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OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ICELAND

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

JANUARY 1969

BASIC STATISTICS OF ICELAND

THE LAND

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

THE PEOPLE

Population, December 1967	199 926	Occupational distribution 1966 (per cent):	
Net increase 1962-1967 annual average (per cent)	1.8	Farming	14.0
		Fisheries	5.8
		Fish processing	8.3
		Other manufacturing	16.9
		Construction	11.9
		Electricity, water supply, etc.	0.8
		Commerce	15.0
		Transport and communication	9.3
		In service of the defence force	1.3
		Other services	16.7

GOVERNMENT AND PARLIAMENT

Government, from 1960, number of Ministers:		Parliament, from 1967, number of seats:	
Independence Party	4	Independence Party (Lib. Cons.)	23
Social Democrats	3	Progressive Party (Agrarians)	18
		Labour Alliance (Socialists, Communists)	10
		Social Democrats	9
			60
Last general election: 1967.		Next general election: 1971.	

LIVING STANDARDS

Calories per head, per day	3 240	Per 1 000 inhabitants, end of 1967:	
Minimum hourly daytime wages for male unskilled labour in Sept. 1968 (I. Kr.)	54.00	Number of:	
Average yearly wage income of married workers, skilled and unskilled, and seamen in 1967 (I. Kr.)	229 479	Passengers cars	180
		Radio sets	515
		Telephones	320
		Television sets	120
		Energy consumption per head in 1965:	
		Coal equivalent (Metric tons)	5.1

PRODUCTION AND CAPITAL FORMATION

Gross National Product in 1967:		Gross Fixed Capital Formation in 1967:	
Millions of I. Kr.	24 000	Millions of I. Kr.	8 040
Per head, US \$ (at exchange rate 1 \$ = Kr. 57.00)	2 119	Per cent of GNP	34

FOREIGN TRADE

Exports of goods and services in 1967 as per cent of GNP	33	Imports of goods and services in 1967 as percentage of GNP	42
Main exports 1967 as percentage of exports of goods:		Imports 1967 by use (per cent)	
Fish and fish products	90	Consumption goods	32
Agricultural products	7	Production goods for fishing industry and agriculture	20
		Other goods	48
			100
		<i>of which :</i>	
		Ships and aeroplanes	11
		Fuels	8

THE CURRENCY

Monetary unit: Krona.		Currency unit per US \$: (from 12th Nov. 1968)	88.00
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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, Finland, 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.

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by the Economic and Development Review Committee
in January 1969.

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INTRODUCTION

The Icelandic economy has experienced serious difficulties in the last two years. In 1967, exports fell sharply, reflecting poor fish catches and a marked decline in export prices. Although high domestic demand served to maintain economic activity, the gross national product declined in real terms, and the national income—taking into account the deterioration of the terms of foreign trade—fell significantly. The balance of payments showed a large deficit, with a considerable decline in foreign reserves. The profitability of several important export industries, already low because of earlier increases in costs, deteriorated further and reinforced the industries' need for subsidies. A devaluation of the Icelandic Krona became inevitable when pound sterling and certain other currencies were devalued. The new parity of Kr. 57 to US dollar, announced on 24th November 1967, represented a devaluation of 24.6 per cent.

In 1968, the devaluation has served to reduce imports significantly, but as exports have continued to fall sharply as a result of further catch failures and price fall, the foreign balance has remained in heavy deficit despite large borrowing abroad. Foreign exchange reserves have fallen to a very low level. The real gross national product has declined rather faster than in 1967, and some unemployment has developed. The continued fall in export prices together with rising wages and other costs following the devaluation, have again made the profitability of the export industries heavily dependent on large government subsidy payments. As there are few signs of an early improvement of fish catches and export prices, the Krona was devalued again on 11th November this time by 35.2 per cent, the new parity is Kr. 88 to the US dollar. Domestic activity is unlikely to rise much in 1969 and the balance of payments, although improving, is likely to remain difficult, necessitating considerable borrowing abroad. Over the longer term a comprehensive structural change of the Icelandic economy appears an important objective.

I CURRENT TRENDS

Production and Exports

The gross national product fell by 1.5 per cent in volume between 1966 and 1967, and preliminary estimates suggest that there was a further fall of 2.8 per cent from 1967 to 1968. Due to the decline in export prices, national income has fallen considerably more; about 8 per cent in 1967 and close to 5 per cent in 1968. The main factor behind these developments has been a marked fall in exports of fish and fish products—in terms of dollars a decline of 32 per cent in 1967 and probably one of over 20 per cent in 1968; in terms of Icelandic Kronur the export value in 1968 remained roughly unchanged due to the devaluation in November 1967. The loss of export earnings represented as much as 7.5 per cent of GNP in 1967 and 4 per cent in 1968. The decline in exports can mainly be ascribed to the following factors:

- (a) Fish catches—notably herring catches—have fallen sharply. In 1967 there was a drop in the volume of herring catches of 40 per cent, in capelin catches of 22 per cent and in white fish catches of 2 per cent. In 1968, the herring catch has been extremely low. Towards the end of November it reached some 115 thousand tons, so that hardly more than 130 thousand tons are to be expected in the whole year, about 30 per cent of the catch of 1967 or roughly a sixth of the 1966 catch. Capelin catches have fallen by 20 per cent, while white fish catches have increased by some 15 per cent partly owing to much stronger fishing efforts in this branch of the fisheries.
- (b) Prices for some of the most important export products, especially frozen fish and fish meal and oils, turned down in the latter part of 1966 and have since continued to decline. Average export prices for fish and fish products were 12 per cent lower in 1967 than in 1966. Contrary to expectations, the downward tendency continued during 1968, notably for frozen fish and herring oil. Assuming only small changes in the last quarter of the year, average export prices on fish and fish products may have been about 11 per cent lower than in 1967 measured in dollars. Measured in Icelandic Kronur there may have been a price rise of some 18 per cent.
- (c) The civil war in Nigeria has led to an interruption in exports of stockfish to that area. By far the greater part (70 per cent) of the production of stockfish—or about 6 per cent of the value of output of fish and fish products—was stored in 1967. Both production and exports of stockfish have been negligible in 1968. The fish

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formerly processed into stockfish—mainly the smaller and down-graded types of white fish—has been used in the production of salted and to some extent frozen fish. This, however, is a less profitable business as these types of fish give salted and frozen products of a poorer quality, catching relatively low prices, and have to be cured by rather costly methods.

Table 1 Gross National Product and Income
Percentage change from previous year, 1960 prices

	1963	1964	1965	1966	1967	1968 ¹
Gross national product	7.1	5.4	5.0	4.2	-1.5	-2.8
Effect of change in terms of trade ²	0.4	3.2	4.9	0.7	-7.4	-2.1
Gross national income	7.2	8.3	9.2	4.4	-8.0	-4.7

1 Preliminary estimates.

2 In per cent of previous year's GNP.

Source : Icelandic submission to the OECD.

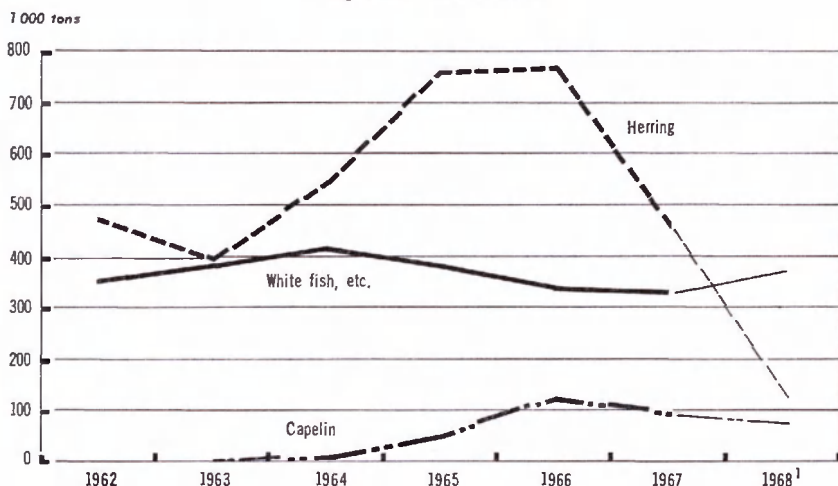
NOTE: Gross national income in fixed prices is defined in the Icelandic national accounts statistics as national expenditure in fixed prices plus exports—imports deflated with the import price index.

The unfavourable development of exports in the last two years must be viewed against the background of the exceptionally strong advance experienced earlier in the 1960's. However, the dollar value of exports in 1968 may be not more than 15 per cent higher than in 1960. The total catch measured in tons was similar to the catch of 1960. During the five-year period 1961 to 1966, export prices rose at an average annual rate of 6 per cent. Over the same period, herring catches more than doubled, and catches of capelin—a specimen of little importance earlier and used only for reduction into meal and oil—reached more than 100 thousand tons; white fish catches, however, showed a declining trend.

The changes in the size and the composition of the fish catch in recent years have been influenced by a number of factors. During the 1961-66 period when fish catches rose sharply, the tonnage of the fishing fleet increased by about 10 per cent. The motor vessel fleet (which takes all the herring catch) increased by 44 per cent while the tonnage of the deep-sea trawlers (used only for catching white fish) fell considerably. More efficient methods and equipment have been introduced. The new ships and equipment have in particular been designed for the purpose of catching herring. As a result, herring fishing became a year-round occupation instead of being a highly seasonal activity. In the period up to 1966 large age groups of herring and a favourable migration pattern were major factors behind the large catches. In the two recent years, the age groups have been smaller and the migration pattern has changed so that the herring in a large part

of the main fishing season has stayed about 700 to 800 miles from the Icelandic coast, instead of the usual 50 to 100 miles. Moreover, the herring shoals have been much less concentrated than earlier, entailing a reduction both in the fishing capacity of the fleet and in the quality of the landed catch. The stagnation in white fish catches can mainly be ascribed to the decline in the deep-sea trawler fleet and less intensive fishing as high earnings in the herring fisheries attracted a larger part of the most experienced fishermen as well as vessels suitable for cod fishing. The recovery of white-fish catches in 1968 can largely be explained by a return of fishing vessels and fishermen to this branch, influenced by the poorer conditions in the herring fisheries.

Diagram 1 Fish catches



1 Preliminary estimates.

Source: Icelandic Submission to the OECD.

The upward movement of export prices up to 1966 was particularly strong for fish body oils, salted fish and herring, and frozen fish. The price rise was generally due to rising consumption in importing countries with the increase in production lagging behind.

The reversal of the price rise from 1966 was due to the fact that the growth in output of most products overtook the increase in demand. The price fall has been most pronounced for herring oil and meal; prices (measured in dollars) for these products have declined by about a half and a third respectively. It is therefore the herring branch of the fisheries which—in addition to falling catches—has been hit the hardest by receding prices.

