

Small States Economic Development

Iceland

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Economic Development– Historical Background I

- Overview and the economic history
 - From the settlement to the 11th century – the golden age
 - Under foreign rule - 12th to 18th century – 40% reduction in GDP
 - Danish monopoly in trade in Iceland from 1602 to 1855
 - Increase in fish exports to Britain – increase in sailing ships
 - Growth of fishing industry – demand for capital
 - First state bank 1885 – first motorized fishing vessel 1905
 - Start of the 20th century – among the lowest GDP in Western Europe
 - Great depression hit hard – export fell dramatically
 - World War II brought prosperity – British and American occupations
 - From one of Europe's poorest countries to one of the world's wealthiest

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Economic Development– Historical Background II

- Overview and the economic history
 - 1945-1960 Protectionist policies – adjustment to peacetime difficult
 - External shock caused by the war creating an artificial economy internally and the overvaluation of the krona (Guðmundur Jónsson)
 - Largest Marshall aid package per capita 1948-1951
 - Late 1950's direct economic assistance from the US – termed second Marshall aid (Valur Ingimundarson)
 - 1990's market liberalization policies – privatizing companies and banks
 - Corp. income and inheritance taxes reduced and net wealth tax abolished
 - “The Nordic Tiger”
 - In 2007 Iceland topped the Human Development Index

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Economic Development– Historical Background III

- Overview and the economic history
 - National financial crisis in 2008 – total bank collapse
 - Central bank incapable of serving as the lender of last resort
 - Regulators and public institutions too weak and understaffed
 - Icesave dispute with UK and Netherlands – accounts not guaranteed
 - UK seized assets of the banks and the Icelandic government
 - Iceland without shelter (Baldur Þórhallsson)
 - IMF loans finally - \$4.6 billion plus additional loans from Nordic and European states
 - By the end of 2015 all loans had been repaid
 - Tourism saved the day – since 2010 tourist arrivals has increased by 378%

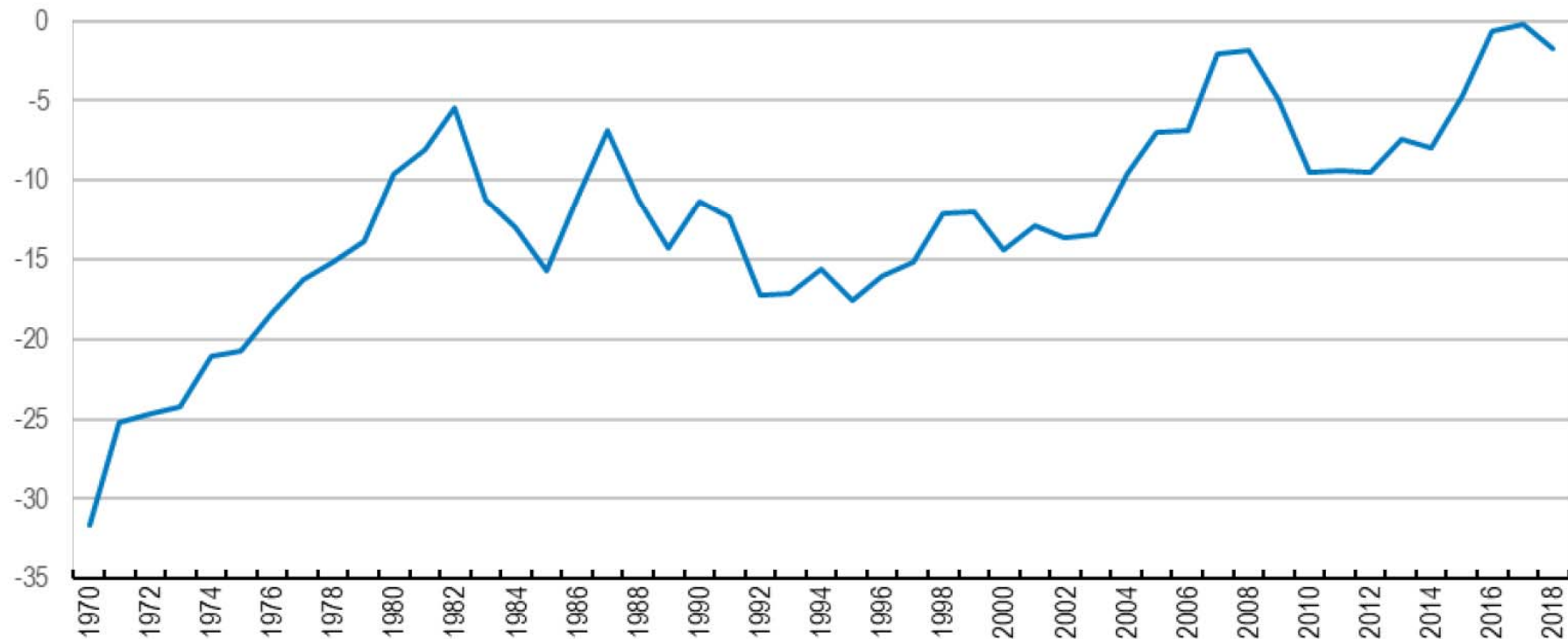
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Economic Development– Country overview

