

English translation of the Weekly Web Release



MINISTRY OF FINANCE IN ICELAND

March 6th 2008

Treasury finances January 2008

Treasury finances in January 2008 yielded a surplus from operations of about 25.4 billion krónur, 1.9 billion more than a year earlier. The net financial deficit amounted to 24.4 billion, following a deficit of 6.8 billion in January 2007. Total financial transactions amounted to one billion krónur. The net financial balance was in a surplus of 24.4 billion, but was in deficit by 6.8 billion krónur a year before.

Treasury revenue amounted to 56.6 billion krónur, an increase of 9.3 per cent from January last year. Of this amount 54.2 billion were tax revenues and social security contributions that together increased by 9.5 per cent, equivalent to an increase of 3.7 per cent in real terms, after being deflated by general price increases. Other current revenues increased by 6.7 per cent, mostly on account of interest income and sales of goods and services.

Taxes on income and profit amounted to 31.7 billion krónur, increasing by 5.7 per cent from January of 2007. Revenue from the personal income tax amounted to 7.9 billion, decreasing by 9.6 per cent from a year earlier. Corporate tax amounted to 0.3 billion. Revenue from the capital income tax amounted to 23.5 billion and increased by 17.2 per cent. The collection of the capital income tax occurs mostly in January of each year. Taxes on assets and net wealth increased by 40 per cent and amounted to 0.8 billion of which the stamp tax yielded 0.6 billion.

The revenue from indirect taxes gives a good indication of the development of domestic demand. Total such revenue amounted to 17.1 billion krónur in January and increased by 17.2 per cent from the previous year in nominal terms and by 11.4 per cent in real terms, after being deflated by the consumer price index. The bulk of the revenue from indirect taxes stems from the value added tax, amounting to 12.5 billion, increasing by 18.7 per cent in nominal terms between years or by 12.9 per cent in real terms. Excise taxes on alcohol and tobacco decreased by 2.5 per cent in real terms. Other products were largely in line with general price increases. The excise tax on motor vehicles at the point of import increased by 90 per cent and the diesel oil tax by 1.7 per cent, whereas revenue from the petrol tax declined by 10.3 per cent in real terms. Revenue from customs duties increased by 14 per cent per cent between years and amounted to 0.8 billion krónur. Social security contributions amounted to 3.6 billion, much in line with the previous year.

Treasury expenditure amounted to 31.6 billion krónur and increased by 3.3 billion or 11.5 per cent. Expenditure for education amounted to 5.9 billion and increased by one billion or 21 per cent between years. The Icelandic Student Loan Fund has come under this item and amounted to 0.5 billion. Outlays to social security and welfare amounted to 6.3 billion and increased by 0.6 billion krónur or 11 per cent. Spending on health amounted to 7.6 billion and increased by 0.5 billion or 6.8 per cent. Expenditure on social security and welfare, health and education is up to two thirds of total expenditure.

Net lending of the Treasury was positive of 23.5 billion krónur in January 2008 on a gross basis and 24.4 billion on a net basis. Repayment of debt amounted to 0.6 billion. In January there was a payment of 3.5 billion króna Treasury bills.

Foreign merchandise trade in February 2008

According to Statistics Iceland, preliminary figures for merchandise imports amounted to 32 billion krónur which is a moderate decrease from the previous month when total imports amounted to 33.7 billion krónur. Merchandise exports amounted to 19.5 billion which is a substantial reduction from January and also less than last year's February exports. The deficit on the merchandise trade balance amounted to 12.5 billion krónur, which is an increase from last month's 9.5 billion krónur deficit.

When certain sections of imports- and exports are examined we notice that imports of cars for private use are substantially less than in

the previous month when they actually reached a historical peak. Imports of other transport equipment for private use is also down from the previous month as are imports of transport equipment for business activities. Imports of capital goods and food- and beverage goods decreased slightly but a considerable contraction took place in the importation of durable goods. On the other hand, imports of fuel and lubricants increased by 10 per cent and imports of industrial supplies increased by the same amount, due to a heavy increase in the importation of aluminium oxide scales. Imports of semi-durable goods (clothes, shoes, etc.) also increased.

