CENTRAL BANK OF ICELAND

SEÐLABANKI ÍSLANDS

MONETARY BULLETIN

2022|1

The objective of the Central Bank of Iceland's monetary policy is to contribute to general economic well-being in Iceland. The Central Bank does so by promoting price stability, which is its main objective. In the joint declaration made by the Government of Iceland and Central Bank of Iceland on 27 March 2001, this is defined as aiming at an average rate of inflation, measured as the 12-month increase in the CPI, of as close to 2½% as possible.

Professional analysis and transparency are prerequisites for credible monetary policy. In publishing *Monetary Bulletin* four times a year, the Central Bank aims to fulfil these principles.

Monetary Bulletin includes a detailed analysis of economic developments and prospects, on which the Monetary Policy Committee's interest rate decisions are based. It also represents a vehicle for the Bank's accountability towards Government authorities and the public.

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Statement of the Monetary Policy Committee 9 February 2022

The Monetary Policy Committee (MPC) of the Central Bank of Iceland has decided to raise the Bank's interest rates by 0.75 percentage points. The Bank's key interest rate – the rate on seven-day term deposits – will therefore be 2.75%.

According to the Bank's new macroeconomic forecast, published in the February *Monetary Bulletin*, GDP growth measured 4.9% in 2021, about 1 percentage point above the November forecast. Similar growth is projected for 2022. Job numbers have continued to rise and unemployment to fall, and the slack in output that opened up in the wake of the COVID-19 pandemic is estimated to have closed. Significant uncertainty remains, however.

The inflation outlook has deteriorated markedly since the MPC's last meeting, and headline inflation measured 5.7% in January. Underlying inflation has also risen and is estimated at just over 4%. Furthermore, inflation expectations have risen by some measures. The rise in house prices is a major factor, although other domestic cost items have risen as well. Added to these is the increase in global oil and commodity prices. According to the Central Bank's forecast, the outlook is for inflation to measure 5.8% in Q1/2022 and remain above 5% well into this year. It is assumed that headline inflation will ease when house price inflation slows down and global price hikes taper off; however, it is not expected to align with the target until the end of the forecast horizon.

The MPC reiterates that it will apply the tools at its disposal to ensure that inflation eases back to the target within an acceptable time frame.

Symbols:

- * Preliminary or estimated data.
- 0 Less than half of the unit used.
- \- Nil.
- ... Not available.
- . Not applicable.

Icelandic letters:

ð/Ð (pronounced like th in English this)
þ/Þ (pronounced like th in English think)
In this report, ð is transliterated as d and þ as th in personal names, for consistency with international references, but otherwise the Icelandic letters are retained.

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Monetary Bulletin in a nutshell

A strong economic recovery took place among Iceland's main trading partners through much of 2021. However, a setback in the pandemic and continued repercussions of global supply-chain bottlenecks caused GDP growth to lose pace late in the year and slow down even further in 2022 to date. As a result, the outlook is for trading partners' GDP growth to be weaker this year than was forecast in the November *Monetary Bulletin*. Global inflation has also risen much more steeply than was forecast then.

In Iceland, GDP grew by 4.1% in the first three quarters of 2021, somewhat less than was forecast in November. Indicators suggest considerably stronger growth in domestic demand in Q4, however, and GDP growth for 2021 as a whole is therefore projected at 4.9%, 1 percentage point more than in the November forecast. On the other hand, the forecast for Q1/2022 has been revised downwards in response to the recent spike in COVID infections. GDP growth for 2022 as a whole is forecast at 4.8% instead of the 5.1% projected in November. The outlook for the next two years is broadly unchanged, however.

Job numbers continue to rise rapidly, and unemployment is approaching its pre-pandemic level. The outlook is for unemployment to keep falling, and towards the end of the forecast horizon it is expected to measure about 4%, close to its estimated equilibrium level. Leading indicators also imply that the slack in output has closed.

