Resilience: strengthening Iceland’s foothold

The Government’s economic response to COVID-19
Contents

1. The COVID-19 pandemic
2. Domestic conditions and responses
3. Resilience: strengthening Iceland's foothold
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The COVID-19 pandemic has now reached over 180 countries on all settled continents worldwide

Confirmed cases¹  No confirmed cases

¹ As of the afternoon of 20 March 2020
Source: US Centers for Disease Control and Prevention (CDC)
Global economy facing deep contraction and collapse of certain sectors

Share prices in the West have plunged following the spread of the pandemic …

Share price in Western markets (index, Jan 19 = 100)

... and certain sectors have all but collapsed

Year-on-year year change in restaurant bookings (all countries)

Sources: S&P 500 index (US), OMXIPI index (Iceland), EURONEXT 100 index (Europe), OpenTable.com (restaurant bookings)
Clear signs of economic contraction in tourism visible in Keflavík Airport traffic

Traffic via Keflavík Airport, daily number of passengers

1 WOW Air passengers in 2019 are excluded in order to ensure comparability of data. The same days of the week are compared between years (i.e., 19 Mar 2020 compared with 21 Mar 2019).

Source: ISAVIA
... and signs of a domestic contraction can be seen in motor vehicle traffic data

Year-on-year change in the daily number of motor vehicles (seven-day average, 1 Feb - 18 Mar)

Traffic in the greater Reykjavík area has contracted by 26-29% year-on-year

Source: Iceland Road Administration
Icelanders are extremely worried about the economic impact of the pandemic

How worried are you about the impact of COVID-19 in Iceland?

<table>
<thead>
<tr>
<th></th>
<th>Very worried</th>
<th>Somewhat worried</th>
<th>Neither worried nor unworried</th>
<th>Not very worried</th>
<th>Not worried</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health impact</td>
<td>4%</td>
<td>36%</td>
<td>30%</td>
<td>23%</td>
<td>7%</td>
</tr>
<tr>
<td>Economic impact</td>
<td>19%</td>
<td>50%</td>
<td>21%</td>
<td>6%</td>
<td>3%</td>
</tr>
</tbody>
</table>

About 70% of Icelanders are very worried, while 10% are not very worried

Source: Gallup National Pulse survey (March 2020)
The pandemic is a temporary situation, however, and forecasts indicate that it will subside in May.

Number of active cases in Iceland, as forecast by Chief Epidemiologist’s scientific team

The forecast is updated regularly. The most recent forecast can be found on covid.hi.is.
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Top priority is given to measures to slow the spread of the virus and provide care to infected people.

- **Civil protection**: Reduce the number of new infections with quarantine, a ban on gatherings, and instructions on hygiene.
- **Diagnosis**: Test, diagnose, and trace infections quickly and securely so as to slow the spread even more.
- **Healthcare service**: Provide the best care possible to those who are infected and need healthcare services.
The Government can take action to minimise the economic contraction and expedite recovery

By acting to support the economy while the pandemic is ongoing, we can mitigate the economic damage it causes and ensure that the economy regains a strong foothold when the pandemic has passed.
Unemployment had risen before the pandemic hit, and the labour market is vulnerable

Monthly unemployment, seasonally adjusted (Jan 2011 through Feb 2020)¹

Unemployment rose from 2.0% in summer 2017 to 4.4% in February 2020

¹ Adjusted for the effects of the fishermen’s strike at the turn of the year 2016-2017

Sources: Directorate of Ministry of Finance and Economic Affairs
But both the Government and the economy are well prepared to face economic shocks

Public debt has fallen steeply in recent years …

… and Iceland’s net foreign debt has been eliminated

1 Estimate for 2019
2 Excluding deposit institutions in winding-up proceedings

Sources: Statistics Iceland, Central Bank of Iceland.
Households and businesses are also strong, with rising real wages and declining debt

- Households’ purchasing power has risen sharply in recent years…
- …and corporate and household debt levels have fallen

Sources: Statistics Iceland, Central Bank of Iceland.
Central Bank has already introduced three types of decisive measures

Key Central Bank of Iceland interest rate (2015-2020)

- The Central Bank has **cut interest rates** by a combined 1% in recent days, which could **lower debt service** on households’ and businesses’ loans by ISK 12bn per year.

