January 2024

Macroeconomic forecast:

From cascade to calm: Iceland’s economy crests the rapids

From cascade to calm: Iceland’s economy crests the rapids

Summary

Considerably slower GDP growth tempo ahead

GDP growth

- Muted GDP growth in 2024, with a brisker pace further out the horizon
- 1.9% GDP growth in 2024
- 2.6% growth in 2025
- 2.9% growth in 2026

Narrow current account surplus during the forecast horizon

External trade

- Tourism plays a key role in export growth
- Exports to grow 2.9% in 2024 and imports by 1.9%
- 0.7% current account surplus in 2024
- Broadly unchanged CA surplus in 2025 and 2026

Inflation to ease over time

Inflation

- Inflation has begun to subside after the recent spike
- Housing market better balanced, house prices moving in line with inflation
- More stable prices abroad and gradual ISK appreciation contribute to disinflation
- Inflation to average 5.2% in 2024, 3.2% in 2025, and 3.0% in 2026

Labour market pressures to recede slowly and steadily

Labour market

- Need for additional imported labour set to ease gradually
- Unemployment to average 3.9% in 2024, 4.0% in 2025, and 4.0% in 2026
- The outcome of the Q1/2024 wage negotiations will be a major determinant of real wages and inflation during the forecast horizon
- Wages to rise 6.5% in 2024, 5.5% in 2025, and 4.5% in 2026

Policy rate to remain high in the coming term

Interest rates

- Monetary tightening phase probably at an end, although there is little room for error
- Policy rate set to remain unchanged through spring 2024
- Gradual monetary easing starting in mid-2024
- Policy rate 8.0% at year-end 2024, 6.0% at year-end 2025, and 5.0% at the end of the forecast horizon

Further ISK appreciation likely over the forecast horizon

The ISK

- Improving CA balance and investment-related FX inflows support the ISK
- Pension funds’ foreign investment and other investment-related outflows will pull in the opposite direction
- The outlook is for the ISK to be 7-8% stronger at the end of the forecast horizon than at year-end 2023
- A high real exchange rate will cut into the CA surplus

After surging in 2021-2022, GDP growth started to lose steam in 2023, plunging from 7.0% in Q1 to 1.1% in Q3. In Q3, domestic demand contracted year-on-year also, for the first time since the pandemic year 2020. Growth in Q3 was due almost entirely to stronger services exports and a contraction in imports.

GDP growth appears to have been weak in Q4/2023 and its composition broadly as in Q3. We estimate GDP growth for 2023 as a whole at 3.0%, with 1.9% growth to follow in 2024.

This is weak in historical context, and the year actually marks a turning point in the business cycle, although a YoY contraction is not in the cards.

Intrayear developments in 2024 will probably mirror those in 2023, with exports the main driver early in 2024 and consumption and investment to gain momentum later in the year.

For 2025, we forecast GDP growth to rise to 2.6%, owing mainly to faster growth in consumption and investment. Growth in goods exports is set to resume as well, while services export growth will ease.

The outlook is for 2.9% GDP growth in 2026, with growing domestic demand outweighing weaker export growth.

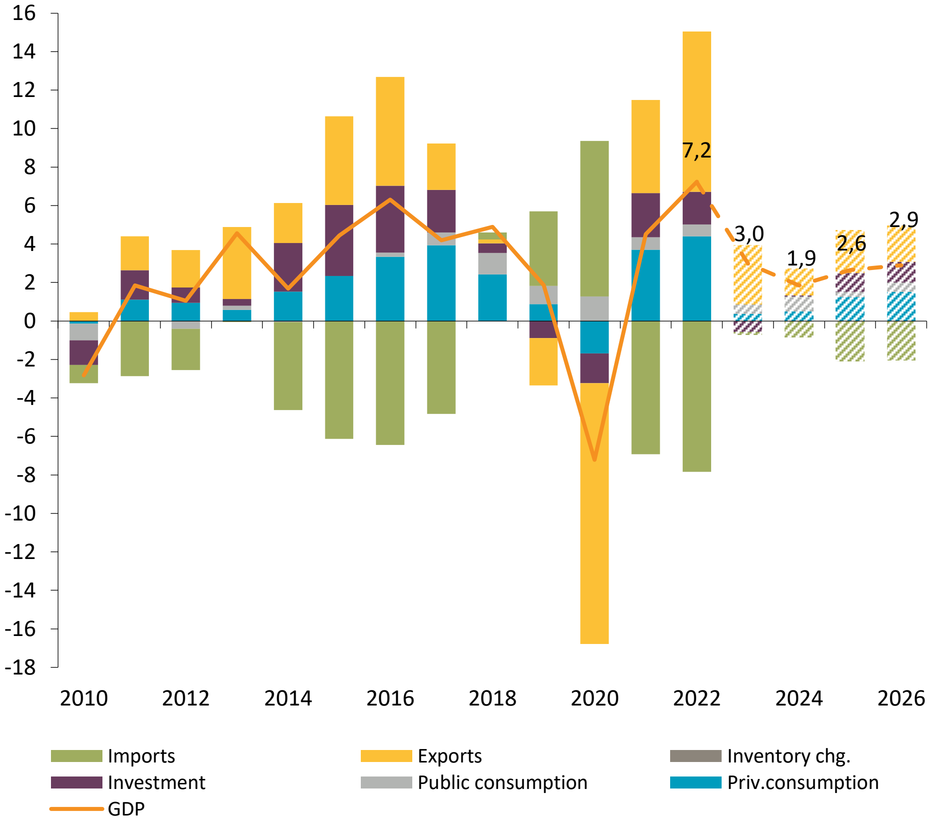
Stronger growth in investment and private consumption further ahead will stem not least from firms' greater capacity for investment, with falling interest rates and robust real wage growth accompanying declining inflation.

Tepid GDP growth in 2024, followed by a steady rise in coming years

Domestic demand to take over gradually from exports as the main driver of growth

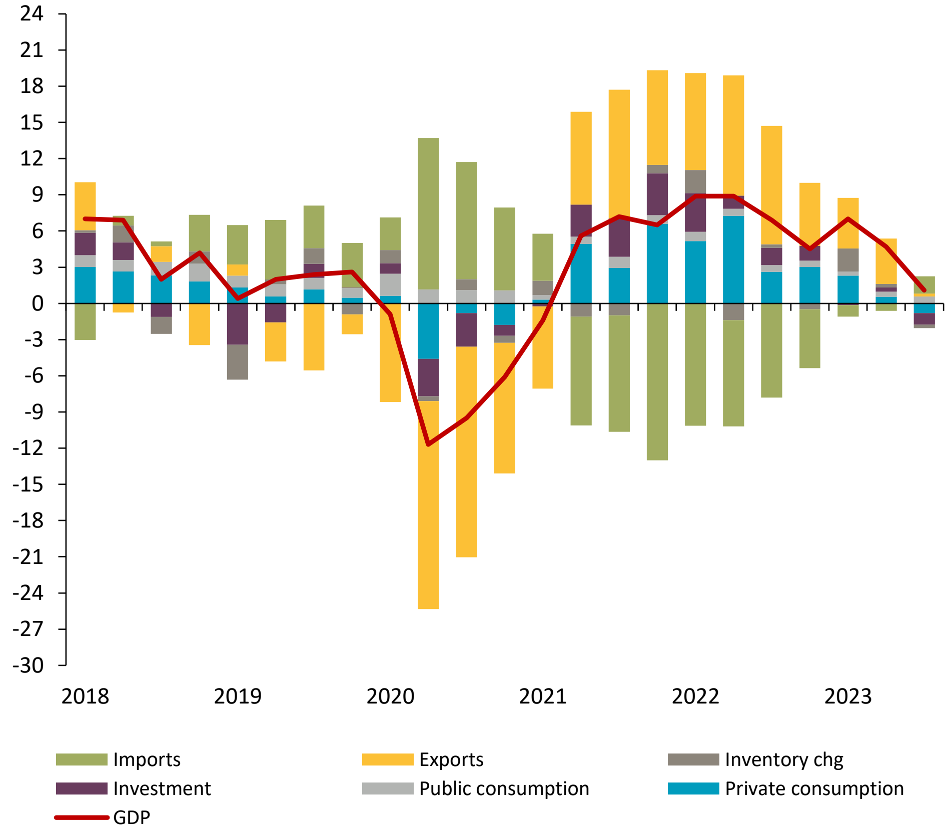
GDP and contribution of its subcomponents

Volume change from prior year (%)



GDP and its subcomponents, by quarter

Volume change from prior year (%)



Sources: Statistics Iceland, ÍSB Research.

The forecast is riddled with uncertainties, but these stand out

Geopolitical unrest

Global tension and unrest are more widespread than they have been for some time.

For instance, the war in Ukraine is still raging, armed combat in the Middle East has intensified, and there is considerable tension surrounding China’s determination to annex Taiwan.

Any escalation of such conflicts could have a severe negative impact on international trade, price levels, and economic developments in Iceland and abroad.

Wage agreements

After initial signs of harmony and hopes of relatively modest wage agreements, discord has descended among the groups in the Icelandic Federation of Labour and the Confederation of Icelandic Employers.

The possibility of labour market conflict cannot be ruled out, and should it materialise, it could throw the economy into temporary disarray.

Similarly, it is possible that contracts will provide for far larger pay rises than would be consistent with a rapid decline in inflation over the coming term.

Grindavík

The Government has pledged to take action to support Grindavík residents facing uncertainty due to the evacuation of the town.

