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- The income gap with the upper half of OECD countries widened following the crisis, largely driven by adverse developments in labour force participation and employment, though labour utilisation remains comparatively high. Labour productivity growth has slowed down markedly with deterioration in capital deepening.
- There has been no progress on the policy priorities identified in the 2013 issue of *Going for Growth*.
- Productivity growth would be enhanced by reducing barriers to competition stemming from distortive agricultural support and from restrictive product market regulation as well as by raising public sector efficiency. Improving education outcomes would foster human capital accumulation and thus boost productivity.
- Reducing producer support to agriculture would boost productivity and also lower food prices, which would benefit lower-income households. Improving equity and performance in education would, in addition to boosting productivity growth, also help reduce income inequality.

Growth performance indicators

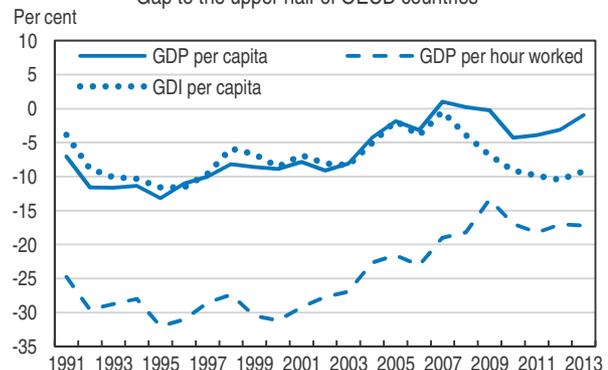
A. Average annual trend growth rates

Per cent

| | 2003-08 | 2008-13 |
|---|---------|---------|
| Potential GDP per capita | 2.7 | 0.2 |
| Potential labour utilisation | -0.1 | -0.7 |
| of which: Labour force participation rate | -0.1 | -0.6 |
| Employment rate ¹ | -0.1 | -0.1 |
| Trend employment coefficient ² | 0.0 | 0.0 |
| Potential labour productivity | 2.8 | 0.9 |
| of which: Capital deepening | 1.1 | -0.5 |
| Labour efficiency | 1.0 | 0.8 |
| Human capital | 0.7 | 0.7 |

B. The gap in GDP per capita has stopped widening

Gap to the upper half of OECD countries³



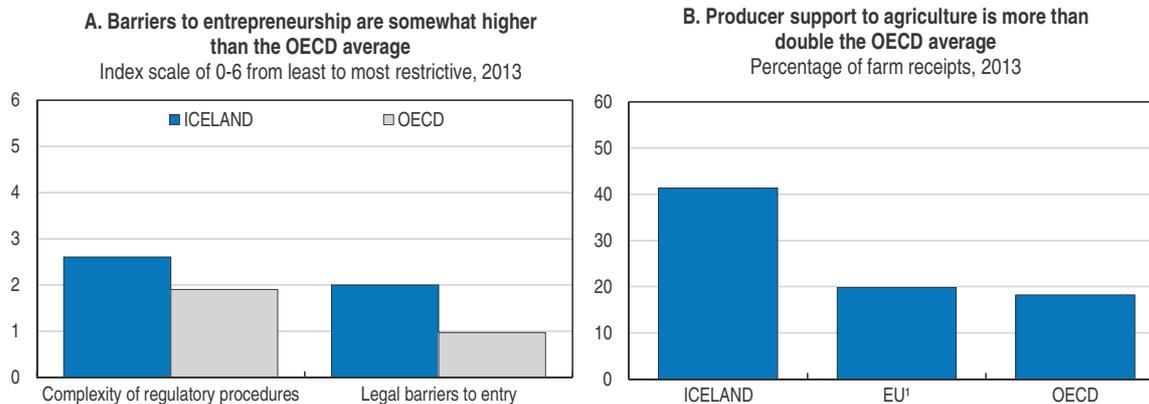
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage 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).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

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Policy indicators



1. For this measure, EU refers to all 27 members of the European Union.

Source: Panel A: OECD, Product Market Regulation Database, www.oecd.org/economy/pmr. Panel B: OECD, Producer and Consumer Support Estimates Database.

