

# English translation of the Weekly Web Release



MINISTRY OF FINANCE IN ICELAND

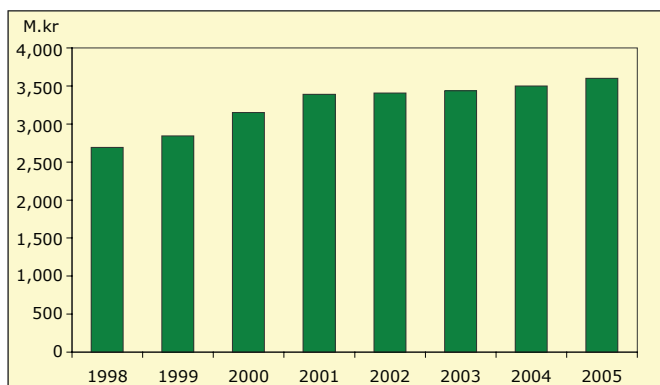
October 19<sup>th</sup> 2006

## Medical payments through health insurance

The participation of the health insurance facility of the Social Security Institute in the payments of patients to independent physicians and other health professionals operating under contract amounted to more than 3,600 million krónur in 2005 and increased by 910 million krónur since 1998 at constant prices, based on the general services component of the consumer price index. This corresponds to an average annual increase of close to 5 per cent over the period compared to an average annual population increase of 1.2 per cent. The annual increase in constant-price terms was considerably higher in the first part of the period, from 1998 to 2001, averaging 8 per cent compared to 1.8 per cent in the years 2002 to 2005.

About 60 per cent of payments by the health insurance facility go to independent specialist consulting physicians. These physicians are paid on a fee-for-service basis where 214 krónur are paid for each service unit. A total of 2.2 billion krónur were paid for independent physician services operating out of their offices. This amount covers more than 13 million units and more than 384 thousand visits to physicians. Each visit thus averages about 34 units and costs 7,276 krónur of which the patient pays about 30 per cent or 2,180 krónur.

Payments by the health insurance facility 1998-2005



Other payments by the health insurance facility are for the services of independent general practitioner physicians and medical certificates. Payments in this category amount to nearly 10 per cent of the total. Payments for diagnostic services and laboratory analyses amount to nearly 30 per cent of the total.

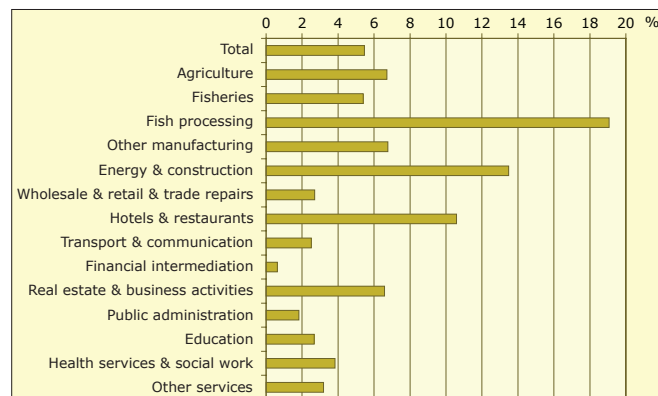
## Foreign citizens have filled a third of new jobs

In the recent publication [The Icelandic Economy Autumn 2006](#) there is a discussion of the role played by foreign labour in Box 5. In it it is shown that the share of foreign citizens in the labour force has increased from 2.3 per cent in 1998 to 5.5 per cent in 2005. In number, they increased from 3,400 in the former year to more than 9,000 last year. For this entire period, the main cause of this development has been the labour demand of Icelandic employers. The labour force participation of foreigners of working age has therefore been quite high.

About 11,000 new jobs were created in the latest expansion of which foreigners filled about one-quarter. During the present expansion period about 9,000 jobs have been created up to now, mainly last year, and foreigners have filled about 30 per cent of those.

