

Chronicle of economic events

2002

January

A number of changes in taxes and benefits became effective at the beginning of the year.

The corporate income tax was reduced from 30 per cent to 18 per cent. The income tax for partnerships was reduced from 38 per cent to 26 per cent. Companies were permitted to keep their books and draw up their annual accounts in foreign currency.

At the same time, the PAYE income tax declined from 38.76 per cent to 38.54 per cent. The share of the Treasury out of the tax declined from 26.08 to 25.75 per cent and the average municipal tax collected under the PAYE system rose from 12.68 to 12.79 per cent. The annual tax-free income threshold was increased by 3.6 per cent, from 781,579 to 809,611 krónur.

Social security and unemployment benefits increased by 8.5 per cent.

Child benefits increased by 3 per cent and income thresholds for benefit curtailment were raised by 5 per cent. The curtailment of benefits for one child was reduced from 5 to 4 per cent of income above the curtailment threshold, for two children from 9 to 8 per cent and for three children or more from 11 to 10 per cent. This was the second stage of three in raising child benefits; the third stage became effective at the beginning of 2003.

Finally, the taxation of rent subsidies was abolished as of the beginning of the year.

February

The Central Bank of Iceland and the Union Bank of Norway signed a credit facility of 200 million dollars for a period of five years.

Fitch Ratings, the credit rating agency, confirmed the Treasury's rating of AA-for foreign currency debt, AAA for long-term krónur debt and F1+ for short-term debt. Prospects for ratings on long-term debt were regarded as negative whereas previously they were viewed as stable.

March

On March 27th, the Government decided to lower petrol taxes by 1.55 krónur temporarily until the end of June. The tax reduction was estimated to cost the Treasury 80 million krónur. The purpose was to ensure continued stability on the labour market.

April

The Central Bank lowered its base rate by 0.5 percentage points as of April 1, from 10.1 to 9.6 per cent.

The Treasury savings bond issue RS02-0401, amounting to 10 billion krónur, matured on April 1.

Moody's, the credit rating agency, announced that improved economic stability supported an unchanged credit rating for the Treasury, Aa3 for debt in foreign currencies and Aaa for Treasury debt in krónur.

May

The consumer price index stood at 221.8 points in May. The collective bargaining parties in the labour market had agreed in December 2001 to postpone the decision on a revision of the

wage clause of their wage agreements from February to May. They agreed that if the consumer price index in May would fall below 222.5 points, the inflation assumptions underlying the wage agreements would have worked out as expected. Therefore, the wage clauses of the agreements would not come under revision.

The Central Bank lowered its base rate by 0.3 percentage points as of May 1, from 9.6 to 9.3 per cent.

Unindexed 11-year Treasury bonds, maturing in May 2013, were introduced. This is the longest unindexed Treasury bond issue so far.

The Central Bank lowered its base rate by 0.5 percentage points as of May 21, from 9.3 to 8.8 per cent.

June

On June 5, the Minister of Fisheries issued a regulation for catch quotas for the 2002/2003 fisheries year. The new quotas were about 2.4 per cent higher, as counted in cod equivalents, than in the previous fisheries year.

The Treasury sold 20 per cent of the total shares in Landsbanki, thus reducing the Treasury's share in the bank to 48 per cent.

The Central Bank lowered its base rate by 0.3 percentage points as of June 25, from 8.8 to 8.5 per cent.

July

A new currency basket for the exchange rate index took effect. The weight of the dollar declined by just over 2 percentage points to 25 per cent, the share of European currencies rose by 3 percentage points to 70 per cent and that of the yen declined by 0.7 percentage points to 3.7 per cent.

August

The Central Bank lowered its base rate by 0.6 percentage points as of August 6, from 8.5 to 7.9 per cent.

September

The Central Bank lowered its base rate by 0.3% as of September 1, from 7.9 to 7.6 per cent.

On September 2, the Minister for Industry issued a permit to Landsvirkjun to construct a hydro-power facility at Kárahnjúkar.

On September 10, the Government decided to enter into negotiations with the Samson Holding Company Inc. to sell a controlling interest in Landsbanki. At the same time, it decided to commence preparation for selling a controlling interest in Búnadarbanki.

The Central Bank lowered its base rate by 0.5 percentage points as of September 21, from 7.6 to 7.1 per cent.

October

On October 1, the Minister of Finance presented the 2003 fiscal budget proposal. Revenue was estimated at 264 billion krónur, expenditure at 253.3 billion and the revenue balance at 10.7 billion.

On October 1st, the Ministry of Finance published its new economic forecast for 2002 and 2003 as well as a projection for the medium term. One of the main findings was that the national economy has adjusted rapidly to a changing economic environment in the wake of a sharp upswing over the past few years. Real GDP was expected to remain unchanged in 2002, inflation was expected to be 1½ per cent and unemployment 2½ per cent.

The Central Bank lowered its base rate by 0.3 percentage points as of October 21, from 7.1 to 6.8 per cent.

On October 21, the Government agreed to sell the Samson Holding Company Inc. a 45.8 per cent share in Landsbanki after which the Treasury's remaining stake was 2.5 per cent.

Moody's, the credit rating agency, raised Iceland's credit rating for bond issues and foreign currency deposits to Aaa, the highest rating available. Previously, Iceland had a rating of Aa3.

November

On November 5, the Government decided to enter into negotiations with a group of investors regarding the sale of a controlling interest in Búnadarbanki.

The Central Bank lowered its base rate by 0.5 percentage points as of November 11, from 6.8 to 6.3 per cent.

Statistics Iceland began publishing two core indexes to measure underlying inflation. Both are based on the consumer price index. The former excludes vegetables, fruit, agricultural produce, petrol and the latter adds public services to the above exceptions.

The rating agency Standard & Poor's raised Iceland's credit rating from negative to stable at the same time as it confirmed Iceland's rating of AA+/A-1+ for debt in krónur and A+/A-1+ for debt in foreign currencies. The main reasons for the raise in the ratings were the improvement in the economic situation, the success achieved in privatising commercial banks and the banks' continued good earnings record.

December

On December 2, the Ministry of Finance published its revised economic forecast from last autumn. One of the main conclusions was that economic growth was expected to be ¼ per cent in 2002 and 1¼ per cent in 2003, which was ¼ per cent higher each year than was forecast in October. In other respects, this forecast does not differ much from the one released in October.

The fiscal budget was passed on December 6. Revenue was estimated at 272 billion krónur, expenditure at 260 billion and the revenue balance at 12 billion.

The Central Bank lowered its base rate by 0.5 percentage points as of December 18, from 6.3 to 5.8 per cent.