Inflation measured 5.7% in January, its highest in nearly a decade. It is driven mainly by surging house prices, plus sharply increasing global commodity prices and shipping costs. Domestic inflationary pressures have increased as well, reflecting in part the marked rise in wages and house prices. Inflation excluding housing has also increased, as has underlying inflation, which measured 4.4% in January. Long-term inflation expectations have risen as well. Inflation is expected to average 5.8% in Q1/2022, or 1.4 percentage points above the November forecast. It is assumed to remain above 5% for much of this year and not fall below 4% until early 2023, and it is not expected to fall below 3% until the latter half of the forecast horizon. The inflation outlook has therefore deteriorated markedly since November, owing mainly to a stronger domestic economic recovery and more persistent house price inflation. Furthermore, international price hikes have been larger than previously assumed.

The forecast assumes that there will not be a severe setback in the battle against the pandemic and that continuing progress will be made in unwinding the supply-chain disruptions that have pushed various commodity prices sharply higher. There is considerable uncertainty about this, however, and the risk of war in Europe and rapidly rising global inflation have further exacerbated this uncertainty. Moreover, the rise in inflation expectations could indicate that inflation will turn out even more persistent than is currently forecast.

The analysis appearing here is based on the Bank's assessment of economic developments since the publication of *Monetary Bulletin* 2021/4 in November 2021, and on the updated forecast presented here. It is based on data available in early February. The risk assessment in the updated forecast is based on the risk assessment in the November forecast.

Economic developments and updated forecast

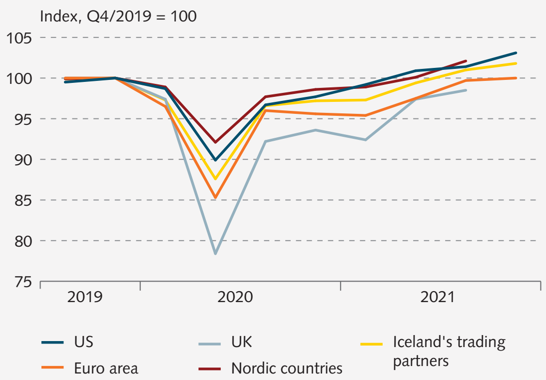
The global economy

The global economic recovery continued in H2/2021 but lost momentum as the year-end approached. Persistent supply-chain disruptions due to shortages of important inputs, delays in shipping, and difficulties in hiring workers have impeded economic activity and pushed firms' costs upwards. Rising COVID case numbers during the autumn and early winter and public health measures taken by governmental authorities have also slowed down the economic recovery.

Chart 1

GDP in the wake of the pandemic[1]

Q3/2019 - Q4/2021



1. Seasonally adjusted data. "Nordic countries" is the average for Denmark, Norway, and Sweden. Central Bank baseline forecast Q4/2021 for main trading partners.
Sources: Refinitiv Datastream, Central Bank of Iceland.

The outlook is for continuing GDP growth in major advanced economies this year. The near-term outlook has deteriorated, though, and uncertainty has increased with the spread of the Omicron variant of the virus. Even though Omicron generally causes less severe illness, it appears far more contagious than previous variants. As a result, hospital admissions have been rising widely, and deaths have increased as well.

According to the Bank's baseline forecast, year-2022 GDP growth among Iceland's main trading partners is projected at 4%, some 0.3 percentage points below the November forecast. Output growth is expected to be stronger in 2023, however, whereas the outlook for 2024 is broadly unchanged.

Global inflation

Trading partner inflation has accelerated further since the autumn, reaching levels not seen in three decades. The surge is due in large part to a spike in energy prices. Last year's pandemic-related commodity price hikes and production disruptions, compounded by strong demand for goods, have also pushed consumer prices upwards. Inflation is still expected to ease later this year, but more slowly than previously assumed.

Trading partner inflation is projected at 3.5% for 2022, or 1 percentage point above the November forecast. As in November, it is expected to taper off to 2% in 2023.

Global interest rates

Central banks in advanced economies have begun to respond to the ever-worsening inflation outlook and shrinking slack in the labour market by scaling down their bond purchases and raising interest rates. Policy rates are now expect to rise higher and faster than was assumed in November, despite the continued uncertainty about developments in the pandemic. Yields on long-term government bond yields have therefore risen in many countries.

