



# OECD ECONOMIC SURVEY OF ICELAND 2019

## *Going structural*

Reykjavik, 16<sup>th</sup> September 2019

<http://www.oecd.org/eco/surveys/economic-survey-iceland.htm>

 @OECDeconomy

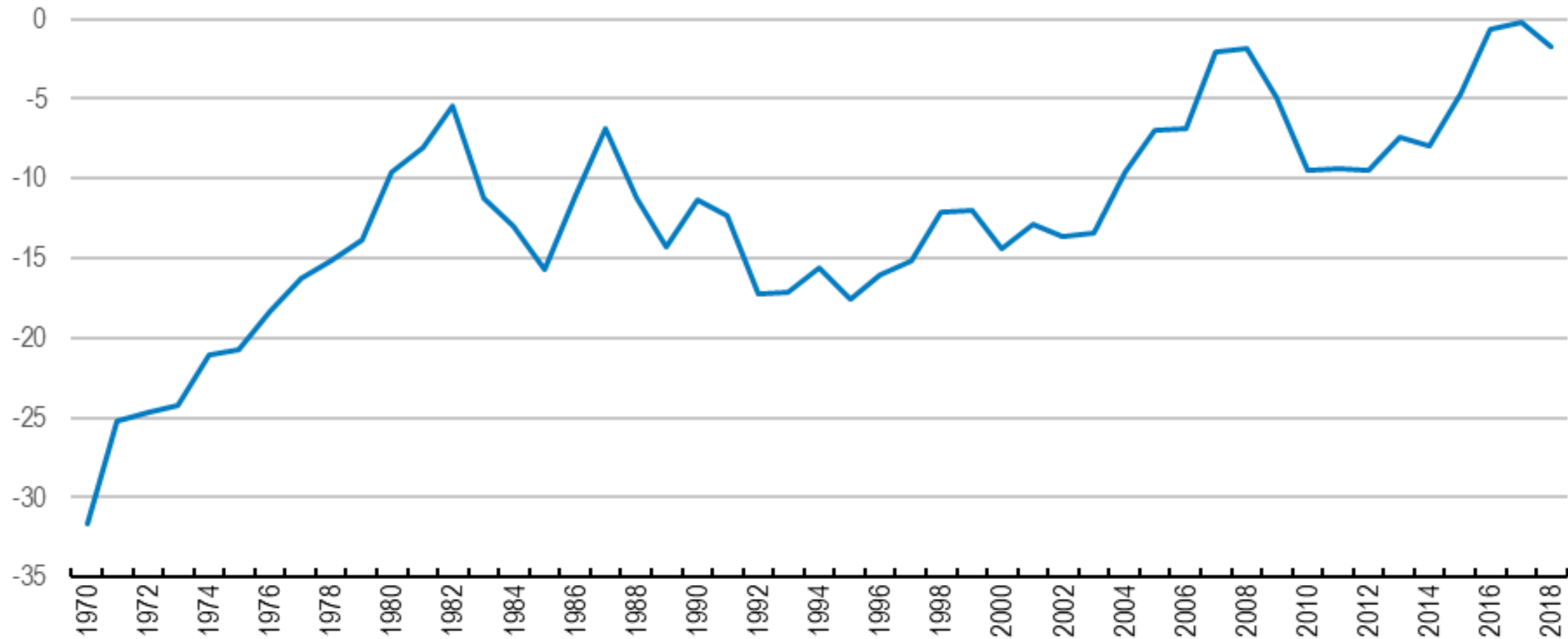
 @OECD





# An impressive catch-up

**GDP per capita compared to the upper half of OECD, current PPP USD, 1970-2018**

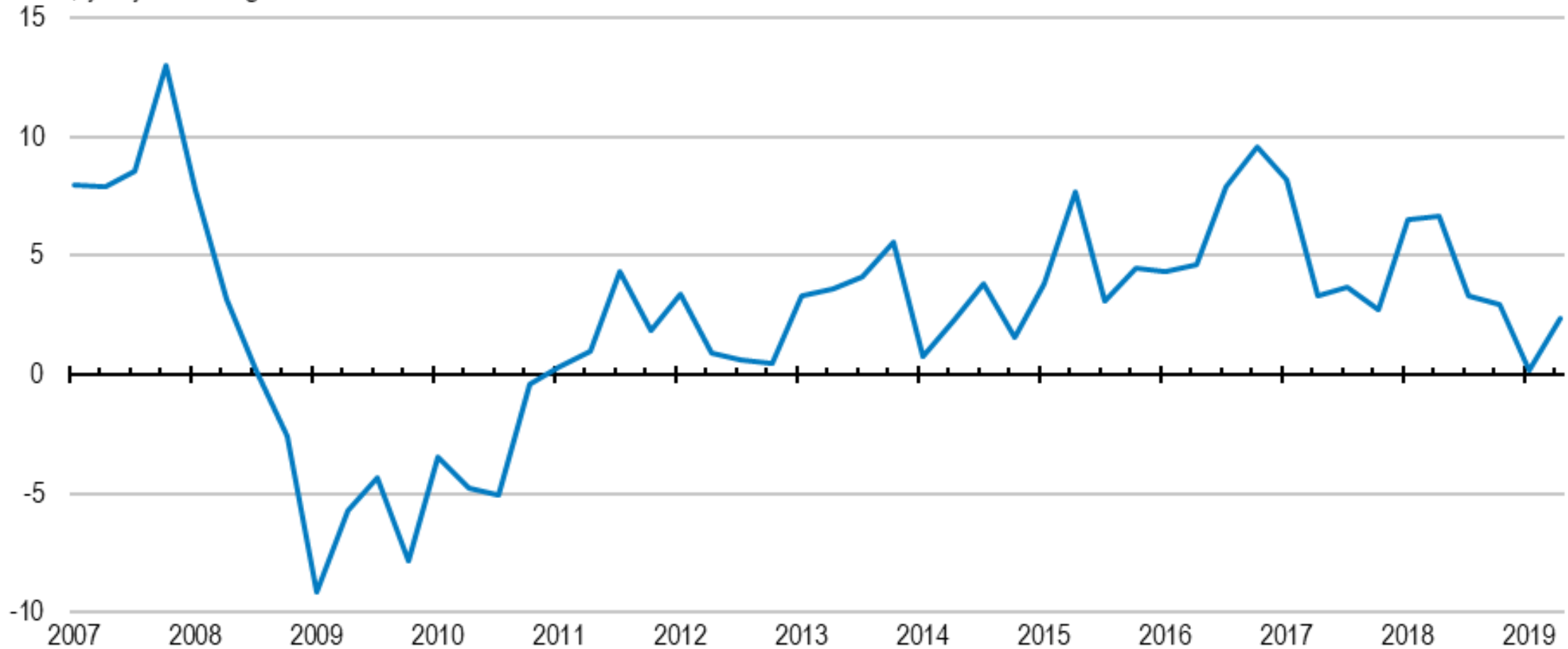


Source: OECD National Accounts.



# The economy is slowing

GDP, y-o-y % change

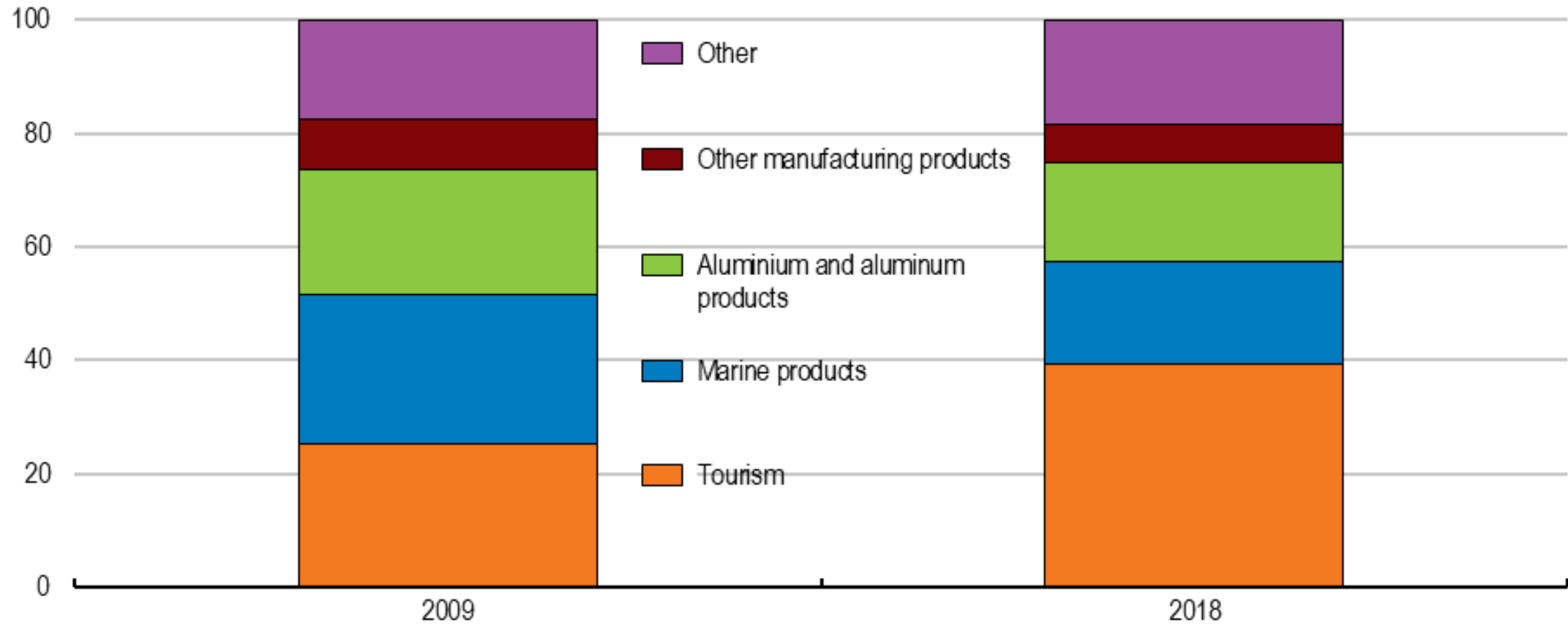


Source: Statistics Iceland



# Tourism is Iceland's most important export sector

Exports of goods and services, sectoral division

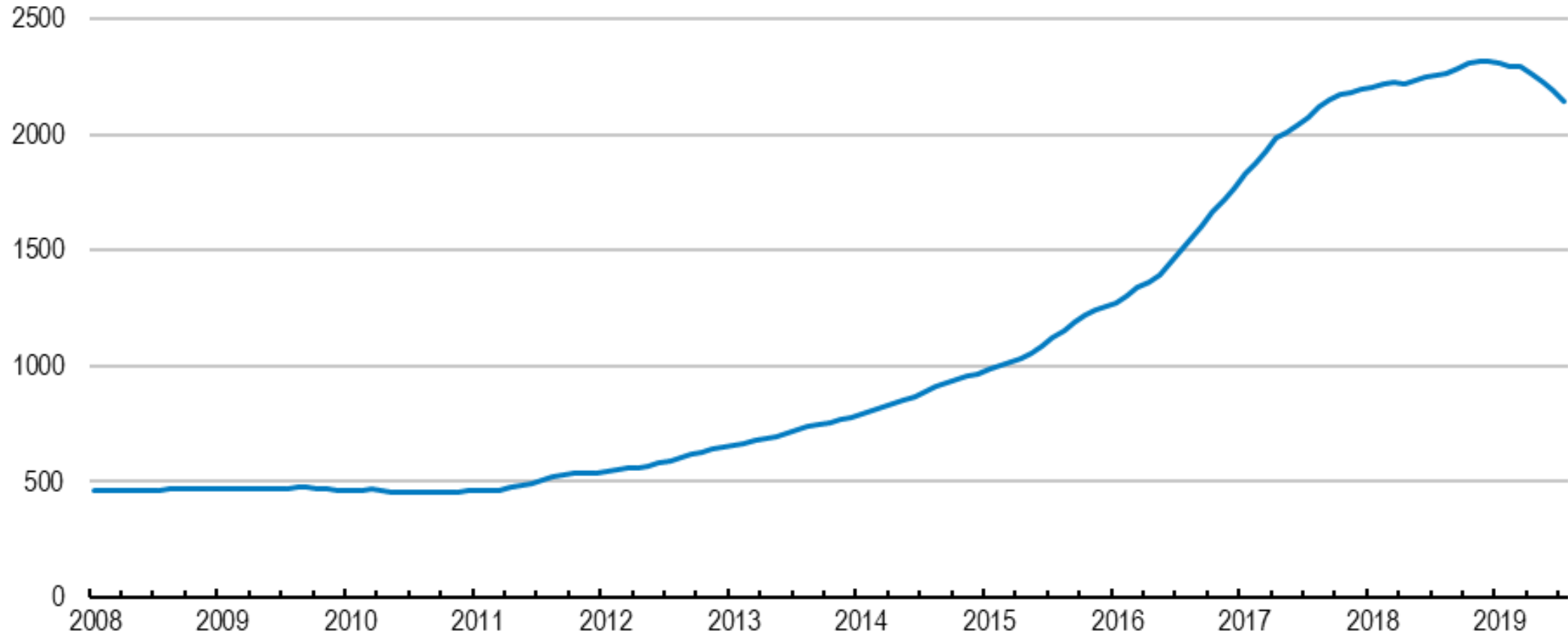


Source: Statistics Iceland.



