

OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ICELAND

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

MAY 1973

BASIC STATISTICS OF ICELAND

THE LAND

Area (1 000 sq.km)	103	Unproductive area (1 000 sq.km)	78
Productive area (1 000 sq.km)	25	of which:	
of which:		Glaciers	12
Cultivated area	1	Other area devoid of vegetation	66
Rough grazings	24		

THE PEOPLE

Population, December 1972	210 352	Occupational distribution 1971	
Net increase 1968-1972,		(per cent):	
annual average (per cent)	1.0	Farming	11.0
		Fisheries	6.1
		Fish processing	8.1
		Other manufacturing	17.7
		Construction	11.3
		Electricity, gas and water	0.7
		Commerce	13.8
		Transport and communication	8.5
		Other services	22.8
			100.0

GOVERNMENT AND PARLIAMENT

Government, from 1971, number of		Parliament, from 1971, number of seats:	
Ministers:		Independence Party (Lib. Cons.)	22
Progressive Party	3	Progressive Party (Agrarians)	17
Labour Alliance	2	Labour Alliance (Socialists,	
Union of Liberals and Leftists	2	Communists)	10
		Social Democrats	6
		Union of Liberals and Leftists	5
			60
Last general election: 1971		Next general election: 1975	

PRODUCTION AND CAPITAL FORMATION

Gross National Product in 1971:		Gross Fixed Capital Formation	
Millions of I.Kr.	53 230	in 1971:	
Per head, US \$	2 920	Millions of I.Kr.	16 050
		Per cent of GNP	30

FOREIGN TRADE

Exports of goods and services in 1971,		Imports of goods and services in 1971,	
per cent of GNP	42	per cent of GNP	49
Main exports 1971, per cent of exports		Imports 1971, by use (per cent):	
of goods:		Consumption goods	33
Fish and fish products	84	Production goods	28
Manufacturing products	12	Investment goods	39
Agricultural products	3		100
		of which:	
		Ships and aircraft	12
		Fuels	8

THE CURRENCY

Monetary unit: Krona		Currency units per US \$,	
		from 30.4.1973:	92.98

NOTE: An international comparison of certain basic statistics is given in an annex table.

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ICELAND

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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*
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The annual review of Iceland
by the OECD Economic and Development
Review Committee took place on 26th April, 1973.
The present Survey has been updated subsequently.

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CONTENTS

Introduction	5
I Recent developments	6
Output and demand	6
Wages and prices	8
Balance of payments	11
II Policy issues and constraints	14
Fiscal and monetary policy	15
Incomes policies	21
III Prospects for 1973	23
The volcanic eruption in Vestmannaeyjar	24
Slow growth of real demand	25
Accelerating inflation	26
Stronger balance of payments	27
Economic policy	27
IV Conclusions	28

TABLES

TEXT:

1 Gross domestic product by industrial origin	6
2 National income and expenditure	8
3 Wages and prices	9
4 Balance of payments	11
5 Invoicing currency structure of Icelandic foreign trade	13
6 Central government finances	16
7 Financing of general government fixed investment	18
8 Sources of lending to non-financial sector	20
9 Supply and use of resources, 1973	26

STATISTICAL ANNEX:

A Supply and use of resources, current prices	42
B Supply and use of resources, 1960 prices	43
C Production and employment	44
D Gross fixed asset formation	45
E Balance of payments	46
F Central government income and expenditure	47
G Fish catch, wages and prices	48

H	Foreign trade, total and by area	49
I	Foreign trade by commodity group	50
J	Money and credit	51

DIAGRAMS

1	The fish catch	7
2	Wage and price developments	10
3	Foreign trade prices and terms of trade	17

INTRODUCTION

The fortunes of the Icelandic economy have by tradition been intimately linked to the success or failure of the fish catch. During the early 1960s an extraordinary upswing was experienced in the wake of the "herring boom" which saw per capita incomes soar to the third highest in the OECD area after the United States and Sweden. The abrupt disappearance of this fish from Icelandic waters after 1966-1967 led to an absolute decline in real living standards—a rare experience among Member countries. The slump was only reversed by two successive devaluations in 1967 and 1968 and a pick-up in the white fish catch as well as by a sharp rise in world fish prices which helped restore the profitability of the fishing industry. The industry was again facing difficulties in 1971-72. A decline in the valuable white fish catch and a severe cost squeeze were only partially offset by a strong increase in the much less valuable capelin catch and by rising export prices. This prompted the authorities to undertake a devaluation of the Krona in December, 1972. This year is likely to see a continued decline in the catch volume of white fish, but the very sharp rise in export prices experienced in recent months should help ensure a satisfactory level of profitability in the fisheries sector.

Despite the vagaries of the fisheries, a boom has been sustained during the past two years on the strength of sectors oriented to the domestic sector and by the new export industries—particularly aluminium—but also other manufacturing enterprises. This reduced dependence on fishing is an encouraging feature. However, old problems remain—a rapid rate of inflation is showing signs of some acceleration and the growth rate of output is now slowing down. Early this year the country's problems were greatly compounded by a volcanic eruption, which is still continuing, in the key fishing area of Vestmannaeyjar. Valuable exports have been lost and some of the most modern fish processing facilities have been either totally destroyed or badly damaged. In late April the Government took a firm stand against the growing inflationary spiral which, reinforced by foreign trade price movements, threatened to push the rate of price increase up to more than double the rates expected in other OECD countries this year. An important package of measures was introduced: apart from a general "roll back" of prices, two elements of this package reflect an important departure from recent practice; the Icelandic Krona was revalued (for the first time in nearly 50 years) and the general level of interest rates was raised¹.

1 These measures were decided upon on April 27—the day after the EDRC examination of Iceland.

I RECENT DEVELOPMENTS

Last year saw a continued rapid growth of total output—amounting to some 6 per cent—which was among the higher growth rates attained in the OECD area, although substantially below the 9½ per cent recorded in 1971. With resources already being utilised at close to full capacity level at the beginning of the year, the average number of people out of work fell to a mere 0.5 per cent of the work force. Unemployment was essentially a regional problem with pockets of unemployed concentrated to the northern parts of the country. Whereas in 1970/71 favourable developments in the terms of trade made a significant addition to real national income, the impact of currency realignments under the Smithsonian agreement was reflected in a deterioration in Iceland's terms of trade last year.

Output and demand

The major factor behind the slower growth rate last year was the continued decline in the level of fishing and fish processing activity. Although in tonnage terms the overall catch rose by 8 per cent, this was due almost exclusively to a sharp rise in the less valuable capelin catch¹. White fish landings which constitute by far the most valuable element of the overall catch declined by some 5 per cent. The new regulation to extend the fishing limits from 12 to 50 nautical miles on 1st September had virtually no effect on the size of the catch². Weather conditions were relatively favour-

Table 1 Gross Domestic Product by Industrial Origin

	Relative Weight 1971	Percentage change		
		1970	1971	1972
Agriculture	7.1	0.2	8½	3
Fishing and fish processing	13.2	5.7	-5	-7
Manufacturing other than fish processing	18.5	22.0	15	9
Construction	14.2	2.0	16	10
Public administration	7.2	4.5	6	6
Ownership of dwellings	7.5	3.0	3	3
Other sectors	32.3		12½	9
Total	100.0	6.1	9.7	5.9

NOTE: This Table is subject to very wide margins of error and should be treated as indicating approximate values only.

Source: Icelandic submission to the OECD

1 There was, however, a decline in the quality of the capelin caught, in that the yield of oil and meal per ton of fish fell.

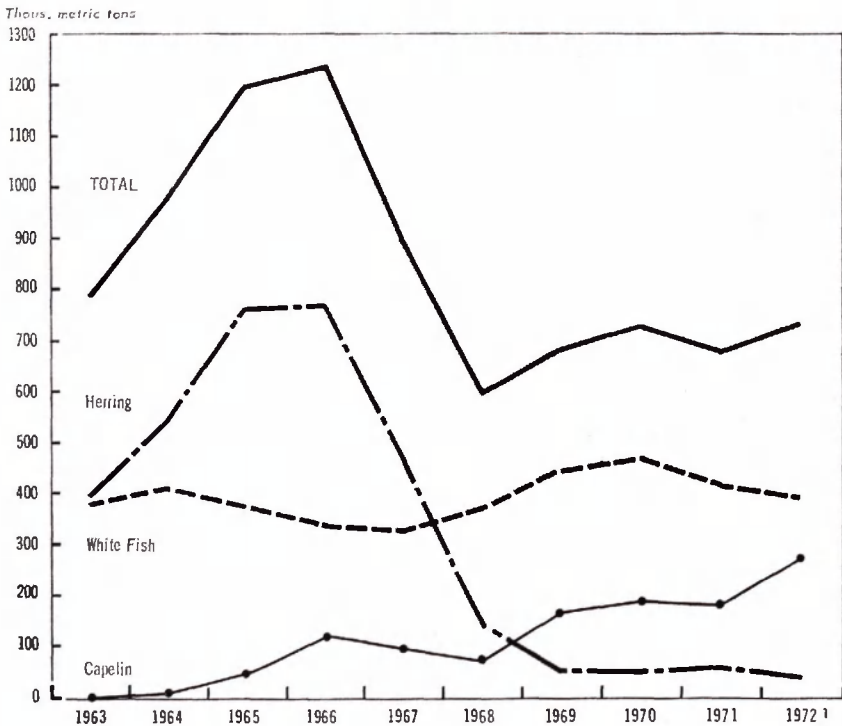
2 The major part of the year's catch is already taken before this date (typically some 70 per cent). It may also be noted that some delay was experienced in the delivery of trawlers ordered from abroad.

Iceland

able for agriculture where output continued to recover from the succession of poor seasons experienced up to 1970. Details of manufacturing activity which declined sharply in 1972 are as yet incomplete; however, the rate of expansion of the "new industries" (aluminium in particular) was trimmed back in response to uncertainties in world markets.

Private and public current expenditure grew at about an unchanged rate last year. An absolute decline occurred, however, in gross fixed investment and a marked fall was recorded in the growth rate of imports, while exports rose strongly. This pattern was very much influenced by special factors which, because of the small size of the Icelandic economy, can produce quite marked effects. Three large aircraft as well as a number of fishing vessels had been imported in 1971, which affected both the external account and investment in transportation equipment. Other categories of investment tend to fluctuate quite markedly from year to year and 1972 was no exception. Expenditure on machinery fell off sharply after two years of very fast growth, while residential construction—which accounted for more than one-fifth of total gross capital formation—increased by almost

Diagram 1 The Fish Catch



1 Preliminary.

Source: Icelandic submission to the OECD.

Table 2 National Income and Expenditure

	1971 at current prices Kr. million	Percentage change from previous year at constant prices		
		1970	1971	1972
Private consumption	34 055	12.6	12.6	11.0
Public consumption	5 385	4.5	6.4	5.7
Gross fixed asset formation	16 050	8.7	43.6	-2.0
of which Special ¹	(3 852)	-12.1	78.5	-40.6
Other (general)	(12 198)	16.7	33.6	10.2
Change in domestic stockbuilding ²	117	0	0.5	-0.3
Domestic expenditure	55 607	10.9	20.0	6.4
Change in stockbuilding for export	1 483	-0.2	3.8	-5.0
Exports of goods and services	22 373	18.9	-2.3	14.6
Imports of goods and services	26 233	26.6	22.0	3.6
of which Special merchandise ³	(3 908)	38.9	92.7	-30.7
Other merchandise	(13 610)	26.6	20.3	9.3
Gross National Product	53 230	6.0	9.5	6.0
Effect of change in terms of trade ²	—	4.7	4.0	-0.9
Gross National Income	53 230	10.3	12.5	5.0

¹ Ships, aircraft and expenditure related to Thjörðsa power plants and the aluminium smelter.

² Change in the rate of stockbuilding and effect of terms of trade expressed as percentage of previous year's GNP.

³ Ships, aircraft, imports for power projects and the aluminium smelter.

Source: Icelandic submission to OECD.

a quarter in volume terms¹. Sales from the large aluminium stockpile and, to a lesser extent, from stocks of marine products, contributed to the sharp rise in exports². Even allowing for special purchases, there was a significant decline in the growth rate of merchandise imports. Although no direct information is available, this appears to have reflected a run-down of stocks of imported intermediate goods as well as a reduced demand for investment goods.

Wages and prices

After a period of relative calm in 1971 induced by a price freeze and a considerable increase in consumer subsidy payments, the first half of 1972 was marked by a strong resurgence of inflationary forces. The freeze was somewhat relaxed at a time when the provisions of the current two-year wage agreement were being put into effect. This agreement, signed towards the end of 1971, provided for an increase in nominal wage rates of 14 per cent as well as for a 10 per cent reduction in standard working hours with full pay compensation and an increase in the minimum length of paid annual vacations. The agreement also incorporated an escalator clause linking

¹ During the period 1967-1970 housing construction had stagnated.

² In value terms, sales from export stocks accounted for one-third of the increase in merchandise exports. In volume terms the contribution was even greater as prices for aluminium ingots fell by 13 per cent.

wage rates to movements in the cost of living. Whereas the negotiated wage rate increases were spread out over three instalments, the other two provisions concerning working time came into effect immediately at the beginning of 1972. Official forecasts for the growth rate of overall average hourly wage and salary rates for 1972—taking into account the provisions of the centralised agreement as well as settlements for public sector and commerce employees—ranged from 20 to 30 per cent depending on the extent to which it was assumed the reduction in standard working hours would be compensated by increased overtime. In the event, as Table 3 shows, the actual increase amounted to 27½ per cent—just within the upper limit, but marginally above the pre-price-freeze year of 1970.

Wage rates would, however, have easily exceeded the upper limit if the Government had not intervened directly in mid-year to halt the wage-price spiral which had seen the hourly wage rate index soar by some 32½ per cent during the first six months of operation of the agreement (for further details see page 14)¹. A good half of this increase could be attributed to the direct wage rate increases and the shortening of standard working time provided for in the agreement², while indexation accounted for some 9 percentage points. Wage settlements outside the agreement made up for the balance of the increase.

The November 1970 price freeze, supplemented by heavy reliance on subsidies and increased family allowances, had succeeded in bringing down the (year-on-year) rate of increase in the cost-of-living index from 12 per cent in the first quarter of 1971 to a virtual standstill by the end of the year. Obviously, pressures had been building up during this period of control and the transition to a system of "strict price surveillance" (which entailed some degree of reduction in the severity of control) provided an outlet for these. The ensuing inflationary surge resulted in the cost of living's rising

Table 3 Wages and Prices
Average percentage change from previous year

	1970	1971	1972
All wage and salary rates	24.4	18.5	27.5 ¹
Total personal income from employment (nominal)	28.0	25.0	28.5
Cost of living	13.2	6.8	10.4
Real wage and salary rates ²	9.9	11.0	15.5
Prices of consumer goods	14.3	7.2	13.8
Building cost index	17.2	12.2	22.0
Wage compensation index	8.3	5.7	7.7

1 Including effect of reduction in working hours.

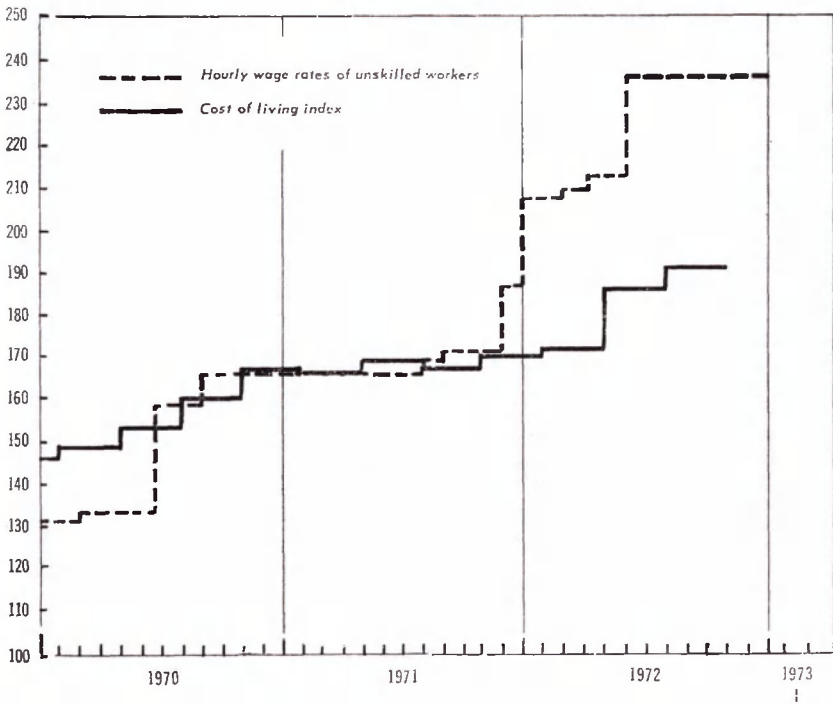
2 Deflated by cost-of-living index.

