Monthly Newsletter

1 September 2026

Landsbankinn Economic Research

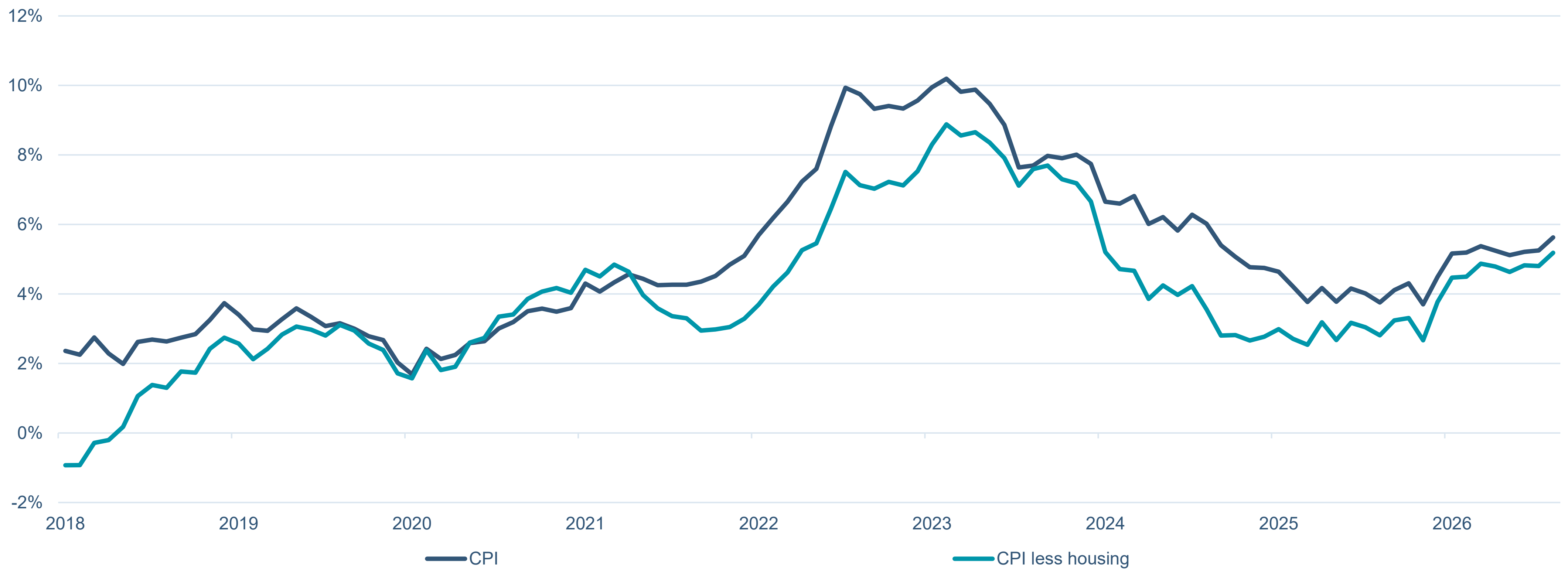
Market events - September 2026

Monday	Tuesday	Wednesday	Thursday	Friday
	1 Inflation in the eurozone	2 **Minutes of the Monetary Policy Committee**	3 Balance of payment (CBI)	4 Unemployment in the US
7 Employed workers (HAG)	8	9	10 Departures from Keflavík International Airport (FMST) ECB policy rate decision	11 Registered unemployment (Directorate of Labour) Inflation in the US
14	15 **Housing price index (HMS)**	16 Rental price index (HMS) Policy rate decision in the US Inflation in the UK	17 Monthly report (HMS) Payment mediation (CBI) Policy rate decision in the UK	18 End of price measurement week (HAG)
21	22 Wage index (HAG)	23 Financial stability (CBI) Statement of the Financial Stability Committee (CBI)	24	25
28	29 **Consumer price index (HAG)**	30 Economic indicators (CBI) Overnight stays in August (HAG)		

(HAG) Statistics Iceland, CBI: Central Bank of Iceland, VMST: Directorate of Labour, FMST: Icelandic Tourist Board, HMS: The Housing and Construction Authority.

Inflation

The CPI rose by 0.20% between months in August and inflation grew from 5.3% to 5.6%. We expected the CPI to increase by 0.1% between months and inflation to rise to 5.5%. Inflation has now been over 5% all months of this year to date.



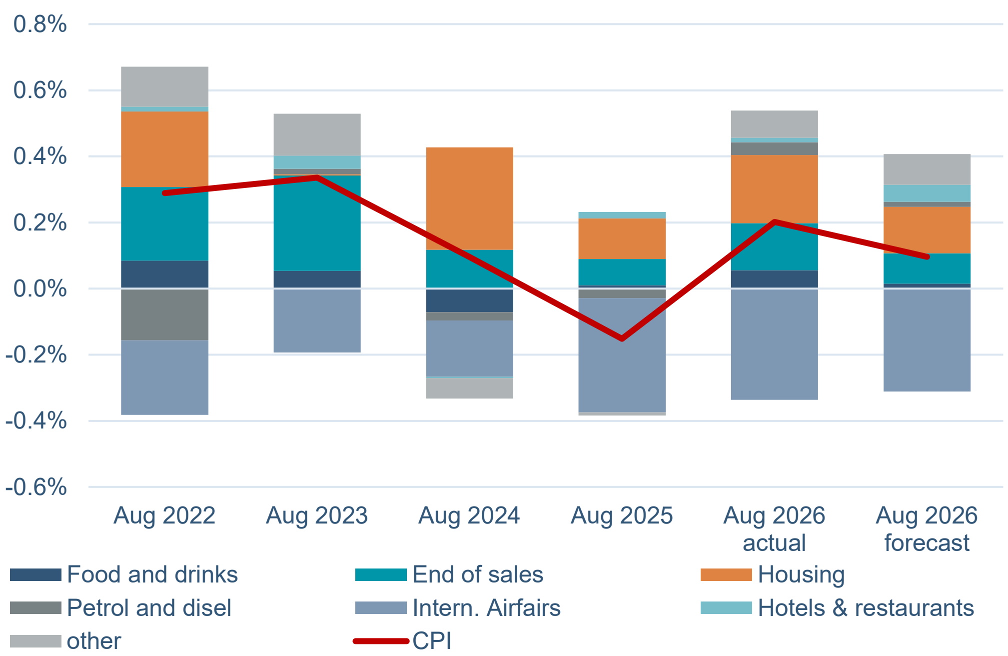
Source: Statistics Iceland

MoM change in the CPI

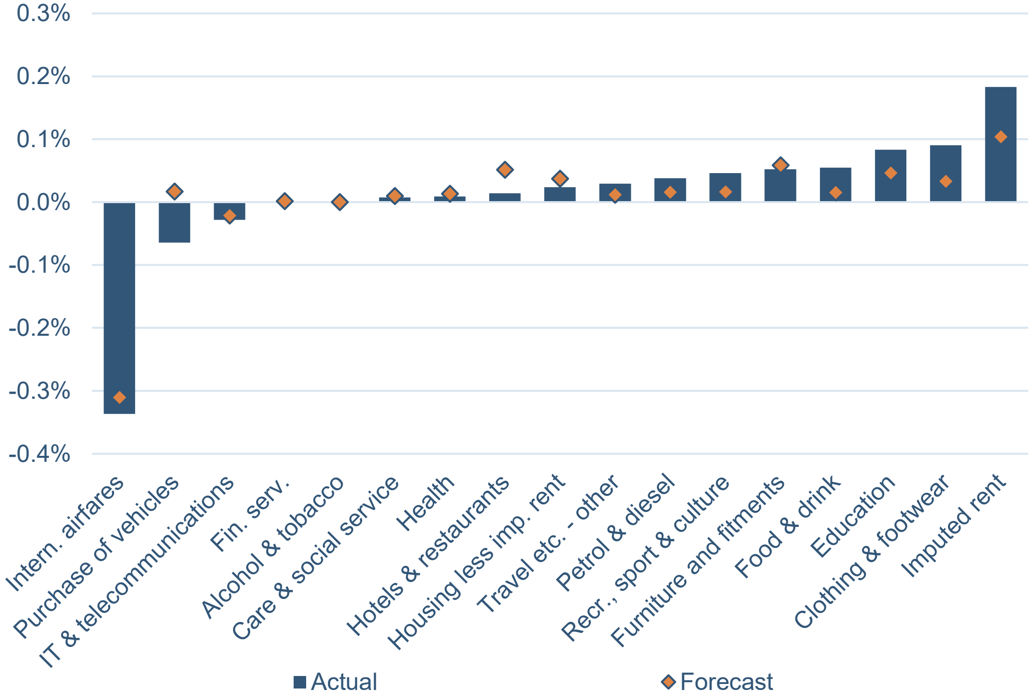
Our forecast was very close to Statistics Iceland's measurement. The greatest surprise factor in the measurement was the significant increase of imputed rent in August, 0.9% between months. This increase is contrary to the development of other measurements of housing and rental prices, which have shown lower increases in recent months. Airfares decreased more or less in line with our forecast. They tend to trend downward in August yet decreased rather less than last year, most likely influenced by the solar eclipse. Airfares are currently 27% higher than in August of last year. Clothing and footware sales receded faster than we expected. The item hotels and restaurants increased less than we anticipated.

