

# ECONOMIC SURVEYS BY THE OECD

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NOVEMBER 1961

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT  
PARIS

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## ICELAND

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### BASIC STATISTICS

#### THE LAND AND POPULATION

Area (1,000 sq.km.) . . . . .	103	Urban population Reykjavik, Dec. 1959 .	70,850
of which:		Other, Dec. 1957 . . . . .	43,000
Cultivated area, Jan. 1961 . . . . .	0.8	Population by occupation 1950:	
Rough grazings, average 1953-57 . . . . .	19.8	Agriculture . . . . .	20 %
Glaciers . . . . .	14.0	Fishing . . . . .	11 %
Population, mid-1960 . . . . .	176,000	Fish processing . . . . .	5 %
No. of inhabitants per sq.km. . . . .	1.7	Manufacturing . . . . .	16 %
Population increase, average 1954-59 . .	2.3 %		

#### PRODUCTION

Total fish catch, average 1953-60 (1,000 metric tons) . . . . .	453	Sheep population, Jan. 1961 (1,000 heads) .	836
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#### GOVERNMENT AND PARLIAMENT

Government: (number of ministers)		Parliament: (No. of seats)	
Independent Party (Conservatives) . . . . .	4	Independent Party (conservatives) . . . . .	24
Social Democrats . . . . .	3	Progressive Party (Liberals) . . . . .	17
		Communists . . . . .	10
		Social Democrats . . . . .	9
		Last general election 1959 . . . . .	60
		Next general election 1963	

#### LIVING STANDARDS

Calories per head, per day 1958 . . . . .	3,240	Number of passenger cars in use per 1,000 inhabitants, 1958 . . . . .	71
Energy consumption per head, 1957 (O.E.E.C. average = 100) . . . . .	163	No. of radio sets per 1,000 inhabitants 1958	278
Paper consumption per head, 1957 (O.E.E.C. average = 100) . . . . .	80	Average hourly wages of unskilled labour in Reykjavik, July 1961 (Kronur) . . .	24.10

#### FOREIGN TRADE

Exports:		Imports:	
Main exports, 1960 (percentage of total exports)		Main imports, 1960 (percentage of total imports):	
Fish and sea products . . . . .	92	Equipment . . . . .	33
Agricultural products . . . . .	6	Other manufactures . . . . .	31
		Fuels . . . . .	13

#### THE CURRENCY

Monetary unit: Krona	Currency unit per U.S. dollar . . . . .	43.00
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## ECONOMIC SURVEYS BY THE OECD

# ICELAND

This document was approved  
by the Economic Committee of the O.E.C.D.  
in November 1961.  
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1961

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- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;*
- to contribute to sound economic expansion in Member as well as non member countries in the process of economic development;*
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.*

*The legal personality possessed by the Organisation for European Economic Co-operation continues in the O.E.C.D., which came into being on 30th September 1961.*

*The Members of O.E.C.D. are: Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.*

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# CRAP

## ICELAND

### INTRODUCTION

1. Throughout the 1950's, economic developments in Iceland had been dominated by strong inflationary pressures, originating mostly in a heavy investment demand. For a long time, the authorities attempted to counteract the consequences of excess internal demand — the continuous price increases and the large external deficits — through a complicated system of consumer's subsidies, differential exchange rates and quantitative controls on external trade. These measures made it possible to maintain and increase exports in the face of sharply increasing costs, but they did not combat inflation at its sources, and distorted the price and production picture, as well as the geographical pattern of external trade.

2. A radical change took place in the beginning of 1960, when the Icelandic Government introduced a stabilization programme designed to eliminate excess demand, restore normal economic mechanisms and balance external payments. The main elements of this Programme<sup>1</sup> were: the establishment of a uniform exchange rate for the Icelandic Krona, implying a substantial devaluation; strict limitation on the expansion of bank credits; a balanced budget; a re-arrangement of taxes and subsidies to moderate the impact of the devaluation on living standards; and a gradual liberalisation of imports. The Programme received the support of the International Monetary Fund and the O.E.E.C., which made available to Iceland credit facilities of about \$ 20 millions.

3. The Programme was implemented satisfactorily in 1960 and, with some minor adjustments, its implementation has been continued in 1961. The results of the first fifteen months pointed to a substantial measure of success: excess demand was eliminated, prices had become more stable after the inevitable re-adjustment which followed the devaluation, domestic savings were increasing rapidly and the net foreign exchange reserves had improved substantially.

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1. For a detailed description of the Programme, see *Economic Conditions in Member and Associated Countries of the O.E.E.C.-Iceland*, 1960, O.E.E.C., Paris, 1960, pp. 5 to 9.

4. But much of the progress thus achieved has been wiped out by repeated strikes in the first half of 1961, the final result of which has been a general wage increase of the order, approximately, of 16 per cent. The massive increase in internal demand inevitably resulting from this development, not matched by any corresponding increase in output, could only lead to a huge growth in imports, impossible to finance out of current export proceeds of the still small external reserves. At the same time the export industries, unable to raise their selling prices which are regulated by world market conditions, found themselves in a position in which operating costs were so increased as to render their continued operation impossible. The Government was thus forced to proceed, on August 4th 1961, to a new devaluation, bringing the exchange rate from 38 to 43 Kronur to the U.S. dollar. Additional measures will, no doubt, have to be taken in other fields.

#### THE RESULTS OF THE STABILIZATION PROGRAMME, FEBRUARY 1960- JUNE 1961

##### *Developments in the field of demand*

5. The elimination of inflation, aimed at by the Stabilization Programme, implied a significant reduction in internal demand. Consumer's demand was to be reduced, or at least stabilized, through the combined effect of increasing prices and stable wages. Investment demand was to be reduced by means of control of the expansion of bank credits, the raising of interest rates and a halt to the financing of the extra-budgetary investment funds by the banking system. The government finances were to have a slightly disinflationary effect, by means of a small budgetary surplus. On the whole, these objectives were being achieved by the end of 1960 and the first months of 1961.

6. Nominal wage rates remained stable on the whole from 1959 to 1960 and did not change much in the first months of 1961, before the new wage agreements of year 1961. There has been, however, some wage drift, at least up to the autumn of 1960, due to continued conditions of excess labour demand. According to a sample survey of tax returns prepared by the Statistical Bureau, the average increase in earnings from 1959 to 1960 was of the order of 6 per cent. But in the last months of 1960 and in the first half of 1961, there was probably a considerable reduction in overtime work, with a parallel fall in worker's total earnings. A non negligible improvement in the incomes of the farmers probably occurred in 1960, as a result of an increase of the value of agricultural output by about 5 per cent. Incomes of fishermen, on the other hand, were probably lower as a result of unfavourable catches.

7. The effects of the devaluation of February 1960 on internal prices have been important but their impact on the cost of living and



