

OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ICELAND

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

DECEMBER 1974

BASIC STATISTICS OF ICELAND

THE LAND

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

THE PEOPLE

Population, December 1973	213 499	Occupational distribution 1972	
Net increase 1969-1973,		(per cent):	
annual average (per cent)	1.1	Farming	10.3
		Fisheries	5.7
		Fish processing	7.8
		Other manufacturing	18.1
		Construction	11.2
		Commerce	16.7
		Transport and communication	8.8
		Other Services	21.4
			100.0

GOVERNMENT AND PARLIAMENT

Government, from 1974, number of		Parliament, from 1974, number of seats:	
Ministers:		Independence Party (Lib. Cons.)	25
Independence Party	4	Progressive Party (Agrarians)	17
Progressive Party	4	Labour Alliance (Socialists,	
		Communists)	11
		Social Democrats	5
		Union of Liberals and Leftists	2
			60
Last general election: 1974		Next general election: 1978	

PRODUCTION AND CAPITAL FORMATION

Gross National Product in 1973:		Gross Fixed Capital Formation	
Millions of I. Kr.	92 430	in 1973:	
Per head, US \$	4 850	Millions of I. Kr.	28 610
		Per cent of GNP	31

FOREIGN TRADE

Exports of goods and services in 1973,		Imports of goods and services in 1973,	
per cent of GNP	41	per cent of GNP	44
Main exports 1973, per cent of exports		Imports 1973, by use (per cent):	
of goods:		Consumption goods	32
Fish and fish products	74	Production goods	28
Manufacturing products	22	Investment goods	40
Agricultural products	3		100
		<i>of which:</i>	
		Ships and aircraft	12
		Fuels	8

THE CURRENCY

Monetary unit: Krona		Currency units per US \$.	
		from 1.11.1974:	117.90

NOTE: An international comparison of certain basic statistics is given in an annex table.

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ICELAND

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*
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The annual review of Iceland
by the OECD Economic and Development Review Committee
took place on 21st October 1974.

The present Survey has been updated subsequently.

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Director of Information, OECD
2, rue André-Pascal, 75775 PARIS CEDEX 16, France.

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INTRODUCTION

At the time of preparing last year's Survey the volcanic outbreak in the Vestmannaeyjar—one of the country's foremost fishing centres—was still underway. The eruption added a further element of uncertainty to the economic outlook which was already characterised by an expected slow-down in the rapid rate of growth which Iceland had been experiencing during the preceding three years.

Volcanic activity continued until the end of June last year. Although the return of former inhabitants was hindered by the fact that close to one-half of the housing stock had been destroyed or seriously damaged, the island's port and processing facilities could already be operated—although considerably below previous capacity—during the important winter season at the beginning of this year. In the event, the loss of output due to this natural catastrophe may not have been as great as had been originally feared. Indeed, the major impact appears not to have been on the level of production, but rather on accentuating even further the strain on resources, as alternative fish processing facilities were also called on and the construction industry was obliged to cope with housing the several thousand displaced persons.

A further boost was thus accorded to the existing strong inflationary forces. The 1972 Survey of Iceland examined the basic inflationary mechanism which had operated to push up the average annual rate of price increase in the country to some 12 per cent during the postwar period up to 1970—a rate clearly above that for other Member countries. The institutional arrangements which have evolved—depending inter alia on extensive indexation—appear to be well-adapted to helping the economy digest such a rate of price increase. Contrary to the situation in many other Member countries, it is not readily evident that any clearly defined group in the economy has suffered adversely, at least as yet, from the income-redistributive effects of inflation. However, effects on the distribution of investment may appear in a tendency to build plant of excessive capacity.

At present, however, the inflation rate in Iceland is currently in excess of the 40 per cent mark and threatens to go even higher. The critical question is whether existing institutional arrangements can cope with such a “quantum jump” in the rate of price increase. It would indeed be hazardous to attempt to define where the dividing line between a sustainable and an unsustainable rate of inflation lies. In the past predictions of inevitable catastrophe have been intoned in the event of inflation attaining rates which today would appear almost utopian. Iceland has historically experienced periods of very rapid inflation: for example, during and immediately after the First World War (when the rate of price increase even reached 60 per cent) and again during the period 1940-1943. The economic and social problems thus created did not in the event prove insurmountable. Notwithstanding such successful adjustment in the past, the Icelandic authorities remain very aware of the serious problems that inflation may produce. The recent measures and policy statements of the Icelandic government indicate a new sense of urgency.

I RECENT DEVELOPMENTS

As a small open economy Iceland has, even in periods of relative international economic calm, been subject to external impulses of comparatively severe magnitude. Last year must, however, count as one of major shocks. First came the volcanic outbreak early in the year which threatened to put the Vestmannaeyjar port and fish-processing facilities out of commission and, then, in the closing months of the year came the multiplying of prices for oil for which the country is totally dependent on imports. In addition, the prices received for Iceland's major exports rose by unprecedented amounts, while the costs of non-oil imports also rose rapidly.

All major elements of both domestic and external demand remained strong throughout 1973. Although the growth of output was sustained at a higher rate than had been officially forecast, excess demand pressures were manifest in many sectors. Domestic policy was unequal to the task of coping with the situation created by these strong pressures and the various external shocks. The rate of increase registered by both wages and prices was the fastest recorded within the OECD area last year. The balance of payments, influenced by an exceptionally large increase in imports of special investment goods, came under heavy pressure despite a favourable movement of unusual magnitude in the terms of trade. In 1974, however, the terms of trade moved sharply against Iceland as a result of the quadrupling of the price of oil, a more general although much less drastic increase in the prices of other imports and a weakening in the prices received for Iceland's exports. Direct action in the form of a policy package including an import deposit scheme was resorted to in May this year.

Strong domestic demand pressures continued into 1974, although some easing became evident from about the autumn. Against a background of the inflationary wage settlements reached early in the year and the marked weakening in the external account, the authorities sought in May to enact a package of measures designed to stabilise the situation. The Government was, however, unable to obtain sufficient support for its full implementation and Parliament subsequently was dissolved and new elections called. The new Government in its initial policy statement has announced its intention of proceeding with a number of reforms, which should facilitate the task of demand management.

Sustained buoyancy of demand and output

The slowdown in demand originally expected by the Icelandic authorities last year did not materialise. On the contrary, final domestic demand rose by no less than 10 per cent in volume terms, compared with the 4½ per cent forecast and the average rate of 6.1 per cent recorded during the period 1960-1971¹. While the fairly rapid increase in public consumption had been budgeted for, the slackening in the private consumption boom—though quite marked—was not as great as had been expected, even though the growth of household real disposable income was curtailed². More important—even in absolute terms—was the fact that gross fixed capital formation grew at a rate about three times that forecast. The volume of "special" investments doubled—reflecting both the very large deliveries of trawlers

1 Taking into account the increases in export stocks and in livestock numbers, overall domestic expenditure rose by an estimated 11.3 per cent.

2 Thus the growth rate of household disposable income, though greater in nominal terms last year than in 1972, was however less in real terms (9.5 per cent compared with 12.5 per cent, as deflated by the price of consumer goods).

during the year as well as the rehousing programme for displaced residents of the Vestmannaeyjar². Moreover, instead of an expected decline in the other categories of gross fixed capital formation an increase of about 6 per cent was registered, reflecting inter alia a continuing strong demand for housing.

Foreign demand remained buoyant throughout the year, resulting in a 9½ per cent increase in the volume of exports. The size of the fish catch did not constitute the supply bottleneck originally envisaged and in fact output for export of marine products recovered by some 8 per cent following a decline of about 11 per cent during the preceding two-year period. Sales of aluminium—which accounted for one-sixth of total merchandise export income—continued to recover strongly and stocks were further drawn on last year. Output of other export-oriented manufacturing rose by about one-fifth.

Table 1 National Income and Expenditure

	1972 kronur million (current prices)	Percentage change from previous year			
		Volume		Price	
		1973	1974 ¹	1973	1974 ¹
Private consumption	42 780	6.5	7½	26.0	42
Public consumption	7 000	6.0	6	24.0	42
Gross fixed investment	19 100	20.1	4	24.5	45
(a) General	16 390	6.0	7½	26.5	46½
(b) Special ²	2 710	93.0	-8	27.0	39
Changes in export stocks and livestock	-840	..	..	..	..
GROSS NATIONAL EXPENDITURE	68 040	11.3	7½	25.5	43
Exports of goods and services	26 130	8.9	-1½	31.1	31
Imports of goods and services	27 900	19.5	8½	20.0	39½
of which: Special merchandise ³	(2 800)	103.0	10	22.5	36
General merchandise	(16 000)	12.1	8	24.0	48½
GROSS NATIONAL PRODUCT	66 270	5.9	3½	31.5	39½
Effects of changes in terms of trade ⁴	..	4.0	-4½	..	..
GROSS NATIONAL INCOME	66 270	9.9	-½	..	..

1 Forecast.

2 Burfell and Sigalda power projects, aluminium smelter, imported ships and aircraft, imported houses for inhabitants of Vestmannaeyjar.

3 Ships, aircraft, imports for power projects and the aluminium smelter, as well as imported homes for inhabitants of Vestmannaeyjar.

4 Expressed as percentage of previous year's GNP.

Source: Icelandic submission to the OECD.

In large measure these strong demand pressures were accommodated by a sustained high level of domestic production and by a sharp improvement in the country's terms of trade. Gross domestic product rose in fact by close to 6 per cent, which was faster than expected and represented only a moderate slackening off from the rapid 7 per cent averaged over the preceding three years. The two main factors behind this favourable development were the good performance of the fishing sector and the rapid growth of manufacturing industry. Despite disruptions due to the volcanic eruption and industrial action by crew members,

3 For definition of special investments see footnote to Table 1. These two items account for about nine-tenths of special investment. With the aluminium smelter now operating at full capacity imports of alumina also increased substantially.

Excluding special investment, the volume of final domestic demand rose by 6.3 per cent last year.

fishing sector output rose by some 8 per cent⁴. The catch itself (in terms of tonnage) increased by almost one-quarter, but a further marked shift towards the less valuable capelin occurred, whereby the tonnage of this species landed increased by some 60 per cent. At the same time a marginal recovery was registered in the volume of white fish taken. This increase in output required, however, a more than proportionate increase in fishing effort⁵.

With the coming on stream of the final stage of the Straumsvik refinery, aluminium production increased by 56 per cent last year. This was the main factor behind the accelerated growth of overall industrial output, although the other export-oriented industries were also among the most buoyant manufacturing sectors. Hampered by capacity constraints, the growth rate of construction activity slowed in 1973 to around 6 per cent, following increases of 12 and 16 per cent in 1972 and 1971 respectively. The growth rate of overall agricultural output also slowed down, registering an increase of around 2½ per cent.

Table 2 Gross Domestic Product by Industrial Origin
Per cent

	Relative weight 1972	1970	1971	1972	1973 ¹	1974 ²
Agriculture	7.0	0	8½	4	2½	4
Fishing and fish processing	11.7	5½	-5	6	8	2
Manufacturing other than fish processing	18.9	22	15	8	12	4
Construction	15.0	2	16	12	6	5
Public services	7.2	4½	6	6	6	6
Ownership of dwellings	7.3	3	3	2½	1½	3
Other	32.9		12½	8	5	5
Total	100.0	6	9½	6	6½	4½

1 Provisional.

2 Forecast.

NOTE: This table is subject to very wide margins of error and should be treated as indicating approximate values only.

Source: Economic Development Institute.

The country's labour resources were further stretched last year despite a 2 per cent growth in the work force. The average registered unemployment rate declined marginally from 0.5 per cent in 1972 to a mere 0.4 per cent last year, while the amount of overtime worked rose. Again the bulk of this unemployment was concentrated in the Northern parts of the country and tended to be seasonal in nature.

Given the lead time and administrative arrangements involved, the doubling in volume of special imports—a direct reflection of the special investments referred

4 Last year it had been provisionally estimated that the direct and indirect effects of the eruption would together reduce the growth rate of GNP by about 1 percentage point. Although it is still not possible to set a definitive figure on the extent of the loss, it may in retrospect have been well below this provisional figure.

5 At least, as crudely measured by the fishing fleet tonnage deployed. In 1973 there was a gross addition of 22 stern trawlers as part of the programme to replace the generation of trawlers bought in the immediate postwar period. During the course of last year there was a very substantial net addition of some 9½ thousand tons (or over 11 per cent) to the fishing fleet. Given the greater efficiency of the new vessels, it is to be noted that the gross addition to the fleet amounted to 14½ thousand tons, of which four-fifths was accounted for by trawlers.

to earlier—had been allowed for in the original forecasts made for 1973. Moreover, the strong pressures of domestic demand were reflected in a spill-over into “general” imports⁶, entailing a 12 per cent rise in volume for this category⁷. Although this increase was spread over a wide range of goods, mention may be made of oil imports which rose by 30 per cent in volume, reflecting largely the increased requirements of the fishing fleet and stockbuilding. The cyclically volatile imports of motor vehicles and other consumer durables also rose substantially.

In the absence of quarterly national accounts data only partial or indirect indicators of overall output and demand developments are available for the present. The picture which emerges is that the consumer boom has continued unabated and, despite some slackening in the latter part of the year (partly in response to certain policy measures—see page 18 below), the volume growth may marginally exceed that registered last year⁸. A slow-down to about 3 per cent is expected in the growth rate of the overall volume of gross fixed capital formation this year. However, when special investment projects—which in the short-term are almost entirely independent of the state of domestic demand—are excluded, the volume growth rate of fixed investment is expected to exceed that recorded in 1973. Although demand for housing—typically a leading indicator of movements in private domestic demand—slackened off in the latter part of the year, considerable buoyancy is still apparent. The volume of public works expenditure—primarily on power station and hot-water supply projects—is estimated to rise by a sizeable 9 per cent. Thus, total final domestic demand, excluding special investments should rise this year by about 7 per cent, compared with 6.3 per cent in 1973.

World markets for marine products have weakened perceptibly this year; during the first half the export volume was down by almost 12 per cent compared with the corresponding period of 1973, while stocks have risen. Export production of the “new” manufacturing industries (aluminium and diatomite) is not expected to grow in 1974⁹, while an actual decline is expected in the volume of sales of other manufacturing exports, although this last-mentioned category is quantitatively relatively unimportant.

As in 1973, availability of productive resources, rather than demand, has constituted the limiting factor to the growth of output. With strains on the labour market already marked for some time (by mid-year unemployment was negligible), the scope for raising productivity in the short term has been clearly limited. Accordingly, the growth of overall output is expected to further slow down to around 4 per cent, with activity spread relatively evenly between the various sectors. The growth of imports has fallen off sharply, reflecting a levelling off in special investment purchases (which are, however, being maintained at a high rate) but also in response to restraining policy measures. It has been estimated that for the year as a whole imports of goods and services will rise by 8½ per cent in

6 An elasticity of demand of 1.4 has been estimated for general imports with respect to general domestic expenditure.

7 The volume of total merchandise imports last year was one-fourth higher than in 1972. In this last-mentioned year domestic consumer demand had remained buoyant, but there was a sharp fall in special investments (owing to delays in deliveries of “lumpy” special imports) while general investment activity did not grow as fast as during the two preceding boom years. These circumstances were reflected in the pattern of merchandise imports.

8 A considerable amount of anticipatory stockpiling, particularly of consumer goods, appears to have taken place early in 1974 — which was indeed one of the factors aggravating the external account position and leading subsequently to the introduction of an import deposit scheme.

9 In the Icelandic context such growth necessarily occurs in rather discrete jumps as new projects come on stream. After 1977 a further substantial increase can be expected after completion of the Sigalda power project.

volume. A sharp decline in the terms of trade is expected to leave real national income unchanged at about the level reached in 1973.

Marked deterioration in the current account

While GNP rose by some 6 per cent last year, overall domestic demand increased by no less than 11 per cent. However, as indicated earlier, the "gap" was in part—to the tune of some 4 percentage points—filled by the unusually sharp swing in the terms of trade of 9 per cent recorded in Iceland's favour¹¹. The remaining shortfall, representing the excess of total domestic demand over the country's real purchasing power, was reflected in a deterioration in the goods and services account of the balance of payments which recorded a deficit amounting to close on 3 per cent of GNP.

As indicated earlier, however, there was a very large increase in imports of special investment goods. When allowance is made for these, it would appear that instead of a deficit of some \$US 35 million (or 3.5 per cent of GNP), the "underlying" position on the trade account was in surplus by about 1½ per cent of GNP and the goods and services account by around 2.2 per cent¹².

Table 3 Balance of Payments
\$ million¹

	1970	1971	1972	1973 ²	1974 ³
Exports of merchandise (fob)	146.0	150.4	191.7	267.0	373.9
Imports of merchandise (fob)	141.6	200.0	215.5	299.2	501.5
of which special imports ⁴	23.3	44.6	32.2	71.5	113.9
TRADE BALANCE	4.4	-49.6	-23.8	-32.2	-127.6
Services, net	3.0	5.5	3.8	5.4	-7.6
Transfers, net	-0.4	-0.1	0.2	14.9	1.1
CURRENT BALANCE	7.0	-44.2	-19.8	11.9	-134.1
Long-term borrowing (net)	-8.2	33.5	31.1	37.6	92.2
of which official	-1.4	12.5	24.0	20.6	26.2
financial institutions	-2.9	5.1	9.5	14.0	42.9
private	-3.9	15.9	-2.4	3.0	23.1
Private direct investment (net)	4.5	19.7	2.7	-2.3	-3.3
Other (net)	6.8	6.2	-7.2	-13.1	-6.1
CAPITAL BALANCE	3.1	59.4	26.6	22.2	82.8
Errors and omissions	1.0	-0.7	-1.6	..	..
SDR's	2.5	2.5	2.4	—	—
Change in foreign exchange reserves	13.6	17.0	7.6	10.3	-51.3

1 Average conversion rates (Icelandic Kronur per \$ US) used: 1970 87.90
1971 87.58
1972 87.12
1973 89.67
1974 99.77

2 Preliminary

3 Forecast.

4 Ships and aircraft, imports for power projects and aluminium smelter. 1973 data include houses for the Vestmann-aejjar population.

