

The Icelandic economy in times of COVID-19

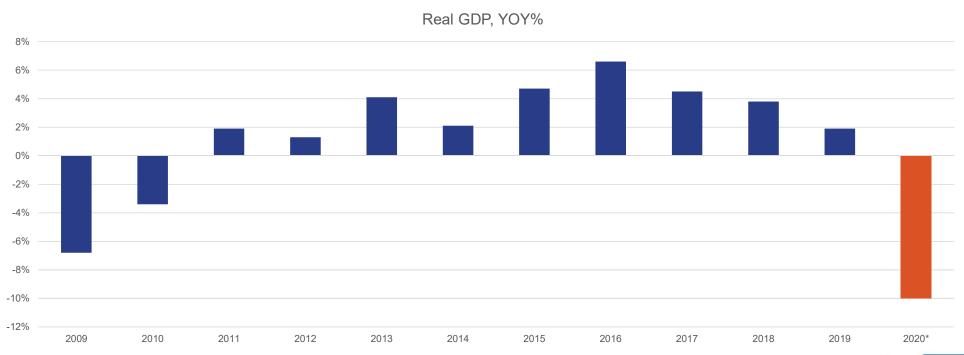
Economic impact and policy reaction Ingólfur Bender, Chief Economist FII





Sharp GDP contraction expected in 2020 due to COVID-19

Expected to be the largest one year contraction in GDP in over 100 years

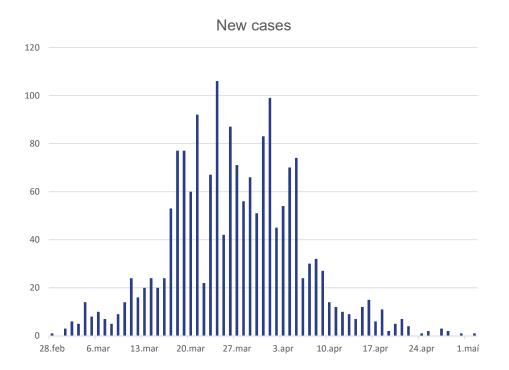


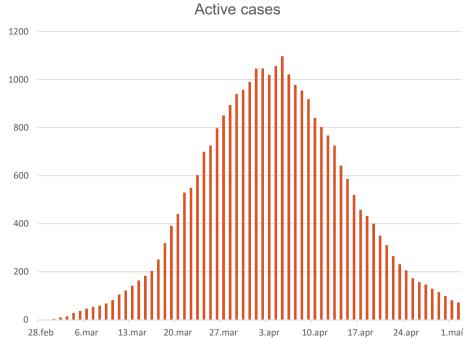
*FII/CIE forecast



The COVID-19 pandemic is in remission

For now at least

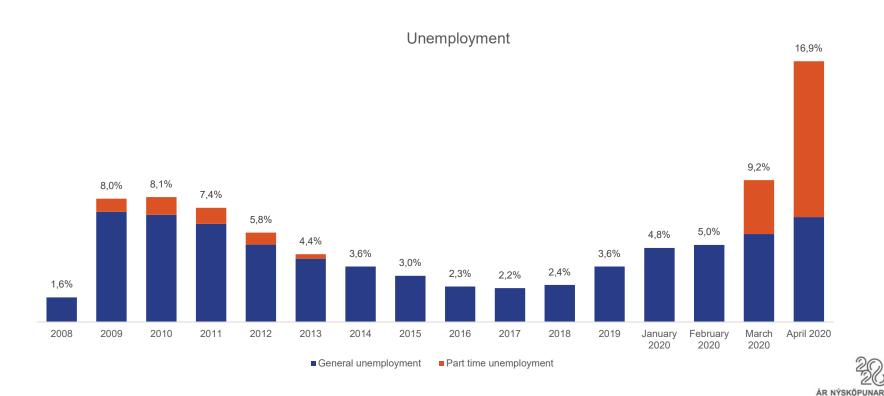






The highest measurement since 1957

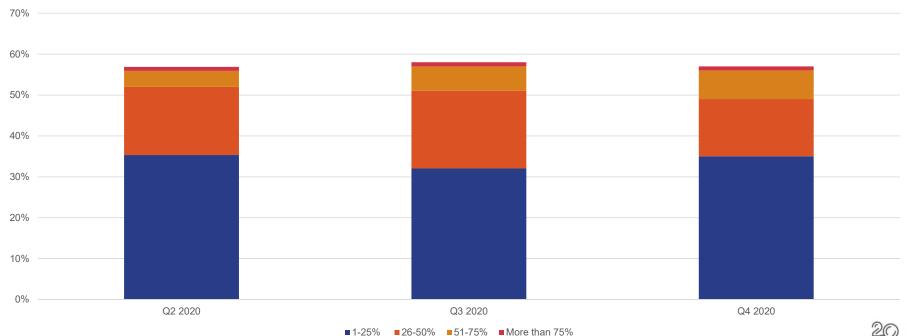
A sharp increase in unemployment



The construction industry is experiencing a sharp slowdown

Almost 60% of construction companies are expecting significant revenue loss this year

Construction industry: Do you expect the quarterly revenues to decrease year on year? If so, how much?





Various government measures announced

The aim is to safeguard, protect and create a basis for a strong economic recovery

March 21, 2020

- Part-time option: Government will take on up to 75% of salaries
- State-backed bridging loans for companies
- · Deferral of tax payments

Protection

Safeguards

- · Wages during quarantine
- · One-off child benefit payments
- Access to private pension savings

Resilience

- Financial support for tourism sector
- "Back to Work": Refund of VAT for construction projects
- Increased investment in infrastructure and innovation

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April 21, 2020

- Closure subsidies: Subsidies due to orders to close business operations
- Support loans: Loans to small companies in distress because of COVID-19
- · Netting of income tax
- Mental health and remote care
