



# ECONOMIC SURVEY OF ICELAND

## Making the most of a strong rebound

Reykjavik, 20 June 2023

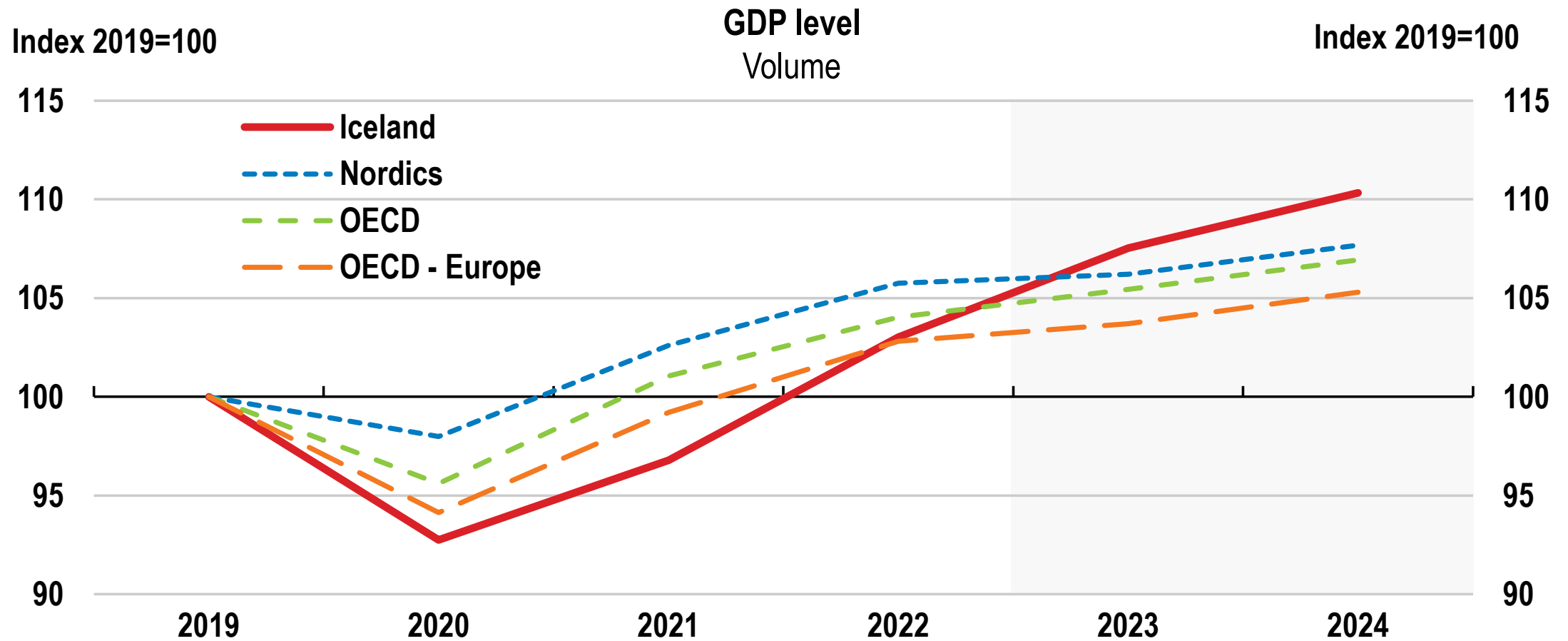
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# The economy has rebounded strongly from COVID



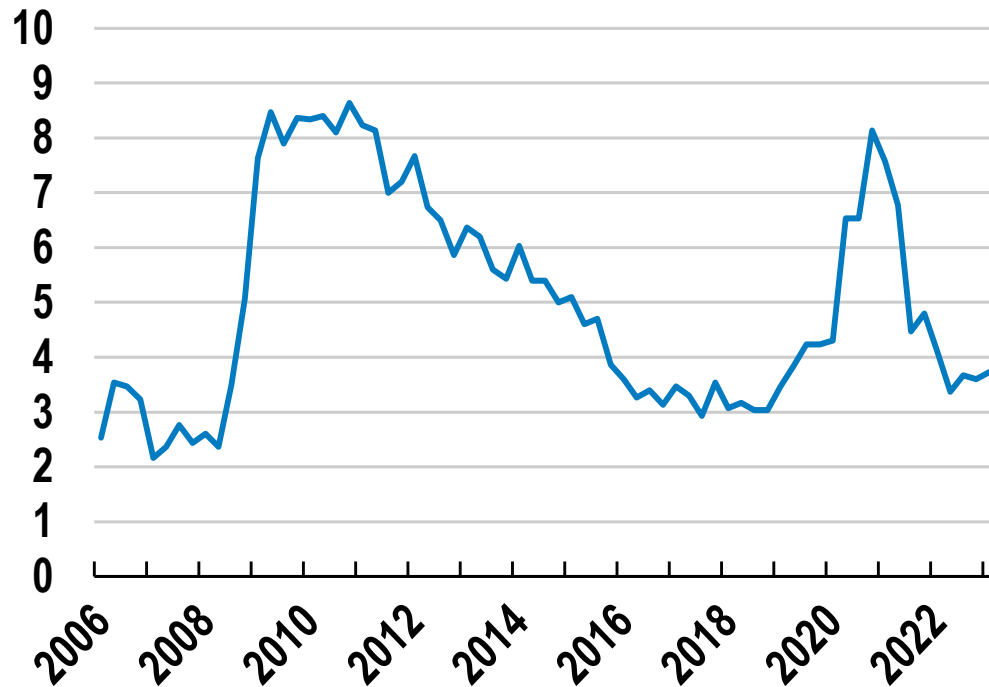
Source: OECD Economic Outlook No. 113 database.