Terms of trade

Terms of trade for goods and services are estimated to have improved by 3.7% in 2021, compared to the 2.9% forecast in November. The difference stems from larger-than-expected rises in the price of marine products and other goods exports, silicon products in particular. Terms of trade are expected to continue to improve by just over 1% this year, reflecting the offsetting effects of more favourable developments in marine product prices and larger rises in imported goods prices. The outlook for 2023 and 2024 has deteriorated since the November forecast, however.

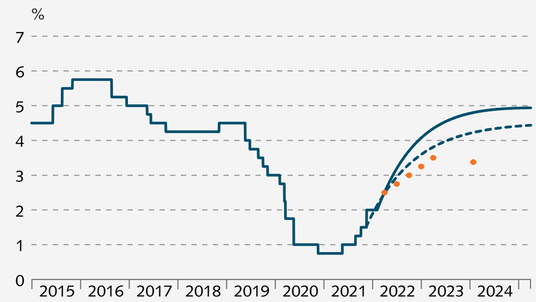
Domestic interest rates

At its November meeting, the Central Bank Monetary Policy Committee (MPC) decided to raise the Bank's key interest rate (the rate on seven-day term deposits) by 0.5 percentage points, to 2%. In spite of this, the Bank's real

Chart 2

Central Bank of Iceland key interest rate[1]

1 January 2015 - 31 March 2025



CBI key interest rate (seven-day term deposit rate)

Market agents' expectations[2]

1. The Central Bank's key interest rate and Treasury bond yields were used to estimate the yield curve. The broken line shows forward market interest rates prior to MB 2021/4. 2. Estimated from the median response in the Central Bank's survey of market agents' expectations concerning the collateralised lending rate. The survey was carried out during the period 24-26 January 2022.

Source: Central Bank of Iceland.

rate has fallen since November and is currently -2.7%, based on the average real rate as calculated from various measures of inflation and one-year inflation expectations. Both the Central Bank's market expectations survey and forward interest rates suggest that rates are expected to keep rising.

The yield on ten-year nominal Treasury bonds was 4.8% just before this *Monetary Bulletin* was published. It rose markedly in 2021, and long-term nominal rates are now higher than they were before the pandemic spread. A large share of last year's increase is attributable to a rising breakeven inflation rate.

Exchange rate of the króna

The exchange rate of the króna has risen by 5.5% in trade-weighted terms since the November *Monetary Bulletin*.

Chart 3

Exchange rate of the króna[1]

2 January 2015 - 4 February 2022

1. Price of foreign currency in krónur. Narrow trade index.

Source: Central Bank of Iceland.

The króna is still 2.5% weaker than when the pandemic reached Iceland in late February 2020, however. Foreign exchange market transactions in connection with new investment and the pension funds' foreign investment were relatively limited in the final months of 2021, but forward currency sales have increased. According to the baseline forecast, the exchange rate will hold broadly steady throughout the forecast horizon.

Money holdings and lending

Annual growth in M3 averaged about 9% in H2/2021. Growth in household deposits has eased, while corporate deposit growth has picked up. Growth in credit system lending to households is still strong, although the pace has slowed since mid-2021, when annual growth measured over 11%. On the other hand, corporate lending has contracted in nearly all sectors. Total growth in credit system lending has therefore remained relatively stable at around 6% for over a year.

Interest rates on non-indexed mortgages and rates on corporate loans have risen in tandem with the increase in the Central Bank's key rate.

Asset prices

Capital area house prices were up 18.4% year-on-year in December 2021, after climbing steeply alongside a surge in turnover early in the year. The number of homes for sale also declined markedly. The average time-to-sale is now very short, and the share of flats selling at a premium on the asking price has never been higher.

The Nasdaq Iceland OMXI10 index has softened since the last *Monetary Bulletin*, following a significant rise in share prices in 2021.

Private consumption

Seasonally adjusted private consumption grew by 3.3% quarter-on-quarter in Q3/2021, whereas the November forecast assumed an increase of 5.9%. This is due in part to an upward revision of Q2/2021 private consumption. The difference is therefore much smaller for private consumption growth in the first three quarters combined, which measured 5.4% year-on-year, slightly less than the November forecast of 5.6%.