Source: Icelandic submission to OECD.

11 As measured by the deflators for trade in goods and services. Taking merchandise only, the terms of trade improvement amounted to 15 per cent.

12 The adjustment is made by excluding the value of imported houses for the Vestmann Island inhabitants and including one-twentieth of the value of ship and aircraft imports. Imports of investment goods for the power projects and the aluminium smelter were negligible last year.

The actual deficit on goods and services account was more than covered by transfers and long-term capital inflows directly associated with the major special import items. Some \$US 16 million was received in aid from abroad (almost exclusively from the other Nordic countries) on account of the volcanic eruption, which covered the cost both of the imported prefabricated houses and of personnel brought from abroad to aid in their erection. At the same time financing of trawler imports was arranged in part through \$US 10 million of long-term loans raised abroad by the Fisheries Development Fund. Total net long-term borrowing amounted to about \$US 41 million (4 per cent of GNP), and even though there was an unusually large \$US 17 million outflow of short-term capital due primarily to consolidation of short-term debt into longer-term loans as well as debt repayments by private companies, an overall surplus was recorded in the balance of payments (as measured by net monetary movements) of about \$US 11 million (or 1 per cent of GNP). By the end of the year foreign exchange reserves had risen to \$75 million, or the equivalent of some two months of merchandise imports.

The favourable development in the underlying balance on current account was, however, confined to the first half of the year. Although part of this may be due to seasonal movements, the main effect was produced by the fact that the bulk of the increase in marine product prices was concentrated—in line with world foodstuff price movements—to the first half of the year. The subsequent deterioration in the current account continued into 1974, gathering pace¹⁵. By the first three-quarters of this year the value of imports had risen by 62 per cent compared with the corresponding period of 1973, while exports were up by 22 per cent only. The resulting trading account deficit jumped to the equivalent of about 8¼ per cent of GNP (or \$US 109 million), compared with 2 per cent last year¹⁴. Although some of this increased deficit was due to the higher oil prices, the deterioration also reflected the impact of strong domestic demand pressures¹⁵. It was against this background that the authorities took direct action in May to stem the flow of “inessential” imports by introducing an import deposit scheme and subsequently devalued the Krona by 17 per cent in August¹⁶.

The wage/price spiral

During the course of 1973 the various centralised income agreements expired and renegotiation proved in all cases difficult¹⁷. Early in the year the trawler fleet was immobilised for 2 months due to industrial action before considerable wage increases for both seamen and officers were granted in March (in respect to the latter group with the aid of direct State intervention). The 3-year agreement for the Federation of Public Employees expired in July and the 2-year settlement between the Federation of Labour and the Employers' Federation in November. New agreements were not reached until December and February this year respec-

13 According to the normal seasonal pattern, the Icelandic trade balance tends to improve during the second and third quarters and to deteriorate in the first and fourth quarters.

14 Adjusting for “special” imports would make little difference to this comparison.

15 In the first quarter of 1974 the number of passenger cars imported was more than treble the number imported during the same period of 1973.

16 The import deposit scheme, introduced initially for the period May 20 to September 30, 1974, involved depositing 25 per cent of the value of imports in a blocked account with the Central Bank for a period of 90 days. An interest rate of 3 per cent per annum was payable and certain categories (amounting in fact to about one-half by value) of imports were exempted — mainly food-stuffs, petroleum products, raw materials for industry and pharmaceuticals. On September 5 it was announced that the scheme would be phased out by the end of this year; the deposit rate being reduced by 5 percentage points each month beginning in September.

The policy package of which the deposit scheme formed part was replaced on its expiration by a new series of measures formulated by the new Government (see p. 18).

17 For details of settlements see Appendix “Calendar of Economic Events”.

tively, with the last-mentioned settlement being preceded by a 5-day general strike¹⁸. The increases in wage rates provided under these agreements proved substantial; even so, individual agreements reached subsequently—particularly for skilled workers—although formally within the framework of the Federation of Labour general settlement have tended to be even larger¹⁹.

In all, the index of wage and salary award rates rose on average by some 23½ per cent last year. This index covers agreed specific increases as well as compensation according to indexation clauses which each of the various awards now contains. This latter element accounted for by far the major part (or some 15 percentage points) of the overall increase in pay rates last year. Reflecting the impact of the settlements referred to above as well as a 6½ per cent indexation adjustment made on March 1, average wage rates rose by close to 30 per cent during the first quarter of this year alone. It is estimated that wage and salary rates for the whole of this year will be on average 47 per cent higher than in 1973²⁰.

Total personal earnings rose by 37 per cent last year. It is evident that, even when allowance is made for the 2 per cent increase in the labour force and a higher participation rate as well as for the substantial rise in overtime, an important measure of wagedrift emerged for the first time in some years²¹. This development can be traced to the extra call on resources occasioned by the rehousing of Vestmann Islanders as well as the subsequent reconstruction work on Heimaey itself. Although the financial aid received from abroad was used to finance the importation of both materials and labour, pressures in the construction industry were such that building workers were to the fore in obtaining overaward pay increases²².

These very considerable pay increases can be traced in large measure to the "traditional" pattern whereby inflationary impulses from abroad are propagated through the domestic economy. Last year these impulses were of a magnitude unusually large even by Icelandic standards. In terms of US dollars the average prices received for goods and services exported rose by 27 per cent, and those paid for imports by 17 per cent. Except for the mitigating influence of exchange rate policy (see p. 17 below), these income and cost pressures were transmitted almost without trammel through the domestic sectors. At a time when the fishing industry was enjoying unprecedented prosperity, it would seem that the Fisheries Price Equalisation Fund (FPEF) could have exercised a more restraining influence on income formation within that sector than was actually the case. Reference prices within the various funds appear to have been regularly adjusted upwards to short-term movements in prices rather than in accordance with medium-term prospects²³. While the value of marine product exports rose by Kr. 6.9 billion (or by 56 per

18 In association with the Federation of Labour settlement the Government undertook certain fiscal measures (see Calendar of Economic Events).

19 This agreement covers directly or indirectly about 70 per cent of wage earners.

20 According to one of the provisions of emergency economic legislation introduced in May this year and in force till the end of August, the wage compensation index remains frozen. With adjustments made quarterly, this effectively excluded any compensation on June 1 but left open the question of adjustment at the beginning of September and December. According to an estimate made by the Icelandic authorities, assuming the contractual 14½ per cent wage compensation increase as from June and 7 per cent from September (based on forecast movements in the cost of living) average wage and salary rates would have risen by 60 per cent this year.

21 Wage and salary rates (after adjustment for a reduction in working hours) rose by no less than 27½ per cent in 1972. However, as there was virtually no wage drift then, personal earnings rose by 30½ per cent; i.e. less than last year.

22 Between February and June the (Reykjavik) building cost index rose by no less than 20½ per cent.

23 For a description of the guidelines for the Fund's operation see page 29 of the 1972 OECD Survey of Iceland.

cent) last year, payments into the FPEF amounted to only Kr. 0.6 billion, or some 3.2 per cent of total export proceeds. For its part, the 20 per cent increase in the cost of imported goods and services (in terms of Icelandic Kronur) probably accounted directly or indirectly (on a somewhat mechanistic calculation) for about one-half of the 24½ per cent rise in the deflator of gross domestic expenditure last year.

Table 4 Wage Rates, Incomes and Prices
Average percentage change from previous year

	1972	1973	1974 ¹
Wage and salary rates of all employees	27.5 ^a	23.5	47.0
Total personal earnings ^a (nominal)	30.5	37.0	52.0
Disposable income of households (nominal)	28.0	37.0	53.5
Cost of living	10.4	22.1	43.0
Prices of consumer goods	13.8	25.1	42.0
Real earnings ⁴	18.2	12.2	6.6
Real disposable income ⁵	12.5	9.5	8.1

1 Forecast.

2 Including effect of reduction in working hours.

3 Including effect of increase in employment.

4 Deflated by the cost of living index.

5 Deflated by index of consumer goods prices.

Source: Icelandic submission to the OECD.

Reflecting these pressures, the growth rate of the cost of living index doubled from 10.4 per cent in 1972 to 22.1 per cent last year and the sub-index of consumer goods prices from 13.8 to 25.1 per cent during the same period—despite the payment of substantial subsidies and the fact that a system of price control was in operation. Thus, households' costs rose approximately in line with average pay rates. During the first three quarters of this year the cost of living rose at an annual rate of 44 per cent.

Policy

Last year policy had to be formulated against a background of unusual turbulence and uncertainty. As indicated above, earlier in the year a general easing in the overall growth rate had been expected as well as a serious weakening in the balance of payments²⁴, while the threat of an acceleration in the rate of inflation was ever present. The practical feasibility of policy's maintaining a firm stance was, however, subsequently excluded by the consequences of the volcanic outbreak. Under the circumstances traditional measures of general fiscal and monetary policy again appear to have lent virtually no restraining force to the build up of excess demand and inflationary pressures. Various specific ad-hoc measures were resorted to, the efficacy of which were necessarily strictly limited in time. However, one important innovation deserves mention; exchange rate policy was employed to blunt the impact of external inflationary forces as the Krona was first revalued in April and then strengthened under conditions of a controlled float from June onwards. Between March 1973 and the end of the year the average trade and payments-weighted exchange rate of the Krona rose by 15 per cent. However, with the serious deterioration in the external account this year the position

24 Apart from a pessimistic view of the prospects for marine exports, a reduction in tariff rates vis-a-vis EEC countries was to be undertaken on April 1, 1973 in accordance with the terms of the trade agreement with the EEC.

of the Krona has again weakened markedly. At the end of August a 17 per cent devaluation vis-à-vis the US dollar was undertaken (see p. 18), by which time the Krona had weakened by almost 30 percentage points from its end-1973 weighted average value. During the first 6 months net foreign assets of the banking system fell by more than half to \$US 33.3 million (or the equivalent of less than one month's merchandise imports).

As originally approved, the Central Government budget for 1973 envisaged a slight overall revenue surplus of some $\frac{1}{2}$ billion kronur equivalent to about $\frac{3}{4}$ per cent of the previous year's GNP compared with virtual balance in 1972²⁵. A 23 per cent increase in revenue was budgeted for, with the main impetus deriving from such indirect tax categories as import duties and profits on the sale of tobacco and alcoholic beverages. On the other hand, final expenditure on goods and services was estimated to increase by only 14.2 per cent and transfers by 16.7 per cent. The net balance of financial transactions was, however, designed to pump roughly an equivalent amount back into the economy²⁶.

In the event, both revenue and expenditure exceeded the Budget estimates by substantial margins—revenue rising by 34 per cent and expenditure by 36 per cent, the net outcome being a weakening of the budgetary position. In part, this result can be attributed to the absence of a PAYE system of collecting income taxation²⁷. Instead of a surplus, a deficit equal to 4.5 per cent of total revenue was registered. Taking into account financing transactions, an overall cash deficit equivalent to

Table 5 Central Government Finances¹
Kr. million

	1972	1973		1974
	Accounts	Budget ²	Accounts	Budget
Revenue	17 837	21 970	24 046	29 180
Wealth and income taxes	3 624	4 937	5 237	7 190
Sales tax	4 365	5 020	5 499	6 702
Import duties	4 503	5 515	6 328	7 029
Other	5 345	6 498	6 982	8 259
Expenditure	18 222	21 936	24 942	29 403
Consumption	5 325	6 488	..	8 745
Investment	1 575	2 023	..	2 649
Transfers	11 322	13 425	..	18 009
REVENUE BALANCE	-385	34	-896	-223
Long-term borrowing (net) ³	560	908	677	1 923
of which foreign	..	288	..	287
Short-term borrowing (net) ³	-3	..	16	..
Other	-40	-603	-98	-1 308
FINANCIAL TRANSACTIONS BALANCE	517	305	595	615
OVERALL CASH BALANCE (+ = surplus)	132	339	-301	392

1 On cash basis.

2 Excludes special taxes imposed after passage of Budget to finance the Emergency Fund, but includes extra-budgetary element of public works investment and financing programme to make comparable with 1974 Budget figures.

3 Excluding borrowing from Central Bank.

Source: Icelandic submission to OECD.

25 Note that the revenue estimates do not take account of the special tax levied to finance the Vestmannaeyjar Emergency Fund.

26 Included in these financial transactions was a Kr. 300 million repayment to the Central Bank (which in fact amounted to some 60 per cent of the net balance) and Kr. 50 million repayment of foreign debt.

27 The rate of income taxation is indexed in Iceland and is levied on income received in the preceding year. Thus the growth rate of Central Government revenue lagged behind that of nominal GNP. However, it followed the growth of general domestic expenditure.

some Kr. 300 million was recorded. The debt financing policy adopted by the Government appears to have been inflationary. Of total borrowing amounting to Kr. 2.6 billion (equivalent to 2.9 per cent of GNP), one-half was taken up abroad and the remainder financed almost entirely by the Central Bank. The proceeds of the Central Bank element of this borrowing was largely (some two-thirds) transferred to the Vestmannaeyjar Emergency Fund.

Contrary to the practice of recent years, the Central Bank abstained last year from seeking to conclude an agreement with the commercial banks on limits to the rate of bank credit expansion. The expected deterioration in the balance of payments, which had been the motive for the authorities not seeking such an agreement, failed, however, to materialise. Indeed, an overall surplus was registered during the first 6 months compared with a deficit during the corresponding period of 1972, which augmented the banks' liquidity base. What is perhaps the monetary authorities' principal policy weapon—the compulsory deposition of cash by the commercial banks with the Central Bank—was, however, activated last year; retroactive from March 1 the average deposit ratio was raised in two steps from 20 to 22 per cent of total bank deposits and the marginal ratio of 30 per cent reactivated²⁸. In addition, interest rates on bank deposits and loans were raised—for the first time in a decade—at the end of April. On the other hand, the commercial banks were able to borrow heavily in the Central Bank last year—increasing their liabilities to this institution by a good half. The automatic rediscounting facilities to which the banks are entitled in respect to agricultural and export bills (which together account for the bulk of the banks' debt to the Central Bank) appears not only to weaken considerably the latter's control in general over bank credit expansion, but this facility appears to operate directly in a pro-cyclical fashion. In sum, new commercial bank lending more than doubled last year.

Although it constitutes the largest single element in the credit market, this "controlled" sector of the credit market—i.e. the commercial banks—accounts for only some 44 per cent of total net credit creation (i.e. net lending from both domestic and foreign sources to the non-financial sector)²⁹. As noted earlier, the Central Bank lent heavily to the Central Government authorities in conjunction with the need to make good the shortfall of taxation receipts (due to institutional lags in collection) into the Vestmannaeyjar Emergency Fund. The demand for private residential construction was sharply increased by the need for replacement of housing on Vestmannaeyjar. This sector which was in consequence characterised by conditions of excess demand and assumed something of a leading role in wage developments in 1973, was in large part financed by the State Building Fund and the pension funds³⁰, as well as, of course, the special Vestmannaeyjar Emergency Fund. In conjunction with the trawler replacement programme, the

28 Albeit the maximum ratio permissible under present legislative provisions (25 per cent) was not imposed. Had this been done, about a further three-quarter billion kronur of commercial bank funds (or some 10 per cent of their net new lending last year) would have been frozen.

29 In the May counter-inflation bill it was proposed that the prevailing system, by which commercial banks have since 1964 annually agreed to lend 10 per cent of the increment in their total deposits to the Investment Credit Funds be extended by law to other financial institutions and raised to 15 per cent, with pensions funds providing an additional 20 per cent of their investible funds. This proposal did not, however, find political support.

30 Together these two sets of institutions accounted for four-fifths of new lending to the private housing sector. Over 90 per cent of pension fund investments take the form of loans to members for housing purposes. These (private) pension funds operate on a capitalisation basis and thus face a difficult task in ensuring the real value of members' contributions under the inflationary conditions which characterise Iceland. An agreement has, however, now been reached whereby the pension funds will place 20 per cent of their new investible funds this year in special index-linked bonds issued by certain Investment Credit Funds.

