



Iceland Chamber  
of Commerce

# The Icelandic Economy H1 2024

Current State, Recent Developments and Future Outlook

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We strive to be a leader in social responsibility and sustainability, not only in our operations but also in the positive impact that our services have on our clients and other beneficiaries.

Our goal is to meet the diverse needs of our clients by offering tailored financial services and playing a crucial role in connecting the Icelandic economy to the global financial markets.

**“Our goal is to meet the diverse needs of our clients and connecting the Icelandic economy to the global financial markets.”**

– Steingrímur Arnar Finnsson, CEO



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## The Icelandic Economy

Current State, Recent Developments and Future Outlook – Q4 2023 edition.

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### Current edition

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### Previous edition

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### Further information

For previous editions and a mailing list for future editions, please visit our website, [www.chamber.is](http://www.chamber.is).

### About the Chamber

The Iceland Chamber of Commerce is a non-governmental organisation based on voluntary participation by companies and individuals. Everyone who engages in business in Iceland is eligible to become a member of the Chamber.

# Key facts about Iceland



## Key economic indicators

- The currency is the Icelandic Króna (ISK), USD 1 = ISK 141.09 EUR 1 = ISK 150.3 (22<sup>nd</sup> April 2024)
- Inflation: 6.0% (April 2024)
- Unemployment: 3.6% (February 2024)
- Central Bank policy rate: 9.25% (April 2024)
- Iceland's GDP per capita in 2022 was 71,841 USD PPP
- The current account surplus in Q4/2023 measured -6.65% of GDP
- Central government gross debt-to-GDP measured 37.8% in February 2024, while net debt-to-GDP accounted for 28.5%
- At the end of 2023, the Central Bank's international reserves totalled 790 bn. ISK

## Interesting facts

- 100% of electricity in Iceland is generated from renewable resources
- Foreign citizens are 18.4% of the population in Iceland
- The official language is Icelandic, and the capital is Reykjavik
- The former president Vigdís Finnbogadóttir became the first democratically elected female head of state in 1980
- Iceland's search and rescue services are solely volunteer-run
- Iceland was a founding member of NATO but does not have any military forces
- Iceland's parliament, Alþingi, is the oldest parliament in the world, founded in 930 AD

## Helpful resources

- [Statistics Iceland](#)
- [Central Bank of Iceland](#)
- [Invest in Iceland](#)
- [Business Iceland](#)
- [Green by Iceland](#)
- Local news: [RÚV](#) and [Iceland Monitor](#)
- [Work in Iceland](#)
- [Reykjavík University](#)
- [Government of Iceland](#)
- [Keldan](#)
- [The OECD Economic Survey of Iceland](#)
- [IMF's 2023 Article IV Consultation](#)
- [Althingi](#)



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reveal new  
opportunities**



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# 1 ECONOMIC DEVELOPMENTS

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## 2 ICELAND AT GLANCE

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## 3 INSTITUTIONAL FRAMEWORK

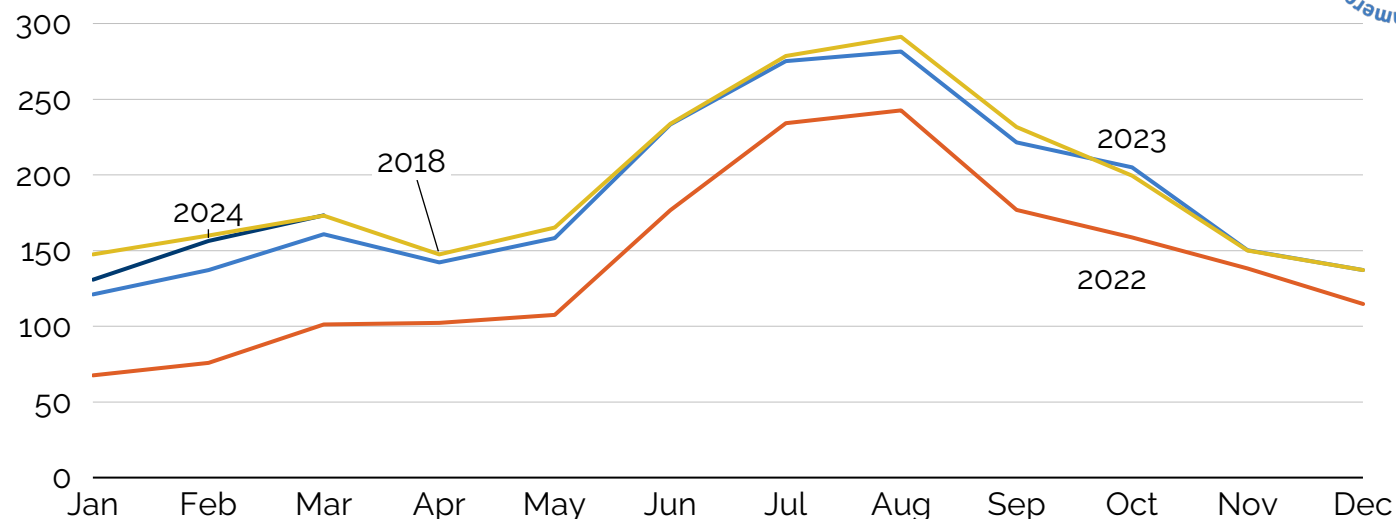
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# Tourism soars but domestic demand eases

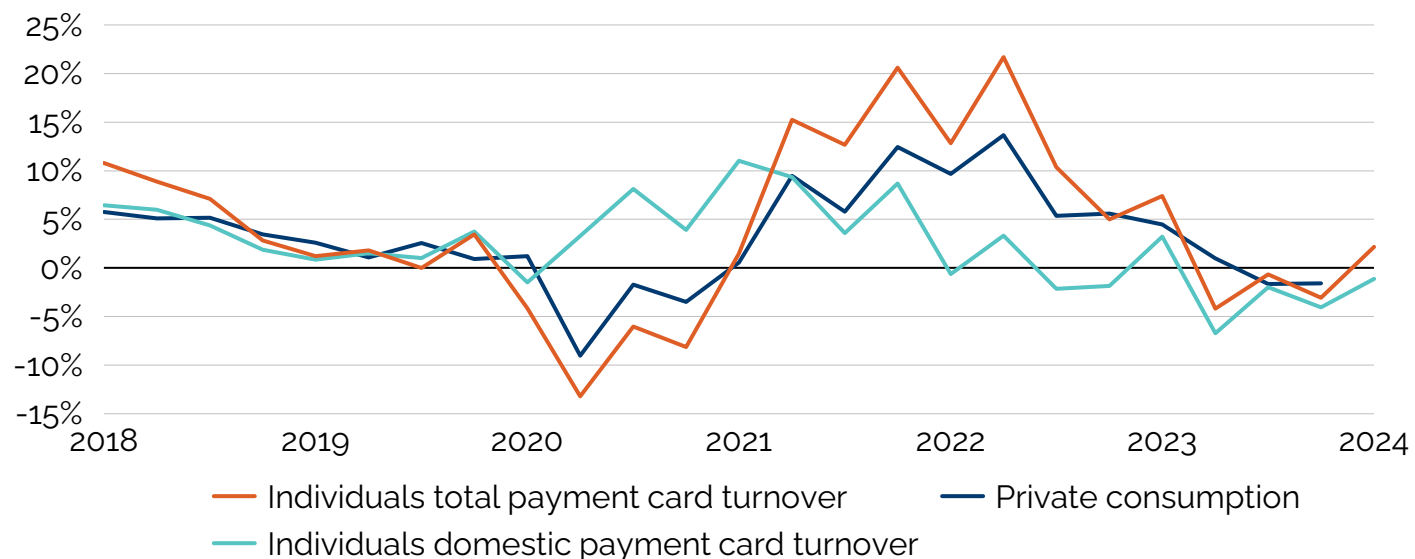
- Volcanic activity on the Reykjanes Peninsula since November 2023, and the evacuation of the town of Grindavík, are likely culprits behind fewer tourist arrivals than forecast.
- However, despite the volcanic activity in the past few months, the number of tourists in 2024 has been on par with 2018, the previous record year.
- Indicators suggest that consumption is slowing down, with domestic payment card turnover contracting, but overall turnover increasing year-over-year in the first quarter of 2024. Private consumption, which grew by 2.5% year-over-year in H1 2023, has slowed down in recent quarters.
- The forecasted growth in private consumption for 2024 is 1.2%, which is expected to negatively affect economic growth since consumption has been one of its main drivers.

1. Payment card turnover in constant prices. Sources: Central Bank of Iceland, Iceland Tourist Board.

## Foreign tourist departures through Keflavik Airport



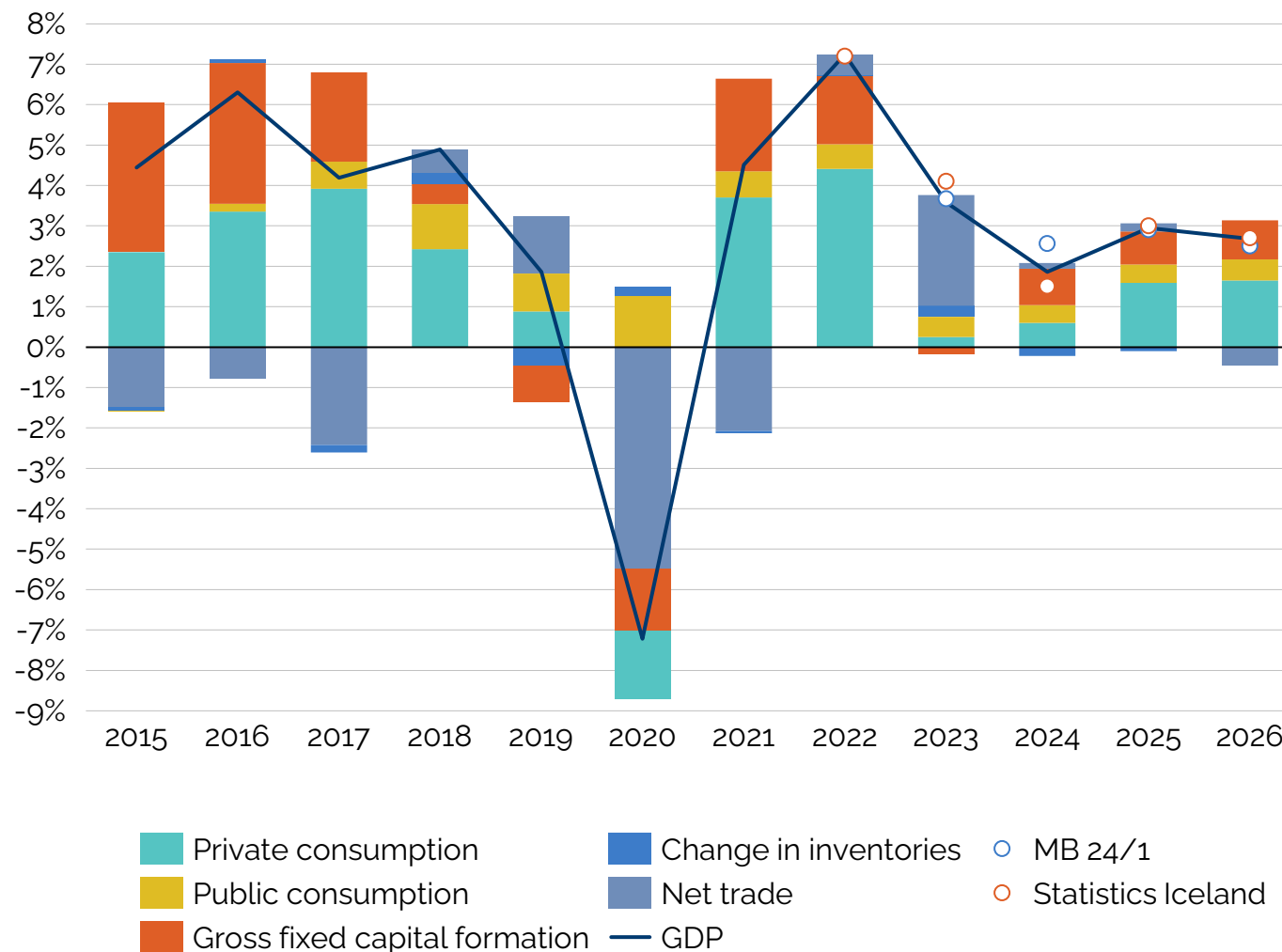
## Private consumption indices (YoY growth)<sup>1</sup>



# A moderate growth outlook

- After an unprecedented GDP growth in 2022, growth has slowed down with forecasts anticipating a 3.6% increase in output 2023.
- In the first three quarters of 2023, GDP growth measured 4.2%, aligning with the CBI's projections. This growth was primarily driven by favourable external trade, predominantly from tourism receipts, which have recently been the key driver of growth.
- However, in Q3 2023, GDP growth was 1.1%, falling below the CBI's expectations and marking the slowest growth in two and a half years. This deceleration was attributed to slower-than-anticipated private consumption growth.
- Forecasts project moderate growth in the coming years, with the main sources being increased capital formation and private consumption.

