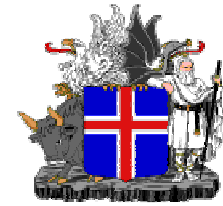


# **The Fiscal Budget Proposal for 2013**

## **Fiscal Consolidation Plan 2013-2016**

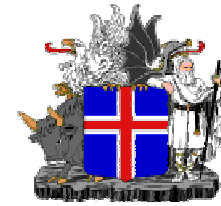
**September 11th 2012**

**2013**



1.  
**The Fiscal Consolidation Plan**  
*What has been accomplished*

2013

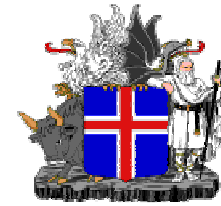


## The Fiscal Consolidation Plan

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

- The budget for 2013 assumes a slight deficit on the total balance which amounts to **ISK 2,8 bn**, or **0,1%** of GDP.
- In 2014 the total balance is expected to become positive by **ISK 17,8 bn**, or **0,9%** of GDP, according to the revised fiscal plan.

2013



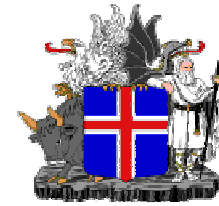
## Revision of the Fiscal Consolidation Plan

The prospects for reaching a surplus on the total balance in 2014\* are good. Rests on three main factors:

- Continued 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



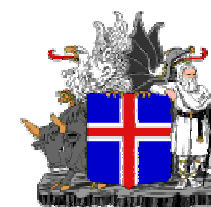
## Positive Primary Balance

Good prospects for a positive primary balance on the Treasury in 2012\*.

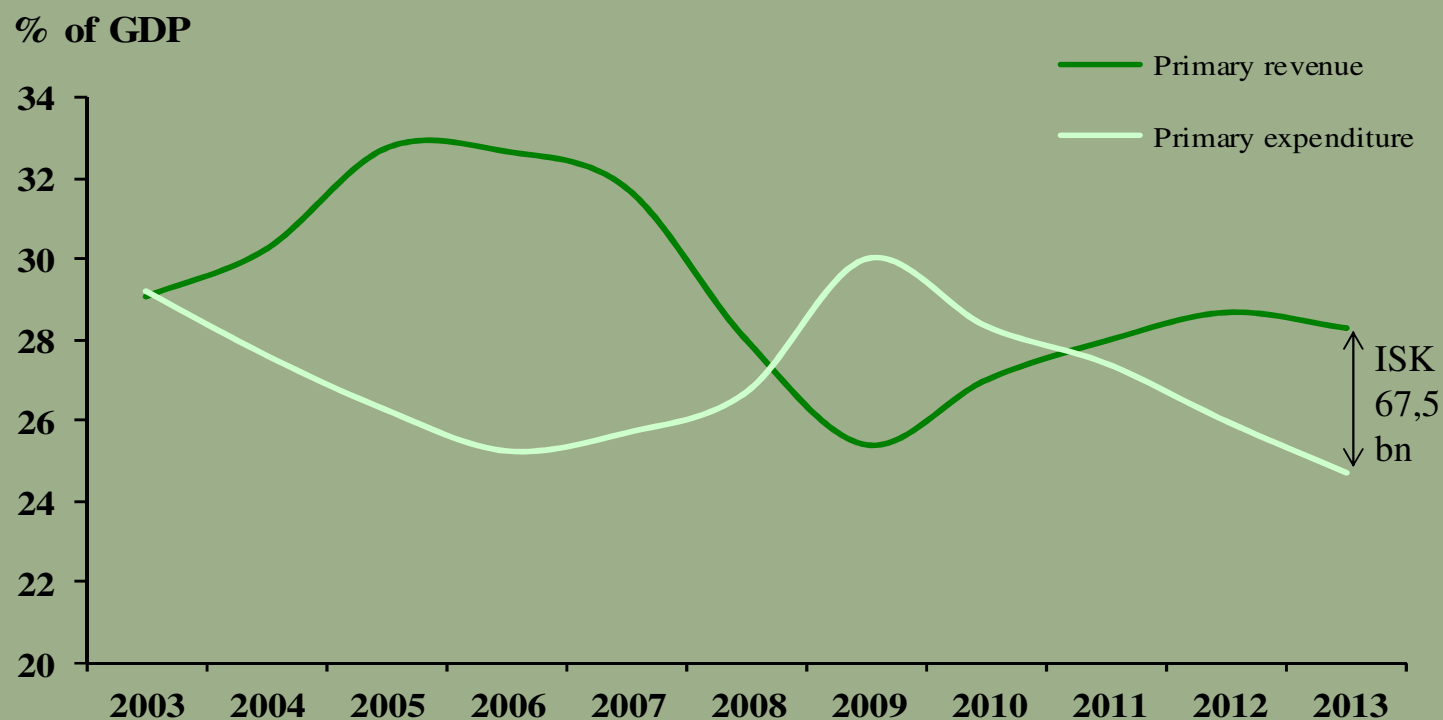
- The budget proposal assumes a positive primary balance of just over **ISK 60 bn** in 2013.

2013

\* Excluding one-off irregular expenditures not foreseen at this stage..



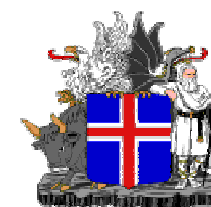
## Primary revenue and expenditure of the Treasury 2003-2013\*



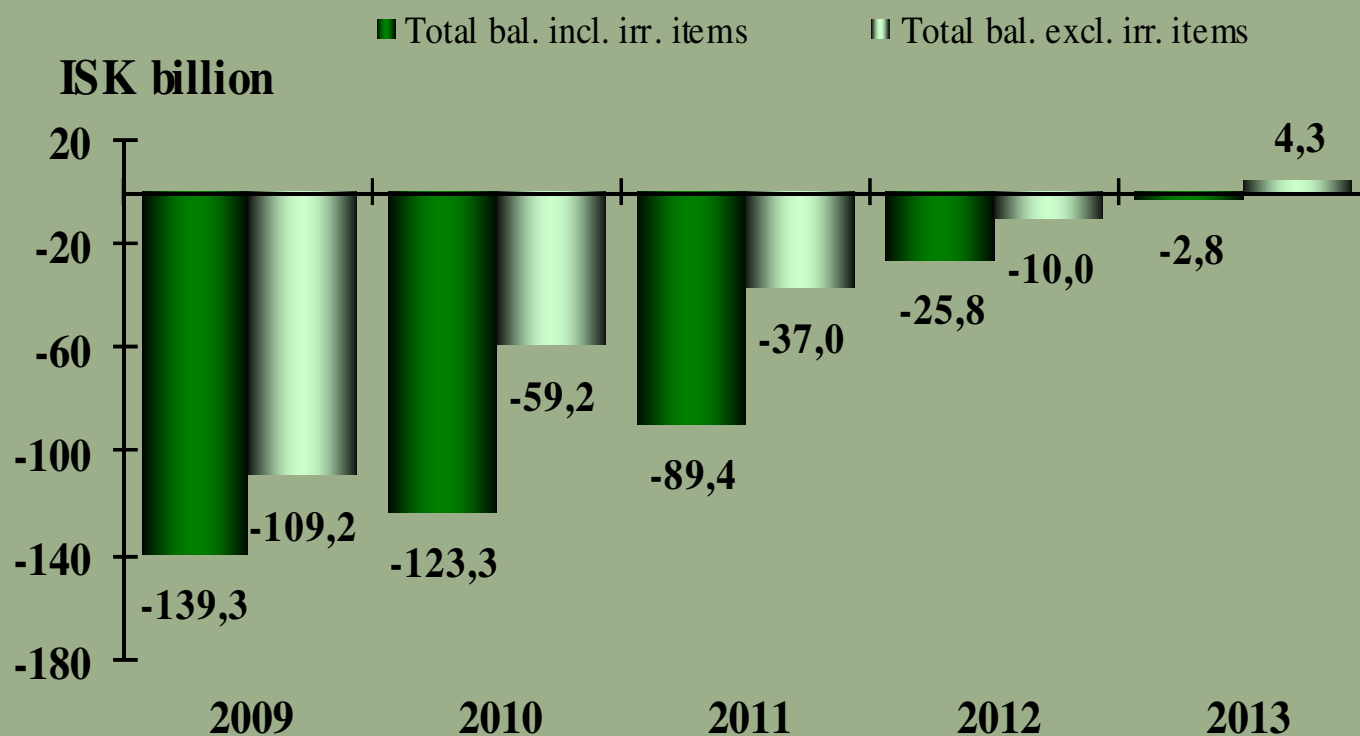
\* Excluding irregular items. Primary balance is ISK 60 bn in 2013 including irregular items.

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

2013

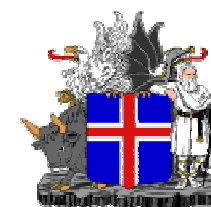


## Total balance with and without irregular items 2009-2013\*

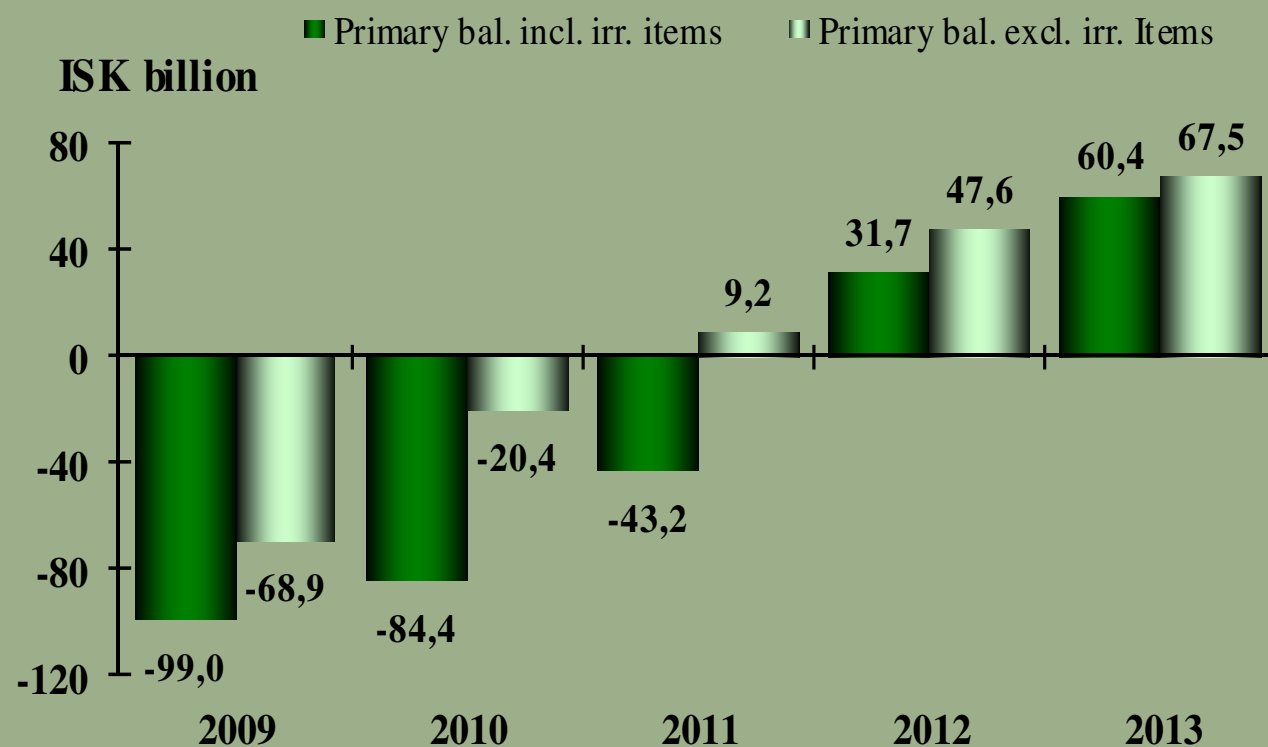


\* Adjusted for the transfer of services for disabled people from the state to local governments

