February 2023

Macroeconomic forecast: Adjustment phase ahead

Adjustment phase ahead

Summary

More even GDP growth tempo ahead

GDP growth

- Growth better in line with potential output
- 3.4% GDP growth in 2023
- 3.4% GDP growth in 2024
- 2.9% GDP growth in 2025

Current account set to rebalance, deficit to close

External trade

- Growth of tourism weighs heavily in exports
- Exports to rise by 8.5% in 2023 and imports by 6.3%
- Current account deficit 1.4% in 2023
- Current account broadly in balance in 2024 and 2025

Inflation on the wane

Inflation

- Inflation peaked in January 2023, but is now likely to subside
- Housing market moving towards equilibrium, and house prices curb inflation
- More stable foreign prices and gradual ISK appreciation to lower domestic inflation
- Inflation to average 7.6% in 2023, 4.5% in 2024, and 2.8% in 2025

Pressures in the labour market recede slowly and steadily

Labour market

- Continued strong need for imported labour
- Unemployment to average 3.3% in 2023, 3.7% in 2024, and 3.8% in 2025
- Reduced labour shortages, disinflation to cut into nominal wage growth
- Wages to rise 8.0% in 2023, 6.1% in 2024, and 4.8% in 2025

Policy rate to remain relatively high in the coming term

Interest rates

- Policy rate near its peak after monetary tightening phase starting in May 2021
- Rate likely to peak at 6.5% by the end of Q1 2023
- Gradual monetary easing to begin in late 2023
- Policy rate 4.0% near the end of the forecast horizon

ISK increasingly likely to strengthen over time

The ISK

- Unfavourable net trade reduces the likelihood that the ISK will regain its previous strength
- Further ahead, more favourable net trade and investment-related inflows will support the ISK
- Pension funds' foreign investment and other investment-related outflows will pull in the opposite direction
- ISK set to be 8% stronger at the end of the forecast horizon than at end-2022

Steadier growth to take over from the strong economic recovery

Exports the main driver of GDP growth in 2023, but domestic demand will gain steam in the next two years

The economy has rebounded quickly after the contraction at the beginning of the decade. GDP growth is estimated to have measured 7.0% in 2022, following on from 4.4% growth in 2021. Demand grew strongly – private consumption in particular. Tourism regained its footing in 2022, and other export sectors contributed to growth as well. On the other hand, imports surged.

We forecast GDP growth at 3.4% in 2023. Output growth prospects for the year have therefore improved relative to our last forecast of 2.2%. Export growth will be a major contributor to GDP growth in 2023, supported by relatively robust growth in demand, although private consumption growth will lose considerable steam year-on-year.

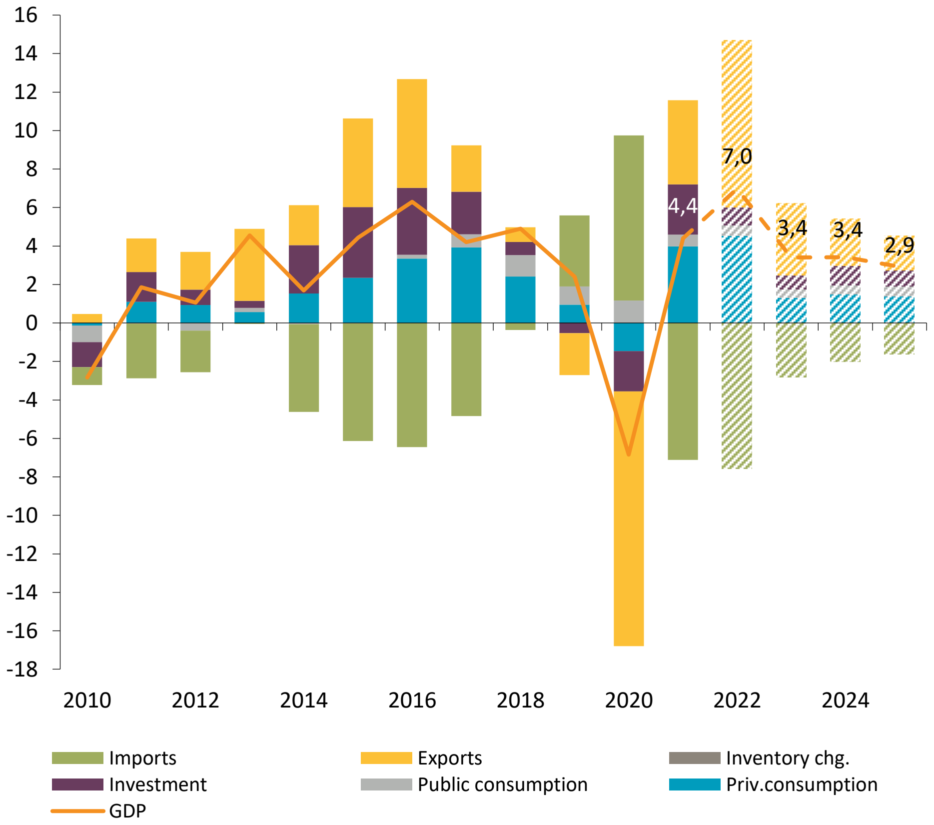
We also project output growth at 3.4% in 2024, with private consumption and investment gaining pace and export growth softening. For 2025, the outlook is for GDP growth to slow to 2.9%, owing mainly to weaker growth in exports.

Near-term economic developments are highly uncertain. External uncertainties include the war in Ukraine, plus the effects of high inflation and rising interest rates on trading partner demand. Furthermore, developments in global prices of Iceland's key exports could change the scenario for external trade, the exchange rate, and inflation.

Domestically, near-term developments will depend on the outcome of the next few months' wage negotiations, as well as the impact of a tighter monetary stance on households and businesses. Furthermore, developments in the housing market will be a major determinant of inflation, interest rates, investment, and consumption in the coming term.

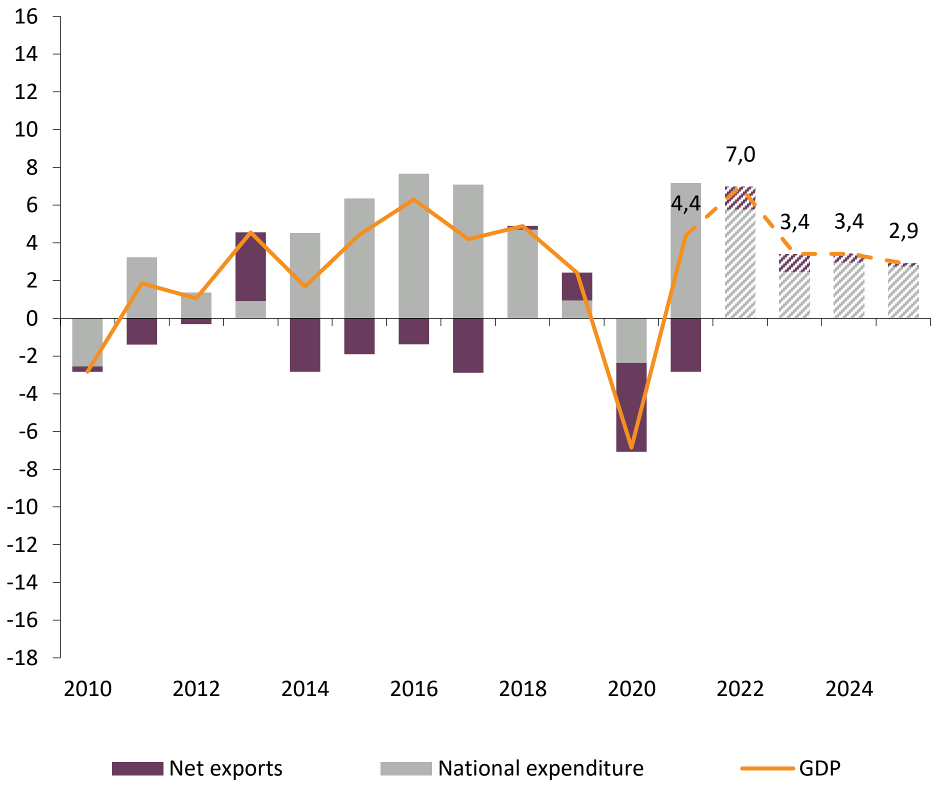
GDP and contribution of its subcomponents

Volume change from prior year (%)



GDP, domestic demand, and external trade

Volume change from prior year (%)



Sources: Statistics Iceland, ÍSB Research.

Tourism rises to new heights

We forecast that 2.1 million tourists will visit Iceland in 2023, followed by record numbers in 2024 and 2025

The tourism industry bounced back swiftly after public health restrictions were lifted last spring. As yet, the worsening economic outlook abroad seems not to have dampened appetite for travel to Iceland to any discernible degree.

