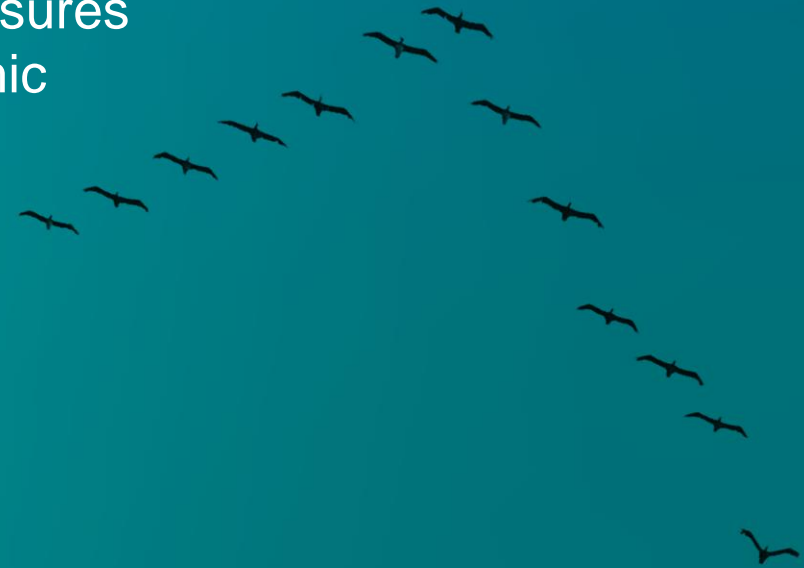


April 2020



Resilience: strengthening Iceland's foothold

Second package of Government measures
in response to the COVID-19 pandemic



Government of Iceland

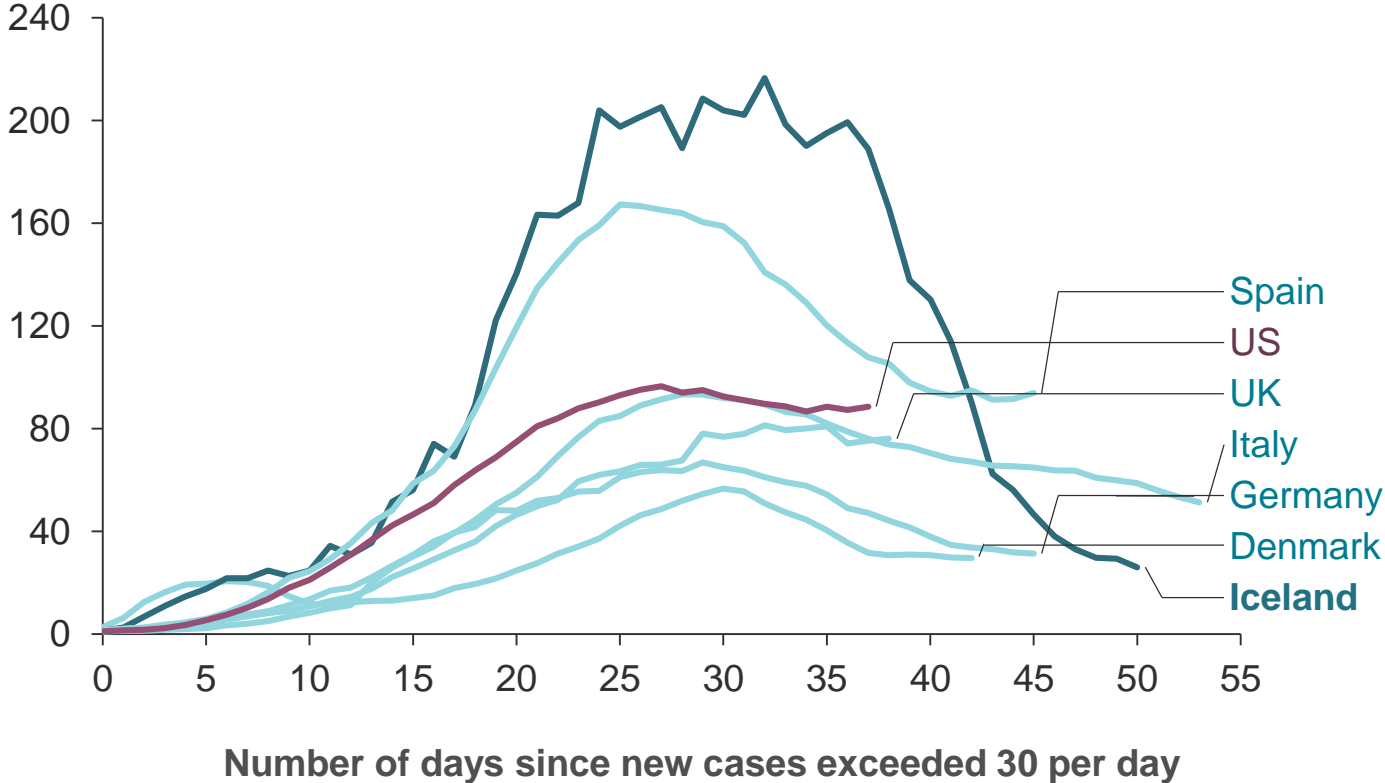
Contents

1. Economic developments and prospects

2. Economic measures

The spread of COVID-19 has slowed in Western countries in recent days

Daily number of new COVID-19 cases per million inhabitants; seven-day moving average



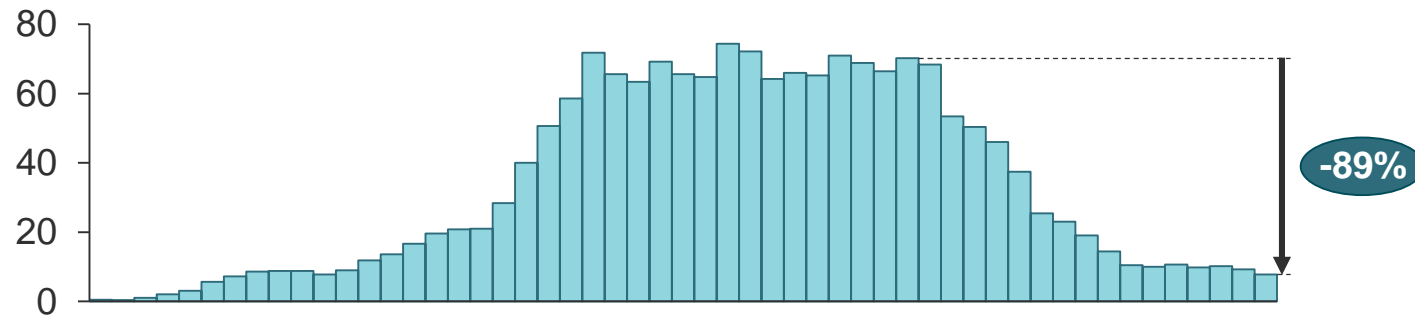
- **The spread of COVID-19 has slowed in mainland Europe, and in the US and the UK, the daily number of new cases has stabilised**
- **In Iceland, the number of new cases has plunged** in the past two weeks; thus the spread of the disease has slowed markedly
- **Western countries' policy actions** to curb the spread of the virus **therefore appear to be bearing fruit**

Sources: Our World in Data, European Centre for Disease Prevention and Control (data through 20 April: [OurWorldInData.org/coronavirus](https://ourworldindata.org/coronavirus))

