

Iceland in a global context

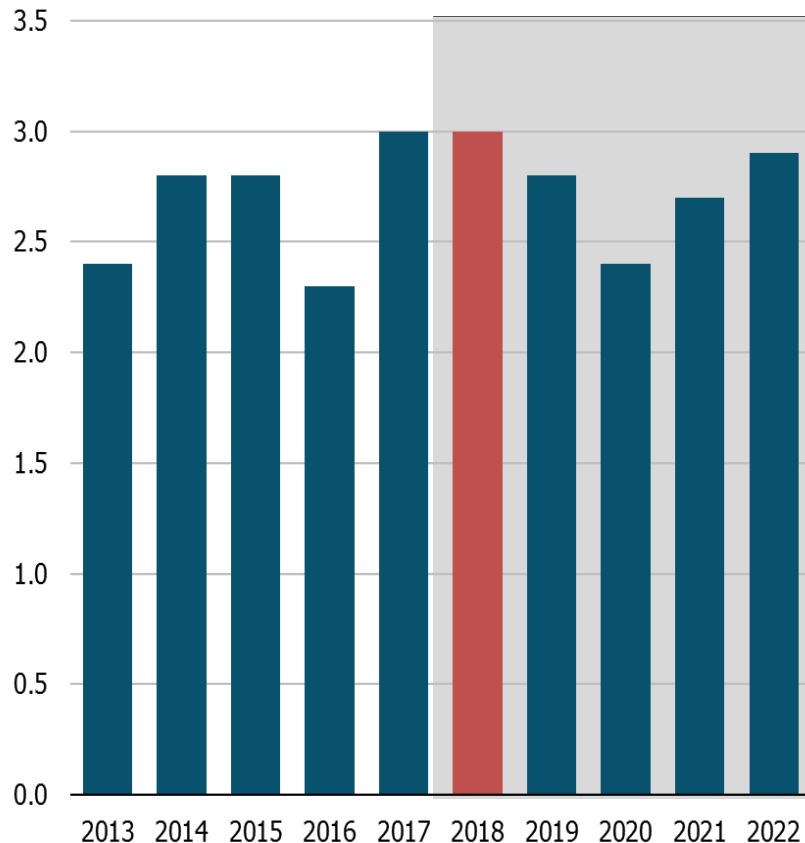
Danielle Haralambous
Country Report Director
Country Analysis; Europe

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The global context: 2018 is as good as it gets

Global GDP growth

(%)



Source: The Economist Intelligence Unit.

- Another year of fairly strong growth in the US, EU, China and Japan
- Monetary conditions will tighten, but will not significantly crimp growth
- Growth accelerates in Lat Am, MENA and SSA, offsetting slower OECD

But:

- The global economy will cool in 2019, as a result of the US-China trade war
- The risk of a currency crisis in emerging markets has increased
- We expect US growth to slow in 2020

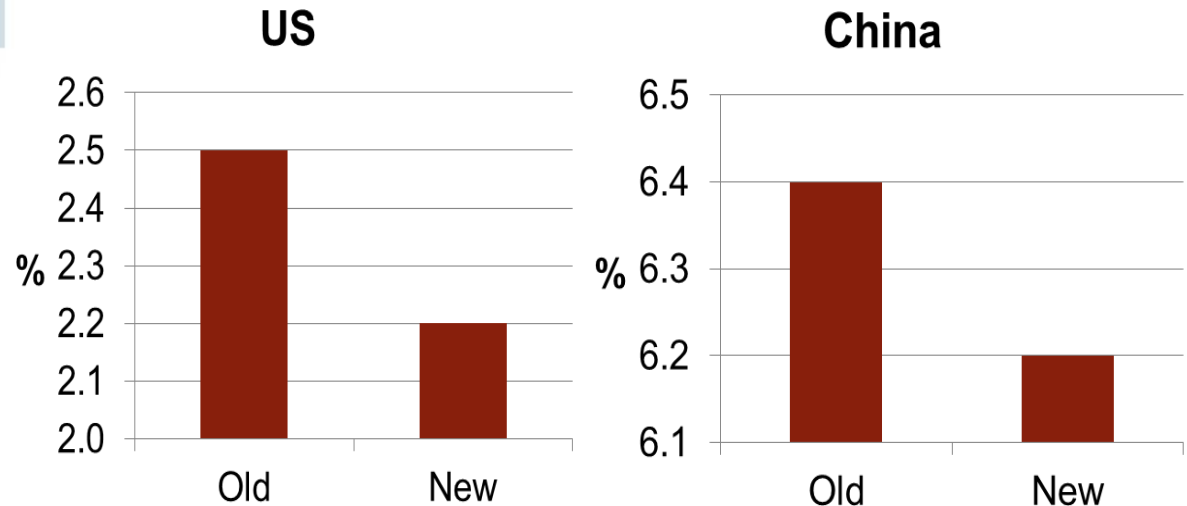
The global context: US-China trade conflict