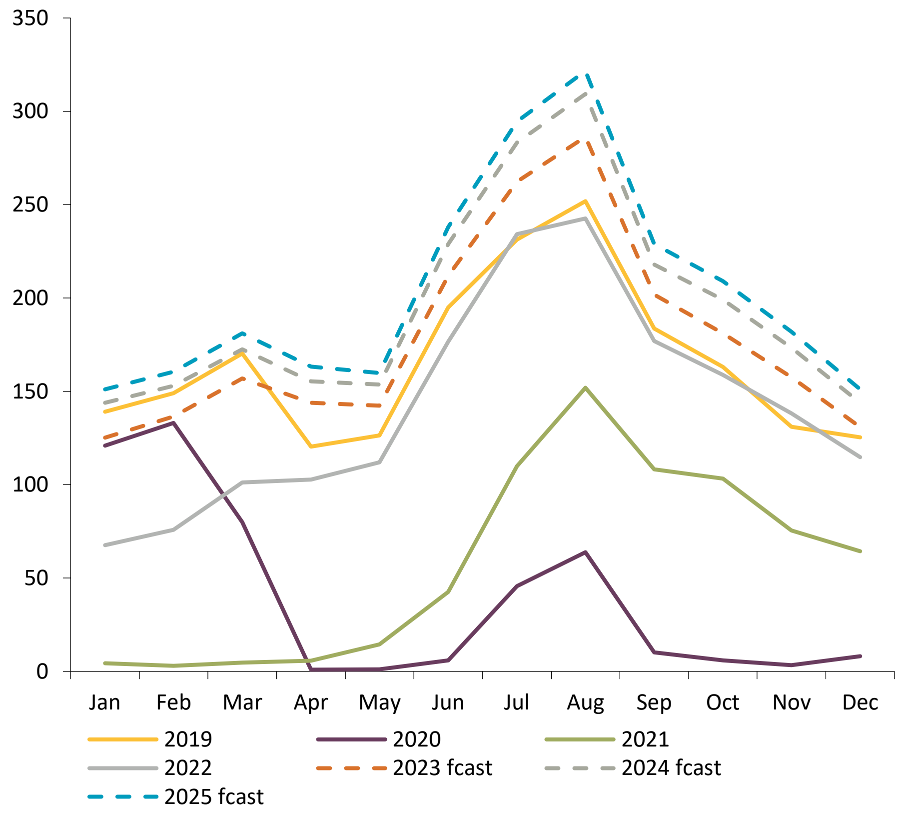
Departure figures from Keflavík Airport show that nearly 1.7 million tourists visited Iceland in 2022. This total does not include those who arrived via the Akureyri airport and those who came with cruise ships and the Smyril Line ferry. The combined total for the year was the largest since 2019. Although travellers from Asia are far fewer now than before the pandemic, visitors from the US and Europe have made up the shortfall.

The outlook for the coming term is quite good despite significant uncertainty about the economic situation in the UK and mainland Europe. Bookings, growth in the number of scheduled Iceland-bound flights, and an uptick in cruise ship arrivals all suggest that growth will remain buoyant this year.

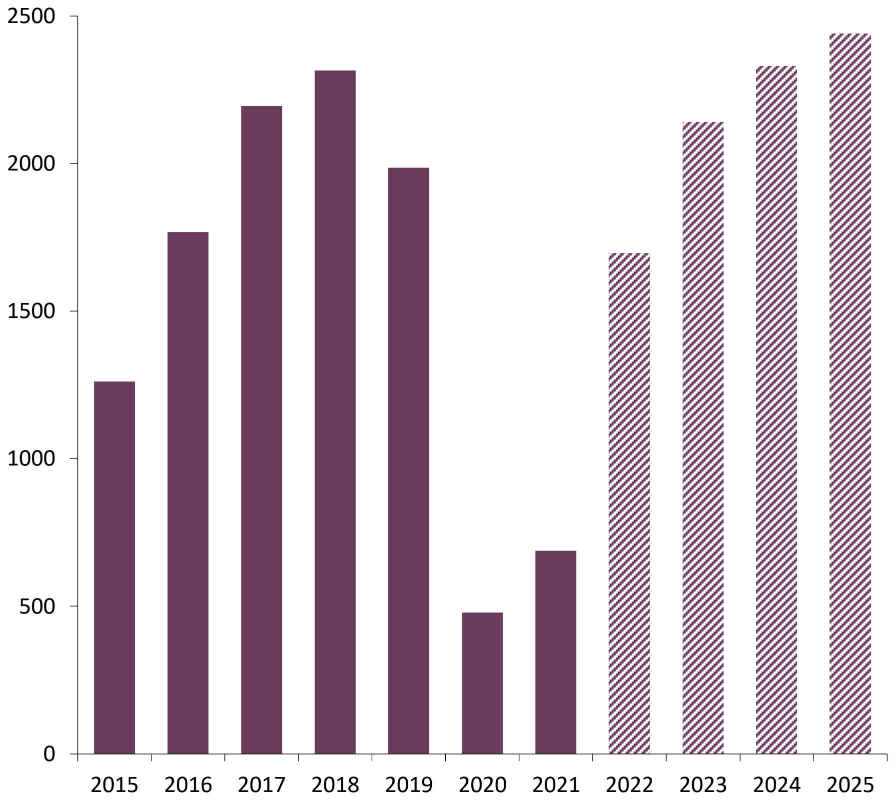
We forecast that over 2.1 million tourists will arrive via Keflavík Airport this year, about the same number as in 2017, if our forecast materialises. We expect tourist numbers to rise to over 2.3 million in 2024 and 2.4-2.5 million in 2025. If this forecast is borne out, the next two years will set new records for the tourism sector. It is worth noting that this forecast is based solely on departures via Keflavík Airport, but a large number of visitors will travel through the airport in Akureyri or by cruise ship or Smyril Line ferry.

The slower rate of growth in tourist arrivals further ahead is due, among other things, to a shortage of accommodation and other related infrastructure and to the possibility that a rising real exchange rate could cut into demand for Iceland as a travel destination.

Number of foreign tourists, by month
thousands



Number of foreign tourists, by year
thousands



Sources: Icelandic Tourist Board, ÍSB Research

Tourism the main driver of export growth, supported by other sectors

Land-based aquaculture, intellectual property among other growth sectors, while import growth is set to ease

The tourism boom explains the bulk of this year's forecasted 8.5% growth in exports. Exports of intellectual property and other services look set to grow markedly as well. On the other hand, goods exports look set to remain virtually unchanged year-on-year, owing to the offsetting effects of vastly increased exports of farmed fish and growing exports of manufactured goods for export, on the one hand, and a contraction in exports of groundfish, cod in particular.

The continued rise in tourist numbers is the main driver of export growth in 2024 (forecast at just over 5%) and 2025 (nearly 4%). Furthermore, we expect stronger exports of farmed fish, aluminium, and other industrial goods, as well as increased revenues from intellectual property usage, to name but a few items.

In all, imports grew by just under a fifth in 2022, largely because of growing imported consumption and investment, but also because of an increased need for export-related inputs.

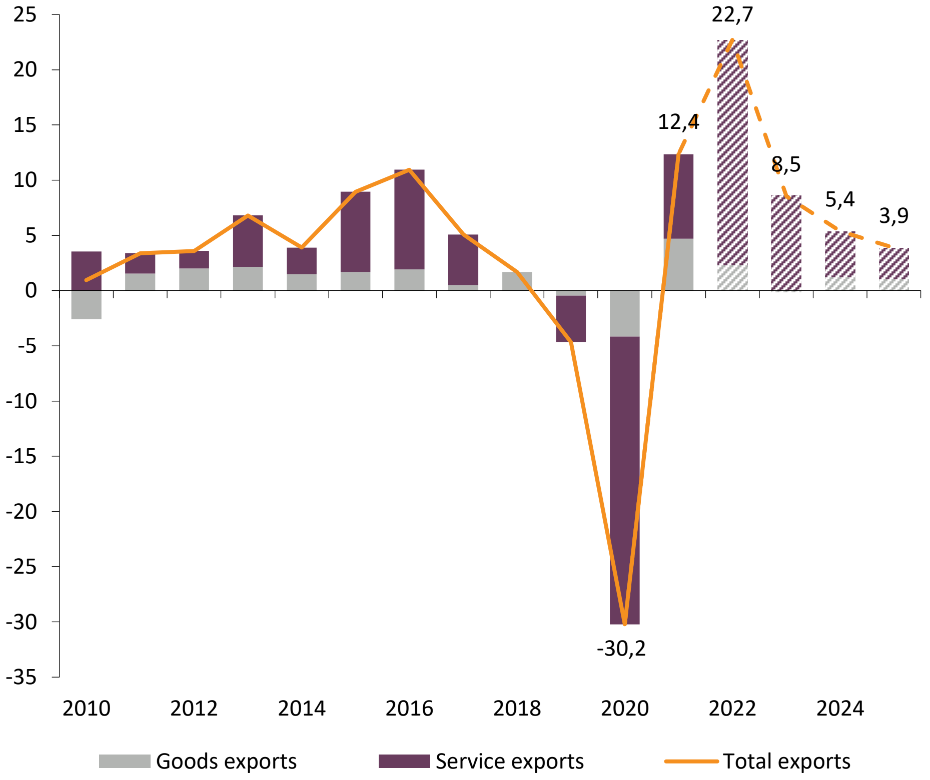
With slower growth in these, the pace of import growth will also ease. Compounding this, it is likely that a smaller share of private consumption and investment will be based on imported inputs in 2023 than in 2022, when imports of motor vehicles, large transport equipment, various types of other equipment, and services grew rapidly.

Import growth will continue to ease over the next two years, according to our forecast, mostly because of weaker domestic demand, coupled with slower growth in the need for export-related inputs.

Exports will grow more rapidly than imports, however, and the contribution of net trade to growth will therefore be positive in 2023 and 2024. In the final year of the forecast horizon, imports and exports are expected to be broadly in balance.

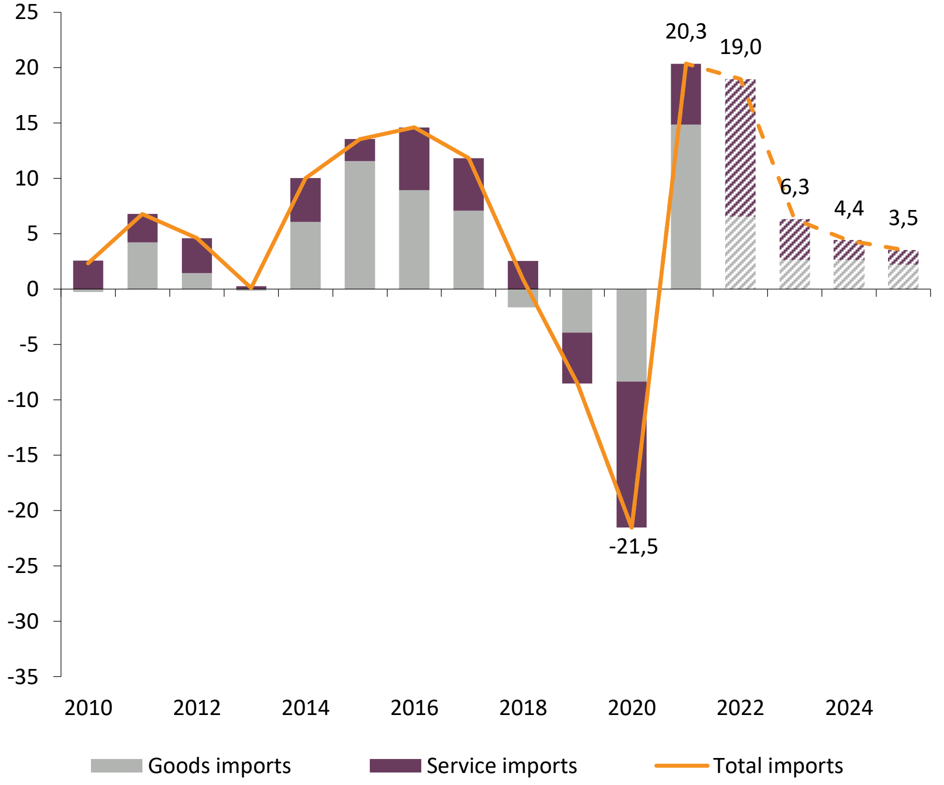
Exports and contributions from subcomponents

%



Imports and contributions from subcomponents

%



Sources: Statistics Iceland, ÍSB Research.