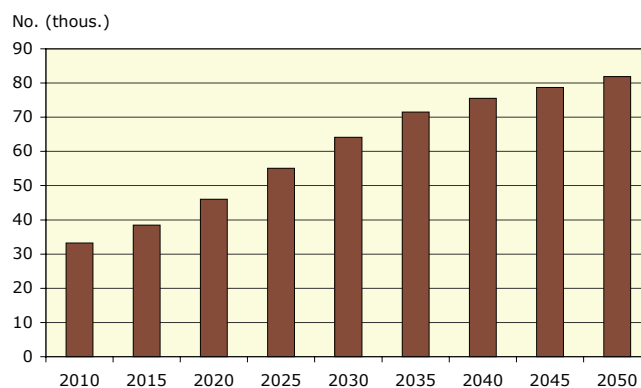
Exports of marine products is similar to the two previous months but the world price of marine products is high at the moment besides that the krona has devalued recently. Then again, exports of aluminium is quite less than in the previous month even though the world price of aluminium is high at the moment after the production in China has decreased recently because of difficult weather conditions.

As before is the estimation of the sub-sections of imports and exports is built on the Ministry's calculations but not on Statistics Iceland preliminary figures.

Development for population of old-age pensioners

Recently Iceland Statistics published forecast on the population development in Iceland to the year 2050. In that context it is interesting to examine the development for population of those who are old-age pensioners, that is 67 years and older. In Iceland the number of people who are 67 years and older is now 32 thousand, that is 10 per cent of the total population in Iceland. It is expected that the population in this age group will be 82 thousand by the year 2050 or about 19 per cent of the total population. It is predicted that life expectancy will rise considerably. Life expectancy is now 82.8 years for women and 78.9 years for men but in the year 2050 it is expected to be 87.1 years for women and 84.6 years for men. But then birthrate is expected to stagnate or even decrease. With this the population will be relatively older. The graph shows the development of the population aged 67 years and older to the year 2050.

The population aged 67 and older in 2010 – 2050



Source: Statistics Iceland

Due to this it can be expected that expenditure on public pensions will increase but it depends on the development on other means as private pensions entitlement. Iceland has a unique position as the private pensions will become a major part of the total pension income of old-age pensioners. It is also expected that expenditure on healthcare will increase due to larger population for those who are 67 years and older, especially when the population for those who are 80 years and older increases. Regularly the healthcare system and the public pensions are reviewed. In that context one must keep in mind whether future generations will live up to presumably increased expenditure where the nation is getting relatively older.

Treasury revenue January			Treasury expenditure January			Treasury finances January			Economic indicators 2007-2008		
12 month changes (%)	2007	2008	12 month changes (%)	2007	2008	Million krónur	2007	2008	12 month changes (%)	2007	2008
Total tax revenue	26.9	9.5	General public services	10.9	15.9	Cash from operations	23 518	25 410	Inflation (February)	7.4	6.8
Taxes on income & profit	17.8	5.7	Health	-0.4	6.8	Net financial balance	-6 824	24 359	Core inflation (February)	7.9	6.4
Taxes on property	-26.8	40.0	Social security & welfare	10.3	11.0	Debt redemption	-60	-576	Wage index (January)	10.1	6.2
Taxes on goods & services	56.2	17.2	Economic affairs	37.6	-7.6	Gross borr. requirement	-7 214	23 453	Total turnover (Jan. - Oct. '07)	13.5	8.3
Social contributions	15.7	0.8	Education	7.5	21.0	Net borrowing	31 861	-3 550	Retail turnover (Jan. - Oct. '07)	5.7	9.3
Total revenue	25.9	9.3	Total expenditure	11.1	11.5	Overall cash balance	24 647	19 903	Unemployment rate, sa (Jan.)	1.3	0.9