In Iceland, the steep decline in new cases means the epidemic is on the wane

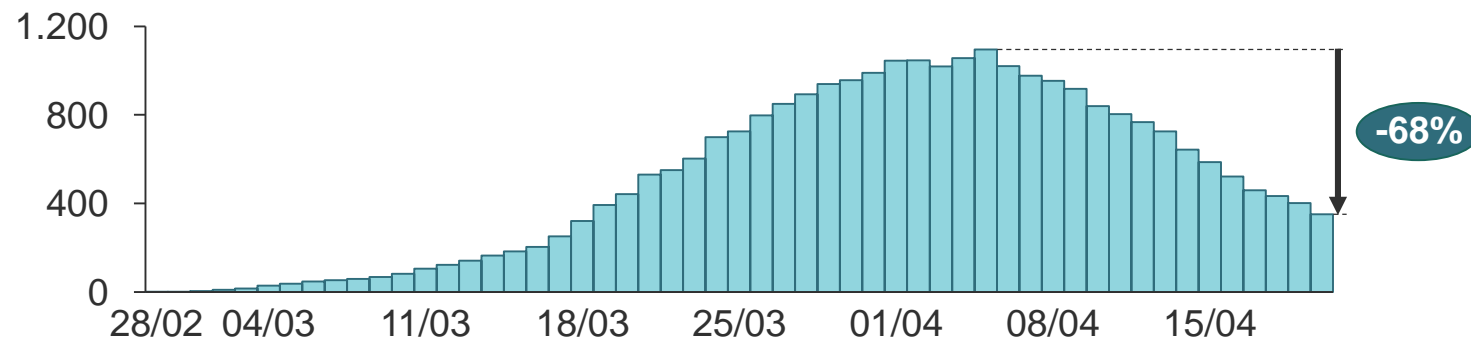
Daily number of new and active cases in Iceland (five-day moving average for new infections)

New cases



The daily number of new cases has **fallen by nearly 90%** recently

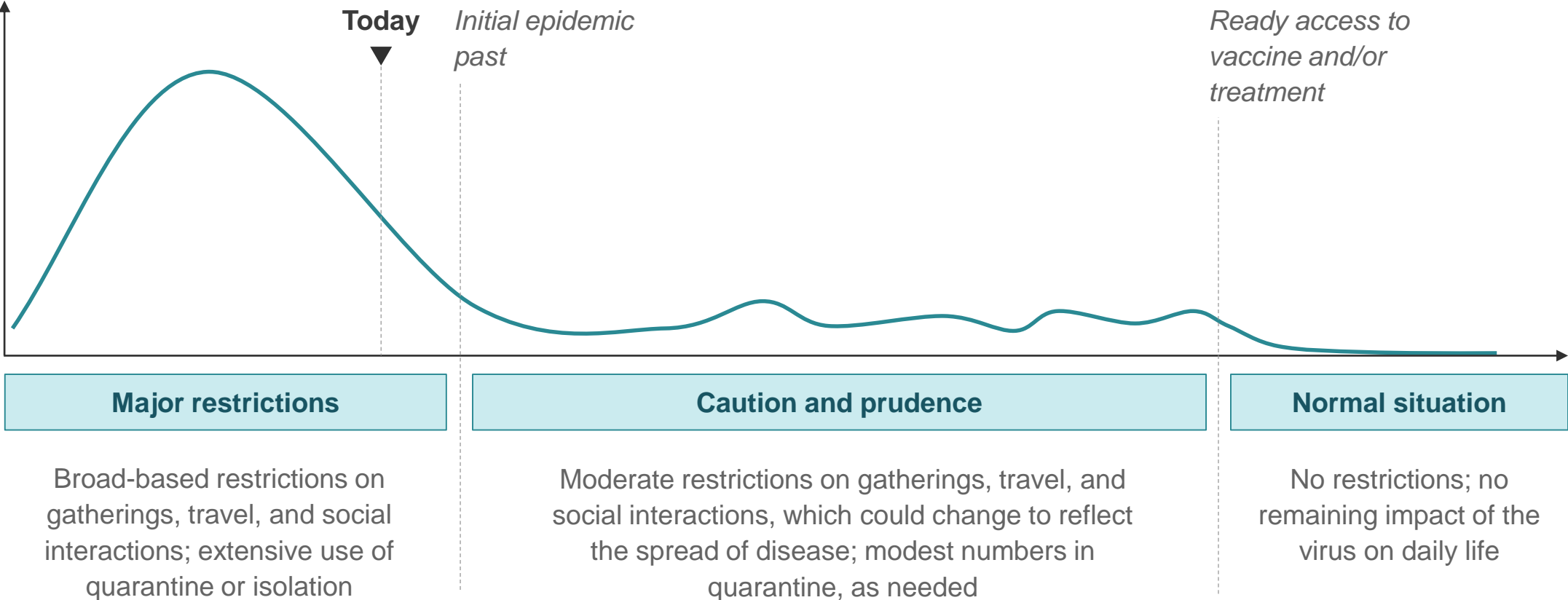
Active cases



Recoveries have exceeded infections and the **number of active infections has fallen by two-thirds**

The impact of COVID-19 on society will persist for some time, however

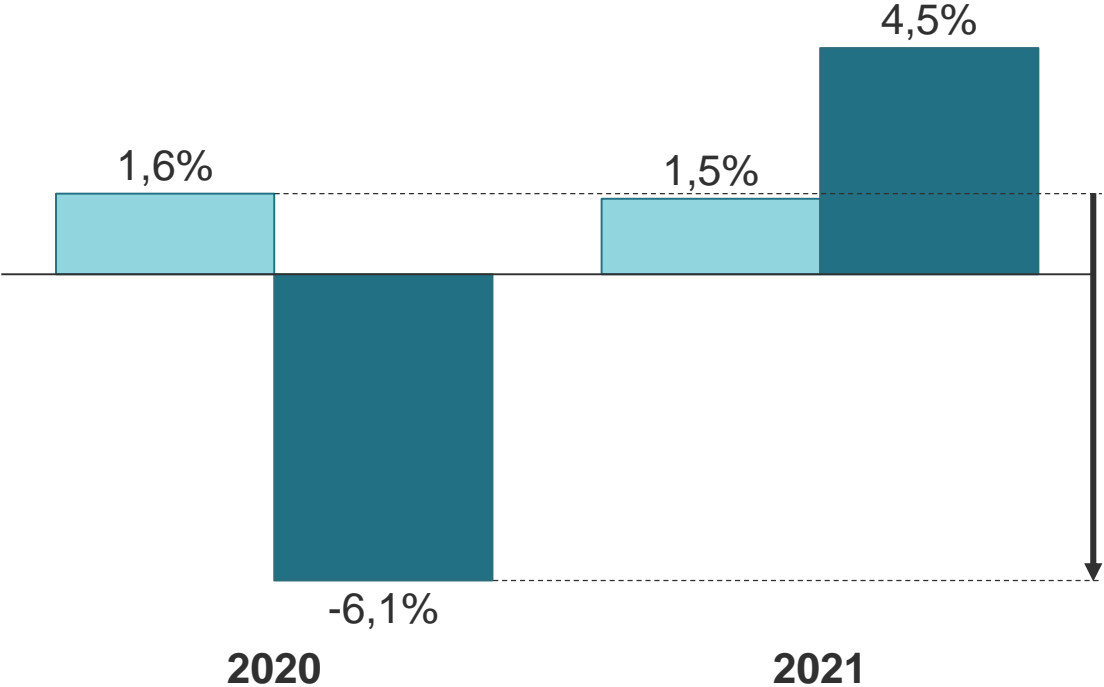
Number of active infections



New macroeconomic forecast assumes 2020 will see deepest economic downturn since the Great Depression

Output growth in advanced economies, according to new IMF forecast

January forecast
April forecast



-7.7%

*“This is [...] a major revision over a very short period of time. This makes the great lockdown **the worst recession since the Great Depression, and far worse than the Global Financial Crisis**”¹*