Economist.com

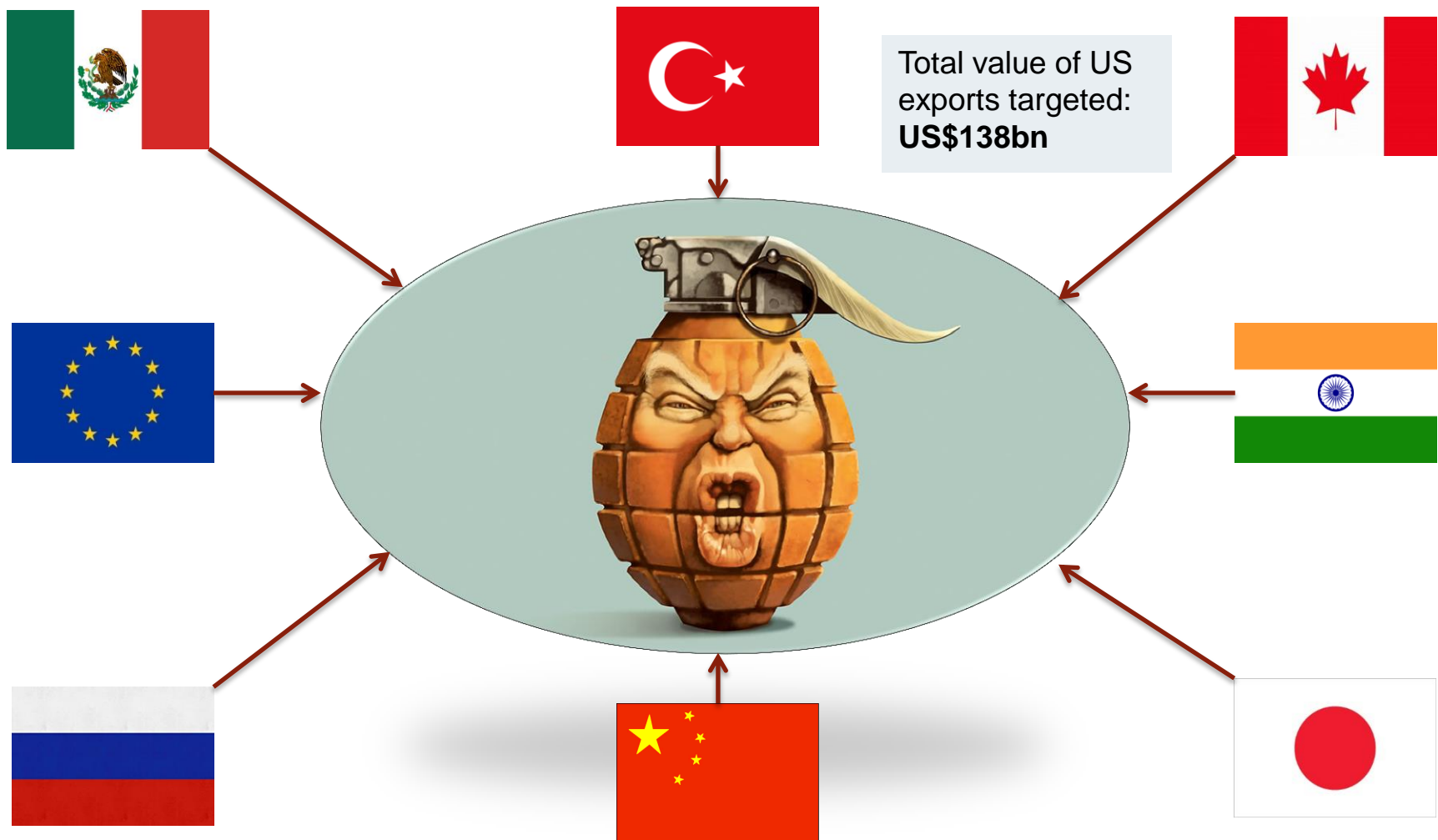
We recently revised down our US and China GDP forecasts for 2019

