

ICELAND

UNITARY COUNTRY

EUROPE

BASIC SOCIO-ECONOMIC INDICATORS

Income group - HIGH INCOME: OECD Local currency - Icelandic Króna (ISK)

POPULATION AND GEOGRAPHY

AREA: **100 243** km²

POPULATION: **0.327** million inhabitants (2014), an increase of 0.7% per year (2010-14)

DENSITY: **3** inhabitants/km²

URBAN POPULATION: **94%** of national population

CAPITAL CITY: **Reykjavik** (55.3% of national population)

Sources: OECD, Eurostat, World Bank, UNDP, ILO

ECONOMIC DATA

GDP: **14.4** billion (current PPP international dollars) i.e. 40 666 dollars per inhabitant (2014)

REAL GDP GROWTH: **1.8%** (2014 vs 2013)

UNEMPLOYMENT RATE: **4.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **746** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **17%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.899** (very high), **rank 16**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
74 MUNICIPALITIES (SVEITARFÉLAG) AVERAGE MUNICIPAL SIZE: 4 445 INHABITANTS	-	-	74

MAIN FEATURES OF TERRITORIAL ORGANISATION. Iceland has a single tier of local government protected under Article 78 of the Constitution, as well as in Article 2 of the Act on Local Authorities. All municipalities have the same status and responsibilities, regardless of population size. Voluntary mergers have reduced the number of municipalities from 226 in 1950, to 170 in 1995, 124 in 2000 and 74 today. An evaluation of merger policy conducted in 2010 recommended to promote inter-municipal co-operation instead of pushing for further mergers. The 2011 Local Government Act clearly opted for co-operation rather than amalgamation, by promoting municipal collaboration through regional boards, regional federations, or economic development agencies co-owned by the municipalities.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. Municipal responsibilities include social welfare (child, youth and disabled support, elderly policy, homeless, social home care, social housing), education (pre and primary schools), unemployment and employment services, culture (public libraries, museums, etc.), sports, traffic and transport, environmental protection, industry support, etc.

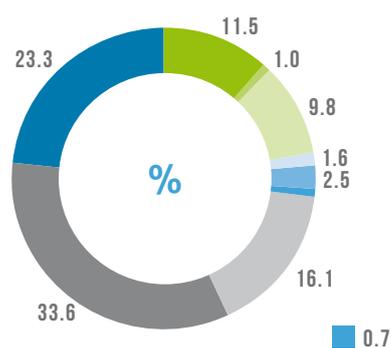
SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	13.4%	32.0%	100%
CURRENT EXPENDITURE	11.9%	-	91.3%
STAFF EXPENDITURE	5.8%	42.8%	43.6%
INVESTMENT	1.2%	41.0%	9.0%

The level of local expenditure in GDP and total public spending in Iceland is on average similar to that of unitary countries of the OECD, amounting to 13.4% of GDP and 29.0% of public spending in 2013. Icelandic local authorities are one of the biggest employers in the country. The share of staff expenditure in SNG expenditure is above the OECD average for unitary countries (32%). Local governments do not have a key role in public investment compared other OECD unitary countries (41% in Iceland vs 56% of the OECD on average in 2013), which is explained by the allocation of competences.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE



The largest area of local spending is education, municipalities being responsible for both current and capital expenditure, including teacher salaries. It is followed by social welfare and recreation and culture.

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	13.0%	30.6%	100%
TAX REVENUE	9.6%	29.6%	73.7%
GRANTS AND SUBSIDIES	1.5%	-	11.5%
OTHER REVENUES	1.9%	-	14.8%

The main source of local revenue comes from taxation (the highest share of all OECD countries) and tariffs and fees. In contrast, the share of central government transfers is the lowest across the OECD countries.

TAX REVENUE. Municipal tax revenue includes revenue from municipal income tax which is by far the highest source of tax revenue (82% of municipal tax revenue in 2013 i.e. 60% of total municipal revenue). Local governments have some authority over the municipal income tax rate. They can choose within a narrow band of between 12.44% and 14.52%. In 2013, the average rate on PIT was 14.4%, indicating that most municipalities chose the maximum allowable rate. Municipal income tax is withheld at source, monthly, along with national income tax. The second source is property tax on residential and commercial buildings (18% of local tax revenue). The tax rate varies (up to 1.65%), depending on the municipality and the type of real estate. Local governments are not allowed to introduce new taxes.

GRANTS AND SUBSIDIES. Transfers mostly come from the Municipal Equalisation Fund, founded in 1937 and restructured in the 1990s due to the decentralisation of tasks to municipalities (primary education). It has again expanded in recent years to finance new municipal spending responsibility such as disabled care. The central government contributes 2.12% of its total tax revenues and 0.264% of the previous year's PIT base. Local governments also contribute 0.77% of their PIT base (earmarked for elementary school expenditure) and 0.95% of the PIT base (earmarked for disabled expenditure). Fund revenues are then shared among the municipalities based on a complex formula which takes municipal charges and resources into account. The Fund also pays a share of rent compensation to all local governments, as well as grants to institutions and associations attached to municipalities: 92% of grants are for current expenditure, the other 8% being dedicated to investment projects.

OTHER REVENUES. SNGs have considerable autonomy in setting local fees and charges which represent 11% of their revenue (service fees on garbage disposal, sewage, etc.). Property income includes revenues from rents and sales of assets.

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	12.8%	11.4%

A new Act on Local Government (138/2011) introduced two fiscal rules for municipalities: a balancing rule for current operations, obliging them to balance revenue and expenditure over a three year period and a debt rule that limits total SNG debt and liabilities to 150% of total revenue. Municipalities are divided into three groups according to their debt standing. SNG debt is made up of insurance pensions (21%), other accounts payable (21%) and financial debt (58%), comprising only loans - although municipalities can issue bonds. Municipality Credit Iceland (MCI) is a capital loan fund owned by the local authorities, providing between 25% and 30% of Icelandic municipal financing needs.

A joint- study of:



Sources: OECD National Accounts Statistics • Eurostat Government Finance Statistics (COFOG only) • OECD (2015 and 2016), Subnational Governments in OECD Countries : Key data • OECD (2015), The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries • International Monetary Fund (2015) ,Optimal Reform and Distributional Analysis of the Personal Income Tax • Thór Eythórsson G. et al (2014) West Nordic municipal structure: Challenges to local democracy, efficient service provision and adaptive capacity, Report from a project supported by the Arctic Co-operation Programme 2012-2014 • The Association of Local Authorities in Iceland (2012), Local Governments in Iceland • Ministry of Economic Affairs of Iceland (2012), pre-accession economic programme to the EU.