

THE STORY OF GROWING UP

The Icelandic Tourism Sector

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January 27th 2020

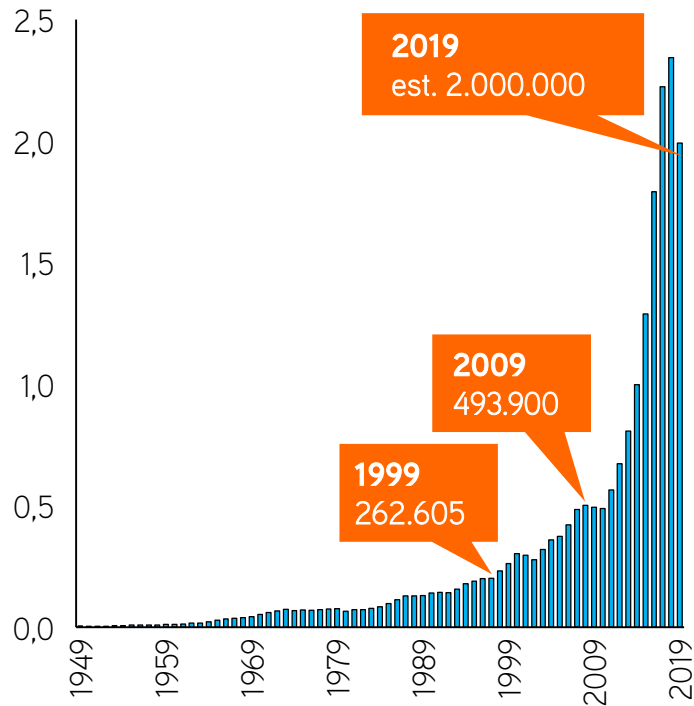
TOURISM SECTOR IN NUMBERS



HIGH GROWTH IN RECENT YEARS

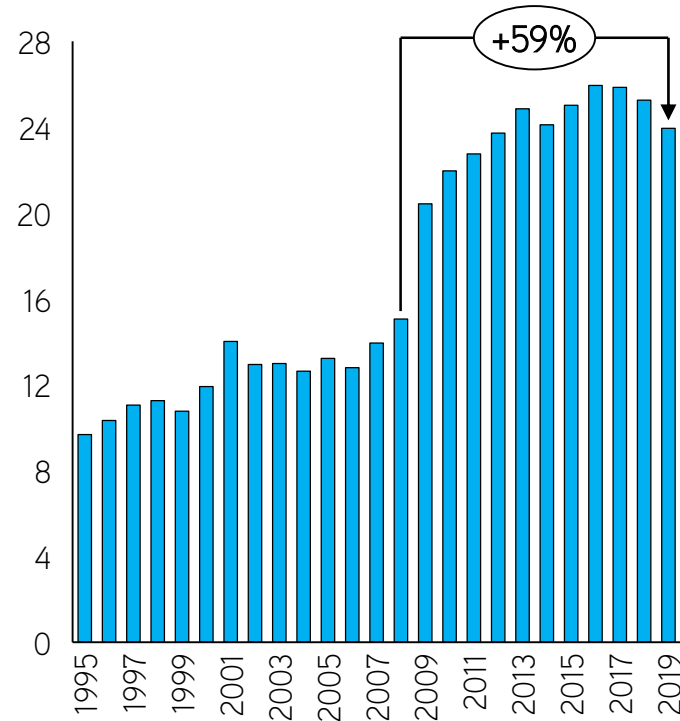
Number of tourist coming to Iceland

Million tourists



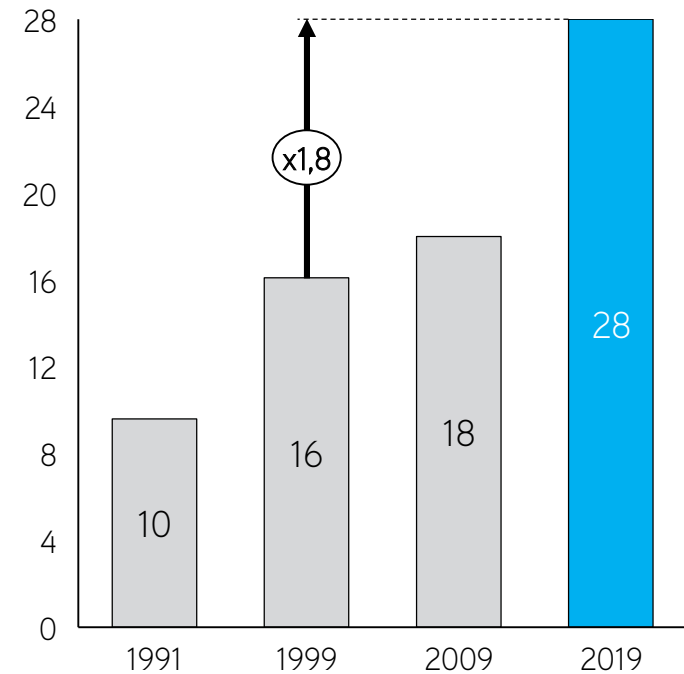
Export of services

% of GDP



Workforce in tourism industry

Thousands



Source: Statistics Iceland, Icelandair

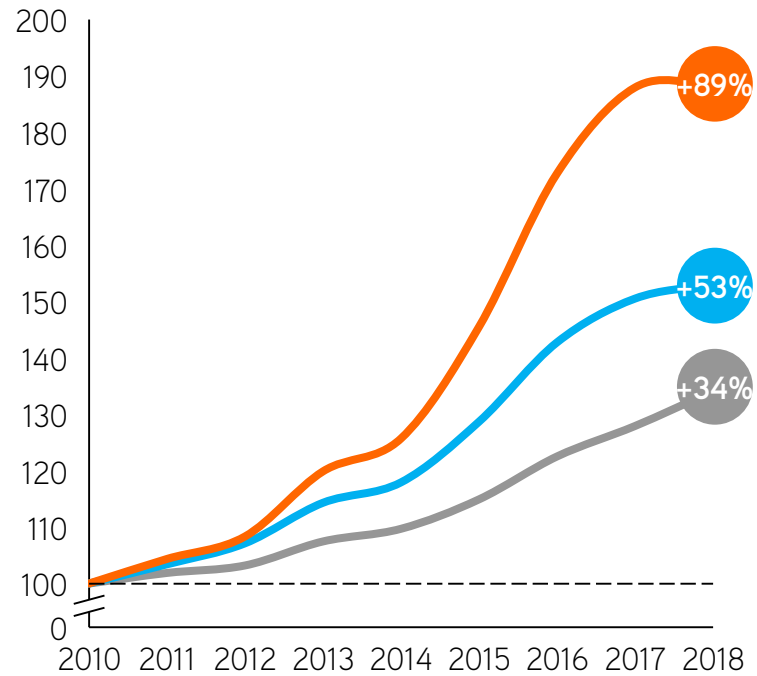


DRIVER OF ECONOMIC GROWTH

GDP growth and export growth

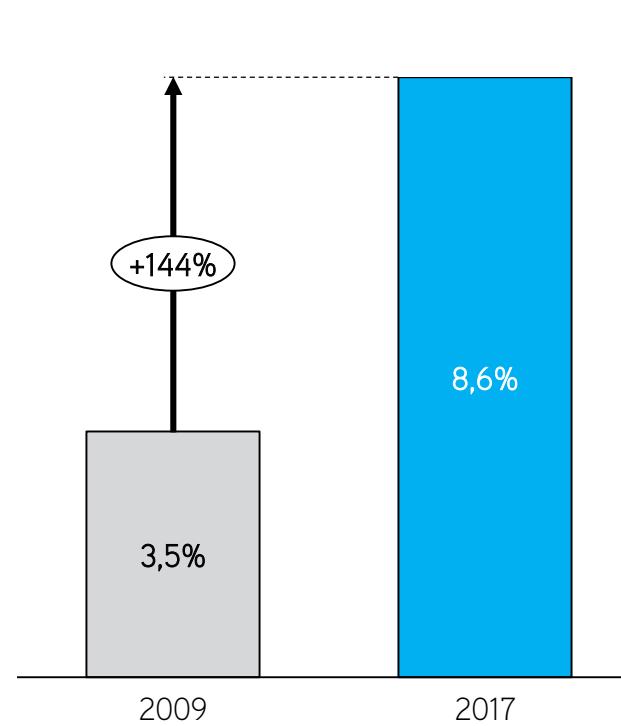
(Index, 2010=100), real terms

— GDP — Export — Service Export



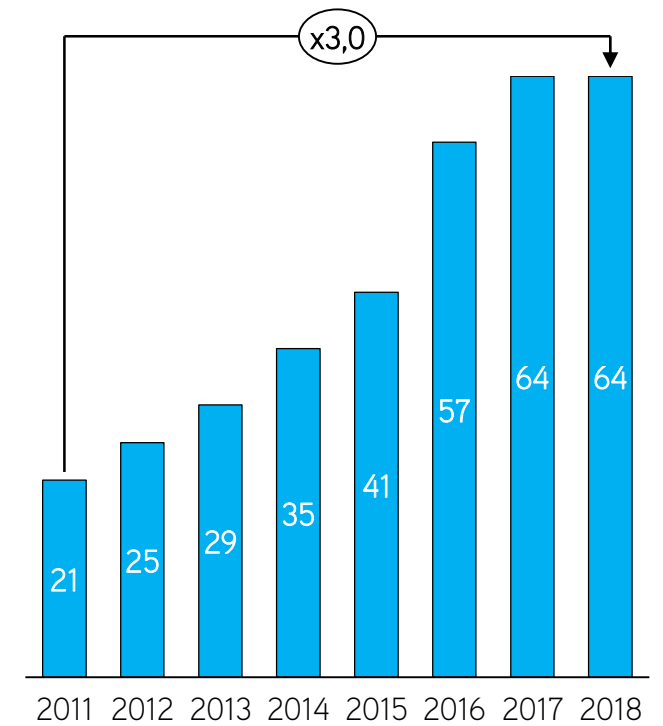
Tourism direct contribution to GDP

(%)