GDP growth and contribution of underlying components<sup>1</sup>



1. February forecast.



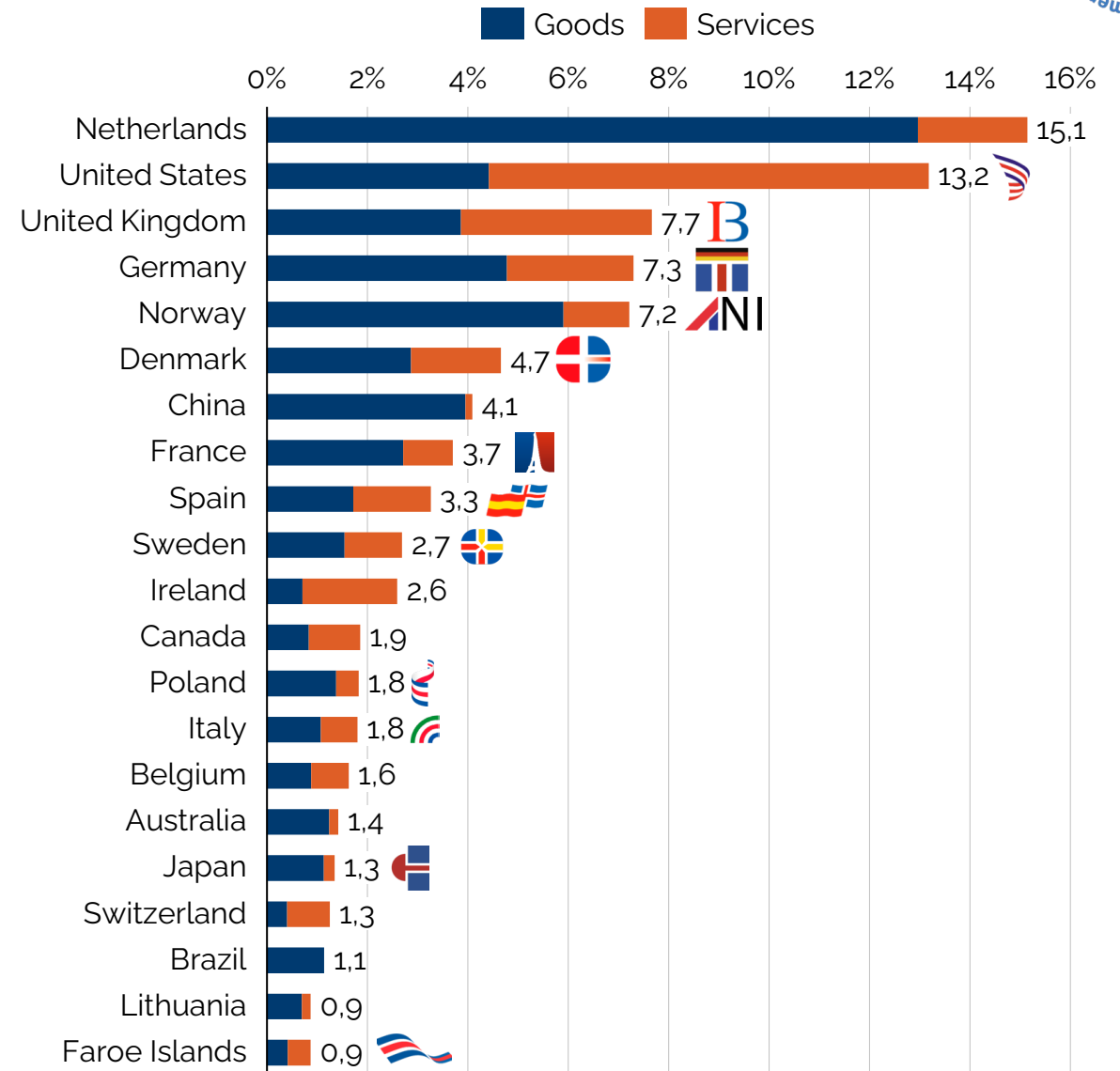
# Bilateral chamber countries account for 56% of total trade

- According to trade data, the Netherlands is Iceland's largest trading partner in goods and services. However, due to the importance of the Rotterdam port as a gateway to Europe, its direct significance is likely to be overestimated in goods trade.
- The United States had over a 13% share in total trade with Iceland in 2022 and is Iceland's most important trading partner.
- The largest trade surplus in 2022 was with the Netherlands, with a 258 billion ISK surplus. Most of the surplus is from goods exports, once again highlighting the likely overestimation of the Netherlands in goods exports.
- The largest trade deficit in 2022 was with Norway, 109 billion ISK. Most of the deficit is due to goods imports, with 52% of Iceland's petroleum imports coming from Norway.
- The countries with which the Iceland Chamber of Commerce operates bilateral chambers have a 56% share in total trade. [Find more about the bilateral chambers here.](#)

Sources: Statistics Iceland, Iceland Chamber of Commerce.



External trade in 2022 by rank (% of total trade in goods and services)

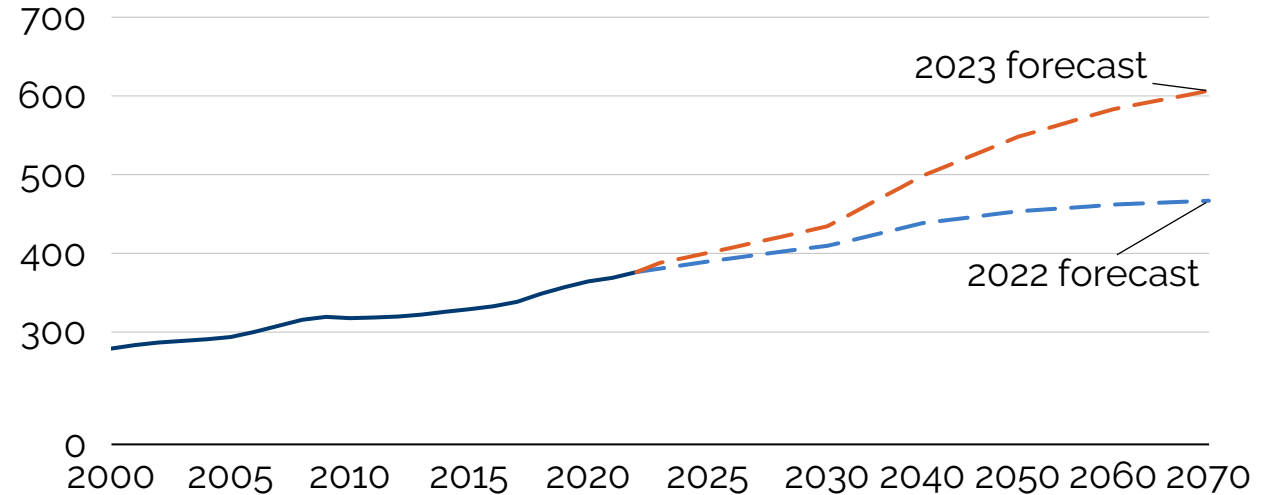


# Iceland's population hit 400,000 in February

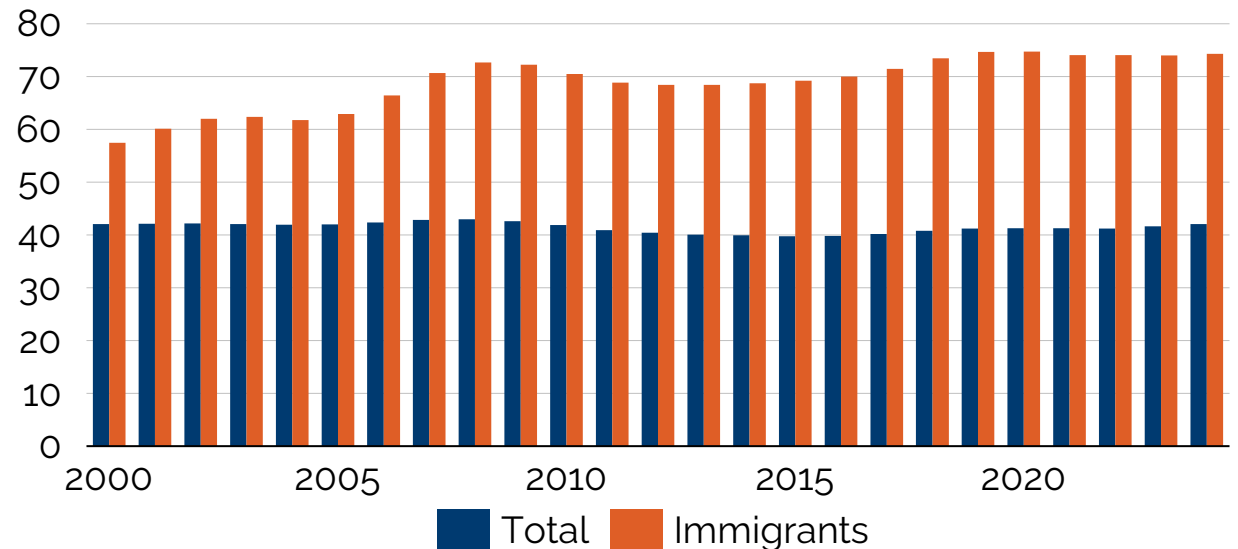
- The Icelandic population was 401,081 on the 1<sup>st</sup> of April 2024. The population reached 400,000 for the first time on the 15th of February. This information comes from Registers Iceland.
- However, Statistics Iceland uses a different method and estimates that the population in Iceland was 383,726 on the 1st of January 2024. Due to discrepancies in public data, the method used to estimate the population is now under review.
- The Statistics Iceland population forecast projects that the population will breach the 500,000 barrier within 20 years. The updated forecast anticipates a more rapid population growth compared to previous projections.
- The rapid growth has been driven by immigration, both fostered by and driving economic expansion. Currently, immigrants make up around 19% of the population in Iceland, with over 70% of them at prime working age.
- The population forecast anticipates longer life expectancy, with positive effects of migration to Iceland.

Sources: Statistics Iceland, Registers Iceland, Iceland Chamber of Commerce.

Population forecast (thousands)



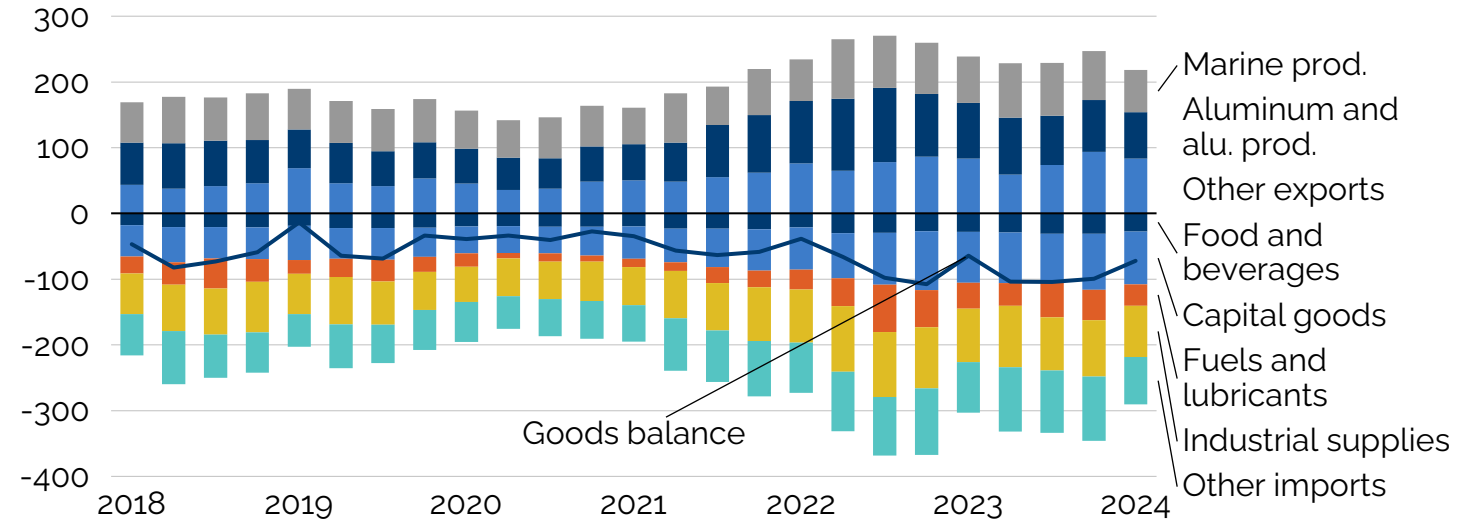
Prime working age ratio (25–54 years old, % of total)



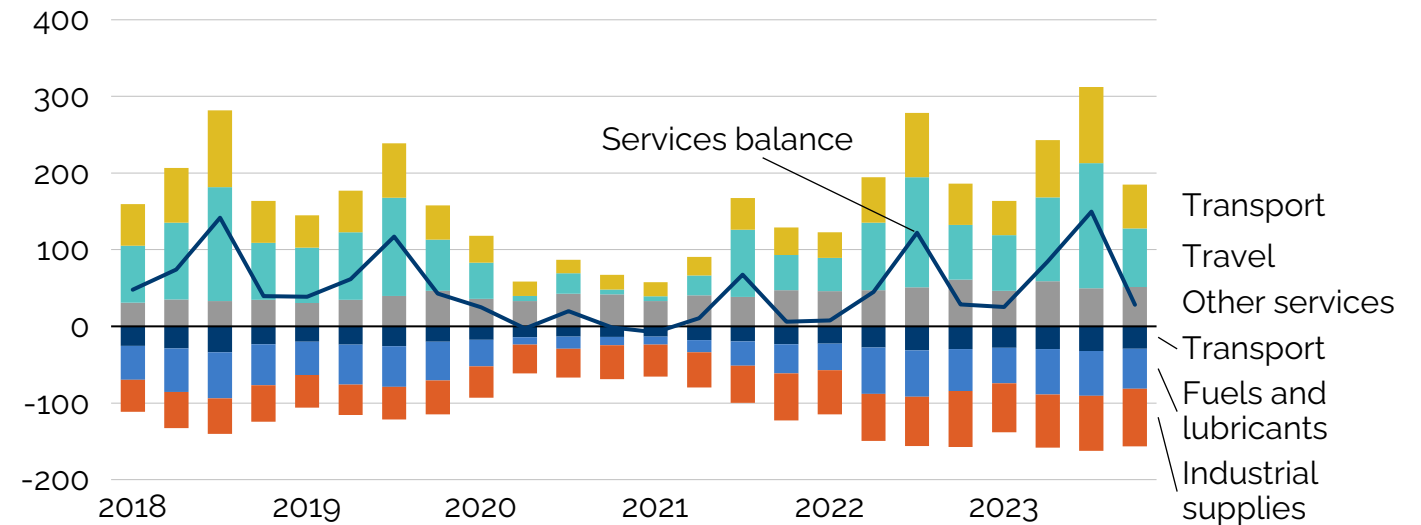
# Continued services trade surplus but goods deficit

- After rapid growth in goods exports in 2022 and 2023 YoY, goods exports amounted to 943.7 billion ISK in 2023, which is an 8.4% decrease compared to 2022 at constant exchange rates. Goods imports amounted to 1,315 billion ISK in 2023, resulting in a goods trade deficit of 371 billion ISK, which is 35 billion ISK less than in 2022.
- Services exports grew by 16% in 2023 YoY and amounted to 903 billion ISK, driven by increased travel and transport services exports. Services imports amounted to 615 billion ISK in 2023, growing by 6% YoY, resulting in a services trade surplus of 287 billion ISK, an increase of 41% since 2022.
- In 2023, total exports amounted to 1847 billion ISK, and growth stabilized after immense growth in 2021 and 2022. Total imports amounted to 1931 billion ISK in 2023, resulting in a trade deficit of 84 billion ISK, or -5% of total exports.

