

Level of Living Consequences of Iceland's financial crisis

What do the social indicators tell us?

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Presentation at the Conference

Iceland's Recovery—Lessons and Challenges,

Organised by IMF, CBI and Government of Iceland

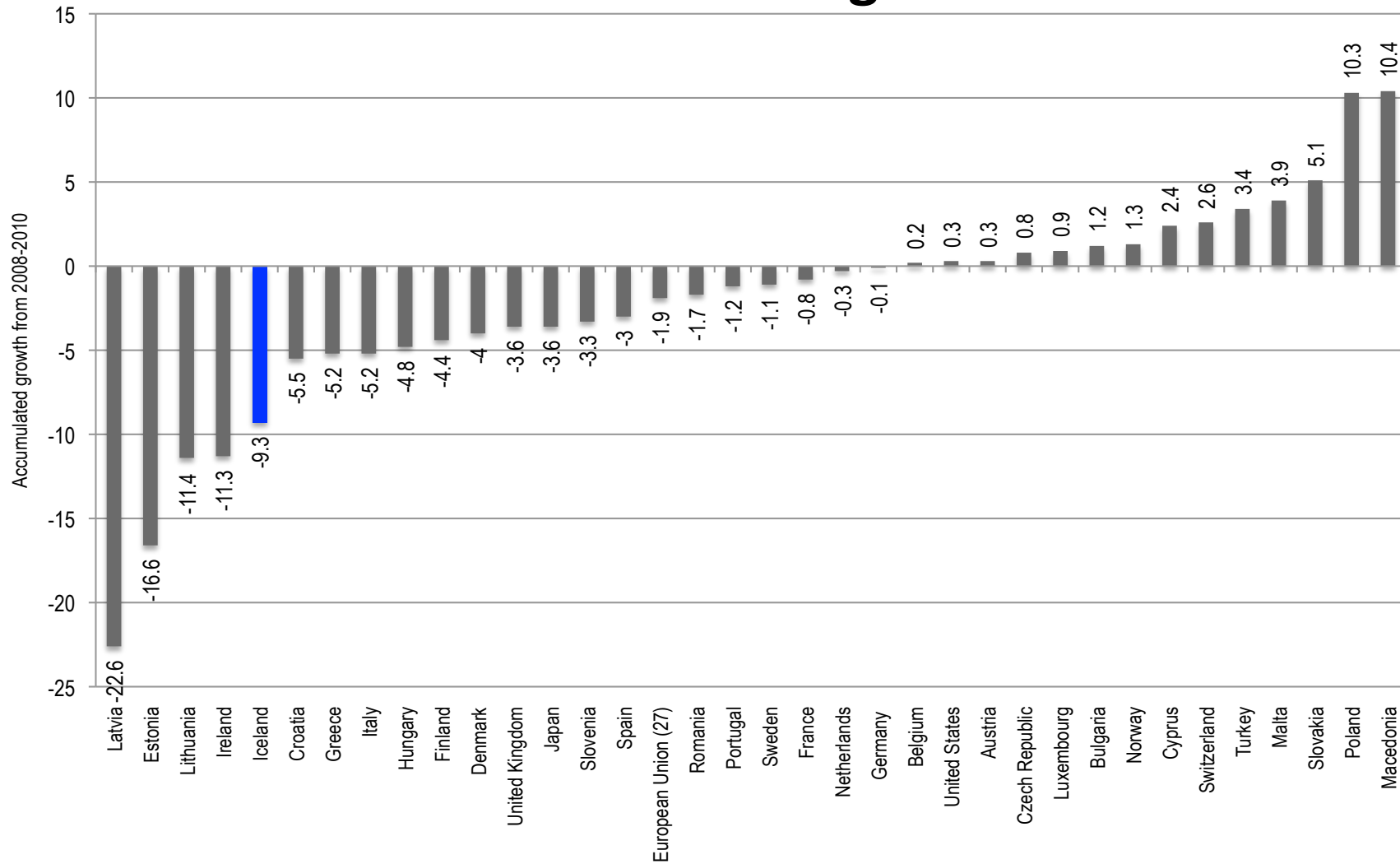
Harpa, Reykjavík, 27th Oct. 2011

Content

- **Consequences for level of living**
 - **Recession, unemployment, cuts in real wages, debts**
- **Welfare strategy of protection**
 - **How Done? Benefits, taxes and debt relief**
- **Financial Hardships**
- **Outcomes**
 - **Different for low and high income groups**
 - **From inequality to more equality**

