



Buying a home in Iceland gets ever harder. Prices rise relentlessly, far faster than wages, and have now reached unprecedented heights. Meanwhile, government support for workers buying a home, interest relief, has nearly disappeared.

Instead, the government has allocated some of what was saved into capital grants for building rental apartments and into down payment loans. That, however, is only of use to the very small proportion of those who would previously have qualified for significant interest relief. Construction has also been insufficient. The situation has therefore worsened greatly.

Today, housing costs of homeowners, corrected for purchasing power, are higher in Iceland than anywhere else in Europe. This reflects the unusual financing costs here. The need for a strong interest relief system is thus nowhere greater than in Iceland.

Housing costs rise and rise - interest relief falls and falls

Interest relief in its current form was introduced in 1988 by the left-wing Progressive Party, People's Alliance and Social Democratic Party coalition. The same applies to child benefits. They exist to lighten the burden of young families, and they were much more generous in 1988-1996 than they are

today. Interest relief were for a long while the only governmental support to working class homebuyers with low to medium incomes. It has been drastically eroded with no other support coming in its place.

In Image 1 we see the relation of higher house prices and the lowering of interest relief through the years.

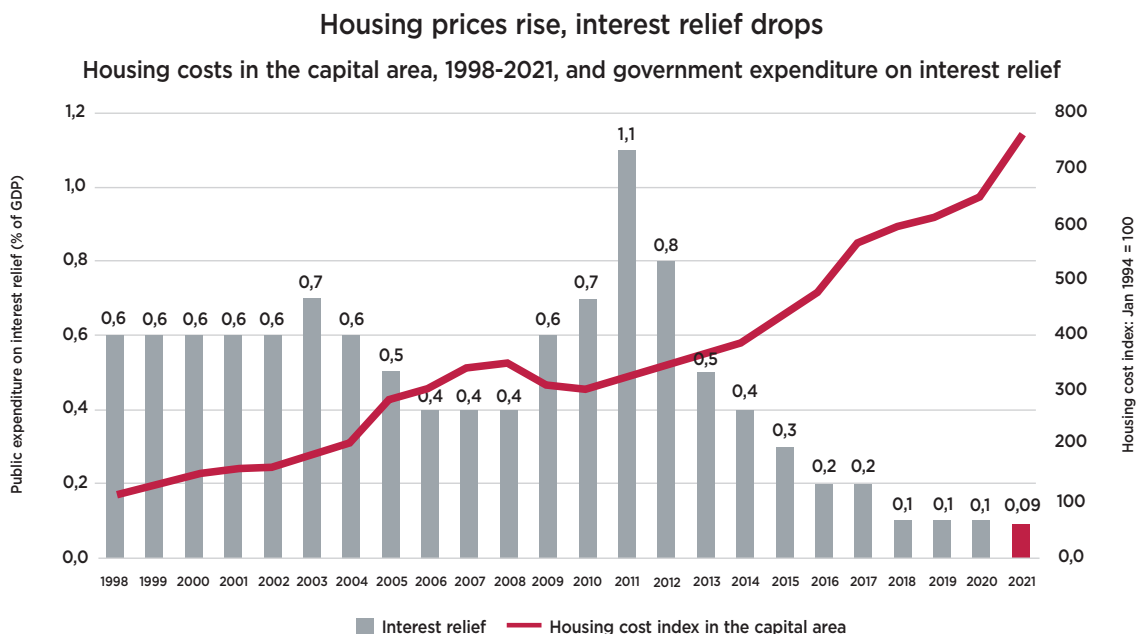


Image 1 Measure of the difficulty in getting one's own home, 1998-2021. Average housing prices per square metre and interest relief as % of GDP. Source: Registers Iceland, Budget 2022, Statistics Iceland.