# The tourism boom is easing

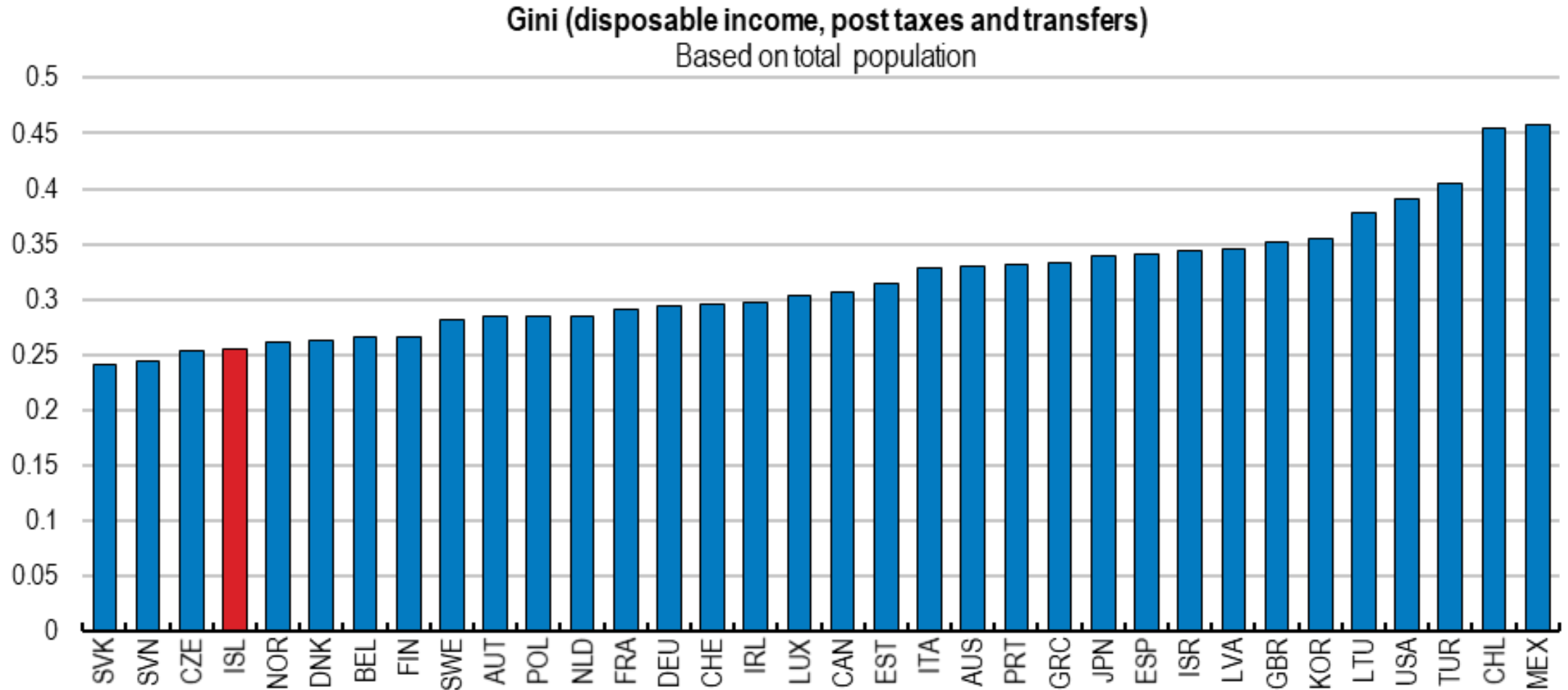
Foreign passengers through Kevlavik airport, thousands, 12 months cumulated



Source: Statistics Iceland.



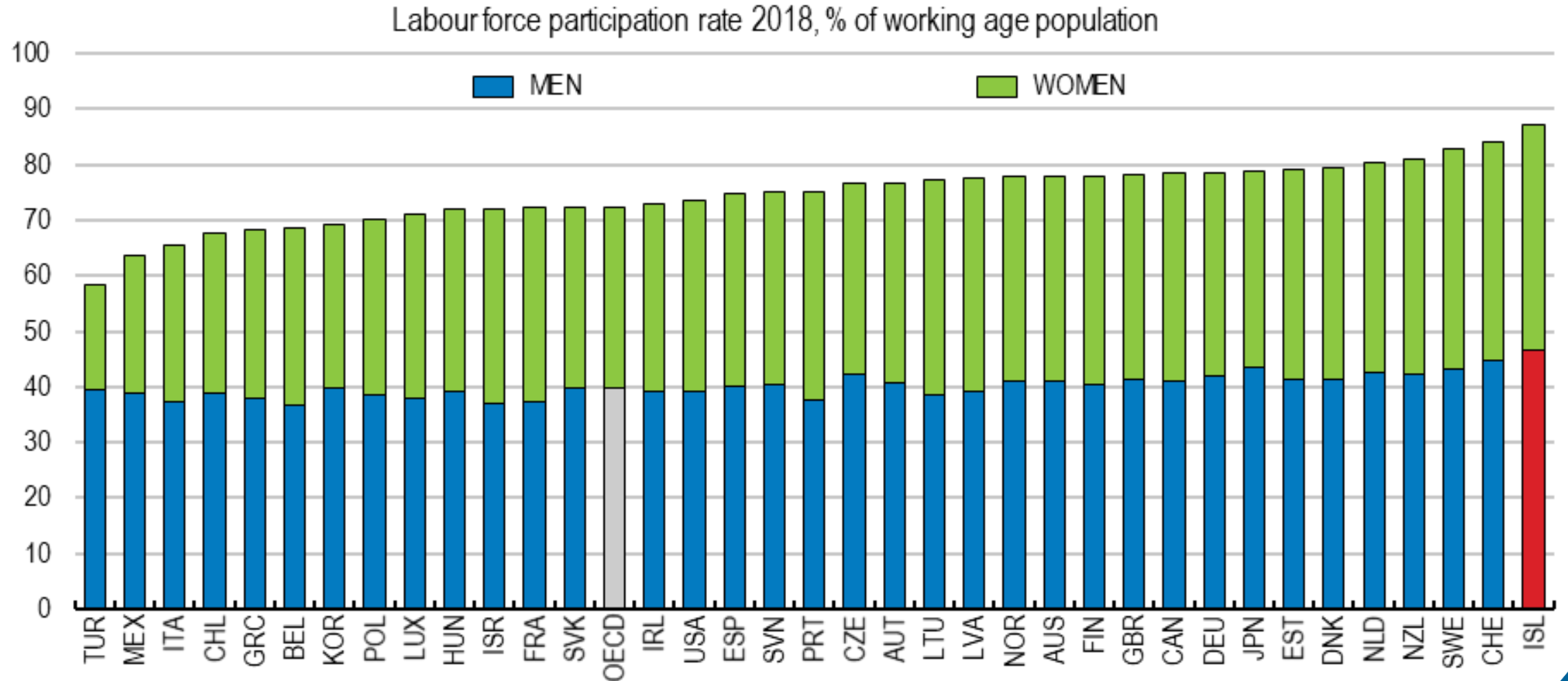
# Income inequality is low



Source: OECD Income Distribution Database



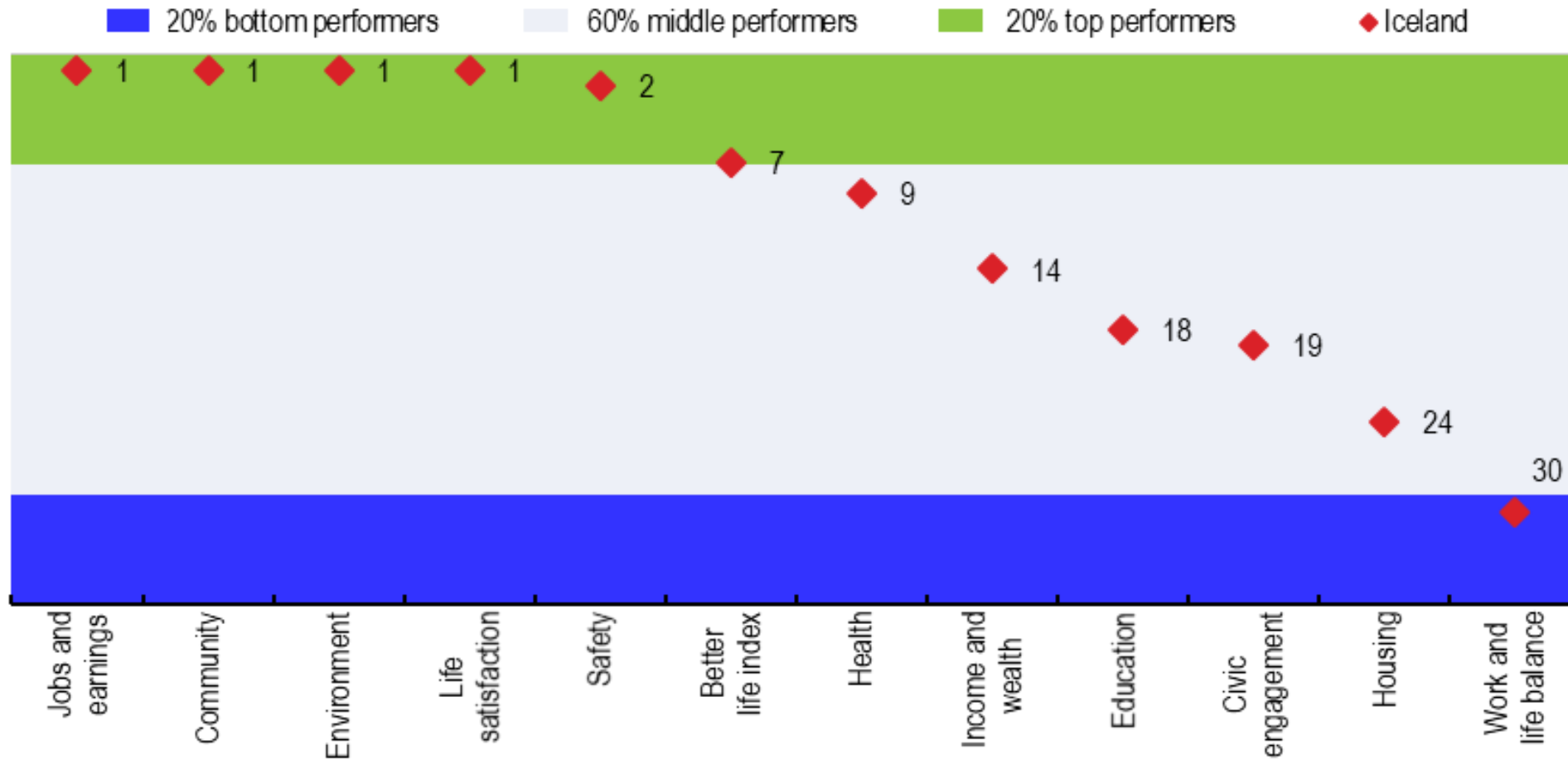
# Labour participation is the highest in the OECD



