OECD

ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ICELAND

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

JANUARY 1970

BASIC STATISTICS OF ICELAND

THE LAND

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

THE PEOPLE

Population, December 1968	202 191
Net increase 1964-1968 annual average (per cent)	1.6

Occupational distribution 1967 (per cent):

Farming	12.8
Fisheries	6.0
Fish processing	7.3
Other manufacturing	16.6
Construction	13.5
Electricity, water supply, etc.	0.8
Commerce	15.3
Transport and communication	9.2
Other services	18.5
	100.0

GOVERNMENT AND PARLIAMENT

Government, from 1960, number of Ministers:

Independence Party	4
Social Democrats	3

Parliament, from 1967, number of seats:

Independence Party (Lib. Cons.)	23
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
Minimum hourly daytime wages for male unskilled labour in Dec. 1969 (I.Kr.)	66.80
Average yearly wage income of married workers, skilled and unskilled, and seamen in 1968 (I.Kr.)	238 420

Per 1 000 inhabitants, end of 1968:

Number of:	
Passenger cars	185
Radio sets	600
Telephones	330
Television sets	160
Energy consumption per head in 1965:	
Coal equivalent (Metric tons)	5.1

PRODUCTION AND CAPITAL FORMATION

Gross National Product in 1968:	
Millions of I. Kr.	27 283
Per head, US $ (at exchange rate 1 $ = 61.31) (average rate of 1968)	2 211

Gross Fixed Capital Formation in 1968:	
Millions of I.Kr.	8 725
Per cent of GNP	32

FOREIGN TRADE

Exports of goods and services in 1968 as per cent of GNP	35
Main exports 1968 as per cent of exports of goods:	
Fish and fish products	87
Agricultural products	11

Imports of goods and services in 1968 as per cent of GNP	45
Imports 1968 by use (per cent)	
Consumption goods	34
Production goods for fishing industry and agriculture	25
Other goods	41
	100
of which:	
Ships and aircraft	5
Fuels	12

THE CURRENCY

Monetary unit: Krona.

Currency unit per US $ (from 12th Nov. 1968):	88.00

OECD ECONOMIC SURVEYS

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 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.

The annual review of Iceland by the OECD Economic and Development Review Committee took place on 12th December 1969. The present Survey has been updated subsequently.

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INTRODUCTION

The Icelandic economy suffered a serious setback in 1967 and 1968. During the two years the gross national product fell by 8 per cent. As the terms of foreign trade also deteriorated strongly, the gross national income fell by some 14 per cent. These developments were caused mainly by a nearly complete failure of the herring fisheries and by sharp declines of export prices on fish and fish products. The export value of these products—normally accounting for some 90 per cent of total merchandise exports—fell by 45 per cent in the two year period (for details see last year's Economic Survey of Iceland).

The downward trend in production was reversed in 1969 when real GDP rose by about 1 per cent. Although herring catches remained poor, the volume of export production picked up strongly due to good white fish catches, and improved market conditions abroad added considerably to the value of traditional exports. The devaluations of the Krona in November 1967 and November 1968 stimulated greater fishing efforts, a more intensified processing of the catch, and have encouraged other exports. Imports, on the other hand, contracted further in 1969 in response to these measures. The balance of services was also much improved, so the current deficit, if any, was very small. Net capital imports have been sufficient to provide a great strengthening of foreign exchange reserves. Domestic demand—falling in 1968—continued its downward trend in 1969 with significant declines in both private consumption and fixed asset formation. Activity was particularly depressed in the building and construction sector. Agricultural production fell because of unfavourable weather conditions, whereas production in most other sectors—apart from the export industries—rose somewhat. However, most of the slack in the beginning of the year, which was strongly influenced by seasonal factors and strikes, was gradually taken up as production accelerated, and unemployment was rather small during the summer and autumn.

Although the outlook is necessarily uncertain, there seems to be reasons to expect a somewhat stronger increase of output in 1970. Market conditions abroad for the main export products are likely to

remain fairly good. Merchandise exports may therefore continue to increase, although most likely at a considerably slower rate than earlier because fish catches can hardly be expected to rise nearly as fast as in 1969. Domestic demand is expected to pick up following two years of decline, contributing to a rather steady growth of production in most industries. The current external account may remain in moderate deficit, necessitating some capital imports to protect the foreign exchange reserves. Iceland will join EFTA early in 1970. This is likely to stimulate non-traditional exports and, over the longer-term, to improve the possibilities for a faster diversification of the Icelandic economy.

I ECONOMIC POLICY

The inherent weakness of the Icelandic economy due to its one-sidedness and heavy dependence on the fisheries has been evident for many years, but the extremely favourable conditions caused by the large herring catches and rising export prices in the years 1962-1966 made the necessity for structural changes and diversification less urgent. (Real national income rose on average by more than 10 per cent annually in this period). Given the instability of the fishing industry and the fluctuations in prices and demand on the export markets, it was initially assumed that the sharp fall in the volume and value of the export

Table 1 **Gross National Product and Income**

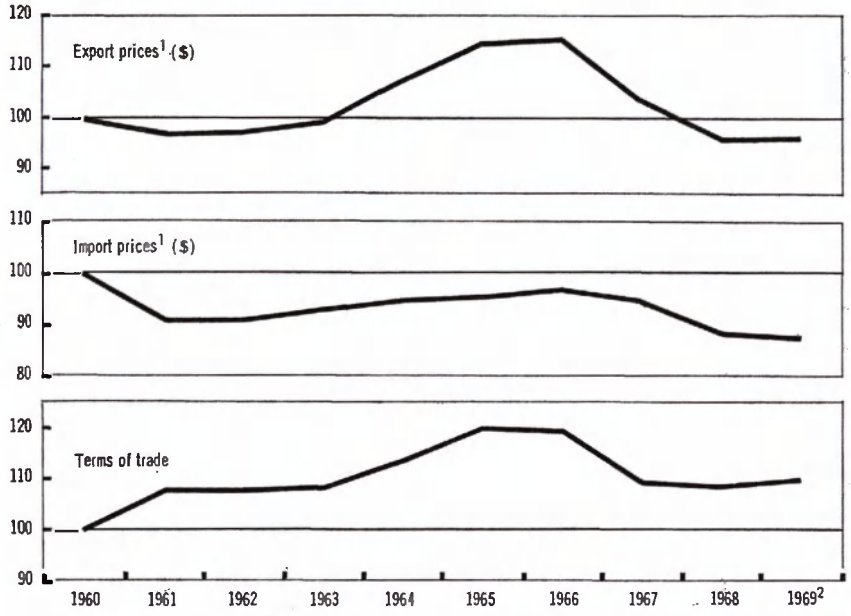
	1962-1966 Average	1967	1968[1]	1969[1]
	Percentage change from previous year, 1960 prices			
Gross national product	8.9	−2.0	−6.0	1.0
Effect of change in terms of trade[2]	1.8	−5.5	−1.5	0
Gross national income	10.2	−6.8	−7.2	1.0
Gross national income per capita	8.3	−8.3	−8.4	0
	$ million, during period			
Balance on current external account	−0.8	−53.8	−48.1	−7.5
Overall balance of payments[3]	6.4	−24.9	−14.8	10.8

1 Preliminary estimates.
2 In per cent of previous year's GNP.
3 Balance on non-monetary transactions.

Source : Icelandic submission to the OECD.

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

Diagram 1 **Terms of Trade**
1960 = 100



1 Implicit price deflator for exports and imports of goods and services, respectively, converted to dollars at current exchange rates (average of official parities).

2 Preliminary estimates.

Source : OECD Secretariat.

production—which started in the second half of 1966—was temporary. In 1967 economic activity was sustained by high domestic demand, whereas the deteriorated profitability of the export industries was compensated by strongly increased subsidies. As a result, the balance of payments and the central government budget turned into heavy deficits.

A 24.6 per cent devaluation of the Icelandic Krona in November 1967 served to reduce imports significantly in 1968, but the current external account remained in heavy deficit due to further catch failures and price falls. Moreover, as this development was accompanied by fast-rising wages and costs, the profitability of the export industries remained heavily dependent on large government subsidies. Despite large borrowing abroad foreign reserves continued to decline sharply. The lower level of income and the weak balance of payments position gradually made it difficult to sustain domestic activity. During 1968 it became more likely that the unfavourable trends in herring catches was more than a temporary phenomenon, so that a fundamental adjustment of subsidies, incomes and demand to the changed conditions

seemed to be required. A basic decision in this context was the further devaluation of the Icelandic Krona in November 1968.

The Devaluation and Accompanying Measures

The new parity of the Icelandic Krona announced on 11th November 1968 is Kr. 88 to the US dollar, representing a devaluation of 35.2 per cent. This meant that values expressed in US dollars increased by 54.4 per cent in terms of Icelandic Kronur[1]. Certain other measures to protect the balance of payments were taken earlier in 1968. In August transfers to abroad of inheritances and emigrants' assets were restricted, and in October restrictions were imposed on the chartering of foreign ships for maritime transport. A provisional law imposing a 20 per cent levy on most merchandise imports and travelling abroad had been introduced in September, but was abolished from the time of the devaluation.

The main objectives of the devaluations were to restore profitability and expand production in the export and import competing industries, to compensate for the depressed activity in the herring industry and the building and construction sector, and to produce a shift of resources to the balance of payments. Post-devaluation policy has aimed at conserving the devaluation gains by promoting non-inflationary wage and income settlements and—in the fishing industry—by preventing an unwarranted distortion of income distribution between fishermen and the vessel-owners, on the one hand, and between fishermen and other wage and salary earners on the other. Special measures have been taken to stimulate activity in certain industries and depressed regions. It is hoped that recent policies and the prospect of access to larger markets by membership in EFTA will lay the foundation for a new export-based expansion.

Shortly after the devaluation the Althing passed a law aimed at securing that a part of the benefits from the devaluation was passed on to the fishing fleet. The vessels were 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 in wages for the crew. Vessels were 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 would be made on landed values of fish, amouting in the case of domestic landings to 10 per cent on white fish and 20 per cent on herring and lobster, and 22 per cent on all landings abroad. For

1 Since November 1967 the Krona has been devalued by 51 per cent, implying that values expressed in US dollars have increased by 104.7 per cent in terms of Icelandic Kronur.

each vessel a separate capital cost account under the inspection of the Fisheries Loan Fund was established. Increased revenue from export charges would almost in their entirety be credited to the insurance fund for fishing vessels, which would receive 80 per cent of the fund revenue. The devaluation gains on stocks and unpaid exports as of 15th November, 1968, estimated at approximately Kr. 850 million, were redistributed through official channels to cover or reduce losses of the export industries during 1968, devaluation losses on foreign loans etc.

The 1967-68 recession created serious financial difficulties for a large number of industries, particularly the fishing industry, entailing the closing down of enterprises and increasing unemployment. In order to stimulate production and employment after the 1968 devaluation one central and several local employment committees were established, comprising members of the government administration, labour and employers. A government loan of Kr. 300 million placed at the disposal of the committees has been used during 1969 for investment loans and financial restoration in different parts of the country. Means emanating from export charges on fish products, unemployment funds and other extrabudgetary funds totalling Kr. 325 million were lent out by the authorities for similar purposes in the period 1st January 1968 to 1st July 1969. Moreover, the Central Bank in the first half of 1969 made available advances of Kr. 140 million as working capital to aid private industry. It is likely that these measures have contributed importantly to the revival of production and exports in 1969.

With the aim of reducing fluctuations in incomes resulting from variations in fish catches and export prices, the Price Equalisation Fund for the Fishing Industry was established by law at the end of 1968. This fund was intended to cover frozen white fish products in the first instance but should also apply to other white fish and herring products. It received an initial capital of Kr. 74 million emanating from devaluation gains on stocks and from the old Equalisation Fund for White Fish. The new fund is, however, 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 in catch values decided with reference to prices in the three preceding years, and having regard to certain minimum catches and special circumstances, such as the last devaluation. The possibility of imposing additional export charges to finance the fund is also envisaged. Although prices of frozen white fish have been on a moderately rising trend during 1969, the equalisation system has not been put into effect this year and no additions have been made to the fund. However, decisions regarding fund contributions were taken towards the end of 1969 when the question about raw fish prices came up for re-negotiation.

Fiscal Policy

The central government budget for 1969 as approved by the Althing after the devaluation aimed at a small surplus on current and investment account and approximate overall balance; the 1968 budget had shown a small overall deficit. Due to the expected slow rise in the tax base, and with unchanged tax rates, total revenue in the budget was estimated to be only 5.2 per cent higher than the outcome for the previous year. On the expenditure side subsidies to the fishing industry were abolished, except for the contribution of Kr. 25 million to the Catch Equalisation Fund and Kr. 20 million to the Employment Equalisation Fund for trawler subsidies, subject to final authorisation by the government. These subsidies had amounted to Kr. 456 million in 1968, and in view of the promises given to the fishing industry, they might have amounted to as much as Kr. 750 million (or approximately 2.3 per cent of GNP) in 1969 in the absence of a devaluation. Expenditure for most other purposes were increased very moderately or reduced in real terms, except for contributions to social security and health service which were considerably increased. All in all total current and investment expenditure was budgeted to rise by about 9.5 per cent. Despite the cut in subsidies to the fishing industry, total transfers were expected to rise by 4.4 per cent whereas purchases of goods and services would rise by about 19 per cent with the strongest increase in expenditure for investment purposes. However, due to the strong rise in prices the figures for goods and services imply only a moderate increase in real terms.