Table 6 Determinants of Change in Banking Sector Liquidity
Kr. million

	1972	1973	1973 1st half	1974 1st half
Expansionary factors, total	+909	+3 916	+3 345	-134
Net purchases of foreign exchange ¹	+766	+1 196	+732	-4 058
Increase in domestic assets of Central Bank	+143	+2 721	+2 525	+3 880
Claims on Government sector, net	-283	+1 206	+1 442	+1 398
Claims on Investment Credit Funds	+293	+241	+291	+72
Rediscounts ²	+659	+1 279	+821	+2 429
Claims on other sectors	-528	-5	-29	-19
Treasury bills held by Deposit Money Banks	—	—	+88	+44
Contractionary factors, total	-949	-4 106	-2 793	-3 250
Notes and coins in circulation	-401	-550	-300	-646
Required reserves with Central Bank ³	-702	-2 055	-1 152	-1 030
Deposits of Investment Credit Funds	+144	-695	-565	-305
Public Depository Funds	-55	-696	-577	-832
Other items, net	+65	-110	-199	-437
Changes in total liquidity (increase = +)	-40	-190	+553	-3 383
Foreign liquid position	+1	+144	-5	-23
Liquid position with Central Bank	-41	-334	+469	-3 404
Treasury bills	—	—	+88	+44

1 Excluding SDR allocations and bookkeeping changes caused by par value changes of the Icelandic krona.

2 Including securities.

3 Including time deposits.

Source: Central Bank of Iceland "Monetary Developments".

Investment Credit Funds' (ICF) new lending to the fisheries sector almost doubled, with a substantial proportion of these funds being financed through long-term loans arranged abroad³¹.

The central government Budget estimates for 1974 as approved by Parliament again provided for approximate balance both on revenue account as well as overall after taking into account financial transactions. As early as February, however, in conjunction with the labour market agreement, personal income tax scales were reduced, although a corresponding increase in revenue was obtained by raising the general sales tax rate³². At the same time it was decided, in view of the inflationary situation, not to proceed with the reduction in subsidies and family allowances originally envisaged in the Budget. Wages and prices have, as indicated earlier, increased rapidly so far this year, which will have a sizeable impact on both revenue and expenditure³³. The net impact on the budgetary position remains to be seen, but preliminary estimates by the Icelandic authorities suggest a weakening of the Central Government's finances narrowly defined³⁴. The serious imbalances

31 Of the gross increase in the ICF's resources last year, just over one-quarter was obtained directly or indirectly (i.e. via the Central Government) from abroad.

32 For details of these measures see Calendar of Economic Events. By agreement, the impact of the increase in the sales tax rate on prices has been excluded from the wage compensation index.

33 The Budget is in fact formulated in terms of the price and wage rates actually prevailing or foreseen with full certainty at Budget time. Though perhaps understandable from the viewpoint of not wishing to unduly influence movements in these indices, this practice obviously reduces the usefulness of the Budget document. It may be mentioned that wages and salaries account for about one-half of Budget final expenditure on goods and services.

34 During the first ten months of the year revenue was 54.7 per cent higher than during the corresponding period of last year, while expenditure had grown somewhat faster (56.3 per cent). The revenue deficit was larger than in the corresponding period of 1973. In fact, however,

emerging in the Icelandic economy during the course of 1974 have also been reflected in the form of sizeable deficits in the operation of important public utilities, in the financing of public works programmes and the Investment Credit Funds. These problems may still have to be fully surmounted, despite recent measures. The same applies to local authority finances. In sum, the overall financial position of the public sector has weakened considerably in 1974.

In the field of monetary policy interest rates which had been raised by 2-3 percentage points at the end of April 1973, were increased by a further 4 percentage points during July this year. More importantly, however, a decision has been taken that in most cases 25 per cent of loans granted by the Investment Credit Funds during 1974 are to be indexed. In late April agreement was reached between the Central Bank and the commercial banks limiting the rate of credit expansion by the latter during the course of calendar 1974 to 22 per cent³⁶. In July the penalty interest rate on "lender-of-last-resort" loans was raised from 18 to 24 per cent. Bank lending has, however continued to grow rapidly, even despite the serious drain on their liquidity position occasioned by the deterioration in the external account. By the end of July total loans outstanding granted by the commercial banks was 32.6 per cent higher than the end-1973 figure. In essence this credit expansion was sustained by continued access to the Bank's overdraft and rediscounting facilities.

During the period under review the burden of exercising a restraining influence has fallen to measures other than those of orthodox fiscal and monetary policy. In conjunction with a unilateral 6 per cent revaluation of the Krona in April last year, the first since 1924, a 2 per cent rollback in the prices of virtually all goods and services was decreed. Against a background of continued weakness on the part of the US dollar (to which the Krona was then "tied") and the prevailing uncertainties in the international monetary situation, it was decided to "float" the Icelandic currency in June. As indicated earlier, during the period from mid-March to the end of last year the effective exchange rate of the Krona rose by some 17 per cent. Thus it is probable that exchange rate policy directly or indirectly restrained the growth in the domestic price level by around 7-8 percentage points last year. In addition, payments into the Fisheries Price Equalisation Fund, though relatively small (see p. 13 above), contributed to exercising a restrictive influence.

Systems of either price freeze or restraint have been in operation continuously—although given the open nature of the Icelandic economy even their potential effectiveness has been strictly limited. In any event, faced with a growing deterioration in the inflationary situation and in the external account (and with the impact of the oil price increase coming fully through), the Government devised at the beginning of May this year a comprehensive set of emergency measures. This package failed, however, to gain Parliamentary acceptance, but several of the constituent measures were subsequently incorporated into provisional legislation which, after confirmation by the new Parliament, remained in force to the end of September. The principal components of this latter programme included: (a) a freezing of prices, of the wage compensation index and of raw fish prices, (b) an increase in the special automobile tax, (c) payment of increased consumer subsidies, (d) introduction of a temporary import deposit scheme, and (e) reduction by 25 per cent in the loan programme of the Investment Credit Funds.

it is difficult to compare this year's developments with last year's since the 1974 Budget incorporates for the first time certain transactions which have previously formed part of the extra-budgetary investment and financing programme.

³⁶ The agreement excludes, however, lending for which the Central Bank provides automatic rediscounting facilities as well as loans granted to the Development Fund. Last year these two classes of lending accounted for 23 per cent of total new bank credit.

On expiration of the measures outlined above, the recently elected Government formulated a new set of policy actions designed to restrain the growth of domestic demand and improve the foreign balance. A unilateral 17 per cent devaluation of the Krona was undertaken and certain charges and indirect tax rates raised, the yield of which is estimated at some Kr. 2.8 billion on an annual basis (or about 3 per cent of total private consumption)³⁷. In addition, at the end of September provisional laws valid to the end of May 1975 were passed to secure adequate profitability for the fisheries and to constrain wage and price increases. The special measures for the fisheries included limiting increases in the price of raw white fish to a maximum of 11 per cent on average; the establishment of an oil fund for subsidising fuel oil to fishing vessels (to be financed by export duties on fish), increased flexibility of operation for the Fisheries Price Equalisation Fund and redistribution within the fisheries sector of gains on export stocks arising from the devaluation of the Krona. The income and prices policy measure provides for the replacement of wage indexation by a system of selective compensation for low-income earners³⁸. This arrangement is, however, subject to general revision should the cost of living index rise by more than 20 per cent as from August 1, 1974. There is also provision for increased family allowances, a 10 per cent rise in the income guarantee limit for recipients of old-age and disablement pensions, a general 6 per cent increase in social security benefits, and the maintenance of strict price surveillance.

II INFLATION IN ICELAND

As noted earlier, Iceland has experienced a significantly higher rate of inflation during recent years than any other OECD Member. For the decade 1961-71 the average annual rise in consumer prices was 12 per cent in Iceland compared with an average 3.7 per cent for the total OECD area. Nor has Iceland been free from the general acceleration in rates of inflation experienced in the most recent past³⁹. Some causal factors behind these higher-than-average rates of price increase, the extent to which adjustment has been possible and the policies pursued to combat inflation are examined in the following paragraphs.

The longer-term picture

The openness of the Icelandic economy and the marked degree of variability in export earnings necessarily result in sharp movements in the balance of payments position and in gross national income (GNP adjusted for terms of trade movements)⁴⁰. The extent to which this is reflected by movements in the

37 The total yield is made up as follows:

- (a) General sales tax: Increase of 2 percentage points to yield Kr. 1.8 billion.
- (b) Tax on petrol and diesel vehicles: Increase of 60 percentage points to yield Kr. 0.7 billion.
- (c) Regional price equalisation tax on electricity: Increased charges to yield Kr. 0.3 billion.

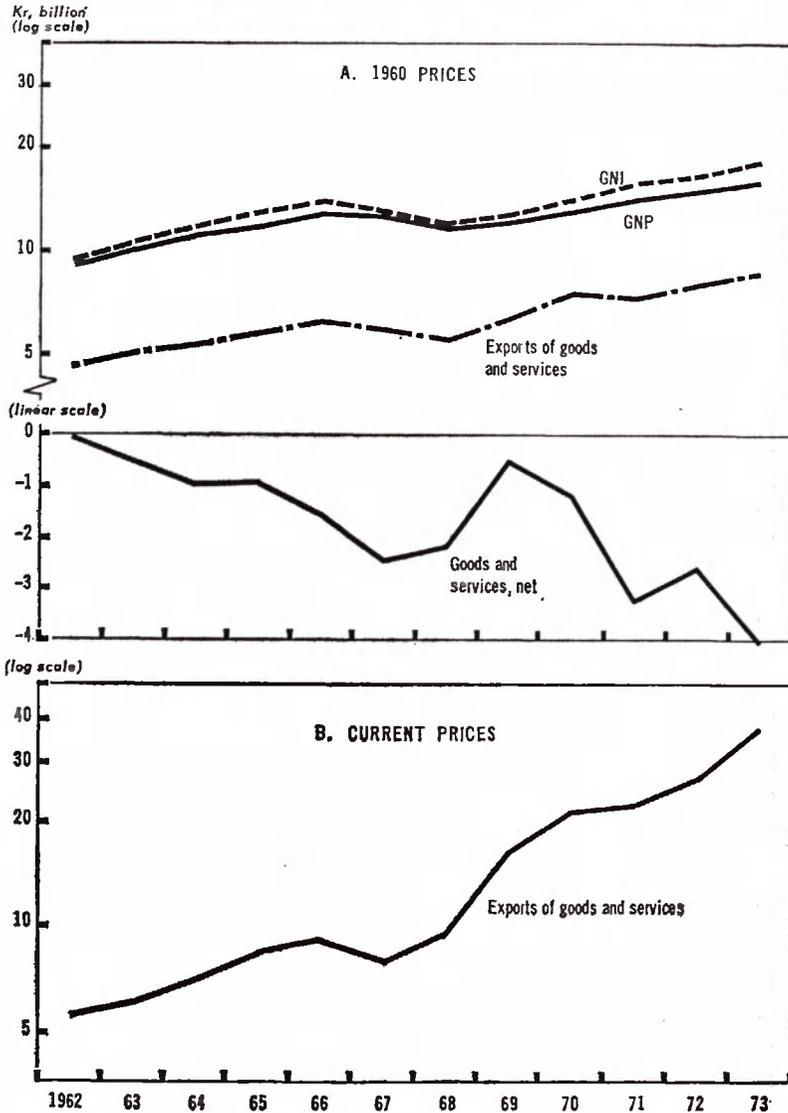
Legislation was enacted to appropriate the gains on export stocks of fish products deriving from the devaluation. These funds are to be utilised within the fisheries sector.

38 The compensation scheme is estimated to result in an increase of 6-6½ per cent in the total wage and salary bill, compared with what would have been a rise of the order of 30-35 per cent had the general indexation arrangement not been suspended.

39 For 1973 the average annual rate of increase in consumer prices in the OECD was 7.7 per cent and in Iceland 20.6 per cent.

40 The variability of GNP and instability of export earnings were examined in greater detail in the 1972 OECD Survey.

Diagram 1 Foreign Trade and National Income



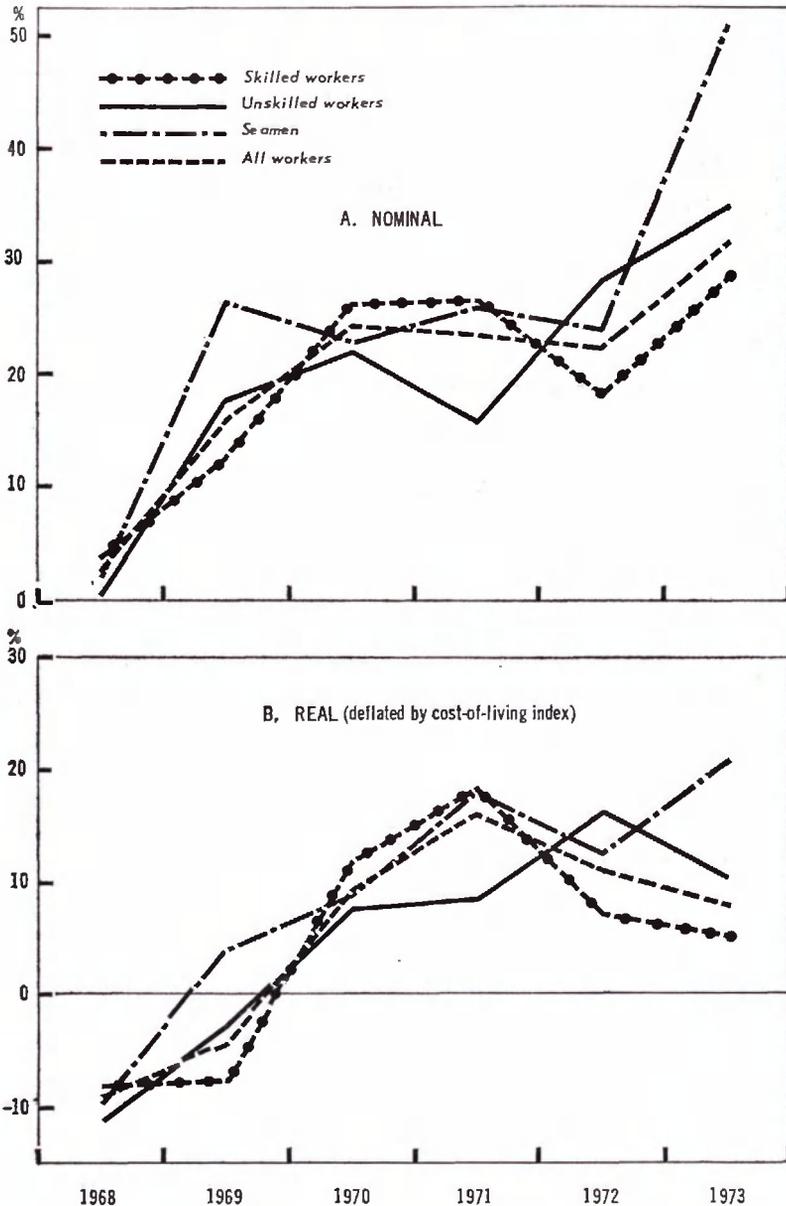
Source: Icelandic submission to the OECD.

general level of domestic wages, earnings and prices depends on the relevant institutional framework. In Iceland the process of transmission of these impulses appears to have been relatively rapid.

In common with experience in other OECD Member countries, prices and wages in current money terms have in Iceland exhibited marked downward inflexibility. On the other hand, increases in export earnings flowing from either an increase in the volume and/or prices received for the fish catch have typically resulted without delay in increases in the money income of the fishing and fish-processing sectors. Rises in the earnings of persons in these sectors have then been followed by demands for similar pay increases by other sectors,

notably industrial workers. Farmers' incomes are linked by legislative provisions to those of industrial workers and seamen, while a number of institutional or traditional arrangements have meant that the remaining sectors of the economy have also seen their wage costs rise more or less in line with the earnings of the fisheries sector.

Diagram 2 Development of Wage Earnings
Percentage change



Source: Icelandic submission to the OECD.

Typically the magnitude of these wage and salary increases, being primarily a function of the scale of the booms experienced in the fishing industry, has been far in excess of what would be sustainable at an unchanged level of domestic prices. Thus the cost-push element of external inflationary impulses has operated essentially through labour costs. Up to the last three years import prices played in general only an occasional and somewhat minor role; thus, during the 1960s average unit values of imports remained virtually stable in foreign currency terms. At the same time, when the fishing sector experiences a boom it tends to attract labour from other sectors—and in particular from building and construction where the strain on resources is in any case especially marked during an upswing.

In addition to this impact on costs transmitted by rigidities in the process of wage and price formation as well as the effects on domestic demand, the emergence of a current account surplus, or reduction in size of the traditional deficit, associated with an export boom has necessarily implied a positive impetus to the money base. Furthermore, the capital account has throughout the sixties and early seventies been in surplus, with an average net capital inflow of around 3-4 per cent of GNP⁴¹. This net capital inflow has been more than adequate to offset the current account deficits and international reserves almost tripled in the ten years ending December 1973.

The impact of these external developments on domestic liquidity has been sharply expansionary, since monetary policy has tended to operate according to a ratchet mechanism. In periods of overall balance of payments surplus monetary policy has not been restrictive enough to offset the increased liquidity, whilst in periods of deficit policy has been to more or less offset the tightening of liquidity that would otherwise have occurred.

The use of fiscal policy as an anti-inflationary weapon has been hampered by a number of factors, two of which would appear to be of particular significance. The legislative provision for indexation of the progressive income tax schedule, whilst not always actuated, has in general been applied annually⁴². Both personal allowances and the tax rate brackets are adjusted according to a "tax index", movements of which take into consideration changes in prices and real incomes. Necessarily the use of this adjustment mechanism has severely restricted the ability of the Government to operate counter-cyclical policies, or at least reduced significantly the automatic stabilising influence of fiscal drag⁴³. In addition, wage and salary rates are linked to movements in the cost of living through a special wage compensation index. While its possible dampening effect on wage claims must be taken into account as well as the fact that the index does not cover all goods and services, indexation restricts the Government's scope for implementing a restrictive fiscal policy based on indirect tax rate changes owing to the direct effect of such measures on the price level⁴⁴.

