

28 January 2021



Iceland – Economic Outlook

Government of Iceland
Ministry of Finance and Economic Affairs



Successful Bond Issuance

- Eurobond issuance in the amount of 750 million with 0% coupon
- Maturity in April 2028 – fits well into maturity profile of outstanding debt
- Bonds were issued at a yield of 0,117% - 48 bps over Midswaps
- Terms improved by 12 bps from the initial price guidance in book building process
- Well received by investors with demand totaling 3.5 bn. EUR – more than 4x issued amount
- The buyer group included over 150 investors mainly from Northern-Europe
- Investor group: banks, insurance companies and other institutional investors
- Joint lead managers were Citibank, Barclays, and Deutsche Bank

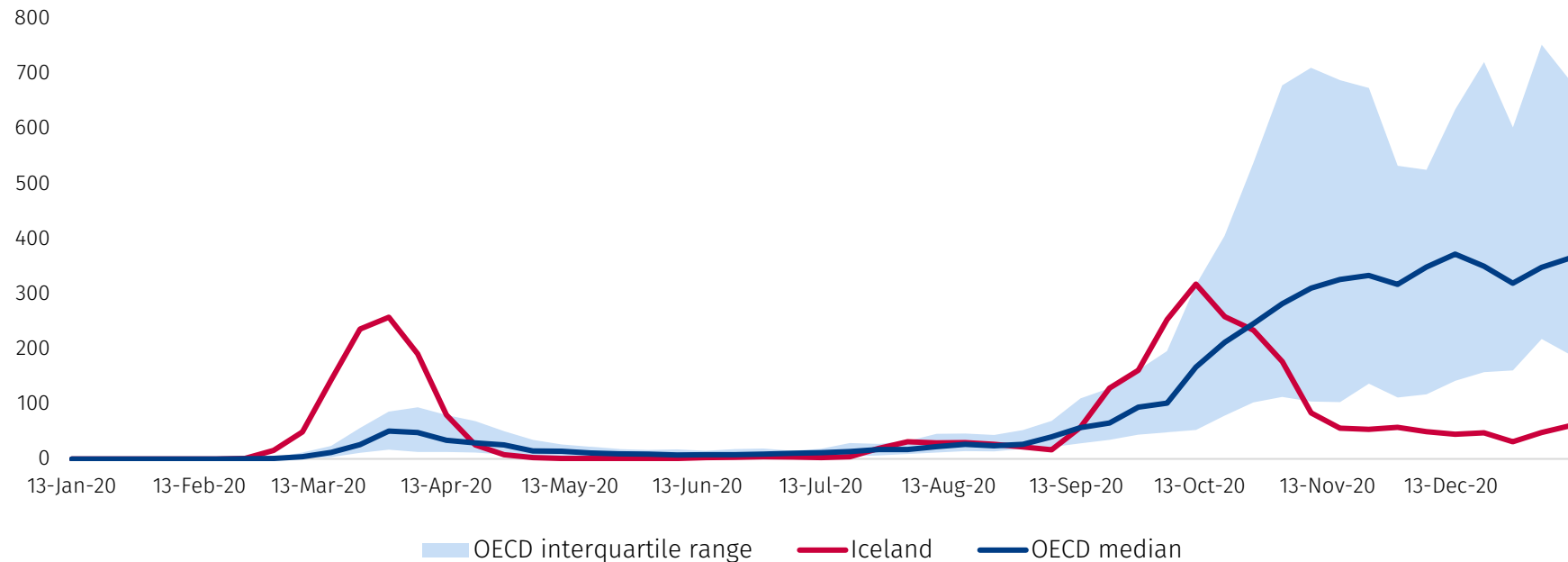


COVID-19: Successful health response

As of January, Iceland has the lowest number of new COVID-19 cases per capita in Europe. Testing, contact tracing and quarantines have been pivotal.

