Economy touches down, then lifts off gradually

Macroeconomic forecast
2025-2027

May 2025

Íslandsbanki Research

Economy touches down, then lifts off gradually

Summary

GDP growth picks up again

GDP growth

Consumption and exports to deliver modest output growth over the forecast horizon

Investment will stimulate output this year and in 2027, but subtract from growth in 2026

1.9% GDP growth in 2025

2.3% GDP growth in 2026

2.9% GDP growth in 2027

CA deficit early on, but equilibrium further ahead

External trade

Tourism to grow slowly over the forecast horizon

Intellectual property and aquaculture among key drivers of exports

Imports will outpace exports in 2025, but the situation will reverse in 2026 and 2027

Current account deficit 2.0% of GDP in 2025

Current account in balance in 2026 and 2027

Inflation to approach slowly before landing

Inflation

Inflation will keep declining incrementally early in the forecast horizon

Housing market to rebalance in the near future; real house prices to rise modestly during the period

Moderate inflation abroad, reduced demand pressures, and relatively temperate wage agreements promote slow disinflation

Inflation to average 3.9% in 2025, 3.5% in 2026, and and 3.5% 2027

Temporary slack in the labour market but robust wage growth

Labour market

Labour importation has slowed, and labour shortages have subsided

Unemployment to average 3.9% in 2025, 3.7% in 2026, and 3.5% in 2027

Moderate real wage gains over the forecast horizon, despite slower growth in nominal wages

Wages to rise 7.7% in 2025, 5.0% in 2026, and 5.0% in 2027

Interest rates set to fall over time

Interest rates

Policy rate cuts to lose pace as disinflation slows

Policy rate set to reach 7.0% at the end of 2025 and 5.0-5.5% in the final year of the forecast horizon

Long-term rates will fall in the wake of policy rate cuts

The outlook is for 10-yr nominal rates to measure 5.7% and 10-yr real rates to measure 2.2% at the end of the forecast period

Modest ISK depreciation later in the forecast horizon

The ISK

In coming quarters, the current account deficit will be funded with direct inflows via the financing balance

Improvements in external trade and the interest rate differential will support the ISK in the coming term

An ISK depreciation will grow steadily more likely over the forecast period

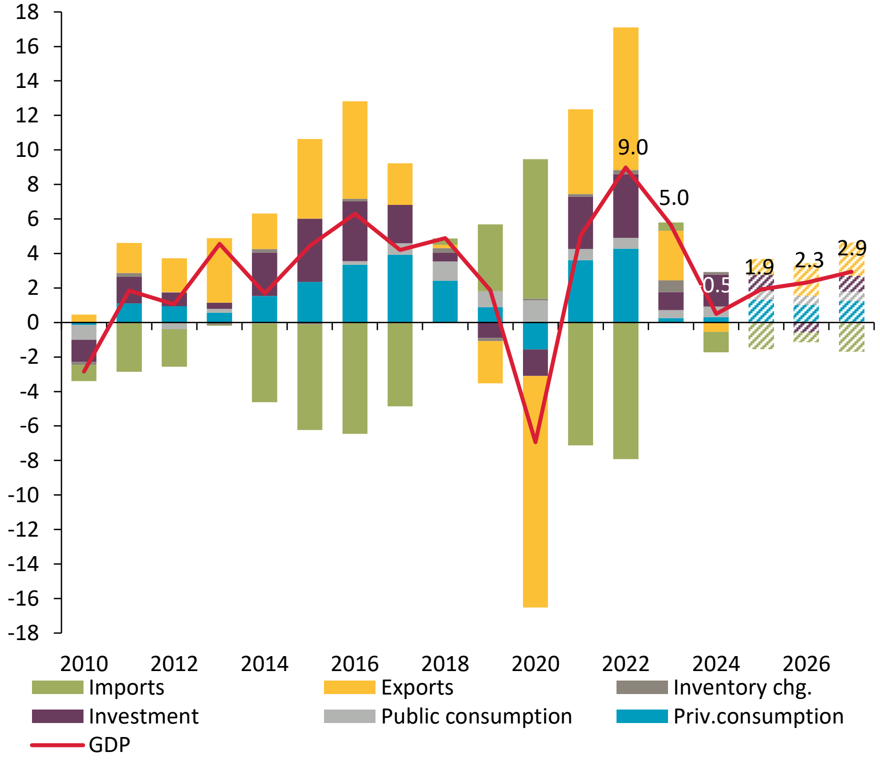
A euro could cost ISK 144 at the end of 2025, around ISK 147 at the end of 2026, roughly ISK 150 by the end of the horizon.

This equates to a depreciation of about 4% over the period as a whole.

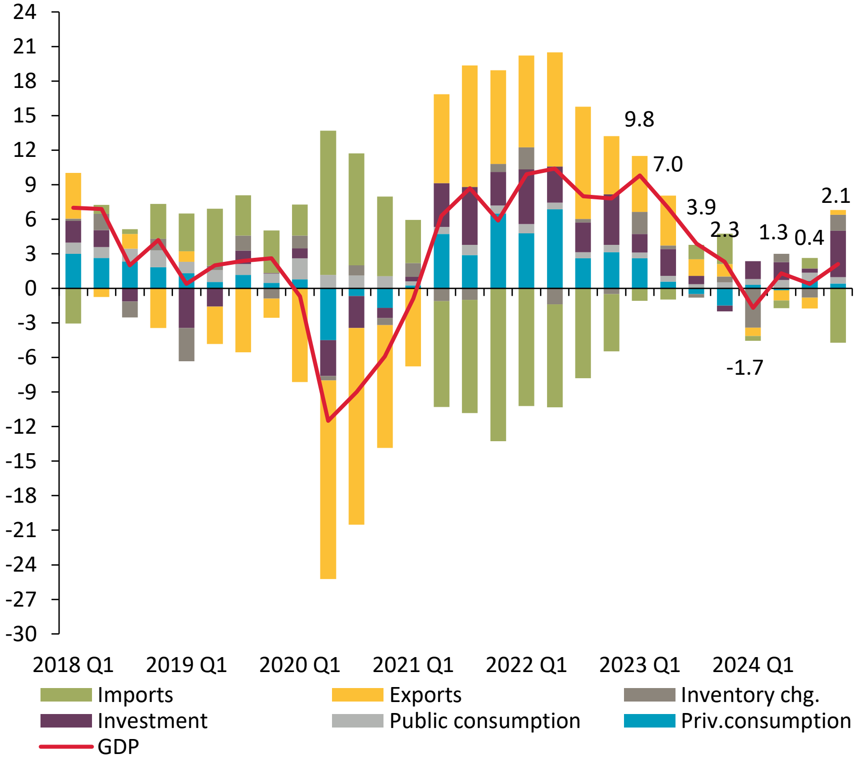
GDP growth picks up again

Increased exports and private consumption to play a leading role in post-adjustment growth

GDP and contribution from subcomponents
Volume change from prior year (%)



GDP and contribution from subcomponents, by quarter
Volume change from prior year (%)



After a significant surge, GDP growth began to ease over the course of 2023. It picked up again in 2024, however, after a brief downturn in Q1. Statistics Iceland's (SI) preliminary figures put year-2024 GDP growth at 0.5%.

While there was no contraction in 2024 as a whole, the year did see a turn in the business cycle. Exports softened, and private consumption growth was very weak. Investment growth exceeded expectations, however.

We project output growth at 1.9% in 2025. Rising private consumption will be the main driver, with support from robust investment growth and moderate export growth.

The outlook is for growth to gain steam in 2026 and 2027. We project GDP growth at 2.3% in 2026 and 2.9% in 2027. We forecast that private consumption and exports will fuel growth in both years, with the difference between them stemming mainly from investment, which we expect to shrink in 2026 and pick up again in 2027.

Although the forecast published here is relatively favourable, various uncertainties could change the outlook in the quarters ahead. Among them is the trade war launched by the US early this year, with no end in sight. The potential impact of the trade war is discussed in an appendix to this report, but our baseline forecast assumes that tariffs will not rise much more than they already have.

Also, the wars in Eastern Europe and the Middle East are still ongoing, and it is impossible to tell whether they will escalate in the coming term.

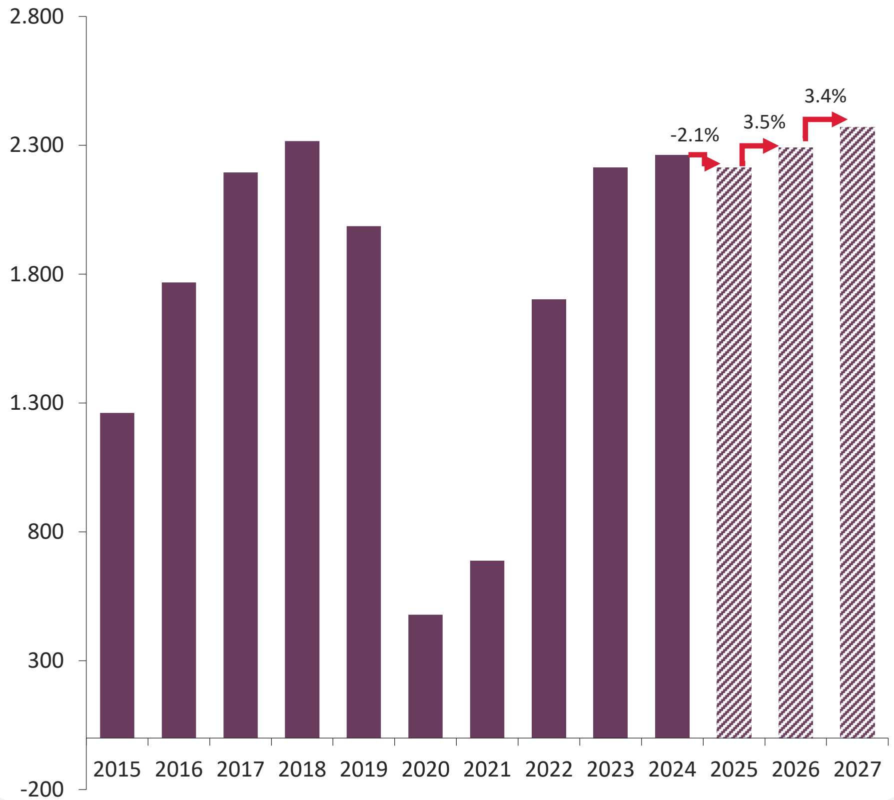
As before, domestic uncertainties include developments in the seismic activity on Reykjanes peninsula. Delays in energy procurement later in the forecast horizon could impede investment growth further ahead. The medium-term supply-demand balance in the housing market is uncertain as well. Finally, population growth could be a major factor in whether housing market tensions persist, and in the forecast we assume that net inward migration will be much slower than in recent years.

Sources: Statistics Iceland, ÍSB Research.

