

28 January 2020



# Iceland Macroeconomic Policy and Situation

**Government of Iceland**  
Ministry of Finance and Economic Affairs



# Key points

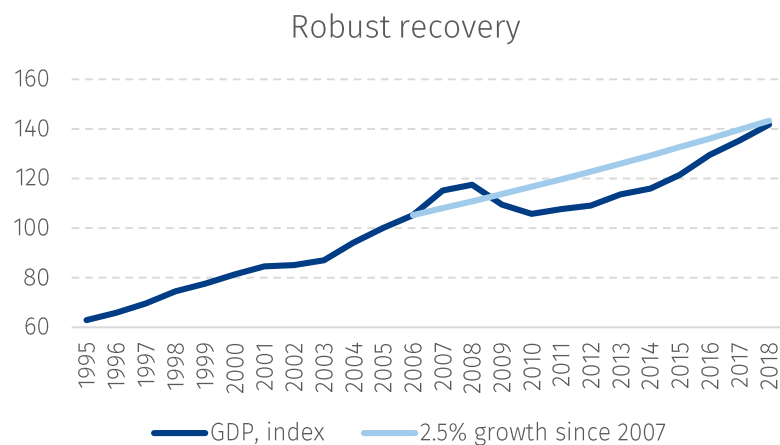
A slowdown in 2019 due to export shocks

Economic fundamentals are strong and policy space is being used

The government's fiscal plan has been revised to give appropriate support to the economy

The tourism sector is performing much better than expected despite fewer tourists

Wage agreements foster competitiveness and support stability

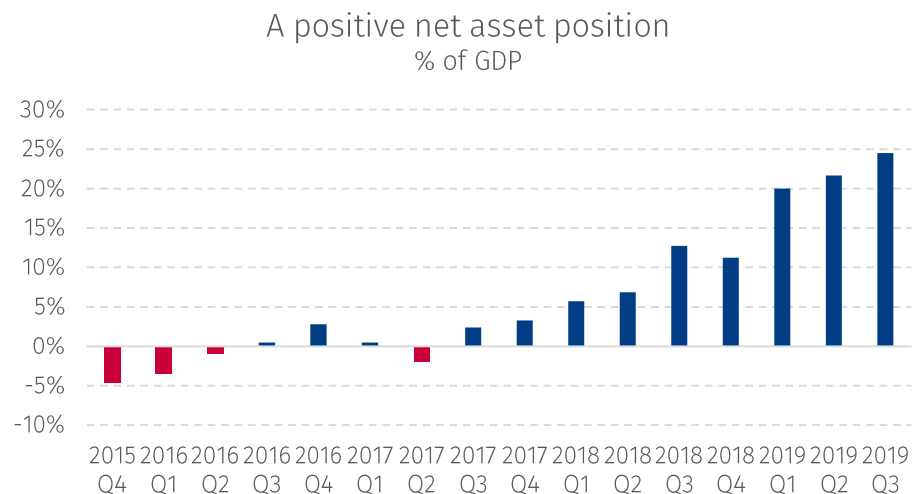
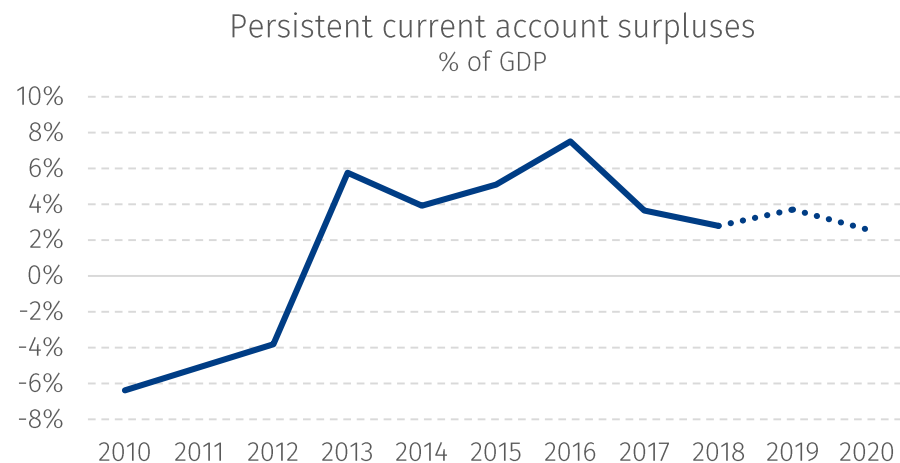


# Strong and healthy growth

Growth has averaged over 5% since 2014.

