



2017 OECD ECONOMIC SURVEY OF ICELAND

Preserving sustainable and inclusive growth

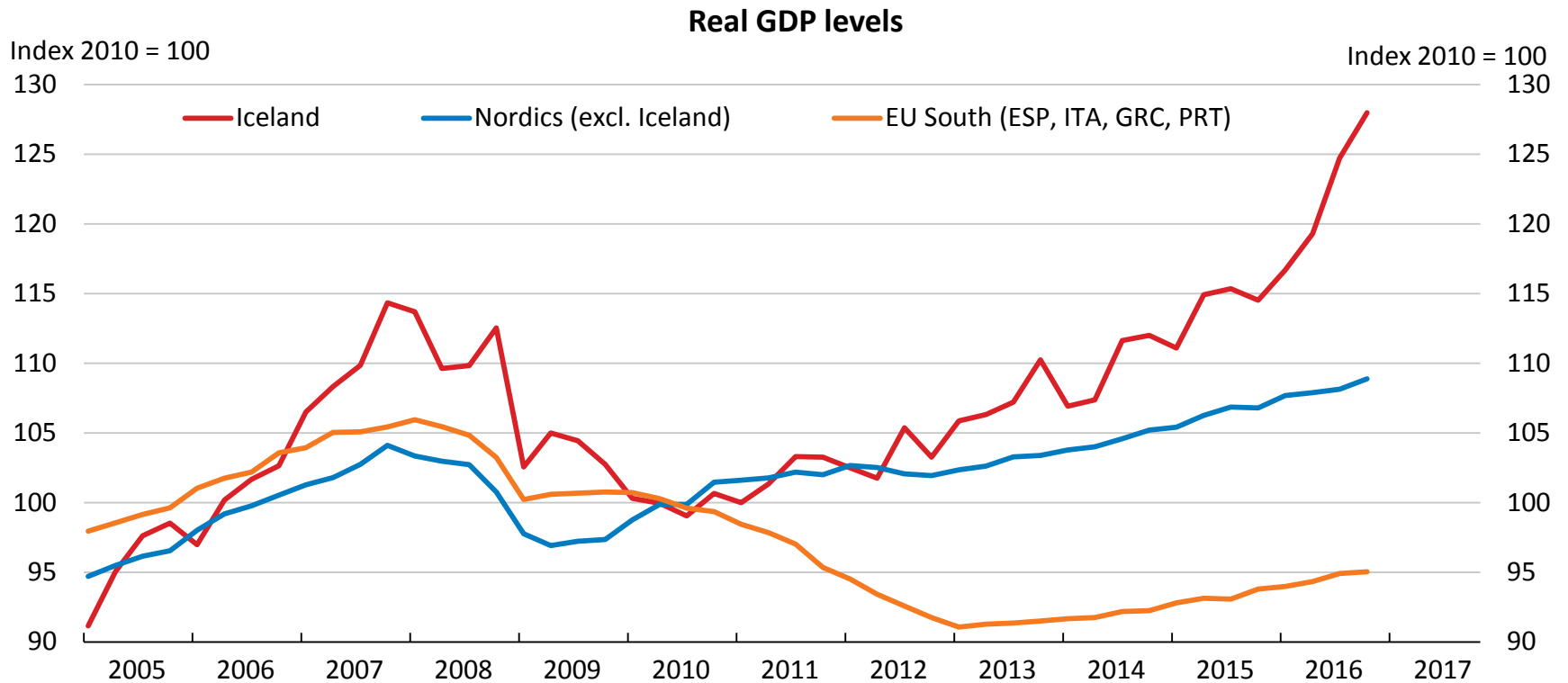
Reykjavik, Tuesday 27th June 2017

www.oecd.org/eco/surveys/economic-survey-iceland.htm





Iceland has made a remarkable turnaround



Source: OECD Analytical Database.



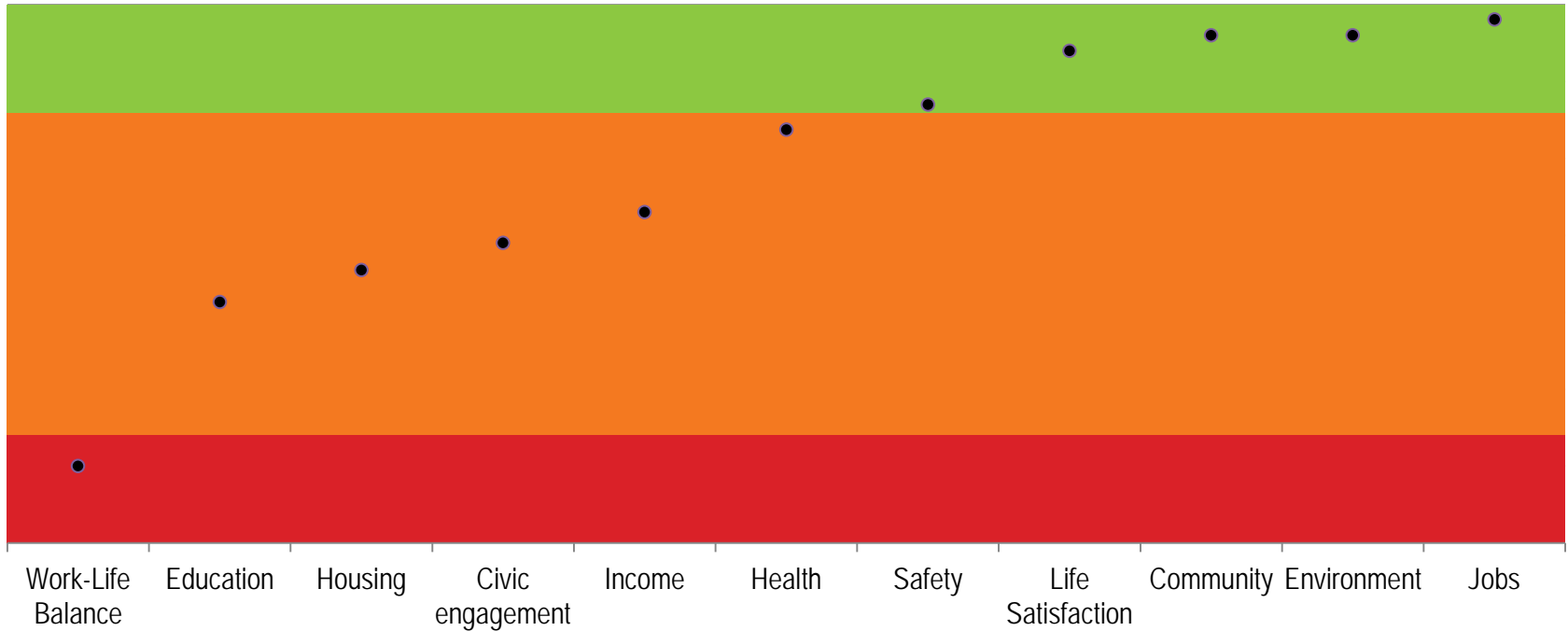
Well-being is high

Indicators of well-being in Iceland

■ 20% bottom performers ■ 60% middle performers ■ 20% top performers ● Iceland

Country rankings (1 to 35)

Country rankings (1 to 35)

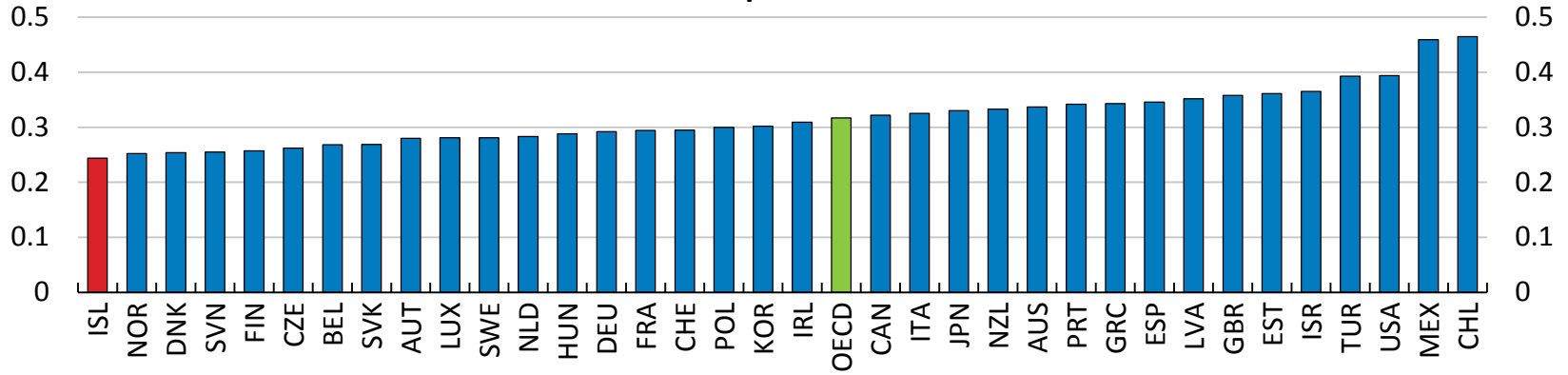


Source: OECD Better Life Index 2016.



