

ECONOMIC SURVEYS



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

PARIS DECEMBER 1966

BASIC STATISTICS OF ICELAND

THE LAND

Population December 1965 193,202 Net increase 1960-1965 annual average (per cen) Net migration 1.8 Fisheries 1.9 1.8 Fisheries 1.9 1.8 1.9 1.8 1.9 1.8 1.9	Area (1,000 sq.km.) 103 Production area (1,000 sq.km.) 25 of which: Cultivated area 1	Unproductive area (1,000 sq.km) 78 of which: Glaciers
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Net increase 1960-1965 annual average (per cent)	THE	PEOPLE
Government, from 1960, number of Ministers: Independence Party (Lib. Cons.). 24 Progressive Party (Agrarian). 19 Social Democrats 3 Labour Alliance (Socialists, Communists) 9 Social Democrats. 3 Labour Alliance (Socialists, Communists) 9 Social Democrats. 8 List general election: 1963. LIVING STANDARDS Calories per head, per day 3,240 Minimum hourly daytime wages for male unskiled labour in July 1966 (I. Kr.) Passengers cars 147 Radio sets 461 Average yearly wage income of married workers, skilled and unskilled, and seamen in 1965 (I. Kr.) 199,500 PRODUCTION AND CAPITAL FORMATION Gross National Product in 1965: Millions of I. Kr 20,425 Per head, US \$ 2,461 FOREIGN TRADE Exports of goods and services en 1965 as per cent of GNP 407 Agricultural products 95 Agricultural products 95 Agricultural products 96 Agricultural products 97 Agricultural products 97 THE CURRENCY	Net increase 1960-1965 annual average (per cent)	Farming 14 Fisheries 7 Fish processing 10 Other manufacturing 17 Construction 12 Electricity, water supply, etc. 1 Commerce 14 Transport and communications 9
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Monetary unit: Krona, Currency unit per U.S. \$	THE C	URRENCY
	Monetary unit: Krona,	Currency unit per U.S. \$

ECONOMIC SURVEYS BY THE OECD

ICELAND

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The Organisation for Economic Co-operation and Development was set up under a Convention signed in Paris on 14th December 1960 by the Member countries of the Organisation for European Economic Co-operation and by Canada and the United States. This Convention provides that the OECD shall promote policies designed:

- 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 OECD, which came into being on 30th September 1961.

The members of OECD are: Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

CONTENTS

Intr	oduction		••			••	••		••	5
I	Current Trend	s	••		••					5
	Production					••		**		5 8 9
	Demand			••	••	••		••	••	8
	Prices and Inc	comes	••			••		**		9
	Balance of Pa	yments.		**	••			.,	••	14
	Fiscal Policy		**	••		**				15
	Monetary Pol	icy		••	••				••	17
	Prospects and	Short-T	erm P	olicy I	ssues	••			••	20
П	Longer-Term	Trends a	nd Pro	blems			••	••	••	22
Ш	Summary of C	Conclusio	ns		••	••		••		29
Stat	istical Annex		••		••		••	••		33

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INTRODUCTION

The expansion has continued in 1966, bringing the growth of activity of recent years well above that assumed by the Economic Programme for 1963-1966. But the restoration of more stable conditions envisaged by the Programme has not been achieved. With strong demand pressures and excessive wage and income increase, partly because of the pricewage link, prices and costs rose sharply again in 1966, continuing the steep upward movement of recent years, and the balance of payments has deteriorated. The export volume has continued to rise, but the marked increase in export prices of earlier years has been replaced by a decline, and imports have been rising much faster than earlier.

The restoration of more stable conditions must remain a primary policy objective, and important steps to this end are now being taken. The fact that the rise in export prices has come to an end lends added urgency to the need for better stability. Economic policy is also faced with important long-term structural problems, partly resulting from long-standing inflation. Satisfactory solutions may require more active use of existing policy instruments and the development of new ones.

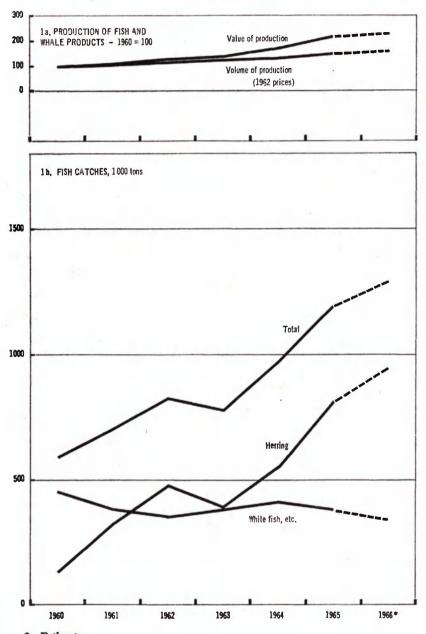
Part I of this Survey reviews current trends in the economy and the problems involved in restoring more stable conditions. Part II considers longer-term developments in relation to the Economic Programme. Part III summarises the main conclusions.

L CURRENT TRENDS

Production

Table 1 illustrates the strong expansion of the economy in recent years, with the real gross national product rising at an annual rate of between 5 and 8 per cent in the four-year period 1962 to 1965. Gross national income, which includes the improvement in the terms of foreign trade, rose by 7 to 9 per cent a year. The most striking feature has been a sharp increase in the herring and capelin catches, from 325,000 metric tons in 1961 to 813,000 tons in 1965. The herring boom can

Diagram 1. FISH CATCH AND FISH PROCESSING



* Estimates.

be ascribed to a number of factors, particularly the growth of the herring stock, the expansion of the fishing fleet by about one-third since 1960, a more adequate structure of the fleet, and better fishing methods and equipment. The use of asdic, for instance, has been of great importance. It has permitted the location of shoals of fish in deep water which would not have been found without the use of this instrument. As a result, instead of being a highly seasonal activity, herring fishing has become almost a year-round occupation. The white fish catch, however, has stagnated, continuing the weak trend of recent years.

TABLE 1. TGROSS NATIONAL PRODUCT AND INCOME

Annual growth rates (1960 prices).

	1961	1962	1963	1964	1965	1966
Gross national product	3.6	8.0 0.7 8.4	7,1 0.4 7.2	5.4 3.2 8.3	5.0 4.8 9.2	3.5 1.5 1.8

In per cent of previous year's GNP. Source: Icelandic submission to the OECD.

Note. Gross national income in fixed prices is defined in the Icelandic national accounts statistics as national expenditure in fixed prices plus experts minus imports deflated with the import price index.

In 1966, the expansion of the real gross national product seems to have slowed down to a rate of 3 to 4 per cent. The herring and capelin catch may have been 15-18 per cent higher than in 1965; this rise, although still significant, is much smaller than the ones of earlier years. The white fish catch has been considerably below at last year's level. Until mid-1966 the value of the total fish catch was rising much faster than its volume because of the sharp increase in export prices, but in recent months certain export markets have weakened, with a decline in prices, particularly for fish meals and oils. The processing industry has therefore experienced a sharp decline in profit margins and in some cases losses; the yearly settlements between the fishermen and the processing industry provide no possibility for adjustment of the prices paid to the fishermen during the year or fishing season in such cases. The gross national income, reflecting the weaker trend in export prices, may not rise by more than 1 to 2 per cent from 1965 to 1966.

Such information as is available suggests that output in manufacturing (excluding fish processing) has increased very little in the last two years, following the strong expansion of the previous years. The recent stagnation can be ascribed to the sharp rise in wage costs and to keener competition from abroad resulting from trade liberalisation and tariff

cuts. These developments have led to a considerable rationalisation of the home market industries most exposed to foreign competition. Tariffs are still generally high, and there is probably further scope for rationalisation. But there are limits to the speed with which this can take place. The rise in wage costs has led to considerable difficulties in maintaining production and employment in many industries.

Favourable weather conditions produced an increase in agricultural output by as much as 6.5 per cent from 1964 to 1965, markedly above the annual 2 per cent trend rate of growth of preceding years. But provisional estimates suggest that in 1966 output remained at the previous year's level. There has been a growing surplus of dairy products which has been exported with the aid of subsidies. In 1964 export subsidies reached their legal ceiling of 10 per cent of total agricultural output value, and stocks of dairy products rose sharply during 1965 and the first quarter of 1966. To correct this trend, the farmers' marketing board last spring reduced domestic butter prices by more than 40 per cent. Since then, domestic sales of butter have increased, and stocks have been reduced.

TABLE 2. SUPPLY AND USE OF RESOURCES

	KRONUR MILLION 19651	PERCEN	TAGE CHA	NGE FROM		JS YEAR
	(CURRENT PRICES)	1962	1963	1964	19651	19661
Gross national product	20,425	8.0	7,1	5.4	5.0	3.5
National expenditure	20,275	7.3	13.2	9.2	5,1	6.2
Private consumption	12,536	9.8	7.0	3.1	5.6	7.4
Public consumption	1,825	7.1	7.5	5.2	5.5	5.3
Gross fixed asset formation	5,499	16.9	30.7	17.6	- 2.0	11.1
Change in live-stock ^a	48	- 0.3	- 0.2	0.2	0.3	_
Change in stocks of export products ³	367	-1.2	1.2	0.0	2.0	0.0
Balance of goods and services ³	150	0.4	- 6.1	— 9.8	- 9.9	- 12.8
Exports of goods and services	8,110	22.0	7.1	6.5	7.4	8.2
Imports of goods and services	7,960	20.1	18.6	13.1	7.2	12.1

^{1.} Preliminary figures.

