



The Fiscal Budget Proposal for 2013

Fiscal Consolidation Plan 2013-2016

September 11th 2012

2013



2013

1.

The Fiscal Consolidation Plan

What has been accomplished



The Fiscal Consolidation Plan

The current fiscal consolidation plan presented with the 2012 budget proposal, assumes a surplus of **ISK 17 bn** in the total balance in 2014.

- The 2013 budget assumes a small total balance deficit which amounts to **ISK 2,8 bn**, or **0,1%** of the GDP.
- In 2014 the total balance will be positive by **ISK 17,8 bn** or **0,9%** of GDP, according to a revised fiscal consolidation plan.

2013



Revision of the Fiscal Consolidation Plan

The prospects for reaching a total balance surplus in 2014* are good. There are three main factors:

- Continuing economic growth.
- Increased revenue from natural resources.
- Fiscal restraint measures.

* The objectives laid out in the economic program with the IMF in 2009 are on a cash basis. However the Treasury's finance and accounting are on accrual basis therefore all figures in the presentation are on accrual basis unless otherwise stated.

2013



Positive Primary Balance

Good prospects for positive primary balance of the treasury in 2012.

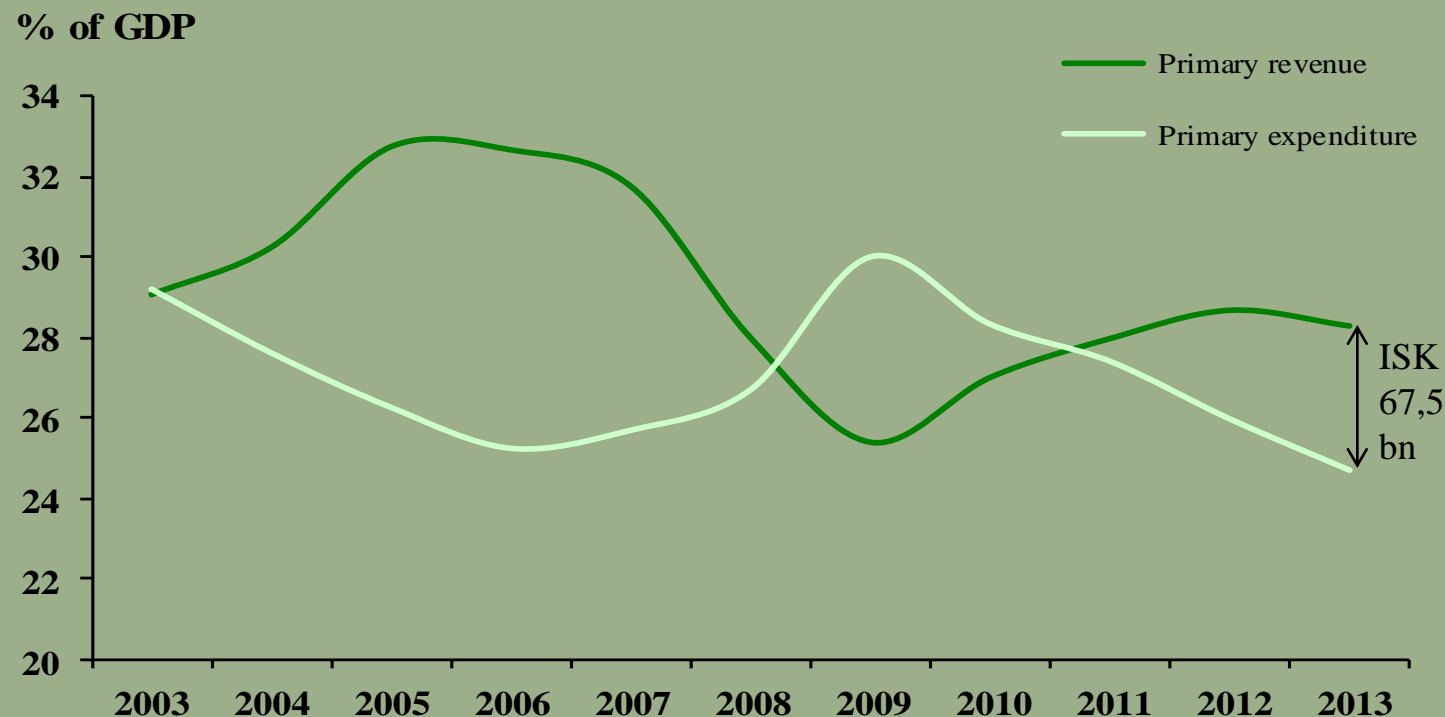
- The budget proposal assumes a positive primary balance of just over **ISK 60 bn** in 2013.

2013



Primary revenue and expenditure of the Treasury 2003-2013*

2013

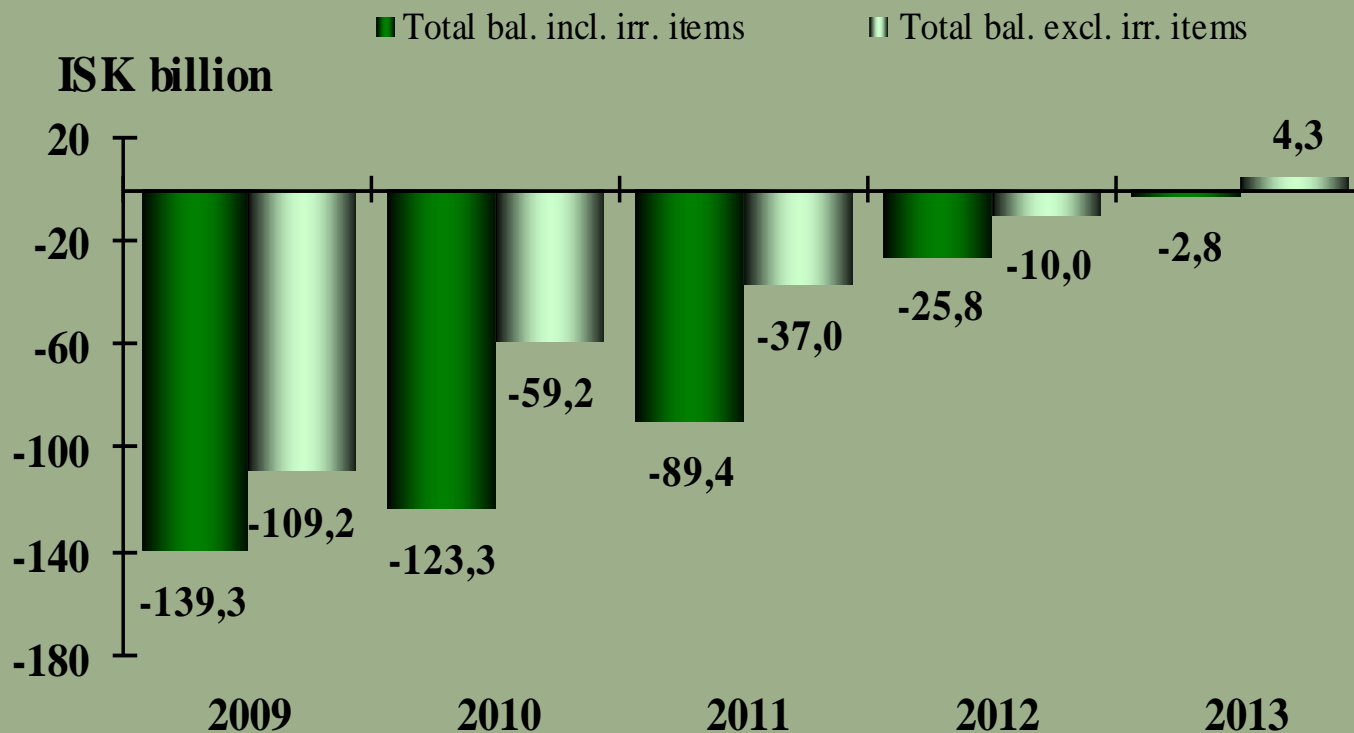


* Excluding irregular items. Primary balance is ISK 60 bn in 2013 including irregular items.

Adjusted for the transfer of services for disabled people from the state to local governments



Total balance with and without irregular items 2009-2013*

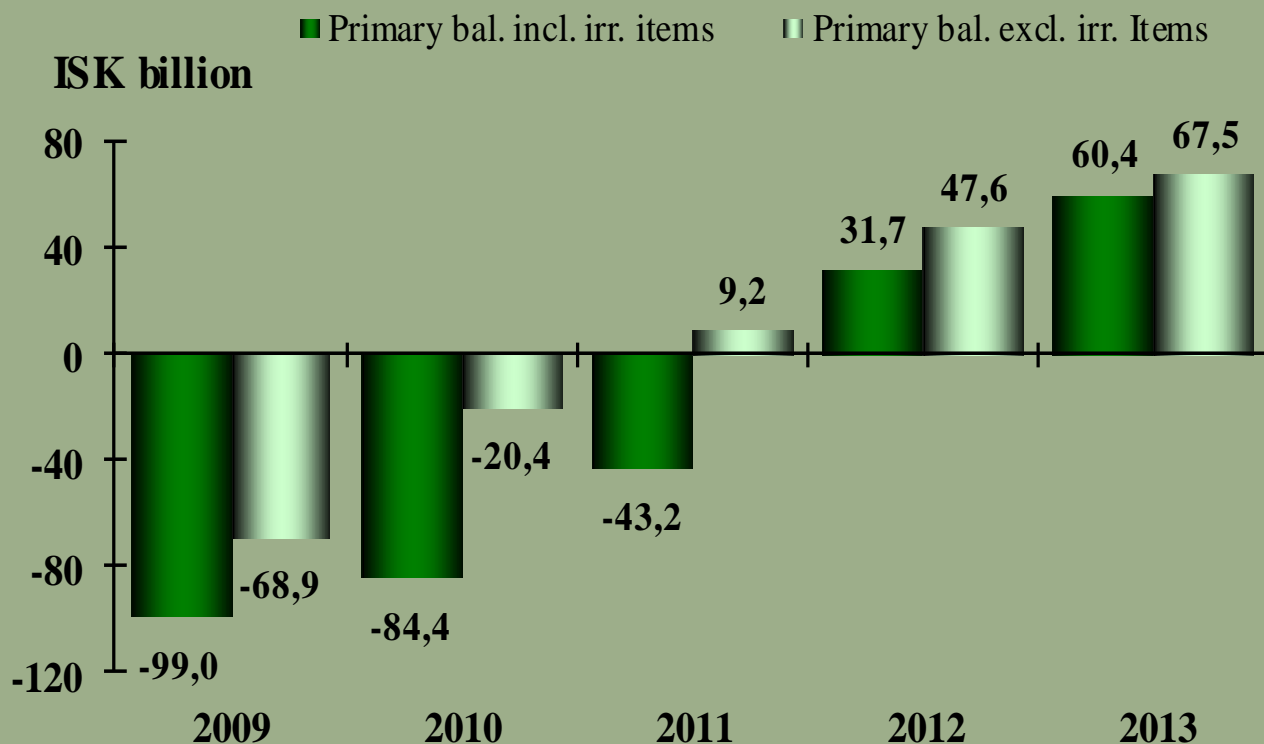


2013

* Adjusted for the transfer of services for disabled people from the state to local governments



Primary balance with and without irregular items 2009-2013*



2013

* Adjusted for the transfer of services for disabled people from the state to local governments



2. Policy initiatives

2013



New emphasis: Welfare of children and job creation

Improved fiscal balance makes it possible to increase contribution to families with children and job creation.

