

March 2020



Resilience: strengthening Iceland's foothold

The Government's economic response
to COVID-19



The Government of Iceland

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1. The COVID-19 pandemic
2. Domestic conditions and responses
3. Resilience: strengthening Iceland's foothold

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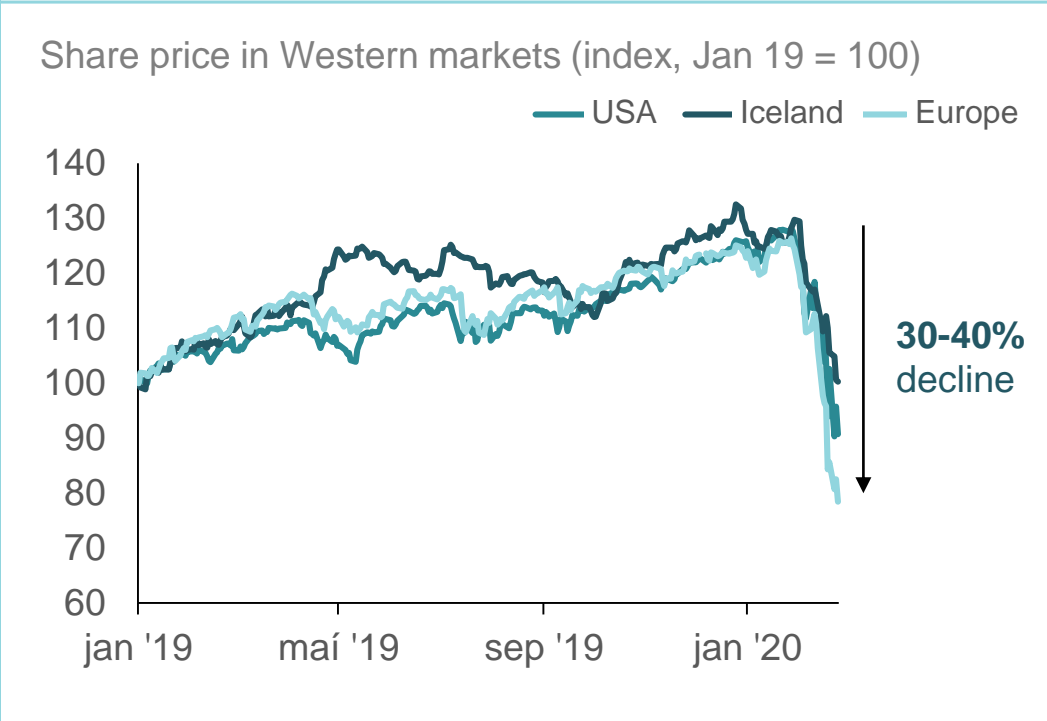
1. The COVID-19 pandemic

2. Domestic conditions and responses

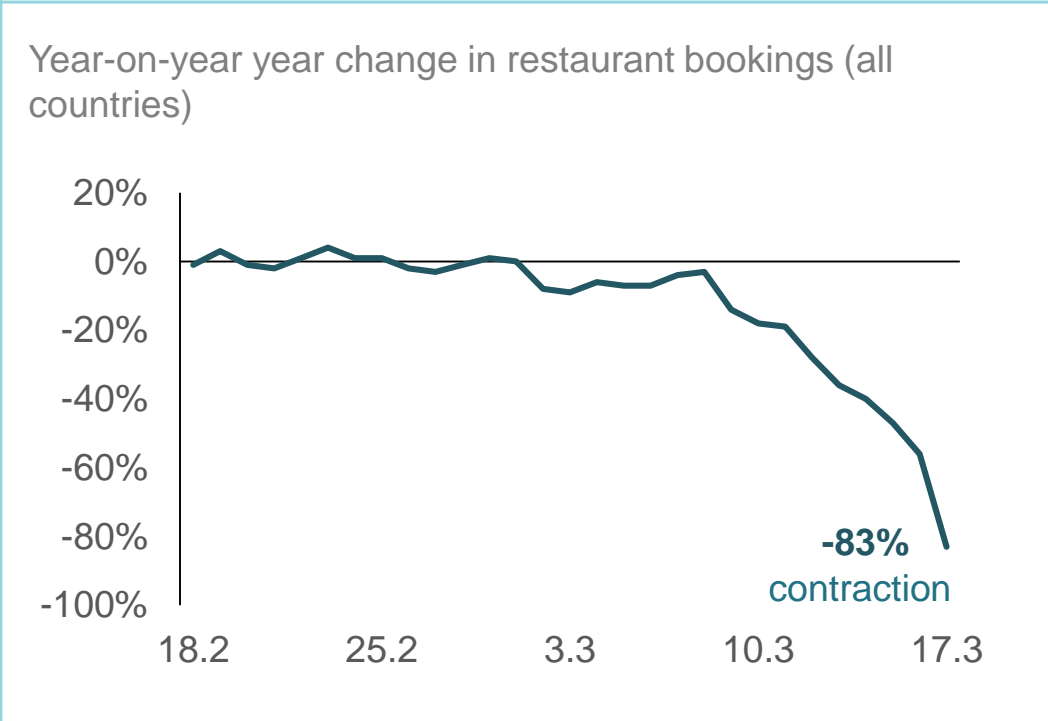
3. Resilience: strengthening Iceland's foothold

Global economy facing deep contraction and collapse of certain sectors

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



... and certain sectors have all but collapsed

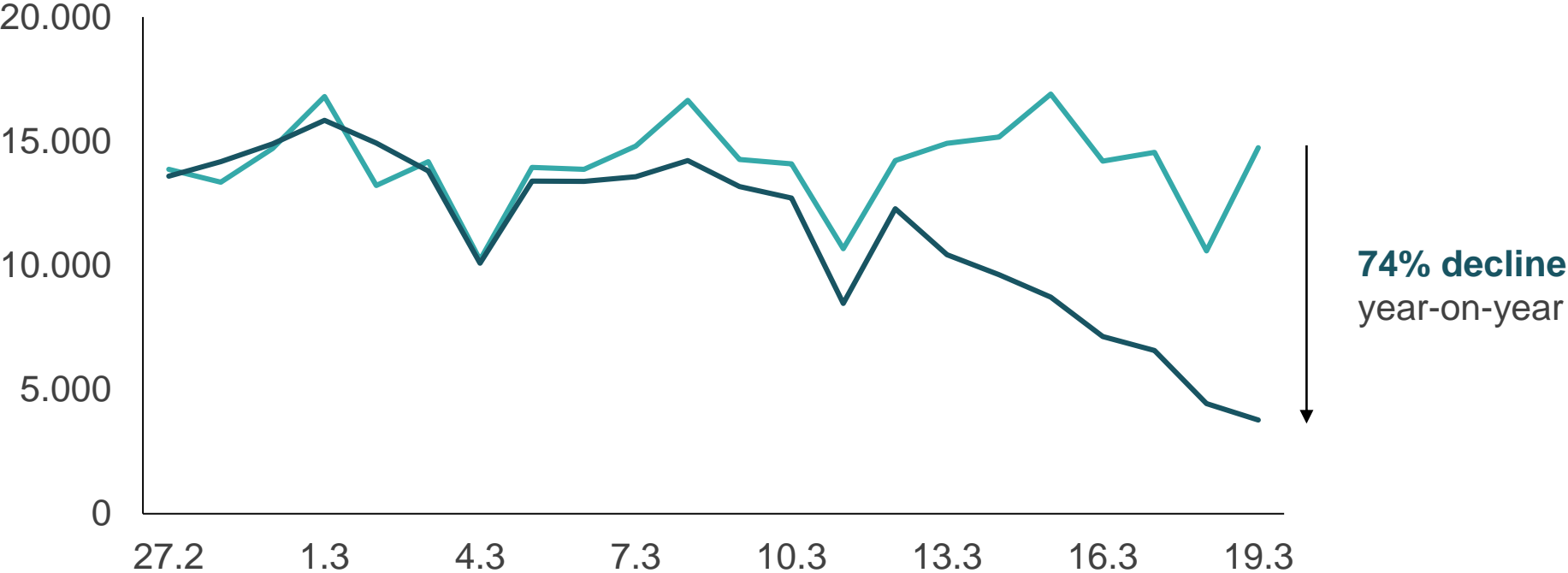


Sources: S&P 500 index (US), OMXIPI index (Iceland), EURONEXT 100 index (Europe), OpenTable.com (restaurant bookings)