Source: Icelandic submission to the OECD and Economic Institute, Reykjavik.

Demand

Exports have been an important dynamic factor in recent years, with strong expansion both in value and volume. In volume, exports of goods and services continued to rise at a good rate in 1966, despite

^{3.} Per cent of GNP.

the weakening of some foreign markets. Fixed investment has also been a buoyant factor, although with a more irregular movement. Total fixed asset formation fell in 1965. But this was due to a decline in deliveries of ships and aircraft following their high level in 1964; excluding ships and aircraft, fixed investment rose by 8 per cent in volume in 1965. Both residential and non-residential construction rose sharply. The strong rise in investment seems to have continued in the present year. Private and public consumption have been expanding more in line with the growth of GNP.

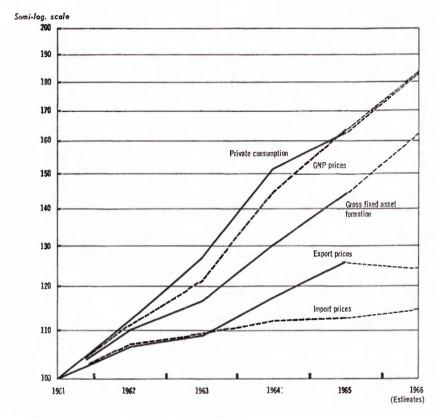
The pressure on resources has been strong in recent years, with a shortage of labour. The authorities feel that the strain on the labour market has eased somewhat in recent months. There is still a shortage of labour, but the amount of overtime worked seems to have diminished. The slowdown of the rise in export earnings may have begun to exert a moderating influence on the growth of both investment and consumers' demand. Tighter fiscal and monetary policies have reinforced this trend. Moreover, in 1966 domestic demand has to a greater extent been met by imports than in 1965, partly as the result of the increase in the liberalisation of imports effected to this end at the beginning of the year. An important element working in the opposite direction is the fact that work is now getting underway on the construction of the new aluminium plant and the Burfell power project and the harbour needed to operate it. The aluminium plant should represent an important step towards the diversification of the economy. But these projects will represent an investment effort which is large in relation to the Icelandic economy. Present plans suggest that they will absorb almost 10 per cent of the labour force in construction in 1967 and 1968. In 1966, the number of workers engaged on these projects has been relatively small.

Prices and Incomes

Prices have risen fast in the last few years. From 1961 to 1964 the cost-of-living index¹ rose by about 50 per cent. After May 1964 prices were temporarily stabilised partly by higher subsidies and partly by the more moderate wage settlements of that year. The upward trend in prices was resumed in 1965, however, and has continued in the present year. In July 1965 the cost-of-living index was 5 per cent higher than a year earlier, but by the end of the year the year-to-year increase had reached 8-9 per cent. The price rise has accelerated in the present year to a year-to-year rate of 12 per cent in October. This reflects strong demand pressures and large wage and incomes increases.

1. Includes direct and indirect taxation and family allowances.

Diagram 2. PRICE INDICES FOR GNP COMPONENTS
YEARLY AVERAGES, 1961 = 100



Source: Icelandic submission to the OECD.

In recent years the "wage round" has usually started in the early summer with settlements for unskilled labour, and has continued into the autumn and winter. A typical feature has been a tendency for the groups negotiating later to achieve larger increases than unskilled labour. In 1964, efforts were made to achieve better co-ordination of wage and income settlements. In June the Government, the Federation of Labour and the Employers' Association as well as other employer organisations reached a frame agreement which aimed at harmonizing benefits as well as limiting the increase in wages and other incomes. The first agreements concluded (for unskilled labour) were in line with the frame agreement, but each subsequent settlement exceeded the provisions of this

agreement by a growing margin. The total wage round resulted in a 7.5 per cent increase in the general level of wages and salaries, and the wage differential between unskilled and skilled labour increased, contrary to the provisions of the frame agreement. The linking of wages to the cost-of-living index, which had been prohibited by law since 1960, was to be resumed on the basis of a new wage compensation index which excluded the increase in agricultural prices resulting from an increase in wages. Nevertheless, the 1964 settlements represented an improvement because they covered a fixed period of one year; in the preceding year or two contracts had generally not covered a fixed period, and were therefore open for re-negociation at any time. Moreover, the rise in costs resulting from the agreements, although considerable, was lower than in earlier settlements.

TABLE 3. DEVELOPMENT OF PRICES1

Percentage change.

		1962	1963	1964	1965	1966¹
A.	Goods and services	12.1 16.9	12.3 17.5	19.8	7.5	12.6
	Heating, electricity, etc.		1.7	25.0 8.5	6.6 3.9	13.1 21.3
	Clothing, footwear, etc	4.8	6.3	11.7	9.7	5.9
В.	Miscellaneous	11.6 2.3	10.7 3.2	17.7 5.3	8.4 8.0	14.1
C.	Direct taxes, etc. ²	29.0	69.6	51.6	3.2	10.1
D.	Cost of living (A+B+C)	10.9	12.9	19.3	7.3	12.0

1. 1962-1965: yearly averages over previous year.
 1966: Oct. 1st 1965 to Oct. 1st 1966.

2. Direct taxes plus contributions to social security funds, etc., less children's allowances.

Source: Hagtidindi, Statistical Bulletin.

The 1965 wage round led to much higher wage increases, some 16 per cent per hour (including an increase in female rates decided earlier). Including the rise in salaries of public servants, and bank and commercial employees, the rise in basic rates can be estimated at 15 per cent. An important factor behind this development was the sharp increase in the incomes of herring fishermen, because of higher catches and export prices; this increased the pressure for higher incomes in other sectors. Much of the increase was in the form of a shortening of the working week for unskilled labour from 48 to 44 hours; this affected piece rate workers very little and generally did not apply to public servants or other office workers. The settlements therefore represented a relative improvement of wages of unskilled workers and skilled workers on time rates, in line with official policy.

In 1966, the Government has made further strong efforts to stabilise wages and prices. Preparations for the wage round started early in the spring with discussions between representatives of the Government, labour and employers. In the subsequent negociations about wage rates for unskilled labour, the employers declared themselves unable to absorb a further rise in costs. Nevertheless, to avoid disputes, new contracts were concluded which provided for increases of 4.5 per cent, including certain fringe benefits. But the contracts were binding only to 1st October. Negotiations have therefore been resumed; meanwhile the agreements remain in force on a temporary basis. Negotiations for skilled labour have been postponed until an agreement has been reached for unskilled workers. Only one contract (for the printing trade) has come up for revision; an agreement to reduce the working week to 40 hours over a six-year period beginning in 1967 was reached, but further negotiations on wages have been postponed.

Wages and salaries have also been considerably increased because of the rise in prices. Including both contractual and automatic increases, wages and salaries rose by 27 per cent in the year up to 1st June 1966. Since then wages of unskilled labour, including the rise in the wage compensation index, have increased by more than 6 per cent. The strong rise in wage costs has led to considerable difficulties in both export and home market industries. This, together with some lack of raw material, has resulted in the closing down of some freezing plants.

Farmers' incomes are adjusted once a year in September in accordance with the movement of average wages. They were increased by 12 per cent last year and by some 14 per cent this year, rather less than the rise in wages because of an agreement between the Government and the farmers providing for the establishment of a fund for rationalisation of processing plants and another for the purchase by the Government of inferior farms. Since agricultural prices had already risen in the course of the year, the increase in farmers' incomes due in September was 5 per cent. This latter increase was not reflected in higher consumer prices because of an increase in subsidies.

A major difficulty for stabilisation policy over the last two years has been the sharp increase in incomes of herring fishermen, partly because of bigger catches and partly because of higher export prices. Prices paid to the fishermen are determined at the beginning of each year or fishing season by a committee consisting of representatives of the vessel owners, the fishermen and the processing plants. With the buoyancy of export markets, the price paid to fishermen for raw herring for the production of herring oil and meal, the most important type of processing, rose by 62 per cent between the summer seasons 1963 and 1966. This has led to problems of income disparities within the fishery sector since white fish prices have risen much less, by 34 per cent over the same period. Half of this was effected at the beginning of 1966 as

	UNSKILLED WORKERS	SKILLED WORKERS	SEAMEN ¹	ALL WORKERS AND SEAMEN
1960	100.0	100.0	100.0	100.0
1961		105.9	120.3	108.2
1962		130.4	143.6	131.2
1963	154.7	158.4	163.4	158.2
1964	202.9	202.2	219.3	204.8
1965	246.8	250.2	279.2	252.6

^{1.} Scamen of the fishing fleet and the merchant marine.

