Macroeconomic forecast 2021-2023

The worst appears to be over in the Icelandic economy

Healthy growth will begin if tourist arrivals develop as expected

Economic recovery to begin as tourist numbers rise

GDP growth

- For the most part, GDP growth for the year is thanks to growth in tourism and modest increases in consumption and investment
- 3.2% growth in 2021
- 5.0% growth in 2022
- 3.6% growth in 2023

Strong export growth after a historically deep contraction

External trade

- If forecasts of 700,000 tourist arrivals materialise, this will equal a 40% year-on-year increase
- Exports to rise by 11.7% in 2021 and imports by 9.3%
- Current account balance to be positive by 1.3% of GDP
- Current account surplus to grow even more in 2022 and 2023

Inflation to start falling later this year

Inflation

- Inflation set to be high early this year but then start to taper quickly
- ISK appreciation keeps inflation in check
- Inflation to average 3% in 2021
- Inflation 2.2% in 2022 and 2.3% 2023

Unemployment to remain high for a while

Labour market

- The recovery of tourism will determine how fast unemployment declines
- Unemployment to average 9.1% in 2021
- 4.6% in 2022
- 3.3% in 2023

Low interest rates in the coming term

Interest rates

- Policy rate likely to remain unchanged until next year
- Interest rates to rise gradually, averaging 1.5% in 2022 and 2.6% in 2023
- Setbacks and a weaker-than-expected economic recovery would push rate hikes further into the future

ISK likely to strengthen with rising tourist numbers

The ISK

- To a large extent, the ISK exchange rate goes hand-in-hand with tourist numbers
- 1.6% appreciation in 2021, 3.3% in 2022, and 3.2% in 2023
- Central Bank (CBI) continues to support the ISK and still has hefty FX reserves

Economy likely to gain a foothold this year after COVID

GDP growth to gain pace in H2/2021; robust growth expected in 2022

Many have hoped 2021 would be "the year after COVID," with case numbers falling sooner because of widespread inoculation in Iceland and abroad. With this, the economy would rally quickly and solidly.

Recently, though, there have been concerns that the pandemic will be more persistent and the economic recovery weaker than previously hoped. Even so, we expect the pandemic to run its course this year, with tourism recovering (at least in part) and the economy rebounding in H2.

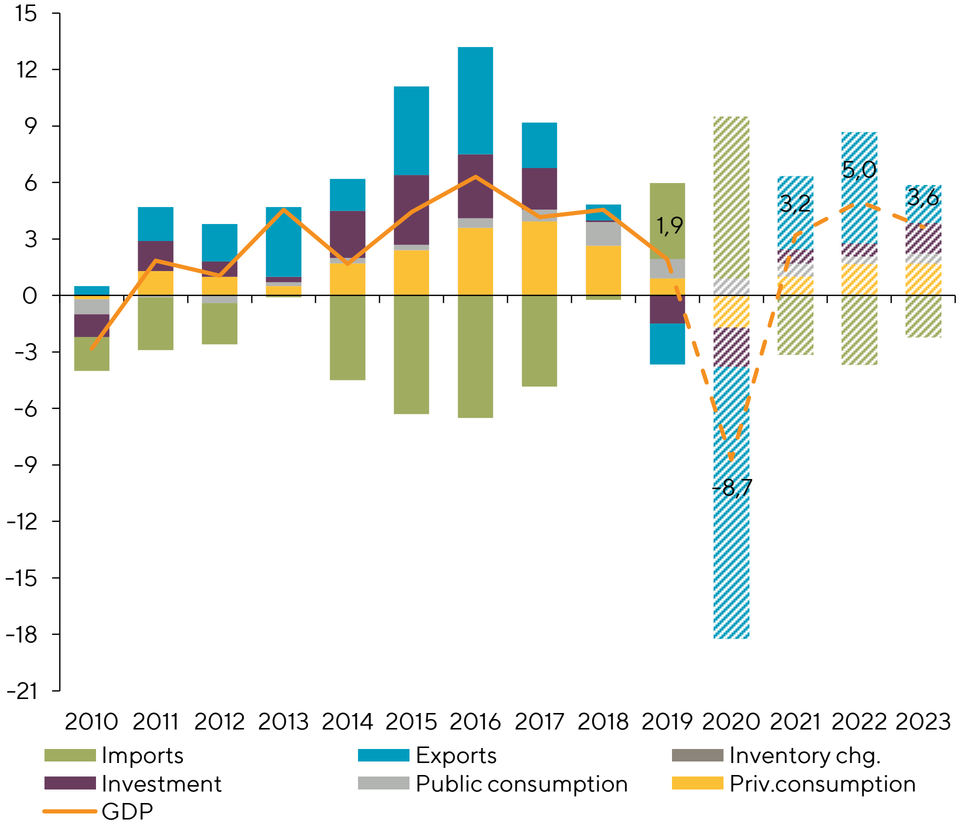
We forecast GDP growth at 3.2% in 2021, driven mainly by the recovery of exports and moderate growth in consumption and investment.

In 2022, however, the outlook is for 5% growth, with exports and domestic demand set to regain an even more secure footing during the year.

In 2023, the final year of the forecast horizon, we project growth at just under 3.6%, driven by exports, investment, and consumption in roughly equal measure. If the forecast materialises, real GDP will finally rise above the pre-pandemic level in the last year of the horizon.

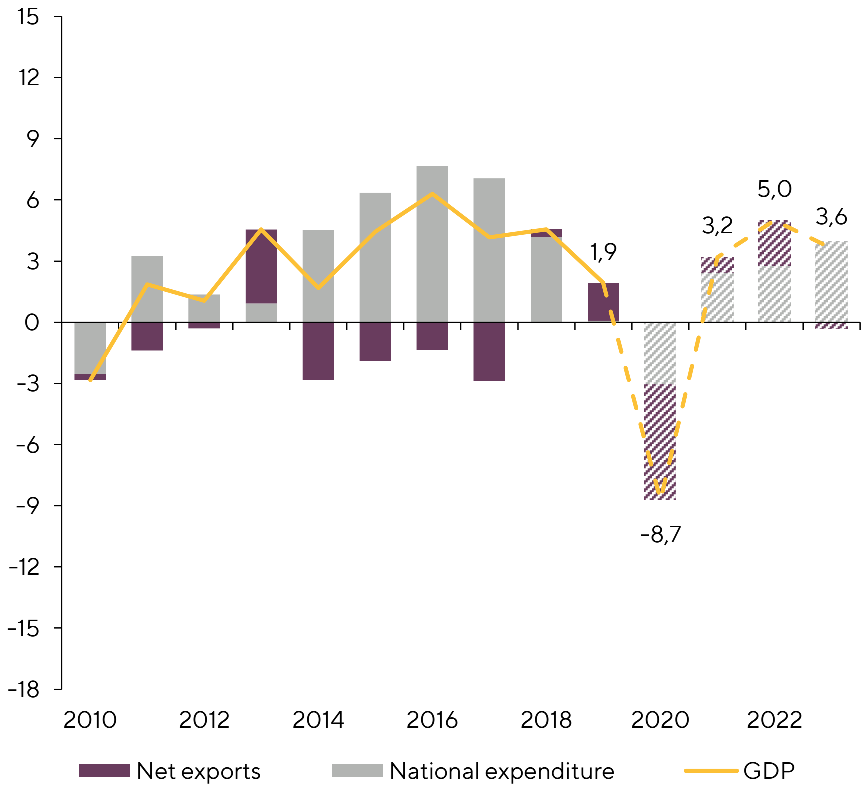
GDP and contribution of its subcomponents

Volume change from prior year (%)



GDP, domestic demand, and external trade

Volume change from prior year (%)



Sources: Statistics Iceland, ÍSB Research.

Upswing in tourist arrivals of pivotal importance

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

In our view, there is no doubt that an upswing in tourist arrivals in the coming term will be the main determinant of how quickly the economy recovers. How this plays out is highly uncertain, and the outlook has changed rapidly in recent weeks. As a result, we have prepared three scenarios for tourist arrival numbers.

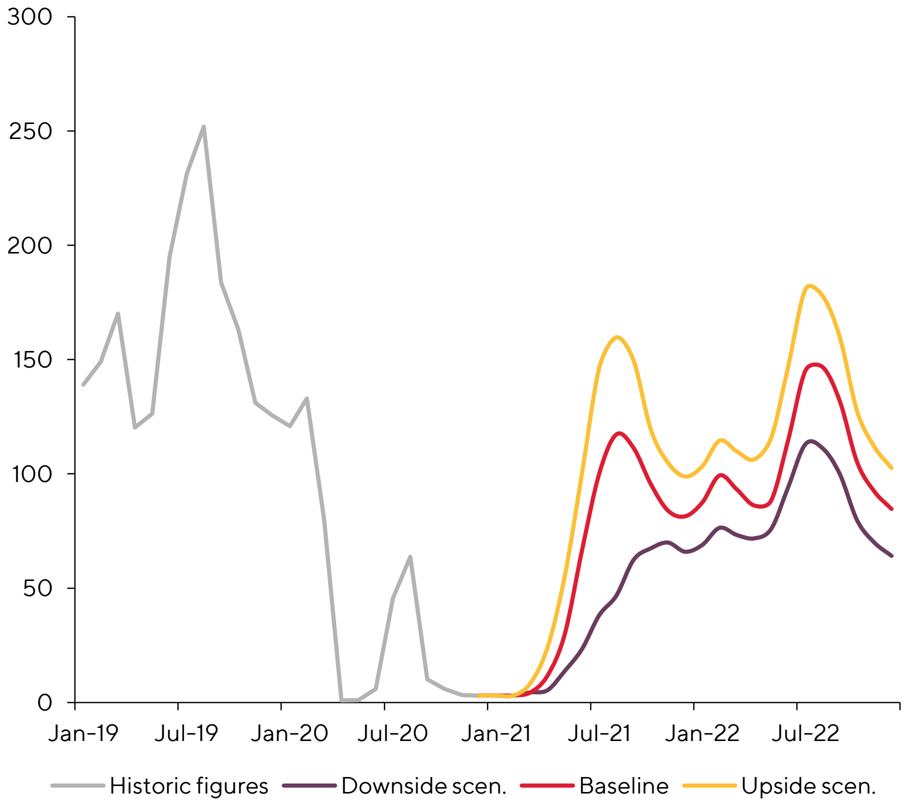
The scenario used as a baseline for the macroeconomic forecast assumes that 700,000 tourists will visit Iceland, the vast majority of them in H2. We assume 1.3 million arrivals in 2022 and 1.5 million in 2023.

