

The Icelandic economy in times of COVID-19

Ingólfur Bender,
Chief Economist FII/FRV

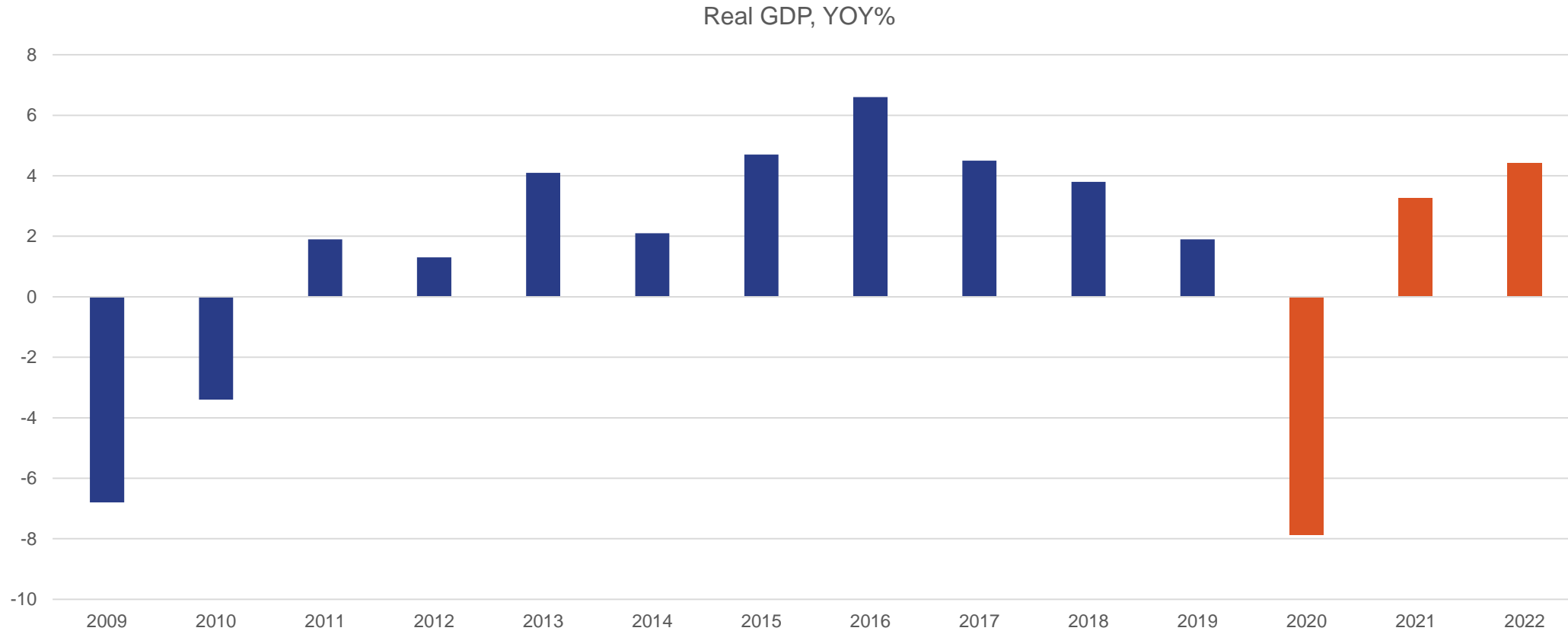
2020

ÁR NÝSKÖPUNAR



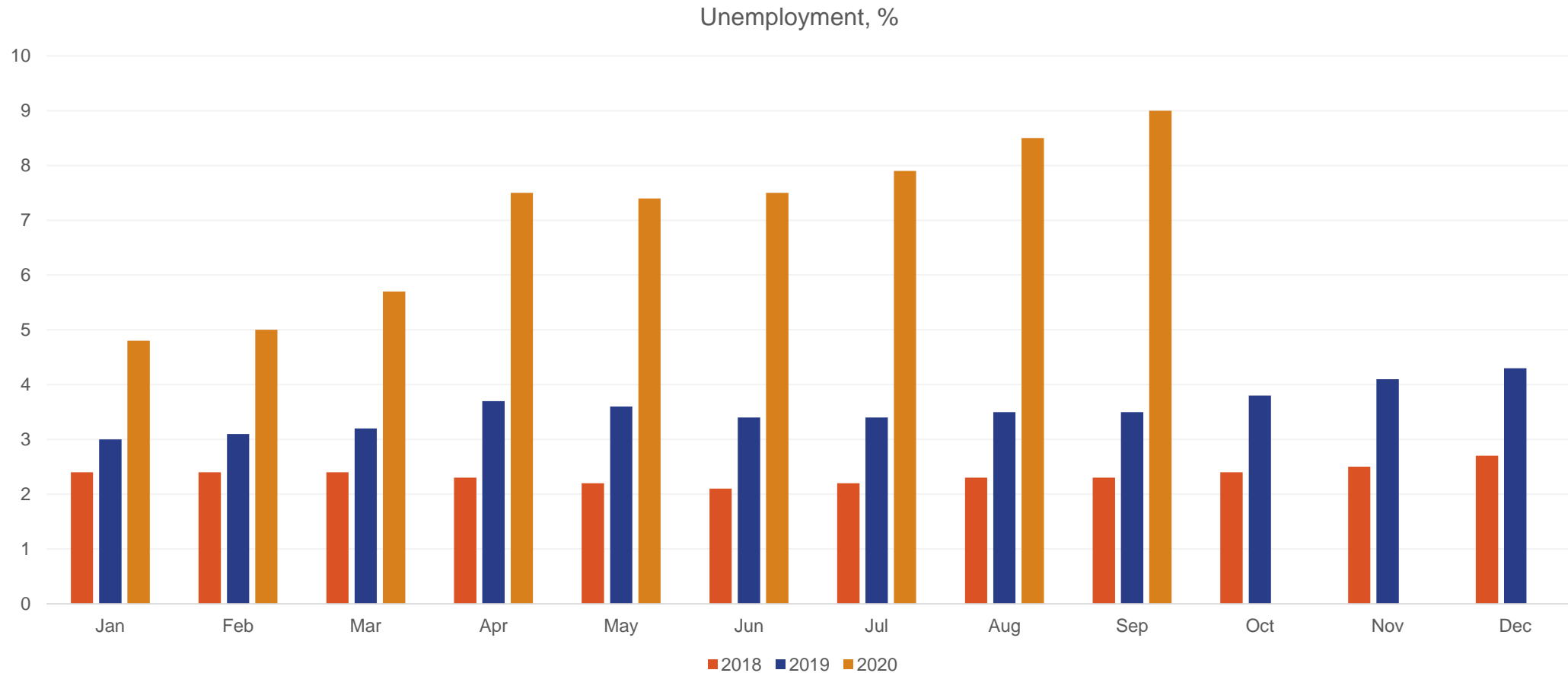
