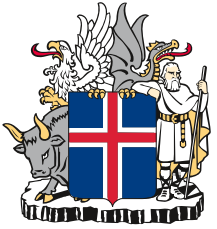


01 December 2021



Iceland Macroeconomic Outlook and Policy

Government of Iceland

Ministry of Finance and Economic Affairs



Strong recovery is well underway

Rapid economic recovery from the pandemic is now underway. Statistics Iceland forecasts 3.9% growth in 2021 and 5.3% growth in 2022.

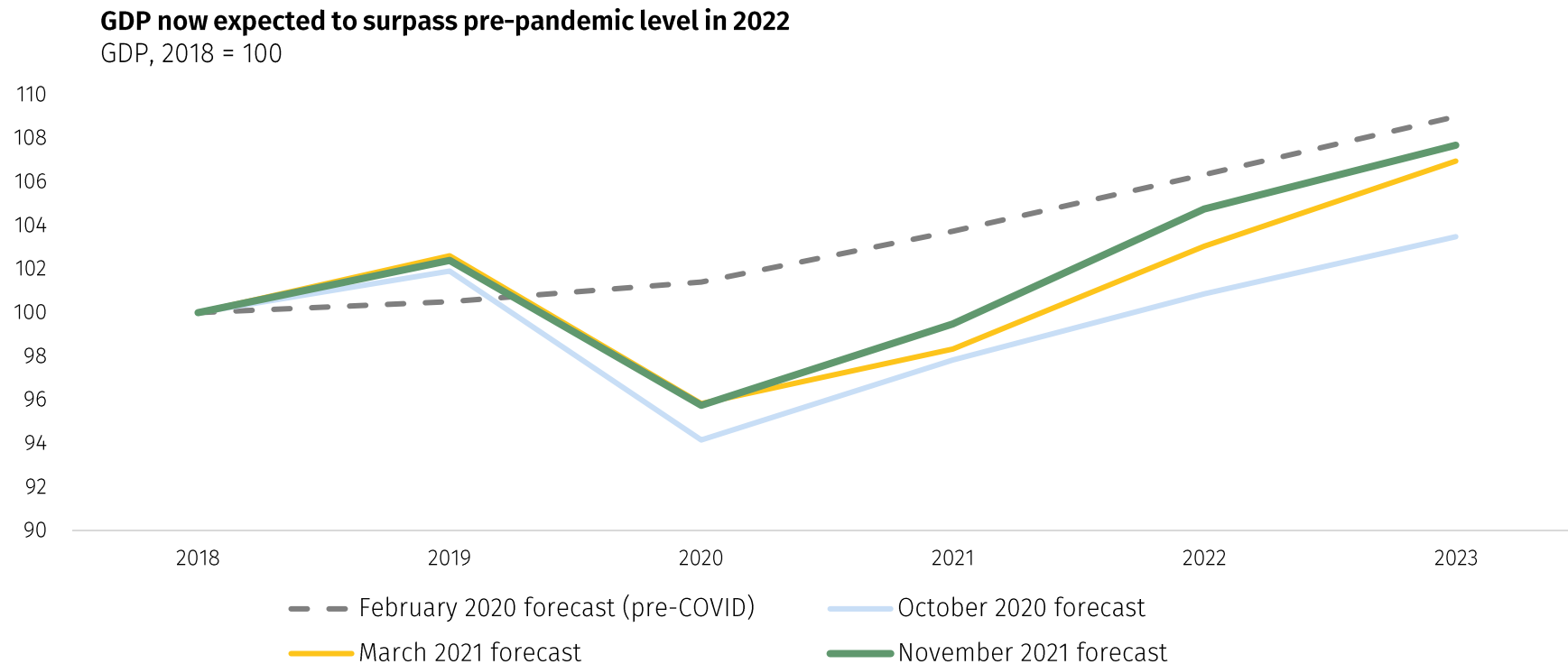


Source: Statistics Iceland. 2021-23 values are Statistics Iceland's November 2021 forecast.



GDP forecasts have been revised upwards

2021-22 GDP revised upwards by ~1.5pp in Statistics Iceland's new economic forecast.



