

Voluntary Report – Voluntary - Public Distribution

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Report Name: Iceland Extends Support to Businesses During the COVID-19 Crises

Country: Iceland

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Report Highlights:

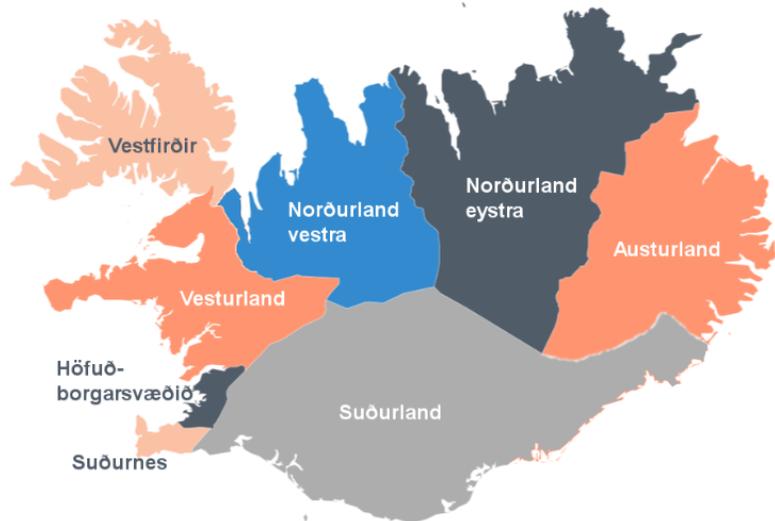
The government of Iceland has announced a number of measures to help businesses that have been adversely affected by the coronavirus (COVID-19) pandemic. Herein we consolidate publicly available information on some of the support measures the government has announced.

Background

In December 2019, an outbreak of a new coronavirus (COVID-19) disease was reported in Wuhan, China. In late February 2020, the first person in Iceland was diagnosed with COVID-19 in Reykjavik. Since then, 1,801 people have been infected (as of May 12, 2020).

COVID-19 Infections in Iceland, by Region, as of May 12, 2020

Region	Infection	Quarantine
Höfuðborgarsvæði / Capital Area	1314	383
Suðurnes / Reykjanes Peninsula	77	41
Suðurland / South	178	78
Austurland / East	8	15
Norðurland eystra / Northeast	46	46
Norðurland vestra / Northwest	35	12
Vestfirðir / Westfjords	97	15
Vesturland / West	43	62
Óstaðsett / Unidentified	2	45
Útlönd / Abroad	1	0
Total	1,801	697



Source: <https://www.covid.is/tolulegar-upplýsingar>

In response to the disease, the government banned travel from non-Schengen countries (with exceptions for emergency medical workers and diplomats) and mandated that everyone who comes to Iceland be quarantined for 14 days from their arrival (including Icelanders returning home). The government also encouraged healthy people to reduce social contact to slow the spread of the epidemic, avoid crowds, and maintain at least a two-meter distance from one another. The government further closed pubs, swimming pools, fitness centers, entertainment venues, arcades, and museums, and more, and eventually limited gatherings to fewer than 20 people.¹ NOTE: On May 4, the gathering ban was extended to 50 people.

These measures, combined with high testing rates (13 percent of the population has been tested), quarantining of infected individuals, and widespread contact tracing, appear to have had a positive effect on the infection rates (NOTE: there were 18 active cases in Iceland as of May 11, 2020). As a result, the government began easing some restrictions on May 4, 2020. Nevertheless, these restrictions have still had an economic impact.

¹ Primary schools and day-care centers remained open, as did some restaurants with limited seating. Restaurants with alcohol licenses are not permitted to stay open later than 23:00 until June.