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Table 2 Export Prices
1962 = 100

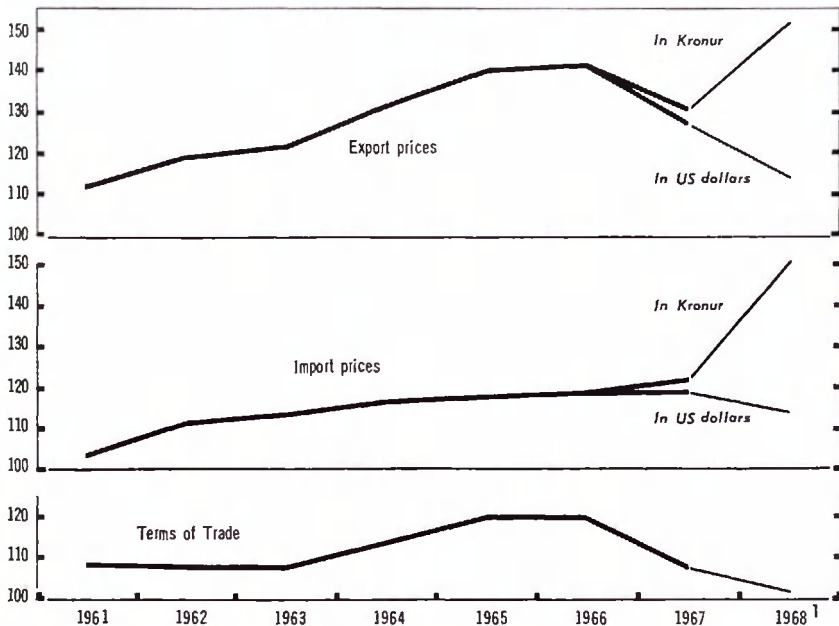
	1964	1965	1966	1967	1968 ¹ In dollars
Frozen fish	112	128	137	116	107
Salted fish	129	142	152	150	134
Stockfish	110	115	138	143	108
Fish meals	96	119	115	98	85
Fish body oils	199	209	175	141	86
Salted herring	112	126	134	131	123
Fish products, total	117	133	136	122	108

¹ Preliminary estimates.

Source : Icelandic submission to the OECD.

The price development reflects notably exceptionally good catches of herring and mackerel off the Norwegian coast and in the North Sea, and record anchovy catches off Peru in recent years. Moreover, the large crops of soya beans, etc., in recent years, and hence increasing production of vegetable oils, may also to some extent explain the price fall of marine oils, because

Diagram 2 Export Prices, Import Prices and Terms of Trade
1960 = 100



¹ Preliminary estimates.

Source : Icelandic submission to the OECD.

NOTE Prices relate to goods and services and have been calculated on the basis of national accounts statistics.

there exist great possibilities for substitution between these different types of oils. With regard to salted and frozen herring, the market conditions are different; the main share of exports is going to Scandinavia and Eastern Europe under more stable conditions. Prices of these products have been maintained while in 1968 their volume was almost halved.

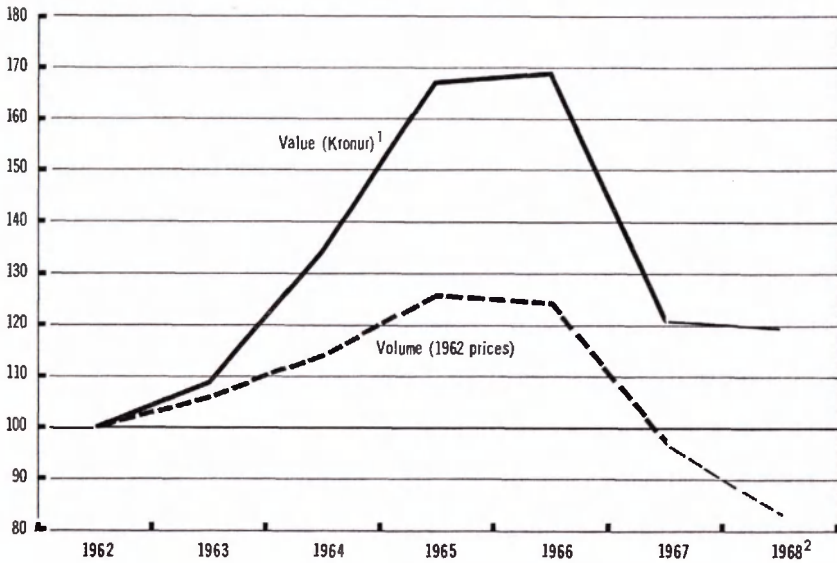
Frozen fish prices are determined essentially by market conditions in the United States. In the first half of the 1960's consumption of frozen fish was on a strong upward trend. With the supply lagging somewhat behind, prices rose sharply, especially in 1964 and 1965. The increase in prices attracted a larger supply, as traditional exporters expanded capacity and production and new suppliers entered the market. The number of countries exporting frozen fish to the United States rose from 7 to 17 in one year. In addition, the price increase for frozen fish products increased the rate of substitution over to other food products. These factors led to a sharp fall in export prices from mid-1966, which continued during 1967. Frozen fish prices in the United States rose slightly in the first months of 1968, influenced by a fall in the supply from certain countries, but declined sharply thereafter, notably for cod products, when the producing countries brought in larger quantities. Icelandic export prices for frozen fish measured in dollars have therefore on average declined by about 10 per cent from 1967 to 1968. The volume of processed exported frozen fish may have increased somewhat more than the 15 per cent rise in white fish catches because of the switchover from production of stockfish to salted and frozen fish. But the dollar value of exported frozen products may have increased by only about 5 per cent. Prices for salted fish, mainly exported to Southern Europe, have been relatively stable in recent years, but fell somewhat in 1968 due to the devaluation of the peseta and the expansion into less favourable markets.

The export volume of goods other than fish and fish products, which account for only 10 per cent of total exports, may have increased somewhat from 1967 to 1968. Although some types of exported services also seem to have risen partly because of the stimulus resulting from the devaluation there are also elements of loss on that account. With a fall in the export volume of fish and fish products of 11 per cent, total exports of goods and services may have declined by at least 4-5 per cent between 1967 and 1968.

The decline in catches and prices has, of course, resulted in a sharp drop in the output of the fish-processing industry—22 per cent in volume and 30 per cent in value from 1966 to 1967. In 1968, production in the white fish processing industry has increased considerably while production in the herring industry has drastically failed. Total output of marine products in 1968 (measured in 1967 prices) may become at least 10 per cent lower than in the previous year. In current dollar prices the decline would be more than 20 per cent; in Icelandic kronur there will hardly be an increase.

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Diagram 3 Production of Fish and Whale Products
1962 = 100



1 In current prices and at current exchange rates. The devaluation of the Krona and other currencies in November 1967 meant that values expressed in foreign currency on average represented about 25 per cent more than before in terms of Icelandic Kronur.

2 Preliminary estimates.

Source : Icelandic submission to the OECD.

The manufacturing industry (excluding fish-processing), was also strongly affected by the depressed conditions in the fisheries and the decline in real incomes in 1967. Moreover, the sharp rise in costs in recent years together with stronger competition from abroad have led to difficulties in maintaining production in some industries, in particular in industries with low customs protection. The more protected industries seem to have been able to keep up production and also to increase their profits, indicating that some rationalisation has taken place. It is estimated that the volume of manufacturing production (excluding fish products) in 1967 remained at the previous year's level or declined somewhat. Available information on trends in 1968 suggests that a similar number of industries show increases as declines, but developments of imports and incomes point to some decline in output.

The construction sector remained buoyant in 1967 with activity up by some 10 per cent, roughly in line with the trend experienced in recent years. The increase in 1967 can mainly be attributed to the construction started in late 1966 of three large, foreign-financed projects: a power

station, an aluminium plant and the harbour associated with it. It is estimated that these projects have absorbed close to 10 per cent of the labour force in construction in the last two years. In 1968, however, activity in the building and construction sector may have fallen by almost 5 per cent reflecting declines in both public and private investment.

Agricultural production—largely unaffected by the disturbances hitting other parts of the economy—increased by 3 per cent in 1967 despite unfavourable weather conditions. But over several years it has remained relatively stagnant, partly owing to difficult weather conditions. However for some years the market for dairy products has been out of balance because of excess production, notably of butter. There has also been some excess supply of mutton and lamb. The excess production has been exported at low prices by the aid of subsidies. After a 40 per cent cut in domestic butter prices in 1966, butter production fell sharply and consumption grew considerably, resulting in marked reduction of stocks. In 1967 production of butter increased by 15 per cent but still remained well below the 1965 level. In the first half of 1968, milk received by dairies was about 9 per cent higher than in the corresponding period of 1967, but has fallen in the latter half so that there will hardly be an increase in the year as a whole on the previous year. Efforts to shift the pattern of agricultural production in favour of sheep products appear to have met with some success in the last three years, but as export prices for both dairy products and meat are likely to remain depressed in the future, it would be desirable to let domestic demand catch up with supply.

Employment

After many years of excess demand conditions in the labour market—with strong wagedrift, long working hours and overtime payments as a regular feature—the situation changed in 1967. The weakening of demand for labour mainly took the form of a shortening of the working week and less part-time work. Hours worked by unskilled labour contracted by 3-4 per cent; hours worked by skilled labour seem to have declined somewhat less. School leavers had difficulties in finding work in the spring and early summer. Unemployment remained very low and was confined to a few localities. However, the labour force is increasing by almost 2 per cent a year, and with the further fall in activity in 1968 a more pronounced slack has developed. An employment census taken in February pointed to the emergence of some unemployment, notably among unskilled labour and very young and elderly people, but also among skilled workers. The number of unemployed (1 500 to 1 600 persons) corresponded to about 2 per cent of the total labour force, partly reflecting seasonal lay-offs. Unemployment

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has remained low in the Reykjavik area where almost half the population live, but the spring and summer saw considerable unemployment in other areas, particularly those dependent on the herring fisheries. Towards the end of 1968 there was some reduction of the labour force employed in residential construction, the Burfell power station and the aluminium plant. Total unemployment may in mid-winter rise to a higher level than a year ago, concentrated in the building and construction sector. Moreover, there are indications that weekly hours worked have declined further.

Domestic Demand

In 1967, the rise in domestic demand slowed down influenced by the sharp decline in private incomes associated with the fall in exports. The slackening was, however, much more moderate than one could have expected on the basis of the decline in export earnings corresponding to 7.5 per cent of GNP, because the effect on domestic demand to a large extent was offset by other factors. First, the demand stimulus from the government budget was substantial, as there was a swing in the overall financial position from surplus in 1966 to a cash deficit in 1967 representing about 3 per cent of GNP, with a similar impact on private disposable incomes. Second, gross fixed asset formation continued to rise strongly, about 14 per cent in volume. The increase in fixed investment was largely confined to the construction of the aluminium complex with connected harbour and power station. Other business investment declined in spite of high deliveries of ships and aircraft, partly because of the completion of certain herring oil and meal factories. The rise in residential construction and public investment (excluding the above-mentioned harbour and power station) slowed

Table 3 Gross Fixed Asset Formation

Change from previous year in per cent of total gross fixed asset formation, 1967 prices

	1965	1966	1967 ¹	1968 ²
Increase (decrease: —) in total fixed asset formation	—0.6	14.9	11.8	—6.5
<i>Of which³ due to :</i>				
The aluminium plant with connected harbour and power station	0.8	1.3	8.8	10.3
Other fixed investments	—1.4	13.6	3.0	—16.8
<i>Of this :</i>				
Industrial asset formation	—3.8	7.5	—1.4	—11.6
Residential construction	1.3	2.8	2.3	—2.5
Public works and buildings	1.1	3.3	2.1	—2.7

1 Preliminary.

2 Estimates.

3 i.e. change in per cent of total fixed asset formation.