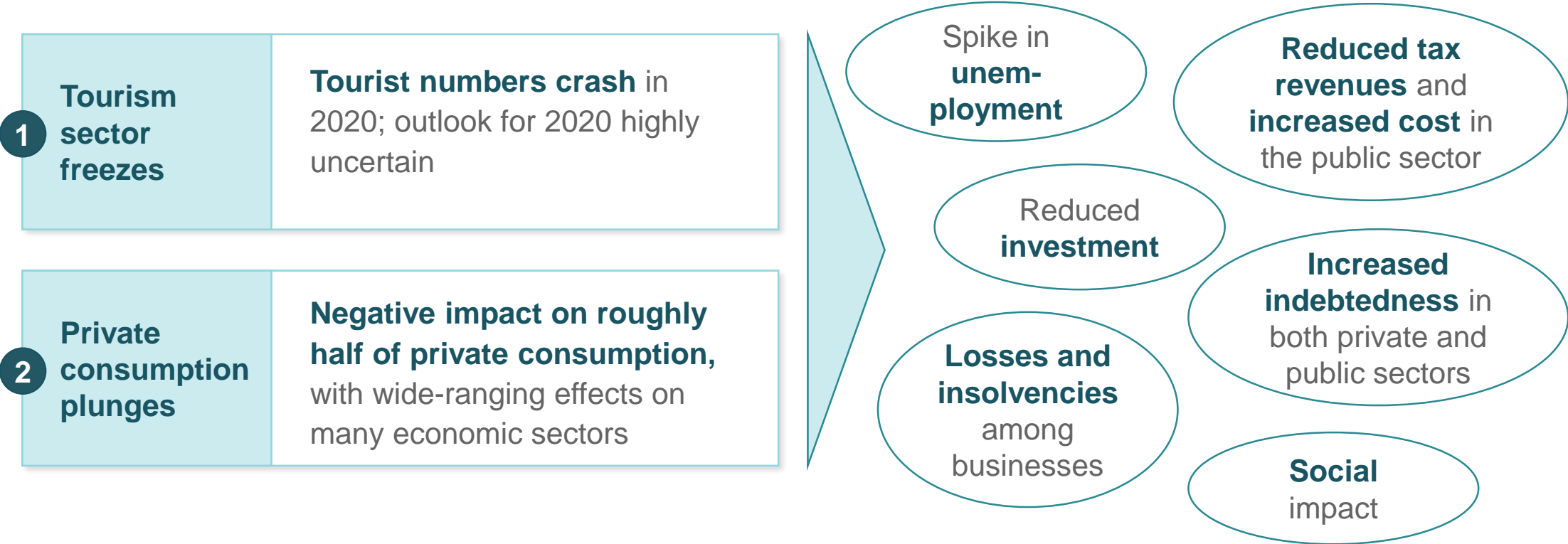


Gita Gopinath
Chief Economist,
International
Monetary Fund

Source: International Monetary Fund, macroeconomic forecast of 14 April 2020

In Iceland, the contraction is visible in two main ways

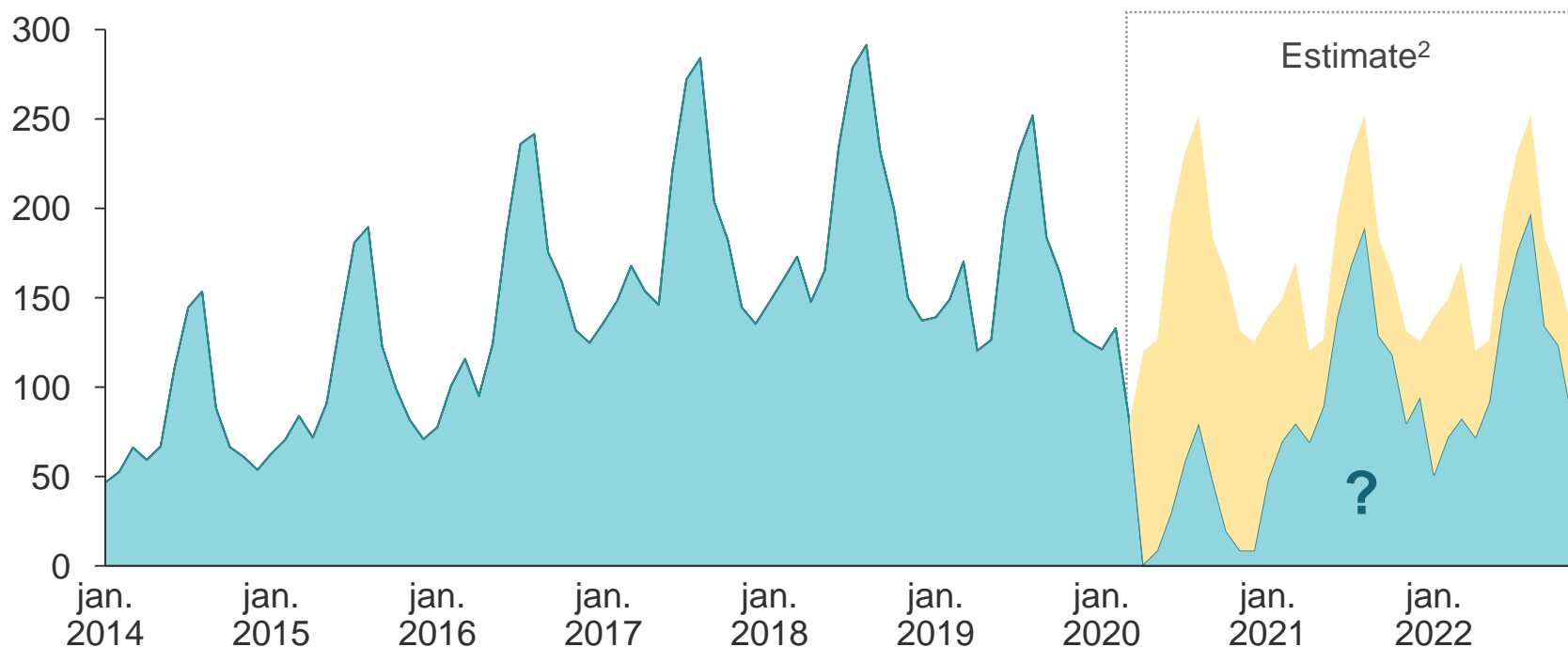
Manifestations of the COVID-19 recession and its implications



Major contraction in tourism ahead, with little hope for improvement in 2020

Number of tourists in Iceland (thousands)¹

■ Contraction relative to 2019 ■ Number of foreign nationals, by month



- If tourist numbers develop in line with this estimate, it will mean a **contraction of 70% in 2020 and 35% in 2021** relative to 2019
- These estimates are highly uncertain, however, **and the contraction could prove deeper and longer**

¹ Number of foreign nationals travelling through Keflavík Airport, by month. Real figures from Jan 2004 through Mar 2020.

² Pessimistic scenario in KPMG estimates prepared for the Icelandic Tourist Board, 17 Apr 2020. The pandemic's effects on travel behaviour are extremely uncertain; therefore, the estimates give only a rough indication of possible developments.