New COVID-19 cases now among the lowest in OECD

New diagnosed COVID-19 cases per 100,000 population, 14 day cumulative



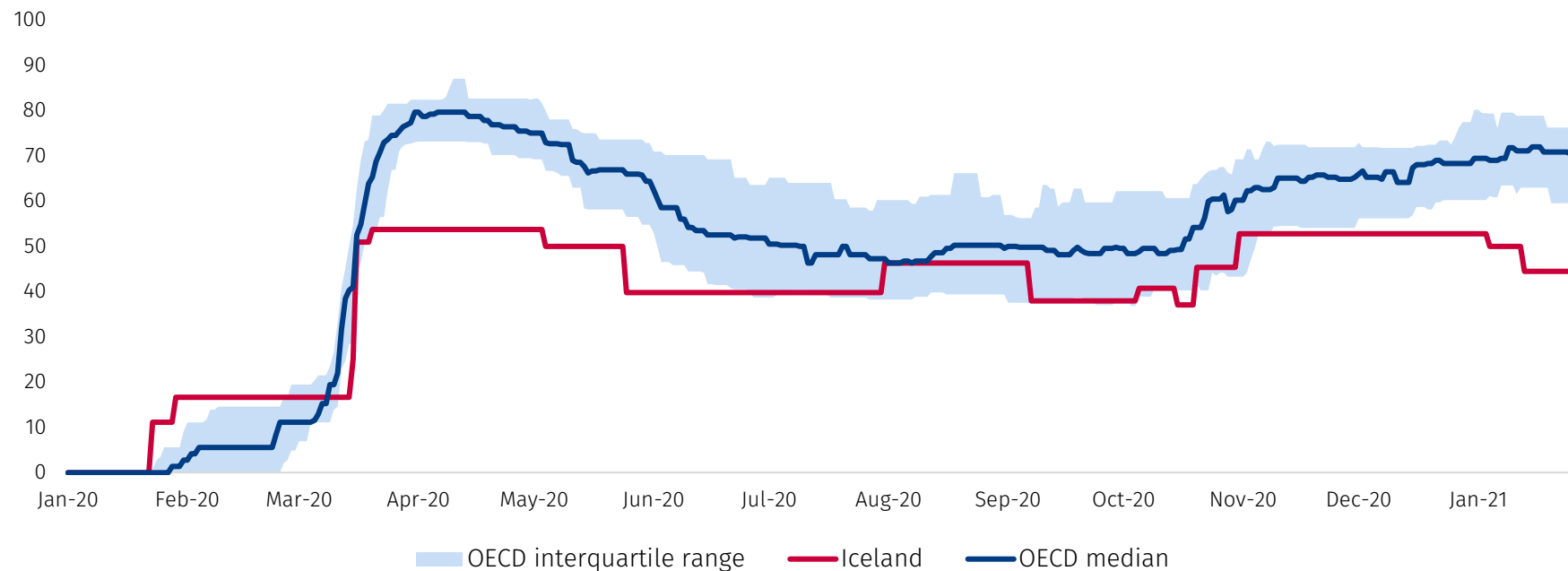


More targeted approach has benefits

Restrictions on activity have been less severe than in most developed economies. Unlike many peers, lockdowns have not been necessary.

Stringency of containment effort relatively low in international comparison

Oxford University Government Response Stringency Index (0-100)