For example, Moody's Investment Service (Moody's) reports that it expects the demand and supply shock caused by the coronavirus outbreak to significantly lower economic activity in Iceland this year, particularly in the first and second quarters. Consequently, Moody's revised down its real GDP growth forecast and now expects a contraction of 4.0 percent in 2020, before a gradual recovery next year (noting its forecast is subject to significant uncertainty, with the final impact depending, in part, on the duration of the outbreak).² Additionally, Iceland's travel industry has been hit hard by layoffs,³ Prime Minister Jakobsdóttir commented that she anticipated unemployment reached 15 percent in April,⁴ and Icelandair laid off roughly 2,100 of its staff as the COVID-19 pandemic continues to impact air travel "for the unforeseeable future."⁵

As economic challenges began to mount, the Icelandic government announced a \$1.6 billion response package to the COVID-19 crisis on March 21, 2020:⁶

- In order to protect jobs and employment relationships between Icelandic workers and their employers during these extraordinary times, the government of Iceland has committed to allowing part-time workers to claim up to 75 percent unemployment benefits. Those who are under threat of losing their jobs will be allowed to move to part time hours for their employer and claim support from the government. The benefit package allows those who cut back to as low as 25 percent of their previous employment hours or salary to boost the earnings with government support up to a combined level of ISK 700,000 (nearly \$5,000) per month.
- Companies will be given the opportunity to postpone the payment of taxes until next year to improve liquidity in business operations. Hotel taxes will be abolished until the end of 2021. Reductions in bank taxes and state guarantees on loans to eligible companies are designed to increase the opportunities for lending, allowing companies to continue business and protect salary payments, according to the government. The government said that by helping companies maintain the relationship between workers and employers, the time required for companies to return to business-as-usual will be shortened as circumstances change.
- During the next 15 months, people can withdraw a monthly sum from their voluntary pension savings, to a maximum of ISK 800,000 (\$5,500).
- VAT reimbursement for construction and maintenance work will increase from 60 percent to 100 percent. In addition, the VAT reimbursement provision will be extended to third-sector organizations (including charities and sports associations).
- A one-off child benefit payment will be made on June 1, 2020, to all families with children under the age of 18. Parents with a combined average monthly income below ISK 927,000 (\$6,400) in

² <https://www.government.is/lisalib/getfile.aspx?itemid=3417389f-78f5-11ea-9458-005056bc530c>

³ https://icelandmonitor.mbl.is/news/politics_and_society/2020/04/30/mass_layoffs_in_icelandic_travel_industry/

⁴ <https://www.spiegel.de/international/europe/iceland-s-prime-minister-speaks-about-her-country-s-covid-19-success-a-8c1a92d1-3b51-40e5-9503-dd69a57242d9>

⁵ <https://www.rappler.com/business/259334-icelandair-cuts-staff-coronavirus-impact-april-28-2020>

⁶ <https://www.government.is/news/article/2020/03/21/Icelandic-Government-announces-1.6bn-USD-response-package-to-the-COVID-19-crisis/>

2019 will receive ISK 40,000 (\$275) per child and those with higher income will receive ISK 20,000 (\$137) per child.

- This year, the government of Iceland, along with local municipalities, will initiate a ISK 20 billion (\$138 million) special project, aimed at increasing investment in transport, public construction, and technology infrastructure. Government contributions to research and science will also be increased. Details of this project will be announced at a later date.

Iceland's parliament authorized the Minister of Finance and Economic Affairs to grant Treasury guarantees covering a portion of supplemental loans provided to companies by credit institutions, subject to specified conditions.⁷

- Each credit institution can access a specific portion of the total guarantee amount. The supplemental loans must be granted before the end of 2020, and the maximum term is 18 months from the date of issuance. The guarantee on any individual supplemental loan will be capped at 70 percent. The amount loaned to any individual entity is subject to a maximum of two times the entity's 2019 annual wage costs. Furthermore, the company's wage costs must constitute at least 25 percent of its total operating expenses for 2019. Moreover, the maximum amount of any single guaranteed loan is ISK 1.2 billion (\$8.2 million).

On April 21, 2020, the Icelandic government announced a second response package (valued at \$420 million):⁸

- Ministers announced that front-line healthcare workers, who have been under additional strain and are at elevated risk of contagion, will receive a one-off bonus to reflect their service.
- The government announced measures that will make additional contributions to companies investing in growth, and reimbursement ratios and caps on search and development (R&D) will be increased. Together the measures total just under ISK 4.5 billion (\$31 million) and there is an aim is to expedite reimbursements for R&D expenses in 2019.
- Iceland's food production sector is set to receive further support, and funding for the arts will be increased to allow a further 600 projects to be supported in 2020.
- Companies forced to halt their operations for public health reasons will be granted closure subsidies of up to ISK 2.4 million (\$16,500). In addition, ISK 6 million (\$41,000) in non-indexed support loans offered at the Central Bank of Iceland's seven-day term deposit rate (currently 1.75 percent) are available to these companies. Total expenditures for these two measures are estimated at just over ISK 30 billion (\$206 million). Furthermore, companies will be authorized to carry up to ISK 20 million (\$140,000) in foreseeable year-2020 losses to offset income tax on 2019 profits.

