

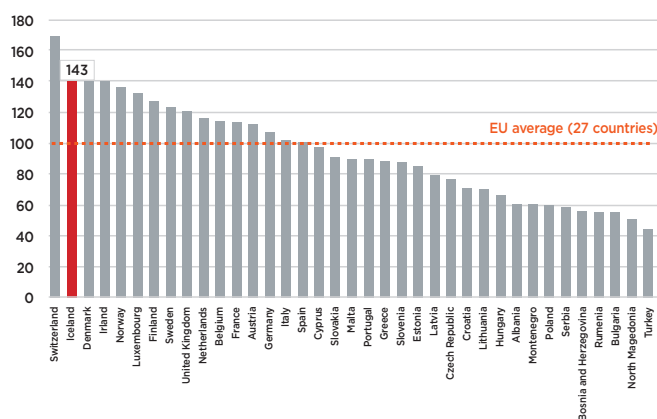


In a comparison of 36 European countries, Iceland was the second-most expensive in 2020, according to Eurostat figures on total household private consumption costs, based on the calculated price level difference between countries. Iceland and Switzerland have alternated in the top spot in recent years. The price level in Iceland was 40% higher than the EU average in 2020. Household expenditures are only higher in Switzerland, which occupies first place, earning it the title of Europe's most expensive country in 2020, with price levels nearly 70% over the EU average. The most expensive country needs to have the highest wages, not least for the lowest paid.

Iceland and Switzerland have the highest cost of living in Europe

Since 2016, Iceland and Switzerland have taken turns being Europe's most expensive country. Switzerland's price level was higher in 2016, 2019 and 2020, Iceland's in 2017 and 2018. In the years after the 2008 financial crisis, the price level here sank below other European countries. In 2009, for instance, Iceland came 16th out of 37 countries after having been Europe's most expensive in 2007 and, having taken turns with Norway in first place from 2005-2007. Looking further back in time, Iceland was at the centre of the ranking in 1995, rising until 2000 (when Iceland reached second place), dropped slightly in the dotcom downturn but tended to remain high, among the top five, with the ever-higher prices during the years of foreign expansion, ending with the crash. After 2009, the price level has inched up again and moved Iceland back into familiar territory.

Total private household consumption costs



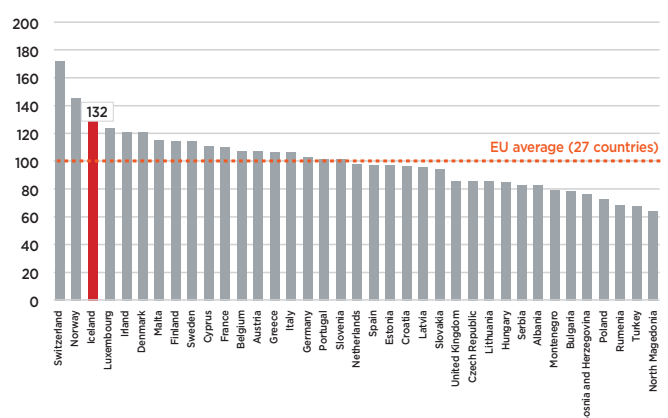
Compared to the other Nordic countries, which aren't far behind, Iceland is also the dearest. Denmark is now the third most expensive country in Europe, and the most expensive EU country; prices in Norway are the fifth highest; but Finland and Sweden take places seven and eight.

The same story may be told of the main subcategories of private consumption; food, clothing and electrical appliances. The big exception is electricity and heating costs, which is the only household consumption category which is cheap by European standards.

Food and beverages

Food and beverages are about 30% more expensive here than the EU average. Only Switzerland and Norway see higher prices. The other Nordic countries (Denmark, Finland and Sweden) are in places 6, 8, and 9. Despite being extremely high today, the prices were higher, as compared with the EU, before the crash. Iceland was in first place from 2003-2006 in this category. Alcohol and tobacco are often set aside in this calculation; there, Iceland is in second place after Norway, with more than double the prices normally seen in the Euro area.

