

Iceland

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IN A NUTSHELL

- Iceland's Gross Domestic Product (GDP) contracted by 0.7% in 2024.
- Robust domestic investment, cooling inflation, and a strong labor market indicate continued economic stability as the country moves into 2025.
- Strong investment in areas like residential construction, data centers, and the fishing industry supported the economy.
- Inflation remained a key focus in Iceland in 2024, though it generally trended downwards.

MACROECONOMIC OVERVIEW

Iceland's economy demonstrated resilience in 2024 and continued to grow into early 2025, performing better than initially expected, largely driven by robust residential and business investment. While growth slowed compared to previous years, key economic indicators suggest a dynamic and adapting landscape. Recent comprehensive benchmark revisions of national accounts time series for 1995–2024 have also been applied according to Eurostat standards.

After significant growth in previous years (e.g., 5.0% in 2023 and 8.7% in 2022), Iceland's Gross Domestic Product (GDP) contracted by 0.7% in 2024. This slowdown was anticipated, with domestic demand outpacing GDP growth and a negative contribution from net exports. However, strong investment in areas like residential construction, data centers, and the fishing industry supported the economy.

Looking at the start of 2025, real GDP increased by 2.6% in the first quarter compared to the same quarter last year. On a seasonally adjusted basis, real GDP grew by 2.7% compared with the fourth quarter of 2024. Gross fixed capital formation showed significant growth in 2024, increasing by 7.7%. This was driven by a 18.9% rise in residential investment. Inflation remained a key focus in 2024, though it generally trended downwards. After peaking at 10.2% in February 2023, the consumer price index (CPI) slowed significantly, reaching 4.8% annually in December 2024, but still over the inflation target of the Central Bank of Iceland. Housing costs continued to be a primary driver of inflation, though excluding housing, the CPI showed a lower increase of 2.8%. Long-term wage agreements and a slowing housing market were seen as contributing factors to the disinflationary trend.

The Icelandic labor market remained strong, with a high employment rate. In the fourth quarter of 2024, the employment rate was 80.1%, and the unemployment rate was 2.9%. While the number of employed people increased, particularly among men, the employment rate remained largely unchanged year-on-year. Wage developments were influenced by collective bargaining agreements signed in March, which stipulated salary increases.

Tourism continued to be a significant contributor to the Icelandic economy. In 2024, 2.3 million tourists arrived in Iceland via Keflavik Airport, representing a year-on-year rise of just over 2.2%. While services exports contracted slightly overall

in 2024, reflecting some headwinds in the tourism sector early in the year, due to volcanic eruptions in the Reykjanes Peninsula, the fourth quarter saw a healthy rebound in services exports, indicating a satisfactory period for the industry.

The Central Bank of Iceland maintained a tight monetary policy for much of 2024, with the key interest rate remaining unchanged at 9.25% from August 2023 through most of 2024. Despite high interest rates and initial pessimism among corporate executives, investments proved surprisingly resilient, particularly in residential and business sectors. The Central Bank lowered rates in October 2024 by half a percent. The key interest rates were 7.5% in August 2025.

While 2024 saw a minor contraction in economic growth compared to the post-pandemic surge, Iceland's economy demonstrated its ability to adapt. Robust domestic investment, cooling inflation, and a strong labor market indicate continued economic stability as the country moves into 2025. Forecasts for 2025 suggest a projected GDP growth of around 1% driven by rising domestic demand due to high saving rates. It is projected that the growth will be around 2.5% in 2026.

