



# The Icelandic Economy Navigates the Wave

Economic Outlook 2025-2028

October 2025

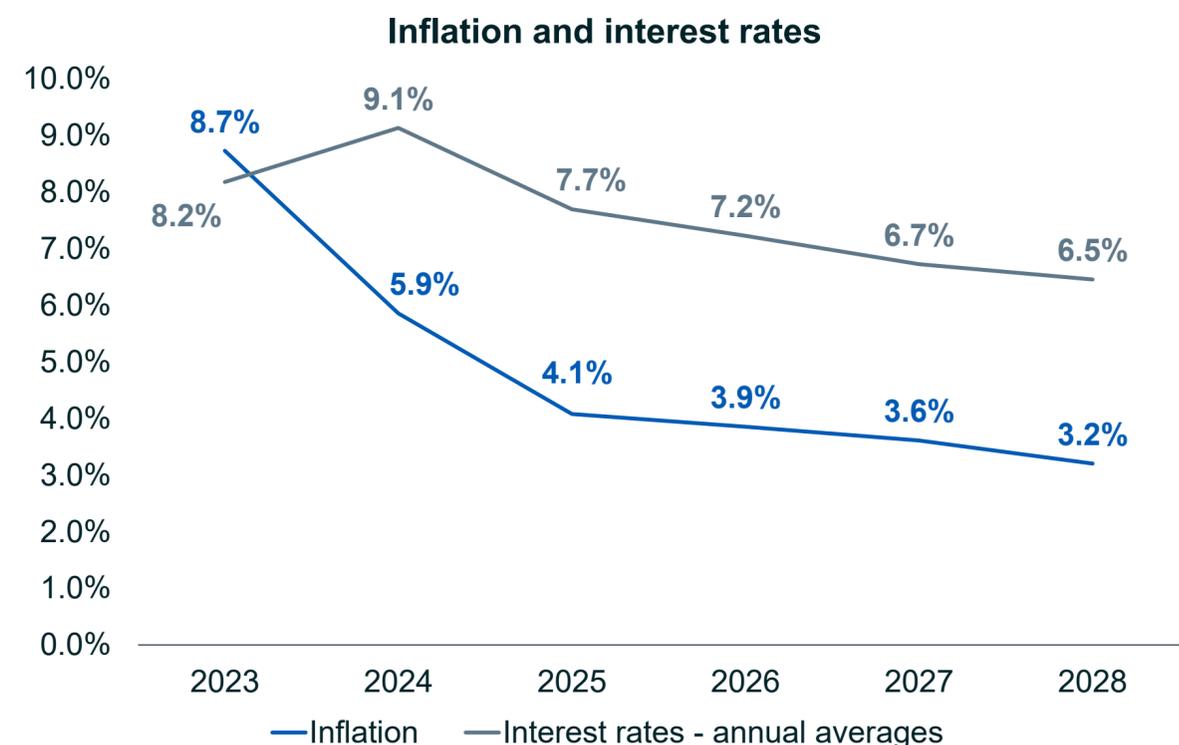
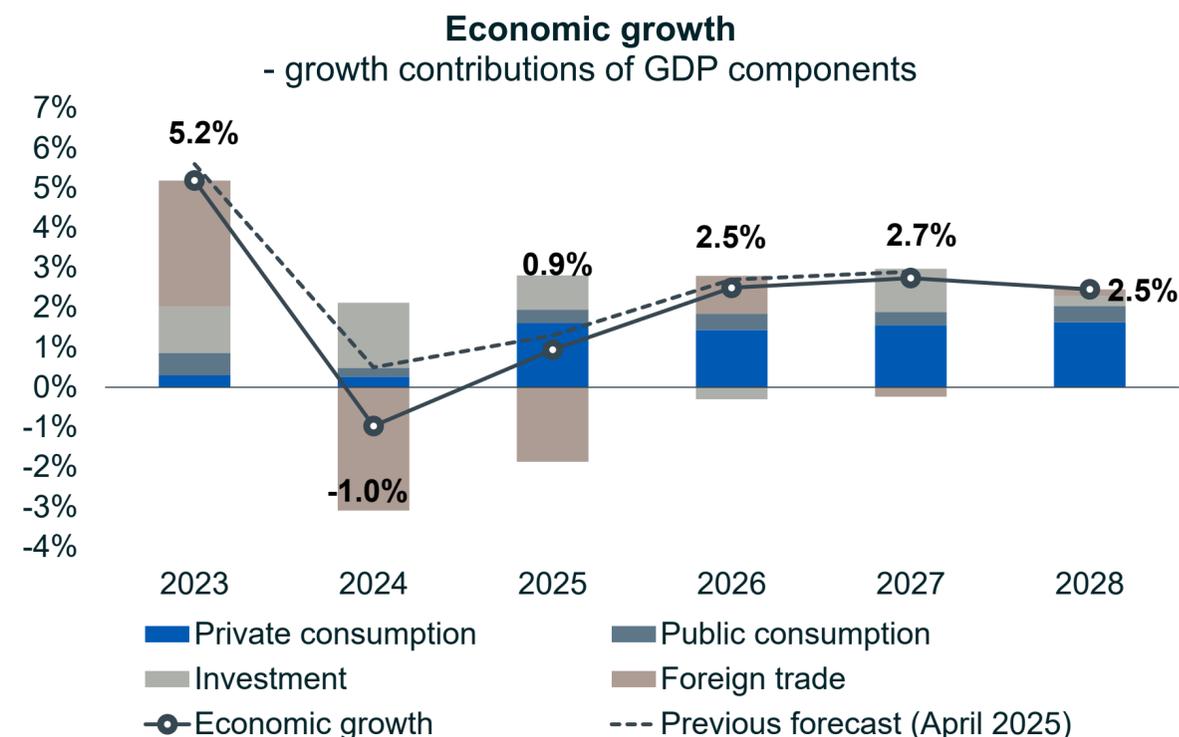
# Economic Outlook in Brief

According to Arion Bank's new economic forecast, the economy will set sail again after last year's contraction. Domestic demand – led by private consumption – has been stronger than previously assumed and will remain the main engine of growth. Even though sizable imports related to data centers and land-based aquaculture will make net trade a major drag this year, export prospects have hardly improved: flight capacity to Iceland has been sharply reduced, the króna is strong, and uncertainty around the economic policies of the world's largest economies remains elevated.

Next year, imports are set to decline – mainly because of lower investment by the data centers – and net trade should have a positive contribution to GDP growth. Although private consumption is expected to be the main driving force of growth throughout the forecast horizon, the outlook is more blurred than usual: inflation has proved persistent, and interest rates are therefore likely to stay high for longer than previously forecast. The full impact on domestic demand has yet to materialize, but cooling is evident in both the labor market and the housing market.

We expect the tight monetary policy to have more visible impact next year, with higher unemployment and declining housing prices in real term. However, every cloud has a silver lining: higher unemployment, all else equal, eases inflationary pressures. While inflation is set to remain above target through the forecast horizon, we anticipate two rate cuts next year, with the policy rate reaching 6.25% by the very end of the period. The króna – which is currently very strong – could, if it weakened markedly, impede disinflation, but in this forecast we do assume only a modest depreciation from next year onward.

As always, uncertainty is considerable, not least internationally, and the final shape of rising protectionism in global trade is still unclear. However things play out, the Icelandic economy is well equipped to navigate through rough waters.



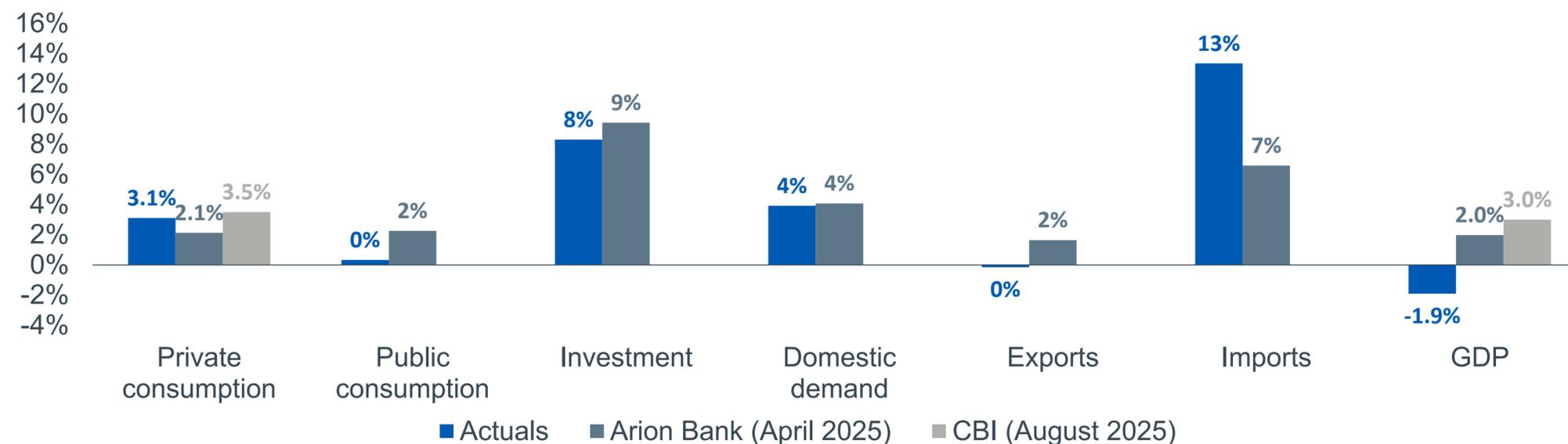
# A little Peculiar

According to Statistics Iceland's first estimate, GDP fell by 1.9% year-on-year in Q2. The figure surprised on the downside – well below analysts' expectations.

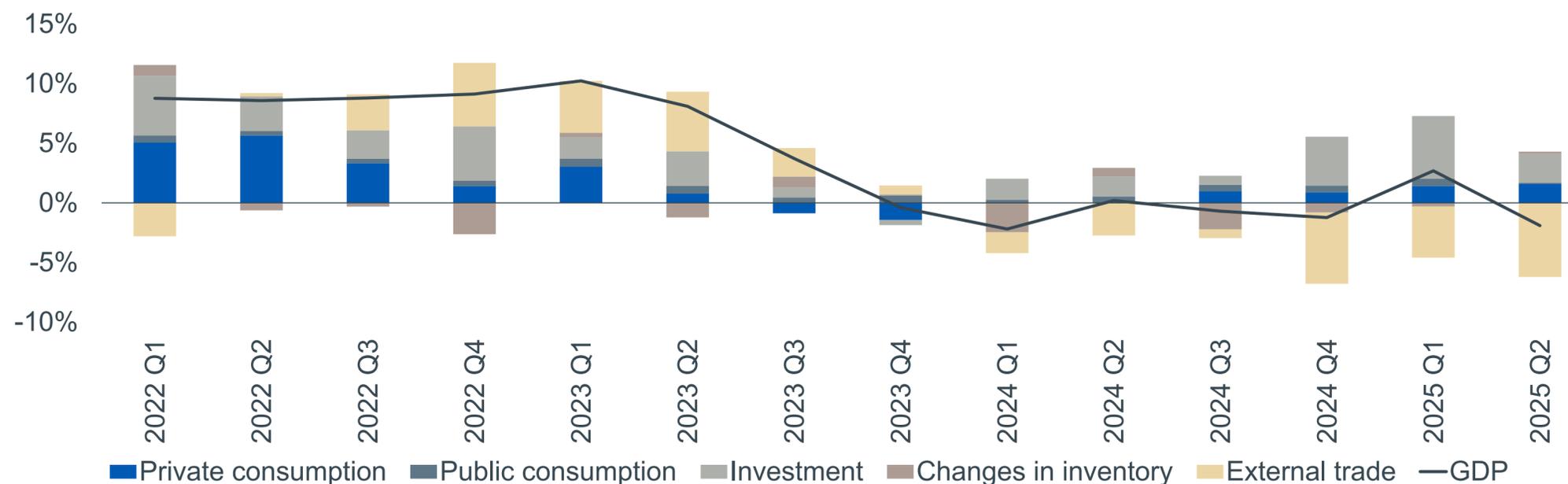
The decline was driven primarily by a negative contribution from net trade, as imports rose 13.4% between years while goods exports edged down.

Despite the measured contraction in Q2, this hardly amounts to a recession – nor a frozen economy – with private consumption up 3.1% between years and investment up 8.3%. These figures are preliminary, and if history is any guide, they are very likely to be revised upward.

**GDP in Q2 2025**  
- comparison between forecast and actual results



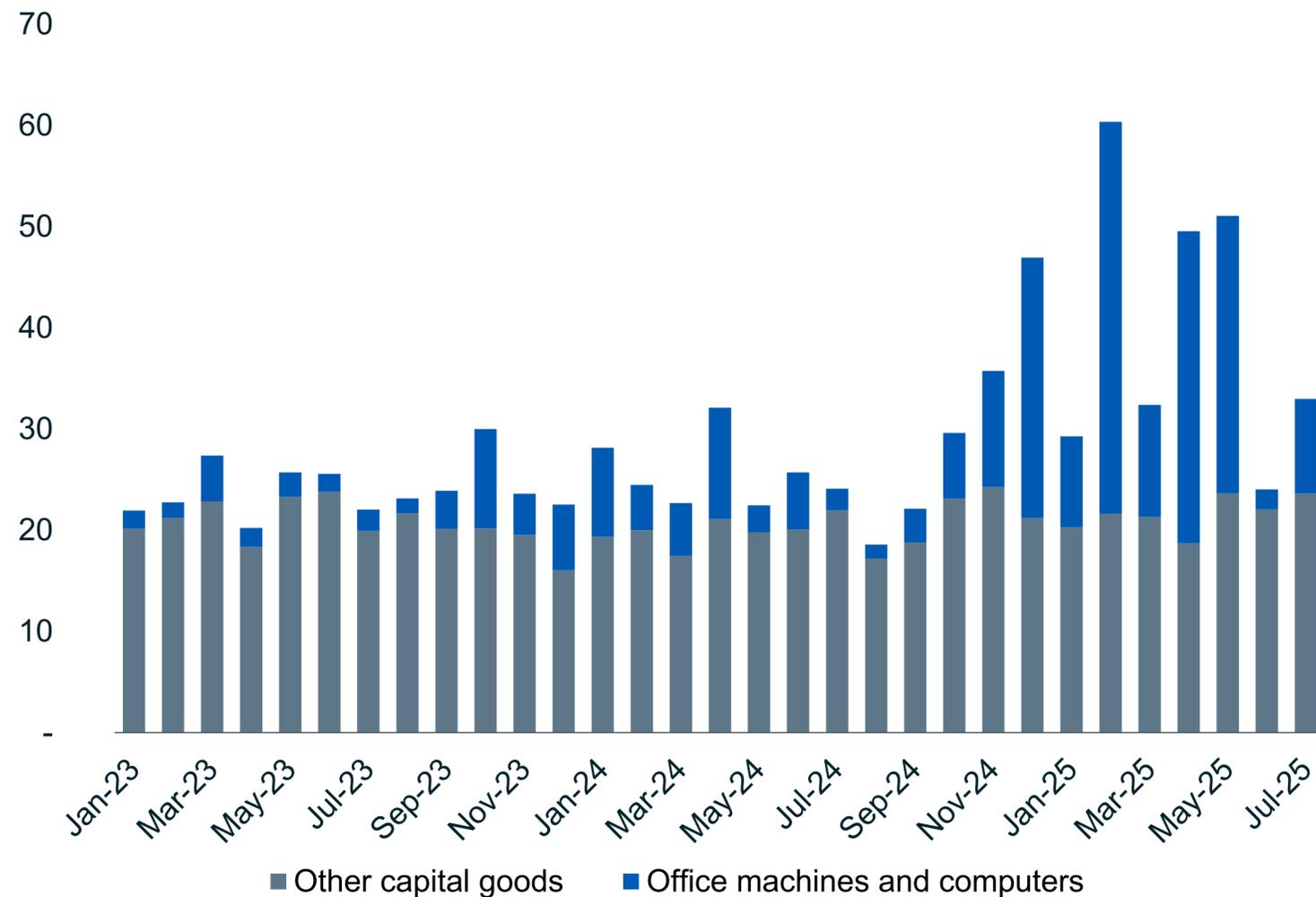
**Growth contributions of GDP components**



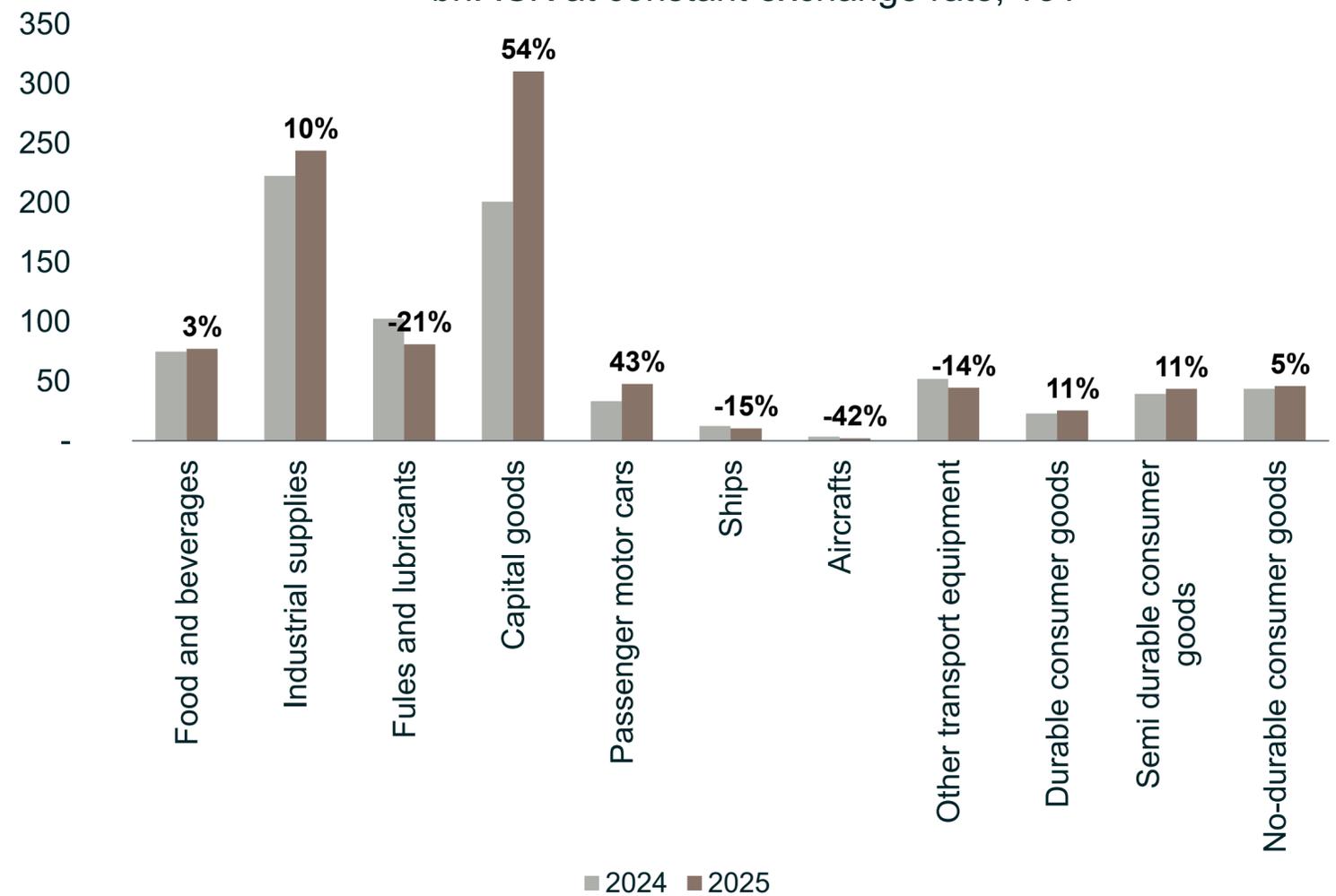
# Imports: Computers and Canary Islands

Goods imports rose by no less than 15.4% in the first half of the year (1H). The lion's share of that increase stemmed from capital goods – with computers and equipment for data centers playing a key role. For example, computers and office machines worth ISK 130 billion were imported in the first seven months of the year.

**Capital goods imports**  
- bn. ISK at constant exchange rate



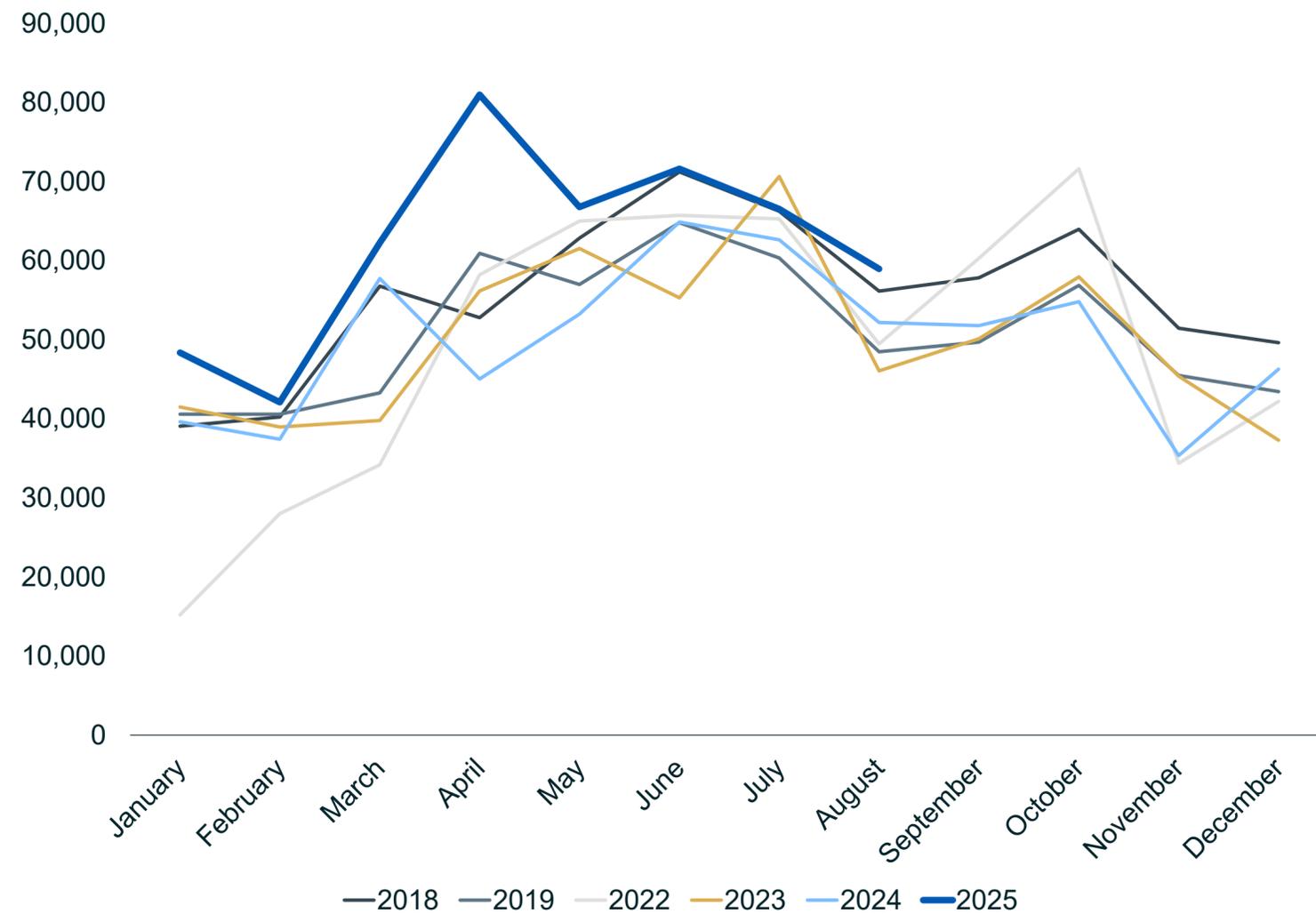
**Imports of goods January-August**  
- bn. ISK at constant exchange rate, YoY



# Imports: Computers and Canary Islands

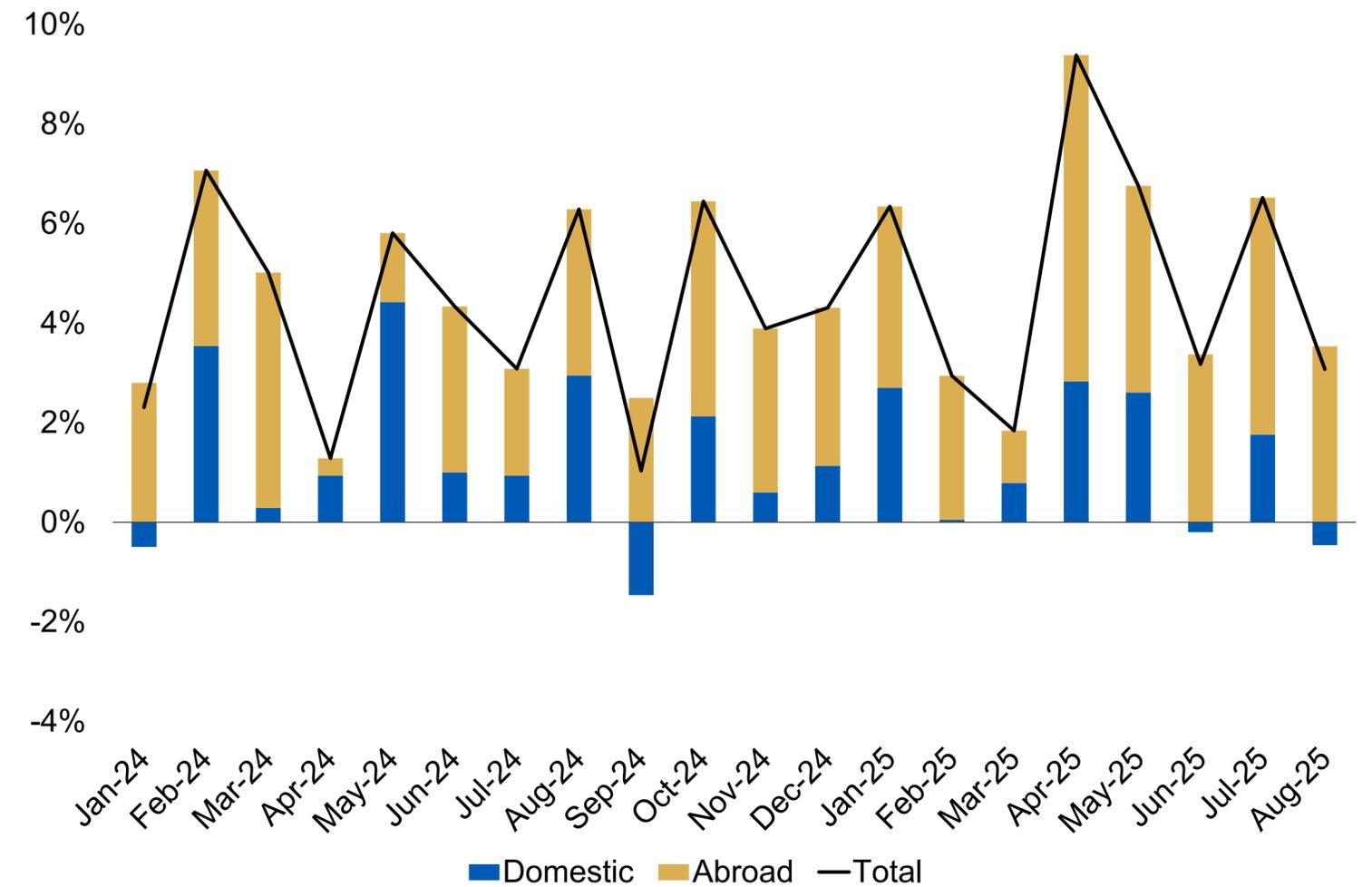
Service imports have also surged – up 10.2% in 1H. Outbound travel by Icelandic residents dominates here, and the nation’s travel appetite so far this year is without precedent. In each month, on average 16% of the population has been abroad. As payment card turnover data clearly reveals, Icelanders’ consumption is increasingly taking place outside the country – aided by exceptionally strong purchasing power in foreign currency.

