



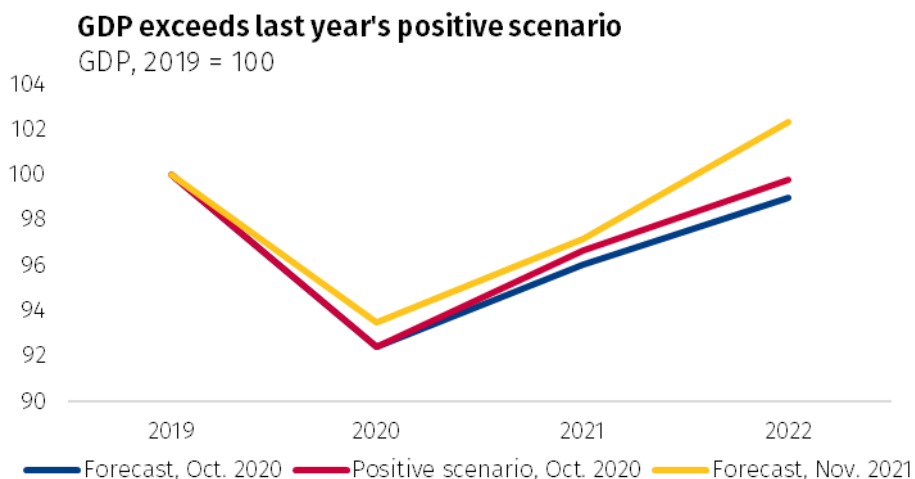
November 30th 2021 - Press release

Fiscal budget proposal for 2022

The economic situation is better than was assumed in the National Budget for 2021, and the economy is more resilient than previously expected. Unemployment has fallen rapidly and real incomes have risen steeply, and the outlook is for strong and continued GDP growth. This can be seen in the fiscal budget proposal for 2022, presented before Parliament today, together with the fiscal strategy for 2022-2026.

The proposal assumes a continued rise in healthcare expenditures, an additional increase in disability and rehabilitation benefits, a doubling of the tax-free threshold for old-age pensioners' employment income, continued reimbursement of research and development costs, and an increase in both child benefits and the means testing threshold for child benefits, to mention a few examples.

Year-2022 GDP growth is forecast at 5.3%, bringing GDP above its pre-pandemic level.



Successful COVID response measures

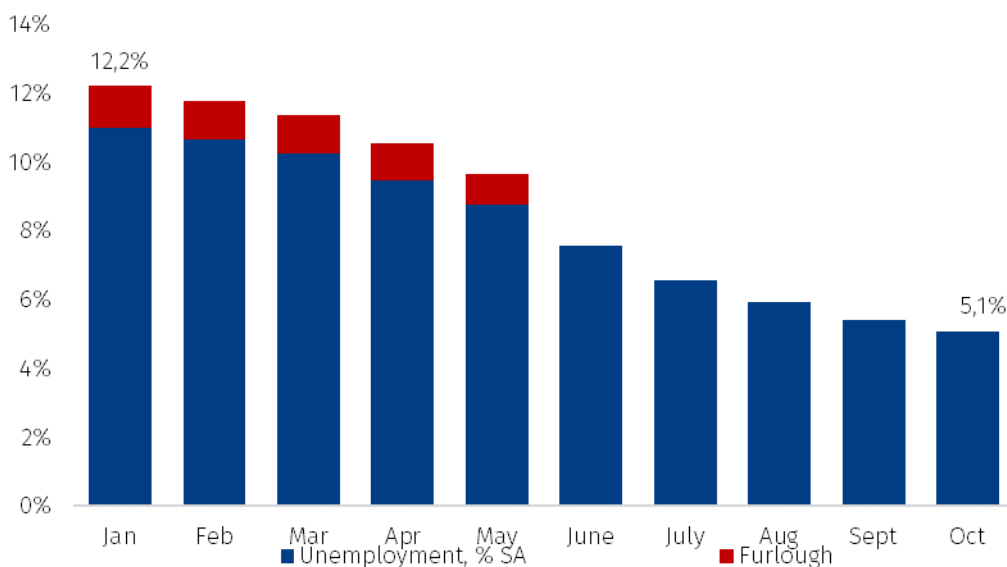
The Government's responses to the economic impact of the COVID-19 pandemic were highly successful, as were efforts to support the economy through one of the deepest contractions in its history. The fiscal budget proposal assumes that mitigating measures due to the pandemic will total ISK 50bn in 2022, bringing the Government's pandemic-related economic support to ISK 260bn for 2020-2022.