⁷ <https://www.government.is/news/article/2020/04/17/Agreement-on-guarantee-of-credit-institutions-supplemental-loans-to-businesses/>

⁸ <https://www.government.is/news/article/2020/04/21/Government-of-Iceland-Announces-Second-Phase-of-Economic-Response-Package-to-the-COVID-19-Crisis/>

- A total of ISK 2.2 billion (\$15 million) will be used to create 3,000 temporary summer jobs for students aged 18 and over, and ISK 300 million (\$2 million) will be used to support innovation among young entrepreneurs through the Icelandic Student Innovation Fund.
- ISK 800 million (\$5.5 million) will be used to support a summer school term at upper secondary schools and universities, for the benefit of both students and workers on full or partial unemployment benefits.
- Measures will also be taken to support vulnerable groups, work against violence, counteract social isolation among the elderly and disabled, support job seekers, and ensure that children from low-income families have the opportunity to participate in recreational activities. Priority will be given to increased access to mental health services for these groups, and telemedicine (remote medical services) will be strengthened. A total of ISK 8.5 billion (\$58.5 million) will be allocated to social measures in this phase.
- In order to support pluralism and diversity in Iceland's media, privately owned media operations will be guaranteed special operational support during the current year, reflecting their sustained significant losses at a time when demand for their services has increased.
- Travel agencies' losses will be addressed with statutory amendments authorizing them to reimburse certain trips by issuing credit vouchers.
- In order to reach local development objectives in Iceland, the government has proposed the provision of grants to local authorities and temporary authorization to reimburse VAT on manual labor completed on construction sites.
- To strengthen digital services within local authorities, vulnerable areas across the country are currently being identified and mapped.

On April 28, 2020, the Icelandic government announced an additional tranche of support programs:⁹

- Icelandic companies that have suffered substantial revenue losses due to the COVID-19 crisis will be given the opportunity to apply for government support to pay a portion of their salary costs during the employee notice period, protecting workers' rights and preventing a wave of corporate insolvencies. Support, which allows workers to go part-time and receive top-up payments from the government, will be extended until the autumn, with amendments, and simpler rules on financial restructuring of businesses will be adopted enabling firms to seek protection easily.
 - The option for full time workers to move to part-time work with government support will be extended to August 31, from its original finish date on June 1. The livelihoods of tens of thousands of employees have been protected since this support measure took effect,

⁹ <https://www.government.is/news/article/2020/04/28/Government-of-Iceland-announces-increased-support-for-companies-and-extension-of-part-time-unemployment-benefits/>

but the economic outlook has changed markedly in the month or so. The part-time option allows employees to reduce their hours or salary to as low as 25% percent, or 50 percent from July onwards, and top-up their earnings with support from the government.

- Simpler rules on financial restructuring of companies will be temporarily put in place. The new rules will incorporate the basic elements of the current rules, with amendments aimed to simplify the process of seeking protection for companies while an assessment is made of their position, and until the outlook for the future is clarified. The amendments cover factors such as the requirements for financial restructuring, requests for restructuring and consideration of applications, deadlines, authorizations for measures, counterparties' authorizations for cancellation, and non-performance clauses.
- In order to protect workers and avoid insolvencies, companies will be given the opportunity to apply for government support to pay a portion of salary costs for any staff member during their notice period. This support will take the form of payment up to ISK 633,000 (\$4,300) per month for up to three months, plus vacation pay. It is limited to those companies that have suffered at least a 75 percent loss in revenue and are forecasting continued revenue losses at least through 2020. An estimated quarter of Icelandic companies are anticipated to be eligible for this support. Government support will be capped at a ratio of 85 percent. These employees will have priority access to jobs when business activities resume, and will retain certain specified accrued rights from that employer. Further measures will be put in place to assess or protect operational viability, participation in this measure, and right of recourse for the employees. This government support will be available from May 1 through September 30, 2020.

Attachments:

No Attachments.