Supported by a boom in tourism.

A rapid population growth also facilitated the upswing



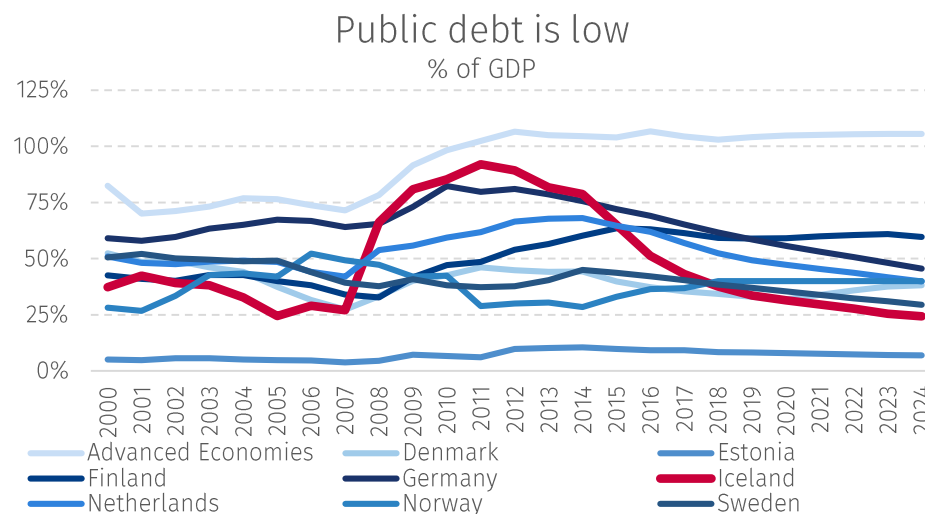
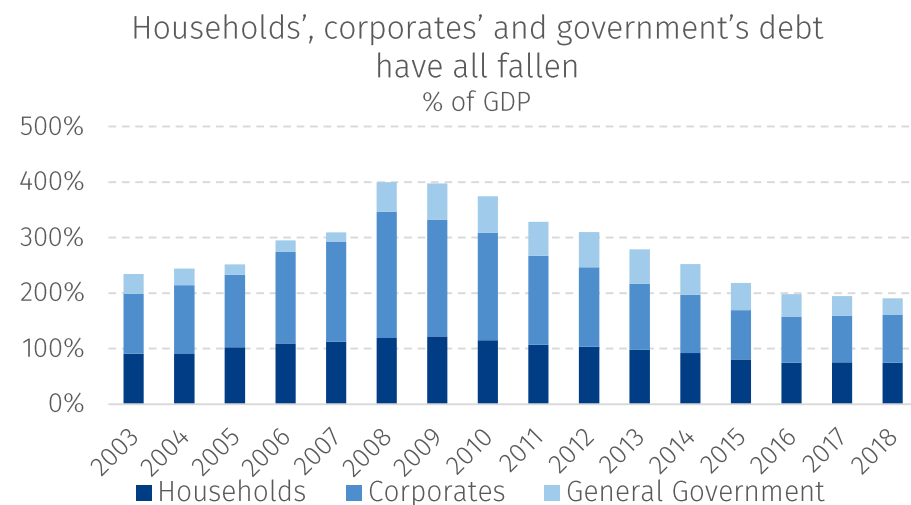
# Strong fundamentals

The external balance of the economy is strong.

A major structural change that has improved resilience.

