

English translation of the Weekly Web Release



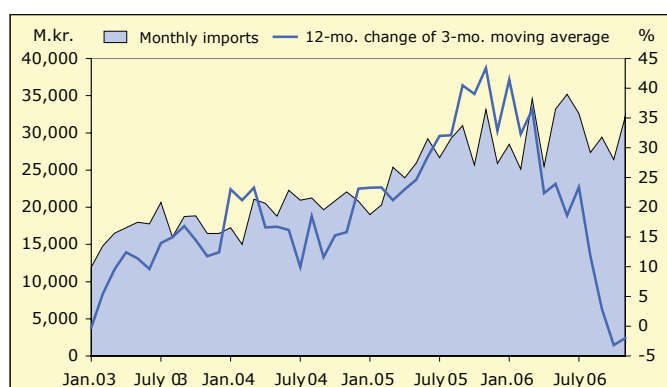
MINISTRY OF FINANCE IN ICELAND

December 7th 2006

Merchandise imports in November

The deficit on merchandise trade amounted to 13 billion krónur in November. This is a larger deficit than in recent months, mostly on account of increasing imports. In constant price terms, however, the three-month moving average of imports has declined by 2 per cent. Provisional import figures, which are based on value-added tax receipts, indicate that the largest part of the import increase between months is due to fuels, which fluctuate widely from one month to the next. Imports of investment goods appear also to be increasing from the previous month, and auto imports are also increasing after recording a low in October. Imports of other consumer goods increased marginally between months.

Merchandise imports in volume, January 2003 – November 2006



Figures on the balance of payments for the first three quarters of this year were released on December 5th. The current account deficit amounted to 205 billion krónur in that period. The increase in the deficit is largely attributable to an increase in net factor payments. The current account deficit is well in excess of that contained in the Ministry's most recent macroeconomic forecast. The deficit for the first three quarters is about equal to the forecast for the whole year, the difference being mostly due to net factor payments to abroad. In light of figures for merchandise imports for the first eleven months, imports will be fairly close to the figure projected in the Ministry's autumn forecast of last October, 361 billion. On the other hand, merchandise exports appear to be falling somewhat short of predictions. The deficit on services has also been underestimated. It amounted to 42.8 billion krónur in the first three quarters vs. an estimate of 38.7 billion for the year as a whole.

A review of government tasks

It is important that ministries and government agencies constantly review their tasks. The government must continuously seek ways and means to improve its governance and adjust its tasks to changes in society as well as to its own operations. For example, the market may well be prepared to take over tasks that once were viewed as belonging to the government. The need for some tasks may change over time and possibly be rendered redundant. It is also necessary to systematically assess how new government tasks can best be implemented. Such an assessment must be organised and based on a harmonized methodology. For this purpose, a working party on government agency systems and government operations has prepared a checklist to be used by ministries and agencies in assessing currently existing tasks as well as tasks under consideration. The checklist is divided into four parts with 24 questions.

The first part consists of four questions on the purpose of the task. The aim is to assess the need for performing the task at all. In the second part, there are six questions that examine whether there are valid reasons for the participation of the government in the task under consideration.

The third part contains nine questions to assess the extent of government participation in the task, inasmuch as answers to questions in the second part have been in the affirmative. Must the government perform the task itself or can the task be outsourced to others, even if the government pays for the service fully or in part? Finally, the fourth part consists of five questions regarding the nature of the task that the government must wholly perform itself. These questions seek to highlight the nature of the task and how it can best be implemented within the government system.

Payments to stay-at-home parents

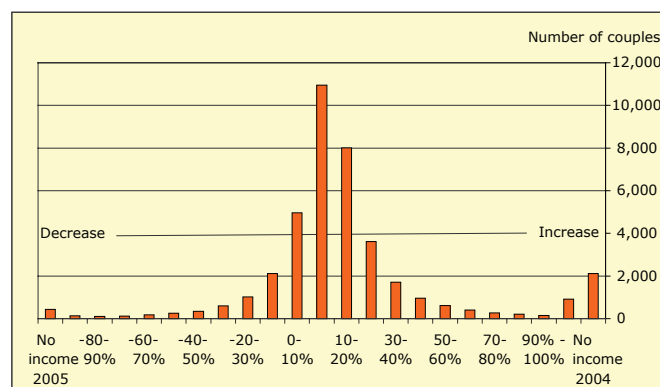
Several local governments have introduced payments to parents or guardians for staying at home with their children. The purpose of such payments is to support parents that wish to stay at home with their children after the completion of their childbirth leave period. The most common practice is to pay for staying at home from the end of the childbirth leave period until the child can be enrolled in nursery school. In light of these developments, the Minister of Finance has introduced a bill in the Althingi for amending the Income Tax Act, where such payments be exempted from income tax. Such a tax exemption is expected to cover payments from the end of the childbirth leave period until the child is enrolled in a nursery school or an elementary school. Since the subsidies of local governments of nursery school fees or day care costs are not taxable as income of parents or guardians, it is considered equitable that such childcare payments for stay-at-home parents be also exempt from tax.

Different rates of increase in income from employment

Individual taxpayers have experienced quite different incomes as they appear in tax returns over the years. The reasons vary: One may enter the labour market after having completed a course of study. Another may stop working and retire with a pension. A worker may be promoted and another may fall sick. All of these changes are aggregated and constitute the total change in wages. As with many other phenomena in society, the aggregate distribution of income is quite stable, even if it is composed of such disparate developments in the income of individuals.

The graph below shows the change in income from employment between 2004 and 2005 for all couples that paid mortgage interest both years. Such couples are about 40,000 in number. About 2,000 of those had no income from employment during the first year whereas some 400 were without employment income in the latter year. One-fourth of the couples experienced an increase of less than 10 per cent whereas the wage index rose by 7 per cent. More than 8,000 couples had an increase in their income from employment between 10 and 20 per cent from 2004 to 2005. For nearly 10,000 couples, the income from employment declined between years and by more than 10 per cent for half of that group.

Change in employment income of couples, 2004-2005, %



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