- Protection of at-risk groups
- Special subsidies
- Boosting innovation: R&D reimbursements, increased investment in innovation
- Summer mesasures for students
- Effective job-seeking
- Domestic value creation

April 28, 2020

- Option for full time workers to move to part-time with government support extended to 31 August from its original finish date on 1. June
- Opportunity to apply for government support for pay a portion of salary cost for any staff member during their notice period
- Simpler rules on financial restructuring of companies will be temporarily put in place.



Investment initiative and refund of VAT

Increased investment in infrastucture and refund of VAT for construction projects

Investment in infrastructure

- General government will expedite large-scale investment projects in order to stimulate the economy
- Job growth: Emphasis on projects that immediately create jobs across society
- Investment in real estate, transport and other infrastructure

100% refund of VAT on labour for construction projects

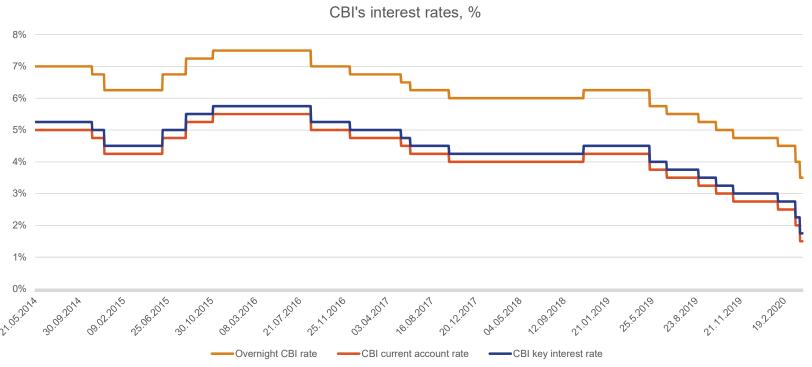
- Reimbursement of value-added tax for labour ("Back to Work") on real estate renovation, maintenance and new construction increased from 60% to 100%
- The reimbursements now covers households assistance and construction undertaken by municipalities and NGOs working in the public interest
- This change remains in effect from 1. March through 31 December 2020

Estimated impact of these measures amounts to ISK 50bn or 1.7% of GDP



The Central Bank's COVID-19 measures

The CBI is enacting measures to stimulate the economy





Sharp economic contraction in uncertain times

But the resilience of the economy is strong







