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The Icelandic Economy

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Government of Iceland
Ministry of Finance and Economic Affairs



New Icelandic Government takes office



Following Parliamentary elections last November a new Government consisting of the Social Democratic Alliance, the Liberal Reform Party and the People's Party took office 21 December 2024.

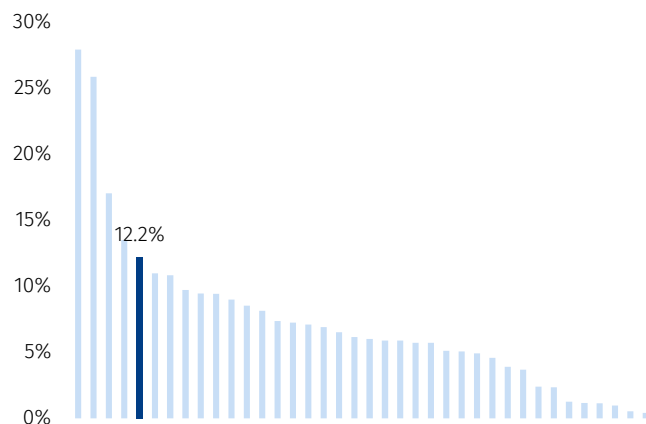


Short term growth outlook remains solid

Growth performance has exceeded most peers in previous years. Tight fiscal and monetary policy is succeeding in reining in demand without a sharp contraction in economic activity, GDP growth expected 0-0.7% this year and 1.9-2.4% growth 2025 which is solid growth compared to peers.

Strong economic growth compared to other OECD countries

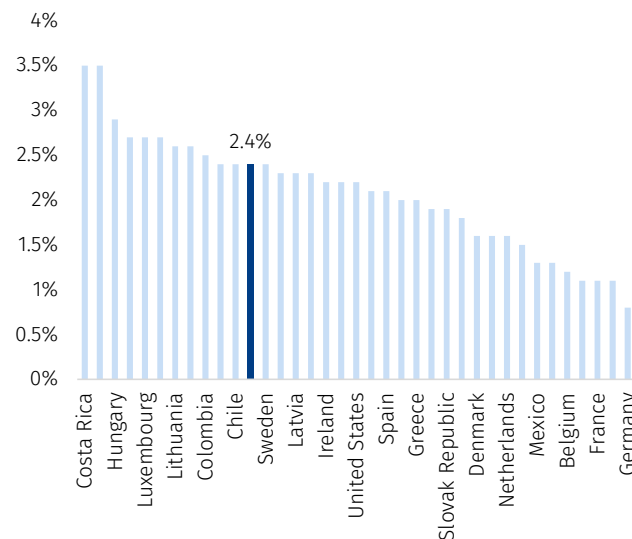
GDP real growth 2019-2023 in OECD countries



Source: IMF (WEO October 2024)

Highest forecasted economic growth among the Nordic countries

Economic growth 2025 forecast for OECD countries



Source: IMF actuals (2020-2023) and forecast (2024) in WEO October 2024. Right figure from IMF WEO October 2024 except otherwise noted. Both figures: GDP at constant prices.