- US stepping back from multilateral trade deals
- We expect trade tensions with China to escalate into a bilateral trade war
- This will have a noticeable economic impact, reducing growth in global trading volumes
- Countries are adjusting to US protectionism by developing regional trade ties



The global context: Trade tensions could spread

US allies and trading partners are retaliating – almost in unison

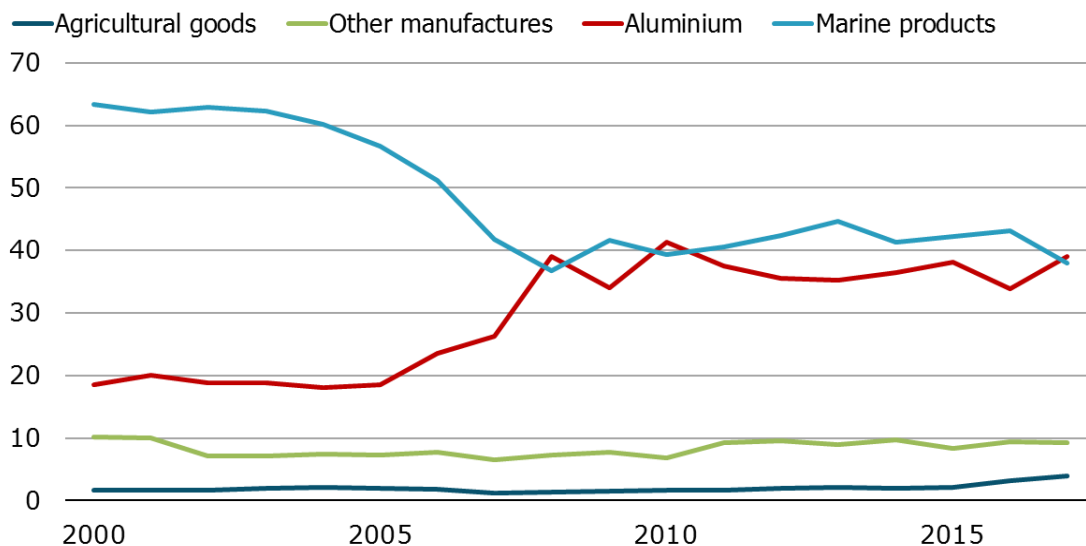


Trade tensions: Impact on Europe and the Nordics

- US-EU trade tensions have eased for now, although the threat of escalation will linger
- Risk of further protectionism disproportionately affects the relatively open Nordic economies
- Iceland is most exposed to the existing US tariffs and a slowdown in the EU

Iceland: most significant goods exports

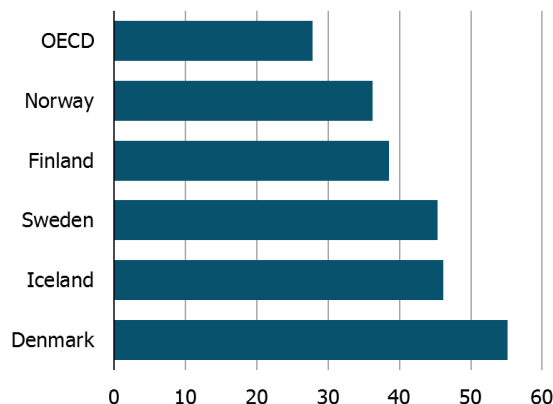
(% of total exports, 2017)



Sources: Statistics Iceland; The Economist Intelligence Unit.

Export orientation

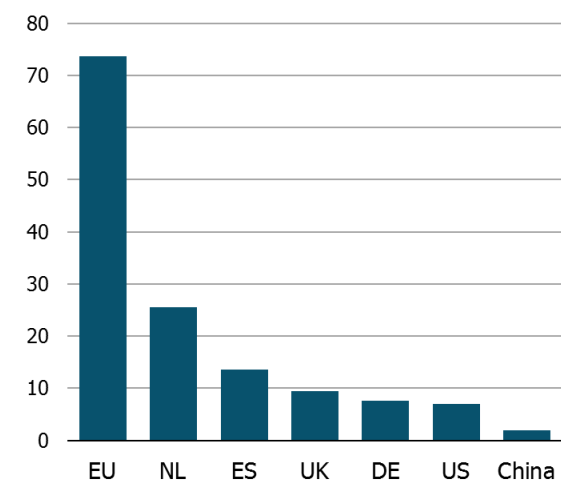
(Exports as a % of GDP, 2017)



Source: The Economist Intelligence Unit.

