

English translation of the Weekly Web Release



MINISTRY OF FINANCE IN ICELAND

October 27, 2005

Economic prospects in the Nordic countries

Economic developments in the Nordic countries have recently been characterised by balanced economic growth, declining unemployment, low inflation and fiscal surpluses. In 2005, growth is highest in Iceland, around 6 per cent, and lowest in Finland, just over 2 per cent. For the Nordic countries as a whole, next year's growth is expected to be similar to that of the present year, close to 3 per cent, with Iceland leading the group with 4.6 per cent. These prospects exceed those of the euro-area where growth is forecast at 2 per cent this year and next. This information may be viewed in a recent report of the Nordic Economic Committee, *Ekonomiska utsikter i Norden 2006* (in Swedish and Danish) which was presented at a recent meeting of Nordic finance ministers in Reykjavik.

Key economic indicators for the Nordic countries

	2003 2004 2005 2006				2003 2004 2005 2006			
	Economic growth, %				Inflation, %			
Denmark	0.8	2.0	2.4	2.4	2.1	1.2	1.7	2.1
Finland	2.4	3.6	2.1	3.2	0.9	0.2	1.0	1.3
Iceland	3.6	6.2	6.0	4.6	2.1	3.2	3.9	3.8
Norway	0.7	3.5	3.7	2.4	2.5	0.4	1.5	1.8
Sweden	1.5	3.6	2.4	3.1	1.9	0.3	0.7	2.0
Nordic countries	1.3	3.0	2.8	2.8	2.0	0.7	1.2	2.1
	Unemployment, %				Public sector balance, % GDP			
Denmark	5.9	6.1	5.5	5.1	-0.2	1.1	2.5	1.9
Finland	9.0	8.8	8.2	7.5	2.3	1.9	1.8	1.8
Iceland	3.4	3.1	2.2	1.8	-2.1	-0.1	2.4	1.0
Norway	4.5	4.5	4.5	4.1	7.6	11.7	15.6	17.0
Sweden	5.3	5.9	5.9	4.8	-0.1	1.0	1.4	0.7
Nordic countries	5.8	6.0	5.6	5.3	2.4	4.0	4.3	4.2

World economic growth is estimated at some 5 per cent in 2004, the highest in the past 30 years, led by high growth in the US, China and other Asian countries. This favourable pace has stimulated world trade and has been especially beneficial for the exports of most Nordic countries and has in turn stimulated domestic investment and consumption. National savings will continue high in spite of rising national expenditure, which is reflected in current account surpluses in all the Nordic countries except Iceland, where power project investment are of prime importance. Despite good growth, the demand for labour has been stagnant, except in Iceland, partly because of rising labour productivity. It should also be added that unemployment in per cent of the labour force has on average been somewhat lower in the Nordic countries than in the Euro-area and OECD countries. This situation is expected to continue this year and next.

In economic policy formulation, all the Nordic countries place heavy emphasis on self-sustaining growth, high labour force participation along with price stability and fiscal restraint. Inflation is low in the Nordic countries, except in Iceland, due to temporary circumstances. The Nordic public sector surplus is forecast to average 4 per cent of GDP this year and next. The largest surplus is in Norway, 15.6 per cent of GDP this year, due to oil production, and lowest in Sweden at 1.4 per cent of GDP. This compares to a public sector deficit of 3 per cent of GDP on average for the Euro-area.

Wage agreements – towards gender equality

On the occasion of the gender equality discussion that has been going on in this country in the past few days, it should be observed that gender issues were very prevalent in the public sector wage agreements last winter. Em-

phasis was placed upon ways and means to increase gender equality in wages. It is evident that it is difficult to create a path for gender equality in wage agreements. Gender equality is an issue of social attitudes, and statistical comparisons of jobs and pay are fraught with difficulties. Several issues were nonetheless dealt with in the last round of wage agreements which in the opinion of both sides to the agreements have a significant direct and indirect impact on equality.

