

English translation of the Weekly Web Release



MINISTRY OF FINANCE IN ICELAND

November 30th 2006

Treasury finances, January-October 2006

The cash surplus from [Treasury operations](#) amounted to 48.8 billion krónur in the first ten months of this year, 28.5 billion more than last year. Revenue exceeded last year's level by 28.5 billion krónur, excluding income from the sale of Iceland Telecom, whereas expenditure only rose by 2.2 billion. The net financial surplus amounted to 46.8 billion as against 68.7 billion last year.

Treasury revenue amounted to 308 billion krónur compared with 337 billion a year ago. This decline is due to the fact that 57 billion in income from the sale of Iceland Telecom was booked in September 2005. Excluding this transaction, the increase in revenue amounted to 28.5 billion krónur or 10.2 per cent. The increase comes to 9 per cent when adjusted for a transfer between months in the collection of the corporate income tax as of the beginning of this year. Thus adjusted, tax revenue, including social security contributions, increased by 10.6 per cent in nominal terms and by 3.8 per cent in real terms, after being adjusted for 6.6 per cent inflation.

Taxes on income and profits amounted to 97 billion krónur, increasing by 16 billion or 20 per cent. Revenue from the personal income tax increased by 13 per cent and from the corporate income tax by 65 per cent (adjusted for the shift in collection noted above). The capital income tax yielded 18 billion krónur and increased by 1.4 per cent between years. The capital income tax proceeds from the sale of Iceland Telecom amounted 5.6 billion krónur, booked in September last year. Excluding this transaction, the proceeds from the capital income tax increased by 48 per cent. Social security contributions increased by close to 17 per cent between years or by nearly 7 per cent in excess of the rise in the wage index. Taxes on asset transactions amounted to 7.6 billion, one-third less than last year, mostly due to a decline in revenue from the stamp tax by 21 per cent, in part because of a decline in debt conversions.

Indirect taxes yielded 147 billion krónur in the first ten months of the year, increasing by 10.3 per cent in nominal terms or by 3.5 per cent in excess of consumer price inflation. Revenue from the value added tax increased by 11.5 per cent in nominal terms and 4.6 per cent in real terms. Due to a change in the collection of the value added tax and customs duties that entered into effect at the beginning of this year, a meaningful comparison with the previous year depends on the periods within the year selected. Based on a moving average of several months, it appears that the growth in real terms in taxes on goods and services peaked at the end of 2005. This year, the rate of growth has decelerated steadily. Indirect taxes other than the value added tax comprise close to one-third of total indirect taxes. Such tax revenue has declined in real terms in recent months, based on a moving average of several months.

Total expenditure amounted to 258.8 billion krónur and increased by 2.2 billion from last year. Individual expenditure items vary more. Interest payments decreased by 8.2 billion due to the fact that last year a large savings bond issue matured along with accumulated interest, an event not repeated this year. Payments by the Treasury of capital income tax on account of the sale of Iceland Telecom amounted to 6.1 billion krónur last year, a non-recurrent expense. Excluding those two items, expenditure rose by 7.1 per cent, mostly on account of a 4.9 billion increase in expenditure on health and 3.1 billion for education. Payments for social security and welfare amounted to 2.5 billion and for general public services by 2.3 billion krónur. The cost of law enforcement rose by 1.5 billion and outlays in the category of economic affairs rose less, by only 0.8 billion. Health and social security together account for about half of total Treasury expenditure.

Gross borrowing amounted to 26 billion krónur and repayments of outstanding debt to 41.6 billion. The difference was financed out of cash from operations.

The equity contribution of the Treasury to the Business Venture Fund was increased by 1 billion krónur and 3.3 billion were paid to the Gov-

ernment Employees Pension Fund as an advance payment against future pension commitments.

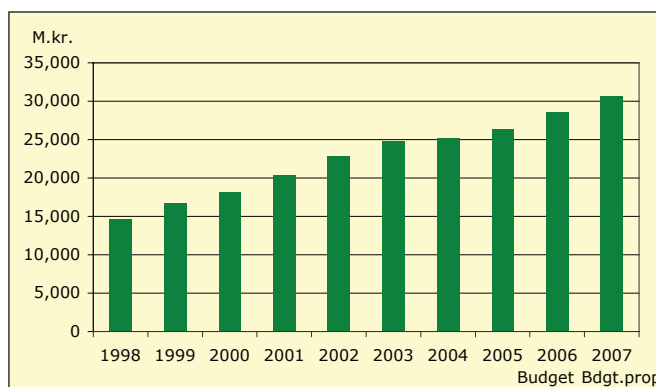
Amendments to the Pensions Act

The Minister of Finance has presented a bill to the Althingi proposing amendments to the Pensions Act. The amendments are twofold. First, the minimum contribution to pension funds shall be increased from 10 per cent to 12 per cent in accordance with most currently existing wage agreements that call for a 2 per cent increase in the employer counter-contribution to pension funds in the general labour market. In order not to override those remaining wage agreements that still call for a 10 per cent contribution, the bill contains a provisional clause that such agreements be allowed to stand until a new agreement has come into force. Second, an amendment is being proposed to the effect that pension funds that enjoy the backing of the government, banks or municipalities be permitted to amend their bye-laws in accordance with Paragraph 2 of Article 39 of said Act, such as to reduce pension entitlements. This ambiguity in the law has been a source of legal uncertainty. The amendment is intended to eliminate this uncertainty by permitting said pension funds to amend their bye-laws so as to conform to Paragraph 2 of Article 39.

The cost of operation of the University Hospital

In 1998, the total cost of operating the two Reykjavik hospitals amounted to 14,722 million krónur in nominal terms. The two hospitals were merged in 2000 and are receiving an appropriation of 30,614 million krónur in the 2007 fiscal budget. The increase since 1998 comes to 108 per cent or 8.5 per cent a year compared with a 47 per cent increase in the consumer price index, averaging 4.4 per cent a year. The index for public consumption, which measures the increase in the price of public services, rose by 68 per cent over this period or by close to 6 per cent on average. The graph below shows the development of current expenditure of the merged hospital at current prices from 1998 to 2005. The expenditure for 2006 is based on the fiscal budget plus the supplementary budget currently before the Althingi. The cost for 2007 is based on the fiscal budget proposal for that year, also before the Althingi.

Operating expenditure of the University Hospital 1998-2007



Treasury revenue January-October		
12 month changes (%)	2005	2006
Total tax revenue	20.8	11.8
Taxes on income & profit	27.3	19.9
Taxes on property	7.2	-37.0
Taxes on goods & services	19.8	10.3
Social contributions	15.7	16.6
Total revenue	47.2	-8.4

Treasury expenditure January-October		
12 month changes (%)	2005	2006
General public services	35.8	-23.0
Health	6.7	7.5
Social security & welfare	5.0	4.2
Economic affairs	-3.7	2.3
Education	16.3	12.2
Total expenditure	10.0	0.9

Treasury finances January-October		
Million krónur	2005	2006
Cash from operations	20,294	48,791
Net financial balance	68,671	46,785
Debt redemption	-61,557	-41,565
Gross borr. requirement	3,814	1,921
Net borrowing	9,048	25,961
Overall cash balance	12,862	27,882

Economic indicators		
12 month changes (%)	2005	2006
Inflation (November)	4.2	7.3
Core inflation (November)	4.6	7.2
Wage index (October)	6.9	11.0
Total turnover (Jan. - August)	8.5	12.6
Retail turnover (Jan. - August)	5.3	4.1
Unemployment rate, sa (Oct.)	1.6	1.1