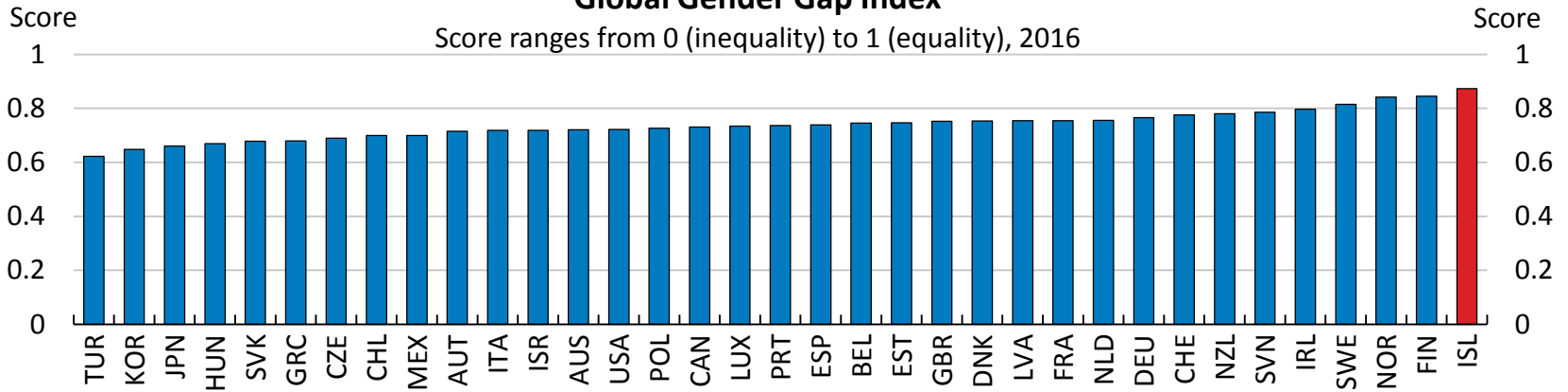
Iceland is highly inclusive and egalitarian

Gini of disposable income



Global Gender Gap Index

Score ranges from 0 (inequality) to 1 (equality), 2016

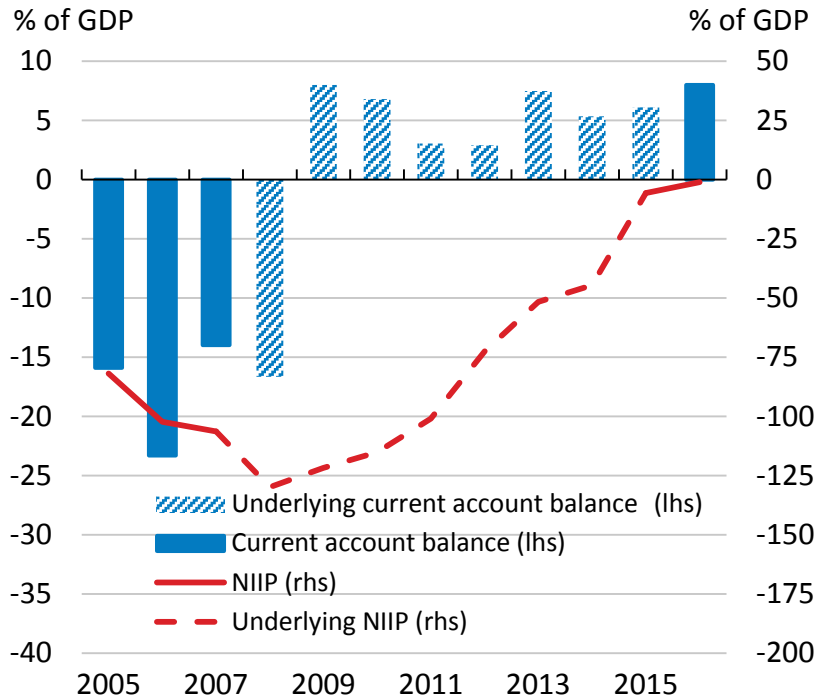


Source: OECD Income Distribution Database; and the World Economic Forum.

