Macroeconomic forecast: Post-pandemic take-off

Economy takes off as pandemic subsides

Summary

Corona Crisis gives way to economic recovery

GDP growth

- GDP growth driven by robust growth in domestic demand in 2021, with export growth following in coming quarters
- 4.2% GDP growth in 2021
- 3.6% GDP growth in 2022
- 3.0% GDP growth in 2023

Strong export growth after a historically deep contraction

External trade

- Tourist numbers rising less than expected in 2021 but set to double in 2022
- Exports to rise by 10.1% in 2021 and imports by 11.4%
- Current account deficit estimated at 1.4% of GDP in 2021
- Current account surplus projected at 2% of GDP in 2022 and over 3% in 2023

Inflation tenacious but will yield in the end

Inflation

- Inflation looks set to remain above the CBI's 4% tolerance limit through end-2021 and then start to decline
- ISK appreciation to chip away at inflation
- Inflation to average 4.4% in 2021
- Inflation 3.0% in 2022 and 2.5% 2023

Unemployment falling rapidly

Labour market

- Unemployment has been nearly cut in half in 2021 to date
- Unemployment to average 7.6% in 2021
- 4.3% unemployment in 2022
- 3.7% unemployment in 2023

Monetary tightening through mid-2023

Interest rates

- Two policy rate hikes in 2021 to date
- Tightening phase to continue unless there is a severe setback in the economic recovery
- Policy rate projected at 1.5% by end-2021, 2.5% by mid-2022, and 3.5% by Q3/2023

ISK likely to strengthen with rising tourist numbers

The ISK

- The ISK has appreciated by 4% YTD
- Moderate weakening since mid-year
- ISK appreciation estimated at 3.6% in 2021, 5.1% in 2022, and 0.9% in 2023
- CBI to continue mitigating short-term volatility and start shoring up its reserves again if the ISK appreciates significantly

Corona Crisis takes its leave, strong GDP growth takes the stage

Domestic demand will rebound strongly this year, with export growth following in its wake

The COVID-19 pandemic has made its mark on 2021 worldwide, and in greater measure than previously hoped. Nevertheless, the Icelandic economy has turned the page and begun a new growth phase, after contracting 6.5% in 2020.

The outlook is for the pandemic to both prove less onerous in the short run and cause less long-term damage than was widely feared. In our opinion, this is due mainly to three factors:

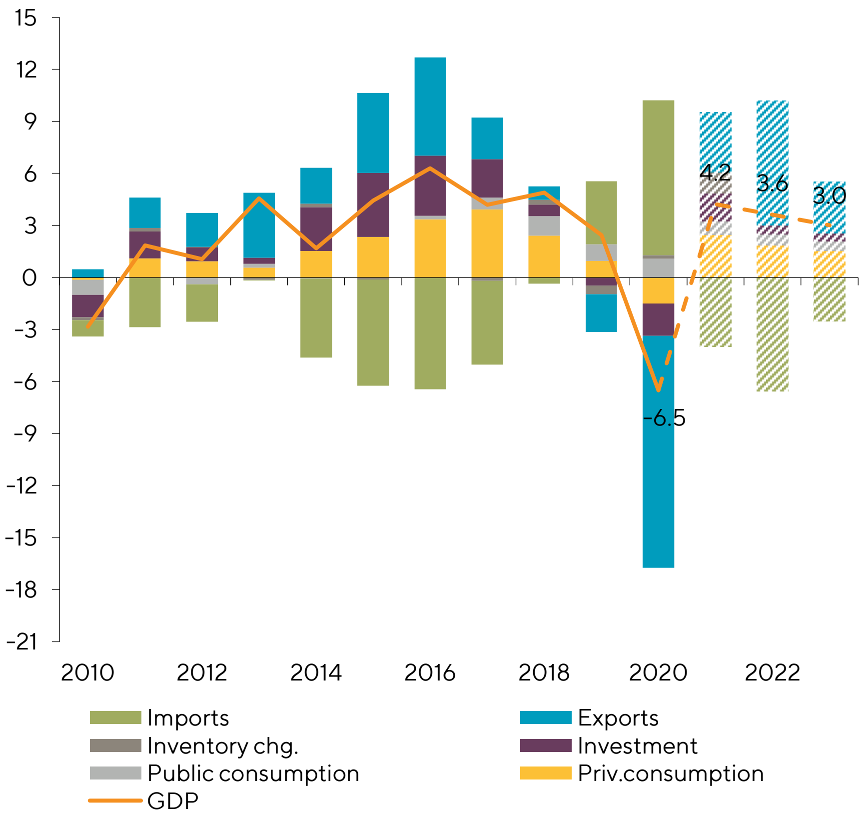
- A strong pre-pandemic financial position among households, businesses, and the public sector
- Well-crafted public health measures that have successfully kept the pandemic in check, with minimal impact on Icelanders' day-to-day lives
- Successful economic policy action

We forecast GDP growth at 4.2% in 2021, driven mainly by robust growth in domestic demand. Export growth has suffered a temporary setback, but most indicators imply that it will rebound sooner rather than later.

For 2022, we forecast 3.6% growth, with exports growing rapidly and domestic demand continuing to grow apace. In the final year of the forecast horizon, 2023, we forecast 3.0% growth, as the impact of COVID-19 will be behind us and the economy will have begun to rebalance.

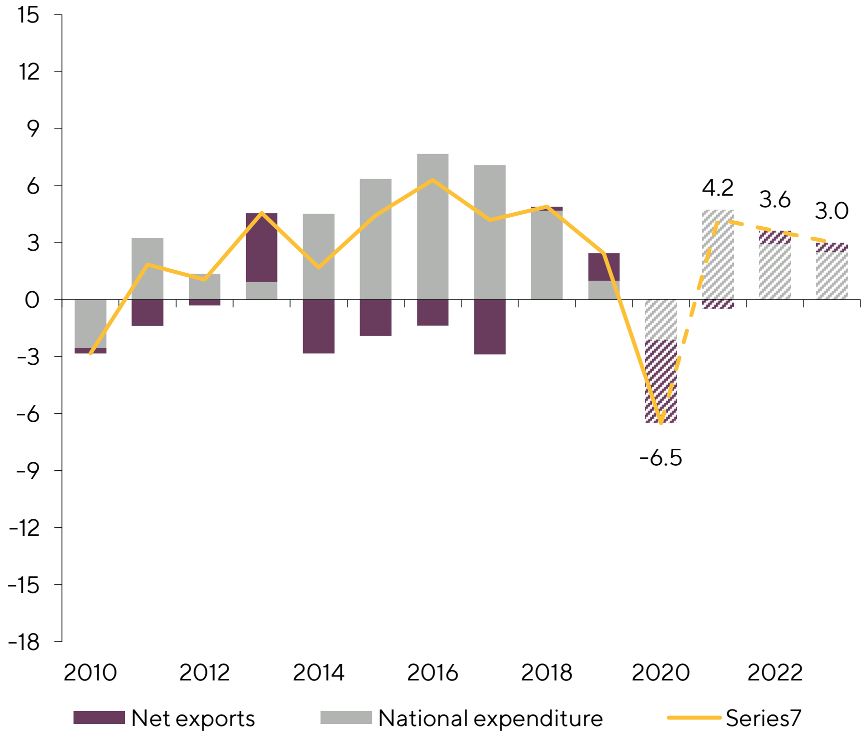
GDP and contribution of its subcomponents

Volume change from prior year (%)



GDP, domestic demand, and external trade

Volume change from prior year (%)



Sources: Statistics Iceland, ÍSB Research.

Temporary hitch in tourist numbers, but the future is bright

We project that tourist arrivals will total 600,000 this year and then more than double in 2022

After a promising surge this summer, tourist arrivals are set to stumble in the final third of 2021, owing to the spread of the Delta variant of COVID-19 in Iceland and abroad, its cooling effect on appetite for travel, and its impact on border restrictions.

Even so, Iceland is still widely viewed as a desirable post-pandemic travel destination. Tourists' swift response to the temporary relaxation of border restrictions in 2020 and 2021 indicate keen interest in visiting Iceland. Global market forecasts suggest a fairly rapid increase in personal travel in the coming term.

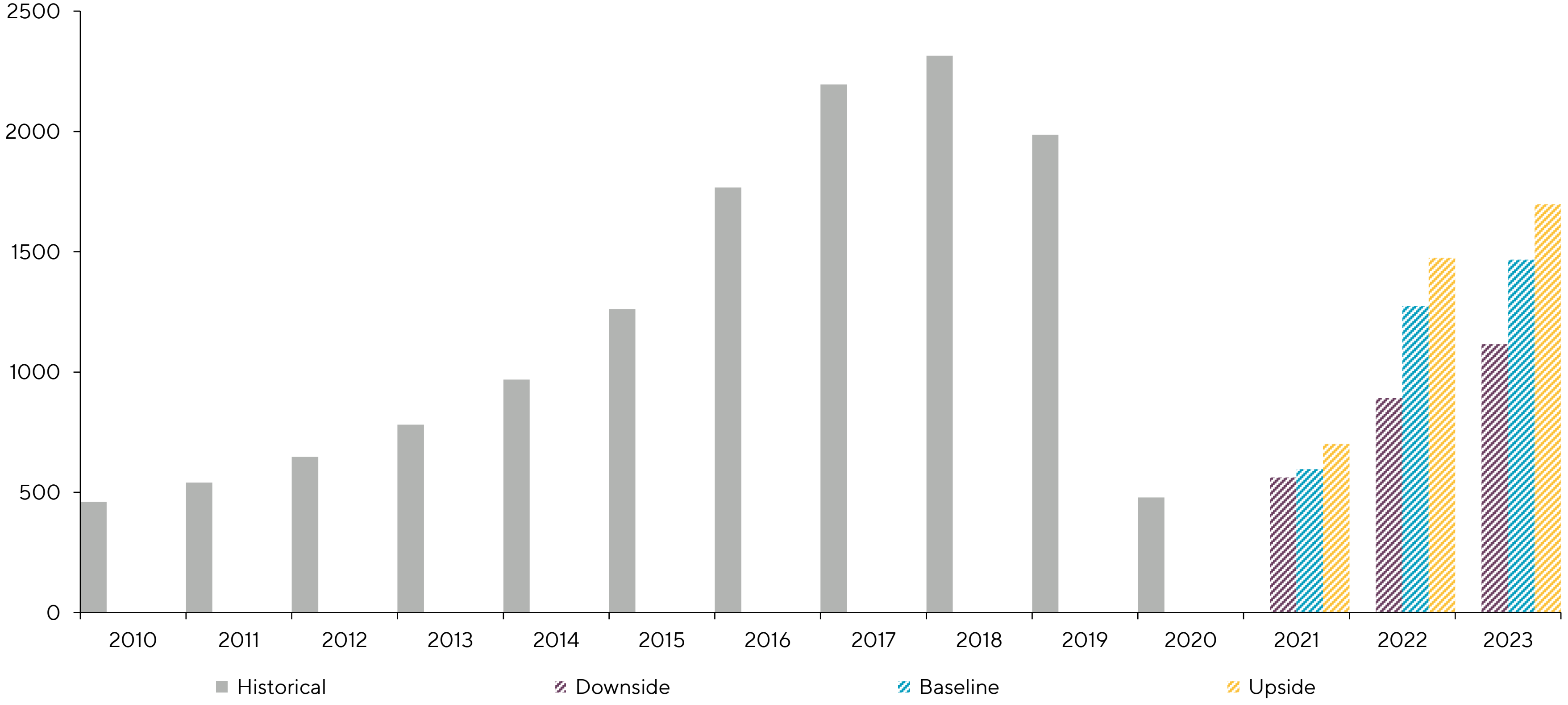
As a result, we forecast that 600,000 tourists will visit Iceland this year. If our forecast materialises, this year's total would be less than one-third of the 2019 figure. We expect tourist numbers to double in 2022, to about 1.3 million, and rise to 1.5 million in 2023.