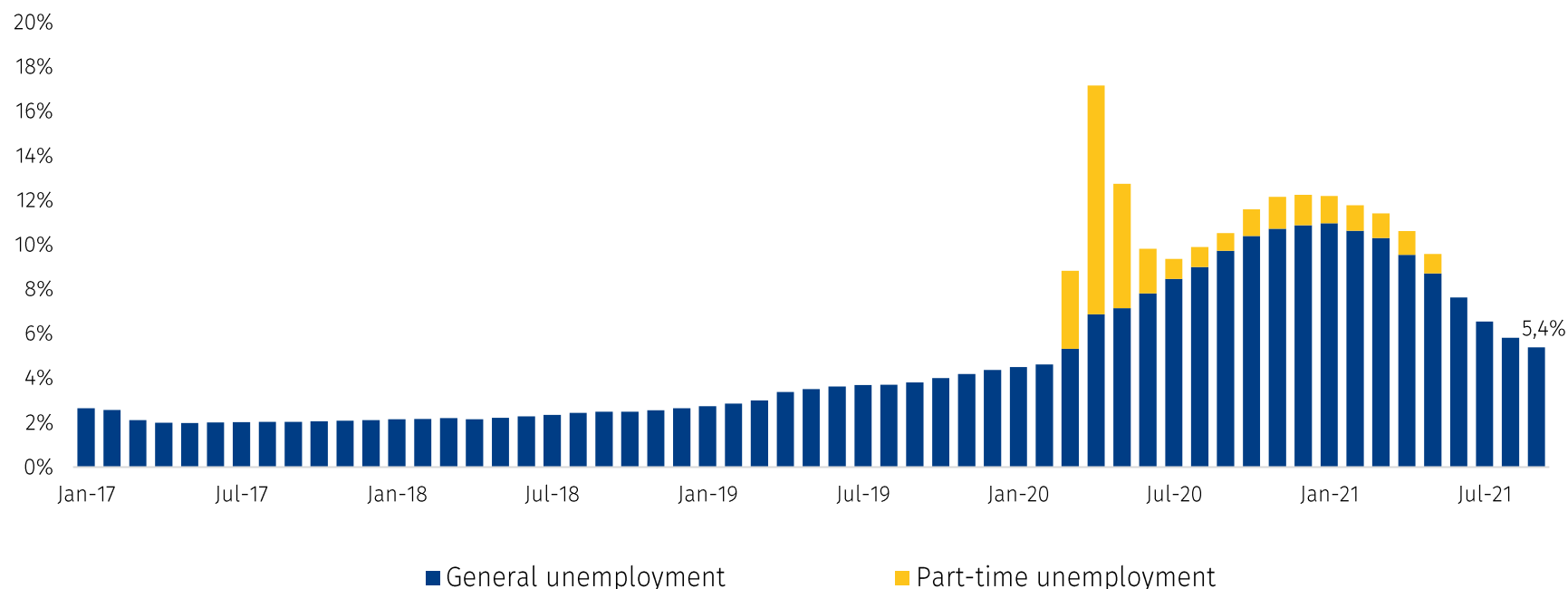


Labor market recovery exceeding expectations

Unemployment is now back to its pre-Covid level. A vast majority of those who exit unemployment enter jobs rather than exit the labor market.

Unemployment has more than halved since January

Registered unemployment

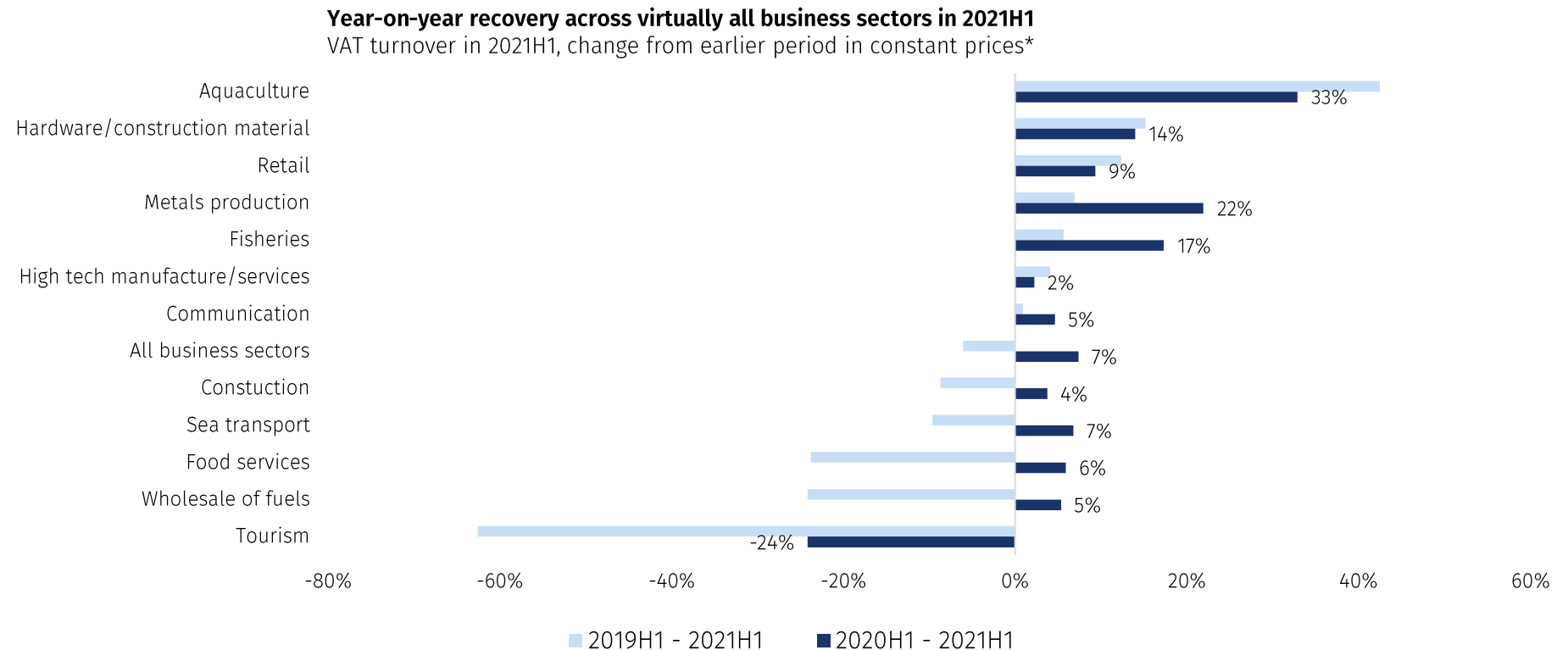


Source: Directorate of Labor. Part-time unemployment converted to full-time equivalent. General unemployment is seasonally adjusted.



Broad-based economic recovery

Domestically-oriented sectors have continued to benefit from strong domestic demand; export sectors have benefitted from exchange rate adjustment and a rise in world prices.

