2017 OECD ECONOMIC SURVEY OF ICELAND

Preserving sustainable and inclusive growth
Reykjavik, Tuesday 27th June 2017

Iceland has made a remarkable turnaround

Real GDP levels

Index 2010 = 100

- Iceland
- Nordics (excl. Iceland)
- EU South (ESP, ITA, GRC, PRT)

Source: OECD Analytical Database.
Well-being is high

Indicators of well-being in Iceland

- 20% bottom performers
- 60% middle performers
- 20% top performers
- Iceland

Country rankings (1 to 35)

Source: OECD Better Life Index 2016.
Iceland is highly inclusive and egalitarian

**Gini of disposable income**

**Global Gender Gap Index**
Score ranges from 0 (inequality) to 1 (equality), 2016

**Source:** OECD Income Distribution Database; and the World Economic Forum.
Major imbalances have been corrected

- Capital controls have been essentially lifted

**Source:** OECD Analytical Database; and Central Bank of Iceland.
Public debt is falling

Public debt has been reduced

% of GDP

Source: OECD Economic Outlook 101 Database; and Ministry of Finance.
Growth is fastest in the OECD

Exports are boosted by the tourism boom

Index 2010 = 100, 4-quarter moving average

- Exports of goods
- Exports of services
- Exports of tourism

Terms of trade have been favourable

Index 2010 = 100

- Brent oil prices (in USD)
- Marine product prices (in foreign currency)

- due to boom in tourism and favourable terms of trade

Source: OECD Analytical Database; Statistics Iceland; Central Bank of Iceland.
Unemployment and inflation are low

Source: OECD Analytical Database.
Preserving macroeconomic stability
Rapid growth brings challenges

- overheating and inflationary pressures

Source: OECD Economic Outlook 101 Database and Statistics Iceland.
Fiscal policy has been too expansionary

Fiscal stance is expansionary

Note: based on changes in underlying primary balance of general government.

Source: OECD Economic Outlook 101 Database.
Strong and volatile króna poses challenges for many businesses

The króna has appreciated strongly since 2013

Source: Central Bank of Iceland.
Inflation expectations are better anchored

• but based on past experience could become de-anchored again

Source: Central Bank of Iceland.
Recommendations for macroeconomic stability

1. Monetary policy should be ready to tighten, if inflation expectations increase once again.

2. Smooth excess short-term exchange rate volatility. Use macro-prudential tools to manage potentially destabilising short-term capital flows.

3. Fiscal policy should be contractionary to reduce the risk of overheating.

4. A sovereign wealth fund should be established and built up over time. Funds should be invested abroad and draw down limited to counteracting substantial shocks.
Making tourism sustainable and inclusive
Tourism has recorded spectacular growth...

International tourist numbers have risen dramatically

Source: Icelandic Tourist Board.
... and has become a major export earner

Tourism is now a major export earner
Share of goods and services exports, %

Source: OECD Analytical Database.
It also creates challenges – pressures on society

House prices have risen and affordability can be a challenge

Rent expenditure
% of disposable income in the bottom quintile of the income distribution

House price
Index 2010 = 100

Source: OECD Affordable Housing Database and OECD Analytical database.
Environment needs to be preserved

Most visitors come to experience nature
% of respondents noting different reasons for visiting Iceland

Source: Icelandic Tourist Board Ferdamalastofa (2016).
Recommendations for sustainable tourism

1. Establish an inter-ministerial tourism strategy focused on making tourism environmentally, socially and economically sustainable. Include non-government stakeholders.

2. Remove current tax subsidies for tourism-related activities, by taxing them at the standard VAT rate and broadening the base to excluded services.

3. Limit the number of visitors to fragile sites.

4. Introduce user fees to manage congestion and pressure on the environment.
5. Subject infrastructure investment to cost-benefit analysis, including consideration of social and environmental impacts.

6. Ensure transport and tourism policy are consistent.

7. Improve the economic analysis of tourism activity, with better data and research.

8. Use vocational and on-the-job training to build skills in the tourism workforce.
Effective and inclusive labour relations
Labour market is flexible and inclusive

- Participation is high and unemployment low

Iceland is highly unionised

Union density
2015 or latest year available

Source: OECD Analytical Database.
There are recurrent bursts of social tensions

- Large wage awards hurt competitiveness

Source: Statistics Iceland; and OECD Analytical Database.
Trust has been undermined

Trust in politicians¹ has been significantly undermined

OECD ranking


Labour-employer relations² have deteriorated in relative terms

OECD ranking

Score


1. Business executives responding to the question: ‘in your country, how do you rate the ethical standards of politicians? [1 = extremely low; 7 = extremely high]’.

2. Business executives responding to the question: ‘in your country, how do you characterize labour-employer relations? [1 = generally confrontational; 7 = generally co-operative]’.

Recommendations for effective collective bargaining

1. To nurture trust all parties need to participate actively in the Macroeconomic Council.

2. Establish a tripartite technical committee to provide reliable and impartial information to wage negotiators.

3. Wage negotiations should begin with an agreement on “wage guidelines” for the negotiation round. State mediator (and arbitration bodies) should also base their proposals on these guidelines.

4. Increase the powers of state mediator, including the power to delay industrial action for a limited period in agreement with the social partners, in an effort to achieve a negotiated agreement.
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