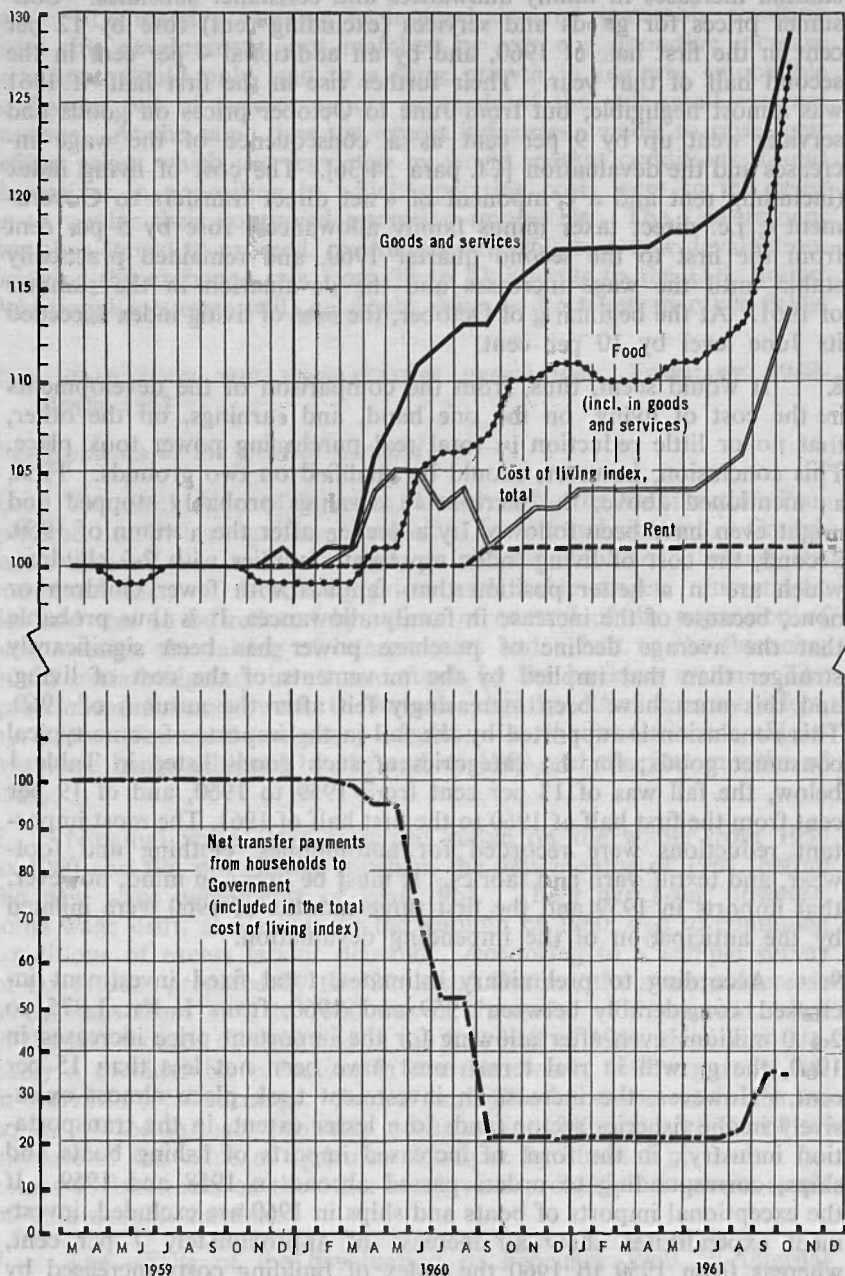
purchasing power was greatly moderated through a re-arrangement of indirect taxes, a considerable reduction in direct taxes, and substantial increases in family allowances and consumer subsidies. Consumer prices for goods and services (excluding rent) rose by 12 per cent in the first half of 1960, and by an additional 4 per cent in the second half of that year. Their further rise in the first half of 1961 was almost negligible, but from June to October prices on goods and services went up by 9 per cent as a consequence of the wage increases and the devaluation [Cf. para 34-36]. The cost of living index (including rent and a component of « net direct transfers to Government », i.e. direct taxes minus family allowances) rose by 5 per cent from the first to the second quarter 1960, and remained practically stable until the wage increases and the devaluation in the summer of 1961. At the beginning of October, the cost of living index exceeded its June level by 10 per cent.

8. It would seem, thus, from the comparison of the developments in the cost of living, on the one hand, and earnings, on the other, that no or little reduction in total real purchasing power took place. This conclusion, however, should be qualified on two grounds. First, as mentioned above, the increase in earnings probably stopped and might even have been followed by a decline after the autumn of 1960. Second, the cost of living index represents families with 2-3 children, which are in a better position than families with fewer children or none, because of the increase in family allowances. It is thus probable that the average decline of purchase power has been significantly stronger than that implied by the movements of the cost of living, and this must have been increasingly felt after the autumn of 1960. This conclusion is supported by the fall in the imports of some typical consumer goods; for the categories of such goods listed in Table 1 below, the fall was of 13 per cent from 1959 to 1960, and of 19 per cent from the first half of 1960 to the first half of 1961. The most important reductions were recorded for automobiles, clothing and footwear, and textile yarn and fabrics. It must be borne in mind, however, that imports in 1959 and the first three months of 1960 were inflated by the anticipation of the impending devaluation.

9. According to preliminary estimates, total fixed investment increased considerably between 1959 and 1960, from I. Kr. 1,875 to 2,410 million; even after allowing for the important price increases in 1960, the growth in real terms must have been not less than 15 per cent. However, the increase in investment took place almost exclusively in the fisheries sector (and, to a lesser extent, in the transportation industry), in the form of increased imports of fishing boats and ships, corresponding to orders passed abroad in 1958 and 1959. If the exceptional imports of boats and ships in 1960 are excluded, investment expenditures show an increase of approximately 7 per cent, whereas from 1959 to 1960 the index of building costs increased by 6 per cent, the goods and services component in the cost of living

# Diagram 1. COST OF LIVING

INDEX: MARCH 1959 = 100



Source: Icelandic submission to the O.E.C.D.

TABLE 1. IMPORTS OF CERTAIN TYPICAL CONSUMER GOODS

*Millions of dollars.*

	1958	1959	1960		1961
	YEAR	YEAR	YEAR	1ST HALF	1ST HALF
Food .....	8.5	9.3	8.5	4.1	4.0
Beverages and tobacco .....	1.6	1.6	1.5	0.9	0.5
Paper, etc. ....	2.0	2.5	2.3	1.0	0.9
Textile yarn, fabrics, etc. ....	9.5	9.6	9.0	5.5	3.6
Automobiles .....	1.7	3.0	1.9	1.0	1.3
Furniture .....	0.1	0.1	0.1	0.1	0
Clothing and footwear .....	2.4	2.4	1.6	0.9	0.6
Total .....	25.8	28.5	24.9	13.5	10.9

*Source:* Hagtidindi.

index by 10 per cent and the prices of imported equipment by perhaps 50 per cent. In fact, imports of machinery and equipment (excluding transport equipment) declined by 25 per cent from 1959 to 1960, and by a further 14 per cent from the first half of 1960 to the first half of 1961. Investment in dwellings fell from 1959 to 1960 by 6 per cent in nominal terms, thus probably by more than 10 per cent in real terms. Available information points to a continued decline of investment in the first half of 1961, especially in dwelling and construction. Building starts in Reykjavik were in that period only 56 per cent of the level two years earlier.

10. The reversal in the rapidly rising trend of investment, which had prevailed in the previous years, should be ascribed to a complex of factors. The liquidity position of the enterprises had been continuously deteriorating during the preceding inflationary period, when investment was being financed out of easy bank credits; the restrictions imposed by the Stabilization Programme on credit expansion have thus severely reduced the possibilities of financing new investments. The substantial increase in interest rates (from 7 to 11 per cent for the discount rate) acted in the same direction. At the same time, the gradual stabilization of internal demand and the subsiding of inflationary psychology made investors much more cautious, especially as the mistaken investments made during the inflationary period were becoming apparent in the new conditions.

#### *Bank credits*

11. In the preceding period, the rapid expansion of bank credit had been greatly facilitated by the easy recourse of the banks to the Central Bank; net credits by the Central Bank to the banking sector

had almost doubled in the two years 1958 and 1959. The Stabilisation Programme fixed on these credits a ceiling of I. Kr. 900 million, raised afterwards to 1,000 million, plus a seasonal swing margin of 50 million. In fact, this type of credit remained below the ceiling throughout 1960. A ceiling had been placed also on net credit by the Central Bank to investment funds, which should not exceed I. Kr. 38 million and, apart from a small seasonal variation, this ceiling was also kept. The 1961 Programme combined the figures for Central Bank credit to the banking sector and to investment funds in one single figure not to be exceeded, of I. Kr. 875 million, plus a seasonal margin of 150 million. In fact, these credits remained well below this new ceiling during the first ten months of 1961.

12. Net Central Bank credit to the Treasury and public institutions was not to exceed, by the end of 1960, its end-1959 amount of I. Kr. 73 millions. Actually, after a seasonal peak of I. Kr. 147 million in July 1960, this credit declined steadily and stood at I. Kr. 57 million at the end of 1960. These figures, however, included deposits of the Export Fund, which is now under liquidation; excluding these deposits, net credit of the Central Bank to the Treasury stood at I. Kr. 133 million by the end of 1960, and this figure, plus a seasonal margin of 150 million, has been taken as the ceiling for 1961. In fact, this type of Central Bank credit remained within the allowed margin up to now.

13. According to the Stabilization Programme, total credits by commercial and savings banks to the private sector should not increase, during 1960, by more than I. Kr. 200 million (or beyond a total of 4,097 million). This figure had been exceeded already by July 1960, and by the end of August the credit expansion had reached I. Kr. 315 million. After some further expansion in the autumn months, a contraction took place in December when the total increase over the year amounted to 292 million. A non negligible part of this increase, I. Kr. 67 million, is accounted for by the nominal increase following the devaluation in the value of uncollected letters of credit. It remains, however, that during many months the increase in credits exceeded the amount set by the Programme. This development is to be ascribed essentially to the increase of credits granted to the fisheries and fish processing industries, due to the accumulation of stocks from the 1959 fishing season, and to the difficulties this industry encountered as a consequence of falling export prices, notably for fish meal, reflecting sharper Peruvian competition.

