

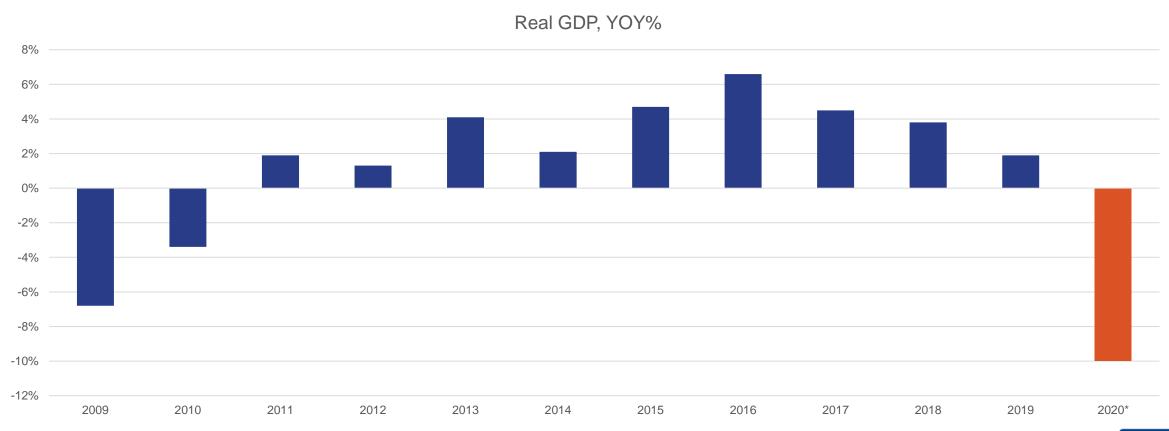
# The Icelandic economy in times of COVID-19

Economic impact and policy reaction Ingólfur Bender, Chief Economist FII



### Sharp GDP contraction expected in 2020 due to COVID-19

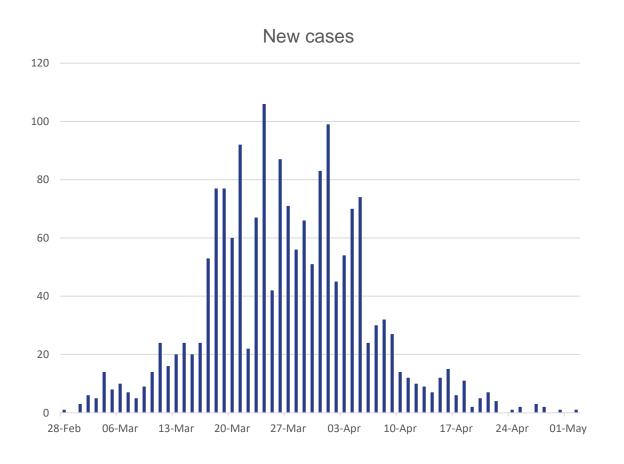
Expected to be the largest one year contraction in GDP in over 100 years

