

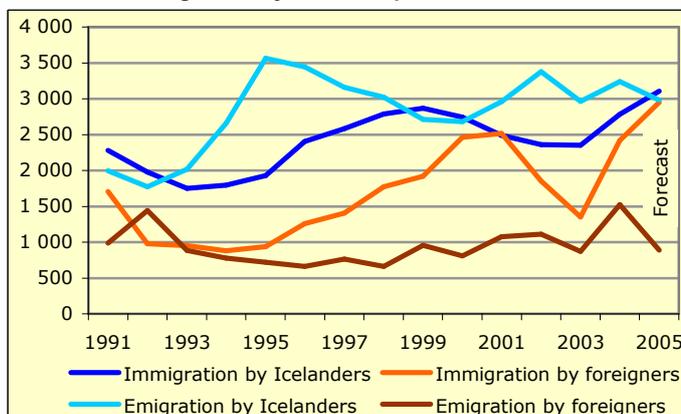


November 10, 2005

Demographic developments

According to data compiled by Statistics Iceland for the Ministry of Finance, there have been considerable changes in Iceland's demographics in the course of this year. These developments were discussed in the Ministry's [economic forecast](#) published at the beginning of October. At present, data is available for the first three quarters of this year. It appears that repatriating Icelandic nationals will turn out as was predicted last September, whereas immigration by foreign nationals will exceed previous projections by some 10 per cent. The number of Icelandic emigrants exceeds the September forecast by 600, whereas the number of foreign nationals that are leaving the country falls short of the September forecast by 500. The net external migration is therefore about as predicted, although its composition is different. Net immigration is expected to reach 2,000 persons for the year as a whole, exceeding the previous record of 1,700 in 2000. This increase in the population, about 0.7 per cent, comes in addition to the natural increase – births in excess of deaths – which is at least as high in number. The total increase in the population can therefore be expected to be higher than in many previous years.

International migration by citizenship



The immigration of foreign nationals has been higher this year than ever before, which is not surprising, considering the number of foreign workers needed for the on-going construction projects in eastern Iceland. The foreign immigration also touches other areas. A total of 905 persons had immigrated to the eastern part of the country in the first nine months of this year, about 19 per cent of the total. A total of 250 had left the area for abroad during the same period. A total of 2,800 persons had immigrated to the capital area during these first nine months. It appears that immigration to the capital area will surpass previous highs.

A fairly high proportion of foreign workers who come here to work on power projects are expected to leave the country upon their completion – and the foreign worker turnover in these projects is quite high – but this applies much less to immigrants settling in other parts of the country. The share of foreigners in the total population may therefore be expected to continue to increase.

The number of persons moving from the countryside to the capital area is about 3,100 and is exceeded by the number moving in the opposite direction by more than 100. This represents a significant change from earlier years when there was a net migration from the countryside to the capital area. These new figures confirm the September forecast where it was predicted that more people would leave the capital area than those moving there. This has not happened for nearly two decades.

It is particularly notable how many people are moving to the Suðurnes area. The net migration from the capital area to that area amounts to about 350 persons. The area also attracts people from the rest of the countryside as well as from abroad. The total net migration to that area amounts to about 500 persons in the first nine months of this year. This is supported by a residential construction boom in the area. The same holds true for towns in Árnessýsla, although the growth there has lasted longer than in the case of the Suðurnes area. Other parts of the countryside, except the West, are losing population to the capital area. The capital area is gradually being redefined as an area stretching from Borgarfjörður to Þjórsá. These population figures confirm this trend, although it is notable how many are choosing to move from the centre of the capital area to its periphery. High property prices and the cost of building in the capital are no doubt influential in prompting this development. The construction of a dual carriageway to the Reykjanes peninsula and the increased traffic safety it has brought has probably played a role in improving the perception of living conditions there.

Meeting of EFTA and EU ministers of economy and finance

The meeting of EFTA and EU ministers of economy and finance took place in Brussels on November 8th. The topic of the meeting was “Job, growth and globalisation”. At the meeting, the possibilities were discussed as to what the EFTA and the EU countries could do to strengthen economic growth and job creation under conditions of increasing globalisation.

Globalisation means that markets in individual countries are gradually becoming integrated internationally, i.e. becoming one global market. Much has been achieved in recent decades in reducing obstacles to the flow of goods such as reducing tariffs and removing subsidies to domestic producers. Such efforts to equalise competitive conditions have been found to raise growth and the standard of living. Developments in the European Economic Area have gone one step further. In addition to the free trade in goods, the markets in services, labour and capital have also been substantially liberalised. Laws and regulations have been aligned which increases transparency in markets and confidence of market participants, which tends to increase economic activity on an area wide basis. With international competition it is important that markets function flexibly so that companies and individuals can react timely and efficiently to changing market conditions. In this regard, a well structured market is often a precondition for its efficient function.

In recent years, the EU countries have been implementing structural reforms in accordance with the so-called Lisbon strategy. The aim is to liberalise market in labour, goods, services and capital. So far, this process has not yielded the hoped for results, i.e. to make the EU “the most competitive and dynamic knowledge-driven economy by 2010”. At present, work is under way to involve individual EU countries more closely with the design and implementation of the necessary structural changes. Although changes are being implemented, emphasis is also being placed on the preservation of the core values and social model of European countries.

At the meeting, the special situation of Iceland with regard to market efficiency was noted. The country possesses a flexible labour market, the fully funded pension system has greatly increased its capacity to meet future commitments, markets in goods and services are quite efficient and so is the financial market. The transferable fishing quota system has significantly raised the efficiency in the fisheries sector, the tax system has been simplified and tax rates reduced and state enterprises privatised. As a result, market activity and competition have increased and economic growth and the level of employment has been higher over the past decade than in most EU countries.

Treasury revenue, January-September		Treasury expenditure, January-September		Treasury finances, January-September		Economic indicators					
12 month changes %	2003-2004	2004-2005	12 month changes %	2003-2004	2004-2005	Million krónur	2004	2005	12 month changes %	2004	2005
Total tax revenue	15.4	22.0	Administration	9.2	3.2	Cash from operations	-10,405	14,581	Inflation – Nov.	3.8	4.2
Income taxes	20.4	23.9	Social affairs	10.0	6.3	Net financial balance	-2,436	59,746	Core inflation 1–Nov.	3.3	4.5
Social security taxes	10.1	16.4	Economic affairs	12.5	-3.1	Debt redemption	-30,843	-47,939	Wage index – Sept.	5.3	6.9
Asset taxes	2.16	44.8	Interest	-7.4	43.2	Gross borr. requirement	-38,904	8,857	Total turnover – Jan-June	9.8	8.7
Indirect taxes	13.4	20.2	Other	0.8	78.6	Net borrowing	40,679	11698	Retail turnover – Jan-June	5.3	9.0
Total revenue	7.4	51.8	Total expenditure	8.7	9.7	Overall cash balance	1,775	20,555	Unemploy. (%) – Sept.	2.6	1.4