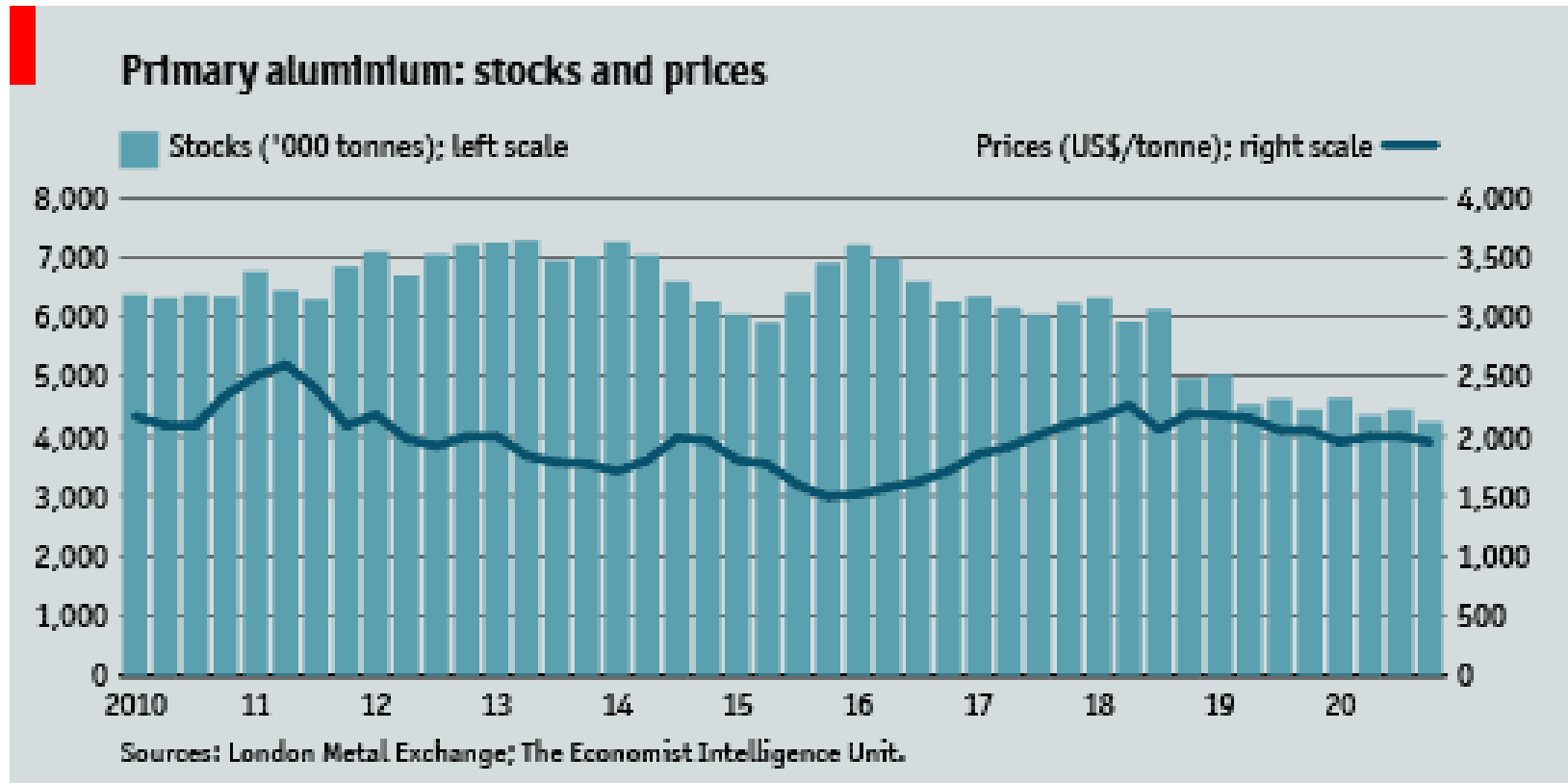
Iceland: biggest export markets

(% of total exports, 2017)



Sources: IMF; The Economist Intelligence Unit.