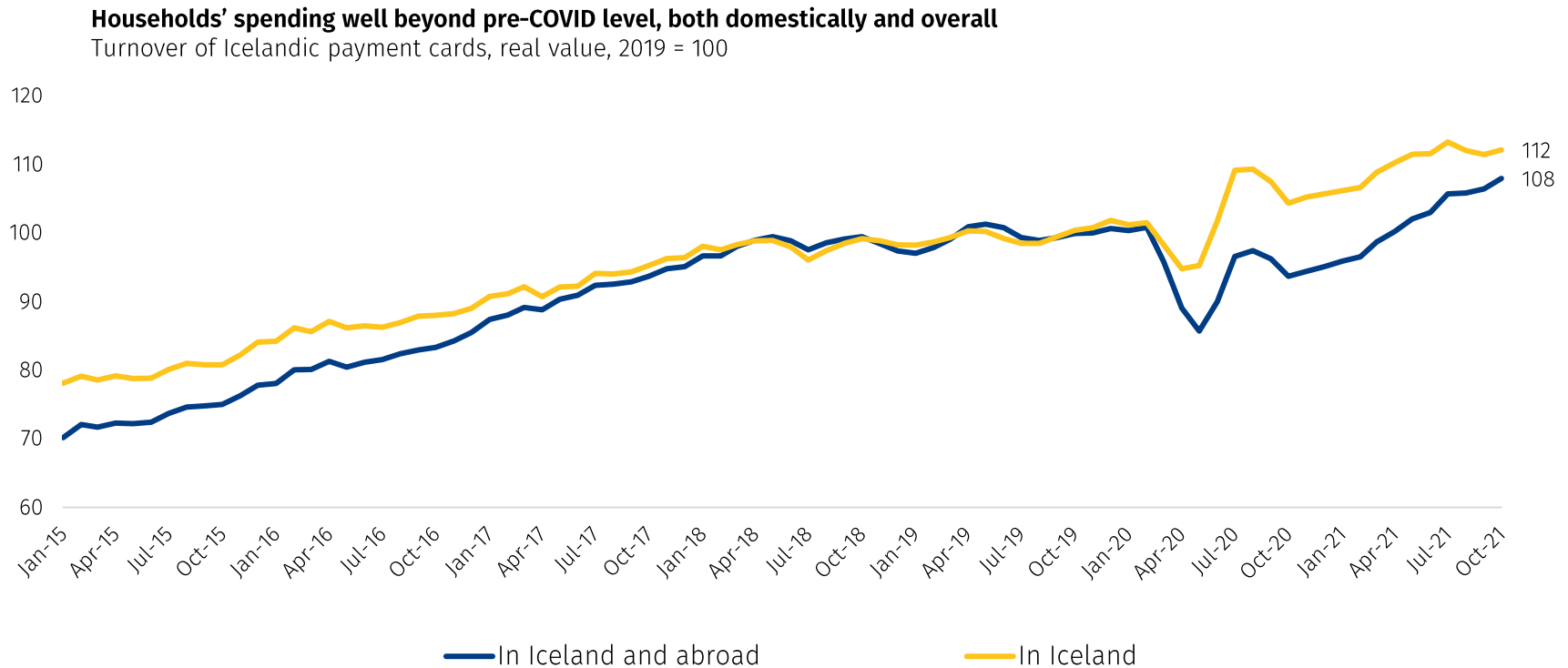


Source: Statistics Iceland. Constant prices with respect to the GDP price index.



Private consumption on a firm growth path

Driven by strong income growth, improved confidence and pent-up demand and savings, private consumption growth is robust across both goods and services.



Source: Central Bank of Iceland. Seasonally adjusted 3 months average.

