

National Report – Iceland

RINORD – June 2018

Tryggvi Jónsson, Chairman of FRV

FRV's activities and priorities 2017-2018

Annual strategy meeting set out the following priorities:

Good procurement practices

Official permitting

Code of ethics

Accredited inspection agencies

PPP

Young Professionals

Infrastructure - State of the Nation

State of the Nation

First Icelandic Report on State of the Nation

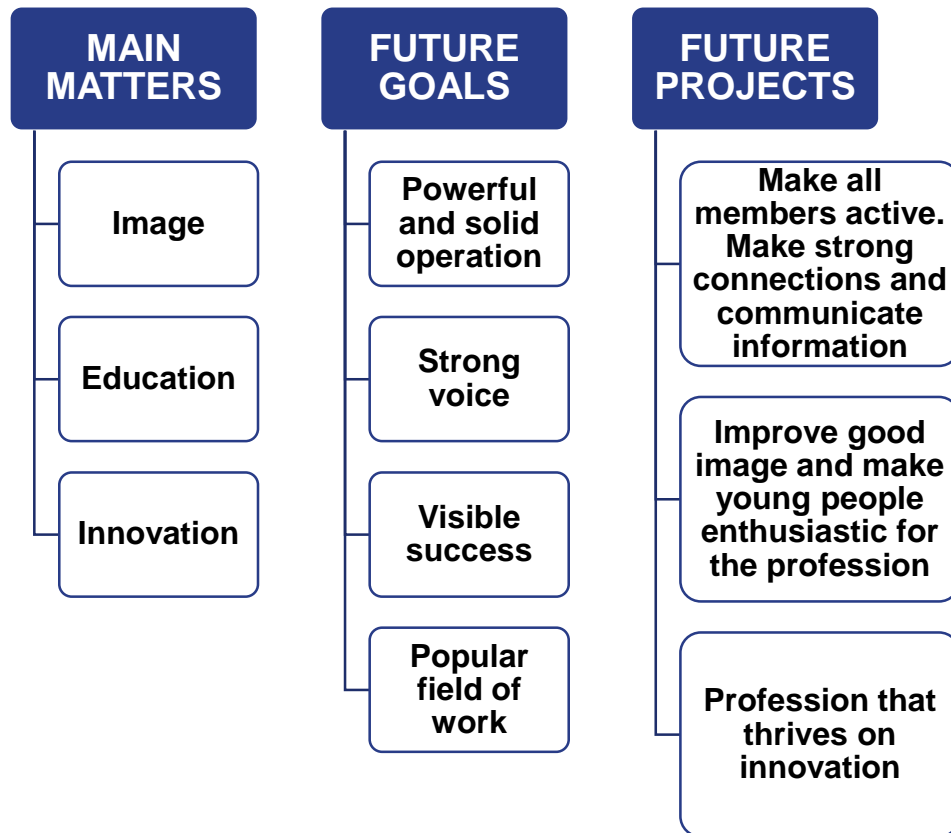
- FRV and SI published the first Icelandic Report on State of the Nation in October 2017
- Nordic model/cooperation
- The first comprehensive report on infrastructure to be published in Iceland
- It did create informed discussions on the status of infrastructure in the Icelandic Economy
- During the parliament elections, every politician had the same picture



Young Professionals

First Icelandic YP's meeting in November 2017

- Strategy meeting March 2018:

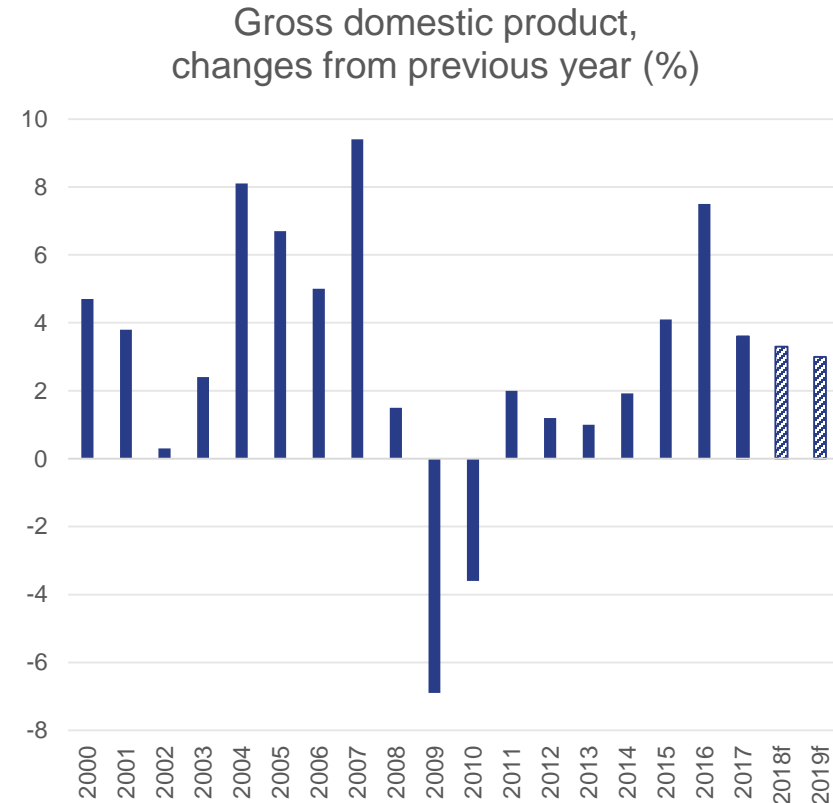


The Icelandic Economy

Strong Growth but Slowing Down

GDP growth is more balanced than before

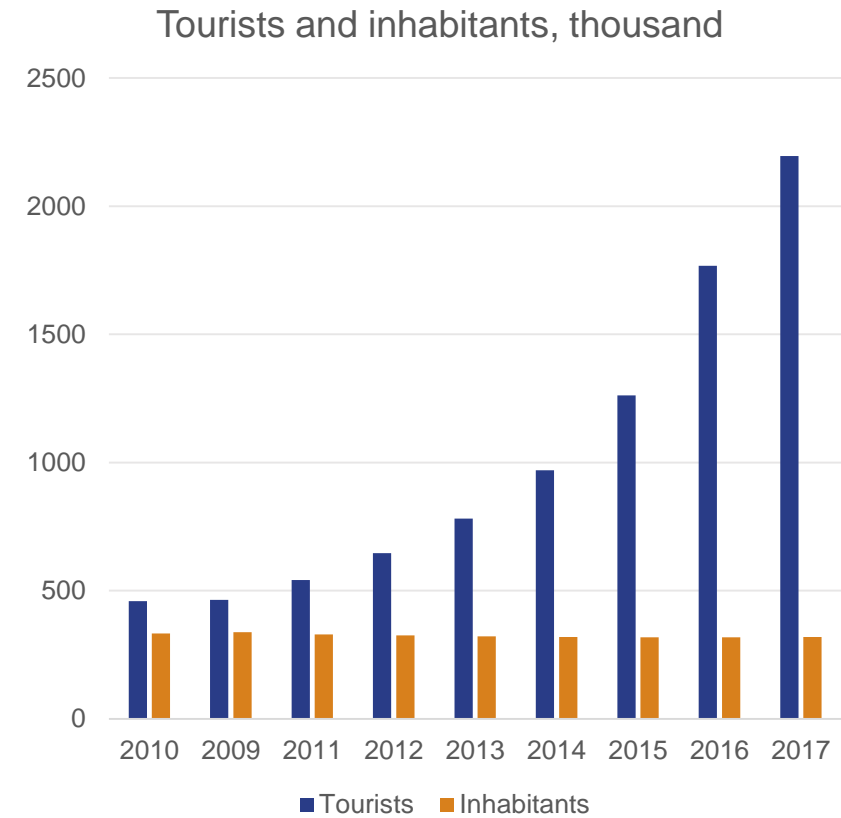
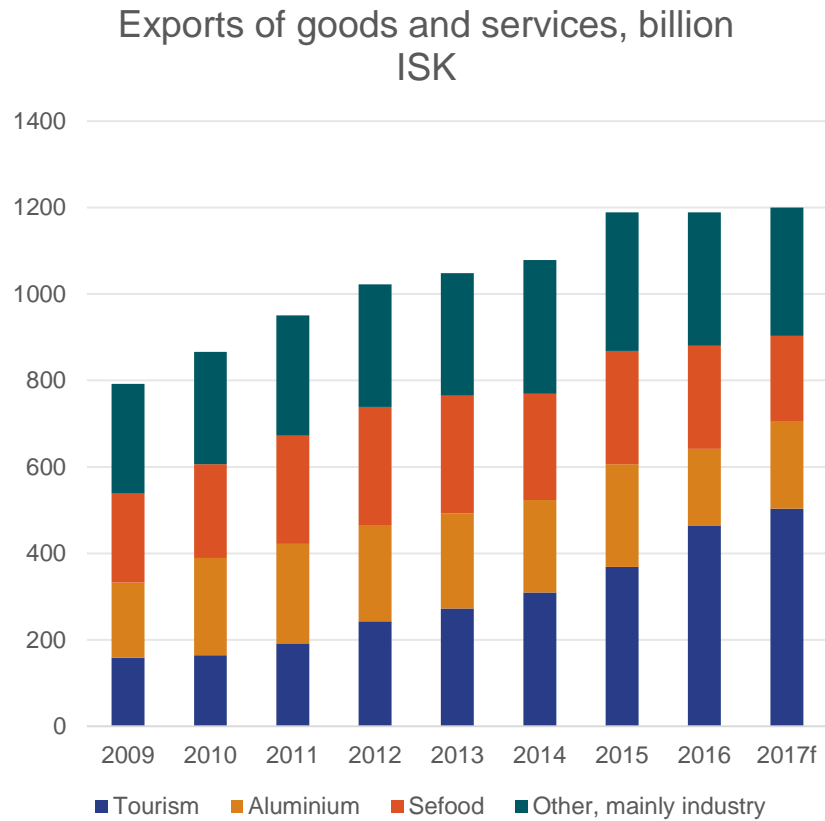
- Rapid economic growth for the last 3 years
- Driven by service exports and recently consumption and investment
- Around 3% economic growth is forecasted for 2018-2019
- The growth of tourist exports is slowing down
- Leading to slower growth in business investment
- Reduced output gap and increased unemployment
- GDP growth in Iceland's main trading partners is increasing