# The labour market remains tight

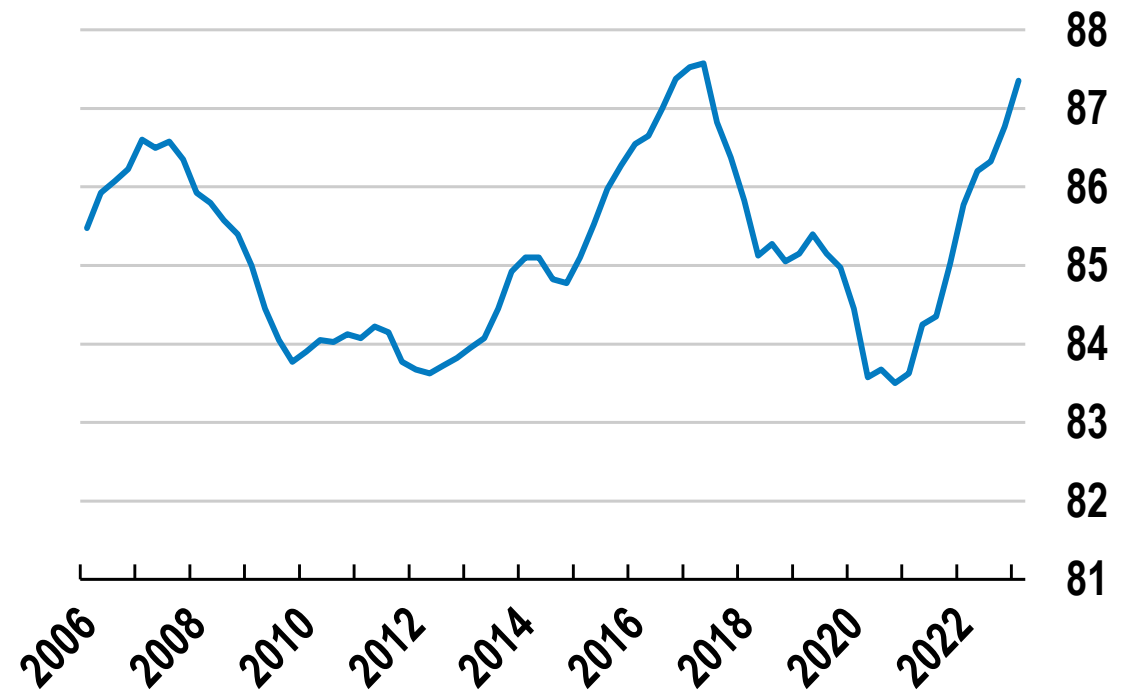
## A. Unemployment rate

% of labour force, seasonally adjusted



## B. Labour force participation rate

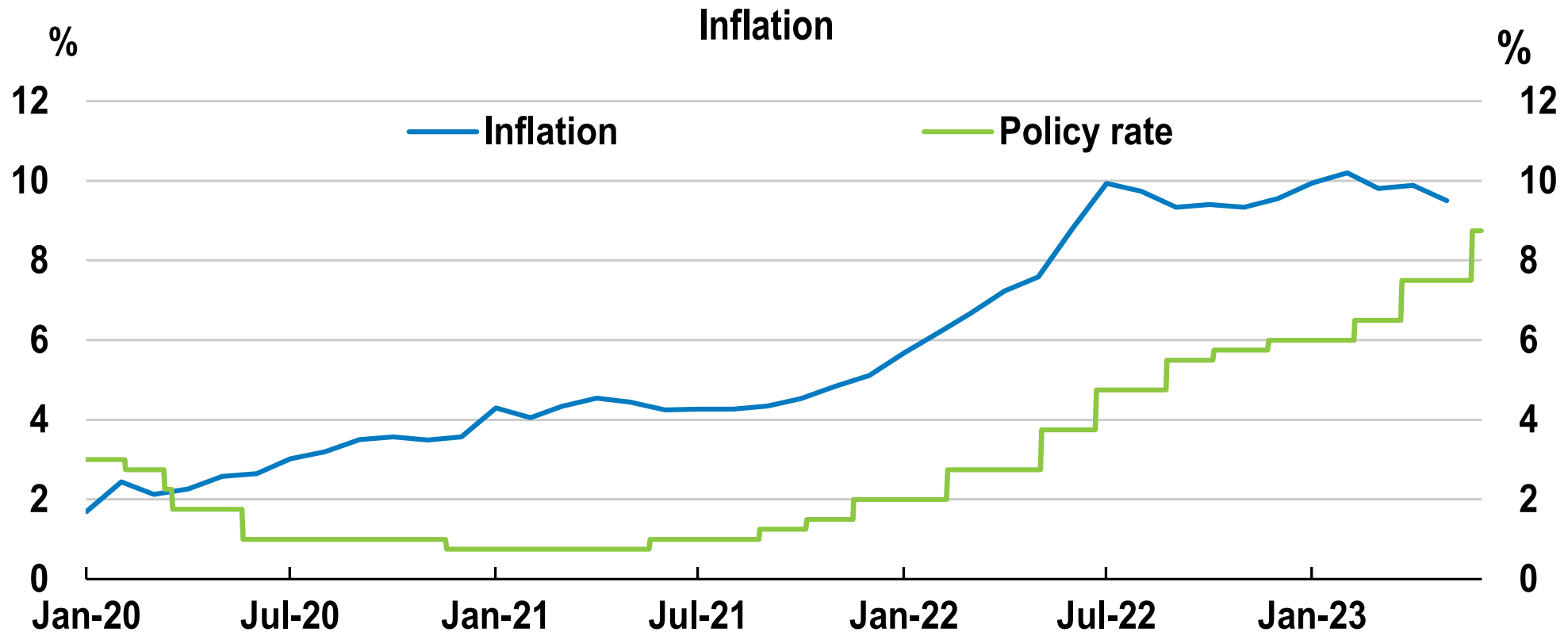
% of working-age population



Source: Statistics Iceland.



# The central bank has responded to rising inflation

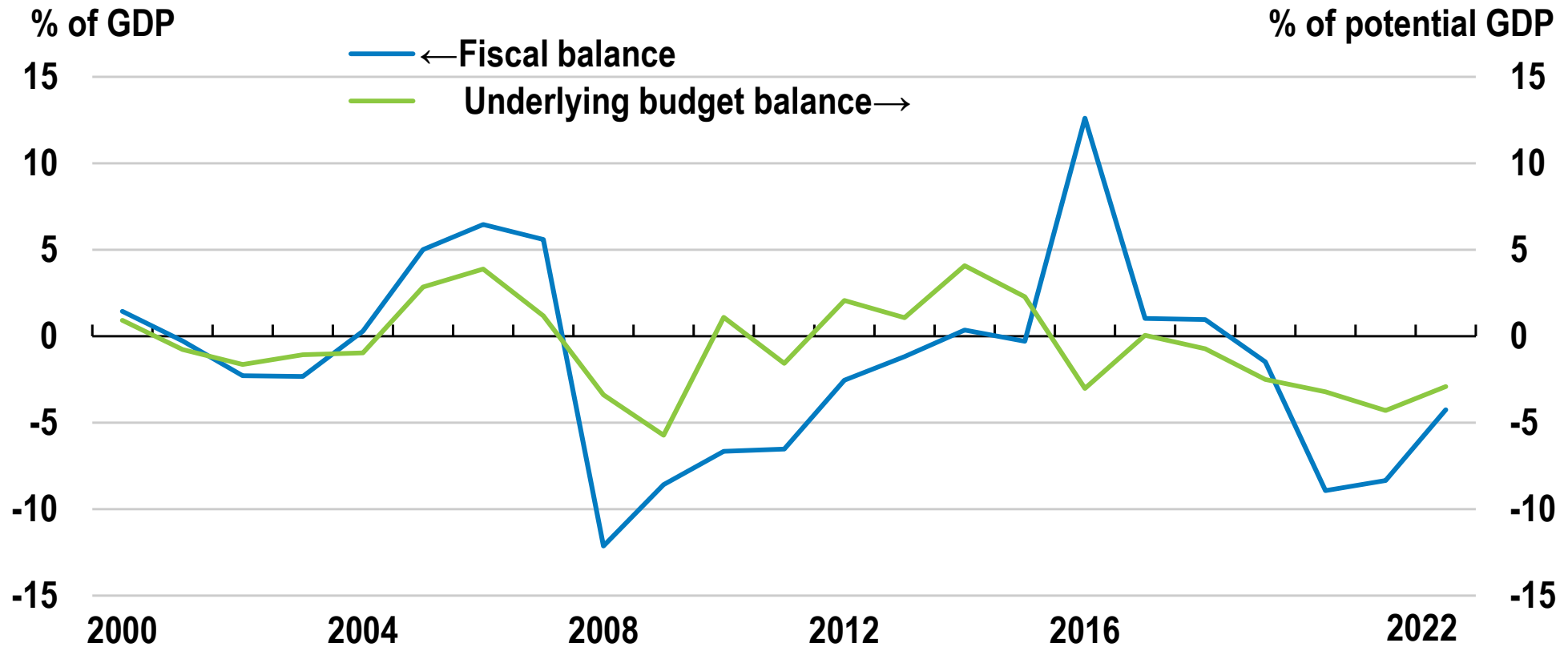


Note: Inflation refers to national headline CPI.

Source: Central bank of Iceland and OECD, Consumer Prices database.



# Fiscal consolidation has started but more is needed



Note: Fiscal balance is the difference between total government revenues and expenditures. Underlying budget balance is the difference between total government revenues and expenditures corrected for the cycle and one-off events.

Source: OECD Economic Outlook No. 113 database.



## Growth is expected to gradually slow

(Annual growth, unless specified)	2021	2022	2023	2024
<b>GDP volume</b>	<b>4.3</b>	<b>6.4</b>	<b>4.4</b>	<b>2.6</b>
Unemployment rate (% of labour force)	6.0	3.7	3.9	4.3
Consumer price index	4.4	7.8	7.2	3.4
Current account (% of GDP)	- 2.8	78.4	78.6	78.6
Budget balance (% of GDP)	- 8.4	- 4.3	- 2.5	- 1.4
General government gross debt (% of GDP)	77.2	78.4	78.6	78.6

Source: OECD Economic Outlook No. 113 database.