Source: OECD LFS indicators database



# Wellbeing is high

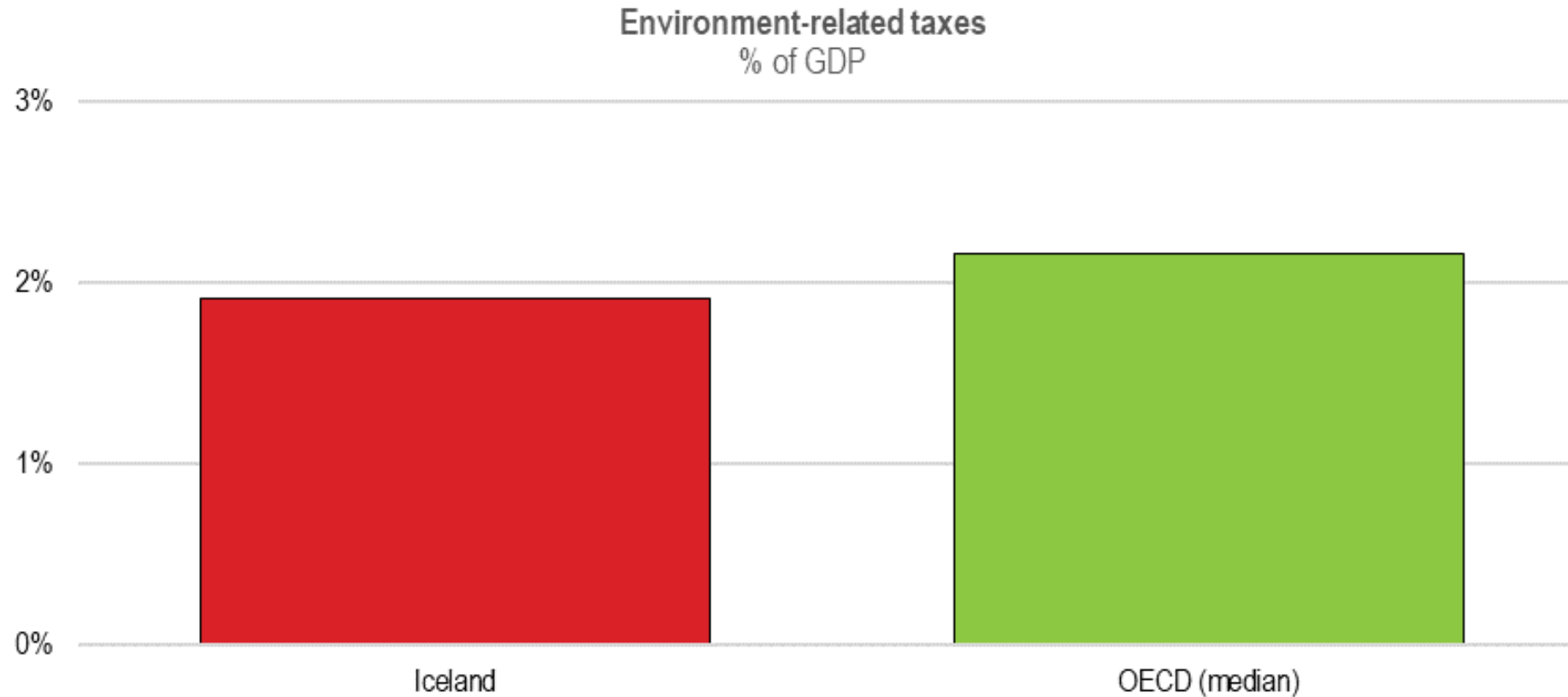


Source: OECD Wellbeing database





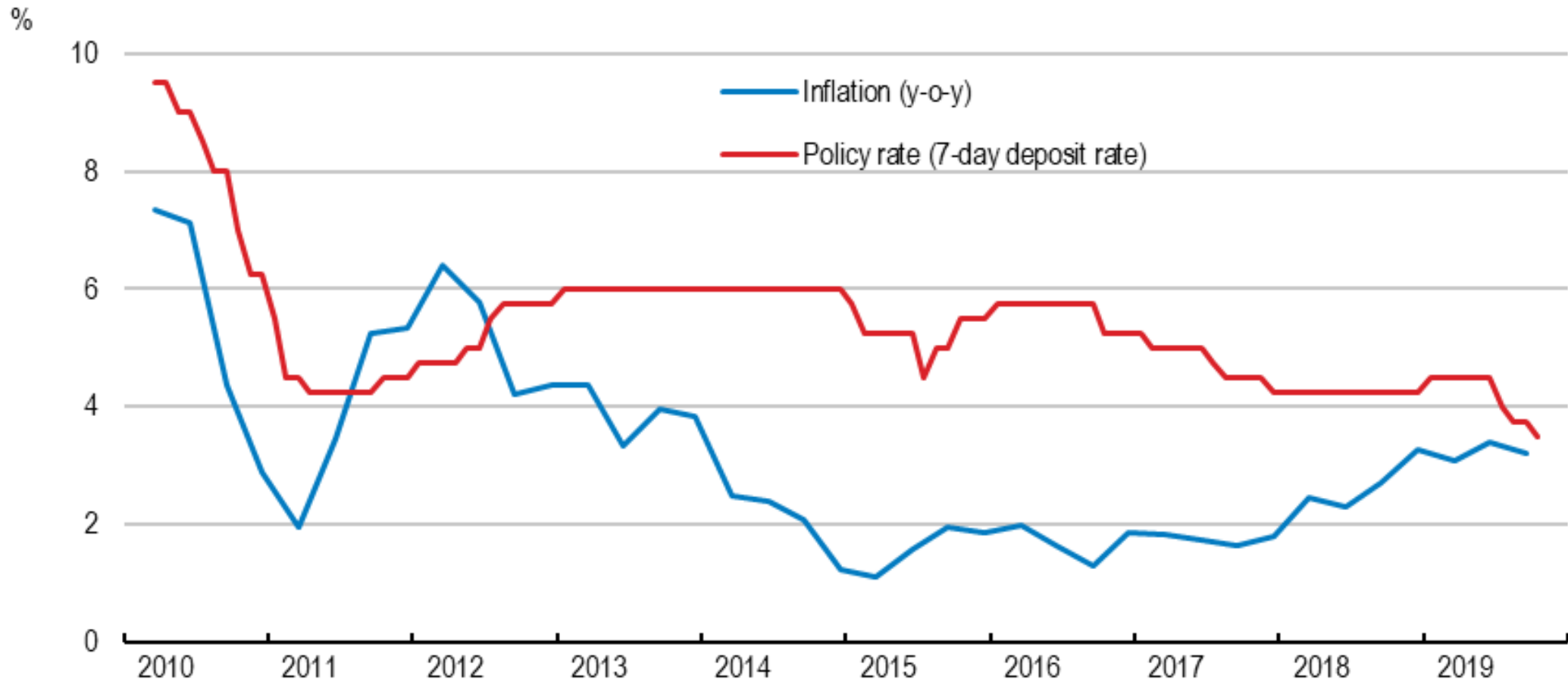
# Environmental taxation is below the OECD



Source: OECD Green Growth Indicators database



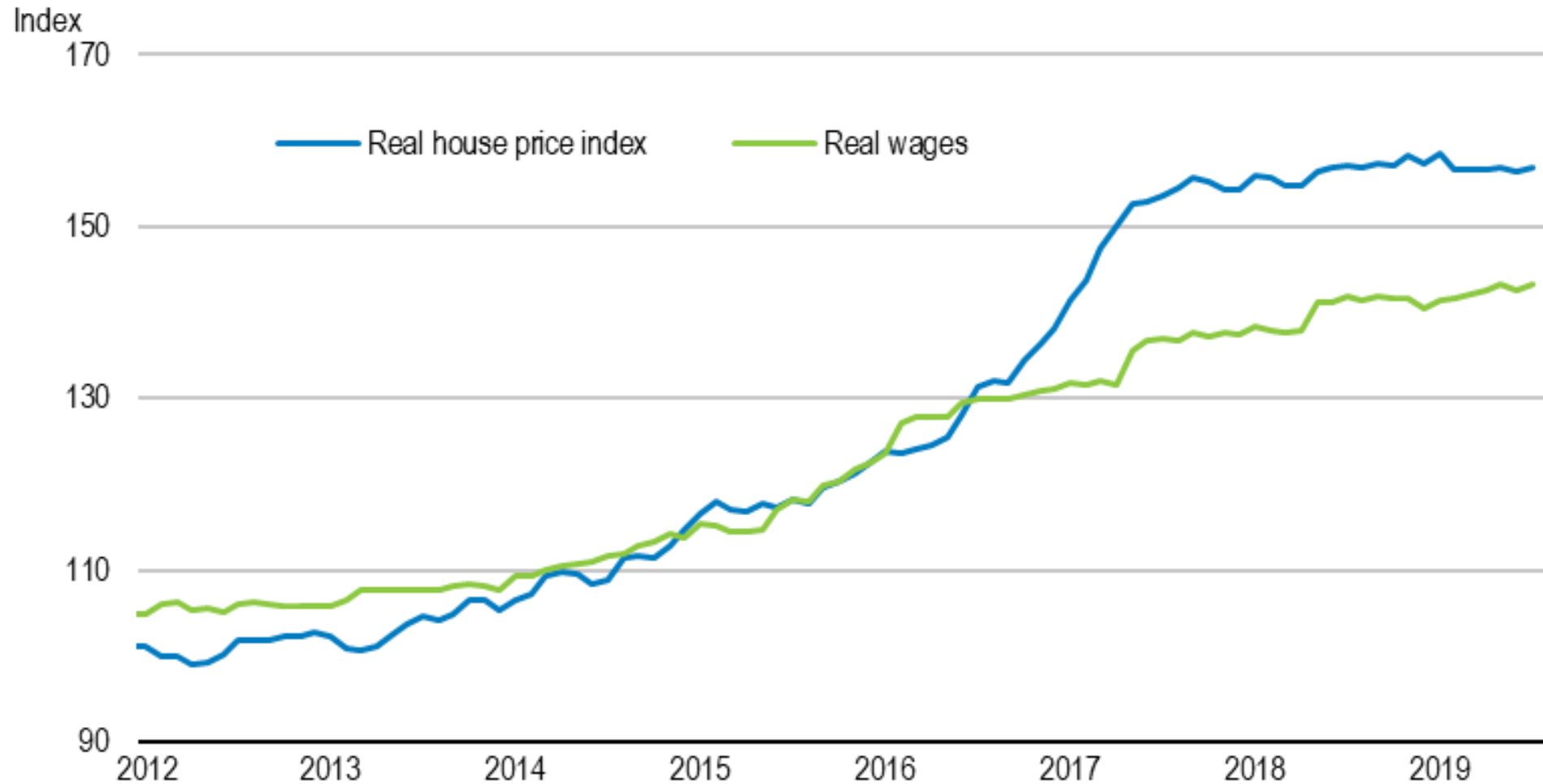
# Monetary policy is easing



Source: OECD Analytical database, and Central Bank of Iceland.



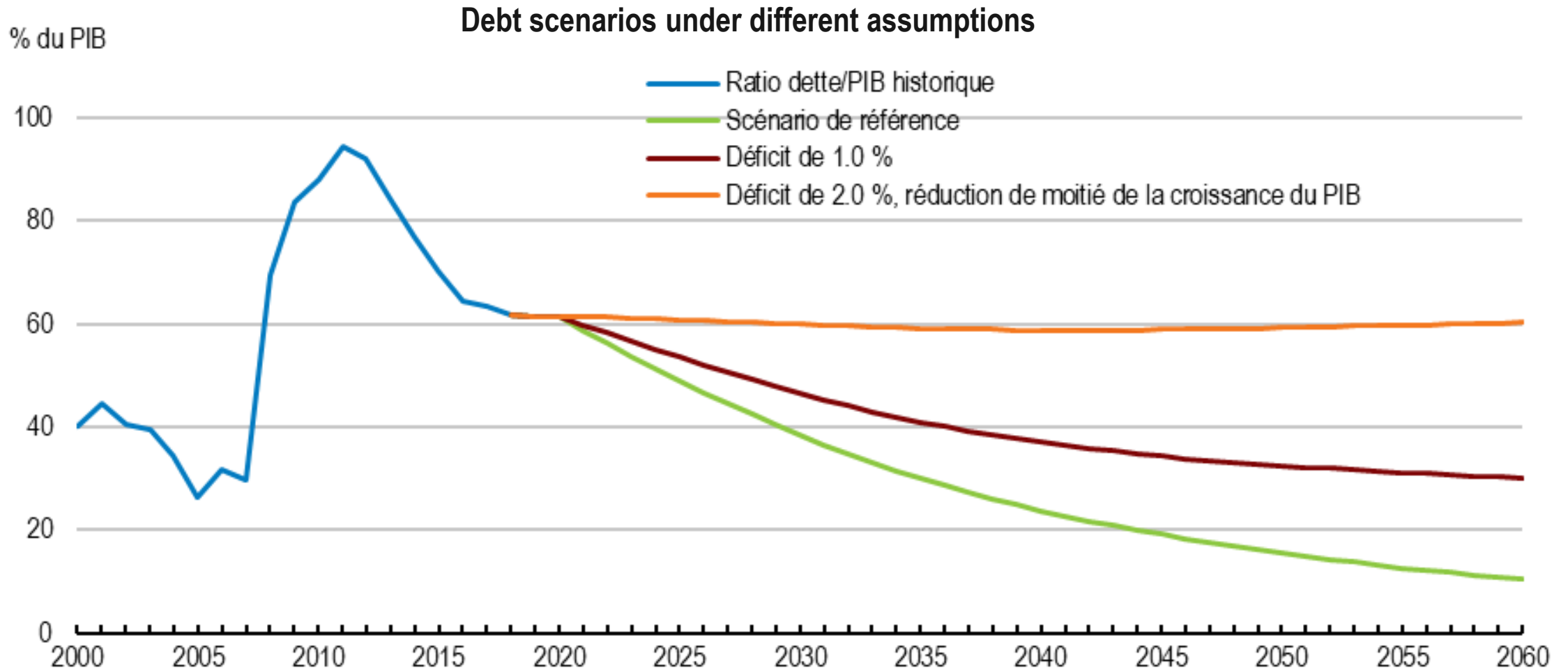
# House prices are stabilizing but remain high



Source: Central Bank of Iceland.



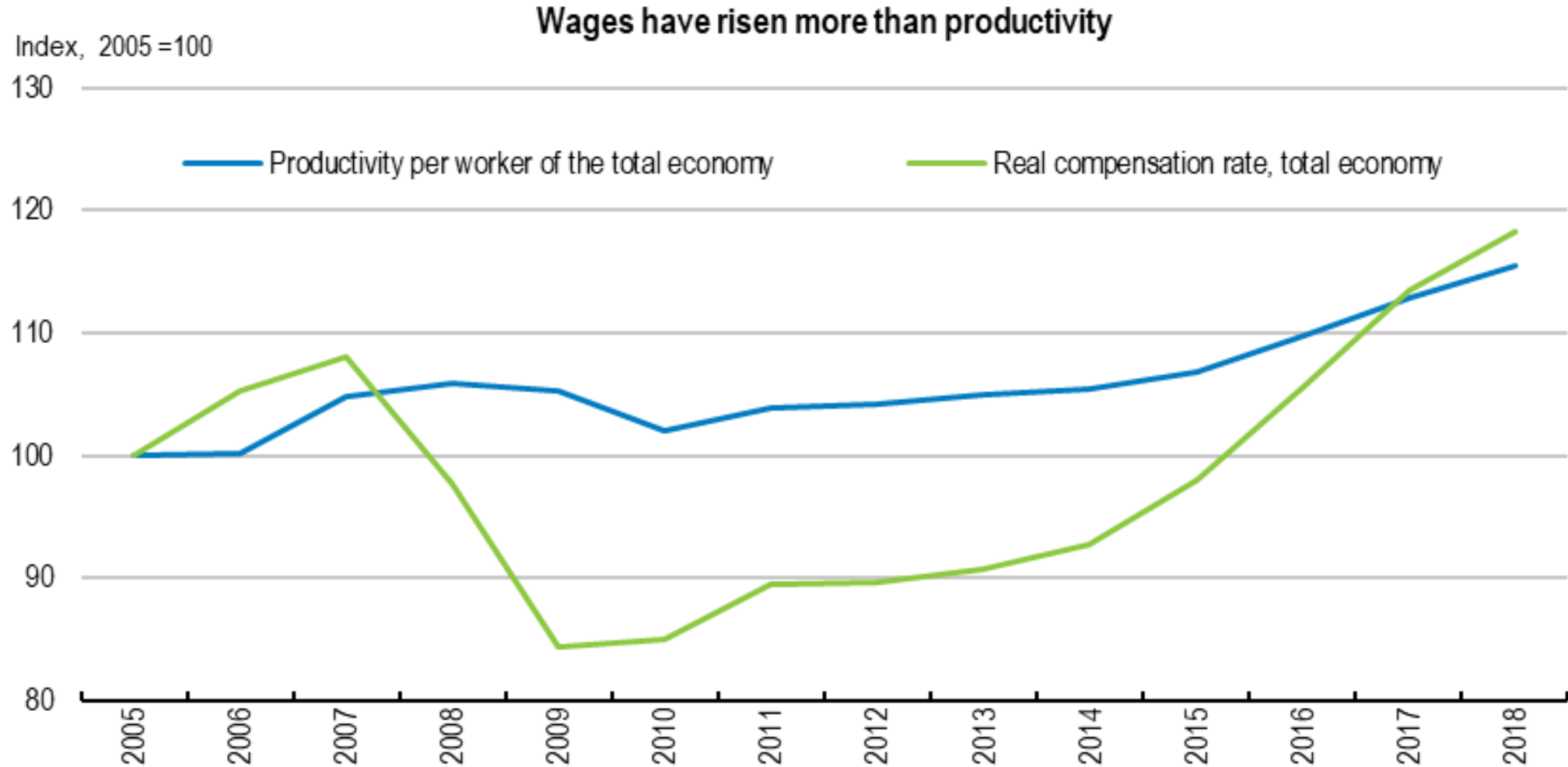
# Fiscal prudence is key to reduce public debt further



Source: OECD Analytical database.