2013



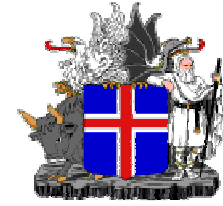
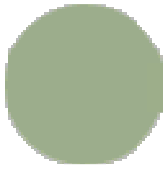
## Primary balance with and without irregular items 2009-2013\*



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

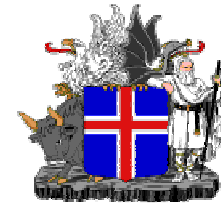
2013





## 2. New policy initiatives

2013



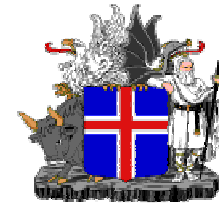
## **New areas of emphasis: Welfare of children and job creation**

Improved fiscal position makes it possible to increase contributions to families with children and to stimulate job creation.

### **Support for families with children:**

- Child benefits
- Housing benefits
- Maternity/Paternity leave

2013



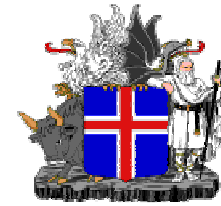
## **New areas of emphasis: Welfare of children and job creation**

Specific measures to support the economic recovery.

### **Investment plan and job creation:**

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

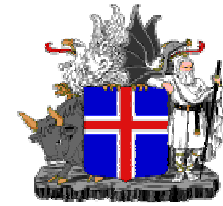
2013



## Investment Plan

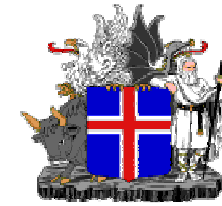
- The investment plan is based upon the precondition that the medium-term fiscal strategy will take precedence and that the investment plan will not disrupt the goals of achieving positive balance in the fiscal finances.

2013



### 3. Economic prospects

2013

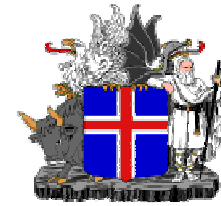


## Continued economic growth – increased employment

Turnaround in economic growth 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%** and is projected at **2,8%** for this year. A steady growth is expected throughout the period of the current medium-term fiscal strategy (until 2017).

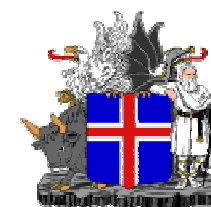
2013



## Economic assumptions for the Fiscal Budget Proposal

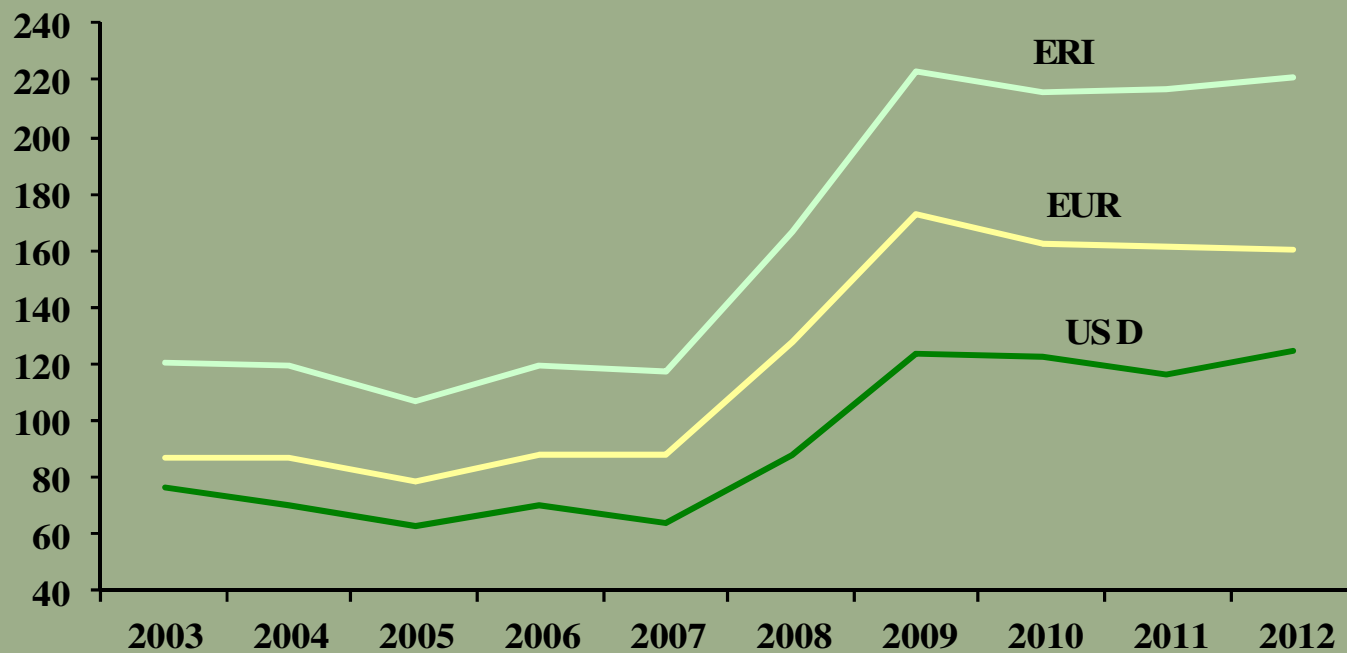
- Economic growth **2,7%**
- Inflation **3,9%**
- Unemployment **5,3%**
- Current account deficit **-2,1%** of GDP
- Increase in real wages by **1,7%**

