

# ICELAND



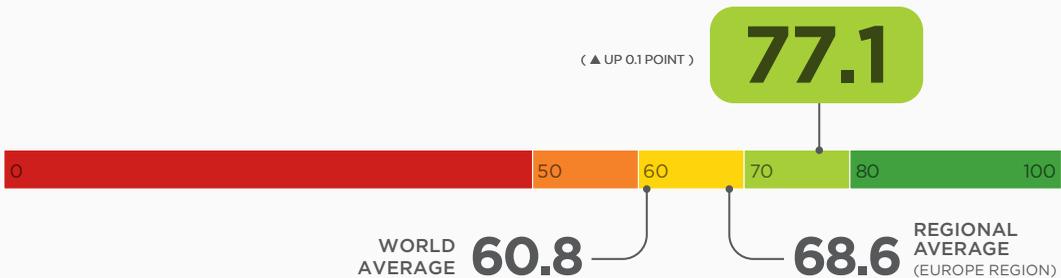
WORLD RANK: **11** | REGIONAL RANK: **4**

ECONOMIC FREEDOM STATUS: **MOSTLY FREE**

Iceland's economic freedom score is 77.1, making its economy the 11th freest in the 2019 *Index*. Its overall score has increased by 0.1 point, with increases in scores for **government integrity**, **fiscal health**, and **labor freedom** exceeding a sharp drop in **judicial effectiveness**. Iceland is ranked 4th among 44 countries in the Europe region, and its overall score is above the regional and world averages.

Abundant geothermal and hydropower sources have attracted substantial foreign investment in the aluminum sector. Improving and expanding the country's civil infrastructure, including the road system, public transport, and airports, will help to address capacity constraints that have arisen from the booming tourism industry. In a 2018 report, the Council of Europe recommended strengthening systems against corruption and improper conduct. The government aims to make Iceland carbon neutral by 2040 and to provide tax incentives to promote innovation and improve the competitive position of Iceland's industries.