Tax revenues from tourism sector

Billion ISK, constant price 2018

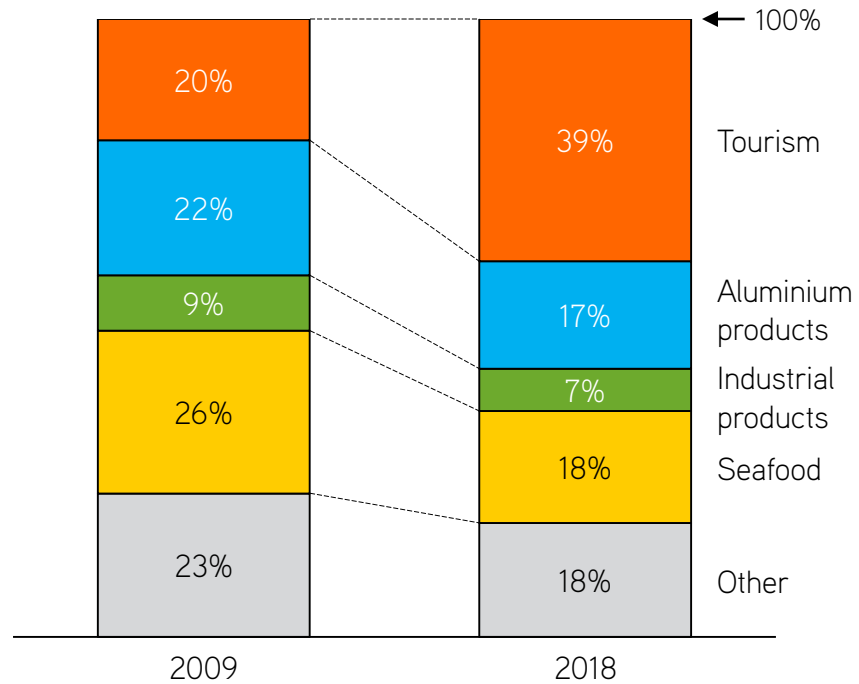


Source: Statistics Iceland, Icelandair



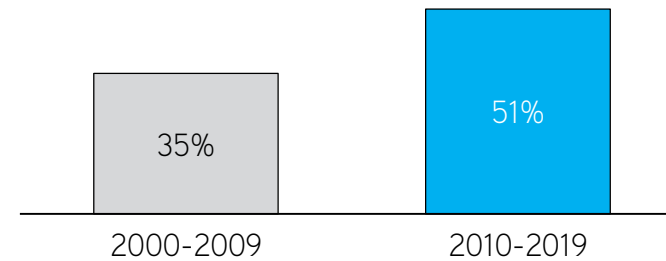
EXPORT DRIVEN GROWTH BASED ON STRONG FUNDAMENTALS

Source of export revenues
%

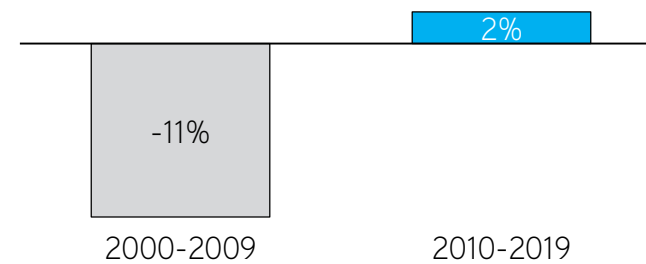


Source: Statistics Iceland

Export revenues
% of GDP



Current account balance
% of GDP



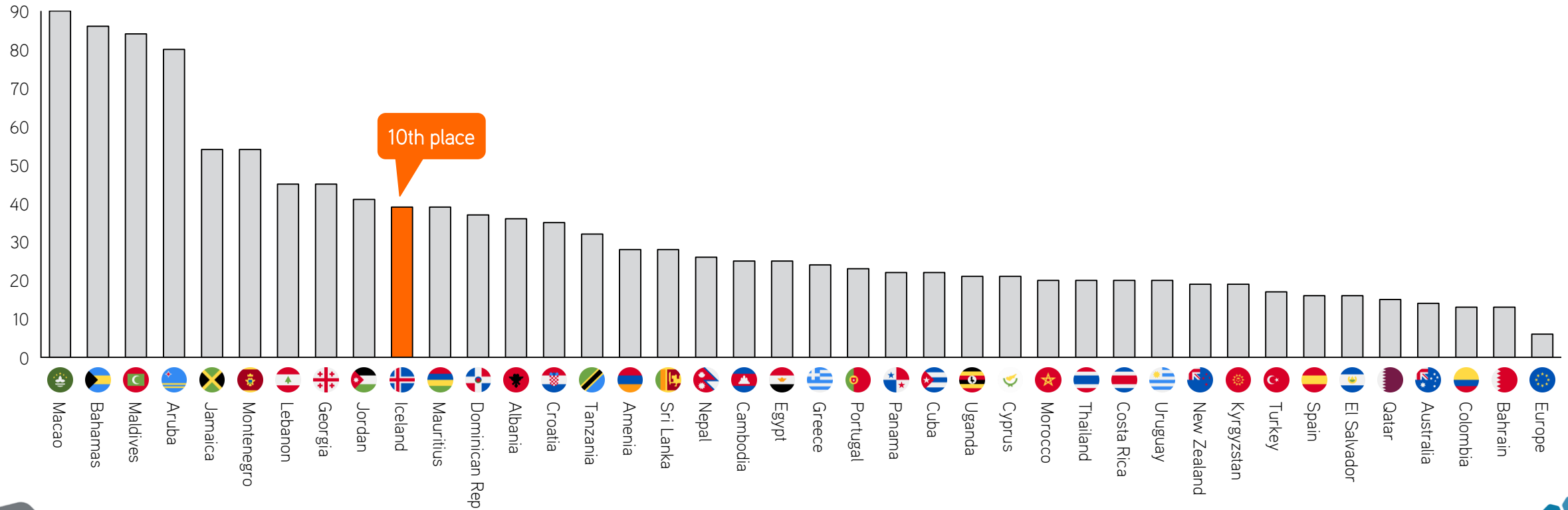
Source: Central Bank of Iceland



ICELANDIC TOURISM RANKING IN 10TH PLACE

