

OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ICELAND

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

DECEMBER 1977

BASIC STATISTICS OF ICELAND

THE LAND

Area (1 000 sq. km)	103	Unproductive area (1 000 sq. km)	82
Productive area (1 000 sq. km)	21	<i>of which:</i>	
<i>of which:</i>		Glaciers	12
Cultivated area	1	Other area devoid of vegetation	70
Rough grazings	20		

THE PEOPLE

Population, December 1st, 1976	220 918	Occupational distribution 1975	
Net increase 1970-1975,		(per cent):	
annual average (per cent)	1.4	Agriculture	9.8
		Fishing	5.4
		Fish processing	8.0
		Other manufacturing	16.8
		Construction, total	12.2
		Trade, finance and services	18.6
		Transport	6.3
		Other	22.9
			100.0

GOVERNMENT AND PARLIAMENT

Government, from 1974, number of ministers:		Parliament, from 1974, number of seats:	
Independence Party	4	Independence Party (Lib. Cons.)	25
Progressive Party	4	Progressive Party (Agrarians)	17
		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 1976:		Gross Fixed Capital Formation	
Millions of I. Kr.	257 690	in 1976:	
Per head, US \$	6 410	Millions of I. Kr.	78 010
		Per cent of GNP	30

FOREIGN TRADE

Exports of goods and services in 1976, per cent of GNP	40.9	Imports of goods and services in 1976, per cent of GNP	42.7
Main exports 1976 (per cent):		Imports 1976, by use (per cent):	
Fish products	72.6	Investment goods	32.4
Aluminium	16.9	Consumer goods	31.4
Other manufacturing products	6.2	Intermediate goods	24.3
Agricultural products	2.6	Fuels	11.9

THE CURRENCY

Monetary unit: Krona		Currency units per US \$, averages	
		of daily figures:	
		Year 1976	181.92
		November 1977	211.37

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

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* * *

*The annual review of Iceland
by the OECD Economic and Development Review Committee
took place on 1st December 1977.*

The present survey has been updated subsequently.

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INTRODUCTION

Stronger than usual fluctuations in foreign trade prices have heavily influenced economic developments since 1973. 1974 and 1975 were difficult years characterised by adjustment to a large fall in the terms of trade from their very high 1973 level. Policies were designed to ensure that real wage rates rather than employment bore the brunt of the adjustment, though the full impact of the terms-of-trade loss was mitigated to some extent by permitting a substantial deterioration of the current external account. Because of the paucity of traditional tools of demand management, the reduction in real incomes involved tolerating for a time very high rates of inflation. A turnaround in the terms of trade started early in 1976 and they improved rapidly up to mid-1977, by which time they had almost regained their record 1973 level. The policy stance as regards real incomes and the volume of public consumption was relaxed only gradually, first priority being given to reducing the current external deficit. During 1976, the rate of inflation fell sharply, though remaining at a high level by OECD standards. A further gradual decline was recorded up to the summer of 1977. At that time, and despite fiscal concessions offered by the Government, labour unions successfully negotiated very large (and indexed) wage increases.

Fuelled by rapidly rising earnings in the fisheries sector, a rise in domestic demand started during 1976 and has gathered further momentum in 1977. Thanks to the improved terms of trade and a good fish catch, the current external deficit will probably continue to decline this year despite rapidly growing imports. Domestic output at present is constrained by labour shortages and fish conservation measures rather than by deficient demand, a situation which is likely to persist into 1978. The wage increases noted above will inevitably lead to a re-acceleration of inflation by end-1977. Assuming no change in the stance of official policies or in the terms of trade, they would also tend to lift imports to a level that would increase the current external deficit in 1978.

Part I of the present Survey, after a brief review of the 1976 outturn, outlines the pattern of the upswing which has become clearly manifest in 1977. A special section puts the recent fluctuations in the terms of trade into longer-term perspective, analysing the reasons for their secular improvement. Part II reviews the policy decisions taken over the last two years, contrasting the actual results with the original intentions, thereby emphasising the shortcomings of available tools of demand and income management. It is argued in Part III that unless available policy instruments are applied with greater firmness, the balance of payments and inflation outlook for 1978 seem rather unsatisfactory. In the longer term, it appears desirable to create additional policy instruments to supplement those already existing.

I RECENT TRENDS

A. The economy in 1976

The 1976 outturn was somewhat better than the preliminary estimates presented in last year's Survey¹. GNP volume rose by 2.4 per cent (instead of falling slightly), and gross national income increased by nearly 6 per cent (instead of 2 ¼ per cent). Domestic demand fell, but less than expected. The current external deficit, at \$24 million, was less than half that foreseen earlier. These developments can be mainly attributed to an upsurge of marine export prices, especially those of capelin meal, late in the year². The terms of trade registered a 13 per cent improvement, rather than the predicted 11 ¼ per cent.

Though the immediate impact of better terms of trade was felt chiefly in the current balance, it appears that domestic demand reacted fairly quickly. Available indicators (turnover subject to sales tax, imports) suggest that domestic demand, which was still falling at the beginning of 1976, was rising fairly rapidly by the end of the year. For the year as a whole, private consumption (volume) rose by rather less than real disposable income. The rise in the personal savings ratio was undoubtedly influenced by the introduction of a quasi-indexed personal savings scheme. It is also possible that consumption lagged behind the sharp rise in earnings in the fisheries sector, which was concentrated in the latter part of the year. With the important exception of fishing vessels, public and private fixed investment was also greater than expected. Inventory formation was strongly negative, though, as a rundown of aluminium stocks more than offset rises elsewhere³. In gross tonnage terms, the fish catch declined by 2 per cent. A fishermen's strike in February, and only a modest catch of capelin in the first part of the year were the chief causal factors. However, the cod catch, at 284 000 tons, exceeded all expectations and may have been too high, given the state of the stock⁴. In constant price terms, the volume of the fish catch increased by 5 per cent. Output of aluminium, fertiliser, and that of the construction industry all rose. That of other sectors stagnated or declined. During the year, consumer prices rose by about 30 per cent, similar to the year-on-year rate. (The rate of increase in 1975 was 49 per cent, even approaching an annual rate of 60 per cent in the third quarter.)

B. The economy in 1977

The upward movement in marine export prices continued in the first half of the year; in dollar terms, unit values of frozen fish fillets and of capelin meal (the principal exports) were 31 and 46 per cent above year-earlier levels. For the year as a whole it is expected that the total fish catch at constant prices will show an increase of 13-14 per cent and that output of aluminium and of sectors supplying the domestic economy will also turn out to be higher than in 1976. Unemployment was very low at the

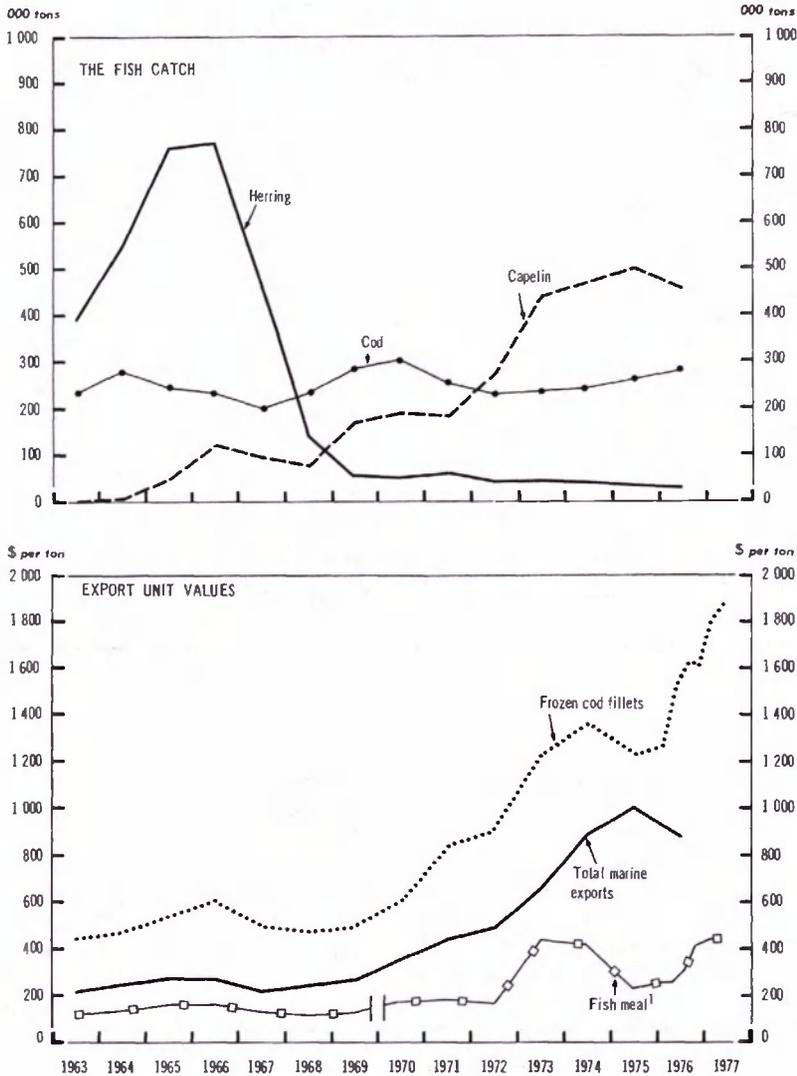
1 See 1976 Economic Survey of Iceland, Table 1, "Output and expenditure".

2 Though the 1976 capelin catch was lower than in 1975, the autumn fishing campaign was very successful, and the fourth quarter export volume of capelin meal was double that of the previous year.

3 Aluminium exports increased by 35 000 tons, and production by 7 000. Nevertheless, end-year stocks of aluminium relative to output were still slightly above past average levels.

4 Early in 1976, the fishery experts proposed a safe cod catch in Iceland waters of 280 000 tons. At the time it was thought that the non-Icelandic catch could be of the order of 100 000 tons, leaving 180 000 tons as the Icelandic quota. In fact, influenced by the ending of the so-called "cod war" late in May, the foreign catch was less than 70 000 tons. It was already clear by the late summer that the total catch would probably exceed the recommended limit, though no major additional conservation measures were taken. In the event, the total cod catch in Icelandic waters in 1976 was about 350 000 tons, probably postponing the recovery of the stock to levels where the domestic catch (now accounting for virtually the total) could safely be increased.

Diagram 1 The fish catch



1 Herring meal, 1963-1969; Capelin meal 1970-1977.

Sources: *Statistical Abstract of Iceland 1974*, *Quarterly Statistical Bulletin*.

beginning of the year and is not foreseen to rise. Consequently, GNP is predicted to grow at the same rate as productive capacity (about 4 per cent). Because of the improved terms of trade, real gross national income might well rise by as much as 7 per cent, with private consumption expected to be the main beneficiary of the upturn. A gradual fall in inflation rates occurred in the first half-year: this has been reversed in the second half. Even so, the authorities are still counting on an improvement in the current balance for the year as a whole, though probably remaining in deficit, instead of registering a surplus as originally hoped.

Table 1 Output and expenditure

	1976 Kr. bill.	Per cent change at constant 1969 prices				
		1973	1974	1975	1976	1977 ¹
Private consumption	159.6	6.5	7.0	-10.0	1.0	8.0
Public consumption	26.2	6.0	5.0	2.0	-5.0	2.0
Gross fixed investment	78.0	20.1	10.8	-8.4	-2.6	2.8
FINAL DOMESTIC DEMAND ¹	263.8	10.1	8.0	-8.6	-2.2	5.9
Changes in export stocks and livestock ²	-1.7	1.0	2.8	0.6	-1.7	1.0
TOTAL DOMESTIC DEMAND	262.1	11.2	10.4	-8.0	-3.4	6.9
Foreign balance ³	-4.4	-6.6	-8.7	7.8	5.8	-2.5
Exports, goods and services	105.5	8.9	-0.7	1.4	11.9	10.3
Imports, goods and services	109.9	18.9	13.2	-10.3	-1.2	16.4
GNP AT MARKET PRICES	257.7	5.7	3.3	-2.1	2.4	4.2
TERMS-OF-TRADE EFFECT ⁴		4.5	-2.5	-4.4	3.5	3.1
GROSS NATIONAL INCOME		9.6	0.8	-6.0	5.9	7.3

1 Including changes in stocks other than export stocks and livestock.

2 Changes in stockbuilding and foreign balance in per cent of GNP of the previous year.

3 For definition, see note to Table B in Statistical Annex.

4 Official estimates at previous year's prices, September, 1977.

Sources: Central Bank of Iceland, Annual Report 1976; OECD, *National Accounts 1967-73* and direct communication to the OECD.

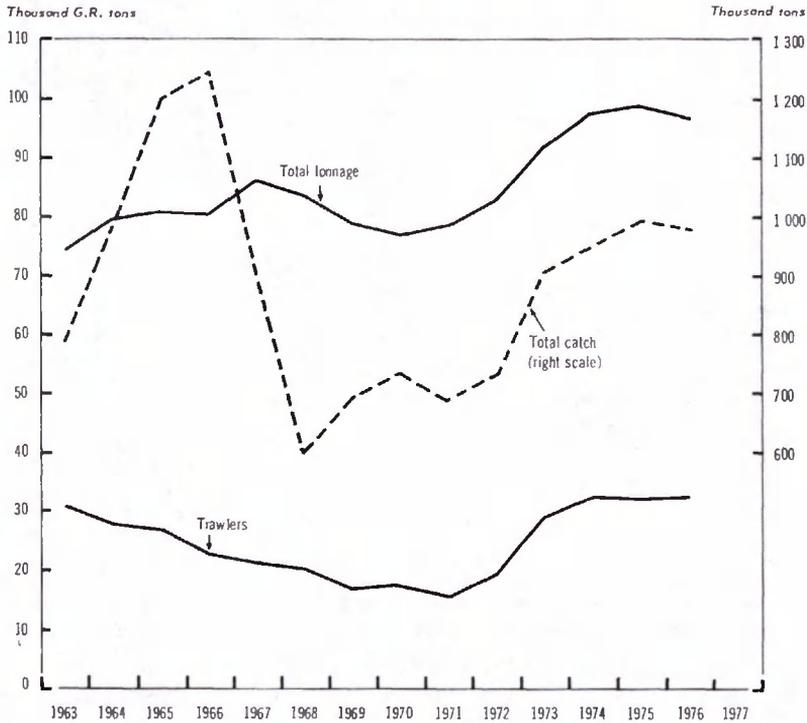
Domestic demand

Private consumption is now expected to rise by 8 per cent in volume terms in 1977, as compared with the 6 per cent forecast before the June settlements. The settlements included some concessions on personal income tax: consequently, nominal disposable income growth is likely to be slightly more rapid than gross personal income (42 and 41 per cent respectively). On the assumption that the private consumption deflator will rise by around 31 per cent, real disposable income of households would expand by 8 per cent. No major change is foreseen in the personal savings ratio. Given the time profile of real incomes (flat or even declining in the first half, steeply rising in the second), it is clear that most of the growth in private consumption will be concentrated in the second half of the year, implying a substantial carry-over into 1978. Public consumption is planned to expand by 2 per cent.

High export prices, good catches and reasonably favourable expectations for the future have encouraged the fishing sector to invest heavily in new vessels, especially trawlers, despite official policies of restraint⁵. Consequently, asset formation in this sector is now expected to grow by no less than 120 per cent by volume in 1977; it must be noted, though, that investment had been declining steeply since 1974, that some vessels that should have been delivered in 1976 arrived only in 1977, and that the volume of fishing vessel imports predicted for 1977 is less than that recorded in 1974. Nevertheless, the new development is disturbing, as fishery experts felt that the existing fleet was at least large enough, in view of the state of fish stocks. Experience in 1976 showed that it is difficult to enforce conservation measures in the face of underutilised fishing capacity.

5 Acting on a request by the Government, the fisheries loan fund substantially reduced its credits for purchases of fishing vessels (new or used) from abroad after July 1977.

Diagram 2 Tonnage of fishing vessels and fish catch



Source : *Statistical Abstracts of Iceland*.

Investment in the fish processing industry is also scheduled to rise substantially in 1977, and small gains are expected in other manufacturing sectors. Work started in earnest this year on the new ferro-silicon plant, in which the Government has a majority interest. A small increase is foreseen for residential construction, at present suffering from shortages of skilled labour. Though expenditure on the last stages of the Krafla geothermal power station has been higher than foreseen, due to technical problems, public investment overall may fall in 1977. The Sigalda power plant is also scheduled for completion in 1977. Because of its import-saving character, investment in geothermal area heating is to continue to expand at the expense of that in communications. Finally, though export stocks of aluminium are expected to decline, those of marine products are most likely to show an increase because of a change in the seasonal pattern of fishing. Consequently, the growth contribution to GNP from inventory formation is foreseen to be positive. All in all, domestic demand should expand by 7 per cent in volume in 1977, and be rising strongly throughout the year.

Imports and foreign demand

The sharp turnaround in domestic demand, which is concentrated in import-intensive sectors, led to an acceleration in import volume as from the second quarter of 1977. Whereas imports of goods and services fell in 1976, and were not particularly buoyant early this year, they leaped upwards in the summer months. The already-noted heavy purchases of fishing (and cargo) vessels are partly responsible for this, but general merchandise imports are also rising steeply. The substantial increase in real

Table 2 Gross fixed investment

	1976 Kr. bill.	Per cent change at constant 1969 prices				
		1973	1974	1975	1976 Forecasts ²	1977
Public works and buildings	33.3	2.0	22.9	15.9	13.4	-16.3
Electric power	15.7	-16.0	59.8	69.4	32.5	-34.9
Communications	8.8	20.8	4.9	-19.3	-3.8	-7.5
Other	8.8	-5.2	22.5	11.8	-0.7	9.3
Residential construction ¹	16.9	9.0	10.9	-7.0	2.0	3.0
Private non-residential	27.7	20.4	16.2	-21.8	-17.1	25.6
Agriculture	4.8	10.6	11.2	-12.3	-2.0	2.7
Fishing	3.5	112.8	-19.3	-40.4	-52.4	122.9
Fish Processing	2.6	25.2	7.4	-5.5	-20.3	24.5
Aluminium and Smelter plants	0.5	-77.3	-50.0	-28.6	-39.1	..
Other manufacturing	4.7	-39.6	10.6	-3.7	1.0	0.0
Transport equipment	5.5	7.8	100.0	-26.6	-5.8	0.9
Other	6.1	13.0	51.2	-24.3	-3.4	-1.4
TOTAL GROSS FIXED INVESTMENT	78.0	20.1	10.8	-8.4	-2.6	2.8
Imported ships and aircraft	3.8	176.0	18.3	-29.7	-48.0	102.2
Other special investments ²	12.4	-63.4	88.0	146.5	54.9	-31.4
General investment	61.9	15.0	6.6	-12.4	-1.8	2.4

1 Excluding imported houses for replacement of housing damaged during volcanic eruption on Vest-mannaeyjar (Kr. 2 000 million in 1973; Kr. 400 million in 1974). These are included in total gross fixed investment.