Fiscal policy has been applied aggressively, delivering both increased economic activity and an better debt position than previously projected. The business community is well



positioned to participate in the rebound. Real wages have risen, and public goods are distributed more equally in Iceland than in most other economies.

Unemployment has declined rapidly in 2021



Faster turnaround – lower unemployment

Unemployment has fallen swiftly in recent months and is now broadly at its pre-pandemic level, owing to the rapid economic turnaround coupled with the Government's labour market initiatives.

Now that the impact of the pandemic and the measures introduced in response to it are tapering off, the labour market will be governed increasingly by conventional drivers of activity. Despite the strong recovery of the labour market, there is the risk that long-term unemployment will be higher than before, and all available tools must be brought to bear to ensure that it does not become entrenched. It is of pivotal importance that the framework of the labour market be such that wage agreements reflect economic conditions and deliver favourable results.

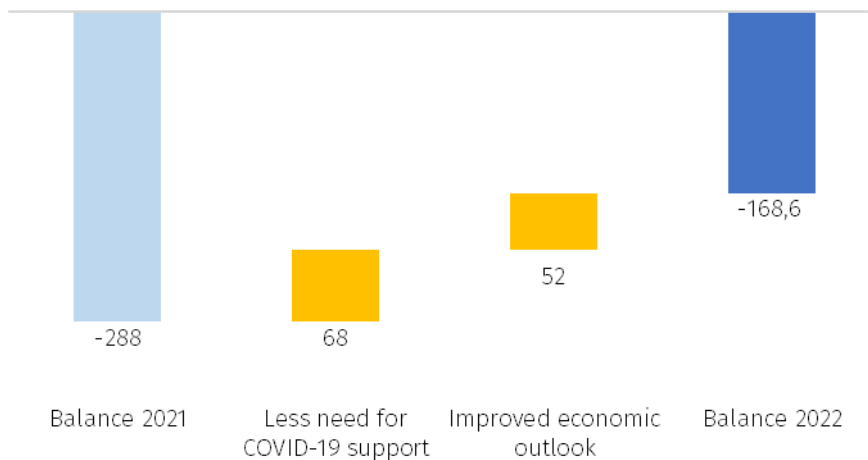
Treasury outcome improves by ISK 120bn

The swift economic rebound can be seen in an improved outlook for Treasury performance, with the outcome set to improve by ISK 120bn between 2021 and 2022.



Improvement in fiscal balance between 2021 and 2022

Billion, ISK



It is essential to continue on this path. Now that the economy is picking up again, it is appropriate that discretionary support measures be allowed to expire and that focus be directed increasingly at promoting price and interest rate stability. Economic stability is the key to solidifying and making permanent the economic gains households have experienced in recent years.

Foundation for targeted growth

The post-pandemic resurrection of the economy and Government finances is the most important task at the beginning of this electoral term. It is vital to return the Treasury to a position of strength and ensure long-term fiscal sustainability. By the same token, the Treasury must pull together with monetary policy in order to promote declining inflation and greater economic stability. These goals can be achieved with responsible fiscal policy focusing on clear reforms in Government operations and strong, lasting GDP growth.

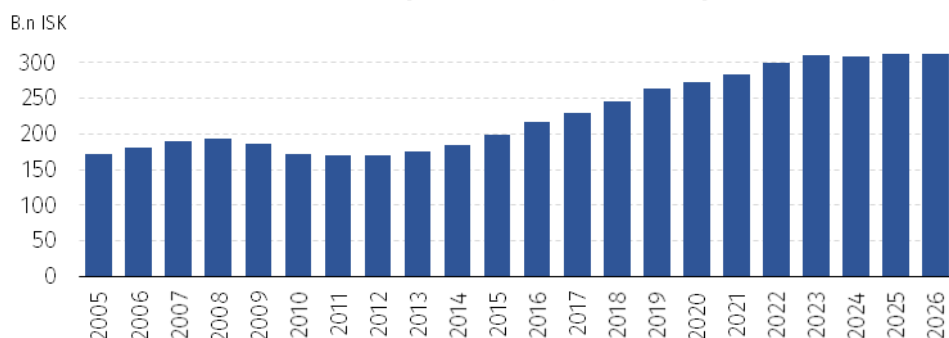
An even stronger healthcare system – 31% real increase relative to 2017

As in recent years, allocations to healthcare will take priority in terms of budgetary allocations. The fiscal budget proposal for 2022 assumes that allocations to healthcare will rise by ISK 16.3bn. This is the largest single expenditure increase provided for in the proposal, yielding a rise of just over 31% in real terms relative to 2017.