Tourism as % of total export in 2018

%, world comparison, 40 biggest countries with > 1 million tourist



Source: UNWTO



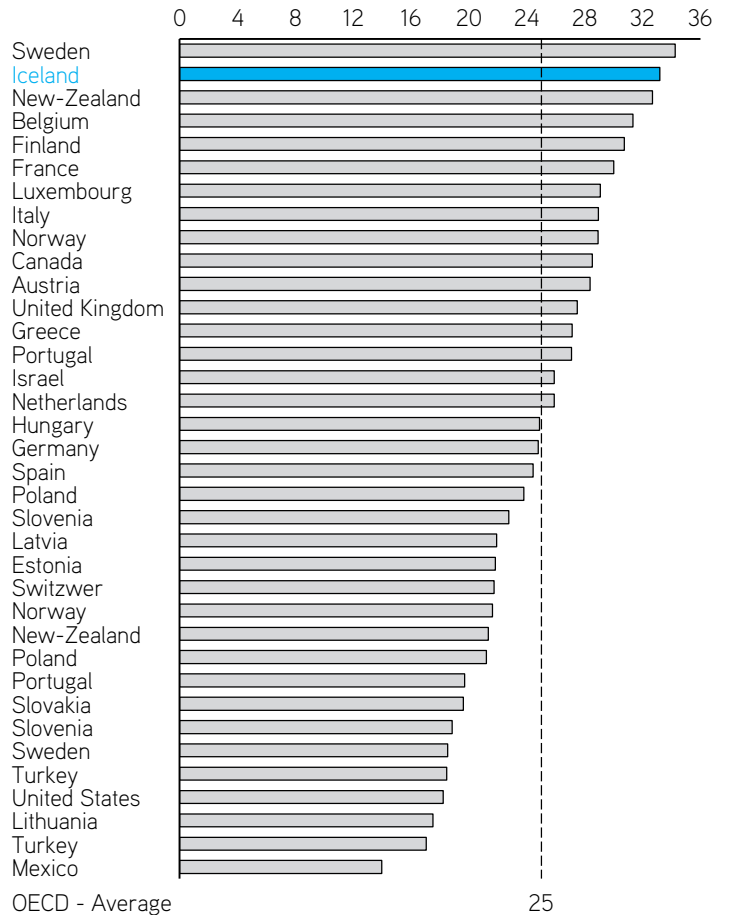
MAIN CHALLENGES



TAXES AND WAGES ARE HIGH RELATIVE TO OTHER COUNTRIES

General government tax revenue as % of GDP

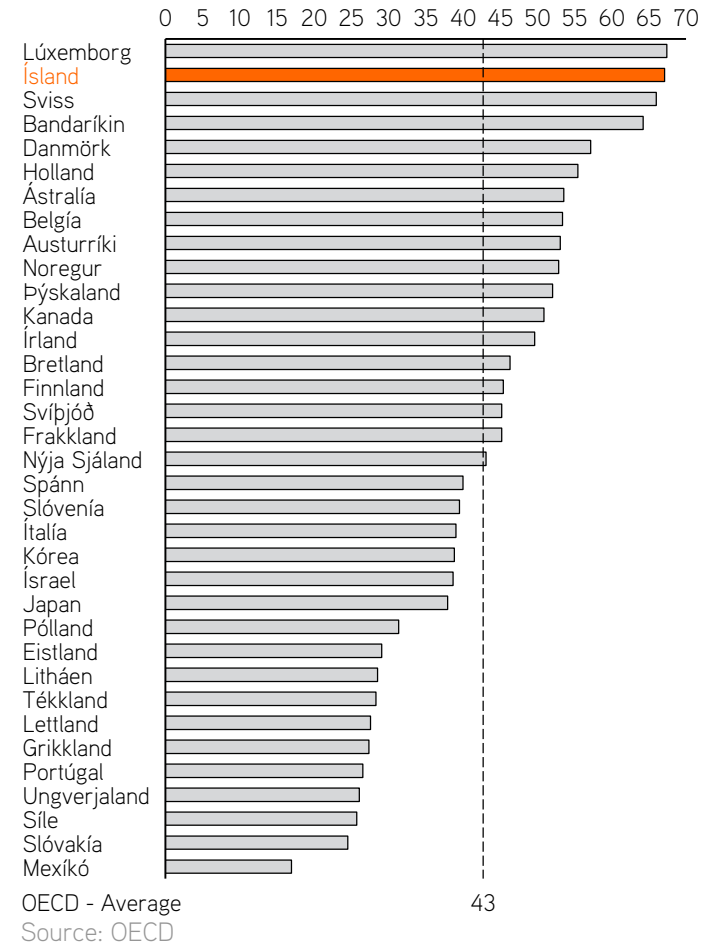
OECD countries without social security contribution, 2018¹



¹Data for Japan an Australia from 2017. Denmark is removed from data since social security contribution part of general taxation.