HOUSING MARKETS

The housing market approached overheating in 2022. The Central Bank of Iceland implemented sharp policy measures, including lowering maximum loan-to-value ratios and requiring banks to hold higher capital ratios. These actions should have slowed the market but due to the consequences of the eruption near the town Grindavik many of the inhabitants relocated by buying properties in other areas. This resulted in higher increase in housing prices than were expected. This effect boosted prices early in the year 2024. Real house prices increased on the one hand in the Capital Region of Reykjavik by 3% (8%) and on the other by 2.8% (7.7%) countrywide. In addition to the Grindavik effect, high number of first-time buyers and immigration fuelled the market. Supply constraints of new housing construction eased in 2024. High household saving rates also sustained market activity despite rising mortgage rates. Icelandic household debt ratios remained relatively low compared to other Nordic countries. Rental prices in the capital region saw an 13% nominal increase.

The numbers of housing starts have been revised and were around 8 thousand units in 2024 and were similar as the previous year. Number of transaction increased in 2024 by 43% yoy, primarily due to demand from the displaced inhabitants of Grindavik. Total transaction with residential housing was over 13 thousand in 2024. Owner occupancy has historically been high in Iceland, estimated at around 75% according to the 2021 census.

MORTGAGE MARKETS

A significant number of mortgages with rates fixed for 5 years was under rate newal in 2024. Despite higher mortgage rates arrears did not increase so the transformation was without concerns in regards to financial stability. According to the Central Bank economic outlook does not indicate a spike in households financial distress. Those most pessimistic in the markets thought that households would increasingly be in arrears. That has not materialised. It

is noteworthy that in the last years publication it was expected that households under mortgage renewal would turn to index-linked mortgage. That has materialised, but in 2024 the share of indexed linked mortgages was 70%.

Outstanding household mortgage debt in December 2024 amounted to ISK 2,730,15 billion or (€ 18.3 billion) In constant prices the mortgage debt increase by ISK 34.5 billion (€231) from December 2023 to December 2024 As a percentage of GDP, outstanding mortgages for households were 59.4%, a decrease of 2.3 percentage points from 2023. In general, the demand for credit has decreased due to high interest rates and borrower-based measures.

The Central Bank of Iceland has implemented borrower-based measures, including loan-to-value (LTV) ratios and debt service-to-income (DSTI) ratios at the time the loan is issued (per rules no. 217/2024). Other financial stability rules apply to the capital requirements of financial institutions. Most changes took effect in 2022, with the objective of cooling the housing market and mitigating inflationary pressures.

Nominal mortgage rates increased further in 2024 after a steep rise in 2023. Average variable mortgage rates increased from 3.7% on average in 2021 to 10.6% on average in 2024. The nominal rate was 9.5% in 2023. Indexed mortgage rates increased on average from 3.3% in 2023 to 4.1% in 2024.

The average loan-to-value ratio for new mortgages in 2024 was 56%, a minor decrease from the previous year. At year-end of 2024, 60% of mortgages were indexed-linked, with 33% of these subject to variable rates. The share of non-indexed mortgages was 40%, with around 20% subject to variable rates. Households in arrears on mortgage payments are historically low at around 1.1%, increasing by 0.1% from 2023 to 2024.

MORTGAGE FUNDING

Covered bond issuance has returned and is developing in Iceland. The European Mortgage Federation/European Covered Bond Council's membership of the three systemically important banks has increased interest in issuing covered bonds. In 2024 the banks sold ISK covered bonds for ISK 100 billion (€ 670 million). an increase by ISK 20 billion (€134M) from 2023. The outstanding amount totalled ISK 565 billion (€3.8 billion) at the end of December 2024 according to the Central Bank of Iceland's Financial Stability Report 2025/1. Other funding sources come mostly from deposits and direct lending from pension funds. The principal buyers of covered bonds are pension funds and insurance companies.

GREEN FUNDING

The financial sector has continued to develop green funding products, offering customers better terms for green-defined investment projects. The most common financing has been for environmentally friendly vehicles and machinery. The Nordic Investment Bank has provided loans to systemically important banks.

Municipalities have encouraged environmentally friendly building methods and have incentivised contractors by giving discounts for land purchases. The concrete industry has continued to decarbonise their supply chain. Construction companies and HMS are increasingly aware of the carbon footprint of the industry and have taken steps to reduce emissions. Additionally, it is more common for new housing units to be certified as green, for example, by the Nordic Swan Ecolabel, one of the world's toughest environmental certifications.

