Are we there yet?
Have risks been reduced or just shuffled around?

Reykjavík Economic Conference 2026

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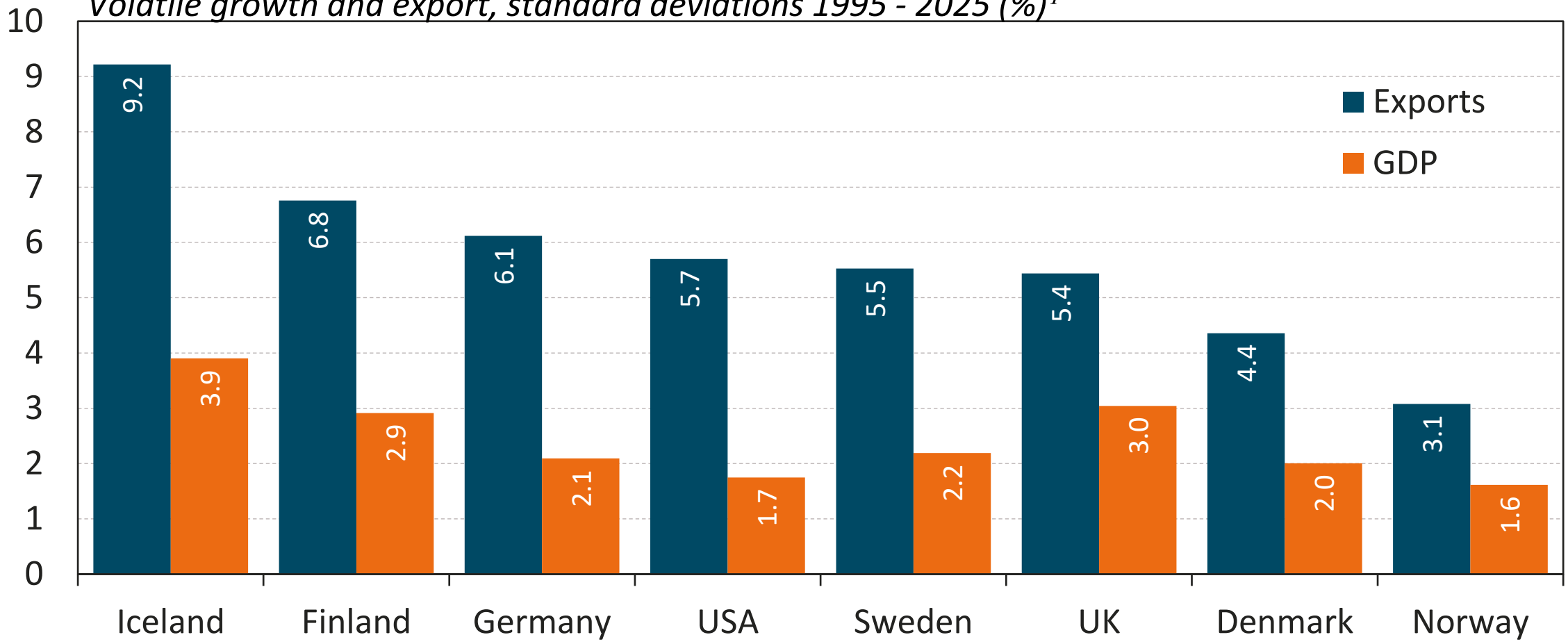


28-29 May
2026

The views expressed do not necessarily reflect those of the Central Bank of Iceland or the Bank's Committees

Economy prone to shocks and seismic events

Volatile growth and export, standard deviations 1995 - 2025 (%)[1]



