 ára. Þrígga mánaða hreyfanlegt meðaltal árstíðarleiddra tölva. Brotalínur sýna meðaltöl ársins 2019. 2. Þrígga mánaða hreyfanlegt meðaltal árstíðarleiddra tölva. Brotalínur sýna meðaltöl ársins 2019. 3. Slaki á vinnumarkaði eru atvinnulausir, vinnulitir (þeir sem eru í hlutastarfi en vilja vinna meira) og möguleg viðbót á vinnumarkaði (þeir sem eru tilbúnir að vinna en eru ekki að leita að vinnu og þeir sem eru að leita að vinnu en eru ekki tilbúnir hefja störf innan tveggja vikna) sem hlutfall af mannafla að viðbætti mögulegri viðbót á vinnumarkaði. Skráð atvinnuleysi er án fólks í hlutabótum frá og með mars 2020. Þrígga mánaða hreyfanlegt meðaltal árstíðarleiddra tölva.

Heimildir: Hagstofa Íslands, Vinnuáætlun, Seðlabanki Íslands.

## ... og viðvarandi skortur er á starfsfólki ...

- Alveg síðan vorið 2021 hefur um þriðjungi fleiri fyrirtæki áformað að bæta við sig starfsfólki en að fækka því
- Meira en helmingur fyrirtækja segist starfa við full afköst en NF-vísitalan gæti bent til þess að spenna hafi náð hámarki
- Meiri en helmingur fyrirtækja segist einnig skorta starfsfólk ... sem er að miklu leyti mætt með innflutningi á erlendu vinnuafi



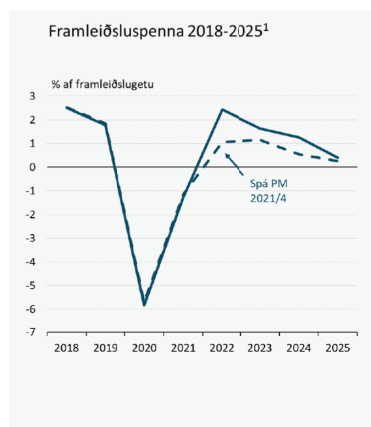
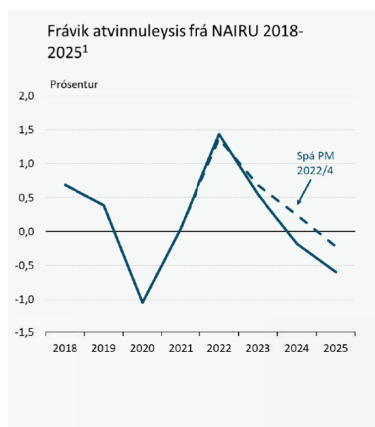
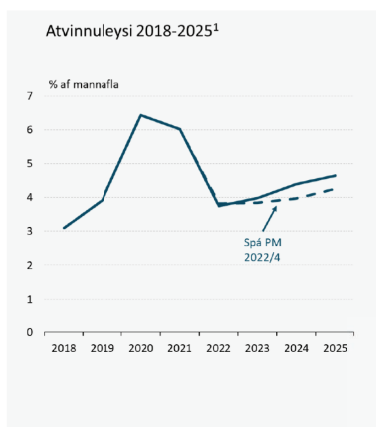
1. Árstíðarleiddar tölur. 2. Mælikvarðar fyrir nýtingu framleiðsluþátta byggjast á viðhorfskönnun Gallup meðal 400 stærstu fyrirtækja landsins. Vísitala nýtingar framleiðsluþátta (NF-vísitalan) er fyrsti frumþáttur valinna vísbendinga um nýtingu framleiðsluþátta sem er skalaður til svo meðaltal hans er 0 og staðalfrávik 1. Ítarlegri lýsingu má finna í rammagrein 3 í PM 2018/2. Árstíðarleiddar tölur. Brotalínur sýna meðaltöl frá 2006.

Heimildir: Gallup, Hagstofa Íslands, Seðlabanki Íslands.

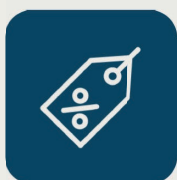


## ... en horfur á meiri atvinnuleysi á spátímanum

- Atvinnuleysi var 3,8% í fyrra – eykst í 4% að meðaltali í ár og er komið í 4,6% í lok spátímans (0,3 pr. meira en í PM 22/4)
- Dýrir kjarasamningar vega þungt en þeir hægja á vinnuafseftirspurn og framkalla slaka á vinnumarkaði þegar líður á spátímann
- Hærri upphafsstaða gerir það hins vegar að verkum að framleiðsluspenna lokast ekki fyrr en undir lok spátímans



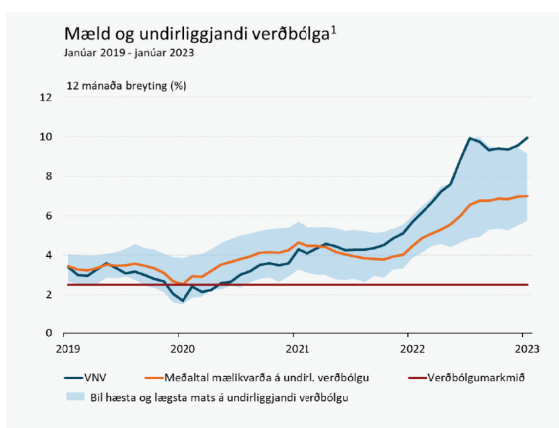
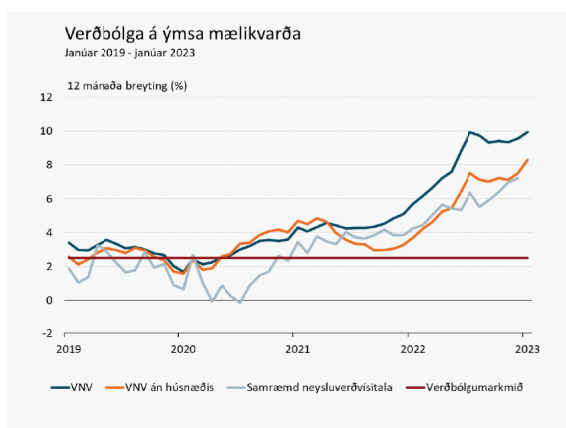
1. Grunnspá Seðlabankans 2023-2025. Brotalínur sýna spá PM 2022/4. Atvinnuleysi miðað við vinnumarkaðsskönnun Hagstofu Íslands (VMK).  
Heimildir: Hagstofa Íslands, Seðlabanki Íslands.



## Verðbólga

## Mæld og undirliggjandi verðbólga er áfram mikil

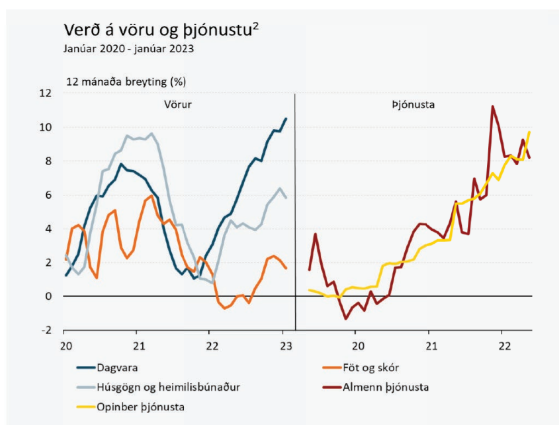
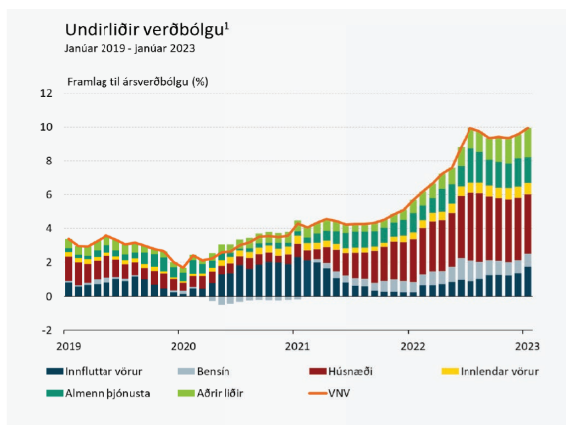
- Verðbólga mældist 9,9% í janúar og jókst annan mánuðinn í röð um 0,3 pr. – hefur verið um 9½% undanfarið hálf ár
- Verðbólga án húsnæðis jókst einnig og var 8,3% í janúar (HICP verðbólga hefur einnig farið vaxandi og var 7,2% í desember)
- Undirliggjandi verðbólga mældist 7% í janúar – óbreytt milli mánaða og hefur ekki verið meiri síðan í lok árs 2009



1. Undirliggjandi verðbólga er mæld með kjarnavísitölu (áhrif óbeinna skatta, sveiflukenndra matvöruhlöða, bensins, opinberra þjónustu og raunvaxtakostnaðar húsnæðislána eru undanskilin) og tölfræðilegum mælikvörðum (vegið miðgildi, klípt meðaltal, kvítt þáttalíkan og sameiginlegur þáttur vísitölu neysluverðs).  
Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

## Húsnæðisliður vegur þungt en annað hækkar líka ...

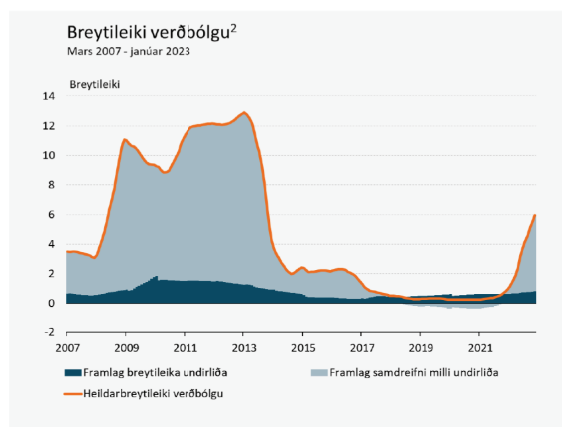
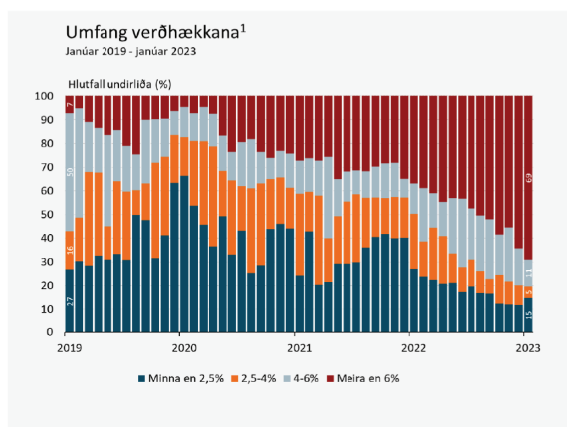
- Þótt hægt hafi á verðhækkun húsnæðis vegur húsnæðisliður VNV þungt í þróun ársverðbólgu – en vægið fer minnkandi ...
- ... og vægi annarra liða eykst: matvöruverð hækkaði um 10,8% milli ára í janúar og verð innlendrar vöru og dagvöru um 10-11%
- Einnig miklar hækkanir á verði þjónustu: opinber þjónusta hækkaði um 7,5% milli ára í janúar og almenn þjónusta um 6,6%



1. Innfluttar vörur án áfengis, tóbaks og bensins og innlendirar vörur án búvöru og grænmetis. 2. Verð á fatnaði og skórn og húsgögnum og heimilisbúnaði er þriggja mánaða hreyfanlegt meðaltal.  
Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

## ... og verðhækkunar ná til æ fleiri þátta

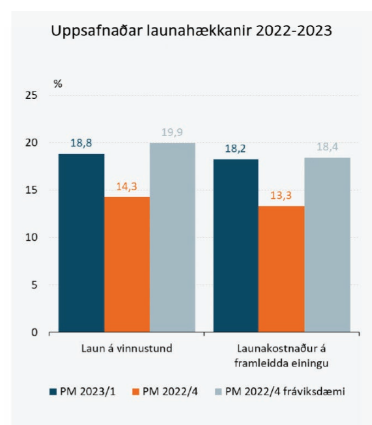
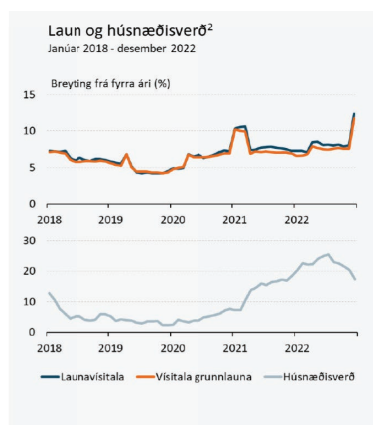
- Mikil undirliggjandi verðbólga og það hvernig miklar verðhækkunar ná til æ stærri hluta undirliða VNV sýna að undirliggjandi verðbólguþrýstingur er mikill – sést einnig vel á því hvernig sveiflur í verðbólgu hafa aukist í takt við aukna fylgni milli sveiflna í undirliðum vísitölnunnar frekar en aukinn breytileiki í undirliðunum sjálfum



1. Hlutfall undirliða VNV flokkað eftir árshækkun þeirra. 2. Heildarbreytileiki verðbólgu (12-mánaða lög-breyting vegis meðaltals VNV) út frá 159 undirliðum vísitölnunnar og framlög breytileika einstaka undirliða og samdreifni þeirra. Vigtinnar eru meðaltal útgjaldaðaga í mánuði t og mánuði t-12. Notast er við 5-ára hreyfanlega glugga.  
Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

## Gengi krónu gefur eftir og laun hækka mikið

- Gengi ISK er 6% lægra en fyrir ári og hefur ekki verið svo lágt síðan í febrúar 2021
- Þótt hægt hafi nokkuð á árshækkun húsnæðisverðs er hún enn mikil og við bætast miklar launahækkunar
- Kjarasamningar fela í sér mun meiri launahækkunar en gert var ráð fyrir í PM 22/4 – en eru nálægt frávíkisdæmi PM 22/4

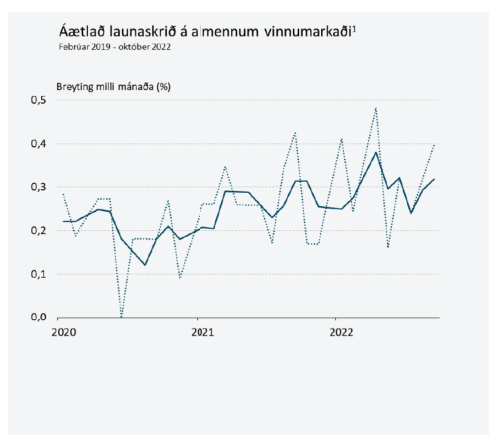


1. Verð erlendra gjaldmiðla í krónum (þróun viðskiptavog). 2. Vísitala grunnlauna mælir breytingar dagvinnulauna fyrir umsamin vinnutíma en launavísitala ættr við álags-, bónus- og vaktageiðslum. Húsnæðisverð á höfuðborgarsvælinu.  
Heimildir: Hagstofa Íslands, Húsnæðis- og mannvirkjastofnun, Þjóðskrá Íslands, Seðlabanki Íslands.

## Umsamin launahækkun segir ekki alla söguna

- Launaskrið er illa skilgreint hugtak en hér skilgreint sem allar aðrar hækkunir en umsamdar hækkunir í kjarasamningum
- Við umsamdar hækkunir bætist launaskrið
- Launaskrið minnkaði í kjölfar COVID-19 en hefur aukist síðan og hefur verið á bilinu 0,2-0,3% milli mánaða undanfarið ár

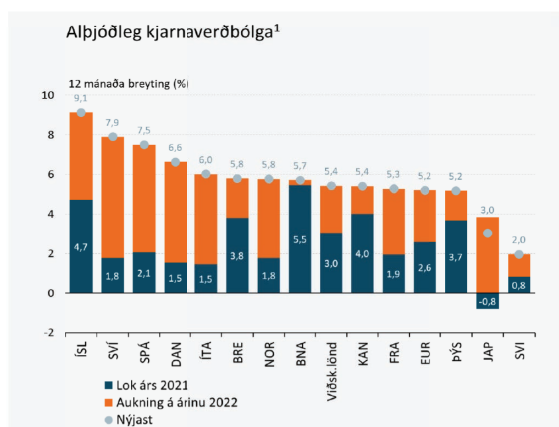
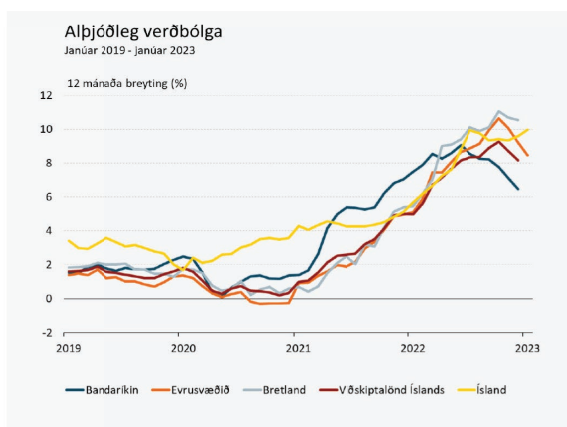
Hvað bætir launaskrið miklu við árshækkun launa?	
Mánaðarbreyting (%)	Ársbreyting (%)
0,1	1,2
0,2	2,4
0,3	3,7
0,4	4,9
0,5	6,2



1. Myndin sýnir breytingu milli mánaða í vísitölu grunnlauna þar sem mánuðir með útsömdum hækkunum á tímabilinu hafa verið teknir út. Brotalína sýnir breytingu milli mánaða en heil lína sýnir 3 mánaða hreyfanlegt meðaltal þeirra talna.  
Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

## Alþjóðleg verðbólga einnig mikil en samsetning ólík

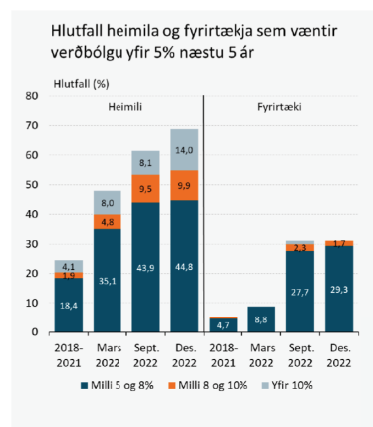
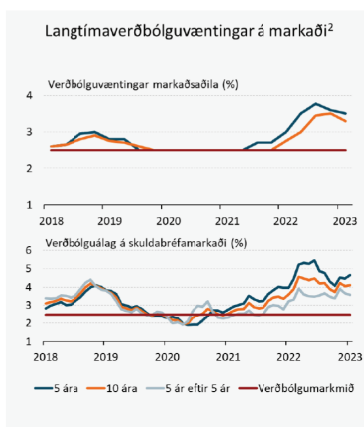
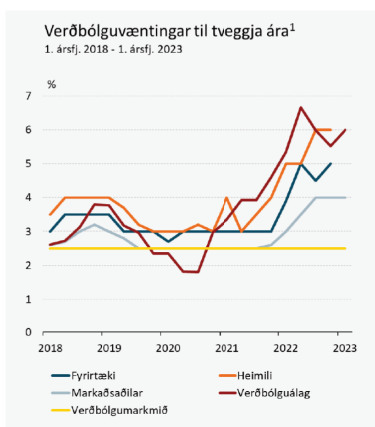
- Verðbólga víða tekin að hjaðna í takt við lækkun orkuverðs – þótt undirliggjandi verðbólga mælist enn mikil og jafnvel vaxandi
- Verðbólga hefur minnkað hæggar hér á landi en í helstu viðskiptalöndum sem endurspeglar ólíka undirliggjandi krafa ...
- ... hækkun matvæla- og orkuverðs vegur minna í aukningu verðbólgu hér á landi en í flestum öðrum iðnríkjum



1. Vísitala neysluverðs (VNV) án matvæla- og orkuverðs. Í Noregi er orkuverð og skattabreytingar undanskildar en í Svíþjóð er miðað við VNV án vaxtaáhrifa, orkuverðs og verðs á öðrum matvælum. Viðskiptavegin meðalverðbólga í helstu viðskiptalöndum.  
Heimildir: Hagstofa Íslands, Refinitive Datastream, Ríkisbanki, Seðlabanki Íslands.