Developments in tourist arrivals are subject to considerable uncertainty, however. Based on our alternative scenarios, presented at the end of this report, total arrivals could range from 560,000 to 700,000 in 2021, and from 900,000 to 1.5 million in 2022.

Developments in tourist flows will then have a marked effect on economic developments in the coming term, as is discussed more fully in the Appendix.

Number of foreign tourists, by year

thousands



Sources: Icelandic Tourist Board, ÍSB Research.

Tourism the main driver of surging export growth

… but imports are growing apace, fuelled by increased economic activity

Tourism, plus exports of intellectual property and other services, is the main driver of the more than 10% export growth we forecast for this year. Added to this is modest growth in goods exports, particularly to include farmed fish, capelin, aluminium, and silicon metal.

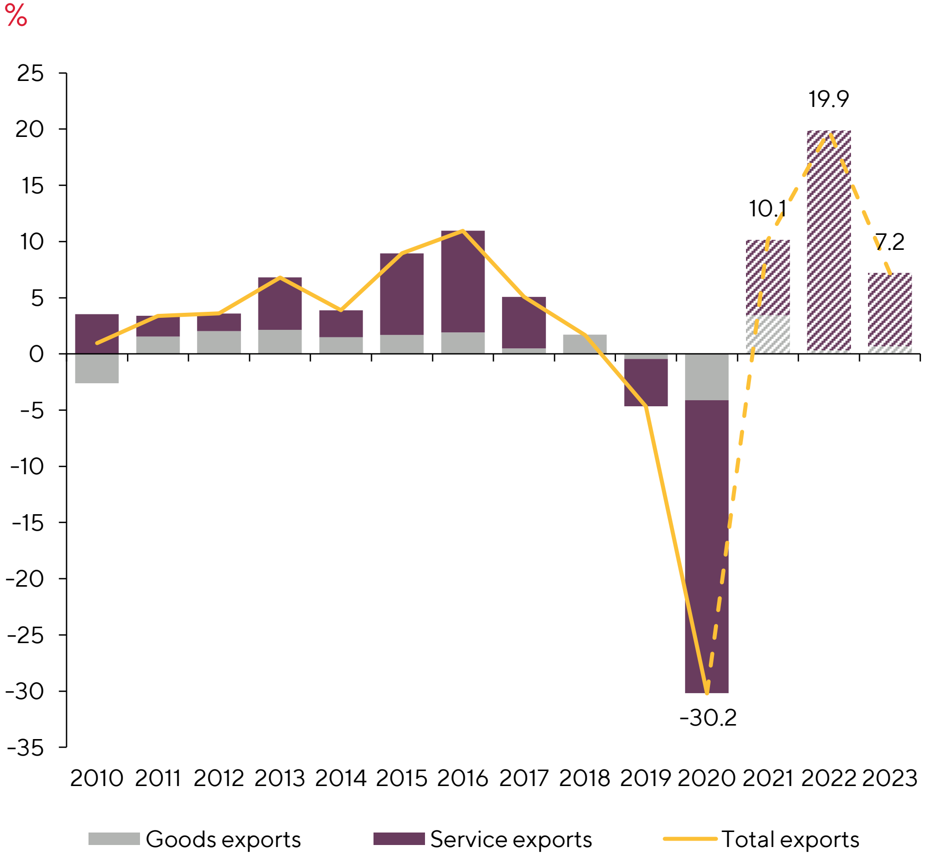
A surge in tourist arrivals will deliver the lion's share of the forecasted 20% export growth in 2022 and just over 7% growth in 2023. Furthermore, the outlook is for stronger exports of capelin and farmed fish, aluminium and other industrial goods, and increasingly, intellectual property usage as well. Pulling in the opposite direction are weaker exports of groundfish as a result of quota reductions.

Imports have developed broadly in line with exports in the recent term, and the contraction in imports greatly mitigated the tourism-generated blow to the current account balance.

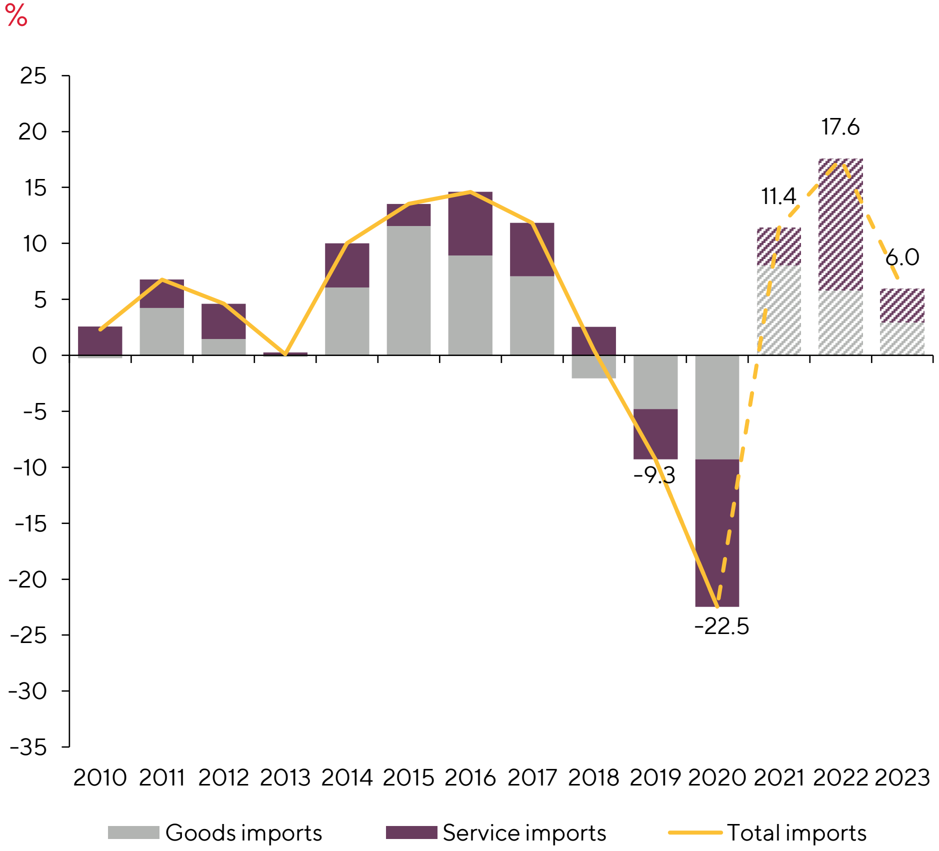
By the same token, the outlook is for imports to grow by a full 11% this year. Growing domestic demand calls for increased imports, just as growth in tourism calls for more inputs.

Imports will grow even faster in 2022, according to our forecast, not least because of a surge in use of inputs for tourism. Thereafter, import growth will ease, largely because the need for tourism-related inputs will grow more slowly further out the horizon and growth in domestic demand will lose momentum as well.

Exports and contributions from subcomponents



Imports and contributions from subcomponents



Sources: Statistics Iceland, ÍSB Research.

Current account set to show a deficit in 2021, then revert to surplus

The short-lived deficit is due to domestic demand, which is a few steps ahead of the recovery of exports

Despite a brutal blow to export revenues, the current account balance was slightly positive in 2020. Offsetting the plunge in exports was a steep decline in imports. There was a small trade deficit, but it was outweighed by a handsome surplus on primary income.

The current account balance was positive by a scant 1% of GDP in 2020, the ninth consecutive surplus year. The outlook for 2021, however, is for a deficit of just over 1% of GDP, mainly because domestic demand has rebounded strongly, which calls for increased imports. At the same time, the recovery of tourism has been delayed, and export revenues have not kept pace with import growth.