The relative dominance of the tourism sector means a heavy blow for Iceland

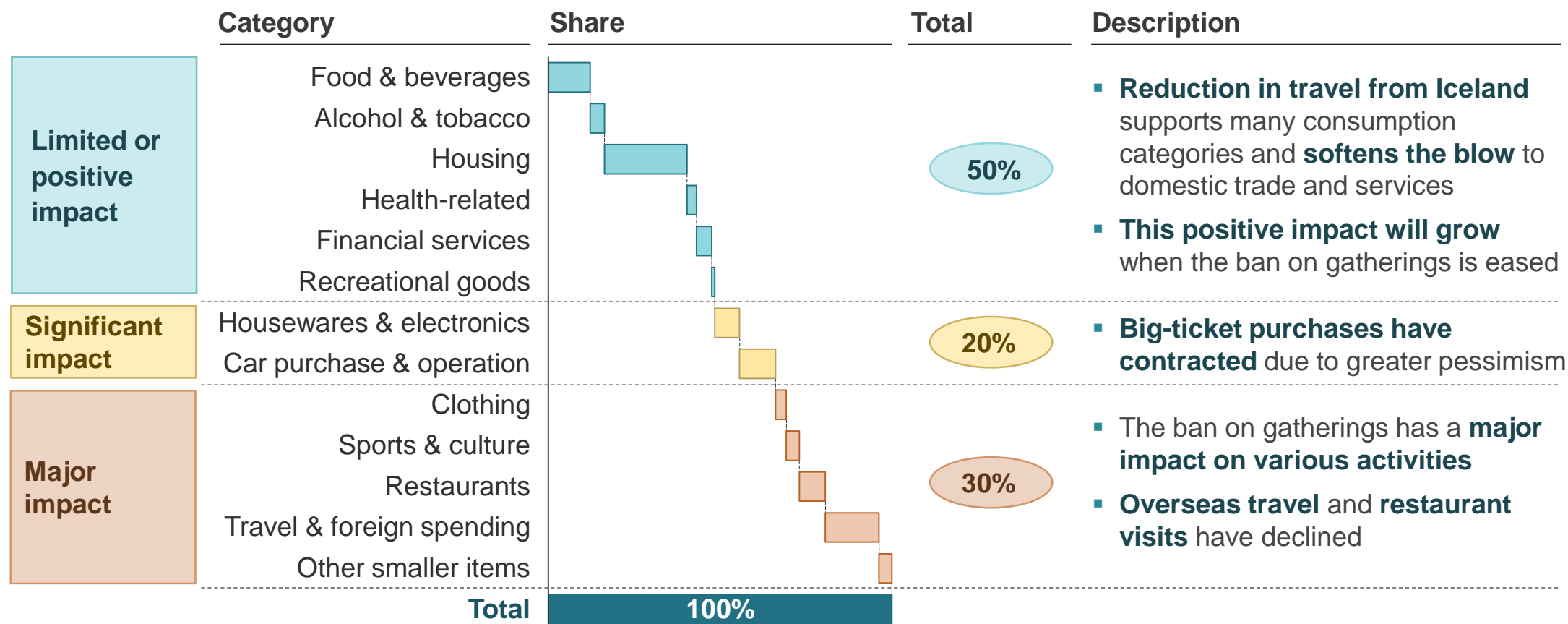
Tourism's role in the Icelandic economy (2019)

■ Tourism ■ Other



Ban on gatherings and uncertain economic outlook cause temporary contraction and shift in consumption

Household consumption¹

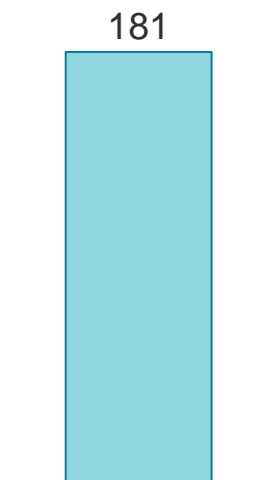


¹ Household consumption in 2019, by category, according to Statistics Iceland figures.

But there are more Icelanders in the country, and services will rally as the ban on gatherings is eased

Reduced overseas travel among Icelanders will stimulate domestic demand in coming months ...

Icelanders' spending abroad (2019, ISK bn)



- Icelanders spent about **ISK 180bn while travelling abroad** in 2019
- Because travel has been suspended, **a portion of this amount will be spent in Iceland**, on both savings and consumption
- The portion that shifts to consumption will **boost domestic demand**

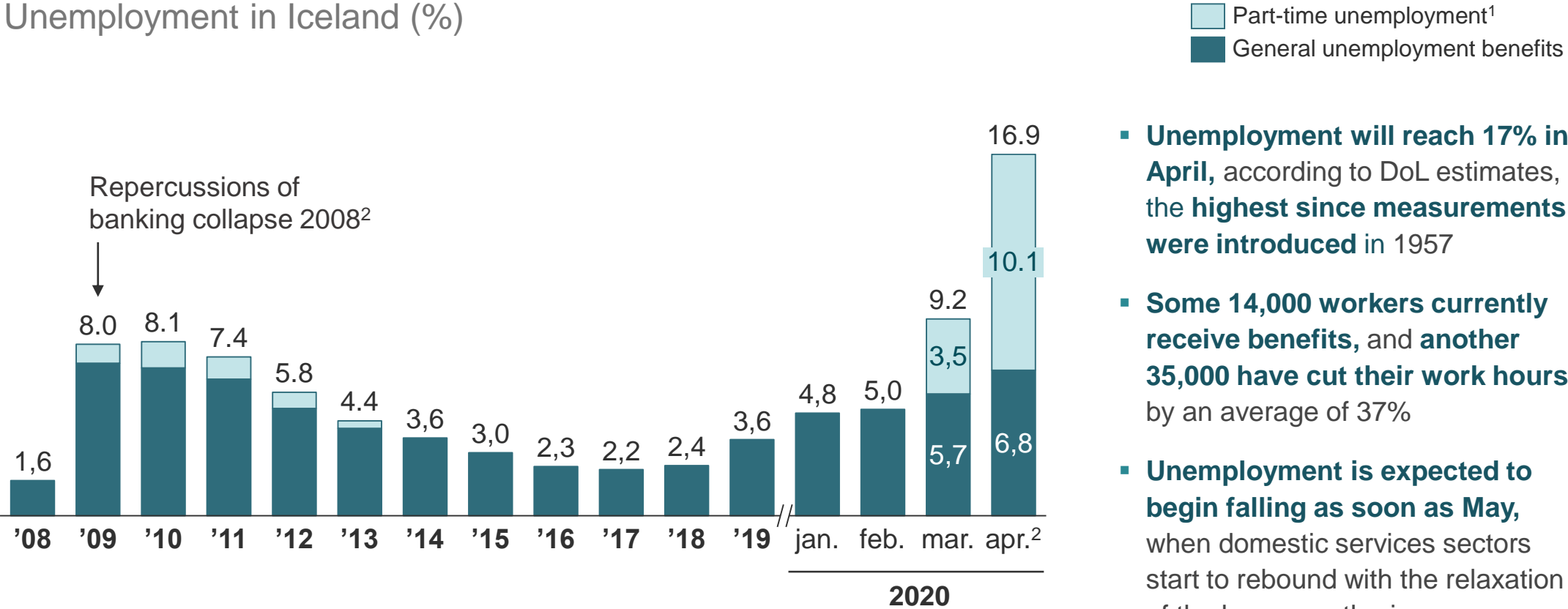
... and various services will be able to resume operations when public health rules are eased

Services activities before and after proposed relaxation of ban on gatherings on 4 May

Example	Before	After
Hair salons	✗	✓
Dental care	✗	✓
Massage parlours	✗	✓
Physiotherapy	✗	✓
Beauty salons	✗	✓
Misc. healthcare services	✗	✓
Restaurants and pubs	~	~

The severest consequence of the contraction is Iceland's highest-ever unemployment rate

Unemployment in Iceland (%)



- **Unemployment will reach 17% in April**, according to DoL estimates, the **highest since measurements were introduced in 1957**
- **Some 14,000 workers currently receive benefits**, and **another 35,000 have cut their work hours** by an average of 37%
- **Unemployment is expected to begin falling as soon as May**, when domestic services sectors start to rebound with the relaxation of the ban on gatherings

