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Industrial Policy
A Growth Plan to 2035

Government Offices
Prime Minister's Office

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Industrial Policy — A Growth Plan to 2035

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Foreword by the Prime Minister

The government is now presenting Iceland's first comprehensive industrial policy. It consists of a 10-year growth plan, outlining how public authorities will work together with businesses and society at large to create value — to strengthen Iceland and improve the nation's standard of living.

The policy represents a milestone. For the first time, an Icelandic government has adopted an industrial policy that is published and transparent to all actors. By so doing, we align the government's actions with those of the business sector, to ensure that the entire public administration works toward the same goals. This provides predictability for investment and development.

The main objective of the policy is to strengthen exports and high-productivity industries. By doing so, we emphasize sustainable economic growth in balance with infrastructure and society.

In practice, every government has some form of industrial policy. Everything the state does or does not do matters, because it shapes the framework for growth and value creation. However, policies differ in whether they are made public and co-ordinated, or ad hoc and fragmented. There is strength in following a clear strategy. The state becomes a more reliable partner for the business sector when its priorities are defined and based on well-considered decisions and policy consistency. This is a key factor.

This industrial policy for Iceland has not been developed without cause. As detailed in the accompanying background analysis, recent economic growth has been driven by population increase, placing pressure on infrastructure. At the same time, exports have declined, productivity growth has slowed and investment has been below the historical average. The result has been zero per capita economic growth since 2018. Meanwhile, housing, transport, energy development and many parts of the welfare system have come under strain.

To break out of economic stagnation, it we need to confront these realities and seek better outcomes.

The share of immigrants in the Iceland population has doubled over the past decade, rising from around 9% to 19%. This has social implications. During the development of this policy, signs emerged of increasing labour market segmentation, reflected in very different unemployment patterns between people of Icelandic and foreign backgrounds. To prevent Iceland from becoming a two-part society, the government must take responsibility for its development, address social dumping and promote the active inclusion of people who move to Iceland. Industrial policy is one of the tools that can contribute to a healthy labour market, equality and social cohesion.

We are laying the foundation for a new period of economic growth to 2035. It will clearly differ from the last one. This new policy aims for strong growth driven by more diversified exports and increased productivity. We will continue to build on innovation and the sustainable use of resources for the benefit of all, while also pursuing societal goals such as regional development, increased resilience and reduced greenhouse gas emissions.

These objectives serve as clear guiding principles and are also reflected in the metrics that will be used to monitor policy implementation and evaluate results. To promote efficacy, targets are clearly defined and included in the industrial policy – a new development in Iceland. And the policy sets out the path toward these goals. It does so by pinpointing five general priorities along with sector-specific priorities for key export industries. Notably, the policy formally commits to simplifying regulation, increasing energy production, strengthening vocational education, reinforcing competence in STEM fields, and focusing systematically on large-scale investment in new anchor projects across the country. Particular attention is given to further growth in high-productivity sectors such as aquaculture, life sciences, data centres and various knowledge-based industries. Major emphasis is given to innovation and technological development across all sectors. Last but not least, active advocacy is essential to ensure Icelandic companies have access to international markets — especially in times of global uncertainty.

The policy is the result of extensive consultation with the public and the business community over recent months. It was approved at a government meeting on 27 March 2026. In tandem with this, the first two-year action plan was adopted, outlining 35 measures to implement the policy. These include numerous decisive actions reflecting a strong commitment to executing the new strategy. While the policy itself is the responsibility of the government, we have benefited from the guidance of an independent Industrial Policy Council composed of five experts advising on its development and implementation.

Iceland is an exceptional country: small, yet rich in natural and human resources. We have made use of our sovereignty to build a strong society and welfare system that we are justifiably proud of. We have developed a flexible labour market, benefitting from a strong emphasis on equality, reflected, for example, in high employment participation. However, we can always do better. We must remain alert to global change and to opportunities to strengthen Iceland. This is something we Icelanders have done before to break out of economic stagnation.

Now we are joining forces to begin a new chapter of progress for the country and the nation — with hope, determination, and a firm commitment to create an even better Iceland for the future.

1. Introduction

Iceland's Industrial Policy is a ten-year growth plan describing how the government will work with industry and society at large to increase value creation.

A targeted industrial policy enables the government to coordinate public actions toward the business sector and provides predictability for investment.

The policy focuses on how to support the growth of diverse export industries, because future economic growth and high living standards will largely depend on continued export growth and the success of Icelandic companies in international markets. These priorities are reflected in the policy's future vision and main objective.

