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ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ICELAND

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ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

JAN 1968

**OECD ECONOMIC SURVEYS**

# **ICELAND**

**ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT**

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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 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.*

*The Socialist Federal Republic of Yugoslavia is associated in certain work of the OECD, particularly that of the Economic and Development Review Committee.*

This document was approved  
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## CONTENTS

<b>Introduction</b>	<b>5</b>
<b>I Current Trends</b>	<b>5</b>
Production and Employment	5
Domestic Demand	10
Wages, Prices and Incomes	12
Balance of Payments	15
<b>II Economic Policy</b>	<b>18</b>
The Devaluation	18
Prices and Income Policies	19
Fiscal Policy	19
Monetary Policy	22
<b>III Prospects</b>	<b>24</b>
<b>IV Conclusions</b>	<b>27</b>
<b>Appendix : Economic Policy Measures Proposed or Initiated in     October 1967</b>	<b>30</b>
<b>Statistical Annex</b>	<b>31</b>

## LIST OF TABLES

### (a) IN TEXT

1	Gross National Product and Income	8
2	Indices of Export Prices	8
3	Supply and Use of Resources	11
4	Development of Prices	12
5	Yearly average Earnings	14
6	Household Income and Consumption	15
7	Balance of Payments	16
8	Central Government Finances	20
9	Consumer and Producer Subsidies	22
10	Lending from Financial Institutions	23
11	Monetary Survey	24
12	External Debt	26

### (b) STATISTICAL ANNEX

A	Supply and use of Resources (current prices)	33
B	Supply and use of Resources (fixed prices)	34
C	Fisheries and Agriculture	35
D	Gross Fixed Asset Formation	36
E	Imports and Exports by Area	37
F	Consolidated Statement of the Central Bank	38
G	Consolidated Statement of the Commercial and Savings Banks	39
H	Credits Granted by Commercial and Three Largest Savings Banks	40
I	Prices	41

## INTRODUCTION

The Icelandic economy has expanded fast in recent years, with the real gross national product rising at an average rate of 5.8 per cent a year in the five-year period 1961 to 1966. National income, taking into account the marked improvement in the terms of foreign trade, increased rather faster than this. The expansion was accompanied by a strong upward movement of costs and prices, however, reflecting excessive demand pressures and wage and income increases. Nevertheless, the balance of payments position remained relatively strong, with official foreign exchange reserves rising over most of the period, helped by good fish catches and sharp increases in export prices.

The situation has changed markedly during the last year. A weakening of foreign demand, with a decline in export prices, slowed the growth of national product and income in 1966. In 1967, exports fell significantly, reflecting poor fish catches and a further weakening of foreign demand. The national product declined in real terms, and the balance of payments showed a large deficit, with a sharp decline in external reserves. Prices and wages were stable between the autumn of 1966 and the autumn of 1967, helped by higher government subsidies and the easing of the pressure on resources, but the cost position of industry remained difficult. In recent months significant policy measures have been taken to restrict the growth of domestic demand and restore external equilibrium. The devaluation of the pound sterling gave the occasion for an adjustment of the exchange parity of the Icelandic Krona. The new parity, announced on 24th November, is Kr. 57,00 to the US dollar, representing a devaluation of 24.6 per cent against the US dollar and 12 per cent against the pound.

### I. CURRENT TRENDS

#### *Production and Employment*

Preliminary estimates suggest that the gross national product fell by nearly 3 per cent in volume between 1966 and 1967; national income fell somewhat more due to the decline in export prices. The main factor

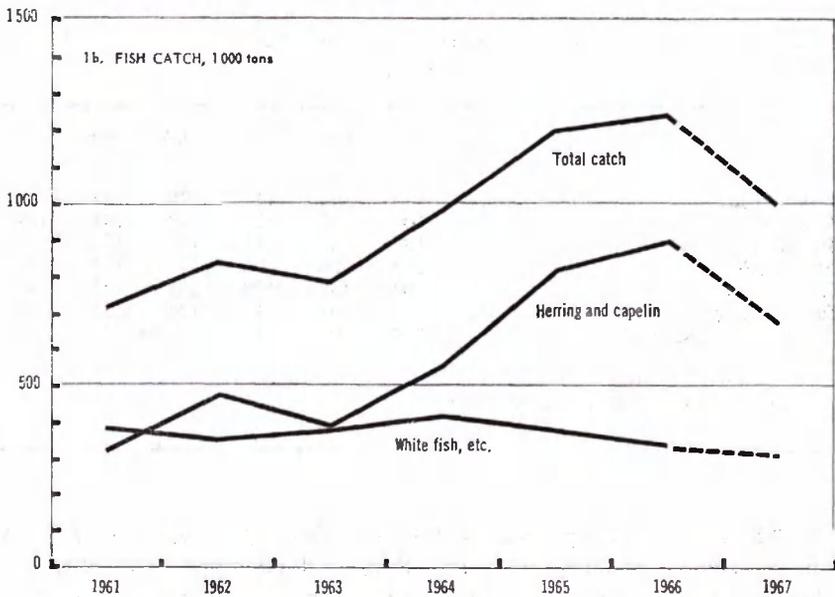
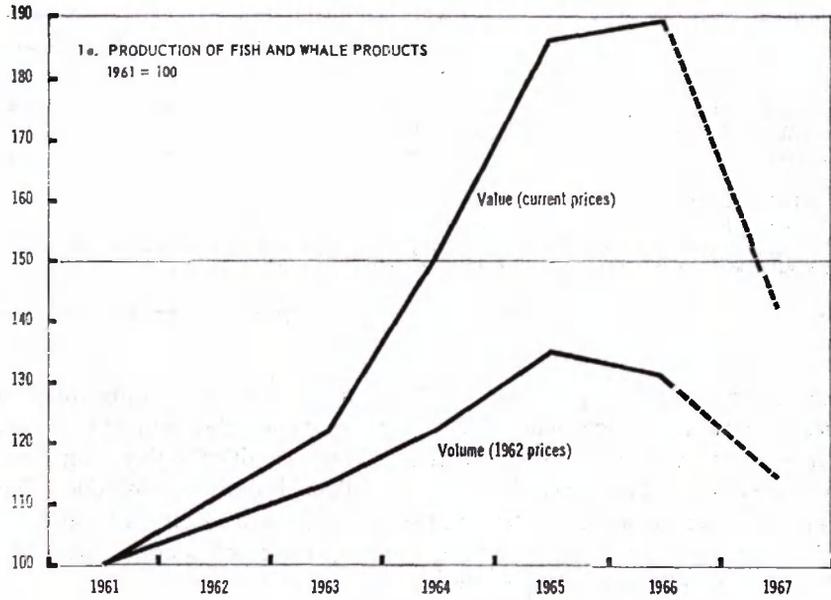
behind this development was a fall in exports of fish and fish products estimated at almost 30 per cent, representing as much as about 7 per cent of GNP. The decline in exports can mainly be ascribed to four factors:

- (a) The white fish catch was very poor in the main season because of bad weather. In the first five months of the year the volume caught was 12 per cent below that of the corresponding period of 1966, and 20 per cent below the 1965 level, which can be regarded as normal. The bad weather also increased the costs of operation. On the other hand, the boat catches in other seasons and the trawler catch showed some improvement. Thus, the white fish catch of the year as a whole may have shown a decline of 3-4 per cent.
- (b) In the period January 1st—November 25 the volume of herring caught was about 40 per cent below that of a year earlier, mainly because the herring in the summer season was much further off the Icelandic coast than normal. In recent months the herring has returned to Icelandic waters, but bad weather has kept the catches down. The capelin catch has also been well below that of last year. Assuming catches in the last month of the year of about the same size as a year earlier, the full year will show a 33 per cent decline in herring and capelin catches.
- (c) Prices for some of the most important export products, especially frozen fish and fish meal and oils, turned down in 1966 and continued to decline into 1967. On average, export prices of fish and fish products in 1967, assuming little change in the last months of the year, may have been about 10 per cent lower than in 1966.
- (d) The civil war in Nigeria led to an interruption of exports of stock-fish to that area. Almost the whole production of stock-fish—about 5 per cent of the value of output of fish and fish products—was stored in 1967.

Recent unfavourable developments must be viewed against the background of exceptionally strong increases in catches and export prices in the last few years. In 1966 the volume of the total catch (in tons) was almost 60 per cent higher than in 1963. The white fish catch fell, but catches of herring and capelin more than doubled. Since herring and capelin constitute the least valuable part, the value of fish production at constant prices rose much less, or by some 15 per cent. In current prices, however, production rose by 55 per cent over the three years due to the

Iceland

Diagram 1 Fish Catch and Fish Processing



Source: Icelandic Submission to the OECD.

