

Iceland's Recovery

- Economical crisis and social dimensions

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Member of the Icelandic Parliament since 1983

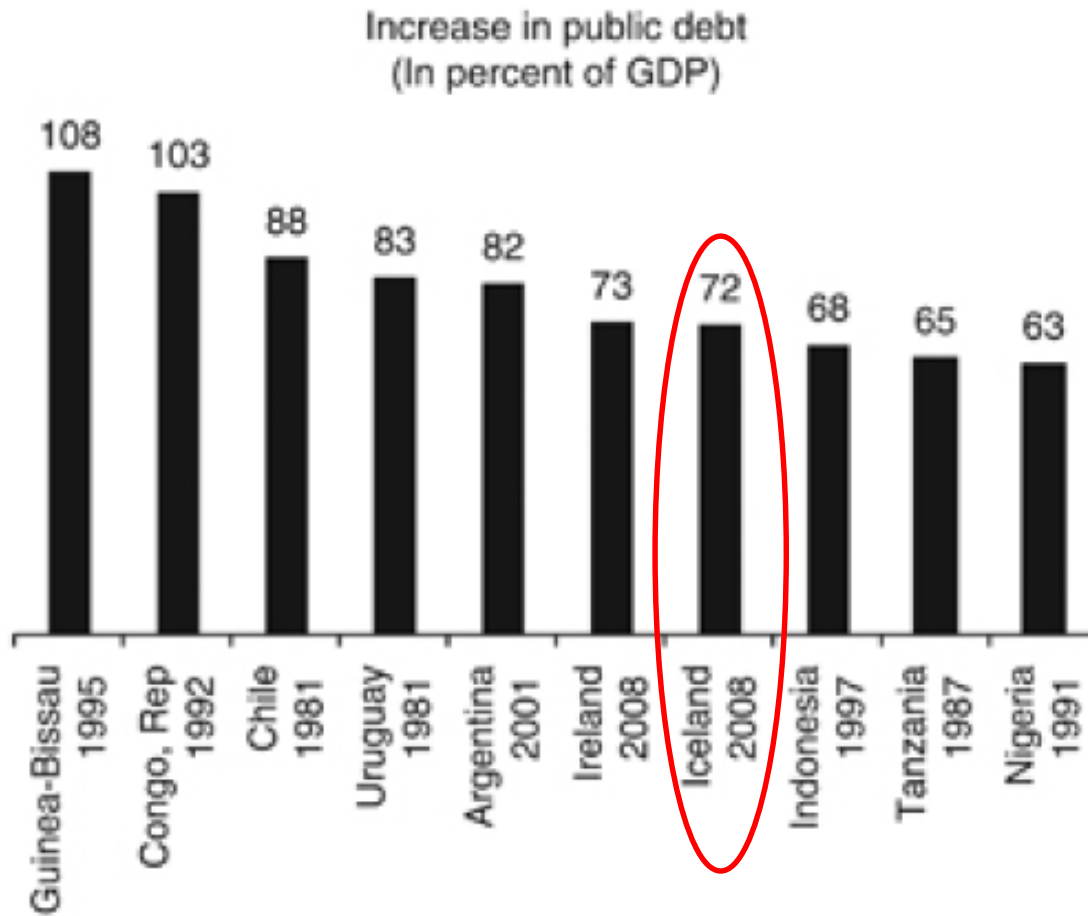
Minister of Finance (2009-2011) and Economy, Industries & Innovation (2012-2013)

Chairman of the Left-green Party 1999-2013, Member of Nordic Council, VSG group.

The Icelandic Saga

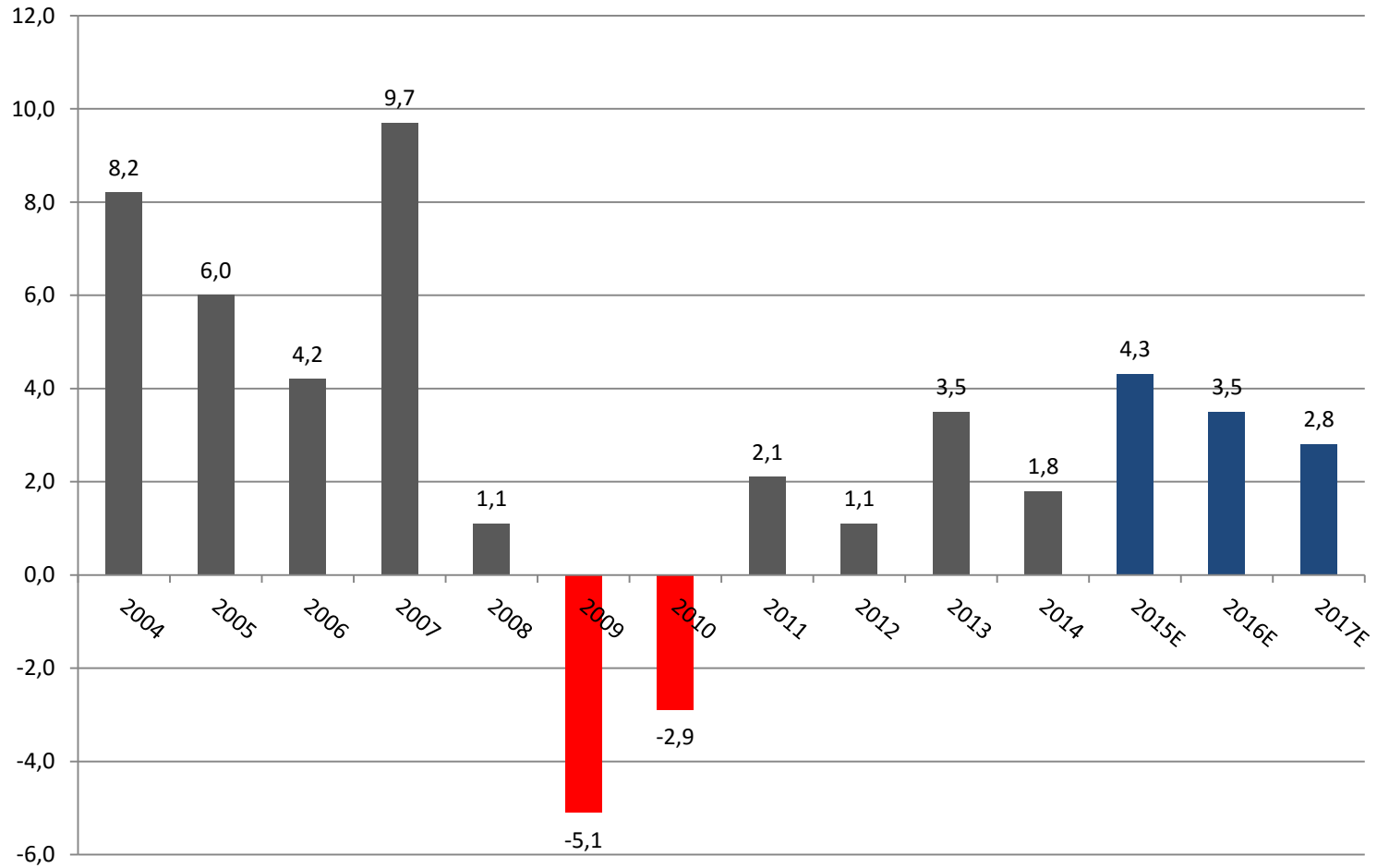
- a. Iceland fell victim to an extreme neoliberal-greed Capitalism experiment in the years 1995-2008, that culminated between 2002-2008.
- b. Taxes were lowered and flattened out, benefitting mainly the rich.
- c. The main banks were privatized and grew very fast.
- d. The Financial Supervisory Authority was very weak during these booming years. The market was thought to correct itself.
- e. The economic growth was debt driven and the economy overheated.
- f. Almost the whole (95%) financial system collapsed in October 2008 and the following months.
- g. The period from 2009–2013 was a time of rescue and restructuring work in Iceland.