Source: Icelandic submission to OECD.

1 During the preceding six months the index rose by only 3 per cent. While this comparison may be misleading in certain respects, it does give some idea of the suddenness and extent of the acceleration in wage rates.

2 Of the 17 percentage points attributable to the agreement (excluding the effects of indexation) some 5 points were due to increased overtime and the remainder to the provision for wage rate increases.

Diagram 2 Wage and Price Developments
January 1, 1967 = 100



NOTE The increase in wage rates on January 1, 1972 includes the effect of a reduction in standard hours of work (from 44 to 40 hours) and increase in vacation payment from 7 to 8 1/3 per cent.

Source : Icelandic submission to OECD.

at a (year-on-year) rate of over 10 per cent by mid-1972¹. The legislative package passed in July helped to halt the acceleration, and during the final two quarters of the year prices were rising at a steady rate of just under 15 per cent with a tendency for this rate to fall. For the year as a whole, the cost of living rose on average by 10 per cent compared with 7 per cent in 1971. Thus, although the average figure for the respective years did not differ greatly, the time profile of these movements varied considerably (Diagram 2).

While national income rose by 22 per cent, gross personal income (before direct tax) rose at a markedly faster rate, or by some 28-29 per cent. Although these figures are subject to a relatively wide margin of possible error, the implication of a continued shift in income distribution towards

1 This despite the abolition from the beginning of the year of per capita taxes used to finance social security benefits (the only direct taxes included in the cost-of-living index). Also, whereas it had been originally planned in the 1972 Budget to reduce consumer subsidies, it was decided in fact to increase these payments.

Iceland

labour is clear-cut and is borne out by indicators of profit developments¹. The squeeze on profits was felt particularly by the white fish industry (both the boats and processing plants) and also by the manufacturing sector².

Balance of payments

As indicated above, the volume increase in goods and services exported last year exceeded that in imports by a very wide margin, but this "favourable" result is largely attributable to export sales from stocks and movements of "special" imports. These latter tend to be relatively "bulky" (aircraft, ships) and can produce sizeable, but quite fortuitous, fluctuations in the trade balance. In these circumstances and given the high degree of dependence of export receipts on fish and fish products (with both supply and price highly unstable), it is extremely difficult to assess an "underlying" position for the balance of payments. It may be noted, however, that the trade deficit last year (adjusted for special imports and stock movements) was somewhat greater than in 1971 and considerably above the average for the sixties (in terms of GNP).

Despite the deterioration in the terms of trade, the actual current account deficit last year was halved vis-à-vis that recorded in 1971, falling from the

Table 4 Balance of Payments
\$ million

	1969	1970	1971	1972 ¹
Exports of merchandise	106.9	146.0	149.8	189.8
Imports of merchandise	105.5	141.6	199.1	213.6
<i>of which special imports</i> ²	16.2	23.3	44.4	32.6
TRADE BALANCE	1.4	4.4	-49.3	-23.9
Services, net	3.0	3.0	5.5	3.8
Transfers, net	-0.8	-0.4	-0.1	0.2
CURRENT BALANCE	3.6	7.0	-43.9	-19.9
Official long-term borrowing (net)	14.9	1.4	12.5	23.2
Private long-term borrowing (net)	-10.7	-3.9	-15.8	-1.7
Private direct investment (net)	16.5	4.5	19.6	2.7
Other capital movements	-4.4	1.1	42.9	0.8
CAPITAL BALANCE	16.3	3.1	59.2	25.0
Errors and omissions	-0.8	1.0	-0.7	..
SDRs	—	2.5	2.5	2.4
Change in foreign exchange reserves	19.1	13.6	17.0	7.6

1 Preliminary.

2 Ships and aircraft, imports for power projects, aluminium smelter and defence force.

NOTE Exchange rate used: \$ US = 88 Kronur.

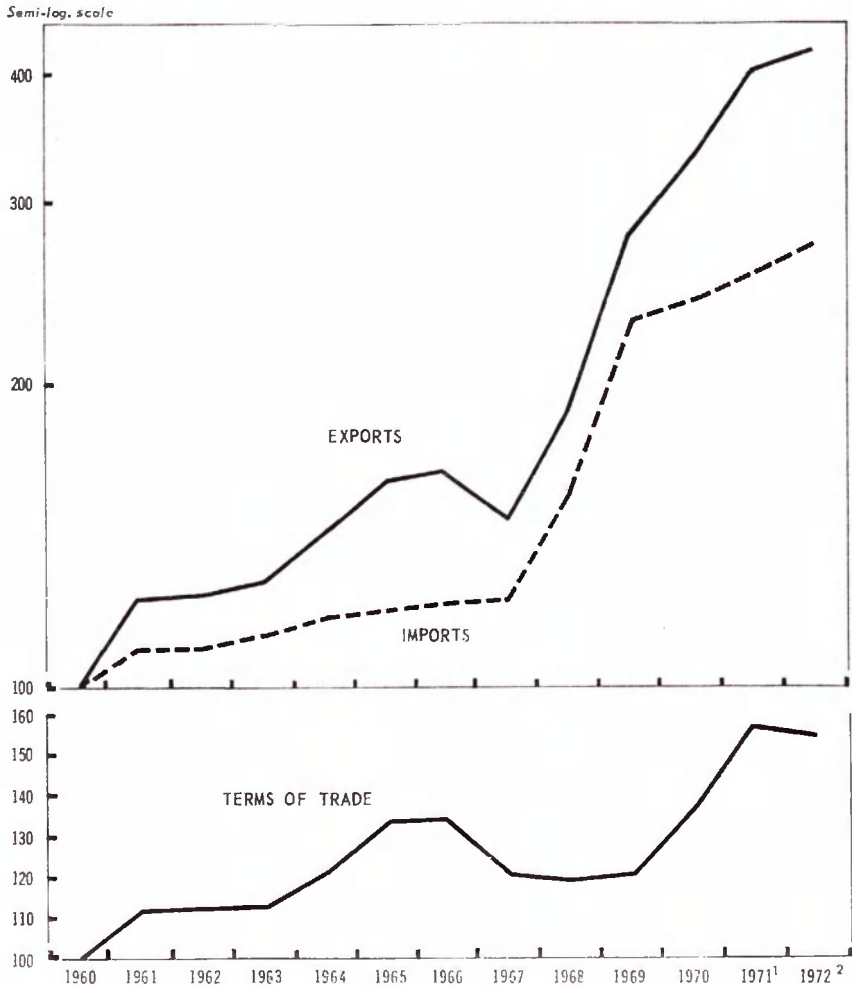
Source: Icelandic submission to OECD.

1 This shift has been observable since 1970 by when the full impact of the 1967 and 1968 devaluations on the share of profits had worked itself through. Considerable sums were paid into the Price Equalisation Fund for the Fishing Industry during 1970 and 1971.

2 For example, tentative estimates suggest that freezing plants' gross profits (i.e. before taxes and depreciation) fell by more than 30 per cent (declining from 8 to some 5 per cent on gross turnover) while the profit rate in other manufacturing slipped from 6½ to 5 per cent.

equivalent of 7.6 per cent of GDP to 3.2 per cent. At the same time, however, net capital inflow also declined to less than half the level recorded in 1971. This reflected a very sharp reversal of short-term capital flows from a net inflow equivalent to 2.5 per cent of GDP to a net outflow equivalent

Diagram 3 Foreign Trade Prices and Terms of Trade
1960 = 100



1 Preliminary.

2 Estimate.

NOTE Diagram is based on prices expressed in Icelandic Kronur.

Source: Icelandic submission to OECD.

to 1.8 per cent¹. Net long-term capital inflows amounted to some 6.4 per cent of GNP, exceeding the current deficit by a wide margin. Despite the outflow of short-term funds, foreign exchange holdings showed some further rise and were equivalent to about four months of merchandise imports by the end of the year.

The decline in the terms of trade noted above was due entirely to the currency realignments under the Smithsonian agreement. Excluding the effect of exchange rate changes, prices for Icelandic import as well as export products rose by some 2-3 per cent last year². However, the invoicing currency structure of Icelandic foreign trade and payments is such that movements in the relationship between the major currencies on average in 1972 compared with 1971 resulted in a deterioration of some 2.7 per cent in the terms of trade. Table 5 shows that over 60 per cent of the country's exports, but only about one-quarter of imports, are invoiced in US dollars while only 4 per cent of exports, but 14 per cent of imports, are invoiced in German Marks.

Unilateral devaluations of the Icelandic Krona in the past have served as a means to redistribute income from the sheltered to the exposed sector of the economy, with little if any direct effect on the level of real national income through terms-of-trade effects (Iceland is essentially a price-taker). The recent de facto devaluations of the Icelandic currency (as a consequence of average appreciations of foreign parities against the US dollar to which the Krona has been linked) have, however, been associated with a deterioration in the terms of trade and hence real income losses. These losses have removed the extra benefits which Iceland had earlier been reaping by running a surplus in an "overvalued" currency and a deficit in "undervalued" ones. Given the key objective of ensuring the continued viability of the export sector, Icelandic policy may well have an initial preference for main-

Table 5 Invoicing Currency Structure of Icelandic Foreign Trade
Per cent

	Imports	Exports
US dollars	26.3	63.0
Pound sterling	19.0	13.2
German mark	14.1	4.1
Scandinavian currencies	23.7	8.2
Other	16.9	11.5
	100.0	100.0

NOTE: The Table is based on the average invoicing pattern for the year 1972.

Source: Icelandic submission to OECD.

1 In 1971 some \$ 11 million flowed in to finance the Isal smelter operations when aluminium markets weakened. Furthermore, measures which had earlier been taken to limit foreign suppliers' credits were strengthened in April last year.

2 The bulk of the capelin catch, taken during the winter fishing season, is sold forward during the preceding autumn. Thus the 1972 catch did not benefit from the rise in prices in that year; however, sales of the 1973 catch have. Last year there was an overall average increase of 10 per cent in prices for marine product exports in Krona terms.

taining an unchanged parity vis-à-vis the dollar—as proved to be the case in December 1971 and again in February this year¹.

II POLICY ISSUES AND CONSTRAINTS

The major problem facing economic policy in 1972 was to halt the inflationary process which had developed during the first half of the year and to ensure the competitiveness of the export sector and a sustainable balance of payments position. The setting was a relatively familiar one for Iceland, and, in the event, the action taken also followed a familiar pattern. Legislation was passed in July which:

- (i) imposed a price stop²
- (ii) suspended operation of the wage compensation index³
- (iii) increased consumer subsidies and family allowances
- (iv) provided for a reduction in central government budget expenditure.

At the same time a Committee was appointed by the Government to examine which measures could suitably be taken to ensure more stable growth after expiration of the legislation (i.e. after the end of the year). The Committee presented its report in November in which the implications of three main feasible courses of action were examined. The alternatives were distinguished largely by differences in the relative emphasis put on measures included in each package:⁴

Alternative 1 Higher rate of increase in sales tax and establishment of extensive subsidy schemes for export industries.

1 The decision to revalue the Krona by 6 per cent on 30th April was taken against a background of exceptionally rapid increases in both export and import prices.

2 The "stop" was more restrictive than the earlier "freeze" in that each single member of the Price Control Committee (which is composed of nine members; four each from the employers and employees and a chairman nominated by the Minister of Commerce) had the power to veto any proposed price increases. Under the previous "freeze" price increases could be allowed by majority decision.

3 Subject to the proviso, however, that should an increase in the index of more than 2.5 points (i.e. more than 2.1 per cent) be warranted, then adjustment to the index would be allowed. In fact, the payment of increased consumer subsidies and family allowances ensured that such would not happen; e.g. in December family allowances were increased for this purpose.

4 The main fiscal and exchange rate policy measures proposed in the alternative courses of action were:

	Alternative 1	Alternative 2	Alternative 3
Increases rate of sales tax (%)	7	3	1
Lowering of wage compensation index (points)	2	5	2
Cut-back of proposed public sector expenditure/ lending (mill. Kr.)	1 600-1 700	1 600-1 700	1 300-1 400
Imposition of special counter-cyclical sales tax (%)	—	8	—
Devaluation of Krona (%)	—	—	12

Alternative 2 Relatively large reduction in the wage compensation index and imposition of a special selective sales tax on cyclically sensitive expenditure. Limited subsidy scheme for export industries.

Alternative 3 Devaluation of the Krona.

It was recommended in each case that price rises resulting from the measures should be excluded from the wage compensation index and that restrictive fiscal and monetary policies be pursued.

The Committee pointed to the shorter-term advantages offered by Alternative 3 in respect to the growth of output and employment, but indicated that the longer-term implications were less clear-cut (even adhering to a strict domestic policy stance inflation could be expected to continue at a 12-13 per cent rate). At the same time, however, it stressed that devaluation avoided the possible arbitrariness of export subsidy schemes which may tend to favour traditional exports and have undesirable effects on resource allocation. Fundamentally, of course, this option represented the traditional method of redistributing income to the export sector to compensate for domestic cost and price increases—rather than seeking to reduce the rate of inflation as such. This observation obviously applies to Alternative 1 also. At the same time the Committee pointed to the possible longer-term advantages in choosing Alternative 2, even though this would call for sacrifices (in the form of a slower volume growth rate of private domestic expenditure and possibly some unemployment) in the shorter run and require a further strengthening of the price control administration. In the event, the Government chose the third alternative and in December devalued the Icelandic Krona by 10.7 per cent.

The failure of conventional policy measures to contain the wage/price spiral which developed last year was by no means new and is indeed symptomatic of the problem with which policy-makers in Iceland have been faced not infrequently in the past. Among the key elements in this recurring inflationary process, the basic mechanism of which was discussed in some detail in last year's Survey¹, have been the volatility of earnings in the export sector (typically the prime mover) and the rapidity with which such external inflationary impulses are subsequently propagated throughout the domestic economy. Efforts are being made to come to grips directly with these aspects of the problem and a recent reform of public sector finances should enhance the conditions for successfully implementing the more conventional measures of economic policy. Nevertheless, experience in 1972 indicates that further efforts will be required if an effective and durable anti-inflationary policy is to be pursued in Iceland.