Table 1 Gross National Product and Income  
Annual growth rates, 1960 prices

	1962	1963	1964	1965	1966	1967
Gross national product	8.0	7.1	5.4	5.0	3.5	-2.8
Effects of changes in terms of trade <sup>1</sup>	0.7	0.4	3.2	4.9	0.6	-4.7
Gross national income	8.4	7.2	8.3	9.2	3.7	-6.8

<sup>1</sup> 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 exports minus imports deflated with the import price index.

strong increase in export prices. These have been on a rising trend in recent years, with particularly sharp increases in 1964 and 1965. The price index of fisheries products in 1965 was one-third higher than three years earlier. The upward movement affected most fish products but was particularly sharp for frozen fish, fish meals and fish body oils. The price rise was generally due to rising consumption with the increase in production lagging behind.

Table 2 Indices of Export Prices  
1962 = 100

	1962	1963	1964	1965	1966	1967 <sup>1</sup>
Frozen fish	100	104	112	128	137	115
Salted fish	100	106	129	149	168	168
Stockfish	100	110	111	117	132	132
Fish meals	100	86	96	116	112	95
Fish body oils	100	137	198	205	173	128
Salted herring	100	101	112	124	135	135
Fish products, total	100	103	117	133	130	117

<sup>1</sup> Preliminary estimates.

Source: Icelandic Submission to the OECD.

The reversal of the price rise for frozen fish, fish meals and fish body oils was due to the fact that the growth in production overtook the expansion of demand. Frozen fish prices are essentially determined by trends in the United States. The sharp increase in prices in 1965 attracted a larger supply. The number of countries exporting frozen fish to the

## *Iceland*

United States rose from 7 to 17 in one year, entailing a sharp fall in prices from mid-1966. There are now indications that the downward movement is coming to an end, with prices stabilising at the end-1964 level. Prices of fish meals and fish body oils, however, have reached a very low level with little prospect of a speedy recovery, reflecting notably the exceptionally good catches of herring and mackerel off the Norwegian coast and in the North Sea, and record anchovy catches off Peru in 1966 and 1967; poor catches and low fish meal production in Peru in 1965 had been an important reason for the sharp price rise for this product in 1965.

Poor catches in conjunction with lower prices have, of course, resulted in a sharp drop in the volume and value of processed fish products. On the assumption of the same catch in the last quarter of 1967 as a year earlier, total output of marine products in 1967 (measured in 1966 prices) would be 16-17 per cent lower than in the previous year. In current prices the decline would be more than 25 per cent.

Little information is yet available on the movement of production in other sectors. The indications are that the volume of industrial production—other than fish processing—increased by about 4 per cent in 1966, but 1967 may have seen a decline. The fall in output in industries producing machinery and equipment for the fish processing industry experienced in 1966 may have accelerated in 1967, given the probable decline in investment demand. There are also indications that other branches of manufacturing industries may have seen activity reduced. The sluggish trends reflect weaker domestic demand and the fact that the sharp rise in costs in recent years together with stronger competition from abroad have led to difficulties in maintaining production in many industries. The construction sector, by contrast, has remained buoyant, with activity up by some 8 per cent in 1967. This is mainly due to the start in late 1966 of three large construction projects: a large power station, the aluminium plant and the harbour associated with it. The authorities have estimated that these projects are likely to absorb 10 per cent of the labour force in construction in 1967 and 1968.

Agricultural output decreased by 2 per cent in volume from 1965 to 1966, and may have remained at the lower level in 1967 owing to unfavourable weather conditions. The decrease in 1966 was concentrated in the dairy production, with milk output declining 5 per cent and butter output 31 per cent. The fall in butter production was accompanied by a reduction in stocks. But the surplus stocks of butter at the end of 1966 were still 850 tons, corresponding to 2/3 of the production in 1966. The decline in milk and butter production can be ascribed to a change in prices. In recent years there has been a growing surplus of dairy

products which has been exported with the aid of subsidies. To correct this trend, the farmers' marketing board in 1966 reduced domestic butter prices by 40 per cent.

The labour market in Iceland has for many years been characterised by excessive demand conditions, resulting in wagedrift and long working hours. Overtime pay has long been a regular component in the income of most wage and salary earners. The situation changed in 1966 and 1967. Data provided by the Parliamentary Committee on Wages and Labour Terms suggest that the average length of the work-year measured in hours fell by perhaps 1-2 per cent in 1966 and wagedrift seems to have been absent for the first time since 1962. This inquiry applied to the Reykjavik area, where about half the population live; the slackening of demand may have been felt sooner in that area than elsewhere. In 1967 the demand for labour probably continued to subside, given the weak trends in manufacturing. According to a recent inquiry for the Reykjavik area it has been estimated that, in the first half of the year, the number of hours worked in certain industries was 3-4 per cent lower than a year earlier. The weakening of demand for labour has mainly taken the form of a shortening of the working week and less part-time work. Although the labour force is increasing by about 2 per cent a year, unemployment is still very low and confined to a few localities. The strong increase in building and construction, a labour-intensive activity, has helped to maintain a high level of domestic employment, although about one fourth of the labour force presently employed at the construction of the Burfell power station are specialised foreign workers, mainly from Sweden.

### *Domestic Demand*

Domestic demand increased sharply in 1966, influenced by the strong income increases in the herring fisheries during the autumn season 1965. Gross fixed asset formation was the most buoyant demand element, increasing by 16 to 17 per cent in volume, with most types of investment rising strongly. Private consumption also increased fast (almost 8 per cent in real terms), reflecting notably good fish catches and rising export prices in the first part of the year, although the large government budget surplus which emerged moderated the rise in private disposable incomes. Public consumption rose by 4.5-5 per cent, rather less than earlier.

In 1967, the rise in demand slowed down, but the slackening was more moderate than one would have expected on the basis of the sharp decline in export earnings, which amounted to as much as about 7 per

*Iceland*

cent of GNP. The effect of this on domestic demand was partly offset by other factors, notably

- (a) the development of government finances—a swing from surplus in 1966 to a cash deficit in 1967 representing some 3.5 per cent of GNP, with a similar impact on private disposable incomes.
- (b) the strong increase in construction activity, which also served to maintain private incomes.

Gross fixed asset formation continued to increase strongly (perhaps 15 per cent in volume). Public fixed investment may have increased by as much as 30 per cent, reflecting notably the construction of two large projects—the power station and the harbour needed to operate the new aluminium plant. The increase in private business investment was also substantial, mainly because of some bunching of deliveries of ships and aircraft and because of the construction of the new aluminium smelter; the authorities estimate that I.Kr. 300 million was spent on that project in 1967 (almost 4 per cent of total fixed asset formation). Other private business investment may have declined, partly because of the completion of certain herring oil and meal factories. The rise in residential construction slowed down, probably influenced by tighter credit conditions and the weaker trend in private incomes. Judging from import data, private consumption seems to have held up surprisingly well in the first half of the year, but probably levelled off in the second half. Public consumption rose by less than 5 per cent, as in 1966.

**Table 3 Supply and Use of Resources**  
Percentage change from previous year, 1960 prices

	1962	1963	1964	1965	1966 <sup>1</sup>	1967 <sup>2</sup>
Private consumption	9.8	7.0	2.9	4.5	7.7	—
Public consumption	7.1	7.5	6.8	7.6	4.7	4.9
Gross fixed asset formation	16.9	30.7	17.6	-2.0	16.6	15.2
Change in stocks <sup>3</sup>	-1.6	-1.5	0.2	2.2	0.1	0.3
<i>National Expenditure</i>	7.3	13.2	9.2	4.6	8.0	5.5
Exports of goods and services	22.0	7.1	6.5	11.0	9.8	-6.6
Imports of goods and services	20.1	18.6	13.1	9.4	16.3	6.9
<i>Gross National Product</i>	8.0	7.1	5.4	5.0	3.5	-2.8

1 Preliminary.

2 Estimates.

3 Per cent of GNP.

Source: Icelandic submission to the OECD.

*Wages, prices and incomes*

The steep rise in wages and prices in previous years was replaced by stability from the autumn of 1966. In October, the government decided to stabilise the cost-of-living index at the August level with the aid of higher subsidies and to adopt legislation making all price increases subject to authorisation by the government. This policy was maintained until October 1967, so that the cost-of-living index remained stable for more than twelve months. Due to the strong price rise during the first part of 1966 the cost-of-living index last October stood at about 2 per cent above the average for the preceding year. In October 1967, as part of the measures taken to restrict the growth of demand and strengthen the foreign balance, consumer subsidies were reduced to the August 1966 level, or by an annual rate of I.Kr. 410 million. Consequently, in November consumer prices rose by 5.6 per cent according to the old index and 3.4 per cent according to the new index just introduced.

Table 4 Development of Prices<sup>1</sup>  
Percentage change

	1962	1963	1964	1965	1966	1967 <sup>2</sup>
A Goods and services	12.1	12.3	19.8	7.5	12.9	5.3
Food	16.9	17.5	25.0	6.6	14.8	7.7
Heating, electricity, etc.	5.0	1.7	8.5	3.9	14.6	5.2
Clothing, footwear, etc.	4.8	6.3	11.7	9.7	4.4	3.3
Miscellaneous	11.6	10.7	17.7	8.4	14.2	2.5
B Rent	2.3	3.2	5.3	8.0	9.9	7.1
C Direct taxes, etc. <sup>2</sup>	29.0	69.6	51.6	3.2	-18.1	11.3
D Cost of living (A + B + C)	10.9	12.9	19.3	7.3	10.7	5.6

1 1962-1966: yearly averages over previous year.

