

The Icelandic economy in times of COVID-19

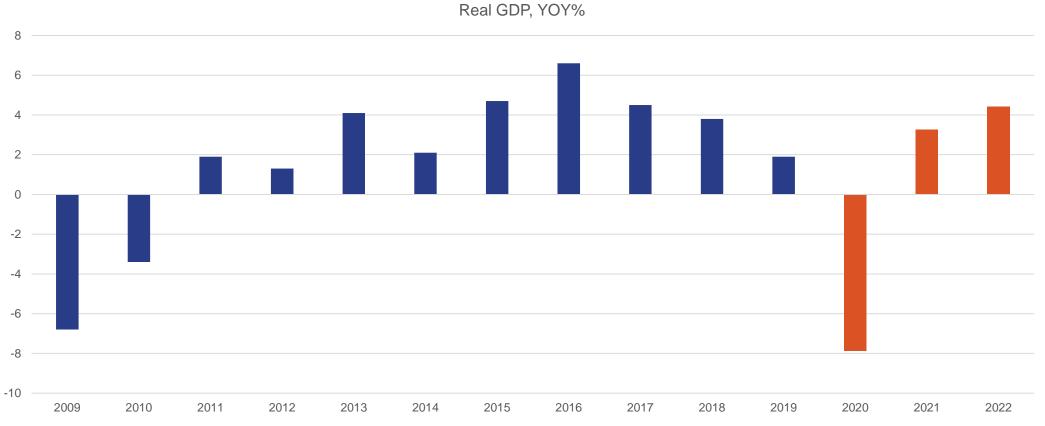
Ingólfur Bender,

Chief Economist FII/FRV



Sharp GDP contraction due to COVID-19

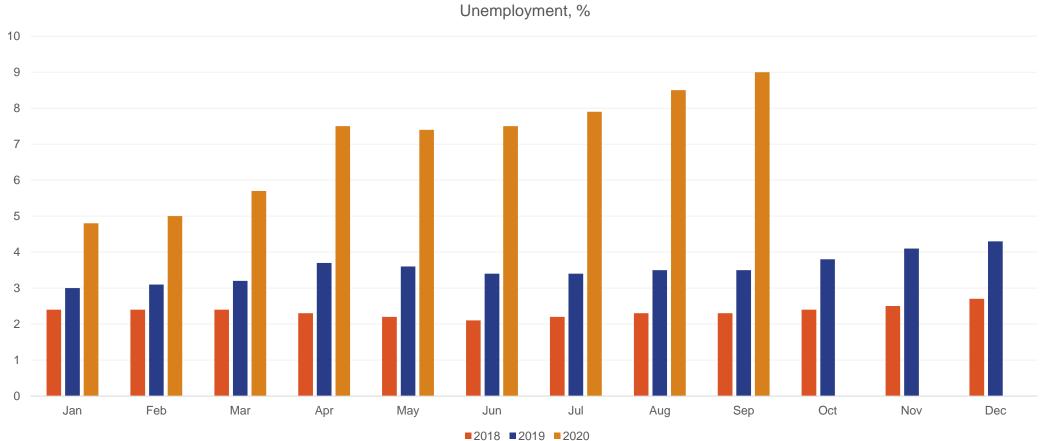
Economic outlook for next year is becoming more gloomy