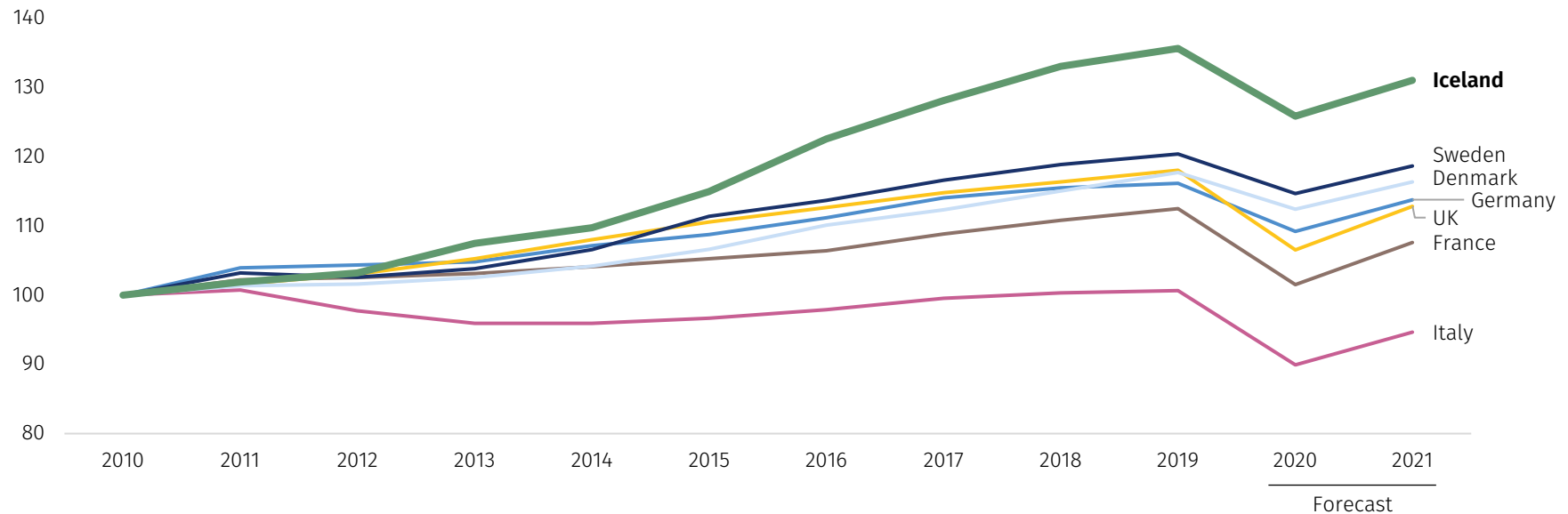


Iceland entered the downturn from a favorable starting position

Iceland's track record of high and sustainable growth, underpinned by a strong resource base, sound policies, favorable demographics and strong human capital, is a cause for optimism.

Iceland had experienced strong growth in recent years in comparison with peers

GDP, 2010 = 100

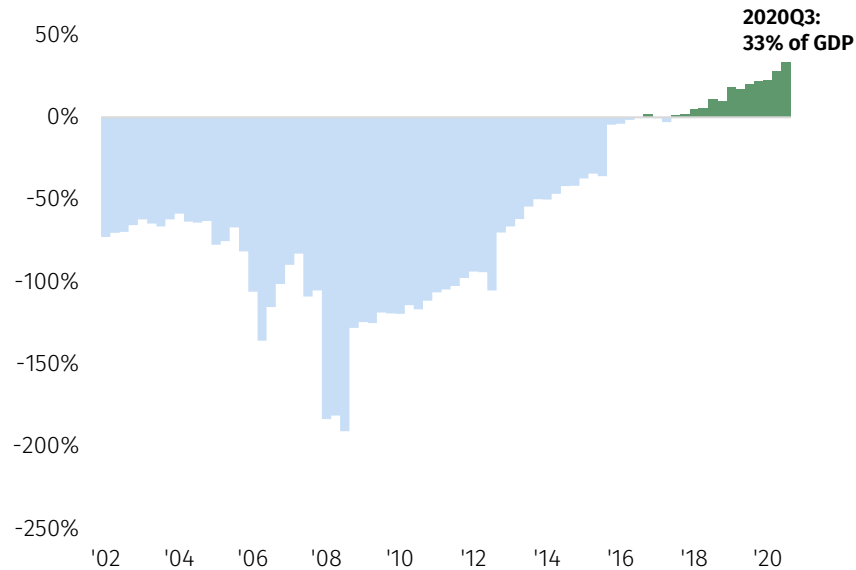




Very strong external position provides policy buffers

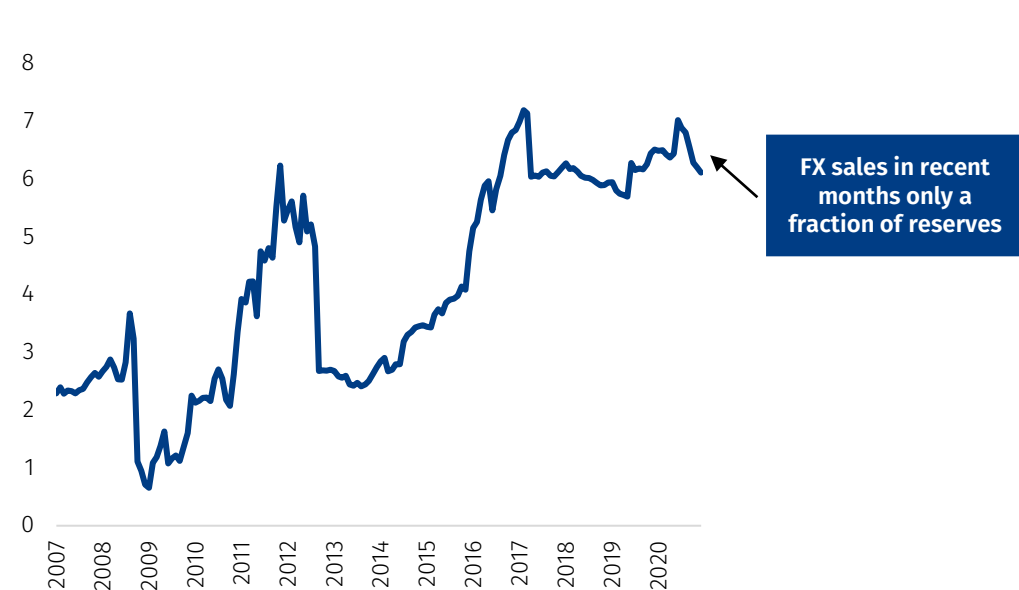
Large current account surplus has contributed to significant strengthening of NIIP