Table 2 **Central Government Finance**
Kr. million

	1968 Preliminary Estimates	1969 Approved Budget	1970 Budget proposal
CURRENT REVENUE	6 741	7 096	8 082
Direct taxes	1 331	1 357	1 512
Indirect taxes	5 326	5 666	6 478
Other	83	73	92
CURRENT AND INVESTMENT EXPENDITURE	6 385	7 000	7 827
FINANCIAL SAVINGS	356	96	255
MISCELLANEOUS CAPITAL TRANSACTIONS	..	−86	−184
CASH BALANCE[1]	..	10	71

1 Including change in floating debt and bank deposits.
Source : Icelandic submission to the OECD.

Recent estimates suggest that total revenue should be up to Kr. 280 million higher than expected because of stronger increases in revenues

from import duties, the sales tax and taxes on alcoholic beverages and tobacco. On the other hand, expenditure may be up to Kr. 300 million higher than originally voted, mainly because of a rise in public servants' salaries from May, increased subsidies to agriculture and transportation and interest payments to the Central Bank. Nevertheless, excluding interest payments to the Central Bank (Kr. 80 million), the 1969 overall budget should still show an approximate overall balance. Real investment in public enterprises (excluding the Burfell power project) financed by extrabudgetary funds will be considerably smaller in 1969 than in the previous year.

Table 3 **Subsidies**
Kr. million

	1966	1967	1968[1]	1969[2]	1970[3]
AGRICULTURE	1 041	1 193	1 044	1 116	1 128
Consumer subsidies	584	721	569	570	552
Other subsidies and transfers	457	472	475	546	576
FISHERIES AND FISH PROCESSING	306	466	535	130	..
Consumer subsidies	19	1	—	—	—
Direct subsidies	199	393	441	26	..
Fish search, Loan Fund, etc.	88	72	94	104	..
OTHER SUBSIDIES	9	6	—	—	—
Total	1 356	1 665	1 579	1 246	..

1 Preliminary estimates.
2 Approved budget.
3 Budget proposal and forecasts.
Source : Icelandic submission to the OECD.

The 1970 budget as proposed by the Government in October shows a surplus on current and investment account of Kr. 255 million and an overall balance of Kr. 71 million. As in the previous year, the budget is based on unchanged direct and indirect taxation. Total revenue including earmarked taxes is estimated to rise by Kr. 986 million to Kr. 8 082 million; excluding the earmarked taxes the rise will be Kr. 733 million or 13 per cent compared to the 1969 budget. The biggest increases in receipts are expected for general import duties (Kr. 305 million) and for the sales tax (Kr. 200 million); these forecasts are based on the assumptions of a 6 per cent increase in imports and an 8 per cent increase in retail sales.

Total government expenditure is envisaged to rise by Kr. 827 million compared to the previous budget, of which Kr. 230 million financed by earmarked taxes (mainly for roads and transportation facilities). Excluding earmarked grants, expenditure should increase by Kr. 597 or 10.8

per cent. The state contribution to social security will be Kr. 172 million higher than last year, for a large part because of changes in the payment system for sickness insurance; on the other hand the deficit on the operation of public hospitals will be somewhat reduced. Wage and salary increases amount to Kr. 140 million. Subsidy payments are expected to be of the same magnitude as in 1969. Purchases of goods and services may rise by around 12.5 per cent, but given the expected increase in wages and prices the advance in real terms is likely to be small. The overall budget includes interest payments and repayments of loans to the Central Bank amounting in total to Kr. 140 million; in view of this the 1970 budget may be somewhat more restrictive than its predecessor. After the budget proposal was finalised and in connection with the EFTA membership, decision was taken to reduce certain customs tariffs from the 1st March 1970, and to raise, from the same date, the turnover tax from 7.5 to 11 per cent in order to cover the revenue loss due to the change in tariffs as well as certain related expenditure increases. The effect of these measures has not been included in the figures given in Tables 2 and 4.

Table 4 **Central Government Expenditure[1]**
Breakdown by Economic Categories
Kr. million, current prices

	1968	1969	1970
Public consumption	1 979	2 309	2 551
Public investment	298	406	507
PURCHASE OF GOODS AND SERVICES	2 277	2 715	3 058
Current transfers	3 212	3 159	3 499
Capital transfers	1 011	1 253	1 394
TRANSFERS, TOTAL	4 223	4 411	4 893
EXPENDITURE, TOTAL	6 500	7 126	7 951

1 The breakdown of expenditure given below includes gross figures for expenditure for certain institutions which are counted net in Table 2 on Central Government Finance. Consequently the figure given below for total expenditure is higher than the corresponding figure in Table 2.

Source : Icelandic submission to the OECD.

Monetary Policy and Developments

The Central Bank's discount rate and the liquidity reserve requirements to be observed by private banks have been kept unchanged during 1969. In fact the level of interest rates has remained unchanged since the end of 1965. The official discount rate on export bills is currently $5^1/_4$ per cent, on agricultural product bills $6^3/_4$ per cent, and on other eligible bills 8 - $8^1/_2$ per cent. Furthermore, the effective Central Bank rate on short-term loans against collateral is 10 per cent

and the penalty rate on overdrafts is 16 per cent. Since December 1965 the marginal reserve ratio for the banks has been 30 per cent of the increase in deposits; but the total amount that a bank is obliged to block is limited to 20 per cent of total deposits. With strong increases in deposits during 1965 and 1966 the 20 per cent limit was reached by most banks already in the second quarter of 1967, so that the reserve requirement since then has been less effective than earlier.

The decline in export earnings and economic activity during 1967 and 1968 was accompanied by a marked slowdown in the rise of bank deposits. These had increased by almost 20 per cent per year on average in the 1961-66 period, but rose by only 5.7 per cent in 1967 and 9 per cent in 1968. In the summer and early autumn of 1968, bank deposits were actually drawn down, reflecting in particular a marked increase in purchases of imported goods in anticipation of the devaluation and other measures affecting imports. But credit demand remained relatively strong, reflecting the needs of both firms and individuals for external finance as the rise in incomes levelled out or was reversed. Although the expansion of bank lending slowed down, it exceeded the increase in

Table 5 **Monetary Survey**
Change during period. Kr. million

	1966	1967	1968	Jan.-Aug.	
				1968	1969
Central Bank :					
Net claims on Government	−331	457	241	529	643
Net claims on investment credit funds	26	192	60	14	−741
Net claims on deposit institutions	−17	184	82	−51	−809
Foreign exchange position	160	−711	−381	−601	485
Deposit Institutions[1]					
Total deposits from the public	1 123	544	929	613	1 634
Foreign borrowing, long-term	121	108	189	−87	−294
Rediscounts	146	−7	134	148	546
Total credits	1 468	907	1 344	877	943
Foreign exchange position	−85	−95	−192	−156	254
Domestic liquid position, net	−320	−360	−245	−122	465
Required deposits	337	176	163	174	344
Money Supply :					
Total	147	−183	294	364	950
of this :					
Notes and coins	67	−49	−3	23	135
Demand deposits	80	−134	297	341	815

1 Comprising commercial banks, savings banks and savings departments of cooperatives.
Source : Central Bank of Iceland.

Table 6 **Bank Credits by Sectors**

Change in outstanding bank[1] credit during period. Kr. million

	1966	1967	1968	Jan.-Sept.		
				1967	1968	1969
TOTAL CREDITS	1 426	903	1 331	550	853	820
of which[2] to :						
Agriculture	49	88	43	−108	−100	−133
Fisheries and fish processing	397	194	447	112	352	256
Commerce and manufacturing	469	346	506	353	415	315
Building	98	83	55	67	38	126

1 Commercial and savings banks. Excluding investment credit funds.
2 Excluding credits granted by minor savings banks.

Source : Submission from Central Bank to the OECD.

deposits by about Kr. 480 million in each of the years 1967 and 1968. The increase in bank credit was largely financed by borrowing from the Central Bank and foreign banks. The investment credit institutions were also faced with financial difficulties, and borrowed about Kr. 250 million in the Central Bank during 1967 and 1968 to honour their commitments. Moreover, the Government's position vis-a-vis the Central Bank deteriorated by about Kr. 700 million over the two-year period. The Central Bank's net foreign reserves declined by almost Kr. 1 200 million and there was also a significant fall in the foreign net reserves of private banks.

In the first three quarters of 1969, private bank lending expanded at a somewhat higher rate than experienced in the same period a year earlier whereas deposits rose much faster, exceeding lending by about Kr. 430 million. These developments were partly due to the reversal of the acceleration in net borrowing related to the sharp increase in imports in anticipation of the devaluation in 1968; but to a large extent it reflected larger white fish catches and strongly increasing export incomes; moreover, the continued contraction in fixed investment, notably housing, contributed. The Central Bank has urged the private banks to improve their domestic and foreign reserve position which was most precarious at the beginning of 1969. Over the year their liquidity position has improved strongly, so that at the beginning of 1970 the banks are in a position to expand credit, should the demand for funds pick up.

The development of deposits and lending in the first three quarters of 1969 made it possible for the banks to improve their liquidity position significantly. Their free reserves rose by more than Kr. 800 million in this period, of which about Kr. 300 million consisted of an improvement of the net foreign position; partly because of the rise in interest rates

Table 7 **Activity of the Investment Credit Funds**
Change in outstanding credit. Kr. million

	1967	1968	1969 Est.
Development Fund of Iceland, direct loans	32.0	39.2	50.0
Unemployment Fund, direct loans	100.0	108.4	132.0
Agricultural Loan Fund	134.2	132.1	110.3
Fisheries Loan Fund	241.5	372.5	431.0
Industrial Loan Fund	125.4	74.2	103.2
Tourism Fund	12.5	5.6	7.3
Municipal Loan Fund	24.1	33.3	40.6
Commercial Loan Fund	11.5	12.1	17.6
Harbour Development Fund	—	23.6	—
Energy Fund	53.0	46.4	—
Ship Building	—	—	19.0
Other (unallocated)	—	—	11.6
Loans to industries	734.2	847.4	922.6
Building Fund and Mortgage Department of National Bank	519.1	533.6	433.3
Workers' Building Fund	34.3	33.6	23.0
Mortgage Department, Agricultural Bank	12.5	7.6	5.1
Loans to residential construction	565.9	574.8	461.4
Total Credits Granted	1 300.1	1 422.2	1 384.0

Source : Central Bank of Iceland Annual Report 1968 and Icelandic submission to the OECD.

abroad, the banks have reduced their foreign borrowing. Moreover, required deposits in the Central Bank rose by almost Kr. 370 million. The investment credit funds have also been able to improve their position vis-a-vis the Central Bank—up to September by as much as Kr. 547 million—so that at the end of this month their net indebtedness to the Central Bank was at the lowest level in the 1960's. This improvement was partly related to payments into the funds emanating from devaluation gains on stocks, but was mainly due to large payments into the Fisheries Loan Fund reflecting the favourable development in the fishing industry. The Government's debt to the Central Bank rose by almost Kr. 500 million in the first three quarters of 1969, but there are large seasonal variations in the Government's cash position with a large overall surplus in the last quarter, so that for the year as a whole the Government's position vis-a-vis the Central Bank should remain almost unchanged.

The investment credit funds—the most important lenders for the financing of private fixed investment—are obtaining their capital from government grants, special earmarked taxes, the unemployment fund, compulsory savings by young people (for housing purposes), a certain

proportion of the increase in bank deposits, domestic borrowing, etc. Moreover, the Development Fund of Iceland contributes importantly to the financing of the investment credit funds by borrowing abroad and domestically. Total lending from the investment credit funds rose by some 9 per cent from 1967 to 1968, but the increase in 1969 is estimated to be somewhat lower largely because of a contraction in new loans to residential construction (see Table 7). Taking account of the price rise, the real value of new investment loans have fallen considerably in both 1968 and 1969. Moreover, a large part of the loans given by the Fisheries Loan Fund has been used for redemption of medium-term foreign debt on boats imported in earlier years.

Trade Policy

At the beginning of 1969 Iceland applied for membership in EFTA, and during the year negotiations went on to determine the conditions on which Iceland could eventually join the association. The Government considered it essential that Iceland shoud be accorded a transitional period for the dismantling of import protection, whereas entry of Icelandic products into the already duty-free EFTA market would be of considerable help at the outset. In December agreement was reached that Iceland should join EFTA as from 1st March 1970, and that she would be given a transitional period of 10 years for a gradual elimination of tariff protection. Tariffs on imports from EFTA-countries would be reduced by 30 per cent early in 1970, thereafter there would be a 4-year period without reductions, then a 10 per cent reduction in each of the following 7 years. The authorities have also decided to effect certain tariff cuts for imports from non-EFTA countries. Thus tariffs on raw materials will be generally cut by 50 per cent of present rates and on machinery by even more to a uniform 7 per cent in both cases from all countries. In spite of these general cuts, the EFTA membership is expected to have some effects on the origin of imports.

Icelandic industrial products will enter EFTA-countries duty-free from 1970. Within EFTA Iceland hopes to increase her exports of new and non-traditional products and, moreover, to benefit from the more favourable conditions for her traditional exports, notably frozen fish on the UK market and export of lamb and mutton to the Nordic countries. The United Kingdom's import of frozen fish from EFTA-countries has hitherto been regulated by global quotas and a special duty of 10 per cent, but it is likely that this system will be replaced by a system with minimum prices. With regard to mutton, it is hoped that satisfactory arrangements can be made on a bilateral basis in accordance with EFTA practice. There are also certain problems to be solved in

connection with the maintenance of Iceland's bilateral trade with Eastern European countries. On the condition that Iceland joins EFTA, the other Nordic countries have promised Iceland a 25 years credit corresponding to about $14 million without interest and free of repayment in the first ten years, which would be used for the diversification of Icelandic industry.

The Icelandic application for membership in EFTA is of course related to the strong need for promoting exports. Total Icelandic exports of goods and services represent normally about 45 per cent of GDP, a higher proportion than in most other OECD-countries. The annual increase in exports of more than 10 per cent which was recorded in the first half of this decade was based largely on fish and fish products. However, a realistic appraisal of prospects for fish catches and conditions in the main export markets points to a rather moderate growth of traditional exports in the future. It is not very likely that fishing and fish processing alone could yield the 8 per cent annual increase in exports estimated to be required to sustain a 3-4 per cent annual growth in real per capita income.