2013



## ISK exchange rates: ERI, EUR og USD

ISK/ERI

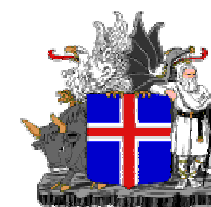


*Average exchange rate 2003-2012*

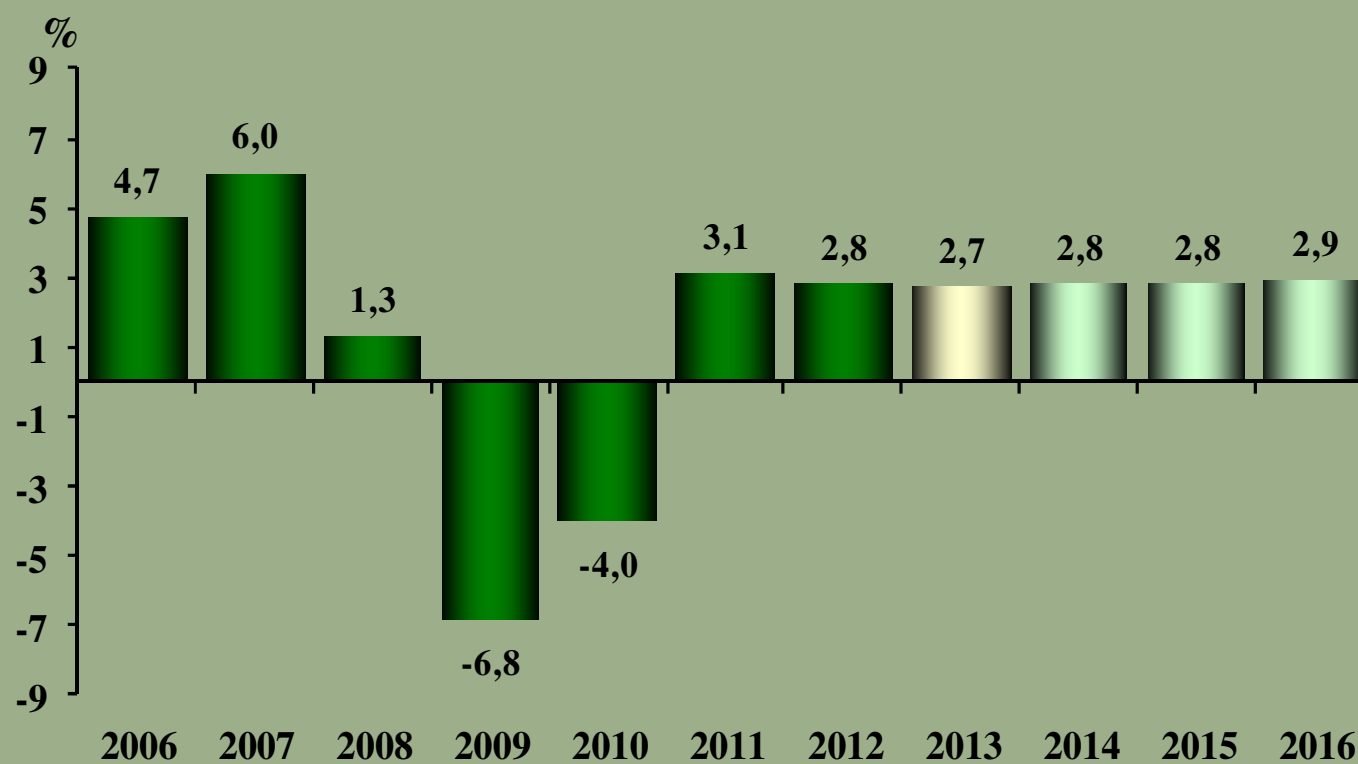
*Source: The Central Bank of Iceland*

2013



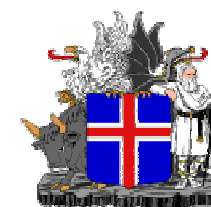


## Economic growth

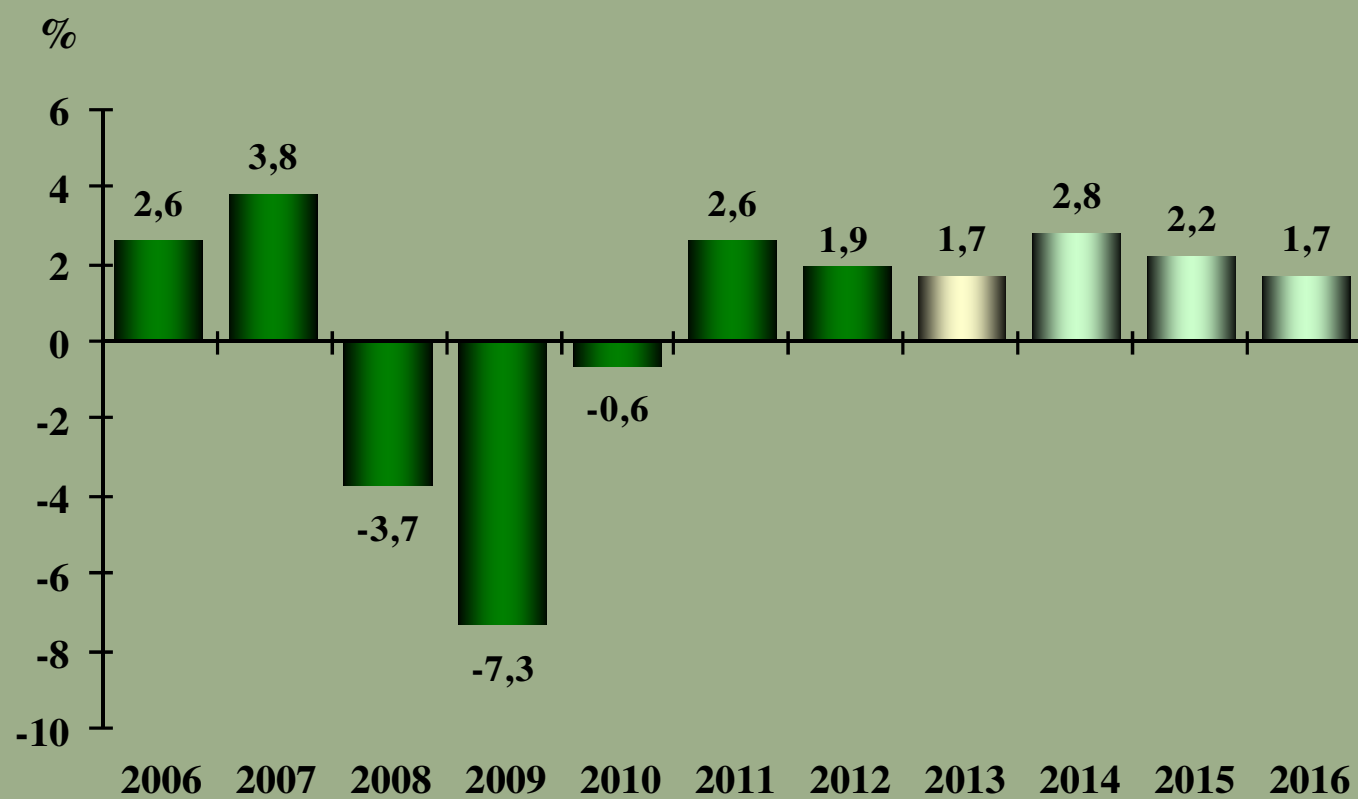


Source: Statistics Iceland

2013

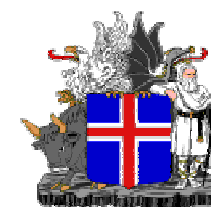


## Real wages

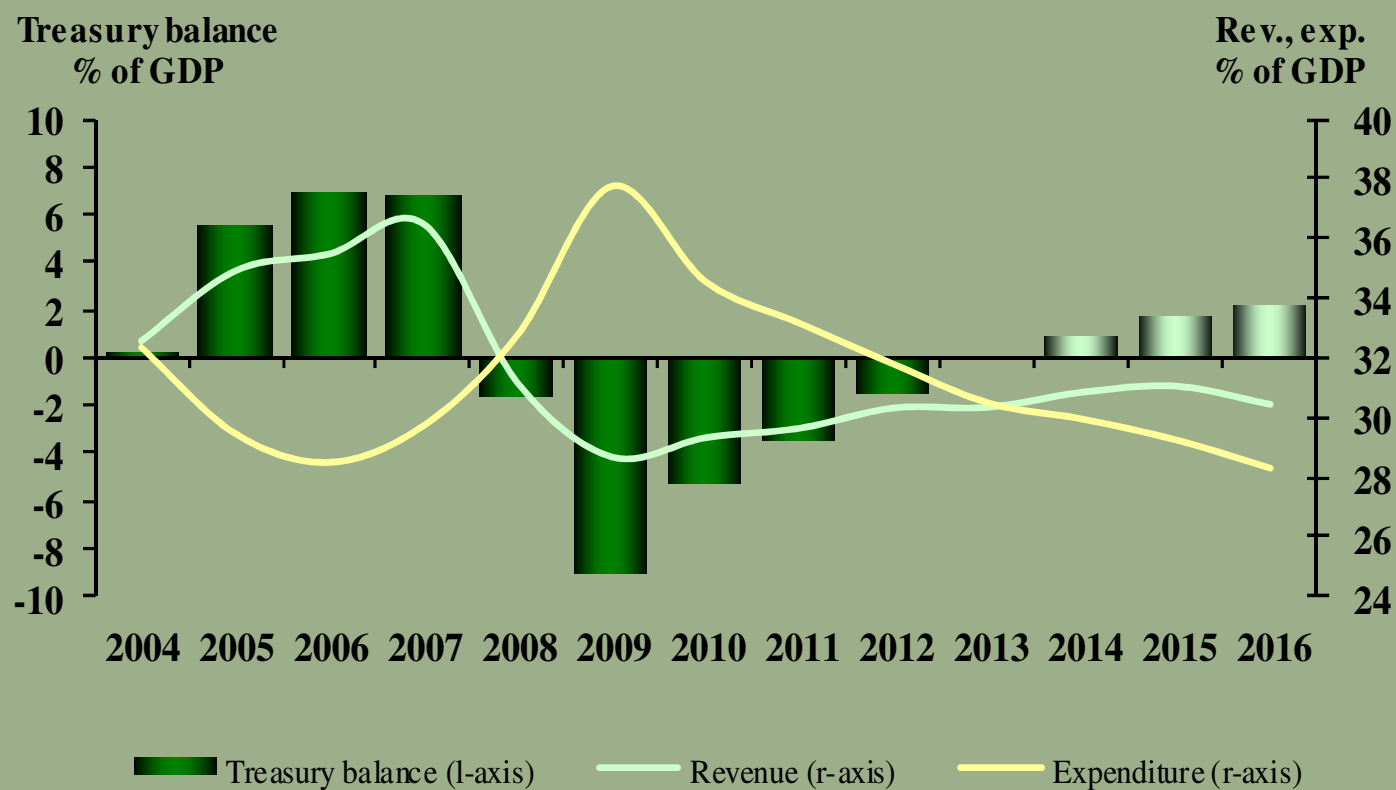


Source: Statistics Iceland

2013

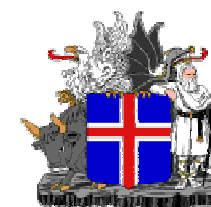


## Treasury balance 2004-2016\*

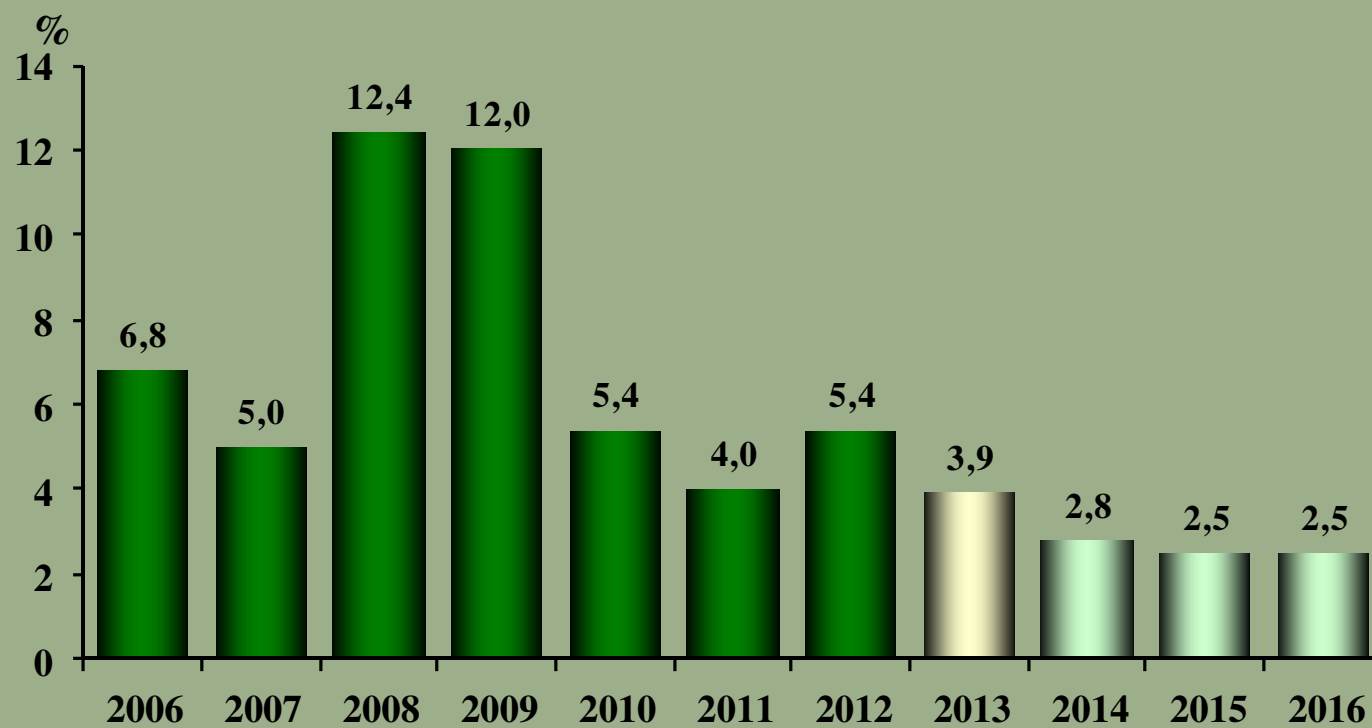


2013

\* Irregular one-off items excluded

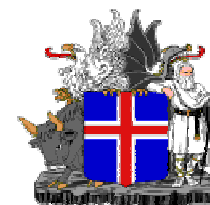


## Inflation

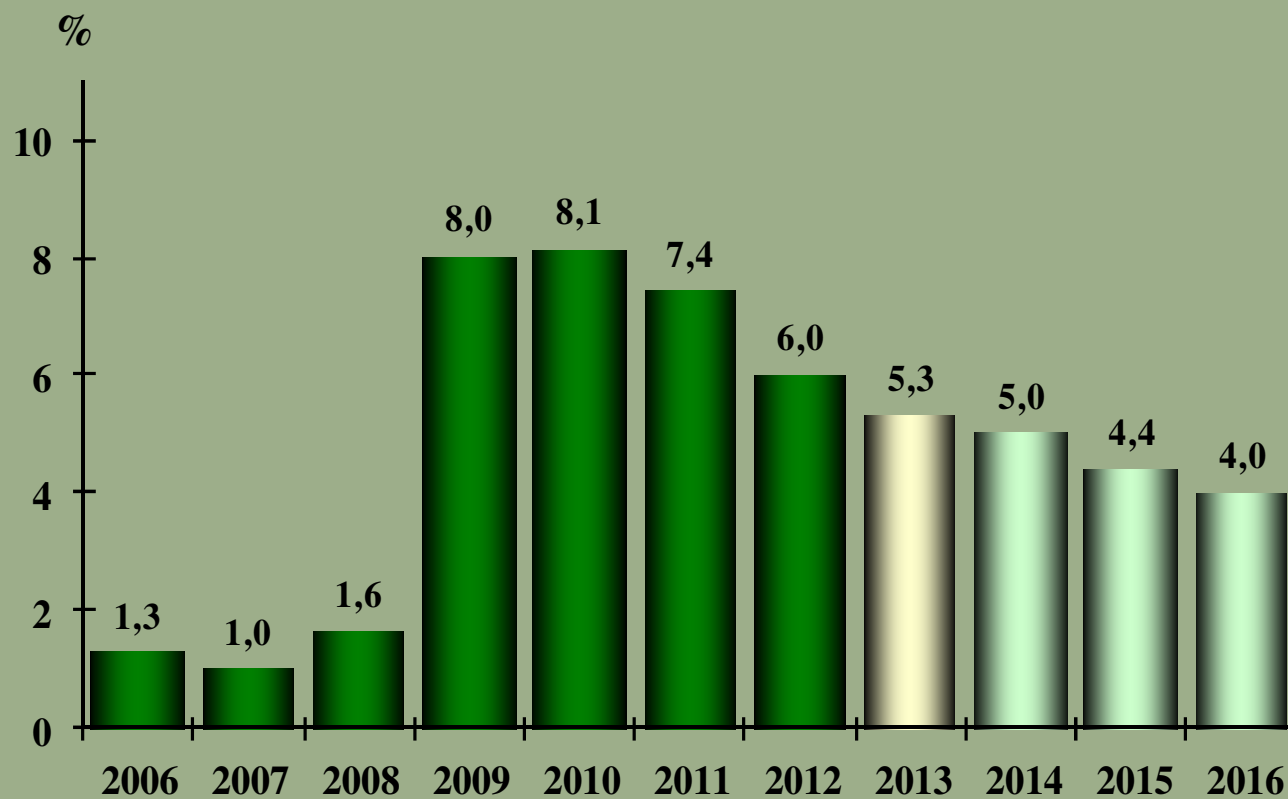


Source: Statistics Iceland

2013

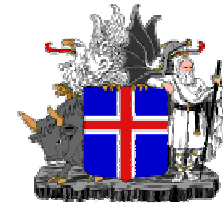
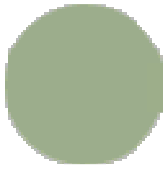


## Unemployment



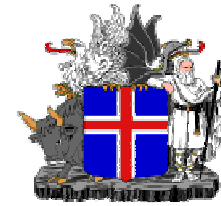
Source: Statistics Iceland

2013



**4.  
Treasury Balance 2013**

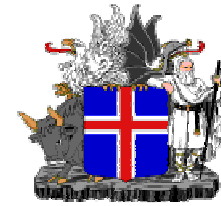
**2013**



## Main results of the 2013 budget proposal

- In 2013 it is estimated that the total balance will be negative by **ISK 2,8 bn.** The deficit on the total balance in 2012 is expected to be **ISK 25,8 bn.**
- Excluding irregular items, the total balance for next year is estimated to be positive by **ISK 4,3 bn.**

2013



## Main results of the 2013 budget proposal

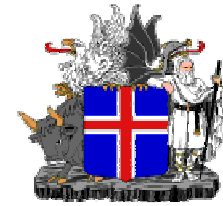
- Next year the primary balance is expected to be positive by **ISK 60,4 bn**, which is an increase of **ISK 24,5 bn** from the budget for 2012.
- Cash flow from operating activities will be negative by **ISK 28,9 bn** next year compared to **ISK 41,8 bn** in the 2012 budget.

2013



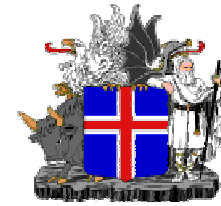
## Total- and primary balance of the Treasury

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
<b>Total balance, percentage of GDP (%) .....</b>	<b>-5,5</b>	<b>-1,2</b>	<b>-1,5</b>	<b>-0,1</b>
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
<b>Primary balance, percentage of GDP (%) ...</b>	<b>-2,7</b>	<b>2,0</b>	<b>1,8</b>	<b>3,2</b>



**5.  
Expenditure side 2013**

**2013**

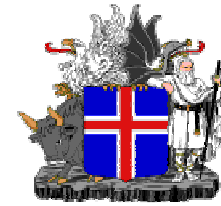