Average annual salary

Thousand PPP USD, 2019

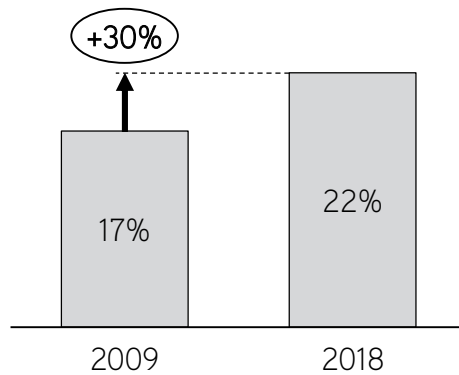




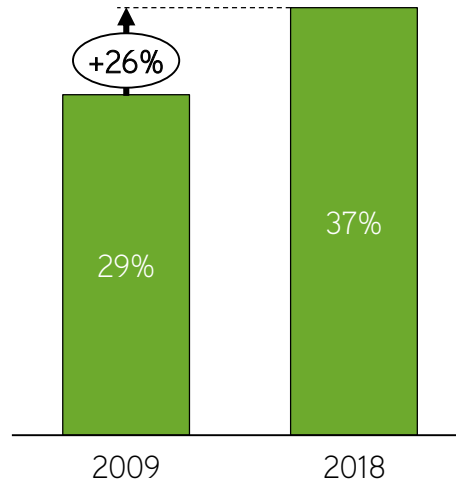
WAGES SHARE AT ALL TIME HIGH



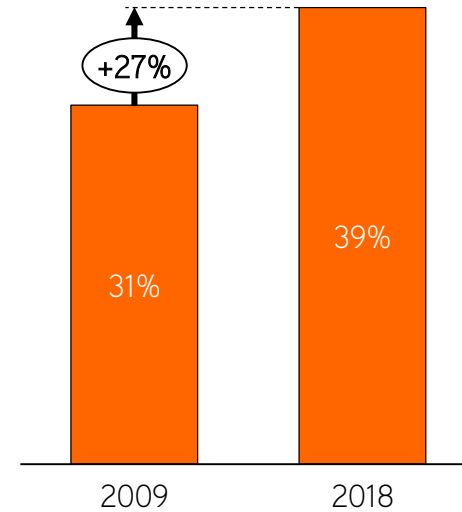
All business economy¹
wage cost as % of operating income



Hotels
wage cost as % of operating income



Restaurants
wage cost as % of operating income



Source: Statistics Iceland

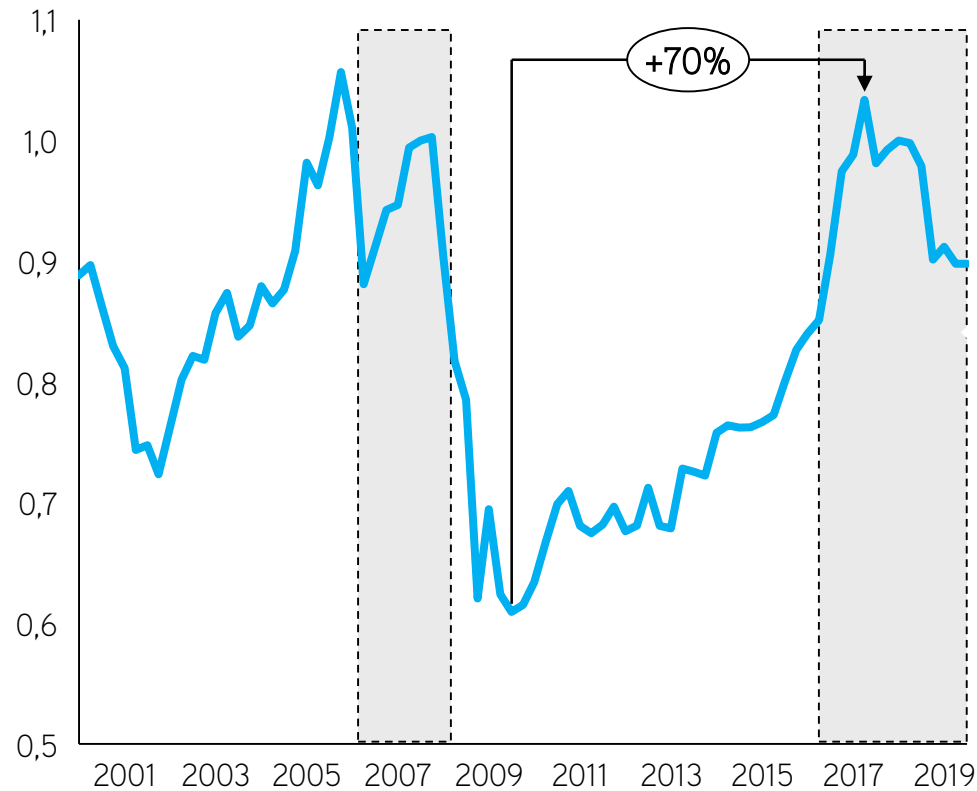
¹ excluding government, fisheries, pharmaceuticals, financial and insurance activities



THE COST OF LIVING IS HIGH

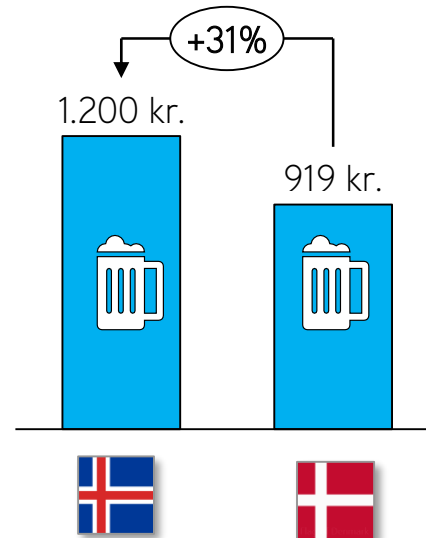
Real exchange rate

Index

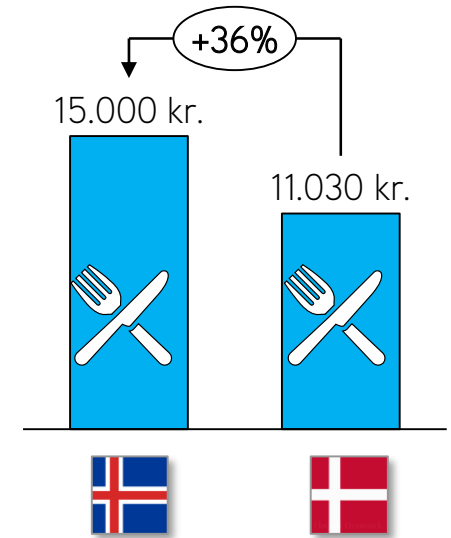


Source: Central bank of Iceland, Numbeo

DOMESTIC BEER



RESTAURANTS¹



¹Meal for two, three courses, mid range rest.