When the social housing system was disestablished in 1999, it was said that public support for home purchases would in future take the form of interest relief, which would mean subsidized interest payments for homebuyers. As Image 1 shows, the government's support was maintained broadly unchanged from 1998 until 2004, and then dropped as the banks entered the mortgage market. House prices boomed, until the crash. It would have been more reasonable for the relief to rise with the house prices, given the higher loan burden of young families.

After the crash, housing prices ebbed briefly, but the left-wing Social Democratic Alliance-Left Green-coalition expanded interest relief enormously in 2010-2012, to relieve the great pressure that was on households' finances at the time.

After 2014, housing prices started rising rapidly again. Iceland has since then beat all records (see [here](#).) The rises were especially rapid from 2017 to 2021. These are extreme circumstances.

While prices skyrocketed, the state trimmed interest relief down to nearly none, just as the need for them rose enormously. This has hit those with large mortgages hard. In fact, the cuts to interest relief and the rise in housing costs has nullified any gains from the lowering of interest rates after the collective agreements in 2019.

The losses of families, by income decile

In Image 2 we can see the development of interest relief paid to families from 1991 to 2019 in kr/month at constant prices. The lowest incomes are in decile I, the highest in decile X.

Interest relief for couples with 1-2 children by income decile in 1991, 2000, 2010 and 2019

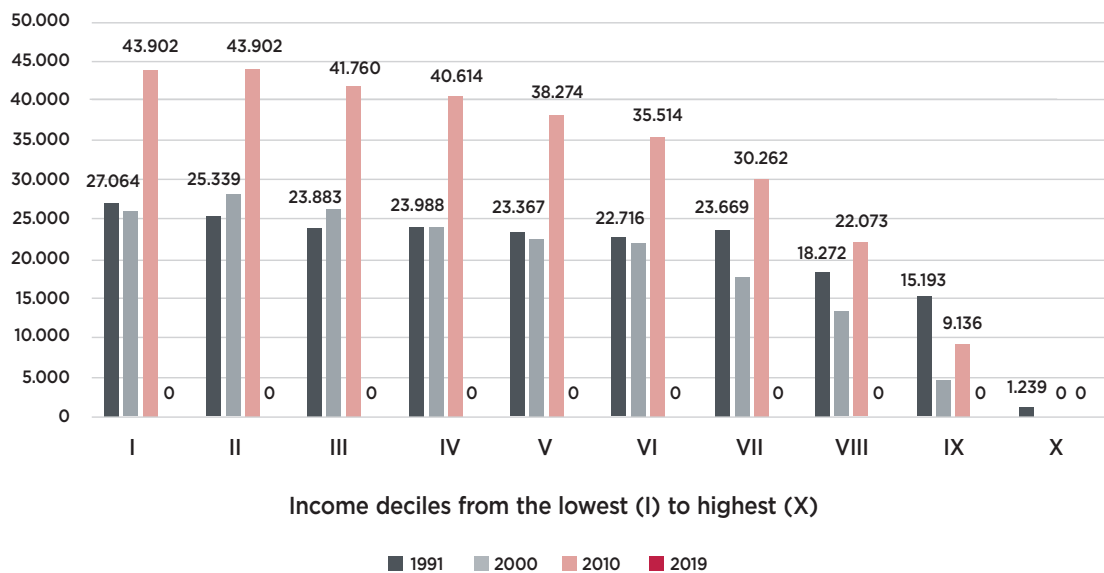


Image 2 Interest relief paid to married couples at the age of 25-64 who own a home, with 1-2 children in the home. Shown by ten equally sized groups, listed by income. Numbers are corrected for 2019 prices, and comprise the countrywide average. *Source: Tekjusaga.*

In 1991-2000, interest relief to families in the lower half of the income scale (groups I to V), who lived in their own home, was at a stable level. The monthly supplement the relief provided was from 23-27,000kr, which was important in keeping housing costs down. In 2010, this rose to 38-44,000kr for the same groups and was in fact even higher in 2011 and 2012, when a special interest relief bonus was paid out. The image also shows how the relief tapered off at higher incomes. This method worked well and did not affect housing prices (as seen in Image 1).