The current account showed a sizeable deficit in 2022 despite the recovery of tourism, not least owing to a hefty goods account deficit in H2, which in turn stemmed from strong import growth and worsening terms of trade. We estimate the current account deficit at just over ISK 120bn, or 3.2% of GDP for the year. If this proves accurate, the 2022 deficit will be the largest as a share of GDP since 2008.

The past two years' deficits reflect the fact that domestic demand picked up more rapidly than exports in the wake of the pandemic. Export growth therefore did not compensate fully for imports, owing to swift growth in consumption and investment, as well as an increased need for export-related inputs. The Ukraine war also pushed the price of various inputs and other imports upwards, although higher prices for key export products mitigated the increase.

The outlook is for the current account balance to improve in 2023. Terms of trade are improving, as fish prices remain high and aluminium prices have rebalanced, while global prices of various imported goods have eased somewhat. Furthermore, export growth will outpace import growth, and we also anticipate an improvement in the contribution from primary income, after a significant negative contribution in 2022.

The outlook is for a 1.4% current account deficit in 2023, followed by a broadly balanced current account in 2024 and 2025. Whether the balance is positive or negative over the next few years will depend in no small part, however, on developments in the real exchange rate and terms of trade. That said, the outlook is for a much smaller surplus than was customary in the mid-2010s.

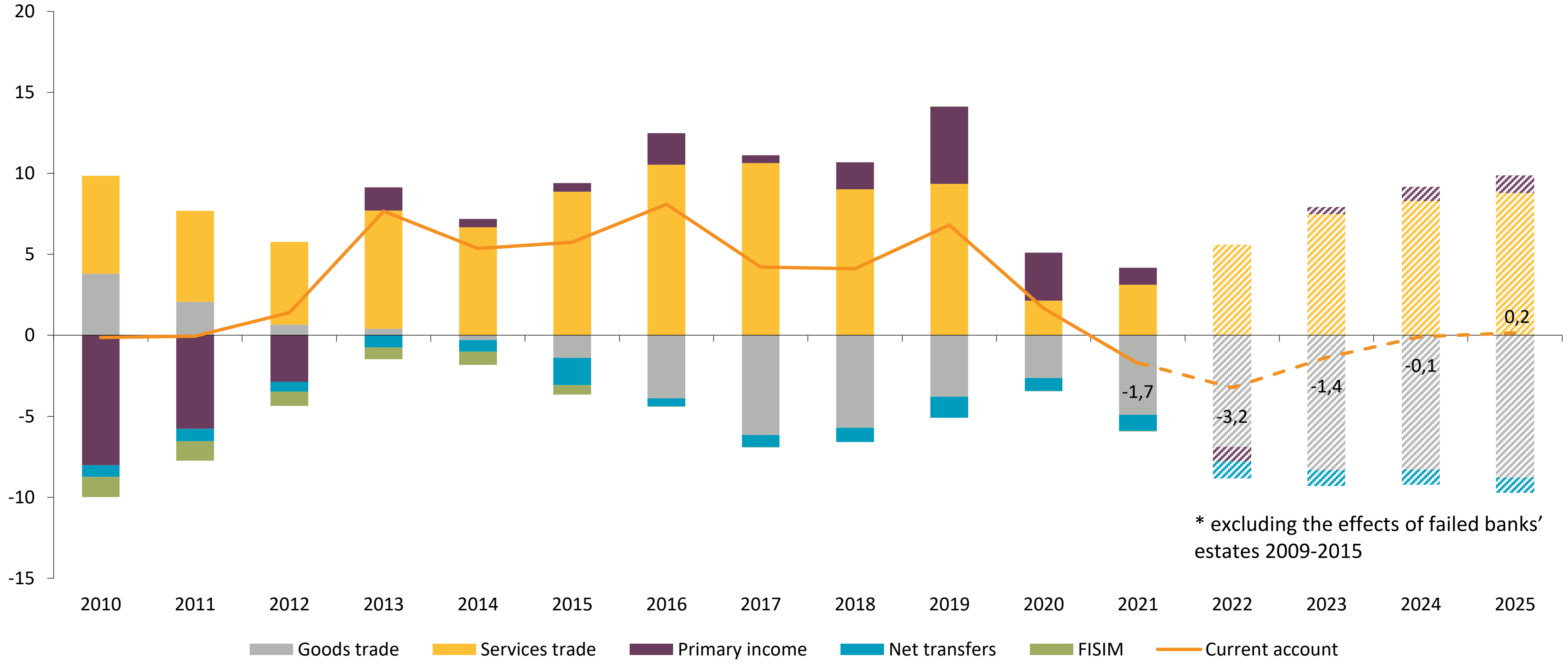
Iceland's net external assets currently equal nearly ¼ of GDP, providing crucial support for the ISK and the economy as a whole. The net asset position eroded markedly in 2022, not least because of falling foreign securities prices. It is expected to improve slowly and steadily, however, as prospects for the markets grow brighter.

Current account deficit set to close during the forecast horizon

Growing exports, better terms of trade, and slower growth in demand will help rebalance the current account

The current account balance and its subcomponents

% of GDP*



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

Investment keeps growing steadily in the wake of an upsurge

Residential investment the main driver of growth in 2023; corporate investment is set to regain steam later on

After spiking in 2021, investment growth appears to have lost considerable pace in 2022. In the first nine months of 2022, it grew by just over 5% in real terms, reflecting growth in business and public investment measuring nearly 8% and nearly 12%, respectively, offset by a contraction of more than 5% in residential investment.

For 2022 as a whole, however, growth is estimated at just over 4%, owing entirely to business investment, as both residential and public investment contracted somewhat year-on-year.

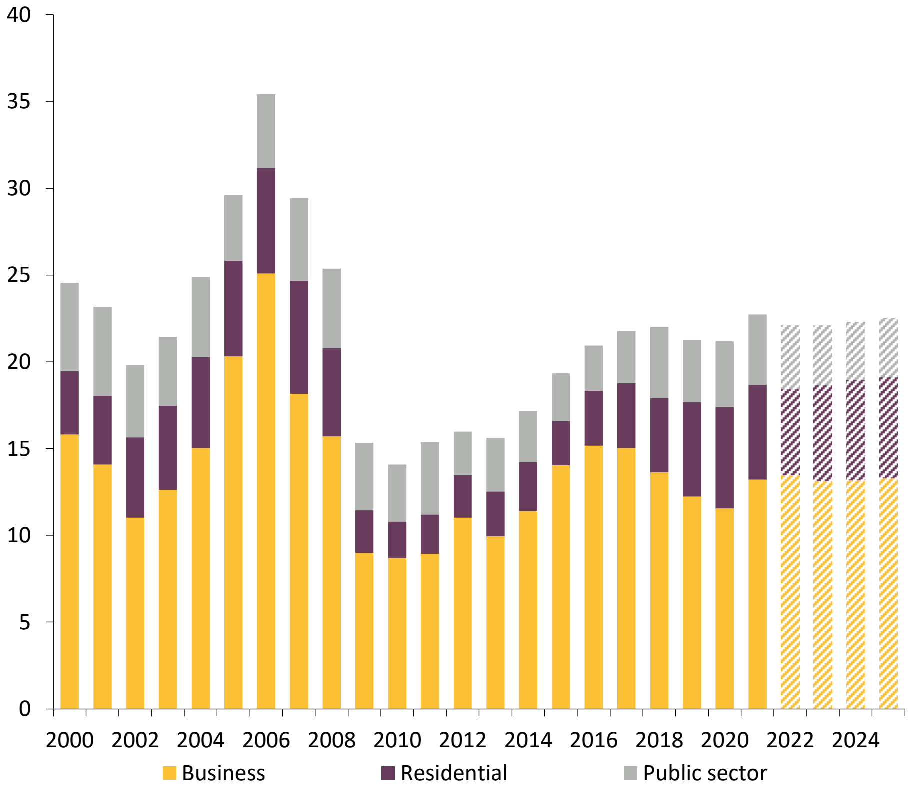
For 2023, though, robust growth in residential investment looks set to weigh heaviest in the projected 3% year-on-year growth in total investment, while business investment is on track to be virtually unchanged between years. This is due, among other things, to the impact of rising interest rates and increasingly muted expectations about firms' operating environment, on the one hand, and ambitious infrastructure-related projects classified as business investment by Statistics Iceland, on the other. Direct public investment will probably contract somewhat, however.

Corporate investment will then pick up again in 2024, and residential investment is expected to grow as well. In the final year of the forecast horizon, public investment is expected to rebound somewhat, while growth in residential investment looks set to lose momentum.

We forecast that total investment will grow by just over 3% in 2023, 4-5% in 2024, and nearly 4% in 2025. The overall investment level will hold relatively steady over the forecast horizon, although activity will shift between sectors.

