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EUROPEAN SOCIAL CHARTER

Ad hoc report on the cost-of-living crisis

submitted by

THE GOVERNMENT OF ICELAND

Report registered by the Secretariat

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CYCLE 2024

Ad hoc report to the Council of Europe on the cost-of-living crisis

Submitted by the Government of Iceland
December 2023 (April 2024)

In pursuance to article 23 of the Charter, copies of this report have been communicated to:

The Icelandic Confederation of Labour (ASÍ)

SA – Confederation of Icelandic Enterprise

The Federation of State and Municipal Employees (BSRB)

The Alliance of Graduate Civil Servants (BHM)

In June 2023 the European Committee of Social Rights and the Governmental Committee requested an ad-hoc report on the cost-of-living crisis. Iceland hereby submits answers to the questions put forward in the request for the report. The information provided is mostly an overview of the situation and of the measures the government of Iceland has taken with respect to the issues covered in the questions.

Questions:

1. Please provide information as to whether and how the statutory minimum wage is regularly adjusted/indexed to the cost of living. Please indicate when this last happened, specifically whether it has been adjusted/indexed since the end of 2021.

There is no statutory minimum wage in Iceland.

2. Please provide information on any supplementary measures taken to preserve the purchasing power of the minimum wage since the end of 2021.

There is no statutory minimum wage in Iceland.

3. For States Parties with no statutory minimum wage, please describe any measures taken to preserve the purchasing power of the lowest wages since the end of 2021.

In Iceland, wage and employment conditions are primarily regulated by collective bargaining between trade unions and employers' organizations. Collective wage agreements are established within the legal framework applicable to the labour market, and provide in more detail for the employment terms of wage earners than the legislation does. This approach should ensure a fair wage growth and a balance of interest between both parties, the trade unions and the employers' organizations.

Wage conditions are primarily regulated by the collective agreements, which are separately negotiated for the public and private sectors. The collective agreements are binding for the respective parties, but they also have a spill-over effect on the part of the labour market that is not covered by collective agreements. The Confederation of Icelandic Employers negotiates on behalf of employers in collective wage agreements in the general labour market. The State Negotiating Committee negotiates with state employees on behalf of the Minister of Finance and Economic Affairs, while the Municipal Wage Committee negotiates with unions representing its employees.

Wage earners work in accordance with the collective wage agreements that unions and employers have established for the business activity in question. Employers and employees may not negotiate for lower wages or worse employment terms than those provided for in the collective wage agreements. Such negotiated agreements are invalid. Employees may negotiate for better employment terms than the minimum terms provided for in collective wage agreements. Unions represent wage earners in collective wage agreement negotiations and protect their interests as regards employers and the authorities.

Trade union membership in Iceland is very widespread, exceeding 85%. Employers who are covered by collective agreements are obliged to honor the agreements to their full extent for their employees. A person who is not a member of a trade union is hired by an employer should receive the same salary and all the same terms as other employees in the same field within the company or institution.

When collective agreements are renegotiated wage levels are adjusted to match price developments and thus ensuring the purchasing power of wage earners. The collective bargaining model safeguards/should safeguard the purchasing power of employees in the labour market in Iceland. The agreement negotiations take societal developments into account and their spill-over effect on the rest of the labour market should ensure wage developments for those relatively few employees who are not members of trade unions as well.

The government usually facilitates the collective wage agreement negotiations with promises of actions in support of i.e. purchasing power of the agreements. In 2019 (for collective agreements from 2019-2022), the state i.e. promised longer maternity/paternity leave, lower income-tax for low income individuals and that child benefit reduction limit would be increased.

The government and the Icelandic Association of Local Authorities jointly proposed measures to facilitate collective bargaining in the labour market for the next four years¹. The actions support the joint objective of the authorities and contracting parties to laying the foundations for growing prosperity, through increased purchasing power and contributing to lowering inflation and interest rates.

