

English translation of the Weekly Web Release



MINISTRY OF FINANCE IN ICELAND

September 7th 2006

The US dollar is the most common designated currency

The Annual Accounts Act was amended in 2002 to enable companies to apply to the Annual Accounts Registry that they can keep their accounts and draw up their annual accounts in a currency other than the Icelandic króna, should they see such other currency as their most common working currency. The designated currency shall be listed with the Central Bank or with the commercial bank of said company in this country. At present, there are 130 companies that have used this authorisation, an increase of 29 since 2004. Most companies have chosen the US dollar, the most common currency in international commerce. The following table shows their breakdown by currency.

Number of companies with a designated currency

| Currency | No. of companies ¹ | | Change |
|------------------------|-------------------------------|------|--------|
| | 2004 | 2006 | |
| US dollars | 66 | 84 | 18 |
| Euros | 25 | 31 | 6 |
| Pounds sterling | 8 | 8 | 0 |
| Other currencies | 2 | 7 | 5 |
| Total no. of companies | 101 | 130 | 29 |

1. End 2004 and August 2006.

The conditions that a company must fulfil in order to be authorised is that the bulk of its operations are abroad or that it is a part of a foreign group of companies or that it owns a foreign subsidiary with which it does most of its business. If most of its business is conducted here in this country, it must receive most of its income from abroad, having regard to the company's business and the relation of such business with a foreign business environment. Furthermore, companies that exceed a certain specified size of the Act and are thereby defined as large companies may receive such authorisation if its foreign liabilities are related to its investment in foreign investment goods.

Nine companies using a foreign designated currency are listed on Iceland Stock Exchange, five of which use the euro, two the US dollar and two the pound sterling.

The use of emissions trading in the Nordic countries

The Nordic Council of Ministers recently issued a report that discusses how the Nordic countries should approach the task of reducing greenhouse gas emissions. The report was written under the auspices of the Economic-Environment Working Group in co-operation with the Nordic Air Quality Committee.

In the report it is discussed how the Nordic countries expect to approach the establishment of a market in emission quotas as part of their general air quality policy, thereby deploying economic instruments to attain environmental goals. At present, a tax is imposed on carbon-dioxide emissions from energy production, and other energy taxes are also frequently used in the Nordic countries, for example on fuel. Furthermore, the public authorities have concluded voluntary agreements with individual sectors in addition to using subsidies and other support to stimulate the use of renewable energy sources and improve energy efficiency. The countries also intend to take advantage of the provisions of the Kyoto Protocol to enter into co-operative agreements with other countries for the purpose of reducing emissions.

All the Nordic countries intend to implement measures that are as efficient as possible and that will lead to as little economic disruption

as possible. It is also important that such measures do not lead to discrimination. This is no simple matter. There is every likelihood that the public authorities will have to purchase emission quotas abroad in order to achieve their goals. Failure could lead to considerable fines.

The report may be obtained from the Ministry of Finance and can be accessed on the website of the [Nordic Council of Ministers](#).

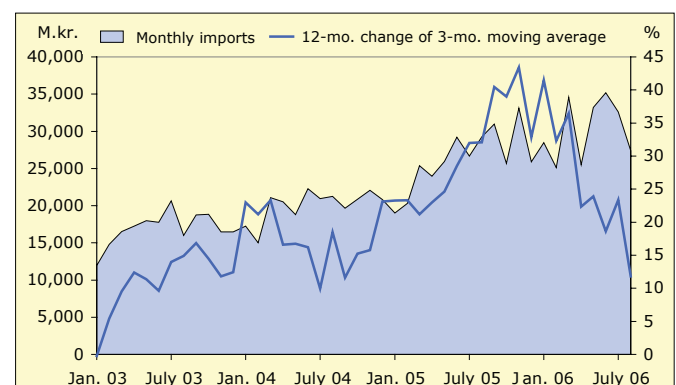
EU priorities in government aid 2005-2009

The EU Commission is in the process of setting out its priorities for government aid for the years 2005-2009. A new Commission has issued guidelines for the review of [government aid rules](#) for the period. The new guidelines place increased emphasis upon the assessment of the economic impact of government aid. In order to justify government aid, the general principle is that a market failure must be demonstrated in the absence of aid. A normal balance must be achieved between the positive impact of government aid and the conceivable negative impact of such aid upon competition. The long-term aim of the Commission is to reduce government aid amongst its member countries and make such aid more target-oriented. Based on these principles, all the guidelines in effect for government aid will be reviewed in the years 2005 to 2009, including aid to industries, research and development projects, environmental issues, innovation and start-ups, public-purpose services and aid to small and medium-sized enterprises. As part of the new guidelines, a review of regional aid was completed earlier this year, where the aim was to reduce such aid and make it more target-oriented. This is being followed by the EU and EFTA countries that currently are in the process of drawing up new regional maps that show in which areas regional aid is justifiable.

Merchandise imports in August

According to Statistics Iceland, the trade deficit amounted to 11.3 billion krónur in August. Merchandise exports amounted to 16.6 billion krónur and imports to 28.3 billion. The deficit declined from a month earlier when it was unusually large. Imports of investment goods declined by a third between months. Such imports have generally been about one-fourth of total imports in recent years. Fuel imports also declined; such imports tend to fluctuate widely between months. Imports of motor vehicles also declined slightly, whereas on a year-to-year basis they have declined by close to a third. Imports of durable consumer goods declined slightly from the previous months, whereas imports of semi-durable consumer goods (apparel etc.) rose slightly. Imports of raw materials and intermediate goods are still proceeding at a strong pace, increasing slightly from the previous month.

Volume of merchandise imports, January 2003 - August 2006



| Treasury revenue January-July | | | Treasury expenditure January-July | | | Treasury finances January-July | | | 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 | 21.6 | General public services | 24.3 | -18.2 | Cash from operations | 4,596 | 36,500 | Inflation (August) | 3.7 | 8.6 |
| Taxes on income & profit | 15.2 | 39.7 | Health | 11.4 | 6.1 | Net financial balance | 15,802 | 34,116 | Core inflation (August) | 4.0 | 7.6 |
| Taxes on property | 49.8 | -29.5 | Social security & welfare | 1.1 | -6.8 | Debt redemption | -33,343 | -35,088 | Wage index (July) | 6.6 | 10.2 |
| Taxes on goods & services | 19.4 | 16.3 | Economic affairs | -1.6 | -0.9 | Gross borr. requirement | -19,790 | -3,282 | Total turnover (Jan. - April) | 5.8 | 11.9 |
| Social contributions | 16.2 | 16.0 | Education | 18.8 | 11.0 | Net borrowing | 13,305 | 19,735 | Retail turnover (Jan. - April) | 3.9 | 6.2 |
| Total revenue | 23.0 | 16.4 | Total expenditure | 9.1 | -1.5 | Overall cash balance | -6,486 | 16,453 | Unemployment rate, sa (July) | 2.0 | 1.4 |