1. Deep recession, but not as deep as expected

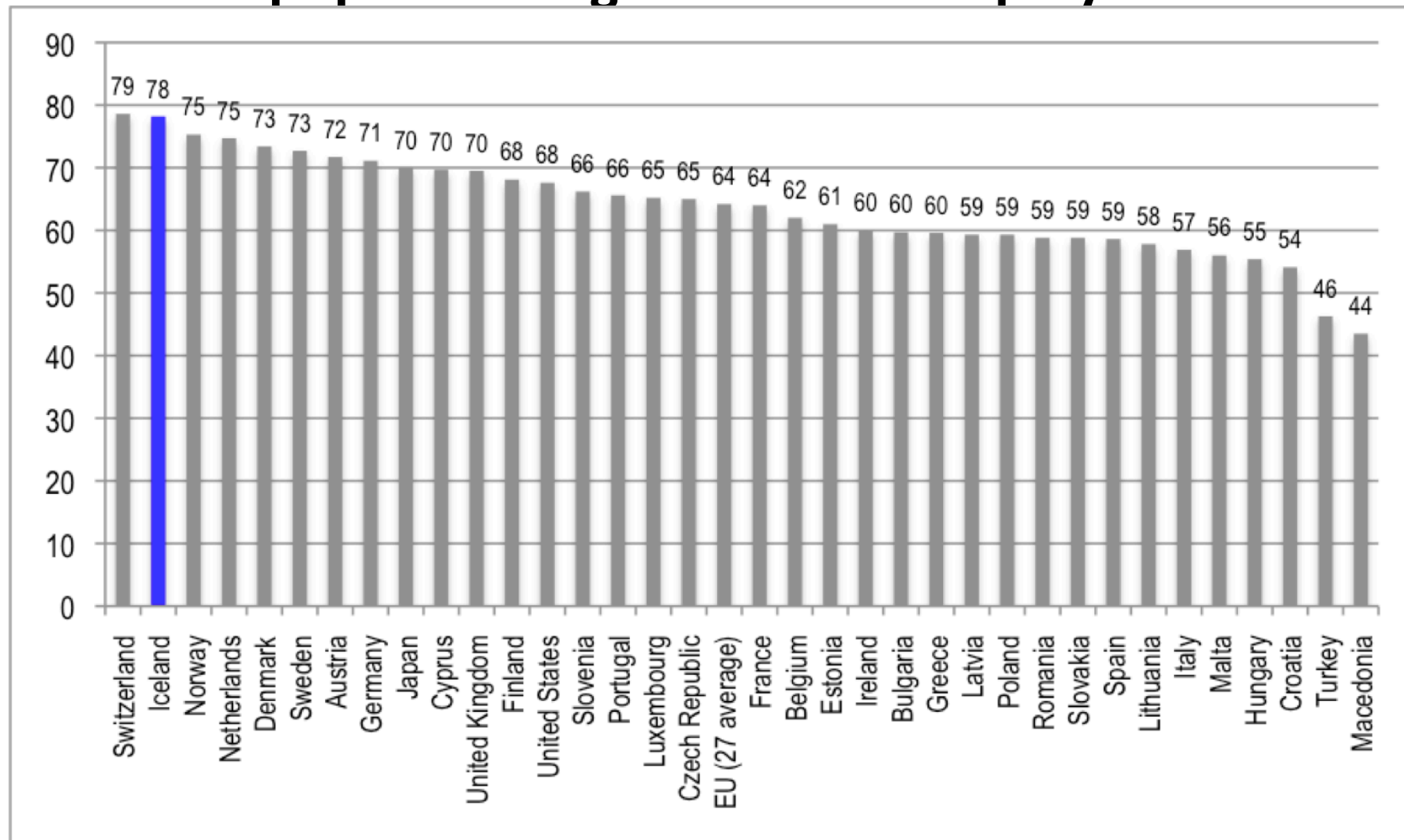
Accumulated growth/contraction from 2008 through 2010



