

## ICELAND

The recession into which the Icelandic economy fell following the failure of the country's three main banks in October 2008 continues. Domestic demand has fallen sharply, and the economy is projected to continue shrinking until early 2010. Thereafter, growth is projected to return, boosted initially by the expected normalisation of financial conditions and subsequently by investment in large energy-related projects. The unemployment rate is likely to rise to around 7% by mid-2010 and edge down thereafter. The government programme will help to narrow economic imbalances, with inflation falling to about 2½ per cent by 2011 and the current account deficit declining to 1½ per cent of GDP in 2011.

It is vital that the planned fiscal consolidation programme be fully implemented so as to put public finances back on a sustainable path. Monetary policy should remain focussed on exchange rate stability and capital controls should be progressively removed as soon as feasible to normalise relations with foreign markets and allow firms to access foreign credit markets.

## Iceland: Demand, output and prices

	2006	2007	2008	2009	2010	2011
	Current prices ISK billion	Percentage changes, volume (2000 prices)				
Private consumption	679.5	5.6	-7.8	-16.5	-5.5	0.3
Government consumption	285.4	4.1	4.6	-1.9	-1.3	-1.7
Gross fixed capital formation	397.6	-12.2	-20.4	-47.4	-6.9	18.1
Final domestic demand	1 362.5	0.1	-8.3	-20.3	-4.5	2.5
Stockbuilding <sup>1</sup>	13.5	-0.6	-0.4	0.5	-0.7	0.0
Total domestic demand	1 376.0	-0.4	-8.6	-20.3	-5.4	2.6
Exports of goods and services	376.8	17.7	7.1	0.8	1.9	3.1
Imports of goods and services	584.6	-0.7	-18.3	-28.6	-4.4	3.1
Net exports <sup>1</sup>	- 207.8	6.1	10.8	13.9	2.9	0.3
GDP at market prices	1 168.2	5.6	1.3	-7.0	-2.1	2.6
GDP deflator	—	5.5	12.0	8.5	6.8	2.9
<i>Memorandum items</i>						
Consumer price index	—	5.1	12.7	11.9	5.8	2.5
Private consumption deflator	—	4.6	14.0	15.0	6.2	2.5
Unemployment rate	—	2.3	3.0	7.1	7.0	6.4
General government financial balance <sup>2</sup>	—	5.4	-13.6	-15.7	-10.1	-5.8
Current account balance <sup>2</sup>	—	-15.4	-40.4	-8.1	-1.6	-1.6

Note: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook Sources and Methods* (<http://www.oecd.org/eco/sources-and-methods>).

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.

2. As a percentage of GDP.

Source: OECD Economic Outlook 86 database.

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