# Competitiveness is declining

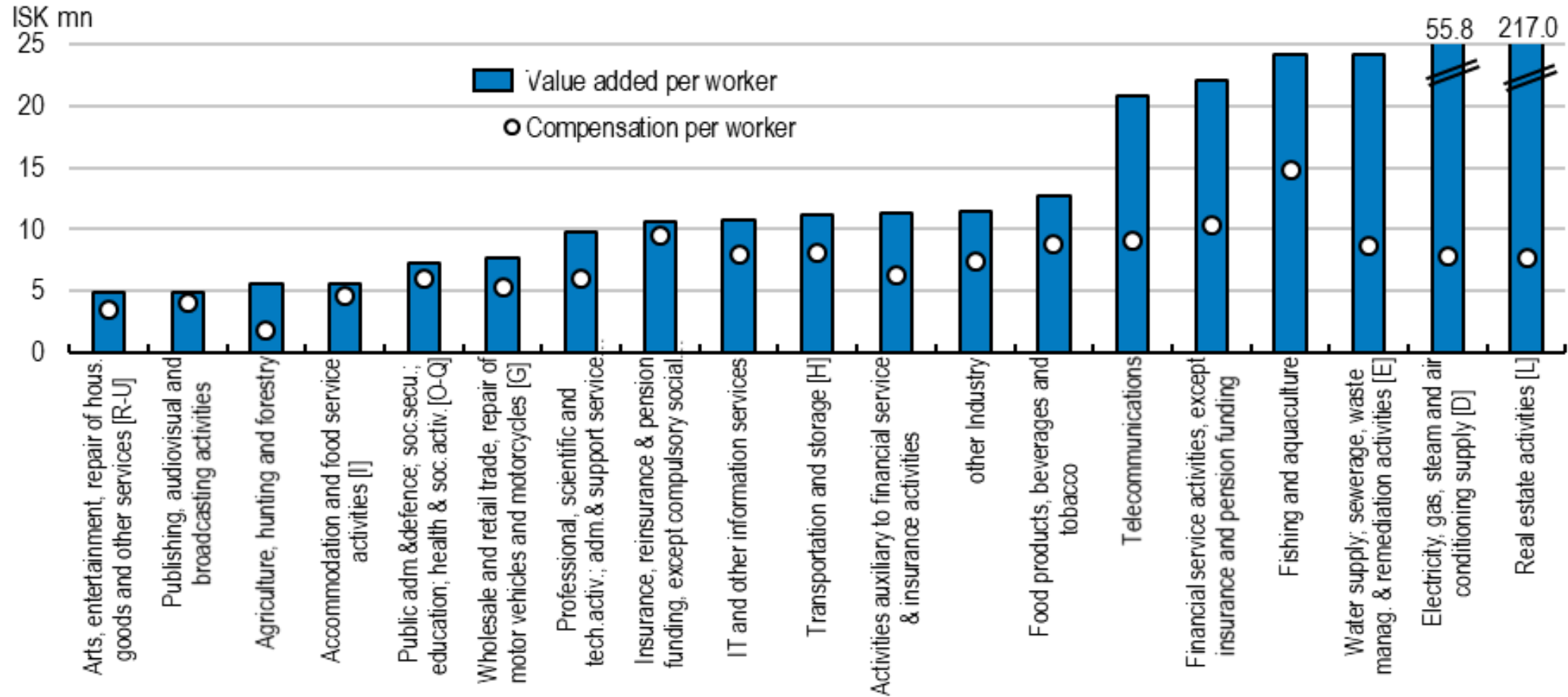


Source: OECD Analytical database.



# Productivity differs a lot across sectors, while wages are more equal

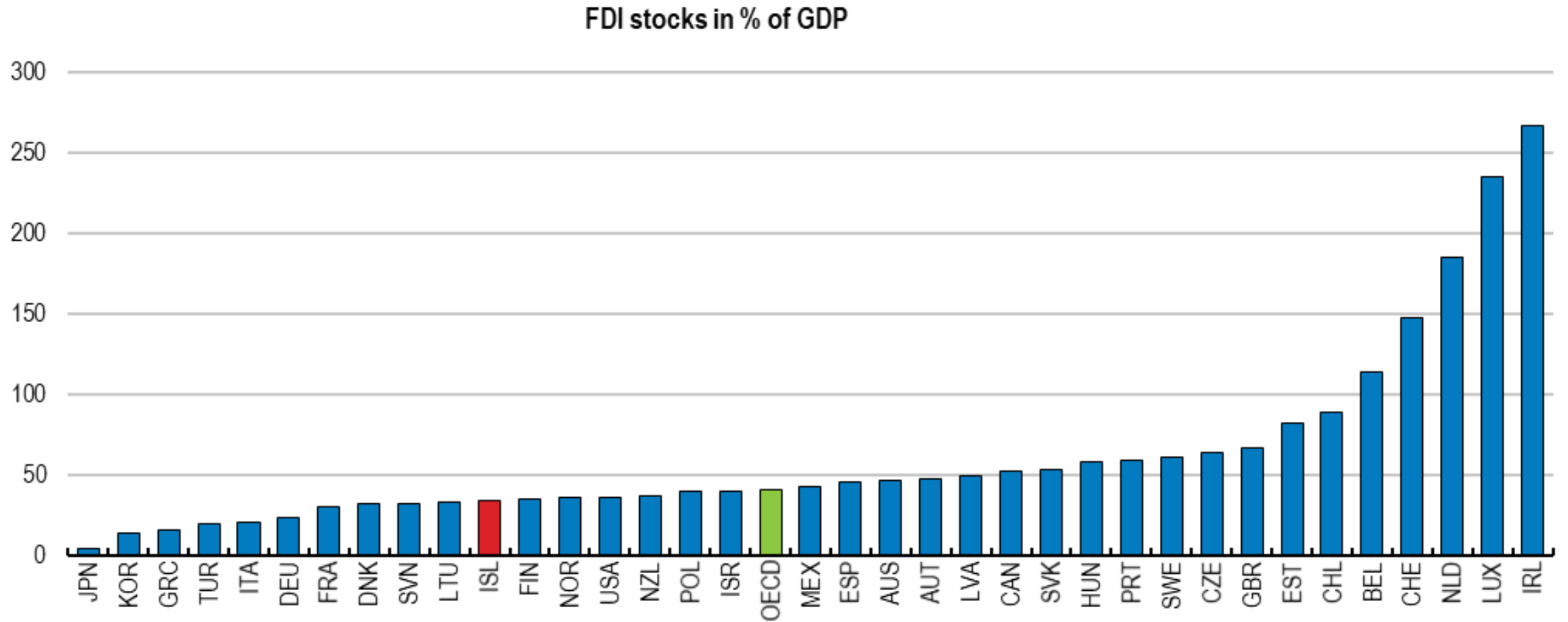
Value added and compensation per worker 2015 in various industries, current prices



Source: OECD calculation on STAN database.



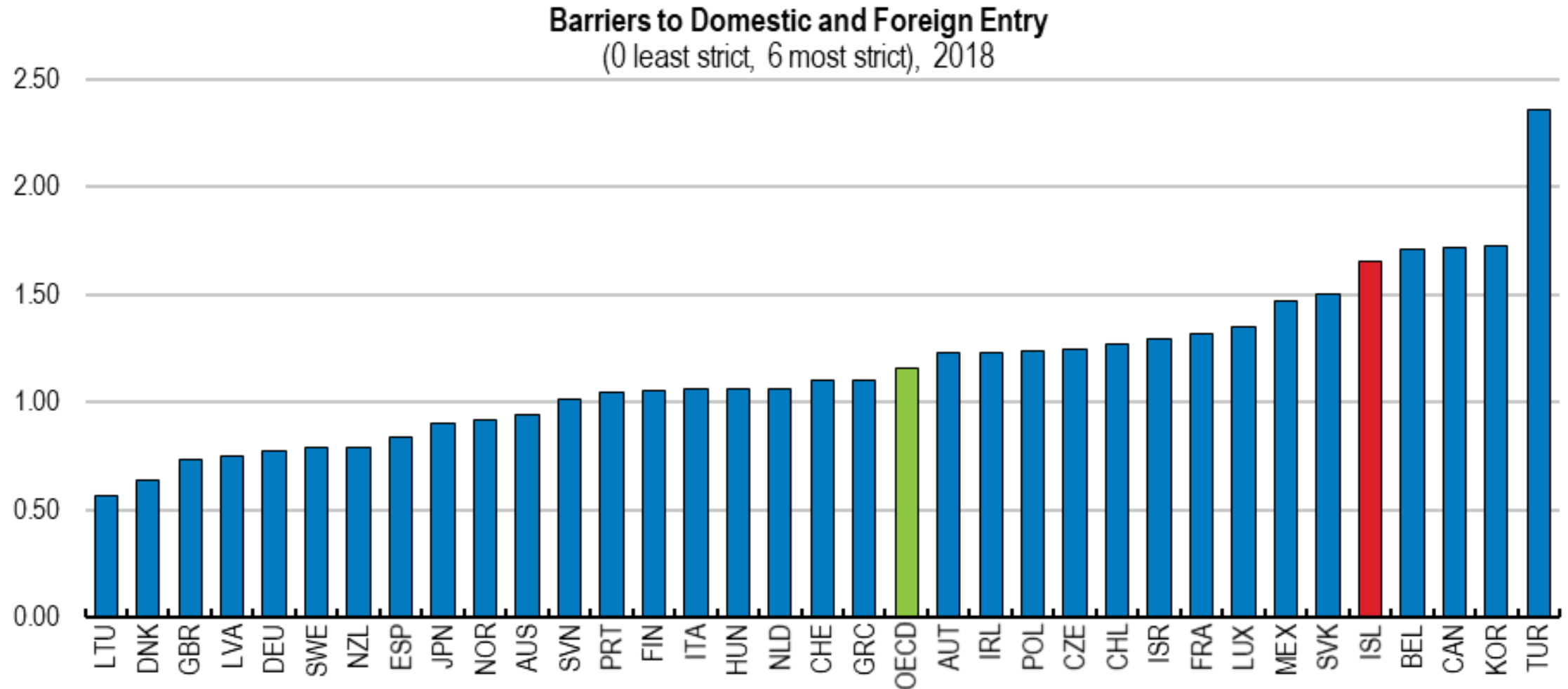
# Foreign direct investment is low



Source: OECD FDI database.



# The regulatory burden is high

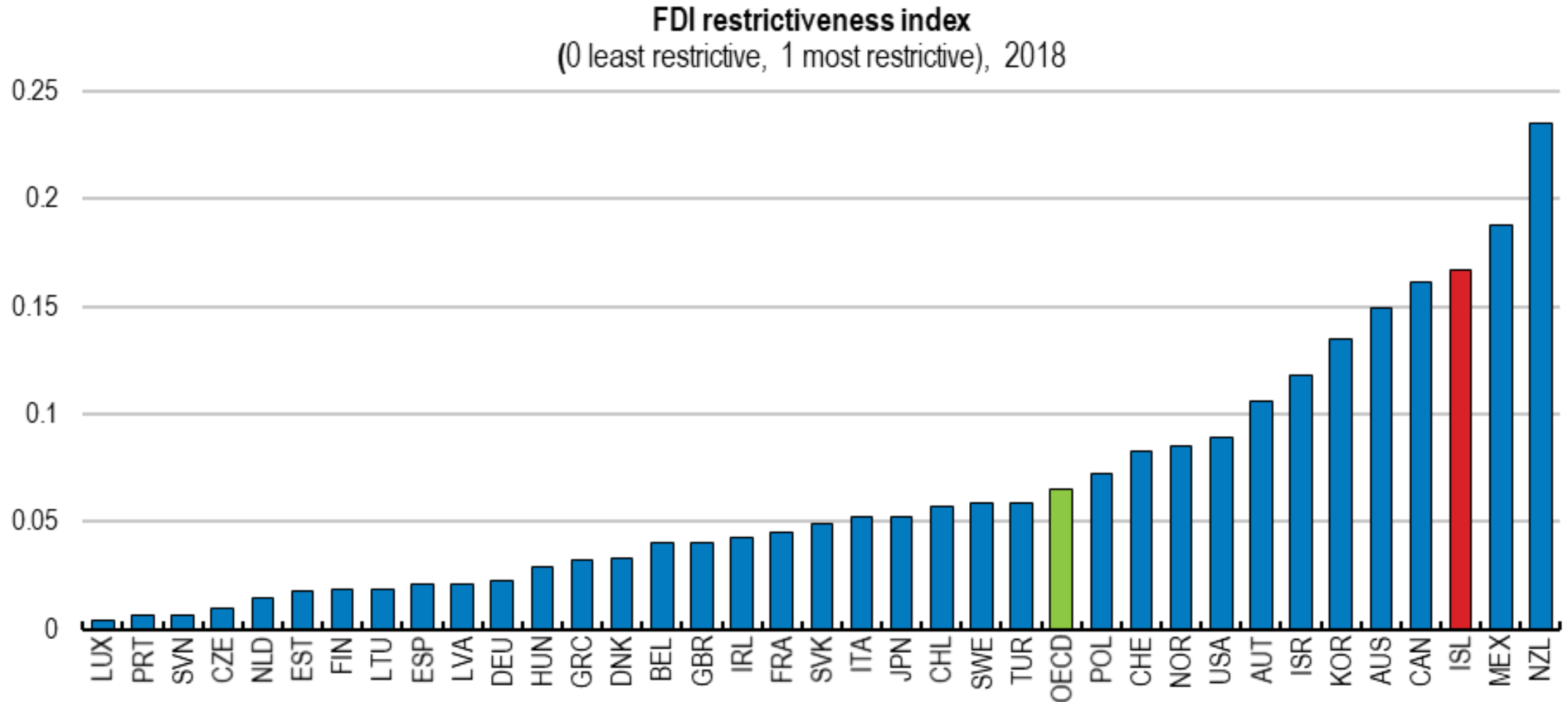


Source: OECD 2018 database.





# There are many restrictions on FDI



Source: OECD FDI regulatory restrictiveness index database.