Net international investment position, % of GDP



Foreign exchange reserves are at a comfortable 30% of GDP

Central bank FX reserves, bn. USD



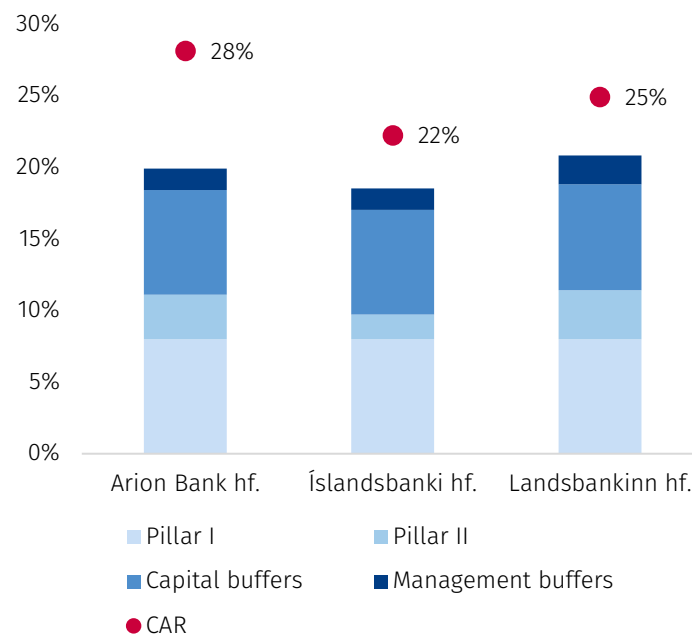


Strong bank capital and liquidity buffers

Capital adequacy ratios of systematically important banks well above requirements and the banks have ample liquidity to support the economy.

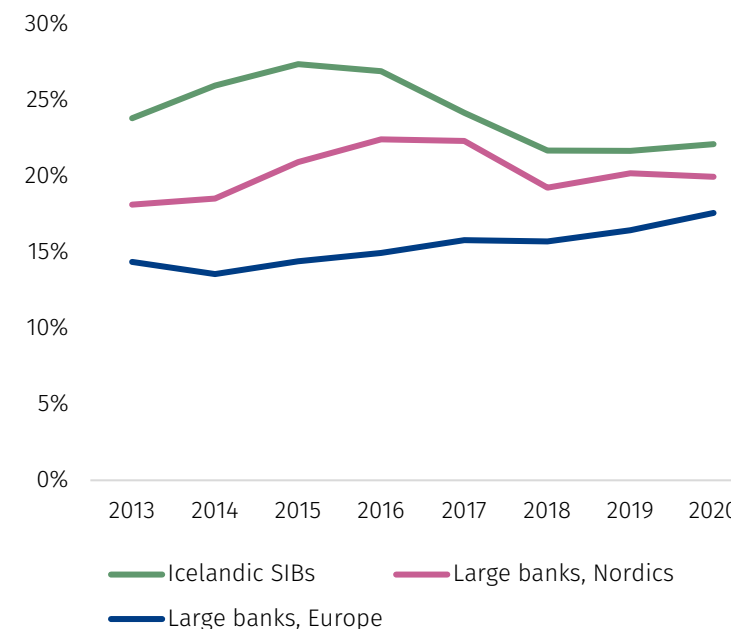
All largest banks comfortably above capital requirements

D-SIB capital requirements and CARs, 2020Q2



Bank capital adequacy ratios high in European comparison

Average tier 1 capital ratios



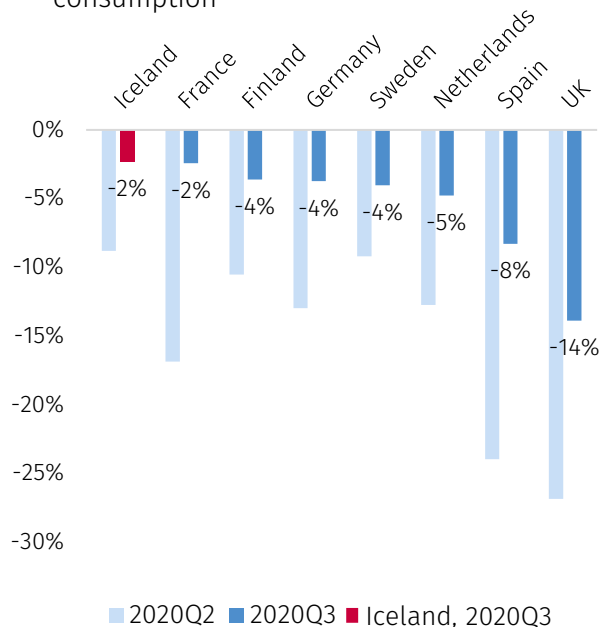


Private consumption has rebounded

Domestic spending grew once pandemic subsided. Economic policy response and reorientation of spending from tourism abroad to domestic goods and services also help.

