

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 are visible in the water. The middle ground shows a row of colorful houses (white, yellow, red) with dark roofs, some with multiple stories. Behind the houses, there are evergreen trees. The sky is overcast and grey.

# Monthly Newsletter

**2 December 2025**

**Landsbankinn Economic Research**

# Market events - December 2025

Monday	Tuesday	Wednesday	Thursday	Friday
1. December	2 Inflation in the eurozone	3 Statement of the Financial Stability Committee (Sí) Minutes of the Monetary Policy Committee (CBI) Balance of payment, foreign balance and foreign debt (CBI)	4	5 Unemployment in the US
8	9	10 <b>Departures from Keflavík International Airport (FMST)</b> <b>Registered unemployment (VMST)</b> Policy rate decision in the US Inflation in the US	11	12
15	16 <b>Housing price index in November (HMS)</b>	17 Payment mediation in November (CBI) Rental price index in November (HMS) Inflation in the UK	18 Overnight stays in November (HAG) VAT turnover in Sept-Oct. (HAG) Monthly report (HMS) Ölgerðin publishes results Rate decision in the UK and eurozone	19 Wage index in October (HAG)
22 <b>CPI in December (HAG)</b> Economic indicators (Sí)	23	24	25	26
29	30	31		

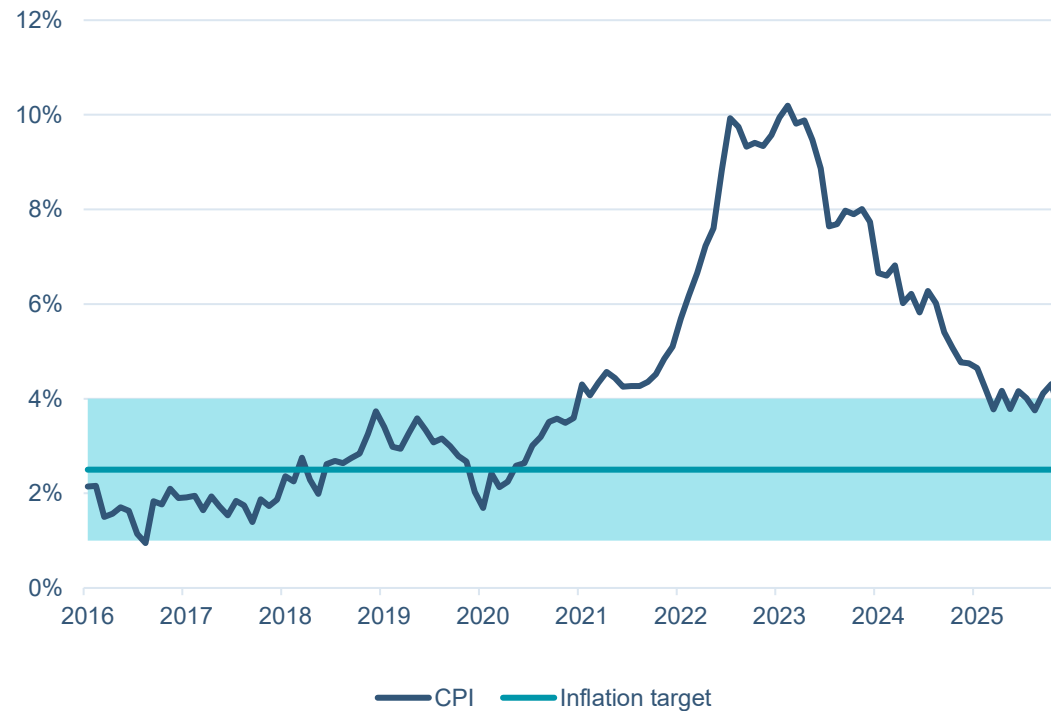


# Inflation

Inflation receded by 0.6 percentage points in November. It currently stands at 3.7% and has not been lower in five years. The 12-month increase in the CPI less housing and all three core indices fell between months.