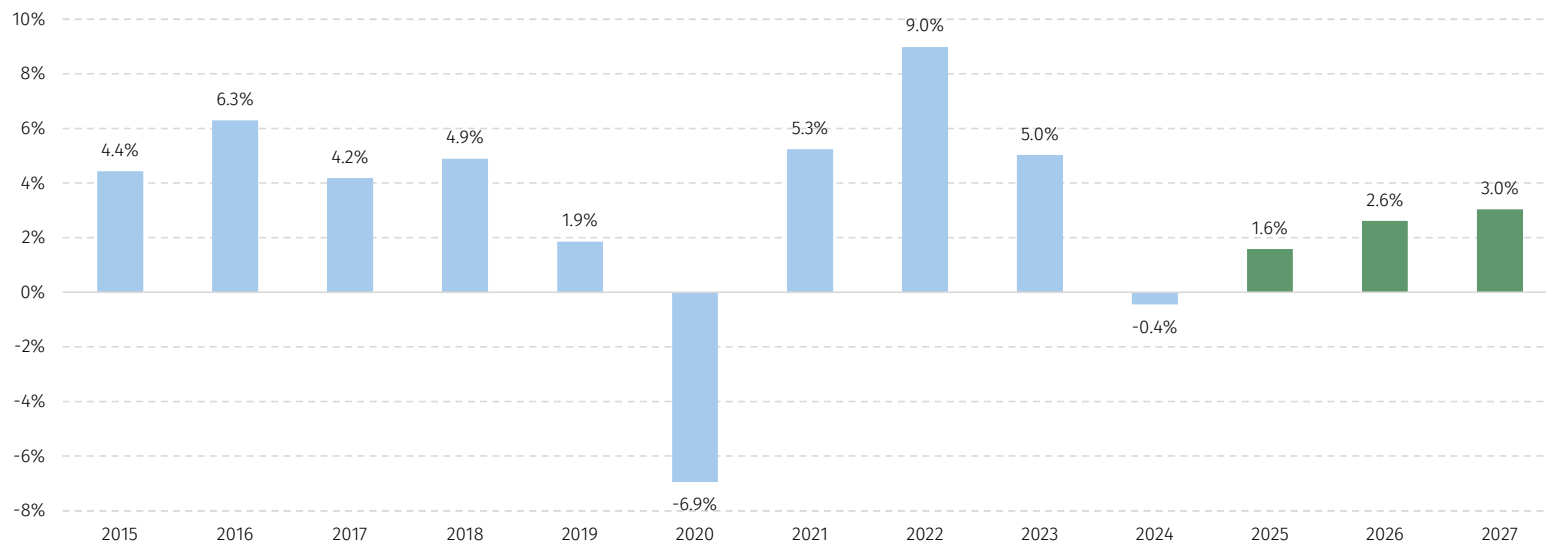


Economy Is Growing at a Strong Pace

Growth has been robust after COVID measures were lifted. Although growth is expected to slow due to monetary consolidation and uncertain fiscal outlook the overall outlook is promising