The policy builds on an analysis of key focus areas and challenges, presented in a separate report published alongside the policy. Its main findings and conclusions are summarised in Chapter 2.

The policy is also founded on four important societal objectives, cross-cutting themes that underlie the government's approach to industrial development. These are discussed in Chapter 3.

Chapter 4 sets out nine indicators that will be used to assess the policy's performance.

The core elements of the industrial policy are presented in Chapters 5 and 6 and consist of policy priorities divided into two categories:

1. **General policy priorities** that support the policy's main objectives of export growth, international competitiveness, and increased domestic productivity.
2. **Specific priorities for export sectors,** laying the foundation for how the government intends to support growth and increased productivity.

The policy clearly commits to co-ordinated actions to strengthen infrastructure, promote science and innovation, enhance skills and education in line with the needs of industry, simplify regulation and increase the competitiveness and resilience of Icelandic businesses. These are general policy priorities, all of which contribute to achieving the policy's vision of growing productivity, improved international competitiveness and a diverse labour market throughout the country. Targeted policy priorities refer to specific measures concerning individual export sectors.

To implement these priorities, specifically timed two-year action plans will be defined and published separately. **The first such action plan covers the years 2026–2027 and is published in tandem with the policy.**

Follow-up on the industrial policy and its actions will be co-ordinated across ministries under the leadership of the Prime Minister's Office. In addition, an independent five-member Industrial Policy Council has been appointed. The Council advises the government on the design and implementation of the policy and monitors progress toward its objectives and its indicators. However, responsibility for the policy and its actions rests with the government.

Iceland's Industrial Policy – A Growth Plan to 2035 is the result of extensive consultation with business and industry and other stakeholders that began in the autumn of 2025. The government intends to continue this dialogue in the further development of the policy and its action plans.

FUTURE VISION

Value creation is driven by diversified exports based on innovation and the sustainable use of resources. Productivity is high, international competitiveness is strong, and diverse job opportunities are available throughout the country. Greenhouse gas emissions from export sectors are among the lowest in the world.

MAIN OBJECTIVE

Robust growth in exports driven by high-productivity industries.

2. Summary of Key Focus Areas and Challenges

This Industrial Policy builds on a **background analysis of economic and business developments over the period 2010–2024.** The analysis identifies the core priorities and structural challenges that this policy is designed to address. It is published separately in tandem with the Industrial Policy and should be consulted for a more detailed account of these key areas.

IN SUMMARY, THE KEY FOCUS AREAS AND CHALLENGES ARE AS FOLLOWS:

- Per capita GDP growth has been very limited over the past five years and weaker in Iceland than in its main comparison countries. Reversing this trend is urgent and requires a renewed focus on productivity-led growth.
- Living standards in Iceland depend on export performance. The export base remains relatively limited in scope. It is therefore essential to foster strong growth in a greater variety of export industries, particularly those not reliant on finite natural resources. At the same time, safeguarding the competitiveness of existing export sectors and their continuous development remains critical.
- Iceland currently benefits from high labour force participation and a favourable demographic structure. However, these conditions cannot be expected to persist indefinitely, underscoring the need to strengthen long-term productive capacity.
- Growth driven primarily by population expansion places significant pressure on public services and core infrastructure. It is therefore important to ensure that industrial development proceeds in balance with infrastructure capacity and environmental sustainability.
- Capital assets per-full time position equivalent in the Icelandic economy has declined. Removing barriers, providing a favourable operating environment and ensuring stability are essential for further investment in the economy.
- Electricity generation has expanded only slowly in recent years. Addressing constraints here is urgent to secure sufficient energy for value creation and the green transition.
- While the share of graduates from higher education is broadly comparable to that in peer countries, the proportion of graduates in STEM fields is significantly below average. Expanding STEM education is vital to support the growth of knowledge- and technology-intensive sectors and to enhance innovation capacity.
- The next phase of economic growth must be driven by different engines than that of the past 15 years. To preserve its current living standards and progress forward, Iceland must cultivate an environment that actively supports the growth of diversified, high-productivity export industries and enables structural transformation toward a more resilient and innovation-driven economy.

3. Cross-cutting Themes

Inherent in the government's Industrial Policy are four societal objectives that underlie its approach to economic development:

INDUSTRIAL DEVELOPMENT IN ALL REGIONS

The Industrial Policy will serve as a key policy instrument to promote economic growth and diverse employment opportunities in all regions of Iceland. Implementation will build on the distinctive characteristics and competitive strengths of each region.