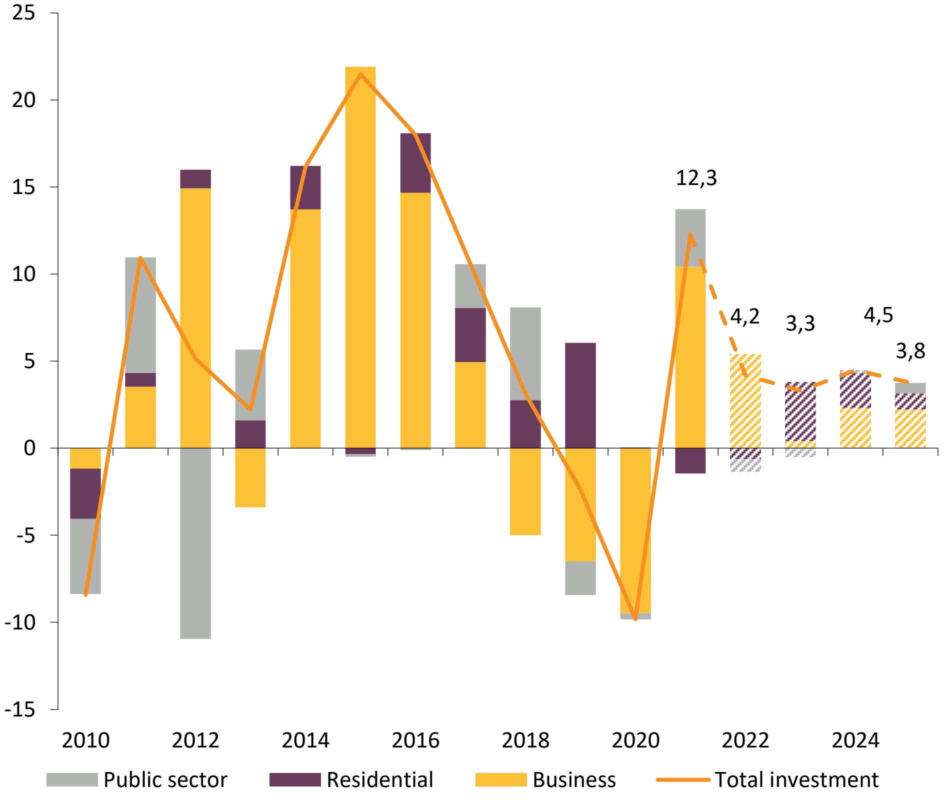
Investment

% of GDP



Investment, real change, and contribution of subcomponents

%



Sources: Statistics Iceland, ÍSB Research.

The prospect of a calmer housing market – at last

Increased demand for indexed loans prompted by higher interest rates

House prices rose virtually without interruption for over two years, from mid-2020 until the latter half of 2022. Over this period, prices rose fastest in 2022, even though the pace eased in H2. Twelve-month house price inflation measured just over 20% in 2022.

It has fallen from its summer 2022 peak of nearly 25%, the highest seen in Iceland since 2006.

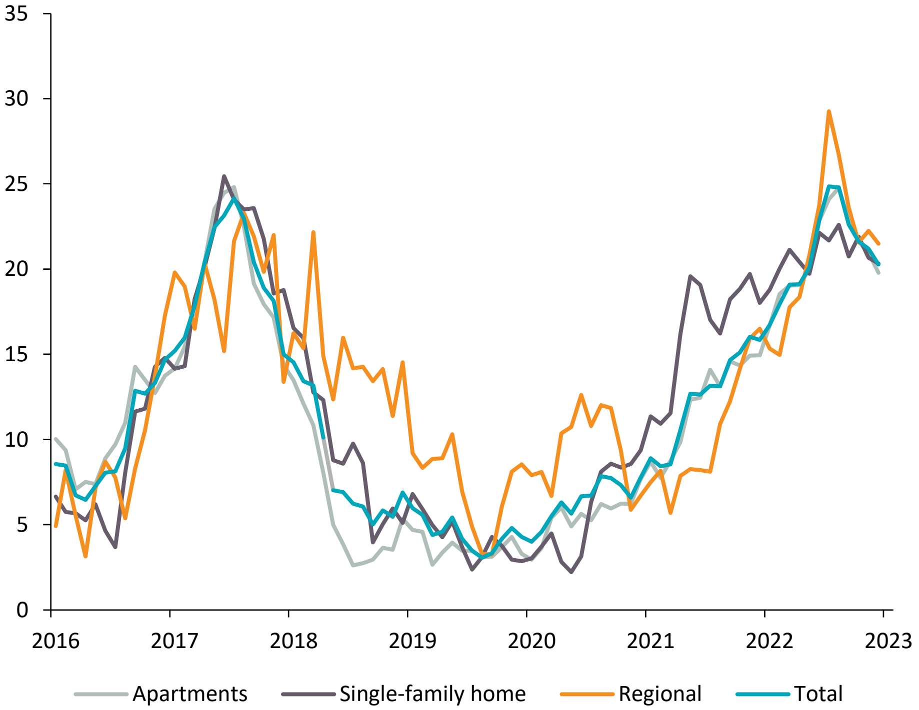
The market has finally cooled somewhat, as is confirmed by figures from recent quarters. For instance, data from Statistics Iceland show that house prices fell in January, for the first time since May 2020. Prices have been somewhat volatile in recent months, however, which is not unusual when the market is realigning after a period of overheating.

Other signs also indicate that the market is cooling off, chief among them a decline in purchase transactions. Turnover is down markedly, and fewer contracts are finalised than before. According to a report from the Housing and Construction Authority, far fewer homes are selling at a premium than when the market was at its peak. In December, 17% of capital area properties sold at above the asking price. This is close to the pre-pandemic rate and a much smaller percentage than before.

The housing market began to cool when the Central Bank raised interest rates rather sharply last spring and summer as well as tightening borrower-based lending requirements for new mortgages. Because mortgage rates are higher, demand for indexed loans has increased in recent months. New indexed mortgages had declined during the pandemic but have gained in popularity again, in a trend that will probably continue until interest rates start to fall once more.

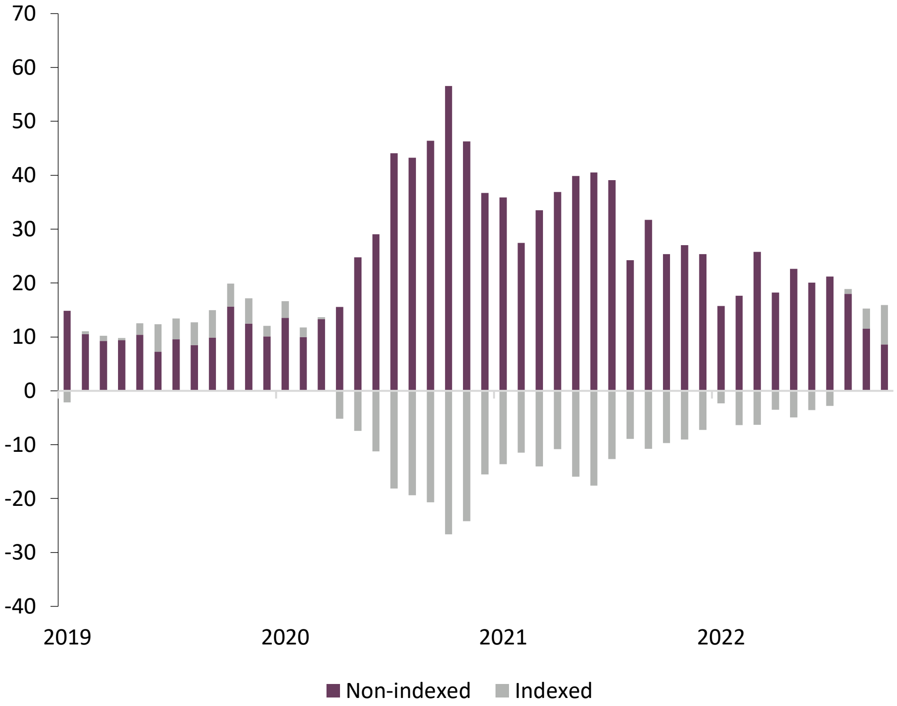
Year-on-year rise in house prices

%



New mortgage loans less retirement of previous loans

ISK bn



Sources: Central Bank of Iceland, Statistics Iceland.

Supply side reawakening

Real prices to remain flat for the next two years

The supply side of the housing market takes time to respond, whereas demand often changes rapidly. This is natural, as it takes time to build new property. Housing supply has now begun to grow again, as can be seen clearly in the number of homes advertised for sale, which has jumped in recent months after hitting a historical low. A year ago, for instance, only 500 properties were on the market in greater Reykjavík, whereas now there are more than 1,800.

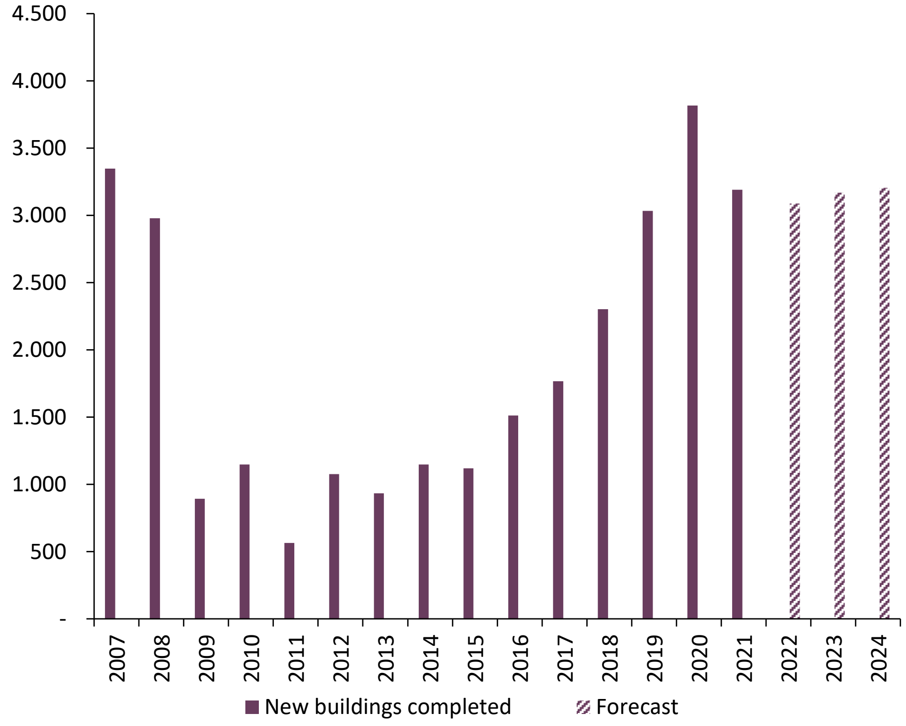
About 35% of these are newly constructed homes, a share that is likely to rise further in the coming term. In 2022, about 3,000 new properties were put up for sale, and they changed hands very quickly, owing to the strong demand then characterising the market. According to the tally conducted by the Federation of Icelandic Industries and the Housing and Construction Authority, roughly 3,200 properties are expected on the market in 2023 and 2024.