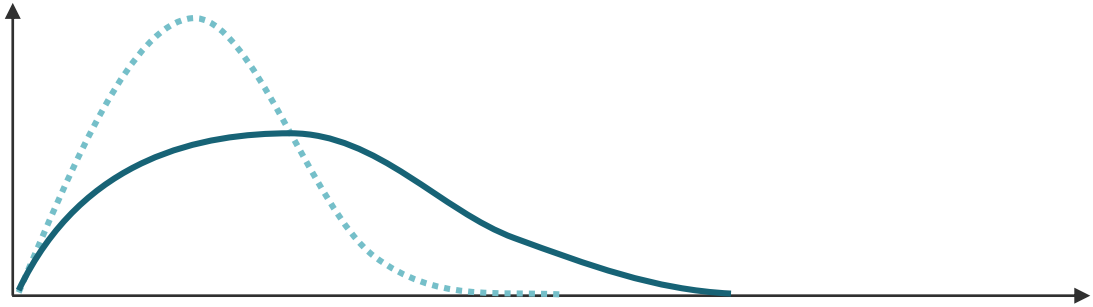
¹ Measured in number of FTEs; i.e., two workers reduced to half-time jobs is the equivalent on one person on full unemployment benefits

² In individual months, unemployment peaked at 9.3% following the banking collapse

The Government's priority is to control unemployment to the maximum extent possible

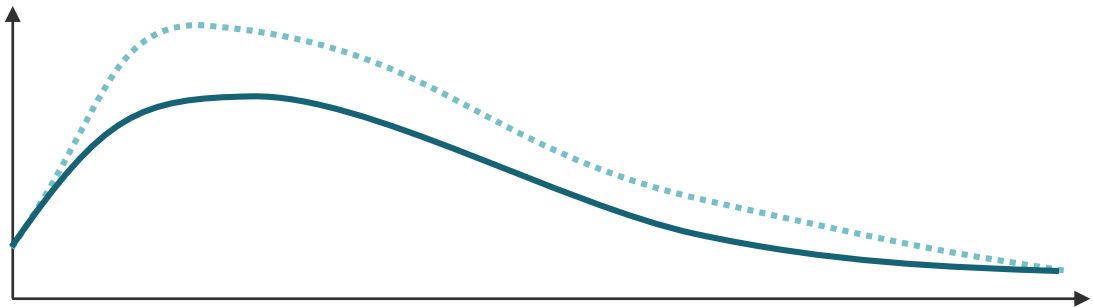
..... Without measures — With measures

Active COVID-19 cases



- The Government's top priority during the pandemic has been to **flatten the curve** so that the **number of infections does not overtake healthcare system capacity** and cause more deaths

Unemployment



- The Government has **similar objectives for the economy**: top priority is on **containing the abrupt spike in unemployment**, which experience shows can prove stubborn

Although disease prevention and control efforts are yielding results, we face a major economic problem

- **Disease controls measures have been more successful than initially hoped** in Iceland, and **the pandemic is currently receding**
- Although many countries have gained control of the pandemic, **Iceland and other Western countries are facing a severe economic contraction**
- **The tourism industry is unlikely to recover in the near future.** The negative impact on the sector could prove long-lasting or even permanent, with **wide-ranging implications for the Icelandic economy**
- On the other hand, the outlook is that **domestic demand could bounce back quickly**, and GDP growth is forecast to resume in 2021
- The biggest hurdle will be **high and persistent unemployment**. The Government's top priority is to **reduce it as much as possible**, for instance, by **buying time, where domestic services sectors can take on some of the tourism labour force**




Contents

1. Economic developments and prospects

2. Economic measures




Implementation of Phase I economic package is now in final stages

Progress of the Government's COVID-19 economic package, Phase I

	Measure	Progress	Description
 Safeguards	1. The part-time option	● Active	35,000 workers have used the measure
	2. Bridge loans to companies	◐ Pending	Agreement made with Central Bank
	3. Deferral of tax payments	● Active	1,300 companies have applied for deferral
 Protection	4. Wages during quarantine	● Active	10,000 individuals are entitled
	5. Supplemental child benefit	◐ Ready	Paid out to families with children on 1 June
	6. Private pension withdrawals	● Active	Open for applications
 Resilience	7. Subsidy for tourism operators	◐ Pending	Marketing tender underway, gift certificates pending
	8. Expansion of “Back to Work”	● Active	Open for applications for reimbursements
	9. Facilitation of imports	● Active	Applications for deferral/cancellation can be filed
	10. Investment initiative	◐ Pending	Preparation for development projects ongoing

The Government will implement 10 measures in addition to those previously announced

Economic measures in response to COVID-19, Phase II

	Measure	Description
 Safeguards	1. Closure subsidies	<ul style="list-style-type: none"> Subsidies due to orders to close business operations
	2. Support loans	<ul style="list-style-type: none"> Loans to small companies in distress because of the pandemic
	3. Netting of income tax	<ul style="list-style-type: none"> Authorisation to carry 2020 losses back to offset 2019 profits
 Protection	4. Mental health and remote care	<ul style="list-style-type: none"> Strengthening mental health, healthcare, and remote services
	5. Protection of at-risk groups	<ul style="list-style-type: none"> Measures to protect children, families, and vulnerable groups
	6. Special subsidies	<ul style="list-style-type: none"> Front-line, media, and local government measures
 Resilience	7. Boosting innovation	<ul style="list-style-type: none"> R&D reimbursements, increased investment in innovation
	8. Summer measures for students	<ul style="list-style-type: none"> Summer jobs, summer study, innovation grants for students
	9. Effective job-seeking	<ul style="list-style-type: none"> Study and work opportunities for job-seekers
	10. Domestic value creation	<ul style="list-style-type: none"> New Foodstuffs Fund; increased funding of artists' stipends

1 Closure subsidies will be paid to businesses forced to close for public health reasons



The authorities will support those forced to close their business for public health reasons

- Many types of services were **forced to close because of the ban on gatherings** and other public health rules
- **Examples** include hair salons, elective surgical procedures, pubs, gyms, massage parlours, physiotherapists, dance halls, beauty salons, museums, game rooms, swimming pools, and dentists
- The Government will **pay subsidies to these entities to compensate for a portion of lost revenues and help them to cover fixed operational expenses**

The maximum subsidy is ISK 2.4m per business

ISK 800,000

per employee

ISK 2.4m

maximum per business

ISK 2.5bn

estimated total amount of closure subsidies

To receive a closure subsidy, the business must satisfy requirements

The business must:

- have been forced to **close** for public health reasons
- have suffered a **75% yr-on-yr loss in revenue** in April 2020
- have had at least **ISK 4.2m in revenue** in 2019
- be **up to date w/tax payments**
- **still be in operation**

Those receiving subsidies w/o being entitled must **reimburse it, plus a 50% surcharge**

2 Support loans will help thousands of small businesses in distress



ISK 6m

maximum per business

1.75% interest

Central Bank key interest rate

2½ yr

loan period¹

Objective and scope

- The objective of the loans is to **address liquidity problems** that could lead to **lay-offs** and **deepen the economic contraction**
- **The Government** will grant support loans **through banks**
- The loans are for **smaller entities** that have suffered a **severe contraction**, particularly in tourism
- An estimated total of **ISK 28bn** will be loaned to **8,000 businesses**

Conditions

- **40% yr-on-yr drop in revenues²**
- In 2019, revenues were **between ISK 9m and ISK 500m** and **wage costs at least 10% of operating expenses**
- **No dividend payments**, share buybacks, etc., from 1 March onwards, and **no arrears³**
- **Operationally viable** when the pandemic has passed

¹ Repayments are deferred for the first 18 months and then made in equal instalments over the next 12 months

² The yr-on-yr contraction in revenue over a continuous 60-day period from 1 March through 30 September must be at least 40%