In parallel with the rollout of the strategy, particular attention will be given to opportunities for new large-scale investments and regional economic development throughout Iceland.

The government aims to foster sustainable growth and positive regional development by designing measures that support new employment opportunities in all parts of Iceland. Where appropriate, actions already embedded in the existing Strategic Regional Plan will be leveraged and implementation prioritised accordingly.

INCREASED RESILIENCE

The Industrial Policy is intended to strengthen Iceland's resilience to economic shocks by encouraging a diversified and robust export base.

Recent geopolitical developments and the growing impact of climate change underscore the importance of resilient supply chains, secure access to international markets and continuity in production and essential services. By promoting productivity growth, innovation and competitiveness, a well-coordinated industrial strategy enhances Iceland's capacity to withstand shocks and adapt to evolving conditions.

Measures that strengthen energy security, enhance supply chain reliability and reinforce digital infrastructure also contribute to broader national resilience objectives. As appropriate, the policy will encourage the development of dual-use projects that serve both civilian and defence-related purposes. Such initiatives can strengthen resilience in the economy while reinforcing Iceland's contribution to collective security and preparedness in the North Atlantic.

EMISSIONS REDUCTION

It is necessary to break the link between increased economic growth and greenhouse gas emission. The Industrial Policy provides support for the government's climate policy and existing climate targets. Climate change represents one of the most significant global challenges of our time and will shape the future trajectory of Iceland's economy. It is imperative that Icelandic industry adapt to climate impacts, reduce greenhouse gas emissions, and seize emerging opportunities in the export of green solutions developed domestically.

The emission intensity of Icelandic exports will serve as one of the indicators used to assess the policy's performance. The objective is to reduce emission intensity — defined as greenhouse gas emissions relative to export value — both by lowering emissions in existing export sectors and by expanding exports with low or zero emissions. Emission intensity must be measured in the context of progress achieved in reducing Iceland's total emissions, so that lower emission intensity does not lead to other negative environmental impacts

Policy priorities and measures will be shaped with this as a guideline. Implementation will build in part on actions already set out in the government's Climate Action Plan and prioritised accordingly.

NATURAL RESOURCES TO THE BENEFIT OF ALL

Iceland's internationally recognised success in the sustainable utilisation of natural resources for value creation remains a national strength and will continue to underpin economic development.

The government seeks to maintain broad-based support for strong resource-based industries throughout the country. Iceland's natural resources are the property of the nation and must be utilised in its interest. It must be ensured that a fair share of the value created from natural resource use accrues to the nation through appropriate resource charges, while at the same time the international competitiveness of the industries concerned is ensured.

A priority for the Government is to establish stable and predictable conditions that support investment and increased value creation in resource-based sectors. Resource charges are appropriate, firstly, where the economic rent arises from the utilisation of natural resources and, secondly, where resource use generates pressure on the resource itself or creates other negative externalities, for example, for communities, infrastructure or the environment, that must be responded to. Where such pressures or externalities are localised, a proportion of resource revenues should accrue directly to the affected local communities. By achieving consensus on responsible development and well-designed resource charges, national and local interests can be aligned, ensuring that the sustainable utilisation of Iceland's abundant natural resources remains a cornerstone of employment, resilience and long-term prosperity.

4. Indicators

The following indicators are among those which will be considered to evaluate implantation and performance:

OUTPUT

01 **Higher GDP per capita,** a strong indicator of improving living standards and economic performance.

02 **Higher labour productivity,** a strong indicator of economic progress and performance.

03 **Increased exports and export diversification,** indicating whether export sectors are being effectively encouraged and the economy's resilience strengthened.

04 **Lower emission intensity of exports across the entire value chain,** indicating stronger economic growth together with reduced greenhouse gas emissions.

05 **Higher employment income in all regions,** indicating whether efforts to promote job creation and diversify employment nationwide are succeeding.

INPUT

01 **Higher business investment and foreign direct investment,** to support higher productivity and signal a healthy economic environment.