Support for families with children:

- Child benefits
- Housing benefits
- Maternity/Paternity leave

2013



New emphasis: Welfare of children and job creation

Specific measures to support the economic recovery.

Investment plan and job creation:

- Transport
- Research and Technical Development Funds
- Concessions to innovation companies

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Investment Plan

- The investment plan is based upon the precondition that the medium-term fiscal strategy remains a priority, and a prerequisite for the investment plan is not to disrupt the fiscal goals of achieving positive balance

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3. Economic prospects

2013



Continuous Economic growth – increased employment

Reversal in economic growth has been since the latter half of 2010.

- The economy is growing steadily and the unemployment rate is declining gradually.
- Last year, economic growth was **3,1%**. This year a **2,8%** economic growth rate is estimated. A steady growth is expected throughout the period of the current medium-term fiscal strategy (until 2017).

2013



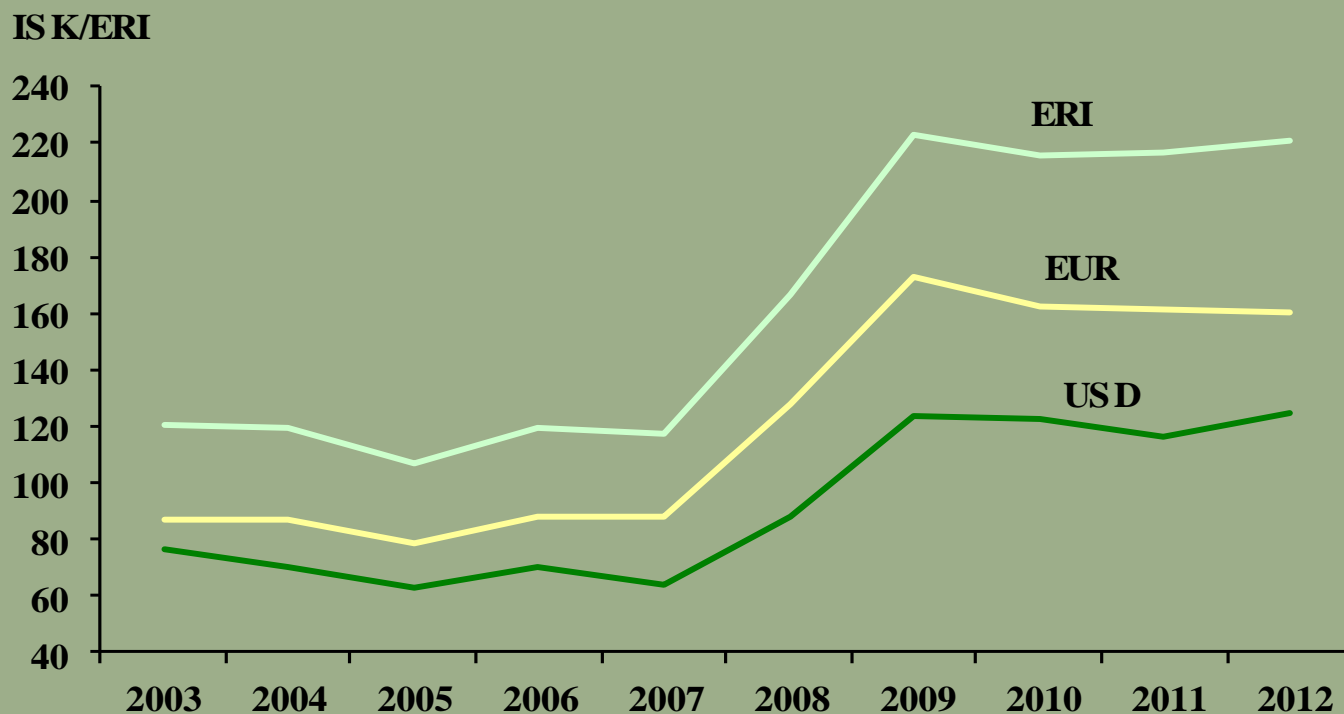
Economic assumptions for the Fiscal Budget Proposal

- Economic growth **2,7%**
- Inflation **3,9%**
- Unemployment **5,3%**
- Current account deficit **-2,1%** of GDP
- Increase in real wages by **1,7%**

