

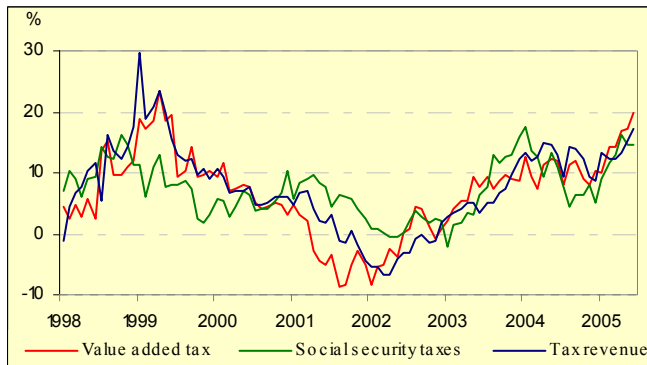
September 1, 2005

Treasury finances, January-July 2005

The Treasury accounts for the first seven months of this year are now available and can be accessed [here](#). The cash surplus from operations turned out at 4.6 billion krónur, 25.6 billion more than had been projected and 20.6 billion better than a year ago. Revenue increased by 34.7 billion between years and expenditure by 15.1 billion. The net financial surplus amounted to 15.8 billion compared with a deficit of 14.2 billion last year.

Treasury revenue

12-month change, 6-mov.avg., constant prices



Total revenue amounted to 185.1 billion, increasing by 34.7 billion or 23%. Tax revenue amounted to 166.5 billion, increasing by 18.7%, slightly more than had been projected. The personal income tax rose by 11.5% and the corporate tax declined by 5.6%. The capital income tax rose by 54%, equivalent to an increase of 48.3% in real terms. The social security tax yielded 18.1 billion kronur, an increase of 11.9% in real terms. By comparison, the Statistics Iceland wage index rose by 6.6%. Revenue from taxes on net wealth and assets rose by 44% in real terms, mainly on account of higher revenue from the stamp duty. Other revenue amounted to 18.1 billion, increasing by 8.1 billion kronur from a year ago, mainly due to a dividend payment from Iceland Telecom and fines levied on oil companies.

Indirect taxes rose by 19.1% in nominal terms and by 14.7% in real terms. The trend in indirect taxes is a good indicator of the development of domestic demand, particularly of the value-added tax which yielded an increase of 22.5% from the previous year, indicating that the rise in domestic demand is not abating. Excise duties on motor vehicles also rose by far more than a year ago, by 76.5%, due to a 61.5% increase in imports of motor vehicles.

Expenditure amounted to 181 billion kronur, increasing by 15.1 billion, of which 5.7 billion is due to higher interest payments because a large issue of savings bonds, along with accumulated interest, matured in April. Excluding interest, expenditure rose by 6.1% between years. Expenditure on health, education and social services is by far the largest category of Treasury outlays, accounting for 116.6 billion or 64% of the total and increasing by 8 billion or 7.8%. Of this increase, 4.8 billion went to health and 3.1 billion to education, whereas payments for social security remain broadly unchanged from the previous year. Other expenditures remain largely unchanged. For example, payments for economic support declined by 1.1% and by 1.8% for administrative affairs.

Financial transactions. Debt repayments amounted to 33.3 billion kronur of which 19.3 billion was on account of foreign long-term loans and 13.9 billion was due to maturing domestic savings bonds. Borrowing amounted to a total of 13.3 billion kronur, 9 billion domestically in the form of Treasury bills and notes and 4.3 billion in foreign short-term paper. A total of 2.3 billion have been prepaid to the Government Employees Pension Fund in order to reduce the future pension commitments of the Treasury to the Fund. Cash at hand declined by 6.5 billion kronur in the first seven months.

Review of EU Regional Aid Guidelines

The European Commission is currently reviewing the Regional Aid Guidelines. The revision affects Iceland since the EFTA Surveillance Authority (ESA) adopts the Regional Aid Guidelines for the EFTA Member States in order to ensure that the same rules apply within the European Economic Area. Regional Aid is granted with reference to regional aid maps which have been approved by the European Commission or the ESA, as regards the EFTA Member States. The current applicable regional aid maps expire at the end of 2006 and therefore the revision has to be completed before that time.

The revision is in line with, and follows, the new State Aid Action Plan from the European Commission. It aims at more focused and reduced State aid, directed at innovation and small and medium sized enterprises etc. The EU enlargement from 15 to 25 Member States affects the regional aid parameters since in many cases reference is made to percentage of GDP in the area. The border lines of the regional aid maps are therefore affected by the enlargement, and Member States, such as France and Germany, are not in the same position to grant regional aid as before, at least to larger enterprises.

The current draft proposals from the European Commission continue to acknowledge the low population density areas in Europe (e.g. in Sweden, Finland and Norway). According to the draft proposal, investment aid to such areas, where population is less than 12.5 per square kilometre, will continue to be regarded as compatible aid with reference to Article 61(3)(c) of the EEA Agreement. The current regional aid map for Iceland, approved by the ESA in August 2001 and valid until the end of 2006, is based on that principle.

Research award by the Ministry of Finance

The Ministry has decided to offer two awards, 250 thousand krónur each, for outstanding master's theses in economics or business studies at domestic or foreign universities. The awards will apply to theses completed in the 2004/2005 academic year. The thesis topic must be in the field of economic and fiscal policy, since the aim is to strengthen academic research in that area.

Further information, along with application forms, can be found on the Ministry's website. Deadline for applications to be handed in at the Ministry's Economic Department is October 3, 2005.

Treasury revenue, January-July		
12-month changes %	2003-2004	2004-2005
Total tax revenue	12.7	18.7
Income taxes	11.7	15.2
Social security taxes	10.5	16.2
Asset taxes	18.4	49.8
Indirect taxes	13.7	19.1
Total revenue	2.0	23.0

Treasury expenditure, January-July		
12-month changes %	2003-2004	2004-2005
Administration	5.9	1.8
Social affairs	15.6	7.8
Economic affairs	4.9	-1.1
Interest	-13.5	58.0
Other	-1.4	13.7
Total expenditure	10.0	9.1

Treasury finances, January-July		
Million krónur	2004	2005
Cash from operations	-16,005	4,596
Net financial balance	-14,165	15,802
Debt redemption	-29,142	-33,343
Gross borrowing requirement	-47,683	-19,790
New borrowing	39,386	13,305
Overall cash balance	-8,296	-6,486

Economic indicators		
12-month changes, %	2004	2005
Inflation - August	3.7	3.7
Core inflation - August	3.0	4.1
Wage index - July	5.1	6.6
Tot.turnov.Jan-April	11.3	7.1
Ret.turnov.Jan-April	5.4	6.9
Unemploy.in % July	3.0	2.2