

Chronicle of economic events

2003

January

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

The PAYE tax rate remained nearly unchanged from the year before, at 38.55 per cent compared with 38.54 per cent in 2002. The Treasury's share remained unchanged at 25.75 per cent and the average municipal income tax collected under the PAYE system increased by 0.01 per cent to 12.80 per cent. The annual tax-free income threshold was increased by 3.1 per cent, from 809,611 to 835,019 krónur. The surtax income threshold increased by 15 per cent from the previous year.

Social security and unemployment benefits increased by 3.2 per cent.

The net wealth tax on individuals and companies was reduced to 0.6 per cent. It begins to apply at net assets in excess of 4,720,000 krónur for an individual and 9,440,000 krónur for a couple. Previously, the tax was 1.2 per cent, rising to 1.45 per cent on net assets in excess of 6,332,500 krónur for an individual and 12,665,000 krónur for a couple.

Child benefits increased by 2.75 per cent and the income thresholds for benefit curtailment were raised by 4 per cent to 704,459 krónur for an individual and to double that amount for a couple. The curtailment of benefits for one child was reduced from 4 to 3 per cent of income in excess of the curtailment threshold, for two children from 8 to 7 per cent and for three children or more from 10 to 9 per cent. This was the third stage and last in raising child benefits.

Alcohol and tobacco levies were increased. For liquor, they rose by 15 per cent, and by 27.7 per cent for tobacco. The latter increase was offset by reducing the markup of the State Wine and Tobacco Monopoly from 17 per cent to 11 per cent. The retail price of liquor thus increased by close to 10 per cent and of tobacco by an average of 12 per cent. The Treasury revenue from this increase is estimated to 1,100 million krónur on an annual basis, and the consumer price index is expected to increase by less than 0.3 per cent as a result.

The tax credit resulting from investment in shares was abolished.

The social security tax increased by 0.5 per cent.

On January 3, the Government signed an agreement with the Samson Holding Company Inc. on the sale by the Treasury of 45.8 per cent of the shares in Landsbanki.

On January 16, it signed an agreement with a group of investors on the sale by the Treasury of 45.8 per cent of the shares in Búnadarbanki.

On January 30, the temporarily appointed Minister of the Environment, Mr. Jón Kristjánsson, issued an administrative decision regarding an environmental assessment of the proposed water reservoir at Norðlingaalda.

February

In February, Landsvirkjun decided to commence discussions with Norðurál, the aluminium producer, on the procurement of energy for the expansion of the aluminium plant at Grundartangi. At the same time, discussions were continued with the Reykjavík Energy Company and the Suðurnes Regional Heating Company on participating in the project with the intention that the three energy providers would cooperate in supplying energy to Norðurál.

The Central Bank lowered its base rate by 0.5 percentage points as of February 18, from 5.8 per cent to 5.3 per cent.

On February 25, the remaining 2.5 per cent of the Treasury's stake in Landsbanki were sold.

March

On March 7 the Treasury sold its remaining stake of 9.11 per cent in Búnaðarbanki. That transaction ended all holdings by the Treasury in commercial banks. Shortly thereafter, the two banks, Búnaðarbanki and Kaupping, merged to become Kaupping Búnaðarbanki.

Alþingi passed a law on the expansion of the aluminium plant at Grundartangi and authorised the Minister of Industry to permit the water reservoir at Norðlingaalda, the expansion of the geothermal power plant at Nesjavellir and the construction of a new geothermal power plant at Reykjanes.

On March 14, a supplementary fiscal budget was passed that authorised a 6.3 billion krónur supplemental appropriation for accelerating public investment of which 4.7 billion were spent in 2003 and it was estimated that a further 1.6 billion would be spent in 2004. A plan was launched that aims to erect several cultural centres around the country and provide financing for economic development. The proceeds from the sale of the remaining shares in the two commercial banks, as well as proceeds from the sale of shares in Icelandic Prime Contractors, were to be used to finance the supplemental expenditure. The sale of assets was estimated to yield an additional 2.6 billion krónur.

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On March 31, Fitch, the rating agency, confirmed Iceland's credit ratings of AA- for long-term debt in foreign currencies, AAA for long-term debt in Icelandic krónur and F1+ for short-term foreign debt. Prospects for long-term debt were raised from negative to stable.

April

On April 15th, the Ministry of Finance published its new economic forecast for 2003 and 2004 including prospects up to 2010. The main conclusion of the forecast was that economic growth was expected to increase in 2003 which marks the beginning of a new upswing. Growth was expected to be 2¾ per cent in 2003, inflation 2 per cent and unemployment 3%.

May

Elections to the Alþingi took place on May 10. The Government of Prime Minister Davíð Oddsson held on to its majority and continues in office. It issued a new policy statement on May 23.

The formal preparations for the merger of Kaupping and Búnaðarbanki were completed on May 26, following an agreement of shareholders of both concerns. The merger was agreed to by the Financial Supervisory Authority the following day.

June

On June 19, Standard & Poor's, the rating agency, confirmed its ratings for Iceland, including AA+/A-1+ for debt in krónur and A+/A-1+ for foreign currency debt. Prospects for future credit ratings were deemed stable.