Source: Economic Institute.

down. Public consumption increased by 6.7 per cent, about in line with the growth in the two preceding years. Private consumption kept up remarkably well, perhaps increasing by about 1 per cent, despite some decline in private real disposable incomes; however, this meant that there was a slight fall in per capita consumption.

In 1968, the adverse impact of the drop in export earnings was more strongly felt. Domestic demand may have fallen by about 6 per cent in volume. Stimulative effects emanating from the government finances have been less than in 1967, although large subsidy payments to the fishing industry have been an important expansive factor. Fixed asset formation seems to have fallen by 9 per cent. Investment in the aluminium complex has more than doubled, accounting for a fifth of total fixed asset formation. But with the sharp declines in demand and incomes and tighter credit conditions, other fixed investment has declined by about 20 per cent, reflecting decreases of 30 per cent in business investment, 10 per cent in residential construction and 10 per cent in public works and buildings (excluding works connected with the aluminium complex). Public consumption has continued to rise (by 2.7 per cent) but much less than in recent years. Private consumption seems to have declined by 5 to 6 per cent, implying a fall in per capita consumption of 7 to 8 per cent.

Table 4 Supply and Use of Resources
Percentage change from previous year, 1960 prices

	1963	1964	1965	1966	1967 ¹	1968 ²
Private consumption	7.0	2.9	4.5	7.7	1.2	-5.4
Public consumption	7.5	6.8	7.6	7.3	6.7	2.7
Gross fixed asset formation	30.7	17.6	-2.0	16.6	13.7	-9.1
Change in stocks ³	-1.5	0.2	2.4	0.3	0.3	0.6
NATIONAL EXPENDITURE	13.2	9.2	4.6	8.4	5.7	-5.8
Exports of goods and services	7.1	6.5	11.0	8.0	-7.1	-4.3
Imports of goods and services	18.6	13.1	9.4	14.3	5.3	-8.6
GROSS NATIONAL PRODUCT	7.1	5.4	5.0	4.2	-1.5	-2.8

1 Preliminary.

2 Estimates.

3 Per cent of GNP.

Source: Icelandic submission to the OECD.

Prices and Incomes

The consumer price index was kept stable from October 1966 to October 1967 by the aid of higher subsidies and family allowances, and by rigorous price control. As part of the measures taken to restrict the growth of demand and strengthen the foreign balance, consumer subsidies were strongly

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reduced and indirect taxes on alcohol and tobacco were raised in October 1967. These measures, together with the effects of the devaluation in November and higher wages as from the beginning of December, induced a new wave of price rises. The cost-of-living index increased by 10.7 per cent (7.8 per cent on the new index) in the last quarter of 1967 and, according to a new index introduced from January 1968, by almost 3 per cent in the first quarter of this year despite continued price control and some reductions of customs tariffs. During the following six months the price rise was moderate, but due to the 20 per cent import levy imposed in September and a 15 per cent increase in domestic agricultural prices, the cost-of-living index, rose strongly again in the last months of the year. For 1968 as a whole consumer prices on average were 13 per cent above the 1967 level.

Table 5 Cost of Living
Percentage change from previous quarter¹

	Total cost of living ²	Goods and services			Rent
		Total	Food	Other	
1966 1	2.0	1.8	1.4	2.3	0.8
2	4.2	4.5	6.9	1.8	5.1
3	2.2	2.8	1.0	4.9	0.0
4	0.1	-0.1	-1.4	1.4	5.0
1967 1	-0.2	-0.1	-0.7	0.4	0.3
2	0.1	-0.3	-0.8	0.4	2.8
3	0.1	0.1	0.0	0.2	0.0
4	5.9	5.8	9.4	2.0	4.1
1968 1	5.9	5.4	5.2	5.3	0.0
2	2.0	2.2	0.3	3.2	0.0
3	1.5	1.4	2.7	0.8	2.0
4	4.5	5.4	8.9	3.7	0.7

1 Observation taken at the beginning of the second month of the quarter.

2 Including the net effect of change in social security payments and children's allowance. Until fourth quarter 1967 equally including direct taxes. New weights from first quarter 1968.

Source: Hagtidindi.

The rise in wages over the last year has also been significant. The policy of price stabilisation pursued from the autumn of 1966 to October 1967, union restraint, and lower pressure of demand served to keep wages and salaries virtually stable in that period. A law from 1964 linking wages to the cost-of-living index was abolished by a parliamentary decision in December 1967, and the question of wage compensation for price increases was made subject to agreement between labour and employers. This, however, did not meet with approval on behalf of the unions. As a compromise the law provided for a final round of legally imposed wage compensation of 3.4 per cent from 1st December 1967.

A labour conflict broke out in March 1968, ending with an agreement on 18th March. The new wage agreement is valid until the end of 1968 and covers most non-agricultural industries. Basic wage rates were kept unchanged, but automatic wage compensation for price increases was restored; however, no compensation will be given for increases in food prices due to higher wages in agriculture. The basis for the wage compensation is the new cost-of-living index calculated at quarterly intervals with January 1968 = 100, however, the rise is measured from a base point of November 1967. Only the low-paid wage and salary earners (income less than Kr. 10 000 per month) will receive full compensation, while the higher paid ones will be granted less according to a complicated regressive scale. It has been estimated that, on average, wage compensation will correspond to about two-thirds of the increase in the cost-of-living index. As the cost-of-living index is calculated quarterly, the compensation for price rises is given with a time lag. Nevertheless, by September three cost-of-living adjustments of wages had already been affected so that average hourly wage rates in that month were 7.7 per cent higher than before the November 1967 devaluation; a further automatic rise of about 4 per cent took effect in December, due mainly to the rise in prices resulting from adjustment of farmers' incomes and the 20 per cent import levy introduced in September.

Table 6 Hourly Wage Rates¹
1960 = 100

	Male workers		Female Workers	Total
	Unskilled	Skilled		
1961	106.2	107.5	108.5	107.0
1962	118.5	123.5	127.2	121.7
1963	134.9	143.2	148.4	139.9
1964	166.2	175.5	185.2	172.5
1965	191.1	201.6	217.2	199.3
1966	228.5	239.7	264.8	238.6
1967	241.1	247.5	286.1	250.9
1968, September 1 ²	258.6	264.7	309.3	269.4

1 Calculated on the basis of an average composition of work as between daytime, overtime and night and holiday work.

2 Preliminary.

Source: Icelandic submission to the OECD.

Agricultural prices were increased by about 20 per cent on average from December 1967 to September 1968, with a higher-than-average rise for meat and a smaller rise for dairy products. Production has also been on an upward trend, but given the rise in costs resulting from the devaluation and adverse climatic conditions in 1968, the increase in farmers' nominal incomes may not have been very different from that of wage earners.

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Fishermen in the white fish sector receive remuneration in the form of a share of the value of the fish catch; the share has changed little in recent years. Raw fish prices were increased by 8 per cent at the beginning of 1967 and further by 10 per cent at the beginning of 1968. With only a moderate fall in white fish catches in 1967 and a good increase in 1968, the fishermen in this sector have gained relatively on herring fishermen, although their income may have lagged on wages in general. After the devaluation, the owners of fishing vessels suffered from increasing interest and amortisation payments on their foreign loans as well as higher prices on imported inputs. Subsidies to vessel owners in the white fish sector were therefore increased in 1968 and the increase earmarked for servicing of loans. However, larger subsidies, together with increased prices, may not have been sufficient to avert considerable losses outside the main season.

The need to subsidize the freezing industry was felt before the recent fall in export prices, but it was strongly reinforced in 1967. The increase in subsidies to this industry from Kr. 50 million in 1966 to Kr. 170 million in 1967 absorbed most of the Government's contribution to the Price Equalisation Fund for white fish products established at the beginning of 1967. In spite of this support, the freezing industry did not much more than cover its variable costs. With world market prices declining further in 1968 and costs rising, the devaluation of the Krona effected in November was insufficient to restore profitability. The Government felt obliged, therefore, to provide subsidies to the industry at about the same rate as in the preceding year. Notwithstanding this support, it has been estimated that the freezing industry would cover only about 15 per cent of fixed capital costs.

The herring industry had profitable years up to 1966 and did not benefit from government subsidies in 1967, despite a fall in catches of 40 per cent and in meal and oil prices of almost 30 per cent as between summer seasons of 1966 and 1967. Neither boats nor reduction plants were able to cover their variable costs for which some compensation was granted. The situation has not improved in 1968. From 1st July, prices on raw herring for reduction were increased by about 6 per cent on the summer before, while the reduction plants were granted a government subsidy of Kr. 15 million in compensation. In addition, the Government has undertaken to provide support to boat owners and reduction plants to enable them to meet amortisation and interest payments.

Wages and internal prices thus have risen strongly since the abolition of a large part of consumer subsidies in October and the devaluation in November 1967. Taking into account the effects of subsidies and direct taxes, the development of household incomes in recent years can be summarized as follows:

Table 7 Household Income and Consumption
Percentage change from previous year

	1966	1967	1968 ¹
Disposable household incomes	20.7	2.7	5.0
Consumer prices	12.7	3.5	12.5
Real disposable income	6.1	-0.8	-6.5
Private real consumption	7.7	1.2	-5.4

¹ Preliminary estimates.

NOTE Icelandic submission to the OECD.

Balance of Payments

During the first six years of this decade the current account was largely in balance, with moderate deficits in some years being matched by surpluses in others. In 1967, however, the current account fell into heavy deficit, mainly because of the strong decline in exports (31 per cent). Merchandise imports rose only moderately, and the increase was mostly due to higher imports of ships, aircraft, and goods needed for the aluminium smelter and the new power station. The invisible balance changed little. The deficit on the current account—\$56 million—represented about 10 per cent of GNP. More than half the deficit was covered by capital imports, much of which related to imports of ships and aircraft and the special foreign-financed investment projects. Nevertheless, the official foreign exchange reserves (including the IMF position) fell sharply—by \$25 million—for the first time since 1959. At the end of 1967 the gross reserves amounted to \$35 million, only 60 per cent of the figure a year earlier and corresponding to about 2 ½ months' merchandise imports. Towards the end of the year, Iceland borrowed \$3.75 million from the International Monetary Fund, under the special provisions that a member-country may make drawings to compensate for shortfalls of exports below the medium-term trend. As the debt to the IMF increased correspondingly, the net foreign exchange position was not affected by this transaction.

The current account has remained in heavy deficit in 1968, probably totalling \$48 million for the year as a whole, only slightly lower than in 1967. Merchandise exports have shown a further sharp decline (17 per cent) reflecting the continued fall in herring catches and export prices. Merchandise imports have also declined. Imports related to the special investment projects have continued to rise, but other imports, excluding also ships and aircraft, may have fallen by about 21 per cent measured in dollars, influenced by the decline in incomes and by the rise in import prices in Icelandic Kronur following the devaluation and the imposition of the import levy.