- **The reduction in the countercyclical capital buffer** imposed on the commercial banks from 2% of the risk base to 0% could **increase banking system lending capacity by ISK 350bn**.

- The Central Bank has also **lowered and changed the implementation of minimum reserve requirements**. This **frees up another ISK 40bn** in the banking system.
The Government will also adopt measures to bridge the massive gap we are facing

Purpose of the Government’s economic measures in response to COVID-19

The purpose is to **safeguard the foundations of society**, protect **income** for individuals and companies, and **ensure renewed resilience** for the domestic economy.
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1. The COVID-19 pandemic
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3. Resilience: strengthening Iceland's foothold
The Government has decided to launch ten measures totalling ISK 230bn

- 10 economic measures
- 230 estimated impact (ISK bn)
- 7.8% of GDP
The measures have three purposes: to safeguard society, protect people, and regain resilience

- **Safeguard**: Measures to prevent large-scale job losses and company failures
- **Protection**: Support for financially distressed individuals and families
- **Resilience**: Action to boost economic activity, goods trade, and investment
These are the ten economic measures in response to COVID-19

<table>
<thead>
<tr>
<th>Safeguard</th>
<th>1. The part-time option</th>
<th>2. Bridge loans to companies</th>
<th>3. Deferral of tax payments</th>
</tr>
</thead>
</table>
The Government will adopt three measures to provide short-term economic protection

1. The part-time option
   - Unemployment benefits for workers who temporarily reduce their employment percentage

2. Bridge loans to companies
   - Support for bridge loans to financially distressed firms and expedited reduction of bank tax

3. Deferral of tax payments
   - Deferral of due dates for PAYE income tax, payroll tax, and prepaid corporate income tax
The Government will pay up to 75% of wages for those who reduce working hours

Examples of impact on workers at different wage levels

- The Directorate of Labour will pay temporary benefits for those who cut back to a 25-80% position.
- Employees retain full wages up to ISK 400,000 and, above that level, receive means-tested unemployment benefits proportional to the reduced employment percentage, subject to a maximum of 90% of wages up to ISK 700,000 per month.
- The measure remains in place for two-and-a-half months, from 15 March until 1 June. It will be reviewed before expiry.

1 The example is based on a reduction from 100% employment to 50%. Additional examples can be found on the Government Offices website, government.is.
The measure ensures that tens of thousands of individuals will remain employed

- It is estimated that the Unemployment Insurance Fund will need **an additional ISK 22bn** for the measure
- Viable companies that have lost revenues are thereby guaranteed support to **keep their workers employed part-time**
- The measure supports **continued employment of tens of thousands of individuals** in tourism and other sectors during the temporary downturn
- It will also be **reassessed as time passes** and before its expiry date
The Government will protect jobs and economic activity with bridge loans

Distribution of guarantee on bridge loans to companies during the term of the measure

- The Government will guarantee half of bridge loans to distressed companies, thereby providing them with support to pay wages and fixed operating expenses.
- The guarantee applies to new loans granted to companies that have suffered a loss of revenues of at least 40%.
- The maximum amount is twice the company’s annual wage costs, provided that wages account for at least 25% of expenses.
- It is permitted to impose conditions on disposition of borrowed funds.
- The authorisation totals ISK 35bn, which is equivalent to ISK 70bn in bridge loans.

1 The cost of loan losses on bridge loans will fall in equal proportions on the Treasury and the commercial bank concerned.
The bank tax will be lowered so as to broaden the banks’ scope for lending

Bank tax rate (percentage of loans granted)

A more rapid reduction in the bank tax enables commercial banks to provide better support to companies in need of credit financing.
Deferral of tax payments will strengthen companies’ liquidity by ISK 75bn

Three payments of **PAYE income tax and payroll tax** due in 2020 may be deferred until 2021¹

Corporate income tax prepayments made in 2020 towards income tax levied for 2019 are postponed until the October levy

- Conditions for deferral:
  - At least a one-third contraction in operating revenues over an entire month relative to 2019
  - The loss in revenues must have led to operational difficulties
  - The operational difficulties must be temporary and may not represent a long-term financial problem

- The estimated impact on firms’ liquidity totals ISK 75bn

¹ It will be possible to distribute payments from January until September 2021
The Government will adopt three measures to protect individuals during the outbreak

1. **Wages during quarantine**
   - Reimbursement to employers for worker absences due to quarantine

