

ICELAND

Over the past decade, convergence with the best performing countries has resumed, but – contrary to GDP per capita – labour productivity is still relatively low.

Priorities supported by indicators

Reduce producer support to agriculture

Support to agricultural producers is still more than twice the OECD average, and prices on agricultural products are more than three times higher than those in the world market. This entails a heavy burden for consumers and taxpayers alike, while maintaining excess resources in low-productivity activities.

Actions taken: The abolition of remaining administered prices has been postponed indefinitely, and a framework agreement on support to dairy farmers, which is highly distorting, excludes any changes until 2012.

Recommendations: Facilitate market access and reduce the very high levels of support, in particular the most productive and trade distorting type.

Improve upper-secondary education attainment

While participation in tertiary education is high, the proportion of the working-age population with only lower-secondary education is still significant, even among young people.

Actions taken: New legislation aimed at maintaining quality standards of higher education in the face of strong student inflows has been passed, and the authorities are planning to reduce the duration of upper-secondary education, which is long by international comparison.

Recommendations: The reduction in the length of upper-secondary education should be matched by increasing effective teaching time and curriculum adjustment so that core competence achievement is not weakened.

Lower barriers to entry for domestic and foreign firms

High barriers to the entry of domestic and foreign firms remain in a few sectors, notably energy and fisheries, limiting competition, with potentially adverse effects on productivity performance.

Actions taken: The sale of the public stake in Iceland Telecom has been completed, but there has been no progress as to the privatisation of the public electricity company and reducing foreign ownership restrictions in fisheries.

Recommendations: Reduce foreign ownership restrictions in fisheries and the energy sector. Consider privatising the National Power Company's generation activities in order to level the playing field between the incumbent and entrants.

Other key priorities

- To reduce distortions in the mortgage market, the Housing Financing Fund should be charged a fee reflecting its benefits of a government guarantee.
- To enhance efficiency and curb spending creep, the introduction of outcome-based budgeting, performance measurement and management reforms in the public sector should be accelerated.