1967: Nov. 1966 to Nov. 1967.

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

Source: Hagtidindi, Statistical Bulletin.

Wages remained virtually unchanged from the autumn of 1966 to the end of November 1967. The parliamentary decision to stabilise prices was made on the assumption of subsequent wage stability, but did not contain any measures directly affecting wages. Throughout the period wage contracts were open to cancellation at a month's notice. Price stability, union restraint and lower pressure of demand have served

### *Iceland*

to limit the rise in wages to some legally stipulated equalisation increases for female workers at the beginning of 1967. Because of their rise in the first part of 1966, hourly wages in 1967 were on average about 5 per cent higher than in 1966. Salary earners have hardly had any increase after the beginning of 1966. Public and bank employees, leading groups in salary developments, obtained a rise of about 11 per cent after the 1965/66 wage round, but since then no general rise has been granted. The arbitration court decided in March 1967 to increase wages of some lower-income public employees but this is not thought to have had much effect on average salaries of public or bank employees. A further decision of the court concerning public employees, taking effect from the beginning of 1968, resulted in no basic changes, while seniority escalations were made to accrue somewhat earlier.

Following the devaluation, the law from 1964 linking wages to the cost-of-living index was abolished and wage compensation for price increases made subject to agreement between the labour market partners. At the same time a new cost-of-living index based on a consumer survey carried out in 1964-65 replaced the previous one which had become outdated. The last legally enforceable compensation, effective from December 1st and calculated according to the new cost-of-living index, raised total compensation by 3.4 per cent (from 15.25 per cent to 19.16 per cent of basic wages).

Under the present system, agricultural wholesale prices are fixed so as to give the farmers an income corresponding to that of the wage earners. In 1966 farmers' incomes were raised by some 14 per cent, but this was not reflected in higher consumer prices because of the increase in consumer subsidies. With the existing close links between wages, the cost-of-living index and agricultural prices, the stability of the two former has had an immediate influence upon the third. Prices paid to farmers have therefore been virtually stable over the last twelve months. The 1967 review of agricultural prices was referred to arbitration according to the law, as the representatives of producers and consumers could not reach agreement. A decision has not yet been passed, but there is reason to expect only small changes on account of previous developments. In addition, however, the devaluation and the rise in wage compensation will have certain effects upon agricultural costs and prices.

Raw fish prices depend heavily upon the export prices obtained by the fish-processing industry, but in recent years the tie has been gradually loosened by subsidies granted partly to the fishing industry and partly to the processing plants. In 1967 these subsidies may have risen by Kr. 200 million to Kr. 400 million, the equivalent of about 8 per cent of total commodity export earnings. The need to subsidize the freezing industry,

a major export activity of the country, which was felt long before the recent decline in exports earnings, shows that inflation had prior to the devaluation surpassed the absorptive capacity of that fundamental industry.

Prices of white fish paid to the fishing vessels and the fishermen were increased by some 17 per cent at the beginning of 1966, primarily to restore the earlier relationship between the incomes of fishermen and the earnings of workers ashore. Early in 1967, white fish prices were raised by 8 per cent through a government subsidy. This corresponded to the cost-of-living compensations obtained by wage and salary earners since the last review of white fish prices had taken place. Furthermore, the Government in 1967 paid into a newly-established price-equalization fund for white fish the total amount of I.Kr. 140 million. This fund is regarded by the authorities as an important step towards the establishment of stabilisation mechanisms serving to reduce fluctuations in incomes resulting from changes in export prices. Though the fund in 1967 was financed by government grants, it is in later years to be financed by the export industries. In 1967 the fund was to compensate 55 per cent of the first 5 per cent fall in the price of each type of frozen fish product as compared with 1966, and an additional 2 per cent for each 1 per cent fall up to a maximum of 75 per cent compensation when the price fall is 15 per cent or more. The subsidies granted directly to the fishing industry and to the freezing plants in 1967 to a large extent offset the decline in their income resulting from lower catches and prices.

Table 5 Yearly Average Earnings  
1960 = 100

	Unskilled workers	Skilled workers	Seamen <sup>1</sup>	All workers and seamen
1960	100.0	100.0	100.0	100.0
1961	105.3	105.9	120.3	108.2
1962	126.3	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	252.7
1966	298.0	300.0	304.0	300.7

<sup>1</sup> Seamen 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.

## Iceland

The herring fisheries have not benefited from subsidy arrangements. With catches significantly below the level of 1966, and prices 30 per cent down, incomes of the herring fisheries and the herring processing industry fell sharply in 1967. These sectors, however, had been leading in the strong upward movement of incomes in previous years. The government has repeatedly tried to convince the herring vessel-owners and fishermen of the need to establish income equalization funds, but these efforts have so far not met with success. However, a formal recognition has now been given to the idea of establishing price equalization funds also for herring products, and this may prove valuable in years to come.

Wages and internal prices thus remained fairly stable from the autumn of 1966 when the price freeze was imposed by law until the fiscal measures began to take effect in October 1967. Taking into account the effects of these measures and, furthermore, the limited effects in the present year of the devaluation and the increase in wage compensation, the development of household incomes in 1966 and 1967 can be summarized as follows:

Table 6 Household Income and Consumption  
Percentage change from previous year

	1966 Preliminary	1967 Forecast
Wages and salaries (nominal) <sup>1</sup>	+22.2	+2.4
Total household income from employment and property (nominal) <sup>2</sup>	+22.1	+2.7
Effect of the net of direct taxes and transfers	(-1.4)	(-0.4)
Disposable income (nominal)	+20.7	+2.3
Consumer prices	+12.7	+3.5
Real disposable income	+7.1	-1.2
Private consumption (volume)	+7.7	0

1 Including earnings of fishermen.

2 Including transfer payments.

Source: Icelandic submission to the OECD.

## Balance of Payments

In 1966, the current account fell back into deficit, after having shown a surplus in the preceding year. This movement was to some extent caused by higher imports of ships and aircraft, and imports related to special investment projects financed to a large extent by foreign capital. But other imports also rose sharply, reflecting the domestic demand situation, while the rise in exports slowed down due to the more moderate increase in fish catches and lower export prices. The invisible

OECD Economic Surveys

balance changed little. The current deficit was financed by capital imports, which rose significantly in 1966. On private account the inflow consisted to a large extent of loans related to the purchases of ships and aircraft. On public account, the inflow reflected the loans raised abroad to finance the investment projects related to the new aluminium plant. The official foreign exchange reserves (including the IMF position), which had risen steadily in earlier years, remained about unchanged.

Table 7 Balance of Payments  
US \$ million<sup>a</sup>

	1963	1964	1965	1966 <sup>1</sup>	1967 <sup>2</sup>
Exports of goods fob	95.1	111.1	129.3	139.5	109.3
Imports of goods fob, total	-101.9	-120.3	-125.1	-147.2	-152.1
<i>of which:</i> Ships and aircraft	-8.8	-21.8	-13.6	-15.1	-18.1
Defence force	-1.9	-0.7	-1.0	-0.7	-1.0
Straumsvik, Burfell	.	.	.	-3.0	-7.7
Other imports	-91.2	-97.8	-110.5	-128.4	-125.3
<i>Balance of trade</i>	-6.8	-9.2	4.2	-7.7	-42.8
Military receipts	9.0	6.7	8.2	10.2	} 3.3
Other services	-4.9	-2.9	-4.3	-7.6	
<i>Balance on goods and non-factor services</i>	-2.7	-5.4	8.1	-5.1	-39.5
Interest from abroad	1.2	1.4	1.9	2.2	1.6
Interest on foreign debt	-3.5	-4.0	-4.9	-5.3	-6.3
Transfer payments	0.7	0.1	—	—	—
<i>Balance on current account</i>	-4.3	-7.9	5.1	-8.2	-44.2
Amortization of debt	-9.1	-9.5	-10.4	-13.6	-15.9
Public borrowing	11.0	3.9	5.9	12.5	} 30.2
Private borrowing	7.4	17.7	9.6	14.3	
Other capital movements	-1.3	1.0	-1.5	-5.0	
Errors and omissions	0.1	1.3	-1.3	..	..
<i>Overall balance</i>	3.8	6.5	7.4	0.0	-25.6
Change in foreign exchange holdings:					
Convertible currencies	2.7	10.1	11.6	1.4	..
Clearing currencies	1.1	-3.6	-4.2	-1.4	..

<sup>1</sup> Provisional.

<sup>2</sup> Secretariat's estimates.

<sup>3</sup> Old exchange rate: 1 \$ = Kr. 43.00.

Source: Icelandic submission to the OECD.

