

The background of the entire page is a photograph of a lakeside town. In the foreground, a calm lake reflects the sky and the buildings. A few swans and ducks are visible in the water. The middle ground shows a row of colorful houses (white, yellow, red) with dark roofs, nestled against a backdrop of evergreen trees. The sky is overcast and grey.

Monthly Newsletter

1 October 2025

Landsbankinn Economic Research

Market events - October 2025

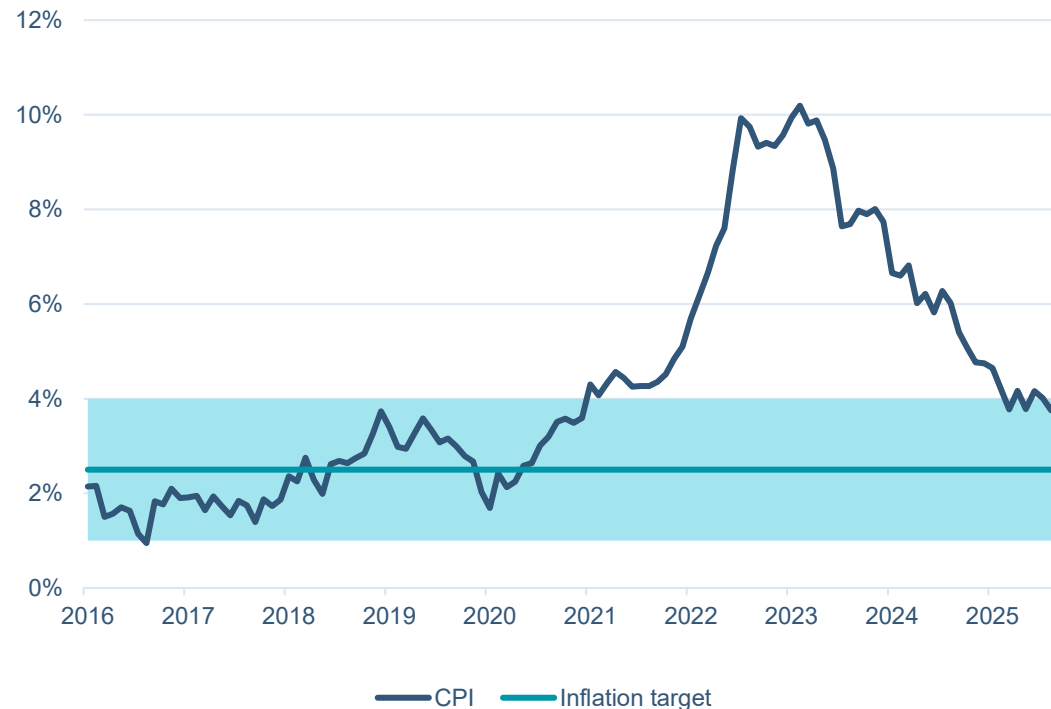
Monday	Tuesday	Wednesday	Thursday	Friday
		1 October Inflation in the eurozone	2	3 Unemployment in the US
6	7	8 Policy rate decision (CBI)	9 Ölgerðin publishes results	10 Departures from Keflavík International Airport in Sep (FMST) Registered unemployment (Directorate of Labour)
13	14	15 Inflation in the US	16 Hagar publishes results	17 Payment mediation in September (CBI)
20	21 Housing price index in September (HMS)	22 Minutes of the Monetary Policy Committee (CBI) Turnover based on VAT reports f. Jul-Aug. (HAG) Rental price index in September (HMS) Heimar and Síminn publish results Inflation in the UK	23 Wage index in September (HAG) Monthly report (HMS) Icelandair and Landsbankinn publish results	24 Credit review Q4 (CBI)
27	28	29 Arion Bank, Eik and Skagi publish results Policy rate decision in the US	30 CPI in October (HAG) Overnight stays in September (HAG) Festi, Íslandsbanki, Nova and Sjóvá publish results GDP in the US (Q3) GDP in the eurozone (Q3) Policy rate decision in the eurozone	31 Inflation in the eurozone

Inflation

Inflation rose from 3.8% in August to 4.1% in September and is again above the upper to tolerance limit of the CBI's inflation target. Increased inflation is due for the most part to the lowering effect of school meals being made free of charge in September of 2024, which now drops out of the 12-month measurement. This change will impact the CPI excluding housing and all three core indices. This explains the increase between months.