Fiscal and monetary policy

The reform of public sector finances which was decided upon by the Parliament in March 1972 and put into effect last year strengthened substantially the relative position of the central government vis-à-vis local authorities. Not only did the share of the central government in overall general government current revenue rise from some 75 per cent to 80 per cent, but—and more importantly—the central administration acquired a virtual monopoly in the

1 See pp. 11-19 of 1972 Survey of Iceland.

Table 6 Central Government Finances
On cash basis
Kr. million

	1971 Accounts	1972			1973 ³ Budget
		Budget	Accounts ¹	Accounts ² Adjusted	
Revenue	12 955	16 899	17 750	15 970	21 970
Wealth and income taxes	1 383	3 410	3 677	2 277	4 937
Sales tax	3 457	4 379	4 366	3 986	5 020
Import duties	3 795	4 496	4 504	4 504	5 604
Other	4 320	4 614	5 203	5 203	6 409
Expenditure	13 198	16 550	17 720	16 320	21 907
Consumption	3 527	4 524	4 730	4 580	6 086
Investment	1 370	1 224	1 800	1 800	2 140
Transfers	8 301	10 802	11 190	9 940	13 681
REVENUE BALANCE	-243	349	30	-350	63
FINANCIAL TRANSACTIONS BALANCE	145	-262	100	100	-39
Net lending	-20				
Long-term borrowing (net)	435	-262			-39
Short-term borrowing (net)	1				
Other	-271				
OVERALL CASH BALANCE (+ = Surplus)	-98	87 ⁴	130	-250	24

1 Preliminary, including extra-budgetary investment expenditure on roads.

2 Adjusted for reform of public finances and change-over from monthly to bi-monthly collection of sales tax.

3 Excludes special taxes imposed after passage of the Budget to finance the Emergency Fund, but includes extra-budgetary expenditures on roads to make comparable with previous years.

4 Includes 100 million Kronur debt amortization payment to the Central Bank.

Source: Icelandic submission to OECD.

collection of progressive income and net wealth taxes¹. The enhanced potential which this accords for pursuing a more active fiscal policy—at least on the income side of the Budget—was already exploited in 1972. Table 6 shows that, even corrected for the effects of the fiscal reform, central government receipts of income and property taxes rose by some 65 per cent. In part, the increase was due to the faster than assumed growth of incomes², but much more important was the part played by discretionary policy measures—which took the form of both raising tax rates and broadening the tax base for both categories of tax³. The accounts show that a revenue surplus was recorded last year equivalent to 0.1 per cent of GNP, compared with a deficit corresponding to 0.5 per cent in 1971. However, when adjustment is made for the fiscal reform and the change in frequency of sales tax collection the “strengthening” of the revenue account disappears.

The ability of the central government to exercise a continuing control over general government expenditure for counter-cyclical purposes remains subject to substantial constraints. Subsidy payments (consumer and agricultural subsidies) exceeded the Budget estimates by a substantial margin last year—about one-half of the increase being incurred in conjunction with the July price stop in order to hold down the cost-of-living index. Furthermore, centralised control over public works programmes, which probably offers the most important scope for attuning government expenditure to the current cyclical situation, is relatively diffuse. This stems perhaps not so much from the relatively small share of the central government in the overall volume of such expenditure (see Table 7) but rather from the relatively complex method by which programmes are financed. For its part, the central government's involvement in the overall programme is decided upon on two separate occasions. Firstly, on the occasion of considering the Budget when its own direct expenditure on fixed capital formation is decided upon as well as capital transfer payments, and secondly when considering the Extra-budgetary financing programme (see Footnote 2 to Table 7).

Changes in interest rates have been very rarely used in Iceland as an instrument of demand management policy or for the allocation of resources—indeed bank lending rates have typically been negative in real terms. This circumstance has had two immediate implications for the conduct of monetary policy. First, control of the overall volume of credit expansion relies on influencing the availability of credit and second, the available funds are effectively rationed out by other criteria than the price which potential borrowers are willing to pay. The difficulties which this has entailed for the conduct of an effective monetary policy in general, and anti-inflationary policies in particular, are well illustrated by developments in 1972.

1 Income taxes have been relatively less important in Iceland than in many other Member countries, accounting for only about one-quarter of general government revenue. Nevertheless, this was the most rapidly growing category of tax revenue during the 1960s, some 60 per cent of the total receipts of which accrued to the local governments. The local governments have retained the right to levy a flat-rate income tax of 10 per cent which, with the consent of the central government, can be raised to 11 per cent.

2 Estimates had been based on the assumption of a 24 per cent increase in nominal taxable income—this figure applying to 1971 on which 1972 tax revenue is based. In fact, taxable income rose by some 26 per cent.

3 See Calendar of Economic Events.

Table 7 Financing of General Government Fixed Investment
Million Kronur and per cent

	1972			1971		
	Total financing		of which foreign borrowing Kr. million	Total financing		of which foreign borrowing Kr. million
	Kr. mill.	Per cent		Kr. mill.	Per cent	
Central government budget ¹	1 885	31.4		1 480	30.7	
Extra-budgetary programme ²	901	15.0	247	362	7.5	182
Direct borrowing ³	923	15.4	676	1 238	25.7	1 057
Local governments ⁴	1 815	30.3	183	1 383	28.7	91
Other sources	476	7.9		357	7.4	
Total	6 000	100.0	1 106	4 820	100.0	1 330

1 Including the Road Fund.

2 This refers to the "Public Works Programme" element of the Extra-budgetary Programme. This programme is voted on separately from the budget; usually during May of the year during which the funds are to be raised. In fact, certain other minor items of expenditure supplementary to that shown above were included in the 1972 Public Works Programme, bringing the total to 1 104 million Kronur. The other element of the Extra-budgetary programme covers financing of the Development Fund which is the key fund within the Investment Credit Funds system.

3 Borrowing undertaken directly by the spending agency itself.

4 Own sources and borrowing. Does not include central government transfers.

Source: Icelandic submission to the OECD.

Iceland

Central Bank control over the volume of credit is very largely restricted to bank lending. The principal instruments used to attain this end are the imposition of statutory reserve requirements, application of a penalty interest rate to banks' borrowing in the Central Bank, and the conclusion of informal agreements with the commercial banks on a maximum limit to new credit creation. At present the minimum statutory reserve ratio is 20 per cent; this figure was not changed last year despite the fact that policy sought to be restrictive and that the rate could, under existing legislation, have been raised to 25 per cent¹. In fact, practical considerations arising from the institutional background to the Icelandic banking system have inhibited the Bank from flexible use of this weapon. The individual banks tend to have a relatively specialised clientele associated with particular sectors of the economy (e.g. fisheries, agriculture) and accordingly tend to experience quite pronounced fluctuations in their liquidity position. Thus, at times when the overall liquidity position of the banks may be relatively ample, raising the reserve ratio could entail serious difficulties for certain individual banks.

Control over the volume of bank credit and in particular the effectiveness of the penalty rate on Central Bank loans have been weakened by certain "leakages"². First—and this touches mainly on the allocation of loanable funds—the fisheries and agricultural sectors are accorded favoured treatment in that their commercial bills are assured automatic rediscounting facilities in the Central Bank³. Of the banks' new lending last year some 25 per cent was granted to these two sectors alone; in turn, bills drawn by these two sectors and rediscounted in the Central Bank amounted to 40 per cent of these loans. Second, the Central Bank's legal powers over banks' access to foreign funds is limited. Although the Bank had sought to restrict the inflow from abroad, the banks' foreign indebtedness rose quite sharply last year⁴.

Nevertheless, last year efforts to limit the commercial banks' credit expansion by way of informal agreement proved more successful than it had been in 1971—as measured by the margin with which the agreement was in

1 While even with an unchanged ratio, this requirement serves as a built-in stabilizer of bank credit creation, its counter-cyclical usefulness lies particularly in the fact that if banks are below the average, then the Central Bank may set as high a marginal ratio as it wishes until the average figure is attained.

2 The penalty rate at present stands at 16 per cent. In 1971 its impact was sharpened by applying it to the maximum amount of overdraft outstanding in any 10-day period rather than on the average amount.

3 In fact, last year the percentage of the value of fisheries bills which could be rediscounted was raised from 55 to 58 per cent. Rediscounts are not subject to the penalty borrowing rate. At the same time, however, it should be noted that these sectors do not benefit from certain other export incentives accorded manufacturing industry.

4 The relative importance of the various factors influencing the banks' lending capacity last year is indicated by the following:

	Kr. Million	Per cent
Increase in deposits	3 425	65.6
Borrowing in Central Bank	1 091	20.8
Increased foreign long-term debt	339	6.5
Reduction of foreign short-term assets	134	2.5
Other	234	4.5
Total	5 223	100.0

Table 8 Sources of Lending to Non-financial Sector
Kr. million and per cent

	Change during year								Total Loans Outstanding end-1972	
	Kr. mill.				Per cent				Kr. mill.	Percentage distrib.
	1969	1970	1971	1972	1969	1970	1971	1972		
Banking system	1 228	2 328	3 350	3 241	9.6	16.6	20.4	16.4	22 981	53.2
Central Bank	316	220	-64	-806	43.8	21.2	-5.1	-67.5	388	0.9
Deposit Money Banks	912	2 108	3 414	4 047	7.5	16.2	22.6	21.8	22 593	52.3
Investment Credit Funds	1 157	1 243	1 969	3 061	13.9	13.1	18.3	24.1	15 783	36.6
Pension Funds	330	406	705	1 026	17.1	18.0	26.5	30.5	4 395	10.2
Total	2 715	3 977	6 024	7 328	11.7	15.4	20.2	20.5	43 159	100.0

Source: Icelandic submission to the OECD.

fact exceeded¹. However, this success was tempered by the fact that non-bank financial intermediaries' lending—over which the Central Bank has little control—accelerated sharply last year. Table 8 indicates that while the Investment Credit Funds' and the Pension Funds' combined new credit creation in 1971 was about 20 per cent less than that of the deposit money banks', their volume of lending rose by 25 per cent last year to slightly exceed that of the banks².

Typically the problem of the growth of non-bank financial intermediaries has arisen in economies with sophisticated financial markets where a wide range of financial assets is available with a sufficient degree of substitutability to allow switching. The situation in Iceland—which possesses no established market for trading financial assets—is different. Rather, the Investment Credit Funds and the pension funds have been able to rely on “captive” sources of funds to maintain a rapid rate of expansion. In 1971 three-quarters of the gross increase in the Investment Credit Funds' resources were internally generated, or derived from earmarked taxes or “tied” borrowing.

Last year saw, however, a considerable increase in borrowing by the Investment Credit Funds from the Government, the Central Bank and from abroad. As the Funds lend long-term at particularly favourable rates, demand for loans has been strong—so strong in fact that there has been an inducement to supplement resources by foreign borrowing³ and domestic index-linked borrowing. Furthermore, funds have been obtained to an increasing extent on short and medium term at high rates of interest to finance these (longer-term) lending operations, thus inviting liquidity difficulties in future years⁴. The Fisheries Loan Fund (the largest of the Funds) has in fact faced this situation in conjunction with the current trawler re-equipment programme and the Central Bank has been obliged to intervene to accord lender-of-last-resort facilities. Confidence on the part of these semi-official bodies that they will be “bailed out” may have contributed to the difficulties of pursuing an effective policy of monetary restraint.

Incomes policies

Last year's Survey commented on the potentially useful role which the *Price Equalization Fund for the Fishing Industry* could play in reducing the impact of foreign price fluctuations on the domestic economy. At the same time a possibly major limitation to its successful application—the determination of “reference” prices as well as of the percentage of the difference between this and the actually realised price which should be paid into or

1 The agreed maximum rate of increase during the 12 months to the end of December 1972 was 14-16 per cent, while the actual increase amounted to 20 per cent. In 1971 a 22 per cent increase was recorded, while the target maximum had been set at only 12 per cent.

2 This refers to the banks' lending to the non-financial sector only.

3 Equal to 10 and 16 per cent of the gross increase in funds in 1971 and 1972 respectively.

4 Some of the smaller Funds have also relented without indexation clauses funds raised by the issue of indexed Savings Certificates in 1972.

out of the Fund—was pointed out¹. Experience last year suggests these fears were well justified—“reference” prices were adjusted upward with considerable flexibility even though at the beginning of the year it had not been expected that prices would continue to rise. Approximate calculations show that less than 10 per cent of the amount which would have accrued to the Fund if the “reference” price had remained unchanged throughout 1972 and the maximum figure of 50 per cent of the difference between this and the actual price was applied, was actually paid in. Perhaps more important for the Fund’s future operations, however, was the fact that the Government in October passed legislation to enable moneys to be withdrawn from the Fund—not to compensate for a fall in world market prices (these were in fact continuing to rise) but to compensate the industry for declining white fish catches and rising domestic cost levels².

The wage compensation index to which wage rates (and indirectly a number of other income categories) are linked follows approximately the cost-of-living index. While the basic objective of indexation is, of course, to protect the real value of incomes, it appears reasonable that compensation be not provided for 2 major cases where real incomes are adversely affected:

- 1 Where the impulse comes from abroad. A rise in import prices reduces the real income of the country as a whole. It is reasonable that this burden be shared by all sectors, and attempts by individual groups of income recipients to seek compensation will only lead to an inflationary spiral.
- 2 Changes in real disposable incomes induced by discretionary policy action. Attempts to seek compensation for, e.g. increases in direct

1 At the beginning of each season (typically once or twice a year) the Board responsible for the management of the Fund decides upon “reference” prices for products processed from the catch for that particular season. This reference price is intended to reflect the expected long-term export price. These decisions are made, of course, under conditions of considerable uncertainty, taking into account not only current experience and prices received in the last few years but also an assessment of future world market developments. At the same time, the Board also decides what proportion of the difference between the actually realized and the reference price is to be paid into, or out of, the Fund—subject to a maximum of 50 per cent under present legislation. In fact, the Board may also decide to set “payments-free” margins on either side of the reference price. Typically, such margins—when applied—have been 2-3 per cent, but in exceptional cases higher.

In practice, the Board makes informal forecasts of market prices for the coming season in consultation with the export organisations, the Ministry of Commerce and the Economic Research Department of the Economic Development Institute. These price estimates serve as a basis for preliminary payments into, or out of, the Fund as export proceeds are cleared through the banking system. Final assessments are made after the close of the season. Where extensive forward sales occur prior to commencement of the season there may be only minor differences between the preliminary and final settlements.

It is important to note that the reference prices reflect export prices in terms of foreign currencies and are not directly linked to “raw fish” prices (i.e. the prices paid by the processing plants to the boats). The fact that the raw fish and reference price decisions are often taken more or less simultaneously may, however, weaken the Fund’s role as an “autonomous” body setting (or influencing) the “external” conditions against which the “internal” raw fish prices ought to be determined. This is not only a matter of timing, but also of representation on the Board of the Fund where fishing industry representatives form a majority. The Board’s decisions are, however, subject to the approval of the Minister of Fisheries.

2 These payments were, however, small and were discontinued in conjunction with the December devaluation of the Krona.

and indirect tax rates or in publicly-controlled prices and other charges will tend to mitigate the intended impact of such measures—as well as contribute to the inflationary spiral.

At present the index only excludes the effect of changes in the direct tax burden¹. Legislation is, however, before the Parliament to exclude from the index the effect of the increases in alcohol and tobacco prices (which are State-controlled charges) made in December last². Following the same general principle, the legislation also provides for incorporating into the index the effect of certain planned extensions of social security services (which would lower the index).

The importance of adjusting the compensation index for the full amount of policy-induced price increases and import price rises may be illustrated in the context of the composition of the official forecast for changes in the consumer price index during the current year. Of the forecast increase of 17 per cent, some 13.5 percentage points would be taken into account if the wage compensation index were to continue operating under present arrangements. If policy-induced increases are excluded 11.7 percentage points would be taken into account, while if both policy-induced changes and increases in import prices (in terms of foreign currencies) are taken into consideration 10.5 percentage points would remain³.

III 1973 PROSPECTS⁴

This year's official outlook is for a marked slowdown in real growth. This reflects general limitations on the supply side as well as the loss of production and employment opportunities caused by the volcanic eruption in the Vestmannaeyjar islands rather than insufficient growth of demand. On present indications a very small increase in the value of the catch at constant prices, but a slight decline in the volume of white fish processing, is expected this year. The composition of the catch will continue to shift away from the more valuable white fish to capelin. With the season now completed, the capelin catch is estimated at 437 thousand tons, an increase of 55 per

1 The wage compensation index follows the cost-of-living index except in excluding the impact on farm prices of increases in the wages of agricultural workers and the imputed wages of farmers. When the present cost-of-living index was compiled (base year 1968) direct taxes were excluded except for social security contributions which have now been abolished.