1. Standard deviations of annual growth rates in exports of goods and services and GDP, respectively.

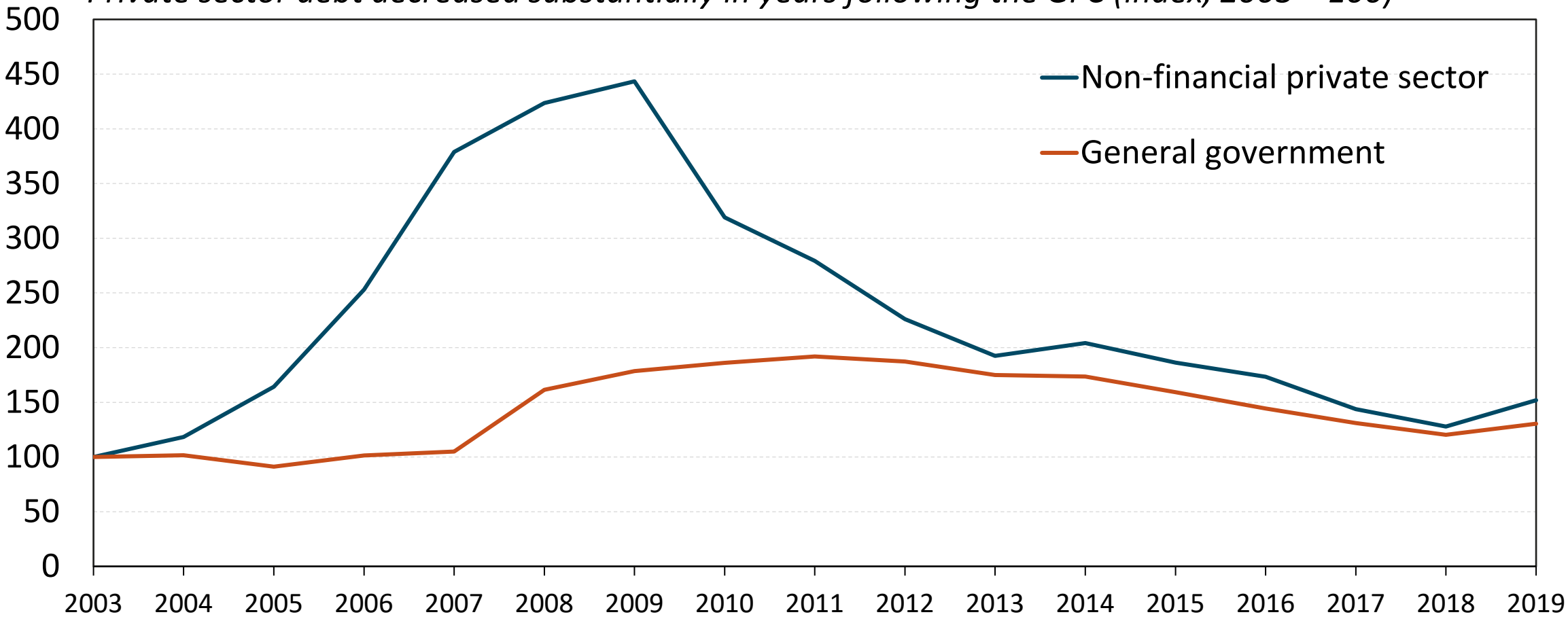
Sources: OECD, Central Bank of Iceland.

Four main points

1. A resilience-first macro-financial framework has delivered benefits
2. Pension funds usually a source of stability but may give rise to new risks
3. Risks have transformed and reappeared on the government's balance sheet
4. System wide approach needed

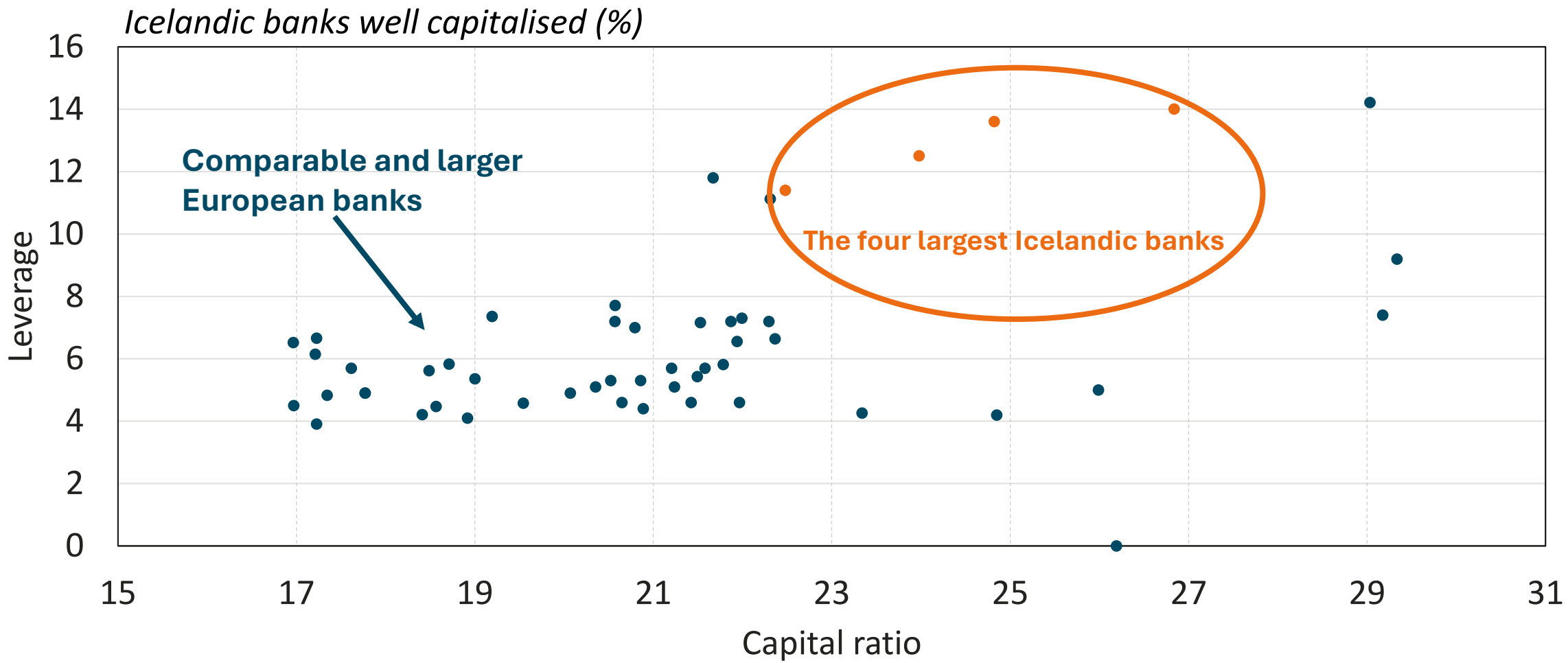
Balance sheets were cleaned up after GFC

Private sector debt decreased substantially in years following the GFC (index, 2003 = 100)



Sources: Statistics Iceland, Central Bank of Iceland.

