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## Foreign exchange market, exchange rate developments, and international reserves 2024

*The króna appreciated by 4% from the beginning to the end of 2024. Total turnover in the interbank foreign exchange market contracted year-on-year, and the króna was less volatile than in previous years. The market was stable until August, when the króna began to weaken, but it started appreciating again in September and kept strengthening until the end of the year. The Central Bank intervened in the foreign exchange market in February, buying foreign currency for 9.2 b.kr. in response to foreign inflows of capital into the domestic bond market. The interest rate differential with abroad remained fairly wide, and non-residents bought more Icelandic Treasury bonds than the year before. Pension funds continued to be active buyers of foreign currency and stepped up their purchases slightly relative to 2023. The commercial banks' net forward foreign currency position declined over the year as a whole. Transactions relating to the takeover bid of Marel by John Bean Technologies (JBT) affected the foreign exchange market during the year, as the deal is large by Icelandic standards. The Treasury issued two eurobonds in 2024, for a combined 800 million euros, and the interest rate spread on foreign issues by the Treasury and the commercial banks declined. At the year-end, the Bank's international reserves totalled 886 b.kr., or 20% of GDP.*

### **Exchange rate of the króna**

The króna appreciated by 4% in trade-weighted terms from the beginning to the end of 2024. Exchange rate developments differed from one currency pair to another. For example, the króna appreciated by 4.6% against the euro but depreciated by 1.4% against the US dollar. This is mainly due to the strengthening of the dollar against major currencies in Q4. After holding relatively stable early in 2024, the króna started weakening in August. Firms' and investors' expectations of an appreciation of the króna appeared to dwindle over the summer, as could be seen in the closing out of forward positions with the króna, which are mainly used for hedging but also for speculative purposes. Growth in tourism had slowed in Q2, and pessimism about export revenues from the sector could be detected at the beginning of the summer, owing not least to the impact of the volcanic eruptions in the Reykjanes area. Furthermore, the Icelandic Tourist Board revised its tourist arrival forecast downwards at the beginning of June. The exchange rate depreciation proved short-lived, however, as the króna began strengthening in early September and continued to appreciate in Q4, particularly in mid-November.

There was relatively heavy trading in the foreign exchange market in Q1 in connection with non-residents' Treasury bond purchases. Foreign capital inflows into Treasury bonds largely stagnated in the two quarters thereafter but turned upwards again in the autumn. The interest rate differential with abroad remained relatively wide during the year, and by

the autumn leading central banks had lowered their policy rates. Furthermore, activity in the tourism sector started to pick up again in Q3.

In mid-November, the króna appreciated strongly, doubtless due in part to foreign investment in Marel shares during the run-up to its takeover by US company JBT. The JBT takeover was approved by Marel shareholders in December, and its settlement was completed just after the turn of the year. The takeover deal was sizeable in Icelandic context and brought in substantial foreign currency for Icelandic shareholders, mostly pension funds.

The foreign exchange market was relatively stable in 2024. There was little volatility, and turnover was modest in historical context, indicating that currency flows in the Icelandic economy were well balanced. The trade-weighted exchange rate index moved by an average of 0.18% per day in 2024, the lowest volatility by that measure since 2015. Both turnover and volatility in the interbank market have been on the decline over the past two years. The trade weighted exchange rate index was lowest in early September and highest during the final business days of 2024. The spread between the year's highest and lowest official exchange rates for the index was 5.4%, about half as much as in 2023. The yearly average exchange rate index was virtually identical to that in 2023.

### **Foreign exchange market**

Turnover in the interbank foreign exchange market totalled 216.3 b.kr. (1.5 billion euros) in 2024, a decrease of just over 10% year-on-year. It was the smallest single-year total since 2019. The Central Bank accounted for 4.2% of total turnover, up from 2.3% in 2023. The Bank's foreign exchange transactions were in line with its intervention policy, which aims, among other things, at reducing short-term fluctuations in the exchange rate of the króna due to the lack of depth of the market, and to affect the exchange rate when the Monetary Policy Committee believes that the exchange rate of the króna has moved too far from a level reflecting the underlying economic situation.<sup>1</sup> The Bank intervened in the market on 9 February, buying currency for 9.2 b.kr. (62 million euros) in connection with a foreign agent's investment in a Government Debt Management auction of the nominal RIKB 35 Treasury bond series. It was the Bank's only intervention in the interbank foreign exchange market during the year.

The stability in the foreign exchange market during the year may well be due in part to relatively well-balanced external trade, but as in the past decade or so, the surplus on services trade and the deficit on goods trade tended to offset one another. Nearly 2.3 million foreign nationals departed from Keflavík Airport in 2024, an increase relative to the prior year, and only in 2018 have departure numbers been higher. According to payment card data, tourists' spending generated more foreign exchange revenues in 2024 than in 2023. On the other hand, the goods account deficit was sizeable, and larger than in 2023. Furthermore, the failed capelin catch affected fishing companies' export revenues during the year.

As before, pension funds were large-scale purchasers of foreign currency during the year, with net purchases totalling 84.4 b.kr., or 1.8 b.kr. more than in 2023. Non-residents'

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<sup>1</sup> See [Monetary Policy Strategy](#).

holdings in Icelandic Treasury bonds increased by 41.6 b.kr. in nominal terms, as compared with 18.6 b.kr. in 2023. At the end of 2024, their Treasury bond holdings were larger than they had been since early 2020, before the COVID-19 pandemic struck, although their share in the outstanding Treasury bond stock was smaller than in 2020. There were also some inflows into the domestic equity market in 2024. On the other hand, the commercial banks' net forward position with the Icelandic króna against foreign currencies declined by roughly 30 b.kr. over the year. It increased during the first half of the year but decreased during the second half.

