

English translation of the Weekly Web Release



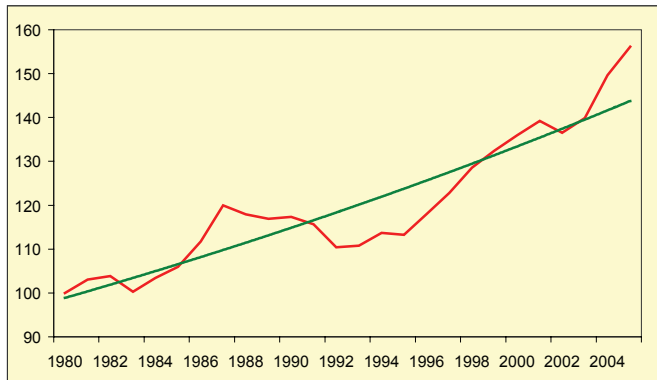
MINISTRY OF FINANCE IN ICELAND

September 21st 2006

GDP per capita

GDP per capita has increased by about 60 per cent in real terms in the years 1980-2005. As can be seen in the chart below, there is a trend rate of growth in real per capita GDP of about 1.5 per cent a year.

GDP per capita – constant 1980 prices



Business cycles in the Icelandic economy have historically been more pronounced than in other developed countries. Research has shown that smaller countries have on average experienced larger business cycles than larger ones. In the years 1988-1995 there was a recession in the economy and GDP per capita remained stagnant in real terms. At the end of this period there was significant unused production capacity in the economy which could be put to good use in the upcoming expansion period from 1996 to 2001 when GDP per capita increased by 3.3 per cent a year on average. This was followed by a brief recession in 2002 when per capita GDP declined by 1 per cent. A vigorous expansion commenced in 2003 that is still going on, although a slow-down is expected next year. For the period 2003 to 2006, including both years, GDP growth per capita is estimated at 4.2 per cent per year, well above the long-term trend.

In spite of the business cycles of the economy, Iceland is well-placed in the OECD league table with one of the highest per capita GDP adjusted to a PPP-basis. In 2004, it amounted to 32,600 US dollars which is well above the unweighted average of all OECD countries, putting Iceland in sixth place.

The adoption of new EU rules on public procurement

The Ministry of Finance is drafting new comprehensive legislation on public procurement with the intention of presenting a bill to the Althingi at the beginning of its coming session. The bill will take account of the Directive of the European Parliament and of the Council no. 2004/18/EC on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts as well as the Directive of the European Parliament and of the Council no. 2004/17/EC on the coordination of procedures for public purchasing contracts in the water, energy, transport and communications sectors. These Directives were adopted into Annex XVI of the EEA Agreement on June 2nd 2006 according to the EEA Joint Committee Decision no. 68/2006. The main changes of substance in the rules of the EU regarding public purchasing as a result of Directive no. 2004/18/EC are as follows:

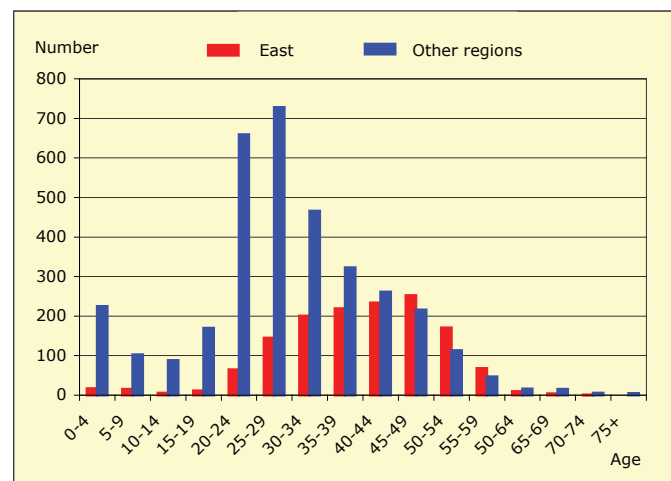
The regulations concerning public procurement will henceforth fully cover the communications sector and defence procurement will also be covered by regulations on public procurement. The rules on reference amounts have been simplified and rules have been adopted for a permission to enter into so-called competitive discussions in cases of complicated contracts. More precise rules are being adopted on the implementation of contractual purchases and framework agreements,

and the rules on notification and associated explanatory material have been clarified. Rules on the use of electronic transmission have been liberalised regarding public procurement and dynamic procurement systems. Rules have also been clarified on the pre-selection of tender participants as well as rules on the qualifications that can be demanded of participants in public procurement. Clearer rules have also been adopted for the permissible prerequisites for the awarding of contracts and their relationship with the contents of said contract. Rules are adopted for using so-called electronic auctions on public procurement. Rules on the rejection of unusually low bids are also being clarified.

Immigrants are different

The migration data recently published by Statistics Iceland show a wave of immigrants in the eastern part of the country. This is to be expected, since large power-intensive investments are taking place in there, demanding a great deal of foreign labour that reside in work camps on the construction site and are registered there for their residence purposes as long as they stay in the country. A large number of immigrants have come to other parts of the country this year. Some of these people are also involved in extensive power-intensive projects in the South-West and others have arrived for employment in the general economy since there is a shortage of labour in the country.

Immigrants by age group January-July 2006



More than 90 per cent of all foreign migrants to the East are men. For other parts of the country the ratio of men to women is 60/40. The age structure is also quite different as can be seen in the chart above.

Close to three-fourths of those coming to the East are 30-54 years of age with the modal age group being 45-49 years. For other parts of the country the 25-29-year group is most common, with the 20-24-year group in second place. This indicates that the groups of people that have moved to parts of the country other than the East consist largely of young persons of both sexes that have come here to stay if they like their new country.

Treasury revenue January-July		Treasury expenditure January-July		Treasury finances January-July		Economic indicators					
12 month changes (%)	2005	2006	12 month changes (%)	2005	2006	12 month changes (%)	2005	2006			
Total tax revenue	18.7	21.6	General public services	24.3	-18.2	Cash from operations	4,596	36,500	Inflation (September)	4.8	7.6
Taxes on income & profit	15.2	39.7	Health	11.4	6.1	Net financial balance	15,802	34,116	Core inflation (September)	4.9	7.2
Taxes on property	49.8	-29.5	Social security & welfare	1.1	-6.8	Debt redemption	-33,343	-35,088	Wage index (July)	6.6	10.2
Taxes on goods & services	19.4	16.3	Economic affairs	-1.6	-0.9	Gross borr. requirement	-19,790	-3,282	Total turnover (Jan. - June)	8.0	12.5
Social contributions	16.2	16.0	Education	18.8	11.0	Net borrowing	13,305	19,735	Retail turnover (Jan. - June)	6.4	5.1
Total revenue	23.0	16.4	Total expenditure	9.1	-1.5	Overall cash balance	-6,486	16,453	Unemployment rate, sa (Aug.)	2.0	1.3