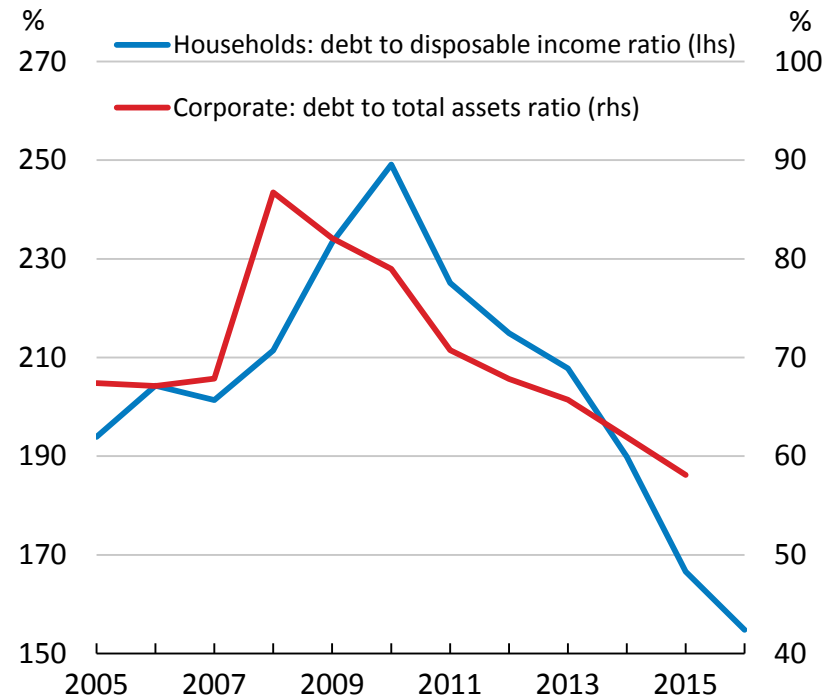


Major imbalances have been corrected

Current account and the Net International Investment Position



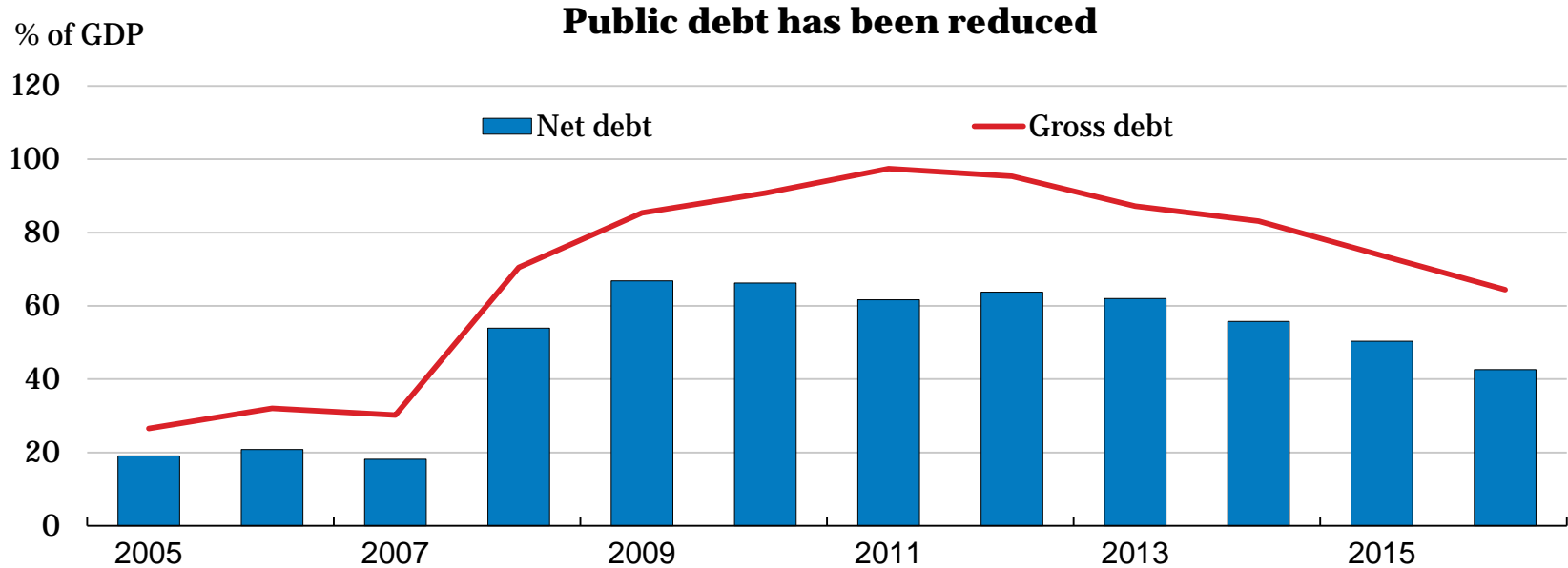
Leverage has been reduced



- **Capital controls have been essentially lifted**



Public debt is falling

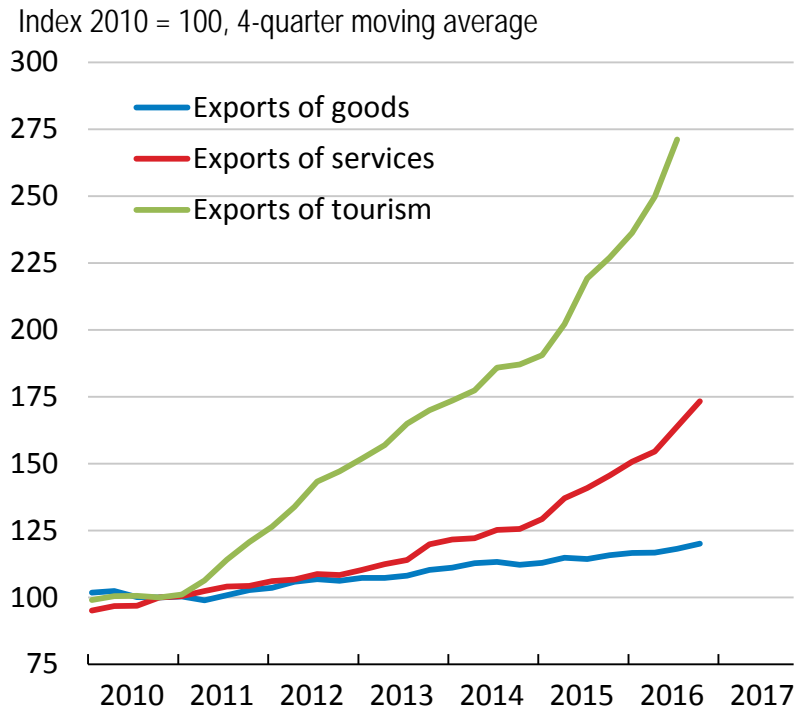


Source: OECD Economic Outlook 101 Database; and Ministry of Finance.

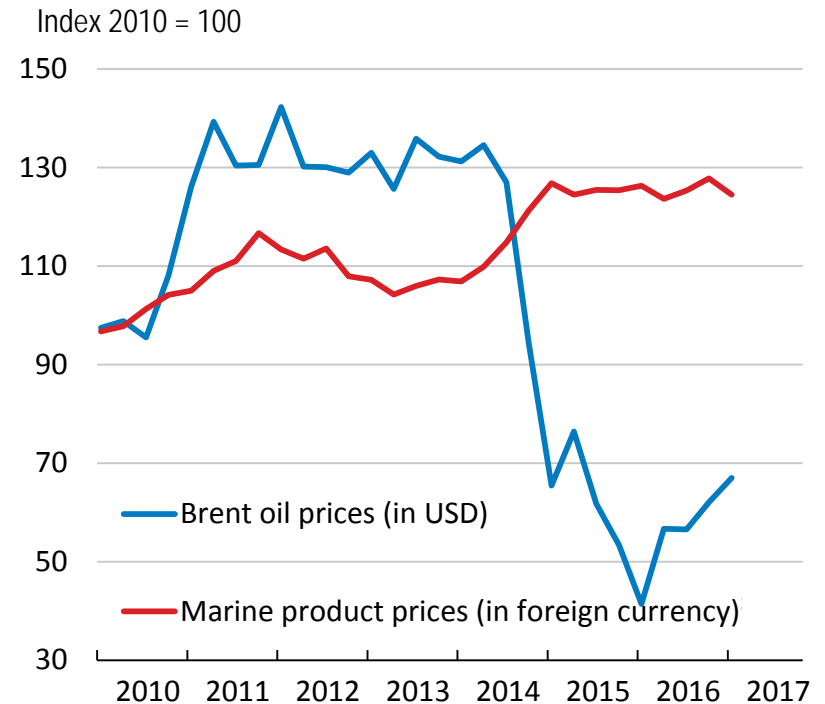


Growth is fastest in the OECD

Exports are boosted by the tourism boom



Terms of trade have been favourable

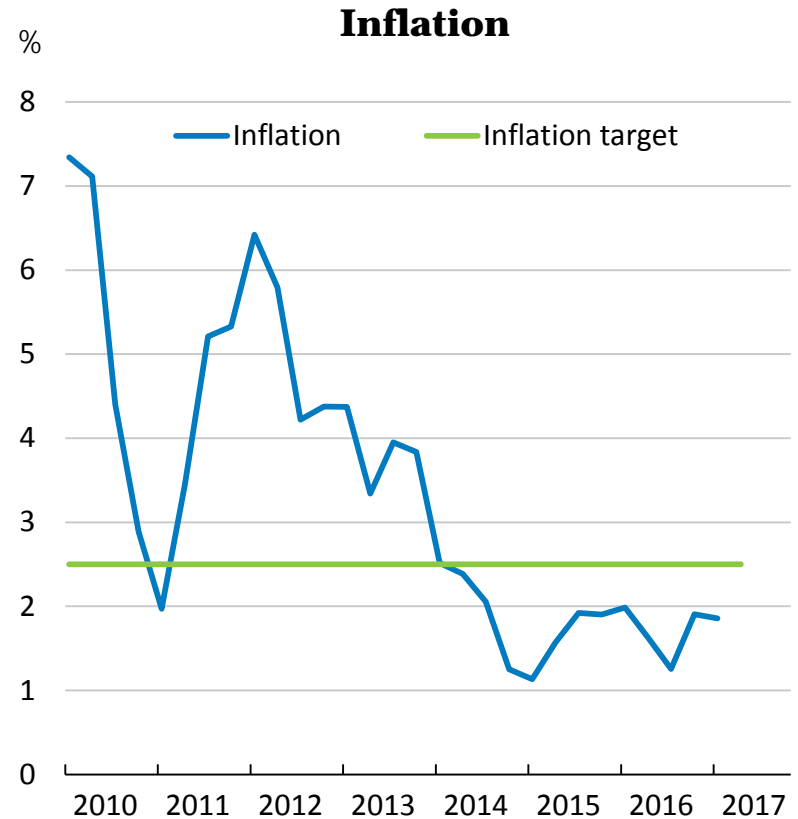
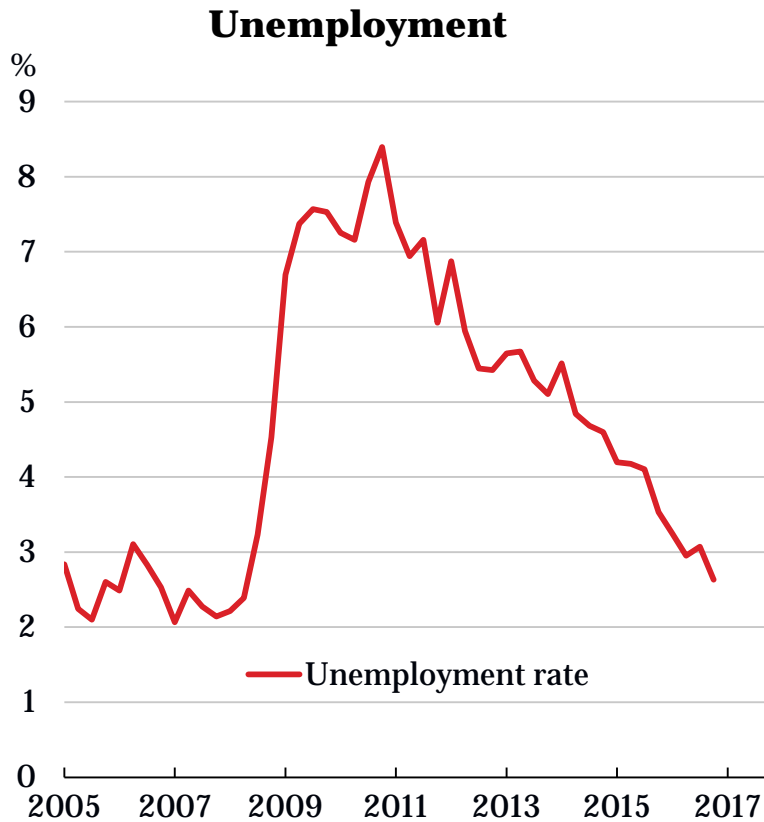


- **due to boom in tourism and favourable terms of trade**

Source: OECD Analytical Database; Statistics Iceland; Central Bank of Iceland.