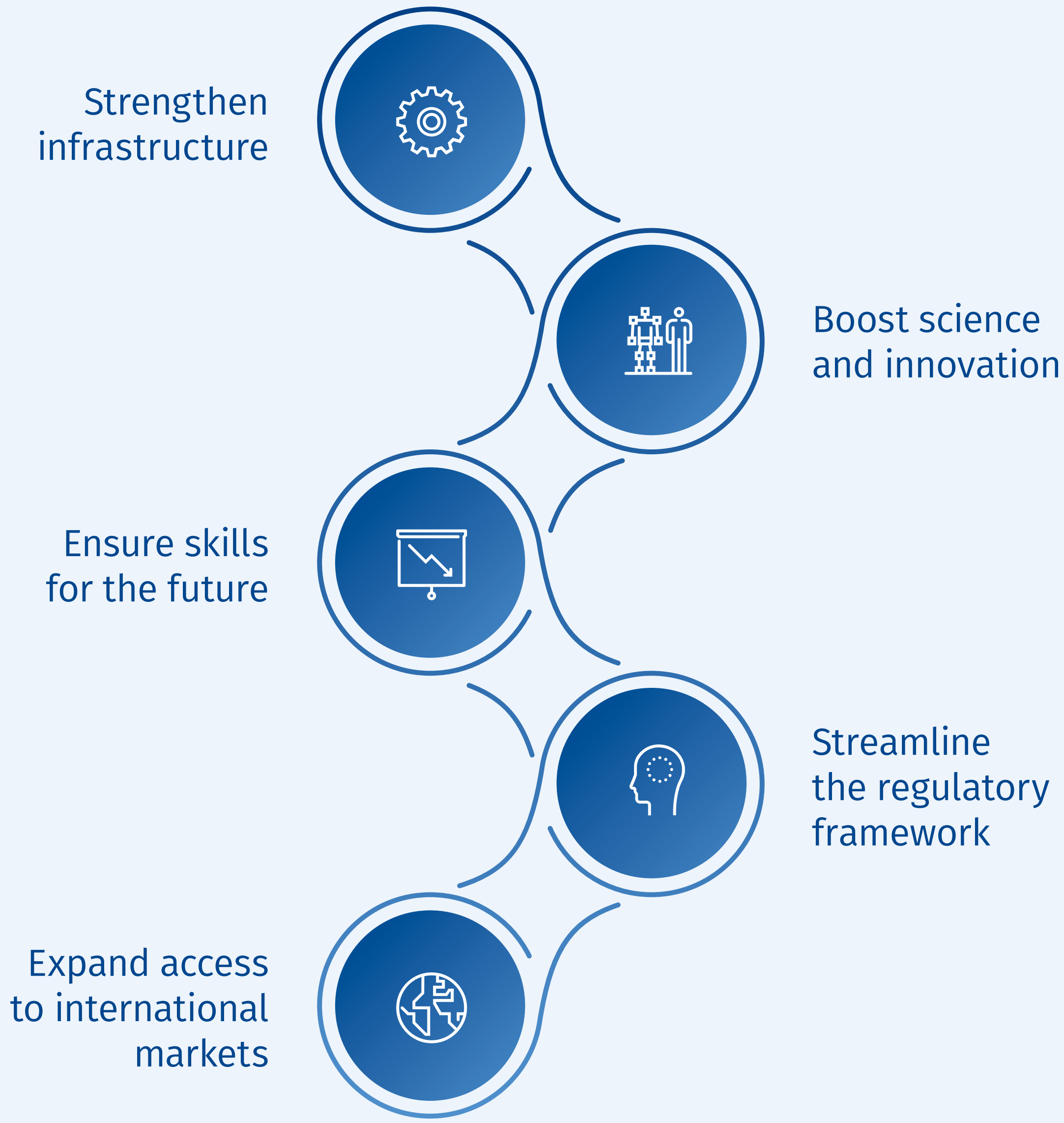
02 **Increased electricity generation,** to boost exports and underpin growth in high-productivity industries and new anchor projects in the regions.

03 **Greater investment in research and development,** to encourageinno-vation, increased exports and growth in high-productivity industries.

04 **More graduates in STEM and related vocational, industrial and technical fields,** who will form the backbone of firms pursuing research-driven innovation.

5. General Policy Priorities

Five general policy priorities support increased exports, international competitiveness, and higher productivity.



