

## How others see us

International institutions and credit rating agencies regularly review Icelandic economic developments and prospects. These are the IMF and the OECD, as well as three international credit rating agencies, Standard & Poor's, Moody's Investors Service and Fitch Ratings, which issue a credit rating for the Treasury. The credit rating agencies also assess the commercial banks and the Housing Finance Fund.

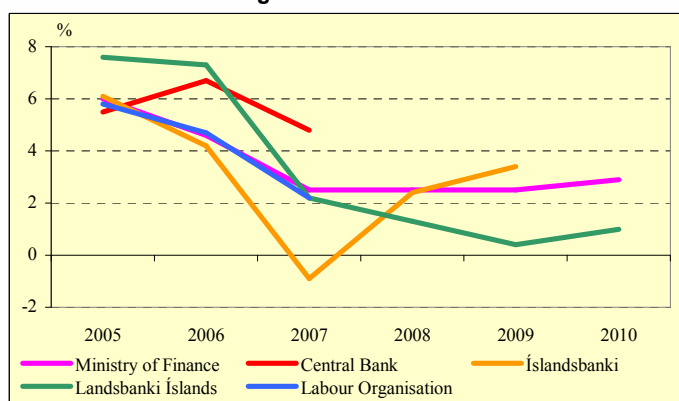
The OECD and the IMF conduct an independent appraisal of Icelandic economic developments at regular intervals, every 1-2 years. Representatives from these international institutions visit Iceland and confer with government representatives, business leaders, employer and labour organisations and members of the scientific community, covering a wide range of topics regarding the Icelandic economy. These visits are followed by reports offering an assessment of the economic situation and outlook. The OECD assessment is also based on its own macroeconomic model of the Icelandic economy whereas the IMF, in its assessment, relies on the macroeconomic modeling work of others for the Icelandic economy along with its own research into individual topics.

The credit ratings issued by the rating agencies are very important for the credit terms of the government and other domestic borrowers in international financial markets. These ratings take account of i.e. economic growth prospects, debt repayment ability, fiscal and monetary policies, government guarantees, public debt levels as well as the indebtedness of the private sector. The credit rating agencies issue regular reports explaining their assessments in detail. Such reports from outsiders stimulate the domestic economic debate and provide discipline for all concerned. Such assessments are becoming more important with the increasing participation of Iceland in the global economy.

## A comparison of national economic forecasts

The number of domestic entities that regularly monitor Icelandic economic developments and prospects has increased in recent years. In addition to the Ministry of Finance and the Central Bank, the economic departments of the commercial banks and the Confederation of Labour (ASI) issue economic forecasts. The forecasts of the Ministry and the Central Bank are based on detailed macroeconomic models, whereas the other forecasts are based on smaller models. The forecasts are also based on different underlying assumptions, and it is therefore not surprising that outcomes differ. For example, the Central Bank assumes in its baseline forecast that its policy rate and exchange rate remain unchanged over the forecast horizon. Likewise, the Ministry's forecasts of central government consumption and

Economic growth forecasts 2005-2010



investment are based on the governments four-year medium term plan. Such assumptions must be kept in mind when forecasts are compared.

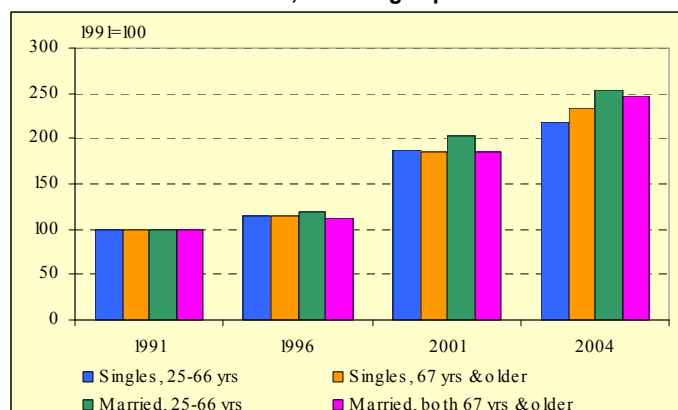
This past autumn five entities issued forecasts covering the period up to 2007 and some as far as 2010. There is broad agreement on the estimate for economic growth in 2005. Most expect 6 per cent growth except Landsbanki, with 7.5 per cent. Opinions differ on prospects for 2006-2010, as may be seen in the graph below. Íslandsbanki, for example, forecasts a recession in 2007 whereas others expect a slowdown in growth.

One of the assumptions of prime importance for growth is the path of the exchange rate of the Icelandic krona. Most expect the krona will decline in value from next year, whereas the Central Bank bases its forecast, as noted above, on an unchanged exchange rate. Íslandsbanki is alone in projecting a sharp rate decline in 2007. It should be noted that assumptions about the exchange rate involve more uncertainty than other factors in the projections.

## The development of average incomes by age group

The incomes of senior citizens have been under discussion in recent weeks. As on earlier such occasions, there is no consensus on how best to calculate their incomes. Comparisons may be made with earlier years as well as with other income groups. Incomes of individual senior citizens also differ widely as in other age groups. It should be noted that for the past decade, the incomes of senior citizens have developed in concert with incomes of other age groups. This can be viewed in the following graph which is based on tax returns for the past decade. It shows the change in total incomes, including income from capital, for the years 1991-2004, - on one hand the incomes of single persons 25-66 years of age and 67 years and older and those of married couples in the same age groups on the other.

Total incomes, including capital income



The total income of single persons in the 25-66-year age group rose by 119 per cent over this period and those older than 67 years by 134 per cent. For married couples, total incomes have increased by 150 per cent, both for those in the 25-66-year group as well as those 67 years and older. The development of incomes for those older than 67 years has therefore been quite similar to the income of the younger age group, very much contrary to various assertions of late.

In discussions of the development of disposable incomes, comparisons have been made with the wage index. These measures are quite disparate, since disposable incomes are defined as income less direct taxes plus transfer payments. The wage index gauges wages which in part are based on the quantity of work. It is therefore important not to confuse these two measurements in public discussion.

Treasury revenue, January-September		Treasury expenditure, January-September		Treasury finances, January-September		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	15.4	22.0	Administration	9.2	3.2	Cash from operations	-10,405	14,581	Inflation - Nov.	3.8	4.2
Income taxes	20.4	23.9	Social affairs	10.0	6.3	Net financial balance	-2,436	59,746	Core inflation 1-Nov.	3.3	4.6
Social security taxes	10.1	16.4	Economic affairs	12.5	-3.1	Debt redemption	-30,843	-47,939	Wage index - Oct.	5.3	6.9
Asset taxes	2.16	44.8	Interest	-7.4	43.2	Gross borr. requirement	-38,904	8,857	Total turnover - Jan.-Aug.	9.6	9.2
Indirect taxes	13.4	20.2	Other	0.8	78.6	Net borrowing	40,679	11,698	Retail turnover - Jan.-Aug.	4.3	6.3
Total revenue	7.4	51.8	Total expenditure	8.7	9.7	Overall cash balance	1,775	20,555	Unemployment (% - Sept.)	2.7	1.4