2013



ISK exchange rates: ERI, EUR og USD



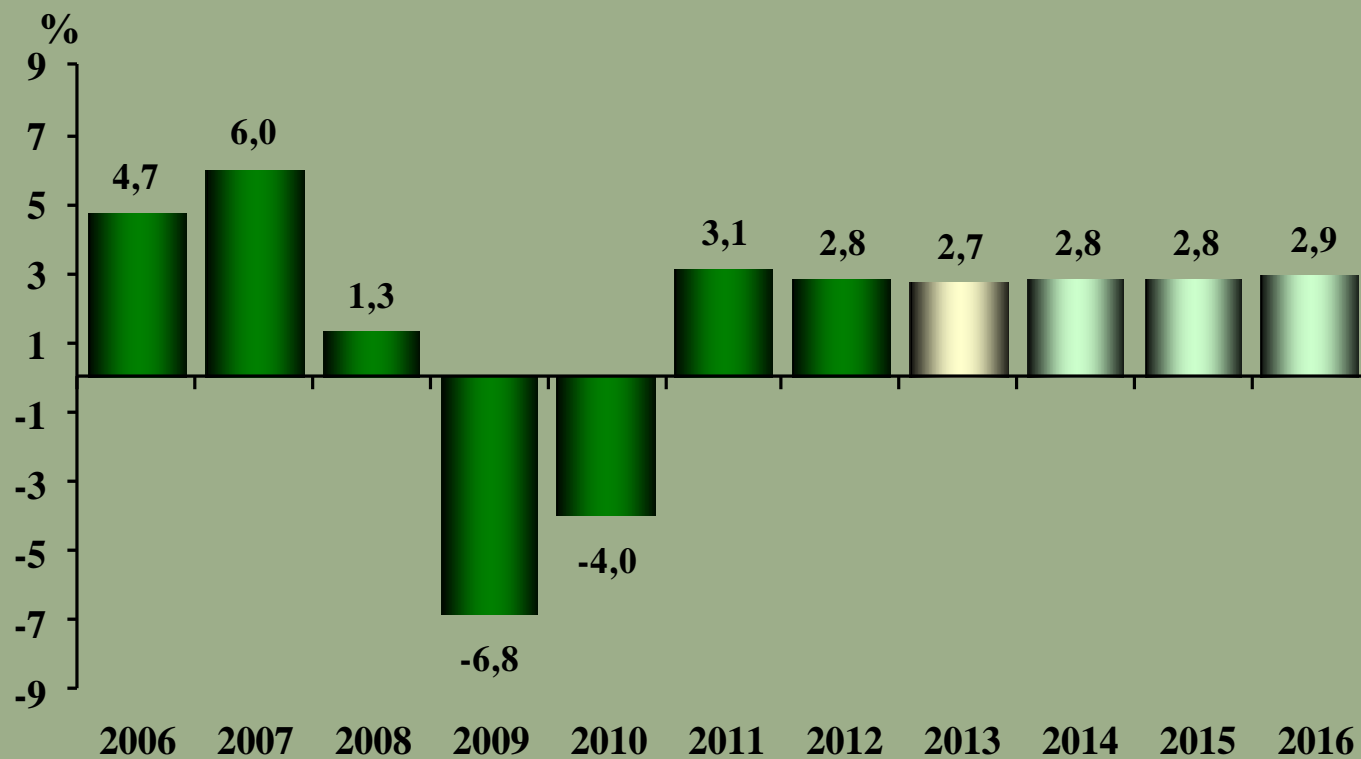
Average exchange rate 2003-2012

Source: The Central Bank of Iceland

2013



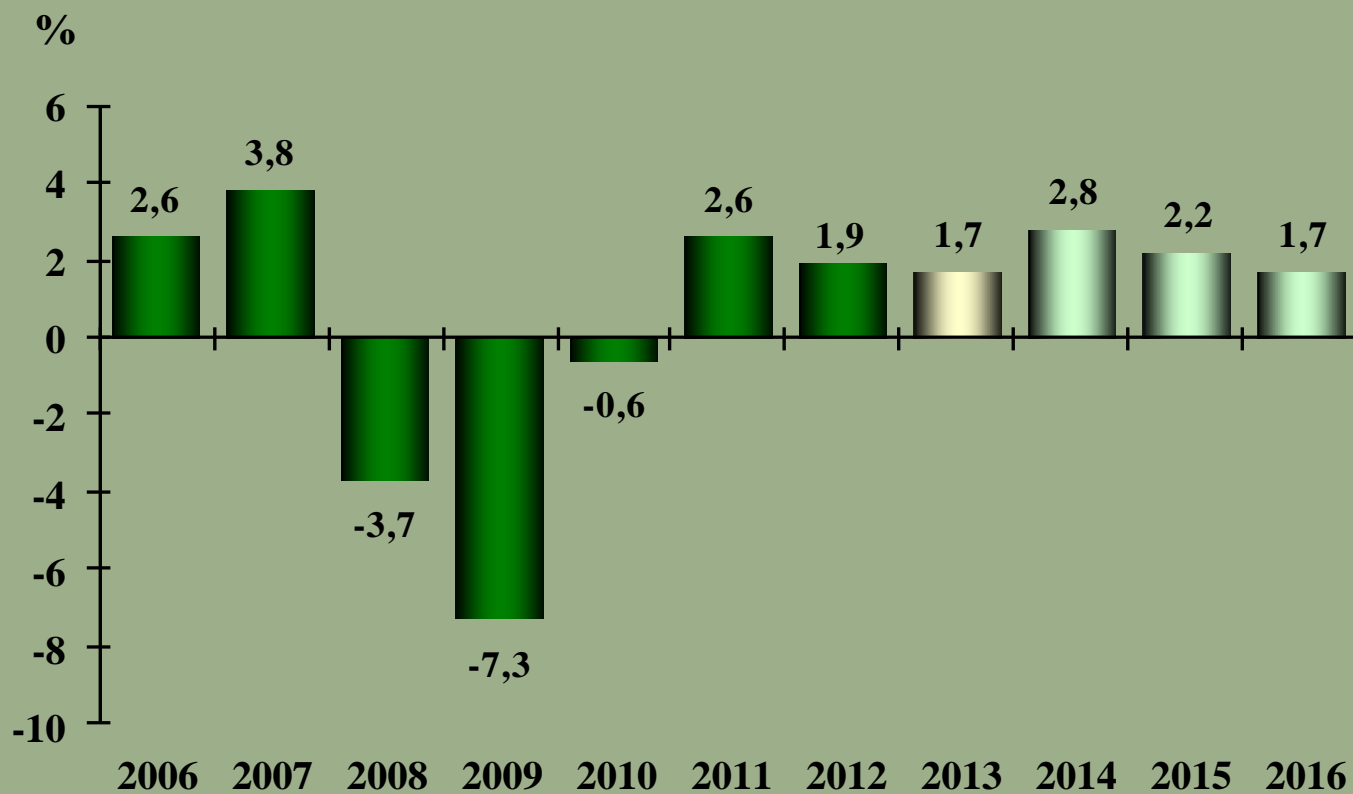
Economic growth



2013



Real wages

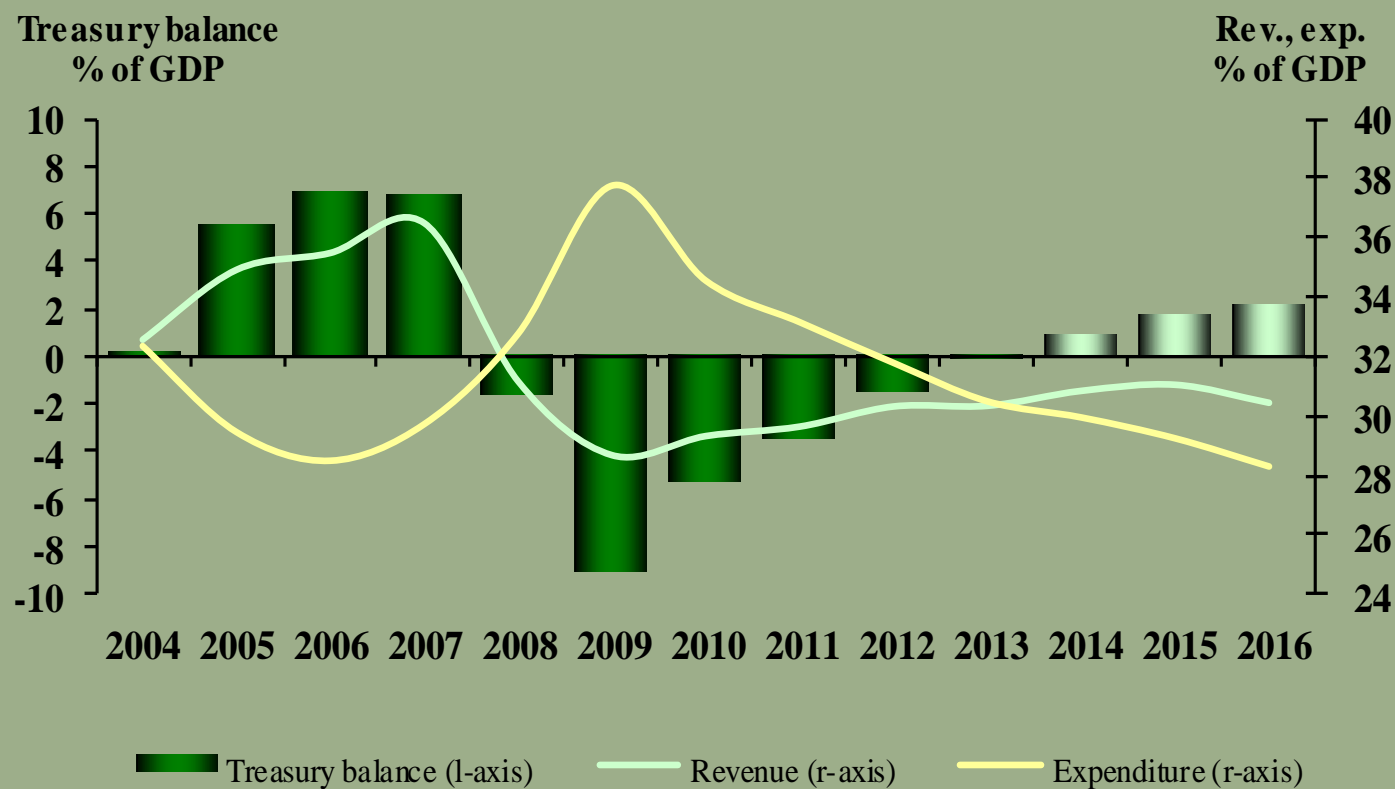


Source: Statistics Iceland

2013



Treasury balance 2004-2016*

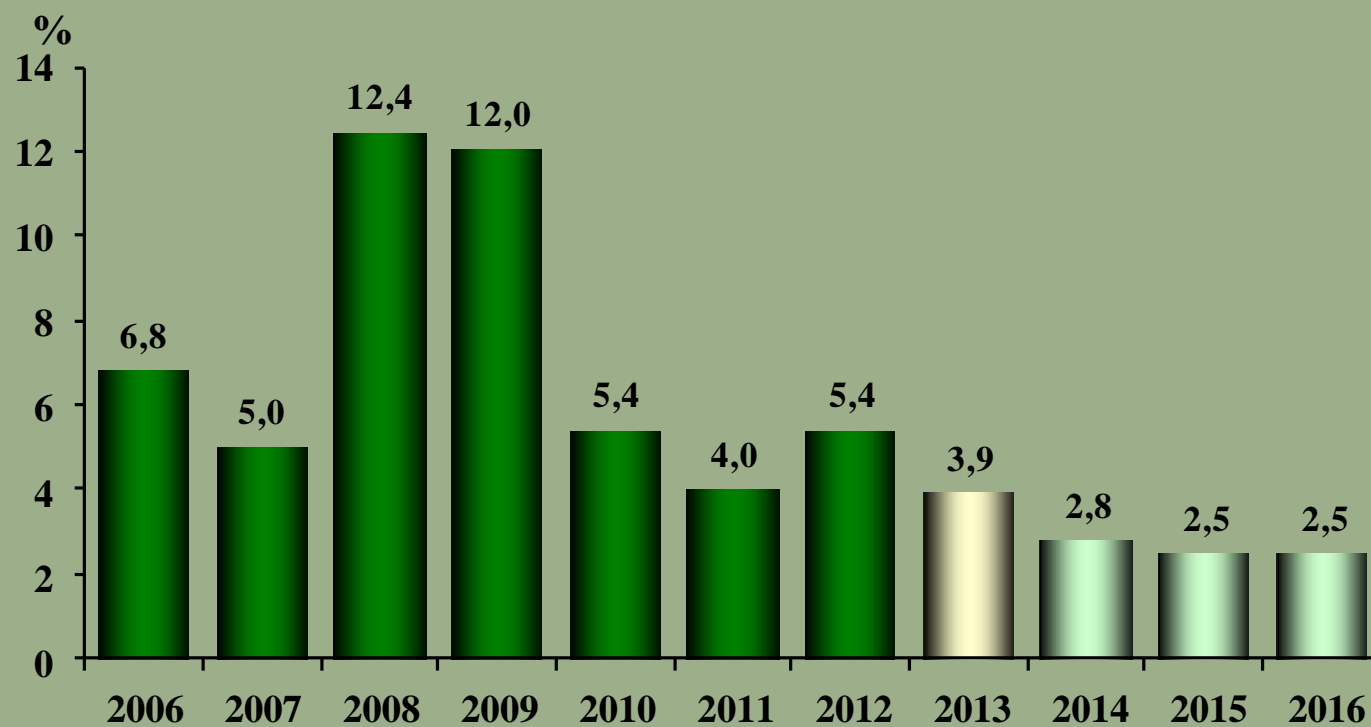


2013

* Irregular one-off items excluded



Inflation

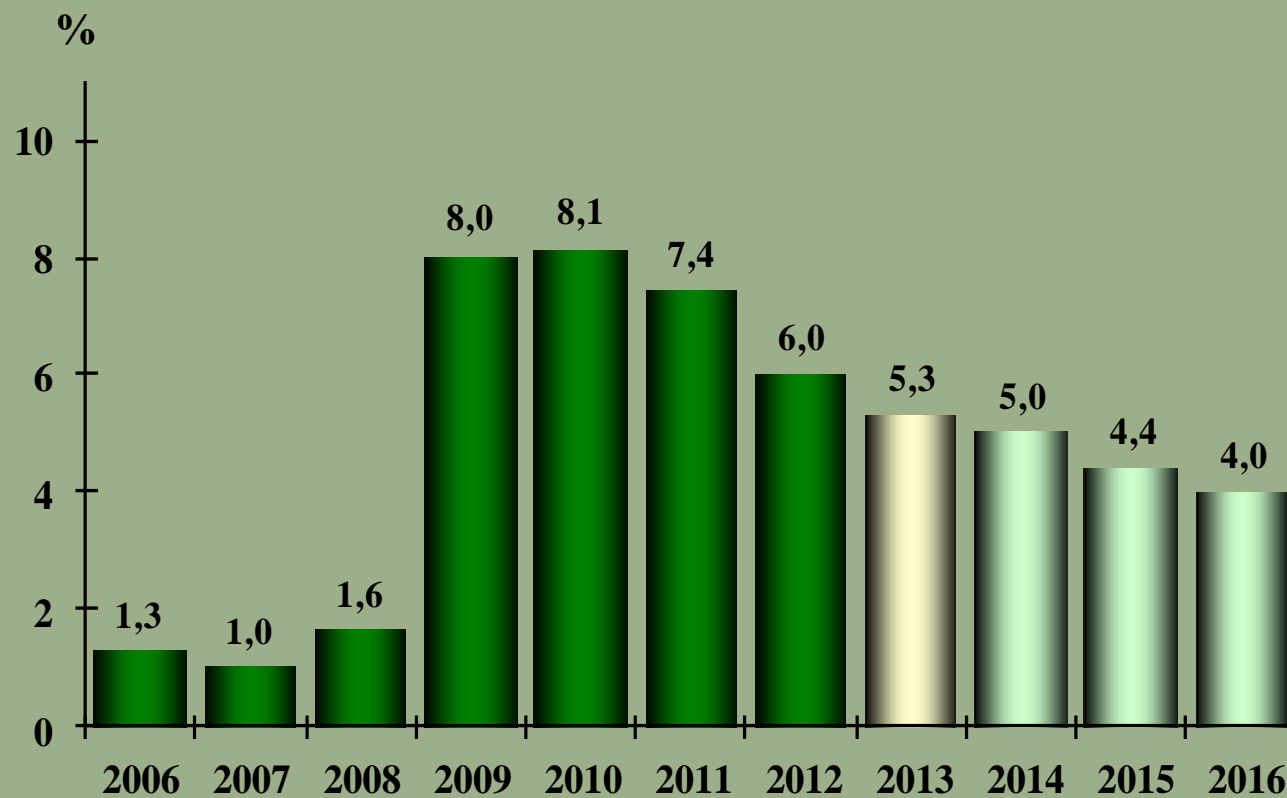


Source: Statistics Iceland

2013



Unemployment



Source: Statistics Iceland

2013



4. Treasury Balance 2013

2013



Main results of the 2013 budget proposal

- In 2013 it is estimated that the total balance will be negative by **ISK 2,8 bn.** In the 2012 estimate the total balance was negative by **ISK 25,8 bn.**
- Excluding irregular items the total balance is estimated to be positive by **ISK 4,3 bn.**

2013



Main results of the 2013 budget proposal

- Next year the primary balance is expected to be positive by **ISK 60,4 bn**, which is an increase of **ISK 24,5 bn** from the budget of 2012.
- Cash flow from operating activities will be negative by **ISK 28,9 bn** In the budget for 2012 it was **ISK 41,8 bn**.

2013

Total- and primary balance of the Treasury

In ISK billion nominal prices, accrual basis	Accounts 2011	Budget 2012	Estimate 2012	Proposal 2013
Revenue	486,5	522,9	533,6	570,3
Expenditure	576,0	543,7	559,4	573,1
Total balance	-89,4	-20,7	-25,8	-2,8
Total balance, percentage of GDP (%)	-5,5	-1,2	-1,5	-0,1
Revenue	467,2	501,8	510,2	545,4
Expenditure	510,4	465,9	478,5	485,0
Primary balance	-43,2	35,9	31,7	60,4
Primary balance, percentage of GDP (%) ...	-2,7	2,0	1,8	3,2



5. Expenditure side 2013

2013



Main expenditure changes from 2012 estimate

- Primary expenditure are expected to be **ISK 485,0 bn** in 2013 and increase by **ISK 6,6 bn** from estimate for 2012 in nominal prices.
- Total expenditure are expected to be **ISK 573,1 bn** and increase by **ISK 13,7 bn** from estimate for 2012.
- Excluding wage and price changes in 2013 the primary expenditure will decrease by **ISK 6,7 bn**.

2013



General criteria for restraint measures