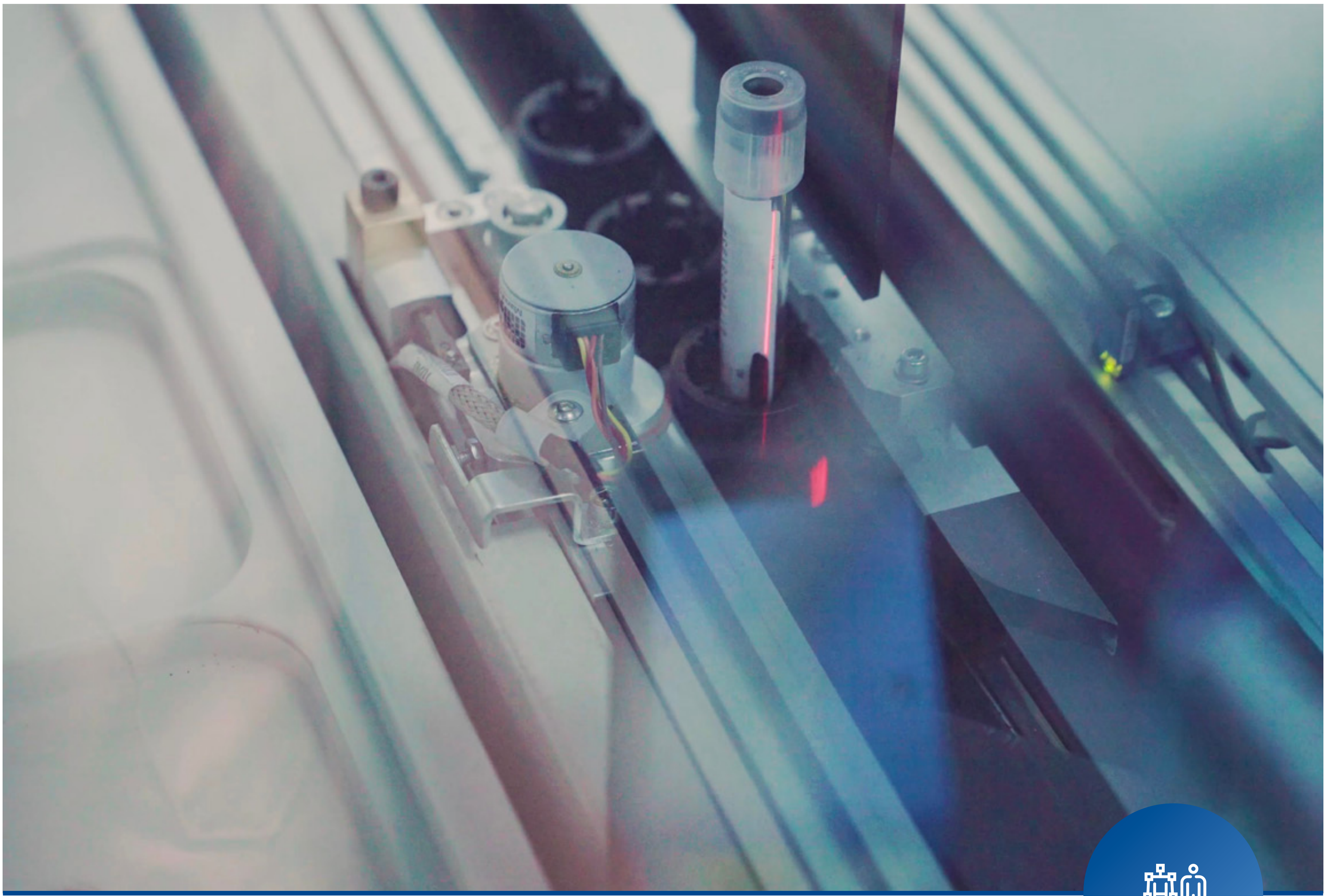
Strengthen infrastructure

Robust infrastructure is a prerequisite for a competitive economy and a key foundation for value creation. The focus is on developing infrastructure to meet the needs of industry, unlock new opportunities, minimize negative environmental impacts and prevent bottlenecks. The coming phase of economic growth will rest on stronger infrastructure for energy, transport, digital networks, technical development and research.

Access to competitive and renewable electricity is the foundation of Icelandic industry and a prerequisite for the energy transition. Emphasis is placed on predictable electricity generation and transmission to meet the needs of industry and society. To deliver on this, electricity prices must be internationally competitive — including transmission and distribution costs.

Roads are the backbone of goods transport and tourism nationwide. The focus is on a road network that serves the export sector and society as a whole as effectively as possible.

Infrastructure for research and technological development particularly digital infrastructure, will be reinforced to promote innovation and support exports based on high-productivity industries.



Boosting science and innovation

Science and innovation contribute to a thriving society, higher productivity and new export opportunities. The focus is on encouraging ingenuity — where knowledge, education and creative thinking are the drivers of a more diversified economy.

Targeted, predictable support for research and development is key to achieving the Industrial Policy's goal of increasing exports. Competitive funds for research and innovation shall be strong and accessible. The general public and pension funds will have the opportunity and incentive to invest in innovation and growth companies. Emphasis will be placed on ensuring easy access to advice, together with facilities and support for scientists and entrepreneurs throughout the country.

