

REYKJAVIK (AFP) Iceland's central bank cut its key interest rate by one percentage point to 12 percent on Thursday, the fourth such drop in three months.

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"The Monetary Policy Committee has decided to lower the Central Bank of Iceland's policy rate by 100 basis points to 12.0 percent," the bank said in a statement.

The Icelandic bank's announcement came one week after an International Monetary Fund mission to the North Atlantic island described the central bank's decision to cut interest rates from 18 percent in March as "very risky."

The European Central Bank and the Bank of England were both expected to hold their interest rates steady at record lows at their monetary policy meetings on Thursday.

Iceland has been awarded a 2.1-billion-dollar (1.6-billion-euro) loan from the IMF in a bid to stabilise its shaken economy, of which some 850 million dollars of IMF money has already been paid out.

A North Atlantic island of just 320,000 inhabitants, Iceland suffered a major economic blow in October when its three main banks collapsed, bringing to a screeching halt a decade of prosperity in which growth averaged 4.0 percent a year.

Following the crisis, Icelanders protested against the country's politicians and central bankers for months, ultimately pushing the former left-right government to step down in late January.

An interim leftwing government won a general election at the end of April.