**Icelanders trips abroad**



**Payment card turnover**

- YoY growth, growth contributions of underlying components

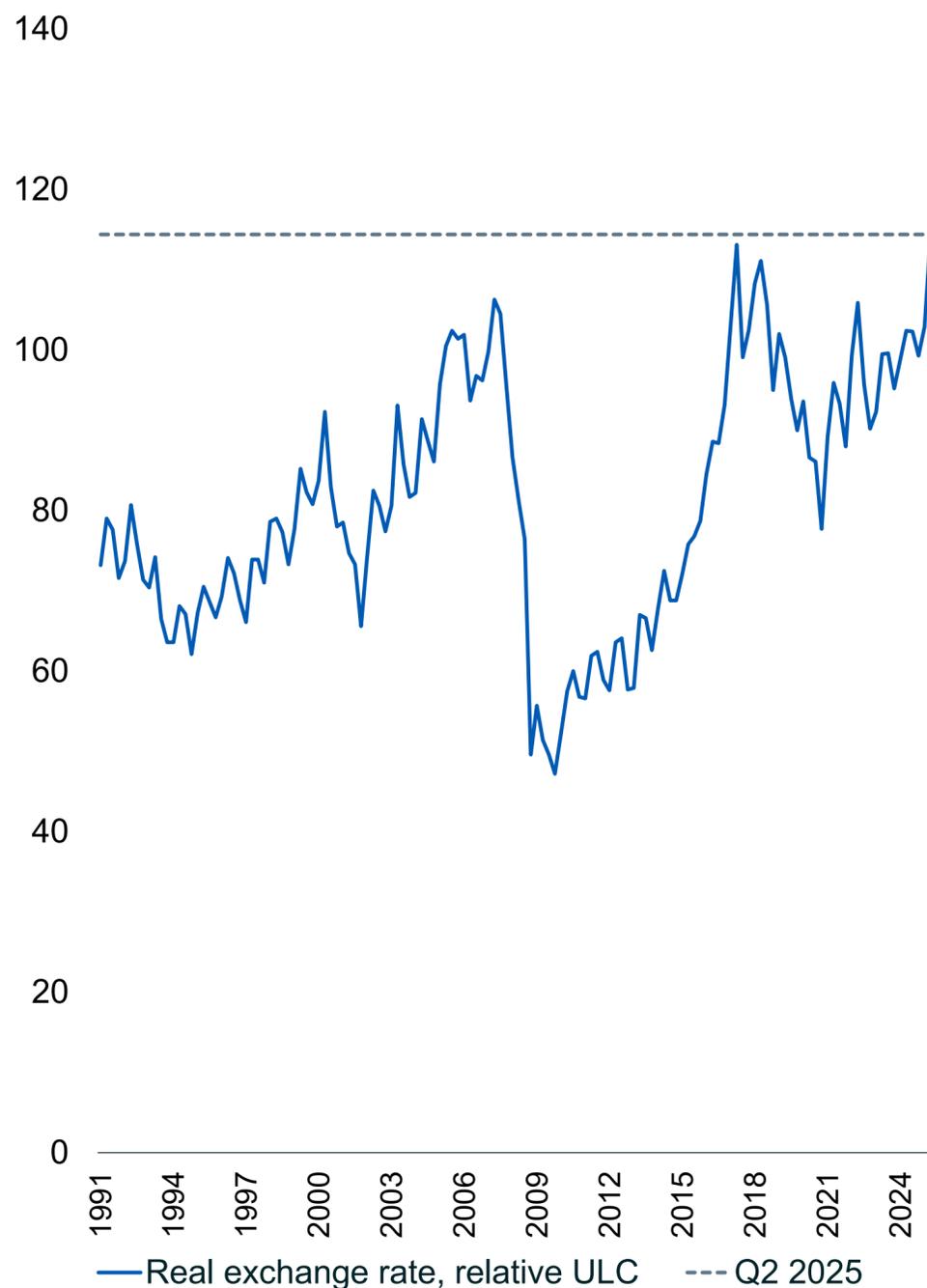


# Fact or Fiction?

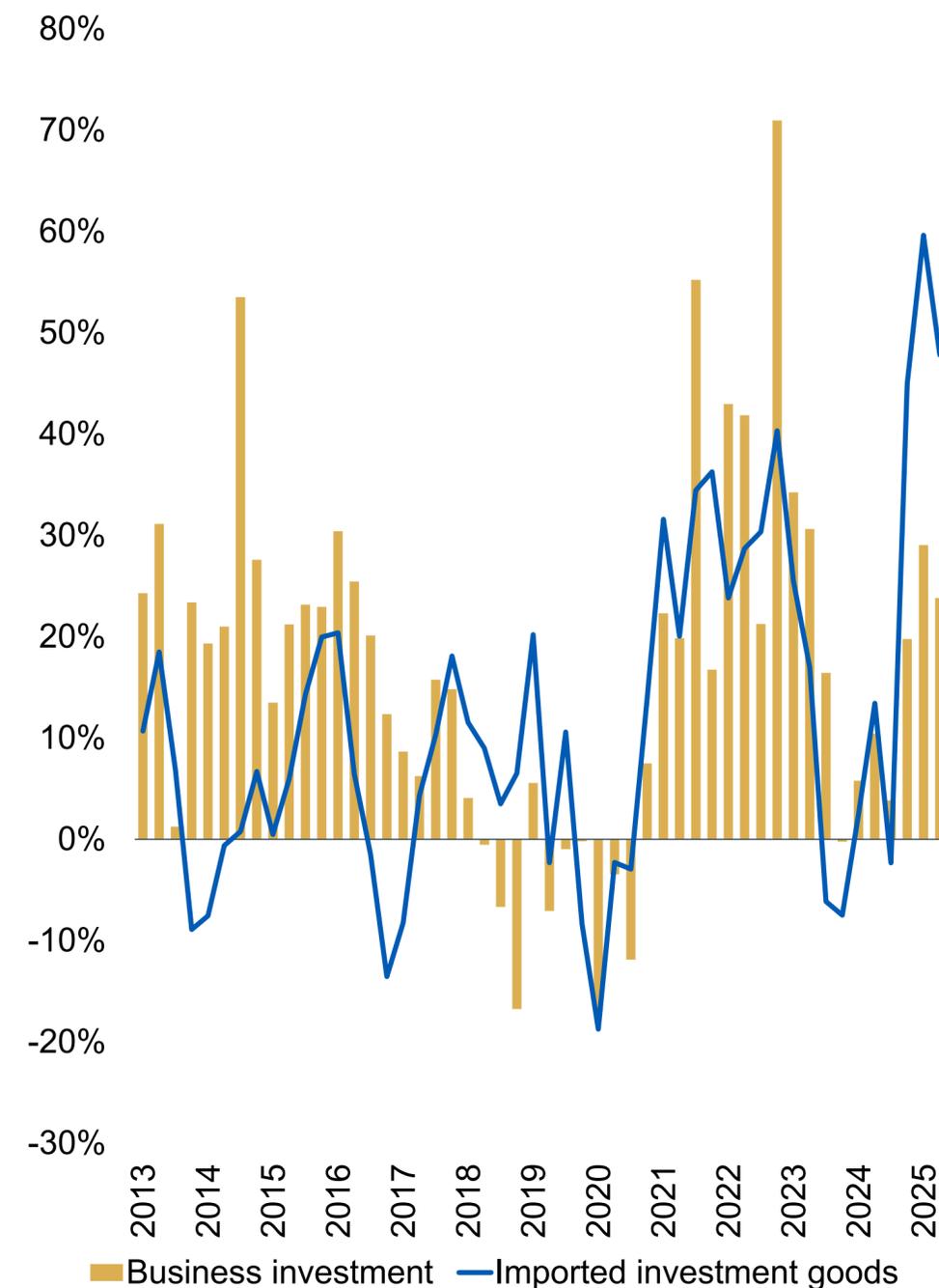
Interpreting the latest National Accounts has proved especially challenging. The figures are internally contradictory – and hard to take at face value when revisions are all but certain. Two points caught our attention:

- The data suggest the króna is currently overvalued. As evidence, the real exchange rate measured by relative unit labour costs is at its highest on record – ever.
- There seems to be a mismatch between data-center-related imports and investment. This may simply reflect timing, with the imports later recorded as investment. But as things stand, the build-out of data centers appears to have a negative contribution to growth, whereas theory would suggest neutrality – higher investment should offset the imports.

**Real exchange rate**  
- relative ULC

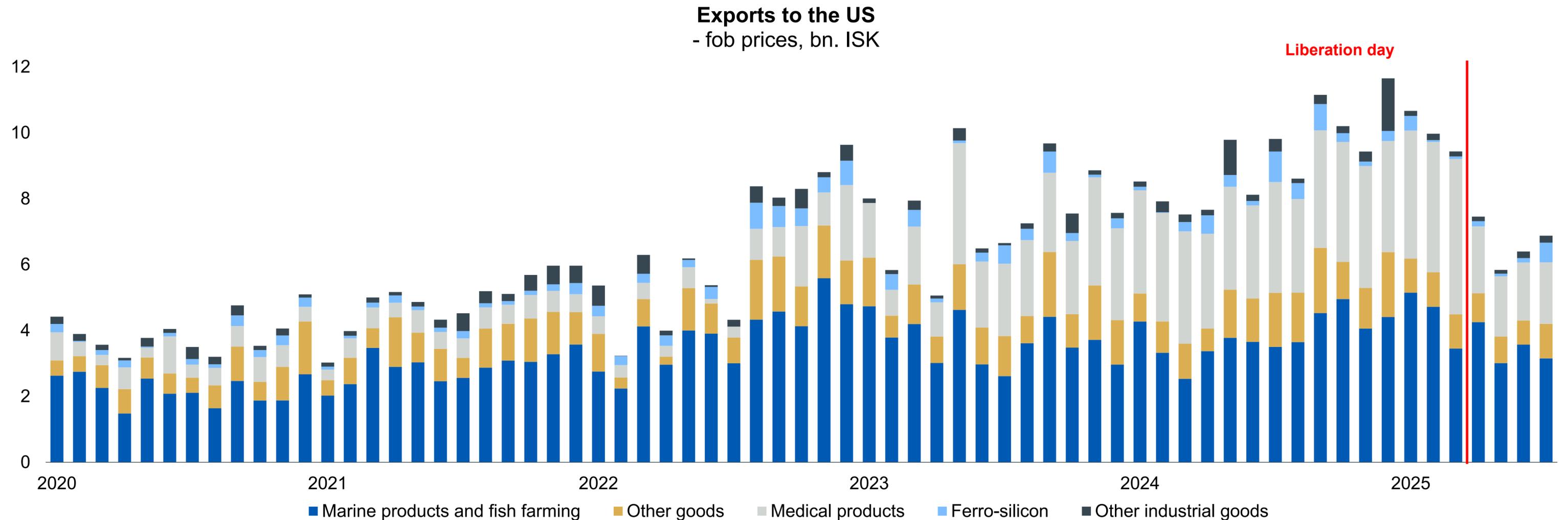


**Business investment**  
- YoY %-change, nominal value



# Exports: Tariffs and the Króna

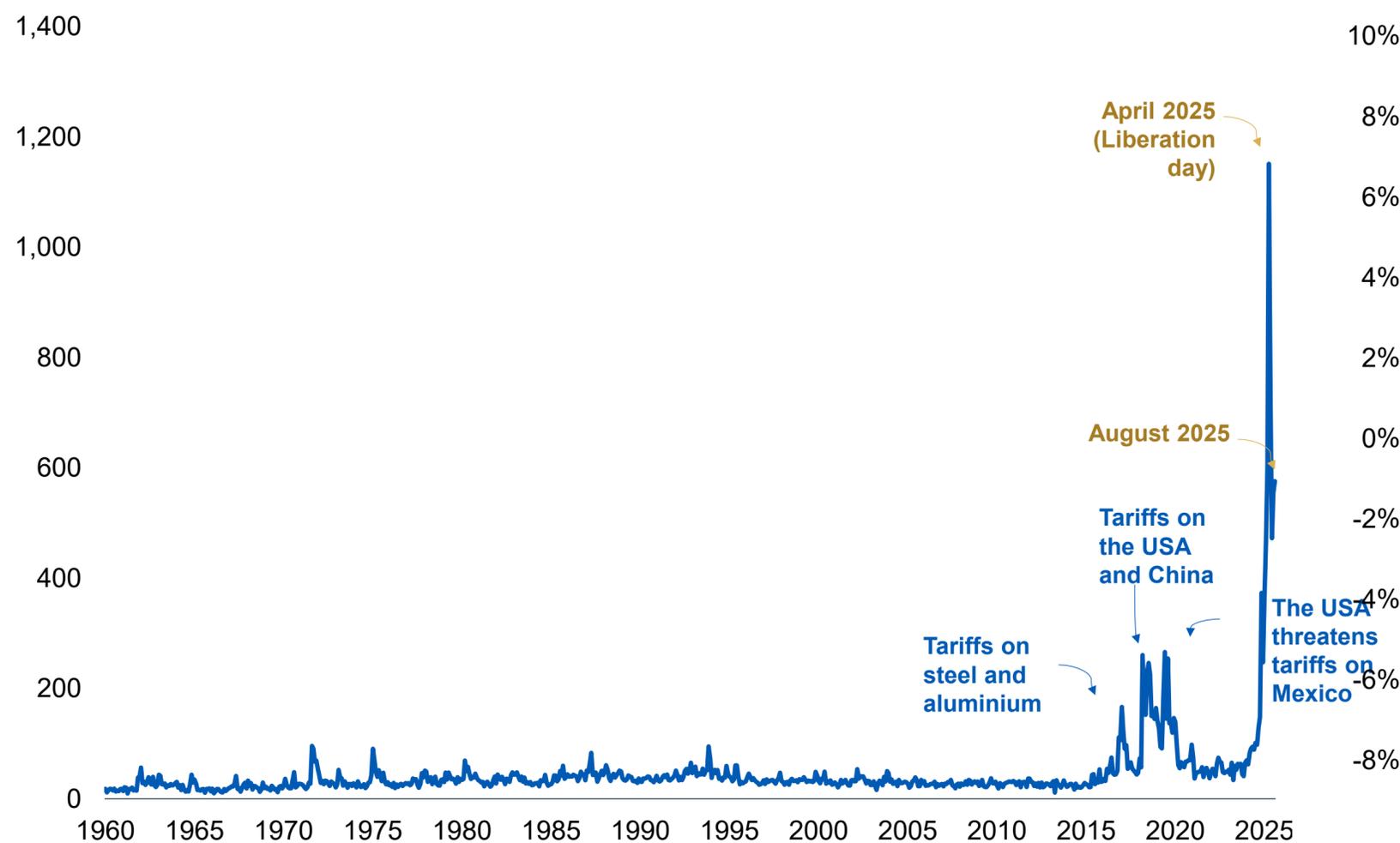
While service exports grew 5.7% in 1H, goods exports contracted by 1%. Whether the U.S. tariffs are a bigger drag on goods exports than the appreciated króna is an open question – but the pattern in shipments to the United States following the tariff announcement looks fairly clear. Even so, the window since then is short – making it hard to judge whether recent months herald a trend or simply normal volatility, not least because much of the decline reflects medical products and pharmaceuticals, which are exempt from the tariffs.



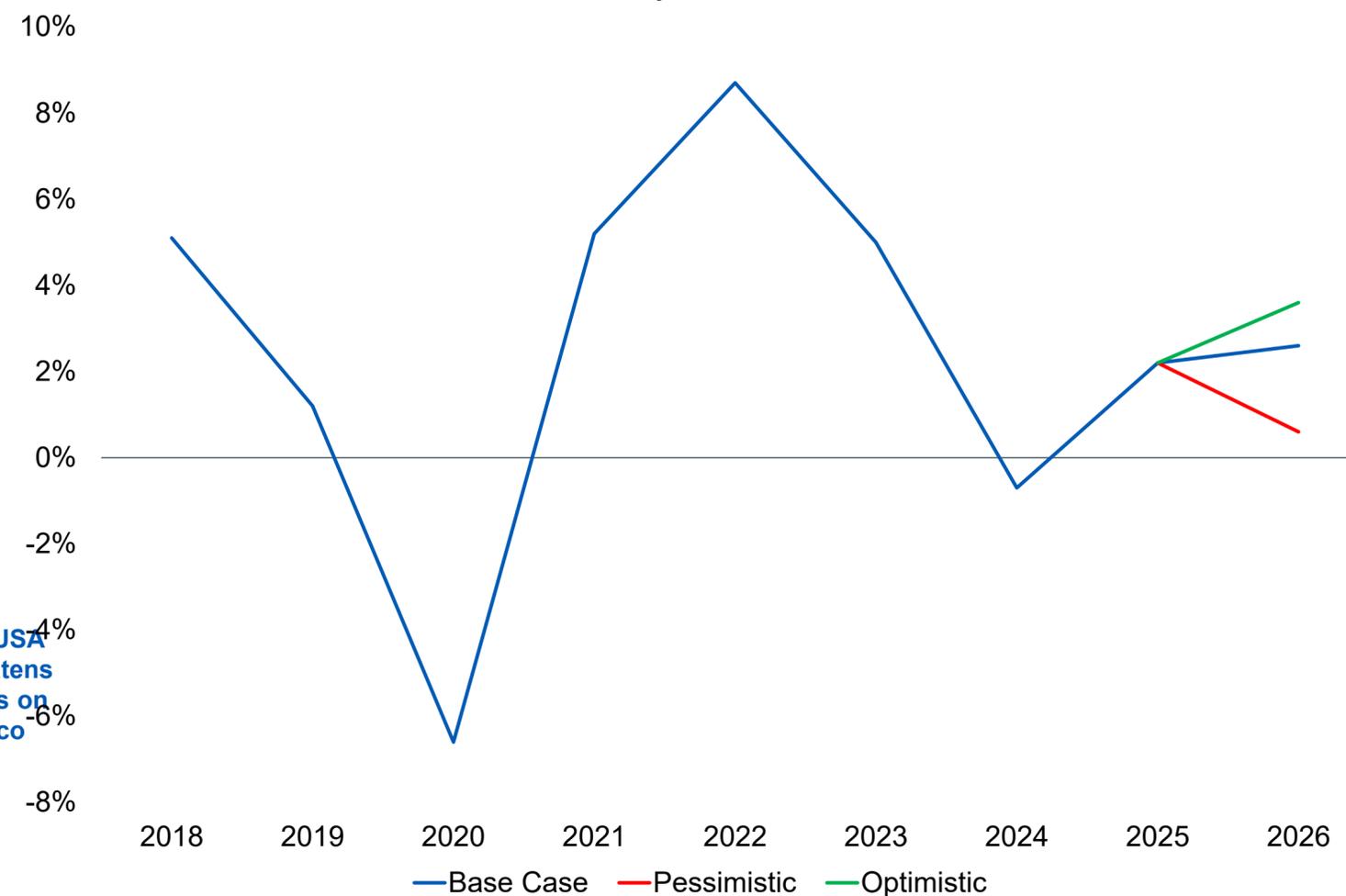
# Measured Uncertainty has Diminished – but Uncertainty is All Around

Although changes in trade policy are not named frequently in this forecast, the uncertainty surrounding them is ubiquitous. According to scenario analyses and official projections, U.S. tariff policy – and the uncertainty that comes with it – will weigh on Iceland’s growth, but not enough to push the economy into contraction.

**Trade policy uncertainty**  
- index



**GDP scenarios based on tariffs**  
- estimation from the Ministry of Finance and Economic Affairs



# Up and Onward

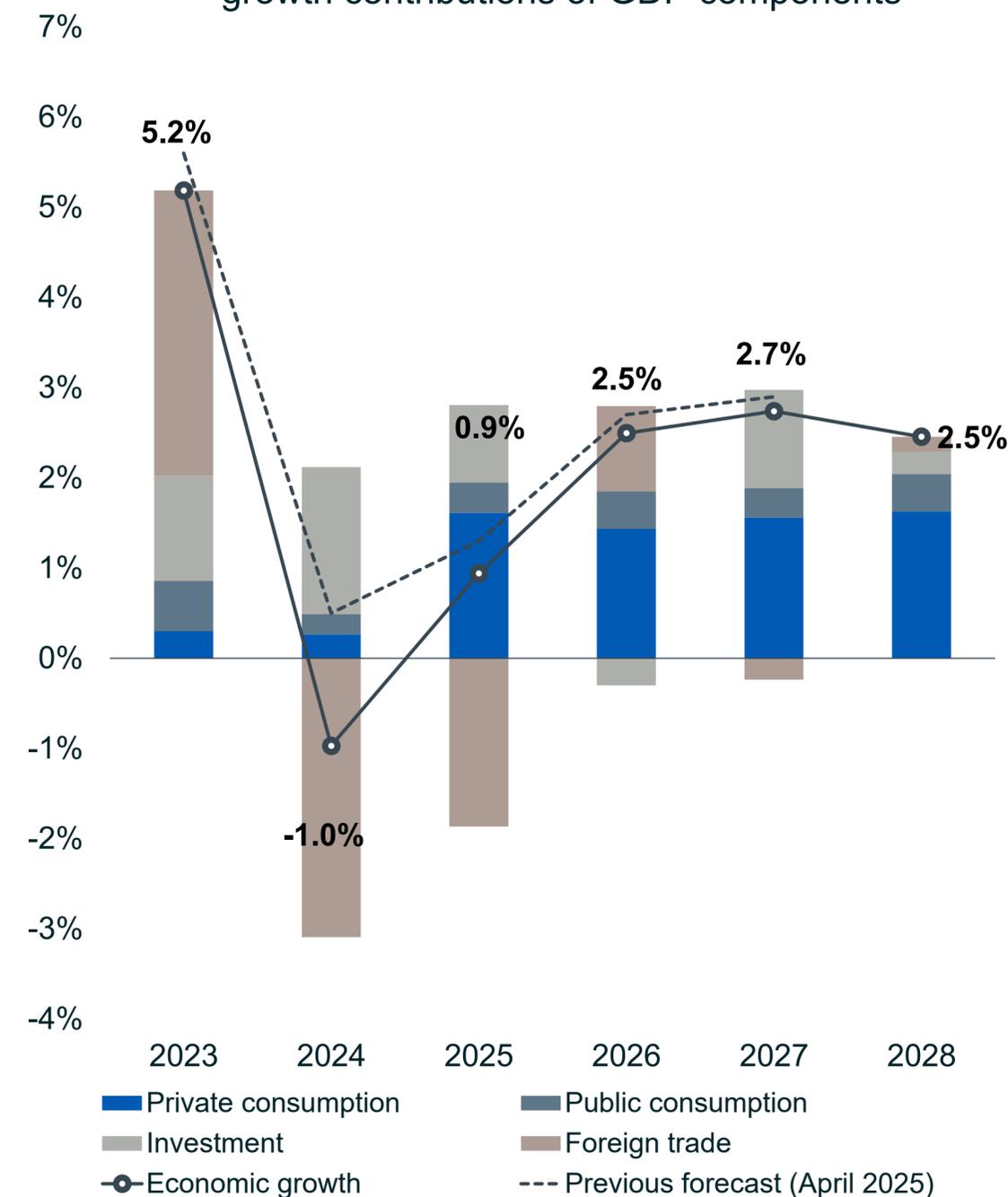
After last year's contraction and a stall in the first half of this year, several signs point to growth rekindling. Household consumption is rising, the import hump is largely behind us, and sizable investment looks set to translate into higher export revenues.

Although the headline growth forecast has changed little between editions, the path to 0.9% GDP growth is somewhat different. Domestic demand – led by private consumption – has been stronger than previously assumed, while net trade's contribution to growth has been more negative than forecasted.

Even though substantial imports related to data centers and land-based aquaculture account for much of this year's drag from net trade, export prospects have hardly improved. Considerable uncertainty surrounds the outlook for tourism over the winter, including whether – and how much – PLAY's suspension of operations will ripple through. At the same time, the fisheries sector is still searching for capelin and facing a cut to the cod quota. Add to that a strong króna and uncertainty around the economic policies of major economies. Even so, we project modest export growth this year, supported by a strong summer for tourism.

Next year, imports are expected to decline – primarily due to the data centers – and net trade should start to pull in the same direction as private consumption. While private consumption is likely to remain the workhorse of growth across the forecast horizon, the outlook is hazier than usual, as inflation has been slow to decline and interest rates therefore stay higher for longer than previously assumed. The full effects on domestic demand have yet to materialize.

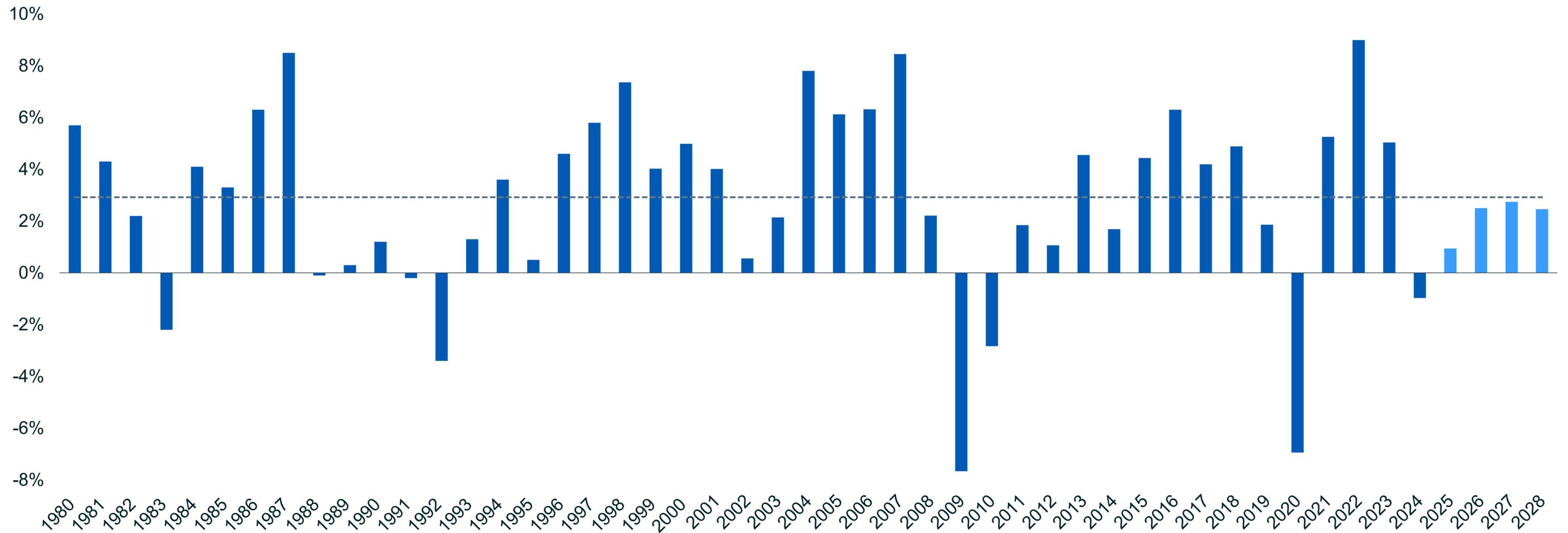
**Economic growth**  
- growth contributions of GDP components



# Is Iceland's Economy Ever in Equilibrium?

Possibly – but when it does occur, balance rarely lasts. As a small, export-driven economy, Iceland will always be subject to a degree of volatility.

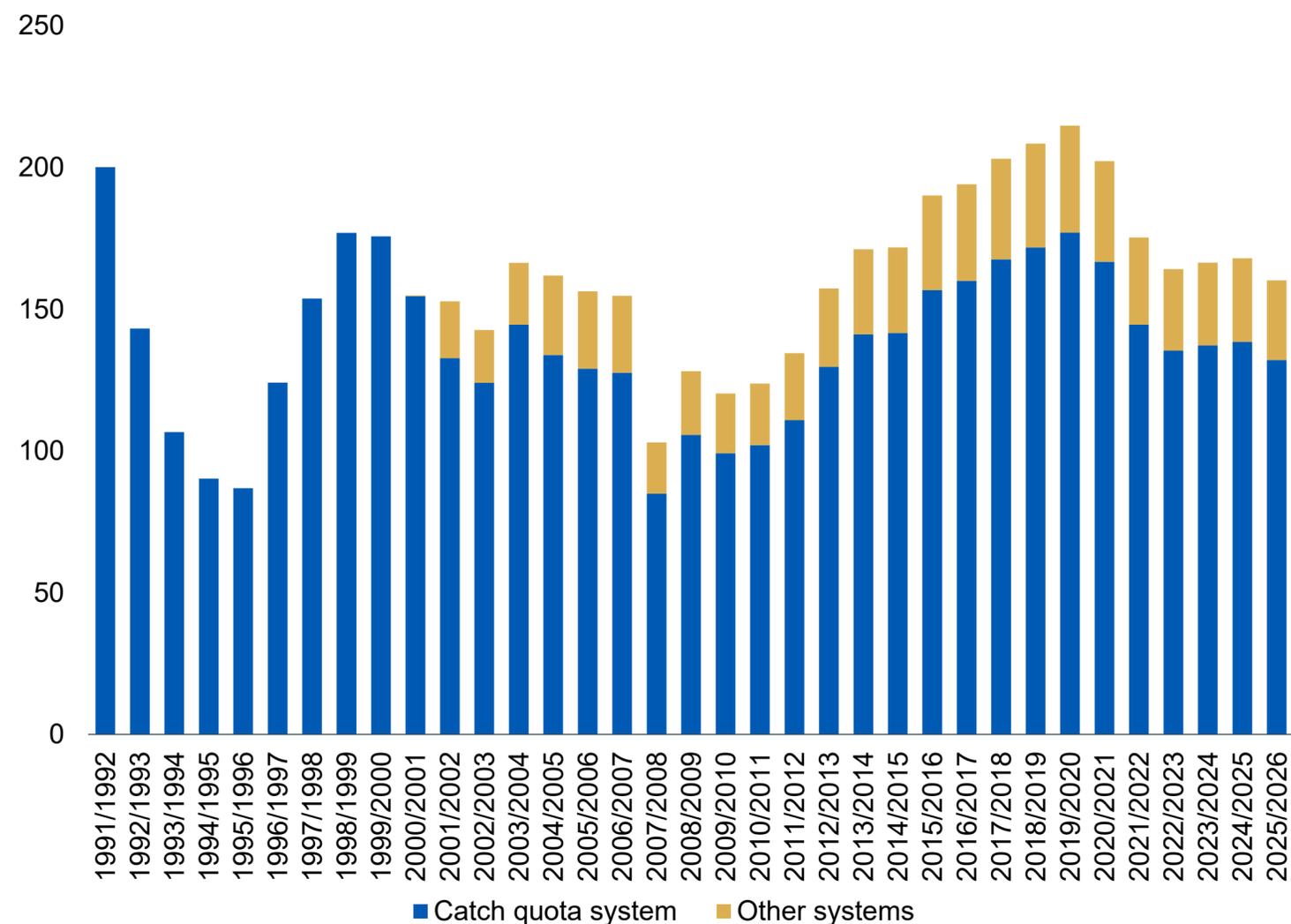
**GDP growth 1980-2028**  
- and average GDP growth over the last 45 years



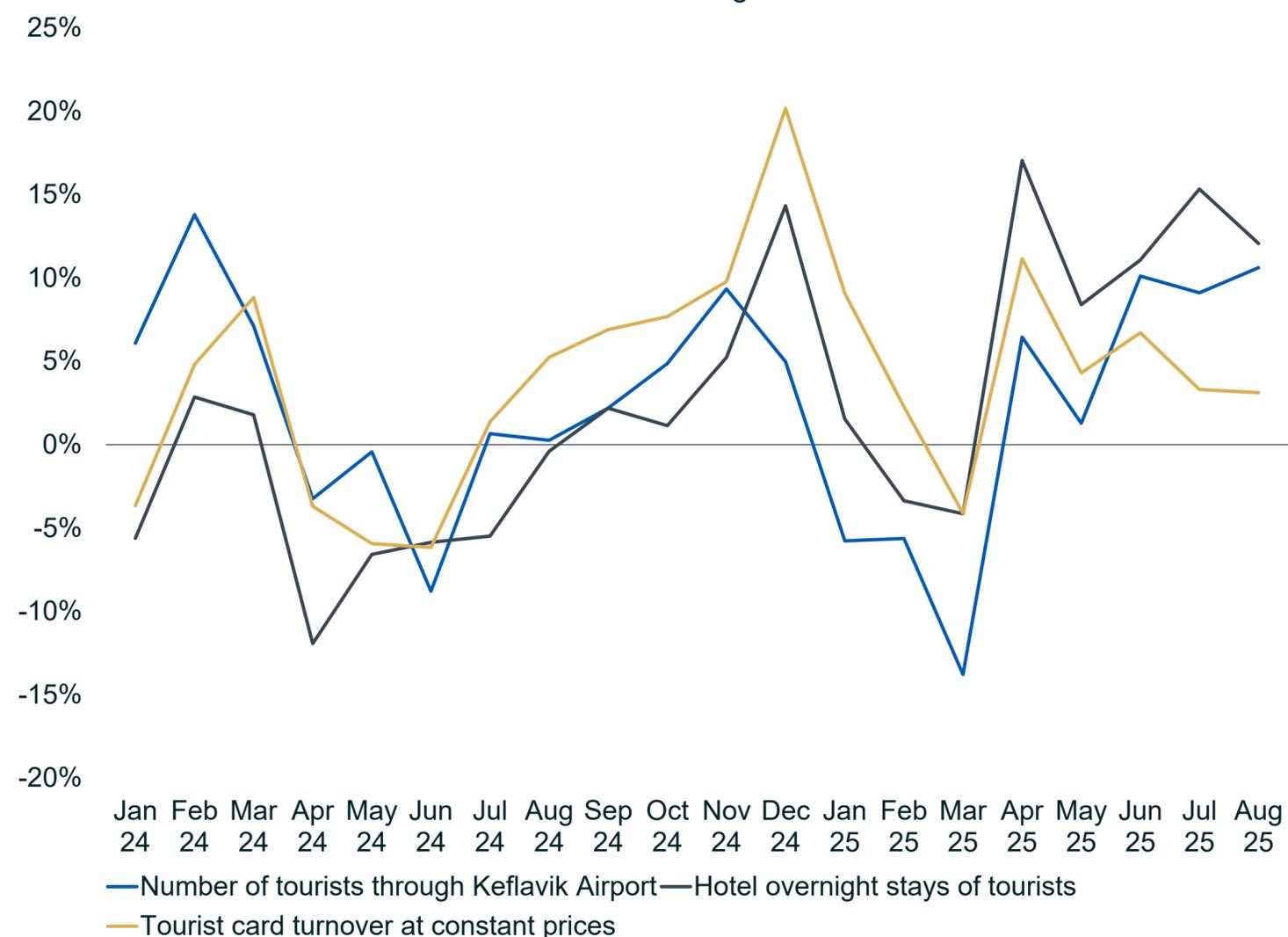
# Different Realities for Iceland's Export Sectors

While the seafood industry faces cuts to the cod and saithe quotas – and is still searching high and low for capelin – tourism has enjoyed a strong run. Recent disruption in the skies, however, could have a temporary negative effect on the sector.

