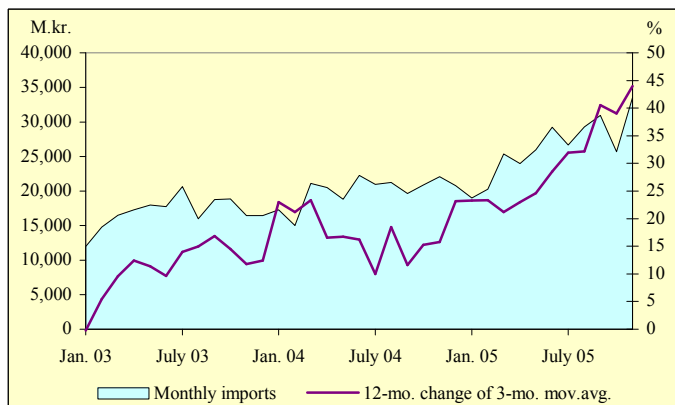


December 8, 2005

Merchandise imports in November

November merchandise imports amounted to 27.5 billion krónur, excluding ships and aircraft, according to provisional information derived from value added tax data. This turns out to be a record import month this year, topping both June and September. Imports exceed those of November a year ago by 52 per cent in real terms. The average imports of the past three months exceed those of a year ago by 44 per cent on the same basis. This is a record increase for recent years.

Merchandise imports (in real terms)



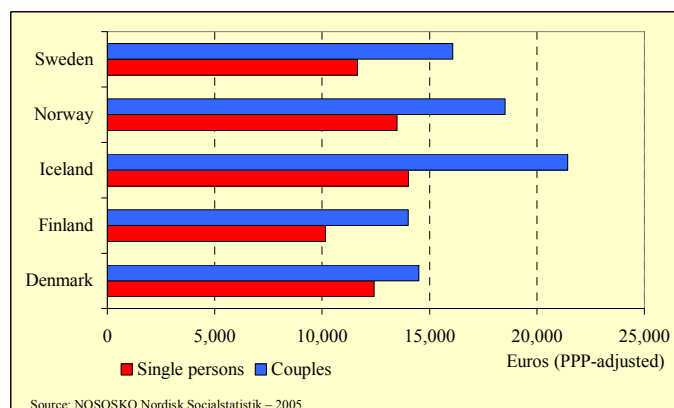
If the preliminary data is added to the imports in the first ten months of this year, the value of imports in real terms is more than a third higher than during the same period a year ago. There are a number of reasons for this sharp increase. Imports of investment goods have increased rapidly, mostly on account of power project and aluminium plant investments. Increases in the price of oil have also had an impact on the import bill. Moreover, components of private consumption have also contributed to increased imports, particularly a sharp rise in motor vehicle imports and durable and semi-durable consumer items such as household appliances, clothing, etc. It should be kept in mind that the increase in imports of motor vehicles and consumer goods has mainly been a volume increase, as the high exchange rate has served to keep price increases in check.

Disposable income of older persons highest in Iceland amongst Nordic countries

According to the latest survey of [NOSOSKO](#) – Nordisk Socialstatistik (Nordic Social Statistics), covering income in 2002, disposable income after tax of older persons is highest in Iceland amongst Nordic countries. In this comparison, an adjustment is made for purchasing power parities in euros, i.e. account is taken of price levels in each country.

The data are based on average taxable income of older persons, including income from employment, capital and pensions. The data are collated from tax returns. It should be emphasised the figures are averages whereas income within the age group can be quite disparate. As may be seen in the accompanying graph, older married or co-habiting persons have considerably higher income in Iceland than in other Nordic countries. The same applies to single persons in Iceland. They have the highest income

Disposable income of persons older than 65/67 years



in their group, ahead of Norway which is in second place. It should be noted that the state of incomes can be quite different within individual countries. The main reason why the disposable income of older persons is higher in Iceland is that taxes are lower and the labour force participation of older persons is considerably higher than in the other Nordic countries. It should also be noted that the income guarantee supplement of Iceland's Social Security Institute was doubled in 2002. Today, about 8,000 pensioners receive a part of the income guarantee supplement.

The 2005 supplementary fiscal budget and the 2006 fiscal budget become law

Last week, the 2005 supplementary fiscal budget was passed by the Althingi and the 2006 fiscal budget was passed this week. The 2005 supplementary fiscal budget anticipates a 91 billion krónur revenue surplus for the Treasury for 2005 as a whole (including the original 2005 fiscal budget). Excluding the profit from asset sales, the surplus is estimated at 33 billion or 3.4 per cent of GDP. The financial surplus is expected to amount to 100 billion krónur, of which 60 billion are being used to repay foreign debt and 40 billion deposited with the Central Bank. A total of 32 billion of the Treasury's funds with the Central Bank will be in the form of special debentures that will mature in line with the Treasury's planned use of proceeds from the sale of Iceland Telecom. The Treasury has thus kept a sizeable sum, 100 billion krónur, out of circulation in the economy and thereby contributed to restraint in domestic demand.

The 2006 fiscal budget was passed with a 19.6 billion krónur revenue surplus, equivalent to about 2 per cent of GDP. Debt is expected to decline by 11.4 billion next year. As a sizeable surplus is expected in 2006, public finances will thus continue to contribute to the restraint of domestic demand in spite of the cut in the personal income tax rate.

The 2006 fiscal budget was passed without amendments under its third reading by the Althingi. All amendments took place during the second reading which took place on November 24th. This is the third year in succession when all amendments were concentrated into the second reading of the budget. This is due to changed work methods of the budget committee of the Althingi which in turn is a part of a firmer fiscal policy pursued by the Government.

Treasury revenue, January-October			Treasury expenditure, January-October			Treasury finances, January-October			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	14.9	20.8	Administration	7.2	4.9	Cash from operations	-2,848	20,294	Inflation – Nov.	3.8	4.2
Income taxes	19.8	22.6	Social affairs	8.3	7.0	Net financial balance	6,425	68,671	Core inflation – Nov.	3.3	4.6
Social security taxes	10.3	15.6	Economic affairs	7.4	-3.3	Debt redemption	-30,856	-61,557	Wage index – Oct.	5.3	6.9
Asset taxes	25.9	35.4	Interest	-8.0	41.8	Gross borr. requirement	-30,680	3,814	Total turnover – Jan.-Aug.	9.6	9.2
Indirect taxes	12.6	19.6	Other	-0.6	76.4	Net borrowing	30,408	9,048	Retail turnover – Jan.-Aug.	4.3	6.3
Total revenue	8.1	47.2	Total expenditure	6.7	10.0	Overall cash balance	-272	12,862	Unemployment (%) – Oct.	2.7	1.4