These measures could push house price inflation upwards, as well as being generally expansionary, unless robust mitigating measures are undertaken.

Both would slow down the disinflation process and delay monetary easing.

Geological unrest on the Reykjanes peninsula

Most likely, the seismic unrest and volcanic activity on the Reykjanes peninsula are far from over.

The risk remains that infrastructure and real estate could suffer substantial damage in more places than Grindavík alone.

This could disrupt energy supplies, for instance, and have an adverse effect on tourism and other commercial activities in Southwest Iceland in the coming term.

Residential property market

It appears that housing starts have tapered off sharply, and a survey taken among contractors indicates the same for coming quarters.

The risk is that the supply of new homes will decline significantly later in the forecast horizon, possibly pushing prices higher than is currently projected and slowing down disinflation and monetary easing.

Debt service

Despite the hefty rise in interest rates, data on arrears suggest that households and businesses are still able overall to manage their debt service.

That situation could change rapidly in coming quarters, however, not least among households facing interest rate reviews on mortgages with temporary fixed-rate clauses.

The impact of higher interest rates on households and businesses could grow considerably stronger in a relatively short time, thereby dampening consumption and investment more than is currently projected.

Tourism the mainstay of exports, but other sectors lend strong support

We expect just over 2.4 million tourists to visit Iceland in 2024, and more than 2.7 million in 2026

As we expected, tourism grew unabated throughout 2023, late-year earthquakes and imminent eruptions notwithstanding. More than 2.2 million tourists came to Iceland via Keflavík Airport during the year, making 2023 the second-strongest year on record. Added to this total are cruise ship passengers and those who travelled on the Smyril Line ferry.

The tourism industry looks set to keep growing over the forecast horizon. Leading indicators such as airport gate allocations and bookings suggest that 2024 will set a new record for tourist numbers. In all, we expect over 2.4 tourist arrivals this year.

In the years to follow, we project a continued increase, albeit at a slower pace. We expect nearly 2.6 million tourists in 2025 and more than 2.7 million in 2026.

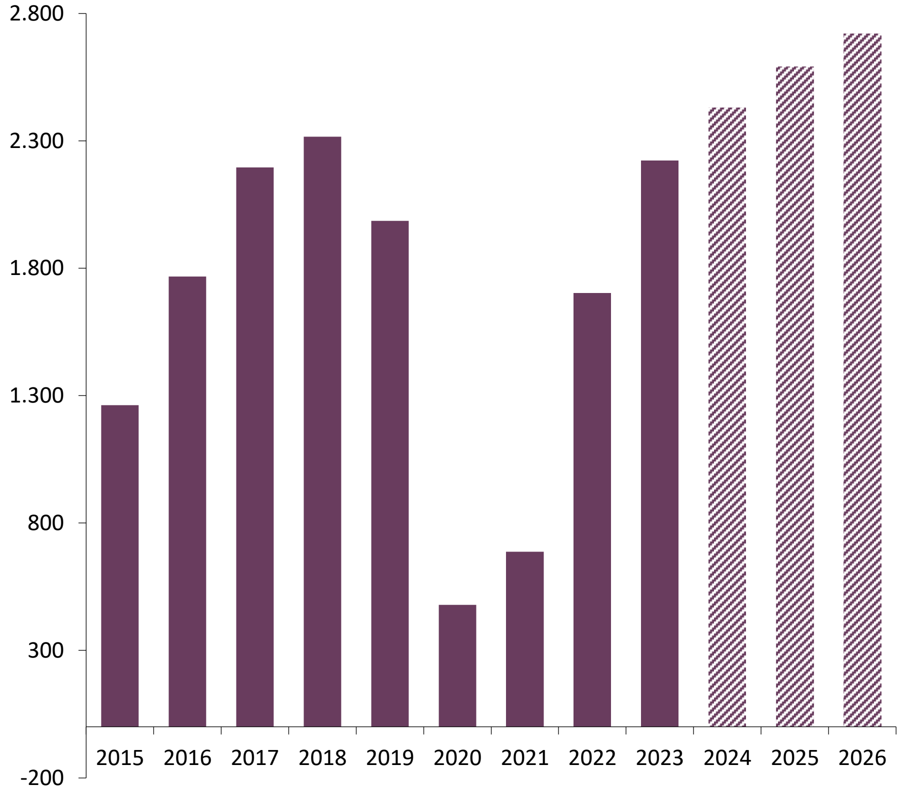
When this is supplemented by handsome growth in exports of services based largely on expertise and brain power, the outlook is for services exports to be the main driver of export growth during the forecast horizon.

As for goods exports, it seems that a minor setback is in store for 2024, partly because of cutbacks in electricity supply to aluminium smelters and the prospect of a weak capelin fishing season. In 2025 and 2026, however, we expect modest growth in goods exports, owing in part to growth in farmed fish exports, a moderate increase overall in groundfish catch quotas, and weaker effects of energy cutbacks on aluminium exports.

On the whole, the outlook is for exports to grow by just under 4% in 2024, just over 4% in 2025, and just under 4% in 2026.

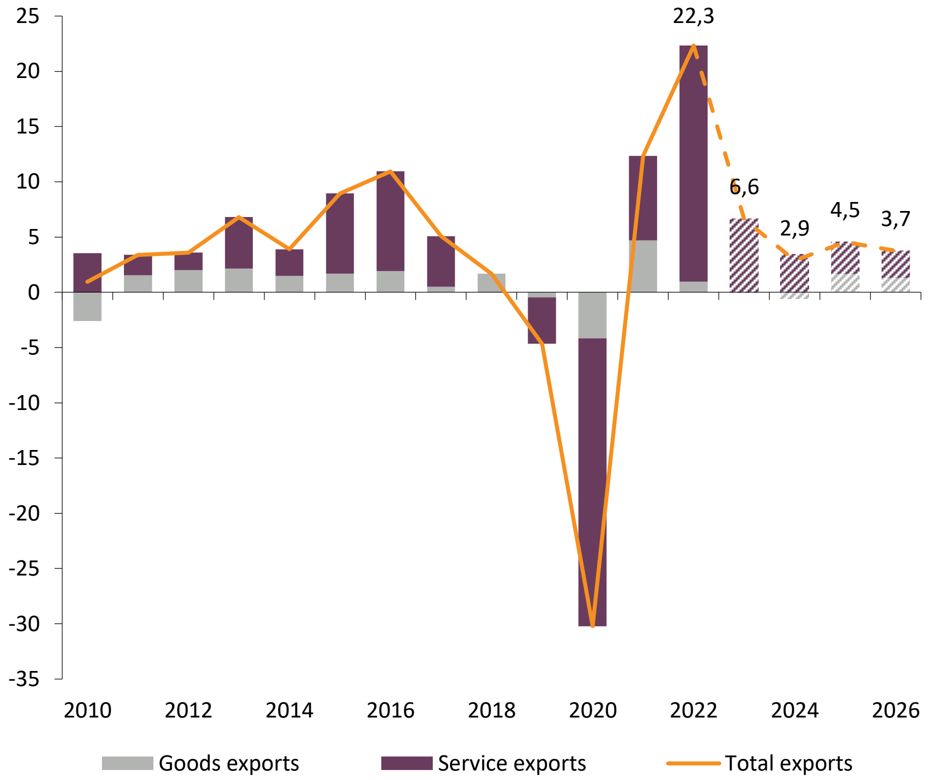
Number of foreign tourists, by year

thousands



Exports, YoY change, and contributions from subcomponents

%



Sources: Icelandic Tourist Board, ÍSB Research

Imports turned a corner in 2023, after two years of rapid growth. Over the first nine months of the year, import volumes were unchanged YoY, and the outlook is for a broadly similar outcome for 2023 as a whole. This is due not least to a turnaround in demand growth.

By the same token, the outlook is for weak import growth in early 2024, followed by a gradual acceleration further ahead. We project import growth at just under 3% this year, 4% in 2025, and 3% in 2026.

The pivot from rapid import growth to a contraction is reflected in an improvement in the CA balance. After two deficit years, the CA showed a narrow surplus in the first three quarters of 2023, whereas for the year as a whole it was probably in balance.

We forecast a small CA surplus each year in 2024 through 2026, with export growth overtaking import growth in coming quarters and a period of equilibrium thereafter. The outlook is also for terms of trade to develop rather favourably, with a slow rise in input prices concurrent with relatively high prices for key export products.

A rising real exchange rate could dampen prospects for external trade later in the forecast horizon, however. If the ISK appreciates faster than we anticipate or if terms of trade worsen materially, the CA surplus could flip to a deficit around the mid- to late 2020s.

Iceland's net external assets currently equal just over 31% of GDP, providing important support to the ISK and the economy as a whole.