**Total allowable catch of cod**  
- thousands of tonnes

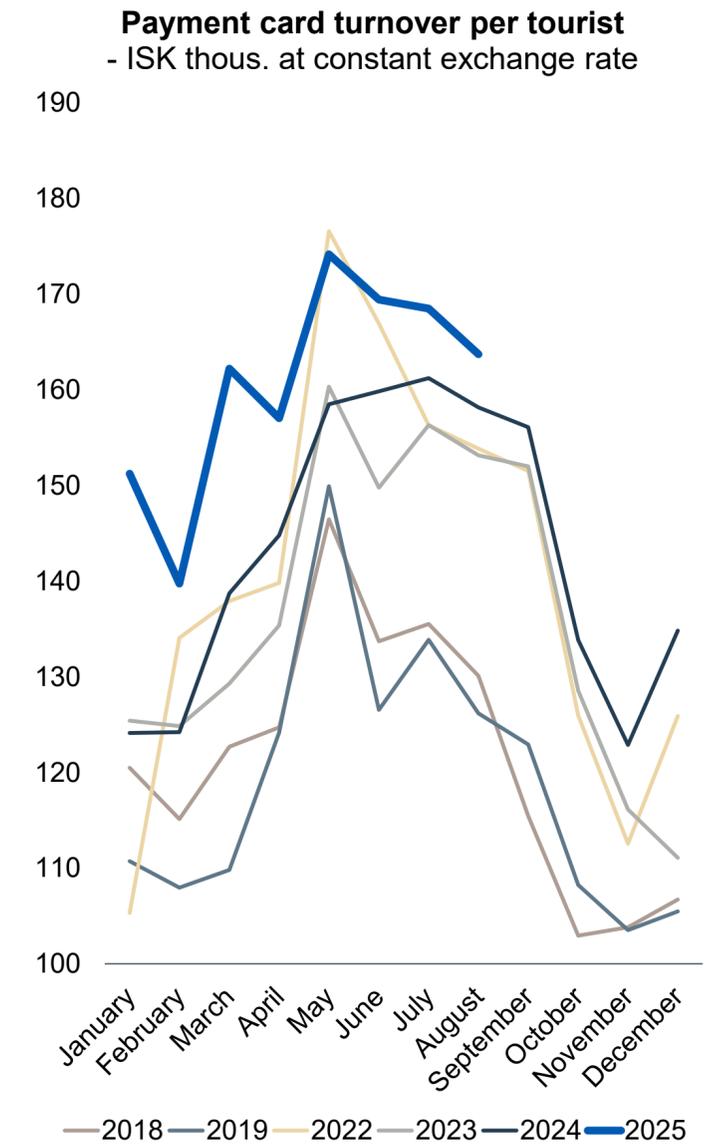
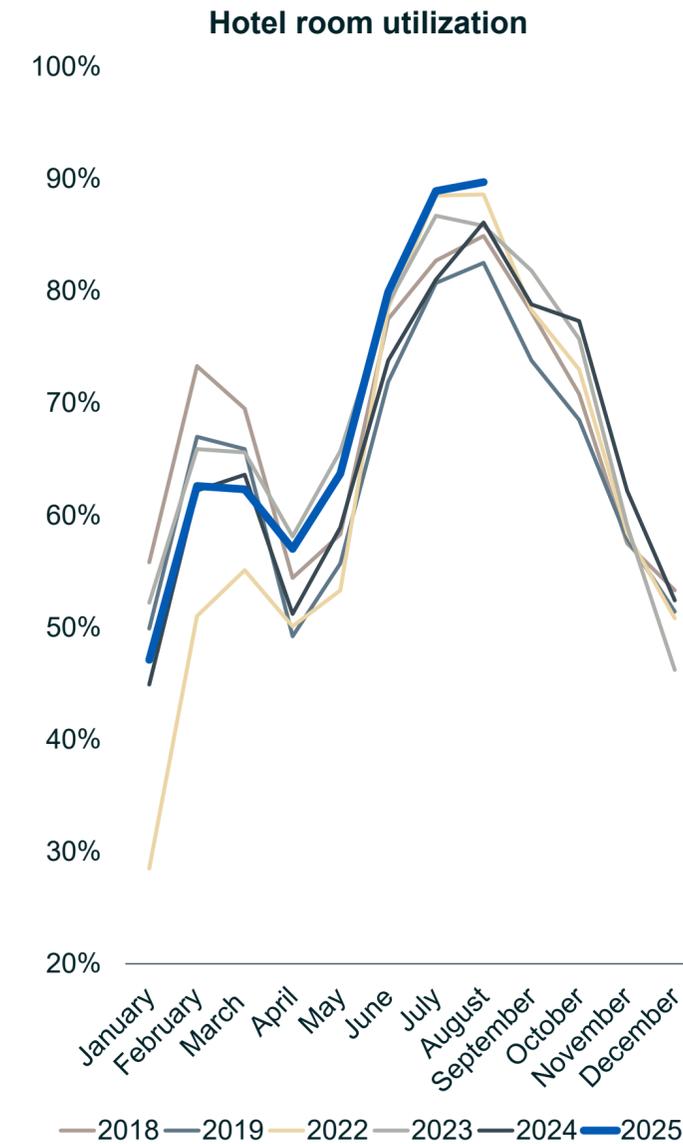
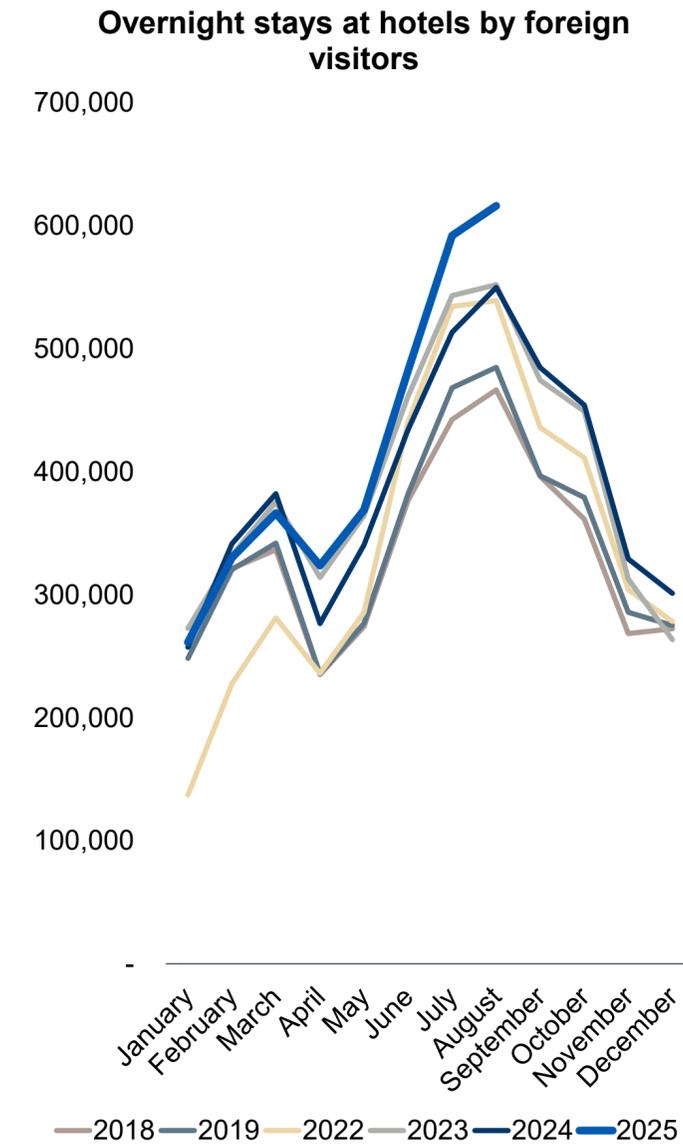
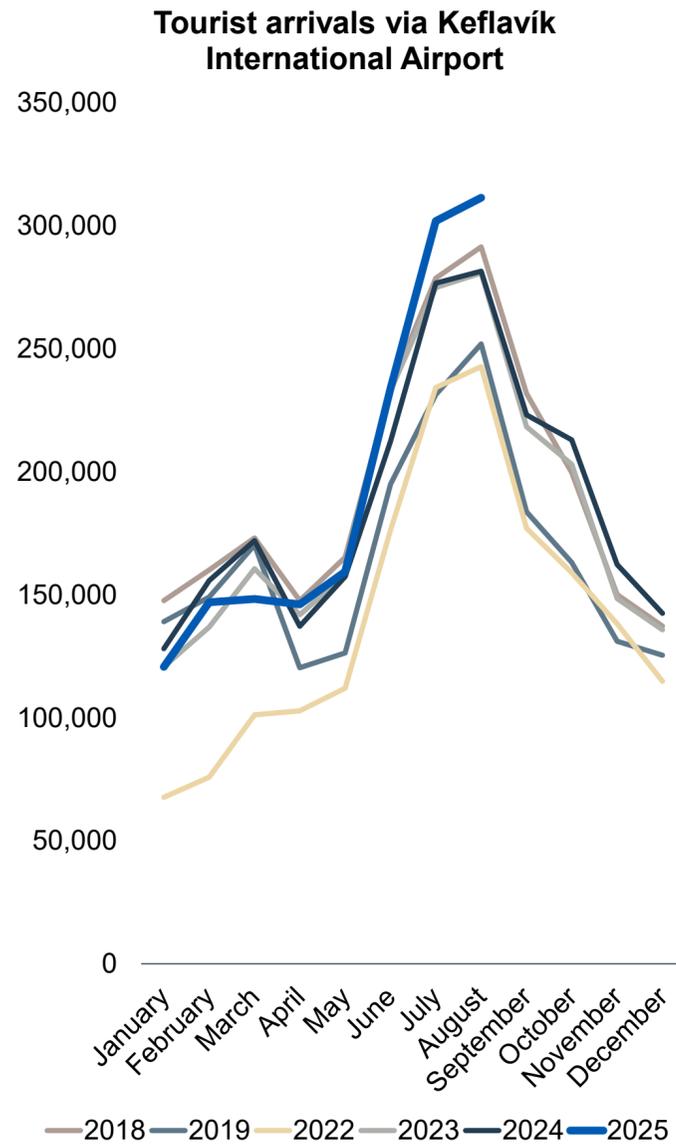


**Card turnover, hotel overnight stays and number of tourists**  
- YoY %-change



# Peak Season, Peak Performance

This summer shattered attendance records – never have so many visitors arrived (via Keflavík Airport). Not only that, but hotel demand was also among the strongest on record – occupancy was near the ceiling – and spending per visitor has increased.



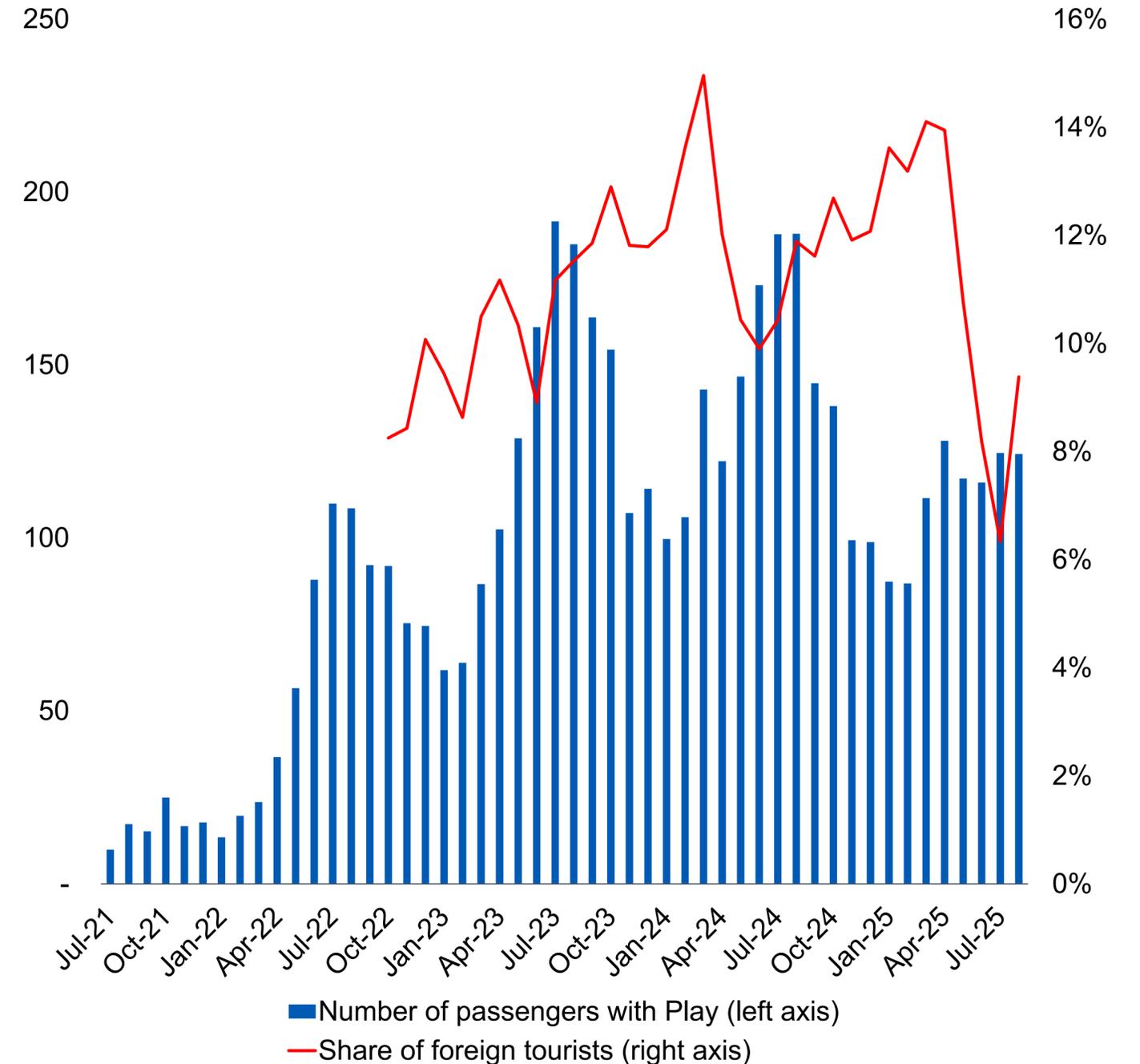
# Turbulence Aloft

On September 29, PLAY ceased operations. Although the announcement came suddenly, there had been turbulence around the company for some time. For example, a year earlier the airline unveiled a revised business model – shifting its network toward sun-destination routes and reducing the number of aircrafts serving the Iceland market. In effect, it had already trimmed its sails at Keflavík.

By our calculations, toward the end its share of foreign-visitor arrivals had fallen below 10%. For comparison, Icelandair's share is just over 40%. The immediate hit to Icelandic tourism should therefore be limited. But that does not mean that the effect on the broader economy will be non-existent:

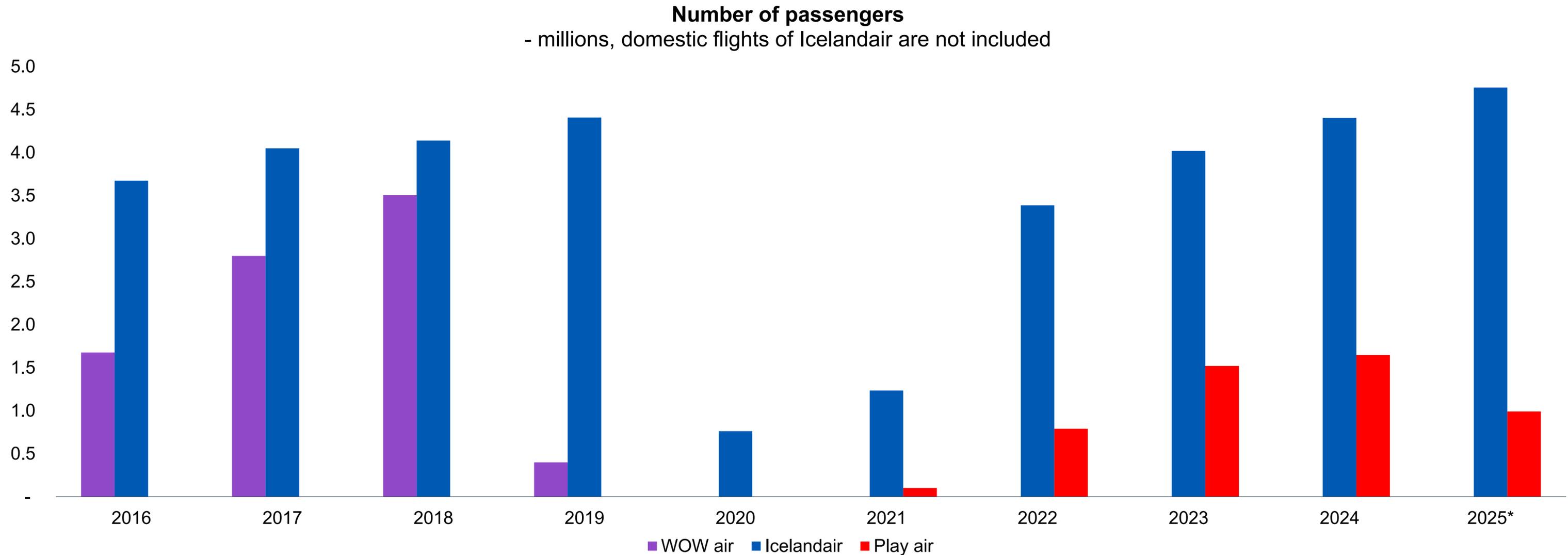
- The shutdown will weigh on exported services – chiefly via passenger air transport.
- Lot of people lost their jobs – the company cited 400 in its statement. For comparison, 7,400 individuals were registered unemployed in August, according to the Directorate of Labour. Spillover job losses are also possible.
- Outbound travel by Icelandic residents will likely decline, at least in the short term. The shutdown may also dampen the nation's spirit – something macro models struggle to capture.
- Reduced competition could push up airfares – with a direct effect on inflation.

**Number of passengers of Play**  
- number of seats and share of foreign tourists



# WOW vs. PLAY – Different Scale, Different Outcome

Many will think of WOW air at this juncture – understandably. The circumstances are, however, entirely different, as the size gap between the two airlines is vast. The impact of PLAY’s shutdown will therefore be much smaller for the economy and for Icelandic tourism than WOW air’s bankruptcy was – both in terms of visitor arrivals and unemployment.



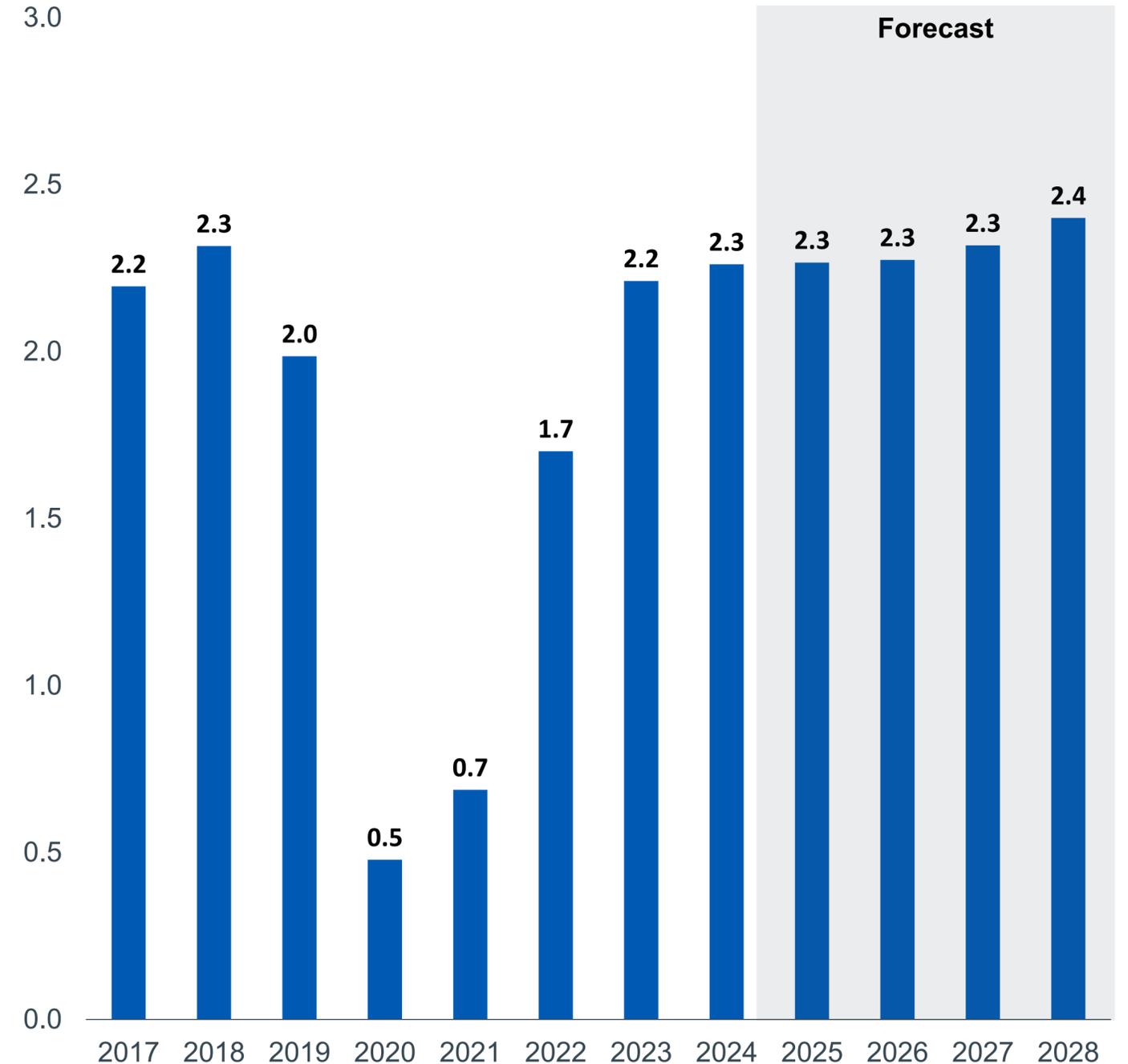
# Then What?

Even though the summer exceeded our expectations, there's no way to predict how winter will unfold. According to Icelandair, the booking position for fall and winter is weaker than at the same time last year. PLAY's shutdown will also mean a sharp – if short-term – reduction in seat capacity to Iceland. On top of that, several large foreign carriers have scaled back scheduled services to Iceland. Offsetting this however, Icelandair – by far the largest operator at Keflavík airport – plans to expand capacity significantly in Q4.

For next year, Icelandair's strategy is pivotal. As recent months have shown, the airline's network is flexible – it has largely filled the gap left by PLAY by putting more emphasis on to and from passengers, at the expense of VIA traffic. If the backdrop is favorable, it is likely to continue down that path. The airline can also delay retiring older aircrafts – backfilling the gap with a larger active fleet.

In our baseline forecast, we expect the number of visitors next year to remain broadly unchanged – which would make it the third year in a row at just under 2.3 million – as we project a decline over the final months of this year. That trajectory should not surprise, given the shifts in available capacity. In addition, Iceland is an expensive destination, labor costs are high, and the króna is strong. These factors may not be decisive on their own, but they still matter – especially if global uncertainties dampen tourists' income growth and demand for trips to Iceland.

**Tourist arrivals via Keflavik International airport**  
- millions annually



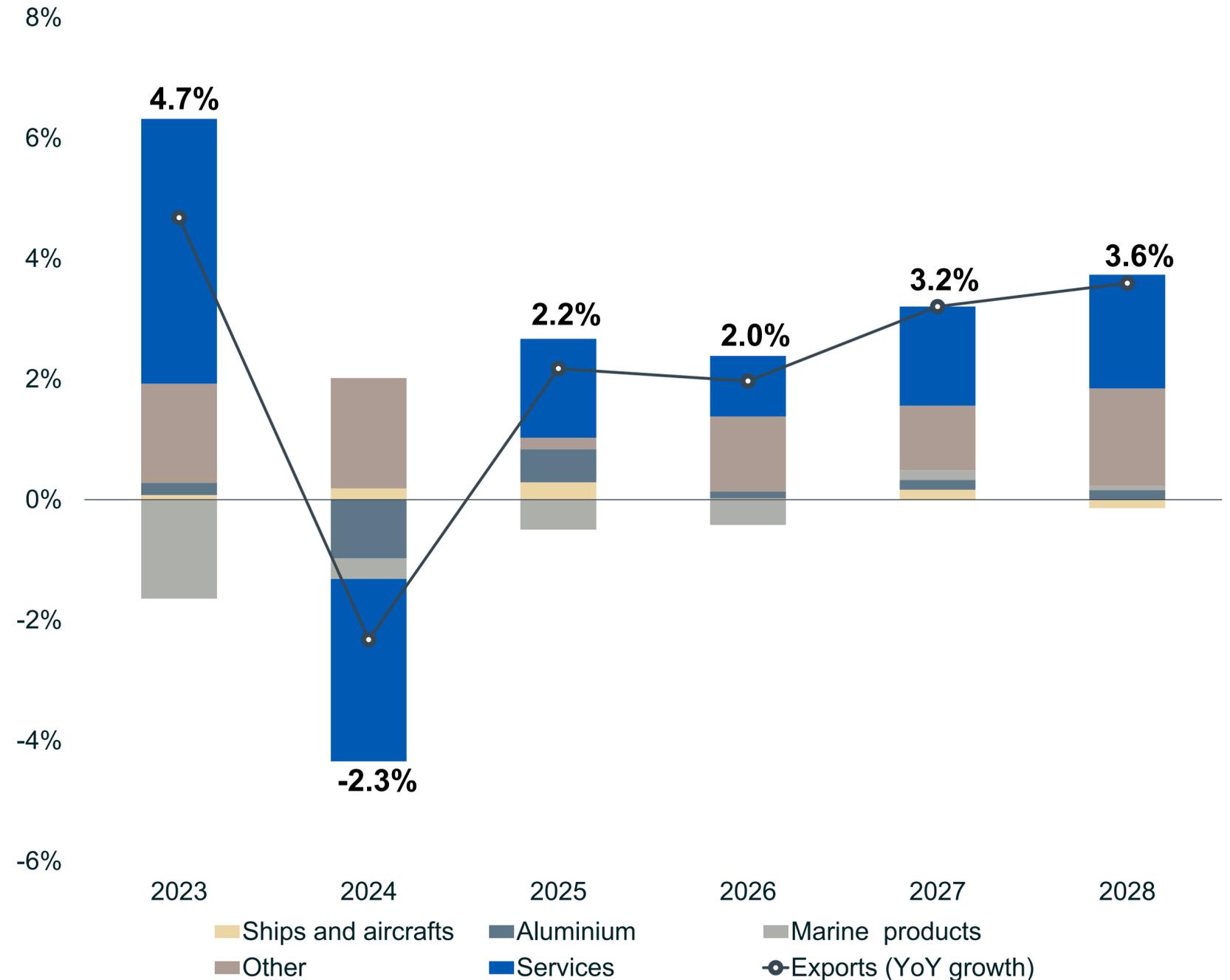
# Solid Export Prospects – For now

Exports are up 2% so far this year, thanks to services. By contrast, goods exports have struggled – not least seafood. Even so, every cloud has a silver lining: seafood prices have risen markedly, boosting export values in nominal terms.

Once again, service exports are set to pull the wagon across the forecast horizon – partly on the back of a slight increase in per-visitor spending. The gap between services and other goods exports is narrow, however, with aquaculture products in the lead and pharmaceuticals, medical products, and IP sectors close behind.