Cost of Crisis: Huge Hit for Iceland



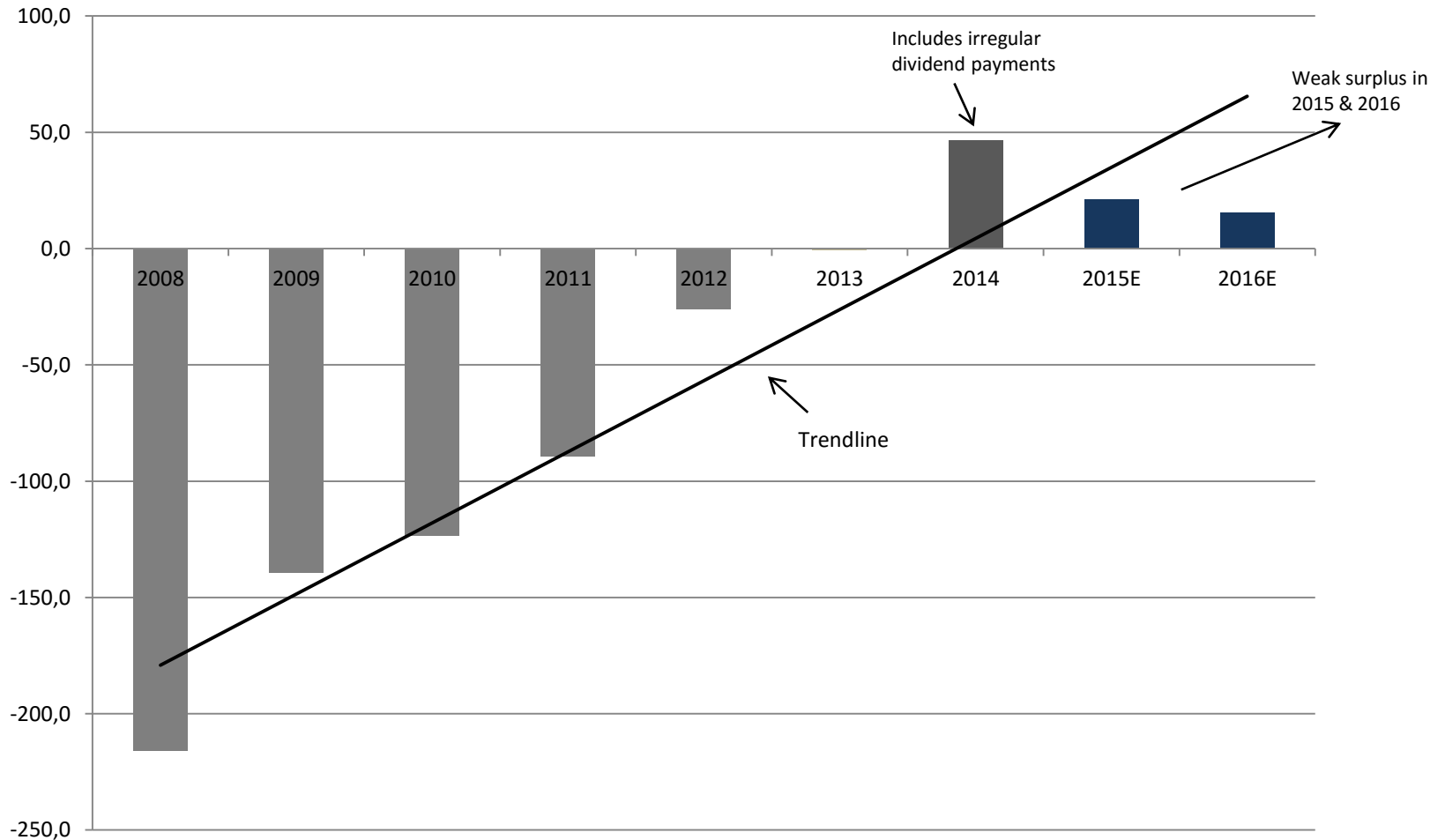
Source: Laeven & Valencia (2013)