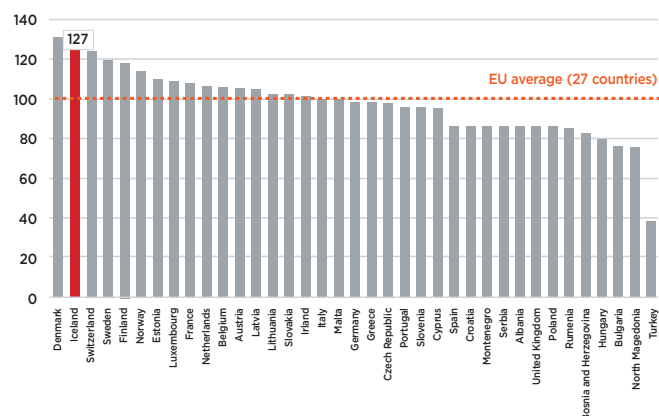
Food and beverages



Clothes and shoes

Iceland has nearly 27% more expensive clothes and shoes than the EU average. It is close to being as expensive as the dearest country in this category, Denmark. It may be noted that clothing has normally been quite expensive in Iceland, and the country was in first place in this ranking every year from 2003 to 2007, in second place from 2010 to 2013, and again in first place from 2014 to 2019. It was only in 2008 and 2009 when prices of clothes dropped relatively, though only so as to bring the country to seventh place in 2009.

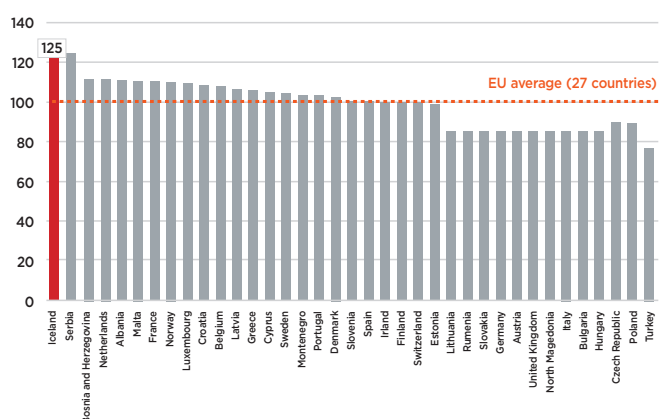
Clothes and shoes



Consumer electronics

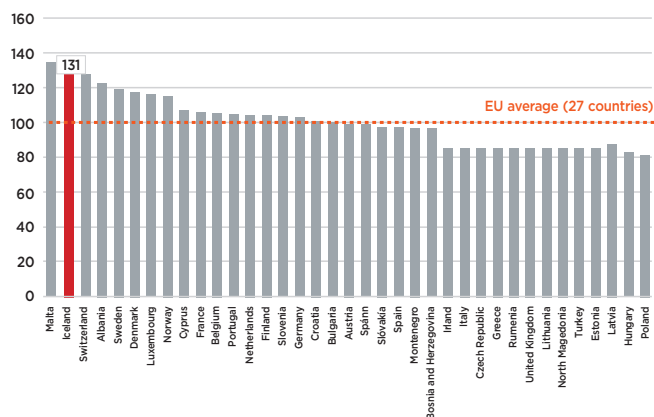
Computers, TVs and other consumer electronics are most expensive in Iceland, somewhat more so than in Serbia, which is in second place. Consumer electronics are nearly 25% more expensive in Iceland than in the EU on average. This isn't unusual in a historical context; Iceland has always been in first place in this category since 2003, excepting 2008. The difference between Iceland and the second-most expensive country has normally been quite significant, over 20% or even 40% in some years.