In addition to this baseline forecast, we prepared an upside scenario, which we think has a roughly 10% probability of materialising or being exceeded, and a downside scenario, which also has a 10% probability of materialising or being exceeded.

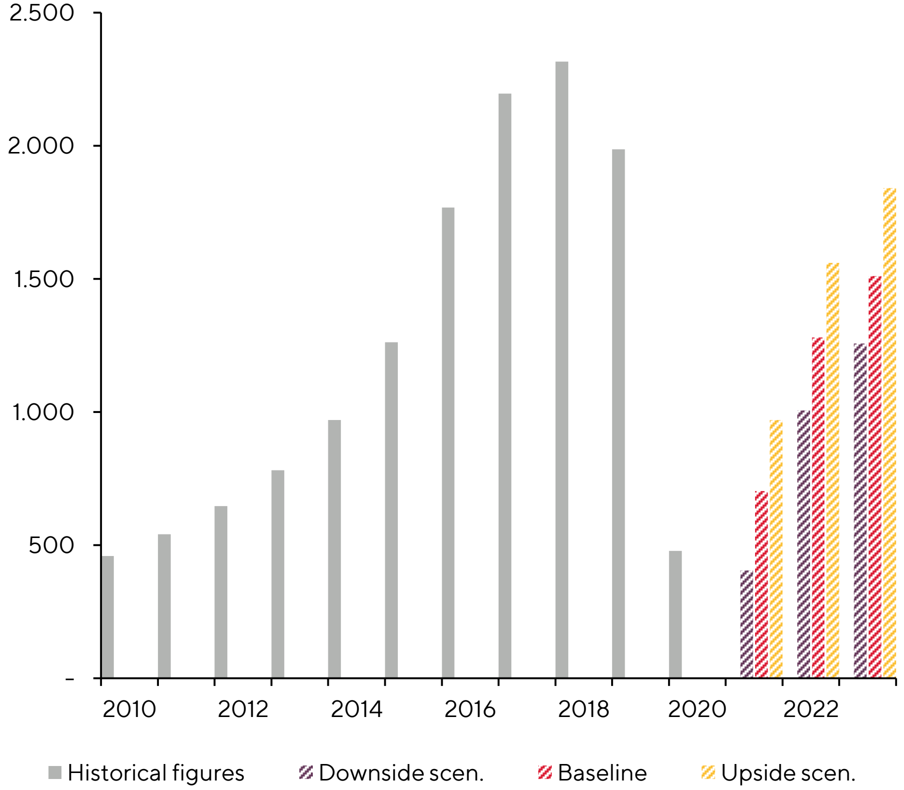
If the optimistic scenario materialises, nearly 1.0 million tourists will visit in 2021, followed by 1.5 million in 2022 and 1.8 million in 2023.

If developments are in line with the pessimistic scenario, however, tourist arrivals will total only 400,000 this year, followed by 1.0 million in 2022 and 1.3 million in 2023.

Number of foreign tourists, by month
Thousands



Number of foreign tourists, by year
Thousands



Sources: Icelandic Tourist Board, ÍSB Research

Upswing in tourist arrivals of pivotal importance

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

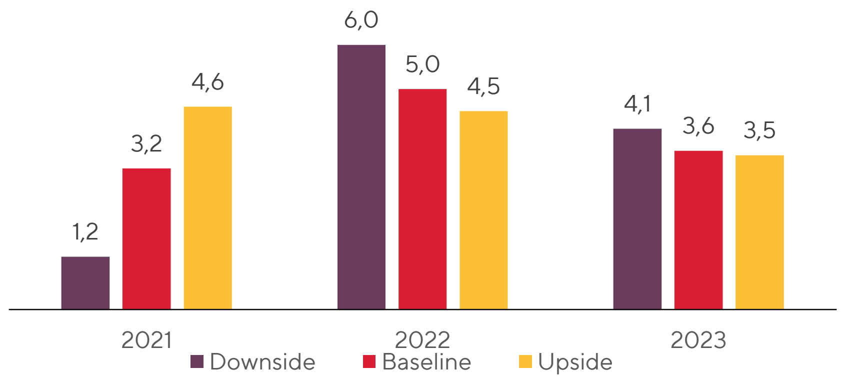
The above-described tourist arrival scenarios strongly affect the short- and medium-term economic outlook, in our opinion. If the upbeat scenario is borne out, GDP growth could approach 5% this year. Unemployment would fall quite quickly, the ISK would appreciate faster than it would otherwise, inflation would subside rapidly, and domestic demand would gain significant traction after mid-year.

If developments in tourism follow the more pessimistic path, however, GDP growth is not likely to rise much above 1%. In this case, unemployment will exceed 10% for most of the year, the ISK will be under pressure, inflation will be more persistent, and domestic demand will suffer. To a much greater extent, growth would shift to the following year.

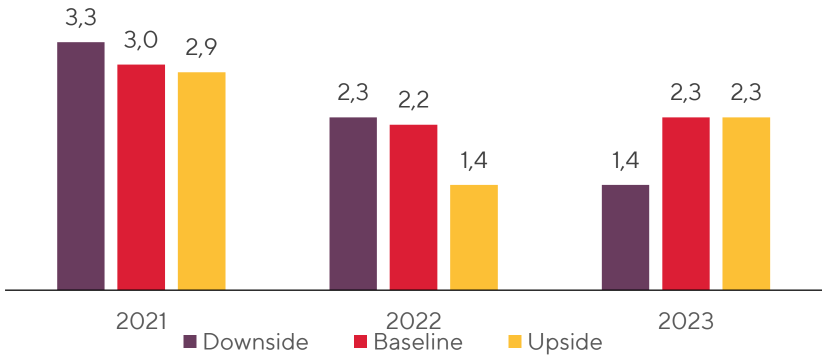
But this would mean vastly increased numbers of business failures and financially distressed households, a protracted fiscal deficit, and the risk that a variety of social problems would become entrenched and prove difficult to uproot. It is therefore vital that the tourism sector regain its strength sooner rather than later.

A detailed scenario analysis can be found in the appendix at the end of this report.

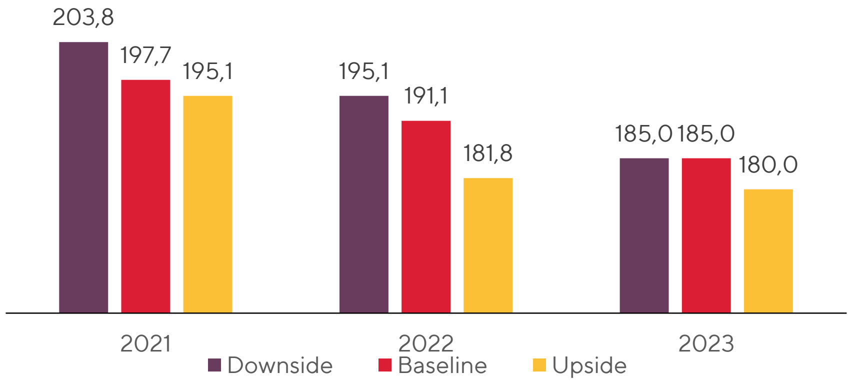
GDP growth, %



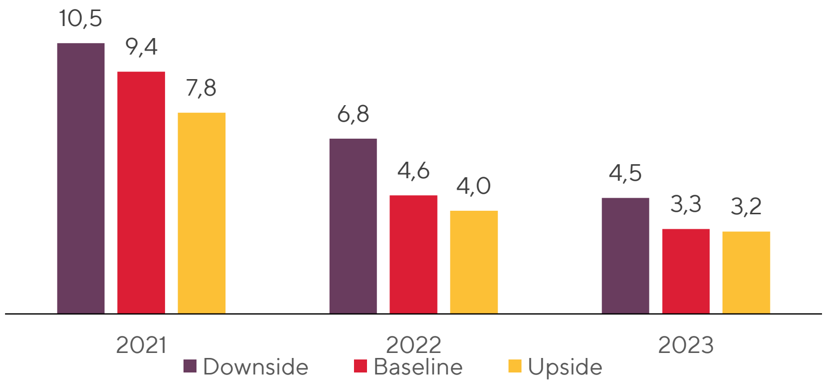
Inflation, %



Trade-weighted exchange rate index



Unemployment, % of labour force



Sources: Íslandsbanki Research

External trade remarkably robust despite shocks

Outlook for strong export growth further ahead

If our forecast of 700,000 tourist arrivals materialises, this year's total would be about one-third of the 2019 figure. Revenue growth in the tourism sector would nevertheless be over 40% YoY, which is well worth achieving.

This is supplemented by growth in goods exports, chief among them farmed fish, aluminium, and other industrial goods. On the whole, the outlook is for nearly 12% export growth in 2021.

For 2022, tourism will deliver the lion's share of the year's 16% export growth. In 2023, we expect moderate export growth of 5%.