In the 2013 budget proposal expenditure measures are based on general criteria:

- **1,75%** in general public services.
- **1,2%** in benefit systems and health insurance, **1%** in education and **0,5%** in public order and safety.
- No restraint measures were made in operational cost of hospitals, health care clinics, medical institutions and nursing homes.

2013



General criteria for restraint measures

- In 2013 treasury expenditure will be lowered by **ISK 4 bn** by turnover based restraint measures.
- Additionally, expenditure will be lowered by **ISK 2,7 bn** by selective measures.

2013

Restraint measures by economic categories*

In ISK million	Cuts m.kr	Total turnover	Cuts %
Current expenditure	-1.648	206.538	-0,8%
Transfers	-4.466	220.623	-2,0%
Maintenance and investment	-600	20.565	-2,9%
Total	-6.714	447.726	-1,5%

* Changes from the 2012 budget excluding interest expenditure and irregular items.

Restraint measures by economic function*

In ISK million	Cuts m.kr	Total turnover	Cuts %
Transportation, economic and unempl. affairs	-784	77.659	-1,0%
Health	-530	120.286	-0,4%
Social security and welfare	-1.301	128.348	-1,0%
Education	-606	50.104	-1,2%
General public services	-384	28.155	-1,4%
Public order and safety	-231	22.380	-1,0%
Culture, sport and religion	-135	15.578	-0,9%
Housing and distribution system	-44	5.215	-0,8%
Total turnover based measures	-4.014	447.726	-0,9%
Selective measures	-2.700	447.726	-0,6%
Total	-6.714	447.726	-1,5%

* Changes from the 2012 budget excluding interest expenditure and irregular items.



Changes in expenditure*

	ISK billion
Restraint measures	-6,7
Investment plans, child welfare and infrastructure	9,5
Expenditure obligations	3,1
Increase in price levels 2012	13,3
Interest expenditure	10,3
Total	29,5

* Changes from the 2012 budget

2013



Priorities: investment plan and child welfare

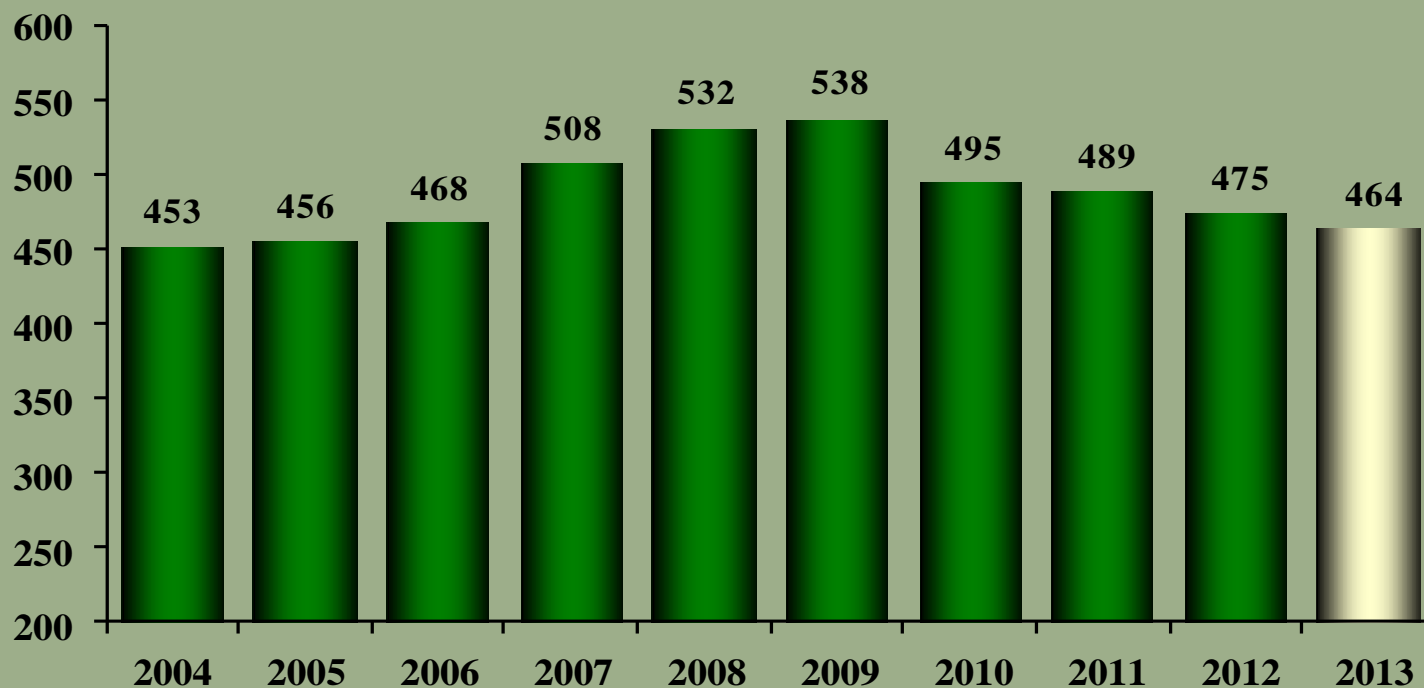
	ISK billion
Child benefits	2,5
Transport and road projects	2,5
Interest cost rebates / housing benefits	1,0
Development aid	1,0
Maternity/Paternity leave	0,8
Research Fund and the Technology Development Fund	1,3
Regional programmes	0,4
Total	9,5

2013



Primary expenditure on constant prices*

ISK billion.