In 2019, interest relief for all income deciles have disappeared (the fourth column, marked 0). It is only paid to the very lowest paid families in the countryside, but in the capital area they have almost disappeared - just where the prices are highest.

The supplements of married couples with 1-2 children which have been lost are thus about 38-44,000kr/month since 2010,

for the lower-paid half of families. Single parents with 1-2 children have also lost their interest relief in recent years, even if their incomes are very low. These cuts to interest relief have thus been a heavy bow to low-income families which are struggling to keep their homes during the times of unbridled housing markets.

The government has failed these peoples, who were promised interest relief instead of the social housing system in 1999. The labour movement emphasised improved housing conditions for the lower-paid in the collective bargaining rounds of 2015 and 2019. Then, new measures were introduced, but which are limited to very small groups. Instead, the bulk of low-income workers lost interest relief. That had not been a part of the negotiations. Therefore, the dropping of interest relief may be viewed as a betrayal by the government of the labour movement and low-wage workers.

Insufficient measures in place of interest relief

The main measures implemented in recent years have been these:

- Capital grants to building rental apartments in 2016 (for a small group)
- Municipal rent relief (for a small subgroup)
- Down payment loans for first-time buyers in 2020 (for a small group)
- Permission to use private pension payments tax-free to pay mortgages (for higher-income groups)

The main characteristic of these measures is that the private ownership of independent people is being side-lined by a tenancy system. The first and second measure subsidise rent for low-income people, but few enjoy it, despite rent in Iceland being the fifth highest in the world, according to recent data (see [here](#)). The situation of tenants in Iceland will be looked at later in the Efling economic analysis.

The private ownership policy, which was dominant from the times of the founding of the republic, and even longer in the workers' housing system, had the aim to make homeownership a possibility for general workers. The social housing system, after around 1970, did so too, after it was broken down by the Independent Party-Progressive Party coalition in 1999.

The permission to use a private pension to subsidise mortgages, along with the lowering of interest relief, means that

owners of houses pay for the support they previously got by interest relief, by using their pension. This is a very bad trade, which is furthermore only of use for higher-income groups, as lower-income groups are less likely to have private pensions. This method is thus a net cut for lower-income groups which makes it more difficult for them to get a home.

The main problem with these measures as a whole is that they're of use for only small limited groups, compared with the large mass of workers who previously got interest relief. In Image 3 we can see how the number of taxpayers who got interest relief has changed over time, from 2006 to 2020.

In 2010, nearly 70,000 taxpayers got interest relief, a group which expanded in 2011 and 2012 to 97-102,000. In 2013 their numbers dropped precipitously to 45,000, a number which has sunk year by year until 2020, when only 15,470 got relief, most in the countryside (where real estate valuations are lower, which increases the relief). Interest relief under 5,000kr is not provided, and simply dropped. Since 2010, about 55,000 people have thus lost interest relief and even more if we use 2011 as a baseline.

Higher property prices raise the real estate valuation, which lowers interest relief, because the Ministry of Finance has not corrected amount or the calculations for cuts over a longer time. Thus the interest relief fades away even as the burden of loans is the same and in fact grossly increased for the youngest buyers of homes.

