Statement of Fiscal Policy and Fiscal Strategy Plan presented for the first time

The five-year Statement of Fiscal Policy and Fiscal Strategy Plan for the public sector, presented before Parliament today, entail that it will be possible in coming years to prepare even better for the well-being of coming generations by paying down public debt, reducing levies on individuals with lower and fairer taxes, building up social infrastructure, and significantly strengthening core government services with increased contributions, a stronger healthcare system, and enhanced quality of education.

The Statement of Fiscal Policy is presented on the basis of new legislation on public sector finances. It provides for general objectives concerning developments in public sector finances – i.e., the state and the local authorities – while a more detailed description of the objectives of the policy can be found in the Fiscal Strategy Plan. With this, an important step is taken towards strengthening the fiscal framework and introducing greater integration and discipline in planning for the public sector, with emphasis on long-term economic stability.

The Act on Public Sector Finances implements stringent rules on operational performance and developments in the debt level. According to the plan, these objectives will be achieved during the first two years of the plan, with a positive overall balance for the entire five-year period and a reduction in gross general government debt to 30% of GDP. The overall balance of the general government will be positive by at least 1% of GDP during the horizon of the plan, in order to maintain economic stability. In 2017, the central government primary balance is expected to be positive by ISK 26.5 billion.

The status and tasks of the central government finances have therefore changed dramatically since 2013, owing mainly to the following:

- Central government debt accumulation was halted with a balanced budget in 2014-2016.
- Public debt is declining steadily.
- Interest expense of the central government will be about ISK 20 billion less by the end of the period than at year-end 2015.
- The settlement of the failed banks' estates has been successful.

Because of these changes, it will be possible, based on responsible fiscal policy, to increase the scope available for key expenditure areas by about ISK 42 billion during the period, with ISK 14 billion used for these functions immediately in 2017. It will also be possible to incorporate into the plan various investment projects that have been under consideration or in preparation in recent years but have not been considered financially feasible because of the public deficit in the wake of the collapse of the banking system in autumn 2008. It is estimated that the accumulated scope for these projects during the 2017-2021 period will amount to ISK 75 billion. It is not assumed that these projects need to be funded with irregular, temporary Treasury revenues such as dividends or gains from the sales of government assets.

It is expected that these projects will be feasible during the period:

- **Health care.** The plan provides for substantially increased allocations to healthcare, so that allocations will be more than ISK 30 billion higher in 2021, or just over ISK 200 billion per year. This corresponds to an 18% increase in real terms over the period. This increase does not include the wage increases that will be added on, nor does it include other price level changes. Furthermore, contributions for the purchase of equipment for the LSH and FSA hospitals will total ISK 5 million during the 2016-2021 period, and another ISK 2.5 billion will be used to shorten waiting lists over the same period.
- **New Landspítali – University Hospital.** Construction of the first phase of the work, particularly a treatment centre and research facility, will be tendered out in 2018, and work will be well

underway in 2019-2021. This is in addition to the construction of a patient hotel whose completion is scheduled for 2017, and the complete design of the new treatment centre that has already been included in the 2016 National Budget and the last fiscal plan.

- Secondary schools. The fiscal plan assumes that allocations to upper secondary education will increase by ISK 3.2 billion in real terms from 2016 through 2021, or nearly 12% in real terms over the same period that the schools' operating expenses will decline because of the shortening of secondary studies from four years to three.
- Parental leave. It is assumed that the public maximum payments from the Parental Leave Fund will be increased by ISK 130,000 at the beginning of 2017, to ISK 500,000 per month, with the aim of bring payments closer to the pre-2009 level. Contributions to the Fund will increase by a total of ISK 1 billion in 2017-2018.
- Housing affairs. The plan still assumes a yearly allocation of ISK 1.5 billion as a contribution for the development of socially subsidised rental housing.
- A new Westman Islands ferry. During the period, a new ferry will be fully financed and built, with the cost of the ferry and the harbour pumping mechanism estimated at close to ISK 6 billion.
- Three new nursing homes. The total cost to the central government for the construction of three new nursing homes in the greater Reykjavík area is estimated at ISK 4.7 billion.
- Icelandic Studies centre. Construction will be completed during the period, with a total of ISK 3.7 billion allocated to the project.
- Tourist destinations. Allocations to the development of infrastructure at tourist destinations will be increased to a total of ISK 6 billion, or ISK 1.2 billion per year.
- Helicopters for the Coast Guard. A total of ISK 9 billion will be used to purchase helicopters in 2019-2021.
- Dýrafjörður road tunnel. Estimated expenses for the construction of the tunnel total just over ISK 12 billion during the period.