Aluminium: slowing price trend ahead



'000 tonnes	2016	2017	2018	2019	2020
Prices	1,604	1,968	2,166	2,106	1,975
% Change	-3.5	22.7	10.1	-2.8	-6.2

Brexit and Europe

Brexit negotiations: withdrawal first, then trade talks

- Aiming to complete withdrawal agreement by end-2018; Irish border remains the most contentious issue
- Big risks associated with ratification process, but we expect it to be approved
- Trade negotiations start in 2019; transition extends talks to end-2020 and possibly longer
- We expect a comprehensive free-trade deal but EU wary of offering UK too many concessions.



Brexit timeline:



Brexit negotiations: a difficult road ahead

Talking points

EU members' stance on Britain's core Brexit negotiating issues

Overall stance

Hardcore 2 countries

Hard 8

Soft 17

Ally 0

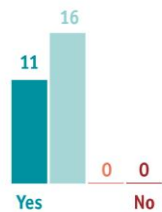
Based on a score out of 40 generated by assessing each country's position on the four core issues below



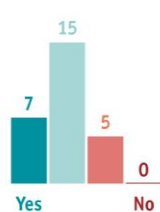
Four core negotiating issues, number of countries agreeing/disagreeing

Stance: **Yes** **Yes, but big reservations** **No, but could be flexible** **No**

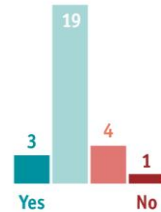
Maintain security and defence ties



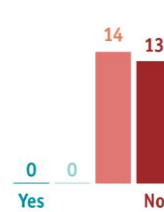
Free-trade area for goods with common rulebook



Special regulatory arrangement for financial services



An end to the free movement of people



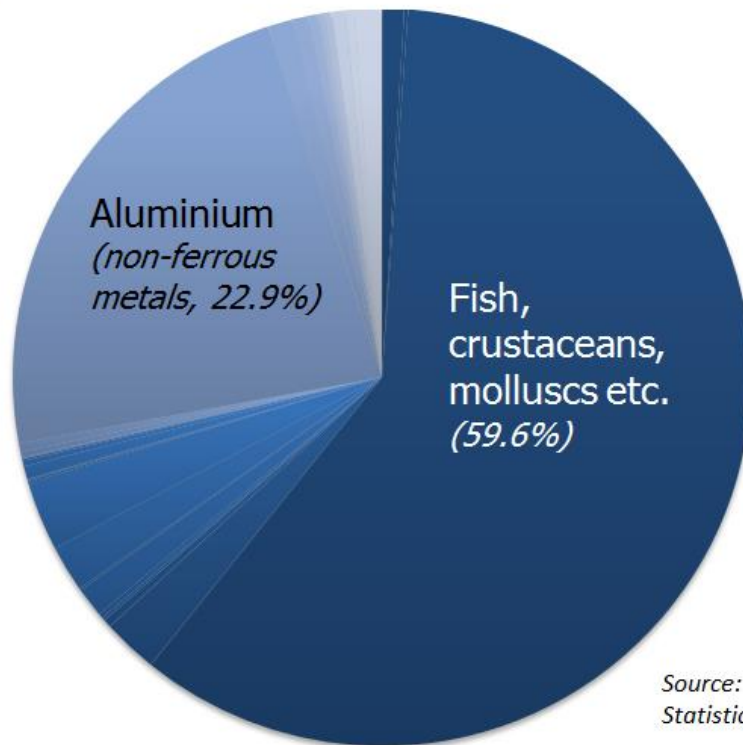
Source: The Economist Intelligence Unit

- Some key contentious issues (e.g. financial settlement) have been resolved
- Countries with the closest trade ties to the UK willing to support a free-trade area for goods
- But most are against ending free movement of people
- Cohesion amongst member states will remain the priority
- The risk of a no-deal Brexit outcome remains high