A sharp increase in unemployment

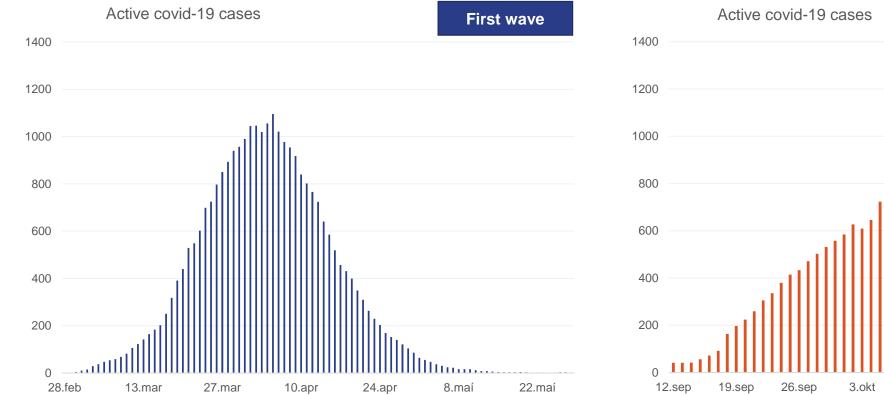
Coming from a fairly low level

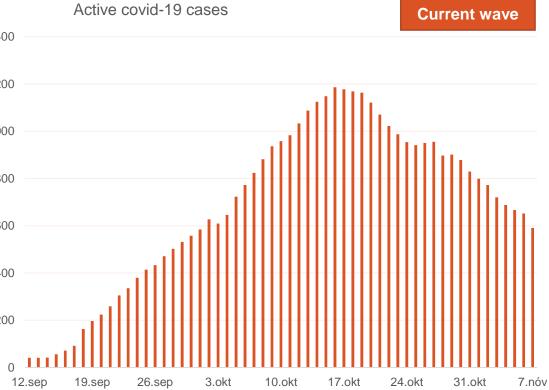




Another wave of the COVID-19 pandemic

A bit bigger wave than the first one

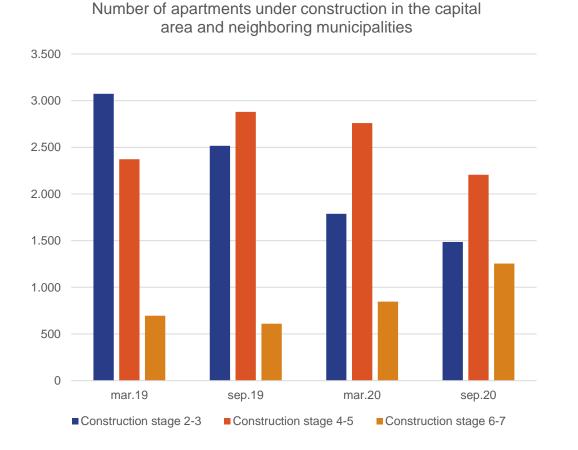




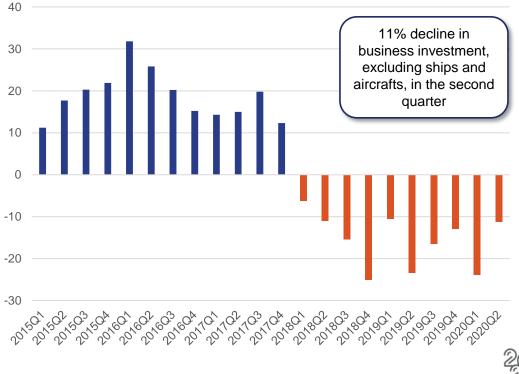


Private investment slows down sharply

A sharp decline in business and household investment



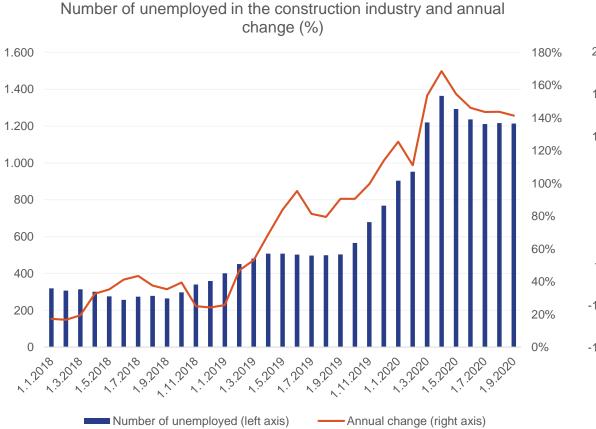
Business investment, excluding ships, aircrafts, heavy industry and related industries, change from the same quarter last year, %