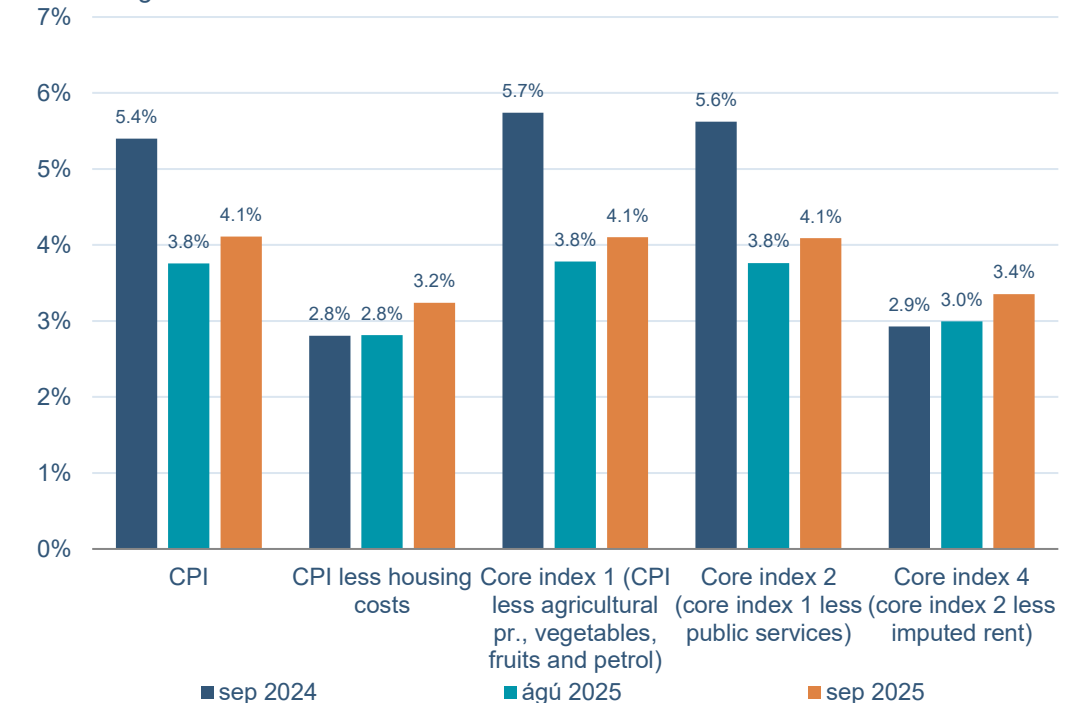
Consumer price index

YoY change



Most recent measurement, one month ago and one year ago

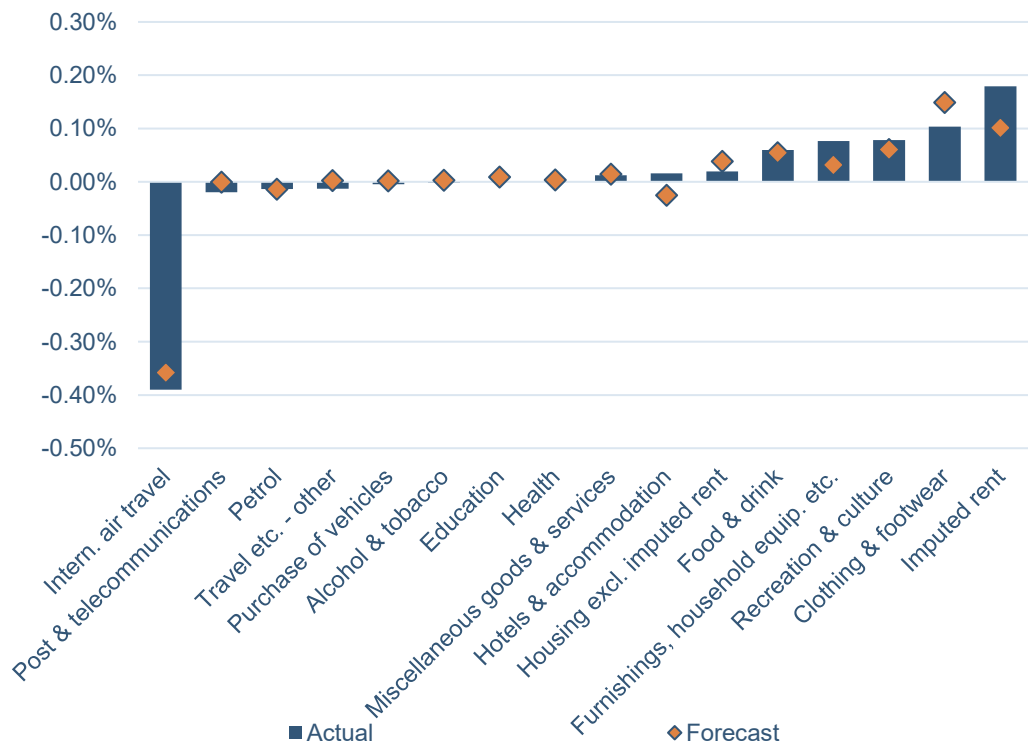
YoY change



MoM change in the CPI

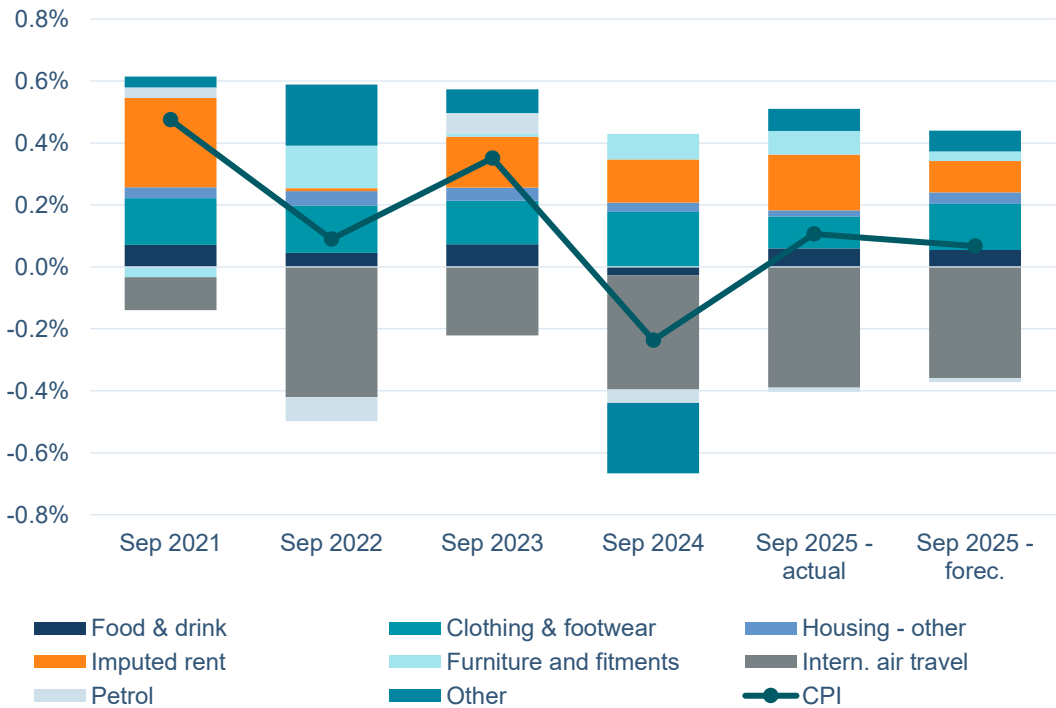
The CPI rose by 0.11% between months in September, more or less in line with our forecast of a 0.07% increase. Most changes to components were as expected. Clothing & footwear increased less than we had forecast and prices are still lower than before summer sales. Imputed rent rose more than we had expected.

Contribution of components in September



September measurement of CPI

MoM change and weight of components

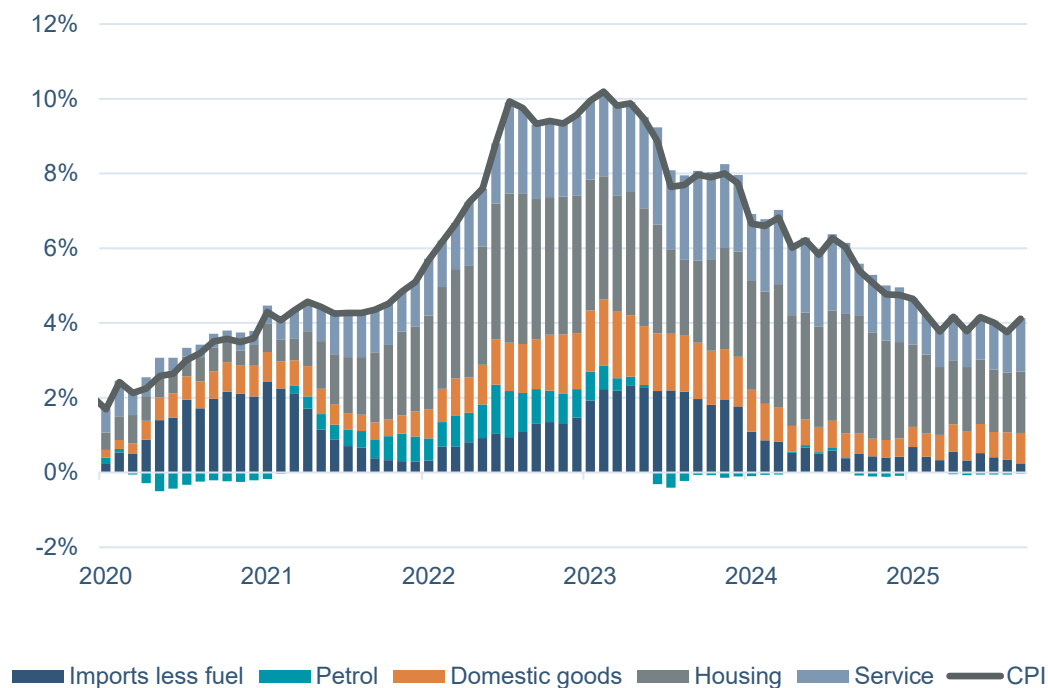


Composition of 12M inflation

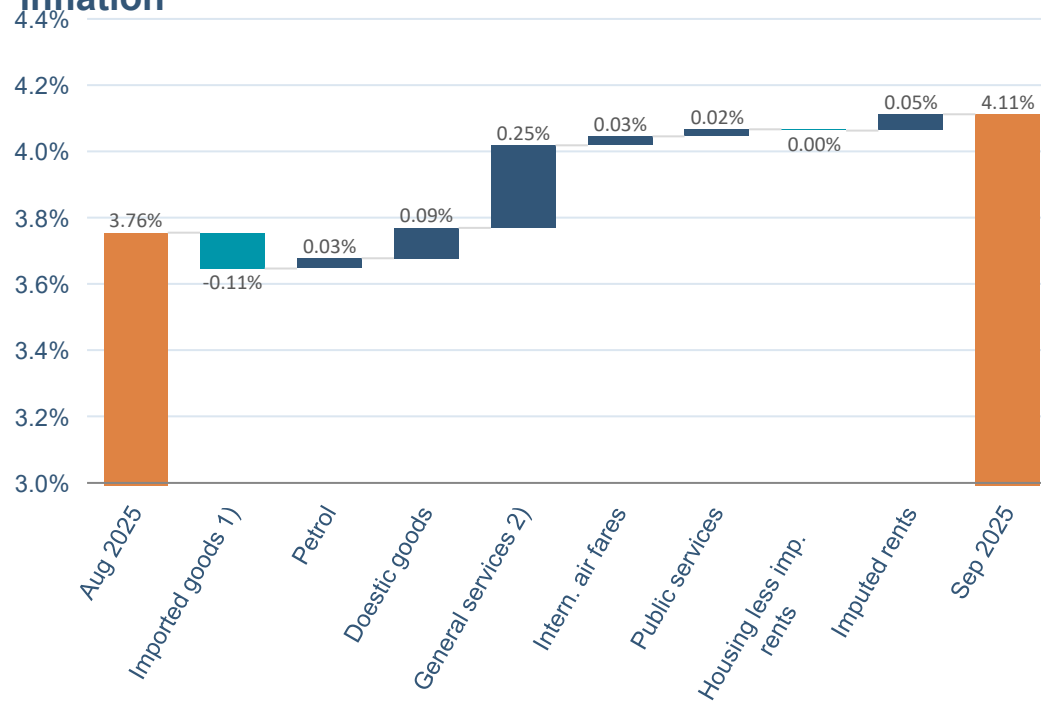
The contribution of general services to 12-month inflation grew significantly between months. The category includes school meals which were, as stated above, made free of charge in September of last year. The lowering impact of this action now disappears from the 12-month measurement. The contribution of imported goods contracted between months, explained mostly by the lingering effect of sales of clothing & footwear. A strong ISK plays a large part in the lower price pressure on imported goods.