A second factor which appears to have been important in limiting the role of fiscal policy is the general political preference for balanced budgets. Whilst it is not immediately obvious that such a policy *per se* would be inflationary in the

41 In 1971, it amounted to more than 10 per cent of GNP.

42 The Government has maintained some freedom in the use of the tax index; no adjustment took place, for example, in 1968.

43 It is, of course, recognised that in some instances fiscal drag may give rise to wage claims to compensate for the reduction in real earnings resulting from the increased tax take.

44 Thus this system obviously may have affected the choice of policy instruments. Wages agreements have often been concerned with what items are to be included or excluded from the index. The importance of indirect taxation may be gauged by the fact that of the total tax revenue of the public sector, estimated at Kr. 15 billion in 1971, Kr. 10½ billion (70 per cent) was accounted for by indirect taxes. This very high share of indirect taxes compared with other OECD countries may be explained by the greater importance of import duties in Iceland.

Table 7 Budget Balance, Output and Demand Indicators, 1962-72
Per cent

	Budget financial balance ¹	Demand indicators ²		
		GNE	GNI	GNP
1962	3.4	0.9	2.8	3.5
1963	1.6	8.5	3.5	4.5
1964	-1.2	5.9	6.0	4.3
1965	0.7	-0.8	4.3	1.6
1966	2.3	4.5	1.9	3.0
1967	-0.8	-2.4	-11.7	-7.5
1968	-0.3	-14.3	-13.4	-11.5
1969	-0.5	-15.4	-2.1	-3.3
1970	1.3	2.1	3.5	0.2
1971	-0.6	16.5	6.6	4.6
1972	0.3	-5.6	-1.1	0.1
1973	-0.4	11.3	9.9	5.9

1 Net lending of the Central Government expressed as a percentage of previous year's GNP (current prices).

2 Deviation from the average growth rate 1962-72 of GNE, GNI and GNP respectively.

Sources: OECD National Accounts; Icelandic Submission to the OECD.

longer-run⁴⁵, it would appear that the delay in applying restrictive measures when the economy was in need of restraint has meant that deflationary forces have generally operated rather late in the cycle and been imposed as much or more externally via the balance of payments. In a similar manner stimulation of the economy has also tended to be externally-generated.

Some special factors operating in 1973/74

Toward the end of 1972 the rate of inflation appeared to be slowing down and a restrictive policy stance had been envisaged for 1973. Nevertheless, the rate of price increase last year witnessed a sharp acceleration and this year the rate has been even higher. The original apparent easing had been brought about by the payment of subsidies and other special measures including the July 1972 price and wage freeze legislation, so that the recent acceleration is comprehensible within the "traditional" context outlined in the paragraphs above. However, it appears that several special factors have combined to aggravate the situation.

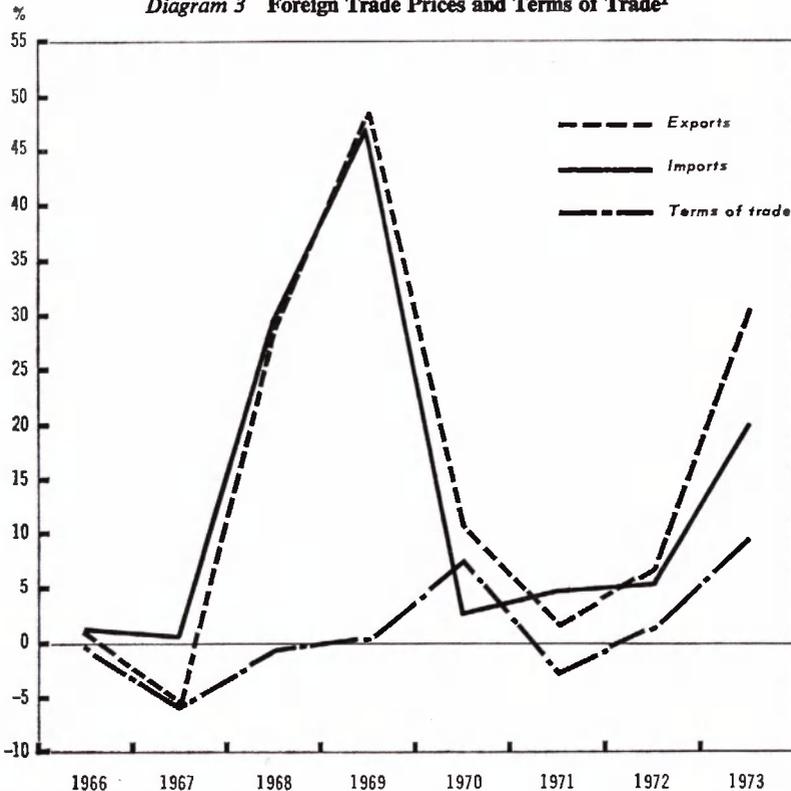
Firstly, of course, reference must be made to the Vestmannaeyjar eruption. The initial rescue work, the rehousing of the displaced population as well as the subsequent resettlement operations placed considerable strain on the country's resources. As indicated earlier, the emergence of wage-drift last year—which has otherwise not been experienced in recent years in Iceland but had been evident in the early 1960s—was spearheaded by over-award payments to construction industry workers. In addition, due to administrative delays in the collection of special tax surcharges by the local governments, about one-quarter of the expenditure incurred by the Emergency Fund was financed by the highly inflationary means of Central Bank borrowing⁴⁶. Finally, and not least importantly, should be mentioned the effect which the eruption had on policy stance in general. As it had been feared that a serious loss of output would ensue, the earlier tightening in stance gave way to an easing.

45 Although the implications of the "balanced budget multiplier" theorem should be kept in mind.

46 The amount involved (Kr. 780 million) was equal to one-tenth of total net new credit creation by the banking sector (excluding the Central Bank) last year.

The second special factor was the sheer magnitude of movements in world prices. Even before the oil price rise late in the year, world commodity prices had risen faster in 1973 than in any year since the Korean boom. Generally these movements favoured Icelandic exports and a sizeable improvement took place in the terms of trade. Prices received for marine products rose by 41 per cent in terms of foreign currencies. It wasn't till early this year that the impact of the oil price increases began to be felt; unfortunately, at a time when fish prices (particularly for frozen fish products and capelin meal) weakened sharply⁴⁷. The timing of the labour market incomes negotiations may be cited as a third factor. This phasing was "unfortunate" both from the viewpoint that all major agreements came up for renegotiation during 1973 and that bargaining took place against a background of accelerating inflation and just before the drastic turnaround in the terms of trade had been generally realised.

Diagram 3 Foreign Trade Prices and Terms of Trade¹



¹ National accounts deflators for exports and imports of goods and services expressed in Icelandic currency.

Source: Icelandic submission to the OECD.

⁴⁷ All refined oil products are imported since Iceland has neither indigenous supplies of crude oil nor oil-processing facilities. Most supplies derive from the Soviet Union under 2-year agreements. Policy so far has been to maintain the price of oil unchanged to the fishing fleet and to mitigate the impact on domestic heating costs for the one-half of the population which uses oil for heating purposes through limited per-capita grants. The cost of these measures is being met by a special levy on fisheries exports and a 1 per cent sales tax surcharge, respectively. Otherwise domestic prices for oil products have been raised fully in line with world market prices and in the important case of petrol well above this through increased taxes.

Adjustment to inflation

Not surprisingly, institutional adjustment to the phenomenon of inflation has evolved to probably a greater extent in Iceland than in any other OECD Member country. Wages and salary as well as taxation rates, and some forms of saving are indexed. At the same time the exchange rate of the Krona has been adjusted rather regularly with an important element in the adjustment being the generally high rate of inflation in Iceland compared with the rates experienced by her major trading partners.

Indexation of wages and salaries began in 1939 and has been applied during most of the post-war period. The extent to which indexation may have aggravated the situation as well as operating as an adjustment mechanism is a moot point. It would, however, appear to have provided a vital link in the wage-push inflationary spiral. The resulting increases in the wage bill that come from quarterly indexation tend to be rather rapidly passed on to prices since the system of price control has largely focused attention on profit margins⁴⁸. Other elements of cost increase (e.g. higher prices for imported inputs) can be similarly passed on to the final consumer. The high degree of tariff protection and use of subsidies enable import-competing goods to also pass on cost increases. With more rapid inflation domestically than overseas even high tariffs would prove inadequate but for other factors. Firstly, tariffs may not initially be "fully used"⁴⁹, while secondly, and more importantly, the Icelandic Krona has been more or less regularly devalued since the last war and consequently the price competitiveness of import-competing products has been regularly restored.

The indexation of taxation rates applies mainly to income taxes, which account for a relatively small part of total tax revenues⁵⁰. This reduces the scope of government to pursue an active fiscal policy, although application of the index is subject itself to government control. Moreover, changing indirect tax rates is not a straightforward means of demand management as increases in rates, by raising prices will, via the special compensation index (unless specifically excluded), result in wage increases⁵¹. Some indexation of savings was commenced in 1964 in the form of Government Savings Certificates linked to the building cost index. This form of index-linked saving, which has grown in relative importance over the past decade, has undoubtedly been attractive, yielding as it is at the moment a positive rather than negative real rate of return unlike savings in many other OECD countries⁵². Indexation of saving is as yet far from complete⁵³, and its effect upon

48 The present system of price control operates according to two broad alternative principles: (i) Control of formal mark-ups, (ii) Fixing of final consumer price. The large majority of goods and services fall into the first category.

49 Tariffs may be said to be "fully used" when the domestic price of a product is equal to, or greater than, the landed duty-paid price of a similar product from overseas. If it is less, scope exists for the price of the domestic item to be raised without incurring further competition from overseas.

50 In 1974, all direct taxes (including income taxes) are expected to account for only 20 per cent of central government revenue.

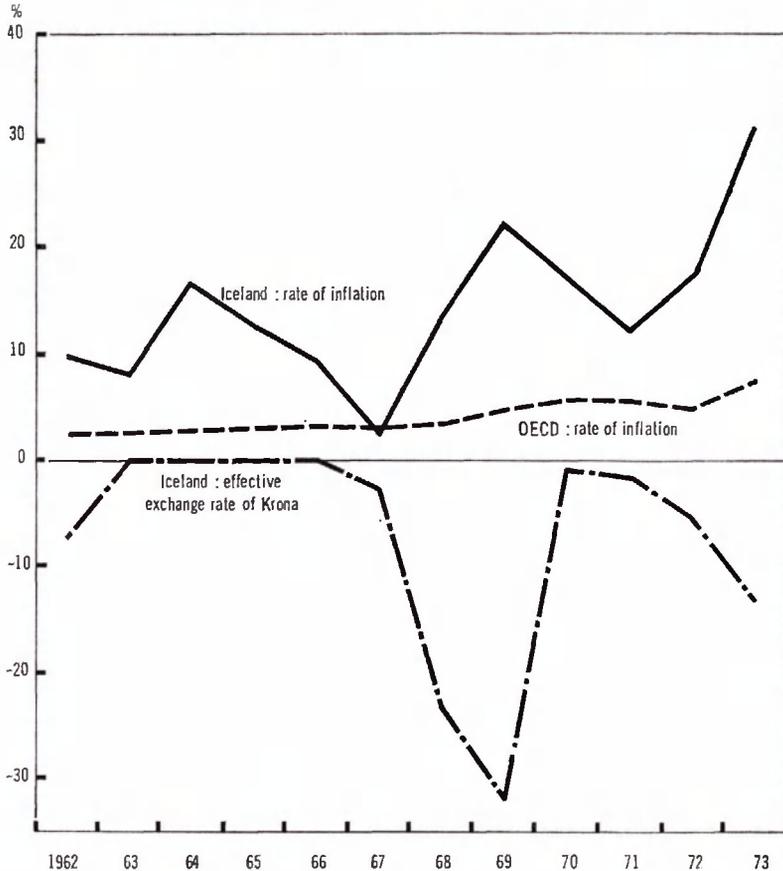
51 The following have been excluded by law or agreement from the compensation index: The sales tax supplements (of together 2 percentage points) in 1973 and 1974 for the Vestmannaeyjar Emergency Fund and for financing the per-capita oil grants (see footnote 47 above); the increase in the sales tax rate (of 4 percentage points) undertaken in conjunction with the wages settlement in February this year; changes in the State monopoly prices of alcohol and tobacco.

52 The use of particular indices (such as the building cost index) may result in rather substantial real rates of interest.

53 On a gross basis index-linked saving amounted to Kr. 1.3 billion in 1973 or 5.2 per cent of gross domestic saving. The co-existence of indexed and non-indexed savings media may lead to serious distortions in the financial markets, as the former enjoy obvious advantages. For example, in the absence of date of suitable indexed bonds to purchase, the pension funds, which constitute a major element of overall savings, have mainly lent to members for housing purposes (see p. 15 above).

the consumption/savings ratio has not been studied. On a *a priori* grounds it would appear to encourage saving, particularly at a time of rapid inflation, although its primary effect may be on the composition of saving. However, any more detailed assessment would, of course, need to take into account the use to which such savings are put⁵⁴. The pension funds constitute a major area of non-indexed saving, although some funds have already introduced elements of indexation⁵⁵.

Diagram 4 Inflation and Effective Exchange Rate Movements



NOTES

1 Inflation rates are represented by GNP implicit price deflators.

2 The result of the domestic inflation had resulted in the krona in 1971 being worth 31 per cent of its 1962 value. During the same period the average of OECD currencies had their value reduced to 70 per cent of their 1962 values. In the same period, the international value of the krona was reduced to 46 per cent of its 1962 value.

Sources: OECD Secretariat and National Accounts.

54 To the extent that they were used for example by the Government to promote consumption (e.g. by the payment of consumer subsidies) shifts in the consumer/savings ratio would be reduced. In this connection it should be noted that the proceeds of the Savings Certificates have always been earmarked for the public works financing programme.

55 At present it is estimated that only 30 per cent of pension funds (i.e. only those of public sector employees) are fully indexed.

It is of interest to compare movements in the exchange rate of the Icelandic currency with the difference in inflation rates experienced by Iceland and other OECD countries (which account for a large part of her foreign trade). This is shown in Diagram 4 above. An important factor accounting for part of the remaining divergence is, of course, movements in the terms of trade.

III PROSPECTS AND CONCLUSIONS

The most striking features of economic developments in Iceland this year have been the dramatic deterioration in the current account of the balance of payments and the disquieting rate of wage/price inflation. The external account has been burdened by the unfortunate coincidence of a weakening in demand for the country's principal exports and an exceptionally large increase in the prices which must be paid for imports. The most recent estimates made in the light of the August-September package of measures indicate a likely current account deficit equal to some 9 per cent of GNP⁵⁶. The seriousness of the inflationary situation is evidenced by the fact that an average rate of inflation (as measured by the cost-of-living index) is expected for the year as a whole of around 43 per cent.

The outlook for 1975 remains extremely uncertain. Having regard to the structure of Icelandic external trade, it is likely that the present deterioration in the terms of trade will not be reversed. Assuming that export prices remain approximately unchanged while the growth rate of import prices eases off somewhat, the current account deficit could be reduced to around 5½ per cent of GNP next year. However, this presupposes success on the part of policy in severely restraining the existing excess demand pressures, as the scope for any increase in the volume of domestic expenditure will be extremely limited. Although the wage compensation index has now been frozen, operation of the income equalisation scheme is estimated to boost household income by some 6 per cent. In addition, the authorities must take into account the fact that early next year the first index-linked savings bonds become due for redemption at an estimated value of over Kr. 700 million—or some 12 times their original face value and over one-half the total volume of Central Bank rediscounts to the banking sector last year. Under these circumstances a critical test awaits the responsible authorities. Deployment of the traditional weapons of fiscal and monetary policy has been weak in the past, so that ad hoc packages with heavy reliance on incomes policy measures have had to be relied on to head off developing crises. By their very nature such measures have been rather of a holding kind to “buy time”—suppressing as they do the symptoms of excess demand rather than providing a cure. The emergency measures presented last May as well as the subsequent “package” introduced in September have provided a breathing space, although the sizeable devaluation will inevitably have inflationary implications. Accordingly, it is essential that the 1975 Budget act to restrain domestic demand and that monetary policy also co-operate toward this objective, although care must be taken to ensure that excessive slack is not created.

Iceland has faced and overcome difficult situations on numerous occasions in the past; the sharp decline in real income levels following the collapse of the “herring boom” in 1967 springs readily to mind in this context. Furthermore,

⁵⁶ The increase in oil prices alone is equivalent to 3 per cent of GNP and adjustment for special imports (see p. 10 above) would account for a further 4½ per cent. Thus the underlying non-oil current account deficit is of the order of 1-2 per cent of GNP.

while the cost of oil is currently placing a serious strain on the balance of payments, the longer-term perspectives of the energy crisis are distinctly favourable. Iceland is a country with abundant energy resources which have only begun to be exploited⁵⁷. Yet the present situation appears to contain new characteristics, the implications of which may perhaps best be summed up by asking whether a 40-50 per cent rate of inflation could be withstood without the threat of serious distortion to the economy's functioning. No definite answer is possible, but the seriousness of the situation makes it necessary for the Icelandic authorities to subject existing procedures and methods of economic policy management to thorough reappraisal. Admittedly, the system of compensation developed to counter the impact of inflation appears to have circumvented many of the undesirable effects which a continuing high rate of price increase tends to have on income and wealth distribution. However, the distorting effect on allocation of the country's productive resources and hence on the economy's overall growth rate, should be accorded due consideration. At the same time the adjustment process itself, based as it is largely on extensive indexation of various types of income, may well tend to aggravate the inflationary wage/price spiral under Icelandic conditions where the primary impulses are derived from abroad. It seems clear that past heavy reliance on ad hoc "packages" of an incomes policy nature has failed to produce a durable solution to the problems of demand management faced in Iceland. Greater use of fiscal and monetary measures is certainly called for; indeed, their implementation would no doubt enhance the prospects for the more successful deployment of incomes policy action, within the framework of which selective indexation could play its part.