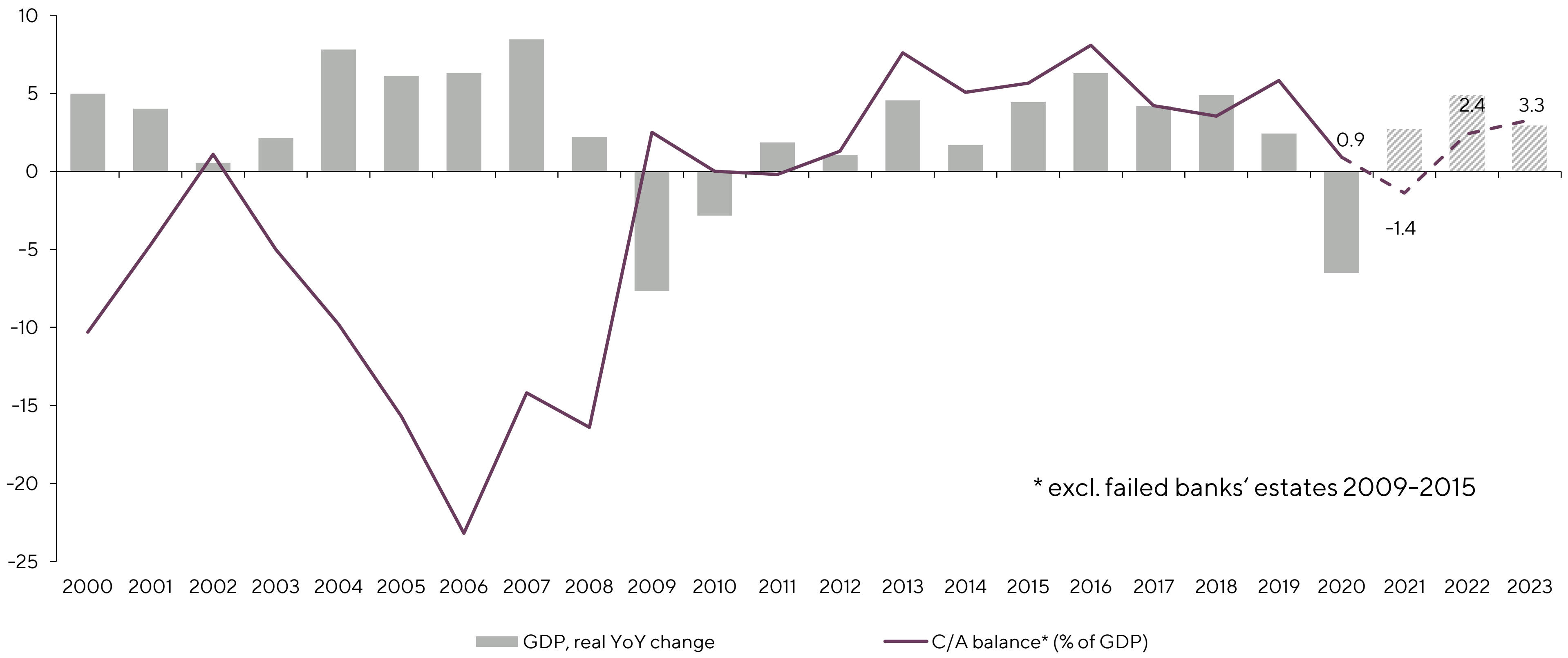
In our opinion, however, the deficit will prove transitory. Increased revenues from services exports will quickly catch up with import-related expenditures. The recent surge in exported goods prices, including aluminium and capelin, is helpful as well.

We forecast that the current account surplus will measure 2.4% of GDP in 2022 and 3.3% of GDP in 2023.

In our opinion, Iceland's external trade position has improved permanently. The country's net external assets are currently equivalent to over a third of GDP – a situation that could improve further over the forecast horizon.

Current account balance and GDP growth

% of GDP and %



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

Investment growth stronger than expected in 2021

Residential investment will rise over time, but public investment will peak early in the forecast horizon

Investment has sagged for two years running, after a period of robust growth earlier in the 2010s. Between 2018 and 2020, it contracted by a total of nearly 11%.

The investment-to-GDP ratio has not suffered much, however, unlike the situation immediately following the financial crisis. For instance, investment measured 21.5% of GDP in 2020, after bottoming out at 14% a decade earlier.

Investment growth measured just over 13% in H1/2021, fuelled by strong growth in public and business investment, whereas residential investment contracted.

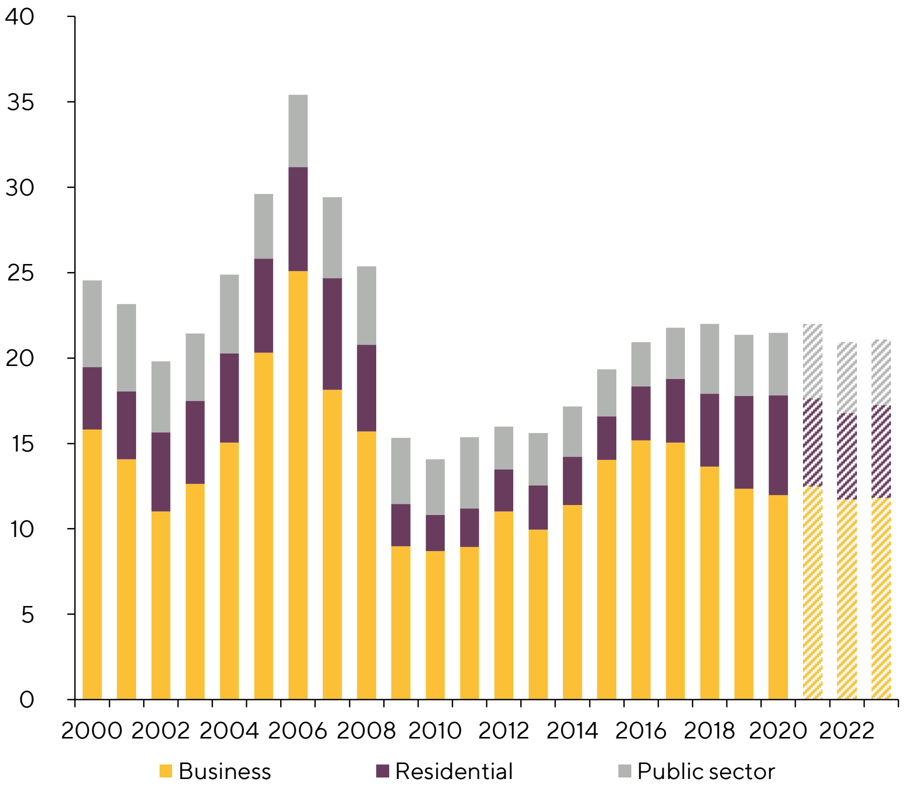
We expect this pattern to characterise 2021 as a whole. Public investment will probably grow faster in H2, and business investment more slowly, than in H1.

For 2022, we expect positive growth from all key components of investment. In 2023, however, private investment – residential investment in particular – will be the main driver of growth, and public investment will contract year-on-year.

We forecast that total investment will grow by 7.5% this year, over 2% in 2022, and 2% in 2023. The investment-to-GDP ratio will remain relatively stable, however, at around 20%.

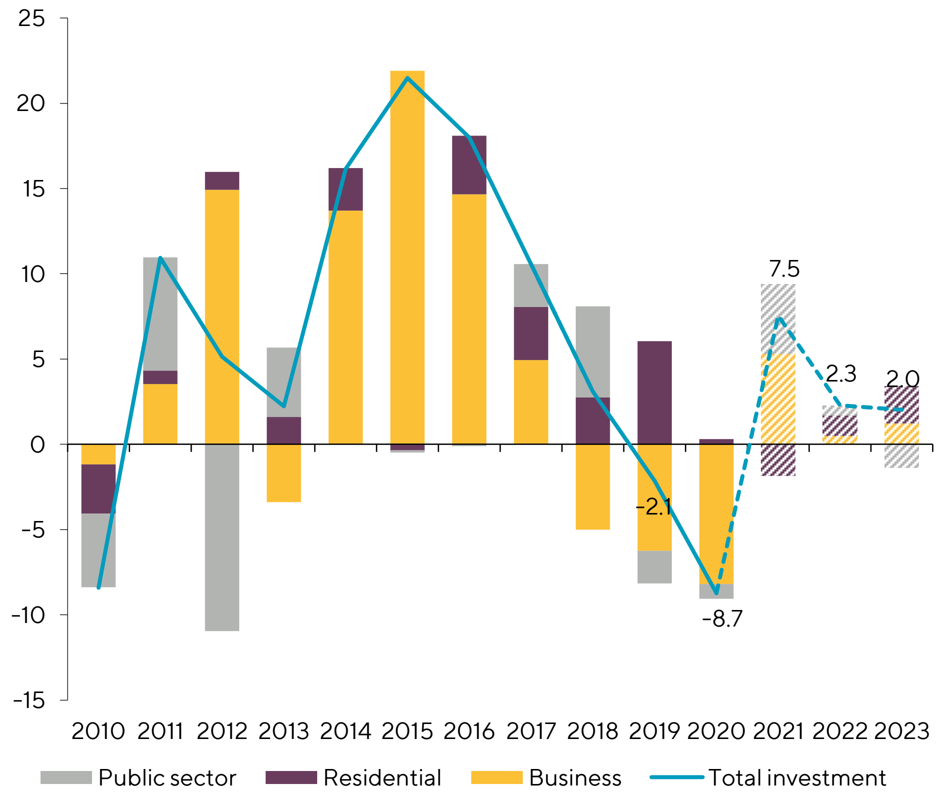
Investment

% of GDP



Investment, real change, and contribution of subcomponents

%



Sources: Statistics Iceland, ÍSB Research.

Increased optimism goes hand-in-hand with growth in demand

Reduced uncertainty and favourable financing conditions provide an incentive for increased corporate investment

The slump in business investment over the past three years (excluding hotels and other tourism-related investment) gives cause for some concern. In all, business investment has contracted by 28% in the past three years.

Fortunately, the most recent figures imply that the situation is turning around, and that business investment grew by nearly 22% YoY in H1/2021.

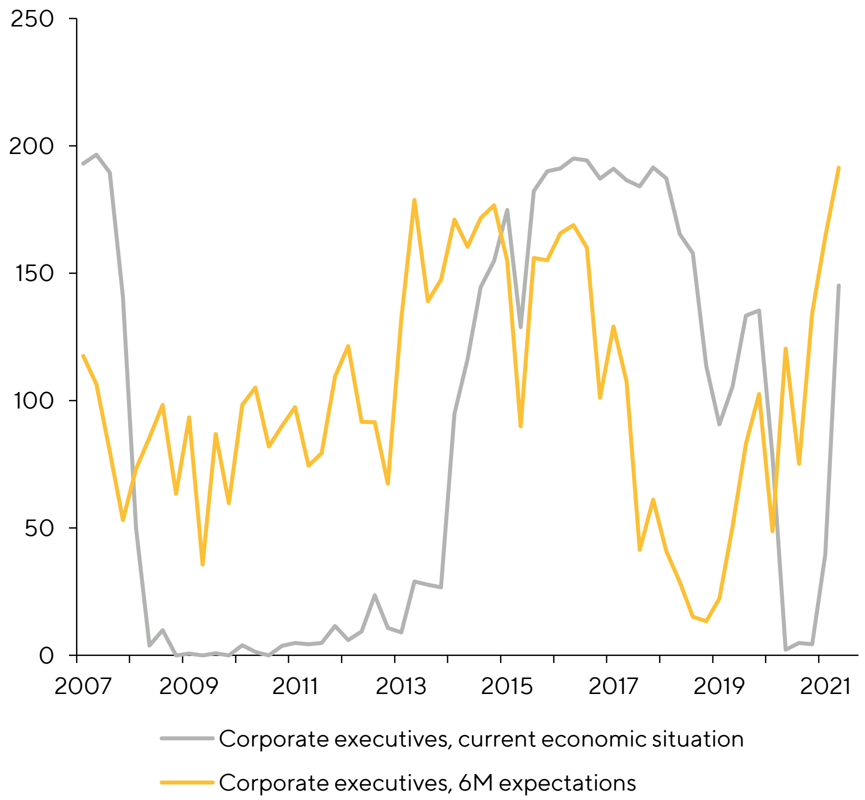
Executives' expectations concerning near-term economic conditions have improved markedly in recent quarters, hitting an all-time high around mid-year. The assessment of the current situation has shifted accordingly. According to a Gallup survey conducted in June for the Central Bank and the Confederation of Icelandic industries, a majority of executives considered conditions favourable – for the first time since the Corona Crisis struck.