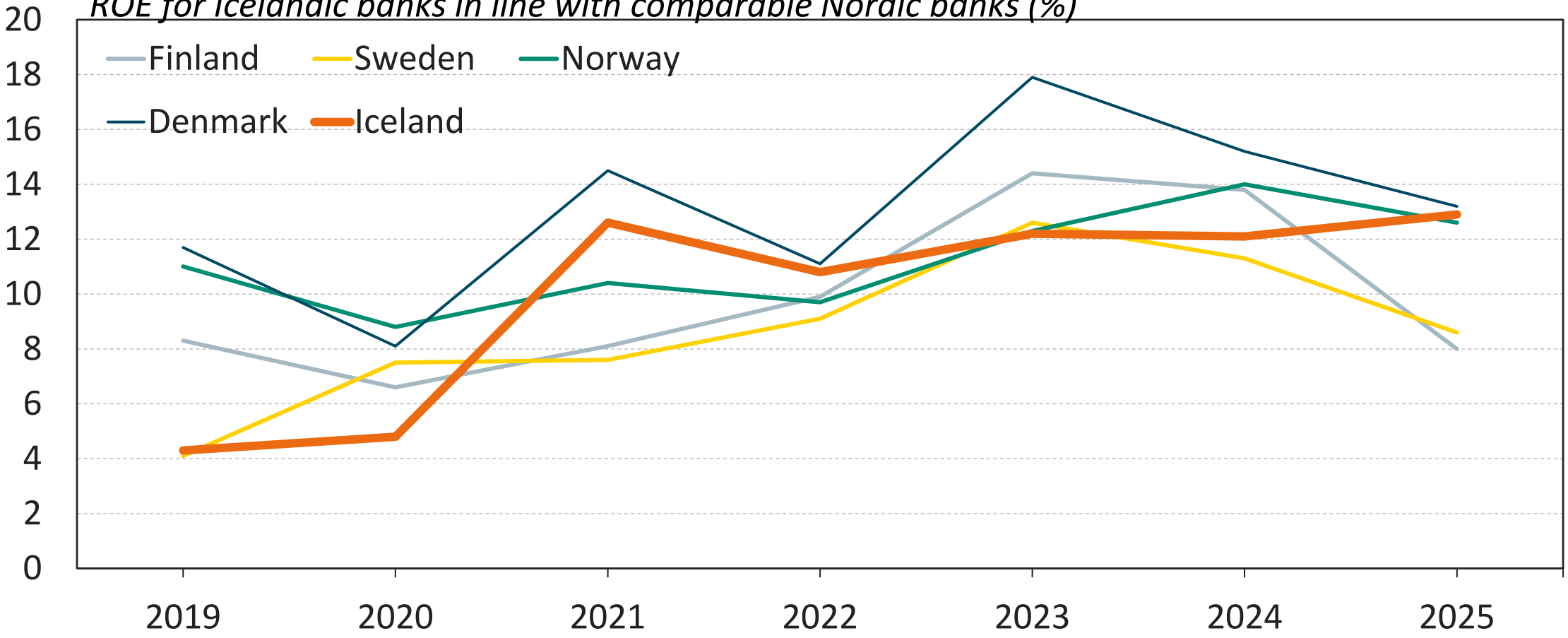
Icelandic banks with high capital and leverage ratios



Sources: S&P Global Market Intelligence, Central Bank of Iceland.