- Overview of different indicators of the economic development of the country
 - GDP per capita rank number 6 in 2019 – Purchasing power parity number 13
 - Unemployment rate December 2019 at 3.5%
 - 8% with income below €1200 (2015)
 - 12.2% at risk of poverty or social exclusion
 - Human Development Index – very high ranking – number 6 in 2018
 - Main industries: Tourism, fish processing, aluminum smelting, geothermal power, hydropower, medical/pharmaceutical products
 - Iceland's economy is highly export driven

Small States Economic Development– Country overview

GDP per capita compared to the upper half of OECD, current PPP USD, 1970-2018

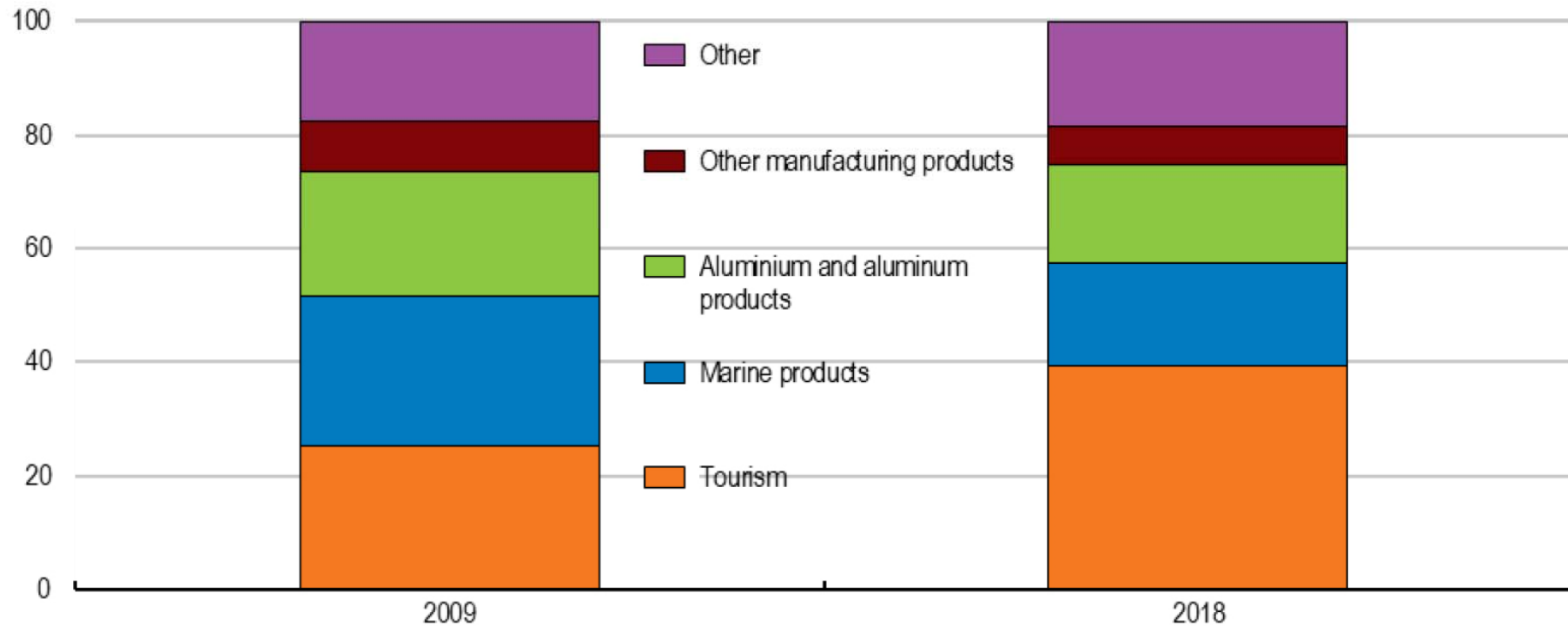


Source: OECD National Accounts.