## **Main objectives on the expenditure side**

As before, restraint measures are taken with the aim of safeguarding welfare services, the education system, and law enforcement and focus more on expenditure cutting in general administrative operations.

- This has been in line with the government's objective to shield the welfare system.
- This year's fiscal budget emphasizes improvement in conditions for families.

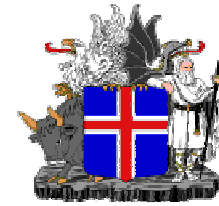
2013



## Main expenditure changes from 2012 estimate

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

2013

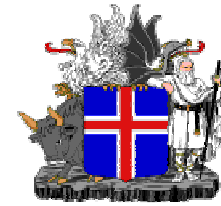


## General criteria for restraint measures

In the 2013 proposal, expenditure measures are based on the following criteria:

- **1,75%** in the turnover of 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 in operational costs of hospitals, health care clinics, medical institutions and nursing homes.

2013



## General criteria for restraint measures

- In 2013, Treasury expenditures will be lowered by **ISK 4 bn** by turnover based restraint measures.
- In addition, expenditures will be lowered by **ISK 2,7 bn** with a few 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%
<b>Total .....</b>	<b>-6.714</b>	<b>447.726</b>	<b>-1,5%</b>

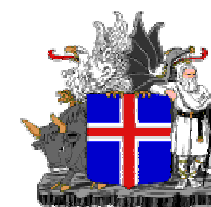
\* Changes from the 2012 budget excluding interest expenditure and irregular items.

## 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%
<b>Total turnover based measures .....</b>	<b>-4.014</b>	<b>447.726</b>	<b>-0,9%</b>
Selective measures .....	-2.700	447.726	-0,6%
<b>Total .....</b>	<b>-6.714</b>	<b>447.726</b>	<b>-1,5%</b>

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



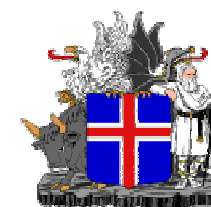


## Changes in expenditure\*

	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
<b>Total</b>	<b>29,5</b>

\* Changes from the 2012 budget

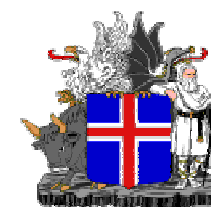
2013



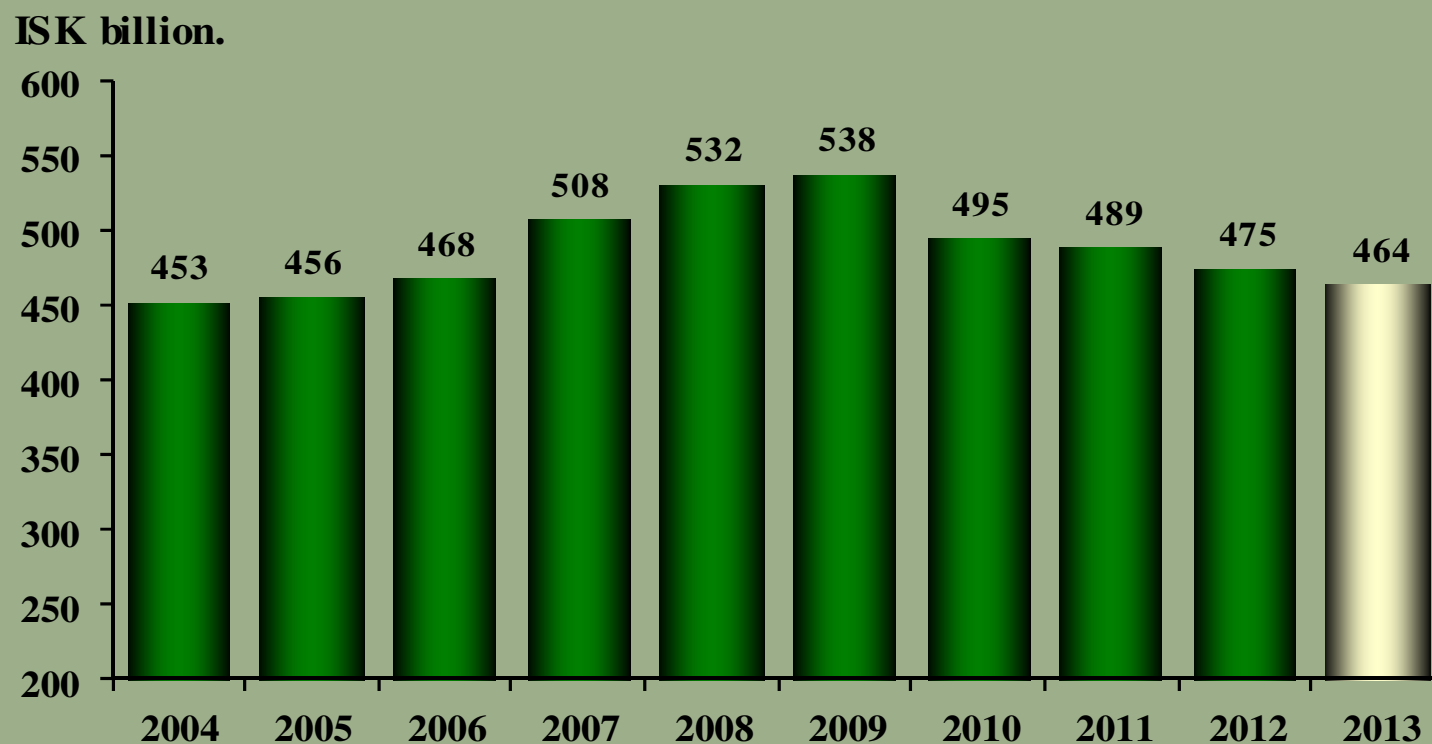
## Priorities: investment plan and child welfare

	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
<b>Total</b>	<b>9,5</b>

2013



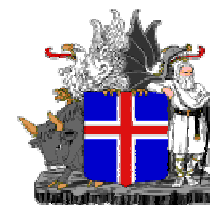
## Primary expenditure in constant prices\*