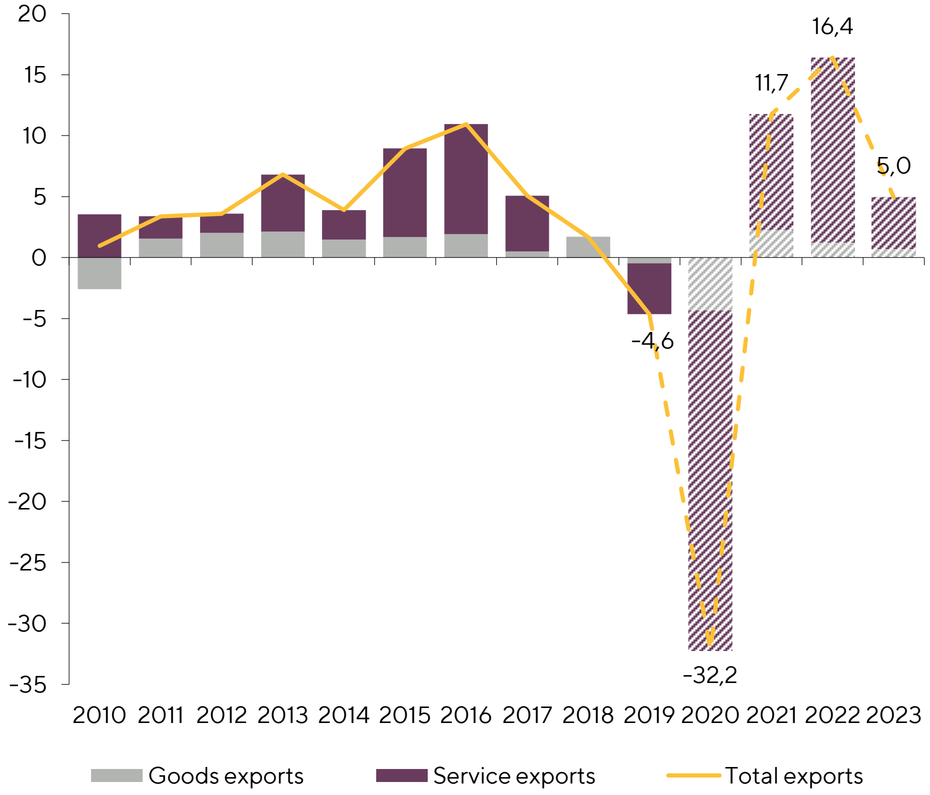
Imports have developed broadly in line with exports in the recent term, and the contraction in imports greatly mitigated the tourism-generated blow to the current account balance.

As is the case for exports, the outlook is for imports to rebound strongly in 2021 and 2022, growing by nearly 10% each year. The drivers of growth are the recovery of exports and, no less important, increased domestic consumption and investment.

Exports will grow more rapidly than imports, however, in 2021 and 2022, and the contribution of net trade to growth will therefore be positive. The situation will reverse in the final year of the forecast horizon, however.

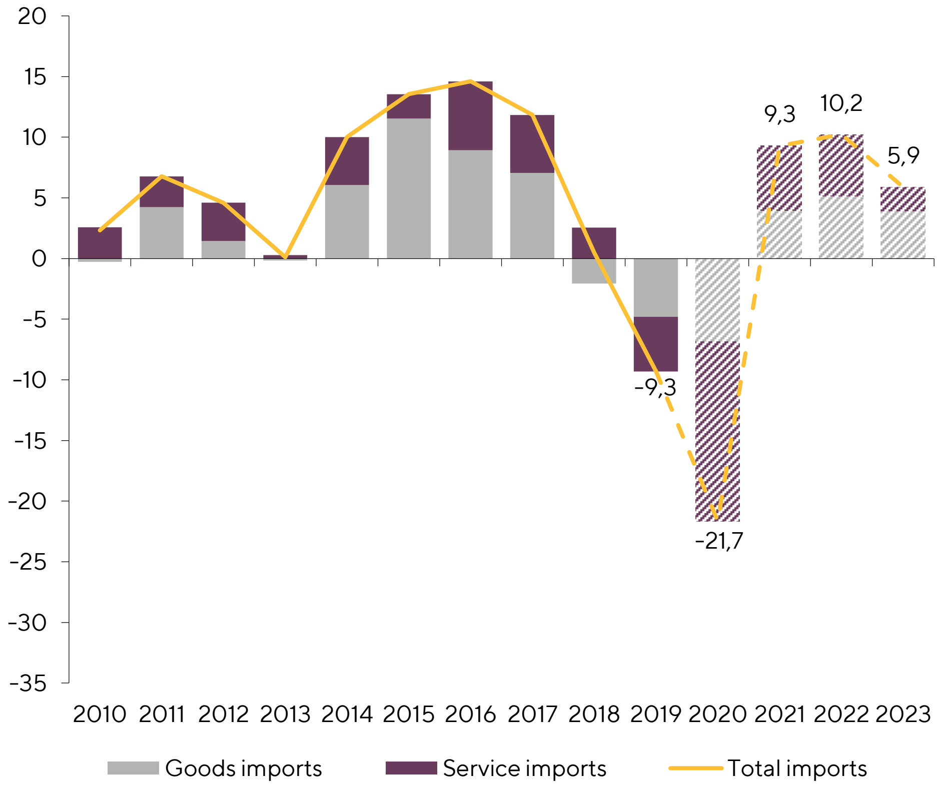
Exports and contributions from subcomponents

%



Imports and contributions from subcomponents

%



Sources: Statistics Iceland, ÍSB Research.

Downturn without current account deficit shows economy's strength

The recovery of tourism will support both the current account surplus and GDP growth in coming years

Even though exports contracted by nearly a third in 2020, the current account surplus did not flip to a deficit. The CA balance was probably close to zero last year, with the contraction in imports and a handsome income account surplus compensating for the plunge in exports.

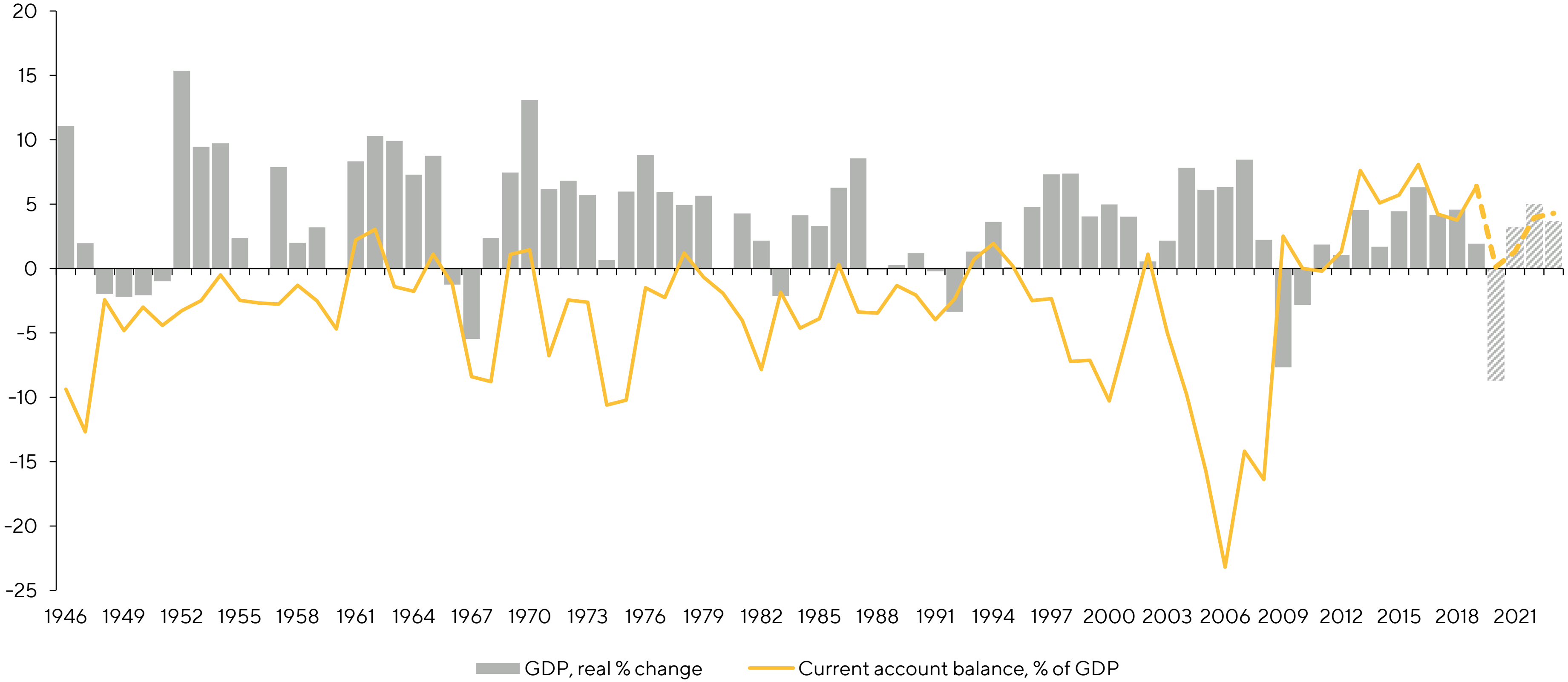
Once export sectors regain their momentum, the CA will probably return quickly to positive territory.

We forecast that the CA surplus will measure 1.3% of GDP, or ISK 40bn, this year. In 2022 and 2023, it will measure 4% or more of GDP, according to our forecast.

This is a radical departure from the persistent CA deficit Iceland ran from the time the Republic was established, and it further strengthens our view that the external balance of the economy has changed permanently for the better.

Current account balance and GDP growth

% of GDP and %



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

Investment gradually rights itself

Public sector to sustain investment in 2021, private sector to take over thereafter

Gross capital formation sagged in 2019 despite robust residential investment. Total investment declined by 6.9% YoY in 2019.