14. In view of the difficulties of realistically defining a ceiling for this type of credit (given e.g. the unforeseeable variations in the size of fish catches, requiring increased financing for the fishing industry) and also of making it effective, the 1961 Programme set only a target figure of I. Kr. 200 million for the expansion of bank credits to the private sector during the year; and it was agreed that consultations

TABLE 2. DEVELOPMENT OF BANK CREDITS IN 1960 AND 1961

## A. 1960

End of period.

Millions of Kronur.

	1958	1959	1960			
			MARCH	JUNE	SEPTEMBER	DECEMBER
1. <i>Commercial and savings banks' credits</i> ..... Ceiling: Increase during 1960 Kr. 200 mill.	3,290	3,897	3,826	4,075	4,282	4,191
2. <i>Central Bank net credit to commercial and savings banks</i> ..... Ceiling: Outstanding Feb.-Mar. Kr. 900 mill., April-June Kr. 1,050 mill., June-Dec. Kr. 1,000 mill.	719	941	895	896	960	813
3. <i>Central Bank net credit to Treasury and public institutions</i> (Including debt to the Export Fund) ..... Ceiling: Outstanding end 1960 Kr. 73 mill.	93	73	13	46	108	57

## B. 1961

End of period.

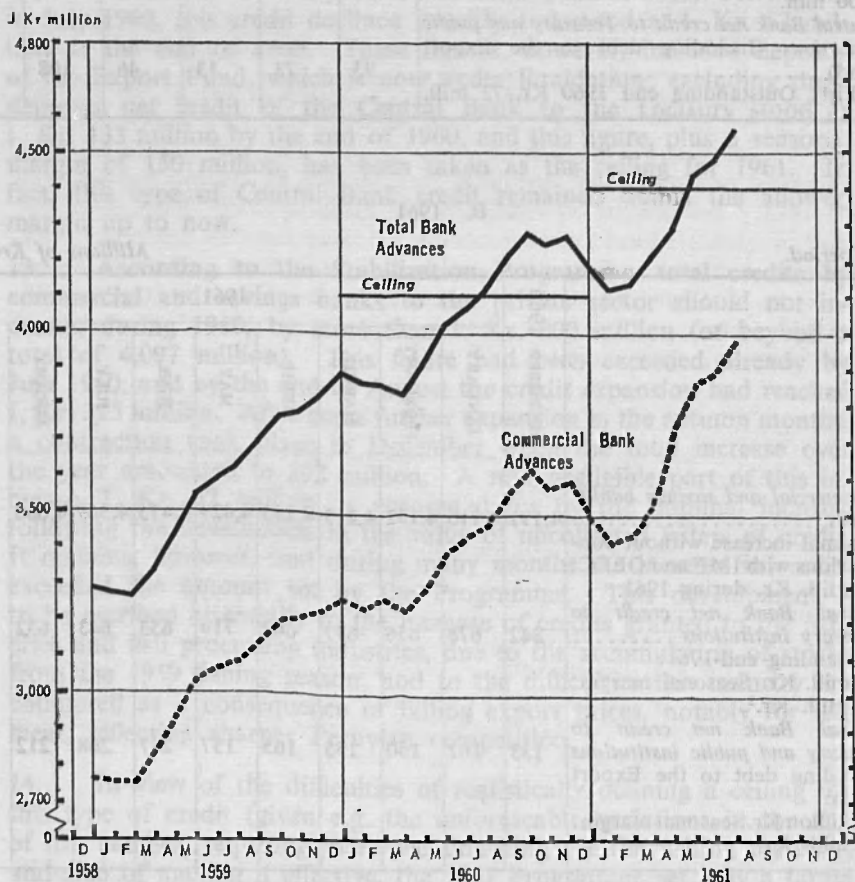
Millions of Kronur.

	DECEMBER 1960	1961								
		JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER
1. <i>Commercial and savings banks' credits</i> ..... Maximal increase without consultations with IMF and OEEC: 200 mill. Kr. during 1961.	4,191	4,115	4,132	4,213	4,293	4,429	4,475	4,569	4,660	..
2. <i>Central Bank net credit to monetary institutions</i> ..... Outstanding end-1961: 875 mill. Kr. Seasonal margin: 150 mill. Kr. <sup>1</sup> .	842	678	656	677	669	719	653	643	632	685
3. <i>Central Bank net credit to Treasury and public institutions</i> (excluding debt to the Export Fund): 133 million Kr. Seasonal margin: 150 mill. Kr.	133	162	150	155	165	157	247	268	212	183

1. Includes net credits to investment funds.  
Source: Icelandic submission to the O.E.C.D.

with the I.M.F. and the O.E.E.C. would take place if this figure was exceeded. In fact, after a moderate rise in the first quarter of the year, bank credits started increasing rapidly in the spring and by the end of August the target figure was exceeded by 269 million, mainly because of the large summer herring catch. In the discussion which took place with a mission from the O.E.E.C. and the I.M.F. in July 1961, it was stated, on behalf of the Icelandic Government, that efforts would be made to bring, by the end of the year, credit expansion down to I. Kr. 200 million. However the subsequent developments will make it necessary to consider afresh the problems of credit policy, both from the angle of the rate of the permissible expansion and of the adequacy of instruments.

**Diagram 2. COMMERCIAL AND SAVINGS BANK ADVANCES TO THE PRIVATE SECTOR**



Source: Icelandic submission to the O.E.C.D.



15. Since the inception of the Stabilization Programme, significant progress has been made in the flexible use of various instruments of credit and monetary policy. Interest rates had been raised substantially in February 1960: lending rates of the banks had been put up to 11-12 per cent, and deposit rates up to 9-10 per cent. Given the improvement in monetary conditions during 1960, the Government decided by the end of the year to reduce the lending rates of the banks by 2 percentage points. Marginal reserve requirements (amounting to 50 per cent of the increase in deposits of banks after 1st of January 1960) were established in April 1960, and revised in January 1961; henceforth, the banks were obliged to pay into blocked accounts with the Central Bank 30 per cent of the increase in their deposits in 1961 or 3 per cent of their total deposits, whichever proved to be larger. An important operation of consolidation of the short-term bank debts of the fishing industry, which started at the beginning of this year, should also be mentioned in this context, since it will not only put the finances of the fishing industry on a healthier basis, but also contribute to eliminate from the banks' operations what was in fact financing of long term investments. It is foreseen that a large part of this operation will be completed before the end of 1961.

16. On the whole, and despite the somewhat excessive expansion of bank credit to the private sector, a remarkable improvement in monetary and credit conditions took place in 1960 and in the first part of 1961. Central Bank credit has been actually reduced. The rate of expansion of commercial and savings banks credit, of about 8-10 per cent per annum, is incomparably lower than in the previous years. Time deposits with commercial and savings banks rose considerably, by 18 per cent in 1960 and by a further 12 per cent in the first two thirds of 1961, indicating a substantial increase in the propensity to save and a returning confidence in the national currency.

#### *Government finances*

17. The results of the 1960 budget, which involved very considerable changes compared with the 1959 budget, both considering types of income and expenditure and total size, turned out very near to the original forecasts. Revenue amounted to I. Kr. 1,488 million, compared with the budget estimates of 1,501 million, and expenditure amounted to I. Kr. 1,401 million, compared with an estimate of 1,449 million. Thus a surplus of 87 million, instead of the forecast 52 million emerged, and the net favourable change in floating debt, bank deposits and cash holdings was of 35 million.

18. In 1961, the budgetary situation has developed in a less favourable way. According to the initial budget estimates, a small surplus on current and investment amount would just match the deficit arising out of the Government's "debt and credit transactions". However, it appeared already by the end of 1960 that the forecasts of govern-

TABLE 3. GOVERNMENT BUDGET

*Millions of Kronur.*

	OUTCOME		BUDGET 1961	CHANGE 1960-1961
	1959	1960		
Direct taxes .....	164	99	75	— 24
Indirect taxes <sup>1</sup> .....	855	1,334	1,454	120
Other current receipts .....	41	55	57	2
Total current receipts .....	1,060	1,488	1,586	98
Total current and fixed investment expenditure .....	1,009	1,401	1,536	135
of which:				
Consumer subsidies .....	152 <sup>2</sup>	260	303	43
Balance on current and fixed invest- ment account .....	51	87	50	— 37
Debt and credit transactions:				
Receipts .....	101	86	3	— 83
Expenditure .....	122	127	53	— 74
Change in cash holdings .....	29	46	0	— 46

1. Including revenue from government monopolies and enterprises.

2. Contribution to Export Fund.

Source: Iceland's submission to the O.E.C.D.

ment revenue were particularly uncertain; revenue from import duties was sharply affected by a change in the composition of imports, and revenue from government monopolies was falling despite substantial increases in tobacco and liquor prices. Moreover, expenditures for social security, education, public health and other government services were increased substantially in the 1961 budget above their 1960 level. These trends made it likely by the middle of the year that the budget for 1961 would end with a deficit of approximately I. Kr. 100 million. However, in view of the critical situation on the labour front, the Government felt unable to take measures to restore budgetary balance. The situation has been altered in many ways after the wage increases of the summer and the subsequent devaluation; the present outlook is discussed in para 37 below.

