ICELAND

Iceland’s economic freedom score is 77.0, making its economy the 11th freest in the 2018 Index. Its overall score has increased by 2.6 points, reflecting significant improvements in the scores for the financial freedom, government integrity, investment freedom, fiscal health, and government spending indicators. Iceland is ranked 5th among 44 countries in the Europe region, and its overall score is above the regional and world averages.

To recover from the 2008 collapse of Iceland’s financial sector, the government stabilized the krona, implemented capital controls, reduced the high budget deficit, contained inflation, restructured the financial sector, and diversified the economy. Macroeconomic indicators and employment rebounded, and almost all capital controls have been lifted. Infrastructure spending is likely to remain a priority for the next government because there is broad agreement that it is necessary to support continued growth in tourism, which has become the country’s most lucrative industry.

**ECONOMIC FREEDOM SCORE**

**WORLD RANK:** 11  
**REGIONAL RANK:** 5  
**ECONOMIC FREEDOM STATUS:** MOSTLY FREE

**77.0**  
▲ UP 2.6 POINTS

**WORLD AVERAGE**  
61.1

**REGIONAL AVERAGE** (EUROPE REGION)  
68.8

**NOTABLE SUCCESSES:**  
Fiscal Policy, Business Freedom, and Open Markets

**CONCERNS:**  
Government Spending and Labor Freedom

**OVERALL SCORE CHANGE SINCE 2014:**  
+4.6

**BACKGROUND:** Iceland is one of the world’s oldest democracies. The short-lived center-right coalition government of Independence Party Prime Minister Bjarni Benediktsson collapsed in September 2017. The Independence Party remained the largest but lost five parliamentary seats in an October 2017 snap election, potentially paving the way for a left-leaning coalition. Guðni Jóhannesson, an independent historian, was elected to the largely ceremonial presidency in 2016. Iceland officially withdrew its application for membership in the European Union in 2015 but enjoys free trade and movement of capital, labor, goods, and services with the EU. A decade after a devastating banking crisis, Iceland’s economy is surging. GDP growth is fueled in large part by domestic consumption and record increases in tourism.
Although private property is well protected, real property rights are mostly reserved to Icelandic citizens. Iceland has a solid legal institutional framework to enforce laws protecting intellectual property. The judiciary is independent, and accountability and transparency are institutionalized. In 2016, the prosecutorial system was restructured to transfer more responsibilities to district prosecutors. Corruption is well controlled.

The top personal income tax rate is 31.8 percent, and the flat corporate tax rate is 20 percent. Other taxes include value-added and estate taxes. The overall tax burden equals 37.1 percent of total domestic income. Over the past three years, government spending has amounted to 43.1 percent of total output (GDP), and budget surpluses have averaged 3.5 percent of GDP. Public debt is equivalent to 53.2 percent of GDP.

The transparent regulatory environment is favorable to commercial activity, allowing business formation and operation to be efficient. As of March 2017, Iceland had a labor force participation rate of 84.9 percent and an unemployment rate of just 1.7 percent. Capital controls, which had been imposed in 2008 during the global financial crisis, were finally lifted in 2017.

Trade is significant for Iceland's economy; the combined value of exports and imports equals 92 percent of GDP. The average applied tariff rate is 0.8 percent. Nontariff barriers impede some trade. In general, government policies do not significantly interfere with foreign investment. Iceland has restructured and recapitalized its banking system. The central bank has eased restrictions on the movement of capital that were instituted following the financial turmoil in 2008.