

# English translation of the Weekly Web Release



MINISTRY OF FINANCE IN ICELAND

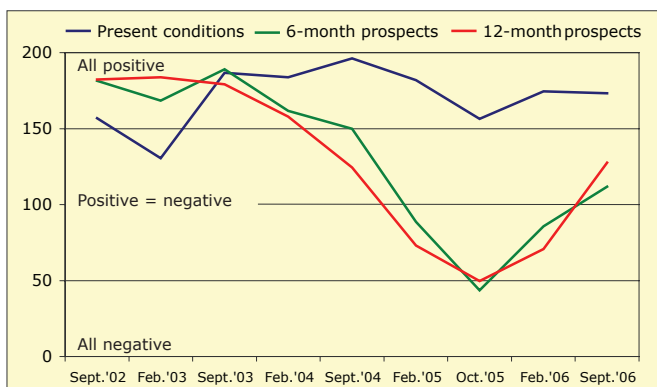
October 12<sup>th</sup> 2006

## New opinion survey on business confidence

Capacent Gallup has recently conducted its regular survey among Iceland's largest companies concerning their situation and outlook. The companies in the survey are selected on the basis of the size of total payrolls. The survey is conducted on behalf of the Ministry of Finance, the Central Bank, the Confederation of Employers and Capacent Gallup. The survey was conducted over the period from September 5<sup>th</sup> to September 27<sup>th</sup> with a response rate of 65%. A total of 258 companies responded from a final sample of 399 companies.

The managers of the companies think that the economic conditions are generally favourable and that they have improved in recent months. The confidence index, i.e. the share of those considering conditions to be good, currently stands at 173 points. In a survey in May 2006 the index stood at 162, having declined from the previous survey in February, when it was 175 points. The negative influence of the turbulence in financial markets therefore seems to have disappeared. Business leaders in regional Iceland think conditions there have improved while those in the Greater Reykjavík Area consider they have deteriorated even if still considered better than in regional Iceland. The confidence index in regional Iceland currently is about 167 points but was around 148 points in February. By comparison, the index in the Greater Reykjavík Area is currently 175 points compared to 185 points last February.

The confidence index



In general the businessmen have become more optimistic about the economic outlook. The confidence index for six months out is currently 112 points compared to 86 in February. The confidence index 12 months out currently stands at 128 points compared with only 71 points last February. The businessmen are therefore not as pessimistic as they were in the previous survey. Looking at individual sectors, companies in retail trade, transportation, tourism, finance and insurance are generally more optimistic for the next 12 months while more companies in construction and utilities are pessimistic than optimistic.

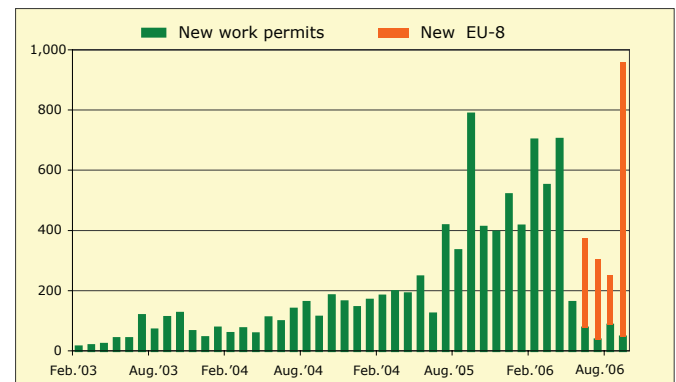
## Labour in-flow surpasses all records

The Labour Directorate published its monthly bulletin on the state of the labour market yesterday. The unemployment rate measures 1.0 per cent and hasn't been this low since September 2001. The seasonally adjusted rate is calculated at 1.2 per cent and has fallen by 0.1 percentage points from last month. From last September to this the unemployment had contracted more in the capital area than in the peripheral areas. The number of unemployed women had fallen more than the corresponding change for men.

The labour market is characterised by a constant in-flow of foreign labour and in September all earlier records were surpassed, with nearly one thousand new entrants. For the first nine months of this year about 4,400 new foreigners have entered the labour market. In comparison 3,900 foreigners entered the labour market for the whole

year in 2005. Before that the maximum number was in 2000 when 2,300 new foreigners entered the Icelandic labour market. To some extent the monthly figures are explained by the registration of persons who have already moved to Iceland as employers and the administration have been adjusting to new rules applying to the registration of foreign workers that came into force on May 1<sup>st</sup>. At that time persons from the new EU member states in Eastern Europe (EU-8) gained free access to the labour market. Since then the number of new work permits issued has fallen dramatically. On the other hand new registrations of Eastern Europeans have increased.

New foreign labour

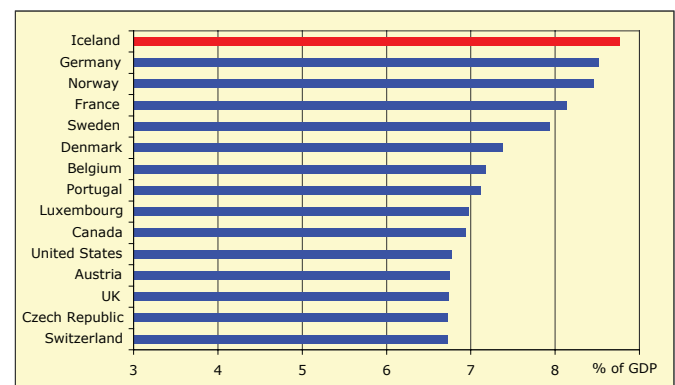


It can be mentioned that as immigration has been higher than was anticipated the unemployment rate is in reality lower than what The Labour Directorate measures. Due to this an upward revision of the size of the labour force is being considered, which other things being equal will lead to a lowering of the unemployment rate.

## Healthcare expenditures

According to recent data from the OECD, public expenditures on healthcare in per cent of GDP are highest in Iceland amongst OECD countries. Iceland's ratio is 8.8 per cent compared to the OECD average of 6.4 per cent. The share paid out of public funds for total healthcare costs is about 83.5 per cent in Iceland compared to an OECD average of 73 per cent. The chart below shows fifteen of the OECD countries with the highest share of healthcare costs paid out of the public purse, in per cent of GDP. Iceland has the fifth highest expenditure per capita in the OECD, with the USA on the top.

Public expenditure on health care



Treasury revenue January-August	
12 month changes (%)	2005 2006
Total tax revenue	18.5 14.9
Taxes on income & profit	15.7 29.7
Taxes on property	50.3 -33.3
Taxes on goods & services	18.6 10.5
Social contributions	16.6 15.5
Total revenue	21.1 12.2

Treasury expenditure January-August	
12 month changes (%)	2005 2006
General public services	22.1 -15.7
Health	7.9 7.6
Social security & welfare	3.5 5.2
Economic affairs	-4.0 1.9
Education	15.0 14.4
Total expenditure	7.6 2.9

Treasury finances January-August	
Million krónur	2005 2006
Cash from operations	16,298 35,558
Net financial balance	27,558 33,219
Debt redemption	-33,363 -32,592
Gross borr. requirement	-8,406 -2,013
Net borrowing	15,832 25,247
Overall cash balance	7,426 23,234

Economic indicators	
12 month changes (%)	2005 2006
Inflation (October)	4.6 7.2
Core inflation (October)	4.8 7.1
Wage index (August)	6.7 10.6
Total turnover (Jan. - June)	8.0 12.5
Retail turnover (Jan. - June)	6.4 5.1
Unemployment rate, sa (Sept.)	1.7 1.2