Inflation by type and origin

YoY change and weight of components



Changes to the composition of 12M inflation



1) Imported goods less petrol. 2) General services less int. airfares. 3) Housing less imputed rent.
Source: Statistics Iceland

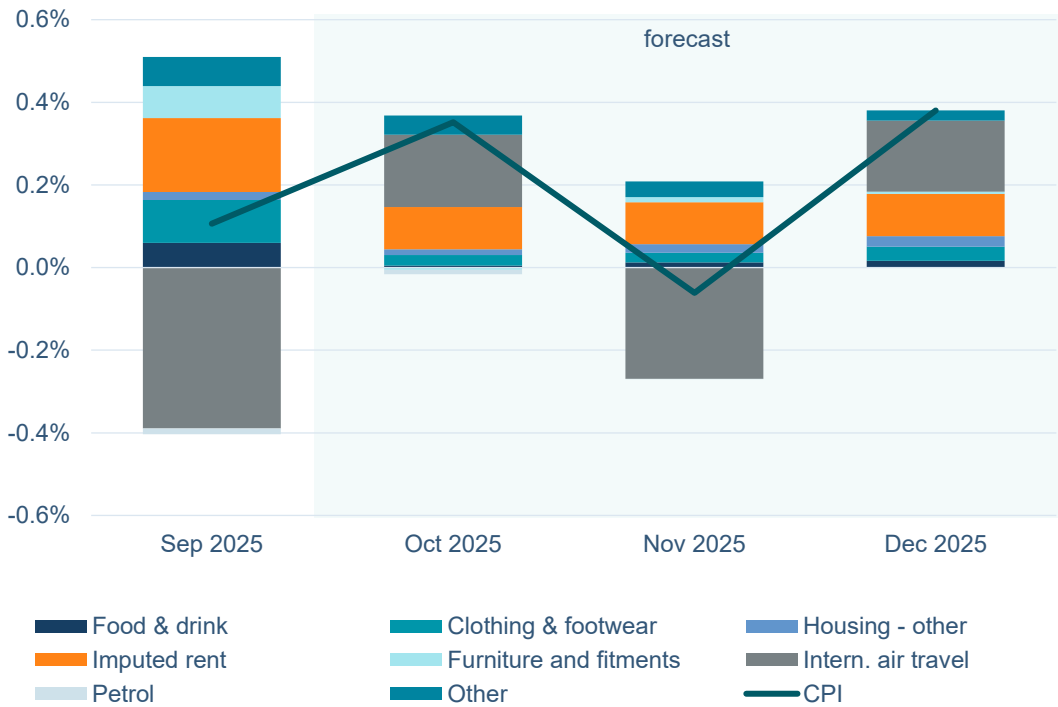


The outlook for the next months

We expect the CPI to increase by 0.35% in October, decrease by 0.06% in November and increase again by 0.37% in December. If the forecast holds, annual inflation will be 4.2% in October and 4.0% in November and December.

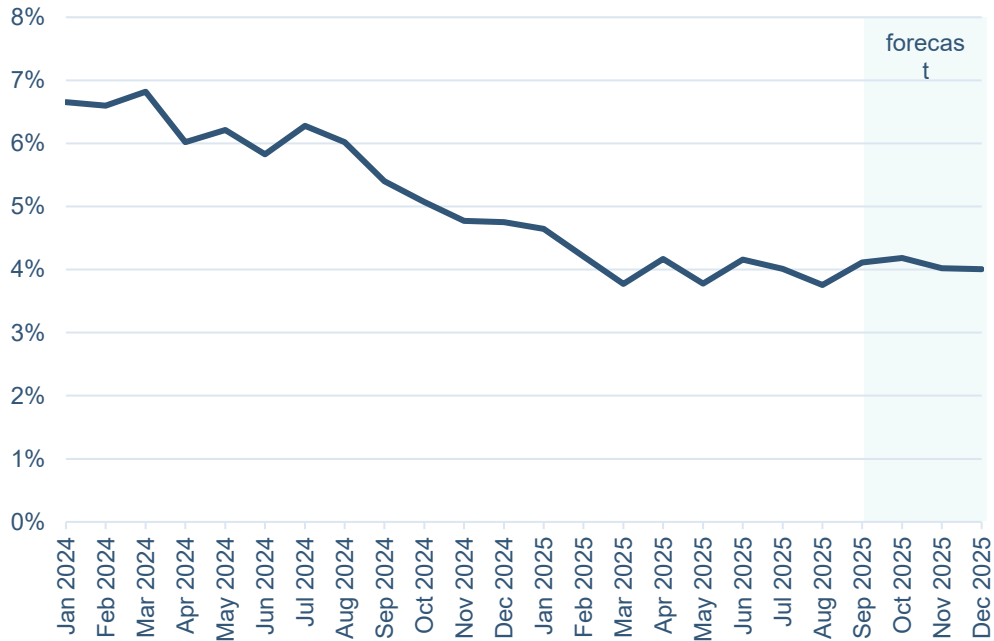
Inflation forecast

YoY change and weight of components



Inflation forecast

12M inflation



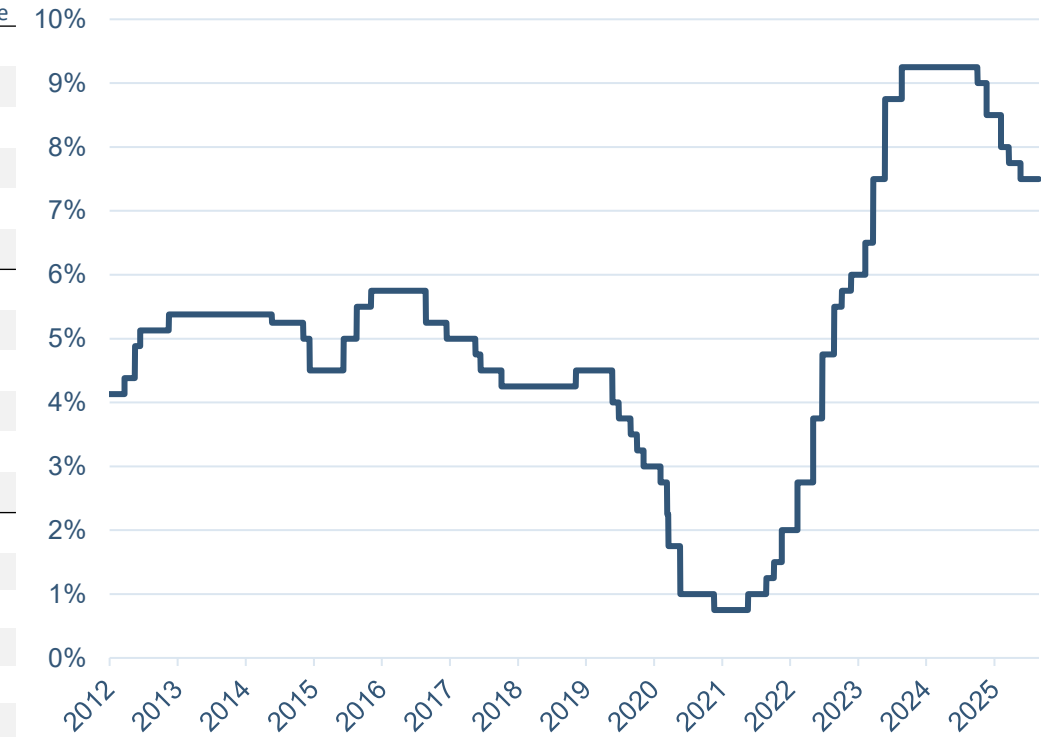
Policy rate

The next interest rate decision will be announced on 8 October. Inflation has hovered at around 4% since February but there are still clear signs of expansion in the economy and inflation expectations have changed but little. That being said, a steady slow-down is now perceptible, with GDP contracting somewhat in Q2 and housing prices increasing much slower than before. In light of persistent inflation, we consider it near inconceivable that the MPC would lower rates now.