Source: Economic Institute, Reykjavik.

Note. Figures refer to a sample of income tax returns of married workers, and seamen.

it was realised that the disparity had to be reduced in order to secure adequate manpower for the fishing fleet. The rise in the prices of white fish paid to the fishermen, although much smaller than that for raw herring, is nevertheless substantial in relation to the rise in export prices, and has therefore, together with the strong upward trend in wage costs, contributed to the difficult position of the processing plants. Domestic fish prices come up for re-negotiation early in 1967.

The rise in the fishermen's incomes has also led to a strong increase in demand and to pressures for similar income increases in other sectors of the economy, irrespective of the movement of productivity in individual sectors or the economy as a whole. Although good fish catches and higher export prices increase the real resources available for the economy, they render more difficult the problem of stabilising costs and prices.

The situation has changed in recent months with the reversal of the rise in export prices for herring products. This has slowed down the rise in domestic incomes and demand, and should also have an impact on wage claims, improving the possibilities of arresting the inflationary trend. The authorities have emphatically stressed the urgency of stabilising costs and prices. Up to November the Government has kept the cost-of-living down to the August level by increased subsidies and family allowances. This will result in unchanged wage compensation for the three months from December to February. Furthermore the Government has proposed a law authorising it to impose a universal ban on price increases on all goods and services and on increases in municipal tax schedules. No agreement has been reached with the trade unions for a standstill of wages, but the price stabilisation measures are

taken on the assumption that they will also suffice to achieve a stabilisation of wages and salaries. The proposed law is scheduled to remain in force up to the end of October 1967.

Balance of Payments

The external position has been relatively strong in recent years, despite the sharp increase in costs and prices. The current account has tended to show a deficit, partly because of very large imports of ships and aircraft, but the capital inflow has been more than sufficient to finance the current deficit. In 1965, however, the current account showed a surplus. Exports rose significantly, the rise in imports was relatively moderate, imports of ships and aircraft, although still considerable, being much lower than in 1964.

TABLE 5. BALANCE OF PAYMENTS

US \$ million.

	1962	1963	1964	1965¹	1966*
Exports, fob	84.4	94.0	111.1	129.3	137.0
Imports, fob	— 83.2	— 101.9	— 120.3	— 125.6	-148.4
of which: ships and aircraft	— 4.5	— 8.8	21.8	-13.6	— 14.0
Balance of trade		7.9	— 9.2	3.7	-11.4
Military receipts	10.4	9.0	6.7	8.2	8.0
Interest on foreign debt, net	— 2.3	2.3	-2.6	2.6	- 2.6
Other services, net	1.7	— 4.7	2.6	5.8	4.5
Balance on goods and services	7.6	— 5.9	7.7	3.5	— 10.5
Transfer payments, net	3.0	0.5	— 0.2	_	_
Balance on current account	10.6	5.4	— 7.9	3.5	10.5
Amortisation of foreign debt	10.4	9.1	— 9.5	— 10.4	11.4
Public borrowing	5.5	11.0	3.8	5.9	6.8
Private borrowing		7.4	17.7	9.6	10.5
Other capital movements, net	5.3	— 0.3	1.1	0.4	
Errors and omissions	0.4	0.1	1.3	— 1.6	
Overall balance	14.5	3.7	6.5	7.4	4.6
Change in foreign exchange holdings:					
Convertible currencies	12.7	2.6	10.1	11.6	
Clearing currencies	1.8	1.1	-3.6	4.2	

^{1.} Provisional.

Source: Icelandic submission to the OECD.

The situation has changed in 1966. The current account is likely to show a large deficit. The rise in exports has slowed down and the increase in imports (excluding ships and aircraft) has accelerated strongly; imports of ships and aircraft are likely to remain at the 1965 level. The capital inflow has no longer been sufficient to cover the deficit on

^{2.} Forecasts.

current account so the foreign exchange reserves have fallen somewhat. At the end of October the official reserve assets (including the IMF position) amounted to \$ 52 million, corresponding to four months' commodity imports. This is about in line with the world average, but is not excessive for a country with large fluctuations in foreign trade.

The acceleration of the growth in imports began in the second half of 1965 and has continued in the present year. 1966 as a whole is likely to show an increase in imports excluding ships and aircraft of about 20 per cent. The strong increase can mainly be ascribed to the marked rise in incomes in 1965. The liberalisation measures taken at the beginning of 1966, increasing the proportion of imports that can be freely imported from 79 to 85 per cent, may also have contributed. In the second half of 1966 imports were inflated by the receipt of machinery and equipment needed for the Burfell power project.

The value of commodity exports rose by 18 per cent in 1964 and 16 per cent in 1965; export prices increased by 13 per cent in both years. The advance has slowed down considerably in 1966. The export volume has continued to rise, but prices for important commodities have fallen so that the year as a whole may see an increase in exports of only some 6 per cent. It is especially herring products, notably oil and meal, which are faced with greater difficulties in world markets. The supply of these products has risen considerably in recent years owing to large herring catches in both Norway and Iceland, and to a marked increase in exports of fish meal from Peru, an important producer of certain fish products. Marketing conditions for frozen fish have also become less favourable. The stocks of export products, which had increased sharply in the summer, have recently been reduced; at the end of 1966 the value of these may not be higher than a year earlier.

Fiscal Policy

The development of the government budget in recent years has illustrated the difficulty which Iceland has experienced in reconciling the claims of incomes policy and demand-management policy. Following the surpluses achieved in 1962 and 1963, the budget turned into large deficit in 1964. This was to a large extent due to the increase in subsidies effected to stabilise prices and to exert a moderating influence on the wage and income settlements. The outcome of the 1965 budget also showed a deficit, but a much smaller one than the previous year. Most investment expenditure was reduced by 20 per cent compared with the original budget estimates. Moreover, the domestic sales tax was raised from 5.5 to 7.5 per cent and the special automobile tax from 100 to 125 per cent from the beginning of the year. Direct taxes of both the Government and the municipalities, however, were somewhat reduced

TABLE 6. CENTRAL GOVERNMENT FINANCES

I.Kr., million.

	1963	1964	1965	1966 APPROVED BUDGET	1967 BUDGET PROPOSAL
CURRENT REVENUE:					
Direct taxes Indirect taxes	183 1,904	259 2.233	366 2,826	406 2,808 1,543	596 3,398
of which: general import duties domestic sales tax Revenue of government monopolies	1,332 234	1,422 537	1,608 938	938	1,829 1,178
and enterprises	361 70	379 76	425 73	472 108	549 103
Total	2,518	2,947	3,690	3,794	4,646
CURRENT AND INVESTMENT EXPENDITURE:					
Subsidies	429 563	581 769	679 853	773 963	726 1,168
Social security and pensions Transportation and communication.	246	192	189	145	175
Economic development	202 75	250 112	453 124	403 128	531 150
Other	738	1,172	1,240	1,324	1,665
Total	2,253	3,076	3,538	3,736	4,415
SURPLUS ON CURRENT AND INVESTMENT ACCOUNT	265	— 129	152	58	231
OTHER TRANSACTIONS ³ : Amortisation of debt Contribution to the State Guarantee	—16	—15	_ 13	—13	—16
Fund	38 84	- 46 - 63	- 46 - 50	— 50	50 20
New lending	— 3	- 49	— 134	7	6
Total	141	— 173	— 243	— 56	80
NET CHANGE IN FLOATING DEBT, BANK DEPOSITS AND CASH HOLDINGS	124	302	— 91	2	151

^{1. &}quot;Capital" expenditure is so designated for budgetary classification purposes; other items include investment expenditure also

investment expenditure also.

2. Loan transactions in which the Treasury has only acted as an intermediary are not included.

Source: Icelandic submission to the OECD.

in 1965, to take account of the rise in prices and incomes. Although the year as a whole showed a deficit, the budget moved into a balanced position or surplus in the second half of the year.

The 1966 budget as approved by the Althing aimed at overall balance. Expenditure was expected to rise by 8 per cent in relation to the previous year's budget, less than in earlier years. Most investment outlays were maintained at a level 20 per cent below the original 1965 estimates. After the budget had been passed, subsidies were grant-

ed to the fishing industry following the determination of fish prices early in the year (Kr. 80 millions). This increase was offset, however, by a cut in other subsidies, and by an increase in receipts resulting from higher indirect taxes. Data for the first eight months of the year suggest that the year as a whole may show a large surplus, mainly because receipts from import duties are rising much faster than expected.

The 1967 budget as presented to Parliament showed a surplus of Kr. 150 million, after inclusion in expenditure of Kr. 108 million for a possible increase in civil service salaries. If the present stabilisation efforts should succeed, civil service salaries will also be affected and the budget might show a surplus of Kr. 250 million. This estimate, however, makes no provision for the increase in subsidies needed to stabilise the cost-of-living index at the August level, even though budget expenditure is estimated to rise by 18 per cent from the 1966 budget. Taking account of the possible rise in subsidies, the budget may at best show overall balance.