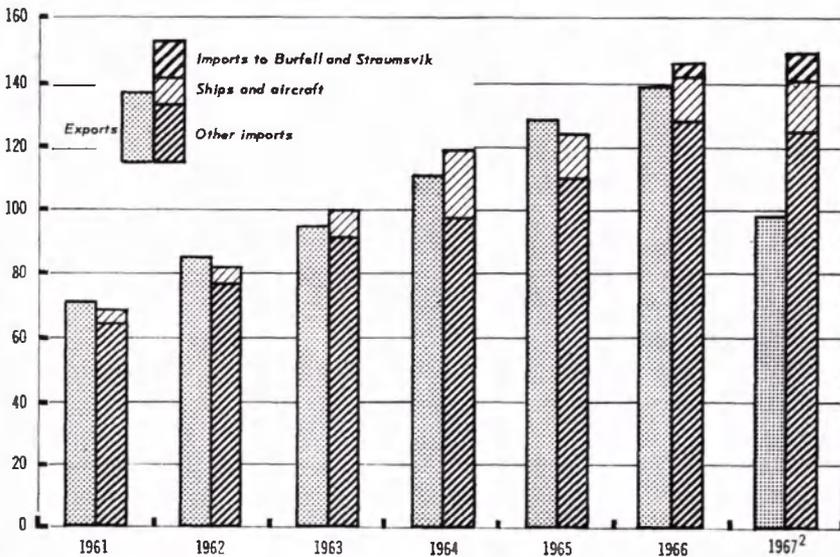
Preliminary estimates suggest that, in 1967, the current deficit may have risen to as much as \$44 million, the equivalent of 8 per cent of GNP. The main reason for this was the steep decline in exports. But the further increase in imports of ships, aircraft, and equipment related to the foreign-financed investment projects also contributed. Other

## Iceland

imports are likely to have fallen slightly. As in 1966, the invisible balance showed little change. Amortisation of foreign debt continued to rise, representing as much as 15 per cent of the value of merchandise exports. Capital imports, much of it related to imports of ships and aircraft, and the special investment projects, may have shown some further increase. Nevertheless, foreign exchange reserves fell sharply. By the end of the year gross official reserves may have declined to about \$30 million, about half the figure of a year earlier and corresponding to 2-2½ months' imports.

The geographical pattern of Iceland's foreign trade has changed little over the last two years. The EFTA countries remain Iceland's most important trading partners. In 1966, EFTA countries took 40 per cent of Iceland's exports, while 22 per cent went to EEC countries, 17 per cent to North America, and 12 per cent to Eastern Europe. On the import side, the main changes in 1966 were an increase in the share of EFTA countries from 38 to 42 per cent, and a drop in the share of Eastern countries from 16 to 11 per cent. Iceland remains outside both the EFTA and the EEC. The coming into force of the common external tariff of the EEC entails an increase in protective tariffs against fish

**Diagram 2 Exports and Imports<sup>1</sup>**



1 Excluding imports for the defence force.

2 Estimates.

Source : Icelandic Submission to the OECD.

and fish products in important markets. The removal of tariffs on intra-EFTA trade has placed Iceland at a disadvantage in that area. The adverse effects on Iceland's exports were not very strongly felt up to early 1966, when fish prices were rising strongly in world markets. But with the sharp decline in prices since the middle of 1966, the disadvantages of remaining outside both these preferential trading areas are, of course, becoming more apparent.

## II. ECONOMIC POLICY

### *The Devaluation*

The steep rise in wages and domestic prices in later years up to the autumn of 1966, gradually led to a squeeze on profits and a marked deterioration of the competitive position of Icelandic industry. The profit squeeze was particularly strongly felt in the freezing plants and on the fishing boats supplying them. Nevertheless, the external position remained relatively strong due to good herring catches and rising exports prices. But the recent sharp falls in export prices and fish catches led to a large deficit on the current external account and served to aggravate the position of the export industries, whose operations could only be maintained with the aid of higher subsidies. Possible measures to improve the situation in the exports industries were being considered by the authorities as well as industry itself, when the devaluation of the pound sterling provided the occasion to adjust the exchange value of the Icelandic Krona. In deciding the new parity, account was taken of the prospective competitive position of the export industries without, however, alleviating the need for the structural rationalization, aimed at improving real productivity and competitive position, which has recently been strongly advocated by the Government. The new parity announced on 24th November (Kr. 57,00 to the US dollar) represented a devaluation of 24.6 per cent against the US dollar and 12 per cent against the pound. The price rise of the US dollar is thus 32.6 per cent, but as approximately one-third of exports is going to countries which have devalued, the average increase in export prices in Icelandic Kronur will be about 28 per cent; against this must be set the cut in export subsidies and the post-devaluation rise in costs because of higher import prices, so that the increase in exporter's margin is much smaller. The average increase in prices in Icelandic Kronur on imports is estimated to be about 30 per cent.

## *Iceland*

### *Price and Income policies*

Following the devaluation, the price freeze law adopted in the autumn of 1966 was abandoned. As mentioned in the chapter on prices and wages, the law from 1964 linking wages to the cost-of-living index was also abolished, and wage compensation for price increases was made subject to agreement between the labour market partners. However, price controls will be maintained, and it has been considered useful to get the labour market partners involved in this. The previous price control board, established by the Althing, has therefore been replaced by a new board consisting of four representatives from the employers, four from the employees and one from the Government.

The devaluation, together with the last automatic wage compensation as from 1st December 1967, is estimated to lead to an increase in the cost-of-living index of 10-11 per cent. To this may be added the effect of certain budget measures taken before the devaluation. On the other hand the budget will gain significantly from the devaluation, and some of these gains will be used to moderate the price increases.

### *Fiscal Policy*

The 1966 budget as approved by the Althing aimed at a small surplus on current and investment account and overall balance. With about 75 per cent of government revenue originating from indirect taxes—mainly import duties and the domestic sales tax—changes in domestic demand and imports are quickly reflected in budget receipts. In 1966, with imports and private consumption rising faster than envisaged, government revenue greatly exceeded the budget estimate. Expenditure also rose more than expected because of increases in subsidies and wages and salaries not provided for in the budget. Nevertheless, the current and investment account as well as the overall budget showed large surpluses.

In 1967, the development of government finances again illustrated the difficulty experienced by Iceland in reconciling the claims of incomes policy and demand management policy. As in 1964, the budget turned into heavy deficit to a large extent because of a significant increase in subsidies effected to stabilize prices and wages. The budget approved by the Althing before the beginning of the year showed overall balance, but estimates prepared before the devaluation pointed to an overall deficit of about Kr. 300 million (following the Kr. 400 million surplus achieved last year). In addition to higher consumer subsidies, the budget

Table 8 Central Government Finances  
Kr. million

	1964	1965	1965	1967 Approved budget	1968 <sup>4</sup> Budget proposal
<i>Current Revenue:</i>					
Direct taxes	259	366	471	603	720
Indirect taxes	2 233	2 826	3 485	3 446	3 389
of which: general import duties	1 422	1 608	1 938	1 829	1 778
domestic sales tax	537	938	1 138	1 222	1 225
Revenue of government monopolies and enterprises	379	425	618	558	693
Other	76	73	104	98	190
Total	2 947	3 690	4 678	4 705	4 992
<i>Current and Investment Expenditure:</i>					
Subsidies	581	679	861	956	
Social securities and pensions	769	853	993	1 209	
Transportation and communication	192	189	163	178	
Transfers to private industries and public utilities	250	453	440	537	
"Capital" investment expenditure <sup>1</sup>	112	124	131	180	
Other <sup>2</sup>	1 172	1 240	1 442	1 583	
Total	3 076	3 538	4 030	4 643	..
<i>Surplus on Current and Investment Account</i>	-129	152	648	62	
<i>Other Transactions:<sup>3</sup></i>					
Amortisation of debt	-15	-13	-14	-16	
Contribution to the State Guarantee Fund	-46	-46	-50	-50	
New lending	-63	-50	-68	—	
Miscellaneous transactions	-49	-134	-105	6	
Total	-173	-243	-237	-60	..
<i>Net change in Floating Debt, Bank Deposits and Cash Holdings</i>	-302	-91	411	2	37

1 "Capital" expenditure is so designated for budgetary classification purposes; other items include investment expenditure also.

2 General administration, justice, public health, church, education, science, interests and misc.

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

4 Budget to be revised. Due to changes in definitions from 1968, data on expenditure cannot be given with a comparable break down.

Source: Icelandic submission to the OECD.

## *Iceland*

was notably affected by higher support payments to the fishing industry and the slowdown or levelling off of the rise in the tax base. Moreover, the extra-budgetary financing programme, providing finance for public investment projects and investment loan funds, seemed likely to show a deficit of about Kr. 100 million following the balanced position of 1966. The main sources of finance of this programme are receipts from special taxes, transfers from the government budget, sales of savings certificates and commercial bank funds; at present, commercial banks are obliged to contribute 10 per cent of the increase in their deposits to this programme. In 1967, receipts from some of these sources were smaller than envisaged earlier. The above estimates thus suggested a swing in the position of government finances (including the extra-budgetary financing programme) between 1966 and 1967 of some Kr. 800 million, about 3.5 per cent of GNP. The effects of the devaluation modified this picture, however, especially by greatly increasing the sale of savings certificates and bolstering government revenue towards the end of the year.