The total scope of the actions is up to ISK 80 billion over the term of the agreement (four years). They place particular emphasis on promoting healthier housing markets and a more family-friendly society while contributing to lowering inflation and interest rates. The measures will substantially increase the disposable income of families during the term of the agreement, or by up to ISK 500,000 per year.

If the unions and the parties with which they negotiate do not reach an agreement in collective wage agreement negotiations, the dispute may be referred to the State Mediator, whose role is to mediate in labour disputes. The Social Court is a special court that operates on the basis of the Act on Trade Unions and Labor Disputes no. 80/1938. The role of the Social Court is to judge in legal disputes between the parties of the labor market, specifically in the following cases:

1. Which arise from complaints about violations of the laws on trade unions and labor disputes, as well as damages caused by illegal workplaces.
2. Out of complaints about violations of the collective agreement or disputes over the understanding of the collective agreement or its validity.
3. Other cases between workers and employers that the parties have agreed to submit to the court, provided that at least three of the judges are present.

4. Please provide information as whether the cost of living crisis has led to the extension of in-work benefits.²

Reference is made to the answers to questions no. 3 and 5.

5. Please provide information on changes to social security and social assistance systems since the end of 2021. This should include information on benefits and assistance levels and the allocation of benefits.

Mitigation measures for inflation, May 2022³.

- **Social Security benefits** increased by 3% from 1. June 2022.
- **Housing benefits** increased by 10% from 1. June 2022 and the amount of income from employment for housing benefits was increased by 3% in line with the increase in Social Security benefits. The cost of the increase was approximately ISK 600.000.000 in 2022 and about ISK 1 billion on an annual basis.
- A special **child benefit supplement** was paid to those receiving income-related child benefits amounting to ISK 20,000 with each child. The cost was estimated at ISK 1.1. billion.

¹ <https://www.stjornarradid.is/efst-a-baugi/frettir/stok-frett/2024/03/07/Vaxandi-velsaeld-Adgerdir-stjornvaldatil-studnings-fjogurra-ara-kjarasamningum/>

² Supplements to support workers on low income ssuch as the prime d'activité in France, or the Working Family Payment and the Back to Work Family Dividend in Ireland.

³ <https://www.stjornarradid.is/efst-a-baugi/frettir/stok-frett/2022/05/06/Rikisstjornin-samthykkir-motvaegisadgerdir-vegna-verdbolgu/>

- Inflation measured an annualised rate of 7.2% in April, and the Central Bank responded with an increase in interest rates. Although households' financial position is generally strong and purchasing power is still growing, households are in a different position to cope with interest rate and price increases. Therefore, the aforementioned groups were especially looked at in the mitigation measures after a thorough analysis by the Ministry of Finance and Economic Affairs.

Government action against inflation, June 2023⁴.

To protect the purchasing power of old-age and disability pensioners, social security benefits were increased mid-year by 2.5%. In order not to cut housing benefits, the income limit before it starts to affect housing benefits was also increased by 2.5% retroactively as of January 1, 2023. Both are in addition to a 7.4% increase at the beginning of the year.

Mitigation measures for pensioners, children and tenants:

- **Social Security benefits** increased by almost 9% in 2022 and by 7.4% on January 1, 2023.
- At the beginning of 2023 income from employment may be 2.400.000 ISK per year without affecting invalidity pension and rehabilitation pension. Before this raise the amount was 1.200.000 ISK per year.
- **Housing benefits** have been increased by a quarter since mid-2022, and the amount of income from employment was raised to match the increase in benefits.
- Asset limits were raised by 50% in the **interest compensation system** at the beginning of the year.
- **Child benefit** increased at the beginning of the year with higher base amounts and reduction thresholds, as well as a reduction in reduction rates. Lower marginal taxes and about 3000 more families receive benefits under the new scheme.
- **The personal allowance and tier limits** increased by 10.7% on January 1, 2023. In total, taxes on households decreased by six billion ISK during the year. The average tax rate for a person with a monthly salary of ISK 450.000 was thus reduced by 1.8 percentage points and 0.9 percentage points for a person with a monthly salary of ISK 900.000. The disposable income of both households thus grows by approximately ISK 100 a year only because of the tax reduction.

