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ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ICELAND

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

APRIL 1979

I-22/27P3

## 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, 1977	222 552	Occupational distribution 1976	
Net increase 1972-1977,		(per cent):	
annual average (per cent)	1.2	Agriculture	9.5
		Fishing	5.4
		Fish processing	8.0
		Other manufacturing	16.6
		Construction, total	11.9
		Trade, finance and services	18.4
		Transport	6.1
		Other	24.1
			100.0

### GOVERNMENT AND PARLIAMENT

Government, from 1978, number of ministers:		Parliament, from 1978, number of seats:	
Labour Alliance	3	Independence Party (Lib. Cons.)	20
Progressive Party	3	Labour Alliance (Socialists, Communists)	14
Social Democrats	3	Social Democrats	14
		Progressive Party (Agrarians)	12
			60
Last general election: 1978		Next general election: 1982	

### PRODUCTION AND CAPITAL FORMATION

Gross National Product in 1977:		Gross Fixed Capital Formation	
Millions of I. Kr.	365 925	in 1977:	
Per head, US \$	8 290	Millions of I. Kr.	103 750
		Per cent of GNP	28

### FOREIGN TRADE

Exports of goods and services in 1977, per cent of GNP	39.7	Imports of goods and services in 1977, per cent of GNP	42.3
Main exports 1977 (per cent):		Imports 1977, by use (per cent):	
Fish products	73.7	Investment goods	33.7
Aluminium	14.6	Consumer goods	33.4
Other manufacturing products	7.3	Intermediate goods (excl. fuels)	20.4
Agricultural products	2.4	Fuels	12.5

### THE CURRENCY

Monetary unit: Krona		Currency units per US \$, average	
		of daily figures:	
		Year 1978	270.78
		February 1979	323.06

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

OECD ECONOMIC SURVEYS

# ICELAND

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*The annual review of Iceland  
by the OECD Economic and Development Review Committee  
took place on 7th March 1979.*

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## CONTENTS

<b>Introduction</b>	5
<b>I Recent trends and policies</b>	6
Export output and prices	6
Domestic demand	8
Prices and wages	10
The labour market	12
Balance of payments	13
Policy objectives and outcome	15
Public finance	15
Money and credit policies	17
Incomes policies	21
<b>II Problems of demand management in the Icelandic setting — The experience of the 1970s</b>	22
Summary of economic performance 1970-1978	22
Changing composition of export production	24
Real wages and demand in the adjustment process	26
The role of demand management policies	26
a) Traditional instruments	26
b) The Fisheries Price Equalisation Fund	34
c) Exchange rate adjustments	34
The inflationary trade-off	36
<b>III Short-term prospects and policy considerations</b>	38
A The outlook for 1979	38
Policy assumptions	38
Exports and the terms of trade	38
Incomes, inflation and demand	40
B Conclusions	41
<i>Annex: Calendar of main economic events and policy measures</i>	45
Statistical annex	53

## TABLES

### *Text*

1 Output and expenditure	8
2 Gross fixed investment 1974-1978	9
3 Foreign trade by commodity groups	10

4	Prices and incomes	11
5	Balance of payments	13
6	Central government revenue and expenditure	16
7	Growth of lending	18
8	Accounts of the banking system	19
9	Principal economic performance indicators	25
10	Fiscal policy indicators	28
11	The credit budget: targets and outcome 1976-1978	32
12	Comparison of market and reference prices of the FPEF	35
13	The external balance	39
14	Prospects for 1979	41

### *Statistical annex*

A	Supply and use of resources (current prices)	53
B	Supply and use of resources (1969 prices)	54
C	Production and employment	55
D	Gross fixed asset formation (current prices)	56
E	Gross fixed asset formation (1969 prices)	57
F	Balance of payments, OECD basis	58
G	Central government income and expenditure	59
H	Fish catch, wages and prices	60
I	Foreign trade, total and by area	61
J	Foreign trade by commodity group	62
K	Money and credit	63

### DIAGRAMS

1	Foreign trade volumes and average values	7
2	Consumer prices	12
3	Foreign trade developments	14
4	The impact of fish catch and terms of trade on the business cycle	23
5	The real wage and real demand gaps	27
6	Money and credit developments	31
7	The structure of interest rates	33
8	The effective exchange rate and inflation	37

## INTRODUCTION

In 1978 developments were still influenced by the shocks imparted to the economy in the aftermath of the 1973 oil price increase. Because of falling export prices, Iceland was particularly hard hit by the 1973 events and the ensuing international recession. The balance-of-payments deficit soared to about 11 per cent of GNP in 1974 and 1975, a rate only exceeded by Norway in the most recent period. Subsequent adjustment policies and a partial recovery of the terms of trade helped to reduce the external deficit to manageable levels from 1976 onwards; preliminary estimates suggest that the current external account recorded a small surplus in 1978. Up to the middle of 1977 price performance also improved but the subsequent wage explosion—wages and salaries probably rising by 55 per cent on average last year—together with repeated depreciations of the Krona, led to renewed acceleration of inflation to some 45 per cent in 1978, after a 30 per cent increase in 1977. Except for Turkey, the inflation rate has thus remained the highest in the OECD area. Throughout the 1973-78 period, unemployment was virtually non-existent, with a temporary decline in the demand for labour in 1975 being largely reflected in shorter working hours.

The adjustment policies applied after the terms-of-trade loss in 1974/75 mainly relied on incomes policy arrangements together with frequent currency depreciations. This policy mix benefited from the tacit acceptance by labour that an adjustment of real wages was necessary. However, in the summer of 1977, against the background of recovering export prices, the unions obtained very large and indexed wage increases despite fiscal concessions offered by the Government. In 1978, the authorities attempted to brake the inflationary spiral by imposing ceilings on automatic price compensation, but with rather limited success. Disposable real household income probably rose by some 6 per cent between 1977 and 1978, in excess of the 4¼ per cent growth of real national income. The difficulties encountered in enforcing pay rules seem to have been exacerbated by a too expansionary government budget and lax credit policy. At the beginning of 1979, economic policy is faced with a major test as the new Government, which took office last September, has declared its intention to limit the cost-of-living adjustment of wages to 5 per cent per quarter. However, this limit was exceeded by 1.9 per cent as of 1st March. Policies may also have to be adjusted to the recent surge in oil import costs, particularly pronounced in Iceland since oil supplies are priced at spot market prices.

Part I of the present Survey discusses the major features of economic developments over the last year and reviews economic policies. Part II analyses the major problems of demand management in the Icelandic setting between 1970 and 1978, thereby focussing on the question of whether changes in the policy set-up have improved the efficiency of economic policies. After presenting the official forecast for 1979, which assumes a successful implementation of stabilisation policies, Part III discusses the major policy issues.

## I. RECENT TRENDS AND POLICIES

Following a volume increase of 10 per cent in 1977, aggregate domestic demand marked time last year. Private and public consumption rose roughly in line with the longer-term trend, but gross fixed investment and especially stockbuilding fell sharply. However, as the rise in exports accelerated and that of imports slowed down, the foreign balance improved markedly in real terms and output rose by  $4\frac{1}{4}$  per cent compared with  $4\frac{3}{4}$  per cent in 1977. Although the terms of trade remained unchanged, the current balance of payments improved substantially. On the other hand, with wage and price increases accelerating to annual rates of around 50-60 per cent, domestic cost pressures led to a severe squeeze on profits. The Icelandic krona was devalued twice in relation to the U.S. dollar (13 per cent in February, 15 per cent in September) and with a continuous downward float month by month, the effective exchange rate depreciated by 32 per cent in 1978 on average<sup>1</sup>.