## Key policy recommendations

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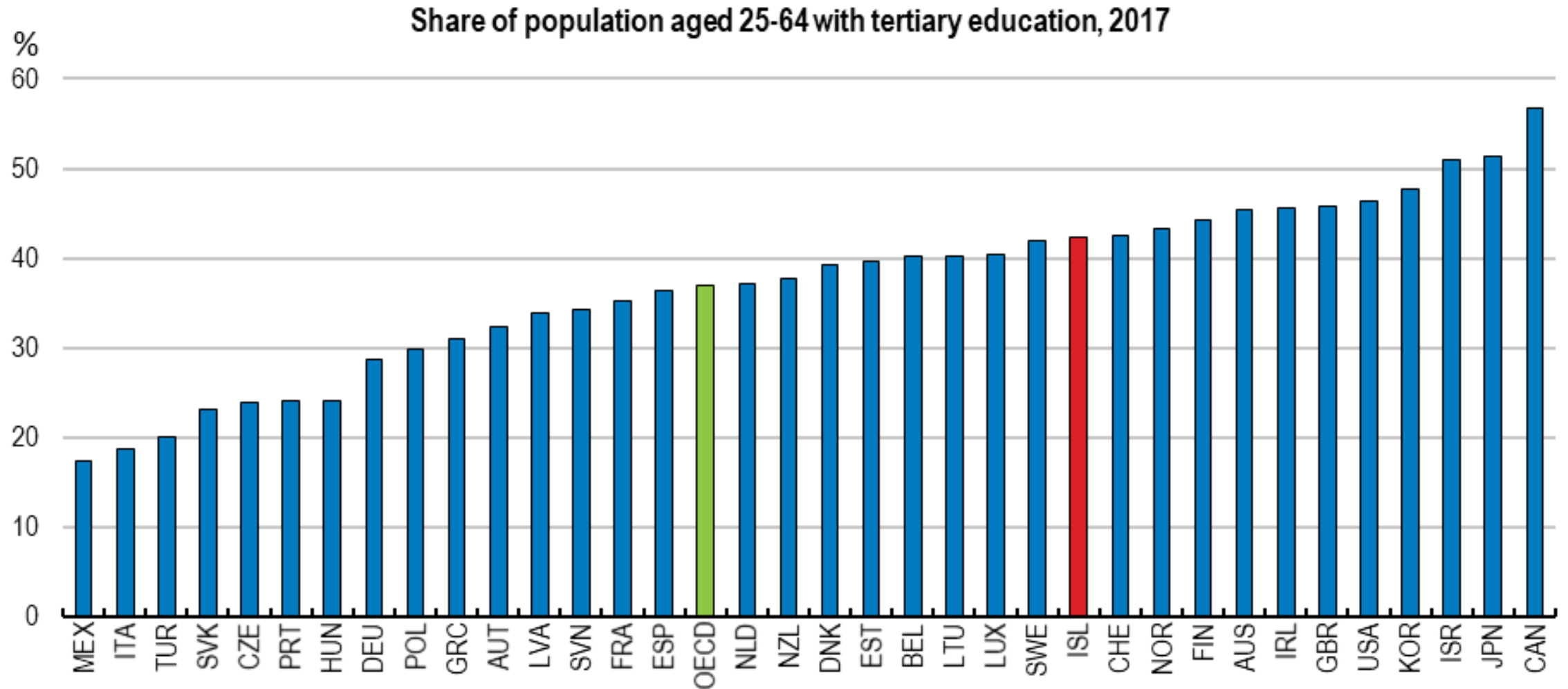
- Adjust interest rates in line with inflation developments
- Follow the deficit rules of the fiscal framework, and reduce debt further
- Reduce the regulatory burden, especially in the service sector, the network industries and for FDI, and proceed with privatisation plans in the banking sector
- Follow productivity growth when settling wages and rely on wage guidelines established by an expert group
- Increase CO<sub>2</sub> tax rates and broaden the base by including industry and agriculture



# Fostering strong and relevant skills



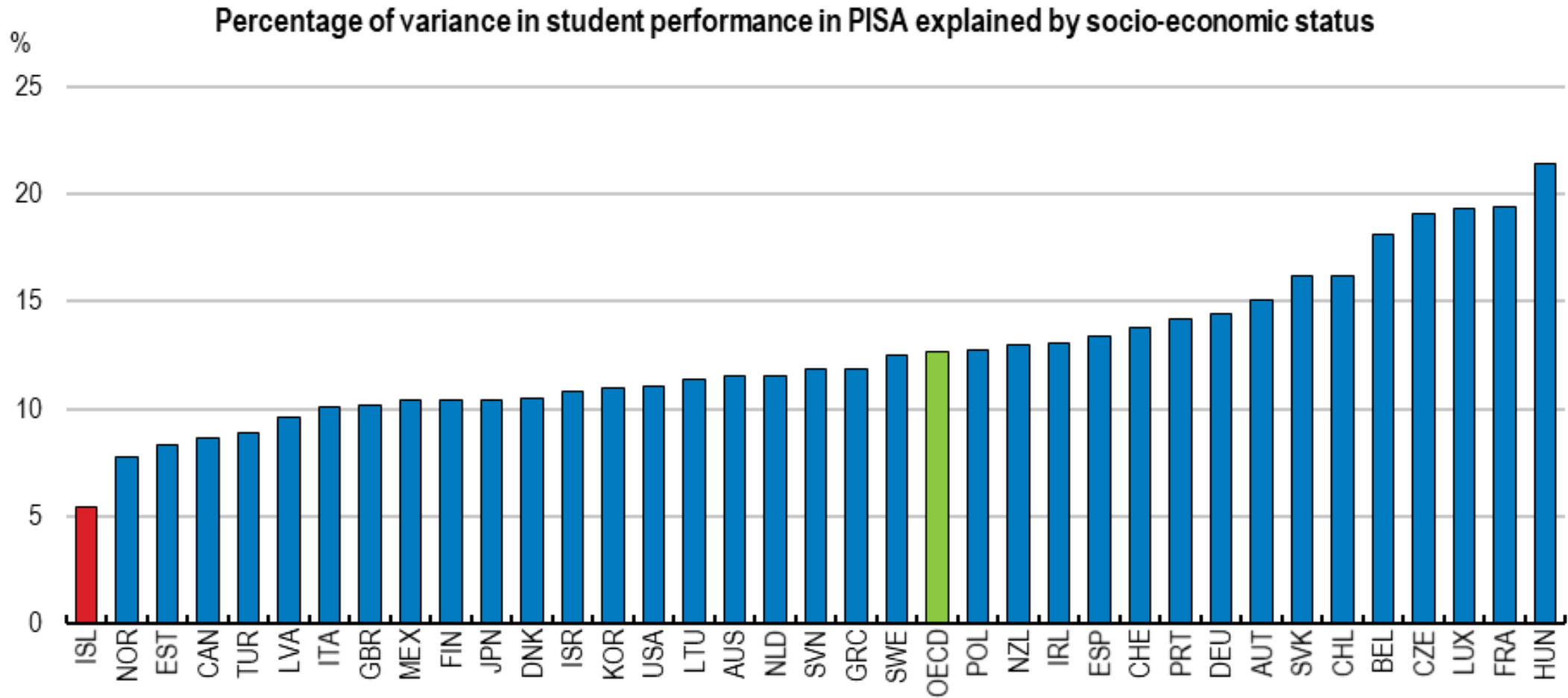
# Iceland has a highly educated workforce



Source: OECD Education at a glance.



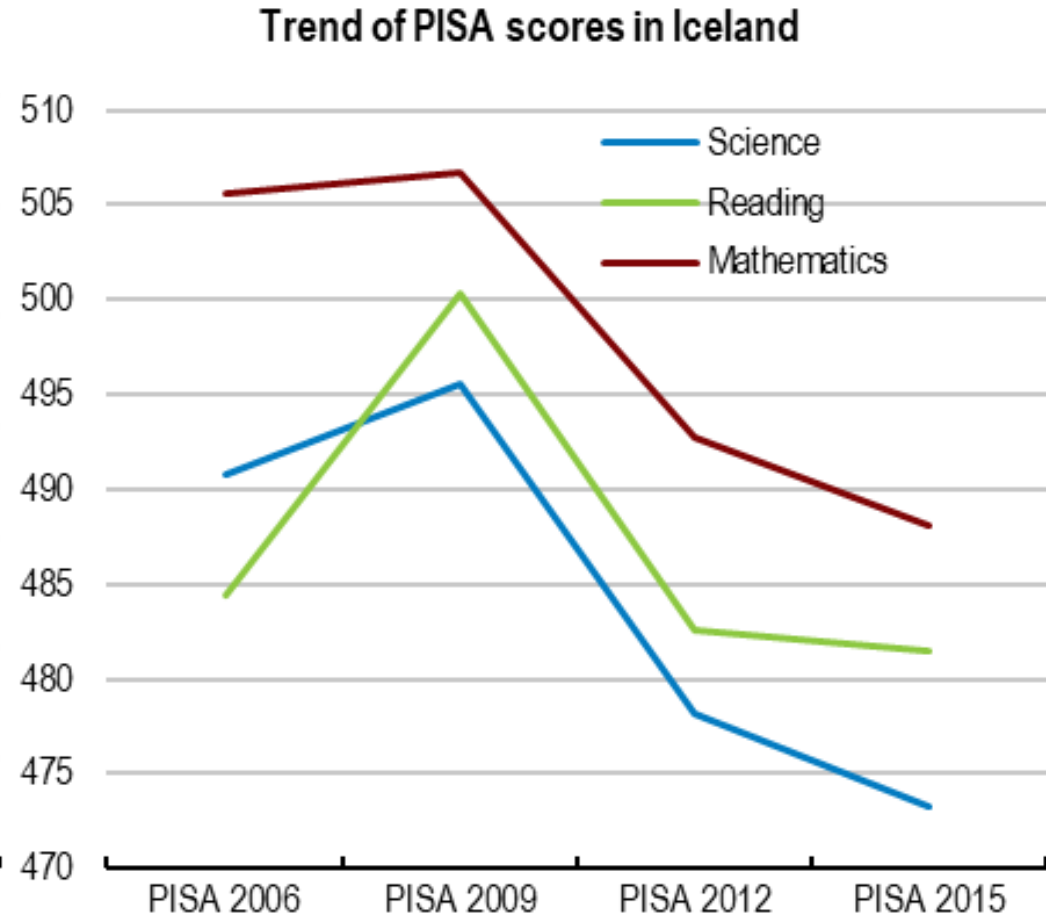
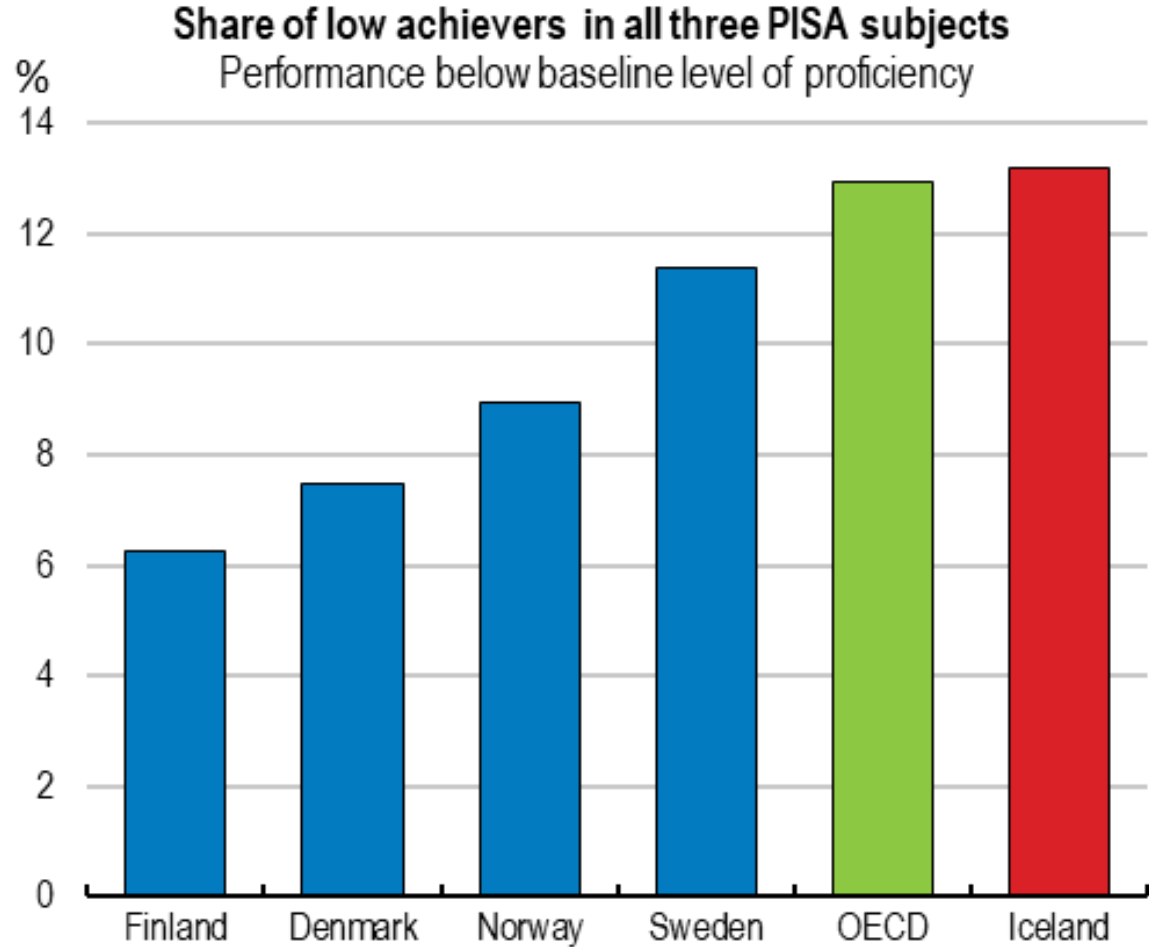
# The education system is highly equitable



Source: OECD PISA 2015.