## Verðbólguvæntingar áfram vel yfir markmiði

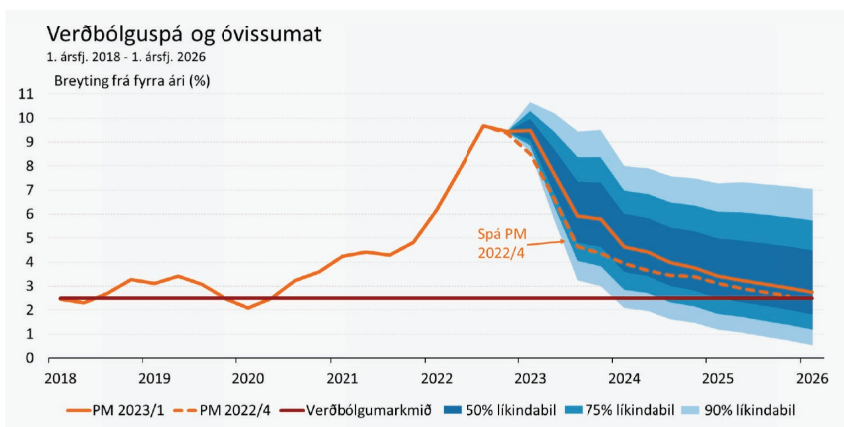
- Markaðsaðilar vænta þess að verðbólga verði komin í 4% eftir 2 ár en heimili og fyrirtæki eru svartsýnni og stór hluti þeirra væntir verðbólgu yfir 5% á næstu 5 árum ... markaðsaðilar eru hins vegar bjartsýnni á langtíma-verðbólguhorfur
- Væntingar markaðsaðila og 5/5-ára verðbólguálag lækka frá nóvember: álagið nú 3,6% en var 3,9% að meðaltali í nóvember



1. Miðgildi svara í könnunum Gallup á verðbólguvæntingum heimila og fyrirtækja og Seðlabankans á verðbólguvæntingum markaðsaðila. Ársfjórðungsleg meðaltöl verðbólguálags á skuldabréfamarkaði. 2. Miðgildi verðbólguvæntinga markaðsaðila samkvæmt könnun Seðlabankans (1. ársfj. 2015 - 1. ársfj. 2023) og verðbólguálag á skuldabréfamarkaði (mánaðarleg meðaltöl jan. 2015 - jan 2023).  
Heimildir: Gallup, Seðlabanki Íslands.

## Horfur á meiri og þrálátari verðbólgu en áður spáð

- Verðbólga 9,4% á F4 eins og spáð í PM 22/4 en horfur versna frá fyrri spá – endurspeglar mun meiri hækkun launakostnaðar, lægra gengi ISK og meiri framleiðsluspennu en gert var ráð fyrir í nóvember ... verður 9,5% á F1 (1 pr. meiri en í PM 22/4) og 5,8% í lok árs (1,4 pr. meiri en spáð í PM 22/4) og fer ekki undir 4% fyrr en lok árs 2024 (næstum ári seinna en í PM 22/4)



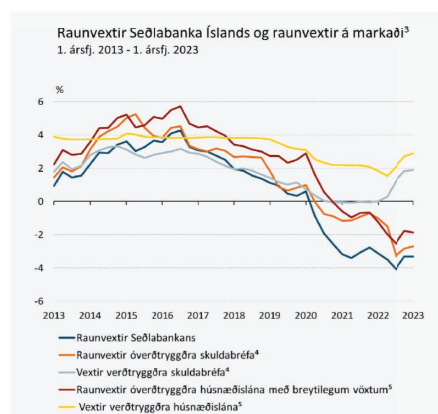
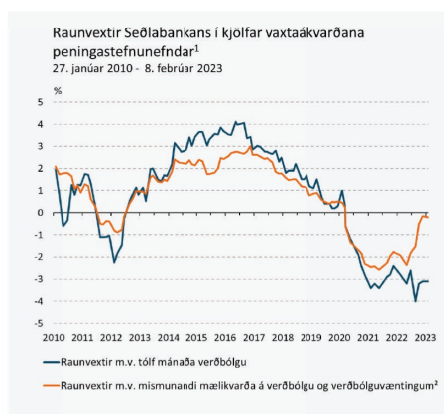
Ársmeðaltöl	Árslok (4. ársfj.)
2022	8,3%
2023	7,2%
2024	4,2%
2025	3,2%
2022	9,4%
2023	5,8%
2024	3,8%
2025	2,9%

Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

# Miðlun peningastefnunnar

## Raunvextir Seðlabankans og aðrir markaðsvextir

- Raunvextir Seðlabankans lækka milli funda ...
- ... en töluvert hækkun frá fyrri hluta síðasta árs
- Aðrir raunvextir hækkað lítillega

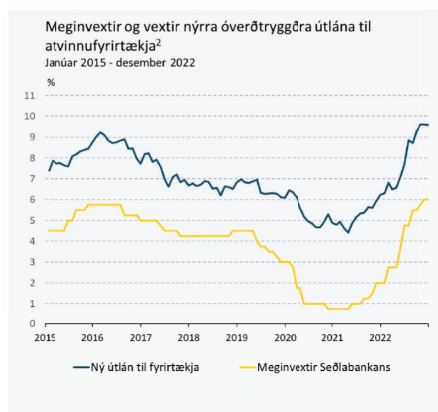
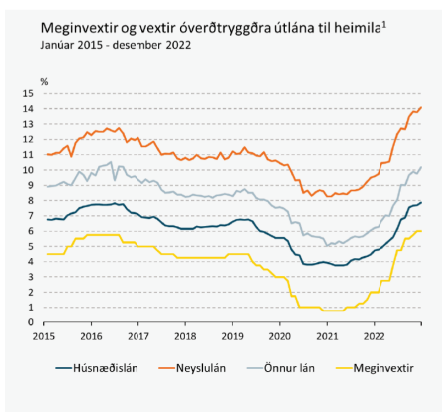


1. Fram til 21. maí 2014 er miðað við meðaltal innlánavaxta og hámarksaxta á innstæðubréfum með 28 daga binditína sem meginvexti bankans en vexti 7 daga bundinna innlána frá þeim tíma. 2. Fram til febrúar 2012 er miðað við 12 mánaða verðbólgu, verðbólguvæntingar fyrirtækjatil eins árs, verðbólguvæntingar heimila til eins árs, verðbólguálag á fjármálaarkaði til eins árs og spá Seðlabankans um ársverðbólgu eftir fjóra ársfjórðunga. Frá mars 2012 er einnig miðað við verðbólguvæntingar markaðsaðila til eins árs samkvæmt ársfjórðungslegri könnun Seðlabankans. 3. Gögn til og með 14. febrúar. 5 ára vextir út frá metnum nafn- og raunvaxtaferlum. 4. Einfalt meðaltal lægstu útlánvaxta þriggja stærstu viðskiptabankanna. Vextir verðtryggðra húsnæðislána eru fastir frá 5 árum og allt upp í allan lánstímann. Heimildir: Gallup, Hagstofa Íslands, Seðlabanki Íslands.



## Miðlun peningastefnunnar

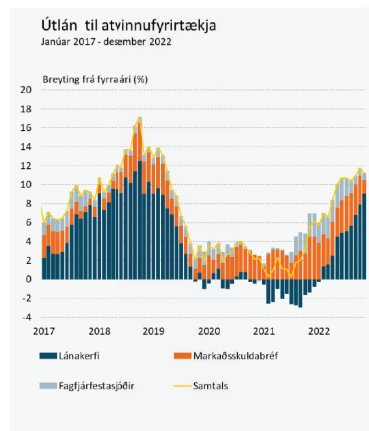
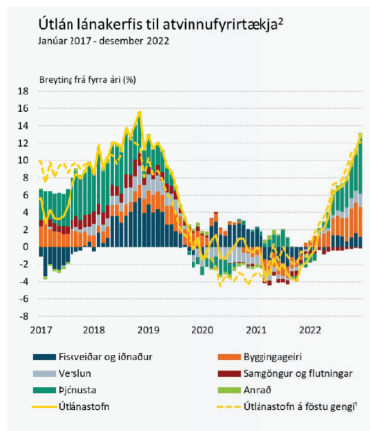
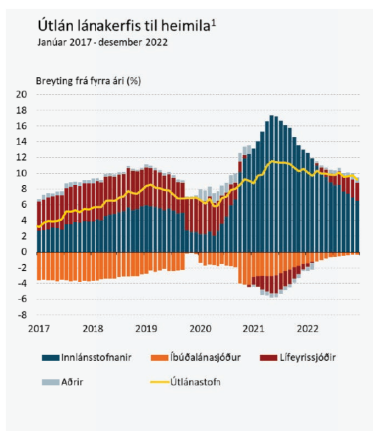
- Vextir nýrra óverðtryggðra lána til heimila hækkað áfram
- Vextir nýrra óverðtryggðra lána til fyrirtækja einnig



1. Vagnir meðalvextir nýrra óverðtryggðra útlána stóru viðskiptabankanna þriggja miðað við fjárhæð útlána. 2. Vagnir meðalvextir á nýjum óverðtryggðum útlánnum stóru viðskiptabankanna þriggja með breytilegum vöxtum miðað við fjárhæð útlána.  
Heimild: Seðlabanki Íslands.

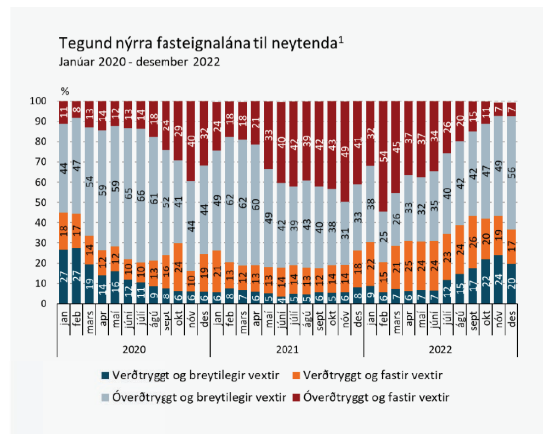
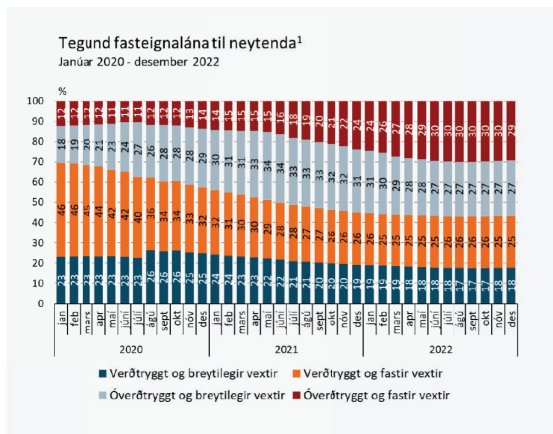
## Útlán til heimila og fyrirtækja

- Aðeins hefur hægt á vexti útlána til heimila og nam ársvöxturinn 9,2% í desember
- Útlán til atvinnufyrirtækja tóku við sér á síðasta ári - ársvöxturinn 13% að nafnvirði í desember
- Útlán til flestra atvinnugreina aukist en sýnu mest til þjónustu- og byggingafyrirtækja
- Vægi útlána fagfjárfestisjóna og útgáfa markaðsskuldabréfa í útlánavexti til atvinnufyrirtækja minnkað meðfram aukningu útlána lánakerfisins



1. Leiðrétt fyrir endurflokkun og skuldalækkusaraðgerðum stjórnvalda. 2. Stofn útlána í erlendum gjaldmiðli er reiknaður miðað við vísitölu meðalengis í nýjasta mánuðinum.  
Heimild: Seðlabanki Íslands.

## Samsetning íbúðalána



1. Hlutfallsleg skipting fasteignalána KMB og HMS til neytenda eftir tegundum. Frá ágúst 2020 ná tölur einnig til stærstu lífeyrissjóða. Bráðabingðagögn fyrir t.mabilid ágúst 2022 – desember 2022. Heimild: Seðlabanki Íslands.

Takk fyrir





## Peningastefnan og efnahagshorfur

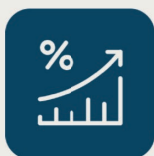


Lánasjóður sveitarfélaga  
9. mars 2023

Rannveig Sigurðardóttir  
Varaseðlabankastjóri peningastefnu



### Hvað breyttist á milli funda peningastefnunefndar?



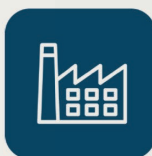
Verðbólguhorfur  
versnuðu og lengri  
tíma tekur að ná  
verðbólgu niður í  
markmið



Kjarasamningar á  
vinnumarkaði fela í sér  
töluvert meiri  
launahækkunir en gert  
var ráð fyrir



Gengi krónunnar  
lækkaði



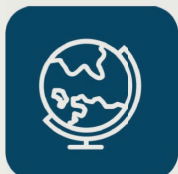
Útlit fyrir meiri  
framleiðsluspennu



Aðhald fjárlaga  
minna þrátt fyrir  
að dragi úr  
hallarekstri  
ríkissjóðs



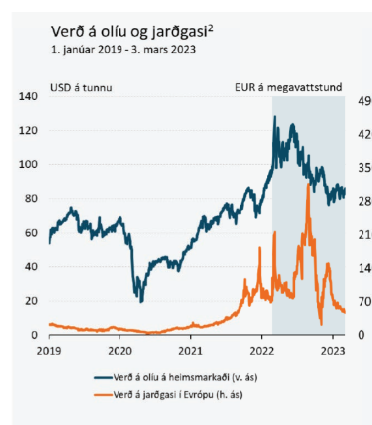
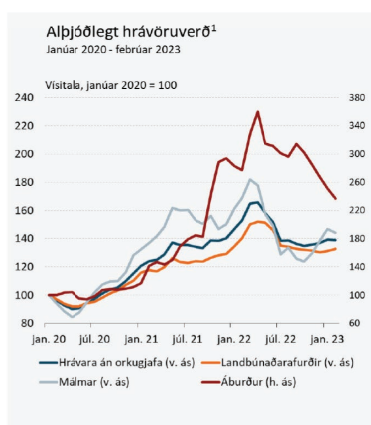
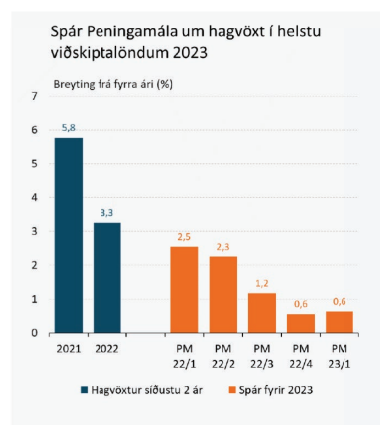
Raunvextir  
bankans lækkuðu



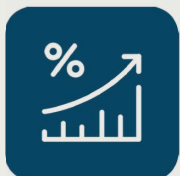
## Alþjóðleg efnahagsmál og ytri skilyrði

### Alþjóðlegar efnahagshorfur lakar og hrávöruverð lækkar

- Hagvaxtarhorfur áfram lakar (spáð 0,6% hagvexti í ár) en bjartsýni um að takist að forðast almennan efnahagssamdrátt
- Hrávöruverð hefur lækkað áfram – nema verð málma sem hefur hækkað aftur nýlega
- Olíu- og gasverð hefur einnig lækkað og er orðið lægra en fyrir innrásina í Úkraínu



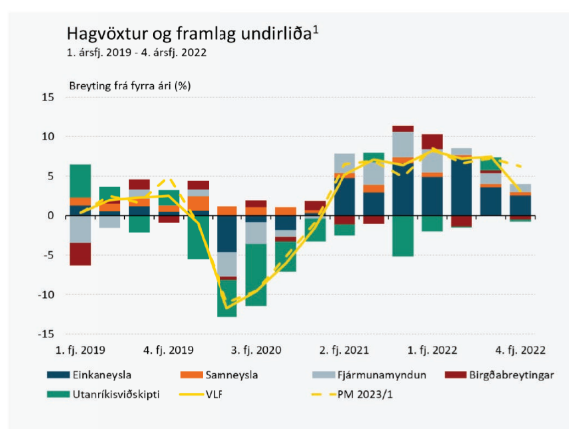
1. Landbúnaðarafurðir skiptast í matvæli (62%), drykkjarvörur (13%) og hráefni (25%). 2. Skýggða svæðið sýnir tímabilið frá upphafi stríðsátaka í Úkraínu. Heimildir: Alþjóðabankinn, Refinitiv Datastream



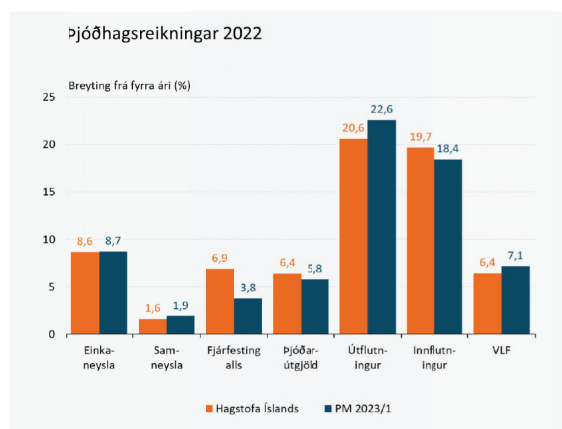
## Innlent raunhagkerfi

### 6,4% hagvöxtur 2022 - breytt utanríkisviðskipti

- Hagvöxtur mældist 6,4% í fyrra en spáð var 7,1% vexti í febrúar
- Þjóðarútgjöld jukust meira en gert var ráð fyrir – einkum fjárfesting
- Framlag utanríkisviðskipta var óhagstæðara ... sökum breyttrar aðferðafræði með hugverk sem hafði áhrif á bæði þjónustuútflutning og -innflutning ... auk þess sem almennur vöruinnflutningur var endurskoðaður upp á við

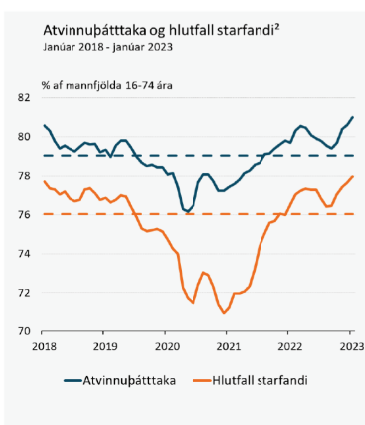
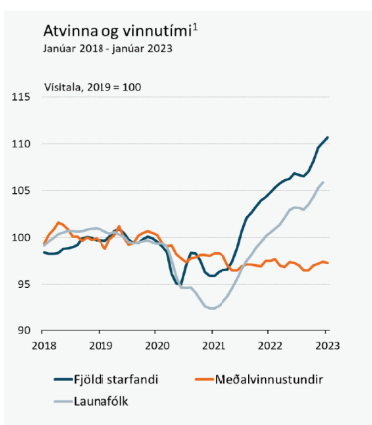


1. Frávik geta verið á milli samtölu framlags undirliða og hagvaxtar vegna keðjutengingar þjóðhagsreikninga.  
Heimildir: Hagstofa Íslands, Seðlabanki Íslands.