2 Thjórsá and Krafla power projects, and ferrosilicon smelter.

3 Official estimates. For 1977 volume changes at 1976 prices.

Sources: Central Bank of Iceland, Annual Report 1976 and direct communication to the OECD.

disposable income resulting from the latest wage settlement has encouraged households to rebuild stocks of consumer durables that were run down in the two previous years. With some increase in raw materials for the aluminium smelter, the rise in total merchandise imports (volume) is expected to be around 20 per cent, despite a fall in import requirements for the power plant projects.

The volume of exports should also show a marked rise between 1976 and 1977 though a less spectacular one than imports. The fishing season to date has been notably successful, so much so that a series of temporary and piecemeal fishing restrictions or bans has been in force since early in the year to help preserve the cod stock. These culminated in the announcement on 15th July of a one-week total cod-fishing ban, and a further 30-day ban for large trawlers in the autumn. These moves were designed to limit the Icelandic 1977 cod catch to about 315 000 tons, a few per cent higher than in 1976⁶. The capelin fishing campaign has also been relatively good. A further increase in the herring catch (from 17 000 to 25 000 tons) has been permitted, in view of the steady recovery (from near extinction in Icelandic waters) of this fish stock. All in all, export volume of marine products seems set to rise by 13 per cent. Exports of aluminium are scheduled to grow, and merchandise exports generally are expected to increase by some 10 per cent.

Together with an increase in the real surplus on services, the movements in trade volumes described above would lead to a negative contribution to GNP growth this year of about 2½ per cent. (In contrast, the swing in the real foreign balance made large positive contributions in both 1975 and 1976.) However, the favourable movement in the terms of trade has had a more pronounced impact on import volumes

6 The total catch of cod in Icelandic waters would nevertheless be some 7 per cent less than in 1976.

7 Marine biologists had recommended a safe catch of 275 000 tons. As 206 000 tons had already been caught by mid-year, strict adherence to the recommendations of the Marine Research Institute would have involved idling the fishing fleet for a considerable part of the remainder of the year.

Table 3 Foreign trade 1976-1977

	Millions of kronur		Percentage volume change on previous year	
	1976	Forecast 1977	1976	1977
Export production				
Marine products	54 240	81 000	8.5	14.0
Aluminium	10 400	14 400	12.2	9.0
Other products	7 630	10 400	10.0	10.4
Total	72 270	105 800	9.2	12.9
Change in stocks ¹	1 230	-1 000	.	.
Merchandise exports	73 500	104 800	15.7	10.0
Imports of special investment goods	8 420	12 600	-18.5	25.0
Ships and aircraft	4 530	11 000	-48.0	102.2
National Power Company	1 300		-7.0	-23.0
Krafla geothermal power plant	2 590	1 600	.	.
Ferro-silicon plant	—		.	.
Imports for the aluminium smelter	6 520	7 600	-19.0	5.0
General merchandise imports	63 210	89 800	0.0	20.0
Merchandise imports, total	78 130	110 000	-4.2	19.2
Balance of trade	-4 630	-5 200	.	.
Service exports	32 020	42 100	7.8	11.2
Service imports	31 780	41 100	3.7	9.4
Balance of services	240	1 000	.	.
Balance of goods and services	-4 390	-4 200	.	.
Balance of goods and services as percentage of GNP	-1.7	-1.2	.	.

1 Decrease in stocks +.

Source: National Economic Institute.

than on those of exports (although high export prices undoubtedly increase the incentive to fish more intensively). Consequently, the contribution of the real foreign balance in income terms to gross national income growth in 1977 is probably closer to zero, or even positive.

Prices and wages

Up until the summer of 1977, the rate of inflation as measured by the consumer price index fell somewhat. By August, the consumer price index was 27 per cent higher than a year earlier, the lowest figure for four years. (On a seasonally-adjusted, quarter-to-quarter basis, the rise had fallen below 20 per cent at an annual rate earlier in the year.) Before the June wage settlements were announced, official expectations were for a year-on-year increase significantly below 30 per cent, in line with the policy strategy of gradually winding down inflationary expectations; it was assumed that the wage negotiations would result in a 10-15 per cent nominal increase on contractual rates, plus indexation. In the event, despite government concessions in the fiscal area to moderate the claims⁸, the agreements⁹ led to much larger increases. Before the conclusion of the negotiations, wage and salary rates were already 25 per cent above their

⁸ See Part II "Price and incomes policy for details.

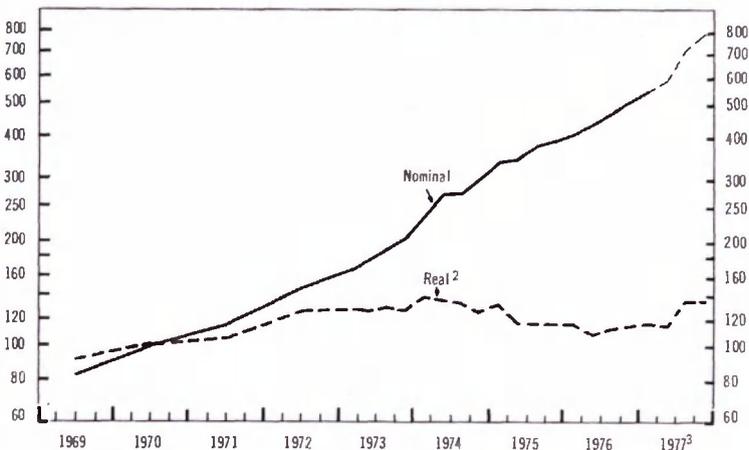
⁹ These agreements were between the Icelandic Federation of Labour (ASI), except the fishermen's unions, and the employers' associations. A similar provisional agreement was negotiated for the University Graduates (chiefly professionally qualified government employees). At the time of writing, no agreement had been reached with the civil servants' representatives.

1976 average, largely because of the threshold indexation clauses contained in the agreements of February 1976. The salient features of the new agreements were:

- an immediate 26 per cent increase, or Kr. 18 000, on basic monthly rates of low-paid workers;
- a flat rate increase of Kr. 18 000 for other categories of workers;
- further increases of 5.7, 5.4, and 4 per cent on 1st December 1977, 1st March 1978, and 1st September 1978 respectively for low-paid workers;
- rises equivalent to the above in absolute terms for other categories of workers;
- full (and virtually immediate) indexation¹⁰ for low-paid workers as from September 1977;
- partial indexation for other categories of workers giving them the same absolute increases received by low-paid workers between September 1977 and March 1978, and full indexation thereafter.

In addition, individual unions received a sum equivalent to 2½ per cent of monthly contractual wages to be distributed in special union-by-union agreements in the light of traditional differentials or relative labour scarcity. The fishermen's unions signed separate agreements early in July. These provided for monthly payments of the guaranteed minimum wage and share of the catch instead of three times a year. (The guaranteed minimum wage was itself increased by 24 per cent in line with the June agreements.) In addition, clauses in the contracts provide grounds for cancellation in case of alterations in the price index on which wage indexation is based, and "substantial" devaluations of the krona¹¹.

Diagram 3 Hourly wage rates¹
1970 = 100



1 For the period 1969-1972 yearly averages.

2 Deflated by consumer price index.

3 Forecast for fourth quarter 1977.

Sources: *International Financial Statistics*; Hagtölur Mánadarins.

10 The price compensation index on which wage indexation is based is derived from the consumer price index by excluding alcohol and tobacco, and the wage component of farm prices.

11 Though this is a usual provision in Icelandic wage agreements, it is understood that an effective decline in the krona exchange rate of about 1 per cent per month would not violate this clause.

These settlements are bound to reverse the previously falling inflation rate. It has been estimated that average wage and salary rates rose initially by 25 per cent after the agreements, and by 3½ per cent in September. A further increase of at least 10 per cent is likely in December 1977 when indexation is added to the agreed flat rate rises. Year-on-year, it is now estimated that wage and salary rates will grow by 40 per cent, with an end-year level some 26 per cent above the 1977 average. (In contrast, the carry-over from 1976 was 13 per cent.) Against this background an acceleration of consumer price increases to about 30 per cent by the end of 1977 may be a conservative estimate, giving a carry-over into 1978 of around 14 per cent. This is almost double the carry-over that would have occurred if trends up to summer 1977 had continued to the end of the year.

Table 4 Prices and incomes
Per cent change

	1973	1974	1975	1976	1977 Official forecast ²
<i>Implicit deflators:</i>					
Total domestic demand	25.5	42.8	48.0	30.1	30.2
Imports, goods and services	20.4	40.4	64.0	18.9	18.0
Exports, goods and services	31.1	29.5	48.1	30.6	26.1
GNP	27.1	44.5	38.9	34.4	34.4
Cost of living index	22.1	43.0	49.0	32.2	31.0
Consumer goods index	25.1	42.5	50.2	33.5	31.0
Building costs in Reykjavik	27.8	52.0	42.1	23.5	30.0
Hourly wage rates, unskilled workers	22.4	47.6	32.1	26.5	40.0
Hourly pay rates, all employees	23.5	48.4	27.1	26.0	40.0
Weekly earnings, all workers	30.9	55.9	25.1	34.0	40.0
Household income, incl. transfers	37.0	51.0	33.0	35.0	41.0
Disposable household income	35.0	52.6	32.3	34.5	42.0
Real pay rates, all employees ¹	-1.3	4.1	-15.4	-5.6	6.9
Real earnings, all workers ¹	4.6	9.4	-16.7	0.4	6.9
Real disposable income ¹	7.9	7.1	-12.0	0.7	8.4

1 Deflated by consumer goods index.

2 Forecasts from September 1977.

Sources: Central Bank of Iceland, Annual Report 1976; OECD, *Main Economic Indicators*; direct communication to the OECD.

The labour market

Maintenance of full employment has traditionally been the primary aim of economic policy. In the past three years, the rate of unemployment has seldom exceeded one per cent, and then for largely seasonal reasons. The average for 1976, at 0.6 per cent, was slightly lower than in the previous year. In the first half of 1977, the rate averaged 0.4 per cent as against 0.8 per cent in the corresponding period of last year. This record is all the more remarkable given the large fluctuations in total demand and a labour force that is growing at about 2 per cent annually¹². However,

12 The growth in the labour force is coming about partly through natural demographic trends, and partly through a steady and rather fast increase in female participation rates. Those of married women have risen from less than 40 per cent in the early 1960s to over 60 per cent by 1976.

the number of hours worked has varied. It dropped by 3 per cent between 1974 and 1975, but had largely recovered by 1976¹³.

Nevertheless, the variations in total labour input have been small relative to those in output and demand, both in the recent past and over the longer run. The structure of the economy probably facilitates the maintenance of full employment. There is a small relatively homogeneous population and very few enterprises employing large numbers of people. The social pressures in favour of retaining labour are undoubtedly significant. The mobility of labour is traditionally high: the agricultural sector is fairly large (10 per cent of the working population) and for climatic reasons notably seasonal. There are also strong seasonal variations in fishing and construction. It is consequently fairly usual for young workers in particular to switch jobs frequently. Last, but probably not least, real wage flexibility has been enforced by official policies. Between the first quarter of 1974 and that of 1975, real wage rates fell by 15 per cent, and continued to decline until the middle of 1976¹⁴. Such a development is unparalleled in other OECD countries. It helps explain both the persistence of full employment, and the insistence of labour unions on large real income increases in the recent settlements.

Balance of payments

As mentioned previously, export prices in dollar terms (and *a fortiori* in krona) were at high levels early in 1977, and grew steadily until mid-summer. Since then, fish meal prices on world markets declined, but later recovered. Year-on-year, dollar export prices of marine products seem certain to rise by 18 per cent or more. Dollar import prices may grow by somewhat less than average for the OECD, say by 7 per cent. The consequent improvement in the gross barter terms of trade, which may amount to as much as 10 per cent year-on-year, will more than offset the higher volume growth rate of imports relative to exports and reduce the trade deficit. Earlier in the year, before the wage settlements were announced, it appeared likely that a trade surplus would be achieved, and indeed one was recorded in the first 5 months¹⁵. However, merchandise imports rose very strongly thereafter, and expectations are now for a deficit of approximately \$26 million. Indeed, for the first 8 months of the year, the trade deficit was about the same as in the same period of 1976 in dollar terms¹⁶.

On the invisibles account, the surplus recorded in 1976 is envisaged to increase, despite larger interest payments on foreign debt, and despite a larger increase in travel expenditures than receipts. (A deficit of \$9 million was recorded in the seasonally weak first half.) The main positive item is expected to be revenue from transportation. For the first half of the year, a current account deficit of Kr. 4 ¼ billion was recorded. With the invisibles account likely to strengthen markedly, the current account is expected to be roughly in balance in the second half, implying a deficit for the year as a

13 Hours worked in Iceland are very high by comparison with other OECD countries. The basic working week is one of 40 hours, though mealtimes and other breaks reduce this in practice to about 37 hours. Overtime and week-end work raise the average in manufacturing to nearly 50 hours, after allowing for such breaks, and the secular trend is only slightly downwards. The arithmetic average for the five largest OECD countries in the boom year of 1973 was 42 hours, and for the other Scandinavian countries 36 hours. In the recession year of 1975 these figures were 40 and 36 hours respectively. (These figures are not adjusted for possible on-the-job breaks.) The long working week in Iceland helps compensate for relatively low hourly wages. Average hourly earnings of unskilled workers in Reykjavik in the second quarter of 1977 of 1977 were approximately \$3.50 net of (substantial) employers' social security contributions.

14 The contrast with the behaviour of nominal wages is striking. Since the beginning of 1972, they have never risen by less than 20 per cent year-on-year in any quarter, and in mid-1974 the rate of increase approached 60 per cent.

15 In the comparable period of 1976, a trade deficit of \$23 million was recorded.

16 An exceptionally high level of imports in June can be ascribed mainly to the sharp increase in imported vessels in the first half. These are recorded in the trade figures for June.

Table 5 Foreign trade by commodity groups

	Distribution (per cent) 1976	Per cent change in US \$ values				
		1973	1974	1975	1976	1977 Official forecasts ¹
<i>Exports, fob</i>	100.0	51.5	13.4	-6.2	30.9	36.8
Marine products	72.6	51.3	15.1	-1.3	20.7	38.6
Agricultural products	2.5	44.3	10.9	-5.5	15.1	..
Manufactured goods	23.1	53.9	1.4	-19.9	78.2	..
<i>of which: Aluminium</i>	16.3	58.9	-3.1	-31.5	106.9	36.2
Other	1.7	..	..	..	60.9	..
<i>Imports, cif</i>	100.0	51.6	48.2	-7.1	-3.6	34.1
Consumer goods	31.3	33.0	40.1	-13.6	7.0	..
Input goods	36.3	48.9	74.1	4.3	-6.0	..
Investment goods	32.4	73.6	36.2	-11.9	-9.6	..
Special imports	18.3	141.4	26.1	-1.2	-16.3	57.8
For the Thjórsá power project	4.8	..	..	43.9	158.8	..
Ships and aircraft	5.2	236.2	37.4	-24.4	-44.7	136.3
For the aluminium smelter	8.4	..	..	16.3	-21.9	..
General imports	81.6	35.1	52.8	-8.6	-9.2	33.2
Oil	12.2	52.7	152.7	-1.8	-7.4	..
Non-oil	69.4	33.6	42.8	-9.8	1.2	..

1 Forecasts of NEI, August 1977.

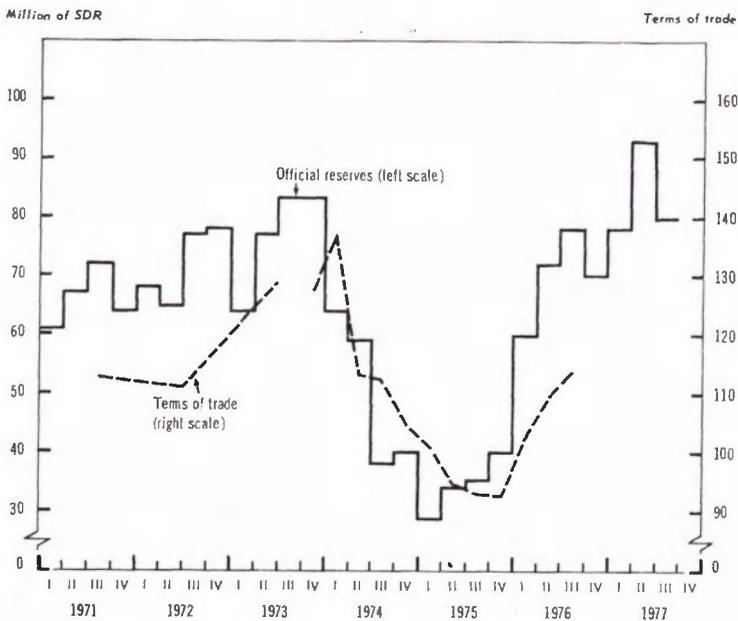
Sources: Central Bank of Iceland, Annual Report 1976 and direct communication to the OECD.

Table 6 Balance of payments
Transactions basis
US \$ million

	1973	1974	1975	1976	1977 ¹
Exports, fob	290.2	329.3	308.8	404.0	249.6
Imports, fob	325.4	476.6	442.9	429.5	262.5
<i>Trade balance, fob/fob</i>	-35.2	-147.3	-134.1	-25.5	-12.9
Services, net	5.9	-8.3	-5.1	1.4	-9.1
Foreign travel	-4.1	-6.4	-7.0	-10.2	-9.6
Transportation and insurance	5.0	-5.0	14.6	25.0	8.9
Interest	-12.6	-18.1	-31.0	-39.8	-21.4
Other	17.6	21.1	18.3	26.4	13.0
Transfers, net	16.2	0.6	-0.6	0.2	..
<i>Current balance</i>	-13.1	-155.0	-139.8	-23.9	-22.0
Long-term capital	23.3	85.1	107.5	47.5	80.2
Private	0.9	39.9	43.5	6.6	13.5
Official	22.4	45.2	64.0	40.9	66.7
Non-monetary short-term capital	-15.6	-9.5	-26.6	26.9	-24.9
Errors and omissions	-1.8	0.4	-0.4	..	..
Private monetary institutions	-0.6	-9.3	-3.1	-1.7	9.3
<i>Balance on official settlements</i>	-7.8	-88.3	-62.4	-5.0	42.6
Use of IMF credit	—	18.6	19.4	28.9	—
Miscellaneous official accounts	23.8	20.2	43.8	3.6	11.4
Allocation of SDRs	—	—	—	—	—
Change in reserves (+ = increase)	16.0	-49.5	0.8	27.5	31.2
Conversion rate (Kr. per US \$)	89.67	99.84	153.63	182.00	..

1 January-June, preliminary figures.

Source: Direct communication to the OECD.

Diagram 4 Official reserves and terms of trade¹

1 Terms of trade, 1970 = 100, 1971-1973 annual figures, 1973 onwards quarterly.

Sources : OECD, *Main Economic Indicators*; Direct communication to the OECD.