### *Export output and prices*

In 1978 the total fish catch (tonnage) was some 13 per cent above the level of the previous year. However, as the more valuable cod catch remained practically unchanged while herring and notably capelin catches increased significantly, the value of the fish catch in constant prices rose by only 5-6 per cent. In spite of the ban on the capelin catch<sup>2</sup> the increase (constant prices) in total marine production for the whole year is estimated to have been of the order of 5 per cent, compared with almost 20 per cent in 1977. Other export production, accounting for only about a quarter of total exports, is dominated by aluminium, the output of which probably increased by some 5 per cent in 1978, whereas other merchandise export production may have fallen by 5 per cent, leaving a rise of total export production of 4-5 per cent for the year as a whole, compared with  $16\frac{1}{2}$  per cent in 1977. Due to easier market conditions for salt fish to Portugal and dried fish to Nigeria, exports to these countries rose significantly, permitting a reduction of stocks of exportable goods after the strong accumulation in 1977. Consequently, total merchandise exports may have advanced by about 16 per cent in volume, or more than double the rate recorded in 1977 (Diagram 1 and Table 3).

Following export price increases in foreign currencies<sup>3</sup> of about 16 per cent for marine products in 1976 and 1977, export prices have remained virtually flat in 1978, especially for frozen fish<sup>4</sup>, the single most important component in marine exports. Even allowing for some rise in other export prices, notably aluminium, total merchandise export prices in foreign currency are estimated to have advanced by only about 2 per cent, compared with 17-18 per cent per year in the previous two years. However,

1 Implying an average increase in the price of foreign currency of 46 per cent.

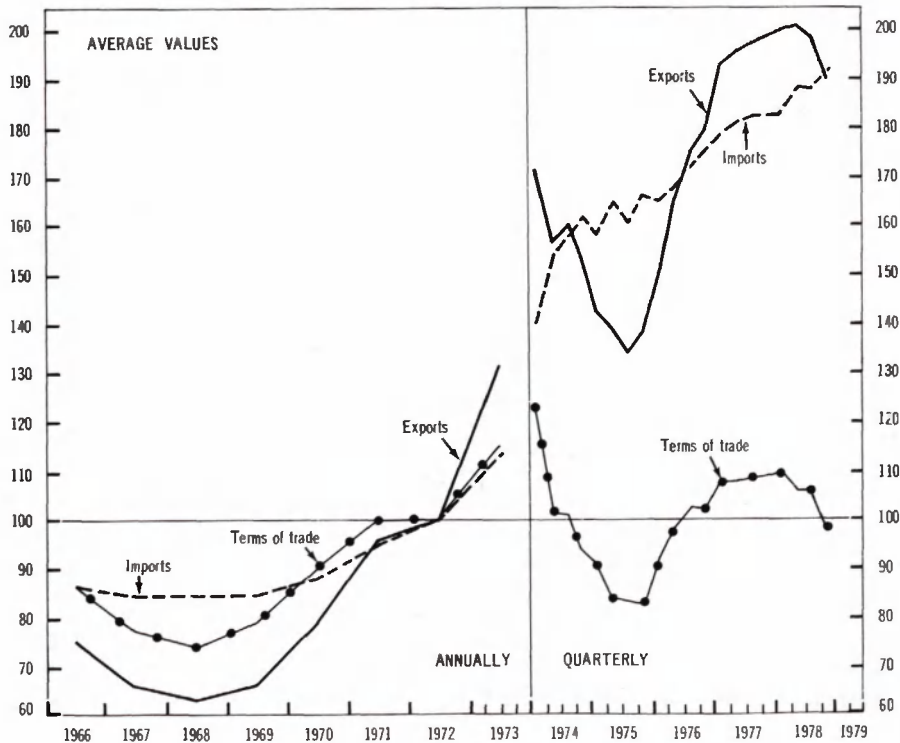
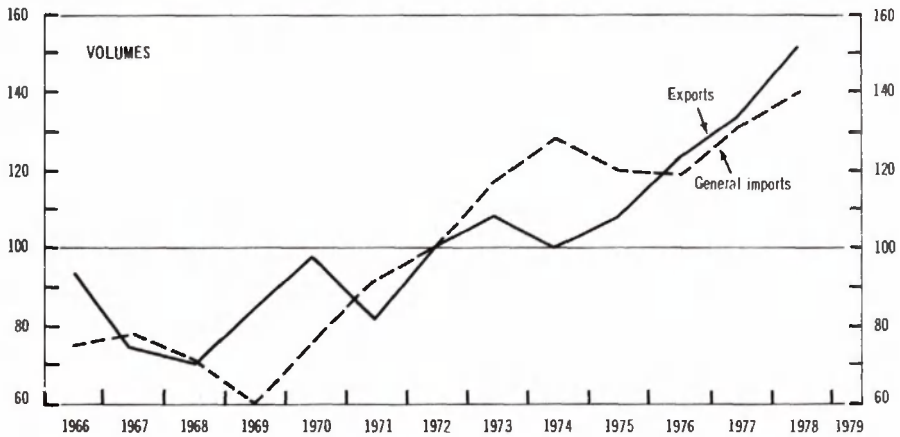
2 The Icelandic capelin stock was until recently held to be very abundant, and in no need of protection. A diversion of fishing efforts from the hard-pressed cod to capelin was urged some years ago, but the rapidly growing capelin catches during recent years (Diagram 4) have now prompted the Icelandic Marine Research Institute to recommend a ceiling on total catches. Consequently, the Ministry of Fisheries banned all capelin fishing in Icelandic waters from 15th December, 1978, to 10th January, 1979. Additional restrictions were introduced for a short period in early March.

3 Kronur unit values divided by index of effective exchange rate.

4 Thus, wholesale prices for frozen cod fillets in the U.S. market, by far Iceland's largest export market, increased from 91.1 cents per pound in 1977 to 91.8 cents on average during the first 8 months of 1978, compared with 71.7 cents and 62.5 cents in 1976 and 1975 respectively. A similar development has been recorded for frozen cod blocks. On the other hand, fish meal prices have seen a decline: in the first three quarters of 1978 they were some 8 per cent below the 1977 average. Although prices of Icelandic products may differ from these quotations, they roughly exhibit the same development over time.



**Diagram 1 Foreign trade volumes and average values**  
Indices, 1972 = 100



Source: National Economic Institute.

as the Icelandic krona depreciated sharply in the course of 1978, the average price increase of merchandise exports in krona terms may have been close to 50 per cent.

### Domestic demand

Judging from statistics on turnover taxes and imports of consumer goods, private demand strengthened during the first half of 1978, partly reflecting the uncertain political situation and anticipatory purchases in expectation of a sizeable devaluation. Following the formation of a new Government and introduction of a number of restrictive measures, including a 15 per cent devaluation vis-à-vis the U.S. dollar, private consumption growth seems to have slowed down. For the year as a whole the volume increase is officially estimated to be of the order of 6 per cent (Table 1), somewhat less than in 1977, but slightly above the average recorded during the present decade<sup>5</sup>. As real disposable income is expected to have increased by some 6 per cent, the savings ratio may have decreased marginally after a significant rise in 1977.