StatLink <http://dx.doi.org/10.1787/888933178245>

Going for Growth 2015 priorities

Priorities supported by indicators

Reduce barriers to product market competition. Regulatory opacity and legal barriers to entry restrain competition, entrepreneurship and productivity growth.

Actions taken: No action taken.

Recommendations: Review and reduce the number of licences and permits required and use plain language in regulations. Reduce legal barriers to entry in the electricity, air transport, airport and sea port sectors. Remove capital controls which deter foreign investment.

Reduce producer support to agriculture. Agriculture producer support is high, burdening consumers and taxpayers and weighing on productivity growth.

Actions taken: No action taken.

Recommendations: Reduce agricultural support by lowering tariffs and excise duties, abolishing quotas on agricultural products, reducing other forms of producer support and delinking it from production.

Improve outcomes and equity in education. Below OECD average achievement in reading and science, high variance across students, and low efficiency of the education system reduce productivity.

Actions taken: No action taken.

Recommendations: Strengthen the capacity of municipalities to manage and oversee primary education collectively or shift these responsibilities back to the central government's education ministry. Strengthen school accountability for education outcomes. Adjust curricula to improve performance in reading and mathematics. Raise teacher quality in rural areas. Increase effective teaching time and student-teacher ratios.

ICELAND**Other key priorities**

Lower ownership restrictions on domestic and foreign firms. Restrictions on domestic private and foreign ownership inhibit competition in the electricity and fisheries sectors, weakening investment and productivity growth.

Actions taken: No action taken.

Recommendations: Reduce ownership restrictions in the electricity and fisheries sectors. Divest the National Power Company's generation facilities to create a competitive market in electricity generation.

Increase public sector efficiency. Inadequate performance information undermines programme management and productivity.

Actions taken: No action taken.

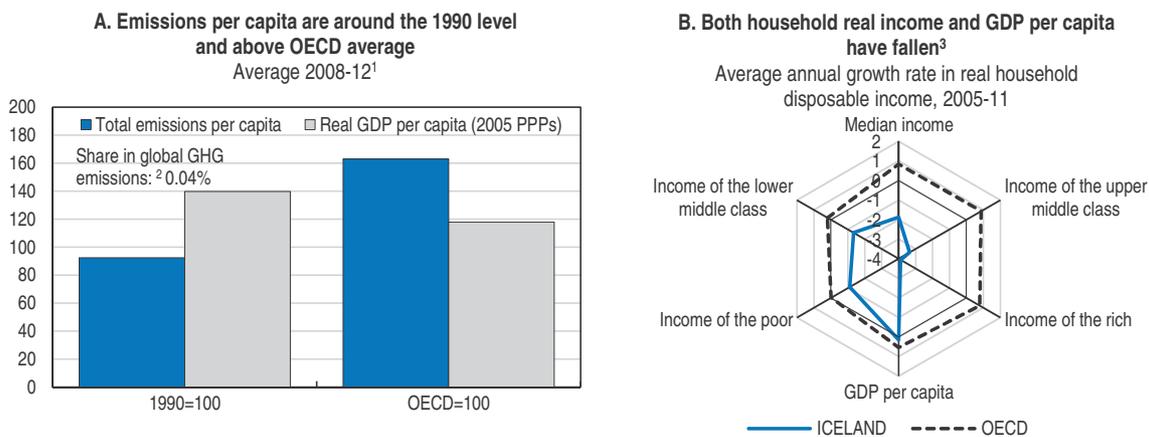
Recommendations: Introduce performance indicators to identify government programmes that are not meeting their objectives. Introduce corrective measures for programmes failing to deliver.

Reform areas no longer considered a priority in *Going for Growth*

For Iceland, all priority areas from the 2013 issue of *Going for Growth* are maintained.

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Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO₂ equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink  <http://dx.doi.org/10.1787/888933178674>