In 2020, the contraction was steeper, as all main components of investment turned downwards. We estimate the contraction in 2020 at 10.5%.

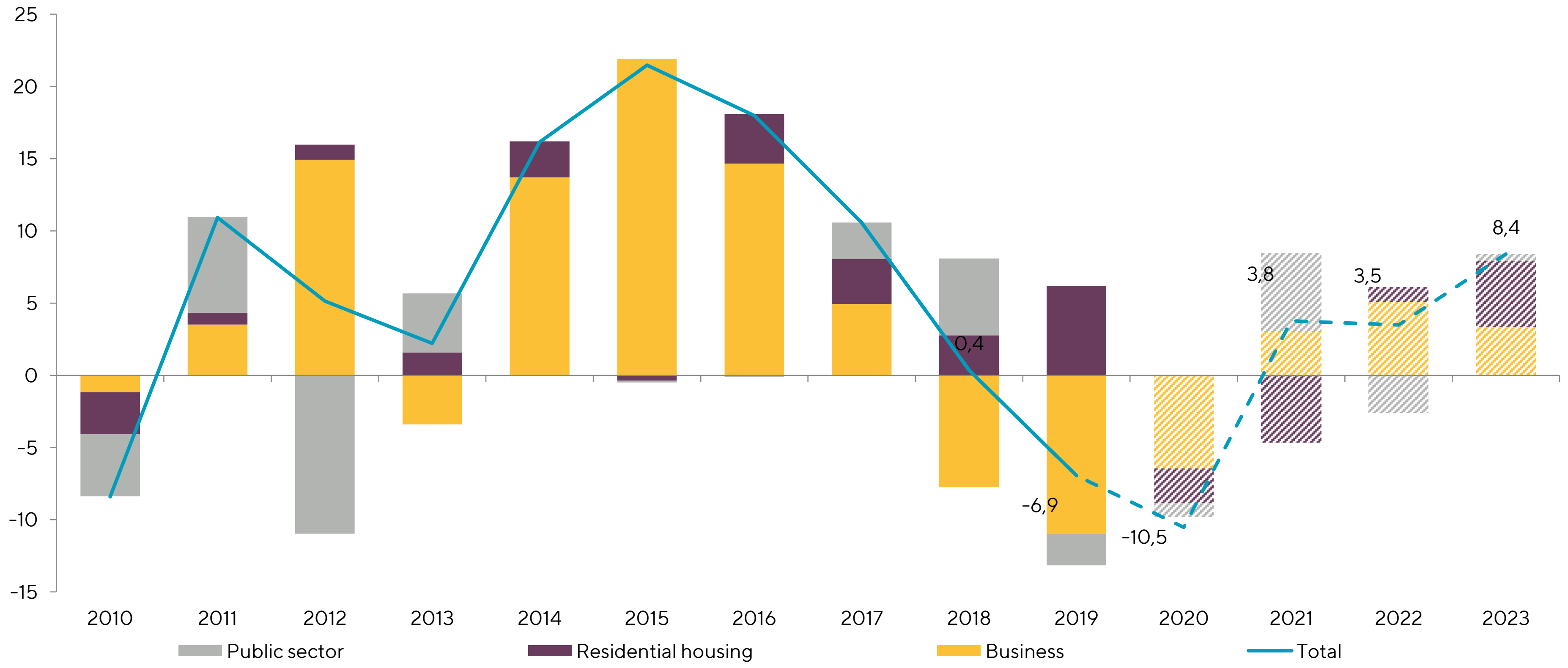
The investment-to-GDP ratio has not suffered much, however, unlike the post-financial crisis situation. The outlook is for investment to gather pace gradually, but without sudden surges, in the next few years.

In 2021, the Government's mitigating investment initiative will peak, and these investments will account for most of this year's 3.8% growth in gross capital formation. Business investment will also grow somewhat, but residential investment looks set to shrink considerably, as indicators imply that there have been relatively few housing starts in recent quarters.

Business investment will account for nearly all of next year's 3.5% growth, while in 2023 we expect another surge in residential investment, bringing total investment growth for the year to 8.4%, the strongest since 2017.

Investment, real change, and contribution of subcomponents

%



Sources: Statistics Iceland, ÍSB Research.

Residential property market still relatively strong

Affordable financing, a temporary dip in supply, and the strong financial position of most households support the market

The housing market has been full of surprises since the Corona Crisis hit. Prices have generally continued to rise, and turnover has been brisk for most of the period.

We consider it clear that the transmission mechanism of monetary policy is much more effective than before, lowering household debt service and boosting purchasing power and disposable income.

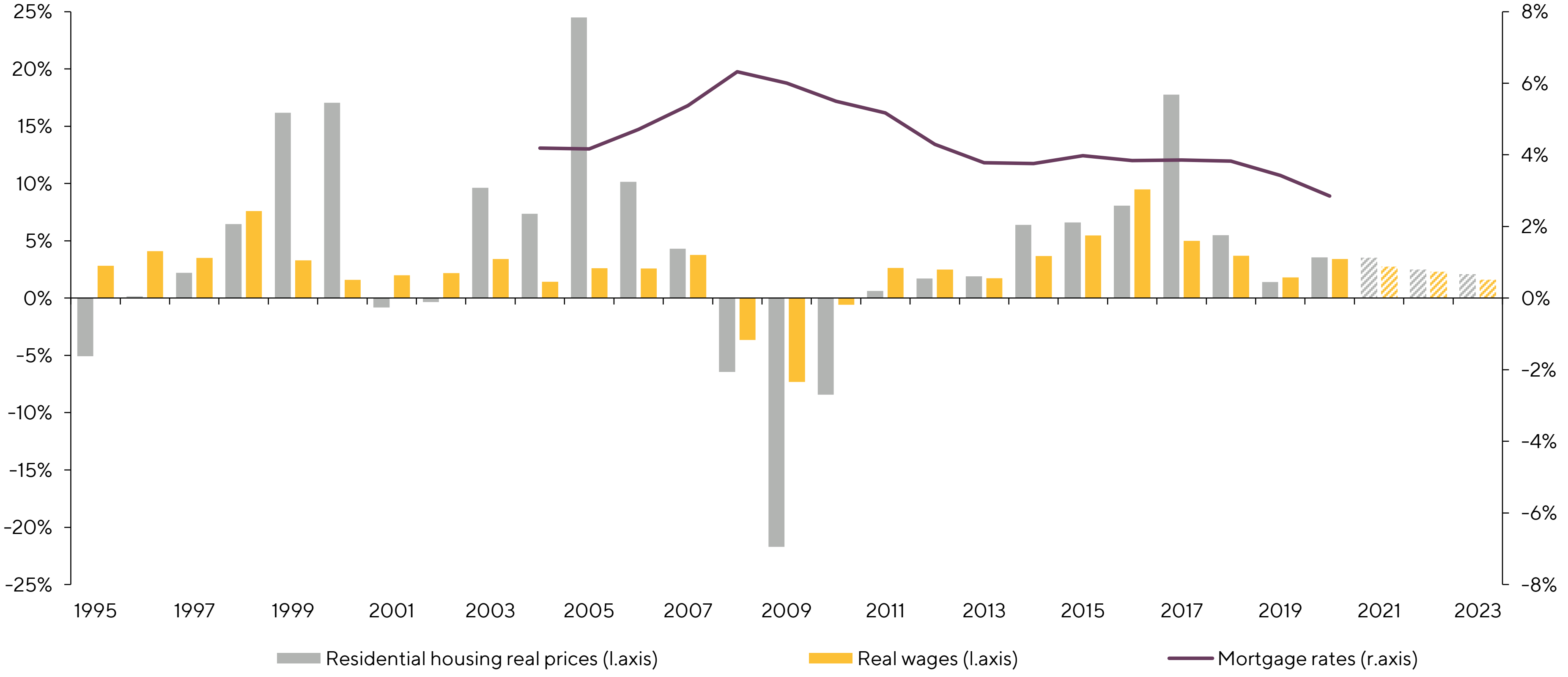
This is compounded by the supply of new homes, which has been limited in some areas, and households' financial position, which in many cases was strong when the Corona Crisis struck.

The outlook is for a continued limited supply of new flats in the coming term. Furthermore, a large share of households are well prepared financially to buy property when the need arises or their interest is piqued. The outlook is also for mortgage lending rates to remain very favourable.

We therefore consider it likely that house prices will continue rising – in line with the general price level, or even faster. On the whole, we expect real house prices to rise by a full 8% by the end of the forecast horizon.

Real house prices, real wages, and indexed mortgage rates

% change year-on-year (left), average (right)



Sources: Registers Iceland, Statistics Iceland, ÍSB Research.

Protracted unemployment wave in the offing?

The recovery of tourism plays a key role in determining how fast unemployment subsides

Although the Corona Crisis has in many ways demonstrated the benefits of the marked changes in Iceland's economy over the past decade, it has also reminded us how vulnerable our small economy is to shocks in labour-intensive industries such as tourism, other services sectors, and construction.