Number of taxpayers getting interest relief, 2006–2020

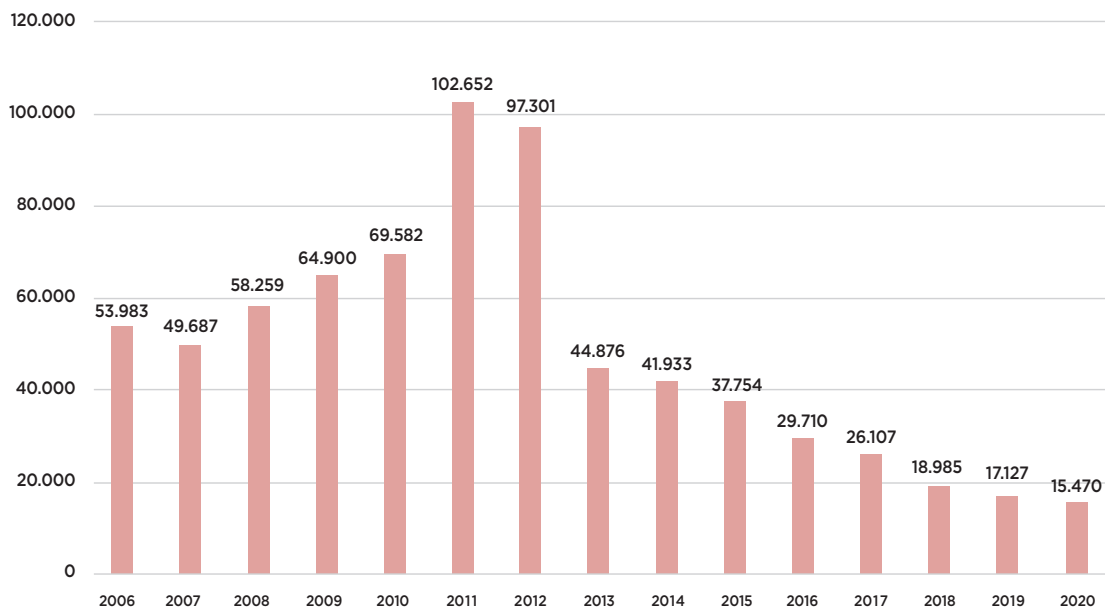


Image 3 The number of taxpayers who received interest relief in 2006-2020. If the relief is 5,000kr or lower it is not paid out.

Source: *Tíund*, published by the Tax Office.

How many have used the private housing market measures (flats for rent to low-income people at Bjarg and other institutions), which has been called a substitute for the social housing system?

Since 2016, the construction of about 650 rental flats for low-income people has begun each year (in total about 2,600

flats). Only a third has been allocated. A minority of those (44%) has gone to low-income and poorer workers, i.e., about 250-300 per year. The majority has gone to students, people with disabilities and people receiving municipal social support. Few low-income workers are beneficiaries of this system. This is a homeopathic remedy compared with the support provided by interest relief when it was a real pillar of the private

ownership policy – and also in comparison with the social housing system.

Down payment loans for low-income workers to buy affordable housing have been given to around 294 people in their first year. That is a drop in the ocean.

The social housing system had over 11,000 flats when it was dismantled. The fixes in the private rental system and the down payment loans are only for small subgroups, as opposed to the 55,000 taxpayers who have lost their interest relief, which provided real support to low-waged workers in getting their own home. The public has also lost the social housing system, fought for by the labour movement over a long period.

Even if down payment loans and rental subsidies for those with low incomes are good additions to the system, their use is so limited that they merely scratch the surface of the prob-

lems we face. To offer low-waged workers to use their private pension instead of providing interest relief is not a plus. That door could have been justified if interest relief had been maintained.

Looking at the big picture, the state's support system to help workers get a home has been destroyed and mere pro forma fixes have come in its place. The labour movement has twice in a row been cheated in its housing negotiations alongside collective agreements, and it's clear that the work of fixing the housing market for workers remains unfinished.

The need is dire, because housing costs are nowhere higher than here, in Iceland.

Europe's highest housing costs

Image 3 shows a recent Eurostat estimate of housing costs in European countries.