Even so, Icelandic banks have remained profitable

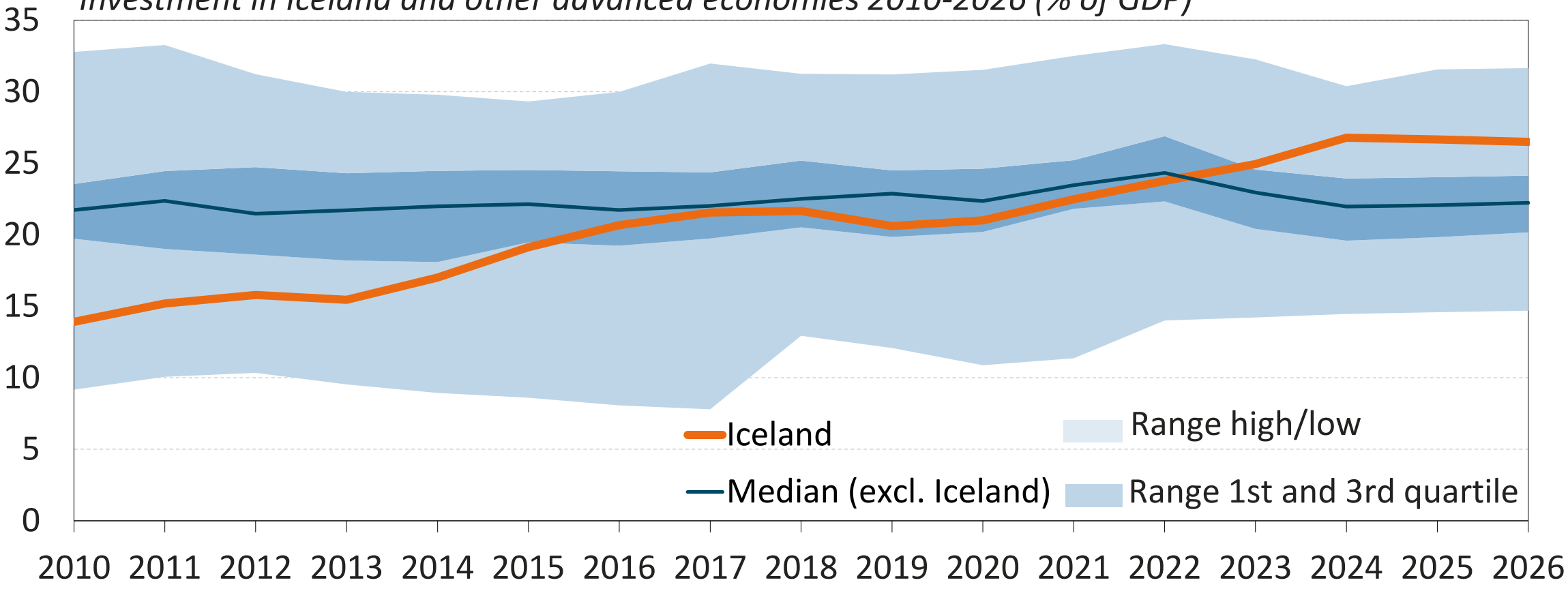
ROE for Icelandic banks in line with comparable Nordic banks (%)



Sources: S&P Global Market Intelligence, Central Bank of Iceland.

Investment levels have risen and are robust

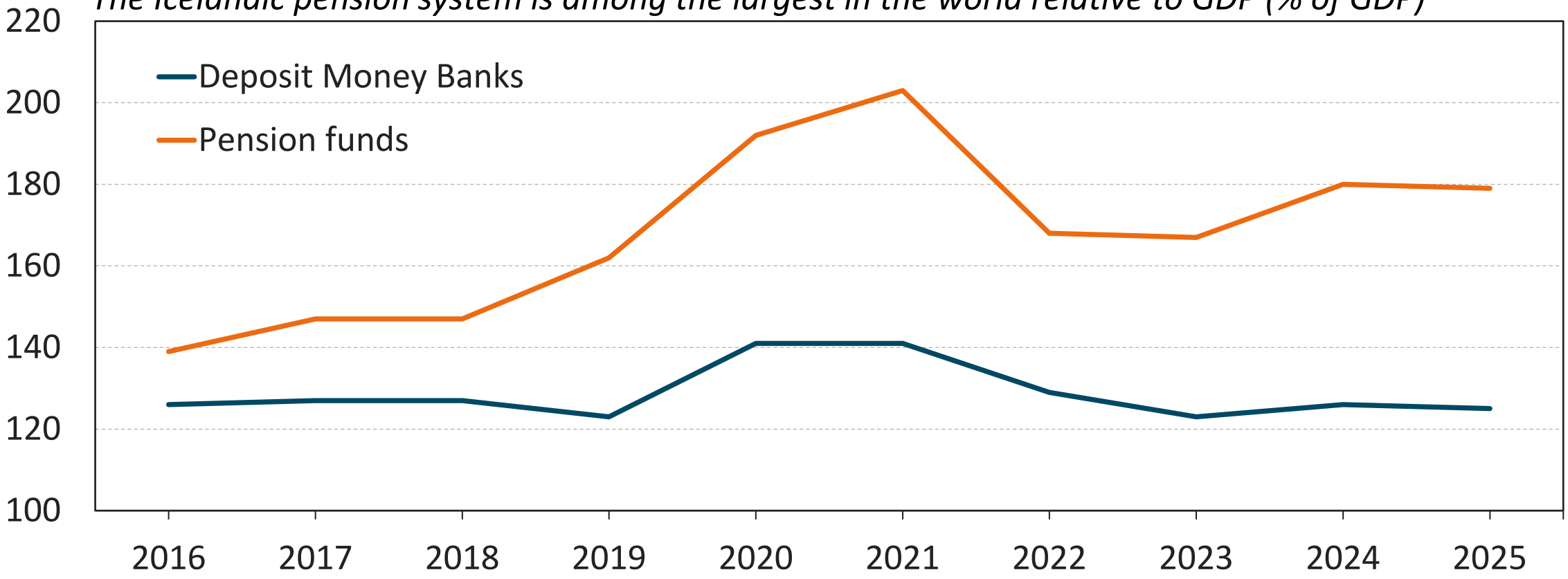
Investment in Iceland and other advanced economies 2010-2026 (% of GDP)



Sources: IMF, Statistics Iceland, Central Bank of Iceland.

