

Treasury finances, January-February 2001

Figures for Treasury finances in the first two months of 2001 are now available. They are on a cash basis and therefore not comparable to the Treasury accounts or the fiscal budget, both of which are presented on an accruals basis.

Summary

The cash surplus from operations amounted to 2.2 billion krónur in the first two months of this year, about 2.4 billion in excess of projections. This result was 3.7 billion lower than in the same period last year which is primarily attributable to rising expenditures which are being incurred earlier than had been projected and is expected to be reversed over the next several months.

The net financial balance amounted to nearly 600 million krónur, slightly above projections but less than last year by about 9 billion due to a shift in expenditures as mentioned above in addition to the fact that last year a one-time in-payment of 5.5 billion took place on account of sales in shares in the two state-owned commercial banks. These sales actually took place late in 1999 with payment in early 2000.

A total of 2.5 billion krónur were paid to the Government Employees Pension Fund in the first two months of this year. This is being done to reduce the future commitments of the Treasury to the Fund. A total of 15 billion is allocated for this purpose in the 2001 fiscal budget.

The overall cash surplus turned out at close to 900 million for the first two months of the year, compared to 1.7 billion a year ago.

Treasury finances in January-February

(Millions of krónur, cash basis)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Revenue.....	25,622	31,706	36,653	40,070
Expenditure.....	24,624	28,311	30,715	37,853
Cash from operations.....	998	3,395	5,938	2,218
Financial transactions.....	1,173	-1,763	3,933	-1,635
Net financial balance.....	2,171	1,132	9,870	583
Debt redemption.....	-866	-12,200	-10,648	-5,041
Domestic.....	-866	-5,804	-7,360	-5,041
Foreign.....	0	-6,396	-3,288	0
Pension fund prepayments.....	0	-500	-1,000	-2,500
Gross borrowing requirement.....	1,305	-11,067	-1,777	-6,958
New borrowing.....	924	3,270	3,437	7,837
Domestic.....	3,989	-5,804	-7,360	-5,041
Foreign.....	-3,065	-6,396	-3,288	0
Overall cash balance.....	2,329	-7,798	1,660	879

Revenue

Total revenue of the Treasury amounted to more than 40 billion krónur in the first two months of the year, close to one billion in excess of projections. Revenue exceeded the level of last year by 9 per cent, an considerably smaller increase than in the two preceding years. The development of tax revenue is similar, showing clear signs of a slowdown in the economy. Although taxes on income and profit are still increasing at a good pace, by close to 16% from a year earlier, the increase stems mainly from proceeds from the corporate income tax and the capital income tax, whereas revenue from the personal income tax rises considerably less. The social security tax yields a revenue increase of only 3½ per cent in the first two months of this year over the level a year ago, reflecting a considerably rate of increase than prevailed last year. The same can be said for net wealth taxes which also are showing a slowdown in the rate of increase.

Treasury revenue in January-February

(Millions of krónur, cash basis)

	Increase in per cent						
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Total tax revenue.....	23,580	29,112	34,088	37,131	23.5%	17.1%	8.9%
Taxes on income and profit.....	8,392	9,543	12,052	13,972	13.7%	26.3%	15.9%
Personal income tax.....	5,678	6,491	7,409	8,104	14.3%	14.1%	9.4%
Corporate income tax.....	696	660	917	1,195	-5.2%	38.9%	30.3%
Other taxes on income and profit...	2,018	2,392	3,726	4,673	18.5%	55.8%	25.4%
Social security taxes.....	2,765	2,921	3,207	3,318	5.6%	9.8%	3.5%
Net wealth taxes.....	895	1,188	1,580	1,759	32.7%	33.0%	11.3%
Taxes on goods and services.....	11,495	15,428	17,209	18,019	34.2%	11.5%	4.7%
Value added tax	6,689	9,600	11,355	12,021	43.5%	18.3%	5.9%
Other indirect taxes.....	4,805	5,828	5,852	5,998	21.3%	0.4%	2.5%
Of which:							
Excise tax on motor vehicles.....	496	817	808	591	64.7%	-1.1%	-26.9%
Excise tax on petrol.....	1,142	977	803	1,053	-14.4%	-17.8%	31.1%
Diesel weight tax.....	885	992	1,011	1,005	12.1%	1.9%	-0.6%
Tobacco and liquor taxes.....	954	1,194	1,093	1,222	25.2%	-8.5%	11.8%
Other indirect taxes.....	1,328	1,848	2,137	2,127	39.2%	15.6%	-0.5%
Other taxes.....	33	32	40	63	-3.0%	25.0%	57.5%
Other revenue.....	2,040	2,595	2,621	2,937	27.2%	1.0%	12.1%
Total revenue.....	25,623	31,706	36,708	40,070	23.7%	15.8%	9.2%

The slowdown in the economy is also clearly reflected in the development of indirect taxes. Indirect taxes increase by more than a third between 1998 and 1999 and by 11½ per cent between 1999 and 2000; the pace had slowed down to 4½ per cent in the first two months of this year which actually reflects a slight contraction in real terms. Part of the explanation is that vehicle imports have declined by some 30 per cent in the first two months of this year from last year's level which in turn is mirrored in reduced excise revenue on imported vehicles by about a quarter between the same periods.