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Table 8 Balance of Payments
US \$ million

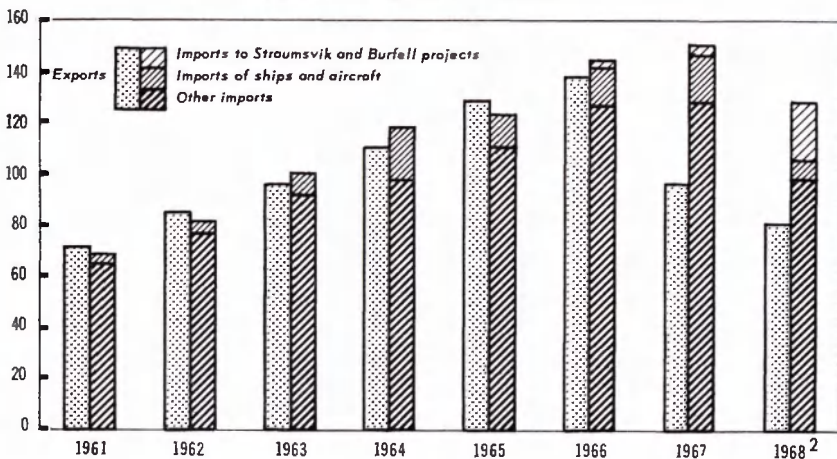
	1964	1965	1966	1967	1968 ¹
Exports of goods, f.o.b.	111.1	129.3	139.2	96.9	79.0
Imports of goods, f.o.b. total	-119.6	-124.1	-145.5	-151.0	-129.4
<i>of which :</i>					
Ships and aircraft	-21.8	-13.6	-15.1	-18.2	-7.0
Straumsvik, Burfell	—	—	-3.1	-6.2	-22.8
Other imports	-97.8	-110.5	-127.3	-126.6	-99.6
TRADE BALANCE	-8.5	5.2	-6.3	-54.1	-50.4
Services, net	3.1	2.9	2.0	3.7	9.0
Interest and transfers, net	-2.5	-3.0	-4.3	-5.7	-6.8
CURRENT ACCOUNT	-7.9	5.1	-8.6	-56.1	-48.2
Capital transactions net, errors and omissions	14.4	2.3	8.6	31.2	31.2
OVERALL BALANCE	6.5	7.4	0.1	-24.9	-17.0

¹ Preliminary estimates.

Source : Yearbook of Central Bank and Economic Institute.

The invisible balance has improved, notably because of higher tourist earnings and less travel abroad. Net capital imports showed some further increase from the high level in 1967, partly because of a large inflow related to the foreign-financed investment projects. Moreover, in June the Government floated a bond loan in the London market yielding \$4.8 million, and in September the Central Bank drew \$4 million on Scandinavian central

Diagram 4 Exports and Imports¹



¹ Excluding imports to the defence force.

² Preliminary estimates.

Source : Icelandic submission to the OECD.

bank swap arrangements. Nevertheless, gross foreign exchange reserves declined by some 30 per cent in the three first quarters to \$25 million at the end of September. Faced with this drain of reserves, the authorities in November arranged a \$5 million short-term credit from the European Fund. This operation was primarily intended as a bridging operation until a stabilisation programme has been worked out and longer-term financing can be raised. Moreover, in November Iceland again obtained a compensatory credit of \$3.75 million from the International Monetary Fund.

The EFTA countries have for a long time been Iceland's most important trading partners, taking about 40 per cent of exports and providing about 40 per cent of imports. The geographical pattern of imports has remained fairly stable in recent years, whereas the pattern of exports has changed somewhat in 1967 and 1968. In 1967, the share of exports going to EFTA countries increased to 45 per cent while the share of EEC countries dropped from 22 to 16 per cent. In the first eight months of 1968, however, the export share of EFTA countries dropped to about 32 per cent whereas the share going to EEC countries remained stable and the share to North America increased from 16 to 25 per cent. These developments are related to the changed composition of merchandise exports resulting from the particularly strong decline in exports of herring products.

II ECONOMIC POLICY

The economic policy adopted after the devaluation in 1967 was based on the assumption of a considerable improvement of herring catches and some recovery of export prices in dollar terms in 1968. Several measures were taken or proposed to restrict domestic demand and to improve the balance of payments. However, as both catches and prices developed much more unfavourably than assumed, economic policy was revised during the year.

The Devaluations

The devaluation in November 1967 meant that export prices expressed in foreign currencies represented, on average, 25 per cent more than before in terms of Icelandic Kronur. However, the decline in export prices in foreign currency during 1968 reduced exporters' gross margins by more than one-fourth and the rise in wages served to reduce margins by about one-third. Other costs have also risen, and low catches have reduced capacity utilisation. In the autumn of 1968 the profitability of the export industries was probably lower than before the devaluation, and their operations could

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only be maintained with the aid of higher subsidies. Simultaneously, the need for strong measures to restrict imports was evident. In November 1968 the authorities therefore again decided to devalue the Krona. The new parity announced on 11th November (Kr. 88 to the US dollar) represented a devaluation of 35.2 per cent. This meant that values expressed in US dollars represent 54.4 per cent more than before in terms of Icelandic Kronur. Taking into account that export subsidies will be cut down and that costs will increase due to the post-devaluation rise in import prices, the increase in exporters' margins is considerably lower, but probably sufficient to restore a reasonable profitability.

Price and Incomes Policies

Immediately after the devaluation in 1967 it was decided by law that exporters of fishery products should receive payments on the basis of the old exchange rate for export goods produced in 1967. The gain accruing from this measure was credited to a special account with the Central Bank and appropriated by separate legislation to the benefit of the fisheries sector. After the deduction of priority claims; i.e. cost rises due to the devaluation and a total of Kr. 45 million to meet the extraordinary difficulties of stock-fish and shrimp producers and herring reduction plants; the remaining gain of about Kr. 175 million was divided into four approximately equal parts: one to meet the deficit on the insurance scheme for fishing vessels, another for rationalisation measures in the fish processing industries, third to convert exchange rate losses of fishing vessels loans into long-term domestic loans, and fourth to the newly established Price Equalisation Fund.

It has been clear to the authorities for a long time that a system is needed which would reduce the fluctuations in incomes resulting from variations in fish catches and export prices. Under the expansionary conditions, however, these ideas made little headway. In 1967, the Government therefore took the first step when it established a Price Equalisation Fund for white fish with an initial capital of Kr. 140 million. However, Kr. 120 million of this amount was used during 1967 for subsidies to the freezing industry. The remaining Kr. 20 million was carried over to the new Price Equalisation Fund for the Fishing Industry which is intended to cover both the white fish and the herring industries. In addition, the new fund has received about Kr. 40 million from the 1967 devaluation gains and will receive Kr. 30 million from the 1968 devaluation gains. In the future, however, it is intended to be mostly self-financing through recurrent price cycles. In periods of rising prices it will receive a proportion (up to a half) of the rise from a basis of reference to be decided with regard to the three preceding years and to special circumstances, such as the recent devaluation. Secondly, the possibility of adding to export charges to finance the fund is

also envisaged. However with present prospects for catches and export prices the accumulation of funds may be slow in the immediate future.

Following the devaluation the Althing passed a law with the aim of securing that a part of the benefits from the devaluation was passed on to the fishing fleet. The vessels are to receive special contributions from the fish processing industries separate from the base price of the fish, the intention being that improved profitability of the fleet should not be eroded by an automatic rise of wages for the crew. Vessels are to receive from the fish processing industry, in addition to the base price, a 17 per cent cost allowance on domestically landed values to cover higher operating costs. To cover higher capital costs a further contribution will be made on landed values of fish, amounting to 10 per cent on white fish and 20 per cent on herring and lobster in the case of domestic landings and 22 per cent on all landings abroad. There will be established for each vessel a separate capital cost account under the inspection of the Fisheries Loan Fund. Increased revenue from export charges, estimated at Kr. 371 million in 1969 against Kr. 209 million in the absence of a devaluation, will almost in their total be credited to the insurance fund for fishing vessels, that from now on will receive 80 per cent of the fund revenue. The devaluation gains on stocks and unpaid exports as of 15th November, estimated at Kr. 740 million, will be redistributed through official channels to cover or reduce higher costs of export of stocked goods, produced before November 15th (about 100), to compensate, according to special government commitments, operational losses in 1968 (almost 100), devaluation losses on loans for fishing vessels (190), losses of herring boats and herring factories during the 1968 season (90 and 75 respectively), and the accumulated deficit of the Fishing Vessels Insurance Fund (100), while the remainder will go to the Fisheries Loan Fund for loans to processing plants (about 90).

A new cost-of-living index was introduced from February 1968 (January 1968 = 100) based on the recent consumption pattern. The weight of food is much smaller than in the earlier index, a factor likely to moderate the inflationary mechanism since food prices tend to rise relatively fast. Unlike the old index, direct taxes are excluded; this should increase the possibility, for a more flexible use of the government budget for economic policy purposes without disturbing price-wage stability.

Fiscal Policy

The approved budget for 1967 envisaged a small surplus on current and investment account and overall balance, following a large overall surplus in the year before. Direct taxation remained unchanged and only minor changes were made in indirect taxation. Total expenditure was forecast

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to be about 11 per cent higher than the final outturn for 1966, more than half the increase reflecting higher social security payments and higher subsidies in order to stabilise consumer prices. However, due to the fall in export earnings, the Government took a number of measures which increased expenditures significantly. In addition to the higher consumer subsidies, the expenditure side was notably affected by increased support to the fishing industry, including the setting up of a price equalization fund for white fish. Even though revenue exceeded the budget estimates by considerable amounts, reflecting mainly larger imports and, hence, larger import duties than forecast, there was a large overall deficit: Kr. 268 million or about 1 per cent of GNP. In addition, the extra-budgetary financing programme, providing finance for public investment projects and investment loan funds, showed a deficit of about Kr. 100 million following the balanced position in 1966. The main sources of finance of this programme are external loans, credit from the Development Fund, 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. As the 1966 budget showed a cash surplus of Kronur 411 million, the swing in the position of government finances (including the extra-budgetary financing programme) between 1966 and 1967 thus was approximately Kronur 775 million, about 3 per cent of GNP.

The 1968 budget as approved by the Althing before the beginning of the year aimed at a surplus on current and investment account of about Kr. 100 million and an overall balance of Kr. 55 million. In order to attain this, several measures were taken both to increase revenue and to reduce expenditures. Hospital fees and social insurance premiums were increased, taxes on tobacco and alcoholic beverages were raised, and the taxable value of fixed property was heightened. These measures were estimated to yield an increase in revenue of Kr. 225 million. On the expenditure side consumer subsidies were reduced by Kr. 410 million at an annual rate, bringing them back to the August 1966 level. Subsidies to the white fish sector and grants to the Price Equalization Fund for white fish—amounting to Kr.335 million in 1967—were to be eliminated. As a direct consequence of the devaluation, a number of revenue and expenditure items were revised upwards—on the revenue side particularly those related to imports and the sales tax.

However, early in 1968 it became obvious that the assumptions on which the devaluation of the Krona and the budget had been based, particularly those concerning production and price developments, would not materialise. In consequence, the Government had to provide additional support to the white fish branch of the fishing industry, increasing subsidies to the freezing plants and the vessel owners by Kr. 346 million. These expenditure increases were met by cuts in a number of other items and by further increases

in taxes on tobacco and alcoholic beverages together with higher than estimated revenue from import duties, because tariffs were not lowered as much as originally intended. Including these changes, the approved 1968 budget envisaged a surplus on current and investment account of Kr. 41 million and a cash deficit of Kr. 6 million. However, the expenditure estimates do not take into account the wage-increases resulting from the new contracts made in 1968, nor some increases in subsidies. Moreover, the revenue from sales taxes and import duties have been lower than estimated owing to the slow-down of economic activity. As a result the budget may show an overall deficit of about Kr. 300 million. The extrabudgetary financing programme may also show a deficit, perhaps upwards to Kr. 100 million, mainly because the investment funds have experienced deficiencies on interest and amortisation payments. The total deficit in government finances in 1968 (including the extrabudgetary financing programme) may therefore turn out to be around Kr. 400 million, about 1.5 per cent of GNP.