Active collaboration between universities, industry and government will boost value creation in emerging fields. By fostering a strong environment for basic research, knowledge application, innovation and technology development, Iceland can attract capital and generate diverse export opportunities.

Ensure skills for the future

Science, technology, engineering and mathematics (STEM) form a vital foundation for innovation and the development of new technologies. Emphasis is placed on increasing the share of university graduates in STEM fields to promote growth in high-productivity sectors. Rising demand for STEM skills will be met by expanding learning opportunities and high-quality instruction nationwide.

Priority is given to strengthening vocational, trades and technical education and to developing flexible teaching methods aligned with the needs of society.

It is essential to attract international expertise and establish efficient processes for skills recognition and competence validation for the Icelandic labour market.

Ensuring the skills needed to apply artificial intelligence responsibly in the Icelandic labour market is necessary to enhance workforce productivity.

Streamline the Regulatory Framework

The government will place priority on ensuring a stable, predictable and competitive operating environment for businesses. The emphasis is on accessible and efficient public administration that enhances business competitiveness and reduce costs. It is also important to make public services digitised and user focused.

Licensing processes and authorisations will be reviewed with the aim of simplifying them and bringing them in line with practices in Iceland's main competitor countries. Unnecessary obstacles to the establishment and operation of businesses will be removed to strengthen their competitiveness.

The framework for foreign investment shall be simple, transparent and efficient, to make Iceland an attractive destination for foreign investment that brings capital, knowledge and technology to the country in line with the objectives of the Industrial Policy.

Expand access to international markets

Priority is placed on safeguarding Icelandic companies' existing market access — especially in the country's main export sectors — and removing barriers to entry into new markets. The government will work closely with exporting firms to identify risks early and respond promptly to challenges.

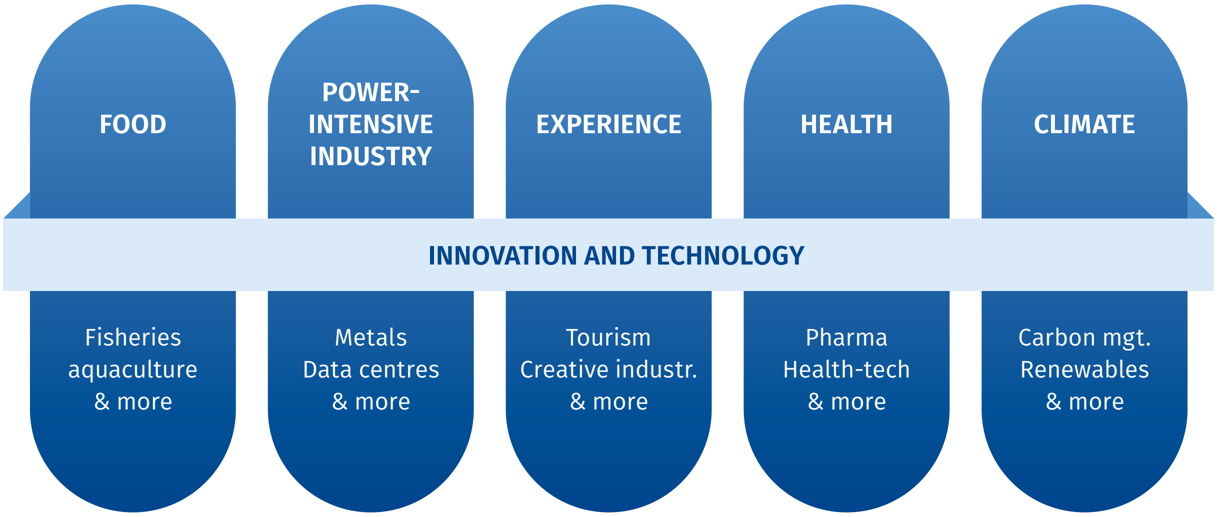
Emphasis is placed on ensuring that Iceland's international trade rests on a robust and diverse set of trade agreements that secure access to key markets. Work will continue on renewing existing free-trade agreements, concluding new ones and making full use of them.

In a constantly changing global economic environment, characterised by rising protectionism, international instability and intensifying competition for market access, the government will act with resolve to protect the interests of Icelandic exports.

6. Sector-specific Policy Priorities

The Industrial Policy focuses on how to encourage the growth of diverse export sectors. Increased value creation in the future and high living standards will depend largely on continued export growth and the strong performance of Icelandic companies in international markets.

