

ICELAND

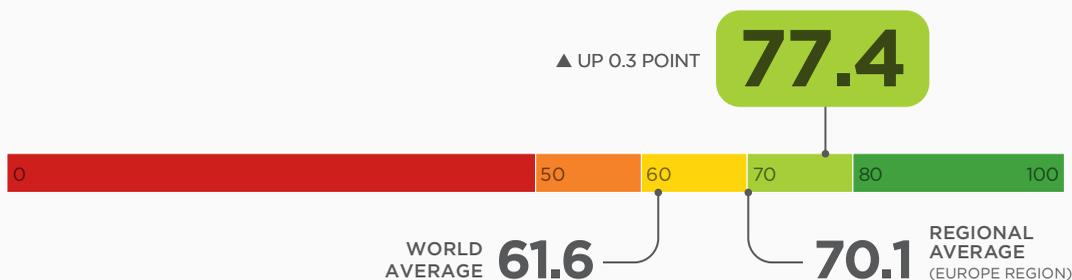
Iceland's economic freedom score is 77.4, making its economy the 11th freest in the 2021 *Index*. Its overall score has increased by 0.3 point, primarily because of an improvement in **judicial effectiveness**. Iceland is ranked 6th among 45 countries in the Europe region, and its overall score is above the regional and world averages.

Iceland continued its climb up the ranks of the mostly free this year, but progress slowed. For the economy to advance to the free category, the government would have to address its weakest-performing *Index* indicator: government spending. Unfortunately, the exact opposite is happening. The budget is increasing, in part because of a continuing emphasis on funding carbon-neutral programs.

IMPACT OF COVID-19: As of December 1, 2020, 27 deaths had been attributed to the pandemic in Iceland, and the economy was forecast to contract by 7.2 percent for the year.

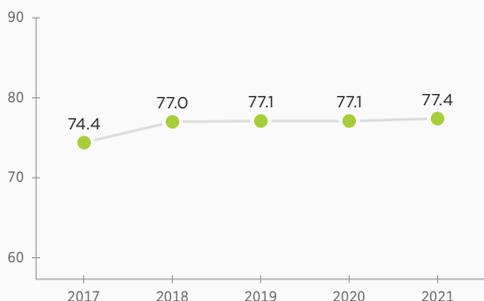


ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1997): +6.9

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
0.4 million

GDP (PPP):
\$20.0 billion
1.9% growth in 2019
5-year compound annual growth 4.3%
\$60,061 per capita

