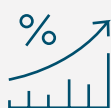


Monetary Bulletin in a nutshell



The global GDP growth outlook is broadly unchanged relative to the Bank's May forecast. GDP growth in major trading partner countries is projected to average 1.3% this year and then inch up to just above 1½% in the two years thereafter. Uncertainty about the global economic outlook has increased, however. Global inflation has continued to subside thus far in 2024, and more central banks in advanced economies have begun to lower interest rates. As in May, inflation is expected to keep easing in major advanced economies and return to target in H2/2025.



Output growth in Iceland slowed markedly over the course of 2023, and in Q1/2024 it shrank by 4% year-on-year, close to the May forecast of a 3.7% contraction. The negative impact of reduced inventory accumulation due to the failed capelin catch early this year was a major factor, as domestic demand excluding inventory changes grew by 0.9% year-on-year during the quarter, outpacing the 0.6% growth rate projected in May. GDP is estimated to have grown by 2% between years in Q2, and GDP growth for the year as a whole is forecast at only 0.5%, compared to the 1.1% forecast from May. The deviation is due primarily to a poorer outlook for tourism. The output growth outlook for 2025 and 2026 has also deteriorated slightly since May.



Job growth has slowed since H1/2023. Unemployment is broadly unchanged, however, owing to the offsetting effect of a rising labour participation rate. Unemployment remains low, although indicators imply that labour market tightness is easing. The positive output gap is expected to keep narrowing and flip to a modest slack around mid-2025, largely as was forecast in May.



Inflation tapered off in H1/2024, averaging 6% in Q2, in line with the May forecast. It was nearly 2 percentage points below the Q4/2023 average. A spike in July pushed it back up to 6.3%, however. Inflation excluding housing rose as well, to 4.2%, and underlying inflation increased to 5.3%. The uptick in inflation therefore appears to be relatively broad-based, and as yet there are few signs of a decline in inflation expectations. The inflation outlook is largely unchanged since May, however. Because of a poorer initial position, inflation is expected to slightly exceed the May forecast through H1/2025, but from then onwards it is projected to ease in line with the May forecast and realign with the target in H2/2026.



The global economic situation remains uncertain, not least because of the wars in Ukraine and the Middle East. Trading partner GDP growth has been muted, and it is unclear how solid the foundations for growth are. In Iceland, activity in the tourism industry has slowed, and the GDP growth outlook could prove overly optimistic if the sector loses more ground. On the other hand, GDP growth could turn out to be underestimated, given households' significant accumulated savings, which they could choose to draw down more quickly than is assumed in the forecast. There is also considerable uncertainty about developments in inflation over the forecast horizon, not least because inflation expectations are less firmly anchored, which could cause inflation to be more persistent than is currently anticipated. This is compounded by uncertainty about how measured inflation will be affected by the forthcoming changes to taxes on motor vehicle use, which are set to take effect at the turn of the year.

The analysis appearing here is based on the Bank's assessment of economic developments since the publication of *Monetary Bulletin* 2024/2 in May 2024, and on the updated forecast presented in this report. It is based on data available as of mid-August. The risk analysis in the updated forecast is based on the risk analysis in the May forecast.