

Fiscal Sustainability and the Current Account: Case of Iceland

Herdís Steingrímisdóttir

Associate Professor in Economics, CBS

Member of MPC, Central Bank of Iceland

The Case of Iceland



Iceland is a small open economy

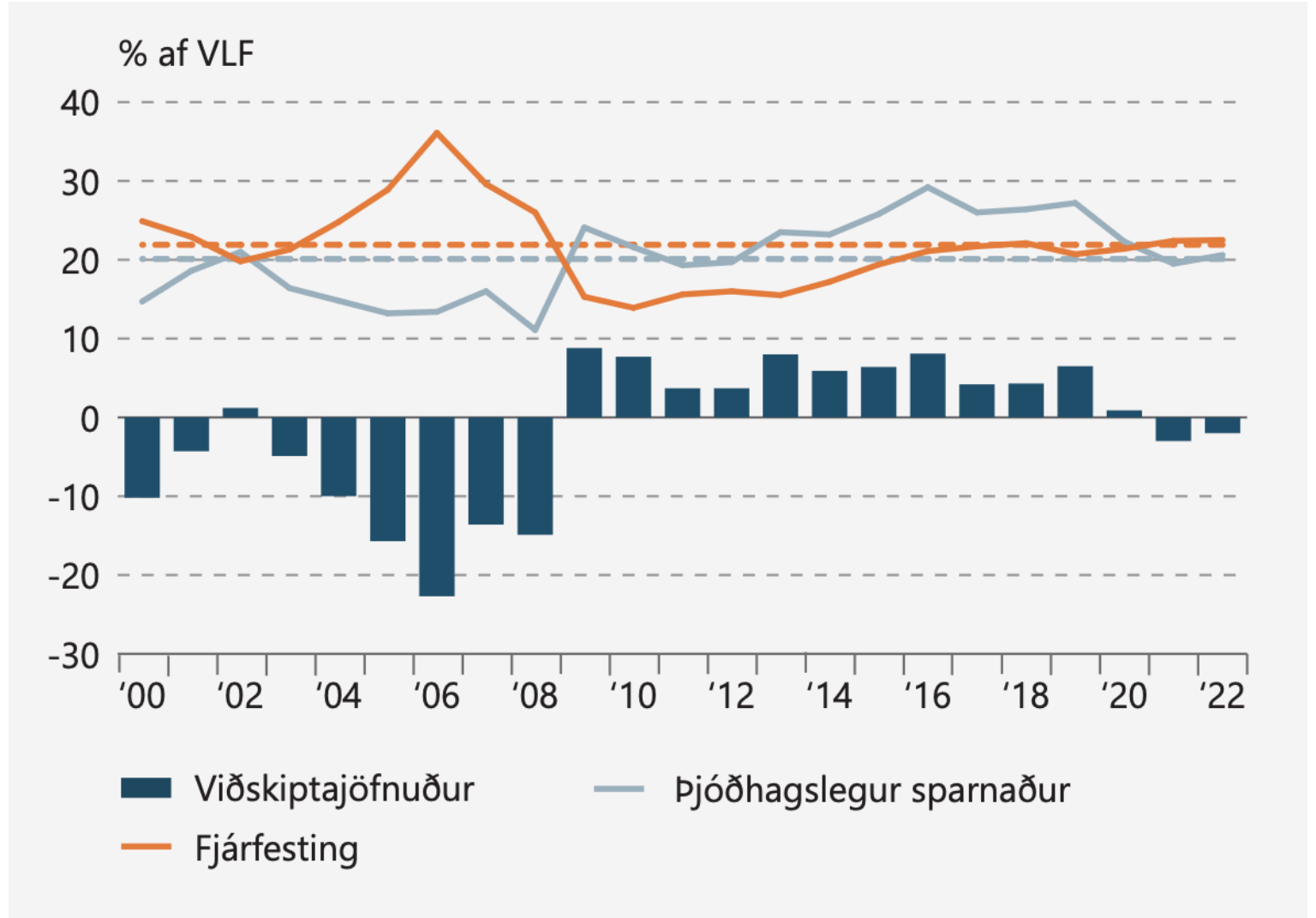


High inflation in the past



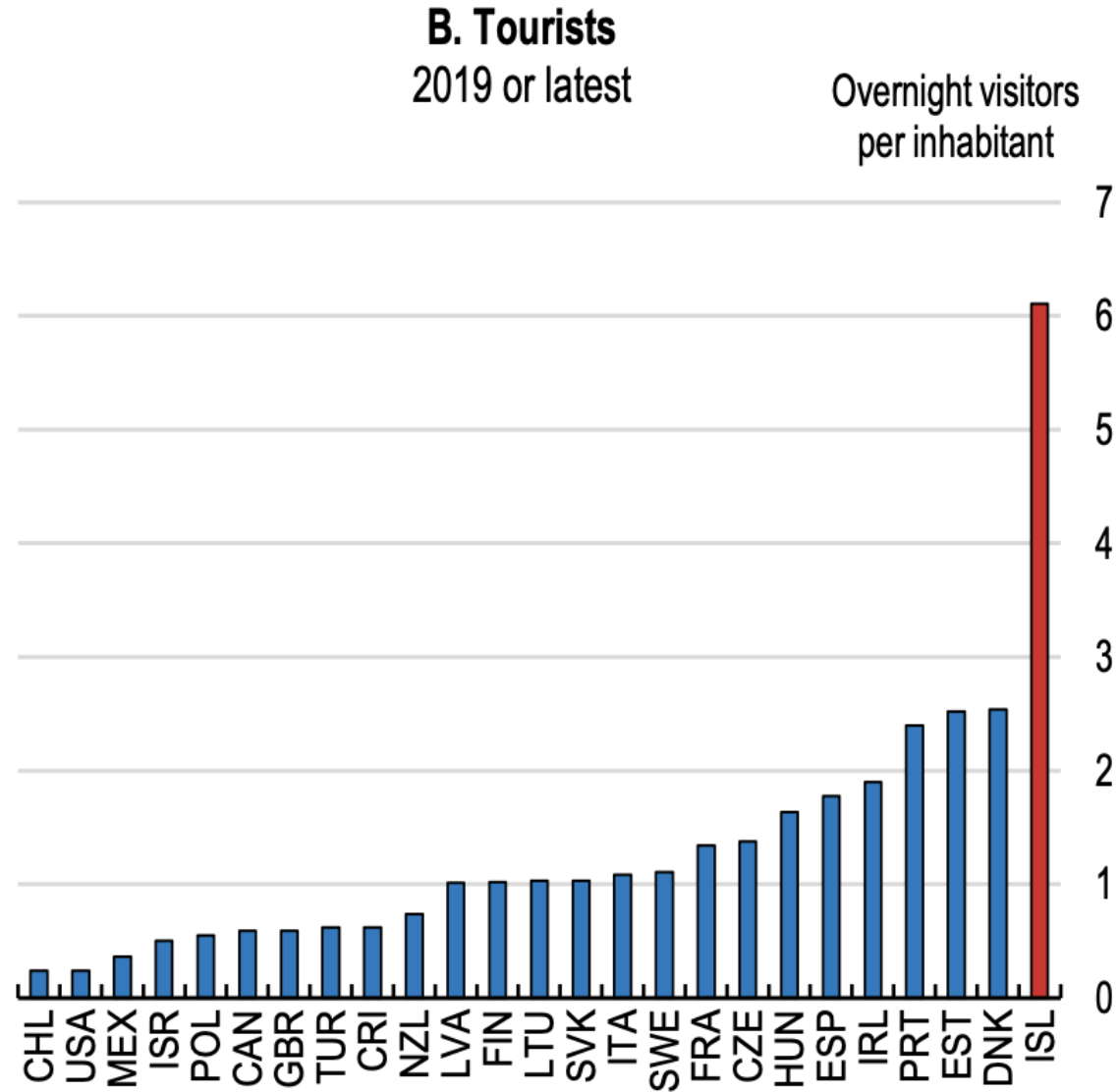