Robust growth after the pandemic and a healthy growth outlook

GDP growth



Source: Statistics Iceland, Central Bank forecast

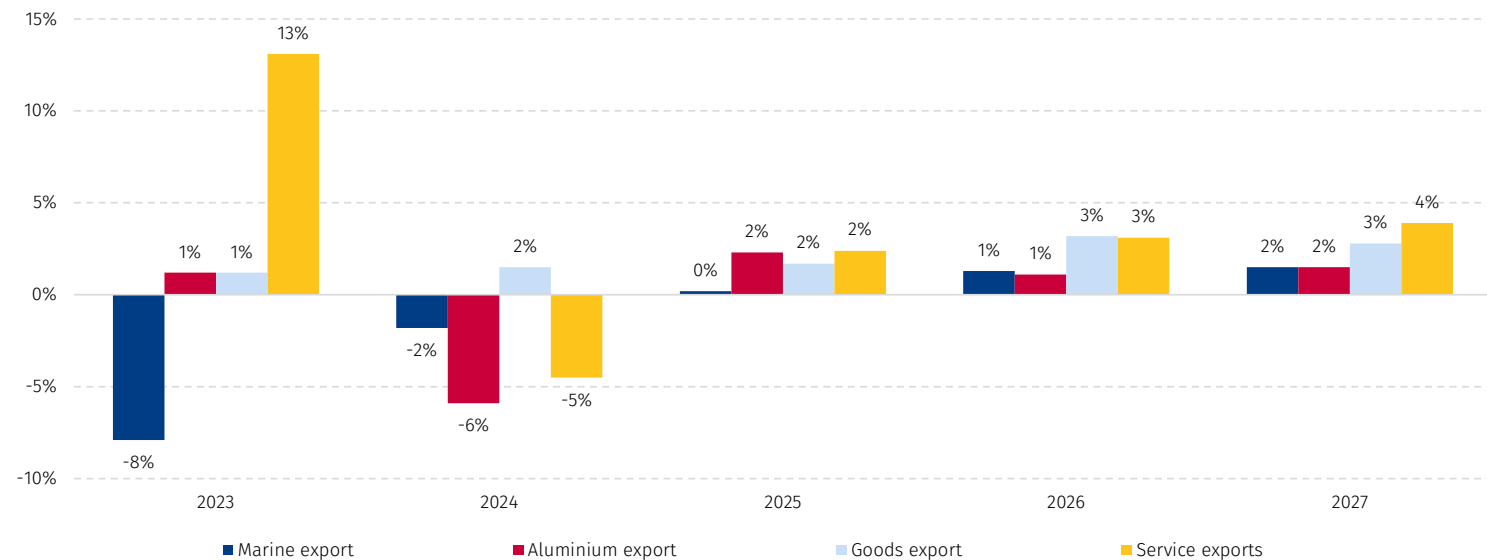


All key export sectors contribute to growth

Marine exports growth varies with recommended catches but expected to resume in 2025. Considerable upside in some smaller export sectors.

Exports growing again after various shocks in 2024H1

Exports growth by category. Actuals 2023 and Central banks forecast 2024-2027.



Source: Central Bank of Iceland, Monetary Bulletin 2025/1 from February.



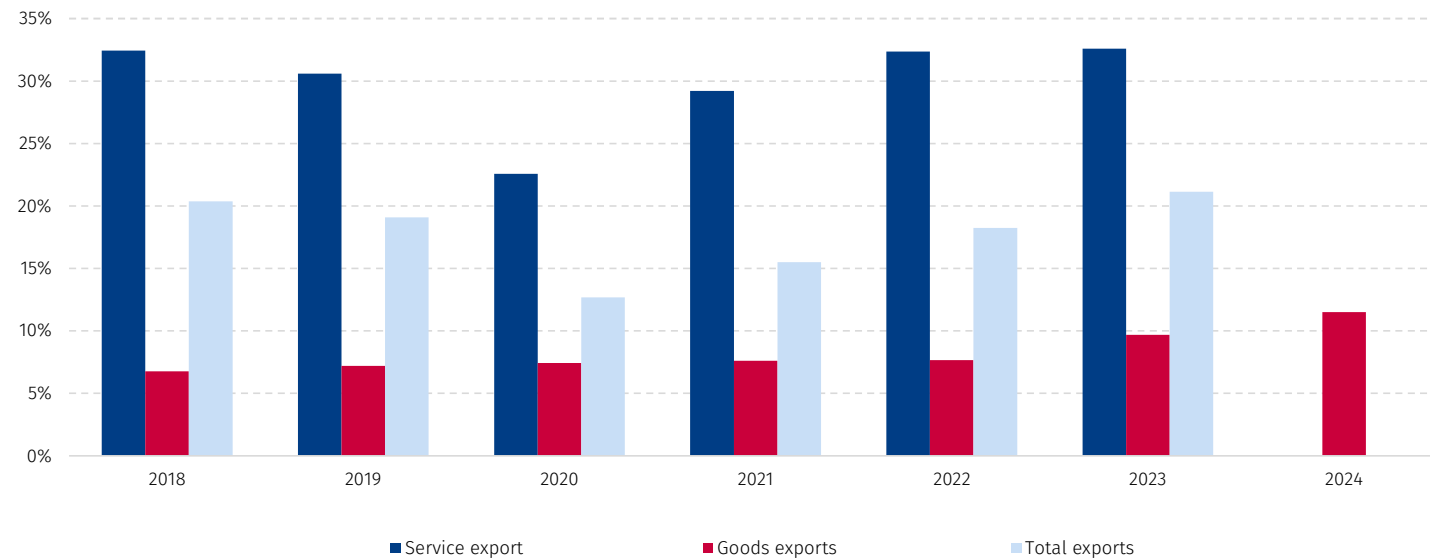
US is an important trading partner

Exports to the US is 20% of total exports. The share of service exports is close to 1/3.

