

REYKJAVIK (AFP) - Iceland's central bank on Thursday cut its benchmark interest rate by one percentage point to 10 percent as the country's battered economy slowly recovers, it said.

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The bank, which was to detail the reasons behind its decision later Thursday, also lowered its deposit rate a half-point to 8.5 percent.

Iceland's once-booming financial sector ground to a halt in October 2008 when the country's major banks collapsed after borrowing beyond their means to fund aggressive investments abroad.

Thousands of Icelanders saw their savings wiped out, unemployment soared and the Icelandic krona plunged in value.

After angry protests against the centre-right government's handling of the crisis, a new left-wing coalition won a snap general election in April 2009.

The new government formally applied for European Union membership at the end of July, eyeing the bloc as a safe haven in stormy times.

The country's recession deepened in the third quarter, official statistics showed earlier this week, as the economy shrank by 5.7 percent from output in the previous quarter and by 7.2 percent on a 12-month basis.

In August, the central bank forecast a recession of 9.0 percent for this year, slightly better than initially expected. The economic slump is however expected to continue next year, with the economy forecast to contract by 2.0 percent.

Iceland cuts key rate to 10 percent

Written by AFP / The Swedish Wire

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Iceland's spectacular collapse prompted the country to take out a 2.1-billion-dollar (1.6-million-euro) loan from the International Monetary Fund.

An IMF mission is currently in Iceland to review the situation. It is scheduled to wind up on December 14.