Monetary Policy

Monetary policy in recent years has been shaped with a view to restricting the growth of demand. In 1964, the general minimum reserve requirements were raised to 25 per cent of the increase in demand and savings deposits; previously the ratios had been 20 per cent of the increase in demand deposits, and 15 per cent of the increase in savings deposits. The 25 per cent marginal reserve ratio was maintained in 1965, but it was decided that the total required reserves should not exceed 18 per cent of total deposits of each individual bank. From the beginning of 1966 the marginal reserve ratio was increased to 30 per cent, and the limit on the amount of reserves that can be blocked at any one time was raised from 18 to 20 per cent of total deposits. Interest rates, which had generally been reduced by one percentage point in 1965, were raised by the same amount from the beginning of 1966. On overdraft loans from the Central Bank (apart from rediscounts) banks have to pay a penalty rate of 16 per cent. Moreover banks have been requested by the authorities to exercice restraint in their lending activity.

Nevertheless, bank credit expanded very fast in 1965 and the first part of 1966 (see Table 7). This reflected the increase in bank liquidity resulting from the rise in foreign exchange reserves and the budget deficit, which was largely financed by drawings on the Central Bank. The situation has changed in 1966, however. The credit expansion has remained strong partly because of the increase in stocks of export products, and it has to a minor extent been financed by commercial bank borrowing abroad. But bank liquidities have fallen markedly as a result of the decline in external reserves and the stronger budgetary position. The expansion of bank credit may therefore slow down in the months ahead.

TABLE 7. MONETARY SURVEY, IN CHANGES MAJOR ITEMS

				I.Kr.	million.
	1963	1964	1965	JAN	SEPT.
	1903	1704	1903	1965	1966
- term					
CENTRAL BAN	ik				
Claims on Government	— 2	178	121	370	9
Claims on Investment Credit Funds ¹	17	38	57	45	— 29
Claims on private sector	2	4	26	6	30
Claims on banks	62	48	368	55	213
Foreign assets (net)	163	327	253	90	— 163
Total	238	595	825	566	60
Reserve money ²	129	562	678	323	<u> </u>
Government deposits ⁸	155	60	167	183	— 19
Counterpart funds	61	30	— 32	—18	56
Import deposits	15	2	5		21
Other		1	7	78	123
Total	238	595	825	566	60

COMMERCIAL AND SAVINGS BANKS

Lending ⁴	744	720	1,442	883	1,198
Financed by:					
Demand deposits	27	318	295	311	178
Savings deposits	714	763	1,213	602	457
Government deposits	— 28	3	13	12	2
Import deposits	_	— 2	7	4	9
Borrowing from Central Bank	63	47	369	52	206
Borrowing from abroad	21	4	— 33	42	174
Decline in foreign assets (increase —)	-16	—7	— 52	2	- 31
Decline in reserve (increase —)	22	— 356	— 360	— 207	— 3
Increase in other liabilities	39	— 50	10	149	210
Total	744	720	1,442	883	1,198

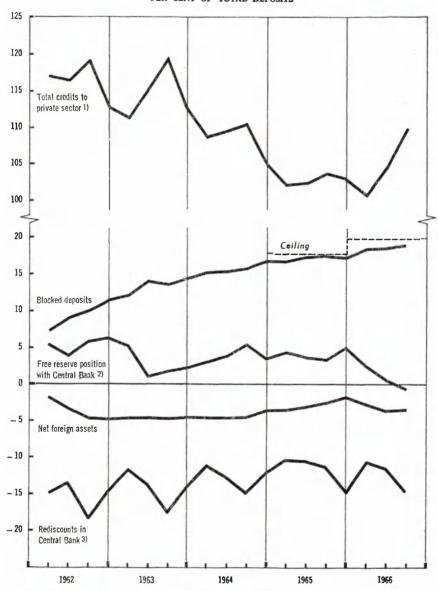
In January 1965 the commercial banks' share of Central Bank lending to investment funds was transferred to direct account between the commercial banks and the investment funds. For 1963-64 this amount has been included in commercial bank lending to private sector and deducted from Central Bank lending and deposits.

Source: International Financial Statistics.

^{2.} Currency plus deposits of commercial banks with Central Bank.
3. Including deposits from investment credit funds.
4. Including lending to investment funds cf. note 1.

Diagram 3. MONETARY INDICATORS

COMMERCIAL AND SAVINGS BANKS, QUARTERLY FIGURES, END OF PERIOD PER CENT OF TOTAL DEPOSITS



- Including special deposits for investment fund lending. Time and sight deposits less loans and advances in Central Bank.
- 3. The Central Bank provides automatic rediscount facilities for about 55 per cent of the amount of bills secured by stocks of fish products for exports and agricultural products mainly for domestic consumption.

Sources: Central Bank balance sheets, Statistical Bulletin, International Financial Statistics.

Long-term credit is to a large extent granted by investment funds and specialised credit institutions. New credit granted by these funds and institutions rose by as much as 38 per cent in 1965; 1966 is expected to show a much smaller increase, 4 per cent. The main sources for this type of credit are receipts from special taxes, transfers from the government budget, and commercial bank funds. At present commercial banks are obliged to contribute 10 per cent of the increase in their deposits to the financing of the investment funds.

Prospects and Short-Term Policy Issues

Given the structure of the Icelandic economy, with heavy dependence on fluctuating fish catches, the margin of error involved in any forecast of demand and production is necessarily big. Moreover, despite the stabilisation efforts now being made some uncertainty still remains with regard to the movement of wages and incomes, which makes it difficult to assess the future course of the economy. It is clear, however, that the sharp increase in costs in the last few years and the recent decline in certain export prices have entailed a serious deterioration of the competitive position of both export and home market industries. A further rise in costs could endanger the full employment of the labour force as well as the balance of payments position. There is therefore an urgent need for the restoration of more stable economic conditions.

This is not an easy task. Attitudes created by long-standing inflation are not easily changed. The structure of the trade union movement, with a large number of unions and little power at the centre, complicates the co-ordination of wage settlements, an essential element in any effort to arrest the inflationary trend. Nevertheless, the conditions for achieving better stability would seem to be more favourable than for some time. The slowdow of the rise in export earnings should ease the pressure of demand and help to moderate the claims for higher incomes. Moreover, recent debate in Iceland suggests that the dangers involved in a further rise in domestic costs are becoming more widely appreciated, improving the possibilities for government disinflationary action.

The authorities' policies to deal with the situation consist of two main elements. First, the authorities hope that the new measures being taken to stabilise prices at the August level (see page 13-14) will suffice to achieve stabilisation of wages also. Second, the authorities aim at maintaining tight monetary and fiscal policies, thus preventing an excessive increase in demand which would put stronger pressures on prices and wages. The authorities feel that the decline in bank liquidity will serve to slow down the credit expansion, and that it should be possible to maintain the government budget in approximate balance, despite the increase in subsidies required to stabilise prices.

The success of these policies will depend on a number of factors, of which two would seem to be of particular importance. In the first place, the co-operation of the trade unions is clearly essential, both to maintain stable wages up to the summer of next year, and to ensure that the subsequent re-negotiations of wage contracts do not lead to an increase in wages which would mean higher prices. Given the deterioration of the competitive position of Icelandic industry over recent years, the scope for wage increases in 1967, if any, will be very small. To keep the increases within this limit, co-ordination in time of the various settlements will be needed. While the Government could play a key rôle in ensuring such co-ordination, the co-operation of labour and management is clearly necessary.

Moreover, much will depend on demand-management policy. There are indications that the pressure on resources has eased somewhat, mainly because of the weaker trend in export earnings, and the sharp increase in imports. The tighter monetary conditions should help to restrict the future expansion of demand. But it is uncertain whether this will be enough to offset expansionary influences emanating from other parts of the economy, especially the budget and the implementation of the Burfell power project and the aluminium plant.

The budgetary position may deteriorate considerably in 1967, serving to stimulate demand. The swing in the budget from 1966 to 1967 could represent some 2 per cent of GNP or more. Some deterioration of the budget position may be difficult to avoid, given the demands of incomes policy; the stabilisation of the consumer price index not only requires a significant increase in subsidies but excludes an increase in taxes because both direct and indirect taxes are included in the index. But it would seem essential to limit the deterioration of the budget as far as possible by restricting the growth of expenditure. The maintenance of a balanced budget — thereby avoiding an easing of monetary conditions which would result from a budget deficit — would seem to be a minimum requirement.

The implementation of the Burfell power project, the aluminium plant and the harbour associated with it will put heavy claims on the labour market. There are, however, indications that the growth of investment demand has slowed down; and this trend may continue in 1967. But the power and aluminium projects are relatively big and it is far from clear that they can be absorbed without increasing the pressure on the labour market.

It is essential that the present stabilisation efforts should succeed, given the critical cost position of Icelandic industry. It is not certain that the present tendency towards an easing of the pressure of demand will go far enough, given the change in the budget and the increase in demand for labour resulting from the big projects (power and associated

projects). Great care should, therefore, be taken to accommodate the projects when the programme of public investments and extra-budgetary financing is draw up for the year to come, and the management of demand in general ought to continue with utmost caution.