The foreseeable growth of the population—notably of the labour force—also seems to accentuate the need for diversification and export promotion. In the 1965 to 1985 period, the labour force is estimated to increase by 45 per cent (34 000 persons) or by 2 per cent annually, compared with an increase of 37 per cent in the preceding 20 years. There is little likelihood that the primary industries—fishing and agriculture—will absorb any of the increase in manpower; on the contrary, agricultural employment may decline. Further processing of fish and agricultural raw materials should create possibilities for new employment, but the expansion has to be mainly in other industries producing for exports or for the domestic market. It is hoped that EFTA membership, entailing easier access to larger markets, closer co-operation with foreign firms and greater availability of suitable finance, will stimulate production and exports.

II CURRENT TRENDS

Production and Exports

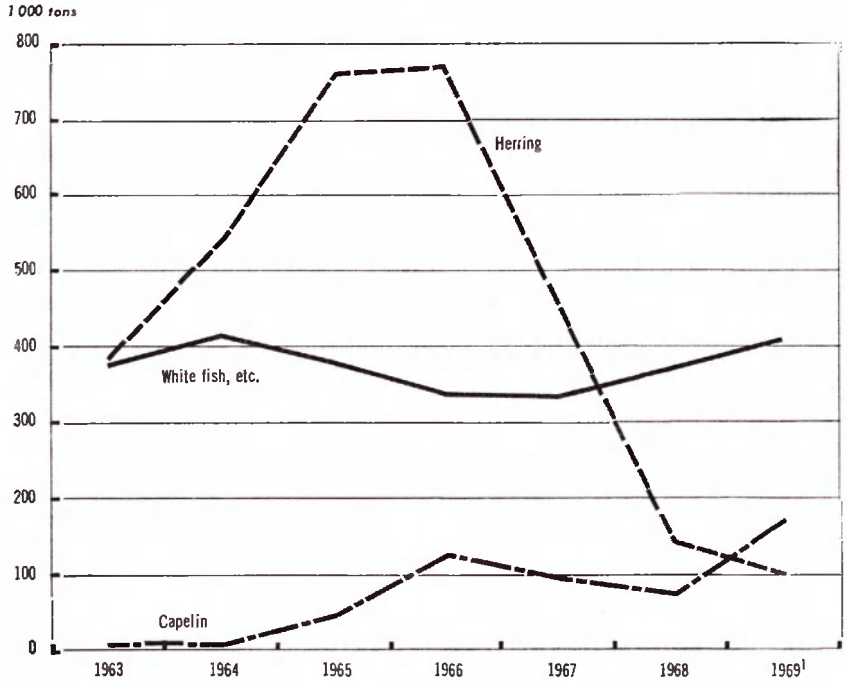
Growth of domestic output in 1969, estimated at about 1 per cent, has been rather modest, but compared with the sharp falls in the two preceding years, there has been a considerable change in the economic

situation. The revival of economic activity was most vigorous in fishing and fish processing industries, reflecting both higher catches and a change in the composition of output towards more processed products. Market conditions abroad for fish products have improved. Two years' depression in the fisheries and partly also in the fishing industry, together with large devaluations of the Icelandic Krona, have meant a strong inducement to expand new industrial activities and diversify the economy.

Total catches, measured in tons, in the first nine months of the year were about 16 per cent higher than in 1968. For the remainder of the year, however, catches may not be as good as in the preceding three quarters. In terms of foreign exchange, the value of output of all marine products in 1969 may have increased by 17-18 per cent.

White fish catches have continued to expand; they may total about 420 thousand tons in 1969, corresponding to the peak of 1964. The winter season of cod fisheries was unusually rich. Poor herring catches encouraged a larger part of the fishing fleet to intensify white fish catching and to operate on non-traditional fishing grounds. In particular compa-

Diagram 2 **Fish Catches**



1 Preliminary estimates.

Source : Icelandic submission to the OECD.

catively large catches were taken in 1968 and 1969 north and north-east of Iceland, reflecting temporarily large young age classes. Herring remained almost absent from Icelandic waters and catches were poor also for other fishing nations. In the first nine months Icelandic catches were negligible, and for 1969 as a whole they may be only about half the 140 000 tons caught in 1968. (Peak catches have amounted to 770 000 tons). Capelin catches, on the other hand, were very rich (171 000 tons), more than double those of 1968, but this specimen gives a relatively low return per ton. Also shrimp and lobster fishing was intensified, yielding catches about 50 per cent (7 300 tons) higher than last year.

The fall in fish prices during the last two years was reversed in 1969 for some products. For frozen fillets exported to the United States, by far the most important export market, prices were a few percentage points higher than the low point reached in the latter part of 1968, but they remained very much below the average level of the earlier 1960's. For herring and fish meal, prices were extraordinarily high, reflecting poor world catches. Shellfish also obtained relatively favourable prices. The export possibilities for stockfish have been reopened, inter alia, through relief work by international organisations, and the saltfish markets have been easier in the latter part of 1969, but both markets remain depressed compared with earlier years.

The recovery of the white fish catch, and the change in its composition towards more valuable specimen, resulted in a rise in the foreign currency value of export production of marine products of 17-18

Table 8 **Export Prices**[1]

Index, 4th quarter 1964 = 100. Half years

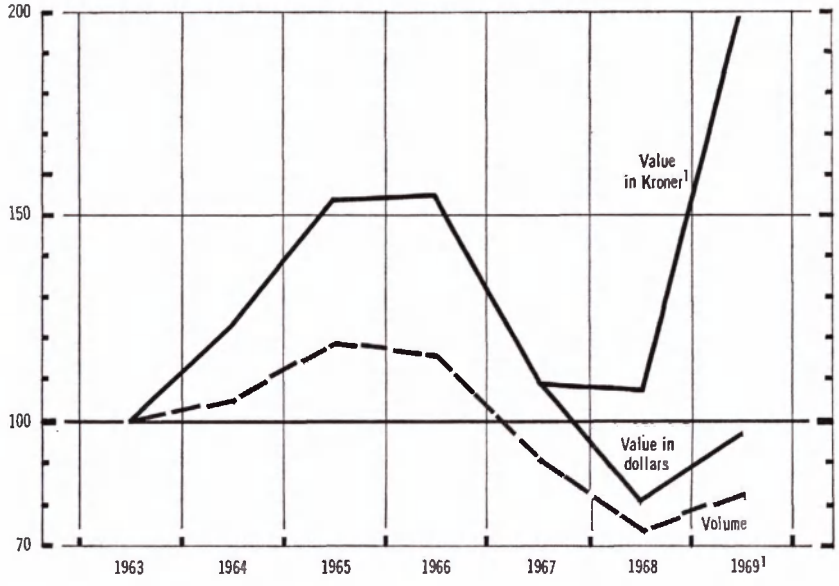
	1966		1967		1968		1969
	I	II	I	II	I	II	I
Herring meal	116	108	97	91	74	84	87
Herring oil	97	78	76	59	48	43	47
Frozen fish fillets :							
US market	122	116	107	96	99	91	99
Other	119	116	108	114	84	88	78
Salted fish, uncured	121	118	121	112	117	95	97
Stockfish :							
African market	101	112	112	114	104	87	76
Italian market	118	142	149	141	124	116	109

1 Average export unit prices, in U.S. dollar terms, i.e. adjusted for devaluation of the Krona (against the dollar) in November 1967 and November 1968.

Source : Icelandic submission to the OECD.

per cent in 1969, three quarters of which can be attributed to frozen articles. Both the quantities of fish and the share of white fish catches used for freezing have increased strongly during recent years. At the same time, more has been frozen in the form of costly consumer parcels at the expense of blocks (a semi-finished product). The freezing industry, therefore, has been expanding its production strongly and profitability was restored. On the other hand, production of salted fish and stock-fish fell. The output of fish meal and oil remained low, but because of a strong rise in prices for these products, the value of the production picked up. Output of other marine products rose strongly.

Diagram 3 **Production of Marine Products**
1963 = 100



1 In current prices and at current exchange rates.
2 Preliminary estimates.
Source : Icelandic submission to the OECD.

After a decline in the two preceding years manufacturing output (other than fish processing) recovered in the beginning of 1969; between 1968 and 1969 it may have increased by 6 to 7 per cent and part of the slack existing at the beginning of 1969 was taken up. Following the devaluation of the Krona and a considerable reduction in the rate of increase in prices and labour costs, manufacturing industry is better

placed to meet competition from imports. A number of firms, traditionally catering for the domestic market, have made successful efforts to expand production on the basis of exports. The aluminium complex (power station and smelter) started production in September with an annual capacity of 30 000 tons of metal. A second stage, adding another 10 000 tons to capacity, will probably be put into operation in 1970. A further extension of 30 000 tons, requiring an extension also of the power station, may be completed by the end of 1972.

There was a further fall in building and construction activity in 1969; for the year as a whole output may show a decline of about 12 per cent, in large part due to the completion of the Burfell power station and the aluminium plant. Residential building also contracted; the number of dwellings completed is estimated to have fallen by 15-20 per cent between 1968 and 1969. However, in 1967 and 1968 the number of completions exceeded demand for housing. Taking this into account, a new assessment of housing needs shows that the number of completions for the next two years may have to be only some 10 per cent above the 1969 level. The authorities have taken measures to even out seasonal variations in building activity and decided to continue the housing programme for low income families. There is now considerable slack in the building industry, although the situation varies between geographical areas; in some regions where fish catches and incomes have remained high, building activity remains high.

Table 9 **Production by Sectors**
Percentage increase from previous year, 1960 prices

	1967	1968[1]	1969[1]
Agriculture	3.8	−2.4	−5.0
Fishing and fish processing	−21.4	−17.9	15.0
Manufacturing (excluding fish processing)	−4.3	−3.0	6.5
Buinding and construction	10.0	−5.0	−12.0
Other sectors	1.9	−4.0	1.1
Total	−2.0	−6.0	1.0

1 Preliminary figures.
Source : Icelandic submission to the OECD.

Due to an unusually rainy season agricultural output may have fallen by 5 per cent or more in 1969; the hay crop may have been as much as 20 per cent lower than last year. Part of this may be made good by larger imports of feeding stuff, but a reduction of livestock is

likely. A reconstitution of milk from the existing surplus stocks of butter is envisaged during the winter, when milk production could fall short of demand.

The service sectors have generally remained depressed, particularly in the retail trade as private consumption has fallen further and profits have been cut. However, hotels have had a relatively good season because of the larger number of foreign visitors.

Employment

The change in the situation on the labour market since 1966, caused by the contraction of production and incomes, represented a new experience for Iceland. The return to faster growth will have to be associated with some retraining and adaptation of the labour force, creating problems which in their present dimensions are new in Icelandic policies. The fall in employment was particularly strong in the fish processing industry, in branches producing consumer goods such as textiles, shoes and furniture, and in building and construction. In the latter sector recent developments have been very much influenced by the completion of some big projects (see preceding chapter). Thus, between August 1968 and the end of 1969 the number of employed persons in building and construction fell by 1 750, more than 2 per cent of total labour force. However, unemployment during most of the depression —at 2 to 3 per cent of the labour force— remained relatively low by international standards. For seasonal reasons, and because the seamen's strike caused a stop to activity of the fishing fleet and in fish processing, it rose last winter to a short-lived peak of about 7 per cent in January 1969. Since then, the trend of economic activity and employment has been rising, while unemployment has been reduced steadily, reaching a figure in September of only 1.1 per cent of labour force. Still, this is much higher than usual in Iceland. An estimate made for the years 1957-67 suggests that unemployment in this decade fluctuated between 0.1 and 0.3 per cent of labour force. However, detailed studies of the labour situation suggest that the remaining unemployment is to a large extent composed of marginal groups with irregular participation records and persons with special adjustment problems or handicaps.

The effects of the depression on the number of employed was mitigated by a shortening of working hours and less part-time work. Hours worked contracted by 3-4 per cent in 1967 (a little less for skilled workers), and by about 2 per cent in 1968[1]. Contractual working hours per week according to wage agreements, however, have remained

1 The figures refer strictly speaking to workers in the Reykjavik area only.

unchanged since 1965, 44 hours for unskilled labour and 42 for skilled labour. Moreover, overall unemployment figures conceal great variations between sectors and regions. Unemployment is high in building and construction, and is relatively high in the two largest towns of Northern Iceland and in the Reykjavik area. At the same time, however, there have occurred shortages of manpower, e.g. on the fishing vessels, and with renewed expansion and shifts in the allocation of manpower, further shortages of particular skills are expected to rise. In view of this, the authorities are considering further steps to co-ordinate employment services and provide encouragement to re-training and adaptation.

Domestic Demand

Despite a revival of economic activity in 1969, domestic demand may have fallen further by some 9 per cent in volume, partly reflecting the termination of the first stage of the aluminium project (power station and smelter) and the reversal of the anticipatory purchases in 1968, prior to the devaluation of the Krona. But even excluding these factors, there has been a considerable fall in domestic demand. Fixed investment may have declined by more than one-fifth, strongly influenced by the completion of the aluminium project. But fixed investment in most other industrial sectors and in housing has also fallen considerably. Nevertheless, the ratio of fixed investment to GNP remained fairly high, about 27 per cent.

Table 10 **Gross Fixed Asset Formation**
Percentage increase from previous year, 1960 prices

	1966	1967	1968	1969
Industrial asset formation	18.2	7.6	−25.9	−22.3
Residential construction	11.2	9.6	−12.7	−14.9
Public works and buildings	17.8	24.5	21.7	−23.0
Total	16.6	12.7	−8.7	−21.0

Source : Icelandic submission to the OECD.

