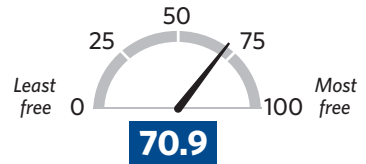


ICELAND

Economic Freedom Score



World Rank: **27** Regional Rank: **13**

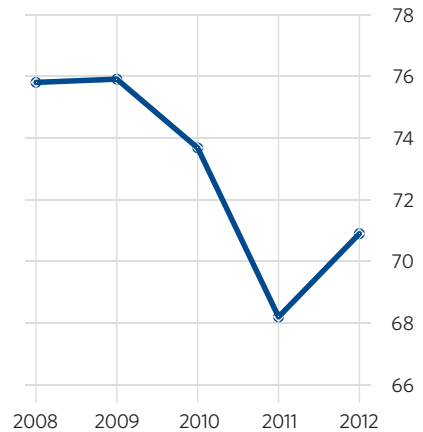
Iceland's economic freedom score is 70.9, making its economy the 27th freest in the 2012 *Index*. Its overall score is 2.7 points better than last year due to notable improvements in monetary freedom and the management of public finance. Iceland is ranked 13th out of 43 countries in the Europe region, and its overall score remains above the world and regional averages.

Achieving the third largest score improvement in the 2012 *Index*, Iceland is recovering strongly from its recent economic travail and has regained its status as one of the “mostly free” economies in the *Index*. The quality of the legal framework remains among the world's highest, 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.

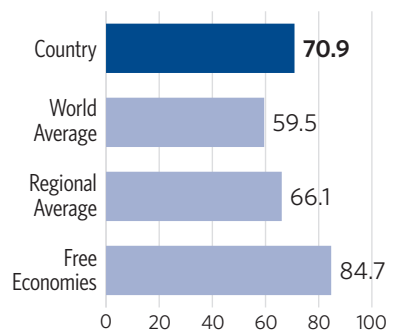
Despite the challenging economic situation, Iceland's government has demonstrated a strong commitment to restoring the soundness of public finance and the credibility of its policies. Bringing down government spending through deficit-cutting efforts, the country has created renewed momentum for economic recovery, which has been bolstered by a dependable commitment to regulatory efficiency and open-market policies.

BACKGROUND: Iceland traditionally has enjoyed low unemployment and a growing economy, but the collapse of its banking sector in 2008 sparked a currency crisis and a substantial contraction of the economy. The government of Social Democrat Johanna Sigurðardóttir, who became prime minister in 2009, reversed a long-held policy and won a parliamentary vote in favor of applying for membership in the European Union. Accession talks began in June 2010, but the government must win a mandatory public referendum, and the British and Dutch governments have threatened to veto Iceland's accession because of the Icesave debt dispute. Iceland already enjoys EU-related benefits that include free trade and movement of capital, labor, goods, and services within the EU, as well as membership in the Schengen zone (25 European countries with no internal travel barriers).

Freedom Trend



Country Comparisons



Quick Facts

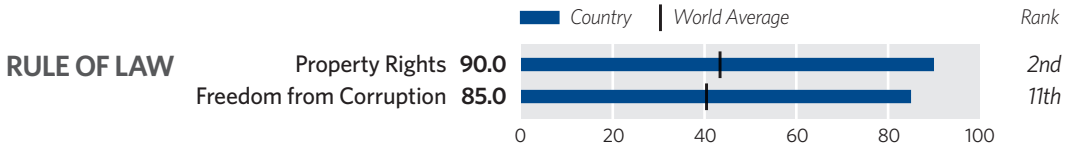
- Population:** 0.3 million
- GDP (PPP):** \$11.8 billion
- 3.5% growth in 2010
- 5-year compound annual growth 0.2%
- \$36,621 per capita
- Unemployment:** 7.5%
- Inflation (CPI):** 5.4%
- FDI Inflow:** \$3.0 billion
- Public Debt:** 92.4% of GDP

How Do We Measure Economic Freedom?

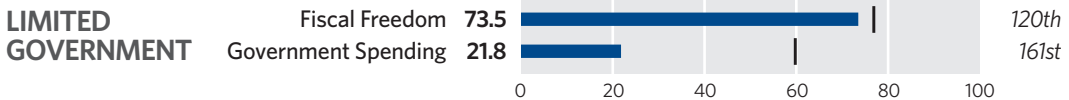
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
Data compiled as of September 2011.

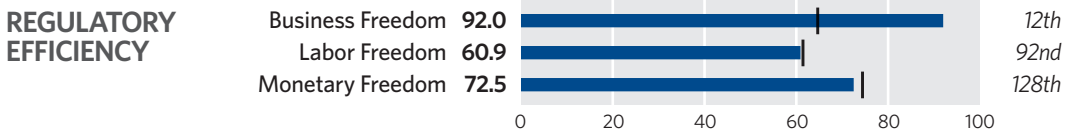
THE TEN ECONOMIC FREEDOMS



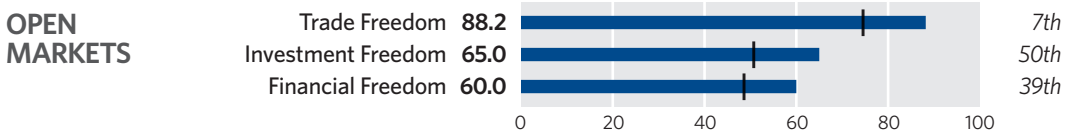
Private property is well protected. The constitution provides for an independent judiciary, and trials are generally public and fair. Iceland is one of the few countries with efficient, property rights-based fisheries management. Isolated cases of corruption are not an obstacle to foreign investment. Iceland’s 1,000-year history of parliamentary government has encouraged the institutionalization of accountability and transparency.



The top income tax rate is 33 percent, and the corporate flat tax rate has been raised from 18 percent to 20 percent. Other taxes include a value-added tax (VAT) and an estate tax. The overall tax burden is 34.1 percent of total domestic income, and government spending has come down to the equivalent of 51 percent of total domestic output. The deficit has declined to below 6 percent of GDP, but public debt has reached over 90 percent of GDP.



Iceland’s modern, transparent regulatory environment allows the processes of business formation and operation to be efficient and dynamic, encouraging entrepreneurial activity. Bankruptcy proceedings are relatively easy. Labor regulations are relatively rigid, with broad wage settlements and high unionization. Despite the challenging economic situation, monetary stability remains relatively well maintained.



The trade weighted average tariff rate is quite low at 0.9 percent, but modest non-tariff barriers add to the cost of trade. The investment regime is transparent and supports vibrant investment growth. The central bank has eased some of the restrictions on the movement of capital that were instituted following the financial turmoil in 2008. Recapitalizing its banking system, Iceland returned to the global bond market in 2011.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+3.7	Business Freedom	-0.7	Trade Freedom	0
Freedom from Corruption	-2.0	Government Spending	+21.8	Labor Freedom	+0.2	Investment Freedom	0
				Monetary Freedom	+3.9	Financial Freedom	0