Table 1 Output and expenditure

	1977 Kr. billion	Per cent change in constant 1969 prices				
		1974	1975	1976	1977	1978 <sup>a</sup>
Private consumption	226.0	7.0	-10.0	1.0	8.0	6.0
Public consumption	38.8	5.0	2.0	5.0	2.0	2.0
Gross fixed investment	103.8	10.8	-8.4	-2.6	7.5	-3.7
Final domestic demand	368.6	8.0	-8.6	0.3	7.3	3.0
Changes in stocks <sup>1</sup>	7.0	2.8	0.6	-4.2	2.5	-2.9
Total domestic demand	375.6	10.5	-7.9	-3.4	9.9	0.0
Foreign balance <sup>2</sup>	-9.7	-8.6	7.7	6.3	-6.0	4.1
Exports, goods and services	145.3	-0.7	1.4	11.9	10.3	16.0
Imports, goods and services	154.9	13.2	-10.3	-1.2	18.7	5.3
GNP at market prices	365.9	3.3	-2.1	2.4	4.8	4.2
Terms of trade effect <sup>2</sup>		-2.5	-3.9	3.5	3.1	0.0
Gross national income		0.8	-6.0	5.9	7.9	4.2

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

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

3 Per cent change in 1977 prices and weights. Preliminary estimate.

Source: National Economic Institute.

As public consumption seems to have continued its moderate rise of the previous year, the official policy of restraining domestic demand has mainly been reflected in lower investment activity<sup>6</sup>. Following a sharp increase in export prices and good fish catches, capital outlays (volume) in the fishing sector almost tripled in 1977 (Table 2);

5 The 5¼ per cent average annual increase in private consumption during the 1970s is high by international standards, but covers large year-to-year fluctuations. Thus in 1971 private consumption increased by 16½ per cent, whereas in 1975 it fell by 10 per cent.

6 By raising planned public asset formation and transfers to Investment Credit Funds less than the anticipated rate of inflation, the Government had a significant dampening influence on overall investment activity.

Table 2 Gross fixed investment 1974-1978

	1977 Kr. billion	Per cent change at constant 1969 prices				
		1974	1975	1976	1977	1978 <sup>a</sup>
Public works and buildings	37.3	22.9	15.9	13.4	-16.0	-14.3
Electric power	13.2	59.8	69.4	32.5	-37.0	-30.1
Communications	11.1	4.9	-19.3	-3.8	-2.0	-3.7
Other	13.0	22.5	8.8	0.6	13.7	-7.1
Residential construction <sup>1</sup>	22.1	-13.4	-7.0	2.0	0.0	2.0
Private non-residential	44.4	16.2	-21.8	-17.1	36.7	2.4
Agriculture	6.4	11.2	-12.3	-2.0	8.2	-3.0
Fishing	10.1	-19.3	-40.4	-52.4	185.3	-26.0
Fish processing	4.4	7.4	-5.5	-20.3	49.1	4.9
Aluminium smelter	0.2	-50.0	-28.6	-80.0	300.0	—
Other manufacturing	8.5	20.0	12.0	-4.1	37.1	5.1
Transport equipment	7.5	100.0	-26.6	-5.8	13.1	-27.6
Other	7.3	51.2	-24.4	-10.4	-3.9	5.0
Total gross fixed investment	103.8	10.8	-8.4	-2.6	7.5	-3.7
Imported ships and aircrafts	12.3	18.3	-30.0	-48.0	125.9	-54.4
Other special investments <sup>2</sup>	10.2	88.0	130.8	51.1	-36.8	14.1
General investment	81.3	6.6	-11.5	-2.2	6.0	1.7

1 Excluding imported houses for replacement of housing damaged during volcanic eruption on Vestmannaeyjar (Kr. 2 000 million in 1973 and Kr. 400 million in 1974). These are included in total investment.

2 Thjorsa and Krafla power plants, aluminium smelter and ferrosilicon plant.

3 Official estimates. For 1978, volume changes at 1977 prices and weights.

Source: National Economic Institute.

but reacting to a government request, the Fisheries Loan Fund substantially reduced its credits in the latter part of 1977, and influenced by the comparatively modest income gains from 1978 catches, and official policies encouraging lay-offs of obsolete vessels, fisheries capital formation fell by about 25 per cent in 1978. A similar decline is expected for investment in transport equipment, mainly ships. On the other hand, there was a marked increase in expenditure on the new ferro-silicon plant, probably resulting in a small rise of some 2-3 per cent of gross fixed asset formation in the non-residential private sector compared with a 37 per cent increase in 1977. However, with sharply falling public investment, especially in the energy sector, and a modest increase in residential construction, total fixed asset formation is estimated to have fallen by almost 4 per cent in 1978 against a 7½ per cent increase a year earlier. Apart from the effects of short-term demand management, this development also reflects a petering-out of the investment boom of the early and mid-1970s: many large industrial projects are now completed or near completion, the shift from oil to geothermal heating is well advanced<sup>7</sup>, the fishing fleet has been modernised and adapted to the needs resulting from both larger fishing zones and fish stock preservation, and transportation and communication facilities in general have reached a high standard<sup>8</sup>.

The sharp turnaround in investment growth had an important bearing on imports. Thus, the marked volume decrease in purchases of new ships and aircraft more than offset the increase in capital outlays in the new ferro-silicon plant and power stations. In fact, imports of special investment goods probably decreased by as much as 45 per cent in 1978 (Table 3). Moreover, the faster advance of import prices in

7 The share of the population living in flats or houses heated by hot water from underground thermal sources has risen from 45 per cent in 1972 to about 70 per cent in 1978.

8 Thus, the ratio of gross fixed asset formation dropped from 33 per cent of GNP in the mid-1970s to 26½ per cent in 1978.

Table 3 Foreign trade by commodity groups

	Distribution (per cent) 1977	Per cent change in US \$ values				
		1974	1975	1976	1977	1978
Exports, fob	100.0	13.4	0.3	22.3	26.9	26.9
Marine products	74.9	15.1	5.6	12.8	30.9	31.4
Agricultural products	2.4	11.8	1.1	7.3	17.5	24.7
Manufactured goods	20.7	1.4	-14.2	66.5	13.8	14.0
of which: Aluminium	14.6	-3.0	-26.9	93.7	10.4	16.2
Other	2.0	145.5	-42.0	48.9	45.7	1.0
Imports, cif	100.0	48.1	-7.1	-3.6	29.1	11.8
Consumer goods	33.4	40.0	-13.7	7.0	37.4	27.6
Input goods	32.9	74.0	4.3	-6.0	17.0	8.6
Investment goods	33.7	36.1	-11.9	-9.6	34.6	0.0
Special imports	17.2	35.5	0.5	-17.8	19.4	-33.8
Ships and aircraft	9.3	29.0	-20.1	-43.4	119.9	-49.5
For power plants	0.9	1 088.2	79.2	107.2	-76.7	
For the aluminium smelter and other special imports	7.0	28.1	16.7	-21.9	8.9	110.4
General imports	82.8	51.7	-9.0	0.4	31.3	16.9
Oil	12.5	129.1	-3.8	-5.7	35.0	2.5
Non-oil	70.3	43.3	-9.9	1.5	30.7	19.5

Sources: Central Bank of Iceland. *Annual Report 1977*, Hagtölur Manadarsins and National Economic Institute.