The 1968 budget proposed by the Government in October 1967 aimed at restoring overall balance. In the absence of measures to strengthen the budget it might have shown a deficit of Kr. 750 million. Measures estimated to yield this amount were therefore proposed, including increases in various taxes and fees yielding Kr. 350 million in 1968. But revenue from import duties was expected to decline, reflecting the probable fall in imports. Consumer subsidies were reduced by more than Kr. 400 million at an annual rate. Total government expenditure, including the extra-budgetary financing programme, was expected to remain about unchanged from 1967 to 1968.

The devaluation of the Icelandic Krona, entailing a major strengthening of government finances, has led to a re-consideration of the 1968 budget. The aim is still to maintain a balanced budget. Some of the measures proposed in October, including the special ticket fee affecting Icelanders travelling abroad, are no longer thought to be appropriate, and have therefore been abolished, reducing estimated budget receipts by some Kr. 120 million.<sup>1</sup> But the devaluation has led to a reduction of subsidies to the fisheries of Kr. 325 million; and tax receipts, notably customs revenue, will increase considerably because of the post-devaluation rise in import prices in domestic currency. The net gain to the budget resulting from devaluation will probably be used to reduce tariffs, increase consumer subsidies and social security benefits, thereby moderating the rise in the cost-of-living index.

1 Details of the other fiscal measures proposed in October are given in an appendix.

OECD Economic Surveys

Table 9 Consumer and Producer Subsidies<sup>1</sup>  
Kr. million

	1964	1965	1966	1967 <sup>2</sup>	1968 <sup>3</sup>
<i>Agriculture:</i>					
Consumer subsidies	312	453	584	775	519
Export subsidies	217	168	248	248	...
Other agricultural subsidies	45	67	49	51	...
Capital transfers	78	131	160	166	...
<b>Total</b>	<b>652</b>	<b>819</b>	<b>1,041</b>	<b>1,240</b>	<b>...</b>
<i>Fishery and Fish Processing<sup>4</sup>:</i>					
Consumer subsidies	36	37	19	—	—
Subsidies to fishery	126	91	134	214	77
Subsidies to fish processing	43	46	65	200	—
Fish search and other services	36	36	36	41	51
Fisheries loan fund	32	43	52	41	—
<b>Total</b>	<b>273</b>	<b>253</b>	<b>306</b>	<b>496</b>	<b>127</b>
<i>Other subsidies:</i>					
Margarine	15	21	9	8	—
Imported goods	1	—	—	—	—
<b>Consumer and producer subsidies, total</b>	<b>941</b>	<b>1,093</b>	<b>1,356</b>	<b>1,744</b>	<b>...</b>

1 Including payments which are not classified as subsidies in the central government budget, cf. Table 8.

2 Estimates.

3 Budget and Forecasts.

4 Adjusted for probable effects of the devaluation.

Source: Icelandic submission to the OECD.

### Monetary Policy

The conduct of monetary policy in Iceland is somewhat different from that of many other countries, influenced by the fact that an organised market for bonds and shares does not exist. Credit is to a large degree channelled through financial institutions of which the commercial banks and the investment credit institutions are the most important. Moreover, the degree of public influence in the financial institutions is relatively high. Questions concerning monetary and credit policy therefore are primarily handled by direct communications between the authorities and the financial institutions. The commercial banks are mainly granting short-term credits while long-term business credits and project loans are supplied by the public investment funds referred to earlier. Other credit institutions such as savings banks, insurance companies,

*Iceland*

private pension funds and social insurance funds are mainly granting loans for residential building. In recent years long-term credits have been rising at fairly constant rates, whereas the expansion of commercial bank credit accelerated sharply in 1965 and 1966. Commercial bank lending is regulated by means of liquidity reserve requirements existing since 1960. Moreover, banks have to pay a penalty rate of 16 per cent on overdraft loans from the Central Bank and have also been requested by the authorities to exercise restraint on their lending activity. The minimum reserve requirements were raised in 1964 and again in December 1965. At present, the marginal reserve ratio is 30 per cent of the increase in deposits; however, the total amount of reserves that a bank is obliged to block is limited to 20 per cent of total deposits.

**Table 10 Lending from Financial Institutions**  
Net increase in loans, Kr. million

	1961	1962	1963	1964	1965	1966	Jan.-Aug. 1966 1967	
Commercial banks	273	464	687	610	1 496	1 205	883	421
Savings banks	78	122	76	102	138	164	141	124
Investment credit institutions	767	421	649	582	569			
Savings departments of co-operatives	41	68	47	57	78			
Insurance companies	48	43	55	3	-30	n.a.	n.a.	n.a.
Private pension funds	76	94	134	160	210			
Social Insurance System	41	66	98	90	120			
<b>Total</b>	<b>1 324</b>	<b>1 278</b>	<b>1 746</b>	<b>1 604</b>	<b>2 581</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>

*Sources:* Iceland 1966 (Handbook published by the Central Bank of Iceland), Statistical Bulletin.

1967 saw some tightening of monetary policy. Reserve requirement rates were maintained unchanged, but the banks' liquidity position deteriorated and this, in its turn, led to a slowdown of the expansion of bank credit. The deterioration of the banks' liquidity position, however, was more moderate than what one would have expected on the basis of the movement of the balance of payments as the effect on domestic liquidities of the decline in official foreign exchange reserves was partly offset by government drawings on the Central Bank to finance the budget deficit, notably in the first half of the year. In the second half, mainly because of seasonal factors, the budget position probably improved so that the fall in external reserves may have been more fully reflected in domestic monetary conditions.

OECD Economic Surveys

Table 11 Monetary Survey  
Change during period. Kr. million

	1964	1965	1966	January-June		
				1965	1966	1967
<i>Central Bank:</i>						
Notes in circulation	122.1	241.3	66.6	75.8	18.3	-21.8
Government deposits	-141.4	-9.4	331.3	-217.4	31.4	-445.6
Net position of banks <sup>1</sup>	391.5	65.5	-129.2	187.8	73.9	49.5
Net foreign assets	327.0	253.0	175.0	89.0	100.0	-439.0
<i>Commercial and Savings Banks:</i>						
Deposits from the public	1 076.3	1 527.5	1 063.2	673.9	563.9	291.9
Net foreign liabilities	-3.0	-55.7	249.5	-13.0	157.3	20.2
Credits to private sector <sup>2</sup>	466.7	1 155.4	1 027.9	384.4	452.4	272.4
Net position with Central Bank <sup>1</sup>	391.5	65.5	-129.2	187.8	73.9	49.5
<i>of which:</i> Net free deposits <sup>3</sup>	117.1	155.6	-322.4	-1.4	-333.8	-290.3
Blocked deposits	304.8	297.6	339.2	150.1	212.6	122.0
Rediscounted bills <sup>4</sup>	-30.4	-387.7	-146.0	39.1	195.1	217.8

1 Including blocked deposits but excluding special investment fund deposits. Including rediscounted bills.

2 i.e. excluding central and local government, public utilities and monetary institutions. Minor savings banks not included in data.

3 Time and sight deposits less loans, advances and cheques for clearing.

4 — = increase.

Sources: International Financial Statistics, Statistical Bulletin and Icelandic Submission to the OECD.

### III. PROSPECTS

The heavy dependence of the Icelandic economy on fluctuating fish catches and exports complicates the task of estimating the future course of the economy. A particular difficulty at the present time relates to the uncertainties about the effects of the devaluation of the Icelandic Krona. In broad terms, the devaluation should serve to discourage private consumption because of the rise in import prices, freeing resources to improve the foreign balance through import replacement and higher exports. With regard to exports, the immediate effect of the devaluation may not be very considerable since the export volume is largely determined by the size of the fish catch, which is relatively inelastic in the short term. Gradually, however, the fact that exports have become more profitable could attract more labour and other resources to the fishing industry, thereby increasing the fish catch. Moreover, exports of other goods should be encouraged. But the magnitude and timing of these

effects are clearly uncertain. Nevertheless, an examination of prospects for demand, output and foreign trade and payments—even if it has to be based on uncertain assumptions about conditions external to the Icelandic economy and about the effects of the devaluation—is a necessary basis for a discussion of economic policy.

It would seem reasonable to expect fish catches to return to a more normal level in 1968, an assumption considered realistic by marine biologists. With regard to white fish, this could entail a catch of 340 thousand tons, about the same as in 1966. With regard to herring and capelin, the authorities base their forecasts on a catch of around 720 thousand tons, based on estimates of the existing fish stock. The authorities also assume some improvement of export prices in foreign currency. The decline in frozen fish prices seems to have come to an end, and may already have been replaced by an upward tendency. It is assumed that prices of fish meal and oil will rise somewhat. The underlying trend of consumption of these products is rising, and the present relatively low prices should stimulate demand because of the substitution possibilities that exist. On this basis, the value of fish production in foreign currency could rise by 12.5 per cent—10 per cent volume and 2.5 per cent price increase. With a decline in stocks of export products, which is probable in view of the increase in 1967, and with some additional exports from other sources, partly helped by the devaluation, the authorities expect an increase in commodity exports in foreign currency of about 25 per cent in 1968.