The last two years have demonstrated again the difficulty which the one-sided structure of the economy — the heavy dependence on fluctuating fish catches and exports — represents for stabilisation policy. The fishing sector (including fish processing) accounts for one fifth of the gross national product and more than 90 per cent of merchandise exports. By coincidence, export prices have tended to rise in periods of good fish catches, and vice versa, thereby accentuating the impact of unstable fishing conditions on the economy. Good fish catches and export prices produce an immediate increase in incomes for fishermen and — more indirectly, but nervertheless rather automatically — higher incomes among workers in the fish-processing industry. This normally leads to strong pressures or similar income increases in other sectors of the economy, irrespective of the movement of productivity in individual sectors or the economy as a whole. Strong and sudden increases in incomes clearly complicate the task of demand-management policy, and have tended to lead to increases in domestic demand, both consumption and investment, resulting in considerable strain on the labour market, with further repercussions on wage developments.

In these circumstances, traditional monetary and fiscal policy instruments may not be sufficient to maintain stable conditions. There seems to be need for a system which would reduce the fluctuations in incomes resulting from changes in catches and export prices, for instance temporary levies which would be paid into a fund under buoyant conditions and reimbursed in slacker periods. It would seem desirable that the policy problems involved in better incomes stabilisation should be considered as soon as possible, so that preparations can be made for dealing with the problems arising from fluctuations in exports in the future.

II. LONGER-TERM TRENDS AND PROBLEMS

In the spring of 1963 the Government published a general economic programme, covering the period 1963-1966. The Government regarded this first long-term programme as an important tool of economic policy and as the beginning of more complete programmes to be prepared later. The main object of the programme was to achieve steady growth and more stable economic conditions. It included forecasts for the growth of available resources, certain targets with respect to resource allocation, and considered the ways and means of achieving the targets. The general

programme has been supplemented by more detailed annual programmes for public investment and special sector programme for education and transportation.

The Government emphasized the fact that unforeseen developments could change the scope for progress and call for a resource allocation somewhat different from that envisaged by the programme. Satisfactory fish catches and favourable marketing conditions abroad, economic stability and some long-term foreign borrowing were the main prerequisites for its implementation. Moreover, since the policy instruments available to the authorities were largely confined to general fiscal and monetary measures, the estimates for the private sector were merely indicative.

Tables 8 and 9 show the main features of the economic programme compared with actual developments. With the population estimated to rise by 1.8 per cent a year, the 4 per cent annual rate of increase in GNP would give an expansion of output per head of just above 2 per cent. This was roughly the rate that had been achieved by Iceland in the 1955-1962 period, and it was considered imprudent to base the programme on a much higher rate of growth than that achieved in the past. Gross fixed asset formation was expected to rise faster than GNP. with the ratio of gross fixed investment to GNP rising to 26 per cent. Priority was to be given to public investment, notably in hydro-electric power plants, school buildings and transportation facilities. The fact that public consumption was expected to rise faster than private consumption also reflected the improvements envisaged in public services. According to the programme, total expenditure would exceed domestic production, calling for an inflow of foreign capital. Including repayments of debts and some increase in exchange reserves, the need for foreign borrowing was estimated at \$14 million a year.

Actual developments differed rather considerably from the estimates of the programme. This is not surprising. It is an experience common to most countries with long-term programmes, both because some of the assumptions underlying the estimates do not materialise and because official priorities may change during the programme period. Long-term programmes therefore need to be revised from time to time. This has not been possible in Iceland because of the limited resources available to the administration. The deviations from the programme can to a large extent be ascribed to the larger fish catches and better export prices than forecast. Government policy has also been changed somewhat during the programme period. But there are also indications that developments have differed from the authorities' intentions, notably with respect to the composition of investment.

In terms of growth the development proved much more favourable than forecast. Real GNP rose by 5.2 per cent a year on average, which is 30 per cent above the original estimate, and much faster than in the

latter half of the 1950's; but the growth rate showed a falling trend during the period. Output per employed also rose faster than envisaged, but remained somewhat lower than the average for OECD countries. A lengthening of the working week up to 1964 was followed by cuts in working hours in 1965 and 1966.

TABLE 8. ECONOMIC PROGRAMME 1963-1966 AND ACTUAL DEVELOPMENT 1963-1966

Average annual growth rates.

	ECONOMIC PROGRAMME 1963-66	ACTUAL DEVELOP MENT 1963-66
Gross national product	4.0	5.2
Domestic demand		8.4
Private consumption	3.8	5.7
Public consumption		5.9
Gross fixed asset formation		13.8
Change in stocks ¹	0.5	0.3
Exports of goods and services		7.3
Imports of goods and services		12.7

Changes in livestock and stocks of export goods as per cent of GNP.
 Source: Economic Programme 1963-66 and Icelandic submission to the OECD.

The sharp expansion of output and the marked improvement in the terms of trade provided the scope for a much faster growth in expenditure than envisaged without increasing the external deficit. Total national expenditure rose by 38 per cent in fixed prices from 1962 to 1966 (8.4 per cent a year) compared with an original forecast of 21 per cent. But the current external deficit for the four-year period as a whole (\$20 million) was roughly in line with the programme forecast (\$17 million). Exports of goods and services increased by 32 per cent in volume and 54 per cent in value; the programme had been based on an increase in the export volume of only 17 per cent. The volume of imports exceeded the programme estimates even more than the export volume, to a large extent because of imports of ships and aircraft, but import prices rose much less than export prices. In accordance with the Government's objectives, foreign borrowing exceeded the current deficit and the foreign exchange position improved significantly.

The unexpectedly large scope for domestic demand was notably reflected in gross fixed investment, which rose by as much as 68 per cent in real terms over the period. The ratio of gross fixed investment to GNP was 28 per cent, 2 percentage points higher than estimated, and

higher than in most OECD countries. Investment in ships and aircraft substantially exceeded the programme, while the increase in hydro-electric power capacity fell short because of the late start of the Burfell project. Public investment in buildings and communications, although rising sharply, constituted a smaller proportion of total investment than expected. Private consumption increased faster than envisaged, whereas public consumption developed roughly in line with the programme.

TABLE 9. PERCENTAGE DISTRIBUTION OF GROSS FIXED ASSET FORMATION

	19621	19661	AVERAGE 1963-661	ECONOMIC PRO- GRAMME 1963-66
Industries	49.5	45.1	49.1	42.5
Agriculture	10.8	9.1	9.5	8.5
Fisheries	6.2	3.7	6.3	6.9
Fish processing	7.9	5.1	5.2	5.4
Manufacturing other than fish processing	6.8	6.9	7.1	6.4
Transport equipment	9.8	10.2	11.6	7.8
Commercial buildings	4.9	6.2	5.5	3.3
Various machinery and equipment	3.1	3.9	3.9	4.2
Residential construction	22.1	24.7	23.3	23.1
Public works and buildings	28.4	30.2	27.6	34.4
Electricity and water supply, geothermal heating	7.4	9.3	7.8	13.3
Communications	13.3	12.3	12.2	13.0
Public buildings	7.7	8.6	7.6	8.1
Total	100.0	100.0	100.0	100.0

 Current prices, 1966 figures estimated. Source: Economic Institute, Reykjavik.

As shown in the first part of this Survey, the stabilisation objective was not achieved, despite considerable efforts to this end. Restoration of better stability is therefore an immediate concern of the authorities. But economic policy is also faced with important longer-term problems of a structural nature, some of them resulting from distortions associated with inflation. Better stability, desirable in itself, would therefore facilitate the solution of some of the longer-term problems also.

One of the main problems in Iceland is the one-sided structure of the economy. Greater diversification of both production and exports has been an important objective of official policy for a long time. But this is not an easy task, and developments in recent years illustrate some of the problems involved in diversification. It is probably true to say that the one-sidedness of the economy has become more rather than less pronounced in recent years. But this has to a large extent been the result of developments which in themselves must be deemed as favourable and desirable. In the first place the dependence on fishing and fish exports has increased. This, however, has reflected the sharp increase in output and exports of herring and herring products, which have constituted one of the main dynamic elements in the growth of the economy in recent years. Morever, the shortage of labour, the rise in domestic costs, and the liberalisation of foreign trade have promoted a significant rationalisation of the home market industries exposed to foreign competition. Although the rise in costs has placed undue burdens on many industries, the rationalisation that has taken place, reflected in the closing down of some firms, must on the whole be regarded as a desirable development.

These developments point to a possible conflict between diversification and growth. The expansion of the fishing sector, which is a very modern and competitive industry, and the rationalisation of the home market industries have clearly been useful from the point of view of growth, but they have also meant a movement towards a more one-sided economic structure, thereby increasing the instability of the economy. An important problem therefore consists of achieving greater diversification without sacrificing economic growth. The problem is complicated by the small size of the domestic market, which very severely limits the scale of operations of the industries catering for it. And the development of new export industries tends to require a volume of investment which is large in relation to the domestic economy, probably requiring some inflow of foreign capital.