July

On July 3, the Minister of Fisheries issued a regulation on the catch quota for the 2003/2004 fisheries year. The quota was increased by 11.3 per cent from the previous year. The catch value was estimated to increase by close to 8 billion krónur as a result and the export value by about 12.5 billion.

On the same date, the Ministry of Fisheries issued a regulation on the catch quota for blue whiting in 2003, increasing the quota from 318,000 tonnes to 547,000 tonnes.

On July 4, the currency basket for the exchange rate index was reviewed. The weight of European currencies rose by 0.4 percentage points to 70.7 per cent, whereas the weight of North-America declined by 0.24 percentage points to 25.82 per cent and that of the yen by 0.17 percentage points to 3.48 per cent.

August

On August 6, the Minister of Fisheries issued a regulation authorising whale hunting for scientific purposes. The hunt was to be a part of a two-year research project during which the intention was to catch 100 minke whales, 100 fin whales and 50 sei whales each year. Only 38 minke whales were authorised in 2003, however.

The Treasury accounts for 2002 were published on August 21. The revenue surplus on normal operations amounted to 6.5 billion krónur compared with 16.6 billion in 2001. This excludes non-recurrent revenue and expenditure such as the sale of assets on the revenue side and the accumulation of pension commitments and estimated tax claims written off on the expenditure side. Total Treasury expenditure, including extraordinary items, exceeded total revenue by 8.1 billion or 3.1 per cent of revenue, a deterioration of 16.8 billion from the previous year when the surplus amounted to 8.6 billion. The 2002-result is primarily due to a higher accounting entry on the expenditure side in respect of pension commitments as well as due to an increase in a write-off of tax claims. These two items prove difficult to assess beforehand. The expensing of pension fund commitments amounted to 16.3 billion krónur in 2002 compared with 2.6 billion in 2001, and tax claims written off increased to 10.1 billion in 2002 as against 5.9 billion in the year before. Net debt amounted to 149.5 billion at the end of 2002, compared with 168.8 billion at the end of 2001, a decline of 19.3 billion.

September

On September 5, Landsvirkjun decided to postpone the construction of the Norðlingaalda water reservoir. The project involved a commitment to deliver energy to Norðurál before the end of 2005 and to complete the project before the construction activity at Kárahnjúkar and at the aluminium plant at Reyðarfjörður would reach their peak.

October

On October 1, the 2004 fiscal budget proposal was presented by the Minister of Finance to the Alþingi. The budget called for a revenue total of 279.4 billion krónur, expenditure of 273 billion and a revenue surplus of 6.4 billion.

On October 1st, the Ministry of Finance published its new economic forecast, covering the years 2003 to 2005 including prospects up to 2010. The main conclusion of the forecast was that there will be substantial economic growth over the next several years. Growth was forecast at 1¾ per cent in 2003, inflation at 2 per cent and unemployment at 3¼ per cent.

On October 16, the Supreme Court rendered a verdict to the effect that government benefits for the disabled should be increased from the level set by law passed early in 2001 in response to an earlier Supreme Court verdict from December 2000.

November

On November 27, a bill was passed into law that called for an 8 per cent increase in weight and kilometer taxes on diesel vehicles as well as an 8 per cent increase in taxes on petrol. The increase is estimated to add about 1 billion krónur in revenue to the Treasury, 850 million krónur of which will be allocated for road construction and maintenance.

The diesel taxes were last increased in February 2001 and since then the consumer price index has risen by 13.1 per cent. The petrol taxes were fixed in October 1999. The general petrol tax was then set at 10,50 krónur per litre and the special petrol tax, intended for road construction, was fixed at 28,60 krónur for lead-free petrol and 30.43 krónur for other petrol. Since then,

the consumer price index has risen by 18.6 per cent. The general petrol tax was temporarily reduced by 1.55 krónur from April 4, 2002 to the end of June of that year to mitigate price increases in the world market. Following the 8 per cent increase, the petrol taxes stand at 11.34, 30.89 and 32.86 krónur, respectively.

December

On December 2, the Central Bank introduced new rules on reserve requirements for financial undertakings. This is the second phase of changes in reserve requirements and the reserve base with the aim of creating operating conditions for Icelandic credit institutions similar to those in most European countries. The first half of these changes were introduced on February 28 and took effect in March 21, when reserve ratios were reduced. In this second phase, the Central Bank is adjusting the reserve base and the reserve ratios to the practices of the European Central Bank that apply to the member states of the European Monetary Union. The rules took effect on December 21.

The second supplementary budget for 2003 was passed into law on December 2. Revenue was raised by 6.4 billion, expenditure by 12.6 billion and the revenue balance for the year was thus reduced by 6.2 billion. Of the increase in expenditure, 5 billion were allocated to health and social security, 2.3 billion to social affairs and 1.2 billion to education.

The 2004 fiscal budget was passed on December 5. It calls for a total revenue of 282 billion krónur, expenditure of 275.3 billion and a revenue balance of 6.7 billion. The revenue balance had increased by 0.3 billion from the fiscal budget proposal presented at the beginning of October.

On December 16, Standard & Poor's, the rating agency, upgraded Iceland's credit rating from stable to positive. It also confirmed Iceland's credit rating of A+/A-1+ for foreign currency debt and AA+/A-1+ for debt in krónur.