Exports mostly consist of fish, tourism, medicine, and medical equipment.

20% of Icelandic exports go to the US

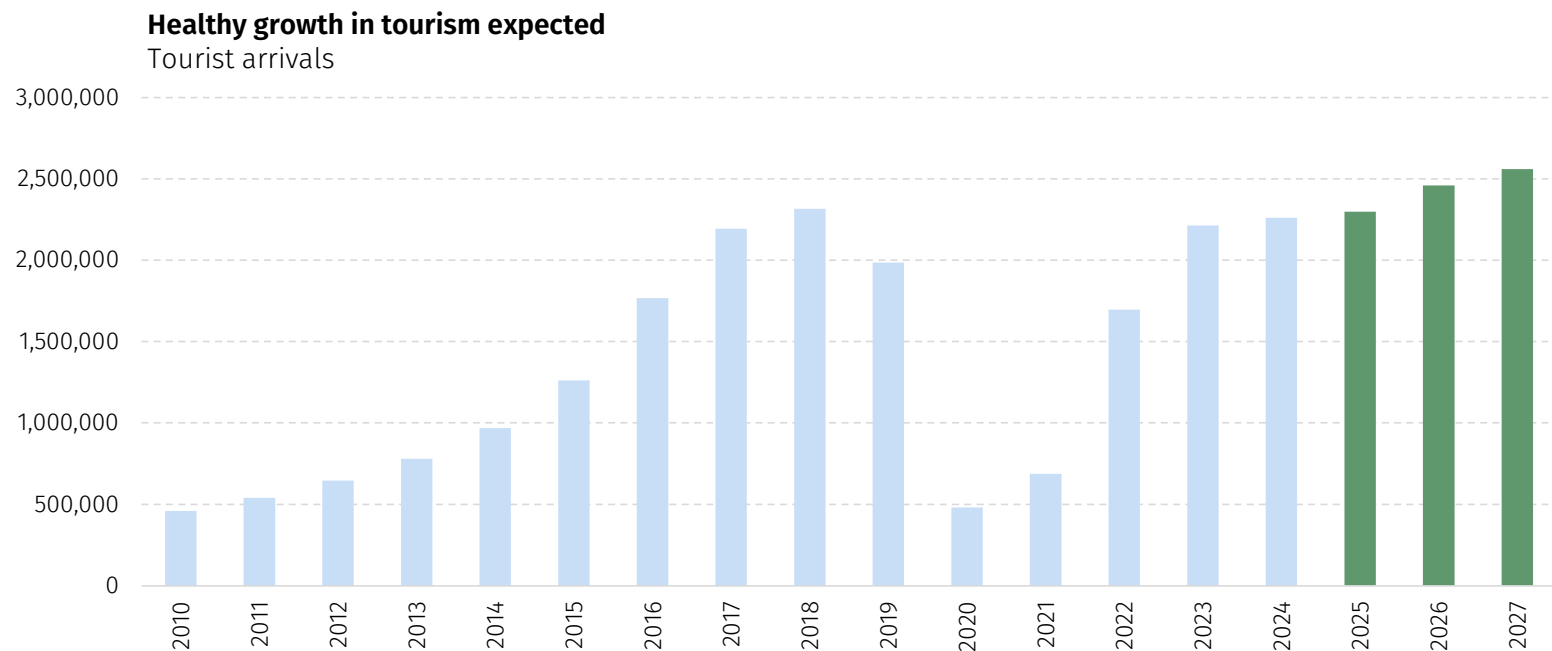
Exports to the US, Share of total exports





Remarkable Tourism Recovery

Tourist arrivals and receipts have fully recovered. Growth in tourism expected to continue at a healthy and sustainable pace.



Source: Icelandic Tourist Board (2010-2024), forecast (2025-2027). Tourists via Keflavik airport.