August measurement of the CPI

MoM change and weight of components



Contribution of components in August

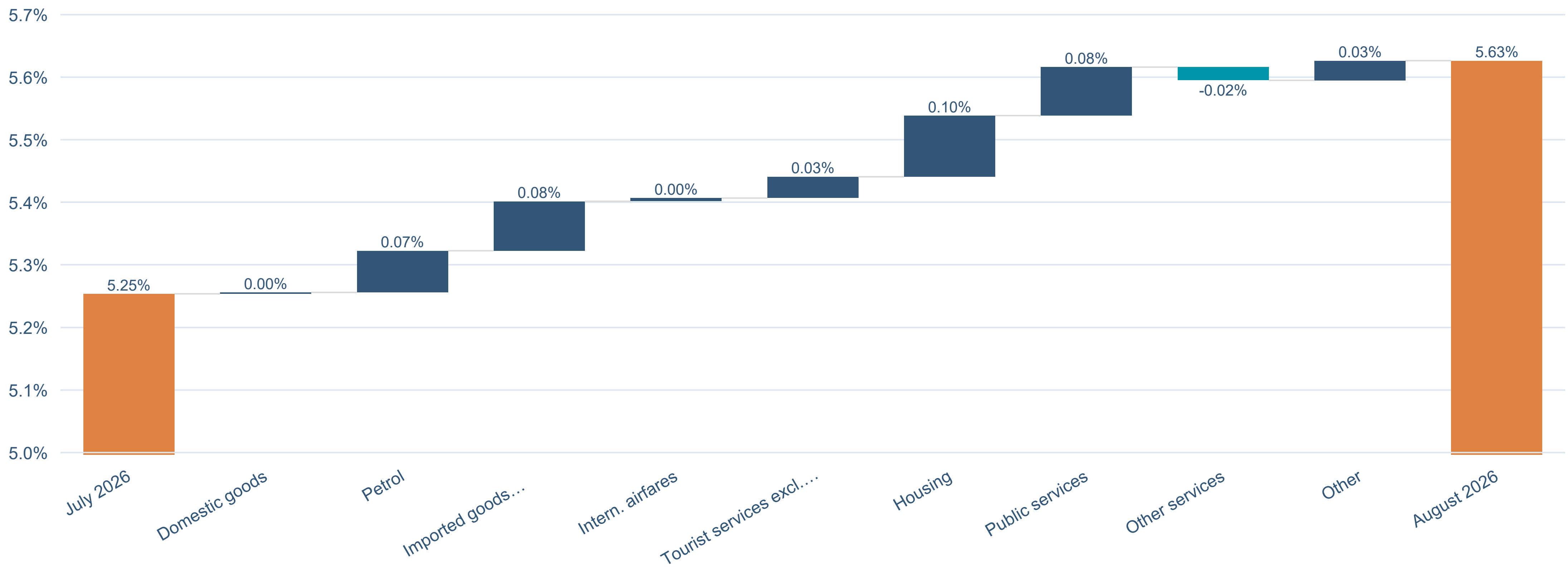


Source: Statistics Iceland, Landsbankinn Economic Research

Source: Statistics Iceland, Landsbankinn Economic Research

Changes to the composition of 12M inflation

Changes to the composition of 12M inflation show that price changes in August were fairly broadly based and that most items pushed inflation upward. Housing had the most impact, much more than hitherto this year to date. The impact of registration fees for universities were a considerable part of the increase in public services.



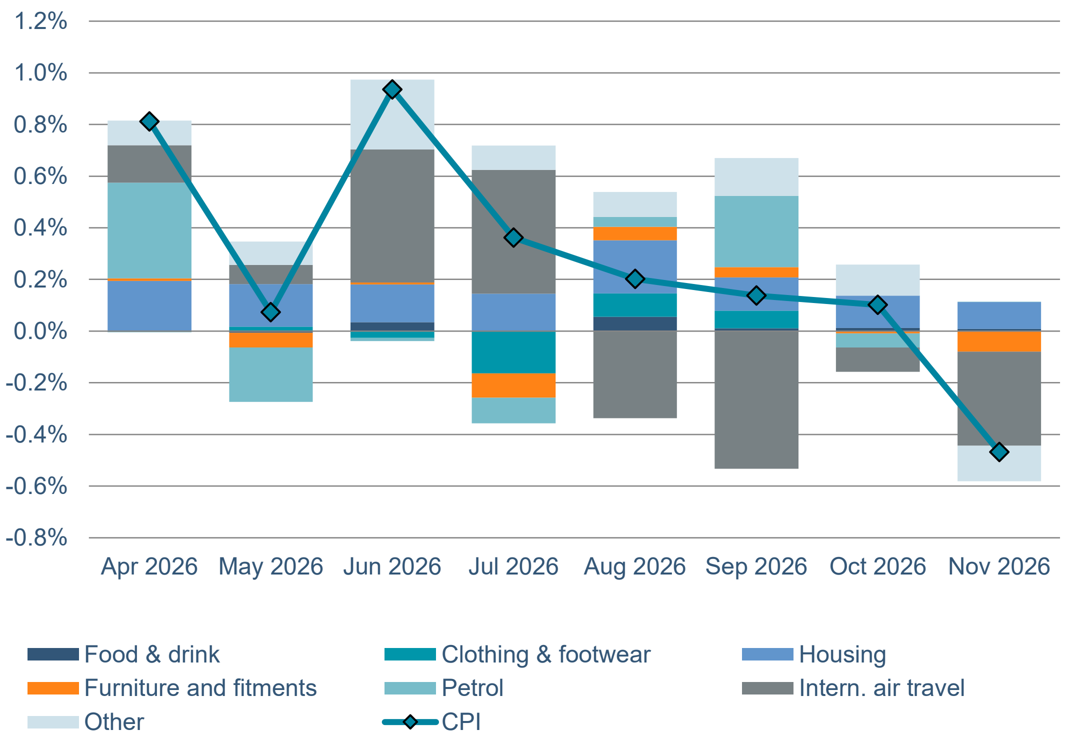
Source: Statistics Iceland, Landsbankinn Economic Research

The outlook for the next months

We expect the CPI to increase by 0.14% in September, by 0.10% in October and then to decrease by 0.47% in November. If the forecast holds, 12M inflation will be 5.7% in September, 5.3% in October and 5.3% in November. We made only minor changes to the forecast we published during the CPI price measurement week. Clothing & footwear increased more than we forecast in August leading us to expect a lower increase in September. The dispensation on VAT on fuel expires in September and, in addition, increased payments for primary healthcare visits and other health care services will figure in the measurement.

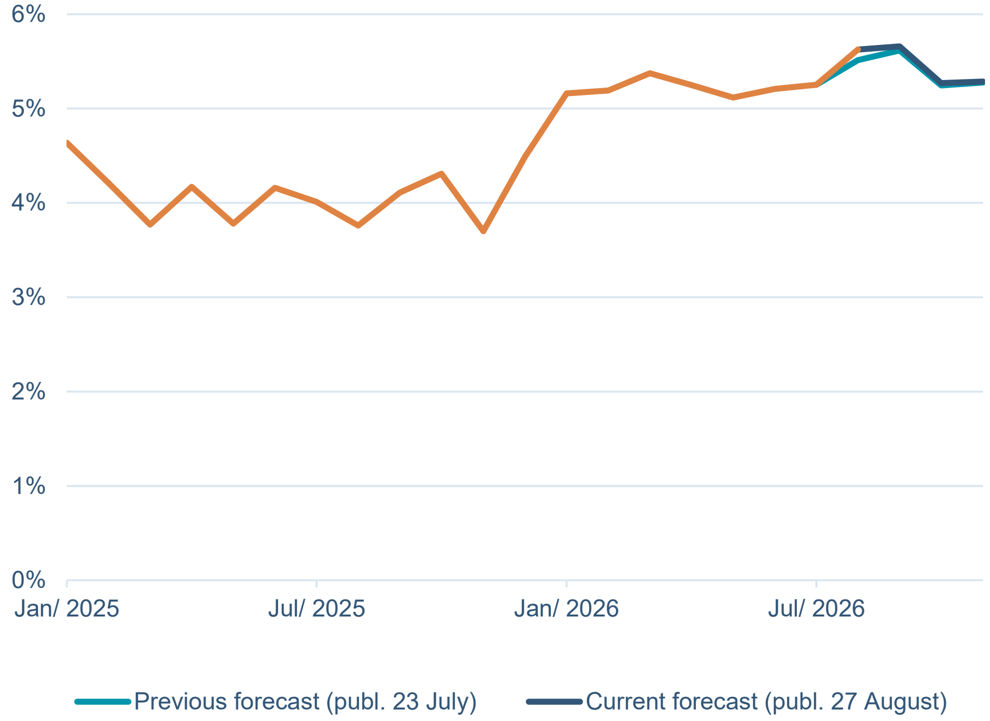
Inflation forecast

MoM change and contribution of components



Inflation forecast

12-month inflation



Source: Statistics Iceland, Landsbankinn Economic Research

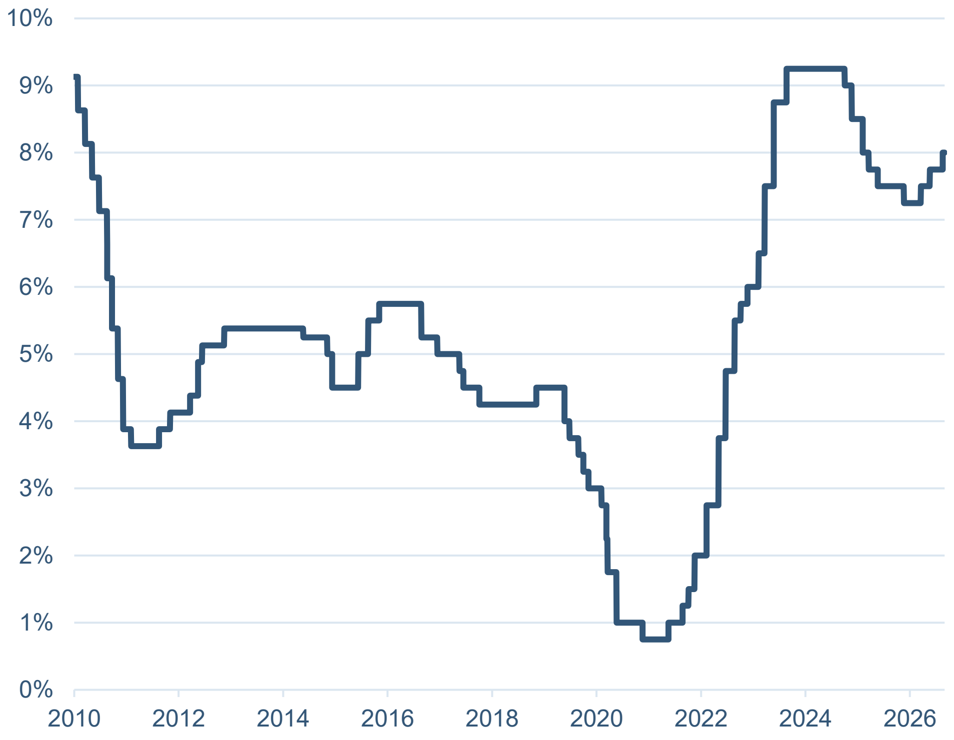
Key interest rate of the Central Bank of Iceland

The Monetary Policy Committee raised the key interest rate by 0.25 percentage points in August. Four Committee members supported the decision while one member voted to keep the rate unchanged. The decision was in line with our expectations, and the MPC's statement was milder than in May. The MPC removed a sentence about its readiness to tighten monetary controls even further despite the cooling economy and its members are no longer unanimous in their decisions. The next interest rate decision is on 7 October, and one new inflation measurement will be carried out before then.

