The financial position of Iceland’s households came under severe stress in 2008. The collapse in asset prices unwound previous net wealth gains, while widespread indexation coupled with higher inflation and exchange rate depreciation led to a rise in nominal household debt. The share of mortgage holders with negative equity in their homes rose steadily, reaching close to 40 percent by 2010.

Sources: Central Bank of Iceland; Statistics Iceland; and IMF staff estimates.

Note: In panel 1, pension assets are corrected for an estimated tax of 25 percent. CPI = consumer price index; Forex = foreign exchange.