It is suggested in the Survey that special factors operated last year to aggravate the situation. Nevertheless, if it is true that Iceland may have to adapt to living in a more inflationary world than in the past, then the adjustment responses hitherto relied on, which have tended to amplify the external impulses, could well produce a rate of domestic inflation such as to threaten the stability of these very institutional arrangements. On various occasions in the past the Secretariat has had cause to point to apparent short-comings in fiscal and monetary management. The present Survey has again referred to the problems associated with an apparent predilection for balancing the central government budget each year as well as to the disadvantages of not having a PAYE system of income tax collection where incomes are subject to relatively sharp fluctuations from year to year. Important reforms have recently been carried out in the field of public finance which will give the central authorities better control of total public expenditure, and the works programme has now been incorporated entirely within the budget. In addition, the new administration in a policy statement issued soon after its formation foreshadowed a series of moves which should contribute to the efficacy of demand management. These initiatives are to be welcomed, but their implementation will require precise formulation in terms of effective policy measures.

In the monetary field it would seem imperative that the responsible authorities' field of direct control be extended beyond the commercial banks. While admittedly lessons learned in one country may be difficult to apply in others, experience does suggest that where control is concentrated to one particular section of the credit market distortions will inevitably be introduced into the latter's functioning which may nullify the intended aims of policy actions. Last year saw sizeable funds being channelled by the non-bank financial institutions

⁵⁷ Only about 8 per cent of the country's economically exploitable hydro-electric resources, which amount to a substantial 28 thousand GWh a year, and perhaps 4 per cent of geothermal energy potential, which is estimated at several times the hydro potential, have been developed.

into private housing at a time when the construction industry's resources were under particularly heavy strain. Some 90 per cent of pension funds' lending was for housing purposes. It is also likely that, given the disadvantages under which it is obliged to operate, the controlled sector's relative share of the total market will be subject to gradual diminution in the longer run and further weaken the operation of monetary weapons.

The Investment Credit Funds' lending now amounts to almost one-half that of the combined banking sector. These institutions enjoy the advantage of having "captive" sources of finance as well as a considerable degree of autonomy in their lending operations vis-à-vis the authorities responsible for overall economic management. It must be recognised that the Funds' operations are often subject to not inconsiderable regional pressures and that, while their actions may be criticised on occasion from the shorter-term demand management viewpoint, they also serve other objectives of a broader social nature. Nevertheless, possible conflicts between economic and other policy objectives might be more clearly brought into focus and the issues subjected to more thorough consideration if the Funds were brought more directly under the control of the responsible monetary authorities. Present consideration being given to drawing up integrated credit budgets annually should both facilitate appreciation of possible financing difficulties of particular sectors as well as improve the scope for monetary control.

Aside from the issue of extending the scope of direct monetary controls, it will be recalled that last year's Survey touched on the problem of allocating investible funds by administrative rationing rather than enlisting market forces via interest rate policy. While the feasibility of such a move in the Icelandic context might be debatable—given the limited size of the market—the failure of existing procedures to effectively control the volume of credit creation would suggest there is a good case for giving serious consideration to pursuing a more active interest rate policy. Admittedly the overall level of interest rates was raised in 1973 for the first time in almost a decade and again this year, although the total rise was significantly less than the acceleration recorded in the rate of domestic inflation. More significantly, a decision has been taken to index one-quarter of the Investment Credit Funds' lending in 1974. In this context, consideration might also be given to restricting the short-term credit facilities available to the commercial banks from the Central Bank.

Annex

CALENDAR OF ECONOMIC EVENTS

January 1973-October 1974

1973

- January*
- 1st* Family allowances increased by Kr. 100 million (annual rate), effect of which estimated to reduce wage compensation index by 0.8 points.
- 3rd* Fisheries Price Equalisation Fund (FPEF) reference prices for white fish products raised for period January-May in line with market price forecasts.
- 5th* Municipalities not permitted to levy the 1 per cent surcharge on the standard rate of local income tax in 1973.
Gasoline tax raised by 25 per cent.
- 10th* Price Control Board decides (with Government approval) prices of all Icelandic manufacturing products may be raised to extent justified by impact on raw material costs of Krona devaluation.
- 15th* Prices to farmers raised by 2.4 per cent, mainly due to increased cost of fodder.
Consumer subsidies increased by Kr. 90 million (annual rate), effect of which estimated to reduce wage compensation index by 0.5 points.
- 22nd* Strike by trawler fleet seamen.
- 23rd* Vestmannaeyjar volcanic eruption.
- February*
- 6th* Appeal Committee increased share price of capelin for reduction to estimated average Kr. 1.86 per kg. (59 per cent higher than last season). Subsequently, special transport subsidy (varying according to distance between fishing grounds and available ports, but averaging about Kr. 0.15 per kg.) made payable, bringing total price increase to around 71 per cent from last season. Share price of capelin for freezing increased from Kr. 4.00 to Kr. 7.00 per kg. Reference prices of capelin meal raised from £1.25 to £1.68 per protein unit and of oil from £75 to £85 per ton, while rate of payment of difference between export and reference prices changed to 38 per cent. Payments into FPEF capelin account this season expected to be of order Kr. 200-250 million.
- 7th* Emergency Fund established in conjunction with volcanic eruption in Vestmannaeyjar; Kr. 2 billion to be raised in twelve-month period from March 1 as follows:

Kr. million

2 per cent supplement to general sales tax	900
Supplement to company tax	300
30 per cent surcharge on net wealth tax	80
10 per cent surcharge on municipal income tax	400
Direct Treasury contribution	160
Grant from Unemployment Insurance Fund	160

2 000

Price rises resulting from supplementary sales tax to be excluded from wage compensation index.

- 15th* Krona devalued by 10 per cent, thus maintaining unchanged central rate vis-à-vis US dollar. Spot dollar rate of exchange of Krona raised, however, by 1 per cent within allowed margins.
- 26th* Strike by trawler fleet officers.
- 28th* Ratification of trade agreement between Iceland and EEC.
- March*
- 1st* Wage compensation index rises to 124.3 points.
Prices paid to farmers raised by 11.4 per cent, due mainly to 13.6 per cent increase in imputed wage component and higher costs of fodder, transport, maintenance and electricity.
Consumer subsidies and family allowances reduced by Kr. 180 and 100 million (annual rates) respectively, effects of which estimated to raise wage compensation index by 0.9 and 0.75 points respectively.
- 9th* End of strike by seamen of trawler fleet as agreement reached on 16-17 per cent pay increase.
- 19th* Normal foreign exchange transactions resumed after more than two weeks' suspension due to closure of main foreign exchange markets. Exchange rate of Krona against US dollar unchanged.
- 22nd* End of strike by officers of trawler fleet as pay claims (amounting to some 30 per cent increase) enforced by legislation. Government to grant support payments to trawler owners covering difference between owners' pay offer and enforced claims.
- April*
- 1st* First tariff reduction under trade agreement with EEC.
- 2nd* Treasury Bills for Kr. 300 million issued for sale to deposit money banks.
- 10th* State Lottery Bonds sold through Central Bank for Kr. 130 million to finance ring-road project.
- 12th* Law authorising Government to raise loans to finance 1973 extra-budgetary investment programme passed by Althing. Expenditure estimated at Kr. 1 199 million (compared with Kr. 1 015 million in 1972). Lending from Development Fund estimated at Kr. 1 910 million (compared with Kr. 1 348 million in 1972).
- 16th* Export levy on fish products raised as from January 1973:
(i) on salted fish and most important frozen fish pro-

ducts from Kr. 1 900 to Kr. 3 000 and 3 400 per metric ton respectively;

(ii) on fishmeal from 6 to 7 per cent of f.o.b. value;

(iii) on capelin meal and capelin oil from 4 to 8 per cent.

Share of the Insurance Fund for Fishing Vessels in total revenue increased from 82 to 85 per cent.

27th In connection with Krona appreciation (see April 30) following monetary measures announced by Central Bank:

(i) Increase in interest rate on savings deposits by 2-3 percentage points to 9 per cent for general deposits and 12 per cent for 12-month deposits.

(ii) Increase in bank lending rates of 1-3 percentage points, interest charges for new securities rising by 3 percentage points, short-term lending rates by 2½ percentage points, short-term rates on production bills rising less, with the lowest increase on export bills—1 percentage point.

(iii) Deposit money bank's compulsory reserve requirements with Central Bank raised from 20 to 21 per cent of total deposits.

30th Icelandic Krona revalued by 6.0 per cent.

In conjunction with Krona revaluation, all prices (with certain exemptions concerning mainly services) to be rolled back by 2 per cent by May 7th. However, prices of imported goods and services quoted in foreign currency to decrease in line with revaluation. Exemptions allowable where inevitable price rises had not been reflected in retail prices or where labour costs were dominant part of prices of services. Computation of wage compensation index for period June-August to be based on 2 per cent lower price level than that reflected in cost of living index as at May 1.

May 1st Family allowances raised from Kr. 13 000 to 18 000 annual payment for each child. Cost to Treasury estimated at Kr. 390 million (annual rate).

28th Government Saving Certificates for Kr. 175 million issued for extra-budgetary investment programme.

June 1st Wage compensation index rises from 124.32 to 130.68 points (i.e. by 5.1 per cent), after account taken of increase in consumer subsidies at beginning of June and of 2 per cent rollback of prices.

Prices to farmers raised by 6.1 per cent, mainly as result of increased cost of fertilizer and 5 per cent rise in imputed wage component.

Raw white fish prices for period June-September raised by 13 per cent on average. FPEF (dollar) reference prices for frozen fish products raised by 17.7 per cent.

Consumer subsidies increased by Kr. 200 million (annual rate), effect of which estimated to reduce wage compensation index by 1.1 points.

- 14th* Provisional law enacted authorising Central Bank (subject to Government approval) to determine spot exchange rate of Krona above the 2½ per cent margin over par value. On June 15 spot dollar rate of exchange of Krona rose by 2.2 per cent. (Subsequently, during June and July Krona gradually strengthened against dollar).
- 26th* Reference prices for wet salted fish raised by 10 per cent; quotation continued in Icelandic Kronur.
- July* *1st* Special 1 per cent levy on f.o.b. value of exported fish products to accrue to Fisheries Loan Fund during period July 1973-December 1975.
- September* *1st* Wage compensation index rises from 130.68 to 139.94 points (i.e. by 7.1 per cent).
Prices to farmers raised by 7.5 per cent, of which some 3.8 percentage points due to 6.8 per cent rise in imputed wage component.
Consumer subsidies reduced by Kr. 190 million (annual rate), effect of which estimated to raise wage compensation index by 1.1 points.
- 13th* Krona appreciated by 3.6 per cent with respect to all foreign currencies. This change did not differ formally from preceding "controlled float", but was by far largest single step within the float.
Deposit money banks' compulsory reserve requirements with Central Bank raised (in conjunction with appreciation of Krona) from 21 to 22 per cent of total deposits.
- 20th* State Lottery Bonds for Kr. 100 million sold through Central Bank to finance ring-road project.
- October* *1st* Family allowances reduced by Kr. 210 million (annual rate), effect of which estimated to raise wage compensation index by 1.5 point.
- 8th* Raw white fish prices for period October-December raised by 15 per cent on average. FPEF reference prices raised in line with forecast market prices for the period.
- 10th* Price Control Board exempts prices of certain domestic manufacturing products from approval by the Board, but notification required.
- 11th* 1974 Budget submitted to Althing, incorporating for first time public investment and financing plans, which used to be part of extra-budgetary investment and financing programme.
- November* *1st* Wage contract of December 1971 expired. Negotiations between Federation of Labour and Employers' Federation, as well as between Federation of State and Municipal Employees and Association of University Graduates on one hand and government negotiation committee on other, already in progress.

- 7th* Government Savings Certificates for Kr. 175 million issued for extra-budgetary investment programme.
- December 1st* Wage compensation index rises from 139.54 to 149.89 points (i.e. by 7.4 per cent).
Prices to farmers raised by 8.8 per cent, of which about 4 percentage points due to 7.4 per cent increase in imputed wage component.
- 15th* Federation of Public Employees (BSRB) and Treasury sign new "frame" agreement for period January 1, 1974-June 30, 1976 covering inter alia general pay scales, general principles for job classification and indexation. Agreement provides for average increase in basic pay of 6-7 per cent from January 1, 1974; 3 per cent from December 1, 1974 and further 3 per cent on September 1, 1975. Indexation clause unchanged, but either party able to ask for re-negotiation if substantial changes made to indexation clause in pending agreement between Federation of Labour (ASI) and Employers' Federation. Initial increase in basic rates largest at lower end of pay scales, with lowest quartile getting approximately 10 per cent and upper quartile about 3 per cent. Special agreements on such matters as pay classification of individual jobs still to be concluded.
- 19th* Law passed authorising Central Bank (with Government approval) to determine margins for Krona spot exchange rate in either direction from par value.
- 20th* 1974 Budget passed by Althing. Tax index regulating personal allowances and rates of personal income tax, raised by 20 per cent.

1974

- January 1st* Tariffs reduced in accordance with EEC and EFTA agreements.
Prices of alcohol and tobacco raised by 25 and 5 per cent respectively.
- 8th* Raw white fish prices for period January-May raised by 11.5 per cent on average. FPEF reference prices for frozen and salted white fish for same period raised approximately in line with expected market prices.
Capelin prices for freezing and reduction raised by estimated average 92 and 77 per cent respectively. At same time, Government decides to impose new 5 per cent export levy on all capelin products, with proceeds to subsidise fuel oil for whole fishing fleet. FPEF reference prices for capelin season imply some in-payments (possibly for order Kr. 100-200 million).

- February* *15th* Court of Arbitration decides on the pay dispute between Federation of University Graduates (BHM) and Treasury. Although containing some special provisions, decision was along lines of December agreement between BSRB and Treasury, with initial basic pay increase of 3-4 per cent followed by 3 per cent increase on December 1, 1974 and further 3 per cent on September 1, 1975. Special agreements on such matters as pay classification of individual jobs to be made separately. Indexation clause similar to that of BSRB agreement.
- 26th* Federation of Labour (ASI) and Employers' Federation sign new two-year "frame" agreement (for period February 26, 1974-March 30, 1976) providing for initial average general increase in basic rates of about 12 per cent, special increases for lowest-paid and reclassification of jobs (altogether bringing initial pay increase up to about 20 per cent on average). Further 3 per cent general increases on December 1, 1974 and June 1, 1975. Agreement covers directly about 60 per cent of total wage bill and indirectly additional 10 per cent. Subsequent settlements by individual unions (particularly of skilled workers) tended to exceed frame agreement provisions—in many cases by 5 to 10 per cent for initial pay increase. Indexation clause unchanged except for exclusion of changes in alcohol and tobacco prices from compensation index.
- March* *1st* Prices to farmers raised by 18 per cent, of which 14.3 percentage points due to 26.9 per cent increase in imputed wage component (19.5 per cent following new wage agreement and 6.2 per cent due to increase in wage compensation index).
Revised wage compensation index under new wages agreement (basis: 100=old index 149.89) rises to 106.18.
For 12-month period starting March 1, 1974 the 2 per cent supplement to general sales tax accruing to Vestmannaeyjar Emergency Fund reduced to 1 per cent. In same period new 1 per cent sales tax to be levied, with proceeds to reduce effects of oil price rise on cost of heating dwellings. Price effects of this new tax excluded from wage compensation index.
- 5th* Substantial amendments to legislation on custom duties, involving mainly reduction in tariffs on machinery and raw materials and, in conjunction with EFTA and EEC free trade agreements, reduction of various fiscal tariffs (e.g. on competitive imports from third countries).
- 18th* Price Control Board announces average increases in wholesale percentage markups of 7 per cent and in retail percentage markups of 10 per cent.
- 20th* State Lottery Bonds for Kr. 250 million sold through Central Bank to finance ring-road project.
- 22nd* To facilitate February incomes settlements, Government agreed with unions on certain changes in taxation and housing policy fields, that were effected by legislation:

- (i) State personal income tax reduced through increasing personal allowances, raising tax brackets, reducing marginal tax rates (maximum rate lowered from 44 to 40 per cent) and introducing tax credits. Net effect on revenue estimated at Kr. 3 400 million reduction (annual rate). Tax credits exceeding State income tax primarily intended to offset other State or local taxes, but may be paid out under certain circumstances.
- (ii) General sales tax increased by 4 percentage points (effective March 25) to offset cost of (i) above. Resulting price rises excluded from wage compensation index.
- (iii) Payroll tax increased by 1 per cent (effective April 1), proceeds to accrue to State Building Fund to finance construction of dwellings especially for lower-paid.

26th Tobacco prices increased by 11 per cent.