Over a longer period – from 2010 to 2022 – healthcare expenditure has increased by 75%, from ISK 171bn to ISK 300bn, an average annual increase of 4.8% in real terms.

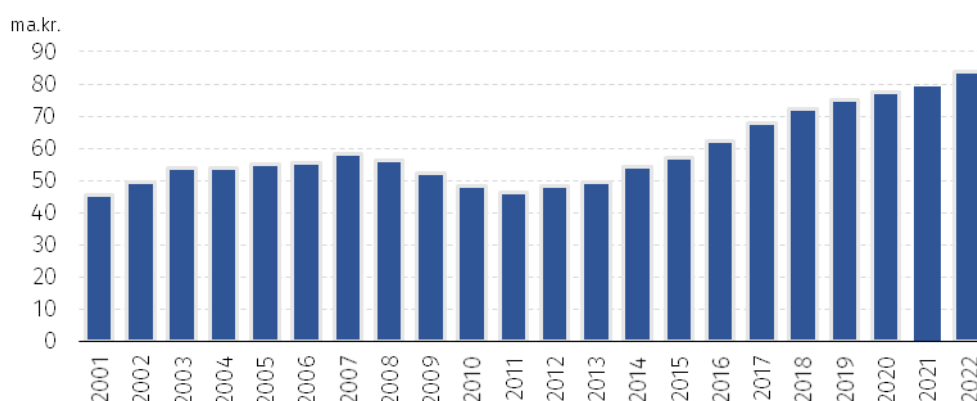


Health expenditure, constant prices



Increased allocations to Landspítali hospital alone amount to nearly 74% over the same period; i.e., from ISK 48.1bn in 2020 to ISK 83.7bn in 2022.

National hospital expenditure, constant prices



The 2022 fiscal budget proposal provides for a contribution of ISK 2.6bn to further enhance Landspítali's capacity to respond to the pandemic. Six critical observation spaces and 30 new rehabilitation spaces will be opened, and a special epidemic department will be established at the hospital in Fossvogur.

