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Press release

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Subject: **Treasury accounts 2012**

The results of Treasury accounting for the year 2012 have now been published and the accounts sent to Parliament. The entire accounts, with the associated itemisations and explanatory notes, can be found on The Financial Management Authority's website.

The Treasury has been operating at a large deficit ever since the economic crisis struck. The accumulated Treasury deficit for the period 2008-2012 totals 604 billion krónur. Total Treasury liabilities, including pension obligations, amounted to 542 billion krónur, or 42.3% of GDP, at the end of 2007, and had risen to 1,890 billion krónur, or 110.6% of GDP, by end-2012. Furthermore, Treasury interest expense rose from 22 billion krónur in 2007 to 76 billion krónur by 2012.

The Treasury accounts for 2012 have now been prepared, and it is clear that the targets set forth in revised budget estimates were not met. The main results are that the overall balance was negative by 36 billion krónur, whereas the revised estimates assumed it would be negative by 26 billion krónur. The actual outcome was therefore 10 billion krónur lower than was foreseen when the budgetary supplement was approved in December 2012. The deficit corresponds to 7% of total Treasury revenue for the year, or 2% of GDP.

The primary balance for 2012 was positive by 18 billion krónur, as opposed to the previously assumed positive balance of 30 billion krónur. The largest single reason for the difference was the write-down of the book value of the Treasury’s holding in the Housing Financing Fund by 7 billion krónur.

Revenues were 3.4 billion krónur less than assumed, and expenditures were 6.6 billion krónur higher. Even though revenues were weaker than previously estimated, they were much stronger than in 2011, when the deficit amounted to 89 billion krónur. On the other hand, the Treasury’s borrowing need amounted to 3.6% of GDP in 2012, as opposed to a net credit balance of 3.5% in 2011.

The Treasury’s payment position remains strong. Cash in domestic bank accounts totalled 143 billion krónur at year-end, as compared with 155 billion krónur at year-end 2011. The Treasury’s foreign currency balances with the Central Bank of Iceland, which strengthen the foreign exchange reserves, totalled 338 billion krónur, down by 38 billion krónur from the previous year.

Table 1: Treasury Accounts 2011 and 2012

ISK millions.	Accounts 2012	Budget + suppl. budget 2012	Deviation Amount	%	Accounts 2011
Total revenue	525,876	529,231	-3,355	-0.6	486,526
Total expenditure	561,721	555,074	6,647	1.2	575,950
Net revenue	**-35,845**	**-25,843**	**-10,002**	**.**	**-89,424**
Primary balance	**18,011**	**30,062**	**-12,051**	**.**	**-43,204**
Net borrowing requirement(surplus+/deficit-)	**-61,787**	**-49,836**	**-11,951**	**.**	**57,747**
Net borrowing	**-8,822**	**-5,000**	**-3,822**	**.**	**146,783**
Domestic	30,602	…	…	.	62,316
Foreign	-39,424	…	…	.	84,467
Change in cash balances	**-70,609**	**-54,836**	**-15,773**	**.**	**204,530**
In per cent of GDP					
Total revenue	30.8	31.0	.	.	29.8
Total expenditure	32.9	32.5	.	.	35.3
Net revenue	**-2,1**	**-1,5**	**.**	**.**	**-5.5**
Primary balance	**1.1**	**1.8**	**.**	**.**	**-2.6**
Net borrowing requirement(surplus+/deficit-)	**-3.6**	**-2.9**	**.**	**.**	**3.5**

The outlook for Treasury performance in 2013 is significantly poorer than previous estimates indicated, and it is therefore clear that the estimates must be reviewed thoroughly. It is important to gain control of Treasury finances and ensure that the target of a positive overall balance is achieved as soon as possible. It is critical to support those foundations of the economy that generate growth, so that it will be possible to pay down Treasury debt instead of increasing it. In 2012 there was modest output growth in Iceland, with GDP increasing by 1.6% according to preliminary figures from Statistics Iceland. Continuing growth and increased demand are key factors in improving Treasury performance, and it is of paramount importance now to present credible plans for near-term measures to support them.

Emphasis will be placed on reviewing Treasury expenditure systematically, so as to achieve increased efficiency. It is necessary to enhance the coordination and efficacy of the administrative structure so that it fulfils modern-day requirements and meets criteria for organisation and procedure. It is important to improve Government services, in part through electronic administrative services, use of information technology in communications with residents, and increased collaboration between the national and local governments. Work will also be done to strengthen the fiscal framework, with emphasis on long-term fiscal planning and its connection with economic policy formation. The presentation of a bill of legislation for new comprehensive legislation on public sector finances is planned for the autumn Parliamentary session.

On the 2012 accounts

The Treasury accounts are presented in two parts. The first part contains the consolidated accounts for Treasury Part A. The second part contains the accounts of individual institutions in Part A, Government-owned companies in Part B, credit institutions in Part C, financial institutions in Part D, and limited liability companies and partnerships that are more than 50% owned by the State in Part E.

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