**Goods trade** (bn. ISK at constant exchange rates)



**Services trade** (bn. ISK at constant exchange rates)

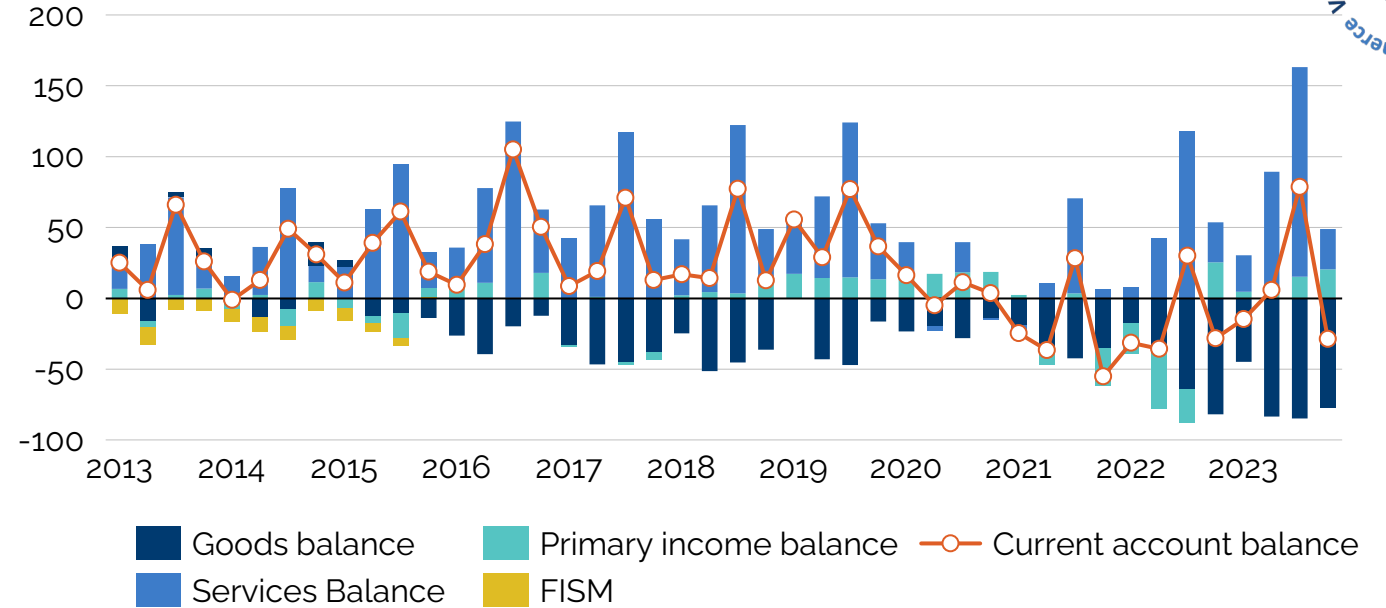


# First current account surplus since 2020

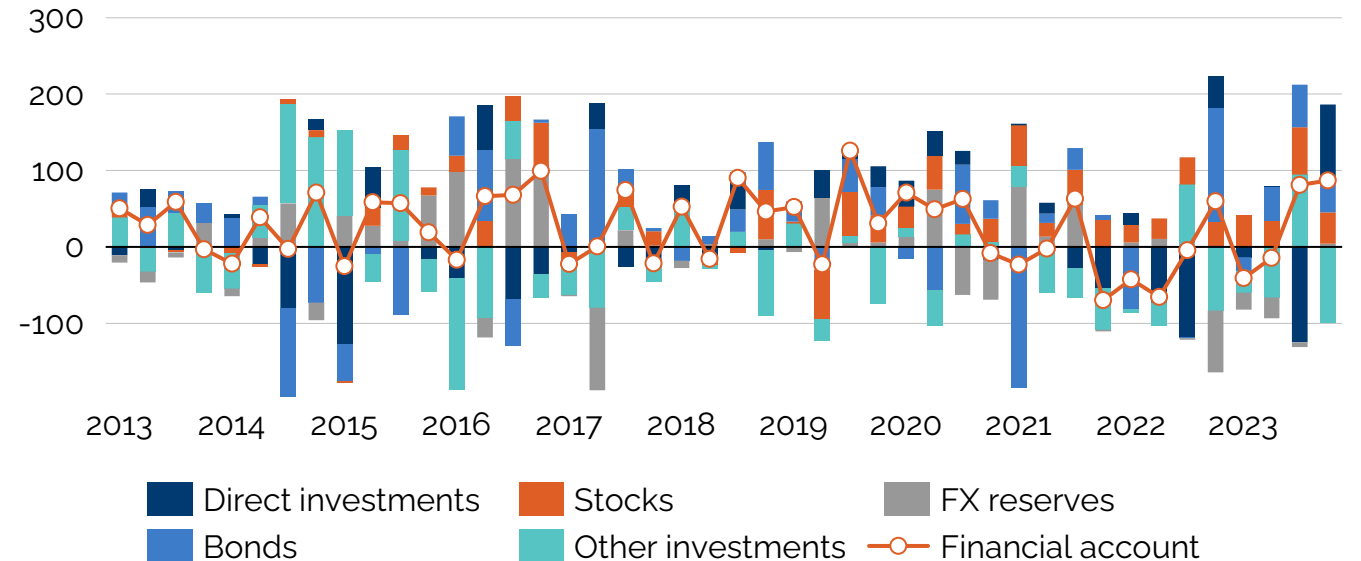
- The goods account deficit in Q4/2023 accompanied by a smaller services account surplus resulted in a current account deficit of 28,5 bn. ISK. This is not uncommon due to less revenue from tourism in the winter months.
- The current accounts surplus was 42 bn. ISK in 2023. There had been a current accounts deficit for the two previous years.
- There was a surplus in the financial account in 2023, for the first time since 2020.
- The financial account balance was positive by 2,6% of GDP during the year. The improvement in Iceland's external position can mainly be explained by rising foreign securities prices. The MSCI index increased by 22% in 2023, while Iceland's OMXI index fell marginally. The improvement in Iceland's net securities position stems mainly from the pension funds' foreign securities portfolio.

1..Failed financial institutions were wound up year-end 2015. Their share is therefore zero from 2016. 2. The effects of the wound up of the failed financial institutions has been corrected for. Quarterly data. Sources: Central Bank of Iceland.

Current account<sup>1</sup> (bn. ISK)



Financial account<sup>2</sup> (bn. ISK)

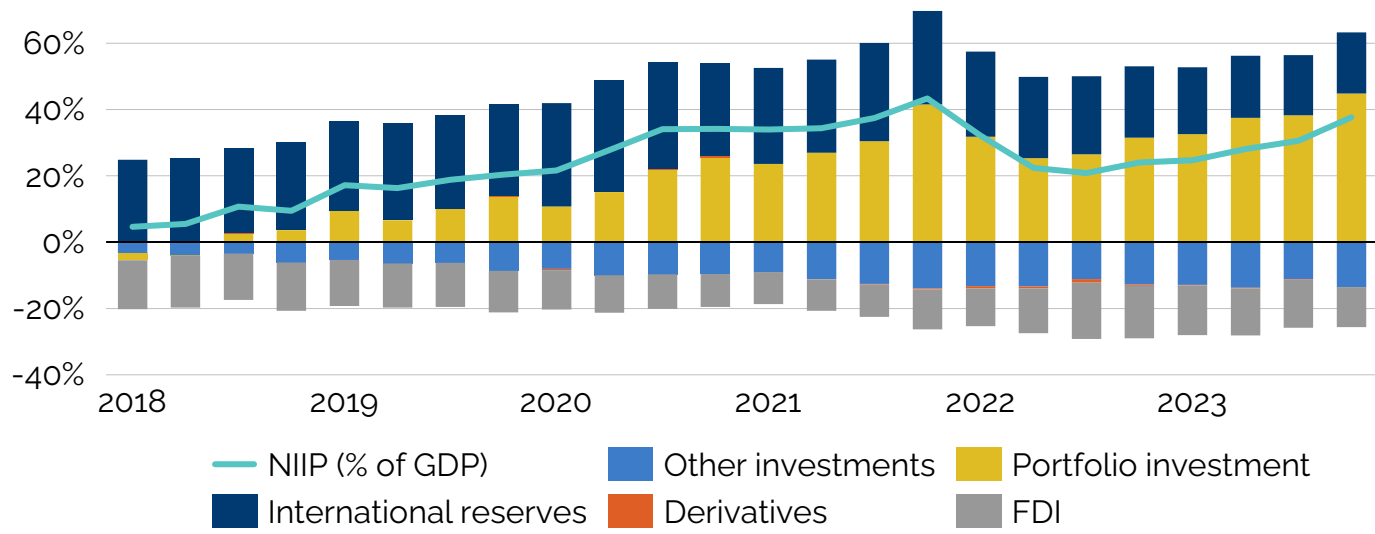


# International investment position remains positive

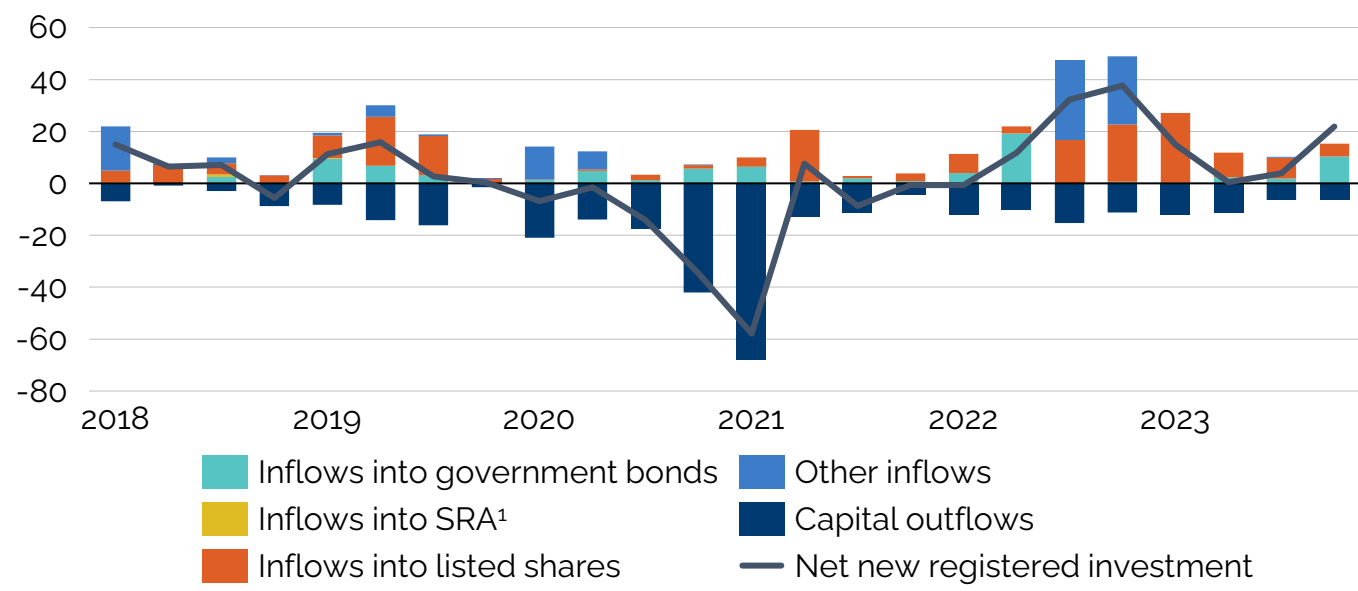
- Iceland's net international investment position (NIIP) stood at 37% in Q4/2023 and improved by 13 percentage points of GDP in 2023.
- Q4/2023 marked the fifth consecutive quarter that the NIIP improved after contracting from 40% to 24% in H1/2022. The NIIP was negative until 2018 and has remained positive since then.
- In 2023, capital flows relating to new investments were limited compared to 2022. Over the summer, flows were limited but started picking up in autumn in relation to Alvotech, the pharmaceutical company, which was added to the OMX10 during the summer and therefore also included in the FTSE indices.
- Inflows into treasury bond purchases have increased as the interest rate differential with abroad has widened this year.

Sources: Central Bank of Iceland, Statistics Iceland.

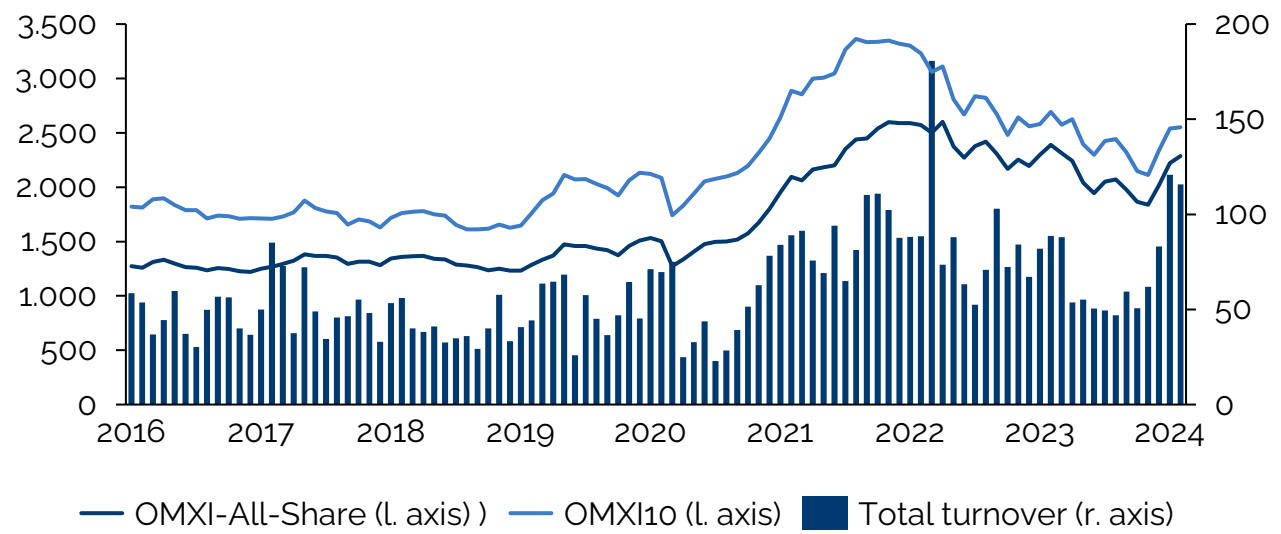
Net international investment position (% of GDP)



Capital flows due to registered new investment (bn. ISK)



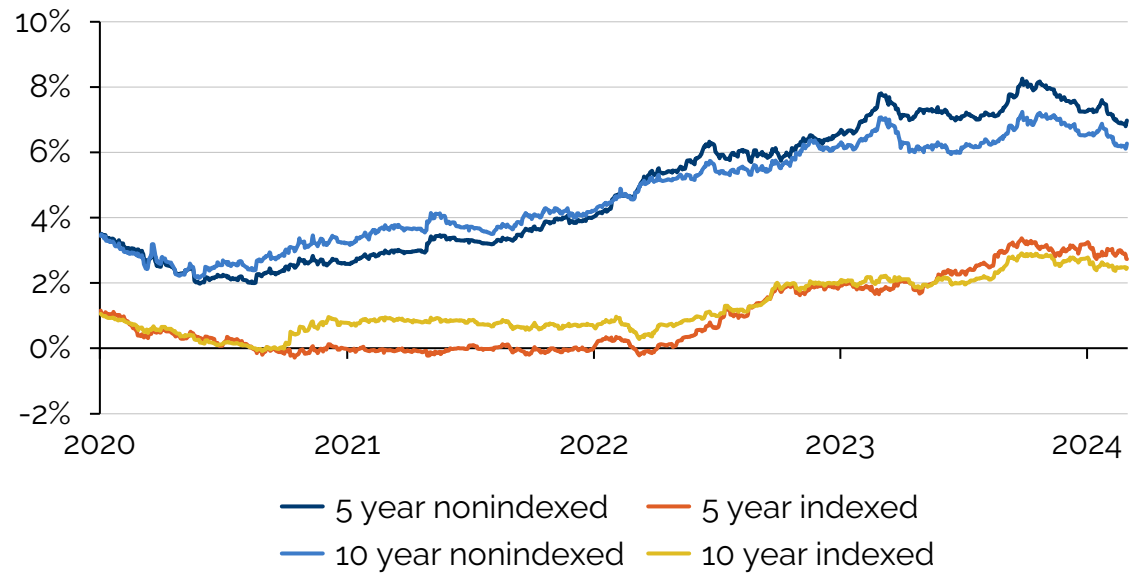
## Equity market<sup>1</sup>



## Four new firms added to the Main Market in 2023

- After dipping in the first ten months of 2023, equity markets began to rise following an informal bid by the American food and beverage company John Bean Technologies to take over all shares in Marel hf. The share price of Marel jumped by 20% on that day, affecting other share prices. Turnover on the equity market in 2023 was down by 25% from 2022, totaling 769 billion ISK, but picked up in recent months.
- In 2023, four companies were added to the Main Market, three of which were moved from the First North Market: Amaroq Minerals, Hampiðjan, and Kaldalón. Ísfélag Vestmanneyja was listed on the market in December, while Origo was delisted from the Icelandic stock exchange in April.
- Bond yields rose concurrently in 2023 with the rising Central Bank's key interest rate. Five-year nominal bonds rose by 0.65 percentage points, and five-year indexed bonds rose by 1.29 percentage points. Bond yields on non-indexed bonds started to taper off in recent months, as in other advanced economies, suggesting that policy rates may have peaked.