f: forecast by the Central Bank of Iceland

Foundations of the Icelandic Economy

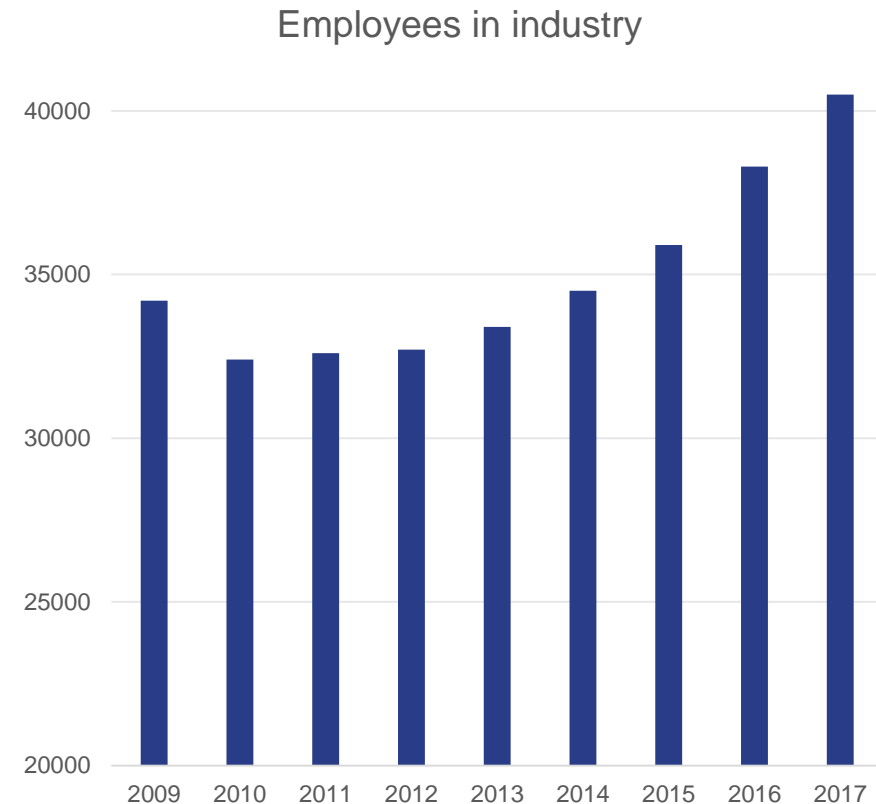
Tourism becomes the fourth pillar of the economy