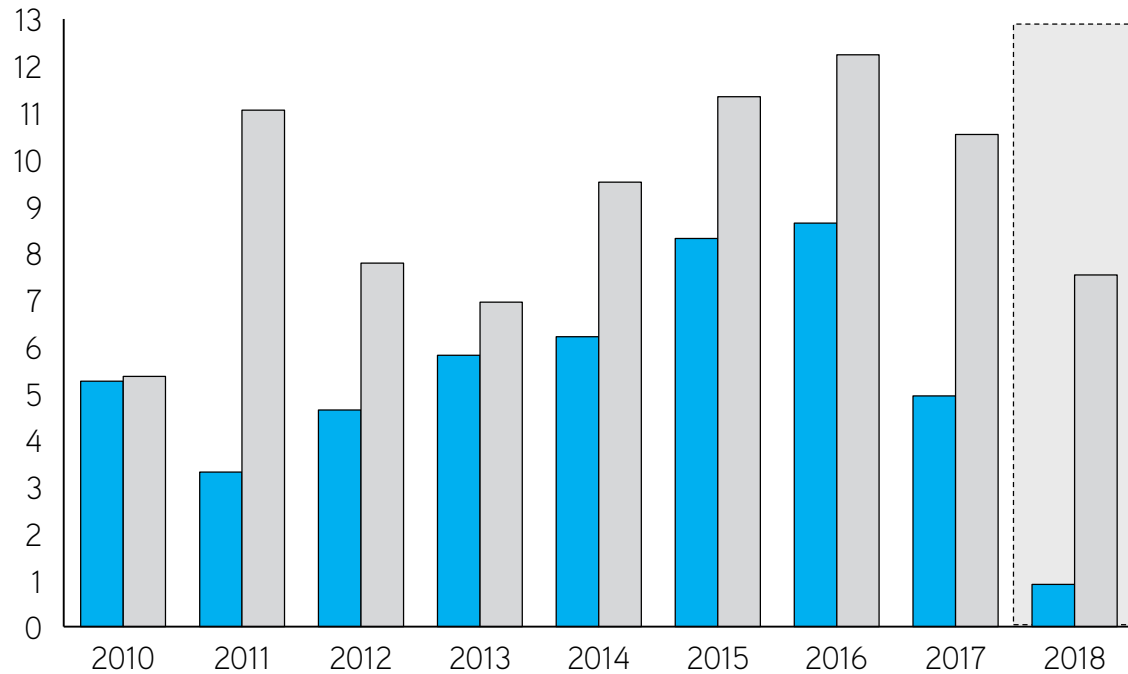


SLOWER GROWTH – NEW CHALLENGES

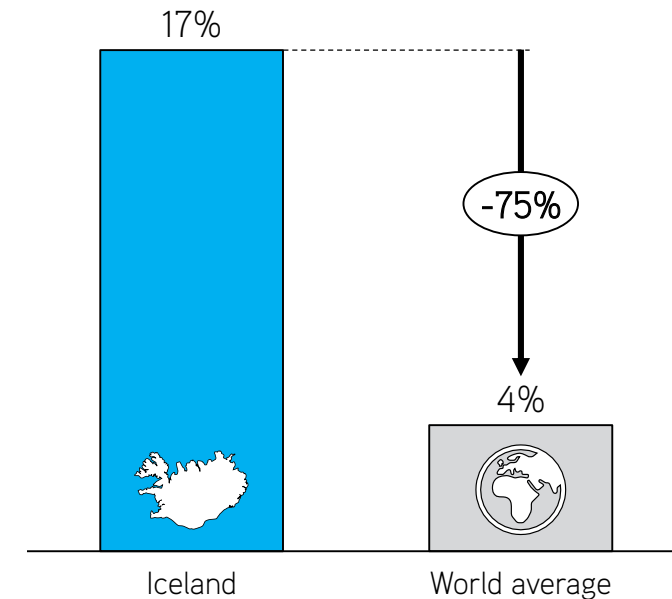
EBIT margin

EBIT as % of operating revenue

Tourism All business economy



10 year average annual growth %, tourist visiting, 2008-2018



Source: Statistics Iceland, UNWTO

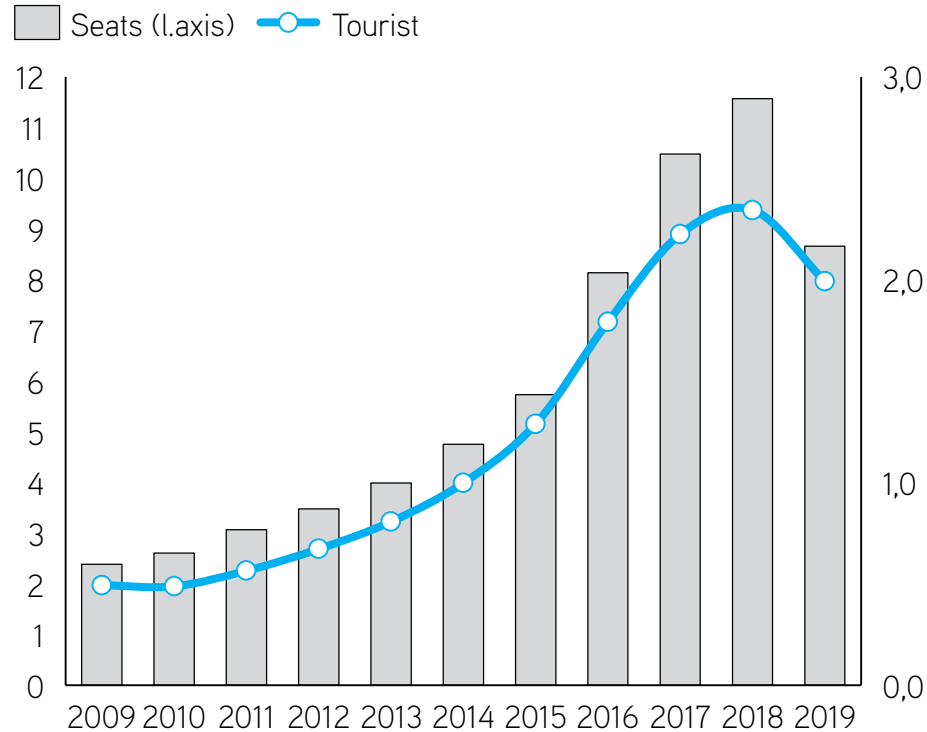
ROADMAP AHEAD



SMALL ISLANDS DEPEND MORE ON AIR TRANSPORTATION

Iceland: Flight supply and tourist

Number of flight seats and tourist coming to Iceland



Source: ISAVIA, IMF



Determinants of International Tourism

Main results for small islands:

„**Small islands** exhibit a **larger response** to the addition/removal of a direct flight.“

„...the addition or removal of a direct flight is associated with **10 percent higher/lower tourism arrivals** from the respective market.“

„...small islands are **more dependent on air transportation**.“

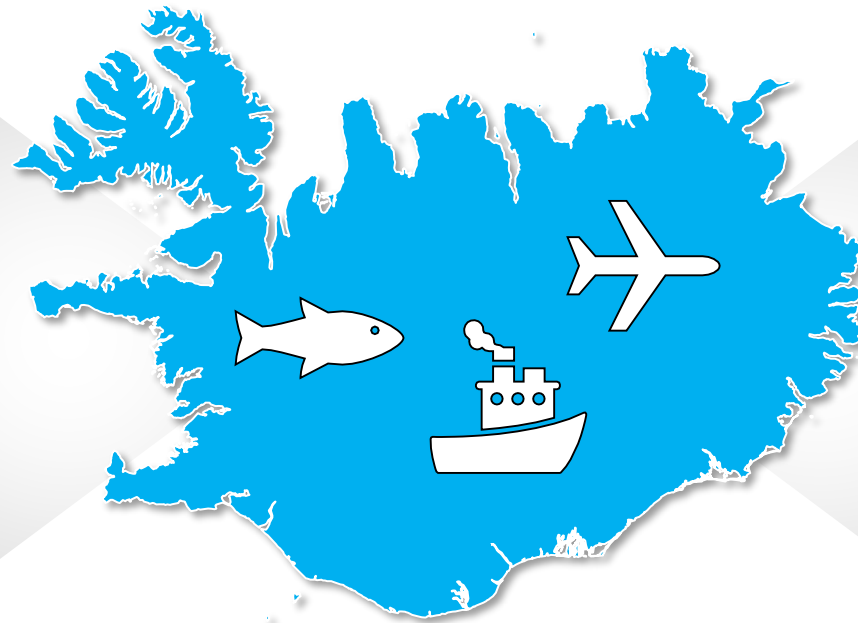
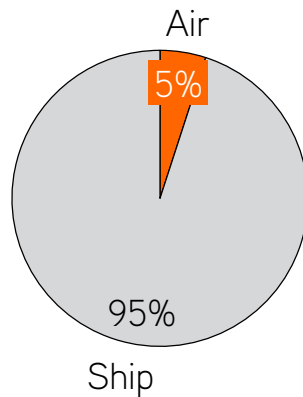
Working paper IMF, 2014