Source: Eurostat and Statistics Iceland

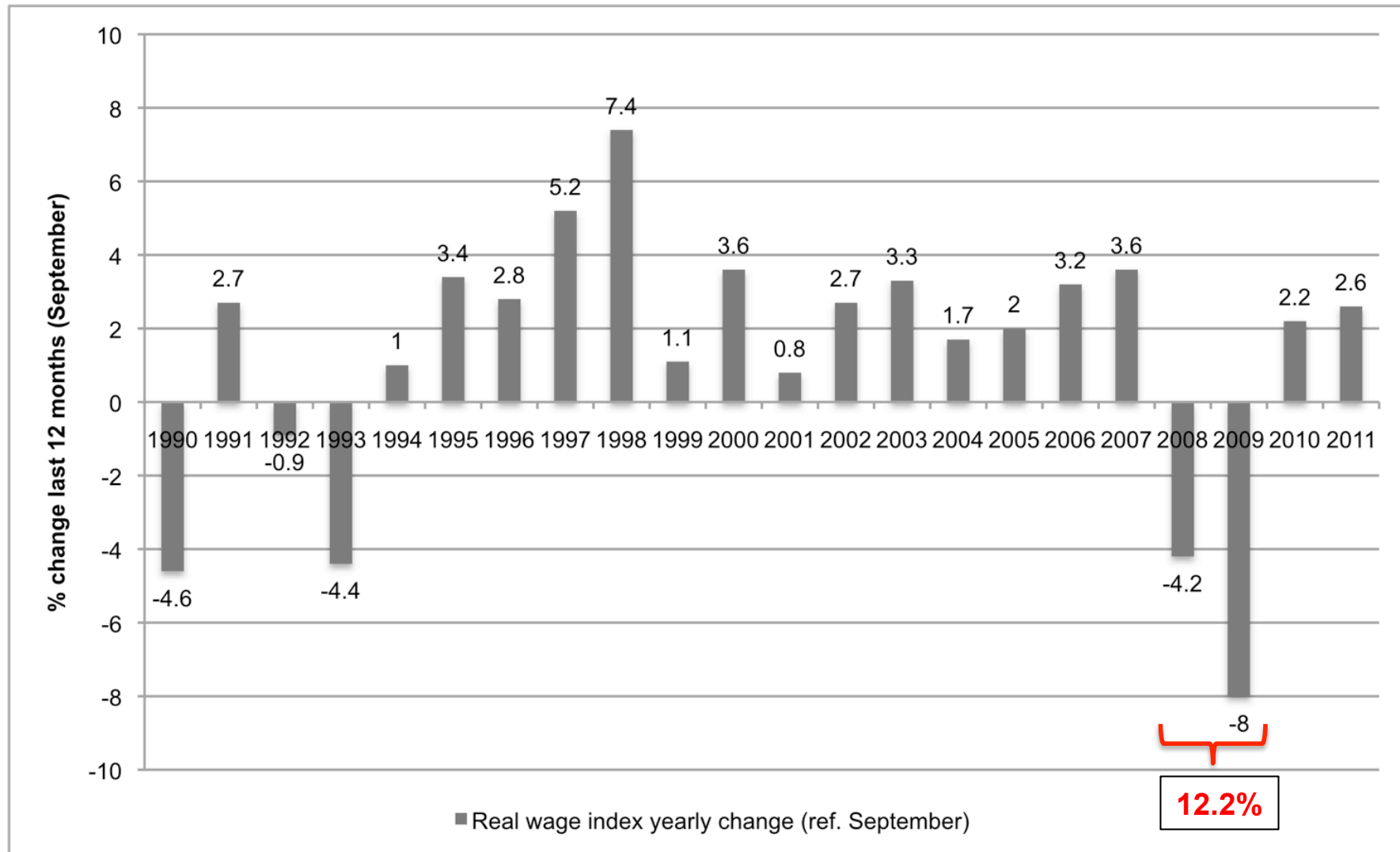
Employment Rate 2010

% of population aged 16-64 in employment



Real Wage Development 1990-2011

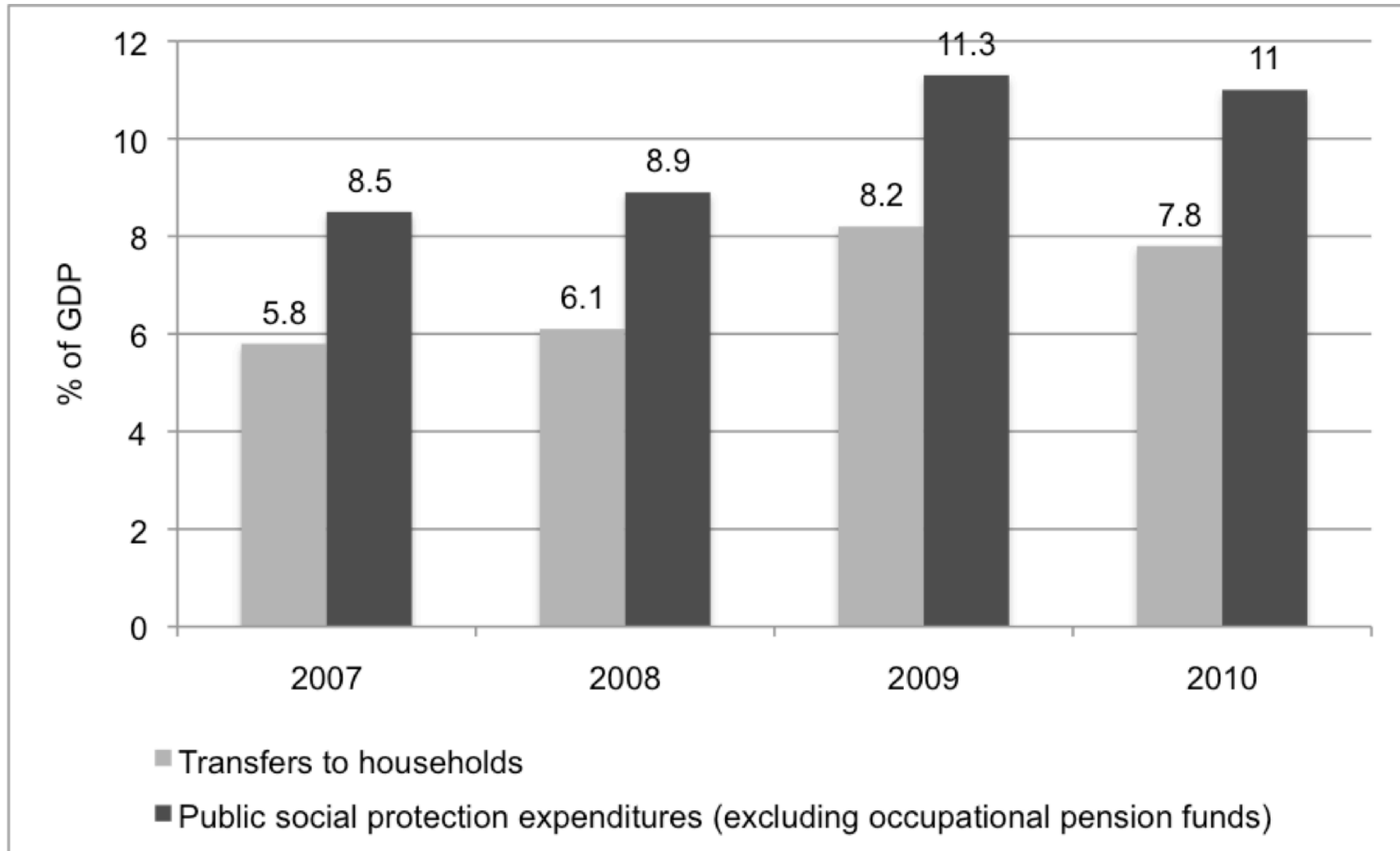
Yearly changes of the General Wage Index, fixed prices



