

## ICELAND

### Priorities supported by indicators

#### **Improve education outcomes (2007, 2009, 2011)**

**Recommendations:** Make schools more accountable. Raise teacher quality, effective teaching time and student-teacher ratios, and reduce drop-out rates.

**Actions taken:** The 2009 secondary education reforms are expected to reduce drop-out rates by enabling students to complete programmes more quickly and by providing incentives to offer new and shorter programmes.

#### **Reduce producer support to agriculture (2007, 2009, 2011)**

**Recommendations:** Lower tariffs and excise duties, abolish quotas on agricultural production, reduce other forms of producer support and delink it from production.

**Actions taken:** Excise taxes on imported food (other than sugar and sweets) were abolished in 2007 and the general tariff on imported meat products was lowered significantly.

#### **Lower barriers to entry for domestic and foreign firms (2007, 2009, 2011)**

**Recommendations:** Reduce foreign ownership restrictions in the electricity and fisheries sectors and divest the National Power Company's generation activities.

**Actions taken:** No action taken.

### Other key priorities

#### **Accelerate public sector reform (2007, 2009, 2011)**

**Recommendations:** Introduce outcome-based budgeting and strengthen conflict of interest disclosure.

**Actions taken:** No action taken.

#### **Reduce barriers to product market competition (2011)**

**Recommendations:** Reduce red tape, use plain language in regulations and reduce entry barriers in electricity, telecommunications and transport sectors.

**Actions taken:** No action taken.

#### **Improve financial sector regulation and supervision (2009)**

**Recommendations:** Tighten rules on large exposures, connected lending and quality of bank owners and give the macro-prudential regulator a legal basis to restrain bank behaviour.

**Actions taken:** The Act on Financial Undertakings 2010 tightens rules on large exposures, connected lending and quality of owners. The macro-prudential regulator signed a co-operation agreement with the micro-prudential regulator in 2011 but does not control the tools to restrain bank behaviour.

#### **Reduce government support to housing (2007)**

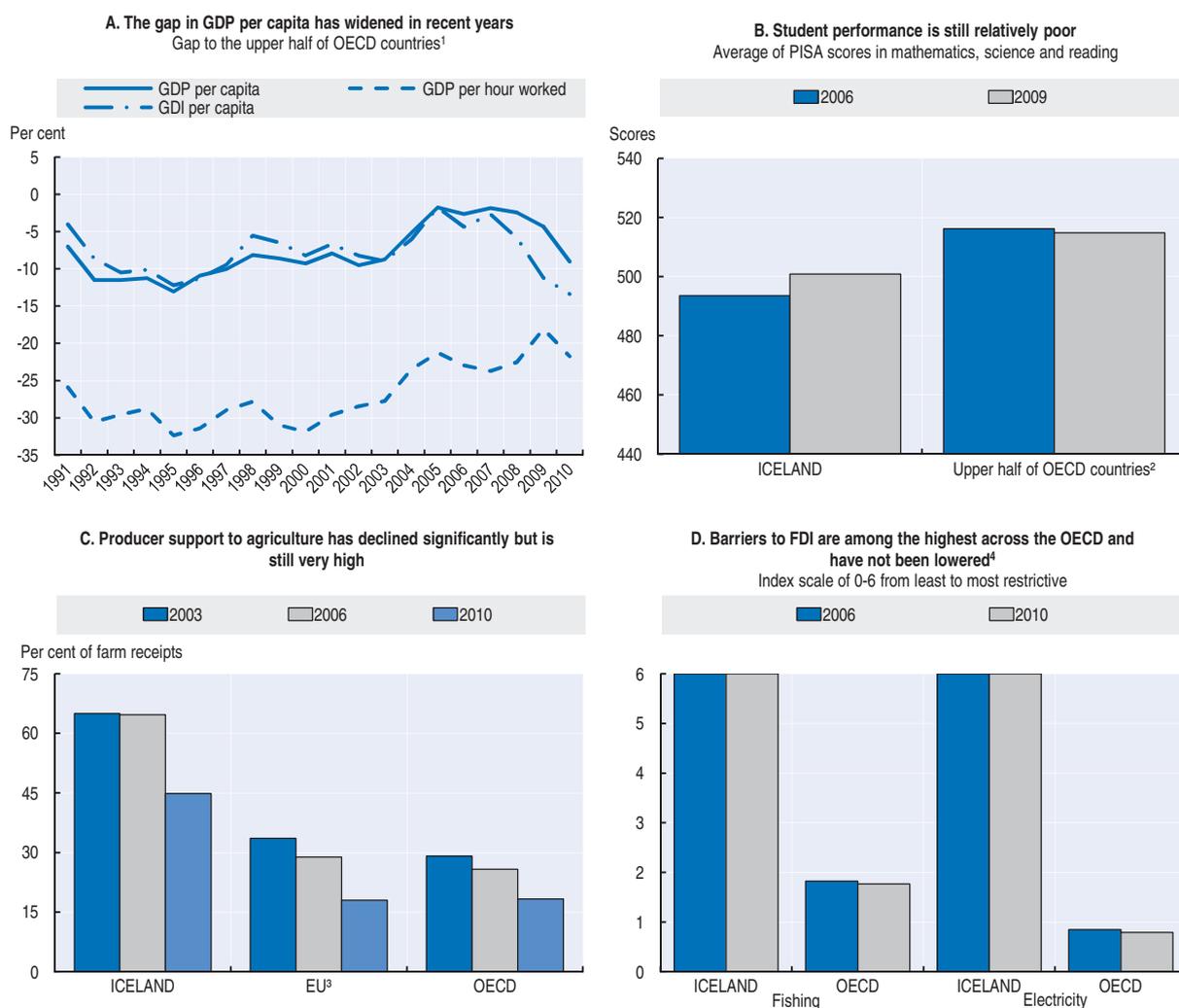
**Recommendations:** Charge the state-owned Housing Finance Fund (HFF) for the value of its loan repayment guarantee and lower the mortgage interest tax rebate.

**Actions taken:** The government is preparing a comprehensive restructuring plan for the HFF in response to a ruling of the European Surveillance Authority that requires that state aid for the HFF only benefit its public service activities. By contrast, mortgage interest tax rebates have been temporarily increased in 2009-11 and a temporary mortgage interest subsidy for households with net income below a certain limit was introduced in 2011.

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- After some convergence in the decade to the mid-2000s, the GDP per capita gap relative to the upper half of OECD countries has widened since the financial crisis began. This income gap reflects relatively low labour productivity partially offset by one of the highest rates of labour utilisation in the OECD.
- Among key priority areas, some efforts have been made to improve financial sector regulation, strengthen the education system and reduce protection of the agricultural sector. By contrast, little has been achieved to enhance product market competition and public sector efficiency, and actions have gone in the wrong direction for government support to housing.
- In other areas, substantial increases in resources for the public employment service and for active labour market programmes have reduced the risk of the crisis-driven increase in unemployment becoming structural.

## Performance and policy indicators



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).
2. Upper half of OECD countries in terms of PISA scores in mathematics, science and reading.
3. Average of European countries in the OECD.
4. The OECD FDI regulatory restrictiveness index looks only at statutory restrictions and does not assess the manner in which they are implemented.

Source: Chart A: OECD, *National Accounts and Economic Outlook No. 90 Databases*; Chart B: OECD, *PISA 2009 Database*; Chart C: OECD, *Producer and Consumer Support Estimates Database*; Chart D: <http://www.oecd.org/investment/index>.

StatLink  <http://dx.doi.org/10.1787/888932565452>