There is a fairly strong correlation between corporate sentiment and growth (positive or negative) in business investment. Growing optimism about economic developments and prospects therefore suggests that appetite for investment will rise overall.

Added to this, most firms are financially sound, and relatively favourable financing conditions should facilitate investment as pandemic-related uncertainty subsides.

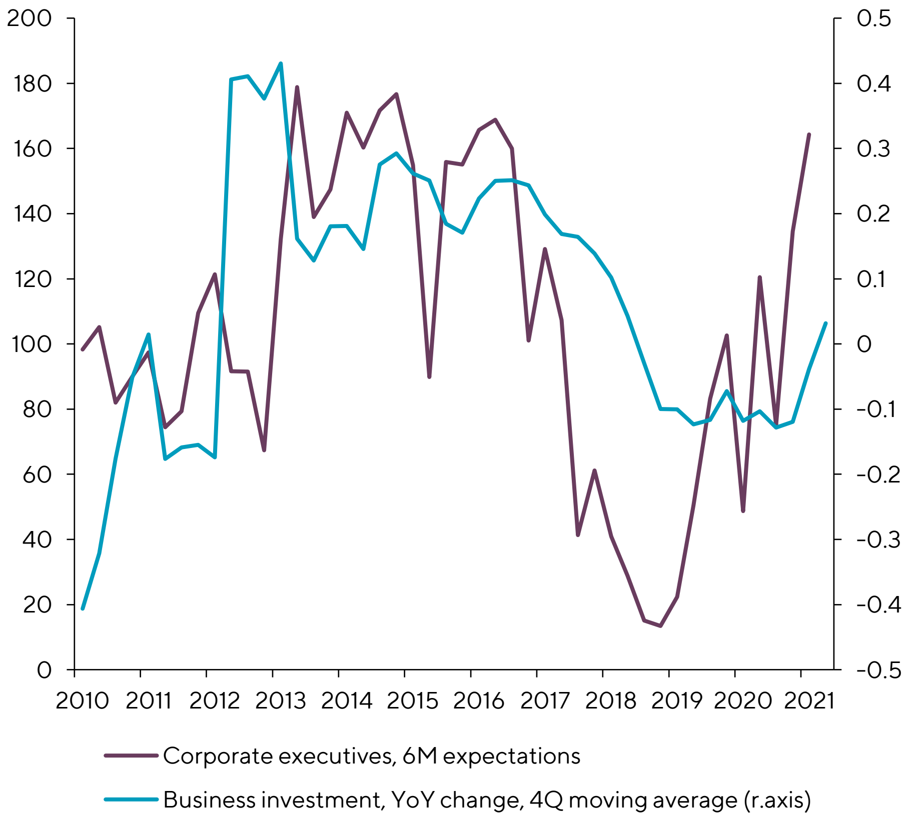
Expectations of executives from Iceland's 400 largest firms

Index



Executives' expectations and business investment

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



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

Housing market still steaming ahead

Favourable lending rates and other factors stimulate demand

House prices have been rising virtually unimpeded since the pandemic struck. Demand is strong at present, owing mainly to policy rate cuts in the wake of the pandemic, which resulted in highly favourable mortgage financing terms. Two other factors have fuelled demand as well: households' strong financial position and the continued rise in real wages.

Real house prices rose by 3.5% last year, in line with real wages, which rose 3.4%. These two variables tend to track one another over time, but this year, house prices have taken the lead. In the first eight months of 2021, real prices have risen 6.4%, even though inflation has been quite high.

Clearly, supply cannot keep pace with the demand that has developed in the housing market. However, according to Statistics Iceland, supply has grown fairly strongly in recent years, and a record number of flats were put on the market in 2020.

That situation has changed, though. In H1/2021, residential investment fell 6.7% YoY, and the contraction in new residential construction looks set to continue. If this proves to be the case, housing supply will be far from satisfying the current level of demand.

Real house prices and real wages

Year-on-year change

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

Detached home prices rise most due to the pandemic

Non-indexed loans comprise roughly half of household mortgages

Since the pandemic struck, house price inflation has been driven mainly by capital area housing – single-family homes in particular. In the first eight months of 2021, detached housing prices in greater Reykjavík rose 10.5% in real terms and condominium prices 6.3%.

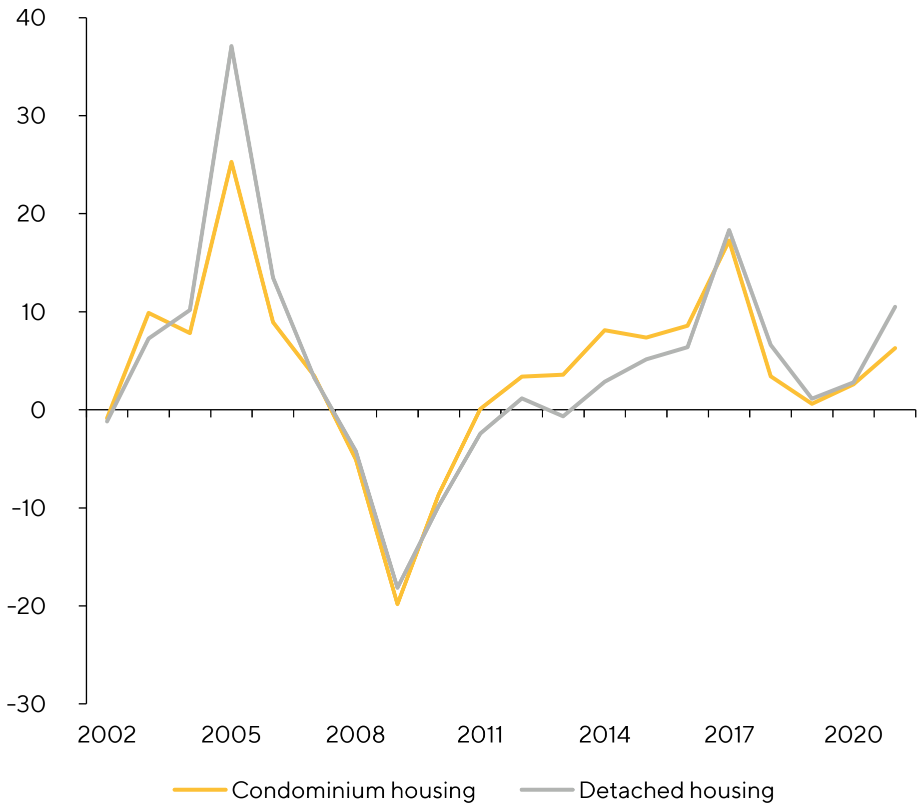
Demand for detached housing appears to be gaining steam, and apparently, a fairly large number of buyers are taking advantage of favourable lending rates and "trading up". We believe this spurt in demand is due in part to the so-called Corona Effect, with increased time at home (including remote working) giving rise to a need for more space.

The composition of household loans has changed markedly. Borrowers are increasingly shifting to non-indexed loans, which now account for nearly 50% of their total mortgage debt. This is a radical departure from the previous pattern, and in our opinion it makes monetary policy more effective than it would be otherwise.

As we see it, conditions are in place for house prices to keep rising at a robust clip in the near term and then later on at a more moderate pace with policy rate hikes and growth in the housing supply. We forecast that nominal prices will rise 11.9% this year, 6.9% in 2022, and 3.4% in 2023.

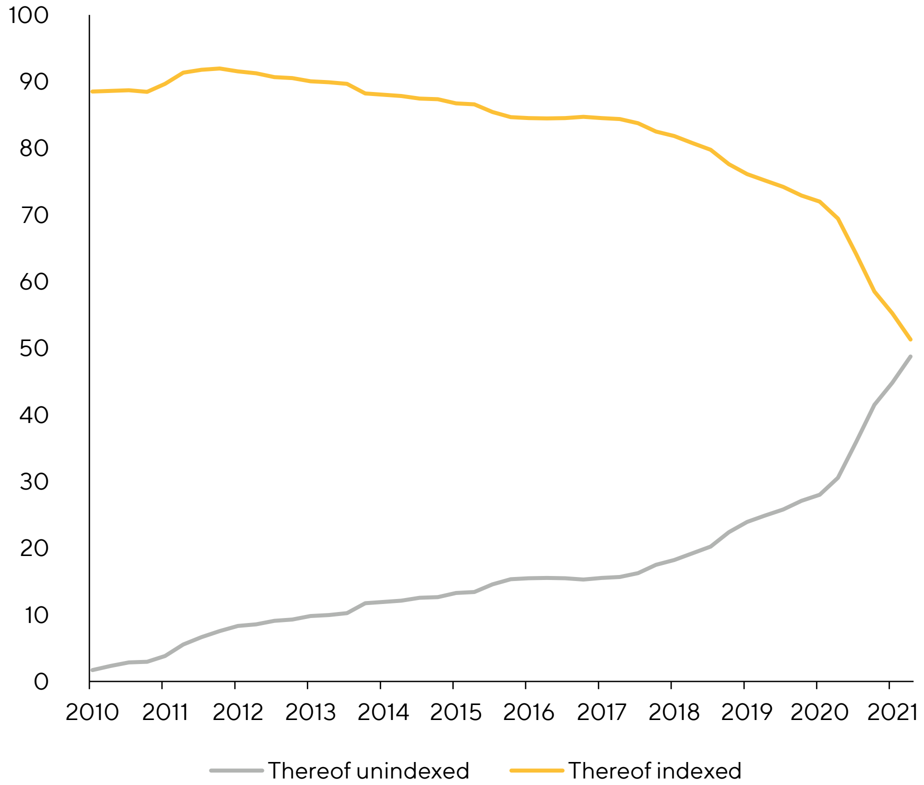
Real change in house prices in greater Reykjavík

% change, annualised



Composition of households' mortgage debt

%



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

Unemployment falling rapidly

Jobless rate to return to the pre-pandemic level by 2023

Unemployment soared in the wake of the COVID-19 pandemic, peaking at 12.8% in January 2021 (including workers receiving part-time benefits). Without Government measures, it would probably have been far higher.