2. How the Welfare State was Used to Soften the Crisis

Welfare Expenditures 2007 to 2010, % of GDP

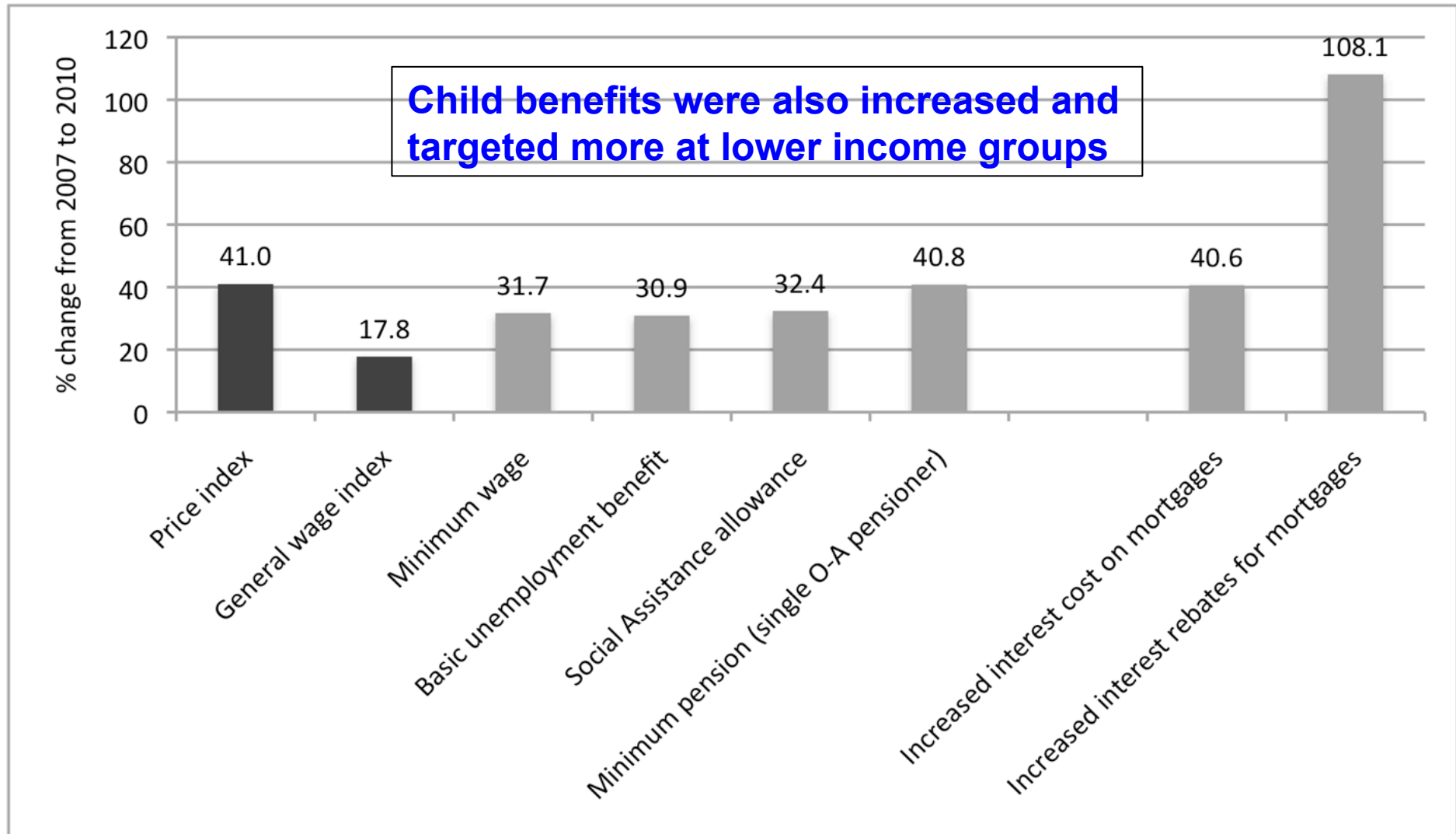
Transfers to Households and Social Protection Expenditures



How the Lower Income Groups Were Sheltered

Accumulated nominal change of key shapers of low incomes,

2007-2010



Source: Statistics Iceland, Social Security Administration

3. Financial Hardship and debt burden



Indicators of Financial Hardships 2004-2010

% of Households with Specified Hardship Characteristics

Questionnaire Surveys amongst Households

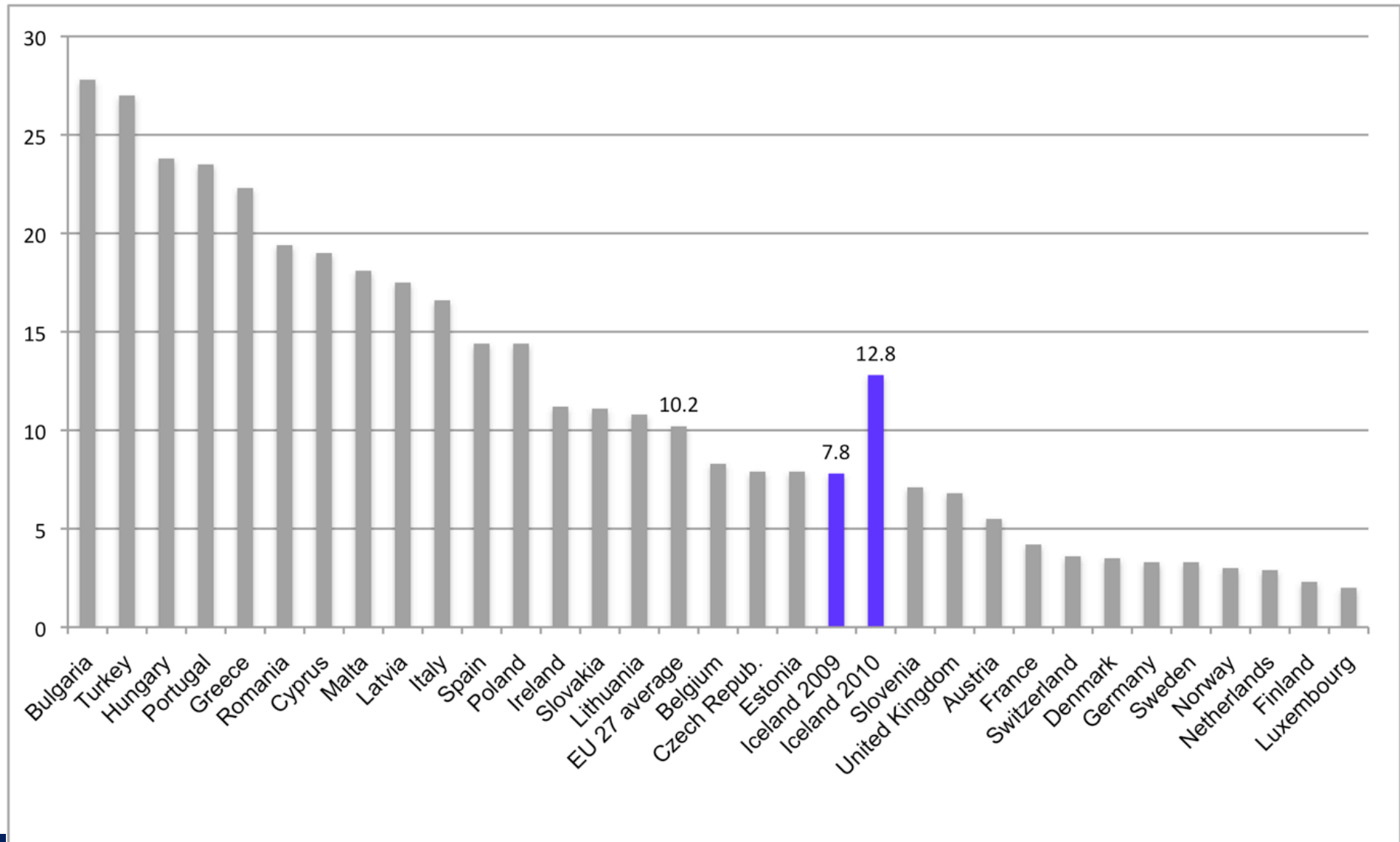
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|------|------|------|------|------|------|------|
| Arrears on mortgage or rent payments | 13 | 11 | 8 | 7 | 6 | 10 | 15 |
| Housing cost is a heavy burden | 15 | 12 | 10 | 11 | 13 | 18 | 21 |
| Arrears on other loans | 15 | 11 | 9 | 12 | 7 | 12 | 20 |
| Payments of other loans is a heavy burden | 9 | 12 | 11 | 14 | 13 | 20 | 26 |
| Unable to meet unexpected expenses | 35 | 39 | 34 | 29 | 27 | 30 | 40 |
| Difficult to make ends meet | 53 | 39 | 37 | 29 | 34 | 45 | 60 |
| Great difficulty in making ends meet | 9 | 6 | 5 | 5 | 5 | 8 | 13 |