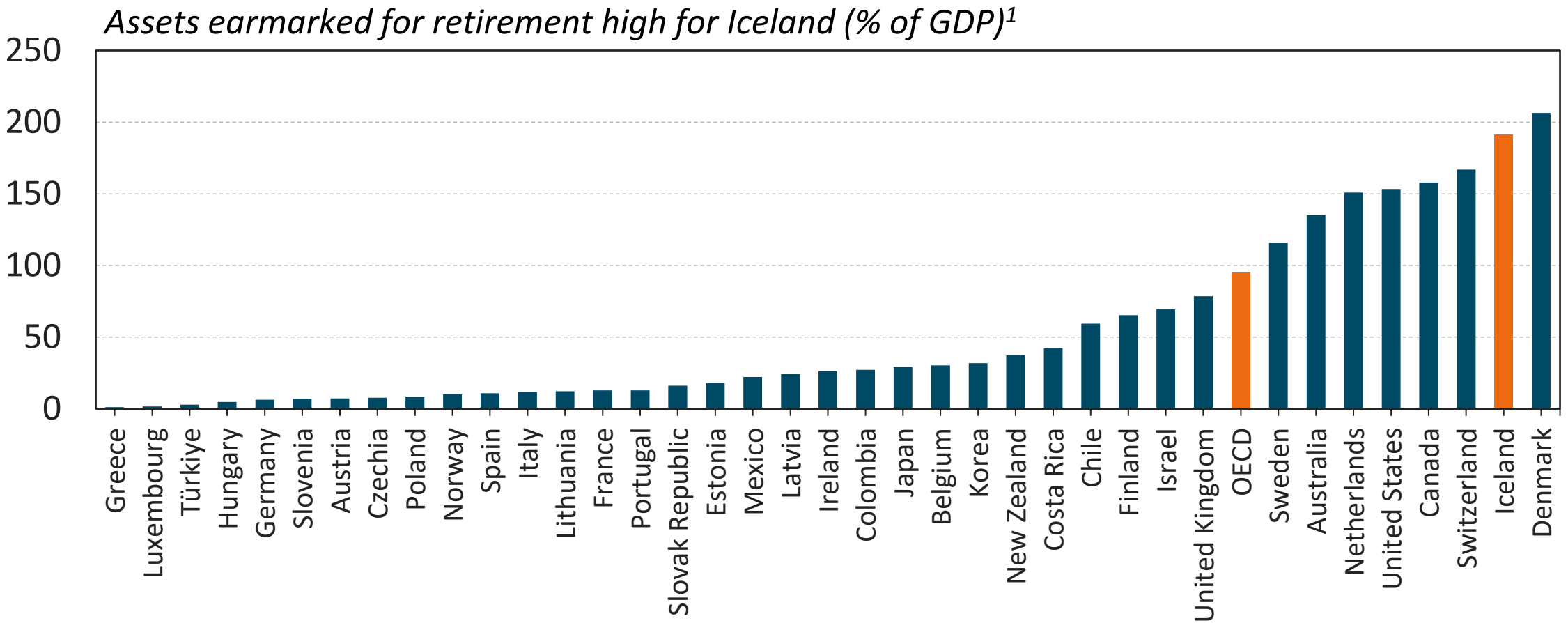
Growing pension system a source of stability

The Icelandic pension system is among the largest in the world relative to GDP (% of GDP)[1]



Sources: Nasdaq Iceland, Central Bank of Iceland.

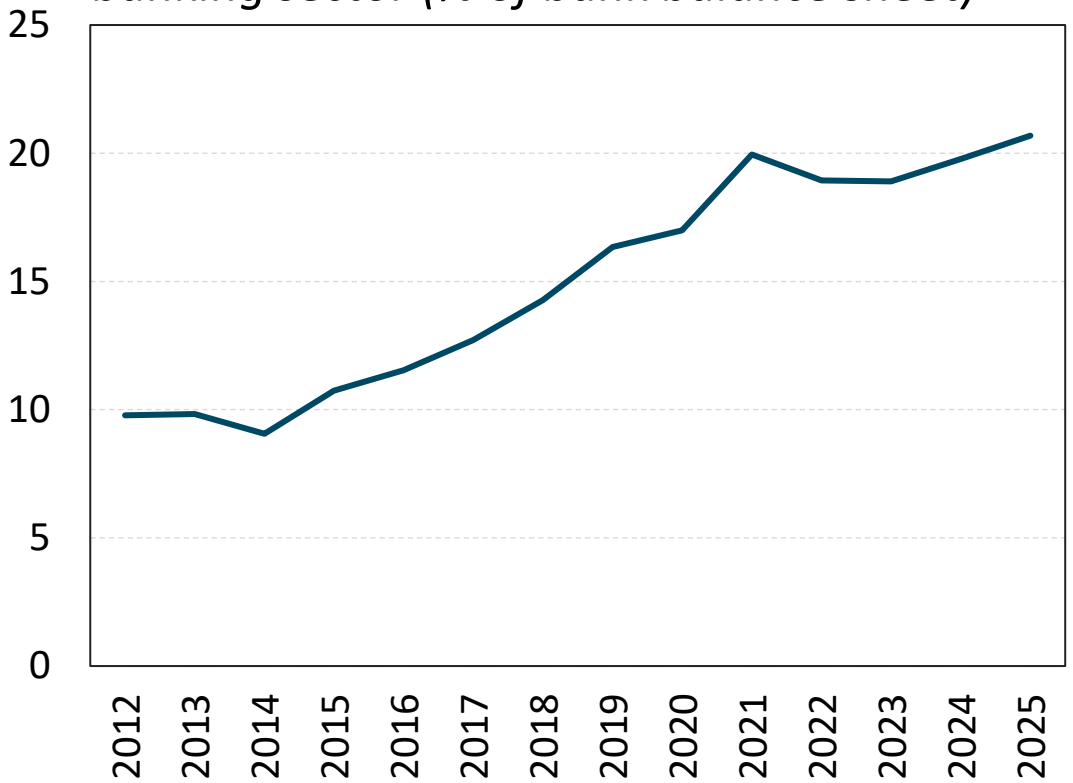
One of the largest pensions system as share of GDP