Nevertheless, despite the probable increase in export earnings, domestic demand is not likely to increase much. Gross fixed asset formation, although remaining at a high level, may decline somewhat. Public fixed investment increased sharply in 1967, mainly because of the construction of the Burfell power project. Expenditure on this project is likely to increase only slightly in 1968, and this increase may be more than offset by a decline in other central government capital expenditure. Since investment outlays by the municipalities is unlikely to rise much given the weak trend in tax receipts, total public fixed asset formation may remain at the 1967 level. Private fixed investment may decline. Residential construction is likely to fall, given the restrictive posture of monetary policy and the likelihood of some fall in real disposable incomes. Non-residential fixed investment may remain at the 1967 level, with a further increase in expenditure on the aluminium project but a decline in other business investment; this assumes that the stimulus to business investment resulting from better profit margins after the devaluation will be offset by the effects of tight monetary conditions and uncertain demand prospects.

Private consumption is likely to decline by some 3 per cent. Employment may tend to fall rather than increase, and official policy is based on the assumption of stability of wages, salaries and farmers' incomes after the initial change due to the devaluation and the recent rise in wage compensation. Moreover, lower subsidies and higher taxes will necessarily restrict the growth of private disposable incomes; the improvement of the government budget may amount to about 2 per cent of GNP. The government budget also points to only a small increase in public consumption.

On these assumptions the real gross national product could rise somewhat, perhaps 2 1/2-3 per cent. Most of the increase would be accounted for by the export industries (fisheries and fish processing), with little increase in output in the rest of the economy. This could be consistent with a moderate increase in agricultural output, little increase in construction activity and some increase in industrial production (excluding fish processing) and the service sectors. With productivity increasing, demand for labour may rise very little.

The balance of payments should improve significantly. Imports should decline by close to 3 per cent. Imports related to the special investments projects may increase, but other imports should decline, perhaps by some 4-5 per cent, influenced by the devaluation and the domestic demand situation. With the rise of exports and a probable improvement of the balance of services, the current account should improve substantially, but is likely to remain in large deficit because of the high rate of investment. Moreover, there are large contractual repayments of foreign debts, see Table 12. However, the current deficit and contractual debt repayments should be fully covered by capital imports. The foreign exchange reserves should therefore cease to decline, and may well increase somewhat.

Table 12 External Debt  
US \$ million

	1967	1968	1969	1970
External long-term debt <sup>1</sup>	119.5	102.7	86.7	72.4
Amortization during the year	15.9	16.8	16.0	14.3
Interest payments	6.3	6.4	5.7	5.1

1 End of the year.

Source: Icelandic submission to the OECD.

NOTE The above table presents the external debt and its servicing as it looks at the end of 1967 and takes no account of new capital imports in 1968 and later years.

#### IV CONCLUSIONS

The marked deterioration of the balance of payments in 1967, with a significant decline in official foreign exchange reserves, was heavily influenced by unfavourable external factors, notably poor fish catches and a sharp decline in export prices. Moreover, the strong increase in costs over a number of years combined with the recent fall in export prices had led to a difficult situation in much of Icelandic industry, endangering the continued profitable operation of export—as well as import-competing industries. With the situation being complicated by devaluation of pound sterling and some other currencies, an adjustment of the exchange parity of the Icelandic Krona was virtually inevitable.

The foreign balance should improve considerably in 1968. Some recovery of fish catches and export prices would seem likely. A number of measures have been taken to restrict the growth of domestic demand and imports. And the devaluation should have an important impact. Although it will take some time for the full effects of the devaluation and other measures to materialize, the current account deficit should fall significantly in 1968; and with the capital inflow which seems likely, the decline in official reserves should come to an end and perhaps be replaced by some replenishment.

Much, however, will depend on official policy and the attitudes of labour, employers and farmers. A major problem will consist of minimising the post-devaluation rise in prices, and to prevent the inevitable increase in the cost of living because of higher import prices from setting in motion an inflationary spiral. The devaluation was made necessary by a large external deficit, caused by the sharp fall in export prices and poorer catches, as well as reflecting earlier excessive increases in wages and other incomes. The restoration of external equilibrium will require a shift of resources to exports and replacement of imports. The improvement of the competitive position of industry and the decline in consumers' purchasing power because of the post-devaluation rise in import prices constitute the main mechanisms by which the shift in resources could be brought about, and cannot therefore provide justification for higher wages. The maintenance of maximum wage and price stability is therefore essential if the effect of the devaluation is not to be frittered away.

This has important implications for government policy. It is clearly desirable that demand management policy should remain cautious, to

facilitate the shift in real resources towards the balance of payments and the maintenance of wage stability. Some easing of demand pressures took place in 1967. On the basis of present trends and policies, activity would seem likely to rise relatively moderately in 1968, suggesting that some margin of slack will be maintained. But there are necessarily a number of uncertainties, partly because the movement of activity cannot be predicted with any great degree of precision, given in particular the heavy dependence on fluctuating fish catches, and partly because government policy, especially the 1968 budget, had not yet been finally formulated at the time of writing. It is therefore important that demand management policy should remain flexible, promptly counteracting any tendency for the pressure on resources to grow.

Moreover, the authorities will have an important role to play in creating full understanding by all parties concerned of the need for maximum wage and income restraint. But given the system of free bargaining of both wages and farmers' incomes the success or otherwise of the devaluation in bringing about and maintaining external equilibrium will heavily depend on the co-operation and responsibility of labour, management and farmers.

The authorities may wish to take advantage of the present situation to introduce measures to improve the functioning of the economy. First, the last few years have shown that there is need for a system which would reduce the fluctuations in incomes resulting from changes in catches and export prices. The price equalization fund recently introduced for the freezing plants is a beginning, although care must be taken that the price level, on which the system is based, is a realistic one. Similar systems in other parts of the fishing sector will clearly be useful.

Second, developments in recent years have also shown that the maintenance of an anti-inflationary budget policy has been seriously impaired by actions in the field of incomes policy. The large budget deficit that developed in 1967 was strongly influenced by measures to stabilise prices and wages. Although the resulting price and wage stability represented a welcome development, the increase in subsidies which brought it about clearly stimulated domestic demand and imports and therefore served to aggravate the foreign balance. It is therefore a matter for consideration how existing policy instruments could be improved so as to increase the possibility for a more flexible use of the government budget for economic policy purposes without jeopardizing price/wage stability. The introduction of the new cost-of-living index which, unlike the earlier one, excludes direct taxes, constitutes an important step in this direction.

### *Iceland*

Third, although the increase in productivity to a large extent must be the responsibility of industry itself, government policy can also stimulate rationalisation and efficiency. Given the nature of the problems involved, government action may be particularly useful in order to promote structural rationalisation. Since most of Icelandic industry consists of small firms, the scope for improved efficiency as a result of a movement towards larger units could be significant. This could be facilitated by the authorities, notably actions in the credit field. Moreover, liberalisation of foreign trade and reductions of tariffs in recent years have entailed stronger competition from abroad, stimulating rationalisation in domestic industry. Tariffs are still high and further reductions could be an important element of government policy to promote efficiency.

*Appendix*

ECONOMIC POLICY MEASURES  
PROPOSED OR INITIATED IN OCTOBER 1967

- (a) Reduction of consumer subsidies by an annual rate of Kr. 410 million to the August 1966 level.
- (b) Increase of the taxable value of fixed property, giving an estimated increase in property tax of Kr. 62 million.
- (c) Increase by 13 per cent of liquor and tobacco prices. Estimated increase in revenue Kr. 60 million.
- (d) Increase of premiums to the social security system. Yield Kr. 63 million.
- (e) Increase of hospital fees. Estimated savings in public expenditure Kr. 40 million.
- (f) Special measures are to be taken to reduce expenditures on various budget items and to improve tax collections.
- (g) Expenditure according to the extra-budgetary public investment programme should be reduced from Kr. 309 million in 1967 to Kr. 125 million in 1968.