Consumer electronics



The same may be said of household appliances (fridges, washing machines, etc). Iceland is the second most expensive country there, at over 30% above the EU average. Prices in the other Nordic countries are between 15-20% above the EU average, except for Finland, which is just over the average. When it comes to household products, it may be noted that Iceland has the third highest price level for furniture and related products, 13% above the normal EU prices.

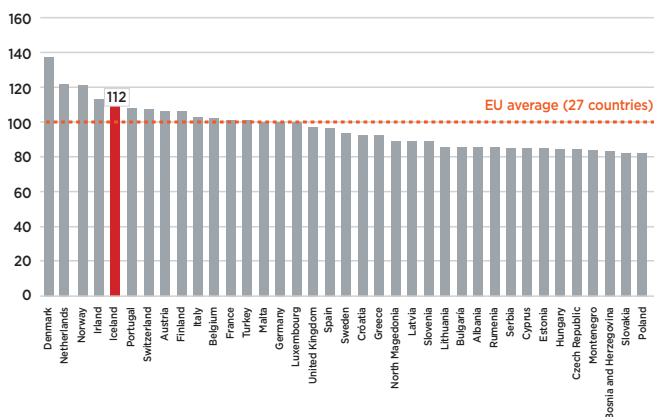
Household appliances



Vehicles and passenger transport

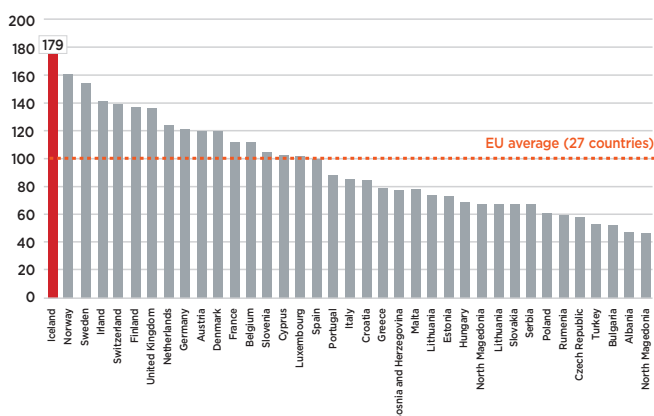
Another category of interest to Icelanders is the cost of buying vehicles (excluding maintenance, operational and fuel costs – fuel is accounted for under the item “electricity and heat”). Generally, the price of vehicles is similar across countries and the difference within a 20% range. The Icelandic price level is the fifth highest in Europe (about 12% over the EU average). The Nordic countries are expensive – Denmark is the most expensive while Sweden is the cheapest Nordic country (6% below the EU average).

Vehicles



Iceland's geographical position means that passenger transport via air, land and sea are by far the most expensive in Europe, 80% above the EU average. Norway and Sweden follow with prices 50% above average and Finland isn't far behind – all these countries are difficult to cross. Denmark is closer to the average.

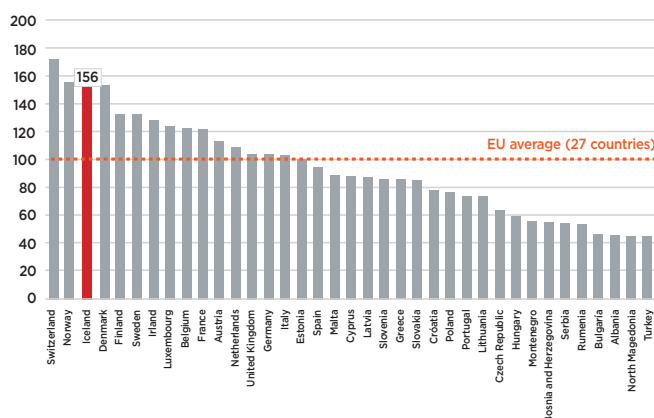
Passenger transport



Accommodation and restaurants

Despite a flourishing tourism industry in recent years, Iceland is one of the more expensive countries when it comes to restaurants, cafés, hotels and other accommodation. Shortly after the 2008 crash, Iceland briefly dropped to 14th place, but rapidly rose again to the top 10. Interestingly, Iceland was in the top spot each of the years from 2003 to 2007, so the lower valuation of the króna after the crash was clearly the spark for the tourism boom. The marketing campaign for the country kept the rapid growth going in recent years, making Iceland the relatively most expensive in 2017 to 2019. For Icelanders who want to economize on travel, they may look to South European countries and the Balkan peninsula, countries such as Greece, Portugal, Croatia etc, where prices are well below average.