The 12 per cent increase in excise duties and profits from the Liquor and Tobacco Monopoly is largely due to the fact that proceeds to the Treasury from this source were being delayed in early 2000; hence in 2001 from a year earlier.

The slower rate of increase in the collection of the value added tax is of the greatest importance for assessing the pace of the economy, since the value added tax yields most

amongst indirect taxes. The rise in VAT proceeds comes to close to 6 per cent in the first two months of this year over a year ago, a much slower pace than in the previous two year; last year the increase was 18 per cent and 43 per cent the year before. It is notable that VAT proceeds from imports rose by 8.1 per cent this year, reflecting a rise in imports of investment goods and production inputs, whereas net proceeds from domestic sales only rose by 2.7 per cent.

Other revenue amounted to 2.9 billion krónur in the first two months of this year, a 12 per cent increase from the previous year, mostly due to a shift in collections between months rather than to any intrinsic increase.

Expenditure

Total expenditure of the Treasury amounted to 37.9 billion krónur in the first two months of the year, and increase of 7.1 billion from the previous year. Expenditure turned out to be under the cash flow projection by 1.5 billion, which in part is explained by the fact that payments may diverge from projections for such a short period.

Treasury expenditure in January-February

(Millions of krónur, cash basis)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	Increase in per cent	
				1999-2000	2000-2001
Administration	2,643	3,443	3,120	30.3%	-9.4%
General administration.....	1,662	2,097	1,799	26.2%	-14.2%
Justice and law enforcement.....	981	1,347	1,322	37.3%	-1.9%
Social affairs	16,060	16,354	19,519	2.7%	14.8%
Of which: Education and culture.....	4,046	4,159	4,769	2.8%	14.7%
Health.....	6,176	6,051	7,651	-2.0%	26.4%
Social security.....	5,105	5,255	6,113	4.5%	3.5%
Economic affairs	3,813	4,343	5,999	59.1%	27.1%
Of which: Agriculture.. ..	1,599	1,682	2,576	62.7%	25.0%
Communications.....	1,290	1,590	1,854	104.9%	16.6%
Interest expenditure	4,569	5,250	7,383	14.9%	40.7%
Other expenditure	1,226	1,324	1,831	7.9%	38.2%
Total expenditure	28,311	30,715	37,853	8.5%	23.2%

Administrative expenditures, which include the Presidency, the Cabinet, Althingi, the courts and law enforcement, decline by more than 300 million krónur or 9.4 per cent. This is in part due to a substantial retroactive payment of police pay that took place early in 2000 and is not repeated this year.

About half of total expenditures, 19.5 billion, go to social affairs which include education, culture, health and social security. Expenditures in this category rise by 19 per cent between the years, the increase being distributed amongst all expenditures. Payments to the University of Iceland rise by 130 million, to the Student Loan Fund by 100 million and to other schools of higher education by 120 million. Health outlays rise by 1.6 billion, 1 billion of which went to the Social Security Administration. Unemployment compensation are nearly unchanged from the previous year since the unemployment rate is nearly the same, 1.6 per cent this year as against 1.7 per cent last year. The cost impact of the newly created Parental Leave Fund are insignificant as yet.

Expenditures on economic affairs increase by close to 1.7 billion or 38 per cent, primarily due to government purchases of farm production quotas, an outlay of 780 million krónur in January. Excluding this item, the increase was 20 per cent. Subsidies for electric space

heating is the heaviest item here; they increased by 100 million and doubled between the years.

Interest expenditures increased by 40 per cent or by close to 2.1 billion krónur, 1.6 billion of which is due to the redemption of a large government bond issue and 300 million is due to short-term credit from abroad.

Capital transactions

The outflow on financial transactions amounted to 1.6 billion in the first two months of this year as against an inflow of 3.9 billion last year. The difference is mostly explained by an in-payment of 5.4 billion early in 2000 due to the above-mentioned sales of shares in state-owned commercial banks.

Repayments of Treasury debt amounted to more than 5 billion krónur, nearly all due to the redemption of domestic government bonds. A large issue matured in February and in addition the Treasury retired 350 million krónur worth of debt from the RIKS 02 0401.

Furthermore, the Treasury remitted 2.5 billion krónur to the Government Employees Pension Fund, as noted above, as against 1 billion in the same period a year ago.

Treasury borrowing amounted to 7.8 billion krónur, 2.8 billion of which was in Treasury bills and 1.5 billion in notes. In addition, 8.4 billion were drawn on a foreign revolving credit in order to meet temporary cash needs.