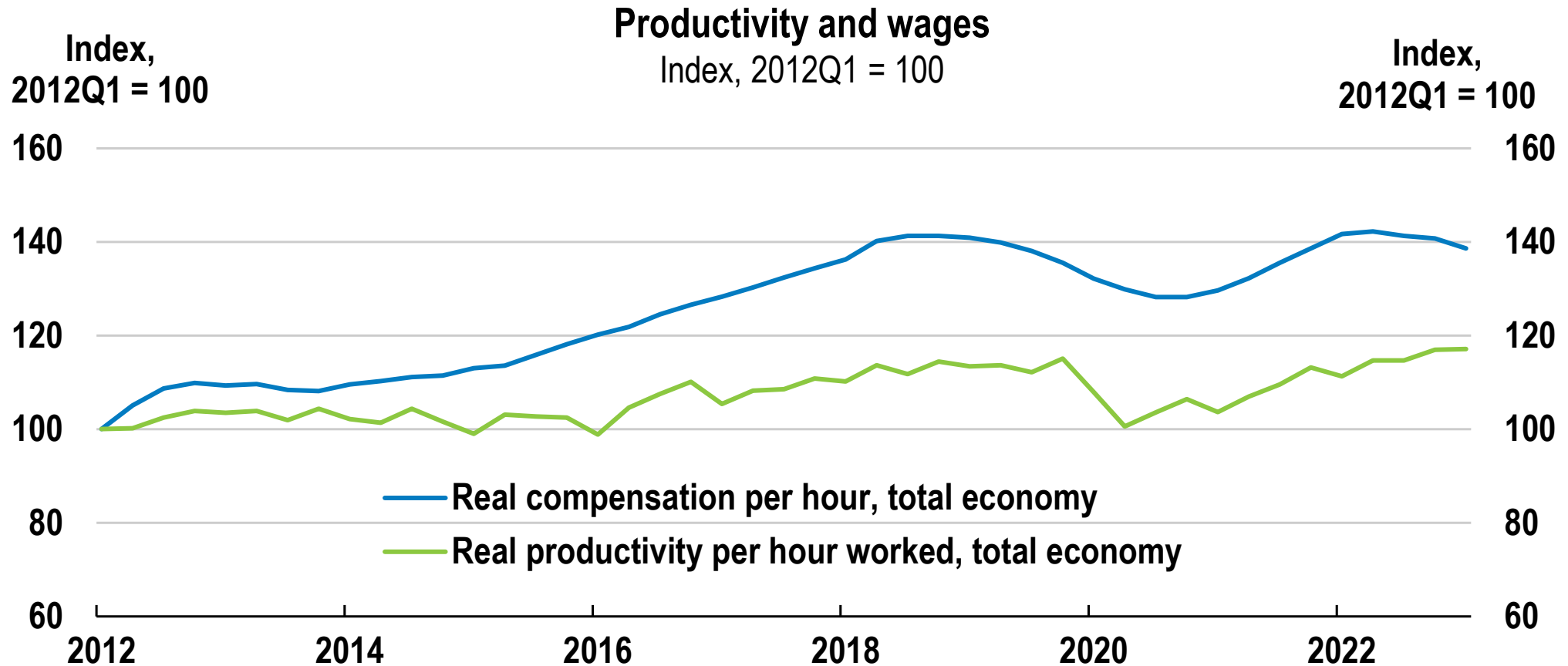


# Raising productivity in a sustainable way





# Wages have long been outpacing productivity



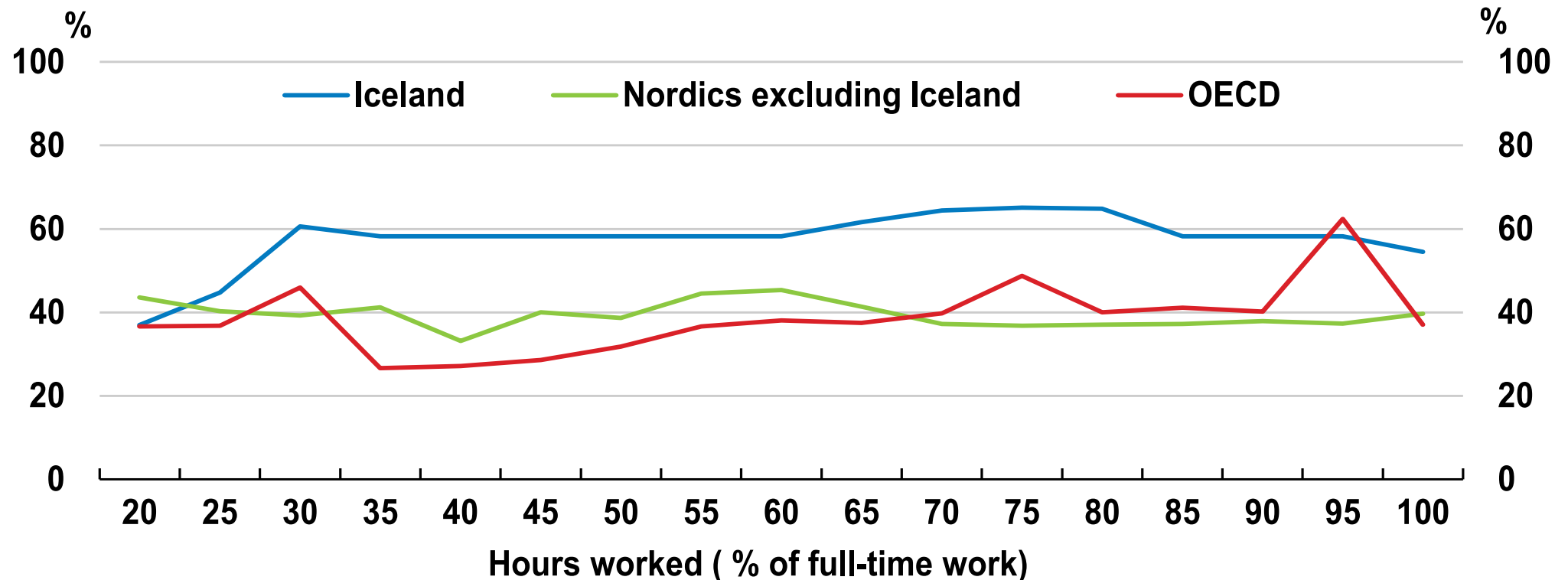
Source: OECD Economic Outlook No. 113 database.





# The tax-benefit system should encourage second earners to work more

## Marginal effective tax rate for second earners by hours worked

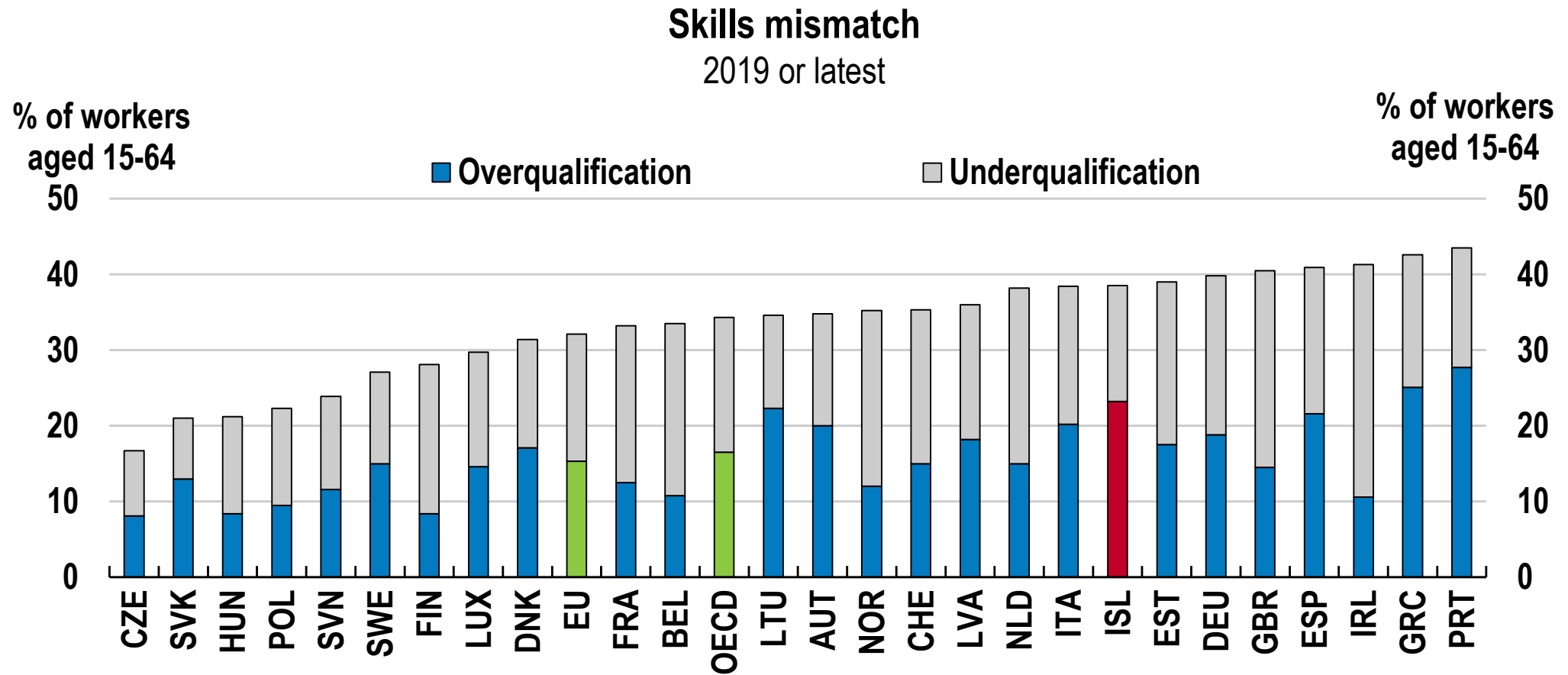


Note: The marginal effective tax rate (METR) is computed according to the formula  $METR = 1 - (\Delta y \text{ net earnings}) / (\Delta y \text{ gross earnings})$  for a two-earner couple with 2 children, claiming social assistance and housing benefits, whenever eligible. Annual housing costs are set at 20% of average wage of Iceland. In both panels, the second earner earns 67% of the average wage of the first earner.