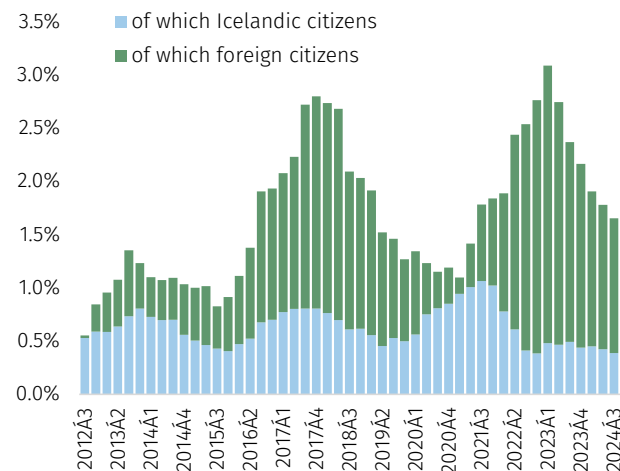


Strong economy attracts foreign workers

Record population growth has been a key facilitator of economic growth. Labor force participation of immigrants is similar as natives and among the very highest in OECD

Population growth in decline after rapid a long period of rapid growth

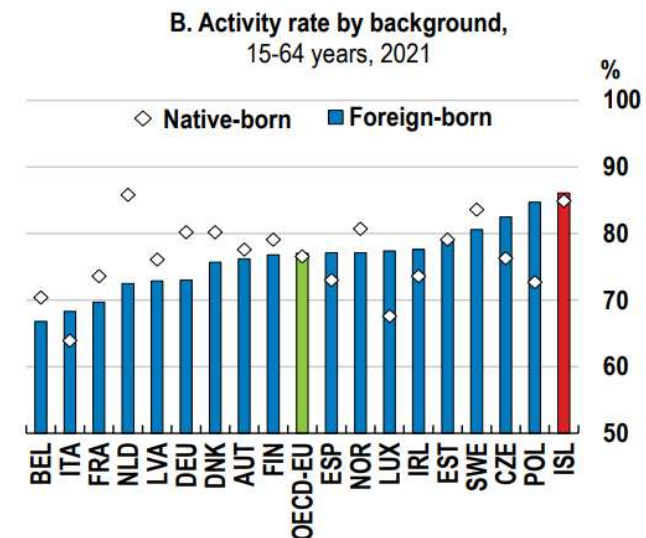
Population growth, yoy



Heimild: XXX

Source: Statistics Iceland, OECD.

From the 2023 OECD Economic Survey of Iceland:





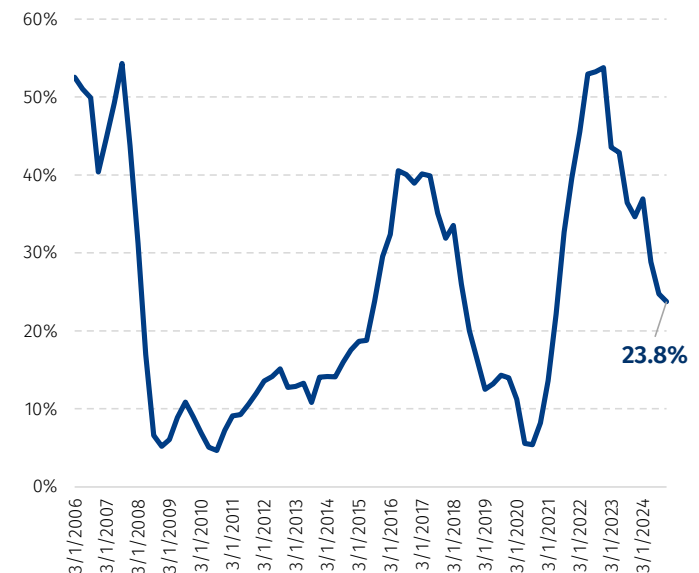
Labor market strong but normalizing

Unemployment low recently but is increasing slightly again; the labor market remains tight despite unemployment

Unemployment is edging upwards very slowly
Registered unemployment, seasonally adjusted