## ECONOMIC FREEDOM SCORE

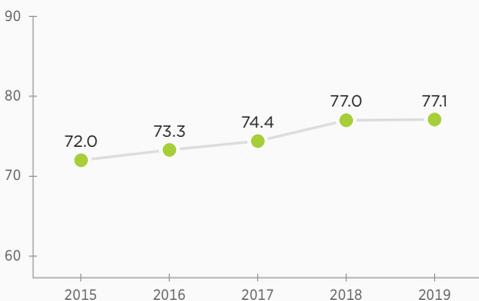


**RELATIVE STRENGTHS:**  
Fiscal Health and Business Freedom

**HISTORICAL INDEX SCORE CHANGE (SINCE 1997):**  
+6.6

**CONCERNS:**  
Government Spending and Judicial Effectiveness

## FREEDOM TREND



## QUICK FACTS

**POPULATION:**  
0.3 million

**GDP (PPP):**  
\$17.6 billion  
3.6% growth in 2017  
5-year compound annual growth 4.4%  
\$51,842 per capita

**UNEMPLOYMENT:**  
2.8%

**INFLATION (CPI):**  
1.8%

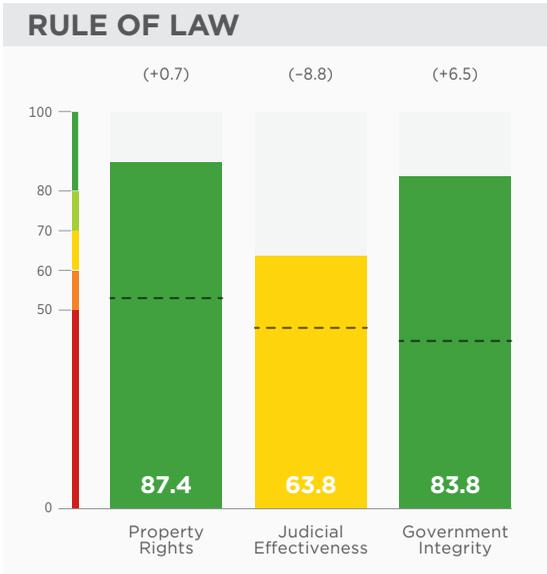
**FDI INFLOW:**  
-\$5.4 million

**PUBLIC DEBT:**  
40.9% of GDP

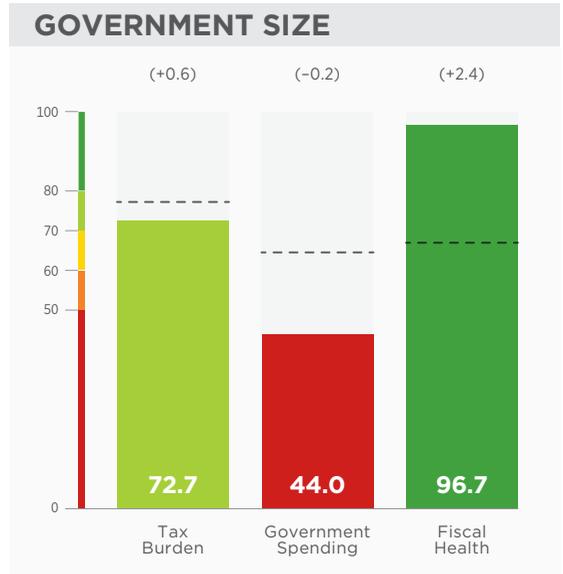
2017 data unless otherwise noted. Data compiled as of September 2018

**BACKGROUND:** Iceland is one of the world's oldest democracies. Guðni Jóhannesson, an independent historian, was elected to the largely ceremonial presidency in 2016. 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 November 2017. The continuing uncertainty generated by the fragility of this coalition has contributed to a slowing of recent breakneck economic growth driven by the technology sector and tourism. 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.

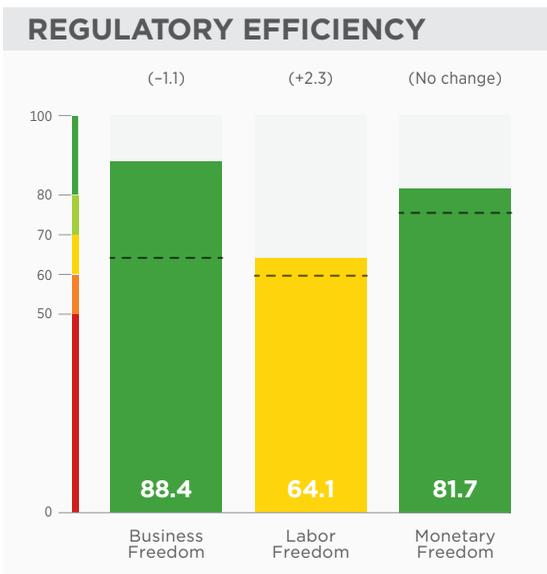
# 12 ECONOMIC FREEDOMS | ICELAND



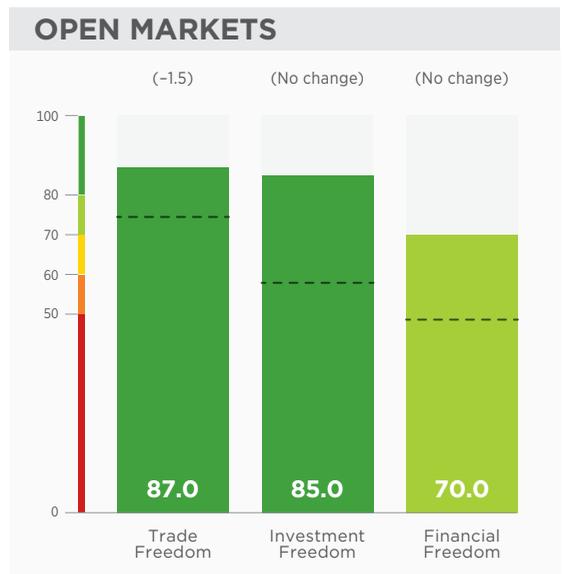
Private property is well protected, but real property rights are mostly reserved to Icelandic citizens. Iceland has a solid legal institutional framework to enforce laws protecting intellectual property. The judiciary is independent, and accountability and transparency are well institutionalized. Corruption is effectively controlled. Iceland is ranked 13th out of 180 countries in Transparency International's 2017 *Corruption Perceptions Index*.



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 36.4 percent of total domestic income. Over the past three years, government spending has amounted to 43.2 percent of the country's output (GDP), and budget surpluses have averaged 4.5 percent of GDP. Public debt is equivalent to 40.9 percent of GDP.



The transparent regulatory environment supports commercial activity, allowing efficient business formation and operation. The labor market, characterized by broad wage settlements and high unionization, lacks flexibility. Although it continues to remove capital controls, the government introduced temporary subsidies in 2018 to encourage the production of films and television programs in Iceland.



The combined value of exports and imports is equal to 89.8 percent of GDP. The average applied tariff rate is 1.5 percent. As of June 30, 2018, according to the WTO, Iceland had 89 nontariff measures in force. Transparent and efficient regulations, applied evenly in most cases, encourage investment. Companies have access to regular commercial banking services. The state owns two of the three largest commercial banks.