May

3rd Wage agreement between merchant marine mates and shipowners for period to September 1, 1976 (thus ending strike by officers which began on April 22), providing for initial increase of 22 per cent in basic rates and further increases of 3 per cent each in three subsequent instalments.

9th Wage agreement between printing unions and employers for period to April 1, 1976 (thus ending strike which began on March 27), providing for initial increase of 35 per cent in basic rates and further instalment increases as for Federation of Labour agreement (see under February 26).

Special agreements concluded separately with all unions within Federation of Public Employees and most unions within Federation of University Graduates, providing mainly for reclassification of jobs. Together with initial increases under wages agreement (see under February 15), estimated effect is to raise income on average for all public employees by just under 20 per cent.

21st Package of stabilisation measures introduced:

- (i) Legislation enacted:
 - (a) Freezing till August 31, 1974: 1. Prices; 2. Wage compensation index; 3. Wage component of standard farm account (on which agricultural price reviews based)
 - (b) Indexing loans granted by Investment Credit Funds from proceeds of index-linked bonds purchased under special agreement by pension funds or of index-linked Government Savings Certificates.
- (ii) Krona devalued by 5 per cent vis-à-vis US dollar.
- (iii) Introduction of import deposit scheme for period up to end-September, 1974, covering about one-half of merchandise import payments. Importers required to deposit 25 per cent of value of imports

- in blocked account with Central Bank for 90 days, on which interest at 3 per cent (annual rate) paid. Exemptions cover mainly ships, aircraft, basic foodstuffs, fertilizers, industrial raw materials, fishing gear, and petroleum products as well as items imported against credit exceeding 12 months.
- (iv) Consumer subsidies increased by Kr. 180 million per month (i.e. at annual rate of Kr. 2 160 million). Effect estimated to reduce new wage compensation index (base 100=old index 149.84) by 8 points.
 - (v) Lending programme of Investment Credit Funds for 1974 reduced by 25 per cent.
 - (vi) Agreement between Central Bank and commercial banks on 22 per cent target ceiling rate of increase for bank lending during 1974.
 - (vii) Special automobile tax raised from 25 to 35 per cent (cif value) for passenger cars and from 15 to 20 per cent for other categories, to yield estimated Kr. 180 million (annual rate).
 - (viii) Alcohol and tobacco prices raised by 15 per cent to yield estimated Kr. 550-600 million (annual rate).
- June* *18th* Government savings certificates for Kr. 400 million issued for public subscription.
- July* *15th* Bank deposit and lending interest rates raised by 4 percentage points (however, rate for rediscountable producer bills raised by only 1 percentage point). Rate for general savings accounts now 13 per cent and for 12-month savings accounts 16 per cent.
- August* *1st* Central Bank penalty interest rate on "lender-of-last-resort" loans raised from 18 to 24 per cent.
- 20th* Prices to farmers raised by 9.5 per cent, owing mainly to 45 per cent increase in cost of fertilizers.
- 21st* Foreign exchange dealings suspended by Central Bank owing to heavy speculative demand for foreign currency.
- 22nd* Parliament confirms provisional stabilization legislation enacted by previous Government (see under May 21) and extended its validity to end-September.
- 29th* Krona devalued by 17 per cent vis-à-vis US dollar.
- 30th* Legislation enacted providing for exchange rate gains on fish stocks due to devaluation (estimated at Kr. 1 650 million) to be appropriated for subsequent transfer within fisheries sector. Part (estimated at Kr. 850 million) earmarked for:
- (i) Payment of increases (due to devaluation) in freight costs.
 - (ii) Offsetting exchange rate losses of Fisheries Price Equalisation Fund.
 - (iii) Payment of oil subsidies to fishing fleet during June-September 1974.

- September* *6th* First reduction in step-wise abolition of import deposit scheme. Deposit rate reduced from 25 to 20 per cent, with four reductions of 5 percentage points each to follow at monthly intervals from end-September.
- 9th* Petrol tax raised by 60 per cent (from 10 to 16 Kronur per litre) and taxes on diesel vehicles raised correspondingly. Yield estimated at Kr. 700 million (annual rate).
- 20th* Legislation passed concerning fisheries sector:
- (i) "Oil Fund for Fishing Vessels" established to subsidise fuel oil costs to fishing fleet. Financed by special 5.5 per cent export levy on fob value of salt and stock fish and 4 per cent on other fish exports. Estimated yield of levy ca. Kr. 1 230 million (annual rate).
 - (ii) Maximum rate of in- and out-payment from Fisheries Price Equalisation Fund raised from 50 to 75 per cent (of difference between market and reference prices). Move designed to help freezing plants to which out-payments expected to accrue.
 - (iii) Balance of funds appropriated from devaluation gains on fish stocks after meeting earmarked payments (see under August 30 above) to be mainly paid to owners of stern trawlers to meet interest and amortisation payments on foreign loans and to fish-processing firms.
 - (iv) Raw fish prices not to be raised by more than 11 per cent on average for period from September 1 to no sooner than December 31.
 - (v) Volume export duties on marine products raised by 40 per cent (equals increased cost of foreign currency since beginning of year) to meet higher insurance value of vessels. Yield estimated at extra Kr. 130 million. In addition, share of export duty revenue accruing to Insurance Fund raised from 85 to 87.5 per cent, to yield estimated extra Kr. 20 million.
 - (vi) Allotment accruing to Capitalisation Fund for Fishing Vessels set at 15 per cent of value (before share allotment) of all catch landed at home (implying increase of 10-15 per cent, except for herring where rate reduced from 20 per cent) and corresponding change for landings abroad. This change in capital allotment implies increase in average allotment (and so of raw material costs of fish-processing industry) of 4.6 per cent.
- 23rd* Consumer subsidies reduced by Kr. 500 million (annual rate). Prices to farmers raised by 2.4 per cent, owing mainly to increased capital costs.
- October* *1st* Various indirect tax rates and charges raised:
- (i) General sales tax by 2 percentage points to yield estimated Kr. 1 800 million (annual rate).

- (ii) Regional price equalisation tax on electricity converted from lump-sum impost to 13 per cent tax on retail price, to yield estimated Kr. 300 million (annual rate).

Incomes and prices policy legislation (valid till May 31, 1975) comes into force:

- (i) Wage indexation system replaced by pay equalisation scheme for low-income recipients. Compensation payments amount to Kr. 3 500 per month on ordinary-time earnings up to Kr. 50 000 per month, with sliding scale reduction thereafter up to monthly income of Kr. 53 500 at which equalisation payments cease. Estimated effect is to raise total wage and salary bill by 6-6½ per cent. Provision, however, for review of scheme if cost of living index increase exceeds 358 points.
- (ii) Increase of Kr. 5 000 (to Kr. 20 000) in annual family allowance per child.
- (iii) Increase in guaranteed income limits for old-age and disablement pensioners by 10 per cent; i.e. by estimated amount of increase in lowest wage earners' income due to pay equalisation scheme listed under (i) above. General pension rates raised by 6 per cent; i.e. by estimated amount of increase in total wage and salary payments due to pay equalisation scheme listed under (i) above.
- (iv) Consumer subsidies not to be reduced during currency of legislation.
- (v) Existing price control provisions (i.e. "strict price surveillance") to remain in force.

STATISTICAL ANNEX

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

	1965	1966	1967	1968	1969	1970	1971	1972	1973 ¹
Private consumption	13 219	16 471	17 469	18 830	21 774	28 014	34 055	42 780	57 424
Public consumption	1 862	2 270	2 505	2 800	3 300	4 050	5 385	7 000	9 200
Gross fixed asset formation	5 506	7 003	7 984	8 725	8 600	10 511	16 050	19 100	28 610
Change in livestock	52	-15	-36	-16	-74	-104	167	200	126
EXPENDITURE ON FINAL DOMESTIC USE	20 639	25 729	27 922	30 339	33 600	42 471	55 657	69 080	95 360
Change in stocks of export products	372	87	74	-264	205	-289	1 413	-1 040	-315
NATIONAL EXPENDITURE	21 011	25 816	27 996	30 075	33 805	42 182	57 070	68 040	95 045
Exports of goods and services	8 342	9 091	7 882	9 510	16 132	21 138	22 373	26 130	37 410
Imports of goods and services	8 096	9 412	10 146	12 055	15 741	20 487	26 233	27 900	40 025
GROSS NATIONAL PRODUCT (market prices)	21 257	25 495	25 732	27 530	34 196	42 833	53 210	66 270	92 430
Depreciation	2 369	2 635	3 057	3 962	5 400	6 077	6 777	8 458	10 862
NET NATIONAL PRODUCT (market prices)	18 888	22 860	22 675	23 568	28 796	36 756	46 433	57 812	81 568
Indirect taxes	4 355	5 400	5 655	6 080	6 650	9 370	12 640	15 600	22 560
Subsidies	1 180	1 385	1 800	1 750	1 400	1 600	2 950	3 220	4 230
NET NATIONAL INCOME	15 713	18 845	18 820	19 238	23 546	28 986	36 743	45 432	63 238
Net income to abroad	176	202	252	410	612	481	509	890	1 180
NET DOMESTIC INCOME	15 889	19 047	19 072	19 648	24 158	29 467	37 252	46 322	64 418

1 Preliminary.

Source: Icelandic submission to the OECD.

Table B Supply and Use of Resources
Kr. million, 1969 prices

	1965	1966	1967	1968	1969	1970	1971	1972	1973 ¹
Private consumption	20 934	23 643	24 056	22 834	21 774	24 510	27 600	30 415	32 390
Public consumption	2 747	2 947	3 144	3 229	3 300	3 449	3 670	3 890	4 123
Gross fixed asset formation	9 368	10 963	12 285	11 224	8 600	9 272	13 171	13 043	15 670
Change in livestock	80	-22	-51	-21	-74	-85	126	125	64
EXPENDITURE ON FINAL DOMESTIC USE	33 129	37 531	39 434	37 266	33 600	37 146	44 567	47 473	52 247
Change in stocks of export products	617	187	121	-475	205	-170	1 225	-912	-414
NATIONAL EXPENDITURE	33 746	37 718	39 555	36 791	33 805	36 976	45 792	46 561	51 833
Exports of goods and services	15 172	16 336	15 057	14 096	16 132	19 095	18 366	20 102	22 114
Imports of goods and services	15 759	18 091	19 352	17 737	15 741	19 932	24 356	24 638	29 449
GROSS NATIONAL PRODUCT	33 159	35 963	35 260	33 150	34 196	36 139	39 802	42 025	44 498
Effects of change in terms of trade	1 071	1 137	-71	-403	—	1 469	2 733	2 805	4 770
Export income	16 243	17 473	14 986	13 693	16 132	20 564	21 099	22 907	26 884
Income balance of goods and services	484	-618	-4 366	-4 044	391	632	-3 257	-1 731	-2 565
GROSS NATIONAL INCOME ²	34 230	37 100	35 189	32 747	34 196	37 608	42 535	44 830	49 268

NOTE: Estimates of real income coincide with output in real terms on the assumption of unchanged terms of trade. Due to a particularly strong improvement in Icelandic terms of trade in the years 1965 and 1973 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 « effects of changes in terms of trade ».

1 Preliminary.

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

Source: Icelandic submission to the OECD.

Table C Production and Employment

		1966	1967	1968	1969	1970	1971	1972	1973
FISHERIES AND FISH PROCESSING									
Production: Value, current prices	Kr. mill.	5 812	4 116	4 090	7 758	9 969	11 746	12 225	21 119
1963 prices	Kr. mill.	4 353	3 381	2 860	3 331	3 520	3 309	3 063	3 272
Fishing fleet ¹ , end of year: Trawlers	GRT	22 876	21 491	20 104	16 837	16 981	17 911	20 340	29 810
Motor boats	GRT	57 431	64 619	63 955	62 509	61 698	60 984	62 146	62 042
Total	GRT	80 307	86 110	84 059	79 346	78 679	78 895	82 486	91 852
Employment in fish processing	1962 = 100	102.3	88.9	87.7	100.9	103.9	109.0	107.0	
AGRICULTURE									
Production: Value, current prices ²	Kr. mill.	2 194	2 368	2 597	3 108	3 689	4 678	5 758	
1969 prices	Kr. mill.	3 185	3 328	3 229	3 108	3 118	3 409	3 543	
Capacity ³ : Cultivated grassland	1 000 hect.	88.4	91.7	96.5	100.9	104.5	108.4	111.3	
Sheep	1 000 heads	846.7	850.2	829.1	820.2	780.6	735.5	786.2	828.6
Cattle	1 000 heads	59.5	54.5	52.3	52.3	53.4	53.3	59.2	65.3
MANUFACTURING (excl. fish processing)									
Production, volume ⁴	1970 = 100	89.6	85.9	82.0	89.1	100.0	116.4	125.1	
Employment	1970 = 100	93.7	90.5	86.8	91.9	100.0	106.9	111.2	
DWELLING CONSTRUCTION									
Started	Number	1 609	2 052	1 041	1 030	1 469	1 833	1 963	3 369
Completed	Number	1 693	1 787	1 779	1 460	1 329	1 362	1 930	2 208
Under construction, end of year	Number	3 802	4 067	3 329	2 899	3 039	3 510	3 543	4 676

1 Including whale-catchers, excluding open boat.

2 Including change in livestock.

3 Beginning of year.

4 Excluding aluminium.

Sources: Icelandic submission to the OECD, Fjarmalatidindi and Hagtidindi.

Table D Gross Fixed Asset Formation
Kr. million, 1969 prices

	1965	1966	1967	1968	1969	1970	1971	1972	1973 ¹
GROSS FIXED ASSET FORMATION, TOTAL	9 368	10 963	12 285	11 224	8 600	9 272	13 171	13 043	15 670
Classification by end-use :									
INDUSTRIAL ASSET FORMATION	4 653	5 543	5 899	4 401	3 400	4 323	7 219	6 578	7 920
Agriculture	936	903	894	811	530	634	770	927	1 025
Fishing	339	492	1 072	257	152	651	634	1 398	2 975
Fish processing	487	638	369	186	118	249	438	543	680
Manufacturing other than fish processing	621	873	1 326	1 803	1 865	1 221	1 578	1 723	1 040
Transport equipment	1 303	1 445	1 122	683	180	729	2 552	872	940
Commercial buildings	557	632	469	340	409	523	529	580	610
Various machinery and equipment	410	560	647	321	146	316	718	535	650
RESIDENTIAL CONSTRUCTION	2 177	2 420	2 652	2 313	1 804	1 825	2 057	2 569	3 775
PUBLIC WORKS AND BUILDINGS	2 538	3 000	3 734	4 510	3 396	3 124	3 895	3 896	3 975
Electric power, generation and distribution	343	533	1 045	1 974	1 223	909	1 215	1 095	920
Geothermal heating and water supply	303	298	251	251	243	275	259	331	320
Communications	1 159	1 346	1 548	1 456	1 186	1 086	1 463	1 535	1 855
Public buildings	733	823	890	829	744	854	958	935	880
Classification by type of assets :									
MACHINERY AND EQUIPMENT	2 868	3 658	3 827	2 657	1 738	2 717	5 367	4 276	5 802
Machinery and other equipment	1 565	2 213	2 705	1 974	1 558	1 988	2 815	3 404	4 862
Transport equipment	1 303	1 445	1 122	683	180	729	2 552	872	940
BUILDINGS AND OTHER CONSTRUCTION	6 500	7 305	8 458	8 567	6 862	6 555	7 804	8 767	9 868
Residential buildings	2 177	2 420	2 652	2 313	1 804	1 825	2 057	2 569	3 775
Non-residential buildings	2 230	2 474	2 705	2 302	2 160	2 228	2 562	2 988	2 764
Other construction	2 093	2 411	3 101	3 952	2 898	2 502	3 185	3 210	3 329

¹ Preliminary.

Source: Icelandic submission to the OECD.

Table E Balance of Payments
\$ million

	1966	1967 ¹	1968 ¹	1969	1970	1971	1972	1973 ¹
Exports of goods, fob	139.1	98.7	82.8	106.9	146.0	149.8	191.7	290.4
Imports of goods, fob	-145.5	-150.8	-129.3	-105.5	-141.6	-199.1	-215.6	-325.4
Ships and aircraft	-15.1	-18.6	-6.6	-0.6	-9.7	-25.6	-13.0	-43.6
Straumsvik, Burfell ³	-3.1	-6.4	-17.6	-14.2	-11.8	-18.8	-19.3	-34.2 ⁵
Other imports	-127.3	-125.8	-105.1	-90.7	-120.1	-154.7	-183.3	-247.6
BALANCE OF TRADE	-6.4	-52.1	-46.5	1.4	4.4	-49.3	-23.9	-35.0
Military receipts, net	9.7	14.1	9.4	9.9	12.8	14.7	16.5	20.5
Other services	-7.6	-10.1	-0.9	-0.1	-4.3	-3.6	-3.1	-2.1
BALANCE ON GOODS AND NON-FACTOR SERVICES	-4.3	-48.1	-38.0	11.2	12.9	-38.2	-10.5	-16.6
Interest from abroad	2.2	2.1	1.3	1.9	3.5	3.7	3.4	5.0
Interest on foreign debt	-5.3	-6.4	-7.5	-8.6	-9.0	-9.3	-13.2	-17.6
Transfer payments	-1.2	-1.4	-0.9	-0.8	-0.4	-0.1	0.2	16.2
BALANCE ON CURRENT ACCOUNT	-8.6	-53.8	-45.1	3.7	7.0	-43.9	-20.1	-13.0
Amortization of debt	-13.5	-14.9	-16.7	-22.5	-18.7	-16.4	-22.6	-21.8
Public borrowing	12.5	13.0	29.1	23.2	4.4	24.7	45.0	48.6
Private borrowing and direct investment	14.3	21.2	19.1	17.2	10.6	44.6	11.4	11.7
Other capital movements	-3.4	8.1	-2.3	-1.6	9.3	8.7	-4.6	-14.3
Errors and omissions	-1.2	1.4	1.1	-0.8	1.0	-0.7	-1.5	—
OVERALL BALANCE	0.1	-24.9 ⁴	-14.8	19.2	13.6	17.0	7.6	11.2
Change in foreign exchange holdings:								
Convertible currencies	0.1	-26.2 ⁴	-14.8	19.2	13.6	17.0	7.6	11.2
Clearing currencies	-1.3	-30.1	-13.6	18.7	13.3	18.2	6.2	20.5
Clearing currencies	1.4	3.9	-1.2	0.5	0.3	-1.2	1.4	-9.3

1 The exchange rate was changed on 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 Preliminary.

3 Special imports for use in the construction of a power station at Burfell, a harbour at Straumsvik and an aluminium smelter. These imports reached a maximum in 1968 and fell almost completely off in 1969.