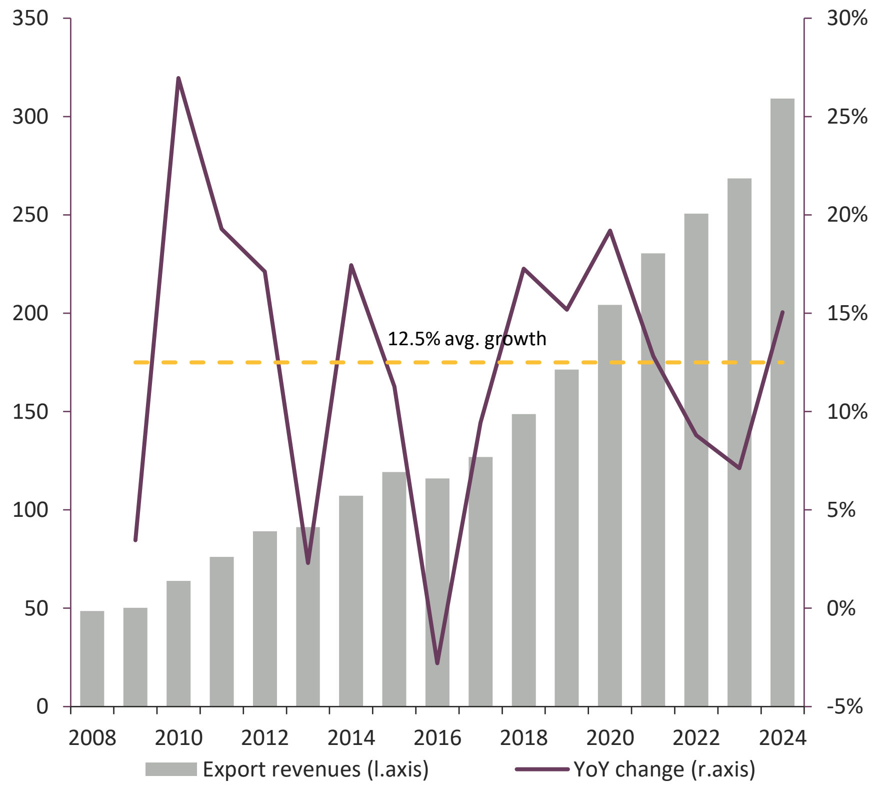
FX revenue generation base broadens

Intellectual property and aquaculture will drive export growth, with legacy export sectors lagging behind

Foreign nationals travelling through Keflavík Airport
Thousands



Export revenues from intellectual property
ISK bn at current prices



Sources: Icelandic Tourist Board, Statistics Iceland, ÍSB Research.

The tourism industry rallied somewhat in H2/2024, after a contraction early in the year. Nearly 2.3 million tourists arrived in Iceland via Keflavík Airport in 2024, a year-on-year rise of just over 2%. Revenues in the sector shrank between years, however.

Q1/2025 was fairly weak for tourism, and indicators imply a YoY downturn in visitor numbers. It appears, though, that the figures should be interpreted with some caution these days. The sector righted itself in the spring, and the outlook for the high season is decent. The coming winter is more uncertain, however, and could be affected quite strongly by factors such as the trade war.

We expect tourist numbers to decline marginally this year, to about the level seen in 2023. In the main, it can be said that the sector has matured, and we envision modest growth for the latter half of the forecast horizon. It appears that interest in visiting Iceland remains keen, but competition for travel to the Far North is stiffening, and the rising real exchange rate will be challenging in the near future.

Now that tourism appears to have established itself alongside fishing and energy-intensive industry as one of the pillars of exports, other sectors are positioning themselves to do likewise.

Intellectual property is an umbrella term covering various exporters of goods and services based on human resources and research and development. This sector has seen rapid growth in the past several years. According to SI, gross export revenues from companies in the industry totalled ISK 309bn in 2024. At the same time, export revenues from fishing (excluding aquaculture) came to ISK 346bn, and total revenues from the aluminium sector were ISK 312bn.

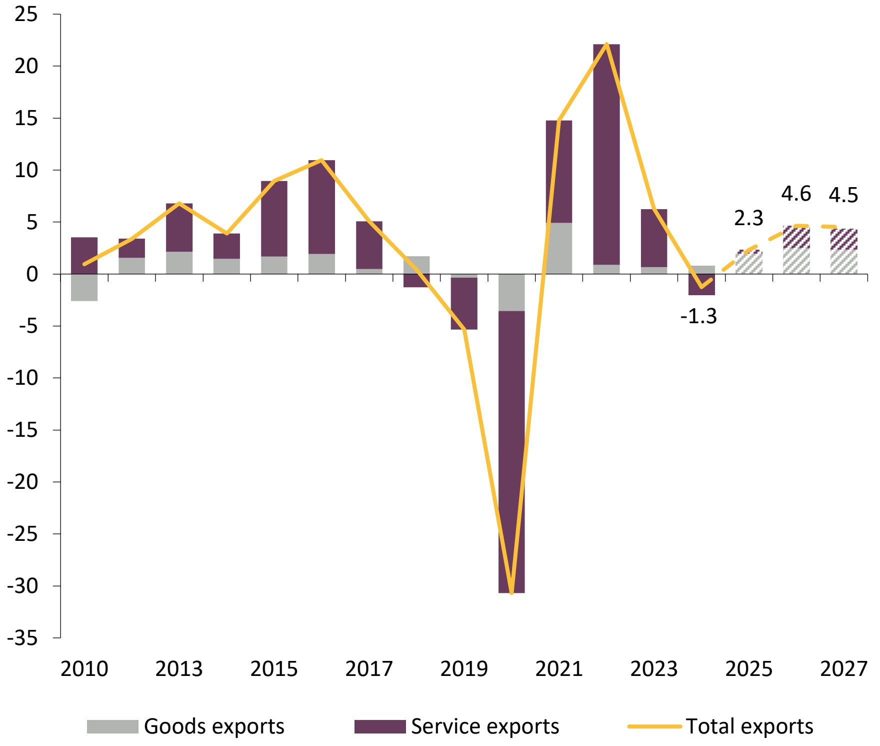
Intellectual property therefore stands shoulder-to-shoulder with the others in terms of export value, and its domestic value added accounts for a far larger share of total value than, say, Icelandic aluminium processing. The outlook is for continued handsome growth in revenues from intellectual property exports during the forecast horizon.

Furthermore, Iceland's aquaculture industry is growing apace, especially land-based aquaculture. SI data show that the sector generated nearly ISK 54bn in export revenues in 2024. Although growth in the next few years will probably fall short of the most ambitious plans, we still expect export revenues from aquaculture to grow markedly over the forecast period, putting the sector at the forefront in terms of growth in food export revenues.

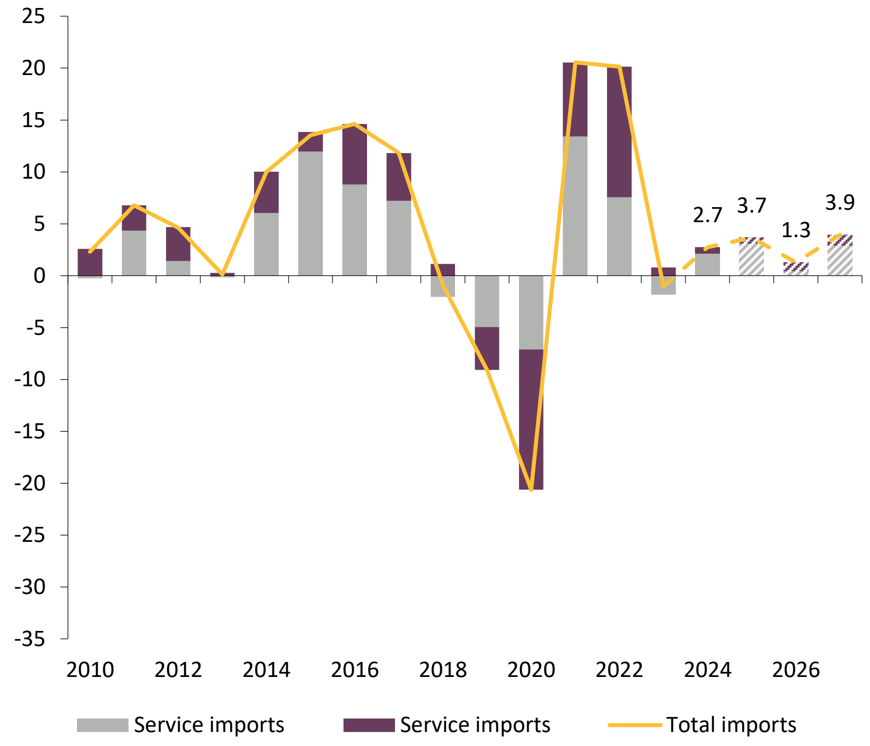
Outlook for external trade to improve as the forecast horizon advances

Fluctuations in investment will affect imports, while exports will gain momentum

Exports, YoY change, and contributions from subcomponents
%



Imports, YoY change, and contributions from subcomponents
%



Goods and services exports shrank by just over a percentage point in 2024, after a three-year growth spurt. The capelin catch failure, electricity rationing to aluminium smelters, and a weak Q2 for tourism were the main reasons for the contraction. Actually, goods exports increased marginally during the year, but the contraction in services exports weighed more heavily.

Growth in goods exports will be the main driver of year-2025 export growth, which we project at just over 2%. To a large degree, this growth will arise from exports of intellectual property products and farmed salmon. Intelligence- and knowledge-based sectors will offset the contraction in tourism as regards services exports, which we expect to grow marginally in 2025.

Export growth will gather pace in the two years to follow. We project export growth at 4.6% in 2026 and 4.5% in 2027. One of the main reasons for more rapid growth in the latter two years is our expectation of moderate growth in tourism alongside faster growth in intellectual property exports.

Our stance on year-2025 imports has changed somewhat since our last forecast. We now expect nearly 4% growth in total import volumes this year, not least because prospects for investment – which will require imported inputs – have improved somewhat. By the same token, investment goods imports will probably ease in 2026, largely explaining that year's slowdown in import growth. In the final year of the forecast horizon, import growth will accelerate once again.

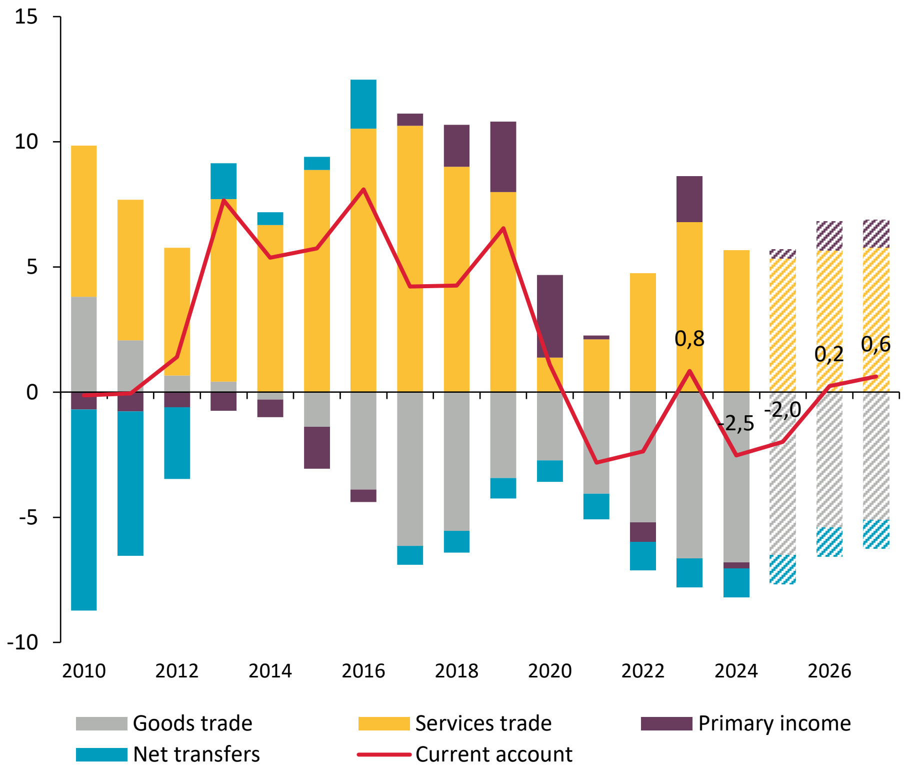
The contribution of net trade to output growth will therefore be negative in 2025 but positive in the two years thereafter.