Normal Economic Growth (GDP) to come



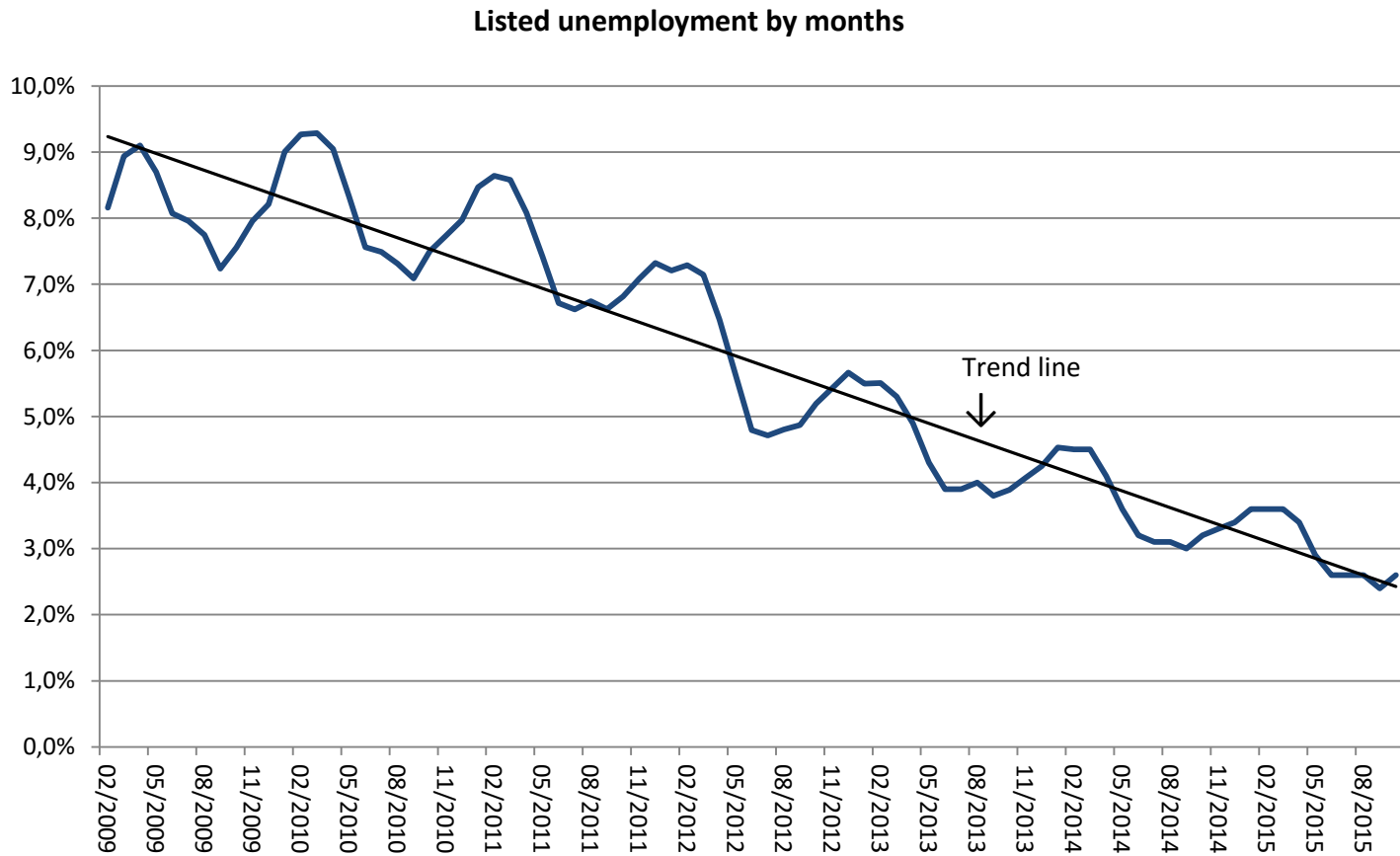
Source: Statistics Iceland

Budget Deficit/Surplus, billion ISK



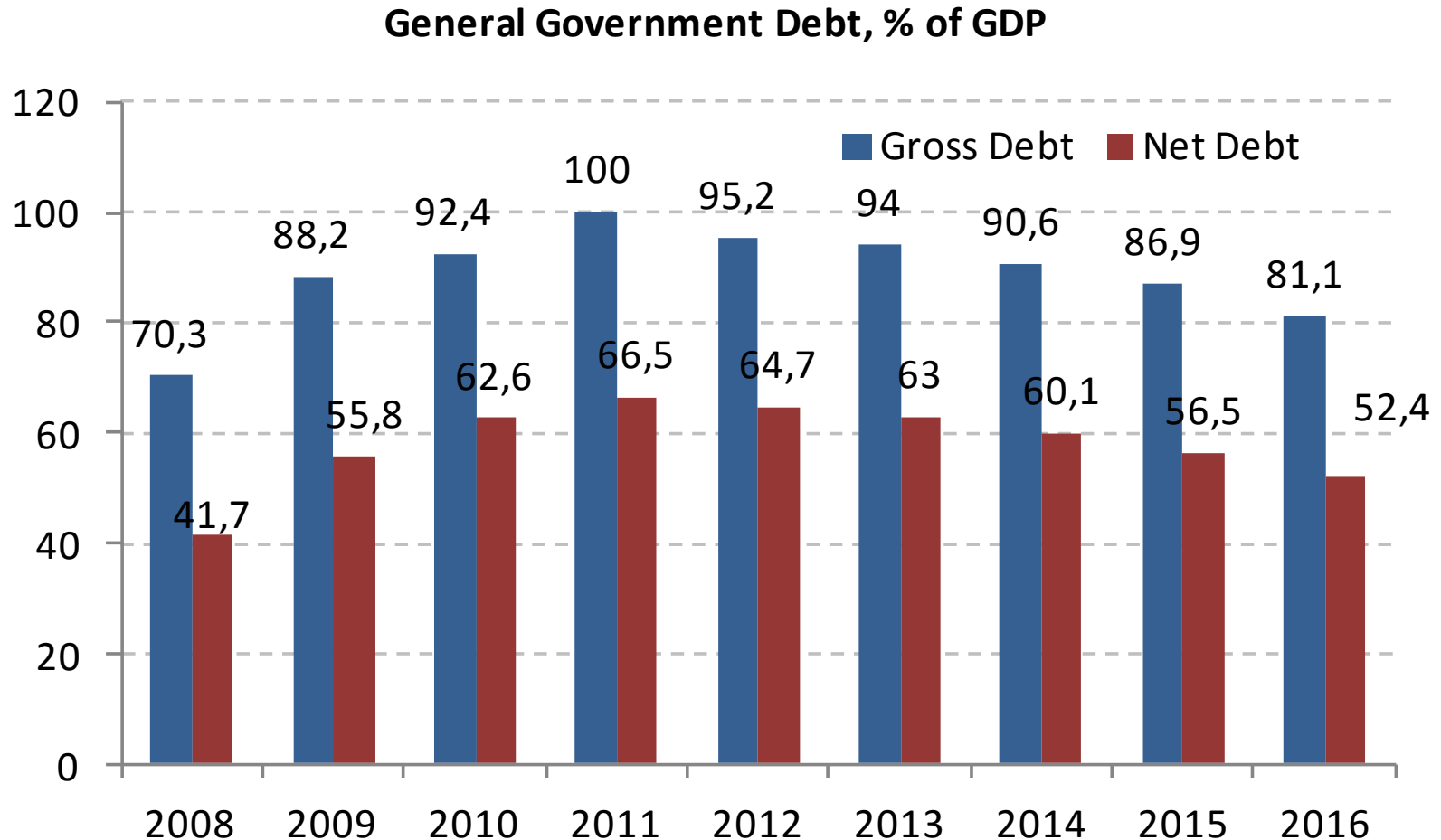
Source: State account and latest fiscal plan.