Clear signs of economic contraction in tourism visible in Keflavík Airport traffic

Traffic via Keflavík Airport, daily number of passengers¹

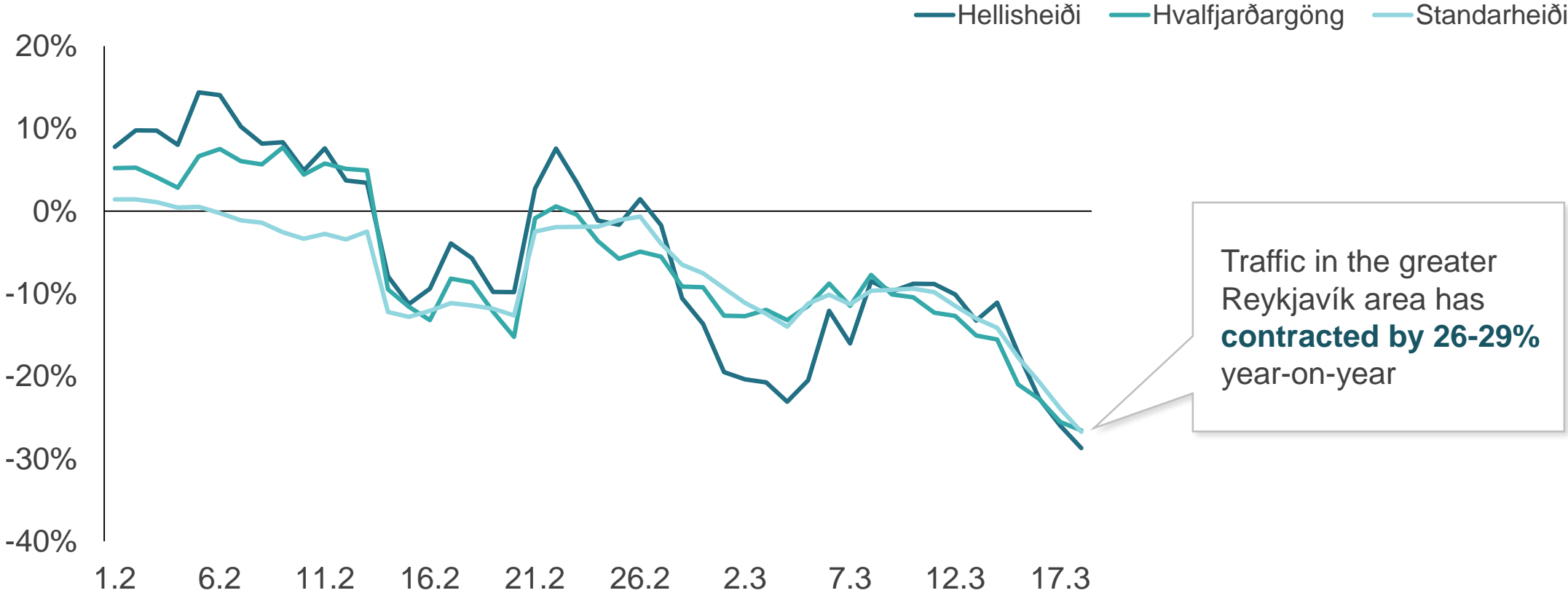
— 2019 — 2020



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).

... 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)

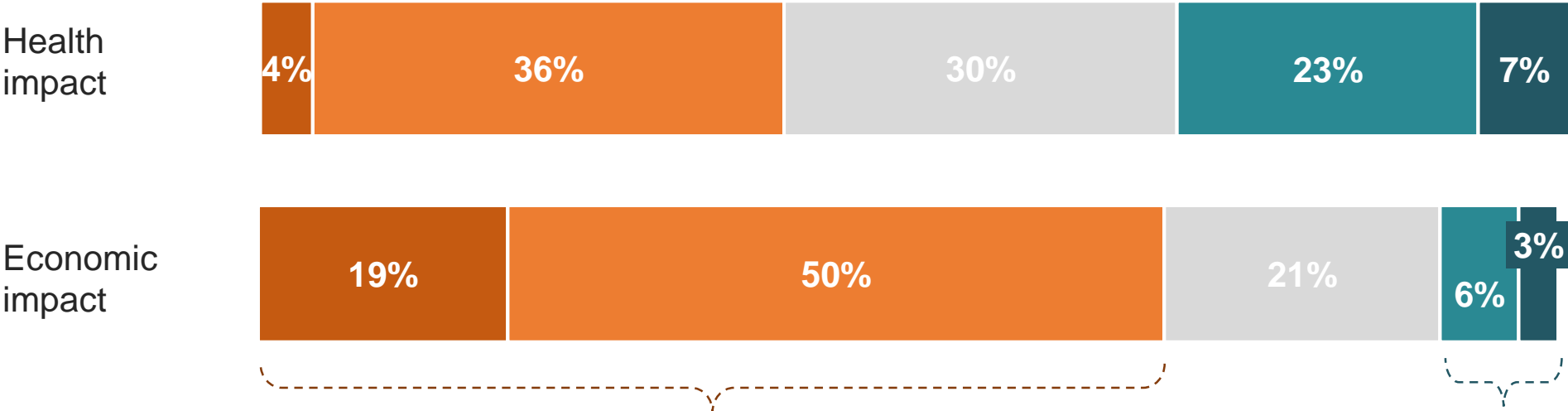


Source: Iceland Road Administration

Icelanders are extremely worried about the economic impact of the pandemic

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

Very worried Somewhat worried Neither worried nor unworried Not very worried Not worried