## Áframhaldandi fjölgun starfa ...

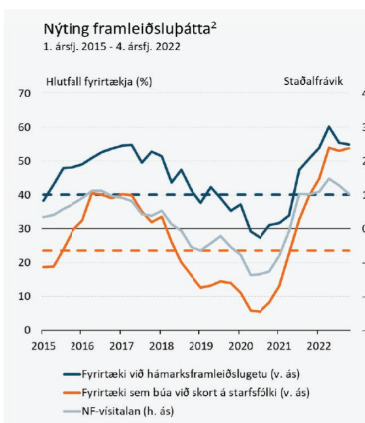
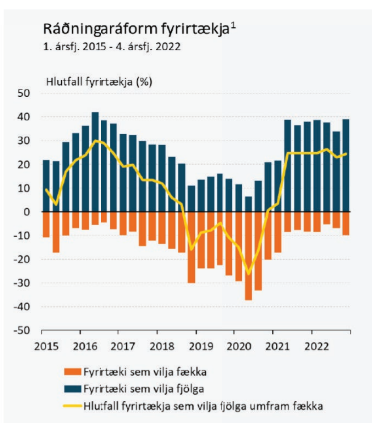
- Samkvæmt VMK fjölgaði störfum um 2,7% milli fjórðunga á Q4 í fyrra og 5,9% milli ára – skráningargögn segja sömu sögu
- Atvinnuþátttökuhlutfall og hlutfall starfandi hafa einnig haldið áfram að hækka og eru vel yfir því sem þau voru fyrir farsóttina
- Atvinnuleysi var 3,7% að meðaltali á Q4 skv. VMK og hefur lítið breyst undanfarið þótt skráð atvinnuleysi minnki áfram



1. Launafólk samkvæmt tölum úr staðgreiðsluskrá ríkisskattstjóra en önnur gögn eru úr vinnumarkaðsskönnun Hagstofu Íslands. Fólk í aldrinum 16-74 ára. Þriggja mánaða hreyfanlegt meðaltal ársstærðir tölur. 2. Þriggja mánaða hreyfanlegt meðaltal ársstærðir tölur. Brotalínur sýna meðaltöl ársins 2019. 3. Slaki á vinnumarkaði eru atvinnuleysir, vinnulitir (þeir sem eru í hlutastarfi en vilja vinna meira) og möguleg viðbót á vinnumarkaði (þeir sem eru tilbúnir að vinna en eru ekki að leita að vinnu og þeir sem eru að leita að vinnu en eru ekki tilbúnir hefja störf innan tveggja vikna) sem hlutfall af mannafla að viðbætti mögulegri viðbót á vinnumarkaði. Skráð atvinnuleysi er án fólks á hlutabótum frá og með mars 2020. Þriggja mánaða hreyfanlegt meðaltal ársstærðir tölur. Heimildir: Hagstofa Íslands, Vinnuálagstofnun, Seðlabanki Íslands.

## ... og viðvarandi skortur er á starfsfólki ...

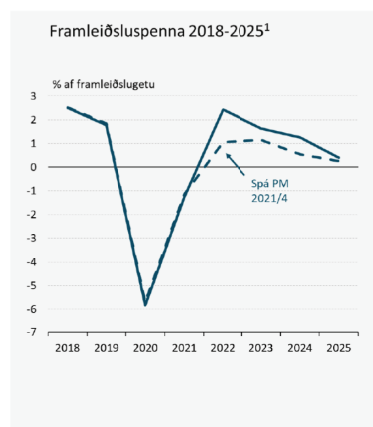
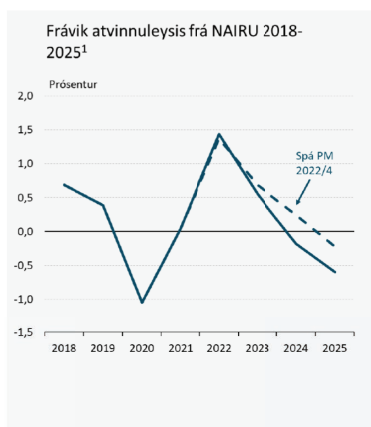
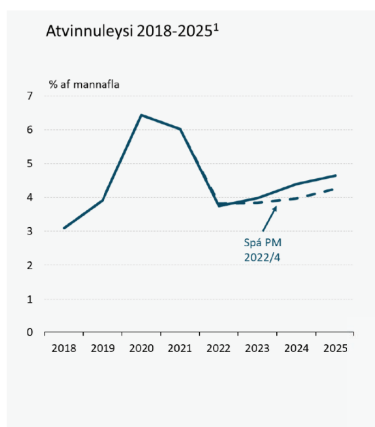
- Alveg síðan vorið 2021 hefur um þriðjungi fleiri fyrirtæki áformað að bæta við sig starfsfólki en að fækka
- Meira en helmingur fyrirtækja segist starfa við full afköst en NF-vísitalan gæti bent til þess að spenna hafi náð hámarki
- Meiri en helmingur fyrirtækja segist einnig skorta starfsfólk ... sem er að miklu leyti mætt með innflutningi á erlendu vinnuafli



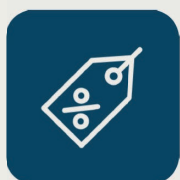
1. Ársstærðir tölur. 2. Mælikvarði fyrir nýtingu framleiðsluþátta byggjað á viðhorfskennun Gallup meðal 400 stærstu fyrirtækja landsins. Vísitala nýtingar framleiðsluþátta (NF-vísitalan) er fyrsti frumþáttur valinna vísibendinga um nýtingu framleiðsluþátta sem er skalaður til svo meðaltal hans er 0 og staðalfrávik 1. Ítarlegri lýsingu má finna í rammagrein 3 í FM 2018/2. Ársstærðir tölur. Brotalínur sýna meðaltöl frá 2006. Heimildir: Gallup, Hagstofa Íslands, Seðlabanki Íslands.

## ... en horfur á meiri atvinnuleysi á spátímanum

- Atvinnuleysi var 3,8% í fyrra – eykst í 4% að meðaltali í ár og er komið í 4,6% í lok spátímans (0,3 pr. meira en í PM 22/4)
- Dýrir kjarasamningar vega þungt en þeir hægja á vinnuafleiftirspurn og framkalla slaka á vinnumarkaði þegar liður á spátímann
- Hærri upphafsstaða gerir það hins vegar að verkum að framleiðsluspenna lokast ekki fyrr en undir lok spátímans



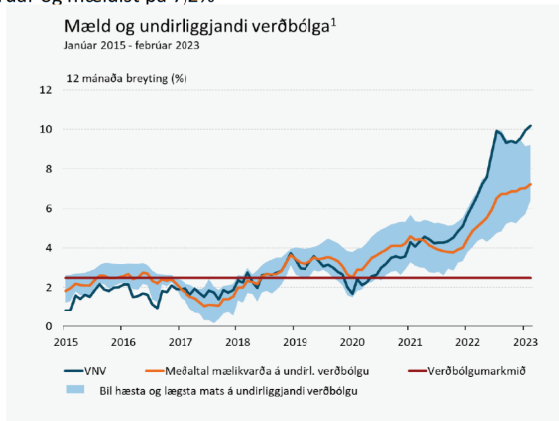
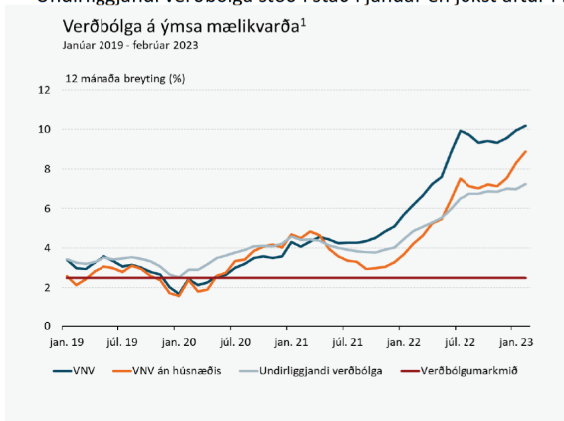
1. Grunnspá Seðlabankans 2023-2025. Brotalinur sýna spá PM 2022/4. Atvinnuleysi miðað við vinnumarkaðskönnun Hagstofu Íslands (VMK).  
Heimildir: Hagstofa Íslands, Seðlabanki Íslands.



## Verðbólga

## Mæld og undirliggjandi verðbólga er áfram mikil

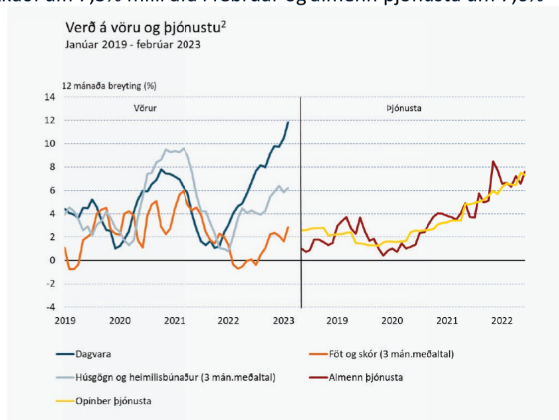
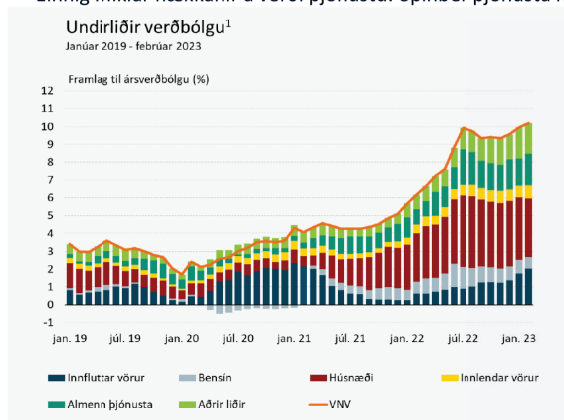
- Verðbólga jókst þriðja mánuðinn í röð í febrúar, um 1,39 pr. og mældist 10,2%
- Verðbólga án húsnæðis jókst um 1,81% milli mánaða í febrúar og var 8,9% (HICP verðbólga hefur einnig farið vaxandi og var 8,1% í janúar)
- Undirliggjandi verðbólga stóð í stað í janúar en jókst aftur í febrúar og mældist þá 7,2%



1. Undirliggjandi verðbólga er mæld með kjarnavísitölu (áhrif óbeinna skatta, sveiflukenndra matvöruhlöða, bensins, opinberra þjónustu og raunvaxtakostnaðar húsnæðislána eru undanskilin) og tölfraeðilegum mælikvörðum (vegð miðgildi, klípt meðaltal, kvítt þáttalíkan og sameiginlegur þáttur vísitölu neysluverðs).  
Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

## Húsnæðisliður vegur þungt en annað hækkar líka ...

- Þótt hægt hafi á verðhækkun húsnæðis vegur húsnæðisliður VNV þungt í þróun ársverðbólgu – en vægið fer minnkandi ...
- ... og vægi annarra liða eykst: matvöruverð hækkaði um 2% milli mánaða annan mánuðinn í röð og dreifðust hækkanir nokkuð jafnt á undirlökka ólíkt því sem var í janúar og verð innlendrar vöru og dagvöru hækkaði um tæplega 12% milli ára
- Einnig miklar hækkanir á verði þjónustu: opinber þjónusta hækkaði um 7,3% milli ára í febrúar og almenn þjónusta um 7,6%

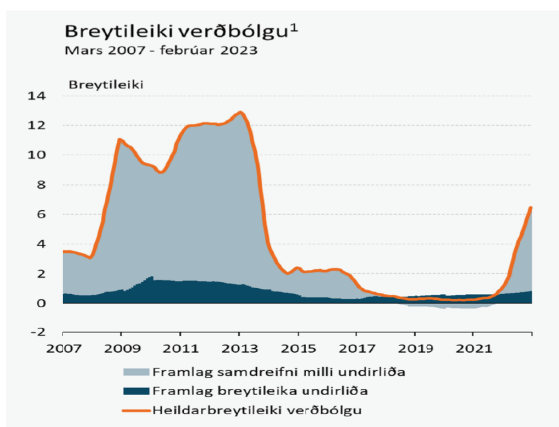
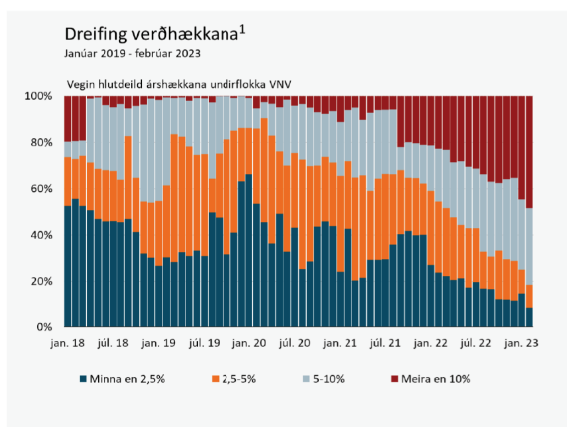


1. Innfluttar vörur án áfengis, tóbaks og bensins og innlendirar vörur án búvöru og grænmetis. 2. Verð á fatnaði og skórn og húsgögnum og heimilisbúnaði er þriggja mánaða hreyfanlegt meðaltal.  
Heimildir: Hagstofa Íslands, Seðlabanki Íslands.



## ... og verðhækkanir ná til æ fleiri þátta

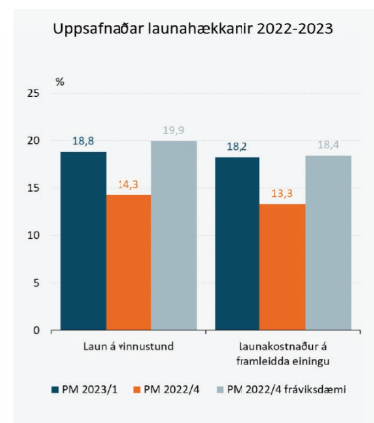
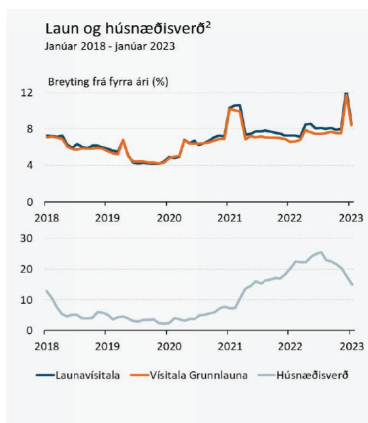
- Mikil undirliggjandi verðbólga og það hvernig miklar verðhækkanir ná til æ stærri hluta undirliða VNV sýna að undirliggjandi verðbólguþrýstingur er mikill – sést einnig vel á því hvernig sveiflur í verðbólgu hafa aukist í takt við aukna fylgni milli sveiflna í undirliðum vísitölnnar frekar en aukinn breytileiki á undirliðunum sjálfum



1. Hlutfall undirliða VNV flokkað eftir árshækkun þeirra. 2. Heildarbreytileiki verðbólgu (12-mánaða lóg-breyting vegis meðaltals VNV) út frá 159 undirliðum vísitölnnar og framlög breytileika einstaka undirliða og samdreifni þeirra. Vigtirnar eru meðaltal útgjaldavoga í mánuði t og mánuði t-12. Notast er við 5-ára hreyfanlega glugga.  
Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

## Gengi krónu gefur eftir og laun hækka mikið

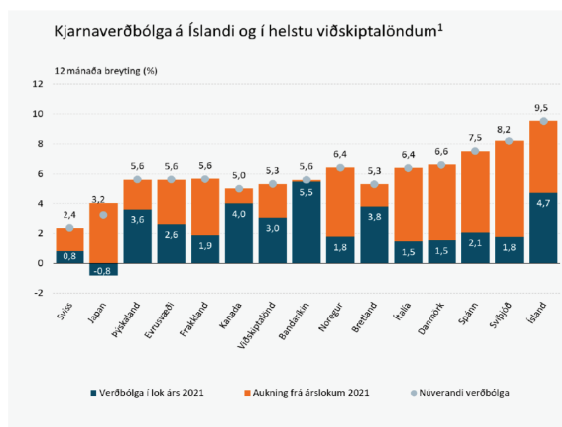
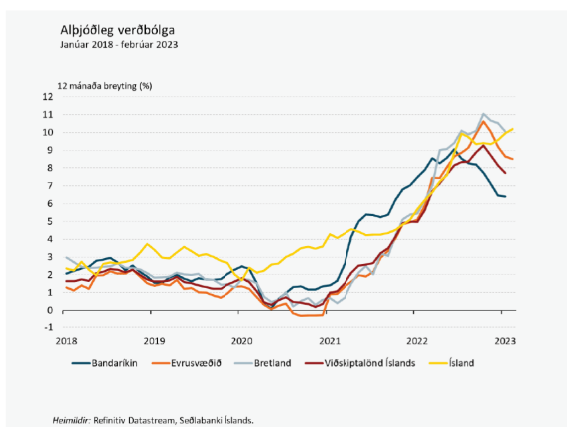
- Gengi ISK var tæplega 1% lægra í gær en fyrir ári (var 6% lægra á febrúarfundi PSN)
- Þótt hægt hafi nokkuð á árshækkun húsnæðisverðs er hún enn mikil og við bætast miklar launahækkanir
- Kjarasamningar fela í sér mun meiri launahækkanir en gert var ráð fyrir í PM 22/4 – en eru nálægt fráviksdæmi PM 22/4



1. Verð erlendra gjaldmiðla í krónum (þröng viðskiptavog). 2. Vísitala grunnlauna mælir breytingar dagvinnulauna fyrir umsáminn vinnutíma en launavísitala bætir við álags-, bónus- og vaktgreiðslum. Húsnæðisverð á höfuðborgarsvæðinu.  
Heimildir: Hagstofa Íslands, Húsnæðis- og mannvirkjastofnun, Þjóðskrár Íslands, Seðlabanki Íslands.