Sharp GDP contraction due to COVID-19

Economic outlook for next year is becoming more gloomy



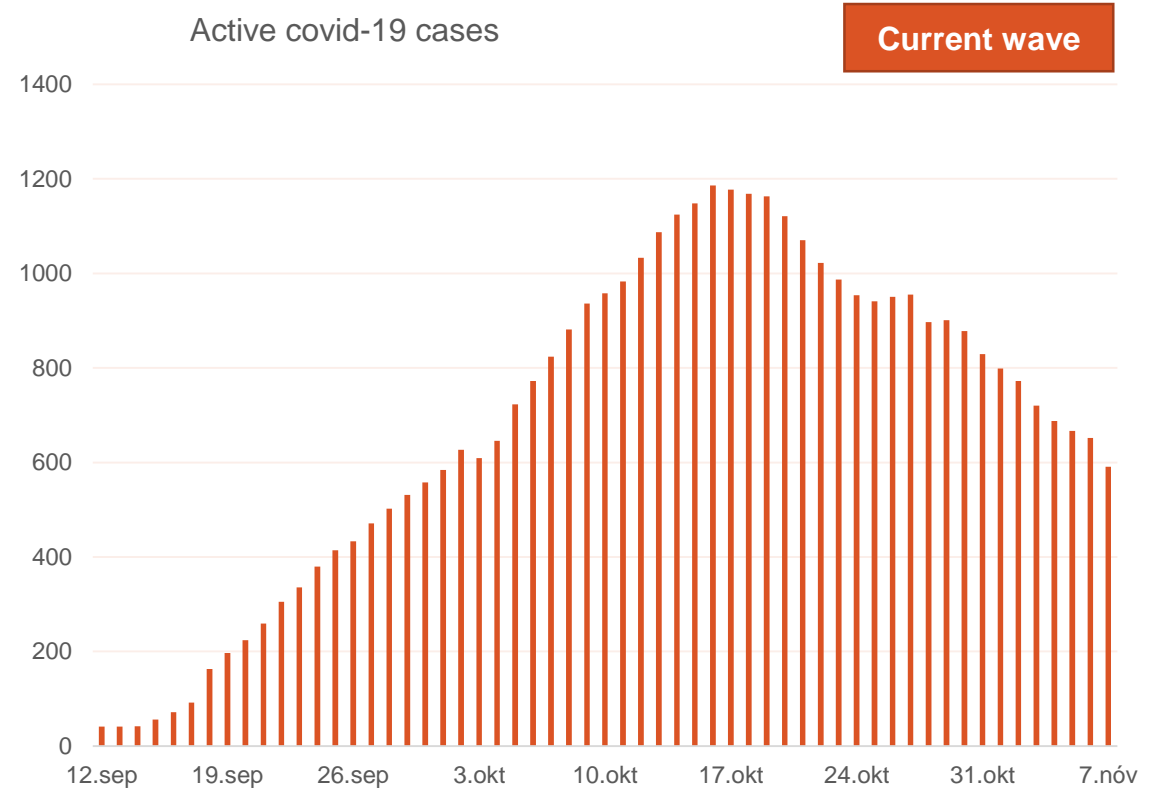
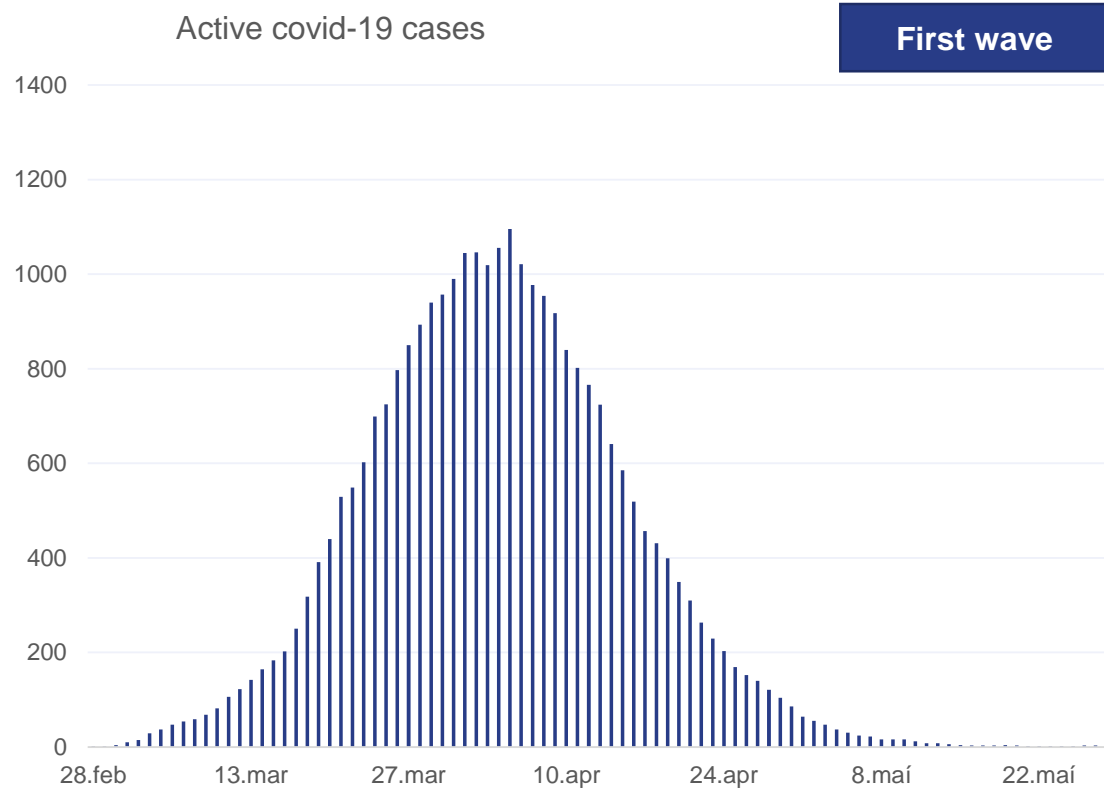
A sharp increase in unemployment