In mid-March, the Treasury issued a green bond in the amount of 750 million euros, with demand outstripping supply by a factor of nine. In June, the Treasury issued a sovereign gender bond in the amount of 50 million euros. The interest rate spread on the Treasury's foreign issues declined during the year, and Iceland's sovereign credit rating was upgraded in September. The Icelandic commercial banks' access to foreign capital markets improved during the year, and interest rate spreads on their foreign issues declined.

### **Central Bank international reserves**

At the end of 2024, the Central Bank's international reserves amounted to 886 b.kr., some 96 b.kr. more in krónur terms than at year-end 2023. In US dollar terms, the reserves increased by 0.7 billion dollars, to a total of 6.4 billion dollars at the year-end. At that time, the reserves totalled 20% of GDP for the year and 29% of broad money holdings (M3), and they covered six months' worth of goods and services imports. In March and June, the Treasury issued two eurobonds in the combined amount of 119 b.kr. One foreign issue matured in June, in the amount of 36 b.kr. The increase in the international reserves is due mostly to the new bond issues by the Treasury.

The Bank's intervention in the foreign exchange market increased the reserves by 9.2 b.kr. Interest income net of interest expense on the Central Bank's external assets and liabilities totalled 29 b.kr. Changes in market prices increased the reserves by 1 b.kr., while exchange rate movements reduced them by 15 b.kr. At the end of 2024, the international reserves net of the Central Bank and the Treasury's foreign-denominated debt amounted to 516 b.kr., as compared with 506 b.kr. at the end of 2023.

The Central Bank's foreign exchange balance – i.e., the difference between the Bank's foreign-denominated assets and liabilities – was positive by 548 b.kr. at year-end 2024, as opposed to 515 b.kr. at the end of 2023.

**Table 1. Foreign exchange market, exchange rate, and international reserves**

		2022	2023	2024
ISK exchange rate (+appreciation/-depreciation)	%	-2.1%	1.5%	4.0%
Exchange rate volatility <sup>1</sup>	%	7.6%	6.3%	4.0%
FX market turnover	b.kr.	385	241	216
– Central Bank share	%	14.2%	2.3%	4.2%
FX market purchases, Central Bank	b.kr.	33.9	0.0	9.2
FX market sales, Central Bank	b.kr.	20.7	5.5	0
Net FX purchases, Central Bank	b.kr.	13.2	-5.5	9.2
Reserves in USD	USD bn	6.1	5.7	6.4
Reserves in b.kr.	b.kr.	837	790	886
Reserves financed domestically <sup>2</sup>	b.kr.	522	506	516
Central Bank foreign exchange balance <sup>3</sup>	b.kr.	528	515	548
International reserves, as % of GDP <sup>4</sup>	%	24%	20%	20%

1. Standard deviation of daily exchange rate movements, annualised.

2. International reserves net of Central Bank and Treasury foreign debt.

3. Difference between assets and liabilities in foreign currency.

4. GDP Q3/2023 – Q3/2024.

Chart 1

## Exchange rate of the Icelandic króna 2024

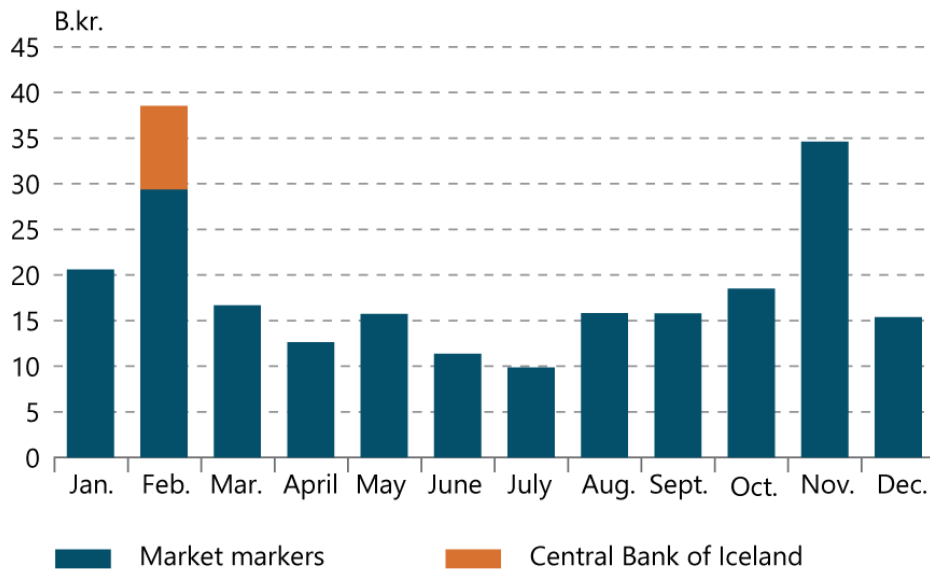


Narrow trade basket. An increase in the series indicates a depreciation of the króna and a decline indicates an appreciation.

Source: Central Bank of Iceland.

Chart 2

## Turnover in the interbank foreign exchange market 2024



Source: Central Bank of Iceland.