Leading indicators imply that private consumption growth picked up strongly in Q4 and that growth for the year as a whole measured 6.8%. This is 1½ percentage points above the Bank's November forecast. Because of the setback in the battle against the pandemic, however, the outlook for Q1/2022 has deteriorated. Private consumption growth for 2022 as a whole is forecast at 3.5% instead of the 3.8% assumed in November. The outlook for the next two years is broadly unchanged, however.

Investment

Investment grew by 13.3% year-on-year in the first three quarters of 2021, slightly more than was forecast in November. Growth in business and residential investment outpaced the forecast, while public investment growth turned out below it.

Leading indicators imply that general business investment (excluding energy-intensive industry, ships, and aircraft) turned out stronger in Q4 than was forecast in November; therefore, the growth appears to have been stronger in 2021 as a whole than was assumed then. Total investment is estimated to have grown by 12.8% in 2021, some 2.3 percentage points above the last forecast. The outlook for 2022 has improved as well, and business investment is now expected to grow by 3.4% instead of contracting by 6%, as was forecast in November. This is due largely to increased investment in aircraft, although the outlook for general business investment has improved as well. Total investment is therefore projected to grow by 5.2% this year instead of remaining virtually flat.

Public sector finances

The National Budget for 2022 was passed with a deficit of 5.2% of GDP. The deficit will shrink markedly between years, owing to increased economic activity and a significant reduction in the Government's pandemic mitigation measures. The fiscal stance therefore tightens between years, according to the Budget, broadly in line with the estimate in the November *Monetary Bulletin*. Public sector demand is considered to have grown by 3.5% in 2021, roughly the same as in 2020. Public consumption growth eased between years, however, whereas public investment increased substantially. For 2022, the increase is expected to lose momentum, as public investment growth is set to slow down. In the coming two years, combined growth in public sector demand will average 0.8% per year.

Exports of goods and services

Total exports grew by 31.2% year-on-year in Q3/2021, whereas the November forecast assumed a growth rate of 35.5%. Tourism rebounded strongly during the quarter, as expected, in tandem with a large increase in visitor numbers, but exports of other services contracted year-on-year. With the rise in COVID case numbers in Q4 and news of the Omicron variant, tourist arrivals declined. Tourist numbers for 2021 as a whole were thus slightly lower than previously forecast. For the same reasons, the outlook for Q1/2022 has deteriorated, but the tourism industry is still expected to bounce back quickly as the pandemic subsides. As a result, visitor numbers for this year are expected to be slightly below the November forecast, or just under 1.5 million.

Total exports are estimated to have grown by just over 14% in 2021, as was projected in November. The outlook for 2022 has deteriorated, however, owing to the offsetting effects of a brighter outlook for exports of pharmaceuticals and silicon products versus weaker growth in services exports and aluminium product exports, the latter of which is due in part to reduced energy sales to smelters. The outlook for the next two years is broadly unchanged, however.

Current account balance

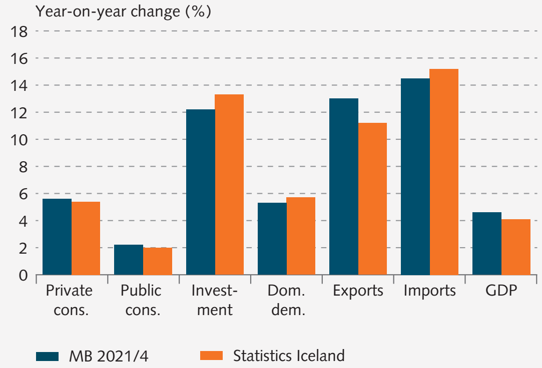
Indicators imply that services imports grew more rapidly in 2021 than previously estimated, while goods imports appear to be in line with expectations. In addition, the surplus on primary income appears set to be smaller. The current account deficit is therefore estimated to have measured 1.2% of GDP, somewhat more than was forecast in November. As before, the current account is expected to return to surplus this year, albeit a much smaller surplus than was assumed in the November forecast. This is due in large part to stronger-than-expected imports of aircraft. The outlook is for a small deficit to open up in 2023 and then widen to 1½% of GDP in 2024, whereas in November it was forecast that the current account would be more or less in balance. The change is due in large part to increased goods imports and higher import prices.