MPC interest rate decisions

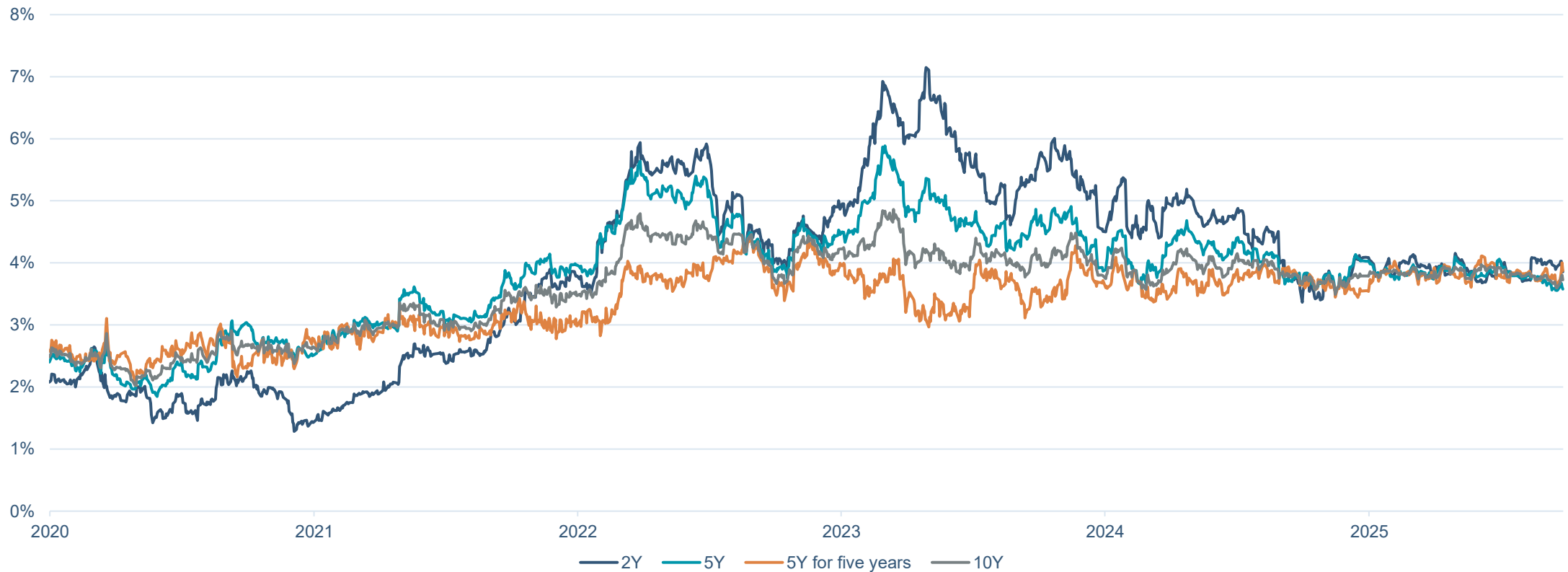
Date	Prop.	For	Against	Other option	Conclusion	Key interest rate
8 Feb. 2023	+0.50%	ÁJ, RS, GJ, GZ, HS		HS (+0.75%)	+0.50%	6.50%
22 March 2023	+1.00%	ÁJ, RS, GJ, ÁÓP, HS			+1.00%	7.50%
2023-05-24	+1.25%	ÁJ, RS, ÁÓP, HS	GJ (+1.00%)		+1.25%	8.75%
23 Aug 2023	+0.50%	ÁJ, RS, ÁÓP, HS	GJ (+0.25%)		+0.50%	9.25%
4 Oct. 2023	Unch.	ÁJ, RS, GJ, ÁÓP	HS (+0.25%)	ÁÓP (+0.25%)	Unch.	9.25%
22 Nov. 2023	Unch.	ÁJ, RS, GJ, ÁÓP, HS			Unch.	9.25%
7 Feb. 2024	Unch.	ÁJ, RS, ÁÓP, HS	GJ (-0.25%)		Unch.	9.25%
20 March 2024	Unch.	ÁJ, RS, ÁÓP, HS	GJ (-0.25%)		Unch.	9.25%
2024-05-08	Unch.	ÁJ, RS, ÁÓP, HS	AS (-0.25%)		Unch.	9.25%
21 Aug 2024	Unch.	ÁJ, RS, TB, ÁÓP, HS			Unch.	9.25%
2 Oct. 2024	-0.25%	ÁJ, RS, TB, ÁÓP, HS		HS (Unch.)	-0.25%	9.00%
20 Nov. 2024	-0.50%	ÁJ, RS, TB, ÁÓP, HS			-0.50%	8.50%
5 Feb. 2025	-0.50%	ÁJ, RS, TB, ÁÓP, HS			-0.50%	8.00%
19 March 2025	-0.25%	ÁJ, RS, TB, ÁÓP, HS			-0.25%	7.75%
2025-05-21	-0.25%	ÁJ, ThGP, TB, ÁÓP		HS (Unch.)	-0.25%	7.50%
20 Aug 2025	Unch.	ÁJ, RS, TB, ÁÓP, HS			Unch.	7.50%
8 Oct. 2025						
19 Nov. 2025						

Key interest rate of the Central Bank of Iceland



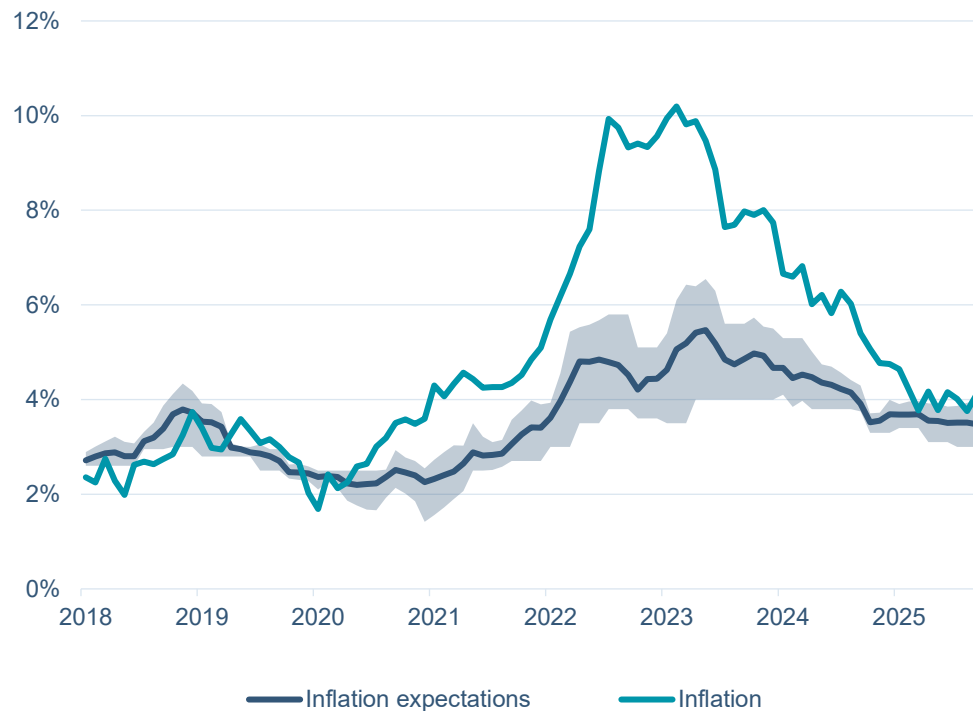
Inflation premium in the bond market

The inflation premium on the bond market decreased for two years, five years and ten years in September. The decrease was greater for five years than ten years, resulting in an increase in five-year forward inflation expectations.

