

## Chronicle of economic events 2006

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### December 2006

On December 22, 2006, Standard & Poor's Ratings Services lowered its foreign currency sovereign credit ratings on the Republic of Iceland to 'A+' long-term and 'A-1' short-term, from 'AA-' and 'A-1+', respectively. At the same time, the long-term local currency rating on Iceland was lowered to 'AA' from 'AA+', and the short-term local currency rating was affirmed at 'A-1+'. The outlook is stable. See the [S&P Press Release](#)

On December 14th, Moody's Investors Service, the credit ratings agency, issued a credit opinion on Iceland where it affirmed its previously issued ratings for Icelandic Treasury debt of Aaa/P-1 for long-term and short-term debt, respectively, both in foreign and domestic currency. The outlook is viewed as stable. See [Moody's Credit Opinion ...](#)

On December 21st, the Central Bank raised its policy rate by 0.25 per cent to 14.25 per cent. See [further ...](#)

### November 2006

On November 24th the Althingi amended Article 68 of the Income Tax Act no. 90/2003 and increased the net wealth threshold for qualifying for mortgage interest credits by 30%. The increase is in response to increasing property prices and was agreed to in the [Government's Policy Statement of June 22nd](#) issued to facilitate a review of general wage agreements between employers and unions at that time. The interest credits already paid out in the course of 2006 will be recalculated on the basis of this amendment and qualifying taxpayers will be paid accordingly before the end of this year.

On November 22nd, the Republic of Iceland completed a €1 billion Eurobond issue (EMTN), equivalent to approx. 90 b.kr. The fixed-rate notes mature on December 1, 2011. Re-offer spread was 1 point below EURIBOR. [See further ...](#)

On November 9th, Fitch Ratings affirmed Iceland's foreign and local currency Issuer Default ratings ("IDRs") at 'AA-' (AA minus) and 'AAA' respectively, both with Negative Outlooks. The Short-term foreign currency rating is affirmed at 'F1+' and the Country Ceiling is affirmed at 'AA'. [Further ...](#)

On the 2nd of November the Central Bank announced that it would keep its policy rate unchanged at 14 per cent for the time being but did not exclude that it would raise the rate at a later time. See the Bank's news release and its Monetary Bulletin.

On the 1st of November the Treasury purchased the half of the equity capital of Landsvirkjun that belonged to the cities of Reykjavík and Akureyri for 30.25 billion krónur (\$448 million). The Treasury has thereby become the sole owner of Landsvirkjun.

### October 2006

On October 17th the Minister of Fisheries decided to authorise the resumption of commercial whaling with a catch of nine fin whales and thirty minke whales this autumn. [See further ...](#)

The 2007 fiscal budget was presented to the Althingi at the beginning of October along with the economic outlook of the Ministry of Finance. The budget calls for a 15.5 billion surplus, nearly 23 billion more than had been projected in the Ministry's long-term forecast. The Ministry's economic outlook predicts a 4.2 per cent GDP growth this year, declining to 1 per cent in 2007. See further on the [fiscal budget](#) and the [economic forecast](#).

### **September 2006**

On September 26th the governments of Iceland and the United States concluded an agreement regarding the defence of Iceland and the return of land and facilities to Iceland following the closure of the NATO base at Keflavík. [See further ...](#)

On September 14th, the Central Bank raised its policy rate by 0.5 per cent to 14 per cent. [See further ...](#)

### **August 2006**

On August 16th the Central Bank raised its policy rate by 0.5 per cent to 13.5 per cent. See further the Central Bank's [press release](#).

Moody's Investors Service, the rating agency, issued its annual report on Iceland on August 3rd. The report states that " the country's Aaa rating and stable outlook are supported by institutional strength, low government debt and a tested ability to withstand shocks". [More ...](#)

### **July 2006**

On July 19th, an agreement was reached between the Government and the Association of Elderly Persons on a number of measures to improve the benefits and other conditions of elderly persons. The main elements of the measures will be to raise old age benefits and ease the curtailment of such benefits in lieu of non-benefit income. The retirement age will be made more flexible so that pension benefits can be raised in cases where retirement is postponed. Increased funds will be devoted to the home assistance to elderly persons and more funds will be allocated to build nursing homes to ease waiting lists. For the full text of the agreement (in Icelandic only), see [here ...](#)