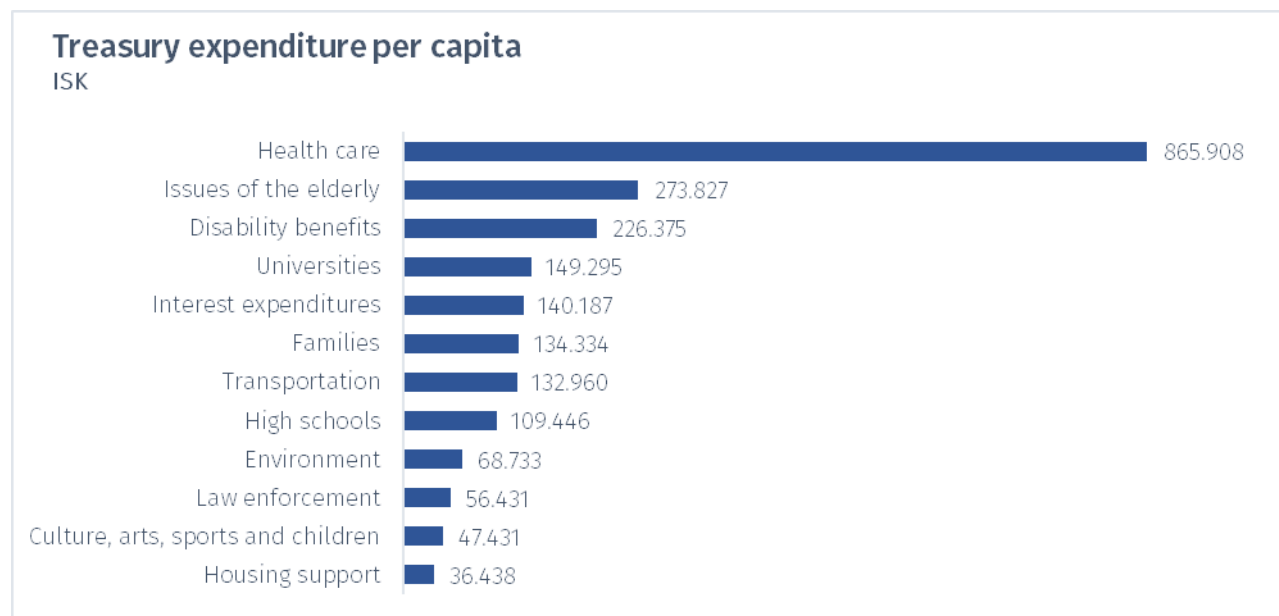
Key projects for 2022

- ISK 1bn – increased allocation to climate issues
- ISK 800m – additional increase in disability and rehabilitation pensioners' benefits by 1% over and above general percentage increases, for a total rise of 5.6% relative to the 2021 National Budget
- ISK 540m – to double the tax-free threshold for old-age pensioners' employment income from ISK 100,000 to ISK 200,000
- ISK 10.4bn – for reimbursement of research and development expense
- ISK 5.2bn – for nursing home construction
- ISK 1.5bn – for investment in Digital Iceland



A strong society of well-being and equal opportunity

The prioritisation of expenditure increases is consistent with the new Government's clear policy of building up a strong society featuring well-being and equal opportunity. At the same time, care will be taken to ensure that expenditure growth remains modest and that it supports economic policy now that the slack in output appears to be closing.



Tax revenues to total ISK 955bn in 2022

Buoyed up by a strong rebound and an improved economic position, Treasury revenues appear set to be ISK 66bn higher in 2022 than was assumed in the fiscal plan introduced this past spring. Total Treasury revenues will amount to ISK 955bn.

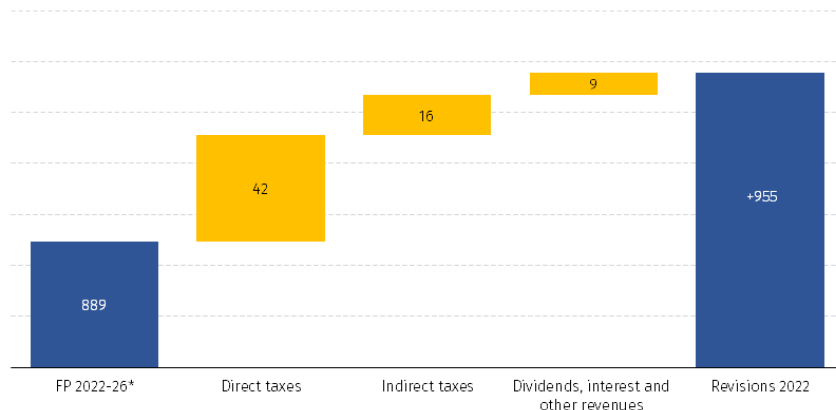
The improved position is due primarily to a marked rise in revenues from personal income tax and payroll tax, as well as an increase of ISK 16bn in income tax on legal entities over and above the assumptions in the fiscal plan. Consumption taxes will also generate considerably more revenue, and value-added tax is now estimated to generate ISK 10bn more than previously projected.



Total revenues estimated at ISK 66bn higher than in the 2022-2026 fiscal plan

Revenue 66 bn.ISK higher than in projected in the Fiscal Plan

Main revisions from revenue estimates 2022 (bn.ISK)



*Updated in line with new methodology. VAT refunds to public entities were entered as a reduction in revenue in the financial plan but are now entered as expenses.

Nevertheless, Treasury revenues are growing from a lower baseline level than would have existed without the economic impact of the pandemic. Treasury operations are still expected to be in deficit in coming years; however, the deficit will be considerably smaller than was assumed in the fiscal plan.