## Alþjóðleg verðbólga einnig mikil en samsetning ólík

- Verðbólga víða tekin að hjaðna í takt við lækkun orkuverðs – þótt undirliggjandi verðbólga mælist enn mikil og jafnvel vaxandi
- Verðbólga hefur minnkað hægar hér á landi en í helstu viðskiptalöndum sem endurspeglar ólíka undirliggjandi krafta ...
- ... hækkun matvæla- og orkuverðs vegur minna í aukningu verðbólgu hér á landi en í flestum öðrum iðnríkjum

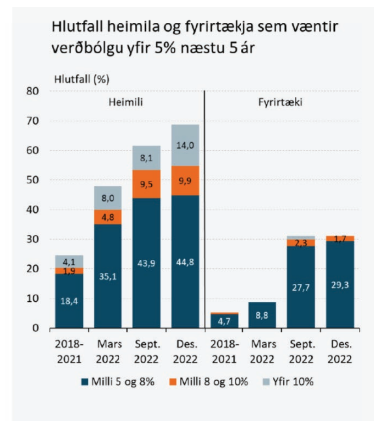
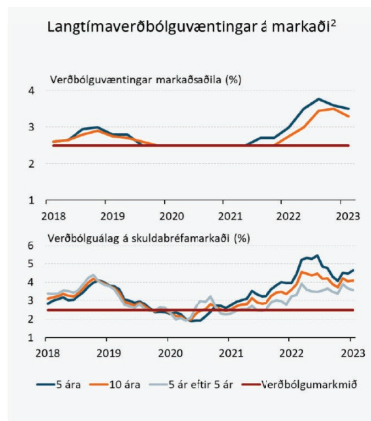
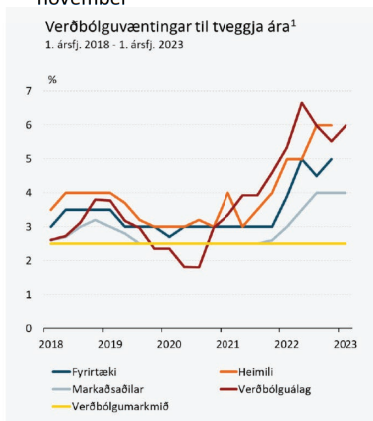


1. Vísitala neysluverðs (VNV) án matvæla- og orkuverðs. Í Noregi er orkuverð og skattabreytingar undanskildar en í Svíþjóð er miðað við VNV án vaxtaáhrifa, orkuverðs og verðs á öðrum matvælum. Viðskiptisveginn meðalverðbólga í helstu viðskiptalöndum.

Heimildir: Hagstofa Íslands, Refinitiv Datastream, Ríkissbank, Seðlabanki Íslands.

## Verðbólguvæntingar áfram vel yfir markmiði

- Markaðsaðilar vænta þess að verðbólga verði komin í 4% eftir 2 ár en heimili og fyrirtæki eru svartsýnni og stór hluti þeirra væntir verðbólgu yfir 5% á næstu 5 árum ... markaðsaðilar eru hins vegar bjartsýnni á langtímaverðbólguhorfur
- Væntingar markaðsaðila og fimm ára verðbólguálag eftir fimm ár lækka frá nóvember: álagið nú 3,6% en var 3,9% að meðaltali í nóvember



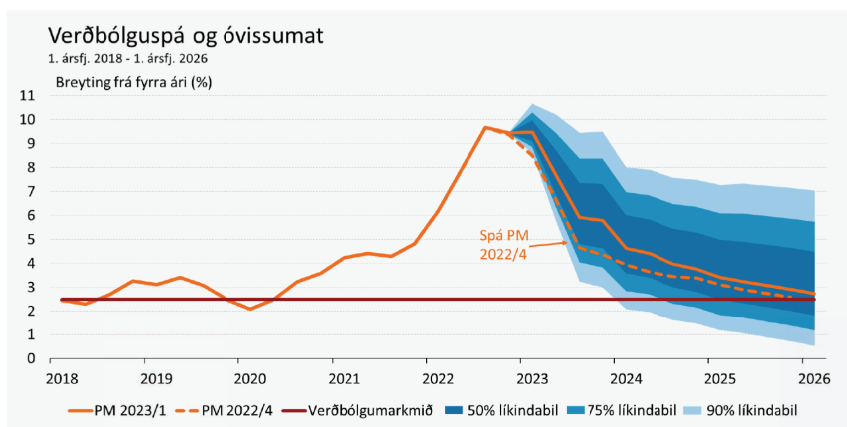
1. Miðgildi svara í könnunum Gallup á verðbólguvæntingum heimila og fyrirtækja og Seðlabankans á verðbólguvæntingum markaðsaðila. Árstjórnungsleg meðaltöl verðbólguálags á skuldabréfamarkaði. 2. Miðgildi verðbólguvæntinga markaðsaðila samkvæmt könnun Seðlabankans (1. ársfj. 2015 - 1. ársfj. 2023) og verðbólguálag á skuldabréfamarkaði (mánaðarleg meðaltöl jan. 2015 - jan 2023).

Heimildir: Gallup, Seðlabanki Íslands.



## Horfur á meiri og þrálátari verðbólgu en áður spáð

- Verðbólga 9,4% á F4 eins og spáð í PM 22/4 en horfur versna frá fyrri spá – endurspeglar mun meiri hækkun launakostnaðar, lægra gengi ISK og meiri framleiðsluspennu en gert var ráð fyrir í nóvember ... verður 9,5% á F1 (1 pr. meiri en í PM 22/4) og 5,8% í lok árs (1,4 pr. meiri en spáð í PM 22/4) og fer ekki undir 4% fyrr en lok árs 2024 (næstum ári seinna en í PM 22/4)



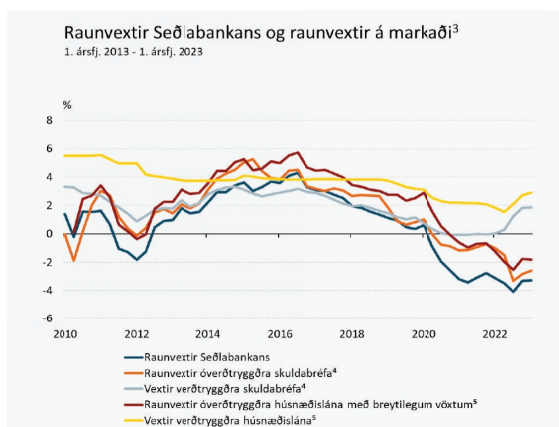
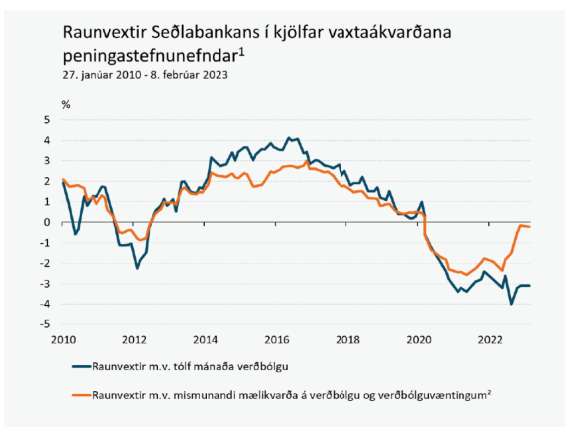
Ársmeðaltöl	Árslok (4. ársfj.)
2022 8,3%	2022 9,4%
2023 7,2%	2023 5,8%
2024 4,2%	2024 3,8%
2025 3,2%	2025 2,9%

Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

## Miðlun peningastefnunnar

## Raunvextir Seðlabankans og aðrir markaðsvextir

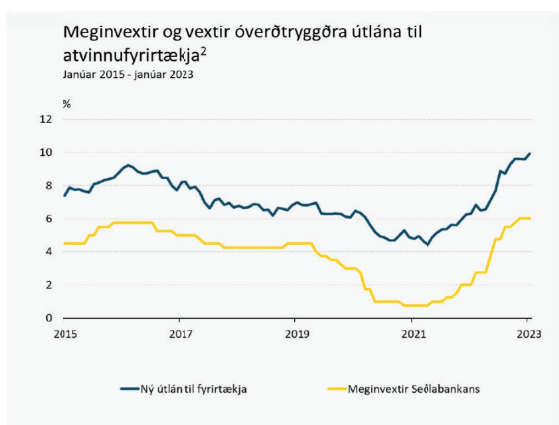
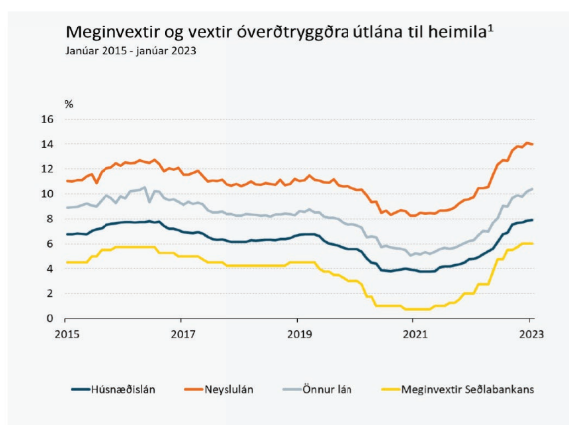
- Raunvextir Seðlabankans höfðu lækkað milli funda PSN ...
- ... en hækkað töluvert frá fyrri hluta síðasta árs
- Aðrir raunvextir einnig hækkað lítillega



1. Fram til 21. maí 2014 er miðað við meðaltal innlánsvaxta og hámarksvaxta á innstæðubréfum með 28 daga binditíma sem meginvexti bankans en vexti 7 daga bundinna innlána frá þeim tíma. 2. Fram til febrúar 2012 er miðað við 12 mánaða verðbólgu, verðbólguvæntingar fyrirtækja til eins árs, verðbólguvæntingar heimila til eins árs, verðbólguálag á fjármáamarkaði til eins árs og spá Seðlabankans um ársverðbólgu eftir fjóra ársfjórðunga. Frá mars 2012 er einnig miðað við verðbólguvæntingar markaðsaðila til eins árs samkvæmt ársfjórðungslegri könnun Seðlabankans. 3. Gögn til og með 28. febrúar. 4. Einnig miðað við lánvextir Seðlabankans. Vextir verðtryggðra húsnæðislána eru fastir frá 5 árum og allt upp í allan lánstímann. 5. Einnig miðað við lánvextir Seðlabankans. Vextir verðtryggðra húsnæðislána eru fastir frá 5 árum og allt upp í allan lánstímann. Heimildir: Gallup, Hagstofa Íslands, Seðlabanki Íslands.

## Miðlun peningastefnunnar

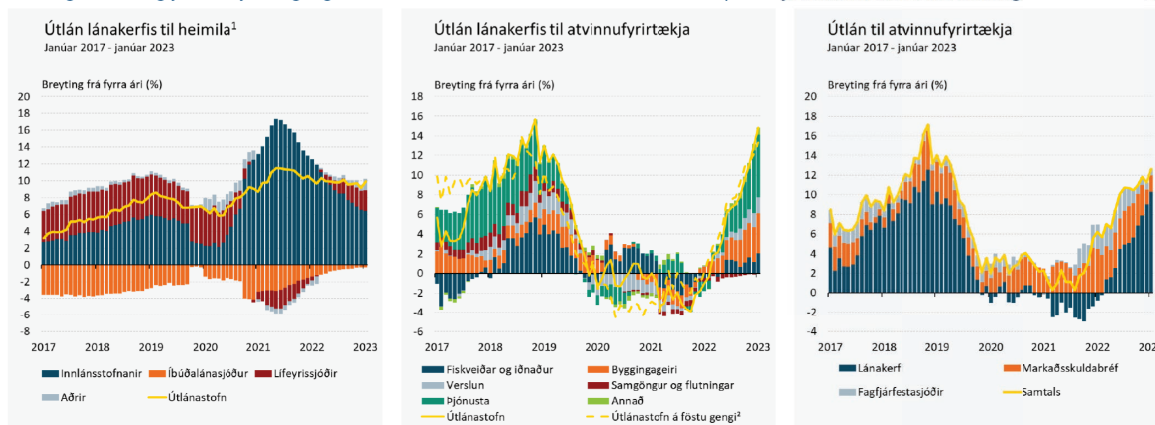
- Vextir nýrra óverðtryggðra lána til heimila hækkað áfram
- Vextir nýrra óverðtryggðra lána til fyrirtækja einnig



1. Vegnir meðalvextir nýrra óverðtryggðra útlána stóru viðskiptabankanna þriggja miðað við fjárhæð útlána. 2. Vegnir meðalvextir á nýjum óverðtryggðum útlánum stóru viðskiptabankanna þriggja með breytilegum vöxtum miðað við fjárhæð útlána. Heimild: Seðlabanki Íslands.

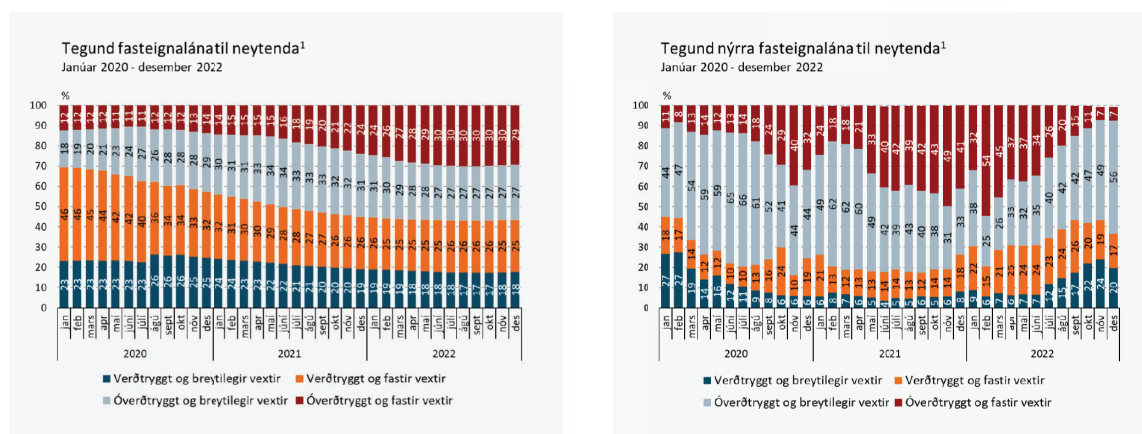
## Útlán til heimila og fyrirtækja

- Ársvöxtur útlána til heimila tæplega 10% í janúar – svipaður vöxtur og verið hefur undanfarin misseri
- Útlán til atvinnufyrirtækja tóku við sér á síðasta ári - ársvöxturinn tæplega 15% að nafnvirði í janúar
- Útlán til flestra atvinnugreina aukist en sýnu mest til þjónustu- og byggingafyrirtækja
- Vægi útlána fagfjárfestisjóða og útgáfa markaðsskuldabréfa í útlánavexti til atvinnufyrirtækja minnkað meðfram aukningu útlána lánakerfisins



1. Leiðrétt fyrir endurflokkun og skuldalækkuaraðgerðum stjórnvalda. 2. Stofn útlána í erlendum gjaldmiðli er reiknaður miðað við vísitölu metalgengis í nýjasta mánuðinum. Heimild: Seðlabanki Íslands.

## Samsetning íbúðalána



1. Hlutfallsleg skipting fasteignalána KMB og HMS til neytenda eftir tegundum. Frá ágúst 2020 ná tölur einnig til stærstu lífeyrissjóða. Bráðabirgðagögn fyrir tímabilið ágúst 2022 – desember 2022. Heimild: Seðlabanki Íslands.