2. **Supplemental child benefit**
   - One-time payment to families due to disruption in their personal situation

3. **Third-pillar pension withdrawals**
   - Authorisation for third-pillar pension savings withdrawals for any purpose
Wages during quarantine

The Government will support individuals in quarantine

- The Treasury will **reimburse employers for wage payments** made to quarantined individuals\(^1\)

**Implementation**

- The amount of the payments is **based on income** during the previous month
- Self-employed individuals will receive **80% of their average income** in 2019
- **The maximum payment** payment is ISK 21,100 per day, or ISK 633,000 per month

**Objectives**

- To ensure that individuals can **follow the healthcare authorities’ instructions** without worrying about supporting themselves
- **To slow the spread** of COVID-19

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\(^1\) The decision on quarantine must have been taken by the authorities on the basis of the Act on Communicable Diseases, and other rights under wage agreements do not apply.
The Government will also help meet the needs of the families of 80,000 children

<table>
<thead>
<tr>
<th>Measure</th>
<th>On 1 June, families with children will receive a one-time payment for each child younger than age 18</th>
</tr>
</thead>
</table>
| Implemen-tation | Parents whose average monthly income was below ISK 927,000 in 2019 will receive ISK 40,000 per child.\(^1\)  
Others will receive ISK 20,000. |
| Objectives | To assist families with children due to disruptions caused by the pandemic, such as reduced activities in primary schools and pre-schools.  
The support totals an estimated ISK 3.1bn and will be paid to parents of more than 80,000 children |

\(^1\) For cohabiting parents, the amount is based on the income of the higher-earning parent. If non-cohabiting parents have joint custody of the child, the amount will be divided equally between the parents.
Third-pillar pension savings withdrawals

**Authorisation for third-pillar pension withdrawals will ease households’ burden**

- Third-pillar pension savings can be withdrawn for personal use
  - Individuals will be authorised to withdraw their third-pillar pension savings over a 15-month period

- Withdrawals can total up to ISK 800,000 per month
  - Each monthly payment is capped at ISK 800,000
  - The maximum total withdrawal is ISK 12m over a 15-month period
  - Withdrawals are taxed as regular income but do not reduce child benefits or mortgage interest allowances

- The savings can be used to ease financial distress
  - With this authorisation, individuals can use their own savings to **bridge the gap during a deep but temporary economic downturn**
  - They may also use their savings for increased spending, which **boosts demand in the economy** in coming months
  - The estimated **total amount of withdrawals** is ISK 9.5bn
The Government will adopt four measures to help the economy strengthen its foothold

<table>
<thead>
<tr>
<th>Step</th>
<th>Measure</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Subsidy for tourism operators</td>
<td>Domestic cash injection to the tourism sector, cancellation of bed-night tax, and preparation of marketing campaign</td>
</tr>
<tr>
<td>8</td>
<td>Expansion of “Back to Work”</td>
<td>Full reimbursement for on-site household maintenance and services, and construction carried out by NGOs</td>
</tr>
<tr>
<td>9</td>
<td>Facilitation of imports</td>
<td>Cancellation of customs processing fees and deferral of payments of import levies</td>
</tr>
<tr>
<td>10</td>
<td>Investment initiative</td>
<td>Public investment in real estate, transport, research, energy switching, and infrastructure</td>
</tr>
</tbody>
</table>
Subtitle: Subsidy for tourism operators

7 All Icelanders will receive a digital gift certificate for travel in Iceland

The Government, tourism operators, and the public join hands in a campaign to increase domestic travel and thereby boost demand.

Digital gift certificate for domestic tourism

- Every individual in Iceland aged 18 and over will receive a digital gift certificate.
- Provides incentive for travel within Iceland and direct support for the Icelandic tourism.
- ISK 1.5bn contribution from the Government.
- The measure is being orchestrated in cooperation with tourism federations.
Subsidy for tourism operators

7 The Government will also create conditions for a stronger foothold when the crisis eases

Making Iceland one of the first countries to restore demand among foreign tourists

- Bed-night tax cancelled through year-end 2021
- Payment due dates for the first three months of 2020 deferred until 5 February 2022
- Reduction in levies on accommodation estimated at ISK 1.6bn over the period

- ISK 1.5bn will be allocated to a marketing campaign featuring Iceland as a travel destination
- To be prepared immediately and implemented when air travel resumes
- Gives the tourism industry a stronger foothold when conditions normalise

Global marketing campaign
100% reimbursement of VAT on labour bolsters economic activity

Reimbursement of value-added tax for labour ("Back to Work")

- Reimbursements of value-added tax paid by individuals for labour on real estate renovation, maintenance and new construction increased from 60% to 100%.
- The reimbursements will now cover household assistance and construction undertaken by NGOs working in the public interest.
- This change remains in effect through the year-end, or from 1 March 2020 through 31 December 2020.
- The estimated impact of the measure is ISK 8bn.