Table 9 Central Government Finance
Kr. million

	Previous classification		New classification		
	1966	1967	1968 ¹	1968 ²	1969 ³
CURRENT REVENUE	4 678	5 135	6 241	6 436	7 096
Direct taxes	471	687	1 194	1 194	1 357
Indirect taxes	3 485	3 657	5 000	5 195	5 666
Other	722	791	47	47	73
CURRENT AND INVESTMENT EXPEN- DITURE	4 029	4 868	6 140	6 395	7 000
FINANCIAL SAVINGS	649	267	101	41	96
MISC. CAPITAL TRANSACTIONS	-238	-535	-47	-47	-86
CASH BALANCE ⁴	411	-268	54	-6	10

- 1 Approved budget.
- 2 Approved budget with amendments.
- 3 Budget proposal.
- 4 Incl. change in floating debt and bank deposits.

Source: Icelandic submission to the OECD.

NOTE: As from 1968 the budget has been reorganised and some items covering both expenditure and most often, earmarked revenues, have been included.

The 1968 government budget is not directly comparable to the budgets presented earlier. In order to facilitate analysis and to give a better impression of the size and impact of the government sector in the economy, considerable changes have been made in the presentation of the budget. The most important amendments are that various earmarked taxes and levies and certain expenditure items hitherto outside the budget have been included. The earmarked revenue formerly omitted is estimated to about one fifth of total revenue.

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The 1969 budget as proposed by the Government in October was not very different from the amended budget for 1968. Tax revenue was estimated on the basis of unchanged direct and indirect taxation, and the expenditure side was maintained largely unchanged except for subsidies to the fisheries which were mostly left out, pending decisions on the solution to this problem. Since then, changes have been made to take account of the devaluation. The estimated rise in customs revenue from the initial forecast is Kr. 365 million and in total revenue Kr. 504 million. These changes have brought the 1969 budget revenue up to a total of Kr. 7 096 million, about 12 per cent higher than estimated for 1968. On the expenditure side social security and health services will receive Kr. 210 million more than from the initial budget proposal whereas direct subsidies to the fishing industry were abolished, except for the contribution of Kr. 25 million to the Catch Equalisation Fund. In 1967, these subsidies had amounted to Kr. 374 million and some Kr. 400 million had been envisaged in the 1968 budget; however, in view of the promises given to the herring industry, subsidy payments this year, in the absence of a further devaluation of the Krona, might have amounted to as much as Kr. 750 million, or close to 3 per cent of GNP. The rise in current and investment expenditure from 1968 to 1969 is about 8 per cent, and the overall balance shows a surplus of Kr. 10 million compared to a deficit of Kr. 300 million in 1968.

Table 10 Subsidies¹

	1966	1967	1968 ²	1969 ³
AGRICULTURE	1 041	1 193	1 044	1 074
Consumer subsidies	584	721	569	570
Other subsidies and transfers	457	472	475	504
FISHERIES AND FISH PROCESSING	306	447	505	111
Direct subsidies	199	374	412	25
Fish search and Loan Fund etc.	88	72	93	86
Consumer subsidies	19	1	—	—
OTHER SUBSIDIES				
Margarine	9	6	—	—
TOTAL	1 356	1 646	1 549	1 185

1 Including payments which are not classified as subsidies in the Central Government budget.

2 Estimates.

3 Budget and forecasts.

Source : Icelandic submission to the OECD.

Monetary Policy and Developments

Both the Central Bank's discount rate and the liquidity reserve requirements for the private banks have been kept unchanged during 1967 and 1968. Since December 1965, the marginal reserve ratio for the banks has been 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. With strong increases in deposits in 1965 and 1966, it appears that the 20 per cent limit was reached in 1967. The fall in export earnings which started already in the second half of 1966, was accompanied by a slowdown of the rise in bank deposits. The expansion of bank credit, however, although slowing down somewhat, continued at a high rate. The banks' liquidity position therefore deteriorated, a trend which continued during 1967 and much of 1968.

The recession in 1967 and 1968 has created serious financial difficulties for a large number of industries, particularly the fishing industry, reflected *inter alia* in a marked rise in payments deficiencies and serious pressures on the liquid resources of financial institutions. Moreover, the unfavourable development of private incomes has had adverse effects on savings and bank deposits. In 1967, bank deposits increased only by 5.6 per cent against 13.3 per cent in 1966 and 23.6 per cent in 1965. Demand for credits, however, has remained rather strong, reflecting the growing needs of both firms and individuals for external finance as the rise in the incomes levelled out or was reversed. Although the increase in bank credit slowed down from 17.2 per cent in 1966 to 9.3 per cent in 1967, it exceeded the increase in deposits by about Kr. 400 million in the latter year. The banks borrowed from the Central Bank and from foreign banks. The investment credit institutions were faced with similar difficulties; they also had to borrow from the Central Bank in 1967 in order to honour their commitments (Table 11). In addition, the Government's position *vis-à-vis* the Central Bank deteriorated by more than Kr. 450 million in 1967, following the improvement of Kr. 330 million in the year before.

The large outflow of funds from the Central Bank to the credit institutions and the Treasury in 1967 (totalling Kr. 831 million) was accompanied by a decline in the foreign exchange reserves. The effect on the money supply was therefore to some extent offset by the absorption of funds resulting from Central Bank's sale of foreign currency. The Central Bank had a difficult role to play in endeavouring to alleviate the financial problems of individuals, firms and credit institutions while limiting as far as possible the decline in the foreign exchange reserves.

In the first half of 1968, bank credit to the private sector expanded rather faster than a year earlier. The rise in deposits also accelerated but fell short of the expansion of bank loans by some Kr. 70 million. The banks therefore ran down their position *vis-à-vis* the Central Bank by Kr. 85 million, including the change in rediscounted bills; the Government, however, drew about Kr. 445 million, the same amount as in the first half of 1967. These drawings were reflected in a further deterioration of the Central Bank's foreign exchange position of Kr. 376 million. The stronger

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Table 11 Monetary Survey
Change during period. Kr. million

	1965	1966	1967	January-June		
				1966	1967	1968
CENTRAL BANK						
Notes in circulation	241.3	66.6	-49.4	18.3	-21.8	33.8
Net position of Treasury and Government institutions	-9.4	331.2	-457.5	31.4	-445.6	-444.8
Net position of banks	265.0	16.5	-181.8	-120.8	-168.3	25.2
Net position of investment credit funds	180.9	-25.8	-192.1	-53.2	-42.2	79.5
Foreign exchange position	260.7	160.6	-712.1	96.0	-440.0	-376.1
COMMERCIAL AND SAVINGS BANKS:						
Deposits from the public	1 527.5	1 063.2	510.3	563.9	298.2	572.8
Total credits	1 667.0	1 426.5	902.8	679.4	373.0	641.7
Foreign exchange position	58.4	-157.3	-161.7	-138.4	-37.8	57.2
INVESTMENT FUNDS:						
Loans granted	901	1 043	1 162	..	..	..
Net increase in outstanding loans	569	725	1 166	..	..	..

Source: Statistical Bulletin and Economic Institute.

increase in deposits and bank lending in the first half of the year may have been related to the fact that this is the main season for the cod fisheries and that catches were much bigger than in 1967. From mid-year, however, bank deposits began to be drawn down, reflecting a marked increase in purchases of imported goods, probably in anticipation of measures affecting imports. As a result both bank liquidity and foreign exchange reserves fell sharply.

Trade and Exchange Policy

In spite of the continued deterioration of the balance of payments in the first half of 1968, no restrictions on foreign trade and payments were introduced in this period. In February customs duties were reduced for a wide range of goods, which included the reductions that Iceland had agreed to in the Kennedy Round; the maximum rate was reduced from 125 per cent to 100 per cent. In the second half, however, certain direct measures to restrict imports and foreign payments have been taken. From August transfers to abroad of inheritances and emigrants' assets has been restricted. On 3rd September, pending the Althing's decisions on further policy measures, the Government by a provisional law imposed a 20 per cent levy on all merchandise imports (except on certain input goods for the fishing industry and agriculture) and on travelling abroad. The provisional law was scheduled to the end of November but was abolished on the 12th Novem-

ber when the Krona was devalued again. From October, the chartering of foreign ships for maritime transport has been restricted; transfers of foreign currency for chartering of foreign vessels will only be allowed when it has not been possible to obtain appropriate Icelandic maritime freight on normal terms.

Iceland remains outside both EEC and EFTA. The implementation of the EEC's foreign trade policy and the removal of tariffs on intra-EFTA trade has gradually placed Iceland at a disadvantage in both these trading areas. The Icelandic authorities have therefore applied for membership in EFTA and negotiations for membership will start in January 1969. As a member of this trading area, Icelandic exports of industrial products could be stimulated both by easier access to larger markets and by closer co-operation with foreign firms.

III PROSPECTS AND CONCLUSIONS

The key point is clearly the outlook for fish catches and export prices.

Marine biologists seem to agree that the age groups of mature herring reached a maximum in 1966/67 and will be considerably smaller for several years. More important for catches, however, is the migration pattern of herring. Little is known in advance about the changes in the factors influencing the route of the herring in the sea, and forecasts of the migration patterns are highly uncertain. Climatic conditions may be a factor. Many experts believe that the lower temperature in the North Atlantic waters in recent years has been a main reason behind the changed route of the herring. According to the marine biologists, the return of the herring to Icelandic waters may be slow, suggesting that catches may remain relatively low for several years. With regard to white fish catches, prospects seem to be better than envisaged earlier; it is now believed that the stocks of mature cod and other white fish should provide a basis for catches of the magnitude experienced in 1968 or perhaps somewhat larger.

Prospects for export prices are uncertain. A strong increase in the supply of fish and fish products from other countries, notably Norway and Peru, has been an important factor behind the decline in prices in the last two years. Normally one would expect lower prices to have some restraining effect on supply and this, in its turn, could lead to a recovery of prices. There is a question, however, of how strong a possible recovery would be since the extent to which the market mechanism is functioning is sometimes limited. Thus, in many cases, lower prices lead governments to introduce

or increase subsidies to the fishing industry so that changes in market prices have little impact on the volume of output. There are, therefore, few indications yet of an early upturn in fish prices.

In these circumstances, the recent unfavourable trends in fish catches and export prices appear to be more than a temporary phenomenon. At least, economic policy cannot overlook the possibility that the increase in exports of marine products in the years ahead may be smaller than it seemed reasonable to expect earlier. A faster diversification of the economy than planned at present may therefore be called for. This will not be an easy task as the process of structural change will be subject to a number of constraints.