Takk fyrir

## Gullnáma eða fátæktargildra?

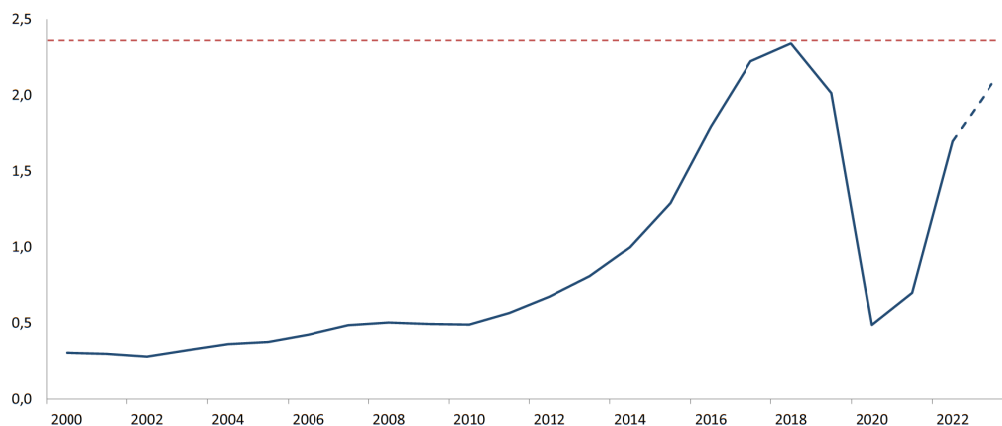
Ásgeir Jónsson  
Seðlabankastjóri

Ráðstefna um þjóðhagslegt mikilvægi ferðapjónustu  
22. mars 2023



## Snarpur viðsnúningur í ferðapjónustu eftir faraldurinn

Fjöldi ferðamanna í milljónum

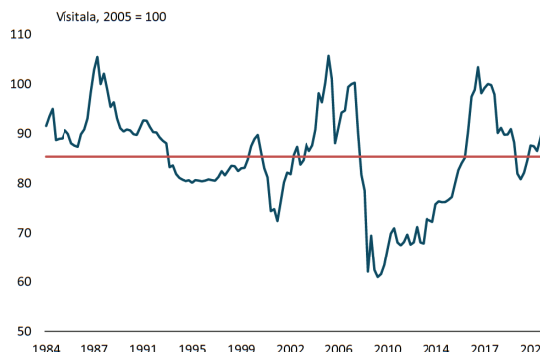


## Krónan er nú verðlögð í samræmi við langtímameðaltal

Gengi krónu gagnvart evru  
1. jan. 2010 - 10. mars 2023

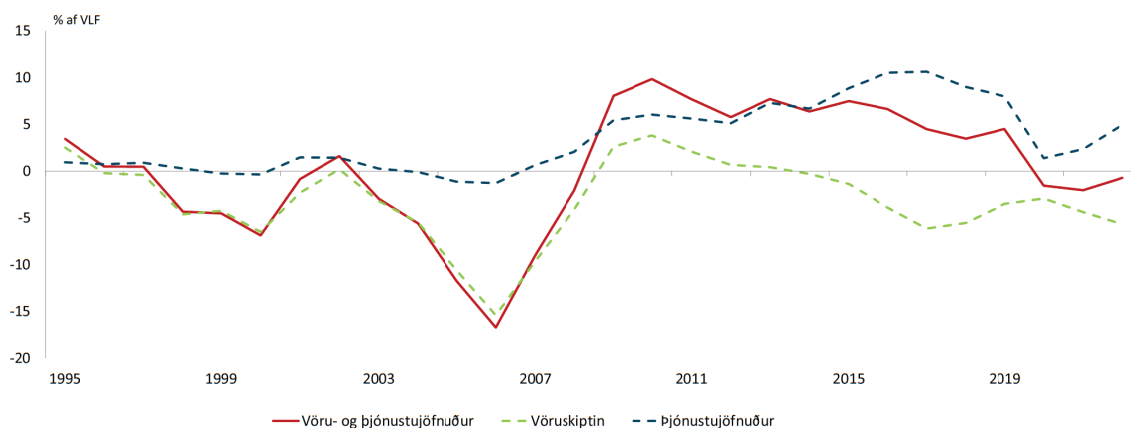


Raungengi  
1. ársfj. 1984 - 4. ársfj. 2022



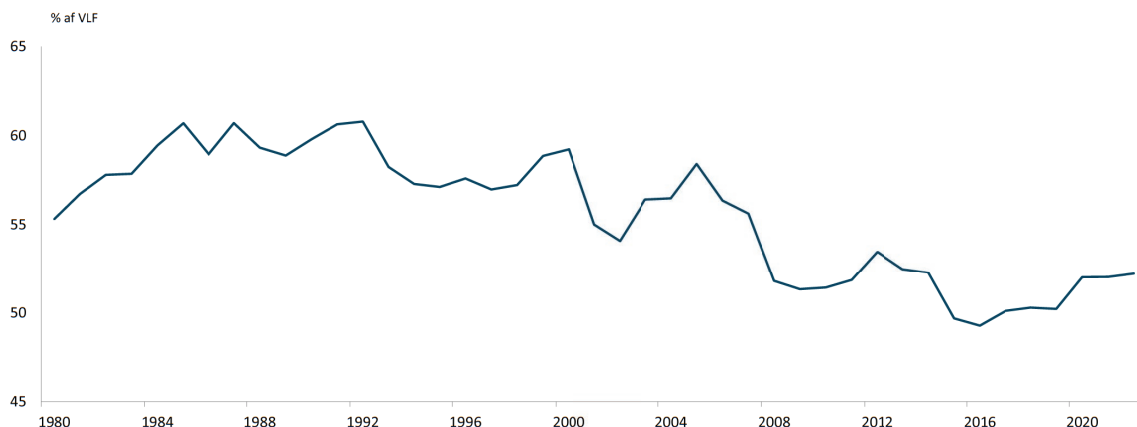
## Þjónustuafgangurinn greiðir fyrir hallann á vöruskiptunum

Vöru- og þjónustujöfnuður 1980-2022



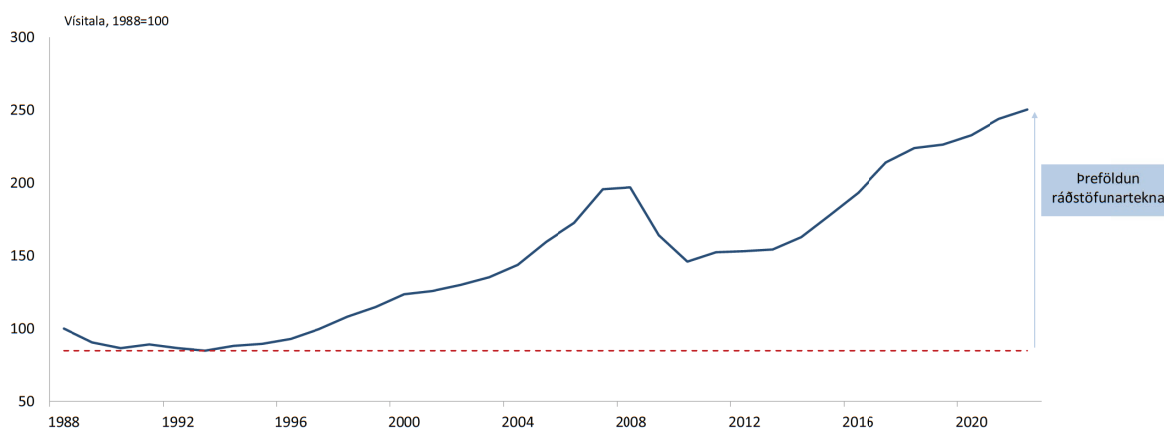
## Ekki gleyma því að viðskiptaafgangur endurspeglar einnig sparnað í efnahagslífinu ...

Einkaneysla sem hlutfall af vergri landsframleiðslu 1980-2022



## Velsæld aukist á sama tíma og viðvarandi halli við útlönd lokast – neyslan ekki tekin að láni

Kaupmáttur ráðstöfunartekna 1988-2022



## Þjóðhagslegur ábati ferðamennsku



### 1. Bætt framleiðni vinnuafis – með nýjum tegundum starfa:

- Sköpun nýrra starfa í ferðapjónustu hefur gefið fólki tækifæri á hærri tekjum en ella hefði orðið, að gefinni menntun, búsetu og starfsþjálfun. Hefur dregið úr staðbundnu atvinnuleysi eða vannýtingu vinnuafis.



### 2. Bætt framleiðni einkafjármagns – með stærri markaði:

- Vöxtur ferðapjónustu er líkt og fólksfjöldun. Stærri markaður skapar grundvöll fyrir stærri framleiðslueiningar á hinum smáa íslenska markaði – og lækka meðalkostnað í framleiðslu eftir því sem fastur kostnaður dreifist á fleiri einingar.



### 3. Bætt framleiðni opinbers fjármagns og innviða – með fleiri notendum:

- Ferðamenn taka þátt í kostnaði vegna innviða og samgöngumannvirkja, með því að greiða bæði bein og óbein gjöld til íslenska ríkisins með bensíngjaldi, virðisaukaskatti, áfengisgjaldi. Hagræðið kemur einkum fram ef notkun landsmanna sjálfra er fremur lítil og aukinn fjöldi notenda tekur ekki af öðrum.



### 4. Sterkari grundvöllur fyrir sérhæfingu og fjölbreytni – fyrir heimafólk

- Ferðapjónustan skapar ekki aðeins aukna fjölbreytni í störfum, heldur fjölgar einnig þeim þjónustumöguleikum sem heimamenn hafa sjálfir úr að spila – svo sem hvað varðar framboð flugsæta frá landinu.

## Ferðapjónustan er einn af vaxtarbroddum atvinnulífs á landsbyggðinni

### • Ferðapjónustan á landsbyggðinni byggir á notkun staðbundinna aðfanga sem ekki er hægt að flytja úr stað, s.s. náttúrufegurð.

- Búseta á landsbyggðinni var upphaflega grundvölluð á hagræði í nýtingu staðbundinna framleiðslupátta, s.s. nálægð við fiskimið eða landbúnaðarhéruð.
- Mikill samdráttur hefur átt sér stað í landbúnaði og vélvæðing, markaðsvæðing og kvótastjórnun hefur breytt nýtingu staðbundinna aðfanga í sjávarútvegi.
- Fiskimið er hægt að sækja frá mörgum stöðum, lönduðum afla er hægt að aka hvert á land sem er og nálægð við flugvelli og útflutningshafnir getur falið í sér meira hagræði en nálægð við miðin.

### • Ferðapjónustan er einn af vaxtarbroddunum á landsbyggðinni.

- Ferðapjónustan er ein af fáum greinum þar sem landsbyggðin hefur enn raunverulega hlutfallslega yfirburði vegna landfræðilegra aðstæðna og hlýtur þess vegna að tengjast byggðastefnu stjórnvalda með afgerandi hætti.

### • Ferðapjónusta styður við uppbyggingu á þjónustu úti á landi.

- Á síðustu árum hefur verslun og þjónusta víða á landsbyggðinni látið mikið á sjá, m.a. vegna bættra samgangna við Reykjavík – þörf á nýjum viðskiptavinum. Tækifæri til nýsköpunar, sérhæfingar og fjölbreytni.



## Neikvæð áhrif ferðamennsku



### 1. Ruðningsáhrif fyrir aðrar atvinnugreinar – ef vöxturinn er of hraður

- Mjög ör vöxtur ferðapjónustu á árunum 2014-2018 hafði í för með sér ruðningsáhrif fyrir aðrar greinar – hækkun á gengi krónunnar, spennu á vinnumarkaði og skorti á húsnæði. Hætta á hinni svokölluðu hollensku veiki þar sem ör vöxtur einnar greinar dregur máttinn úr öðrum greinum.



### 2. Álag á innlenda innviði – ef vöxturinn er of hraður

- Vegakerfi, heilbrigðiskerfi, löggæsla og björgunarsveitir komin að þolmörkum – og valda kostnaði fyrir innlenda notendur. Aukið álag kallar á talsverðar fjárfestingar sem íslenskir skattgreiðendur verða að fjármagna.



### 3. Ágangur á náttúruna – ef vöxturinn er of hraður

- Náttúra Íslands er ekki ótakmörkuð auðlind, ágangur á hana er talsverður og óafturkræfur ef ekki er vandað til verka. Íslensk náttúra er helsti sölupunktur ferðapjónustunnar og hana þarf að varðveita. Það er ekki sjálfgefið að við viljum opna aðgengi að öllum náttúruperlum landsins.



### 4. Einhæfni atvinnulífs – ef vöxturinn er of hraður

- Covid-faraldurinn sýndi fram á það hve háð íslenskt efnahagslíf er ferðapjónustu og jafnframt hve brothætt greinin er. Íslendingar þurfa fleiri stöðir undir atvinnulífið og fjölbreyttari störf.

## Til framtíðar



- Hinn mikli vöxtur í útflutningstekjum ferðapjónustunnar á árunum 2014-2018 var forsenda fyrir hinni miklu lífshagsókn á þessum tíma – útgjöld ferðafólks hér gáfu Íslendingum færi á því að kaupa erlendar vörur og þjónustu á hagstæðu verði.
- Ferðapjónustan er mikilvæg ný stoð fyrir efnahagslífið – endurnýjaður kraftur greinarinnar er mjög mikilvægur nú þegar þörf er á auknum útflutningstekjum.
- En við hve mörgum ferðamönnum getum við raunverulega tekið á móti – án þess að verða fyrir neikvæðum aukaverkunum? Viljum við sjá þær þjóðfélagsbreytingar sem fylgja „massa-túrisma“?
- Forsvarsmenn ferðapjónustunnar verða að viðurkenna að það eru takmörk fyrir vexti hennar – ef greinin ætlar sér að starfa í sátt við bæði land og þjóð.
- Áherslan þarf að vera á gæði fremur en magn – vöxturinn getur ekki verið hraðari en innviðir landsins þola. Of hraður vöxtur getur einnig leitt til vonbrigða og neikvæðni hjá erlendum gestum – og leitt til bakslags líkt og var farið að gerast hérlendis árið 2018. Og hefur gerst víða erlendis.
- Mögulega er ferðapjónustan á svipuðum stað og sjávarútvegur við hrun þorskstofnsins 1988 – sem varð tilefni til hagræðingar og síðan mikillar verðmætaaukningar en án þess veiddum tonnum fjölgaði.
- Báðar greinar eiga það sameiginlegt að nýta takmarkaðar auðlindir landsins – og geta báðar skilað þjóðinni góðum ábata ef rétt er á haldið.

## Vaxtaákvörðun á tímum mikillar innlendarar eftirspurnar og mikilla verðbólguvæntinga



Ásgerður Ósk Pétursdóttir  
Lektor í hagfræði við Háskólann í Bath

Við vaxtaákvörðun peningastefnufundar í mars 2023 voru vextir hækkaðir um 1 prósentu. Meginvextir bankans fóru úr 6,5% upp í 7,5%. Peningastefnufund taldi þessa hækkun nauðsynlega til að minnka verðbólguþrýsting og senda skilaboð um að nefndin muni gera það sem þarf til að koma verðbólgu í markmið. Við vaxtaákvörðunina var verðbólga 10,2% sem er vel yfir 2,5% markmiði Seðlabankans.

### Þróttmikil innlend eftirspurn

Innlend eftirspurn og efnahagsumsvif hafa verið kröftug á Íslandi, sérstaklega einkaneysla og fjárfesting og nýjustu vísbendingar um þróun einkaneyslu benda til að hún sé enn kröftug. Mikil innlend eftirspurn hefur leitt til meiri hagvaxtar á Íslandi en hefur verið í flestum okkar viðskiptalöndum. Eins og kom fram í síðustu yfirlýsingu peningastefnufundar þá er hagvöxtur hér á landi vel umfram það sem þjóðarþúskapurinn getur staðið undir til lengdar.

### Framleiðsluspenna

Sumir gætu velt fyrir sér hvernig hagvöxtur geti verið of mikill, hvort að mikill hagvöxtur sé ekki eftirsóknarverður. Hagkerfi getur þó nýtt framleiðsluþætti sína umfram það sem er skilvirkt. Sem dæmi um ofnýtingu framleiðsluþátta er þegar framleiðslutæki er nýtt til fullnustu þannig að ekki er tekinn tími til að sinna nauðsynlegu viðhaldi eða að starfsfólk þurfi að vinna yfirvinnu. Þetta er ekki ástand sem hagkerfið getur staðið undir til lengdar. Þegar hagvöxtur er umfram það sem er skilvirkt þá myndast framleiðsluspenna sem á endanum leiðir til verðbólguþrýstings.

Framleiðsluspennan hér á landi kemur skýrt fram í niðurstöðum könnunar Gallup meðal stjórnenda 400 stærstu fyrirtækja



Ljósmynd: Bára Huld Beck.

Ísland á sér sögu um mikla verðbólgu. Því geta svokölluð fyrstu umferðar áhrif ytri sveiflna haft hröð áhrif á verðbólguvæntingar og leitt til þess að fyrirtæki hækki verð þrátt fyrir að verða ekki fyrir beinum kostnaðarauka

landsins. Þar kemur fram að 58% fyrirtækja starfi nálægt hámarksframleiðslugetu. Því má gera ráð fyrir að þau fyrirtæki séu að ofnýta framleiðsluþætti sína og eigi erfitt með að bregðast við aukinni eftirspurn. Starfsemi nálægt hámarksframleiðslugetu leiðir til aukins þrýstings á verðlag. Vaxtahækkun er því nauðsynleg til að hægja á innlendra eftirspurn.

Jafnframt sýna niðurstöður könnunar Gallup að 44% stjórnenda telji að skortur sé á starfsfólki.

Þessi skortur getur leitt til þess að starfsfólk vinni lengri vinnudag eða fái ekki

nægilega hvíld sem getur haft neikvæð áhrif á heilsu þess. Það getur einnig leitt til þess að fyrirtæki þurfi að setta sig við að ráða starfsfólk sem ekki passar endilega best fyrir starfið sem aukur hefur áhrif á framleiðni. Skortur á vinnuafli leiðir alltaf til spennu á vinnumarkaði og launaþrýstings þar sem fyrirtæki þurfa að borga hærri laun til að laða til sín starfsfólk. Til lengri tíma litið þá leiðir launahækkun umfram framleiðnivöxt til aukins verðbólguþrýstings. Því er vaxtahækkun nauðsynleg til að hægja á innlendra eftirspurn og koma á meira jafnvægi á vinnumarkaði.

1 Ásgerður Ósk Pétursdóttir skrifa um síðustu stýrivaxtaákvörðun

2 Kjölfesta verðbólguvæntinga veikari í löndum með sögu um mikla verðbólgu

3 Edda Björg Heitmann skrifar um stöðu Íslands í innleiðingu á seðlabankarafeyri

4 Fráhvarf Tucker Carlson frá Fox News mun vera fréttaveitunni kostnaðarsamt

## Samanburður við Bretland

Áhugavert er að bera saman spennu á vinnu- markaði á Íslandi og í Bretlandi. Í báðum löndunum var tveggja stafa verðbólgu um miðjan marsmánuð og í báðum löndum búa fyrirtæki við skort á vinnuafli sem hefur leitt til launa- og verðbólguþrýstings. Hins vegar er ástæðan fyrir skorti á starfsfólki í Bretlandi framboðsvandi á vinnumarkaði og hefur starfandi fólki fækkað miðað við stöðuna árið 2019. Þessi fækkun er meðal annars vegna breytinga á innflytjendalögum og veitingu atvinnuleyfa í kjölfar útgöngu Bretlands úr Evrópusambandinu. Minni arvinuþáttaka stafar einnig af því að hluti þeirra sem eru 50 ára eða eldri ákvað að fara út af vinnumarkaði í kjölfar heimsfaraldursins. Spennan á vinnumarkaði á Bretlandi er því ekki vegna aukinnar innlendrar eftirspurnar enda hagvöxtur mælst mun minni á Bretlandi en á Íslandi og hagkerfið þar aðeins nýlega náð sömu stærð og það var fyrir heimsfaraldurinn.

Á móti kemur að á Íslandi hefur ekki verið merki um framboðsvanda á vinnumarkaði. Fjöldi starfandi hefur vaxið um 11% frá árinu 2019 og heildarvinnustundum fjölgað um 8%. Aldrei áður hafa jafnmargir verið starfandi, þrátt fyrir það er skortur á vinnuafli sem sýnir hversu mikil innlend eftirspurn er.

## Hækkun vaxta til að hægja á innlendri eftirspurn

Ofangreint er skýrt dæmi um að það er ekki nóg að hafa upplýsingar um verðbólgu- utölur ef bera á saman vaxtastig og stærð vaxtahækkana í mismunandi löndum. Það þarf einnig að skilja undirliggjandi ástæður verðbólguþrýstings. Verðbólguþrýstingur sem stafar af framboðsvanda getur verið margslunginn og vaxtataki sedlabanka er ekki alltaf best til fallið að hægja á verðbólgu við þær aðstæður. Hins vegar sýna fræðin og reynslan að hækkun vaxta er öflugt tæki til að hægja á innlendri eftirspurn. Þegar eftirspurnarverðbólga er til staðar, eins og er á Íslandi núna, þá er hækkun vaxta mikilvæg.