* In 2013 budget proposal prices, excluding interest expenditure and irregular items.

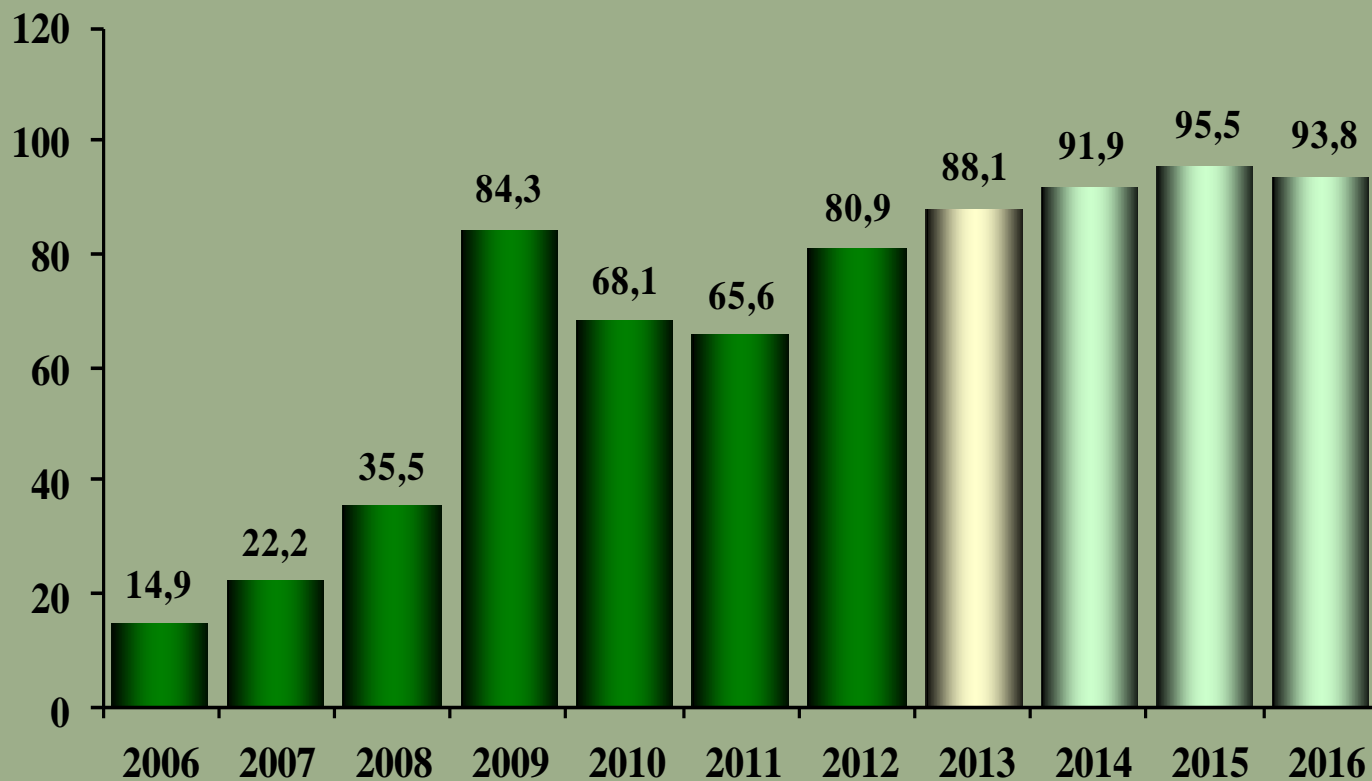
Adjusted for the transfer of services for disabled people from the state to local governments

2013



Interest expenditure

ISK billion



2013

Cumulative restraint measures 2009-2013 by economic categories*

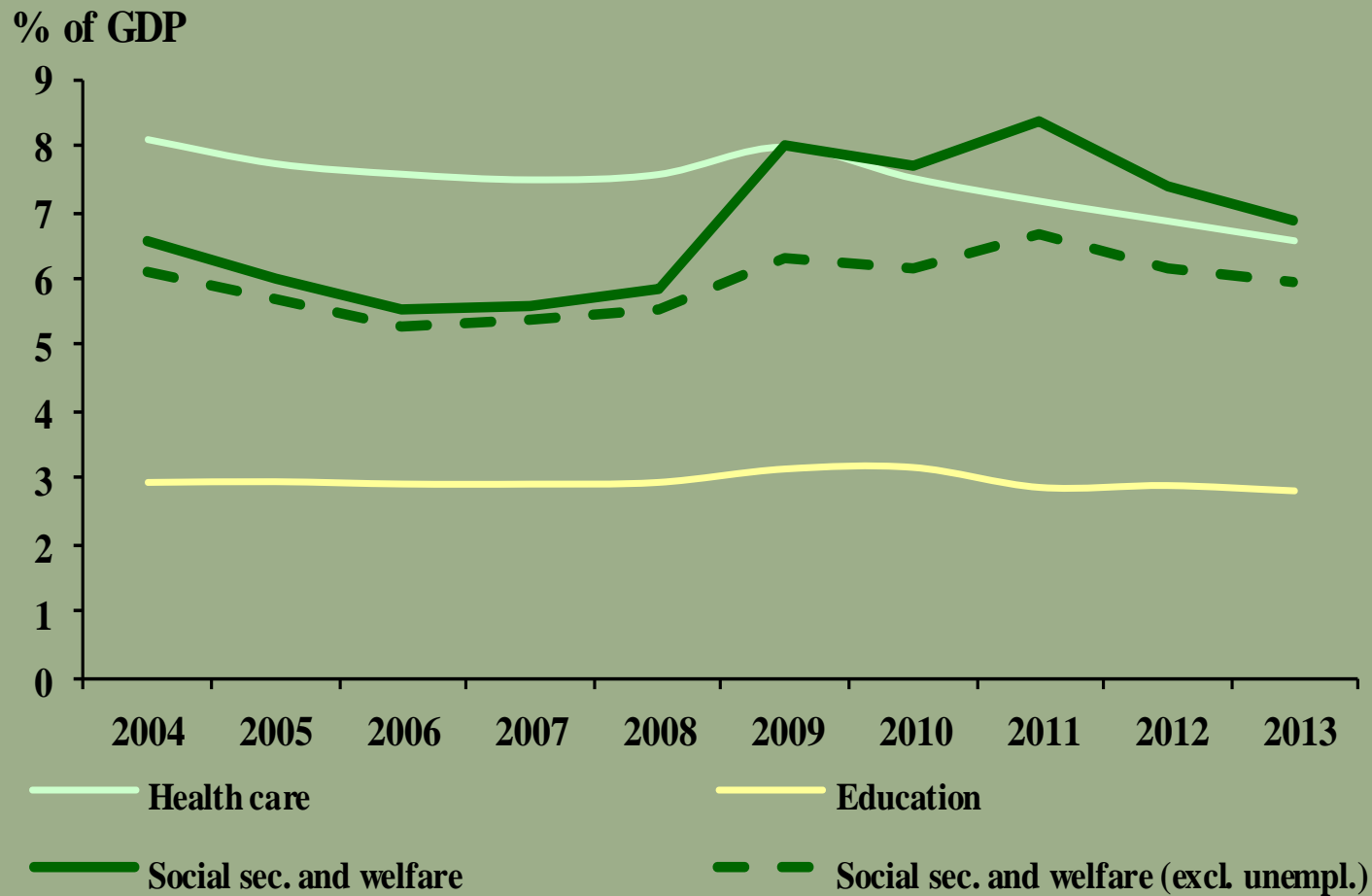
	Budget 2008	Cumulative restraint measures 2009-2013	Cuts %
Restraint measures, 2013 prices			
Current expenditure	232,8	50,9	21,9%
Transfers	224,3	38,9	17,4%
Maintenance and investment	61,6	26,9	43,7%
Total excl. freezing of wages and benefits	518,6	116,7	22,5%
Freezing of wages and benefits	518,6	19,1	3,7%
Total	518,6	135,8	26,2%

* Excluding restraint measures that did not realize and measures where plans on new expenditure in budget proposals were abandoned when the budget was enacted.

Changes from 2012 budget turnover excluding interest expenditure and irregular items in 2013 prices.



Welfare expenditure 2004-2013



2013



6. Revenue side 2013

2013



Main revenue changes from estimate for 2012

- Primary revenue are expected to be **ISK 545,4 bn** and increase by **ISK 35,2 bn** from estimate for 2012.
- Total revenue is estimated at **ISK 570,3 bn** and increases by **ISK 36,8 bn** from estimate for 2012.