Dramatic financial crisis in 2008

Iceland: The Current Account Balance



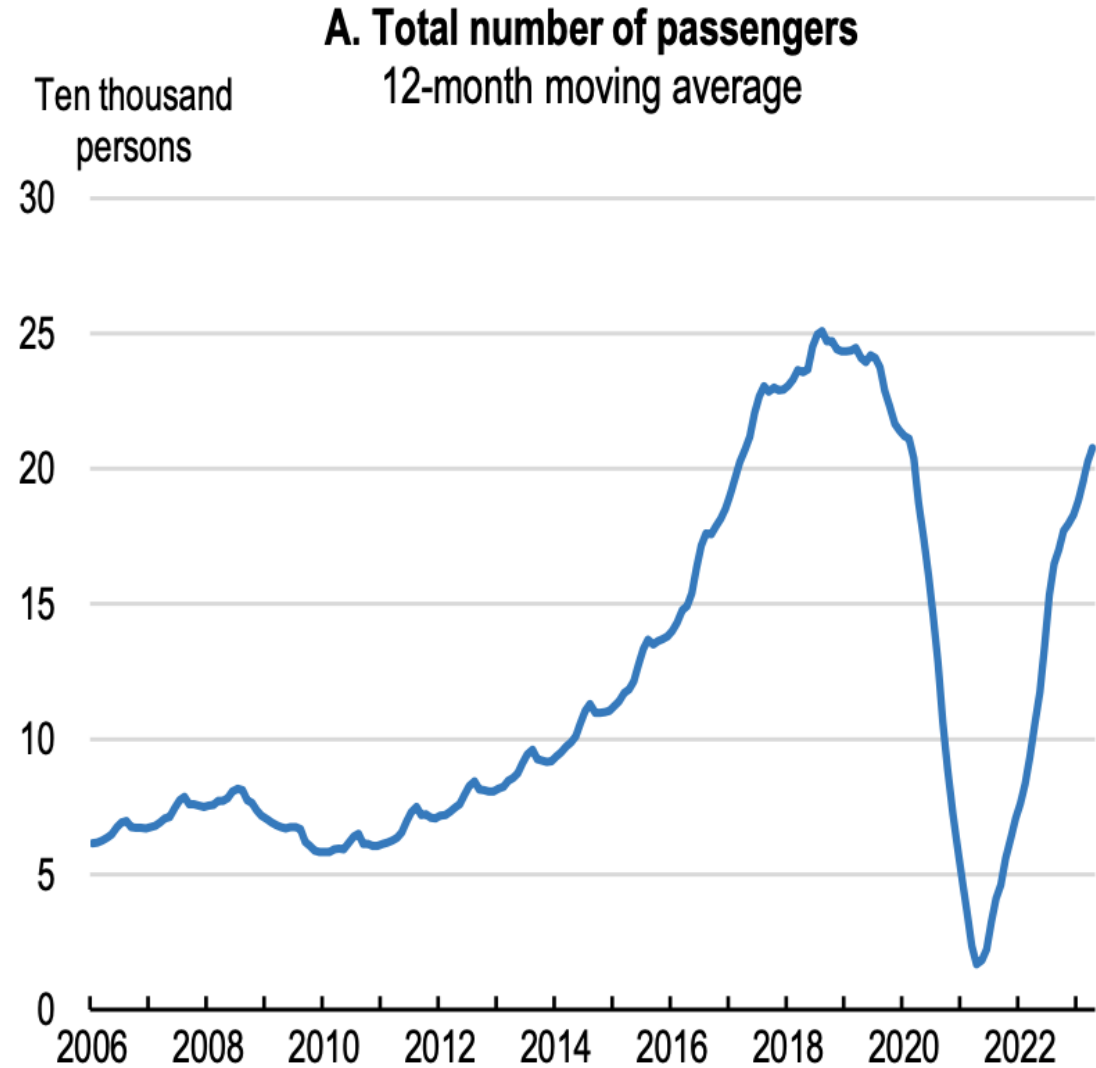
Tourism in Iceland

OECD Report