Unemployment and inflation are low



Source: OECD Analytical Database.

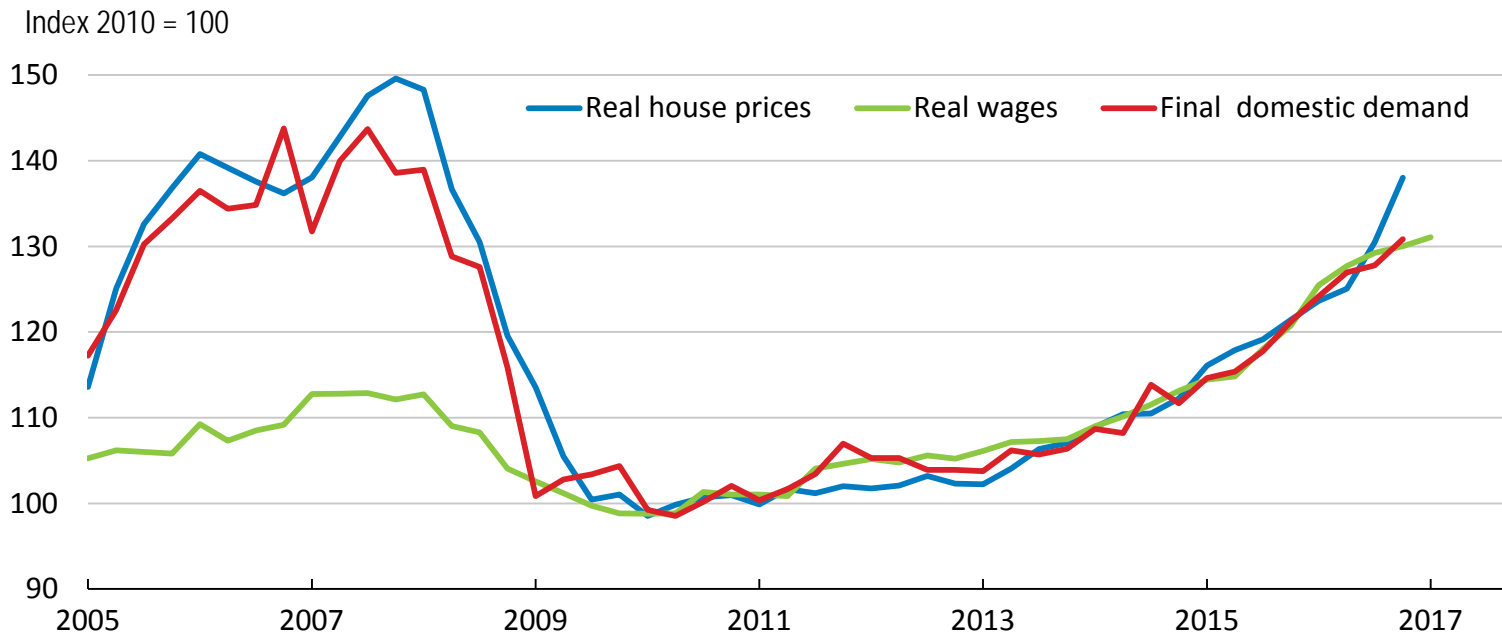


Preserving macroeconomic stability



Rapid growth brings challenges

**Wages, house prices
and domestic demand**

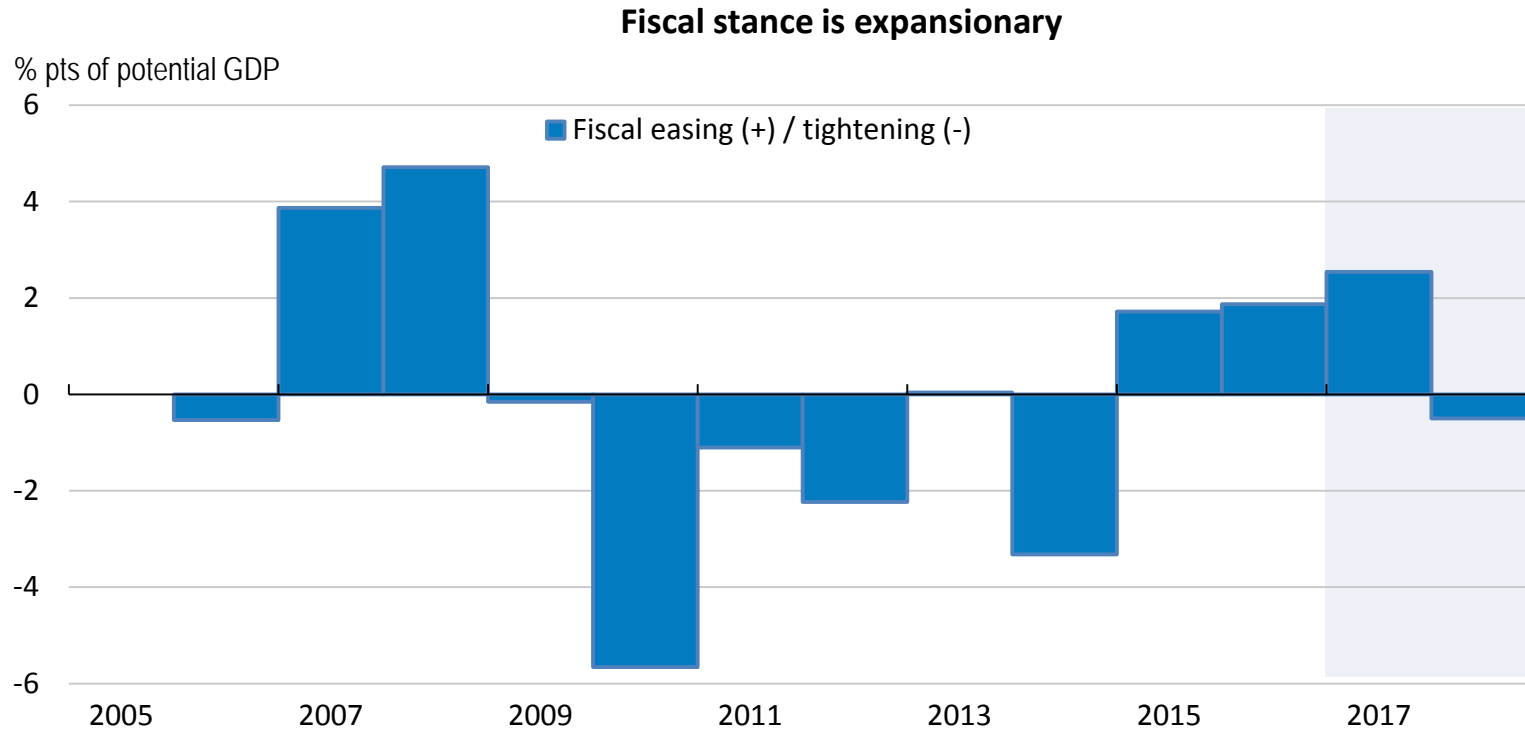


- **overheating and inflationary pressures**

Source: OECD Economic Outlook 101 Database and Statistics Iceland.