Sources: Statistics Iceland, ÍSB Research.

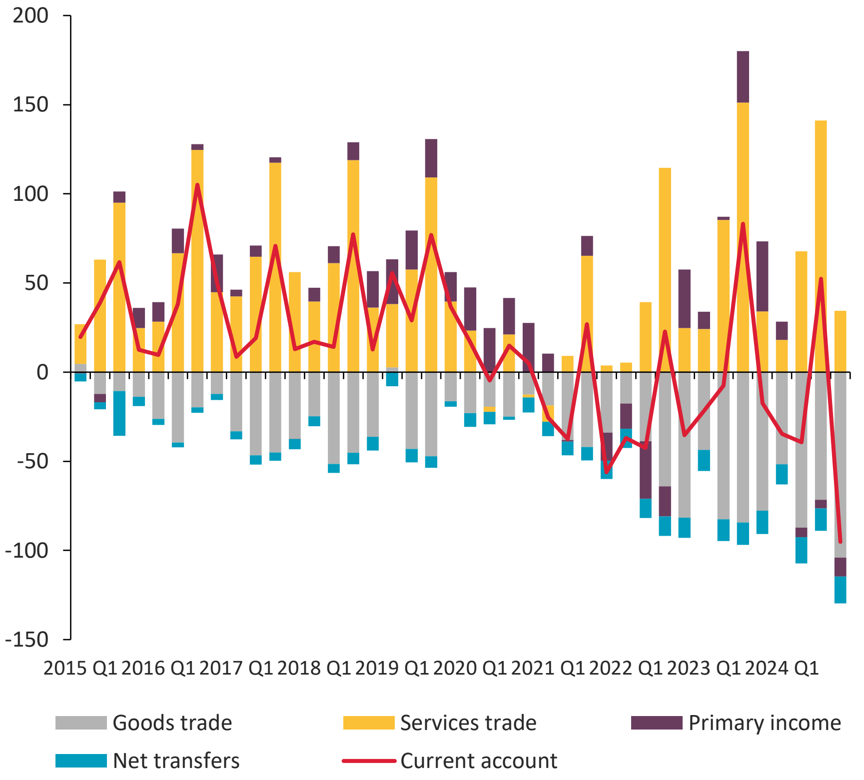
Current account deficit in 2025, with a better balance further ahead

Improved CA balance due to a shrinking goods account deficit and a modest surplus on primary income

Current account balance and subcomponents
% of GDP



Current account balance and subcomponents, by quarter
ISK bn



After a surplus in 2023, the CA balance weakened noticeably in 2024, showing a deficit of ISK 117bn, or 2.5% of GDP, during the year. It was Iceland's largest CA deficit since 2008. A handsome surplus on services trade did not fully offset the large goods account deficit and a moderate deficit on net transfers to and from the country. There was also a slight deficit on primary income after a hefty surplus in 2023.

The CA deficit looks set to continue in the coming term. The goods account deficit will probably remain fairly large, and the outlook is for a smaller surplus on services than in 2024. We assume that the deficit will measure 2% of GDP, or approximately ISK 100bn.

In the latter two years of the forecast horizon, however, the CA looks set to be broadly in balance. We project a CA surplus of 0.2% of GDP in 2026 and 0.6% of GDP in 2027.

The improvement is due largely to a smaller goods account deficit, not least because of a temporary turnaround in investment and an increase in intellectual property and aquaculture exports. Also, we estimate that the surplus on services will widen slightly and that the primary income balance will be positive in the latter part of the forecast period. A slight improvement in terms of trade will help as well.

Nevertheless, underlying variables have little room for error if a more persistent CA deficit is to be avoided. If the ISK appreciates more than we expect in the coming term, for instance, it could stimulate imports and weaken Icelandic export sectors' competitive position. There is also some risk that the trade war could suppress demand for exported goods and for travel to Iceland.

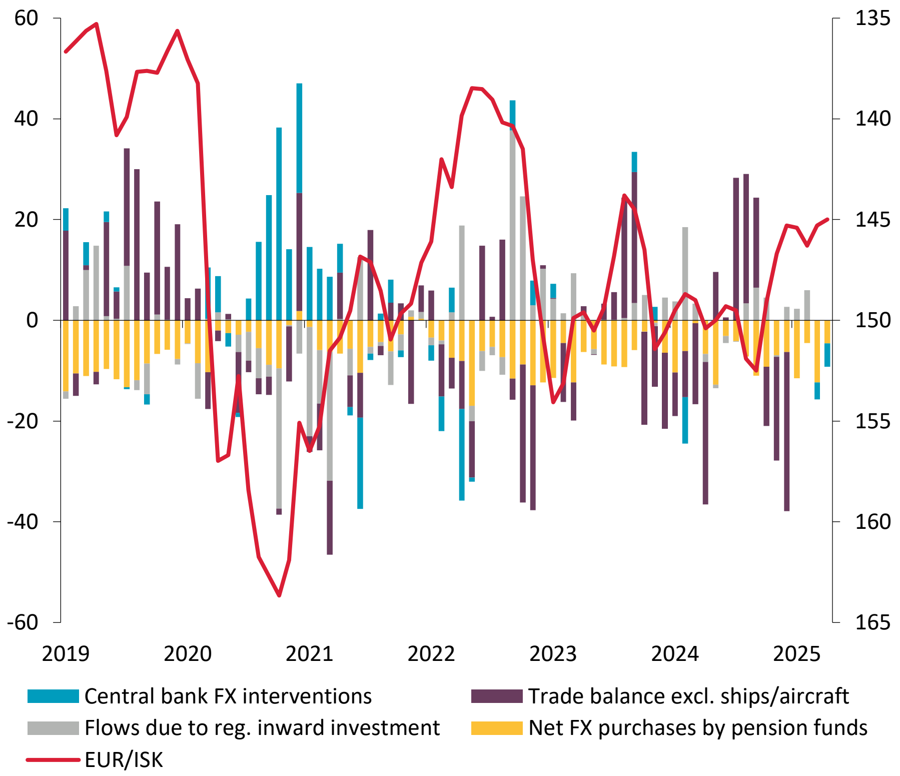
Iceland's net external assets totalled nearly ISK 2,000bn, or 42.5% of GDP, at the end of 2024. This robust asset position provides vital support for the ISK, as it is highly unlikely that capital flight would cause significant instability or require the reinstatement of capital controls.

Sources: Central Bank of Iceland, Statistics Iceland, ÍSB Research.

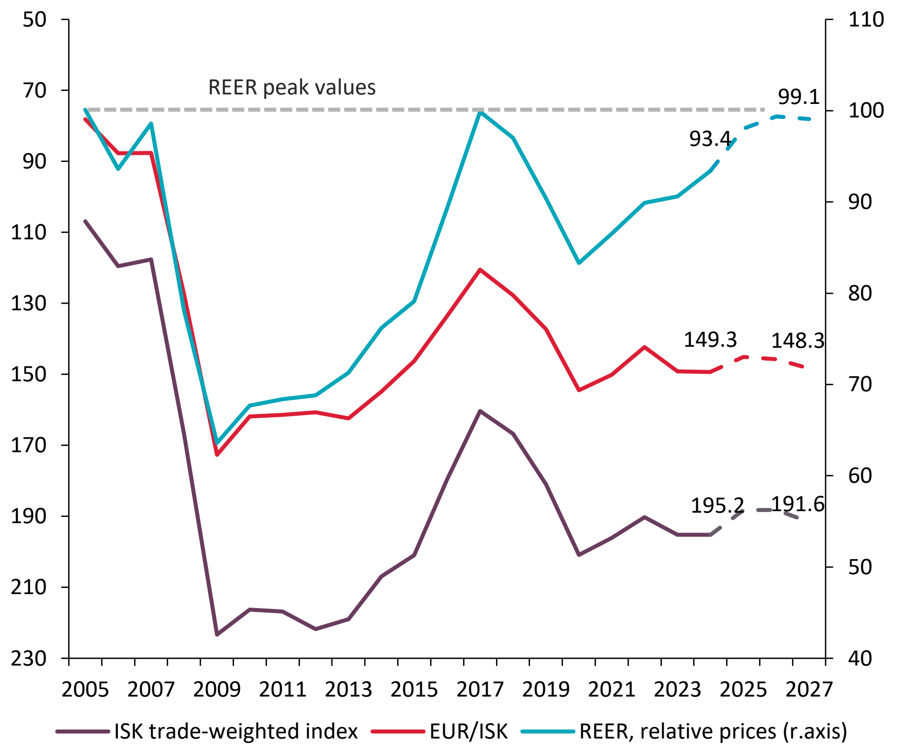
Modest ISK depreciation likely as the forecast horizon advances

High real exchange rate seems to have fuelled CA deficit, and further ISK appreciation erodes competitiveness

ISK exchange rate and selected determinants
ISK bn (left) and EURISK (right)



ISK nominal and real exchange rate
Annual averages, EURISK and indices



Sources: Central Bank of Iceland, Statistics Iceland, ÍSB Research.

The ISK held relatively stable in 2024, despite a hefty current account deficit. Despite some short-term fluctuations in H2, the exchange rate was largely the same in 2024 as in 2023.

The ISK strengthened markedly from early September until the year-end, despite Iceland's Q4 trade deficit. Capital inflows for securities investments, changed expectations, and modest investment-related outflows are probably the most important factors in the appreciation.

Developments have been broadly the same in 2025 to date. The trade deficit was probably quite wide, but even so, the ISK has held steady vis-à-vis Iceland's main trading partner currency – the euro – and is up sharply against the US dollar.

The outlook is for a relatively strong ISK at first. The peak tourist season is ahead, and forward FX positions are limited, suggesting that a large share of the summer's FX revenues will be converted to ISK. Inflows for securities purchases and other investments are likely as well, and the pension funds will probably buy only modest amounts of currency in the near term.

On the other hand, there appears to be scant scope for further appreciation without adverse effects on external trade, one sign of which is a persistent CA deficit. The real exchange rate is near a historical peak, and while the economy could probably tolerate a higher one than before without external imbalances, there are limits to how costly Iceland can be relative to other countries before export sectors start to suffer from the high exchange rate.

