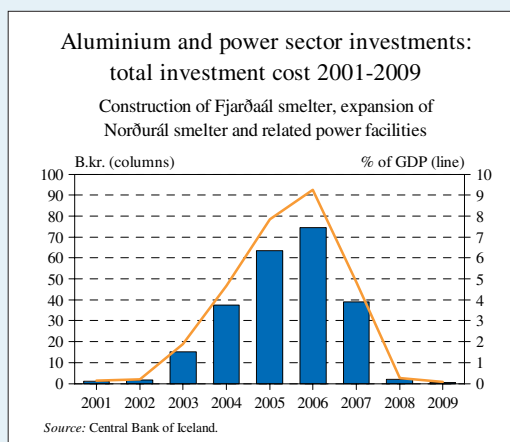


Box 3 Aluminium and power sector investments¹

Large-scale construction work will get under way this year on the Kárahnjúkar hydropower station in east Iceland and geothermal power stations at Reykjanes and Hellisheiði in southwest Iceland. Estimated investment will amount to 27 b.kr. and well over 1,000 people will be employed at the height of activity during the year. Work will also begin on the expansion to the Norðurál smelter (southwest Iceland) and construction of the Alcoa (Fjarðaál) smelter in Reyðarfjörður, east Iceland. This year's investment cost for the smelters is estimated at almost 11 b.kr. Combined investments on power facilities and smelters will peak in the following two years, for an estimated 63 b.kr. in 2005 and 75 b.kr. in 2006. The total cost of the Fjarðaál smelter and Norðurál expansion, together with power facilities to supply them, is thus expected to reach 138 b.kr. in all in 2005-2006. Total investment cost has been revised upwards since the last *Monetary Bulletin* was published in March. Cost estimates have changed, and so have assumptions about the exchange rate and price level. Most of the additional 15 b.kr. cost is in connection with Fjarðaál, and there has also been some rescheduling between the years. Construction activity on smelters and related power facilities will peak in 2006, when the investment costs are estimated at the equivalent of more than 9% of GDP (based on GDP in 2003). Some 43% of total costs are expected to be

domestic and 57% in the form of imported goods and services. All the projects are labour-intensive, requiring around 8,000 man-years. Labour use will peak in 2005 at 2,600 man-years, which is equivalent to 1.7% of the total labour supply (2003 as the base year), and require a further 2,100 man-years in 2006 (1.3% of total labour supply). The majority of the labour force (53%) is expected to be foreign, and a much larger proportion of imported labour will be employed at Kárahnjúkar than on the Hellisheiði and Reykjanes geothermal projects and on smelter construction.



Total investment cost and labour use of power station and aluminium smelter investments 2002-2009

	Weight	2002	2003	2004	2005	2006	2007	2008	2009	Total
Total investment cost (m.kr.) ..	.	1,739	15,195	37,577	63,345	74,585	3,901	2,052	540	235,154
Domestic.....	43%	804	6,776	1,653	27,636	30,863	15,991	903	238	100,233
Foreign	57%	935	8,419	21,048	35,709	43,722	23,019	1,149	303	134,921
Man-years	84	706	1,634	2,593	2,121	600	32	23	7,835
Domestic labour	47%	78	275	712	1,298	936	255	30	22	3,649
Foreign labour	53%	6	431	922	1,296	1,184	345	2	1	4,187

Source: Central Bank of Iceland.

1. Based on data from the project developers.