

# 1 Country and people

*This chapter gives an overview of the country of Iceland – its geography and the main characteristics of its people, society, and political and institutional structure – and of Iceland as a welfare state. It also reviews Iceland's external relations and its status in a global context.*

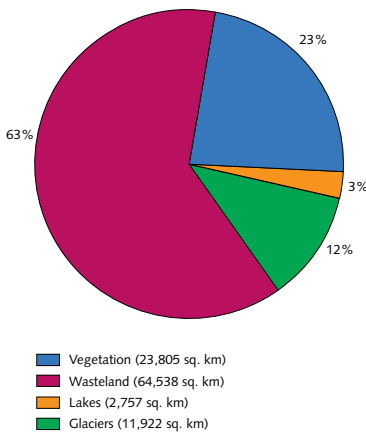
## Geography

Iceland is an island located in the North Atlantic, between Norway, Scotland, and Greenland. It is the second-largest island in Europe and the third-largest in the Atlantic Ocean, with a land area of roughly 103 thousand square kilometres, a coastline of 6,088 kilometres, and a 200-nautical-mile exclusive economic zone (EEZ) extending over 758 thousand square kilometres in the surrounding waters.

Iceland enjoys a warmer climate than its northerly location would indicate because a part of the Gulf Stream flows around the southern and western coasts of the country. In the capital, Reykjavík, the average temperature is about 12°C in July and just above 0°C in January.

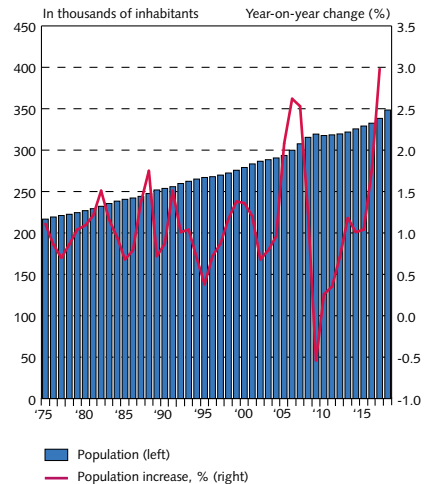
Iceland is mostly mountainous and of volcanic origin, with the highest peak reaching 2,110 metres. Lowlands stretch from the coast towards the interior, mainly in the south and the west. Several glaciers, one of them the largest in Europe, distinguish the landscape. The coasts are

Chart 1.1  
Geography of Iceland<sup>1</sup>



1. The size of Iceland is roughly 103,000 square kilometres.  
Source: Statistics Iceland.

Chart 1.2  
Population of Iceland<sup>1</sup>



1. Population 1 January each year.  
Source: Statistics Iceland.

rocky and of irregular outline, with numerous fjords and inlets, except for the south, where there are sandy beaches with no natural harbours. Only around 23% of the total land area is classified as vegetated land, most of it located in the southern and western part of the country and in several fertile valleys stretching from the coast.

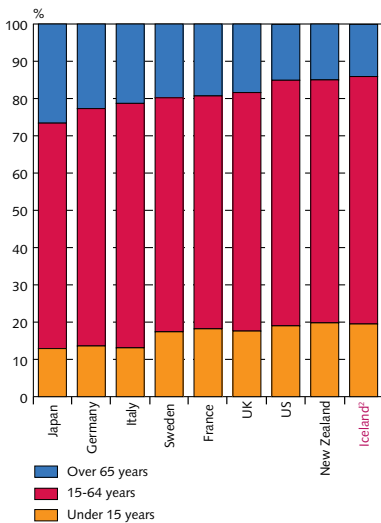
Iceland is endowed with abundant natural resources. These include the fishing grounds around the island, within and outside the country's 200-mile EEZ. Iceland also has abundant hydroelectric and geothermal energy resources.