Icelandic kronur than domestic prices contributed to the remarkable deceleration in the increase of traditional merchandise imports from 22 per cent (volume) in 1977 to 7 per cent in 1978. With exports and imports of services estimated to have risen at about the same rate, the real foreign balance (measured in 1977 prices) improved markedly and accounted for most of the 4¼ per cent GNP growth recorded in 1978. As the terms of trade remained unchanged, gross national income also increased by 4¼ per cent, compared with almost 8 per cent in the previous year when the terms-of-trade improvement amounted to about 3 per cent of GNP.

### Prices and wages

As mentioned in the previous Survey, the June 1977 wage settlements boosted wage inflation far more than expected<sup>9</sup>. Indeed, during the first quarter of 1978 wages were about 60 per cent higher than a year earlier, and more than 30 per cent above the 1977 average. Against this background of spiralling prices and wages, the Government decided to limit price compensation except for lower income groups<sup>10</sup>. With the wage decree introduced to this end to remain in force during the rest of the year and the next basic adjustment to take place in September, nominal wages seemed unlikely to catch up with inflation, thus enabling a rise in profits. However, this measure gave rise to considerable social unrest; the trade unions imposed an «export ban» and claimed restoration of full wage indexation. In May, two months after the introduction

9 The agreement implied a cumulative wage increase of 43 per cent over a 17-month period. In addition, indexation of most categories of wages was restored. Wages were to be indexed quarterly according to a *price compensation index*, derived from the cost-of-living index of the previous month by excluding expenditure on alcohol and tobacco and rises in the wage component of farm prices. With the basis 1st June, 1977 = 100 the index is calculated 4 times a year (March, June, September and December). By December 1978 the index stood at 151.

10 According to the price compensation index, wages should have been increased by 10½ per cent on 1st March. Following the legislation, wage increases were limited to 6 per cent.

of the limits on cost-of-living adjustments, the regulations were eased so that compensation would amount to about 75 per cent of the rise in prices. Consequently, the summer months saw a new wave of price and wage increases<sup>11</sup>, entailing a deterioration of profitability in export industries in spite of the depreciation of the krona. When the new Government took office in September, the price compensation index called for a rise in wages of more than 8 per cent, but higher consumer subsidies and the abolition of the sales tax on food products brought the price compensation index back to the June level. Even so, reflecting the decision to revoke the February and May legislation and thus restore full wage indexation, except for the higher incomes, wages rose on average by 9 per cent in September, of which 3 percentage points were due to a previously agreed contractual rise. When the price compensation index later in the year was calculated to release an additional 14 per cent increase in wages, subsidies were further increased and other measures were adopted to limit the rise to 6 per cent. Thus, frequent interventions in the adjustment of wages limited the increase in the course of the year to 42 per cent compared with 60 per cent during the previous 12-month period. However, given the large carry-over from the previous year, wage and salary rates showed an average year-on-year increase of 55 per cent, the largest increase in the 1970s (Table 4). With probably only a small increase in hours worked, average earnings increased by about the same rate, but incomes and profits in fisheries as well as non-wage incomes outside fisheries are estimated to have increased somewhat less. With inflation also reaching record levels during the year, real income growth was in general less buoyant than in 1977. Taking direct taxes into account, real disposable income gains of households were probably of the order of some 5 per cent, i.e. about 1 percentage point above the estimated growth of real national income.

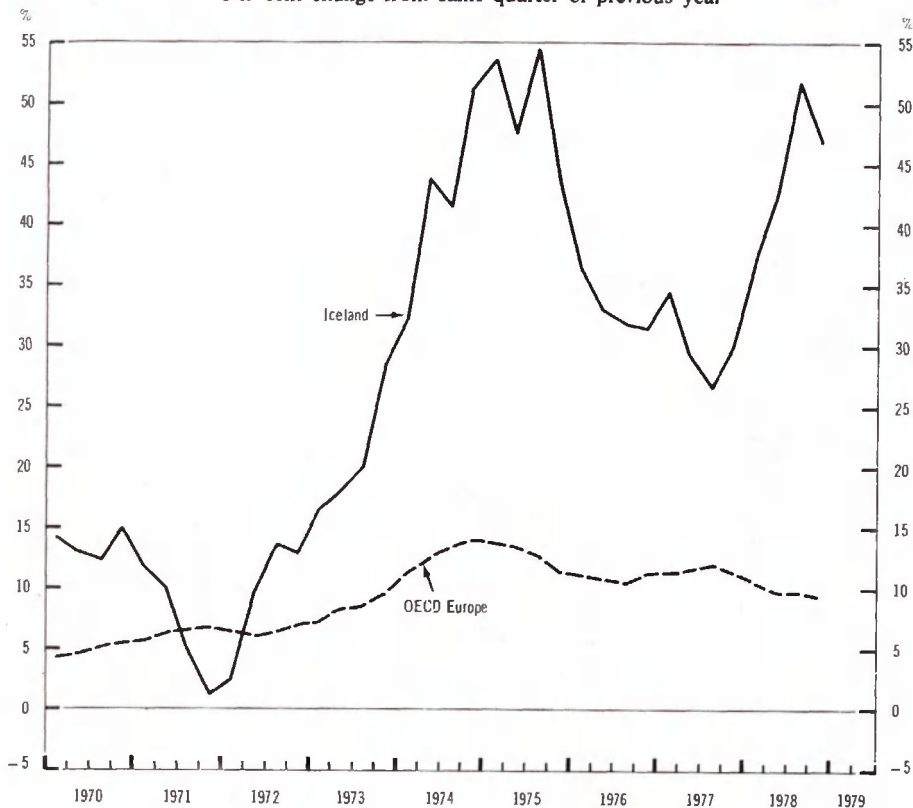
Table 4 **Prices and incomes**  
Per cent change

	1974	1975	1976	1977	1978 Official estimate
<b>Implicit deflators:</b>					
Total domestic demand	42.8	48.0	30.1	31.3	45
Imports, goods and services	40.4	64.0	18.9	18.7	49
Exports, goods and services	29.5	48.1	30.6	24.8	50
GNP	44.5	38.9	34.4	35.4	46
<b>Cost of living index</b>	43.0	49.0	32.2	30.5	44
Consumer goods index	42.5	50.2	33.5	30.5	44
Building costs in Reykjavik	52.0	42.1	23.5	30.0	47
<b>Hourly wages rates, unskilled workers</b>	47.6	32.1	26.5	42.0	55
Hourly pay rates, all employees	48.4	27.1	26.0	45.0	55
Weekly earnings, all workers	55.9	25.1	34.0	42.0	—
Household income, including transfers	51.0	33.0	35.0	47.0	54
Disposable household income	52.6	32.3	34.5	48.0	52
<b>Real pay rates, all employees<sup>1</sup></b>	4.1	-15.4	-5.6	11.1	7.6
<b>Real earnings, all workers<sup>1</sup></b>	9.4	-16.7	0.4	8.8	—
<b>Real disposable income<sup>1</sup></b>	7.1	-12.0	0.7	13.4	5.5

1 Deflated by consumer goods index.  
Source: National Economic Institute.

11 By the end of the second quarter, hourly wages for skilled labour were about 55 per cent higher than a year earlier. For female workers, wages increased by 66 per cent. Over the same period, the cost-of-living index rose by as much as 52 per cent.

**Diagram 2 Consumer prices**  
Per cent change from same quarter of previous year



Source: OCDE, *Main Economic Indicators*.