# Education outcomes can be improved

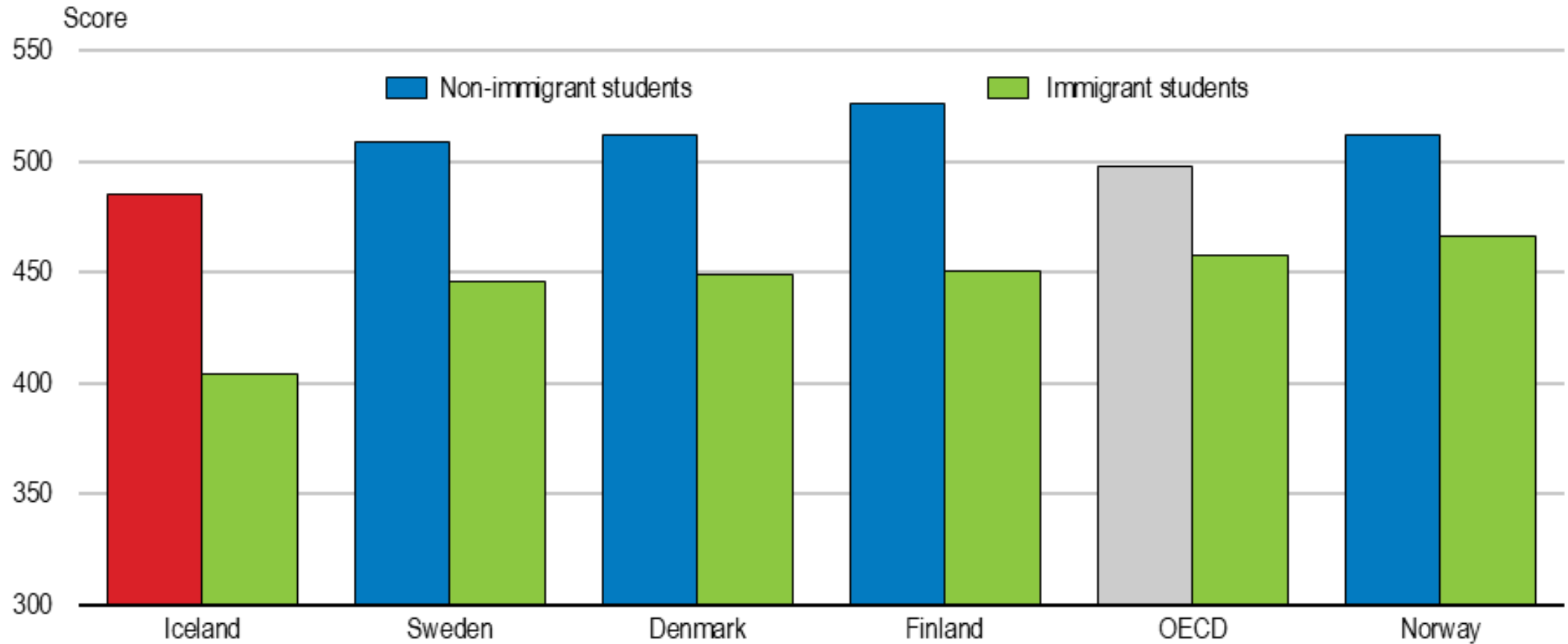


Source: OECD PISA 2015.



# Immigrant students underperform

PISA performance by background, 2015

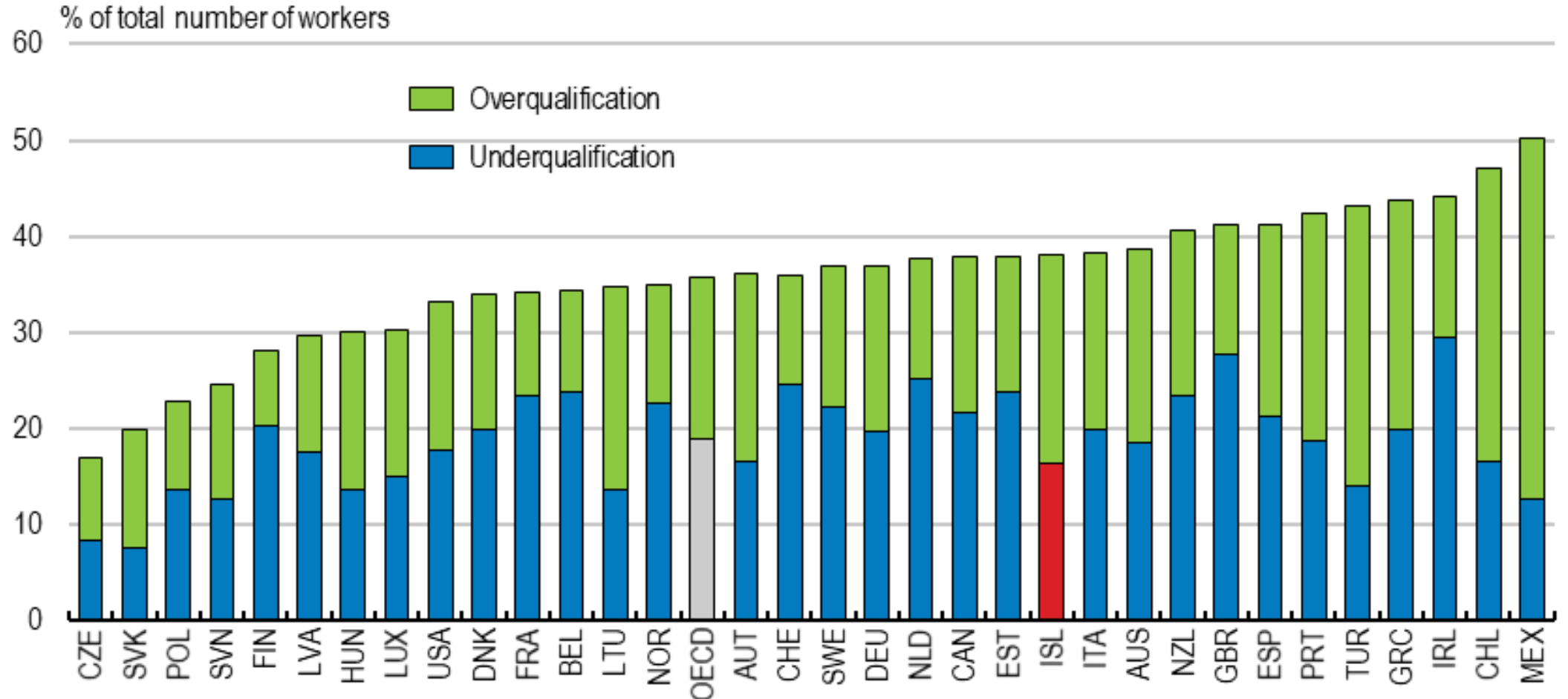


Source: OECD PISA 2015.



# Skills mismatch is considerable

Components of skills mismatch, 2016



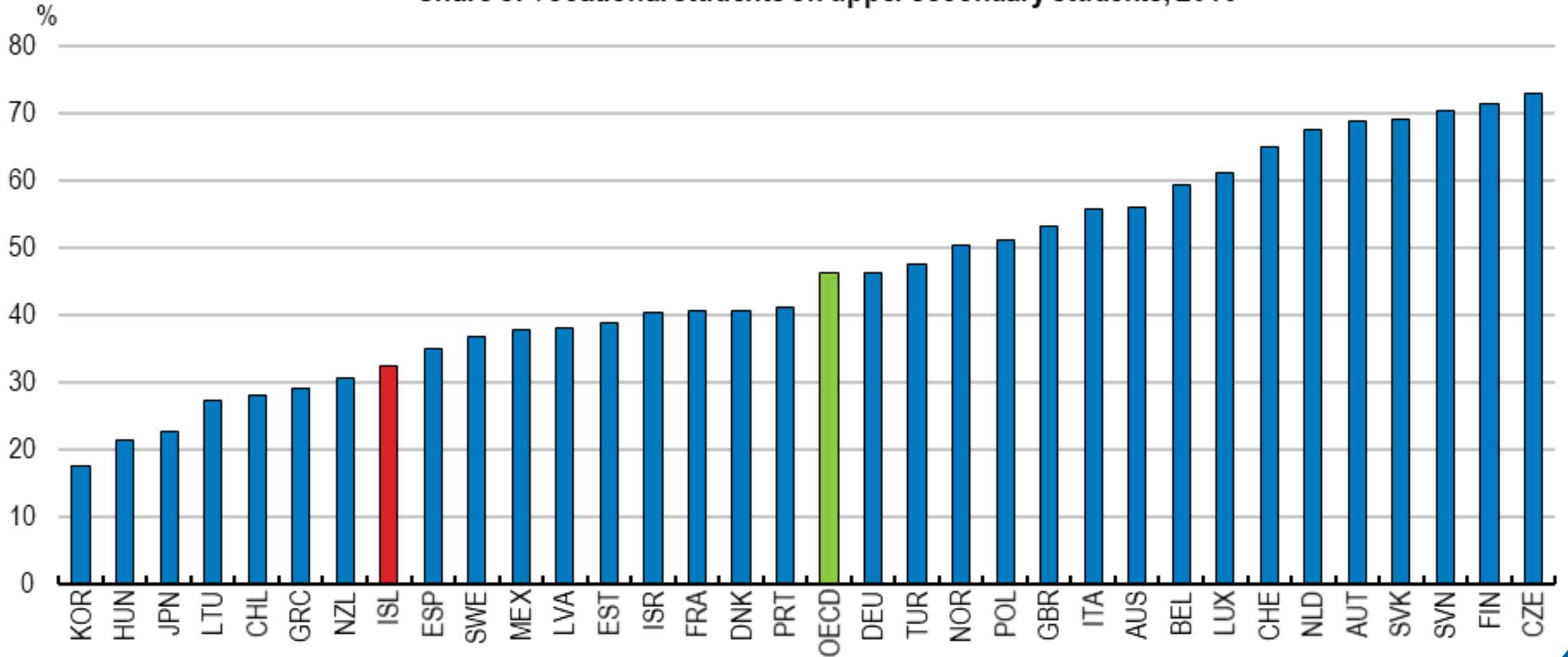
Source: OECD Skills for Jobs database.





# Participation in vocational education and training is low

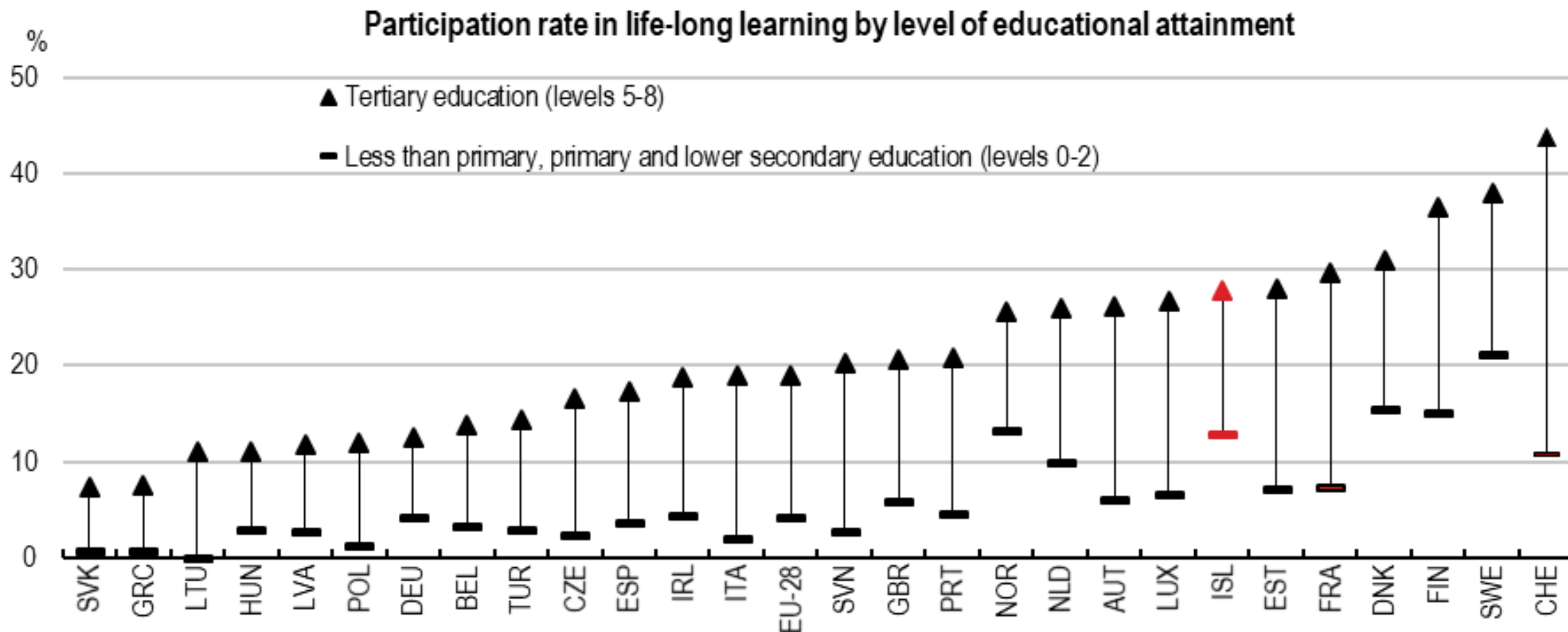
Share of vocational students on upper secondary students, 2016



Source: OECD Education at a glance.



# Participation in lifelong learning is low for the less educated



Source: Eurostat Labour Survey 2018 .