2013

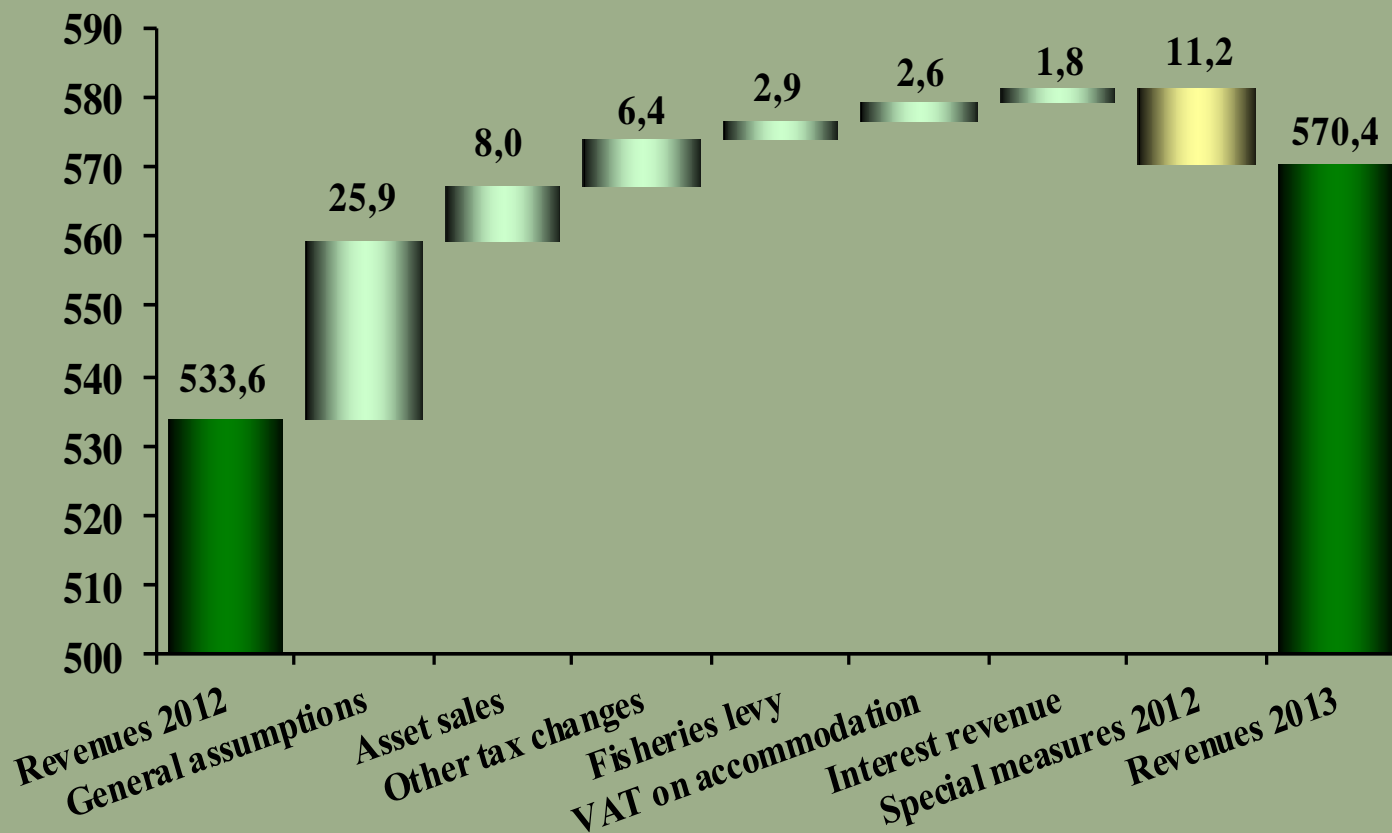
Cumulative revenue measures 2009-2013

ISK billion, accrual basis	2009	2010	2011	2012	2013
Revenues					
Tax system changes	18,4	64,7	78,9	99,4	117,7
Dividends, asset sales and other	0,0	0,0	0,0	2,0	10,0
PIT on allowance for use of private pension	5,3	4,6	6,4	3,2	0,1
Total	23,7	69,3	85,3	104,5	127,8
Total, % of GDP	1,6	4,5	5,2	5,9	6,8



Changes in revenue from 2012 estimates

ISK billion



2013



Special revenue measures in 2013*

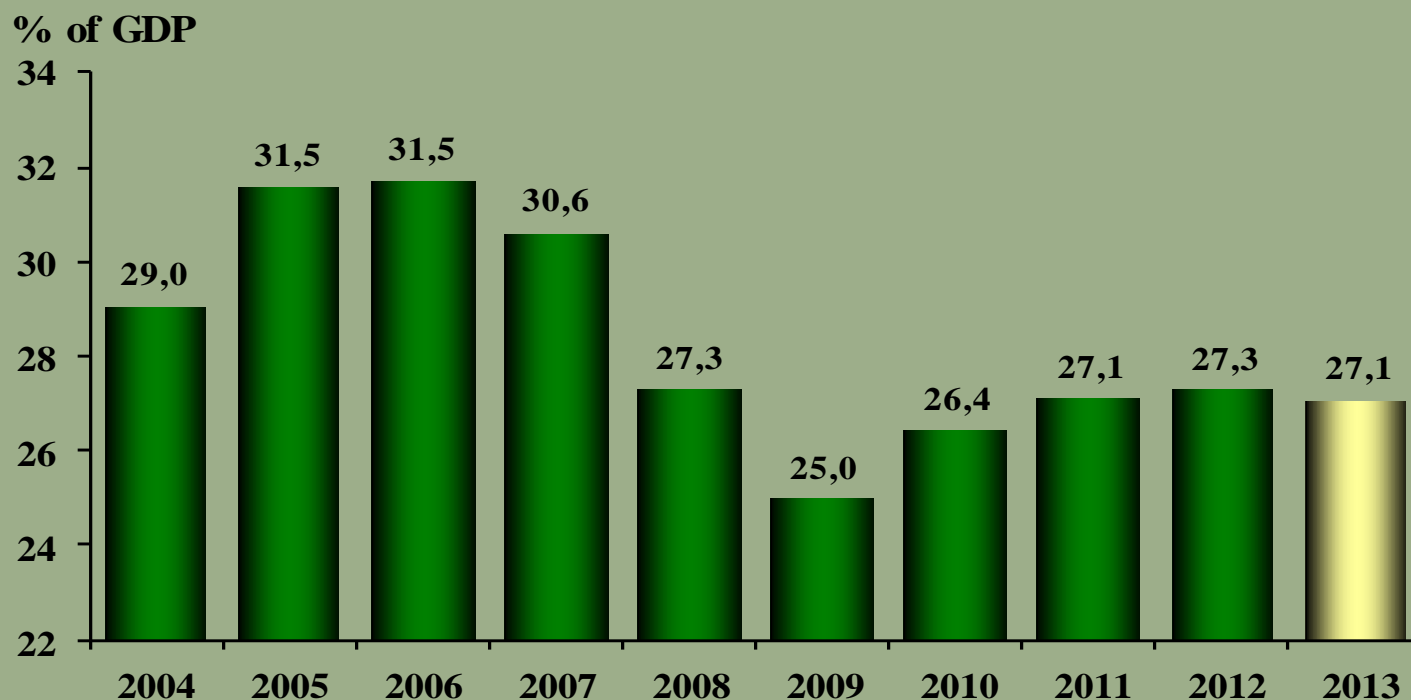
ISK billion	ISK bn.kr.
Carbon tax	3,6
Energy taxes	2,3
Previous assumptions, total	5,9
Financial activity tax	0,8
Value added tax	2,6
Excise tax on food products	0,8
Excise tax on motor vehicles	0,5
Excises on tobacco	1,0
Social security contribution	3,3
Total tax changes in 2013	9,0
Asset sales	8,0
Other measures	8,0
Total	22,9

* Measures that have yet to be enacted. In addition SSC share to the unemployment insurance fund decreases by ISK 3,3 bn.kr.

2013



Tax revenues, % of GDP*

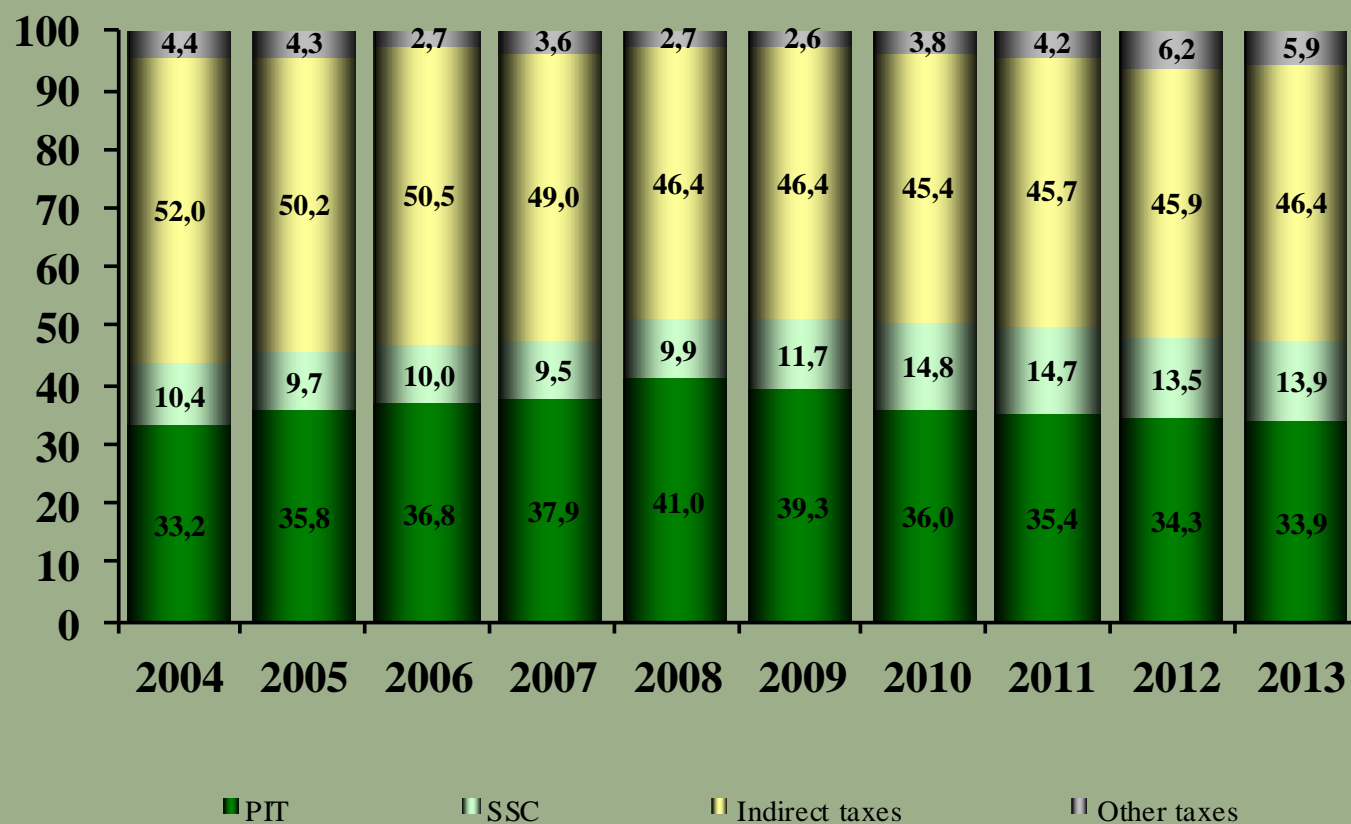


* Tax on capital gains from the sale of Icelandic Telecom in 2005 excluded.
Adjusted for the transfer of services for disabled people from the state to local governments