Coming from a fairly low level



Another wave of the COVID-19 pandemic

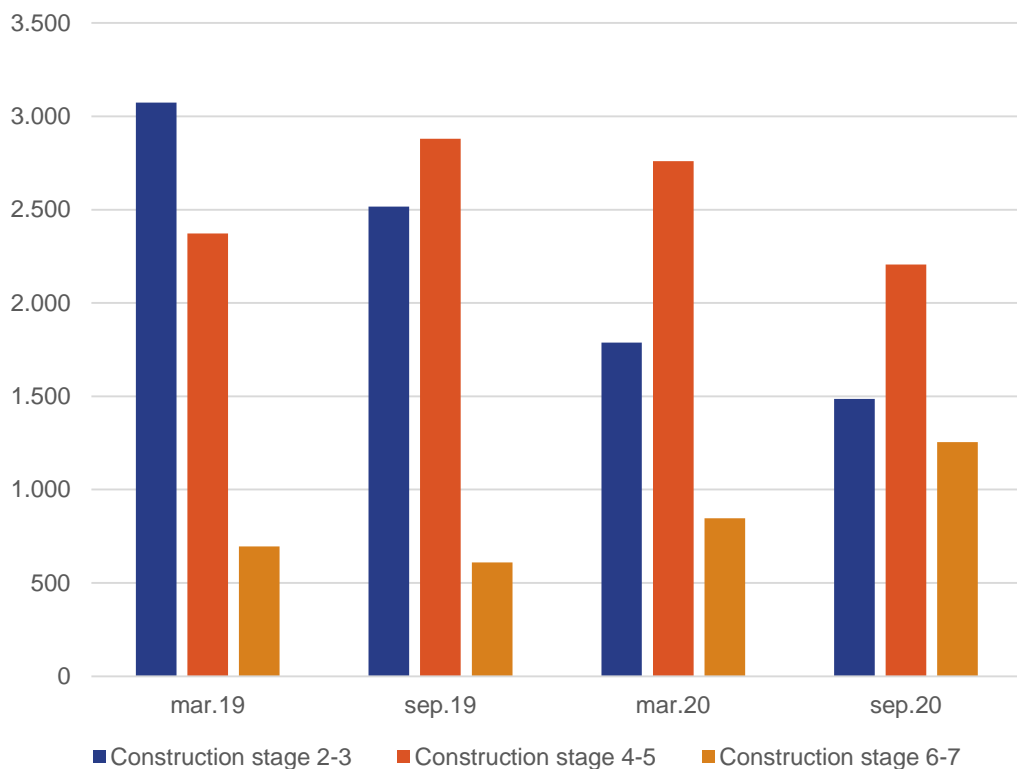
A bit bigger wave than the first one



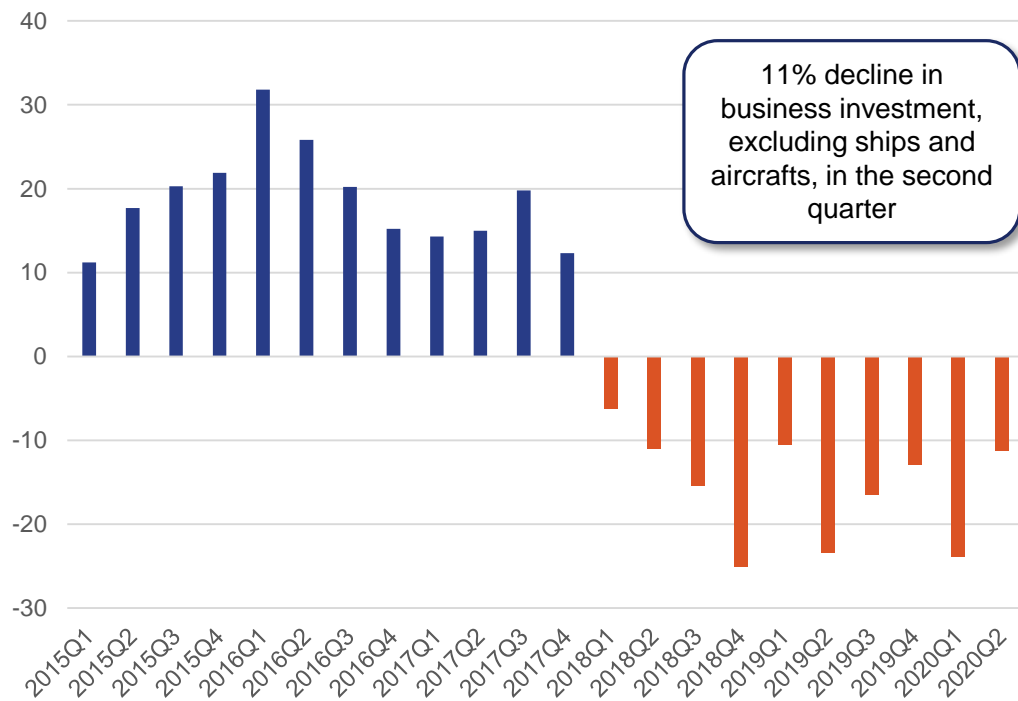
Private investment slows down sharply

A sharp decline in business and household investment

Number of apartments under construction in the capital area and neighboring municipalities