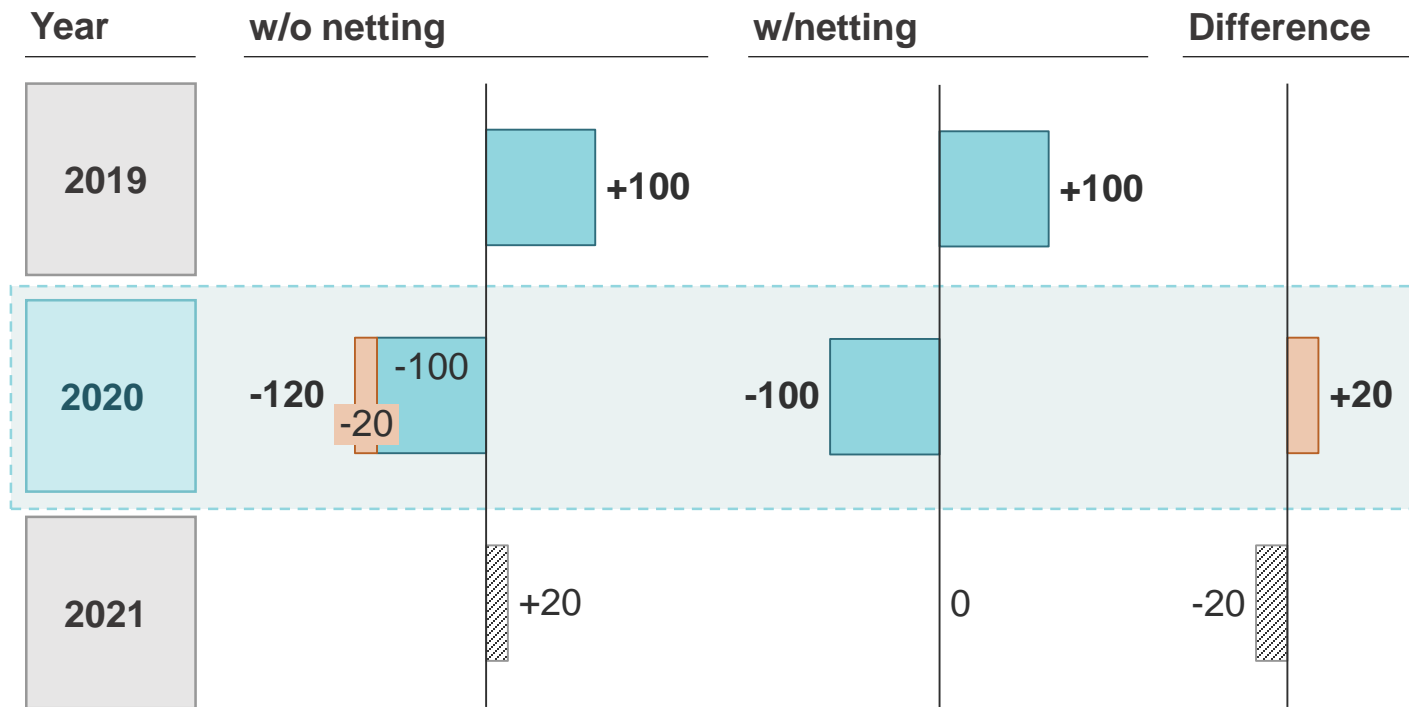
³ The company may not have paid dividends or non-contractual bonuses, bought its own shares, paid subordinated loans before maturity, or paid loans or other payments to owners or related parties that were not necessary to maintain operations from 1 March 2020 onwards. The company may not be in arrears with taxes and public levies, nor may it be more than 90 days in arrears to a credit institution.

3 Businesses will be able to use 2020 losses to offset 2019 profits and boost liquidity



Example: impact of tax netting on a business (ISK m)

Deferred tax assets
 Income tax
 Pre-tax profit



- A company that foresees a **loss in 2020** but turned a **profit in 2019** can apply to **net out the profit and the loss** for these two years¹
- This **will increase companies' liquidity**. In the example, cash flow improves by **ISK 20m in 2020**
- **The maximum tax amount** that can be carried between years is **ISK 20m**, and **98% of companies** are below that threshold
- The total impact is estimated at **ISK 13bn**
- **The Government's revenue loss is limited**, as 2021 deferred tax assets will decline by the same amount

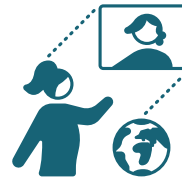
¹ Further requirements for the loss carry-back to offset 2019 profits are described in the bill of legislation on this measure.

4 Campaign to promote mental health and improved well-being among Icelanders



Mental health

Mental health teams nationwide to be strengthened; numbers of social welfare officers, psychiatrists, and psychologists increased



Remote care

Remote service will be strengthened nationwide, both through Heilsuvera web portal and through community health centres



Monitoring and education

The mental health situation will be monitored throughout the pandemic, and education materials will be prepared¹

¹ The Icelandic Healthcare Development Centre will oversee the preparation of educational materials and their dissemination to relevant healthcare employees.

5 Multi-faceted measures to support children and their families



Recreation

Support for children in low-income households to enable participation in sports and recreation¹



Violence

Campaign against domestic violence and violence against children²



Chronically ill children

Support for parents and caregivers to address COVID-19-related circumstances³



Disabled children

Support for parents and caregivers to address COVID-19-related circumstances³



Mental health

Support for school children, plus strengthening of mental health-focused healthcare⁴



Foreign origins

Social measures to improve the position of children from foreign countries

¹ A recreational subsidy of ISK 50,000 per child will be paid to families whose combined monthly income is less than ISK 740,000. The measure will be implemented by local authorities. The total amount of the subsidies is estimated at ISK 600m. ² Children's House and the 1717 Helpline will receive support, as will NGOs that provide advisory services, for a total of ISK 200m. In addition, cooperation between police, social services, and child protection authorities will be increased and supported, for a total of ISK 15m. ³ An additional contribution of ISK 200m will be made to address the extra needs of parents and caregivers who care for chronically ill or disabled children. ⁴ The cost of this falls under Measure #4 on mental health and remote services.

? Special attention focused on protecting vulnerable groups in coming months



Support for vulnerable groups ...

Senior citizens

Foreign nationals

Disability pensioners

Disabled people



... through social measures

- Measures to combat **social isolation**
- Strengthening of **community centres** for senior citizens and disability pensioners
- Measures to **combat the negative social impact** of the pandemic on vulnerable groups
- **Improved access to information** on the pandemic and healthcare, irrespective of people's origins or other circumstances

6 Front-line wage enhancement paid to healthcare workers at elevated risk of contagion

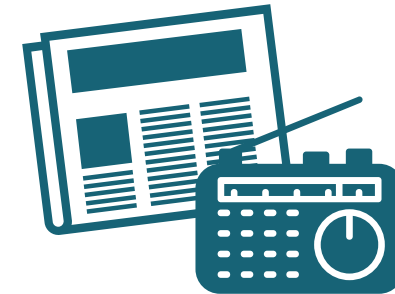


- Front-line healthcare workers have had to work under **greater strain because of increased patient numbers** in the healthcare system
- In addition, may have been at **greater risk of contagion** due to difficult working conditions
- The authorities will pay these individuals a special **wage enhancement in the form of a one-time payment**
- **The total amount** of the wage enhancement measure is **ISK 1bn**, with implementation carried out by providers

6 Support for media companies because of their informational and public health role



- **Media companies' advertising revenues have plummeted** at a time of **increased demand for their services**
- Media companies' services have a **positive social impact** because of their **informational and public health role**
- **Privately operated media companies** will therefore receive **support totalling up to ISK 350m**
- The amount will be determined in part by **wage turnover for editorial employees**



6 Three-part local government measures to promote development and improved support



Municipal investment supported

- Municipalities plan to **expedite development projects** to address the worsening job situation
- To support this, **entitlement to VAT reimbursements** will extend to local governments



Municipal investment fund

- The Local Authorities' Equalization Fund's Real Estate Fund will be **authorised to provide subsidies to municipalities**
- The subsidies are intended to **finance construction** so as to **improve disabled people's access** to buildings and structures
- It will also be permissible to use the Real Estate Fund to **mitigate the Equalization Fund's loss of revenue**