## Government-guaranteed bond yields

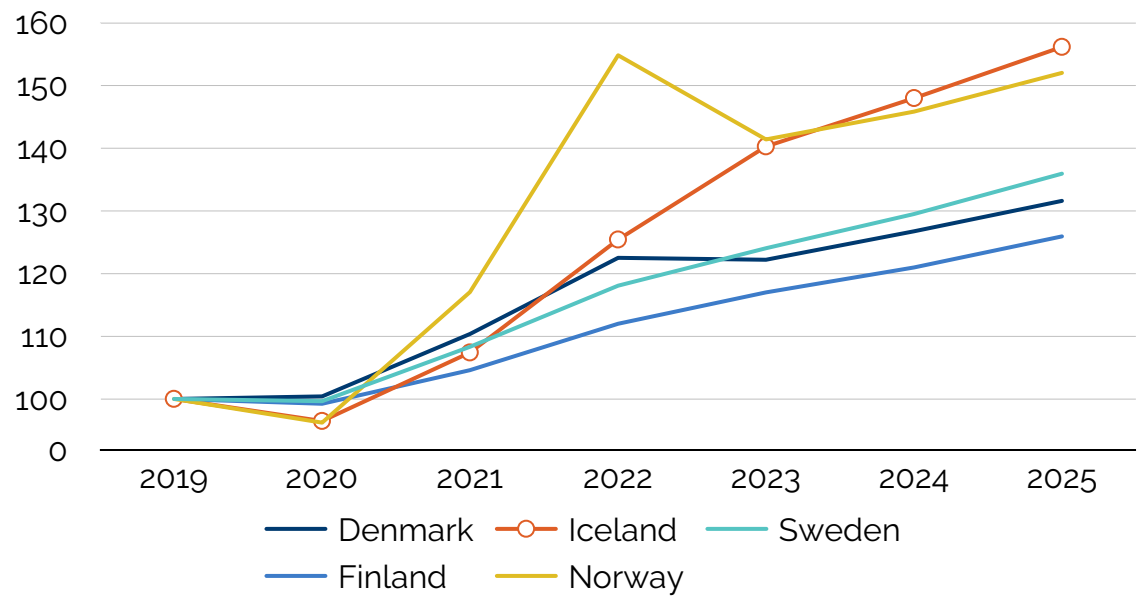


Sources: Nasdaq Iceland, Central Bank of Iceland. 1. Latest data reaches end of February 2024.

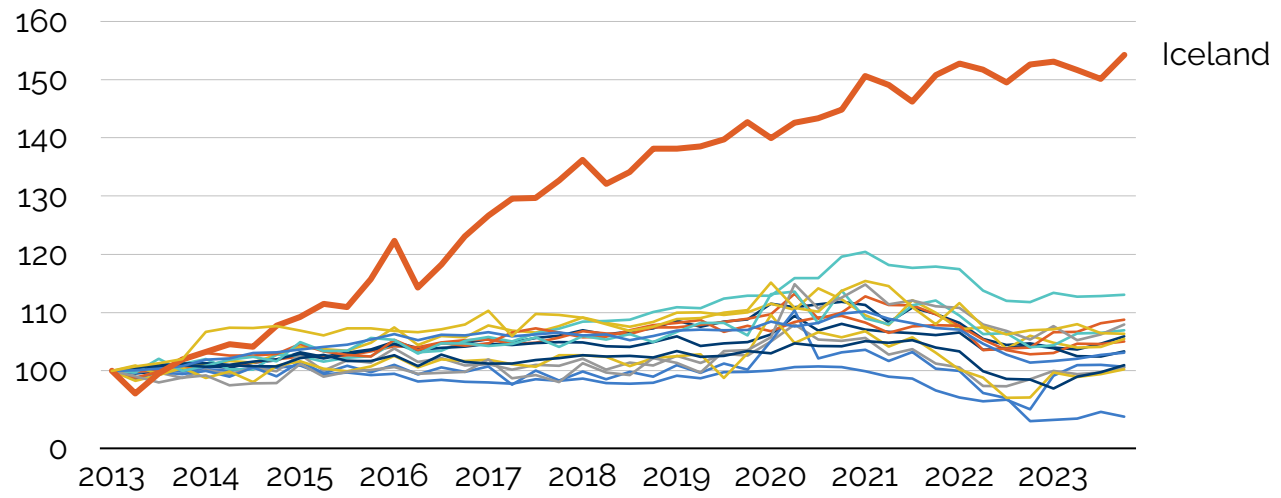
# Purchasing power growth trumps other economies

- The Icelandic economy rebounded swiftly after a short but sharp economic contraction in 2020. Since then, GDP growth has been the highest among the Nordic countries.
- In 2023, GDP growth measured 4.1%, driven by a 9.8% growth in services exports in real terms. Additionally, the trade surplus and increased government and private spending also contributed to the growth. In 2022, GDP growth measured 8.9%, the highest in well over a decade.
- The last decade has been favorable for Icelandic households, as they have experienced tremendous increases in purchasing power alongside economic expansion, with growth measuring over 50% since 2013. This growth is significantly higher than in neighboring economies and other European countries.
- Alongside higher purchasing power, household debt levels have also decreased relative to both income and assets, signaling that households have a buffer against higher interest rates and inflation.

**GDP level** (index 2019 = 100)<sup>1</sup>



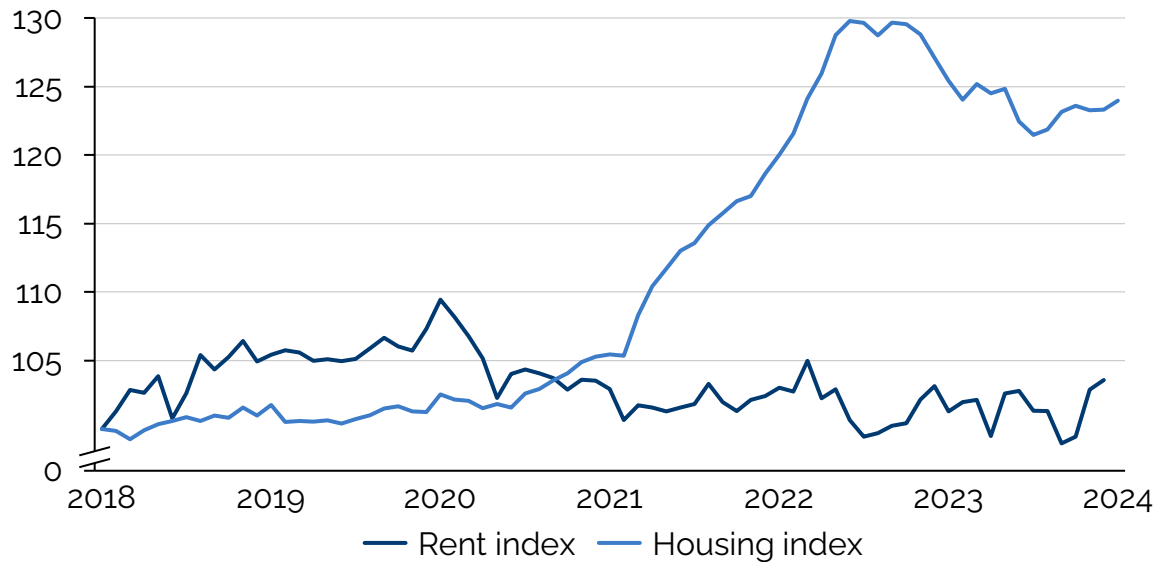
**Harmonised purchasing power of wages** (indexed 2013 = 100)<sup>2</sup>



1. Nominal value in USD, constant exchange rates. 2. Iceland and other European countries. Sources: OECD, Fiscal plan 2025 – 2028, Chamber of commerce Iceland.

# Housing market beginning to boil?

Real rent and housing prices in the capital region (2018=100)



Real house prices and number of purchase agreements in greater Reykjavik area



- The housing market cooled rapidly in 2023, driven by stricter borrower-based measures and increased financing costs. After significant price surges from 2021 to mid-2022, real prices in the capital area decreased year-on-year by 1.2% at the end of January. Housing market turnover increased again in the second half of 2023 compared to the first half, coupled with a slight increase in the real price of housing during this period.
- The rent market index has remained relatively stable in real terms, following a sharp decline during the pandemic when a surge of short-term listings entered the broader market.
- Due to rising financing costs, households have gravitated towards indexed loans for both refinancing and new purchases. The fixed-rate periods for loans issued in 2020 and 2021, a time when interest rates were at a historical low, are nearing an end or have already ended.
- Data shows that households are increasingly opting to refinance a portion of their debt with indexed loans to avoid a spike in debt service. This trend is likely to continue if interest rates remain elevated in the coming years.

Sources: HMS, Central Bank of Iceland, Statistics Iceland.

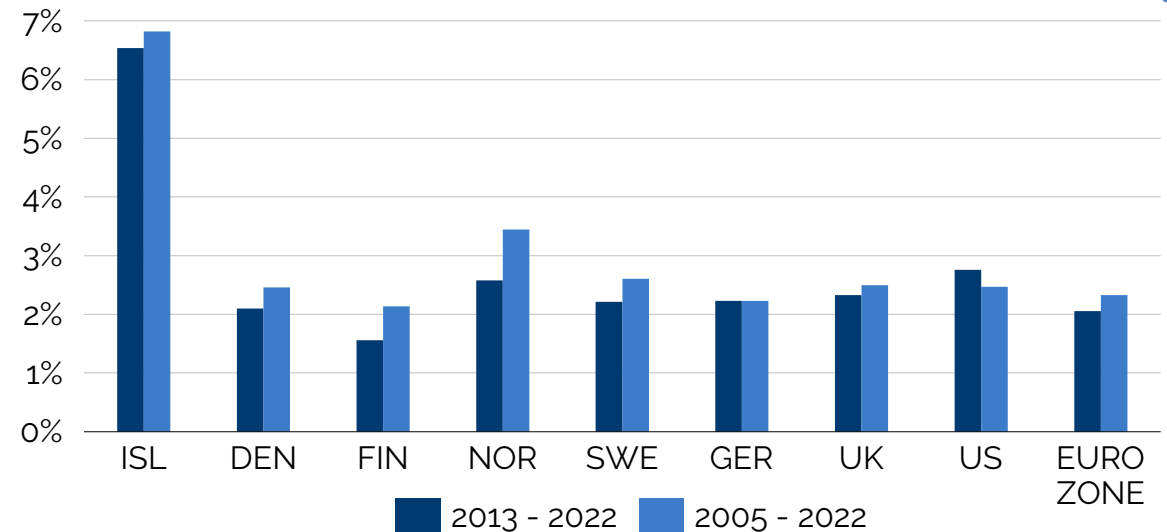


# Long term collective bargaining agreements achieved

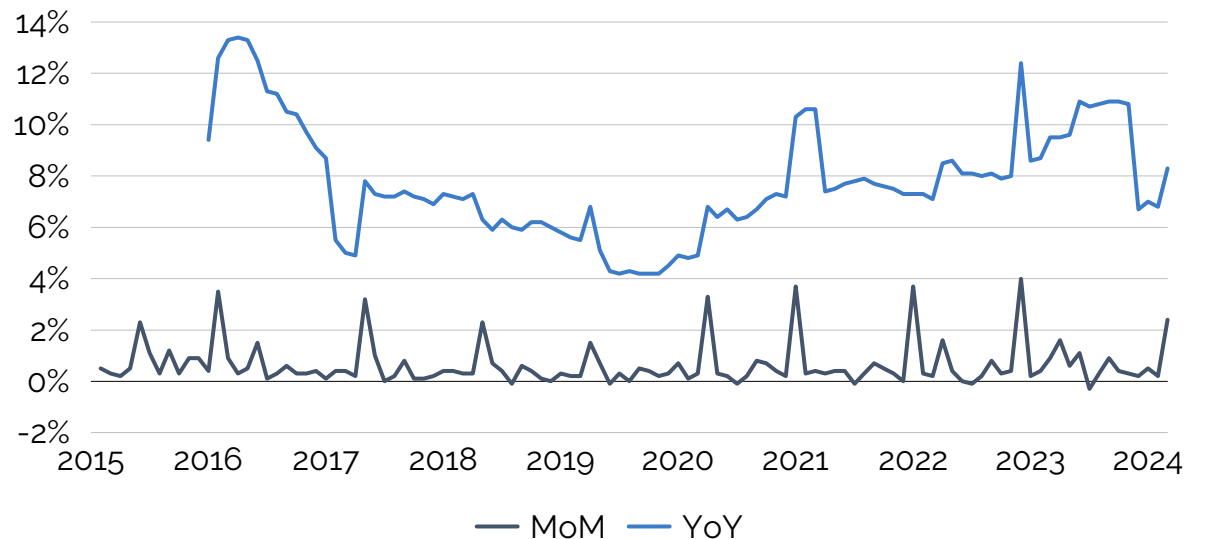
- Wage increases in Iceland have historically been high, with an annual growth of around 6.5% from 2012 to 2023, compared to an average of 1.6% to 2.8% in neighboring economies. This wage-setting environment has led to increased price pressure and tighter monetary policy in recent years.
- A new collective bargaining agreement was reached between parties in the private sector in February and March 2023. The agreement, which will expire in 2028, stipulates that monthly wages will rise by 23,750 ISK minimum each year, with increases of 3.25% in the first year and 3.5% in the second to fourth years. Additionally, the agreement allows for wages to increase in line with productivity growth. [Read more about it here.](#)
- The wage index increased by 2.4% MoM in March, and the basic wage index increased by 2.6%. These increases are mostly a result of the collective bargaining agreements. However, the new bargaining agreements entail lower wage hikes than the previous agreements, and as a result, more moderate wage increases are anticipated in the future.