First, the natural resource base is limited. More intensive and profitable use could, however, be made of raw materials from agriculture, such as wool and hides, and from fishing by further processing into canned goods or frozen goods for direct consumption. The most important known resources which have so far remained largely unexploited are the waterfalls and the abundance of geo-thermal resources; exploitation of this energy potential could form the basis for the development of a variety of industries. The geo-thermal resources, unlike the waterfalls, have the advantage that they can be developed gradually without higher additional costs. The aluminium plant which will come into operation in the autumn of 1969 represents an important step in the process of diversification; it could probably also form the basis for a processing industry based on raw aluminium. The high level of general education of the population is clearly an important asset in the development of new industries. Also, in view of the considerable experience gained by some industries producing for the domestic market, the development of exports from industries using imported raw materials should not at all be ruled out.

Second, structural change and the rapid growth of the labour force will require a high level of investment. But domestic savings have fallen, and may be slow to recover if fish catches and export prices remain unfavourable. The need for capital imports may therefore be higher than envisaged earlier.

Third, the small domestic market complicates the expansion of a more diversified industry. Moreover, the fact that Iceland remains outside both EFTA and EEC has placed the country at a disadvantage in these areas. A small economy like that of Iceland must, of course, aim at a rather specialised production largely intended for exports. Icelandic membership of EFTA would provide easier access to the large markets, facilitating the development of new export industries. A larger market for Icelandic producers combined with further reductions in customs tariffs would stimulate the development of a more competitive industry.

Whatever the prospects for the medium- and longer-term future, the authorities will be faced with important policy problems in the coming year. Given the uncertain outlook for herring catches and export prices, exports of fish and fish products expressed in foreign currencies may rise only moderately in 1969. Other exports may not increase much either as the aluminium plant will not come into operation until late in the year, and production in the first few months is likely to be small. Although invisible receipts should continue to grow, helped by the recent devaluation, the rise in exports of goods and services in terms of foreign currencies may not be very considerable.

The fall in activity should level out in 1969, but output would seem unlikely to rise much. In 1968, the construction of the aluminium complex has accounted for about 20 per cent of total fixed investment. This activity will continue in the first half of 1969, but the completion of the complex in the late summer will result in a significant fall in construction activity. Other business investment and residential construction may remain low, given the uncertain outlook in economic activity. Public expenditure on goods and services will probably increase somewhat, but private consumption is likely to fall further as real disposable income will probably decline. On these assumptions, the growth of real GNP is likely to be small. The slack in the economy may therefore rise considerably, particularly in the second half of the year when the aluminium complex will be completed; the release of labour from this project will probably correspond to about 1 per cent of the labour force.

Imports should fall substantially in 1969. There will hardly be any imports of ships and aircraft. The authorities expect imports related to the foreign-financed aluminium complex to decline by 25 to 30 per cent in dollar terms. Moreover, influenced by the recent devaluation and the domestic demand situation, other imports could also fall considerably. With exports estimated to rise, reflecting a normal growth of white fish catches and catches of herring somewhat higher than the abnormally low level of 1968, the current account of the balance of payments should improve significantly. However, a current deficit, probably in the order of \$5 million to \$10 million, is likely to remain in 1969 and there will be large contractual repayments on foreign debts (see table 12). With some foreign financing already arranged a further loss of reserves might be avoided in 1969.

This outlook raises difficult policy problems. Despite the recent devaluation, the balance of payments seems likely to remain difficult. The current account may remain in deficit, although a much smaller one than experienced in 1967 and 1968. And this forecast is subject to considerable uncertainties; given the possible errors involved in any estimate of fish catches and prices the outcome could be better, but one must also be pre-

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Table 12 External Debt
\$ million

	1968	1969	1970	1971
External long-term debt ¹	134.2	115.9	99.2	85.2
Amortization during the year	17.5	18.3	16.7	14.0
Interest payments	6.4	7.4	6.6	5.7

¹ End of year.

Source: Icelandic submission to the OECD.

NOTE: The above table presents the external long-term debt and its servicing as it looks in October 1968 and takes no account of new capital imports; already arranged borrowing in 1969 of approximately \$18 million has thus not been included in the table.

pared for the worse. An important factor is the servicing of the external debt, which has become relatively much heavier than before as export receipts have fallen. Given the low level of external reserves, considerable foreign borrowing will be required even if the current account should move towards an equilibrium position. A marked improvement of the balance of payments must therefore be a primary objective, requiring stringent monetary and budgetary policies. As there is already a considerable margin of slack in the economy, the effect of demand management policy on the employment situation will have to be considered. There may be some scope for flexibility, notably in monetary policy, to the extent that wage stability is achieved and the balance of payments improves. But this scope will be limited, as the balance of risks must be weighed in favour of the balance of payments.

A key problem clearly consists in limiting the post-devaluation rise in cost to an absolute minimum. The experience of the last twelve months since the devaluation in November 1967, has clearly shown that with automatic adjustment of wages and farmers' prices the effects of devaluation on the competitive position of industry and on the consumers' purchasing power may be quickly reduced by the subsequent price/wage spiral. The adjustment of domestic real incomes to the worsened external position is clearly a painful process. It is therefore important that there should be full understanding by all concerned of the need for such an adjustment and of the fact that the devaluation of the Krona is a key measure in bringing it about.

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STATISTICAL ANNEX

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

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
Consumers' expenditure on goods and services	4 113	4 758	5 376	6 036	7 451	8 985	11 046	12 439	15 040	15 740
General government current expenditure on goods and services	606	656	727	802	963	1 227	1 536	1 862	2 270	2 505
Gross fixed asset formation	1 665	1 942	2 499	2 195	2 829	3 853	4 969	5 499	6 994	8 040
Change in stocks	95	104	-93	163	-110	-170	59	411	66	65
NATIONAL EXPENDITURE	6 479	7 460	8 509	9 196	11 113	13 895	17 610	20 211	24 370	26 350
Exports of goods and services (non-factor)	1 533	1 551	3 780	4 297	5 569	6 087	6 983	8 262	8 998	7 705
Imports of goods and services (non-factor)	1 579	1 725	4 071	3 938	5 108	6 197	7 190	7 872	9 117	9 840
GROSS DOMESTIC PRODUCT AT MARKET PRICES	6 433	7 286	8 218	9 555	11 594	13 785	17 403	20 601	24 251	24 215
Income payments from the rest of the world	3	5	10	18	43	50	62	80	93	95
Income payments to the rest of the world	48	52	133	146	149	160	199	256	295	310
GROSS NATIONAL PRODUCT AT MARKET PRICES	6 388	7 239	8 095	9 427	11 488	13 675	17 266	20 425	24 049	24 000
Indirect taxes	1 668	2 102	2 332	1 774	2 299	2 795	3 412	4 355	5 400	5 610
Subsidies	1 106	1 414	721	507	586	694	1 098	1 180	1 385	1 765
GROSS NATIONAL PRODUCT AT FACTOR COST	5 826	6 551	6 484	8 160	9 775	11 574	14 952	17 250	20 034	20 155
Depreciation and other operating provisions	693	797	1 021	1 211	1 378	1 477	1 734	2 159	2 500	2 750
NET NATIONAL PRODUCT AT FACTOR COST	5 133	5 754	5 463	6 949	8 397	10 097	13 218	15 091	17 534	17 405

Source: Icelandic submission to the OECD.

Table B Supply and Use of Resources
Kr. million, 1963 prices

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
Consumers' expenditure on goods and services	7 050	7 488	7 526	7 648	8 397	8 985	9 240	9 662	10 406	10 531
General government current expenditure on goods and services	966	986	1 053	1 066	1 141	1 227	1 310	1 410	1 513	1 614
Gross fixed asset formation	2 767	3 009	3 224	2 535	2 963	3 853	4 494	4 426	5 159	5 853
Change in stocks	295	203	-114	213	-169	-170	29	289	41	41
NATIONAL EXPENDITURE	11 078	11 686	11 689	11 462	12 332	13 895	15 073	15 787	17 119	18 039
Exports of goods and services (non-factor)	4 184	4 184	4 616	4 679	5 688	6 087	6 472	7 173	7 740	7 182
Imports of goods and services (non-factor)	4 122	4 487	4 618	4 310	5 213	6 197	6 993	7 617	8 704	9 166
GROSS DOMESTIC PRODUCT AT MARKET PRICES	11 140	11 383	11 687	11 831	12 807	13 785	14 552	15 343	16 155	16 055
Income payment from the rest of the world	8	13	10	18	43	50	62	80	93	95
Income payments to the rest of the world	126	136	149	146	149	160	199	256	295	310
GROSS NATIONAL PRODUCT AT MARKET PRICES	11 022	11 260	11 548	11 703	12 701	13 675	14 415	15 167	15 953	15 840
Depreciation and other operating provisions	1 206	1 249	1 319	1 383	1 428	1 477	1 588	1 771	1 891	2 014
NET NATIONAL PRODUCT AT MARKET PRICES	9 816	10 011	10 229	10 320	11 273	12 198	12 827	13 396	14 062	13 826

Source : Icelandic submission to the OECD.

Table C Production and Employment

		1961	1962	1963	1964	1965	1966	1967	1968 ³
FISHERIES AND FISH PROCESSING:									
Production: value	Kr. mill.	3 048	3 413	3 723	4 589	5 710	5 770	4 046	4 100
value	1961 = 100	100.0	112.0	122.1	150.5	187.4	189.3	132.8	134.5
volume, 1962 prices	1961 = 100	100.0	107.2	113.3	122.4	135.1	133.2	104.4	95.5
Fishing fleet ¹ , end of year: Trawlers	GRT	33 470	32 816	30 027	28 046	26 708	22 876	21 491	20 104
Motor boats	GRT	39 785	41 834	45 144	51 637	54 063	57 431	64 619	66 119
Total	GRT	73 255	74 650	75 171	79 683	80 771	80 307	86 110	86 223
Employment in fish processing	1961 = 100	100.0	105.6	111.9	118.1	119.6	108.2	..	..
AGRICULTURE:²									
Production: value	Kr. mill.	1 031	1 217	1 427	1 667	2 034	2 162	2 396	..
value	1961 = 100	100.0	118.0	138.4	161.7	197.3	209.7	232.4	..
volume, 1960 prices	1961 = 100	100.0	103.9	102.3	98.9	106.3	104.1	108.9	..
Capacity: cultivated grassland	1 000 hect.	75.1	78.1	81.7	87.0	91.3	94.4	99.3	..
(end of year) sheep	1 000 heads	829.8	777.3	736.4	761.9	846.7	847.3	802.3	..
cattle	1 000 heads	55.7	55.9	57.2	59.8	59.5	54.5	53.5	..
MANUFACTURING (excl. fish processing)									
Production, volume	1961 = 100	100.0	111.1	121.4	127.0	131.6	135.4	..	..
Employment	1961 = 100	100.0	109.0	113.0	118.1	119.0	121.8	..	..
DWELLING CONSTRUCTION									
Started	Number	789	1 177	1 773	1 481	2 126	1 609	2 052	..
Completed	Number	1 209	1 272	1 303	1 331	1 518	1 693	1 787	..
Under construction, end of year	Number	2 753	2 658	3 128	3 278	3 886	3 802	4 067	..

1 Including whale-catchers, excluding open boats.

2 Excluding change in livestock.

3 Provisional figures.

Source: Icelandic submission to the OECD, Fjarmalatidindi, Hagtidindi.

