

# English translation of the Weekly Web Release



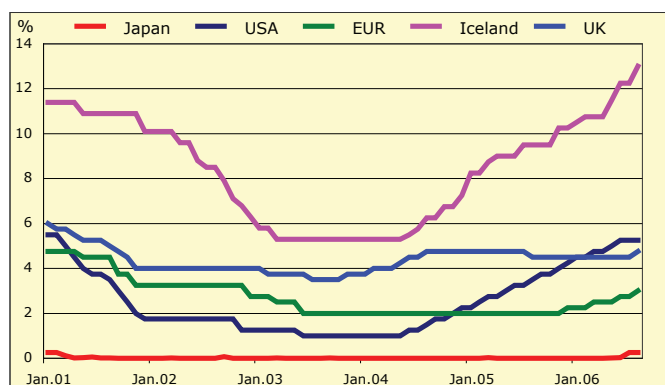
MINISTRY OF FINANCE IN ICELAND

August 17<sup>th</sup> 2006

## Policy rates are increasing

Iceland's policy interest rate has been raised sharply in response to imbalances in the economy, to 13.5 per cent. Policy rates of major trading partners have also been on the increase in recent years. The US rate has risen steadily over the past two years on inflation concerns. At 5.25 per cent, the rates are expected to be reducing inflation. Inflation prospects have deteriorated in the Euro-area, following an economic turnaround in Germany and faster growth in France. Inflation is currently slight above the target of the European Central Bank. The Bank's policy rate has been rising since the winter months of 2005 and is now 3 per cent. The Japanese economy is showing clear signs of recovery following a 15-year period of stagnation. The Bank of Japan has recently raised its policy rate from zero to 0.25 per cent. At the beginning of August, the Bank of England raised its policy rate unexpectedly to 4.75 per cent, after inflation exceeded target.

Policy rates in selected countries



## Reports of international institutions on the economy

The International Monetary Fund and the OECD have both recently issued reports on the Icelandic economy. These reports are issued regularly in order to stimulate discussion on the state of the economy and make policy recommendations to the authorities. The work of these institutions is also aimed at improving the international economy by promoting world economic growth and prevent instability in financial markets. Although these reports have much in common they are also dissimilar. The OECD places emphasis on increasing sustainable growth in its member countries, whereas the IMF emphasises policies that promote stability in the international financial system. These contributions are important to the domestic debate and every reason to carefully note their assessments and recommendations.

[The OECD Economic Surveys](#) for individual member countries contain detailed analysis of the economy. In addition to analysis of economic situation and outlook and economic policies, the report contains a analysis and recommendations of the structure and impact of individual markets and the efficacy in the provision of important public services. Such structural analysis is based on a systematic comparison of the experience of the thirty developed, market-based democratic countries that make up the OECD. The review process begins with a detailed gathering of background data that involves a series of meetings with a broad group of persons and institutions in the member country that deal with and influence economic developments. A draft report of the OECD is then discussed in the OECD's Economic Development Review Committee, where the economic policies and economic structure are assessed every 18-24 months by representatives of all the member countries. The process is termed a Peer Review, and the final report reflects the joint opinion of all member countries concerning the country under examination. The government experts of the country get a chance to answer questions from committee members and present the views of authorities before the

report is published. The Ministry of Finance looks after Iceland's relations with the OECD.

[The IMF Staff Reports](#) for individual member countries contain detailed analysis of economic policies and the functioning of the financial system. The report is based on a comparable preparation as described above. The IMF issued its country reports at an interval of one to two years for most countries in the world. The preliminary findings of the IMF missions to member countries are presented to the media at the conclusion of the mission. A report is then written and discussed by the IMF Executive Board before it is agreed to for publication. Representatives of the country being examined have an opportunity to present the views of their authorities in this process. The Central Bank of Iceland looks after Iceland's relations with the IMF.

## Where do young people work?

Statistics Iceland has recently published a statistics on the labour market based on income tax proceeds. These data are the best sources of information in this regard.

It is instructive to see what sectors young people choose to find jobs having completed their education. One of the main characteristics of the Icelandic labour market is that most people have worked alongside school, during recesses as well as part-time jobs. By the time people reach their thirties, they tend to choose carriers in areas where they have received their training. Between 2000 and 2005 the number of men in the labor market below the age of 30 remained unchanged. The number of those under the age of 20 has declined by 615 or 9 per cent but increased by about the same number in the 20-30 age group. The number of young women under 30 has increased by 870, about 4 per cent.

Young peoples' carrier choices depend on education, gender and last but not least upon the demand for labour in individual sectors. It is therefore not surprising that not many young people choose to go into sectors such as fisheries, where the number of workers has declined by 1,760 or 28 per cent. In actual fact, the number of men below the age of 30 declined by 450 over this period, or about 40 per cent.

The number of young men has increased by more than 100 in 12 sectors and the same applies to women.

General construction attracts most men under the age of 30. The number of workers in the construction industry has increased by 28 per cent in the past five years, but the increase in the number of young men is slightly less in relative terms. This is because a high proportion of imported workers are over 30. The development of the construction industry is therefore not a good example of the general trend of career choice among people who have been raised in this country. The second sector in terms of labour of young men is large retail markets and food stores; their number has increased by 500 or one-fourth. Fisheries came in second in 2000 but had fallen to fifth place in 2005. The third sector consists of restaurants where about 1,000 young men work, a number that has decreased slightly. The number of young men has increased by about 200 in non-resident social services (such as pre-primary school and social care centres), in specialised shops and slightly less in elementary schools. The number of young men has more than doubled in all of these sectors.

The participation of women in the labour market is developing somewhat differently from men. The most populous sector for young women is the non-resident social services sector where their number has increased by more than 400 or one-fourth. The second sector is large retail markets and food shops, as with men, where their number has not increased much, with restaurants in third place. The number of young women has increased most in elementary schools, by 300 or 46 per cent.

Treasury revenue January-June			Treasury expenditure January-June			Treasury finances January-June			Economic indicators		
12 month changes (%)	2005	2006	12 month changes (%)	2005	2006	Million krónur	2005	2006	12 month changes (%)	2005	2006
Total tax revenue	18.7	16.3	General public services	29.1	-20.0	Cash from operations	15,536	29,706	Inflation (August)	3.7	8.6
Taxes on income & profit	15.5	33.5	Health	10.5	6.3	Net financial balance	25,915	27,498	Core inflation (August)	4.0	7.6
Taxes on property	56.8	-27.3	Social security & welfare	-0.7	6.0	Debt redemption	-30,002	-38,873	Wage index (June)	6.3	8.8
Taxes on goods & services	18.9	9.8	Economic affairs	0.5	-0.4	Gross borr. requirement	-5,988	-13,355	Total turnover (Jan. - April)	5.8	11.9
Social contributions	15.8	15.3	Education	17.7	9.7	Net borrowing	9,579	16,246	Retail turnover (Jan. - April)	3.9	6.2
Total revenue	23.9	10.4	Total expenditure	9.7	0.8	Overall cash balance	3,591	2,890	Unemployment rate, sa (July)	2.0	1.4