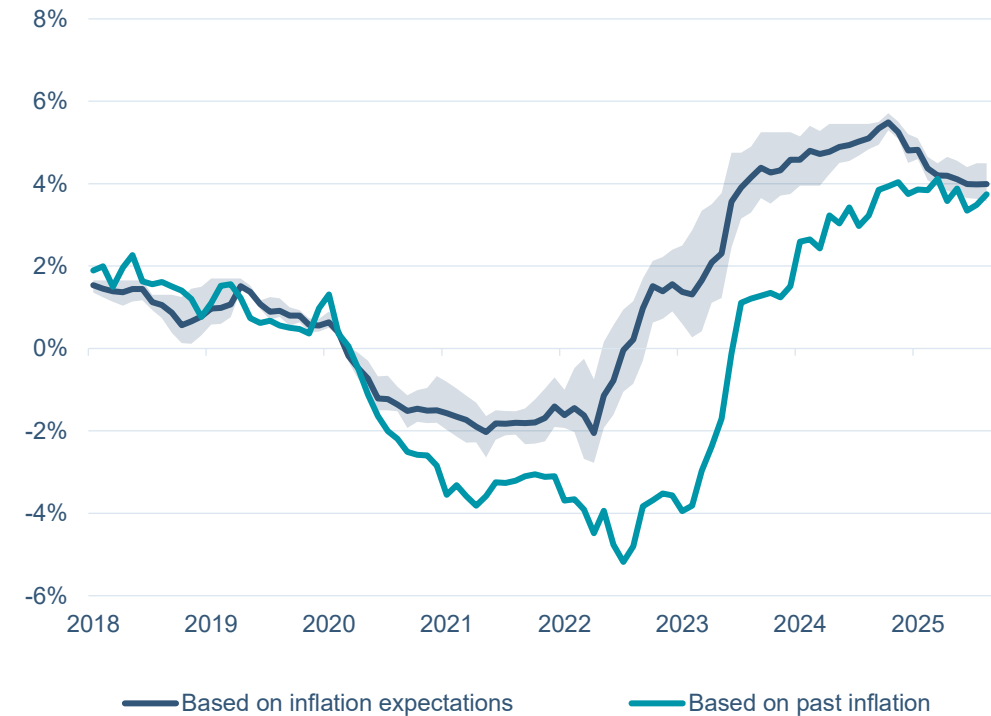


Inflation, inflation expectations and the real policy rate

Inflation and inflation expectations



Real policy rate

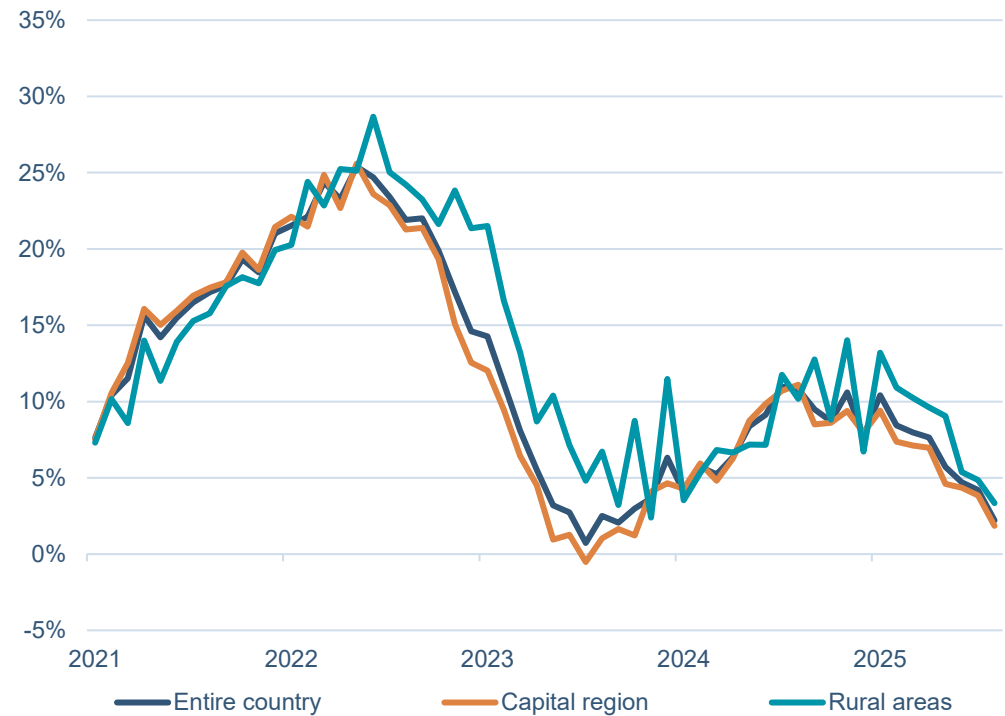


The real estate market

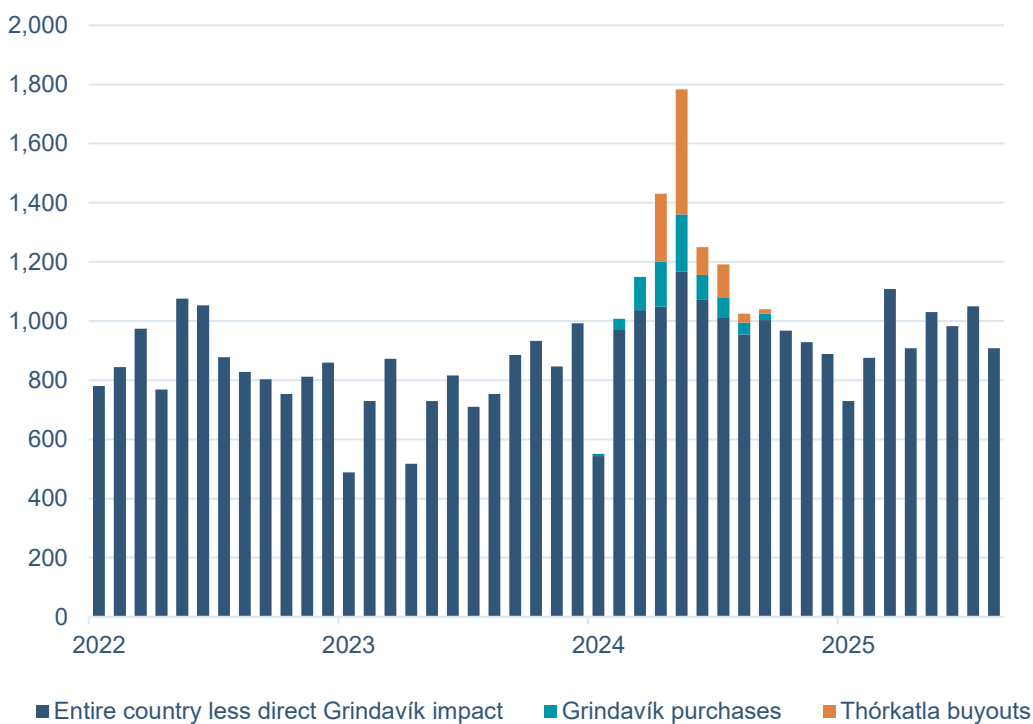
The housing price index decreased by 0.54% between months in August. The decrease was driven by a 1.1% increase in single-family dwellings in rural regions. The 12M increase continues to slow, dwindling from 4.2% in July to 2.2% in August.