UNEMPLOYMENT:
2.8%

INFLATION (CPI):
3.0%

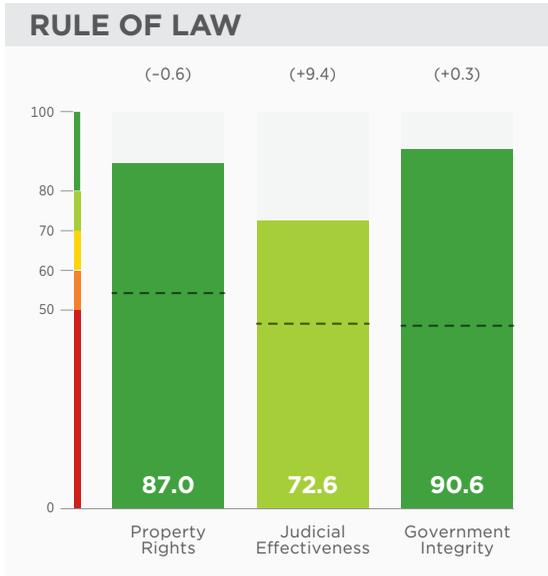
FDI INFLOW:
-\$240.9 million

PUBLIC DEBT:
34.5% of GDP

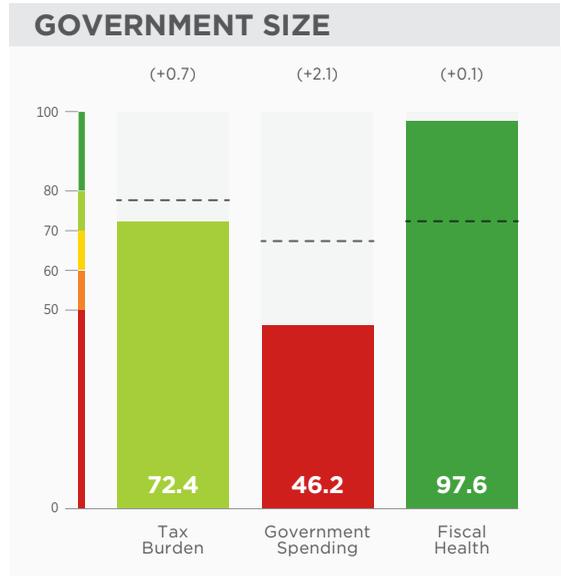
2019 data unless otherwise noted. Data compiled as of September 2020

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 June 2020. Iceland's economy has been adversely affected by the contraction of its tourism industry, which began in 2019. WOW Air went bankrupt in March 2019, and the coronavirus pandemic has left privately owned Icelandair fighting for survival. 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.

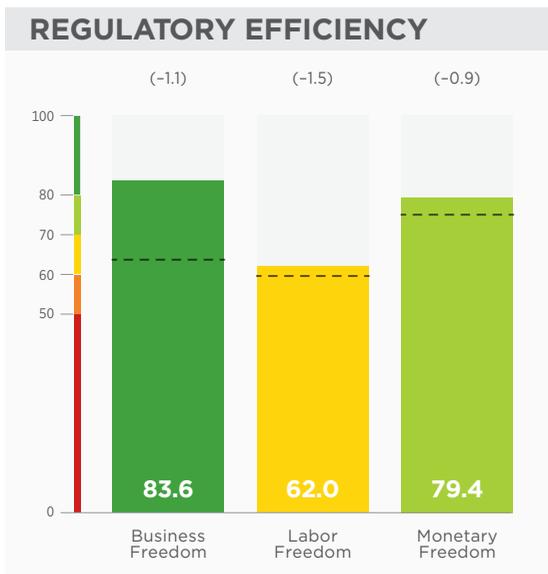
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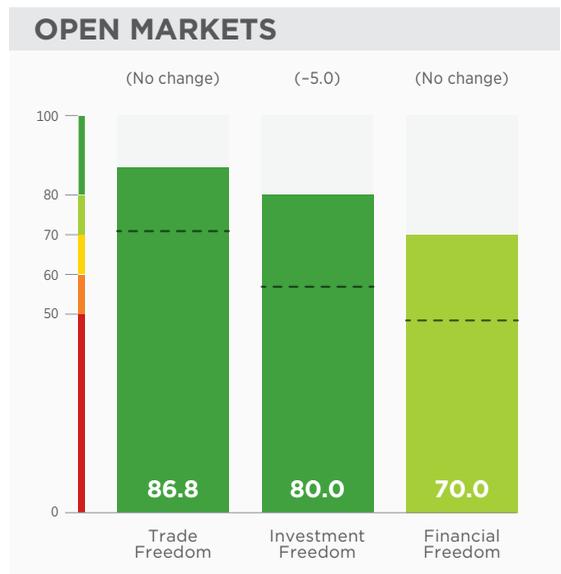
Property rights are generally enforced in Iceland. Although registration is easy, real property rights are mostly reserved to Icelandic citizens. Iceland has a solid legal institutional framework to enforce the protection of intellectual property. The judiciary is independent, and accountability and transparency are well institutionalized. Corruption is well controlled. Iceland was ranked 11 out of 180 economies in Transparency International's 2019 *Corruption Perceptions Index*.



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 36.7 percent of total domestic income. Government spending has amounted to 42.4 percent of total output (GDP) over the past three years, and budget surpluses have averaged 0.1 percent of GDP. Public debt is equivalent to 34.5 percent of GDP.



Transparent regulations allow efficient business formation and operation. The costs of starting a business, dealing with construction permits, and obtaining electricity were slightly higher this year. Labor force participation and the value added per worker relative to the minimum wage both decreased. Government funding for a number of subsidy and grant programs related to climate change and the environment, including electric vehicles, is increasing.



Iceland has 31 preferential trade agreements in force. The trade-weighted average tariff rate is 1.6 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 are available. No restrictive measures were implemented in the banking sector in 2020.