6. Please provide information as to whether social security benefits and assistance are indexed to the cost of living, as well as information in particular on how income-replacing benefits such as pensions are indexed. Please indicate when benefits and assistance were last adjusted/indexed.

Generally, social security benefits in Iceland are adjusted annually in accordance with the general budget. The same applies with regard to other kinds of benefits and income-replacing benefits.

According to the Social Security Act, No. 100/2007 social security payments and the amount referred to in Article 28 shall change annually in accordance with the general budget. Their determination shall be based on wage developments, although they never rise less than prices according to the consumer price index. The same applies regarding social benefits based on the Social Assistance Act, no. 99/2007.

⁴ <https://www.stjornarradid.is/efst-a-baugi/frettir/stok-frett/2023/06/05/Adgerdir-rikisstjornarinnar-gegn-verdbolgu/>

The amount of basic unemployment benefits and the maximum income-related unemployment benefits are reviewed annually during budgetary procedures with regard to developments in wages, prices and economic affairs, see further Article 33 of the Act on Unemployment Insurance, No. 54/2006.

The amounts of payments to a parent from the Maternity/Paternity Leave Fund and maternity/paternity grants are reviewed annually during budget proceedings with regard to developments in wages, prices and economic issues, see further Article 54 of the Act on Maternity/Paternity and Parental Leave, no. 144/2020.

7. Please provide information as to whether any special measures have been adopted since late 2021 to ensure persons can meet their energy and food costs, such as price subsidies for energy, fuel, and basic food items.

The Icelandic government has initiated several measures to mitigate the consequences of high inflation. These measures have particularly been aimed at providing support to those citizens who have been disproportionately affected by higher prices. These measures are outlined and explained in the answer to question 5.

Special measures have not been adopted with regard to meeting energy and food costs. Approximately 90% of the population lives in houses heated with hot water and therefore energy is not imported for home heating. This may explain why there has been no need to resort to financial support from the government to reduce heating costs. In cases where houses are heated with electricity, the state subsidizes the distribution and transmission costs of electricity for heating domiciles in order to equalise living obligations in Iceland, see the Act on Subsidizing Heating Costs, No. 78/2002. This applies regardless of the cost of living crisis.

8. Please provide up-to-date information on at-risk-of-poverty rates for the population as a whole, as well as for children, families identified as being at risk of poverty, persons with disabilities and older persons. Please show the trend over the last 5 years, as well as forecasts for upcoming years.

In a report⁵ issued by the Prime minister of Iceland in May 2023 on poverty in Iceland and estimated social cost poverty is defined as the following:

Poverty is a term of deprivation, usually financial, or lack of necessities of life or other resources such as water or food. In everyday discourse, the term is usually linked to economic measures of what it takes to acquire quality or goods – for everyday life. Poverty is frequently also associated with a description of a condition, such as housing poverty, social poverty or health poverty, referring to a particular aspect of socio-individual status that indicates deprivation.

The report shows that poverty in Iceland has decreased over the past 20 years. The low income ratio was 15.3% in 2000 as compared to 13.5% in 2021. It also states that child poverty should be a special challenge, as of the 13.5% of the population below the low-income threshold, children are about 19.6%, or more than 9,000 individuals, as compared to 2020. It also states that single parents, the disabled and immigrants are the most disadvantaged groups in society when it comes to poverty measurements. Low-income ratios for older people (+67) decreased from 16.5% in 2000 to 6% in 2020, and the overall situation of this group has improved.