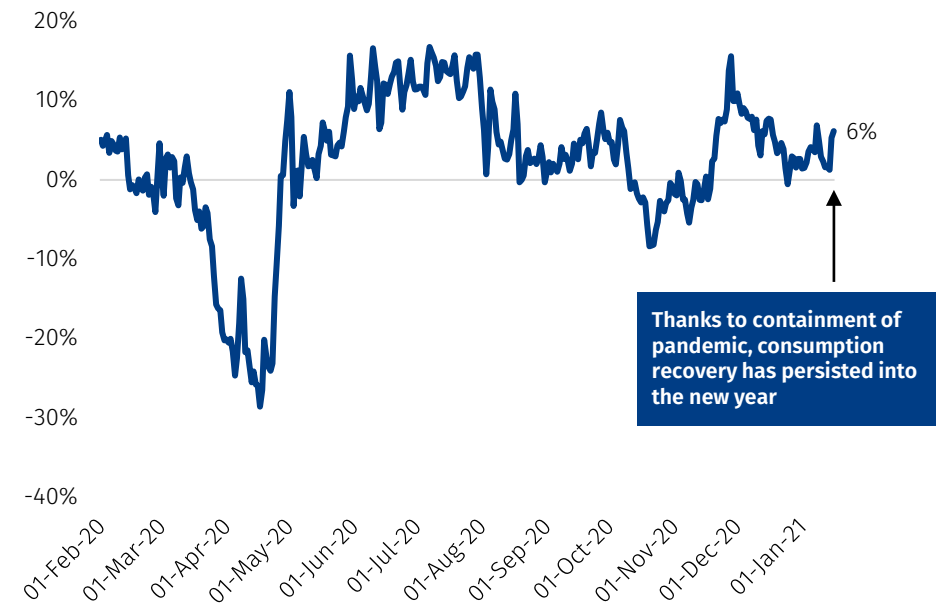
Private consumption has been stronger than in peers