## Recommendations to foster strong and relevant skills

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- Improve teaching quality by extending the period of practical training in initial education programmes and by providing more custom-made opportunities for teachers' professional development
- Offer effective language training programmes
- Strengthen vocational skills by better integrating work-and school-based training
- Link university funding partially to the success of tertiary courses in providing skills corresponding to labour market needs
- Encourage participation in adult learning of under-represented groups, including through well-designed financial incentives

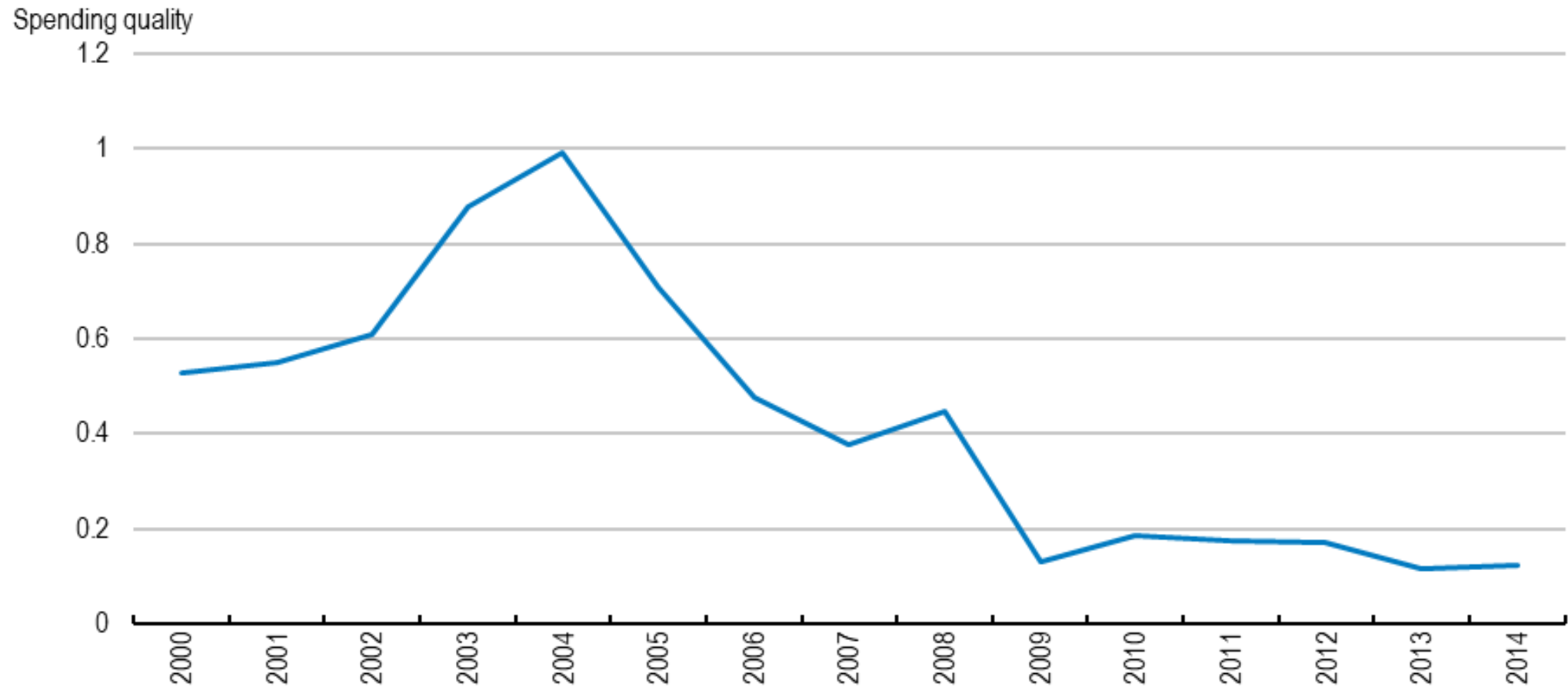


# **Improving public finance to maintain inclusive growth**



# The quality of public spending has deteriorated

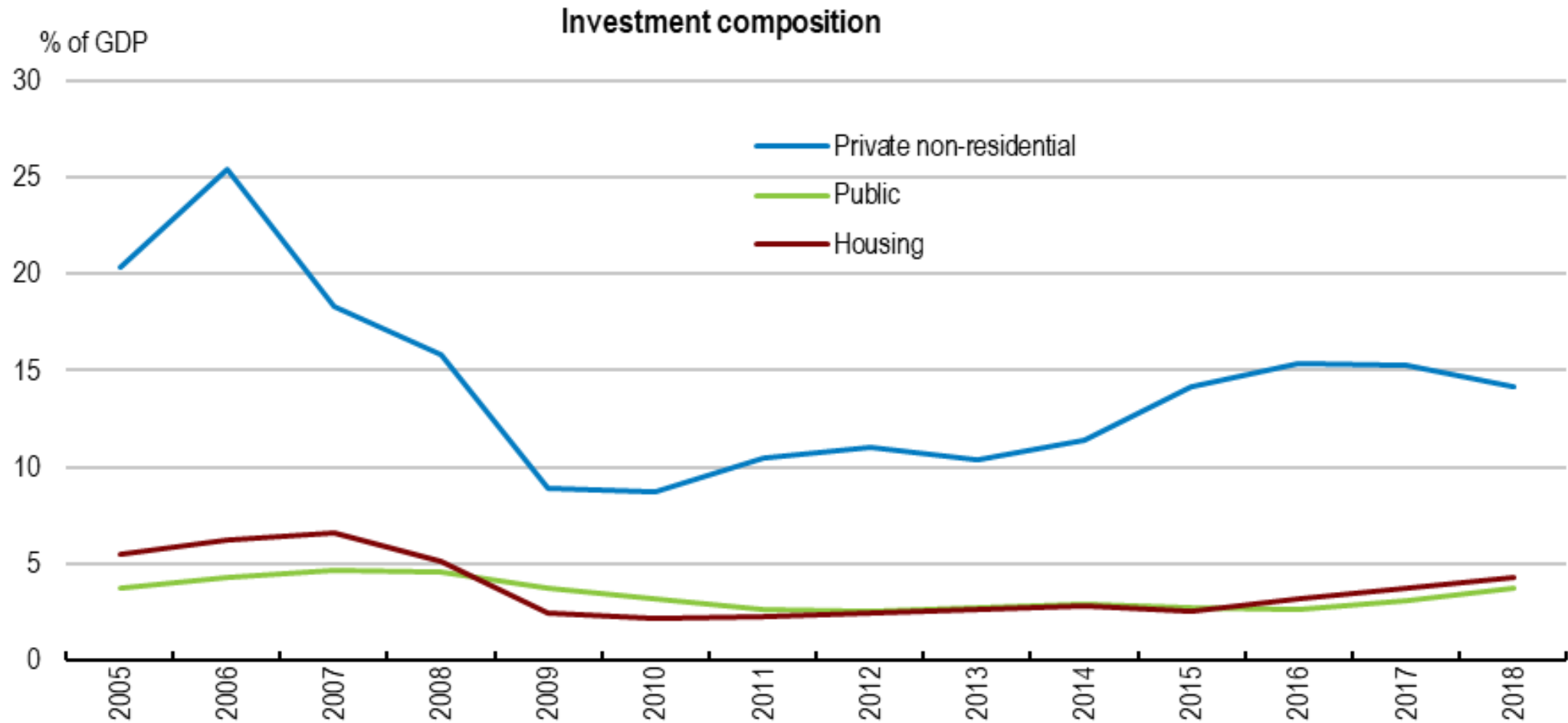
Contribution of the public spending mix to growth and income equality, relative to the OECD average



Source: Preliminary OECD Public Finance database.



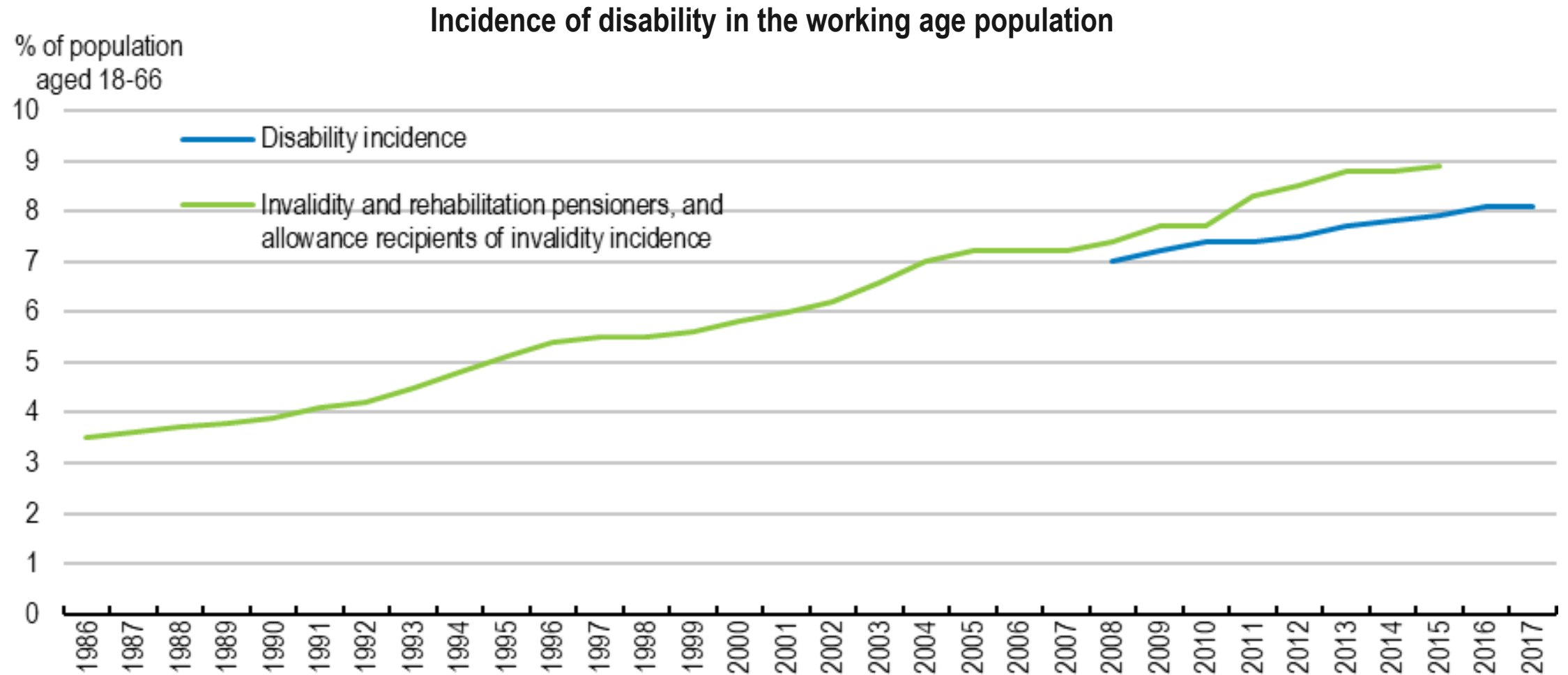
# Public investment is low



Source: OECD Economic Outlook database.