1 The measure applies only to specific NGOs that work in the public interest, such as humanitarian and charitable organisations, athletic clubs, rescue squads, national rescue and accident prevention organisations, and units operating under the banner of these organisations.
2 The estimate includes only the amount of the reimbursement and does not include an estimate of increased demand resulting from the measure.
Facilitation of imports

The Government will facilitate imports by cancelling and deferring levies

The measure provides importers with liquidity support during a temporary period of difficulty

- Processing fees will be cancelled …
  - Customs processing fees will be cancelled until the end of 2021¹
  - The reduction in levies totals ISK 600m over the period

- … and import levies will be deferred
  - Payment due dates for import levies in 2020 are deferred by four months
  - This measure strengthens importers’ liquidity by ISK 13bn

¹ Customs processing fees are collected for goods on ships and aircraft that are processed by Customs outside regular hours
² Payment due dates for import levies in 2020, for those parties that use a grace period for import levies, will be spread over two payment dates, with authorisation for entry of all input tax for the period concerned, even if only a portion of it has been paid.
The Government will expedite large-scale investment projects in order to stimulate the economy.

- **Job growth**: Emphasis on projects that immediately create jobs across society.
- **Increased innovation**: Cooperation with companies of all sizes and types to increase innovation.
- **Investment for the future**: Rapid development for the long-term benefit of Icelandic society.
### Additional public investment amounting to ISK 20bn to be launched this year

New public investment to be launched in 2020 (ISK bn)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (ISK bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport structures</td>
<td>6.0</td>
</tr>
<tr>
<td>Investment, public entities</td>
<td>4.6</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>2.3</td>
</tr>
<tr>
<td>Real estate maintenance</td>
<td>2.0</td>
</tr>
<tr>
<td>Research, innovation, culture, athletics</td>
<td>1.8</td>
</tr>
<tr>
<td>Digital Iceland and other IT projects</td>
<td>1.4</td>
</tr>
<tr>
<td>New construction and major renovation projects</td>
<td>1.1</td>
</tr>
<tr>
<td>Energy switching and green solutions</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>ISK 20bn</strong></td>
</tr>
</tbody>
</table>
### The total impact of the measures could exceed ISK 230bn

**Economic impact of the measures (ISK bn)**

<table>
<thead>
<tr>
<th>Measure</th>
<th>Impact (ISK bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part-time option</td>
<td>22</td>
</tr>
<tr>
<td>Bridge loans to companies</td>
<td>81</td>
</tr>
<tr>
<td>Deferral of tax payments</td>
<td>75</td>
</tr>
<tr>
<td>Wages during quarantine</td>
<td>1</td>
</tr>
<tr>
<td>Supplemental child benefit</td>
<td>3</td>
</tr>
<tr>
<td>Third-pillar pension withdrawals</td>
<td>10</td>
</tr>
<tr>
<td>Subsidy for tourism operators</td>
<td>5</td>
</tr>
<tr>
<td>Expansion of “Back to Work”</td>
<td>8</td>
</tr>
<tr>
<td>Facilitation of imports</td>
<td>14</td>
</tr>
<tr>
<td>Investment initiative</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>237</strong></td>
</tr>
</tbody>
</table>

1. The difference between the total and the sum of the impact of the ten proposals is due to rounding.
The scope of the measures is equivalent to 7.8% of Iceland’s GDP

Economic impact of the measures (ISK bn)

- Increased public spending: 69
- Additional scope for bank lending: 70
- Cash flow transfers to individuals and firms: 98
- Economic impact of the measures in 2020: 237

7.8% of GDP
The combined economic impact of the ten measures amounts to 7.8% of Iceland’s GDP.
With these measures, the Government is taking decisive steps to protect living standards and lay the foundations for a speedy economic recovery.