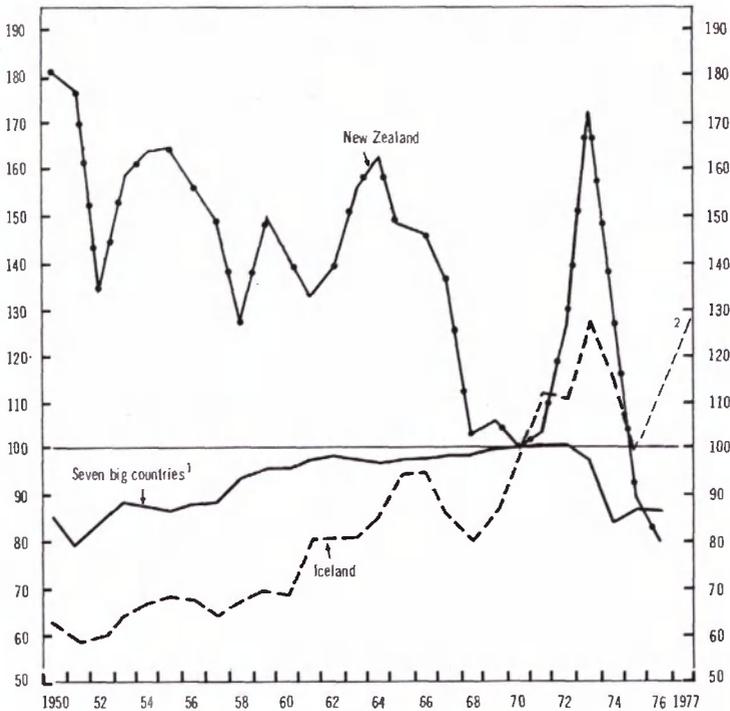
whole of \$22 million, equivalent to about 1 per cent of GNP. Net capital imports, which were very high in the first half-year, are expected to total about \$55 million for the year as a whole. Consequently, the net foreign reserve position of the banking system should improve by around \$30 million. Official reserves, movements of which usually parallel those of the terms of trade, are also likely to grow.

A digression on the terms of trade

The recent big swings in the terms of trade (ToT) have had a marked influence on economic activity and real incomes. These fluctuations, although not unusual in the case of Iceland, have been particularly violent in recent years, reflecting the fact that 75-80 per cent of exports consist of fish or fish products and that prices of these goods tend to fluctuate widely. What is perhaps surprising is that the terms of trade, on average, have improved over the post-war period. As is well-known, between the Korean war period and the commodity price boom of 1973, industrialised countries as a group enjoyed gradually improving terms of trade, while primary producers suffered. After a sharp reverse in 1973, the ToT of industrialised countries have improved somewhat, while still remaining far below the levels of the early 1970s. Non-oil primary producers have continued to experience, on average, a worsening of their ToT¹⁷. Iceland is in most ways an exception to these general features. Despite being a non-oil primary producer, its ToT not only improved in the 1950s and 1960s, but did so much faster than those of industrialised countries. Like them, Iceland's terms of trade showed a sharp reverse at the time of the oil crisis, but had recovered nearly to

17 Developments in individual non-oil primary producing countries after 1973 depend very much on the commodities they chiefly export. Producers of tropical beverages have fared relatively well; those of industrial raw materials rather badly.

Diagram 5 Terms of trade
1970 = 100



1 Trade weighted Index.

2 Forecast.

Sources : IFS; OECD.

the pre-crisis level by this year¹⁸. Though the immediate outlook is for no further improvement, the behaviour of Iceland's ToT since the beginning of this century suggests that, in peacetime, they tend on average to move in a favourable direction¹⁹. This is in striking contrast to, say, New Zealand, another small non-oil primary producer Member country. It too has experienced very strong short-term fluctuations in its ToT — stronger even than in the case of Iceland — but the secular trend has been unmistakably downward.

These developments have naturally been very favourable for Iceland. How favourable is difficult to judge, as there exists no generally accepted method of calculating the influence on real national incomes of a change in the terms of trade²⁰.

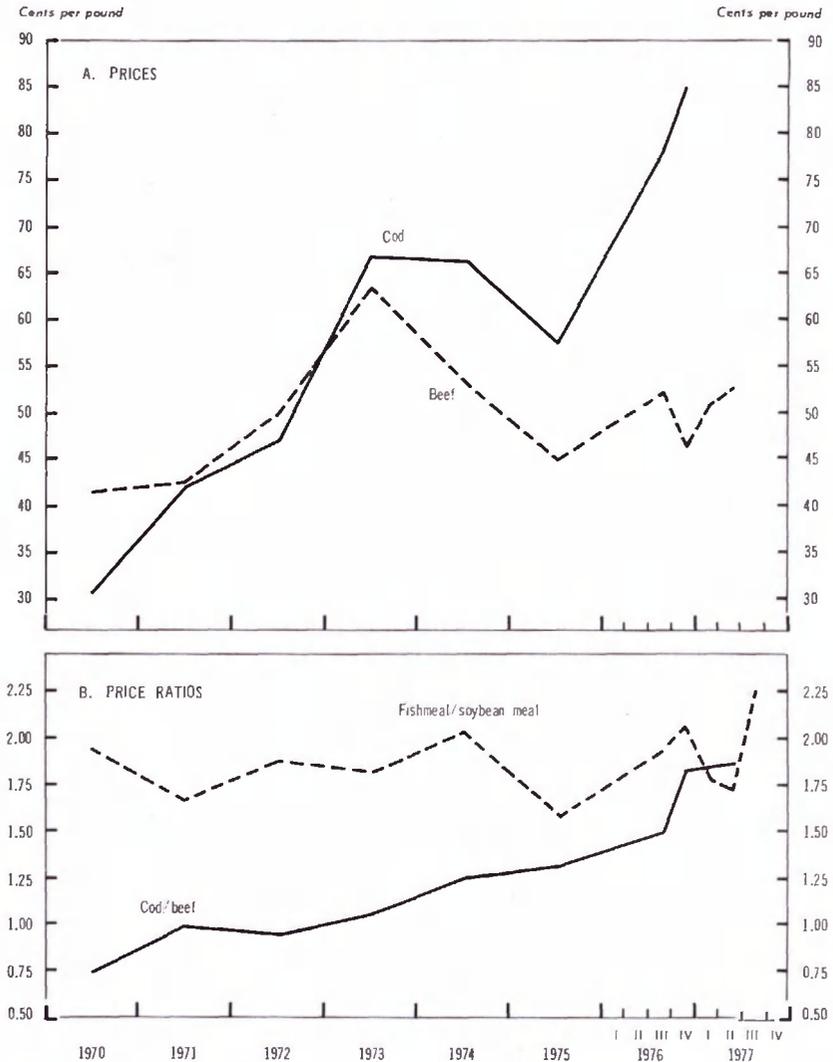
18 In 1977, Iceland's ToT were nearly double their level in 1950: those of the "big 7" were at about the same level as in 1950.

19 The secular improvement may be even greater than the figures suggest. It is widely accepted that price indices of manufactured products — Iceland's major imports — do not take fully into account quality improvements.

20 The commonest method (and the one used in Iceland) is to deflate export earnings by the price index for imports. The result is subtracted from export earnings deflated in the normal way, and the result called the "terms-of-trade effect". Since movements in relative prices are always weighted by exports, the value of the ToT effect for surplus countries as a group will exceed the value for deficit countries. Also, since the calculations are normally applied only to actual flows of goods and services, the impact on the real burden of debt of a deficit country, or on the real value of external purchasing power of foreign assets held by a surplus country, are ignored.

When examining an individual country over a long period, it is also important to take into account the potential effect of movements in the terms of trade on the growth of GNP. Thus, a secular improvement in these permits a country to invest more heavily in productive capital without sacrificing current consumption, since imports of either capital or consumption goods (or both) can be higher than would be possible otherwise. In the case of Iceland, the near-doubling of the gross barter terms of trade over the past 25 years and the high weight of foreign trade relative to GNP have

Diagram 6 World prices of fish and competing products



Notes : Cod prices are wholesale for cod blocks, Boston Mass.

Beef prices are utility grade, all weights at New York, Chicago and San Francisco.

Fishmeal prices are for 65 % protein grade, \$ per metric ton, cif Hamburg.

Soybean meal prices are for US origin, 44 % extraction, cif Rotterdam.

Sources : Industrial Fishery Products; International Financial Statistics.

permitted a relatively fast growth of real GNP (nearly 5 per cent per year on average over the past 25 years) despite the limited resources available²¹. Gross national incomes have, of course, grown even more quickly in real terms.

The question of why Iceland has enjoyed such a favourable and anomalous ToT experience is difficult to answer. (It is clear, of course, that the favourable movement resulted from rapidly growing marine export product prices, rather than from an unusual behaviour of import prices.) It can be argued that as an exporter of protein foods for animals and humans in an increasingly affluent and populous world, a secular improvement of the ToT was to be expected. Similarly placed countries, however, have not experienced this²². One factor, especially in the 1950s and early 1960s may have been the favourable geographical structure of trade. The United States has for long been the most important export market, with imports coming mainly from Western Europe. With the dollar being overvalued relative to European currencies in the early part of the period, such a trading pattern had clear advantages. It does not explain, though, why the ToT continued to improve when the relative strength of the dollar and European currencies was reversed. Another factor may have been technological progress in the fish processing industry. Because of its distance from final consumers, Iceland is not a supplier of fresh fish, which commands premium prices. Improvements in freezing methods permitted a rapid increase in exports of chilled and frozen whole fish after World War II, supplanting saltfish exports for which prices are lower and markets fewer. Further developments in packaging introduced fish to the vast and rapidly growing American convenience food market. This development has been enhanced by the setting up of producer co-operatives operating directly in the U.S. market, subject to strict quality control and selling under brand names. Product diversification and product differentiation have thus enabled exporters to increase the value added of marine products. This has permitted the price of cod to rise strongly relatively to that of beef, say, though this does not imply that such a rise will endure indefinitely²³. At the same time, relatively more Icelandic fishing effort has been devoted to catching marine products with intrinsically high unit values, such as shrimp, lobster, scallop, etc.

II ECONOMIC POLICY

Background

During the past twelve to eighteen months economic policies were primarily designed to dampen inflationary pressures arising from increases in aggregate demand, to restore better external balance, and to strengthen the public sector financial

21 It is true that the total fish catch in gross tonnage terms has grown at about the same rate as GNP, but that of cod, by far the most valuable species, has grown much less rapidly. (The recent extension of the fishing limits to 200 miles, coupled with careful monitoring of the size and composition of the fish stocks, promises to lead to a possibly substantial increase in catch sizes in the longer term.) Resources of good agricultural land are tiny. Only about 1 per cent of the country's area can be intensively cultivated and then chiefly for hay crops. There are no important mineral deposits. However, energy sources in the form of hydro-electric or geothermal power are relatively abundant. These are now being exploited more intensively.

22 The reason why producers of animal and plant foods for human (or animal) consumption have not experienced terms-of-trade improvements to the same extent as Iceland may lie in the supply elasticities involved. High export prices in the former cases encourage producers to increase the size of their herds or crops, thus driving prices downwards at a later period. There is obviously less scope for this in the fishing industry. However, high fish prices can be expected to encourage fishing effort in both the short and long run. And if, like Iceland, the country is a price taker on export markets, unilateral restrictions designed to conserve fish stocks would have little favourable impact on the terms of trade.

23 As can be seen from Diagram 6, the relative prices of fishmeal and its close substitute, soybean meal, show no such clear upward trend.

position. The task of economic policy was helped by the fact that there was an internal consensus on the desirability of pursuing these aims. Since, moreover, external conditions proved even more favourable than expected, the broad objectives of policy could be achieved. The continued increase in exports (both volume and prices) so far this year has permitted a cautious relaxation of the stance of official policies, but the inflation outlook has worsened again after the general wage settlement in June.

Public finance

The outturn for the central government budget in 1976 shows that, as planned, the accounts were roughly in balance²⁴. On the other hand, both revenue and expenditure substantially exceeded the estimates put forward in the revised budget of May 1976²⁵, reflecting higher rates of increase in activity and inflation than expected. On the revenue side, for example, receipts from import tariffs exceeded estimates by nearly 20 per cent (K.r. 2.2 billion). With regard to expenditure, wages and salaries payments were also about 20 per cent higher than planned in the revised budget. Many expenditure items, notably wages and social security payments, are indexed, while receipts from sales taxes, the most important revenue source, are *de facto* indexed. As can be seen from Table 7, the revenue balance was slightly in deficit compared with a planned small surplus. With regard to financial transactions, net borrowing (excluding Central Bank transactions) of K.r. 0.9 billion was expected, compared with an outturn of K.r. 0.4 billion net repayments. Consequently, there was a cash deficit of K.r. 0.5 billion (0.2 per cent of GNP) compared with an expected surplus of K.r. 2.3 billion. Treasury borrowing from the Central Bank amounted to a net K.r. 1.7 billion, though net repayments of K.r. 1.4 billion had been called for. Much of this shortfall occurred in the later months of the year occasioned by "leads and lags" of payments into and out of industrial and other funds held at the Bank and administered by the Treasury.

When the budget for 1977 was voted (in December 1976), it was reasonable to expect a further deceleration in the rate of inflation combined with a moderate increase in domestic demand and GNP. No new measures of great importance were introduced. It is now clear that the upturn in activity has been significantly greater than expected. And, following the wage settlements of June 1977, it is equally clear that inflation in 1977 will proceed at least as rapidly as in 1976²⁶. Consequently, revised estimates for 1977 have been prepared, and are detailed in Table 7. It should be emphasised that these estimates are somewhat tentative, since at the time they were prepared, no agreement had been reached on public sector employees' remuneration for the remainder of 1977 and 1978²⁷. As can be seen from the table, the revised revenue and expenditure totals are each about 7-10 per cent higher than the originally voted sums, and 40 per cent higher than the 1976 outturn. On the basis of the revised accounts, a cash surplus of K.r. 0.5 billion is now expected (excluding transactions with the Central Bank) compared with a voted surplus of K.r. 2.9 billion.

The sharp swing in the public sector financial balance between 1975 and 1976, from a large deficit (4 per cent of GNP) to rough balance had a welcome restraining

24 Complete accounts for local government are not available, but those for the most important municipalities indicate that balance was restored in 1975, and maintained in 1976.

25 The original budget, presented in the autumn of 1975, incorporated the assumption of an inflation rate of 14 per cent, year-on-year. In May 1976, a revised budget was adopted, incorporating a more realistic assumption of a 27 per cent inflation rate.

26 As noted in Part I, the wage settlements themselves had direct budgetary implications for the Central Government.

27 Public sector employees are not covered by the agreements between the Icelandic Federation of Labour and the employers' associations. They claim that their remuneration has lagged significantly behind that in the private sector for similar work, and that fringe benefits in the private sector have steadily increased.

Table 7 Central Government revenue and expenditure
Cash basis
Billion kronur

	1976 Budget	1976 Outturn	1977 Budget	1977 Revised Budget	1978 Proposed Budget
Current revenue	60.34	68.30	89.96	96.54	121.84
Direct taxes	7.89	8.69	11.55	10.75	16.68
Social security contributions	2.08	2.13	2.93	2.93	5.67
Excise and sales taxes	30.27	33.97	46.75	50.31	59.85
Import duties	13.19	15.40	18.55	21.58	25.45
Other indirect taxes	6.20	6.70	9.01	9.58	12.59
Other revenue	0.71	1.41	1.17	1.39	1.60
Current expenditure	45.19	53.68	68.37	98.0	90.86
Consumption	16.01	20.05	30.83	—	41.41
Interest on public debt	1.65	2.31	2.28	—	3.31
Current transfers	27.53	31.32	35.26	—	46.14
To social security	17.22	19.76	21.69	—	30.11
Consumer subsidies	4.97	5.19	5.10	—	6.53
Other	5.34	6.37	8.47	—	9.50
Current savings	15.15	14.62	21.59	—	30.98
Gross fixed investment	3.89	5.23	6.54	—	9.00
Capital transfers	9.77	9.49	14.25	—	19.00
REVENUE BALANCE	1.49	-0.10	0.81	-1½	2.98
<i>Financing: (excl. Central Bank)</i>					
Net borrowing	8.25	9.36	8.37	—	—
Net lending	-7.36	-9.76	-6.63	—	—
OVERALL CASH BALANCE	2.38	-0.5	2.55	—	—

Sources: Central Bank of Iceland, Annual Report 1976; direct communication to the OECD.

impact on domestic demand growth. Given the renewed strengthening of inflationary pressure in 1977, the high rate of capacity utilisation and the very low unemployment level, even greater restraint would have been required this year. Tentative estimates of the likely budget outturn suggest that this has not been achieved. Furthermore, the expansionary impact on domestic activity of public sector transactions may be greater than is implied by considerations of the swing in the budget balance alone. The composition of revenue and expenditure, and the size of the budget to nominal GNP are also of importance. The main source of revenue is indirect taxes on the retail sale of goods. Given the structure of the Icelandic economy, these taxes fall most heavily on imports. Thus the restraining impact of public revenue on private spending on domestic goods and services is not only reduced because of first round saving leakages but also as a result of a high share of imports in satisfying private sector demand. On the expenditure side, the "first round" spending has a variable import content, depending on the split between investment and wages and social security payments. Even when balanced, public sector revenue and expenditure transactions may thus lend support to the *level* of domestic activity, and when rising *pari passu* exert a net expansionary influence on the growth of demand. It is difficult to escape the conclusion that fiscal policy in 1977 has imparted an expansionary impact to nominal demand that has been unwarranted in the light of price trends, and unnecessary in the light of the already high level of real demand relative to productive capacity.

Monetary policy

For the first time, a national credit budget for the year ahead was presented to the Althing late in 1975. This contained guidelines for lending by source and destination for all major types of loans, with the important exception of produce loans²⁸. All major economic institutions participated in the drawing up of the guidelines, though the commercial banks were not formally involved until the early months of 1976. The credit budget is intended as an indicative plan only: the guidelines do not have the force of law, and penalties are not automatically imposed on lenders who exceed the targets. The 1976 credit budget was intended to be mildly restrictive, in line with the general policy aims of reducing the current external deficit and slowing down the pace of inflation. The growth of lending by the Investment Credit Funds in particular was to be curtailed. In previous years, this had grown rapidly, especially to the fisheries sector. Apart from the credit budget, an important development in monetary policy was the introduction of a savings scheme in May 1976 intended to compensate for inflation, although not automatically indexed. One-year savings deposits under this scheme earned a basic interest rate of 16 per cent, plus a 6 per cent premium. The new savings deposits proved very popular²⁹.