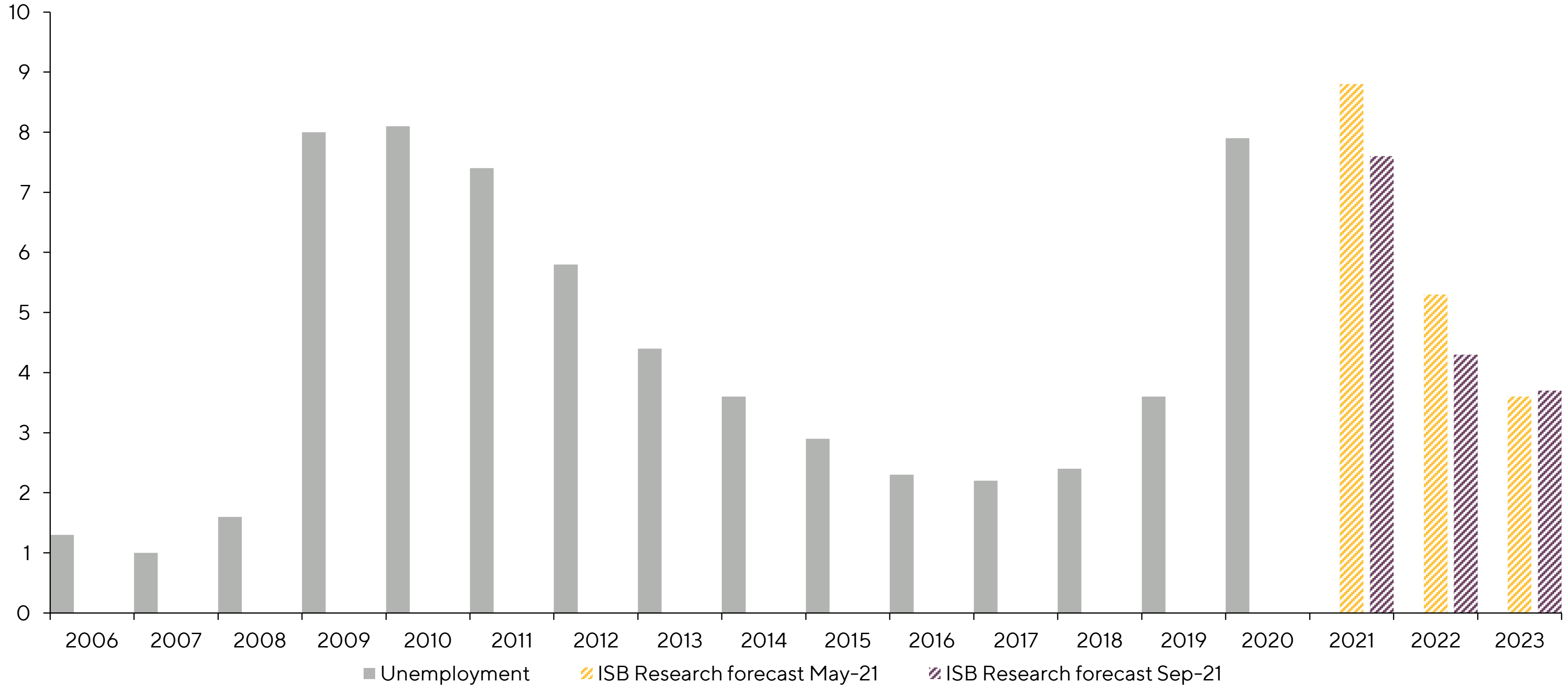
The part-time benefits programme expired in May 2021, after being in effect for just over a year. During that period, a total of 37,000 workers benefited from the programme. Hiring subsidies have now been introduced, with the aim of giving companies an incentive to hire workers.

Since it peaked, unemployment has been declining month by month, to 5.5% as of August. It has therefore been cut nearly in half in 2021 to date. We expect it to keep declining gradually in the coming term.

Until now, Iceland has on average had one of the lowest jobless rates in the Western world. We expect unemployment to average 7.6% in 2021 and 4.3% in 2022. In 2023, we assume it will fall to 3.7%, very close to the pre-pandemic level, last seen in 2019.

Unemployment as a share of the labour force*

%



*Excluding workers receiving COVID-related part-time benefits

Sources: Directorate of Labour, ÍSB Research.

Private consumption growth ahead

Consumers eager to spend after a bleak COVID year

Private consumption contracted by 3.3% in 2020. In general, consumption patterns diverged from the norm: consumption within Iceland generally held its ground, whereas consumption abroad and in the services sectors most affected by public health measures contracted sharply.

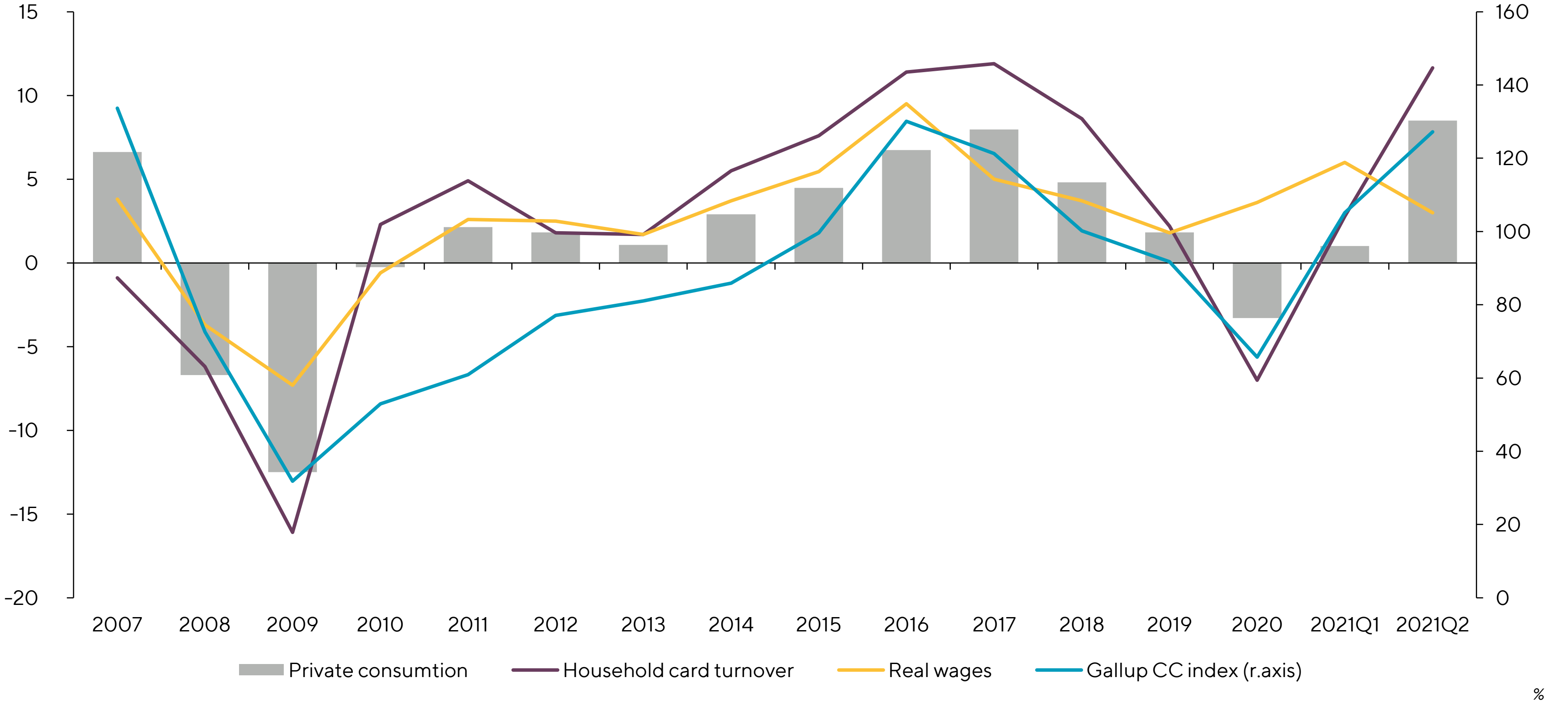
Private consumption grew 4.7% YoY in H1/2021. Indicators imply that it will continue to grow strongly for the remainder of the year. Card turnover within Iceland and abroad is up sharply relative to 2020. Households' motor vehicle purchases were up 38% YoY in the first eight months of 2021.

Indicators such as the unemployment rate and the Gallup Consumer Confidence Index also suggest that private consumption will keep growing in the coming term. Furthermore, real wages increased by 4.5% YoY in H1/2021, even though inflation was high during the period.

Most households' asset position is sound, as household saving increased markedly during the pandemic. As we see it, the appetite for consumption is strong among the general public, and private consumption still has considerable growth potential after the pandemic. We forecast year-2021 private consumption growth at 4.8%. Thereafter, we expect it to grow by 3.6% in 2022 and 3.0% in 2023.

Private consumption and related indicators

% change year-on-year (left) and index value (right)



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

ISK likely to strengthen when tourism rebounds

The Central Bank has mitigated exchange rate volatility via intervention since WOW Air collapsed

The ISK has fluctuated in line with the path of the pandemic in recent quarters. In 2020, it weakened by nearly 10% against major currencies – no surprise, given the sudden implosion of export revenues. The CBI smoothed things out, however, using nearly EUR 830m from its reserves to mitigate short-term volatility and offset pressures due to non-residents' sales of domestic securities.

Even after those large sales, the CBI's gross reserves still exceed EUR 6bn, or just over 30% of GDP.