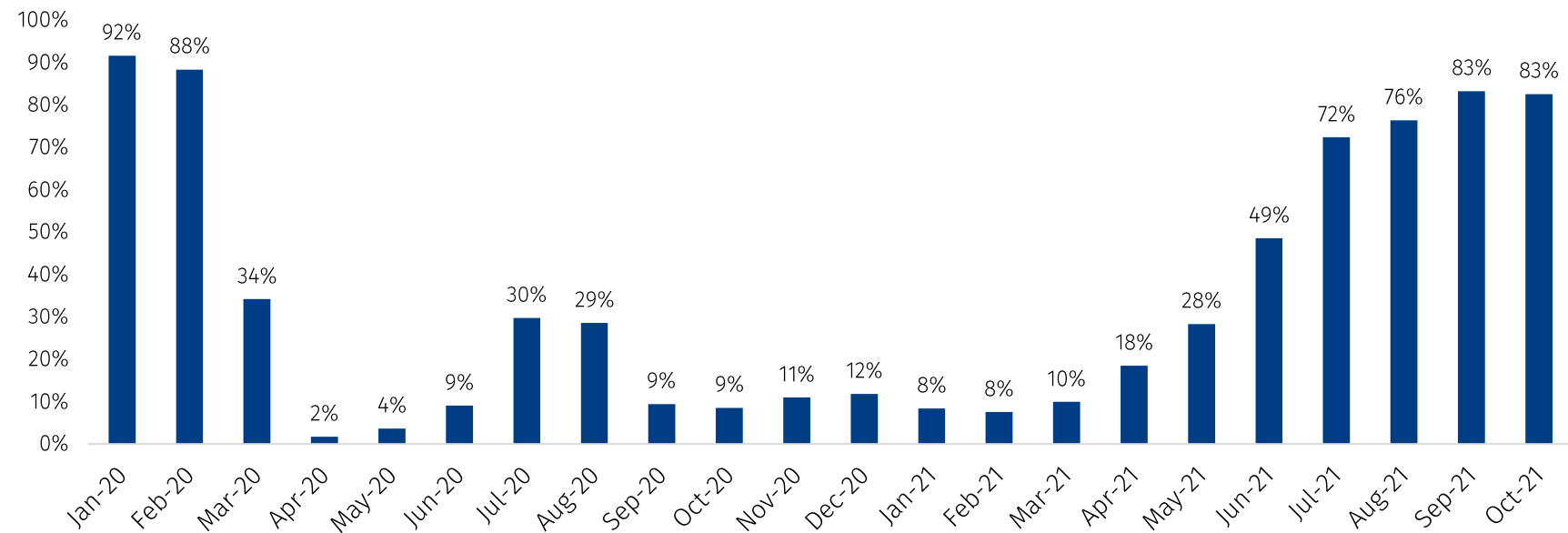


Tourism is fast recovering

Recovery in tourism is progressing faster than expected earlier in the year. Full recovery in tourist numbers is now expected within two years.

Tourism receipts are almost at pre-pandemic level

Foreign payment card turnover, percentage of same month in 2019



Source: Central Bank of Iceland. At constant prices.

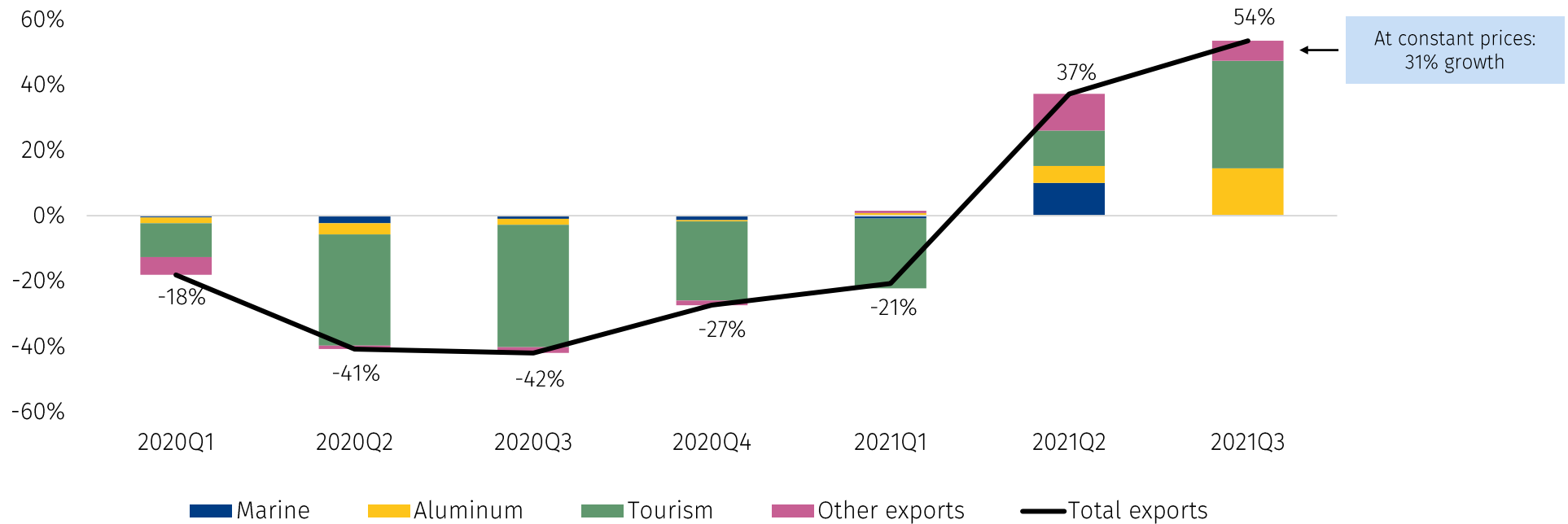


Exports recovering in line with expectations

Exports growth gained momentum in H2 with comprehensive recovery in tourism. Terms of trade have improved as aluminum and seafood prices have risen.

Broad-based exports recovery in Q2 and Q3

Year-on-year exports growth and contributions of subcomponents, fixed exchange rates and variable prices

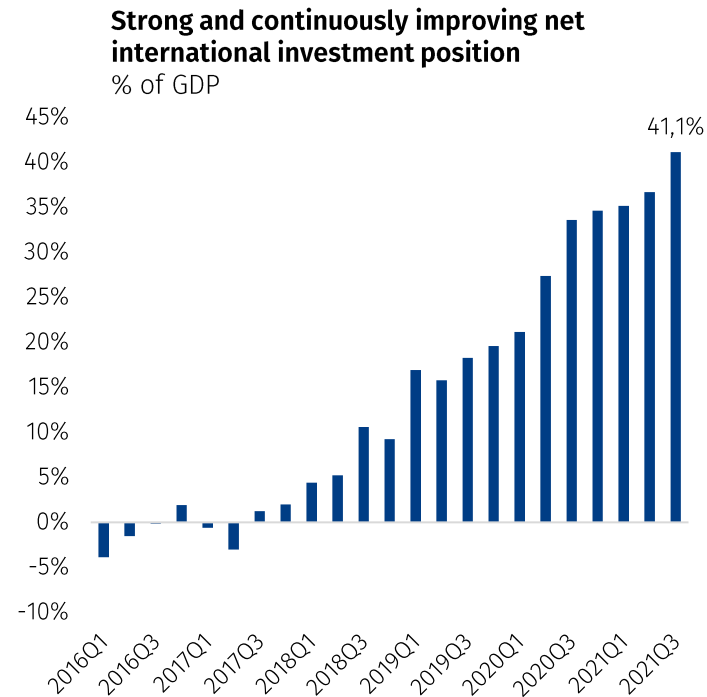


Source: Statistics Iceland. Fixed exchange rates and variable prices.