As can be seen from Table 7, the aims of the credit budget met with only partial

Table 8 **Growth of lending, 1975-1977**
Net changes in millions of kronur

	1975	Credit budget 1976	Preliminary outturn 1976	Credit budget 1977
Borrowers				
Central government	8 338	20	2 782	- 660
Total public sector	17 214	8 357	15 237	7 010
of which: Foreign borrowing	8 993	7 690	9 632	7 600
Industry	14 585	16 363	12 872	17 730
of which: Foreign borrowing	-1 771	3 705	-3 667	-1 672
Housing	7 490	8 520	11 142	13 010
Other private sector	883	330	1 456	995
TOTAL	40 172	33 570	40 707	38 745
Lenders				
Banking system	17 138	6 260	16 381	11 950
Central bank	5 543	-1 400	2 518	-2 200
Deposit money banks	11 595	7 660	13 863	14 150
Investment credit funds	9 872	10 380	10 952	13 435
Pension funds	3 546	3 970	5 030	5 600
Foreign credit	7 222	11 395	5 965	5 928
TOTAL¹	40 172	33 570	40 707	38 745

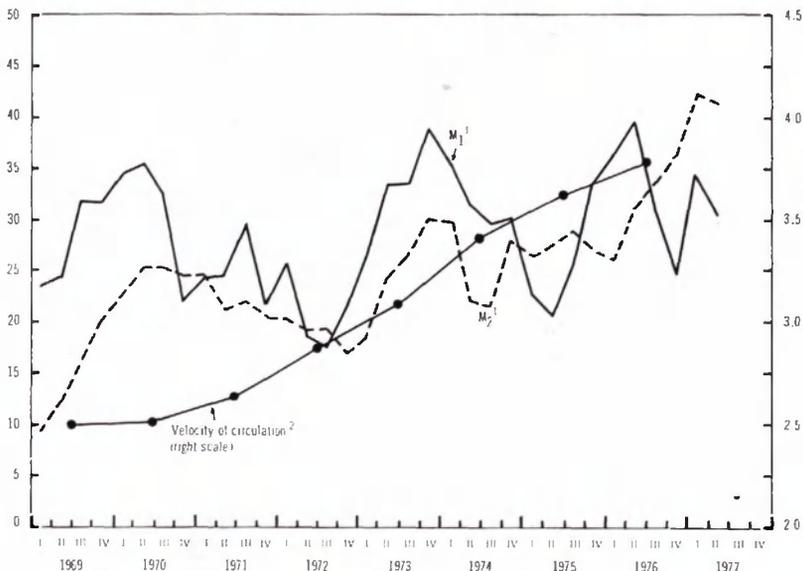
1 Including lending by government and private sectors.
Source: Direct communication to the OECD.

28 Produce loans were excepted being tied to export production and largely outside the control of the banks. Producers in the agricultural and fisheries sectors are entitled to a credit advance from commercial bank amounting (at present) to 75 per cent of the value of inventories awaiting sale. The commercial banks in turn is entitled to rediscount at the Central Bank (at present) 78 per cent of the credit advanced. The latter charges interest at 14 per cent for the rediscounting facility, while commercial banks are permitted a 1 per cent "turn". The system permits an automatic creation of money as output grows, but the rate of injection can be much higher than overall economic growth when, as in 1976 and early 1977, both the volume and world price of fish exports are rapidly growing.

29 For subsequent changes to these rates, see below.

success. This was partly because the price forecasts on which the budget had been based were deliberately conservative and thus very quickly proved unrealistic³⁰. Hence the credit ceiling for deposit money banks was modified (in April 1976) from 12 to 16 per cent for the whole year. On the other hand, it can certainly be argued that the more rapid than planned expansion of credit itself contributed to inflationary pressures. At any rate, the main objective of policy, of reducing the current external deficit to 6-7 per cent of GNP, was easily realised for other reasons³¹. This in itself would have justified a more relaxed attitude towards growth of credit than originally envisaged. But it is particularly disturbing that Investment Credit Funds' lending to the fisheries sector was well above planned levels, contrary to declared policy intentions to restrain the growth of capacity in that area. Lending by deposit money banks also considerably exceeded the original target: net of rediscounts, credits expanded by 26 per cent instead of the planned 16 per cent of the revised credit budget. The growth of rediscounted produce loans at 28 per cent was well above the original expectation, though substantially below the rates reached in previous years (67 per cent per year on average between 1973 and 1975). In order to reduce the impact of this on monetary expansion, required reserves were raised from 23 to 25 per cent, their legal maximum, in April 1976. Borrowing to finance public projects was also well above expectations (Kr. 17.3 billion vs. Kr. 14.2 billion: much of the difference can be

Diagram 7 Money supply growth and velocity of circulation



1 Percentage growth over previous year.

2 GNP divided by M.

Source: OECD, *Main Economic Indicators*.

30 At the time the credit budget was drawn up, a rate of inflation of 12-15 per cent between the beginning and end of 1976 was expected, implying a year-on-year rate of 24-25 per cent. The actual results were 31 and 32 per cent respectively.

31 In fact, the 1976 current account deficit amounted to less than 2 per cent of GNP.

Table 9 Accounts of the banking system

	Position end-1976 Kr. bill.	Change during period; kronur bill.					
		1974	1975	1976 Credit budget	1976 Outturn	1977 Credit budget	1977 January- October
Foreign assets, net	-16.4	-9.8	-12.4	—	0.3	—	3.1
Short-term ¹	-0.3	-5.8	-4.7	0.8	3.3	4.5	4.8
Long-term	-16.1	-4.0	-7.7	—	-3.0	—	-1.7
Domestic assets, net	94.0	19.6	25.7	7.0	18.8	14.5	19.2
Central Bank credit	15.8	3.3	7.4	-1.4 ²	2.3	-2.7 ²	-0.1
Deposit money bank credit	70.8	14.5	10.3	8.4 ²	14.7	15.0 ²	26.8
Foreign funds relent by Central Bank	2.7	0.5	1.1	—	0.8	—	0.7
Foreign funds relent by deposit money banks	13.9	3.5	6.0	—	3.2	—	2.3
Public depository funds ¹	-4.5	-0.3	1.5	0.5	-1.9	-0.5	-1.7
Other items, net ²	-4.6	-1.9	0.6	-0.5	0.3	2.7	-7.4
Money and quasi-money (M2)	77.6	9.8	13.3	7.8	19.1	19.0	22.3
Money supply (M1)	23.4	3.1	5.1	—	4.4	6.0	11.8
Currency in circulation	5.6	0.7	0.9	0.6	1.2	—	1.9
Demand deposits	17.8	2.4	4.2	—	3.2	—	9.9
Time and savings deposits	53.5	6.6	8.4	—	14.2	13.0	10.2
Advance import deposits	0.7	0.1	-0.3	—	0.5	—	0.2
				<i>Per cent change during period</i>			
Deposit money bank credit		46.5	22.4	14.5	26.2	20.1	47.0 ³
Money and quasi-money (M2)		27.8	29.3	13.5	32.6	24.2	35.4 ³
Money supply (M1)		29.4	37.2	—	23.2	24.2	63.2 ³

1 Public depository funds are held with the Central Bank and are entered here as a negative asset. Negative change means increase of deposits owned by these funds but positive change conversely decrease of their deposits. These funds mainly consist of the Fisheries Price Equalisation Fund, Catch Equalisation Fund and other Funds of the fishery sector as well as the Municipal Equalisation Fund and the annually revolving vacation fund of general labour.

2 Other items are entered as negative assets (i.e. liabilities) of the banking system, cf. footnote 1. These mainly include the banks' own capital and related regulatory items, such as SDR Counterpart Fund, accrued interest and cost of operations. Furthermore, foreign long-term debt and re-lending from such funds is included.

3 Annual rate, not seasonally adjusted.

4 Changes exclude book value adjustments due to devaluation of the Icelandic krona.

Sources: Central Bank of Iceland, *Monetary Developments*; Hagtölur Manadarsins.

ascribed to large borrowings to finance the Sigalda power project. Foreign borrowing at Kr. 13.4 billion for such projects exceeded the amount originally envisaged, Kr. 11.3 billion. Only the Central Bank and the public depository funds managed to stay near or below the guideline ceilings. At 34 per cent, M_2 growth was 2½ times greater than foreseen.

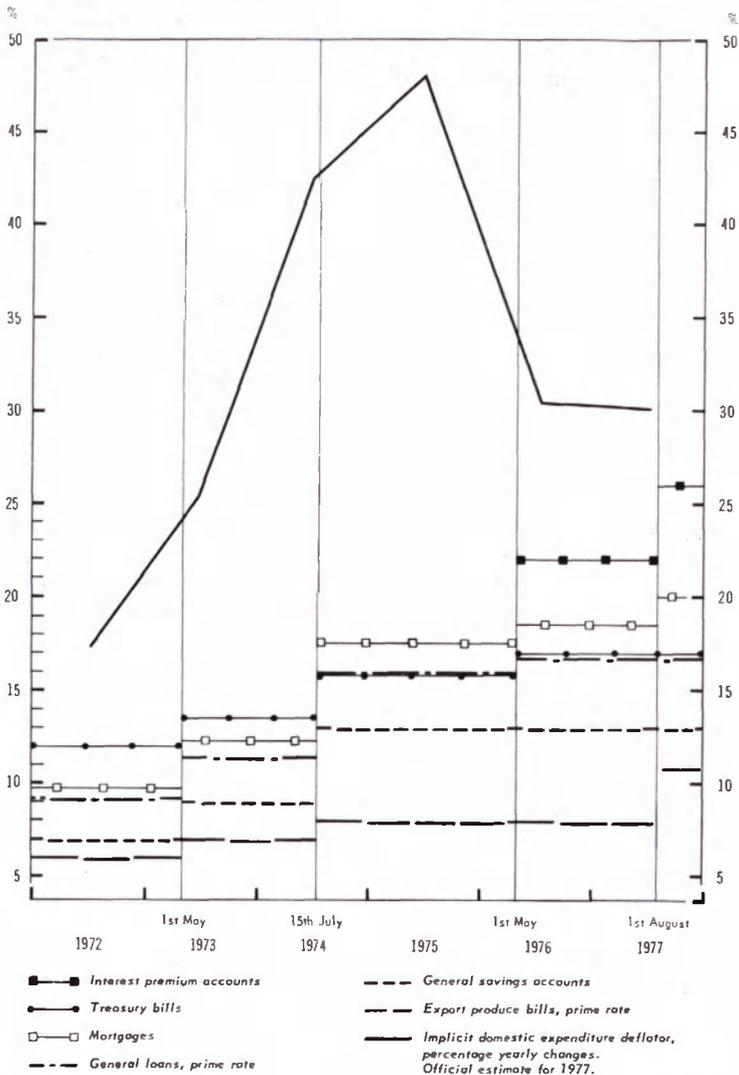
Despite the somewhat unsatisfactory outturn, it was felt that the introduction of the credit budget in 1976 had proved to be a valuable adjunct to economic policy instruments, and a new credit budget covering 1977 was presented to the Althing in December 1976³². Because of the economic climate and forecast developments, a continuation of the previous policy stance was called for, namely further strengthening of the external position, and a deceleration of inflation. This was to be achieved by a reduction in the rate of credit expansion, especially that financed through foreign borrowing. It was emphasised that monetary aggregates should grow less rapidly than prices. The latter were expected to increase by 14-18 per cent during 1977, decelerating in the course of the year to give a year-on-year rate of 23-24 per cent (i.e. a similar forecast to that made one year previously for 1976). The net supply of credit was planned to rise by about Kr. 38.7 billion, a decrease of 12.4 per cent from the estimated flow of 1976. Within the total, some changes in the composition of credit were decided upon. On the borrowers' side, the intention was to significantly reduce the increase in the net borrowing of the public sector (by almost 50 per cent), in particular the Central Government where an actual reduction of indebtedness was expected. Within the private sector, credits for housing construction were to increase at the expense of those for enterprises. On the supply side, a reduction of foreign borrowing was viewed as both desirable and feasible with improved export earnings helping to strengthen the foreign exchange position of the economy. Within domestic financial institutions the banking system was supposed to diminish its share in total lending, while the role of investment credit funds would be increased.

In the first half of 1977, it became increasingly apparent that it would be very difficult to meet the targets of the 1977 Credit Budget. Despite a net contractionary impulse on monetary aggregates from public sector financial institutions, the broadly defined money supply grew at an annual rate of nearly 50 per cent in the first seven months. The main reason for this was a big increase in banks' lending capacity, in which the rediscounting of fisheries sector produce loans was partly instrumental. With large catches and high world market prices, rediscounted bills increased by over Kr. 4 billion compared with less than Kr. 1 billion in the same period of 1976. Banks' lending, though, increased even faster than their monetary base. By end July, most banks were borrowing from the Central Bank (at penalty interest rates of over 40 per cent) in order to finance this lending. Treasury borrowing was also sharply up on year-earlier levels, though this may have represented no more than a return to previous seasonal patterns.

In the light of the June wage settlements, it is fairly clear that the general and most of the particular targets of the 1977 Credit Budget will not be realised. The monetary authorities lack the power to curb credit expansion by direct control, and they lack the power to influence it sufficiently by open market operations. Furthermore, minimum reserve requirements are already at their legal maximum. It is realistic to assume that the inflation rate will increase in the near future, and with most interest rates heavily negative in real terms, the demand for credit is very likely to increase further in strength. Faced with this highly unsatisfactory situation, and with expectations of worse to come, the authorities took steps to increase certain interest rates. In August 1977, the basic interest on the new type of savings deposits mentioned above was raised to 18 per cent, and the premium to 8 per cent. Rates on other deposits were

32 The Credit Budgets are presented to the Althing for information only. As noted earlier, they do not have the force of law.

Diagram 8 The structure of interest rates



Note: From the 21st November 1977 all interest rates were increased by 3 per cent. and the interest rate on produce bills by 4 per cent.

Source: Central Bank of Iceland: *Annual Report*.

partially indexed³³ and rates on non-rediscountable produce loans that had been raised from 11 to 16 $\frac{3}{4}$ per cent in March were further increased to 17 $\frac{1}{4}$ per cent. In

33 The indexation procedure is as follows: ordinary savings deposits, for example, earn a basic interest rate of 5 per cent plus a further 8 per cent with inflation (at mid-year) running at 26 per cent annually. At quarterly intervals, the Central Bank will review the interest rate in the light of latest price developments and can, at its discretion, lift all interest rates by 60 per cent of the excess of the current annual rate of inflation above 26 per cent. Thus, if inflation increases to, say, 36 per cent, the interest paid would rise to $5 + 8 + 0.6 \times 10 = 19$ per cent. Though this represents a step in the right direction, it is clear that the gap between the interest rate paid and the rate of inflation would still widen under the new system while the rate of inflation is increasing.

November 1977, all interest rate premiums were raised by 3 per cent, in view of inflationary developments. In addition, the basic rate of produce loans was raised by one per cent.

Price and income policies

A system of price controls has been in force since 1970. The Agricultural Price Board sets selling prices for meat and milk, while a Price Control Committee sets maximum retail prices for petrol, bread and other consumer goods. The Committee also fixes maximum percentage mark-ups on prices of imported goods. Domestic producers are obliged to justify proposed price increases. It is difficult to judge what moderating influence, if any, these controls have had on the rate of inflation.

In 1977 the Government attempted to exercise a moderating influence on wage negotiations elsewhere by offering fiscal concessions. These included a reduction in personal income tax (of about Kr. 2 billion), increased National Insurance benefits, a stepping-up of consumer price subsidies sufficient to reduce the cost of living by 1½ per cent (and costing Kr. 830 million), and a promise to increase public spending on housing and on day-care centres. It is impossible to say what the outcome of the negotiations would have been in the absence of these concessions, but at first sight their impact does not seem to have been great.

In the fisheries sector, the main instruments of incomes policy are the operation of the Fisheries Price Equalisation Fund (FPEF) and the official participation in the setting of share prices in the Fisheries Pricing Board³⁴. In 1977 (and in the second half of 1976), share prices for raw white fish were raised several times. Between mid-1976 and September 1977, the cumulative rises totalled over 60 per cent. In the same period, the FPEF felt constrained to make some outpayments to the processing sector, despite high export prices, as profitability remained poor. The overall effect of these measures was to increase fishermen's earnings greatly (because of good catches and higher share prices). It is disturbing that despite favourable export prices the processing sector was in a tight financial situation. This owed much to the steep rise in domestic costs (expressed in foreign currency terms) in recent years.

Other aspects of policy

Apart from traditional monetary and fiscal policy measures, the authorities have attempted to influence the economy by other means. The fish stock — especially that of cod — is at a critical level, although foreign fishing effort has been much reduced. The task of monitoring the fishing effort of the domestic fleet has therefore assumed even greater importance than hitherto. With increasing frequency, individual areas of Icelandic waters have been made subject to temporary fishing bans, of a selective (as regards fish species) or even total nature. On 15th July 1977, the Minister of Fisheries announced a one-week total ban on cod fishing in Icelandic waters to take effect on 26th July, and he also announced that all trawlers of 900 GRT and over (almost the whole of the trawler fleet) were to abstain from cod-fishing for 30 days in all before 15th November. These measures were undoubtedly prompted by the high

34 The Fisheries Pricing Board sets "share" prices for raw white fish, in principle at the beginning of the season and after negotiations between the processing plants and boat owners. If export prices prove to be higher than this, the processing sector benefits, whereas both sectors benefit from an increased catch volume. The operations of the Board thus distribute income between the fishermen and the processing plants. The Fisheries Price Equalisation Fund is intended to stabilise fishery sector incomes. It sets base prices for fish exports in the various categories, in principle also at the beginning of the season (and before share prices for raw fish are determined), and rates of payment into or out of the Fund are determined by the extent to which actual export prices rise or fall below the base prices. In setting the base prices, account is taken of developments in fish prices over the previous three years. The financial resources of the Fund are frozen in a special account at the Central Bank, and disbursements are permitted only for declines in export prices of fish.

cod catch registered in the early months of the year. It is uncertain how much of the high cod catch recorded in 1976 and expected in 1977 can be explained by overfishing by a technologically advanced trawler fleet tempted by high and rising world cod prices, and how much by an unexpected recuperation of the cod stock. But given the medium-term importance of the latter, close surveillance of fishing effort appears desirable. In its absence, it is possible that the stock would be overfished, leading to greatly reduced catches in subsequent years. Even if the cod catch in Icelandic waters is limited to 300 000-320 000 tons for the next 2-3 years, it may be necessary to restrict the total cod catch to around 300 000 tons in the early 1980s to allow the stock to recuperate. If this policy is followed, catches could safely grow to 390-400 000 tons in the latter half of the 1980s, preferably with diminished effort.