### The labour market

Despite slower domestic demand growth and an estimated 2 per cent increase in the workforce the labour market remained tight in 1978<sup>12</sup>. Unemployment was kept even marginally below the 0.4 per cent rate recorded in 1977, with shortages of labour frequently reported. The strong demand for labour is corroborated by the fact that hours worked remain longer than in other Member countries. Despite the introduction of the 40-hour working week in 1972, average working hours have been around 50 in recent years, with weekly hours paid reaching an all-time high in the second quarter of 1978<sup>13</sup>. Even though unemployment tends to remain low, the income effects of reduced demand for labour can be quite important, as no unemployment benefits are paid for loss of overtime work. The traditionally high mobility of labour and flexible working hours may partly explain the low and rather stable unemployment rate.

<sup>12</sup> Registered unemployment is traditionally low in Iceland. Even in the recession year 1975 unemployment did not exceed 0.7 per cent.

<sup>13</sup> Statistics refer to hours paid. This is not necessarily the same as effective hours worked as there are indications that employees have been paid for more hours than actually worked (a kind of wagedrift). Thus, it cannot be excluded that the record number of hours paid in the second quarter of 1978 may reflect stronger wagedrift.

### Balance of payments

Following record current account deficits in the mid-1970s (see Part II), the balance of payments has improved considerably in recent years. In 1978 the current balance recorded a surplus—for the first time since 1970—of roughly \$ 30 million, or about 1½ per cent of GNP, compared with a deficit amounting to 2.6 per cent of GNP in the previous year. As noted, this development was mainly brought about by a significant decrease in imports of special investment goods, notably ships and aircraft. But the reduction in stocks of marine products also contributed to the surplus. Thus, if the balance of payments is corrected for the decline in special capital goods imports as well as fluctuations in stocks of exportables, the « underlying » external position was probably close to balance in both 1977 and 1978. In the first half of 1978, the current account deficit was still relatively large due to the « export ban » imposed by the trade unions and the impact of the sharp income increases in the preceding period (Diagram 2 and Table 5). By mid-year the « export ban » was lifted, and during the latter part of the year the effects of the devaluations on imports became increasingly felt, so that the current balance turned into surplus. Influenced by the fact that the dollar weighs heavily<sup>14</sup> in Iceland's export revenue, whereas European currencies are more important on the import side, the terms of trade deteriorated somewhat in the course of the

Table 5 Balance of payments  
Transactions basis  
US \$ million

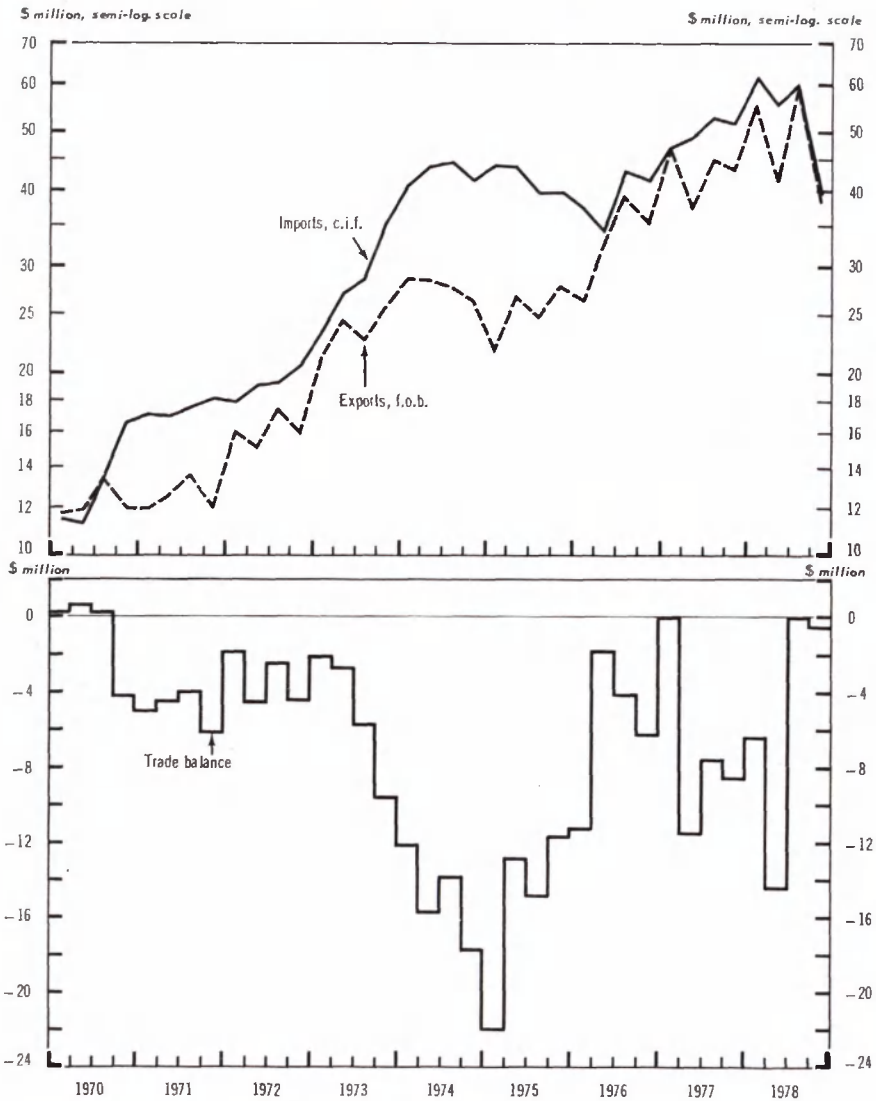
	1974	1975	1976	1977	1978 <sup>1</sup>
Exports, fob	329.3	308.8	404.0	512.6	649.4
Imports, fob	476.6	442.9	429.5	565.2	620.7
<i>Trade balance, fob/fob</i>	-147.3	-134.1	-25.5	-52.6	28.7
Services, net	-8.3	-5.1	1.3	4.0	4.3
Foreign travel	-6.4	-7.0	-10.2	-18.4	—
Transportation and insurance	-5.0	14.6	25.0	27.6	—
Interest	-18.1	-31.0	-39.8	-44.1	—
Other	21.1	18.3	26.3	38.9	—
Transfers, net	0.6	-0.6	0.2	-0.1	-0.7
<i>Current balance</i>	-155.0	-139.8	-24.0	-48.7	32.3
Long-term capital	85.1	107.5	47.5	98.4	54.2
Private	39.9	43.5	6.6	22.0	15.5
Official	45.2	64.0	40.9	76.4	38.7
Non-monetary short-term capital	-9.5	-26.6	-22.6	-28.7	-24.1
Errors and omissions	0.4	-0.4	-4.2	—	—
Private monetary institutions	-9.3	-3.1	-1.7	-1.3	-0.9
<i>Balance on official settlements</i>	-88.3	-62.4	-5.0	19.7	61.5
Use of IMF credit	18.6	19.4	28.9	—	-11.7
Miscellaneous official accounts	20.2	43.8	7.1	-4.2	-2.6
Allocation of SDRs	—	—	—	—	—
Change in reserves (— = increase)	49.5	0.8	-31.0	-15.5	-47.2
Conversion rate (Kr. per US \$)	89.67	99.84	181.91	198.78	271.47

1 Official estimate.

Source: Central Bank of Iceland.