Fiscal policy has been too expansionary



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

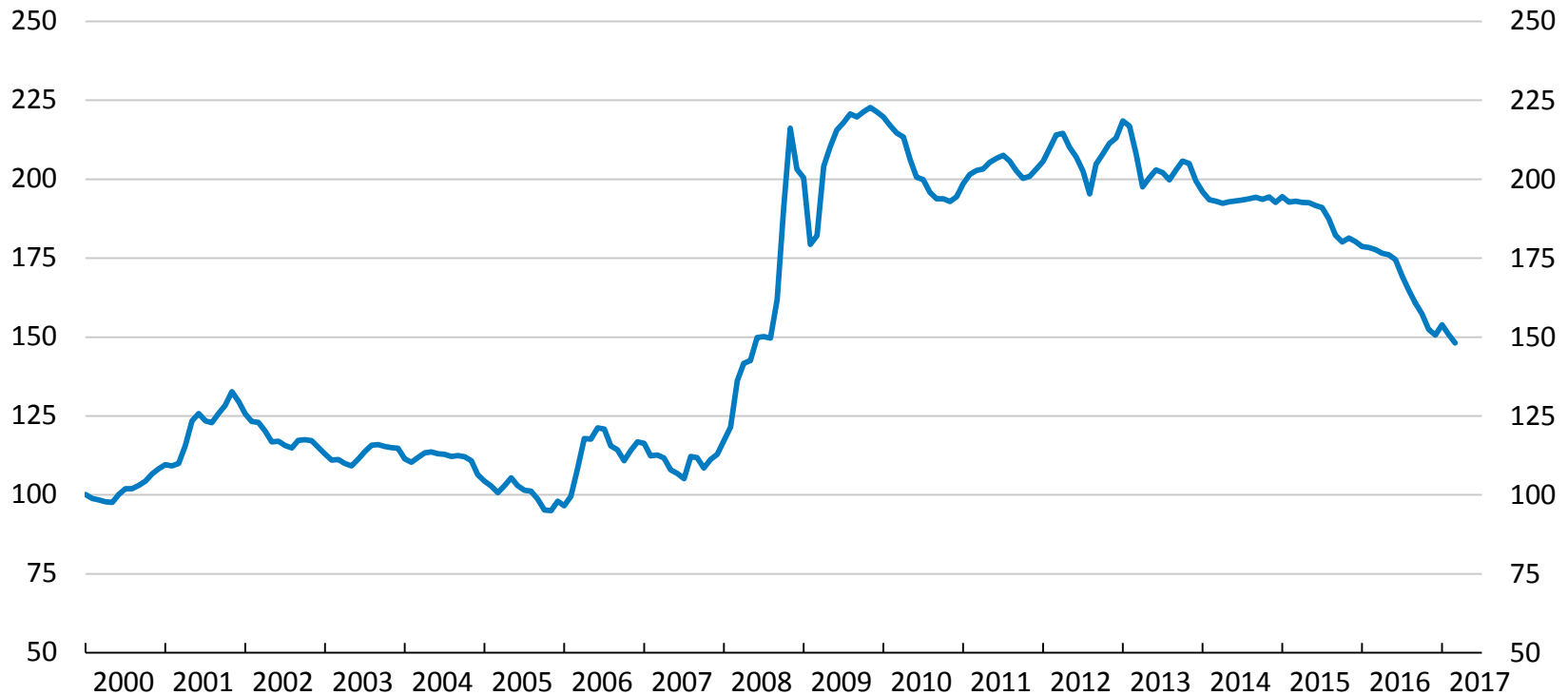
Source: OECD Economic Outlook 101 Database.



Strong and volatile króna poses challenges for many businesses

The króna has appreciated strongly since 2013

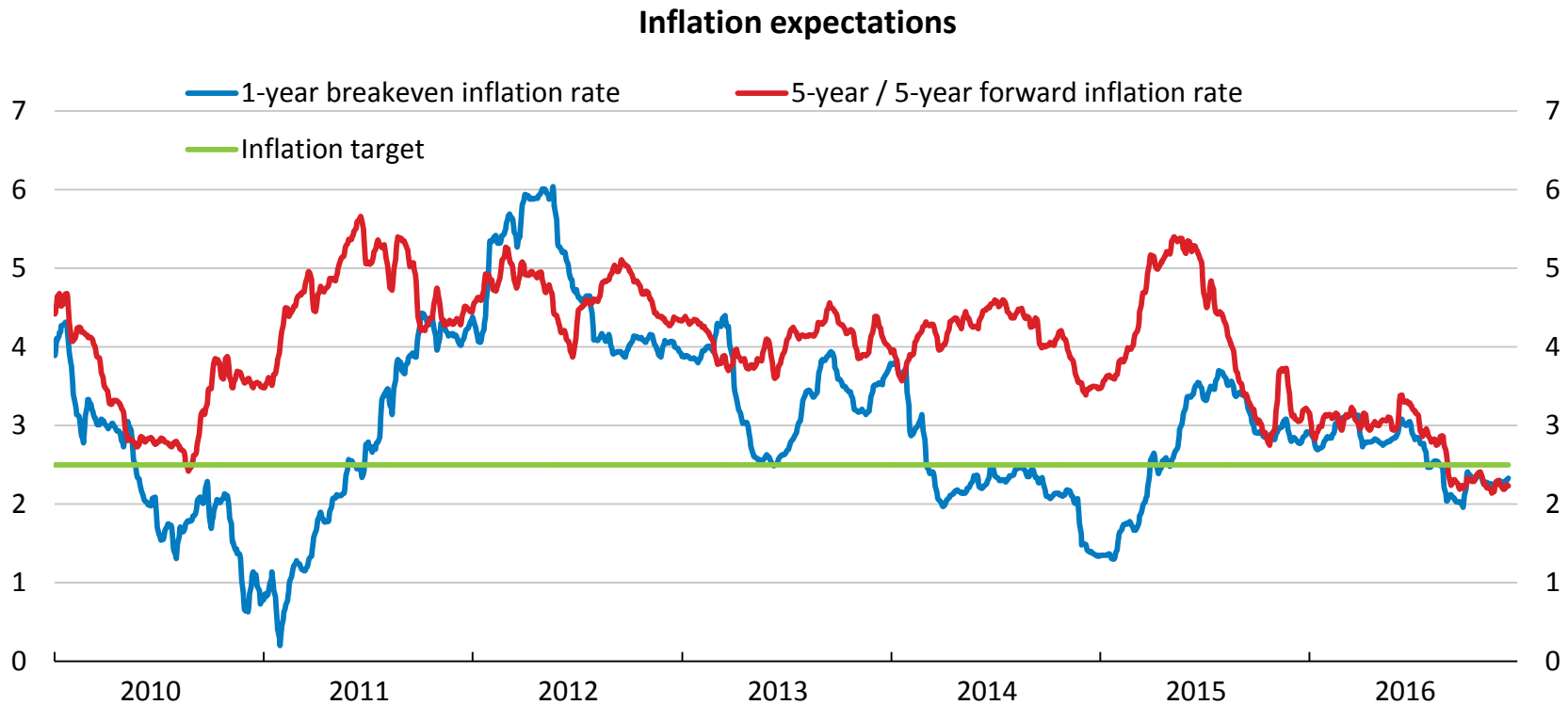
Broad trade index



Source: Central Bank of Iceland.



Inflation expectations are better anchored



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



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.

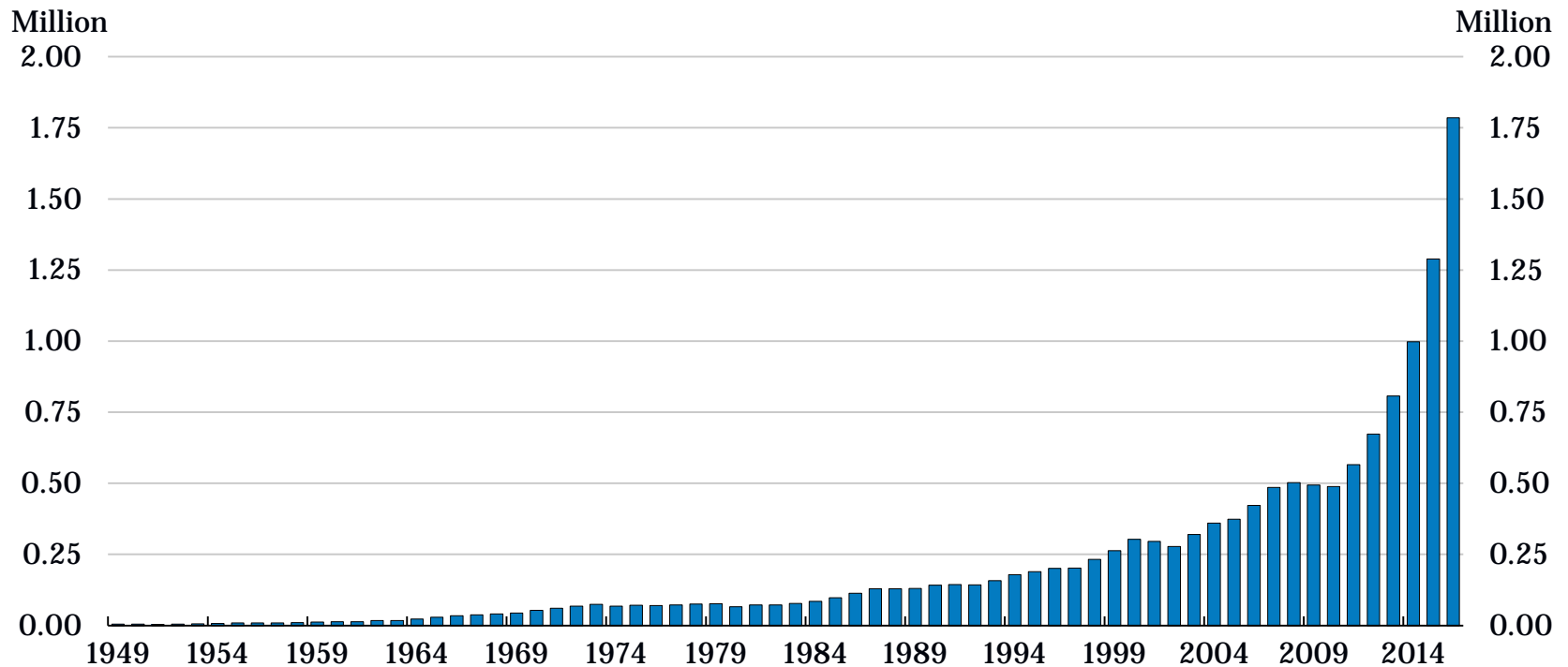


Making tourism sustainable and inclusive



Tourism has recorded spectacular growth...