1. Hourly earnings in manufacturing. Sources: Central Bank of Iceland, OECD, Statistics Iceland.

Average annual wage increases in selected countries<sup>1</sup>



Wage indices (YoY change)



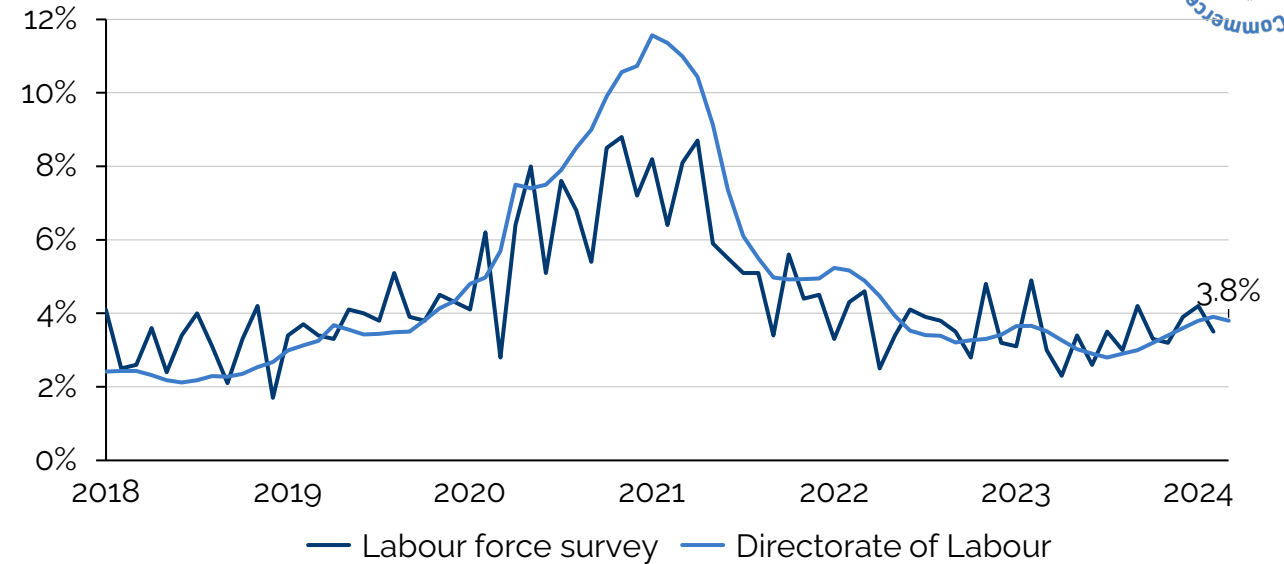
# Unemployment remains relatively low

- The seasonally adjusted unemployment rate (LFS) stood at 3.5% in February 2024, with the labour force participation rate at 81.3%.
- The seasonally adjusted unemployment rate saw a decrease of 0.7 percentage points month-on-month, while the seasonally adjusted employment participation rate increased by 0.6 percentage points.
- In September 2023, 37% of firms reported experiencing staffing shortages. The number of companies reporting these shortages declined sharply in 2023 but has started rising again. The effects of the new collective bargaining agreements on demand for labour are yet to be seen.
- Forecasts predict a slight rise in unemployment in the near future, attributed to both subdued economic growth and a significant increase in the baseline population.

Sources: Central Bank of Iceland, Gallup, Statistics Iceland. 1. LFS; seasonally adjusted monthly data.



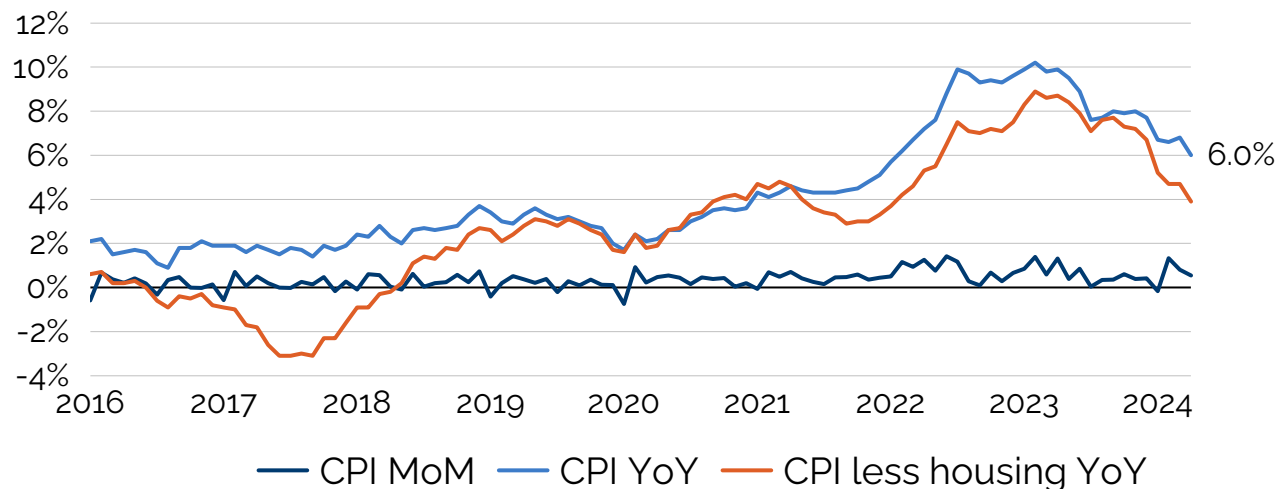
## Unemployment rate<sup>1</sup>



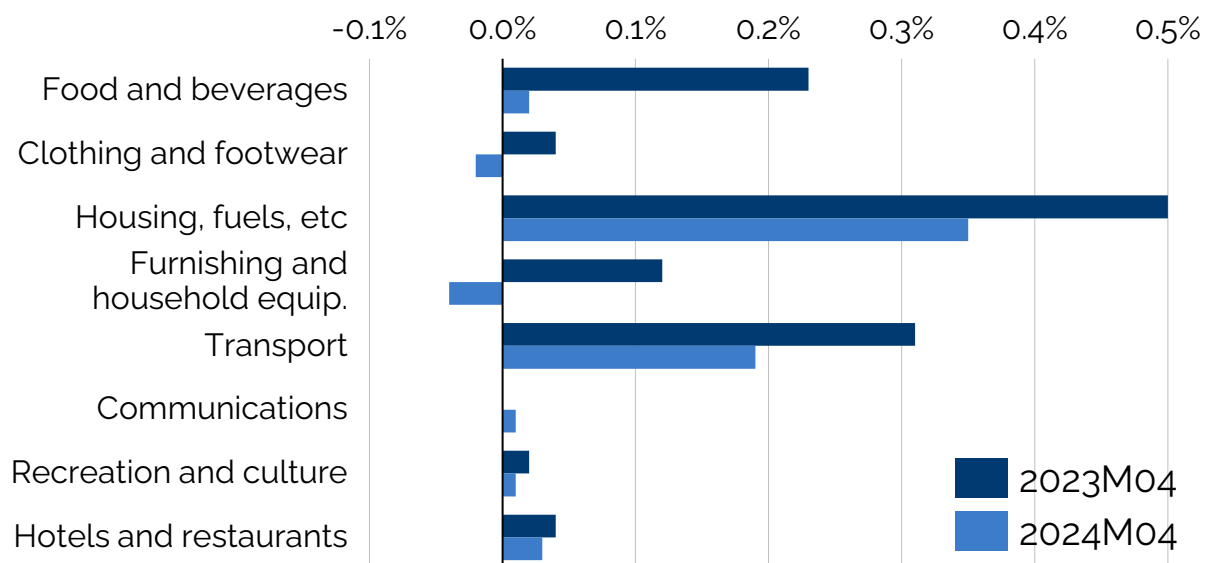
## Firms considering themselves short-staffed



## Annual rate of inflation (Consumer Price Index)



## Subcomponents' effect on the CPI



# Inflation remains above CBI target

- The annual inflation rate was 6% in April and showed a decline on an annual basis. The Consumer Price Index (CPI) rose by 0.55% MoM.
- Housing had the largest contribution to the CPI increase, calculated as the combined effects of market prices and interest rates. It rose by 1.7% MoM, with a 0.32% effect on the CPI.
- Other factors, such as food and beverages, increased by 0.1% month-on-month, while prices for clothing and footwear saw a decrease of 0.44%.
- Forecasts anticipate inflation to reach 5% in 2024, with a gradual reduction expected in the next couple of years. Forecasts from the Central Bank expect inflation to be 3.3% in 2025 and 2.7% in 2026.
- The largest uncertainty factors on future developments of the CPI surround the new method of calculating housing costs in the index and the effects that the relocation of Grindavík residents will have on the housing market.

Source: Central Bank of Iceland. Note: 1. Excluding agricultural production. 2. Excluding alcohol, tobacco, and petrol. 3. The share of CPI subcomponents categorised by their annual increase.

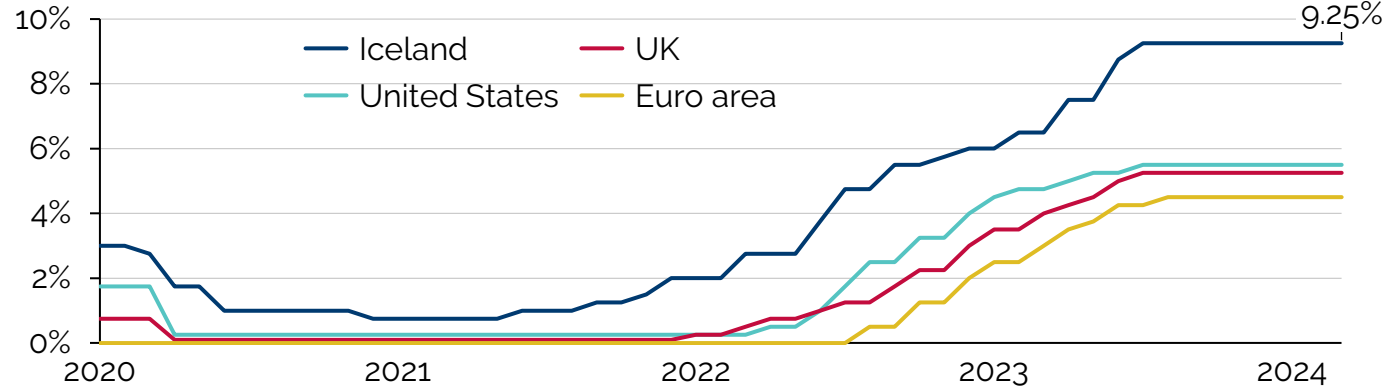
# Key interest rate remains unchanged at 9.25%

- In August 2023, the Central Bank increased the key interest rate from 8.75% to 9.25%, marking the fourteenth consecutive rise. Since May 2021, when the rate was at its lowest of 0.75%, the CBI has elevated the interest rate by a total of 8.5 percentage points.
- The next statement from the CBI's Monetary Policy Committee is scheduled for release on 8th May 2024.
- Inflation expectations have been declining, especially after peaking in the second quarter of 2023. Market agents forecast an inflation rate of 5.2% in 2024, and looking ahead to five years, market agents foresee a 4.1% rate. These figures are significantly above the set target of 2.5%.

Source: Central Bank of Iceland.



## Central Bank's key interest rate<sup>1</sup>



24 MAY 2023

### Key rate raised from 7.5% to 8.75%

Inflation measured 9.9% in April and rose slightly between months. Underlying inflation was still increasing, and the outlook was for considerably stronger inflationary pressures in 2023 and 2024 than were previously assumed. Additionally, long-term inflation expectations had risen and were well above target.

The Committee also decided to increase deposit institutions' fixed minimum reserve requirement from 1% to 2%.

23 AUGUST 2023 – APRIL 2024

### Key rate unchanged at 9.25%

The key interest rate remains unchanged since August 2023, when the rate was raised from 8.75% to 9.25%. Since then, the inflation rate has decreased from 7.7% to 6% in April 2024. The key interest rate is at its highest since 2009, shortly after the financial collapse. The interest rate hikes have not affected everyone, as many fixed their interest rates at the height of the pandemic.

Although the economy has started to slow down, long-term inflation expectations remain high.

20 MARCH 2023

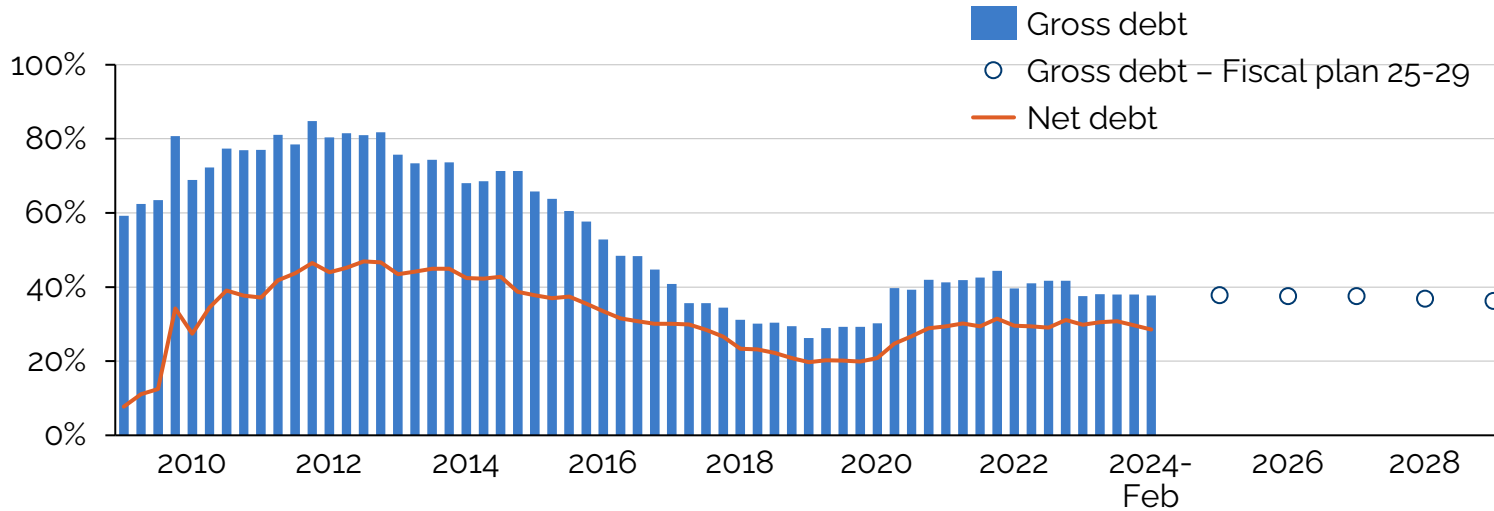
### Monetary policy committee keeps rates unchanged at 9.25%

Despite inflation decreasing in February, inflation remains well above the target. A recent revision of the national accounts by Statistics Iceland has shown that economic growth was stronger in Iceland for the past few years than was earlier estimated.