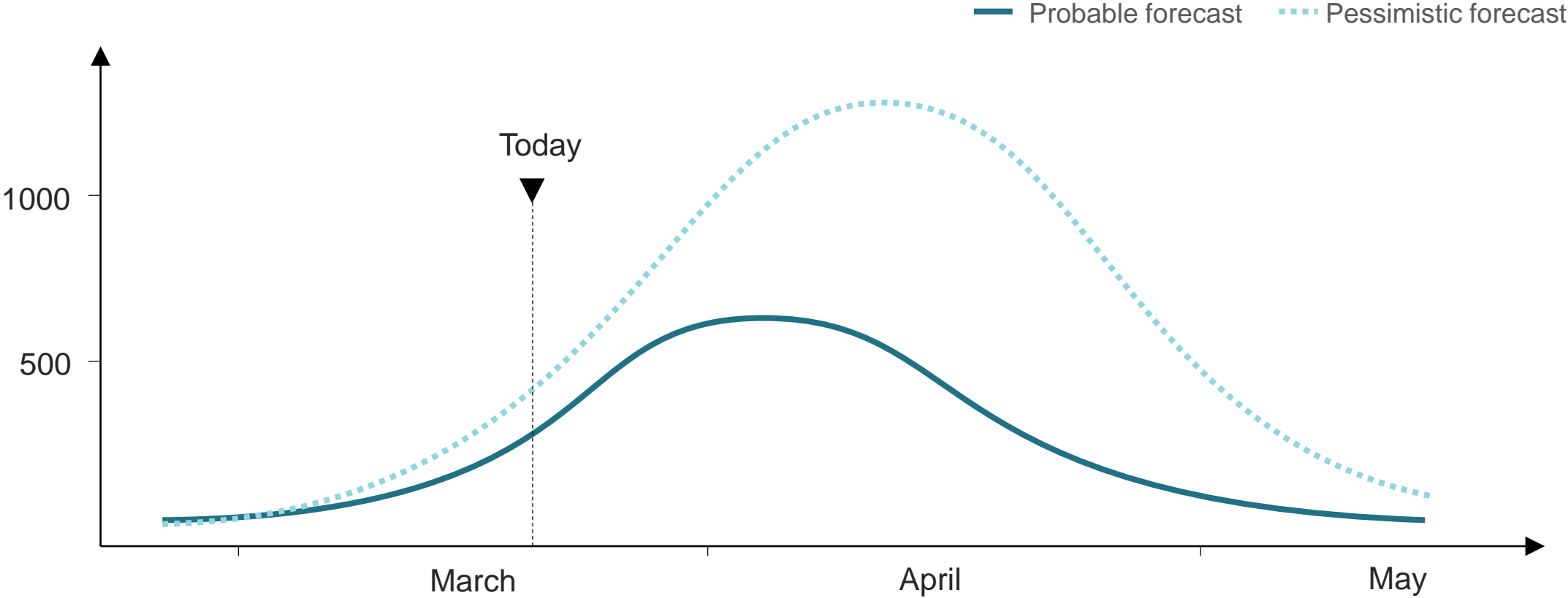


About 70% of Icelanders are very worried, while 10% are not very worried

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 team¹



¹ 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

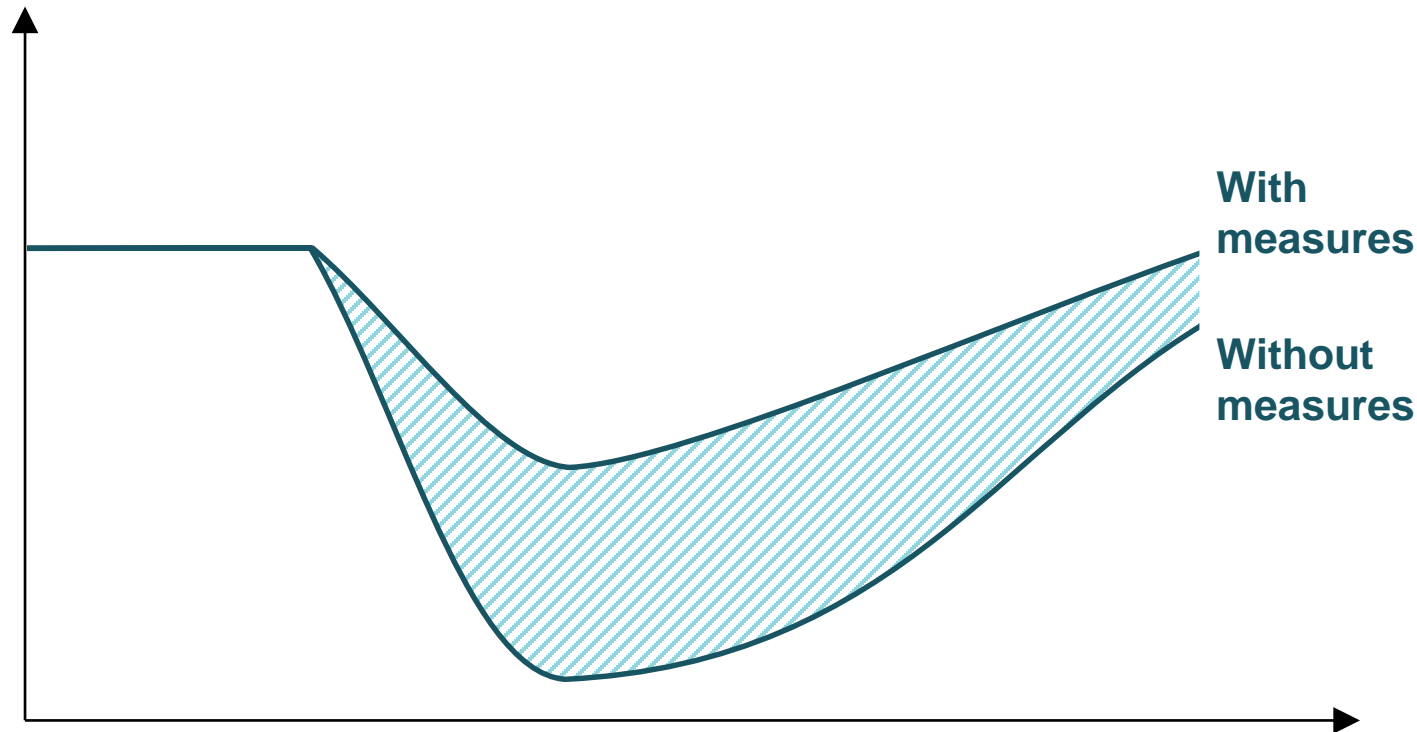
Healthcare service

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

GDP (illustrative)

