

# English translation of the Weekly Web Release



MINISTRY OF FINANCE IN ICELAND

March 2<sup>nd</sup> 2006

## Treasury finances, January 2006

Figures for [Treasury finances](#) in January of this year are now at hand. Since the figures are on a *cash basis* and cover only one month, the comparison with the same month a year ago includes uncertainty due to transfers between months which applies to both revenue and expenditure. This may result in exceptional changes in individual items.

The surplus of cash from operations amounted to 13.9 billion krónur, 11.3 billion more than in January a year ago and 9.9 billion krónur in excess of what was projected at the time of the passage of the budget. Revenue exceeded last year's figure by 11.2 billion, whereas expenditure rose by only 0.2 billion krónur. Transactions on short-term account yielded a small surplus, 0.2 billion, and the net financial surplus amounted to 12.8 billion, 7 billion krónur more than last year. The improvement in the financial surplus is entirely due to increased revenue.

The total income of the Treasury amounted to 41.1 billion krónur in January and increased by 11.2 billion from a year earlier, or 37.6 per cent, but excluding the corporate income tax that shifts between months the increase amounted to 27 per cent. Thereof the tax revenue and social security amounted to 36 billion krónur, which is a 26 per cent nominal increase from the same month a year earlier. Over the same time, the consumer price index rose 4.4%, such that the increase in tax revenue and social security amounted to about 21 per cent in real terms.

Taxes on income and profits amounted to 25.4 billion krónur, increasing by 9 billion or 54.3 per cent from last year. The capital income tax amounted to 13.5 billion krónur, an increase of 53 per cent. The increase in the corporate income tax of 3.7 billion is in part due to a shift between months. Revenue from the social security tax rose by 15 per cent between years whereas the wage index increased by 8.3 per cent at the same time. Taxes on assets and net wealth rose by 0.8 billion krónur or 11.2 per cent, of which the stamp tax amounted to 0.5 billion. Revenue from the stamp duty declined by 27.4 per cent from January of last year, which clearly indicates that turnover in the real estate market and mortgage refinancing has declined.

Indirect taxes are generally a good indicator of the development of domestic demand. Revenue from indirect taxes rose by 14.2 per cent of which the value added tax yielded a 9.4 per cent increase which is equivalent to a 4.8 per cent increase in real terms. The excise tax on motor vehicles at the point of import showed an increase of one-fifth over January of last year. This is a sizeable increase, although it is less than in recent years.

Expenditure in January amounted to 25.5 billion krónur, an increase of 0.2 billion or 0.7 per cent over last year. The increase is wholly concentrated in social expenditure, i.e. pensions, social support, welfare and health, as well as in education. Expenditure for these categories accounts for 72 per cent of the total expenditure in January and increased by 1.7 billion or 10 per cent between years of which 0.7 billion krónur went to health and 0.5 billion to education. Expenditure on industries declined slightly and interest payments declined by 1.6 billion, thus offsetting the rise in social expenditures. The decline in interest payments is partly associated with the fact that 0.9 billion krónur was paid in interest on a foreign loan in January of last year.

Gross borrowing amounted to only 1.5 billion krónur as against 11.6 billion last year. In addition, short-term domestic debt was reduced by 4 billion krónur. The equity stake in the New Business Venture Fund was increased by 1 billion krónur, and 0.3 billion went to the Government Employees Pension Fund in order to prepay future pension commitments. Cash at hand increased by 10 billion krónur in January of this year.

The monthly statement of the Treasury is now presented with some changes. The classification of revenue has been revised in light of the new standard of the IMF. The new classification was first published last autumn in the Treasury accounts for 2004 and in the fiscal budget for 2006. Further information on the classification of revenue may be had from the Ministry's [website](#).

## Pensions in Iceland the highest amongst Nordic countries

Recently, an article was published here in the Weekly Web Release which showed that total disposable income of older persons was highest in Iceland amongst the Nordic countries. In that article, it was observed that labour market participation by older persons was higher in Iceland than in the other Nordic countries which in part could explain the difference. In this article, only pensions are compared.

The following data are from NOSOSKO (Nordisk Socialstatistisk Komité, 2005) for 2003 (Social trygghed i de nordiske lande 2003). A comparison is made of the old-age pensions in the Nordic countries, calculated in euros adjusted for purchasing power, i.e. when account is taken of prices in each country. The figures are based on monthly payments.