Source: Own calculations based on output from the OECD tax-benefit model, version 2.5.0.



# Investment in the right skills is needed



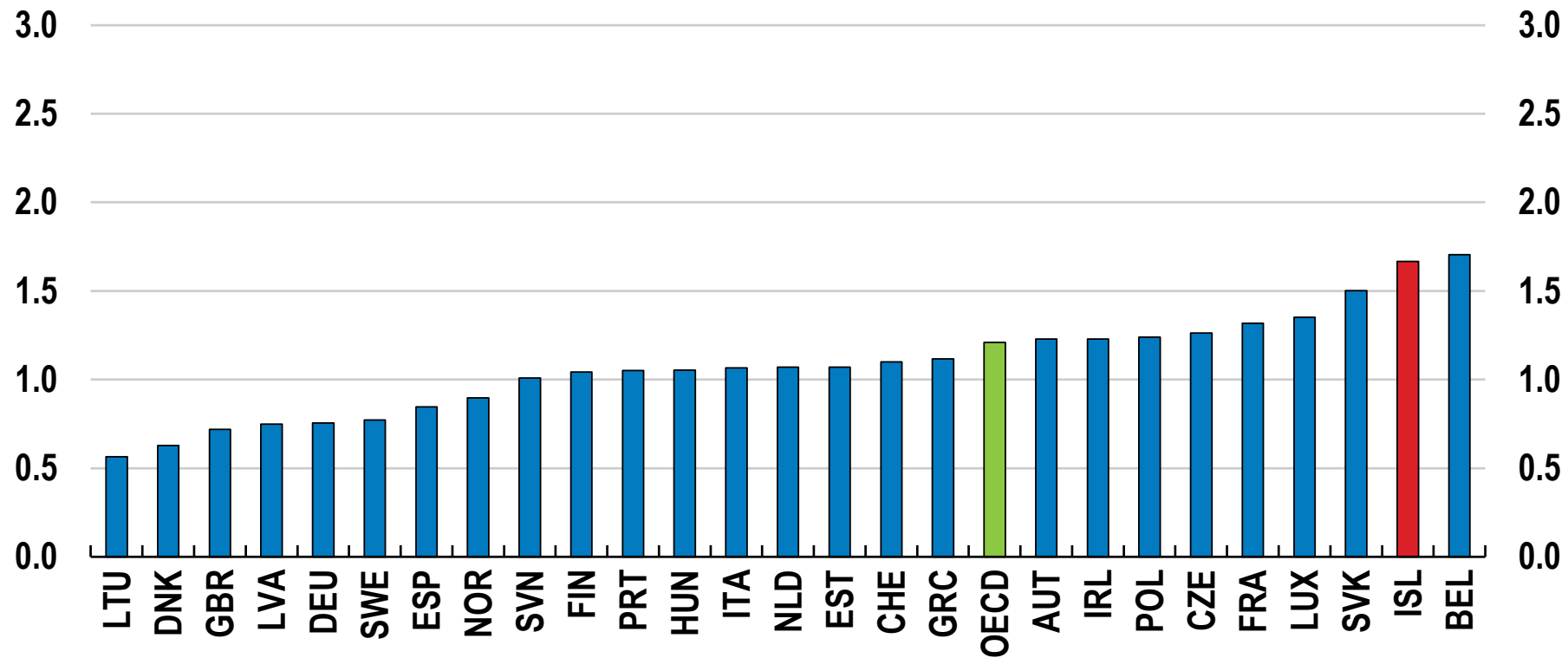
Source: OECD, Skills for Jobs database.



# Market access should be made easier for new firms

## Barriers to domestic and foreign entry

Index 0 (less stringent) to 6 (stringent), 2018

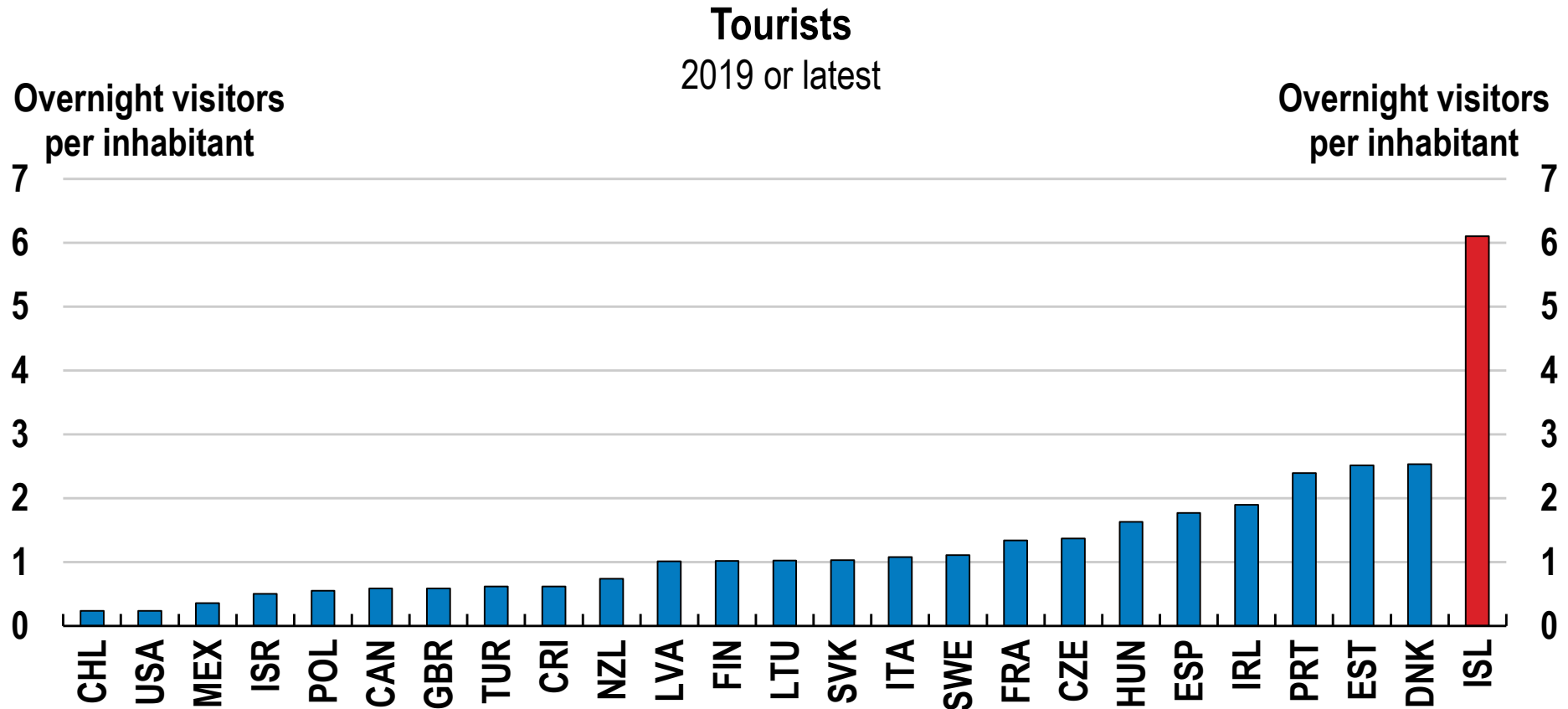


Note: A higher indicator value means more stringent regulation.

Source: OECD, Product Market Regulation database.



