

At the peak of crisis, GDP and employment in Iceland fell around 8%. Public expenditure increased by 8% and public revenue and household disposable income plummeted almost a quarter. Since 2011, the economy slowly recovered. By 2013, GDP and public expenditure were back to 2007 levels. Employment was still down 5% and public revenue 15%.

Macro and aggregate statistics, Iceland 2007-2013

Cumulative percentage change between 2007 and 2013 (2007 = 0)

	GDP	Employment rate	Public expenditure	Public revenue	HDI
2008	1	-2	6	-9	3
2009	-4	-8	8	-24	-14
2010	-7	-8	4	-24	-23
2011	-5	-8	-2	-20	-24
2012	-4	-6	0	-19	-
2013	0	-5	0	-15	-

Note: GDP: Gross domestic product by volume; Employment: employment rate of working-age population; Public expenditure: does not include general economic, commercial and labour affairs; Public revenue: only includes taxes and social contributions; HDI: mean household disposable income.

Source: OECD data from National Accounts Statistics, Labour Force Surveys and Income Distribution Database (IDD).

Following a stand-by arrangement with the IMF, the Icelandic government introduced a fiscal consolidation programme. Measures focused more on tax rises than on benefit cuts. Various taxes were increased (income tax was reformed in 2010) and new ones created (e.g. on wealth). Social benefits were not particularly targeted, although the real value of some benefits (including the basic pension) fell due to fiscal drag in a period of high inflation. In 2010, the VAT standard rate was raised from 24.5% to 25.5%.

Simulation results suggest that, on average, measures had a negative impact on family income due to higher taxes but those were partially alleviated by higher social benefits. Higher-earnings families bore a larger share of the burden, mainly via tax rises. Families in long-term unemployment and with low earnings were net gainers mainly due to real-term rises in social assistance, family and housing benefits.

Simulated effects of tax-benefit reforms on family disposable income, Iceland 2007-2013

Cumulate and annual percentage change of simulated family disposable income (2007 = 0)

	Total	Months in unemployment								% of AW								Pensions	VAT
		0-12	13-24	25-36	37-48	49-60	0-20	21-40	41-60	61-80	81-100	101-120	121-140	141-160	161-180	181-200			
Total	-2	-1	1	1	4	4	4	1	1	-4	-5	-5	-6	-8	-10	-12	(-)i	(+)1	
Taxes	-4	-1	-1	-1	-3	-3	-3	-1	-2	-3	-4	-5	-6	-9	-11	-13		(+)1	
Benefits	2	0	2	2	6	6	6	2	3	-1	-1	-1	0	1	1	0	(-)i		
2008	-2	-4	-3	-3	0	-3	-3	-1	-1	0	0	0	-1	-1	-1	-1	(-)i		
2009	-1	2	1	1	1	-1	-1	-2	-2	-3	-2	-2	-1	-1	-3	-4	(+)i		
2010	-3	-3	-1	-1	-4	0	0	-1	-1	-2	-3	-3	-3	-4	-6	-7	(-)i	(+)1	
2011	1	1	2	2	4	4	4	1	1	-2	-2	-1	-1	-1	-1	-1	(-)i		
2012	-1	-1	-1	-1	-1	-1	-1	0	0	0	0	0	0	-1	-1	-1	(+)i		
2013	3	3	3	3	3	3	3	4	4	3	2	2	1	1	1	1	=		

Note: See Read Me.

Source: OECD Tax Benefit Model, OECD VAT database, MISSOC (2015).