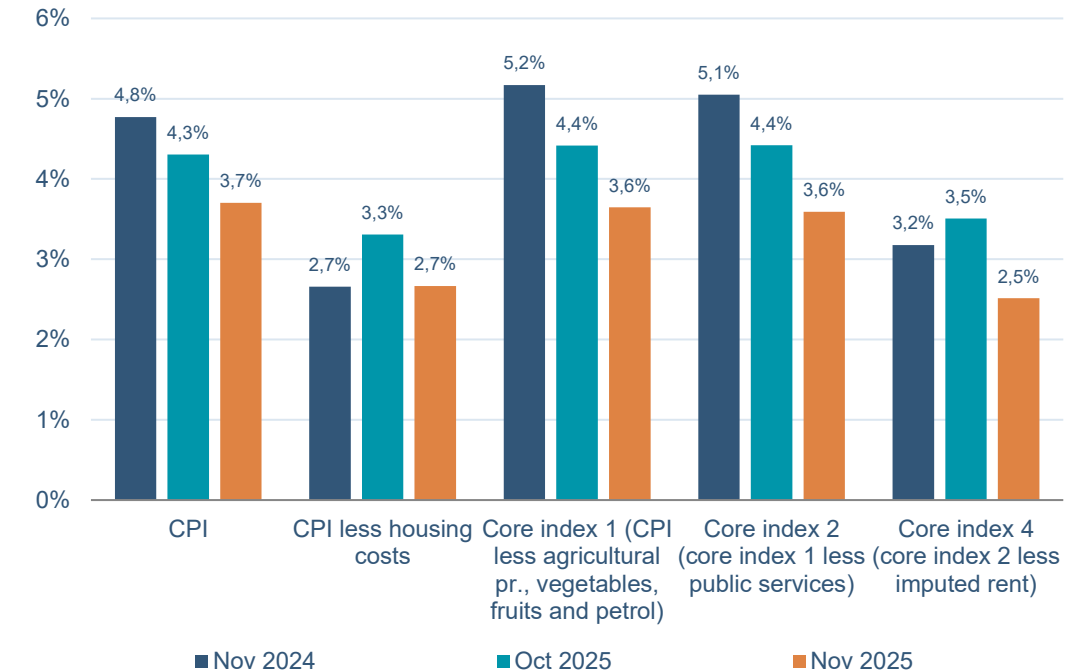
## Consumer price index

YoY change



## Most recent measurement, one month ago and one year ago

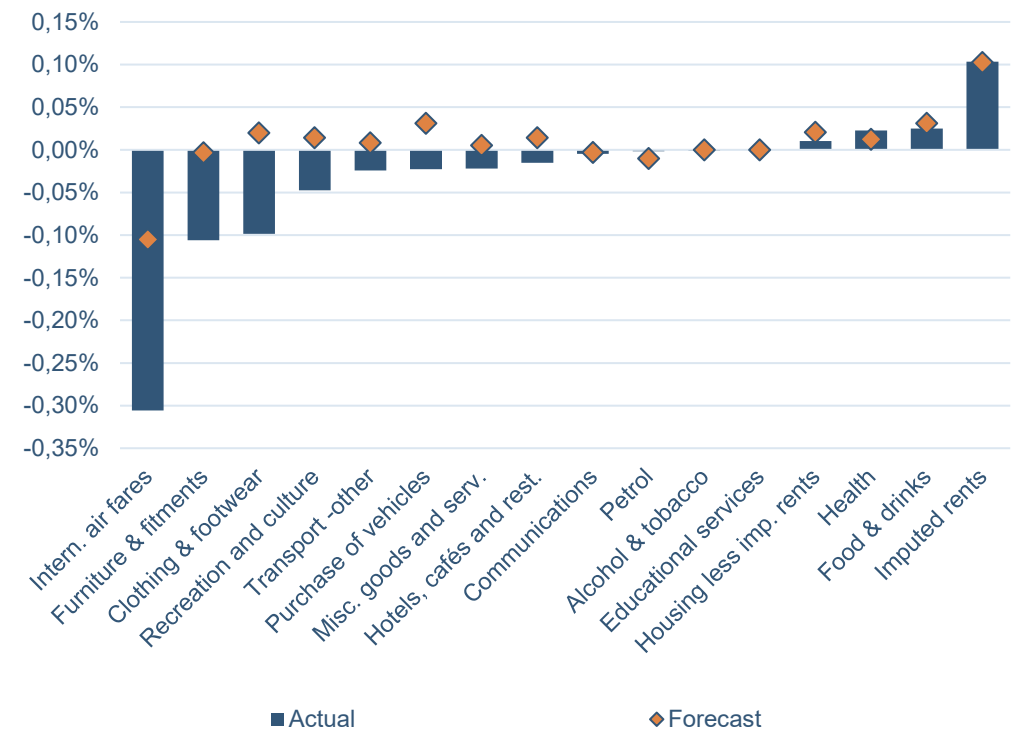
YoY change



# MoM change in the CPI

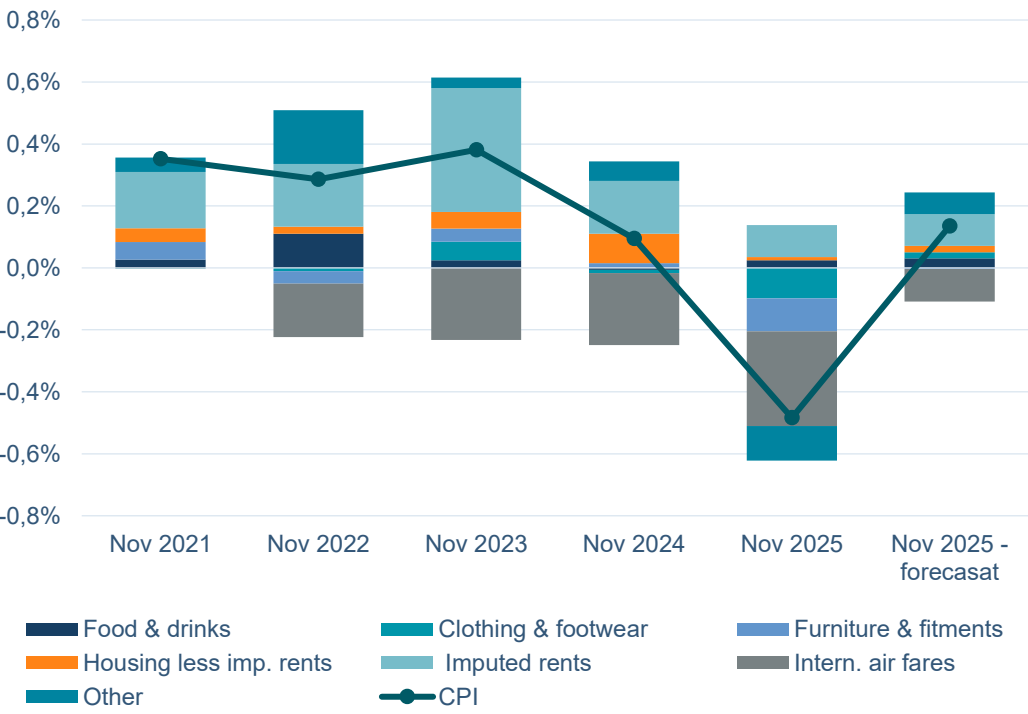
Receding inflation came as a surprise. We expected the CPI to increase by 0.13% between months and inflation to remain steady at 4.3%. The impact of discount days in November translated much more clearly into Statistics Iceland's measurements this year compared to previous years, as the special offers extended over several days and even weeks this year. International airfares decreased more than we expected and it is now around 8% cheaper to fly from Iceland than in October of last year.

Contribution of components in October



October measurement of CPI

MoM change and weight of components

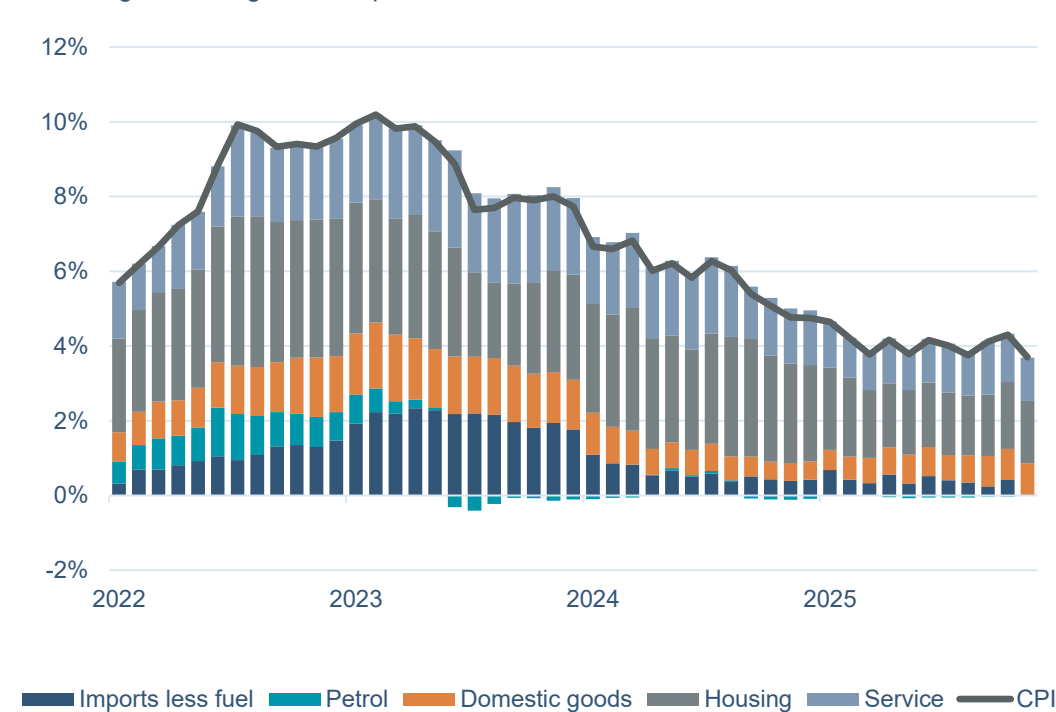


# Composition of 12M inflation

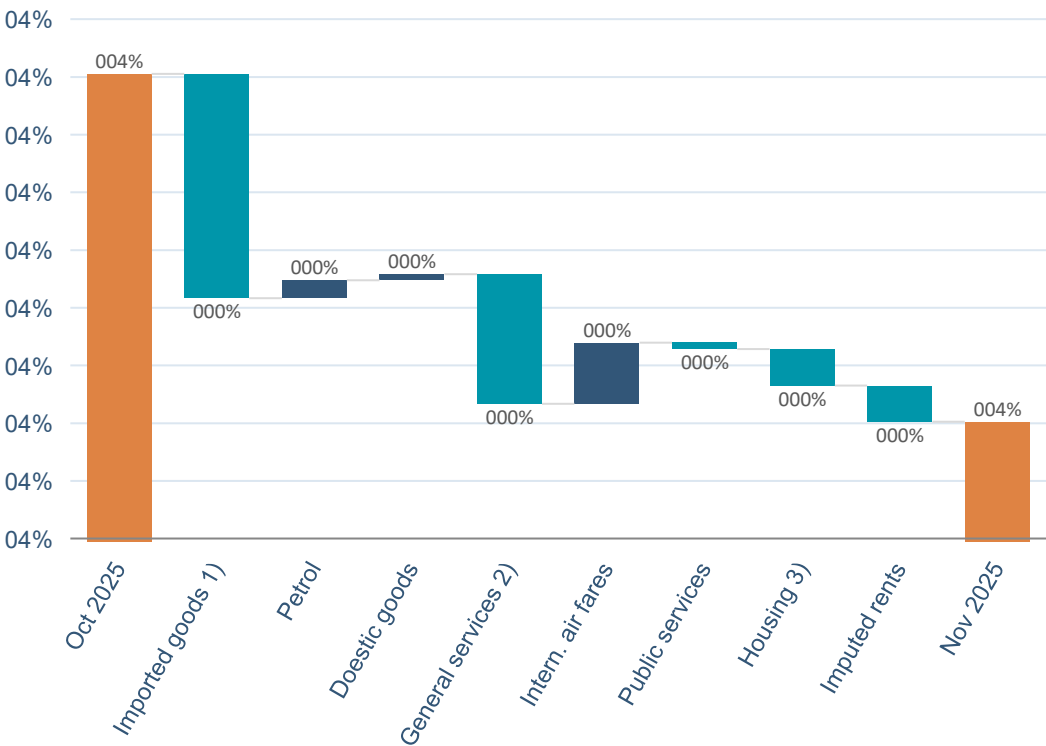
12-Month inflation receded by 0.6 percentage points between months in November. The bulk of this decrease, or 0.4 pp, is from imported goods, with discounts on clothing and household appliances having a considerable impact. The contribution of services and housing cost also decreased.