GDP growth

In defiance of expectations, GDP contracted by 2.3% quarter-on-quarter in Q3/2021, according to preliminary figures published by Statistics Iceland. Over the first nine months of the year, GDP grew by 4.1% year-on-year, slightly less than was forecast in November. The most important factor is the contribution from net trade, which was more negative than expected, even though domestic demand grew more than anticipated.

Chart 4

National accounts Q1/2021 - Q3/2021



Sources: Statistics Iceland, Central Bank of Iceland.

Leading indicators suggest that private consumption and investment grew more in Q4 than was forecast in November. Domestic demand is estimated to have grown by nearly 10% year-on-year, compared to an estimated 6% growth rate in the November forecast. A negative contribution of net trade to output growth pulls in the opposite direction. Year-on-year GDP growth is estimated at 7.2% for the quarter, about three times growth rate forecast in November. GDP growth for 2021 as a whole is therefore estimated at 4.9%, or 1 percentage point more than was forecast in November.

Given that GDP is growing from a higher level, the outlook is for growth in 2022 to be somewhat weaker than previously forecast. Added to this is the negative impact of rising COVID case numbers in Q1, although this is expected to reverse for the most part in Q2. GDP growth for 2021 as a whole is therefore estimated at 4.8%, or 0.3 percentage points less than was forecast in November. The outlook is for it to average 2¹/₃% over the next two years, which is broadly in line with the November forecast.

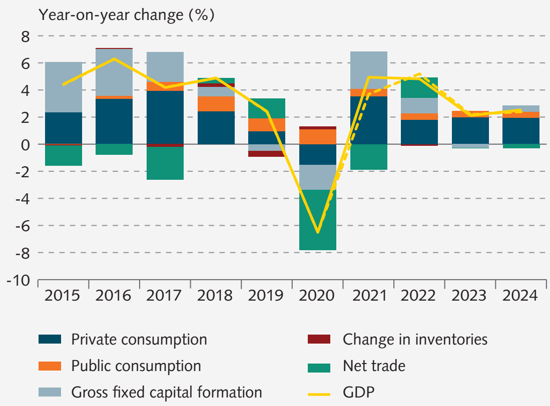
Employment and unemployment

Job numbers rose strongly in Q4/2021, but developments were highly uncertain because of the large number of hiring subsidies that expired during the quarter. According to the Statistics Iceland labour force survey (LFS), job numbers were nearly 4% higher than before the pandemic, but the number of employees on the pay-as-you-earn (PAYE) register was similar to the pre-pandemic level. The labour participation rate rose somewhat more than the employment rate; therefore, unemployment inched upwards during the quarter, according to the survey. Seasonally adjusted unemployment measured 4.9% and was therefore 0.3 percentage points higher than in the previous quarter. Registered unemployment measured 4.9% in December, as it did in October and November, or 4.8% adjusted for seasonality.

Many firms are still planning to add on staff, but it appears that jobs are being filled to a greater degree with imported labour and increased labour market participation. As the labour market has recovered, Government support has been scaled down, and the decline in unemployment has lost pace. As in November, unemployment is assumed to ease throughout the forecast horizon. The LFS-based unemployment rate is forecast to measure 4.7% in 2021 and fall to 4.3% by the final year of the forecast horizon. Registered unemployment is expected to develop similarly, averaging 4.9% in 2022 and then declining to 3.9% towards the end of the horizon.