We also expect aluminium production to make a positive contribution to export growth this year and next – Lake Hálslón and Lake Þórisvatn, two major hydropower reservoirs that supply Iceland’s energy-intensive aluminium smelters, are both full for the first time in six years. As a result, the likelihood of power curtailments – and the associated production disruptions – is very low.

**Exports**  
- growth contribution of components

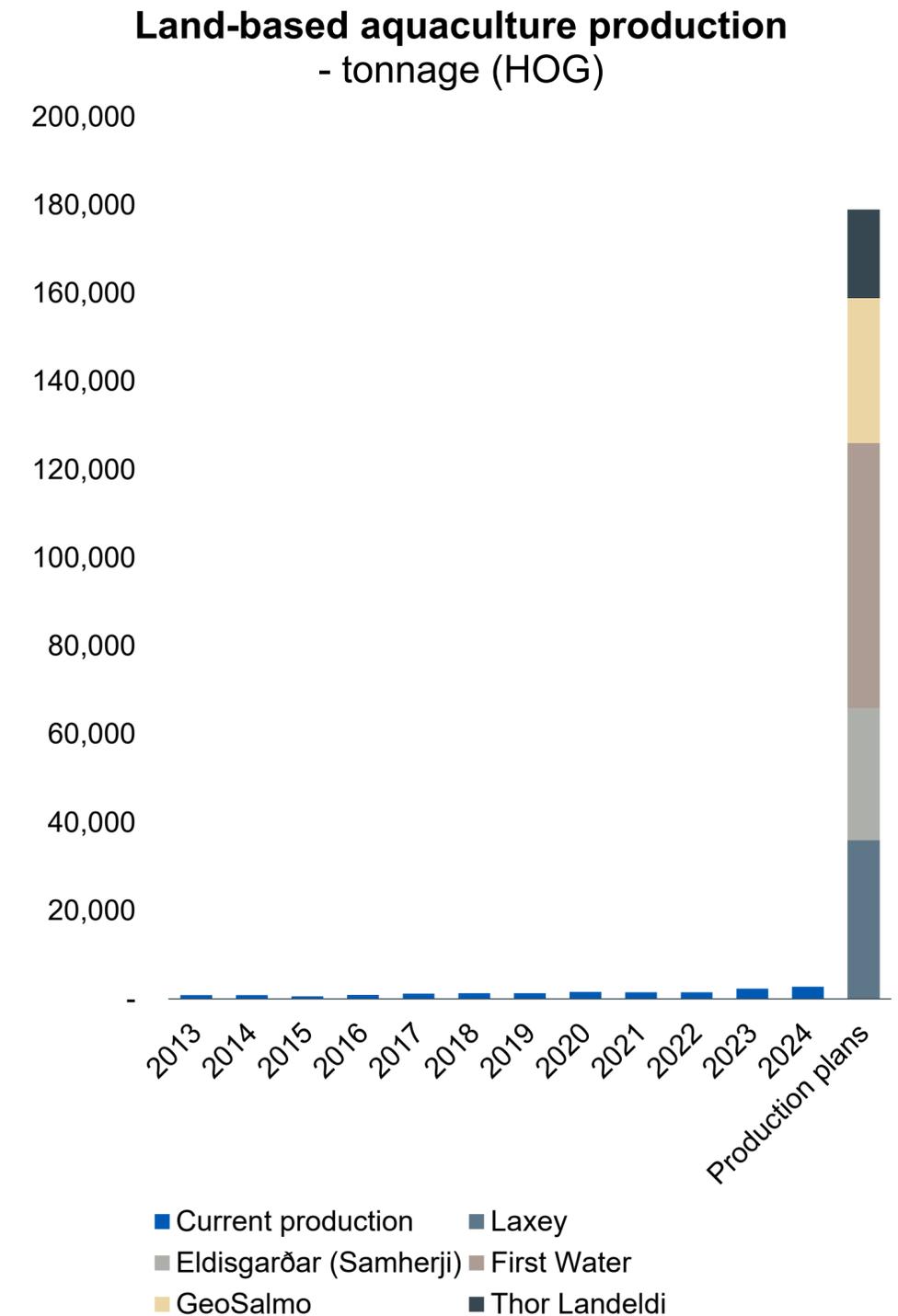
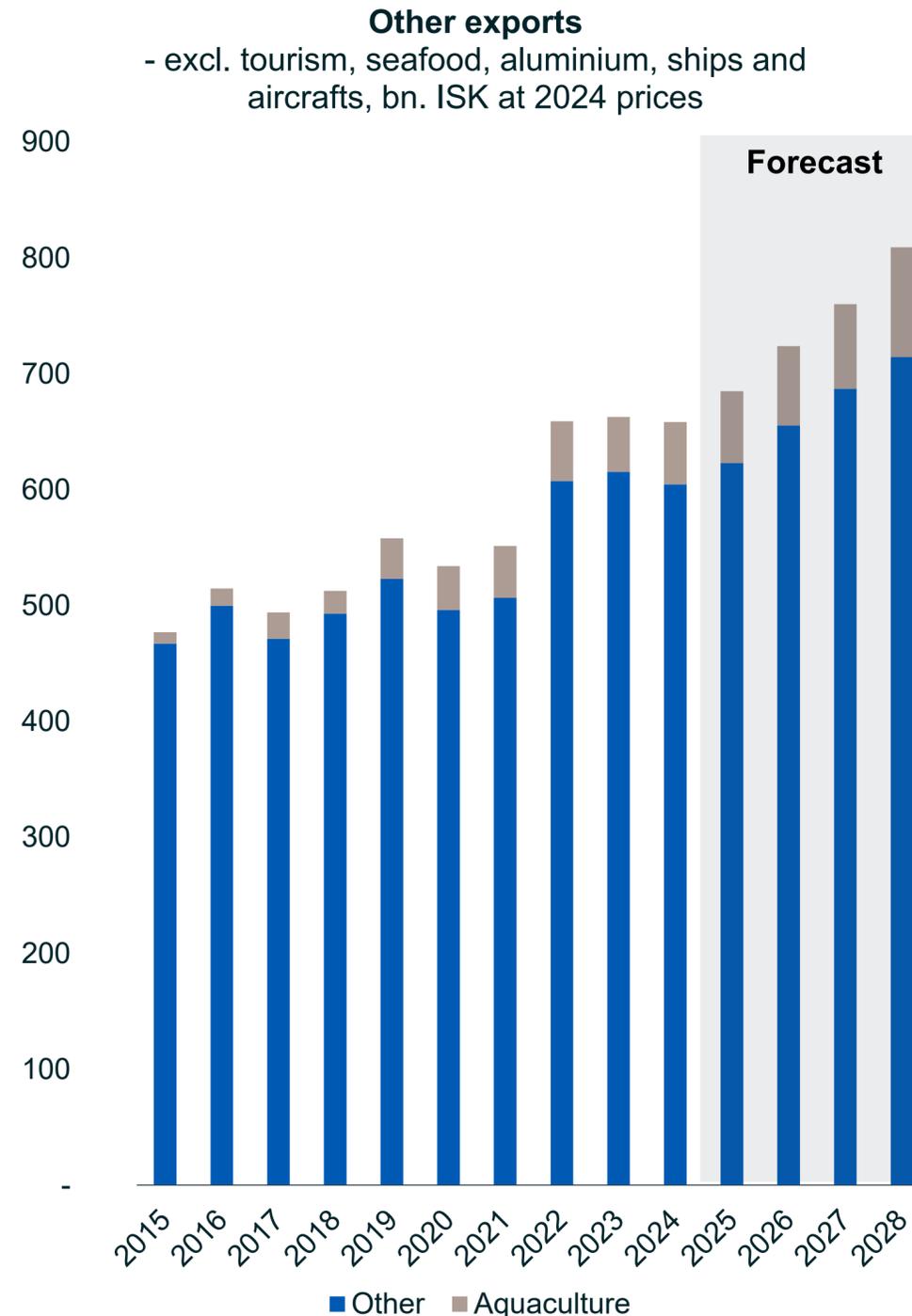


# Ambitious plans, prudent Baseline

Aquaculture has gone from strength to strength, with the export value of farmed products exceeding ISK 50 billion for the first time last year. Although there is scope to grow within the environmental carrying capacity of fjords, investor interest has increasingly shifted onshore – and the plans are ambitious.

In 2024, land-based salmon output totaled just under 3,600 tonnes (ungutted). If all current projects pan out, production could increase fifty-fold in under a decade – with commensurate value creation and FX earnings for the economy.

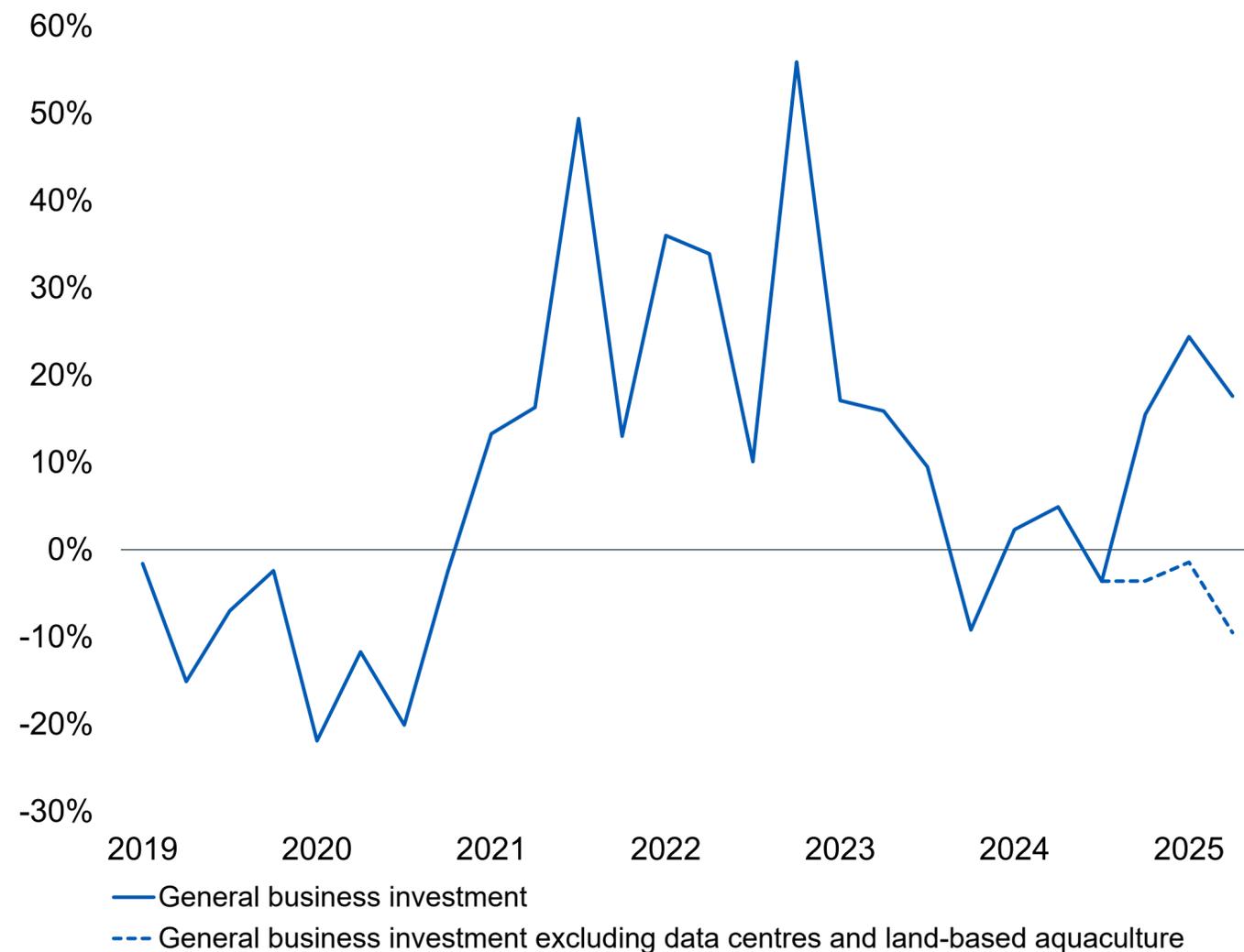
Despite positive news on sales of 5-kg gutted land-based salmon, uncertainty remains high and global trade conditions are challenging. We are therefore cautious in our assessment – the plans are ambitious – though not pessimistic: our baseline assumes a 75% increase in the export value of aquaculture products over the forecast horizon.



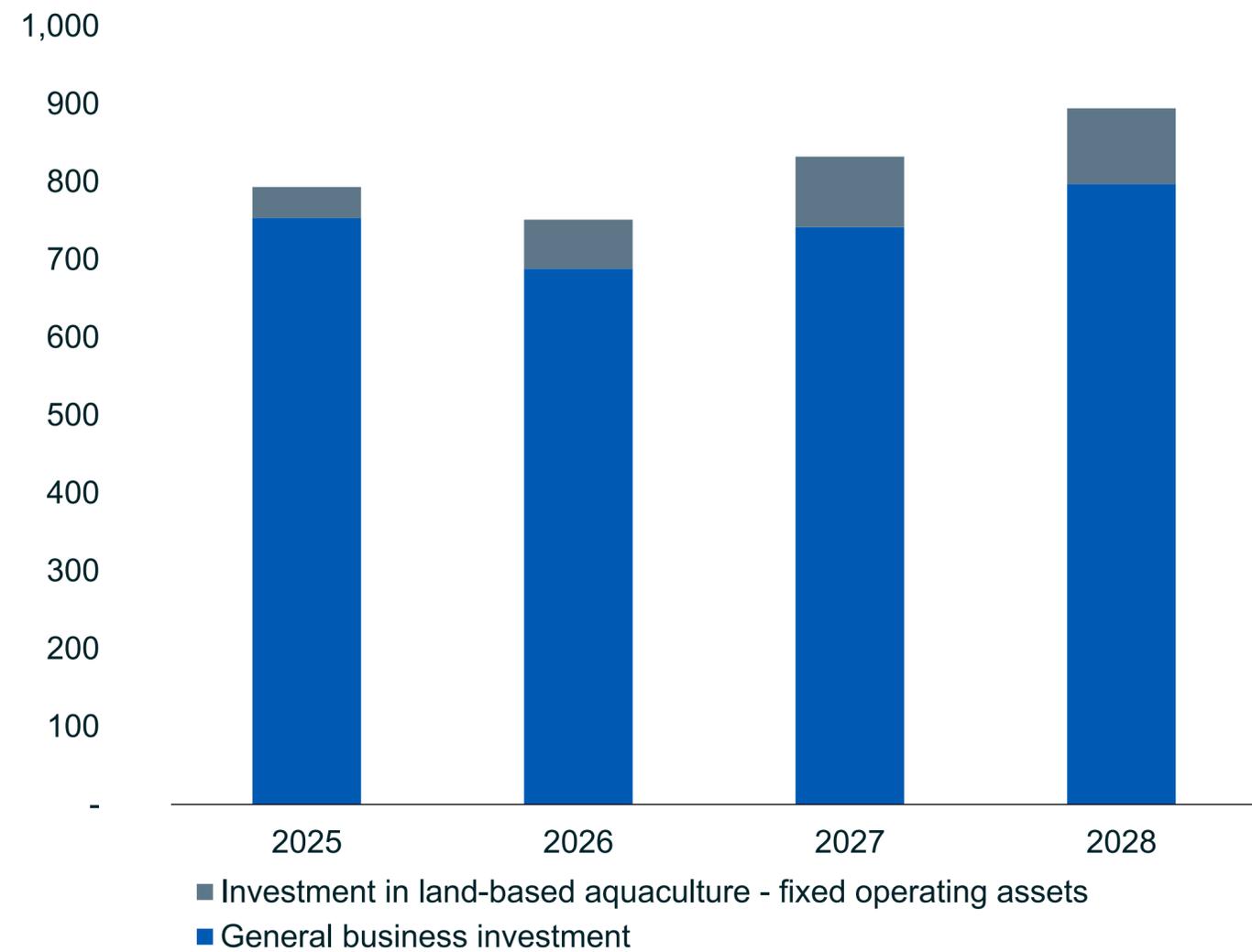
# Data Centers and Aquaculture Keep Investments Strong

If not for substantial investment in data centers and land-based aquaculture, traditional business investment would have contracted in recent quarters. Both sectors will shape business investment in the years ahead – with aquaculture’s weight increasing as the forecast progresses.

**Business investment**  
- YoY %-change, CBI’s forecast for Q2/2025



**Business investment**  
- bn. ISK



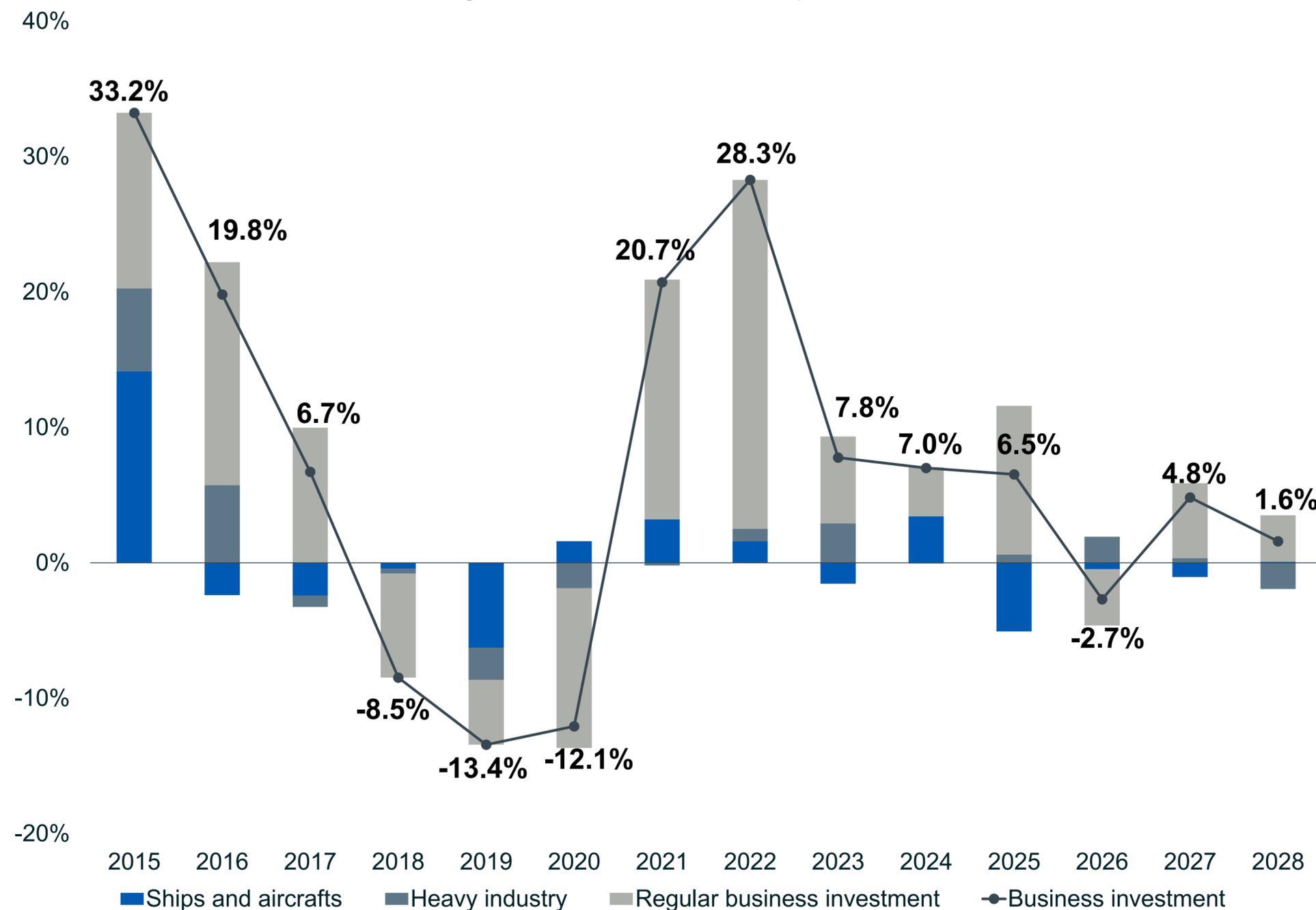
# Put in Context

The investment growth of recent quarters may have raised eyebrows given today's interest-rate environment – which looks set to persist for the coming months and quarters. As noted earlier, however, the growth is concentrated in a few sectors.

A similar story holds for next year. Despite ongoing investment needs at data centers, they are set to decline between years. Overall business investment is therefore expected to decline. By contrast, investment momentum is expected to shift toward land-based aquaculture and power generation. Absent these projects, business investment would contract even more next year.

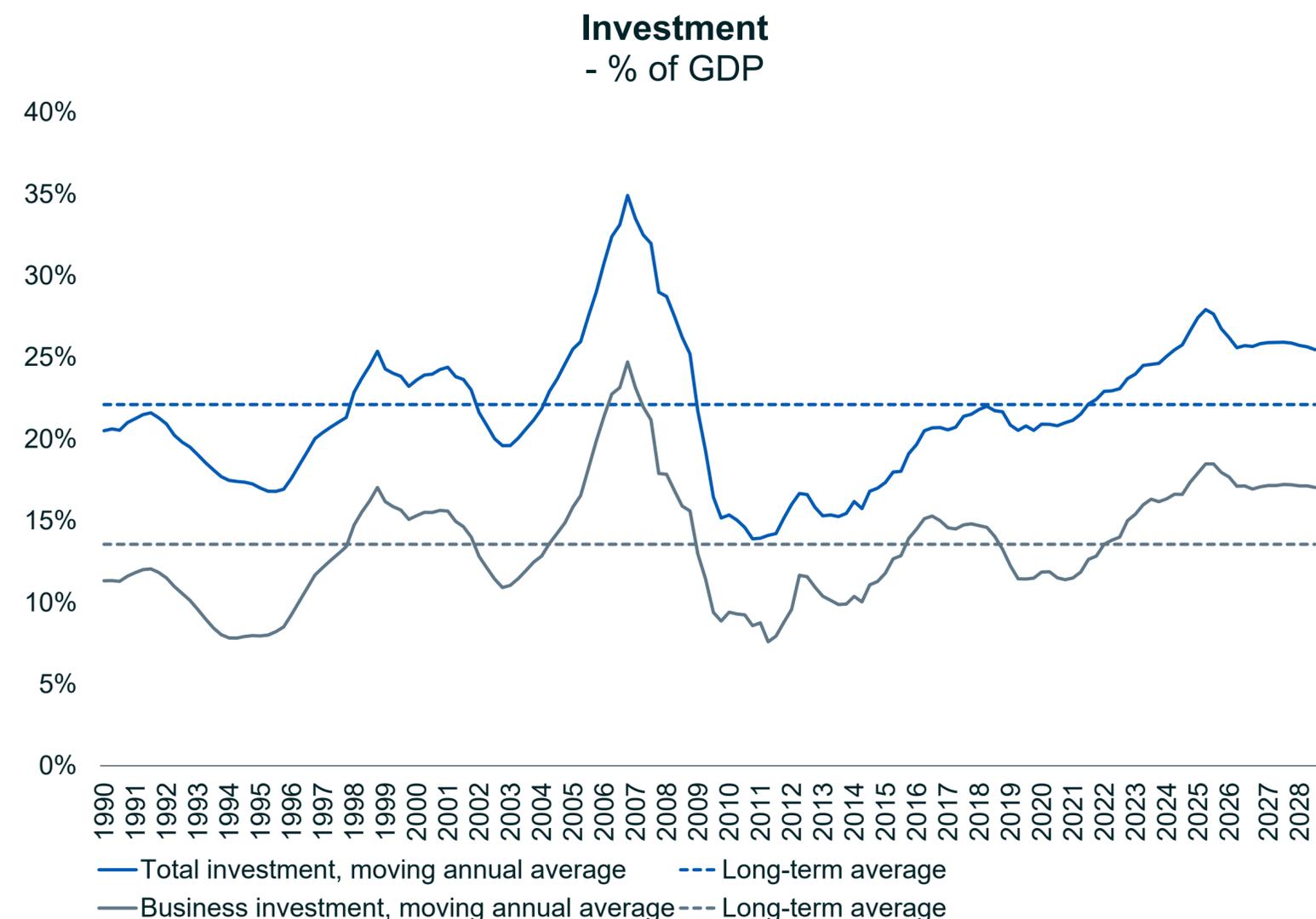
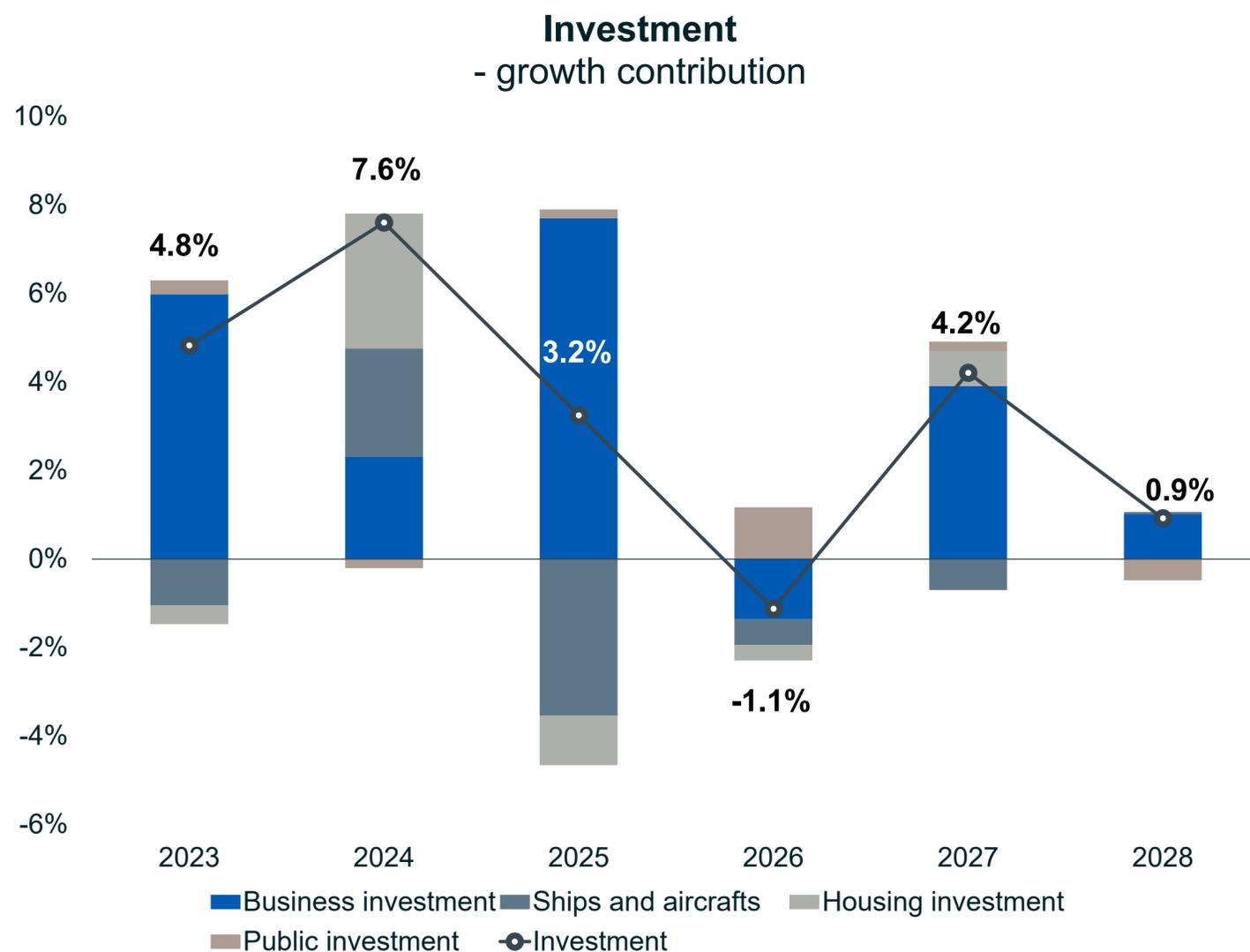
The bottom line is a 2.7% contraction in business investment in 2027 – turning into 4.8% growth the year after.

**Business investment**  
- growth contribution of components



# Investment Remains Robust

We expect investment to increase this year – thanks to a robust growth in business investment. Although data-center outlays are plainly visible in the business-investment figures, the full picture is not yet in. Next year, however, it will be up to the public sector to lift overall investment – offsetting declines across other components, including residential investment.