The most important change was that an agreement was reached on a common pay scale for the 23 unions of university-educated staff and teachers that takes effect on May 1st 2006. One common pay scale is expected to automatically generate considerable equalisation since earlier pay scales of various unions were quite different. Some unions will get a higher raise than others, particularly those in the healthcare sector, which hitherto have been staffed by women. The conversion to a new pay scale also calls for a new interpretation of current jobs. It was therefore agreed that new job assessments would form the basis of wage determination. The parties to the agreements hope that this will lead to a more transparent and comparable wage determination which will facilitate job comparisons in the future.

The agreement with the unions of employees in government agencies also provides for a special research into gender pay differentials. This inquiry is to be based on a joint survey of the agreement parties that was conducted in October 2004 and dealt with the average pay of men and women employed by government agencies. A special working group has been appointed, consisting of representatives of the agreement parties in addition to experts nominated by the Gender Equality Council. The working group is asked to investigate the reasons for this pay differential and turn in its conclusions before May 1st 2006. The working party is also asked to present its proposals for improvement.

Presentation of fiscal finances on a national accounts basis

As was observed in last week's issue of the Weekly Web Release, the impact of fiscal finances on the economy is assessed on the basis of international national accounting standards, not on the basis of the fiscal budget figures or the budget accounts themselves. The International Monetary Fund, which has led the development of public finance accounts, published a revised edition of the Government Finance Statistics Manual in 2001 (GFSM 2001). This standard is primarily based on the Standard National Accounts of the United Nations of 1993, with additional revisions and innovations. Soon after its publication, the interest of the international community was aroused as to the co-ordination of international accounting standards for public finances with national accounting standards. The Task Force on Harmonization of Public Sector Accounting (TFHPSA) was established with the participation of the OECD, IMF, ECB, Eurostat, the IBRD and IFAC, in addition to experts in this area from a number of countries. This committee has been working since 2003 and will turn in its results in the first half of next year. In the course of its work, the committee has rendered stepwise improvements in the co-ordination of standards in this area.

These developments have been followed in this country, and the Government Auditor's Office has been working on a number of revisions of the presentation of government finances in accordance with the improvements that have been presented in recent years. The classification of revenues as well as of expenditures, both by administrative and economic categories, have all been revised. The aim is to co-ordinate the presentation of fiscal budgets and accounts with national accounts so as to facilitate the interpretation of the fiscal impact on the economy as well as the commitments of the Treasury that are incurred during the accounting year.

Table 8 in the [2006 Budget highlights](#) shows the summary of the Treasury current accounts according to the new GFSM 2001 standard which shows the main items of revenue and expenditure by economic function. This summary will be under continual improvement over the next several years. The new classification of revenues is presented in the revenue section of the 2006 fiscal budget and it is compared to the fiscal accounts for 2004 in order to summarise Treasury revenue for that year.

Treasury revenue. January-August			Treasury expenditure. January-August			Treasury finances. January-August			Economic indicators		
12 month changes %	2003-2004	2004-2005	12 month changes %	2003-2004	2004-2005	Million krónur	2004	2005	12 month changes %	2004	2005
Total tax revenue	15.3	18.5	Administration	8.7	2.4	Cash from operations	-6,761	16,298	Inflation - October	3.7	4.6
Income taxes	20.5	15.5	Social affairs	9.8	6.7	Net financial balance	1,068	27,558	Core inflation - October	3.1	4.8
Social security taxes	10.3	16.6	Economic affairs	5.9	-3.4	Debt redemption	-29,593	-33,363	Wage index - September	5.3	6.9
Asset taxes	18.3	50.3	Interest	-13.5	52.9	Gross borrowing required	-33,525	-8,406	Tot. turnov. Jan-June	9.8	8.7
Indirect taxes	13.6	18.4	Other	-0.4	15.0	Net borrowing	40,177	15,832	Ret. turnov. Jan-June	5.3	9.0
Total revenue	6.1	21.1	Total expenditure	7.0	7.6	Overall cash balance	6,652	7,426	Unemploy.in % September	2.6	1.4