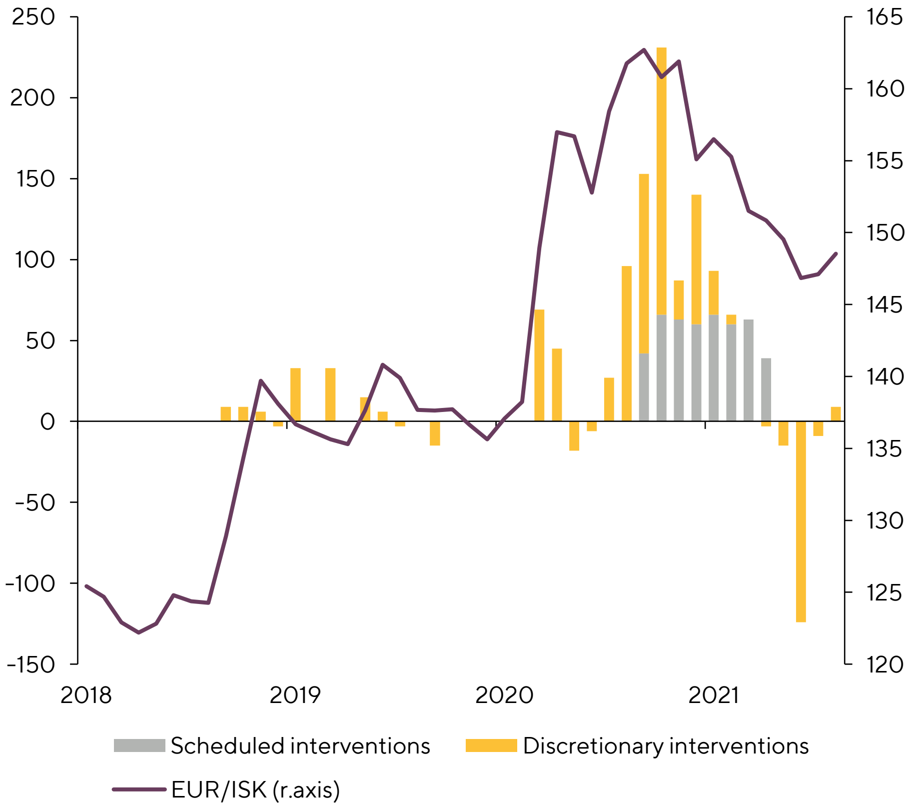
The ISK has appreciated by a just under 4% in 2021 to date. It strengthened in H1, but since mid-year it has sagged a bit, owing to unfavourable external trade, reduced investment flows, and expectations of delays in the recovery of tourism.

We still expect it to strengthen again, although the appreciation may well be delayed somewhat in the coming term. A surplus on the current account is in the offing, interest rates are on the rise, Iceland's IIP is strong, the growth outlook is good, and non-residents' securities holdings are moderate in a historical context.

Factors offsetting this include the pension funds' foreign investments in the coming term and possible CBI purchases of reserve assets. It is impossible to predict how rapid such an appreciation will be or when it will occur, but the forecast assumes that the ISK exchange rate will be approximately 10% stronger by the end of the forecast horizon than it was at the beginning of 2021.

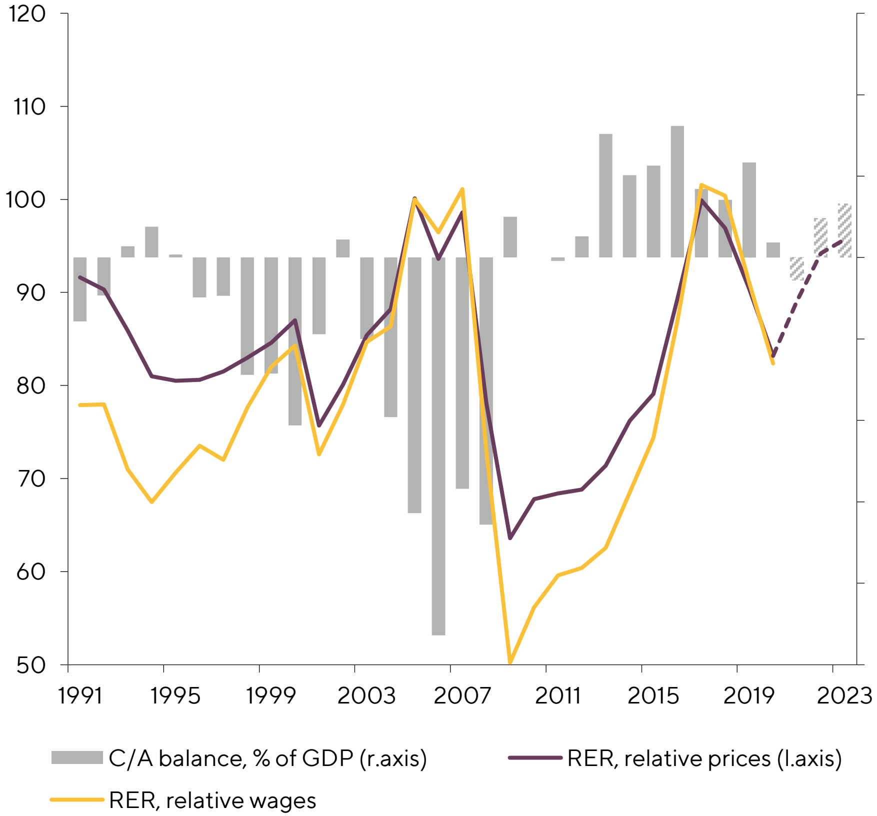
ISK exchange rate and CBI FX market intervention

EUR m (left) and EURISK (right)



Real exchange rate and current account balance

Index and % of GDP



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

Inflation at target by late 2022

Inflation spiking in other countries as well

Inflation started rising in mid-2020, in the wake of the Corona Crisis and the ISK depreciation. It climbed steadily until this year, peaking at 4.6% in April.

Inflation measured 4.3% in August and has been unchanged since May. Early on, inflation was driven mainly by pass-through from the ISK depreciation, but its composition has changed, and now it is driven primarily by house prices and domestic costs.

Inflation has proven more persistent than we expected, but ultimately it will fall. We expect it to remain somewhat above 4%, the upper deviation threshold of the CBI's target, over the next few months, measuring 4.4% at the year-end. It will then subside slowly and steadily next year, aligning with the CBI's 2.5% target in Q4. We expect it to average 3.0% in 2022 and 2.5% in 2023.

Stubborn inflation is not a uniquely Icelandic phenomenon at the moment. Inflation has been on the rise in most Western countries since the pandemic struck. The price of a number of goods has soared, mainly because of pandemic-induced supply chain disruptions. In addition, shipping costs have risen steeply, particularly for longer distances.

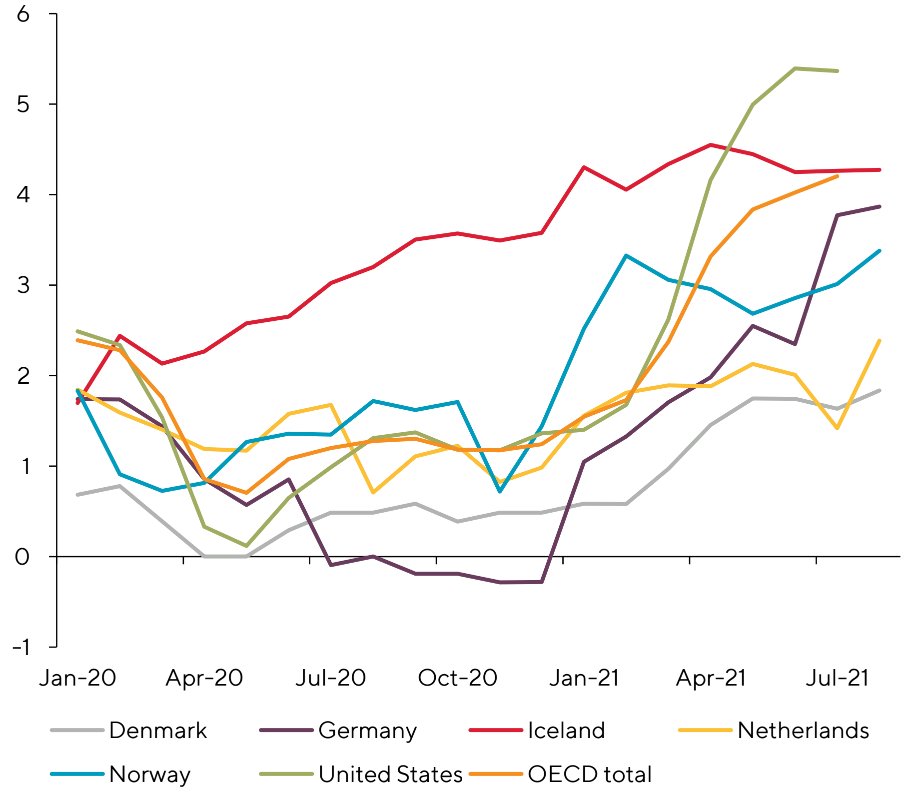
The main assumption underlying our forecast is that the ISK will appreciate in coming quarters, once tourists start visiting the country in greater numbers. On the other hand, inflationary pressures from wages and/or house prices could turn out stronger than we assume. Furthermore, imported inflation could turn out higher than is forecast here if price hikes abroad continue unabated.

Inflation and the CBI inflation target

%

Headline inflation, by country

%



Sources: OECD, Statistics Iceland, ÍSB Research.

Policy rate on the rise

Long-term interest rates approaching equilibrium within the forecast horizon

Persistent inflation, a poorer short-term inflation outlook, and the economic recovery prompted the CBI to raise the policy rate in August. The policy rate is now 1.25%, its highest since May 2020.

However, long-term inflation expectations are still well in line with the target. Also, monetary policy appears to have a stronger impact on households and businesses than before, and the CBI therefore has less need to resort to steep rate hikes in order to have the desired effect on the economy and the medium-term inflation outlook.