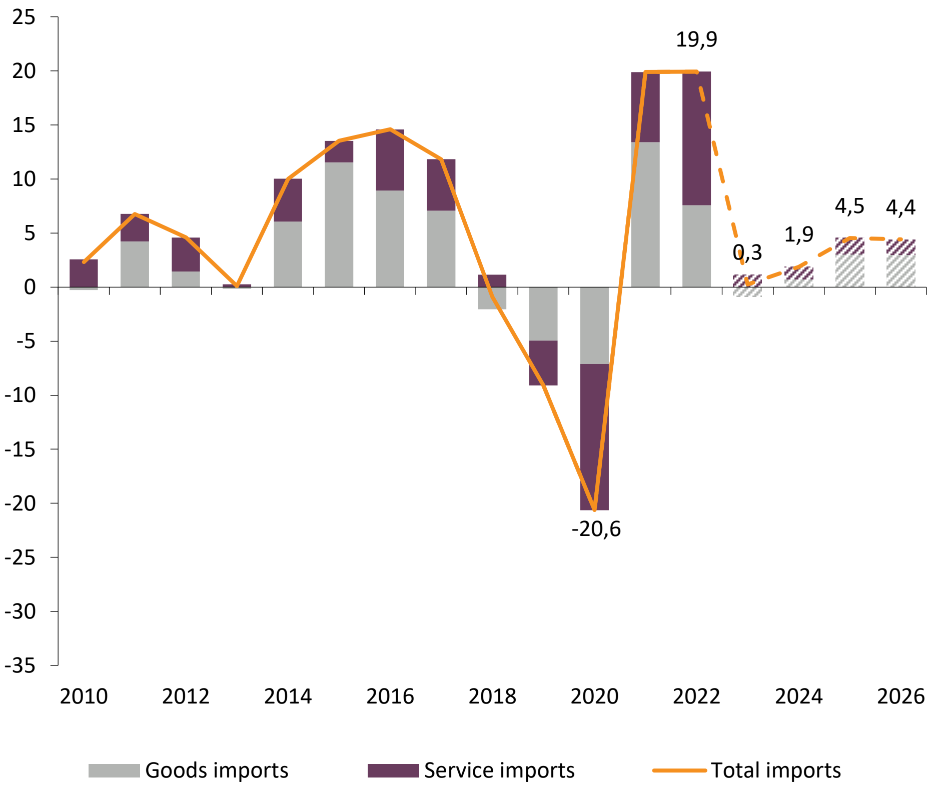
After deteriorating markedly, the external position has firmed up again, partly due to price hikes in foreign markets. The outlook is for a moderate further improvement in tandem with a CA surplus and tailwinds in the markets.

Small current account surplus in coming years

Growing exports and weaker growth in domestic demand will generate a CA surplus, and the external asset position has strengthened

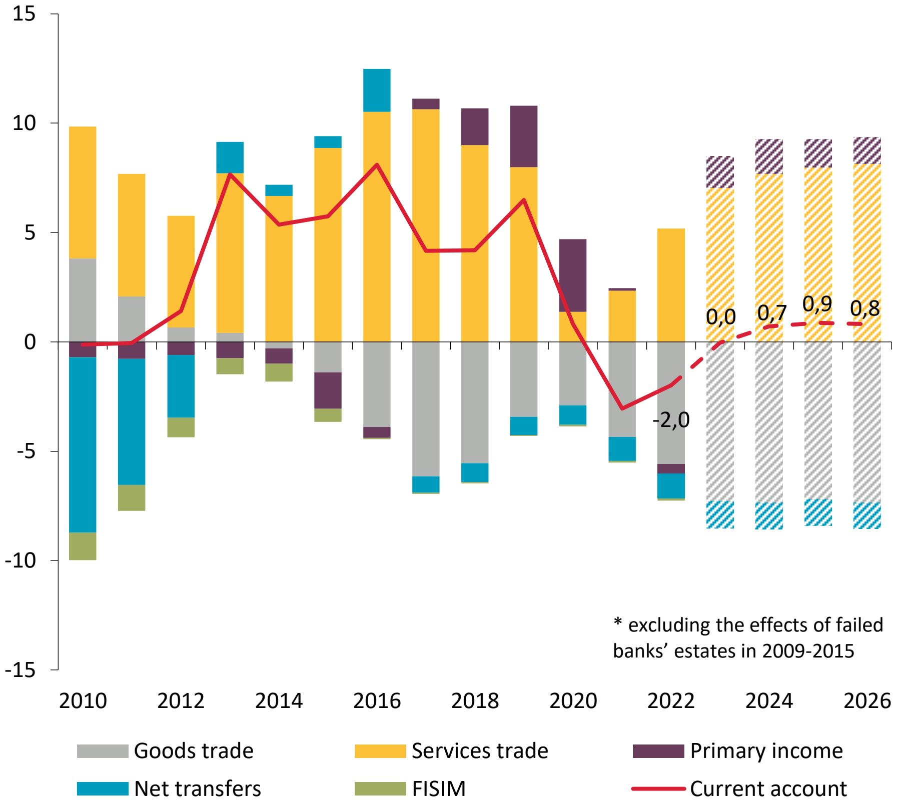
Imports and contributions from subcomponents

%



The current account balance and its subcomponents

% of GDP*



* excluding the effects of failed banks' estates in 2009-2015

Sources: Central Bank of Iceland, Statistics Iceland, ÍSB Research.

Investment virtually flat this year but set to gain steam further ahead

Business investment to contract in 2024 and return to growth thereafter

After a two-year period of strong growth, investment appears to have shrunk in volume terms in 2023. The contraction measured a full 1 percentage point over the first nine months of the year, and indicators imply a contraction in Q4 as well. This is due not least to rising interest rates, plus increased consolidation in public sector operations after the fiscal hefty deficits of the pandemic era.

The outlook is for total investment to remain virtually unchanged between 2023 and 2024. Residential and public investment are set to grow modestly and business investment to contract. Surveys of executives' expectations and other indicators suggest that general business investment will shrink quite a bit, although this will be offset in part by robust investment in land-based aquaculture, which is set to hit its stride this year.

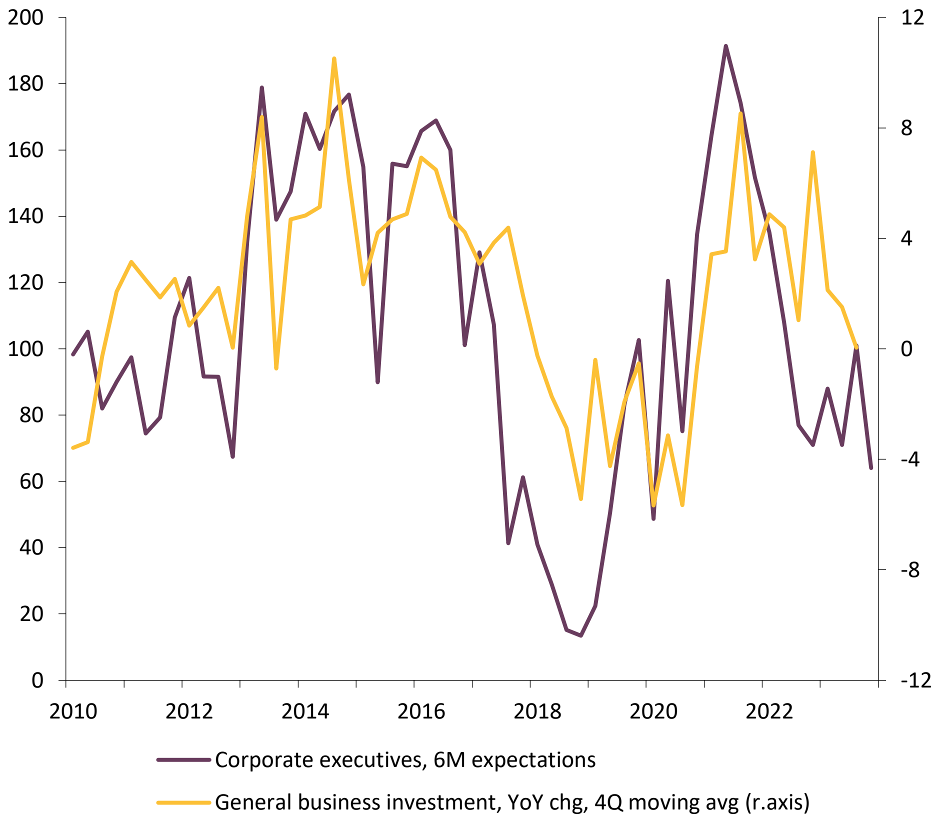
For 2025, the outlook is for a return to robust growth. Corporate investment is positioned for a strong uptick, and we expect residential investment to keep growing as well. In the latter case, however, indicators are somewhat ambiguous. The final year of the forecast horizon will continue broadly in the same vein.

As regards business investment, hotel and guesthouse construction is likely to gain steam after a temporary lull because if it does not, the stage is set for a shortage of accommodation later in the decade if tourist numbers develop as anticipated. It also seems clear that underlying demand for housing will persist and will surface quickly once interest rates start to fall. Furthermore, there is a widespread and growing need for new investment in infrastructure.

We expect total investment to grow by close to 5% per year in 2025 and 2026.

