

# English translation of the Weekly Web Release



MINISTRY OF FINANCE IN ICELAND

August 10<sup>th</sup> 2006

## Treasury finances, January-June 2006

Data for [Treasury finances](#) for the first half of the year are now available. The surplus of cash from operations amounted to 29.7 billion krónur, 16 billion more than at the same time a year ago and 35 billion more than has been forecast in the Treasury's cash projections. Revenue increased from last year by 17 billion, whereas expenditure increased by 1.3 billion. The net financial surplus amounted to 27.5 billion, 1.6 billion more than last year

Treasury revenue amounted to 183 billion krónur in the first half of this year, 17 billion more than in the first half of last year, a 10.4 per cent increase. Taking into account that income tax payments by businesses have been shifted between months, the increase is about 8.5 per cent. Proceeds from the income tax and the social security contributions increased by more than 14 per cent in nominal terms, whereas consumer price inflation amounted to 5.7 per cent at the same time, leaving an increase of about 8 per cent in real terms. Other revenue declined by 41 per cent since a large dividend payment from Iceland Telecom took place in 2005 and was not repeated this year since the company had been privatised.

Taxes on income and profits amounted to 65 billion, increasing by 16 billion or 33 per cent. Proceeds from the personal income tax rose by 12 per cent, by 98 per cent from the corporate income tax (after adjusting for the shift between months) and by 43 per cent from the capital income tax. Social security contributions rose by 15 per cent, 6.2 per cent in excess of the rise in the wage index. Proceeds from taxes on assets amounted to 5.5 billion, a decline of 27 per cent. Of this amount, the stamp tax contributed 4 billion, declining by 18 per cent from the previous year, partly due to the decline in debt conversions.

Proceeds from indirect taxes represent a fairly good indicator of the development of domestic demand. They amounted to 82 billion krónur in the first half of the year, increasing by 10 per cent in nominal terms from the previous year or 4 per cent in excess of inflation. The value added tax yielded a 7 per cent increase in nominal terms or 2 per cent in real terms. Last year, the payment dates for indirect taxes were amended so that a comparison between years is not quite meaningful and would depend on the comparison period selected. Based on a moving average of several months, it is evident that the collection of indirect taxes from goods and services has slowed down considerably. Amongst individual types of indirect taxes, the excise tax on motor vehicles at the point of import yielded a 15 per cent increase. Registrations of new motor vehicles rose by 4.4 per cent in the first half of this year over the first half of 2005.

Treasury expenditure amounted to 153.2 billion krónur, increasing by 1.3 billion or 0.8 per cent. Interest payments declined by 7.7 billion, mostly on account of the fact that a large issue of government savings bonds matured, along with accumulated interest, in the first half of last year and was not repeated this year. Excluding interest, expenditure rose by 8.9 billion or 6.1 per cent. Outlays for health rose by 2.5 billion, for social security and welfare by 1.9 billion and for education by 1.6 billion. These three expenditure categories account for about two-thirds of total expenditure other than interest. Expenditure for general public services rose by 1.3 billion and for law enforcement by 1 billion, whereas payments under the category of economic affairs remained fairly unchanged.

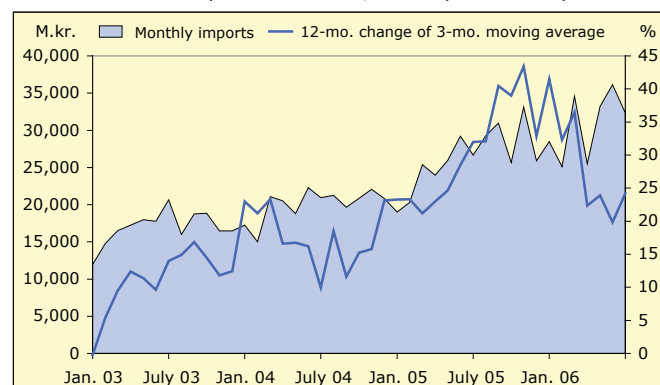
Government borrowing amounted to 16.2 billion and repayments to 38.9 billion. The difference was financed by cash at hand from operations.