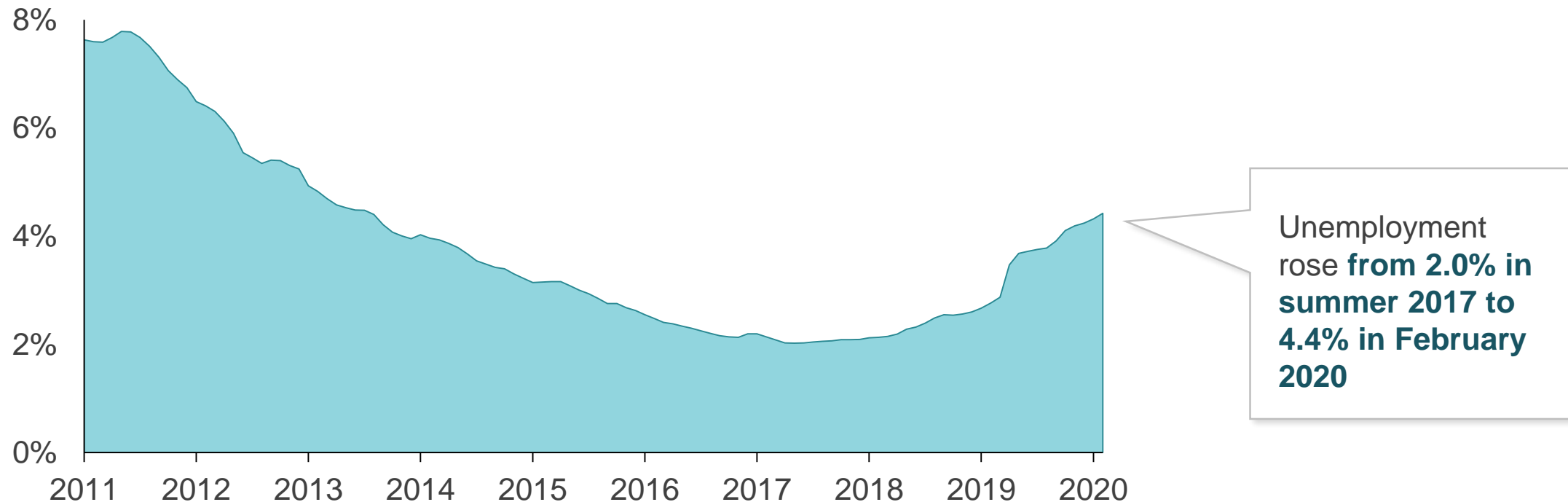
 Economic benefit of measures



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

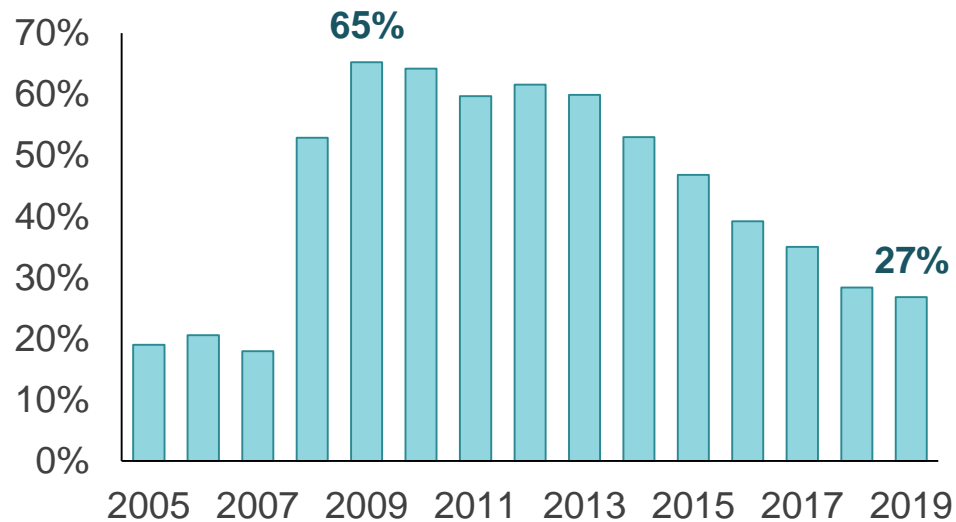


¹ Adjusted for the effects of the fishermen's strike at the turn of the year 2016-2017

But both the Government and the economy are well prepared to face economic shocks

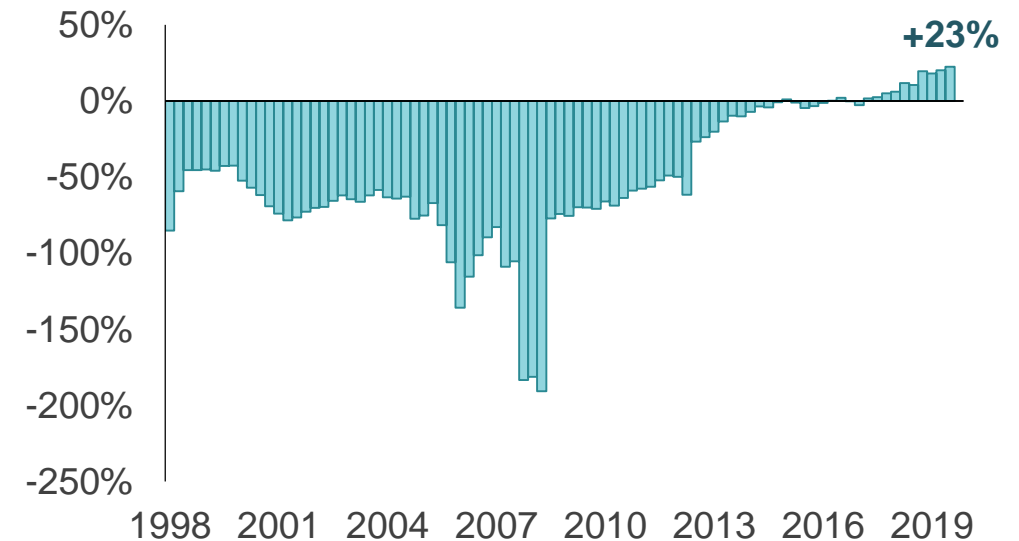
Public debt has fallen steeply in recent years ...

Public debt according to debt rule (% of GDP)¹



... and Iceland's net foreign debt has been eliminated

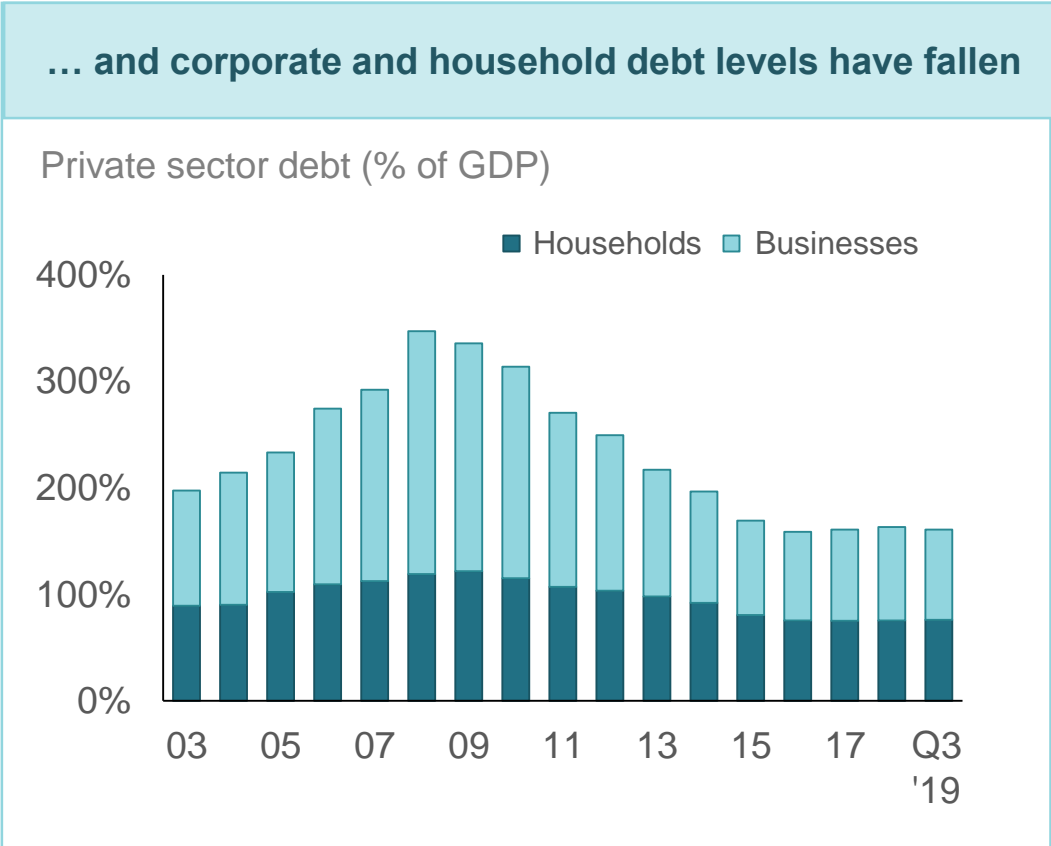
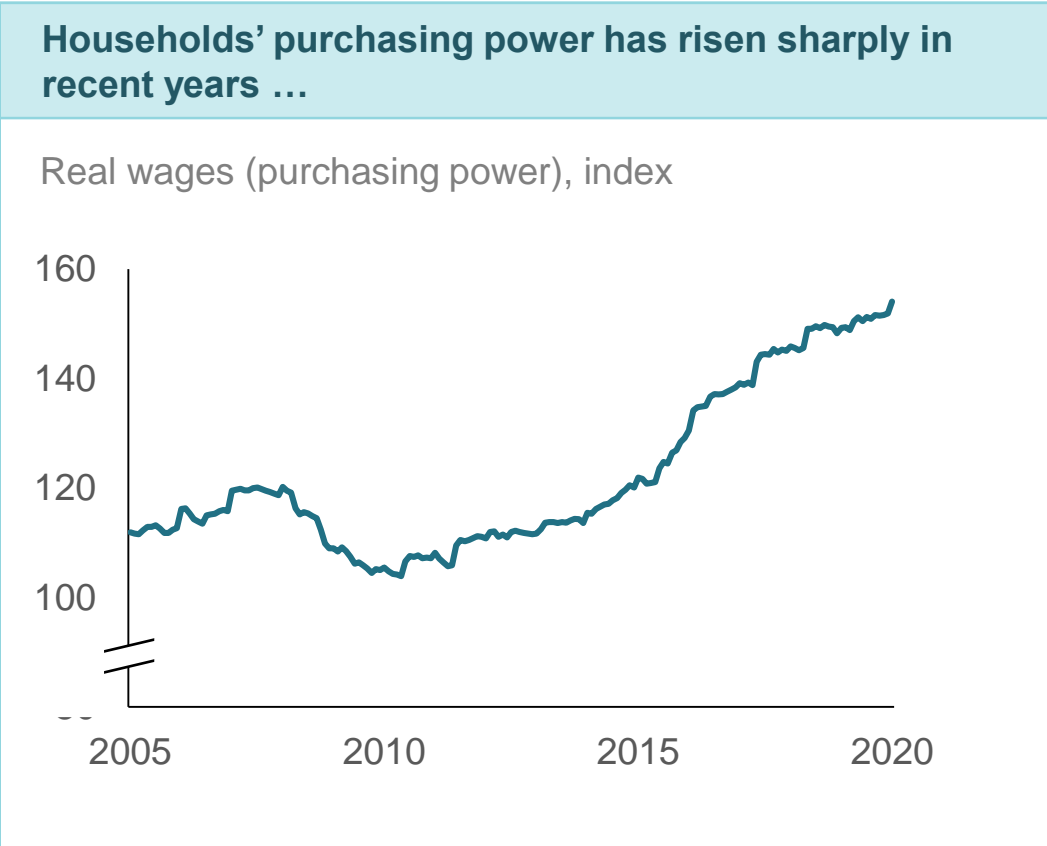
International investment position (% of GDP)²