MPC interest rate decisions

Date	Weeks from previous	Decis.	For	Against	Other option	Key interest rate
7 Feb. 2024	11	Unch.	ÁJ, RS, ÁÓP, HS	GJ (-0.25%)		9.25%
20 March 2024	6	Unch.	ÁJ, RS, ÁÓP, HS	GJ (-0.25%)		9.25%
2024-05-08	7	Unch.	ÁJ, RS, ÁÓP, HS	AS (-0.25%)		9.25%
21 Aug 2024	15	Unch.	ÁJ, RS, TB, ÁÓP, HS			9.25%
2 Oct. 2024	6	-0.25%	ÁJ, RS, TB, ÁÓP		HS (Unch.)	9.00%
20 Nov. 2024	7	-0.50%	ÁJ, RS, TB, ÁÓP, HS			8.50%
5 Feb. 2025	11	-0.50%	ÁJ, RS, TB, ÁÓP, HS			8.00%
19 March 2025	6	-0.25%	ÁJ, RS, TB, ÁÓP, HS			7.75%
2025-05-21	9	-0.25%	ÁJ, ThGP, TB, ÁÓP		HS (Unch.)	7.50%
20 Aug 2025	13	Unch.	ÁJ, RS, TB, ÁÓP, HS			7.50%
8 Oct. 2025	7	Unch.	ÁJ, RS, TB, ÁÓP, HS			7.50%
19 Nov. 2025	6	-0.25%	ÁJ, RS, TB, ÁÓP, HS			7.25%
4 Feb. 2026	11	Unch.	ÁJ, RS, TB, ÁÓP, HS			7.25%
18 March 2026	6	+0.25%	ÁJ, ThGP, TB,	ÁÓP, HS (+0.50%)		7.50%
20 May 2026	9	+0.25%	ÁJ, RS, TB, ÁÓP, HS			7.75%
19 Aug 2026	13	+0.25%	Four	One (Unch.)		8.00%
7 Oct. 2026	7					
18 Nov. 2026	6					

Key interest rate

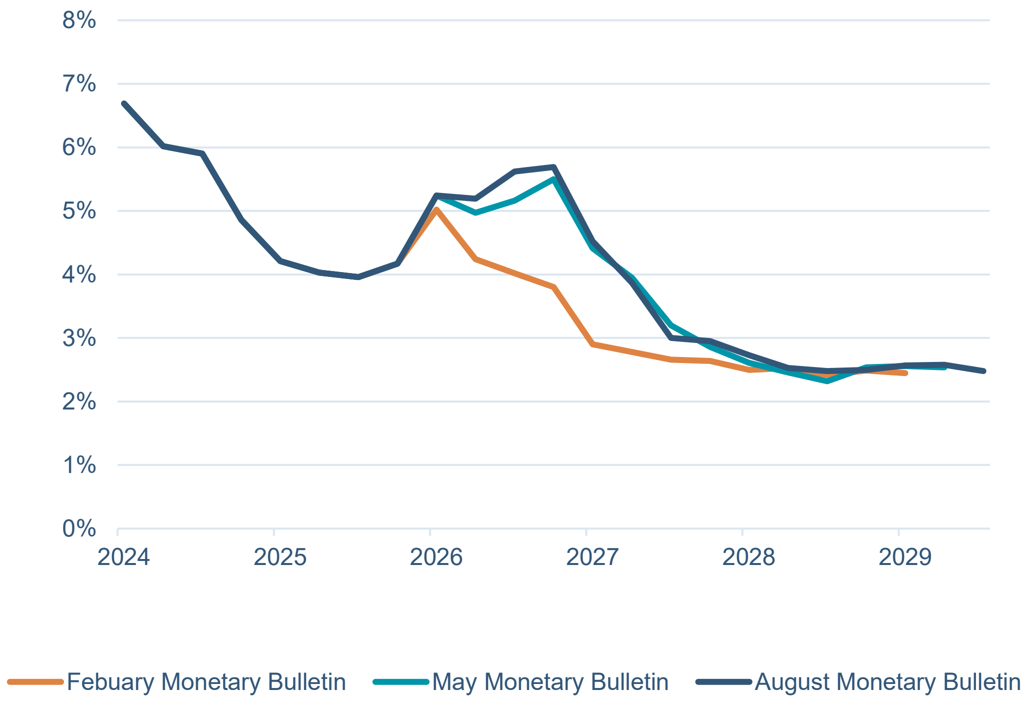


AS: Arnór Sighvatsson, ÁJ: Ásgeir Jónsson, ÁÓP: Ásgerður Ósk Pétursdóttir, GJ: Gunnar Jakobsson, GZ: Herdís Steingrímsdóttir, RS: Rannveig Sigurðardóttir, TB: Tómas Brynjólfsson, ThGP: Thórarinn G. Pétursson. Source: Central Bank of Iceland

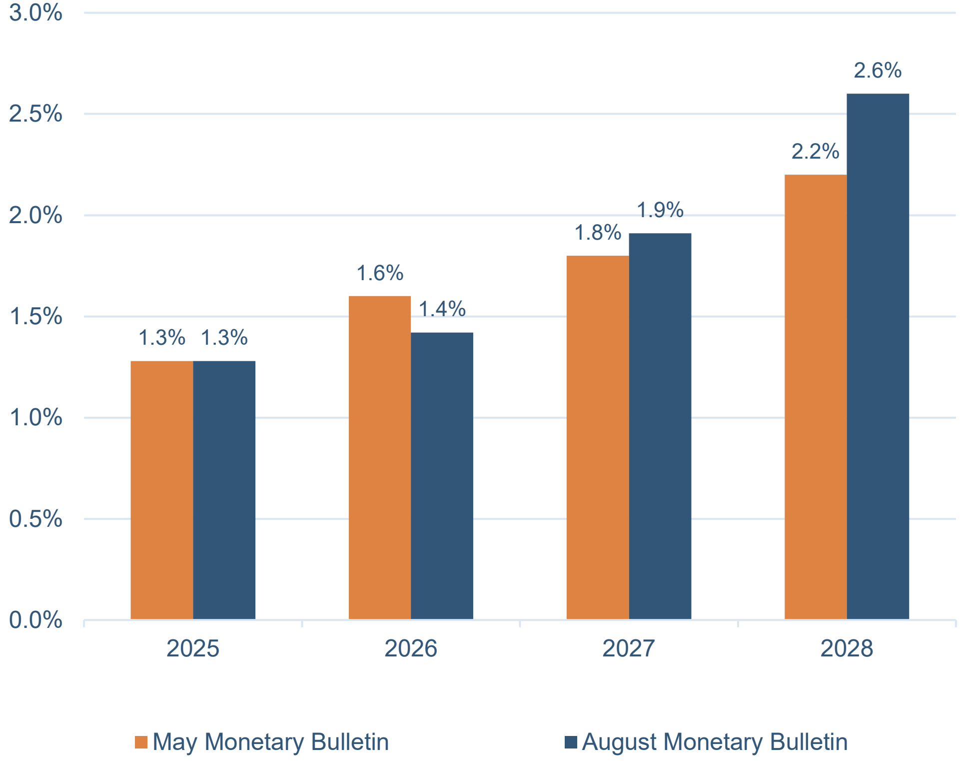
Monetary Bulletin 2026/3

Alongside the rate decision on 19 August, the CBI published its *Monetary Bulletin*, containing a new macroeconomic forecast. The CBI now expects rather higher inflation for the remainder of the year than when it released its forecast in May, or 5.6% instead of 5.2% in the third quarter and 5.7% instead of 5.5% in the fourth quarter. The CBI has not changed its forecast for the coming years to any great degree. The CBI lowered its growth forecast from 1.6% to 1.4% for 2026. The CBI grounds this change on slower private consumption in May than previously expected. The CBI also expects less marine exports yet this decline is balanced by growing exports from data centres. The Bank now expects slightly stronger economic growth in 2027 and 2028 than it forecast in May.