Unsatisfied need for homes is estimated at 3,000-4,000 per year, although it depends on the projected population, which is somewhat unclear and probably overestimated in Iceland. If it indeed proves to be overestimated, the supply expected for the coming two years may well be sufficient to satisfy existing demand.

It mustn't be forgotten that demand for housing is still quite strong. The labour market is tight, and the outlook is for brisk population growth in the coming term. The household saving rate is still above average, and real wages will begin to grow again this year.

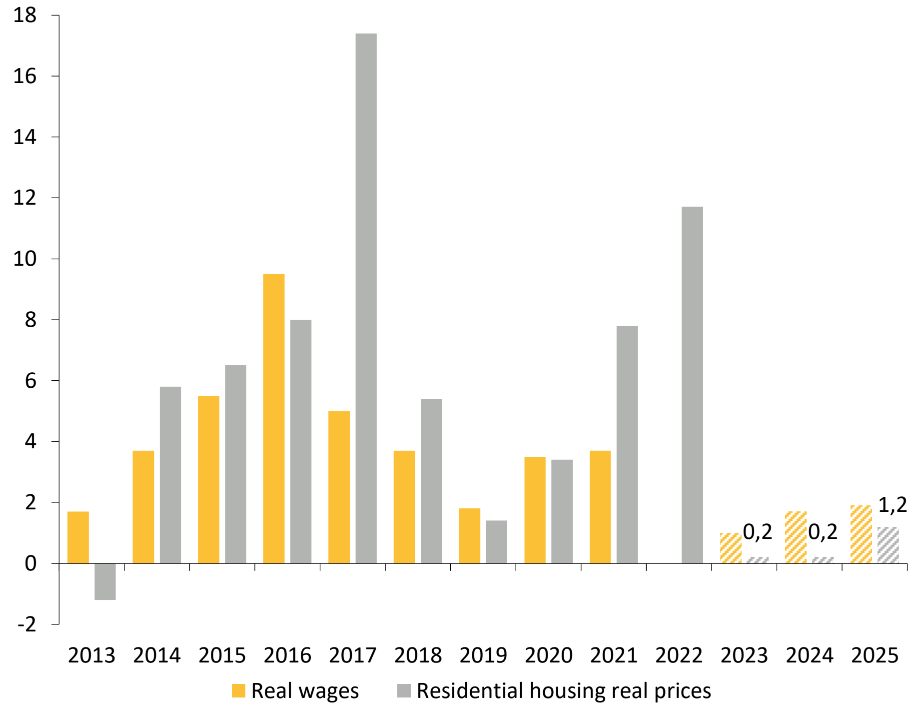
We therefore think it unlikely that house prices will fall to any marked degree. Prices could sag in given months, but over time they will find their equilibrium and move in line with the general price level, according to our forecast. We project that real house prices will hold virtually unchanged in 2023 and 2024. By 2025, the market will be broadly in balance, and in tandem with declining inflation, real prices will rise by 1.2%.

Fully finished homes each year



Real house prices and real wages

% change between years



Sources: Housing and Construction Authority, Statistics Iceland, ÍSB Research.

Demand pressures in the labour market

More foreign workers are needed to fill job vacancies in the near future

The labour market has recovered remarkably quickly post-COVID, and job numbers are now above the pre-pandemic level. Unemployment averaged 3.9% in 2022, close to the 3.6% seen in 2019. In 2020 and 2021, however, it hovered around 8%, excluding recipients of part-time unemployment benefits.

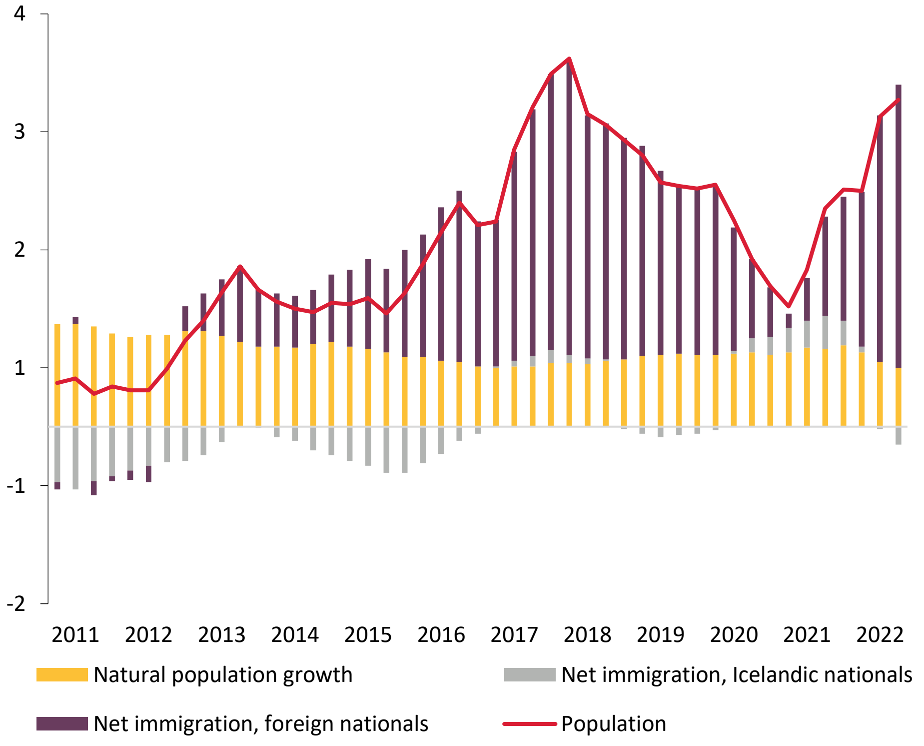
The outlook is for significant growth in sectors such as construction, where staffing problems have been perhaps greatest. According to a recent Gallup survey conducted among Iceland's 400 largest firms, 53% of respondents consider themselves short-staffed, and while this is a smaller share than than in the autumn survey, it is large in historical terms.

Staffing woes are most pronounced in the construction sector, where 78% of executives say need workers, followed by retail and wholesale trade (63%). Worker shortages in tourism tend to fluctuate more: 29% of firms reported being understaffed in December, but this figure can be expected to rise again as the peak season approaches.

As a result, job numbers look set to increase even further in the coming term, with a large share of available positions filled by foreign workers. There are currently just over 45,000 foreign workers in Iceland, or around 21% of the labour market. This percentage has never been higher, and it can be expected to rise further in the near future, if the need for workers in many of Iceland's key sectors is any indication.

Population

% change from prior year



Labour supply according to corporate executives

%

Sources: Central Bank of Iceland and Gallup

Unemployment set to remain flat in 2023

Real wage growth expected throughout the forecast horizon

Registered unemployment measured 3.3% in December. We expect it to remain close to that level in 2023, averaging 3.3% for the year.

Wage negotiations have been underway in recent months, and as of this writing, agreements have been made with 40% of the labour market. Settlements with the remainder of the market are expected to be broadly similar. If so, they will probably boost real wages for the vast majority of workers.

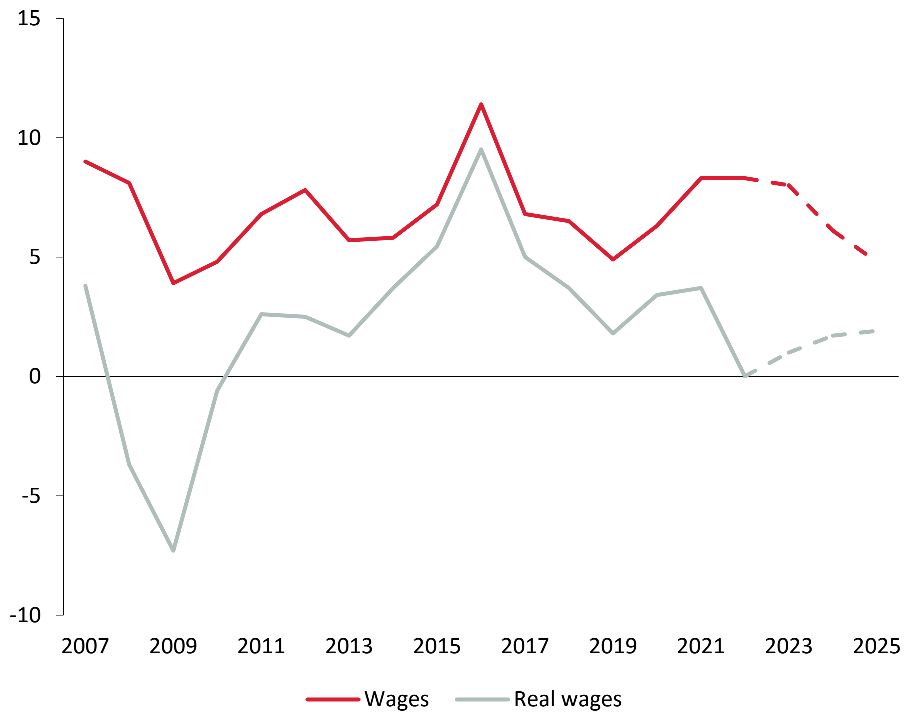
Even though nominal wages rose by over 8% in 2022, they did not compensate for inflation, and real wages were flat during the year. But even this should be viewed as a defensive victory for wage-earners, as the outlook as of mid-2022 indicated that real wages would fall. Furthermore, real wage growth varied from one worker group to another, with the lowest-paid receiving proportionally larger pay rises than others did.

