**The Advantages of International Investing for Icelandic Investors**

**Introduction**

Investing solely in a relatively small and young country has its advantages and disadvantages. A small market investor may be more comfortable investing in an economy that he is familiar with which could offer him a competitive edge. Investing domestically also has tax benefits, such as lower tax rates on capital gains. On the downside, an investor faces the risk of significant losses if the economy faces downturns since diversification and liquidity is limited in a small economy. Investors that have expenditures that are not only krona-denominated face significant currency risk due to fluctuations in the exchange rate which can affect their real-return. This paper will investigate how Icelandic investors would benefit from investing into international markets, specifically the US, Euro-Zone, and Japanese markets. It will start by examining the Icelandic economy and how it has evolved during the past two decades. Then it will dive into the benefits and drawbacks of investing internationally, specifically for two time periods, 2004-2013 and 2014-2023.

**Iceland´s Economy**

Iceland is a small open economy. Its economy combines a capitalist structure and free-market principles with an extensive welfare system. In recent years, Iceland has achieved high growth, low unemployment, and a remarkably even distribution of income. Tourism and fishing are pillars of the economy. For decades the Icelandic economy relied heavily on the fishing industry, but tourism recently surpassed fishing as Iceland´s main export industry. The country´s GDP was $28 billion in 2022 and tourism accounted for roughly 9% of total GDP. If we compare the country´s GDP into perspective, it´s GDP is not larger than a single US state and is comparable to a medium sized city in the US. Although this comparison may shed light on the small size of the economy it has a noticeably strong economy. Its GDP per capita was $75,000 per capita in 2022 and it was recently measured as having the highest median wealth per capita in the world. It´s population reached 375,000 people in 2023 and has been growing at roughly 1% a year. Despite Iceland´s closest economic partners are European it is not in the European Union.

Despite the modest size of its economy, Iceland has a rich history and has succeeded in establishing a robust financial market. Its financial market is young but has experienced rapid growth in recent years. A stock trading platform (Hlutabréfamarkadurinn hf.) launched in 1985 and Iceland Stock Exchange (ISE) was established but prior to that there was no trading with securities. Trading started with government bonds but soon the first company was listed on ISE and equity trading officially started in 1991.

With such a small economy it only has 31 publicly traded companies. Iceland has two exchanges called Nasdaq Iceland and First North. Nasdaq Iceland has 26 companies and acts as the main exchange. First North is Iceland´s secondary market and includes companies of smaller size. The exchanges have a variety of companies but it´s composition is quite different than some of the major indices in the world.

Nefna þetta chart 1?

The above graph shows us the sectors in the exchanges. Consumer Goods and Services and Financials are the biggest sectors. This sector distribution is different from S&P 500 to give an example, where the biggest sectors are Technology, Financials, and Health Care.

**Þegar ég er að byggja portfolion, skoða hvernig þau væru fyrir risk averse á móti áhættusækins fjárfesti.**

**Liquidity Concerns:** The Icelandic stock market is smaller and less liquid than larger global markets. This can make it challenging to enter or exit positions without affecting market prices, particularly for larger investments.

**The Icelandic Kroner**

Despite its small size, Iceland has its own currency called the Icelandic Krona.

[Volatility\_Icelandic kroan.pdf (ad.local)](file:///\\center1.ad.local\dfs$\IS\RVK\Desktop02\sigurdurbl\Desktop\Volatility_Icelandic%20kroan.pdf) – 2001 to 2008

The Icelandic Krona is said to be more volatile than other currencies. In 2006-2008, the volatility of the Krona has been elevated in the wake of country-specific and global schocks amid large macroeconomic imbalances.