

English translation of the Weekly Web Release



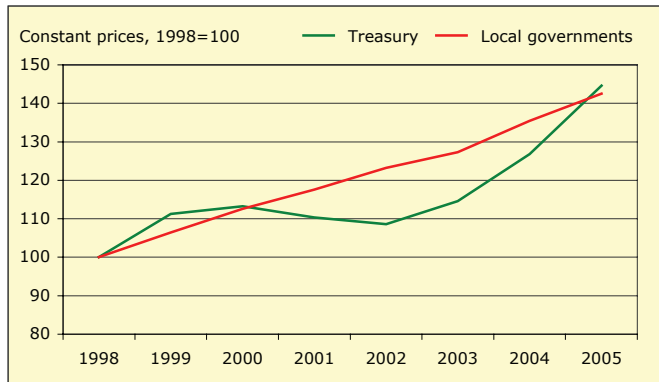
MINISTRY OF FINANCE IN ICELAND

December 21st 2006

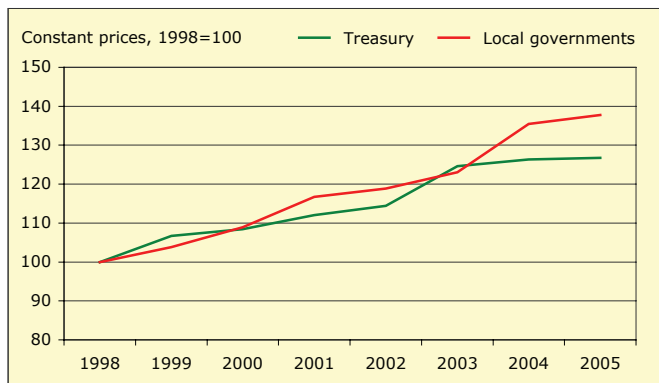
The finances of the Treasury and local governments, 1998-2005

According to data from Statistics Iceland, the per capita revenue of local governments, calculated at constant prices on a national accounts basis, have increased from 299 thous. krónur in 1998 to 425 thous. krónur in 2005, an increase of 42.5 per cent. The corresponding figures for the Treasury are 873 and 1,262 thous. krónur and 44.6 per cent. This is shown in the graphs below. The per capita expenditure of local governments, calculated in the same manner, increased from 319 to 439 thous. krónur or by 37.7 per cent. For the Treasury, expenditure increased from 844 to 1,070 thous. krónur or by 26.8 per cent.

Per capita revenue of the Treasury and local governments



Per capita expenditure of the Treasury and local governments



Tax concessions for environment-friendly energy sources and motor vehicles

The Althingi has recently passed two pieces of legislation that extends the tax concessions for environment-friendly energy sources and motor vehicles. The temporary concession for reducing the excise tax at the point of import on vehicles that are primarily methane- or electricity-powered instead of petrol or diesel oil is being extended. The environmental effect of such energy is much lower than from conventional fuels, whereas the import price of such vehicles is somewhat higher than of normal motor vehicles. Legislation was also passed that authorised the reimbursement of two-thirds of the value added tax on new motor coaches equipped with engines that fulfil the so-called EUROIII standards regarding the use of fuel and emission standards. Both concessions apply for the next two years, until December 31st 2008. In addition to the above, there are provisions in existing laws that the import excise tax on motor vehicles with negli-

gible emissions and powered with non-conventional energy such as electricity or hydrogen shall be exempt from import excise tax. This provision applies until December 31st 2008. The recently passed laws thus aligned the periods in effect for all such temporary provisions relating to environment-friendly energy sources and motor vehicles to December 31st 2008. This provides an opportunity for drafting a policy for the future regarding exemptions from taxes and public charges for environment-friendly energy sources and motor vehicles.



Who gets the biggest present?

At the same time as the main concept behind Christmas is supposedly of a spiritual nature, the Christmas season is nonetheless a quite busy period on the worldly side. This may be discerned from various publicly available statistics that provide a small glimpse of our festive behaviour. Not surprisingly, business is booming at this time of year in shops selling books, music discs, jewellery or toys as well as in sectors related to these activities. Up to a half of annual sales may take place in the last value-added tax period of the year (November and December). There are thus many sectors that are associated with Christmas conventions. Nor should it come as a surprise that the business of amusement parks is at a low this time of year. The same applies to camping places and the rental of cow stalls for overnight stay has all but disappeared..

Consumers wave their wallets considerably during the Christmas season. The popular belief that Christmas is financed with credit cards is bogus, however. This year's credit card purchases during the Christmas period last year was about 4 billion higher than in the preceding normal months, whereas the use of cash cards was 9 billion higher in the Christmas month. It may thus be concluded that credit cards only finance about one-third of additional Christmas expenditure. Credit-card use has of late sneaked into the ranks of Iceland's traditional Yule-tide lads on the grounds that he too annoys the public. The above information indicates that a diminished role is envisaged for him similar to that of Pluto amongst the planets.



Nonetheless, Christmas is a period of great activity. The players in the market try to guess what the Christmas trade is going to be like. There are sophisticated research institutes that seek to predict what the most popular Christmas present will be. This is done to reduce uncertainty which deters economic growth. On the other hand, it is not known whether reduced uncertainty is as popular amongst gift recipients.

The Christmas festivities are certainly helpful to the Treasury. It may not get the most popular Christmas present but it certainly gets the biggest one. This enables the Treasury to vigorously provide its important public services, since it is nobler to give than to receive.

The Weekly Web release sends its best wishes for Christmas to all its readers and wishes them a Happy New Year. The next issue will appear on January 4th 2007.

Treasury revenue January-October			Treasury expenditure January-October			Treasury finances January-October			Economic indicators		
12 month changes (%)	2005	2006	12 month changes (%)	2005	2006	Million krónur	2005	2006	12 month changes (%)	2005	2006
Total tax revenue	20.8	11.8	General public services	35.8	-23.0	Cash from operations	20,294	48,791	Inflation (December)	4.1	7.0
Taxes on income & profit	27.3	19.9	Health	6.7	7.5	Net financial balance	68,671	46,785	Core inflation (December)	4.6	7.0
Taxes on property	7.2	-37.0	Social security & welfare	5.0	4.2	Debt redemption	-61,557	-41,565	Wage index (November)	7.3	10.5
Taxes on goods & services	19.8	10.3	Economic affairs	-3.7	2.3	Gross borr. requirement	3,814	1,921	Total turnover (Jan. - August)	8.5	12.6
Social contributions	15.7	16.6	Education	16.3	12.2	Net borrowing	9,048	25,961	Retail turnover (Jan. - August)	5.3	4.1
Total revenue	47.2	-8.4	Total expenditure	10.0	0.9	Overall cash balance	12,862	27,882	Unemployment rate, sa (Nov.)	1.6	1.1