¹ Estimate for 2019

² Excluding deposit institutions in winding-up proceedings

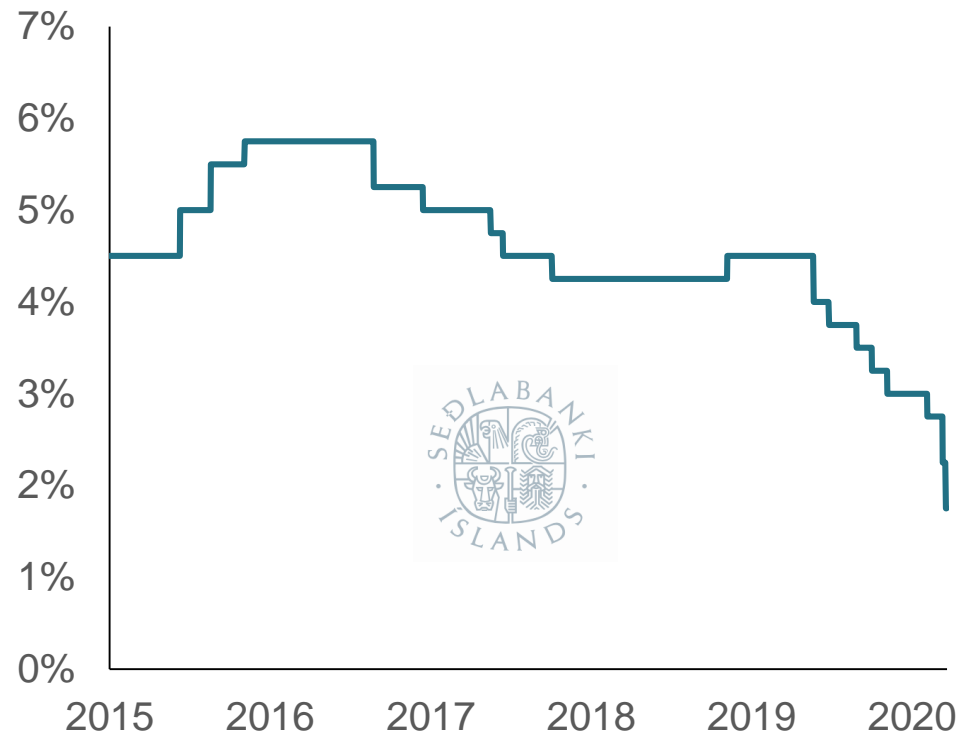
Households and businesses are also strong, with rising real wages and declining debt



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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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

Safeguard	<ol style="list-style-type: none">1. The part-time option2. Bridge loans to companies3. Deferral of tax payments	
Protection	<ol style="list-style-type: none">4. Wages during quarantine5. Supplemental child benefit6. Third-pillar pension withdrawals	
Resilience	<ol style="list-style-type: none">7. Subsidy for tourism operators8. Expansion of “Back to Work”9. Facilitation of imports10. Investment initiative	

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

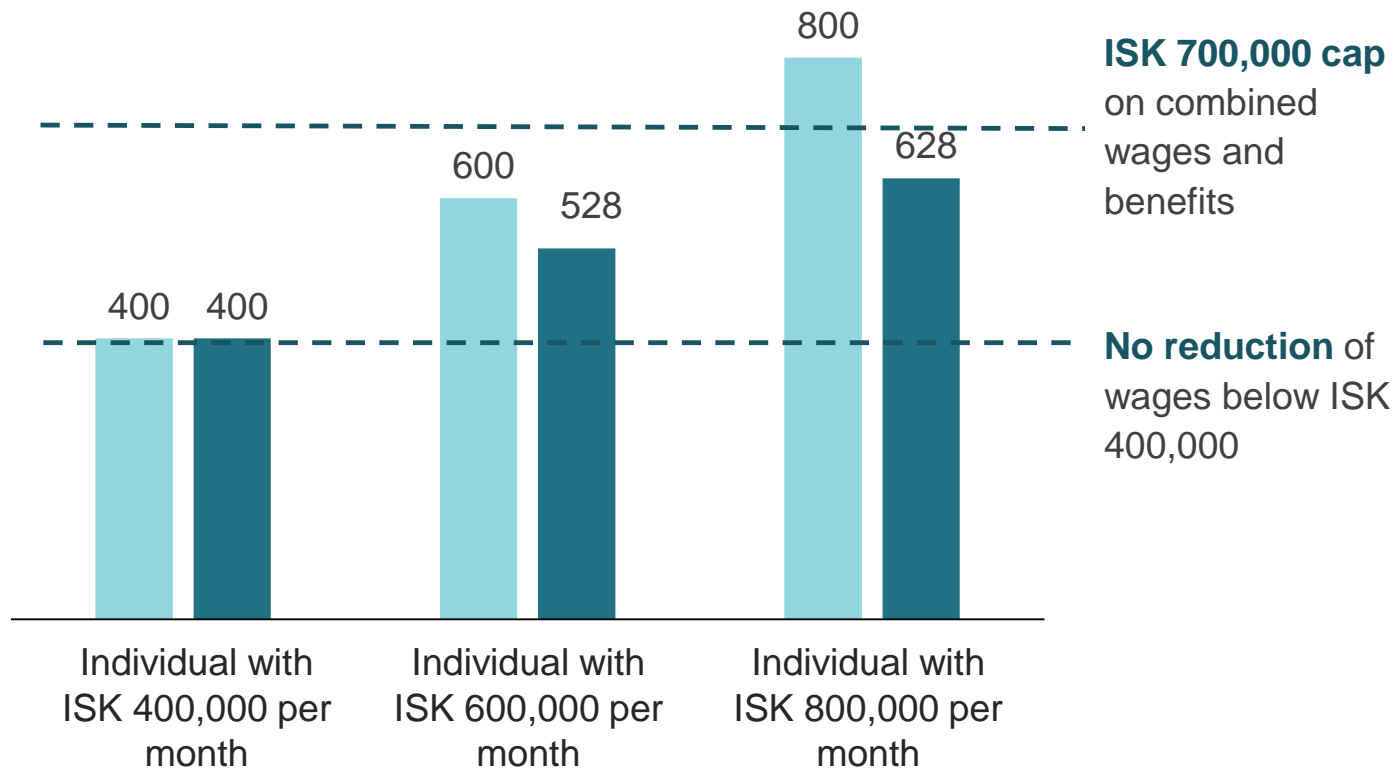
- 2 Bridge loans to companies**
 - Support for bridge loans to financially distressed firms and expedited reduction of bank tax

- 3 Deferral of tax payments**
 - Deferral of due dates for PAYE income tax, payroll tax, and prepaid corporate income tax

1 The Government will pay up to 75% of wages for those who reduce working hours



Examples of impact on workers at different wage levels¹



- 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.

