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Unpredictable world.
Predictable rules.

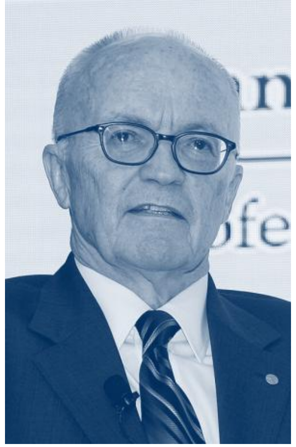
Political uncertainty, sector exposure
and the case for long-term investment

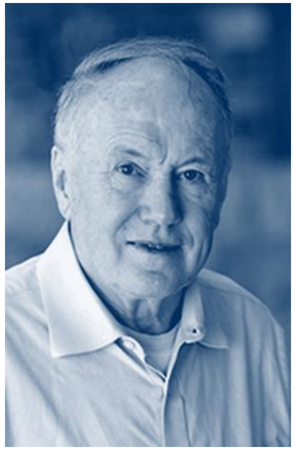
Lars Christensen

Rules, discretion and investment

Frank Knight, 1921

Some uncertainty cannot be reduced
to a reliable probability.





Kydland and Prescott, 1977

Investors anticipate that governments
may change policy after they invest.

The question: how can policy remain credible when circumstances change?

External shocks reach Iceland through its sectors

US fiscal and monetary policy	A loss of fiscal or monetary credibility could raise global financing costs.
Ukraine and wider conflict	Trade restrictions, transport disruption and infrastructure threats can change operating conditions.
Trade and energy disruption	Export prices, imported fuel and access to markets affect sectors differently.

These are scenarios to prepare for. Their timing remains uncertain.

Volcanoes and the limits of forecasting

The risks you understand, but cannot change.

STRATOS North measures exposure, not the state of the world

The Risk Exposure Index, or REI. The concept, method and model are our own.

Not a forecast	The index does not guess the future. It measures where you are exposed if a shock arrives.
A measure of exposure	When the index rises, the organisation has become more vulnerable. It does not mean the world has become more dangerous.
Independent of the climate	The number is independent of the geopolitical, economic and financial conditions it measures exposure to.

We cannot predict shocks. We can find where we are vulnerable, and act before one arrives.

A STRATOS North assessment starts with exposure

How much would a change in conditions hurt this sector?

Common questions	Which activities depend on the affected market, asset or rule?
Capacity to adapt	What substitutes, buffers and alternative sources of revenue exist?
Wisdom of the crowd	A panel across the organisation answers the same questions, and the pooled judgement beats any single expert view.
Comparable judgements	Score the same ten dimensions and examine the reasons for disagreement.

The ten dimensions every sector is scored on

The same battery for each sector, so the judgements can be compared and argued with.

01 Funding and credit

Access to finance, refinancing terms and the credit quality of customers.

02 Demand and activity

How far revenue depends on the cycle and on discretionary spending.

03 Currency and prices

Exposure to the króna, export prices and the cost of imported inputs.

04 Energy and fuel

Dependence on electricity and fuel, and the scope to pass costs on.

05 Supply and transport

Physical inputs, shipping and air links, and how easily they are replaced.

06 Labour and skills

Reliance on staff who are hard to replace, and on seasonal or foreign labour.

07 Cyber and data

Reliance on uninterrupted digital operations, systems and customer data.

08 Nature and climate

Physical hazards, resource conditions and assets tied to one location.

09 Trade and security

Market access, sanctions, trade barriers and critical infrastructure.

10 Tax and regulation

Sector taxation, permits, resource rules and the treatment of committed capital.

Twenty means limited exposure, forty moderate, sixty substantial and eighty very high.

Let’s fill in the numbers together

You know these sectors better than I do. Score each one on the scale below.

Exposure	Finance	Fisheries	Power	Aluminium	Tourism	Software
Funding and credit	XX	XX	XX	XX	XX	XX
Demand and activity	XX	XX	XX	XX	XX	XX
Currency and prices	XX	XX	XX	XX	XX	XX
Energy and fuel	XX	XX	XX	XX	XX	XX
Supply and transport	XX	XX	XX	XX	XX	XX
Labour and skills	XX	XX	XX	XX	XX	XX
Cyber and data	XX	XX	XX	XX	XX	XX
Nature and climate	XX	XX	XX	XX	XX	XX
Trade and security	XX	XX	XX	XX	XX	XX
Tax and regulation	XX	XX	XX	XX	XX	XX

20 Limited　40 Moderate　60 Substantial　80 Very high

One shock can reach a sector more than once

Tourism downturn	Lower visitor spending weakens cash flow and property income.
Banking exposure	Borrower stress can rise while demand for new credit falls.
Possible policy response	Budget pressure may prompt tax changes that affect investment elsewhere.

The policy response can amplify the shock, or help absorb it.

The bank tax is a test of policy credibility

The proposal	Raising the tax on bank liabilities, on top of already considerable bank-specific taxation.
The economic question	How would the design affect funding, lending, competition and investment?
The wider question	What should investors in other sectors infer about future changes to their own terms?

Fiscal consolidation still requires a comparison of credible alternatives.

Good legislation needs time for scrutiny

Denmark is part of this discussion

About one month

The fall in average parliamentary processing time over the 15 years examined by Jonas Herby

Speed alone says little about whether the diagnosis is right.

What Iceland can actually change

A firm does not set its own external conditions. One of those conditions is written in Reykjavík.

KNOWN AND UNKNOWN SHOCKS

- Global economy and finance
- Geopolitics and conflict
- Nature and climate
- Shocks nobody has named yet

The firm

Its exposure to all of this is what the REI measures

Cost of capital

And the willingness to commit money to Iceland for the next twenty years.

Predictable, transparent and evidence-based rules

The Icelandic government

Tax and regulation is an external condition for the firm too. It is the only one decided here.

Better rules lower the exposure of every sector, and make Icelandic firms easier to invest in.

Predictable rules support long-term investment

Evidence	Publish the economic assessment and compare the alternatives.
Consultation	Give affected parties time to test the assumptions.
Transition	Explain how existing commitments will be treated.
Review	Set review dates and define how emergency powers expire.

Iceland can remain dynamic while making policy more dependable.