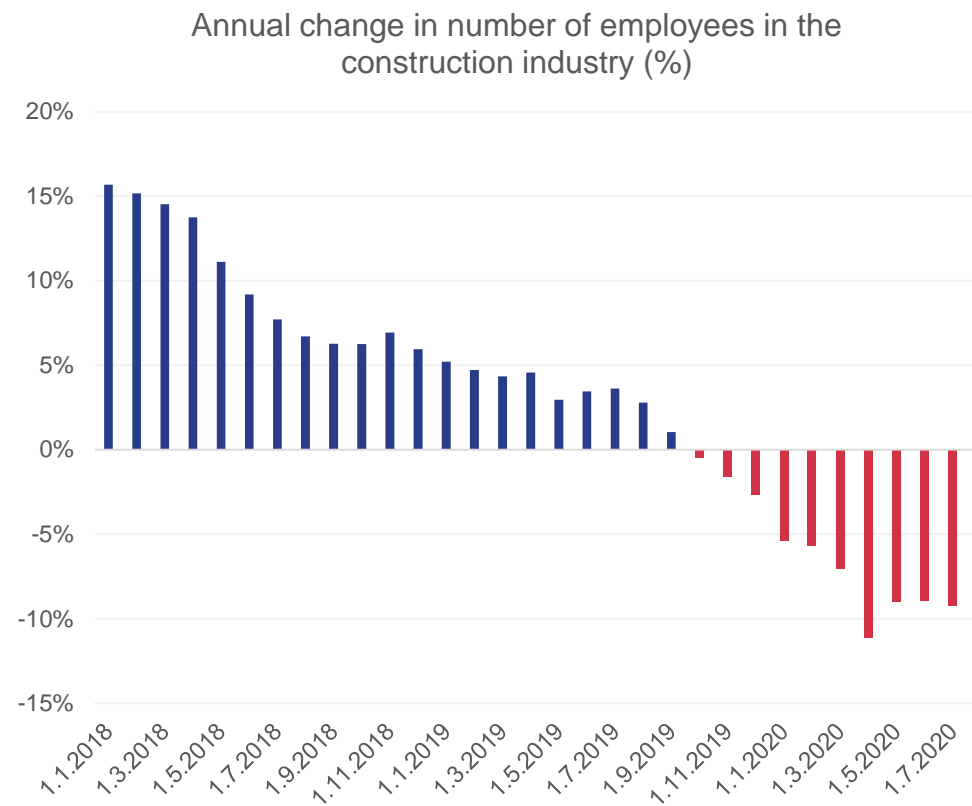
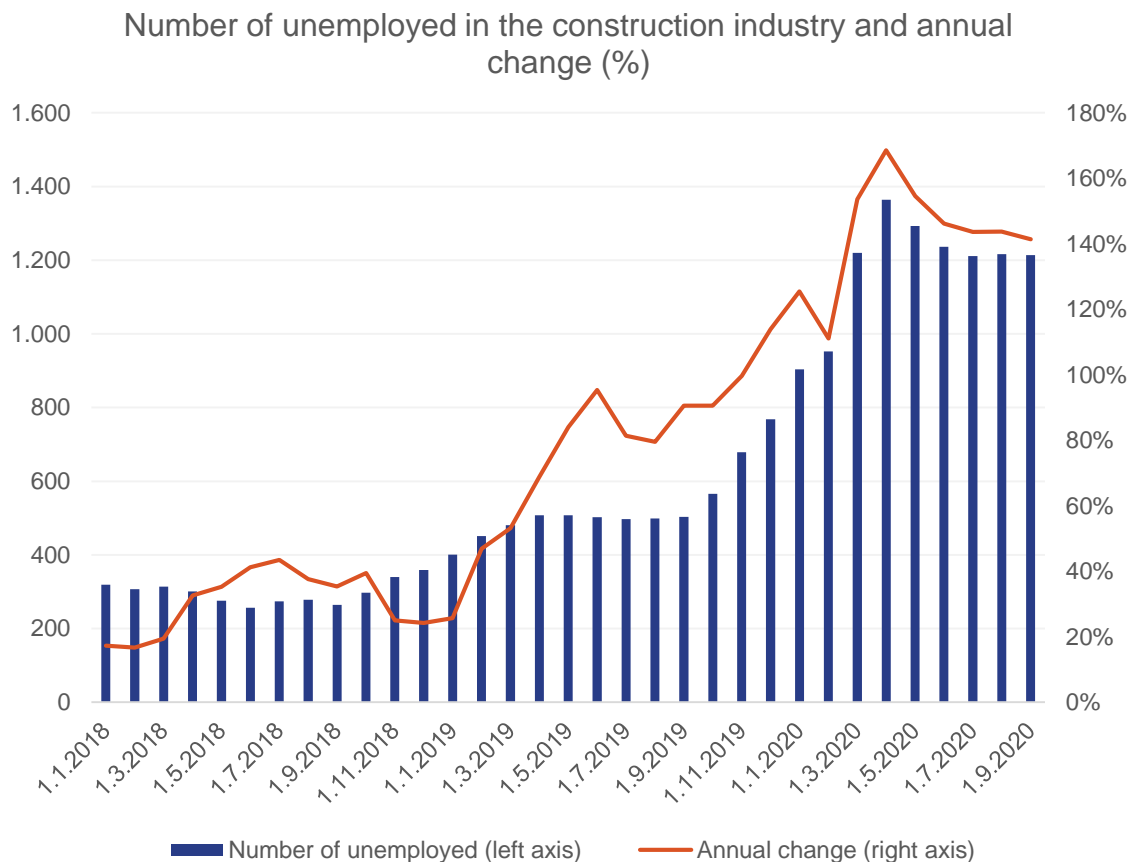


Business investment, excluding ships, aircrafts, heavy industry and related industries, change from the same quarter last year, %