The exchange rate policy of the authorities has been to allow the krona to drift downwards against the U.S. dollar and other trading partner currencies. During 1976, the trade-weighted rate of descent was approximately one per cent per month, a rate which continued up until the summer of 1977. From December 1976 to June 1977, however, the krona rate depreciated by only 2 per cent. Following the realignment of Scandinavian currencies inside and outside the European "snake", the Icelandic krona was devalued by 2½ per cent. This rate of descent is less than would be required fully to offset differential inflation rates. Thus between 1970 and end-1976, the trade-weighted krona exchange rate has fallen by some 50 per cent. Over the same period, OECD consumer prices rose by 70 per cent, while those in Iceland rose by 350 per cent. During 1976 itself, the weighted exchange rate fell by 11 per cent: consumer prices in Iceland rose by 31 per cent, and OECD consumer prices generally by 9 per cent. These discrepancies have tended to favour real income growth in Iceland and hence to push up imports, but seem to have had little, if any, restraining effect on the expansion of export and import competing industries. Prices for Iceland's two major exports are largely unaffected by domestic costs, and there are relatively few import substituting industries³⁵. However, the steadily rising costs (in dollar terms) of labour in Iceland seem to have reduced profitability in "exposed" industries, and may have adverse effects on revenue from tourism. Loftleider also now faces additional competition in the provision of low-cost regular scheduled transatlantic air passenger flights.

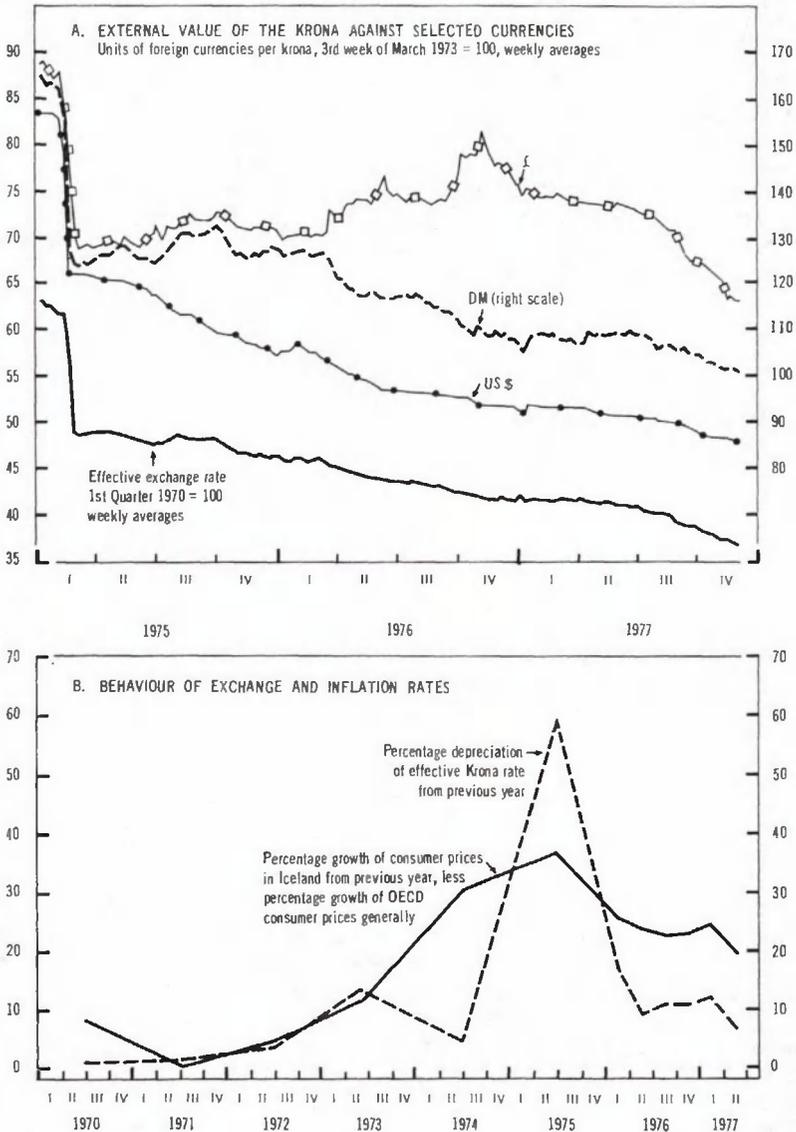
The 1978 policy stance

At the time the budget proposals for 1978 were drawn up, the pay dispute in the public sector had not been settled. The proposals were based on the assumption that any agreement reached would be similar to those covering other employees in the June settlements. For technical reasons, the price forecast underlying the 1978 budget proposals was a conservative one³⁶. The budget proposals embodied a notably restrictive stance of fiscal policy (Table 7). Public sector investment was to fall in volume, and public consumption to rise relatively slowly. On the revenue side, direct taxes were to be raised sharply, as were indirect taxes on vehicle ownership and usage. The proposals foresaw a swing into surplus of the public sector revenue balance Equivalent to about 1 per cent of GNP, with the main impact falling on personal disposable income. In view of the real wage increases sought in the June settlements, and the alarming upsurge in general imports that had already taken place, such a policy

³⁵ Tariffs on Icelandic imports are also being steadily reduced under the terms of agreement with EFTA and the EEC.

³⁶ Revenue and expenditure by category were projected on the basis of the price level as of October 1977, plus only the estimated effects of the basic wage cost increases in 1977 and 1978 laid down in the June agreements. This would translate into a year-on-year overall price increase of approximately 18-20 per cent. This, however, excluded all escalation increases and other price developments to be expected in 1978.

Diagram 9 Exchange rate developments



Source : OECD Secretariat.

objective was clearly desirable. However, the settlements in the public sector proved to be higher than expected³⁷. Furthermore, the price assumptions underlying the original

37 Though details differ as between the various categories of public sector employees, the overall result was a settlement embodying pay scale increases of at least 5-6 per cent higher than those obtained by other workers in the June settlements. The public employees had argued, with some justice, that differentials between private and public sector earnings had widened during the recent period of wage restraint.

budget proposals clearly require revision. Consequently, a revised budget would require substantial extra revenue-raising effort and further expenditure cuts in order to maintain the necessary restrictive stance and budgetary surplus position of the original proposals³⁸. At the time of writing, the Credit Budget for 1978 had not been drawn up in detail. Judging by recent statements and actions by the monetary authorities, it seems likely that the growth rate of credit planned for 1978 will be less than the expected rise in prices. Within total credit expansion, domestic financing of investment will be encouraged via a continuation of the active interest rate policy of 1976 and 1977, and other measures, and an attempt made to improve the liquidity position of commercial banks. A recent innovation in the field of monetary policy is the decision to permit residents who have access to earnings in certain foreign currencies³⁹ to open savings deposits in these currencies in Iceland. Interest will be paid on these deposits at rates prevailing in the relevant countries.

III SHORT-TERM PROSPECTS AND POLICY CONSIDERATIONS

Short-term prospects

At present, there is virtually full employment of labour and capital. Output of the fishing industry is limited by conservation measures, rather than by the present size of the fish stocks or the wherewithal to exploit them. The upper limit to the growth in the volume of national output in 1978 will, therefore, be set by the growth of productive capital and the labour force. Estimates prepared by the National Economic Institute indicate that potential output may rise by around 4 per cent, much the same as in 1977⁴⁰. Demand growth in the short run is partly outside the control of the authorities because of the influence of terms-of-trade developments. At the time of writing, it appears likely that these will stay at approximately the same favourable level as in 1977, with both export and import prices (in dollars terms) foreseen to rise by about 7 per cent in 1978.

The composition of demand and the outlook for inflation will depend importantly on the conduct of official policies. It was noted in Part II that fiscal policy in 1978 is intended to be relatively restrictive. The large and indexed wage settlements of 1977 will inevitably lead to a reacceleration of inflation rates. However, it is the intention of the Government to curb the growth of domestic demand volume, and hence general imports, by tax measures and expenditure cuts⁴¹. On this basis, the current external deficit may be kept at the 1977 level relative to *np*, despite the fast growth of real wage rates and the absence of favourable terms-of-trade effects.

The National Economic Institute has prepared a conditional forecast of the 1978 outturn. The main condition is that the intended restrictive stance of fiscal and monetary policy, as epitomised by the original 1978 Budget proposals, is in fact translated into action by such additional tax-raising and expenditure-reducing measures as would be necessary in the wake of the autumn 1977 public sector wage settlements. If this condition is fulfilled, the 1978 outlook is for private consumption to

38 It is understood that a reappraisal of the original budget proposals in the light of subsequent events is at present under way.

39 U.S. dollars, Deutschmarks, pounds sterling, Danish kroner.

40 Unforeseeable exogenous disturbances emanating from climatic factors, random variations in the state of fish stocks, or major strikes can of course influence actual developments substantially.

41 Estimates prepared by the National Economic Institute prior to the proposed tax measures indicated that the current external deficit could widen markedly in 1978, influenced by rapidly increasing imports resulting chiefly from a fast growth of private consumption.

Table 10 Official estimates and forecasts

	1976 Kr. bill.	Per cent volume change on previous year ⁴	
		1977	1978 ⁵
Private consumption	159.6	8.0	5½-6
Public consumption	26.2	2.0	1½
Gross fixed investment	78.0	2.8	-(1-2)
Residential	16.9	3.0	5-6
Public	33.9	-16.3	-5
Industrial	27.4	25.6	-3
Final domestic demand ¹	263.8	5.9	3½-4
Changes in stocks ²	-1.7	1.0	..
Total domestic demand	262.1	6.9	..
Exports of goods and services	105.5	10.3	3-4
Imports of goods and services	109.9	16.4	3-4
Foreign balance ²	-4.4	-2.8	± 0
GNP at market prices	257.7	4.2	3½-4
Terms-of-trade effect ³	..	3.1	0
Gross national income	..	7.3	3½-4
Current balance as percentage of GNP	-1.7	-1.2	-(½-1)
Consumer prices, percentage change on previous year	31	31	[30-35 ⁶]

1 Including changes in stocks other than export stocks and livestock.

2 Changes in stocks and foreign balance as a percentage of GNP in the previous year.

3 For definition, see note to Table B in Statistical Annex.

4 Official estimates at prices of the previous year.

5 1978 forecast based on policy aims and assumptions of 1977 Budget.

Source: Direct communication to the OECD.

rise by 5½-6 per cent in volume, probably slowing down in the course of the year. This would bring the average annual increase since 1974 (when the terms of trade deteriorated) to 2½ per cent, less than half of the long-term trend rate up to 1974. The volume of public consumption is scheduled to rise by 1-2 per cent (about the same rate of increase as that of the population). Investment is not expected to be very buoyant. The large energy projects are moving towards completion, and investment in this area is forecast to fall sharply. Influenced by strict credit policies, purchases of fishing vessels should also fall compared with their 1977 levels. No major expenditure on aircraft is predicted. On the other hand, the increase in real incomes and the greater availability of construction workers consequent on the completion of major public projects could lead to an acceleration of residential construction to a 5-6 per cent rate. Public expenditure on roads is planned to increase after several years of reduced priority. Overall, investment is likely to fall, though the fall is occasioned by special factors and discretionary measures rather than a weakening of the underlying propensity to invest. No significant change is foreseen for the inventory/production ratio. The resulting growth in domestic demand of 4 per cent is predicted to lead to a growth of merchandise imports of as little as 2½ per cent. Given their near 20 per cent rise in 1977, and their acceleration in the course of that year, this forecast implies that import volumes would have to fall quite steeply during 1978. Because of the expected decline in import-intensive investment categories, "special" imports are foreseen to fall by 15 per cent. The rise in "general" merchandise imports is put at 6-7 per cent. This appears to be somewhat optimistic given both the high carry-over from 1977 and the trend of real incomes during 1978. It is possible, therefore, that the year-on-year rise in import volumes for 1978 may turn out to be rather higher than the

2½-3 per cent suggested by the official forecast. (Invisible imports are foreseen to increase by 7 per cent.) The growth rate of exports is predicted to be considerably more subdued than experienced in the past two years. Strict enforcement of cod conservation measures will limit the possible increase in exports of marine products, and the aluminium smelter is now working at full capacity. Drawing the various strands together, GNP would increase at the same rate as domestic demand and potential GNP, namely just under 4 per cent. With no change in the terms of trade, the official forecast points to a current external deficit similar to that recorded in 1977, relative to GNP⁴².

The output assumptions underlying the demand forecast above are as follows. The cod catch will be held to the estimated 1977 level of 315 000 tons. This may entail conservation measures even stricter than those applied in 1977; the catch of other demersal species is also forecast to remain at the 1977 level⁴³. The state of the capelin stock is, however, considered to be strong, and the fisheries industry is becoming better adapted to exploiting this fish species. Consequently, the capelin catch in 1978 could be at least as high as the estimated 1977 level of 750-800 000 tons. For other species, quotas may increase slightly. Overall, the economic volume of marine export production could increase by 2-3 per cent. Output (and exports) of aluminium are not expected to expand beyond the 1977 level, as the plant is already working at full capacity. Diatomite production could even fall, as there has recently been considerable seismological activity in the vicinity of the plant, entailing considerable damage to it. Production and foreign sales of other manufactured goods are, however, expected to increase somewhat. No major change is foreseen in the level of agricultural production. (Export subsidies for agricultural production may be reduced in future. In 1976, such subsidies were equivalent to nearly half the value of agricultural exports.)

Should the economic policy stance in 1978 conform to the assumptions underlying the forecasts sketched out above, the economy would be in a reasonably healthy state on the "real" side. A restrictive stance of fiscal (and monetary) policy as intended by the original budget proposals would represent a logical response to the "real" implications of the 1977 wage settlements. These latter were intended to lead to a substantial increase in real disposable income, and hence private consumption. Given the — at present — favourable terms of trade, the probability of good fish catches, and the fall in the standard of living suffered in the recent past, it would have been both possible and reasonable to allow private consumption spending to recover much of the ground lost. (It should be recalled, though, that the level of private spending would have been even lower but for the cushioning effects of large current account deficits.) However, it does seem that the settlements went too far. Quite apart from their implications as regards inflation rates, the extra purchasing power in the hands of wage earners would very probably have led to a rapidly increasing import bill and a significant deterioration in the current deficit. A country whose export prices and export production are prone to considerable short-run variations can expect to run current deficits from time to time. When it is rapidly diversifying its economy and reducing its dependence on imported oil, largely with the help of imported capital, a deficit position is likely to be a more permanent feature. It would be disturbing, though, if Iceland were to experience a rapidly rising current deficit in a year when both export prices and fish catches are expected to be relatively favourable, and capital goods imports sharply falling.

Indeed, it could be argued that a trade account surplus position would have been

42 As net current transfers are negligible in the Iceland foreign accounts, the nominal foreign balance on a national accounts basis is nearly identical to the current external balance.

43 This may be an underestimate, as the German trawler fleet will no longer be operating in Icelandic waters. The German catch has lately been of the order of 50-60 000 tons annually, mainly demersal species other than cod.

desirable and possible of attainment in 1978 (and in 1977). Iceland's net foreign indebtedness has risen in recent years. Even though foreign debt relative to GNP or exports is not excessively high and the foreign loans have been utilised prudently⁴⁴, official projections indicate that debt servicing in the near future will absorb a higher proportion of export revenue than hitherto. Hence the invisibles account is likely to deteriorate. It should be possible to offset this deterioration by an improvement in the trade account. Imports of capital goods will probably decline in comparison with recent years, and the coming on stream of major domestic energy projects will lessen the demand for imported oil. Consequently, a surplus on trade account should be a desirable target to aim at in years of favourable terms of trade. Such an outcome was not achieved in 1977, and appears unlikely to come about in 1978. Moreover, the problem of inflation will almost certainly worsen in the absence of additional policy measures.

Policy considerations

This raises the question of whether changes in fiscal policy alone will prove sufficient to bring about the required switching of resources into the foreign account. It should be noted in this context that past experience suggests that fiscal policy in practice has been prone to be more expansionary (or less restrictive) than originally intended. As the net cost to the budget of the recent public sector wage settlements is estimated to be Kr. 4 ½ billion higher than anticipated in the budget proposals, the task of adhering to the desired restrictive stance may prove to be more than usually difficult in 1978. On the other hand, the introduction of a P.A.Y.E. scheme in 1979, and the proposed introduction of VAT at a later date should greatly improve the efficiency of fiscal policy in future. Until then, and even afterwards, other available policy instruments have a role to play. At present, the wage indexation procedure compensates wage earners for most rises in indirect tax rates. The influence of changing tax rates on aggregate demand is thus negligible. It would, therefore, be desirable to remove indirect taxes from the price index used for compensation purposes.

A more active exchange rate policy would also be worthy of consideration. Domestic cost levels, expressed in foreign currency terms, have risen considerably faster than those in most trading partner countries in the past seven years and faster than the value of output⁴⁵. As a result, despite the high level of activity and favourable export prices, profitability in "exposed" industries has been greatly reduced. Although an adjustment of the krona exchange rate could help restore profitability in export industries, it would probably not by itself do much to reduce the growth in import volumes. Import substituting industries are relatively few, and are mostly working at full capacity. Furthermore, insofar as higher import prices are reflected in the cost-of-living index, nominal wages would quickly rise to offset the intended effects. Management of the exchange rate would, therefore, be complementary to, rather than a substitute for other demand-restraining measures. Alternatively, the direct effects of devaluation could be taken out of the price index used for wage compensation, as has been attempted on occasion in Iceland and elsewhere; but even then there would remain the problem of keeping negotiated pay increases and wagedrift under control.

A higher level of domestic savings relative to GNP could also help to improve the

44 Virtually all foreign borrowing has been used to finance expansion in export industries (e.g. aluminium) or import competing industries (e.g. energy supply). These projects certainly generate (or save) more foreign exchange than is required to service the loans, as well as providing employment and rendering the economy less vulnerable to the vagaries of the world price of fish. Furthermore, if the terms of trade continue to improve on average as they have done in the past, the real burden of the outstanding foreign debt will gradually fall.

45 In other words, the differential in wage cost inflation exceeded the "permissible" margin set by the improvement in terms of trade.

current account position. If the public sector moves into surplus in 1978, as the situation would seem to require, the national savings ratio would show some rise. In addition, it would be desirable to encourage a higher level of voluntary savings by offering more attractive interest rates on monetary assets and other financial investments, and by charging higher interest rates on lending⁴⁶. There would thus seem to be a strong case for substantially raising the whole structure of interest rates in Iceland. The events of the past few years show that there is a large generalised excess demand for credit at the present levels of negative domestic interest rates in real terms. In this context, the experience of the operation of the credit budgets of 1976 and 1977 indicates that attempts to set quantitative limits on the growth of lending and of monetary aggregates are doomed to failure if interest rates are not allowed to move to levels consistent with these targets, and if no other means are applied to enforce the lending limits. A substantial raising of interest rates would probably encourage financial asset formation (possibly partly at the expense of real asset formation) thereby reducing merchandise imports and the demand for foreign credit. By curtailing the excess demand for credit, and thus nominal demand, a raising of interest rates would also help to curb inflationary pressures.

A higher and more uniform level of interest rates would moreover tend to reduce those types of investment which are heavily influenced by inflationary expectations. Those sectors which, for institutional and other reasons, receive preferential treatment when credit is allocated would undoubtedly claim that a substantial increase in interest rates would raise their operating and capital costs. But this would only amount to a removal of a subsidy paid at present by the rest of the community — a subsidy which would increase significantly if interest rate and credit policies are not changed considerably. If certain industries are to be subsidised, it is surely better that this is done openly and by parliamentary process.