**People**

Iceland was settled in the ninth century A.D. The majority of the settlers were of Norse origin, with a smaller Celtic element. A general legislative and judicial assembly, the Alþingi, was established in 930, and a uniform code of laws for the country was established at the same time. In 1262, Iceland entered into a union with the Norwegian monarchy. When the Kalmar Union was dissolved in 1523, Iceland came under Danish rule, which lasted for more than five hundred years. Iceland was granted a new constitution in 1874 and obtained home rule in 1904. With the Act of Union in 1918, Iceland became a sovereign state in a monarchical union with Denmark. In 1944, Iceland terminated this union with Denmark and founded a republic. The native language, Icelandic, belongs to the Nordic group of the Germanic languages.

With only 3 inhabitants per square kilometre, Iceland is one of the least densely populated countries in Europe. On 1 January 2018, Iceland's population was almost 350 thousand. In 2000–2017, annual average population growth was 1.2% and the natural increase (births less deaths)

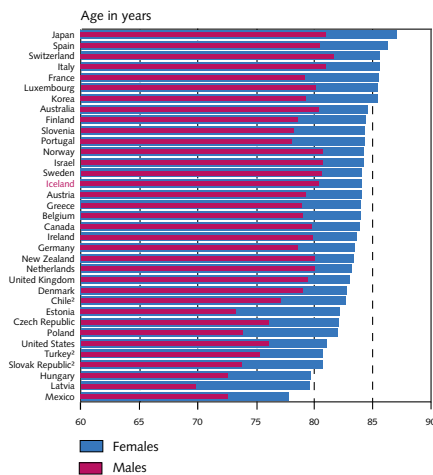
Chart 1.3  
Age structure of the population in selected countries 2016<sup>1</sup>



1. Ranked by share of population 65 and over. 2. Data for Iceland are for 2017.

Sources: World Bank, Statistics Iceland.

Chart 1.4  
Life expectancy at birth 2016<sup>1</sup>



1. 2016 figures or OECD estimate. 2. Data are for 2015. Source: OECD.

0.8%. Around 62% of the population live in the capital city of Reykjavík and its surrounding municipalities. The largest town outside the capital area is Akureyri, located in North Iceland, with a population of 19 thousand. Most of the remaining inhabitants live in small towns along the coast.

As in other advanced countries, the population of Iceland is ageing, but at a relatively slower pace than in most OECD countries. In 2016, despite high life expectancy, the ratio of the total population aged over 65 to the population of working age was 23%, ninth-lowest in the OECD.

### **Society and the welfare state**

Iceland is a modern welfare state that guarantees its citizens access to universal health care, education, and a high degree of social security. Public spending on health, education, social security, welfare, and other social affairs amounted to 23.7% of GDP in 2016.

Life expectancy, which is among the highest in the world, and one of the world's lowest infant mortality rates (2.7 per 1,000 live births in 2017) testify to the advanced state of health care in Iceland, both primary health care and hospitals. The Icelandic health care system is a tax-financed universal system for all persons who have had legal residence in Iceland for more than six months. Health care services are provided mainly free of charge, although user charges have been on the rise. The main exception is dental health care, where adult patients are charged the full cost of service, while children under 18 years of age pay only a nominal fee.

The standard of education is high, and public education is compulsory between the ages of 6 and 16. Good command of English and the Scandinavian languages is widespread. Education is offered free of charge or for a nominal fee at three levels. First, there are ten years of compulsory education at the primary level (age 6-16). This is followed by three years at the upper secondary level, which provides general education and vocational training in a wide range of fields. Finally, higher education is offered at several universities.

In Iceland, as in most OECD countries, university enrolment among those completing secondary education has increased substantially in recent years. In 2017, 42% of the adult population held a university degree, up from 29% in 2005. The ratio of pre-school enrolment is also one of the highest among OECD countries.

