

A large crowd of people, mostly seen from behind, is gathered in the foreground, looking towards a massive, glowing lava flow. The lava is dark and jagged, with bright orange and red molten areas visible. The scene is set at night, with the lava providing the primary light source. The crowd is diverse in age and appearance, with many wearing winter hats and jackets. Some people are holding up their phones to take pictures of the lava. The lava flow itself is a complex, branching structure that fills most of the background.

# Glimmer of daylight follows gloomy year

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**Economic Forecast for 2021-2023**  
**Landsbankinn Economic Research**  
**18 May 2021**



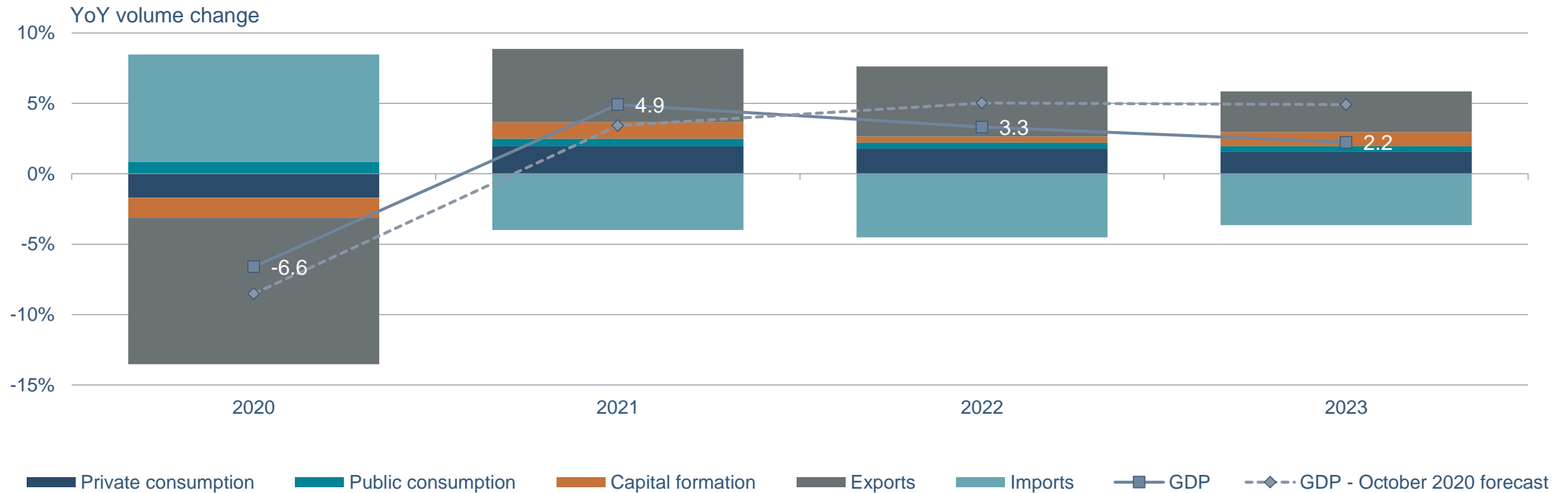
# Key points from the economic forecast:

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- The outlook is for successful restraint of the Covid-19 pandemic in the latter part of 2021 and for a 4.9% increase in GDP growth in Iceland this year. Export increases by just over 15%, private consumption by 3.8% and total capital formation by 5.5%.
- Continuous economic growth is expected over the coming two years; 3.3% in 2022 and 2.2% in 2023. GDP is expected to attain pre-pandemic levels towards the end of 2022.
- Around 800,000 tourist arrivals are expected in 2021, 1.5 million in 2022 and 2 million in 2023.
- Unemployment levels will recede and registered unemployment average 8.8% this year, dropping to 5.5% next year and to 4.6% in 2023.
- The trade balance is expected to be positive at 1.1% of GDP on average in the next three years.
- Inflation will peak in Q2 of 2021 and hover appreciably over target for the remainder of the year only to trend down to target around mid-2022. Inflation is estimated to average 4% this year, 2.5% next year and 2.6% in 2023.
- The forecast assumes a policy rate hike in the latter part of the year and for the CBI's key rate to be 1.5% at year-end, rising to 2.5% in 2022 and to 2.75% by the end of 2023.
- The housing market picked up sharply in spring following rate cuts. We assume that real estate prices will increase by 10.5% between annual averages this year only to slow down considerably in coming years.
- The National Treasury has assumed significant burdens in the recession. The budget for 2021 was passed with an ISK 326 billion deficit. Public consumption expenses grew by 3.1% in 2020 and we forecast a 2% increase this year.