The inflation problem is intimately related to what may be called the "real" problem of optimal resource allocation. The problem has its root in a level of domestic demand that is high relative to domestic productive capacity, and has clearly been exacerbated by institutional factors. It might be argued that, in theory, optimal resource allocation can be brought about even at very high rates of inflation, provided that there is either full indexation or that the future rates of inflation are correctly anticipated. In the case of Iceland, interest rates are far from being fully indexed, and consequently have had a stimulatory effect on inflation. It is also difficult to see how economic agents can correctly anticipate rates of inflation that have been as volatile as those in Iceland in recent years. It has been argued in previous OECD Surveys that the country has managed to adapt to inflation rates that would seem intolerable elsewhere. However, this does not mean that distortions have not been created in the economy or that the population views high and possibly increasing inflation with equanimity. It would therefore be desirable to seek to reduce the rate of inflation gradually by a series of economic reforms, of which raising the level of interest rates, and otherwise improving the effectiveness of monetary policy, would be only one.

Another important candidate for reform would seem to be the income determination procedure in the fisheries sector. The Fisheries Price Equalisation Fund is intended to stabilise the incomes of fishing vessel owners and their crews, without removing the incentive to increase fishing effort when prices are high⁴⁷, and at the

46 It has been found in some other countries that savings ratios rose as inflation rates increased, probably because households attempted to preserve the real value of their accumulated savings. This does not appear to have been the case in Iceland.

47 Optimal utilisation of a natural resource stock would entail above-average exploitation when prices are high and *vice versa* when prices are low. Depending on the variability of prices and the social time rate of discount, and bearing in mind that a high level of catches one year may reduce the size of the stock for several years in future, it may well be that the optimal average catch would be physically lower than the potential maximum average.

same time securing a reasonable average level of profitability in the processing industry. However, recent pricing decisions of the Fund suggest that they are unduly influenced by short-term considerations and attempts on the part of fishermen to secure parity changes of their income, relative to other income groups, without regard to the fish market situation over time, and with adverse effects on the rate of inflation. The fishing sector constitutes a powerful pressure group, since it provides the main basis for Iceland's relatively high standard of living. On the other hand, the fishing sector can only offer employment to a small fraction of the total labour force and is of course also dependent on the supply of goods and services from other sectors of the economy. These sectors in the past have managed to ensure that upward fluctuations in the value of the fish catch benefit themselves as well as the fisheries sector, though often at the cost of (short-lived) labour disputes and a ratchet effect on inflation. A change in the emphasis (and frequency) of pricing decisions by the Fund would in all probability leave the fishermen no worse off in the medium term and put the profitability position of the processing industry on a sounder basis than at present. The efficiency of the Fund in smoothing out income fluctuations within the fisheries sector would also be enhanced if the rules of the Fund were modified to take into account fluctuations in catch volumes as well as prices. At present, the Board of the Fisheries Price Equalisation Fund is dominated by representatives of the industry. However, the valuable fish stocks belong to the nation as a whole, not just to the fisheries sector. It is therefore desirable that policy considerations of a general nature should be taken more into account, if not given priority, in the operating decisions of the Fund. This would probably call for changes in the composition of the Board.

Nevertheless, even if the Fisheries Price Equalisation Fund were to function more efficiently in future in its task of dampening year-to-year fluctuations in the level and distribution of income within the fisheries sector, there would remain the problem of transferring income from this sector to the rest of the economy in a non-inflationary way. Average labour and capital productivity in the fisheries sector are indisputably higher than elsewhere in the economy. Since the economic volume of marine production for the foreseeable future will be limited by continuing conservation measures, rather than by limitations on the factor supply side, the fisheries sector will continue to generate substantial (and possibly increasing) economic rent. The solution to the problem of transferring an appropriate part of this rent to the rest of the population in a way that would be both widely supported and automatic is one that has eluded policy makers for decades. In practice, the problem has usually been solved by wage claims that seek to establish parity with the fisheries sector, and an accommodating monetary stance. The resulting initial increases in real incomes above and beyond the productive capacity of the economy to absorb them have led to recurrent balance-of-payments difficulties and persisting strong inflationary pressures. Until the problems of export revenue equalisation and of inter-sectoral income transfer are solved in an appropriate way, inflation may continue to be a problem in Iceland.

The present state of the economy would appear to be propitious for significant changes in the nature and direction of economic policies. The events of the past four years have shown that on the real side, the economy is notably resilient and flexible. Substantial fluctuations in real national income have occurred without major social unrest. Iceland is also one of the very few Member countries where unemployment has not been a problem and is not likely to be one in the foreseeable future. Thanks to its substantial indigenous energy resources and the speedy decision to exploit them more intensively in the wake of the oil crisis (as well as fiscal measures designed to discourage consumption of imported energy), Iceland has also made most of the necessary adjustment to the rise in energy prices. As noted, short-term prospects for national income and output, though not inflation, are quite favourable by international comparison and the recent proposed change in the stance of official policies, if strictly adhered to, would greatly reduce the risk of a renewed widening of the external deficit. Nevertheless, looking beyond the immediate future, the problem of timely and

speedy adjustment of policies to fluctuations in terms of trade and other recurrent but unpredictable exogenous shocks will remain. The task of ensuring a higher degree of external and internal financial stability than in the past would be eased if the structure and functioning of the economy were improved during periods of favourable terms-of-trade developments.

Annex

**CALENDAR OF MAIN ECONOMIC EVENTS
June 1976—September 1977**

1976*June*

June wage compensation index 2.7 per cent above threshold of the February 1976 central wage agreement. Corresponding rise of all wage and salary rates as from 1st July.

Prices to farmers increased by 4.9 per cent. Retail food prices increased by 5.5 per cent.

EEC Council decision to activate 1972 tariff reduction agreement on Icelandic fish products. From July 1976 existing rates cut by about 80 per cent; most tariffs to be entirely abolished as from July 1977.

July

The tax-free limit of net wealth for the 1976 personal net wealth taxation raised in order to reduce the effects of the 2.7-fold increase in real estate value (cf. December 1975).

Conclusion of final wage contract with individual unions within Federation of Public Employees and University Graduates, either by agreements or Arbitration Court decision. Apart from same wage regulations as stipulated in general agreements from March and April, these contracts provide for reclassification of jobs within existing pay scales.

Raw white fish prices raised by 11.8 per cent for period July-September. Fisheries Price Equalisation Fund (FPEF) decisions implied substantial outpayments for frozen products.

August

Excise tax on petrol raised from Kr. 17.60 to Kr. 18.40.

September

The Central Bank and the commercial banks established a 16 per cent target ceiling rate of increase for general bank lending for 1976 as a whole.

The February settlement on share allotment system and guaranteed minimum wage in the fisheries, which had been rejected by some unions, legally enacted. The law stipulated that the settlement should remain in force until 15th May 1977, but that it could be changed by negotiations, while strikes were prohibited.

Standard farm account and prices to farmers increased by 8.8 per cent.

October

October wage compensation index was 3.1 per cent above threshold in February 1976 central wage agreement. Corresponding rise of all wage and salary rates as from 1st November.

Raw white fish prices raised by 9.8 per cent for period October-December. FPEF decisions of outpayments for frozen fish products of Kr. 2 700 million on annual basis, at prevailing export prices and exchange rate.

1977 budget proposals submitted to the Althing.

November

Penalty rates on overdue debts were raised from 2 to 2½ per cent per month.

December

Government credit budget for 1977 was presented to the Althing.

Penalty rates for bank overdrafts in the Central Bank raised to 1 per cent of the highest debt in each 10-day period.

Prices to farmers raised by 6.6 per cent.

New legislation on tariffs covering:

(a) the step-wise EFTA and EEC tariff reductions in 1977-1980;

- (b) gradual tariff reductions 1977-1980 — consequent upon the EFTA and EEC trade agreements — on imports from countries outside EFTA and the EEC;
- (c) substantial but gradual cuts 1977-1980 in tariffs on raw materials, machinery and other investment goods to industry.

Budget for 1977 passed by the Althing with the tax index being raised by 30 per cent.

Special excise tax extended throughout 1977 with the rate remaining unchanged at 18 per cent.

The additional 1 per cent tax on personal incomes levied by municipalities — the revenue of which is earmarked for social security — extended throughout 1977.

Excise tax on petrol raised from Kr. 18.40 to Kr. 20.00. Introduction of a new wealth assessment of real estate values.

1977

January

Raw white fish prices raised by 9.7 per cent for period January-June. FPEF decisions of outpayments for frozen fish products of Kr. 100 million on an annual basis.

Tariffs reduced in accordance with EEC and EFTA agreements and the tariff legislation of December 1976.

February

The Central Bank and commercial banks established a target ceiling rate of increase of 6 per cent for bank lending for the period January-April.

February wage compensation index was 2.5 per cent above threshold in the February 1976 central wage agreement. Corresponding increase in all wage and salary rates as from 1st March.

March

Interest rates on non-rediscountable produce loans raised from 11 to 16.75 per cent. Interest rates on operational loans to the fishing industry raised from 11 to 13 per cent. Interest rates on bank deposits on general account in the Central Bank raised by 1 per cent.

Prices to farmers raised by 4.4 per cent.

May

The Central Bank and the commercial banks established a target ceiling rate of increase of 16.3 per cent for bank lending during period January through August.

May wage compensation index rose by 6.7 per cent on February index leading to a corresponding rise in all wage and salary rates of public employees. Unions within the Federation of Labour effected total ban of overtime work as from 3rd May to reinforce their wage demands.

Exemption limit for personal net wealth tax raised and the tax rate lowered in order to alleviate the effects of the new wealth assessment of real estate values.

June

New central wage agreement signed after extended negotiations. See text, Part I "Prices and incomes" for details. Wage contracts of public employees expired on 30th June, and the ongoing negotiations for a new contract postponed until around mid-August.

Government fiscal policy measures to facilitate the June income settlements:

- (a) Consumer subsidies were increased by Kr. 1 500 million a year.
- (b) Personal income taxes were lowered through an introduction of a new 30 per cent tax bracket and the raising of the 40 per cent bracket.
- (c) Social security benefits were raised in line with the rise in lowest wages.

Prices to farmers raised by 0.8 per cent.

July

The Federation of University Graduates and the Treasury signed an agreement on revision of the present contract (originally signed in December 1975) resulting in a 7.5 per cent general rise in salary rates on top of the 6.7 per cent indexation rise of 1st June and the contracted 4 per cent rise on 1st July.

Raw white fish prices raised by 20 per cent for period July-September. FPEF decisions implied substantial outpayments for frozen fish products, of about Kr. 2 000 million on an annual basis.

Prices of alcohol raised by an average of 10 per cent and tobacco prices raised by 25 per cent.

EEC tariffs on Icelandic fish products abolished according to agreement of 1972.

August

Changes in interest rates as of 1st August:

- (a) Structural changes: Interest rates were divided into two factors — basic rates and a price compensation factor subject to discretionary changes at regular three-month intervals with a view to price developments. Initially, the total of this price compensation factor (in all instances 8 per cent p.a.) and the basic rates was set equal to the previous rates of interest on all deposits except interest premium deposits, cf. (b) below, whereas lending rates were raised, cf. (c) below.
- (b) Basic rates on one-year interest premium deposits were raised from 16 to 18 per cent and the interest premium (price compensation factor) was raised from 6 to 8 per cent, entailing a total rise from 22 to 26 per cent.
- (c) Interest rates total on all rediscountable loans were set at 11 per cent p.a. but had previously ranged between 8 and 15 per cent p.a.
- (d) Other lending rates were raised as follows: discount rates by $\frac{1}{2}$ percentage point, other interest charges by 1 percentage point.

New wage agreements signed for crews on the merchant fleets.

September

Wage compensation index rose by 4 points.

Prices to farmers raised by 20 per cent.

November

1978 Budget proposals presented to Althing. Main features were large rise in direct taxes on personal incomes, reduction in the volume of public investment and an intended financial surplus equivalent to approximately 1 per cent of GNP.

All interest rates raised by 3 per cent (price compensation factor). Basic rate on export produce loans also raised by 1 per cent.

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STATISTICAL ANNEX

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Table A Supply and use of resources
Kkr. million, current prices

	1968	1969	1970	1971	1972	1973	1974	1975	1976 ¹
Private consumption	18 830	21 774	28 183	35 144	44 140	59 235	90 630	121 540	159 580
Public consumption	2 800	3 300	4 050	5 385	7 000	9 200	14 430	19 300	26 200
Gross fixed asset formation	8 725	8 600	10 511	16 050	19 100	28 610	45 150	63 560	78 010
EXPENDITURE ON FINAL DOMESTIC USE	30 355	33 674	42 744	56 579	70 240	97 045	150 210	204 400	263 790
Change in stocks of export products and livestock	-280	131	-393	1 580	-840	-189	2 578	3 680	-1 710
NATIONAL EXPENDITURE	30 075	33 805	42 351	58 159	69 400	96 856	152 788	208 080	262 080
Exports of goods and services	9 510	16 132	21 138	22 373	26 205	37 390	48 080	72 190	105 520
Imports of goods and services	12 055	15 741	20 487	26 233	27 960	40 025	63 610	93 570	109 910
GROSS NATIONAL PRODUCT (market prices)	27 530	34 196	43 002	54 299	67 645	94 221	137 258	186 700	257 690
Depreciation	3 958	5 400	6 061	6 703	8 458	11 353	17 175	28 332	37 144
NET NATIONAL PRODUCT (market prices)	23 572	28 796	36 941	47 596	59 187	82 868	120 083	158 368	220 546
Indirect taxes	6 080	6 650	9 370	12 640	15 600	22 560	36 360	51 460	69 400
Subsidies	1 750	1 400	1 600	2 950	3 220	4 230	7 800	12 100	13 050
NET NATIONAL INCOME	19 242	23 546	29 171	37 906	46 807	64 538	91 523	119 008	164 196
Net income to abroad	410	612	481	509	890	1 180	1 915	4 863	7 283
NET DOMESTIC INCOME	19 652	24 158	29 652	38 415	47 697	65 718	93 438	123 871	171 479

¹ Provisional.

Sources: Central Bank of Iceland, Annual Report; direct Icelandic communication to the OECD.

Table B Supply and use of resources
K.r. million, 1969 prices

	1968	1969	1970	1971	1972	1973	1974	1975	1976 ¹
Private consumption	22 833	21 774	25 311	29 081	32 047	34 130	36 520	32 868	33 197
Public consumption	3 229	3 300	3 449	3 670	3 890	4 123	4 330	4 417	4 638
Gross fixed asset formation	11 224	8 600	9 272	13 171	13 043	15 670	17 360	15 900	15 490
EXPENDITURE ON FINAL DOMESTIC USE	37 286	33 674	38 032	45 922	48 980	53 923	58 210	53 185	53 325
Change in stocks of export products and livestock	-496	131	-255	1 351	-787	-350	952	1 243	-770
NATIONAL EXPENDITURE	36 790	33 805	37 777	47 273	48 193	53 573	59 162	54 428	52 555
Exports of goods and services	14 096	16 132	19 095	18 366	20 255	22 052	21 888	22 187	24 836
Imports of goods and services	17 737	15 741	19 932	24 356	24 699	29 368	33 250	29 819	29 455
GROSS NATIONAL PRODUCT	33 149	34 196	36 940	41 283	43 749	46 257	47 800	46 796	47 936
Effect of changes in terms of trade	-403	—	1 462	2 802	2 849	4 814	3 680	1 594	3 300
Export income	13 693	16 132	20 557	21 168	23 104	26 866	25 568	23 781	28 136
Income balance of goods and services	-4 044	391	625	-3 188	-1 595	-2 502	-7 682	-6 038	-1 319
GROSS NATIONAL INCOME ²	32 746	34 196	38 402	44 085	46 598	51 071	51 480	48 390	51 236

NOTE Estimates of real income coincide with output in real terms on the assumption of unchanged terms of trade. Due to particularly strong fluctuations in Icelandic terms of trade national expenditure in real terms may deviate substantially from 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 a price index for imports, expresses the external purchasing power of the export earnings, and the difference between this item and exports, normally deflated with an export price index, is a measure of the real income "effect of changes in terms of trade".

1 Provisional.

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

Source: Central Bank of Iceland, Annual Report.

Table C Production and employment

		1968	1969	1970	1971	1972	1973	1974	1975	1976
FISHERIES AND FISH PROCESSING										
Export production: Value, current prices	Kr. mill.	3 944	7 532	9 609	11 405	11 823	19 510	26 576	37 891	53 648
	1973 prices	Kr. mill.	17 030	18 780	19 954	18 820	17 691	19 508	19 944	19 922
Fishing fleet ¹ , end of year: Trawlers	GRT	20 104	16 837	16 981	17 911	20 340	29 810	34 796	37 487	37 802
	Motor boats	GRT	63 955	62 509	61 698	60 984	62 146	62 982	61 492	59 349
Total	GRT	84 059	79 346	78 679	78 895	82 486	91 852	97 778	98 979	97 156
Employment in fish processing	1962=100	87.7	100.9	103.9	109.0	107.0	105.7	111.0	117.1	
AGRICULTURE										
Production: Value, current prices ²	Kr. mill.	2 598	3 109	3 690	4 691	5 765	7 665	11 273	15 990	20 370
	1969 prices	Kr. mill.	3 229	3 109	3 119	3 424	3 697	3 818	3 711	3 757
Capacity ³ : Cultivated grassland	1 000 hect.	96.5	100.9	104.5	108.4	111.3	113.8	115.0	117.0	119.2
Sheep	1 000 heads	829.1	820.2	780.6	735.5	786.2	828.6	845.8	863.6	850.8
Cattle	1 000 heads	52.3	52.3	53.4	53.3	59.2	65.3	67.3	66.5	61.8
MANUFACTURING (exc. fish processing)										
Production, volume ⁴	1970=100	82.0	89.1	100.0	116.4	125.8	136.6	137.0	134.8	140.2
Employment	1970=100	86.8	91.9	100.0	106.9	111.2	112.2	111.1	110.3	
DWELLING CONSTRUCTION										
Started	Number	1 041	1 030	1 469	1 833	1 963	3 377	2 640	2 261	2 268
Completed	Number	1 779	1 460	1 329	1 362	1 930	2 220	2 193	2 068	2 172
Under construction, end of year	Number	3 329	2 899	3 039	3 510	3 543	4 672	5 119	5 312	5 408

1 Including whale-catchers, excluding open boat.

2 Including change in livestock.

3 Beginning of year.

4 Excluding aluminium.

Source: Direct Icelandic communication to the OECD.