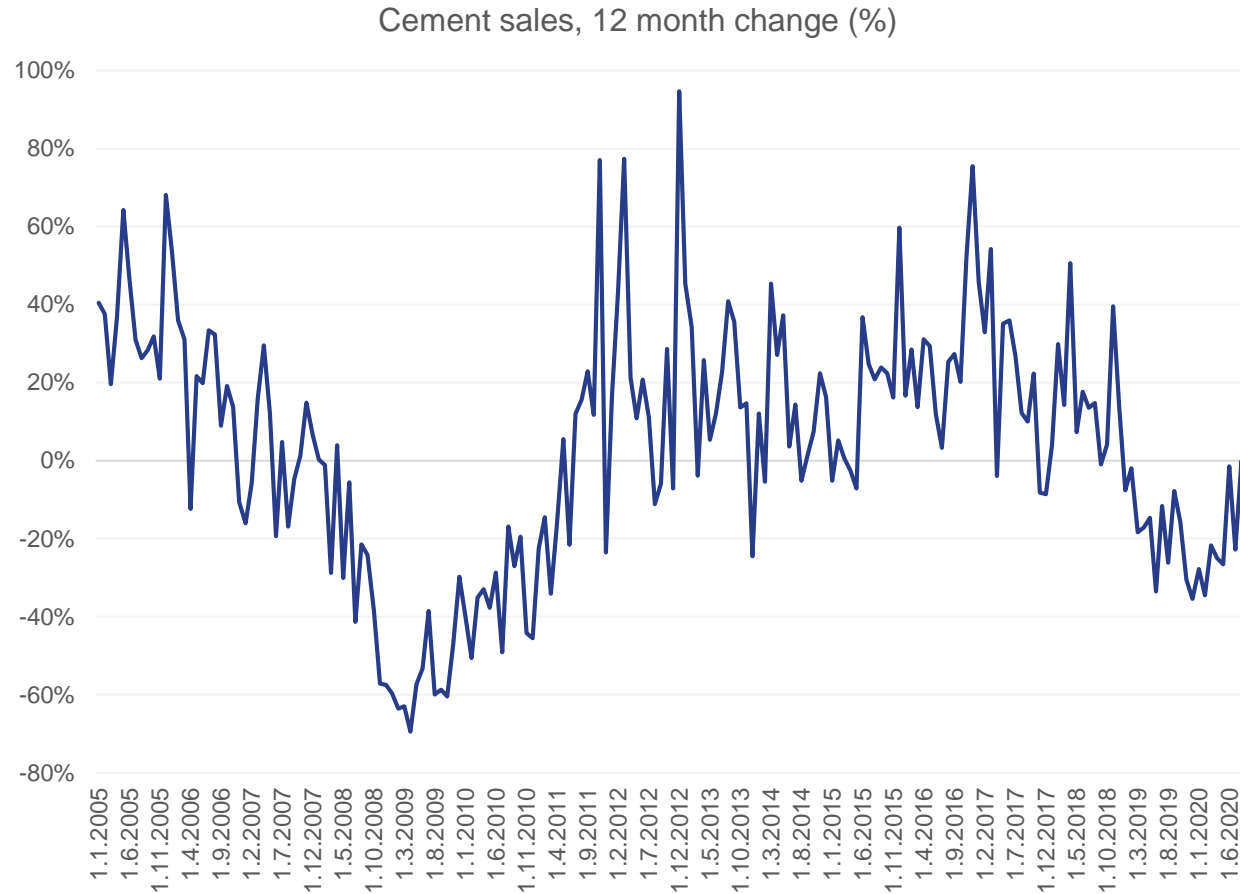
Unemployment in construction rising rapidly