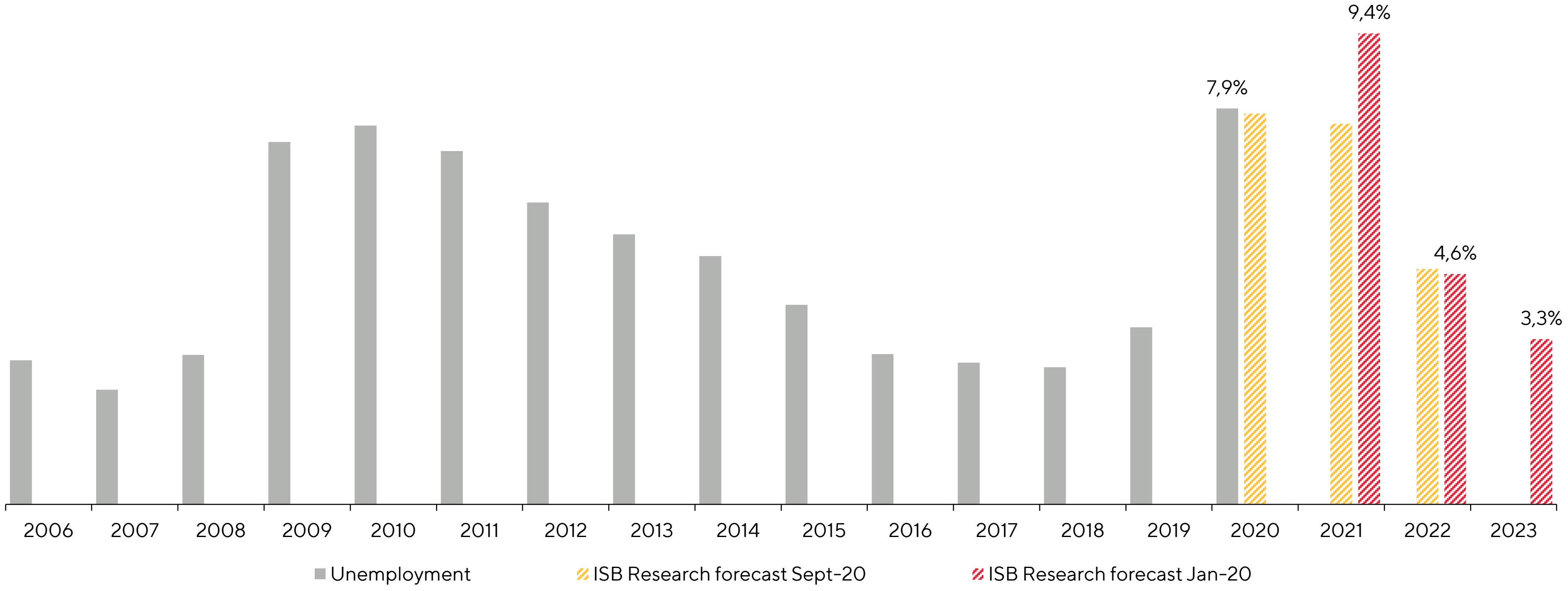
Unemployment has skyrocketed in the recent past, and one out of every ten members of the labour force is now without work. Without mitigating measures taken by the Government, this figure would probably be considerably higher.

Because it now appears that tourism will take somewhat longer to recover than was previously hoped, unemployment also looks set to be more persistent than we had projected. The labour market situation will probably not start to improve to any marked degree until mid-year, and we think it will take most of the forecast horizon to bring unemployment down to the level Icelanders are accustomed to.

We expect unemployment to average 9.4% in 2021, 4.7% in 2022, and 3.3% in 2023. If economic developments follow the path set out in the downside scenario, unemployment will be even more persistent, remaining above 10% for most of this year and above 5% until 2023.

Unemployment as a share of the labour force

%



Sources: Statistics Iceland, ÍSB Research.

Private consumption a countercyclical force

High unemployment will make its mark on private consumption, but the financial strength of most households will help

Developments in private consumption have been interesting in the past year. Consumption abroad shrank dramatically, while consumption within Iceland more or less held its own. On the whole, we estimate that the contraction in private consumption measured 3.4% in 2020.

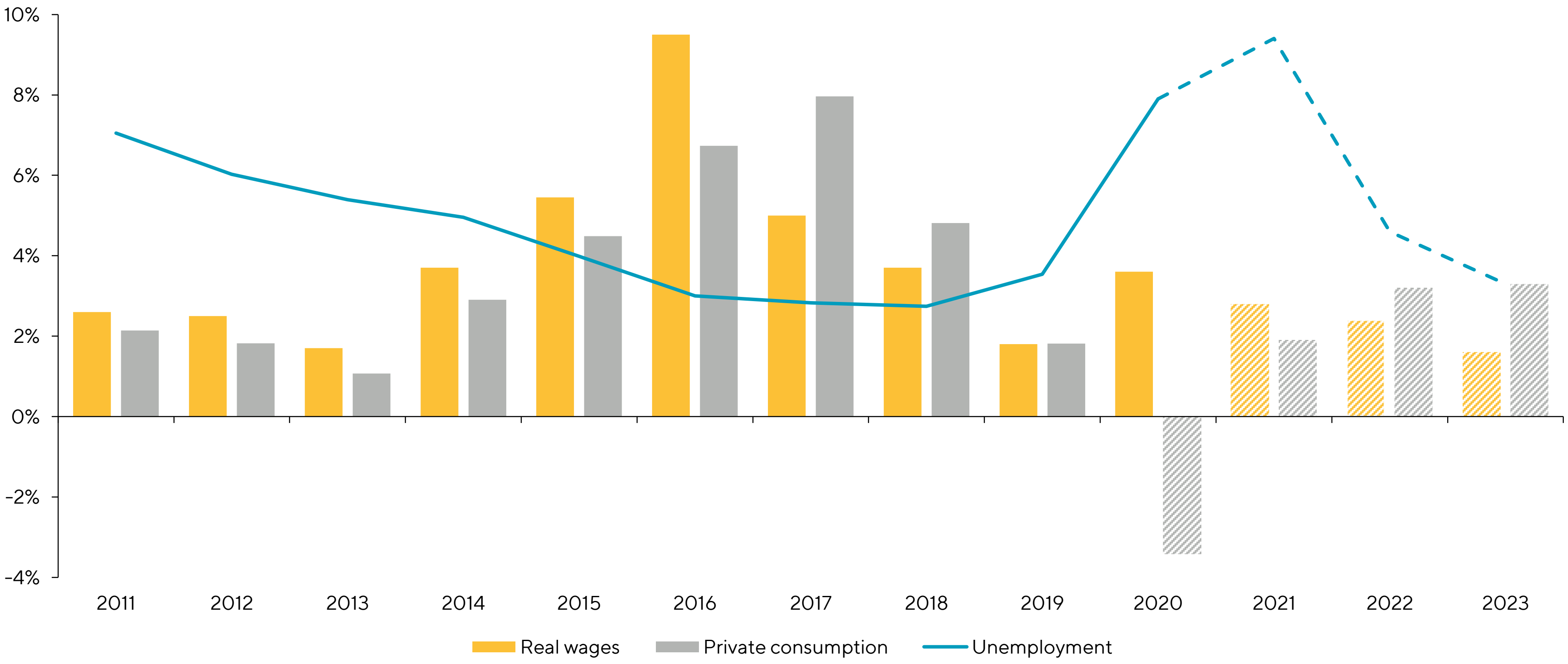
Households' strong asset position, higher real wages among those still employed, and the effects of interest rate cuts have boosted consumers' appetite for spending and will continue to do so. On the other hand, high unemployment has a strongly negative impact, as those who must depend on benefits instead of wage income will find their financial situation much tighter for a shorter or longer period of time. Furthermore, the effects of public health measures and uncertainty about consumers' spending appetite and capacity will persist in coming months, albeit to a diminishing degree over the course of the year.

In general, the outlook is for wages to continue rising in excess of inflation and for purchasing power to grow steadily. We expect real wages to rise by an average of just over 2 percentage points per year over the forecast horizon.

We forecast that private consumption will grow by nearly 2% in 2021 and just over 3% per year in 2022 and 2023. Households' consumption will therefore act as a countercyclical force throughout the business cycle this time, in a departure from the pattern seen in recent decades in Iceland.

Private consumption, purchasing power, and unemployment

%



Sources: Statistics Iceland, ÍSB Research.

ISK likely to strengthen with rising tourist numbers

The CBI has significantly mitigated exchange rate volatility but could pull back this year

The ISK depreciated by nearly 10% against major currencies over the course of 2020.

The depreciation came mainly in two waves: In March and April, after the pandemic first started raging worldwide, and again in the autumn, when border restrictions were tightened and a large foreign investor exported a substantial amount of capital from Iceland in a short period of time.

The latter depreciation episode would have been much deeper if the CBI had not responded by selling large amounts of EUR from its international reserves. The CBI sold a total of EUR 820m from the reserves in 2020.

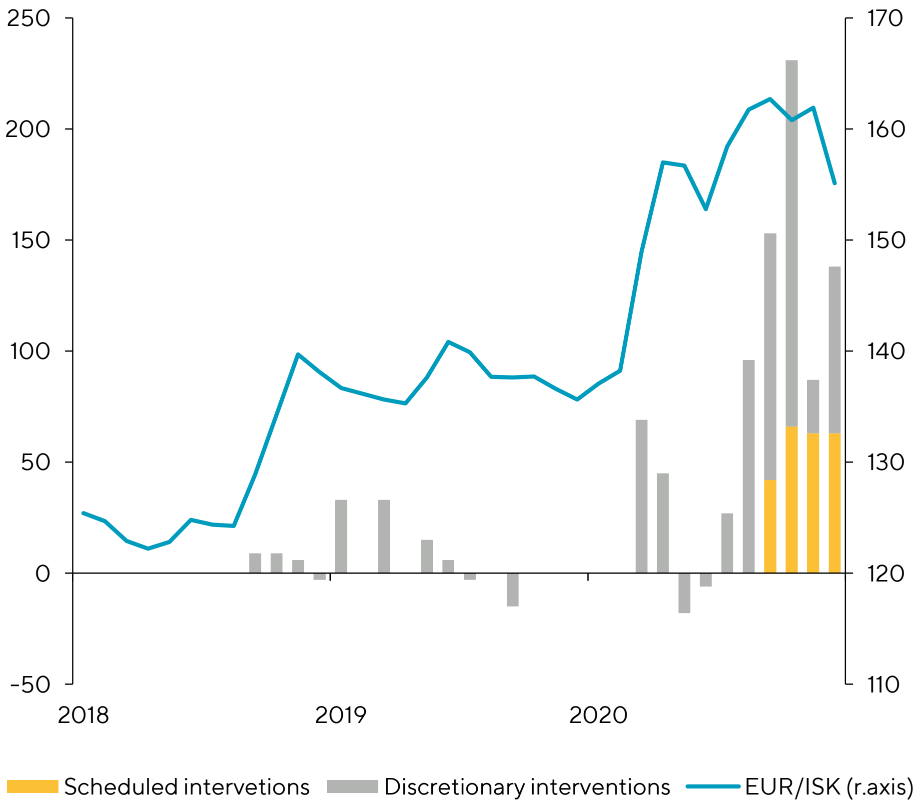
Presumably, the ISK will be under pressure until the tourism industry bounces back, but by the same token, we expect the CBI to continue mitigating excess volatility.

