



BRACING FOR A DOWNTURN

Iceland slipped into a recession earlier this year for a simple reason: Fewer people decided to travel to the island nation. It was tourism, after all, that had lifted Iceland's economy out of the wreckage of its uniquely severe financial crisis earlier this decade—accounting for one-third of Iceland's economy by 2015.

Then the tourist boom, fueled by low airfares, started busting. Growth in arriving vacationers began to slow back in 2017 and sharply decelerated last year. When budget airline Wow Air went bankrupt in March, its collapse sent ripples throughout Iceland's economy—and the government sprang into action. The country's central bank cut its main interest rate while warning of a contraction this year. Arion Bank now predicts a downturn as deep as 1.9%.

Scary stuff—but compared to the 10% decline in Iceland's GDP between 2007 and 2010, not terrifying. Back then, the country's three largest private banks collapsed, sending Iceland into an economic depression. Iceland's crisis was the largest in the world during this period, relative to the size of its economy. It took the International Monetary Fund and Scandinavian neighbors to bail out the country to the tune of \$4.6 billion.

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—**Mar Gudmundsson**,
Iceland Central
Bank governor, to
Bloomberg



People bathe in Iceland's Blue Lagoon.

Bank Governor Mar Gudmundsson told Bloomberg in June. "We have policy space ... to cut [interest] rates if necessary."

The government can also throw money at the problem; it could roll out new stimulus spending instead of sustaining the budget surplus it expects this year. If this year's recession proves mild and short, it could underscore the resiliency of Iceland's economy and bolster its leaders' post-crash reputation as turnaround artists. Few countries staged such a fast recovery from the 2008-2009 financial downturn. Having been through the fire 10 years ago, many Icelanders seem confident that the current downturn will be relatively mild. One potential indicator of this? Champagne sales at state-run liquor stores, which tend to rise in times of prosperity, were on track to set an all-time annual record as of July. The current record is from 2007, just before the big crash.

"Even though we are going through a slump, we will regain our former strength," Skapti Orn Olafsson of the Icelandic Travel Industry Association told Bloomberg. "In 18 to 24 months we will hopefully be back on track." At which point, there will be good reason to pop the bubbly.

E-COMMERCE'S NEXT GROWTH SPURTS

Between Amazon and Alibaba, it is easy to forget that e-commerce is still coming of age. Yes, business has been booming online for years in many developed countries, but e-commerce is still not the world's biggest retail channel. That will happen in 2021, when it will account for 14% of total retail sales,

according to Euromonitor International. Between then and now, expect dramatic surges in online purchases in places such as Vietnam and the United Arab Emirates.

Vietnam saw 20% growth in its e-commerce numbers last year, according to *The Hanoi Times*. Some experts predict that number

will increase to 30% to 50% over the next few years.

"In the past couple of years, marketplaces like Lazada, Rakuten, Flipkart and Shopee have made it easy for Vietnamese merchants to sell online within the APAC region and gave them the experience they needed to further expand around