

Treasury Finances January-July 2001

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

Summary

The cash deficit from operations amounted to 5.2 billion krónur in the first seven months of the year, compared to a surplus of 7.5 billion krónur last year. This outcome is almost 4.9 billion krónur below budget projections. Revenues exceed projections by about 600 million, whereas expenditures surpass projections by 5.5 billion krónur, mostly due to new legislation, new wage agreements etc.

Revenues increased by 8.7 billion krónur from last year, due mostly to an increase in income tax collection. The increase in expenditures was considerably larger, and amounted to about 21.5 billion krónur. In addition to the aforementioned, this increase is mainly attributable to rising interest costs, government purchases of farm production quotas and a special increase in contributions to the Municipal Equalization Fund. It should be noted that a part of this increase will not affect the accounts on an accruals basis.

Treasury Finances in January–July 2001

(In million krónur)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Revenue.....	89,771	102,725	114,186	122,986
Expenditure.....	94,409	101,315	106,709	128,231
Cash from operations.....	-5,285	1,015	7,478	-5,246
Financial Transactions.....	2,885	476	1,825	-2,364
Net financial balance.....	-2,399	1,492	9,302	-7,612
Debt repayments.....	-17,150	-18,163	-26,399	-22,045
Domestic.....	-7,373	-8,492	-12,909	-7,292
Foreign.....	-9,776	-9,671	-13,490	-14,753
Pension fund prepayments.....	0	-1,084	-3,500	-8,750
Gross borrowing requirements.....	-19,549	-17,755	-20,594	-38,408
New borrowing.....	15,568	10,738	18,855	31,859
Domestic.....	15,031	1,666	2,369	11,037
Foreign.....	536	9,072	16,486	20,822
Overall cash balance.....	-3,981	-7,016	-1,742	-6,547

The net financial deficit amounted to 7.6 billion krónur, 6.4 billion krónur below projections and 16.9 billion krónur worse than last year's. In addition to the expenditures mentioned above, the larger deficit this year is due to the fact that in the year 2000 the Treasury received a one-time payment of 5.5 billion krónur for the sale of shares in the two state-owned commercial banks. These sales actually took place towards the end of the year 1999 but payments were made in early 2000.

A total of 8.7 billion krónur were paid to the Government Employee Pension Fund in the first seven months of this year. The purpose of this is to reduce the Treasury's future commitments to the Fund. In all 15 billion krónur are allocated to this in the 2001 fiscal budget.

The overall cash deficit in the first seven months of the year amounted to 6.5 billion krónur, which is a deficit 4.8 billion krónur larger than last year's and 1.3 billion over projections.

Revenue

The Treasury's total revenues amounted to just under 123 billion krónur in the first seven months of this year, exceeding projections by 600 million. The increase from last year is 8.7 billion krónur, or 7.5 per cent. Tax revenues have increased a little less, or by close to 7 per cent, compared to 12 per cent last year and 16.5 per cent two years ago. These numbers reconfirm the trend of declining growth in domestic demand, especially this year.

Treasury revenue in January-July 2001 (In million krónur)