Difficult to Make Ends Meet - Pensioners:

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|-------------------|------|------|------|------|------|------|------|
| 70 years and over | 38 | 33 | 36 | 27 | 21 | 22 | 29 |

Great Difficulty in Making Ends Meet 2009

European Comparison: Iceland both 2009 and 2010

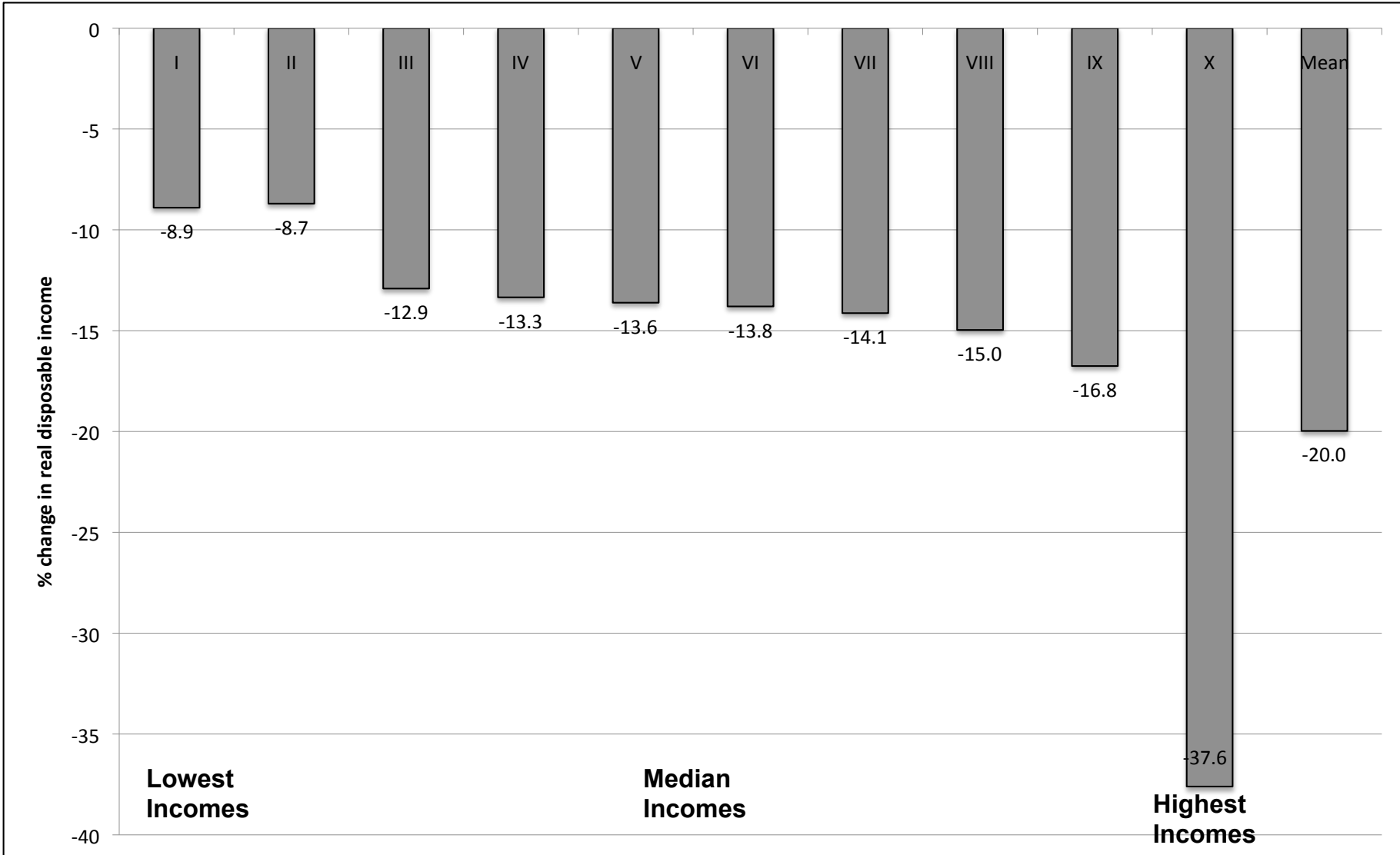


Source: Eurostat – EU-SILC Surveys

4. Distributional Aspects of the Burdens

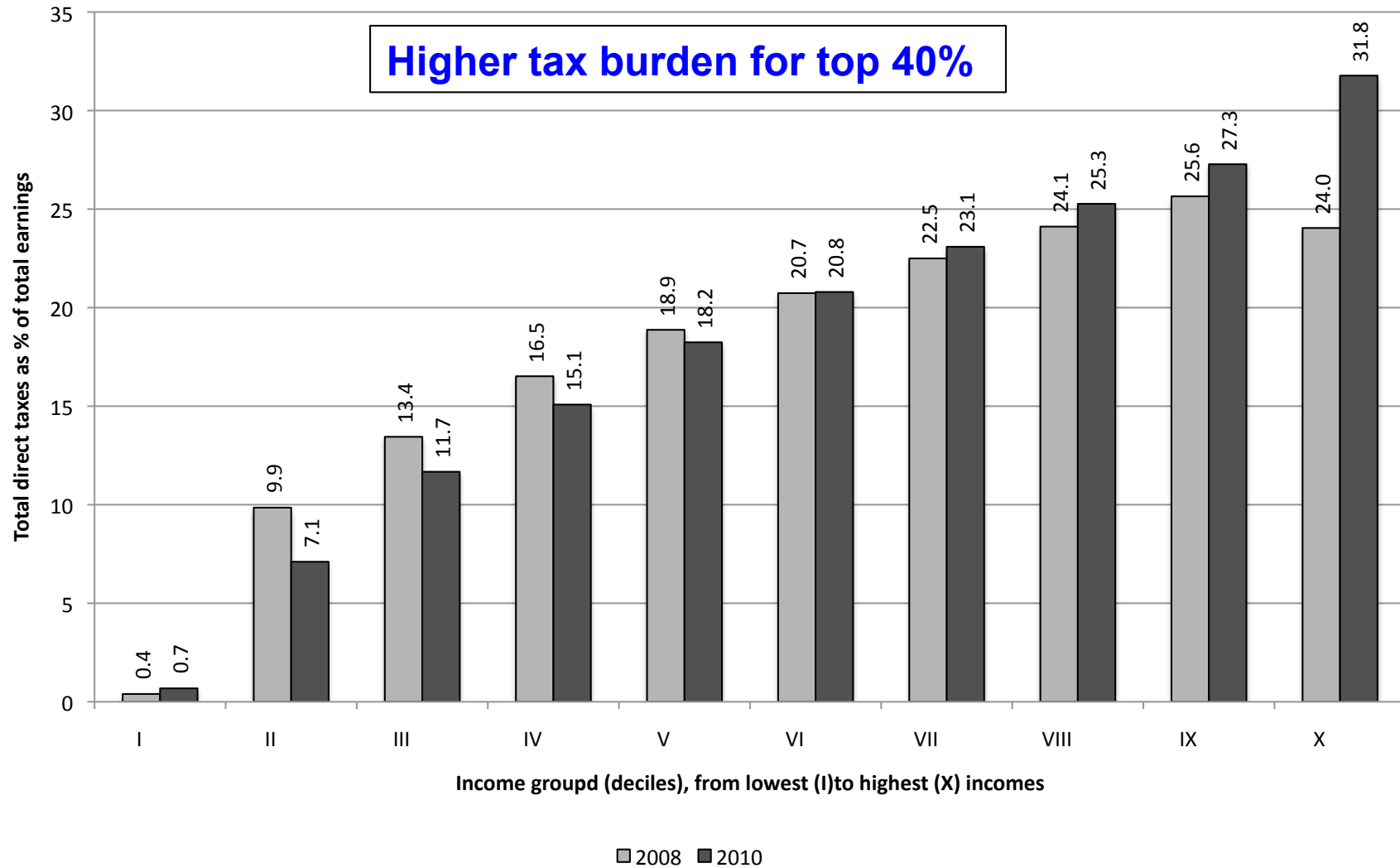
Change in Real Disposable Earnings from 2008 to 2010