### **Institutional framework: the political, judicial, monetary, and financial supervisory structure**

Iceland is a constitutional republic with a multi-party parliamentary system of government. The Constitution was adopted on 17 June 1944, when the Republic was established. Legislative power is vested in Parliament (Alþingi) and the president, in that bills of legislation are passed by Parliament and submitted to the president for confirmation by his or her signature. Upon such confirmation, the bill in question acquires the force of law. The Government must be supported by a majority of Parliament in order to remain in power. The 63 members of Parliament are elected from six constituencies on the basis of proportional representation, for a term of four years. Over the past thirty years, the participation of women in politics has increased significantly, and their share of seats in Parliament has increased from 15% to roughly 38% in the most recent parliamentary elections. The president is the head of state and is elected for a term of four years by a direct vote of the electorate.

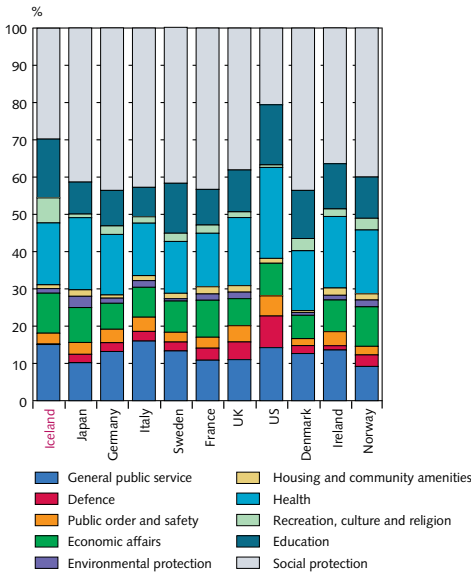
Since Iceland gained autonomy from Denmark in 1918, its governments have normally been formed by a coalition of two or more political parties that have together held a majority in

Parliament. The most recent election was held on 28 October 2017. The results of the election were as follows: the Independence Party obtained 25.2% of votes and 16 seats; the Left Green Movement 16.9% and 11 seats; the Social Democratic Alliance 12.1% and 7 seats; a new party, the Centre Party, 10.9% and 7 seats; the Progressive Party 10.7% and 8 seats; the Pirate Party 9.2% and 6 seats; the People’s Party 6.9% and 4 seats; and the Reform party 6.7% and 4 seats. A coalition government of the Independence Party, the Left Green Movement, and the Progressive Party (with a total of 35 seats) took office in December 2017. General elections are generally held every four years, although the Constitution allows for early dissolution of Parliament, which triggers early elections.

Iceland’s judicial system is divided into three levels: District Courts, which are the courts of first instance; a new court of second instance (Court of Appeal), introduced on 1 January 2018; and the Supreme Court, which holds the highest judicial power in Iceland. The Constitution provides for the courts’ independence, according to which judges have judicial power, shall only abide by the law in their official duties, and cannot be discharged from office except by judicial decision.

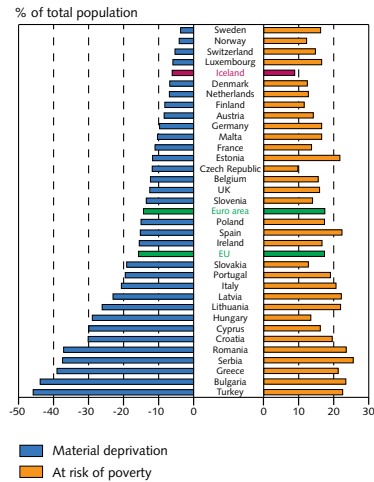
The Central Bank of Iceland was established by an Act of Parliament in April 1961. The Bank is an independent institution owned by the State but under separate administration. An inflation-targeting regime was formally adopted in 2001. Decisions on the use of monetary policy instruments are taken by a five-member Monetary Policy Committee (see Chapter 5). The Prime Minister’s Office oversees matters pertaining to the Central Bank, insofar as they belong to the political sphere. The Bank has a seven-member Supervisory Board elected by Parliament.