***STATISTICAL ANNEX***

**(see list of tables, page 4)**

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Table A Supply and Use of Resources

Current prices	Kr. million									Per cent of GNP	
	1958	1959	1960	1961	1962	1963	1964	1965	1966 <sup>1</sup>	1958	1966
Gross national product	6 388	7 239	8 095	9 427	11 488	13 675	17 266	20 425	23 923	100.0	100.0
Imports of goods and services <sup>2</sup>	1 627	1 777	4 204	4 084	5 257	6 357	7 389	8 128	9 570	25.5	40.0
<i>Total supply</i>	8 015	9 016	12 299	13 511	16 745	20 032	24 655	28 553	33 493	125.5	140.0
Exports of goods and services <sup>2</sup>	1 536	1 556	3 790	4 315	5 612	6 137	7 045	8 342	9 220	24.0	38.5
<i>Total domestic demand</i>	6 479	7 460	8 509	9 196	11 133	13 895	17 610	20 211	24 273	101.5	101.5
<i>of which:</i>											
Public consumption	606	656	727	802	963	1 227	1 536	1 862	2 230	9.5	9.3
Private consumption	4 113	4 758	5 376	6 036	7 451	8 985	11 046	12 439	15 040	64.4	62.9
Gross domestic fixed asset formation	1 665	1 942	2 499	2 195	2 829	3 853	4 969	5 499	6 994	26.1	29.2
Government	194	233	320	390	513	558	786	992	1 254	3.0	5.2
Enterprises	1 471	1 709	2 179	1 805	2 316	3 295	4 183	4 507	5 740	23.1	24.0
Change in stocks	95	104	-93	163	-110	-170	59	411	9	1.5	0.1

1 Preliminary.

2 Including factor payments to/from the rest of the world.

Source: Icelandic submission to the OECD.

Table B Supply and Use of Resources

1958 Prices	Kr. million									Per cent of GNP	
	1958	1959	1960	1961	1962	1963	1964	1965	1966 <sup>1</sup>	1958	1966
Gross national product	6 388	6 620	6 794	6 729	7 364	8 040	8 508	8 907	9 476	100.0	100.0
Imports of goods and services <sup>2</sup>	1 627	1 771	1 826	1 710	2 054	2 435	2 755	3 015	3 518	25.5	37.1
<i>Total supply</i>	8 015	8 391	8 620	8 439	9 418	10 475	11 263	11 922	12 994	125.5	137.1
Exports of goods and services <sup>2</sup>	1 536	1 538	1 695	1 721	2 100	2 249	2 395	2 658	2 932	24.0	30.9
<i>Total domestic demand</i>	6 479	6 853	6 925	6 718	7 318	8 226	8 868	9 264	10 062	101.5	106.2
<i>of which:</i>											
Public consumption	606	619	661	669	716	770	822	885	927	9.5	9.8
Private consumption	4 113	4 369	4 391	4 462	4 899	5 242	5 391	5 637	6 071	64.4	64.0
Gross domestic fixed asset formation	1 665	1 792	1 890	1 516	1 774	2 283	2 632	2 638	3 067	26.1	32.4
Government	194	220	268	290	348	358	449	506	576	3.0	6.1
Enterprises	1 471	1 572	1 622	1 226	1 426	1 925	2 183	2 132	2 491	23.1	26.3
Change in stocks	95	73	-17	71	-71	-69	23	104	-3	1.5	—

1 Preliminary.

2 Including factor payments to/from the rest of the world.

Source: Icelandic submission to the OECD.

Table C Fisheries and Agriculture

		1961	1962	1963	1964	1965	1966	1967 <sup>a</sup>
<b>FISHERIES AND FISH PROCESSING:</b>								
<i>Production of Fish and Whale products:</i>								
Value of production	Kr. mill.	3 048	3 413	3 723	4 589	5 677	5 770	4 280
Value, current prices, 1961 = 100	—	100.0	112.0	122.1	150.5	186.2	189.3	140.5
Volume, 1962 prices, 1961 = 100	—	100.0	107.2	113.3	122.4	135.1	131.1	114.1
<i>Tonnage of fishing fleet, end of year<sup>1</sup></i>								
Trawlers	GRT	33 470	32 816	30 027	28 046	26 708	22 876	22 876
Motor boats	»	39 866	41 834	45 144	51 637	54 063	57 431	63 500
Total	»	73 336	74 650	75 171	79 683	80 771	80 307	86 376
<b>AGRICULTURE:</b>								
<i>Agricultural production<sup>2</sup></i>								
Value of production	Kr. mill.	1 026	1 212	1 423	1 638	2 072	2 159	2 265
Value of production, 1961 = 100	—	100.0	118.1	138.7	159.6	201.9	210.4	220.8
Volume, 1960 prices, 1961 = 100	—	100.0	103.8	101.7	100.2	108.0	105.8	105.6
<i>Cultivation and livestock, end of year:</i>								
Cultivated grassland	1 000 hect.	77.6	79.9	82.7	87.0	93.8	95.4	95.0
Sheep	1 000 heads	829.8	777.3	736.4	761.9	846.7	847.3	850.0
Cattle	1 000 heads	55.7	55.9	57.2	59.8	59.5	54.5	54.0

1 Including whale-catchers, excluding open boats.

2 Excluding change in livestock.

3 Provisional figures.

Source: Icelandic submission to the OECD.

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

	1960	1961	1962	1963	1964	1965	1966
<i>Total Gross Fixed Asset Formation</i>	2 499	1 946	2 274	2 971	3 494	3 425	3 993
CLASSIFICATION BY END USE:							
<i>Industrial asset formation</i>	1 337	955	1 132	1 579	1 933	1 744	2 062
Agriculture	208	216	246	290	334	362	349
Fisheries	478	108	151	287	366	134	193
Fish processing	108	93	179	174	154	171	226
Other manufacturing	138	127	154	229	241	220	308
Transport equipment	247	234	223	296	572	515	565
Commercial buildings	97	111	110	152	142	190	216
Various machinery and equipment	61	66	69	151	124	152	205
<i>Residential construction</i>	578	442	498	638	705	743	826
<i>Public works and buildings</i>	584	549	644	754	856	938	1 105
Electric power generation and distribution	140	98	108	142	122	121	192
Geothermal heating and water supply	58	39	58	91	91	105	104
Communications	254	246	304	349	414	462	528
Public buildings	132	166	174	172	229	250	281
CLASSIFICATION BY TYPES OF ASSETS:							
<i>Machinery and equipment</i>	1 101	668	799	1 198	1 467	1 218	1 566
Electric power generation and distribution	140	98	108	142	122	106	163
Various machinery and equipment	235	228	318	473	407	462	645
Ships and aircraft	632	222	255	385	795	504	537
Vehicles for industrial use	94	120	118	198	143	146	221
<i>Buildings</i>	1 025	918	1 031	1 247	1 398	1 504	1 669
Residential construction	578	442	498	638	705	743	826
Other buildings	447	476	533	609	693	761	843
<i>Other construction</i>	373	360	444	526	629	703	758

Source: Icelandic submission to the OECD.

Table E Imports and Exports by Area

	US \$ million <sup>3</sup>								Percentage distribution			
	1961	1962	1963	1964	1965	1966	January-August 1966	January-August 1967	1961	1966	January-August 1966	January-August 1967
<i>Imports:</i>												
European OECD countries	38.0	49.8	70.0	74.4	79.6	99.5	61.5	66.4	50.7	62.5	60.5	61.5
EFTA countries <sup>1</sup>	24.0	32.9	49.0	52.4	52.2	66.4	39.5	41.1	32.0	41.7	38.8	38.1
EEC countries	14.8	18.6	23.0	23.5	29.6	35.7	23.3	26.9	19.7	22.4	22.9	24.9
Other <sup>2</sup>	0.9	1.0	0.9	1.0	1.0	1.1	0.7	0.5	1.2	0.7	0.7	0.5
USA and Canada	12.2	12.7	13.1	26.0	23.0	27.4	20.0	19.7	16.3	17.2	19.7	18.3
Japan	1.5	0.5	0.9	3.7	5.0	6.1	4.3	4.1	2.0	3.8	4.2	3.8
Eastern Europe	17.2	17.1	19.4	21.3	21.9	17.9	10.9	12.2	22.9	11.2	10.7	11.3
USSR	10.9	10.3	11.8	11.0	12.1	11.0	6.3	5.9	14.5	6.9	6.2	5.5
Other	6.2	6.8	7.6	10.3	9.8	6.9	4.6	6.3	8.3	4.3	4.5	5.8
Other countries	4.2	6.3	3.5	3.6	4.3	4.4	3.0	3.4	5.6	2.7	3.0	3.1
Total	75.0	89.2	109.8	131.5	137.0	159.1	101.7	107.9	100.0	100.0	100.0	100.0
<i>Exports:</i>												
European OECD countries	43.4	47.9	55.7	66.9	81.5	88.1	50.4	36.9	60.6	62.7	61.8	59.3
EFTA countries <sup>1</sup>	31.0	32.9	35.1	48.0	54.1	56.8	32.1	27.2	43.3	40.4	39.3	43.7
EEC countries	12.2	14.6	19.7	19.2	27.4	31.1	17.1	8.9	17.0	22.1	21.0	14.3
Other <sup>2</sup>	2.4	3.2	2.2	3.3	4.2	4.8	3.6	2.2	3.4	3.4	4.4	3.5
USA and Canada	10.3	13.5	15.2	17.9	21.4	23.7	15.8	10.4	14.4	16.8	19.4	16.7
Japan	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.4	—	—
Eastern Europe	10.0	15.6	16.3	16.0	14.9	16.8	10.2	11.6	14.0	11.9	12.5	18.5
USSR	5.1	10.9	10.6	10.1	6.8	9.9	5.7	8.1	7.1	7.0	7.0	13.1
Other	4.9	4.7	5.6	5.9	8.1	6.9	4.5	3.4	6.8	4.9	5.5	5.4
Other countries	5.6	4.5	5.7	6.8	7.4	6.9	2.8	2.0	7.8	5.0	3.4	3.2
Total	71.6	84.3	94.2	111.2	129.4	140.6	81.6	62.6	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.