Information from Statistics Iceland:

At-risk-of-poverty rate 2017-2021:

⁵ <https://www.stjornarradid.is/library/02-Rit--skyrslur-og-skrar/F%20a1t%20a6kt%20og%20a1%20a6tla%20our%20samf%20a9lagslegur%20kostna%20our.pdf>

Table 1 Total of population 18 years and older how were at risk of poverty from 2017-2021. Statistics Iceland has not published more recent figures in this regard.

			Rate of individuals (%)	Number of individuals
2017	Total	18 + years old	9.9	25,504
2018	Total	18 + years old	8.4	22,425
2019	Total	18 + years old	8.8	24,706
2020	Total	18 + years old	7.2	20,665
2021	Total	18 + years old	7.6	21,963

6

Table 2 Children from birth to 17 years of age who are at risk of poverty according to the latest published information from Statistics Iceland.

			2017	2018	2019	2020	2021
Total	0-5 years old	Rate of individuals (%)	16.0	16.2	15.4	14.2	12.1
		Number of individuals	4,315	4,262	2,909	2,628	2,816
	6-11 years old	Rate of individuals (%)	11.0	9.3	14.1	12.0	17.2
		Number of individuals	2,985	2,532	3,535	3,119	4,437
	12-17 years old	Rate of individuals (%)	8.1	6.7	10.2	7.8	11.2
		Number of individuals	2,082	1,787	3,252	2,526	3,370

*Hagfðindi– Statistical Series*⁷, published by Statistics Iceland in June 2021 was a special issue on household finances. The aim of this thematic issue was to shed light on household finances based on household type and tenure status. In order to assess household finances, the following criteria was considered; at risk-of-poverty rate, material deprivation, and housing cost burden.

In the thematic issue it is said that the at risk-of-poverty ratio has increased for single-parent households but decreased or not changed among other household types. In 2019, 37.5% of single parents were at risk of poverty, compared with 13.7% of households with one childless adult, 8.4% of households with two adults with children and 6.5% of households with two or more childless adults. It needs to be noted that the figures that these findings are based on are for the years 2004-2019 and the figures for 2019 were all preliminary.

According to the same publication material deprivation decreased somewhat between 2016 and 2019 among single-parent households and households where one childless adult lived. In 2019, the material deprivation rate was 9.5% among single-parent households and 8.6% among households where one childless adult lived. In 2019 the material deprivation rate was 3.1% among households consisting of two adults with children and 3.2% among households consisting of two or more childless adults.

⁶ The at-risk-of-poverty rate is the share of people with an equivalised disposable income (after social transfer) below the at-risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income after social transfers.

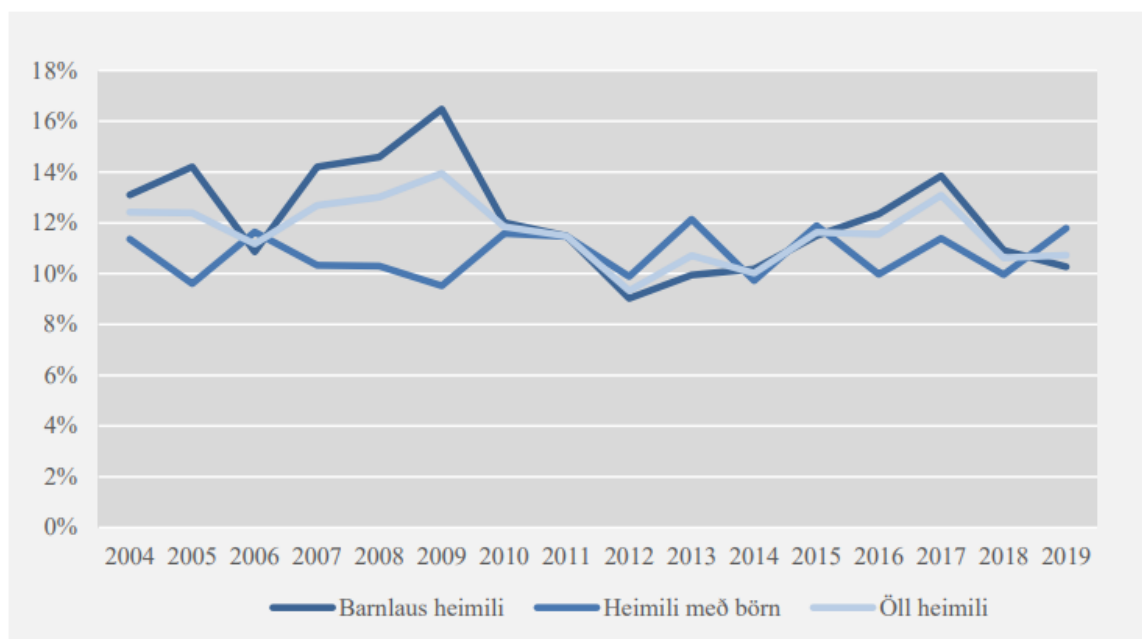
This indicator does not measure wealth or poverty, but low income in comparison to other residents in that country, which does not necessarily imply a low standard of living.