Chart 5

GDP growth and contribution of underlying components 2015-2024[1]

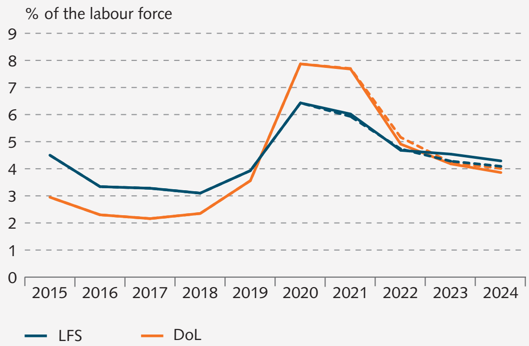


1. Central Bank baseline forecast 2021-2024. Broken line shows forecast from MB 2021/4.

Sources: Statistics Iceland, Central Bank of Iceland.

Chart 6

Unemployment 2015-2024[1]



1. Unemployment according to Statistics Iceland labour force survey (LFS) and registered unemployment, excluding part-time benefits, according to the Directorate of Labour (DoL). Central Bank baseline forecast 2022-2024. The broken lines show the forecast from MB 2021/4.

Sources: Directorate of Labour, Statistics Iceland, Central Bank of Iceland.

Resource utilisation

According to the seasonally adjusted results of Gallup's winter survey among Iceland's 400 largest firms, 40% of corporate executives considered themselves understaffed and about half reported that their firm would have difficulty responding to an unexpected increase in demand. Therefore, the resource utilisation (RU) indicator, which combines various indicators of factor utilisation, continued to rise. The slack in output is estimated to have closed, and a small positive output gap is expected to open up this year.

Inflation

Inflation measured 4.8% in Q4/2021, marginally above the 4.7% forecast in the November *Monetary Bulletin*. In January, the CPI rose by 0.5% between months and had risen by 5.7% year-on-year. The monthly CPI increase in January was the largest Iceland has seen in that month since 2009, and twelve-month inflation rose markedly relative to December. Inflation excluding housing also rose, to 3.7%. Underlying inflation was 4.4% and has risen more slowly than measured inflation in recent months. The contribution of the housing component remained strong, explaining nearly half of twelve-month inflation. Domestic goods prices have risen as well, by 5.1% in the past twelve months. Private services prices have also kept rising and measured 4.9% higher than a year ago. Imported goods prices have risen by 2.8% in the past twelve months, with petrol prices the main driver of the increase. In addition, imported food, inputs, and new motor vehicles have risen markedly in price recently.

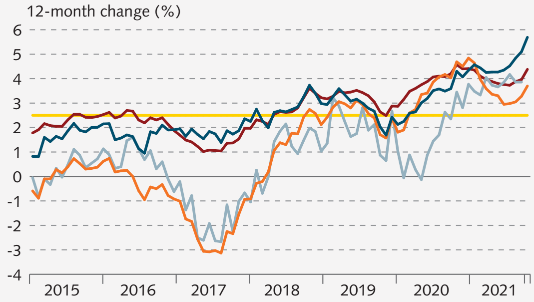
The general wage index rose by 7.5% year-on-year in Q4/2021. The outlook is for wage rises due to the so-called GDP growth supplement provided for in wage agreements to be larger in 2022 but smaller in 2023 than was forecast in November. On the whole, though, the outlook for wages per hour is largely unchanged. The outlook is for weak productivity growth during the forecast horizon and thus for unit labour costs to rise markedly. They are expected to rise by just over 7% this year and 5½% per year, on average, in 2023 and 2024.

Short-term inflation expectations have risen, according to recent surveys, but inflation is generally expected to subside in the next two years. Market agents and corporate executives expect it to measure 3% in two years' time, while households project it at 4%. Households' and businesses' long-term inflation expectations are unchanged at 3-3.5%, but market agents' expectations have risen. Market agents expect inflation to average 3% in the next five years and 2.75% in the next ten years. Their five-year expectations are at their highest since the end of 2018, and their ten-year expectations deviated from the inflation target for the first time since declining to target in 2019. The breakeven inflation rate in the bond market has risen again, with the five-year breakeven rate five years ahead measuring 3% at the beginning of February.