We project that real wages will start to grow again as soon as this year, in view of the contracts currently on the table. We forecast real wage growth at 1% in 2023 and nearly 2% per year in 2024 and 2025.

Unemployment is expected to remain broadly unchanged throughout the forecast horizon, although it will rise marginally in 2024 as tension in the labour market eases. We forecast average unemployment at 3.7% in 2024 and 3.8% in 2025.

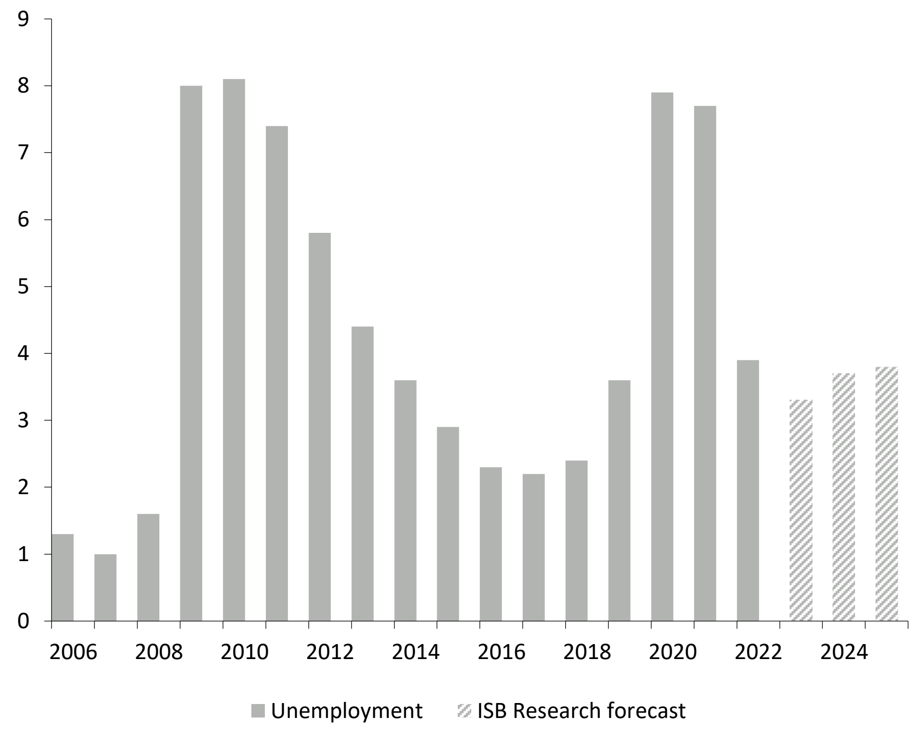
Nominal and real wages

% change between years



Unemployment as a share of the labour force

%



Sources: Directorate of Labour, Statistics Iceland, ÍSB Research.

Private consumption growth remains resilient

Household saving ratio still above average

It can certainly be said that Icelanders were willing spenders in 2022. Over the first nine months of the year, private consumption grew in real terms by 11%, the fastest rate in 17 years. Pent-up demand was the main driver of the surge, as Icelanders rushed to satisfy their thirst for consumption once the tight restrictions of the pandemic era had been lifted. Private consumption growth appears to have eased in Q4/2022, and we estimate the growth rate for the full year at approximately 9%.

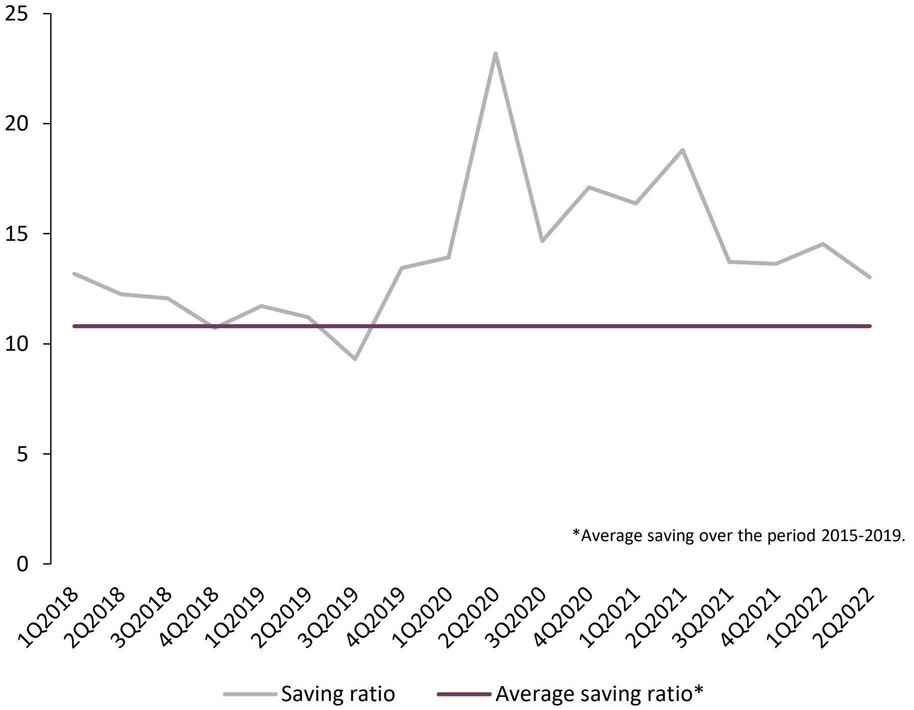
Fortunately, though, this consumption was not credit-financed, owing to the sizeable savings accumulated during the pandemic. The saving ratio topped out at 23% of disposable income in Q2/2022, when public health measures were very stringent. It is still above average, measuring around 13% of disposable income, but has begun to ease towards its average level.

This could suggest that private consumption growth will lose momentum in the near future, and various other indicators point in the same direction. One of the best indicators of developments in private consumption is payment card turnover. After several record-breaking months in 2022, payment card turnover has begun to ease. Furthermore, households are considerably more pessimistic about the economic and employment outlook than they were in mid-2022, according to the Gallup expectations survey.

As a result, we expect private consumption to grow considerably more slowly in 2023 than in 2022, yet faster than we assumed in our previous forecast. Private consumption is quite resilient, and most households are still well positioned financially. We forecast year-2023 private consumption growth at 2.5%. Alongside declining inflation and the associated real wage gains, private consumption will grow by 2.9% in 2024 and 2.7% in 2025.

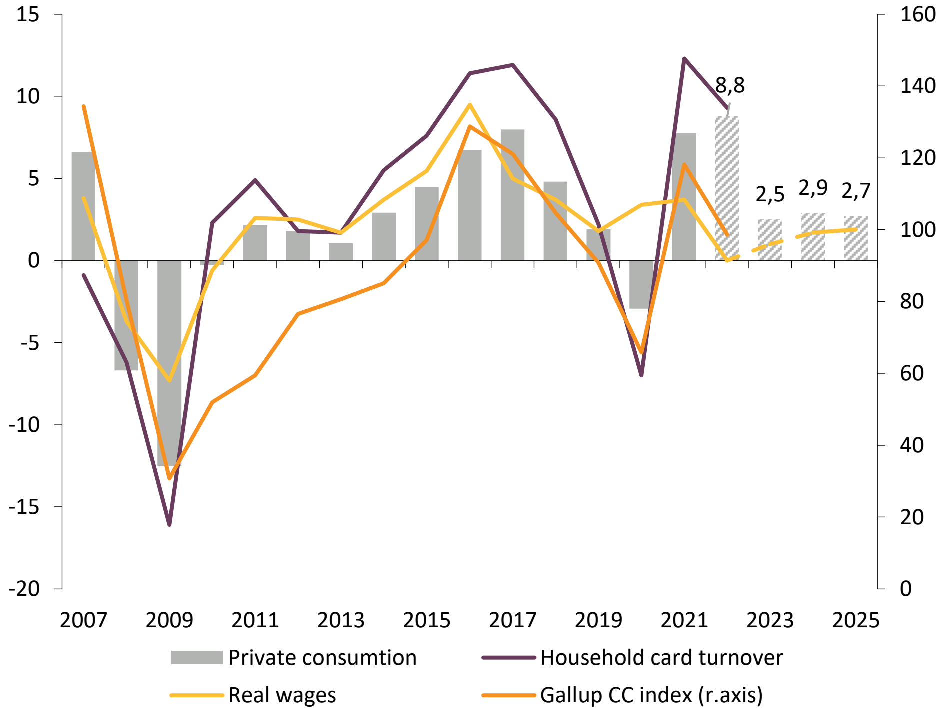
Household saving

% of disposable income



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 somewhat over time

Less favourable net trade reduces the likelihood that the ISK will regain its previous strength

After strengthening markedly over the first five months of last year, the ISK fell steadily from early summer until the year-end. It lost ground noticeably in the autumn, even though the season saw brisk activity in the tourism sector. On average, the ISK was 3% stronger in 2022 than in 2021.

Increased position-taking with the ISK via forward contracts probably played a role in the appreciation early in the year despite the hefty current account deficit. This position-taking reversed in H2, however, while trade remained unfavourable and the pension funds bought large amounts of foreign currency. As before, the Central Bank intervened in the market to mitigate short-term volatility. Over the year as a whole, its net foreign exchange purchases totalled ISK 13bn.