There are indications that the possibilities of further expansion of the fisheries sector may become more limited. The white fish catch has already stagnated for a number of years. To some extent this has been due to the fact that more resources have been employed in the herring But it has also reflected the harmful effects of over-fishing of fisheries. the most important species of cod. According to a survey conducted by an international team of marine biologists appointed by the International Council for the Exploration of the Sea, the cod fishing effort on fishing banks off Iceland increased substantially over the last decade, while the total catch declined. If a satisfactory solution on an international basis is not found to the problem of over-fishing, the white-fisch stock will probably continue to decline. Moreover, biological research suggests that the herring stock will reach a peak in 1966 or 1967, and decline thereafter. Although there may be possibilities of a greater degree of processing of the fish, particularly with fish, the growth potential of the fishing sector is clearly becoming more limited, calling for stronger expansion in other sectors.

The development of the new aluminium plant is an important step towards greater diversification of exports. This plant is financed by foreign capital, and is planned eventually to produce 60,000 tons of

raw aluminium a year. It is based on the availability of hydro-electric power, which for this purpose is a relatively cheap source of energy. Iceland's large hydro-electric and geo-thermal energy resources should constitue important assets for further expansion and diversification.

Agriculture represents an important problem for economic policy. As in most other Member countries, the agricultural population is declining; between 1960 and 1964 it fell from 17 to 14 per cent of the active population. But investment in agriculture rose by almost 12 per cent a year in volume in the first half of the 1960's, and has been higher in relation to GNP than in any of the other Nordic countries, including Denmark which is an important exporter of agricultural products. The expansion of Icelandic agriculture has been strongly influenced by economic policy. In 1966 Government transfers to agriculture in the form of consumer subsidies, export subsidies and investment grant totalled more than 40 per cent of the value of agricultural production (at farm prices), and 24 per cent of budget expenditure. Output of dairy products has risen particularly fast, by more than 20 per cent since 1960, increasing the surplus which has to be exported with the aid of subsidies, at a great loss for the economy as a whole. Export prices of milk products. net of processing costs, only yield 10 per cent of the price received by the farmer, and does not even cover the costs of imports (fertilizers and fodder) involved in the production of the products exported. Output of sheep products, on the other hand, declined substantially up to 1964, although Iceland, because of climatic conditions, is more competitive in this activity.

TABLE 10. INVESTMENT IN AGRICULTURE

	1961	1962	1963	1964	1965
Agricultural investment in per cent of GNP (current prices): Iceland	2.6	2.7	2.7	2.7	2.7
Denmark Norway ¹ Sweden	2.0 1.9 0.8	1.8 1.8 0.7	1.8 1.8 0.8	1.9 1.7 0.7	1.6 0.8

^{1.} Including maintenance and repairs.

Sources: Iceland: Icelandic submission to the OECD; Denmark: Statistical submission to the OECD; Norway: The National Budget 1967; Sweden: National Accounts 1950-1965.

A change in the pattern of production from milk to sheep products is now being encouraged by a revision of the guaranteed prices paid to the farmers by the agricultural co-operatives. This may have been a factor behind the recent increase in the stock of sheep, and some decline

in the stock of cows. But it is questionable wether these measures go far enough. A difficulty has been that the Government's objective of income equity for farmers has been difficult to reconcile with a more appropriate production policy. It should be possible, however, to grant the support to the farmers in ways which do not stimulate higher production, as is now behing done in some other countries, and to permit market forces to play a more important rôle in influencing the pattern of production. And government subsidies could probably be used to a greater extent to encourage structural change and rationalisation. The lending policy of the Agricultural Loan Fund could also be used for this purpose.

It is not only in agriculture that fixed investment has been different from what was envisaged in the economic programme in 1963. As noted earlier, one particular problem has been the relatively moderate growth of central government investment. To some extent this has been the result of insufficient means to restrict the growth of investment in other sectors, both private and municipal investment. One aspect of this has been the very significant increase in investment in the herring oil and meal industry in the eastern part of the country, because the herring fisheries have expanded fast in the sea outside this area. At the same time, however, considerable unutilised capacities exist in other parts of the country. Another aspect has been the strong increase in municipal investment, partly on the basis of grants from the Central Government. In addition to local income taxes and a certain share of the central government sales tax and import duties (8 and 5 per cent respectively) the municipalities are entitled to a government grant, determined as a percentage of the cost of municipal investment projects; in some cases the proportion financed by the Government is as high as 75 per cent. By the means of sector programming improved co-ordination is gradually being evolved. and the decision by the Government on municipal income tax schedules

TABLE 11. PRIVATE AND PUBLIC INVESTMENT

Percentage growth from 1962 to 1966, 1960 prices.

Private investment	68.0
Public investment	66.3
of which: Central Government investment	22.0
Local Government investment	122.0
Mixed central/local gov, enterprises ²	82.0
Total	67.5

^{1. 1966} figures estimated.

^{2.} Including the Burfell power project in 1966.

Source: Icelandic submission to the OECD, Economic Institute, Reykjavik.

and the tax index applicable to them also plays an important rôle in the determination of municipal investments. Measures for improving decision procedures and financial preparations for state investment projects are under consideration.

III. SUMMARY OF CONCLUSIONS

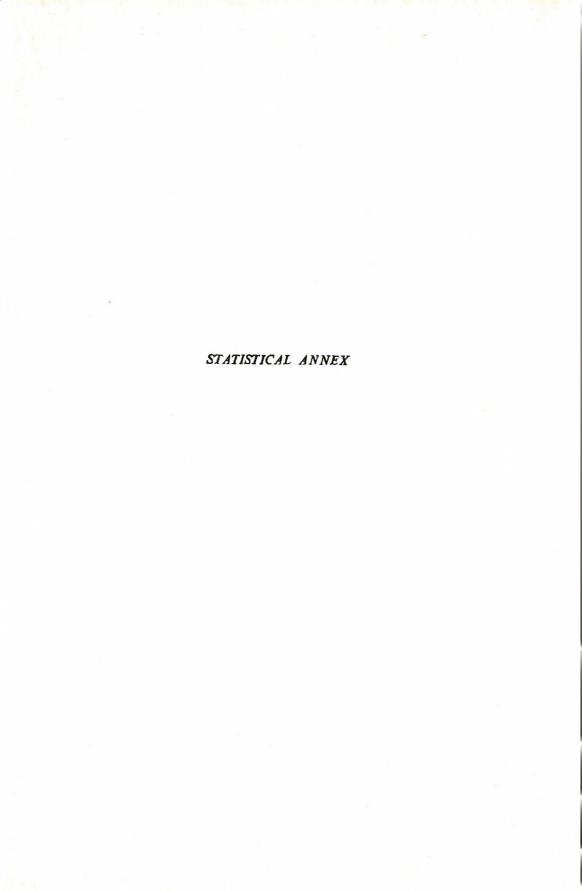
The economy has expanded fast in recent years, and the balance of payments has been strong, reflecting notably growing herring catches and higher export prices. But the situation has changed in 1966. The expansion of activity has slowed down and the balance of payments has turned into deficit, with some decline in external reserves. The herring catch has continued to grow, but much less fast than earlier, and export prices have fallen. And this, together with the strong increase in domestic costs and prices, represents a serious threat to the continued profitable operation of much of Icelandic industry. A primary objective of economic policy therefore is to arrest the inflationary trend.

The conditions for restoring economic stability should be better than for some time, given the slowdown of the growth of export earnings; the earlier strong increase in exports was an important factor behind the inflationary developments in 1964 and 1965, increasing domestic demand as well as the pressure for higher wages and incomes. The authorities are aiming at stabilising the cost of living index at the August level for at least a year with the aid of higher subsidies, and are trying to arrive at an understanding with the trade unions that wages should also be stabilised over this period. Moreover, it is the intention of the authorities to maintain monetary and fiscal policies sufficiently restrictive to avoid an excessive increase in demand.

The success of these efforts clearly depends essentially on the cooperation of the trade unions, both to achieve an immediate stabilisation of wages and to ensure that re-negotiations of contracts next year do not lead to higher prices. Moreover, careful demand-management policy will be required. The pressure on domestic resources has probably eased somewhat in recent months, and the tighter monetary conditions should help to restrict the growth of demand. But the increase in subsidies, if not offset by other measures, will tend to stimulate demand, and the construction of the Burfell power plant and associated projects will make heavy demands on the labour market. It is therefore not clear that enough has been done to ensure an adequate easing of demand pressures, notably in the labour market. It is essential that room should be provided for the construction of the power and aluminium projects and that the deterioration of the budget position should be limited as far as possible; the maintenance of a balanced budget would seem to be a minimum condition.

Over the longer term an important objective of economic policy is to reduce the one-sided structure of the economy. The decline in the stock of the most important species of cod on the fishing banks off Iceland, and the likelihood that the stock of herring may also reach a peak soon, have added some urgency to the problem of developing new profitable industries. The large hydro-electric and geo-thermal energy resources should provide the basis for industrial development. The new aluminium plant represents an important first step towards the diversification of production and exports.