Chart 7

Various measures of inflation

January 2015 - January 2022



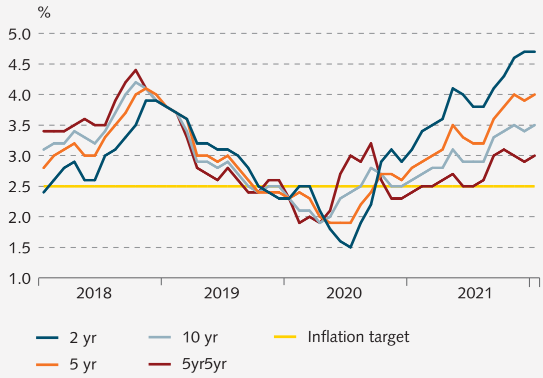
1. Underlying inflation shows the average of five different measures (core index 3 excluding indirect taxes, weighted median, trimmed mean, a dynamic factor model and a common component of the CPI).

Sources: Statistics Iceland, Central Bank of Iceland.

Chart 8

Breakeven inflation rate[1]

January 2018 - January 2022



1. Monthly averages.

Source: Central Bank of Iceland.

The inflation outlook

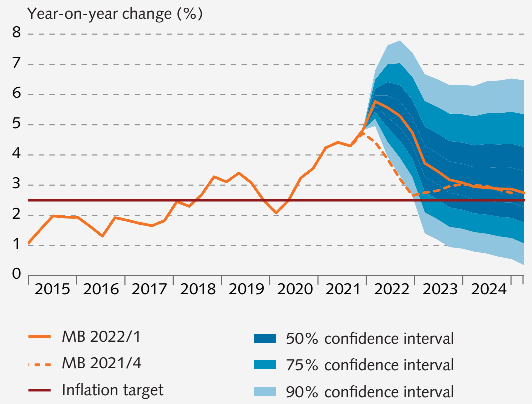
The outlook is for inflation to be considerably higher in the coming term than was forecast in November. It is projected at 5.8% in Q1 and 5.6% in Q2, and is not expected to fall below 4% until the beginning of 2023. The bleaker inflation outlook reflects, among other things, the stronger domestic economic recovery in late 2021 and more persistent house price inflation. Furthermore, global inflation has been higher than previously assumed, in part because of oil and commodity price hikes. The pandemic-related supply-chain bottlenecks look set to take longer to unwind, although shipping costs seem to have peaked. As a result, imported inflation is expected to be higher than previously assumed. Moreover, it appears that it will take longer than previously expected for global cost increases to pass through to prices in Iceland. Because of these factors, together with the sharp increase in unit labour costs, inflation will ease slowly back to target.

Inflation is forecast to decline in 2023, when the effects of global price increases begin to subside and house price inflation starts to ease. It is projected to average 3.4% in 2023 and not close in on the target until the end of the forecast horizon.

Chart 9

Inflation forecast and confidence intervals

Q1/2015 - Q1/2025



Sources: Statistics Iceland, Central Bank of Iceland.

Appendix

Forecast tables

Table 1 Key economic variables[1]