Tourism in Iceland

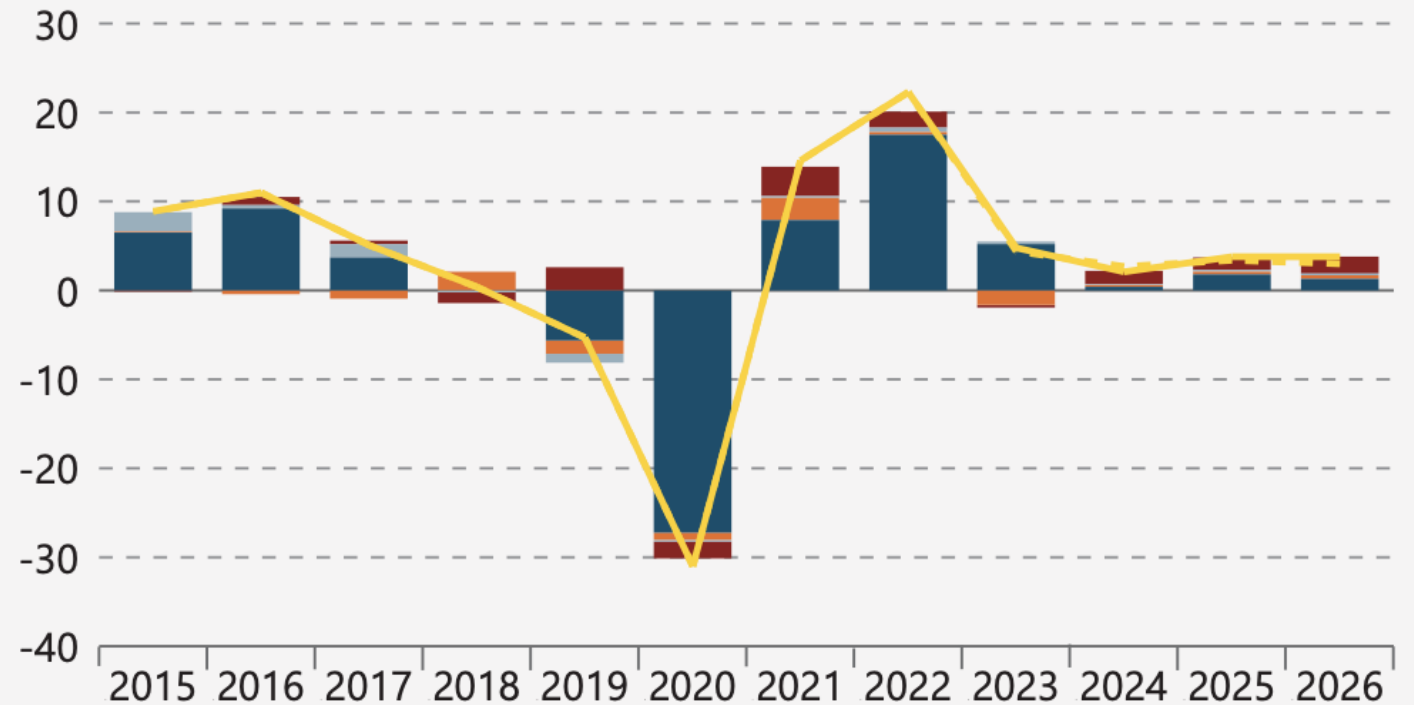
OECD Report



Exports

Útflutningur og framlag undirliða 2015-2026¹

Breyting frá fyrra ári (%)

