ICELAND

Iceland's economic freedom score is 72.2, making its economy the 19th freest in the 2023 Index. Its score is 4.8 points lower than last year. Iceland is ranked 13th out of 44 countries in the Europe region, and its overall score remains above the world and regional averages.

The legal framework remains among the world’s best, providing effective protection of property rights. The rule of law is well maintained, and a strong tradition of minimum tolerance for corruption is firmly in place. Despite the challenging global economic situation, the economy has been resilient, bolstered by regulatory efficiency and open-market policies.

BACKGROUND: Iceland is one of the world’s oldest democracies. Prime Minister Katrin Jakobsdottir’s Left-Green Movement and its coalition partners, the center-right Independence Party and populist Progressive Party, won additional seats in parliament in 2021. Independent Guðni Jóhannesson was reelected to the largely ceremonial presidency in 2020. The government has pledged aggressive targets for emission reductions. Iceland’s economy relies heavily on tourism, which increased significantly in 2021 but has not fully recovered its pre-pandemic volume. Iceland 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.
The overall rule of law is very well respected in Iceland. The country’s property rights score is above the world average; its judicial effectiveness score is above the world average; and its government integrity score is above the world average.

Iceland’s modern, transparent regulatory environment encourages entrepreneurial activity by allowing the formation and operation of businesses to be both efficient and dynamic. Labor regulations are relatively rigid with broad wage settlements and high unionization. The most recent available inflation rate is 4.5 percent.

The top individual and corporate tax rates are, respectively, 31.8 percent and 20 percent. The tax burden equals 36.1 percent of GDP. Three-year government spending and budget balance averages are, respectively, 47.8 percent and –6.1 percent of GDP. Public debt equals 74.6 percent of GDP.

The trade-weighted average tariff rate is 2.3 percent, and more than 80 nontariff measures are in force. Transparent and efficient regulations, generally applied evenly, encourage investment. The financial sector has regained stability with capital controls removed. A range of commercial banking services is available.