Inflation forecast



Economic growth forecast

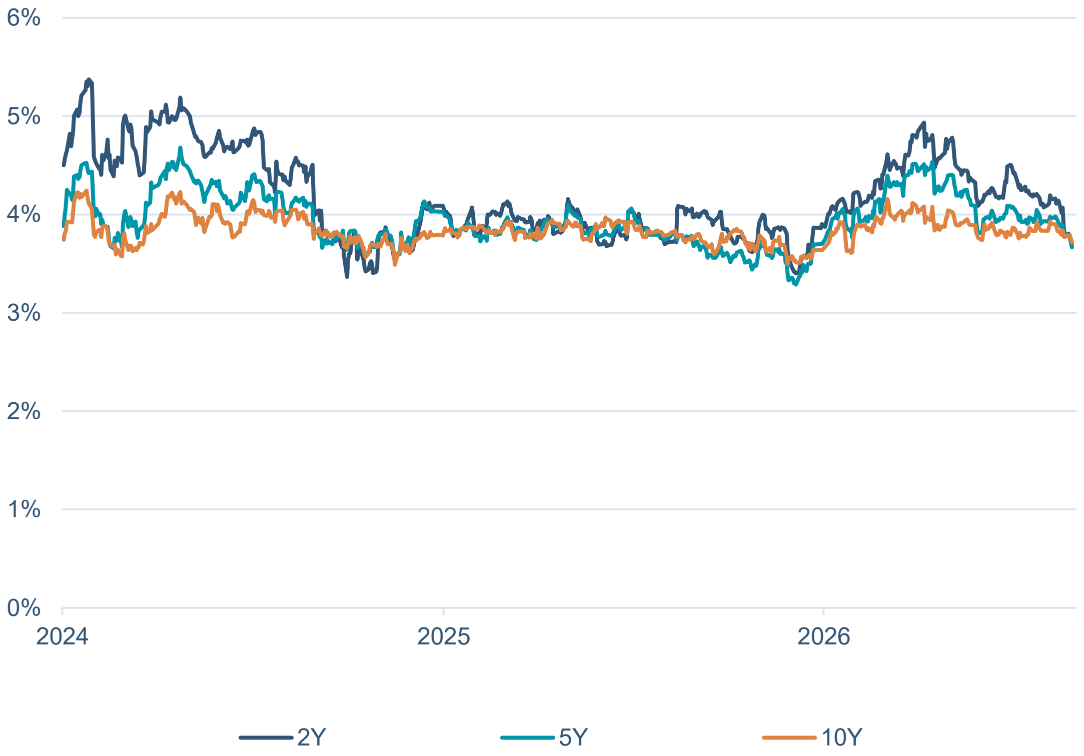


Source: Central Bank of Iceland

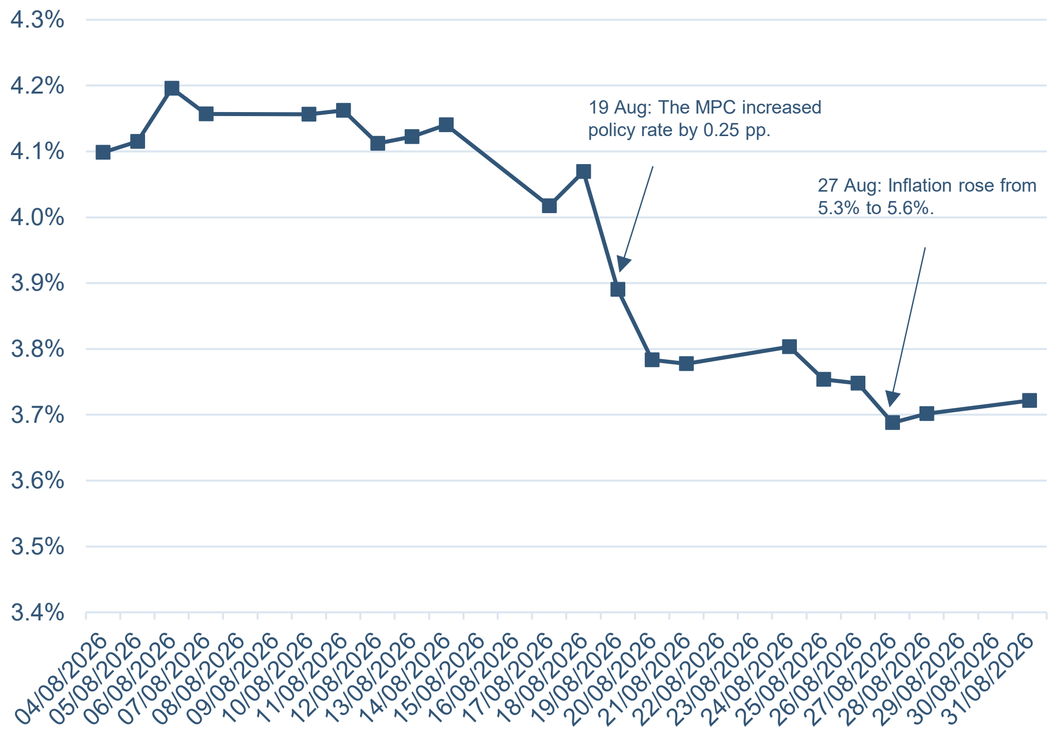
Inflation premium in the bond market

The inflation premium in the bond market stood at 3.7% for the 2-year horizon, and 3.8% for the 5-year and 10-year horizon at the end of August. Over the course of the month, the 2-year premium fell by 0.4 percentage points, the 5-year by 0.3 percentage points, and the 10-year by 0.1%. There was virtually no change in the 2-year premium on the day the August inflation figures were released, as the figures were broadly in line with expectations.

Inflation premium in the bond market



2Y inflation premium

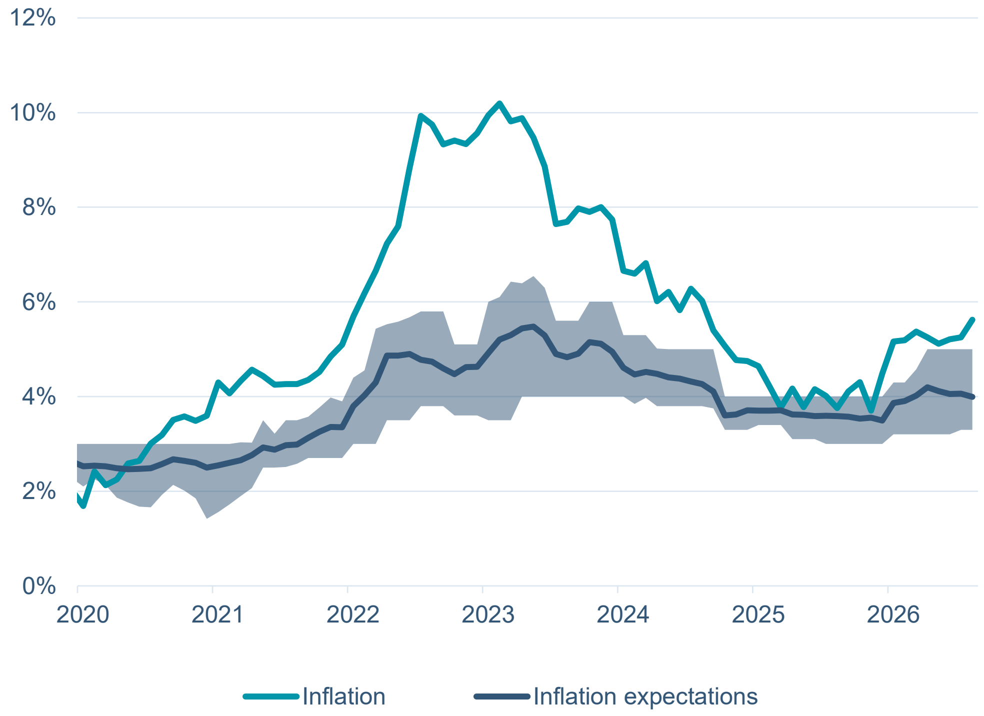


Source: OMX, Landsbankinn’s calculations

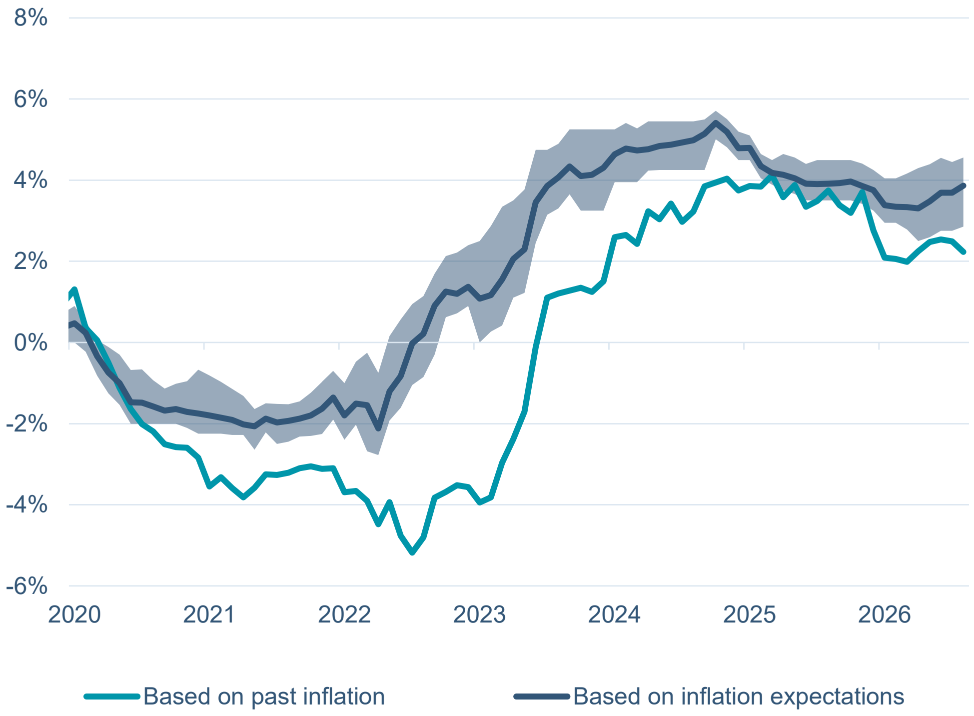
Inflation, inflation expectations and the real key interest rate

The average of the main measures of inflation expectations was 4.0% in March (-0.1 pp MoM). The real policy rate compared to past inflation was 2.2% (-0.3 pp MoM) and based on the average of main measures of inflation expectations the real policy rate was 3.9% (unchanged between months).