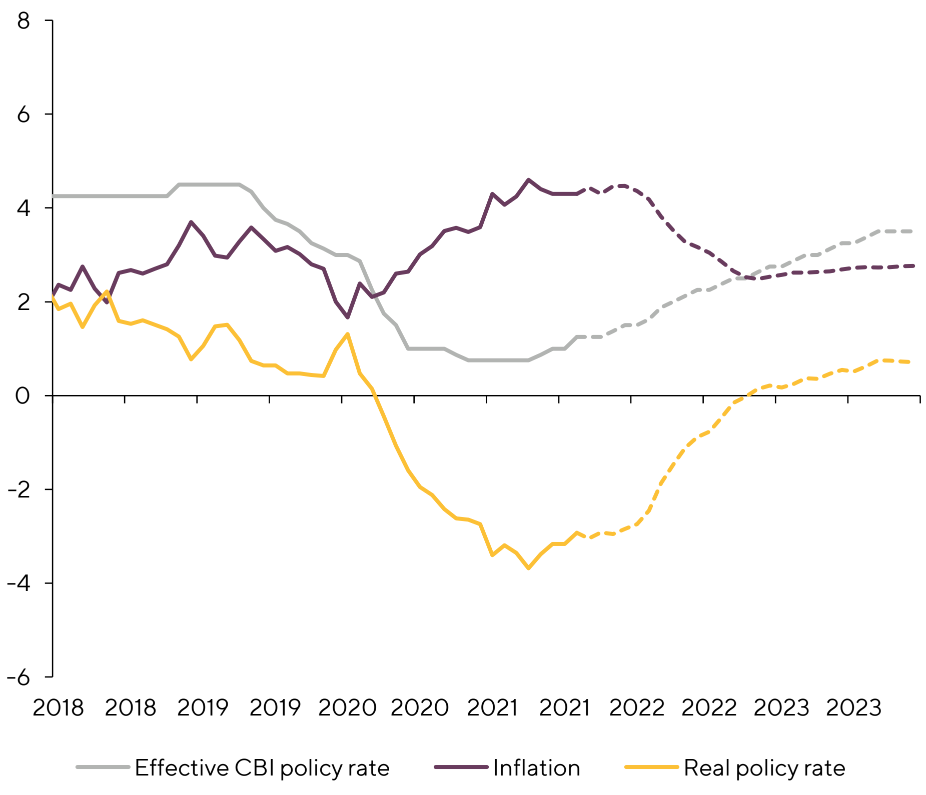
As a result, we forecast that the policy rate will be 1.5% by end-2021. We expect a continued tightening phase thereafter. We project that by Q3/2023, the policy rate will be up to 3.5%, which we believe is close to its equilibrium level.

Monetary tightening is probably already priced into long-term nominal rates; therefore, large increases in long rates are rather unlikely. Long-term base rates are now just under 3.8%, and real rates are around 0.6%. Long-term rates have been in this area most of the year, albeit with a few fluctuations.

Therefore, a significant rise in short-term rates has already been priced into long-term rates, and it is not clear that they will rise much further, even if the policy rate rises in the near future. Further ahead, we expect long-term rates to approach equilibrium, which we estimate at around 4% for nominal rates and just over 1% for the real rate.

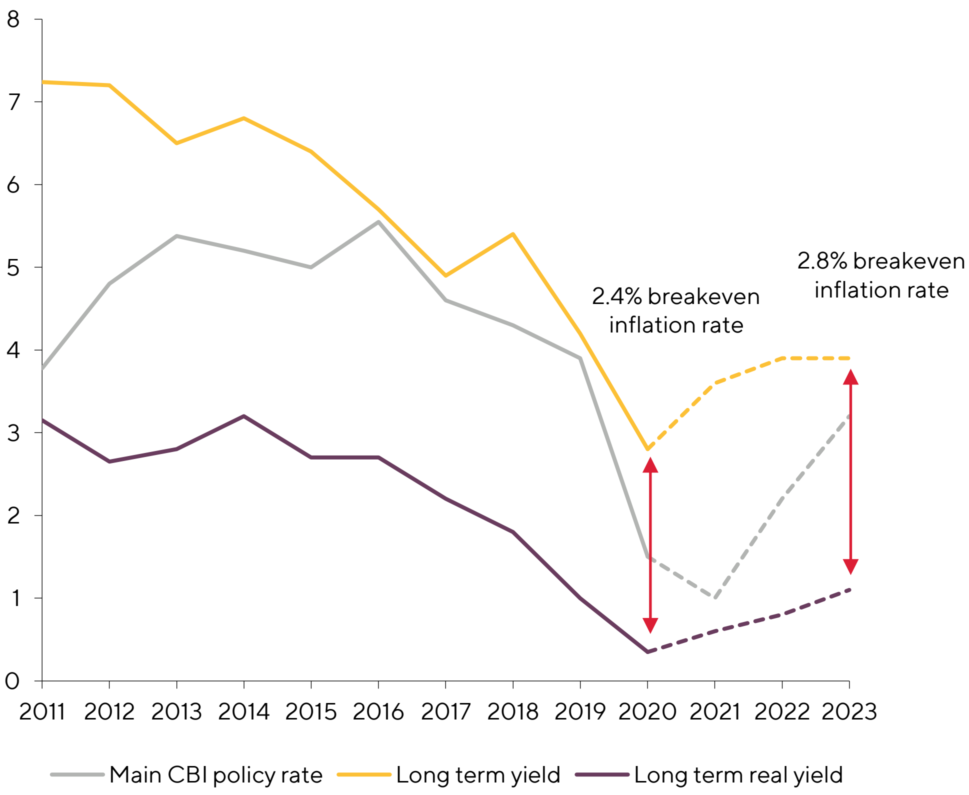
Policy rate and inflation

%



Interest rates

%



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

Macroeconomic forecast summarised

GDP and its components

Volume change from prior year %	The year 2020 in ISK m	2019	2020	Forecast 2021	Forecast 2022	Forecast 2023
Private consumption	1,509,028	1.9	-3.0	4.8	3.6	3.0
Public consumption	818,915	3.9	4.5	2.8	2.3	2.0
Gross capital formation	631,591	-2.1	-8.7	7.5	2.3	2.0
– business investment	352,066	-10.1	-14.2	9.5	0.9	2.2
– residential investment	171,935	31.2	1.2	-6.8	5.0	9.0
– public investment	107,590	-10.3	-5.2	24.0	3.0	-7.0
Changes in inventories	3,166	-0.2	0.1			
Domestic demand, total	2,962,700	1.0	-2.2	4.7	3.0	2.5
Exports of goods and services	1,006,999	-4.7	-25.4	10.1	19.9	7.2
– marine product exports	269,917	-6.4	-4.9	7.5	-1.8	1.3
– aluminium products	207,674	-6.0	-1.0	3.0	2.0	1.0
– other goods exports	150,532	21.1	-16.9	5.5	3.0	2.0
– services exports	378,877	-7.9	-45.6	17.8	48.6	13.0
Imports of goods and services	1,028,601	-8.4	-15.2	11.4	17.6	6.0
– goods imports	718,805	-6.1	-7.5	11.5	8.3	4.6
– services imports	309,796	-12.6	-28.9	11.1	39.1	8.5
Gross domestic product	**2,941,099**	**2.4**	**-6.5**	**4.2**	**3.6**	**3.0**

Macroeconomic forecast summarised

Other economic variables

% of GDP	2019	2020	Forecast 2021	Forecast 2022	Forecast 2023
Gross capital formation	21.4	21.5	21.6	20.8	20.5
Current account balance	5.8	0.9	-1.4	2.4	3.3
Trade balance	4.5	-0.7	-1.8	1.9	2.8
Change between yearly averages (%)					
Consumer prices	3.0	2.8	4.4	3.0	2.5
Wages and salaries	4.9	6.4	8.2	4.4	4.4
House prices	4.4	6.4	11.9	6.9	3.4
Average exchange rate	8.5	11.1	-3.6	-5.1	-0.9
Real exchange rate in terms of relative consumer prices	-7.4	-10.1	7.0	5.8	1.6
Real wages	1.8	3.5	3.6	1.4	1.9
Annual average (%)					
Unemployment	3.6	7.9	7.6	4.3	3.6
Trade-weighted exchange rate index	181.0	201.0	193.7	183.7	182.0
CBI policy rate (7-day term deposits)	3.9	1.5	1.0	2.2	3.2
Long-term nominal rate (RIKB 31)	4.2	2.8	3.6	3.8	3.9
Long-term real rate (RIKS 30)	1.0	0.4	0.6	0.8	1.1

September 2021

Tourism: forecast and scenarios

islandsbanki.is

Baseline scenario

Key assumptions

The pandemic in Iceland:	COVID-19 tapers off steadily in coming quarters. Public health measures in Iceland are eased in gradual increments until Q2/2022.
Border restrictions:	Current border restrictions in effect through end-2021. Some restrictions in place for unvaccinated persons through mid-2022.
The pandemic worldwide:	The pandemic tapers off steadily in coming quarters and, in most countries, will be largely over by mid-2022.
Demand:	Basic appetite for travel largely unchanged. Rises steadily in coming quarters. From 2023 onwards, appetite for travel will be broadly similar to the pre-COVID level. Iceland's image as a travel destination is relatively strong in international comparison.
Supply side:	Supply grows steadily in line with demand in coming years.

Optimistic scenario

Key assumptions

The pandemic in Iceland:	The pandemic tapers off quickly in coming quarters. Domestic public health restrictions lifted entirely by end-2021.
Border restrictions:	Current border restrictions in effect through Q3/2021. Considerable easing in Q4. Restrictions lifted for the most part by end-Q1/2022.
The pandemic worldwide:	The pandemic tapers off relatively quickly in trading partner countries and will be largely over in most of them by spring 2022.
Demand:	Basic appetite for travel unaffected, in line with recent surveys. Increases steadily as the pandemic recedes. From mid-2022 onwards, appetite for travel will be broadly similar to the pre-COVID level. Iceland's image as a travel destination is strong in international comparison.
Supply side:	Supply in winter 2021-2022 revised upwards in coming months. Supply grows steadily in line with demand in coming years.