2013



Tax composition 2004-2013

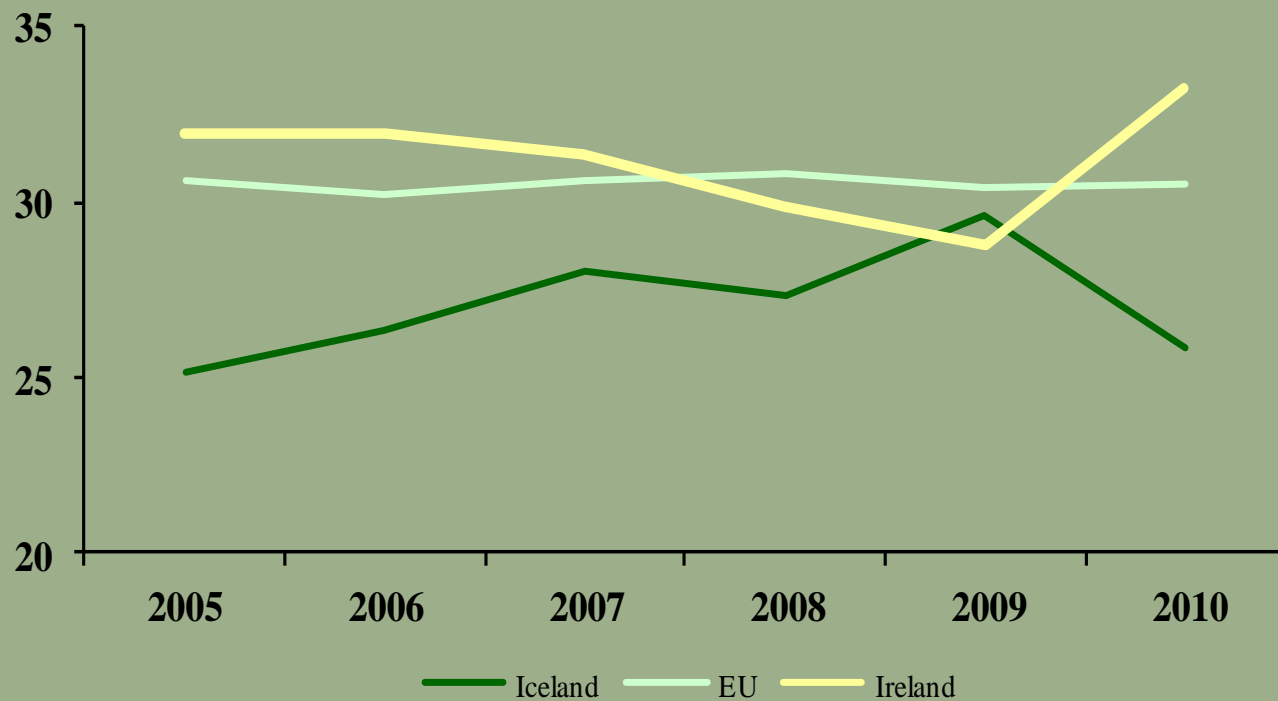


2013



Income distribution – Gini index

Gini index



2013



Gender Budgeting

- Three year plan for implementation was approved by the government in April 2011.
- Each ministry works on a main policy area over a three year period.
- Approx. **ISK 150 bn** of the budget turnover is being analysed from a gender perspective
- First phase of three has been completed. Results are presented in the fiscal budget proposal.
- Final reports will be issued in 2014.

2013



7. Iceland in an international perspective

2013



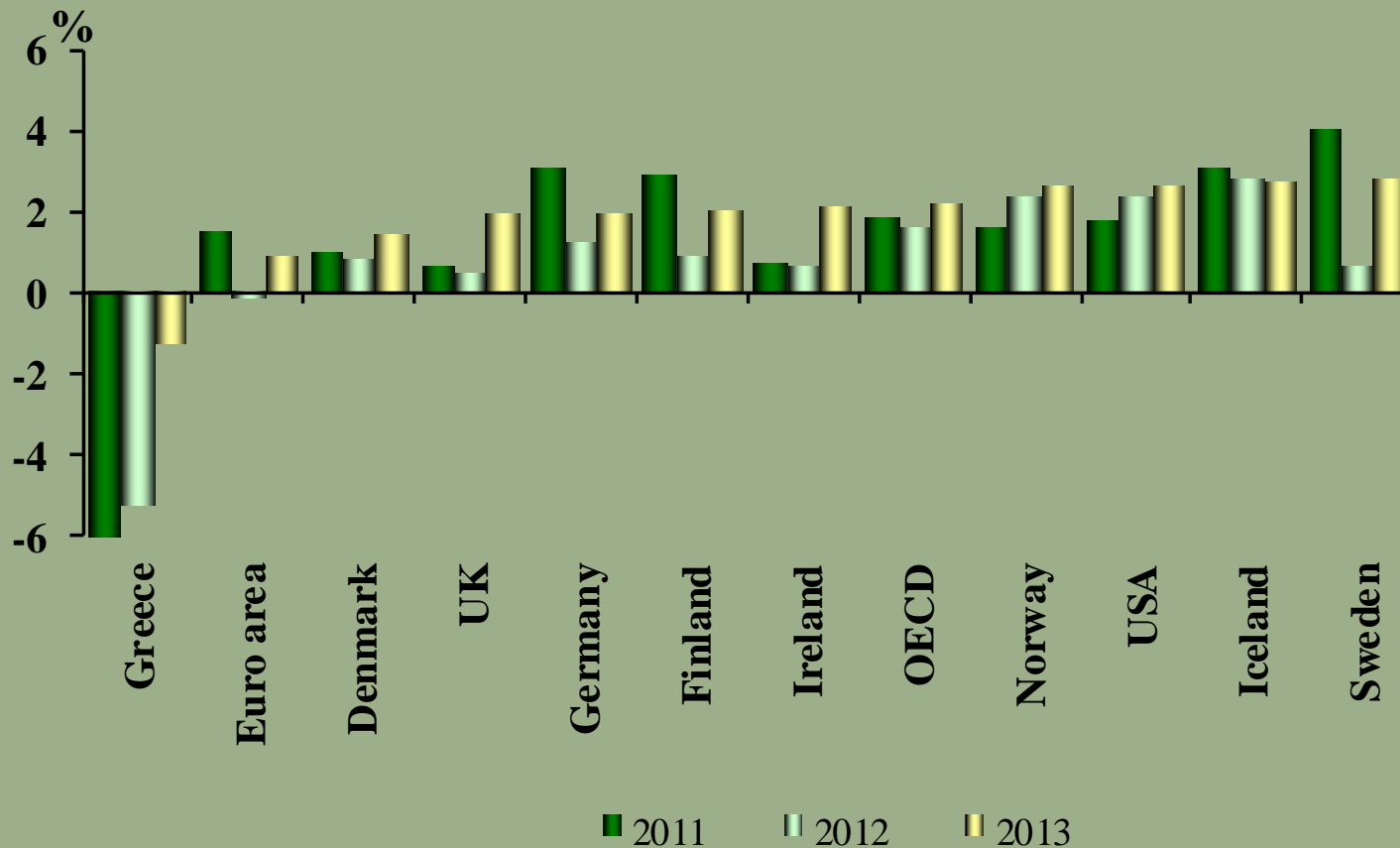
International comparison

- The debt accumulation of the general government has stopped and will decrease during the next few years. Next year it will be less than **90%** of GDP.
- Compared to western economies, Iceland currently has one of the highest economic growth. Forseeable that this will continue.
- The total balance of the central government, this year is considerably better than in many western countries.

