



*The Financial Stability Committee of the Central Bank of Iceland*

## Minutes of the Financial Stability Committee meeting

Extraordinary meeting, 10 March 2020 (1st meeting)

Published: 1 July 2020

The Act on the Central Bank of Iceland stipulates that the role of the Financial Stability Committee is to take decisions on the applications of the Central Bank of Iceland's financial stability policy instruments. "The Financial Stability Committee's decisions on the application of financial stability policy instruments shall be published and an account given of the rationale for the decisions, together with an assessment of the situation, and minutes on the topic shall be published unless such publication can be expected to have an adverse impact on financial stability." In accordance with the Act, the Financial Stability Committee (FSN) has decided that, in general, it will publish the minutes of its meetings within four weeks.

The following are the minutes of the FSN's extraordinary meeting held on 10 March 2020. At the meeting, the Committee approved its rules of procedure and discussed the changed economic outlook. The authorities' first pandemic response measures were presented as well.

### **Economic impact of COVID-19 and the authorities' initial response**

The Committee received a presentation covering the highlights of the Government measures to address the economic impact of the COVID-19 pandemic, which had been introduced earlier that day. It emerged that a significant contraction in Treasury revenues was foreseeable, as was an increase in expenditures.

The Committee discussed the changed economic outlook. Despite substantial uncertainty about the future, it is clear, based on available forecasts, that the pandemic will have a severe negative impact on the global economy - and on global tourism in particular. Earlier in the week, the Organisation for Economic Cooperation and Development (OECD) introduced two scenarios of the virus' impact on year-2020 GDP growth. The baseline scenario assumes that the main impact will be limited to China and that global GDP growth will measure 2.4% for the year, while the alternative scenario assumes a broader impact, with GDP growth measuring 0.5%.

Because tourism weighs heavier in the Icelandic economy than in that of most OECD countries, the Committee considered it a given that the pandemic would have a profound impact in Iceland. Members noted that the impact of the pandemic on the Icelandic economy could be

expected to depend largely on the size of the contraction in international air traffic and, consequently, in seat capacity on flights to Iceland in 2020. Reduced demand for commodities could also have an adverse effect on prices and demand for energy-intensive industrial products and marine products. The Committee was of the opinion that uncertainty would be pronounced in the coming term and that the impact of the virus could prove more widespread than existing scenarios indicated. Members also discussed the potential impact on the financial system and concluded that the system was on a sound footing and well prepared to withstand shocks.

The following Committee members were in attendance:

Ásgeir Jónsson, Governor and Chair of the Financial Stability Committee

Gunnar Jakobsson, Deputy Governor for Financial Stability

Rannveig Sigurdardóttir, Deputy Governor for Monetary Policy

Unnur Gunnarsdóttir, Deputy Governor for Financial Supervision

Axel Hall, external Committee member

Bryndís Ásbjarnardóttir, external Committee member

Guðmundur Kr. Tómasson, external Committee member

Guðmundur Árnason, Permanent Secretary of the Ministry of Finance and Economic Affairs, attended the meeting, with the right to address the meeting and present proposals.

Haukur C. Benediktsson, Director of the Bank's Financial Stability Department, was present for the entire meeting. In addition, a number of Bank staff members attended part of the meeting.

Eggert Þ. Þórarinsson wrote the minutes.