## Inflation by type and origin

YoY change and weight of components



## Changes to the composition of 12M inflation



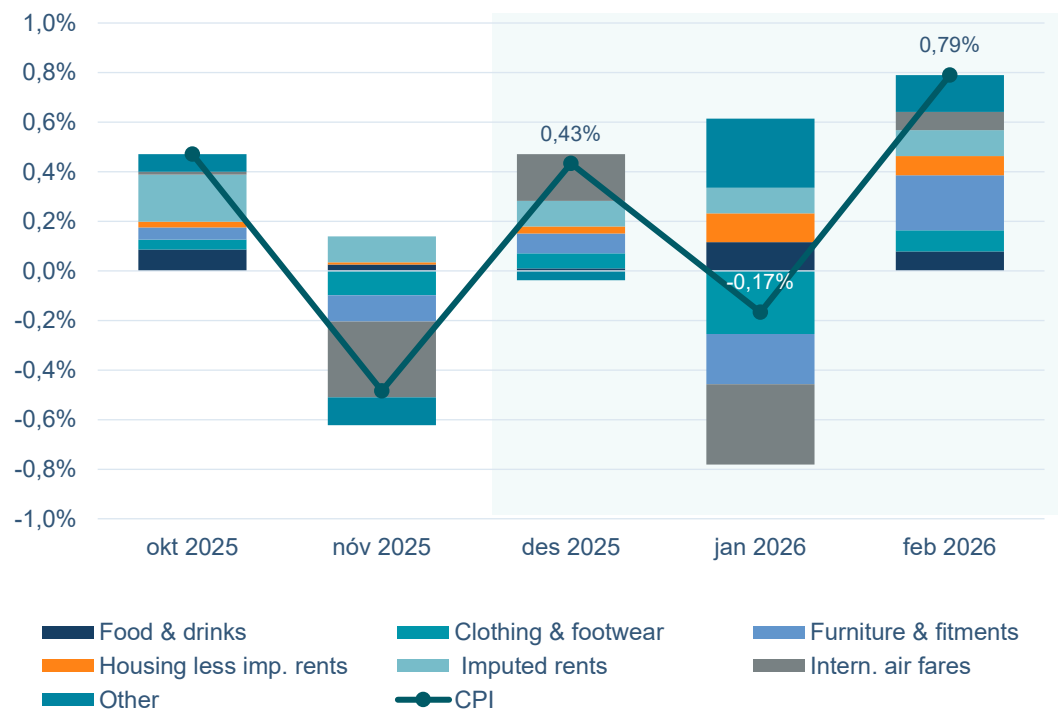
1) Imported goods less petrol. 2) General services less int. airfares. 3) Housing less imputed rent.  
Source: Statistics Iceland

# The outlook for the next months

We forecast more or less unchanged inflation over the coming three months, or 3.7% in December, 3.9% in January and 3.7% in February. It is hard to predict inflation outlook for the coming months. On the one hand, it is unclear to what extent discounts in November will be reversed and, on the other, it is hard to say whether airfares will remain lower than a year ago, despite the fall of Play.

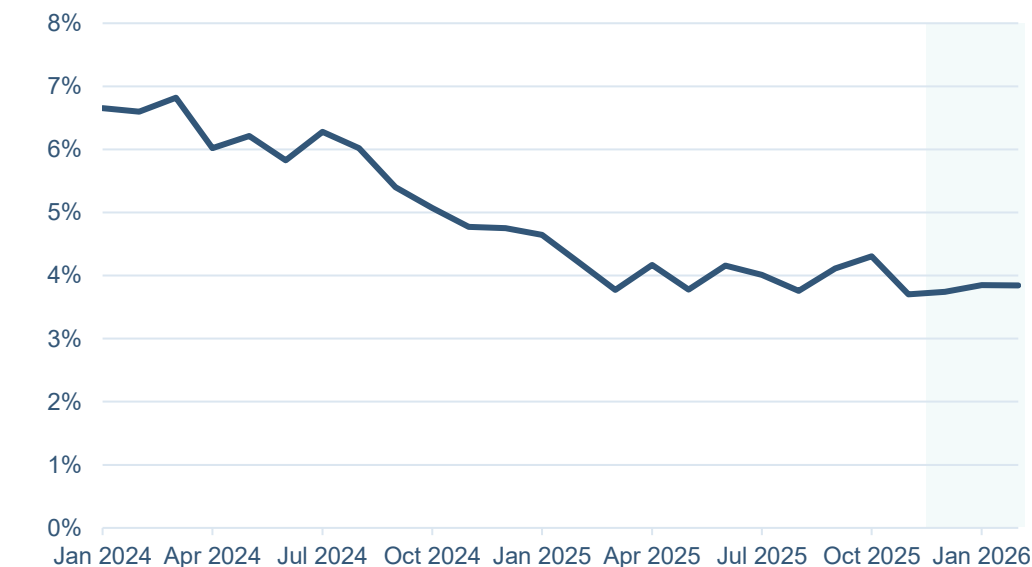
## Inflation forecast

MoM change and weight of components



## Inflation forecast

12M inflation



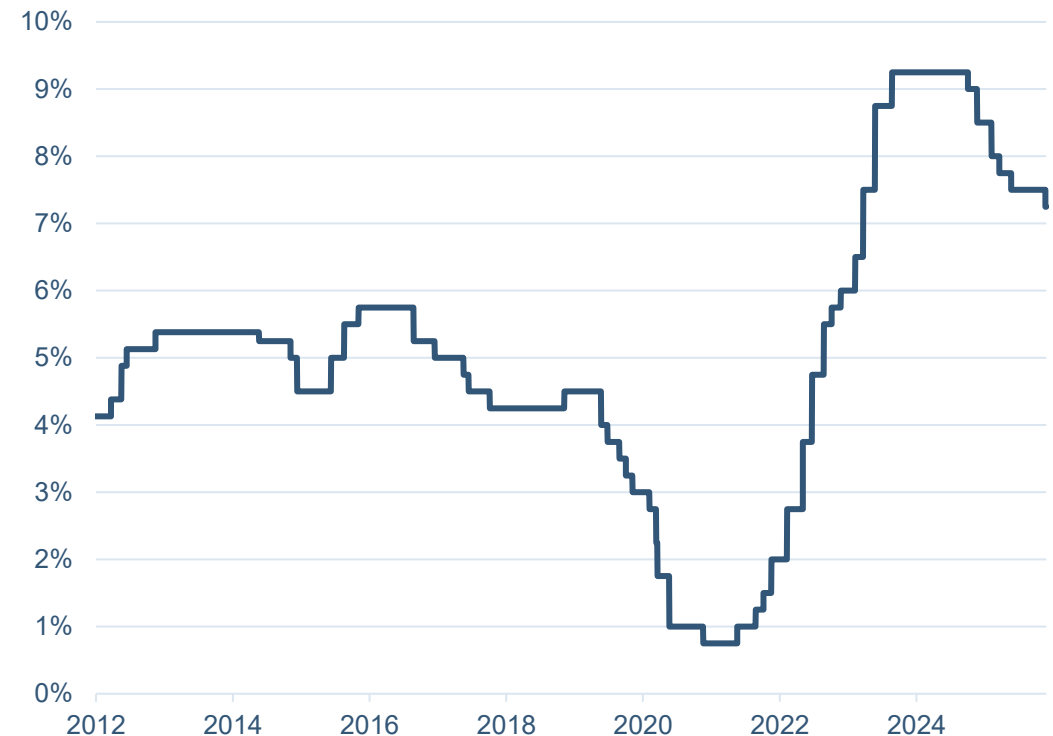
# Policy rate

The Monetary Policy Committee lowered the policy rate by 0.25 percentage points on 19 November. The policy rate is now 7.25%. According to the MPC's statement, "a series of events in the export industries weights heavily, as does the upheaval in the domestic lending market caused by the recent Supreme Court ruling". The rate cut appears to be intended not least as a counterweight against the increased restraint of altered loan availability following the ruling.

## MPC interest rate decisions

Date	Decis.	For	Against	Other option	Key interest rate
8 Feb. 2023	+0.50%	ÁJ, RS, GJ, GZ, HS		HS (+0.75%)	6.50%
22 March 2023	+1.00%	ÁJ, RS, GJ, ÁÓP, HS			7.50%
2023-05-24	+1.25%	ÁJ, RS, ÁÓP, HS	GJ (+1.00%)		8.75%
23 Aug 2023	+0.50%	ÁJ, RS, ÁÓP, HS	GJ (+0.25%)		9.25%
4 Oct. 2023	Unch.	ÁJ, RS, GJ, ÁÓP	HS (+0.25%)	ÁÓP (+0.25%)	9.25%
22 Nov. 2023	Unch.	ÁJ, RS, GJ, ÁÓP, HS			9.25%
7 Feb. 2024	Unch.	ÁJ, RS, ÁÓP, HS	GJ (-0.25%)		9.25%
20 March 2024	Unch.	ÁJ, RS, ÁÓP, HS	GJ (-0.25%)		9.25%
2024-05-08	Unch.	ÁJ, RS, ÁÓP, HS	AS (-0.25%)		9.25%
21 Aug 2024	Unch.	ÁJ, RS, TB, ÁÓP, HS			9.25%
2 Oct. 2024	-0.25%	ÁJ, RS, TB, ÁÓP, HS		HS (Unch.)	9.00%
20 Nov. 2024	-0.50%	ÁJ, RS, TB, ÁÓP, HS			8.50%
5 Feb. 2025	-0.50%	ÁJ, RS, TB, ÁÓP, HS			8.00%
19 March 2025	-0.25%	ÁJ, RS, TB, ÁÓP, HS			7.75%
2025-05-21	-0.25%	ÁJ, ThGP, TB, ÁÓP		HS (Unch.)	7.50%
20 Aug 2025	Unch.	ÁJ, RS, TB, ÁÓP, HS			7.50%
8 Oct. 2025	Unch.	ÁJ, RS, TB, ÁÓP, HS			7.50%
19 Nov. 2025	-0.25%	ÁJ, RS, TB, ÁÓP, HS			7.25%