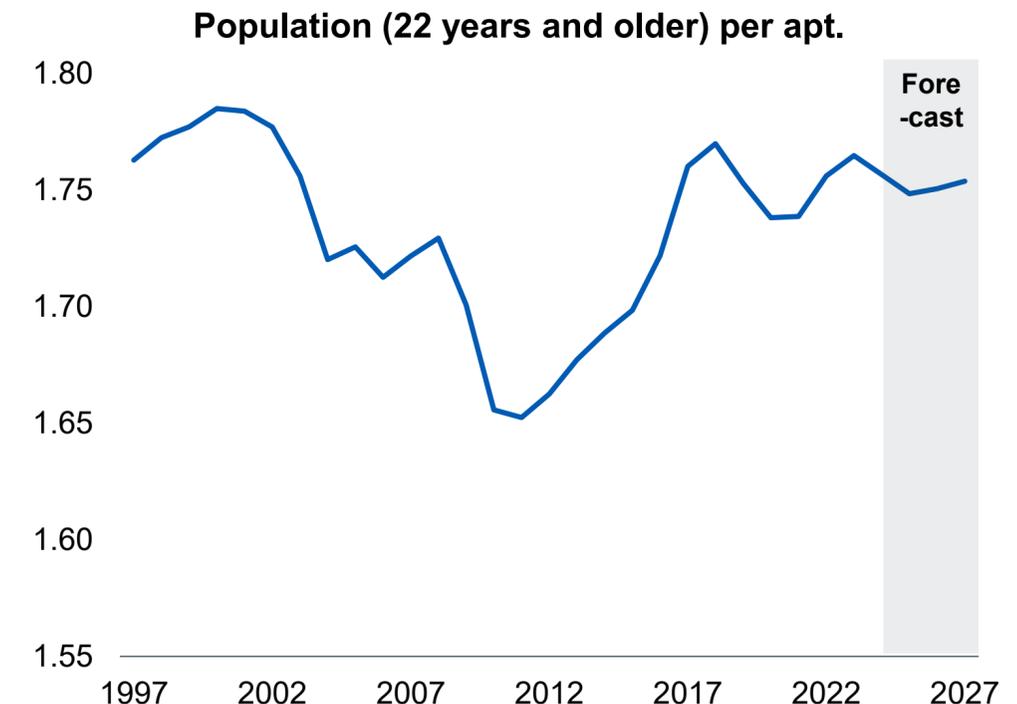
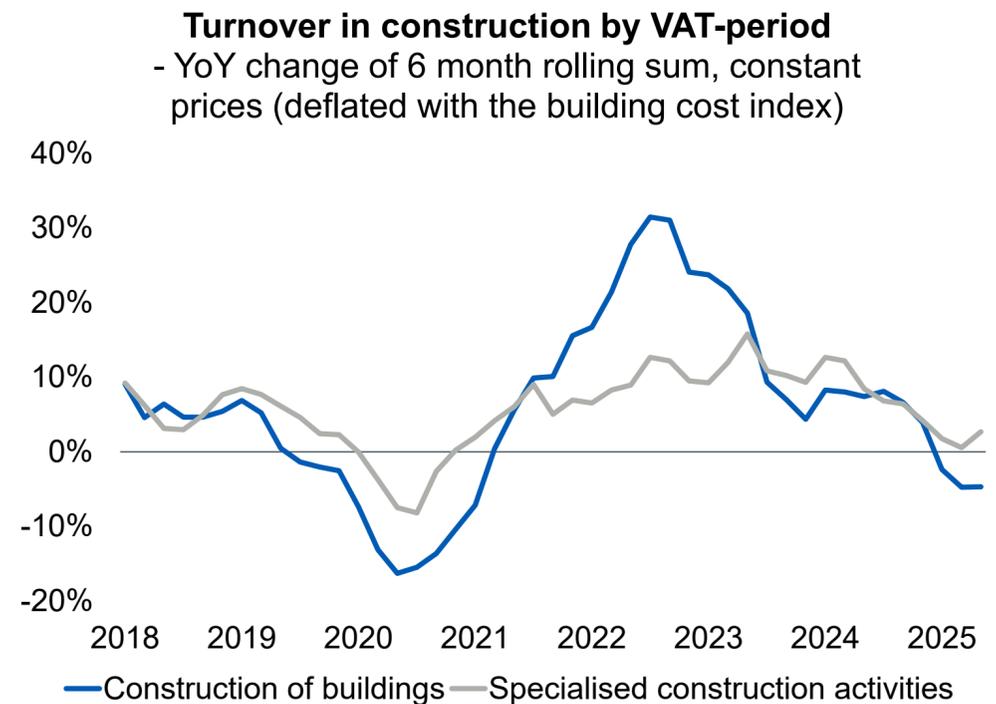
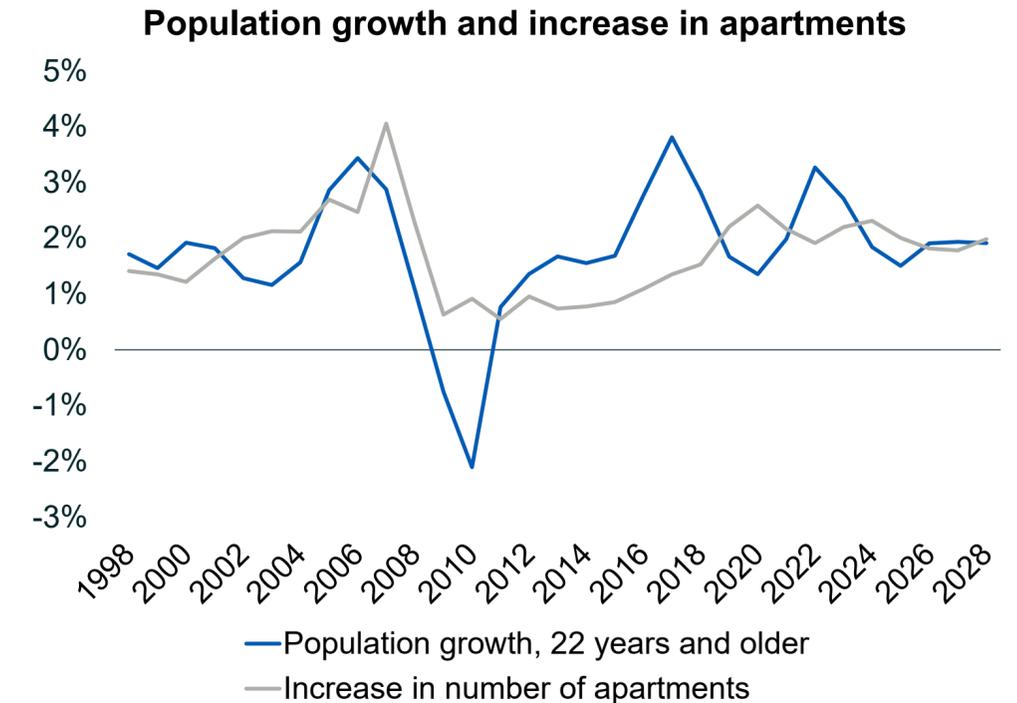
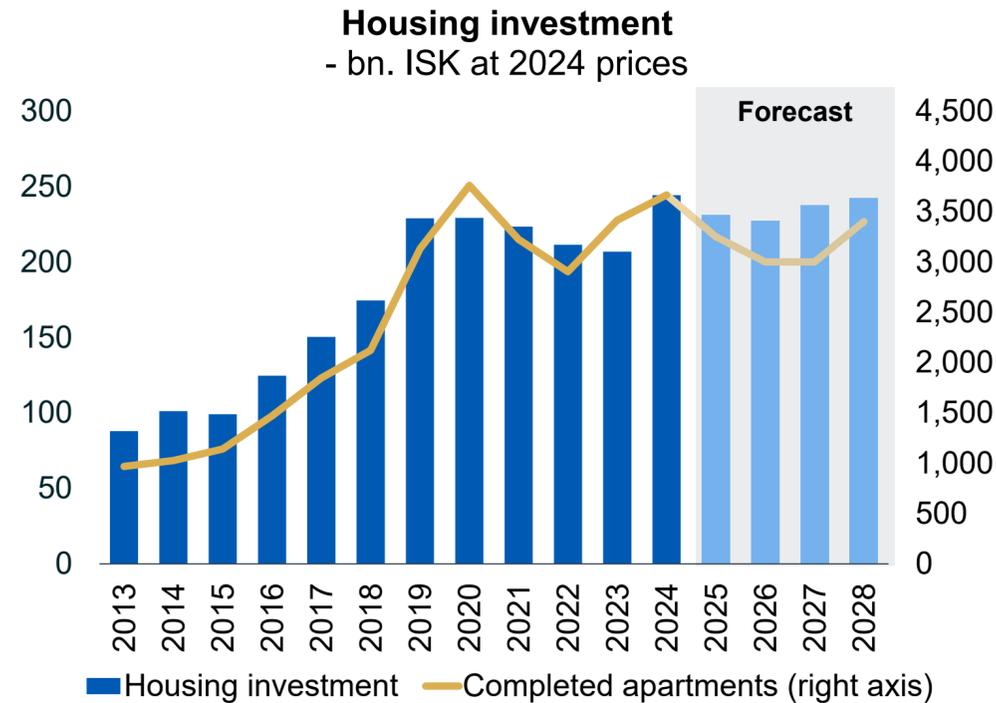


# Moderate Cooling of Housing Construction

Although sales of new apartments have been slow, new construction starts have increased since last year. We therefore expect residential housing construction to remain high in a historical context – despite an 11% decline in completed units this year and 8% next year.

Residential housing investment, by contrast, is set to contract less – by 5.4% this year and 1.7% next year – partly reflecting the changes in construction stages.

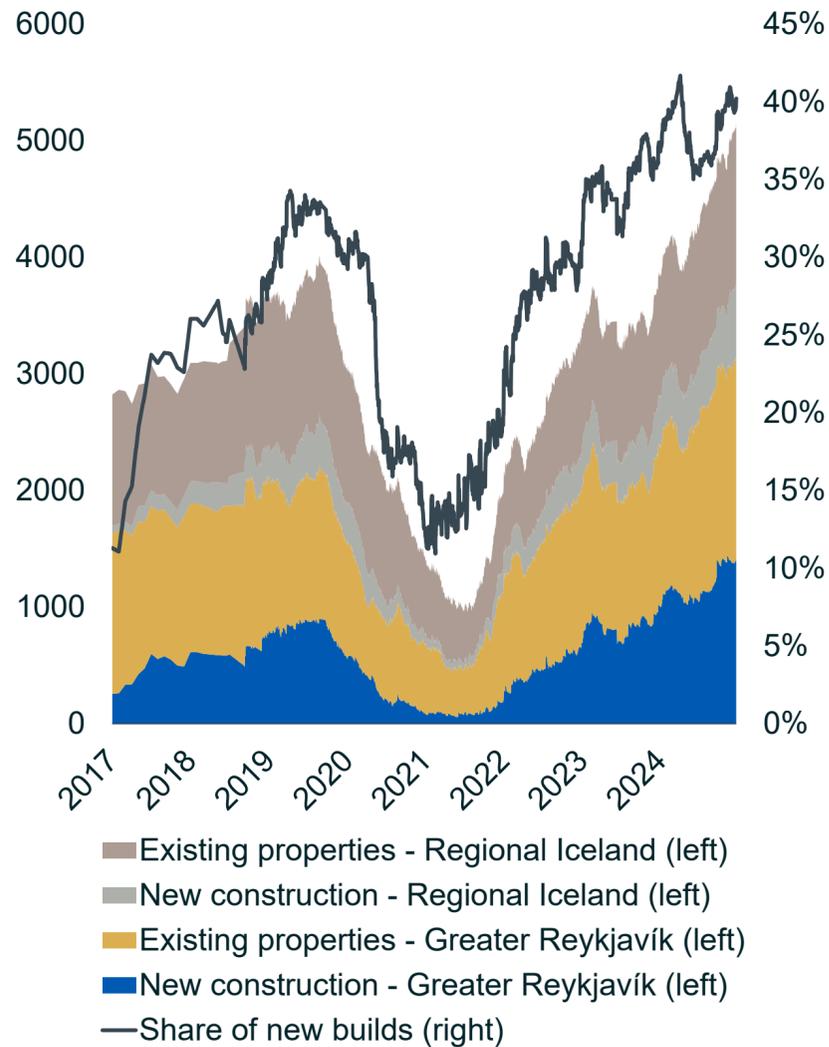
Population growth has slowed markedly so far this year. While we expect population growth to pick up from next year, we still foresee the housing stock increasing proportionally more than the population this year and the next.



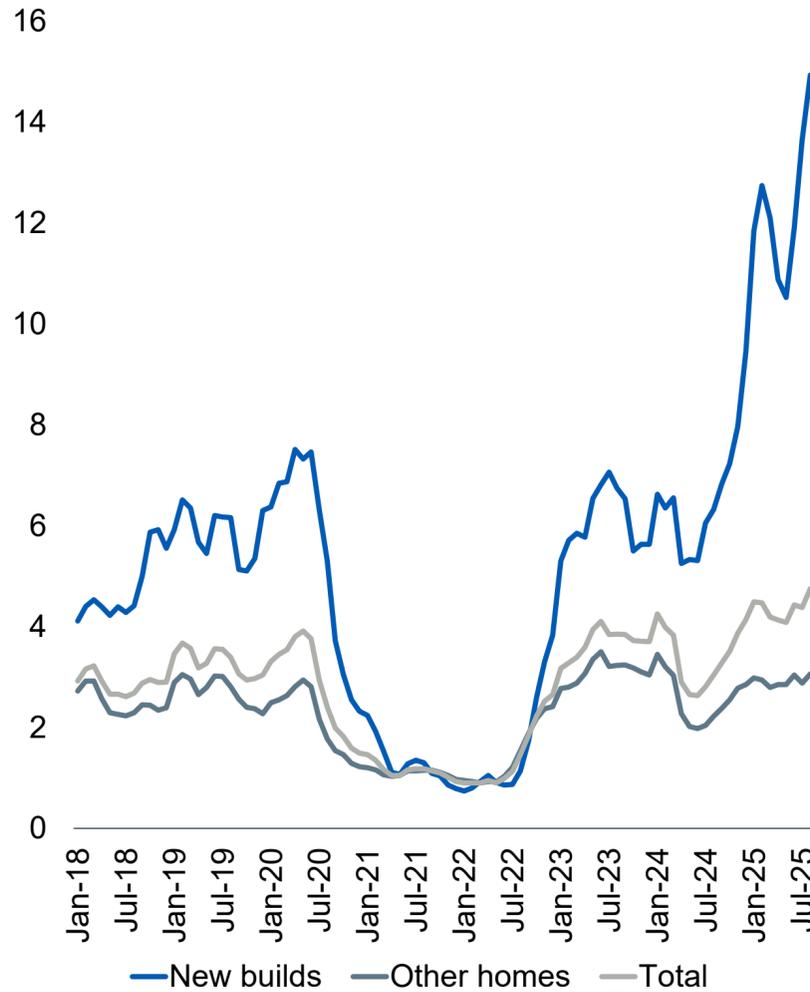
# Buyers' Market – Without Distressed Selling

In September, 5,200 apartments were listed for sale – a new record. At the same time, the inventory time for new builds has lengthened markedly – by about seven months in a single year. Even so, sales pressure does not appear to have increased much, judging by the sale-to-list ratio.

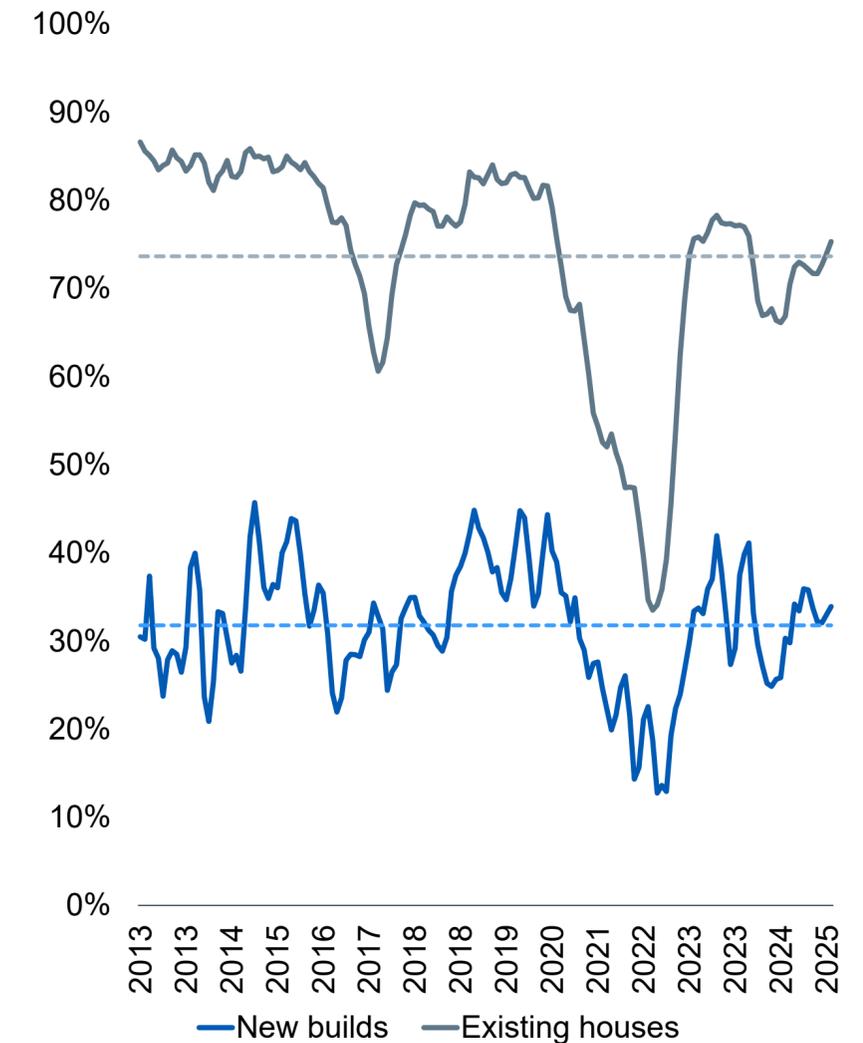
**Number of residential properties listed for sale**



**Months of housing inventory in greater Reykjavík - 3-month moving average**



**Shares of homes selling below asking price**

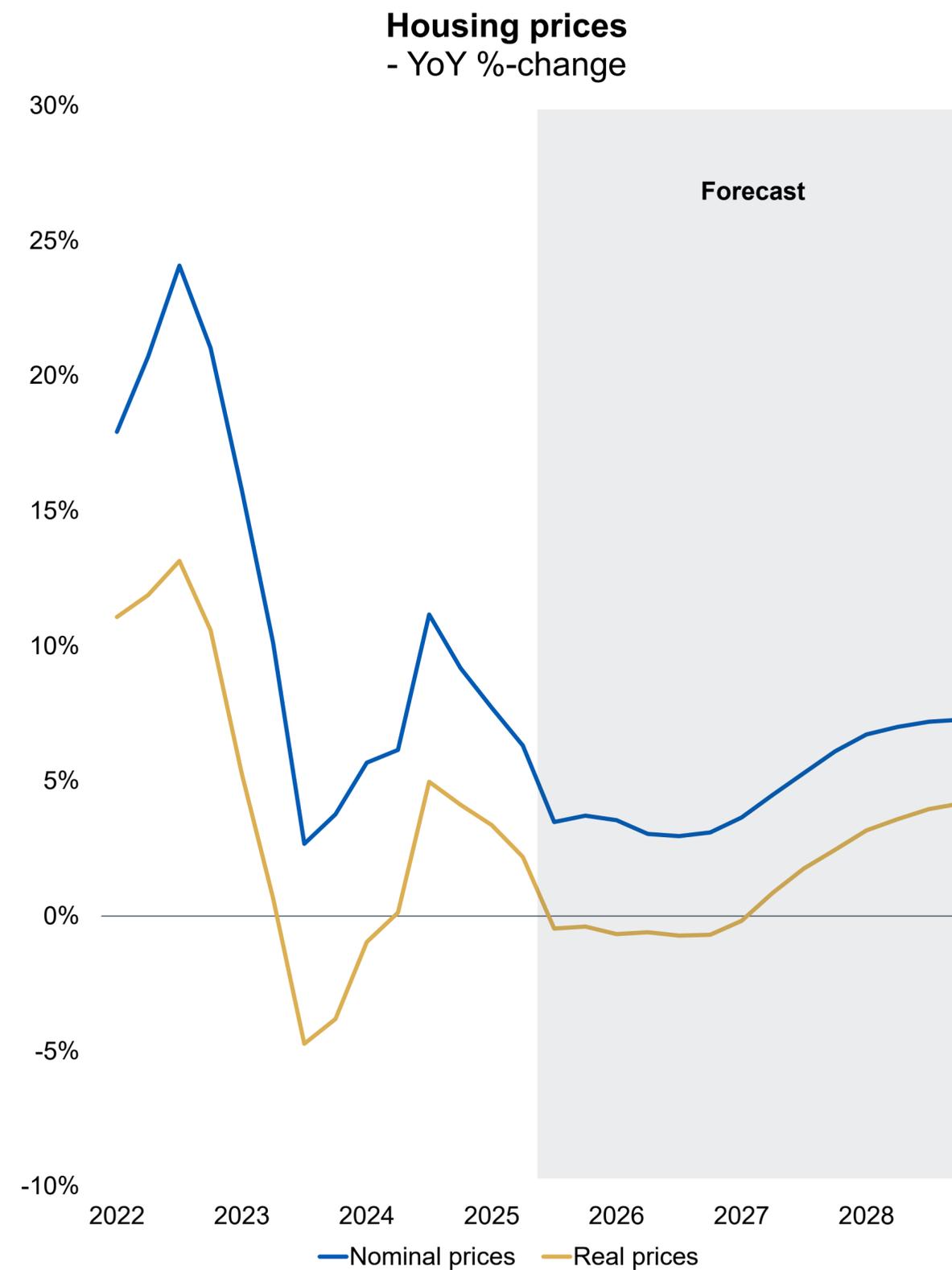
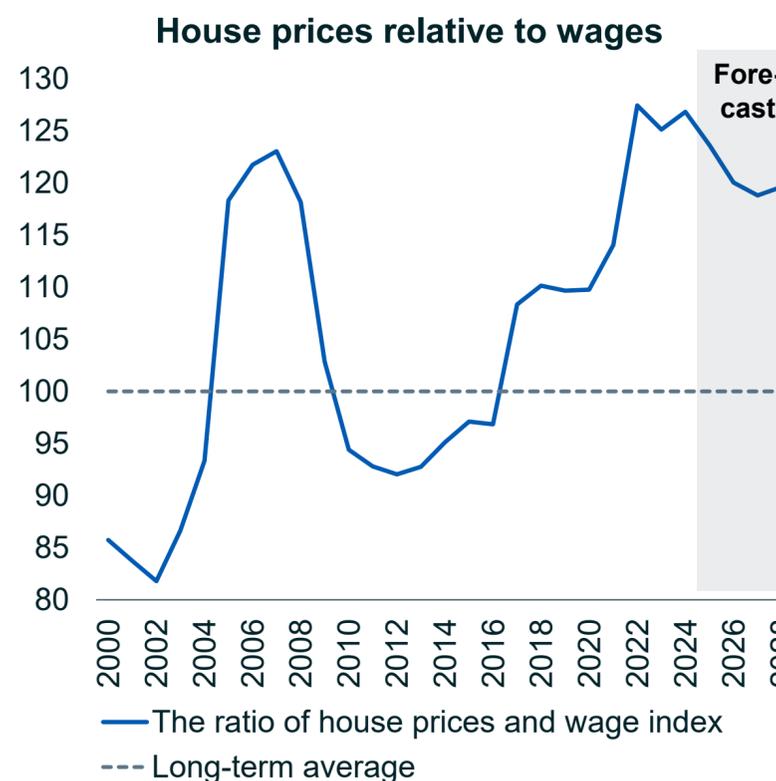
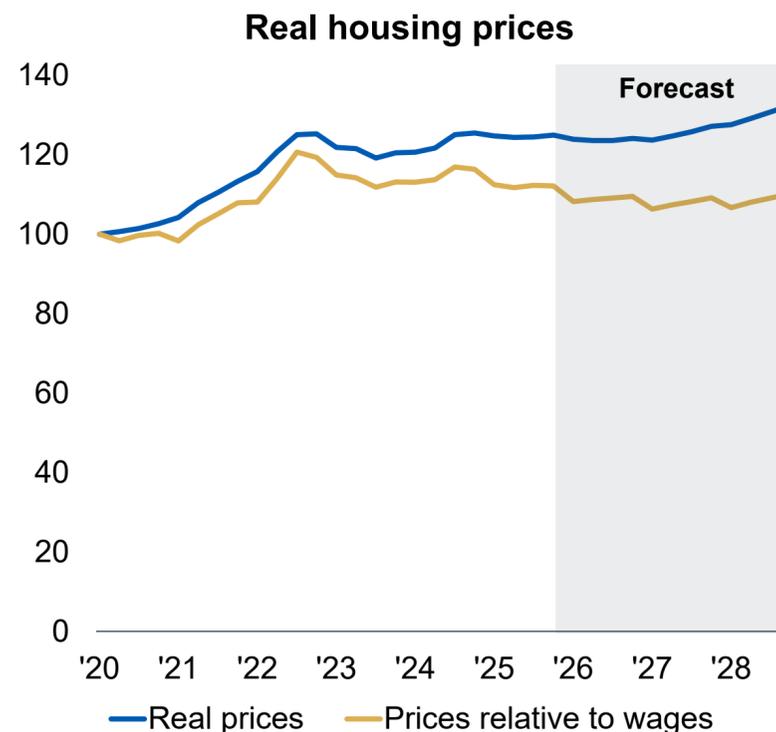


# Real House Prices Remain Stable

There has been a significant slowdown in housing price increases in recent months. According to the market price index for residential housing, the year-over-year rate has fallen from 10.9% a year ago to 2.8%.

Even so, real house prices are quite high at present – especially given interest-rate levels and access to credit. They have however eased slightly in recent months, not least after indexed mortgage rates began rising in the latter half of last year.

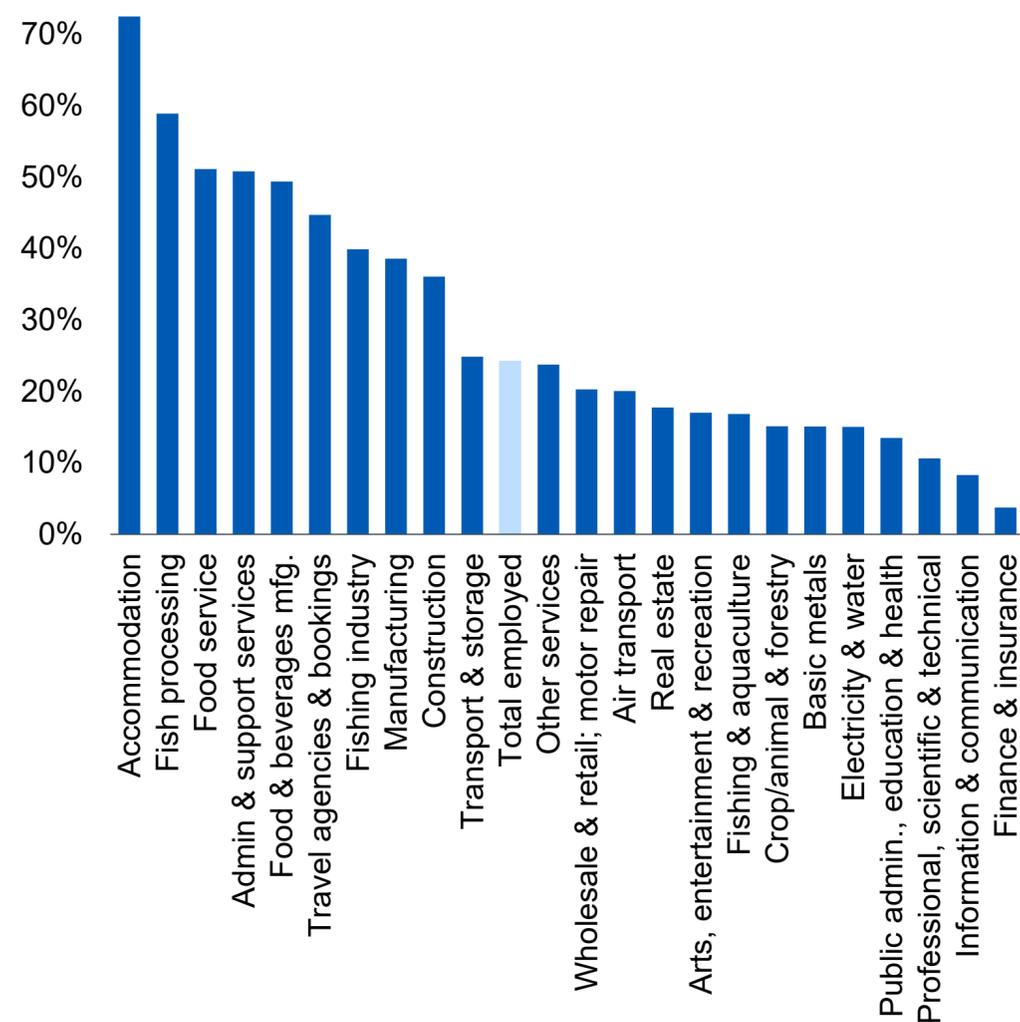
In our forecast, nominal house prices rise broadly in line with inflation over the next two years. However, we expect housing price to decline relative to wages. While no major correction is anticipated, wage growth is expected to provide firmer support for today's real price level.



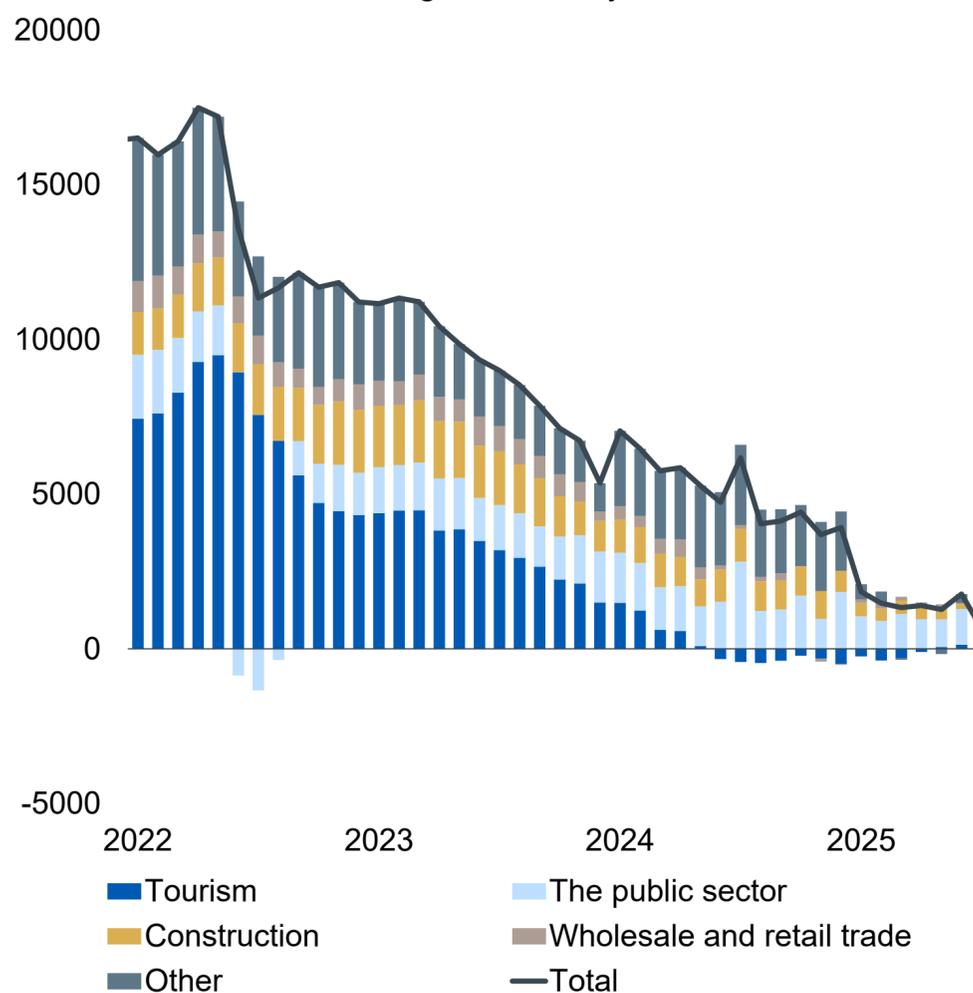
# Cooler Economy Eases Demand for Labor

There has been almost no job growth in tourism or construction between years, industries with a relatively high proportion of foreign workers. This situation, among other things, has significantly reduced population growth compared to the last three years, which is an indication of a cooling labor market and easing pressures in the economy.