1 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



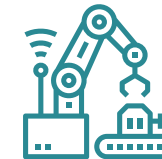
Tourism



Restaurants



Retail and services

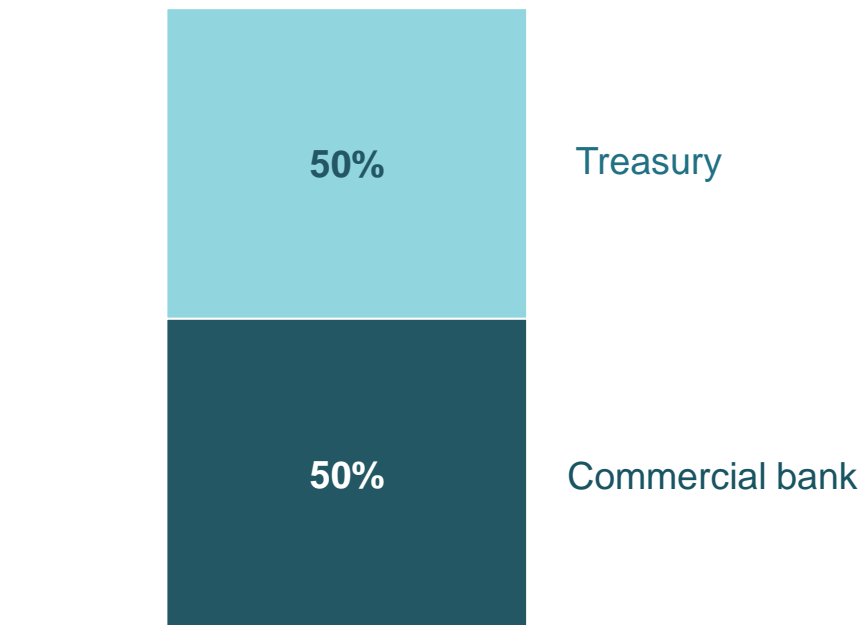


Other firms

2 The Government will protect jobs and economic activity with bridge loans



Distribution of guarantee on bridge loans to companies during the term of the measure¹



- 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

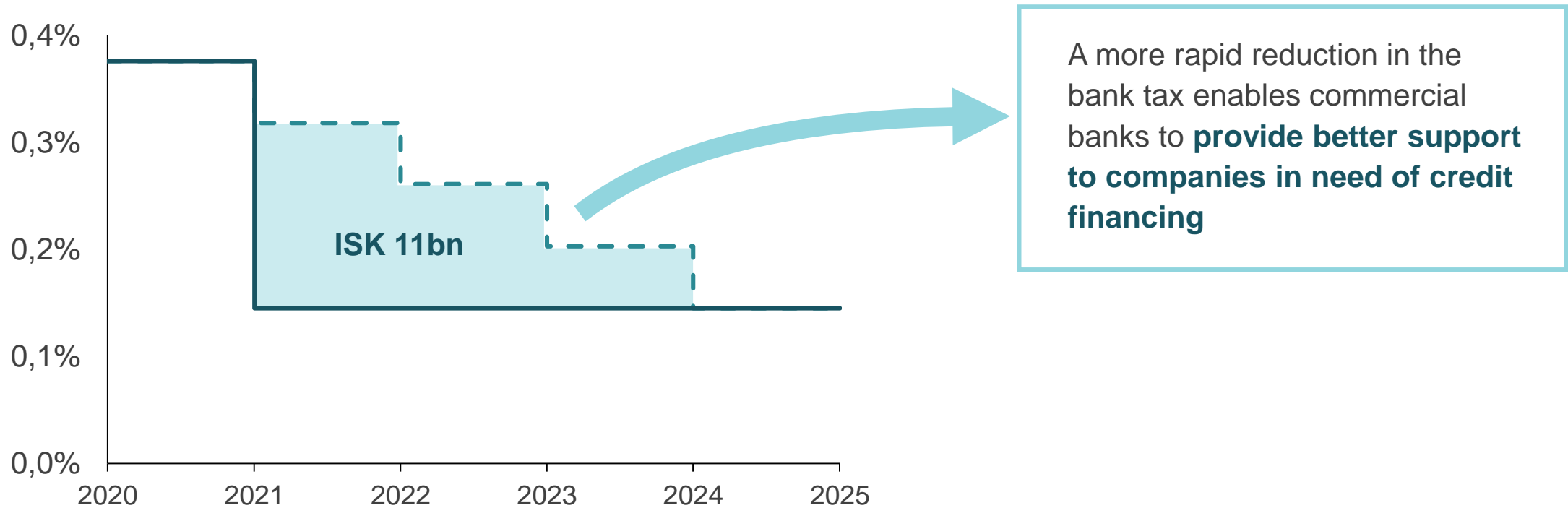
¹ The cost of loan losses on bridge loans will fall in equal proportions on the Treasury and the commercial bank concerned.

2 The bank tax will be lowered so as to broaden the banks' scope for lending

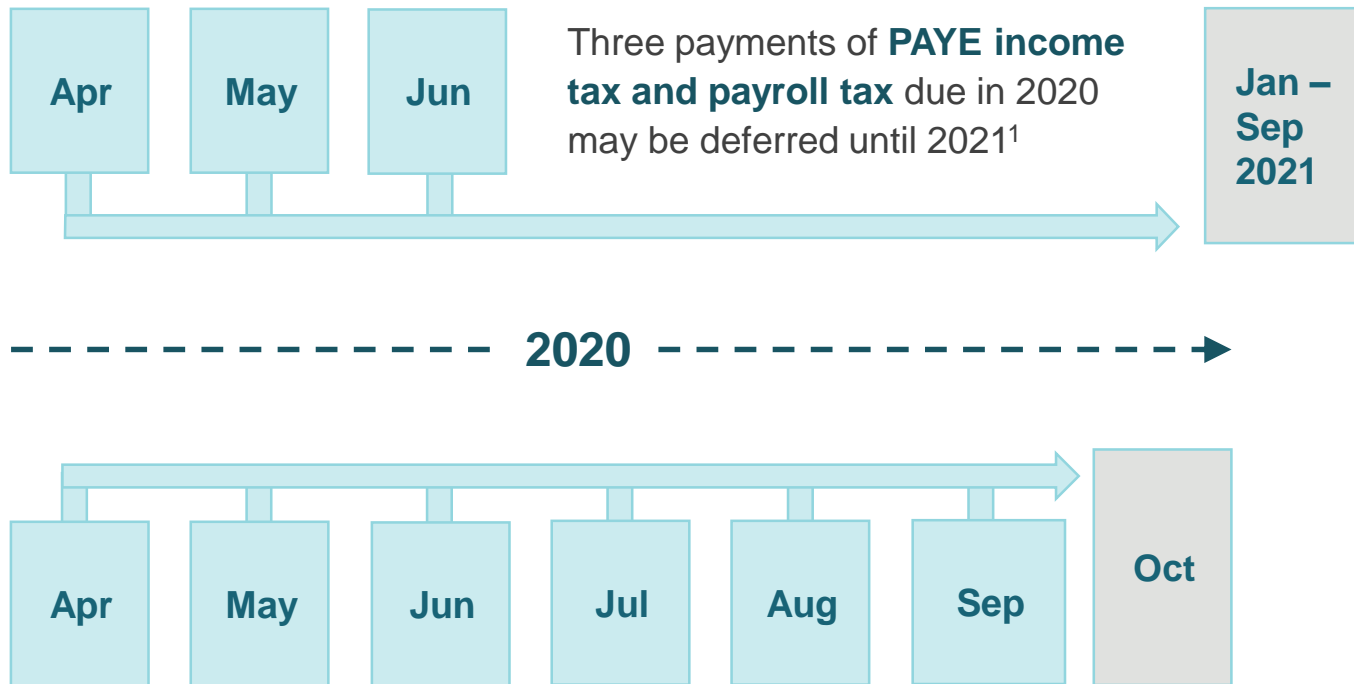


Bank tax rate (percentage of loans granted)