Income groups (deciles), from lowest (I) to Highest (X). Couples

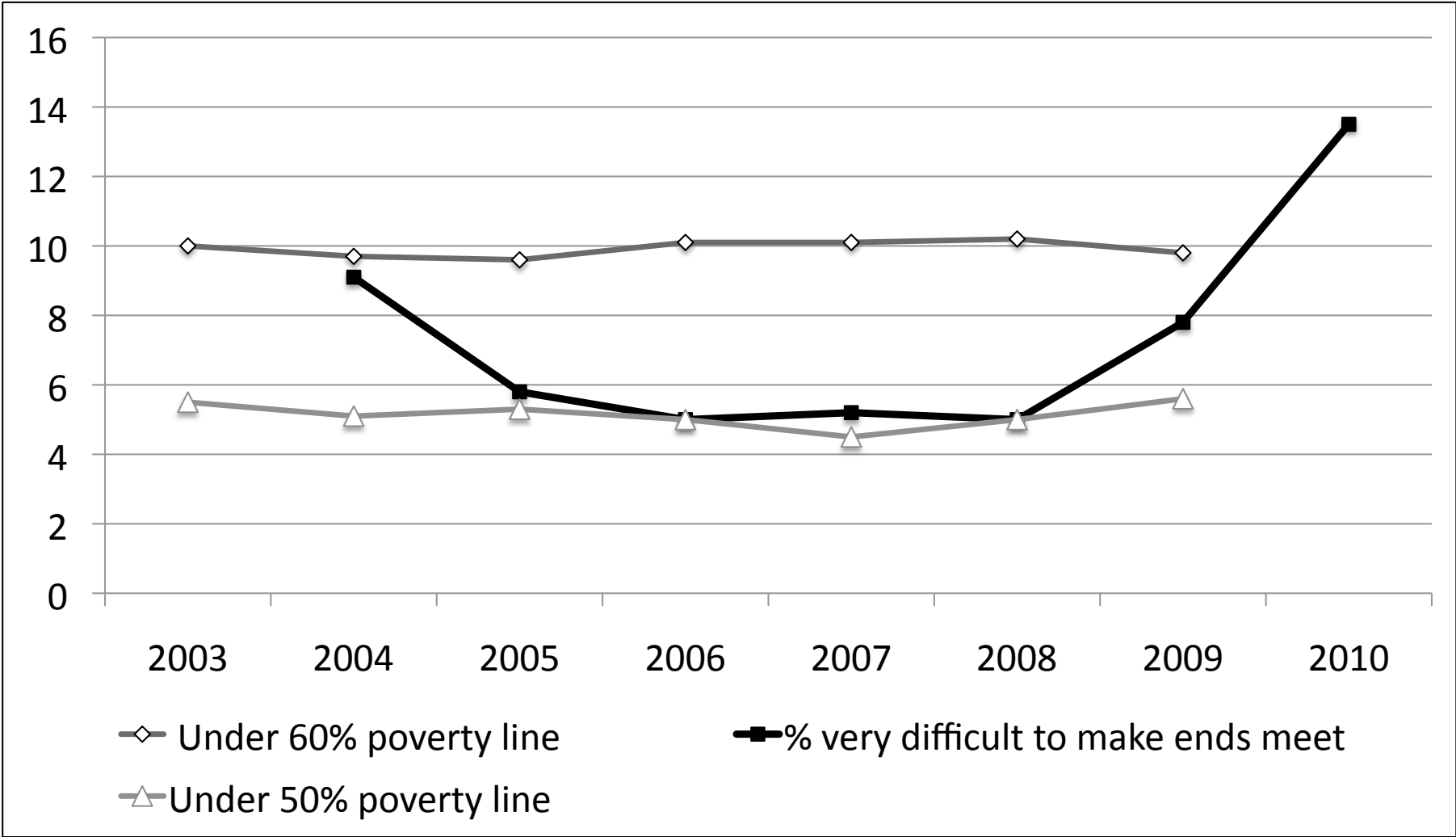


Net Effective Tax Burden, by Income Groups

Total direct taxes paid as % of total earnings



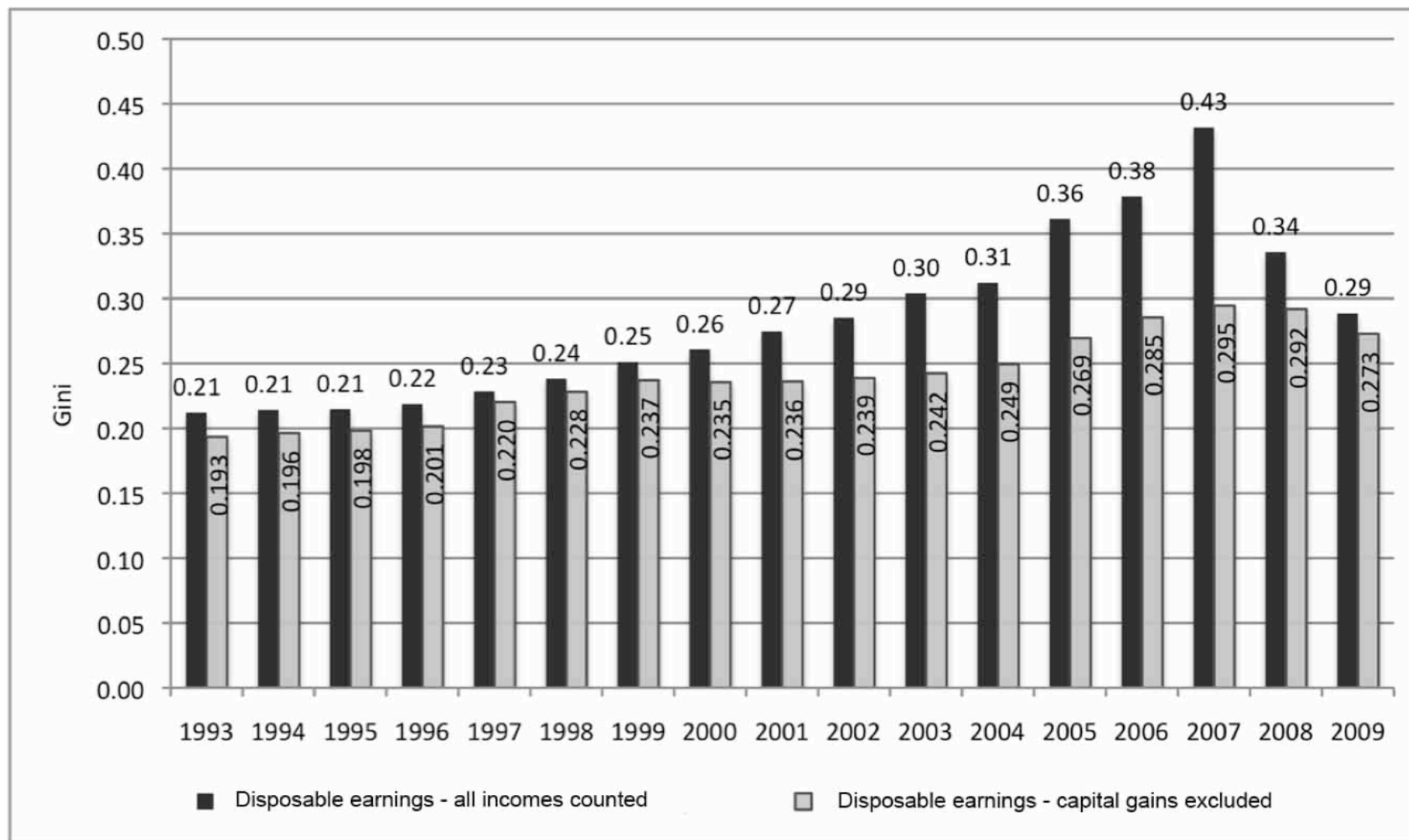
Poverty and financial hardship, 2003-2010