Continuing reduction in personal income tax

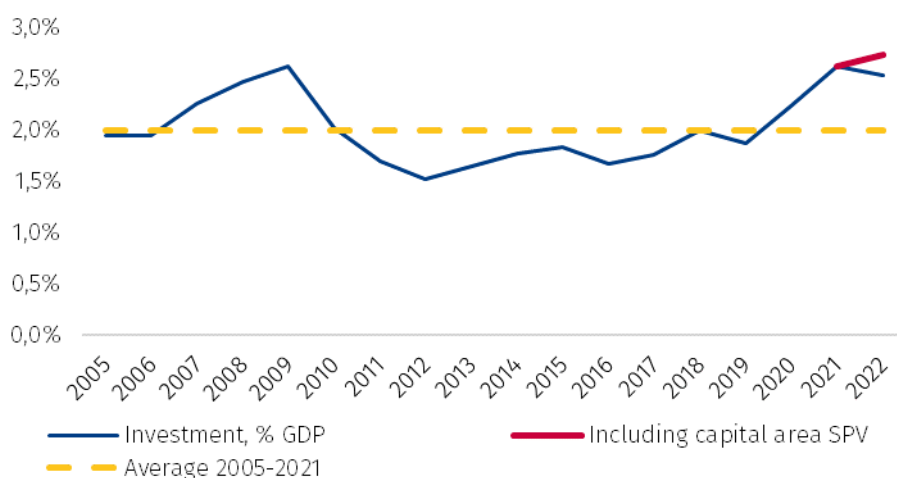
Broad-based tax system reforms were undertaken during the last electoral term. Chief among these was a marked reduction in personal income tax, which increases households' disposable income by ISK 23bn. The last phase of the personal income tax reforms takes effect at the end of 2021. The main focus of the changes has been on reducing lower-income households' tax burden.

ISK 88.4bn in investments, anchored by Landspítali construction project

Treasury investment is projected at ISK 88.4bn on a national accounts basis in the 2022 fiscal budget proposal. It will then total 2.5% of GDP, well above its long-term average. The largest single project in the budget proposal is the construction of the new Landspítali hospital, to which ISK 14bn has been allocated in 2022. Other investments provided for include, but are not limited to, reimbursements of research and development expense, ISK 10.4bn; transportation system construction, ISK 31.5bn; nursing home construction, ISK 5.2bn; and Digital Iceland, ISK 1.5bn.



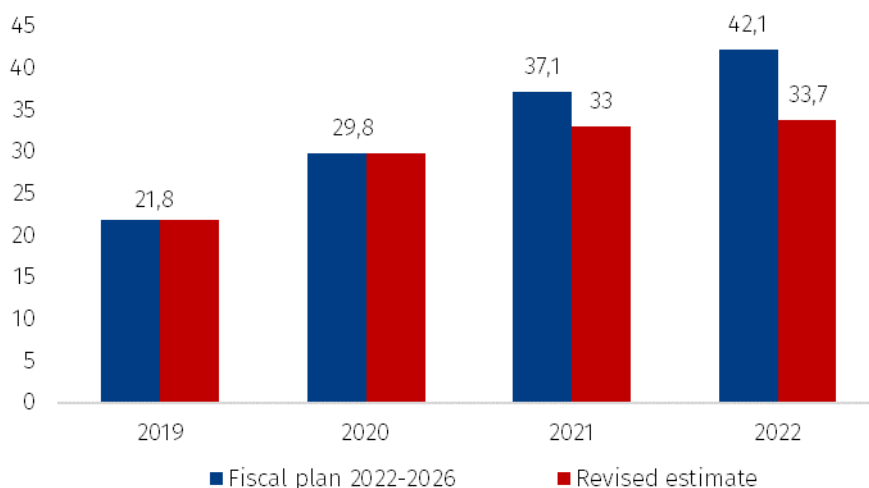
Investment exceeds average in coming years



Vastly improved debt ratio on the horizon

In the wake of the pandemic, the Treasury's debt ratio was projected to rise to 30% by the end of 2020. The fiscal plan currently in effect assumed that debt would continue to rise in 2021 and 2022, to 42% of GDP. But because of the strong turnaround in the economy, the outlook is significantly improved. Debt is now projected to be roughly ISK 200bn lower by end-2022 than was assumed in the fiscal plan, giving a debt ratio of 34% of GDP instead of 42%.

Central Government Debt Prospects Greatly Improved, % GDP



The improved debt position is due for the most part to a stronger-than-projected economic recovery, but also to the successful sale of 35% of the State's holding in Íslandsbanki for ISK 55.3bn. If market conditions are favourable, further measures will be undertaken to actively manage the Treasury balance sheet and further reduce State ownership in the financial system through the sale of an additional stake in Íslandsbanki. The proceeds will be used to reduce the Treasury's borrowing need, thereby creating the scope for continued infrastructure development and other socially profitable endeavours.

Equal rights integrated into the decision-making process for the first time



For the first time, Government ministries submitted an equal rights assessment with their recommendations for the fiscal budget proposal. This makes equal rights an integral part of the budgetary decision-making process. Assessments were made of the impact that the vast majority of budgetary measures would have on equal rights. Most of them are considered conducive to gender equality, and many more are considered to maintain the status quo. A small share of the measures are considered likely to widen the gender gap.