Inflation and inflation expectations



Real key interest rate



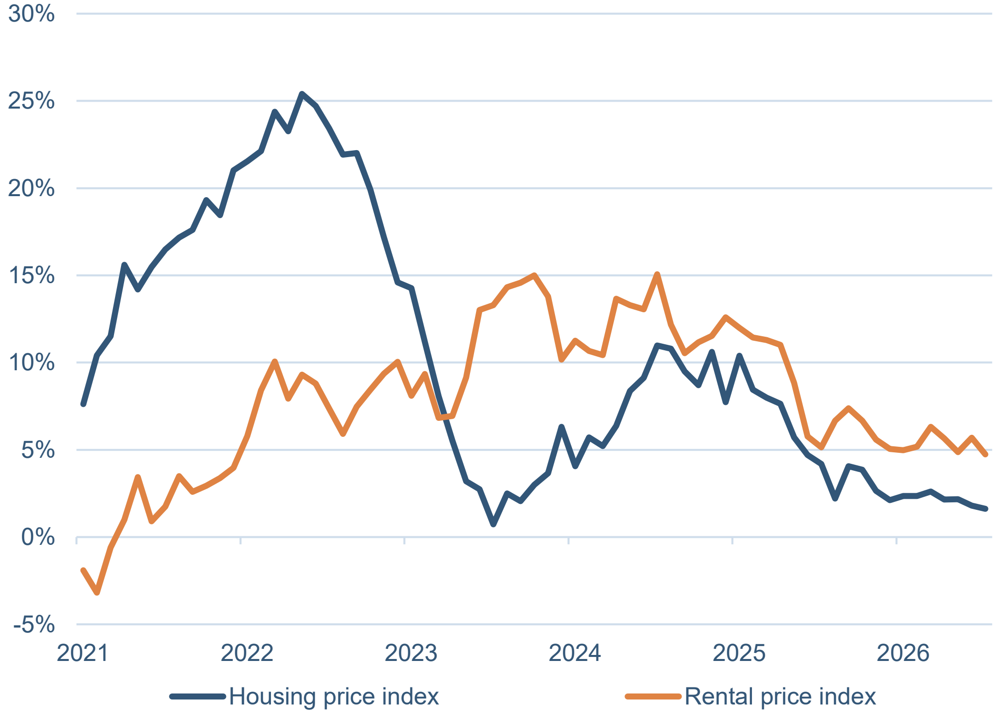
Monthly average. Inflation expectations are the average of the 2Y and 5Y inflation premium on the bond market, the results of a market expectation survey for 1Y and 5Y, household expectations for the next 5Y and companies for the next 5Y. The shaded area shows the highest and lowest values. Source: Central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

The real estate market

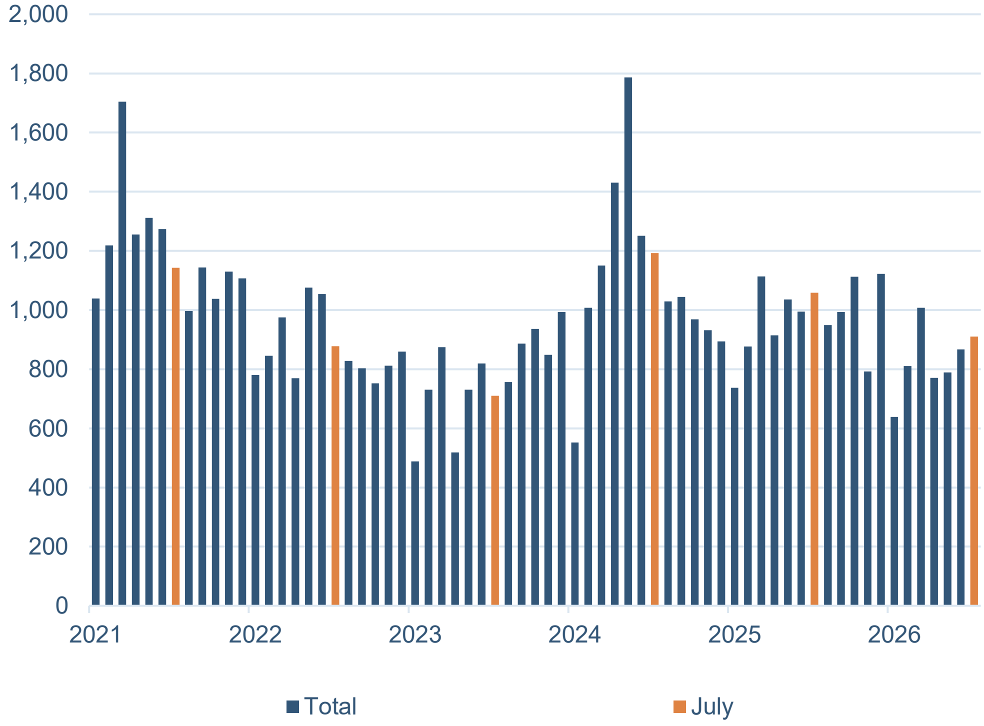
The housing price index rose by 0.09% between months in July and the 12-month change receded from 2.8% to 1.6%. It has not been lower since July 2023. The rental price index rose by 0.46% bringing the 12-month increase 4.7%. A total of 900 real estate purchase contracts were signed in July, around 15% fewer than in July 2025. July is the seventh consecutive month with fewer concluded purchase contracts as compared to the previous year.

Housing and rental price index

YoY change



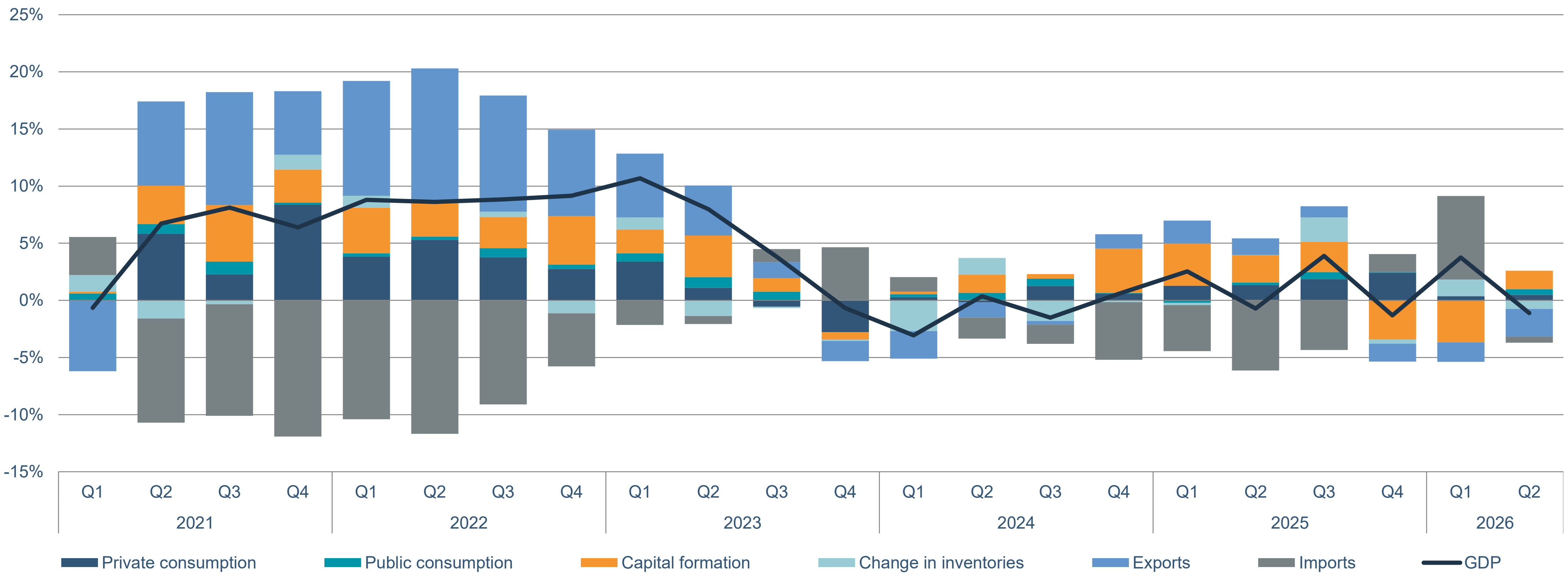
Signed purchase contracts



Source: The Housing and Construction Authority

Gross domestic product

According to preliminary figures from Statistics Iceland, GDP contracted by 1.1% in the second quarter. The contraction is mainly caused by lower export volume in aluminium and marine products. Despite this, exports grew measured in ISK because of favourable price developments. Capital formation grew from data centre development and heavy industry investment. Both public investment and housing investment contracted year-over-year.



