

ICELAND

Economic performance has improved significantly since the mid-1990s, allowing Iceland to narrow its income gap vis-à-vis the United States. However, the labour productivity gap remains large.

Priorities supported by indicators

Lower barriers to entry for domestic and foreign firms

Despite market liberalisation since Iceland joined the European Economic Area (EEA) in 1994, relatively high barriers to the entry of domestic and foreign firms remain in some sectors, *e.g.* energy and fisheries.

Actions taken: The sale of the government's stake in Iceland Telecom has resumed after being halted in 2002 due to adverse market conditions. The authorities do not intend to privatise the major national electricity company.

Recommendations: Open the energy and fisheries sectors further, including to the entry of foreign firms, so as to raise productivity and discourage anti-competitive behaviour by dominant firms.

Reduce producer support to agriculture

Support to agricultural producers is still more than twice the OECD average, and the prices they receive are almost three times those in the world market. This entails a heavy burden for consumers and taxpayers alike, while maintaining excess resources in low-productivity activities.

Actions taken: There has been little policy change since the postponement of the abolition of remaining administered prices for dairy products by three years to mid-2004, and then to 2012.

Recommendations: Renewed efforts to reduce agricultural support – especially in those forms that distort production incentives – are needed. Eliminate heavily binding protective quotas and burdensome tariffs so as to ease consumer prices.

Improve access to, and graduation rates from, upper-secondary education

Around 40 per cent of the working-age population has not more than lower secondary education, and even among young people educational attainment is still well below the OECD average.

Actions taken: Over the past decade or so the authorities have given priority to spending on education, which has as a result moved well above the OECD average relative to GDP.

Recommendations: While maintaining high levels of educational spending, in particular on pre-tertiary education, focus on quality and cost efficiency, *e.g.* by increasing class size somewhat, as it is currently relatively low. Ensure that the wage formation process encourages skills development.

Other key priorities

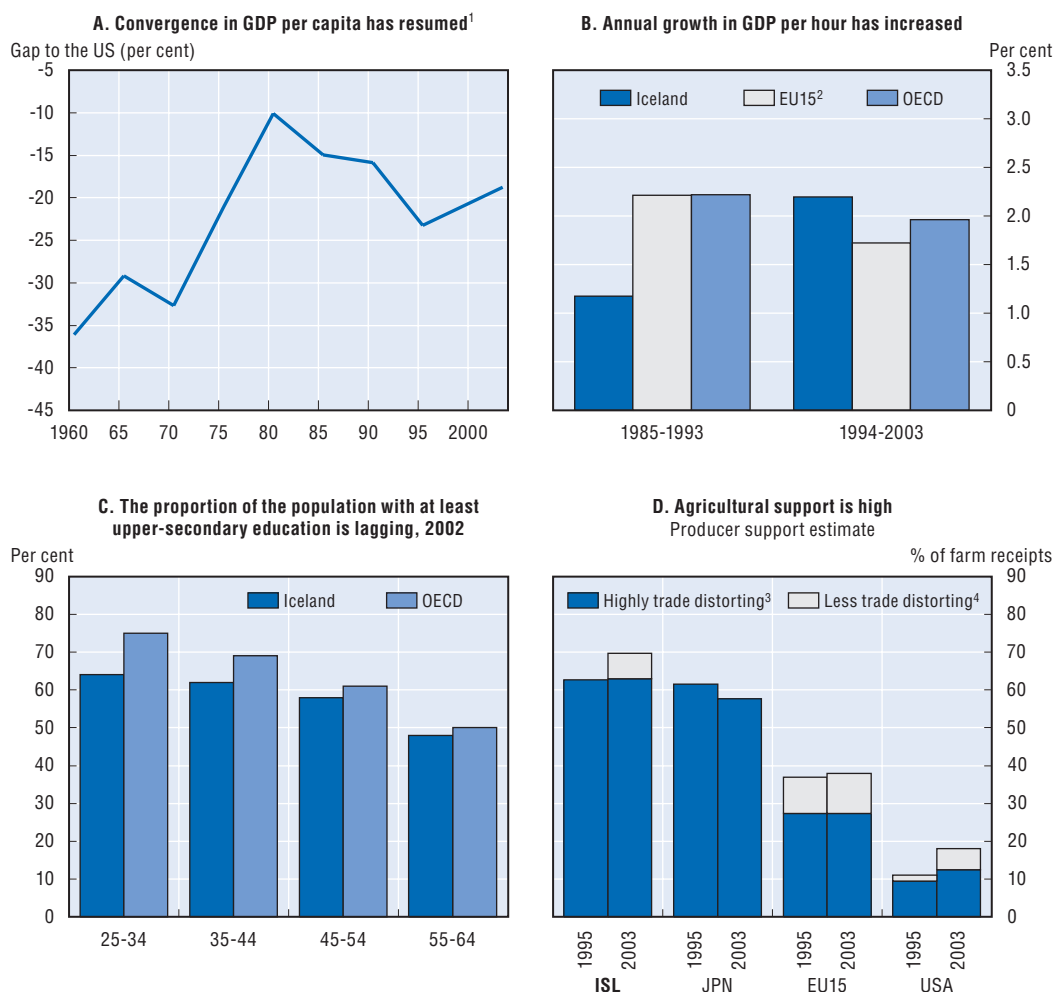
- Accelerate performance measurement and management in the public sector by integrating it in the budget process, in order to enhance efficiency and curb expenditure creep.
- Reduce government backing of bonds issued by the Housing Finance Fund, which distorts investment choice between housing and other assets.

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Structural indicators

	1990	1995	2000	2003
Trend GDP per capita (% growth rate)	0.8	0.9	2.9	2.0
Trend employment rate	85.1	83.1	84.3	84.3
Trend participation rate	86.7	86.7	86.7	86.7
Structural unemployment rate (NAIRU)	1.8	4.1	2.8	2.8

Source: Estimates based on OECD Economic Outlook, No. 76.



1. Percentage gap with respect to US GDP per capita (in constant 2000 PPPs).

2. Excluding Austria and Luxembourg.

3. Market price support and payments based on output and input use.

4. Payments based on area planted/animal numbers, historical entitlements and overall farm income.

Source: Charts A and B: National Accounts of OECD Countries, 2004; OECD Labour Force Statistics, 2004; OECD Economic Outlook, No. 76; Chart C: OECD Education at a Glance, 2004; Chart D: OECD, Producer and consumer support estimates database.