When tourist numbers start to recover and the trade balance shows a surplus, we expect the ISK to appreciate once again. Iceland's interest rates are higher than those in most neighbouring countries, its international investment position is strong and its growth potential solid, and foreign investors' securities holdings are at a minimum.

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 8-9% above its 2020 average by the end of the forecast horizon.

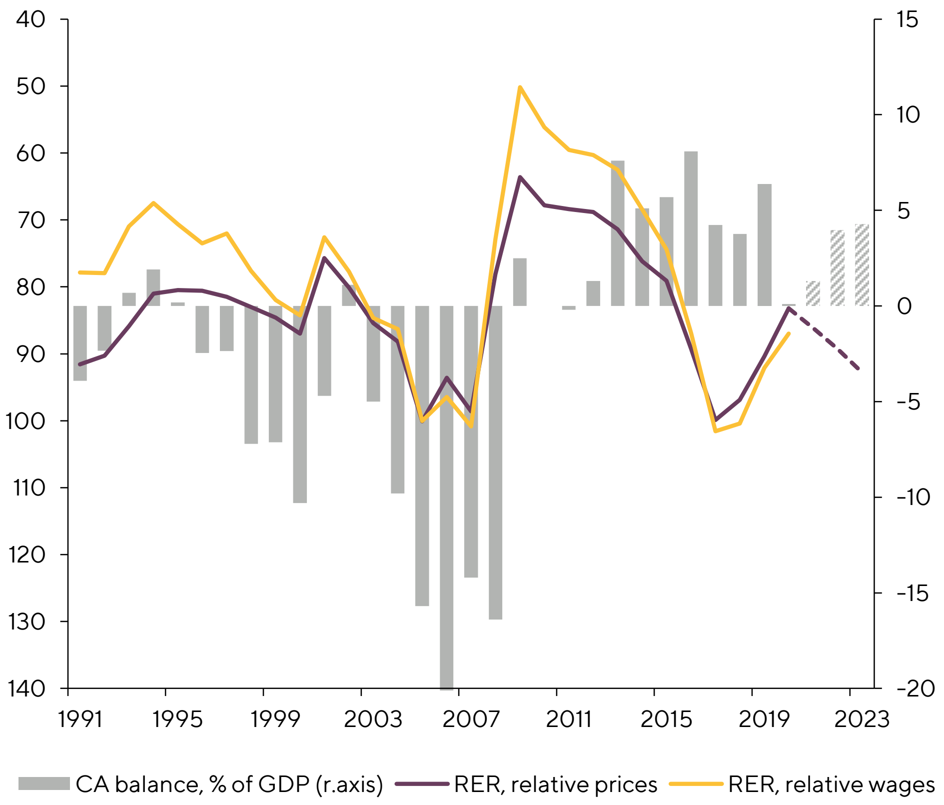
ISK exchange rate and CBI FX market intervention

EUR m (left) and EURISK (right)



Real exchange rate and current account balance

Index and share of GDP (%)



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

Inflation spike to retreat quickly in coming quarters

Inflation looks set to remain just below the CBI's inflation target in 2022 and 2023

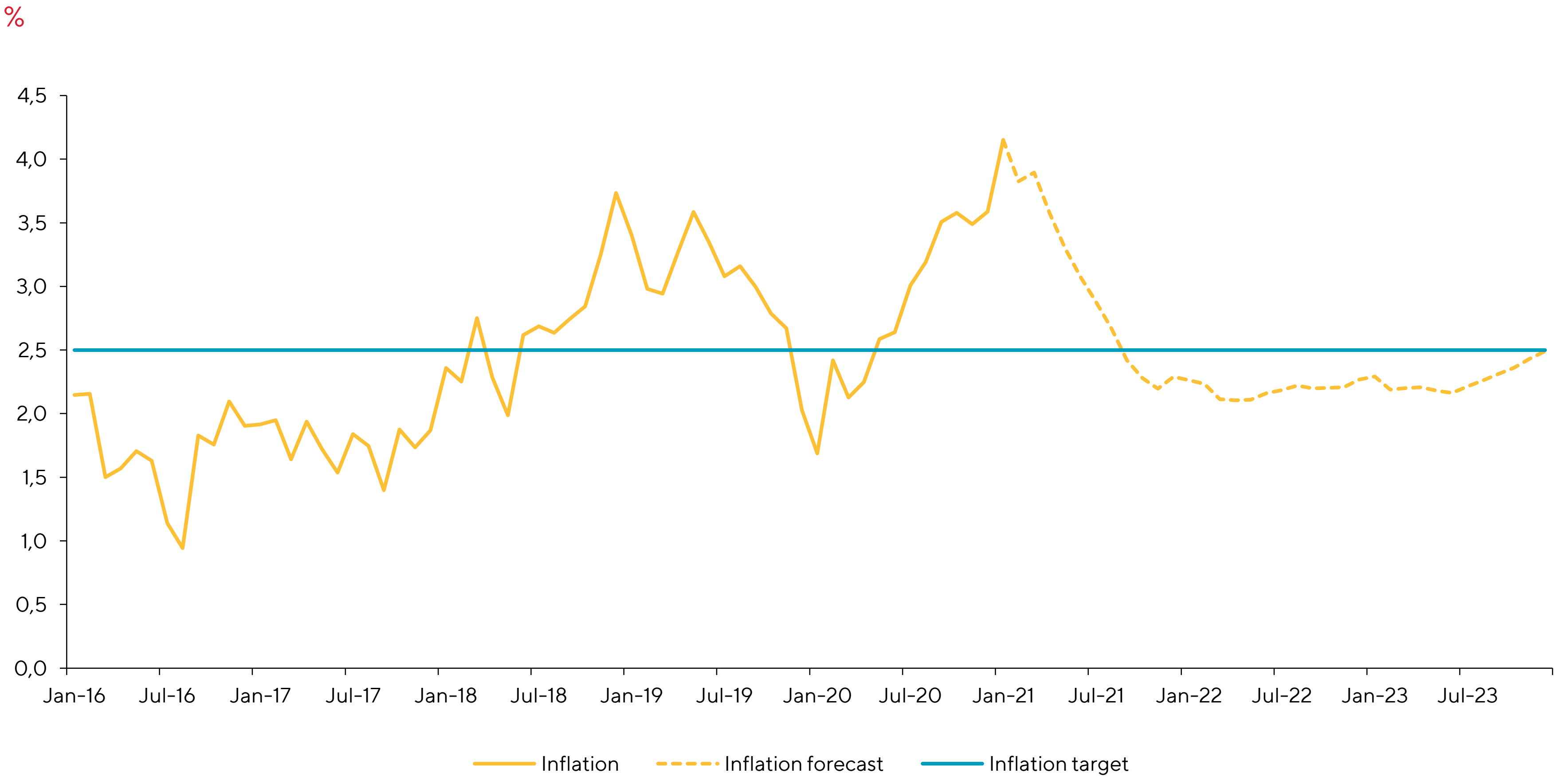
The depreciation of the ISK has affected inflation ever since the Corona Crisis struck.

Inflation rose steadily in 2020, from 2.0% at the beginning of the year to 3.6% by December. Higher import prices are the main drivers of the inflation spike, although there have been domestic inflationary pressures as well and house prices, which have a direct impact on the CPI in Iceland, have risen more during the pandemic than we had anticipated.

The outlook is for inflation to be high in coming months, and in Q1/2021 we expect it to average 4%, the upper deviation threshold of the inflation target. After that, the outlook is for a relatively swift disinflation episode as the slack in the economy takes hold, the exchange rate pass-through from the depreciation tapers off, and the ISK starts to strengthen again later in the year.

Inflation could therefore fall below the CBI's 2.5% target before the year-end. In the latter two years of the forecast horizon, the outlook is for an average inflation rate just below the target. We forecast average inflation at 2.2% in 2022 and 2.3% in 2023.

Inflation and the CBI inflation target



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

Policy rate to remain low into 2022

Long-term interest rates rise moderately over time

The CBI lowered the policy interest rate by a total of 2.25 percentage points in 2020, in response to the Corona Crisis. The transmission of the policy rate to private sector borrowing terms has proven much more effective than often before in Iceland, and we expect the CBI to keep the policy rate unchanged at 0.75% until clear signs of an economic revovery have emerged. That will hardly occur before early 2022, and if there are setbacks this year, any policy rate hikes will doubtless come even later.

We expect a gradual increase thereafter, to 3% by the end of the forecast horizon. Therefore, according to our forecast, the policy rate will not overtake inflation until 2023.