	2020	2021	2022	2023	2024
Private consumption	-3.0 (-3.0)	6.8 (5.4)	3.5 (3.8)	3.9 (3.9)	3.8 (4.0)
Public consumption	4.5 (4.5)	2.0 (2.1)	1.8 (1.6)	1.7 (1.5)	1.6 (1.6)
Gross capital formation	-8.7 (-8.7)	12.8 (10.5)	5.2 (-0.3)	-1.2 (3.3)	2.2 (1.7)
Business investment	-14.1 (-14.1)	21.0 (17.6)	3.4 (-6.0)	-4.7 (1.5)	3.2 (2.5)
Residential investment	1.2 (1.2)	-4.9 (-8.1)	9.7 (9.2)	10.2 (14.3)	4.1 (4.3)
Public investment	-5.2 (-5.2)	14.2 (17.0)	5.2 (5.7)	-6.0 (-6.6)	-4.5 (-4.8)
National expenditure	-2.2 (-2.2)	6.8 (5.4)	3.3 (2.4)	2.2 (3.1)	2.9 (2.9)
Exports of goods and services	-30.2 (-30.2)	14.2 (14.1)	17.6 (19.3)	4.7 (4.6)	4.4 (4.2)
Imports of goods and services	-22.5 (-22.5)	19.2 (18.1)	13.3 (12.0)	4.9 (5.9)	5.1 (5.2)
Gross domestic product (GDP)	-6.5 (-6.5)	4.9 (3.9)	4.8 (5.1)	2.1 (2.6)	2.5 (2.4)
GDP at current prices (ISK billion)	2,941 (2,941)	3,257 (3,219)	3,595 (3,546)	3,779 (3,743)	3,981 (3,960)
Contribution of net trade to GDP growth (percentage points)	-4.4 (-4.4)	-1.9 (-1.5)	1.5 (2.7)	-0.1 (-0.5)	-0.3 (-0.4)
Unemployment (LFS, % of labour force)[2]	6.4 (6.4)	6.0 (5.9)	4.7 (4.7)	4.5 (4.3)	4.3 (4.1)
Registered unemployment (% of labour force)[3]	7.9 (7.9)	7.7 (7.7)	4.9 (5.2)	4.2 (4.2)	3.9 (4.0)
Output gap (% of potential output)	-5.3 (-5.2)	-0.4 (-1.2)	0.8 (1.0)	0.2 (0.5)	0.1 (0.1)
Current account balance (% of GDP)	0.9 (0.9)	-1.2 (-0.9)	0.5 (1.9)	-0.4 (1.1)	-1.5 (0.1)
Trade-weighted exchange rate index[4]	201.0 (201.0)	196.1 (196.4)	193.6 (196.3)	193.2 (196.6)	193.8 (197.3)
Inflation (consumer price index, CPI)	2.8 (2.8)	4.4 (4.4)	5.3 (3.5)	3.4 (2.9)	2.9 (2.9)
Inflation in main trading partners[5]	0.7 (0.7)	2.8 (2.7)	3.5 (2.4)	2.0 (1.8)	1.9 (1.9)
GDP growth in main trading partners[5]	-5.0 (-5.0)	5.5 (5.5)	4.0 (4.3)	2.5 (2.2)	1.9 (1.8)

1. Year-on-year change (%) unless otherwise specified (figures in parentheses are from the forecast in MB 2021/4).
2. Unemployment according to the Statistics Iceland Labour Force Survey (LFS).
3. Registered unemployment is from the Directorate of Labour and excludes persons on the partial unemployment benefit programme.
4. Narrow trade-weighted basket. The index has been recalculated so that on 2 January 2009 it was assigned a value equivalent to that of the now-discontinued Exchange Rate Index.
5. Forecast based on Consensus Forecasts, IHS Markit, IMF and OECD.

Sources: Consensus Forecasts, Directorate of Labour, IHS Markit, International Monetary Fund, OECD, Refinitiv Datastream, Statistics Iceland, Central Bank of Iceland.

Table 2 Quarterly inflation forecast (%)[1]

Quarter	*Inflation (year-on-year change)*	*Inflation (annualised quarter -on-quarter change)*
	Measured value	
2021:1	4.2 (4.2)	2.9 (2.9)
2021:2	4.4 (4.4)	6.7 (6.7)
2021:3	4.3 (4.3)	3.8 (3.8)
2021:4	4.8 (4.7)	5.9 (5.5)
	Forecasted value	
2022:1	5.8 (4.4)	6.7 (1.8)
2022:2	5.6 (3.9)	5.9 (4.4)
2022:3	5.3 (3.2)	2.7 (1.2)
2022:4	4.7 (2.7)	3.7 (3.3)
2023:1	3.7 (2.8)	2.6 (2.1)
2023:2	3.5 (2.8)	4.8 (4.7)
2023:3	3.2 (3.0)	1.5 (1.8)
2023:4	3.1 (3.0)	3.4 (3.5)
2024:1	2.9 (3.0)	2.1 (2.0)
2024:2	2.9 (3.0)	4.7 (4.5)
2024:3	2.9 (2.8)	1.4 (1.3)
2024:4	2.9 (2.7)	3.3 (3.1)
2025:1	2.7	1.6

1. Figures in parentheses are from the forecast in MB 2021/4.

Sources: Statistics Iceland, Central Bank of Iceland.

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