3 Old exchange rate: 1 \$ = Kr. 43.00.

Source: Icelandic submission to the OECD.

NOTE: Figures may not add up to totals because of rounding.

Table F Consolidated Statement of the Central Bank  
Kr. mill. end of period

	1961	1962	1964	1964	1965 <sup>1</sup>	1966	End of August	
							1966	1967
<b>ASSETS:</b>								
<i>Net foreign assets</i>	305.1	1 182.5	1 345.3	1 671.3	1 929.8	2 104.8	1 887.2	1 480.5
Gold	43.7	43.7	43.7	43.7	43.7	43.7	43.7	43.7
Net IMF subscription	119.5	119.5	120.1	120.1	120.1	160.6	160.5	160.6
Foreign assets	1 171.5	1 465.9	1 459.9	1 778.7	2 182.2	2 319.6	2 107.6	1 645.8
Foreign liabilities	-1 029.6	-446.6	-278.4	-271.2	-416.2	-419.1	-424.6	-369.6
<i>Investment Funds, net</i>	380.3	479.8	470.4	494.7	313.9	339.7	385.7	498.1
Advances	348.7	407.2	401.5	376.9	209.3 <sup>1</sup>	239.7	201.5	318.7
Securities	82.6	148.0	151.2	222.1	255.6	223.2	235.5	285.9
Deposits	-51.0	-75.4	-82.3	-104.3	-151.0	-123.2	-51.3	-106.5
<i>Sundry securities</i>	20.4	17.5	15.8	20.5	46.4	78.3	75.6	97.7
<b>LIABILITIES:</b>								
<i>Notes</i>	509.9	583.8	654.4	776.5	1 017.8	1 084.4	1 013.7	1 016.3
<i>Treasury and public institutions:</i>	55.9	104.9	253.9	112.4	103.1	434.3	224.0	-48.8
Deposits	315.2	369.8	517.4	554.0	669.8	735.8	716.3	644.1
Advances	-160.6	-135.8	-76.7	-280.3	-361.9	-112.2	-282.7	-506.3
Securities	-98.7	-129.1	-186.8	-161.3	-204.8	-189.3	-209.6	-186.6
<i>Depositary institutions:</i>	-250.9	375.6	352.8	752.8	630.3	500.7	504.0	557.2
Free deposits	117.9	270.4	123.6	262.7	396.6	166.5	128.8	117.2
Required deposits	308.2	576.8	770.0	1 067.4	1 376.6	1 706.9	1 625.5	1 856.4
Other deposits	164.8	215.1	207.8	219.9	22.1	28.4	12.6	7.7
Loans on bonds, advances and cheques for clearing	-47.1	-4.4	-2.0	-20.2	-0.3	-90.4	-138.7	-286.9
Rediscount	-794.7	-682.3	-746.6	-777.0	-1 164.7	-1 310.7	-1 124.2	-1 117.2
<i>Counterpart Funds</i>	205.2	391.2	330.1	299.6	268.0	190.9	219.5	102.1
<i>Sundry</i>	-52.4	-19.9	-16.2	-24.5	-16.5	3.4	102.3	122.8
<i>Own Capital</i>	238.1	244.2	256.5	269.7	287.4	309.1	285.0	306.7

<sup>1</sup> 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.

Source: Icelandic submission to the OECD.

Table G Consolidated Statement of the Commercial and Savings Banks  
Kr. mill.

	Changes during				Status 31/12 1966	Changes during January-August		Status 31/8 1967
	1963	1964	1965	1966		1966	1967	
<i>Net assets:</i>	+736.1	+1 138.9	+1 569.9	+1 426.1	10 432.5	+801.0	+384.6	10 818.3
Cash	+15.5	-11.7	+25.8	-1.2	88.3	+57.8	+136.5	224.8
Net deposits with the Central Bank:	-23.8	+370.4	-142.8	-142.9	434.7	-79.2	+135.0	569.7
Free deposits	-166.7	+136.4	+135.8	-235.8	178.5	-264.7	-34.1	144.4
Other deposits	+205.0	+282.7	+91.7 <sup>1</sup>	+317.8	1 648.8	+233.6	+126.8	1 775.6
Rediscounts <sup>a</sup>	-64.3	-30.4	-388.1	-147.7	-1 312.8	+40.9	+195.6	-1 117.2
Other borrowing <sup>a</sup>	+2.2	-18.3	+17.8	-77.2	-79.8	-89.0	-153.3	-233.1
Total credit	+778.1	+774.6	+1 629.4	+1 426.5	9 714.6	+1 039.1	+442.3	10 156.9
Miscellaneous, net	-33.7	+35.6	+57.5	+143.7	194.9	-216.7	-329.2	-133.1
<i>Net liabilities:</i>	+736.1	+1 138.9	+1 569.9	+1 426.1	10 432.5	+801.0	+384.6	10 818.3
Deposits:	+653.2	+1 078.4	+1 519.7	+1 060.1	8 978.2	+592.3	+365.2	9 344.6
Demand deposits	-63.5	+324.2	+310.1	+77.6	1 823.4	+126.7	+136.5	1 961.1
Savings deposits	+716.7	+754.2	+1 209.6	+982.5	7 154.8	+465.6	+228.7	7 383.5
Advance deposits for imports	-0.3	-2.1	+7.8	+3.1	79.5	+10.6	+18.2	97.7
Foreign liabilities, net	+5.1	-3.4	-55.7	+249.5	419.7	+195.5	-1.9	417.8
Own funds	+78.1	+66.0	+98.1	+113.4	955.1	+2.6	+3.1	958.2

<sup>1</sup> 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. 1,452.8 mill.

<sup>2</sup> — = increase if the column indicates change.

Source: Icelandic submission to the OECD.

Table H Credits Granted by Commercial and Three Largest Savings Banks  
Kr. million

	Changes during				Status 31/12 1966	Changes during January-August		Status 31/8 1967
	1963	1964	1965	1966		1966	1967	
Agriculture and processing of agricultural products	+125.9	+42.5	+268.4	+49.1	1 058.4	-129.0	-127.4	930.9
Fisheries and fish processing	+74.7	+92.9	+331.5	+396.9	2 226.8	+268.6	+23.7	2 250.5
Commerce	+215.0	+105.2	+242.9	+274.7	1 876.8	+338.9	+222.2	2 099.0
Manufacturing	+129.4	+95.7	+161.2	+194.5	1 207.2	+151.6	+138.5	1 345.7
Construction	+55.1	+104.7	+110.0	+97.6	913.5	+81.3	+52.4	966.0
Transportation and communication	+13.9	+27.6	+41.4	+15.1	183.7	+30.9	+15.3	198.9
General government <sup>1</sup>	+22.0	+119.4	+112.1	+111.4	615.2	+121.5	+30.1	645.5
Monetary institutions	+1.9	-1.8	+190.7 <sup>2</sup>	+38.2	230.8	+17.6	+40.2	270.9
Miscellaneous	+78.5	+68.6	+90.7	+88.8	713.7	+54.6	+64.7	778.4
Total	+716.4	+654.8	+1 548.9	+1 266.3	9 026.1	+936.0	+459.7	9 485.8

1 Including electric utilities.

2 See note 1 to Table G.

Source: Icelandic submission to the OECD.

Table I Prices  
March 1959 = 100

	1964				1965				1966				1967			
	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Nov.
Goods and services	180	187	185	186	191	194	197	210	214	223	230	228	228	227	225	240
Food	198	206	199	200	205	208	211	231	234	248	252	247	245	243	236	266
Heating, electricity	148	149	150	150	152	152	160	160	167	169	194	194	194	194	204	204
Clothing, footwear etc.	152	158	160	165	170	171	174	176	177	179	183	184	187	187	188	189
Miscellaneous	179	187	188	190	195	197	201	211	220	228	236	238	238	238	238	244
Rent	109	113	115	115	116	122	126	126	127	133	140	140	140	144	150	150
Consumer prices total	168	174	173	174	178	181	185	195	198	207	214	213	212	212	212	224
Direct taxes less transfers	80	80	92	92	92	92	90	68	73	69	77	62	62	62	69	69
Cost of living index	158	163	163	165	168	171	174	180	184	191	198	195	195	195	195	206

February 1959 = 100

	1964			1965			1966			1967		
	Febr.	June	Oct.									
Index of building costs	159	165	165	178	186	201	212	220	224	224	224	224

Source : Hagtidindi.

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