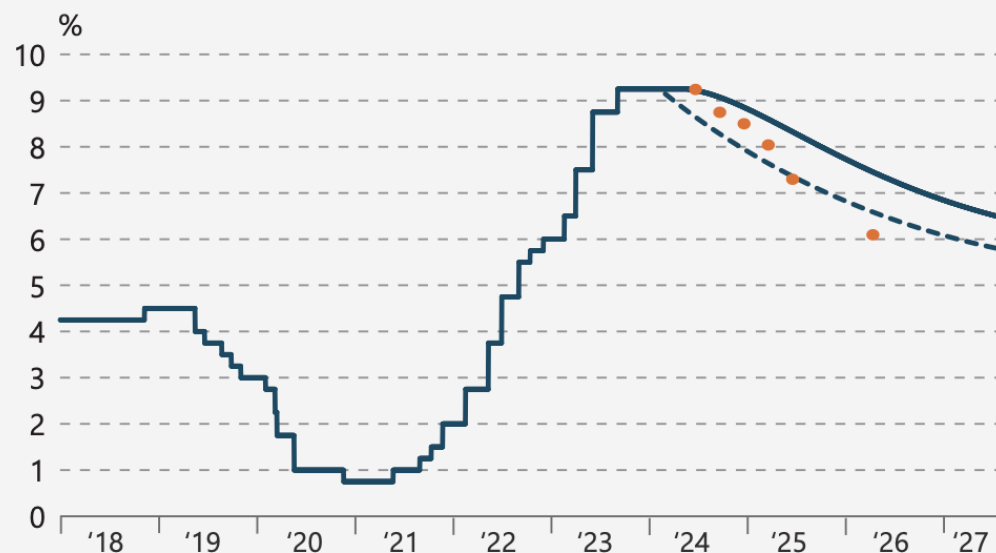


Ferðapjónusta Álafurðir Útflutningur alls
Sjávarafurðir Annar útflutningur

Monetary Policy

Meginvextir Seðlabanka Íslands¹

1. janúar 2018 - 30. júní 2027



— Meginvextir Sí (vextir á 7 daga bundnum innlánnum)

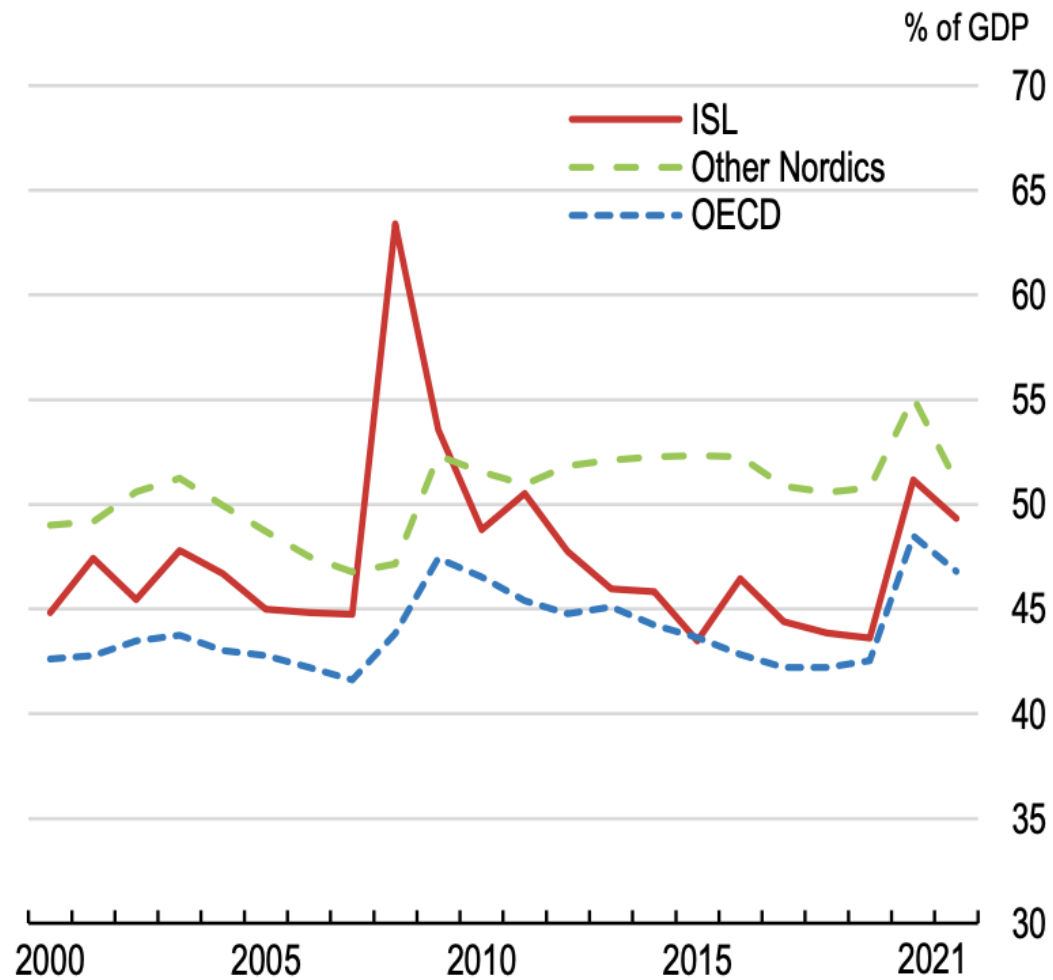
● Væntingar markaðsaðila

1. Við mat á vaxtaferlinum er notast við vexti á peningamarkaði og vexti ríkisbréfa. Brotalínan sýnir framvirka vaxtaferilinn fyrir útgáfu PM 2024/1. Væntingar markaðsaðila út frá könnun Seðlabanka Íslands. Áætlað út frá miðgildi svara á væntingum þeirra til veðlávaxta. Könnunin var framkvæmd dagana 22.-24. apríl 2024.

