

English translation of the Weekly Web Release



MINISTRY OF FINANCE IN ICELAND

March 30th 2006

Treasury finances, January-February 2006

[The Treasury cash accounts](#) for the first two months of this year are now at hand. Comparisons between years should bear in mind that a comparison with earlier years is difficult since large sums may shift between months.

Cash on hand from operations increased by 23.4 billion krónur in the first two months, 9.4 billion more than at the same time a year ago and 11.4 billion more than the month-to-month projections for this year indicated. Revenue exceeded last year's figure by 11.5 billion and expenditure by 2.1 billion. The net financial surplus amounted to 20.9 billion, 2.9 billion more than at the same time last year.

Treasury revenue amounted to 72.2 billion, an increase of 11.5 billion or 19 per cent from last year. Taking into account a shift in the collection of the corporate income tax, the increase amounted to 13.6 per cent. Revenue from taxes and social security contributions amounted to 65.3 billion, an increase of 13.8 per cent. Inflation was 4.2 per cent at the same time, leaving a real increase of 9.1 per cent.

Taxes on income and profits amounted to 33.2 billion, increasing by 10.4 billion or 45.8 per cent. The capital income tax yielded 13.9 billion, rising by 48.5 per cent. The 4.6 billion increase in the corporate income tax is largely due to a shift between months. Social security contributions increased by 15.5 per cent, whereas the wage index of Statistics Iceland rose at the same time by 8.5 per cent. Revenue from the tax on assets and net wealth amounted to 2 billion, a decline of 15.3 per cent, mostly on account of less revenue from the stamp tax which declined by 14.6 per cent. This decline is partly due to a reduced rate of debt conversion.

Indirect taxes yielded 27 billion, an increase of 1.3 per cent in nominal terms and a decline of 2.9 per cent in real terms. The decline is due to a change in legislation related to the collection of indirect taxes that provided for an extended due date for value added tax and import duty returns. This change explains a 2.8 per cent decline in revenue from the value added tax between years. The excise tax on motor vehicles at the point of import rose by more than one-fifth between years. This increase is lower than in recent months. New vehicle registration rose by 24.6 per cent in the first two months of this year, whereas a year ago the increase was 79 per cent.

Treasury expenditure amounted to 50 billion, increasing by 2.1 billion from last year or by 4.3 per cent. The monthly statements of the Treasury are now for the first time published in accordance with the new COFOG standard of the United Nations. Expenditure in the category of social security and welfare increased by 1.1 billion, health spending rose by 0.9 billion and an increase of 0.8 billion went to

education. Health and social security account for more than a half of total spending. The increases are partially offset by a 1.1 billion decline in spending on general services, which is fully accounted for by a 1.8 billion decline in interest payment on government debt. In January 2005 a large savings bond issue was redeemed along with accrued interest which led to a 1.2 billion interest payment in that month. Furthermore, redemptions of foreign debt led an interest payment of 0.9 billion last year.

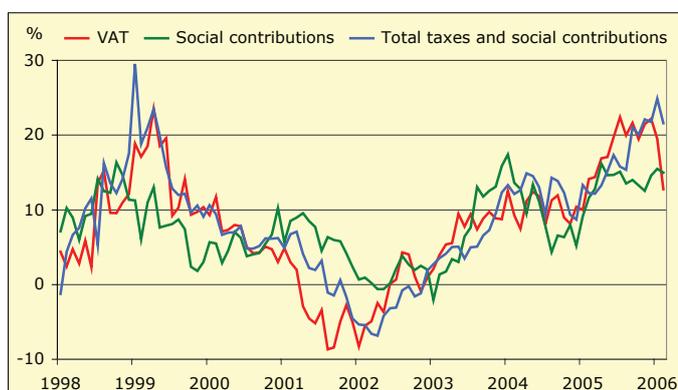
Public service, competition and separation of accounts