Private consumption has probably declined even more strongly than in 1968. This may reflect a recovery of personal savings to more normal levels. Thus, time and savings deposits (as well as demand deposits) have risen strongly in 1969, after very small increases in the two preceding years. Total transfers from the Central Government have been reduced and consumer subsidies have been virtually unchanged from 1968 to 1969. Public consumption has continued to increase, but much more slowly than usual in the 1960's. Imports of goods and services,

decreasing by 11 per cent, reacted strongly to the fall in the volume of domestic demand. With a recovery of exports, the deficit in the foreign balance was reduced by an amount corresponding to 7½ per cent[1] of GNP. There was still, however, a deficit of more than 1½ per cent of GNP in 1969.

Table 11 **Supply and Use of Resources**
Percentage change from previous year, 1960 prices

	1962-1966 AV.	1967	1968[1]	1969[2]
Private consumption	10.7	1.2	−5.2	−5.9
Public consumption	7.3	6.7	2.7	3.6
Gross fixed asset formation	15.5	12.7	−8.7	−21.0
Change in stocks[3]	0.0	0.2	−1.3	0.1
NATIONAL EXPENDITURE	11.2	4.7	−6.9	−9.0
Exports of goods and services	10.8	−6.0	−4.6	10.9
Imports of goods and services	15.1	6.9	−6.6	−11.2
GROSS NATIONAL PRODUCT	8.9	−2.0	−6.0	1.0

1 Preliminary.
2 Estimates.
3 Change in livestock and stocks of export products in per cent of GNP.

Source : Icelandic submission to the OECD.

NOTE The Icelandic national accounts have been substantially revised since the last Annual Survey of Iceland was published by the OECD. This has resulted in substantially higher growth rates than hitherto assumed for the first years of the present decade, in particular regarding private consumption and GNP.

Prices and Incomes

The downward adjustment of real incomes to the fall in available resources has been brought about by the devaluations (November 1967 and 1968) and a strong rise in prices. The index of consumer prices increased steadily during 1968—by 11 per cent between January and November. The second devaluation and higher food prices caused a jump of another 10 per cent in the index between November 1968 and January 1969; a further rise of 13 per cent was registered up to the end of 1969. The cost of living index, which also includes rent and family allowances, has risen at about the same rate. Price developments in 1968 were affected by increases in indirect taxes (tobacco, alcoholic beverages) and reductions in consumer subsidies, while price controls

1 In fixed 1960-prices the foreign deficit and its change between 1968 and 1969 was even larger.

may have had a moderating effect. No important changes in taxation have been made in 1969. New legislation is envisaged to relax official price controls, and at the same time to encourage private competition and to enable the authorities to exert a closer watch on private price setting.

Table 12 **Indices of Cost of Living**
Percentage change from previous quarter[1]

	Cost of living, total[2]	Goods and services			Rent
		Total	Food	Other	
1967 : February	−0.1	−0.1	−0.7	0.4	0.3
May	0.1	−0.3	−0.8	0.4	2.8
August	0.1	0.1	0.0	0.2	0.0
November	5.9	5.6	9.4	2.0	4.1
1968 : February	4.8	4.2	4.5	3.9	0.0
May	2.0	2.3	0.3	3.3	0.0
August	1.5	1.4	2.8	0.8	2.0
November	4.7	5.3	9.0	3.7	0.7
1969 : February	10.5	11.8	8.5	13.3	1.3
May	3.8	3.9	5.1	3.4	3.1
August	4.4	4.9	7.5	3.6	1.9
November	2.3	2.6	2.4	2.7	0.5

1 Observation made at the beginning of the months February, May, August, November.

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

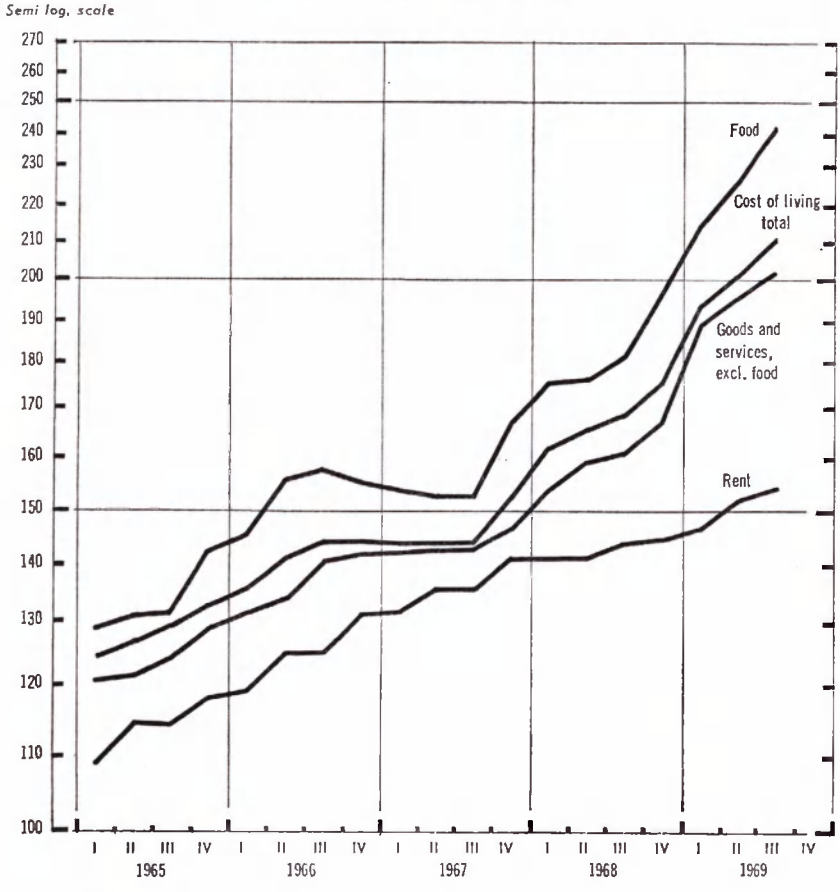
Source : Hagtidindi.

The devaluation in November 1968 was estimated to cause a rise in the cost of living index of about 16 per cent (direct effect). Negotiations started early in 1969 between wage earners and employers, assisted by the State Conciliator and, for the first time, by a conciliatory committee of four lawyers. The one-year settlement, effective from 19th May 1969, provided an average increase in wages of 9 per cent, with somewhat higher compensation for skilled workers and less for unskilled workers and civil servants. The increase in wage rates may produce a rise in the cost of living index of about 3 per cent, for which the workers have renounced any compensation[1]. For price increases in excess of this, a ¾ compensation should be granted at three months' intervals. A compensation amounting to 2½ per cent was granted in September.

1 As a practical procedure, workers forego compensation for 1 per cent of the price rise in each of the three subsequent quarters.

As part of the agreement, the labour and employers' associations established a pension fund (in addition to the general state pension fund) covering up to 25 000 wage earners. A special fund for fishermen will cover another 4 000 (approx.). The main groups falling outside the arrangement are the farmers and independent income earners. Over the four year period 1970-73 employers and workers will pay into the fund increasing premiums calculated as a percentage of wages. For employers the premium is fixed at 1 ½ per cent in the first year, increasing by steps to 6 per cent in 1973. For workers the corresponding scale is fixed at 1 and 4 per cent. Outpayments of pensions will start on a full scale already in 1970; in cases where accrued claims on the fund fall short of

Diagram 4 **Cost of Living**
1963 = 100, quarterly figures



Source : Hagtidindi.

full pensions, the Government and the Unemployment Fund will cover the difference. The annual premiums to the Funds are estimated to reach a total of Kr. 460 million.

A comprehensive review of the remuneration structure of civil servants is being undertaken by a government committee, which will report in 1970. It is thought that the relative wage level of civil servants has been deteriorating in recent years, and it is also felt that differences between lower and higher brackets have become too narrow. Agreement on a new wage structure is expected by the end of 1970.

The cut in customs tariffs effective on 1st March 1970 in connection with the EFTA membership and the simultaneous increase in the turnover tax should have no or only slight net effect on the overall cost of living index. The change in taxation should therefore not give rise to further wage compensation.

Between 1968 and 1969 the average wage level may have increased by 12 per cent, considerably more than in the preceding year. As prices also rose faster in 1969 (22 per cent against 13 per cent) real earnings continued to decline strongly. On the basis of the existing wage agreements, assuming a prolongation on unchanged terms after its expiry on 15th May 1970, the increase in wage earnings from 1969 to 1970 could be estimated to 7-8 per cent, probably implying only a small increase in real earnings.

After the devaluation better competitiveness and profitability have been restored in most sectors, and the fish processing industry's dependence on government subsidies has been eliminated (see Table 3). The freezing industry now seems to be in a much better position than before the devaluations. The herring industry, however, remains

Table 13 **Wage Earners' Incomes**[1]

Percentage change from previous year

	1965	1966	1967	1968[2]	1969[3]
Total yearly nominal earnings	23.4	23.1	−5.5	2.8	12.5
Real earnings	14.8	9.2	−9.2	−9.7	−7.0[4]
Real disposable earnings	17.0	6.1	−12.9	−6.6	..

1 All wage earnings of head of family—excluding earnings of wife and children, property income and social security benefits.
2 Preliminary.
3 Forecast, Icelandic submission to the OECD.
4 Estimated price rise 21 per cent.

Source : Icelandic submission to the OECD.

depressed. The Price Equalisation Fund for the Fishing Industry should start its operations from the beginning of 1970. The basis for contributions to and outpayments from the Fund will be settled in the near future. The fund may ensure more stable developments in incomes and profitability in the fishing industries.

Table 14 **Hourly Wage Rates**[1]
Percentage change, annual rates

	Male workers		Female workers	Total
	Unskilled	Skilled		
1963	13.8	16.0	16.0	15.0
1964	23.2	22.6	24.2	23.3
1965	15.0	14.9	17.1	15.5
1966	20.3	18.9	22.6	19.7
1967	5.5	3.3	7.5	5.2
1968	6.1	5.8	6.7	6.2
1969 (preliminary)	12.9	15.1	14.7	14.0

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

Source : Icelandic submission to the OECD.

Balance of Payments

The current account deficit fell from $48 million in 1968 to $7.5 million in 1969[1]. Merchandise exports rose by about 10 per cent in volume, with a particularly strong increase in shipments of frozen products. Exports of non-fish products recovered rapidly, but remained low in absolute terms. Shipments of aluminium ingots, which started towards the end of the year, amounted to $7.4 million in 1969. Imports have declined further. Imports of ships and aircraft fell to a negligible amount. Deliveries from abroad of investment goods to the aluminium complex were much lower than in 1968. However, purchases abroad of alumina and other production inputs added to the import bill (see Table 16). The volume of other imports fell by about 15 per cent; the fall was particularly strong for investment goods (one quarter). The invisible balance also improved, mainly reflecting higher net tourist earnings.

1 The reduction corresponds to about 10 per cent of the 1969 GNP, measured at the present exchange rate of Kr. 88 to 1 dollar.

Table 15 **Trends in Merchandise Exports**

	1965	1966	1967	1968	1969[1]
$ million :					
Herring products	50.0	64.1	37.4	17.9	18.0
White fish products etc.[2]	72.2	65.9	50.0	54.2	62.9
of which : frozen fillets	29.0	28.1	23.1	24.8	30.0
Fish products, total	122.2	130.0	87.4	72.1	80.9
Mutton, wool and sheepskin	3.1	3.7	4.0	5.4	6.0
Aluminium ingots	—	—	—	—	7.4
Diatomite	—	—	—	0.2	0.8
Other products	4.0	6.8	5.5	4.4	4.0
Exports, total	129.3	140.5	96.9	82.1	99.1
Percentage change from previous year, dollar values :					
Herring products	29.9	38.2	−41.7	−52.1	0.6
White fish products	13.2	−8.7	−24.1	8.4	16.0
Exports, total	16.4	8.6	−31.0	−15.3	20.7

1 Forecast.
2 Including shrimps, lobster etc.
Source : Icelandic submission to the OECD.

The long-term capital inflow from abroad continued, although on a reduced scale, reflecting the termination of the first stage of the aluminium complex. Loans totalling about $25 million were raised in international

Table 16 **Trends in Merchandise Imports**

	1965	1966	1967	1968	1969[1]
$ million :					
Ships and aircraft	13.6	15.1	18.6	6.6	0.6
Imports for the Burfell project	—	3.1	3.5	7.6	5.7
Imports for the Aluminium smelter	—	—	2.9	10.1	13.0
Investment goods	—	—	2.9	10.1	5.5
Raw materials	—	—	—	—	7.5
Imports for the defence force	1.0	0.8	1.1	1.3	1.4
Other imports	110.6	127.3	125.8	106.1	90.9
Total	125.2	146.3	151.9	131.8	111.5
Percentage change from previous year, dollar values[2] :					
« Other imports »	13.1	15.1	−1.2	−15.7	−19.3
Total imports	4.1	16.9	3.8	−13.2	−15.4

1 Forecast.
2 At current exchange rates.
Source : Icelandic submission to the OECD.

Table 17 **Balance of Payments**
$ million

	1965	1966	1967	1968	1969[1]
Trade balance [2]	4.1	−7.1	−53.1	−49.7	−12.4
Services, net[3]	5.7	4.4	6.6	8.9	14.3
GOODS AND SERVICES	9.8	−2.7	−46.5	−40.8	1.9
Interest and transfers, net	−4.9	−5.9	−7.2	−7.3	−9.4
CURRENT ACCOUNT	5.0	−8.7	−53.8	−48.1	−7.5
Public borrowing, net	—	5.7	7.3	23.2	14.8
Private borrowing, net	5.1	7.6	5.3	−6.7	−9.2
Direct investment	—	—	6.7	14.5	9.3
Change in outstanding advance payments for ships[4]	−0.5	−1.7	2.2	0.9	3.4
Other registered capital transactions	−1.0	−1.7	6.0	2.6	
Errors and omissions	−1.4	−1.2	1.4	−1.1	..
BALANCE ON NON-MONETARY TRANSACTIONS	7.4	0.1	−24.9	−14.8	10.8

1 Forecast.
2 Including changes in stocks held abroad and imports for the defence force.
3 Excluding foreign currency sales of aircraft fuel. Excluding imports to the defence force.
4 "—" = increase in outstanding advance payments.