Fewer employees in construction



Contraction in most parts of the construction sector

Decline in sales of cement



Significant decline in imports of building materials

11% decline in sales of cement in September compared to the same time last year

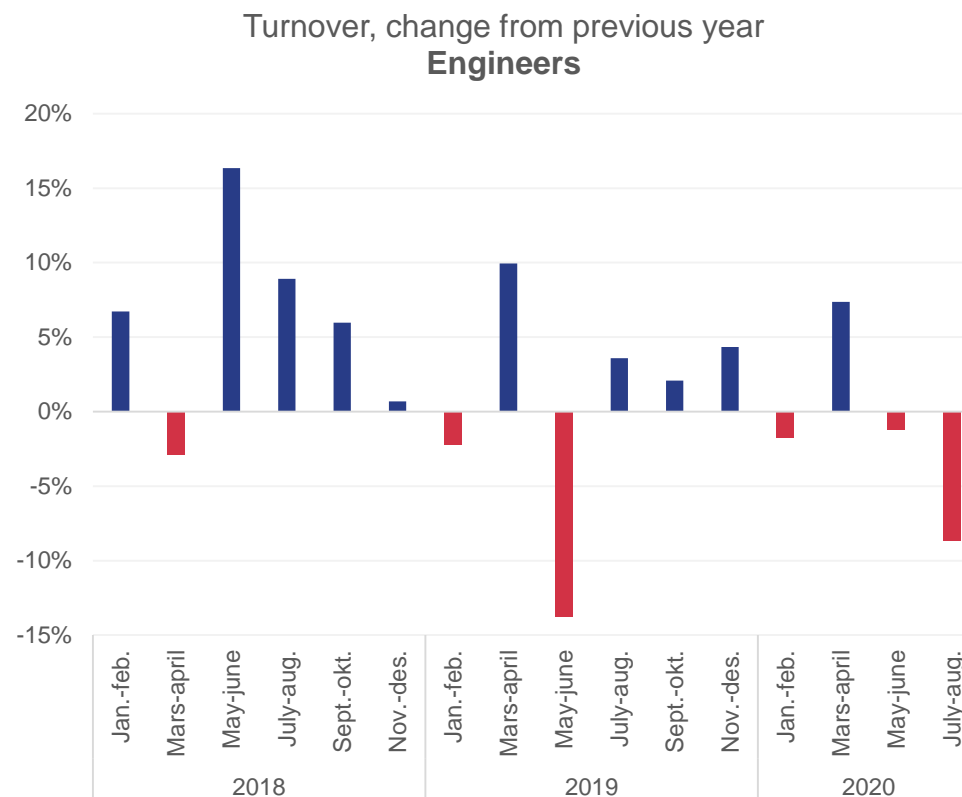
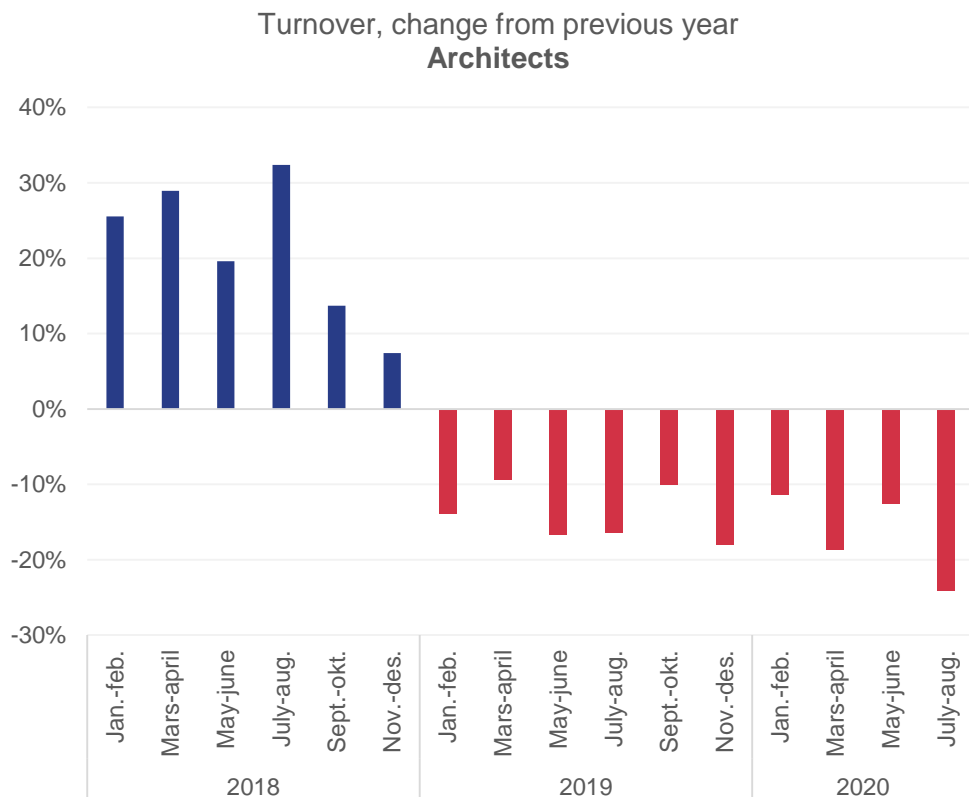
38% fewer building permits issued in the first quarter of 2020 compared to the same period last year

16% YoY decline in turnover in the construction industry July and August this year compared to the same time last year

Bankruptcies in the construction sector have increased by 54% in the first 9 months of the year compared to the same period last year

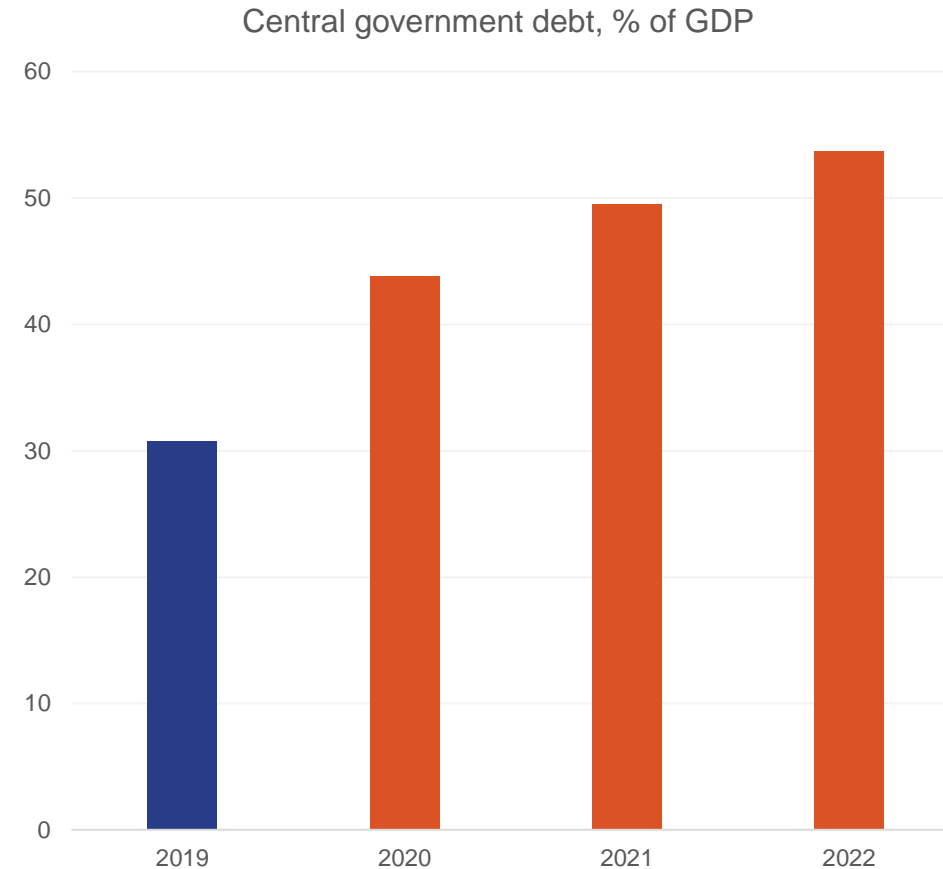
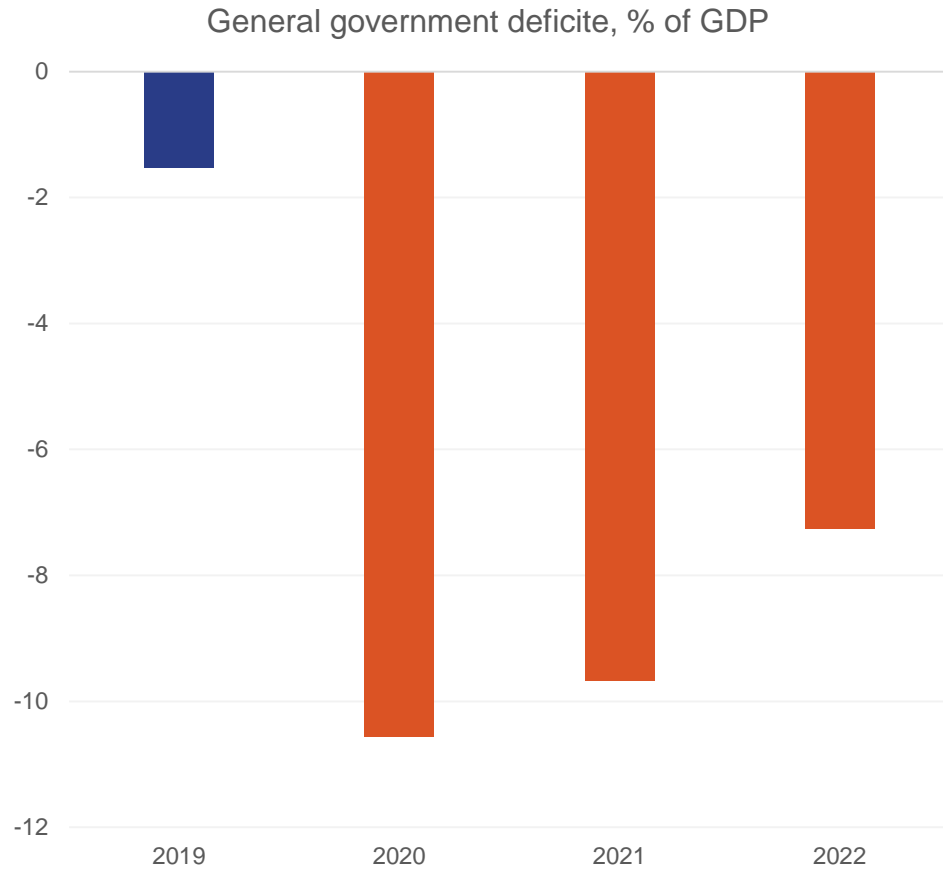
Decreasing turnover