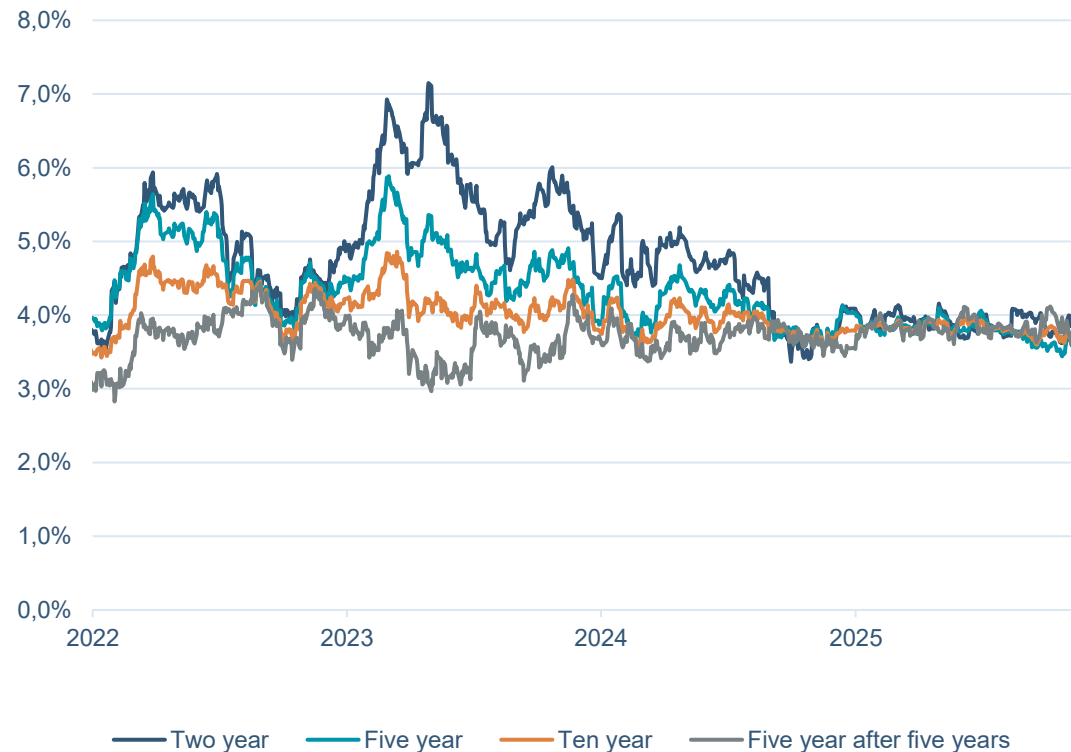
## Key interest rate of the Central Bank of Iceland



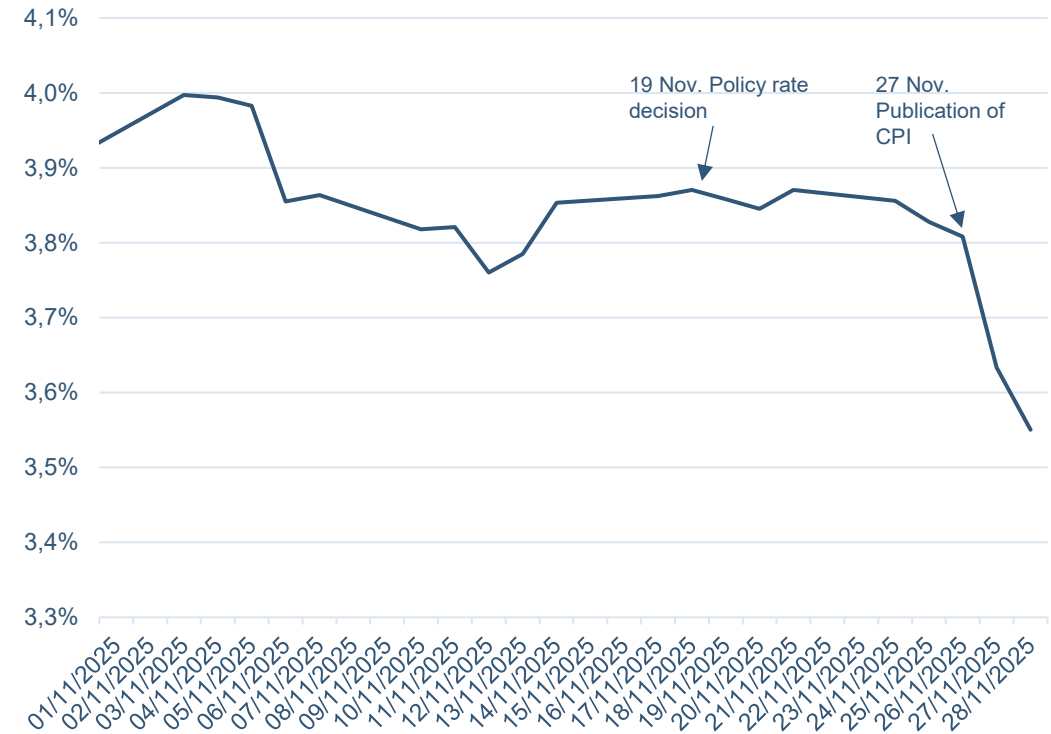
# Inflation premium in the bond market

The inflation premium on the bond market was unchanged after the policy rate decision on 19 November yet fell rather sharply when the CPI measurement for November turned out to be lower than expected.