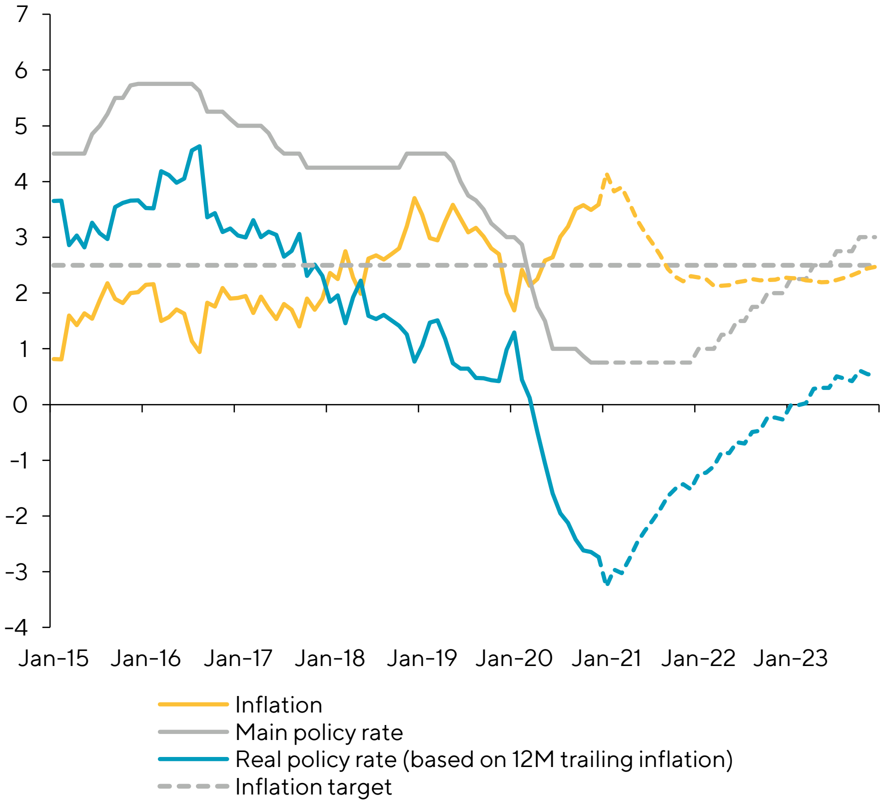
Long-term base rates are currently around 3.3%, while real rates are roughly half a percentage point.

In the short run, we expect long-term rates to fall marginally once again. The Governor of the CBI has dubbed 2021 the "year of money printing." It is likely that the CBI will cover a considerable share of the Treasury's financial need this year. The Government also has a number of options apart from the domestic bond market for financing the upcoming fiscal deficit.

Over time, interest rates will rise again, but we expect nominal rates to remain below 4% and real rates below 1% for the entire forecast horizon.

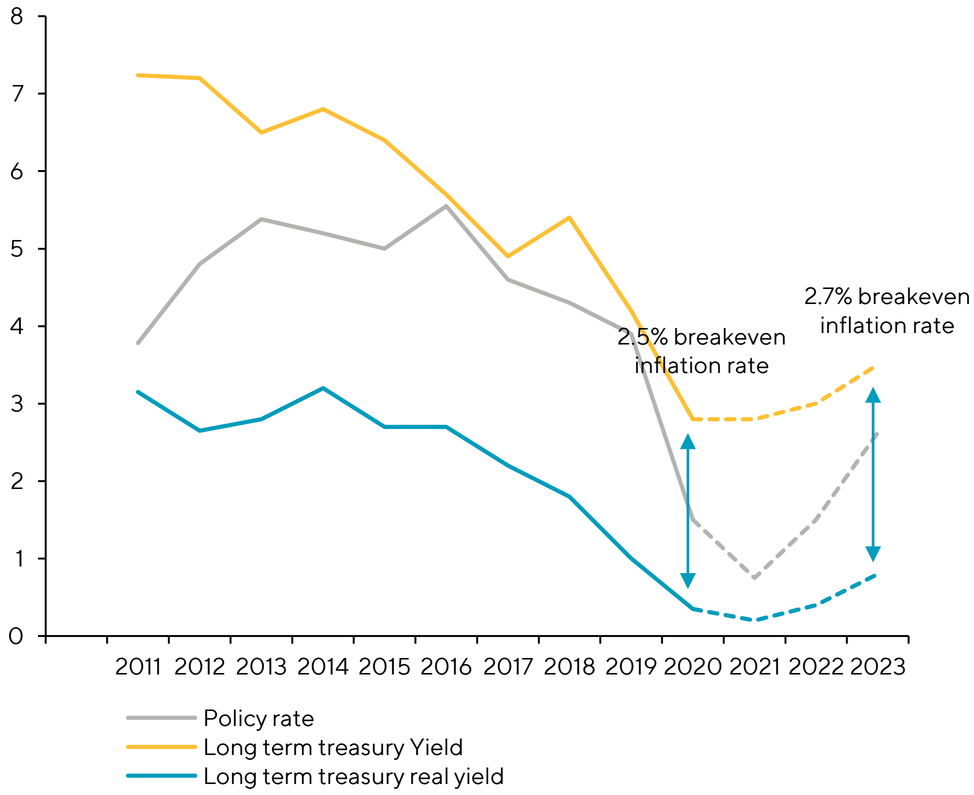
Inflation and policy rate

%



Interest rates

%



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

Asset position remains sound and creates resilience

Households, businesses, and public sector modestly leveraged; net external assets at record high

A generally sound pre-pandemic equity position in key sectors of the economy will prove an important source of support as Iceland weathers the current crisis and gains a foothold afterwards.

Substantial deleveraging by households, firms, and the public sector in the past decade has shored up financial resilience.

Most households' debt levels are modest, enabling them to face temporary income losses, and low interest rates lighten their debt service burden and give them additional financial flexibility.

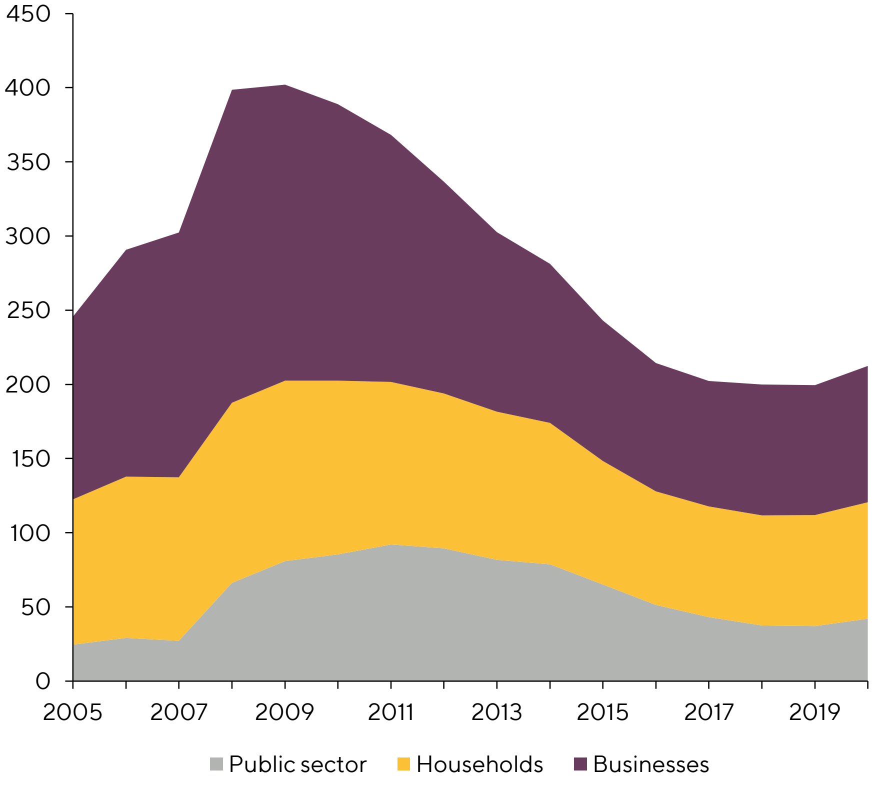
Corporate deleveraging early in the decade and debt accumulation in line with GDP growth thereafter reduce the risk that headwinds in individual sectors and regions will cause spillovers ending with severe default and a system-wide wave of insolvencies.

By the same token, the reduction in public debt over the past decade provides the Government with the scope to undertake aggressive countercyclical measures in the form of public investment and other mitigating actions, as well as allowing automatic stabilisers to work without an undue increase in indebtedness. In this context, Iceland is much more favourably positioned than many other advanced economies.

Iceland's vastly improved international investment position and its hefty direct and indirect international reserves, plus more sound economic management than in the past, are vital factors if our tiny currency is to enjoy credibility and not exacerbate cyclicality, as it used to do so frequently.

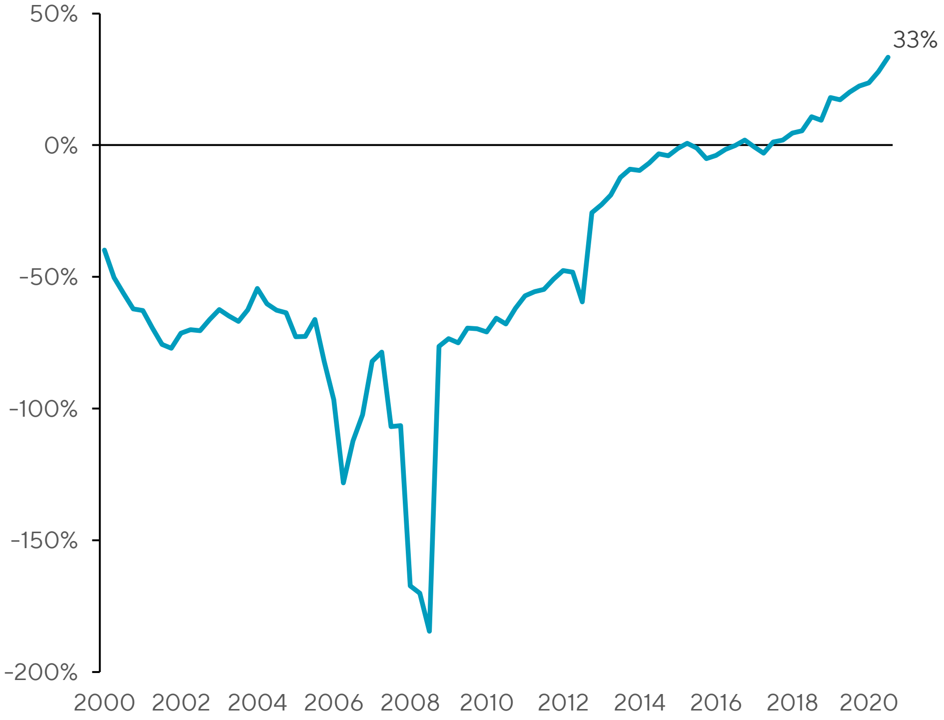
Household, corporate, and public debt

Gross debt, % of GDP



International investment position

% of GDP



Sources: Central Bank of Iceland, ÍSB Research.