Industry: Large Part of the Economic Recovery

Fourth of all jobs created and third of the economic growth in this upturn

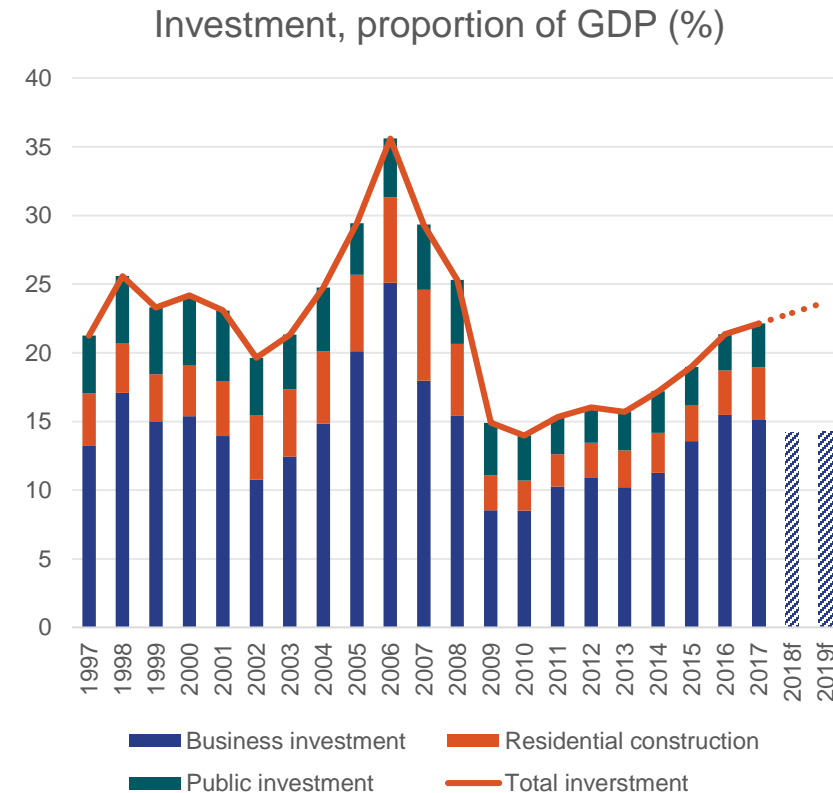
- There were over 38,000 industrial employees in 2016, or one in five of all Icelandic wage earners in the economy
- One in four jobs created in the economy in the current upturn have been in industry
- This shows that the sector has played an important role in the economic growth of recent years
- It is estimated that the sector has created about third of the economic growth in this upturn



