

THE LABOUR MARKET IN ICELAND OVER THE LAST 20 YEARS

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Abstract

On average, there were 227 ths. people in the Icelandic labour market in the year 2023. Of those, around 219 ths. were employed and less than 8 ths. were unemployed and looking for a job. Icelanders are one of the youngest populations in Europe, with an average age of 39 years old and around 70% of the population under 50 years. In the last 20 years, the number of foreign nationals in Iceland has quadrupled. The proportion of foreign nationals in the total population was 16% in 2023 compared with 4% in 2003. The Icelandic economy is dependent on foreign workers in some sectors (esp. tourism, construction and fishing). More than a third of foreigners living in Iceland come from Poland.

A high participation rate characterizes the Icelandic labour market. The activity rate was 80.5%, the employment rate 77.8% and the unemployment rate 3.4% in 2023. Between 2003 and 2023, the female unemployment rate was mostly lower than the male unemployment rate.

Key words: Iceland, labour market, employment, foreigners, tourism

JEL Code: J21, J40

Introduction

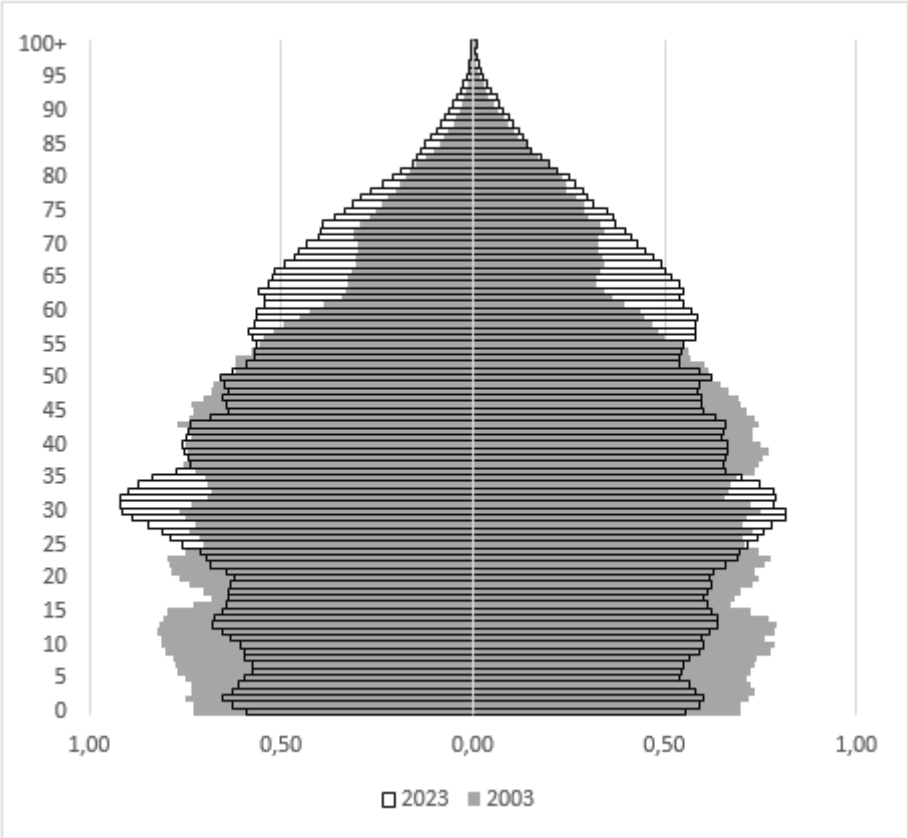
The Icelandic labour market is small, which means that external factors can have a significant impact. The most important sectors in Iceland's economy are service industries (such as travel, financial services, and health services), miscellaneous industries, agriculture, and fishing. The relative importance of these sectors has changed recently, with fishing and other production industries declining while the significance of service industries related to tourism has increased considerably in recent years.