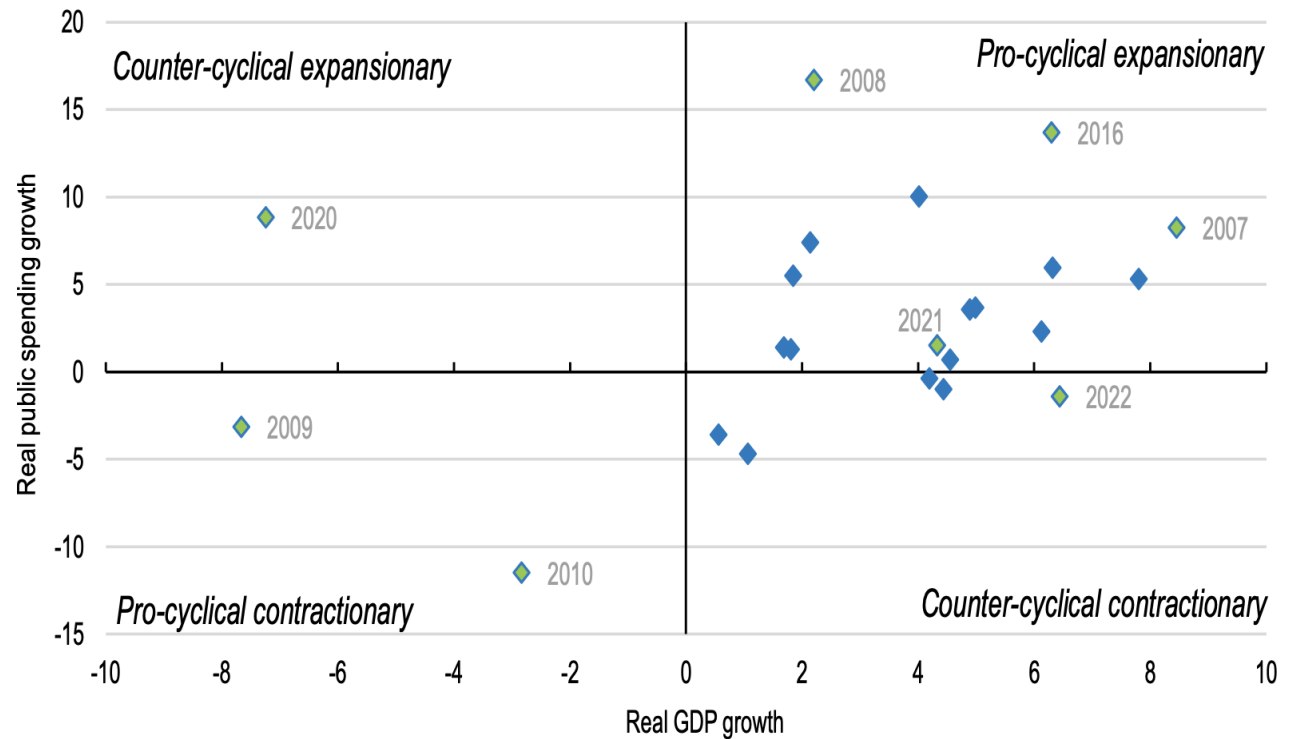
Heimild: Seðlabanki Íslands.