AIR TRANSPORTATION IS IMPORTANT FOR OTHER EXPORT SECTORS

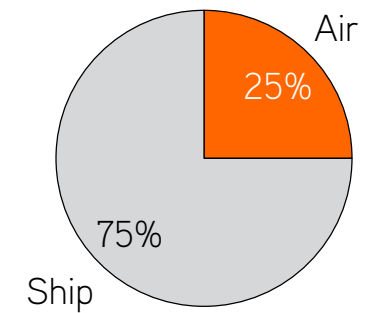
1990

Fish export
Transporting method



2018

Fish export
Transporting method

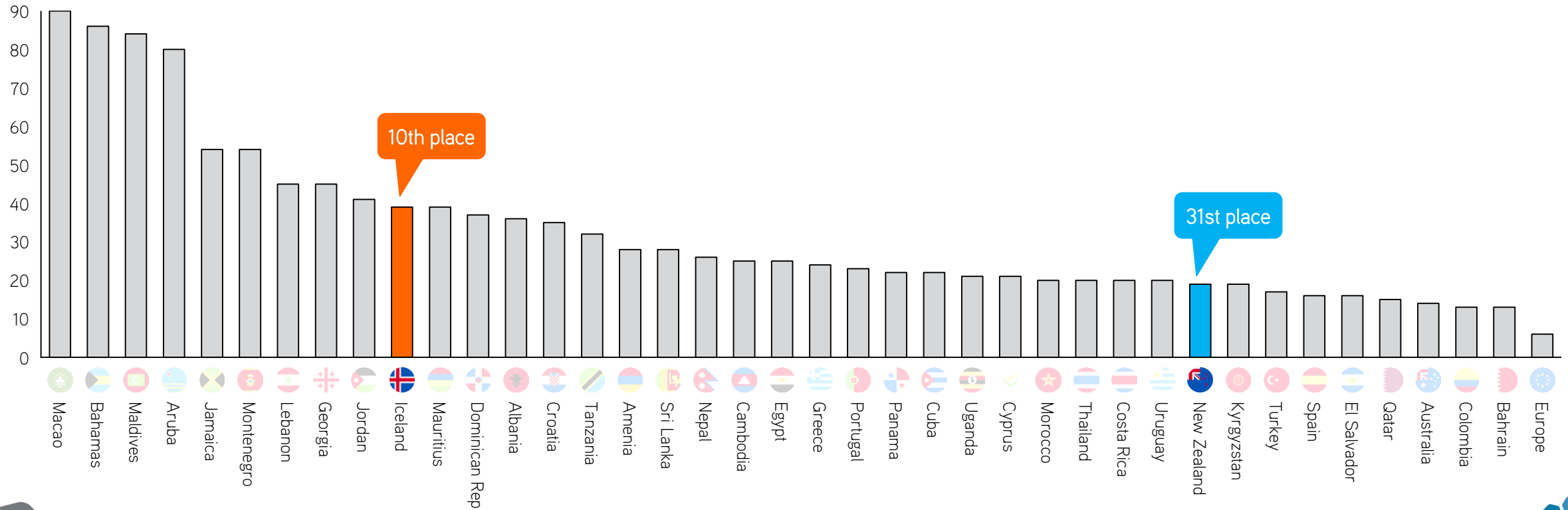




ICELANDIC TOURISM RANKING IN 10TH PLACE AS % OF TOTAL EXPORT

Tourism as % of total export in 2018

%, world comparison, 40 biggest countries with > 1 million tourist



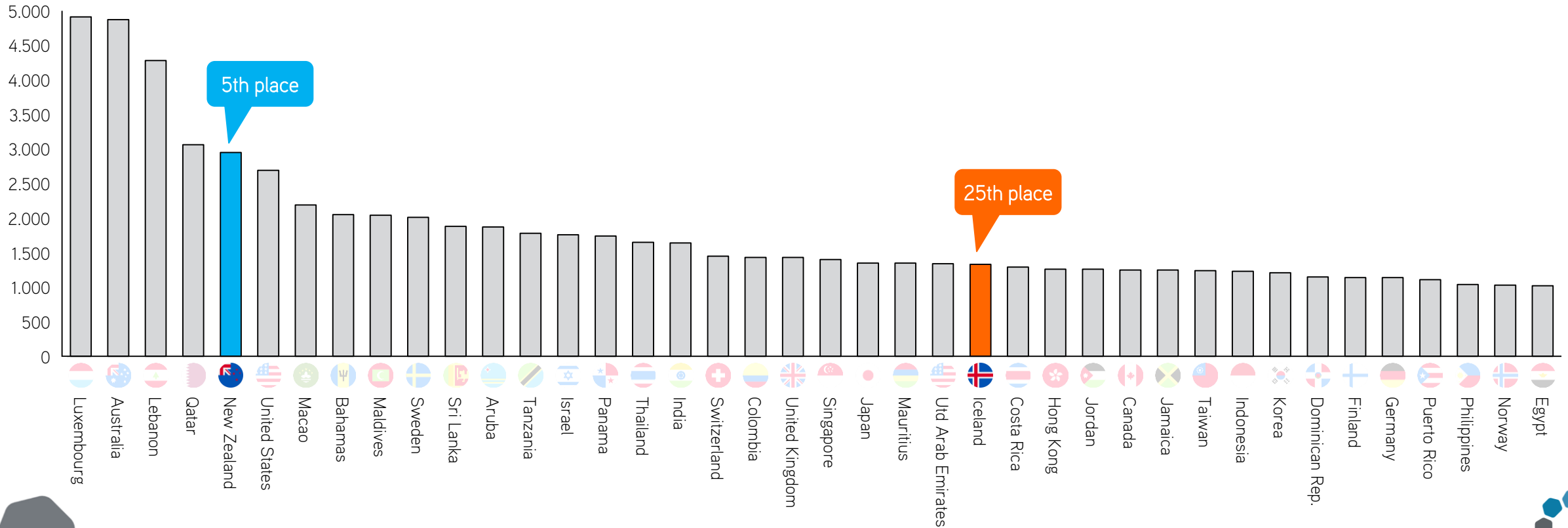
Source: UNWTO



ICELANDIC TOURISM RANKING IN 25TH PLACE IN VALUE PER CUSTOMER

Tourist spending per arrival 2018

USD, world comparison, 40 biggest countries with > 1 million tourist

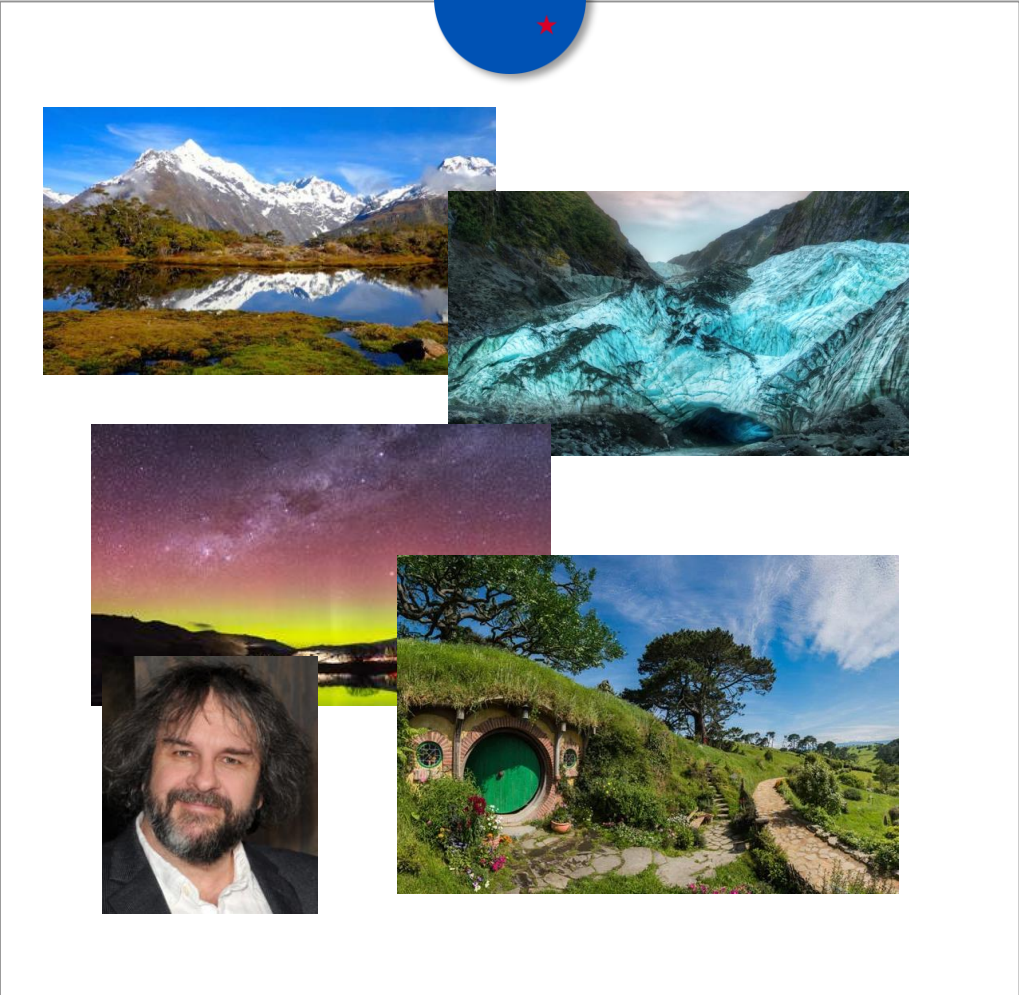


Source: UNWTO



Roadmap

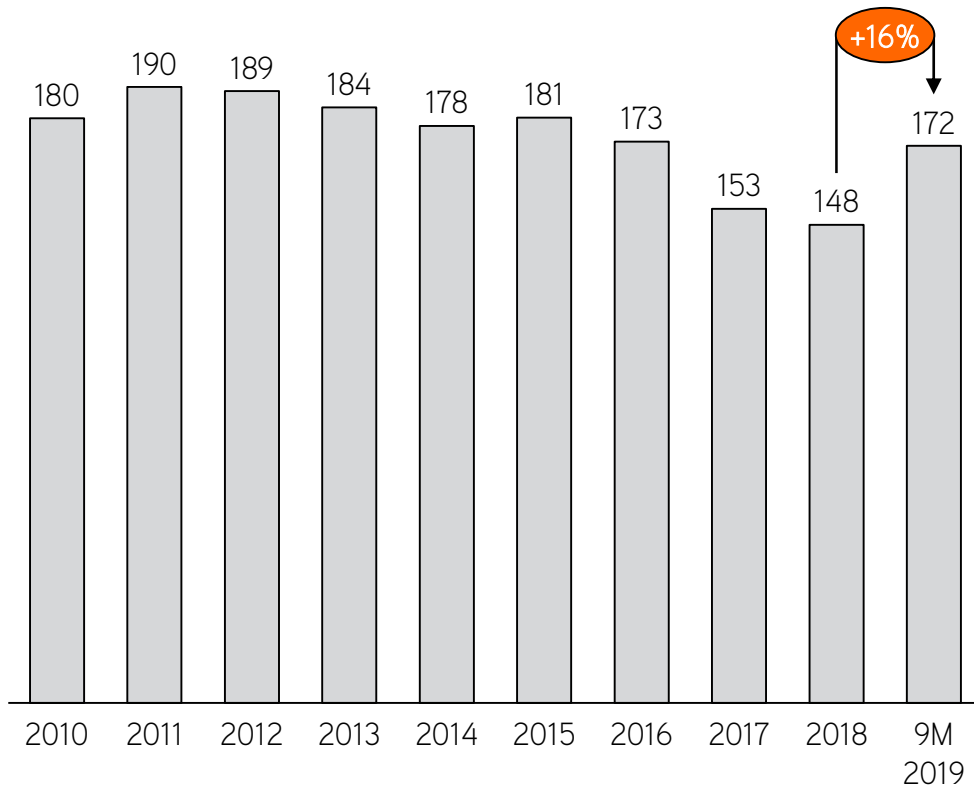
MORE VALUE OVER VOLUME





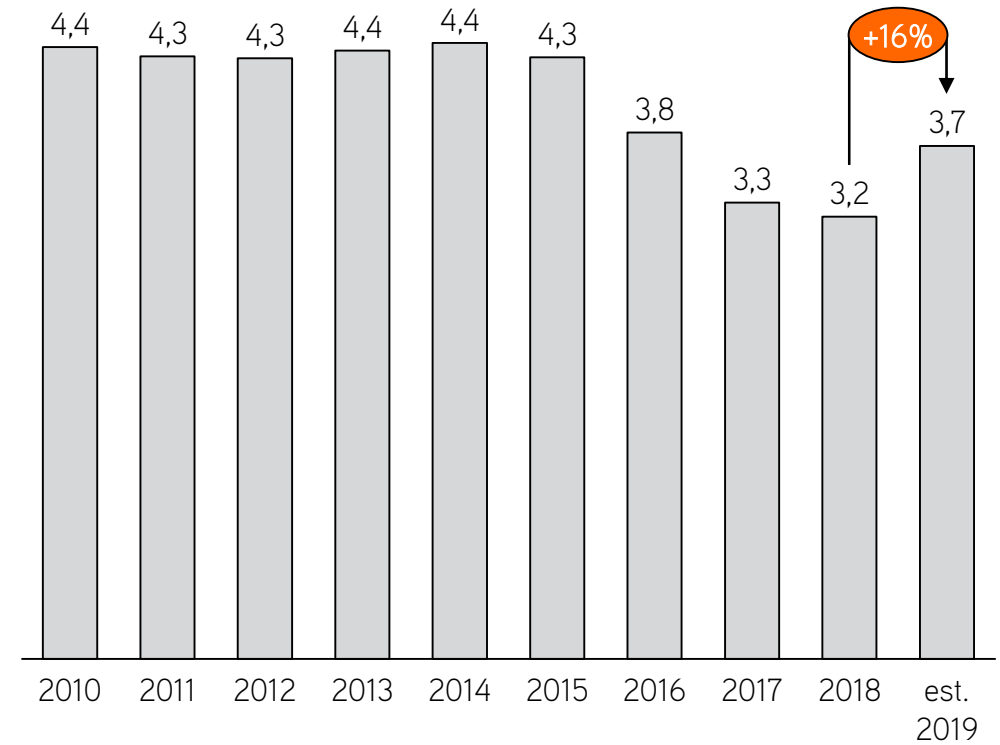
GOOD NEWS – TOURIST STAY LONGER AND SPEND MORE

Tourist spending (thousand ISK)
spending per tourist



Source: Statistics Iceland

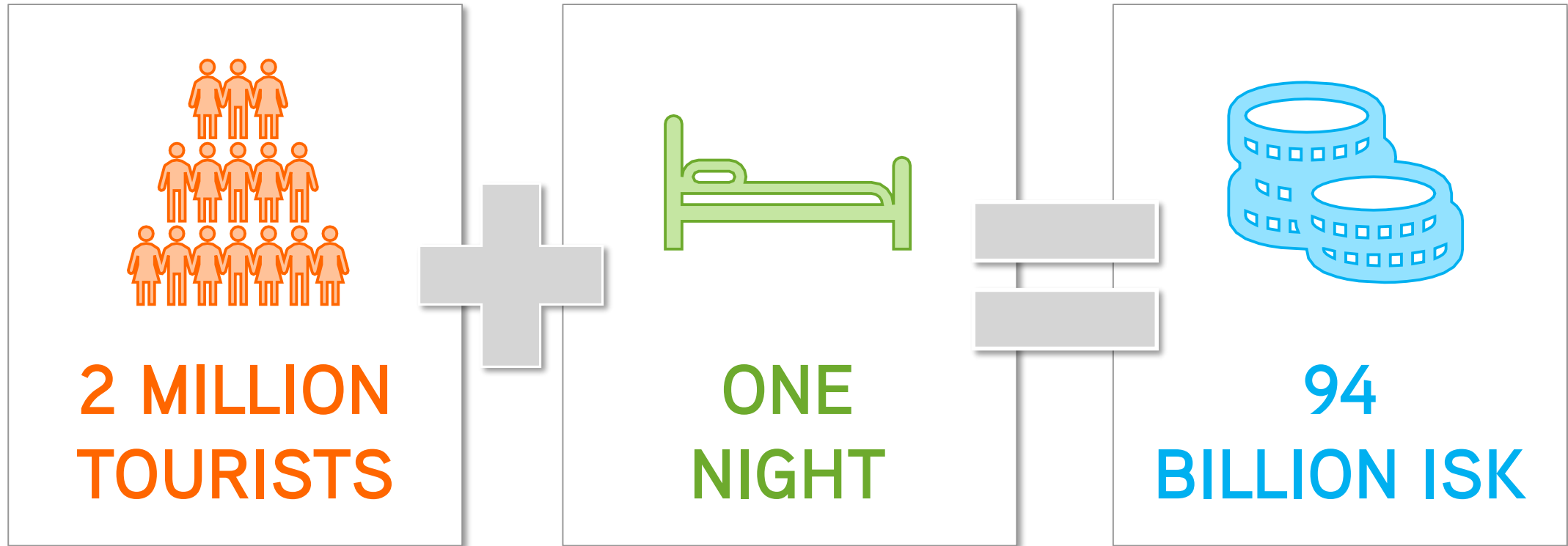
Overnight stay
average overnight stay per tourist



Source: Statistics Iceland



TARGETING AND ATTRACTING HIGH VALUE VISITORS





Roadmap

WHAT NEXT?





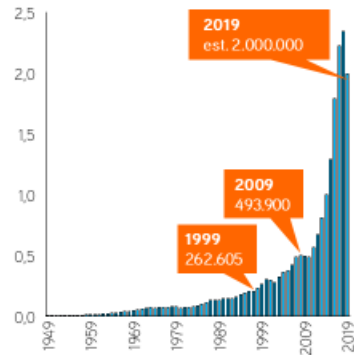
FIRST STEP – GROWING UP