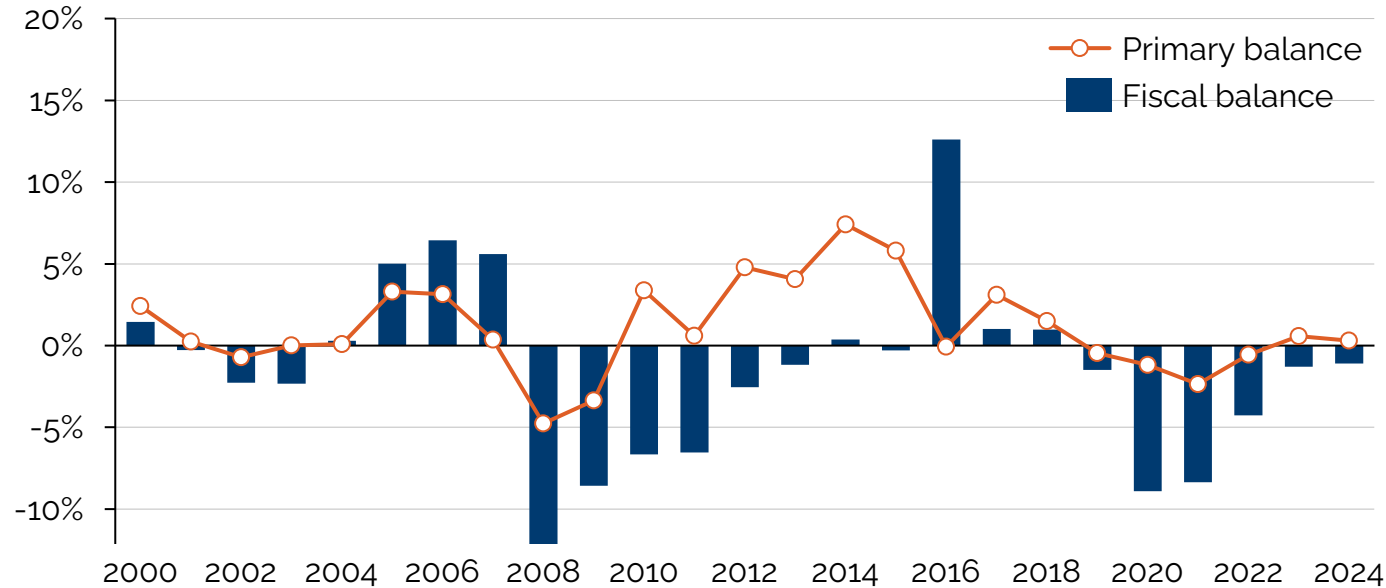
Uncertainty decreased when the employers' association and labour unions signed long-term collective bargaining agreements in March. The effects of this agreement on the economy are still uncertain.

# Government debt remains stable until 2029

Central government debt (% of GDP)



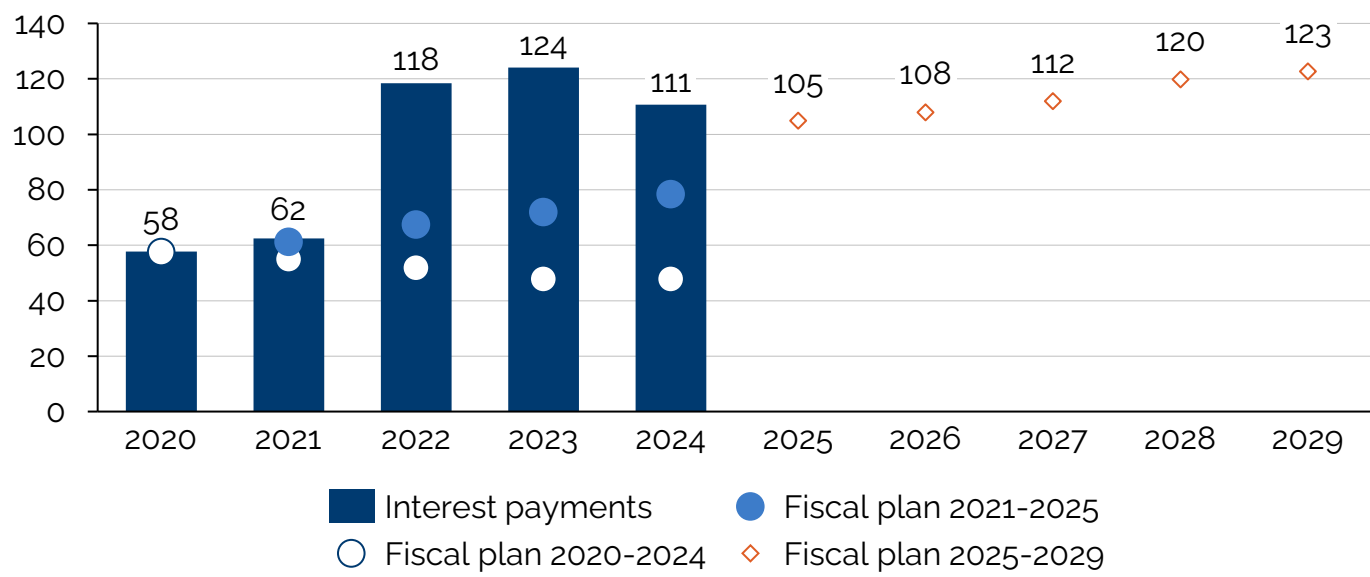
Fiscal balance (% of GDP)



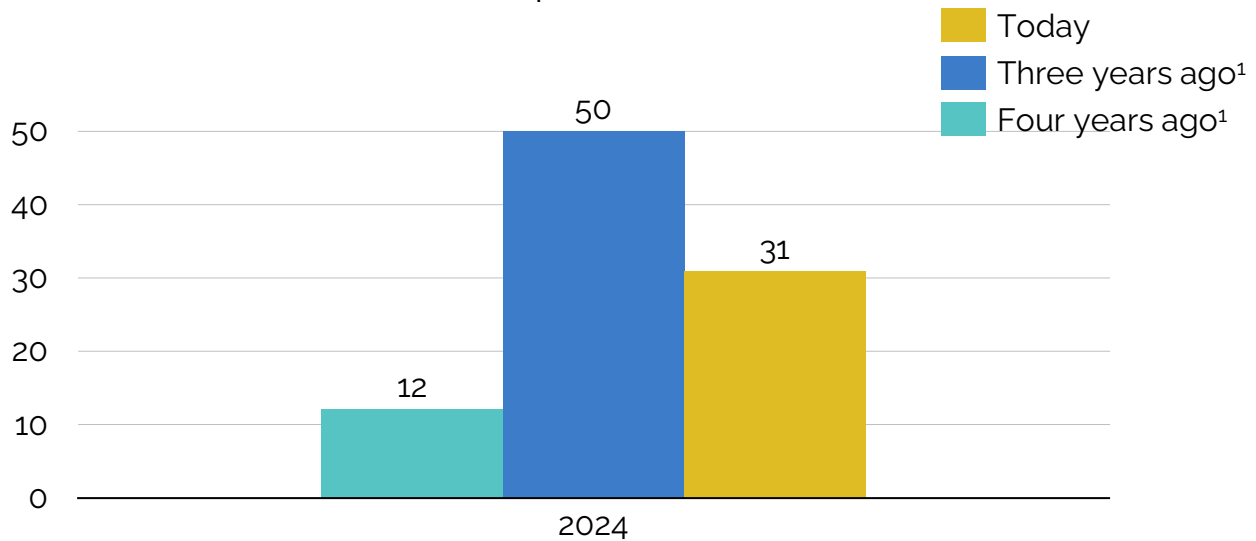
- In August 2023, the central government's gross debt stood at 37.7% of GDP, while the net debt was 28.5% of GDP. The gross debt is forecasted to reduce to 36.2% of GDP by 2029.
- In 2022, central government expenditures accounted for 31.6% of GDP, and revenues were 28.4% of GDP. This resulted in a deficit of 3.3% of GDP, equivalent to a shortfall of 123.7 billion ISK.
- Improvements in both the general and central government's financial standing, coupled with a robust economic resurgence, have led to more favorable debt ratios than initially projected.
- The Fiscal Plan for 2021-2025 had estimated the central government's debt to escalate to 55.8% of GDP in 2023. However, the actual figure was 38%, underscoring the significantly improved financial outlook.

Source: Central Bank of Iceland, Fiscal Plan 2021-2025, Fiscal Plan 2025-2029.

### Interest payments, compared to forecasts (bn. ISK)



### Debt-to-GDP ratio forecasts (comparison %)

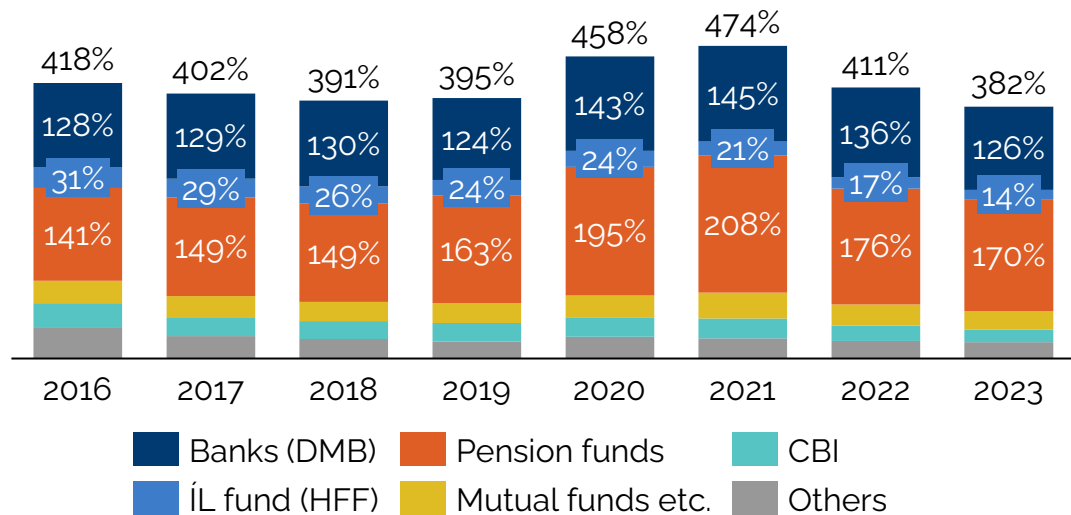


## Improved outlook for public finances

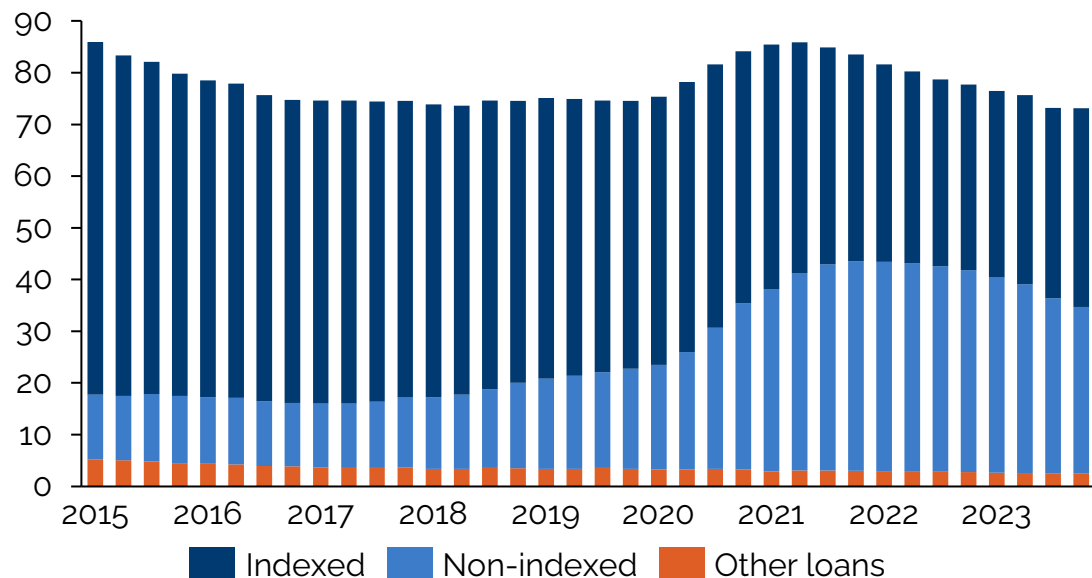
- The state treasury's credit rating has been on the rise recently. In November 2023, S&P raised the state treasury's credit rating to A+, while it remains in the A category according to both Moody's and Fitch Ratings.
- Their research suggests that Iceland's resilience to external shocks and its fiscal outlook is consistently improving.
- The government's interest payments have increased over the past two years, owing to a rise in the debt-to-GDP ratio and deteriorating market conditions. These interest payments have surpassed the forecasts in earlier fiscal plans, even though those plans had predicted a much higher debt-to-GDP ratio than the current level.
- The government's debt-to-GDP ratio surged significantly during the pandemic, but it has now stabilized, thanks to the robust recovery of the Icelandic economy.

Sources: General budgets 2018-2024, 1. Fiscal plans 2020-2024, 2021-2025 and 2025-2029

## Financial system assets (% of GDP)



## Lending to homes (% of GDP)



# Indexed loans are on the rise after a short hiatus

- In 2023, the relative size of the financial system in Iceland was 382% of GDP. The banks' assets represented just under a third of the total assets of the financial system (126% of GDP), while pension funds' assets were 44.5% of total assets (170% of GDP), a figure that ranks among the highest globally.
- The Icelandic banking system primarily comprises three universal banks: Arion Banki, Íslandsbanki, and Landsbankinn; and the main investment banks, Kvika and Fossar Markets. Until recently, Arion Banki and Kvika were the sole Icelandic banks owned by private investors and publicly listed. The government has been in the process of selling Íslandsbanki for the past three years and plans to sell the remaining 22.5% before the government's term comes to an end in September 2025.
- The banks are in a strong financial position. Their capital ratios are high, returns on core operations have risen, expense ratios have fallen, and private sector arrears remain low. The banks are well-prepared to handle external economic shocks.
- Over the past three years, households have been transitioning from indexed loans to non-indexed loans. Historically, most Icelandic households held indexed loans. This trend has started to reverse in the recent year, driven by the hikes in the key interest rate.

Sources: Central Bank of Iceland.