Sector-specific policy priorities address all current exports, as well as the main growth opportunities across different export categories. They provide a basis for government co-operation with the business community to support export growth and increase productivity. These sector-specific priorities are designed to build on opportunities for increased value creation.



Innovation and technology

Innovation and technological development form the structural core of the government's emphases in building an economy based on knowledge, ingenuity and new solutions. The specific priorities proposed in the Industrial Policy therefore all rest on the premise that new knowledge, creative thinking and the implementation of new solutions should guide the development of economic sectors. Knowledge industries encompass activities centred on innovation, technology and software development, and the interaction of knowledge-driven industries and other sectors creates significant and growing value.

The growth of knowledge industries is not limited by natural resources but rather by access to qualified personnel with the skills, education and expertise needed to address the challenges and opportunities facing society at any given time. Greenhouse gas emissions are generally low or negligible in the operations of companies in the knowledge sectors, which aligns well with the objective of reducing the emission intensity of export value. Knowledge industries also provide diverse employment opportunities and are characterised by high productivity.

The growth of knowledge industries therefore fits well with the main objective of the Industrial Policy of increasing exports and improving productivity. Two of the five general policy emphases **(Boosting science and innovation and Ensuring skills for the future)** are specifically intended to support the continued growth of the knowledge-driven sectors.

Food

Food exports in Iceland are mainly part of the blue economy; here a globally competitive seafood industry has invested heavily in innovation and significantly increased productivity. The emphasis is on ensuring the industry's continued international competitiveness, as it is one of the main pillars of Icelandic exports and value creation.

There are major growth opportunities in aquaculture, both marine and land-based. This activity fits in well with the Industrial Policy's goals of higher productivity, more diversified exports and growth in all regions. The focus is on creating conditions for robust and sustainable expansion in this sector.

In addition, the policy highlights other growth opportunities in the food sector, including hi-tech protein production, hothouse horticulture and other traditional and non-traditional agricultural products.

Power-intensive industry

Power-intensive industry in Iceland developed around metals production, specifically aluminium and ferrosilicon, which are high-productivity sectors. Keeping a strong position in this area depends on access to renewable, competitively priced electricity. Emphasis is placed on maintaining the international competitiveness of metal producers in Iceland, including through innovation and product development, and on measures aimed at reducing emissions.

The focus is also directed at strong growth potential in the data-centre industry, in line with the Industrial Policy's goals of increasing and diversifying exports built on high-productivity activities. Global demand for data centre services is rising rapidly, driven in particular by the expansion of artificial intelligence. Given the competitiveness of Icelandic electricity and the cool climate, Iceland is well positioned to realise these opportunities.

Further industrial growth opportunities include the development of industrial parks — specifically eco-industrial parks — that make use of by-products and waste streams from existing operations, creating a platform for new export sectors. Such industrial symbiosis contributes to the circular economy, improves resource efficiency and generates new value creation.

Experience

Exports in the experience sector are largely driven by tourism, which has grown rapidly over the past 15 years and is now Iceland's largest export industry. Tourism is one of the pillars of Icelandic exports, and it is important to ensure the sector's continued international competitiveness. Lower productivity in tourism compared with Iceland's other export pillars can partly be attributed to the sector's relatively young age and the fact that a large share of its activities is labour-intensive. Innovation and product development in tourism are key to improving productivity and increasing value creation within the sector. The focus is therefore on securing continued productivity gains in tourism and supporting its sustainable development.

