Iceland

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This country report does not represent the view of the bank.

IN A NUTSHELL

→ Economic Growth: GDP growth slowed to 1.3% in 2025.
→ Unemployment: The registered unemployment rate rose to 4.6% by April 2026, up from 3.9% in April 2025.
→ Real Estate Prices: Real house prices in the capital area fell by 2.3% over the course of 2025.

MACRO-ECONOMIC OVERVIEW

The Icelandic economy has shown clear signs of cooling following its intense post-COVID expansion. After contracting by 1.3% in 2024, gross domestic product (GDP) grew by approximately 1.3% in 2025, driven largely by private consumption. The labour market remains under pressure; registered unemployment reached 4.6% in April 2026. The average unemployment rate was 3.9% in 2025 up by 0.4 percentage points.

Inflation has proven persistent. Although it stabilized for most of 2025, it ticked upward to 5.2% in April 2026 (4.8% excluding the housing component), remaining well above the Central Bank's 2.5% target. Inflation in 2025 was 4.5% from December 2024 to December 2025. The Central Bank's policy rate was on average around 7.7% in 2025. At the beginning of the year, the policy rate was 8.5% and decreased to 7.25% by the end of the year.

LOOKING AHEAD

Economic growth is projected to recover modestly to 1.6% in 2026 according to the Central Bank of Iceland. However, considerable uncertainty remains due to geopolitical risks that threaten global energy supply chains and transport costs.

Domestically, a strong real exchange rate and elevated operational costs are compressing export industries. Tourism continues to support the economy with around 2.3 million guests in 2025 despite the bankruptcy of the airline PLAY. Structural shifts in the labour market are expected to reduce the demand for foreign construction workers while increasing immigration needs for institutional care sectors. Long-term housing demand is estimated at 3,500 units according to Reykjavik Economics. The forecast depends on average household size and population projections, conducted by Statistics Iceland.

Inflationary pressure is widespread and it is expected that inflation will be over 5% for the remainder of 2026.

HOUSING MARKETS

The housing market has entered an adjustment phase marked by higher inventory and slower transaction speeds. By February 2026, the average sales time for residential property had stretched to approximately 7 months. Capital area house prices fell by 2.3% in real terms from December 2024 to December 2025, extending to a 2.6% real year-on-year decline by March 2026.

Market turnover slowed significantly; total real estate value traded in 2025 contracted by 16% nationwide and by 7.2% in the capital area compared to the exceptionally high volumes of 2024, due to the displacement of the inhabitants of the town of Grindavik, which was affected by the Reykjanes volcanic eruption (see Hypostat 2025). On the supply side, housing completions remained robust, with the Housing and Construction Authority (HMS) recording 3,637 completed units in 2024 and 3,371 units in 2025. First-time buyers continued to play a pivotal role, accounting for 35% of all market transactions in 2025.

In May 2026, there were over six thousand apartments in the building process according to the Housing & Construction Authority. The number of housing starts was 2,550 units in January 2026. At year-end 2025, there were 6,857 housing units under construction. Housing investment in 2025 decreased by 5.9% in real terms compared to 2024. Investment grew by 19.4% in 2024, which explains the temporary oversupply of new housing units.

The government of Iceland has extended its help-to-buy programme, which is supporting a weak market in the first months of 2026. This was done to expand income thresholds and increase the volume of subsidized allocations to support eligible low-income and first-time buyers.

MORTGAGE MARKETS

Financial conditions remain heavily restrictive for households. The Central Bank of Iceland's policy rate stood at 7.75% as of May 2026. As of March 2026, average variable interest rates on mortgages hovered at 9.75% for non-indexed loans and 4.6% for consumer-indexed loans. The heavy debt service burden has shifted market preference back toward consumer-indexed mortgages, which offer lower initial monthly payments.

Regulatory Changes: To counter market strain, the Central Bank revised borrower-based rules on October 31, 2025. The maximum loan-to-value (LTV) limit was reverted to 90% for first-time buyers (80% general). The maximum debt service-to-income (DSTI) ratio is capped at 40% for first-time buyers and 35% generally.

To prevent circumvention of these rules via developer co-ownership models, the bank further tightened co-financing regulations on December 3, 2025.

MORTGAGE FUNDING

Following a Supreme Court ruling in a case brought by the Consumers' Association regarding the clarity of variable interest rate decisions, some lenders temporarily halted new mortgage lending and some institutions began shortening the traditional 40-year terms for indexed housing loans. To help restore market functionality, the Central Bank of Iceland published new Constant Maturity Treasury benchmark rates on November 7, 2025 – calculated from three-, five-, and ten-year government bond yields – which are now used alongside a spread for pricing new housing bonds. Anticipating that this legal and market turmoil would severely tighten credit conditions for households, the Monetary Policy Committee subsequently opted to lower the Central Bank's policy rate to offset the restrictive financial impact.