On July 6th, the Central Bank announced an increase in its policy interest rate by 75 basis points to 13 per cent, effective as of July 11th. See [further ...](#)

### **June 2006**

On June 27th the Government announced measures to tighten fiscal policy in order to reduce demand pressures in the economy. The mortgage loan ratio of the Housing Finance Fund will be cut from 90 per cent to 80 per cent and the maximum loan amount reduced from 18 to 17 million krónur. Tenders and new construction starts of the central government will be postponed, and discussions will be initiated with the local governments to review their investment plans. Large

joint projects of the central government and the City of Reykjavík will be especially reviewed. See further the [press release of the Prime Minister's Office](#).

On the same date the Minister of Fisheries issued a regulation on the fish catch quota for the 2006/2007 fisheries year, commencing this coming September 1st. The catch quota is as follows:

#### Fish catch quota

<i>Thous. tonnes</i>	<i>2005-06</i>	<i>2006-07</i>
Cod	198	193
Redfish	57	57
Haddock	105	105
Saithe	80	80
Greenland halibut	15	15
Catfish	13	13
American plaice	3.5	1.5
Plaice	5	6
Dab	4	2
Tusk	3.5	5
Ling	5	5
Lemon sole	1.8	2
Monkfish	2.5	3
Witch	2.4	2.4
Icelandic summer-spawning herring	110	130
Deep-sea shrimp	10	7
Lobster	1.8	1.8
Arnarfjörður shrimp	0.3	

On June 22nd, the Government issued a statement in connection with the conclusion of a revised wage agreement between the Confederation of Employers and the Labour Organisation regarding changes in taxation, child benefits and several other issues. The main elements of the Government's declaration were as follows: (1) The personal tax credit will be increased as of the beginning of next year from 29,029 krónur to 32,150 krónur, which increases the monthly tax-free income from 79 thousand to 90 thousand krónur a month or by 14 per cent. The personal tax credit will henceforth be revised annually in line with the rise in the consumer price index. (2) The tax credit for interest payments will be reviewed in light of the final tax assessment on 2005 income that is to take place next August. (3) Child benefits will be paid up to the age of 18 years instead of 16 years. (4) Due to the above changes, the previously planned cut in the personal income tax by 2 percentage points as of the beginning of next year will be reduced to 1 per cent. (5) Appropriations for adult education and job retraining will be increased. (6) The situation of foreign nationals in the Icelandic labour market will be reviewed in cooperation with employers and labour unions. (7) The basic unemployment compensation will be increased by 15,000 krónur as of July 1st 2006. The maximum income-related unemployment benefit will be increased from 180,000 krónur to 185,400 krónur. See the [Government's full statement](#) (in Icelandic).

The Confederation of Employers and the Labour Organisation reached agreement on the revision of their frame wage agreement that will thereby remain in force until the end of 2007. The agreement is reached in light of the Government's statement described above. The main elements of the revised agreement are as follows: (1) Any employee who is employed at the beginning of

July 2006 and has been continuously with the same employer since June 2005 shall receive at least a 5.5 per cent wage increase for said period as a whole. (2) As of July 1st, all monthly pay increased by 15,000 krónur. Minimum pay increased from 108,000 to 123,000 krónur at the same time and further to 125,000 krónur from January 1st 2007. (3) Agreement was reached regarding issues relating to foreign labour. For the full text of the statement (in Icelandic) see [here](#).

On June 5<sup>th</sup>, Standard & Poor's, the rating agency, revised its outlook on the Republic of Iceland to negative from stable on the increasing likelihood of a hard landing for the country's economy. At the same time, Standard & Poor's affirmed its long-term 'AA-' foreign and 'AA+' local, and its short-term 'A-1+' foreign and local currency sovereign credit ratings on the republic. [See further](#) ...

### **May 2006**

On May 18<sup>th</sup> the Central Bank raised its policy interest rate by 0.75 per cent to 12.25 per cent in view of rising inflation pressures. See [further](#) ...

### **April 2006**

In a report published on April 4<sup>th</sup>, Moody's Investors Service concludes that Iceland, which it rates Aaa, is not experiencing undue risk to solvency or liquidity as result of recent volatility in the nation's business and financial cycles. See [further](#)..