### *Output and employment*

19. Weather conditions were very favourable for the agriculture in 1960, and the considerable increase in output which has been recorded for a number of years continued. The volume of production in agriculture increased by 4 to 5 per cent in 1960. Production of electricity rose by 11 per cent and has been more than doubled in the period 1951-60. Output of manufactured goods remained at a high level throughout the year. The fertilizer plant produced 22,600 tons of fertilizers or almost one quarter more than in 1959. Minor quan-



ties of manufactured woollen goods, cement and some other commodities were exported. Agricultural output in 1961 is going to be normal.

20. The outcome of the fishing season in 1960 has not contributed to create favourable conditions for the success of the Stabilization Programme. In the first half of 1960, the prices of important export goods — fish meal and oil — declined sharply. The herring season in the summer of 1960 was poor, and the winter cod season 1960-1961 was equally disappointing; in addition, trawler catches were very low. On the whole, for 1960, total fish catch declined by 9 per cent in volume, and by almost 15 per cent in terms of current dollar values. The situation deteriorated further in the first quarter 1961, but started improving in the spring. The summer herring season of 1961 has been excellent, so that for the year as a whole a 4-5 per cent increase in output seems probable.

TABLE 4. FISH CATCH

*Thousands of metric tons.*

MODE OF PREPARATION	1953-60 ANNUAL AVERAGE	1959 YEAR	1960 YEAR	1961		PERCENTAGE CHANGE = 1960-1961	
				1st QTR	APRIL- JULY	1st QTR	APRIL- JULY
Fish on ice <sup>1</sup> .....	14.8	13.6	29.1	10.3	10.1	26	138
Frozen fish .....	186.8	236.2	200.0	41.0	58.4	— 39	— 24
Stock-fish .....	52.1	45.0	56.1	12.7	29.4	— 37	— 4
Salted fish .....	86.0	69.4	74.9	23.0	36.9	— 23	10
Salted herring .....	34.6	36.3	21.8	6.0	44.5	.	262
Herring frozen for bait ....	14.0	14.9	9.8	5.0	4.4	.	256
Herring to factories .....	53.2	131.4	103.5	6.0	107.8	.	64
Other fish to factories .....	6.2	10.7	6.6	0.8	1.6	— 20	— 39
Other .....	5.1	6.9	11.9	2.4	4.1	4	2
Total .....	452.8	564.4	513.7	107.2	297.2	— 17	29
Herring.....	101.9	182.9	136.4	19.5	158.3	.	100
Other .....	350.9	381.5	377.3	87.7	138.9	— 30	— 8

1. Including a minor quantity of herring.

Source: Statistical Bulletin, Aegir and Icelandic submission to the O.E.C.D.

21. Despite the lack of quantitative information, it seems probable that the employment situation, which had been very tight for a series of years, became easier during the second half of 1960. No total or partial unemployment has emerged, but overtime working has been substantially reduced from the winter 1960 onwards. In 1961 the employment situation in manufacturing seems to have eased further.

### External development

22. A significant improvement took place in the foreign trade balance after the devaluation of February 1960. The import surplus fell from \$ 7.5 million in the second quarter of 1959 to \$ 6.4 million in the corresponding quarter of 1960. For the third quarter, the corresponding figures were \$ 7.5 million and \$ 2.2 million, respectively. In the fourth quarter of 1960, the deficit increased again, mainly due to the recorded high imports of ships in December, and reached \$ 7.6 million. Ship imports, which are recorded in the statistics two or three times a year, are related to orders passed in previous years. Excluding ship imports, the trade balance in the fourth quarter of 1960 showed a surplus of \$ 0.8 million. The favourable development of the trade balance continued in the first quarter of 1961; thus there was a surplus of \$ 1.9 million (excluding ship imports) in January-March 1961, compared to a deficit of \$ 3.4 million in the corresponding period of 1960. In the second and third quarters deficits of \$ 2.6 and 2.7 million respectively were however recorded, slightly more than those of a year earlier. Thus the trade balance (excluding ship imports) worked out with a deficit of \$ 3.4 million in the first three quarters of 1961 compared to \$ 8.0 million in 1960. Including ships, the corresponding figures were \$ 4.4 and \$ 14.7 million, respectively.

TABLE 5. IMPORTS BY MAJOR COMMODITIES

*Millions of dollars.*

	1958 YEAR	1959 YEAR	1960		1961 1ST HALF
			YEAR	1ST HALF	
Food .....	8.5	9.3	8.5	4.1	4.0
Beverages and tobacco .....	1.6	1.6	1.5	0.9	0.5
Crude materials .....	5.4	5.3	5.1	2.3	1.6
Fuels .....	12.5	14.3	11.5	4.7	4.1
Oils and fats .....	0.9	0.8	0.9	0.4	0.4
Chemicals .....	4.3	5.5	4.5	2.7	2.3
Manufactures .....	31.8	32.9	27.5	14.9	10.6
Machinery and equipment .....	12.3	13.2	10.0	5.1	4.4
Transport equipment .....	8.8	12.2	19.3	9.2	4.1
of which: ships .....	5.3	6.8	15.2	6.7	1.0
Total	86.1	95.1	88.8	44.3	32.0

Source: Hagtidindi.

23. The improvement in the trade balance was achieved exclusively through a fall in the value of imports, which declined by 6 per cent (16 per cent excluding ships) from 1959 to 1960. Excluding ships, imports were approximately 25 per cent lower for each quarter of

1960, except the first, than in the corresponding quarters of 1959. The devaluation in February 1960 and the increased duties and taxes on imported goods were, obviously, the main causes of this development; whereas in the two months preceding the devaluation the value of imports was no less than 35 per cent higher than in the corresponding period of 1959, it was 12 per cent lower in the remainder of the year. In the first three quarters of 1961, imports excluding ships amounted to \$ 51 million, or 5 per cent less than a year earlier. However, whereas imports declined by 30 per cent from the 1st quarter of 1960 to the 1st quarter of 1961, the corresponding figure for the 2nd quarter was only 2 per cent. This tendency continued in the third quarter of 1961 when imports exceeded the 1960 level by 26 per cent.

24. Transport equipment was the only commodity group for which imports showed any significant increase from 1959 to 1960. The considerable rate of increase for this group — 58 per cent — is, however, exclusively due to deliveries of ships, the value of which more than doubled. The most substantial rates of decline were recorded for machinery and equipment with 24 per cent, fuels with 20 per cent, chemicals with 18 per cent and manufactures with 16 per cent. In absolute terms the biggest decline was recorded for manufactures. The trends for the above-mentioned categories of commodities appear to continue in 1961, except for transport equipment, which — as a consequence of low ship imports — declined by 55 per cent in the first half of 1961 compared to the corresponding period in 1960.

TABLE 6. EXPORTS BY MAJOR COMMODITIES

*Millions of dollars.*

	1958 YEAR	1959 YEAR	1960		1961 1ST HALF
			YEAR	1ST HALF	
Salted fish.....	8.3	7.1	7.6	4.9	5.8
Stock-fish .....	3.1	4.6	4.4	1.9	3.1
Frozen fish .....	23.4	25.5	23.5	11.7	7.7
Fish on ice.....	1.1	1.6	3.3	1.4	2.0
Cured herring .....	6.8	6.0	4.1	1.3	1.5
Frozen herring.....	1.4	0.9	0.9	0.7	1.2
Herring and fish meal .....	8.4	7.3	5.7	2.0	3.5
Herring and fish oil .....	3.0	1.4	5.8	3.8	0.6
Cod liver oil .....	2.0	2.0	1.8	0.2	0.4
Other fish or sea products .....	3.4	3.0	3.8	1.6	2.0
Total of the above.....	60.9	59.4	60.9	29.5	27.8
Agricultural products .....	3.8	4.8	4.0	1.6	1.3
Other .....	1.1	0.9	1.6	0.7	1.2
Grand total .....	65.8	65.1	66.5	31.8	30.3

Source: Statistical Bulletin.