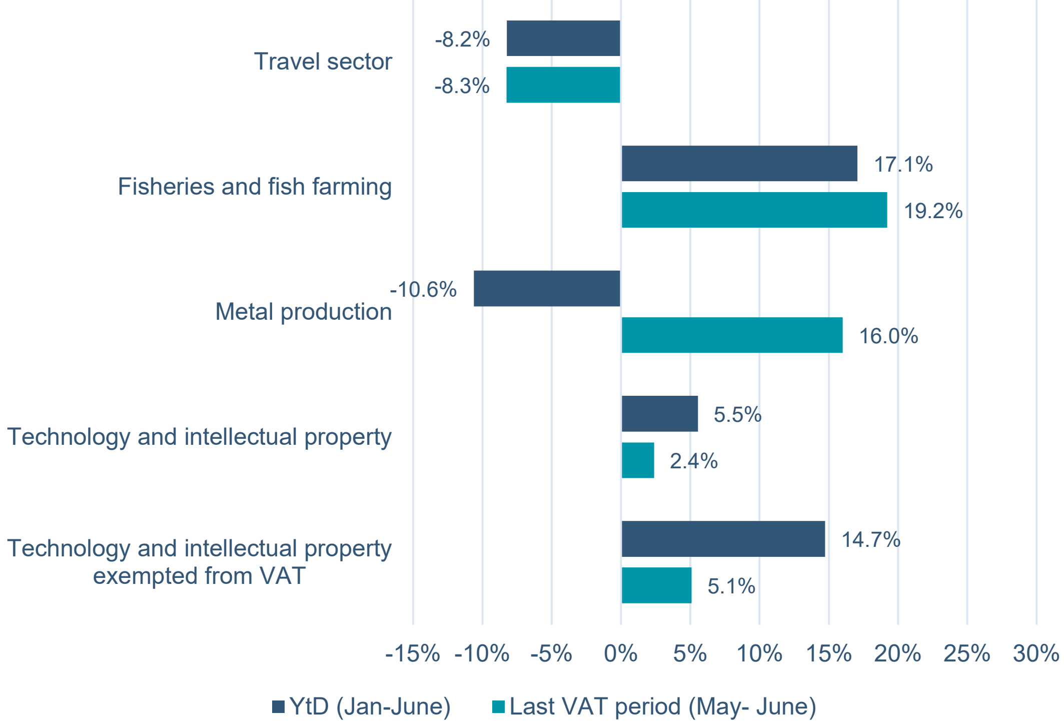
Source: Statistics Iceland

Turnover based on VAT reports

According to VAT reports, turnover grew in most export sectors in May and June, with the exception of tourism. Increased turnover in exports is primarily due to favourable price developments on global markets, not increased production. At the same time, there are signs of cooling in the domestic economy, particularly in sectors that depend on domestic demand.

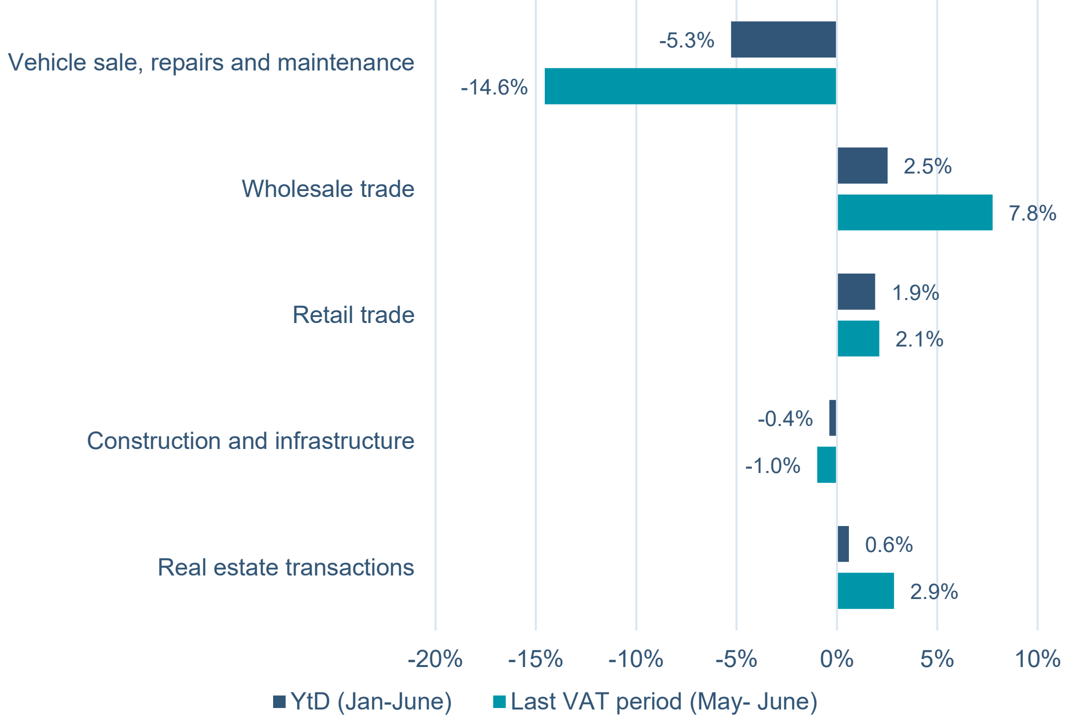
Export economy

YoY change at fixed prices (CPI)



Domestic economy

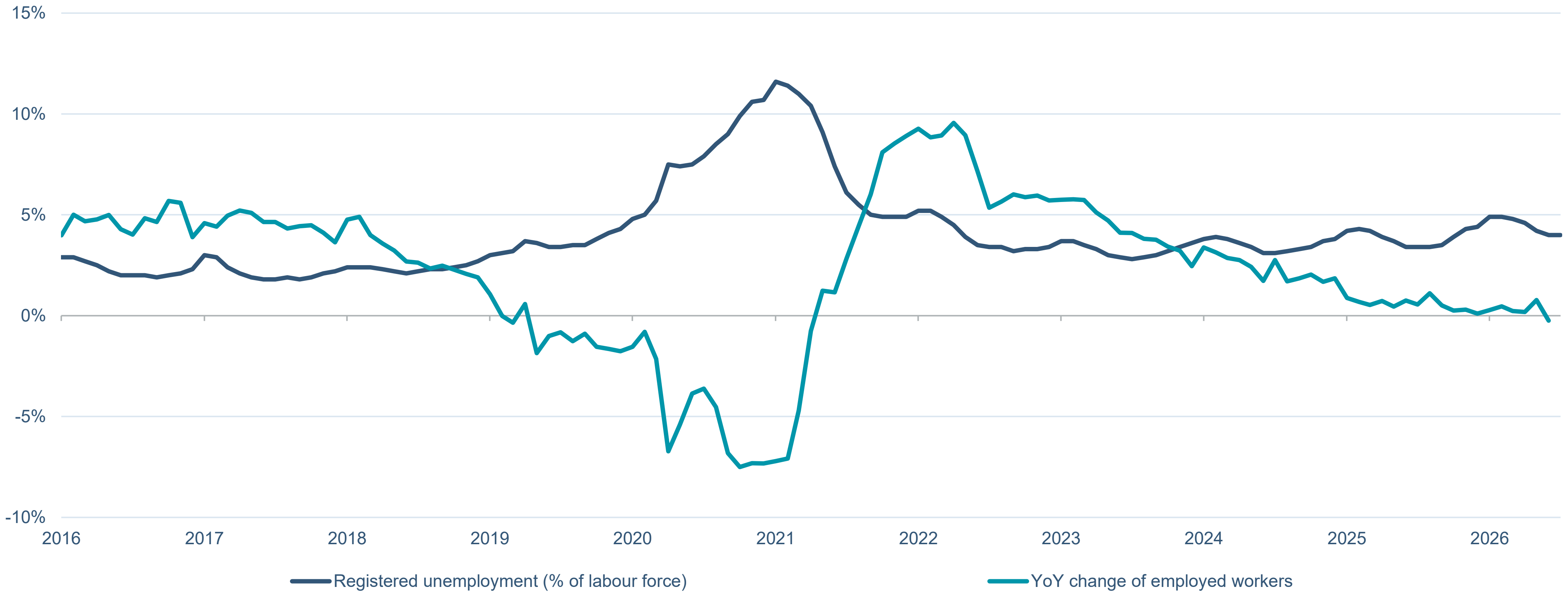
YoY change at fixed prices (CPI)



Source: Statistics Iceland

Unemployment and employed workers

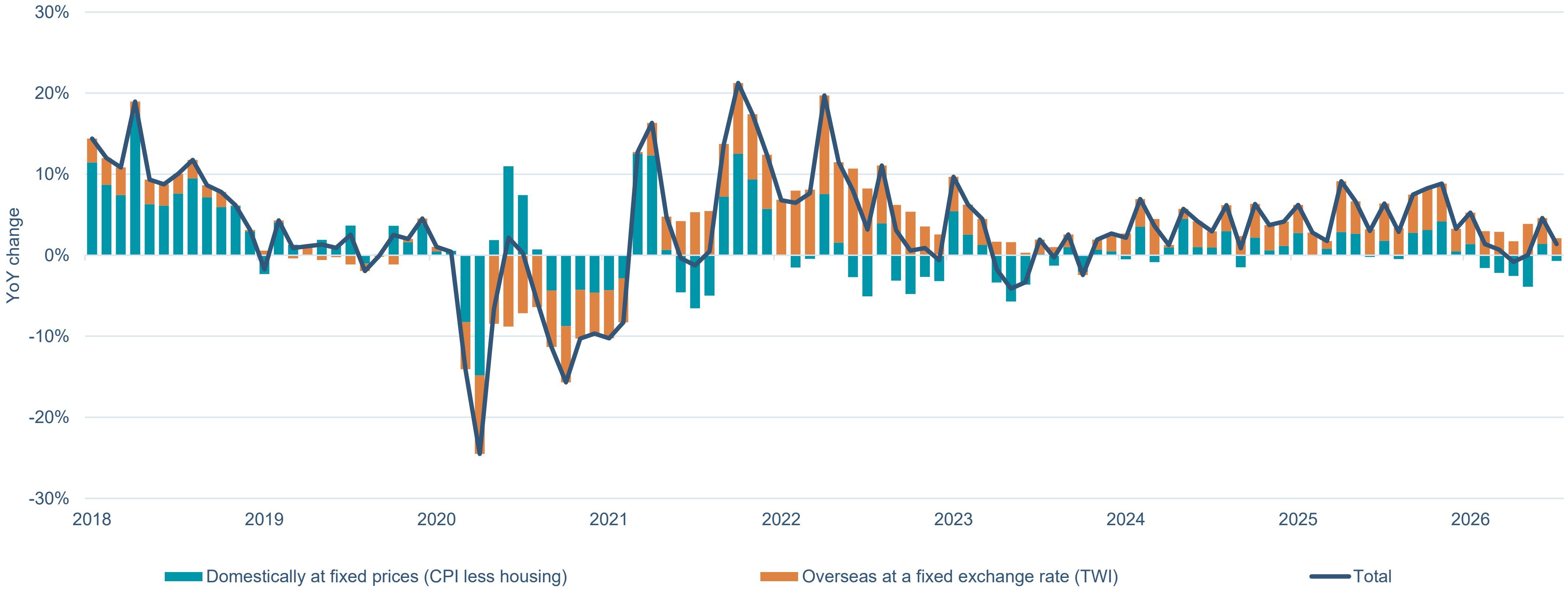
Both figures on registered unemployment and employed workers based on the withholding tax register indicate that the labour market is slowing down. Registered unemployment was 4.0% in July, 0.6 percentage points higher than July last year. Registered employed workers are down by 0.2% between years in June.