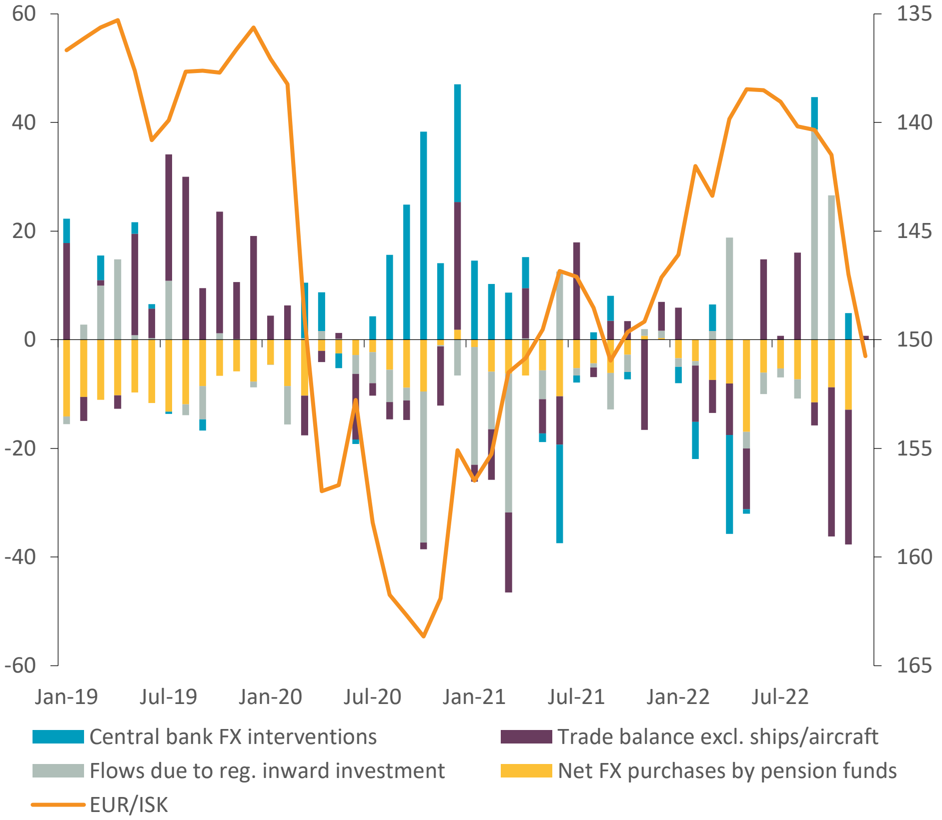
The near-term outlook for external trade has deteriorated somewhat relative to our September forecast, and the tailwinds supporting the ISK will probably be weaker in coming quarters than we had anticipated. Even so, the current account looks set to be in balance further ahead, with a significant interest rate differential, a strong external position, more favourable GDP growth prospects than are generally envisioned abroad, and non-residents' securities holdings are relatively moderate.

On the other hand, the pension funds will probably continue to invest heavily abroad in the coming term. In addition, other domestic entities are likely to scale up their foreign securities holdings as the global market outlook improves.

The scope and timing of exchange rate movements is always highly uncertain, but we forecast that the ISK will be approximately 8% stronger at the end of the forecast horizon than at year-end 2022. This would give an exchange rate of roughly ISK 142 per euro towards the end of 2025. The real exchange rate in terms of relative consumer prices will then be similar to that in 2019.

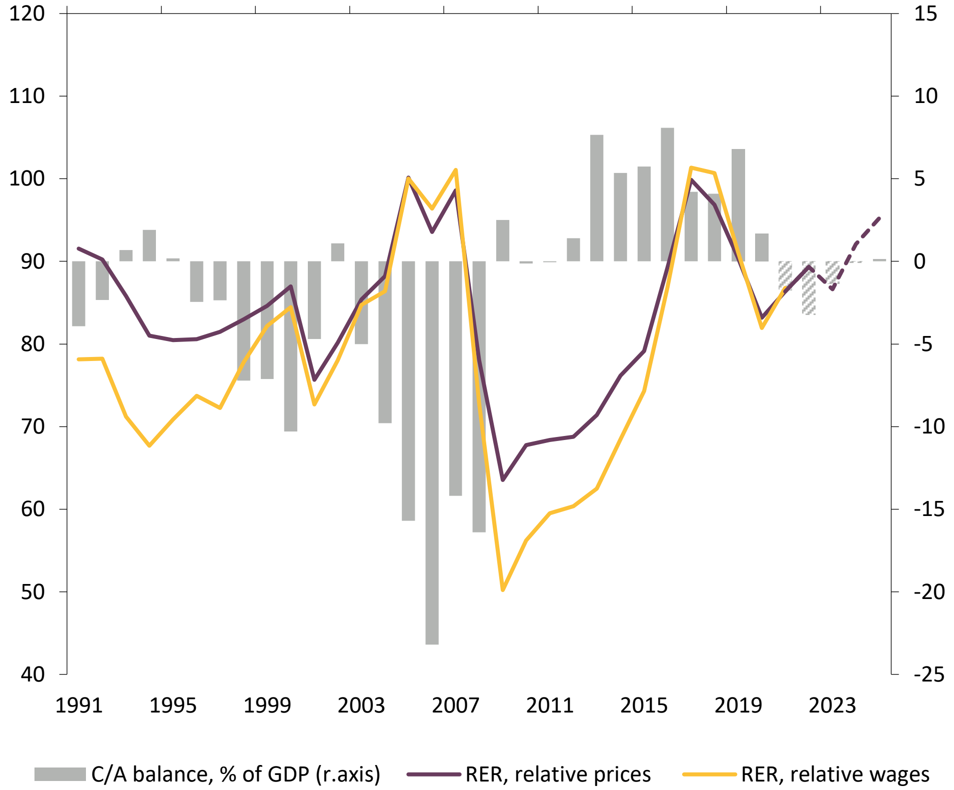
ISK exchange rate and selected determinants

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.

Inflation will fall, but how fast?

The road back to the inflation target is rocky and circuitous

Twelve-month inflation rose in January and measures 9.9%, where it topped out last July. Next months something major would have to change in order to prevent inflation from subsiding in the near future, as large monthly increases are set to drop out of twelve-month measurements. For example, inflation rose by an average of 1% per month over the first half of 2022.

The main drivers of the uptick in January are motor vehicles prices and year-end price hikes in public levies and tariffs. We think inflation is likely to fall in coming months despite this setback. The main reason we forecast a decline is cooler housing market. Of the January inflation figure of 9.9%, the housing component accounts for 3.5%. This percentage has been falling, after peaking at 4% last summer, and looks set to keep declining in the near future.

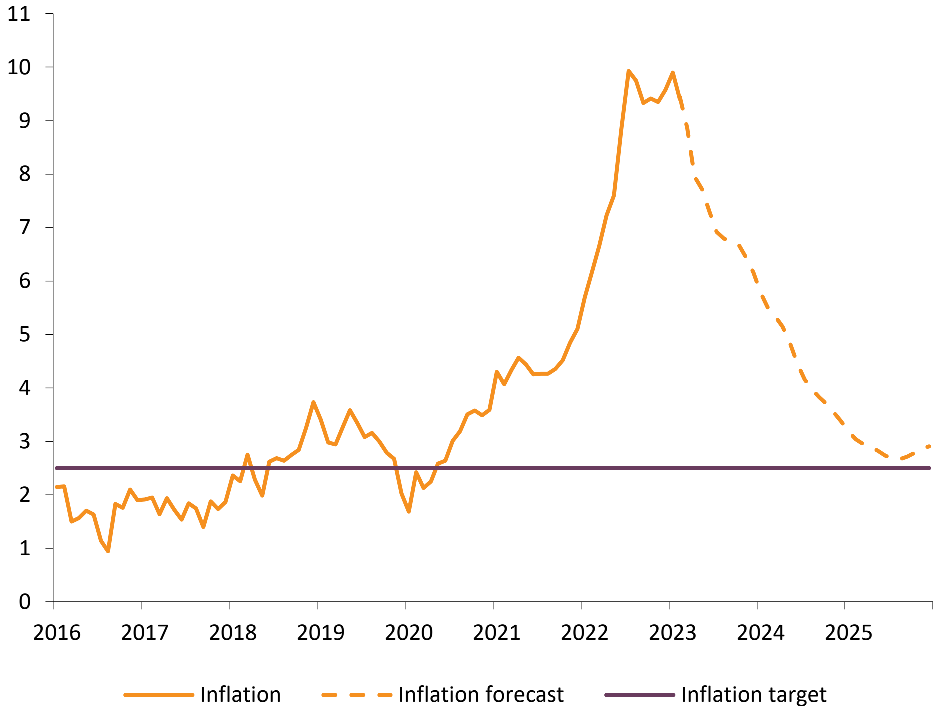
Imported inflation, another key driver of inflation, is still rising and appears likely to keep doing so in coming months. There are hopes that it will taper off sharply over the course of the year, though, particularly if the ISK holds its ground.

Although it appears that inflation is moving in the right direction, the road ahead is rocky and roundabout. There is much ground to cover before inflation falls to the Central Bank's 2.5% target, but we expect it to be very close to target by the end of the forecast horizon. We expect inflation to average 7.6% in 2023, 4.5% in 2024, and 2.8% in 2025.

Naturally, the near-term outlook is highly uncertain. The main assumption underlying our forecast is that the housing market remains calm. Furthermore, the ISK will have to be more stable than it has been in recent months if imported inflation is to be kept at bay.