Source: Eurostat – EU-SILC Surveys

Inequality Trend Scaled Back from 2008

Gini Coefficients for Disposable Family Earnings

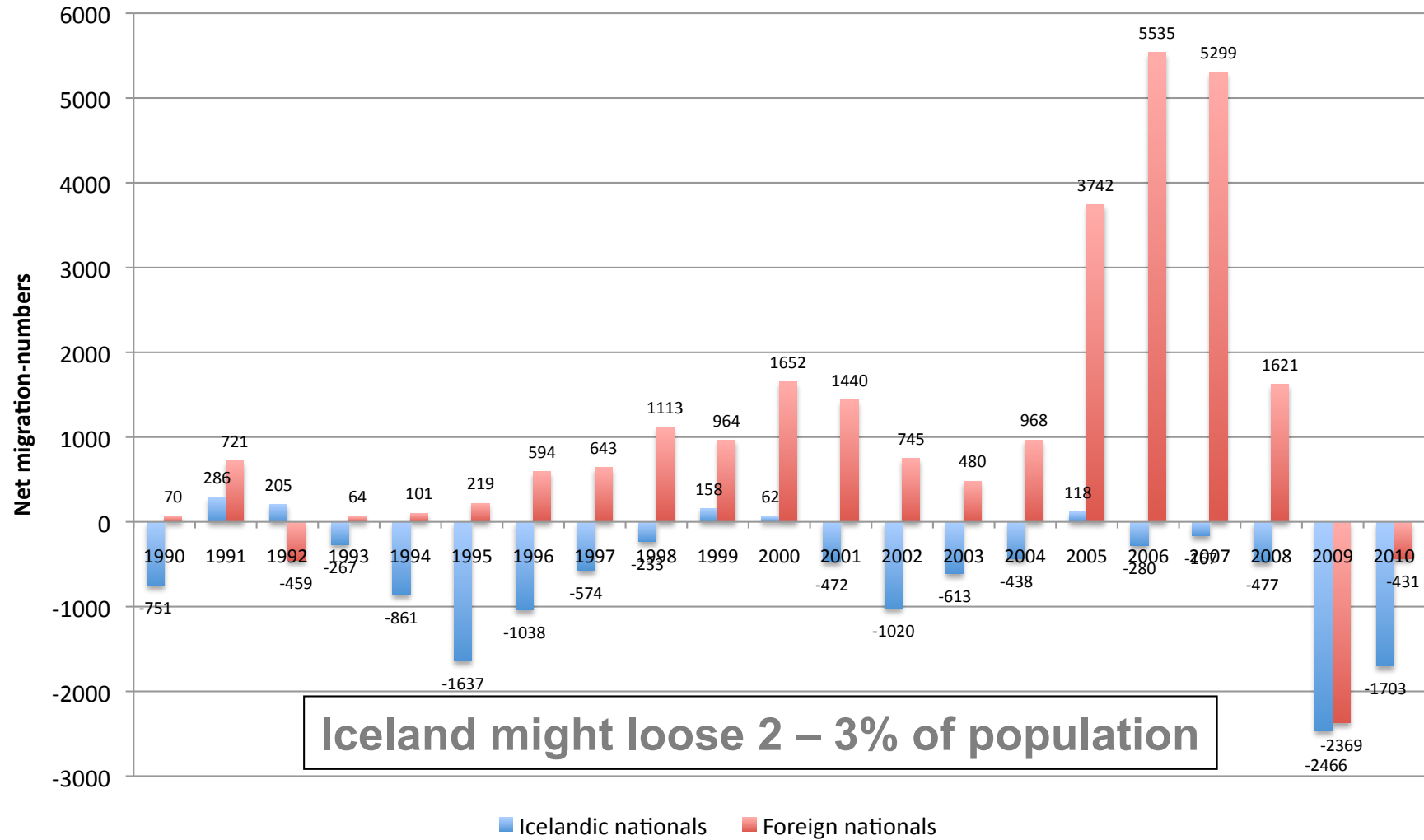


Source: Statistics Iceland – Tax Data

5. Emigration

Net migration to/from Iceland 1967-2010

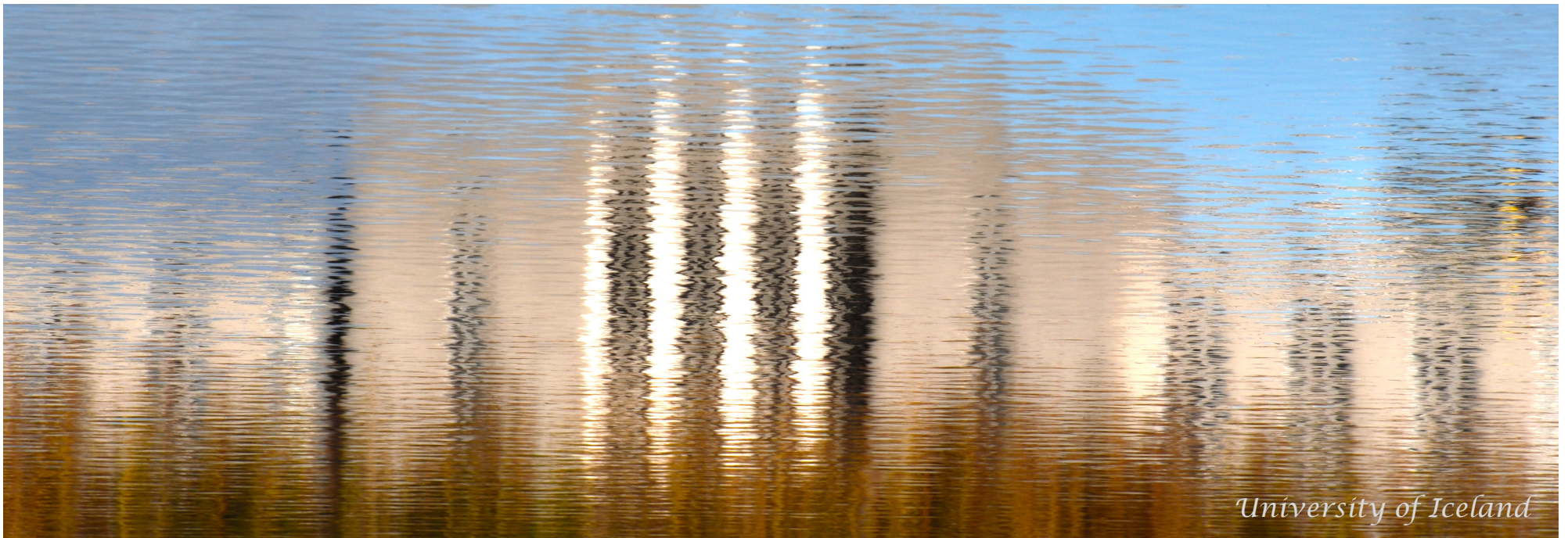
Number of immigrants – emigrants: Icelanders and foreigners



Source: Statistics Iceland

Conclusions

- **Deep crisis indeed: economic, political, social**
- **Employment situation is better than expected**
- **Debt problems are extensive**
- **Welfare state used to soften the impact on households, with re-directing of benefit to lower groups**
- **Taxes raised on incomes above the average**
- **Lower and middle income groups were sheltered.**
- **Debt relief measures are extensive – enough?**
- **Inequality decreased**



Thank you!