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

5 Including imported houses for the inhabitants of Vestmannaeyjar.

Sources: Central Bank Annual Report 1971, and Statistical Bulletin.

Table F Central Government Income and Expenditure¹

Fiscal year = Calendar year

Kr. million

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973 ²
CURRENT REVENUE	3 297	4 185	5 315	5 805	6 741	7 455	9 800	13 258	18 530	21 970
Direct taxes	281	374	522	739	1 332	1 515	1 727	2 457	4 939	5 634
Indirect taxes	2 987	3 815	4 714	4 955	5 326	5 819	7 834	10 631	13 377	16 114
Other	29	-4	79	111	83	121	239	170	214	222
CURRENT EXPENDITURE	2 766	3 075	3 688	4 544	5 116	5 619	6 821	9 976	14 059	16 506
Purchase of goods and services	882	1 062	1 309	1 510	2 009	2 529	3 123	4 148	5 716	6 652
Subsidies	1 016	1 086	1 273	1 678	—	—	—	—	—	—
Interest	7	10	9	12	—	—	—	—	—	—
Current transfers ³	861	917	1 097	1 344	3 107	3 090	3 698	5 828	8 343	9 854
Depreciation and other operating provisions	—	—	—	—	—	—	—	—	—	—
GROSS SAVING	531	1 110	1 627	1 261	1 625	1 836	2 979	3 282	4 471	5 464
Gross fixed asset formation	230	362	313	485	443	469	821	1 402	1 590	1 690
SURPLUS ON CURRENT AND FIXED INVESTMENT ACCOUNT	301	748	1 314	776	1 182	1 367	2 158	1 880	2 881	3 774
Lending, net ⁴	83	-89	-34	-164	-48	-130	-110	-246	-550	489
Net capital transfers to other sectors	469	617	816	984	1 347	1 707	1 744	2 224	3 310	3 261
OVERALL BALANCE⁵	-251	220	532	-44	-315⁶	-210	524	-98	121	24

1 The first part, 1964-1967, according to the OECD definition and the second part, 1968-1973, according to the Icelandic definition.

2 Approved budget.

3 Including subsidies for the second part, 1968-1973.

4 «—» = net borrowing.

5 Net change in floating debts and cash balances.

6 Including -198 for current receipts outstanding and other adjustments.

Source: Icelandic submission to the OECD.

Table G Fish Catch, Wages and Prices

	Fish catch (thous. tons)					Wages and prices (1963 = 100)										
	Total	White fish etc.	Herring	Capelin	Shrimp, lobster, shell-fish	Hourly wage rates, lobster, unskilled workers ¹	Cost of living index ²					Building cost Reykjavik ³	Export prices of fish products ⁴			
							Total	Goods and services			Rent		Fresh and iced fish	Frozen products	Salted products	Fish meal and oil
								Total	Food	Other						
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
1968	599	373	143	78	5	183.1	167.9	171.8	182.7	160.2	142.7	176.4	84.7	115.8	130.1	95.4
1969	686	451	57	171	7	213.1	205.5	214.5	232.3	197.9	151.7	219.3	111.1	121.8	119.7	126.2
1970	729	477	51	192	9	261.6	233.4	246.1	271.2	224.9	160.8	256.9	150.0	142.8	140.5	172.2
1971	681	422	61	183	15	298.0	250.3	264.5	275.6	249.6	170.3	286.6	152.4	190.0	178.4	170.7
1972	723	387	42	277	17	396.1	271.2	300.3	321.7	282.9	193.5	351.6	231.4	214.0	210.3	158.3
1973	901	401	43	442	15	485.7	328.0	371.7	461.4	344.9	222.6	440.2	242.7	219.3	276.3	299.3
Quarterly:												(Average 1969 = 100)				
1970 1	276	119	—	155	2	234.0	220.2	230.5	252.9	208.5	155.1	234.4	..	111.2	116.9	128.9
2	261	215	7	37	2	279.2	226.6	238.7	261.6	219.2	159.3	256.3	..	113.3	114.9	135.3
3	109	85	21	—	3	290.9	236.2	248.5	275.6	228.3	162.2	..	..	116.6	108.6	138.5
4	83	58	23	—	2	290.9	250.7	266.5	294.7	243.5	166.4	279.9	..	137.2	124.5	141.9
1971 1	285	104	4	173	4	290.9	249.1	261.6	273.8	246.6	167.8	284.1	..	151.3	163.5	145.2
2	191	178	9	—	4	290.9	250.7	264.9	277.3	249.6	170.6	285.7	..	155.0	177.6	143.6
3	123	91	21	7	4	296.7	249.1	263.2	273.8	249.6	170.6	..	..	159.5	162.3	127.0
4	82	49	27	3	3	324.2	252.3	268.1	277.3	252.7	172.0	289.9	..	155.6	177.0	125.0
1972 1	404	125	—	277	2	364.0	251.2	277.8	289.6	263.7	172.4	321.8	..	168.8	202.8	125.3
2	150	141	5	—	4	409.7	272.0	300.7	324.5	282.3	190.7	364.9	..	174.9	178.5	124.8
3	107	81	21	—	5	409.7	280.0	308.8	334.7	290.4	204.7	..	..	179.9	179.3	126.7
4	62	40	16	—	6	409.7	281.6	313.7	338.1	295.2	206.1	368.0	..	184.7	209.0	161.0
1973 1	504	93	—	407	4	431.9	292.8	328.4	350.4	312.0	208.9	378.0	..	190.7	212.4	243.3
2	186	144	5	34	3	473.8	321.6	367.6	412.0	342.6	217.3	455.2	..	201.7	243.6	262.2
3	128	100	25	—	3	500.8	336.0	382.4	516.3	354.9	229.9	..	..	229.3	297.6	323.7
4	83	64	13	1	5	535.6	361.6	408.5	567.1	370.2	234.1	487.4	..	259.6	317.3	385.1
1974 1	558 ^P	98 ^P	—	457 ^P	3 ^P	610.8	387.2	437.9	620.0	391.7	239.7	511.1	..	296.6	367.9	418.2
2	158 ^P	142 ^P	8 ^P	6 ^P	2 ^P	710.1	462.4	522.9	761.8	465.3	265.0	..	..	252.4	459.3	306.6
3	124 ^P	103 ^P	19 ^P	—	2 ^P	..	..	..	..	..	..	..	..	..	..	..

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 Base year for the quarterly series is 1969. The annual and quarterly indices, which are based on fob prices in terms of foreign currencies, are not fully comparable due to weighting differences as well as to the fact that the annual series is an implicit price index while the quarterly series is a unit base index.

Sources: Icelandic Statistical Bulletin (col. 6) and Hagtidindi.

Table H Foreign Trade, Total and by Area
\$ million, monthly rates

Total imports cif		Imports by area						Total exports fob		Exports by area							
		OECD countries			Non-OECD countries					OECD countries			Non-OECD countries				
		Orig.	Adj.	Total	Europe		Eastern Europe			Other develop- ed countr.	Develop- ing countr.	Orig.	Adj.	Total	Europe		Eastern Europe	Other develop- ed countr.	Develop- ing countr.
EEC	Others				EEC	Others											
17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32		
1968	11.5	..	9.7	5.9	2.2	1.4	0.02	0.4	6.8	..	5.6	2.2	1.6	1.0	0.00	0.2	
1969	10.3	..	8.3	5.1	2.0	1.3	0.02	0.7	9.0	..	7.4	3.3	1.6	1.0	0.03	0.5	
1970	13.1	..	10.8	7.2	2.1	1.4	0.01	0.9	12.2	..	10.8	4.6	2.4	1.2	0.00	0.2	
1971	17.5	..	14.6	9.1	2.9	1.8	0.02	1.0	12.5	..	10.9	4.0	2.2	1.4	0.00	0.2	
1972	19.2	..	16.3	10.1	3.7	2.0	0.04	0.9	15.7	..	13.4	5.2	3.3	1.9	0.00	0.4	
1973	29.6	..	26.2	13.3	7.5	2.7	0.03	0.8	24.1	..	21.6	9.5	5.0	2.1	0.00	0.4	
Quarterly:																	
1970	1	8.9	11.9	7.3	4.5	1.5	1.0	0.00	0.6	8.9	11.7	7.7	3.3	2.0	0.8	0.00	0.3
	2	12.5	11.5	9.9	6.4	2.2	1.5	0.01	1.1	13.4	12.8	11.5	3.7	3.6	1.8	0.00	0.1
	3	12.9	12.8	10.5	6.7	2.2	1.4	0.03	0.9	14.1	13.5	12.4	5.5	2.2	1.7	0.00	0.1
	4	18.2	16.8	15.5	11.3	2.5	1.7	0.02	0.9	12.5	10.8	11.4	6.0	1.8	0.7	0.00	0.3
1971	1	13.4	17.4	10.5	6.9	2.0	1.7	0.01	1.1	9.2	11.9	8.4	2.8	2.0	0.5	0.00	0.3
	2	19.7	16.8	16.8	10.0	3.5	2.1	0.02	0.8	14.6	14.1	12.4	3.9	3.8	2.1	0.00	0.1
	3	16.7	17.2	14.1	8.8	3.2	1.7	0.04	0.9	14.4	13.1	12.9	4.3	1.8	1.4	0.00	0.1
	4	20.1	18.5	17.1	10.7	3.0	1.7	0.02	1.3	11.7	11.1	9.8	5.1	1.3	1.4	0.00	0.5
1972	1	14.5	18.4	12.4	8.1	2.5	1.2	0.01	0.8	12.9	16.2	11.1	3.9	2.9	1.2	0.00	0.5
	2	21.9	18.7	18.8	11.9	4.1	2.3	0.04	0.8	17.2	16.2	14.5	4.7	4.9	2.5	0.00	0.2
	3	17.9	18.4	15.0	9.7	3.2	1.8	0.06	1.0	17.4	15.8	15.2	6.1	3.1	1.9	0.00	0.3
	4	22.6	21.2	18.8	10.7	5.2	2.7	0.03	1.1	15.5	14.7	12.9	5.9	2.2	2.0	0.00	0.6
1973	1	18.7	24.0	16.0	9.3	3.0	1.9	0.01	0.8	17.5	21.8	15.0	5.0	4.5	2.2	0.00	0.4
	2	33.2	26.9	30.0	13.0	8.5	2.5	0.03	0.6	30.0	28.8	26.2	11.8	7.0	3.6	0.00	0.2
	3	26.0	27.0	22.5	13.9	5.4	2.9	0.05	0.6	23.2	20.8	21.6	10.3	4.3	1.5	0.00	0.1
	4	40.4	37.5	36.1	16.7	13.2	3.2	0.05	1.1	25.3	24.0	23.4	10.7	3.9	1.1	0.00	0.8
1974	1	32.6	41.0	28.2	14.9	6.7	3.5	0.01	0.9	22.9	29.5	20.9	8.9	5.3	1.2	0.00	0.8
	2	51.1	43.9	41.2	19.7	13.9	8.6	0.04	1.3	34.6	33.1	28.7	7.1	13.1	5.5	0.00	0.4

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

Table I Foreign Trade by Commodity Group
\$ million

	Imports by commodity group						Exports by commodity group										
	Total	Transport equip- ment	Other imports					Total	Fish products, total	Frozen fish fillets	Herring salted	Herring and capelin meal	Other fish and misc. prod.	Agricul- tural prod.	Alumi- nium prod.	Other manufac. prod.	
			Total	Food and live animals	Semi- manufac- tured goods	Machin- ery and apparatus	Other goods										
	SITC No.	73	0		6		71.72										
33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48		
1968	138.4	13.2	125.2	15.4	34.8	26.9	48.1	82.3	72.1	22.8	9.9	4.3	1.3	7.2	—	1.7	
1969	123.4	4.0	119.4	14.4	32.1	26.8	46.1	107.6	88.0	33.2	4.8	4.3	2.4	6.9	5.9	4.4	
1970	157.3	19.2	138.1	17.1	37.0	26.7	57.3	146.6	114.6	48.7	5.2	5.6	1.7	5.0	19.4	5.9	
1971	220.0	43.0	177.0	18.2	44.5	42.6	71.7	149.7	125.6	57.7	1.7	5.2	1.4	4.5	10.1	8.1	
1972	232.0	32.3	199.7	21.3	49.6	49.3	79.5	189.7	140.0	59.9	1.9	7.1	1.3	5.9	30.9	10.6	
1973	354.0	68.6	285.4	31.3	78.7	60.4	115.0	295.9	218.1	79.7	0.2	27.0	1.6	8.7	50.5	15.3	
Quarterly:																	
1970	1	26.8	1.2	25.6	3.8	8.1	4.5	9.2	26.7	19.7	7.6	3.3	0.4	0.2	1.1	4.6	1.1
	2	37.4	2.6	34.8	4.0	8.7	6.1	16.0	40.2	33.1	14.0	0.2	4.2	0.6	1.3	4.1	1.1
	3	38.6	3.1	35.5	4.3	10.6	7.2	13.4	42.3	33.8	15.4	0.3	0.8	0.2	0.7	5.9	1.7
	4	54.5	12.3	42.2	5.0	9.6	8.9	18.7	37.4	28.0	11.7	1.4	0.2	0.7	1.9	4.8	2.0
1971	1	40.1	3.0	37.1	4.8	9.3	8.3	14.7	27.5	21.5	10.2	1.5	1.1	0.2	1.3	3.0	1.5
	2	59.1	12.6	46.5	4.4	11.5	11.6	19.0	43.8	39.6	16.3	0.1	3.7	0.2	1.2	1.3	1.5
	3	50.1	5.1	45.0	4.3	12.4	11.5	16.8	43.3	37.7	20.1	0.1	0.2	0.3	0.6	2.6	2.1
	4	70.7	22.3	48.4	4.7	11.3	11.2	21.2	35.1	26.8	11.1	0.0	0.2	0.7	1.4	3.2	3.0
1972	1	43.5	3.8	39.7	4.6	10.4	9.9	14.8	38.7	29.0	14.3	1.9	1.2	0.3	2.2	4.9	2.3
	2	65.7	10.7	55.0	5.3	12.8	14.0	22.9	51.9	40.2	14.6	0.0	3.9	0.3	0.9	7.4	2.8
	3	53.4	4.1	49.3	4.7	12.2	12.1	20.3	52.0	38.0	17.1	0.0	1.9	0.4	0.9	9.9	2.8
	4	69.4	13.7	55.7	6.7	14.2	13.3	21.5	47.1	32.8	13.9	0.0	0.1	0.3	1.9	8.7	2.7
1973	1	57.0	3.6	53.4	6.3	12.6	11.4	23.0	59.0	38.3	14.8	0.1	7.8	0.2	2.7	14.4	3.3
	2	101.2	32.7	68.5	7.4	17.7	16.0	27.4	93.9	74.1	20.7	0.0	16.4	0.2	2.1	13.4	3.8
	3	74.6	7.3	67.3	8.2	17.9	14.9	26.3	68.3	53.1	19.9	0.0	2.7	0.6	0.7	10.3	3.6
	4	121.2	25.0	96.2	9.4	30.5	18.1	38.2	74.7	52.6	24.3	0.1	0.1	0.6	3.2	12.4	4.5
1974	1	97.7	11.5	86.2	9.6	22.1	21.2	33.3	68.8	47.6	11.0	0.0	6.3	0.2	2.4	14.8	3.7
	2	156.7	47.3	109.4	10.9	23.0	20.3	55.2	104.0	83.3	22.0	0.0	14.0	0.9	1.7	13.3	3.8

Sources: OECD Foreign Trade Statistics, Series B, Icelandic Statistical Bulletin (col. 40 to 48).