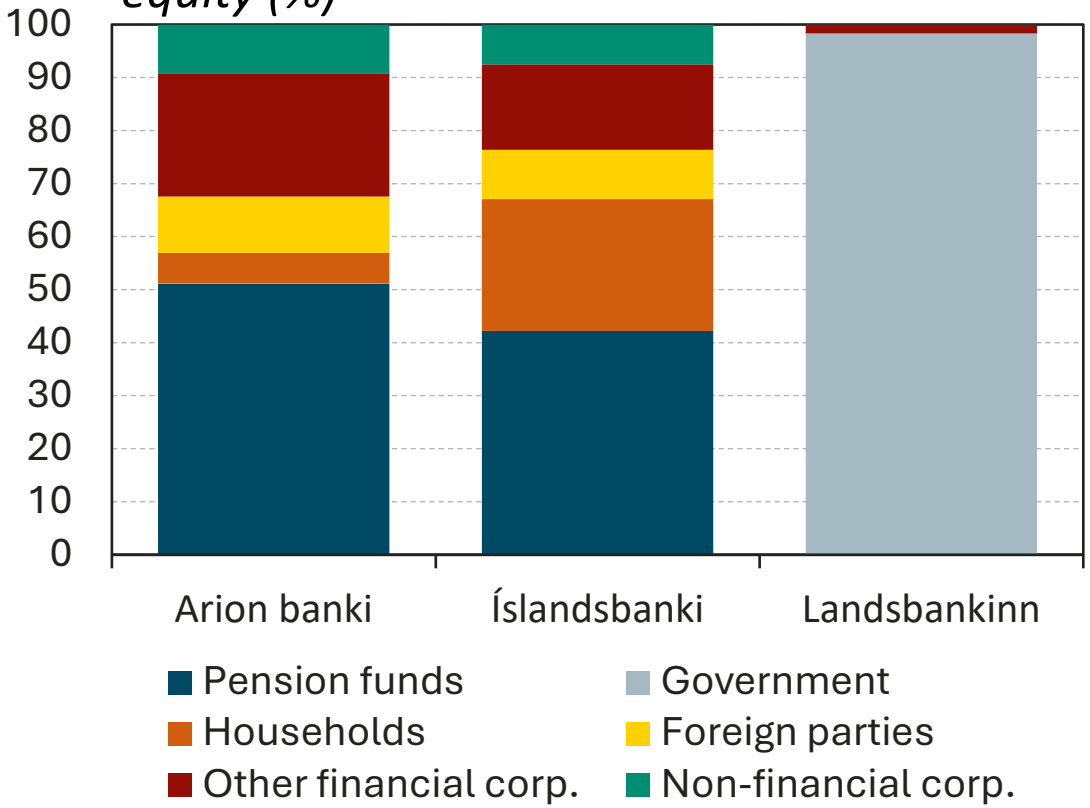
Sources: OECD.

Pension system highly interconnected with the banks

Pension funds have invested heavily in banking sector (% of bank balance sheet)[1]