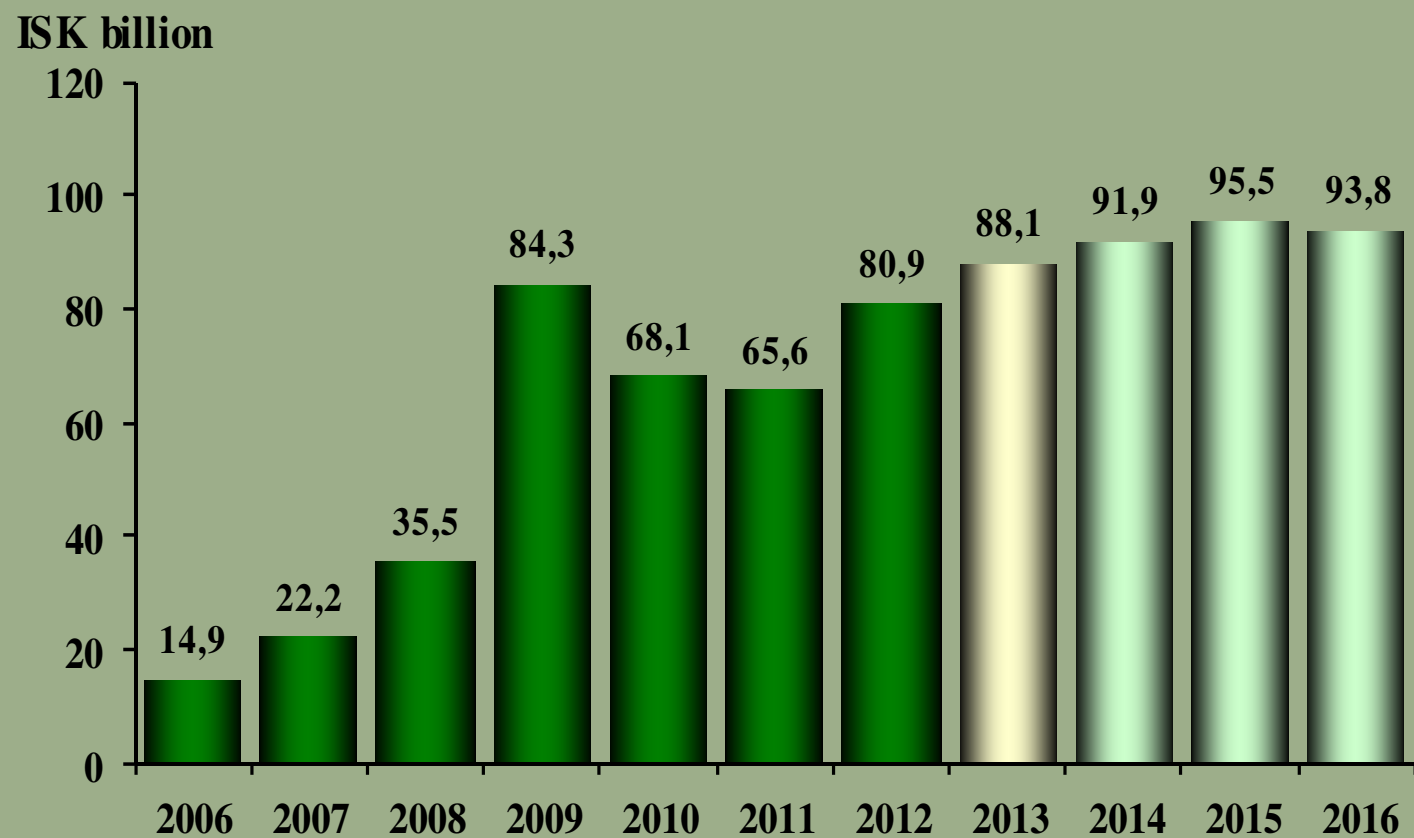
\* In 2013 budget proposal prices, excluding interest expenditure and irregular items.

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

2013



## Interest expenditure



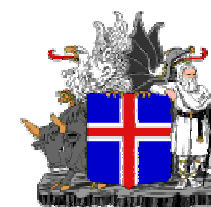
2013

## Cumulative restraint measures 2009-2013 by economic categories\*

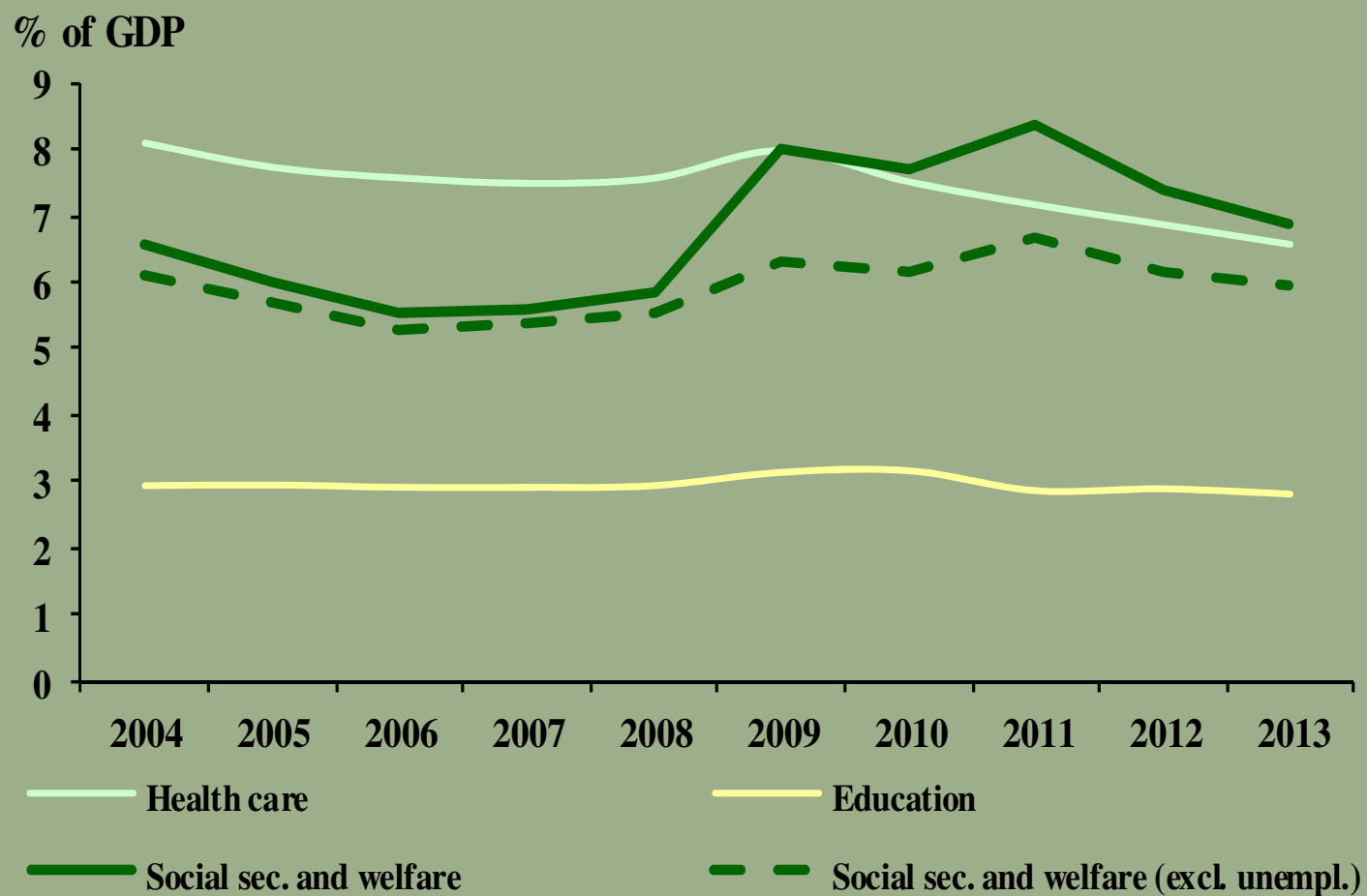
Restraint measures, 2013 prices	Budget 2008	Cumulative restraint measures 2009-2013	Cuts %
Current expenditure .....	232,8	50,9	21,9%
Transfers .....	224,3	38,9	17,4%
Maintenance and investment .....	61,6	26,9	43,7%
<b>Total excl. freezing of wages and benefits</b>	<b>518,6</b>	<b>116,7</b>	<b>22,5%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

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

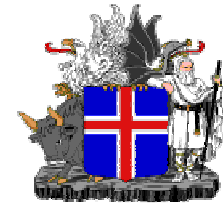
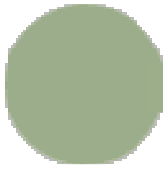
Changes from 2012 budget turnover excluding interest expenditure and irregular items in 2013 prices.



## Welfare expenditure 2004-2013

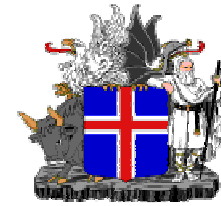


2013



**6.  
Revenue side 2013**

**2013**



## Main revenue changes from estimate for 2012

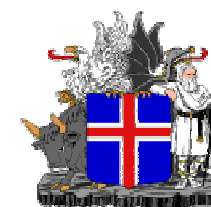
- Primary revenue is projected at **ISK 545,4 bn** in 2013 which is an increase of **ISK 35,2 bn** from the estimate for 2012.
- Total revenue is estimated at **ISK 570,3 bn** in 2013 and increases by **ISK 36,8 bn** from the estimate for 2012.