Source : Icelandic submission to the OECD.

markets (including IBRD), of which $10.2 million in the German market. There was an inflow of short-term capital, mainly due to a change in the terms of payments. Loan redemptions increased somewhat. Foreign funded indebtedness at the end of 1969 amounted to the equivalent of $136 million. Repayments of principal and interest in 1970 are estimated to a little less than $24 million, corresponding to between 10 and 15 per cent of exports of goods and services. Contractual repayments of the existing debt will fall gradually in coming years; however, the imports of long-term capital in the form of loans may continue in the years ahead.

Table 18 **External Long-Term Debt**
$ million

	1969	1970	1971	1972	1973
External long-term debt[1]	135.9	119.7	105.2	90.7	79.3
Amortization during the year	19.2	16.2	14.5	14.5	11.4
Interest payments	8.1	7.5	6.6	5.7	4.9

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 1969 and takes no account of new capital imports.

In 1969 Iceland drew its gold tranche and the first credit tranche on the IMF, totalling $7.5 million. On the other hand, the $5 million loan from the EMA was repaid. In January-November 1969, gross foreign exchange reserves of the Central Bank increased by $12.8 million. At the same time, short-term liabilities by November mainly comprising its debt to the IMF (the credit tranche $3.8 million and outstanding compensatory financing of $7.5 million) had risen by $2.8 million. Commercial banks reduced their short-term liabilities by $5.4 million and showed a small rise in reserves. The combined net position of the Central and commercial banks in January-November improved by almost 17 million. Net exchange reserves at the end of the year corresponded to about two months' merchandise imports.

III PROSPECTS

The difficulty in forecasting fish catches will as usual complicate an assessment of the future course of the Icelandic economy. The latest research results reached by marine biologists suggest that herring catches may remain rather small in the next few years. However, it is possible that the bottom level was reached in 1969, so that it would be reasonable to expect a stabilisation or even some increase in herring catches. With regard to cod and other white fish, the stock of mature age classes seems to be large, and the migration pattern over the next years should be favourable. The fact that exports have become more profitable after the devaluation could attract still more labour and resources to the white fish branch, thereby increasing the catch. The capacity of the fish processing industries is sufficient both to absorb bigger catches and to achieve a higher degree of processing of the fish. Total real output in the fish and fish processing industries may therefore increase somewhat also in 1970. In other sectors of the economy there were also a considerable margin of unused capacity at the end of 1969, leaving scope for a strong increase in production in 1970. Moreover, reduction of tariff protection should stimulate to a better allocation of resources, but the effects on productivity may not be yet felt in 1970.

Prices for herring products rose strongly in 1969 due to the failure of catches both in North Atlantic waters and off the coast of Peru. It is likely that prices for these products will remain favourable also in 1970, so that increase in catches could add importantly to the value of merchandise exports. The decline in frozen fish prices was also replaced by an upward tendency in 1969 and this trend may continue this year.

Average export prices may therefore be somewhat higher in 1970 than in the preceding year.

On this basis the export value of fish and fish products should continue to rise in 1970, although probably at a much lower rate than in 1969. Exports of aluminium will be an important item as the new factory operated only a few months in 1969, but the increase will to some extent be offset by higher imports of raw materials. Icelandic entry to the duty-free EFTA market should stimulate exports of other industrial products. If excessive rises in wages and prices can be avoided so that the devaluation effects are not eroded, there should be further possibilities for an increase in the export of services. All in all, it may be reasonable to expect exports of goods and services to rise by 5-6 per cent in volume and somewhat more in value.

After two years of significant declines, domestic demand is expected to revive in 1970. Fixed investment in building and construction is likely to increase by 5-6 per cent. Residential construction may rise by as much as 10 per cent, stimulated by government measures to keep up employment in this sector. The work on the enlargement of the aluminium plant will be started in 1970, and better profit margins and export earnings point to a rise in other business fixed investment. According to the proposed budget, central government investment should remain at the 1969 level, and local government investment may not increase much either given the moderate rise in the tax base. Fixed investment in public enterprises will decline as the work on the Burfell power station is finished and the enlargement will not be started until after 1970. Investment in ships and boats and in machinery may be somewhat higher than in 1969. Total fixed asset formation is tentatively estimated to increase by 3 per cent.

Private consumption should recover in 1970, but the size of the increase will heavily depend on the developments of wages and salaries. Even with a prolongation of existing agreements, real wages and salaries in the year as a whole should be higher than in 1969, and employment would seem likely to rise. Moreover, the growth of private disposable incomes should not be much restricted by the government budget as taxation will be kept unchanged. The government budget points to only a small increase in public consumption.

On the basis of the above assumptions, real GDP should rise somewhat faster than last year, perhaps by 3 to 4 per cent, entailing also some increase in imports. This could be consistent with a slower growth in the export industries (fishing and fish processing), a fairly steady growth in other manufacturing industry, a revival in the building and construction sector and a faster growth in the service sectors;

agricultural production, however, may remain stagnant or decline owing to the reduction of livestock in 1969. Although productivity is likely to increase, some rise in employment would seem probable. However, as already mentioned, the export forecasts are necessarily very uncertain, with a large margin of error. Policy will therefore have to remain flexible.

The balance of payments could perhaps improve somewhat. General commodity imports may increase by 6 to 7 per cent, but should be matched by the expected rise in general commodity exports. Imports for special investment projects will decline further, but there may be higher imports of ships, boats and aircraft. The balance of services could probably improve further. The current account is likely to remain in deficit, but possibly a smaller one than in 1969. Contractual repayments of foreign debt will be heavy also in 1970, but these and the current deficit may be covered by capital imports so that foreign reserves could be maintained.

IV CONCLUSIONS

The devaluation and the accompanying measures have been successful in bringing about a better balance between output and the use of real resources, and there would seem grounds for hoping that the rise in prices will slow down now that most of the devaluation effects have come through, although much will depend on the outcome of the wage negotiations in May. The necessary adjustments of real personal incomes and the profitability of production have been made without serious industrial stoppages, large unemployment or social hardships. The major tasks of economic policies will be to restore better stability of prices and costs and accelerate the industrial diversification which has recently been set in motion. The prospects of only moderate increases in fish catches and a strong rise in the labour force in the years ahead underline the need for new industrial activities which, to be profitable, may have to cater for bigger markets than that of Iceland.

The external situation now seems more promising to the pursuit of such policies. The fall in fish prices has been reversed. Access to the British and other EFTA markets on a non-discriminatory basis for Iceland's main export article—frozen fish—should ensure more stable and profitable outlets for the fish processing industry. Membership in EFTA offers potential possibilities for the export of manufactures and closer industrial co-operation with other countries.

It is clear, however, that the achievement of better price/cost stability may be a pre-requisite for the rapid diversification of exports and production which seems to be required. In certain respects the conditions for restoring better stability have improved. The Price Equalisation Fund for the fishing industry should be a stabilising element, and it is to be hoped that it will be put on an operational basis as soon as possible. The establishment of employment committees offers opportunities for fruitful co-operation between entrepreneurs, labour, credit institutions and the authorities in matters of productivity, pay and prices. But the renewal in May 1970 of the present wage agreements will constitute an important test case. The agreement concluded in May 1969 represented an effort by all parties concerned, impressed by two years' depression, to arrive at realistic settlements compatible with the restoration of better price stability. It is important that these attitudes should continue to prevail.

However, even if negotiated income settlements should be kept within reasonable limits, the automatic adjustment of wages to changes in the cost-of-living index would seem to entail some danger of a continuation of the price/cost spiral. Under this system any change in prices leads to wage and income increases—irrespective of whether the price change seems to be accidental or temporary; or whether it is due to a rise in import prices even though this means that the scope for higher wages from the point of view of availability of real resources has decreased rather than increased. It may be unrealistic to assume that the price-wage link can be removed altogether. But a more flexible system might be considered, whereby price increases do not lead to automatic wage adjustments but only to the right for labour to negotiate wage increases. This would enable some allowance to be made for the nature of the price rise, and offer the possibility of a more stable development.

With regard to demand management, there should now be scope for some expansion of demand and output without putting undue strains on resources. The balance of payments has improved and the reserves have risen sharphy but a further strengthening of the reserve position is called for, and the outlook for fish catches and export prices is necessarily uncertain. Moreover, demand management policy cannot be determined in isolation from the income settlements which are due in the next few months —fish prices in January, wages and salaries in May, and farmers' incomes in the autumn. Therefore, while it would seem desirable to see an expansion of activity at a good rate, it is clearly important to avoid an excessive increase in demand which could encourage inflationary income settlements, setting in motion a new price/income spiral to the detriment of competitiveness and profitability, the foreign balance and longer-term

growth. It would therefore seem desirable that demand management —fiscal as well as monetary policies—should be cautious in the next few months and remain flexible in the face of changing circumstances. When the size of income settlements is clear, the authorities will have a better basis for judging the scope for relaxation of demand management policies, notably monetary policy. In view of the authorities' aim of diversifying the economy and creating new employment opportunities, a pattern of demand expansion weighted in favour of productive investment would seem desirable, limiting the scope for an increase in consumption.

The diversification of the economy which is now envisaged by the authorities implies changes in the pattern of employment. This, as well as present differences in unemployment by seasons, sectors and regions, calls for a strengthening of labour market policies. There is a need for seasonal stabilisation, more retraining of labour, and for measures to stimulate regional mobility. The strengthening of central co-ordination now contemplated, and the preparation of better labour market statistics, represent steps in the right direction, andl should pave the way for the introduction of modern man-power policies.

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Annex I

ICELAND'S EXPERIENCE AND VIEWS IN RESPECT OF THE RECOMMENDATIONS OF THE FISCAL POLICY REPORT

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Annex I

ICELAND'S EXPERIENCE AND VIEWS IN RESPECT OF THE RECOMMENDATIONS OF THE FISCAL POLICY REPORT[1]

The one-sidedness of the economy with heavy dependence on fisheries, and the limited resources which a small population can afford to devote to government administration, have influenced the choice of taxes and tax collection. The relative level of total tax revenue of General Government—about one-third of GNP—is not very different from that of most other countries. Local Government[2] taxes on persons and companies amount to about one-fifth on the total. The central government budget covers the calendar year; it has been a principle of fiscal policy that estimated tax revenue shall balance current and investment expenditure. Apart from its power to adjust the scale of taxable income brackets and determine the price of liquor and tobacco, the Government may not change taxation or expenditure without the prior approval of Parliament. Taxes and levies specially earmarked for the Social Security system yield a relatively small share (7 to 8 per cent) of total tax revenue, whereas contributions from the general budget to the system are very important. Two features distinguish the Icelandic tax system from those of other industrialised countries. First, direct taxes yield only about one-third of total tax revenue; for Central Government the share is even smaller. Second, among indirect taxes, import duties[3] play a significant role, yielding more than one-fifth of total tax revenue.

Economic Information and Public Understanding (Recommendations Nos. 1 to 7)

An assessment by the Economic Institute[4] for the use within the government administration, of prospects for production, demand and the

1 The recommendations of the Group of Fiscal Experts are reproduced in Annex II.

2 Local authorities have, within limits defined by Parliament, fiscal independence. A municipal reform is envisaged; a committee report on this question proposes a reduction of the number of municipalities from 227—of which many very small—to 80.

3 The tariff incidences amount, on average, to about one-third for total imports, more than 50 per cent for consumer goods, 5 to 8 per cent for raw materials and 30 to 40 per cent for most investment goods.

4 A research and planning body publishing reports on current trends in the economy, and from whom the Government may obtain information and advice in economic matters.

balance of payments is made in connection with the annual government budget. But no comprehensive official economic forecasting has been developed and integrated into the budget process (Recommendation No. 1). However, the dependence of economic activity on natural and climatic factors which are difficult to foresee, makes forecasting uncertain. The working out of several forecasts, based on alternative assumptions with regard to catches, fish prices etc. could offer a solution to these problems. Although the size of the economy and shortage of research and administrative staff limit the Government's activities in this field, some strengthening might be possible (Recommendation No. 6).

The Economic Institute presents its annual economic survey to the Economic Council[1]. The Central Bank's annual reports, which give a broad survey of economic developments and policies, are published. A report on investment prospects is prepared by the Economic Institute and presented to Parliament in the context of the extra-budgetary financing programme (see below). A short survey of economic trends (made by the Institute) intended for members of Parliament, accompanies the proposed government budget. However, there would also seem to be need for more regular publications on economic problems and policies which could be read and discussed by larger groups of the general public (Recommendations No. 2 and 7).

The government budget form has recently been completely recast with the intention of giving a complete statement of central government activities; classified in accordance with national accounts criteria, it should now facilitate economic analysis (Recommendation No. 3). During the transitional period of the new system, while the first accounts (for 1968) have been prepared, there have been difficulties in applying it for analytical purposes, but it is important that the opportunities which it provides should be utilised in full. Generally, parliamentary and public debates of budgetary matters have been conducted on a narrow fiscal basis; steps to present the budget in a wider economic context should improve the quality of the proccedings.