Estimates for 2019-2021 are preliminary

⁷ <https://hagstofas3bucket.hagstofa.is/hagstofan/media/public/2021/d068a381-b9ca-4732-b643-178a8f278072.pdf>

Mynd 3. Lágtekjuhlutfall hjá barnlausum heimilum og heimilum með börn

Figure 3. Risk of poverty rate by households with and without children



Skýringar Notes: Öryggisbil (95%) 2019: Börn á heimili±1,5; heimili án barna ±1,1. CI (95%) 2019; Households with children ±1.5; households without children ±1.1.

Figure 3 above, borrowed from the aforementioned thematic issue of the Statistical Series, Special issue on household finances from June 2021, shows that between 2015 and 2019, the low-income ratio of households with children was still around 10-12%, including 11.8% in 2019. In the period 2010 to 2019, there was little difference between the low-income ratio between childless households and households with children, although a certain fluctuation can be observed in the low-income ratio of childless households, where the ratio rose steadily between 2012 and 2017, from 9% to 13.8%, and decreased again to 10.3% in 2019.

Eurostat does not provide any calculations of ROP in Iceland and there is limited information available in Iceland. There is no forecast for the development of the ROP available in Iceland and it would be very difficult, due to uncertainty about various factors, i.e. economic development and the size and nature of immigration.

9. Please provide for information on what measures are being taken to ensure a coordinated approach to combat poverty as required by Article 30 of the Charter, and diminish reliance on last-resort relief, such as food banks and soup kitchens.

Iceland has a comprehensive welfare system for everyone with legal residence in Iceland. The welfare provisions in different Acts of law cover a broad range of policy areas such as employment, health, social services and social assistance, etc.

Policies on social welfare in Iceland are developed through a coordinated legislation process and the ministry responsible for the policy area concerned prepares the legislation. During the legislation process the ministry has an obligation to consult other relevant ministries and governmental institutions responsible for executing the law. As discussed in response to question no. 10 draft legislation is published in the Consultation Portal and any legal entity or member of the public can submit written comments to the proposed legislation. This ensures consultation on a broad basis.

10. Please provide information on steps taken to consult with, and ensure the participation of, the persons most affected by the cost of living crisis and/or organisations representing their interests in the process of designing measures in response to the crisis.

During the legislative process in Iceland relevant stakeholders are consulted and legislative proposals are also published in the Consultation portal (Samráðsgátt) where stakeholders are notified that a draft legislative proposal has been published. They can then send in their written comments and concerns within the given timeframe. Any member of the public can also submit his/her/their written comments and concerns within the same timeframe. This applies to all legislative proposals including those regarding measures in response to the cost of living crisis. These comments are then reviewed and amendments made if needed. Once a bill has been laid down in the Althingi, stakeholders and individuals will again have the opportunity to send in written comments to the standing committee of the Althingi handling the matter.