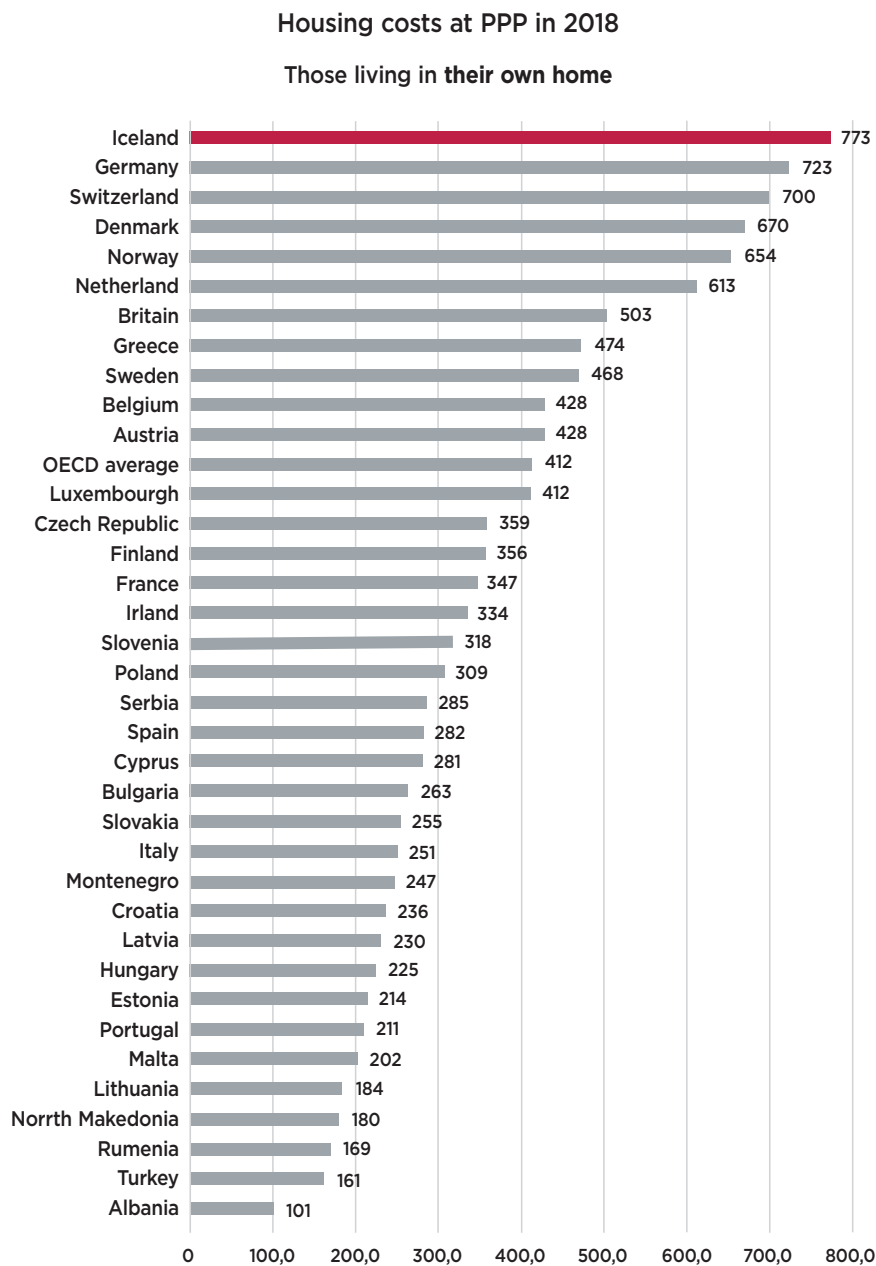


Image 4 The most expensive housing in Europe. Costs of buying and keeping a home, for those residing in their own home, at PPP.

Source: Eurostat.

In 2018, Iceland had by far the highest housing costs for those living in their own flat. This applies both to mortgage payments and interest payments, as well as operating costs. Interestingly, in Iceland a large part of operating costs (heating and electricity) is among the lowest in Europe. The exceedingly high financing costs explain this bad result for Iceland. The situation has gotten worse since 2018, not least in 2021.

Clearly, support is needed for workers buying a home in Iceland - more than elsewhere. For the main public support system to have been eradicated just as prices shot up is astonishing.

This will have to be mended in the coming collective agreements.