Unemployment getting back to normal



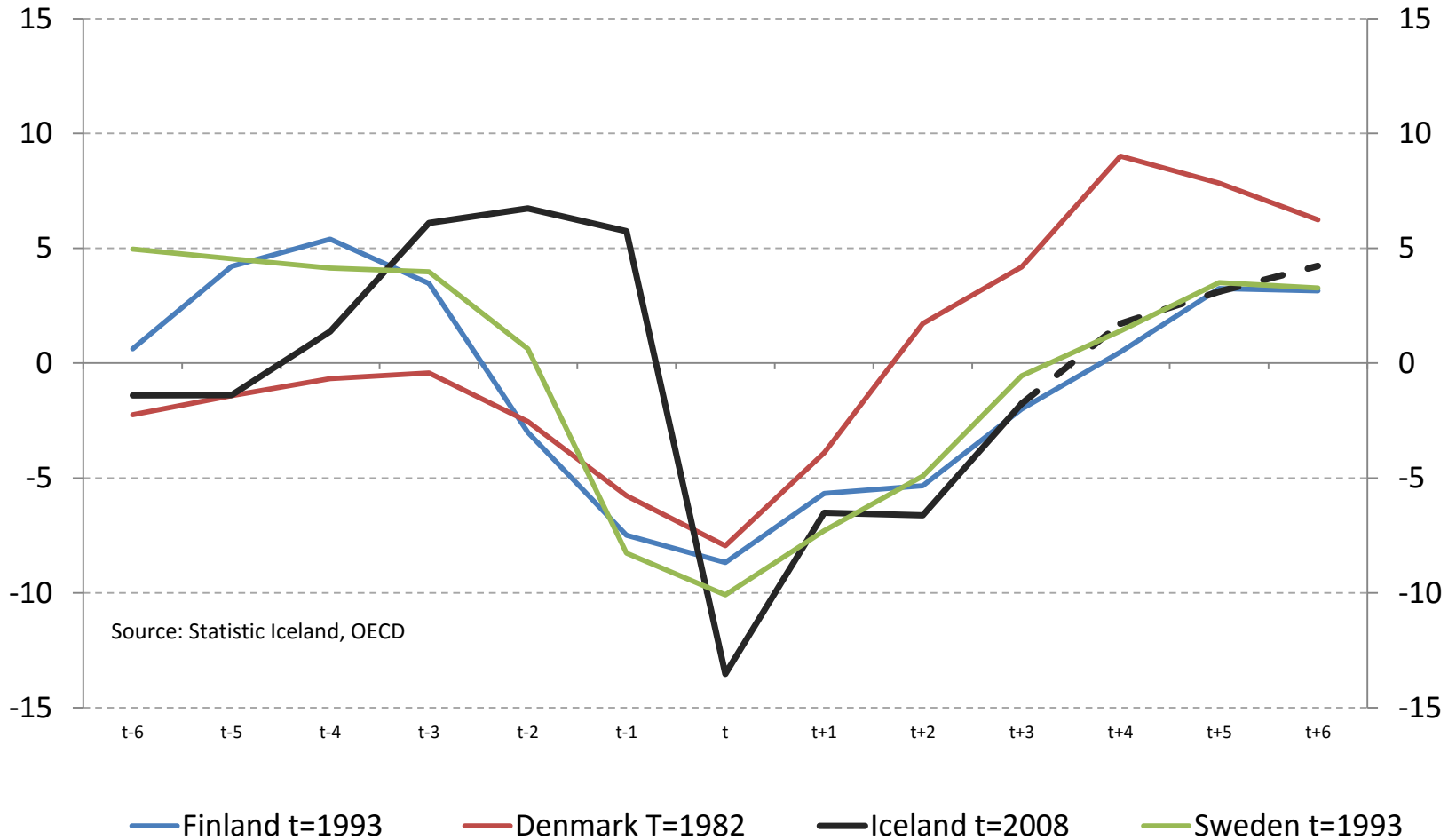
Source: Directorate of Labour

Still Large Fiscal Challenges



Source: Central Bank

Primary Balance, % of GDP



Revenue measures

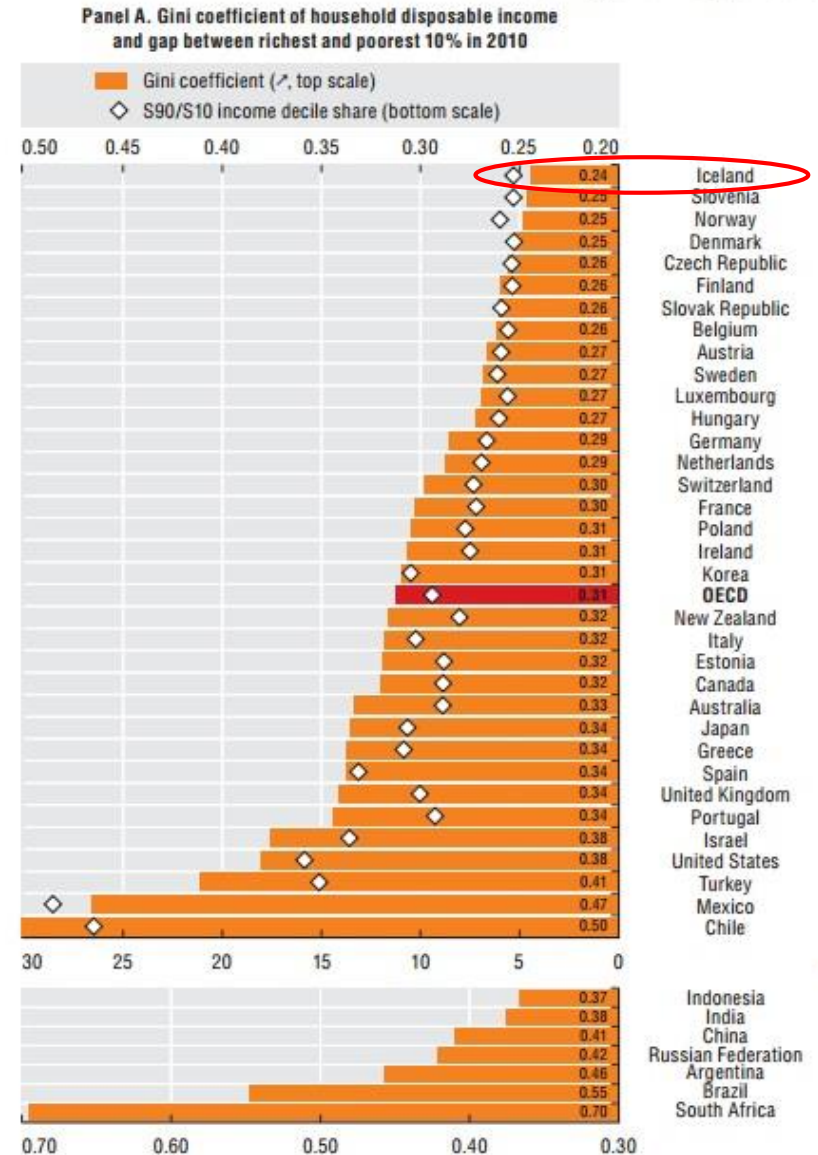
- Three bracket, progressive income tax instead of flat tax.
- Wealth tax on net assets above EUR m 0,6 – 0,8.
- Tax on capital gains up from 10 to 20% with a deduction for small savers.
- Corporate profit tax up from 15 to 20%.
- Resource tariffs (tax) on fishing and energy utilization.
- Carbon tax and other environmental (green) tax changes, including tax benefits for electric and Methane cars.
- Increased taxation on alcohol, tobacco, oil, petroleum, etc.

Cutbacks and saving measures

- Approx. 25 – 30% cuts in investments that could be postponed, but maintenance and certain infrastructure and creative industry investments activated with tax benefits.
- 15 – 20% cuts in general administration over four years.
- Up to 15% cuts in the highest salaries (Ministers 15%, MPs 10% e.t.c.)
- 7 – 9% cuts in education, police etc.
- 5 – 7% cuts in health and general social services.
- 0% cuts in unemployment benefits and minimum social security.