Developments over the last few years have also illustrated the need for a more active policy with regard to resource allocation. The deviations from the economic programme can to a large extent be ascribed to unforeseen circumstances and changes in official priorities. But they were also to some extent contrary to government intentions because of insufficient policy measures to influence the pattern of investment. The considerable expansion of agricultural production, notably of dairy products of which there is a growing surplus, is clearly an undesirable development, calling for measures both to restrict the growth of that sector and to influence the composition of agricultural production. A better co-ordination of investment of central and local authorities would also seem desirable. More generally, much of the distortion in the pattern of investment can probably be ascribed to inflation. Restoration of economic stability may therefore contribute importantly to a better allocation of resources.



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TABLE I. SUPPLY AND USE OF RESOURCES

CURRENT PRICES				CENT GNP						
	1958	1959	1960	1961	1962	1963	1964	1965¹	1958	1965
Gross national product	6,388 1,627	7,239 1,777	8,095 4,204	9,427 4,084	11,488 5,257	13,675 6,357	17,266 7,389	20,425 7,960	100.0 25.5	100.0 39.0
Total supply	8,015	9,016	12,299	13,511	16,745	20,032	24,655	28,385	125.5	139.0
Exports of goods and services	1,536	1,556	3,790	4,315	5,612	6,137	7,045	8,110	24.0	39.7
Total domestic demand	6,479	7,460	8,509	9,196	11,133	13,895	17,610	20,275	101.5	99.3
of which:		-						-		
Public consumption	606 4,113	656 4,758	727 5,376	802 6,036	963 7,451	1,227 8,985	1,520 11,062	1,825 12,536	9.5 64.4	9.0 61.4
Gross domestic fixed asset formation	1,665 194	1,942 233	2,499 320	2,195 390	2,829 513	3,853 558	4,969 786	5,499 992	26.1 3.0	26.9 4.8
Enterprises	1,471 95	1,709 104	2,179 93	1,805 163	2,316 — 110	3,295 — 170	4,183 59	4,507 415	23.1 1.5	22.1 2.0

1. Preliminary.

TABLE II. SUPPLY AND USE OF RESOURCES

1958 PRICES				CENT GNP						
	1958	1959	1960	1961	1962	1963	1964	1965¹	1958	1965
Gross national product	6,388 1,627	6,620 1,771	6,794 1,826	6,729 1,710	7,364 2,054	8,040 2,435	8,508 2,755	8,924 2,952	100.0 25.5	100.0 33.1
Total supply	8,015	8,391	8,620	8,439	9,418	10,475	11,263	11,876	125.5	133.1
Exports of goods and services	1,536	1,538	1,695	1,721	2,100	2,249	2,395	2,572	24.0	28.8
Total domestic demand	6,479	6,853	6,925	6,718	7,318	8,226	8,868	9,304	101.5	104.3
of which:										
Public consumption	606 4,113	619 4,369	661 4,391	669 4,462	716 4,899	770 5,242	810 5,403	854 5,704	9.5 64.4	9.6 63.9
Gross domestic fixed asset formation	1,665 194	1,792 220	1,890 268	1,516 290	1,774 348	2,283 358	2,632 449	2,638 506	26.1 3.0	29.6 5.7
Enterprises	1,471 95	1,572 73	1,622 — 17	1,226 71	1,426 — 71	1,925 — 69	2,183 23	2,132 108	23.1 1.5	23.9 1.2

1. Preliminary.

TABLE III. FISHERIES AND AGRICULTURE

	UNITS	1960	1961	1962	1963	1964	1965	1966
FISHERIES AND FISH PROCESSING:								
Production of Fish and Whale products: Value of production	_	2,309 100.0 100.0	3,048 116.7 111.7	3,413 130.7 119.7	3,702 141.8 126.6	4,577 177.6 136.8	5,871 219.0 150.9	
Tonnage of fishing fleet, end of year1:								
Trawlers	GRT —	33,470 37,528	33,470 39,866	32,816 41,834	30,027 45,144	28,046 51,637	26,708 54,063	25,411 ³ 56,800 ³
Total	_	70,998	73,336	74,650	75,171	79,683	80,771	82,2118
AGRICULTURE:								
Agricultural production ^a : Value of production	_	838 100.0 100.0	1,030 122.9 107.8	1,217 145.3 112.5	1,427 170.3 110.3	1,643 196.1 108.5	2,038 243.2 115.6	2,283 ^a 272.4 ^a 115.6 ^a
Cultivation and livestock, end of year: Cultivated grassland Sheep Cattle	1,000 hect. 1,000 heads 1,000 heads	82.7 833.8 53.4	87.0 829.8 55.7	90.0 777.3 55.9	95.3 736,4 57.2	101.3 761.9 59.8	106.4 846.7 59.5	111.4 ³ 846.7 ³ 59.5 ³

Including whale-catchers, excluding open boats.
 Excluding change in livestock.
 Provisional figures.

6

TABLE IV. GROSS FIXED ASSET FORMATION BY INDUSTRY OF USE

1000			I.KR. 1	ULLION			PERCENTAGE DISTRIBUTION						
1960 PRICES	1960	1961	1962	1963	1964	1965	1960	1961	1962	1963	1964	1965	
GROSS FIXED FORMATION, TOTAL	2,499	1,946	2,274	2,971	3,494	3,425	100.0	100.0	100.0	100.0	100.0	100.0	
Industrial asset formation	1,337	955	1,132	1,579	1,933	1,744	53.5	49.1	49.8	53.1	55.3	50.9	
Agriculture	208	216	246	290	334	362	8.3	11.1	10.8	9.7	9.5	10.0	
Fisheries	478	108	151	287	366	134	19.1	5.6	6.7	9.7	10.5	3.9	
Fish processing	108	93	179	174	154	171	4.3	4,8	7.9	5.8	4,4	5.	
Other manufacturing	138	127	154	229	241	220	5.5	6.5	6.8	7.7	6.9	6.	
Transport equipment		234	223	296	572	515	9.9	12.0	9.8	10.0	16.4	15.	
Commercial buildings		111	110	152	142	190	3.9	5.7	4.8	5.1	4.1	5.	
Various machinery and equipment	61	66	69	151	124	152	2.5	3.4	3.0	5.1	3.5	4.	
Residential construction	578	442	498	638	705	743	23.1	22.7	21.9	21.5	20.2	21.	
Public works and buildings	584	549	644	754	856	938	23.4	28.2	28.3	25.4	24.5	27.	
Electric power, generation and distribution	140	98	108	142	122	121	5.6	5.1	4.7	4.8	3.5	3.	
Geothermal hating and water supply	58	39	58	91	91	105	2.3	2.0	2.6	3.0	2.6	3.	
Communication	254	246	304	349	414	462	10.2	12.6	13.4	11.8	11.8	13.	
Public buildings	132	166	174	172	229	250	5.3	8.5	7.6	5.8	6.6	7.	

TABLE V. IMPORTS AND EXPORTS BY AREA

			U	S \$ MILLIE	N			PER	RCENTAGE	DISTRIBUT	NOIT
	1001	10/2	1062	1064	1000	JANUARY	-AUGUST	1071	1000	JANUAR	Y-AUGUS7
	1961	1962	1963	1964	1965	1965	1966	1961	1965	1965	1966
Imports:											
European OECD countries	38.0	49.8	70.0	74.4	79.6	49.5	61.5	50.7	58.1	57.5	60.5
EFTA countries ¹	24.0	32.9	49.0	52.4	52.2	31.3	39.5	32.0	38.1	36.4	38.8
EEC countries	14.8	18.6	23.0	23.5	29.6	19.4	23.3	19.7	21.6	22.5	22.9
Other [®]	0.9	1.0	0.9	1.0	1.0	0.6	0.7	1.2	0.7	0.7	0.7
USA and Canada	12.2	12.7	13.1	26.0	23.0	15.5	20.0	16.3	16.8	18.0	19.7
Japan	1,5	0.5	0.9	3.7	5.0	3.4	4.3	2.0	3.7	3.9	4.2
Eastern Europe	17.2	17.1	19.4	21.3	21.9	13.3	10.9	22.9	16.0	15.5	10.7
USSŘ	10.9	10.3	11.8	11.0	12.1	6.6	6.3	14.5	8.8	7.7	6.2
Other	6.2	6.8	7.6	10.3	9.8	6.7	4.6	8.3	7.2	7.8	4.5
Other countries	4.2	6.3	3.5	3.6	4.3	2.6	3.0	5.6	3.1	3.0	3.0
Total	75.0	89.2	109.8	131.5	137.0	86.1	101.7	100.0	100.0	100.0	100.0
Exports:											
European OECD countries	43.4	47.9	55.7	66.9	81.5	45.5	50.4	60.6	63.0	59.2	61.8
EFTA countries ¹	31.0	32.9	35.1	48.0	54.1	31.0	32.1	43.3	41.8	40.4	39.3
EEC countries	12.2	14.6	19.7	19.2	27.4	12.5	17.1	17.0	21.2	16.3	21.0
Other ^a	2.4	3.2	2.2	3.3	4.2	4.1	3.6	3.4	3.3	5.3	4.4
USA and Canada	10.3	13.5	15.2	17.9	21.4	15.2	15.8	14.4	16.5	19.8	19.4
Japan	0.0	0.0	0.0	0.0	0.0	_	0.0	0.0	0.0	_	_
Eastern Europe	10.0	15.6	16.3	16.0	14.9	9.7	10.2	14.0	11.5	12.6	12.5
USSR	5.1	10.9	10.6	10.1	6.8	4.6	5.7	7.1	5.2	6.0	7.0
Other	4.9	4.7	5.6	5.9	8.1	5.1	4.5	6.8	6.3	6.6	5.5
Other countries	5.6	4.5	5.7	6.8	7.4	4.3	2.8	7.8	5.7	5.6	3.4
Total	71.6	84.3	94.2	111.2	129.4	76.8	81.6	100.0	100.0	100.0	100.0

^{1.} Including Finland. Subtotals of EFTA, EEC and Other add up to more than total European OECD countries, as Finland is included in EFTA but not in European OECD countries.