--- Previous plan — Expedited reduction



3 Deferral of tax payments will strengthen companies' liquidity by ISK 75bn



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



- | | | |
|----------|---|--|
| 4 | Wages during quarantine | <ul style="list-style-type: none">▪ Reimbursement to employers for worker absences due to quarantine |
| 5 | Supplemental child benefit | <ul style="list-style-type: none">▪ One-time payment to families due to disruption in their personal situation |
| 6 | Third-pillar pension withdrawals | <ul style="list-style-type: none">▪ Authorisation for third-pillar pension savings withdrawals for any purpose |

4 The Government will support individuals in quarantine

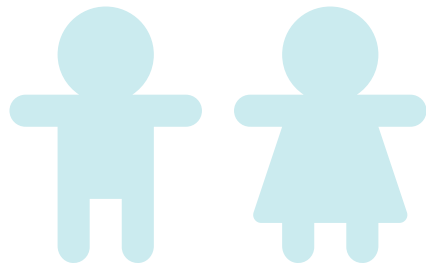


Measure	<ul style="list-style-type: none">▪ The Treasury will reimburse employers for wage payments made to quarantined individuals¹
Implementation	<ul style="list-style-type: none">▪ The amount of the payments is based on income during the previous month▪ Self-employed individuals will receive 80% of their average income in 2019▪ The maximum payment payment is ISK 21,100 per day, or ISK 633,000 per month
Objectives	<ul style="list-style-type: none">▪ To ensure that individuals can follow the healthcare authorities' instructions without worrying about supporting themselves▪ To slow the spread of COVID-19



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.

5 The Government will also help meet the needs of the families of 80,000 children



Measure	<ul style="list-style-type: none">On 1 June, families with children will receive a one-time payment for each child younger than age 18
Implementation	<ul style="list-style-type: none">Parents whose average monthly income was below ISK 927,000 in 2019 will receive ISK 40,000 per child.¹Others will receive ISK 20,000.
Objectives	<ul style="list-style-type: none">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.

6 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



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

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

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

- 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



Global marketing campaign

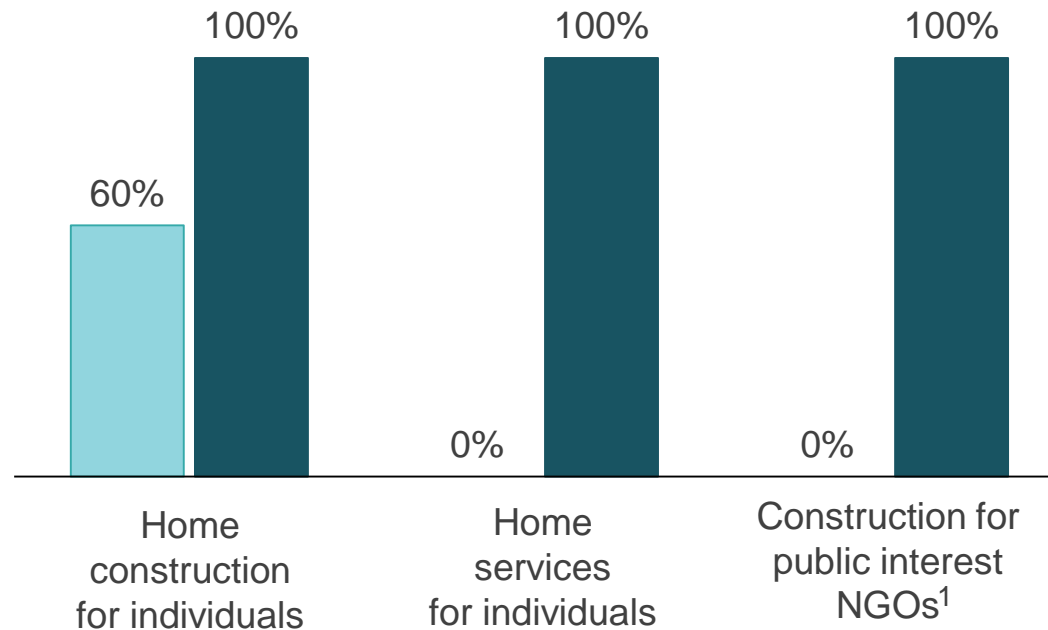
- ISK 1.5bn will be allocated to a marketing campaign featuring Iceland as a travel destination
- To be prepared immediately and implemented when air travel resumes
- Gives the tourism industry a stronger foothold when conditions normalise

8 100% reimbursement of VAT on labour bolsters economic activity



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

■ Before ■ After change



- 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 interest¹**
- **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 8bn²**

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

9 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

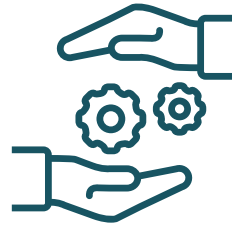
² Payment due dates for import levies in 2020, for those parties that use a grace period for import levies, will be spread over two payment dates, with authorisation for entry of all input tax for the period concerned, even if only a portion of it has been paid.