# Tourism could soon reach the limits of sustainability



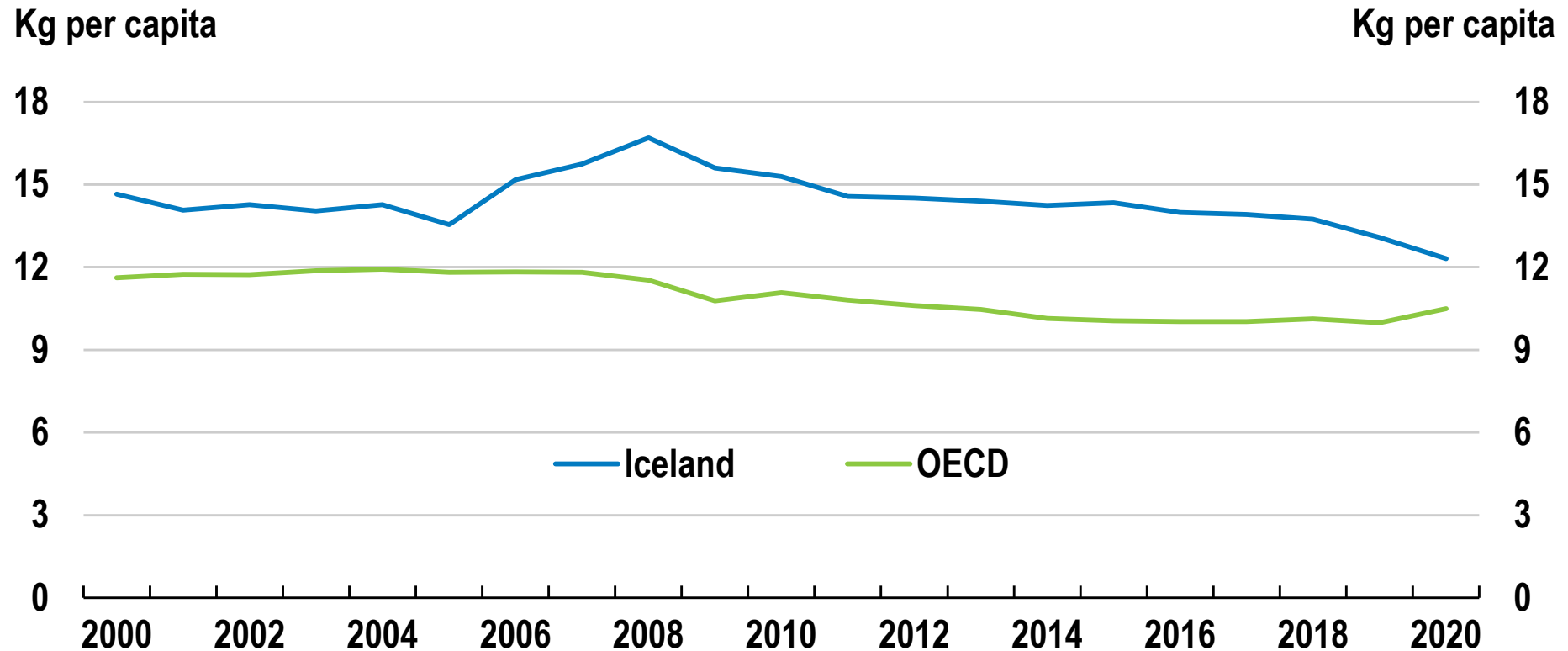
Data for 2019 except Finland (2018) and Sweden (2014).

Source: Statistics Iceland; OECD, Tourism database.



# Efforts to reduce carbon emissions should be stepped up

## Total greenhouse gas emissions per capita



Source: OECD, Environment Statistics database.



# Making the most of immigration

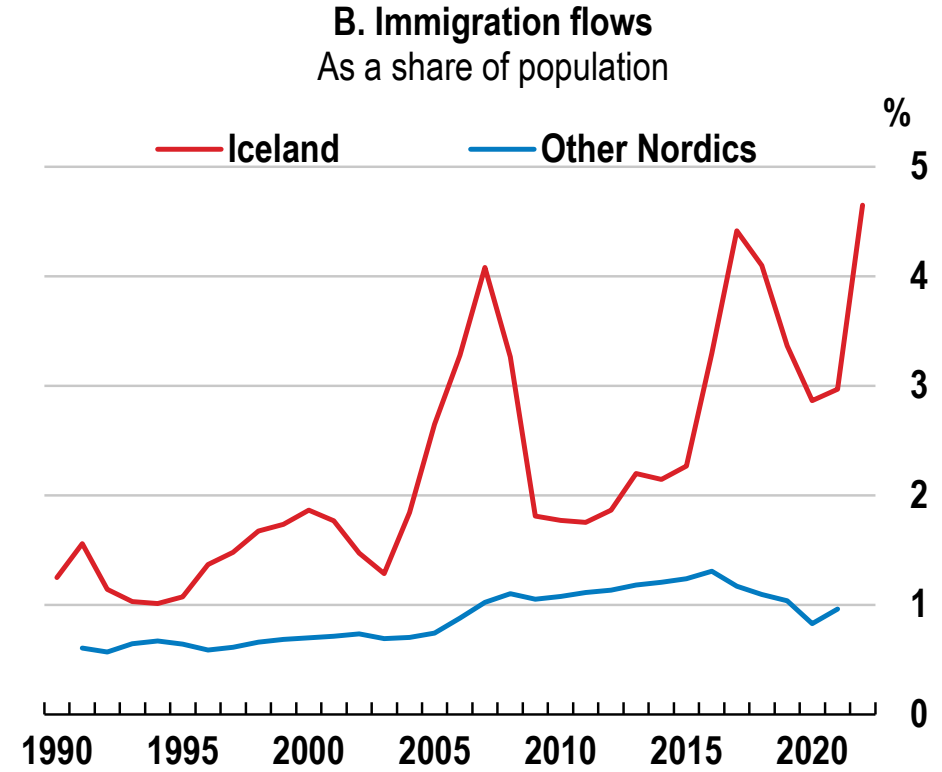
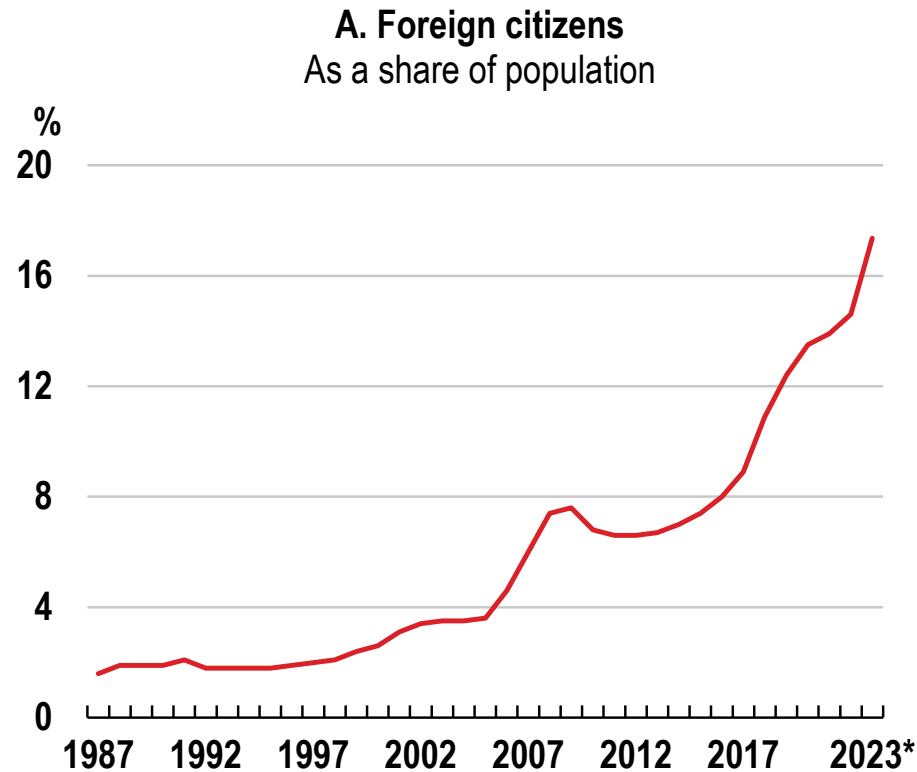