However, the government budget proper does not comprise all government financial activities as some loan-financed expenditure—the extra-budgetary public investment programme—is sanctioned by specific legislation, usually a few months after the Budget is passed. A preliminary estimate of this programme nonetheless accompanies the Budget proposal, and it is the intention to gradually incorporate all such activities

1 Established in 1965 with representatives of Central and Local Government, industrial sectors, employees and employers. The Council considers the economic situation and prospects, and comments upon government policies and programmes.

in the Budget. The extra-budgetary public investment programme is prepared by the Budget Bureau and the Economic Institute while the Central Bank is involved in forecasting the availability of funds for the programme. The Development Fund—an agency for central coordination of investment loan funds—implements the financing of the programme. The investment programme also includes estimates of the special financing needs of the Investment Loan Funds, over and above their own means, earmarked revenue etc. The extra-budgetary investment programme gives rise to the following comments in the light of Recommendations Nos 4 and 5:

(*i*) In principle, it is desirable that the planning of government expenditure should be integrated in the ordinary budget procedure. The extra-budgetary investment programme in 1969 (power, roads, harbours, airports, schools, etc.) is estimated at about Kr. 400 million, which corresponds to three-quarters of the ordinary government grants for investment purposes voted in the budget. To facilitate analysis of the economic impact of the budget and related policies, a consolidated survey of all financial activities should be made.

(*ii*) The question might be raised whether extra-budgetary funds complicate the implementation of coherent economic policies, as the allocation of resources through the budget on the one hand and the programme on the other may not be fully consistent with one another.

As part of the credit system, several Investment Credit Funds, specialised for the various sectors of the economy, finance fixed investments undertaken by private enterprises and municipalities. These funds are also operated by independent boards, and although their functions could be regarded as corresponding to those of financial institutions, they have a direct bearing on fiscal policies, in that they obtain their resources not only from loan operations and borrowing from the Development Fund, but also from earmarked taxes and government grants. The lending programme in 1969 of funds receiving government grants and earmarked taxes, is estimated at Kr. 700 to 750 million, corresponding to more than half the total annual advances of commercial and savings banks. On average, a little less than half the above amount is covered by taxes and government grants. From the point of view of fiscal policy the activities of the funds entail the same drawbacks as pointed out in (*i*) and (*ii*) above. Moreover, the earmarking of tax revenues for certain purposes limits the scope of flexible demand management policies and allocation of resources.

Coordination of Policies (Recommendations Nos. 8 to 11)

Generally, Icelandic practices seem to conform well with the recommendations in this field. However, with the large number of municipalities there may be a problem of establishing coherent policies for the whole public sector. The envisaged municipal reform (see footnote 2 page 39) may facilitate this task. Municipalities are represented at the Economic Council; nevertheless, it might be desirable to include local authority activities more directly in the Government's policy formulation.

Flexibility of Policies (Recommendations Nos. 12 to 23)

An overriding problem in Iceland has been the lack of stability in production, domestic demand and prices, reflecting fluctuations in fish catches and export prices. To achieve better stability, the "built-in stabilizers" of the fiscal system could be strengthened, and greater flexibility may be necessary in the use of discretionary fiscal measures.

In some respects the existing tax system may have a destabilising impact. Income taxes are generally paid with a one-year lag (based on the preceding year's income). Moreover, within the year, tax payments may vary strongly between the two half years, as taxes paid in the first half are based on income two years back, any difference is corrected in the second half. Regular payments of State and local taxes are generally made in ten instalments, while payment in two instalments is also permitted. A faster collection of sales taxes may also be considered and the introduction of a PAYE-system has been under consideration for some time. This work should be accelerated (Recommendations Nos 15 and 18).

For the fishing industry, the newly-established Price Equalisation Fund (see page 9) could help to stabilise the growth of disposable income and business fixed investment (Recommendation No. 14). But much will depend on how the Fund will operate in practice; of particular importance will be the annual fixing of base prices and catches against which payments into or out of the Fund will be calculated.

Government authority to vary investment incentives according to countercyclical criteria (cf. the Investment Reserve Fund in Sweden) could become useful, granted that enterprises will gain financial strength to accumulate funds for that purpose (Recommendation No. 14). A special committee is now reviewing company taxation with special reference to the need for the consolidation of company finances. Government authority to vary tax rates without the prior approval of Parliament (Recommendation No. 21) could be particularly useful in Iceland where

demand and other economic conditions are liable to change unexpectedly and general income settlements occur at varying times different from that of the budget proceedings. Given the structure of tax revenue, notably the fact that indirect taxes account for two-thirds of total tax revenue, it would in particular seem important if the Government were authorised to change indirect taxes. However, the automatic link which now exists between price-increases and wage settlements complicates the use of indirect taxes as a means of influencing demand. It may be a matter for consideration, therefore, whether this link should be made less close; it would seem particularly important that it should be possible to change indirect taxes without compensatory changes in wages. If this should not be possible, the question may be raised whether it would be desirable from the point of view of demand management to increase the relative importance of direct taxation.

Iceland's accession to EFTA gives rise to important changes in the tax structure that again entail certain adjustment problems. In the first round, protective tariffs on imports from EFTA countries will be reduced by roughly 30 per cent (EFTA countries account for more than two-fifths of merchandise imports) and reductions on a general level will be made for raw materials, machinery and equipments. The loss of tax revenue resulting from the cuts in tariffs will be compensated by an increase in the general sales tax to 11 per cent. At the present rate of 7 ½ per cent this tax now yields more than 15 per cent of total tax revenue. When raised to a higher level, its drawbacks (cascade effects, tax evasion, coverage) may become more important. Given its simplicity and the possibility it offers for better tax control, the authorities have been considering the introduction of a value-added tax as a possible alternative to the general sales tax.

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Annex II

THE RECOMMENDATIONS BY THE EXPERT GROUP ON THE USE OF FISCAL POLICY

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FISCAL POLICY FOR A BALANCED ECONOMY

« Fiscal policy for a balanced economy » OECD, Paris, 1968 is a report prepared by a group of experts[1] *appointed by the Secretary-General of the OECD to study the use of fiscal policy as an instrument for maintaining economic balance, to identify the obstacles to an appropriate use of fiscal policy, and to propose ways in which these obstacles might be overcome. The report is based on a review of the experience of policies since the mid-1950's in seven countries—Belgium, France, Germany, Italy, Sweden, the United Kingdom and the United States—as well as of their institutions and practices in this field. The report concludes with a series of recommendations which are listed below:*

A THE NEED FOR FULLER ECONOMIC INFORMATION AND PUBLIC UNDERSTANDING

We believe that in most countries governments should review, and supplement where necessary, the resources they devote to the analyses of economic trends, the forecasting of developments and to the estimation of the effects of policies. We also suggest, as a general aim, that the essential data on which governments themselves base their decisions should be made fully available to the public. Only thus can be fostered a body of opinion, both within legislatures and in the society at large, capable of following the processes of reasoning by which governments have to move from fact and probability to assessment and decision.

We therefore suggest that:

Recommendation No. 1. A basic requirement for the formulation of fiscal policy is the correct appraisal of current economic trends. In a number of countries, official economic forecasting is little developed and has not been integrated into the budget process. Most countries could profitably improve upon, and add to, the use of resources devoted to tasks of economic forecasting and analysis, including improvement in the scope, accuracy and timeliness of basic economic statistics.

Recommendation No. 2. Governments should publish economic forecasts in greater detail and with fuller documentation than is often

1 Walter W. Heller, Chairman, Cornelis Goedhart, Guillaume Guindey, Heinz Haller, Jean van Houtte, Assar Lindbeck, Richard Sayers, Sergio Steve and J.C.R. Dow.

now the practice. Such forecasts should clarify expected trends and relate to the same period as the proposed fiscal programmes. The current practice in some countries of presenting forecasts in terms of changes between the current and last calendar years is not only inadequate, but may actually be misleading. Clarification of the timepath of expected economic changes and budgetary effects would benefit further from periodic economic reviews and policy assessments.

Recommendation No. 3. In addition to budget presentations for administrative purposes, clear summary statements of budget accounts should be provided for purposes of economic analysis. These should cover both the year past and the expected outturn of the year to come. They should include all Central government transactions, classified according to the standard national accounts sub-divisions. The presentation and justification of budget proposals should be in these simple, standard and relatively intelligible terms. We further suggest that such presentations be disseminated widely and discussed publicly.

A clear justification of budget proposals implies adequate statistical documentation of budget activities. We suggest that governments should review the resources they devote to this purpose and be ready to supplement them where necessary.

Recommendation No. 4. Estimates of the impact of budget and related policies upon the economy are necessarily implicit in the budgetary process. We suggest that such estimates be made explicit and included in budget presentations.

This will involve exploratory work in the area of measurement of budget impacts and further consideration of the problem of presenting budget accounts. We sugest it might be useful if there were discussions at the expert level in OECD aimed at agreement on common definitions and statistical procedures, which, ultimately, would lead to publishable estimates of the impact that particular budgets are intented to exert upon the economy.

Recommendation No. 5. Legislatures should take a comprehensive view of budget proposals in the context of overall economic policy. This requires more occasions during the parliamentary year when the broad impact of budget effects is debated, apart from discussions of expenditure and revenue proposals in detail.

In addition to formal parliamentary discussion, we think the development of informed views can be fostered by the setting-up

of specialised committees to discuss general questions of economic policy.

Recommendation No. 6. Legislators should be provided with more adequate research staff for appraising the mass of economic material with which they need to be familiar to fulfill their responsibilities.

Recommendation No. 7. Governments should encourage the formation of unofficial independent institutions, equipped with sufficient professional staff, to publish regular detailed assessments of economic trends and their implications for government economic policies.

B THE NEED FOR COORDINATION OF POLICIES

Appraisal of the requirements of the economic situation and an efficient decision-making process within the government call for a certain centralised coordination. Furthermore, our review of countries' experience indicates that modern fiscal policy requires not only coordination within the Central government, but also between the government and other bodies with responsibility in the area of economic policy. And, finally, individual countries have a great and increasing stake in the adoption of appropriate and flexible fiscal policies by their trading partners because fluctuations in economic activity in one country increasingly affect activity in other countries.

Recommendation No. 8. Within the Central government itself, a number of countries have developed institutional arrangements whereby a particular agency, or a group of agencies, exercices a coordinating role over the related functions of other departments. But in some countries the division of functions within the Executive branch has complicated the formulation of a clear policy. There can clearly be no universally ideal answer to administrative problems of this sort and solutions will differ from country to country. But we suggest that there is a need to review present arrangements so as to facilitate more effective coordination and better organisation of the general decision-making process.

Recommendation No. 9. Efficient decision-making presupposes adequate assessment of the policy implications of economic forecasts. This requires that the central department or departments should be served by an adequately staffed economic advisory unit. Members of such a unit should be at a sufficiently senior level to advise on policy issues and should be closely associated with the forecasting team.

Recommendation No. 10. Since fiscal and monetary policies need to be closely coordinated, there should, whatever the legal status of the Central bank, be close cooperation between it and the government. Each should view specific policy problems in a wide context, keeping in mind the overall goals of economic policy.

Recommendation No. 11. We suggest that in most countries governments need to improve their ability to include actions of Local authorities in their policy formulation. Since, in all countries, the Local government sector is an important component of total demand, the Central government should, as a minimum, have prompt and accurate information about State and Local fiscal operations.

C THE NEED FOR FLEXIBILITY IN FISCAL POLICY

The efficiency with which policy decisions can be implemented and the speed with which their effects are transmitted to, and work themselves through, the economy can spell the difference between an appropriate and successful policy and one that, though initially appropriate, turns out to be unsuccessful and, perhaps, even perverse. We suggest improvements in efficiency under the following main headings:

(*a*) flexibility in the control of public expenditures;

(*b*) measures affecting private investment; and

(*c*) measures affecting private consumption.

We also have suggestions to make on (*d*) flexibility in debt management and (*e*) short-term fiscal action in the context of overall economic policies.

(a) *Flexibility in the control of public expenditure*

Though many items of public expenditure are difficult to change substantially at relatively short notice, variation should not be rejected as impossible; otherwise, an undue share of any adjustment will fall on the private sector.

Recommendation No. 12. Efforts should be made to increase the flexibility of public expenditure, both current and capital. Apart from timing the introduction of new programmes according to the needs of the general economic situation, we suggest that planned expenditures should be classified according to the ease with which they can be varied at short notice. In the case of public investment, the speeding up or slowing down of certain smaller projects, specially

selected in advance, may provide sufficient flexibility, with sizeable and possibly costly swings in larger programmes being avoided. An extension of this idea is the Swedish emergency investment budget which, voted each year on a contingency basis, applies to such a "shelf" of projects and, in addition, leaves the government free to overspend appropriations up to an agreed amount.

Recommendation No. 13. In some countries, control by the central economic departments over the timing of expenditures by the other departments is weak and needs to be tightened. In the United States, efforts in this direction resulted in a system of limiting individual departments' spending to quarterly appropriation allotments.

(b) *Measures affecting private investment*

Fiscal instruments can effectively influence private investment decisions because they can directly affect both the liquidity position and the profitability of business. In order to improve the leverage of fiscal instruments upon private investment decisions, we have two proposals to make:

Recommendation No. 14. Private investment activity is subject to strong fluctuations and, therefore, strong offsetting measures are needed. We believe that fiscal incentives which directly affect the profitability of investments are probably most effective. We would rate temporary changes in outright cash grants, subsidies and taxation of investment expenditure most likely to be sussessful, followed by changes in rates of profit tax and depreciation allowances. Responsiveness to the latter is conditional upon accounting practices and might be strengthened in this respect. In addition to the use of these instruments new tools might be developed. The Swedish Investment Reserve Fund provides an example of an effective technique combining both investment subsidies and liquidity effects in order to influence the timing of private investment expenditures.

Recommendation No. 15. The taxation of business profits should, as far as possible, be put on a "pay-as-you-go" basis. This necessitates a system of self assessment, together with a requirement of incentive for firms to make tax payments in advance of, and large in relation to, final assessments. Arrangements in Belgium, Sweden and the United States already approximate this system. Failure to eliminate long lags in payment of business taxes leads to unnecessarily long lags between changes in tax rates and liabilities and the economic effects they produce; in particular, it can encourage excessive private investment during an upswing.