1 Population of Iceland

Since 2003, the population of Iceland has increased by almost a third, reaching 387,000 in 2024. During this time, there has been a significant change in the age distribution of the population (see Fig. 1). Generally, there has been a decrease in the number of children and an increase in

the number of older people. The dependency ratio is calculated as the proportion of children and young people (0–19 years) to people of working age (20–64 years) and the proportion of the elderly (65+) to the same group. Over the last twenty years, the percentage of people aged 0–19 within the working age group has decreased from 51% to 40%, while the percentage of elderly (65+) has increased from 20% to 25%, which is the highest it has ever been.

Fig. 1: Age structure of Iceland (1st January 2003 and 2024)



Source: Statistics Iceland

About 63% of the Icelandic population lived at the beginning of the year 2024 in the Greater Reykjavík area. The second largest urban area was in Keflavík and Njarðvík, where 6% inhabitants lived, and in Akureyri and the surrounding area (5% inhabitants). In sparsely populated areas, defined as the countryside or localities with less than 200 inhabitants, lived 6% of the total population.

In the last 20 years, the number of foreign nationals in Iceland has multiplied. The proportion of foreign nationals in the total population was 16.6% in 2024 compared with 3,5% in 2003 (Statistics Iceland, 2024).

The persons with Polish citizenship are still the largest group of foreigners citizenship – 35.7% of all foreign citizens. The second largest group of foreign nationals was from

Lithuania, 7.2%, while 5.6% of foreign nationals came from Ukraine (Bjarnason 2020, Loftsdóttir 2017).

Stronger exports and a record number of foreign tourists in 2009 and 2010 have helped overcome declining GDP and created new job opportunities (Júlíusdóttir et al. 2013).

During the covid-19 pandemic, the number of foreigners living (and therefore working) in Iceland declined significantly and returned to pre-2020 levels, particularly among the largest groups, which have long included Poles and Lithuanians. In the case of Filipinos, who tried to get back to their country of origin in the early days of the pandemic, many did not return to Iceland after the pandemic ended (Arnholtz – Leschke 2023).

2 Main economic sector

Following the 2008 financial crisis, tourism became a vital component of Iceland's economy. The number of tourists visiting Iceland has grown exponentially, significantly increasing demand for hospitality and service jobs. This sector is responsible for employing a substantial portion of the workforce.

Traditionally, the fishing industry has been a cornerstone of the Icelandic economy. While it now accounts for a smaller percentage of GDP compared to tourism, it remains crucial for employment, particularly in coastal communities.

Iceland is a leader in renewable energy production, primarily utilizing geothermal and hydroelectric power. This sector creates jobs in engineering, research, and construction, contributing to a green economy that leverages the country's natural resources.