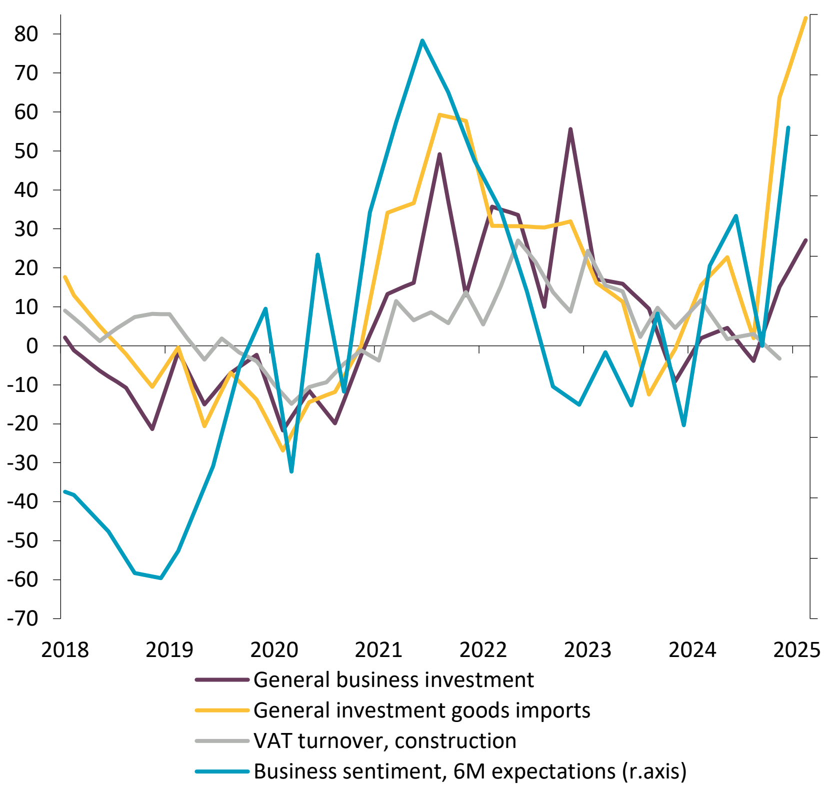
As the forecast horizon progresses, we expect the ISK to retreat from its current level. We forecast the EURISK exchange rate at close to 144 by the end of 2025, roughly 147 by end-2026, and about 150 by the end of the period. This translates to a depreciation of around 4% from the current rate. Short-term fluctuations will probably weigh in as well, as they have done to date, although exchange rate volatility has subsided markedly in the recent term.

Investment goes for a tyre change

Big projects heighten and hinder investment by turns

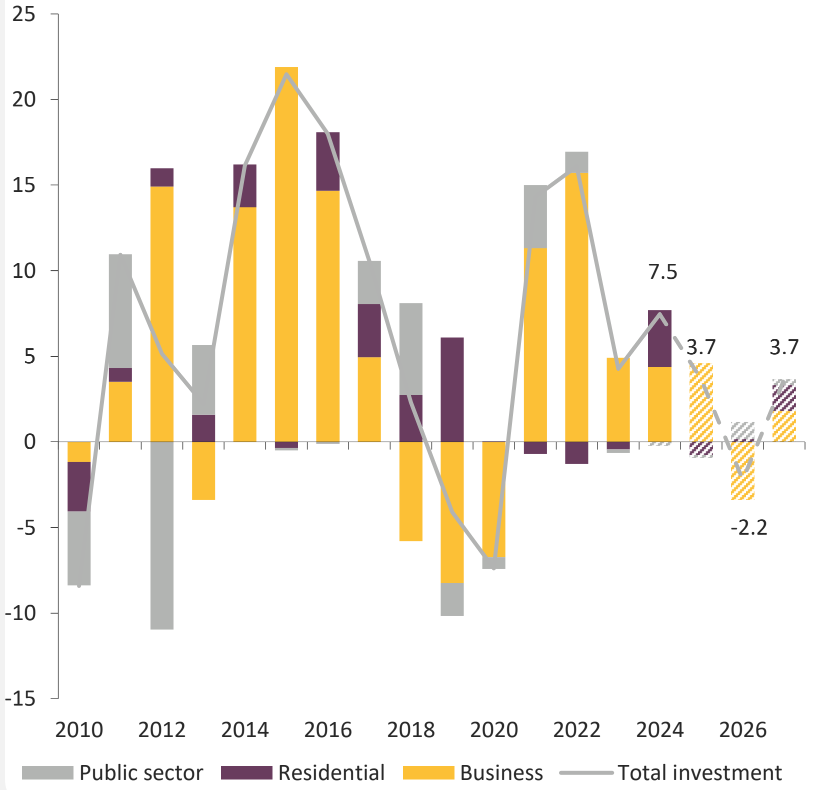
Business investment and related indicators

Index (%, left) and year-on-year change (right)



Investment, real change, and contribution of subcomponents

%



Sources: Central Bank of Iceland, Statistics Iceland, ÍSB Research.

Despite a high real exchange rate, increased pessimism early in the year, and a contraction in exports, investment grew handsomely in 2024. Residential investment was unusually strong, growing by 18%, according to preliminary figures from SI. Business investment was resilient, too, growing by nearly 7%, with data centre development and investment in ships and aircraft making their mark on the numbers for the year. Growth was driven largely by investment in office supplies and equipment, up 41%, and in ships and aircraft, up 64%.
Yet there was a marked contraction in corporate investment in passenger cars, as both car rental agencies and other companies scaled down their vehicle purchases between years.

This year, the outlook is for continuing growth in gross capital formation, with a healthy surge in business investment counterbalancing reduced residential and public investment.

Imports of generic investment goods are up markedly in 2025 to date, owing in large part to data centre-related investment. Importation of passenger cars surged as well in the first months of the year, due to an increase in car purchases by rental agencies and other companies after last year's lull.

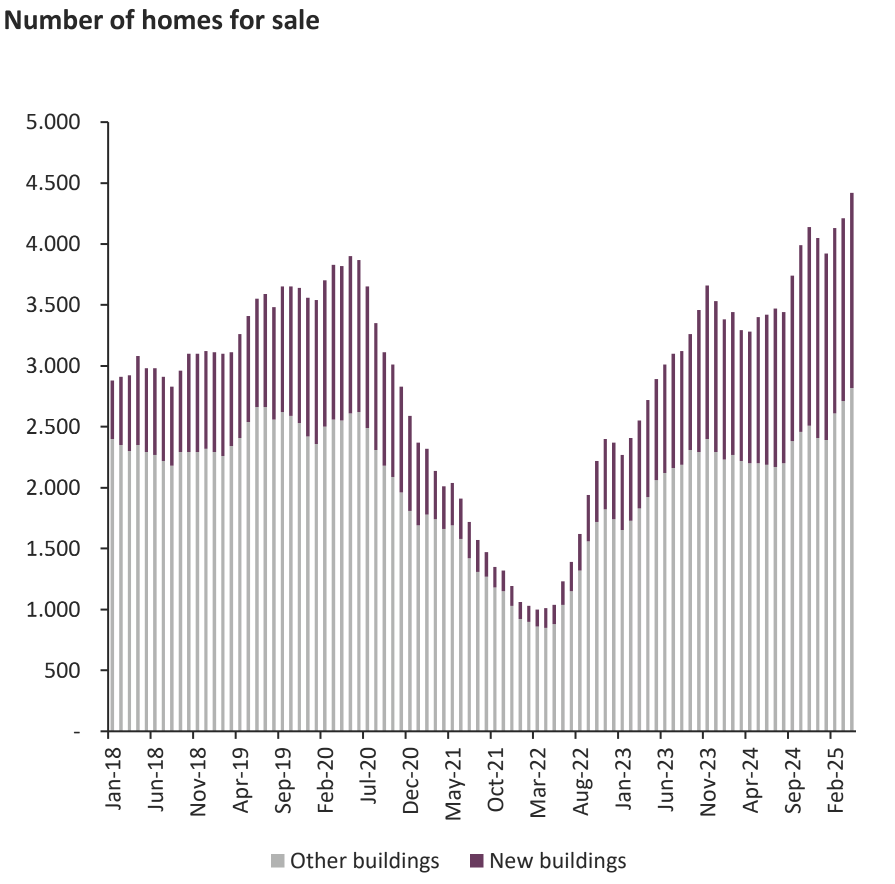
This year's jump in business investment is due primarily to large data centre and aquaculture projects. Data centre development has grown by leaps and bounds recently, and the first figures on 2025 imports suggest that the trend will continue during the year. On the other hand, there are signs that this boom will level off soon and that a contraction in such investment will reduce business investment figures in 2026. The outlook is also for continued investment in aquaculture in coming years, which will bolster business investment during the forecast horizon, but not enough to prevent a contraction next year.

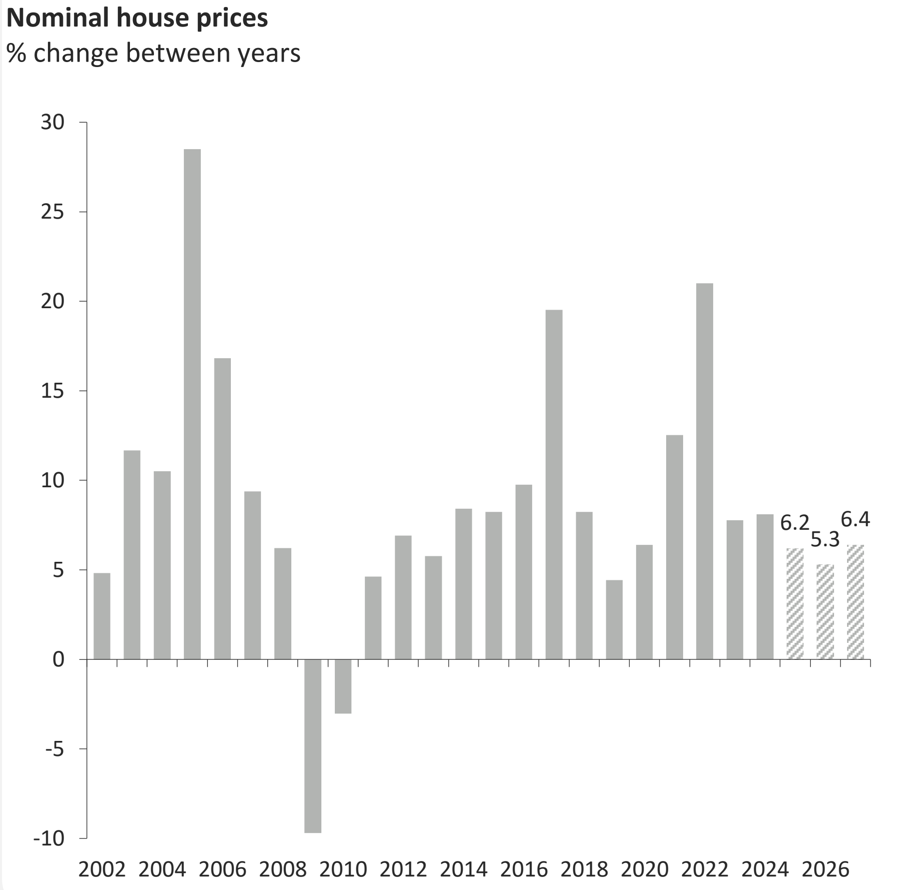
The outlook for 2026 is for investment to shrink by 2.2%, with a 5% contraction in business investment partially offset by an uptick in residential and public investment. In the last year of the forecast horizon, we expect investment to gain steam again, boosted by lower real interest rates, and we project a growth rate of 3.7%, the same as in 2025.