## Inflation premium in the bond market



## 2Y inflation premium (break-even rate)

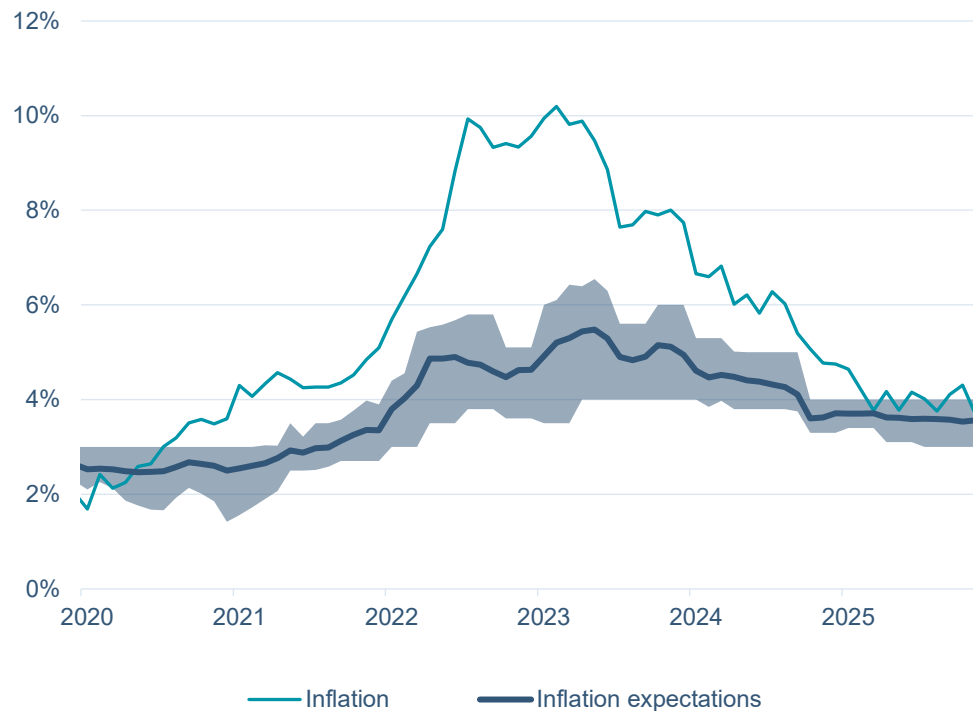




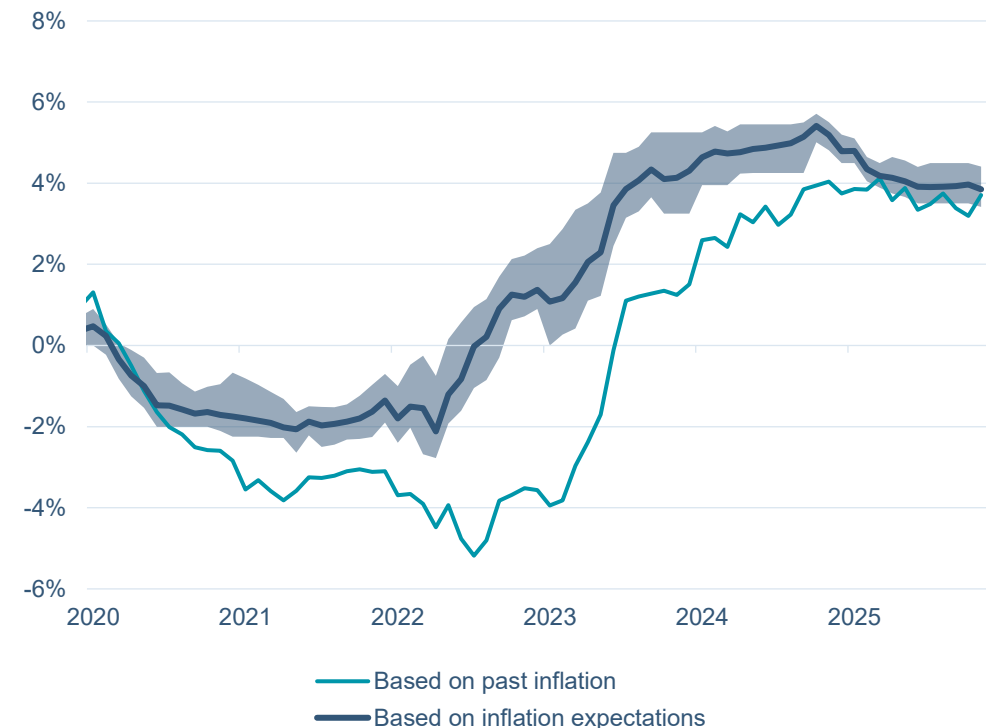
# Inflation, inflation expectations and the real policy rate

The average of key measurements of inflation expectations has held steady in a narrow range this year to date, between 3.5-3.7%. The real interest rate based the average of key measurements of inflation expectations has declined this year to date, while the rate based on past inflation is same as the beginning of the year.

## Inflation and inflation expectations



## Real policy rate



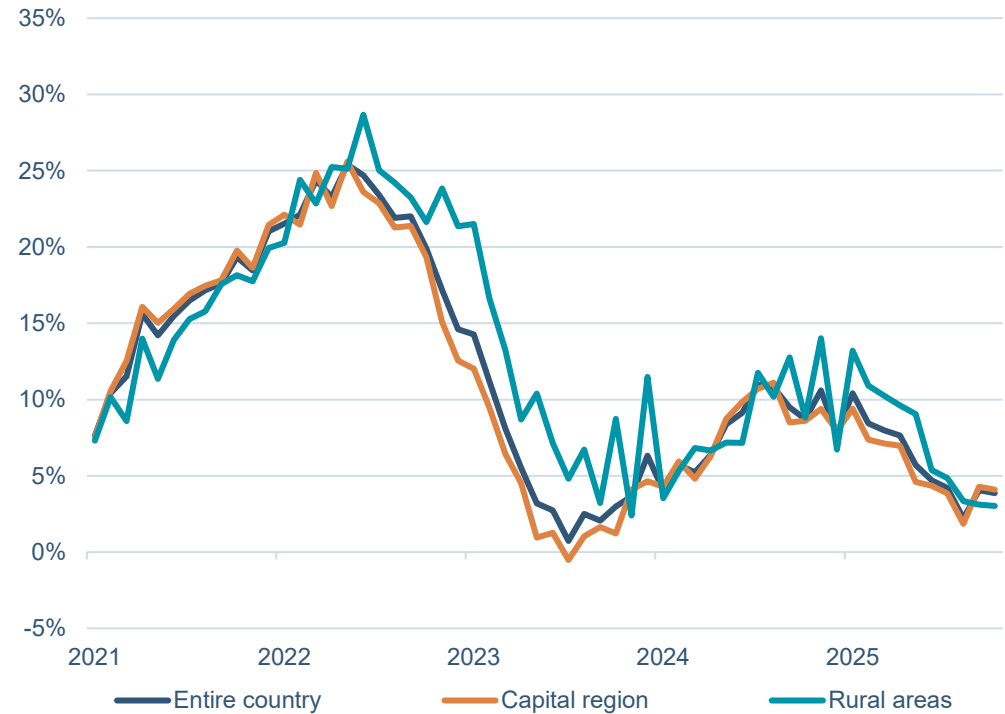
Monthly average. Inflation expectations are the average of the 2Y and 5Y inflation premium on the bond market, the results of a market expectation survey for 1Y and 5Y, household expectations for the next 5Y and companies for the next 5Y. The shaded area shows the highest and lowest values. Source: Central Bank of Iceland, Statistics Iceland, Landsbankinn Economic Research

# The real estate market

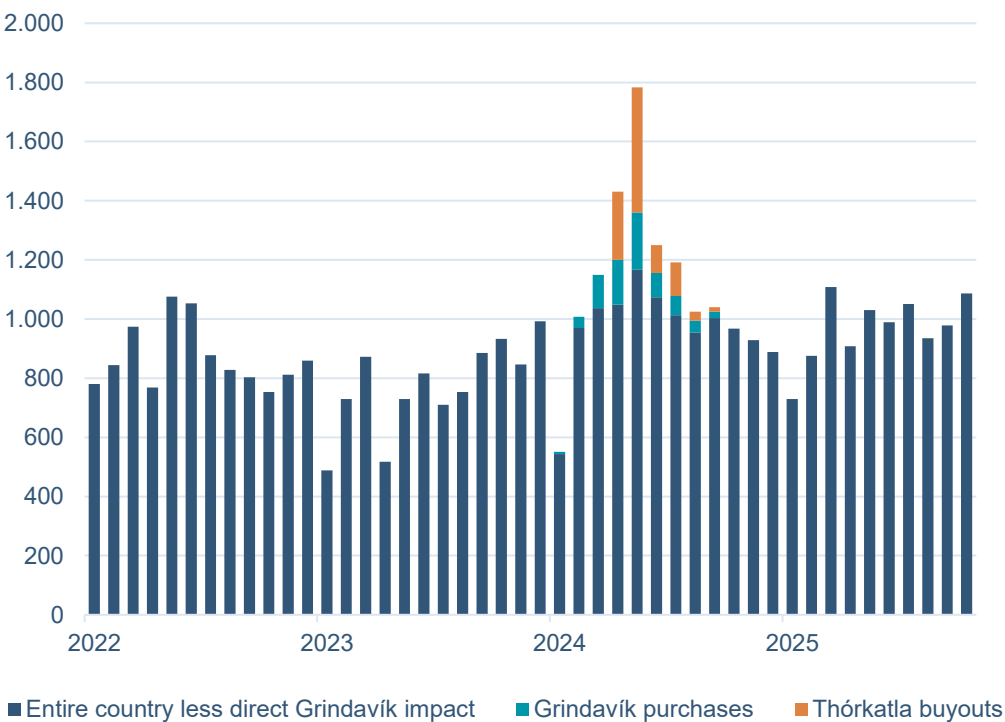
The housing price index was unchanged between months in October. The 12-month increase of the index measured 3.9% in October, up from 2.2% in August, and has not been lower since September 2023. The 12-month increase of the index continues to slow more than the CPI less housing and now stands at 0.54%, down from 0.79% in September. The housing market can be expected to remain calm going forward, but lower rates should with time rekindle price increases again. Recently introduced joint ownership solutions for contractors should also help to maintain housing price levels and turnover in the market.

## Housing price index

YoY change



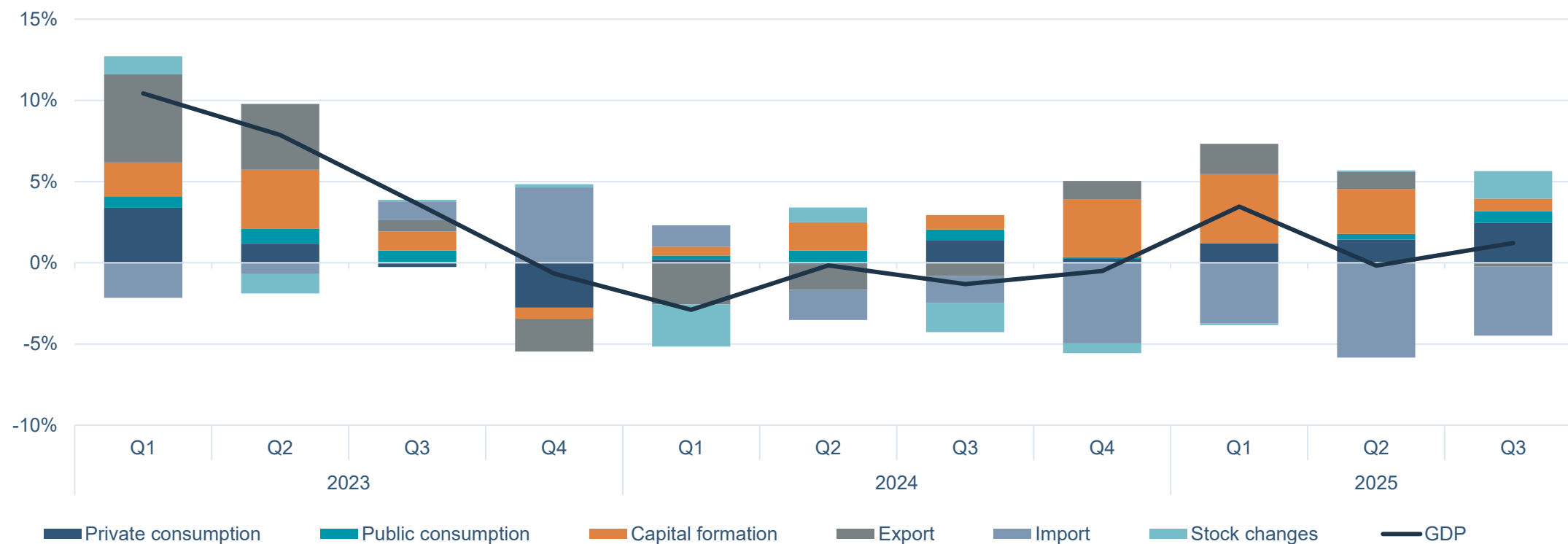
## Signed purchase contracts - entire country



