

Treasury Finances January-August 2001

Figures for Treasury finances in the first eight 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 6.9 billion krónur in the first eight months of the year, compared to a surplus of 7.1 billion krónur last year. This outcome is 4.7 billion krónur below budget projections. Revenues exceed projections by about 800 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 22.5 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. Other expenditure increases are largely due to wage increases, a decline in the Icelandic króna exchange rate and general price increases.

Treasury Finances in January–August 2001 (In million krónur)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Revenue.....	105,694	121,162	134,279	142,945
Expenditure.....	106,371	114,451	127,215	149,841
Cash from operations.....	-677	6,711	7,064	-6,897
Financial Transactions.....	2,509	1,369	1,956	-1,269
Net financial balance.....	1,833	8,078	9,019	-8,168
Debt repayments.....	-17,349	-18,324	-28,471	-22,159
Domestic.....	-7,572	-8,653	-14,981	-7,406
Foreign.....	-9,776	-9,671	-13,490	-14,753
Pension fund prepayments.....	0	-1,084	-4,000	-10,000
Gross borrowing requirements.....	-15,516	-11,329	-23,448	-40,328
New borrowing.....	17,434	9,915	24,973	36,233
Domestic.....	18,627	811	2,981	11,406
Foreign.....	-1,192	9,104	21,992	24,827
Overall cash balance.....	1,920	-1,414	1,522	-4,092

The net financial deficit amounted to 8.2 billion krónur, 5.3 billion krónur below projections and 17.2 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 10 billion krónur were paid to the Government Employee Pension Fund in the first eight 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 eight months of the year amounted to just over 4 billion krónur, which is an outcome 5.5 billion krónur worse than last year's.

Revenue

The Treasury's total revenues amounted to just under 143 billion krónur in the first eight months of this year, exceeding projections by 800 million. The increase from last year is 8.7 billion krónur, or 6.5 per cent. Tax revenues have increased a little less, or by just over 6 per cent, compared to 11 per cent last year and 16 per cent two years ago.

Treasury revenue in January-August 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 revenue.....	97,015	112,779	125,214	132,825	16.2	11.0	6.1
Taxes on income and profit....	24,494	29,475	34,954	41,911	20.3	18.6	19.9
Personal income tax.....	19,730	22,895	26,120	30,081	16.0	14.1	15.2
Corporate income tax.....	2,662	4,051	4,902	6,663	52.2	21.0	35.9
Other taxes on income and Profit.....	2,102	2,529	3,932	5,167	20.3	55.5	31.4
Social security taxes.....	10,454	11,571	12,539	13,861	10.7	8.4	10.5
Net wealth taxes.....	4,837	5,193	5,839	6,529	7.4	12.4	11.8
Taxes on goods and services..	57,096	66,345	71,675	70,249	16.2	8.0	-2.0
Value added tax.....	34,810	41,179	45,548	45,233	18.3	10.6	-0.7
Other indirect taxes.....	22,284	25,167	26,162	25,017	12.9	4.0	-4.4
Of which:							
Excise tax on motor vehicles...	3,183	4,160	3,688	2,172	30.7	-11.3	-41.1
Excise tax on petrol.....	4,576	4,686	5,199	4,951	2.4	10.9	-4.8
Diesel weight tax.....	2,451	2,859	3,294	3,605	16.6	15.2	9.4
Tobacco and liquor taxes...	5,073	5,502	5,816	5,550	8.5	5.7	-4.6
Other indirect taxes.....	7,001	7,960	8,165	8,739	13.7	2.6	7.0
Other taxes.....	134	195	207	275	45.5	6.2	32.9
Other revenue.....	8,675	8,744	9,061	10,121	0.8	3.6	11.7
Total revenue.....	105,694	121,162	134,279	142,945	14.6	10.8	6.5

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 close to 6.5 billion krónur over projections. 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 1.5 billion krónur lower than over the same period last year and 5.5 billion krónur below projections. This development reflects a considerable contraction in real terms, or by over 7 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 1.5 billion krónur. Excise taxes on petrol have also declined. The slowdown is also reflected in declining revenues from value-added taxes, which have declined by about 6 per cent in real terms since last year.