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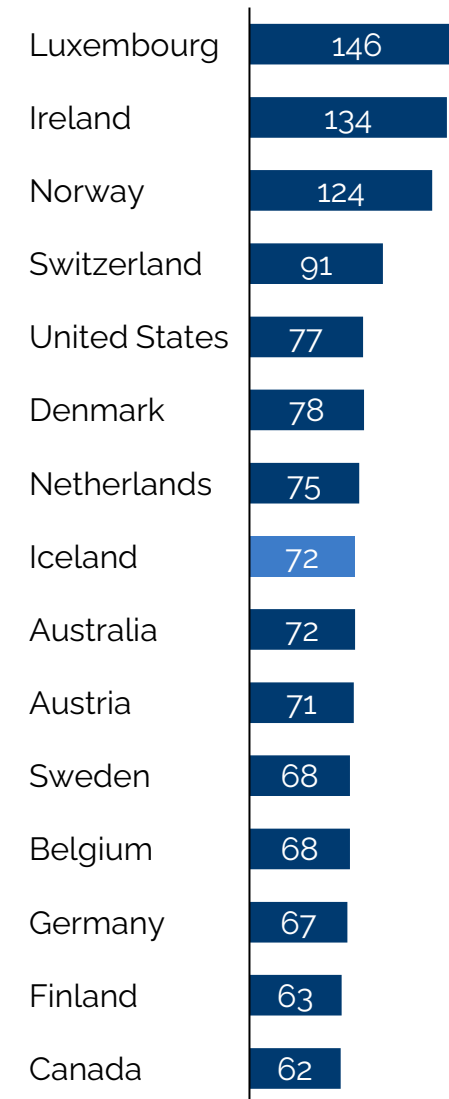
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## International indicator rankings<sup>1</sup>

■ Iceland's ranking ■ Number of countries ranked



## GDP per capita in 2022 (thous. USD PPP adjusted)



# Iceland ranks among the best

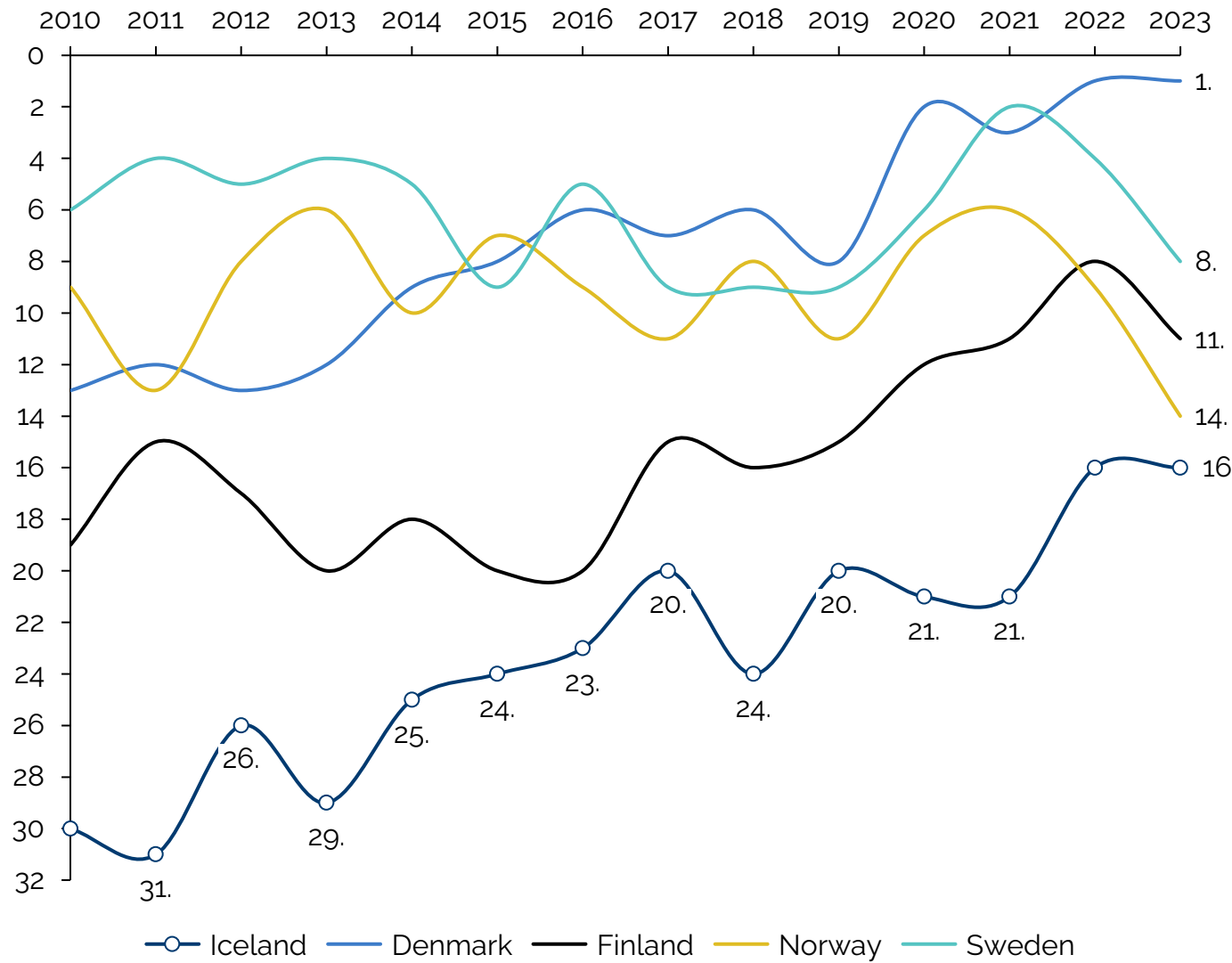


- The Icelandic economy is characterized by an open, high-income structure that combines a free market with a welfare state, a system often referred to as the Nordic Model.
- Iceland's income per capita is robust, making it one of the highest globally, while the economy remains the smallest among OECD countries in terms of total GDP.
- The country's success as a society can be attributed to several key factors, including a skilled workforce, a robust institutional framework, a high degree of economic freedom, a strong commitment to equality and peace, and low levels of corruption.
- Iceland has consistently ranked at the top of the WEF's gender equality index since 2009. Additionally, it has maintained its position as the most peaceful country in the world since 2008.

Sources: Respective institutions websites, Statistics Iceland.  
1. Data obtained in April 2024.

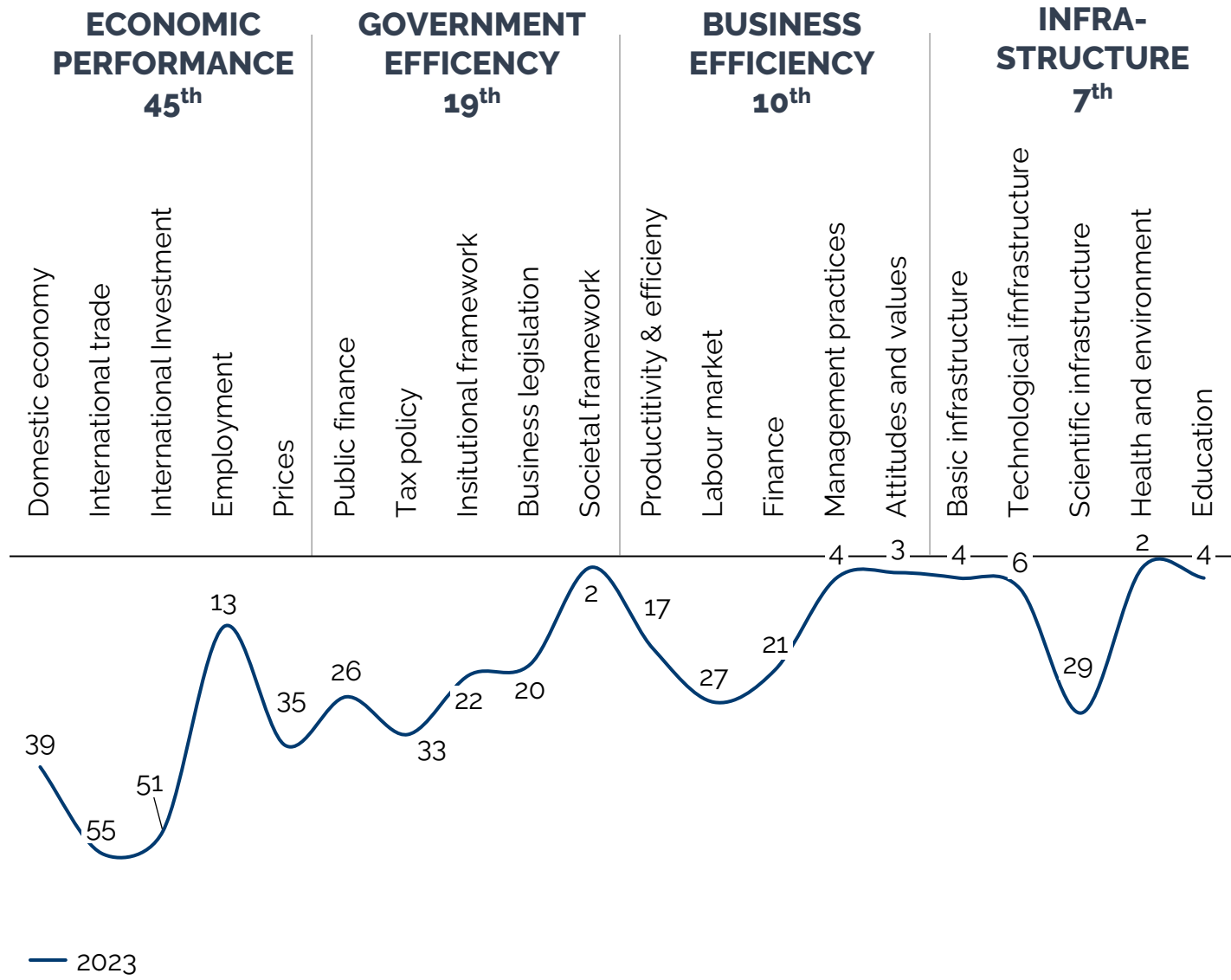
# Iceland ranked 16<sup>th</sup> in 2023

## Nordic countries competitiveness ranking by IMD



- The IMD Business School has been ranking countries by competitiveness since 1989, and Iceland has been part of the report since 1997. The Chamber has been its partner in Iceland since 2005.
- In 2023, Iceland ranked 16th out of 64 high- and middle-income countries in competitiveness. Considering the economy's small size, which affects competitiveness, Iceland performs well in this aspect.
- Iceland holds 16th place for the second year in a row, while some other Nordic countries have slumped. Economic performance improved significantly between years, as did infrastructure, where Iceland sits in 7th place. On the other hand, Business efficiency declined for the first time in a decade, and Government efficiency has not been as low for eight years.
- [Click here for a detailed report on Iceland's competitiveness.](#)

# Iceland's competitiveness landscape and ranks in 2023



# Iceland ranks well in competitiveness



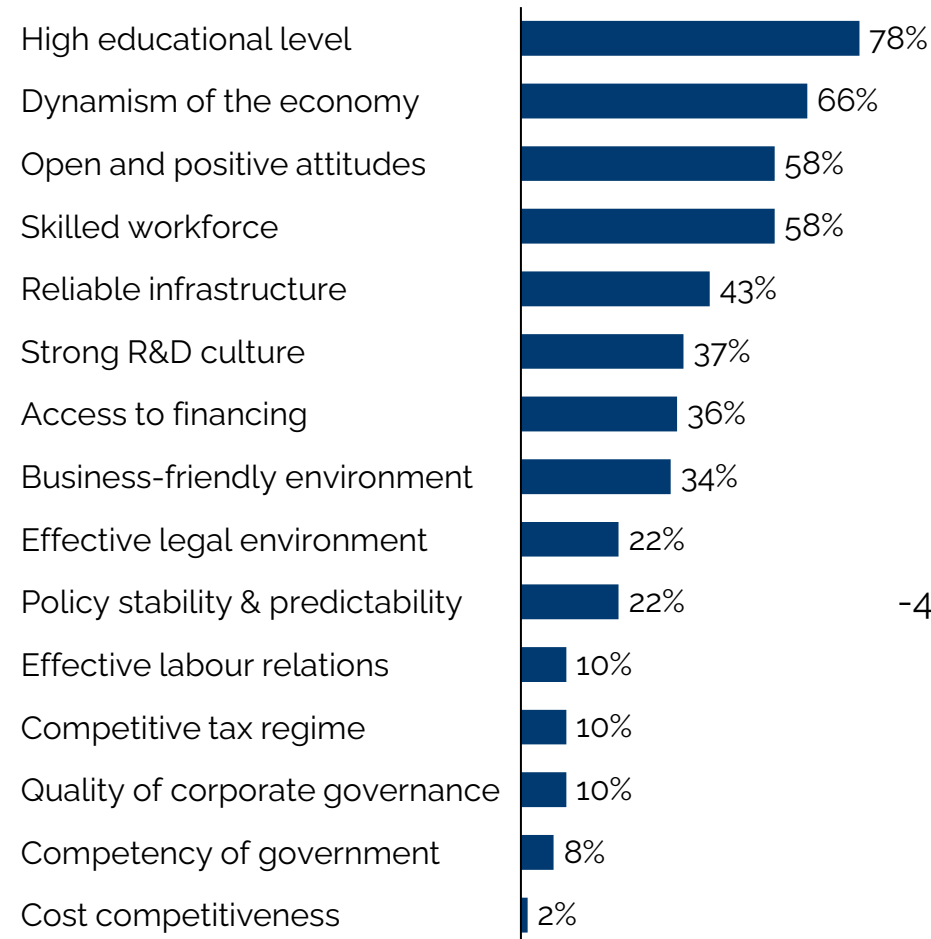
- Iceland ranked 16<sup>th</sup> out of 64 countries in IMD's competitiveness report.
- Economic performance improved by 11 spots, and Iceland now ranks in 45<sup>th</sup> place. The improvement is largely due to a major boost in one subfactor: employment. However, International trade ranks 55<sup>th</sup>, partly due to the economy's small size.
- Government efficiency dropped by five spots and is at its worst in eight years. This is largely due to negative development regarding the effectiveness of regulation.
- Business efficiency dropped by two spots and therefore shrank for the first time in a decade. All sub-factors deteriorated except for one: the labour market.
- Infrastructure is where Iceland has always performed well, and it jumped up by one spot. Basic infrastructure and education both ranked 4<sup>th</sup>. Also, technological infrastructure and health and environment ranked in the top ten spots.

Source: IMD.

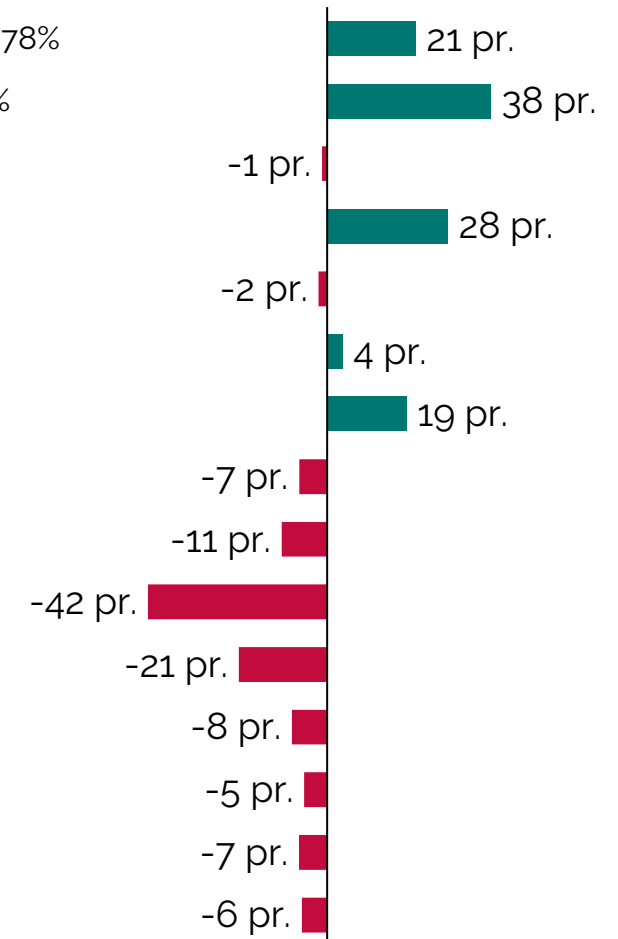
# Skills, education and a dynamic economy

- The high educational level, a dynamic economy, and open positive attitudes are some of Iceland's most attractive indicators according to a recent opinion survey among executives in Iceland.
- The survey asks executives to select five indicators that they perceive as the key attractiveness factors of the Icelandic economy.
- The most significant changes from the previous year were in policy stability and predictability, with a contraction of 20% from the previous year. Large improvements were made in R&D culture, access to financing, and the business environment. Easier access goes hand in hand with increased and extended support and tax incentives for R&D.