Labour market close to equilibrium
Share of firms reporting labor shortages



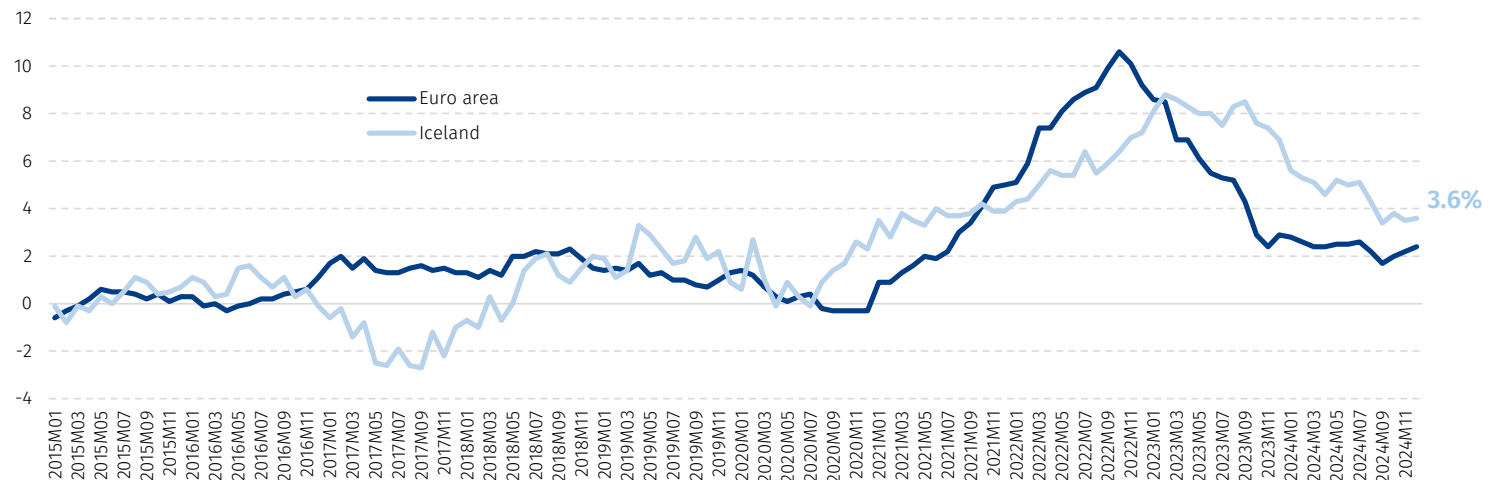


Inflation is firmly declining

Tightening of policy is having its intended effect. Inflation is clearly coming down and is expected to decline further, paving the way for policy easing if warranted. inflation-target could be long

Inflation is coming down and getting close to inflation in the Euro area

HICP inflation



Source: Eurostat. HICP measure of inflation.



Volcanic activity on the Reykjanes peninsula

- Seismic and volcanic activity in the Reykjanes peninsula has had a **limited impact on government finances**.
- Total expenditure in 2024 is about **25 bn. ISK or 0.6% of GDP** – most of which was included in the budget (specific line items or through the general contingency fund).
- The **purchase of residential housing** is reflected in the CG debt level due to on-lending and capital equity to the Grindavík SPV (**about 35 bn. ISK or 0.8% of GDP** net the transfer from the Natural catastrophe insurance of Iceland).
- Limited expenditure is expected in 2025 with most support measures expiring in March.