# Gross domestic product

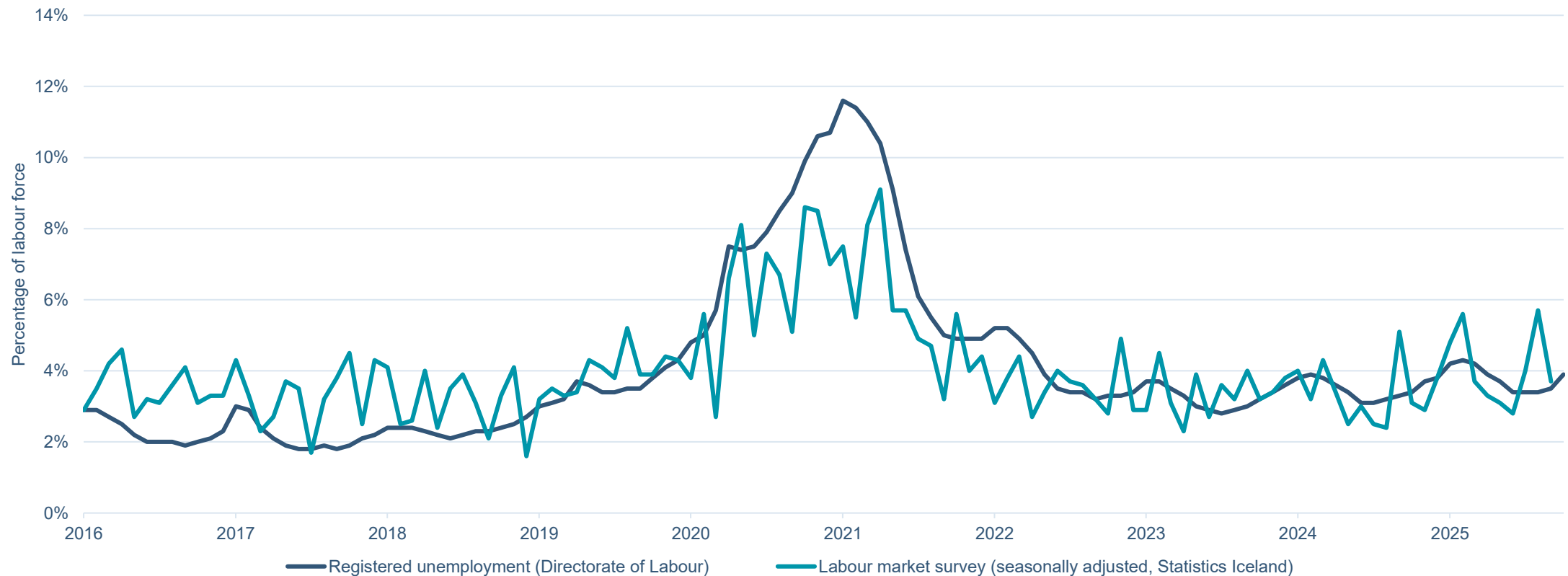
Gross domestic product (GDP) grew by 1.2% between years in the third quarter. Economic growth in the third quarter was driven by domestic demand and national expenditure grew by 4.7%. Private consumption contributes most to growth in the third quarter, growing by 4.2% between years. Import provides the most counterweight and foreign trade is a negative component, much as in the past quarters. Stock changes, mainly in seafood and fisheries, are an unusually large component, contributing 1.8% to growth. Without that, the results for the quarter would have been a contraction, as the negative impact from foreign trade weights more heavily than the positive impact of domestic demand.

## YoY change and weight of main components



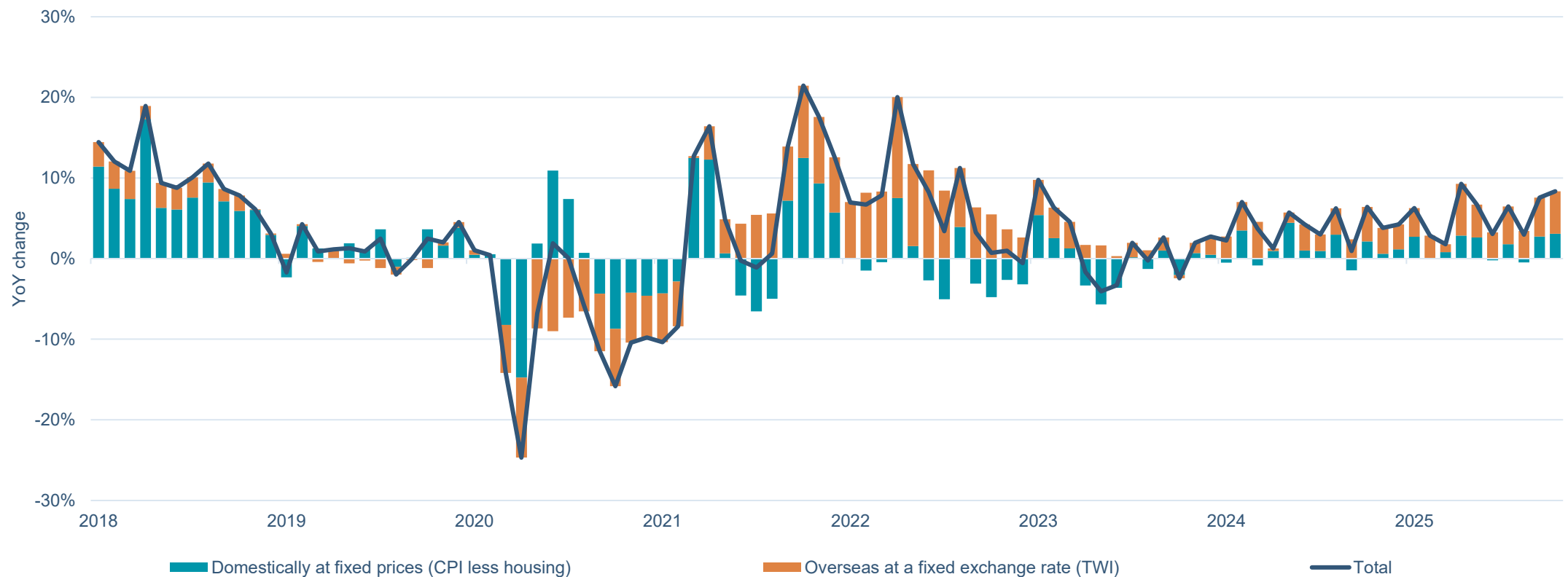
# Unemployment

Registered unemployment was 3.9% in October, up by 0.4 percentage points between months. Unemployment was 0.5 pp higher in October this year than in the same month last year. The 12-month change has been 0.2-0.3% in the past months and increases significantly now in October.