The Minister of Finance has issued a regulation on the separation of accounts for undertakings that, in addition to other operations, are granted special rights, or entrusted to provide services of general economic interest in accordance with Article 59 of Act No 2/1993 on the European Economic Area. The regulation may be obtained [here](#) (in Icelandic). The regulation is issued in order to implement the so-called "transparency directive" of the European Union, which dates back to 1980. The directive, with later amendments, stipulates that undertakings which, in addition to other operations, are granted special rights, or who are entrusted with the provision of services of general economic interest in accordance with Article 59 of the EEA Agreement, shall maintain a separation of accounts. The purpose of the directive is to ensure that public financing which the undertaking in question receives, in order to fulfil the public service obligation, does not go into other operations of the undertaking which might be in competition on the market and that the undertaking does not subsidise its other activities with public funding. A duty is therefore imposed on such an undertaking to financially separate its activities in its accounts. The above-mentioned regulation is in line with the policy of the Government on government agencies and competition. In the year 1997 the Government approved a policy whereby it ordered that competitive operations of government agencies should be financially separated from other operations of the same agency. The policy also included guidelines as to when a financial separation should apply. The Ministry of Finance subsequently issued guidelines to agencies regarding a financial separation. These guidelines are still in effect and have recently been revised in line with changes in government accounting practices and systems. They can be obtained [here](#) (in Icelandic).

Are present rules regarding the implementation of the fiscal budget adequate?

The issue of a regulation in 2001 (revised in 2004, [no. 1061/2004](#)) was an important step in the direction of a comprehensive framework for nearly all aspects of fiscal budget implementation. The regulation is based on Chapter 4 of the Government Financial Reporting Act which deals with fiscal budget implementation. Other regulations that are based on the same Act and deal with the implementation of the fiscal budget are Regulation no. 262/1999 that deals with operational contracts lasting more than one year and Regulation no. 83/2000 that deals with lending and short-term claims and liabilities of government agencies. The Ministry of Finance has also issued a manual that covers the division of tasks, procedure paths, the drawing up of plans and other individual aspects of fiscal budget implementation. According to regulations regarding fiscal budget implementation, it falls within the role of the Ministry to report to the Cabinet and the Althingi on the finances of agencies on a quarterly basis. At the same time, information is requested from other ministries regarding measures that are necessary regarding individual budget items. Present regulations must therefore be deemed to be adequate. There are no particular plans to amend regulations regarding the implementation of the fiscal budget. Emphasis will rather be placed upon implementing present regulations, both in respect of ministries and agencies.

Treasury revenue January 1998 - February 2006



Treasury revenue January-February	2004-2005	2005-2006
12 month changes (%)		
Total tax revenue	25.6	19.4
Taxes on income & profit	27.9	45.8
Taxes on property	50.7	-15.3
Taxes on goods & services	22.7	1.3
Social contributions	23.0	15.5
Total revenue	24.6	19.0

Treasury expenditure January-February	2004-2005	2005-2006
12 month changes (%)		
General public services	10.3	-14.3
Health	10.9	7.3
Social security & welfare	1.6	10.6
Economic affairs	-1.1	-4.5
Education	14.5	13.4
Total expenditure	6.7	4.3

Treasury finances January-February	2005	2006
12 month changes (%)		
Cash from operations	13,938	23,361
Net financial balance	17,948	20,892
Debt redemption	-11,215	-8,064
Gross borr. requirement	6,233	12,168
Net borrowing	1,016	1,532
Overall cash balance	7,249	13,700

Economic indicators	2004-2005	2005-2006
12 month changes (%)		
Inflation (March '06)	4.7	4.5
Core inflation (March '06)	4.7	4.2
Wage index (Feb. '06)	6.7	8.6
Total turnover (Jan. - Dec. '05)	12.2	8.9
Retail turnover (Jan. - Dec. '05)	5.1	5.5
Unemployment rate (Feb. '06)	2.4	1.2