

September 15, 2005

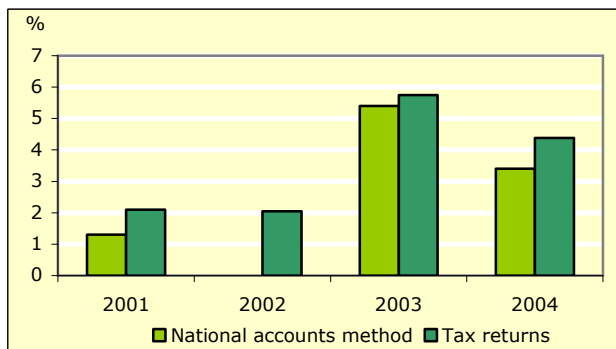
Household disposable income increasing sharply

Household disposable income is accounted for in two ways. On one hand by the methods of national accounting and on the other by a narrower definition on the basis of tax returns.

In the national accounts, disposable income is defined as income less taxes and property-related expenses (such as interest payments on home loans). Income includes insurance indemnities (e.g. for injuries incurred) whereas such income is not subject to tax. The Ministry of Finance has in recent years assessed household disposable income on a national accounts basis as well as on the basis of taxable income. The latter method is based on more easily accessible data which makes it easier to assess income developments in due course.

Both measurements have yielded similar results in recent years, although they have not measured precisely the same thing, partly because of household interest expenditures. Under the national accounts definition, disposable income per capita is found by using the total population as denominator, whereas in the case of the tax return method, the number of persons filing tax returns is used. The change in real disposable income is found by dividing the change in nominal disposable income by the change in the consumer price index. The graph shows the annual change in real per capita disposable income.

The growth in real per capita disposable income
Per cent change over previous year



In the 2002 recession, there was no change in real disposable income by the national accounts method but a 2 per cent increase according to the tax return method. In this latter case, the structure of the tax system led to a sharper decline in taxes than in pre-tax income. In 2003, income increased by more than 5 per cent by both methods as both income and unemployment decreased. The increase continued in 2004, 3 per cent by the national accounts method and more than 4 per cent by the tax return method. This year, real disposable income per capita is expected to increase about as much as last year in spite of rising inflation.

The national economic forecast currently being prepared by the Ministry, which will be published at the beginning of next month when the fiscal budget proposal will be presented, will include an estimate of the development of disposable income.

A new pay system for central government agencies

The pay agreements concluded between the central government pay negotiation committee and public sector unions at the beginning of this year contain several important innovations. These fall into two main approaches. One is associated with the Association of University Employees and the other is associated with the Union of Government Agency Em-

ployees. Both approaches have a new pay table in common, effective as of the beginning of May of this year. In addition, the former approach provides that all unions in the same workplace shall be consulted when the pay table is applied to individual jobs, not only the particular union concerned.

All negotiation partners agree that these changes call for extensive information campaign amongst union members, partly because the pay agreements contain provisions on new agency agreements (agreements where jobs are placed on the pay scale in each agency) from the time that the change takes place. Also with regard to demands for job descriptions based on job categorisation which could form a basis for setting the pay of individual jobs. The aim is to commence the joint publicity effort for the contracting parties about the new pay system at the beginning of September and conclude it before November 1st.

The joint preparation of the unions and the Ministry of this task began with the unions agreeing to work as one group with representatives of the Ministry. It was decided to ascertain amongst several agencies what were the most necessary points of emphasis, based on the needs of the agency in question. The conclusions of this informal survey are now at hand and work has begun in organising the publicity task on that basis. The target group for this task consists of representatives in co-operation committees, both agency representatives and agency employees.

After this information campaign, work will commence on aligning the present jobs into the new pay scale. This will be carried out jointly by the unions or employees on one hand and the heads of each agency on the other. In order to ensure the orderly implementation of this task, a special consultative team will be established to support co-operation committees and agencies. This task shall be completed before May 1st 2006.

Changes among state agency heads

A number of organisational changes have taken place in the central government in recent years, whereby agencies have been merged, abolished or new agencies have been established. This has had an impact on the group of government agency heads. The following table shows the number and gender of agency heads in September of this year. At present there are 222 agency heads, three fewer than in February 2004. The number of men has declined by three and the number of women remains unchanged. The proportion of women has increased from 22 to 23 per cent.

Ministry	Men	Women	Total
Prime Minister's Office	2	3	5
Education and Culture	35	19	54
Foreign Affairs	4	-	4
Agriculture	10	-	10
Fisheries	5	1	6
Justice and Church Affairs	33	10	43
Social Affairs	8	6	14
Health and Social Security	25	8	33
Finance	20	1	21
Communications	8	1	9
Industry	7	1	8
Commerce	4	-	4
Statistics Iceland	1	-	1
Environment	10	-	10
Total	172	50	222
Gender	77%	23%	100%

Treasury revenue, January-July		
12-month changes %	2003-2004	2004-2005
Total tax revenue	12.7	18.7
Income taxes	11.7	15.2
Social security taxes	10.5	16.2
Asset taxes	18.4	49.8
Indirect taxes	13.7	19.1
Total revenue	2.0	23.0

Treasury expenditure, January-July		
12-month changes %	2003-2004	2004-2005
Administration	5.9	1.8
Social affairs	15.6	7.8
Economic affairs	4.9	-1.1
Interest	-13.5	58.0
Other	-1.4	13.7
Total expenditure	10.0	9.1

Treasury finances, January-July		
Million krónur	2004	2005
Cash from operations	-16,005	4,596
Net financial balance	-14,165	15,802
Debt redemption	-29,142	-33,343
Gross borrowing requirement	-47,683	-19,790
New borrowing	39,386	13,305
Overall cash balance	-8,296	-6,486

Economic indicators		
12-month changes, %	2004	2005
Inflation - September	3.4	4.8
Core inflation -September	2.8	4.8
Wage index - July	5.1	6.6
Tot. turnover, Jan-June	9.8	8.7
Ret. turnover, Jan-June	5.3	9.0
Unemploy. in % August	2.9	1.8