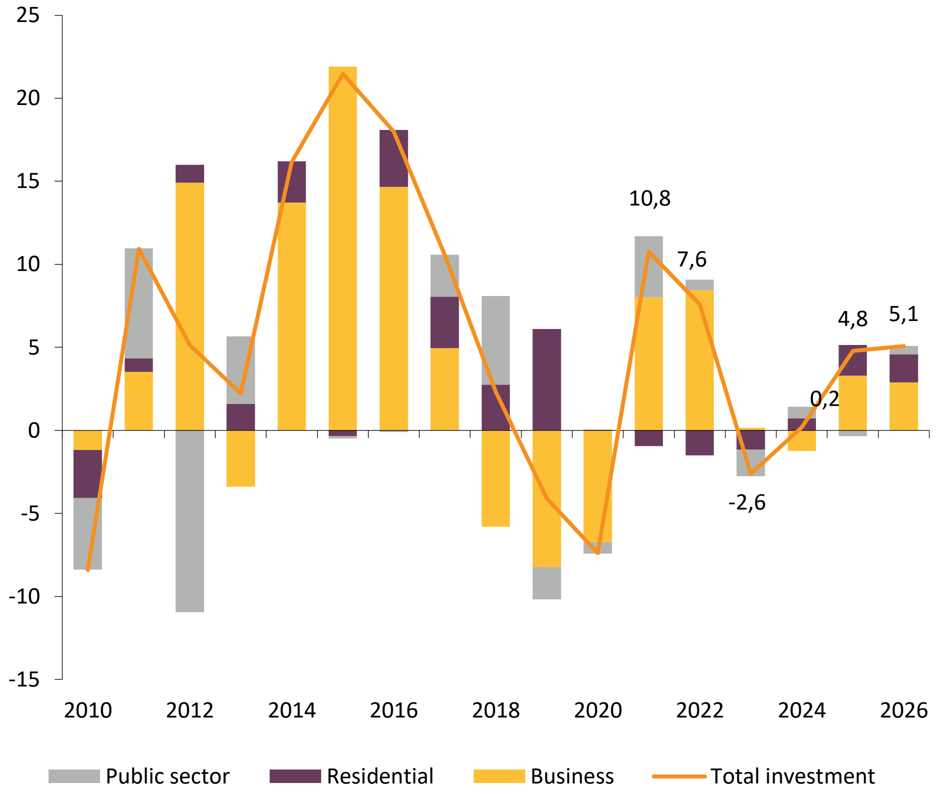
Executives' expectations and business investment

Index (left) and year-on-year change, % (right)



Investment, real change, and contribution of subcomponents

%



Sources: Statistics Iceland, ÍSB Research.

The housing market has shifted gears

Demand is currently driven by strong population growth

The effects of interest rate hikes have come clearly to the fore in the housing market, and market conditions changed rapidly when the Central Bank started raising rates in mid-2022. At the summer 2022 peak, house prices had risen 25% YoY, but the market abruptly shifted gears as soon as that autumn. On top of higher interest rates, tighter rules on mortgage lending to consumers play a role in the cooling of the housing market. In January 2024, YoY house price inflation measured 4.7%.

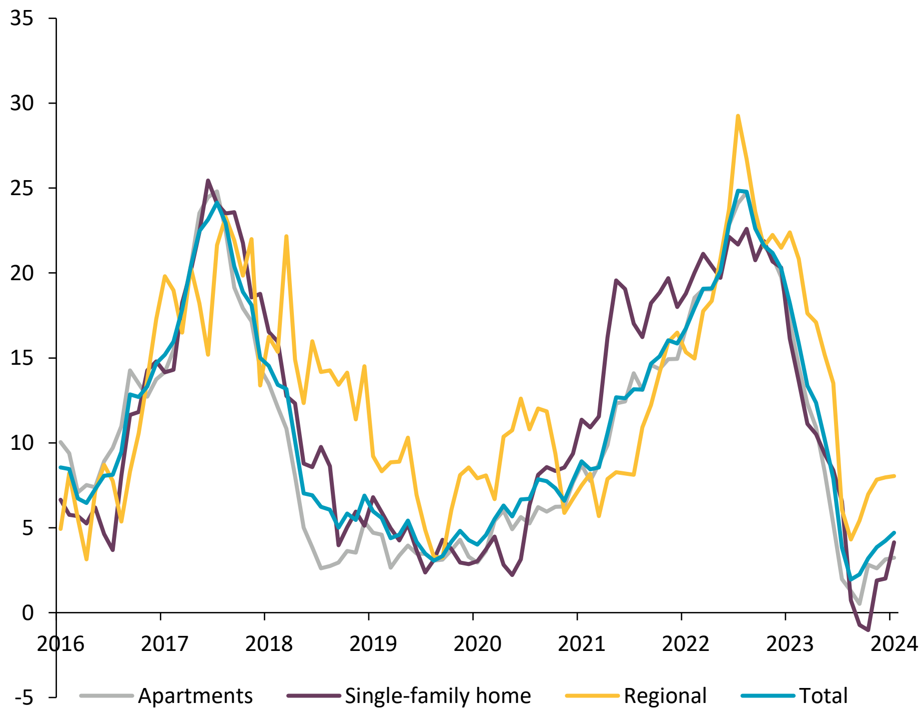
The housing market situation is therefore vastly different today, and perhaps it can be said that the market is in balance at the moment. Housing market activity has slowed markedly relative to recent years. According to the Housing and Construction Authority, there are also signs that homes are taken off the market without being sold and that contingency sales are falling through more often, which is a change from the previous situation.

Even so, the housing market is far from frozen solid, and prices have fluctuated widely since it started to cool off. Single-family home prices have been particularly volatile, probably due to the small number of purchase agreements underlying the price calculations for each period. Condominium prices shot upwards last autumn, though, probably to a large degree due to requirements for participating loans being eased during the summer.

It is safe to say that demand for housing is still in evidence despite high inflation and interest rates. Demand has been driven mostly by the historically strong surge in population, which has featured a dramatic increase in immigration by foreign nationals seeking work. In proportional terms, population growth has far outpaced new home construction.

Year-on-year rise in house prices

%



Share of newly built homes and annual population growth

%

Sources: Housing and Construction Authority, Statistics Iceland.

House prices keep climbing

… but much more slowly than before

Housing market supply has grown steadily after bottoming out in mid-2022, when fewer than 500 homes were for sale in greater Reykjavík. According to our measurements, there were 2,800 homes on the market in the capital area this January, 45% of them newly built. The number of newly built homes rose by just over 3,500 in 2023, according to the Housing and Construction Authority, overtaking 2021 and 2022, when 3,000 new homes were put on the market in each year.

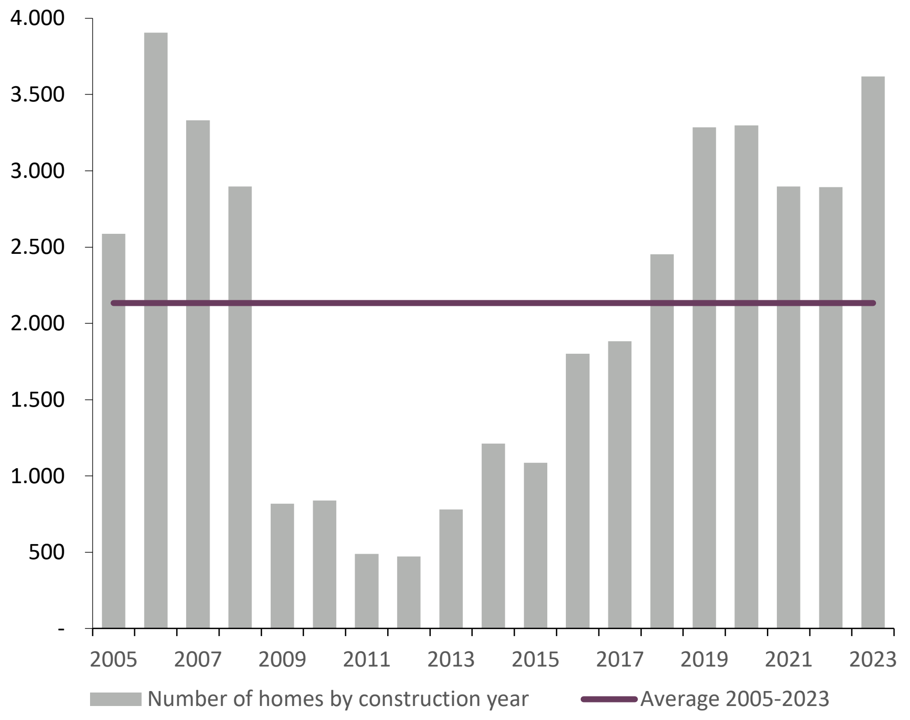
According to the Housing and Construction Authority dashboard, more than 7,800 homes are being built nationwide, the vast majority of them in the first stages of construction. Indicators suggest that new construction activity has eased, and on the whole, fewer residential properties are being built. Policy rate hikes are also starting to affect the construction market.

In 2023, nominal house prices rose nearly 8% YoY and real prices therefore fell by 1%. It was the first drop in real prices since 2013. The price increase in 2023 was in line with our previous housing market forecast.

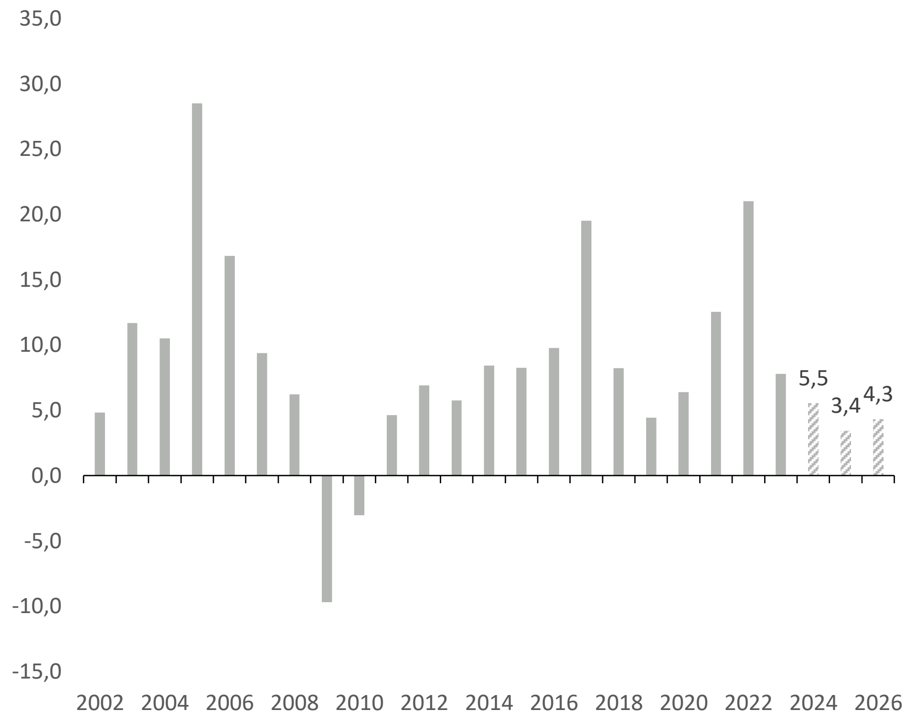
Government measures taken to release Grindavík residents' housing equity will boost demand and raise prices, all else being equal. This year's price movements in the housing market will depend largely on how the Government's mitigating measures play out. We assume that they will be implemented successfully, but that house price inflation will be higher this year as a result.