International tourist numbers have risen dramatically



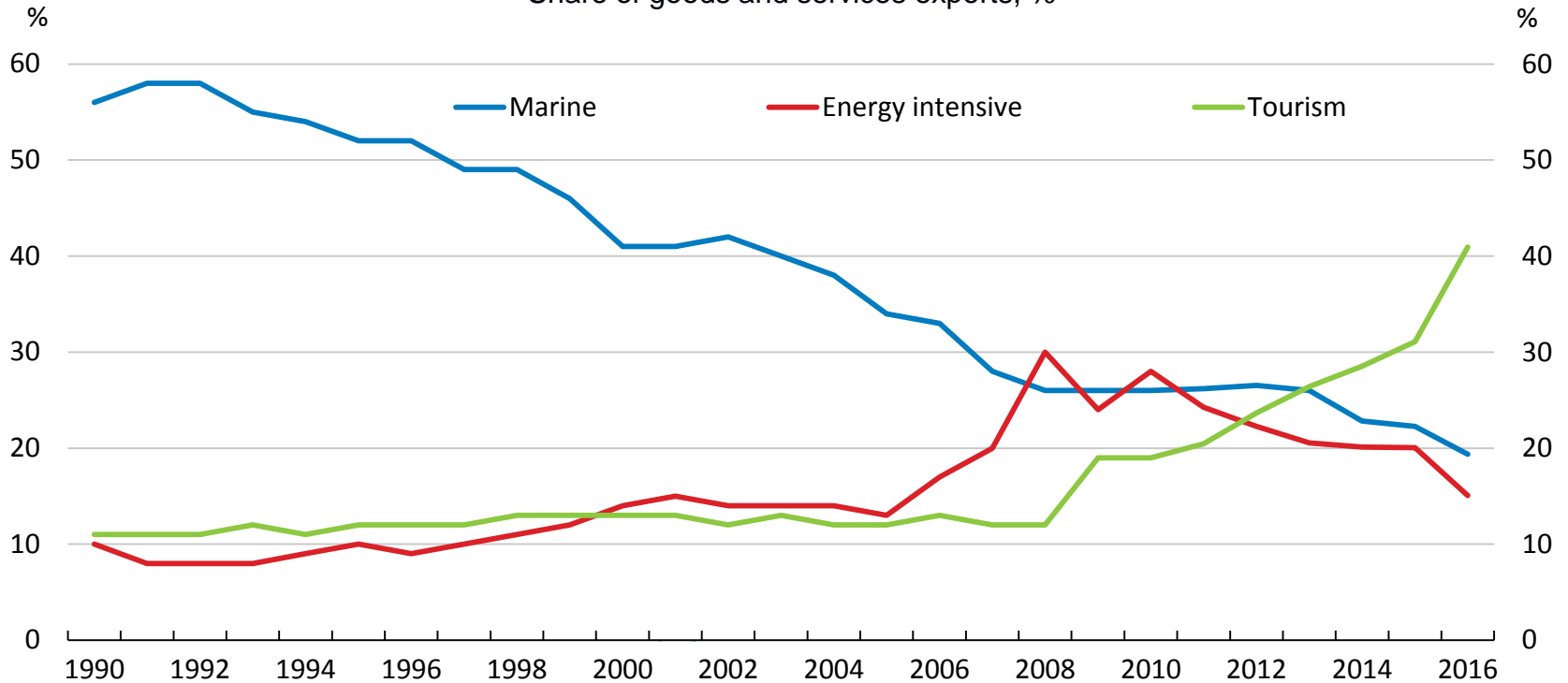
Source: Icelandic Tourist Board.