14 Despite the fact that exports to the United States account for less than one-third of total exports, the U.S. dollar's share in total currencies received is more than 80 per cent, reflecting the importance of the dollar as invoicing currency.

**Diagram 3 Foreign trade**  
Seasonally adjusted quarterly data



Source : OECD, *Statistics of Foreign Trade*, Series A.

year but remained roughly unchanged for the year on average<sup>15</sup>, compared with an improvement of 8.5 per cent in 1977, when the effective exchange rate fell by only 8¾ per cent against some 31½ per cent in 1978 (Diagram 8), with an even larger depreciation during the year.

<sup>15</sup> The OECD area as a whole is estimated to have recorded a terms-of-trade gain of 2 per cent in 1978 and a loss of almost similar size in 1977. Non-oil developing countries experienced a loss of 5 per cent in 1978 and a gain of 3½ per cent the year before.



As noted in previous Surveys, inflows on official account—typically linked to specific projects undertaken to improve the export potential—have constituted a major part of long-term capital imports. In 1978, reflecting the fall in public investment, official net capital imports dropped to a historical low during the first half of the year; and with private capital transactions almost in balance, total reserves fell sharply (\$ 18 million). However, in the second half of the year, despite a fall in net capital imports of some \$ 6 million, foreign exchange reserves showed a steep rise due to the marked improvement of the current account. By the end of the year, total net reserves stood at almost \$ 64 million. While during the first half of the 1970s the total public and private long-term external debt as a proportion of export receipts increased markedly, reaching a peak of 76 per cent in 1975, it was down to 66 per cent in 1978<sup>16</sup>. On the other hand, the servicing of the debt increased from 11½ per cent of export receipts in 1975 to 14 per cent in 1978. Compared with other Member countries, foreign indebtedness is relatively high (at about one-third of GNP) but given its small absolute size and Iceland's high credit standing, the financing of the external borrowing requirement has not been a problem.

### *Policy objectives and outcome*

As in previous years the emphasis of economic policy in 1978 was on efforts to maintain a viable balance of payments and reduce inflation. However, it was already clear at the beginning of the year that the sharp increases in domestic costs led to serious difficulties for the export industries; and following sizeable devaluations in February and September, inflation accelerated again despite the adoption of various fiscal and incomes policy measures, including tax concessions and legislation limiting price indexation of wages. In the event, both fiscal and monetary policies became much more expansionary than intended, and with a large part of the year characterised by political and social unrest, the most encouraging outcome was—as noted above—a significant turnaround in the current balance of payments from deficit to surplus.

### *Public finance*

The central government budget for 1978 initially aimed at a surplus on the overall balance before financial transactions of K.r. 1 billion (0.2 per cent of GNP). With a relatively large deficit in 1977 (Tables 6 and 10) the implied contractionary swing in the budget balance would have corresponded to 1 per cent of the previous year's GNP. However, preliminary results for 1978 indicate a deficit of K.r. 5 billion (0.9 per cent of GNP) as important expenditure raising and tax reducing measures were taken in order to curb the sharp increases in prices and income claims<sup>17</sup>. The acceleration of inflation and the two devaluations of the krona in the course of the year prompted the Government to increase subsidies, social security allowances and pensions, notably in

16 During the 1970s the figures have developed as follows:

	1970	1975	1976	1977	1978
Foreign debt in per cent of exports of goods and services	51.0	75.7	71.7	62.6	65.6

17 With indirect taxes on the revenue side and wages, salaries and pensions on the expenditure side playing by far the most important roles, unanticipated inflation does not have any significant impact on the budget balance outcome.

September when temporary expenditure measures amounting to more than Kr. 5 billion during the last few months (together with a complete abolition of sales tax on food) were introduced. In total, central government expenditure rose by 65 per cent, compared with 39 per cent envisaged initially (Table 6).

A few important changes in the tax structure were introduced last year. Prior to 1977 the tax basis was indexed on the basis of developments in earnings, implying that in periods with earnings growing faster than prices the effective tax burden would be reduced. In the 1978 budget income tax brackets were indexed on prices rather than wages<sup>18</sup>, with taxes still levied on previous year's income. Moreover, as direct taxes were raised significantly in connection with the September measures, their share in total revenue went up by 2½ percentage points between 1977 and 1978 with a further 4 percentage points increase envisaged this year. Nevertheless, measured in relation to total income, direct taxes are of limited importance, the most important revenue source being excise and sales taxes (see also Part II). In connection with the February

Table 6 Central government revenue and expenditure

	Cash basis Billion kronur				
	1977 Budget	1977 Outcome	1978 Budget	1978 Preliminary outcome	1979 Budget
Current revenue	90.0	100.3	139.5	154.9	209.0
Direct taxes	11.6	11.0	17.3	20.7	36.5
Social security contributions	2.9	3.0	8.0	6.5	10.5
Excise and sales taxes	46.8	44.4	56.8	61.2	75.1
Import duties	18.6	16.9	29.4	36.8	42.6
Other indirect taxes	9.0	23.1	26.2	27.4	41.0
Other revenue	1.2	1.9	1.8	2.3	3.3
Current expenditure	68.4	80.2	111.3	132.5	164.1
Consumption	30.8	35.6	54.2	59.0	69.4
Interest on public debt	2.3	3.4	3.4	5.7	6.9
Current transfers	35.3	41.2	53.7	67.8	87.9
To social security	21.7	23.2	33.9	42.0	47.9
Consumer subsidies	5.1	5.8	6.8	10.7	18.9
Other	8.5	12.2	13.0	15.1	21.0
Current savings	21.6	20.1	28.2	22.4	44.9
Gross fixed investments	6.5	8.0	8.9	9.1	12.9
Capital transfers <sup>1</sup>	14.3	14.6	18.3	18.3	25.3
Revenue balance	0.8	-2.5	1.0	-5.0	6.7
Financing (excluding Central Bank)					
Net borrowing	8.4	3.9	4.7	1.7	4.1
Net lending	-6.6	-3.2	-2.1		
Overall cash balance <sup>2</sup>	2.6	-1.8	3.6	-3.3	7.6

1 Mainly transfers to public utilities and local governments for investment purposes and to Investment Credit Funds.

2 Mainly change in the position vis-à-vis the Central Bank.

Source: National Economic Institute.

18 This led to a 31 per cent rise in the tax index whereas taxable earnings were expected to rise by about 40 per cent. Hence the tax burden measured as a percentage of personal income was envisaged to be about 1 per cent heavier than would have been the case if the tax index had been adjusted according to income developments.

measures of devaluation and limitations on wage indexation, the special excise tax was lowered from 18 per cent to 16 per cent, but in September when full indexation was restored for most incomes it was changed from a uniform rate to two rates: 16 per cent for most commodities and 30 per cent for certain consumer durables. Moreover, alcohol and tobacco prices that had been raised by 20 per cent in July were increased by a further 20 per cent<sup>19</sup>. At the same time a special tax on gross profits of private business and a 10 per cent tax on tourists' purchases of foreign currency was introduced. In sum, the September measures (excluding the rise in alcohol and tobacco prices)—in force for the remainder of the year—resulted in a net expenditure increase of Kr. 0.5 billion<sup>20</sup>. With social security benefits and children's allowances raised in both February and September, total transfers rose 65 per cent, part of which was due to a doubling of consumer subsidies<sup>21</sup>. Thus, even taking into account the doubling of revenue from import duties<sup>22</sup> and despite an authorisation to reduce public expenditure by Kr. 3 billion<sup>23</sup>, the budget revenue balance turned into deficit. It is important to note that the net stimulative impact of the fiscal deficit is probably larger than the nominal balance indicates, as revenues have mainly been collected from groups with a relatively low propensity to consume, whereas subsidies, etc., largely favour lower income groups with high spending propensities. Moreover, despite the fact that financial transactions have served to reduce the deficit on the overall cash balance (i.e. change in position vis-à-vis the Central Bank)<sup>24</sup>, the actual stimulus to domestic monetary expansion has been substantially higher as a large part of the public financing requirement is met by depositing the counterpart of public foreign loans with the Central Bank.