					% Increase		
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Total tax revenues.....	81,644	95,202	106,270	113,680	16.6	11.6	7.0
Taxes on income and profit....	21,256	25,619	32,293	38,291	20.5	26.1	18.6
Personal income tax.....	16,734	19,505	23,990	27,172	16.6	23.0	13.3
Corporate income tax.....	2,490	3,641	4,488	6,110	46.2	23.3	36.1
Other taxes on income and profit.....	2,032	2,473	3,815	5,009	21.7	54.3	31.3
Social security taxes.....	9,296	10,163	10,984	12,040	9.3	8.1	9.6
Net wealth taxes.....	4,393	4,655	5,009	5,640	6.0	7.6	12.6
Taxes on goods and services..	46,576	54,672	57,802	57,467	17.4	5.7	-0.6
Value added tax.....	27,501	33,001	36,012	36,407	20.0	9.1	1.1
Other indirect taxes.....	19,072	21,670	21,825	21,061	13.6	0.7	-3.5
Of which:							
Excise tax on motor vehicles...	2,711	3,615	3,268	1,957	33.3	-9.6	-40.1
Excise tax on petrol.....	3,898	3,990	4,294	4,370	2.4	7.6	1.8
Diesel weight tax.....	2,275	2,590	2,699	2,896	13.8	4.2	7.3
Tobacco and liquor taxes...	4,401	4,805	4,944	4,749	9.2	2.9	-3.9
Other indirect taxes.....	5,787	6,670	6,620	7,089	15.3	-0.7	7.1
Other taxes.....	123	93	182	242	-24.4	95.7	33.0
Other revenues.....	8,123	7,503	7,912	9,305	-7.6	5.5	17.6
Total revenues.....	89,772	102,726	114,186	122,986	14.4	11.2	7.7

The increase in revenues from last year is largely due to an increase in both personal and corporate income taxes and in capital income taxes. There are, however, some temporary factors leading to this outcome, the effects of which will decline in the next few months. For example, the increase in personal income tax revenues is largely due to a wage increase based on wage agreements in 2000 plus an additional increase in 2001. In addition, wage agreements have yet to be concluded with some government employees. In total, taxes on wages and profits and social security taxes are 5 billion krónur over projections in the first half of the year. Net wealth taxes are, on the other hand, in line with projections.

The slowdown in the economy is clearly reflected in the development of indirect taxes. Revenues from indirect taxes are almost half a billion krónur lower than over the same period last year and 4 billion krónur below projections. This development reflects a considerable contraction in real terms, or about 5.5 per cent. This is mostly due to a substantial decline in private consumption, especially vehicle purchases, with excise taxes on motor vehicles declining by around 40 per cent, or by 1.3 billion krónur. This slowdown is also

reflected in declining revenues from value-added taxes. They have practically remained unchanged in nominal terms since last year, which is equivalent to a decline of almost 4 per cent in real terms.

Expenditure

The Treasury's total expenditure amounted to 128.2 billion krónur in the first seven months of the year, which is 5.5 billion over projections. This is largely due to new legislation and new wage agreements as already mentioned, as well as a one-time payment of 1.3 billion krónur in disability pensions following a Supreme Court verdict, and 1.3 billion krónur in interest payments due to the early redemption of domestic government bonds. Expenditures increased by 21.5 billion from last year due to several causes listed in the summary above.

Treasury expenditure in January-July 2001 (In million krónur)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	% Increase	
				<u>1999-2000</u>	<u>2000-2001</u>
Administration	10.993	12.679	13.881	15,3	9,5
General administration.....	6.209	7.145	7.766	15,1	8,7
Justice and law enforcement.....	4.784	5.535	6.118	15,7	10,5
Social affairs	63.726	62.602	74.539	-1,8	19,1
Of which: Education and Culture.....	13.813	14.985	17.362	8,5	15,9
Health.....	24.811	26.327	30.878	6,1	17,3
Social security.....	21.680	17.525	21.981	-19,2	25,4
Economic affairs	15.659	16.407	20.176	4,8	23,0
Of which: Agriculture.....	5.139	5.198	6.489	1,1	24,8
Communications.....	6.416	6.830	8.581	6,5	25,6
Interest expenditure	7.938	10.993	13.470	38,5	22,5
Other expenditure	2.999	4.024	6.164	34,2	53,2
Total expenditure	101.315	106.709	128.231	5,3	20,2

Administrative expenditures increased by 600 million krónur, or 8.7 per cent from last year. This is due partly to a purchase of new information systems for the government, the payments for which started in July. Offsetting this to some degree is a decline in other expenses due to the fact that last year's expenditures included non-recurring expenditures connected with the Christianity millennium celebrations. The increase in law enforcement expenditures amounts to 580 million krónur, part of which went to the judicial system and prisons.