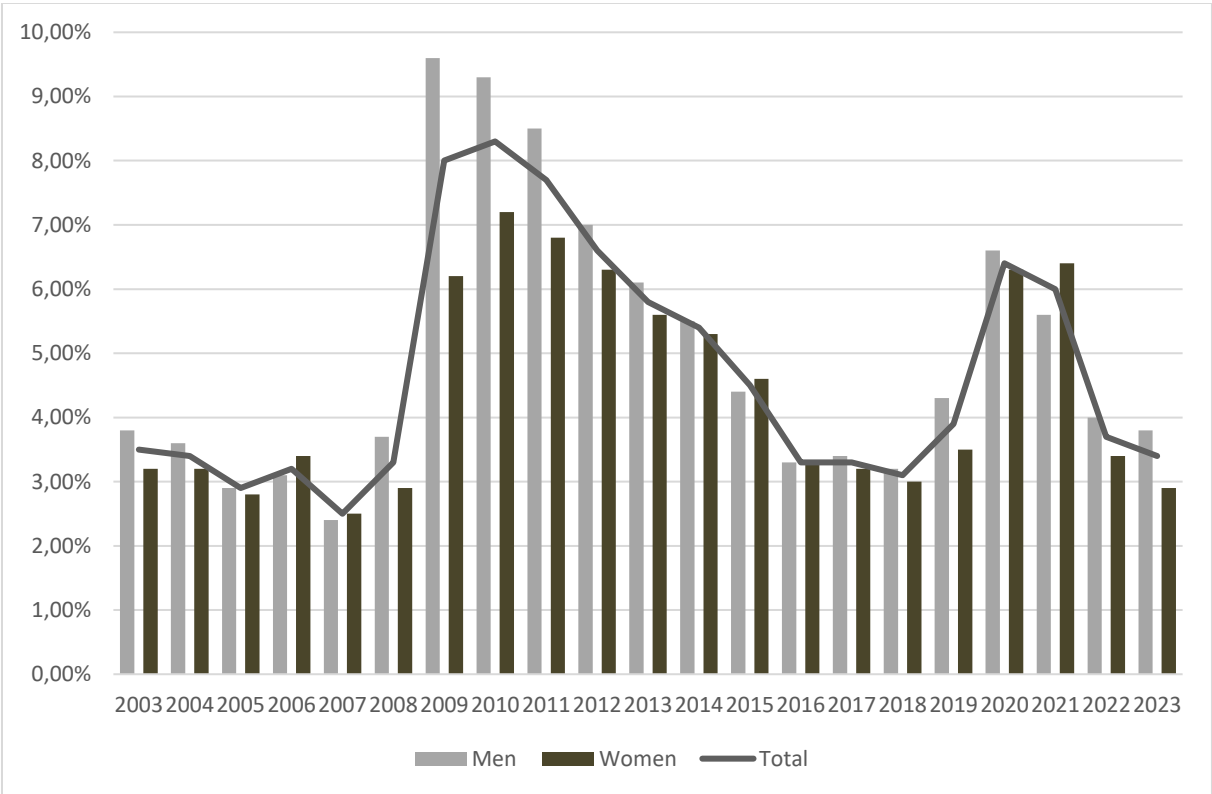
The sector of Technology and Innovation in Iceland has seen robust growth, with many startups emerging in areas such as software development, biotechnology, and gaming. This diversification helps stabilize the labour market against shocks in traditional industries.

3 Labour force

In 2023, the average number of people in the Icelandic labour market was 227 ths. Of those, approximately 219 ths. were employed, and around 7,6 ths. were unemployed and actively seeking work. The activity rate was 80.5%, the employment rate was 77.8%, and the unemployment rate was 3.4%. The unemployment rate among women was 2.9% on average, while among men it was 3.8%. In 2023, the average unemployment rate was 4.6% in Reykjavik, 3.0% in the vicinity of Reykjavík, and 2.3% outside the Capital region.

Before the recession in 2007, the unemployment rate reached a low of 2%, which was the same for both men and women. During the recession, unemployment sharply rose to a high of 8% in 2012. Although the unemployment rate almost quadrupled, it did not rise as much as initially feared. The rate of increase was faster for men than for women at the beginning, as sectors dominated by men, such as construction and banking, were severely affected. The unemployment rate for women peaked later, mainly due to cuts in the public sector. Since then, unemployment has fallen to just below 3%, and it is now similar for men and women.

Fig. 2: Unemployment rate by year 2003–2023



Source: Iceland Statistics

3.1 Education level

It's interesting to note the trends in the education levels of employed individuals from 2003 to 2023. The percentage of employed individuals with a university degree has risen from 24.2% in 2003 to 40.8% in 2023. Meanwhile, there has been a significant decrease in the percentage of those who have only completed primary or lower secondary education, while the percentage of those who have completed upper secondary or post-secondary non-tertiary education has remained constant.