Table D Gross fixed asset formation
Kr. million, current prices

	1968	1969	1970	1971	1972	1973	1974	1975	1975 ¹
GROSS FIXED ASSET FORMATION, TOTAL	8 725	8 600	10 511	16 050	19 100	28 610	45 150	63 560	78 010
Classification by end-use:									
INDUSTRIAL ASSET FORMATION	3 293	3 400	4 718	8 350	8 910	13 140	20 800	25 810	27 730
Agriculture	654	530	728	960	1 300	1 860	2 920	3 850	4 770
Fishing	187	152	705	790	1 880	4 640	4 910	4 880	3 500
Fish processing	140	118	282	530	800	1 265	1 920	2 640	2 570
Manufacturing other than fish processing	1 329	1 865	1 320	1 850	2 370	1 805	2 770	4 500	5 240
Transport equipment	483	180	742	2 750	1 010	1 380	3 650	4 550	5 490
Commercial buildings	276	409	613	690	930	1 250	2 710	2 930	3 970
Various machinery and equipment	224	146	328	780	620	940	1 920	2 460	2 190
RESIDENTIAL CONSTRUCTION	1 881	1 804	2 138	2 700	4 120	7 740	10 200	13 460	16 940
PUBLIC WORKS AND BUILDINGS	3 551	3 396	3 655	5 000	6 070	7 730	14 150	24 290	33 340
Electric power, generation and distribution	1 516	1 223	1 053	1 510	1 680	1 800	4 100	9 960	15 720
Geothermal heating and water supply	203	243	338	350	540	650	1 350	2 600	3 350
Communications	1 157	1 186	1 263	1 880	2 350	3 480	5 450	7 250	8 810
Public buildings	675	744	1 001	1 260	1 500	1 800	3 250	4 480	5 460
Classification by type of assets:									
MACHINERY AND EQUIPMENT	1 883	1 738	2 857	5 948	5 339	8 837	13 418	16 443	15 846
Machinery and other equipment	1 400	1 558	2 115	3 198	4 329	7 457	9 768	11 893	10 356
Transport equipment	483	180	742	2 750	1 010	1 380	3 650	4 550	5 490
BUILDINGS AND OTHER CONSTRUCTION	6 842	6 862	7 654	10 102	13 761	19 773	31 732	47 117	62 164
Residential buildings	1 881	1 804	2 138	2 700	4 120	7 740	10 200	13 460	16 940
Non-residential buildings	1 837	2 160	2 582	3 324	4 696	5 644	9 942	11 963	15 222
Other construction	3 124	2 898	2 934	4 078	4 945	6 389	11 590	21 694	30 002

1 Provisional.

Sources: Central Bank of Iceland, Annual Report; direct Icelandic communication to the OECD.

Table E Gross fixed asset formation
Kr. million, 1969 prices

	1968	1969	1970	1971	1972	1973	1974	1975	1976 ¹
GROSS FIXED ASSET FORMATION, TOTAL	11 224	8 600	9 272	13 171	13 043	15 670	17 360	15 900	15 490
Classification by end-use:									
INDUSTRIAL ASSET FORMATION	4 401	3 400	4 323	7 219	6 578	7 920	9 205	7 200	5 970
Agriculture	811	530	634	770	927	1 025	1 140	1 000	980
Fishing	257	152	651	634	1 398	2 975	2 400	1 430	680
Fish processing	186	118	249	438	543	680	730	690	550
Manufacturing other than fish processing	1 803	1 865	1 221	1 578	1 723	1 040	1 150	1 260	1 170
Transport equipment	683	180	729	2 552	872	940	1 880	1 380	1 300
Commercial buildings	340	409	523	529	580	610	870	660	730
Various machinery and equipment	321	146	316	718	535	650	1 035	780	560
RESIDENTIAL CONSTRUCTION	2 313	1 804	1 825	2 057	2 569	3 775	3 270	3 040	3 100
PUBLIC WORKS AND BUILDINGS	4 510	3 396	3 124	3 895	3 896	3 975	4 885	5 660	6 420
Electric power, generation and distribution	1 974	1 223	909	1 215	1 095	920	1 470	2 490	3 300
Geothermal heating and water supply	251	243	275	259	331	320	430	590	610
Communications	1 456	1 186	1 086	1 463	1 535	1 855	1 945	1 570	1 510
Public buildings	829	744	854	958	935	880	1 040	1 010	1 000
Classification by type of assets:									
MACHINERY AND EQUIPMENT	2 657	1 738	2 717	5 367	4 276	5 802	6 798	5 039	3 765
Machinery and other equipment	1 974	1 558	1 988	2 815	3 404	4 862	4 918	3 659	2 465
Transport equipment	683	180	729	2 552	872	940	1 880	1 380	1 300
BUILDINGS AND OTHER CONSTRUCTION	8 567	6 862	6 555	7 804	8 767	9 868	10 562	10 861	11 725
Residential buildings	2 313	1 804	1 825	2 057	2 569	3 775	3 270	3 040	3 100
Non-residential buildings	2 302	2 160	2 228	2 562	2 988	2 764	3 193	2 731	2 812
Other construction	3 952	2 898	2 502	3 185	3 210	3 329	4 099	5 090	5 813

1 Provisional.

Sources: Central Bank of Iceland, Annual Report; direct Icelandic communication to the OECD.

Table F Balance of payments, OECD basis
US \$ million

	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976 ¹
Exports, fob	98.9	82.5	107.1	146.2	150.4	191.7	290.2	329.3	308.8	404.0
Imports, fob	152.1	130.6	107.0	143.5	200.0	215.5	325.4	476.6	442.9	429.5
Trade balance	-53.2	-48.1	0.1	2.7	-49.6	-23.8	-35.2	-147.3	-134.1	-25.5
Services, net	-0.8	2.0	4.3	4.7	5.5	3.7	5.9	-8.3	-5.1	1.4
Balance on goods and services	-54.0	-46.1	4.4	7.4	-44.1	-20.1	-29.3	-155.6	-139.2	-24.1
Current transfers, net	-1.4	-0.9	-0.8	-0.4	-0.1	0.2	16.2	0.6	-0.6	0.2
Current balance	-55.4	-47.0	3.6	7.0	-44.2	-19.9	-13.1	-155.0	-139.8	-23.9
Long-term capital (excl. spec. trans.)	19.4	32.1	20.0	0.4	48.1	24.4	23.3	85.1	107.5	47.5
(a) Private	12.1	8.3	5.8	0.6	35.5	0.4	0.9	39.9	43.5	6.6
(b) Official	7.3	23.8	14.2	-0.2	12.6	24.0	22.4	45.2	64.0	40.9
Basic balance	-36.0	-14.9	23.6	7.4	3.9	4.5	10.2	-69.9	-32.3	23.6
Non-monetary short-term capital	8.2	-0.5	-1.6	3.7	3.8	0.7	-15.6	-9.5	-26.6	-26.9 ²
Errors and omissions	1.3	1.2	-0.8	1.0	-0.6	—	-1.8	0.4	-0.4	—
Balance on non-monetary transactions	-26.5	-14.2	21.2	12.1	7.1	5.2	-7.2	-79.0	-59.3	-3.3
Private monetary institutions short-term capital	1.3	0.7	-9.6	2.7	3.6	9.9	-0.6	-9.3	-3.1	-1.7
Balance on official settlements	-25.2	-13.5	11.6	14.8	10.7	15.1	-7.8	-88.3	-62.4	-5.0
Use of IMF credit	3.8	3.7	3.8	-9.5	-1.8	—	—	18.6	19.4	28.9
Special transactions	—	—	—	—	—	—	—	—	—	—
Miscellaneous official accounts	0.7	3.0	-4.9	6.0	3.5	-3.6	23.8	20.2	43.8	3.6
Allocation of SDRs	—	—	—	2.5	2.5	2.6	—	—	—	—
Change in reserves (+ = increase)	-20.7	-6.8	10.5	13.8	14.9	14.1	16.0	-49.5	0.8	27.5
(a) Gold	—	—	—	—	—	—	—	—	—	—
(b) Currency assets	-20.7	-6.8	14.2	13.3	6.7	10.4	16.0	-42.5	2.6	31.0
(c) Reserve position in IMF	—	—	-3.7	—	5.7	—	—	-7.0	—	—
(d) Special Drawing Rights	—	—	—	0.5	2.5	3.7	—	-0.1	-1.8	-3.5

1 Provisional.

2 Includes errors and omissions.

Sources: Central Bank of Iceland, Annual Report; IMF, International Financial Statistics.

Table G Central government income and expenditure
 Fiscal year = calendar year
 Kr. billion

	1968	1969	1970	1971	1972	1973	1974	1975	1976 ¹	1977 ²	1978 ³
CURRENT REVENUE	6.74	7.46	9.80	13.26	18.53	24.88	37.72	51.04	60.34	89.96	124.84
Direct taxes	1.33	1.52	1.73	2.46	4.94	6.44	7.14	7.93	9.97	14.48	22.35
Indirect taxes	5.33	5.82	7.83	10.63	13.38	18.14	30.19	42.35	49.66	74.32	100.89
Other	0.08	0.12	0.24	0.17	0.21	0.29	0.39	0.76	0.71	1.16	1.60
CURRENT EXPENDITURE	5.12	5.62	6.82	9.98	14.06	19.74	32.33	43.86	45.19	68.37	96.06
Purchase of goods and services ⁴	2.01	2.53	3.12	4.15	5.38	7.57	11.95	17.66	17.66	33.11	46.04
Current transfers and subsidies	3.11	3.09	3.70	5.83	8.68	12.17	20.39	26.20	27.53	35.26	50.02
GROSS SAVING	1.62	1.84	2.98	3.28	4.47	5.14	5.39	7.18	15.15	21.59	28.78
Gross fixed asset formation	0.44	0.47	0.82	1.40	1.59	2.13	3.01	4.80	3.89	6.54	9.12
SURPLUS ON CURRENT AND FIXED INVESTMENT ACCOUNT	1.18	1.37	2.16	1.88	2.88	3.01	2.38	2.38	11.26	15.05	19.66
Lending, net ⁵	-0.05	-0.13	-0.11	-0.25	0.02	0.05	0.10	-1.77	-0.89	-1.75	-1.67
Net capital transfers to other sectors	1.35	1.71	1.74	2.22	2.75	3.26	5.66	9.92	9.77	14.25	17.97
OVERALL BALANCE⁶	-0.32 ⁷	-0.21	0.52	-0.10	0.12	-0.30	-3.39	-5.77	2.38	2.55	3.36

1 Preliminary.

2 Approved budget.

3 Budget proposal.

4 Including interest.

5 "—" = net borrowing.

6 Net change in floating debts and cash balances.

7 Including —198 for current receipts outstanding and other adjustments.

Source: Direct Icelandic communication to the OECD.

Table H 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, 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		
1971	684	425	61	183	15	298.0	248.3	264.4	274.7	247.0	170.3	286.6	152.4	190.0	178.4	170.7	
1972	726	390	42	277	17	396.1	272.4	300.4	318.6	277.1	194.6	351.5	231.4	214.0	210.3	158.3	
1973	902	402	43	442	15	479.4	329.5	371.9	410.8	335.1	223.9	440.1	334.5	276.0	283.1	351.1	
1974	938	422	40	465	11	695.0	470.2	526.0	603.2	463.5	275.3	658.7	370.1	320.3	468.3	340.3	
1975	987	443	33	501	10	929.0	701.5	794.0	903.5	710.9	371.3	966.2	386.4	289.5	434.6	127.2	
1976	975	472	31	459	13	1 180.0	929.2	1 063.7	1 213.5	972.2	484.0	1 181.3	513.1	326.6	443.3	163.2	
												(Average 1969 = 100)					
Quarterly:													..	193.1	200.4	248.0	
1973	1	504	93	—	407	4	460.0	294.1	328.6	346.8	304.4	210.1	377.9	..	201.4	228.2	264.7
	2	186	143	5	34	4	483.4	323.1	367.8	406.1	330.9	218.6	455.1	..	226.6	236.7	329.7
	3	129	101	25	—	3	516.3	337.5	382.5	424.4	344.0	231.2	..	..	256.9	287.8	382.9
	4	83	65	13	1	4	554.5	363.2	408.7	465.7	360.9	235.5	487.3	..	296.3	336.8	419.5
1974	1	565	98	—	464	3	701.2	389.0	438.1	509.8	382.7	241.1	511.0	..	249.5	416.1	304.3
	2	151	140	8	1	2	701.2	464.5	523.1	625.1	447.9	266.5	688.6	..	250.9	424.0	244.6
	3	129	108	18	—	3	701.2	477.4	524.8	572.4	478.2	291.9	..	..	235.3	367.2	194.0
	4	93	76	14	—	3	788.3	549.7	617.9	705.3	545.3	301.7	776.6	..	211.2	342.6	169.1
1975	1	526	106	—	418	2	880.6	597.9	671.9	799.6	578.4	315.8	834.3	..	236.8	406.2	140.4
	2	187	143	6	35	3	980.1	684.7	765.1	870.5	678.5	368.0	1 004.3	..	237.8	367.1	136.5
	3	119	112	5	—	2	1 019.1	737.8	837.0	927.4	754.0	399.0	..	..	233.6	345.9	134.3
	4	155	82	22	48	3	1 025.0	785.6	902.0	1 016.4	832.6	402.3	1 059.9	..	250.2	346.2	164.0
1976	1	447	112	—	332	3	1 122.0	811.2	926.5	1 014.4	858.6	433.2	1 098.0	..	276.3	427.5	163.1
	2	156	146	1	6	3	1 122.0	905.6	1 031.0	1 160.5	955.0	492.1	1 160.0	..	297.5	436.8	195.2
	3	238	121	8	105	4	1 221.0	968.0	1 109.5	1 283.5	1 007.0	499.1	1 244.0	..	296.8	392.4	235.9
	4	134	93	22	16	3	1 334.0	1 032.0	1 187.9	1 395.7	1 068.2	511.7	1 317.0	..	312.1	415.8	235.8
1977	1	673	132	—	537	4	1 436.0	1 091.2	1 259.8	1 474.6	1 137.1	524.3	1 411.0	..	636.4	1 442.0	1 661.0
	2	176	159	—	13	4	1 830.0	1 169.6	1 333.3	1 579.7	1 190.7	636.4	1 442.0	..	1 225.6	1 403.6	1 627.1
	3	280	128	4	146	2	2 944.0	1 225.6	1 403.6	1 627.1	1 281.0	640.7	1 661.0	..			

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.

3 February, June and October. From 1976: March, June, September, December.

4 At a constant rate of exchange; 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 and Hagtidindi.

Table I Foreign trade, total and by area
US \$ million, monthly rates

		Total imports cif		Imports by area						Total exports fob		Exports by area					
		Orig.	Adj.	OECD countries				Non-OECD countries		Orig.	Adj.	OECD countries				Non-OECD countries	
				Total	Europe		USA	Eastern Europe	Devel- oping countr.			Total	Europe		USA	Eastern Europe	Devel- oping countr.
					EEC	Others							EEC	Others			
17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32		
1971		17.5	..	14.6	9.1	2.9	1.8	1.8	1.0	12.5	..	10.9	4.0	2.2	4.6	1.4	0.2
1972		19.2	..	16.3	10.1	3.7	1.5	2.0	0.9	15.7	..	13.4	5.2	3.3	4.8	1.9	0.4
1973		29.6	..	26.2	13.3	7.5	2.2	2.7	0.8	24.1	..	21.6	9.5	5.0	6.5	2.1	0.4
1974		43.2	..	36.3	19.3	9.9	3.5	5.8	1.0	27.7	..	23.5	8.1	8.1	6.1	3.4	0.7
1975		40.6	..	34.3	18.4	8.8	3.7	5.1	1.2	25.7	..	20.7	6.4	6.4	7.5	4.3	0.6
1976		38.9	..	32.1	17.0	7.6	4.1	5.5	1.4	33.4	..	29.1	10.5	8.3	9.6	3.5	0.9
Quarterly:																	
1973	1	18.7	23.4	16.0	9.3	3.0	1.5	1.9	0.8	17.5	21.3	15.0	5.0	4.5	4.5	2.2	0.4
	2	33.2	26.9	30.0	13.0	8.5	2.3	2.5	0.6	30.0	24.4	26.2	11.8	7.0	6.4	3.6	0.2
	3	26.0	28.7	22.5	13.9	5.4	2.1	2.9	0.6	23.2	22.8	21.6	10.3	4.3	6.5	1.5	0.1
	4	40.4	35.5	36.1	16.7	13.2	2.9	3.2	1.1	25.3	25.4	23.4	10.7	3.9	8.5	1.1	0.8
1974	1	32.6	40.8	28.2	14.9	6.7	3.8	3.5	0.9	22.9	28.8	20.9	8.9	5.3	4.0	1.2	0.8
	2	51.7	43.7	41.7	20.0	14.1	4.0	8.7	1.3	34.7	28.3	28.7	7.1	13.1	6.8	5.5	0.4
	3	38.0	42.0	32.5	18.8	8.1	3.2	4.6	0.8	27.4	27.9	23.7	7.0	9.0	7.1	3.5	0.3
	4	50.5	44.3	42.8	23.5	10.6	3.1	6.6	1.1	25.9	26.1	20.9	9.2	5.0	6.4	3.7	1.2
1975	1	35.7	43.6	29.6	16.0	6.4	3.9	4.9	1.2	17.6	21.9	14.7	4.9	4.0	5.7	2.4	0.5
	2	45.8	39.0	40.2	20.7	12.9	3.2	4.6	0.9	32.0	26.6	26.9	7.2	13.0	6.3	4.7	0.4
	3	36.5	40.5	30.3	17.7	7.0	2.8	4.9	1.2	25.0	25.1	18.5	5.1	5.1	7.9	6.1	0.4
	4	44.5	40.1	37.1	19.0	9.1	5.1	6.0	1.4	28.0	27.4	22.6	8.5	3.7	10.2	4.2	1.2
1976	1	30.8	37.3	24.2	13.8	5.7	2.6	5.2	1.4	21.5	26.5	16.6	6.1	4.7	5.8	4.1	0.7
	2	37.9	33.8	31.2	17.3	9.3	3.5	5.4	1.1	39.5	32.1	35.2	10.9	12.7	10.4	3.3	1.1
	3	39.4	44.6	32.6	18.5	6.4	3.1	5.2	1.6	37.2	39.9	33.0	12.4	7.7	12.0	3.3	1.0
	4	47.6	42.6	40.2	18.2	9.0	7.1	6.0	1.4	35.4	35.1	31.5	12.8	8.1	10.4	3.2	0.7
1977	1	37.6	46.6	31.4	19.4	7.4	2.8	4.4	1.8	37.8	47.9	28.4	11.3	6.7	10.0	6.2	3.2
	2	56.6	48.2	43.3	24.2	11.7	3.6	9.6	3.6	45.2	37.0	34.5	13.8	7.4	11.8	8.7	1.7

Source: OECD, Foreign Trade Statistics, Series A.