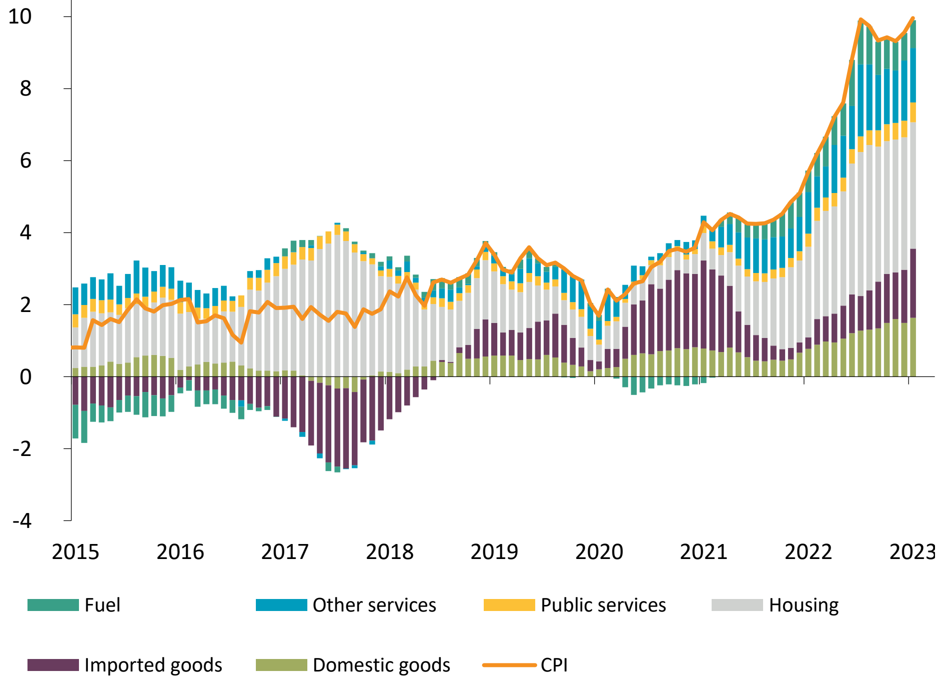
Inflation and the CBI inflation target

%



Inflation by type and source

%



Sources: Statistics Iceland, Central bank of Iceland and ÍSB Research.

Interest rates relatively high for a while yet but will ultimately fall

Gradual easing further ahead; equilibrium interest rate in sight by the end of the horizon

The CBI began raising interest rates in spring 2021, in response to the worsening inflation outlook and improving economic outlook. The policy rate is now 6.0%, after being raised by 4 percentage points in 2022.

The real rate has risen somewhat in recent quarters. It currently ranges between -2% and just under 2% in terms of forward-looking measures. The long-term real rate is around 1.9%, however, up from slightly below 1% in mid-2022.

The forward guidance in the Central Bank Monetary Policy Committee's last statement was neutral, with references to economic activity, inflation, and inflation expectations.

Various segments of the economy show signs of diminishing demand pressures. Card turnover is growing more slowly, the housing market appears better balanced, and labour shortages seem less acute than in recent quarters. Even so, inflation remains high and inflation expectations are well above the Central Bank's target.

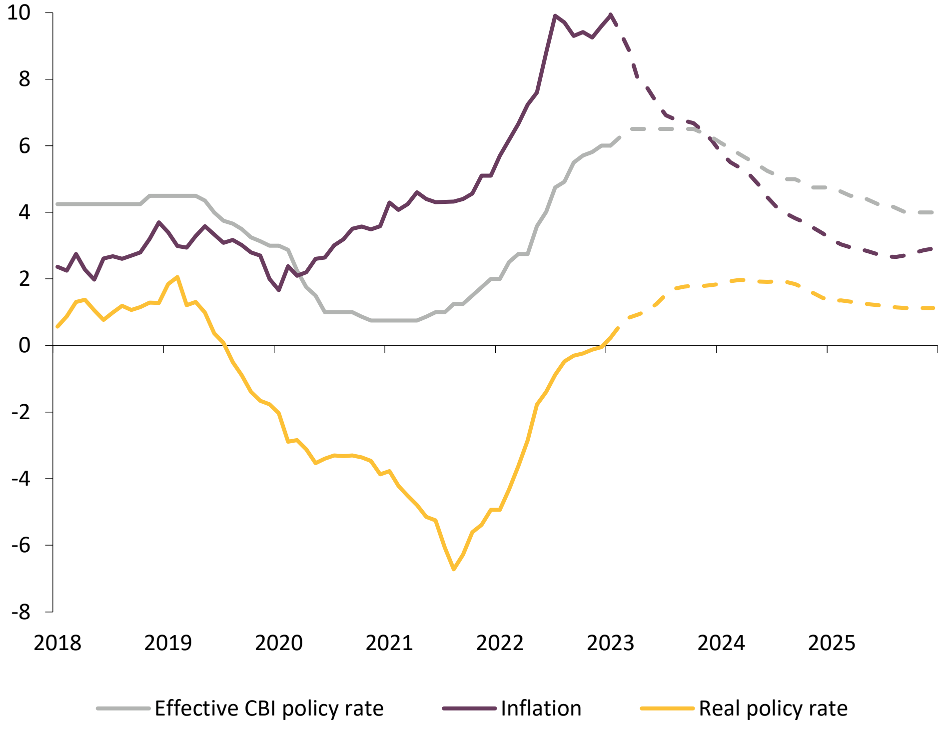
The outlook is for a further 0.5 percent rise in the policy rate and for the Central Bank's rate hike process to conclude with the policy rate at 6.5% by the end of Q1.

Further ahead, however, the policy rate will fall again, perhaps starting in Q4 – provided that inflation develops in line with our forecast. Thereafter, the policy rate will fall gradually as inflation eases and the economy becomes better balanced.

Assuming that inflation and the policy rate develop in line with our forecast, we think the rise in long-term rates has largely come to the fore and that no further increases can be expected in the near future. Once a monetary easing phase is in sight, we expect long-term rates to start inching downwards. By the end of the forecast horizon, we expect long-term rates to approach equilibrium, which we estimate at around 4.5% for nominal rates and somewhere near 1.5% for the real rate.

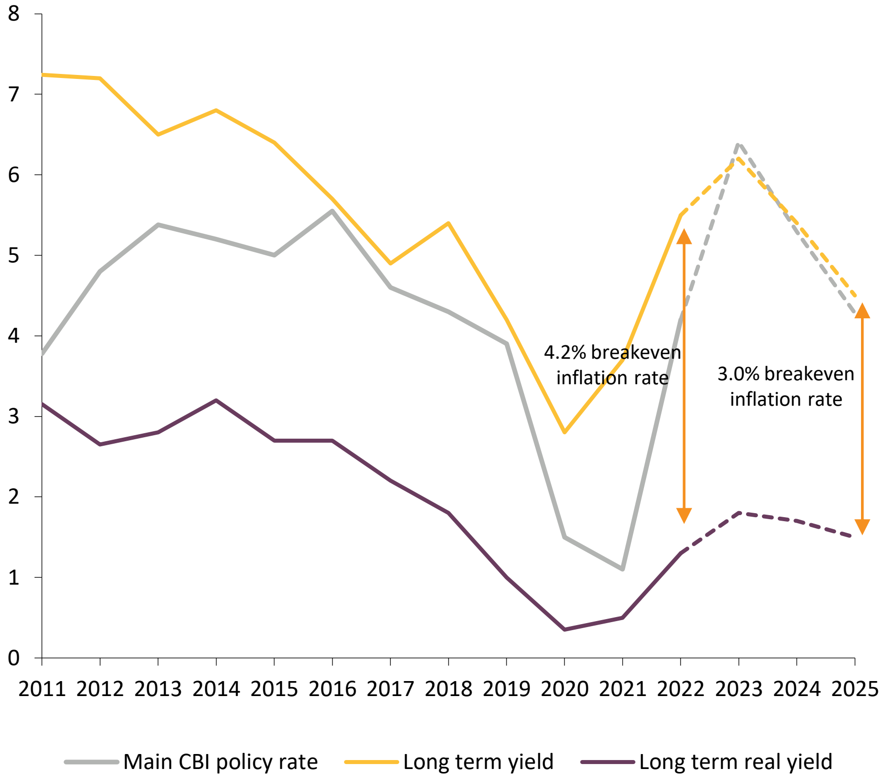
Policy rate and inflation

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



Interest rates

%



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

Macroeconomic forecast summarised

GDP and its components

Volume change from prior year %	2021 in ISK m	Estimate 2022	Forecast 2023	Forecast 2024	Forecast 2025
Private consumption	1,674,093	8.8	2.5	2.9	2.7
Public consumption	892,489	2.0	1,7	1.8	2.0
Investment	738,043	4.2	3.3	4.5	3.8
– business investment	429,398	9.3	0.7	3.9	3.8
– residential investment	177,385	-2.6	15.0	8.0	3.5
– public investment	132,248	-4.1	-3.0	1.0	4.0
Changes in inventories	4,655	0.0	0.0	0.0	0.0
Domestic demand, total	3,309,281	5.8	2.5	3.0	2.8
Exports of goods and services	1,241,887	22.7	8.5	5.4	3.9
– marine product exports	292,502	6.7	-3.3	3.9	3.1
– aluminium products	284,434	2.0	1.5	1.0	1.0
– other goods exports	190,551	0.5	3.5	2.5	2.3
– services exports	474,400	53.4	18.2	8.0	5.3
Imports of goods and services	1,299,947	19.0	6.3	4.4	3.5
– goods imports	926,996	9.2	4.0	4.1	3.5
– services imports	372,951	43,1	10.7	4.8	3.6
Gross domestic product	**3,251,222**	**7.0**	**3.4**	**3.4**	**2.9**

Macroeconomic forecast summarised

Other economic variables

% of GDP	2021	Actual (* estimate) 2022	Forecast 2023	Forecast 2024	Forecast 2025
Investment	22.7	21.8*	22.1	21.7	21.6
Current account balance	-1.7	-3.2*	-1.4	-0.1	0.2
Trade balance	-1.8	-1.3*	-0.8	0.0	0.0
Change between annual averages (%)					
Consumer prices	4.4	8.3	7.6	4.5	2.8
Wages and salaries	8.3	8.3	8.0	6.1	4.8
Real wages	3.7	0.0	0.4	1.5	1.9
Real exchange rate in terms of relative consumer prices	3.8	3.5	-2.3	6.5	3.5
House prices	12.5	21.0	7.1	4.5	4.0
Annual average (%)					
Unemployment	7.7	3.8	3.3	3.7	3.8
Trade-weighted exchange rate index	196.1	190.3	199.1	190.4	185.3
EUR/ISK	150.2	142.3	153.0	146.3	142.4
CBI policy rate (7-day term deposits)	1.1	4.2	6.4	5.3	4.3
Long-term nominal rate (RIKB 31)	3.7	5.5	6.2	5.4	4.5
Long-term real rate (RIKS 30)	0.5	1.3	1.8	1,7	1.5

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

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Publisher

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Publication date: 1. February 2023