# Spending on disability is rising

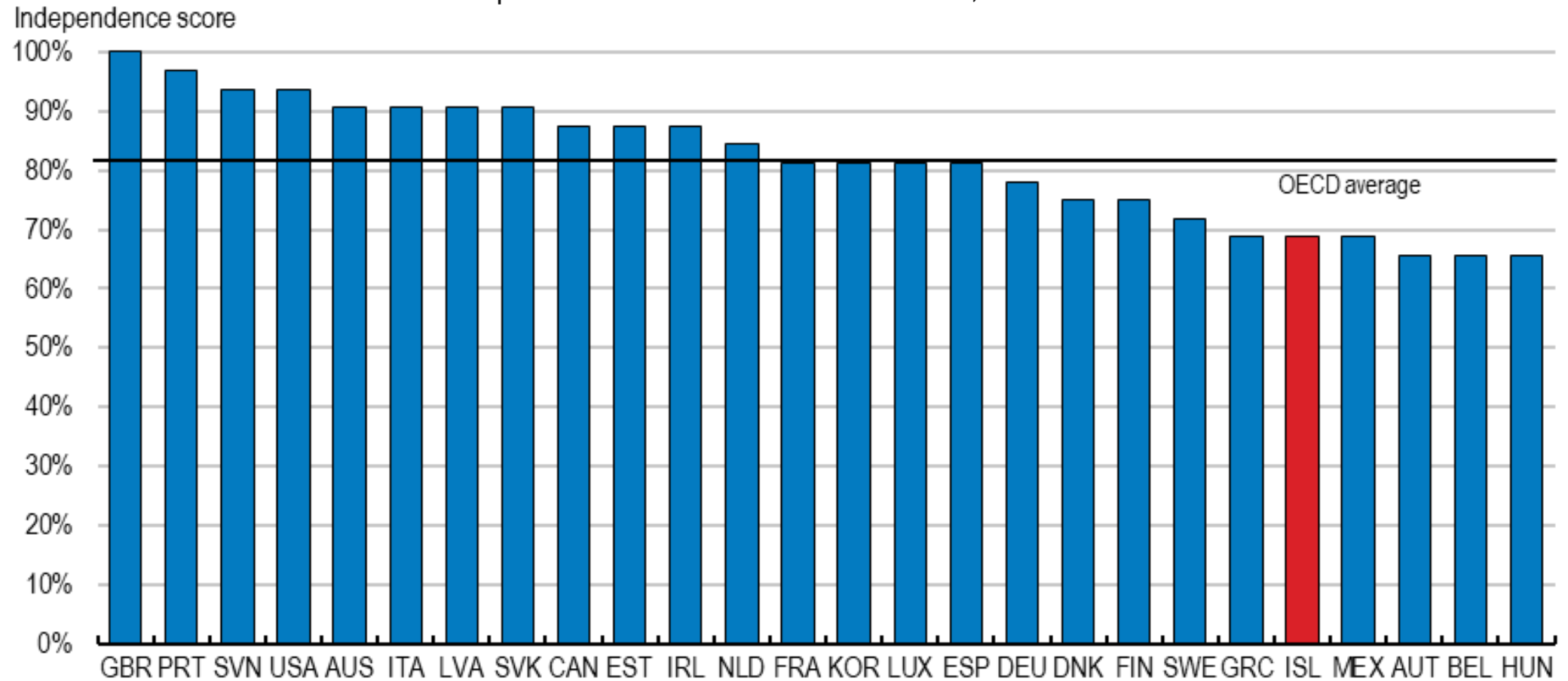


Source: Statistics Iceland



# The Fiscal Council is weak

Independence of fiscal councils indicator, 2017



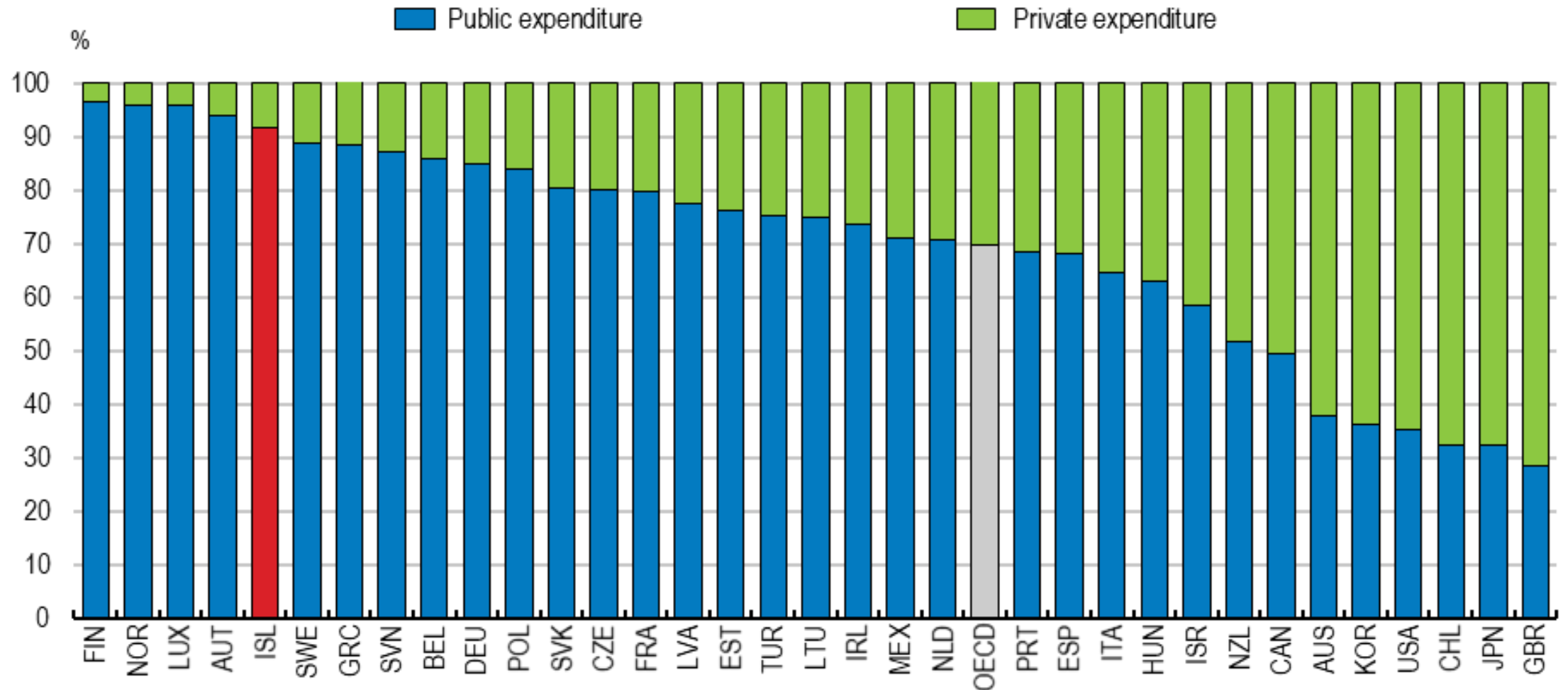
Source: von Trapp and Nicoll (2017)





# Private funding for tertiary education is low

Share of public and private funding in total tertiary funding, 2017

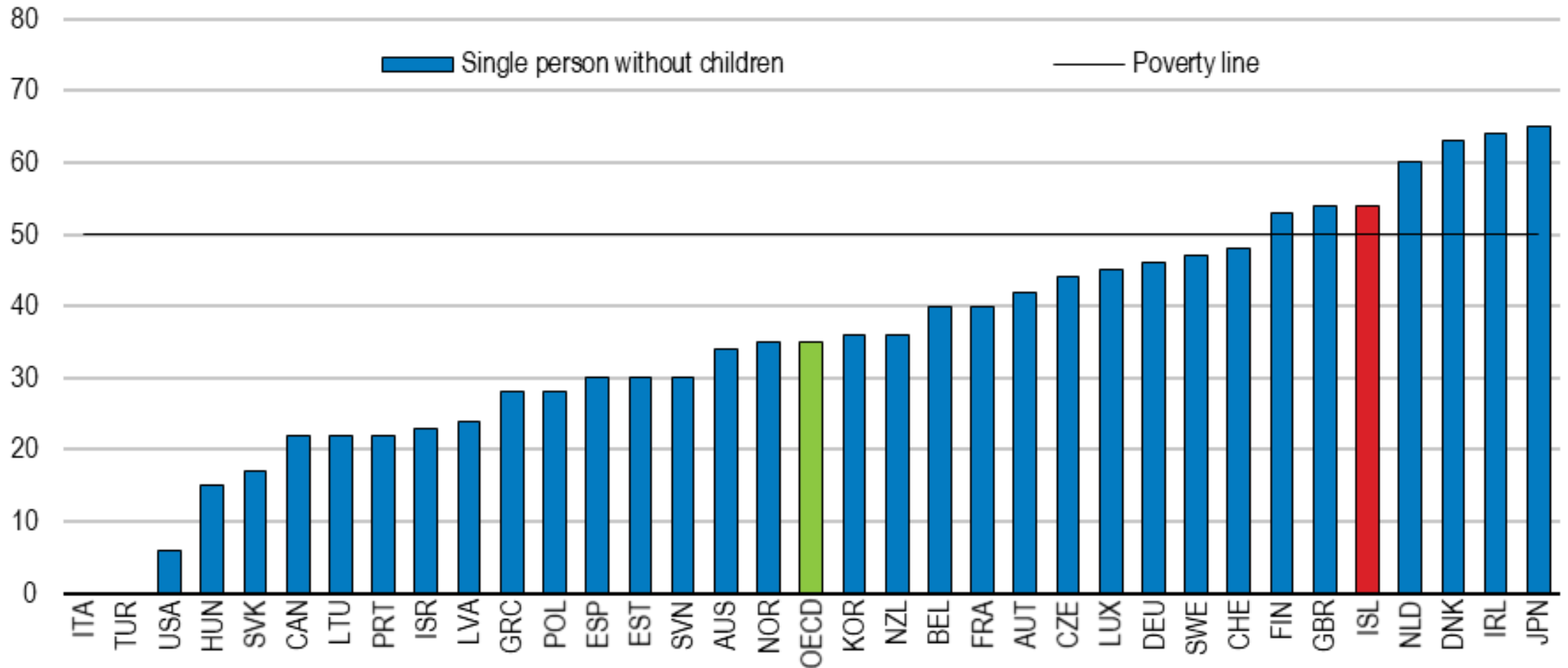


Source: OECD Education at a glance.



# Social benefits are well-targeted

Net minimum-income benefits % of median equivalised household income, 2018

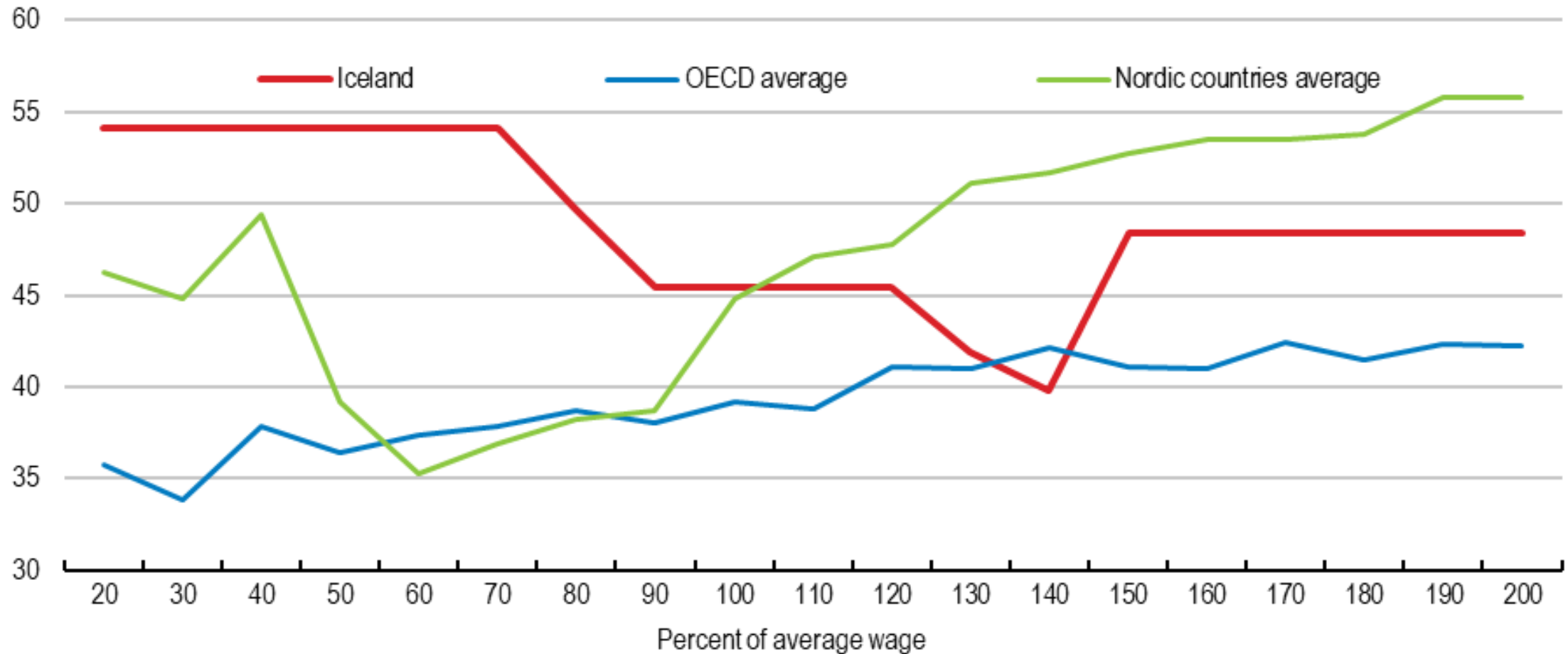


Source: OECD Social Protection and Wellbeing database.



# Implicit marginal tax rates are high

Marginal tax rates, from 10% to 200% of average wage for a married two-earner couple with two children

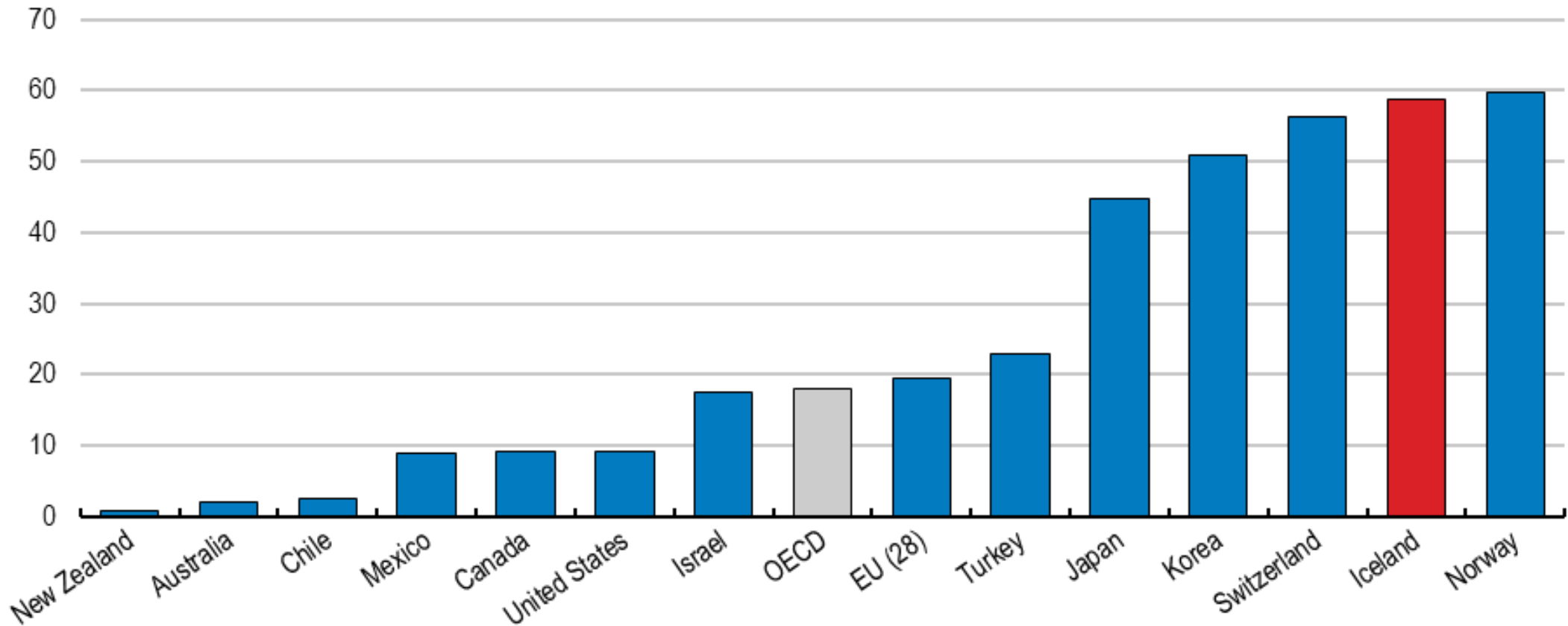


Source: OECD Tax Benefit Model.



# Agricultural subsidies are high

**Producer support estimate by country**  
Percentage of gross farm receipts, 2015-2017



Source: OECD (2019), "Producer and Consumer Support Estimates", OECD Agriculture statistics database.



# Recommendations to improve public spending

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- Extend spending reviews to core policy areas like education or health care
- Strengthen the role of the fiscal council and possibly merge it with the national accounting office
- Apply more stringent cost-benefit analysis, and increase infrastructure spending
- Reform the disability system by shifting the focus from paying benefits towards return to work
- Adapt university funding to better account for students' performance and labour market needs. Allow for more private funding
- Link agricultural subsidies to sustainable land management and the production of environmental amenities



## For more information

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<http://www.oecd.org/eco/surveys/economic-survey-iceland.htm>