External balance emerges from pandemic stronger than ever before

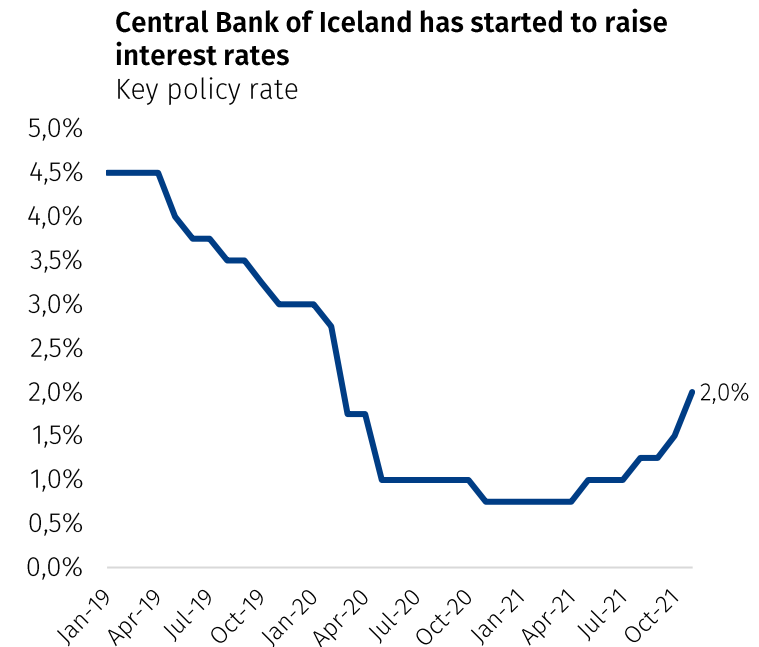
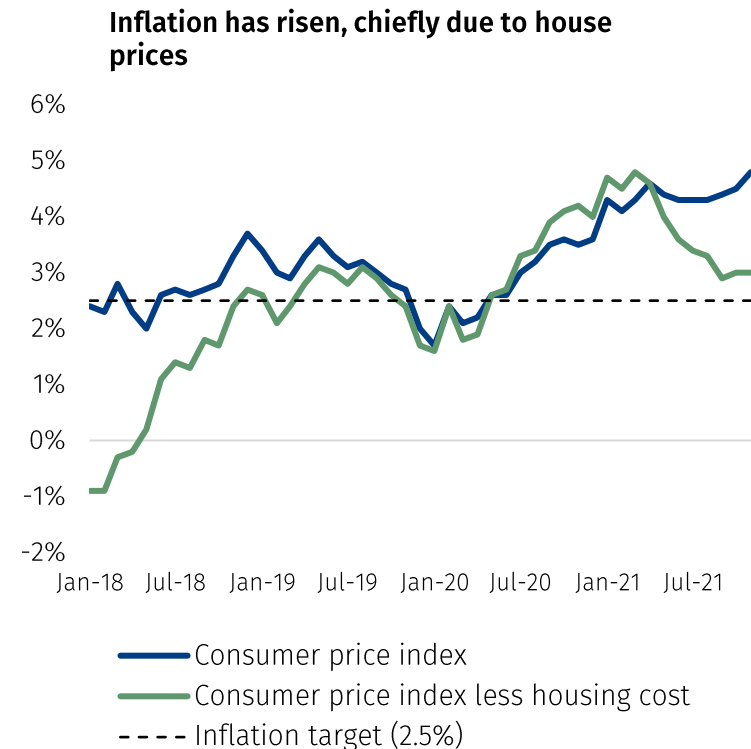
Continuously improving NIIP is testament to underlying strength of the economy.





Monetary policy has adjusted

Inflation is above target, largely due to house prices. Strong recovery and inflation above target has prompted the Central Bank of Iceland to raise interest rates.

