

*Prepared by the New Zealand Embassy in Stockholm.*

## Summary

- Considerable effort has gone into supporting Iceland's tourism industry during the COVID-19 pandemic, as the government attempts to protect an industry responsible for 8.6% of GDP and 39% of export revenue.
- Initial stimulus efforts focused on the domestic market, with the suspension of a bed night tax, a domestic marketing campaign, and the introduction of travel vouchers for Icelandic residents (worth around \$56 each).
- The government also introduced a "Travel Guarantee Fund" in June 2020, providing subsidised loans to travel package organisers and retailers, ensuring their financial liquidity while reimbursing customers who cancelled their plans.
- An investment package worth NZ\$19.7 million will improve infrastructure at both public and private tourist spots, allowing Iceland to both accommodate more visitors, and protect its most popular sites once visitors return.
- Recent efforts have shifted to an international marketing campaign to stimulate demand, reflecting an improved epidemiological situation that allows fully vaccinated tourists.
- The IMF assess that the Icelandic economy performed better than expected at the outset of the pandemic. While tourism revenue will remain subdued in the near term, the industry is expected to gradually recover.

## Report

- The tourism industry is a major export earner for Iceland, accounting for NZ\$6 billion in export earnings in 2018 (around 39% of total export revenue). The sector directly contributed to 8.6% of GDP in 2017, and employed around 30,000 people – equivalent to 15.7% of the entire Icelandic workforce. Developing its tourism industry was one of the primary ways Iceland pulled itself out of a severe financial crisis from 2008-2011.
- Like New Zealand, a key challenge for Iceland is sustainable development of the tourism industry – maximising gains while protecting the assets upon which tourism depends. A dramatic growth in tourism over the past decade has subsequently increased pressure on the environment, infrastructure, and society. Iceland's official tourism strategy is focused on sustainable development, aiming to provide a quality and unique visitor experience.
- Several factors made Iceland's tourism industry particularly vulnerable to a COVID-19 induced downturn: its geographic isolation, small population (356,000 people – around the same as Christchurch), and an economy that depends heavily on foreign tourism, following an extraordinary decade-long boom. Initial impact assessments assumed tourism would be the sector most affected by the COVID-19 outbreak - particularly as being a small open economy, Iceland is susceptible to interruptions in global supply chains.

### How did COVID-19 effect Iceland's tourism sector?

- COVID-19 induced a sharp decline in international arrivals to Iceland, resulting in a wave of cancellations at accommodation establishments, travel agencies, and tour operators. Refunds of travel bookings led to financial difficulties for the tourism and package travel sector. Both global and domestic travel restrictions had an unprecedented effect on business activity in Iceland. Occupancy plummeted and private debt rose. Additionally, international travel did not resume as quickly as initially hoped.
- In March 2020, the Icelandic government cautioned the tourism industry to expect a steep decline in the number of international visitors, and for locals to reduce their patronage of stores, restaurants, and events. At the same time, the government made a commitment to protect jobs as much as possible. While the pandemic would profoundly affect the Icelandic economy, those effects were expected to reverse once the pandemic passed, as the economy rested on solid fundamentals.

- Attempting to soften the blow, the government also committed to take special measures to support the tourism industry and to bolster public investment, which would support the economy in both the short and long term. Even at this early stage of the pandemic, the government indicated it was considering a “harmonised promotion and advertising campaign” to address the adverse effects of the pandemic on the tourism sector.

#### How did the government support the tourism sector?

- Iceland’s initial focus was on business survival and destination support, and in the early stages of the pandemic, once it was reasonably safe to do so, Icelanders were encouraged to travel domestically to support the industry. The government **suspended its “bed tax” on overnight stays** (around NZ\$4 per night) from 1 April 2020 through to 31 December 2021. A **domestic marketing campaign** was also rolled out in the second quarter of 2020 - “*Ísland – Komdu með!*” (“Iceland – Come join us!”).
- The most important domestic stimulus was the introduction of **travel vouchers** for all residents of Iceland aged over 18, each worth ISK 5000 (NZ\$56). This voucher can be used as a payment at all companies registered with the Icelandic Tourism Board (*Ferðamálastofa*), and helps to stimulate demand for hotels, restaurants and other attractions. The most popular places to redeem the travel vouchers are FlyOver Iceland (a flight motion simulator attraction in Reykjavik), Islandshotel (a hotel chain), and Blue Lagoon (the popular geothermal spa).
- During the initial phases of the COVID-19 pandemic, due to unavoidable and extraordinary circumstances, many customers exercised their legal rights to request refunds for travel packages booked in Iceland. To ensure businesses could survive, in June 2020 Iceland introduced a “Travel Guarantee Fund”, designed to provide **subsidised loans to travel package organisers and retailers**, to cover their liquidity needs stemming from those reimbursements. The Fund had a budget of NZ\$52.3 million and was administered by the Icelandic Tourism Board. It was time bound, and only available until 31 December 2020 (a six month period).
- Icelandic officials viewed the downturn as a long-awaited opportunity to **invest and improve in the country’s tourism infrastructure**. The government invested NZ\$19.7 million in infrastructure for both public and private tourist spots across the country. This considerable package has two objectives – to make it easier for Iceland to eventually accommodate more visitors, and to preserve and protect its most popular sites once visitors returned. The majority of this investment (NZ\$11.6 million) was set aside for infrastructure at national parks, protected areas, and large public tourist sites, while the remainder went to Iceland’s Tourist Site Protection Fund. This fund will support the construction of viewing platforms, walkways, toilets, and information signs. Though the government already had plans in place to improve this infrastructure since 2019, it doubled down on its efforts as the pandemic kept visitors away.
- Towards the end of 2020, as the epidemiological situation improved and border restrictions lifted, Iceland shifted to restoring confidence and stimulating international demand. A campaign was prepared to **promote Iceland internationally as a tourism destination**, ensuring this could be rolled out when conditions allowed. Under the ‘Inspired by Iceland’ banner, a [campaign has since rolled out](#), encouraging prospective tourists to “turn your sweatpants into boots for your first big post-pandemic adventure”. Marketing efforts focus on responsible travel behaviour, including actions to increase the proportion of rental cars running on alternative fuels and the electrification of harbours.

#### Did the support packages save Iceland’s tourism sector?

- In April 2021, an IMF Virtual Article IV Mission to Iceland found that with strong policy support, the Icelandic economy performed better than expected at the outset of the pandemic. A **dependence on tourism has made Iceland highly exposed to health, economic, and financial contagion from the COVID-19 pandemic**, and the collapse in global tourism flows significantly affected Iceland’s engine of growth. Recovery prospects in the tourism sector and the broader economy will depend on control of the pandemic and progress in global and domestic vaccine distribution. The IMF expects Icelandic tourism revenue to remain subdued in the near term, but the industry is expected to recover gradually as restrictions ease.

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