Source: Directorate of Labour, Statistics Iceland

Payment card turnover of Icelandic households

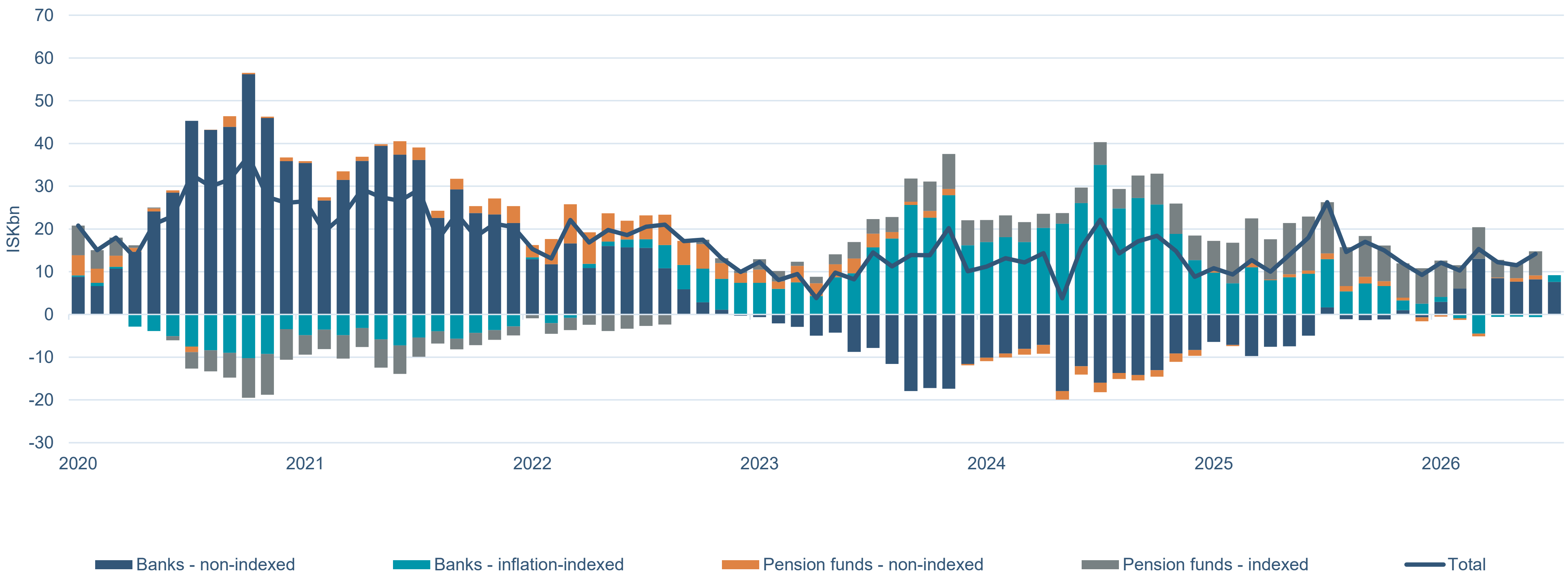
The total payment card turnover of domestic households increased by 1.4% between years in July, having regard for price and exchange rate changes. Overseas turnover by Icelanders grew by 8.5% in July, which is less than in the last two months. Domestic turnover by Icelanders contracted by 0.9% in July after having increased by 1.9% between years in June. February through May showed a contraction in domestic turnover.



Source: Statistics Iceland, Central Bank of Iceland

Net new housing mortgages

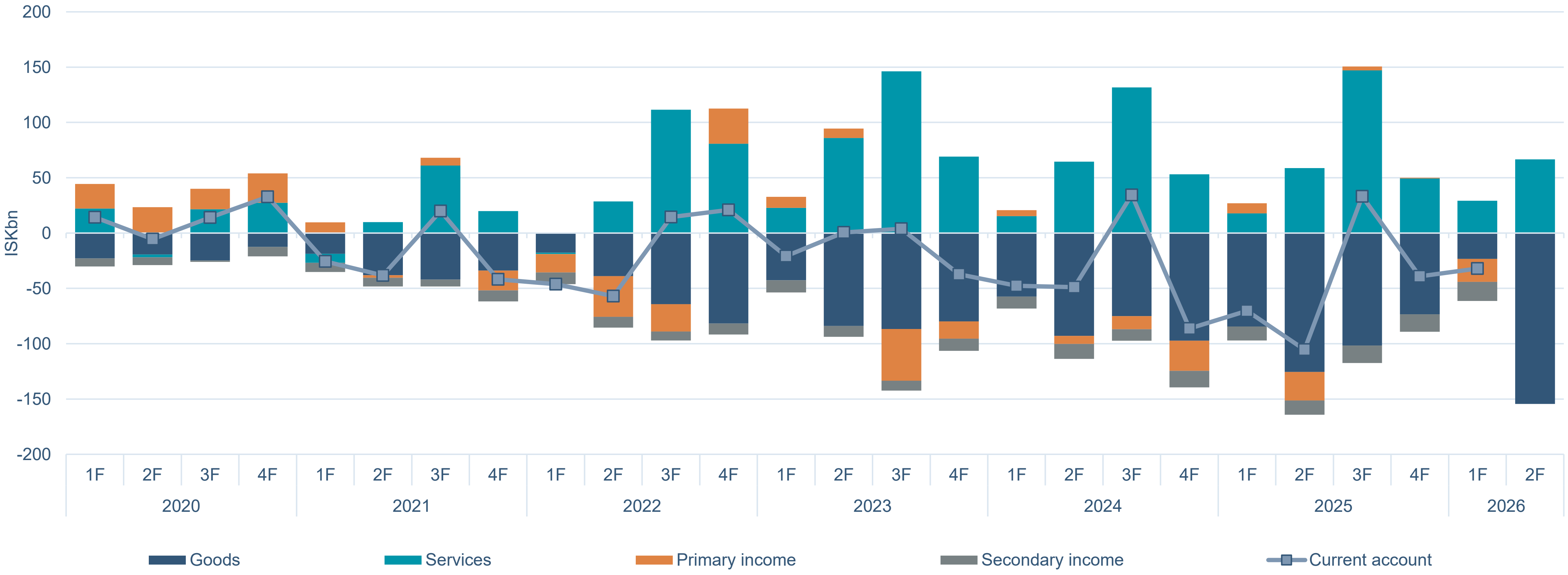
Net new housing mortgages by the commercial banks amounted to ISK 9.2 bn in July, whereof net new non-indexed mortgages were ISK 7.6 bn and net new inflation-indexed mortgages were ISK 1.6 bn. July is the seventh month in a row where household borrowing from commercial banks is mainly non-indexed.



Source: Central Bank of Iceland

Balance of trade

In the second quarter, the deficit on goods trade was ISK 154 bn and there was an ISK 67 bn surplus on services trade. Overall, the balance of trade in goods and services showed an ISK 88 bn deficit in Q2, ISK 22 bn weaker than in the second quarter of last year. Larger surplus in services trade was primarily driven by increased exports of telecommunications, computer and information services, while services imports remained broadly unchanged. Goods exports increased slightly year-on-year during the quarter, while goods imports reached a record high, reflecting the continued development of data centres.