Pessimistic scenario

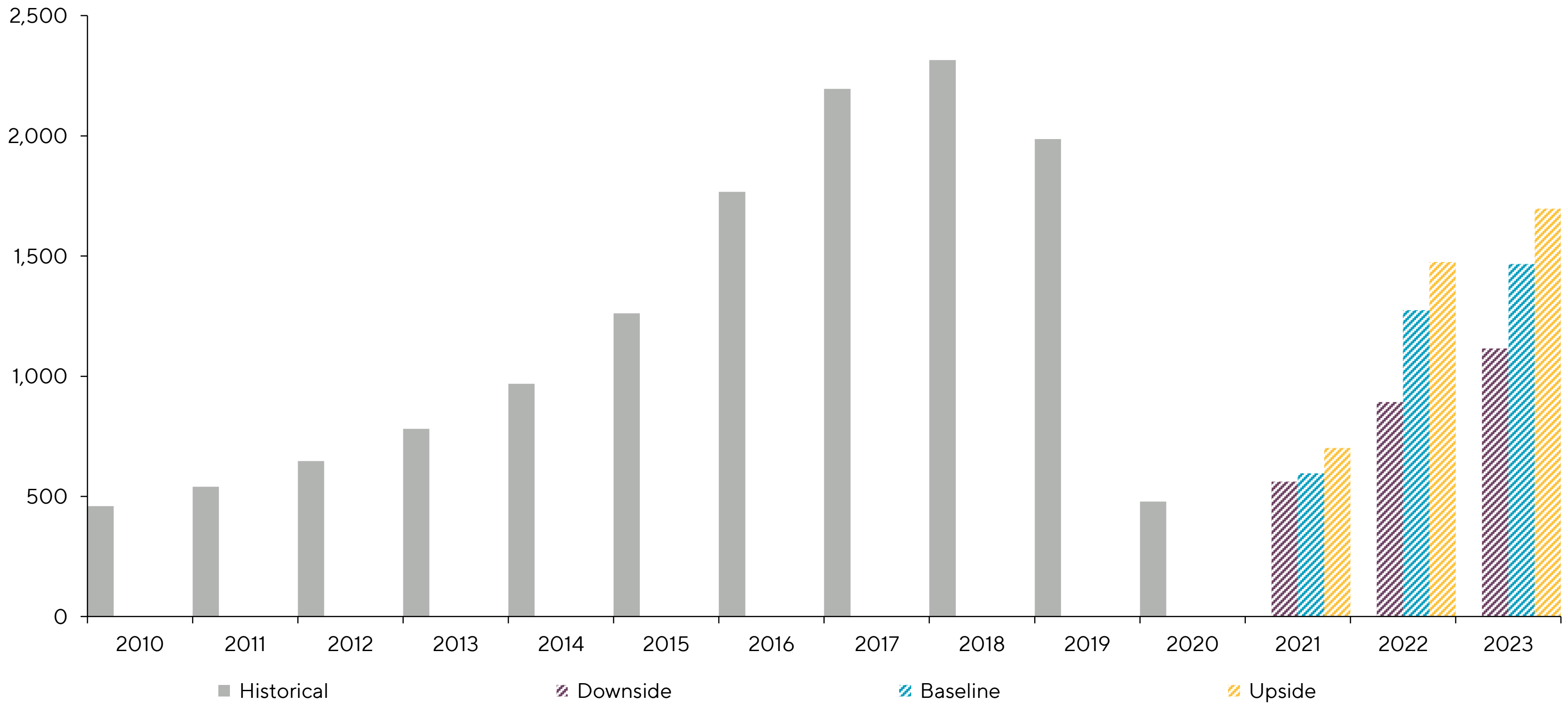
Key assumptions

The pandemic in Iceland:	New infection rate rises again and then fluctuates. Public health measures eased and tightened by turns well into 2022. Some measures remain in place into 2023.
Border restrictions:	Current border restrictions unchanged or tightened slightly until mid-2022. Restrictions eased in stages in the quarters thereafter.
The pandemic worldwide:	The pandemic rages for most of 2022 and does not subside in full until 2023.
Demand:	Basic appetite for travel suffers a long-term reduction. Moderate growth in appetite for travel from H1/2022 onwards. Iceland's image as a travel destination is relatively weak in international comparison.
Supply side:	Supply in winter 2021-2022 revised downwards in coming months. Supply grows slowly thereafter, in line with demand in coming years.

Upswing in tourist arrivals of pivotal importance

The largest single economic uncertainty centres on the COVID endgame and people's willingness to travel

Number of foreign tourists, by year
thousands

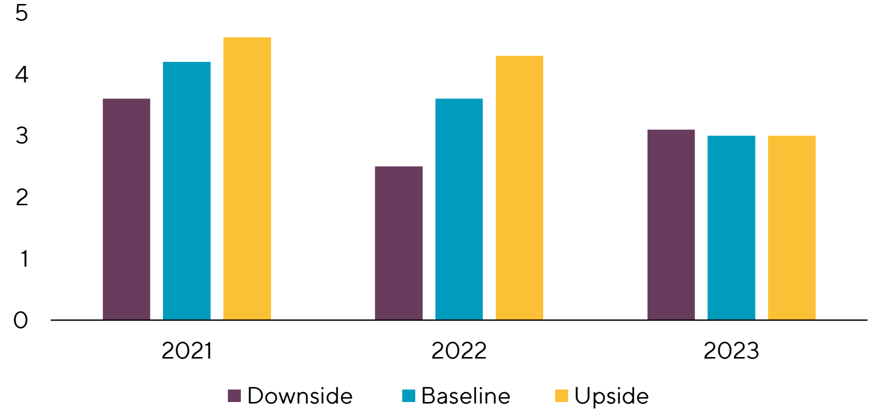


Sources: Icelandic Tourist Board, ÍSB Research

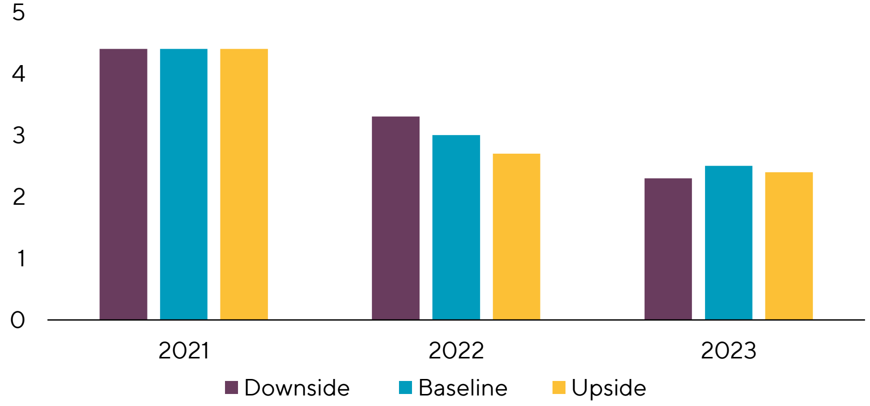
Comparison of key economic variables, baseline forecast and scenarios

The economic impact of changes in tourist assumptions will be greatest in 2022

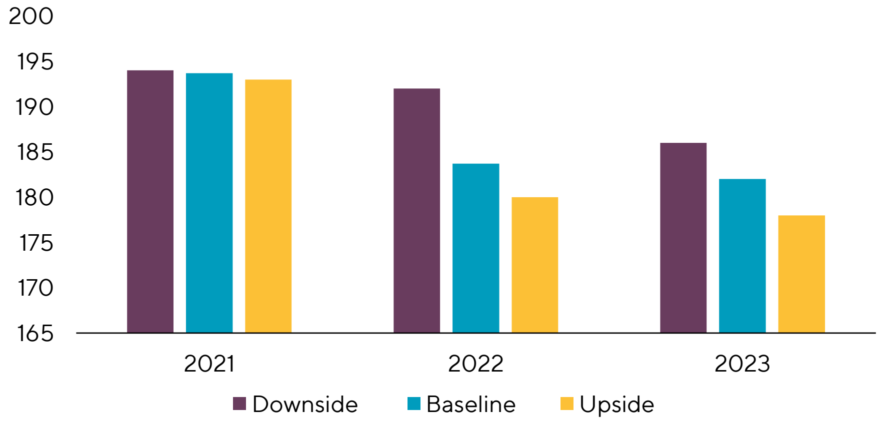
GDP growth, %



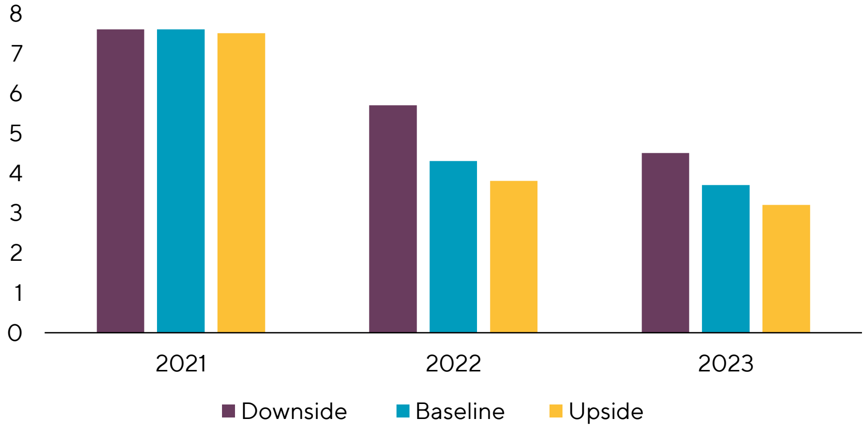
Inflation, %



Trade-weighted exchange rate index



Unemployment, %) of labour force



Sources: Íslandsbanki Research forecast.

Upside scenario

Key economic variables

Key economic variables	2020	2021	2022	2023
Number of tourists, thousands	479	700	1,500	1,700
Services exports, % change	-51	22	59	13
Trade-weighted exchange rate index	201	193	180	178
Inflation, %	2.8	4.4	2.7	2.4
Unemployment, % of labour force	8.2	7.5	3.8	3.2
% change between years				
Private consumption	-3.0	4.8	4.2	2.6
Public consumption	4.5	2.8	2.3	2.0
Gross capital formation	-8.7	7.5	3.7	1.7
Domestic demand	-2.2	4.7	3.6	2.2
Exports	-30.2	11.7	24.4	7.6
Imports	-22.5	11.8	22.0	5.9
Gross domestic product	-6.5	4.6	4.3	3.0

Downside scenario

Key economic variables

Key economic variables	2020	2021	2022	2023
Number of tourists, thousands	479	560	900	1,100
Services exports, % change	-51	13.9	31.9	18.4
Trade-weighted exchange rate index	201	194	192	186
Inflation, %	2.8	4.4	3.3	2.3
Unemployment, % of labour force	8.2	7.6	5.7	4.5
% change between years				
Private consumption	-3.0	4.3	2.8	2.7
Public consumption	4.5	2.8	2.3	2.0
Gross capital formation	-8.7	7.4	-0.8	1.5
Domestic demand	-2.2	4.4	1.9	2.3
Exports	-30.2	8.7	12.9	9.2
Imports	-22.5	10.9	10.7	6.9
Gross domestic product	-6.5	3.6	2.5	3.1

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Islandsbanki Research

greining@islandsbanki.is

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