25. Exports developed less favourably in 1960; the total value of exports increased to \$ 66.5 million from \$ 65.1 million in 1959, or by only 2 per cent. The value of exports in the first half of 1961, amounting to \$ 30 million, was 5 per cent lower than in the corresponding period in the previous year. In part, this development is due to a fall in export prices in 1960; some improvement in prices, however, took place in the first half of 1961. In the third quarter, exports exceeded by 26 per cent the 1960 level. Exports in the first three quarters of 1961, taken together, were thereby 5 per cent higher than a year earlier.

26. The share of fish and fish products in Iceland's total export constituted 90 per cent in 1960 as well as in 1959. Considering the decline by 9 per cent in total fish catch (para. 20) and the lower export prices, the level of exports in 1960 must have been maintained through sales of the remaining stocks of the 1959 season, particularly of stocks of herring - and fish meal and oil. The value of exports of herring - and fish oil was quadrupled and of fish on ice more than doubled. A minor increase occurred in exports of salted fish in 1960. Exports of almost all other marine products declined. Important declines were thus registered for cured herring (32 per cent), herring - and fish meal (22 per cent) and frozen fish (8 per cent). In absolute terms, the decline of exports of frozen fish was the most substantial one. In the first half of 1961, substantial increases were recorded for exports of fish on ice, salted fish, stock fish and herring - and fish meal. Exports of frozen fish fell, however by 34 per cent and exports of herring - and fish oil dropped to less than one sixth of their first half 1960 level.

27. The significant liberalisation measures which were introduced in June 1960 appear to have had substantial impact on the geographical distribution of trade. Several other factors also influenced the geographical distribution of trade, such as the especially great decline in the imports of building materials, which are to a large extent imported from Eastern Europe, and increasing supply difficulties of several goods imported from the same area. Whereas the European O.E.C.D. countries in 1960 increased their share of Iceland's imports from 44 to 55 per cent, there was a decline for the Soviet Union from 16 to 14 per cent and for Eastern European countries from 15 to 9 per cent. A slight relative decrease also occurred for North America.

28. The changes in the geographical pattern of trade have, however, been even more pronounced for exports than for imports. Whereas the European O.E.C.D. countries increased their share of Iceland's exports from 39 to 52 per cent in 1960, there was a certain decline, from 17 to 14 per cent, for North America. The Soviet Union's share went down from 18 to 15 per cent, and that of Eastern European countries was almost halved. This geographical reorientation of exports, has, by and large, continued in 1961. The O.E.C.D. countries of Europe and North America increased their shares from 49 per cent

TABLE 7. IMPORTS BY AREAS

	1958 YEAR	1959 YEAR	1960 YEAR	1959				1960				1961		
				1st QTR.	2nd QTR.	3rd QTR.	4th QTR.	1st QTR.	2nd QTR.	3rd QTR.	4th QTR.	1st QTR.	2nd QTR.	3rd QTR.
A. Millions of dollars:														
O.E.C.D.-countries .....	49.9	57.2	61.3	10.9	14.6	12.3	19.4	14.6	16.4	9.5	20.6	9.4	12.1	13.3
European .....	37.9	42.1	48.8	7.4	10.9	8.9	14.9	11.1	13.2	7.2	17.2	7.0	8.9	10.6
North America .....	12.0	15.1	12.5	3.5	3.7	3.4	4.5	3.5	3.2	2.3	3.4	2.4	3.2	2.7
Soviet Union .....	15.0	15.2	12.3	2.1	5.0	3.3	4.8	2.9	1.8	3.4	4.1	1.5	2.8	3.6
Eastern Europe.....	12.7	13.8	7.9	2.6	3.9	2.6	4.7	3.0	1.2	1.3	2.3	1.5	1.6	1.5
Other .....	8.5	8.9	7.3	2.0	1.9	2.4	2.6	2.4	2.0	1.7	1.6	1.7	1.4	1.6
Total .....	86.1	95.1	88.8	17.6	25.4	20.6	31.5	22.9	21.4	15.9	28.6	14.1	17.9	20.0
B. Percentage distribution:														
O.E.C.D.-countries .....	57.9	60.2	69.0	61.9	67.5	59.7	61.4	63.8	76.7	59.7	72.1	66.7	67.6	66.2
European .....	44.0	44.3	54.9	42.0	42.9	43.2	47.1	48.5	61.7	45.3	60.2	49.7	49.7	52.9
North America .....	13.9	15.9	14.1	19.9	14.6	16.5	14.3	15.3	15.0	14.4	11.9	17.0	17.9	13.3
Soviet Union .....	17.4	16.0	13.9	11.9	19.7	16.0	15.3	12.6	8.4	21.4	14.3	10.6	15.6	17.8
Eastern Europe.....	14.8	14.5	8.9	14.8	15.3	12.6	15.0	13.1	5.6	8.2	8.0	10.6	8.9	7.6
Other .....	9.9	9.3	8.2	11.4	7.5	11.7	8.3	10.5	9.3	10.7	5.6	12.1	7.9	8.4
Total .....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: O.E.C.D. Statistical Bulletins  
Icelandic submission to the O.E.C.D.

TABLE 8. EXPORTS BY AREAS

	1958 YEAR	1959 YEAR	1960 YEAR	1959				1960				1961		
				1st QTR.	2nd QTR.	3rd QTR.	4th QTR.	1st QTR.	2nd QTR.	3rd QTR.	4th QTR.	1st QTR.	2nd QTR.	3rd QTR.
A. Millions of dollars:														
O.E.C.D.-countries .....	35.2	36.1	44.6	7.4	10.6	7.6	10.7	9.4	9.8	9.2	15.6	11.4	12.5	12.5
European .....	27.0	25.1	34.5	4.3	7.8	5.6	7.6	7.4	8.1	6.3	12.7	8.1	10.1	10.6
North America .....	8.2	11.0	10.1	3.1	2.8	2.0	3.1	2.0	1.7	2.9	2.9	3.3	2.4	1.9
Soviet Union .....	10.8	11.9	10.0	3.2	3.6	2.2	2.9	4.0	3.1	1.8	1.0	0.1	0.1	1.7
Eastern Europe.....	12.1	10.0	5.4	3.0	2.4	1.8	2.7	2.2	1.0	0.7	1.8	2.2	1.0	0.8
Other .....	7.7	7.1	6.5	1.6	1.3	1.5	2.6	1.2	1.1	2.0	2.6	2.3	0.7	2.3
Total .....	65.8	65.1	66.5	15.2	17.9	13.1	18.9	16.8	15.0	13.7	21.0	16.0	14.3	17.3
B. Percentage distribution:														
O.E.C.D.-countries .....	53.4	55.4	66.1	48.4	59.1	57.7	56.6	56.1	65.4	67.2	73.9	71.3	87.4	72.6
European .....	41.0	38.5	51.9	28.1	43.3	42.2	40.2	44.2	54.0	46.2	60.3	50.6	70.6	61.3
North America .....	12.4	16.9	14.2	20.3	15.8	15.5	16.4	11.9	11.4	21.0	13.6	20.7	16.8	11.3
Soviet Union .....	16.5	18.3	15.0	21.4	19.9	16.6	15.3	24.0	20.8	13.4	4.6	0.7	0.7	9.8
Eastern Europe.....	18.4	15.4	8.2	19.8	13.6	13.9	14.3	13.0	6.6	4.9	8.6	14.0	7.0	4.3
Other .....	11.7	10.9	10.7	10.4	7.4	11.8	13.8	6.9	7.2	14.5	12.9	14.0	4.9	13.3
Total .....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: O.E.C.D. Statistical Bulletins.  
Icelandic submission to the O.E.C.D.



and 12 per cent, respectively, in the first half of 1960 to 60 and 19 per cent in the corresponding period of 1961. For the Soviet Union there was a drastic reduction from 22 per cent to less than one per cent. In the third quarter, there was a marked revival in the share of exports destined to the Soviet Union, compared to the preceding quarter, although it was still inferior to the level a year earlier. The proportion accounted for by North America declined sharply, in particular compared to the third quarter of 1960.

29. The liberalisation measures envisaged by the Stabilisation Programme of 1960 took effect on 1st June 1960, freeing more than 84 per cent of private imports from the European O.E.C.D. countries (1958 basis). After further minor extensions of the free list on 1st January and mid-April 1961 and the liberalisation of imports of cars on 15th September 1961, the liberalisation percentage was brought up to 86.