## Verðbólguþrýstingur

Verðbólga á Íslandi er á mjög breiðum grunni og verðhækkanir ná til æ fleiri þátta. Verðhækkanir flestra undirliða eru einnig vel umfram 2,5% verðbólgu- markmið Sedlabankans. Sem dæmi þá sýndu nýjustu tölur við síðustu vaxtaákvörðun að tæplega helmingur af neyslukörfu vísitölu neysluverðs hafði hækkað um meira en 10% milli ára.

Við mat á verðbólguþrýstingi leit peningastefnunefnd einnig til talna um undirliggjandi verðbólgu og verðbólguvæntingar.



Ljósmynd: Aðsend.

Við mat á undirliggjandi verðbólgu eru undanskildir sveiflukenndir og tímabundnir þættir sem peningastefnan á erfitt með að hafa bein áhrif á. Ef kjölfesta verðbólguvæntinga er sterk þá ætti undirliggjandi verðbólga að haldast við verðbólgu- markmiðið þó að mæld verðbólga fari umfram það vegna tímabundinna sveiflna. Mælingar sýna hins vegar að undirliggjandi verðbólga er enn að aukast og var hún 7,2% við vaxtaákvörðun og allir mælikvarðar á verðbólguvæntingar sýna að þær eru vel yfir markmiði.

## Verðbólguvæntingar

Þegar kjölfesta verðbólguvæntinga er stöðug við 2,5% markmið Sedlabankans þá leiðir frávik á mældri verðbólgu frá markmiði ekki til langvarandi verðbólgu. Við þær aðstæður haga fyrirtæki og fjármálamarkaðir verðlagningu sinni og starfsfólk launakröfum sínum í samræmi við 2,5% verðbólgu. Þessir aðilar breyta því ekki hegðun sinni þrátt fyrir tímabundna aukningu mældrar verðbólgu. Við þessar aðstæður er auðveldara fyrir sedlabanka að halda verðbólgu við markmið og þarf ekki mikla breytingu á vöxtum til að bregðast við sveiflum.

Kjölfesta verðbólguvæntinga er jafnan veikari í löndum sem hafa búið sögulega við mikla verðbólgu. Verðbólguvæntingar geta því aukist og verðlagning og launakröfur breyst hratt í kjölfar sveiflna og aukningu mældrar verðbólgu. Sedlabankar í þeim löndum þurfa því að byrja að hækka vexti fyrr og hækka vexti meira til að slá á væntingar samanborið við sedlabanka í löndum þar sem verðbólga hefur sögulega verið lítil.

Ísland á sér sögu um mikla verðbólgu. Því geta svokölluð fyrstu umferðar áhrif ytri sveiflna haft hröð áhrif á verðbólguvæntingar og leitt til þess að fyrirtæki hækki verð þrátt fyrir að verða ekki fyrir beinum

kostnaðarauka. Mikilvægt er við slíkar aðstæður að herða taumhald peningastefnunnar og leyfa verðbólguvæntingum ekki að aukast. Hærri verðbólguvæntingar geta leitt til seinni umferðaráhrifa og kostnaðarsamrar víxlverkunar launa og verðlags.

Verðbólguvæntingar eru nú þegar vel umfram verðbólgu- markmið og síðasta verðbólgu- mæling fyrir vaxtaákvörðun gaf vísbendingu um að fyrirtæki hleypi auknum launakostnaði beint út í verðlag. Því er mikilvægt að bregðast hart við til að ná tókum á verðbólguvæntingum og draga úr væntingardrífnum launakröfum sem missa strax virði sitt vegna þess verðbólguþrýstings sem þær valda. Vaxtahækkanir ásamt fram- sýnni leiðsögn eru mikilvægar við þessar aðstæður.

## Peningastefnan

Peningastefnunefnd leitast við að hafa taumhald peningastefnu nægilegt í ljósi verðbólgu- horfa. Raunvextir eru neikvæðir og höfðu lækkað frá fundi nefndarinnar í febrúar. Hægja þarf á innlendri eftirspurn til að slaka á framleiðsluspennu í hagkerfinu. Brýnt er að ná sem fyrst marktækum árangri í baráttunni við verðbólgu og verðbólguvæntingum niður fyrir komandi kjarasamninga. Því þurfti að auka taumhald peningastefnunnar. Vaxta- hækkunin þann 22. mars var mikilvægt skref í þá átt.

Mikilvægt er að allir leggist á eitt í baráttunni við verðbólgu. Kostnaður vegna óhóflegrar verðbólgu er gífurlegur og hefur neikvæð áhrif á hagkerfið til lengri tíma lítið. Peningastefnunefnd mun gera það sem þarf til að ná verðbólgu- markmiði.

*Höfundur er ytri nefndarmaður í peningastefnunefnd Sedlabanka Íslands. Þær skoðanir og ályktanir sem koma fram í þessari grein þurfa ekki að endurspegla viðhorf annarra nefndar- manna. V*



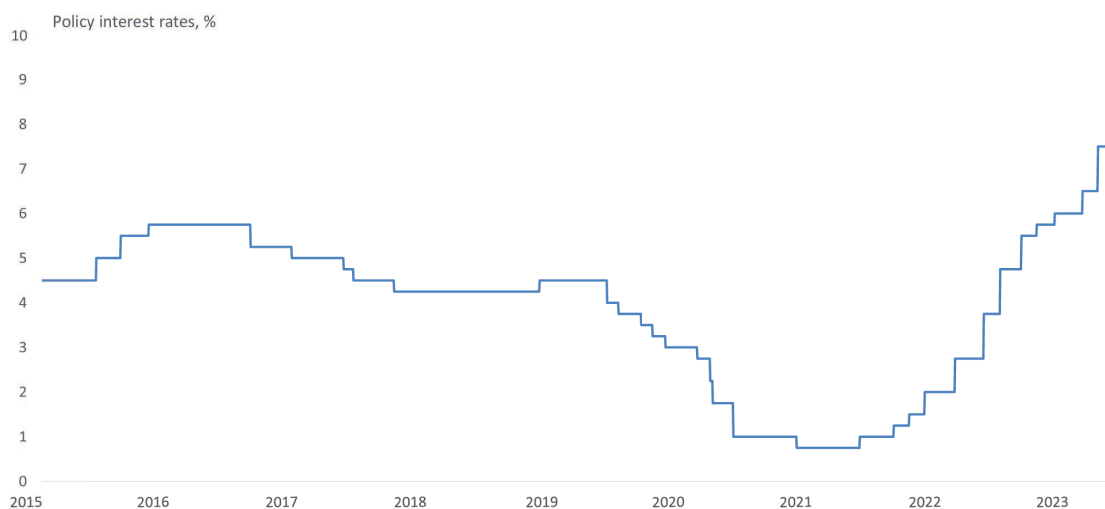
## Banking: Troubles on the horizon or idiosyncratic shocks?

Ásgeir Jónsson Governor of Central Bank of Iceland



29<sup>th</sup> Dubrovnik Economic Conference  
May 2023

## Central Bank of Iceland has raised its policy rate to 8.75% ...

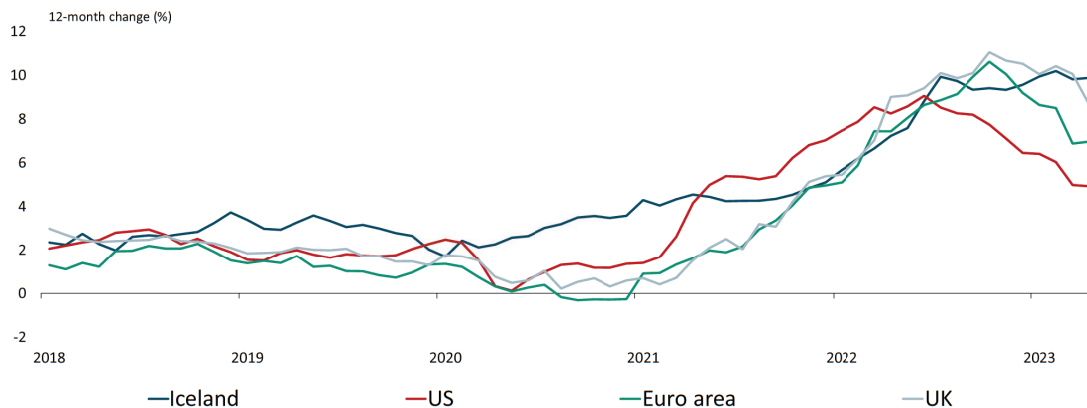


## ... to respond to increasingly broad based inflation



### Global inflation

January 2018 - April 2023

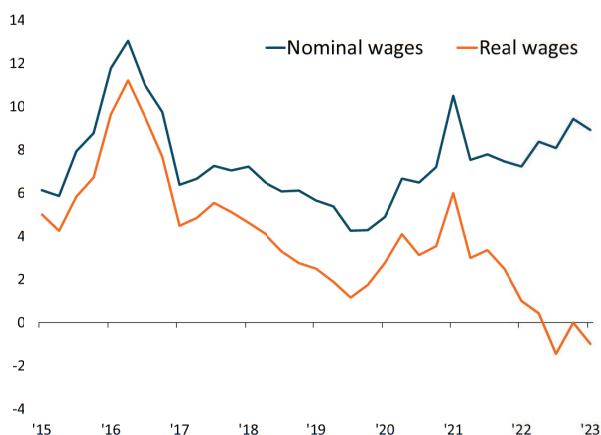


Sources: OECD, Statistics Iceland, Central Bank of Iceland.

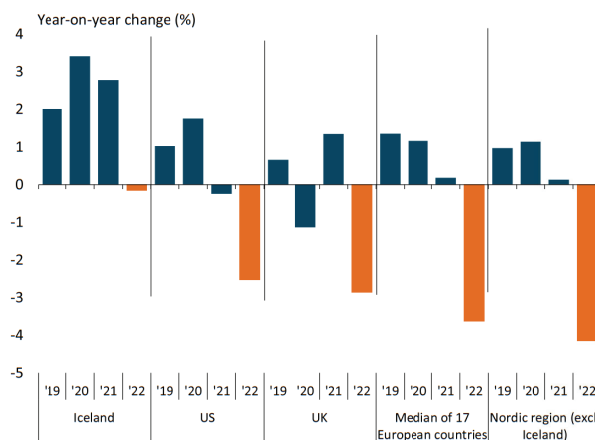
## Real wages have remained largely unchanged



### Wages in Iceland, year-on-year change

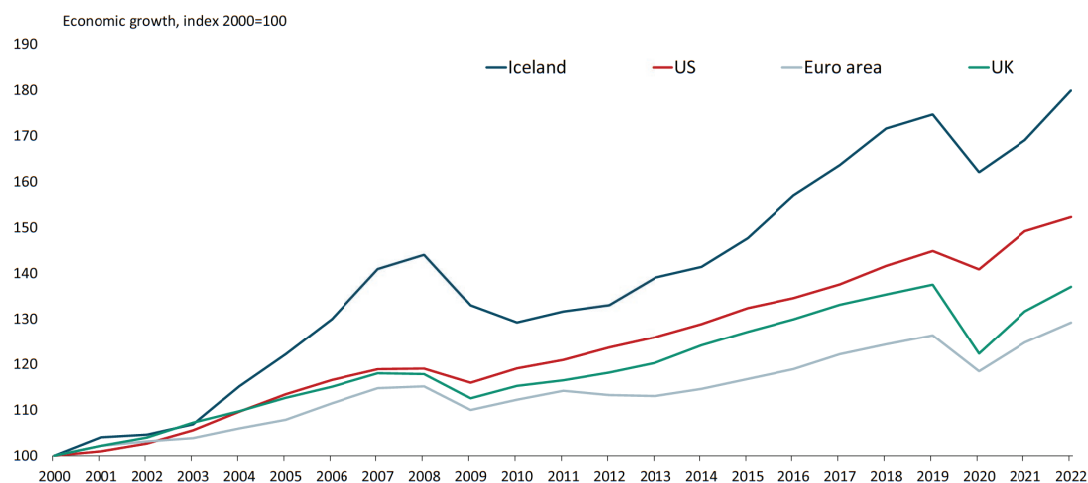


### Real wages in developed countries 2019-2022<sup>1</sup>



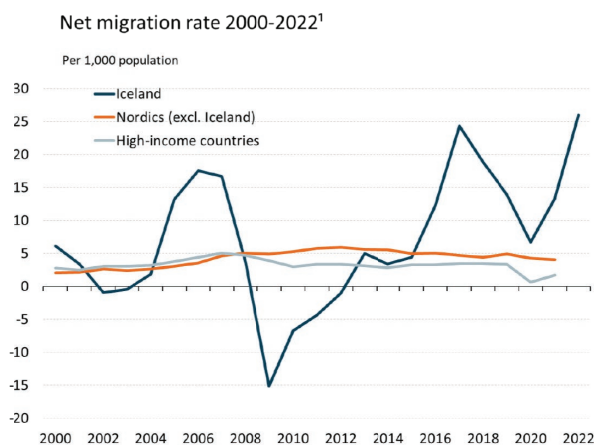
1. Average hourly earnings in manufacturing, deflated with the CPI. The Nordic region (excl. Iceland) shows a simple average for Denmark, Finland, Norway, and Sweden. The 17-country median excludes the Nordic countries and the UK.  
Sources: OECD, Central Bank of Iceland.

## Iceland has been on a higher growth trend than most other developed countries

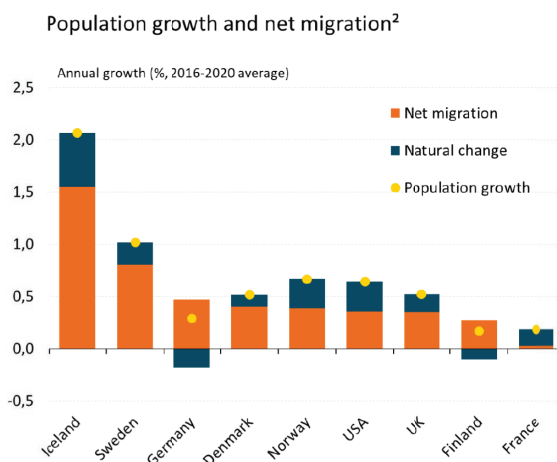


Sources: Refinitiv Datastream, Central Bank of Iceland.

## High net migration, thriving tourism industry and demographics have led to increased demand for housing

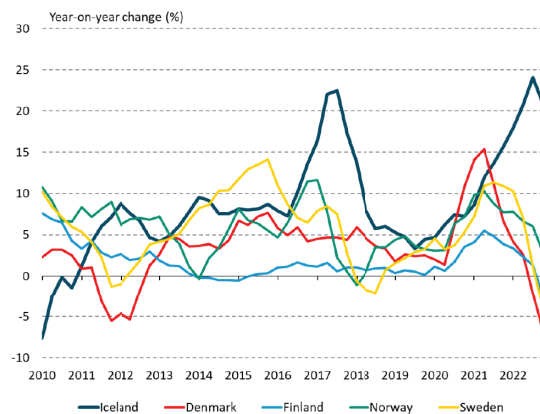


1. Nordics (excl. Iceland) includes Denmark, Finland, Norway and Sweden. High-income countries defined by United Nations as countries with GNI per capita of \$13,205 or more. 2. Natural change calculated as a residual and therefore also includes an adjustment factor.  
Source: United Nations.

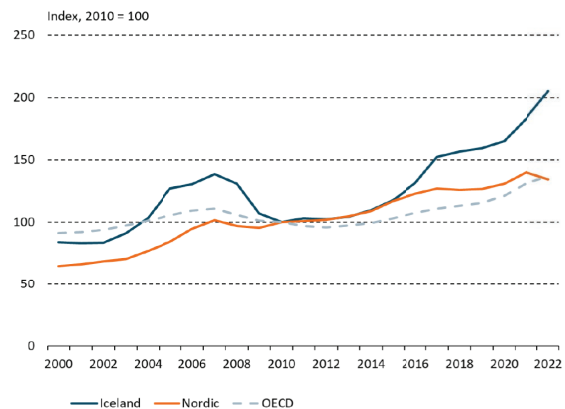


## House prices rose sharply in Iceland after the pandemic and are still rising faster than in other Nordic countries

House prices in the Nordic countries  
Q1/2010 - Q1/2023

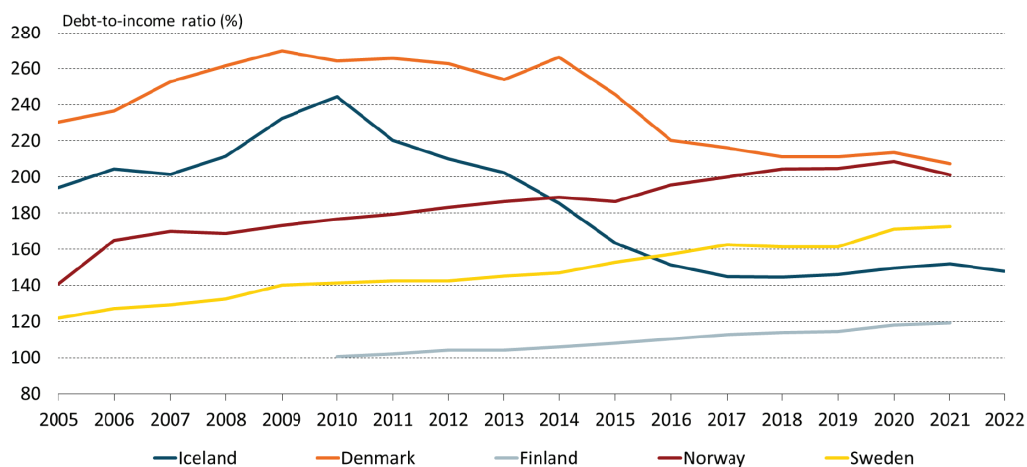


Real house prices  
2000-2022



Sources: Eurostat, Refinitiv Datastream.

## Tight borrower based measures have slowed down the rise in house prices and kept a lid on leverage



Sources: Eurostat, Central Bank of Iceland.





