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## Iceland

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## ICELAND

Iceland enjoyed high average annual GDP growth of 4.6% between 2000 and 2008, largely because of the performance of its financial sector. In late 2008, however, foreign exposure of Icelandic banks, whose loans and other assets totalled more than ten times the country's GDP, became unsustainable and Iceland's three largest banks collapsed. Real GDP and GDP per capita fell by 6.5% in 2009 and unemployment more than doubled to 7.2%.

Annual labour productivity growth, which was almost 3% between 2001 and 2007, fell by almost 1% in 2008. Relative to the United States, Iceland's GDP per capita was 78% in 2008.

In 2007 Iceland had the highest graduation rates in first-stage university courses (more than 50%), of which only 13% were science and engineering degrees, well below the OECD average. Tertiary-level graduates, equally distributed by gender, represent 31% of total employment. With almost 13 researchers per thousand employment, Iceland is close to the top OECD countries. The share of business-funded R&D in higher education and government is well above average.

Iceland's gross expenditure on R&D (GERD) decreased from a peak of 3% of GDP in 2006 to 2.7% in 2008. Real GERD grew by a compound annual 6.3% from 2000 to 2008, although it declined by 5% in 2007 and a further 0.3% in 2008. Real GERD per capita fell to USD 980 PPP in 2007 and held steady in 2008. Business expenditure on R&D (BERD) as a percentage of GDP also fell, from 1.6% in 2006 to 1.5% in 2008.

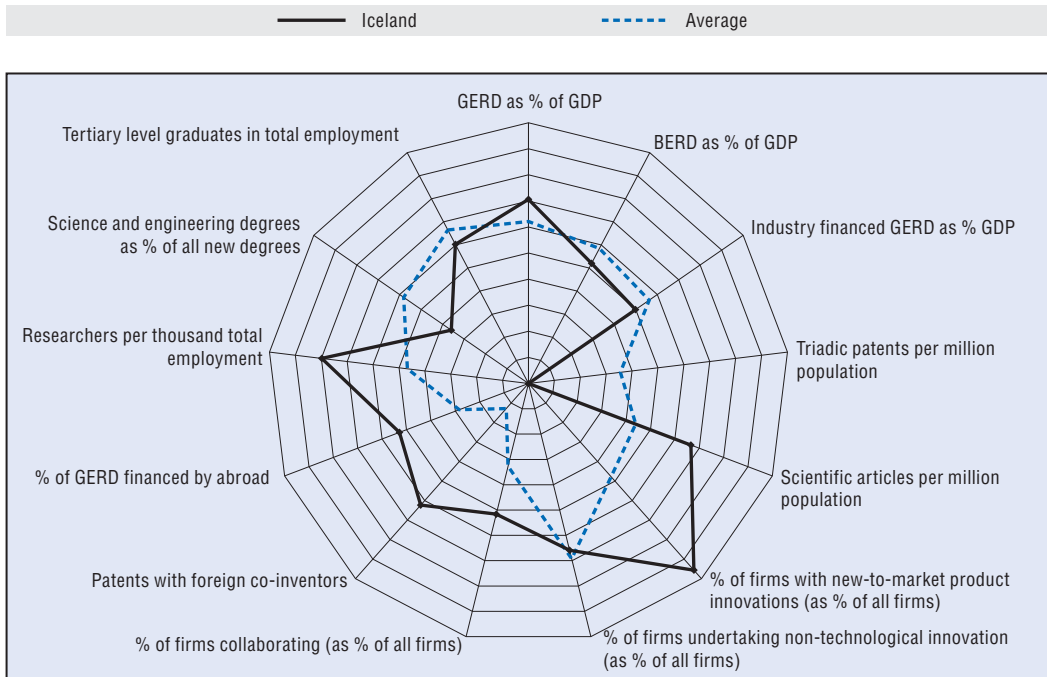
While Iceland's 12 triadic patents per million population were well below the OECD average in 2007, its 1 179 scientific articles per million population ranked comparatively high. A high 27% of firms introduced new-to-market product innovations, while a close-to-average 46% undertook non-technological innovation. Iceland's more than 30% share of services trademarks in 2007 was the highest in the OECD.

The small domestic market has encouraged many companies to internationalise, and collaboration is a prominent element of the innovation system. An above-average 15% of firms collaborated on innovation activities during 2002-04, and a relatively high 10% of GERD was financed from abroad. Almost 40% of patent applications in 2005-07 had foreign co-inventors.

In the aftermath of the financial crisis, the Minister of Science, Education and Culture established a task force to investigate Iceland's education, research and innovation policy. An expert panel report, *Education, Research and Innovation Policy: A New Direction for Iceland*, was presented to the government in May 2009.

It recommended maintaining high investment in education and reforming governance structures and systems. The 2009 budget increased funding for the main competitive funds: the Research Fund, targeted programmes and the Graduate Education Fund. Three organisations were selected for priority funding: the Icelandic Institute for Intelligent Machines, the Geothermal Research Group and the Centre of Excellence in Gender, Equality and Diversity Research.

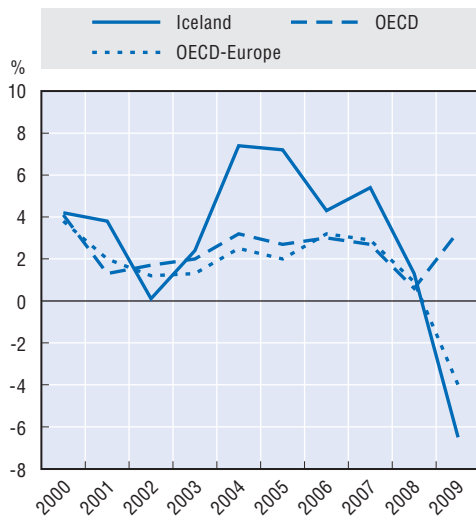
### Science and innovation profile of Iceland



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#### Gross domestic product

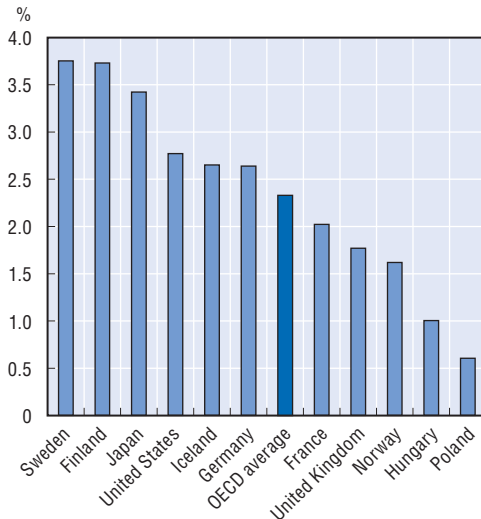
Annual real growth rates, 2000-09



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#### Gross expenditure on R&D

As a percentage of GDP, 2008



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