2013

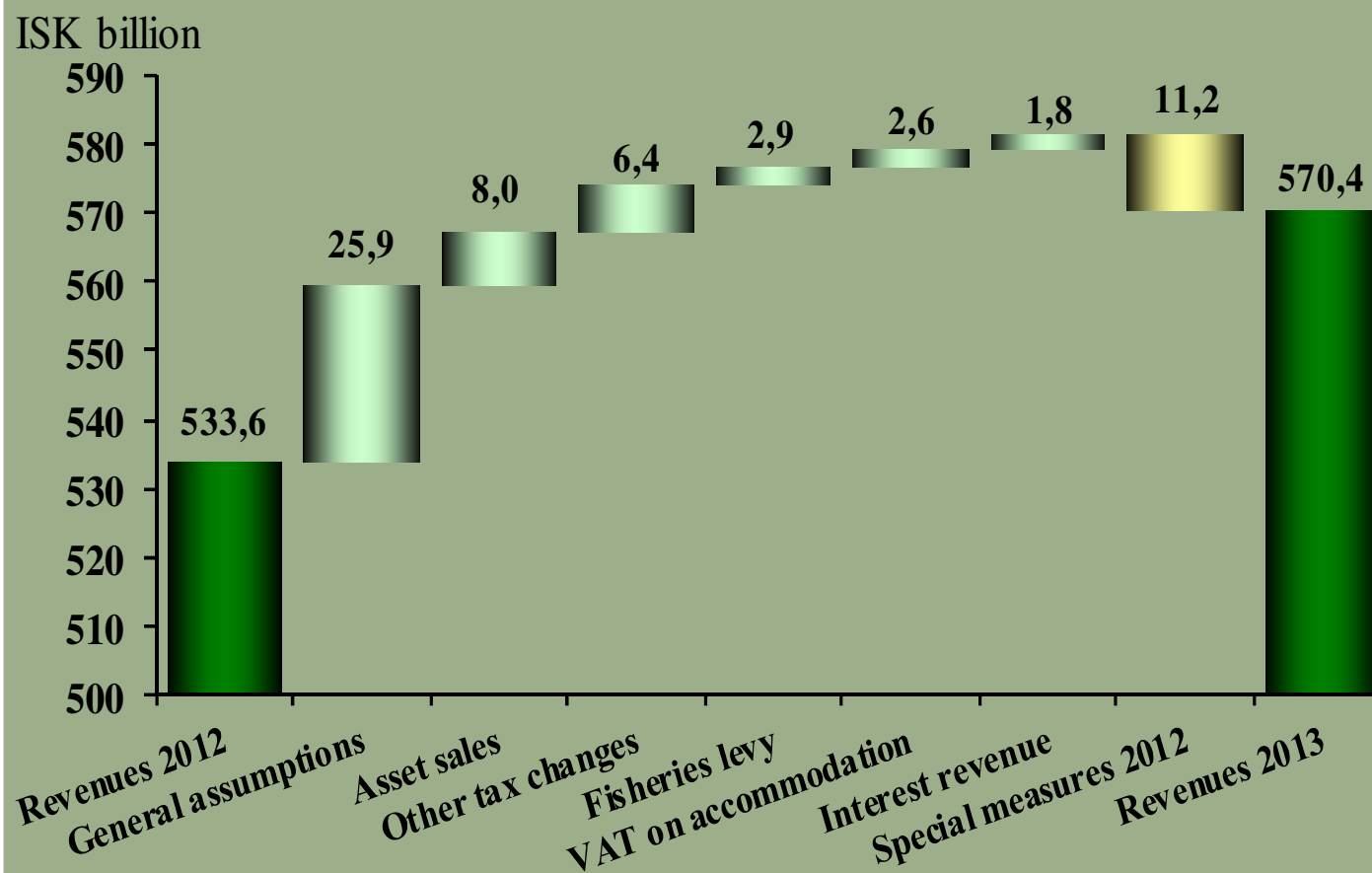


## Cumulative revenue measures 2009-2013

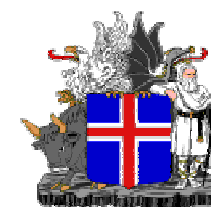
ISK billion, accrual basis	2009	2010	2011	2012	2013
<b>Revenues</b>					
Tax system changes .....	18,4	64,7	78,9	99,4	117,7
Dividends, asset sales and other .....	0,0	0,0	0,0	2,0	10,0
PIT on allowance for use of private pension ....	5,3	4,6	6,4	3,2	0,1
<b>Total .....</b>	<b>23,7</b>	<b>69,3</b>	<b>85,3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



## Changes in revenue from 2012 estimate



2013

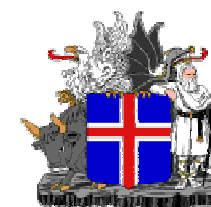


## Special revenue measures in 2013\*

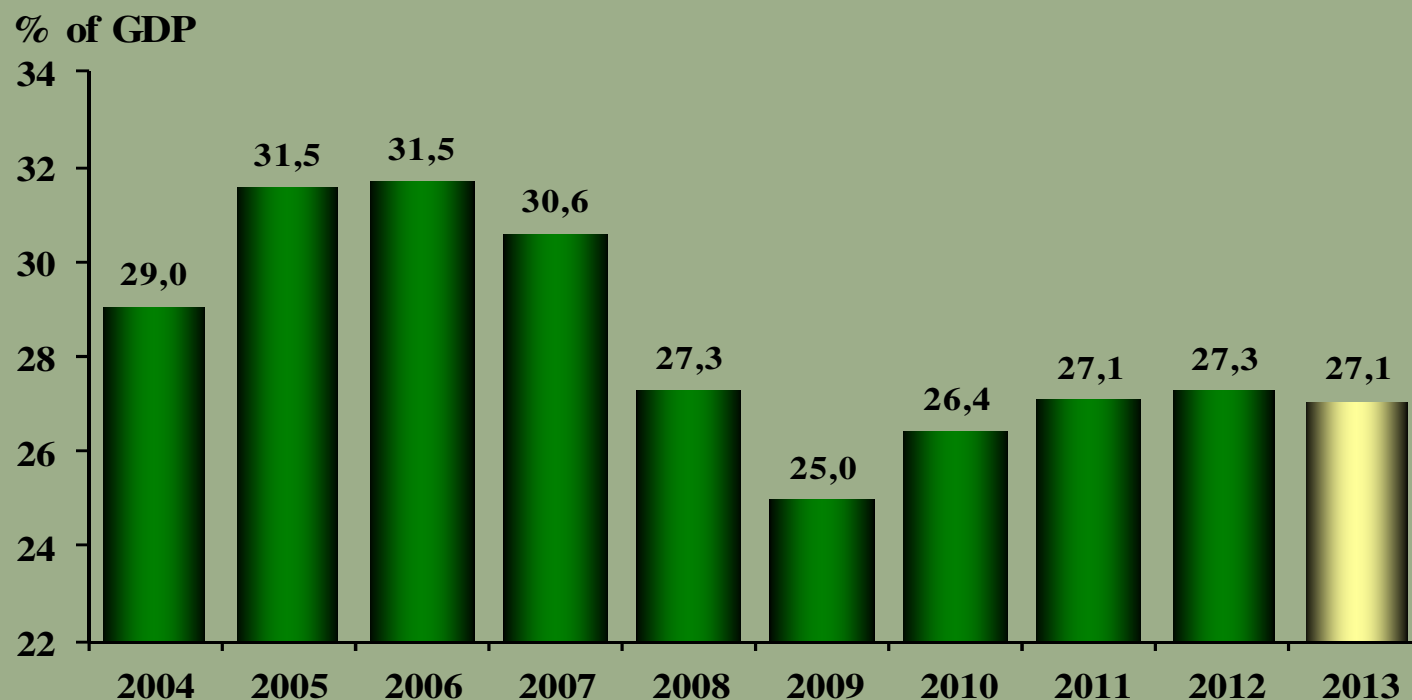
ISK billion	ISK bn.kr.
Carbon tax .....	3,6
Energy taxes .....	2,3
<b>Previous assumptions, total .....</b>	<b>5,9</b>
Financial activity tax .....	0,8
Value added tax .....	2,6
Excise tax on food products .....	0,8
Excise tax on motor vehicles .....	0,5
Excises on tobacco .....	1,0
Social security contribution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

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

2013

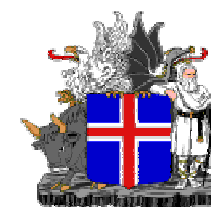


## Tax revenues, % of GDP\*

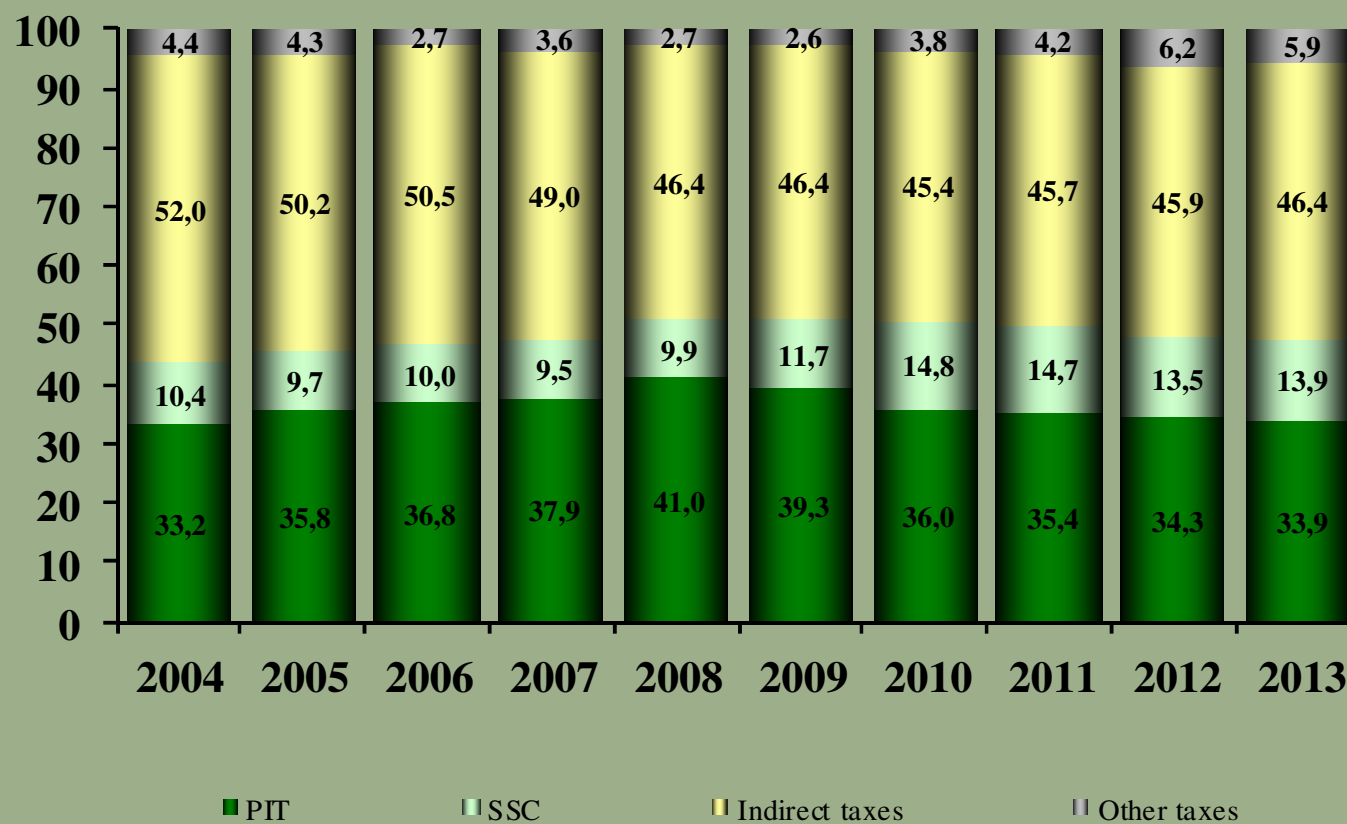


\* Tax on capital gains from the sale of Icelandic Telecom in 2005 excluded.  
Adjusted for the transfer of services for disabled people from the state to local governments