Chart 1 shows the old-age pension that the public social security system in each country guarantees as a minimum income. The minimum income figure for a couple is the highest for Iceland but average for single persons.

**Chart 1 Income (after tax) of old-age pensioners who never earned income from employment**

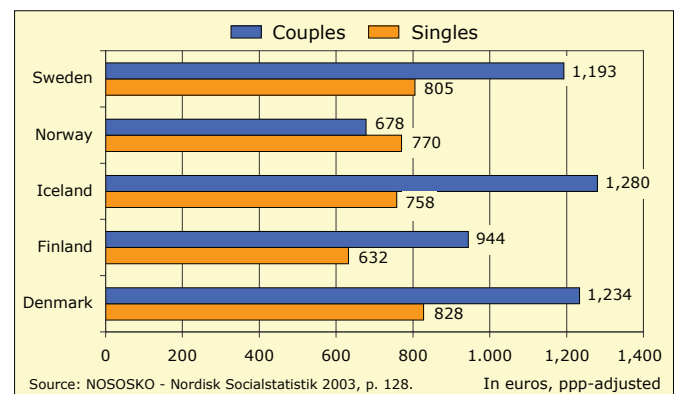
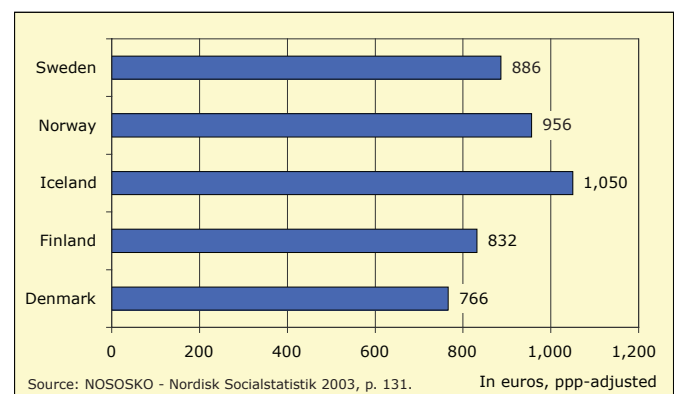


Chart 1 does not tell the whole story, since very few people in Iceland only have an old-age pension from the public social security system. Most older persons enjoy a higher income than the social security minimum. A comparison of actual per capita old-age pensions is more realistic.

As can be seen in Chart 2, old-age pensions before tax are highest in Iceland, slightly higher than in Norway which is in second place. These pensions combine payments from the pension funds with payments from the public social security system. It should be noted that all figures from NOSOSKO are averages. Actual pensions for each person can differ widely from the average.

**Chart 2 Old-age pensions per capita (before tax)**



Treasury revenue in January	2004-2005-2006	2004-2005-2006
12 month changes (%)	2005	2006
Total tax revenue	28.8	37.6
Income taxes	35.2	54.3
Social security taxes	60.7	11.2
Asset taxes	15.6	14.2
Indirect taxes	34.4	15.0
Total revenue	27.0	37.6

Treasury expenditure in January	2004-2005-2006	2004-2005-2006
12 month changes (%)	2005	2006
Administration	8.9	6.5
Social affairs	-1.6	10.1
Economic affairs	-19.8	-2.5
Interest	141.0	-76.6
Other	1.7	4.3
Total expenditure	2.4	0.7

Treasury finances in January	2005	2006
Million krónur		
Cash from operations	2,655	13,926
Net financial balance	5,874	12,849
Debt redemption	-11,135	-4,049
Gross borr. requirement	-5,261	8,470
Net borrowing	5,563	1,532
Overall cash balance	302	10,002

Economic indicators	2004-2005-2006	2004-2005-2006
12 month changes (%)	2005	2006
Inflation (Feb. '06)	4.5	4.1
Core inflation (Feb. '06)	4.5	3.8
Wage index (Jan. '06)	6.6	8.3
Total turnover (Jan. - Oct. '05)	10.0	9.5
Retail turnover (Jan. - Oct. '05)	4.5	5.2
Unemployment rate (Jan. '06)	2.6	1.2