Significant reduction in turnover for architects, but less for engineers



Fiscal policy plays a key role in policy response to COVID

Low debt level before COVID an advantage



Investment initiative and refund of VAT

Increased investment in infrastructure and refund of VAT for construction projects

Investment in infrastructure

- General government has and 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

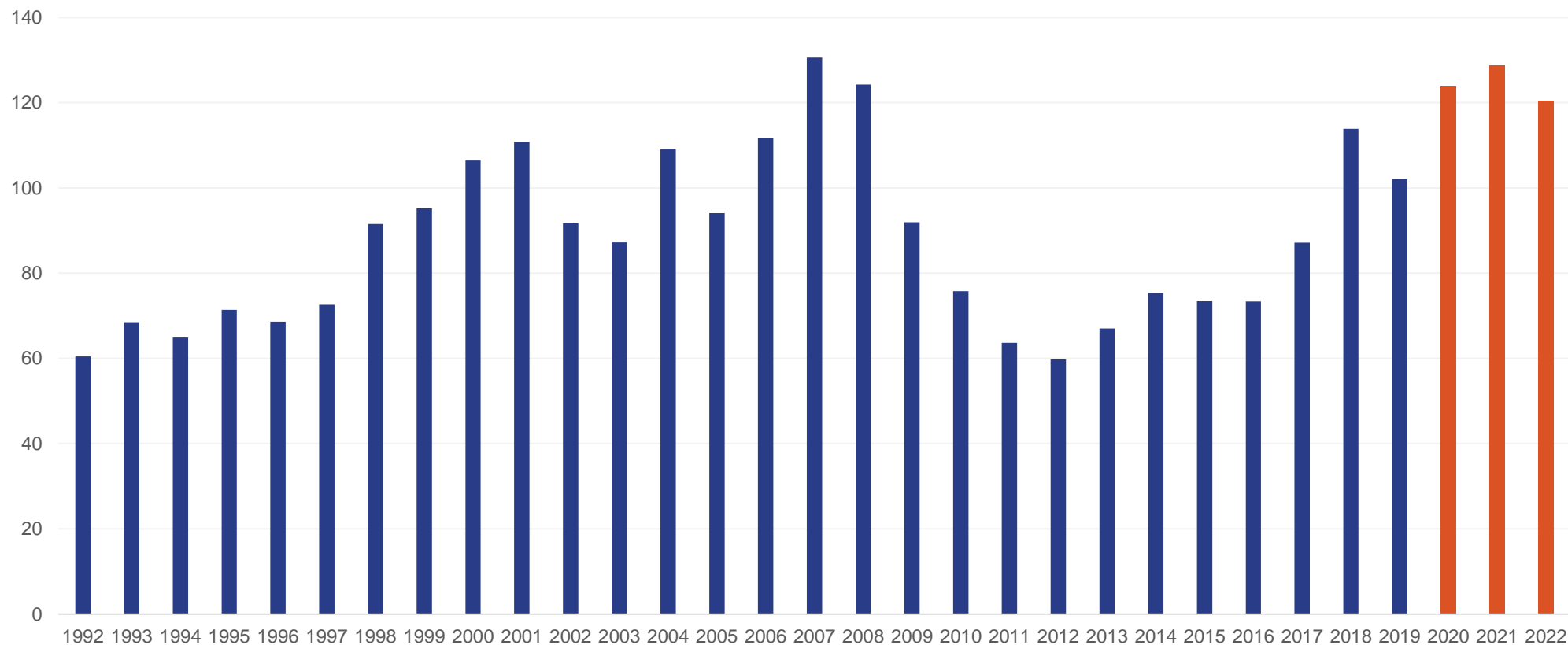
100% refund of VAT on labour for construction projects