Support for at-risk communities

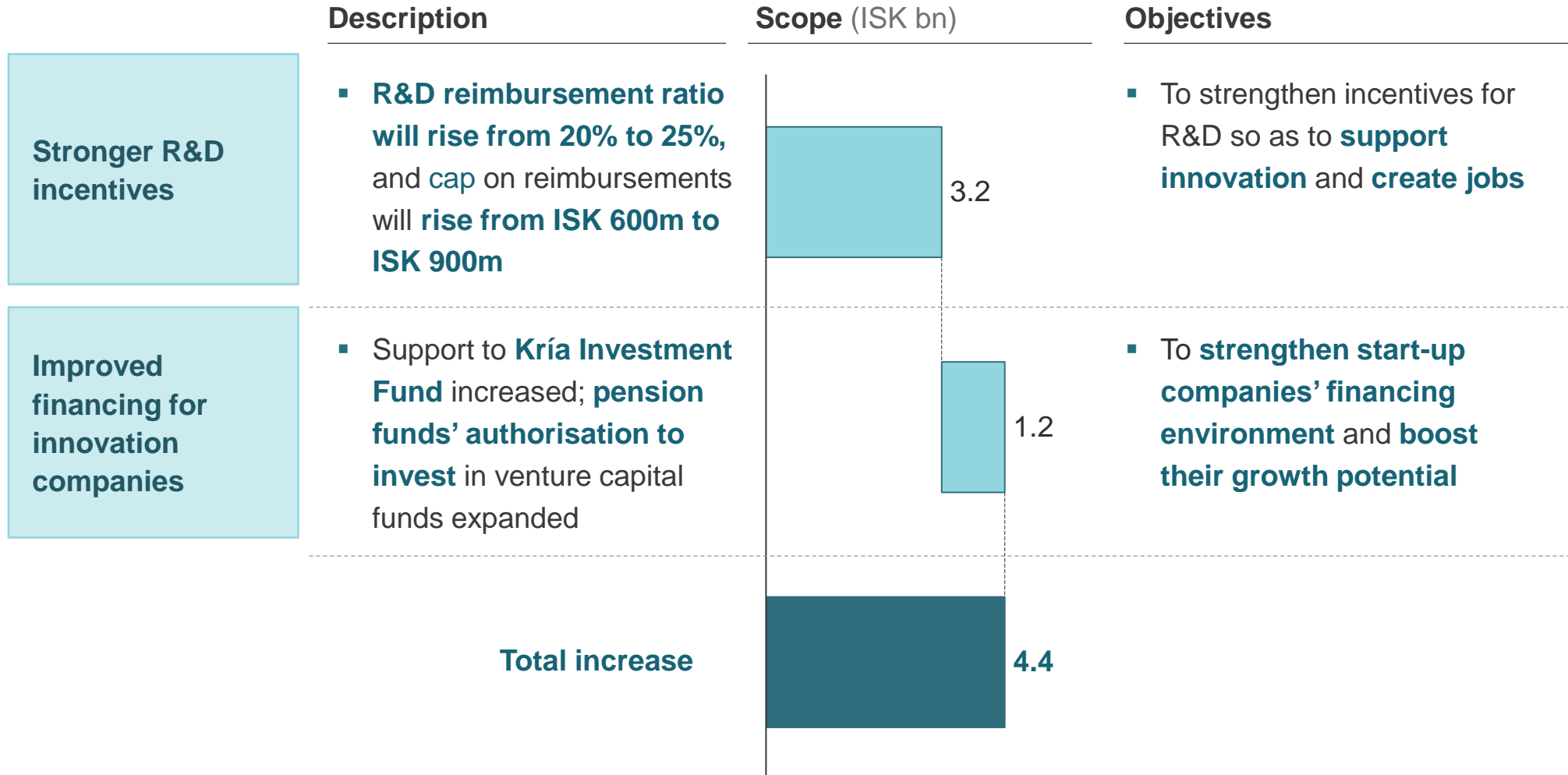
- The economic situation on **Suðurnes peninsula** requires special measures, with **unemployment there set to reach 24% in April**
- Measures for Suðurnes include more services for **foreign-born residents**, support for **Reykjanes Geopark**, and establishment of an **interdisciplinary social, healthcare, and educational team**
- Mapping of **vulnerable communities** nationwide is underway

7 Premises created for strong rebound based on human intelligence and knowledge



- In addition to **safeguarding the economy** and **protecting those who suffer the consequences** of the pandemic, the Government wants to create the conditions for a **strong economic rebound based on human intelligence and knowledge**
- To this end, **support for R&D and innovation** will be **substantially increased**
- In Phase I, the **Rannís Technology Development Fund** was **strengthened by ISK 700m** and the **Research Fund and Infrastructure Fund** by about **ISK 700m**
- In addition, the Government will **strengthen R&D incentives** and **improve innovation companies' financing environment**

7 R&D incentives and innovation financing will be strengthened



8 Study and work measures for job-seekers will combat unemployment

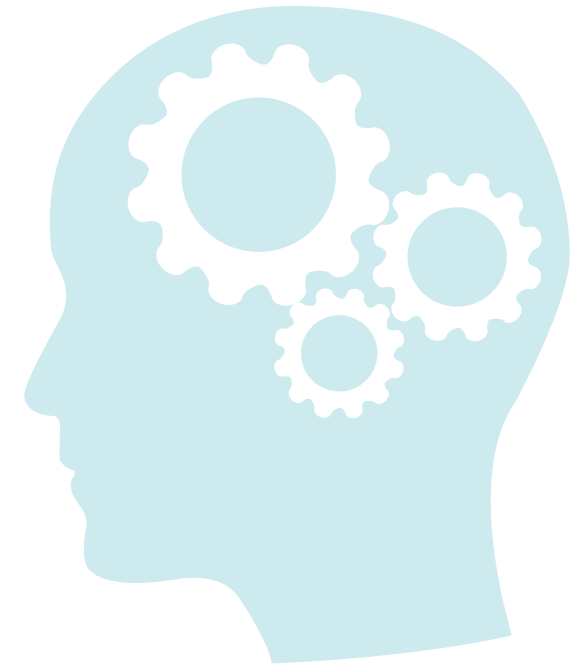


New measures are intended to maintain and develop job skills

- A variety of study and work options for job-seekers will be offered
- The measures maintain and build job skills for a rapidly growing group of job-seekers
- The objective is to combat persistent and long-term unemployment
- Some measures for students will also benefit job-seekers

The measures will extent to about 15,000 job-seekers

- Unemployment Insurance Fund to receive ISK 2bn for the initiative
- Measures aim to support and foster effective job search alongside study and training for 15,000 job-seekers



9 Three-part measures launched to expand students' study and work options



The pandemic has **disrupted studies** for thousands of students

Also, many students have **limited hopes of finding summer work** under these conditions¹

The Government will launch a **three-part programme** to **expand students' work and study options** in response to current conditions

1 Summer jobs for students

- ISK 2,200m will be allocated to a special campaign to create **3,000 temporary public sector jobs for students**

2 Upper secondary and university-level summer courses

- ISK 800m will be allocated to **summer courses at the upper secondary and university levels**
- **Vocational and academic courses** offered via **on-site and distance learning**

3 Contribution to Icelandic Student Innovation Fund

- ISK 300m contribution to Innovation Fund to cover **three months' pay for young entrepreneurs**²
- Emphasis on entrepreneurship and **innovation**

¹ For example, two surveys from the University of Iceland Student Council show that 40% of UI students had not lined up a summer job

² Contributions to the Icelandic Student Innovation Fund were increased by ISK 100m in Phase I, bringing the total increase to ISK 400m

10 An increased number of artists' stipends will support creation of cultural value

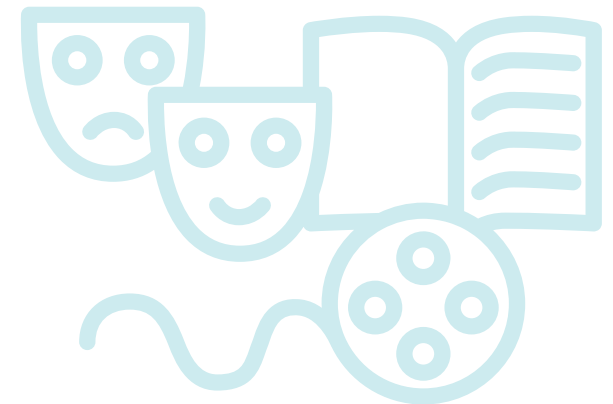


The Phase I package invested in culture ...