2 These price increases contributed 1.8 points of the 7.3 points by which the index was raised on 1st March this year. Should the legislation be adopted the appropriate adjustment to the index would be made on 1st June. It may also be mentioned that the special taxes imposed for payment into the (Vestmannaeyjar) Emergency Fund will be excluded from the index.

3 This forecast covers the period November 1972-November 1973 and does not take into account the effect of the April 30 measures.

4 The impact of the Krona revaluation announced on 27th April and accompanying restrictive policy measures has not been taken into account when discussing the outlook for 1973. However, it is not expected that this package of measures will have any substantial effect on developments in real terms or on the balance of payments.

cent on the 1972 figure. Agricultural output should grow slightly faster than last year provided weather conditions remain favourable. As a result of the cut-back in public works expenditure and also in commercial building, the volume growth of construction is expected to fall off sharply after two years of sustained growth. The expansion of non-public services is forecast to exceed the 1972 level by a mere 1 per cent. On the other hand, industrial production (excluding fish processing) should continue to grow at a fast rate due to the likely expansion of aluminium output to the smelter's full operating capacity. On these assumptions, the rate of growth of real GNP may not fall below 3 per cent in 1973 after having been reduced from 9.5 per cent to 6 per cent between 1971 and 1972.

The volcanic eruption in Vestmannaeyjar

The Vestmannaeyjar are a group of islands located to the south-east of Reykjavik, only some 20 kilometres distant from Surtsey, the island formed just 10 years ago as a result of an earlier volcanic disturbance. The recent eruption began on January 23rd on Heimaey, the main island of the group, and has since continued with varying force. Rich fishing banks surround the islands and some of the country's most important freezing plants as well as the principal capelin processing facilities are located on Heimaey. The total population numbers about 5½ thousand with over half of the active population engaged in fishing or fish processing. The island accounts for approximately 3 per cent of Iceland's total GNP and 8½ per cent of exports.

Lava flow and volcanic ash have so far destroyed some 300 of the 1 350 dwellings located on Heimaey and two fish-processing plants, and have damaged two other major processing facilities. The entrance to the harbour has been partly closed but the most critical danger is that the harbour basin itself may be filled. In February the authorities put forward some tentative estimates of the likely effect on fishing operations during the present year and of the cost of rescue operations. These calculations indicated that some 4-5 per cent of exports could be lost, which, including secondary effects, would reduce the growth rate of GNP by 1-2 percentage points. The macro-economic cost to the economy will of course depend on the degree to which a re-allocation of resources is possible and the cost of this re-allocation. The total replacement value (in 1973 prices) of fixed property in Vestmannaeyjar is assessed very approximately at 10.2 billion Kronur—almost 13 per cent of this year's estimated GNP—of which residential structures account for about one-third.

Since the volcanic activity is still continuing it is not possible to make a definitive assessment of the damage to property which this natural disaster will entail. Nor is it straightforward to assess current costs in terms of exports lost as well as of rescue and associated operations. Although the outbreak came at a particularly inopportune time—at the beginning of the capelin season—this year's capelin catch has been estimated at a record 437 thousand tons. Processing has been carried out in facilities located on the Eastern and Northern coasts of the mainland which has, of course, entailed a considerable increase in travelling time for boats. A transport subsidy scheme to encourage use of these alternative facilities,

which would otherwise have remained largely idle, had already been put into operation, but was expanded to meet the consequences of the eruption. Activity of the Vestmannaeyjar fishing fleet (77 boats) was practically paralyzed for a period of 4-5 weeks after the eruption, with a probable loss in the white fish catch of some 3 thousand tons. However, any such estimates of damage will fail to register the intangible costs which the upheaval of an entire community necessarily entails¹.

In February, in response to the disaster, the Althing passed legislation setting up an Emergency Fund and imposing special taxes to raise 1.680 million Kronur (just over 2 per cent of this year's estimated GNP)². The Fund will also receive grants from the Treasury and the Unemployment Insurance Fund to bring the total up to 2 billion Kronur. In addition, moneys donated from abroad will be paid into the Fund³. The main purpose of the Fund is to cover the costs of rescue and safeguarding operations as well as to build up reserves for eventual reconstruction work. It is also foreseen to compensate for income and property losses caused by the eruption.

Slow growth of real demand

The volume of merchandise exports is officially forecast to increase only slightly compared with 1972. Whereas sales from stocks had boosted the level of exports in 1972, this year is likely to see some replenishment of stocks. The expected fall in volume of fish exports (down by 5 per cent) should be counter-balanced by a pronounced increase in manufactured exports (including aluminium). The fall in marine exports is due entirely to supply constraints as demand should remain strong in Iceland's principal markets:

On the domestic demand side the official outlook is for a sharp drop in the rate of growth of real private consumption and an absolute decline in «general» fixed asset formation. On the other hand a relatively strong expansion of public consumption will be maintained. A steep rise in «special» fixed asset formation together with a likely sharp turnaround in stock-building is forecast to accelerate the growth of total national expenditure. The current programme to re-equip the trawling fleet and the erection of up to 400 imported houses for the displaced inhabitants of Vestmannaeyjar account for almost 90 per cent of "special" investment projects. Due to their exceptionally high import content these investments will have very little impact on this year's level of output and employment⁴.

1 From a purely national accounting point of view the registered loss in terms of GNP will also depend on the treatment of expenses arising from the disaster. The official tentative estimated loss of 1-2 per cent growth in 1973 seems to suggest that the costs of rescue and safeguarding operations are not considered as part of national income.

2 These imposts consist of special supplements to the general sales tax, the company tax and the municipal income tax. As noted in footnote 2 on page 23 above, these taxes will not be taken into account by the wage compensation index.

3 In all, it is estimated that such donations will amount to around 2 billion Kronur, coming mainly from the other Nordic countries.

4 All trawlers will be imported and the erection of the imported prefabricated houses is planned to be carried out by skilled workers drawn from other Nordic countries.

Table 9 Supply and Use of Resources, 1973
Percentage growth rate on previous year

	Volume		Prices	
	1972	1973	1972	1973
<i>Supply</i>				
Gross National Product	6.0	3.0	15.4	20.3
Imports of goods and services*	3.6	10.8	6.3	23.0
Total	5.9	5.4	11.7	21.2
<i>Use</i>				
Private consumption	11.0	3.5	13.5	17.0
Public consumption	5.7	6.2	18.6	18.0
Fixed investment**	-2.0	6.5	18.4	20.9
Exports of goods and services	14.6	1.0	4.8	28.6
General Domestic Expenditure ¹	10.2	2.0	15.5	18.0
Gross National Income	5.1	4.0		
* of which:				
Special merchandise ³	-30.7	104.9	5.9	25.7
General merchandise	9.3	-0.6	7.5	26.5
** of which:				
Special investment ³	-40.6	71.3	10.9	21.6
General	10.2	-3.7	19.6	20.6

1 Equals Private consumption + public consumption + general fixed investment.

2 See footnotes to Table 2 above for definitions.

Source: Icelandic submission to the OECD.

Accelerating inflation

Export and import prices expressed in Kronur will rise substantially this year even if allowance is made for the effect of the 6 per cent revaluation on 30th April. Official estimates made in March pointed to increases of some 36 per cent for exports and 26 per cent for imports. Of the major export items, marine product prices were forecast to rise by more than 40 per cent, aluminium by less than 20 per cent and other manufacturing products by almost one-quarter. Although a substantial part of these price rises result from parity changes which occurred between December 1972 and February 1973¹, the main contribution can be traced to the continuing strong upward movement of world market prices for fish; in particular, prices for capelin-based products have soared². On average, prices for marine

1 The unilateral devaluation in December 1972 raised both export and import prices by about 12 per cent. The February realignment of parities is estimated to have raised export prices by 3½ per cent and import prices by 7 per cent.

2 As explained earlier (see footnote 2 on p. 13 above) part of this year's capelin catch was sold forward last autumn at favourable prices. Only part of the catch would be affected by eventual falls in the spot price. On average it is estimated that capelin meal prices will be almost 2½ times those received on average last year (in local currency).

products expressed in foreign currencies are estimated to rise by about 25 per cent. Import prices in foreign currencies are expected to increase by much less—or by 7-8 per cent due primarily to increases in such basic commodities as wood, iron and steel, and agricultural feeding-stuffs.

These very substantial increases in overseas trade prices—both on the import and export sides—have occurred as the domestic price stop expired and a system of price surveillance was reinstated at the beginning of this year. Except for public consumption the deflators for all other major national expenditure components are officially forecast to increase somewhat faster than last year. The overall GNP deflator may rise by as much as 20 per cent, compared with the 15½ per cent recorded last year and 12 per cent on average during the past decade. The growth of hourly wage and salary rates is, however, likely to slow down to 20 per cent against last year's figure of 27½ per cent which included the effect of the reduction in standard working hours¹. No marked change may occur in the pattern of income distribution, but a recovery can be expected in the aggregate profit position of the fisheries sector.

Stronger balance of payments

The deficit on goods and services is officially forecast to almost double between 1972 and 1973 to the equivalent of 5-6 per cent of GNP. However, if fluctuations in "special" imports and sales from export stocks are evened out over the two years the forecast suggests a marked fall in the "underlying" deficit from 6½ per cent of GNP in 1972 to 2 per cent in 1973. Terms-of-trade gains will account for about 2 percentage points of this improvement. Donations from abroad in conjunction with the volcanic eruption may reduce the unadjusted current account deficit to the equivalent of some 4 per cent of GNP. More than three-quarters of this deficit is expected to be covered by long-term capital imports—mainly by financial institutions in conjunction with importation of the trawlers and by the Government.

Economic policy

Against the background of a sustained high level of employment, a marked improvement in the fishing sector's profitability and a strengthening in the underlying balance of payments position, the threat of a further twist to the inflationary spiral emerged as the major policy problem in the early months of 1973. On 30th April the authorities moved resolutely to meet this situation—one to which the continuing sharp increases in world trade prices were materially contributing. The Icelandic Krona was revalued by 6 per cent and prices in general were to be rolled back by 2 per cent (by 7th

¹ A 6 per cent increase in wage rates was accorded on 1st March this year under the terms of the current two-year general wage agreement which, together with the carry-over effects from adjustments made last year, will raise basic wage rates by some 8 per cent over the 1972 average.

May)¹. At the same time, the level of bank interest rates was raised generally by 2-3 percentage points and the commercial banks' average statutory reserve deposit ratio was increased by 1 percentage point²—these two last mentioned measures being effective from 1st May.

Prior to the introduction of the above-mentioned package in which monetary and incomes policies play a prominent part, fiscal policy had already been operating on a relatively restrictive tack. The 1973 Budget provides for an approximately equal rate of increase in both revenue and expenditure (23.8 and 21.1 per cent respectively) over preliminary estimates of the actual 1972 outcome (see Table 6). Receipts of wealth and income taxes will rise by a third and import duties by almost one-fourth. Reflecting largely increases in public employees' salaries, current consumption is expected to be the fastest rising element of expenditure. The Budget estimates imply a revenue surplus equivalent to about 0.1 per cent of (current year) GNP, compared with the approximately zero balance realised last year. For the public sector as a whole, a 5 per cent cut-back in the volume of public works and building activity is planned for this year. Furthermore provision has been made for a discretionary 15 per cent reduction in central government expenditure not covered by other legislation than the Finance Bill—this cut will affect essentially investment expenditure. The Extra Budgetary Programme of borrowing (see footnote 2 to Table 7) has, however, been expanded by one-third. The bulk of this increase is attributable to the Development Fund which proposes raising almost 60 per cent more funds than last year.

IV CONCLUSIONS

In 1972 supply constraints resulted in a slowdown from the exceptionally high growth recorded a year earlier. At the same time there was an acceleration in the rate of price increase and the balance of payments on current account recorded a sizeable deficit. The system of "strict price surveillance" reverted to after the expiration of the price freeze at the end of 1971 proved inadequate to control the severe inflationary pressures which had been building up during the preceding period of price control. This failure partly reflected the coincidence of the relaxation of controls with the conclusion of a general incomes agreement which entailed a significant increase in hourly wage costs.

A further contributing factor was the "passive" policy of the Price Equalisation Fund for the Fishing Industry which reduced its efficacy as an instrument for mitigating the impact of external inflationary impulses on

1 Subject to certain exemptions, mainly in the field of services. At the same time, however, it was provided that cost savings arising from the revaluation were to be passed on in full in the form of price reductions (which could thus exceed 2 per cent). The value of the wage compensation index to apply from 1st June 1973 was to be based on a 2 per cent lower level of prices than that prevailing on 1st May.

2 This brings the ratio up to 23 per cent. The Central Bank has set the marginal ratio at 30 per cent.

the domestic economy. Admittedly, a particularly difficult situation was being faced. A decline in the level of activity in the fishing industry coincided with rising export prices, with the temptation to stabilize profitability by compensating declining volume by flexible upward adjustment of the "reference" price¹. The fact that the "reference" and raw fish prices are fixed at the same time and by bodies whose interests may tend to coincide, would seem to have added to the pressure to raise the reference price. In the event the very sharp wage-price spiral which developed prompted the Government to reimpose a price freeze even more severe than that which had expired only six months earlier.

This year's prospects are for a further slowdown in the real growth rate with a continued acceleration in the rate of inflation. The level of activity in the fishing and fish processing industry will remain essentially unchanged and the construction boom is tailing off. However, although easing, pressure on resources is expected to remain relatively high—particularly in the Reykjavik area. At the same time, inflationary impulses from the foreign sector are strong as a result of rapidly rising world prices for both exports and imports but also as a consequence of last year's devaluation of the Krona, and recent appreciations of major currencies vis-a-vis the US dollar. This pressure will to some extent be eased by the recent Icelandic revaluation.

In view of the inflationary momentum which has already developed, stabilization policy is facing a difficult task. The problems have been greatly compounded by the Vestmannaeyjar volcanic eruption which no doubt ranks as a major disaster for the Icelandic economy. The measures taken on 30th April reveal a clear determination on the part on the authorities to come to grips with the problem. Alone, however, this package can only provide a temporary breathing space. Maintenance of the present restrictive stance of fiscal policy and the satisfactory operation of the Price Equalization Fund for the Fishing Industry would seem to constitute a necessary condition for ensuring any substantial success against the threat of accelerating inflation. The fiscal reform of 1972 has enhanced the central government's tax-raising powers and last year's effort should be continued to avoid an excessive seasonal creation of liquidity through public sector finances by the issue of Treasury Bills to the banks².

In the past anti-inflationary policy has often been centred on restraining the growth of the wage compensation index by the payment of subsidies. While this approach may be effective in attaining immediate objectives, its limitations in anything but the very short term are obvious. More generally, past experience suggests that the scope for meaningful prices and incomes policies is limited without complementary use of demand management policies. It must, however, be recognised that the size and openness of the Icelandic economy make control of monetary and fiscal aggregates unusually difficult. However, in the somewhat longer run consolidation of the banking sector into larger and more viable units could appreciably ease the task of the mone-

1 In the past volume and price have tended to fluctuate in the same direction (see last year's Survey, p. 13) which provides a more clear-cut situation to which the Fund can react.

2 The failure of the Banks to take up more than about half of the Treasury Bills issued in 1972 despite the very attractive terms offered may have been due to the novelty of this measure.

tary policy authorities—not least in allowing greater freedom in the use of the statutory reserve deposit ratio. One other area in which some tightening of control appears called for is the operation of the non-bank financial intermediaries via the Investment Credit Funds and the pension funds. The Investment Credit Funds, with important “captive” sources of financing, enjoy a large degree of autonomy, but better control over their borrowing operations could nevertheless be exercised via the Extra-Budgetary Programme in which the key Development Fund’s borrowing for the year is determined. Pension funds’ lending is mainly directed to members for the purpose of housing finance. With the expected rapid growth of these funds in the coming years, some form of control over their lending operations may appear desirable, in particular since a high proportion of available capital is already being absorbed by residential construction.