There are numerous risks, both domestic and foreign, chiefly to include disruptions in world trade, increased domestic taxation of export sectors, and delays in energy procurement, which could slow investment significantly.

Housing market to rebalance in the coming term

Fairly modest real price hikes over the forecast period





Sources: Central Bank of Iceland, Statistics Iceland, ÍSB Research.

House prices rose 8.1% in 2024, owing in large part to the “Grindavík effect”, which tapered off in H2. In addition, first-time buyers were active last year, and demand for equity loans from the Housing and Construction Authority was strong.

The housing market is considerably calmer now. The number of homes for sale has surged, to 4,400 listed properties advertised in April, the largest total since 2017. New buildings account for a large share of homes for sale, currently 36%. That percentage is even higher in the capital area, where our measurements indicate that 55% of all properties on the market are new buildings.

The surge in housing supply has caused the average time-to-sale to lengthen considerably, to 4.5 months in April, according to CBI data. For new buildings, however, the selling time is far longer, averaging more than a year.

Indicators suggest that housing demand remains, although it has eased markedly. The number of transactions in the market was far greater in the first four months of 2025 than in the same period of 2023. It is inadvisable, though, to compare recent data to the same period in 2024, when activity was unusually brisk because of the Grindavík effect.

The balance between supply and demand appears to be healthier than in recent years, and we expect the market to be relatively tranquil in the coming term. Factors dampening demand include slower population growth than in recent years, high mortgage lending rates, and tight borrowing requirements. On the other hand, households’ accumulated savings will spur demand, as will real wage growth. We project that house prices will rise 6.2% YoY in 2025.

The market looks set to hold broadly unchanged in 2026, with prices rising 5.3% YoY. The change over the two years is similar, but because the measure is between annual averages, the difference between 2025 and 2026 projections totals 0.9 percentage points.

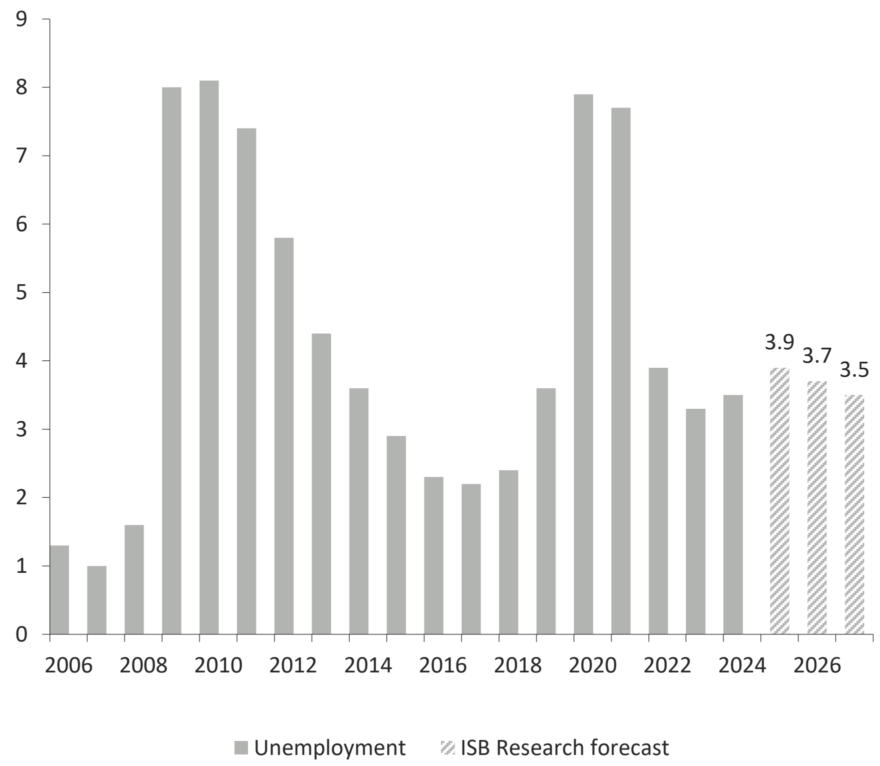
As the forecast horizon advances, we expect lower inflation and interest rates to stimulate demand, pushing house prices up 6.4% YoY in 2027. If the forecast holds, real price hikes will be fairly modest, especially in comparison with recent years.

Slack in the labour market, yet sizeable wage gains in 2025

Unemployment will peak this year and ease in the two years thereafter

Nominal and real wages
% change between years

Unemployment as a share of the labour force
%



The labour market has been very tight in the past few years but looks set to cool, and unemployment has risen steadily in the recent term. Unemployment measured 4.2% in Q1/2025, its highest since Q1/2022. It typically measures highest at the beginning of the year, dips during the summer, and then starts climbing again.

The Gallup survey of Iceland's 400 largest firms also indicates reduced demand pressures in the labour market. At present, 23% of executives report being understaffed, far below the peak of 56% nearly three years ago. Labour importation has slowed considerably as well, strongly signalling that the market has cooled.

We forecast that unemployment will peak this year at an average of 3.9%, or 0.4 percentage points higher than in 2024. In 2026 and 2027, we expect it to ease slightly as economic activity picks up. We forecast average unemployment at 3.7% in 2026 and 3.5% in 2027.

Long-term wage agreements with the majority of the labour market have significantly reduced uncertainty. Wages have risen by an average of 7.5% per year over the last decade, and in 2024 they rose 6.6% YoY.

The general wage index is up by just over 5% year-to-date, and we assume an increase of 7.7% in 2025 as a whole. Most contractual pay hikes have already kicked in, and the wage scale supplement took effect in April. Furthermore, a supplement for public employees will take effect on 1 September 2025.

Long-term contracts were signed in 2024, when the market was still quite tight. That will affect near-term wage developments, even though the slack in the market has widened.

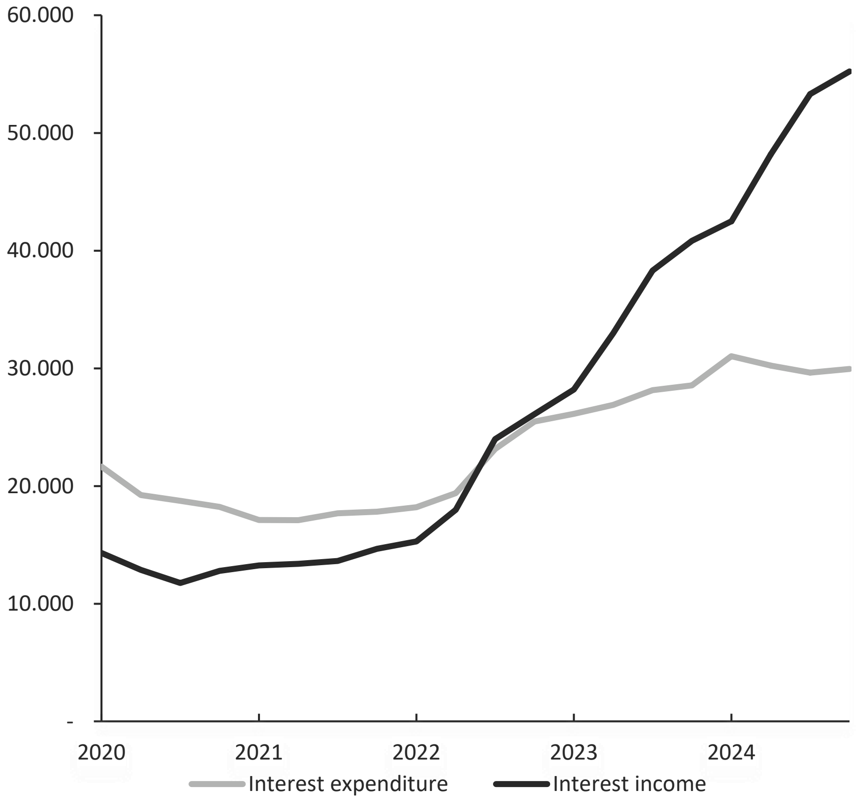
We project that wages will rise 5.0% per year in both 2026 and 2027, thereby falling short of the recent average during the last two years of the forecast period. If this forecast materialises, real wage growth will measure 3.7% this year, 1.5% next year, and 1.4% in 2027.

Sources: Directorate of Labour, Statistics Iceland, ÍSB Research.

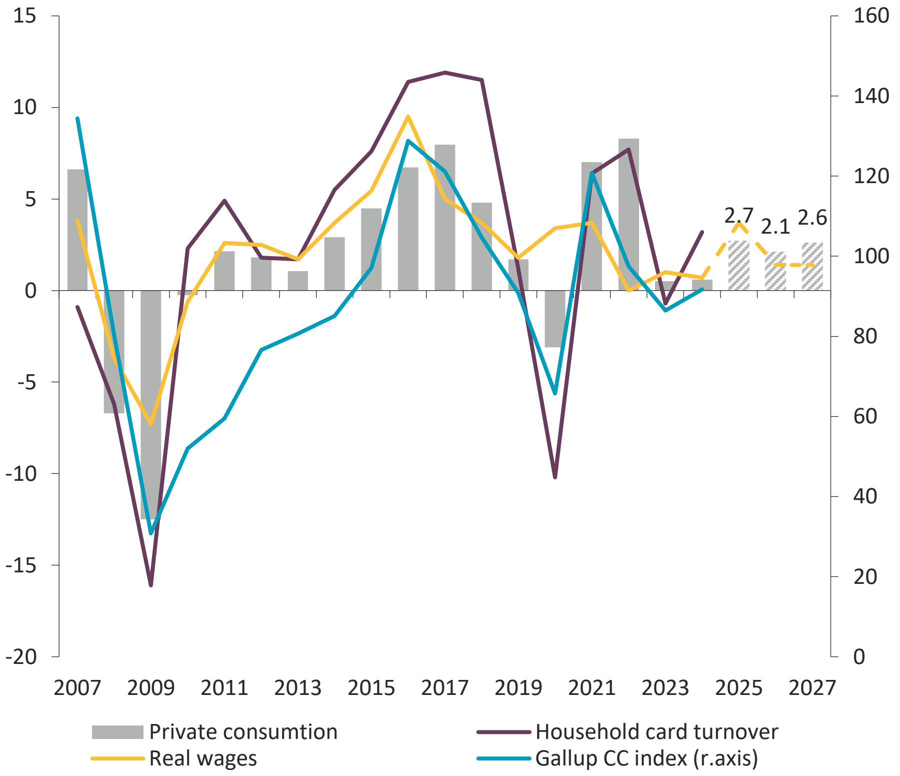
Households dust off their wallets

Households have built up robust savings, which will fuel private consumption in the near future

Households' interest income and expense
ISK m



Private consumption and related indicators
% change year-on-year (left) and index value (right)



Sources: Central Bank of Iceland, Gallup, Statistics Iceland, ÍSB Research.

