

# TOURISM IN ICELAND: BANKRUPTCY OF A SINGLE AIRLINE HAS TRIGGERED A RECESSION



It is not often that we see an entire economy diverted by a single corporate disaster. But that's what seems to have happened in Iceland. The recent bankruptcy of the Icelandic low-cost airline Wow Air has been such a strong blow to tourism in Iceland and to the economy in general, that the central bank has reduced its main interest rate by half a point, up to 4%.

The announcement makes clear how bad the failure of Wow Air has affected Iceland, which has also suffered a disastrous fishing season. **The airline helped to make tourism in Iceland the largest source of income for this small country, fueling a boom that lifted the nation from its financial collapse over a decade ago.** The disappearance of the company in March meant an abrupt end to that fervor.

Tourism in Iceland has grown at forced marches, driven by attractions like the northern lights, but also by new fashions like the routes that travel the landscapes that have become popular as a result of the success of the Game of Thrones series. The Thingvellir National Park and glacier slope next to the Eyjafjallajökull volcano were some of the locations for which the protagonists of the production walked in several scenes of the series. However, the tourism sector was abruptly affected by the collapse of the airline Wow Air, to which were added the problems of its competitor Icelandair: had to leave the planes Boeing 737 MAX on the ground after the fatal accident of Ethiopian Airlines at the beginning of March.

The central bank said it now expects the economy to contract 0.4% this year from its February forecast of 1.8% growth. GDP growth for next year is now seen at 2.5% from a previous forecast of 2.8%, according to the central bank. This deterioration in outlook is mainly due to a contraction in tourism and to the reduction of exports of marine products due to the failure of the capture of capelin.

Like other failed European operators, Wow had been struggling to cope with fluctuating fuel costs and overcapacity in the industry. Multiple rounds of conversations with potential investors, in the end, did not lead to the rescue.

The central bank said that the "deterioration of the economic outlook has caused the inflation outlook to change markedly in a short period of time". The bank revised its unemployment forecast for this year to 3.9% since 3.1%, while forecasting that inflation will reach a maximum of 3.4% in 2019, before getting down to the goal of 2.5% in the next two years.

The Icelandic krona fell by 0.6% to 138.7 per euro. It is not the first depreciation: the currency has fallen

by 3.7% this year.

The Government has indicated that it could intervene to help the economy. It has spent the last years reducing debt, while the central bank has been fattening its currency reserves. Although the economic contraction will be a challenge for households and businesses, the economy is much stronger than before. Besides, monetary policy has a considerable margin to respond to the contraction, particularly if inflation and inflation expectations remain close to the target, as is currently anticipated.

Wow airline announced its bankruptcy on March 28, after not reaching an agreement with investors to inject new capital into the operator. "We have run out of time and, unfortunately, we have not been able to secure financing for the company," said the president, then Skuli Mogensen in a letter to the employees. Mogensen worked for months to save the airline he founded in 2011, looking for deals with possible rescuers, including as its biggest rival Icelandair and the American private equity firm Indigo Partners. However, **he did not get an agreement in time and the government said it would not use the taxpayers' money for the rescue.**

Along with Icelandair, Wow played a key role in the tourism boom in Iceland for ten years. The airline transported 3.5 million passengers last year. When it went bankrupt, it was announced then that a fall of tourists to Iceland was expected in 2019 for the first time in ten years, as the operator of the Keflavik International Airport advanced.

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