

English translation of the Weekly Web Release



MINISTRY OF FINANCE IN ICELAND

February 9th 2006

A new operational strategy for the Ministry of Finance takes effect

The Ministry of Finance recently concluded its review of its policies and daily operations which covered the role, goals and future vision of the Ministry. The review was conducted in light of the many changes that have taken place in the Ministry's working environment in recent years.

The main goals of the Ministry are summarised as follows:

- Providing economic stability and a high standard of living in the country.
- Treasury finances should be in balance over the long term.
- The tax system should be both efficient and effective.
- An effective and successful fiscal management.
- A transparent operation of the central government and a simplified organisation.
- Providing the central government with a first-rate staff in a good working environment.
- The Ministry should provide an effective service with an emphasis on professionalism.

The Ministry's view of the future may be summarised as follows:

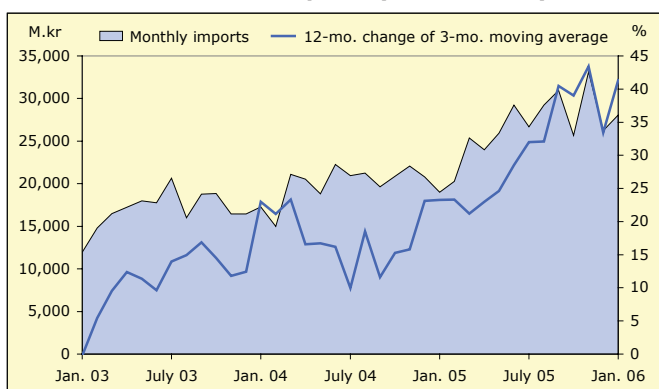
- The Ministry will endeavour to improve the competitiveness of Icelandic society and contribute towards an improving standard of living in the country.
- The Ministry wishes to provide an arena for new ideas and methods for dealing with public tasks.
- The Ministry will endeavour to be a sought-after workplace with a qualified and well-educated staff.

Imports in January 2006

Provisional data on imports in January indicate that merchandise imports amounted to 25.5 billion krónur in that month. The twelve-month increase, based on a three-month moving average, was 41 per cent.

January imports are generally lower than in the previous month. This time it increased by 2.5 billion, but excluding ships and aircraft the increase was slightly lower. Fuel imports constitute an important part of the increase in imports between months. Imports of processed intermediate goods increased also. Imports of consumer goods declined somewhat in January, a seasonal fluctuation following the Christmas period. Automobile imports remained constant but they still remain at a fairly high level in view of previous years. Imports of commercial motor vehicles increased on the other hand at a significant pace. Imports of investment goods declined slightly from the previous month, although they were higher than in January 2005.

Merchandise imports (in real terms)



All told, imports appear to be continuing at a high level in January and show no signs of abating in the near future. The import growth pace is generally expected to slow down in the course of this year in line with decelerating power project construction activity and the expected decline in the exchange rate.

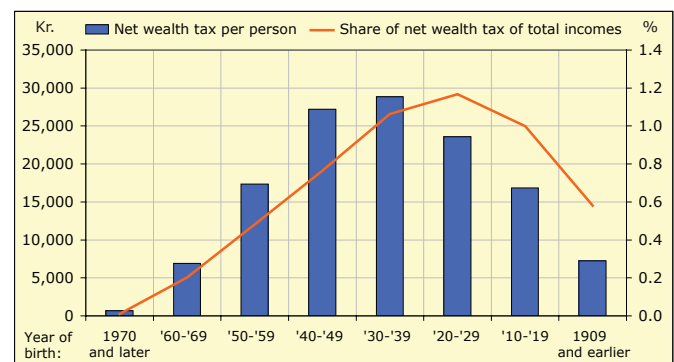
The abolition of the net wealth tax increases disposable income for senior citizens considerably

As noted before, the net wealth tax was abolished as of the end of last year. The Minister of Finance recently replied to a parliamentary question on the share of senior citizens in the payment of the net wealth tax. In his reply, it was observed that at the last tax assessment, persons 67 years and older were billed for 650 million krónur in net wealth tax out of a total of 2.8 billion assessed for all individuals.

As in many other countries, Icelanders accumulate assets as they get older. This applies less to the presently eldest generation, persons born before 1930, who generally are less wealthy than subsequent generations. This is partly due to the fact that when the eldest generation was at the age when people tend to accumulate assets most, there were fewer forms of saving available, since savings could not be protected from inflation by indexation. The nation was at that time also less well off.

The following graph shows the importance of the abolition of the net wealth tax for senior citizens. Although the net wealth tax per person was highest amongst sixty- and seventy-year-olds, it was a higher proportion of income amongst those who were older due to their lower incomes. The net wealth tax imposed on persons born before 1930 amounted to 1.2 per cent of their total incomes. The abolition of the tax increases the disposable incomes of a married couple in this age group by 1.1 per cent and for single persons by 1.7 per cent.

Net wealth tax in 2005 by age group



Forecast of labour supply in 2006

The Ministry of Finance forecasts the supply of labour as a part of its national economic forecast. This forecast is the basis for the unemployment rate that the Labour Office publishes every month. The forecast is calculated in man-years which represent an assessment of labour supply. For this year, the Ministry forecasts a 3.0 per cent increase in the labour force (the sum of those employed as well as unemployed). The labour force rose by 4 per cent in 2005, somewhat more than had been forecast at the beginning of the year. For this year, the increase consists of the natural increase in the number of persons of working age and imports of labour to the east coast. The labour supply is subject to a seasonal fluctuation. It is at its lowest over the winter months and highest during summer. Further information may be found in a [table](#) that shows the estimated labour supply in man-years by region, gender and months.

Treasury revenue, January-December	2003-2004	2004-2005
12 month changes (%)		
Total tax revenue	13.1	20.7
Income taxes	10.7	22.7
Social security taxes	11.1	16.2
Asset taxes	38.8	23.7
Indirect taxes	13.4	20.3
Total revenue	8.1	42.2

Treasury expenditure, January-December	2003-2004	2004-2005
12 month changes (%)		
Administration	3.7	7.9
Social affairs	6.4	6.9
Economic affairs	2.6	4.7
Interest	-12.5	35.2
Other	3.2	49.3
Total expenditure	4.3	10.0

Treasury finances, January-December	2004	2005
Million krónur		
Cash from operations	-292	32,014
Net financial balance	22,408	81,888
Debt redemption	-32,477	-62,305
Gross borr. requirement	-17,569	14,101
Net borrowing	25,867	10,234
Overall cash balance	8,298	24,335

Economic indicators	2004-2005	2005-2006
12 month changes (%)		
Inflation (Jan. '06)	4.0	4.4
Core inflation (Jan. '06)	4.0	4.3
Wage index (Dec. '05)	6.0	7.2
Total turnover (Jan. - Oct. '05)	10.0	9.5
Retail turnover (Jan. - Oct. '05)	4.5	5.2
Unemployment rate (Dec. '05)	2.7	1.7