- Legislation has been passed providing **ISK 500m for investment in culture in 2020** as part of the measure expediting public investment

... and Phase II will go further

- A further **ISK 250m will be allocated to artists' stipends this year**
- **The entire contribution** will finance cultural projects **immediately in 2020**
- The contribution will support **600 man-months of artists' stipends**, the equivalent of a **40% increase**
- It will **finance the creation of new cultural value**



10 Foodstuffs Fund boosts innovation and value creation in the food production sector



The aim of the measure is to boost innovation and competitiveness

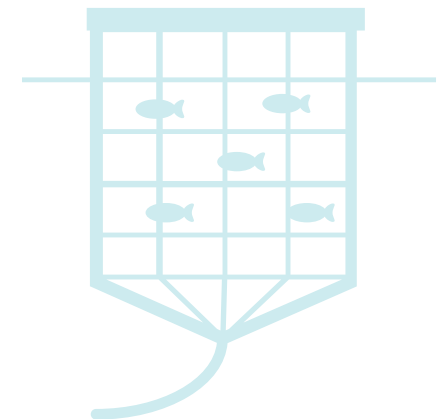
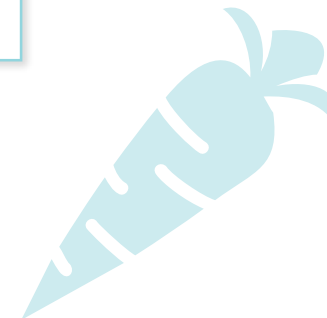
- **The Foodstuffs Fund** will be established with the merger of the Agricultural Productivity Fund and the AVS Fisheries Research Fund
- The aim of the Fund is to support **innovation, sustainability, value creation, and competitiveness** in food manufacturing
- The Fund will also receive **ISK 100m to strengthen international marketing**

ISK 500m for establishment of new Foodstuffs Fund

- **ISK 500m** allocated to the **establishment of the Foodstuffs Fund**
- **In 2021, the Fund will also receive funding** originally intended for the **Agricultural Productivity Fund** and the **AVS Fisheries Research Fund**

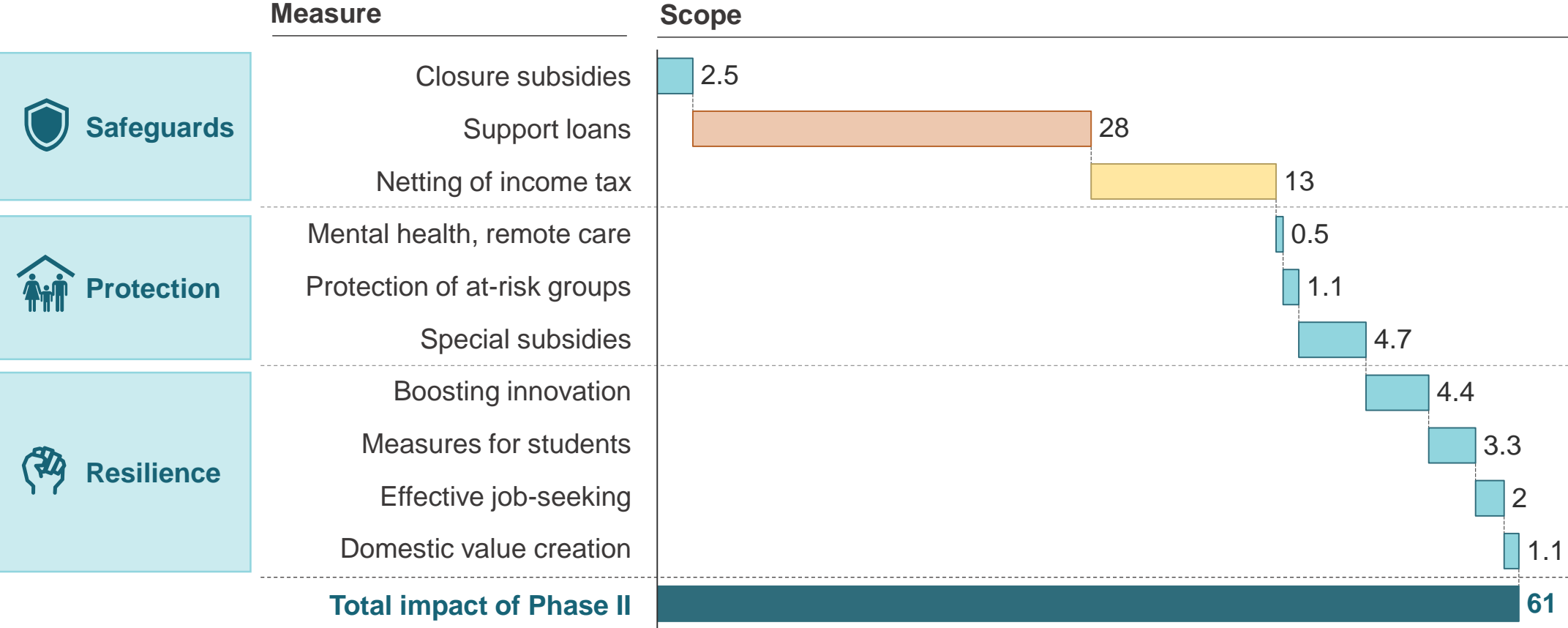
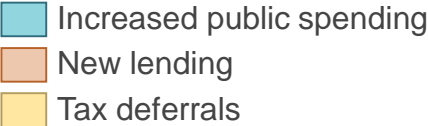
ISK 200m towards renewal of horticultural farming agreement

- Growth in Icelandic horticultural farming will be supported with a **contribution of ISK 200m** under the **new agreement with horticultural farmers**



The total impact of Phase II measures is estimated at ISK 60bn

Economic impact of Phase II (ISK bn)¹



¹ Preliminary estimate; the ultimate impact depends partly on participation in some measures.

The Government has now announced twenty measures to strengthen Iceland's resilience

The Government's economic measures in response to COVID-19

	Phase I	Phase II	Description
 Safeguards	<ol style="list-style-type: none"> 1. The part-time option 2. Bridge loans to companies 3. Deferral of tax payments 	<ol style="list-style-type: none"> 11. Closure subsidies 12. Support loans 13. Netting of income tax 	<ul style="list-style-type: none"> ▪ General economic measures to protect jobs and ensure continued operation of Icelandic companies
 Protection	<ol style="list-style-type: none"> 4. Wages during quarantine 5. Supplemental child benefit 6. Private pension withdrawals 	<ol style="list-style-type: none"> 14. Mental health, remote medicine 15. Protection of vulnerable groups 16. Special subsidies 	<ul style="list-style-type: none"> ▪ Measures to address various groups' special needs due to the pandemic and its repercussions
 Resilience	<ol style="list-style-type: none"> 7. Subsidy for tourism operators 8. Expansion of "Back to Work" 9. Facilitation of imports 10. Investment initiative 	<ol style="list-style-type: none"> 17. Boosting innovation 18. Summer measures for students 19. Effective job-seeking 20. Domestic value creation 	<ul style="list-style-type: none"> ▪ Measures to maintain activity during the economic downturn and facilitate a strong rebound when the pandemic has passed