- Reimbursement of value-added tax for labour („Back to Work“) on real estate renovation, maintenance and new construction increased from 60% to 100%
- This change remains in effect from March 2020 through 2021

Government increases investment in infrastructure

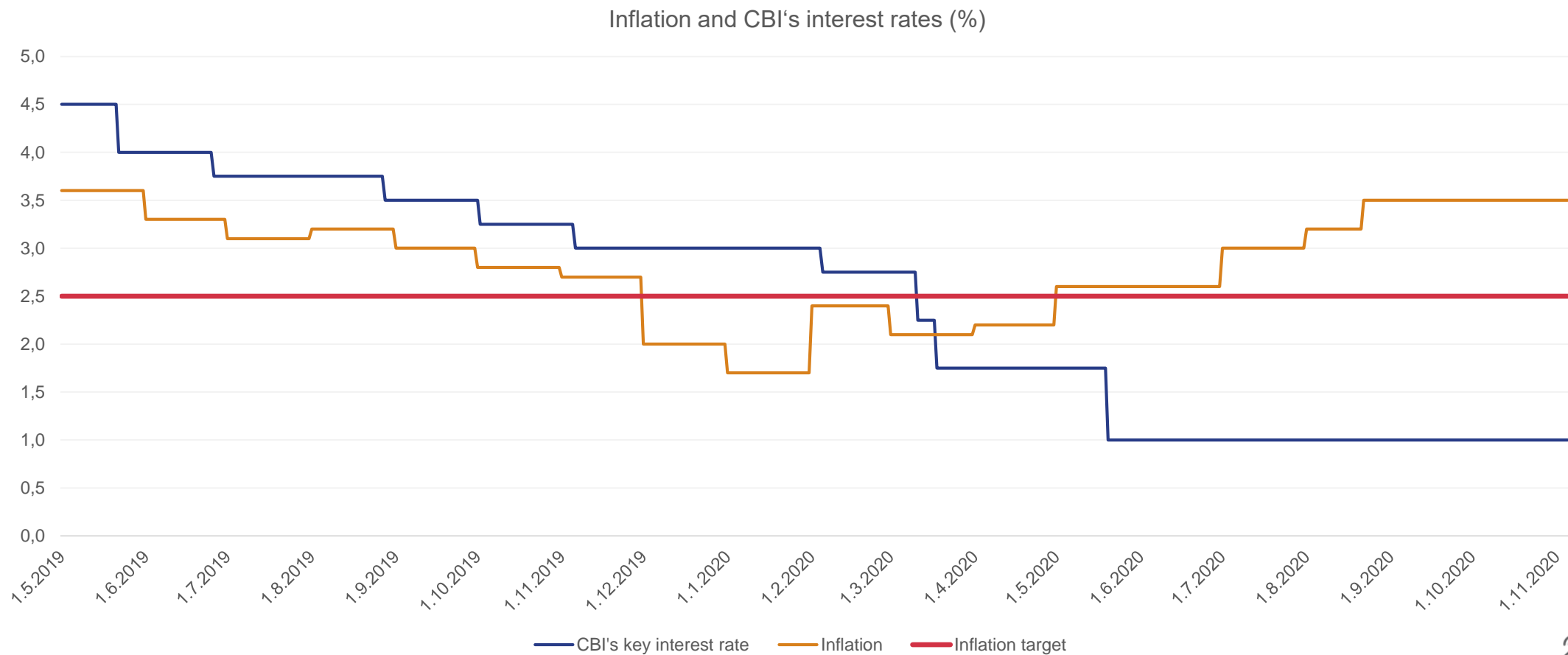
Increases productivity, jobs and economic growth

Government investment, constant 2020 price (bil.ISK.)



Monetary policy tools applied

Policy rate lowered



Sharp economic contraction in uncertain times

But the resilience of the economy is strong



A sharp economic contraction in an economy heavily reliant on tourism



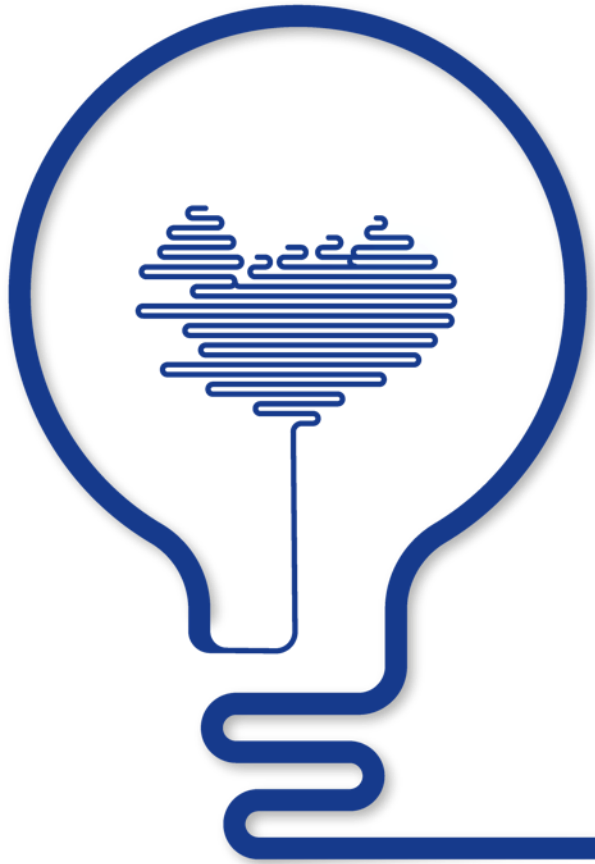
Sharp contraction is taking place in the construction sector



The government is responding with a sizable rescue and stimulation package



The outlook is highly uncertain but growth is expected to pick up next year



Thank you

2020

ÁR NÝSKÖPUNAR