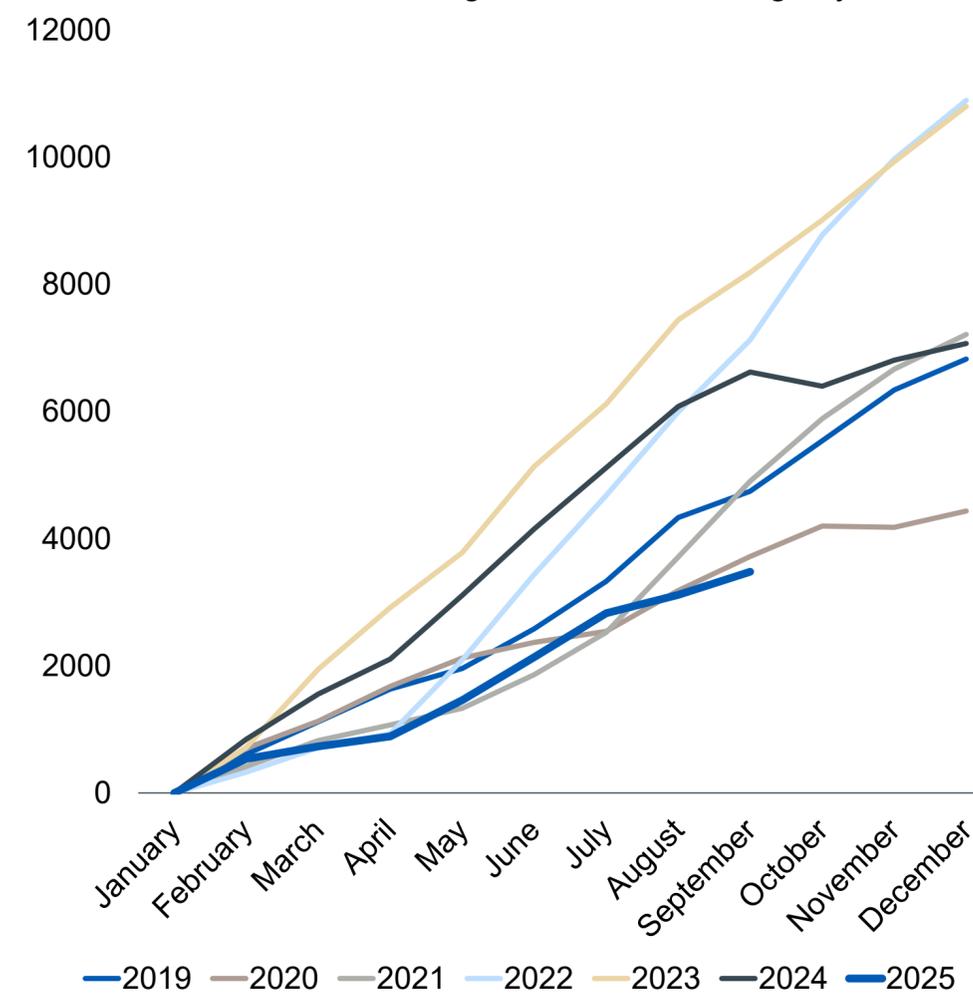
Share of immigrants by economic activity



Number of employed by economic activity - change between years



Cumulative population increase - number according to the National Registry

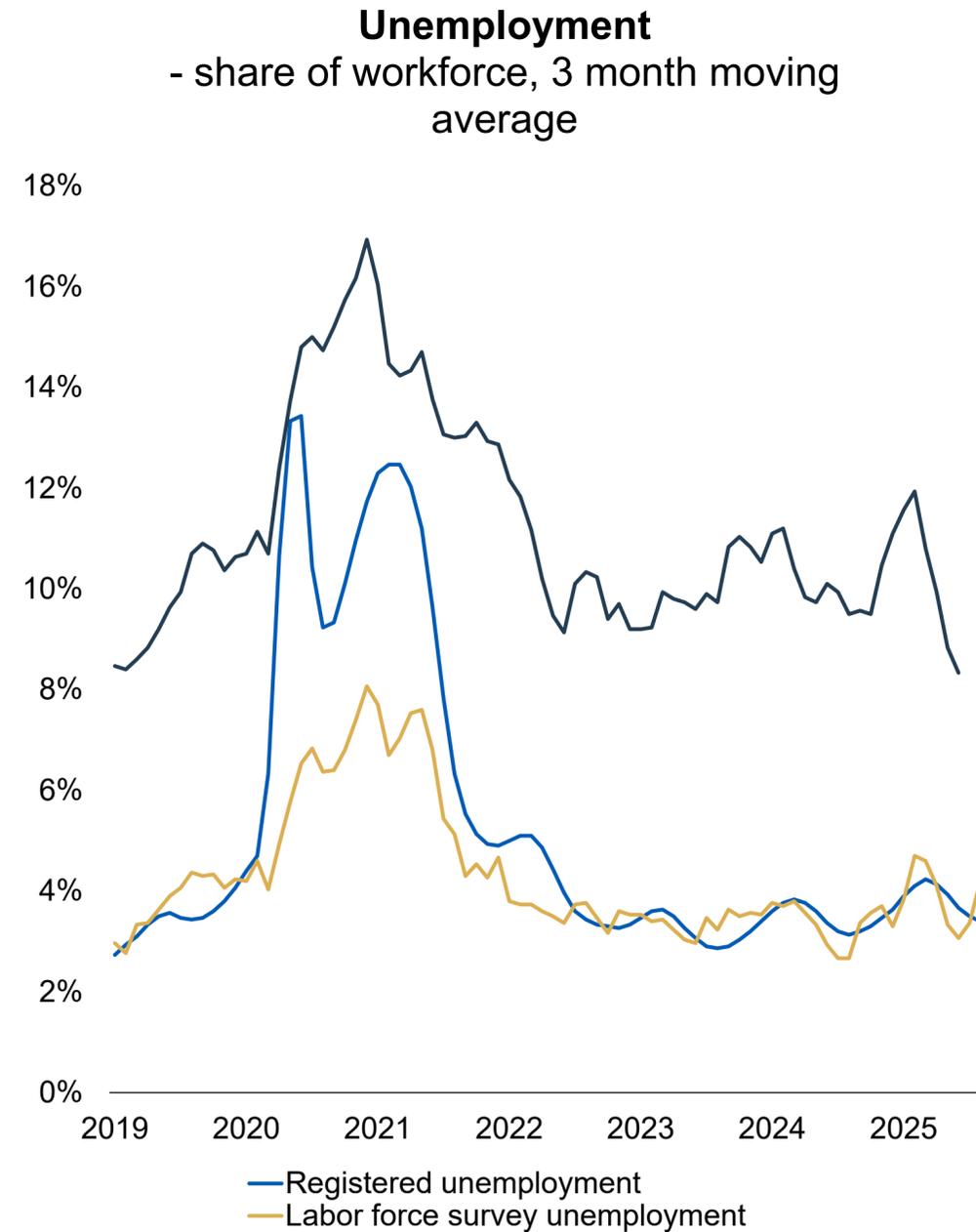


# Winter Brings a Cooling Labor Market

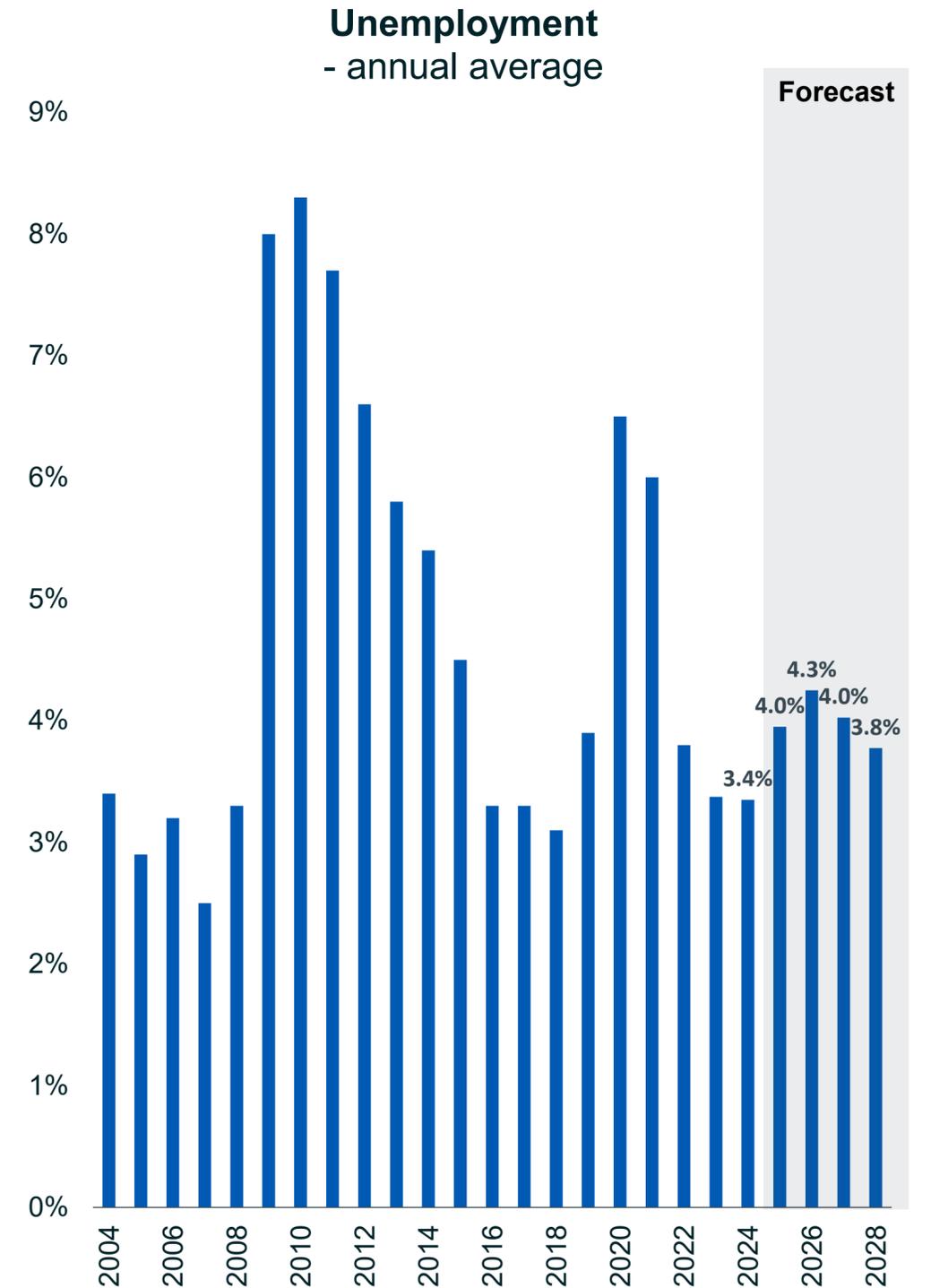
For over a year, analysts have been predicting a cooling labor market. However, previous forecasts were not necessarily based on actual figures, but on surveys among Icelandic companies. The resilience of the labor market has therefore repeatedly come as a surprise, as we have just recently begun to see cooling in actual numbers.

It cannot, however, be described as a freeze in the labour market, as registered unemployment according to the Directorate of Labor stands at 3.4%, compared to 3.2% a year ago.

We expect unemployment to continue edging upwards, averaging 4.3% next year. Signs of layoffs are already emerging in export sectors such as tourism (Play), aluminium production, fisheries, and related industries. The króna is strong – too strong – at present, while labour costs are high and interest expenses substantial. In such conditions, companies typically seek to reorganise and streamline operations, which often results in job reductions.



*Broad unemployment includes the unemployed, those working part-time but who want to work more, and those who are willing to work but are either not actively looking for a job or not ready to start working within two weeks.*



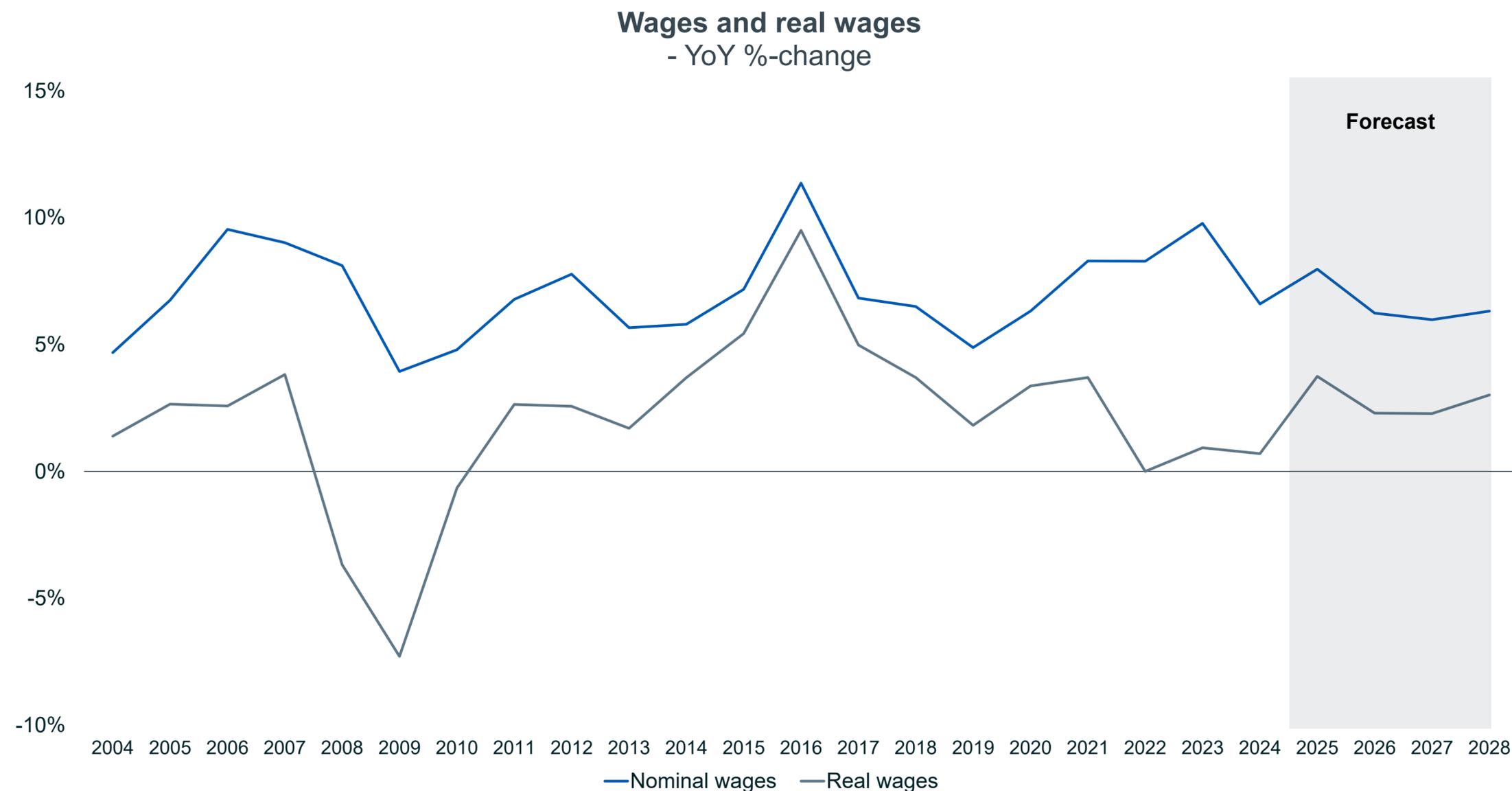
Our wage forecast has undergone several revisions between economic outlook releases and now assumes significantly higher wage increases this year - around 8% on average - than previously expected.

Part of this increase has already materialized, as wages in the general labor market rose at the beginning of the year, with an additional contractual wage rate increase in April.

It seems that wage drift is greater than we expected, seeing as the labor market has shown little signs of weakening. We expect wage drift to remain a persistent feature of the Icelandic economy, though gradually diminishing year-on-year as unemployment edges upward.

Nevertheless, substantial real wage growth is projected, laying the foundation for private consumption growth in the coming years.

# Tale as Old as Time: Wages Increase



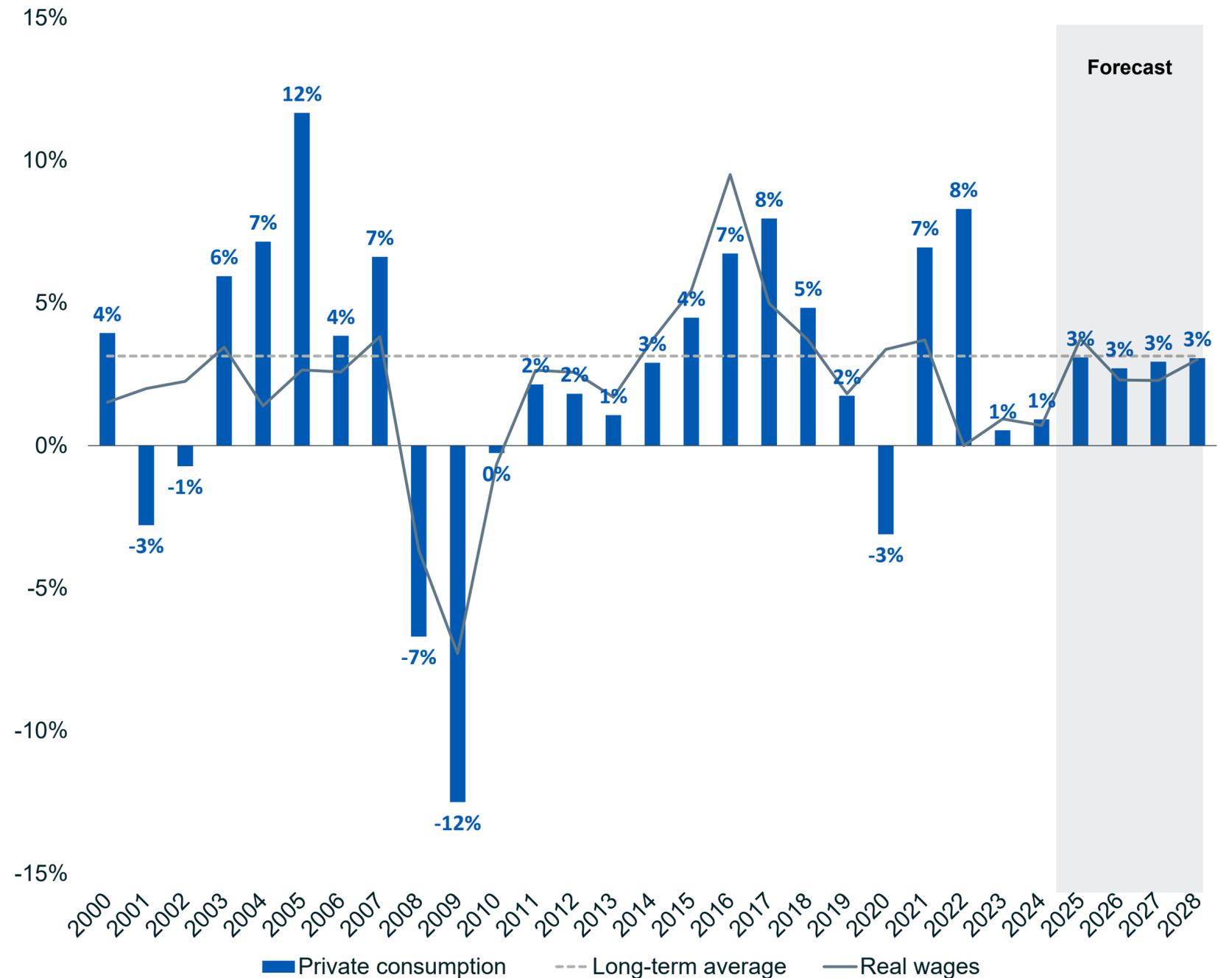
# Spending Gallops ahead, Wages hold the Bridle

Private consumption has been a persistent challenge for analysts in recent years, as forecasts have repeatedly overestimated household spending. Despite strong financial positions, moderate debt levels, and low unemployment, per capita private consumption did not begin to pick up until the current year.

Our forecast assumes that private consumption will continue to grow in line with rising real wages, as will per capita spending. Nevertheless, we expect households to proceed cautiously in these uncertain times, resulting in only modest per capita consumption growth by historical standards.

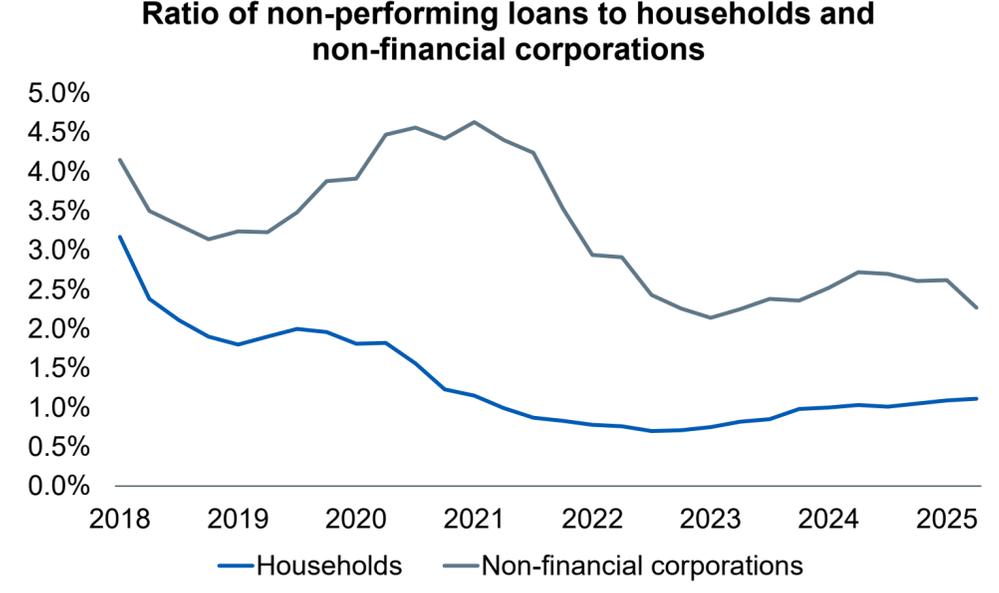
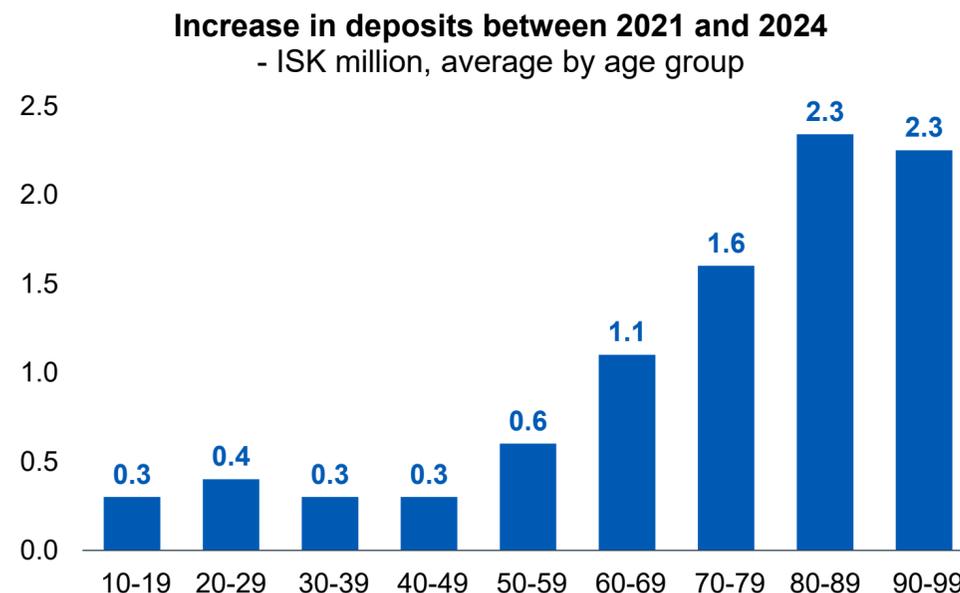
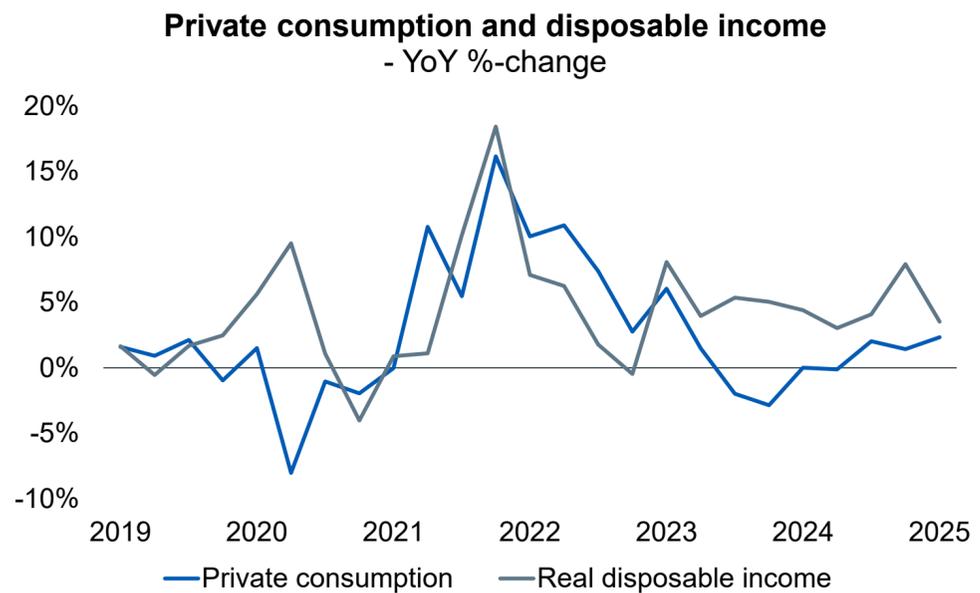
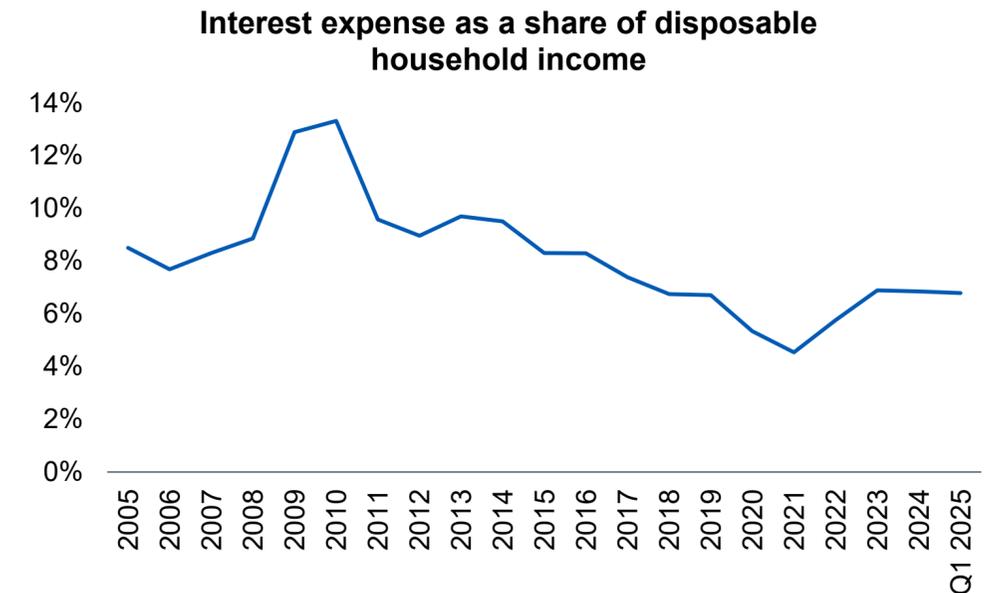
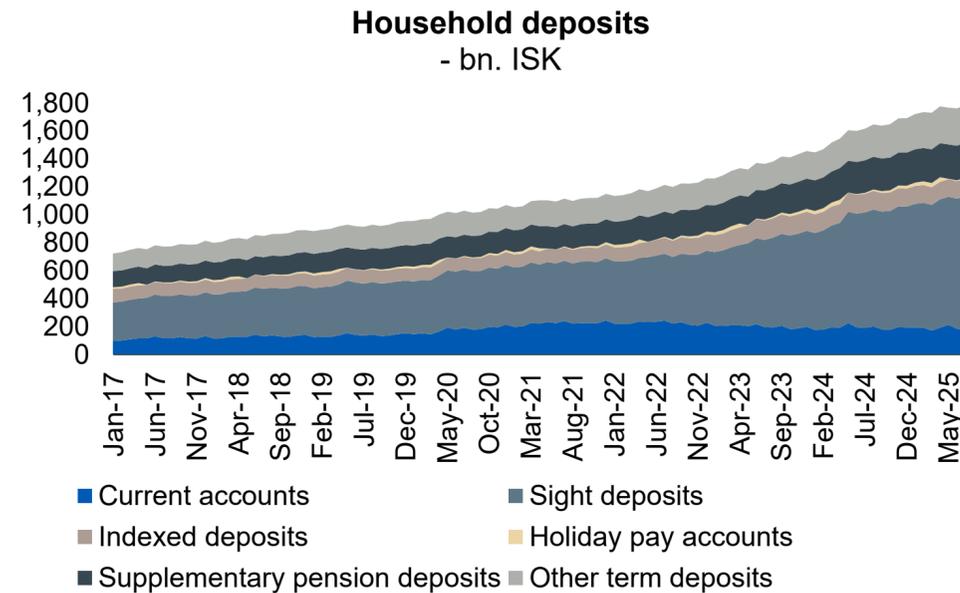
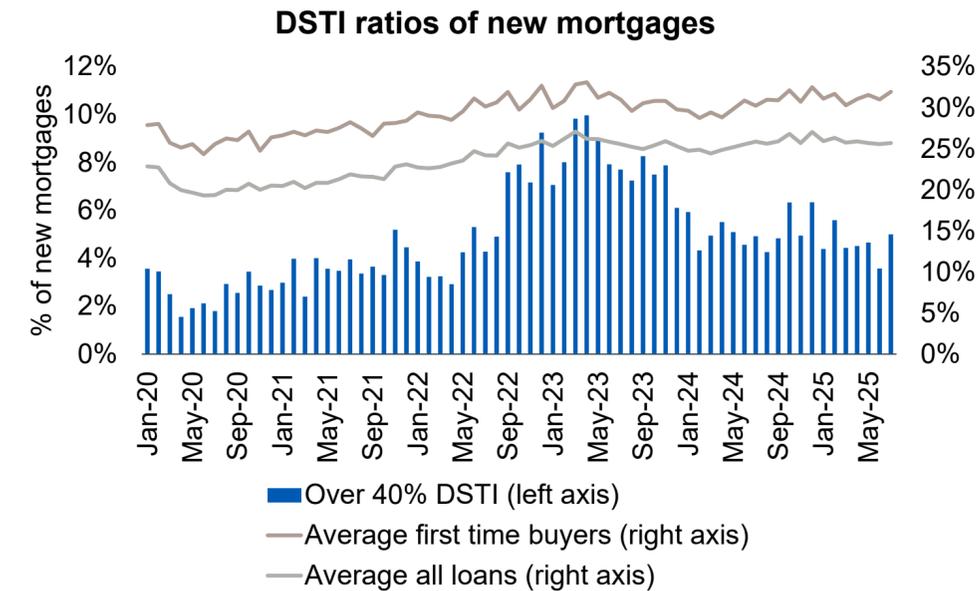
That said, the fundamentals for stronger consumption are in place: purchasing power is improving, arrears remain low, and household sentiment is reasonably optimistic. This creates favorable conditions for increased spending, particularly in the latter part of the forecast period, when unemployment is expected to decline and interest rates to ease.