... and has become a major export earner

Tourism is now a major export earner

Share of goods and services exports, %



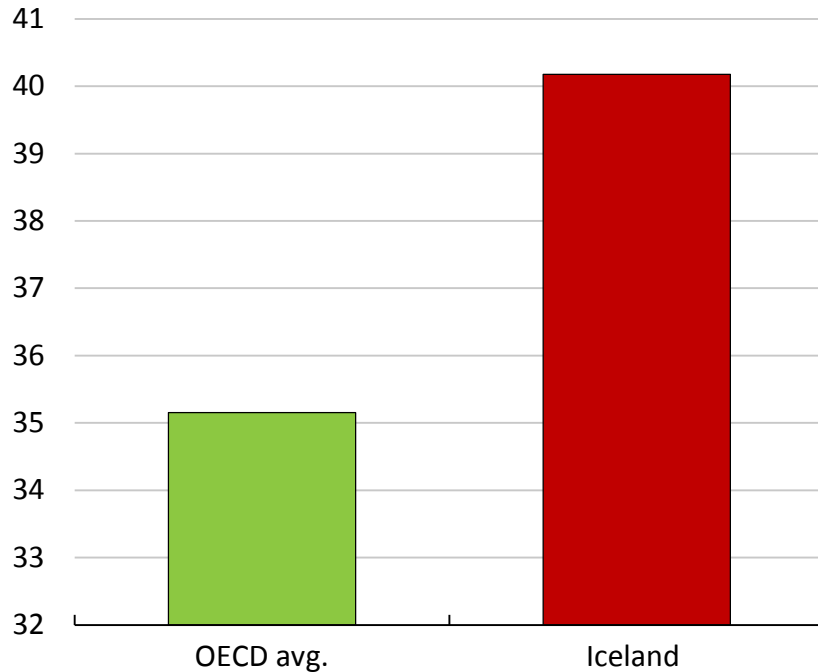


It also creates challenges – pressures on society

House prices have risen and affordability can be a challenge

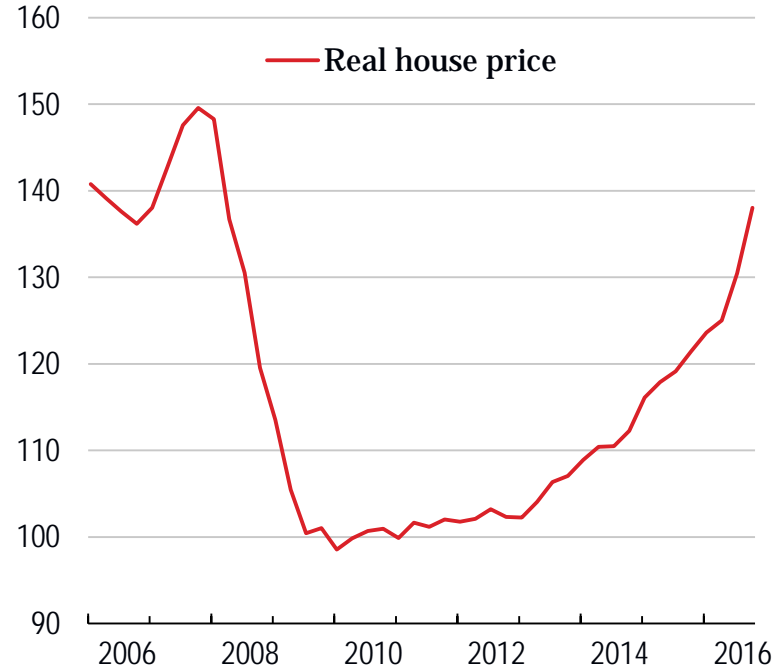
Rent expenditure

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



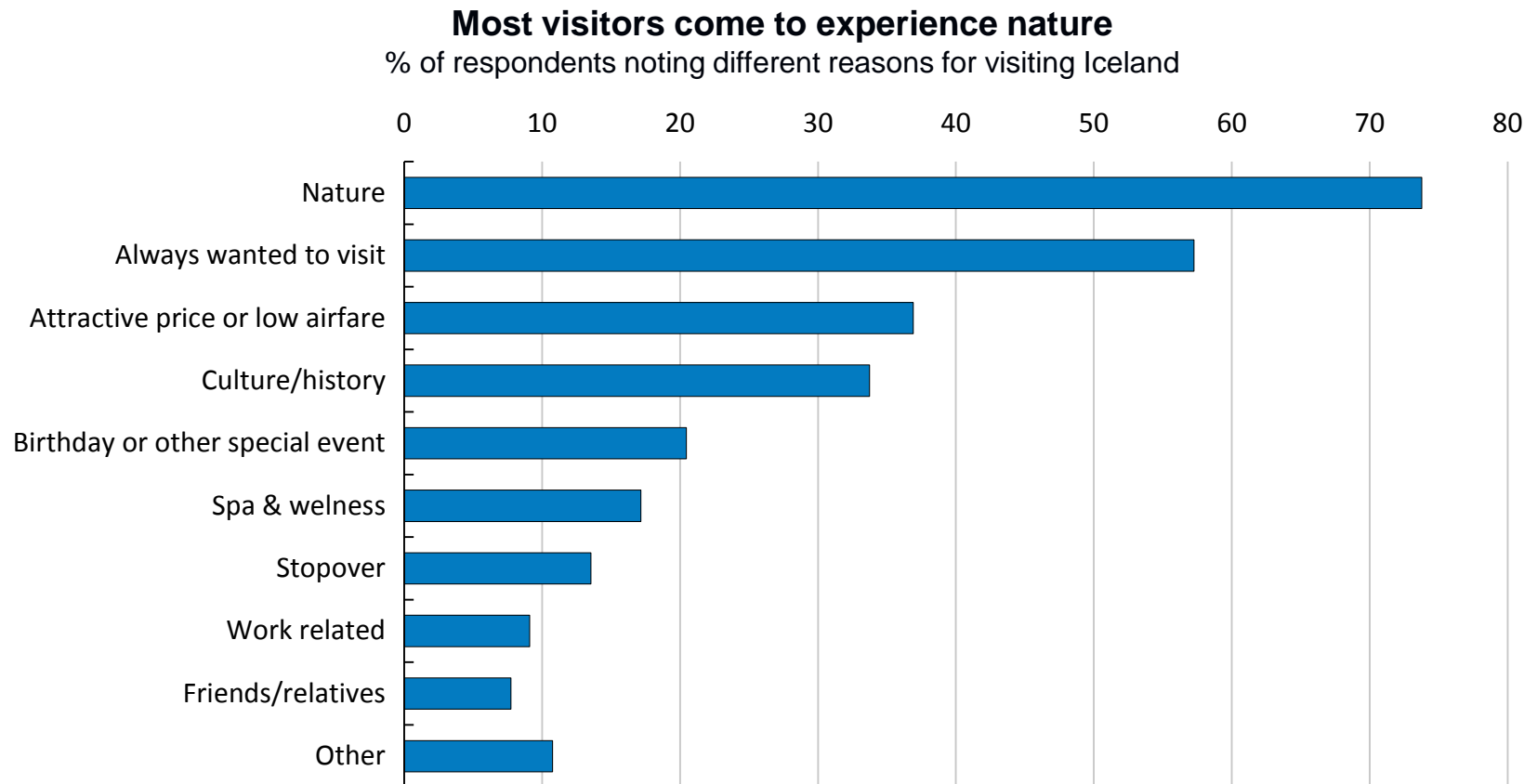
House price

Index 2010 = 100





Environment needs to be preserved



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.



Recommendations for sustainable tourism

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.



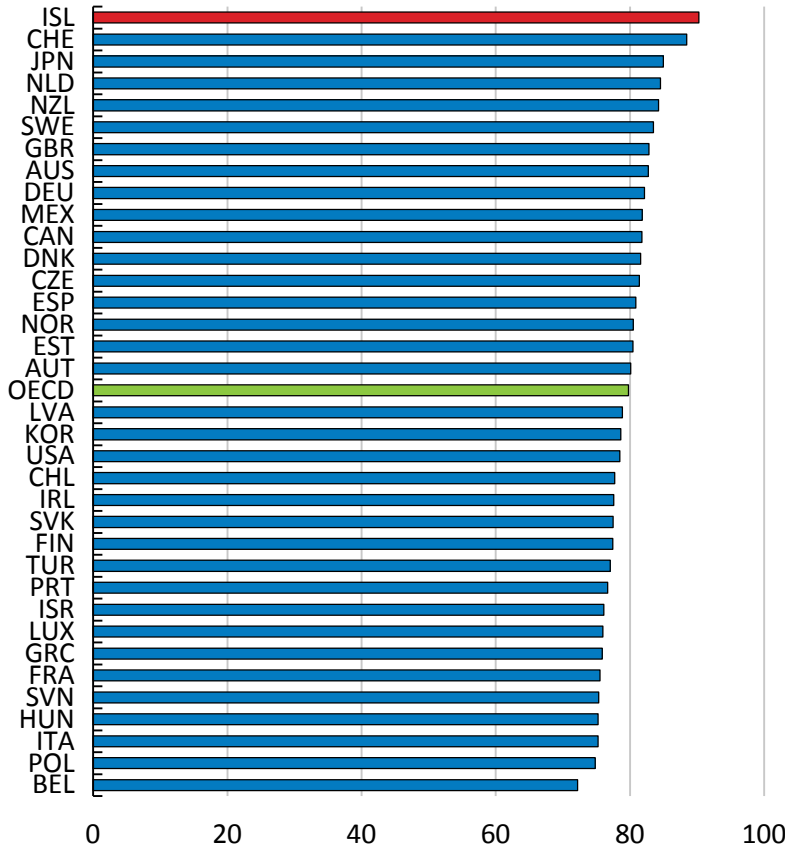
Effective and inclusive labour relations