Table J Foreign trade by commodity group
US \$ million

	Imports by commodity group						Exports by commodity group									
	Total	Transport equipment	Other imports					Total	Fish products, total	Frozen fish fillets	Herring salted	Herring and capelin meal	Other fish and misc. prod.	Agricultural prod.	Aluminium prod.	Other manuf. prod.
			Total	Food and live animals	Semi-manufactured goods	Machinery and apparatus	Other goods									
			SITC No.	73	0	6	71.72										39
33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	
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
1974	520.8	94.8	426.0	43.3	102.1	85.7	194.9	331.1	247.9	80.2	0.0	24.9	2.0	9.2	49.3	17.2
1975	488.0	61.5	426.5	46.0	99.0	89.7	191.8	308.6	243.2	101.0	1.5	17.9	1.4	9.0	32.5	19.6
1976	469.9	45.8	424.1	49.5	94.0	95.3	185.3	404.0	293.4	119.7	7.8	16.9	2.4	10.3	68.0	25.4
Quarterly:																
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
3	115.0	10.7	104.3	10.9	28.7	22.6	42.1	80.6	61.5	25.3	0.0	1.1	0.5	0.8	13.5	4.3
4	151.4	25.3	126.1	11.9	28.3	21.6	64.3	77.7	55.5	21.9	0.0	3.5	0.4	4.3	7.7	5.4
1975 1	110.5	4.3	106.2	13.3	25.2	22.4	45.3	53.8	39.1	19.7	0.3	3.4	0.2	2.6	7.2	4.5
2	137.6	29.7	107.9	11.0	25.0	23.0	48.9	96.0	87.2	25.3	0.0	9.7	0.2	0.9	2.4	4.2
3	110.2	5.6	104.6	11.1	25.2	24.2	44.1	74.8	58.3	25.7	0.0	4.3	0.5	1.3	10.0	4.6
4	129.7	21.9	107.8	10.6	23.6	20.1	53.5	84.0	58.6	30.3	1.2	0.5	0.5	4.2	12.9	6.3
1976 1	92.7	4.3	88.4	9.8	19.6	20.1	38.9	64.5	49.0	20.4	4.1	6.1	0.3	3.5	6.3	5.4
2	113.8	13.6	100.2	12.2	23.0	23.9	41.1	118.8	85.5	31.8	0.5	7.4	0.7	1.5	21.9	5.8
3	119.3	6.7	112.6	13.9	23.4	22.0	53.3	114.2	81.5	35.2	0.0	1.1	0.7	1.3	24.7	5.8
4	144.1	21.2	122.9	13.6	28.0	29.3	52.0	106.5	77.4	32.3	3.2	2.3	0.7	4.0	15.1	8.4
1977 1	112.8	6.2	106.6	10.4	27.5	23.6	45.1	113.8	81.7	30.4	5.6	15.1	0.5	4.1	21.8	5.6
2	169.9	35.7	134.2	13.9	29.5	27.1	63.7	135.8	102.0	40.9	0.7	21.2	0.4	2.4	18.1	8.6

Source: Icelandic Statistical Bulletin.

Table K Money and credit
End of period

	Central Bank		Non-Bank sector			Commercial and savings banks			Credits granted by banks					Foreign exchange	
	Central Bank discount rate	Net position of government	Money supply		Savings deposits	Required reserves	Redis-counted bills	Net foreign position	Total	of which to:				Official gold and foreign exchange ¹	Com-mercial banks' short-term foreign assets
			Orig.	Adj.						Agri-culture	Fishery and fish processing	Manu-facturing and commerce	Dwell-ings		
Per cent	Kr. million													Million SDR's	
	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63
1971	5.25	831	5 665	6 091	15 198	4 030	2 053	-550	19 587	1 940	2 843	6 861	2 514	64	-413
1972	5.25	234	6 901	7 444	17 774	4 740	2 690	-1 025	23 492	2 339	3 589	8 142	3 215	78	-508
1973	6.25	1 440	9 585	10 318	23 097	6 797	3 979	-1 538	31 274	3 337	5 047	10 480	3 929	83	-447
1974	7.25	5 352	12 467	13 391	29 567	8 579	8 226	-3 393	45 811	4 514	10 235	14 854	4 773	40	365
1975	7.25	12 060	16 660	17 856	37 548	11 400	12 524	-8 382	56 068	7 212	12 226	17 884	5 746	40	985
1976	7.25	14 236	20 767	22 211	51 260	15 891	16 010	-9 300	70 781	9 586	16 146	20 962	7 733	69	1 395
Quarterly:															
1973 1	5.25	1 335	8 096	8 355	18 819	5 021	3 038	-1 396	25 935	2 099	4 868	8 912	3 225	64	-757
2	6.25	1 676	9 548	9 050	20 214	5 887	3 516	-1 385	27 862	2 096	5 132	9 502	3 443	77	-556
3	6.25	1 792	9 868	9 646	21 316	6 270	3 269	-1 792	29 726	2 203	5 106	10 152	3 672	83	-908
4	6.25	1 440	9 585	10 391	23 097	6 797	3 979	-1 538	31 274	3 337	5 047	10 480	3 929	83	-447
1974 1	6.25	2 302	10 937	11 240	24 441	7 375	5 201	-1 946	35 837	2 891	7 492	11 525	4 212	64	-562
2	6.25	2 838	12 564	11 966	24 667	7 821	6 179	-2 701	40 151	2 947	9 070	13 133	4 397	59	-495
3	7.25	4 638	12 778	12 540	25 907	8 065	6 286	-2 862	43 491	3 080	9 777	13 802	4 578	38	-94
4	7.25	5 352	12 467	13 391	29 567	8 579	8 226	-3 393	45 811	4 514	10 235	14 854	4 773	40	365
1975 1	7.25	7 426	13 399	13 771	30 830	9 429	9 509	-5 600	50 403	3 808	13 250	15 971	4 939	29	8
2	7.25	7 633	15 146	14 452	31 526	10 041	9 969	-6 901	51 615	4 174	12 942	16 640	5 054	34	381
3	7.25	8 090	16 085	15 832	33 433	10 922	10 253	-6 870	54 407	4 712	12 917	17 367	5 404	35	-43
4	7.25	12 060	16 660	17 856	37 548	11 400	12 524	-8 382	56 068	7 212	12 226	17 884	5 746	40	985
1976 1	7.25	11 439	18 273	18 780	38 841	12 752	12 216	-9 678	60 418	6 119	13 098	20 347	6 129	60	823
2	7.25	13 848	21 159	20 209	41 375	14 051	14 038	-9 403	64 755	6 153	16 290	20 813	6 574	72	1 260
3	7.25	13 337	21 085	20 794	44 649	15 098	14 877	-8 982	69 506	6 987	17 436	21 044	7 528	78	615
4	7.25	14 236	20 767	22 211	51 260	15 891	16 010	-9 300	70 781	9 586	16 146	20 962	7 733	69	1 395
1977 1	7.25	14 183	24 589	25 271	55 312	18 212	18 499	-10 396	79 769	8 262	21 137	24 071	8 534	78	1 284
2	7.25	12 506	27 551	26 339	58 204	20 462	19 780	-11 027	87 427	8 562	23 883	24 609	9 664	93	1 027

1 Excluding IMF position.

Sources: Icelandic Statistical Bulletin (col. 50, 54, 55, 56); IMF, International Financial Statistics (col. 49, 51, 52, 53); OECD, Main Economic Indicators (col. 62, 63); direct Icelandic communication to the OECD.

INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Reference period	Units	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxembour	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia ¹
POPULATION	Mid-1976	Thousands	13 916	7 510	9 818	23 143	5 073	4 729	52 921	61 513	9 165	220	3 162	56 157 ⁸	112 768	357	13 770	3 116	4 027	9 664	35 970	8 219	6 346	41 162	56 001	215 118	21 560
	»	Number	2	90	322	2	118	16	96	247	69	2	45	186	299	138	407	12	12	109	71	20	154	52	230	23	83
	Mid-1966 to Mid-1976	%	1.8	0.3	0.3	1.4	0.6	0.3	0.7	0.4	0.6	1.2	0.9	0.7	1.3	0.7	1.0	1.5	0.7	0.6	1.1	0.5	0.6	2.4	0.2	0.9	(0.9)
EMPLOYMENT	1975	Thousands	5 726	2 943	3 748	9 363	2 332	2 211	20 764	24 828	(3 190)	(93)	1 030	18 818	52 230	150	4 535	1 194	1 694	3 259	12 576	4 062	2 784	15 600	24 632	84 783	8 583 ⁹
	»	% of total	6.7	12.5	3.6	6.1	9.8	14.9	11.3	7.3	(35.4)	(15.1)	24.5	15.8	12.7	6.2	6.6	11.9	10.2	28.1	21.9	6.4	7.9	60.9	2.7	4.0	47.5
	»	of which: Agriculture, forestry, fishing	33.8	40.9	39.9	29.3	31.5	36.1	38.6	46.0	(28.2)	(35.5)	29.8	44.1	35.8	47.3	34.8	34.2	34.3	33.3	38.5	36.5	45.0	16.1	40.9	29.0	21.1
	»	Industry ⁴	59.5	46.6	56.5	64.6	58.7	49.0	50.1	46.7	(36.4)	(49.4)	45.7	40.1	51.5	46.5	58.6	53.9	55.5	38.6	39.6	57.1	47.1	23.0	56.4	67.0	31.4
	»	Other																									
GROSS DOMESTIC PRODUCT at market prices	1975	US \$ billion ¹¹	84.24	37.57	62.25	159.68	35.45	26.59	335.71	424.92	20.86	1.25	7.76	174.95	490.63	2.20	81.20	13.24	28.30	14.62	101.04	69.36	54.16	35.45	227.79	1 513.83	31.71 ⁵
	»	Average annual volume growth ⁶	3.5	3.9	3.5	5.0	2.1	4.0	3.6	1.7	5.1	5.5	2.7	2.4	5.4	1.8	3.1	3.8	4.4	4.7	5.5	2.3	0.8	7.6	2.0	2.1	5.8
	»	Per capita	6 239	4 988	6 351	6 994	7 006	5 643	6 365	6 872	2 291	5 717	2 483	3 123	4 398	6 136	5 947	4 266	7 063	1 547	2 869	8 467	8 456	861	4 063	7 089	1 499
GROSS FIXED CAPITAL FORMATION	1975	% of GDP	23.8 ⁷	26.7	22.0	24.2	19.9	30.2	23.4	21.1	20.2 ⁸	33.2	23.8	20.8	30.8	29.2	21.3	26.2 ⁹	35.4	19.6	24.1	20.7	24.0	20.5	20.0	16.3	32.4
	»	»	9.8	10.5	7.8	8.3	8.0	11.7	9.2	9.9	7.8	8.6	9.5	8.5	14.2	8.6	9.3	..	13.8	6.9	9.2	8.4	..	8.5	6.9	..	
	»	Residential construction	5.1	5.4	6.1	5.6	4.6	7.0	7.3	4.5	5.0	7.0	6.2	6.1	7.8	7.6	5.2	..	5.5	3.8	6.2	4.2	..	3.7	4.0	3.3	..
	»	Average annual volume growth ⁶	1.0	4.4	2.5	7.2	-0.8	4.9	3.5	-1.0	0.9	11.6	3.6	-1.1	3.6	3.6	-0.6	..	9.1	-1.8	5.3	0.9	-0.4	10.5	1.3	-0.4	..
NATIONAL SAVINGS RATIO ¹²	1975	% of GNP	23.7 ⁷	27.1	22.5	19.0	16.8	29.4	23.4	23.2	16.5	24.6	16.8	19.6	32.3	27.4	23.4	20.6	27.9	3.8	21.7	22.8	27.9	17.7	17.3	16.7	34.1
GENERAL GOVERNMENT	1975	% of GDP	16.4 ⁷	16.6	17.1	20.3	24.7	18.5	14.4	21.2	15.2	10.1	19.1	13.9	11.1	15.0	18.0	18.4 ⁹	16.9	15.4	9.5	24.8	12.7	11.3	22.0	19.3	15.6
	»	Current expenditure on goods and services	10.1 ⁷	16.1	20.9	13.3	16.1	13.6	23.1	19.2	10.0	..	21.9	22.9	8.6	26.2	29.3	..	22.9	9.1	12.1	19.6	14.4	6.5	13.2	12.2	..
	»	Current transfer payments	32.0 ⁷	39.1	40.7	37.6	45.0	39.5	40.6	40.9	26.8	..	34.2	34.7	23.5	50.6	53.6	..	50.2	24.7	24.5	52.2	31.9	20.5	40.8	30.7	35.6
	»	Current revenue																									
NET OFFICIAL DEVELOPMENT ASSISTANCE	1975	% of GNP	0.6	0.2	0.6	0.6	0.6	0.2	0.6	0.4	..	..	..	0.1	0.2	..	0.8	0.5	0.7	..	..	0.8	0.2	..	0.4	0.3	..
INDICATORS OF LIVING STANDARDS	1975	US \$ ¹¹	3 720	2 810	3 900	4 040	4 050	2 890	3 970	3 810	1 660	3 630	1 660	2 099	2 500	3 680	3 460	2 510	3 830	1 235	1 990	4 420	5 210	633	2 480	4 580	792
	»	Private consumption per capita	354	217	256	374	249	199	285	272	42	295	159	257	144	358	253	363	223	95	123	323	270	8	246	490	63
	»	Passenger cars, per 1 000 inhabitants	377	262	272	550	428	358	236	302	207	404	127	246	356	397	344	481	339	117	200	633	594	23	366	677	54
	»	Telephones, per 1 000 inhabitants	227 ¹³	247	252	366	308	269	235	305	106	217 ¹⁰	178	213	233	257	259	304 ¹⁰	256	66	174	348	264	12	315	571	131
	»	Television sets, per 1 000 inhabitants	1.4 ¹³	2.0	1.8	1.7	1.6 ¹³	1.3	1.5 ¹⁰	1.8	2.0	1.5 ¹⁴	1.2 ¹³	2.0	1.2 ¹⁰	1.1	1.5	1.2 ¹³	1.6	1.2	1.5 ¹⁰	1.6 ¹⁰	1.9	0.6	1.3	1.6	1.3
	»	Doctors, per 1 000 inhabitants	39.7	15.9 ¹⁴	34.4 ¹⁴	49.8 ¹³	36.3 ¹⁴	24.5	31.4 ¹⁴	24.2 ¹⁴	..	..	..	31.0	34.3 ¹⁴	..	21.1 ¹⁴	..	40.3 ¹⁴	..	(9.8) ¹⁰	29.3 ¹⁰	(31.1) ¹³	..	21.8 ¹⁴	43.2	16.6
	»	Access to higher education ¹⁵	16.1 ¹⁴	20.5	16.2 ¹⁴	15.5 ¹⁴	10.7 ¹⁴	10.2 ¹⁴	13.6	19.7	24.0 ¹⁴	11.4 ¹⁴	17.0 ¹⁴	20.7	10.0	14.8	10.3	16.0	10.5 ¹⁴	37.9 ¹⁴	12.1	8.3	10.7	..	16.0	16.1	40.9 ¹⁴
	»	Infant mortality ¹⁷																									
WAGES AND PRICES	Average annual increase	%	16.4	12.5	16.4	11.9	16.7	17.9	15.4	8.9	20.8	34.0 ¹⁹	19.9	20.8	17.7	..	13.2	11.9	14.6	16.3 ²⁰	20.8	13.4	7.5	23.6 ²⁰	17.0	7.8	..
	»	Hourly earnings in industry ¹⁸																									
	»	Consumer prices	11.8	7.8	9.4	8.3	9.9	13.3	9.6	6.0	14.5	30.3	15.1	13.8	12.2	8.2	8.9	11.5	9.0	16.9	13.9	8.5	6.7	17.8 ²⁰	14.5	7.0	18.5
FOREIGN TRADE	1976	US \$ million ¹¹	13 116	8 508	32 844 ²¹	38 628	9 108	6 342	55 812	102 036	2 544	396	3 312	36 924	67 224	—	38 748	2 780	7 920	1 812	8 724	18 444	14 844	1 960	46 260	114 996	4 556
	»	As percentage of GDP	14.1	21.1	48.9	20.4	23.8	22.3	16.1	22.5	11.5	28.3	42.5	22.6	12.2	..	43.9	22.4	25.7	11.5	8.5	25.0	26.2	5.1	21.3	6.8	13.9
	»	Average annual volume increase	3.7	7.7	7.3	4.1	4.2	4.0	7.6	7.6	17.0	..	6.6	6.9	10.1	..	7.0	2.3	8.4	2.6	11.2	3.1	4.8	..	5.1	8.2	7.1
Imports of goods, cif	1976	US \$ million ¹¹	11 196	11 520	35 352 ²¹	37 956	12 420	7 392	64 392	87 780	6 012	468	4 200	43 368	64 800	—	39 948	2 830	11 112	4 212	17 460	19 164	14 772	5 129	55 968	121 788	6 881
	»	As percentage of GDP	12.1	28.5	52.6	20.0	32.5	26.0	18.6	19.4	27.1	33.4	53.8	26.5	11.7	..	45.2	22.8	36.1	26.8	17.0	26.1	12.9	25.8	7.2	21.0	
	»	Average annual volume increase	5.6	8.4	6.7	8.4	5.4	4.1	8.6	6.5	6.7	..	5.3	3.7	6.3	..	4.3	5.1	6.4	3.2	10.4	5.6	1.1	..	5.0	4.7	2.5
TOTAL OFFICIAL RESERVES	End-1976	US \$ million	3 169	4 410	5 206 ²¹	5 843	915	498	9 728	34 798	925	81	1 837	6 654	16 604	—	7 387	491	2 229	1 302	5 284	2 491	12 992	1 080	4 230	18 319	2 680
	»	As percentage of imports of goods	28.3	38.3	14.7 ²¹	15.4	7.4	6.7	15.1	39.6	15.4	17.3	43.7	15.3	25.6	..	18.5	17.3	20.1	37.4	30.3	13.0	88.0	21.1	7.6	15.0	38.9

1 Partly from national sources.
 2 Total resident population.
 3 Private and socialised sector.
 4 According to the definition used in OECD: Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
 5 Social product.
 6 At constant prices.

7 Fiscal year beginning July 1st.
 8 Excluding ships operating overseas.
 9 Fiscal year beginning April 1st.
 10 1973.
 11 At current prices and exchange rates.
 12 $\left[\frac{\text{GNP} - (\text{Priv. cons.} + \text{Pub. cons.})}{\text{GNP}} \right] \times 100$.

13 1972.
 14 1971.
 15 Figures are not strictly comparable due to differences in coverage. For more details see "Educational Statistics Yearbook - Volume 1 (1974) and volume 2 (1975) - OECD, Paris".
 16 1974.
 17 Deaths in first year per 1 000 live births.
 18 Figures are not strictly comparable due to differences in coverage.
 19 1971 to 1975.

20 1970 to 1975.
 21 Including Luxembourg.
 Note: Figures within brackets are estimates by the OECD Secretariat.
 Sources: Common to all subjects and countries: OECD: Labour Force Statistics, Main Economic Indicators, National Accounts, Observer, Statistics of Foreign Trade (Series A); Office Statistique des Communautés Européennes, Statistiques de base de la Communauté; IMF, International Financial Statistics; UN, Statistical Yearbook.

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