

# ICELAND

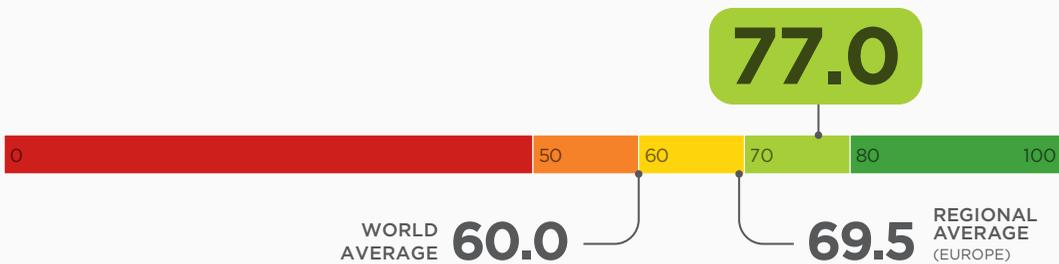


Iceland's economic freedom score is 77.0, making its economy the 13th freest in the 2022 *Index*. Iceland is ranked 9th among 45 countries in the Europe region, and its overall score is above the regional and world averages.

Iceland's economy grew at a steady but decelerating pace from 2017 through 2019, crashed in 2020, but recovered in 2021, resulting in a five-year average annual growth rate of 2.2 percent. The country has maintained robust levels of economic freedom for the past half-decade. Lifted by substantial score increases for rule of law (**property rights**, **judicial effectiveness**, and **government integrity**), Iceland has recorded a 2.6-point overall gain of economic freedom since 2017 and remains in the top tier of the "Mostly Free" category. Monetary freedom, **trade freedom**, and **investment freedom** are strong, but **government spending** continues to weigh heavily on the economy.

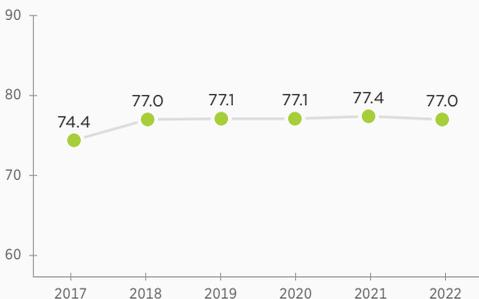
**IMPACT OF COVID-19:** As of December 1, 2021, 35 deaths had been attributed to the pandemic in Iceland, and the government's response to the crisis ranked 131st among the countries included in this *Index* in terms of its stringency. The economy contracted by 6.6 percent in 2020.

## ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1997): +6.5

## RECENT FREEDOM TREND



## QUICK FACTS

**POPULATION:**  
0.4 million

**GDP (PPP):**  
\$20.4 billion  
-6.6% growth in 2020  
5-year compound annual growth 2.2%  
\$55,966 per capita

**UNEMPLOYMENT:**  
5.0%

**INFLATION (CPI):**  
2.9%

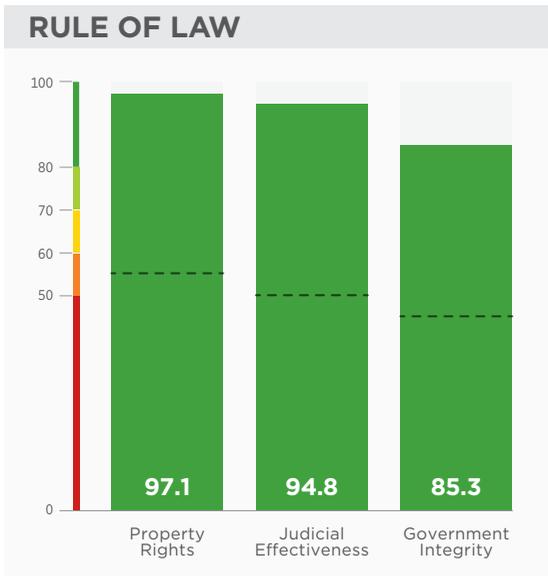
**FDI INFLOW:**  
-\$811.0 million

**PUBLIC DEBT:**  
79.9% of GDP

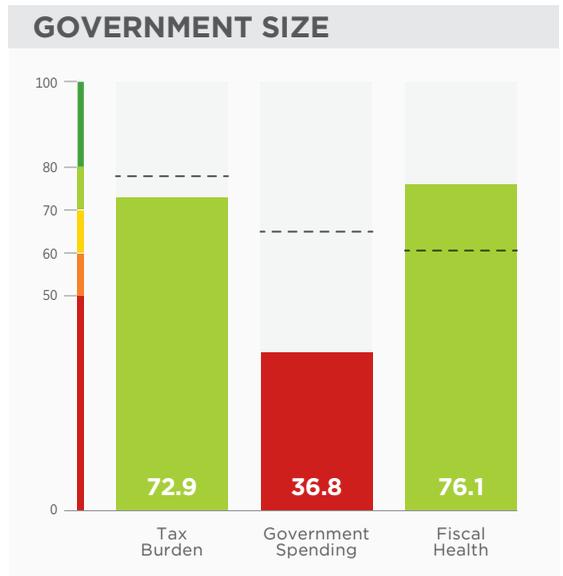
2020 data unless otherwise noted. Data compiled as of September 2021