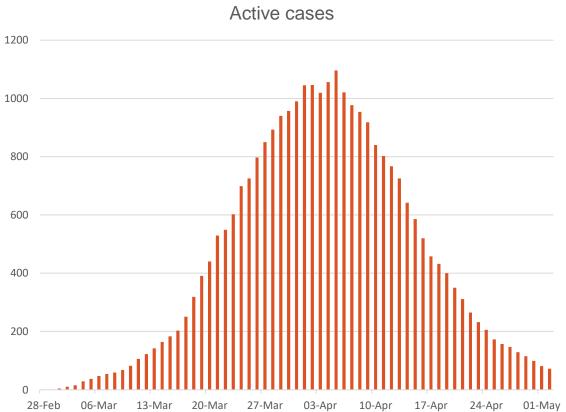




# The COVID-19 pandemic is in remission

#### For now at least

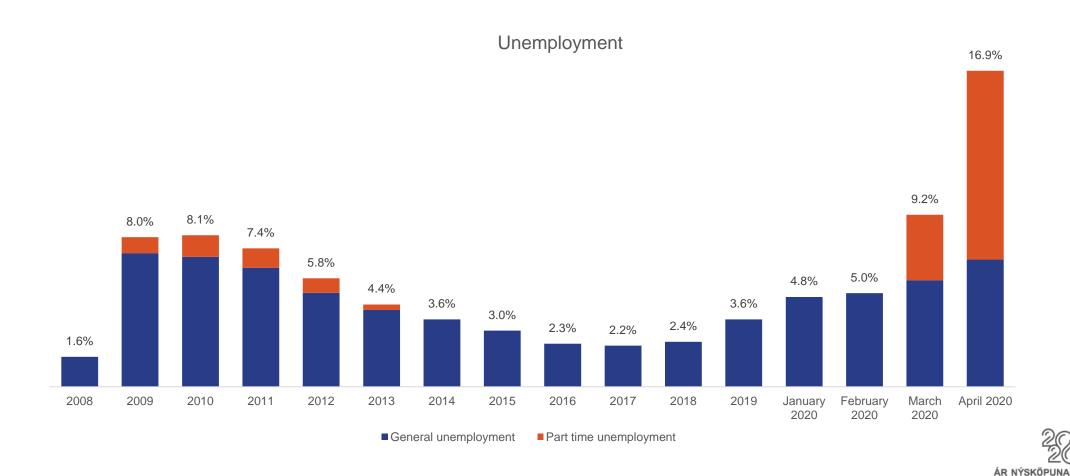






## The highest measurement since 1957

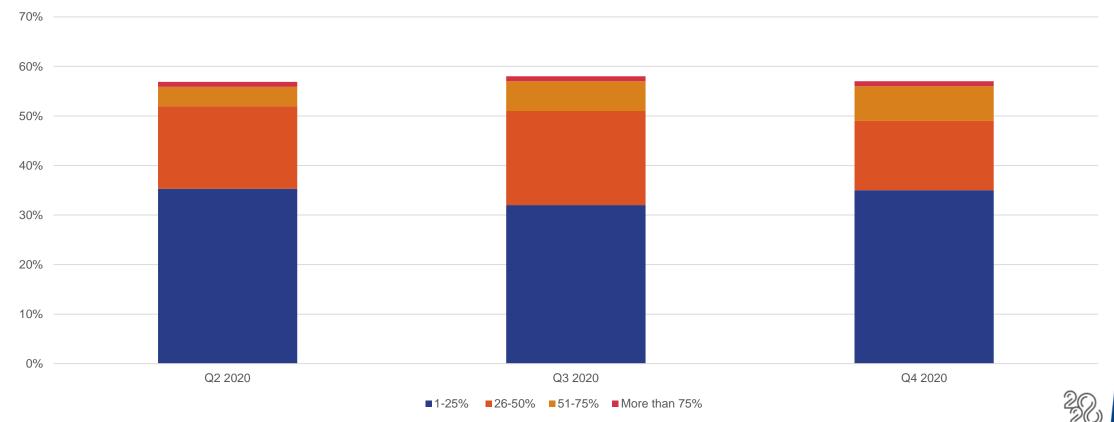
A sharp increase in unemployment



### The construction industry is experiencing a sharp slowdown

Almost 60% of construction companies are expecting significant revenue loss this year

Construction industry: Do you expect the quarterly revenues to decrease year on year? If so, how much?



# Various government measures announced

The aim is to safeguard, protect and create a basis for a strong economic recovery

#### March 21, 2020

#### **April 21, 2020**

Safeguards

- Part-time option: Government will take on up to 75% of salaries
- · State-backed bridging loans for companies
- Deferral of tax payments

- Closure subsidies: Subsidies due to orders to close business operations
- Support loans: Loans to small companies in distress because of COVID-19
- Netting of income tax

**April 28, 2020** 

- Option for full time workers to move to part-time with government support extended to 31 August from its original finish date on 1. June.
- Opportunity to apply government support for pay a portion of salary cost for any staff member during their notice period

**Protection** 

- · Wages during quarantine
- · One-off child benefit payments
- Access to private pension savings

- Mental health and remote care
- Protection of at-risk groups
- Special subsidies

Simpler rules on financial restructuring of companies will be temporarily put in place.

 Financial support for tourism sector

- "Back to Work": Refund of VAT for construction projects
- Increased investment in infrastructure and innovation

- Boosting innovation: R&D reimbursements, increased investment in innovation
- Summer mesasures for students
- Effective job-seeking
- Domestic value creation

Resilience



### Investment initiative and refund of VAT

Increased investment in infrastucture and refund of VAT for construction projects

#### Investment in infrastructure

- General government will expedite large-scale investment projects in order to stimulate the economy
- Job growth: Emphasis on projects that immediately create jobs across society
- Investment in real estate, transport and other infrastructure

#### 100% refund of VAT on labour for construction projects

- Reimbursement of value-added tax for labour ("Back to Work") on real estate renovation, maintenance and new construction increased from 60% to 100%
- The reimbursements now covers households assistance and construction undertaken by municipalities and NGOs working in the public interest
- This change remains in effect from 1. March through 31 December 2020

Estimated impact of these measures amounts to ISK 50bn or 1.7% of GDP



### The Central Bank's COVID-19 measures

The CBI is enacting measures to stimulate the economy

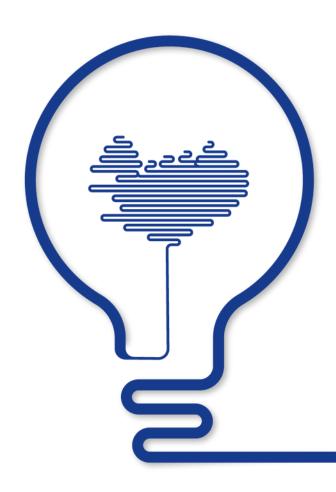


### Sharp economic contraction in uncertain times

But the resilience of the economy is strong







# Thank you