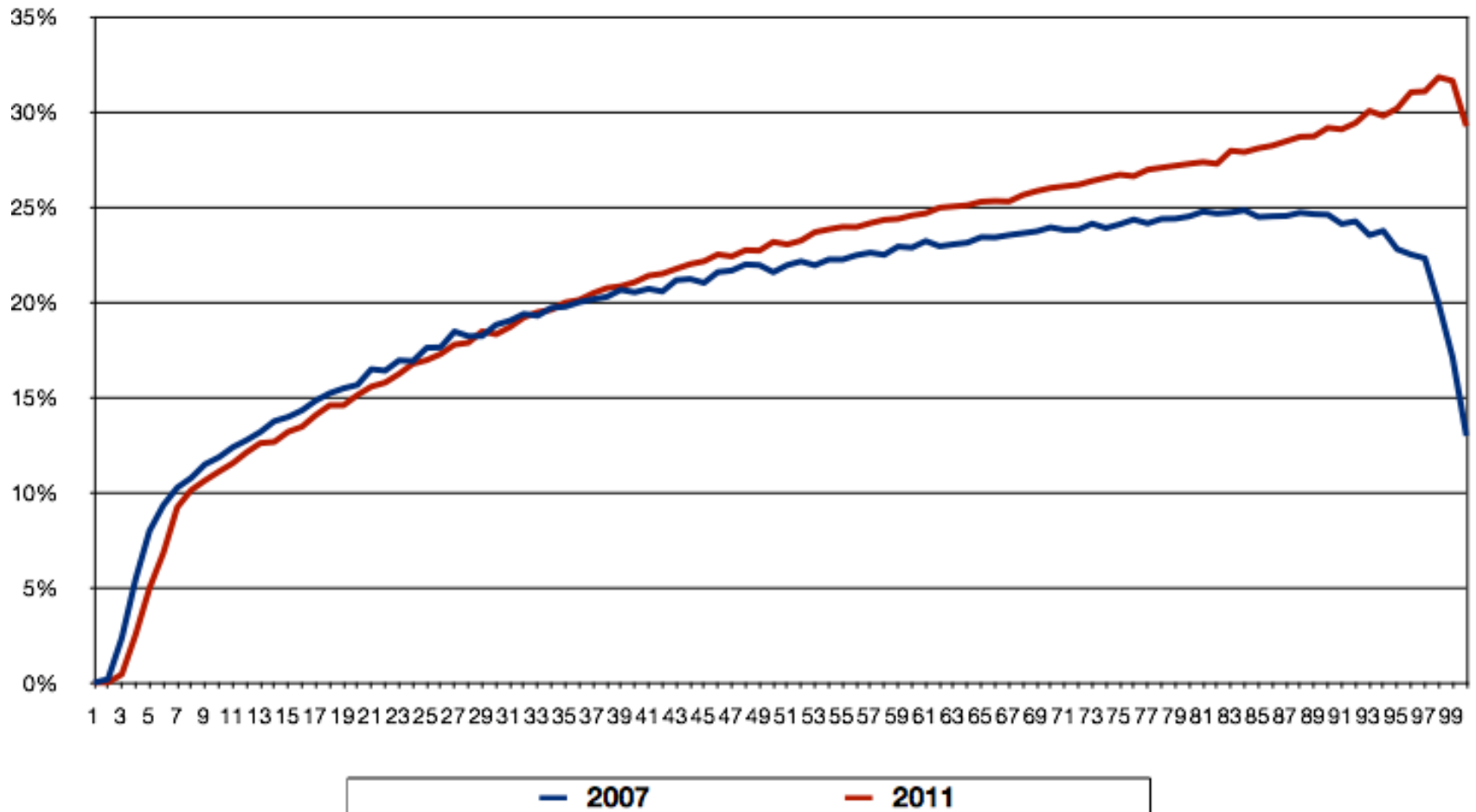
Gini Coefficient of Disposable Income

- As adverse economic conditions have persisted, lower income households have lost greater proportions of their incomes than the better-off or benefited less from the sluggish recovery – particularly in the hardest hit countries like Estonia, Greece, Ireland, Italy, and Spain.
- This did not happen in Iceland where well-off households have sustained greater income losses than poor ones.