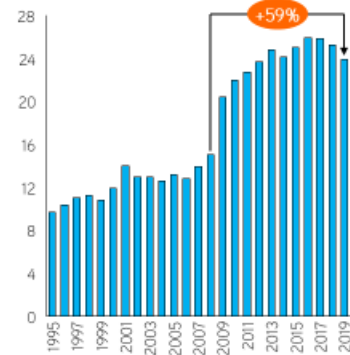
Tourist sector in numbers

GROWTH IN BIG NUMBERS

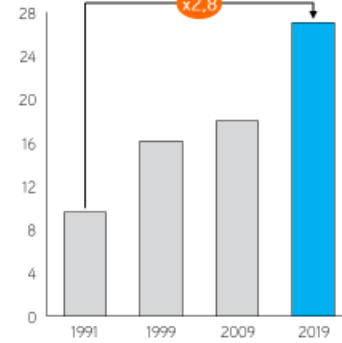
Number of tourist coming to Iceland
Million tourists



Export of services
% of GDP



Workforce in tourism industry
Thousands



1

GROWING UP



NEXT STEP – POLICY FRAMEWORK

Tourist sector in numbers

GROWTH IN BIG NUMBERS

Number of tourist coming to Iceland
Million tourists

| Year | Number of tourists (Million) |
|------|------------------------------|
| 1949 | 0.0 |
| 1959 | 0.0 |
| 1969 | 0.0 |
| 1979 | 0.0 |
| 1989 | 0.0 |
| 1999 | 262,605 |
| 2019 | est. 2.0 |

LEIÐANDI Í SJÁLFBÆRRI ÞRÓUN

Íslensk ferðapjónusta til **2030**

1 GROWING UP

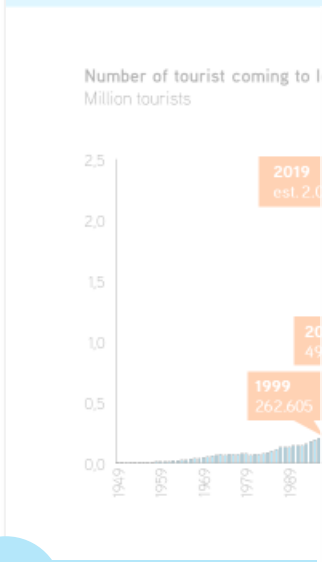
2 POLICY FRAMEWORK



THIRD STEP – HOW TO GET THERE

Tourist sector in numbers

GROWTH IN BIG NUMBERS



1 GROWING UP

2 POLICY FRAMEWORK

3 HOW TO GET THERE



SUMMARY

- **Exponential growth.** The story of Icelandic tourism sector is a story of incredible growth. Tourist visiting Iceland has gone from being 500 thousand to 2 million in only 10 years.
- **Important in economic terms domestically.** Amounts to 39% of total export, 14% of total workforces, 8,6% of direct contribution to economic growth and paying three times more in total tax revenues.
- **Economically important in world comparison.** Iceland depends more on the tourist sector than most other countries
- **Iceland will not win the volume competition.** The double digit growth story has come to an end – average growth around 3-5% is more likely in the near future.
- **Iceland will not win the price competition either.** Wages are high and taxes are high – thus Iceland cannot compete on prices.
- **Iceland can compete on value over volume.** Now that growth has slowed the focus should be on creating more value over volume. There are a lot of opportunities here.
- **The end or just the beginning?** Icelandic tourism sector is our biggest export sector. Despite contraction in the last couple of months the sector will continue to be economically important in Iceland. The government job is to ensure competitive tax and regulation environment as well make investments to maintain strong infrastructure. Businesses and entrepreneurs pursue profitable opportunities, competition and innovation drive productivity to attract the highest value from our resources. Successful businesses will grow but others will contract and some will fail.