Slower Growth of Corporate Investment

Infrastructure investment low despite much need

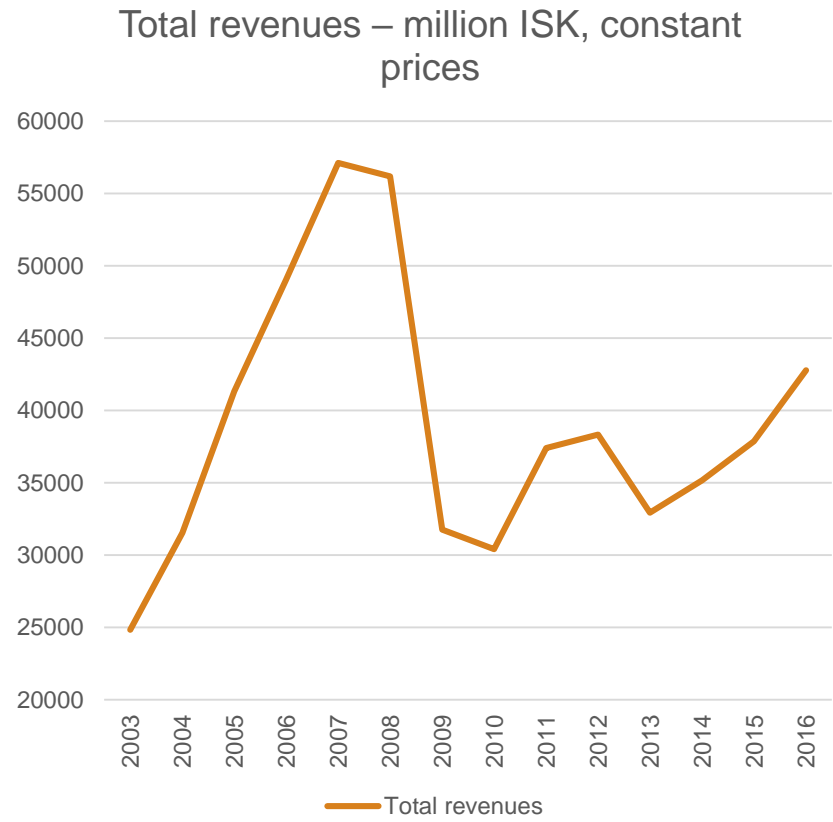
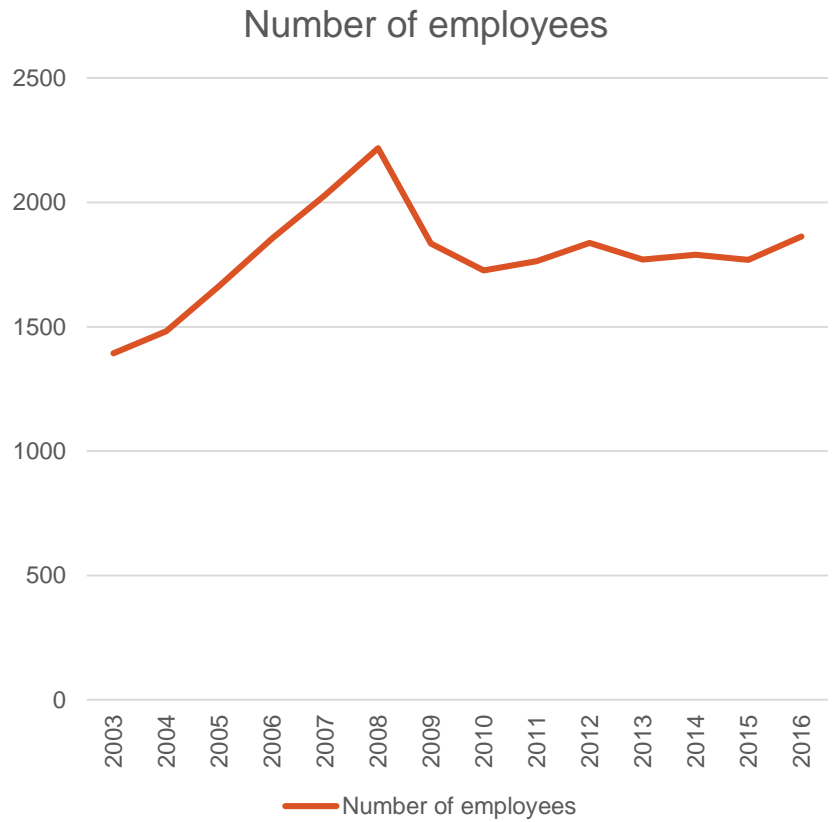
- There has been a considerable growth in corporations investment
- Investment in tourism, energy sector and related industries
- The investment level now in line with what is seen in industrialised countries
- A reduction in both investment in tourism and electric power industries forecast in the near future
- Increase in investments in residential estate taking place
- There is still little investment in infrastructure by the authorities despite much need



