



November 3, 2005

Treasury finances, January-September 2005

For the first nine months of this year, the surplus of cash from operations amounted to 14.6 billion krónur, 42.1 billion more than had been projected and 25 billion more than at the same time a year ago. The net financial surplus amounted to 59.7 billion as against a deficit of 2.4 billion last year. The surplus on monetary transactions amounted to 45.2 billion which is due to the 66 billion sale of Iceland Telecom, but is offset by 32 billion of the sales proceeds that have been lodged with the Central Bank according to a special agreement.

The **total revenue** of the Treasury amounted to 305.4 billion, increasing by 104.2 billion from last year, or by 51.8 per cent. Of this amount, 62.4 billion is due to the sales profit and the capital income tax thereon from the Iceland Telecom sale. The tax revenue of the Treasury amounted to 228.4 billion krónur, increasing by 22 per cent from last year, slightly more than projections indicated. General prices rose at the same time by 3.9 per cent, leaving an increase of 17.4 per cent in real terms.

Taxes on incomes and profits amounted to 74.7 billion, 23.9 per cent more than last year. The personal income tax yielded 10.2 per cent more and the corporate income tax 9.4 per cent. The capital income tax yielded 17.7 billion, increasing by 107.3 per cent from last year, a third of which can be explained by the capital income tax from the sale of Iceland Telecom. The social security tax yielded 23.7 billion, an increase of 16.4 per cent from last year, compared to an increase of 6.6 per cent in the wage index of Statistics Iceland. Tax revenues from assets rose by 39.4 per cent in real terms, largely on account of rising revenue from the stamp tax. Other current revenue amounted to 19.5 billion, increasing by 5.9 billion, mostly on account of dividends from Iceland Telecom and fines levied on oil companies.

Revenue from indirect taxes increased by 20.2 per cent or by 15.7 per cent in real terms. The bulk of the increase stems from the value added tax which rose by 17.7 per cent in real terms. This indicates that aggregate demand in the economy is still rising. Excise taxes on motor vehicles at the point of import rose by 71.9 per cent, mostly due to a sharp rise in vehicle imports, 61.5 per cent over the corresponding period last year.

Total expenditure amounted to 233.6 billion and rose by 20.7 billion from last year, of which 5.6 billion are explained by the expensing of the capital income tax that the Treasury is in fact paying itself on the profits from the sale of Iceland Telecom. Another 5 billion is due to an interest payment on a maturing government savings bond issue that was redeemed last April along with accumulated interest. Excluding these two items, expenditure rose by 10.1 billion or 4.7 per cent. Social expenditures, i.e. for social security, education and health, are by far the largest spending items, accounting for 147 billion, two-thirds of total expenditure. Together, the cost of these items rose by 8.8 billion or 6 per cent. Healthcare costs rose by 3.4 billion and education expenditures by 3.1 billion. Social security costs rose less, by 1.7 billion. Expenditures in other categories rose considerably less, and expenditure on economic affairs declined by 1 billion, mostly on account of reduced outlays for communications.

Financial transactions. Repayments of loans amounted to 47.9 billion, of which 33.9 billion represent repayment of foreign debt and 13.9 billion on domestic savings bonds. Gross borrowing amounted to 11.7 billion, mostly in the form of Treasury bills and medium-term notes. Borrowing declined by a total of 30 billion between years. The prepayment of future pension commitments to the Government Employees Pension Fund amounted to 3 billion. Cash on hand rose by 20.6 billion from the beginning of the year up to the end of September.

Corporate tax rises sharply between years

The tax assessment on corporations was published this week, based on returns for 2004 and balance sheets at the end of that year. The total assessment amounted to 53.6 billion, an increase of about one-fourth between years.

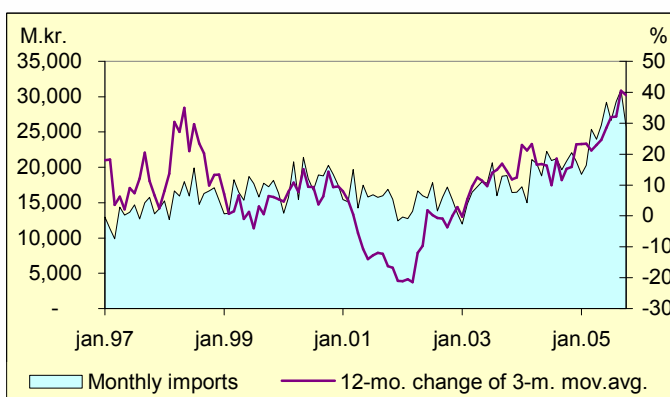
The main item of increase was the corporate income tax, the revenue from which is assessed at 23.8 billion, a rise of 75 per cent or 10 billion from the previous year. The number of taxpayers is about 13,200, increasing by 16 per cent from the previous year. Tax assessments done without returns from companies are substantial as in previous years, - although slightly better than last year - accounting for about one-fourth of registered companies. About 6 billion of the total tax assessment are due to estimated assessments compared to 4 billion last year. This notwithstanding, the share of such estimated assessments out of the total is slightly lower than in the past four years. The assessment of income tax on the basis of filed returns nearly doubled between years, from 9.5 to 18 billion, reflecting the expansion in the economy in 2004 when GDP growth exceeded 6 per cent. The corporate income tax is very sensitive to the state of the economy, rising sharply in years of expansion and declining also rapidly in a downturn. This means that it is difficult to forecast Treasury revenue from the corporate income tax, especially since the tax assessment takes place with a year's lag. From the above figures, it is evident that the corporate income tax will yield considerably more revenue to the Treasury than had been estimated in the fiscal budget.

The social security tax - a payroll tax on employers - is assessed at 27.6 billion for 2004. Most of the tax was already collected on a PAYE basis in 2004. The net wealth tax is assessed at 1.5 billion krónur, rising by 13 per cent from the previous year. This is the last year when a net wealth tax is imposed.

Merchandise imports in October

Merchandise imports, excluding ships and aircraft, amounted to 21.5 billion krónur in October, according to provisional figures on the collection of the value added tax at the point of import. This represents a considerable decline from September, mostly because of reduced fuel imports. In spite of this average imports for the past three months have increased by close to 40 per cent in real terms from a year earlier, September being a record import month so far this year. For the first ten months of the year, imports have increased by close to 30 per cent over a year ago. The increase is mostly in investment goods, motor vehicles and fuels.

Merchandise imports in October excl. ships and aircraft



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 - Oct.	3.7	4.6
Income taxes	20.4	23.9	Social affairs	10.0	6.3	Net financial balance	-2,436	59,746	Core inflation - Oct.	3.1	4.8
Social security taxes	10.1	16.4	Economic affairs	12.5	-3.1	Debt redemption	-30,843	-47,939	Wage index - Sept.	5.3	6.9
Asset taxes	21.6	44.8	Interest	-7.4	43.2	Gross borr. requirement	-38,904	8,857	Total turnover - Jan-June	9.8	8.7
Indirect taxes	13.4	20.2	Other	0.8	78.6	Net borrowing	40,679	11,698	Retail turnover - Jan-June	5.3	9.0
Total revenue	7.4	51.8	Total expenditure	8.7	9.7	Overall cash balance	1,775	20,555	Unemploy. (%) - Sept.	2.6	1.4