Brexit negotiations: UK-Iceland trade ties

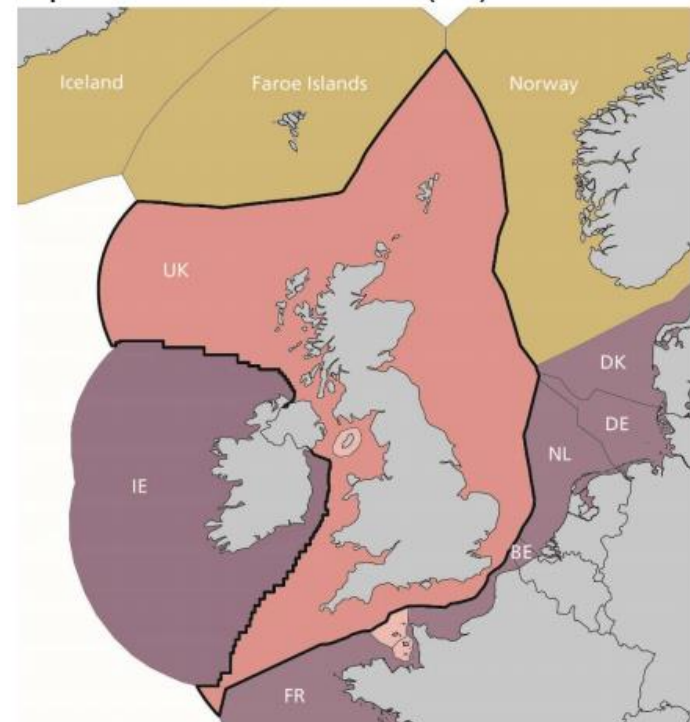
- In the near-term a Brexit-related slowdown in the UK economy will only modestly undermine demand for Iceland's exports
- Beyond the near-term, we expect a post-Brexit trade deal between the UK and Iceland that seeks to minimise tariffs, particularly on trade of marine products

Icelandic goods exports to the UK (% share of the total)



Source:
Statistics Iceland

Map of UK Exclusive Economic Zone (EEZ)

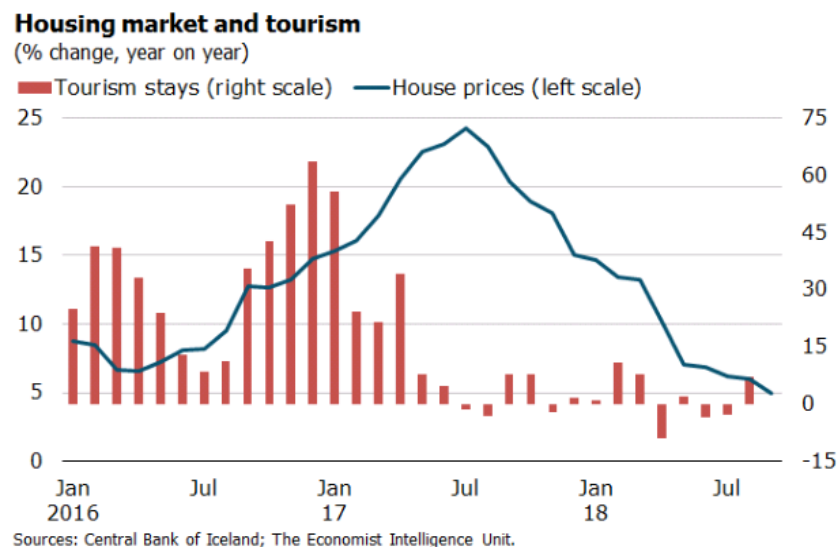
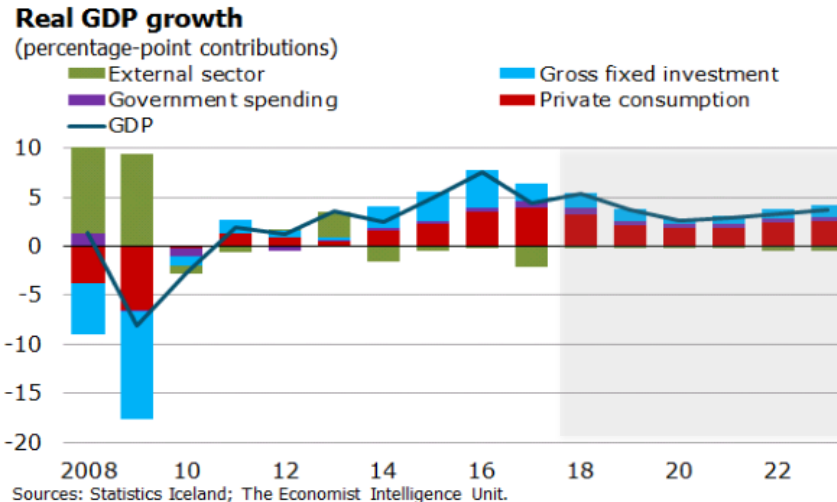