(c) *Measures affecting private consumption*

There are limits to the extent to which government expenditure can be varied, or private investment influenced, in the interests of demand management. Accordingly, governments need to rely heavily on fiscal instruments affecting private consumption (which, in most cases, constitutes around two-thirds of national expenditure). We have a number of proposals for improving the adequacy and efficiency of fiscal instruments affecting household expenditure:

Recommendation No. 16. Effective demand management policies presuppose a tax system sufficiently broad-based to allow a choice among particular tax instruments, or combination of several of them. While we would not, of course, advocate changes in tax structure on the basis of demand management criteria alone, a move towards a broader-based system would improve the efficiency of discretionary action as well as the automatic response of the fiscal system. In this respect, the Bristish indirect tax system, for example, heavily concentrated on drink, tobacco, and certain other relatively narrow expenditure categories, may not be very efficient.

Generally, to provide a sufficient basis for flexible fiscal policy, it needs to be accepted that all major broad-based taxes and levies affecting consumers should be variable for purpose of demand management. We could specify, in particular, personal income taxes, general sales and value-added taxes. Furthermore, variation of Social Security contributions and payroll taxes generally should be considered part of the fiscal instruments available for use in stabilisation policies.

Recommendation No. 17. Changes in the prices charged for the services provided by public enterprises have effects comparable to changes in indirect taxes. These should be taken into account in the formulation of fiscal policy. The timing of such changes may, on occasion, appropriately be used as an instrument of demand management.

Recommendation No. 18. To increase the effectiveness and timeliness of discretionary action, as well as to strengthen automatic responses, collection of incomes taxes on wages and salaries should, as far as possible, be placed on a "pay-as-you-earn" basis. Collection systems should be readily adaptable to quick changes in tax rates at any time during the year. A number of countries already have such systems, but they could be more extensive, particularly in France and Sweden.

Recommendation No. 19. Social Security systems contribute substantially to the automatic stabilising effects of the fiscal structure: moreover, as we have already suggested, temporary changes in contributions, or in benefits, should be used as a discretionary instrument. It would strengthen the useful economic effects of Social Security systems if, as in Belgium, Germany and the United States, unemployment benefits were put on a wage-related rather than a flat-rate base. Where justifiable for other reasons, the magnitudes of unemployment (and perhaps other) benefits might be increased.

Recommendation No. 20. In some countries, the procedure for tax changes at budget time is rendered cumbersome by the rule that long notice has to be given before proposals can be enacted. This causes anticipatory effects—a disadvantage which we suggest outweighs any more general advantages. In the United States, tax changes have at times been backdated to the time when proposals were first made, and this might constitute at least a partial remedy worth considering. The ideal system appears to be that of the United Kingdom under which tax proposals take immediate effect in advance of full debate.

Recommendation No. 21. In Belgium, Italy and the United Kingdom (and to a smaller extent in France), the government has considerable power to vary tax rates, including in some cases Social Security contributions, by decree at any time within the budget year, without prior approval by Parliament; subsequent approval is usually required. In Germany, the government can put certain temporary changes through with a much abbreviated legislative procedure. Other countries would be well advised to follow these examples.

(d) *Flexibility in debt-management*

Recommendation No. 22. Improvements in the efficiency and timeliness with which the fiscal system can respond to demand management requirements may be hampered by various limitations on government financial transactions. Fiscal flexibility is inhibited to some extent in the United States by limitations on the size of the public debt. And there is a further constraint in the manner in which the debt can be financed because of the upper limit set to the rate of interest which the government may pay on long-term debt. Other countries also have certain statutory limitations relating to financial transactions. Such restrictions, we suggest, should be removed, or altered, so as to give the Treasury, or other responsible departments, sufficient room for manœuvre.

(e) *Short-term fiscal action in the context of overall economic policies*

Improvements in the efficiency with which short-term policy actions are transmitted through the economy are a necessary, but not a sufficient, condition for a successful stabilisation policy. Short-term economic policy decisions need to be taken in the context of overall and longer-term policy goals. The latter can provide a standard against which short-term decisions can be measured and justified and through which a new element of flexibility can be added to short-term fiscal action. We have two proposals to make in this connection:

Recommendation No. 23. We recommended that, as is currently already the practice in a number of countries, public spending programmes be planned ahead over a period of years on the basis of medium-term projections of economic developments and future allocation of national resources. We suggest that such projections be regularly published and publicly discussed.

Recommendation No. 24. As countries increasingly operate in the ' narrow band" around full employment, overall demand management needs to be supplemented by selective policies aimed at correcting regional or sectoral imbalances. We suggest that, to deal with such problems, governments should develop, in co-operation with regional authorities and specialised agencies of the Central government, selective policies such as those dealing with manpower resources. More extensive action in this field would probably be both possible and economic, and there seems room for further study of the potential costs and benefits.

STATISTICAL ANNEX

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Table A Supply and Use of Resources

Kr. million, current prices

	1960	1961	1962	1963	1964	1965	1966	1967	1968[1]
Private consumption	5 659	6 206	7 513	9 071	11 354	13 213	16 467	17 235	18 600
Public consumption	727	802	963	1 227	1 536	1 862	2 270	2 505	2 800
Gross fixed asset formation	2 499	2 195	2 829	3 853	4 979	5 506	7 003	7 984	8 725
Change in livestock	31	11	−33	−29	38	39	−18	−32	−12
EXPENDITURE ON FINAL DOMESTIC USE, TOTAL	8 916	9 214	11 272	14 122	17 907	20 620	25 722	27 692	30 113
Change in stocks of export products	−124	152	−77	−142	22	372	87	74	−215
NATIONAL EXPENDITURE, TOTAL	8 792	9 366	11 195	13 980	17 929	20 992	25 809	27 766	29 898
Exports of goods and services	3 790	4 290	5 611	6 137	7 045	8 342	9 091	7 882	9 650
Imports of goods and services	4 204	4 070	5 248	6 341	7 369	8 096	9 412	10 146	12 265
GROSS NATIONAL PRODUCT (market prices)	8 378	9 586	11 558	13 776	17 605	21 238	25 488	25 502	27 283
Depreciation	1 135	1 342	1 526	1 633	1 939	2 351	2 720	3 044	3 822
NET NATIONAL PRODUCT (market prices)	7 243	8 244	10 032	12 143	15 666	18 887	22 768	22 458	23 461
Indirect taxes	2 332	1 774	2 299	2 795	3 412	4 355	5 400	5 655	6 000
Subsidies	721	507	586	694	1 098	1 180	1 385	1 800	1 800
NET NATIONAL INCOME	5 632	6 977	8 319	10 042	13 352	15 712	18 753	18 603	19 261
Net income to abroad	123	128	106	110	137	176	202	252	440
NET DOMESTIC INCOME	5 755	7 105	8 425	10 152	13 489	15 888	18 955	18 855	19 701

1 Preliminary.

Source : Icelandic submission to the OECD.

Table B **Supply and Use of Resources**

Kr. million, 1960 prices

	1960	1961	1962	1963	1964	1965	1966	1967	1968[1]
Private consumption	5 659	5 629	6 261	6 959	7 607	8 182	9 337	9 450	8 960
Public consumption	727	736	788	847	905	974	1 045	1 115	1 145
Gross fixed asset formation	2 499	1 946	2 274	2 971	3 500	3 429	3 997	4 505	4 111
Change in livestock	31	10	−28	−23	24	25	−10	−19	−8
EXPENDITURE ON FINAL DOMESTIC USE, TOTAL	8 916	8 321	9 295	10 754	12 036	12 610	14 369	15 051	14 208
Change in stocks of export products	−124	164	−110	−116	—	211	45	45	−150
NATIONAL EXPENDITURE, TOTAL	8 792	8 485	9 185	10 638	12 036	12 821	14 414	15 096	14 058
Exports of goods and services	3 790	3 849	4 698	5 027	5 349	5 940	6 417	6 033	5 756
Imports of goods and services	4 204	3 928	4 721	5 589	6 326	6 914	7 938	8 489	7 929
GROSS NATIONAL PRODUCT	8 378	8 406	9 162	10 076	11 059	11 847	12 893	12 640	11 885
Effects of change in terms of trade	—	291	348	383	698	1 186	1 252	540	350
Export income	3 790	4 140	5 046	5 410	6 047	7 126	7 669	6 573	6 106
Income balance of goods and services	−414	212	325	−179	−279	212	−269	−1 916	−1 823
GROSS NATIONAL INCOME[2]	8 378	8 697	9 510	10 459	11 757	13 033	14 145	13 180	12 235

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

Source : Icelandic submission to the OECD.

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

Table C **Production and Employment**

		1962	1963	1964	1965	1966	1967	1968	1969[3]
FISHERIES AND FISH PROCESSING									
Production : value, current prices	Kr. mill.	3 413	3 751	4 636	5 791	5 807	4 102	4 005	7 473
1963 prices	Kr. mill.	3 549	3 751	3 943	4 488	4 340	3 413	2 802	3 158
Fishing fleet[1], end of year : Trawlers	GRT	32 816	30 027	28 046	26 708	22 876	21 491	20 104	..
Motor boats	GRT	41 834	45 144	51 637	54 063	57 431	64 619	63 955	..
Total	GRT	74 650	75 171	79 683	80 771	80 307	86 110	84 059	..
Employment in fish processing	1962 = 100	100.0	105.9	111.7	113.2	102.3	88.9	..	..
AGRICULTURE									
Production : value, current prices[2]	Kr. mill.	..	1 449	1 762	2 128	2 186	2 434	2 727	..
1960 prices	Kr. mill.	..	905	953	1 039	968	1 004	980	..
Capacity : cultivated grassland	1 000 hect.	78.1	81.7	87.0	91.3	94.4	99.5		..
(end of year) sheep	1 000 heads	777.3	736.4	761.9	846.7	850.2	829.1	..	..
cattle	1 000 heads	55.9	57.2	59.7	59.5	54.5	52.3	..	..
MANUFACTURING (excl. fish processing)									
Production, volume	1961 = 100	111.1	121.4	127.0	131.6	135.4	..	..	..
Employment	1962 = 100	100.0	104.0	108.3	109.2	111.8	107.8	..	..
DWELLING CONSTRUCTION									
Started	Number	1 177	1 773	1 481	2 126	1 609	2 052	1 041	..
Completed	Number	1 272	1 303	1 331	1 518	1 693	1 787	1 779	..
Under construction, end of year	Number	2 658	3 128	3 278	3 886	3 802	4 067	3 329	..

1 Including whale-catchers, excluding open boat.
2 Including change in livestock.
3 Provisional figures.

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

Table D **Gross Fixed Asset Formation**

Kr. million, 1960 prices

	1960	1961	1962	1963	1964	1965	1966	1967	1968
GROSS FIXED ASSET FORMATION, TOTAL	2 499	1 946	2 274	2 971	3 500	3 429	3 997	4 505	4 111
Classification by end use :									
INDUSTRIAL ASSET FORMATION	1 337	955	1 132	1 579	1 933	1 748	2 066	2 224	1 647
Agriculture	208	216	246	290	334	362	347	352	324
Fishing	478	108	151	287	366	134	193	427	101
Fish processing	108	93	179	174	154	171	226	131	66
Manufacturing other than fish processing	138	127	154	229	241	224	314	484	658
Transport equipment	247	234	223	296	572	515	565	436	264
Commercial buildings	97	111	110	152	142	190	216	160	116
Various machinery and equipment	61	66	69	151	124	152	205	234	118
RESIDENTIAL CONSTRUCTION	578	442	498	638	705	743	826	905	790
PUBLIC WORKS AND BUILDINGS	584	549	644	754	862	938	1 105	1 376	1 674
Electric power, generation and distribution	140	98	108	142	122	121	192	387	743
Geothermal heating and water supply	58	39	58	91	91	105	104	87	88
Communications	254	246	304	349	420	462	528	598	560
Public buildings	132	166	174	172	229	250	281	304	283
Classification by types of assets :									
MACHINERY AND EQUIPMENT	1 101	668	799	1 198	1 469	1 201	1 515	1 619	1 361
Electric power, generation and distribution	140	98	108	142	122	89	112	149	357
Various machinery and equipment	235	228	318	473	409	462	645	607	639
Ships and aircraft	632	222	255	385	795	504	537	674	238
Vehicles for industrial use	94	120	118	198	143	146	221	189	127
BUILDINGS	1 025	918	1 031	1 247	1 405	1 508	1 703	1 889	1 656
Residential construction	578	442	498	638	705	743	826	905	790
Other buildings	447	476	533	609	700	765	877	984	866
OTHER CONSTRUCTION	373	360	444	526	626	720	770	997	1 094

Source : Icelandic submission to the OECD.