Private consumption 2000-2028  
- YoY %-change



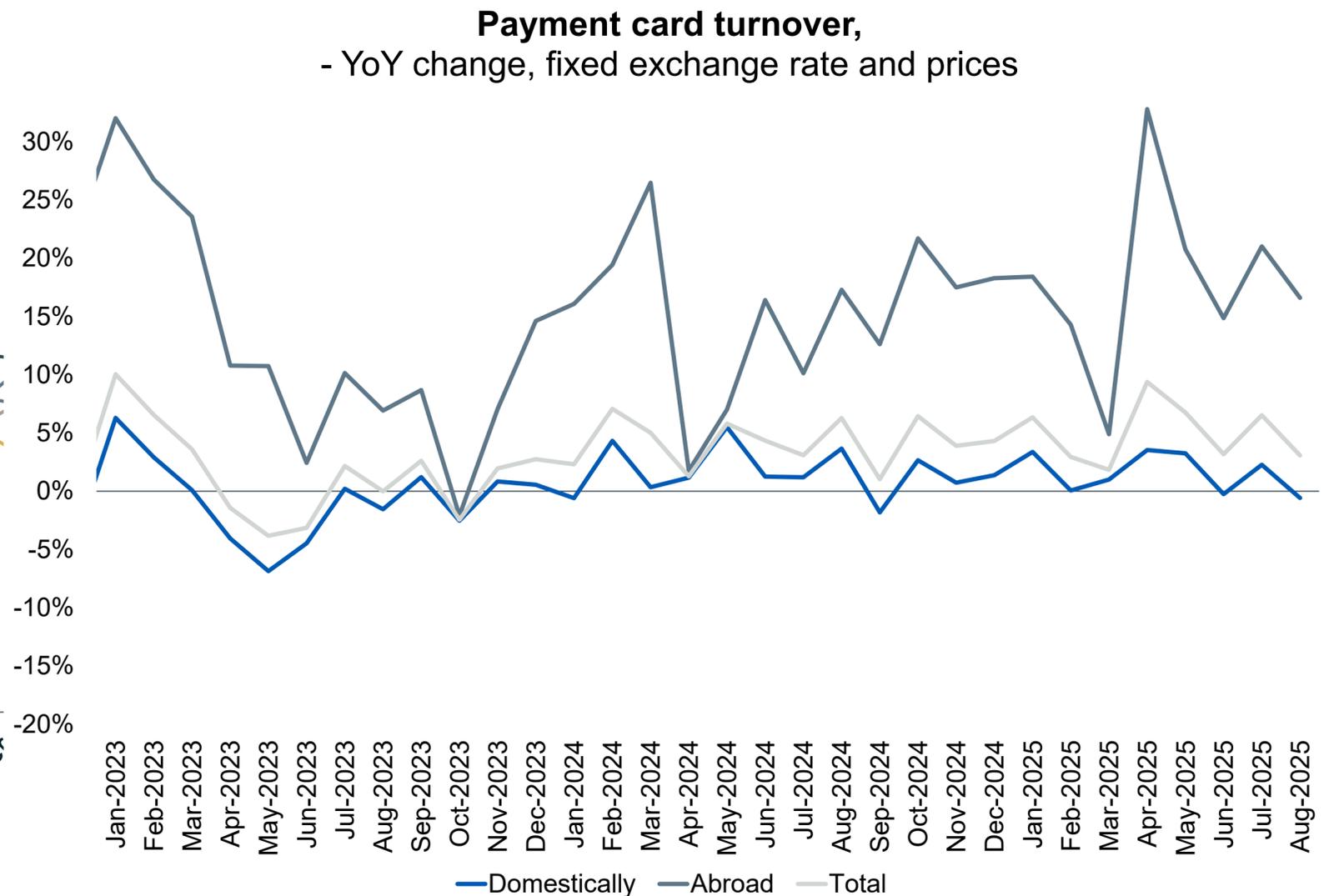
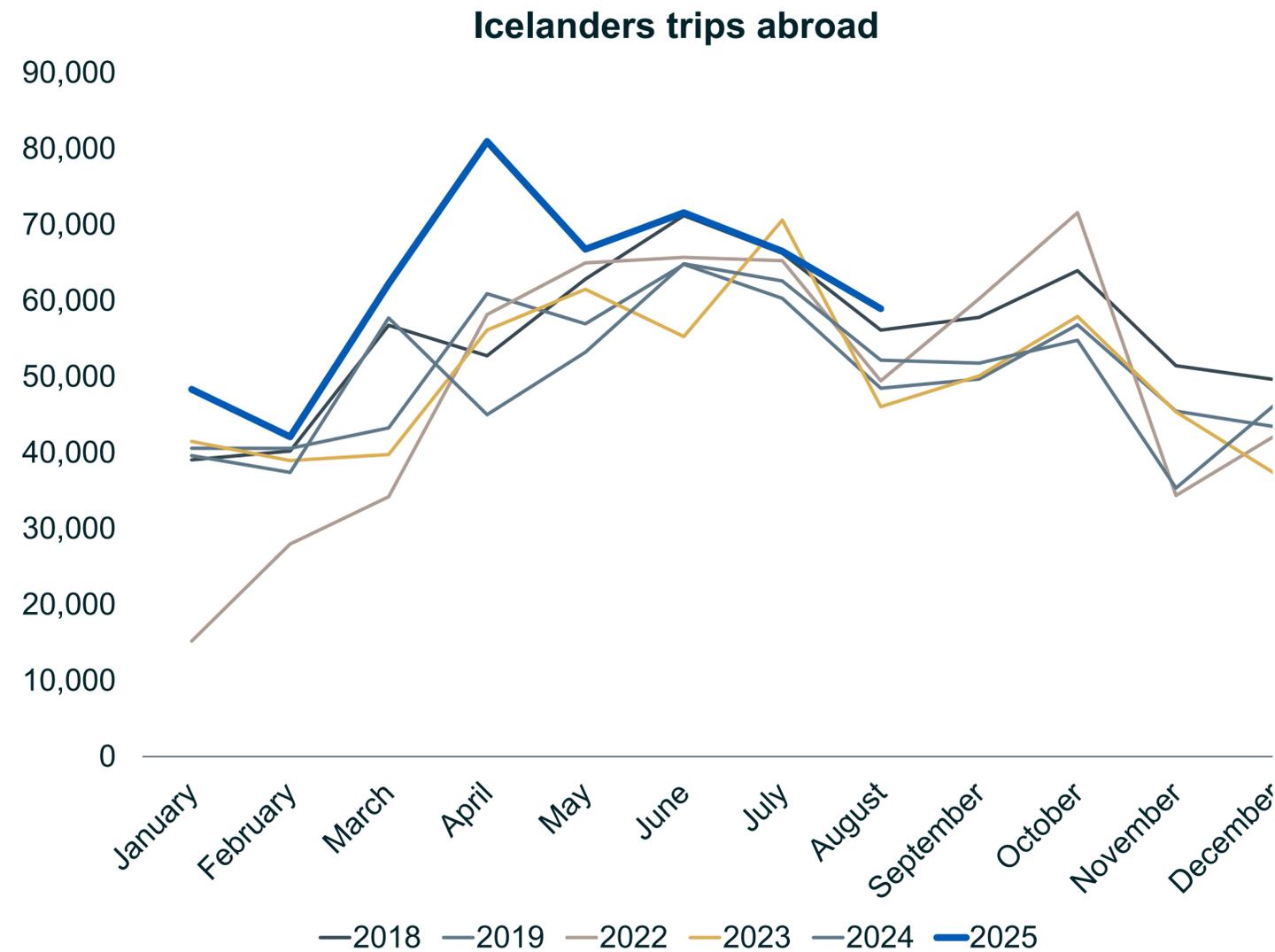
# Households Remain Resilient

Households as a whole have every capacity to increase their consumption, as they have substantial savings, are relatively low in debt, and face moderate debt service burdens, which is reflected in a low default rate.



# Spending is Going Abroad

Literally so, as more and more Icelanders have taken to the road, with their credit cards in tow. The suspension of Play's operations will undoubtedly affect Icelanders' willingness and ability to travel in the coming months, as the supply of flights to sunny destinations may temporarily shrink. It may also be that the suspension impacts the national psyche, though it is difficult to assess such effects using economic models.



# Major Fluctuations in Imports

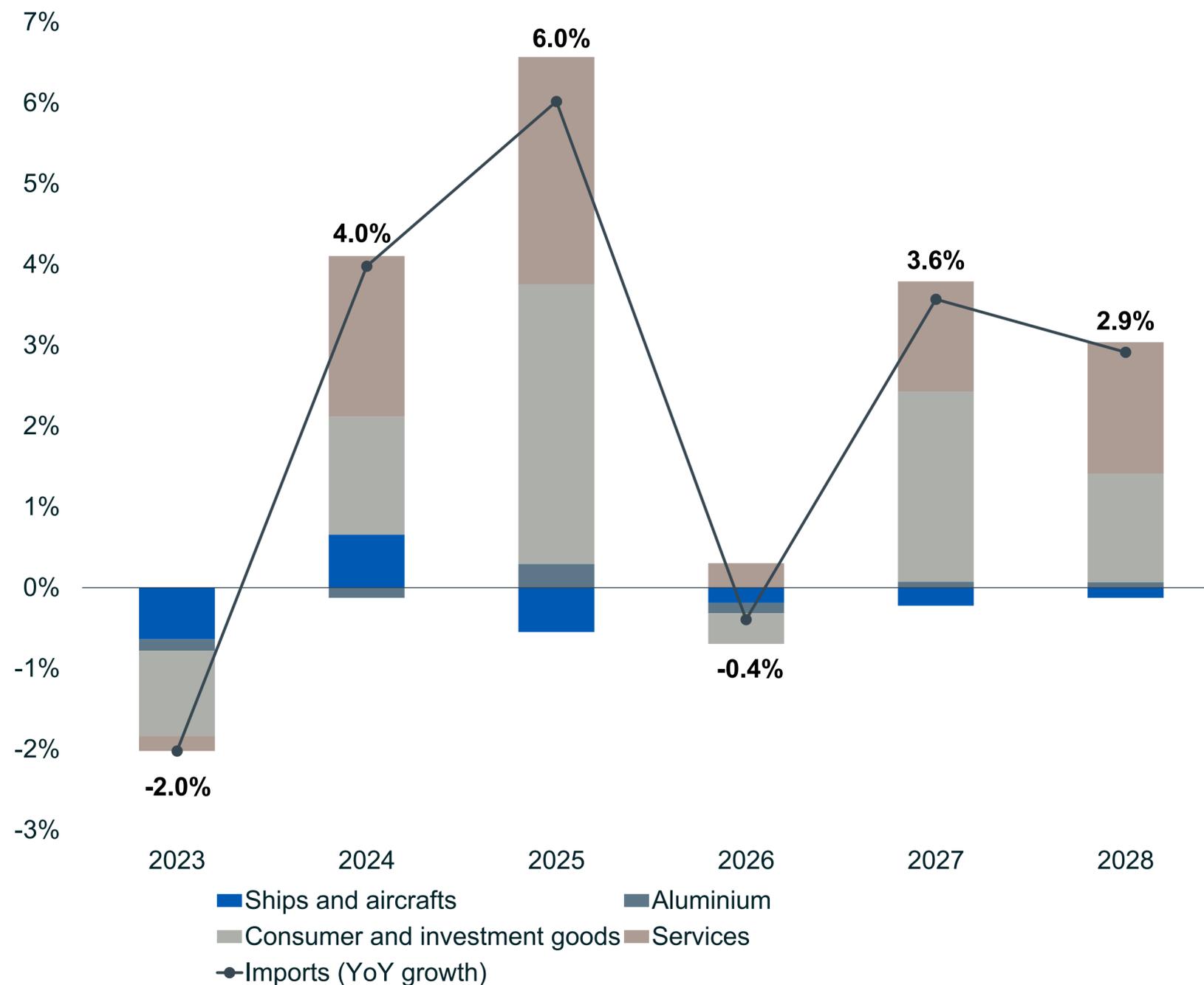
As previously outlined, imports have been on a strong trajectory, driven by major investments in data centers and aquaculture, along with the nation's appetite for travel, which has given the sector a significant boost.

The expected contraction in imports next year can primarily be attributed to two factors:

- A decline is anticipated in imports of equipment related to data centers, although volumes will remain substantial.
- We expect the number of Icelanders travelling abroad to decrease, in line with rising unemployment, a weakening króna, and a changing landscape in the airline industry.

However, private consumption is projected to increase throughout the forecast period, and large investment projects are underway that will influence import figures in the coming years. The performance of the tourism sector will also play a role, both through the operational leasing of aircraft and the number of people present in the country at any given time. We therefore expect imports to start growing again in 2027.

**Imports**  
- growth contribution of components



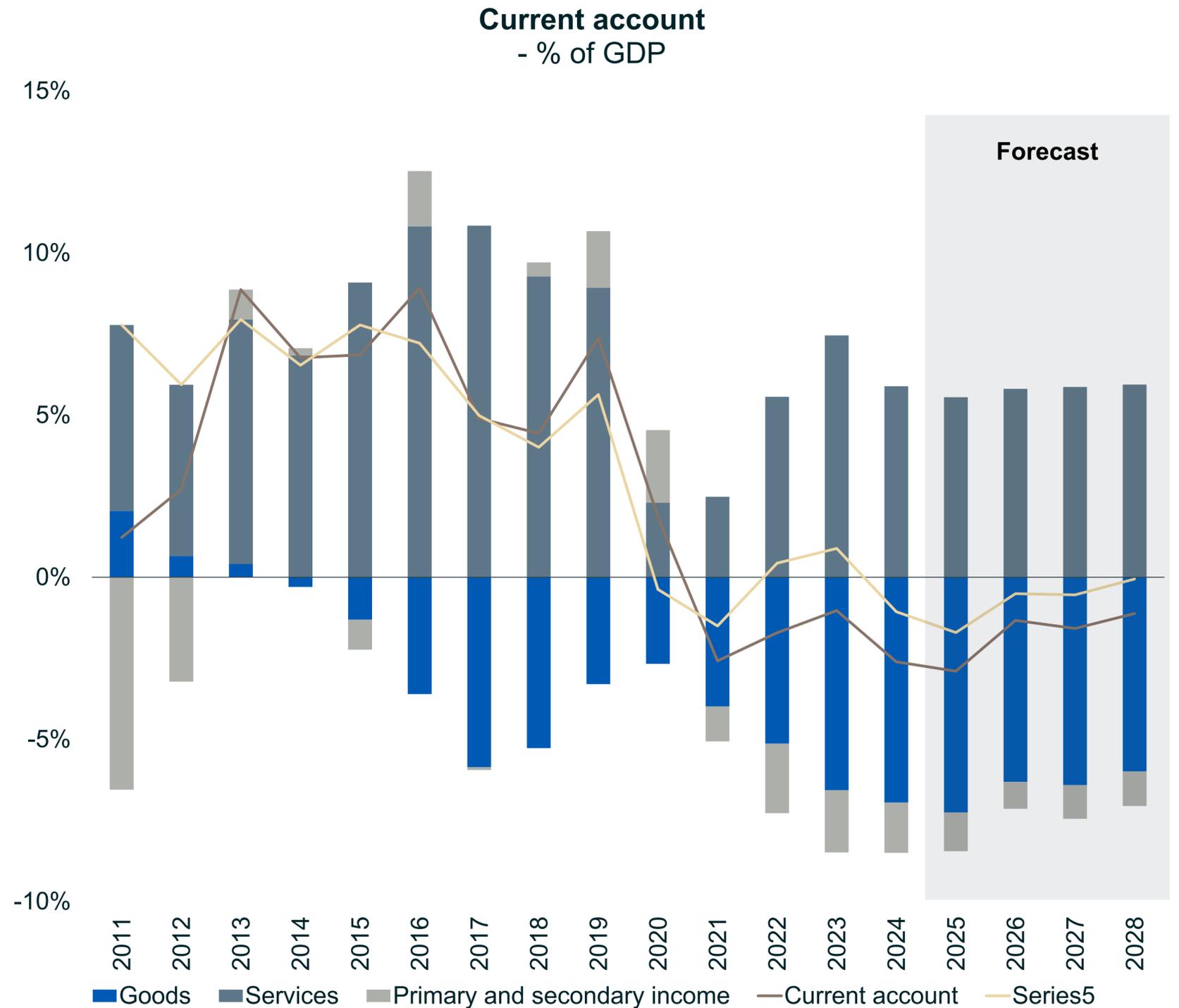
# The Ups and Downs of Trade Balance

It is obvious that the investment projects related to data centers and land-based aquaculture have a significant impact on the trade balance this year through an increased goods trade deficit.

The outlook is for the goods trade deficit to shrink somewhat next year alongside a reduction in imports. Nevertheless, the balance of goods and services will remain in deficit until the final year of the forecast period. Looking at the overall trade balance, a persistent trade deficit is projected.

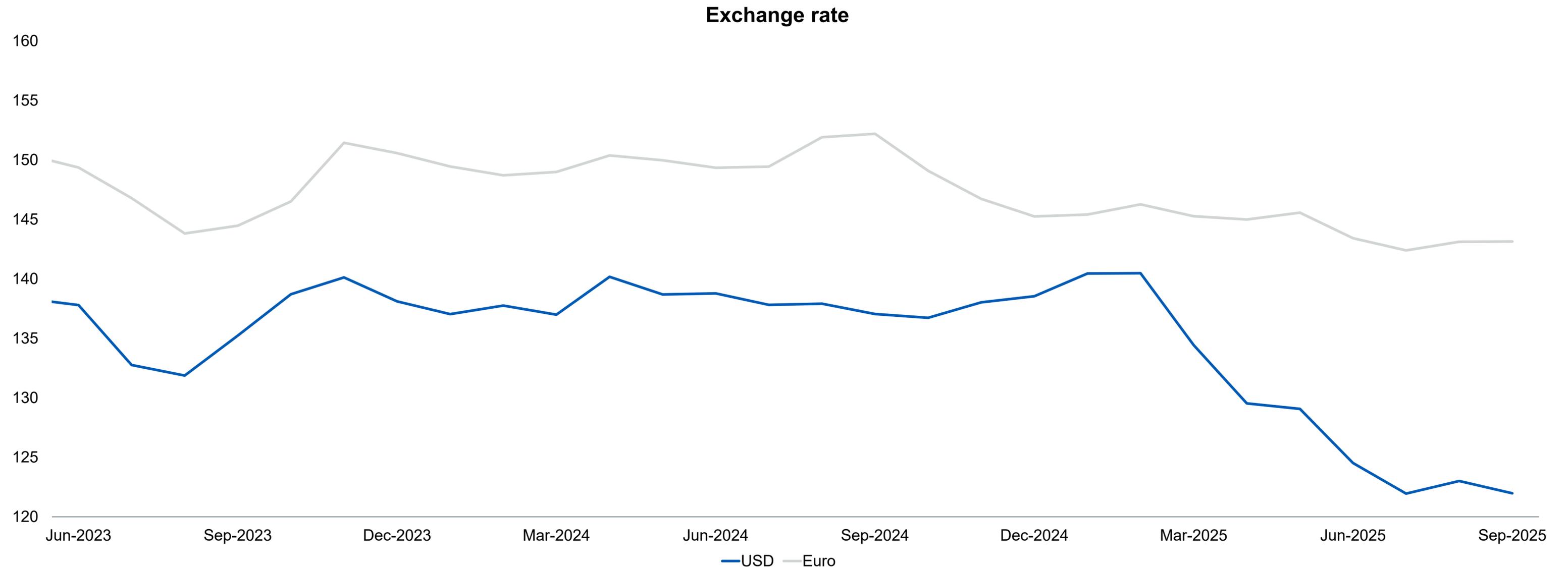
The difference lies primarily in secondary income, i.e., remittances between countries. The deficit in personal transfers has increased in line with the rise in foreign labor, and we expect this trend to continue.

It is clear that all forecasts for the trade balance are highly sensitive to changes in terms of trade – the ratio of export to import prices. The forecast is based on fragile assumptions, such as oil and aluminium prices and the export prices of marine products, which tend to fluctuate rapidly and significantly.



# A Tale of Two Currencies

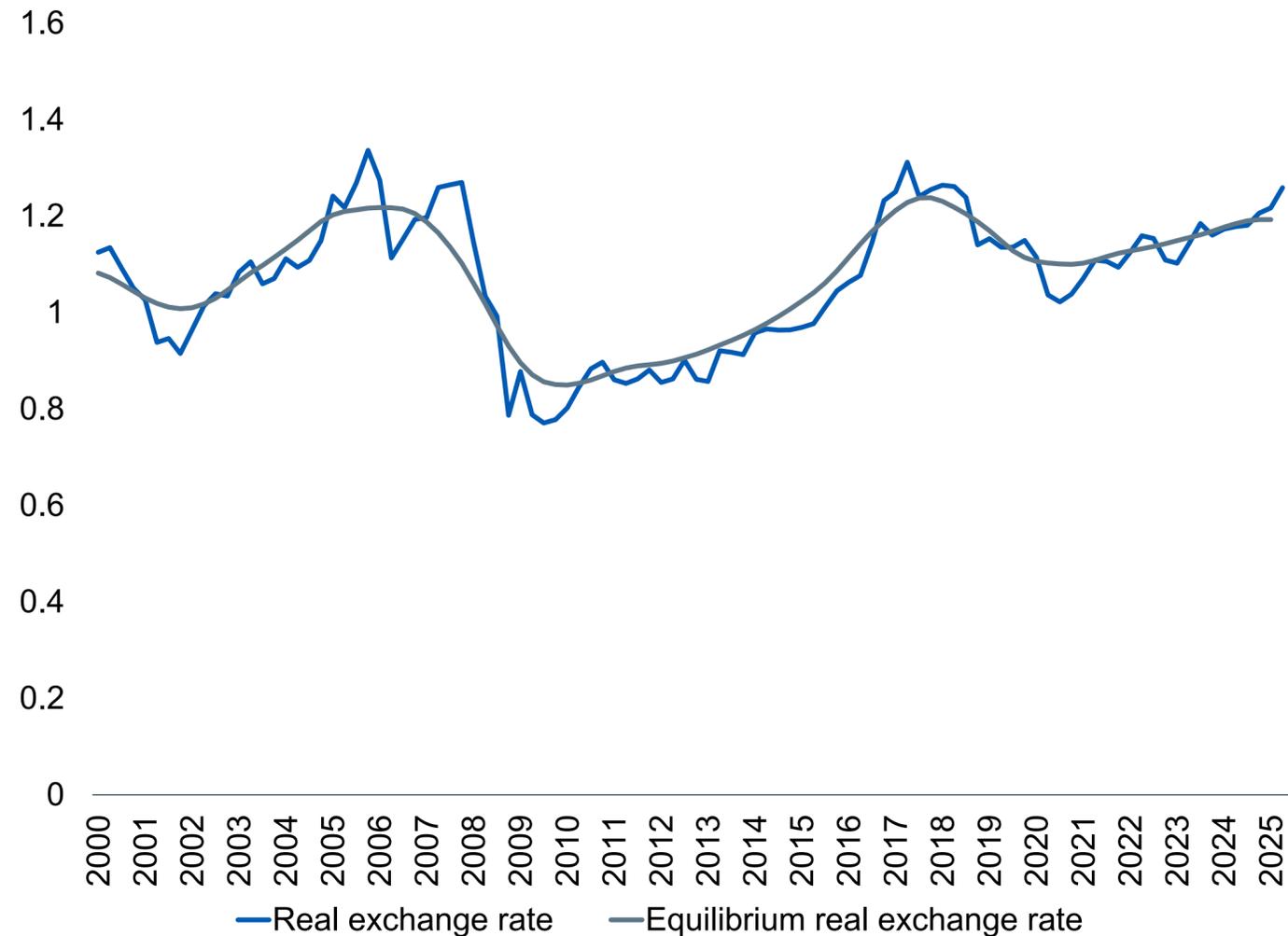
The króna has strengthened significantly in recent times, especially against the US dollar, whose performance in the first half of the year was the worst in more than half a century. The króna has strengthened less against other currencies, such as the euro, which partly explains why the impact on inflation has not been greater than observed.



# Strong, Stronger... Too Strong?

According to the Central Bank's latest assessment, the króna is slightly above its equilibrium real exchange rate. Although Central Bank officials usually respond that the króna is broadly in balance, their actions point to something else, as the Bank has begun regular foreign currency purchases under the pretext of strengthening the reserves. The timing is hardly a coincidence; the króna is strong, and the pension funds - major buyers of foreign currency - are notably absent from the market.