Source: House of Lords (2016)¹¹

Iceland and regional context

Iceland: economic outlook

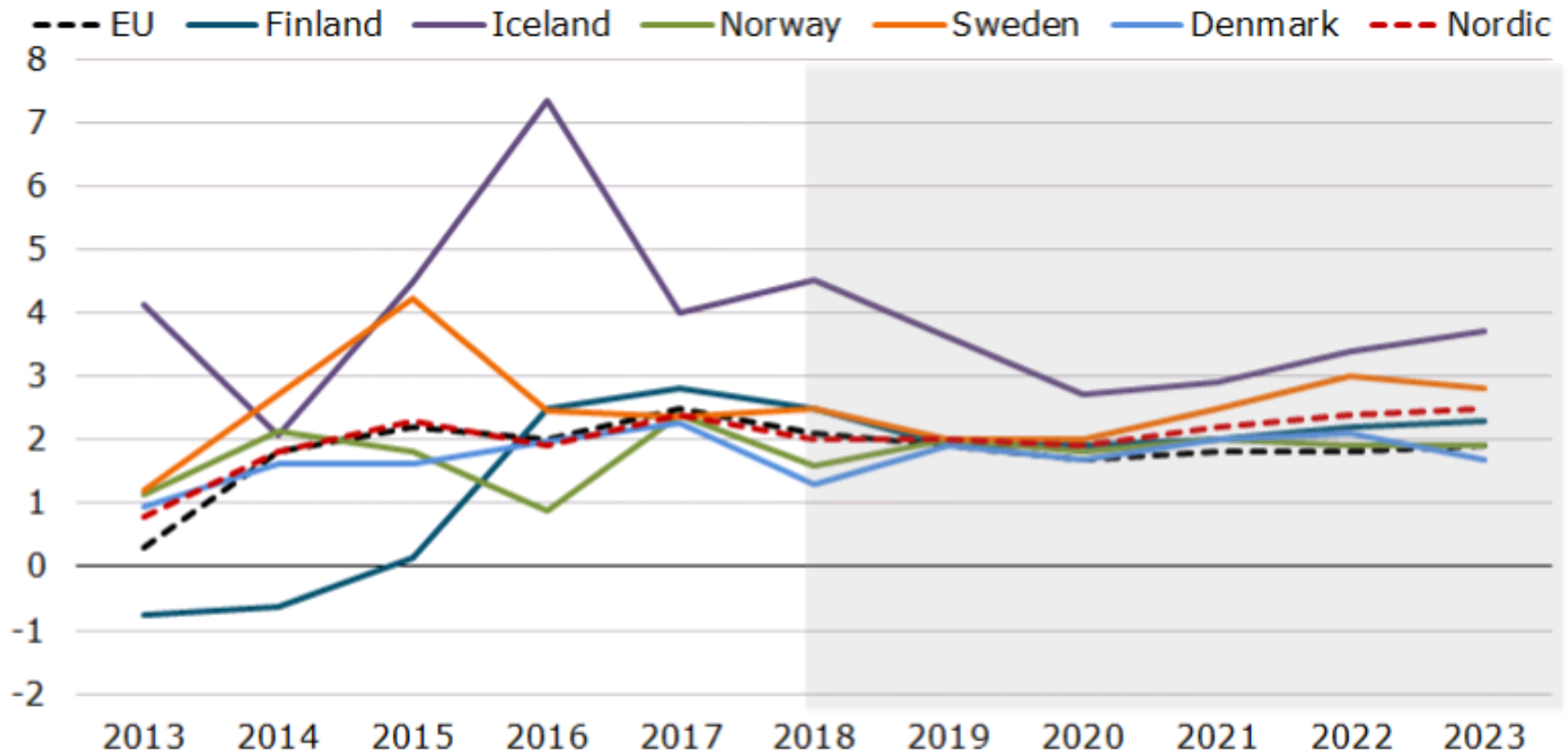
- We expect a moderation in GDP growth in the coming years reflecting softer domestic demand
- House price growth has decelerated, partly as a result of a slowing tourism sector and in increase in construction
- Nevertheless, private consumption will remain the primary driver of economic growth
- Strong demand from Europe will help sustain solid firm growth in exports, as will still-firm tourism flows
- International trade tensions and Brexit also represent sources of risk



Nordic economies: solid growth in 2019-23

Economic growth in the Nordic region

(Real GDP growth; % change, year on year)



Source: The Economist Intelligence Unit.

Thank you for listening

danielleharalambous@eiu.com
@DHaralambous
@TheEIU_Europe