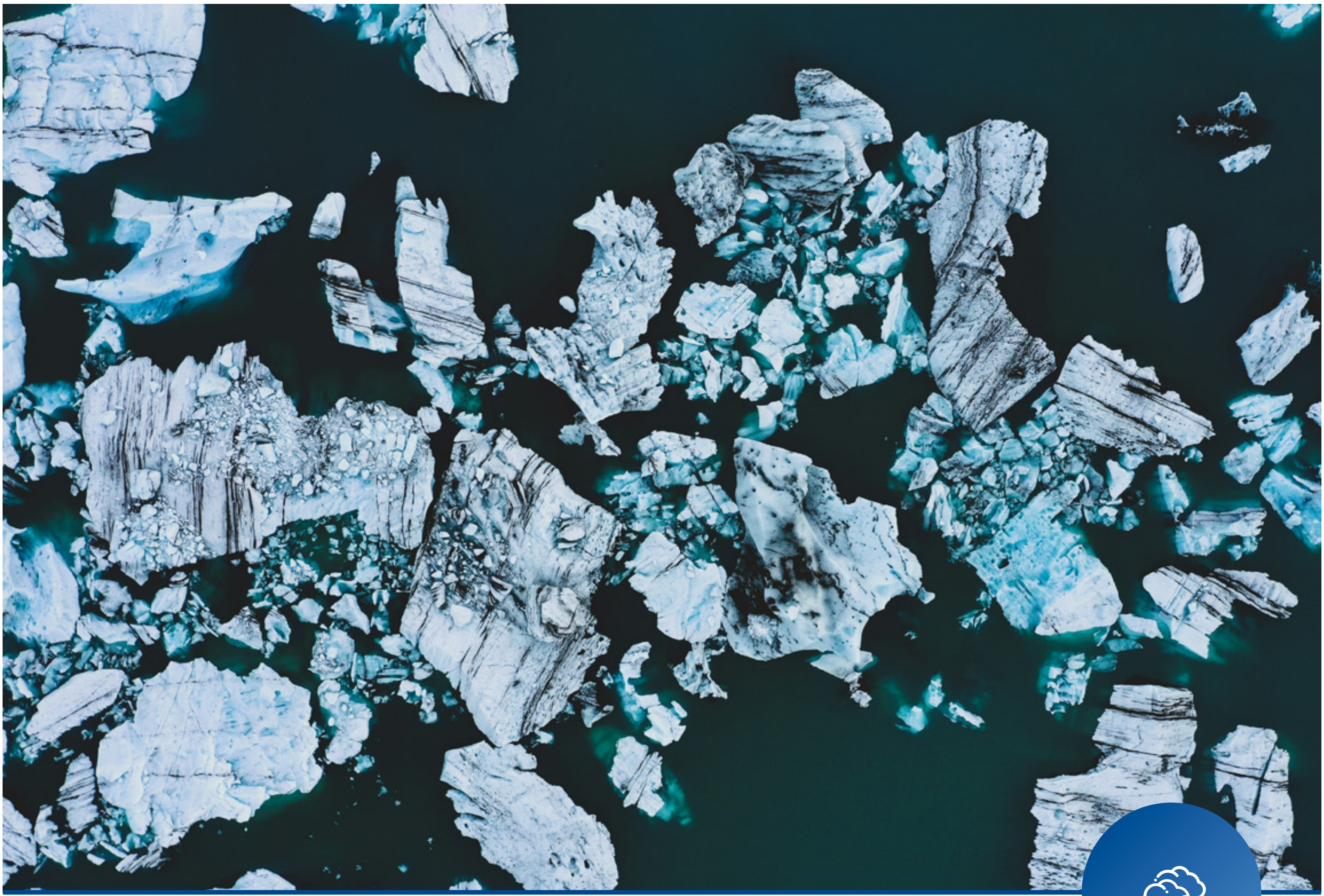
Creative industries, such as music, film production and video gaming, are an increasingly important part of Iceland's exports and also strengthen the country's cultural presence internationally. Growth in these industries is not constrained by natural resources, but productivity varies widely across and within fields. The Industrial Policy will prioritise export growth in creative industries that offer high productivity.

Health

The health and life sciences industry, including pharmaceuticals manufacturing, biotechnology, medical technology and health technology, is internationally competitive and is likely the fastest-growing segment of Iceland's knowledge-based economy.

The sector is characterised by innovation, software development and technological advancement, with specialized, internationally educated professionals working on cutting-edge solutions that improve people's quality of life and health. There is substantial potential for continued growth in these fields, particularly in pharmaceutical manufacturing in the near term.

Growth in the health and life sciences industry fits well with the Industrial Policy's core goals of higher productivity and a more diversified export base. Two of its five general policy emphases (Boosting science and innovation and Ensuring skills for the future) will provide a strong foundation for the sector's continued growth in coming years.



Climate

The climate sector in Iceland includes industries in renewable energy and carbon management (carbon capture, utilization and storage, CCUS). Both areas are characterised by high productivity and specialized expertise and create numerous well-paid jobs for skilled workers.

To date, Iceland's largest contribution to climate action has been the sale of renewable electricity to global export industries. In addition, the knowledge and experience built up domestically in renewable energy and geothermal energy in particular offer significant export opportunities.

There are indications of Iceland's strong international competitiveness in carbon management, underpinned by Icelandic innovation and technology development. Solutions developed in Iceland can support national climate targets, enhance the competitiveness of industries and become valuable export products. Moreover, permanent underground carbon storage in Iceland could offer new and substantial export opportunities.

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