Persistent current account surpluses despite a long expansion

A positive net international asset position for the first time



# Dramatic fall in debt levels

The level of debt in the economy is low, even compared to early 21st century levels.

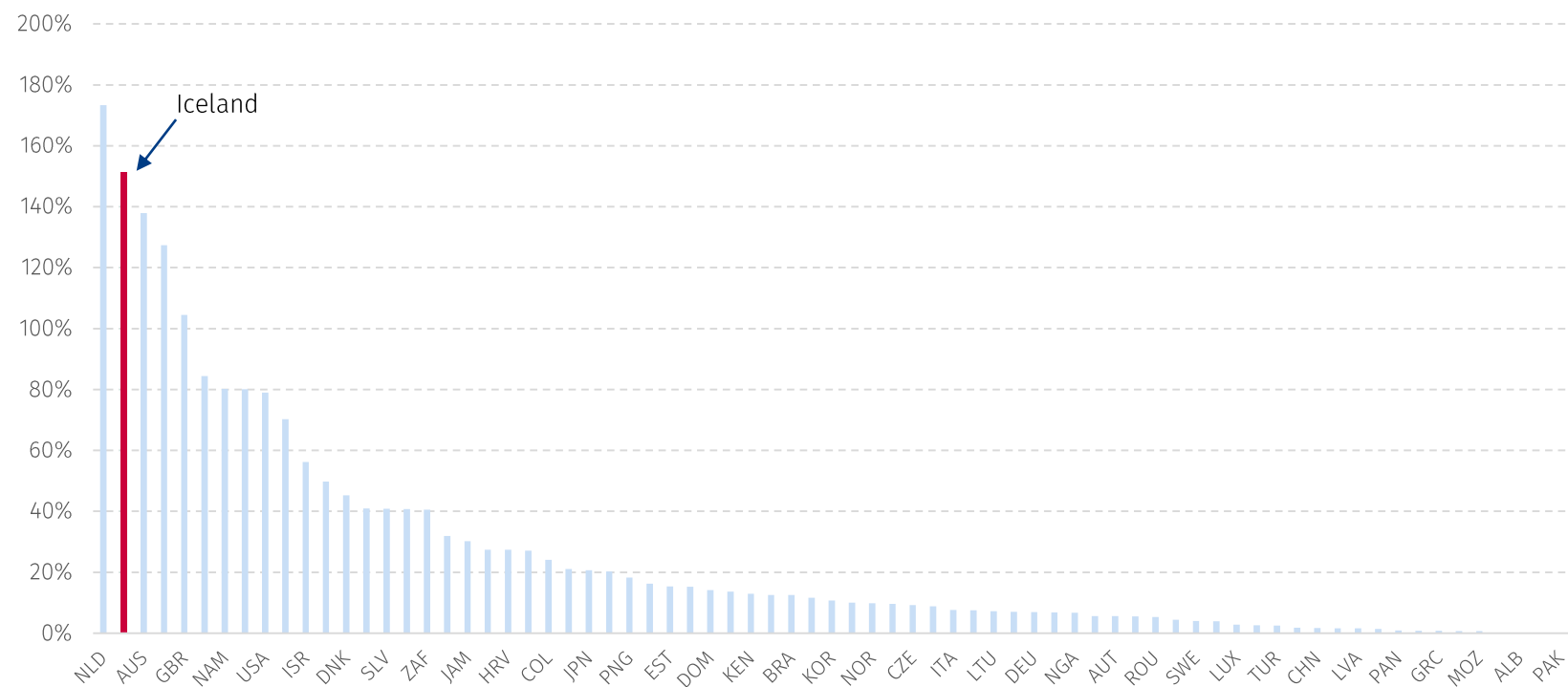
The government's emphasis on debt reduction aimed at lowering the interest burden.