## Framework for financial resilience

### How do you create resilience in a small open economy?



1. Institutionally integrate responsibility for monetary policy, financial stability and supervision in a clear and transparent way – and divide decision making authority through policy committees with outside participation

The Financial Supervisory Authority was merged with the Central Bank in 2020; there is now a single institution responsible for both price stability and financial stability. Enabled the Bank to respond decisively and in a consistent manner in all of its policy areas to the effects of the pandemic

2. Mitigate the influence of the balance of payments on the domestic economy
  - a) Maintain adequate international reserves – manage the foreign exchange market through limited but strategic interventions
  - b) Limit the ability of domestic entities to accumulate short-term external debt
  - c) Limit the scope for FX futures to be used as vehicles for speculative carry-trade



## How do you create resilience in a small open economy?

### 3. Manage leverage ratios and constrain credit growth

- a) Maintain high capital ratios of banks - in excess of 20% - in addition to 2,5% countercyclical capital buffers
- b) Employ borrower-based measures; capping both leverage and debt service burden
- c) Limit foreign-denominated currency lending to non-export companies

### 4. Limit risk-seeking in the financial sector

- a) Impose caps on bonuses
- b) Additional capital requirements due to loans to holding companies that are categorized as riskier



Thank you

## Peningastefnan, efnahagshorfur, lán og greiðslubyrði



Samiðn  
15. júní 2023

Rannveig Sigurðardóttir  
Varaseðlabankastjóri peningastefnu

### Úr fundargerð peningastefnunefndar maí 2023



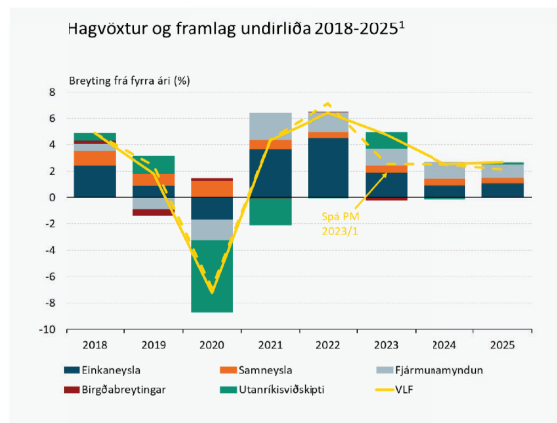
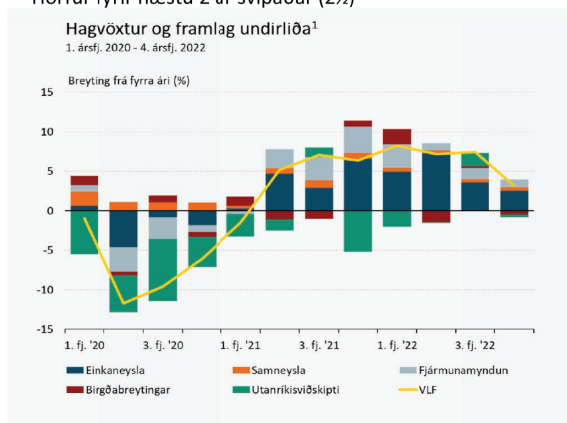
- Vísbendingar væru um að **kostnaðarhækkunum fyrirtækja** væri að miklu leyti velt út í verðlag enda væri innlend eftirspurn kröftug
- Þá hafði nefndin áhyggjur af því hversu stutt væri í gerð næstu kjarasamninga og að **tíminn til stefnu til að ná merkjanlegum árangri væri naumur**
- **Talsverð spennan væri enn** á vinnumarkaði, atvinnuleysi væri lítið og víða skortur á starfsfólki.
- Nefndin ræddi í því sambandi **ólíka þróun raunlauna hér á landi** undanfarin ár samanborið við þróunina í öðrum þróuðum ríkjum
- **Aðhaldsstig opinberra fjármála** var einnig rætt og taldi nefndin að það myndi styðja við peningastefnuna og leiða til **betri hagstjórnarblöndu** ef aðhaldið þar væri meira. Voru nefndarmenn sammála um að það gæti að öðru óbreyttu stuðlað að því að **hækka þyrfti vexti minna** og **fórnarkostnaðurinn í hægari efnahagsumsvifum** yrði að sama skapi minni til lengra tíma lítið en ella
- Að mati nefndarinnar væru því **horfur á að hækka þyrfti vexti enn meira** til að tryggja betra jafnvægi í þjóðarþúskapnum og koma verðbólgu í markmið



## Efnahagsumsvif

### Mikill hagvöxtur í fyrra og spáð töluverðum hagvexti í ár

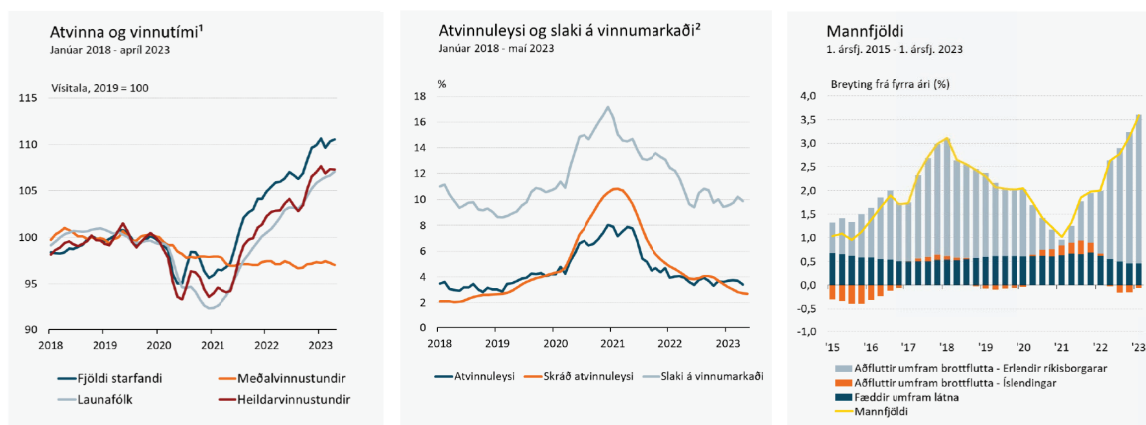
- Spáð meiri hagvexti í ár en í febrúar – 4,8% í stað 2,6%
- Meiri vöxtur innlendrar eftirspurnar (bæði einkaneyslu og fjárfestingar) vegur þungt ...
- ... en einnig meiri þjónustuútflutningur (og breytt meðferð á hugverkaútflutningi)
- Horfur fyrir næstu 2 ár svipaðar (2%)



1. Frávik geta verið á milli samtölu framlags undirliða og hagvaxtar vegna keðjutengingar þjóðhagsreikninga.  
Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

## Störfum fjölgar og atvinnuleysi lítið

- Samkvæmt VMK fjölgaði störfum um 6,9% í fyrra og 4% á F1 í ár – fjölgunin á F1 5,1% skv. staðgreiðslugögnum
- Atvinnuleysi skv. VMK hefur haldist í kringum 3% í tæplega ár ... en skráð atvinnuleysi er minna og mældist 2,8% í maí
- Áfram greinileg áraun á innlenda framleiðslubætti sem er mætt með miklum innflutningi á erlendu vinnuafli

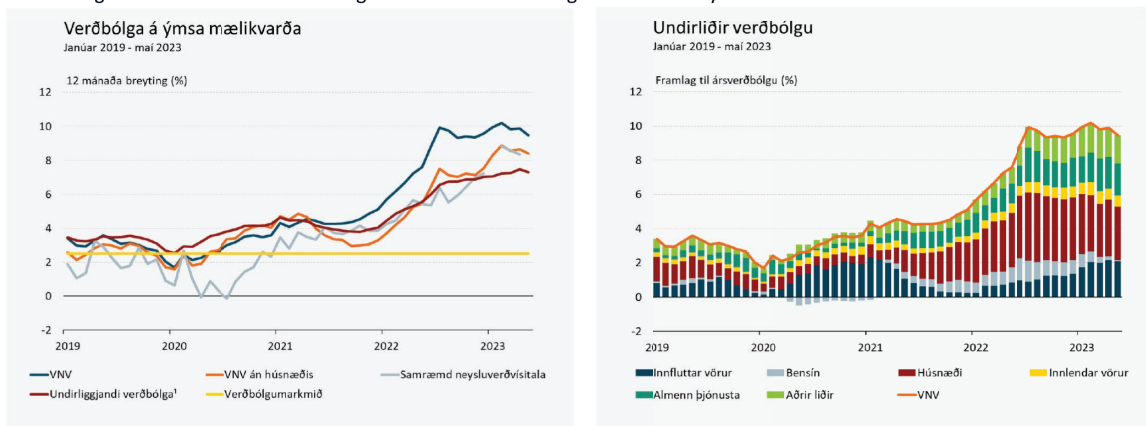


1. Launafólk samkvæmt tölum úr staðgreiðsluskrá ríkisskattstjóra en önnur gögn eru úr vinnumarkaðskonun Hagstofu Íslands. Fólk á aldrinum 16-74 ára. Þriggja mánaða hreyfanlegt meðaltal árstíðarleiddra tölva. 2. Slaki á vinnumarkaði eru atvinnulausir, vinnulitir (þeir sem eru í hlutastarfi en vilja vinna meira) og möguleg viðbót á vinnumarkaði (þeir sem eru tilbúnir að vinna en eru ekki að leita að vinnu og þeir sem eru að leita að vinnu en eru ekki tilbúnir að hefja störf innan tveggja vikna) sem hlutfall af mannafla með viðbót (mannafli að viðbætti mögulegi viðbót á vinnumarkaði). Skráð atvinnuleysi er án fólks á hlutabótum frá og með mars 2020. Þriggja mánaða hreyfanlegt meðaltal árstíðarleiddra tölva.

Heimildir: Hagstofa Íslands, Vinnumálastofnun, Seðlabanki Íslands.

## Verðbólga mælist enn mikil ...

- Verðbólga hefur verið yfir 9% í næstum ár – hjaðnaði úr 9,9% í apríl í 9,5% í maí
- Verðbólga án húsnæðis hjaðnar einnig milli mánaða og mældist 8,4% í maí (HICP 8,3% í apríl)
- Undirliggjandi verðbólga mældist 7,3% í maí og hjaðnar milli mánaða - í fyrsta sinn síðan í október 2021
- Framlag húsnæðisliðar til ársverðbólgu fer minnkandi en vægi annarra liða eykst

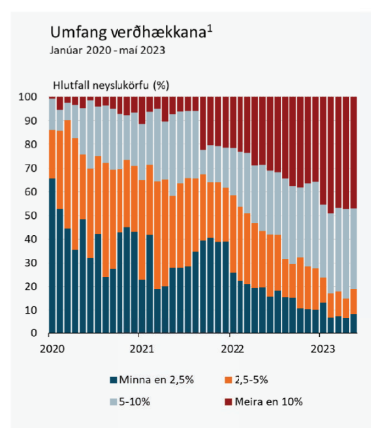
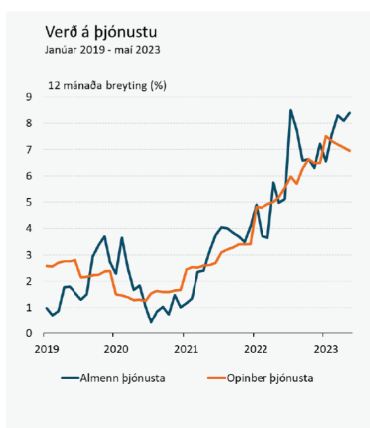
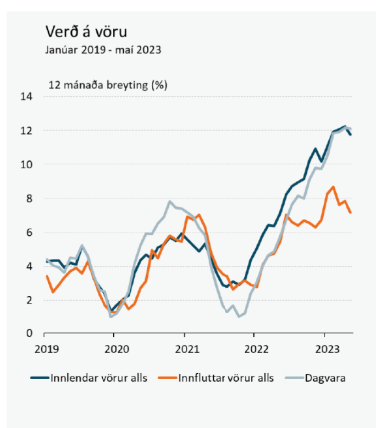


1. Undirliggjandi verðbólga er mæld með tjarnavísitölu (áhrif óbeinna skatta, sveiflukenndra matvöruhlíða, bensins, opinberra þjónustu og raunvaxtakostnaðar húsnæðislaða eru undanskilin) og tölfræðilegum mælikvörðum (vegð miðgildi, klípt meðaltal, kvítt þáttalíkan og sameiginlegur þáttur vísitölu neysluverðs).

Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

## ... og stærri hluti neyslukörfu hefur hækkað töluvert

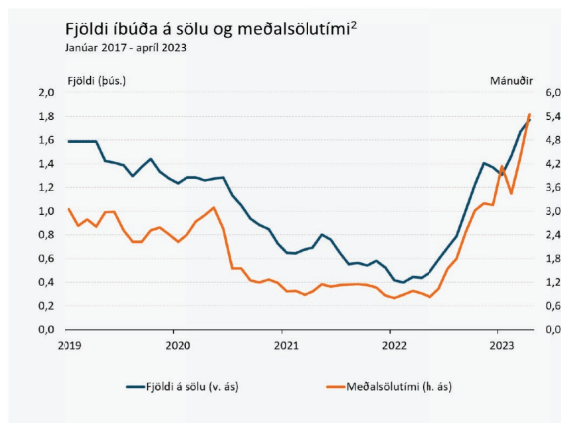
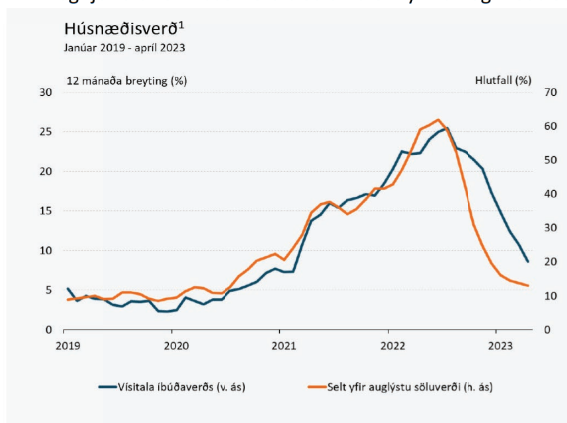
- Innlendar vörur og dagvörur hafa hækkað um 12,2% sl. ár og almenn þjónusta um 8,1%
- Innfluttar vörur hafa einnig hækkað mikið (7,9%)
- Sífelld stærri hluti undirliða að hækka mikið: 47% neyslukörfu hækkaði um meira en 10% í apríl (10% í apríl '21 og 3% í apríl '21)



1. Hlutfall af neyslukörfu VNV flokkað eftir árshækkun.  
Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

## Hægir á hækkun húsnæðisverðs

- Áfram hægir á árshækkun húsnæðisverðs: var 8,6% í apríl en mest 25,5% í júlí 2022
- Raunverð því tekið að lækka
- Íbúðum sem seljast yfir ásettu verði hefur fækkað mikið: voru 13% í apríl en mest 62% í júní 2022 ...
- ... og fjórfalt fleiri íbúðir eru á sölu nú en fyrir ári og meðalsölutími hefur sexfaldast

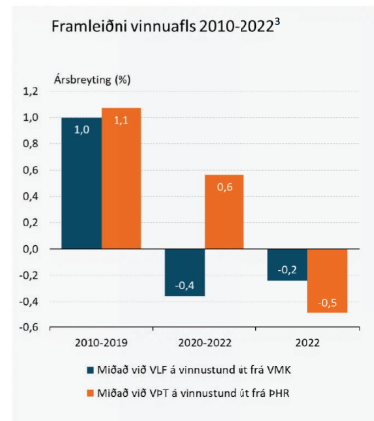
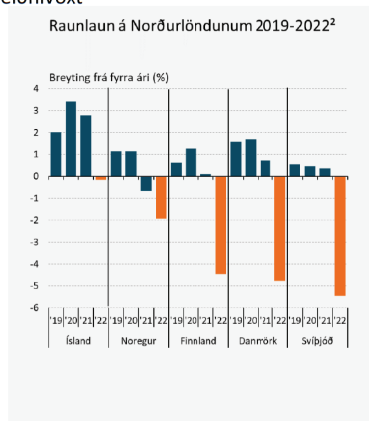
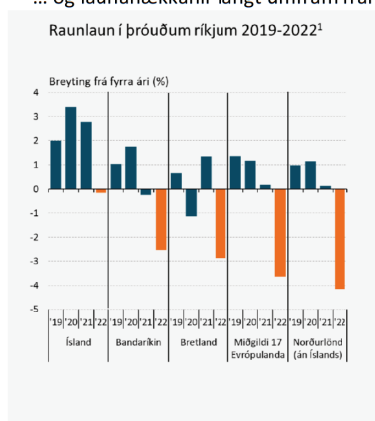


1. Húsnæðisverð á höfuðborgarsvæðinu. Hlutfall íbúða sem seljast yfir auglýstu söluverði af heildarfjölda íbúða á sölu. Þriggja mánaða hlaupandi meðaltal. 2. Fjöldi íbúða á sölu og meðalsölutími á höfuðborgarsvæðinu.  
Heimildir: Fasteignavefur Morgunblaðsins, Húsnæðis- og mannvirkjastofnun, Seðlabanki Íslands.



## Laun hækka mikið og langt umfram framleiðni

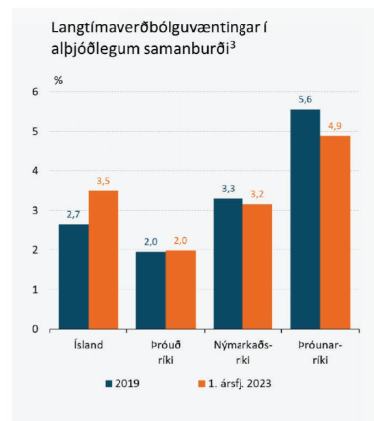
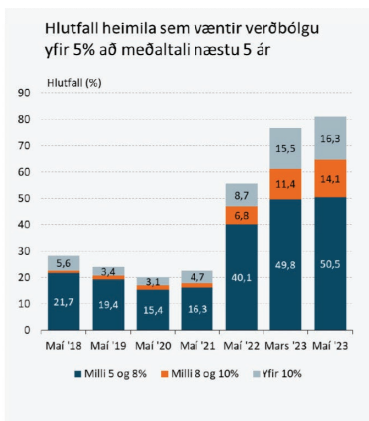
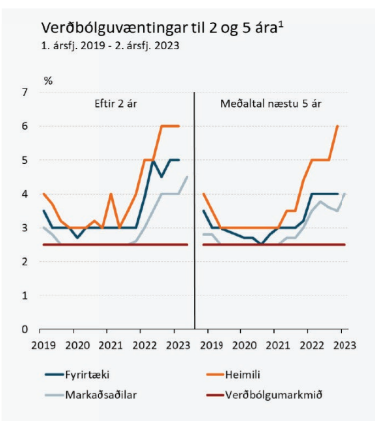
- Laun hafa hækkað mikið undanfarið – sérstaklega í kjölfar nýgerðra kjarasamninga: 8,9% árshækkun launavísitölu á F1
- Kemur í kjölfar uppsafnaðrar riflega 8% raunlaunahækkunar 2019-22
- Mun meiri hækkun raunlauna 19-21 og minni lækkun 22 en í öðrum iðnríkjum ...
- ... og launahækkanir langt umfram framleiðnivöxt



1. Meðaltækjur á vinnustund í framleiðslu staðvirk með vísitölu neysluverðs. Norðurlönd (án Íslands) sýnir einfalt meðaltal fyrir Danmörku, Finnland, Noreg og Svíþjóð. Miðgildi 17 Evrópulanda undanskilur Norðurlönd og Bretland.  
2. Meðaltækjur á vinnustund í framleiðslu staðvirk með vísitölu neysluverðs. 3. Framleiðni vinnuafis úr þjóðhagslíkani Seðlabankans er mæld sem verg landsframleiðsla á vinnustund þar sem byggt er á heildarvinnustundum út frá vinnumarkaðsskönnun Hagstofunnar (VMK). Framleiðni vinnuafis skv. birtingu Hagstofunnar er hins vegar mæld sem vergar þáttækjur á vinnustund þar sem byggt er á heildarvinnustundum út frá vinnumagn þjóðhagsreikninga.  
Heimildir: Hagstofa Íslands, OECD, Seðlabanki Íslands.