We forecast that prices will rise 5.5% in 2024, 3.4% in 2025, and 4.3% in 2026. Real prices will therefore remain almost flat over the next two years but then rise by a full 1.3% in the final year of the forecast horizon. The housing market situation is highly uncertain. In the short run, the biggest uncertainty lies in the above-mentioned mitigating measures, while in the long term, the supply of new homes carries a major question mark.

Number of homes, by construction year



Nominal house prices
% change between years



Sources: Central Bank of Iceland, Housing and Construction Authority, ÍSB Research.

Private consumption shifted into reverse in 2023, after a two-year growth spurt. In H1 it grew by 2.5%, and in Q3 it contracted for the first time since 2020. The outlook is for a contraction in Q4 as well. We estimate private consumption growth in 2023 as a whole at 0.7%, the slowest growth rate since the pandemic year 2020.

Domestic demand has clearly lost pace, and households are keeping their wallets more firmly closed. By this measure, policy rate hikes are getting significant results.

Most indicators imply a continued contraction in private consumption in the near term. Payment card turnover shrank in real terms throughout most of 2023. Consumer confidence is still weak despite real wage growth.

High interest rates eat into overall demand, but they also incentivise saving. The household saving rate has risen steadily in the recent term. It peaked at the beginning of the pandemic but then plummeted when public health restrictions were eased and consumption surged. Now, however, the saving rate is back above average.

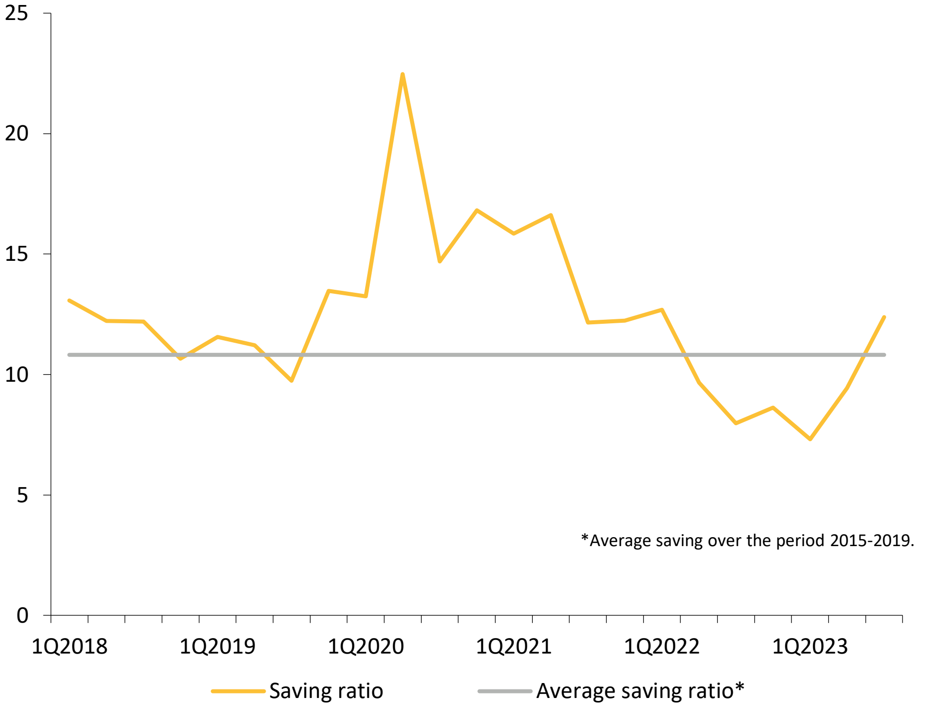
Based on these factors, we have revised our forecast of year-2024 private consumption growth slightly downwards, to 1%. We expect consumption to keep declining in H1 and then start to firm up again in H2.

For 2025, we project that growth will accelerate to 2.5% as inflation eases and fuels slightly stronger real wage growth. In 2026 we expect the economy to be better balanced, with private consumption growth measuring 3%.

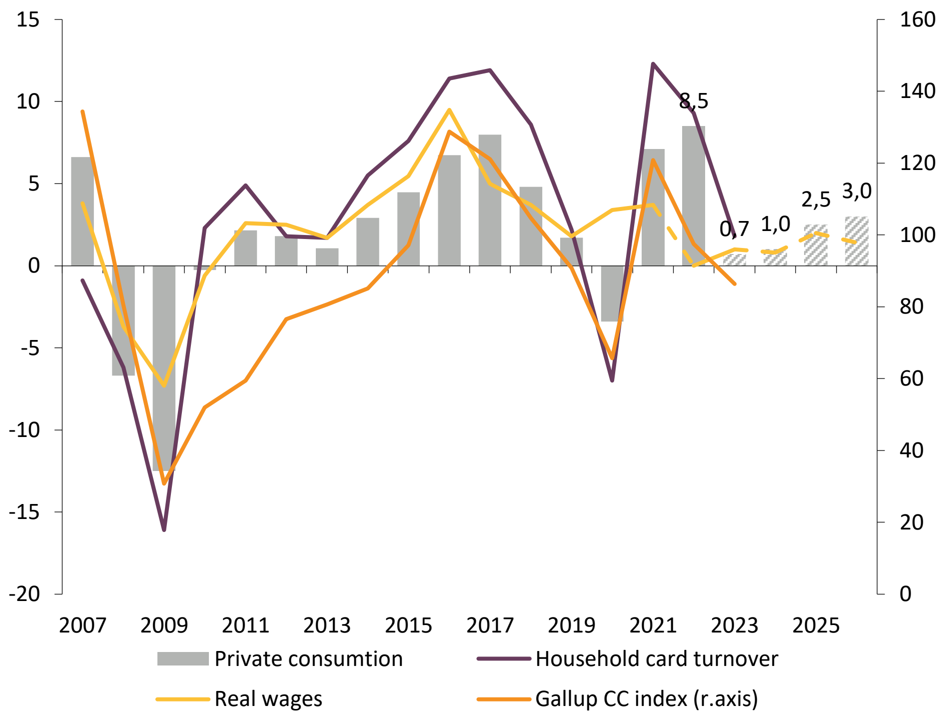
Private consumption shifts gears

Household consumption declines and saving rises

Household saving
% of disposable income



Private consumption and related indicators
% change between years (left) and index value (right)



Sources: Central Bank of Iceland, Gallup, Statistics Iceland, ÍSB Research.

Labour market tension to ease

Real wages set to grow during the forecast horizon

The labour market has been quite tight in the recent term, and unemployment has fallen rapidly. Demand for labour has been met with foreign workers, who account for 23% of the labour market and are the main source of the recent population boom. In 2023, unemployment measured 3.2%, its lowest since 2018.

The market is still tight, but many indicators imply that it is easing in line with reduced domestic demand. Although unemployment is low, it has been inching upwards between months – measuring 3.6% in December, for instance. Furthermore, labour shortages are less pronounced, according to the survey taken among Iceland's 400 largest firms. The survey showed that 34% of participants considered their firms understaffed, the smallest share since 2021 and well below the Q3/2022 peak of 56%.

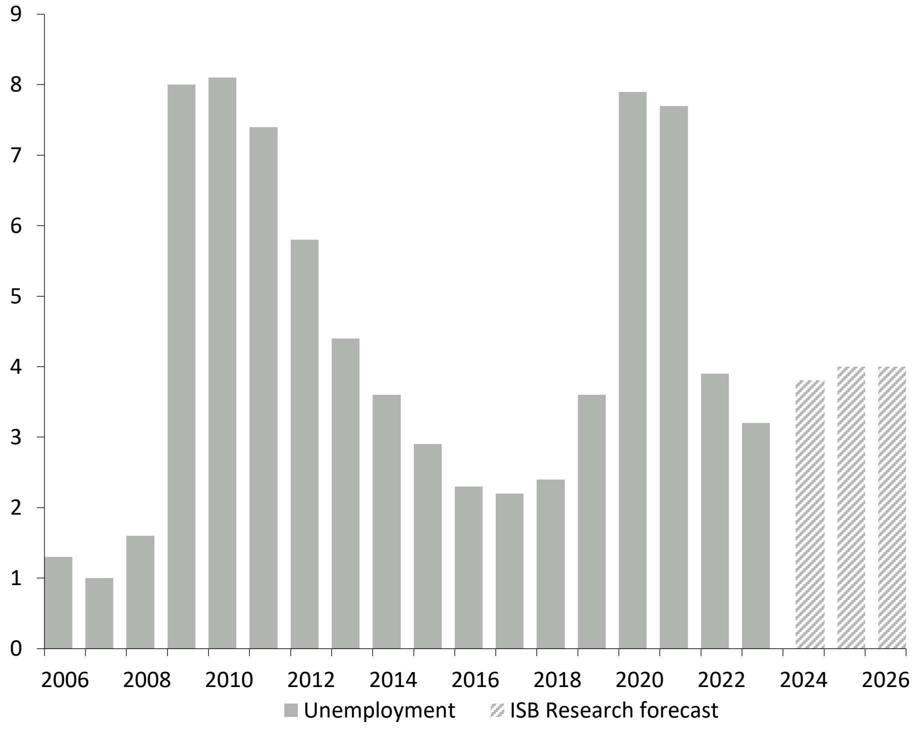
As growth in the economy slows down, we expect tension in the labour market to ease still further and unemployment to creep upwards in the near future. We forecast average unemployment at 3.9% in 2024 and 4.0% in both 2025 and 2026.