Annex
CALENDAR OF ECONOMIC EVENTS
January 1972 - May 1973

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CALENDAR OF ECONOMIC EVENTS

January 1972 - May 1973

1972

- 1st January* Price freeze of November 1970 replaced by "strict price surveillance", whereby all price increases subject to Government approval.
New bilateral trade agreement between Iceland and USSR for period to December 31, 1975, came into effect.
Consumer subsidies increased by some 25 million Kr. (annual rate) compared with a Budget planned decrease of 180 million Kr.
Interest on deposit money banks' current accounts with Central Bank raised by 1 per cent and rate on statutory deposits by $\frac{1}{4}$ per cent.
Central Bank rediscount ratio for fisheries export bills increased from 55 to 58.5 per cent of production value.
Interest rates on loans extended by Fisheries Loan Fund lowered by 1 percentage point.
- 6th January* Raw white fish prices raised by 10 per cent on average for the period January-May. Price equalisation reference price for frozen fish products raised by 20.7 per cent and for wet salted fish by 27.3 per cent for the same period.
- 28th January* Appeal Committee of Fish Price Council set new share allotment price for capelin at 1.20 Kr. per kg. for period to March 1 and 1.10 Kr. per kg. thereafter. Reference price for capelin meal unchanged but price for capelin oil raised by 15.4 per cent. Payments to equal 50 per cent of difference between reference and actual price instead of 33 per cent as before.
- 28th February* Arbitration Court raised wages of commercial employees by an average 14 per cent retroactive to December 1, 1971. Further increases to be made on June 1, 1972 (4 per cent) and on March 1, 1973 (6 per cent) in accordance with the general agreement of December 1971.
- 1st March* Prices paid to farmers raised by 11.1 per cent on average, mainly due to 21 per cent increase in imputed wage component of costs.

Wage compensation index rose 0.92 points to 109.29 (net of reduction by 3.12 points due to abolition of per capita taxes for social security system and local health insurance).

- 8th March* Arbitration Court decided on pay claims by public employees. Special increase granted for lowest-paid on same terms as general "frame" agreement of December 1971. Seniority pay increases to take place after one and six years instead of six and twelve years. General 7 per cent increase in salaries granted from March 1973. Last stage of salary agreement of December 19, 1970, made effective from June 1972 instead of July.
- 15th March* Central Bank managed sale of 100 million Kr. of State Lottery Bonds on behalf of State Road Fund to finance Skeidará project.
- 21st March* Alcohol and tobacco prices raised on average by 16 and 10 per cent respectively.
- 22nd March* Major amendments enacted to legislation on central and local government taxation following the redistribution of responsibilities between State and local authorities decided upon in December 1971 and the abolition of per capita social security taxes. Major features affecting State income and net wealth taxation were:
- 1 Maximum marginal personal income tax rate increased from 27 to 44 per cent.
 - 2 Company income tax rate raised from 20 to 53 per cent.
 - 3 Exemption limit for personal net wealth tax set at 1 million Kr. Taxable property over 2 million Kr. taxed at 1.0 per cent.
 - 4 Company net wealth tax rate raised from 0.7 to 1.4 per cent.
 - 5 Writing-up of asset values for tax purposes (other than buildings which are now covered by new property assessment) limited to 20 per cent of original price or cost. Certain limits placed on accelerated depreciation allowances.
 - 6 The lower tax rate on distributed profits and exemption from personal income tax of dividend receipts up to 60 000 Kr. for married couples abolished.
 - 7 8 per cent of fisherman's income from fishing exempted from income tax. This provision mainly intended to offset "loss" of fishermen's deductions under old local government income tax.
- Major features affecting local government taxation were:
- 1 All local government net wealth and company income taxes (maximum marginal rate 30 per cent) abolished. These taxes to accrue to central government.

Iceland

- 2 Personal income tax changed from progressive tax on net income (maximum marginal rate of 30 per cent) to flat rate tax on gross income. Standard rate set at 10 per cent, but provision for an extra 1 per cent subject to central government approval.
 - 3 Real estate tax set at 0.5 per cent of assessed value of dwellings and 1.0 per cent for all other taxable real estate. These rates can be raised by 50 per cent without central government approval.
 - 4 Company turnover tax rate reduced by 35 per cent.
 - 5 New tax of 1 per cent on net interest receipts of commercial banks to be paid into Municipal Income Equalisation Fund.
- 27th March* Agreement reached between officers of Merchant Marine (other than mates) and shipowners providing for general salary increase of 20 per cent in three stages: 6 per cent from December 1971, 6 per cent in June 1972, 6 per cent in March 1973. Contract concluded for two-year period to November 1, 1973.
- 1st April* Access to foreign short-term suppliers' credits (particularly for imports of finished consumer goods) further restricted. This measure estimated to reduce imports by ca. 200-300 million Kr. (annual rate).
- 4th April* Special tax levied on motor vehicles equal to 25 per cent of c.i.f. value of passenger cars and 15 per cent for all other categories. Estimated yield in 1972 200 million Kr.
- 7th April* Assessment value of real estate—for local government real estate tax but not for net wealth tax—raised by 20 per cent.
- 8th April* Special agreement reached between unskilled workers' unions and employers on matters omitted from general "framework" agreement of December 4. Main provision was adjustment from 3 to 4 per cent in wage increase granted after two years with same employer. Agreement estimated to raise unskilled workers' wages by some 1.5 per cent on average.
- 15th April* Central Bank and commercial banks agreed on target maximum growth rate of 14-16 per cent for bank lending for 1972.
- 2nd May* Treasury Bills—in amount of 300 million Kr. with maturity up to eight months—issued for first time in Iceland for purchase by deposit money banks.
- 18th May* Four-year Road Plan for 1972-75 passed by Althing.
- 23rd May* Extra-budgetary Financing Programme for 1972 amounting to 2310 million Kr. passed by Althing.

- 26th May* Inheritance tax provisions amended—mainly in view of new property assessment—entailing approximately a tripling of this tax in aggregate.
- 30th May* Issue of 360 million Kr. of Government Savings Certificates to finance Extra-budgetary investment programme.
- 1st June* General increase of 3.8 per cent in basic pay rates according to provisions of December 1971 general agreement.
Final increase in public employees' salaries (estimated on average at 8 per cent) as provided for under agreement came into effect.
Wage compensation index rose from 109.29 to 117.00.
Prices paid to farmers raised by 7 per cent mainly due to higher fertilizer costs and 8.9 per cent increase in imputed wage component of costs.
- 19th June* Price Control Board raised with government approval retail mark-ups by 6 per cent in general (10 per cent on groceries and shoes). No increase allowed in wholesale mark-ups.
- 1st July* All social security benefits (except family allowances) increased by 12 per cent and per diem hospital charges raised. Total estimated cost 140 million Kr. in 1972 (280 million Kr. annual rate).
- 11th July* Provisional law enacted to halt price-wage spiral. In period July 11 to December 31, 1972, no price increases to be allowed unless approved by all members of Price Control Board (i.e. veto right given to each individual Board member). This legislation raised family allowances and agricultural subsidies—estimated total cost to Treasury 240 million Kr. in 1972 (485 million Kr. on annual basis). Furthermore, government authorised to reduce 1972 Budget and other central government expenditure by up to 400 million Kr. Wage compensation index effectively frozen at 117 points to end of year (however, if increase beyond 119.5 points warranted, compensation was to be granted).
- 22nd July* Trade agreements signed with EEC and European Coal and Steel Community. Ratification required at latest November 1973.
- 1st September* New regulation issued to extend fishing limits from 12 to 50 nautical miles.
Collection of general sales tax changed from bi-monthly to monthly basis.
Agricultural subsidies increased by 75 million Kr. for 1972 (230 million Kr. annual rate).

Iceland

Prices paid to farmers increased by 4.8 per cent due to 7 per cent rise in imputed wage component and higher costs of machinery maintenance (however, fodder cost estimates reduced by 9.4 per cent).

- 9th October* Fish Price Council raised raw white fish prices on average by 15 per cent for period October-December, 1972.
Government authorised payment of subsidy (estimated at 88 million Kr.) to white fisheries from Price Equalisation Fund during period October-December, 1972.
- 13th October* Reference prices for frozen and salted fish raised in line with market prices, thus preventing in- or out-payments from Price Equalisation Fund.
- 1st December* Family allowances and consumer subsidies increased by annual rates of 150 and 95 million Kr. respectively to prevent rise in wage compensation index.
- 17th December* Icelandic Krona devalued by 10.7 per cent. Margin of fluctuation around central rate increased to $2\frac{1}{4}$ per cent in either direction.
- 20th December* Althing authorised Wage Committee to determine value of wage compensation index to take effect on January 1 after expiration of temporary economic measures legislated in July. Committee decided index should remain unchanged at 117 points during period January 1-February 28, 1973.
- 21st December* Althing passed 1973 Budget. Provision included giving discretionary power to Government to cut certain expenditure items by up to 15 per cent (maximum amount would be about 500 million Kr.).
Alcohol and tobacco prices raised by 30 and 22 per cent respectively.
- 30th December* Fishermen's remuneration exempted from the 2.5 per cent wage tax in 1973.
Appeal Committee raised raw white fish prices by 9 per cent on average for period January-May, 1973.

1973

- 1st January* Family allowances increased by 100 million Kr. (annual rate). Gasoline tax raised by 25 per cent.
- 3rd January* Reference prices for white fish products raised in line with forecast market prices for period January-May.

OECD Economic Surveys

- 5th January* Government announced local authorities not permitted to levy the 1 per cent surcharge on standard rate of local income tax in 1973.
- 10th January* Price Control Board permitted with Government approval prices of domestic manufactures to be raised to compensate effect of Krona devaluation on raw material costs.
- 15th January* Consumer subsidies increased by 90 million Kr. (annual rate). Prices to farmers raised by 2.4 per cent due mainly to increased fodder costs.
- 22nd January* Strike by officers and seamen of trawler fleet began.
- 23rd January* Volcanic eruption began in Vestmannaeyjar.
- 5th February* Reference price of capelin meal increased (from £1.25 to £1.68 per protein unit and from £75 to £85 per ton of oil). Rate of payment of difference between export and reference prices changed to 38 per cent. Payments into capelin account of Price Equalisation Fund this season estimated at about 200-250 million Kr.
- 6th February* Appeal Committee increased share price for capelin for reduction (to estimated average Kr. 1.86 per kg.—i.e. 59 per cent higher than last season). Subsequently a special transport subsidy (varying according to distance between fishing grounds and available ports, but averaging about Kr. 0.15 per kg.) made payable, bringing total price increase to around 71 per cent from last season. Share price of capelin for freezing increased from Kr. 4.00 to Kr. 7.00 per kg.
- 7th February* Emergency measures legislated in conjunction with volcanic eruption in Vestmannaeyjar. Emergency Fund established to receive 2 billion Kr. raised in twelve month period from March 1 as follows:

	<i>Million Kronur</i>
2 per cent supplement to general sales tax	900
Supplement to company tax	300
30 per cent surcharge on net wealth tax	80
10 per cent surcharge on municipal income tax	400
Direct Treasury contribution	160
Grant from Unemployment Insurance Fund	160
	2 000

Price rises resulting from the supplementary sales tax to be excluded from wage compensation index.

Iceland

- 12th February* Government presented Bill in Althing to exclude effect of increases in alcohol and tobacco prices decided last December from wage compensation index. Also, certain envisaged changes in reimbursement of dental care costs by health service to be taken into account by the index.
- 15th February* Krona devalued by 10 per cent, thus maintaining unchanged central rate vis-à-vis US dollar. Spot dollar rate of exchange of Krona raised, however, by 1 per cent within allowed margins.
- 28th February* Exchange of documents ratifying trade agreement between Iceland and EEC.
- 1st March* Consumer subsidies and family allowances reduced by 180 and 100 million Kr. (annual rates) respectively.
Wage compensation index rose to 124.3 points.
Prices paid to farmers raised by 11.4 per cent, due mainly to 13.6 per cent increase in imputed wage component.
- 9th March* Strike by seamen of trawler fleet ended as agreement reached on 16-17 per cent pay increase.
- 19th March* Normal foreign exchange transactions resumed after more than two weeks' suspension due to closure of main foreign exchange markets. Rate of exchange of Krona against US dollar unchanged.
- 22nd March* Strike by officers of trawler fleet ended as pay claims (amounting to some 30 per cent increase) enforced by government legislation. Government announced granting of support payments to trawler owners covering difference between owners' pay offer and enforced claims.
- 30th April* Icelandic Krona revalued by 6.0 per cent.
Legislation passed requiring all prices (with certain exemptions which mainly concern services) to be rolled back by 2 per cent by May 7.
- 1st May* Bank interest rates raised by 2-3 percentage points.
Commercial banks' statutory reserve deposit ratio raised from 20 to 21 per cent.

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STATISTICAL ANNEX

Table A Supply and Use of Resources
Kr. million, current prices

	1962	1963	1964	1965	1966	1967	1968	1969	1970 ¹	1971 ¹
Private consumption	7 513	9 071	11 360	13 219	16 471	17 469	18 830	21 767	28 014	34 055
Public consumption	963	1 227	1 536	1 862	2 270	2 505	2 800	3 300	4 050	5 385
Gross fixed asset formation	2 829	3 853	4 979	5 506	7 003	7 984	8 725	8 600	10 511	16 050
Change in livestock	-33	-29	38	39	-18	-32	-12	-41	-58	117
EXPENDITURE ON FINAL DOMESTIC USE	11 272	14 122	17 913	20 626	25 726	27 926	30 343	33 626	42 517	55 607
Change in stocks of export products	-77	-142	22	372	87	74	-264	205	-289	1 483
NATIONAL EXPENDITURE	11 195	13 980	17 935	20 998	25 813	28 000	30 079	33 831	42 228	57 090
Exports of goods and services	5 611	6 137	7 045	8 342	9 091	7 882	9 510	16 132	21 138	22 373
Imports of goods and services	5 248	6 341	7 369	8 096	9 412	10 146	12 055	15 741	20 487	26 233
GROSS NATIONAL PRODUCT (market prices)	11 558	13 776	17 611	21 244	25 492	25 736	27 534	34 222	42 879	53 230
Depreciation	1 526	1 633	1 939	2 351	2 720	3 044	3 928	5 419	6 026	6 664
NET NATIONAL PRODUCT (market prices)	10 032	12 143	15 672	18 893	22 772	22 692	23 606	28 803	36 853	46 566
Indirect taxes	2 299	2 795	3 412	4 355	5 400	5 655	6 080	6 650	9 370	12 640
Subsidies	586	694	1 098	1 180	1 385	1 800	1 750	1 400	1 600	2 950
NET NATIONAL INCOME	8 319	10 042	13 358	15 718	18 757	18 837	19 276	23 553	29 083	36 876
Net income to abroad	106	110	137	176	202	252	410	612	481	509
NET DOMESTIC INCOME	8 425	10 152	13 495	15 894	18 959	19 089	19 686	24 165	29 564	37 385

¹ Preliminary.

Source: Icelandic submission to the OECD.