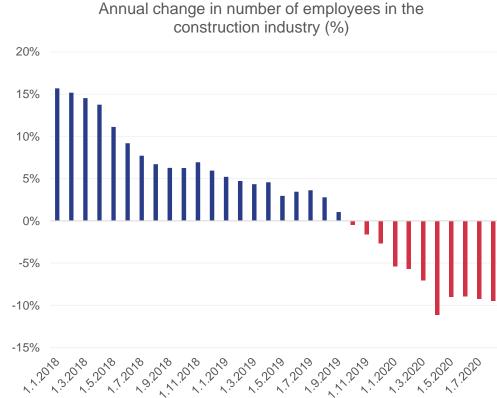




Unemployment in construction rising rapidly

Fewer employees in construction

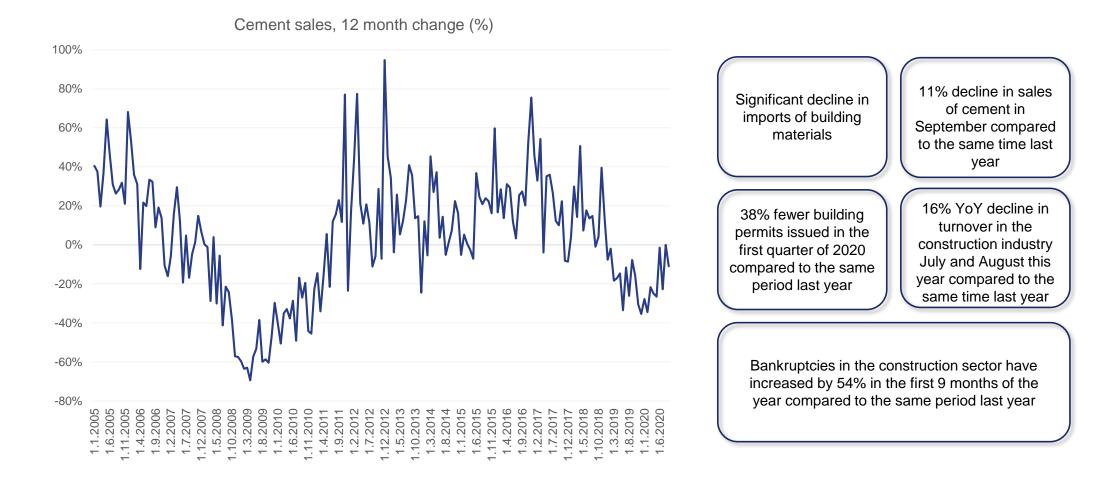




ÁR NÝSKÖPUNAR

Contraction in most parts of the construction sector

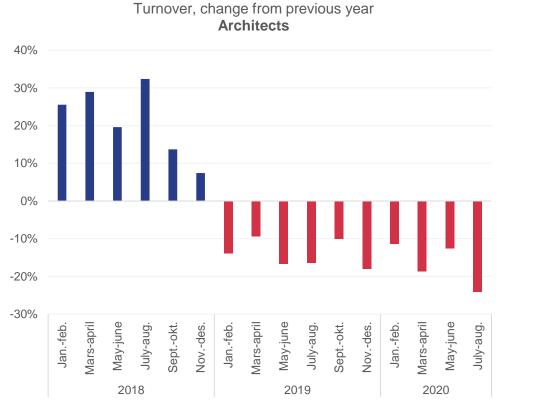
Decline in sales of cement

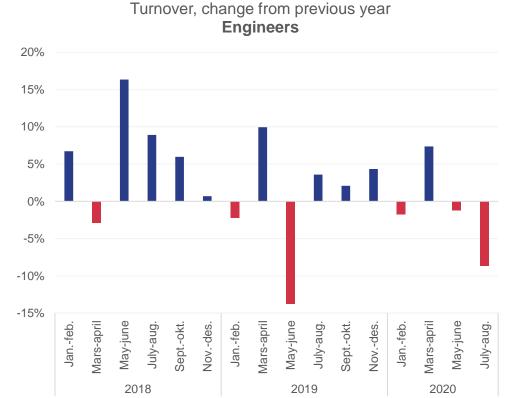


SI

Decreasing turnover

Significant reduction in turnover for architects, but less for engineers

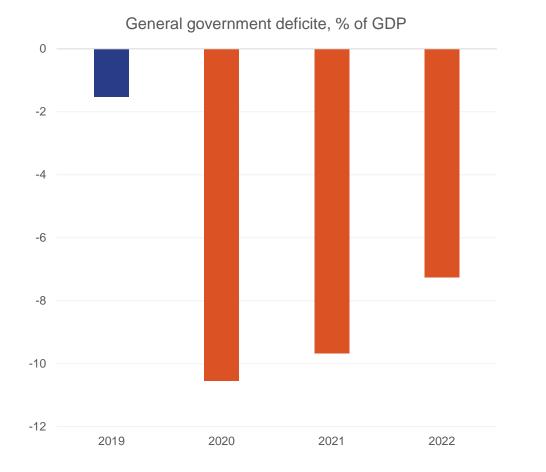


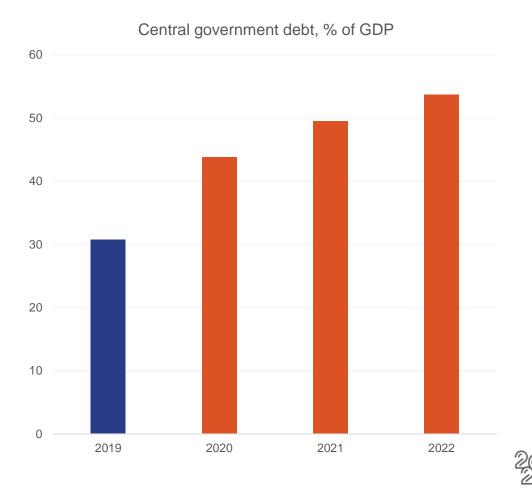




Fiscal policy plays a key role in policy response to COVID

Low debt level before COVID an advantage





ÁR NÝSKÖP

Investment initiative and refund of VAT

Increased investment in infrastucture and refund of VAT for construction projects