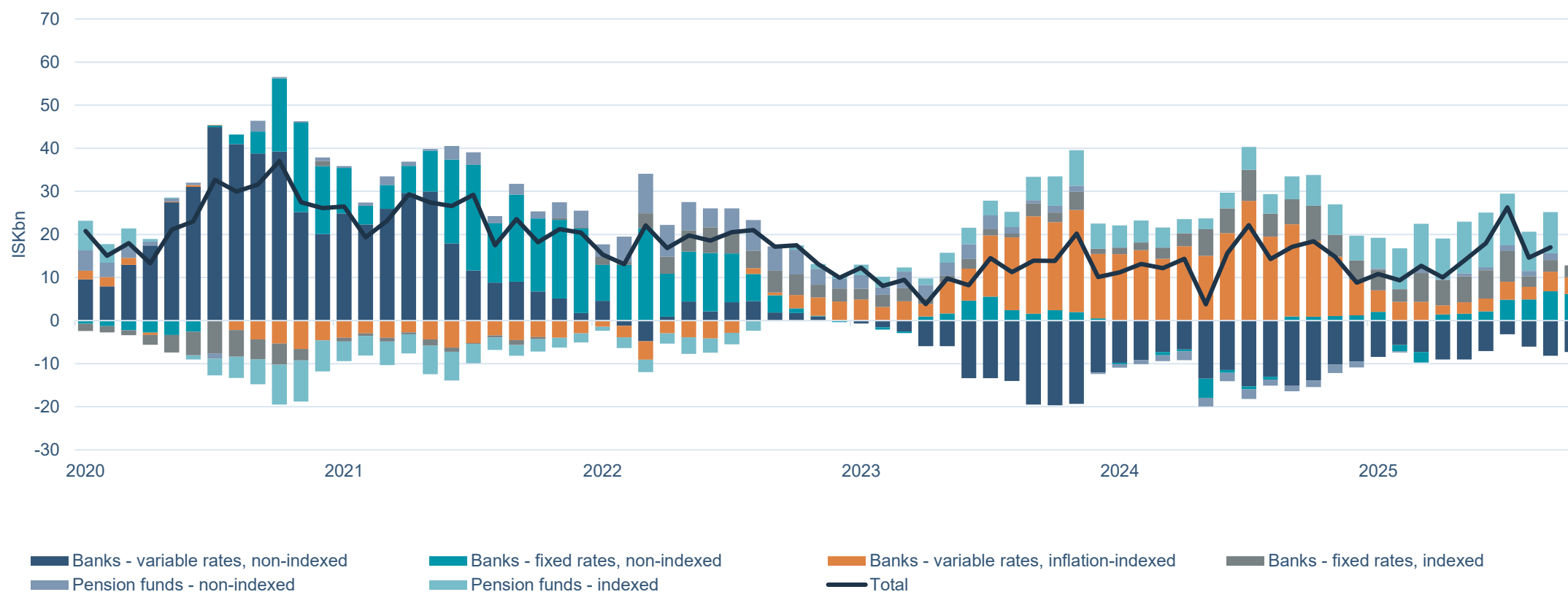
# Payment card turnover of Icelandic households

Card turnover grew by 8.3% between years in October in real terms. It grew by 23.6% overseas and by 4.0% 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 18% more numerous than the same time last year. 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.



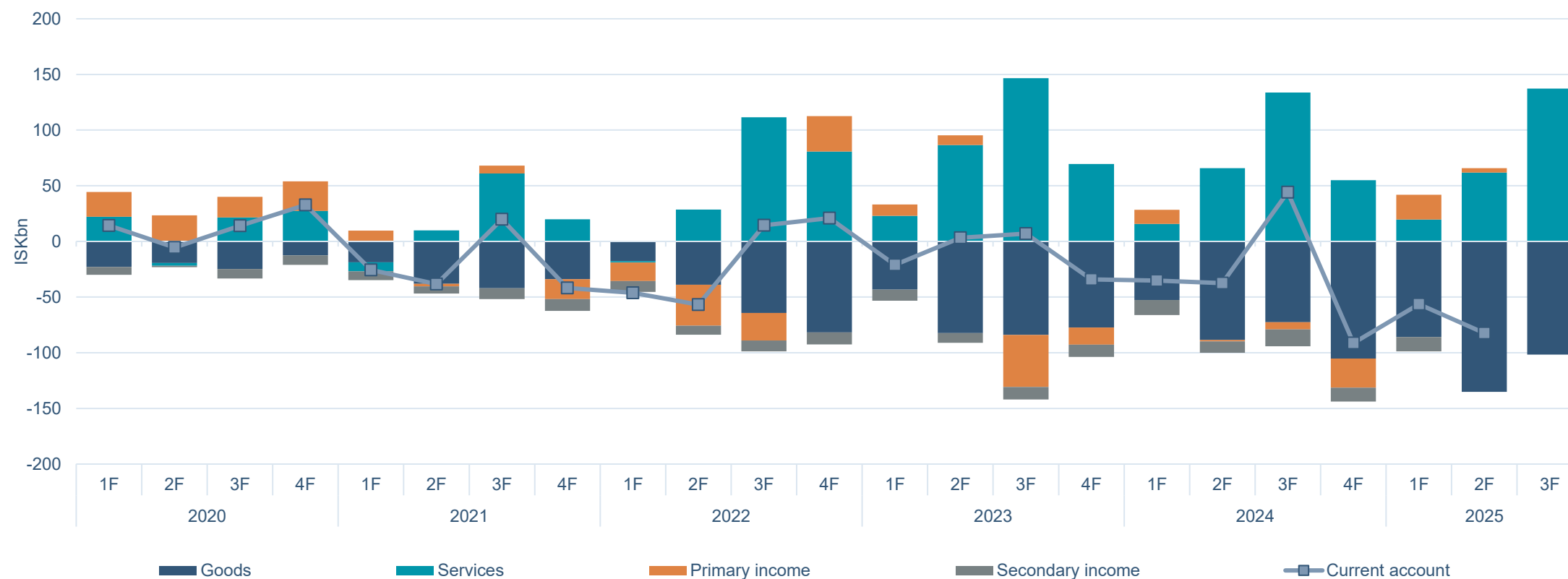
# Net new housing mortgages

Net new housing mortgages by the commercial banks amounted to ISK 5.5 bn in October. Of that figure, ISK 6.6 bn represent net new inflation-indexed loans while net repayment of non-indexed loans amounted to ISK 1.2 bn. Figures for net new lending by pension funds in October will be released on Thursday, 4 December. It will be interesting to see in the near future whether the division of the housing mortgage market between commercial banks and pension funds changes, following the change in availability caused by the court ruling in the interest rate case.



# Balance of trade

The surplus on trade in goods and services measured ISK 35.8 bn in the third quarter. The third quarter is generally the best quarter of each year. The surplus contracted by ISK 25.3 bn between years. The lower surplus is mainly from a growing deficit on trade in goods in the amount of ISK 29 bn, with the surplus on trade in services increasing by ISK 3.7 bn between years.

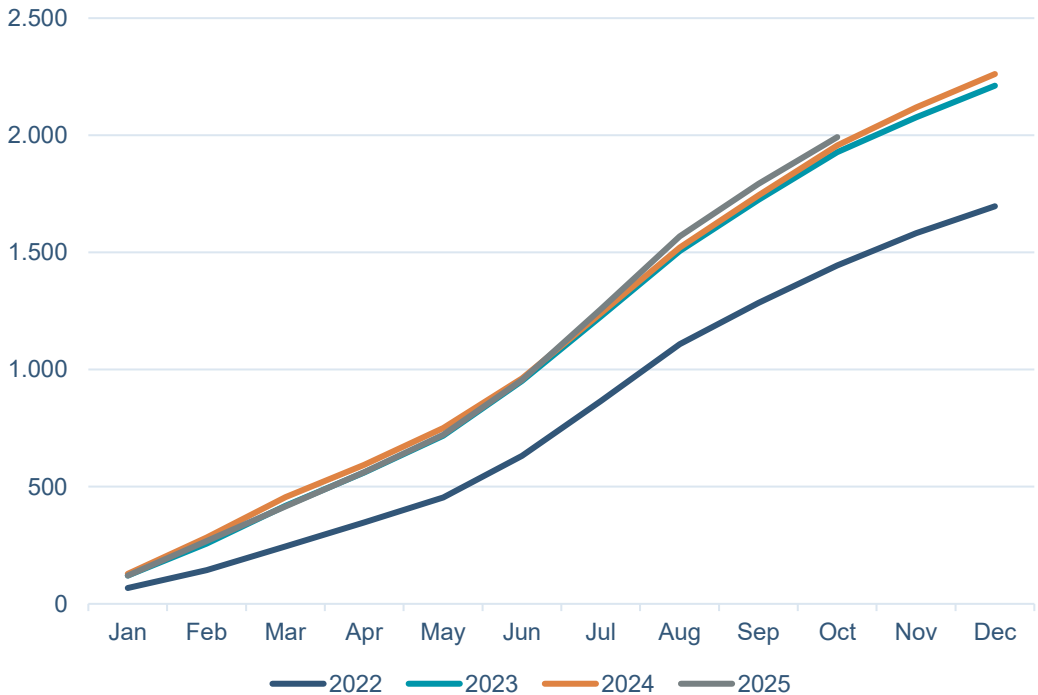


# The travel sector

Around 200,000 foreign travellers passed through Keflavík International Airport in October, a 6.2% decrease from the same month last year. The fall of Fly Play may account for this decrease in part. This year to date, departures by non-domestic traveller numbers have around 1.8% higher than the same time last year. Non-domestic payment card turnover contracted by 13.7% between years at fixed prices and by 3.7% at a fixed exchange rate. Overnight hotel stays grew by 3.5% between years.