Table E **Balance of Payments**

US $ million

	1962	1963	1964	1965	1966	1967[1]	1968[1]
Exports of goods fob	85.2	95.1	111.1	129.3	139.1	98.7	82.1
Imports of goods fob, total	83.2	−101.9	−120.3	−125.1	−146.2	−151.9	−131.8
of which : Ships and aircraft	−4.5	−8.8	−21.8	−13.6	−15.1	−18.6	−6.7
Straumsvik, Burfell[2]	—	—	—	—	−3.1	−6.4	−18.5
Imports to the Defence Force	−1.4	−1.9	−0.7	−1.0	−0.7	−1.1	−1.3
Other imports	−77.3	−91.2	−97.8	−110.5	−127.3	−125.8	−105.3
BALANCE OF TRADE	2.0	−6.8	−9.2	4.2	−7.1	−53.2	−49.7
Military receipts	10.4	9.0	6.7	8.2	10.4	15.2	10.5
Other services	−1.9	−4.9	−2.9	−4.3	−7.6	−10.1	−2.4
BALANCE ON GOODS AND NON-FACTOR SERVICES	10.5	−2.7	−5.4	8.1	−4.3	−48.1	−41.6
Interest from abroad	1.0	1.2	1.4	1.9	2.2	2.1	1.4
Interest on foreign debt	−3.2	−3.5	−4.0	−4.9	−5.3	−6.4	−7.0
Transfer payments	3.2	0.7	0.1	—	−1.2	−1.4	−0.9
BALANCE ON CURRENT ACCOUNT	11.5	−4.3	−7.9	5.1	−8.6	−53.8	−48.0
Amortization of debt	−10.4	−9.1	−9.5	−10.4	−13.5	−14.9	−18.1
Public borrowing	5.5	11.0	3.9	5.9	12.5	13.0	27.5
Private borrowing and direct investment	3.1	7.4	17.7	9.6	14.3	21.2	18.3
Other capital movements	4.4	−1.3	1.0	−1.5	−3.4	8.1	3.5
Errors and omissions	0.5	0.1	1.3	−1.3	−1.3	1.4	1.8
OVERALL BALANCE	14.5	3.8	6.5	7.4	0.0	−24.9 } [3]	−14.9
Change in foreign exchange holdings :	14.5	3.8	6.5	7.4	0.0	−26.2 }	−14.9
Convertible currencies	12.7	2.7	10.1	11.6	−1.4	−30.1	−13.7
Clearing currencies	1.8	1.1	−3.6	−4.2	1.4	3.9	−1.2

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

2 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.

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

Source : Annual Report 1968, Central Bank of Iceland.

Table F **Central Government Income and Expenditure**[1]

Fiscal years = Calendar years
Kr. million

	1960	1961	1962	1963	1964	1965	1966	1967	1968[2]
Current revenue	2 379	1 790	2 203	2 683	3 297	4 185	5 315	5 805	6 741
Direct taxes	121	123	135	199	281	374	522	739	1 332
Indirect taxes	2 232	1 655	2 052	2 450	2 987	3 815	4 714	4 955	5 349
Other	26	12	16	34	29	−4	79	111	60
Current expenditure	1 505	1 373	1 594	1 983	2 766	3 075	3 688	4 544	..
Purchase of goods and services	451	458	546	716	882	1 062	1 309	1 510	..
Subsidies	672	457	527	627	1 016	1 086	1 273	1 678	..
Interest	3	6	3	6	7	10	9	12	..
Current transfers	379	452	518	634	861	917	1 097	1 344	..
Depreciation and other operating provisions	—	—	—	—	—	—	—	—	..
GROSS SAVINGS	874	417	609	700	531	1 110	1 627	1 261	..
Gross fixed asset formation	89	96	101	214	230	362	313	485	..
SURPLUS ON CURRENT AND FIXED INVESTMENT ACCOUNT	785	321	508	486	301	748	1 314	776	..
Lending, net[3]	506	271	128	101	83	−89	−34	−164	..
Net capital transfers to other sectors	189	118	183	301	469	617	816	984	..
OVERALL BALANCE[4]	90	−68	197	84	−251	220	532	−44	..

1 According to OECD definitions.
2 Provisional figures, not completely comparable with earlier years due to changes in budget concepts.
3 "—" = net borrowing.
4 Net change in floating debts and cash balances.

Source : Icelandic submission to the OECD.

Table G Fish catch, Wages and Prices

	Fish Catch (Thous. tons)						Wages and prices (1963 AV = 100)									
							Cost of living index[2]					Building cost Reykjavik[3]	Export prices of fish products[4]			
	Total	White fish etc.	Herring	Capelin	Shrimp and lobster	Hourly wages rates unskilled workers[1]	Total	Good and services			Rent		Salted white fish	Frozen cod fillets	Herring oil	Herring meal
								Total	Food	Other						
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1962	832	351	47	−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	895	333	461	97	4	170.6	146.3	150.0	155.2	144.1	135.6	159.1	148.1	112.9	100.6	106.4
1968	599	373	143	78	5	183.1	167.9	171.8	182.7	160.2	142.7	176.4	132.9	107.3	69.9	87.9
Quarterly																
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	109.6
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	128.9	102.4	72.6	93.3
1968 1	156	78	4	73	1	181.2	162.3	165.5	175.8	154.3	141.0	167.7	151.5	116.5	60.9	87.1
2	171	162	3	5	1	183.6	165.5	169.2	176.3	159.4	141.0	177.3	145.5	109.0	76.1	84.8
3	155	84	69	—	2	186.1	167.9	171.7	181.2	160.6	143.8	..	122.2	108.3	65.7	95.9
4	117	49	67	—	1	195.9	175.8	180.8	197.4	166.5	144.8	184.2	121.9	100.7	69.4	86.1
1969 1	285	115	2	167	1	219.4	194.3	202.1	214.2	188.7	146.6	206.1	114.1	109.7	66.3	105.2
2	194	181	7	4	2		201.7	209.9	225.2	195.1	151.2	223.2	122.9	108.1	72.6	98.3
3							210.5	220.2	241.9	202.1	154.0	..				
4																

1 Yearly figures are weighted averages. Quarterly figures give the wage rate at the end of the quarter.
2 New index beginning February 1968 (Jan. = 100), excluding direct taxes. Aggregates for 1968 calculated with new weights.
3 February, June and October.
4 Unit values calculated from export statistics, converted to dollars at current exchange rates.

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

Table H **Foreign Trade, Total and by Areas**

$ million, monthly rates

	Total Imports c.i.f.		Imports by areas						Total Exports f.o.b.		Exports by areas					
			OECD countries			Non-OECD countries					OECD countries			Non-OECD countries		
	Orig.	Adj.	Total	EEC	EFTA	Eastern Europe	Other developed countr.	Developing countr.	Orig.	Adj.	Total	EEC	EFTA	Eastern Europe	Other developed countr.	Developing countr.
	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32
1962	7.4	..	5.4	1.6	2.6	1.4	0.2	0.3	7.0	..	5.1	1.2	2.5	1.3	0.2	0.4
1963	9.1	..	7.0	1.9	3.7	1.6	0.3	0.3	7.9	..	5.8	1.6	2.7	1.4	0.3	0.4
1964	10.9	..	8.6	2.0	4.1	1.8	0.2	0.3	9.3	..	7.1	1.5	3.7	1.3	0.3	0.6
1965	11.4	..	9.0	2.5	4.1	1.8	0.3	0.3	10.8	..	8.6	2.2	4.2	1.2	0.4	0.6
1966	13.3	..	11.1	3.0	5.2	1.5	0.4	0.3	11.7	..	9.4	2.4	4.4	1.4	0.4	0.6
1967	13.5	..	11.2	3.3	5.2	1.6	0.3	0.5	8.1	..	6.1	1.2	3.3	1.4	0.3	0.4
1968	11.5	..	9.4	3.2	4.5	1.4	0.3	0.4	6.8	..	5.3	1.0	2.2	1.0	0.3	0.4
Quarterly																
1966 1	10.0	13.5	8.7	2.4	3.9	0.9	0.2	0.3	10.2	12.5	8.1	2.6	3.2	1.3	0.3	0.5
2	16.0	13.1	13.9	3.5	5.8	1.4	0.3	0.3	11.1	11.4	9.1	1.8	4.6	1.6	0.2	0.2
3	12.0	13.4	9.4	2.9	4.4	1.9	0.3	0.3	9.5	10.6	7.9	1.6	3.7	0.9	0.4	0.4
4	15.1	13.4	12.4	3.1	6.8	1.8	0.5	0.3	16.1	12.0	12.4	3.7	5.9	1.8	0.7	1.2
1967 1	10.0	13.5	8.5	2.5	4.0	0.9	0.2	0.3	7.5	9.5	5.4	1.3	3.0	1.5	0.1	0.5
2	17.7	14.2	14.6	4.3	5.9	2.2	0.3	0.5	8.5	8.6	6.7	1.1	3.8	1.3	0.3	0.2
3	12.5	13.9	10.2	3.2	4.6	1.7	0.3	0.3	7.0	7.8	5.3	0.9	2.6	1.4	0.1	0.1
4	14.0	12.2	11.4	3.0	6.3	1.5	0.4	0.7	9.3	7.2	6.7	1.4	3.9	1.3	0.6	0.7
1968 1	8.1	10.8	6.7	2.1	2.9	0.9	0.3	0.2	5.0	6.5	3.4	0.8	1.4	1.2	0.2	0.2
2	13.4	11.2	11.4	3.5	5.4	1.3	0.4	0.3	7.3	7.3	5.7	1.0	2.1	1.2	0.2	0.2
3	12.7	13.9	10.0	3.6	4.6	1.7	0.4	0.6	5.9	6.5	4.7	1.0	1.6	0.8	0.2	0.1
4	11.9	10.7	9.7	3.5	4.9	1.5	0.3	0.5	9.2	6.6	7.4	1.4	3.7	0.8	0.4	0.5
1969 1	7.7	10.3	6.2	2.3	2.8	1.0	0.2	0.3	5.7	7.4	4.1	0.6	1.8	1.1	0.1	0.4
2	10.4	9.3	8.6	3.0	4.3	1.0	0.3	0.4	8.3	8.4	6.4	1.3	2.7	1.2	0.2	0.5
3																
4																

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

Table I **Foreign Trade by Commodity Groups**

$ million

	Imports by commodity groups							Exports by commodity groups								
			Other imports													
	Total	Transport equipment	Total	Food and live animals	Semi-manufactured goods	Machinery and apparatus	Other goods	Total	Meat etc.	Dairy products	Fish salted or prep.	Fish meal etc.	Hides and skins	Herring oil etc.	Transport equipment	Other goods[1]
	SITC No.	73		0	6	71.72		SITC No.	01	02	03	08	21	41	73	—
	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48
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	138.4	13.2	125.2	15.4	34.8	26.9	48.1	82.3	3.0	0.5	60.7	7.4	3.4	3.5	0.3	3.2
Quarterly																
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	38.0	1.8	36.2	4.0	9.8	6.9	15.5	17.6	0.4	0.2	13.0	1.9	0.1	0.8	—	1.1
4	35.9	2.3	33.6	3.8	9.2	8.1	12.5	27.8	1.9	0.1	20.7	1.0	2.2	0.9	—	0.9
1969 1	23.0	0.5	22.5	3.3	6.8	4.5	7.9	17.1	0.4	..	12.8	1.5	0.5	0.7	—	1.2
2	31.2	0.9	30.3	3.3	7.1	9.6	10.3	24.9	0.6	..	16.3	3.6	—	1.4	0.2	1.8
3																

1 From 1st quarter 1969 including dairy-products (SITC No. 02).

Source : OECD, Foreign Trade Statistics, Series B.

Table J **Money and Credit** (end of period)

	Central Bank		Non-bank sector			Bank liquidity				Credits granted by banks					Foreign exchange	
						Commercial and savings banks					*of which*[1] *to :*					
	Central Bank discount rate	Net position of Treasury	Money supply		Savings deposits	Blocked deposits	Rediscounted bills	Net free position with Central Bank	Net foreign assets	Total	Agriculture	Fishery and fish processing	Manufacturing and commerce	Dwellings	Official gold and foreign exchange[2]	Commercial banks' foreign position
			Orig.	Adj.												
	Per cent	Kr. million														$ million
	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64
1962	6.25	105	1 684	1 776	3 506	551	682	507	−228	5 136	540	1 327	1 651	522	35	−5
1963	6.25	254	1 713	1 858	4 220	786	747	313	−220	5 904	669	1 405	1 999	589	35	−5
1964	6.25	113	2 155	2 236	4 983	1 090	777	440	−214	6 621	733	1 498	2 210	699	41	−5
1965	5.00	103	2 680	2 746	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	2 863	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	2 615	7 799	1 911	1 304	−281	−475	10 617	1 146	2 421	3 430	997	32	−10
1968	5.25	−265	2 889	2 844	8 417	2 073	1 438	−606	−833	11 949	1 189	2 868	3 936	1 052	25	−11
Quarterly																
1966 1	5.25	140	2 589	2 759	6 488	1 539	877	219	−266	8 422	966	1 618	2 774	843	53	−5
2	5.25	135	2 773	2 755	6 618	1 604	970	70	−294	8 968	894	1 892	3 034	871	51	−7
3	5.25	145	2 902	2 855	6 653	1 644	1 248	−50	−289	9 519	878	2 238	3 107	903	46	−7
4	5.25	434	2 832	2 869	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	2 834	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	2 802	7 300	1 852	1 093	−209	−351	10 088	956	2 194	3 417	951	45	−10
3	5.25	−185	2 712	2 667	7 387	1 874	1 172	−177	−365	10 265	950	2 339	3 437	981	36	−11
4	5.25	−23	2 604	2 625	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	2 623	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	2 778	8 021	2 050	1 414	−395	−417	11 253	1 066	2 703	3 775	1 025	27	−9
3	5.25	−650	2 785	2 752	8 001	2 117	1 439	−601	−553	11 470	1 046	2 773	3 845	1 035	21	−11
4	5.25	−265	2 889	2 905	8 417	2 073	1 438	−606	−833	11 949	1 189	2 868	3 936	1 052	25	−11
1969 1	5.25	−523	3 054	3 242	8 676	2 204	1 481	−480	−772	12 112	1 121	2 998	4 053	1 064	35	−10
2	5.25	−737	3 505	3 446	9 006	2 353	1 893	−276	−472	12 604	1 079	3 353	4 092	1 105	32	−6
3	5.25	−759	3 680	3 636	9 275	2 436	1 919	−80	−260	12 769	1 056	3 124	4 251	1 178	36	−4
4																

1 Excluding credits granted by minor savings banks.
2 Excluding IMF position.

Source : 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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