Similar to many other industrialized countries, the majority of university enrollees in Iceland are women. There's a substantial difference in enrollment between men and women, with 39% of men aged 25–34 having finished tertiary education compared to 56% of women. However, men still make up the majority of students in the fields of science, technology, engineering, and mathematics. Despite the current period of economic growth, most job creation has been in tourism services and construction, which do not offer many jobs requiring tertiary education. Nevertheless, the proportion of university-educated individuals among the unemployed is increasing.

3.2 Working hours

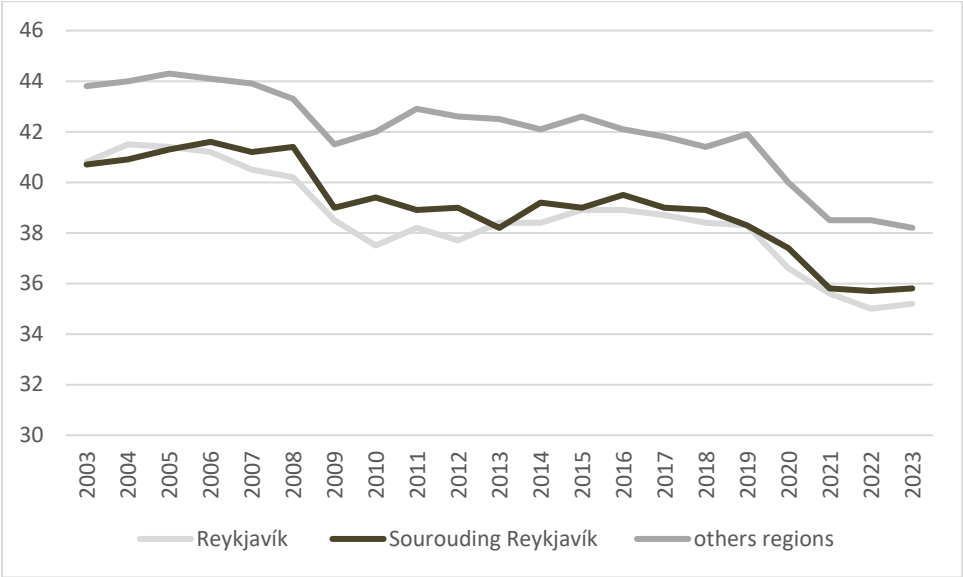
A normal office workweek in Iceland is Monday through Friday, 8 hours per day. That is 37.5 hours per week, including lunch (usually a half-hour to one hour), equaling a 40-hour workweek. Additionally, you are entitled to a 15-minute "coffee" break. Most offices start working between 8 and 10 AM. It is illegal for employers to schedule a workday that is longer than 13 hours. A minimum rest period of 11 hours of continuous rest per 24 hours. All work after eight hours per day is considered overtime unless the working contract includes overtime explicitly.

Throughout the study period, the average weekly time spent at work was significantly higher outside Reykjavík and its surroundings. This is due, among other things, to the nature of work, which is more concentrated outside the capital in the fishing and agricultural sectors. People living in the wider area around the capital often work in Reykjavík, so their time spent at work does not differ much.

For all groups surveyed, there has been a significant decline in time spent at work over the last twenty years (Fig. 3). This is partly due to a change in labour law, which codified the 40-hour work week at the beginning of the millennium. Iceland is now moving towards a 4-day working week.

In 2023, the total hours worked in the reference week were on average 36.4 hours per week. The total working hours for women were 32.5 on average and 39.6 for men. People in other regions worked on average more hours per week than those living in the Capital region. The average working hours for people in Reykjavik in 2023 were 35.2 hours, the average was 35.8 hours for people living in the vicinity of Reykjavík and 38.2 hours for people outside the Capital region. At the beginning of the reference period, employees outside the capital area spent an average of 44 hours per week at work, in Reykjavík area 41 hour per week - the difference remains.

Fig. 3: Average working hours per week, 2003–2023



Source: Iceland Statistics

4 Employment in the Tourism Sector

The tourism sector in Iceland has experienced explosive growth over the last two decades. This change has significantly impacted employment patterns, economic development, and societal dynamics.