Chart 1.5  
General government expenditure by function in 2016<sup>1</sup>



1. Percentage breakdown of total expenditure.  
Source: OECD.

Chart 1.6  
Material deprivation and risk of poverty in Europe 2017<sup>1</sup>



1. 2017 or latest.  
Source: Eurostat.

The Financial Supervisory Authority (FME) is charged with supervising financial enterprises. Its mission is to safeguard the integrity and sound operation of the financial system. The Act on Official Supervision of Financial Activities states that the FME is an independent institution whose administration is entrusted to a board of directors. The FME falls under the auspices of the Ministry of Finance and Economic Affairs, but according to the Act, the Minister does not have the power to affect decision-making within the institution. Since May 2014, a high-level Financial Stability Council and a Systemic Risk Committee have served as the authorities' official forum for collaboration on financial stability (see Chapter 5).

### External relations

Iceland participates actively in international cooperation. It belongs to the group of Nordic countries that includes Denmark, Finland, Norway, and Sweden, as well as Greenland and the Faeroe Islands. The Nordic countries have wide-ranging cooperation in a variety of fields, including economic affairs and international representation, in which the Baltic countries also play an active part. Iceland is a member of the Nordic Council, the Nordic Council of Ministers, and specialised institutions such as the Nordic Investment Bank. Iceland is also a member of the Arctic Council and a number of other regional bodies.

Iceland became a member of the United Nations in 1946 and is an active participant in most of its affiliated agencies. It is a founding member of the Bretton Woods institutions established in 1945, the International Monetary Fund (IMF), and the World Bank. The Central Bank of Iceland is a shareholder in the Bank for International Settlements (BIS) and participates actively in its activities.

Iceland is one of the original members of the Organisation for Economic Cooperation and Development (OECD) and of the European Bank for Reconstruction and Development (EBRD). It joined the Council of Europe in 1950 and has participated in the Organisation for Security and Cooperation in Europe (OSCE) since the organisation's inception in 1975.

In 1964, Iceland became a party to the General Agreement on Tariffs and Trade (GATT), the predecessor to the World Trade Organization (WTO). Iceland joined the European Free Trade Association (EFTA) in 1970 and entered into a free trade agreement with the European Economic Community in 1972. In May 1992, the member states of EFTA and the European Union signed an agreement to establish a zone for the free movement of goods, services, capital, and persons, the European Economic Area (EEA), which took effect on 1 January 1994. Through this agreement, Iceland is a part of the single market of the European Union. Iceland is a party to numerous free trade agreements with other countries through its EFTA membership. Furthermore, Iceland has negotiated bilateral free trade agreements with China, Greenland, and the Faeroe Islands. Iceland is a founding member of the Asian Infrastructure Investment Bank and ratified its Articles of Agreement in 2016.

Iceland is a founding member of the North Atlantic Treaty Organization (NATO), established in 1949. The United States maintained a permanent military presence in Iceland from 1951 until 2006. The bilateral defence agreement between Iceland and the United States remains in effect.

Table 1.1 Iceland's membership of international organisations and institutions

	<i>Year of association</i>
International Monetary Fund (IMF)	1945
World Bank	1945
United Nations (UN)	1946
North Atlantic Treaty Organization (NATO)	1949
Organisation for Economic Cooperation and Development (OECD)	1949
Bank for International Settlements (BIS)	1950
Council of Europe	1950
Nordic Council	1952
International Finance Corporation (IFC)	1956
International Development Association (IDA)	1961
General Agreement on Tariffs and Trade (GATT)	1964
European Free Trade Association (EFTA)	1970
Nordic Investment Bank	1975
Organisation for Security and Cooperation in Europe (OSCE)	1975
European Bank for Reconstruction and Development (EBRD)	1990
Western European Union (WEU)	1992
Barents Euro-Arctic Council (BEAC)	1993
European Economic Area (EEA)	1994
Council of Baltic Sea States (CBSS)	1995
World Trade Organization (WTO)	1995
Arctic Council	1996
Asian Infrastructure Investment Bank (AIIB)	2015