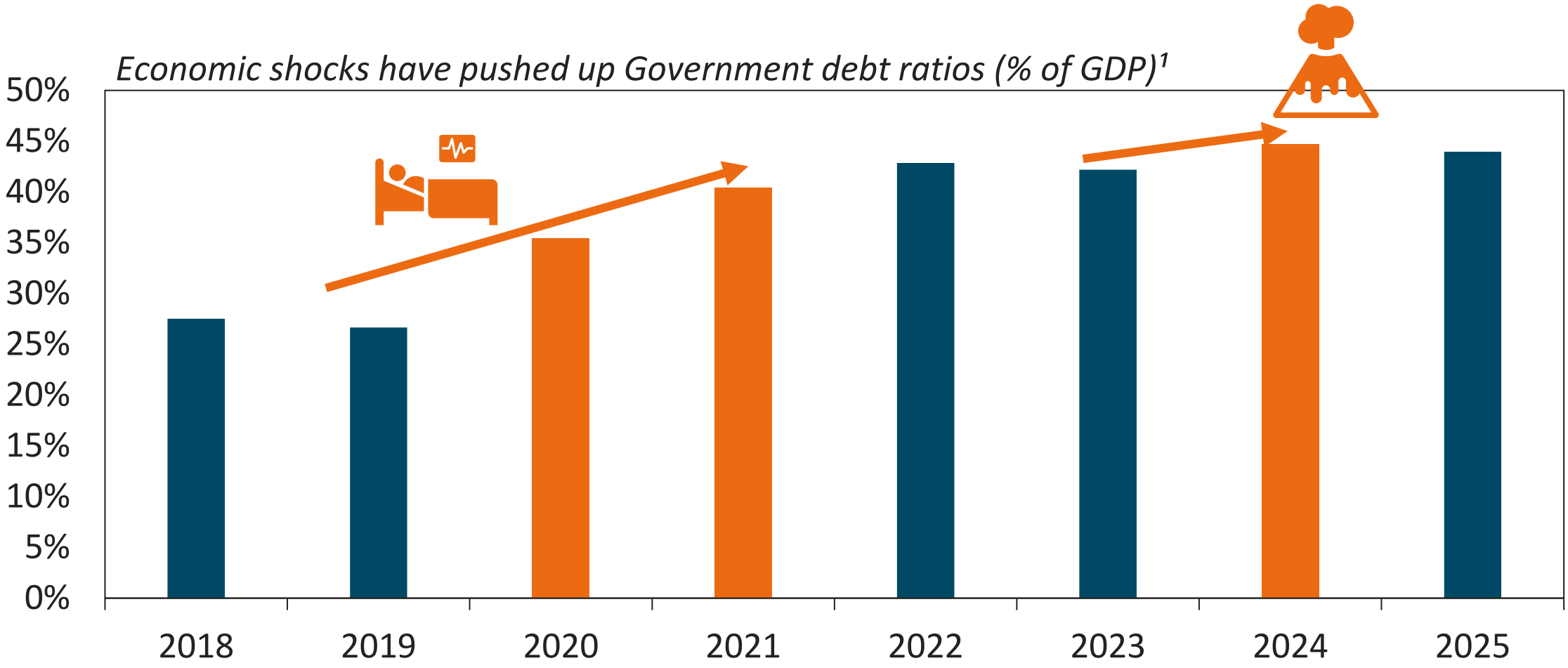
Pension funds hold large share of bank equity (%)



1. Pension fund investment in bankning sector include equity, bonds and deposits.

Sources: Nasdaq Iceland, Central Bank of Iceland.

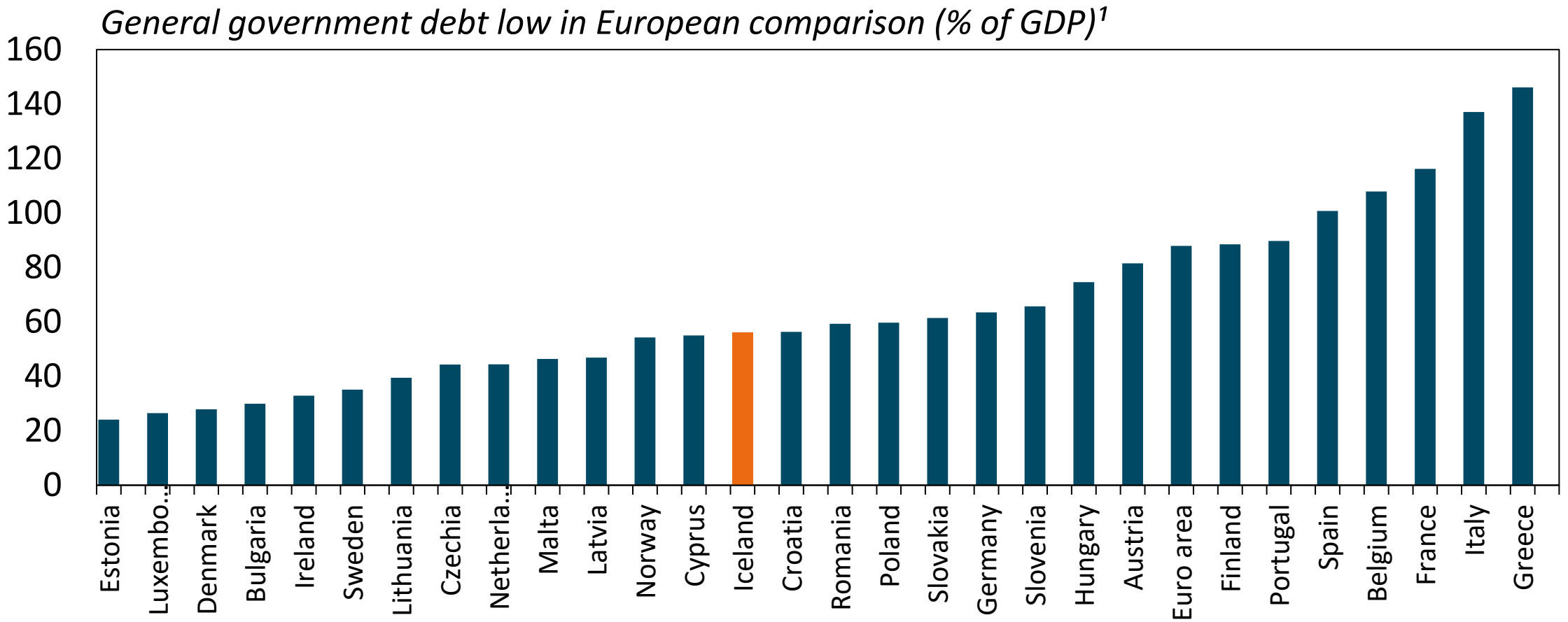
Risk has migrated to the government's balance sheet



