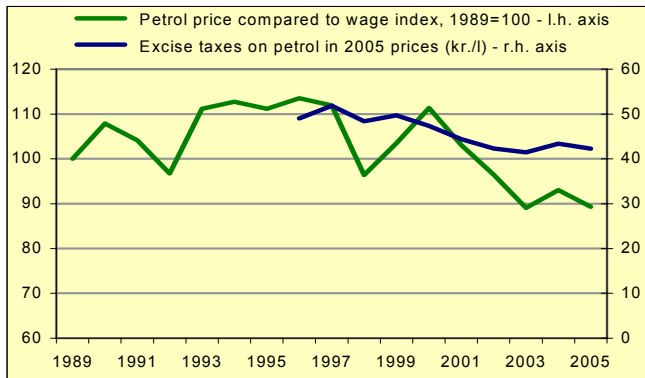


August 18, 2005

Real prices of petrol have often been higher than now

Petrol prices have been increasing considerably but they are no higher in real terms than they have been in recent years. How can this be if the price per liter is higher than ever? In this respect it is interesting to note how petrol prices have changed compared to wages. The graph below the real price of petrol measured in wages.

Petrol prices



From 1993 to 1997 and again in 2000 the price of petrol compared to wages was higher than now by up to a quarter. From the year 2000 the real price of petrol started to fall and reached a minimum for the last fifteen years in 2003. Since then the price has increased somewhat but not considerably. This can be explained in part by the fact that petrol taxes have not held their real value in recent years as can be seen in the graph above. The real value of petrol taxes per liter was thus 22% higher in 1997 than it is now. Wages have increased significantly in recent years, more so than petrol, even this year.

During the period shown in the graph the average fuel consumption per kilometer has decreased considerably and thus household expenditure on car use has decreased even more than the real price has fallen. In addition average use per vehicle has decreased; there are now more cars than drivers. An indication of this is that the revenue from excise taxes on petrol during the first half of this year is somewhat less than last year. The recent great influx of cars has not led to a corresponding increase in the vehicle fleet. According to the Road Traffic Directorate about one car is written off for every two that are imported.

Double-taxation developments

In the beginning of July 2005, representatives of Iceland and Germany met in Reykjavik where they concluded a review of the existing double-taxation agreement between the two countries from 1971. The formal signing and entry into force of the agreement have not been completed. Additionally, a review of the existing double-taxation agreement with the USA from 1975 is currently under way. While the review is near completion, it is not certain when it will be completed.

This week the first meeting between representatives of Iceland and Croatia about the creation of a double-taxation agreement was held. Also planned is a double-taxation treaty with India in coming months.

It has been decided to meet with representatives of Greece at the end of November of this year after an interlude, but the agreement is near completion, and it is expected to be finalised at the meeting. Negotiations with representatives of Ukraine, Rumania and Slovenia are near completion and it is hoped they will be finalised next year.

Negotiations with central government employees

The status of the current round of negotiations between the Ministry of Finance and unions representing central government employees may be seen in the following table. Collective agreements finalised from the beginning of year 2004 until July 2005 are included. The negotiations reach the approximately 17,000 employees of the central government but excludes those approximately 1,100 officials whose salaries are decided by official arbitration bodies. Central government employees therefore are around 12% of total employment in the country. In the current negotiation round it is evident that the wage development is broadly similar to that seen in negotiations of private sector employees.

Status of negotiations August 15, 2005

Union:	Number of agreements		Estimated Man-year*
	Finished	Unfinished	
Confederation of State and Municipal Employees, BSRB	13	1	6,994
Association of Academics, BHM	3	0	4,789
The Icelandic Teachers' Union, KÍ	2	0	1,360
The Icelandic Federation of Labour (ASÍ) and others	6	2	1,803
The Confederation of Icelandic Merchant Mariners and Fishermen, Unions of Icelandic Foremen and Union of Icelandic Ship's Engineers	4	2	114
Central government employees not confederation of unions	6	4	1,996
Total	34	9	17,056

The Ministry of Finance has now signed 34 out of 43 collective agreements involving 108 unions. In comparison, it should be mentioned that in the contract period 2000 – 2004, 77 collective agreements were concluded involving 136 unions. Wage negotiations with 9 unions are still pending. Two of these unions, however, have agreements valid until the end of year 2005. These unions are the Icelandic Medical Association and the Federation of Firemen and Ambulance Personnel. The seven unions whose collective agreements have expired and with whom negotiations have not been concluded are the Union of Icelandic Civil Aviation Administrators, the Union of Icelandic Ship's Engineers and The Union of Cooks and Food Preparers, but negotiations with the last three unions concern the Icelandic Coast Guard. Negotiations have also not been concluded with the Union of Theatre Directors, Union of Theater Stage Designers, Theater Costume Designers and the Union of Musicians, but negotiations with these unions concern the National Theatre. On July 15 negotiations were concluded with the Union of Icelandic Civil Aviation Administrators but the union members voted down the collective agreement. The negotiating parties will meet again at the end of August or the beginning of September.

Because of significant changes in the wage rate tables and changes of the premisses on which jobs are rated to wages, which come into effect on May 1st 2006 for most of the unions, the Ministry of Finance will assemble a special team of advisors to the government agencies and the unions. The mission of the team is to ensure the smooth implementation of these changes and to give the parties access to the most recent developments in human resource management. At the same time the parties will implement a collaborative instruction programme for heads of agencies and the unions on matters such as negotiation techniques and the composing of job descriptions.

Treasury revenue, January-June		
12-month changes %	2003-2004	2004-2005
Total tax revenue	14.8	18.7
Income taxes	18.2	15.5
Social security taxes	13.1	15.8
Asset taxes	18	56.8
Indirect taxes	13	18.6
Total revenue	2.3	23.9

Treasury expenditure, January-June		
12-month changes %	2003-2004	2004-2005
Administration	6.1	3.6
Social affairs	13.2	6.9
Economic affairs	6.8	1.0
Interest	-15.7	64.7
Other	-2.5	14.3
Total expenditure	8.4	9.7

Treasury finances, January-June		
Million krónur	2004	2005
Cash from operations	-2,243	15,536
Net financial balance	-858	25,915
Debt redemption	-28,604	-30,002
Gross borrowing requirement	-33,212	-5,988
New borrowing	34,780	9,579
Overall cash balance	4,435	3,591

Economic indicators		
12-month changes, %	2004	2005
Inflation - August	3.7	3.7
Core inflation - August	3.0	4.1
Wage index - June	5.1	6.3
Tot. turnov. Jan-April	11.3	7.1
Ret turnov. Jan-April	5.4	6.9
Unemploy. in % June	3.1	2.1