The number of foreigners has increased in all sectors. Their number has increased most in construction where they have filled more than 40 per cent of new jobs. The share of foreign workers in the growth of the hotel and restaurant sector is only slightly lower. The total number of jobs in fisheries, fish processing and other industry has declined in total by close to 6,000 in the present expansion but the number of foreigners in these branches increased by more than 1,000. It is worth noting that the number of foreigners in the financial services sector hardly increases at all and they filled only 1 per cent

Share of foreign workers in the labour market in 2005



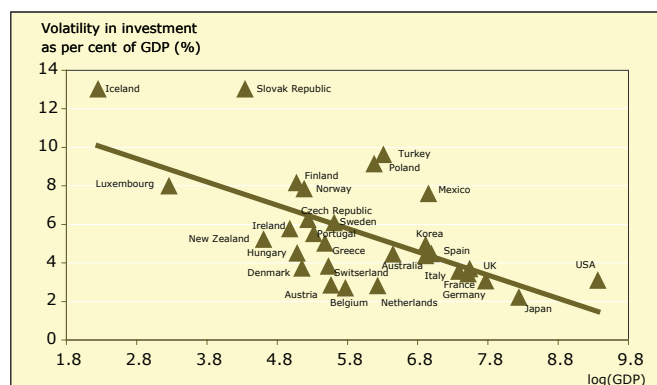
of new jobs in this branch. The number of foreigners has not increased to any extent in education. In health and social services the number of jobs has risen by about 5,000 of which one-tenth is filled by foreigners. The consequence of this development is that the share of foreigners differs between sectors as can be seen in the chart above. It is highest in fish processing and lowest in the financial sector.

## Volatility in investment

Investment has expanded significantly in recent years. A large part of the growth has occurred in business investment, in aluminum production, hydroelectric power generation facilities and other business investment. Housing investment has also increased significantly in recent years while public investment has declined. The real growth of investment has been volatile over time. In the past fifteen years, fluctuations in investment measured as standard deviation in change in volume terms has been five times greater than the volatility in the growth of GDP.

In many countries it is normal for investment as share of GDP to range between 16% and 23% but in Iceland it has averaged around 20% over the past fifteen years. The volatility of investment in Iceland however seems to be greater than in the other OECD- countries, which is also consistent with the greater amplitude of the business cycle.

Volatility in investment and country size 1992-2004



The graph shows the relationship between the volatility of investment as share of GDP on the one hand and the size of the country, as measured by logarithm of purchasing power parity adjusted GDP in 2004, on the other. The data covers the period 1992-2004. The measurement shows that smaller countries tend to have greater volatility in investment than the larger countries. As can be seen Iceland is the smallest country in the sample with the greatest volatility. Even after the small size is taken into consideration Iceland is in the group with the most volatility in investment.

Treasury revenue January-August		
12 month changes (%)	2005	2006
Total tax revenue	18.5	14.9
Taxes on income & profit	15.7	29.7
Taxes on property	50.3	-33.3
Taxes on goods & services	18.6	10.5
Social contributions	16.6	15.5
Total revenue	21.1	12.2

Treasury expenditure January-August		
12 month changes (%)	2005	2006
General public services	22.1	-15.7
Health	7.9	7.6
Social security & welfare	3.5	5.2
Economic affairs	-4.0	1.9
Education	15.0	14.4
Total expenditure	7.6	2.9

Treasury finances January-August		
Million krónur	2005	2006
Cash from operations	16,298	35,558
Net financial balance	27,558	33,219
Debt redemption	-33,363	-32,592
Gross borr. requirement	-8,406	-2,013
Net borrowing	15,832	25,247
Overall cash balance	7,426	23,234

Economic indicators		
12 month changes (%)	2005	2006
Inflation (October)	4.6	7.2
Core inflation (October)	4.8	7.1
Wage index (August)	6.7	10.6
Total turnover (Jan. - June)	8.0	12.5
Retail turnover (Jan. - June)	6.4	5.1
Unemployment rate, sa (Sept.)	1.7	1.2