Wages rose in nominal terms by 9.8% in 2023, and real wages grew by 1.0% despite high inflation. The increase was due to new wage agreements covering the entire labour market. The contracts had a term of only one year; thus a new round of negotiations is already underway, but no agreements have been finalised as of this writing.

We forecast that wages will rise by 6.5% this year, 5.5% in 2025, and 4.5% in 2026. Based on that forecast, real wages will rise by 1.2% in 2024. In tandem with falling inflation, real wage growth will measure 2.2% in 2025 and 1.5% in 2026.

Unemployment as a share of the labour force

%



Nominal and real wages

% change between years

Sources: Central Bank of Iceland, Confederation of Icelandic Employers, Gallup, ÍSB Research.

The ISK fluctuated markedly in 2023. After rising strongly in the first eight months of the year, it tumbled from early September until the latter half of November. From then until the turn of the year it rallied a bit and, in trade-weighted terms, was slightly stronger at the year-end than at the beginning. Presumably, intrayear exchange rate movements stem from trade, financial flows, and changes in positions with the ISK.

Near-term prospects for external trade are similar to those in our last forecast. The outlook is for a small CA surplus each year of the forecast horizon, possibly averaging close to ISK 40bn per year. Furthermore, the outlook is for a fairly wide interest rate differential with abroad over the period. Iceland's external position is strong, and the stock of foreign-owned securities is low in historical and international context.

Offsetting potential FX inflows from the above sources are the pension funds' continued foreign investments, which came to a net ISK 83bn in 2023. Other domestic entities could also step up their foreign investment in the future, particularly if the ISK strengthens to any marked degree.

The ISK will doubtless remain volatile to a degree, and forecasting currency exchange rates is always an uncertain business. According to our forecast, the ISK will be approximately 7-8% stronger at the end of the forecast horizon than it was at the end of 2023. This translates to a price of ISK 140 per euro.

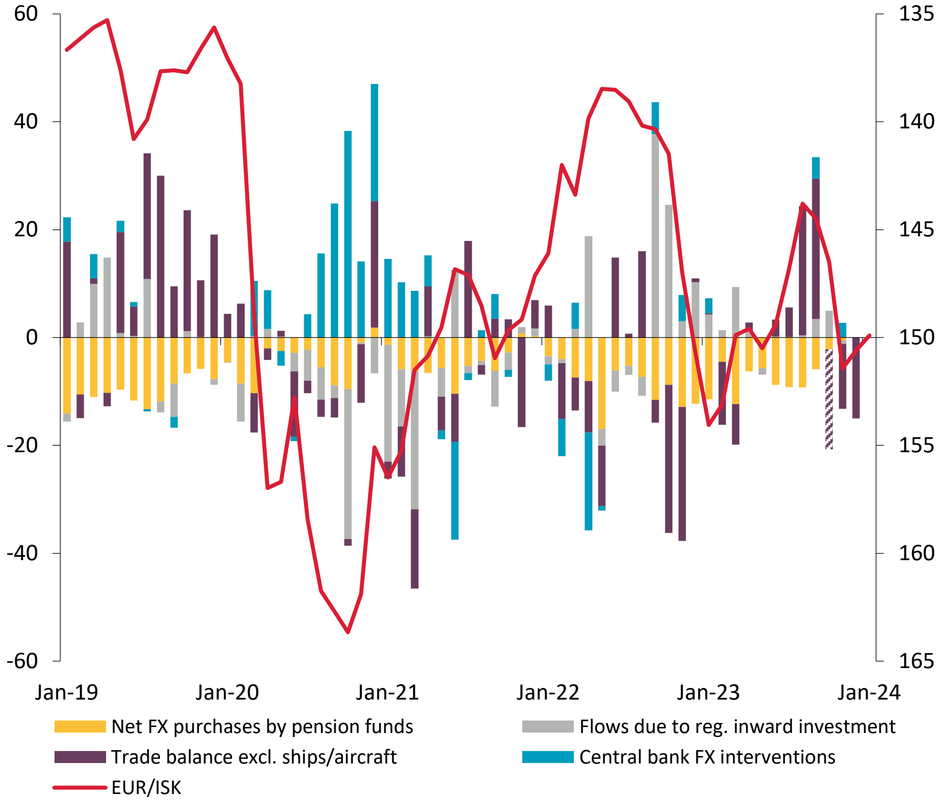
Such an appreciation, plus rapid wage growth and higher inflation than in trading partner countries, will push the real exchange rate close to its previous high late in the forecast horizon. Thus the prospect of further strengthening grows dimmer over time. Ultimately, such a spread between wages and prices in Iceland versus those abroad will eventually prompt an ISK depreciation unless that trend changes.

Additional modest ISK appreciation in the offing

A higher real exchange rate will impede further improvement in the CA later on

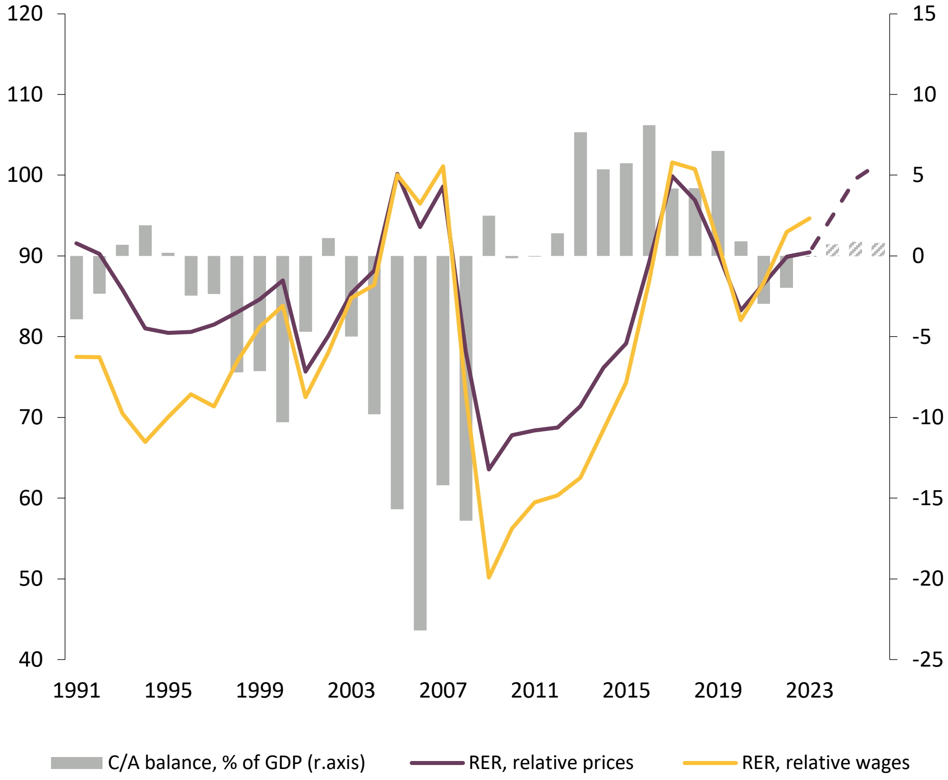
ISK exchange rate and selected determinants

ISK bn (left) and EURISK (right)



Real exchange rate and current account balance

Index and % of GDP



Sources: Central Bank of Iceland, Statistics Iceland, ÍSB Research.

Is target-level inflation a distant dream?

A wage-price spiral could develop

Twelve-month inflation measured 6.7% in January and has eased noticeably after peaking at over 10% early in 2023. The disinflation process has taken longer than previously hoped, however, and the Central Bank's inflation target is still a distant dream. Headline inflation averaged 8.7% in 2023.

Inflation looks set to fall fairly quickly in coming months, mainly due to imported inflation and house price inflation being lower than before. If our forecast for coming quarters is borne out, headline inflation could measure 5.5% by mid-year. The main near-term uncertainties are house prices and the ISK exchange rate, which must remain stable if the premises underlying our forecast are to hold.

We do not expect inflation to fall to the 2.5% target during the forecast horizon. We project that it will average 5.2% this year, 3.2% in 2025, and 3.0% in 2026, putting it very close to target in the final year of the horizon.