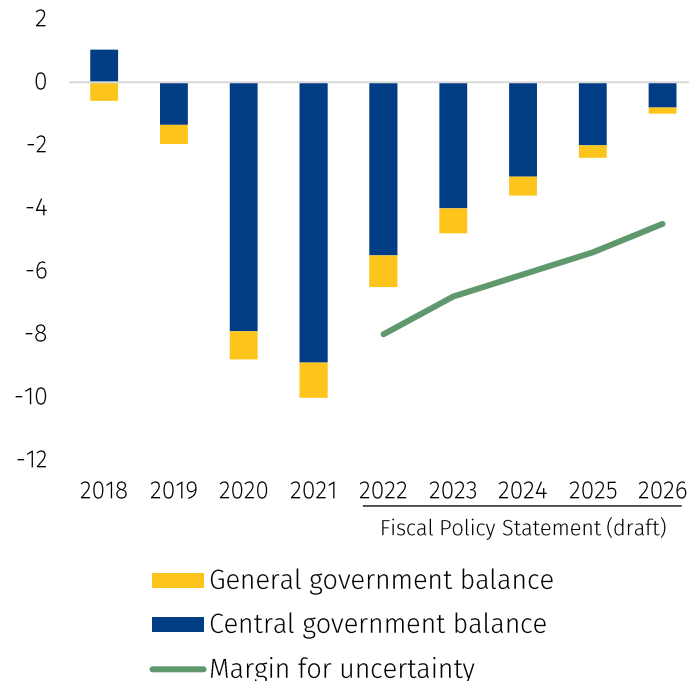




Public finances are on firm footing

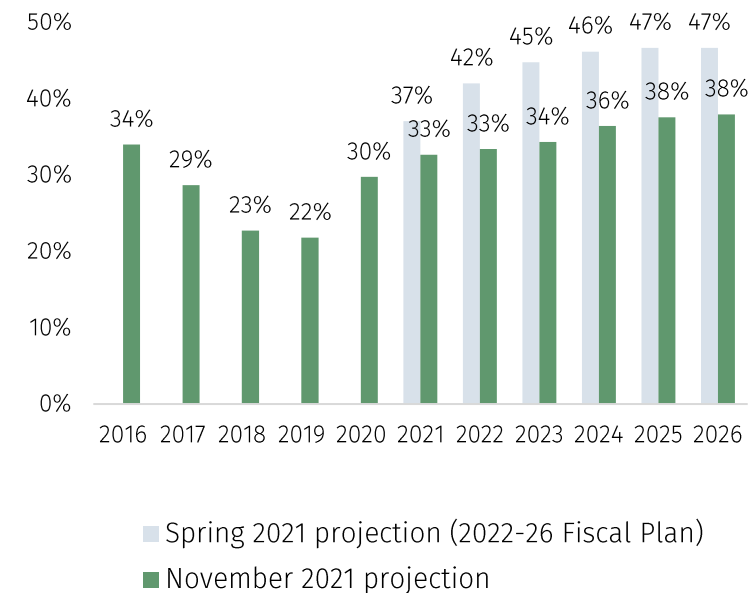
Government finances have been highly effective in stabilizing the economy. The overarching aim is now to halt the increase in the debt-to-GDP ratio by 2026.

Fiscal balance to improve year by year
% of GDP



Debt to stabilize at a much lower level relative to last spring's projection

Central government debt (PFA definition), % of GDP



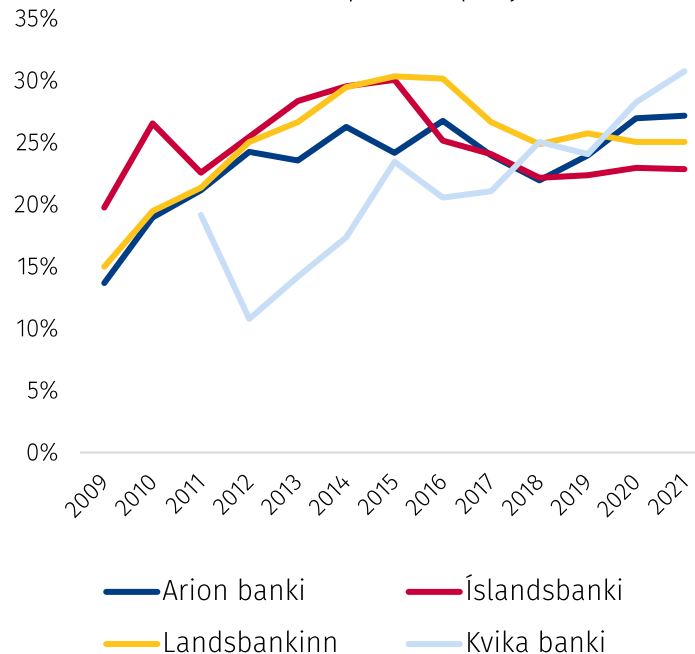


Banks in a position to support growth

Banks emerge strong from pandemic, with their strong equity positions barely affected at all.

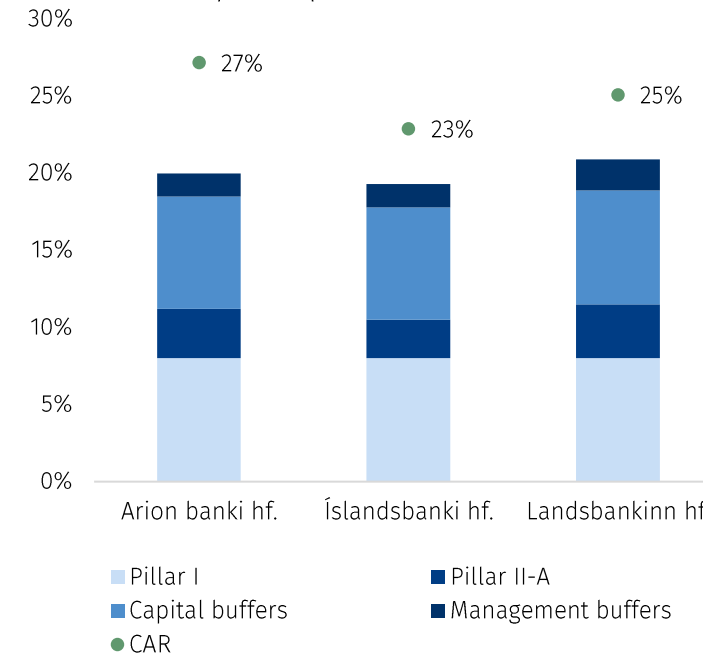
Banks' equity positions virtually unaffected by pandemic

