

English translation of the Weekly Web Release



MINISTRY OF FINANCE IN ICELAND

January 5th, 2006

Treasury finances, January-November 2005

The cash surplus of the Treasury amounted to 21.5 billion krónur in the first eleven months of the year, 42.6 billion more than had been projected at the beginning of the year and 29.6 billion more than last year. Revenue increased by 55 billion, excluding profits from asset sales, and expenditure by 22.9 billion. The net financial surplus amounted to 70.4 billion, compared to 9.6 billion a year ago. Financial transactions yielded a surplus of 49 billion, including 66 billion from the sale of Iceland Telecom, 32 billion of which was placed on special deposit with the Central Bank.

Treasury revenue amounted to 360.8 billion, an increase of 113 billion or 45.6 per cent over the previous year. Of the increase, 62.4 billion can be attributed to the sale of Iceland Telecom. Total tax revenue amounted to 279.4 billion, an increase of 21.3 per cent, compared with 4 per cent inflation, which leaves an increase of 16.6 per cent in real terms.

Taxes on income and profits amounted to 90.2 billion, increasing by 17.8 billion. Revenue from the capital income tax rose by 7.7 billion, most of which is due to the sale of Iceland Telecom. Revenue from the personal income tax rose by 5.9 billion and income from the social security tax increased by 16.4 per cent, compared to the increase in the wage index of 6.7 per cent. Receipts from taxes on net wealth and asset transactions amounted to 14.4 billion, increasing by 26.5 per cent in real terms, mostly from the stamp tax. Other current revenue amounted to 23 billion, increasing by 6.1 billion, the bulk of which comes from a dividend payment from Iceland Telecom and from fines levied on oil companies.

Indirect taxes, particularly the value added tax, tend to reflect the state of general demand in the economy. Revenue from indirect taxes rose by 19.5 per cent from the previous year or by 14.9 per cent in real terms. Receipts from the value added tax rose by 21.1 per cent in nominal terms and 16.5 per cent in real terms. The import excise duty on motor vehicles is the main item amongst other current revenues, increasing by 68 per cent.

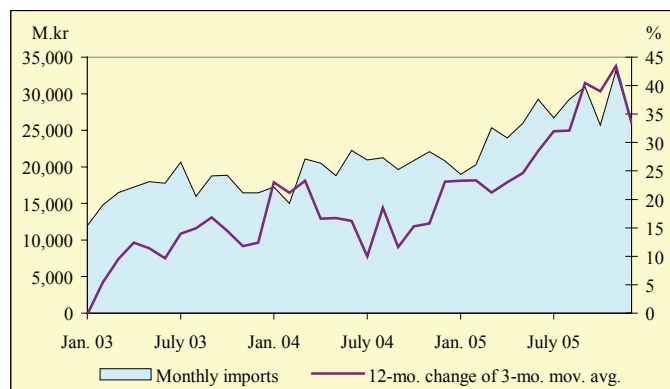
Treasury expenditure amounted to 279.9 billion krónur, increasing by 22.9 billion of which 5.6 billion is due to a payment of capital income tax by the Treasury to itself on the profit from the sale of Iceland Telecom. Another 4.5 billion can be attributed to the payment of interest on a savings bond that matured in April along with accumulated interest. Excluding these two items, expenditure rose by 12.8 billion or 5.2 per cent. Expenditure on health and social affairs took up about two-thirds of total outlays, 178.3 billion, an increase of 10.7 billion or 6.7 per cent between years. Health costs rose by 3.8 billion and education by 3.7 billion or 15 per cent. Payments for social security rose less, by only 2.3 billion. Other expenditure rose less, and outlays in the category of economic affairs declined by 0.8 billion, mainly on account of less road investment.

Financial transactions. Debt repayments amounted to 61.6 billion, increasing by 90 per cent. Of this amount, 47.5 billion went to repay foreign debt and 14.1 billion to redeem maturing domestic savings bonds. New borrowing amounted to only 7.7 billion, all domestic. In addition, 5.1 billion was paid to the Government Employees Pension Fund in order to reduce future commitments of the Treasury to the Fund. Cash at hand rose by 11.4 billion in the first eleven months of the year.

Imports in December

Provisional import figures for December show that imports amounted to close to 23 billion krónur, 5 billion less than in November, a record import month in 2005. The difference can mostly be attributed to reduced fuel imports. December imports exceeded those of a year ago by 26 per cent, in constant price terms and excluding ships and aircraft. Based on a three-month moving average, the increase comes to 33 per cent.

Merchandise imports (in real terms)



For the first eleven months of the year, imports amounted to 278 billion, again excluding ships and aircraft, an increase of one-third from the previous year. The main increase is in investment goods, largely due to power project and aluminium plant investments. Fuel imports also rose in value due to substantial price increases. Consumer goods imports also rose, especially of durable and semi-durable goods. (An example of durable goods are appliances and semi-durables are, for instance, shoes and clothes.) Vehicle imports also rose sharply. Icelanders have taken advantage of a favourable exchange rate to purchase cars in record numbers. Vehicle imports peaked in June at 3.3 billion krónur, whereas this autumn and early winter they have run at about 2 billion a month.

Total imports amounted to 262 billion for the first eleven months of 2005. Including the estimate for December, total imports, including ships and aircraft, would amount to 285 billion for the year. Should the current provisional figures turn out to be correct, imports of food and beverages amounted to 20 billion, other consumer imports to 47 billion, raw materials and production inputs to 69 billion, fuels to 27 billion, investment goods to 67 billion and transport equipment to 53 billion, 26 billion of which were motor vehicles.

The Ministry's forecast for imports, published last October, is about 7 billion krónur below the current estimate for 2005. The probable reason for the forecast shortfall is that the exchange rate has turned out to be stronger in the final months of the year than anticipated. The Ministry will publish a revised national economic forecast at the end of this month.

Treasury revenue, January-November		
12 month changes (%)	2003-2004	2004-2005
Total tax revenue	13.7	21.3
Income taxes	13.3	24.6
Social security taxes	10.3	16.4
Asset taxes	44.2	31.6
Indirect taxes	12.7	19.5
Total revenue	8.0	45.6

Treasury expenditure, January-November		
12 month changes (%)	2003-2004	2004-2005
Administration	8.2	4.8
Social affairs	9.2	6.4
Economic affairs	1.9	-2.0
Interest	-6.1	35.7
Other	6.0	63.4
Total expenditure	6.9	8.9

Treasury finances, January-November		
Million krónur	2004	2005
Cash from operations	-8,177	21,461
Net financial balance	9,557	70,420
Debt redemption	-32,321	-61,597
Gross borr. requirement	-29,639	3,691
Net borrowing	27,567	7,734
Overall cash balance	-2,072	11,425

Economic indicators		
12 month changes (%)	2003-2004	2004-2005
Inflation (Dec.)	3.9	4.1
Core inflation (Dec.)	3.5	4.6
Wage index (Nov.)	5.4	7.3
Total turnover (Jan. - Aug.)	9.6	9.2
Retail turnover (Jan. - Aug.)	4.3	6.3
Unemployment, sa, % (Nov.)	2.8	1.7