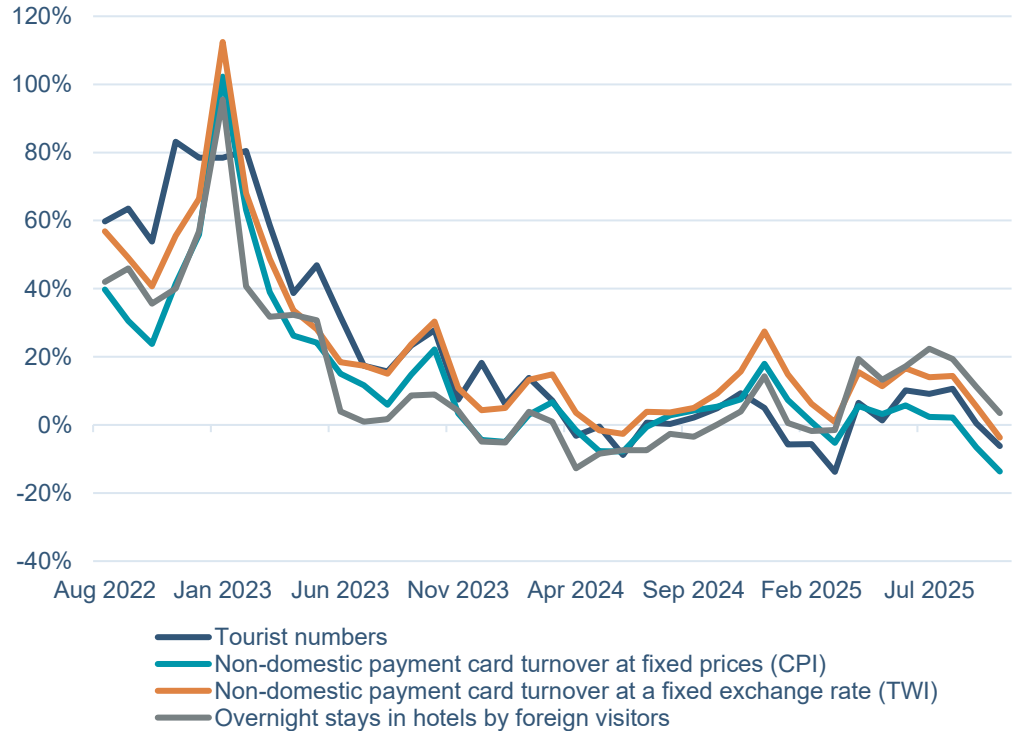
## Acc. tourist numbers

Thousand individuals



## Development of key indicators

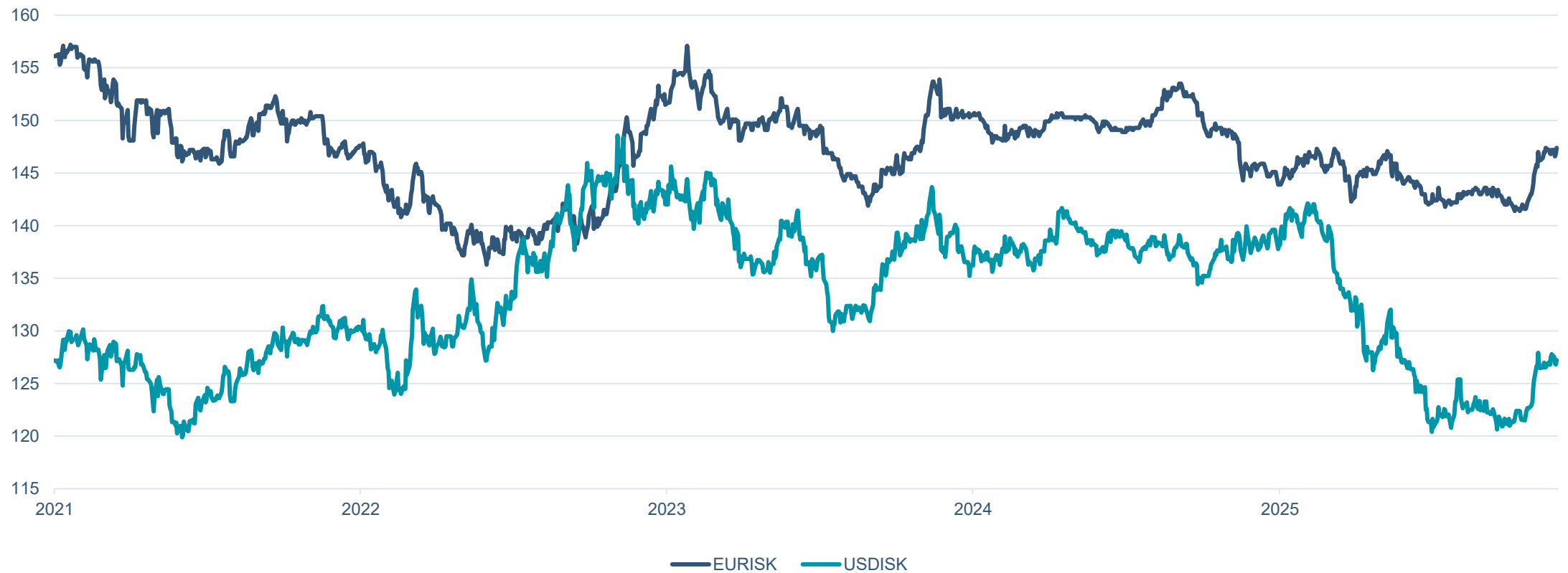
YoY change





# ISK exchange rate

The ISK depreciated sharply in the past few weeks. At the end of the month, the euro stood at 148.2 (+3.4 intra month) and the USD at 128.1 (+2.8 intra month).



# FX trade of the CBI and pension funds

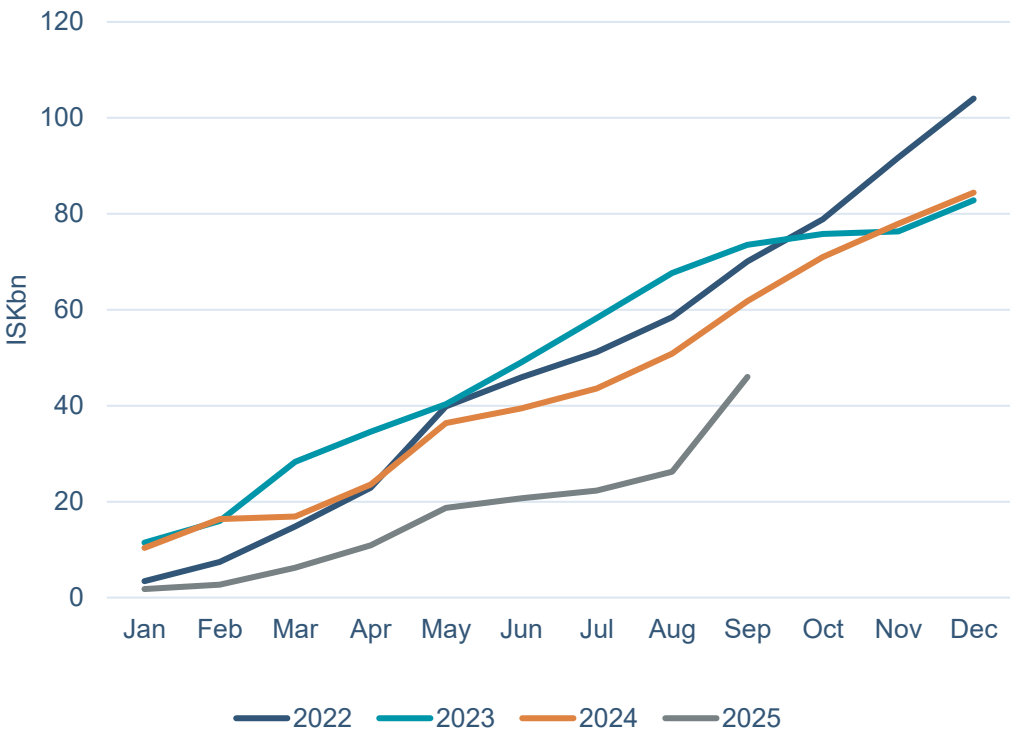
Around the middle of the month, the CBI announced a reduction in its regular FX purchase plan, from EUR 12 million per week to EUR 6 million per week. Except for regular purchases, the CBI did not enter the market. The CBI has purchased foreign currency for ISK 71.7 bn this year to date.

Having stayed on the sidelines since May, the pension funds increased their FX purchases again in September. They purchased foreign currency for ISK 19.8 in total in September - combined purchases in the first eight months of the year amounted to ISK 26.2 bn.

Activity by the Central Bank of Iceland



Acc. annual FX purchases of pension funds



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