Y-o-y change in quarterly private consumption



Domestic consumption of Icelanders has been strong

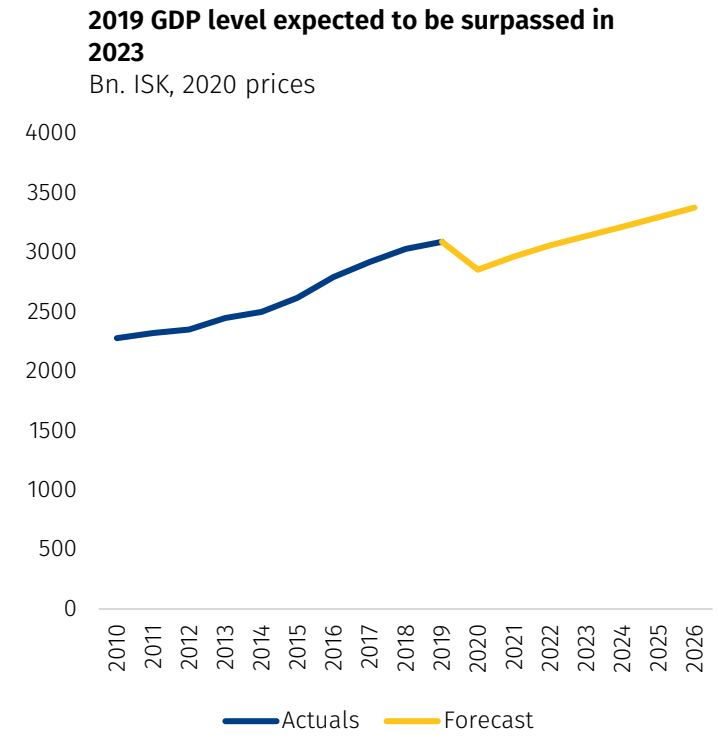
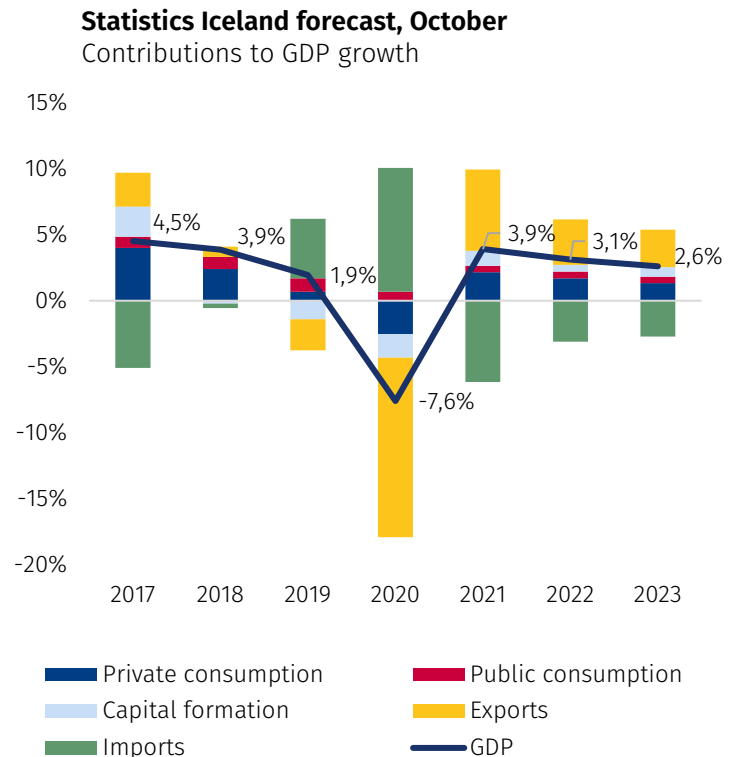
Domestic payment card turnover, real growth y-o-y, 14 day average





Firm recovery expected to begin this year

Strong GDP growth this year expected by IMF (4.1%), Central Bank of Iceland (2.3%) and Statistics Iceland (3.9%), supported by strong fiscal and monetary policy response.



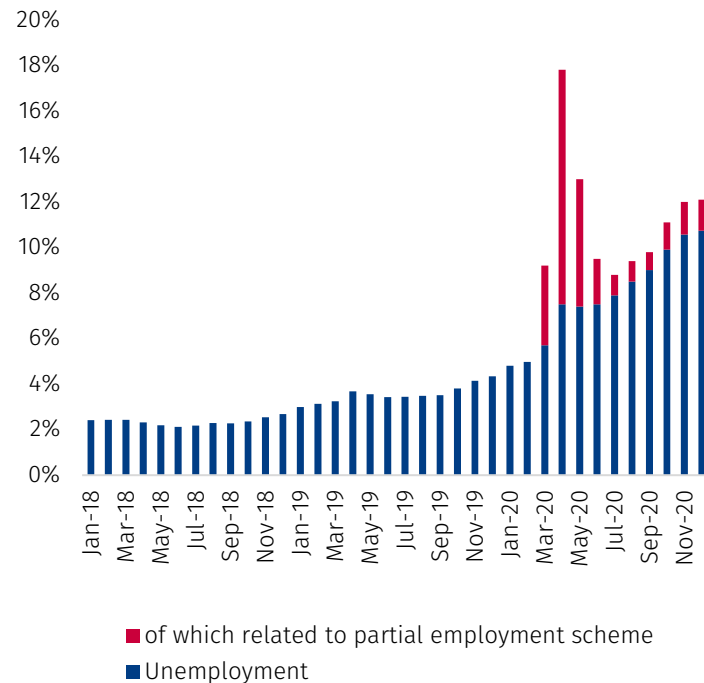
Source: Statistics Iceland actuals and October 2020 forecast.