Commercial banks' capital adequacy ratios



All largest banks comfortably above capital requirements

D-SIB capital requirements and CARs, 2021Q2

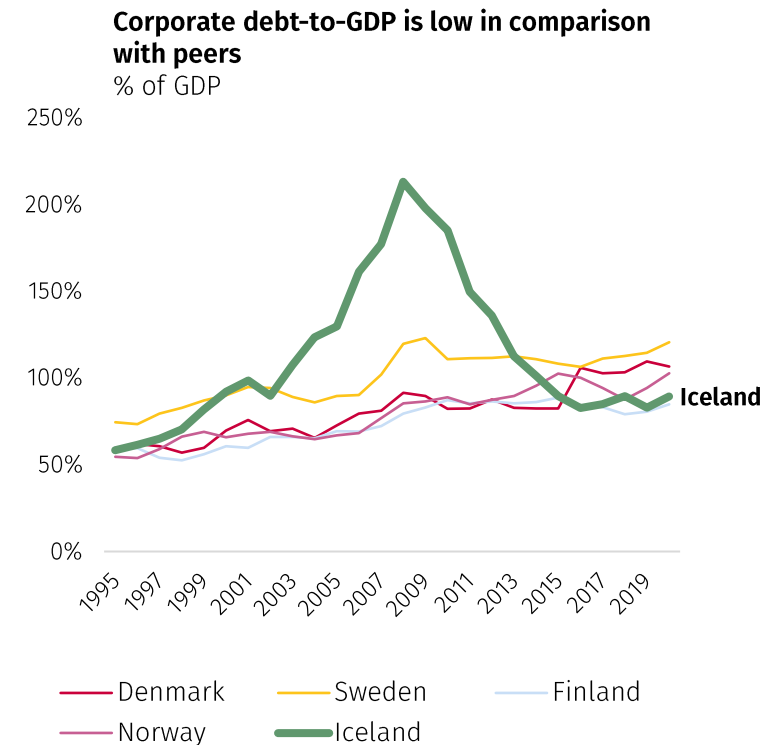
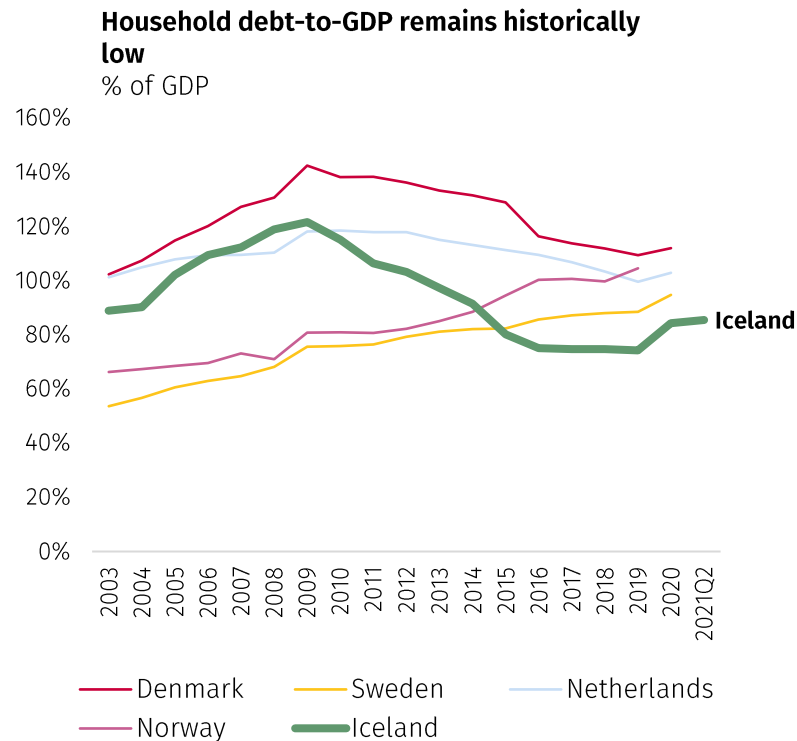


Source: Central Bank of Iceland. Left: 2021 figure is Q2. Right: Banks' planned dividend payments in 2022 are subtracted from CARs.



Strong household and corporate balance sheets

Resilient domestic demand is partly due to strong private sector balance sheets.