10 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



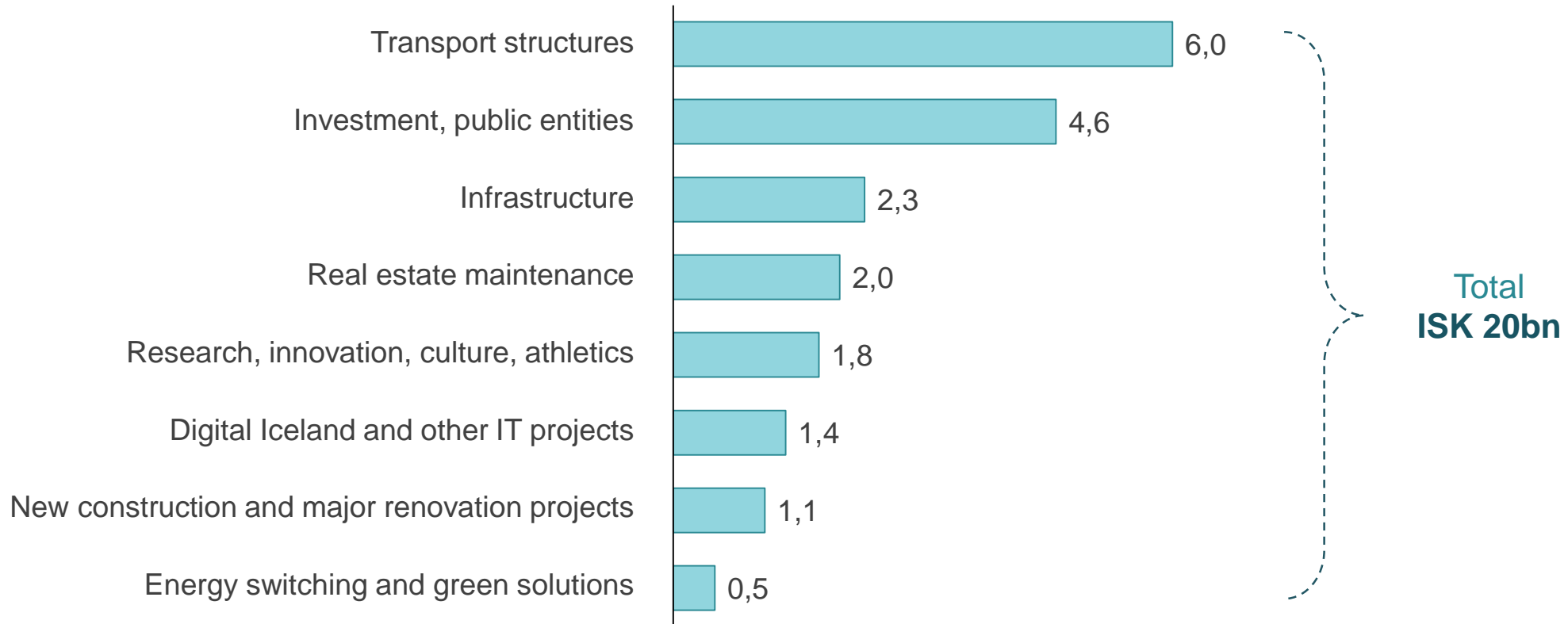
Investment for the future

Rapid development for the long-term benefit of Icelandic society

10 Additional public investment amounting to ISK 20bn to be launched this year

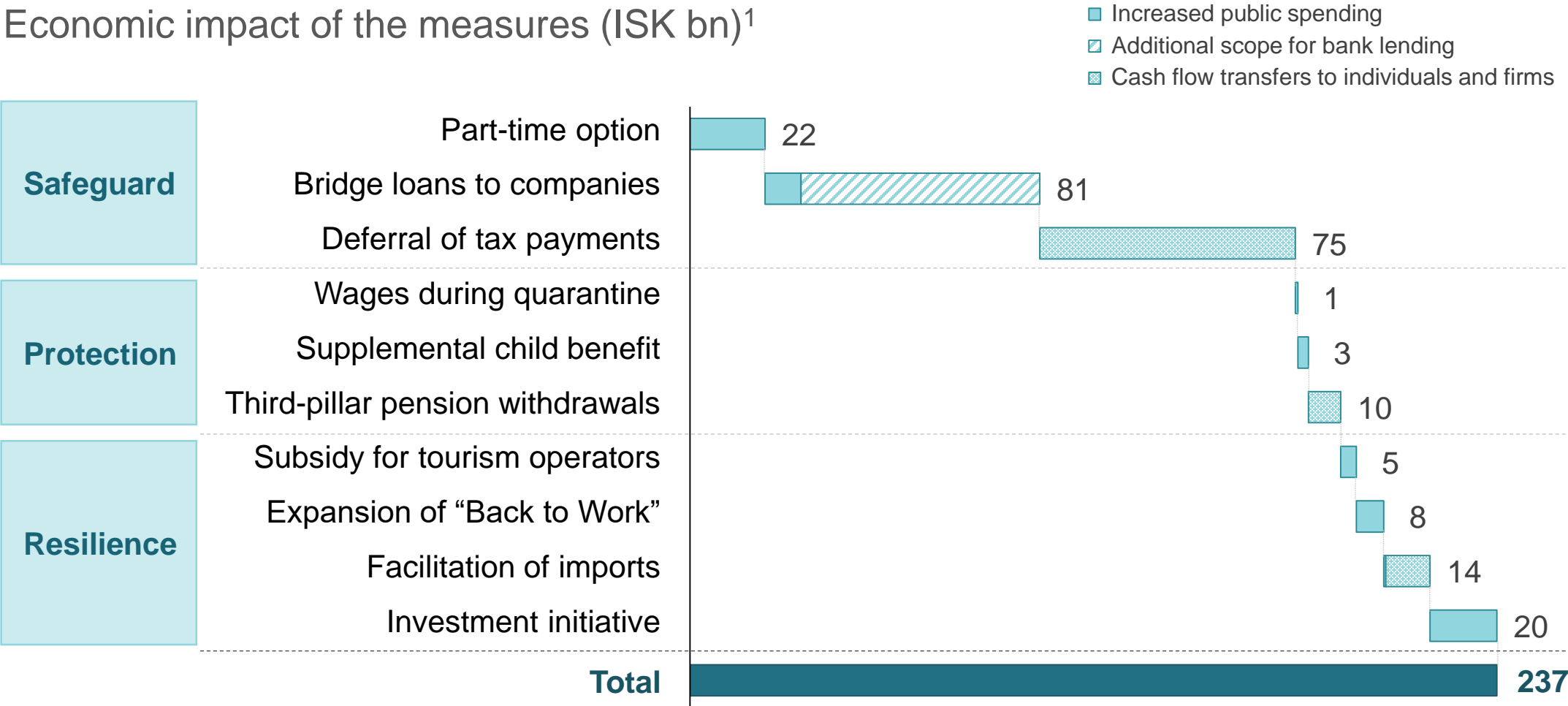


New public investment to be launched in 2020 (ISK bn)



The total impact of the measures could exceed ISK 230bn

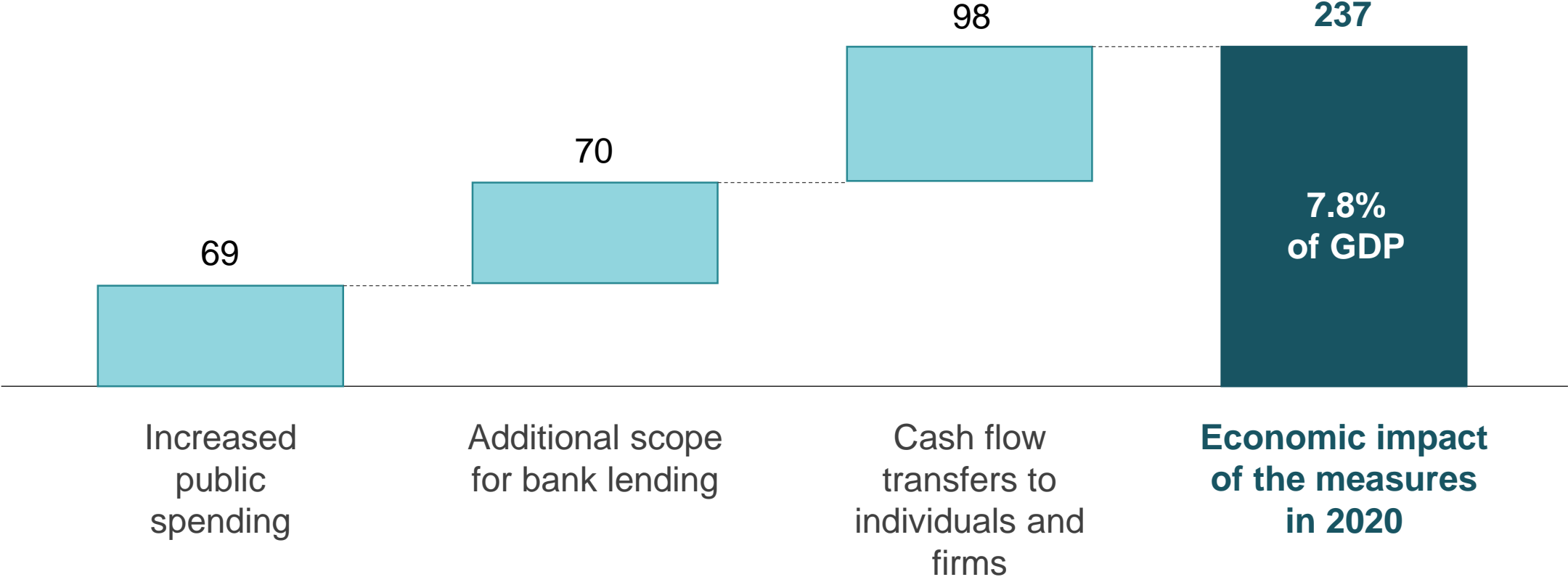
Economic impact of the measures (ISK bn)¹



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)



The combined economic impact of the ten measures amounts to 7.8% of Iceland's GDP

10


economic
measures

230

estimated impact
(ISK bn)

7.8%

of GDP



With these measures, the Government is taking decisive steps to protect living standards and lay the foundations for a speedy economic recovery