1. During the COVID-19 pandemic, public debt increased as a result of the Treasury's countercyclical measures, with the government absorbing a large share of the economic shock. The same can be said of the impact of the seismic activity on the Reykjanes Peninsula, where support had to be provided to 1% of the population who needed to find new homes and stability, in addition to the costs associated with constructing protective barriers around Grindavík.

Sources: Central Bank of Iceland.

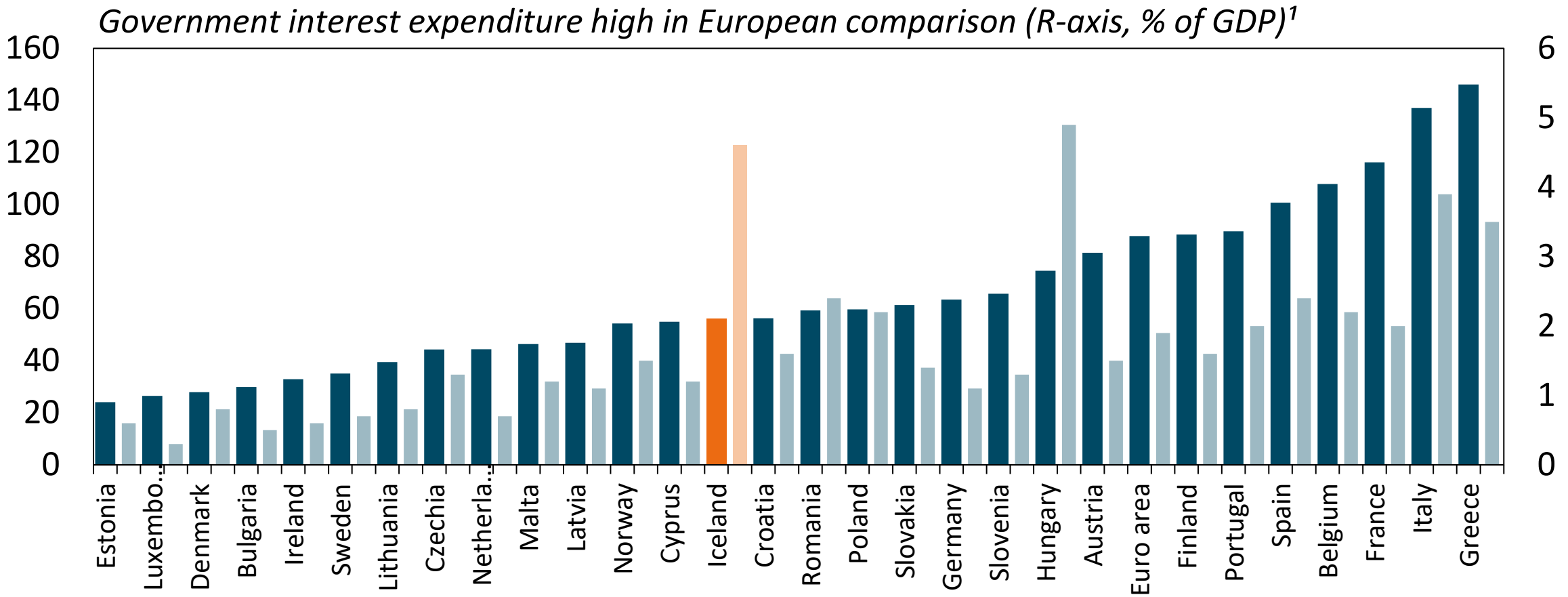
Although General Government debt is not excessive



1. Maastricht debt based on year-end 2025 numbers.

Sources: Eurostat, Statistics Iceland, Central Bank of Iceland.

… but interest expenditure is high



1. Maastricht debt based on year-end 2025 numbers and interest expenditure on year-end 2024 numbers.

Sources: Eurostat, Statistics Iceland, Central Bank of Iceland.

How to avoid the lure of false trade-offs?

1. Retain the foundation of a system that has proved resilient
2. Acknowledge the government's reduced ability to smooth shocks
3. Consider whether risks are rising due to detailed regulations pushing actors in the same direction
4. Reliable and granular data on NBFIs
5. System wide approach to financial stability and macro-prudential policy needed in a small interconnected system