Table D Gross Fixed Asset Formation¹
Kr. million, 1963 prices

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
PRODUCT CLASSIFICATION:										
Land	107	114	97	106	102	115	163	141	125	169
Dwellings	803	894	780	596	673	860	951	1 003	1 114	1 221
Other buildings	535	539	595	641	722	822	935	1 021	1 134	1 152
Other construction and works	578	589	580	490	611	753	809	918	1 078	1 501
Transport equipment	178	283	301	287	273	366	689	623	686	530
Other equipment	566	590	871	415	582	937	947	720	1 022	1 280
Total	2 767	3 009	3 224	2 535	2 963	3 853	4 494	4 426	5 159	5 853
INDUSTRIAL CLASSIFICATION:										
Agriculture	313	319	266	275	313	362	421	452	434	443
Fishing and whaling	183	248	578	133	186	352	444	164	238	520
Mining and quarrying	—	—	—	—	—	—	—	—	—	—
Fish processing	201	143	142	122	235	229	204	226	297	171
Other manufacturing	231	176	182	169	203	302	318	289	404	640
Construction	45	82	49	47	54	148	114	135	197	254
Electric power	299	253	188	134	145	192	165	160	251	497
Geothermal heating etc.	63	72	76	50	76	118	118	137	135	117
Transportation and communication	397	553	628	603	664	814	1 220	1 214	1 362	1 313
Dwellings	803	894	780	596	673	860	951	1 003	1 114	1 221
Public administration	147	156	178	224	235	232	308	338	379	410
Other service industries	85	113	157	182	179	244	231	308	348	267
INSTITUTIONAL CLASSIFICATION:										
Private enterprise	1 953	2 238	2 455	1 791	2 101	2 862	3 370	3 197	3 722	4 023
Public enterprise	512	428	350	291	319	433	424	439	538	840
General government	302	343	419	453	543	558	700	790	899	990

¹ According to OECD definitions, which do not include maintenance and repair.

Source: Icelandic submission to the OECD.

Table E Balance of Payments
US \$ million

	1962	1963	1964	1965	1966	1967 ¹
Exports of goods fob	85.2	95.1	111.1	129.3	139.1	96.9
Imports of goods fob, total	-81.8	-100.0	-119.6	-124.1	-145.5	-151.0
<i>of which</i> : Ships and aircraft	-4.5	-8.8	-21.8	-13.6	-15.1	-18.2
Straumsvik, Burfell ²	—	—	—	—	-3.1	-6.2
Other imports	-77.3	-91.2	-97.8	-110.5	-127.3	-126.6
BALANCE OF TRADE	3.4	-4.9	-8.5	5.2	-6.4	-54.1
Imports to the Defence Force	-1.4	-1.9	-0.7	-1.0	-0.7	-1.1
Military receipts	10.4	9.0	6.7	8.2	10.4	14.1
Other services	-1.9	-4.9	-2.9	-4.3	-7.6	-9.3
BALANCE ON GOODS AND NON-FACTOR SERVICES	10.5	-2.7	-5.4	8.1	-4.3	-50.4
Interest from abroad	1.0	1.2	1.4	1.9	2.2	2.2
Interest on foreign debt	-3.2	-3.5	-4.0	-4.9	-5.3	-6.5
Transfer payments	3.2	0.7	0.1	—	-1.2	-1.4
BALANCE ON CURRENT ACCOUNT	11.5	-4.3	-7.9	5.1	-8.6	-56.1
Amortization of debt	-10.4	-9.1	-9.5	-10.4	-13.5	-14.9
Public borrowing	5.5	11.0	3.9	5.9	12.5	13.1
Private borrowing and direct investment	3.1	7.4	17.7	9.6	14.3	14.4
Other capital movements	4.4	-1.3	1.0	-1.5	-3.4	16.3
Errors and omissions	0.5	0.1	1.3	-1.3	-1.3	2.3
OVERALL BALANCE	14.5	3.8	6.5	7.4	0.0	-24.9
Change in foreign exchange holdings:						
Convertible currencies	12.7	2.7	10.1	11.6	1.4	-28.4
Clearing currencies	1.8	1.1	-3.6	-4.2	-1.4	3.5

1 The exchange rate was changed on the 24th November 1967 from 1 \$ = Kr. 43.00 to 1 \$ = Kr. 57.00. For conversion of the 1967 figures the following exchange rates have been used: Exports of goods 1 \$ = Kr. 44.35, Imports of goods 1 \$ = 43.83, Other items 1 \$ = Kr. 44.00. The exchange rates used for merchandise trade correspond to the rates used in the OECD foreign trade statistics. The net discrepancy due to the conversion has been included in "errors and omissions".

2 Special imports for use in the construction of a power station at Burfell, a harbour at Straumsvik and an aluminium smelter. These imports are expected to reach a maximum in 1968 and to fall almost completely off in 1969.

Source: Annual Report 1967, Central Bank of Iceland.

Table F **Central Government Income and Expenditure¹**
 Fiscal years = Calendar years
 Kr. million

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967 ²
Current revenue	1 816	2 301	2 379	1 790	2 203	2 683	3 297	4 185	5 315	5 135
Direct taxes	161	215	121	123	135	199	281	374	522	687
Indirect taxes	1 645	2 069	2 232	1 655	2 052	2 450	2 987	3 815	4 714	4 298
Other	10	17	26	12	16	34	29	—4	79	150
Current expenditure	1 639	2 020	1 505	1 373	1 594	1 983	2 766	3 075	3 688	..
Purchase of goods and services	363	391	451	458	546	716	882	1 062	1 309	..
Subsidies	1 068	1 373	672	457	527	627	1 016	1 086	1 273	..
Interest	4	3	3	6	3	6	7	10	9	..
Current transfers	204	253	379	452	518	634	861	917	1 097	..
Depreciation and other operating provisions	—	—	—	—	—	—	—	—	—	—
GROSS SAVINGS	177	281	874	417	609	700	531	1 110	1 627	..
Gross fixed asset formation	64	70	89	96	101	214	230	362	313	..
SURPLUS ON CURRENT AND FIXED INVESTMENT ACCOUNT	113	211	785	321	508	486	301	748	1 314	..
Lending, net ³	—97	6	506	271	128	101	83	—89	—34	..
Net capital transfers to other sectors	173	168	189	118	183	301	469	617	816	..
OVERALL BALANCE ⁴	37	37	90	—68	197	84	—251	220	532	..

1 According to OECD definitions.

2 Provisional.

3 "—" = net borrowing.

4 Net change in floating debt and cash balances.

Source : Icelandic submission to the OECD.

Table G Fish Catch (Thous. tons)

Table H Wages and prices (1963 AV = 100)

	Total	White fish etc.	Her-ring	Cape-lin	Shri-mp and lob-ster	Hourly wage rates unskil- ed wor- kers	Cost of living index ²				Build- ing cost Reykja- vik	Export prices of fish products ³				
							Total	Goods and services		Rent		Salted white fish	Frozen cod fillets	Her- ring oil	Her- ring meal	
								Total	Food							Other goods
	1	2	3	4	5	6 ¹	7	8	9	10	11	12	13	14	15	16
Yearly figures																
1961	635	306	326	—	3	79.7	79.8	78.7	72.8	86.0	94.8	84.2	81.4	84.5	96.9	94.4
1962	832	351	477	1	3	88.3	88.5	89.1	85.1	92.9	96.8	94.0	94.7	94.2	73.1	112.9
1963	782	380	395	9	6	100	100	100	100	100	100	100	100	100	100	100
1964	972	415	544	9	3	122.3	119.2	119.7	125.0	114.2	105.2	115.7	122.4	108.3	145.7	107.5
1965	1 199	382	763	50	5	138.6	127.9	128.6	133.3	123.5	113.7	133.8	134.3	125.0	150.8	132.2
1966	1 240	339	771	125	5	162.5	141.6	145.3	153.1	136.7	124.9	155.2	151.3	138.3	127.6	128.2
1967	896	333	461	97	4	170.6	146.3	150.0	155.2	144.1	135.6	159.1	150.0	118.6	103.1	111.1
1968																
Quarterly figures																
1965 1	224	125	49	49	—	129.7	124.9	124.8	128.6	120.4	109.2	126.6	136.2	126.6	153.2	119.7
2	273	152	118	1	2	130.4	126.7	126.4	130.8	121.8	114.8	132.4	133.3	120.2	155.6	121.6
3	315	67	246	—	2	149.3	127.8	127.9	131.3	124.2	114.8	..	129.6	126.4	153.2	130.7
4	387	36	350	—	1	152.7	133.3	136.3	143.7	128.5	118.1	142.5	146.7	131.8	145.5	141.8
1966 1	253	110	18	124	1	155.3	135.9	138.8	145.7	131.5	119.0	150.0	155.1	157.2	143.1	142.3
2	285	144	138	1	2	167.4	141.6	145.0	155.7	133.9	125.1	156.4	151.9	133.4	148.3	123.0
3	385	56	328	—	1	170.2	144.7	149.1	157.3	140.4	125.1	..	137.8	138.3	151.5	128.4
4	317	30	287	—	1	170.2	144.8	148.9	155.1	142.3	131.3	159.1	151.7	131.1	109.3	121.8
1967 1	234	95	43	95	1	170.2	144.6	148.7	154.0	142.8	131.7	159.1	150.6	132.3	121.0	114.1
2	196	137	56	2	1	170.2	144.7	148.3	152.7	143.4	135.4	159.1	150.3	113.6	108.0	109.8
3	306	69	236	—	1	170.2	144.8	148.4	152.7	143.7	135.4	..	148.0	112.9	92.1	108.0
4	159	33	126	—	1	175.9	153.3	157.0	167.0	146.6	141.0	159.1	152.7	121.7	86.3	111.0
1968 1	156	78	4	73	1	181.2	162.3 ²	165.5 ³	175.7	154.4	141.0	167.7	200.8	154.5	80.6	115.5
2	171	162	3	5	1	183.6	165.6	169.2	176.3	159.3	141.0	177.3	192.9	144.5	100.7	112.4
3	197	106	70	—	1	186.1	168.1	171.6	181.1	160.6	143.8	..	162.0	143.6	87.0	127.2
4						..	175.6	180.9	197.3	166.6	144.8					

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

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

3 Unit values calculated from export statistics. The Krona was devalued the 24th November. The new parity represented a price rise of the US dollar of 32.6 per cent.

Sources: Statistical Bulletin (Col. 6) and Hagtidindi.