Macroeconomic forecast summary

National accounts

Volume change from prior year %	2019 in ISK millions	2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Private consumption	1.518.517	1,8	-3,4	1,9	3,2	3,3
Public consumption	745.149	4,2	3,7	2,5	1,5	2,0
Gross capital formation	602.130	-6,9	-10,5	3,8	3,5	8,4
– business investment	328.194	-18,0	-11,8	5,6	9,3	5,8
– residential investment	166.401	31,1	-8,6	-16,5	4,4	19,9
– public investment	102.930	-11,5	-5,5	30,0	-11,5	2,5
Changes in inventories	-288	9,4	0,0	0,0	0,0	0,0
Domestic demand, total	2.865.509	0,1	-3,1	2,4	2,8	4,0
Exports of goods and services	1.350.758	-4,6	-32,2	11,7	16,4	5,0
– marine product exports	260.838	-6,4	-7,0	2,4	1,8	1,2
– aluminium products	211.904	-6,0	-3,0	3,0	1,0	1,0
– other goods exports	180.654	20,7	-19,0	6,0	4,0	2,0
– services exports	697.362	-7,9	-54,0	27,0	38,0	9,0
Imports of goods and services	1.227.719	-9,3	-21,7	9,3	10,2	5,9
– goods imports	759.390	-7,6	-10,8	5,5	7,4	5,8
– services imports	437.500	-12,3	-40,6	19,3	16,8	6,1
Gross domestic product	**3.019.377**	**1.9**	**-8.7**	**3.2**	**5.0**	**3.6**

Macroeconomic forecast summary

Other economic indicators

		Est	Forecast	Forecast	Forecast
Sem % of GDP	2019	2020	2021	2022	2023
Gross capital formation	19,9	20,3	20,1	19,5	20,1
Current account balance	6,4	0,1	1,3	4,0	4,3
Trade account balance	5,1	-1,5	0,7	3,4	3,8
Change between yearly averages (%)					
Consumer prices	3,0	2,8	3,0	2,2	2,3
Wages	4,9	6,3	5,8	4,6	3,9
House prices	4,4	6,4	6,5	4,7	4,4
Average exchange rate	8,5	11,1	-1,6	-3,3	-3,2
Real exchange rate in terms of relative consumer prices	-7,4	-10,1	3,6	3,9	3,9
Real wages	1,8	3,4	2,7	2,3	1,6
Average (%)					
Unemployment	3,6	7,9	9,4	4,6	3,3
ISK exchange rate index	181,0	201,0	197,7	191,1	185,0
Central bank main policy rate	3,9	1,5	0,8	1,5	2,6
Long term nominal yield	4,2	2,8	2,8	3,0	3,5
Long term real yield	1,0	0,4	0,2	0,4	0,8

Appendix

Tourist arrival scenarios 2021-2023

Methodology for scenario preparation

In our opinion, the greatest medium-term economic uncertainty for Iceland lies in developments in tourist travel to the country. The resurrection of Iceland's largest export sector, tourism, depends for the most part on variables relating directly or indirectly to developments in the COVID-19 pandemic and the associated public health measures. This includes the path of the pandemic itself, both in Iceland and abroad, the scope of inoculation in Iceland and key trading partner countries, the relaxation of border restrictions as the pandemic recedes, appetite for travel among the global population, availability of flights, and so forth.

The outlook for these variables has fluctuated widely in recent weeks and months. Consequently, we decided to prepare three scenarios illustrating differing developments in tourist arrival numbers:

— A baseline forecast that reflects the pattern we consider likely and that occupies the middle ground between optimism and pessimism

— An upside scenario, which we consider to have a roughly 10% probability of materialising or being exceeded

— A downside scenario, which we consider to have a roughly 10% probability of materialising or being exceeded

The two alternative scenarios reflect developments that we consider realistic but much less likely than those in the baseline scenario.

This is a subjective assessment based, for example, on historical post-crisis developments in tourism, foreign experts' forecasts of developments in the pandemic and vaccination against it, surveys of appetite for travel, foreign and domestic airlines' plans for seat capacity on flights to Iceland, the recently published Government report on the structure of public health measures at the border, interviews with experts in the sector, and other factors that we considered useful in preparing the forecast.

It should be noted that the scenarios, particularly the pessimistic one, are not conceived as stress scenarios. It is possible to sketch out an even more unfavourable path than is done here, but by the same token, such a scenario is less likely to materialise. The scenarios are intended to create a framework around the developments that we consider most likely to occur in 2021. In broad terms, we consider there to be an 80% probability that actual events will be neither worse than in the pessimistic scenario nor more favourable than in the optimistic scenario.

Baseline scenario

Key assumptions

The pandemic in Iceland:	New infection rate remains moderate until herd immunity is achieved in H2/2021. Public health measures in Iceland are eased in gradual increments until Q3/2021.
Border restrictions:	Current border restrictions remain in effect through Q1/2021. Minor relaxation of restrictions in Q2. Further relaxation in Q3 and Q4/2021. Exemptions from testing for vaccinated persons or those with antibodies prepared before the peak 2021 season.
The pandemic worldwide:	The pandemic peaks in Q3 in Iceland's trading partner countries. Herd immunity is achieved or within reach by mid-year. The EEA prepares harmonised definitions of risk levels and exemptions.
Demand:	Basic appetite for travel largely unaffected, in line with recent surveys. Demand grows steadily as the year passes and the pandemic recedes. From 2022 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:	1/3 of 2019 airline seat capacity, back-loaded in 2021. Supply grows steadily in line with demand in coming years.

Upside scenario

Key assumptions

The pandemic in Iceland:	New infection rate remains at a minimum until herd immunity is achieved/2021. Public health measures in Iceland are eased steadily until Q3/2021.
Border restrictions:	Current border restrictions in effect through Q1/2021. Considerable easing in Q2. Restrictions lifted for the most part by end-Q3. Exemptions from testing for vaccinated persons or those with antibodies prepared before the peak 2021 season.
The pandemic worldwide:	The pandemic peaks in coming weeks in trading partner countries and subsides quickly thereafter. Herd immunity is achieved by mid-year. The EEA prepares harmonised definitions of risk levels and exemptions.
Demand:	Basic appetite for travel is unaffected, in line with recent survey. Demand increases steadily as the year passes and the pandemic recedes. From 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:	Up to 1/2 of 2019 airline seat capacity, back-loaded in 2021. Revised upwards after mid-year. Supply grows steadily in line with demand in coming years.

Downside scenario

Key assumptions

The pandemic in Iceland:	New infection rate rises again and then fluctuates. Public health measures eased and tightened by turns for most of 2021. Some measures remain in place into 2022.
Border restrictions:	Current border restrictions largely unchanged through Q3/2021. Restrictions eased in stages in the quarters thereafter. Setback in exemptions from testing for vaccinated persons or those with antibodies prepared after the peak 2021 season.
The pandemic worldwide:	The pandemic rages for most of 2021 and does not subside fully until 2022. Herd immunity is not achieved until late 2021 in most trading partner countries. The EEA experiences delays and difficulties with harmonisation of rules and definitions.
Demand:	Basic appetite for travel suffers a long-term reduction. Weak growth in appetite for travel from H2/2021 onwards. Iceland's image as a travel destination is relatively weak in international comparison.
Supply:	1/4 of 2019 airline seat capacity, revised downwards later in the year. Supply grows slowly in line with demand in coming years.

Upside scenario

Key economic variables

Key economic variables	2020	2021	2022	2023
Number of tourists, thousands	476	970	1,600	1,840
Services exports, % change	-54	48	23	9
Trade-weighted exchange rate index	201	195	182	180
Inflation, %	2.8	2.9	1.4	2.3
Unemployment, % of labour force	7.9	7.8	4	3.2
% change between years				
Private consumption	-3.4	3.0	4.0	3.3
Public consumption	3.7	2.5	1.5	2.0
Gross capital formation	-10.5	5.8	5.4	6.2
Domestic demand	-3.1	3.4	3.6	3.5
Exports	-32.2	19.1	11.2	5.0
Imports	-21.7	15.3	8.8	5.3
Gross domestic product	-8.7	4.6	4.5	3.5

Downside scenario

Key economic variables

Key economic variables	2020	2021	2022	2023
Number of tourists, thousands	476	400	1,000	1,300
Services exports, % change	-54	-8	70	12
Trade-weighted exchange rate index	201	204	195	185
Inflation, %	2.8	3.3	2.3	1.4
Unemployment, % of labour force	7.9	10.5	6.8	4.5
% change between years				
Private consumption	-3.4	3.0	4.0	3.3
Public consumption	3.7	2.5	1.5	2.0
Gross capital formation	-10.5	5.8	5.4	6.2
Domestic demand	-3.1	3.4	3.6	3.5
Exports	-32.2	19.1	11.2	5.0
Imports	-21.7	15.3	8.8	5.3
Gross domestic product	-8.7	4.6	4.5	3.5

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