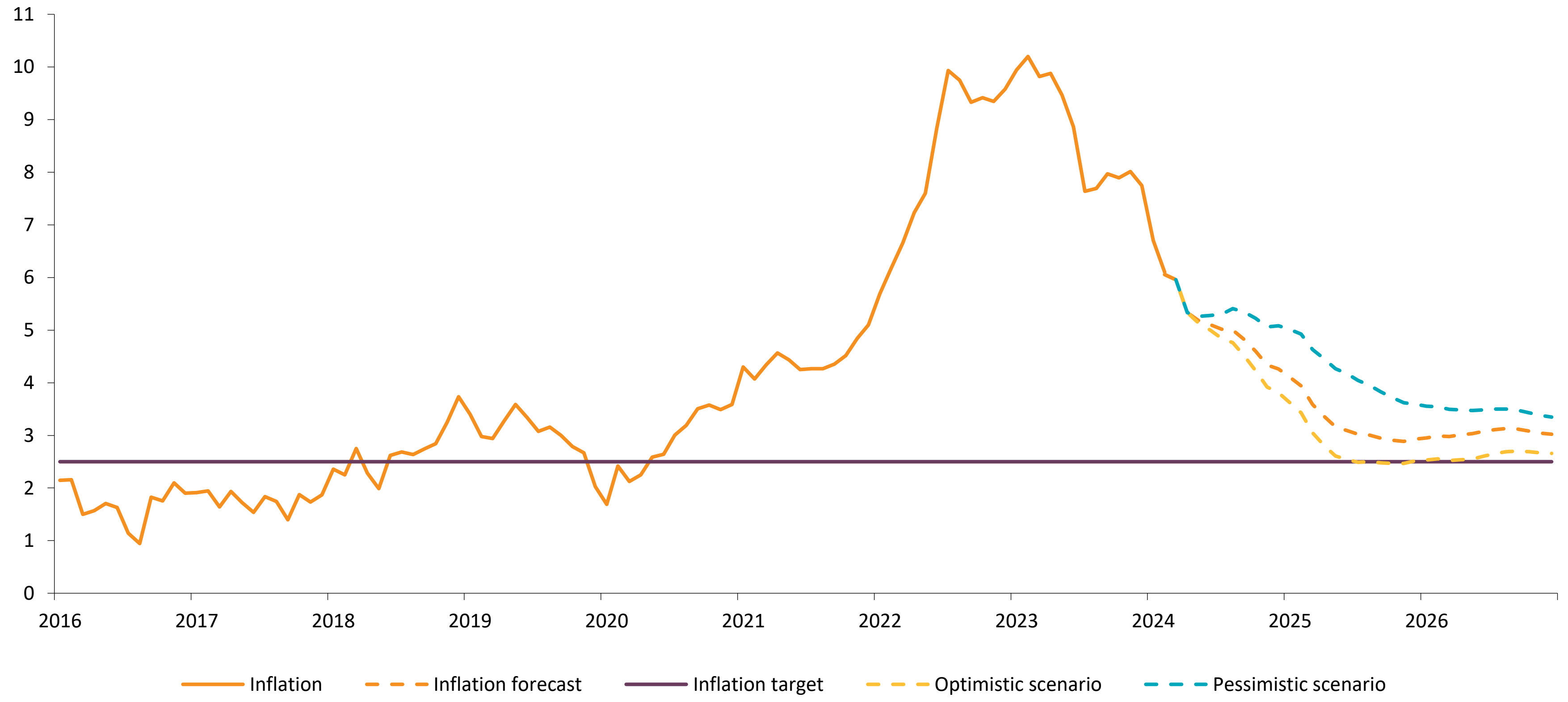
The biggest uncertainty in the long run is wage agreements. If pay rises are excessive, there is a significant risk of a wage-price spiral. On average, wages have risen considerably in recent years, or by 7% per year since 2010. In that period he smallest annual increase was 5% and the largest 11%.

To put this into context, we have crafted scenarios showing how the inflation outlook could change if wages rise more – or less – than we have projected, while other forecast variables are largely held constant. In the optimistic scenario, wages rise by 5% in 2024, and in the pessimistic example they rise by 9.5%, similar as in 2023.

As can be seen, inflation will fall much more slowly over the forecast horizon if wages rise more rather than less. The price level will rise by 12% over the next three years in the pessimistic example and by 8% in the optimistic one. Further data on the scenarios can be found in the table at the end of this forecast.

Inflation forecast and wage scenarios

%



Sources: Statistics Iceland, ÍSB Research.

After raising the policy rate swiftly in the first eight months of 2023, the Central Bank shifted into neutral in the final third of the year. The policy rate is now 9.25%, after being raised by 8.5 percentage points since spring 2021. The real policy rate has also risen markedly, reflecting the current tight monetary stance after a period of accommodative policy lasting until early 2023.

It is impossible to state with certainty that the tightening phase is well and truly over. In November, it emerged that the policy rate would probably have been raised had it not been for the uncertainty stemming from the seismic activity on the Reykjanes peninsula.

But the outlook has changed in recent weeks and months. Inflation has eased, inflation expectations have fallen by some measures, signs of a contraction in domestic demand have grown clearer, and there is still the possibility of wage agreements consistent with fairly rapid disinflation.

We therefore think it most likely that the tightening episode is over, and that the policy rate will be unchanged until the spring. If inflation falls and demand pressures in the economy subside as is forecast here, monetary easing could begin this spring. It will start gradually, though, and the policy rate will remain high in coming quarters.

We project that the policy rate will be lowered to 8.0% by end-2024 and 6% at the end of 2025, reaching 5% as the forecast horizon draws to a close. Presumably, long-term interest rates will fall gradually at the same time.

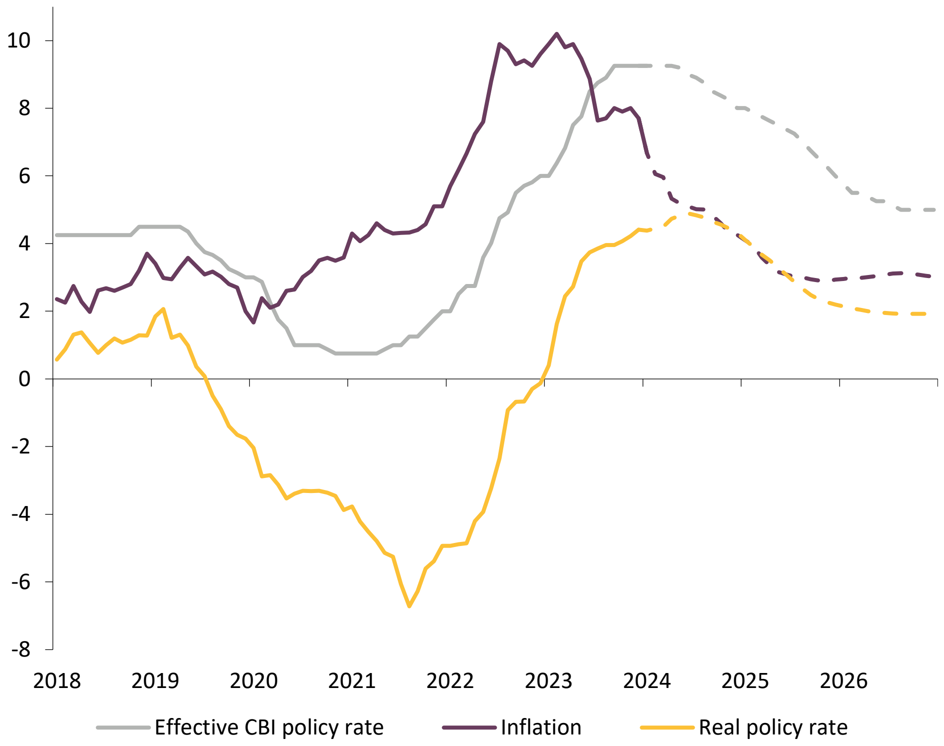
But if rates are to fall at this pace, there is little room for error, and further rate hikes in coming quarters cannot be ruled out. For instance, if the pessimistic scenario is borne out, the average policy rate could be a full 1 percentage point higher over the horizon, but if the optimistic scenario prevails, it could be a full 1 percentage point lower than in the baseline forecast.

Monetary easing phase in the starting blocks, but interest rates remain high

Declining inflation and a shrinking positive output gap facilitate lower interest rates later on

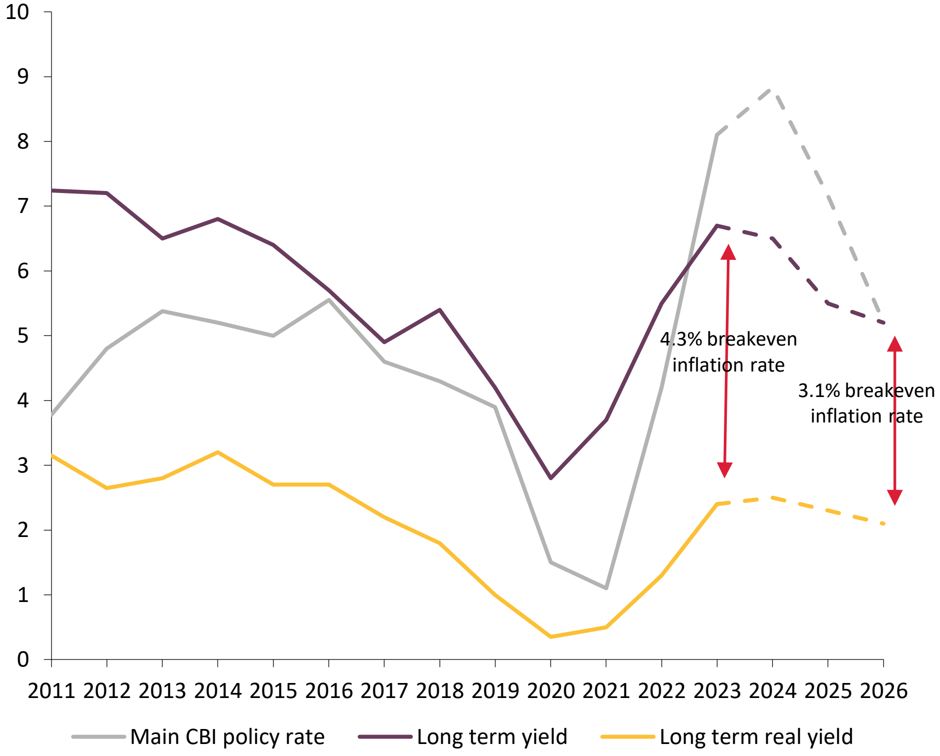
Policy rate and inflation

% real policy rate in terms of expected policy rate and inflation over the coming 12 months



Interest rates

% long-term nominal and real rates are average rates on long-term Treasury bonds



Sources: Central Bank of Iceland, Kodiak, Statistics Iceland, ÍSB Research.