## Key attractiveness indicators for doing business in Iceland (IMD executive survey)



## Deviation from top five competitive countries<sup>1</sup>



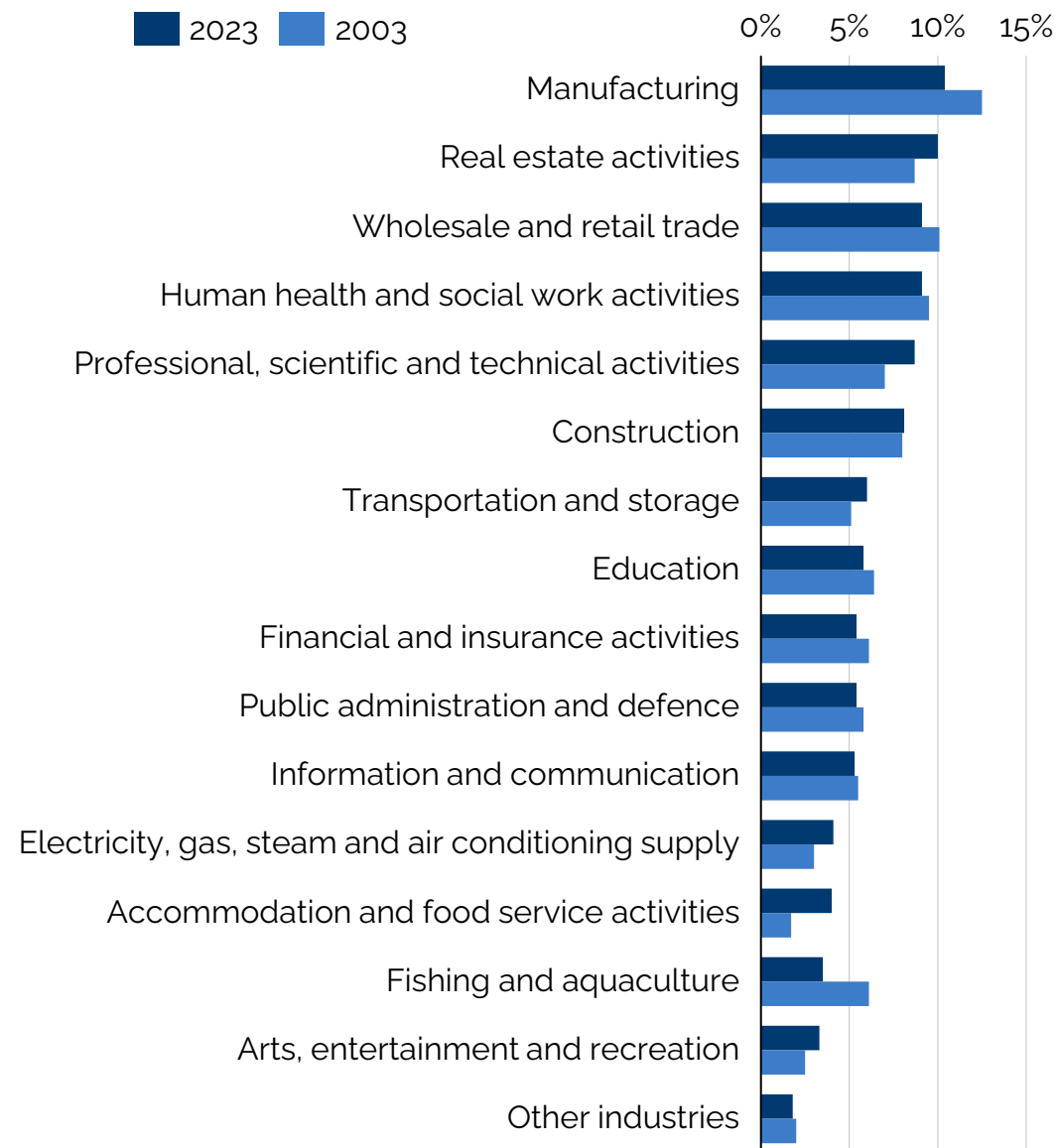
# The economy is becoming increasingly diversified

- The composition of GDP in Iceland has not changed drastically in the past two decades. However, noticeable changes have occurred in certain sectors. Despite growth in several industries, the contribution of manufacturing, wholesale and retail, fishing, and aquaculture has contracted during this period.
- The contribution of tourism to GDP in 2023 reached its highest recorded level, totaling 8.8% according to preliminary figures. For comparison, the contribution averaged 8.2% during the period 2016-2019.
- Although Iceland is a developed high-income economy, its economic composition differs somewhat from that of its largest trading partner, the Euro area. The Icelandic public sector is larger, as evidenced by relatively high government spending. The construction sector is also larger, largely due to more rapid population growth. However, industrial activities and various other services are relatively small.
- The changes in the contributions of various industries to GDP indicate that the economy is becoming more diversified, with an increasing number of export and domestic sectors.

Source: Central Bank of Iceland. 1. Compulsory social security, 2. Other service activities, arts, entertainment & recreation, water supply and mining & quarrying.



Contribution to GDP by industries (% of GDP)





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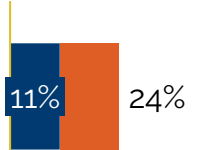
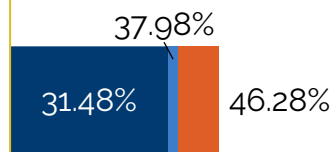



# The tax system in Iceland

- Tax revenues in Iceland amounted to 1,409 bn. ISK in 2023 according to provisional numbers, which amounted to 32.9% of GDP.
- Taxes on personal and corporate income and profits are the largest source of revenue for the government and are estimated to have brought in 44.9% of total government income in 2023.
- The government introduced a temporary increase of 1 percent point to the corporate tax. The increase is only supposed to last one year and will apply for taxable income in 2024.
- In terms of revenues/GDP, Iceland is near the OECD average on most taxes. The main difference is in terms of personal income tax, where Iceland is higher by just over 7% of GDP. In contrast, social security contributions are low, mainly due to a large quasi-private pension system.

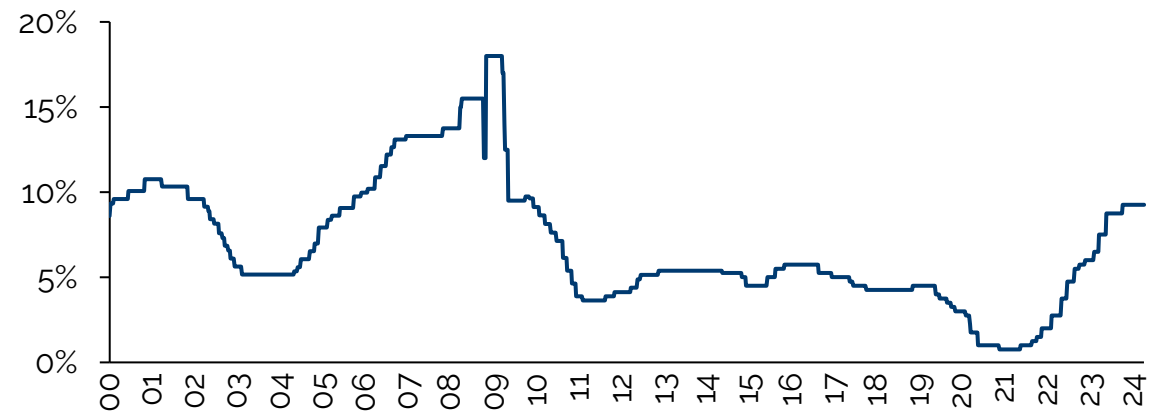
Source: Skatturinn.is. 1. These are examples, not a conclusive list of services and products subject to the lower bracket of VAT.

## Key taxes in Iceland in 2024

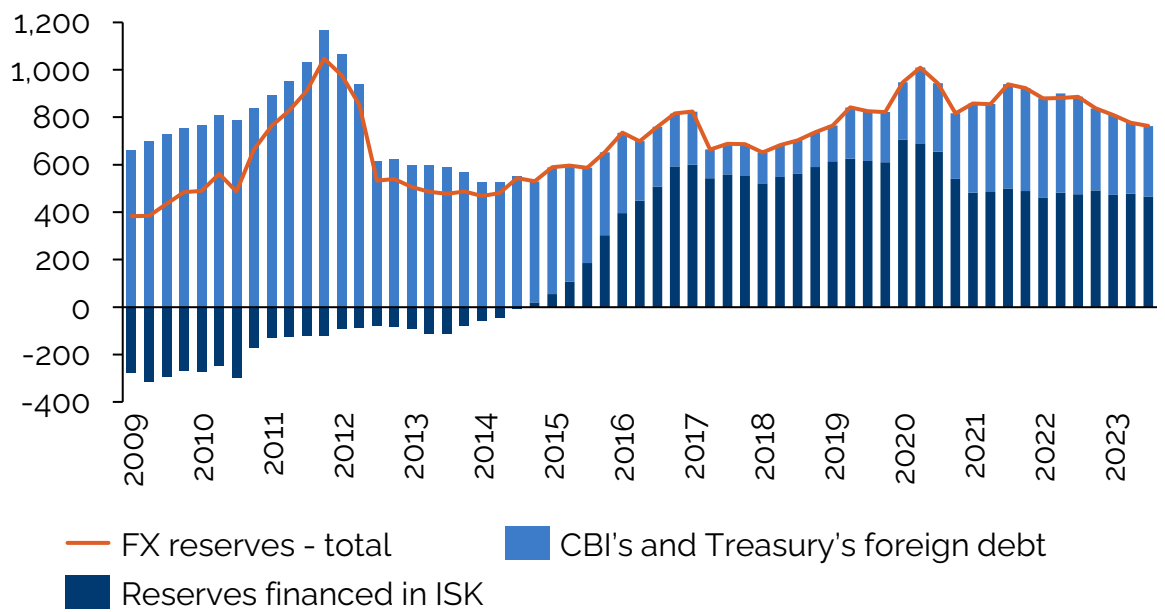
■ Lower bracket ■ Middle bracket ■ Higher bracket

Tax	Rate	Tax base and deductions
VAT		Food, medicine, tourism, media, arts and energy are in the lower bracket. Education and medical services are not subject to VAT <sup>1</sup>
Labour income		Lowest bracket: yearly income up to 4.9 m. ISK. Middle bracket: income up to 13.8 m. ISK. Yearly deduction in the amount of 0.78 m. ISK
Corporate tax		Levied on gross income, deductions for R&D are available. A temporary increase was introduced for one year from 20% in 2024.
Dividends / capital gains		Levied on all capital gains and income except for yearly interest income under 300,000 ISK
Payroll tax		Payroll tax is levied on gross wage costs of employers, including pension payments

## Central Bank's key interest rate<sup>1</sup>



## Central Bank of Iceland foreign exchange reserves (bn. ISK)



# Monetary policy centered around an inflation target

- The Central Bank of Iceland is an independent institution, operating under the Prime Minister and owned by the State. The main objective of the Central Bank is to promote price and financial stability, as well as supervise financial activities.
- In 2001, the Central Bank converted from an exchange rate targeting policy to an inflation target policy, defined as a 12-month inflation rate at 2.5%, with a deviation band of 1.5%.
- The Prime Minister appoints the Governor and three Deputy Governors for a term of five years. Deputy Governors manage matters relating to monetary policy, financial stability and financial supervision.
- Following a new bill, the Central Bank merged with the Financial Supervisory Authority in January 2020.
- The Central Bank collaborates with many foreign institutions, for example, the European Central Bank and the OECD. The Central Bank is also a shareholder in the Bank for International Settlements (BIS) and a representative at the International Monetary Fund (IMF).

# ICELAND CHAMBER OF COMMERCE

## About the Chamber

The Iceland Chamber of Commerce (ICoC) is a non-governmental organisation based on voluntary participation with the mission of improving the environment of businesses in Iceland and to enhance economic prosperity. The ICoC has been diligent in its mission, celebrating its centennial anniversary in 2017.

## ICoC Bilateral Chambers

The ICoC operates 15 bilateral Chambers, both directly and in collaboration with others. An important role of the bilateral Chambers is strengthening the relationship with other organisations as well as cooperating in several ways with embassies and consulates on promoting Icelandic businesses abroad.

## Joining the ICoC

Membership to the ICoC grants companies an opportunity to influence their strategy and promote their interests in a robust forum. The issues that the ICoC deal with relate both to the business community, as well as to the specific interests of individual member companies. Anyone interested in joining the Chamber should please contact [mottaka@vi.is](mailto:mottaka@vi.is).

**Safeguarding of interests:** The ICoC works in the interests of anyone conducting business and is a powerful tool for the business community in its work towards improving the business environment and enhancing productivity.

**A representative towards the authorities:** The ICoC strives for positive changes to laws, regulations and other influencing factors concerning the business community. It reviews all major legislative bills that concern the business community and provides comments, in collaboration with members, which are presented to the relevant parliamentary committees.

**Annual business forum:** The ICoC annual Business Forum is the largest event in the Icelandic business community. The Forum is attended by members, politicians, government officials and others interested in the Icelandic business community.

**Corporate governance:** The ICoC publishes guidelines for corporate governance, in collaboration with the Confederation of Icelandic Employers and Nasdaq OMX Iceland. The latest edition is available [here](#).

**Legal counsel and arbitration:** The ICoC General Counsel supervises various projects for members, free of charge. The Counsel assists members with matters such as the import and export of goods and specific laws or regulations concerning the business environment. The ICoC also operates an independent arbitration institute, the Nordic Arbitration Centre. Its purpose is to provide companies and individuals with alternative means to the judiciary to resolve commercial disputes in a secure manner. The arbitration process and the Arbitral Tribunal final awards are strictly confidential.

**A backbone for business education:** The ICoC is an active advocate of technology and business education. The ICoC is a majority shareholder in Reykjavik University (RU) and is involved in the Commercial College of Iceland (CCol). RU is an international university and is Iceland's largest private university with around 4,000 students. The CCol is an upper secondary school with over 1,000 students.



**Iceland Chamber  
of Commerce**

[www.chamber.is](http://www.chamber.is)