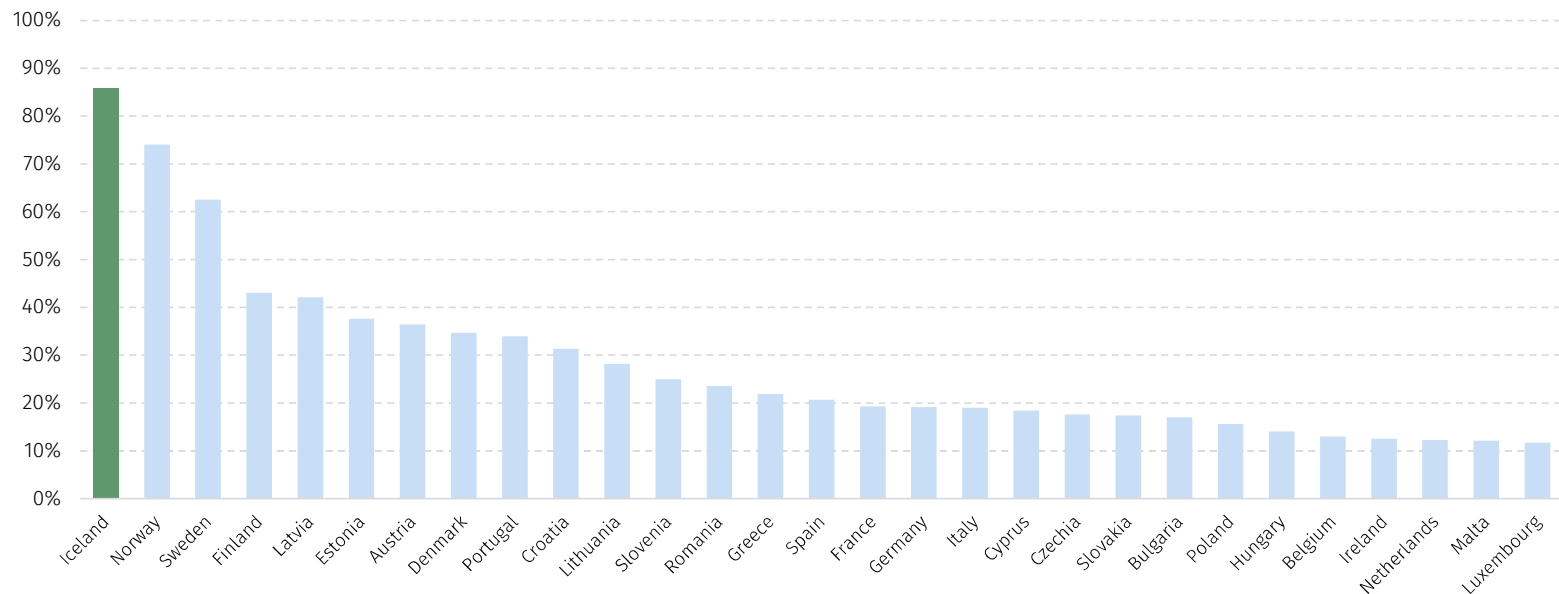


Plentiful renewable energy

Iceland benefits from plentiful renewable and reliable energy, providing insulation from shocks in world energy markets and supporting long-term growth potential.