f: forecast by the Central Bank of Iceland

Engineering sector recovering

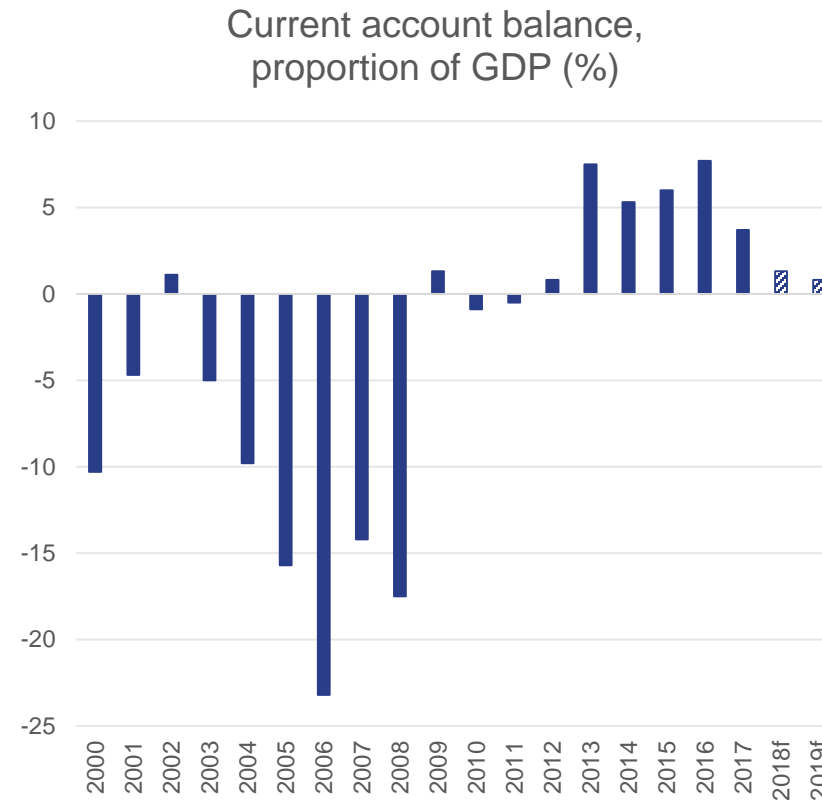
The up- and downturns are evident



No Signs of External Imbalance

Net external position close to zero – never been stronger

- There are no signs of external imbalance of the economy
- Indicate that the economy won't have a hard landing
- There has been a high surplus on the current account
- The reason for this is the rapid growth in tourism exports, favorable terms of trade and low external debt
- The trade surplus is decreasing due to less surplus from trade in goods and services

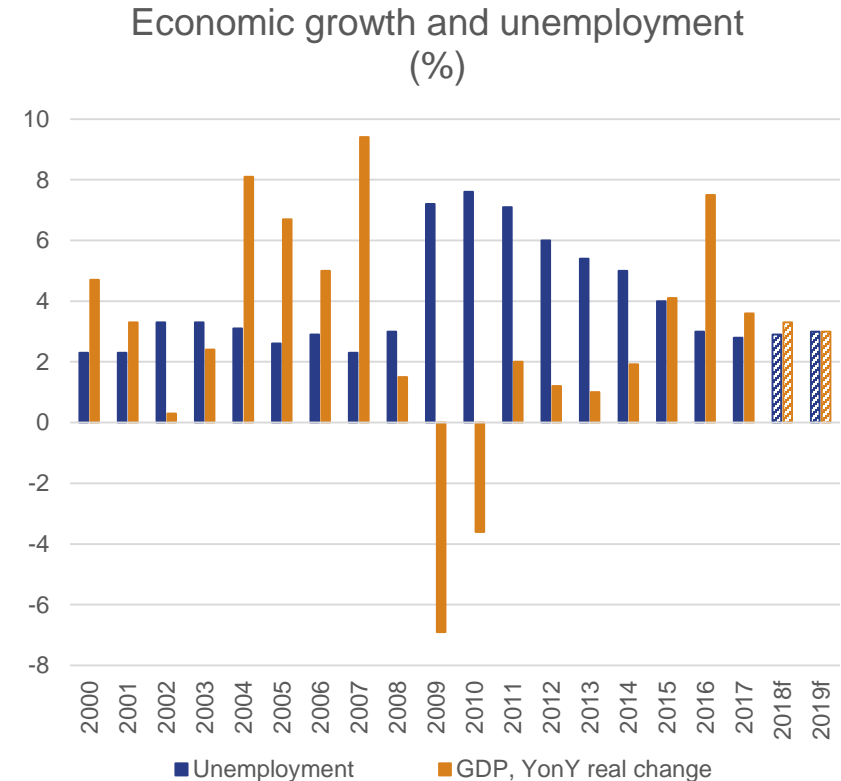


f: forecast by the Central Bank of Iceland

Tension in the Labour Market

Tension expected to decrease with slowing economic growth

- Current unemployment figures are among the lowest recorded, and employment participation is close to an all-time high
- Labour requirements of economic growth largely met with imported labour
- Imported labour at record level last year
- Unemployment has started to increase and there are signs that the increase in jobs is slowing down
- Tension in the labour market is expected to decrease as the growth of the economy will slow in the next two years



f: forecast by the Central Bank of Iceland

Rapid Real Wage Increase

Purchasing power of wages rises beyond comparison

- Inflation has stayed under the 2.5% inflation target since early 2014
- Low inflation in imports along with strengthening of the ISK has kept inflation low despite large wage increases
- The improbable parallel of wage increases and low inflation has resulted in unrivalled increase in purchasing power of wages
- Purchasing power of wages have increased by 38% in this economic upswing