Housing price index

YoY change

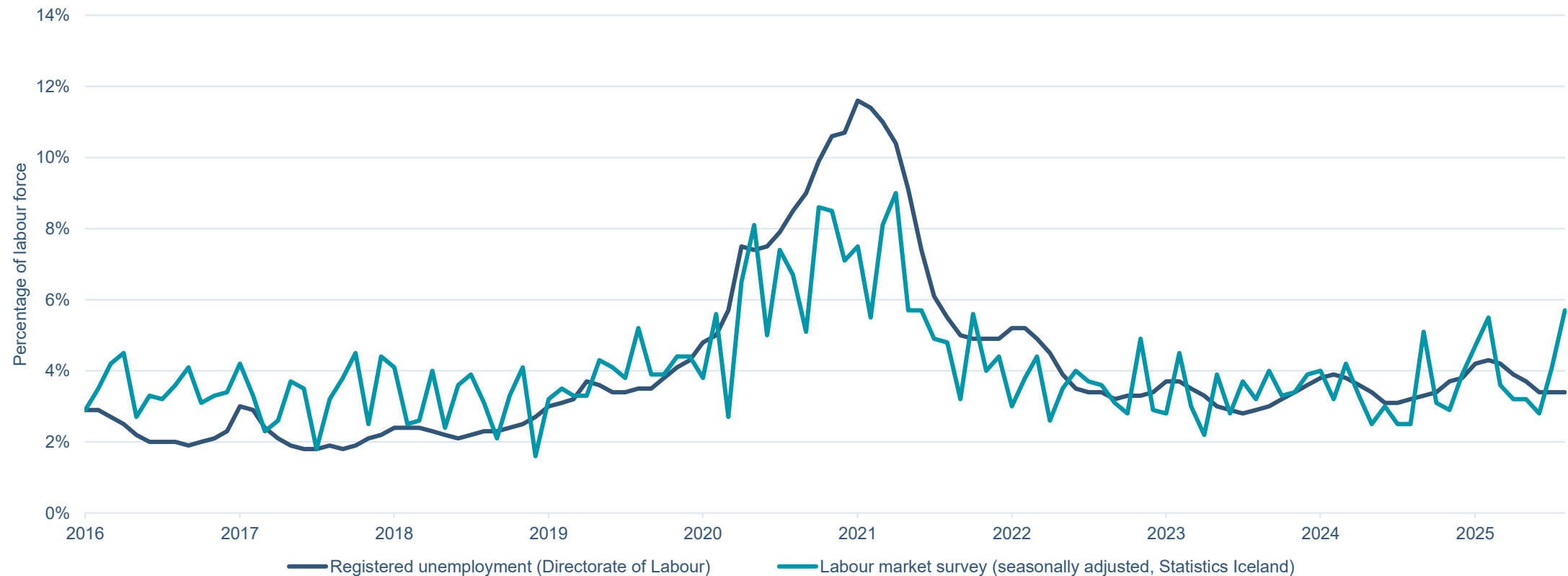


Signed purchase contracts - entire country



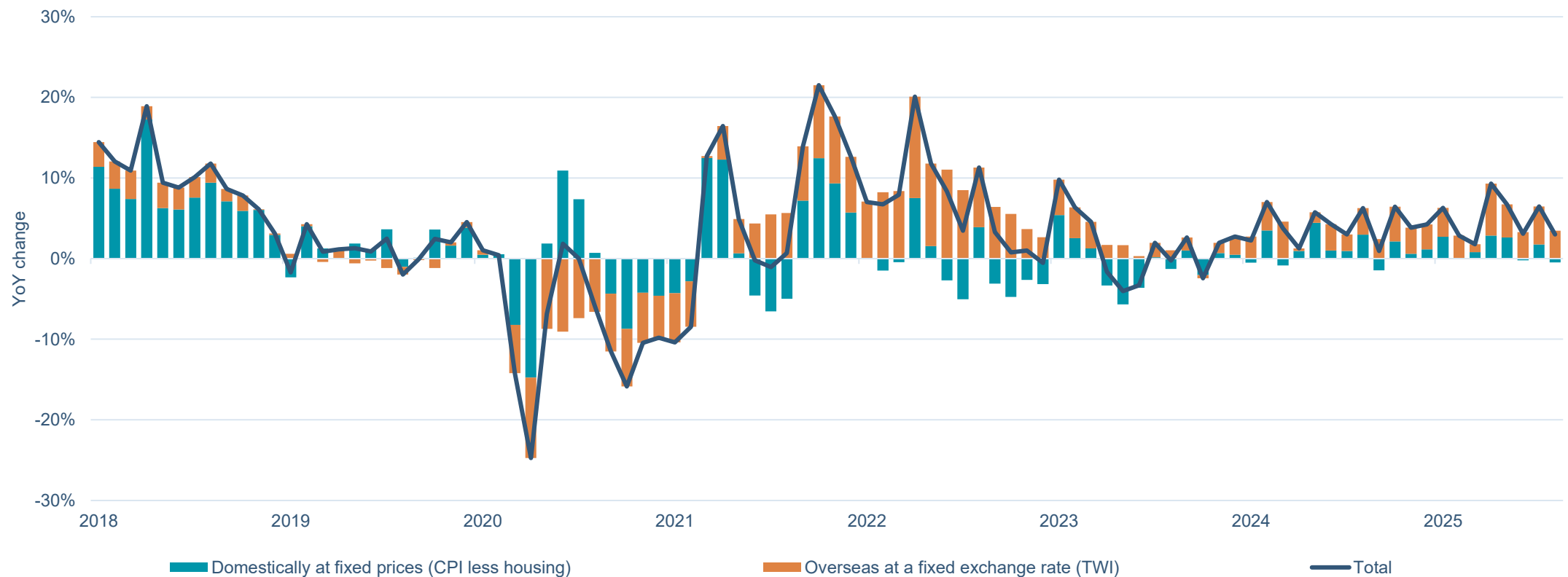
Unemployment

Registered unemployment was 3.4% in August, remaining unchanged between months. Unemployment was 0.2 percentage points higher in August of this year than August 2024.



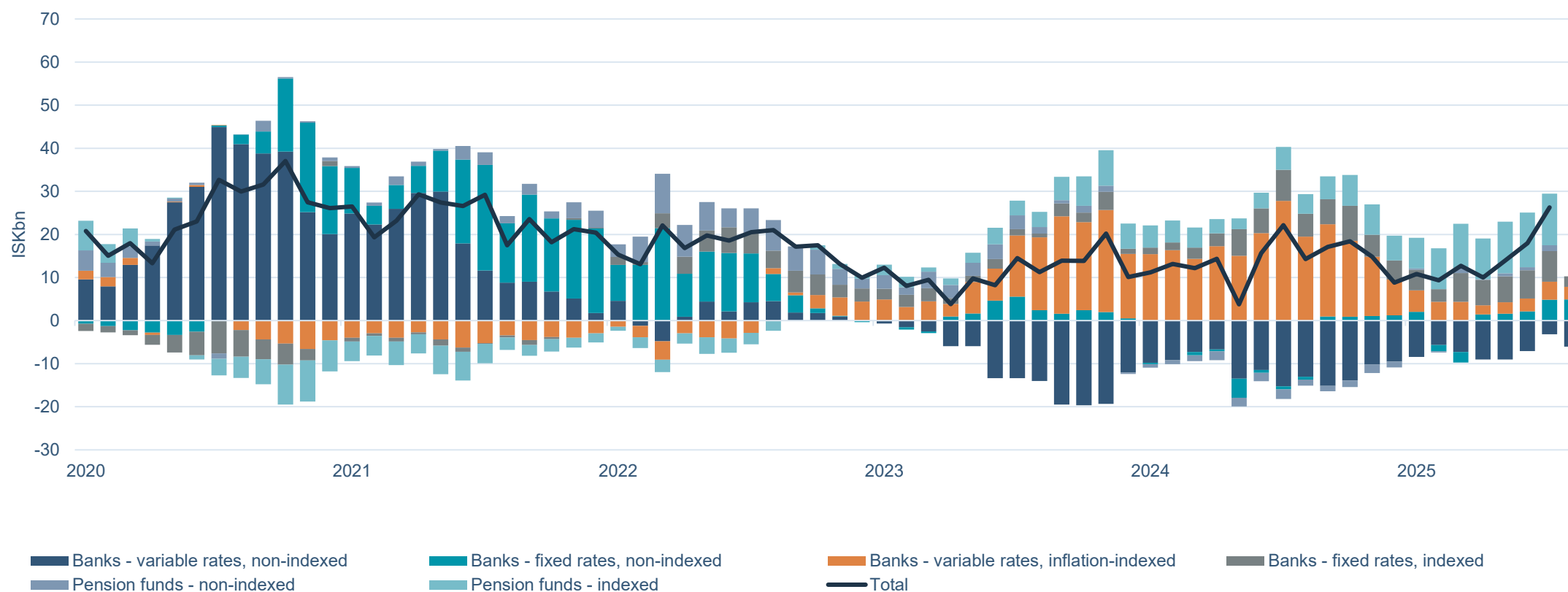
Payment card turnover of Icelandic households

Card turnover grew by 3.0% between years in August in real terms. It grew by 3.5% overseas but contracted by 0.5% domestically. This significant growth in Icelandic card turnover overseas is in tune with the boom in international travel this year. This year to date, departures by Icelanders have been 21% more numerous than the same time last year. Development of card turnover indicates that the average household has not had to reduce consumption as a result of high interest rates. At the same time that card turnover grows and international travel increases, household deposits have also grown considerably. Overdrafts remain low - another indicator of sound household standing. All these factors indicate that consumption levels can be expected to continue in the coming 1-2 years.