## Verðbólguvæntingar haldast háar og kjölfesta löskuð

- Svartsýni heimila á verðbólgu til næstu 5 ára hefur aukist: búast við 6% verðbólgu á næstu 5 árum
- Verðbólguvæntingar markaðsaðila einnig hækkað í 4%
- Vísibendingar um að kjölfesta hafi laskast

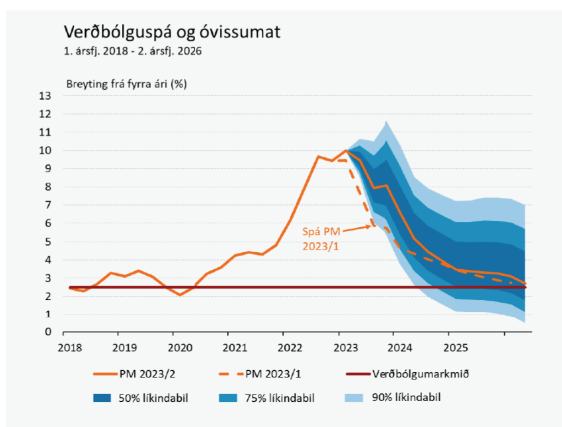
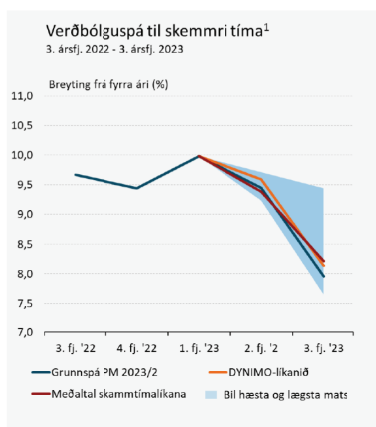


1. Kannanir Gallup á verðbólguvæntingum heimila og fyrirtækja og Seðlabankans á verðbólguvæntingum markaðsaðila. Miðgildi svara. 2. Meðaltal mánaða. Gögn til og með 19. maí 2023. 3. Miðað er við verðbólguvæntingar markaðs- og greiningaraðila til fimm ára.  
Heimildir: Alþjóðagjaldeyrissjóðurinn, Gallup, Seðlabanki Íslands.



## Horfur á að verðbólga hjaðni hægar en áður spáð

- Verðbólga var 10% á 'F1 – 0,5 pr. meiri en spáð var í febrúar – undirliggjandi verðbólguþrýstingur reyndist vanmetinn
- Spáð að verðbólga minnki í 9,4% á F2 en verði yfir 8% allt árið ... fer ekki undir 4% fyrr en F4/2024 og ekki undir 3% fyrr en 2026
- Önnur líkön spá einnig hjöðnun verðbólgu en benda líka til þess að hætta sé á að það gerist hægar en grunnspá gerir ráð fyrir

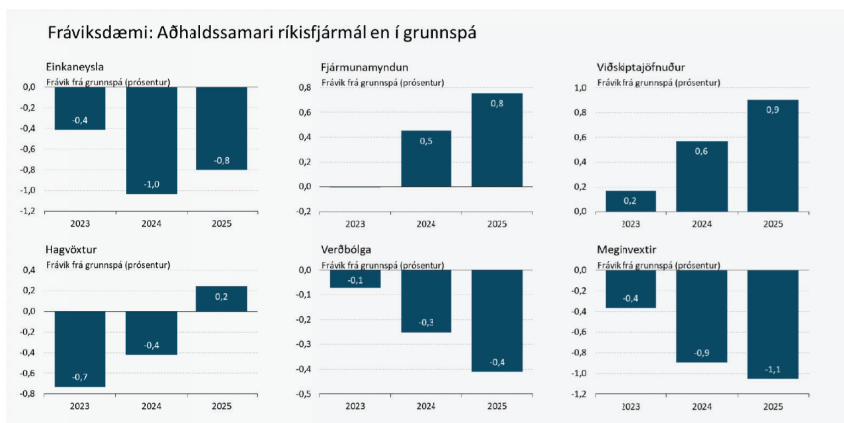


	Ársmeðaltöl	Árslok
2022	8,3%	9,4%
2023	8,8%	8,1%
2024	5,0%	3,9%
2025	3,4%	3,3%

1. Samanburður í grunnspá og spám heildarjafnvægislíkans bankars (DYNIMO) og meðaltals 5 tölræðilega metinna verðbólgu líkana sem bankinn notar við að gera skammtíma verðbólguþspár.  
Heimildir: Hagstofa Íslands, Seðlabanki Íslands.

## Hvað ef aðhald ríkisfjármála eykst meira?

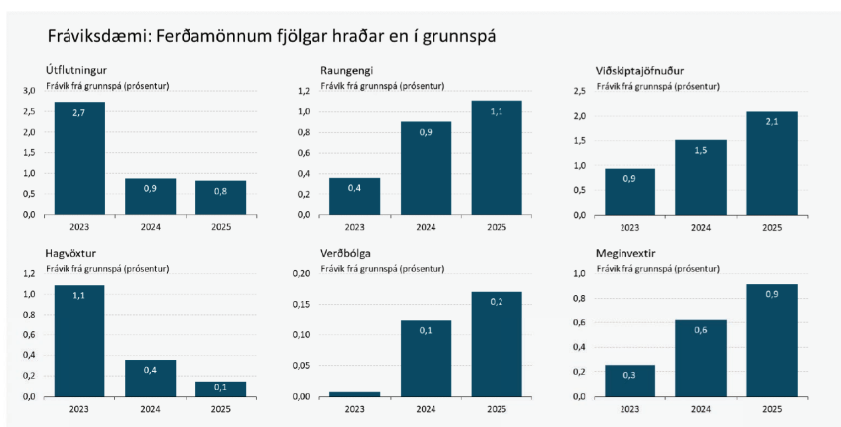
- Frávíkisdæmið gerir ráð fyrir auknu aðhaldi (jafnt á tekju- og gjaldahlið) sem nemur samtals 60 ma.kr. 2023-24 (2½% af VLF)
- Hægir á vexti einkaneyslu en „ryður inn“ fjárfestingu einkaaðila í gegnum lægri vexti og viðskiptahallinn verður minni
- Hagvöxtur og verðbólga verða einnig minni og vextir lægri ... stærðargráða og hraði áhrifa fer eftir útfærslu aðhaldsaðgerða



Heimild: Seðlabanki Íslands.

## Hvað ef ferðamönnum fjölgar hraðar?

- Frávíkisdæmið gerir ráð fyrir að fyrri hámark (2,3 millj. ferðamanna 2018) náist í ár (tæplega 2,2 millj. í grunnspá) og fyrri hámark markaðshlutdeildar frá 2017 náist í lok spátíma ... gerist það eykst útflutningur hraðar, raungengi hækkar meira og viðskiptahallinn minnkar frá grunnspá ... hagvöxtur verður enn kröftugri og verðbólguþrýstingur meiri – og vextir því hærri



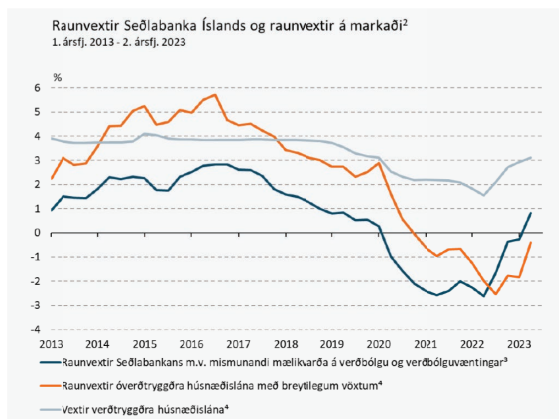
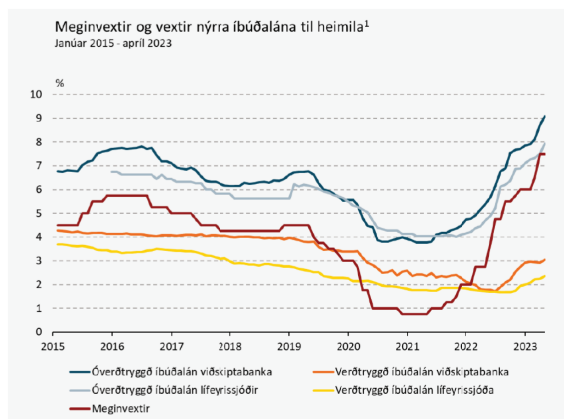
Heimild: Seðlabanki Íslands.



## Vextir, lán og greiðslubyrði

## Raunvextir bankans og aðrir markaðsvextir

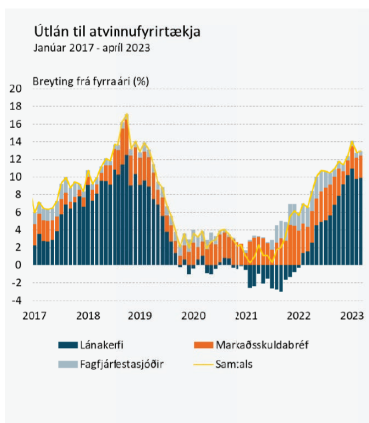
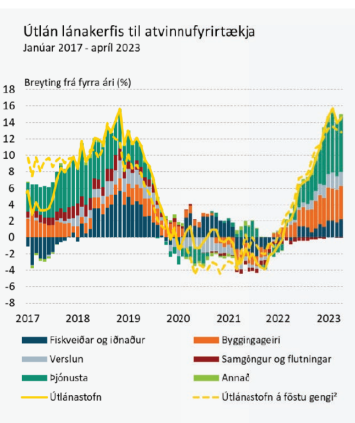
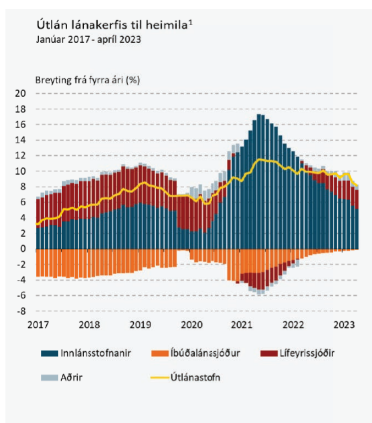
- Raunvextir Seðlabankans jákvæðir í fyrsta sinn í þrjú ár
- Aðrir raunvextir hafi hækkað en raunvextir óverðtryggðra húsnæðislána með breytilegum vöxtum enn neikvæðir



1. Vagnir meðalvextir nýrra óverðtryggðra íbúðalána stóru viðskiptabankanna þriggja miðað við fjárhæð útlána. Meðaltal breytilegra vaxta stærstu lífeyrissjóða samkvæmt vaxtaöflum þeirra. 2. Gögn til og með 6. júní 2023. 3. Fram til 21. maí 2014 er miðað við meðaltal innlánsvaxta og hámarks vaxta á innstæðubréfum með 28 daga binditíma sem meginvexti bankans en vexti 7 daga bundna innlána frá þeim tíma. 4. Fram til febrúar 2012 er miðað við 12 mánaða verðbólgu, verðbólguvæntingar fyrirtækja til eins árs, verðbólguvæntingar heimila til eins árs, verðbólguálag á fjármálamarkaði til eins árs og spá Seðlabankans um ársverðbólgu eftir fjóra ársfjórðunga. Frá mars 2012 er einnig miðað við verðbólguvæntingar markaðsaðila til eins árs samkvæmt ársfjórðungslegri könnun Seðlabankans. 4. Einfalt meðaltal lægstu útlánvaxta þriggja stærstu viðskiptabankanna. Vextir verðtryggðra húsnæðislána eru fastir frá 5 árum og allt upp í allan lántímann.  
Heimildir: Gallup, Hagstofa Íslands, Seðlabanki Íslands.

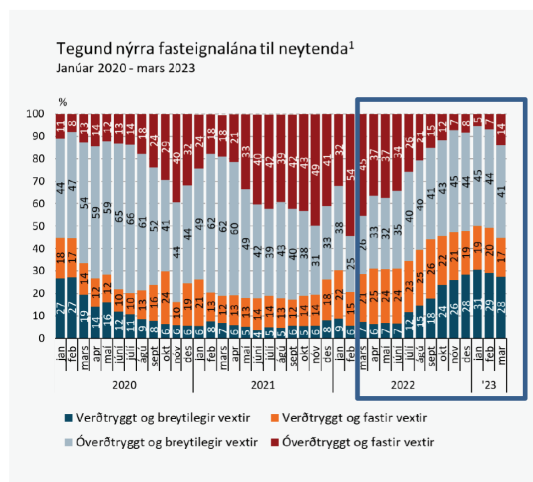
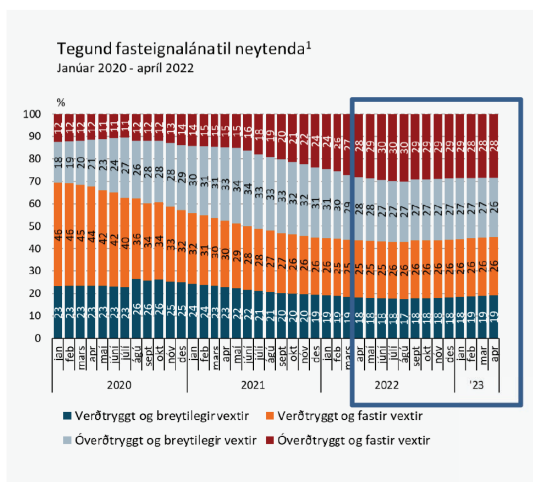
## Útlán til heimila og fyrirtækja

- Dregið úr vexti útlána til heimila og nam ársvöxturinn 8,2% í apríl
- Útlán til atvinnufyrirtækja vaxa hratt og nam ársvöxturinn 12,9% í apríl - útlán til flestra atvinnugreina tekið við sér
- Vöxtur útlána fagfjárfestastjóða til fyrirtækja hafa minnkað og einhver fyrirtæki sækja fjármagn með útgáfu markaðsskuldabréfa

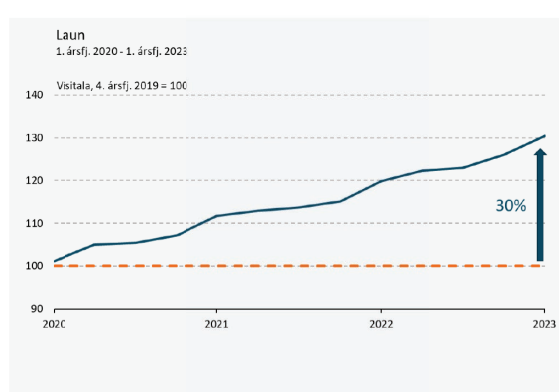
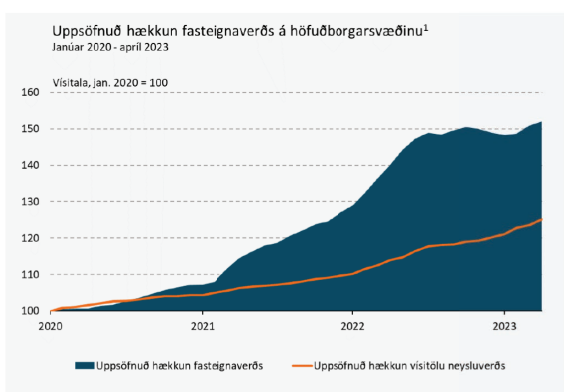


1. Leiðrétt fyrir endurflokkun og skuldataekunaraðgerðum stjórnvalda. 2. Stofn útlána í erlendum gjaldmiðlum er reiknaður miðað við vísitölu meðalgengis í apríl 2023.  
Heimild: Seðlabanki Íslands.

## Enn rúmlega helmingur fasteignalána óverðtryggður



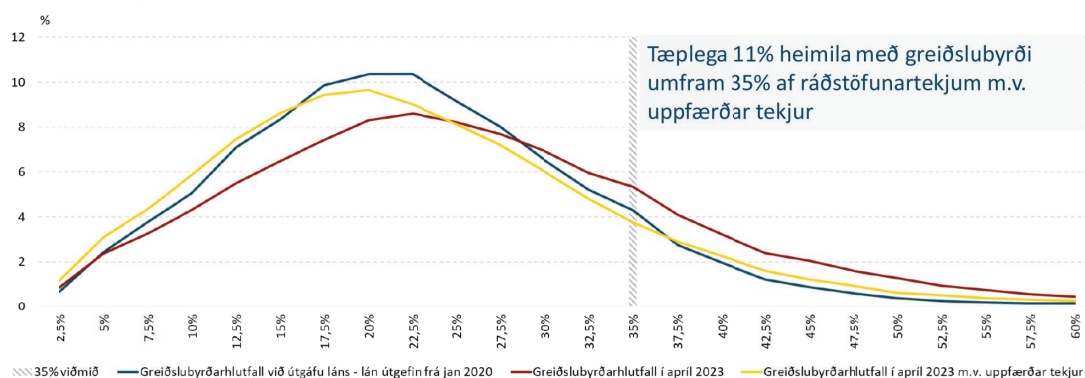
## Eignamyndun og launahækkanir umfram verðbólgu



1. Uppsöfnuð hækkan vísitölu íbúðaverðs á höfuðborgarsvæðinu og vísitölu neysluverðs frá janúar 2020.  
Heimildir: Hagstofa Íslands, Húsnæðis- og mannvirkjastofnun, Seðlabanki Íslands.

## Greiðslubyrði svipuð og við lántöku ef tekið er tillit til launabreytinga (tekjur uppfærðar m.v. launavísitölu og vextir m.v. 2. júní 2023)

Ný lán tekin síðan janúar 2020



1. Greiðslubyrðarlutfall fasteignalána til neytenda fyrir hvert heimili. Tekjur uppfærðar m.v. launavísitölu. Miðast við ný fasteignalán til neytenda frá KMB og HMS frá janúar 2020, en einnig 9 stærstu lífeyrissjóða frá ágúst 2020.  
Heimild: Hagstofa Íslands, Seðlabanki Íslands.

Takk fyrir



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.