Investment in infrastructure

- General government has and 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

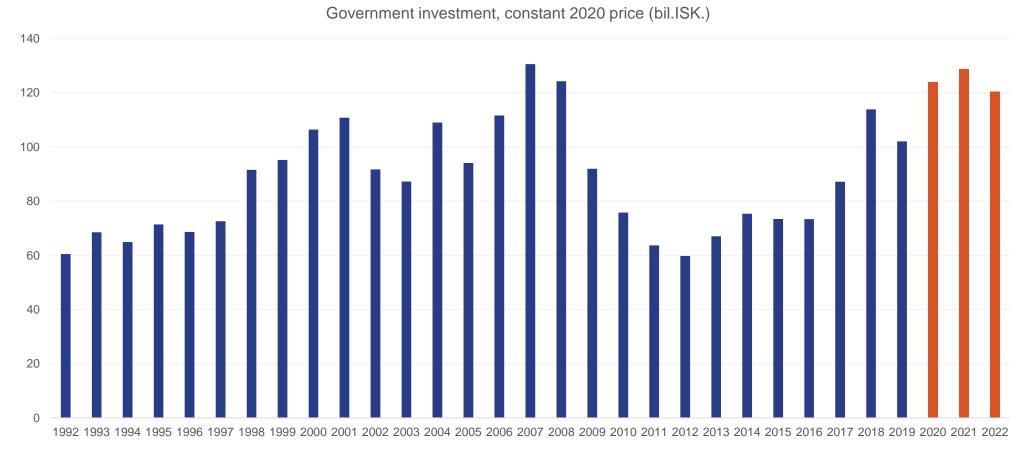
100% refund of VAT on labour for construction projects

- Reimbursement of value-added tax for labour ("Back to Work") on real estate renovation, maintenance and new construction increased from 60% to 100%
- This change remains in effect from March 2020 through 2021



Government increases investment in infrastructure

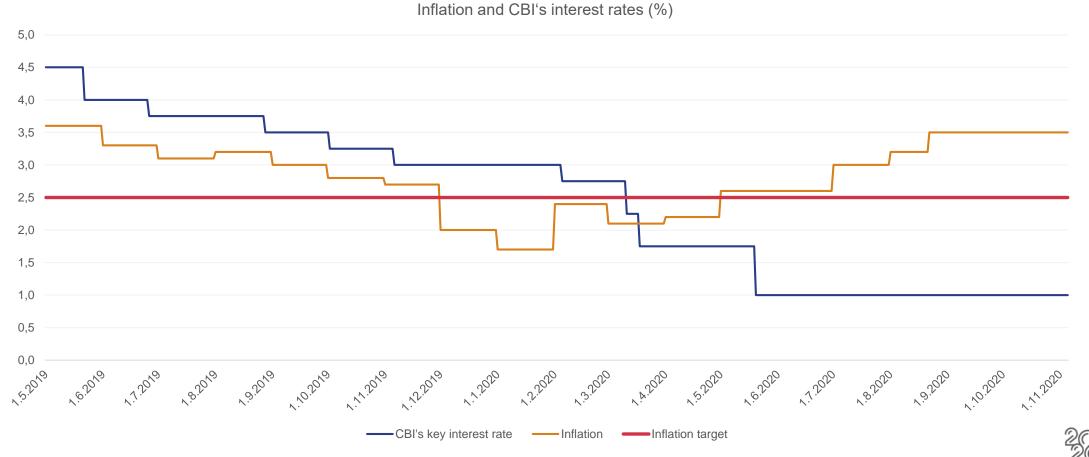
Increases productivity, jobs and economic growth





Monetary policy tools applied

Policy rate lowered



ÁR NÝSKÖPUN

Sharp economic contraction in uncertain times

But the resilience of the economy is strong







Thank you