Table I Foreign Trade, Total and by Area

	Total Imports c.i.f.		Total Exports f.o.b.		Imports by area (\$ million, monthly rates)						Exports by area (\$ million, monthly rates)					
	orig.	adj.	orig.	adj.	OECD countries			NON-OECD countries			OECD countries			NON-OECD countries		
					Total	EEC	EFTA	East- ern Eu- rope	other devel- oped coun- tries	Devel- oping coun- tries	Total	EEC	EFTA	East- ern Eu- rope	other devel- oped coun- tries	Devel- oping coun- tries
	\$ million monthly rates		\$ million monthly rates		21	22	23	24	25	26	27	28	29	30	31	32
17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	
Yearly figures																
1961	6.2	..	6.0	..	4.4	1.2	1.9	1.4	0.2	0.2	4.5	1.0	2.4	0.9	0.2	0.4
1962	7.4	..	7.0	..	5.4	1.6	2.6	1.4	0.2	0.3	5.1	1.2	2.5	1.3	0.2	0.4
1963	9.1	..	7.9	..	7.0	1.9	3.7	1.6	0.3	0.3	5.8	1.6	2.7	1.4	0.3	0.4
1964	10.9	..	9.3	..	8.6	2.0	4.1	1.8	0.2	0.3	7.1	1.5	3.7	1.3	0.3	0.6
1965	11.4	..	10.8	..	9.0	2.5	4.1	1.8	0.3	0.3	8.6	2.2	4.2	1.2	0.4	0.6
1966	13.3	..	11.7	..	11.1	3.0	5.2	1.5	0.4	0.3	9.4	2.4	4.4	1.4	0.4	0.6
1967	13.5	..	8.1	..	11.2	3.3	5.2	1.6	0.3	0.5	6.1	1.2	3.3	1.4	0.3	0.4
1968	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Quarterly figures																
1965 1	7.7	10.0	7.7	8.8	6.2	1.8	2.8	1.0	0.2	0.3	5.6	1.3	2.6	1.2	0.2	0.7
2	14.2	11.2	11.3	11.7	11.6	3.3	4.4	2.0	0.2	0.4	9.3	1.7	4.3	1.4	0.1	0.5
3	10.4	12.0	9.9	11.3	7.7	2.1	3.8	2.0	0.3	0.3	8.2	1.9	4.2	0.8	0.5	0.4
4	13.4	12.0	14.2	10.7	10.4	2.6	5.4	2.2	0.4	0.4	11.3	3.8	5.6	1.5	0.5	0.8
1966 1	10.0	13.2	10.2	12.2	8.7	2.4	3.9	0.9	0.2	0.3	8.1	2.6	3.2	1.3	0.3	0.5
2	16.0	12.9	11.1	11.4	13.9	3.5	5.8	1.4	0.3	0.3	9.1	1.8	4.6	1.6	0.2	0.2
3	12.0	13.9	9.5	10.7	9.4	2.9	4.4	1.9	0.3	0.3	7.9	1.6	3.7	0.9	0.4	0.4
4	15.1	13.8	16.1	12.0	12.4	3.1	6.8	1.8	0.5	0.3	12.4	3.7	5.9	1.8	0.7	1.2
1967 1	10.0	13.1	7.5	9.3	8.5	2.5	4.0	0.9	0.2	0.3	5.4	1.3	3.0	1.5	0.1	0.5
2	17.7	13.9	8.5	8.6	14.6	4.3	5.9	2.2	0.3	0.5	6.7	1.1	3.8	1.3	0.3	0.2
3	12.5	14.5	7.0	8.0	10.2	3.2	4.6	1.7	0.3	0.3	5.3	0.9	2.6	1.4	0.1	0.1
4	14.0	13.8	9.3	7.2	11.4	3.0	6.3	1.5	0.4	0.7	6.7	1.4	3.9	1.3	0.6	0.7
1968 1	8.1	10.5	5.0	6.2	6.7	2.1	2.9	0.9	0.3	0.2	3.4	0.8	1.4	1.2	0.2	0.2
2	13.4	10.8	7.3	7.3	11.4	3.5	5.4	1.3	0.4	0.3	5.7	1.0	2.1	1.2	0.2	0.2
3	12.7	14.2	5.9	6.7	10.0	3.6	4.6	1.7	0.4	0.6	4.7	1.0	1.6	0.8	0.2	0.1
4																

Sources: OECD, Main Economic Indicators (Col. 17-20) and OECD, Foreign Trade Statistics, Series A (Col. 21-32).

Table J Foreign Trade by Commodity Groups

	Imports by commodity groups (\$ million)							Exports by commodity groups (\$ million)								
	Total	Transport equipment	Other imports					Total	Meat etc.	Dairy products	Fish salted or prep.	Fish meal etc.	Hides and skins	Herring oil etc.	Transport equipment	Other goods
			Total	Food and live animals	Semi-manufactured goods	Machinery and apparatus	Other goods									
SITC NR	73	—	0	6	71.72	—	SITC NR	01	02	03	08	21	41	73	—	
	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48
Yearly figures																
1961	74.7	8.8	65.9	8.3	20.3	10.9	26.4	71.5	1.6	0.1	51.1	9.3	2.6	4.9	—	1.9
1962	89.2	11.1	78.1	9.3	24.8	13.3	30.7	84.2	2.3	0.1	58.7	11.0	2.6	6.9	—	2.6
1963	109.5	18.1	91.4	10.1	27.5	18.3	35.5	94.2	2.4	0.2	63.0	13.6	2.6	9.3	0.8	2.3
1964	131.2	29.7	101.5	13.2	29.7	19.8	38.8	111.1	2.3	1.0	69.7	18.3	2.9	12.8	0.8	3.3
1965	137.2	22.6	114.6	13.7	34.8	21.9	44.2	129.3	2.0	0.5	76.7	25.9	2.2	18.0	0.3	3.6
1966	159.4	26.1	133.3	13.9	39.2	30.1	50.1	140.6	1.9	0.9	76.7	29.6	2.7	22.5	1.9	4.3
1967	163.4	28.1	135.3	15.8	39.0	30.1	50.4	96.9	3.2	0.5	56.1	19.2	2.6	10.8	1.3	3.1
1968																
Quarterly figures																
1965 1	23.0	1.3	21.7	3.0	7.6	4.1	7.0	23.0	0.4	0.1	14.8	4.4	0.6	2.3	—	0.4
2	42.6	13.7	28.9	3.6	8.7	5.9	10.7	34.0	0.2	0.1	23.9	3.6	0.1	5.1	—	1.1
3	31.3	2.5	28.8	2.8	8.9	5.5	11.6	29.8	0.5	0.1	16.3	8.1	0.1	3.7	—	1.0
4	40.3	5.1	35.2	4.3	9.6	6.4	14.9	42.5	0.9	0.2	21.7	9.8	1.4	6.9	0.3	1.1
1966 1	30.2	3.3	26.9	3.1	8.8	6.9	8.1	30.6	0.4	0.1	15.6	6.4	0.9	6.0	—	1.2
2	48.1	13.5	34.6	3.3	9.3	8.1	13.9	33.3	0.5	0.2	21.9	5.3	0.3	4.1	—	1.1
3	35.9	3.4	32.5	3.2	9.8	7.3	12.2	28.5	0.3	0.3	15.0	8.6	0.1	3.1	0.1	1.0
4	45.2	5.9	39.3	4.3	11.3	7.8	15.9	48.2	0.7	0.3	24.2	9.3	1.4	9.3	1.8	1.0
1967 1	30.1	2.7	27.4	3.7	7.8	6.6	9.3	22.5	0.6	0.1	11.5	6.0	0.9	3.0	—	0.4
2	53.0	15.9	37.1	4.0	10.8	8.8	13.5	25.5	0.5	0.1	16.4	3.9	0.2	3.7	—	0.6
3	37.4	2.7	34.7	3.6	9.9	7.8	13.4	20.9	0.4	0.1	12.2	4.6	0.2	2.5	—	0.9
4	42.9	6.8	36.1	4.5	10.5	6.9	14.2	28.0	1.7	0.2	16.0	4.7	1.3	1.6	1.3	1.2
1968 1	24.3	1.4	22.9	3.4	6.5	5.0	8.0	15.1	0.5	0.1	11.3	1.7	0.8	0.5	—	0.5
2	40.2	7.7	32.5	4.2	9.3	6.9	12.1	21.8	0.5	0.1	15.7	2.8	0.3	1.3	0.3	0.7
3																
4																

Source : OECD, Foreign Trade Statistics, Series B.

Table K Money and Credit (end of period)

	Central Bank		Non-bank sector			Bank liquidity				Credits granted by banks					Foreign Exchange	
	Central Bank discount rate	Net position of Treasury	Money		Savings deposits	Commercial and savings banks				Total	of which ¹ to:				Official gold and foreign exchange ^a	Commercial banks' foreign position
						Blocked deposits	Rediscounted bills	Net free position with central bank	Net foreign assets		Agriculture	Fishery and fish processing	Manufacturing and commerce	Dwellings		
			Orig.	Adj.	54												55	56	57	58	59	60	61	62	63	64
Per cent	Kr. million													\$ million		
	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64
Yearly figures																
1961	6.25	56	1 392	1 448	2 759	290	795	254	-30	4 550	480	1 298	1 417	447	28	-1
1962	6.25	105	1 684	1 777	3 506	551	682	507	-228	5 136	540	1 327	1 651	522	35	-5
1963	6.25	254	1 713	1 857	4 220	786	747	313	-220	5 904	669	1 405	1 999	589	35	-5
1964	6.25	113	2 155	2 232	4 983	1 090	777	440	-214	6 621	733	1 498	2 210	699	41	-5
1965	5.00	103	2 680	2 734	6 196	1 391	1 165	404	-156	8 288	1 009	1 830	2 615	816	51	-3
1966	5.25	434	2 832	2 847	7 183	1 730	1 311	81	-313	9 715	1 058	2 227	3 084	914	54	-7
1967	5.25	-23	2 604	2 614	7 799	1 911	1 304	-281	-475	10 617	1 176	2 421	3 430	997	32	-10
1968																
Quarterly figures																
1965 1	5.00	-93	2 111	2 235	5 273	1 156	689	317	..	6 982	678	1 459	2 347	703	41	-5
2	5.00	-105	2 448	2 465	5 390	1 244	738	247	..	7 363	684	1 584	2 464	738	44	-5
3	5.00	-122	2 602	2 542	5 585	1 303	822	207	..	7 740	745	1 665	2 587	774	47	-4
4	5.00	103	2 680	2 731	6 196	1 391	1 165	404	156	8 288	1 009	1 830	2 615	816	51	-3
1966 1	5.25	140	2 589	2 751	6 488	1 539	877	219	-226	8 422	966	1 618	2 774	843	53	-5
2	5.25	135	2 773	2 786	6 618	1 604	970	70	-294	8 968	894	1 892	3 034	871	51	-7
3	5.25	145	2 902	2 845	6 653	1 644	1 248	-50	-289	9 519	878	2 238	3 107	903	46	-7
4	5.25	434	2 832	2 868	7 183	1 730	1 311	81	-313	9 715	1 058	2 227	3 084	914	54	-7
1967 1	5.25	282	2 662	2 833	7 322	1 805	1 051	57	-378	9 716	1 028	2 028	3 293	910	55	-11
2	5.25	-11	2 836	2 844	7 300	1 852	1 093	-209	-351	10 088	956	2 194	3 417	951	45	-10
3	5.25	-185	2 712	2 663	7 387	1 874	1 172	-177	-365	10 265	950	2 339	3 437	981	36	-11
4	5.25	-23	2 604	2 632	7 799	1 911	1 304	-281	-475	10 617	1 146	2 421	3 430	997	32	-10
1968 1	5.25	-225	2 468	2 626	7 946	1 939	1 185	-339	-401	10 595	1 082	2 367	3 551	1 000	27	-9
2	5.25	-468	2 822	2 822	8 021	2 050	1 414	-395	-417	11 259	1 066	2 703	3 775	1 025	27	-9
3	5.25	-650	2 795	2 740	8 001	2 117	1 439	-601	-553	11 471	1 046	2 773	3 845	1 035	21	-11
4																

1 Excluding credits granted by minor savings banks.

2 Excluding IMF position.

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

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