2013



Economic growth in a few comparison countries

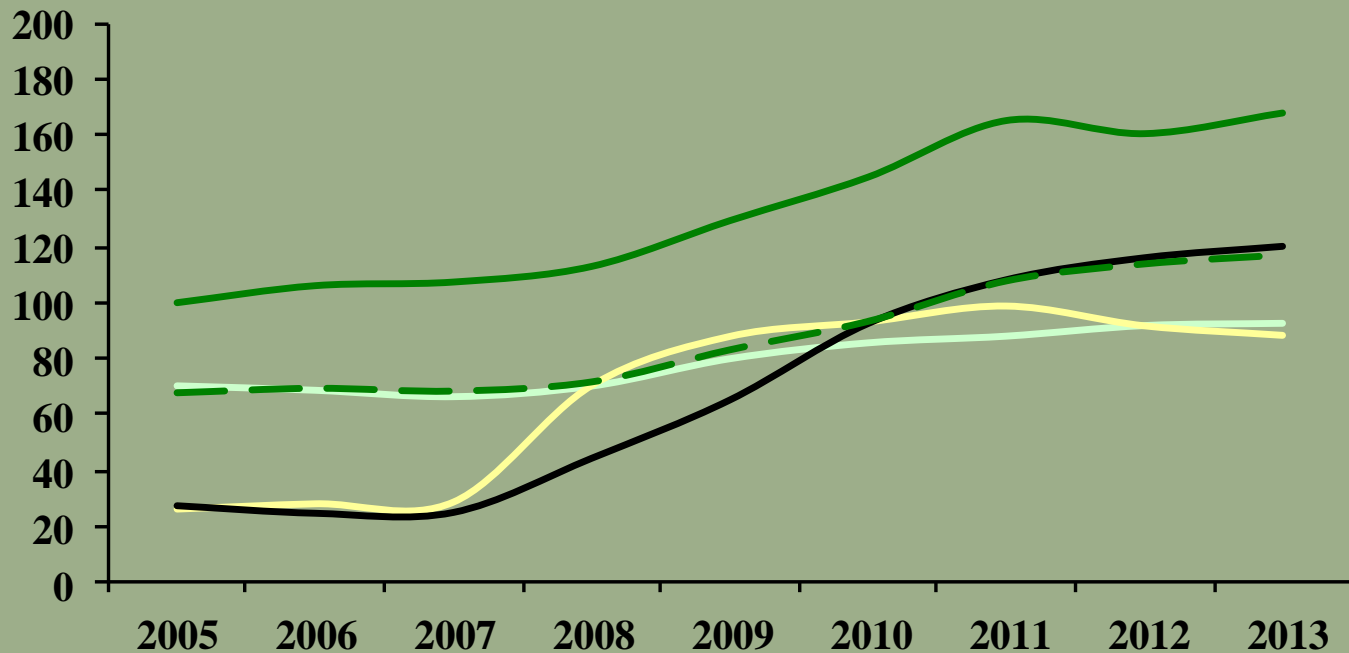


2013



Gross debt as a % of GDP in a few comparison countries*

% of GDP



— Euro area — Iceland — Ireland — Portugal — Greece

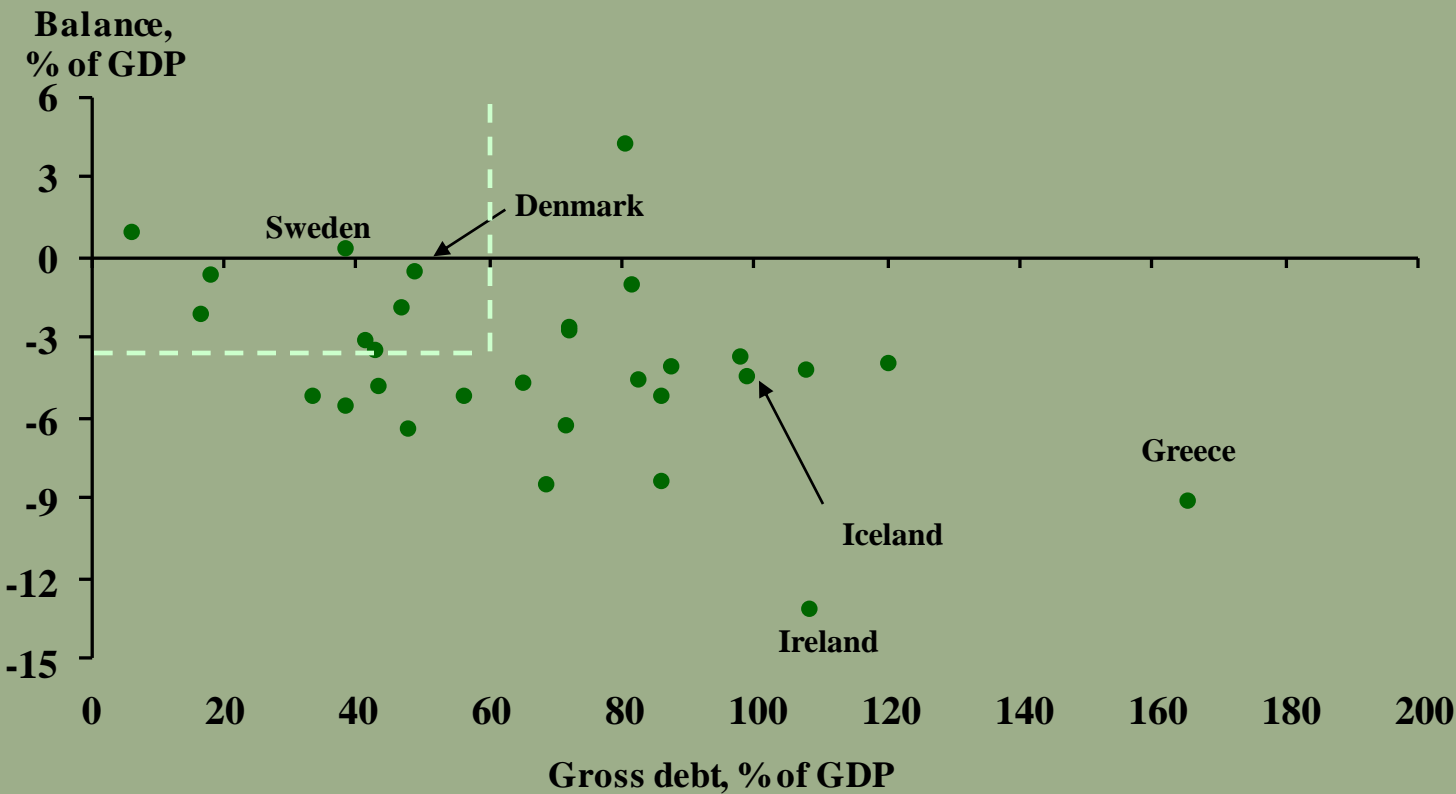
* General government gross debt.

Source: Eurostat, ECFIN

2013



Treasury balance and general government debt – EU and Iceland in 2011*



2013

* Countries inside the box meet the Maastricht criterias regarding balance of the Treasury and general government debt.

Source: Eurostat



8. Objectives in fiscal policy

2013



General government debt

- As of 2011 the debt-to-GDP ratio of the central government was about 84% and the local government 11%*.
- It is generally believed that debt-to-GDP ratio for the general government should be under 60%.

* The year 2011. Pension liabilities and other accounts payable excluded.

2013



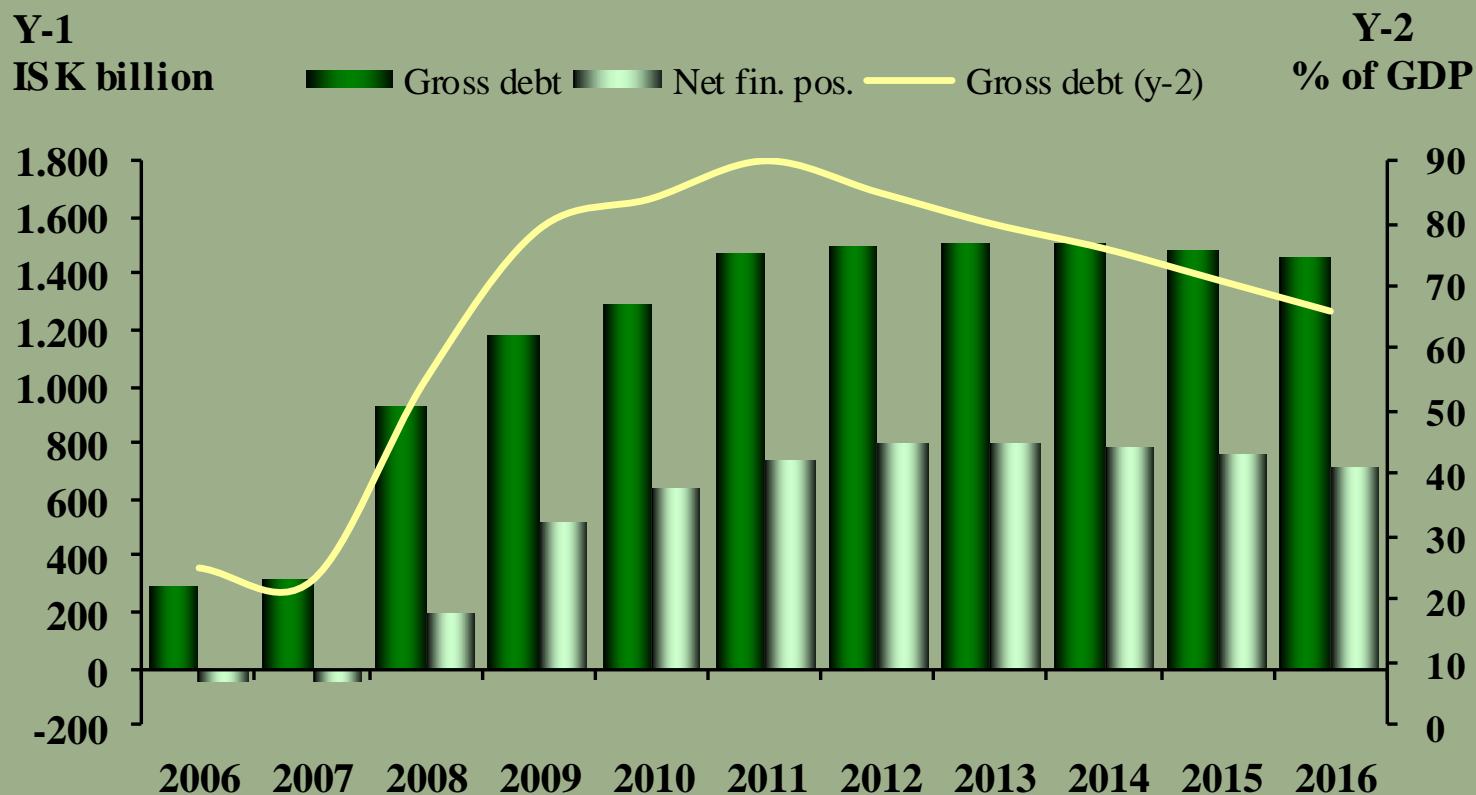
Debt objectives

- The Treasury should be able to reduce debt in the coming years by running a disciplined fiscal policy along with increasing economic growth.
- It is now timely to plan further long-term goals on how to lower government debt and analyse how and when they can be reached.
- Even if the yearly Treasury surplus was **ISK 50 bn** and this amount was used to pay up debt it would still take ten years to lower the debt by a third.

2013



Gross debt and net financial position



2013



Long-term fiscal strategy

- Decreasing the debt levels is a central part of the long-term fiscal strategy and furthermore it is important to take into account the liabilities of the Pension Fund for State Employees (LSR).
- Current outlook is that the B-divisions of LSR will be insolvent in 2026 and would then need a yearly contribution of **ISK 19 bn.**

2013



9. Conclusion

2013



Conclusion

Four years since the collapse of the financial system, the devaluation of the ISK and the fall of trust towards public institutions.

- New economic and social indicators show that Iceland is over the biggest difficulties.
- Economic growth is steady and societal optimism is increasing.
- The good fiscal prospects, steady economic growth and increased revenue of natural resources open up the possibility to wind down to some extent, recent cutbacks.

2013