Fiscal Policy

B. General government spending,
As a share of GDP



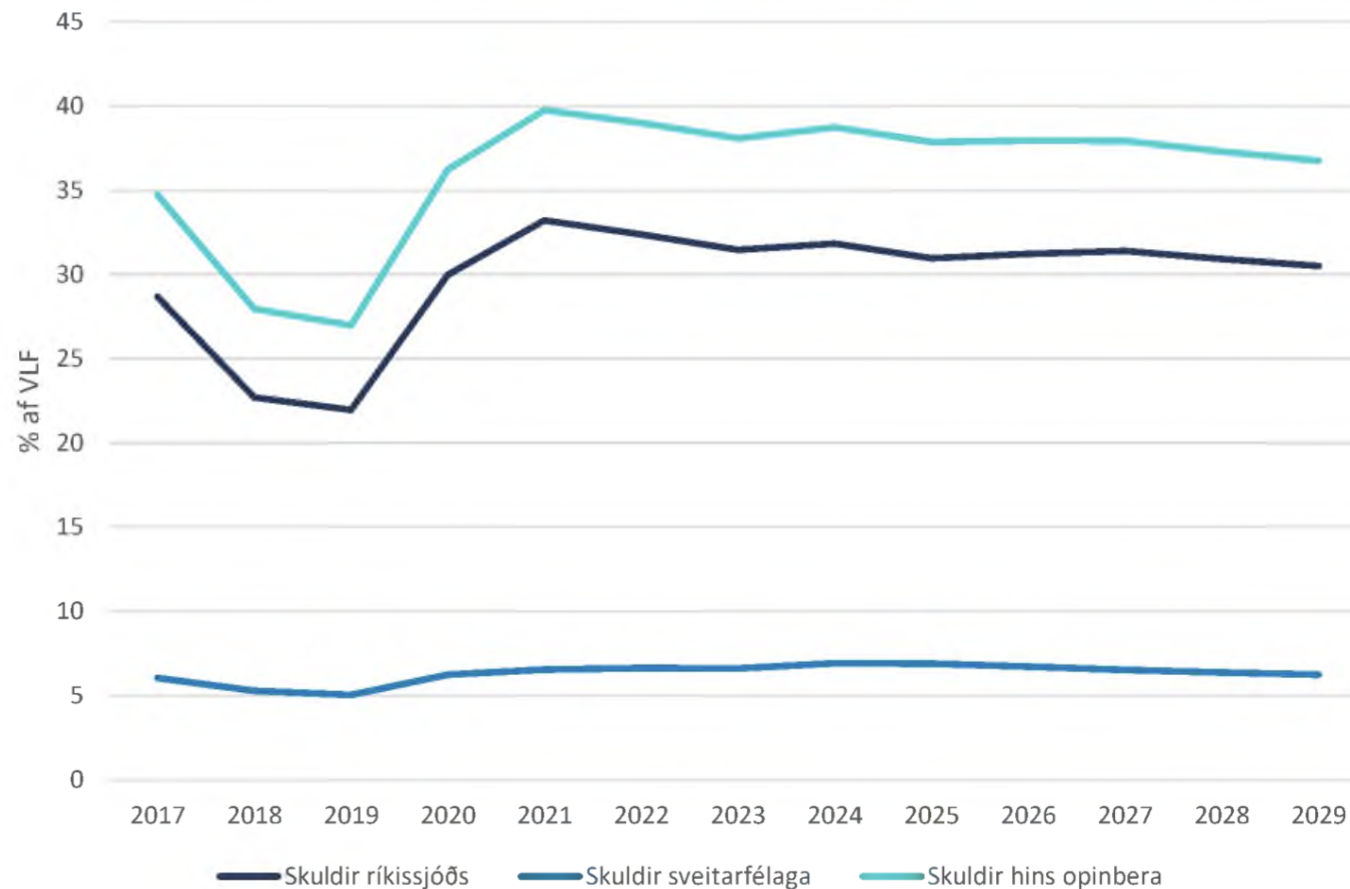
Government spending tends to be procyclical



Note: Public spending refers to real general government total disbursements, using the GDP deflator.
Source: OECD, National Accounts database.

Fiscal Rule

Mynd 20: Skuldir hins opinbera sem hlutfall af VLF skv. skilgreiningu laga um opinber fjármál



Heimild: Fjármála og efnahagsráðuneyti

To sum up

- In a small open economy it is particularly important to be resilient to shocks
- When the financial crisis hit in 2008 the Icelandic Economy was vulnerable due to macroeconomic imbalances
- The Economy was in much better shape when the pandemic hit in 2020 – although the size of the tourism sector made the shock to the Icelandic economy quite substantial
- Recovery was stronger than anticipated
- The stance of the monetary and fiscal policy had to be quickly reversed, but reversing the fiscal policy has been more gradual
- Fiscal policy tends to be procyclical
- The fiscal framework adopted in 2015 sets numerical limits on government deficits and debt.
- Suggestions that there should also be set rules about expenditures to ensure fiscal sustainability