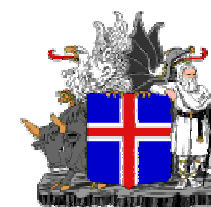
2013



## Tax composition 2004-2013

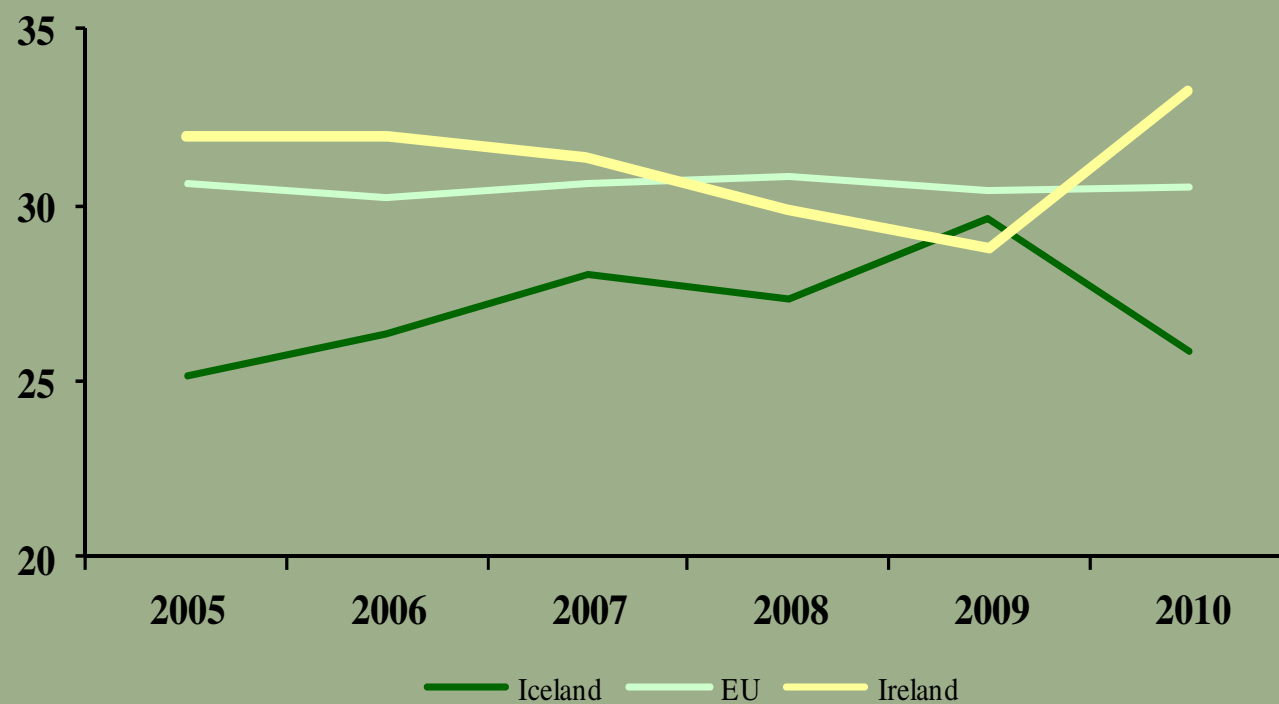


2013



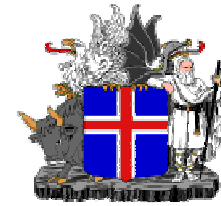
## Income distribution – Gini index

Gini index



2013

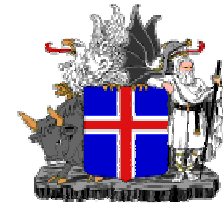
Source: Eurostat



## 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.

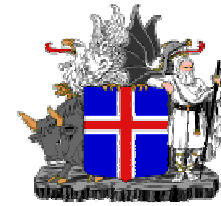
2013



**7.  
Iceland in an international  
perspective**

2013

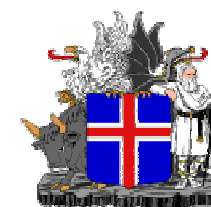




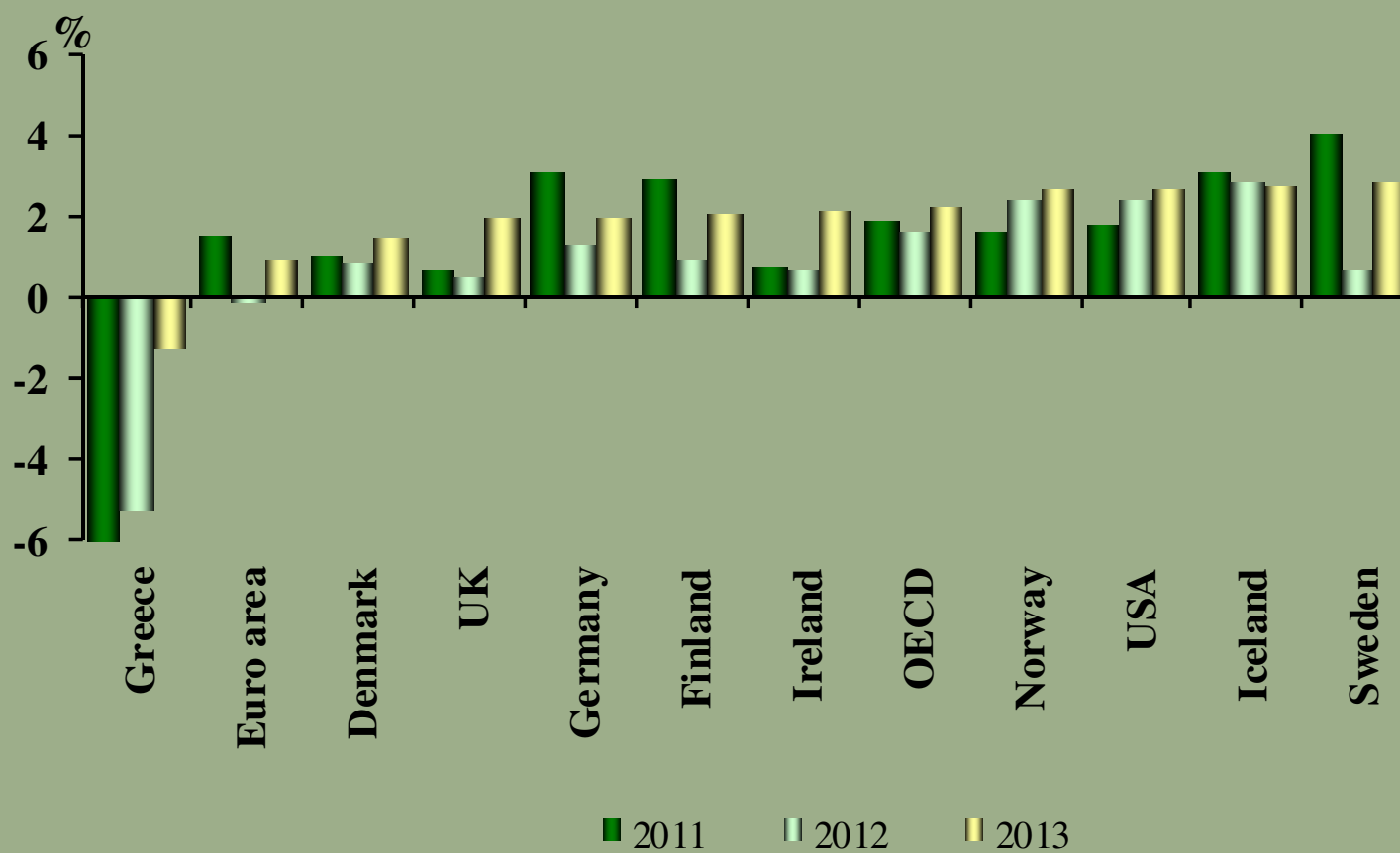
## International comparison

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

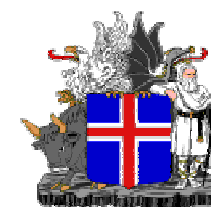
2013



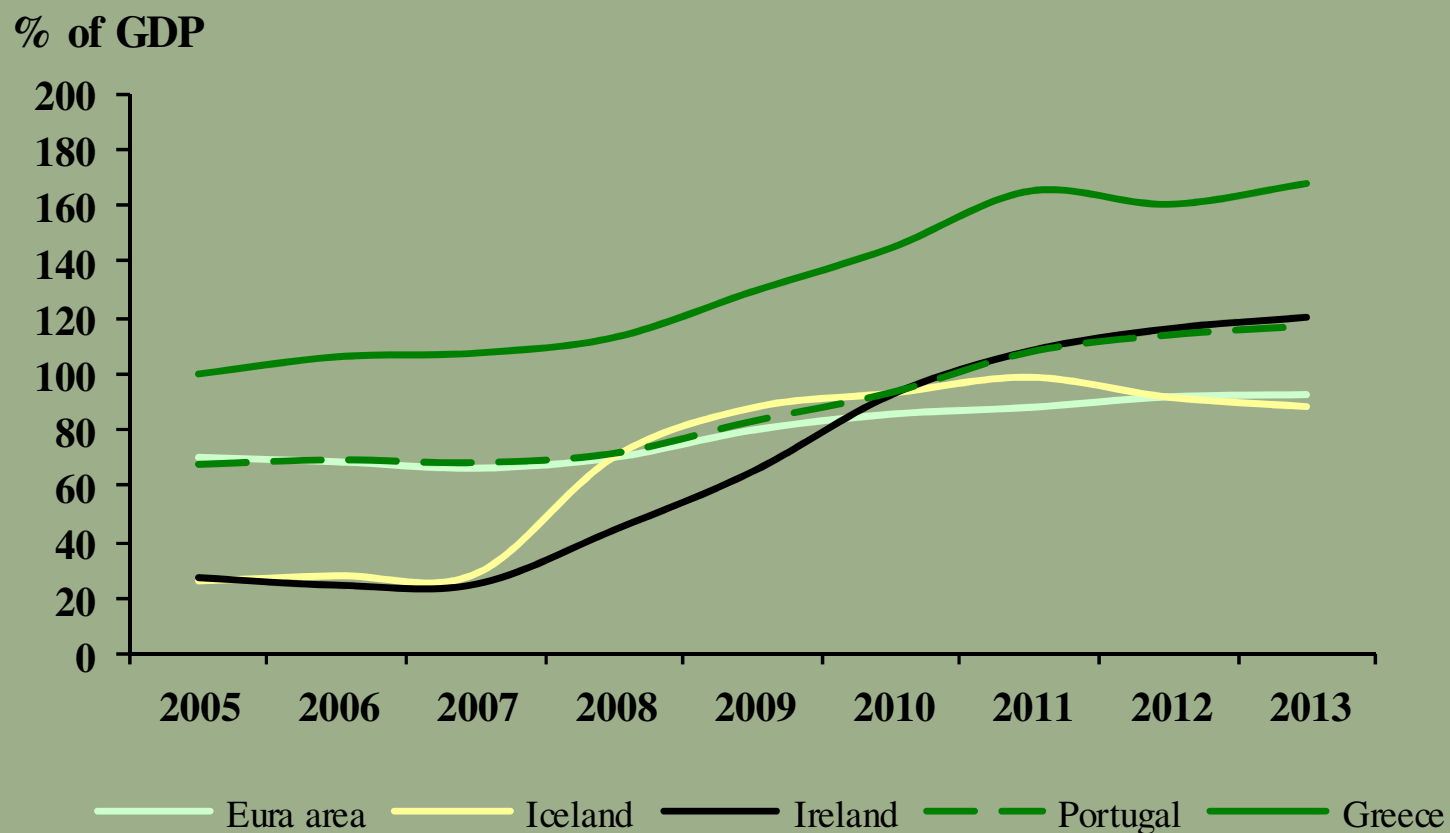
## Economic growth in a few comparison countries