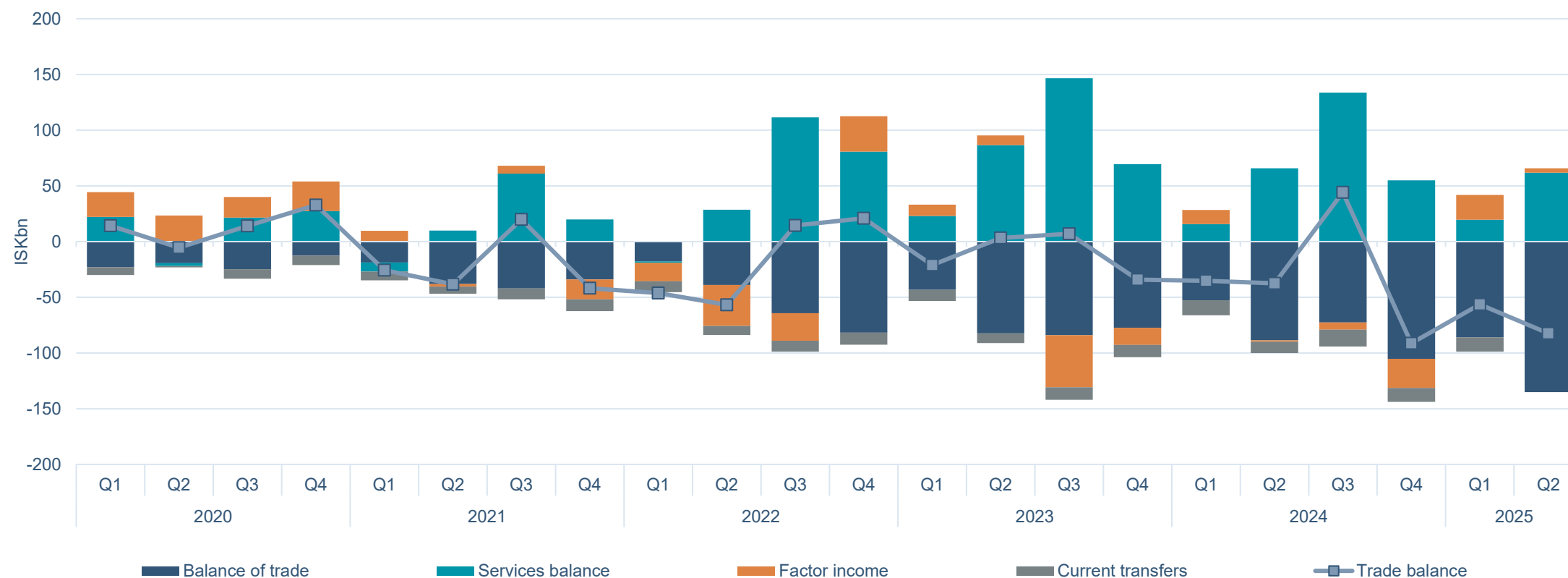
Net new housing mortgages

Net new housing mortgages by the commercial banks amounted to just ISK 1.3 bn in August. Of that figure, ISK 5.4 bn represent net new inflation-indexed loans while net repayment of non-indexed loans amounted to ISK 1.1 bn. Figures for net new lending by pension funds in August will be released on Monday, 6 October.



Balance of trade

Iceland's trade deficit amounted to ISK 82.3 billion in the second quarter. There was a surplus of ISK 61.8 billion in the services balance and a surplus of ISK 3.9 billion in primary income. On the other hand, there was a deficit of ISK 135.2 billion in goods trade and a deficit of ISK 12.8 billion in current transfers. Iceland's trade deficit has never been higher as in the last three quarters. This is largely explained by the massive import of computer equipment related to the construction of data centres.

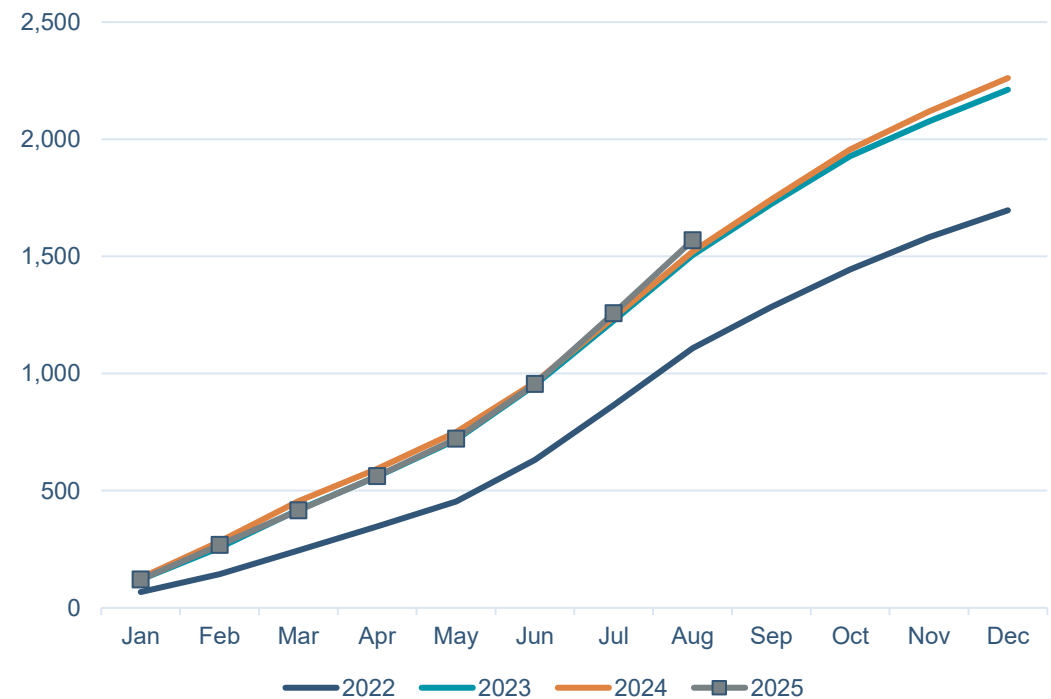


The travel sector

Around 311 non-domestic travellers passed through Leifsstöð International Airport in August, 10.6% more than in August of 2024. This year to date, departures by non-domestic traveller numbers have around 3.1% higher than the same time last year. Non-domestic payment card turnover grew by 2.2% between years at fixed prices and by 14.4% at a fixed exchange rate.