Unemployment has risen as expected

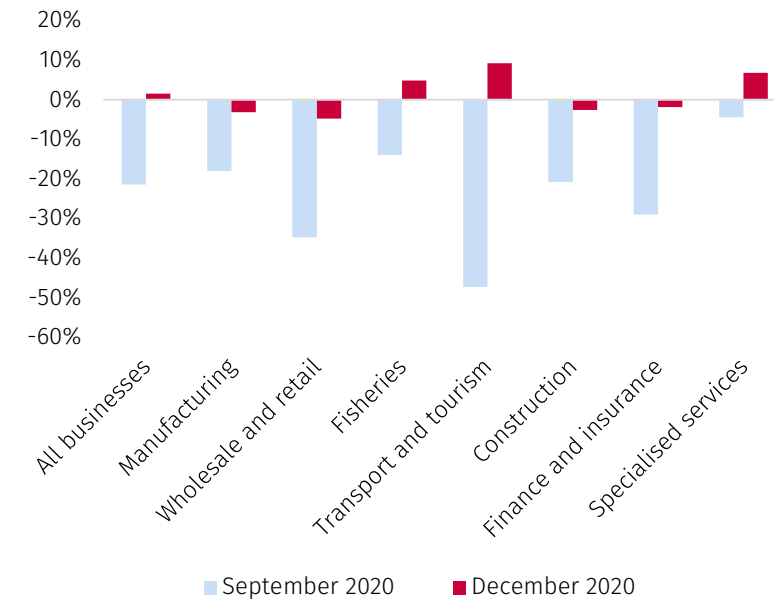
Signs that tide in labor market is shifting, with unemployment rising less in December than anticipated and more companies now intending to hire than lay off staff.

Rise in unemployment is tapering off



More companies now intend to hire than lay off staff

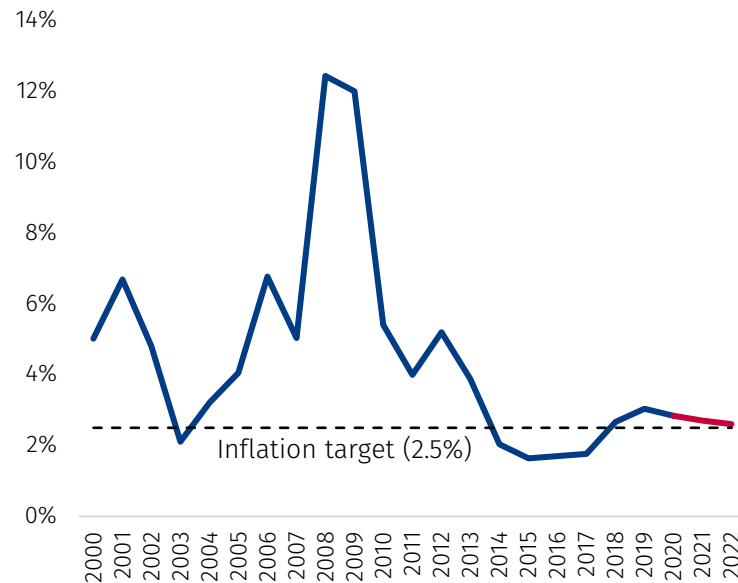
% of firms intending to increase staff minus % of firms intending to decrease staff, next 6 months



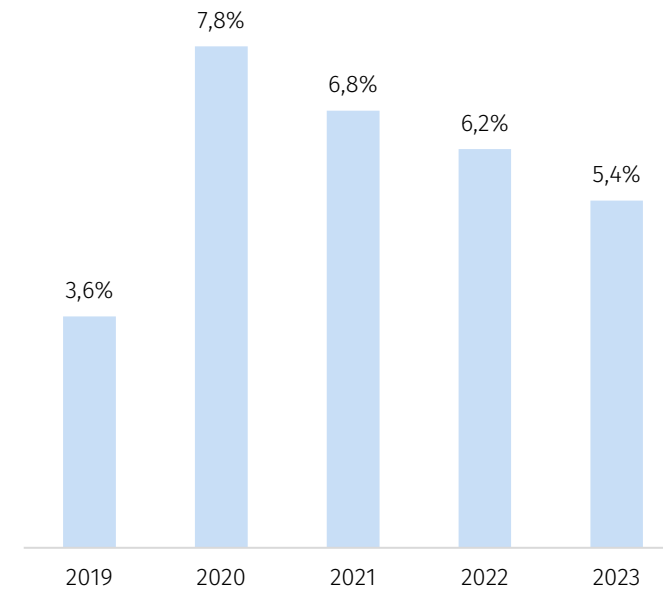


Inflation and unemployment expected to decline in 2021

Inflation expected to be much lower than in previous downturns and to rapidly approach target this year



Unemployment expected to start to decline this year



Source for left figure: Statistics Iceland actuals (2000-2020), Statistics Iceland October forecast (2021-2022).

Source for right figure: Statistics Iceland actuals (2019), Statistics Iceland October forecast (2020-2023).