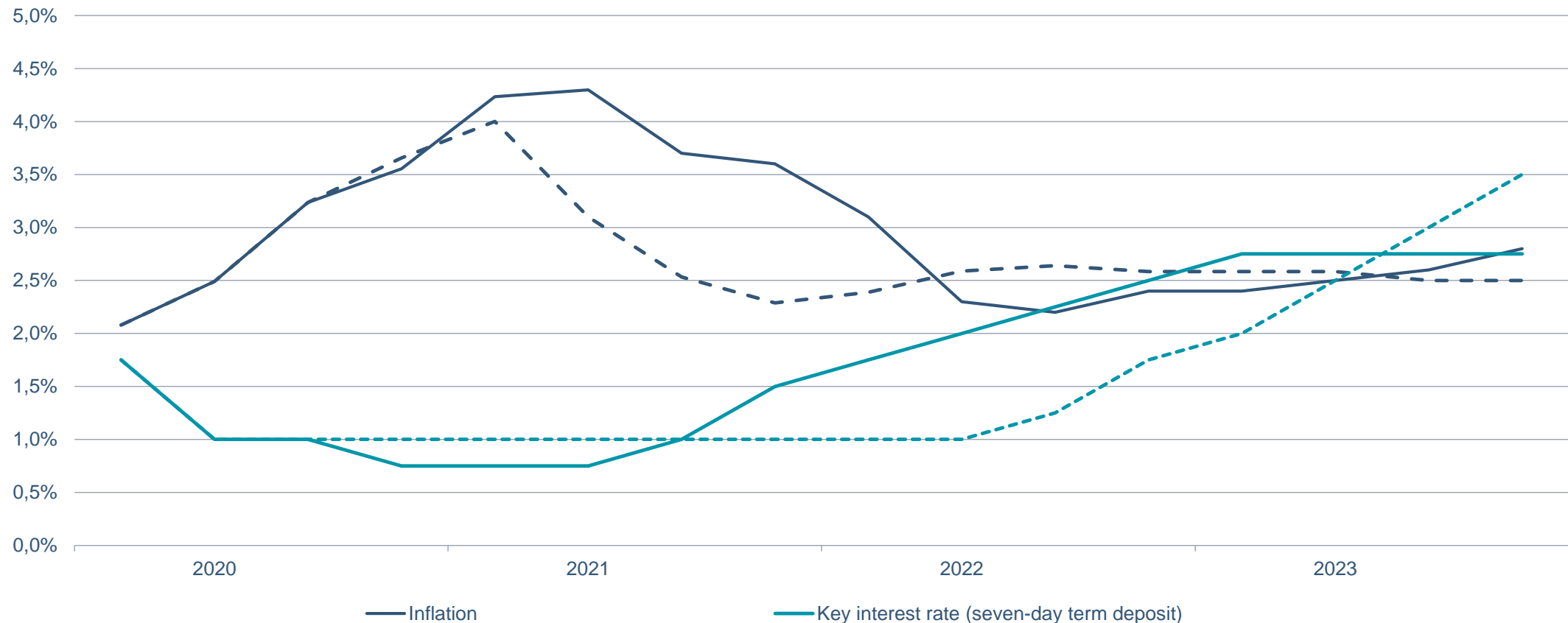
# Faster economic recovery than in previous forecast

## GDP growth and key components



# Inflation back on target same time next year

## Inflation and policy rate forecast



# Overview of Macro Economic Forecast

GDP and key components	ISK bn	Volume change from previous year (%)			
	2020	2020	2021	2022	2023
Gross domestic product	2.941	-6.6 (-8.5)	4.9 (3.4)	3.3 (5.0)	2.2 (4.9)
Private consumption	1.512	-3.3 (-5.5)	3.8 (3.5)	3.5 (4.0)	3.0 (3.0)
Public consumption	809	3.1 (3.5)	2.0 (2.5)	1.5 (2.0)	1.5 (2.0)
Capital formation	620	-6.8 (-10.3)	5.5 (5.9)	2.1 (5.3)	4.8 (5.3)
Business investment	350	-8.7 (-16.9)	4.3 (5.7)	6.8 (7.1)	7.8 (7.8)
Investment in residential housing	167	-1.2 (-16.0)	-4.0 (2.5)	-3.0 (2.0)	1.0 (5.0)
Public sector investment	102	-9.3 (20.0)	25.0 (10.0)	-5.0 (5.0)	0.0 (0.0)
Total national expenditure	2.958	-1.9 (-4.1)	3.7 (3.7)	2.7 (3.7)	3.0 (3.2)
Exports of goods and services	1.003	-30.5 (-29.6)	15.3 (7.4)	14.6 (16.6)	8.5 (13.1)
Imports of goods and services	1.020	-22.0 (-22.0)	11.5 (8.2)	13.0 (13.0)	10.5 (9.0)
<b>Prices, interest rates and exchange rates</b>		2020	2021	2022	2023
Key interest rate (7 day term deposit, end of year,%)		0.75 (1.00)	1.50 (1.00)	2.50 (1.75)	2.75 (3.50)
Inflation (annual average,%)		2.8 (2.9)	4.0 (3.1)	2.5 (2.7)	2.6 (2.6)
EURISK exchange rate (end-of-year)		156 (162)	145 (162)	140 (158)	140 (155)
Real estate prices (change in annual average %)		4.8 (4.5)	10.5 (4.0)	4.5 (4.0)	3.5 (4.0)
<b>Labour market</b>		2020	2021	2022	2023
Wage index (change from previous year,%)		6.3 (5.8)	7.9 (6.1)	5.6 (5.0)	3.5 (4.0)
Purchasing power of wages (change from previous year,%)		3.4 (2.8)	3.8 (3.0)	3.1 (2.3)	0.9 (1.3)
Unemployment (% of labour force)		7.9 (7.8)	8.8 (8.4)	5.5 (5.8)	4.6 (4.8)
<b>Trade balance</b>		2020	2021	2022	2023
Number of foreign visitors (thousand)		479 (500)	800 (650)	1,500 (1,300)	2,000 (1,900)
Goods and services balance (%GDP)		-0.6 (-1.0)	-0.2 (-1.0)	0.3 (0.8)	-0.2 (2.9)
Trade balance (%GD)		1.0 (0.1)	1.2 (-0.3)	1.5 (1.4)	0.7 (3.4)

Numbers in brackets are from Economic Research's October 2020 forecast

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