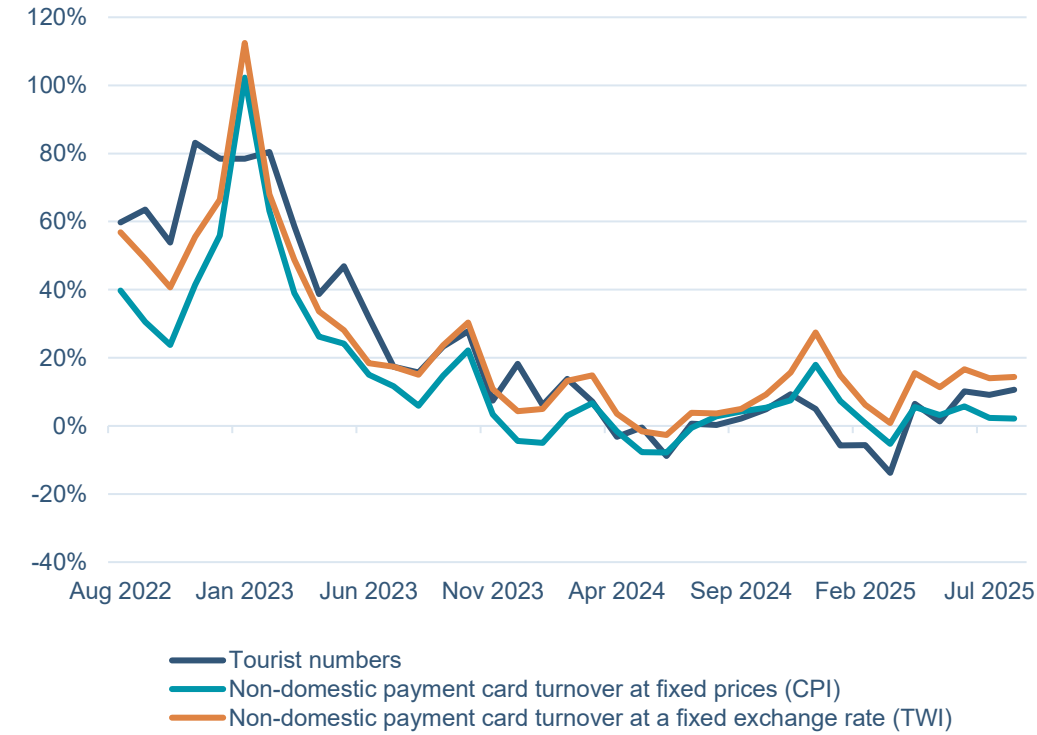
Acc. tourist numbers

Thousand individuals



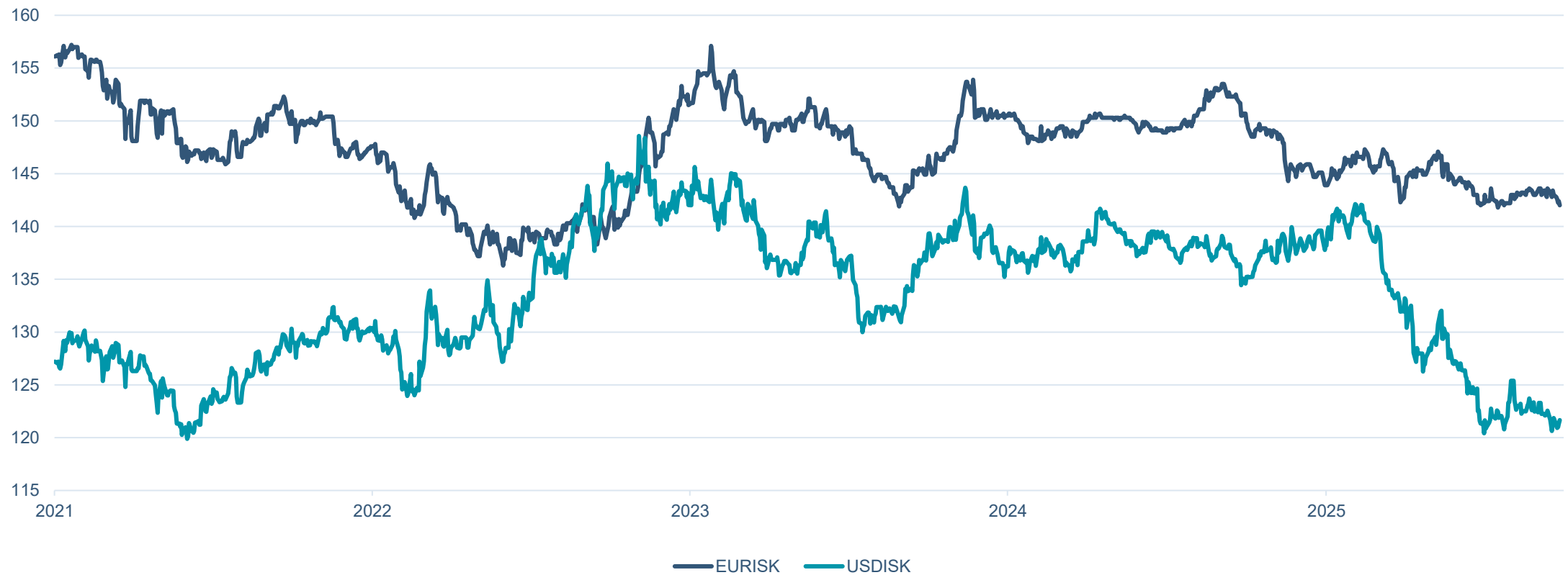
Development of key indicators

YoY change



ISK exchange rate

The ISK gained against the euro and the US dollar in September. At the end of the month, the EUR cost 142 instead of 143 (ISK -1.0) and the USD 121.1 instead of 122.7 as at the end of August (ISK -1.5).



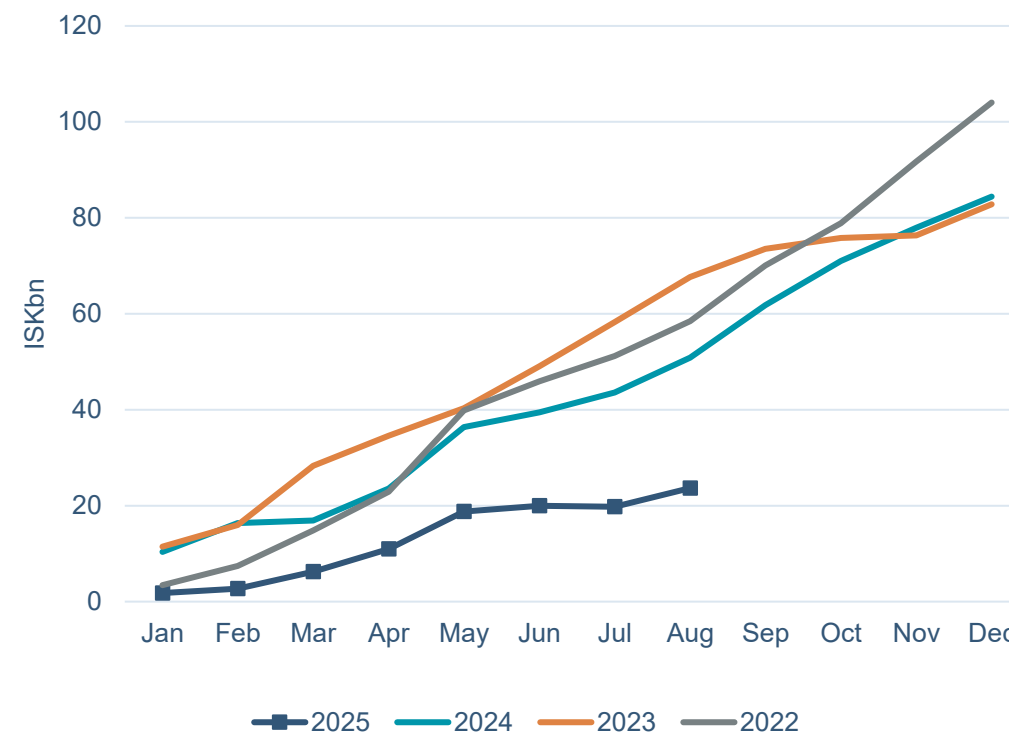
FX trade of the CBI and pension funds

These regular purchases were the CBI's only activity on the FX market in September. The CBI purchased euros for ISK 9.7 billion in the period 1-26 September and, this year to date, has bought euros for ISK 58.3 billion. Accumulated FX purchases by the pension funds in the first eight months of the year were ISK 23.6 billion, just under a half of FX purchases in the same period of 2024. In total, the combined FX purchases of the CBI and the pension funds in the first eight months of the year were around ISK 12 billion higher than in the same period of 2024.

Activity by the Central Bank of Iceland



Acc. annual FX purchases of pension funds



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