Private consumption has increased slowly in the past two years, and SI's preliminary figures show a growth rate of only 0.5% in 2023 and 0.6% in 2024. This is far slower than in the years beforehand, showing clearly that high interest rates took the steam out of domestic demand.

High interest rates have also made saving an attractive option, and household savings are historically high. The saving rate is a full 12% above the 2015-2019 average, and households' financial position is quite strong. A rising saving rate has caused households' interest income to exceed their interest expense over the past two years.

There are already signs that private consumption grew somewhat in Q1/2025. Real payment card turnover has grown each month, especially turnover abroad. Card turnover abroad hit an all-time single-month high in April, owing to a surge in Icelanders' Easter travel and a jump in online shopping with foreign merchants. Also, new motor vehicle registrations rebounded during the quarter, after plunging in 2024.

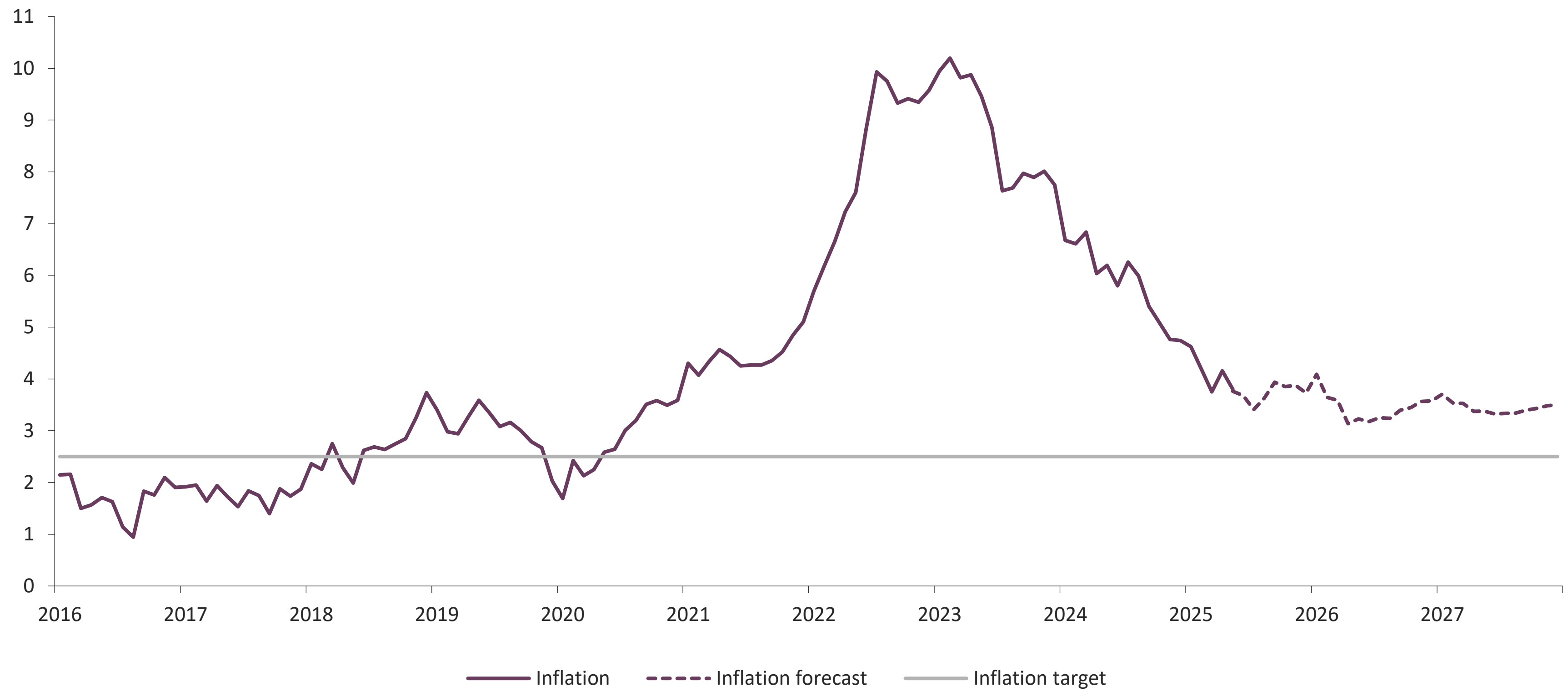
A sizeable share of the savings households have stockpiled in the recent term will probably be channelled towards increased private consumption in the near future. It looks as though households will boost consumption spending in 2025, after having stayed their hand in the past few years. Consumers have postponed purchases of durables in recent years, and we expect an uptick during the forecast horizon, particularly in 2025. The data are already pointing in that direction.

Our forecast for this year is unchanged from its predecessor: we expect private consumption to grow by 2.7% as households draw down their savings to fund consumption spending. In 2026, private consumption growth will be marginally weaker, at around 2.1%. By that time, many households will already have bought the durables they need. In the final year of the forecast horizon, we expect a private consumption growth rate of 2.6%, in tandem with real wage growth and lower interest rates.

Above target, but within tolerance limits

Inflation to approach slowly before landing

Inflation forecast %



Sources: Statistics Iceland, ÍSB Research.

Inflation has fallen significantly from its peak some two years ago. It slowed in 2024, due to dwindling inflationary pressures, a smaller contribution from the housing component of the CPI, and strong one-off effects. Disinflation proved a bit elusive early in the year, as Grindavík residents had to find new homes, with the associated upward pressure on house prices. Soon after mid-year, headline inflation finally started falling in earnest, when housing inflation lost steam, several universities cancelled school fees, and free primary school meals were offered in accordance with wage contract provisions.

Furthermore, inflation eased in Iceland's main trading partner countries in 2024 and is widely at or near target levels. Interest rates have fallen accordingly, but recent developments in global trade policy have complicated matters. These developments have greatly exacerbated uncertainty, and the impact they will have on inflation is utterly unknown, although they will plainly push inflation upwards in the US. If supply chains are severely disrupted, inflation will probably rise in the short run, but it will probably retreat over time if demand slows significantly.

Inflation has been slightly higher than expected in 2025 to date. Domestic goods have been one of the main drivers of inflation this year, as the cost of domestic production has spiked, partly in response to higher wage costs. Other factors have curtailed inflation – such as a stronger ISK and declining global oil prices – but the disinflationary effect has been weaker than previously hoped. In January, we projected average 2025 inflation at 3.6%, but we have revised that forecast slightly upwards, and now we expect inflation to measure 3.9% this year. The upward revision is due mainly to a poorer initial position. We expect lower oil prices to pass through more strongly as the summer passes, and price hikes on domestic goods and services should lose momentum as well.

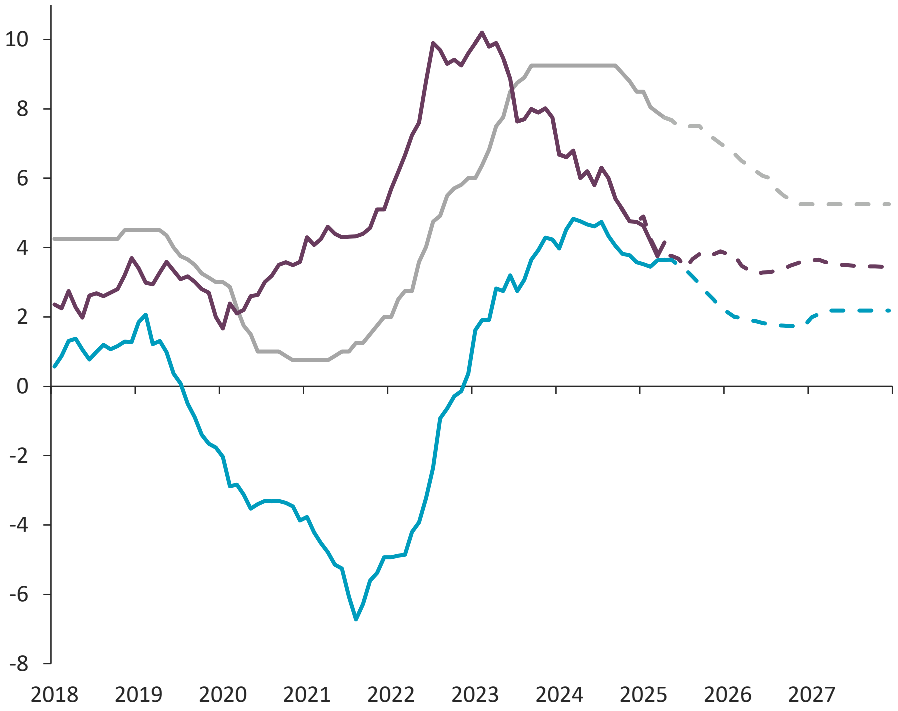
Geopolitical uncertainty is at its most acute in quite a long time and could doubtless have a profound impact on developments ahead. Inflation could be pushed upwards or downwards as a result, depending on whether demand or supply is more strongly affected.

For 2026, we expect inflation to keep declining but to come to a halt just below the upper deviation threshold of the CBI's target. Our forecast assumes that inflation will average 3.5% in 2026 and 2027.

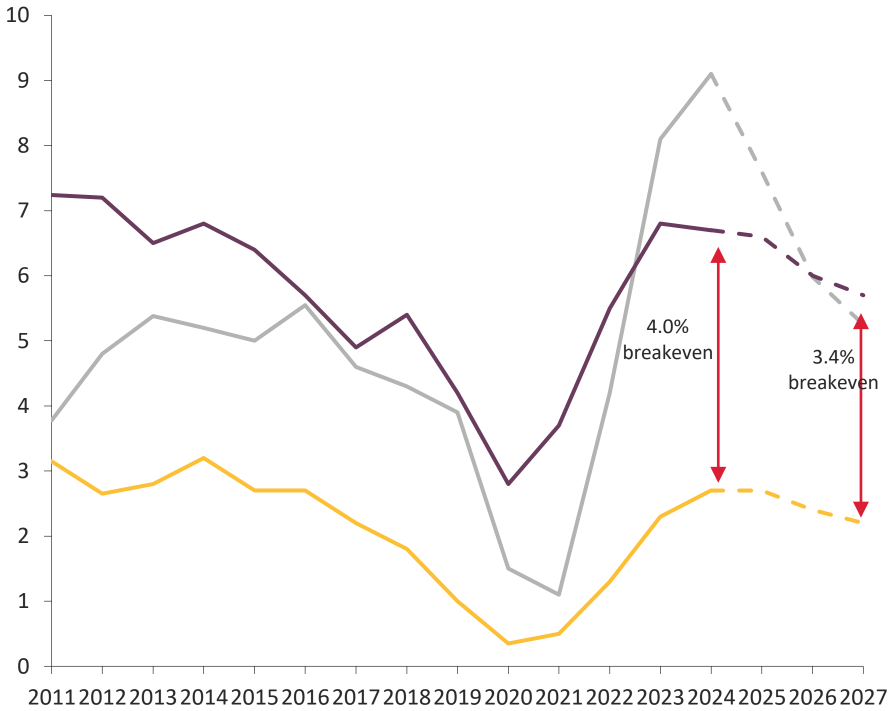
Interest rates set to fall over time

The CBI's monetary stance will remain fairly tight, but long-term interest rates will ease later on

Policy rate, inflation, and real policy rate
% Real policy rate in terms of inflation forecast and policy rate forecast



Interest rates
% Long-term interest rates are rates on Treasury bonds with an average duration of 10 years



After holding the policy rate steady at 9.25% from spring 2023 until early October 2024, the CBI began unwinding interest rates in Q4, in response to falling inflation and signs of a slowdown in economic activity. Since then, the policy rate has been lowered by 1.75 percentage points and is now 7.5%.