Table B Supply and Use of Resources
Kor. million, 1960 prices

	1962	1963	1964	1965	1966	1967	1968	1969	1970 ¹	1971 ¹
Private consumption	6 261	6 959	7 614	8 187	9 342	9 436	8 968	8 547	9 623	10 833
Public consumption	788	847	905	974	1 045	1 115	1 145	1 170	1 223	1 301
Gross fixed asset formation	2 274	2 971	3 500	3 429	3 997	4 505	4 111	3 131	3 404	4 888
Change in livestock	-28	-23	24	25	-10	-19	-7	-22	-26	45
EXPENDITURE ON FINAL DOMESTIC USE	9 295	10 754	12 043	12 615	14 374	15 037	14 217	12 826	14 224	17 067
Change in stocks of export products	-110	-116	—	211	45	45	-174	-2	-24	476
NATIONAL EXPENDITURE	9 185	10 638	12 043	12 826	14 419	15 082	14 043	12 824	14 200	17 543
Exports of goods and services	4 698	5 027	5 349	5 940	6 417	6 033	5 653	6 404	7 612	7 438
Imports of goods and services	4 721	5 589	6 326	6 914	7 938	8 489	7 790	6 924	8 765	10 691
GROSS NATIONAL PRODUCT	9 162	10 076	11 066	11 852	12 898	12 626	11 906	12 304	13 047	14 290
Effects of change in terms of trade	348	383	698	1 186	1 252	540	360	526	1 103	1 630
Export income	5 046	5 410	6 047	7 126	7 669	6 573	6 013	6 930	8 715	9 068
Income balance of goods and services	325	-179	-279	212	-269	-1 916	-1 777	6	-50	-1 623
GROSS NATIONAL INCOME ²	9 510	10 459	11 764	13 038	14 150	13 166	12 266	12 830	14 150	15 920

NOTE Estimates of real income coincide with output in real terms on the assumption of unchanged terms of trade. Due to a particularly strong improvement in Icelandic terms of trade in the years 1964 and 1965 national expenditure in real terms could rise far above real gross national product without adverse effects on the balance of payments. This is explicitly introduced in the Icelandic national accounts, as shown above. The item "Export income", obtained through the deflation of exports with the price index for imports, expresses the external purchasing power of the export earnings, and the difference between this item and exports, normally deflated with the export price index, is a measure of the real income "effect of changes in terms of trade".

1 Preliminary.

2 Gross national product + effect of changes in terms of trade.

Source: Icelandic submission to the OECD.

Table C Production and Employment

		1965	1966	1967	1968	1969	1970	1971	1972
FISHERIES AND FISH PROCESSING									
Production: Value, current prices	Kr. mill.	5 789	5 812	4 116	4 090	7 758	9 969	11 746	12 210
	1963 prices	Kr. mill.	4 500	4 353	3 381	2 860	3 331	3 309	3 058
Fishing fleet ¹ , end of year: Trawlers	GRT	26 708	22 876	21 491	20 104	16 837	16 981	17 911	20 340
	Motor boats	GRT	54 063	57 431	64 619	63 955	61 698	60 984	62 146
Total	GRT	80 771	80 307	86 110	84 059	79 346	78 679	78 895	82 486
Employment in fish processing	1962 = 100	113.2	102.3	88.9	87.7	100.9	103.9	109.0	..
AGRICULTURE									
Production: Value, current prices ²	Kr. mill.	2 153	2 198	2 361	2 597	3 126	3 688	4 664	5 708
	1971 prices	Kr. mill.	4 623	4 390	4 587	4 461	4 278	4 664	4 867
Capacity ³ : Cultivated grassland	1 000 hect.	84.1	88.4	91.7	96.5	100.9	104.5	108.4	112.4
	Sheep	1 000 heads	812.8	846.7	850.2	829.1	820.2	780.6	735.5
	Cattle	1 000 heads	59.7	59.5	54.5	52.3	53.4	53.3	59.2
MANUFACTURING (excl. fish processing)									
Production, volume ⁴	1962 = 100	117.5	121.6	119.9	121.4	130.1	153.0	177.1	(191.3)
Employment	1962 = 100	109.2	111.8	107.8	103.5	109.6	119.2	127.4	..
DWELLING CONSTRUCTION									
Started	Number	2 126	1 609	2 052	1 041	1 030	1 469	1 833	1 963
Completed	Number	1 518	1 693	1 787	1 779	1 460	1 329	1 362	1 930
Under construction, end of year	Number	3 886	3 802	4 067	3 329	2 899	3 039	3 510	3 543

1 Including whale-catchers, excluding open boat.

2 Including change in livestock.

3 Beginning of year.

4 Excluding aluminium.

Sources: Icelandic submission to the OECD. Fjarmalutidindi and Hagtidindi.

Table D Gross Fixed Asset Formation
Kr. million, 1960 prices

	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
GROSS FIXED ASSET FORMATION, TOTAL	2 274	2 971	3 500	3 429	3 997	4 505	4 111	3 131	3 404	4 888
Classification by end-use:										
INDUSTRIAL ASSET FORMATION	1 132	1 579	1 933	1 748	2 066	2 224	1 647	1 254	1 623	2 732
Agriculture	246	290	334	362	347	352	324	217	257	308
Fishing	151	287	366	134	193	427	101	53	256	235
Fish processing	179	174	154	171	226	131	66	42	88	155
Manufacturing other than fish processing	154	229	241	224	314	484	658	684	446	573
Transport equipment	223	296	572	515	565	436	264	64	283	1 019
Commercial buildings	110	152	142	190	216	160	116	140	179	181
Various machinery and equipment	69	151	124	152	205	234	118	54	114	261
RESIDENTIAL CONSTRUCTION	498	638	705	743	826	905	790	616	623	702
PUBLIC WORKS AND BUILDINGS	644	754	862	938	1 105	1 376	1 674	1 261	1 158	1 454
Electric power, generation and distribution	108	142	122	121	192	387	743	457	334	446
Geothermal heating and water supply	58	91	91	105	104	87	88	85	95	90
Communications	304	349	420	462	528	598	560	465	437	591
Public buildings	174	172	229	250	281	304	283	254	292	327
Classification by type of assets:										
MACHINERY AND EQUIPMENT	799	1 198	1 469	1 201	1 515	1 619	1 361	858	1 200	2 322
Electric power, generation and distribution	108	142	122	89	112	149	357	218	167	262
Various machinery and equipment	318	473	409	462	645	607	639	523	494	806
Ships and aircraft	255	385	795	504	537	674	238	80	441	1 026
Vehicles for industrial use	118	198	143	146	221	189	127	37	98	228
BUILDINGS	1 031	1 247	1 405	1 508	1 703	1 889	1 656	1 449	1 395	1 588
Residential construction	498	638	705	743	826	905	790	616	623	702
Other buildings	533	609	700	765	877	984	866	833	772	886
OTHER CONSTRUCTION	444	526	626	720	779	997	1 094	824	809	978

1 Preliminary.

Source: Icelandic submission to the OECD.

Table E Balance of Payments
\$ million

	1965	1966	1967 ¹	1968 ¹	1969	1970	1971	1972 ²
Exports of goods, fob	129.3	139.1	98.7	82.8	106.9	146.0	149.8	189.8
Imports of goods, fob	-124.1	-145.5	-150.8	-129.3	-105.5	-141.6	-199.1	-213.6
Ships and aircraft	-13.6	-15.1	-18.6	-6.6	-0.6	-9.7	-25.6	-12.7
Straumsvik, Burfell ³	—	-3.1	-6.4	-17.6	-14.2	-11.8	-18.8	-19.1
Other imports	-110.5	-127.3	-125.8	-105.1	-90.7	-120.1	-154.7	-181.8
BALANCE OF TRADE	5.2	-6.4	-52.1	-46.5	1.4	4.4	-49.3	-23.8
Military receipts, net	7.2	9.7	14.1	9.4	9.9	12.8	14.7	16.3
Other services	-4.3	-7.6	-10.1	-0.9	-0.1	-4.3	-3.6	-2.8
BALANCE ON GOODS AND NON-FACTOR SERVICES	8.1	-4.3	-48.1	-38.0	11.2	12.9	-38.2	-10.3
Interest from abroad	1.9	2.2	2.1	1.3	1.9	3.5	3.7	3.4
Interest on foreign debt	-4.9	-5.3	-6.4	-7.5	-8.6	-9.0	-9.3	-13.1
Transfer payments	—	-1.2	-1.4	-0.9	-0.8	-0.4	-0.1	0.2
BALANCE ON CURRENT ACCOUNT	5.1	-8.6	-53.8	-45.1	3.7	7.0	-43.9	-19.8
Amortization of debt	-10.4	-13.5	-14.9	-16.7	-22.5	-18.7	-16.4	-23.2
Public borrowing	5.9	12.5	13.0	29.1	23.2	4.4	24.7	44.2
Private borrowing and direct investment	9.6	14.3	21.2	19.1	17.2	10.6	44.6	11.8
Other capital movements	-1.5	-3.4	8.1	-2.3	-1.6	9.3	8.7	-5.4
Errors and omissions	-1.3	-1.2	1.4	1.1	-0.8	1.0	-0.7	—
OVERALL BALANCE	7.4	0.1	-24.9⁴	-14.8	19.2	13.6	17.0	7.6
Change in foreign exchange holdings:	7.4	0.1	-26.2 ⁴	-14.8	19.2	13.6	17.0	7.6
Convertible currencies	11.6	-1.3	-30.1	-13.6	18.7	13.3	18.2	6.2
Clearing currencies	-4.2	1.4	3.9	-1.2	0.5	0.3	-1.2	1.4

¹ The exchange rate was changed on 24th November 1967 from 1 \$ = Kr. 43.00 to 1 \$ = Kr. 57.00 and to 1 \$ = Kr. 88.00 on 12th November 1968. However, following the method utilised in the balance of payments statistics of the Central Bank of Iceland figures for 1967 and 1968 have been converted at exchange rates \$ 1 = Kr. 43 and Kr. 57 respectively.

² Preliminary.

³ Special imports for use in the construction of a power station at Burfell, a harbour at Straumsvik and an aluminium smelter. These imports reached a maximum in 1968 and fell almost completely off in 1969.

⁴ Difference resulting from loss of exchange holdings due to devaluation of sterling and other currencies.

Source: Central Bank Annual Report 1971.

Table F Central Government Income and Expenditure¹

Fiscal year = Calendar year

Kr. million

	1964	1965	1966	1967	1967	1968	1969	1970	1971	1972 ²
CURRENT REVENUE	3 297	4 185	5 315	5 805	5 135	6 741	7 455	9 800	13 258	16 899
Direct taxes	281	374	522	739	687	1 332	1 515	1 727	2 457	3 978
Indirect taxes	2 987	3 815	4 714	4 955	4 270	5 326	5 819	7 834	10 631	12 751
Other	29	-4	79	111	178	83	121	239	170	170
CURRENT EXPENDITURE	2 766	3 075	3 688	4 544		5 116	5 619	6 821	9 976	12 510
Purchase of goods and services	882	1 062	1 309	1 510		2 009	2 529	3 123	4 148	4 698
Subsidies	1 016	1 086	1 273	1 678						
Interest	7	10	9	12						
Current transfers ³	861	917	1 097	1 344		3 107	3 090	3 698	5 828	7 812
Depreciation and other operating provisions	—	—	—	—	—	—	—	—	—	—
GROSS SAVING	531	1 110	1 627	1 261		1 625	1 836	2 979	3 282	4 389
Gross fixed asset formation	230	362	313	485		443	469	821	1 402	1 224
SURPLUS ON CURRENT AND FIXED INVESTMENT ACCOUNT	301	748	1 314	776		1 182	1 367	2 158	1 880	3 165
Lending, net ⁴	83	-89	-34	-164		-48	-130	-110	-246	262
Net capital transfers to other sectors	469	617	816	984		1 347	1 707	1 744	2 224	2 816
OVERALL BALANCE⁵	-251	220	532	-44		-315 ⁶	-210	524	-98	87

1 The first part, 1964-1967, according to the OECD definition and the second part, 1967-1972, according to the Icelandic definition.

2 Approved budget.

3 Including subsidies for the second part, 1967-1972.

4 «—» = net borrowing.

5 Net change in floating debts and cash balances.

6 Including -198 for current receipts outstanding and other adjustments.

Source: Icelandic submission to the OECD.

Table G Fish Catch, Wages and Prices

	Fish catch (thous. tons)					Wages and prices (1963 = 100)											
	Total	White fish etc.	Herring	Capelin	Shrimp, lobster, shell-fish	Hourly wage rates, unskilled workers ¹	Cost of living index ²					Building cost Reykjavik ³	Export prices of fish products ⁴				
							Total	Goods and services			Rent		Fresh and iced fish	Frozen products	Salted products	Fish meal and oil	
								Total	Food	Other							
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16		
1965	1 199	382	763	50	5	138.6	127.9	128.6	133.3	123.5	113.7	133.8	108.1	125.8	131.4	139.8	
1966	1 240	339	771	125	5	162.5	141.6	145.3	153.1	136.7	124.9	155.2	114.3	139.4	147.2	129.9	
1967	896	333	462	97	4	170.6	146.3	150.0	155.2	144.1	135.6	159.1	94.5	127.5	139.7	108.5	
1968	599	373	143	78	5	183.1	167.9	171.8	182.7	160.2	142.7	176.4	84.7	115.8	130.1	95.4	
1969	686	451	57	171	7	213.1	205.5	214.5	232.3	197.9	151.7	219.3	111.1	121.8	119.7	126.2	
1970	729	477	51	192	9	261.6	233.4	246.1	271.2	224.9	160.8	256.9	150.0	142.8	140.5	172.2	
1971	681	422	61	183	15	298.0	250.3	264.5	275.6	249.6	170.3	286.6	152.4	190.9	178.4	170.7	
1972	736	399	43	278	16		271.2	300.3	321.7	282.9	193.5	351.6	231.4	214.0	210.3	158.3	
Quarterly:																	
1969	1	290	119	3	167	1	195.9	194.3	202.1	214.2	188.7	146.6	206.1	(Average 1969 = 100)			
	2	194	181	7	4	2	219.4	201.7	209.9	225.2	195.1	151.2	223.2				
	3	126	96	27	—	3	226.2	210.5	220.2	241.9	202.1	154.0	..				
	4	76	55	20	—	1	230.2	215.3	225.6	247.7	205.5	155.1	228.6				
1970	1	276	119	—	155	2	234.0	220.2	230.5	252.9	208.5	155.1	234.4	..	111.2	116.9	128.9
	2	261	215	7	37	2	279.2	226.6	238.7	261.6	219.2	159.3	256.3	..	113.3	114.9	135.3
	3	109	85	21	—	3	290.9	236.2	248.5	275.6	228.3	162.2	..	..	116.6	108.6	138.5
	4	83	58	23	—	2	290.9	250.7	266.5	294.7	243.5	166.4	279.9	..	137.2	124.5	141.9
1971	1	285	104	4	173	4	290.9	249.1	261.6	273.8	246.6	167.8	284.1	..	151.3	163.5	145.2
	2	191	178	9	—	4	290.9	250.7	264.9	277.3	249.6	170.6	285.7	..	155.0	177.6	143.6
	3	123	91	21	7	4	296.7	249.1	263.2	273.8	249.6	170.6	..	..	159.5	162.3	127.0
	4	82	49	27	3	3	324.2	252.3	268.1	277.3	252.7	172.0	289.9	..	155.6	177.0	125.0
1972	1	404	124	—	278	2	364.0	251.2	277.8	289.6	263.7	172.4	321.8	..	168.8	202.8	125.3
	2	150	141	5	—	4	409.7	272.0	300.7	324.5	282.3	190.7	364.9	..	174.9	178.5	124.8
	3	107	81	21	—	5	409.7	280.0	308.8	334.7	290.4	204.7	..	..	179.9	179.3	126.7
	4	75	53	17	—	5	409.7	281.6	313.7	338.1	295.2	206.1	368.0	..	184.7	209.0	161.0

1 Yearly figures are weighted averages. Quarterly figures give the wage rate at the end of the quarter.

2 New index beginning February 1968 (Jan. = 100), excluding direct taxes. Aggregates for 1968 calculated with new weights.

3 February, June and October.

4 Base year for the quarterly series is 1969. The annual and quarterly indices, which are based on f.o.b. prices in terms of foreign currencies, are not fully comparable due to weighting differences as well as to the fact that the annual series is an implicit price index while the quarterly series is a unit base index.