**You've landed in Iceland**

Lucky you, lucky us



# Immigration is rising faster than in other Nordic countries

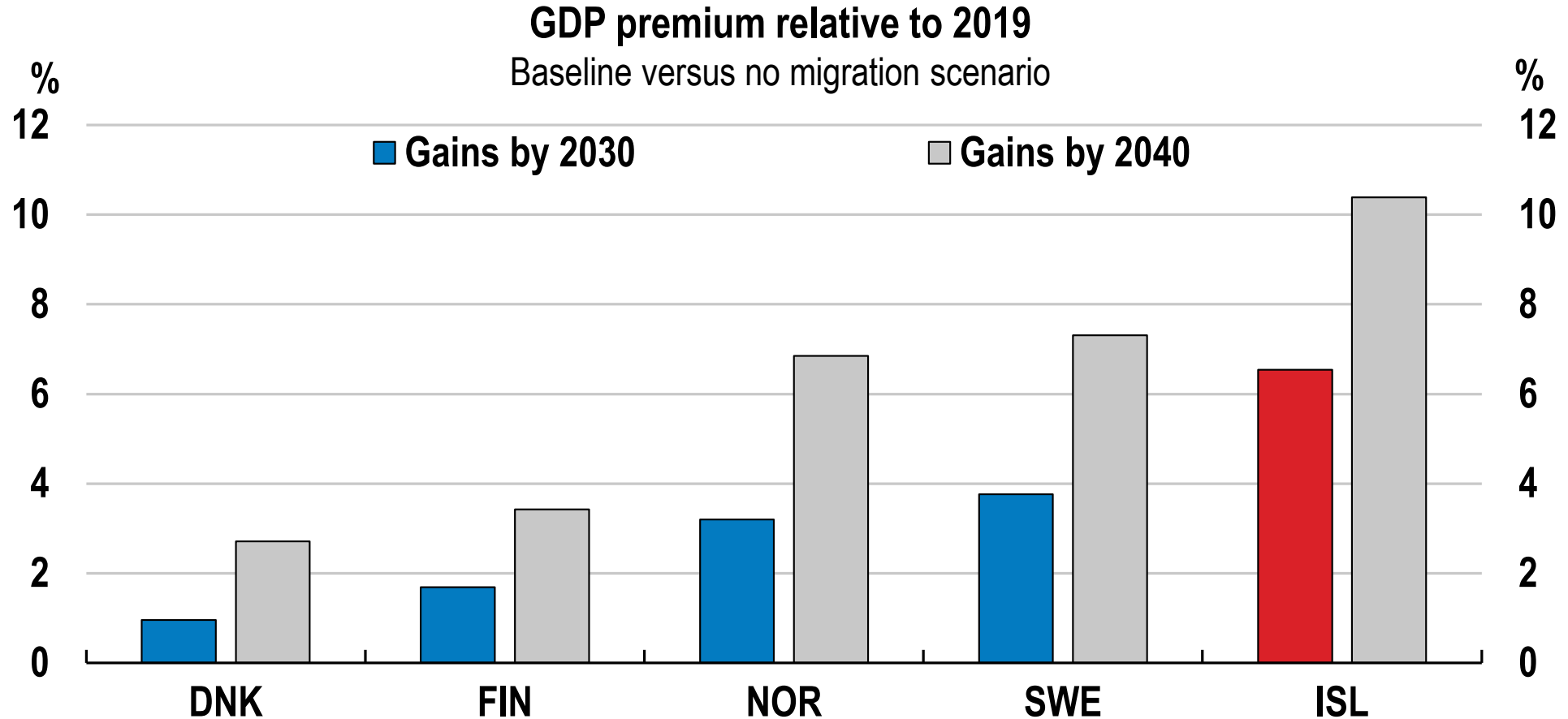


Panel A: 2023 refers to first quarter only. Panel B: immigration flows into Iceland, including both Icelandic and foreign citizens who obtain a residence permit or a work permit for over three months; the other Nordics include Denmark, Finland, Norway, and Sweden.

Source: Statistics Iceland; Nordic Statistics database.



# Immigration brings large economic benefits



Calculations estimate the effect of expanded labour supply on GDP based on 'baseline' (keeping current demographic trends and net migration at 2019 levels) and 'no migration' (net migration is set to zero) scenarios.

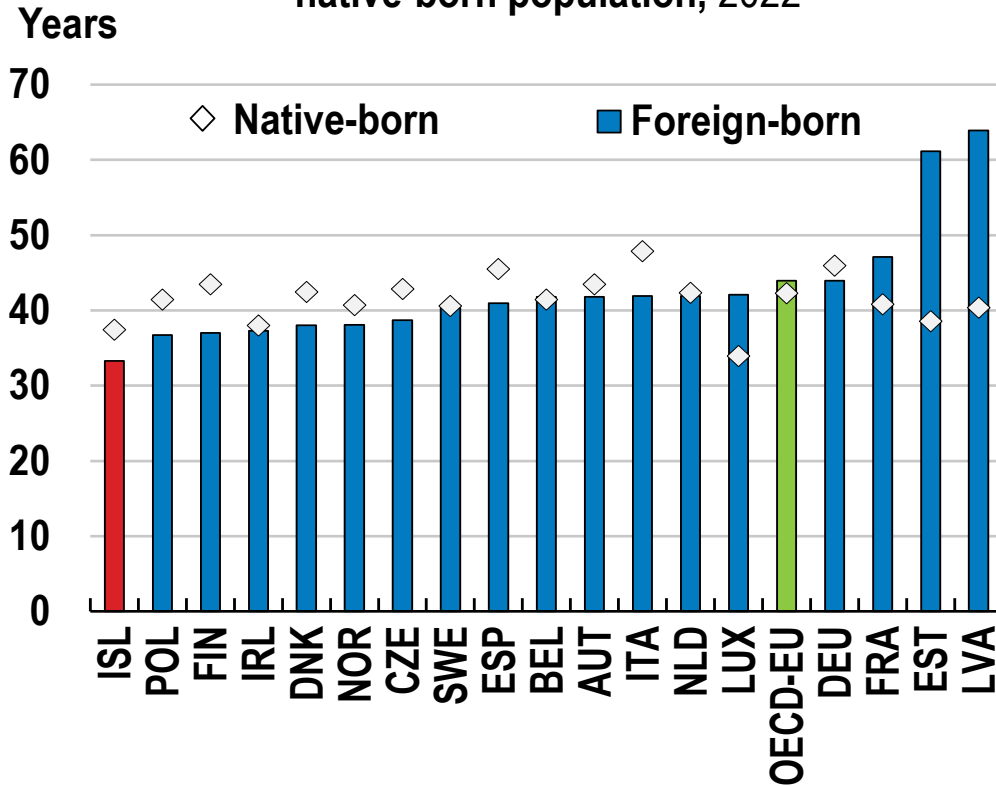
Source: Statistics Iceland; Eurostat, Population Projections and OECD National Accounts database.