Accommodation and restaurants



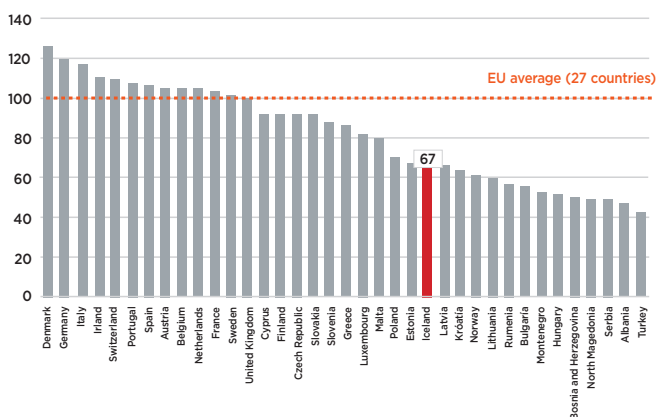
The exception: Electricity, gas and other fuels

Unlike other private consumption subcategories, Iceland is not high in the price ranking when it comes to electricity, gas and other fuels. Iceland enjoys 30% lower prices than the EU on average, on a par with Norway (the category also takes into account other fuels, and Norway is rich in oil and gas). This category sees Denmark in the top spot – with nearly double the price level of Iceland. Sweden and Finland are on the European average. Iceland is in 24th place out of 37 countries in this category, the 14th cheapest European country in 2020, in terms of energy carrier prices. In 2009, Iceland even reached the bottom spot, making it Europe's cheapest in this category.

If housing is included, as it sometimes is, Iceland soars up to 6th place, with 45% higher prices than the EU average, below Switzerland, Britain, Luxemburg, Ireland and Denmark. The

price of housing, electricity, gas and other fuels in these countries are 65% higher than the EU on average – with Switzerland at double the EU average.

Electricity, gas and other fuels



Methodology

To compare price levels across countries, the following method is used. First, we use the Euro area as a base level, defining it as the basis of an index and set it as 100 in each category (levels over 100 mean more expensive than the EU average, and vice versa). Next, we calculate the purchasing power parity (PPP) which, simply put, shows price level proportions across countries. It is the rate of exchange if we assume all currencies have the same purchasing power (put differently, the exchange rate which would make prices the same in all countries). For instance, if a hamburger costs 1000kr in Iceland but €5 in the EU, the exchange rate should be 200kr per euro at purchasing power parity – so the burger would be the same price in both countries.

If the market exchange rate is different from the PPP exchange rate, the reason is different price levels. If the euro is priced at 150kr, the burger should be 750kr in Iceland at PPP. But since it is in fact 1000kr, the price level difference between Iceland and the EU is 33% ($200/150 - 1 = 33\%$). In this example, the price level in Iceland would be a third higher than in the euro area generally.

Price level differences can be defined as the proportion between the PPP exchange rate and the market rate. In other words, the difference between an exchange rate that would make prices equal, and the actual exchange rate, can be explained as being caused by different price levels. Simply put, the price level difference from country to country is the proportion of real prices and the prices given equal purchasing power (the price that should be in place to make prices equal).

The total price level difference across countries is found by repeating this process for all products which reflect the regular household purchases and individual product categories. Many things can influence price level measures, but generally, this comparison gives a clear picture of different prices in Europe.

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