

ICELAND

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

Policy priorities

Lower barriers to entry for domestic and foreign firms

Challenge and recommendations: In order to reduce anti-competitive behaviour by dominant firms and raise productivity, it was recommended that the energy and fisheries sectors be opened further.

Actions taken: While the sale of the public stake in Iceland Telecom has been completed, the authorities do not intend to privatise the national electricity company nor to reduce ownership restrictions in fisheries.

Reduce producer support to agriculture

Challenge and recommendations: To ease the burden on consumers and taxpayers, it was recommended that high and distorting agricultural support be reduced and that tariffs and protective quotas be eliminated.

Actions taken: The government has stated its willingness to accept a reduction in agricultural subsidies and protection in the context of the Doha trade round.

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

Challenge and recommendations: To improve educational attainment and get better value for money, it was recommended that policy should focus on quality and efficiency improvements while maintaining high levels of education spending.

Actions taken: The government is implementing or planning further measures to reduce drop-out rates, e.g. curriculum reform, incentives for schools to focus on attainment and a shortening of the duration of upper-secondary education.

Continue public sector reform

Challenge and recommendations: To enhance efficiency and curb expenditure creep, it was recommended that performance measurement and management reform in the public sector be accelerated.

Actions taken: The authorities have tightened regulations governing the implementation of the budget and are reviewing incentives for public-sector managers to keep expenditure within budgeted levels.

Reduce government support to housing

Challenge and recommendations: To diminish distortions of investment choices between housing and other assets, reducing government backing of bonds issued by the Housing Finance Fund was recommended.

Actions taken: The government does not intend to withdraw from housing finance, but it is re-considering the role of the public fund, which could become primarily a mortgage lender to low-income households or those in remote locations.