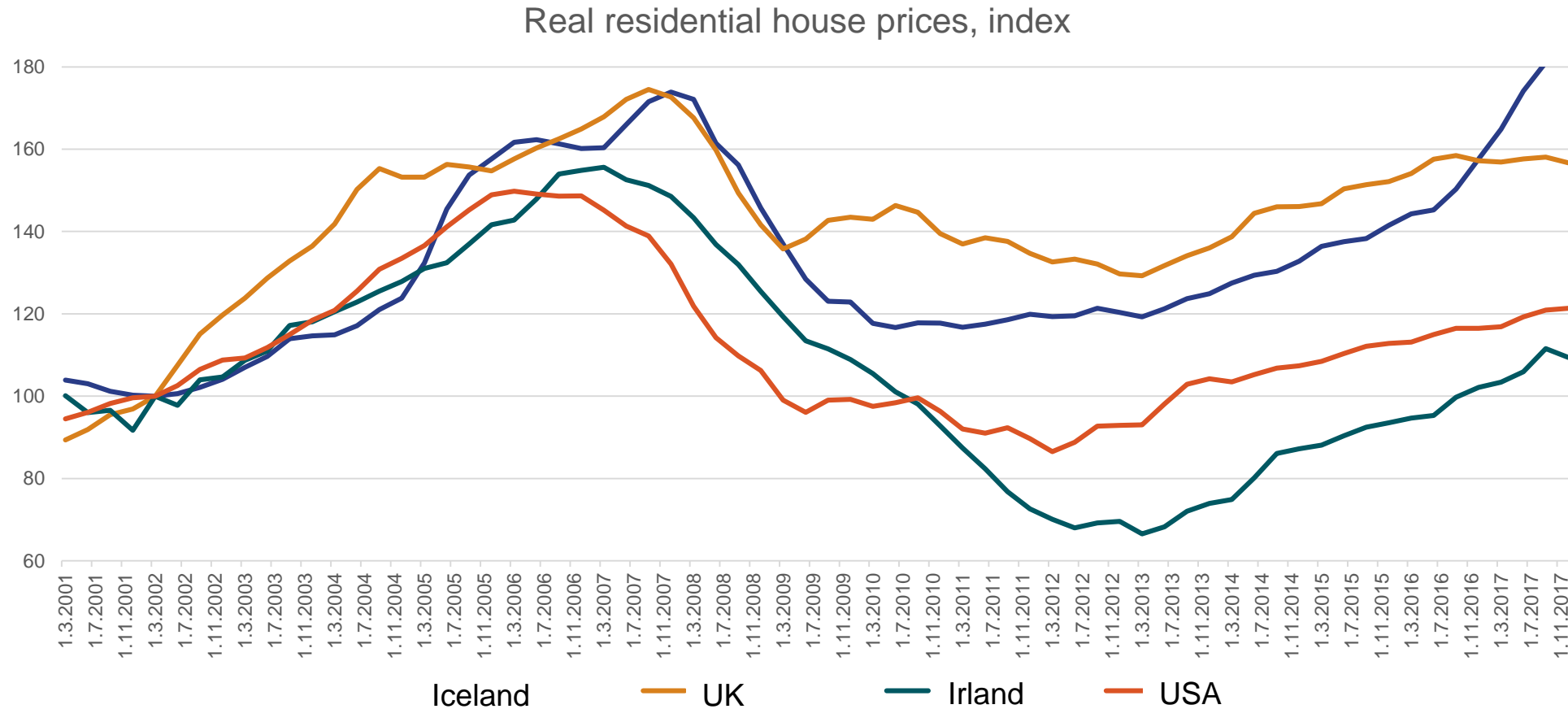
Labour costs in engineering activities

Labour costs are spiralling and competitiveness is suffering



Real house prices never higher

Residential house prices rising faster than in most other countries



Source: Thomson Reuters

Economic Recovery Driven by Fundamentals

Growth continues but at a slower pace

- Economic growth slowing down but still strong
- GDP growth driven by exports and domestic demand
- The economy in a fairly good balance
- Labour market remains tight offset by large-scale importation of labour
- Volatility and high domestic cost a burden for the non sheltered industries



FRV's challenges 2018-2019

Good procurement practices

Recruitment

Competitive market

Accredited inspection agencies

Ethical guidelines

International firms entering the market

Infrastructure investments

Smallest nation ever to qualify for the World Cup

Iceland is doing more than fine