### *Money and credit policies*

The development of money and credit deviated considerably from the targets presented in the Credit Budget for 1978<sup>25</sup> (Tables 7 and 11). This may partly be explained by the fact that price forecasts on which the Budget was based were deliberately conservative. Nevertheless, the expansion of domestic credit exceeded the target by a larger margin than justified by faster inflation, and monetary developments in general became more expansionary than expected a year ago. The increase in domestic credit

- 19 As noted earlier, alcohol and tobacco prices are not included in the price compensation index.  
20 The amount is composed as follows (for further details see the Annex):

	<i>Kr. billion</i>
Consumer subsidies	-3.0
Abolition of sales tax on food items	-1.4
Additional net wealth tax	+1.4
Additional tax on higher incomes	+0.4
Special tax on gross profits	+1.5
Special excise tax	+0.4
Tax on foreign currency purchases	+0.2
Total, net	-0.5

21 It has been officially estimated that an increase in consumer subsidies of Kr. 1.7 billion may offset a 1 per cent increase in consumer prices (at 1978 prices).

22 In May, the Parliament voted a 3 per cent «import equalisation tax» that, apart from fiscal purposes, was meant to adjust for differences in competitive positions for trade in certain manufactured products arising from different turnover tax systems.

23 In September the Government was authorised to reduce expenditure in 1978 by Kr. 2 billion in addition to an authorisation from February of Kr. 1 billion. However, these expenditure cuts were only executed to a limited extent.

24 Preliminary data suggest a cash deficit for 1978 of the order of Kr. 3.3 billion (see Table 6).

25 The 1978 Credit Budget, the third of its kind (see Part II), was presented to Parliament in December 1977.

Table 7 Growth of lending

	Credit outstanding end-1977 Kr. bill.	Per cent change from previous year <sup>1</sup>				
		1976	1977	Credit budget 1978	Out-come 1978	Credit budget 1979
<i>By uses:</i>						
Central government	19.94	21.3	14.5	4.3	72.6	-1.9
Municipalities	8.07	44.1	21.6	33.5	42.3	10.3
Enterprises	140.22	26.1	39.4	26.4	40.6	27.5
Households	57.88	38.9	45.7	28.5	41.7	37.1
Other private individuals	7.21	37.2	37.1	34.5	40.8	30.6
Total borrowing	233.32	29.4	37.6	25.6	43.6	26.3
<i>By sources:</i>						
Banking system	130.99	25.7	37.5		52.1	22.5
Investment credit funds	77.33	32.1	34.7		30.7	29.9
Pension funds	25.00	42.5	48.0		39.6	37.8
Total lending	233.32	29.4	37.6	25.6	43.6	26.3

1 For 1976 and 1977 changes refer to differences in stock figures. For 1978, changes in the figures for the banking system are derived from stock figures, while other changes refer to registered transactions.

Source: Central Bank of Iceland.

was almost 45 per cent as compared with a 22 per cent target in the credit budget. Commercial bank lending (excluding rediscounted produce bills) rose by 35 per cent against a target credit ceiling of 29 per cent.

Several factors contributed to the fast expansion in credit. The marked increase in incomes following the 1977 wage settlement and the acceleration of prices generated a strong demand for credit. Although interest rates had been adjusted upwards<sup>26</sup>, real rates became increasingly negative, and with growing inflationary expectations, credit demand was bound to accelerate. The relatively easy access to foreign borrowing was to some extent instrumental in accommodating demand for credit<sup>27</sup> and although it was originally intended in the Credit Budget to scale down capital imports, foreign funds relent added more than 7 per cent to deposit money banks' credit expansion. In addition, the automatic rediscounting of produce bills continued to inflate the banking system's lending. This facility, provided to cover current financial requirements for important industries, mainly fisheries and agriculture, supplied automatic financing *inter alia* in connection with the accumulation of last year's export stocks and by the end of the year the Central Bank's rediscounts of produce bills were 50 per cent above the level twelve months earlier, despite the fact that the rediscount ratio has been lowered 2 percentage points<sup>28</sup>. Moreover, with a faster increase in loans to private individuals, mainly for housebuilding, than to enterprises and with deposits in the first three quarters growing slower than average lending, the liquidity position of the deposit money banks became tight. Indeed, the position vis-à-vis the Central bank was negative throughout most of the year, reaching a low of Kr. 10 billion at the end of August. Due to large export receipts and an improvement in the net foreign position, the liquidity position strengthened considerably in the last quarter and was positive by Kr. 9.6 billion at the end of the year.

26 As explained in detail in Part II, interest rates have been partly indexed in recent years.

27 By the end of 1978 foreign funds relent by deposit money banks stood at Kr. 33.9 billion, compared with Kr. 18.2 billion at the end of 1977.

28 The growing importance and the automatic rediscounting of produce bills made the Central Bank reduce the financing of produce loans from 58.5 to 56.5 per cent of face value in December 1977. (A further reduction to 53 per cent is considered.) The commercial banks' discount rate of 75 per cent remained unchanged.

Table 8 Accounts of the banking system

	Position end-1977 Kr. bill.	Change during period; kronur billion				
		1976	1977	1978		1979 <sup>2</sup>
				Credit budget	Outcome	Credit budget
Foreign assets, net	-15.1	-0.0	0.9		-0.5	12.0
Short-term	6.0	3.0	5.8	5.0	15.5	
Long-term	-21.1	-3.0	-4.9		-16.0	
Domestic assets, net	139.9	21.0	36.7		69.7	40.0
Central Bank credit	17.4	2.3	1.6	-3.6	12.6	-7.8
Deposit money bank credit	100.9	14.7	30.1	28.5	40.2	43.1
Foreign funds relent by Central Bank	3.4	0.8	0.7		1.2	
Foreign funds relent by deposit money banks	18.2	3.2	4.3		15.7	
Public depository funds <sup>1</sup>	-7.1	-1.9	-2.6	3.2	-12.4	6.0
Other items, net	-6.5	-0.0	-1.5		-4.9	-1.3
Money and quasi-money (M2)	111.1	19.1	33.5	35.5	51.9	52.0
Money supply (M1)	33.8	4.4	10.4	9.5	12.4	11.5
Currency in circulation	8.7	1.2	3.1		3.5	4.2
Demand deposits	25.1	3.2	7.3		8.9	7.3
Time and savings deposits	76.4	14.2	22.9	26.0	38.9	40.5
Advance import deposits	0.9	0.5	0.2		0.6	
		Per cent change during period				
Deposit money bank credit		26.2	42.5	29.9	39.9	30.5
Money and quasi-money (M2)		32.6	43.2	33.6	46.7	31.9
Money supply (M1)		23.2	44.6	29.3	36.8	24.9

1 Mainly the Fisheries Price Equalisation Fund and other funds of the fishery sector.

2 Excluding bookkeeping adjustments resulting from exchange rate changes.

Source: Central Bank of Iceland.