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Exports of goods and services, sectoral division

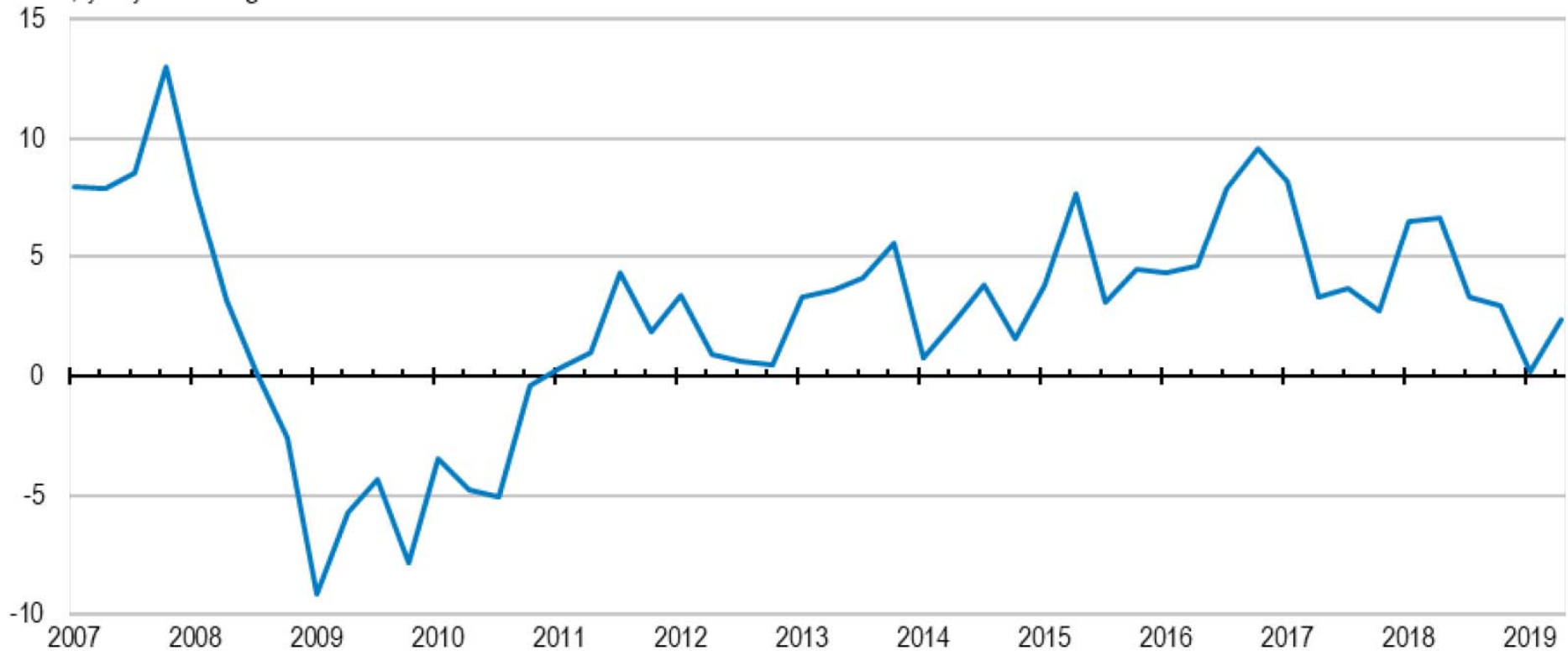


Source: Statistics Iceland.

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Small States Economic Development– Country overview