Before the financial crisis in 2008, tourism was already becoming an important sector of national economy. Employment in tourism was relatively stable, with around 54 ths. jobs attributed to the tourism sector, representing approximately 18% of total employment (Gil-Alana 2017).

After the financial crisis, the positive impact of for foreign tourists was the fall of the Icelandic krona, there was a sharp increase in the number of tourists. By 2014, employment in tourism had increased to approximately 80 ths. reflecting a growing demand for travel experiences in Iceland. By this time, tourism-related jobs accounted for nearly 25% of total employment.

Tourist boom in 2015–2019 saw unprecedented growth in tourist arrivals, with visitor numbers skyrocketing from around 500 ths. in 2010 to over 2.6 mil. in 2019. Consequently, employment in the tourism sector soared, reaching around 110 ths. jobs by 2019, which represented about 30% of total employment The proliferation of hotels, restaurants, tour companies, and ancillary services further fueled this growth.

The onset of the pandemic covid-19 led to a dramatic drop in tourism, resulting in a significant loss of jobs in the sector. Employment in tourism plummeted to about 60 ths. by the

end of 2020, which was nearly 50% lower than the previous year. This represented about 20% of total employment.

As travel restrictions eased in 2021, Iceland began to see a gradual return of tourists. By 2022, employment in the tourism sector rebounded to approximately 80 ths. jobs, showing signs of recovery. As of 2023, the tourism sector is projected to employ around 95 ths. individuals, roughly 25% of total employment, bolstered by an emphasis on sustainable tourism and diversification of offerings.

4.1 The age structure of employees in tourism

The age demographics of those employed in tourism in Iceland can be categorized as follows: Positions of seasonal workers are often filled by foreigners (Guðjónsdóttir – Skaptadóttir, 2017). Especially among students, holiday jobs in Iceland are quite popular. The group 18–24 years often includes students and young workers in seasonal positions (25% in the tourism sector). Many individuals aged 25–34 years are establishing their careers in the sector, engaging in roles from management to customer service (35%). The age group 35–44 years typically holds more experienced positions, including managerial roles and specialized jobs in the industry (20%). Workers aged 45–54 years may hold senior roles or positions that require specialized knowledge and experience (15%). In the tourism sector 5% of employees are aged 55 or more years. This age group may include older professionals with long-standing careers in the industry or those moving into part-time roles. Migrants entering Iceland from different European areas recognize that there is an existing social hierarchy in their village/town (place of currently living) and then hierarchically order their own and others' groups (Hoffman 2022).

Conclusion

The Icelandic labour market exemplifies resilience and adaptability in the face of change. With its strong labour rights, a focus on sustainability, and a diverse economy, Iceland is well-positioned to tackle contemporary challenges while continuing to foster a competitive and fair labour environment. Policymakers must remain vigilant and proactive in addressing the evolving needs of the labour market to ensure ongoing prosperity for all citizens.

In terms of the labour market, the Icelandic economy is dependent on foreign workers in some sectors. These sectors include in particular tourism, where seasonal workers are mainly students and young people from Poland. After gaining work experience, they often come to Iceland in the next tourist season, having already established some background and contacts, as

the Icelandic labour market is specific in that employers take into account not only previous work experience but also, and especially, personal recommendations from previous employers.

This in turn also leads to them settling permanently in Iceland. As evidenced by the ever-increasing proportion of foreigners in the population. Obtaining Icelandic citizenship is not easy, requiring, among other things, a fairly rigorous language test, which many foreigners find difficult to overcome. Moreover, speaking English is essential for working in the tourism industry, and English is spoken at some level by virtually all residents in Iceland.

In the future, we can expect an increasing interest in travel outside the main summer tourist season, which will turn the need for seasonal tourism workers into permanent workers. This, combined with a shorter working week, is likely to further strengthen the need to source labour from outside Iceland.

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