Labour market is flexible and inclusive

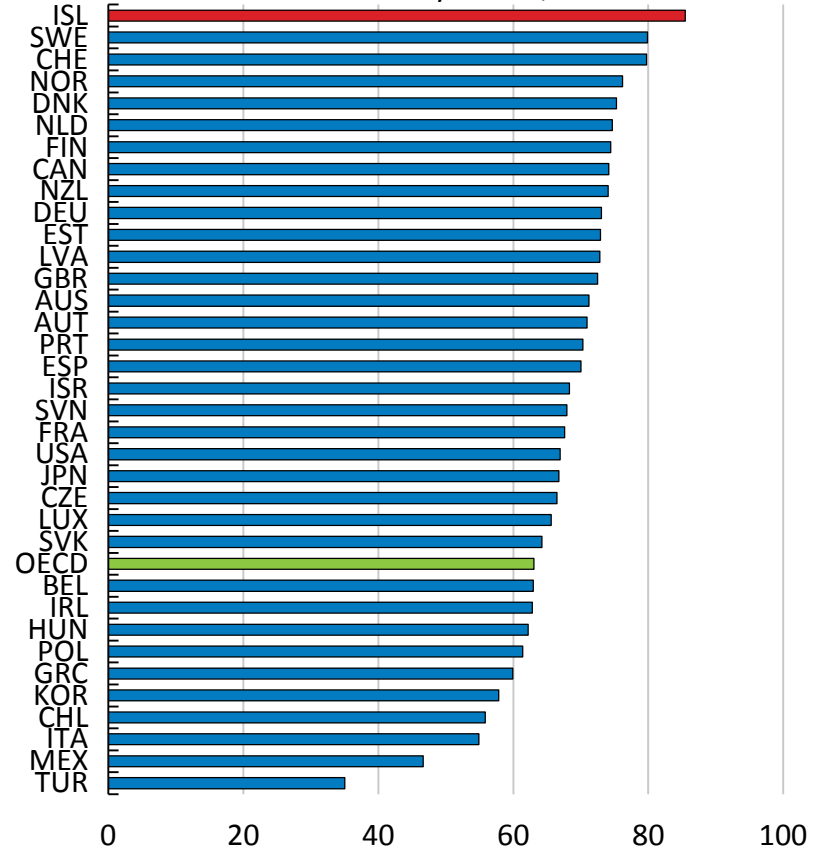
Participation rates of men

% of 15-64 year-old, 2015



Participation rates of women

% of 15-64 year-old, 2015



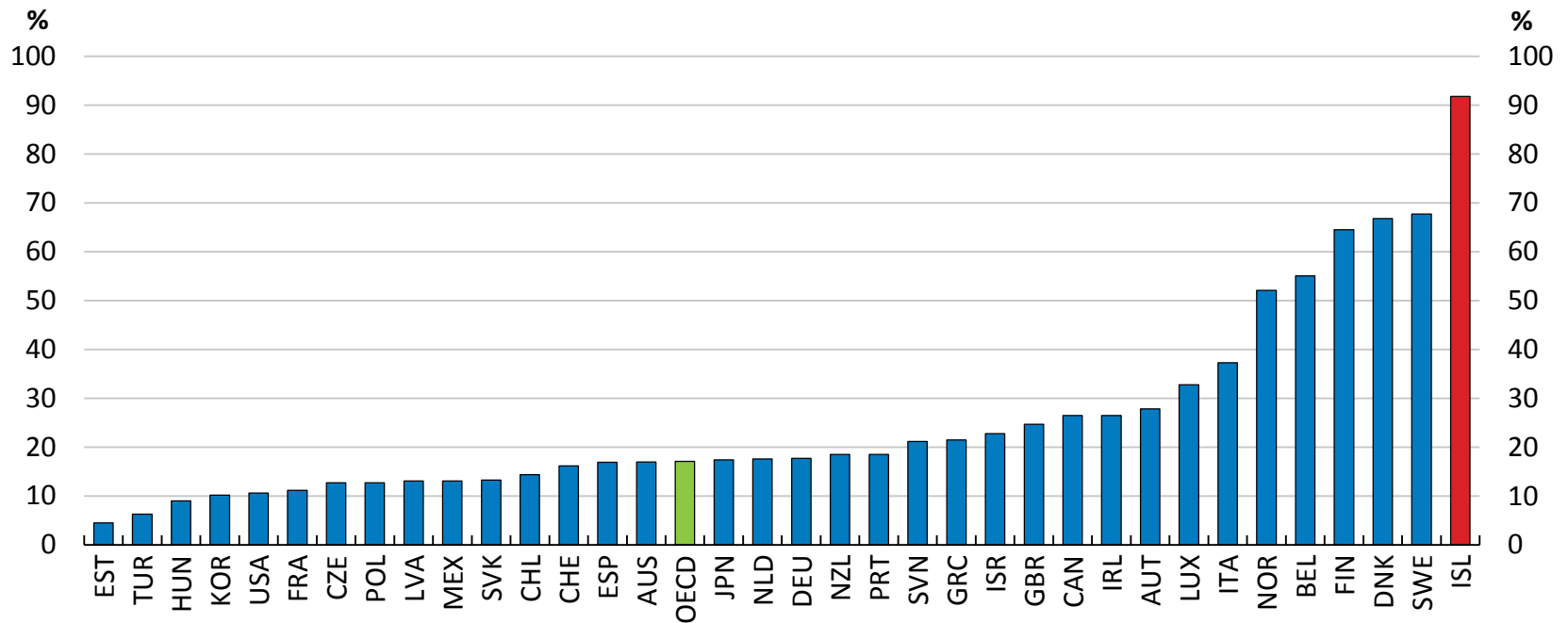
- **Participation is high and unemployment low**

Source: OECD Labour Force Statistics.



Iceland is highly unionised

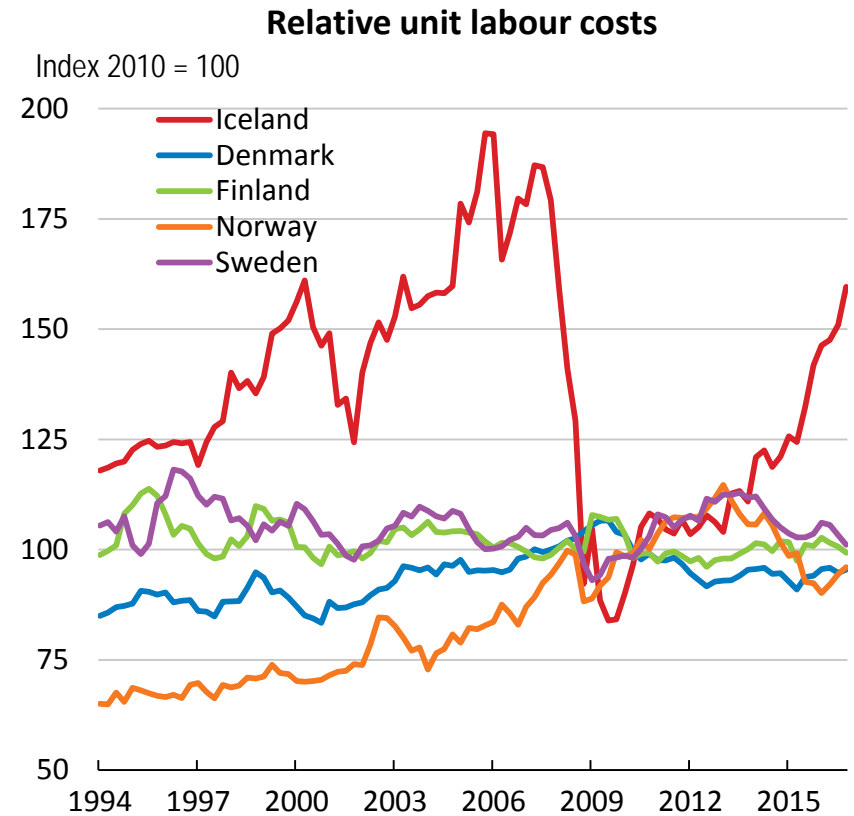
Union density
2015 or latest year available



Source: OECD Analytical Database.



There are recurrent bursts of social tensions



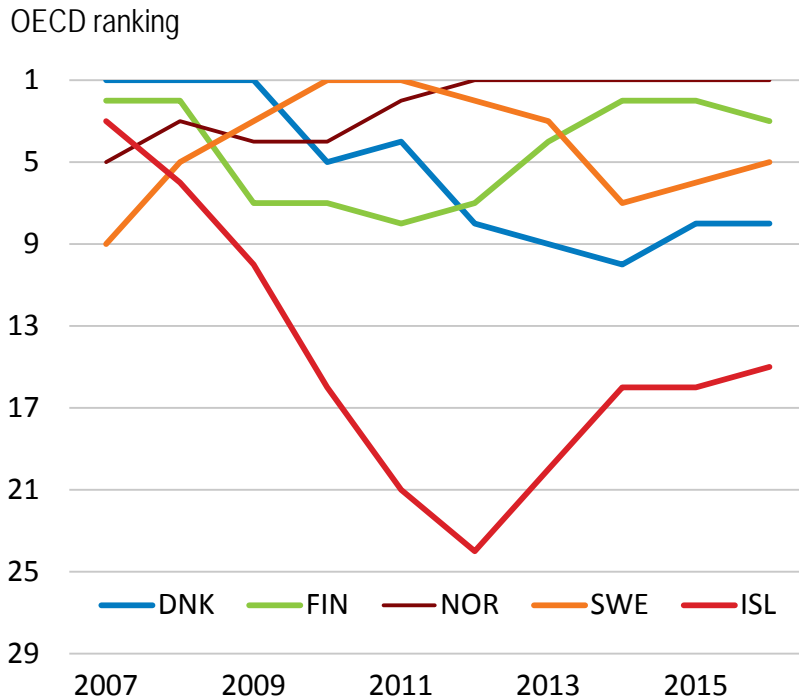
- **Large wage awards hurt competitiveness**

Source: Statistics Iceland; and OECD Analytical Database.

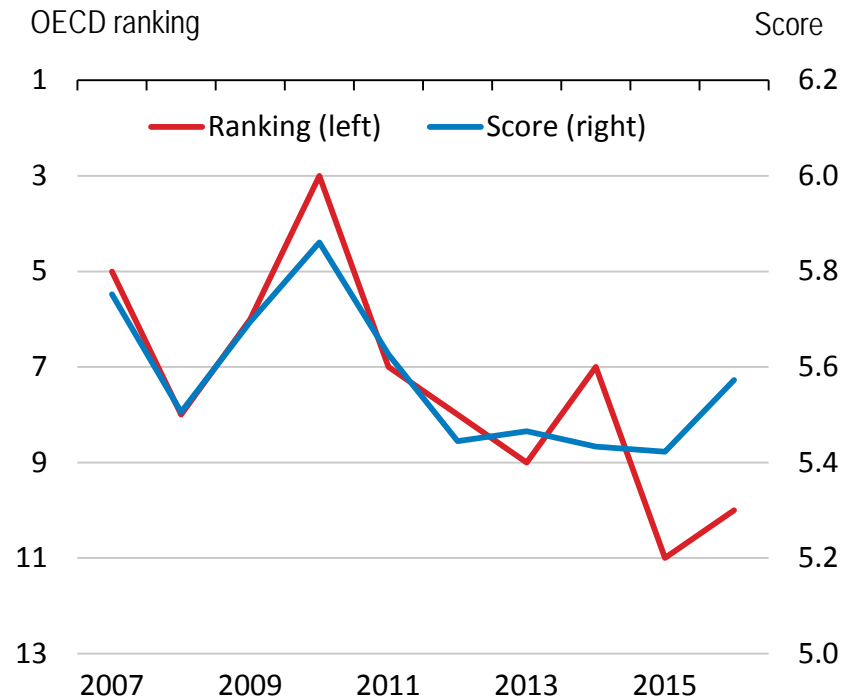


Trust has been undermined

Trust in politicians¹ has been significantly undermined



Labour-employer relations² have deteriorated in relative terms



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]'.

Source: World Economic Forum. The Global Competitiveness Index dataset 2007-2016.



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.



More Information...

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