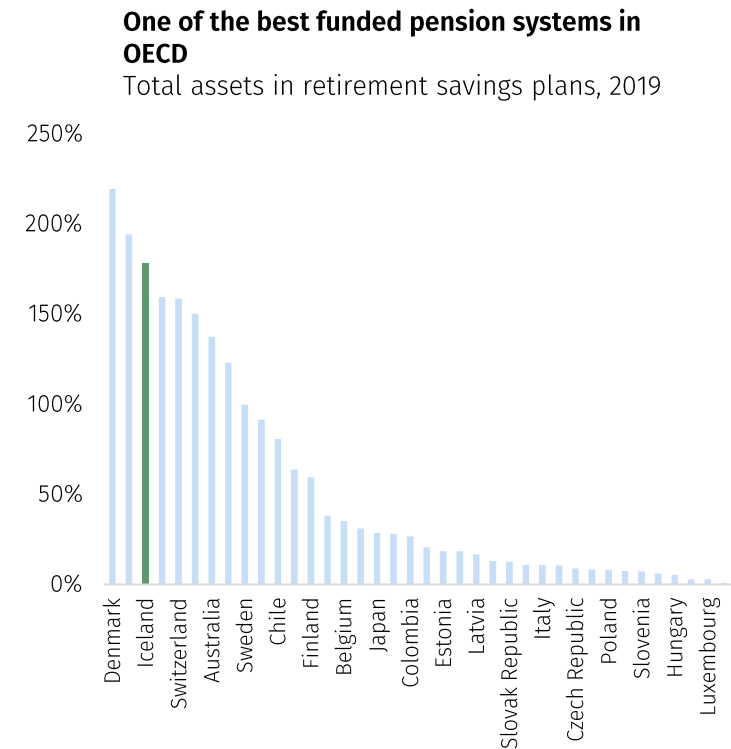
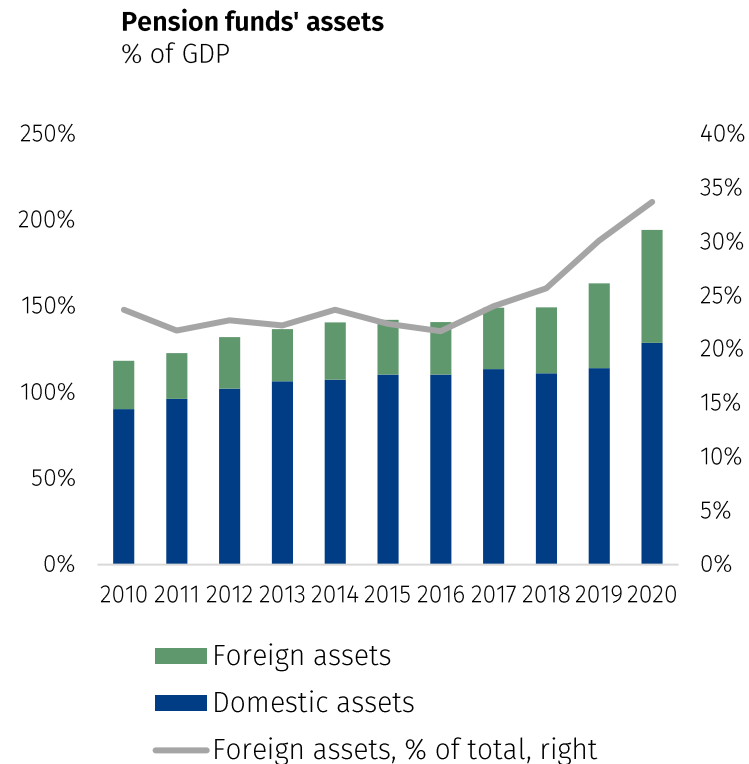


Source: Central Bank of Iceland.



Well-funded pension system

Strong pension funds are a key macroeconomic and fiscal long-term strength. Pension funds' assets increased by 15% in nominal terms in 2020.



Source: Central Bank of Iceland, Statistics Iceland, OECD.

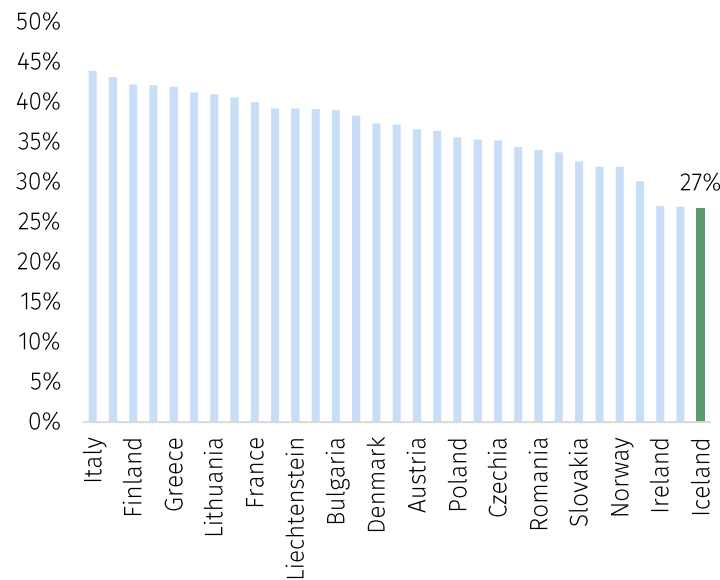


A broad set of other fundamental strengths

A favorable demographic composition, high institutional quality and a strong resource base are among Iceland's enduring strengths.

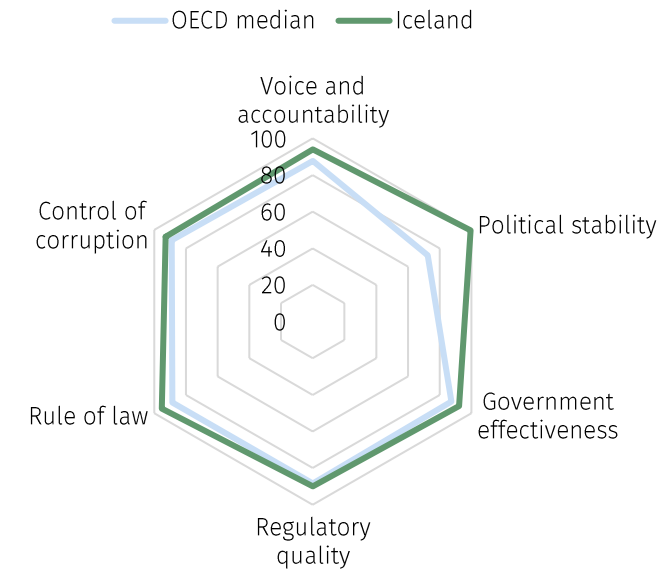
Old-age dependency projected to be the most favorable in Europe

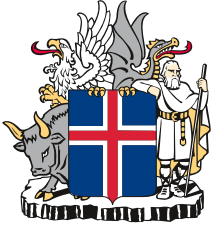
Old-age dependency ratio in 2030, Eurostat projections



Very high governance quality

Percentile ranking, WGI Governance Indicators





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