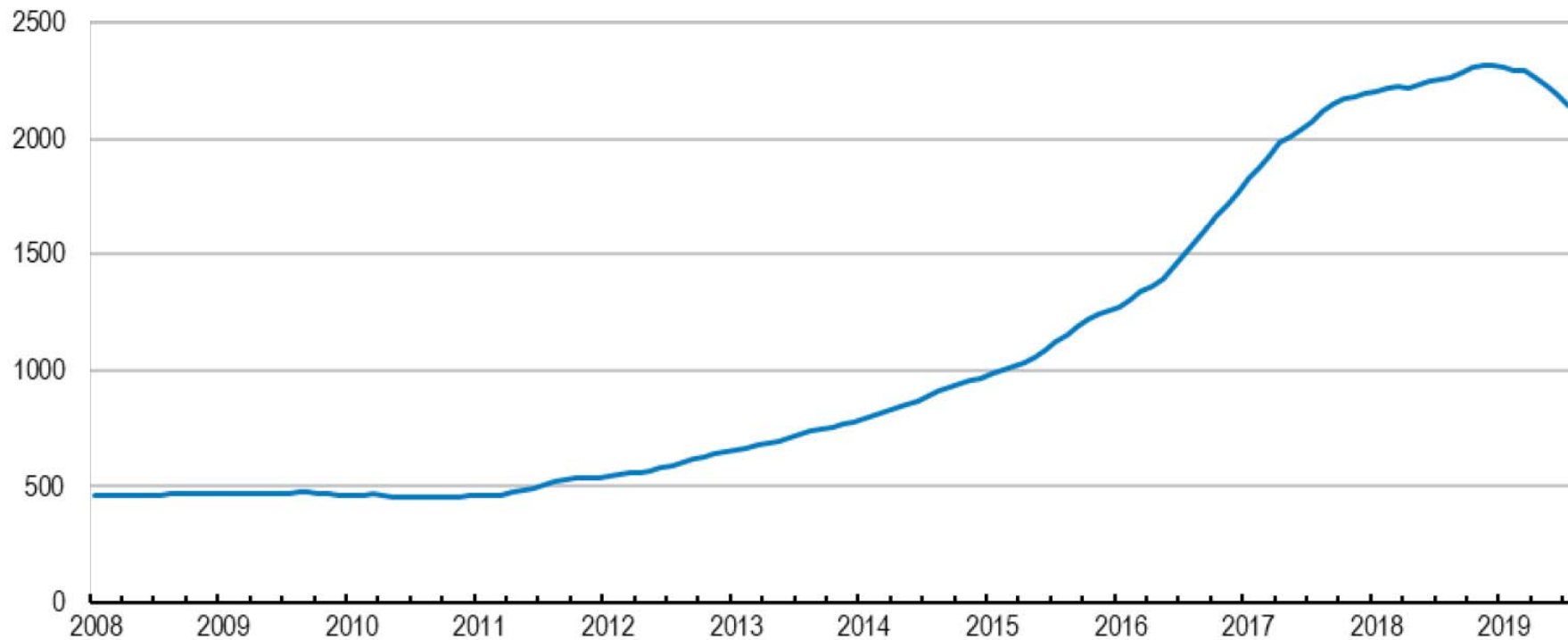
GDP, y-o-y % change



Source: Statistics Iceland

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Foreign passengers through Keflavik airport, thousands, 12 months cumulated



Source: Statistics Iceland.

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Economic Development– Well-being

- Iceland tends to rank high on indexes related to well-being
 - Social Progress Index ranking #6 in 2019
 - Global Peace Index ranking #1 since 2008
 - Global Gender Equality Index ranking #1
 - Human Development Index – Quality of human development ranking #6
 - Iceland enjoys a favorable environment, with excellent water quality, low air pollution and easy access to uncontaminated nature
 - According to a nation-wide survey Icelanders value first and foremost good health and access to health care, relationships (w. friends, family, neighbours and colleagues), housing (secure house, cost of housing and supply of housing), and making a living (income and assets)

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Economic Development– Country Comparison

- Iceland's Prime Minister's Committee on National Well-being has proposed a framework of 39 indicators that cover social, economic and environmental dimensions of quality of life
- These indicators are intended to complement traditional economic measures, such as GDP, and monitor trends in people's wellbeing. They are meant to look at the broader picture and inform government policy formulation.
- The indicators are linked to the UN Sustainable Development Goals, they are based on official statistics and allow for international comparison.

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Economic Development: Challenges ahead

- Iceland economy to contract by 0.2% in 2019 but grow by 1.7% in 2020 – according to Statistics Iceland
 - The numbers of tourists visiting Iceland had started to decline dramatically – from 2018 to 2019 by 14%
 - Exports contracted by 5% including decreases in aluminium exports and fisheries exports
- The COVID-19 epidemic will have a direct impact on the economy and the state of the Treasury. Iceland's economy is hopefully strong enough to respond to the outbreak, however the effect of the virus on the global economy is hard to predict and will shape the impact on the country.

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Economic Development: Key Recommendations

- How to get the economy going again in the wake of COVID-19
- Including how to tackle the drop in tourism that has become Iceland's most important export sector
- Fiscal prudence is key to reduce public debt further
- Competitiveness is declining
- Housing cost remains too high
- Regulatory burden is high
- Many restrictions on Foreign Direct Investment (FDI)

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Economic Development: Current Strategies and Policies

- In conjunction with the revision of the fiscal policy statement due to the effects of the Corona virus, a special investment effort is under way which will significantly increase the Treasury's investment level in the coming years. The plan will be financed by selling Íslandsbanki, a government-owned bank, in part or in full if conditions are favorable.
- In the spring session of Parliament, a bill will be presented providing for a number of public-private investments in the road system, contributing to an even stronger growth capacity for the future.
- Currently, the Government is implementing a systematic and wide-ranging response through a number of measures to combat the effects of the pandemic

Small States Economic Development: Forecast

- According to Statistics Iceland the revised national accounts figures show that Iceland's GDP grew by 4.8% in 2018. The outlook for 2019 has not changed from the last economic forecast in May as GDP is expected to decrease by 0.2% this year. However, it is now expected that the turnaround in 2020 will be slower than previously presumed, with GDP growing by 1.7%. For 2021-2025, growth is expected to average around 2.6% per annum.
- Needless to say, these figures WILL change because of the pandemic!