### **March 2006**

The Central Bank raised its policy rate by 0.75 per cent to 11.5 per cent on March 30<sup>th</sup>. For further discussion, see the Bank's [Monetary Bulletin](#), issued on the same date.

On March 16<sup>th</sup>, Standard & Poor's, the rating agency, affirmed its 'AA-' long-term foreign currency and 'AA+' long-term local currency sovereign credit ratings on the Republic of Iceland. At the same time, the 'A-1+' short-term foreign and local currency ratings on Iceland were affirmed. The outlook is stable. [See further](#).

On March 15<sup>th</sup>, the US government informed the government of Iceland that it would sharply reduce its military presence at Keflavik Airport later this year. It would remove its fighter aircraft and helicopters no later than at the end of September.

### **February 2006**

On February 21<sup>st</sup> Fitch Ratings revised the outlooks on the Republic of Iceland's foreign and local currency Issuer Default Ratings (IDRs) to negative from stable. The long-term foreign and local currency IDRs are affirmed at 'AA-' (AA minus) and 'AAA' respectively. [More](#)

### **January 2006**

On January 26th, the Central Bank decided to raise its policy interest rate by 0.25 percentage points, to 10.75%. This is the twelfth policy rate rise since May 2004 ... [More](#)

#### *Tax amendments effective as of the beginning of the year*

- The standard rate of personal income tax was cut by 1 percentage point at the turn of the year, from 24.75 to 23.75 per cent. Another 2 percentage points will be cut as of the beginning of

2007. The PAYE income tax, including the local income tax, amounts to 36.72 per cent, compared to 37.73 per cent the year before.

- The net wealth tax was abolished as of the beginning of this year. The last net wealth tax assessment took place in 2005, on the basis of net wealth at the end of 2004.
- Child allowances will increase as is seen in the following table (in krónur per year):

	2004	2005	2006	2007
For all children under the age of seven <sup>1</sup> .....	36,308	37,397	46,747	56,096
<b>Children under the age of sixteen:</b>				
First child.....	123,254	126,952	139,647	139,647
Each additional child.....	146,713	151,114	166,226	166,226
<b>Benefits for single parents:</b>				
First child.....	205,288	211,447	232,591	232,591
Each additional child.....	210,854	216,902	238,592	238,592
<b>Income threshold for benefit curtailment:</b>				
For couples.....	1,444,139	1,487,463	1,859,329	2,231,195
For a single parent.....	722,070	743,732	929,665	1,115,598
<b>Curtailment of benefits:</b>				
For one child.....	3%	3%	3%	2%
For two children.....	7%	7%	7%	6%
For three children or more.....	9%	9%	9%	8%

1. These benefits are not linked to income.

- The personal income surtax will be 2 per cent in 2006, based on 2005-income. This will be the last year when the surtax will be imposed. It will expire at the end of this year. The tax is imposed on income in excess of 4,191,686 krónur for each individual and twice that amount for a couple.
- The seaman's special tax credit will amount to 787 krónur per day in 2006.
- The interest rebate maximum in respect of homeowners' interest expenses incurred in buying their own home is set at 169,541 krónur in 2006. For a single parent the rebate maximum is 218,042 krónur and 280,372 krónur for a couple. The calculated rebate is subject to ceiling of debt, income and net wealth as follows: (1) It can not exceed 5 per cent of the remaining debt balance incurred in buying a home for one's own use. As of 2006, on interest expenses incurred in 2005, the ceiling will be reduced from 5.5 per cent to 5 per cent. (2) The maximum amount of interest payments that qualify for an interest rebate calculation is 494,782 krónur for an individual, 649,544 krónur for a single parent and 804,304 for a couple. (3) Six per cent of taxable income is subtracted from the interest expense. (4) The rebate begins to be curtailed at a net worth threshold of 3,721,542 krónur for a single individual and 6,169,097 krónur for a couple and is eliminated altogether at a 60 per cent higher amount.
- The per capita tax that raises revenue for the Elderly's Construction Fund, a fund that finances the construction and, in part, the operation of nursing homes and assisted care facilities for the elderly, is 6,075 krónur per person in 2006. The tax applies to all persons from the age of sixteen to seventy. Those with an annual income under 900,732 krónur in 2004 are exempt from the tax.

- As of the beginning of the year, all social security payments were raised by 4 per cent and unemployment compensation by 2.5 per cent.