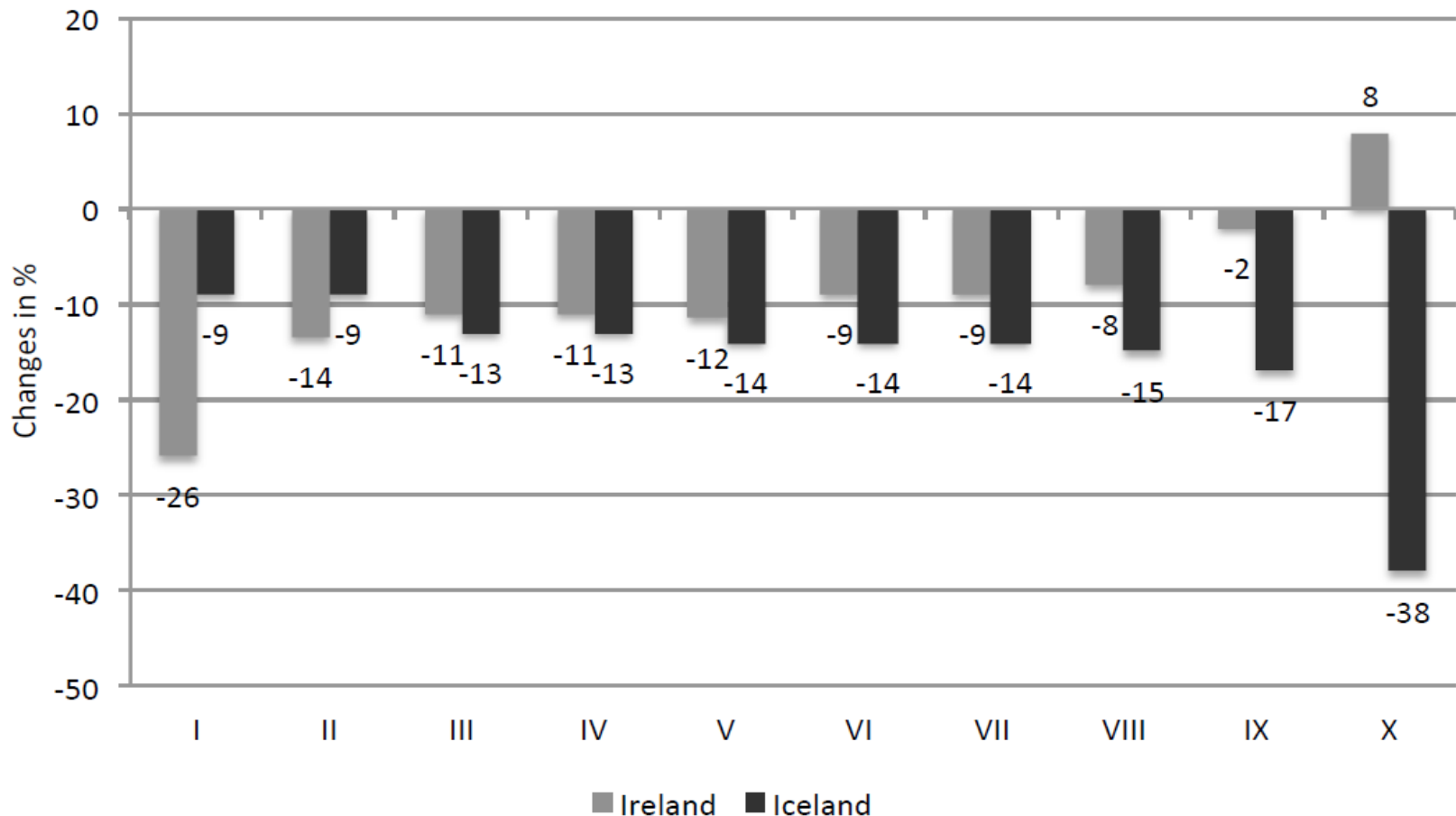
Changed Tax System

Income tax burden by percentile income interval



Iceland: Emphasis on Burden Sharing

Change in real disposable earnings, by income deciles,
Iceland: 2008-10; Ireland 2008-09



Human Rights Council

Independent expert on Iceland

- The Government responded to the financial and economic crisis by sheltering vulnerable groups through expanding social protection spending, promoting temporary part time work, active labor market policies and a temporary expansion of entitlement to unemployment benefits.
- Instead of implementing front-loaded austerity measures making the crisis worse, adjustment policies focused on increasing Government revenue through reintroduction of progressive income taxation, a wealth tax and higher corporate taxes.
- Although nearly every citizen suffered losses, the costs of the collapse were distributed overwhelmingly in a fair manner, with stronger protection of low income groups, while the wealthy – less at risk to fall below minimum levels of enjoyment of social and economic rights – experienced a much higher drop to their disposable income. Inequality within Iceland's society decreased.

After Crisis Growth Stimulus

- a) 100 per cent reimbursement of VAT.
- b) Additional private pension withdrawals.
- c) Reforms increasing the educational level.
- d) Payment date adjustment of taxes and excises for corporations.
- e) Increase in reimbursements for filmmaking.
- f) Ambitious Investment plan for the next 3 years as a foundation for supporting innovation and a more diversified economy.
- g) Action plan to support the green economy.
- h) Green investment fund recently established. The aim is to strengthen the foundations of the green economy where environmentally friendly solutions are in the frontline.
- i) New legislation to strengthen research and development activity of innovation enterprises by providing them with the right to tax credits in respect of costs of innovation projects.
- j) Substantial increase of contribution to competitive funds for innovation and research (R&D funds).
- k) Project fund for creative industries established to strengthen a fast growing industry
- l) Special fund to support infrastructure development in tourist destinations.