Iceland has the highest share of renewable energy in Europe

Share of renewable energy in gross final energy consumption, 2021

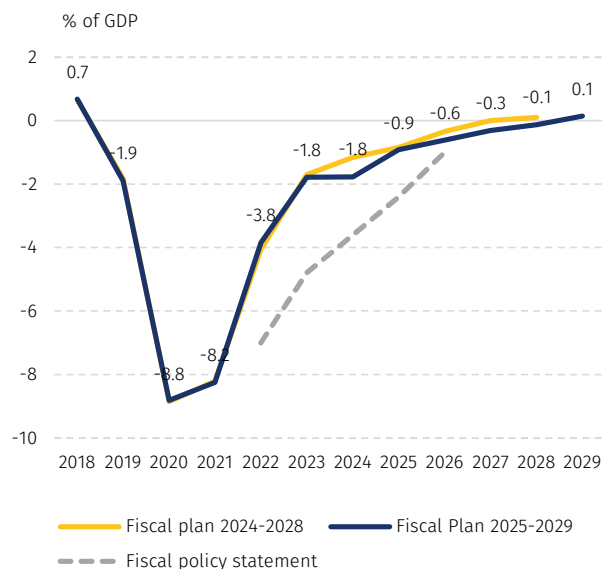




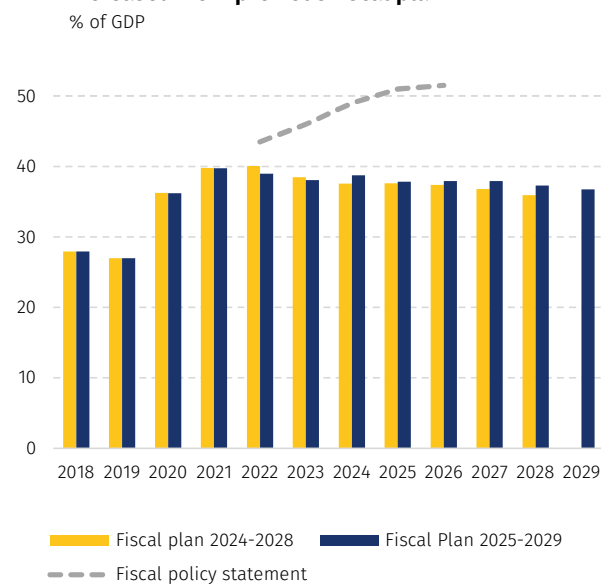
Fiscal outlook

General Government overall balance is slightly lower than previous Fiscal plan and the debt level slightly higher in part due to the volcanic and seismic activity in Grindavík.

General government positive overall balance achieved by the end of the period



General government debt outlook slightly increased from previous fiscal plan



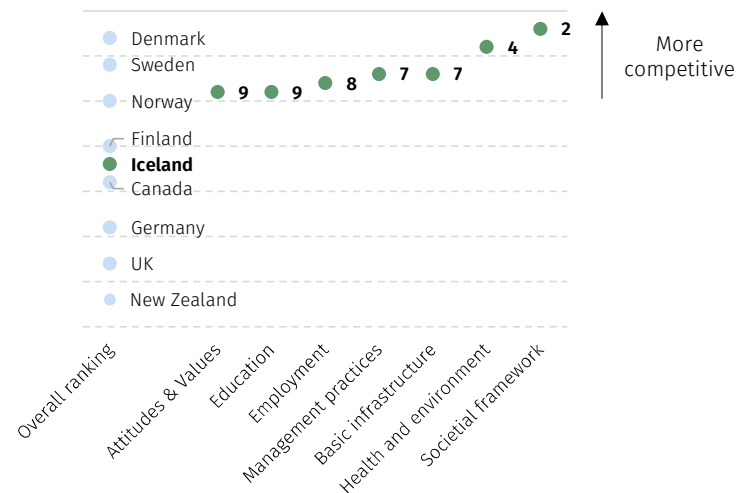


Highly competitive and innovative economy

Iceland's high level of international competitiveness is underpinned by a skilled workforce, agile business culture, good infrastructure and strong institutions.

Iceland is highly competitive – particularly in human capital, institutions and infrastructure

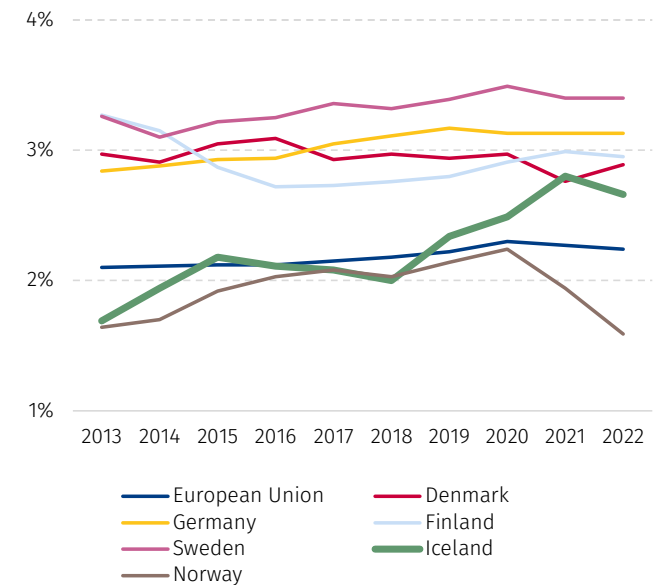
2024 World Competitiveness Ranking



Source: IMD, Eurostat.

R&D expenditure has approached European frontier

% of GDP





Thank you

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