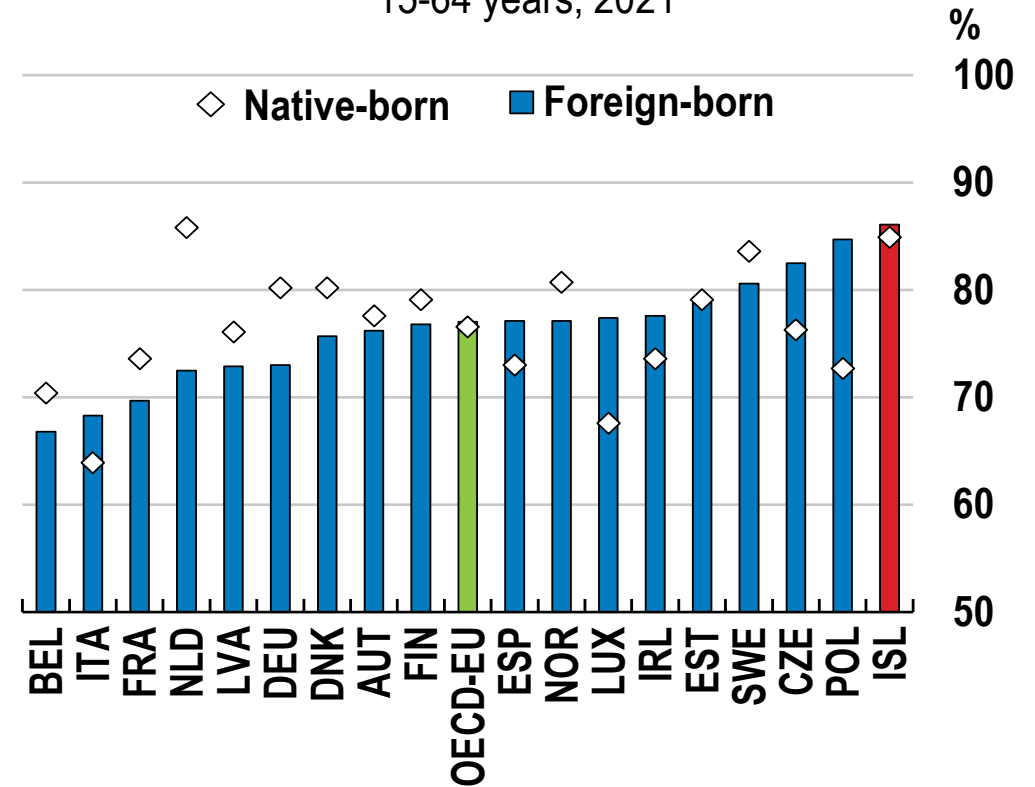


# Immigrants are young and have high participation rates

**A. Median age of the foreign-born and native-born population, 2022**



**B. Activity rate by background, 15-64 years, 2021**



Panel A: data refer to population as of 1 January 2022 for all countries. Median values were imputed based on Eurostat age-distribution interval data.

Panel B: activity rate is calculated as economically active (employed and unemployed) working age (15-64) population divided by the total working-age population.

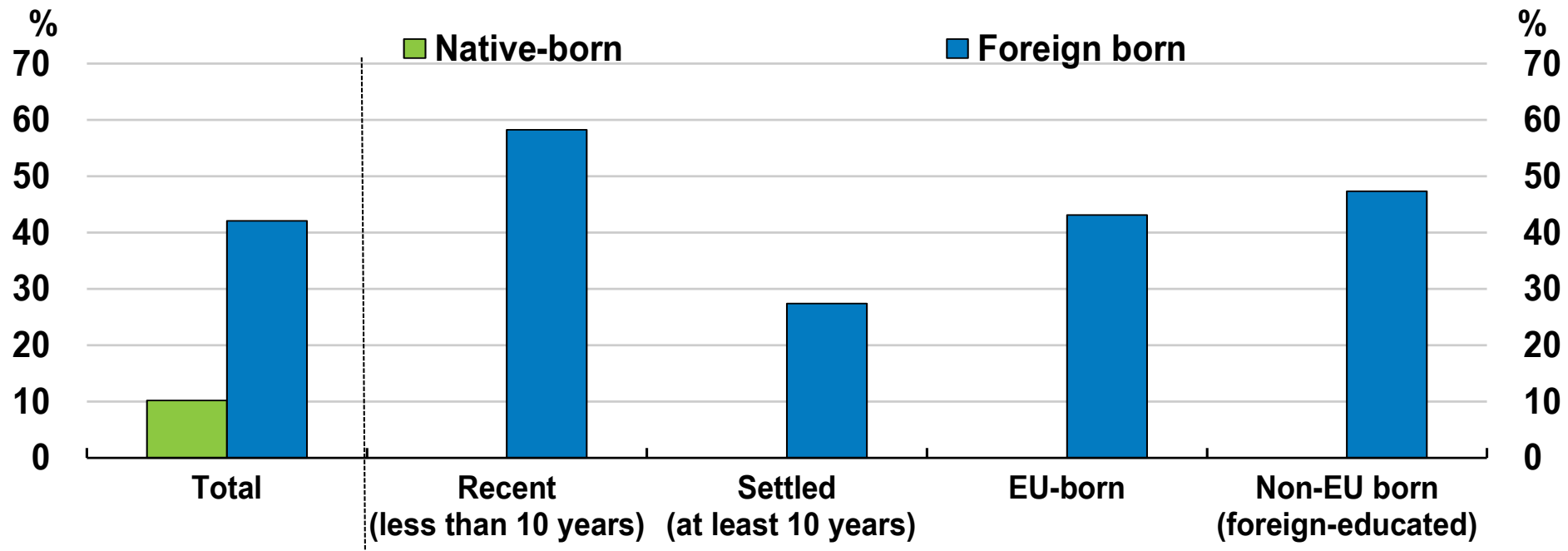
In both panels, OECD-EU average refers to the simple average of the EU countries that are OECD members.



# Establishing a one-stop shop would ease skills recognition and would make language training courses more effective

## Overqualification rates

Percentage of the highly educated population aged 15-64 not in education, 2021



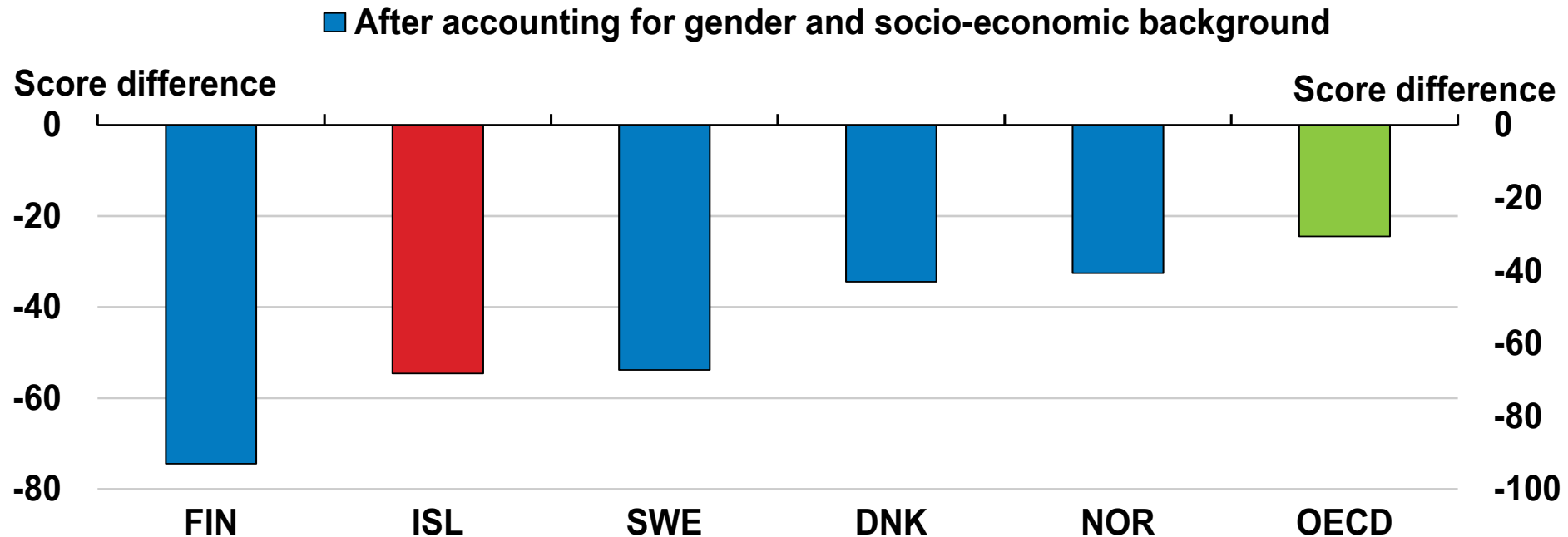
Over-qualification refers to highly educated individuals (ISCED 2011 Levels 5-8) who work in a job that is ISCO-classified as low- or medium-skilled (ISCO Levels 4-9).

Source: OECD, "Settling In 2023: Indicators of Immigrant Integration", forthcoming.