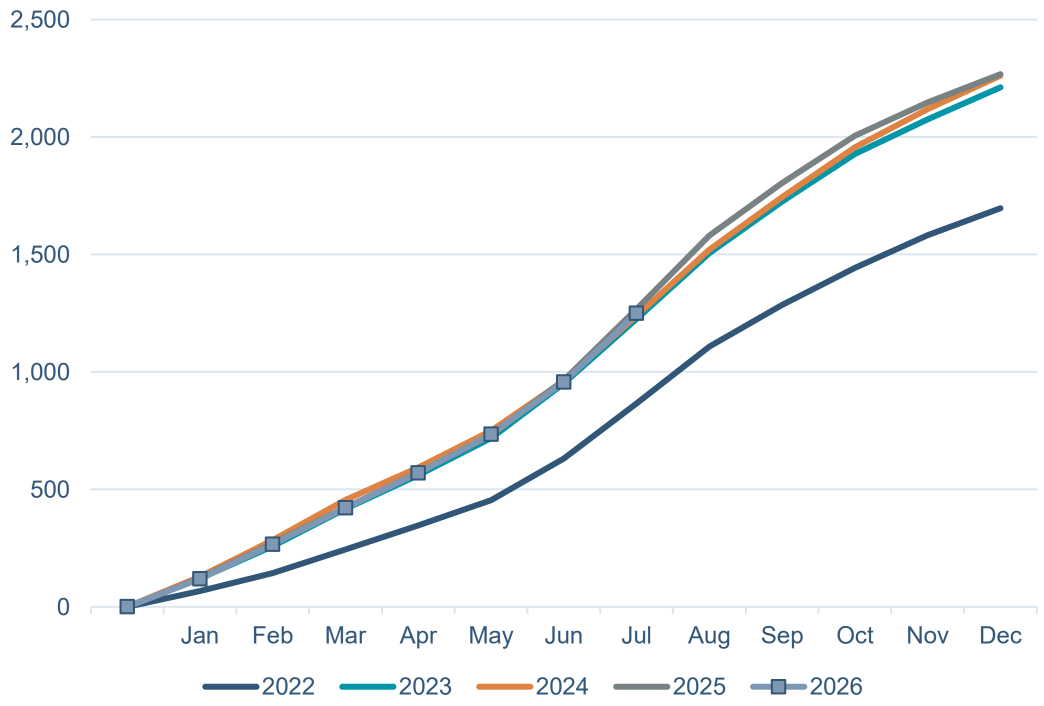


Source: Central Bank of Iceland, Statistics Iceland

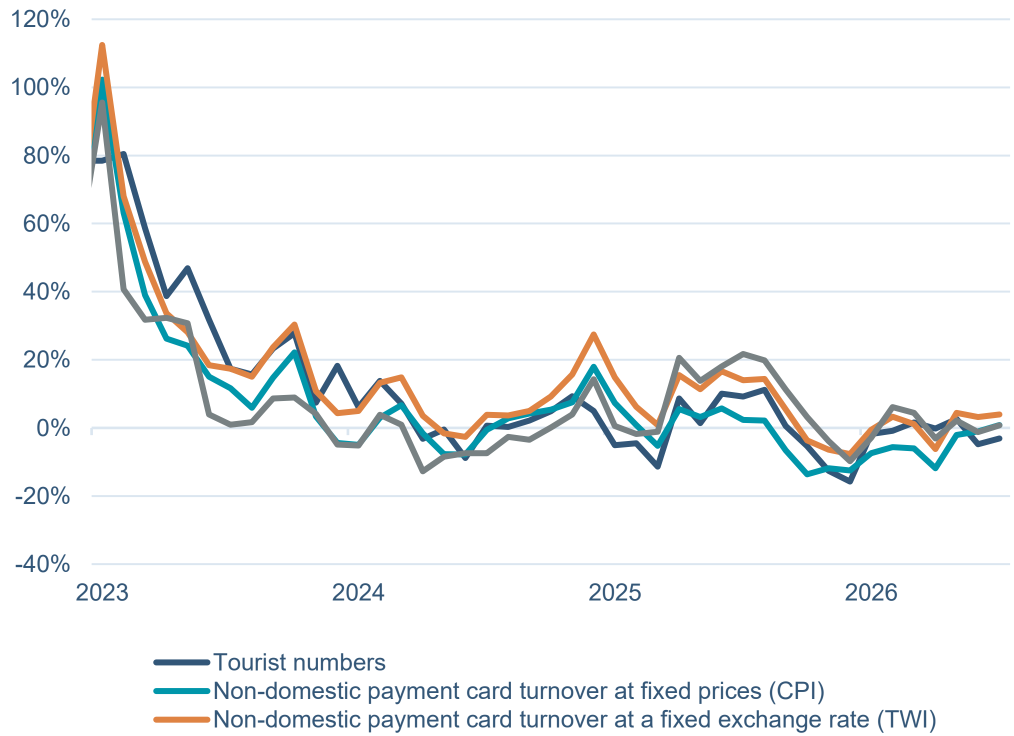
The travel sector

Around 223,000 non-domestic travellers passed through Leifsstöð International Airport in July, 3.1% fewer than in July 2025. From the beginning of the year, slightly fewer travellers have visited Iceland than in the same period last year, or 1.4% fewer. Non-domestic payment card turnover increased by 3.9% between years at a fixed exchange rate but by only 0.8% at fixed prices in July. Overnight hotel stays by non-domestic travellers grew by 0.8% between years.

Acc. tourist numbers
Thousand individuals



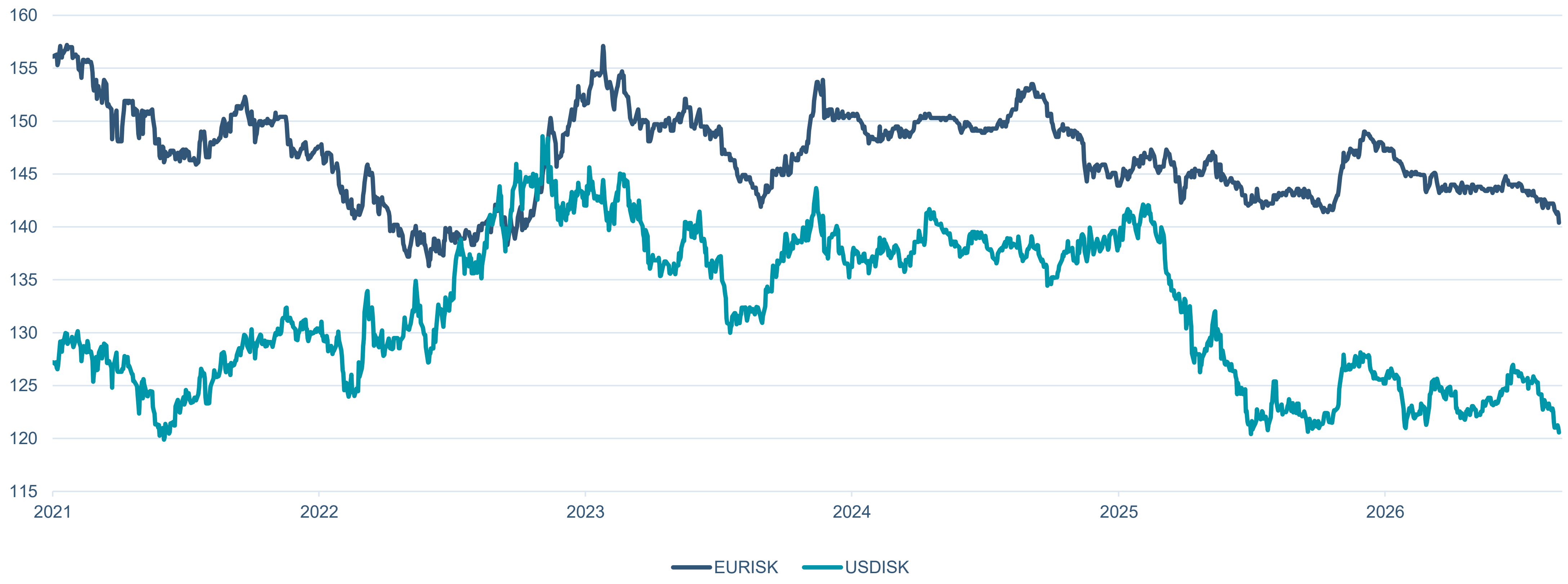
Development of key indicators
YoY change



Source: The Icelandic Tourist Board, Statistics Iceland, Central Bank of Iceland

ISK exchange rate

The ISK gained against both the EUR and the USD in August. At the end of the month, the EUR stood at 140.8 (-1.8 intra month) and the USD at 121.4 (-2.7 intra month). From the beginning of the year, the ISK has appreciated by 4.5% against the EUR and 3.1% against the USD.



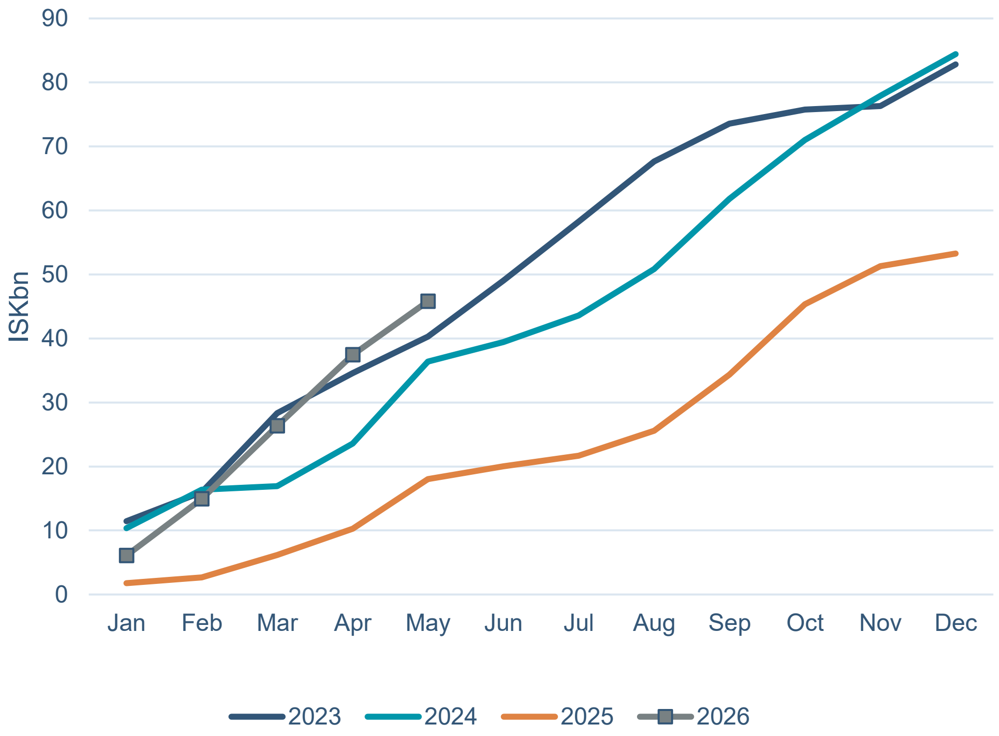
Source: Central Bank of Iceland

FX trade of the CBI and pension funds

With the exception of scheduled purchases, the CBI did not enter the FX market in August. Total FX acquired by the CBI since it began its scheduled purchases in May currently amounts to ISK 13.4 bn. The pension funds purchased currency for ISK 45.8 bn in the first five months of the year, the highest amount since the same period in 2019.

Activity by the Central Bank of Iceland

Acc. annual FX purchases of pension funds



Data on the CBI's market involvement extends to 27 August.
Source: Central Bank of Iceland

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