Expenditure

The Treasury's total expenditures amounted to close to 150 billion krónur in the first eight 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 2 billion krónur in interest payments due to the early redemption of domestic government bonds. Expenditures increased by 22.5 billion from last year due to several causes listed in the summary above.

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

	<u>1999</u>	<u>2000</u>	<u>2001</u>	% Increase	
				<u>1999-2000</u>	<u>2000-2001</u>
Administration	12,545	14,412	14,893	14.9	3.3
General administration.....	7,040	8,055	8,663	14.4	7.5
Justice and law enforcement.....	5,505	6,358	6,233	15.5	-2.0
Social affairs	71,666	76,091	89,790	6.2	18.0
Of which: Education and Culture.....	15,322	16,661	19,349	8.7	16.1
Health.....	28,684	30,590	35,662	6.6	16.6
Social security.....	23,741	24,395	29,695	2.8	21.7
Economic affairs	18,226	19,203	23,369	5.4	21.7
Of which: Agriculture.....	5,747	5,844	7,285	1.7	24.7
Communications.....	7,758	8,388	10,237	8.1	22.0
Interest expenditure	8,619	12,946	14,765	50.2	14.1
Other expenditure	3,394	4,558	7,023	34.3	54.1
Total expenditure	114,451	127,215	149,841	11.2	17.8

Administrative expenditures increased by almost 500 million krónur, or 3.3 per cent from last year. This is due mostly to a purchase of new information systems for the government, costing 450 million krónur, but foreign affairs expenditures have also increased by 400 million since last year. 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. Security expenditures decreased by 100 million krónur despite an increase of 380 million krónur in law enforcement expenditures, 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 13.7 billion krónur from the previous year. Expenditures for education rose by 19.7 per cent, or 2.2 billion krónur, a substantial part of which is due to the moving up of 400 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 20.9 per cent, or close to a billion 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 500 million krónur.

Health expenditures increased by 5.1 billion and amounted to 35.7 billion krónur. Of this increase, 1.7 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 3 billion krónur, or about 14 per cent. Most of this increase, or 1.3 billion, went to the large hospitals in Reykjavík and Akureyri. Proportionally, the largest increase, a total of 1.2 billion, or 26 per cent, went to nursing and rehabilitation centers. This is for the most part in line with projections.

Social security increased by 5.7 billion, or 20.6 per cent. Old age pensions and social welfare expenditure increased by 2.6 billion. This is mostly due to the Supreme court verdict mentioned above. Parental leave

benefits in pursuance of the new Parental Leave Benefit Act have led to a 1380 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 4.2 billion krónur, which is a 22 per cent increase from last year. Expenditures on communications increased by 1.8 billion, of which 1100 million krónur went to roadbuilding and maintenance and 500 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 14.1 per cent or 1.8 billion krónur. This is largely due to the decline in Icelandic króna exchange rate - interest payments on foreign debt have increased by 1.5 billion krónur. Interest payments on domestic government debt is practically unchanged from last year.

Other expenditures increased by 54% or almost 2.5 billion krónur for three reasons. The first is a 1.6 billion krónur increase in the contributions to the Municipal Equalization Fund, the second is a 600 million krónur increase in payments to the Government Employee Pension Fund and the third is the fact that income taxes paid by government agencies amounted to 350 million krónur.

Capital transactions

The outflow of financial transactions amounted to 1.3 billion krónur in the first eight months of this year, compared to 2 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 22.2 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 3.8 billion, of which 2.3 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 10 billion krónur to the Government Employee Pension Fund, compared to 4 billion in the same period a year ago.

Treasury borrowing amounted to 36.2 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 5.2 billion krónur.