At the time of the May interest rate decision, the CBI signalled that additional rate cuts could be expected only if inflation fell further. Based on the CBI's own forecast, which provides for roughly 4.0% inflation until Q1/2026, no more rate cuts are in the cards.

Although the CBI's inflation forecast does not give cause to expect the MPC to lower the policy rate again before well into the coming winter, we think it probable that conditions for additional rate cuts will develop later this year. As a result, we forecast that the policy rate will be 7.0% by end-2025. Interest rates could even fall somewhat more before the turn of the year, if there are clear signs that a slack in the economy is opening up.

More rate reductions are in the offing for 2026 as the economy cools and inflation tapers off. We expect the rate cuts to conclude in late 2026, with a policy rate between 5.0% and 5.5%.

Although the unwinding has proceeded apace, long-term rates remain high. Based on Treasury yield curves, nominal ten-year base rates are now around 6.7%, and the corresponding real rate on indexed bonds is 2.8%. Iceland's real interest rate is therefore still high by nearly all measures.

We estimate that long-term nominal rates could fall to 5.7% and real rates to 2.2% over the forecast horizon. Accordingly, the long-term breakeven inflation rate would be 3.4%, as compared with the current rate of nearly 4.0%. It should be noted, however, that long-term inflation expectations in the market are probably lower than this, as the breakeven rate includes an uncertainty premium.

Sources: Central Bank of Iceland, Kodiak, Statistics Iceland, ÍSB Research.

Macroeconomic forecast summarised

GDP and its components

Volume changes from prior year%	2024 ISK m	2023	2024	Forecast 2025	Forecast 2026	Forecast 2027
Private consumption	2,266,522	0.5	0.6	2.7	2.1	2.6
Public consumption	1,176,308	1.8	2.5	1.9	2.0	2.0
Investment	1,219,320	4.3	7.5	3.7	-2.2	3.7
-- business investment	797,868	7.8	6.7	7.0	-5.0	2.8
-- residential investment	242,446	-2.2	18.0	-4.0	1.0	8.0
-- public investment	179,005	-1.2	-1.4	-0.9	7.0	2.0
Changes in inventories	7,143	0.7	0.2	0.0	0.0	0.0
Domestic demand. total	4,669,293	2.3	2.3	2.5	0.9	2.7
Exports of goods and services	1,919,929	6.3	-1.3	2.3	4.6	4.5
– marine product exports (including aquaculture products)	399,833	-2.8	0.2	0.5	4.7	4.4
-- aluminium products	312,665	-19.7	-3.4	3.0	1.0	1.0
-- other goods exports	255,677	8.9	14.4	10.4	9.6	9.6
-- services exports	951,755	13.1	-4.1	0.7	4.4	4.1
Imports of goods and services	1,972,759	4.6	5.0	3.7	1.3	3.9
-- goods imports	1,282,658	1.1	3.9	4.8	0.7	4.4
-- services imports	690,101	2.4	7.2	1.6	2.4	3.0
Gross domestic product	**4,616,463**	**5.6**	**0.5**	**1,9**	**2.3**	**2.9**

Source: Statistics Iceland. Islandsbanki Research

Macroeconomic forecast summarised

Other economic variables

% of GDP	2023	2024	Forecast 2025	Forecast 2026	Forecast 2027
Investment	24.8	27.6	27.5	26.2	26.4
Current account balance	0.8	-2.5	-2.0	0.2	0.7
Trade account balance	0.2	-1.1	-1.2	0.2	0.7
% change between annual averages					
Consumer prices	8.7	5.9	3.9	3.5	3.5
Wages	9.8	6.6	7.7	5.0	5.0
Real wages	1.0	0.7	3.7	1.4	1.4
Real exchange rate. relative consumer prices	2.0	3.4	5.0	1.4	-0.3
House prices	7.8	8.1	6.2	5.3	6.4
Annual average (%)					
Unemployment	3.2	3.5	3.9	3.7	3.5
Trade-weighted exchange rate index	195.4	195.3	188.3	188.2	191.6
EUR/ISK exchange rate	149.1	149.3	145.1	145.7	148.3
CBI policy rate (7-day term deposits)	8.1	9.2	7.6	6.0	5.3
Long-term nominal interest rates (10-yr nominal Treasury bonds)	6.8	6.7	6.6	6.0	5.7
Long-term real interest rates (10-yr indexed Treasury bonds)	2.3	2.7	2.7	2.4	2.2

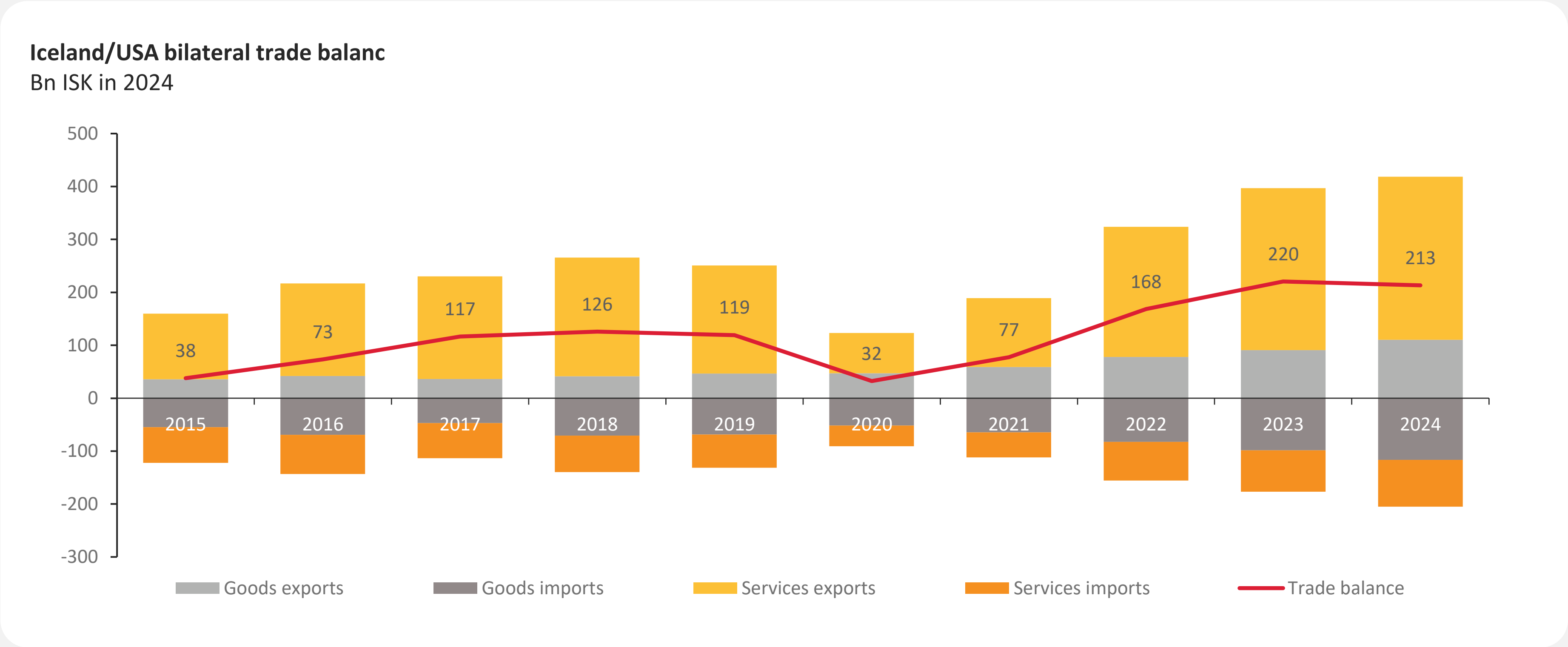
Source: Statistics Iceland. The Central Bank of Iceland, Islandsbanki Research

Appendix

Iceland and the economic impact of the trade war

US authorities are primarily eyeing goods trade

Hefty surplus on services trade between Iceland and the US



Iceland-US trade 2024

Goods account deficit: ISK 3bn

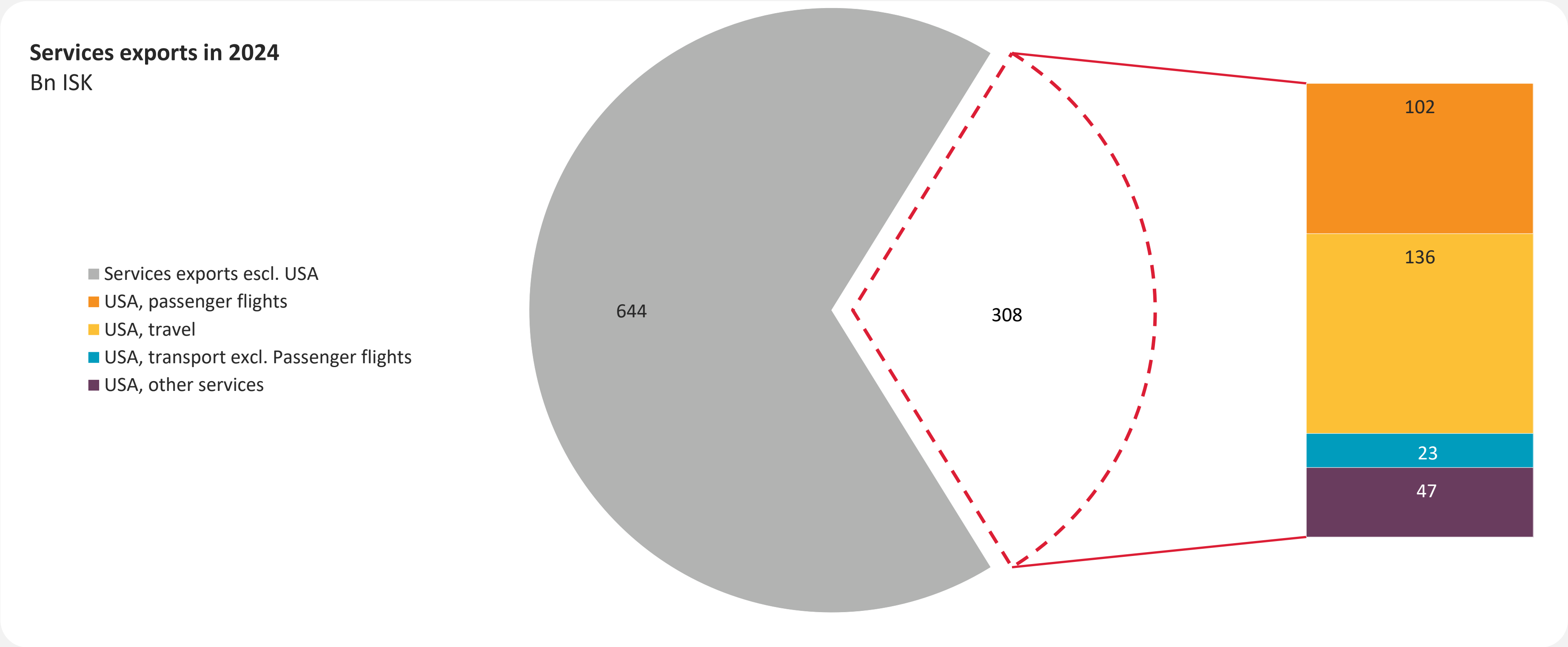
Services account surplus: ISK 216bn

Trade account surplus: ISK 213bn

Sources: Statistics Iceland

A third of services exports are sold to the US

Americans are the largest nationality group among tourists visiting Iceland



Tourism-related export revenues from the US in 2024:

- ISK 238 bn
- 38% of Iceland's total revenues from foreign tourists

Tourists from the US in 2024, according to departure data from Keflavík Airport:

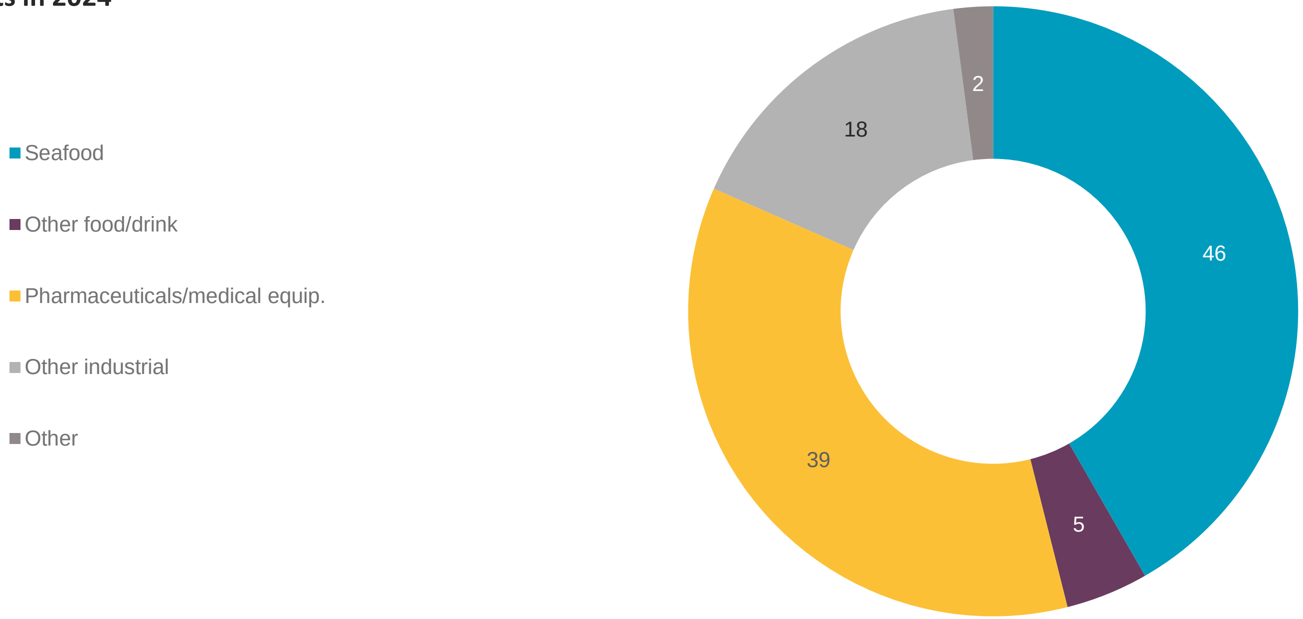
- 620,000
- 27% of the total

Sources: Statistics Iceland

Goods exports to the US: Fish, pharmaceuticals and medical products, manufactured goods

Goods exports to the US totalled ISK 110bn in 2024 (12% of the total)

Goods exports in 2024
Bn ISK



Key goods categories:

- Fish: ISK 46bn
- Medical products/equipment: ISK 39bn
- Non-medical manufactured goods: ISK 18bn

CBI in March:

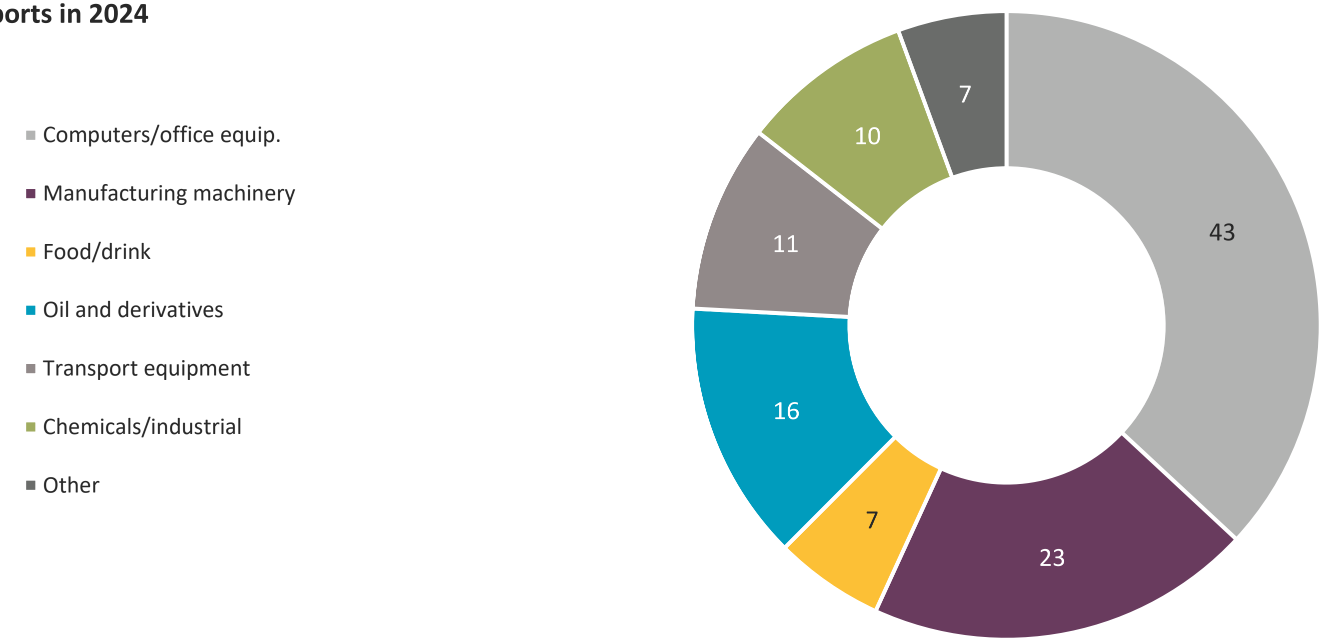
"If the ongoing trade war reaches Iceland, the initial effects could be highly detrimental to individual companies engaged in exports to the US, particularly in the medical products and equipment sector. In the long run, the broader economy would also be negatively affected."

Sources: Statistics Iceland

Goods imports from the US: Machinery, transport equipment, manufactured goods

Goods imports from the US totalled ISK 117bn in 2024 (9% of the total)

Goods imports in 2024
Bn ISK



Key goods categories:

- Computers, smart devices, etc.: ISK 43bn
- Other equipment: ISK 23bn
- Oil and related products: ISK 16bn
- Chemical and industrial products: ISK 10bn
- Transport equipment: ISK 7bn

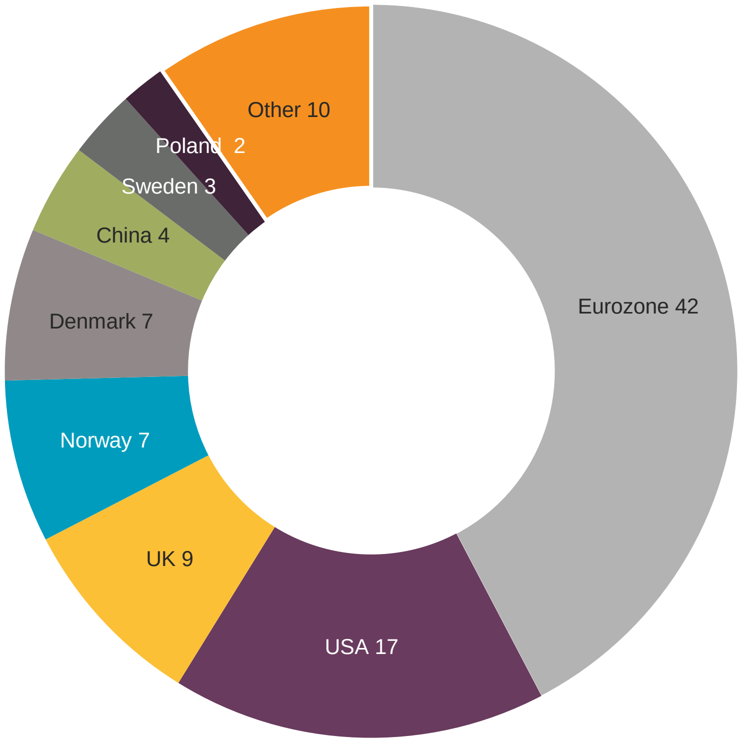
Sources: Statistics Iceland

The impact of the trade war on Iceland is highly uncertain

A key factor is to play our hand intelligently, especially vis-à-vis friendlier nations

- Smooth and easy trade with Europe and Asia is key
  - Initial government responses and communications with key trading blocs bode well
  - Our position outside the EU customs union helped in the first trade war
- We did not participate in the EU's 25% tariffs on US goods
  - Aluminium exported solely to Europe and was not subject to tariffs in 2018
  - Iceland was in the lowest tariff bracket (10%) according to Trump's "reciprocal" tariff tables
- Utter uncertainty about what will come after the grace period on the "reciprocal" tariffs expires in July

Share of total trade with Iceland
Based on Central Bank trade weights for 2023



Sources: Statistics Iceland, The Central Bank of Iceland

The indirect impact could ultimately prove stronger

The global economy ultimately sets the pace for small open economies

- The impact on GDP growth is undeniably negative but could end up being modest
- Fewer tourists from the US?
  - Americans are still keenly interested in travel, according to the newest figures
  - Strong contraction in travel from Europe, Canada, and Mexico to the US
- How strong will the impact on exporters to the US (and other markets) be?
- Tariffs on pharmaceuticals deferred for now; set to take effect within two weeks
- Easier for fish exporters to respond to the tariffs
- How extensive will the trade war be?

IMF in report on Iceland 6 May

Risks to growth are tilted to the downside while risks to inflation are broadly balanced. The impact of rising trade tensions could be larger than projected if US tariffs are extended to pharmaceuticals products, or if Iceland is affected by potential EU retaliation. Also, a reduction in the number of tourists travelling to and from the US could negatively impact tourism. Inflation could rise if trade tensions trigger supply chain disruptions or capital flight weakens the exchange rate. Conversely, capital inflows could put upward pressure on the exchange rate and weaken competitiveness

Sources: IMF

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