The treasury recently issued a Eurobond at the lowest yields in Iceland's history



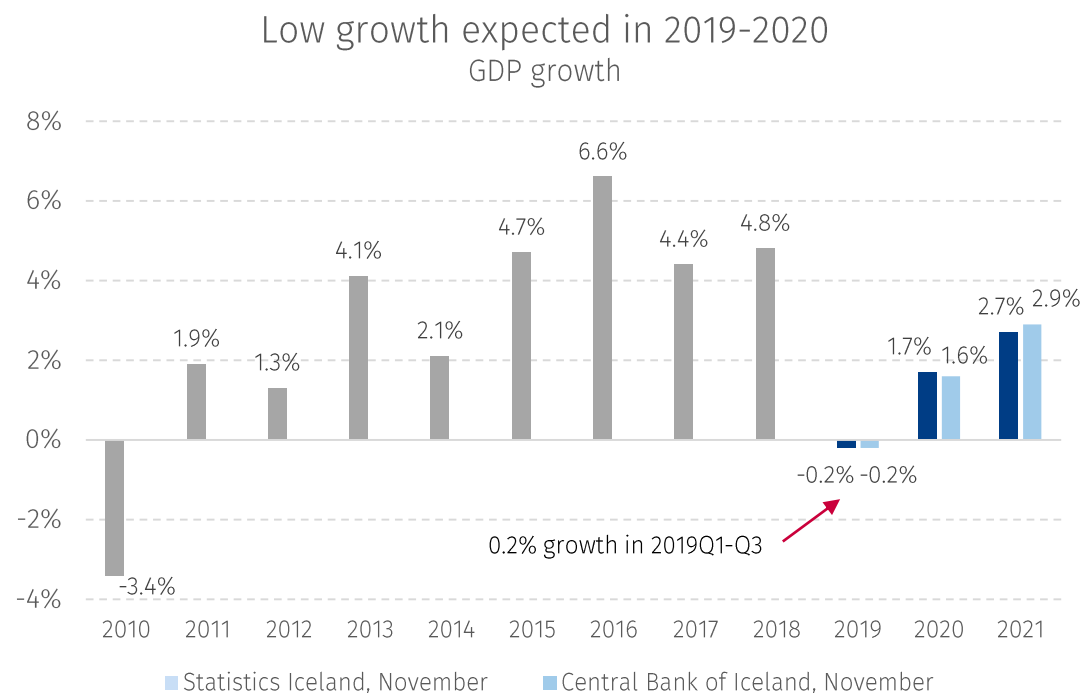
# High savings through pension funds

Iceland's pension funds' assets equal 150% of GDP





# Against this background...



...the outlook for growth is somewhat slower going forward.

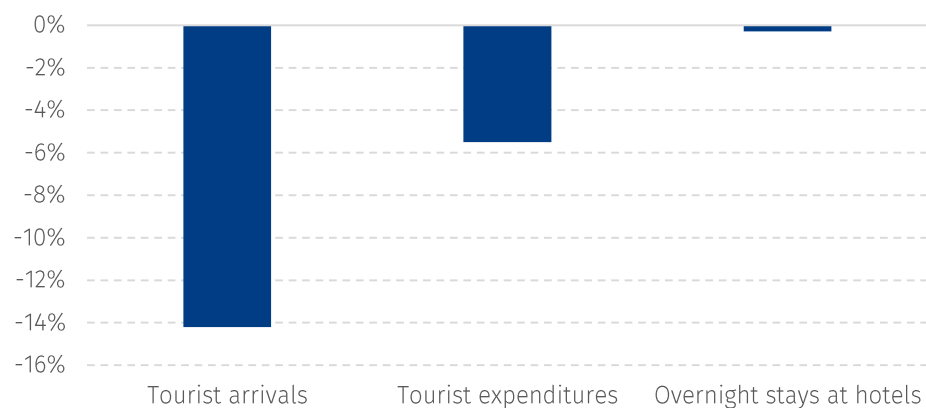
Growth likely close to 0% in 2019 due to shocks in tourism and fisheries.

Tourism has matured. Growth going forward should be driven by non-resource based exports.