Social affairs. Close to 60 per cent of expenditures over this period went to various social affairs, including education, culture, health and social security. Expenditures in this category rose by almost 12 billion krónur from the previous year. Expenditures for education rose by 17.7 per cent, or 1.8 billion krónur, a substantial part of which is due to the moving up of 350 million krónur in payments to the Student Loan Fund. It is foreseen that the Fund's loans will increase in excess of projections because of the decline in the Icelandic króna exchange rate. Payments to education increased by 20 per cent, or 880 million krónur, which is partly explained by overtime payments to teachers following the teacher's strike at the secondary school level and, subsequently, pay increases according to new wage agreements. Expenditures to cultural affairs increased by 570 million krónur.

Health expenditures increased by 4.5 billion and amounted to 30.9 billion krónur. Of this increase, 1.3 billion is explained by payments to the Social Security Administration to improve its cash balance. Last year the outlays of the Social Security Administration increased faster than the Treasury appropriations it received, thus creating a cash deficit which is being offset this year. Operational expenditures of hospitals and nursing homes increased by 1.9 billion krónur, or about 13 per cent. Most of this increase, or 1.5 billion, went to the large hospitals in Reykjavík and Akureyri. Proportionally, the largest increase, a total of 1.2 billion, or 29 per cent, went to nursing and rehabilitation centers. This is for the most part in line with projections.

Social security increased by 4.8 billion, or 23.6 per cent. Old age pensions and social welfare expenditures increased by 2.7 billion. This is mostly due to the Supreme court verdict mentioned above, but 470 million krónur is due to a transfer to improve the cash balance of the Social Security Administration. Parental leave benefits in pursuance of the new Parental Leave Benefit Act have led to a 1050 million krónur expenditure so far this year. Outlays to the Unemployment Insurance Fund increase only slightly from last year, or about 200 million krónur.

Economic affairs. Employment expenditures increased by a total of 3.8 billion krónur, which is a 23 per cent increase from last year. Expenditure on communications increased by 1.8 billion, of which 1100 million krónur went to roadbuilding and maintenance and 400 million to harbours. These increases are in line with projections. Special items included government purchases of farm production quotas which entailed a 800 million krónur payment in January.

Interest expenditures increased by 22.5 per cent or 2.5 billion krónur, 1.2 billion of which is due to the redemption of a large government bond issue in February and 1.2 billion krónur is due to interest payments on foreign debt.

Other expenditures increased by almost 2.1 billion krónur for two reasons. The first is a 1.6 billion krónur increase in the contributions to the Municipal Equalization Fund, and the second is a 500 million krónur increase in payments to the Government Employee Pension Fund.

Capital transactions

The outflow of financial transactions amounted to 2.4 billion krónur in the first seven months of this year, compared to 1.8 billion for the same period last year. The difference is largely due to the received payment of 5.5 billion in January of last year because of the above-mentioned sales of shares in state-owned commercial banks.

Repayments of Treasury debt amounted to 22 billion, nearly all due to the repayment of a foreign government loan. A large domestic bond issue from 1990 matured in February and the redemption amounted to 8.8 billion krónur, of which 4.8 billion were repayments of principal, the remainder being accumulated interest. Furthermore, three domestic government bond issues were redeemed before maturity through a purchase auction for 3.6 billion, of which 2.2 billion were repayments of principal. Auctions of this kind are directed towards government bond issues that lack liquidity in the secondary market.

The Treasury remitted 8.7 billion krónur to the Government Employee Pension Fund, compared to 3.5 billion in the same period a year ago.

Treasury borrowing amounted to 31.9 billion krónur, 20.7 billion of which was borrowed abroad in order to refinance earlier foreign debt. Domestic Treasury bills outstanding increased by 6 billion in the first seven months of the year. In addition, new government bonds with a 6-year maturity were sold for about 4.9 billion krónur.