The equity contribution to the Business Venture Fund was increased by one billion krónur and two billion krónur were paid to the Government Employees Pension Fund in order to reduce future commitments to the Fund.

## Imports in July

Last week, Statistics Iceland published provisional data on merchandise trade for July. The trade balance turned out to be negative by around 18 billion IKR and has seldom if ever been larger. Reduced exports seem to be the main cause but imports remained robust. If the import side is examined more closely it can be seen that imports of intermediate and investment goods continued at a brisk pace. On the other hand, imports of automobiles reduced considerably between months and have not been lower since the winter of 2004-5, if provisional data proves to be correct. Imports of semi-durable goods and clothing went down as well, significantly beyond the seasonal July slowdown.

Merchandise imports in volume, January 2003 - July 2006



## Child benefits increase

The 2005 final personal income tax assessment published last week by the Directorate of Internal Revenue showed that child benefits on account of 2005 increased by 19 per cent from the previous year. This year, close to 6 billion krónur were distributed to a total of 55,500 taxpayers. The reason for this large increase is that the second of three stages of increase in child benefits decided upon in the autumn of 2004 was being implemented. This time, all benefits and means-testing income thresholds were increased by 25 per cent. Benefits for all children below the age of seven – and these are not subject to a means-test – currently amount to 46,747 krónur a year. In addition, means-tested child benefits are distributed on the basis of parental income. These benefits are gradually cut with rising income. Such benefits currently amounted to nearly 140 thousand krónur a year for the first child for parents filing a joint return and 233 thousand for a single parent. For each child in excess of one, the benefits amount to 166 and 239 thousand respectively. The means-test income thresholds were also increased by 25 per cent this year as the benefits themselves. The curtailment of benefits, once an income threshold has been reached, remains unchanged at 3 per cent of additional income for the first child, 7 per cent for two children and 9 per cent for three children or more.

Next year, further increases in child benefits will be implemented. Benefits not subject to a means test will be increased by 20 per cent to 56 thousand krónur a year for children below the age of seven. The means-tested benefits will not increase, whereas the income thresholds for benefit curtailment will increase by 20 per cent. At the same time, a curtailment of benefits on account of income will be reduced to 2 per cent for the first child, 6 per cent for two children and 8 per cent for three children or more. The total payment of child benefits this year amounts to 8 per cent of the personal income tax, other than the capital income tax.

Last June, the Government decided to pay child benefits for children up to the age of eighteen years instead of the current age of sixteen. Legislation to this effect will be proposed to the Althingi this autumn. This is expected to increase child benefits by more than 500 m.kr.

Treasury revenue January-June			Treasury expenditure January-June			Treasury finances January-June			Economic indicators		
12 month changes (%)	2005	2006	12 month changes (%)	2005	2006	Million krónur	2005	2006	12 month changes (%)	2005	2006
Total tax revenue	18.7	16.3	General public services	29.1	-20.0	Cash from operations	15,536	29,706	Inflation (July)	3.5	8.4
Taxes on income & profit	15.5	33.5	Health	10.5	6.3	Net financial balance	25,915	27,498	Core inflation (July)	3.6	7.6
Taxes on property	56.8	-27.3	Social security & welfare	-0.7	6.0	Debt redemption	-30,002	-38,873	Wage index (June)	6.3	8.8
Taxes on goods & services	18.9	9.8	Economic affairs	0.5	-0.4	Gross borr. requirement	-5,988	-13,355	Total turnover (Jan. - April)	5.8	11.9
Social contributions	15.8	15.3	Education	17.7	9.7	Net borrowing	9,579	16,246	Retail turnover (Jan. - April)	3.9	6.2
Total revenue	23.9	10.4	Total expenditure	9.7	0.8	Overall cash balance	3,591	2,890	Unemployment rate, sa (June)	2.1	1.3