# A resilient tourism sector

The tourism industry has coped much better than expected  
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The number of tourist arrivals went down by 14% in 2019.

However, tourist expenditures are only down by about 5% and the number of overnight stays at hotels is unchanged.

The sector has proved remarkably resilient in the wake of a large shock.





# Purchasing power up by 30% in 5 years



Solid wage growth and low inflation.

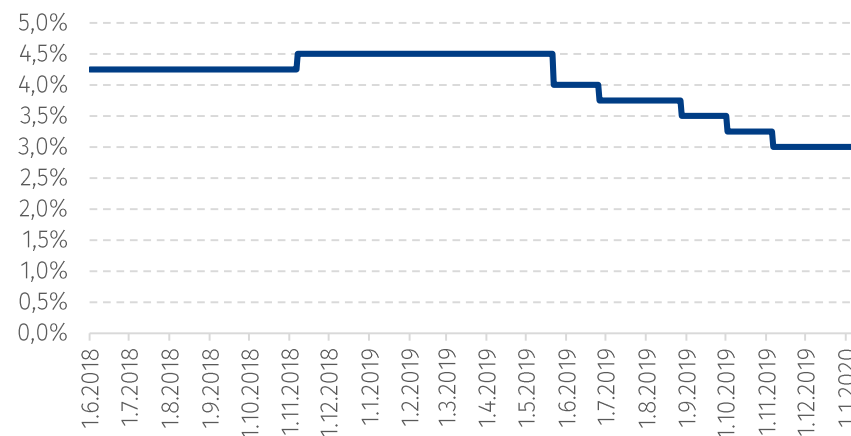
Recent wage agreements promote competitiveness and defend the high purchasing power of households.

Unemployment is rising, but is low in an international comparison



# Monetary policy has space

The Central Bank responded by cutting rates



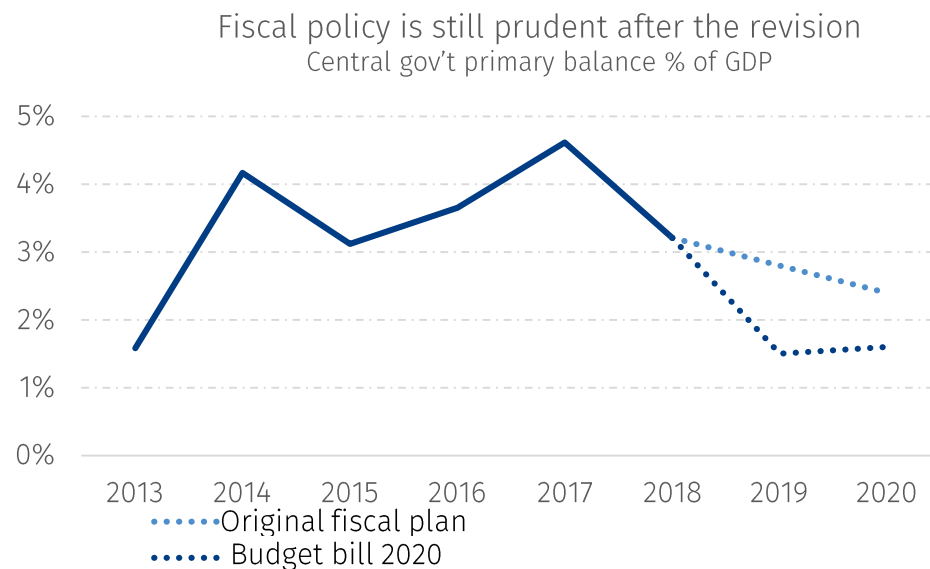
The Central Bank responded to the wage agreements by cutting rates.

They are now the lowest they have ever been.

Still, monetary policy still has buffers to lower rates further if the bank deems necessary



# Flexible fiscal policy



The last decade has been used to build buffers.

Given the strong fiscal position and the headwinds in 2019, the gov't revised its fiscal targets.

The aim of the revision is to deliver an appropriate fiscal stance and support for the economy