Table J Money and Credit
End of period

	Central Bank		Non-bank sector			Bank liquidity				Credits granted by banks					Foreign exchange	
	Central Bank discount rate	Net position of Treasury	Money supply			Commercial and savings banks				Total	of which ¹ to:				Official gold and foreign exchange ²	Commercial banks' position
			Orig.	Adj.	Savings deposits	Blocked deposits	Redis-counted bills	Net free position with Central Bank	Net foreign assets		Agri-culture	Fishery and fish processing	Manu-facturing and commerce	Dwellings		
Per cent	Kr. million														Million SDR's	
	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64
1968	5.25	-265	2 889	3 009	8 417	2 073	1 438	-606	-833	11 949	1 189	2 868	3 936	1 052	25	-960
1969	5.25	-640	3 810	4 023	10 134	2 640	1 898	102	-14	12 865	1 348	2 629	4 357	1 248	39	-120
1970	5.25	-176	4 648	4 971	12 624	3 359	1 744	55	-320	15 443	1 719	2 125	5 548	2 013	54	-330
1971	5.25	831	5 665	6 121	15 198	4 030	2 053	-487	-413	18 958	1 940	2 844	6 232	2 514	64	-550
1972	5.25	234	6 901	7 509	17 774	4 741	2 690	-625	-571	22 744	2 341	3 590	7 436	3 215	78	-1 025
1973	6.25	1 440	9 585	10 475	23 097	6 797	3 979	-1 013	-447	30 298	3 337	5 047	9 612	3 929	83	-1 538
Quarterly:																
1970 1	5.25	-965	4 085	4 301	10 661	2 824	1 572	57	176	13 047	1 236	2 365	4 552	1 271	44	97
2	5.25	-1 130	4 751	4 566	11 287	3 138	1 657	391	90	13 938	1 192	2 634	5 004	1 391	50	61
3	5.25	-913	4 873	4 782	11 614	3 225	1 688	387	-99	14 702	1 365	2 494	5 051	1 559	53	-117
4	5.25	-176	4 648	4 971	12 624	3 359	1 744	55	-320	15 443	1 719	2 125	5 548	2 013	54	-330
1971 1	5.25	-572	5 075	5 336	13 249	3 541	1 701	-15	-396	16 437	1 521	2 633	5 798	2 005	61	-473
2	5.25	-507	6 049	5 772	13 666	3 779	2 146	237	-436	17 823	1 536	3 135	6 031	2 242	67	-604
3	5.25	-108	6 299	6 121	14 155	4 008	1 956	176	-475	18 322	1 620	2 977	6 204	2 384	72	-645
4	5.25	831	5 665	6 121	15 198	4 030	2 053	-487	-413	18 958	1 940	2 844	6 232	2 514	64	-550
1972 1	5.25	1 637	6 388	6 696	15 905	4 190	2 329	-51	-635	20 103	1 699	3 550	6 671	2 593	68	-825
2	5.25	1 882	7 157	6 803	16 267	4 517	2 666	-202	-681	21 620	1 678	4 182	7 089	2 703	65	-880
3	5.25	1 196	7 402	7 159	16 864	4 583	2 350	-495	-644	21 967	1 789	3 920	7 344	2 812	77	-960
4	5.25	234	6 901	7 509	17 774	4 741	2 690	-625	-571	22 744	2 341	3 590	7 436	3 215	78	-1 025
1973 1	5.25	1 335	8 096	8 477	18 820	5 021	3 038	-794	-757	24 982	2 099	4 868	8 205	3 225	64	-1 396
2	6.25	1 676	9 548	9 050	20 214	5 887	3 516	-361	-556	26 674	2 096	5 132	8 813	3 443	77	-1 385
3	6.25	1 792	9 870	9 518	21 316	6 270	3 269	-555	-908	28 421	2 203	5 106	9 457	3 672	83	-1 792
4	6.25	1 440	9 585	10 475	23 097	6 797	3 979	-1 013	-447	30 298	3 337	5 047	9 612	3 929	83	-1 538
1974 1	6.25	2 302	10 937	11 452	24 441	7 375	5 201	-2 400	-562	34 368	2 891	7 432	10 671	4 212	64	-1 946
2	6.25	2 838	12 563	11 886	24 632	7 821	6 179	-4 953	-495	38 673	2 947	9 070	12 294	4 397	59	-2 701

1 Excluding credits granted by minor savings banks.

2 Excluding IMF position.

Sources: Icelandic 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.

INTERNATIONAL COMPARISONS

BASIC STATISTICS : INTERNATIONAL COMPARISONS

			Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia ¹				
POPULATION	Net average annual increase	Mid-1973	13 132	7 521	9 742	22 125	5 027	4 643 ²	52 177	61 967	8 972	212	3 051	54 888 ³	108 350 ⁴	350	13 438	2 932	3 961	8 564	34 730	8 138	6 431	37 930	56 026	210 404	20 960				
		1963 to 1973	1.87	0.48	0.48	1.55	0.71	0.26	0.88	0.77	0.57	1.37	0.68	0.70	1.22	0.77	1.17	1.46	0.77	-0.46	1.06	0.68	1.09	2.49	0.43	1.07	0.95				
EMPLOYMENT	Total civilian	1972	5 489	(3 210)	3 783	8 329	2 356	2 107	20 677	25 934	(3 296)	(83)	1 037	18 140	51 090	151	4 581	1 107	1 649	3 135	12 640	3 863	3 078	(14 438)	23 982	81 702	8 009 ⁵				
		Agriculture	8.0	16.2	4.2	6.9	9.8	18.9	12.7	35.6	38.4	50.4	7.5	35.7	18.1	14.8	9.3	6.9	12.4	12.2	29.9	27.6	7.1	67.4	3.1	4.2	49.5				
		% of total	37.9	41.8	43.3	30.9	34.3	35.6	38.4	50.4	42.1	39.1	44.6	44.0	37.5	48.9	42.4	56.3	53.5	53.7	36.9	34.7	55.8	46.1	19.5	54.2	64.8				
PRODUCTION	GDP ⁷ per head	1972	3 610	2 721	3 664	4 852	4 257	2 906	3 792	4 177	1 375	3 633	1 831	2 165	2 778	3 885	3 472	1 820 ^{9a}	3 860	952	1 303	5 092	4 661	446	2 759	5 643	792				
		1972	6.4 ^{9 10}	5.9	3.8	4.2 ¹¹	7.4	12.3 ¹¹	6.1	2.9	17.3 ¹¹	..	18.0 ¹¹	8.0	5.4	4.4 ^{11 12}	5.3 ¹¹	18.8 ¹²	6.3	15.9 ¹¹	12.8 ¹¹	4.2	..	26.1	2.9 ¹³	3.0	16.6 ¹¹				
		% of total	37.2 ^{9 10}	50.0	41.4	36.0 ¹¹	36.7	43.9 ¹¹	45.9	52.4	32.7 ¹¹	..	33.8 ¹¹	41.6	40.6	57.5 ^{11 12}	44.9 ¹¹	28.0 ¹²	36.9	43.0 ¹¹	35.0 ¹¹	40.3	..	28.6	42.7 ¹³	33.6	46.6 ¹¹				
GDP ^{7 14} annual volume growth	1972	3.8 ⁹	7.1	5.2	5.6	5.0	6.0	5.5	3.0	10.3	6.4	3.3	3.2	8.6	4.6	4.4	4.8 ^{9a}	4.3	8.3	7.8	2.5	5.7	6.7	2.3	5.9	..					
	1967 to 1972	5.1 ⁹	6.2	5.2	5.0	5.1	6.0	5.9	5.3	8.5	3.2	4.7	4.3	10.4	4.5	5.7	3.1 ^{9a}	..	6.6	6.3	3.2	4.6	6.6	2.2	3.4	..					
INDICATORS OF LIVING STANDARDS																															
Private consumption per head	1972	% of GNP	2 136	1 488	2 215	2 794	2 430	1 512	2 263	2 255	917	2 314	1 195	1 399	1 445	2 187	1 944	1 040 ^{9a}	2 035	588 ¹⁰	864	2 737	2 681	258 ¹⁰	1 754	3 494	425				
			Public expenditure on education	4.3	4.7	5.4 ¹⁵	8.6	7.0	6.3	4.7	4.0	2.2	4.3	4.8 ¹⁵	4.3	4.1	4.4	7.3 ¹⁵	4.4 ¹⁵	5.9	2.0	2.4	7.8	4.2	2.9	5.5 ¹⁵	5.4 ¹⁵	4.3 ¹⁶			
			Dwellings completed, per 1 000 inhabitants	11.1	6.4	5.4 ¹⁷	10.6	10.0	10.8	10.5	10.7	10.7	14.0 ¹⁰	9.0	6.9	4.7	16.8 ¹⁷	5.3 ¹²	11.4	9.3	11.1	3.4	9.6	12.8	11.5	2.8	6.1	11.3	6.4		
			Passenger cars, per 1 000 inhabitants	314	177	212	321	231	163	260	239	222	222	140	209	209	100	296	211	324	206	72	81	290	233	4 ¹²	219	443	42		
			Television sets, per 1 000 inhabitants	227	226	236	349 ¹⁰	282	256	237	293	31 ¹⁰	220	173	202	202	225	220 ¹⁰	243 ¹⁰	250	241	63	145	333	239	4	305	474	113		
			Telephones, per 1 000 inhabitants	340	226	240	499	377	295	199	268	160	370	114	206	206	315	361	299	458	320	99	164	576	535	19	314	628	44		
			Doctors, per 1 000 inhabitants	1.25	1.87	1.60	1.50	1.41 ¹²	1.11	1.38	1.71 ¹²	1.67	1.44	1.09 ¹⁵	1.83	1.15	1.07	1.31	1.16	1.45	0.98	1.39	1.36 ¹²	1.67	0.45	1.29	1.57 ¹²	1.06			
			GROSS FIXED INVESTMENT ¹⁴ Total	1968-72 average	% of GDP ⁷	25.8 ⁹	29.0	20.8	21.4 ¹⁸	23.6	24.1	26.3	25.9	25.7 ¹⁹	28.7	24.2	19.8	38.7	23.6	25.3	19.0	24.2	23.1	27.8 ²⁰	16.9 ²¹	19.6	17.0 ²²	..	
						Machinery and equipment	10.9	12.5	8.8	7.9	12.1	8.9	12.0	12.4	8.2	8.6	12.2	8.4	32.1 ²³	..	10.5	8.8	12.8	8.6	9.5	5.8	9.5	7.0 ²²	..
						Residential construction	5.2	16.5 ²⁴	4.7	4.4	4.6	5.8	6.5	5.2	8.0	5.3	4.3	5.9	6.6	..	5.7	2.7	3.7	5.0	7.1	3.3	3.5	3.5	..
Other construction	9.7	.. ²⁴				7.3	9.1	6.9	9.4	7.8	8.3 ²⁵	9.5	14.8	7.7	5.5	9.1	7.5	7.7	9.5	11.2	7.8	6.6	6.5	..			
GROSS SAVING	1968-72 average	% of GDP ⁷	25.9	29.3	24.9	22.3	19.1	29.8	26.8	27.5	23.8	..	20.8	22.9	39.3	31.3	26.9	24.9 ^{9a}	27.8	22.0	23.1	22.8	28.9 ²⁰	21.5 ²¹	19.2	17.5	..				
PUBLIC SECTOR ²⁶ Total current revenue	1972	% of GDP ⁷	28.2	37.3	35.8	36.0	45.2	38.0	38.0	39.0	26.6	33.2 ¹⁴	33.7	34.7	22.6	39.1	47.6	..	48.1	24.1	23.4	50.1	27.1 ¹⁵	30.9 ¹⁰	37.9	31.4	..				
WAGES/PRICES	Hourly earnings ²⁷	Annual increase 1967 to 72)	7.6 ^{28 29}	9.3 ³⁰	10.2	8.2 ²⁸	12.4 ³¹	11.8	11.3 ³²	9.3 ²⁸	8.3 ²⁸	18.3 ³³	13.5 ²⁸	11.2 ³⁴	15.6 ³⁵	..	10.4 ³⁶	10.3 ²⁸	10.0 ³¹	10.2 ³⁷	12.6 ³⁸	9.9 ³⁹	6.5 ⁴⁰	12.8 ³⁸	9.6 ⁴¹	6.0 ⁴²	16.1 ^{37 38}				
			Consumer prices	4.2	4.3	4.0	3.9	6.2	5.5	5.6	3.8	2.6	13.3	7.6	3.9	5.8	3.9	6.2	6.5	6.1	8.6	5.8	5.0	4.3	10.5	6.6	4.6	4.4			
			GDP ⁷ deflator	5.8	4.4	4.6	4.0	6.4	6.5	5.5	5.2	2.9	17.2	9.3	5.0	5.0	4.8	5.9	6.6	6.9 ^{9a}	..	4.3	6.0	5.2	6.0	10.5	6.6	4.4	..		
FOREIGN TRADE	Imports ⁴³	1972	\$ million ⁸	6 180	6 290	14 570	23 130	6 080	3 680	32 070	51 150	2 530	2 240	23 600	24 910	1 050	20 100	1 980	5 810	2 630	7 250	9 590	9 710	1 400 ¹⁰	33 620	74 830	3 820				
			% of GDP ⁷	13.2	30.9	40.9	21.8	28.6	27.4	16.4	19.9	20.7	39.5	40.6	20.1	8.5	77.8	43.4	23.1	38.3	32.2	16.2	23.2	32.6	10.9	21.8	6.3	23.2			
			\$ million ⁸	7 500	6 220	15 430	23 750	6 240	3 700	33 760	55 730	1 470	290	1 930	24 040	31 800	1 100	21 320	2 320	6 060	2 220	7 190	10 110	9 720	900 ¹⁰	33 350	62 690	3 480			
Exports ⁴³	1972	% of GDP ⁷	16.0	30.5	43.4	22.4	29.4	27.5	17.2	21.6	12.0	38.2	35.0	20.4	10.8	81.5	46.1	27.1	39.9	27.1	16.1	24.4	32.7	7.0	21.6	5.3	21.2				
			June 1973-June 1974			
			August 1973-August 1974			
BALANCE OF PAYMENTS	Current balance	1968-72 average	% of GNP	-2.1 ⁹	-0.4	2.5 ⁴⁵	0.0	-2.1	-1.2	-0.2	0.8	-3.6	-4.2	-3.3	2.1	1.7	..	0.3	1.4	-1.0	3.3	0.5	-0.1	1.3	-0.5	0.8	-0.2				
				Official reserves ⁴⁴ , end-1973: per cent of imports of goods in 1973	88.3	42.4	23.3 ⁴⁵	24.7	17.2	14.8	22.8	60.8	30.1	28.1	36.7	23.1	32.0	..	26.9	119.8	25.3	99.1	70.3	23.9	69.5	102.8	16.7	20.8	32.9		
NET FLOW OF RESOURCES TO DEVELOPING COUNTRIES ⁴⁸	1973	% of GNP	0.55	0.52	1.10	0.93	0.70	.. ⁴⁹	1.10	0.52	.. ⁵⁰	.. ⁴⁹	.. ⁴⁹	0.46	1.42	.. ⁴⁹	1.03	0.35	0.49	2.25	.. ⁵⁰	0.73	0.72	.. ⁵⁰	0.76	0.58	.. ⁵⁰				
			Change	-1 075	-115	26 ⁴⁵	152	-131	114	-2 128	-1 815	-110	-45	94	1 005	-1 171	..	972	-542	215	-59 ⁴⁶	-71 ⁴⁷	-542	226	42	750	1 326	-79			
EXPORT PERFORMANCE ⁵³	Growth of markets ⁵²	1972 to 1973	% of	10	14	13	10	12	15	13.5	14.5	14	12	13	14	..	13	10	13	12	13.5	13	14	14	14.5	20					
				1961-62 to 1971-72 (average)	9	8.5	8	7.5	8.5	8.8	9	8	7.5	9	9	..	9	..	8	7	8.5	8	9	8.5	8	..			
				1972 to 1973	-12	-3	2.5 ⁴⁵	-1	-5.5	-10	-2	5.5	5	0	-6.5	-8.5	-8	..	5	-2.5	1.5	7	0	2	-5	5	-1	4	..		
Gains or losses of market shares ⁵³	1961-62 to 1971-72 (average)	% of	4.5	2	1.5 ⁴⁵	-2	-0.5	-0.8	1	1	1.5	2.5	0.5	3	8	..	1.5	..	2	4	5	-0.5	0	2.5	-3.5	-2.8					

1 National source.
2 Does not include total net migration between Finland and the other Nordic countries.
3 Total resident population.
4 From 1972, including Okinawa prefecture.
5 Private and socialised sector.
6 According to the definition used in OECD Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
7 GDP in purchasers' values.
8 At current prices and exchange rates.
9 Fiscal year-Beginning July 1st.
9a Fiscal year-Beginning April 1st.
10 1971.
11 GDP at factor cost.
12 1970.
13 Including stock appreciation.
14 At constant (1963) prices.
15 1969.
16 1968.
17 Dwellings started.
18 Excluding transfer costs of land and existing assets.
19 Excluding ships operating overseas.
20 1965-1969.
21 1967-1971.
22 Government and government enterprise expenditure on machinery and equipment is included in government current expenditure.
23 "Other construction" included under "machinery and equipment". Work in progress on heavy equipment and ships for the domestic market are included in fixed asset formation.
24 "Other construction" included in "residential construction".
25 Including transfer costs of land.
26 General government.
27 Industry.
28 Manufacturing.
29 Males.
30 Monthly, wage earners.
31 Mining and manufacturing, males.
32 Hourly rates in manufacturing.
33 Hourly wages rates, unskilled workers.
34 Hourly rates in manufacturing, excluding family allowances.
35 Monthly earnings in manufacturing. Cash payments including bonuses, regular workers.
36 Hourly rates in industry, males.
37 Monthly.
38 Manufacturing, including salaried employees.
39

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