

English translation of the Weekly Web Release



MINISTRY OF FINANCE IN ICELAND

November 23rd 2006

Public land claims by the state

In the discussion on public land it is often asserted that the state is confiscating vast tracts of private property and is aggressively seeking to acquire land which individuals or legal entities possess boundary deeds or duly notarised property titles. It is even asserted the state has learned nothing from having such claims rejected by the courts in earlier instances. Such assertions are based on a significant misunderstanding.

First of all, the state does not unilaterally decide which uninhabited land areas fall in the public domain. An independent body, the Uninhabited Land Commission, renders such decisions at the administrative stage. Such decisions may subsequently be appealed to the courts that have the last say in the matter. The purpose of this process is to eliminate all doubt as to which land areas are private property – and thus subject to private property law – and which areas are in the public domain. Land in the public domain is defined as areas outside private property even if individuals or legal entities may there be entitled to limited property rights.

Secondly, contrary to assertions, it may be discerned from those court verdicts already rendered that boundary deeds are generally not sufficient for proving property rights, especially as they apply to boundaries extending into uninhabited areas. Other considerations may apply, such as whether older documents are in existence that may conform to descriptions in boundary deeds, the landscape of the disputed area and whether the area in question constitutes an integral part of the utilisation of the property. The burden of proof regarding boundaries of farmland extending into uninhabited areas is legally seen to fall on the landowner. In other words, the courts have decided that landowners can not extend their property or otherwise augment it through unilateral boundary deeds. In comparison, greater weight is placed on boundary deeds that are signed by the owners of adjacent land.

Thirdly, it should be borne in mind that even if certain areas are not deemed to be private property but land in the public domain, individuals and legal entities may nevertheless possess limited property rights in those areas, such as the right to graze sheep, fish and hunt or other uses. Nobody is being deprived of those property rights already established.

Finally, it should be observed that according to the Public Domain Act, the representatives of the state in public domain issues must assert the claims of the state on lands in the public domain before the Public Domain Commission. According to law, the state is the owner of lands, land uses and natural resources that are not subject to private property rights. The legal representatives of the state are obligated to look after state interests and present issues of contention to the Commission as they arise. In order to resolve such issues, public land claims by the state must be asserted.

Indexing of the personal income tax credit

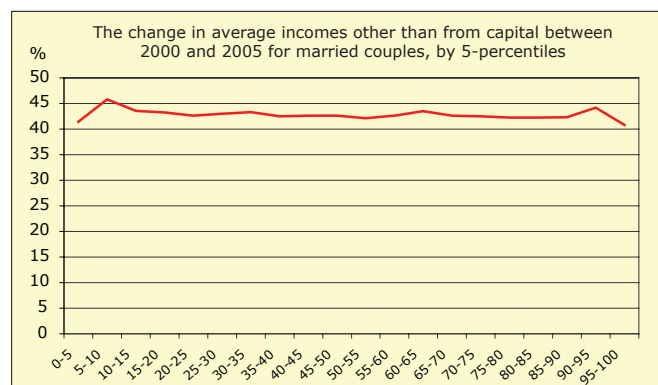
In accordance with the Government's statement of June 22nd 2006, the Minister of Finance has proposed an amendment to the Income Tax Act to the effect that the personal income tax credit should increase as of January 1st of next year from 356,180 to 385,800 krónur a year. The amendment also proposes that the personal tax credit be henceforth amended annually in concert with the consumer price index in the previous twelve months (December to December), as of January 1st 2008. The amendment states that the Minister of Finance shall advertise the annual personal income tax credit before the commencement of the withholding tax year.

On the distribution of income

There has been considerable discussion recently concerning the income developments of citizens. Considerable attention has been placed on financial income due to its rapid increase in recent years. Despite its rapid growth, financial income at present comprises less than a fifth of total personal taxable income. Financial income aside,

the distribution of income has been quite stable. The lowest paid have received similar income increase as the highest paid. The graph below shows the development in the incomes of married couples, excluding financial income. Married couples are ranked by income and divided into 20 groups, equal in number. Incomes consist of all income other than from financial, i.e. from work, pensions, social security benefits, etc. The development of incomes shows that the increase lies between 41 and 46 per cent for different income groups. The graph would not be much different if it covered a longer period.

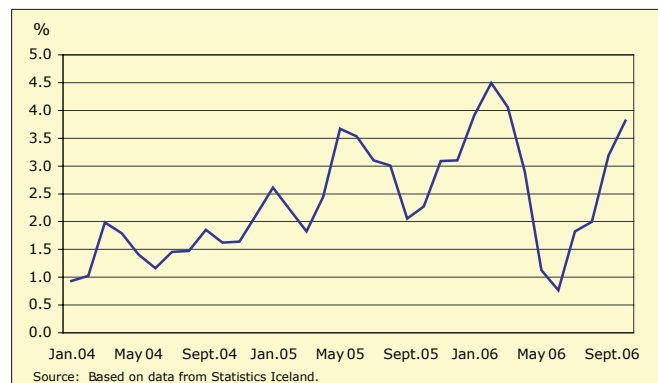
The development of incomes 2000 – 2005



Real wages are increasing

Statistics Iceland has published its wage index for October that shows an 11 per cent increase in wages over the past twelve months, whereas the consumer price index rose by 7.2 per cent in the same period, leaving a real wage increase of 3.8 per cent. This year-on-year increase is somewhat higher than in recent months. The reasons are twofold. On one hand, inflation has subsided since its peak in August of 8.6 per cent. On the other hand, the rise in the wage index has been considerable from last July, following the agreement between the Federation of Labour and the Confederation of Employers to keep the existing wage agreements in force. The graph below shows how real wages have begun to increase since the summer months after having declined in the first half of the year.

Real wages 2004-2006 – twelve-month change in per cent



Source: Based on data from Statistics Iceland.

| Treasury revenue January-September | | | Treasury expenditure January-September | | | Treasury finances January-September | | | Economic indicators | | |
|---------------------------------------|------|-------|---|------|-------|--|---------|---------|---------------------------------|------|------|
| 12 month changes (%) | 2005 | 2006 | 12 month changes (%) | 2005 | 2006 | Million krónur | 2005 | 2006 | 12 month changes (%) | 2005 | 2006 |
| Total tax revenue | 22.0 | 13.8 | General public services | 36.3 | -24.8 | Cash from operations | 14,581 | 43,872 | Inflation (November) | 4.2 | 7.3 |
| Taxes on income & profit | 24.1 | 19.6 | Health | 6.0 | 7.6 | Net financial balance | 59,746 | 41,627 | Core inflation (November) | 4.6 | 7.2 |
| Taxes on property | 44.8 | -36.6 | Social security & welfare | 4.4 | 3.1 | Debt redemption | -47,939 | -38,071 | Wage index (October) | 6.9 | 11.0 |
| Taxes on goods & services | 20.5 | 14.1 | Economic affairs | -3.7 | 1.6 | Gross borr. requirement | 8,857 | 586 | Total turnover (Jan. - August) | 8.5 | 12.6 |
| Social contributions | 16.4 | 16.0 | Education | 14.8 | 12.5 | Net borrowing | 11,698 | 24,978 | Retail turnover (Jan. - August) | 5.3 | 4.1 |
| Total revenue | 51.8 | -9.2 | Total expenditure | 9.7 | 0.0 | Overall cash balance | 20,555 | 25,564 | Unemployment rate, sa (Oct.) | 1.6 | 1.1 |