Sources: Icelandic Statistical Bulletin (col. 6) and Hagtidindi.

Table H Foreign Trade, Total and by Area
\$ million, monthly rates

	Total imports cif		Imports by area						Total exports fob		Exports by area					
			OECD countries			Non-OECD countries					OECD countries			Non-OECD countries		
	Orig.	Adj.	Total	Europe		Eastern Europe	Other develop- ed countr.	Develop- ing countr.	Orig.	Adj.	Total	Europe		Eastern Europe	Other develop- ed countr.	Develop- ing countr.
				EEC	Others							EEC	Others			
	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32
1965	11.4	..	9.2	5.1	1.8	1.8	0.02	0.3	10.8	..	8.9	5.3	1.8	1.2	0.00	0.6
1966	13.3	..	11.4	5.8	2.8	1.5	0.03	0.3	11.7	..	9.7	5.1	2.6	1.4	0.00	0.6
1967	13.5	..	11.5	6.3	2.5	1.6	0.02	0.5	8.1	..	6.3	3.4	1.7	1.5	0.00	0.2
1968	11.5	..	9.7	5.9	2.2	1.4	0.02	0.4	6.8	..	5.6	2.2	1.6	1.0	0.00	0.2
1969	10.3	..	8.3	5.1	2.0	1.3	0.02	0.7	9.0	..	7.4	3.3	1.6	1.0	0.03	0.5
1970	13.1	..	10.8	7.2	2.1	1.4	0.02	0.9	12.2	..	10.8	4.6	2.4	1.2	0.00	0.2
1971	17.5	..	14.6	9.1	2.9	1.8	0.03	1.0	12.5	..	10.9	4.0	2.2	1.4	0.00	0.2
1972	19.2	..	16.2	10.1	3.7	2.0	0.08	0.9	15.7	..	13.4	5.2	3.3	1.9	0.00	0.4
Quarterly:																
1969 1	7.7	10.3	6.3	4.1	1.3	1.0	0.01	0.3	5.7	7.5	4.2	1.6	0.9	1.1	0.01	0.4
2	10.4	9.3	8.9	5.1	2.5	1.0	0.03	0.4	8.3	8.7	6.6	2.7	1.9	1.2	0.00	0.5
3	10.8	11.6	8.6	5.2	2.3	1.6	0.04	0.5	10.0	11.0	8.7	3.7	1.7	1.0	0.01	0.3
4	12.3	11.3	9.3	6.1	1.9	1.4	0.02	1.5	11.9	10.1	10.0	5.0	2.1	1.0	0.13	0.7
1970 1	8.9	11.9	7.3	4.5	1.5	1.0	0.00	0.6	8.9	11.7	7.7	3.3	2.0	0.8	0.00	0.3
2	12.5	11.5	9.9	6.4	2.2	1.5	0.01	1.1	13.4	12.8	11.5	3.7	3.6	1.8	0.00	0.1
3	12.9	12.8	10.5	6.7	2.2	1.4	0.04	0.9	14.1	13.5	12.4	5.5	2.2	1.7	0.00	0.1
4	18.2	16.8	15.5	11.3	2.5	1.7	0.02	0.9	12.5	10.8	11.4	6.0	1.8	0.7	0.00	0.3
1971 1	13.4	17.7	10.5	6.9	2.0	1.7	0.02	1.1	9.2	12.0	8.4	2.8	2.0	0.5	0.00	0.3
2	19.7	17.3	16.8	10.0	3.5	2.1	0.03	0.8	14.6	14.2	12.4	3.9	3.8	2.1	0.00	0.1
3	16.7	16.8	14.0	8.8	3.2	1.7	0.06	0.9	14.4	13.6	12.9	4.3	1.8	1.4	0.00	0.1
4	20.1	18.6	17.1	10.7	3.0	1.7	0.03	1.3	11.7	10.4	9.8	5.1	1.3	1.4	0.00	0.5
1972 1	14.5	19.0	12.4	8.1	2.5	1.2	0.05	0.8	12.9	16.5	11.1	3.9	2.9	1.2	0.00	0.5
2	21.9	19.3	18.7	11.9	4.1	2.3	0.10	0.8	17.2	16.6	14.5	4.7	4.9	2.5	0.00	0.2
3	17.9	17.8	15.0	9.7	3.2	1.8	0.09	1.0	17.4	16.4	15.2	6.1	3.1	1.9	0.00	0.3
4	22.6	21.2	18.7	10.7	5.2	2.7	0.07	1.1	15.5	13.7	12.9	5.9	2.2	2.0	0.00	0.6

Sources: OECD Main Economic Indicators and OECD Foreign Trade Statistics, Series A.

Table I Foreign Trade by Commodity Group
\$ million

	Imports by commodity group							Exports by commodity group								
	Total	Transport equipment	Other imports					Total	Fish products, total	Frozen fish fillets	Herring salted	Herring and capelin meal	Other fish and misc. prod.	Agricultural prod.	Aluminium prod.	Other manufac. prod.
			Total	Food and live animals	Semi-manufactured goods	Machinery and apparatus	Other goods									
	SITC No.	73	0	6	71.72											
33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	
1965	137.2	22.6	114.6	13.7	34.8	21.9	44.2	129.3	122.2	26.7	11.4	21.9	1.5	4.3	—	1.3
1966	159.4	26.1	133.3	13.9	39.2	30.1	50.1	140.6	130.1	24.6	13.5	26.0	1.4	5.8	—	3.3
1967	163.4	28.1	135.3	15.8	39.0	30.1	50.4	96.9	87.4	20.4	8.7	16.7	0.7	5.8	—	3.0
1968	138.4	13.2	125.2	15.4	34.8	26.9	48.1	82.3	72.1	22.8	9.9	4.3	1.3	7.2	—	1.7
1969	123.4	4.0	119.4	14.4	32.1	26.8	46.1	107.6	88.0	33.2	4.8	4.3	2.4	6.9	5.9	4.4
1970	157.3	19.2	138.1	17.1	37.0	26.7	57.3	146.6	114.6	48.7	5.2	5.6	1.7	5.0	19.4	5.9
1971	220.0	43.0	177.0	18.2	44.5	42.6	71.7	149.7	125.6	57.7	1.7	5.2	1.4	4.5	10.1	8.1
1972	232.0	32.3	199.7	21.3	49.6	49.3	79.5	189.7	140.0	59.9	1.9	7.1	1.3	5.9	30.9	10.6
Quarterly:																
1969 1	23.0	0.5	22.5	3.3	6.8	4.5	7.9	17.1	15.1	5.8	1.6	1.0	0.4	0.9	—	0.7
2	31.1	0.9	30.2	3.3	7.0	9.6	10.3	24.9	22.4	7.1	—	2.5	0.4	1.2	—	0.8
3	32.3	1.1	31.2	4.1	8.9	5.5	12.7	29.9	26.3	10.8	0.6	0.7	0.5	0.5	1.9	0.8
4	37.0	1.5	35.5	3.7	9.4	7.2	15.2	35.7	24.2	9.5	2.6	0.1	1.1	4.3	4.0	2.1
1970 1	26.8	1.2	25.6	3.8	8.1	4.5	9.2	26.7	19.7	7.6	3.3	0.4	0.2	1.1	4.6	1.1
2	37.4	2.6	34.8	4.0	8.7	6.1	16.0	40.2	33.1	14.0	0.2	4.2	0.6	1.3	4.1	1.1
3	38.6	3.1	35.5	4.3	10.6	7.2	13.4	42.3	33.8	15.4	0.3	0.8	0.2	0.7	5.9	1.7
4	54.5	12.3	42.2	5.0	9.6	8.9	18.7	37.4	28.0	11.7	1.4	0.2	0.7	1.9	4.8	2.0
1971 1	40.1	3.0	37.1	4.8	9.3	8.3	14.7	27.5	21.5	10.2	1.5	1.1	0.2	1.3	3.0	1.5
2	59.1	12.6	46.5	4.4	11.5	11.6	19.0	43.8	39.6	16.3	0.1	3.7	0.2	1.2	1.3	1.5
3	50.1	5.1	45.0	4.3	12.4	11.5	16.8	43.3	37.7	20.1	0.1	0.2	0.3	0.6	2.6	2.1
4	70.7	22.3	48.4	4.7	11.3	11.2	21.2	35.1	26.8	11.1	0.0	0.2	0.7	1.4	3.2	3.0
1972 1	43.5	3.8	39.7	4.6	10.4	9.9	14.8	38.7	29.0	14.3	1.9	1.2	0.3	2.2	4.9	2.3
2	65.7	10.7	55.0	5.3	12.8	14.0	22.9	51.9	40.2	14.6	0.0	3.9	0.3	0.9	7.4	2.8
3	53.4	4.1	49.3	4.7	12.2	12.1	20.3	52.0	38.0	17.1	0.0	1.9	0.4	0.9	9.9	2.8
4	69.4	13.7	55.7	6.7	14.2	13.3	21.5	47.1	32.8	13.9	0.0	0.1	0.3	1.9	8.7	2.7

Sources: OECD Foreign Trade Statistics, Series B, Icelandic Statistical Bulletin (col. 41 to 48).

Table J Money and Credit (end of period)

	Central Bank		Non-bank sector			Bank liquidity				Credits granted by banks					Foreign exchange	
	Central Bank discount rate	Net position of Treasury	Money supply		Savings deposits	Commercial and savings banks				Total	of which ¹ to:				Official and foreign exchange ²	Com-mercial banks' position
			Orig.	Adj.		Blocked deposits	Redis-counted bills	Net free position with Central Bank	Net foreign assets		Agriculture	Fishery and fish processing	Manu-facturing and commerce	Dwellings		
Per cent	Kr. million														\$ million	
	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64
1965	5.00	103	2 680	2 748	6 196	1 391	1 165	404	-156	8 288	1 009	1 830	2 615	816	51	-3
1966	5.25	434	2 832	2 897	7 183	1 730	1 311	81	-313	9 715	1 058	2 227	3 084	914	54	-7
1967	5.25	-23	2 605	2 667	7 799	1 908	1 304	-281	-475	10 617	1 146	2 421	3 430	997	32	-10
1968	5.25	-265	2 894	2 969	8 417	2 073	1 438	-606	-833	11 949	1 189	2 868	3 936	1 052	25	-11
1969	5.25	-640	3 810	3 919	10 134	2 640	1 898	102	-14	12 865	1 348	2 629	4 357	1 248	39	-1
1970	5.25	-176	4 648	4 772	12 624	3 359	1 744	55	-320	15 443	1 719	2 125	5 548	2 013	54	-4
1971	5.25	831	5 665	5 828	15 198	4 030	2 053	-487	-413	18 958	1 940	2 844	6 232	2 514	61	-6
1972	5.25	234	6 901		17 774	4 741	2 690	-625	-571	22 727	2 341	3 590	7 436	3 215	71	-10
Quarterly:																
1969 1	5.25	-523	3 054	3 229	8 676	2 204	1 481	-480	-773	12 112	1 121	2 998	4 053	1 064	35	-10
2	5.25	-737	3 505	3 407	9 006	2 353	1 893	-276	-472	12 604	1 079	3 353	4 092	1 105	32	-6
3	5.25	-759	3 680	3 661	9 275	2 436	1 919	-80	-260	12 772	1 056	3 124	4 251	1 178	37	-4
4	5.25	-640	3 810	3 919	10 134	2 640	1 898	102	-14	12 865	1 348	2 629	4 357	1 248	39	-1
1970 1	5.25	-965	4 085	4 299	10 661	2 824	1 572	57	176	13 047	1 236	2 365	4 552	1 271	44	1
2	5.25	-1 130	4 751	4 612	11 287	3 138	1 657	391	90	13 938	1 192	2 634	5 004	1 391	50	1
3	5.25	-913	4 873	4 859	11 614	3 225	1 688	387	-99	14 702	1 365	2 494	5 051	1 559	53	-1
4	5.25	-176	4 648	4 772	12 624	3 359	1 744	55	-320	15 443	1 719	2 125	5 548	2 013	54	-4
1971 1	5.25	-572	5 075	5 352	13 249	3 541	1 701	-15	-396	16 437	1 521	2 633	5 798	2 005	53	-5
2	5.25	-507	6 049	5 867	13 666	3 779	2 146	237	-436	17 823	1 536	3 135	6 031	2 242	60	-7
3	5.25	-108	6 299	6 286	14 155	4 008	1 956	176	-475	18 322	1 620	2 977	6 204	2 384	64	-7
4	5.25	831	5 665	5 828	15 198	4 030	2 053	-487	-413	18 958	1 940	2 844	6 232	2 514	61	-6
1972 1	5.25	1 637	6 388	6 730	15 905	4 190	2 329	-51	-635	20 103	1 699	3 550	6 671	2 593	61	-9
2	5.25	1 882	7 157	6 915	16 267	4 517	2 666	-202	-681	21 620	1 678	4 182	7 089	2 703	58	-10
3	5.25	1 196	7 402	7 343	16 864	4 583	2 350	-495	-644	21 967	1 789	3 920	7 344	2 812	70	-11
4	5.25	234	6 901		17 774	4 741	2 690	-625	-571	22 727	2 341	3 590	7 436	3 215	71	-10

1 Excluding credits granted by minor savings banks.

2 Excluding IMF position.

Sources: Icelandic Statistical Bulletin (col. 50, 54, 55, 57, 58), International Financial Statistics (col. 49, 51, 52, 53), OECD Main Economic Indicators (col. 63, 64) and Icelandic submission to the OECD.