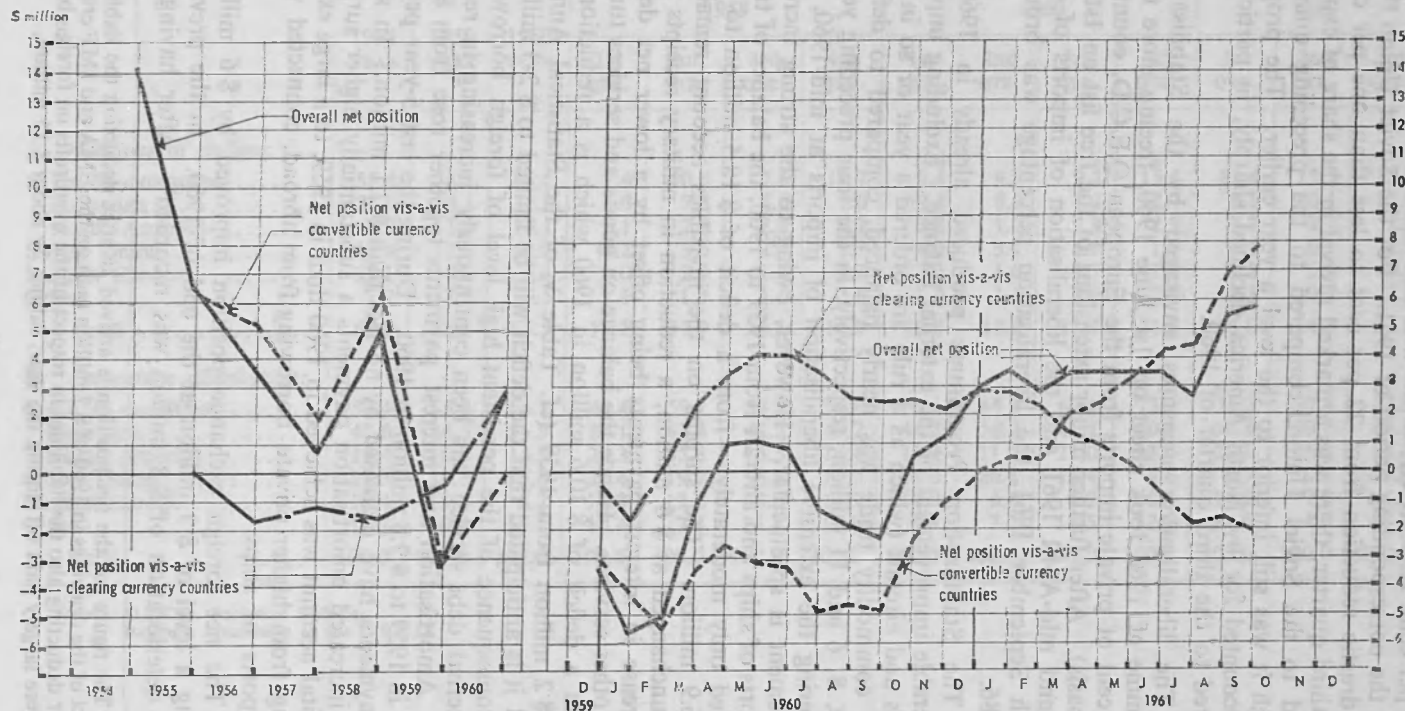
30. The Stabilization Programme produced already in 1960 a considerable improvement of the external balance. Excluding imports of ships and aircraft (which as a rule are ordered a year or so in advance), commodity trade was nearly balanced, compared to deficits of \$ 10, 8, 6 and 11 million, respectively, in the four preceding years. Considering the extensive liberalisation of imports at mid-1960, the improvement is spectacular. However, owing to the strong increase in imports of ships and aircraft from 1959 to 1960, the balance of trade improved only moderately — from a deficit of \$ 18.5 million to one of \$ 16.9 million. The surplus on the invisibles account remained about unchanged at \$ 6 million, a reduction in military receipts and an increase in interest payments being offset by a lower net deficit on the other services. Hence the balance on goods and services turned out with a deficit of \$ 10.6 million in 1960 which is a reduction of about \$ 2 million from 1959 (cf. Table V of the Statistical Annex). In 1961 it is anticipated that the deficit will be limited to \$ 2-3 million. As a consequence of the persistent high level of foreign borrowing, the external debt service has been continuously increasing in recent years. Amortisation and interest payments together rose from \$ 8.4 million in 1959 to \$ 9.8 million in 1960. During the last 5-year period such payments have increased by no less than \$ 7.1 million. In spite of the increased amortisation payments a substantially higher surplus on capital account was achieved in 1960 than in 1959, to a large extent resulting from higher private borrowing from abroad, connected with the imports of ships.

31. The net foreign exchange position improved by \$ 6 million, attaining a level of \$ 3 million at the end of 1960. In the previous year a deterioration of \$ 8 million was recorded<sup>1</sup>. After having re-

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1. The figure for the net position is arrived at after deducting the liabilities in respect of the drawings in 1960 of \$ 7 million each on the EMA and IMF credits, and after deducting also the liabilities in respect of the overdrafts on foreign banks which were largely paid off during the year, falling by about \$ 12 million.

**Diagram 3. NET FOREIGN EXCHANGE POSITION<sup>1</sup> OF THE CENTRAL BANK  
AND THE DEPOSIT MONEY BANKS**



1. Taking into account debts to EMA and IMF, long term foreign obligations, unused parts of foreign loans and total currency subscriptions to international financial agencies.

Source: Icelandic submission to the O.E.C.D.



mained rather stable at a level of \$ 3.5 million in the first half of 1961, the foreign exchange position improved strongly in the third quarter to a level of nearly \$ 6 million. Reflecting the geographical reorientation of exports, this generally favourable development is exclusively due to an improvement of the net position in convertible currencies, which rose from \$ 0.0 million at the end of 1960 to \$ 7.8 million at the end of September 1961. The corresponding figures for the "clearing countries" were + 2.9 and — 2.0 respectively.

32. Developments in the balance of payments field in 1960 and the first half 1961 are a good measure of the success achieved by the Stabilization Programme during this period. Despite the very unfavourable external circumstances mentioned above, and a substantial degree of import liberalisation, the balance of current transactions improved, and, if imports of boats and ships depending on contracts concluded in the previous years are excluded, a current surplus would have appeared. Commodity trade has been geographically re-oriented in a way ensuring for Iceland cheaper imports and less dependance for her exports on bilateral trade partners. Finally, though still very far from adequate, net foreign reserves improved substantially and the whole of the improvement took the form of an increase in net assets of convertible currencies.

#### THE WAGE INCREASES IN THE SPRING 1961 AND THE NEW DEVALUATION

33. The progress made during 1960 and the first months of 1961 toward stabilization of internal demand and prices has been obliterated, for an important part, by the strikes and the new wage settlements which took place in the spring of 1961. As it has been made clear by the preceding analysis, internal demand conditions cannot be held responsible for the outburst of wage claims in 1961. These are directly due to the unwillingness of the wage earners to accept the temporary reduction in living standards implied by the Stabilisation Programme and which started to materialize in the winter of 1960-61. This was the more unfortunate, as the favourable evolution of the economic situation of the country and the good fishing season of the summer of 1961 would have allowed some improvement in consumption levels in the second part of 1961. The magnitude of the wage demands presented and of the nominal increases obtained excluded, however, that the economy could digest them without major troubles.

34. The first strike after the inception of the Stabilization Programme took place in January 1961. After a two weeks strike, the fishermen obtained a change in their remuneration system (based on shares of the catch), whereby their payment was to be based in the future upon actual raw fish prices instead of the fictitious ones previously used. In combination with a subsequent change in raw fish prices, the new agreement resulted in an increase in fishermen's in-

comes estimated at about 20 per cent. In March, after a prolonged strike, the unskilled workers in the Westman Islands obtained substantial wage increases in the form of fringe benefits. During the first months of 1961, negotiations took place between the other Unions and the Employers Association. During these negotiations the Government declared its willingness to support a 3 per cent increase in wage rates in 1961 and also for each of the following two years provided a three-year contract could be concluded, and stressed that the economy could not tolerate more than a 3 per cent annual increase in wage rates. This offer had been endorsed by the Employers Association, but was rejected by the Unions, as was also rejected a subsequent proposal by the State Mediator of increases of 6 per cent, 4 per cent and 3 per cent in 1961, 1962 and 1963 respectively. A strike started in the end of May, lasted about five weeks and was concluded at the end of June by an agreement granting increases in wages and fringe benefits ranging from 13 to 19 per cent. A further wage increase of 4 per cent is agreed upon for the middle of 1962. The agreements contain a renegotiation clause in case of a devaluation or of a price increase of 5 per cent in one year and 7 per cent in two years. The settlement was followed by similar agreements in trade and other service industries. In August, government and municipal employees were granted a general increase of 13.8 per cent. In September, according to the provisions of existing legislation, farmers obtained a corresponding increase in their income through an increase in agricultural prices. Income of retail and wholesale traders also increased correspondingly when trade markups after the wage increases and the devaluation remained unchanged in percentages and price control was lifted from several goods of luxury and semi-luxury character.