**BACKGROUND:** Iceland is one of the world's oldest democracies. Katrin Jakobsdottir of the Left-Green Movement became the country's sixth prime minister since 2009 after forming a coalition with the center-right Independence Party and the populist Progressive Party in 2017. Independent Guðni Jóhannesson, a historian, was reelected to the largely ceremonial presidency in 2020. The government has pledged aggressive targets for emission reductions. Iceland's economy has been adversely affected by the contraction of its tourism industry, which began in 2019 and accelerated in 2020 because of the COVID-19 pandemic. Although Iceland officially withdrew its application for membership in the European Union in 2015, it enjoys free trade and movement of capital, labor, goods, and services with the EU.

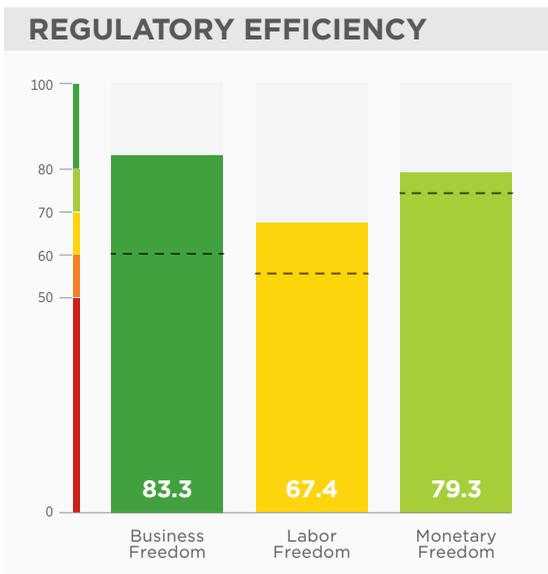
# 12 ECONOMIC FREEDOMS | ICELAND



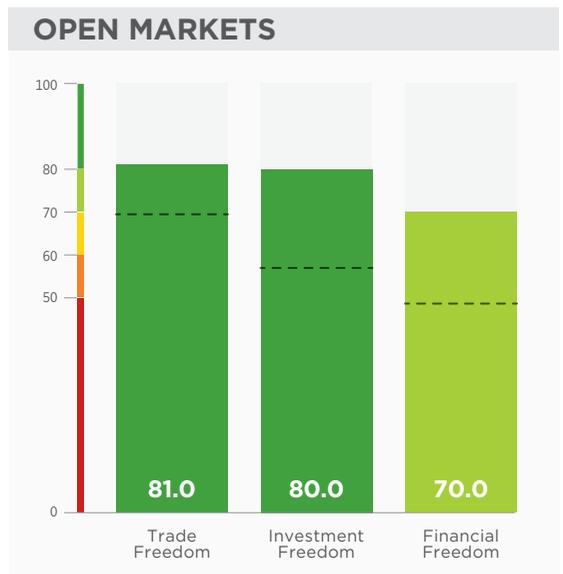
The civil law system enforces property rights, contractual rights, and the means to protect these rights. Although registration is easy, real property rights are reserved primarily to Icelandic citizens. The judiciary is independent from parliament and government, and its accountability and transparency are well institutionalized. Although isolated cases and allegations of corruption have occurred, corruption is well controlled.



The top individual income tax rate is 31.8 percent, and the top corporate tax rate is 20 percent. Other taxes include value-added and estate taxes. The overall tax burden equals 36.1 percent of total domestic income. Government spending has amounted to 45.9 percent of total output (GDP) over the past three years, and budget deficits have averaged 2.6 percent of GDP. Public debt is equivalent to 79.9 percent of GDP.



Laws regulating businesses are consistent with OECD standards. Regulations are transparent, and proposed laws and regulations are open for comment. The Covid-related contraction of the tourism sector has had a serious impact on employment. The government funds numerous subsidy and grant programs related to climate change and the environment including for electric vehicles.



Iceland has 32 preferential trade agreements in force. The trade-weighted average tariff rate is 2.0 percent, and 89 nontariff measures are in effect. Transparent and efficient regulations, applied evenly in most cases, encourage investment. With capital controls removed, the financial sector has regained stability. A range of commercial banking services is available. No restrictive measures were implemented in the banking sector during 2020.