BASIC STATISTICS : INTERNATIONAL COMPARISONS

			Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxembourg	Netherlands	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia	
POPULATION	Net average annual increase	Mid-1971	12 728	7 456	9 673 ³	21 595	4 968	4 628 ¹	51 250	61 284	8 769 ⁶	2.06	2 971	53 899	104 650	342	13 194	3 905	8 870	34 003	8 105	6 324	36 160	55 668	207 049	20 550	
		1961 to 1971	1.93	0.53	0.52	1.69	0.75	0.35	1.05	0.87	0.43	1.42	0.53	0.65	1.07	0.76	1.26	0.77	-0.07	1.06	0.75	1.41	2.51	0.50	1.21	1.00	
EMPLOYMENT	Total civilian	1971	5 425	3 176	3 788	8 079	2 338	2 139	20 518	26 673	3 275	79 ¹³	1 063	18 700	51 140	148	4 604	1 497 ¹³	3 033	12 442	3 860	3 063	(13 639) ¹³	24 329	79 120	7 651 ⁶	
		Agriculture	8.0	17.3	4.4	7.5	10.9	21.2	13.4	8.4	37.3	18.8 ¹³	26.5	19.5	15.9	10.2	6.9	13.9 ¹³	31.1	28.6	7.8	7.2	(71.5) ¹³	2.7	4.3	50.4	
		% of total	38.8	41.9	44.2	31.0	37.2	35.2	38.6	50.1	24.6	38.1	44.4 ¹³	30.9	44.1	36.0	47.3	38.0	37.3 ¹³	36.3	37.5	37.6	47.5	(11.8) ¹³	45.7	(31.0)	
	Industry ⁷	53.2	40.8	51.4	61.5	51.9	43.6	48.0	41.5	38.1	44.4 ¹³	42.6	36.4	48.1	42.5	55.1	48.8 ¹³	32.6	33.9	54.6	45.3	(16.7) ¹³	51.6	(64.7)	49.6		
PRODUCTION	GNP per head	1971	3 080	2 210	3 010	4 240	3 500	2 430	3 180	3 550	1 220	2 350 ¹³	1 550	1 880	2 150	3 050	2 820	3 310	770	1 070	4 400	3 880	360	2 460	5 160	561 ²	
		1971	7.2 ^{2,4,15}	6.0 ¹¹	3.9	4.4	7.5	13.7	6.0 ^{11,13}	2.8 ¹¹	19.5	..	16.4	11.5	6.5 ^{11,13}	4.1 ¹³	6.2 ¹³	5.3	16.2	13.5	4.4 ¹¹	6.4 ¹⁰	30.2 ¹²	2.9 ¹⁴	2.9 ¹¹	19.3 ¹³	
		% of total	38.1 ^{2,4,15}	49.0 ¹¹	43.8	37.0	38.7	42.3	48.4 ^{11,13}	53.5 ¹¹	30.5	..	35.6	40.5	44.4 ^{11,13}	56.9 ¹³	42.0 ¹³	37.8	44.3	34.4	39.3 ¹¹	49.6 ¹⁰	25.7 ¹³	43.5 ¹⁴	33.1 ¹¹	41.1 ¹³	
	Other	54.7 ^{2,4,15}	45.0 ¹¹	52.3	58.6	53.8	45.6 ^{11,13}	43.7 ¹¹	50.0	..	48.0	..	48.0	49.1 ^{11,13}	39.1 ¹³	51.8 ¹³	56.9	39.5	52.1	56.2 ¹¹	44.0 ¹⁰	44.1 ¹²	53.6 ¹⁴	63.9 ¹¹	39.6 ¹³		
	GNP ²³ annual volume growth	1970	4.3 ^{4,15}	7.1	6.1	3.2 ⁴	3.1	7.9	6.0	5.4	8.0	6.7	1.5	5.1	10.5	3.5	5.6	3.7	7.5	5.9	4.6 ⁴	4.4	5.5	2.0 ⁴	-0.6	..	
	1965 to 1970		5.8 ^{4,15}	5.1	4.6	4.6 ⁴	4.4	5.0	5.8	4.6	7.0	1.8	4.0	6.0	12.1	3.6	5.2	4.6	6.0	6.5	3.9 ⁴	3.8	7.0	2.4 ⁴	3.2	..	
INDICATORS OF LIVING STANDARDS																											
	Private consumption per head	1971	1 780	1 240	1 810	2 450	2 080	1 280	1 870	1 910	730 ¹³	1 860	1 040	1 200	1 120	1 790	1 600	1 770	580	720	2 390	2 230	230 ¹³	1 510	3 230	275 ¹⁸	
	Expenditure on education	1969	4.00 ⁹	4.80	4.97 ¹⁸	8.90	6.00	6.50	4.50	3.60	2.00	4.60 ¹⁸	4.70 ¹⁸	4.30	4.00	5.00	6.50 ¹⁸	6.30	1.44 ⁹	2.20	7.91 ¹⁸	4.10	3.40 ¹⁸	4.97	6.30	4.59 ⁹	
	Dwellings completed, per 1 000 inhabitants	1970	11.2	6.1	4.7 ²²	8.2	10.2	10.6	9.1	8.1	12.9	6.5	4.4	6.6	14.4	5.3	9.1	9.4	4.7	9.3	13.7	10.5	4.8	6.5	7.0	6.2	
	Passenger cars, per 1 000 inhabitants		306	162	211	312	219	137	245	237	22	200	122	187	85	267	194	193	47	71	279	221	4	213	432	35	
	Television sets, per 1 000 inhabitants		227	192	216	294 ²	266	221	201 ²	272	10 ²	181	172	181	215	208	223 ²	220	38	174	312	203	1.3 ²	293	412	88	
	Telephones, per 1 000 inhabitants		312	193	211	452	339	249	172	225	120	347	104	171	251	328	260	294	78	135	537	482	16	267	587	36	
	Doctors, per 1 000 inhabitants	1969	1.18 ¹⁹	1.85	1.54	1.39	1.46 ¹⁸	1.04	1.23	1.54	1.49	1.34 ¹⁸	1.09	1.79	1.12	1.06	1.25	1.39	0.84	1.33	1.24	1.61	0.44	1.18 ⁹	1.65	1.10	
GROSS FIXED INVESTMENT ²⁵ Total	1966-70 average	% of GNP	17.4 ^{4,15}	27.8	21.2	23.5 ²⁴	23.2	24.6	25.8	25.4	27.2	29.0	21.6	8.61	36.6	24.1	27.4	28.9	18.6	24.8	24.0	27.2	25.6	18.6	16.6 ²⁶	..	
		Machinery and equipment	8.9	12.0	9.1	9.5	11.8	8.8	11.4	11.4	11.0	8.0	10.5	7.9	7.9	30.1 ²⁷	7.0	12.9	14.7	7.6	13.0	8.2	9.5	9.2	7.1 ²⁶	..	
		Residential construction	4.8	15.8 ²⁸	5.1	3.6	4.4	5.6	6.6	5.5	6.7	6.0	3.9	6.2	6.5	4.9	5.3	4.8	3.4	6.2	4.2	6.1	6.9	5.3	3.5	3.3	..
		Other construction	3.7	— ²⁸	7.0	10.4	7.0	10.2	7.9	8.5 ²⁹	9.9	15.0	7.3	5.6	— ²⁷	12.2	9.2	9.4	7.6	7.7	7.7	9.7	10.8	..	5.9	6.1	..
GROSS SAVING	1966-70 average	% of GNP	26.3	28.3	23.5	24.7	18.9	28.5	26.5	26.9	21.0 ⁴⁹	..	19.8 ⁴⁹	23.4	38.7	28.1 ²⁵	26.8	28.5	..	22.7	23.1	28.4 ⁴⁹	18.6 ⁴⁹	18.5	17.9	..	
PUBLIC SECTOR ³⁰ Total current revenue	1971	% of GNP	28.9	35.9 ¹³	35.2	36.3	37.5 ²	38.0	37.2 ¹³	38.4	27.2 ²	33.8 ¹⁸	33.6	33.5	21.9 ¹³	34.8 ¹⁸	44.1 ¹³	47.8	..	22.6	49.1 ³¹	26.5 ²	19.5 ²	39.7 ¹³	30.3	32.6 ¹⁸	
WAGES/PRICES	Hourly earnings ³²	Annual increase 1965 to 70	5.3 ³⁴	8.2 ³³	8.2	7.3 ³⁴	10.9 ³⁵	8.4	9.2 ³⁶	7.4 ³⁴	9.5 ³⁴	13.5 ³⁷	10.8 ³⁴	8.2 ³⁸	14.7 ³⁹	..	8.9 ⁴⁰	8.8 ⁴¹	9.7 ³³	12.8 ⁴²	8.9 ⁴³	5.2 ³⁶	..	6.7 ⁴⁵	5.3 ³⁴	..	
		Consumer prices	3.1	3.2	3.5	3.9	6.4	4.7	4.3	2.7	2.5	12.9	5.3	2.9	2.9	5.5	3.0	4.9	4.9	6.4	5.1	4.4	3.5	8.1	4.6	4.2	10.6
		GNP deflator	3.6	3.3	3.4	4.1	6.3	5.6	4.8	3.4	2.6	12.4	5.8	3.4	3.4	4.7	4.9	4.8	5.0	4.8	5.1	4.3	4.0	5.5	4.6	4.0	..
FOREIGN TRADE	Imports ⁴⁶	1970	\$ million ⁸	4 350	11 680	15 800 ¹⁸	5 000	3 130	24 580	40 270	1 930 ²	230	1 730	18 170	20 920	810	16 700	5 000	1 910	5 500	6 080 ¹⁸	6 280 ²	1 120	28 250	59 310	1 991 ⁹	
		% of GNP	15.8	30.3	45.1	25.3	32.1	30.6	16.6	21.5	23.0	48.3	44.5	19.6	10.6	81.1	53.4	43.9	30.6	17.1	23.8	33.4	8.9	23.3	6.0	21.0 ⁹	
		\$ million ⁸	5 631 ¹⁵	4 390	12 470	15 490 ¹⁸	4 540	2 900	25 140	43 270	1 090 ²	240	1 530	18 790	23 110	880	16 310	4 830	1 540	4 940	5 920 ¹⁸	7 120 ²	940	30 520	62 900	1 875 ⁹	
	Exports ⁴⁶	% of GNP	15.6	30.5	48.2	24.8	29.1	28.3	17.0	23.1	12.9	50.0	39.3	20.2	11.7	88.0	52.2	42.4	24.6	15.3	23.1	37.8	7.5	25.2	6.4	19.7 ⁹	
BALANCE OF PAYMENTS	Current balance	1966-70 average	% of GNP	-3.3 ¹³	-0.5	1.7 ²¹	-0.3	-2.6	-1.2	-0.4	1.0	-3.6	-2.9	2.5	0.9	—	-0.6	-0.5	2.5	-1.2	-0.6	1.6	-1.5	0.2	0.1	..	
		Official reserves ⁴⁷ , end-1971: per cent of imports of goods in 1971	%	70.7	56.4	27.4 ²¹	36.9	15.9	25.6	38.8	53.5	25.0	33.4	54.2	42.5	77.9	—	25.0	28.2	109.8	65.8	15.7	81.7	70.9	27.5	28.9	6.1
		Change	March 1972 - March 1973	\$ million	2 135	577	1 283 ²¹	263	218	-145	2 713	11 205	563 ⁴⁸	3	-410	1 461	—	1 725	160	641	1 781 ⁵⁴	780	695	785	-1 038	1 063	500
NET FLOW OF RESOURCES TO DEVELOPING COUNTRIES ⁵⁰	1971	% of GNP	1.00	0.56	1.03	0.82	0.80	— ⁵¹	1.02	0.88	— ⁵²	— ⁵¹	— ⁵¹	0.85	0.96	— ⁵¹	1.63	0.51	1.56	— ⁵²	0.69	[0.93]	— ⁵²	1.14	0.67	— ⁵²	
EXPORT PERFORMANCE ⁵³	Growth of markets ⁵⁴	1970 to 1971	%	8.3	10.7	12.2	16.5	10.9	10.1	10.6	11.4	..	14.6	12.4	13.8	—	11.9	10.8	7.2	11.9	10.6	10.9	11.6	11.5	11.5	..	
		1960-61 to 1970-71 (average)	%	..	11.5	11.5	13.5	10.3	10.6	9.6	10.8	11.5	..	8.5	10.9	10.1	—	11.1	10.2	10.6	11.9	10.5	11.1	9.8	9.8	..	
		1970 to 1971	%	1.2	-0.8	-6.1 ²¹	-5.7	-1.0	-7.9	3.8	2.8	-8.0	..	11.9	2.3	10.5	—	7.2	-6.3	2.0	11.2	-0.9	1.3	3.3	-8.7	-8.7	
	Gains or losses of market shares ⁵⁵	1960-61 to 1970-71 (average)	%	..	-1.5	0.5 ²¹	-2.0	-1.6	-2.0	1.0	0.3	..	1.2	2.8	7.9	—	0.8	0.5	1.1	3.4	-0.1	-0.3	-4.2	-2.9	-2.1		

1 Does not include total net migration between Finland and the other Nordic countries.
 2 1969.
 3 Adjusted data on the census taken on 31.12.1970.
 4 GDP in purchasers' values.
 5 Private and socialised sector.
 6 Census results on 14.3.1971.
 7 According to the definition used in OECD Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
 8 At current prices and exchange rates.
 9 1967.
 10 The estimates for GDP by sector for Switzerland have been published in "La Vie économique", November 1969.
 11 GDP at market prices.
 12 Net domestic product.
 13 1970.
 14 Including stock appreciation.
 15 Fiscal year-Beginning July 1st.
 16 1962-1967.
 17 1965.
 18 1968.

Table J Money and Credit (end of period)

	Central Bank		Non-bank sector			Bank liquidity				Credits granted by banks					Foreign exchange	
	Central Bank discount rate	Net position of Treasury	Money supply		Savings deposits	Commercial and savings banks				Total	of which ¹ to:				Official gold and foreign exchange ³	Com-mercial banks' position
			Orig.	Adj.		Blocked deposits	Redis-counted bills	Net free position with Central Bank	Net foreign assets		Agriculture	Fishery and fish processing	Manu-facturing and commerce	Dwellings		
Per cent	Kr. million														\$ million	
	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64
1965	5.00	103	2 680	2 748	6 196	1 391	1 165	404	-156	8 288	1 009	1 830	2 615	816	51	-3
1966	5.25	434	2 832	2 897	7 183	1 730	1 311	81	-313	9 715	1 058	2 227	3 084	914	54	-7
1967	5.25	-23	2 605	2 667	7 799	1 908	1 304	-281	-475	10 617	1 146	2 421	3 430	997	32	-10
1968	5.25	-265	2 894	2 969	8 417	2 073	1 438	-606	-833	11 949	1 189	2 868	3 936	1 052	25	-11
1969	5.25	-640	3 810	3 919	10 134	2 640	1 898	102	-14	12 865	1 348	2 629	4 357	1 248	39	-1
1970	5.25	-176	4 648	4 772	12 624	3 359	1 744	55	-320	15 443	1 719	2 125	5 548	2 013	54	-4
1971	5.25	831	5 665	5 828	15 198	4 030	2 053	-487	-413	18 958	1 940	2 844	6 232	2 514	61	-6
1972	5.25	234	6 901		17 774	4 741	2 690	-625	-571	22 727	2 341	3 590	7 436	3 215	71	-10
Quarterly:																
1969 1	5.25	-523	3 054	3 229	8 676	2 204	1 481	-480	-773	12 112	1 121	2 998	4 053	1 064	35	-10
2	5.25	-737	3 505	3 407	9 006	2 353	1 893	-276	-472	12 604	1 079	3 353	4 092	1 105	32	-6
3	5.25	-759	3 680	3 661	9 275	2 436	1 919	-80	-260	12 772	1 056	3 124	4 251	1 178	37	-4
4	5.25	-640	3 810	3 919	10 134	2 640	1 898	102	-14	12 865	1 348	2 629	4 357	1 248	39	-1
1970 1	5.25	-965	4 085	4 299	10 661	2 824	1 572	57	176	13 047	1 236	2 365	4 552	1 271	44	1
2	5.25	-1 130	4 751	4 612	11 287	3 138	1 657	391	90	13 938	1 192	2 634	5 004	1 391	50	1
3	5.25	-913	4 873	4 859	11 614	3 225	1 688	387	-99	14 702	1 365	2 494	5 051	1 559	53	-1
4	5.25	-176	4 648	4 772	12 624	3 359	1 744	55	-320	15 443	1 719	2 125	5 548	2 013	54	-4
1971 1	5.25	-572	5 075	5 352	13 249	3 541	1 701	-15	-396	16 437	1 521	2 633	5 798	2 005	53	-5
2	5.25	-507	6 049	5 867	13 666	3 779	2 146	237	-436	17 823	1 536	3 135	6 031	2 242	60	-7
3	5.25	-108	6 299	6 286	14 155	4 008	1 956	176	-475	18 322	1 620	2 977	6 204	2 384	64	-7
4	5.25	831	5 665	5 828	15 198	4 030	2 053	-487	-413	18 958	1 940	2 844	6 232	2 514	61	-6
1972 1	5.25	1 637	6 388	6 730	15 905	4 190	2 329	-51	-635	20 103	1 699	3 550	6 671	2 593	61	-9
2	5.25	1 882	7 157	6 915	16 267	4 517	2 666	-202	-681	21 620	1 678	4 182	7 089	2 703	58	-10
3	5.25	1 196	7 402	7 343	16 864	4 583	2 350	-495	-644	21 967	1 789	3 920	7 344	2 812	70	-11
4	5.25	234	6 901		17 774	4 741	2 690	-625	-571	22 727	2 341	3 590	7 436	3 215	71	-10

1 Excluding credits granted by minor savings banks.

2 Excluding IMF position.

Sources: Icelandic Statistical Bulletin (col. 50, 54, 55, 57, 58), International Financial Statistics (col. 49, 51, 52, 53), OECD Main Economic Indicators (col. 63, 64) and Icelandic submission to the OECD.

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