35. The wage increases thus obtained exceeded by far the increases in productivity and the improvements in export prices which had occurred or could be expected to occur in the coming few years. They could not but lead to a huge expansion of internal demand, with the corresponding heavy increase in imports. They were bound to put into extreme difficulties the fishing industry, squeezed between this sharp rise in costs and virtually rigid export prices. These effects could not be counteracted by fiscal and monetary measures, without producing an intolerable degree of deflation and unemployment. So the only way left to the Icelandic Government was to devalue the Krona once again.

36. After transferring the power to determine the rate of exchange from the Althing to the Central Bank, the Government approved on August 4th the new exchange rate set by the Bank, at 1 U.S.\$=43.00 I. Kr., an increase of slightly more than 13 per cent. At the same day, some other related measures were taken. The new exchange rate does not apply to stocks of export goods existing on August, 1st. The difference between the old and the new rate of exchange for these goods will be used to compensate the Bank and the Treasury for los-

ses suffered in connection with the devaluation and to compensate the Treasury for losses on government guaranteed loans to fishing vessels and processing industries. The export levy on fish and fish products of  $2\frac{1}{4}$  per cent accruing mainly to the Fisheries Loan Fund was raised to 6 per cent, and the levy of  $\frac{1}{2}$  per cent accruing to the Catch Equalization Fund was raised to  $1\frac{1}{4}$  per cent. This measure is designed to prevent a new substantial increase in the incomes of fishermen as a result of the increase in the price of raw fish in terms of Krona after the devaluation. The increased proceeds will be used to help in various ways the fishing industry.

37. For the time being, important measures have not been taken in other fields. Budgetary prospects for 1961 point to an approximate balance, as the increase in revenues from import duties and some other indirect taxes, following the devaluation, will match the increases in expenditures resulting from the wage increases and the devaluation itself, and the devaluation gain on export stocks accruing to the Treasury will offset the deficit which otherwise might have been realised. For 1962, the budgetary situation is likely to be more difficult, and the Government is envisaging some reduction in expenditures, especially for consumer subsidies, and some increase in taxes. In the credit field, the authorities intend to lower even more the ceiling on Central Bank credits to the commercial and savings banks, and to endeavour to keep the expansion of bank credit to the private sector within as strict limits as possible provided employment and production are not reduced. Price controls will be maintained except for luxury and semi-luxury goods, and the Government will aim at maintaining the wage level stable until the middle of 1962.

#### PROSPECTS AND CONCLUSIONS

38. Considerable uncertainty surrounds the short-term prospects of the Icelandic economy. It has been calculated that, on the demand side, the wage increases granted last summer will lead to a nominal expansion of incomes of the order of I. Kr. 500 to 600 million i.e. of the order of 10 per cent of national income. Given the negligible elasticity of home production, and the very high import content of national expenditure (approaching 50 per cent) this increase in incomes would have resulted partly in additional imports, and partly in higher prices, the relative importance of the two effects being probably of the same order. The new devaluation will, in all probability, neutralize most of the additional import demand. Since prices of home agricultural products will also rise just about in proportion to the increase in wages, the improvement in the real purchasing power of the wage earners will be very limited indeed. It is estimated that the increase in the price arising from the combined effect of the changes in wages, agricultural prices and prices of the imported goods will reach at least 13 per cent. By October 1961, the increase in the cost of living, in

respect to the level of June 1st. 1961, amounted already to 10 per cent. Thus, the improvement in real incomes will be of the order of 3 per cent. This increase is bound to press on imports, and make a substantial improvement in the external position of the country more difficult in the year ahead.

39. It is of course next to impossible to anticipate how the economic system will react to this sudden and sharp change in the levels of incomes and prices. In particular, there is a risk that the recent experience of substantial wage increases followed by devaluation may lead to a revival of the inflationary psychology which had just started to disappear. It is therefore of vital importance that strict fiscal and monetary policies should be maintained and, if possible, reinforced. The maintenance of budgetary equilibrium in 1962 is essential. Credit expansion should be kept strictly within the limits justified by the development of production and trade. Some further improvement of the instruments of monetary control, or increased flexibility in their use, might appear advisable in this respect, since developments in 1960 and in 1961 showed that the Central Bank was not always in control of the movements in bank credits.

40. There is, however, a danger that the continuation of the stabilization effort might be frustrated by a new attempt by the trade unions to increase nominal wages, making use of the re-negotiation clause contained in the recent agreements. No efforts should be spared to try to convince the public that nominal increases in wages and salaries are fruitless if they do not correspond to a growth in national output. A better understanding between the different sections of the community might be achieved if the Government were able to announce a general policy on wages, linking future levels of remuneration in real terms with the progress in output; in adopting such a policy, the Government might make public its intention to support wage increases within the limits set by the plan, and to counteract, through general economic and fiscal measures, excessive nominal wage increases which only threw the economy out of balance without any real benefit to the wage earners. If such a plan were adopted, it would be appropriate to link it with the Development Programme which is at present being prepared.

41. Recent events have tended to push into the background the more lasting problems of the Icelandic economy. But one of the main purposes of the stabilization programme is to lay a solid foundation for the necessary development effort. Sustainable progress on the Icelandic economy is hardly conceivable without important structural changes, leading to the diversification of output and exports. This implies a considerable investment effort in the years to come, and, given the scarcity of resources, the establishment of sound criteria and priorities for the selection of investment projects. A Development Programme is at present being prepared in Reykjavik by a team of

experts sponsored by the European Productivity Agency. The O.E.C.D. will be ready to examine this Programme when it has been prepared and the forms under which it could help forward its implementation. One obvious way to this end would be, as already recommended by the O.E.E.C. Council, to promote freer trade in the products exported by Iceland, a trade which is seriously impeded by the restrictive trade policies pursued by certain Member countries. The O.E.C.D. Member countries have now the task of putting this recommendation into effect.

STATISTICAL ANNEX

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STATISTICAL ANNEX



TABLE I. PRODUCTION IN FISHERIES AND IN AGRICULTURE

Index 1936 = 100

	1936	1937	1938	1939	1940
<b>Fisheries:</b>					
Current prices	100.0	94.7	114.4	119.6	102.9
1936 prices	100.0	93.9	113.9	116.6	105.2
<b>Agriculture:</b>					
Current prices	100.0	117.8	129.6	130.4	137.2
1936 prices	100.0	120.8	133.5	132.3	137.2

Index of total production based on average 1936 and 1937 prices.  
 Index of total production based on average 1936 and 1937 prices.  
 Source: Bureau of Statistics, U.S. Department of Commerce.

TABLE II. GROSS FIXED ASSET FORMATION

	In billions of current price							PERCENTAGE DISTRIBUTION	
	1934	1935	1936	1937	1938	1939	1940	1939	1940
Agriculture and fish	1.3	1.2	2.35	2.1	2.7	2.9	2.52	16	11
Manufacturing and construction	5.6	9.3	15.1	18.7	22.4	24.0	33.5	40	29
Non-durable goods	1.1	1.1	1.1	1.1	1.1	1.1	1.1	4	5
Durable goods	0.2	0.1	0.2	0.2	0.2	0.2	0.2	8	9
Transportation, communication, and public utilities	0.4	0.4	0.4	0.4	0.4	0.4	0.4	5	5
Government	0.1	0.1	0.1	0.1	0.1	0.1	0.1	7	10
Private	0.1	0.1	0.1	0.1	0.1	0.1	0.1	35	24
Total	7.0	10.7	17.9	20.8	25.1	26.9	36.0	100	100
Total at 1936 prices	6.2	9.5	15.1	18.7	22.4	24.0	33.5		

Source: Bureau of Economic Warfare, U.S. Department of Commerce.