Real exchange rate and the equilibrium real exchange rate



EUR/ISK and CBI's interventions in the foreign exchange market

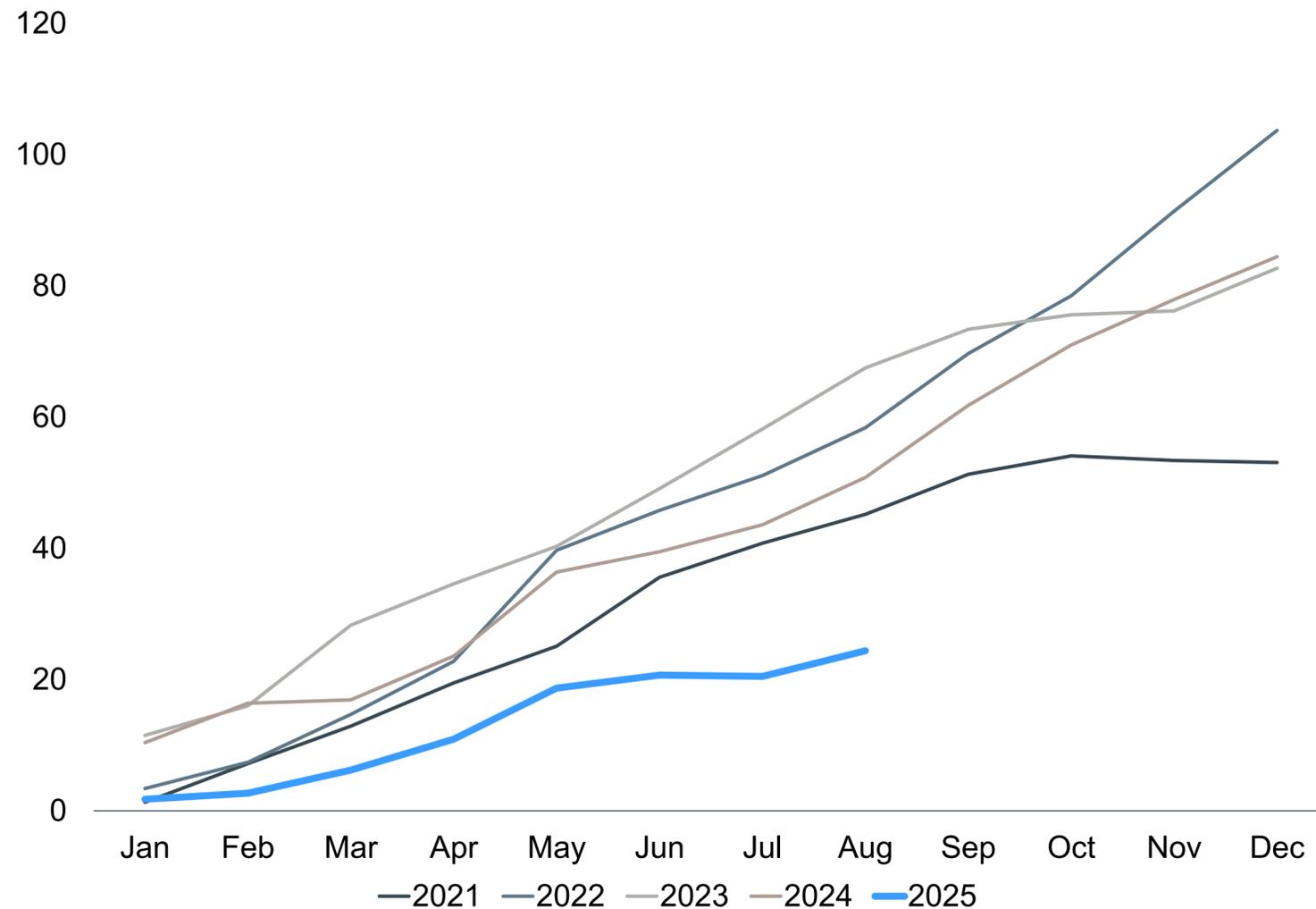
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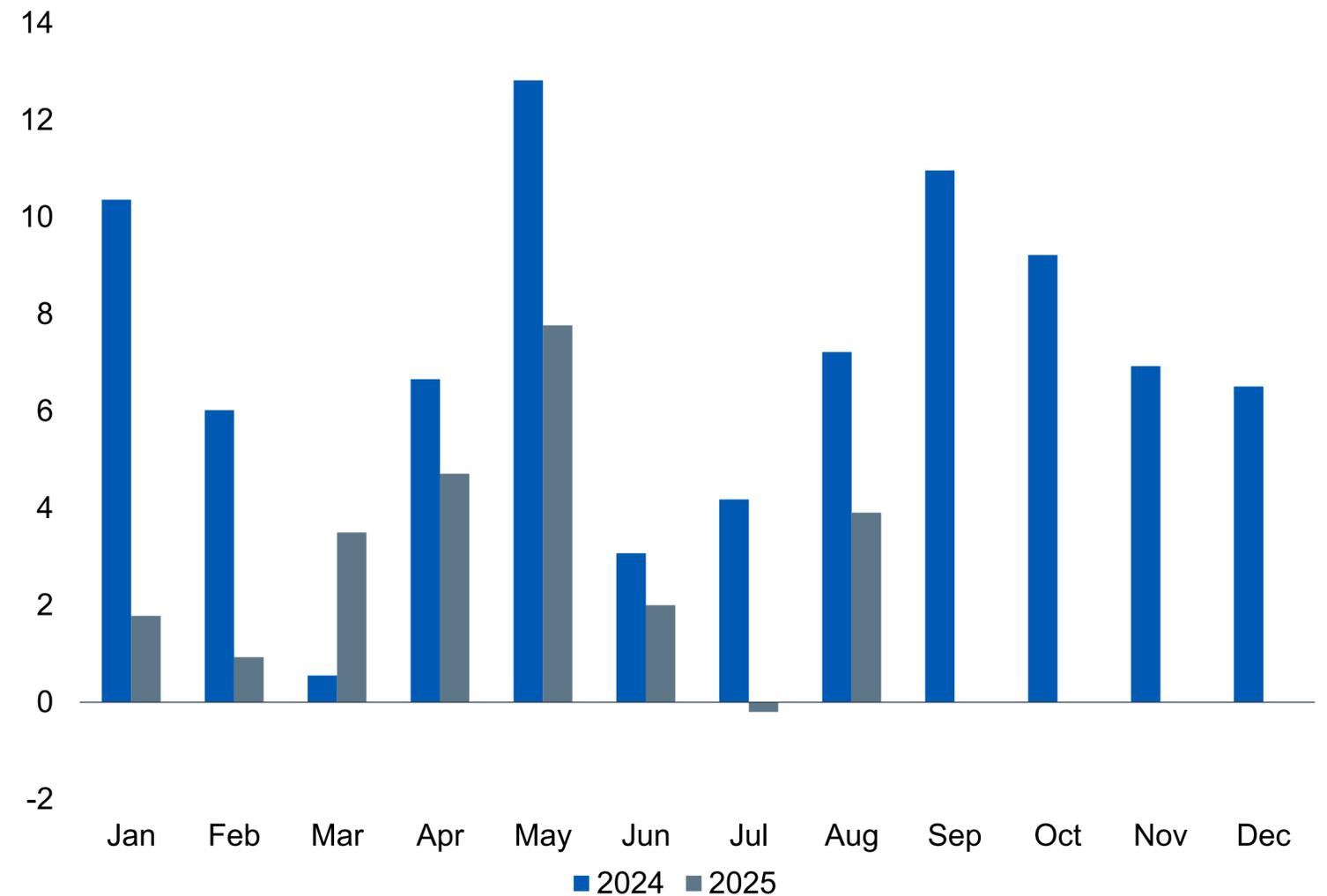
# Pension Funds on the Sidelines

Foreign currency purchases by the pension funds have been minimal in recent months, as the funds are flush with foreign currency following JBT's acquisition of Marel and the settlement of the Housing Financing Fund. Consequently, the funds have purchased only ISK 24 billion worth of foreign currency in the first eight months of the year, which is less than half of what they bought during the same period last year.

**Pension funds' aggregate net foreign currency transactions**



**Pension funds' net foreign currency purchases**

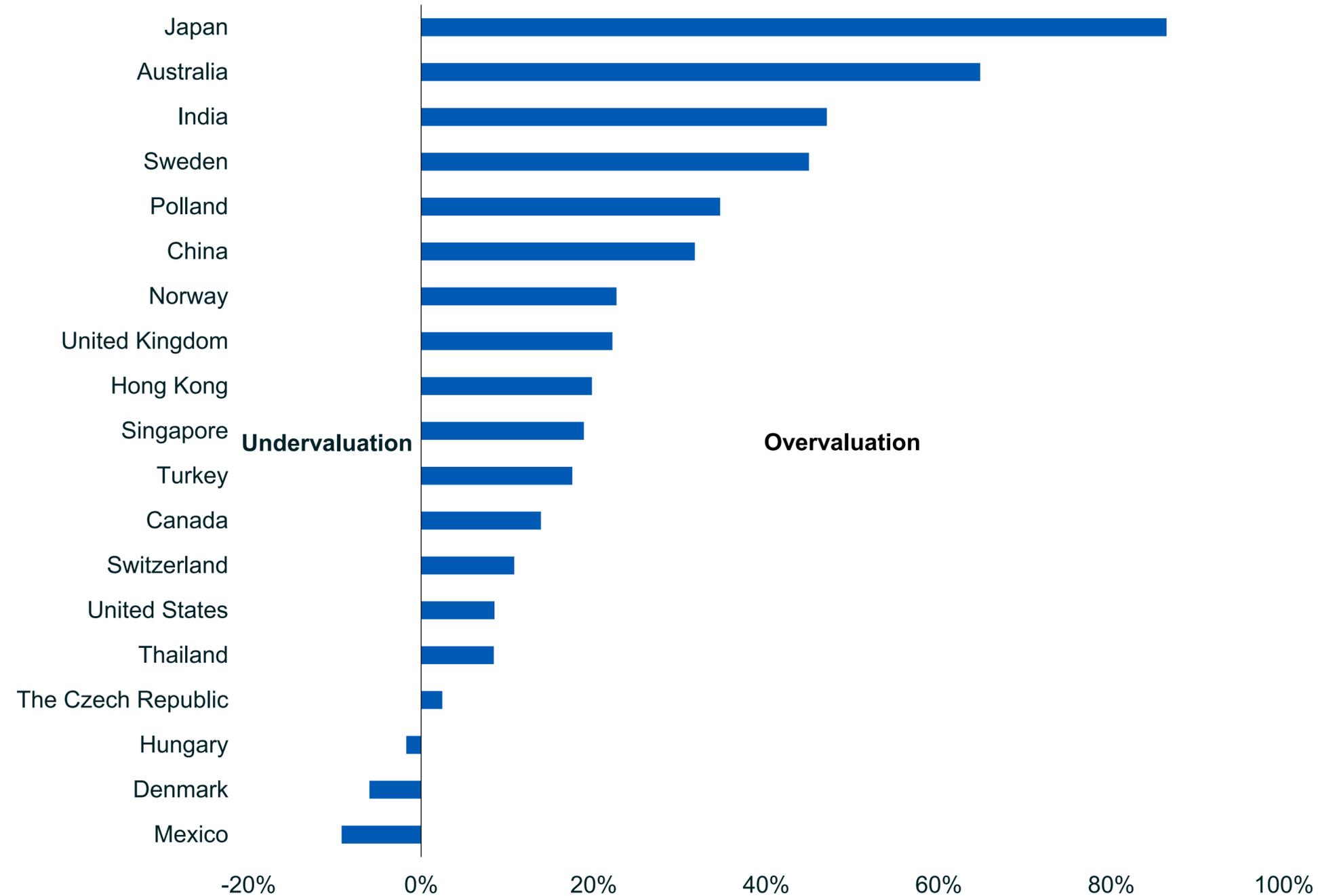


# In Trofast We Trust

The real exchange rate is currently at record highs, particularly when measured against ULC. Economic and export prospects in Iceland remain fairly positive, suggesting that the economy may be able to sustain a higher real exchange rate than before. Nevertheless, there is concern that such an elevated real exchange rate could have negative consequences over time.

A simple illustration of this is the price of the child-friendly Trofast unit at Ikea, which indicates that the króna may be overvalued. This example reflects a basic concept of real exchange rate measurement: comparing the price of an identical product in two currency areas after adjusting for the nominal exchange rate.

The valuation of the ISK based on the IKEA Trofast unit  
- over/undervaluation of the ISK against the currencies of several countries

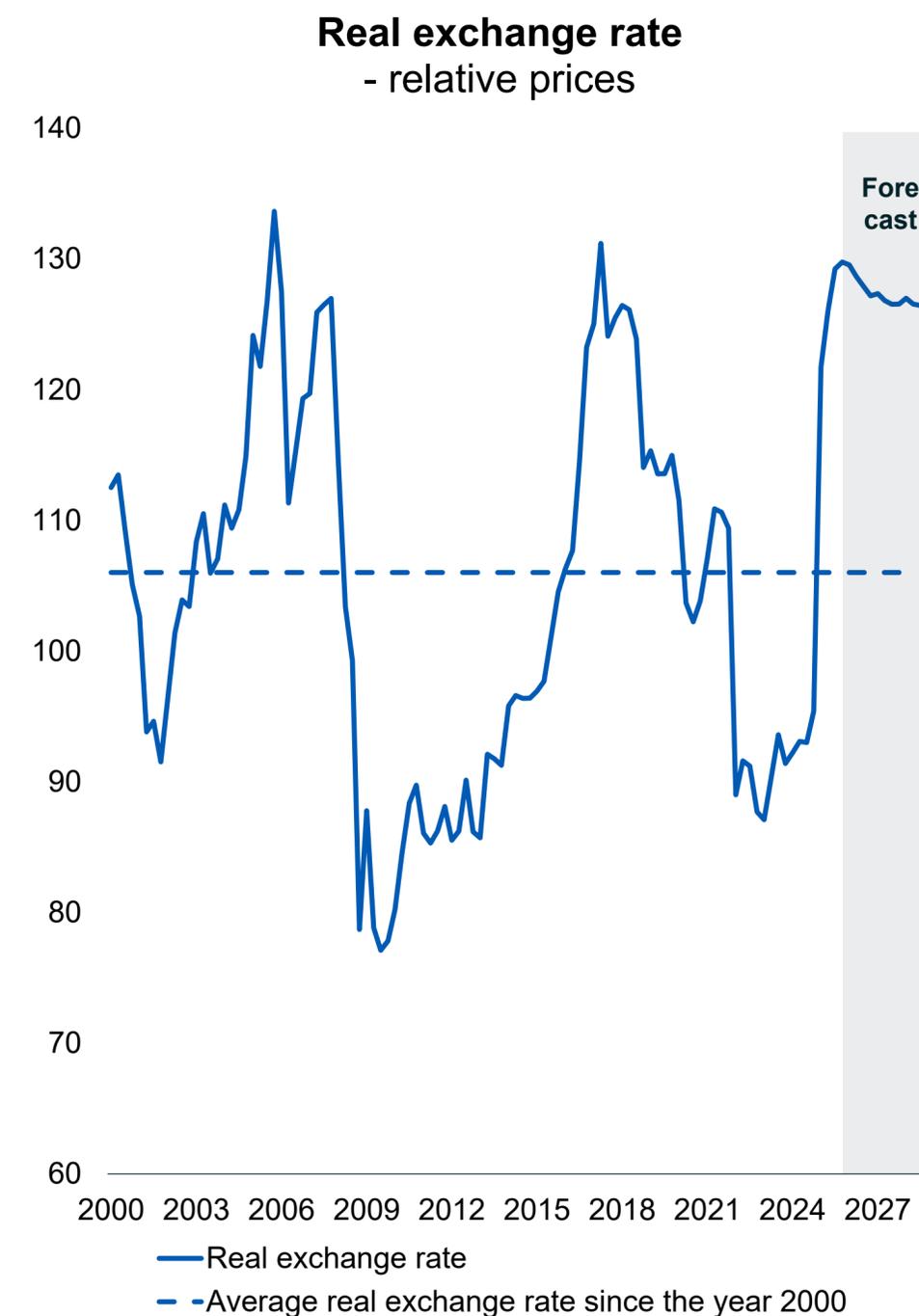
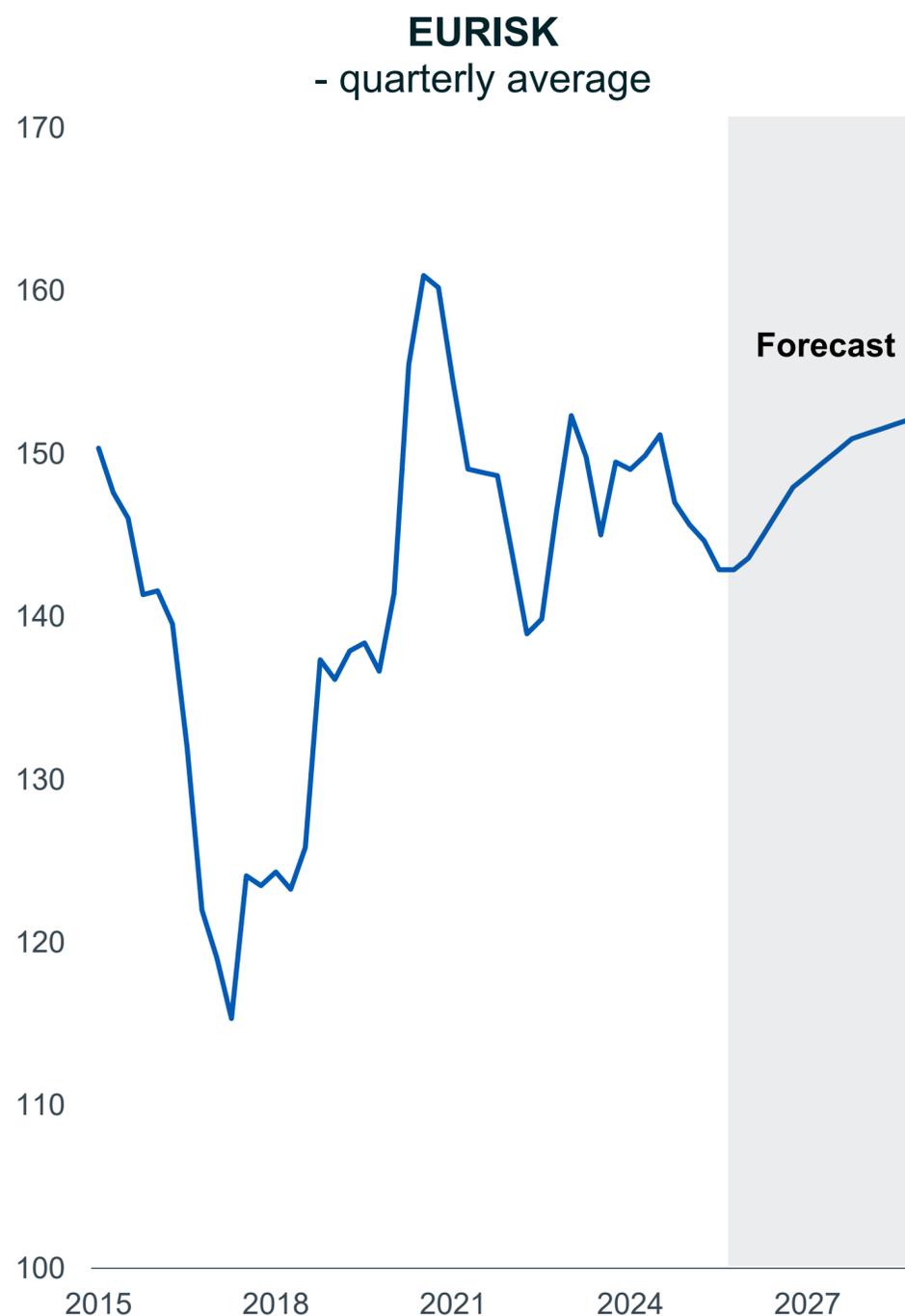


# Once More, We Predict a Weaker króna

The króna has strengthened almost continuously this year, even though the Central Bank has purchased ISK 52 billion worth of foreign currency. Based on our forecast for underlying economic factors, external trade, and the real exchange rate, we see little room for further appreciation, although capital flows and expectations can always temporarily move in favor of the króna.

Although it is impossible to time the exchange rate precisely, we make an honest attempt here: we forecast that the króna will remain strong through the end of this year but then begin to weaken. The real exchange rate is very high, which reduces the competitiveness of the economy. In Icelandic economic history, it is always the nominal exchange rate that adjusts, and we believe that will be the case this time as well.

It should be noted that the forecast presented here is very mild and gradual. In reality, things tend to happen much faster, and if/when the króna depreciates, it is likely to happen quickly.



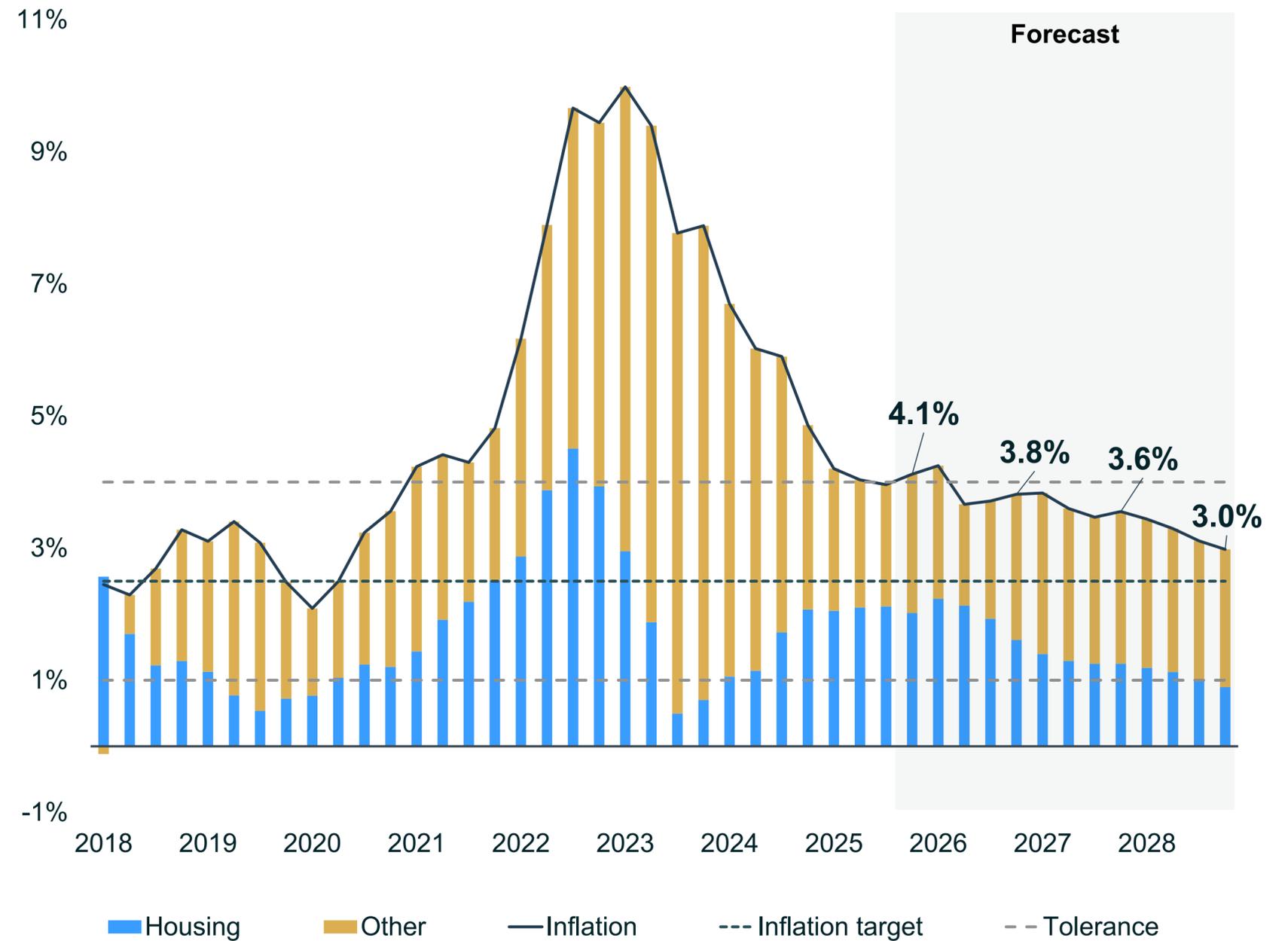
# The Inflation Target: A Distant Destination

Inflation has proven more stubborn than previously expected. Although the outlook for this year has worsened compared to the previous forecast, the outlook for next year has changed only little. The main reasons are a stronger króna going into the new year and increased unemployment next year, which reduces demand pressures.

Although we forecast inflation within the tolerance band from the middle of next year, the battle is far from over. It is clear that wage developments are not aligned with the Central Bank's inflation target, and in addition, the new methodology for calculating imputed rent seems to be a wolf in sheep's clothing. Based on our forecast for housing prices, rental prices, and their ratio, the previous methodology would likely have resulted in a more favorable inflation path in the coming years. Therefore, we forecast inflation at 3.8% by the end of next year, with little to no further decline in 2027.

The depreciation outlined above has a significant impact on our inflation forecast. If we assume an unchanged exchange rate throughout the forecast period – as the Central Bank does – inflation would be at 3.2% by the end of next year and close to the inflation target by 2027.

**Inflation**  
- contribution of underlying components



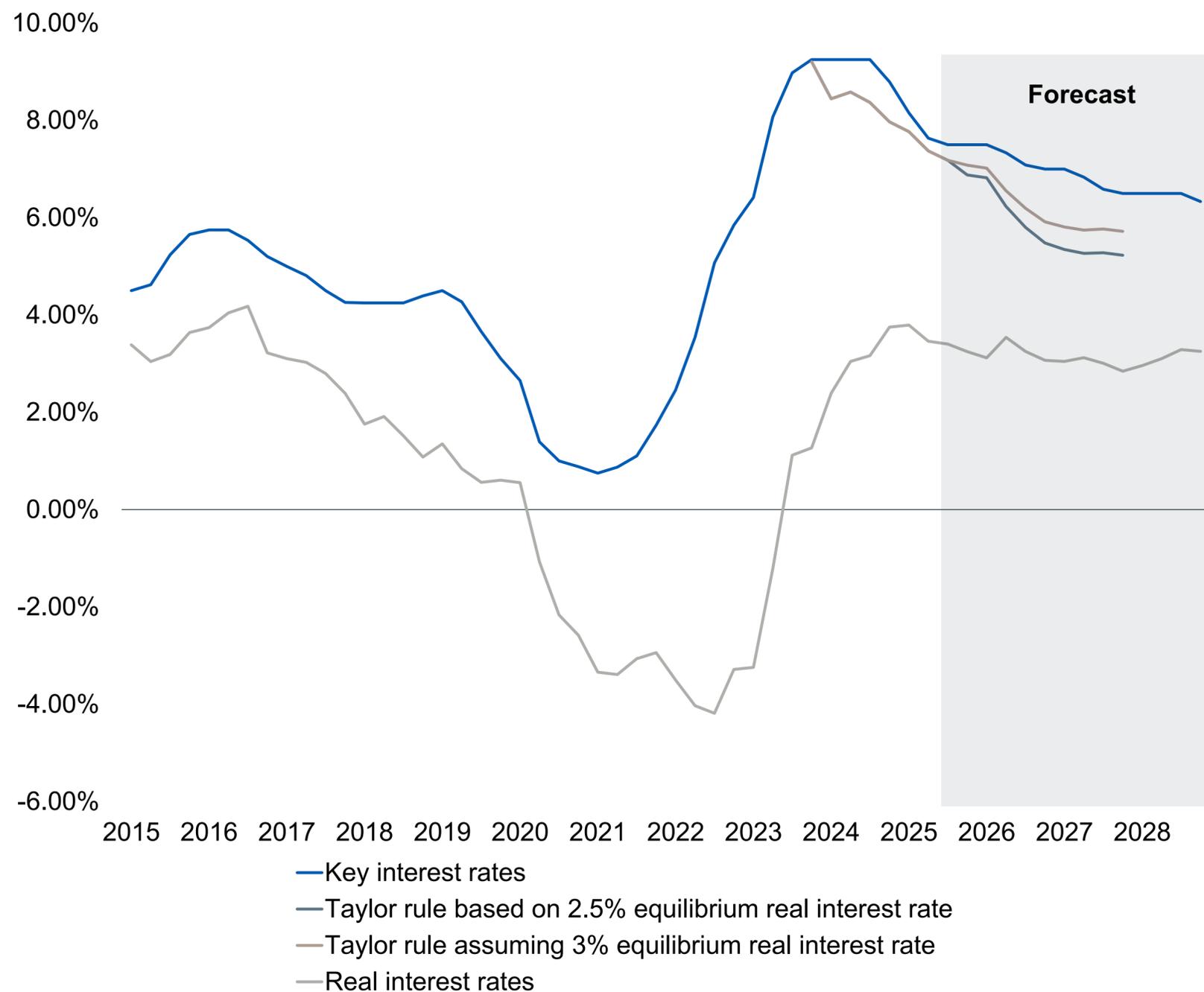
# Somewhere, Someday, Once More

After cutting interest rates from 9.25% down to 7.5% in just over half a year, the Monetary Policy Committee decided to pause in August. It appears that rates will remain unchanged into next year, as the committee has been unusually clear in its external communication: “Further interest rate cuts will depend on whether inflation moves closer to the Bank’s 2½% target.”

Despite criticism, the committee has stuck to its guns, reiterating that it would rather be too late in cutting rates again than make a misstep. We therefore expect the committee to maintain a tight grip in the coming quarters, paying little heed to whether unemployment rises or the economy cools – as monetary policy has only one statutory objective.

According to our inflation forecast, inflation will continue to be a thorn in the committee’s side. Nevertheless, we believe the committee could cut rates by 50 basis points next year without significantly loosening its stance or going back on its word. We assume another 50 basis points in 2027, bringing rates to 6.25% by the end of the forecast period.

**CBI’s key interest rates**  
- based on Arion Bank’s inflation forecast



# Key Economic Figures

## *GDP and components (previous forecast in brackets)*

<i>Change from previous year (%)</i>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>
Private consumption	0.6 (0.5)	0.9 (0.6)	3.1 (2.2)	2.7 (2.8)	2.9 (3.3)	3.1
Public consumption	2.4 (1.8)	1.9 (2.5)	1.4 (2.3)	1.7 (1.9)	1.4 (2.2)	1.8
Investment	4.8 (4.3)	7.6 (7.5)	3.2 (3.4)	-1.1 (-1.8)	4.2 (2.7)	0.9
<i>Business investment</i>	7.8 (7.8)	7.0 (6.7)	6.5 (7.4)	-2.7 (-3.9)	4.8 (2.6)	1.6
<i>Housing investment</i>	-2.2 (-2.2)	18.1 (18.0)	-5.4 (-3.8)	-1.7 (-1.9)	4.7 (4.3)	2.0
<i>Public investment</i>	2.1 (-1.2)	-1.7 (-1.4)	2.2 (-3.8)	8.5 (9.2)	1.4 (1.6)	-3.1
<b>Domestic demand*</b>	<b>2.1 (2.3)</b>	<b>1.8 (2.3)</b>	<b>2.8 (2.6)</b>	<b>1.5 (1.5)</b>	<b>2.9 (2.9)</b>	<b>2.2</b>
Exports of goods and services	4.7 (6.3)	-2.3 (-1.2)	2.2 (1.7)	2.0 (3.0)	3.2 (3.5)	3.6
Imports of goods and services	-2.0 (-1.0)	4.0 (2.7)	6.0 (4.5)	-0.4 (-0.1)	3.6 (3.5)	2.9
<b>GDP</b>	<b>5.2 (5.6)</b>	<b>-1.0 (0.5)</b>	<b>0.9 (1.3)</b>	<b>2.5 (2.7)</b>	<b>2.7 (2.9)</b>	<b>2.5</b>

## *Other economic variables (previous forecast in brackets)*

<i>Percentage of GDP (%)</i>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	
Current account balance	-1.0 (0.8)	-2.6 (-2.5)	-2.9 (-3.2)	-1.3 (-1.8)	-1.6 (-1.4)	-1.1
Investment	24.7 (24.8)	26.6 (26.4)	26.7 (26.5)	25.7 (25.3)	25.9 (25.1)	25.5
<b><i>Change between annual average (%)</i></b>						
Inflation	8.7	5.9	4.1 (3.6)	3.9 (3.6)	3.6 (3.2)	3.2
Nominal wages	9.8	6.6	8.0 (6.8)	6.2 (5.6)	6.0 (5.6)	6.3
Real wages	0.9	0.7	3.7 (3.0)	2.3 (2.0)	2.3 (2.4)	3.0
Housing prices	7.8	8.1	5.3 (5.7)	3.2 (4.9)	4.9 (6.5)	7.1
Real housing prices	-0.8	2.0	1.1 (2.0)	-0.7 (1.3)	1.2 (3.2)	3.7
Real exchange rate	0.9	3.2	6.9 (2.3)	1.3 (-1.4)	-1.2 (-0.1)	-0.2
<b><i>Annual average</i></b>						
Central Bank's key interest rate (%)	8.2	9.1	7.7 (7.5)	7.2 (6.2)	6.7 (5.4)	6.5
Unemployment (%)	3.4	3.4	4.0 (4.4)	4.3 (4.3)	4.0 (3.9)	3.8
EUR/ISK	149	149	144 (146)	146 (151)	150 (152)	152

\*Domestic demand is the sum of private consumption, public consumption, investment, and change in inventories.



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