2. Ireland and Spain.

Source: Icelandic submission to the OECD.

Note. Figures may not add up to totals because of rounding.

TABLE VI. CONSOLIDATED STATEMENT OF THE CENTRAL BANK

I.Kr. million end of period.

							o) periou
	1961	1962	1963	1964	19651	AUGUST 1965	AUGUST 1966
Assets:							
Net foreign assets	305.	1 1,182.5	1.345.3	1,671.3	1,929,8	1,770.1	1.887.2
Gold	43.		43.7	43.7	43.7	43.7	43.7
Net IMF subscription			120.1	120.1	120.1	120.1	160.5
Foreign assets				1,778.7	2,182.2	1,951.6	2,107.6
Foreign liabilities			- 278.4	- 271.2	- 416.2	— 345.3	- 424.6
nvestment Funds, net			470.4	494.7	313.9	323.4	385.7
Advances			401.5	376.9	209.3	191.9	201.5
Securities			151.2	222.1	255.6	261.4	235.5
					— 151.0	129.9	
Deposits Sundry securities							— 51.3
bundry securities	20.	4 17.5	15.8	20.5	46.4	25.8	75.6
JABILITIES:							}
Notes	509.	9 583.8	654.4	776.5	1.017.8	871.7	1,013.7
Treasury and public institutions			253.9	112.4	103.1	- 70.9	224.0
Deposits	315.		517.4	554.0	669.8	677.7	716.3
Advances	- 160.0			- 280.3	— 361.9	- 559.7	— 282.
Securities			- 186.8		- 204.8	- 188.9	- 209.
Deposit institutions			352.8	752.8	630.3	708.8	504.0
Free deposits			123.6	262.7	396.6	312.3	128.8
Required deposits.			770.0	1.067.4	1,376.6	1,292.5	1.625.
Other deposits.			207.8	219.9	22.1	9.2	12.0
			- 2.0		- 0.3	- 62.4	- 138.7
Loans on bonds, advances and cheques for clearing	— 794.		— 746.6				
Counterpart Funds				- 777.0 299.6	1,164.7 268.0	- 842.8	1,124.2
			- 330.1 - 16.2			280.4	219.5
Sundry					— 16.5	61.8	102.3
Own Capital	238.	1 244.2	256.5	269.7	287.4	267.5	285.0

^{1.} In 1965 a book-keeping transfer caused a reduction of 181.1 million in "advances" to Investment Funds as well as "other deposits" of Deposit Institution and artificially increased Commercial Bank Lending by the same amount.

TABLE VII. CONSOLIDATED STATEMENT OF THE COMMERCIAL AND SAVINGS BANKS

I.Kr. million.

	CHANGES DURING						STATUS 31/12 1965 -		CHANGES IANUARY		STATUS - 31/8 1966			
	1	962		1963		1964		1965	31/12 1903		1965		1966	31/8 1900
Net assets	+ 1	1,243.0	+	743.8	+	1,137.0	+	1,538.9	8,972.2	+	779.6	+	756.6	9,728.8
Cash	+	6.8		15.5	_	11.7	+	25.8	89.5	+	46.4	+	57.8	147.3
Net deposits with the Central Bank		606.1	-	23.8	+	370.4		142.8	555.5	+	14.1	_	79.2	476.3
Free deposits		149.0	-	166.7		136.4	+	135.8	392.4		76.5	-	264.7	127.7
Other deposits		301.1	+	205.0	+	282.7	1+	91.71		+	7.51		233.6	1,564.4
— Rediscounts		112.4	_	64.3	_	30.4	-	388.1	- 1,165.1	_	65.8	+	40.9	1,124.2
— Other borrowing		43.6		2.2	_	18.3	+	17.8	— 2.6		4.1	-	89.0	— 91.6
Total credit		585.0	+	762.4	+	712.8	1	1,633.91		+	941.6 ¹	+	1,023.4	9,265.5
Miscellaneous, net	1+	45.1	_	10.3	+	65.5	+	22.0	85.1	_	222.5	-	245.4	— 160.3
Net liabilities	+	1,243.0	+	743.8	+	1,137.0	+	1,538.9	8,972.2	+	779.6	+	756.6	9,728.8
Deposits	+	981.2	+	660.9	+	1,076.5	+	1,518.1	7.913.3	+	855.5	+	572.6	8,485.9
Demand deposits		214.8		55.8	+	322.3	+	308.5	1,741.0		298.3	+	107.0	1,848.0
Savings deposits	+	766.4	+	716.7	+	754.2	+	1,209.6	6,172.3	+	557.2	+	465.6	6,637.9
Advance deposits for imports	-	29.7	_	0.3		2.1	1+	7.8	76.4	+	8.2	+	10.6	87.0
Foreign liabilities, net	+	193.5	+	5.1	_	3.4	<u> </u>	85.1	140.8	_	83.6	+	170.8	311.6
Own funds	+	98.0	+	78.1	+	66.0	+	98.1	841.7	—	0.5	+	2.6	844.3

^{1.} Special deposits of Kr. 181 mill, to cover Central Bank lending to Fisheries Mortgage, Department in 1965 have been transferred to direct account between commercial banks and Fisheries Mortgage Department. The real increase in deposits in 1965 thus has been Kr. 272.8 mill, and the increase in credits Kr. 1452.8 mill. The same correction is applicable for the January-August figures.

I.Kr. million.

		CHANGES	DURING		STATUS 31/12 1965	CHANGES JANUARY	STATUS 31/8 1966	
	1962	1963	1963 1964		31/12 1903	1965	1966	31/6 1900
Agriculture and processing of agricultural products. Fisheries and fish processing. Commerce. Manufacturing. Construction. Transportation and communication. General government. Monetary institutions. Miscellaneous. Total.	+ 65.6 + 30.7 + 160.3 + 76.3 + 79.6 + 12.7 + 30.7 - 0.5 + 61.6 + 517.0	+ 125.9 + 74.7 + 215.0 + 129.4 + 55.1 + 13.9 + 22.0 + 1,9 + 78.5 + 716.4	+ 42.5 + 92.9 + 105.2 + 95.7 + 104.7 + 27.6 + 119.4 - 1.8 + 68.6 + 654.8	+ 268.4 + 331.5 + 242.9 + 161.2 + 110.0 + 41.4 + 112.1 + 190.7 + 90.7 + 1,548.9	168.6 503.9 192.5 624.9	+ 8.2 + 149.0 + 200.9 + 97.3 + 59.5 + 43.8 + 86.4 + 184.8 ³ + 50.0 + 879.9	129.0 + 268.6 + 338.9 + 151.6 + 81.3 + 30.9 + 121.5 + 17.6 + 54.6	880.3 2,098.5 1,941.0 1,164.3 897.2 199.5 625.4 210.1 679.5 8,695.8

Including electric utilities.
 See note 1 to Table VII.

TABLE IX. PRICES

March 1959 = 100.

		19	63		1964					19	65	1966			
	MARCH	JUNE	SEPT.	DEC.	MARCH	JUNE	SEPT.	DEC.	MARCH	JUNE	SUPT.	DEC.	MARCH	JUNE	SEPT.
Goods and services	147 150 105	149 153 107	154 160 108	166 180 108	180 198 109	187 206 113	185 199 115	186 200 115	191 205 116	194 208 122	197 211 126	210 231 126	214 234 127	223 248 133	230 252 140
(1 + 3)	47	142 47	146 72	156 72	168 80	174 80	173 92	174 92	178 92	181 92	185 90	195 68	198 73	207 69	214 77
$(1+3+5) \dots \dots$	129	131	138	145	158	163	163	165	168	171	174	180	184	191	198

Index of Building Costs, February 1959 = 100.

		1963		1964				1965		1966			
	FEBRUARY	JUNE	OCTOBER										
7. Index of building costs	137	138	148	159	165	165	178	186	201	211	220		

Source: Hagtidindi.

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