# Implementation of measures for students with a diverse linguistic background is welcome and needs to continue

**Score-point difference in reading performance associated with immigrant background**  
After accounting for gender and socio-economic background



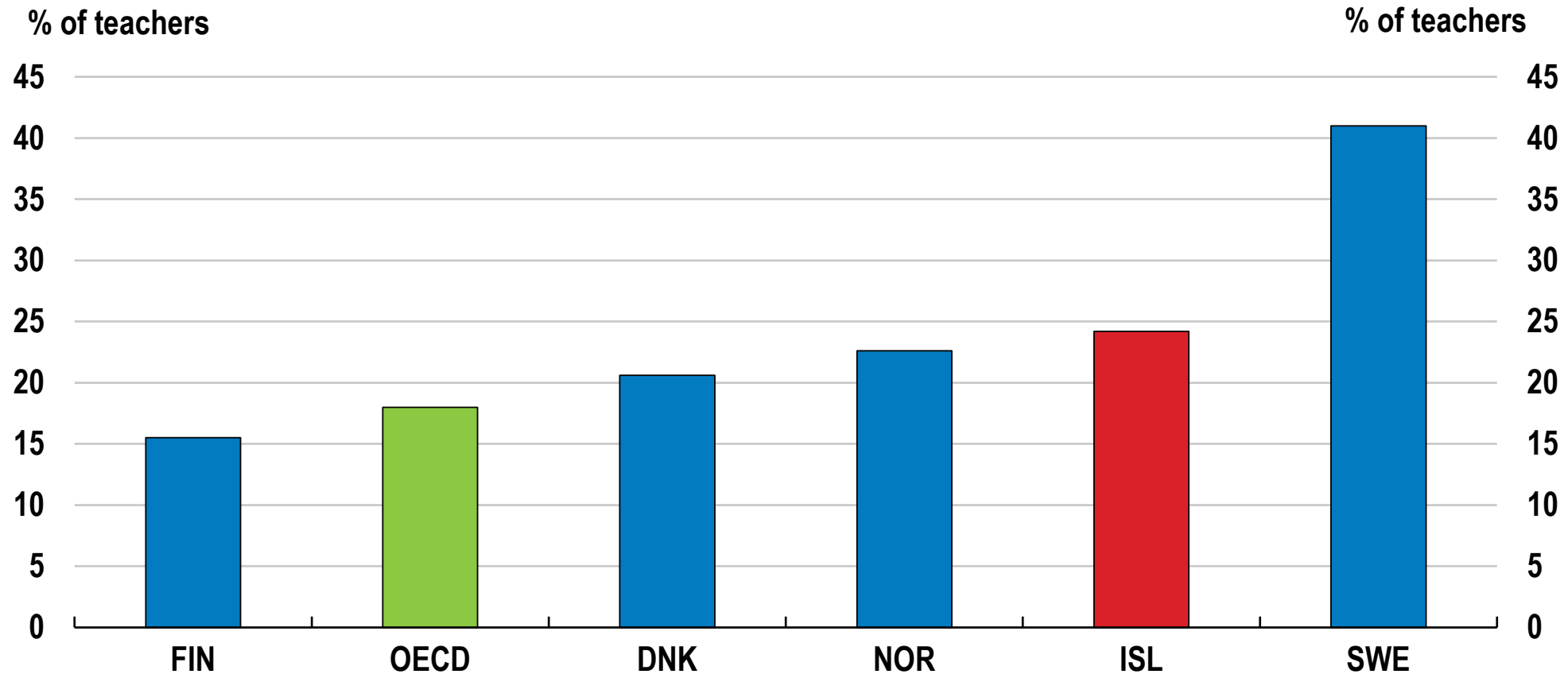
Note: Socio-economic background refers to students' and schools' socio-economic profile.

Source: OECD, PISA 2018 database.



# Teachers need more training in multicultural education

Teachers with more than 10% of students whose first language is different from the language of instruction, 2018

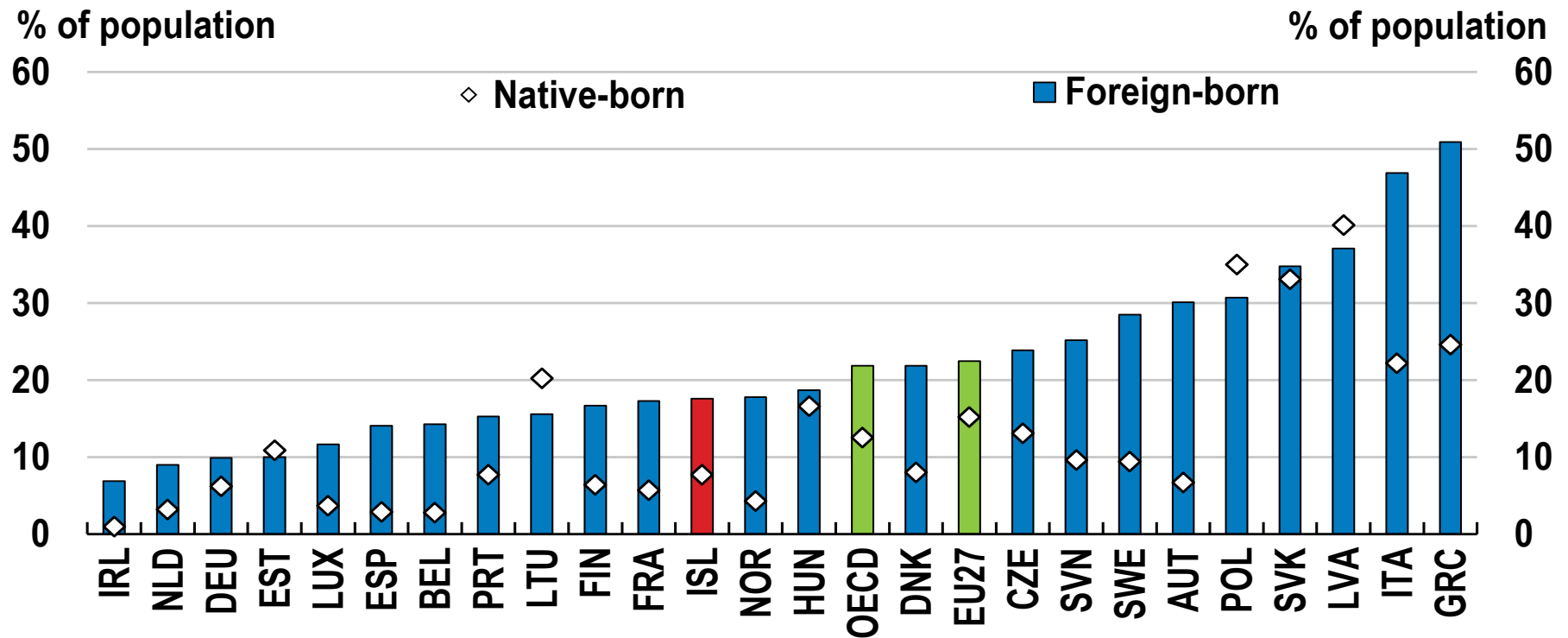


Source: OECD, Teaching and Learning International Survey (TALIS) database.



# Better integrating migrants also requires meeting their housing needs

Overcrowding rate by country of birth  
Aged 18 or older, 2018

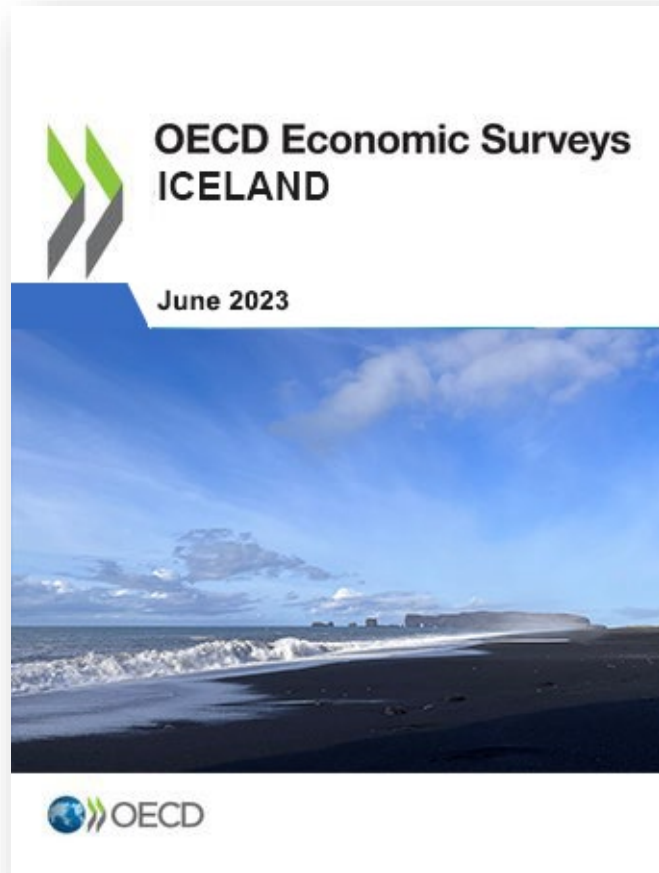


The overcrowding rate is the share of the population living in a household that does not have enough rooms at its disposal as defined by Eurostat in its Living Conditions Survey.

Source: Eurostat, Living Conditions Survey.



# For more information



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