	ICELAND 2023	ICELAND 2024	EU 27 2024
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)*	5.6	0.5	1.0
Unemployment Rate (LSF), annual average (%) (1)	3.5	3.6	5.9
HICP inflation (%) (1)	8.0	4.5	2.6
HOUSING MARKET			
Owner occupation rate (%) (1)	n/a	n/a	68.4
Gross Fixed Investment in Housing (annual change) (1)	-0.3	18	-4.3
Building Permits (2015=100) (2)	n/a	n/a	136.9
House Price Index - country (2015=100) (2)	231.6	183.4	179.8
House Price Index - capital (2015=100) (2)	224.8	244.6	171.5
Nominal house price growth (%) (2)*	9.2	3.8	4.9
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	17,114	18,974	6,879,667
Outstanding Residential Loans per capita over Total Population (EUR) (2)	44,135.8	49,467.2	15,311.8
Outstanding Residential Loans to disposable income ratio (%) (2)	n/a	n/a	71.3
Gross residential lending, annual growth (%) (2)	-10.2	25.2	3.9
Typical mortgage rate, annual average (%) (2)	3.30	4.00	4.34

(1) Eurostat Data

(2) European Mortgage Federation – Hypostat 2024, Statistical Tables

* Eurostat Reviewed

** EU 2024 to be confirmed

ICELAND FACT TABLE

Which entities can issue mortgage loans in your country?	Deposit taking corporations (banks) and Pension Funds, the Housing and Construction Authority (HMS).
What is the market share of new mortgage issuances between these entities?	In 2024 the market share of deposit taking banks was approximately 95%. The pensions fund's share and housing authority and building authority (HMS) was 5% in total.
Which entities hold what proportion of outstanding mortgage loans in your country?	At year-end 2024 the deposit taking banks held 66% of the total outstanding mortgages to households, the pension funds 20.4% and IL – Fund (in winding-up, precursor to the HMS) 13.3%.
What is the typical LTV ratio on residential mortgage loans in your country?	About 56% on new mortgages. The maximum LTV at year-end 2024 was 80%, but up to 85% for first time buyers (limit to price). This limit was lowered on 15 June 2022 from 85% to 80% and 90% to 85% respectively.
How is the distinction made between loans for residential and non-residential purposes in your country?	A residential mortgage is a loan to an individual which is backed by real estate or is made for the purpose of buying a residential asset. The Central Bank currently makes a distinction between those loans in its accounts. Banks and pension funds require a pledge in the underlying property for a new mortgage.
What is/are the most common mortgage product(s) in your country?	<p>Mortgage for 25 to 40 years with 3 to 5 year reset period on interest rates. The relative popularity of indexed vs. non-indexed mortgages varies depending on the level of interest and inflation. The share of each type of mortgage on 2024 was:</p> <ul style="list-style-type: none"> • Indexed – variable rate: 50.66%. • Indexed – fixed rate: 20.54%. • Non-indexed – variable rate: 10.02%. • Non-indexed – fixed rate: 18.78 <p>Most mortgages have flexible rates with reset periods up to five years.</p> <p>Amortisation is typically on the basis of fixed total mortgage payments rather than fixed amortisation payments.</p>
What is the typical/average maturity for a mortgage in your country?	25 to 40 years.
What is/are the most common ways to fund mortgage lending in your country?	Covered bonds and deposits in the case of banks. Members funding in terms of pension funds.
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	Stamp duty – 0.8% of the official property valuation (<i>fasteignamat</i>) for individuals and 1.6% for rental companies/legal entities.
What is the level (if any) of government subsidies for house purchases in your country?	The government has introduced some help to buy programmes and pays interest expense benefits to low-income households. First time buyers pay half of the stamp duty.