Measures were swiftly introduced to mitigate the economic effects of the crisis

Phase I (March)

Phase II (April)

Phase III (November)



Bridge the gap for businesses

1. Part-time employment
2. Bridge loans to companies
3. Deferral of tax payments

11. Closure subsidies
12. Support loans
13. Netting of income tax

21. Income loss grant



Protect vulnerable households

4. Wages during quarantine
5. Supplemental child benefit
6. Private pension withdrawals

14. Mental health, remote medicine
15. Protection of vulnerable groups
16. Special subsidies

22. Extension of Income-related unemployment benefits



Facilitate a strong rebound

7. Subsidy for tourism operators
8. VAT refund in construction
9. Facilitation of imports
10. Investment initiative

17. Boosting innovation
18. Summer measures for students
19. Effective job-seeking
20. Domestic value creation

23. Tax incentive for business investment
24. Resilience grant



A clear focus on the longer run



Initiatives in tourism

- **Marketing campaign** abroad once situation normalizes will highlight Iceland's strengths as a tourist destination.



Large increase in investment

- A **government investment boost** of 4% of 2020 GDP over the years 2020-2025.
- Emphasis on labor-intensive projects which support **long-run productivity**.
- **Business investment** also supported through tax measures.



Boosting innovation

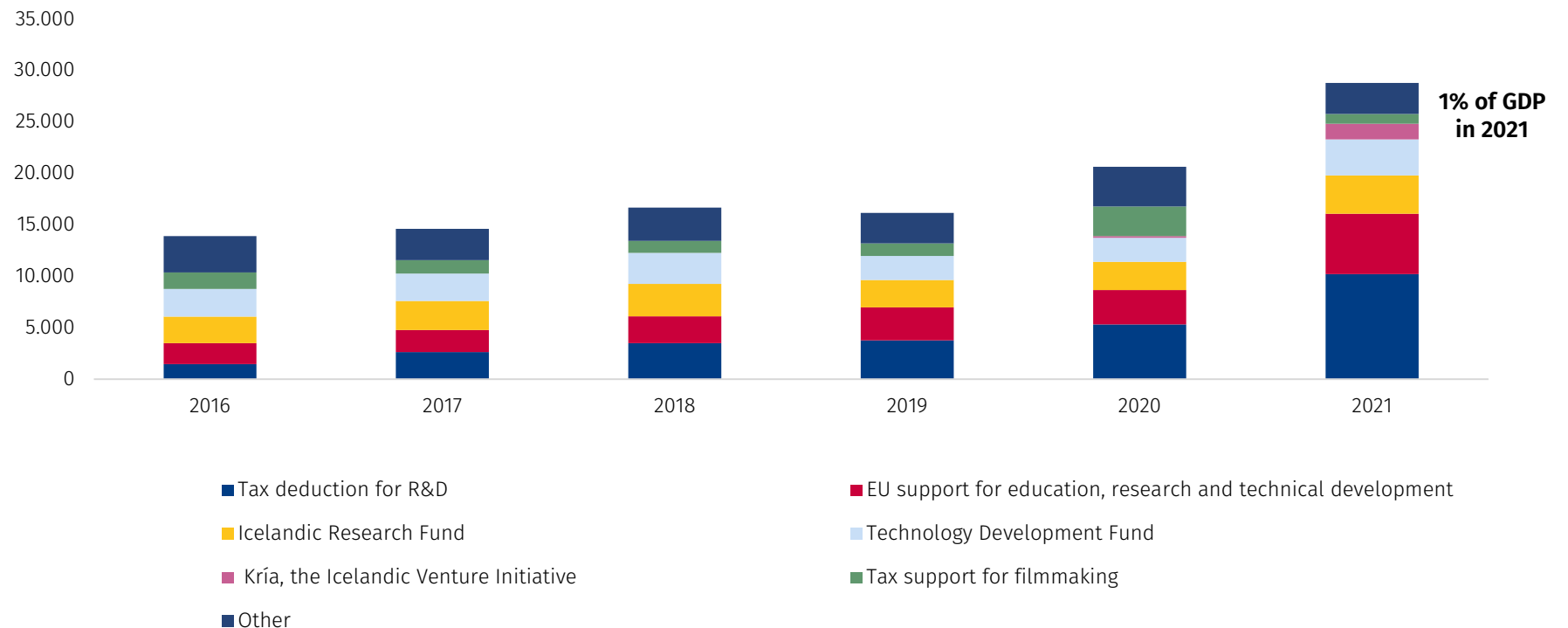
- **Additional contribution** to companies investing in growth.
- **Expediated reimbursements** for R&D investments
- **In total, a 65% increase** in contributions to innovation between 2019 and 2021.



Support to R&D has been doubled

Clear focus on innovation with significant strengthening of government support

Million ISK, 2021 prices





Thank you

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