Macroeconomic forecast summarised

GDP and its components

Volume change from prior year %	2022 in ISK m	Estimate 2023	Forecast 2024	Forecast 2025	Forecast 2026
Private consumption	1,962,088	0.7	1.0	2.5	3.0
Public consumption	993,870	1.8	3.0	1.0	2.0
Investment	846,203	-2.6	0.2	4.8	5.1
– business investment	506,687	0.3	-2.0	5.5	4.8
– residential investment	183,612	-5.3	3.5	8.5	7.5
– public investment	155,905	-8.8	4.0	-2.0	3.0
Changes in inventories	9,654	0.0	0.0	0.0	0.0
Domestic demand, total	3,811,816	0.0	1.4	2.6	3.2
Exports of goods and services	1,768,598	6.6	2.9	4.5	3.7
– marine product exports	400,681	-3.0	-0.6	5.2	4.5
– aluminium products	403,013	1.9	-3.0	2.0	1.0
– other goods exports	205,232	2.0	2.0	2.0	2.0
– services exports	759,673	15,4	7.4	5.9	5.0
Imports of goods and services	1,783,848	0.3	1.9	4.5	4.4
– goods imports	1,220,637	-1.3	1.1	4.6	4.5
– services imports	563,211	3.7	3.6	4.5	4.3
Gross domestic product	**3,796,567**	**3.0**	**1.9**	**2.6**	**2.9**

Macroeconomic forecast summarised

Other economic variables

% of GDP	2023	Forecast 2024	Forecast 2025	Forecast 2026
Investment	21.7	20.9	21.0	21.2
Current account balance	0.0	0.7	0.9	0.8
Trade account balance	-0.2	0.3	0.8	0.8
Change between annual averages (%)				
Consumer prices	8.7	5.2	3.2	3.0
Wages and salaries	9.8	6.5	5.5	4.5
Real wages	1.0	1.2	2.2	1.5
Real exchange rate in terms of relative consumer prices	0.7	5.0	4.8	2.1
House prices	7.8	5.5	3.4	4.3
Annual average (%)				
Unemployment	3.2	3.9	4.0	4.0
Trade-weighted exchange rate index	195.2	191.0	184.1	182.2
EUR/ISK	150.0	146.8	141.5	140.0
CBI policy rate (7-day term deposits)	8.1	8.8	7.2	5.2
Long-term nominal interest rates (10-yr nominal Treasury bonds)	6.7	6.5	5.5	5.3
Long-term real interest rates (10-yr indexed Treasury bonds)	2.4	2.5	2.3	2.0

Alternative scenarios for wages, inflation, and policy rate

Comparison

	2023	Forecast 2024	Forecast 2025	Forecast 2026
Wages, % change between years				
Optimistic scenario		5.0	3.6	3.1
Baseline	9.8	6.5	5.5	4.5
Pessimistic scenario		9.5	9.0	5.1
Consumer prices, % change between years				
Optimistic scenario		5.0	2.7	2.5
Baseline	8.7	5.2	3.2	3.0
Pessimistic scenario		5.5	4.2	3.5
Policy rate, annual average				
Optimistic scenario		8.3	5.3	4.5
Baseline	8.1	8.8	7.2	5.2
Pessimistic scenario		9.6	8.6	6.2

Legal disclaimer

This report is compiled by Islandsbanki Research of Islandsbanki hf.

The information in this report originates in domestic and international information and news networks that are deemed reliable. along with public information. and Islandsbanki Research's own processing and estimates at each time. The information has not been independently verified by Islandsbanki which therefore does not guarantee that the information is comprehensive and accurate. The views of the authors can change without notice and Islandsbanki holds no obligation to update. modify or amend this publication if assumptions change.

This publication is only published for informational purposes and shall therefore not be viewed as recommendation/advice to make or not make a particular investment or an offer to buy. sell or subscribe to specific financial instruments. Islandsbanki and its employees are not responsible for transactions that may be carried out based on information put forth in the report. Before making an investment decision. recipients are urged to seek expert advice and get well acquainted with the investments market and different investment alternatives. There are always financial risks related to investment activities. including risk due to international investments and fluctuations in the exchange rate of currencies. Investors' investment objectives and financial position vary. Past performance does not indicate nor guarantee future performance of an investment

The research report and other information received from Islandsbanki are meant for private use only. The materials may not be copied. quote or distributed. in part or in whole. without written permission from Islandsbanki.

This report is a short compilation and should not be considered to contain all available information on the subject it discusses.

Supervisory body: The Financial Supervisory Authority of Iceland (www.fme.is).

UNITED STATES

This report or copies of it must not be distributed in the United States or to recipients who are citizens of the United States against restrictions stated in the United States legislation. Distributing the report in the United States might be seen as a breach of these laws.

CANADA

The information provided in this publication is not intended to be distributed or circulated in any manner in Canada and therefore should not be construed as any kind of financial recommendation or advice provided within the meaning of Canadian securities laws.

OTHER COUNTRIES

Laws and regulations of other countries may also restrict the distribution of this report.

Further information regarding material from Islandsbanki Research can be accessed on the following website: http://www.islandsbanki.is.

Publisher

Islandsbanki Research

greining@islandsbanki.is

Publication date: 31 January 2024

Lagalegur fyrirvari

Skýrsla þessi er tekin saman af Greiningu Íslandsbanka hf. Upplýsingar í skýrslunni eru upprunnar frá innlendum og erlendum upplýsinga- og fréttaveitum sem taldar eru áreiðanlegar, ásamt opinberum upplýsingum, eigin úrvinnslu Greiningar og mati á hverjum tíma. Upplýsingarnar hafa ekki verið kannaðar sjálfstætt af Íslandsbanka og ábyrgist bankinn ekki nákvæmni þeirra, áreiðanleika eða réttmæti. Skoðanir höfunda geta breyst án fyrirvara og ber Íslandsbanka ekki skylda til að uppfæra, lagfæra eða breyta skýrslunni við breyttar forsendur.

Skýrslan er einungis birt í upplýsingaskyni og skal því ekki litið á hana sem ráðleggingu/ráðgjöf um að ráðast eða ráðast ekki í tiltekna fjárfestingu eða tilboð um að kaupa, selja eða skrá sig fyrir tilteknum fjármálagerningum. Íslandsbanki og starfsmenn bankans bera ekki ábyrgð á viðskiptum sem kunna að vera gerð á grundvelli þeirra upplýsinga sem fram koma í skýrslunni. Þeim aðilum sem hafa hug á viðskiptum er bent á að leita sér sérfræðilegrar ráðleggingar og kynna sér vel hina ýmsu fjárfestingarkosti sem í boði eru. Fjárfestingum fylgir ávallt fjárhagsleg áhætta og ber m.a. að hafa í huga áhættu vegna alþjóðlegra fjárfestinga og gengisflökts gjaldmiðla. Fjárfestingarmarkmið og fjárhagsstaða fjárfesta er mismunandi. Bent skal á að árangur í fortíð er ekki trygging um árangur í framtíð.

Skýrslur og aðrar upplýsingar sem berast frá Íslandsbanka eru einungis ætlaðar til einkanota.

Hvorki má afrita efnið, vitna í það né dreifa því, í heild eða að hluta, án skriflegs leyfis frá Íslandsbanka.

Skýrsla þessi er stutt samantekt og ber ekki að líta svo á að í henni sé að finna allar tiltækar upplýsingar um þau viðfangsefni sem hún fjallar um.

Eftirlitsaðili: Fjármálaeftirlitið (www.fme.is).

Bandaríkin
Skýrslu þessari eða afritum hennar má ekki dreifa í Bandaríkjunum eða til viðtakenda sem eru bandarískir ríkisborgarar í andstöðu við takmarkanir sem kveðið er á um í bandarískum lögum. Dreifing skýrslunnar í Bandaríkjunum kynni að teljast brot á þeim lögum.

Kanada
Upplýsingarnar í skýrslu þessari eru ekki ætlaðar til dreifingar eða útbreiðslu með neinum hætti í Kanada og því ber ekki að líta á þær sem fjármálaráðgjöf eða ráðleggingu um fjárfestingar í skilningi kanadískra verðbréfalaga.

Önnur lönd
Lög og reglugerðir í öðrum löndum kunna einnig að takmarka dreifingu skýrslu þessarar.

Frekari upplýsingar varðandi efni Greiningar Íslandsbanka má finna á vefsíðunni:
www.islandsbanki.is

Umsjón

Greining og fræðsla

greining@islandsbanki.is

31 January 2024