

English translation of the Weekly Web Release



MINISTRY OF FINANCE IN ICELAND

August 31st 2006

Treasury finances, January-July 2006

Data for [Treasury finances](#) for January-July 2006 are now available. Cash flow figures show a cash surplus of 36.5 billion krónur, 31.9 billion more than in the first seven months of last year and 39.1 billion more than the cash projection within this year indicated. Revenue exceeded last year's figure by 30 billion krónur whereas expenditure declined by close to 3 billion. The net financial surplus amounted to 34.1 billion krónur compared with 15.8 billion a year ago.

Treasury revenue amounted to 216 billion krónur in the first seven months of the year, 30 billion more than a year ago, an increase of 16.4 per cent. If account is taken of a shift between months in the collection of the corporate income tax, the increase amounts to 14.7 per cent. Tax revenue, including social security contributions, increased by close to 20 per cent in nominal terms at the same time as general price increases amounted to 6.1 per cent, leaving a real increase of about 13 per cent. Other current revenue declined by 30 per cent due to the disappearance of dividend payments from Iceland Telecom which was privatised last year.

Taxes on income and profits amounted to 73 billion krónur and increased by 21 billion or 40 per cent. Revenue from personal income tax rose by 20 per cent, from corporate income tax by 105 per cent (adjusting for the above-mentioned collection shift) and by 43 per cent from capital income tax. Revenue from social security contributions increased by 16 per cent or close to 7 per cent in excess of the increase in the wage index. Proceeds from taxes on asset transactions amounted to 5.8 billion, a decline of 30 per cent. Of this amount, the stamp tax yielded 4½ billion, a decline of 19 per cent, in part because debt conversions have declined.

Revenue from indirect taxes amounted to 100 billion krónur in the first seven months of the year and increased by 16 per cent in nominal terms or by 10 per cent in real terms, as measured by the consumer price index. The value added tax yielded 18 per cent more, 11 per cent in real terms. This year, the collection dates of the value added tax and import duties were amended. A comparison between years is therefore not as significant as before. A moving average of the past several months indicates that there has been a significant slowdown in the growth of revenue from indirect taxes. The excise tax on motor vehicles at the point of import yielded 12 per cent more in the first seven months of this year than a year ago. New vehicle registrations in July of this year were only half of the figure in July 2005. The cumulative figures for new vehicle registrations from the beginning of 2006 have ceased to increase and have in fact declined by 4 per cent, the first decline since 2002.

Treasury expenditures amounted to 178.3 billion krónur and declined by 2.7 billion between years or by 1.5 per cent. Interest payments declined by 8.1 billion, largely because a large issue of savings bonds matured in April, 2005 along with accumulated interest. Payments for social security decline by 2.9 billion, mainly because interest credits were paid in July last year but not until August this year. That accounts for a difference of 4 billion krónur. In addition, unemployment compensation declined by 1 billion from last year. These declines in payments were offset by increases in pension and health insurance.

Excluding interest payments and interest tax credits, total expenditure increased by 9.5 billion or 5.8 per cent, mostly on account of a 2.8 billion increase for health and 2 billion for education. Payments for general public services increased by 1.6 billion and by 1.2 billion for social services and welfare. Payments for law enforcement and justice rose by 1 billion whereas outlays for the category of economic affairs remained unchanged.

Gross borrowing amounted to 19.7 billion and repayments to 35.1 billion. The difference is financed out of liquidity.

The equity contribution of the Treasury to the Business Venture Fund increased by 1 billion krónur and 2.3 billion were paid to the Government Employees Pension Fund in order to reduce the future commitments of the Treasury to the Fund.

Treasury revenue January-July		
12 month changes (%)	2005	2006
Total tax revenue	18.7	21.6
Taxes on income & profit	15.2	39.7
Taxes on property	49.8	-29.5
Taxes on goods & services	19.4	16.3
Social contributions	16.2	16.0
Total revenue	23.0	16.4

Treasury expenditure January-July		
12 month changes (%)	2005	2006
General public services	24.3	-18.2
Health	11.4	6.1
Social security & welfare	1.1	-6.8
Economic affairs	-1.6	-0.9
Education	18.8	11.0
Total expenditure	9.1	-1.5

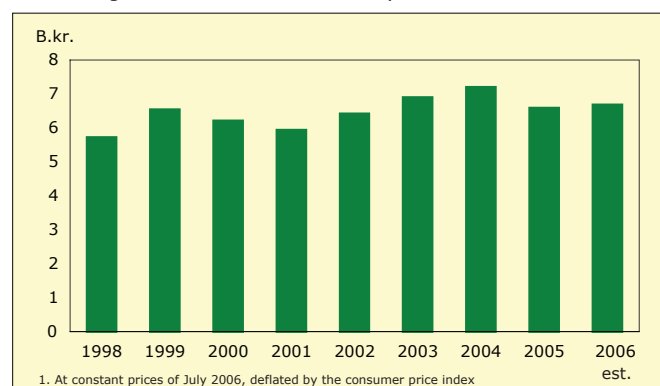
Treasury finances January-July		
Million krónur	2005	2006
Cash from operations	4,596	36,500
Net financial balance	15,802	34,116
Debt redemption	-33,343	-35,088
Gross borr. requirement	-19,790	-3,282
Net borrowing	13,305	19,735
Overall cash balance	-6,486	16,453

Economic indicators		
12 month changes (%)	2005	2006
Inflation (August)	3.7	8.6
Core inflation (August)	4.0	7.6
Wage index (July)	6.6	10.2
Total turnover (Jan. - April)	5.8	11.9
Retail turnover (Jan. - April)	3.9	6.2
Unemployment rate, sa (July)	2.0	1.4

Drug costs of the Social Security Institute

The report of the National Audit Office on drug costs issued in March 2004 estimated that the government and the public paid a total of 14 billion krónur for drugs in 2003. The government paid an estimated 67 per cent of drug costs in that year, a proportion that has remained stable in recent years. The share of the government is on one hand paid through the Social Security Institute (SSI) and on the other with appropriations to hospitals. The cost-sharing of the SSI in prescription drugs amounted to 6,590 million krónur in 2005, calculated at July 2006 prices by the consumer price index. The 2006 amount is expected to be slightly higher, 6.7 billion. The change is largely due to increased costs of new drugs in addition to exchange rate changes. Measured at constant prices, drug costs amounted to 5.7 billion in 1998, thus increasing by close to 17 per cent up to the 2006 estimate of the SSI.

Drug costs of the Social Security Institute 1998-2006¹



Following a significant increase in drug costs of the SSI between 1998 and 1999, costs declined in 2000 and 2001. Between 2001 and 2004, the cost of drugs increased by an average of 7 per cent a year. Drug costs have declined since 2004, both because the exchange rate has developed favourably and also because the government health authorities reached an agreement with drug importers to reduce drug costs to a level that is similar to that prevailing in neighbouring countries.

Expenditure on road construction

Expenditure on road construction increased by 17.5 per cent in real terms in the period from 1998 to 2006. At the same time, the share of road construction in total Treasury investment has increased considerably, or from 25.4 per cent of the total in 1998 to 44.6 per cent in the 2006 fiscal budget. The chart below shows the share of road construction in total Treasury investment expenditure since 1998.

Road construction in Treasury investment expenditure 1998-2006