Strong Fundamentals for Iceland

Seafood



Tourism



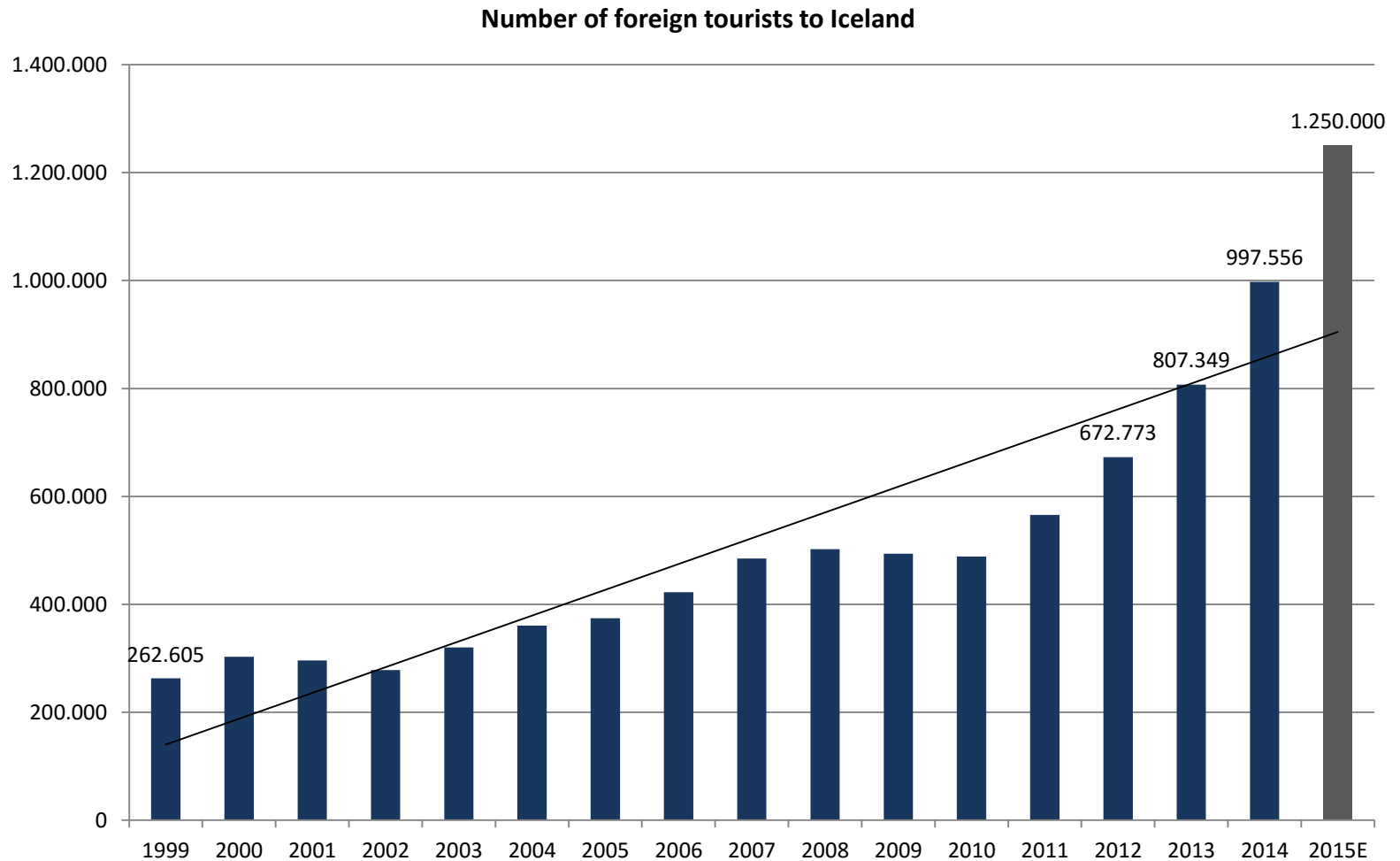
Industries



Creative Industries

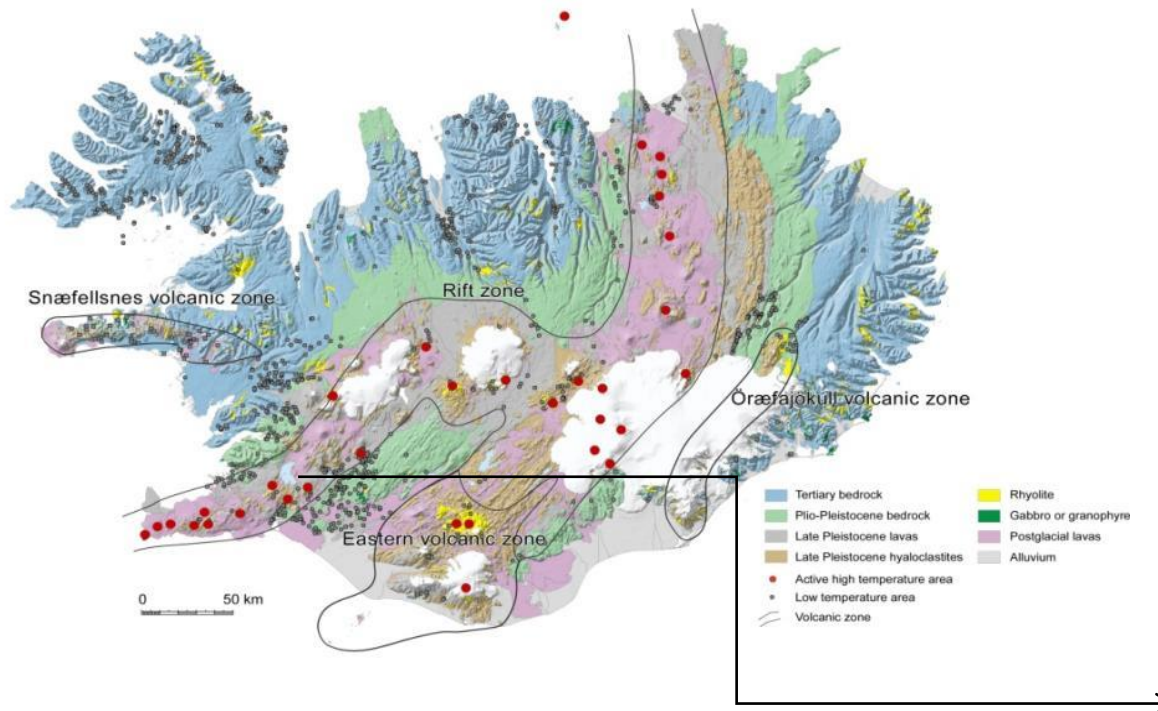


Tourism has become extremely important



Iceland's Unique Resource: Renewable Energy

- All stationary energy is renewable
- 81% of primary energy is renewable
- Geothermal contributes 66% of primary energy
- Highest ratio in OECD - and probably in the world
- Oil still needed for 19% of the primary energy demand
- Fishing fleet and motor vehicles
- 88% of houses are heated by geothermal



It is all about geology



Challenges – Internal Downside Risk

- **Capital controls:** Controls extremely important in the initial stages of the recovery but costly in the long run. Must succeed in lifting them but certain restrictions will need to remain. (speed limits, precautionary/safety rules)
- **Public debt:** High public debt, high interest rate payments, credit ratings improving but still more room for improvement.
- **Housing Financing Fund:** Restructuring of the government housing fund after the crash. Considerable write-downs of loans.
- **Weak Infrastructure:** Cuts have hit road maintenance and infrastructure projects. Cannot continue down this route must increase government spending in such projects sooner than later.
- **Productivity:** Enhance productivity in many sectors as established in McKinsey report.
- **Socio political instability:** Trust in major institutions has dwindled after the crash. Build up is slow.