2013



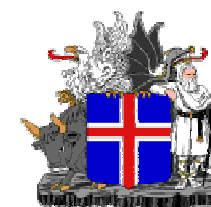
## Gross debt as a % of GDP in a few comparison countries\*



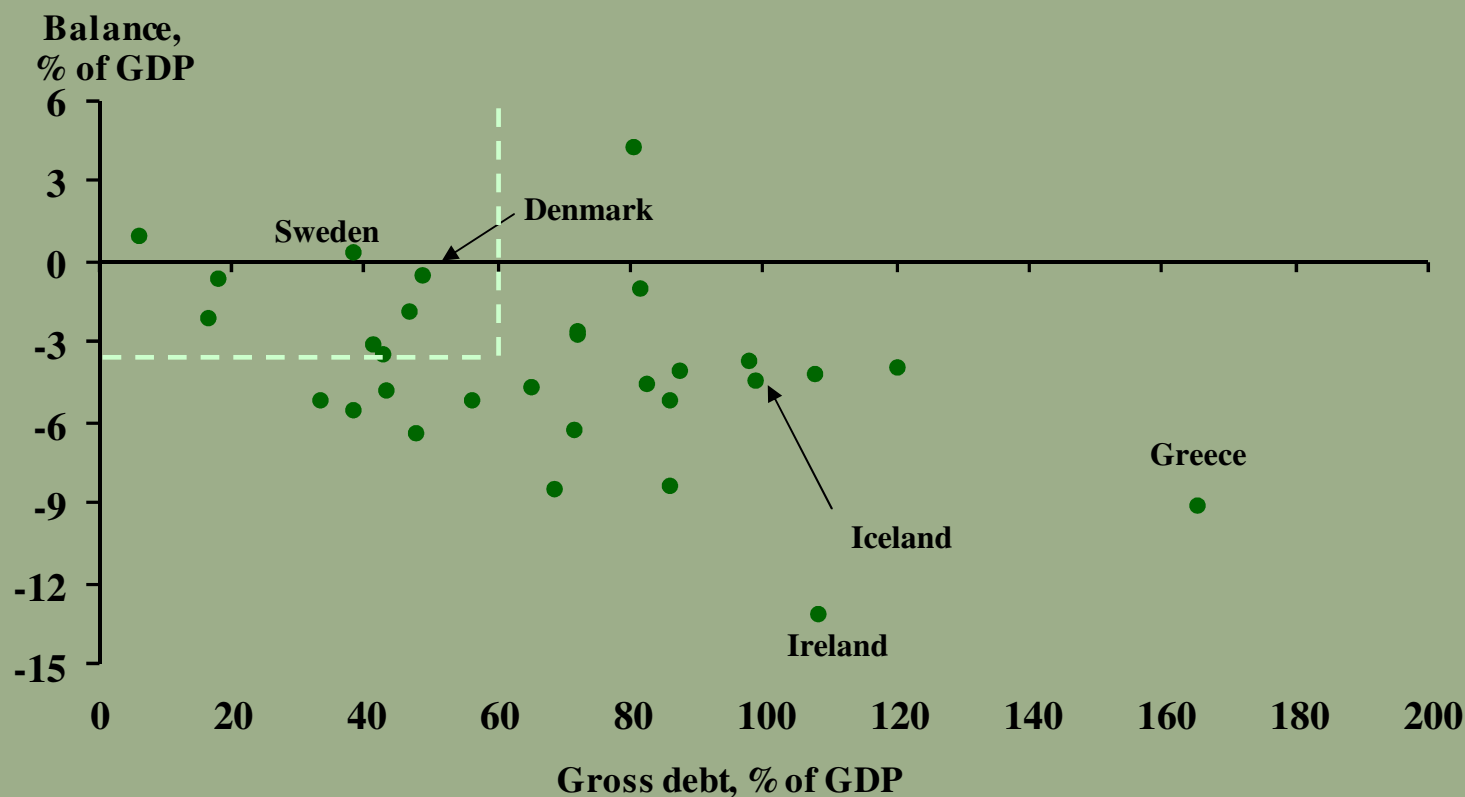
\* **General government gross debt.**

Source: Eurostat, ECFIN

2013



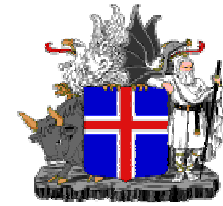
# Treasury balance and general government debt – EU and Iceland in 2011\*



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

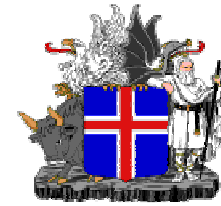
Source: Eurostat

2013



## 8. Objectives for fiscal policy

2013

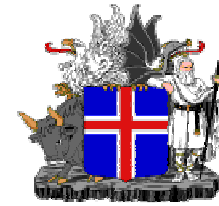


## General government debt

- As of 2011, the debt-to-GDP ratio for the central government was about 84% and 11% for the local governments.
- 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.

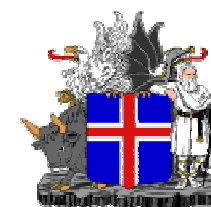
2013



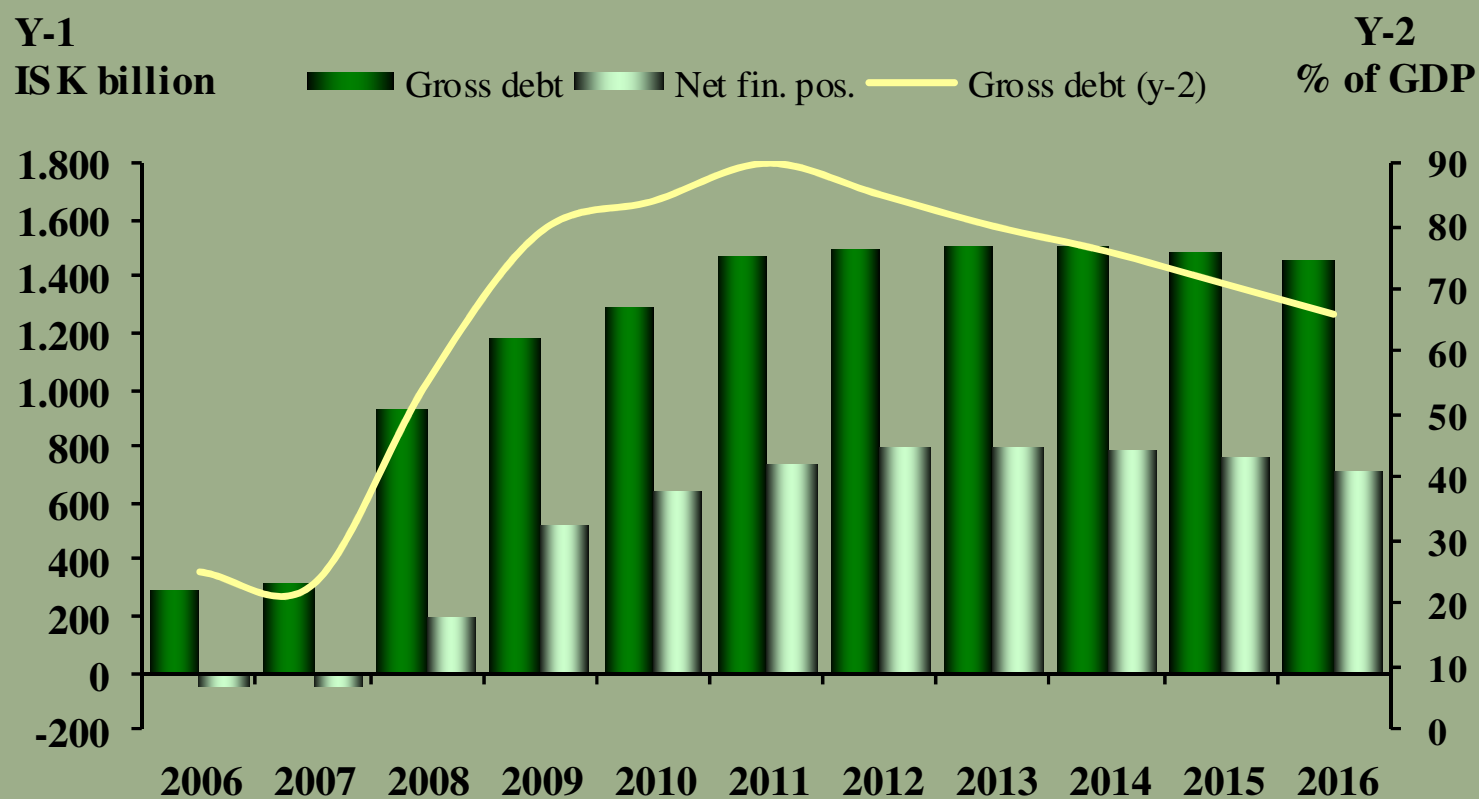
## Debt level objectives

- The Treasury should be able to reduce debt in the coming years by running a disciplined fiscal policy along with increasing economic growth.
- The time has come to elaborate further long-term goals for the government debt level and analyse how and when they can be reached.
- Even if the Treasury yielded a yearly surplus of **ISK 50 bn** that could be used to pay down debts, it would still take ten years to lower the debt burden by a third.

2013

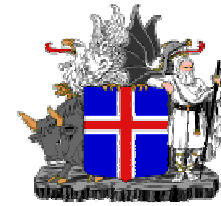


## Gross debt and net financial position



2013

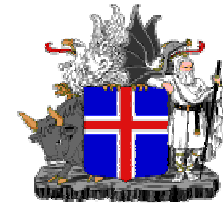
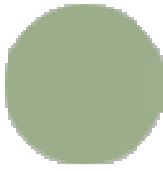




## Long-term fiscal strategy

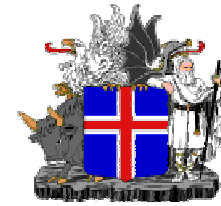
- A plan for decreasing the debt level must be a central part of the long-term fiscal strategy; furthermore, it is important to take into account the liabilities of the Pension Fund for State Employees (LSR).
- Current outlook for the B-section of LSR is that it will be insolvent in 2026 and would then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

2013



# 9. Conclusion

2013



## Conclusion

Four years have passed since the collapse of the bank system, the devaluation of the ISK and the erosion of trust in public institutions.

- Recent economic and social indicators show that Iceland has overcome the main difficulties
- Economic growth is steady and societal optimism is growing.
- The good fiscal prospects, stable economic growth and increased revenue from natural resources open up the possibility to wind down recent cutbacks to some extent.

2013