Covered bond issuance has returned and is developing in Iceland. In 2025, the domestically systemically important banks issued ISK 98.00 bn in denominated covered bonds. According to the Financial Stability Report of the Central Bank of Iceland, the stock of outstanding covered bonds denominated in ISK totalled ISK 578.00 bn at year-end 2025.

Other funding sources come mostly from deposits and from direct lending from pension funds. The principal buyers of covered bonds are Icelandic pension funds and insurance companies.

GREEN FUNDING

The financial sector has continued to develop green funding products and giving customers better terms for green defined investment projects. The most common financing has been for electric vehicles.

Icelandic housing is heated nearly entirely with geothermal energy or electricity generated in a sustainable way, e.g. by hydro dams. Nearly all housing is well insulated and has double glazed windows.

The Icelandic banks have actively been seeking green financing, e.g. by issuing green bonds denominated in euros and ISK. The Nordic Investment Bank has especially been active in green financing of the Icelandic banks.

Construction companies and HMS are more aware of the carbon footprint of the industry and have already taken steps to reduce emissions. In addition, it is more common that new housing units are certified as green, e.g. by the Nordic Swan Ecolabel, which is one of the world's toughest environmental certifications.

	ICELAND 2024	ICELAND 2025	EU 27 2025
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	-1.3	1.3	1.5
Unemployment Rate (LSF), annual average (%) (1)	3.5	3.9	6.0
HICP inflation (%) (1)	4.8	4.5	2.0
HOUSING MARKET			
Owner occupation rate (%) (1)	n/a	n/a	68.5
Gross Fixed Investment in Housing (annual change) (1)	4.2	1.5	2.8
Building Permits (2015=100) (2)	n/a	n/a	86.9
House Price Index - country (2015=100) (2)	183.36	368.1	161.92
House Price Index - capital (2015=100) (2)	244.6	253.5	n/a
Nominal house price growth (%) (2)	n/a	n/a	5.5
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	18,974	n/a	5,617,435.11
Outstanding Residential Loans per capita over Total Population (EUR) (2)	49,467	50,449	12,472.10
Outstanding Residential Loans to disposable income ratio (%) (2)	n/a	n/a	81.39
Gross residential lending, annual growth (%) (2)	n/a	n/a	2.8
Typical mortgage rate, annual average (%) (2)	4.5	4.50	3.31

(1) Eurostat Data
(2) European Mortgage Federation – Hypostat 2026, Statistical Tables

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 the year 2025 the market share of deposit taking banks was approximately 68.2%. The pensions fund's share 31.3% and housing authority and building authority (HMS) was 0.5% in total. *NOTE: This is due the banks' response to the Supreme Court Ruling on variable rate mortgages.*
Which entities hold what proportion of outstanding mortgage loans in your country?	At year-end 2025 the deposit taking banks held 63.1% of the total outstanding mortgages to households, the pension funds 31.2% and the IL – Fund (in winding-up, precursor to the HMS) 5.6%.
What is the typical LTV ratio on residential mortgage loans in your country?	Typical LTV of new loans to first time buyers was 71% and 51% in general in 2025.The maximum LTV at year-end 2025 was 80%, but up to 90% for first time buyers (limit to price). The maximum share of monthly mortgage payment as a percentage of disposable income was 40% for first time buyers but 35% for a general buyer.
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 on the underlying property for a new mortgage.
What is/are the most common mortgage product(s) in your country?	Mortgages typically have terms of 25 to 40 years with a 3- to 5-year reset period on interest rates. Mortgages with fixed payments are more common than those with fixed instalments. The relative popularity of indexed vs. non-indexed mortgages varies depending on the level of interest and inflation. Most mortgages have flexible rates with reset periods up to five years. Around 65% of outstanding mortgages were index-linked in January 2026, an increase of 4 percentage points over the year.
What is the typical/average maturity for a mortgage in your country?	25 to 40 years, but the maximum is 30 years post the Supreme Court ruling on variable interest rates
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 is 0.8% of the official property valuation (fasteignamat) 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 programme and pays interest expense benefits to low-income households. First time buyers pay half of the stamp duty. First time buyers are allowed to use part of their pension savings to buy an apartment, either as a down payment or to make mortgage payments.