Table III. Prices

End of period

	1934	1935	1936	1937	1938	1939	1940
<b>Cost of living index (1934 = 100)</b>							
A. Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
B. Food	100.0	100.0	100.0	100.0	100.0	100.0	100.0
C. Non-food	100.0	100.0	100.0	100.0	100.0	100.0	100.0
D. Housing	100.0	100.0	100.0	100.0	100.0	100.0	100.0
E. Transportation	100.0	100.0	100.0	100.0	100.0	100.0	100.0
F. Entertainment	100.0	100.0	100.0	100.0	100.0	100.0	100.0
G. Health	100.0	100.0	100.0	100.0	100.0	100.0	100.0
H. Education	100.0	100.0	100.0	100.0	100.0	100.0	100.0
I. Other	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bureau of Economic Warfare, U.S. Department of Commerce.

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STATISTICAL ANNEX



TABLE I. PRODUCTION IN FISHERIES AND IN AGRICULTURE

Indices 1956 = 100.

	1956	1957	1958	1959	1960
<i>Fisheries:</i>					
1. Current prices <sup>1</sup> .....	100.0	94.2	114.4	119.8	102.3
2. 1954 prices <sup>2</sup> .....	100.0	93.4	111.8	116.6	106.2
<i>Agriculture:</i>					
3. Current prices .....	100.0	112.8	129.8	130.4	137.2
4. 1954 prices .....	100.0	106.8	113.5	112.3	117.2

1. Index for total production valued at average export prices each year.

2. Index for total production valued at average 1954 export prices.

Source: Iceland's submission to the O.E.C.D.

TABLE II. GROSS FIXED ASSET FORMATION

	I. KR. MILLION AT CURRENT PRICES							PERCENTAGE DISTRIBUTION	
	1954	1955	1956	1957	1958	1959 <sup>1</sup>	1960 <sup>1</sup>	1954-1959	1960
1. Agriculture and food processing .....	193	198	235	261	257	244	253	16	11
2. Fisheries and fish processing .....	56	93	141	157	200	221	555	10	23
3. Manufacturing and mining .....	57	50	58	118	93	83	132	5	5
4. Electricity, thermal plants and water works .....	55	56	98	162	215	193	(203)	9	9
5. Roads, bridges, harbours and airfields .....	66	81	120	121	125	164	196	8	8
6. Transport equipment ...	71	120	86	88	79	142	233	7	10
7. Dwellings .....	293	383	557	564	514	627	589	35	24
8. Other .....	81	97	125	152	149	201	(250)	10	10
9. Total .....	872	1,078	1,420	1,623	1,632	1,875	(2,411)	100	100
10. Total at 1954 building costs .....	872	995	1,155	1,212	1,107	1,218	(1,480)		

1. Preliminary data.

Source: Iceland's submission to the O.E.C.D.

TABLE III. PRICES

End of period.

	1959			1960				1961			
	II	III	IV	I	II	III	IV	I	II	III	OCT.
1. Cost of living index (March 1959 = 100)											
a) Total .....	100	100	100	100	105	103	103	104	104	110	114
b) Goods and services .....	100	100	100	101	108	113	116	117	118	123	129
i) Food .....	99	100	99	99	102	106	110	110	111	117	127
c) Rent .....	100	100	100	100	100	100	101	101	101	101	101
d) Net direct transfers to Government...	100	100	100	100	87	42	21	21	21	36	36
2. Index of building cost (October 1955 = 100).	132		132	132	148		150	152	153		

Source: Hagtidindi.

TABLE IV. CREDIT SURVEY

Millions of Icelandic Kronur.

	1958 IV	1959				1960				1961		
		I	II	III	IV	I	II	III	IV	I	II	III
CENTRAL BANK												
A. With Treasury and General Government:												
1. Advances .....	148	149	209	255	139	97	170	223	204	227	310	265
2. Securities .....	52	53	96	95	96	107	105	111	112	119	132	170
3. Deposits .....	93	106	120	127	147	166	198	167	183	191	195	252
4. Net credit (subject to ceiling) .....	107	97	185	223	88	38	77	167	133	155	247	183
B. With commercial and savings banks:												
5. Bills rediscounted .....	645	606	803	881	858	796	876	931	737	610	715	885
6. Loans on bonds .....	66	113	42	29	65	111	72	122	141	140	167	54
7. Advances .....	69	61	50	45	70	47	47	77	74	81	43	53
8. Deposits .....	61	57	96	110	52	58	99	170	138	191	276	423
9. Net credit .....	719	723	799	845	941	895	896	960	813	640	649	570
C. With investment credit institutions:												
10. Advances .....	71	67	69	69	68	61	60	60	58	52	55	168
11. Deposits .....	32	21	34	29	30	15	24	10	29	15	50	53
12. Net credits .....	39	46	35	40	38	46	37	50	29	37	5	115
D. With monetary institutions (B + C):												
13. Net credit (subject to ceiling) .....	758	769	834	885	979	941	933	1,010	842	677	653	685
COMMERCIAL AND SAVINGS BANKS												
14. Bank credits .....	3,279	3,323	3,599	3,773	3,897	3,826	4,075	4,282	4,191	4,213	4,475	4,660
a) Commercial banks .....	2,767	2,823	3,066	3,198	3,261	3,221	3,447	3,623	3,496	3,514	3,896	4,059
b) Savings banks .....	512	499	533	575	636	606	628	658	695	699	579	601
15. Total deposits <sup>1</sup> .....	2,354	2,392	2,549	2,654	2,673	2,622	2,807	2,857	2,990	3,089	3,312	3,676
a) Sight deposits .....	637	596	683	715	680	650	702	675	639	681	760	1,036
i) Commercial banks .....	611	576	657	683	639	629	672	633	602	648	719	961
ii) Savings banks .....	26	20	26	32	41	21	30	42	37	33	41	75
b) Time deposits .....	1,717	1,786	1,866	1,939	1,993	1,972	2,105	2,182	2,351	2,408	2,552	2,640
i) Commercial banks .....	1,285	1,337	1,397	1,461	1,483	1,482	1,591	1,652	1,786	1,827	1,938	1,996
ii) Savings banks .....	432	459	469	478	510	490	514	530	565	581	614	644

COMMERCIAL BANK CREDITS BY INDUSTRY (end of period)	1958	1959	1960		JUNE 1961
			JUNE	DEC.	
16. Agriculture and food processing .....	13	12	11	11	10
17. Fish and fish processing .....	32	35	38	35	35
18. Commerce .....	18	18	18	19	20
19. Manufacturing .....	12	11	11	12	11
20. Dwellings .....	11	11	10	10	10
21. Transportation and communications .....	2	1	1	1	2
22. Electricity .....	6	6	3	3	3
23. General Government .....	6	6	2	2	2
24. Other .....	6	6	6	7	7
25. Total .....	100	100	100	100	100

1. Including deposits with other banks.

TABLE V. BALANCE OF PAYMENTS

Millions of dollars.

	1956	1957	1959	1959	1960 <sup>1</sup>
1. Merchandise imports (f.o.b.) .....	78.9	71.4	76.8	83.5	83.4
i) of which: ships and aircraft .....	5.3	2.5	5.7	7.6	15.6
2. Merchandise exports (f.o.b.) .....	63.2	60.5	65.6	65.0	66.5
3. Trade balance .....	- 15.7	- 10.9	- 11.2	- 18.5	- 16.9
4. Military receipts .....	12.7	8.2	12.5	12.3	10.3
5. Interest on foreign debt, net .....	- 1.0	- 1.3	- 1.3	- 1.9	- 2.4
6. Other services, net .....	- 6.0	- 6.2	- 4.5	- 4.4	- 1.6
7. Balance on goods and services .....	- 10.0	- 10.2	- 4.6	- 12.5	- 10.6
8. Amortization of foreign debt .....	- 1.7	- 2.8	- 3.8	- 6.5	- 7.4
9. Other capital expenditure .....	- 0.9	- 2.6	- 3.3	- 3.5	- 0.6
10. Public borrowing .....	2.2	9.1	12.6	9.3	7.6
11. Private borrowing .....	3.5	3.0	2.1	4.2	8.5
12. Other capital receipts net of errors and omission .....	4.1	0.9	- 0.2	2.7	9.6
13. Change in official foreign exchange reserves.					
i) Dollar and O.E.E.C. currencies .....	- 2.8	- 2.6	2.8	- 6.3	7.1
ii) Clearing currencies .....	- 1.1	- 3.1	3.1	- 7.3	3.3
iii) Clearing currencies .....	- 1.7	0.5	- 0.3	1.0	3.8
14. Net foreign exchange position (end of period) .....	3.7	0.9	5.1	- 3.3	3.0

1. Provisional data.

Source: Iceland's submission to the O.E.C.D.

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