- **Nature:** Volcanoes, earthquakes and flooding.

Challenges – External downside risk

- **European/World economic slowdown:** The outlook for Europe is not too good. Progress on the crisis is too slow. Too much austerity and not enough burden sharing.
- **Special workforce competition:** Small labor market and we need more specialized people in our workforce but competition fierce.
- **Iceland highly depended on tourism:** Tourism has been very important in the recovery but we have to be careful. Iceland needs to strengthen other sectors in the economy.
- **Climate change:** Threats and opportunities (sailing routes and resources vs. sea acidification and turbulent weather.)
- **Other:** Specific markets: Mediterranean (salted fish) A-Europe/Ukraine (pelagic fish), price of aluminum.

Summary: Main lessons

- **Lesson 1:** During difficult times take the most difficult decisions first. Do not postpone into the future.
- **Lesson 2:** Ownership of an international assistance/programs has to be with home country.
- **Lesson 3:** Preserve the welfare structure and shelter the low-income groups.
- **Lesson 4:** Strike the right balance between taxes and cuts.
- **Lesson 5:** Importance of a social dialog – explain to and involve the citizens.
- **Lesson 6:** We cannot have a financial system that privatizes the gains and socializes the losses.
- **And don't give up.** There is light at the end of the tunnel if the right socio-economic policies are implemented.



Foto: Holuhraun, Örvar Atli Þorgeirsson