As noted above, total lending of the banking system showed a higher rate of increase than deposit bank lending, particularly as a result of increased Treasury overdraft at the Central Bank. Despite the fact that the revenue balance of the Treasury normally improves in the second half of the year, the Central Bank's net claims on the Treasury were up by 78 per cent by the end of December compared with the end-1977 position, due to a cash deficit about twice as high as targeted<sup>29</sup> together with substantial accounting adjustments as a large part of the treasury's debt is exchange rate linked. As noted above, the Treasury borrowing requirement is partly covered by foreign loans with no impact on domestic liquidity and credit development. Moreover, the part of the financing requirement covered domestically by sales of Treasury bills and savings certificates has only had little influence on non-bank liquidity. Treasury Bills are for the most part sold to private banks<sup>30</sup> and therefore do not neutralise the effects on the general public of increased money supply<sup>31</sup>. Finally, with Treasury Bills worth Kr. 1.0 billion issued in 1978, compared with issues of Kr. 2.4 billion the year before, they have been only of minor importance as a source of financing.

With Investment Credit Funds becoming an important source of credit expansion and against the background of a sharp increase in new lending in 1977 (42 per cent or double that envisaged a year earlier), the Credit Budget for 1978 emphasised the importance for the Funds to rely on domestic sources, especially their own resources<sup>32</sup>, and—for the first time in several years—to abstain from foreign borrowing. Further steps towards tying credit terms to the rate of inflation should be taken to improve earnings, but as credit expansion in 1977 had gone far beyond the target, new lending in 1978 was fixed at 22 per cent or 8 percentage points below the anticipated rate of inflation. Preliminary figures for 1978, however, point to a much stronger increase (about 45 per cent). Moreover, it became necessary to take up foreign loans, despite an increase in tax receipts and government transfers and a sharp rise (97 per cent) in loans from the Pension Funds, the most important supplier of credit to the Investment Funds<sup>33</sup>.

Despite the failure to restrain the credit expansion, the growth of money supply has lagged slightly behind the rate of inflation. In the first half of the year the rate of increase in money supply decelerated, but following the turnaround in the balance of payments it started to rise again. By the end of the year, the twelve-month increase in the money supply (M2) amounted to around 42 per cent<sup>34</sup>. For the year on average

29 In April 1978, an agreement was established between the Central Bank and the Treasury on a monthly target for the Treasury's current account with the Bank. It was also agreed that drawings above a certain maximum target limit should bear an interest of 30 per cent (18 per cent below the limit). While average drawings have been above the target since April, they also exceeded the maximum target in the course of the summer.

30 In May 1977 Treasury Bills worth Kr. 1.7 billion were sold to the banks, who 2 months later resold the Bills to the Central Bank.

31 This would, in fact, also require a substantial increase in the interest rate, with probably an important bearing on the whole structure of interest rates.

32 Own resources, mainly earmarked taxes and government contributions, have always accounted for a large part of the Fund's assets. However, the pace of inflation has eroded the importance of these resources and while the ratio of own resources to total assets stood at 49 per cent in 1970 they were down to 41.5 per cent in 1976.

33 Pension funds' loans to the Credit Funds are fully indexed and following a law passed in December 1977 the Pension Funds are now required to invest 40 per cent of their disposable resources in fully indexed assets.

34 Since December 1977 residents who legally obtain and hold foreign exchange have been authorised to open foreign currency accounts with domestic banks. Deposits on such accounts amounted to Kr. 1.1 billion at the end of 1978. While these accounts may have dampened spending propensities and strengthened international reserves they also served to expand money supply.

the increase is somewhat below the nominal increase in GNP, implying a rise in the income velocity of circulation<sup>35</sup>.

### *Incomes policies*

While the Government traditionally has not interfered directly in wage negotiations, it has in various ways sought to mitigate the inflationary consequences of wage settlements. At the beginning of 1978 the Government intervened by reducing automatic wage indexation. At the same time, social security benefits and children's allowances were raised and certain indirect taxes reduced. However, as in previous years when general indexation had been abolished, it was rather quickly reintroduced. Due to strong pressure from wage-earners, the provisions were eased during the spring, and several newly-elected municipal councils (including that of the capital) declared their intention to gradually reinstate full indexation. In the autumn, the new Government reintroduced indexation for most wage earners with a ceiling for highest paid employees. At the same time indirect taxes were lowered and subsidies raised to moderate the rise in prices<sup>36</sup>.

In the fisheries sector, incomes policies are applied through the fixing of raw fish prices to the fishermen and payment out of and into the Fisheries Price Equalisation Fund (FPEF) which determines revenue for the fish processing industry (see Part II). As noted above, at the turn of 1977 the fisheries sector's profit situation was extremely depressed. In January, raw white fish prices were raised by 13 per cent and the FPEF decided on outpayments to the fish processing plants of Kr. 6 billion at an annual rate. The February devaluation of the krona of 13 per cent was implemented to give further support to the sector, and at the same time the estimated exchange gains of Kr. 2.5 billion on existing export stocks were reallocated among owners of fishing vessels, fish processing industries and the FPEF. However, as domestic costs continued to rise rapidly during the summer, many fish processing factories closed down and massive shut-downs were expected in the following months. To restore profitability, the krona was devalued again in September (by 15 per cent) and the exchange gain of Kr. 7 billion on export stocks was allocated between vessel owners, FPEF and fish industries<sup>37</sup>. Moreover, raw white fish prices were raised further in June and September, bringing the total increase during the year to 35 per cent (against 32 per cent in 1977), while outpayments from FPEF to the processing industries reached Kr. 2 to 2.5 billion (1977 Kr. 0.7 billion). According to preliminary figures, profits seem to have improved somewhat in late 1978, although it remains to be seen whether this improvement is a more lasting one.

Profit developments in other sectors are influenced by a system of price controls, which has been in force during most of the post-war period. In the agricultural sector, prices to farmers were raised in four steps through the year by 48.6 per cent altogether, or some 8 percentage points more than the increase in wage rates. Changes in wholesale and retail prices have been adjusted in accordance with maximum mark-ups, determined by a Price Control Committee on the basis of recent developments in domestic costs and import prices. It is difficult to assess the success of this policy but it could have exerted a moderating effect. On the other hand, the extensive use of price controls may have discouraged competition. A new law, in principle revoking price controls and leaving it to the market to fix prices, was voted last year. It is now intended—on an experimental basis—to apply the law on non-durable consumer goods.

35 The increasing velocity of money in Iceland can be observed during most of the 1970s.

36 For details, see the section above on prices and wages, and the Annex.

37 Thus, of the total estimated exchange gains of the two devaluations, Kr. 5.5 billion was allocated to FPEF, 2.0 billion to vessel owners and 2 billion to the fish processing industries.

## II. PROBLEMS OF DEMAND MANAGEMENT IN THE ICELANDIC SETTING—THE EXPERIENCE OF THE 1970s

As in other Member countries, economic developments have been highly volatile in the 1970s, largely as a result of external influences and subsequent domestic policy reactions. With foreign trade amounting to 45 per cent of GNP, Iceland is more dependent on international economic developments than most other Member countries, and the composition of exports, dominated by fish products with a high share of domestic value added, makes her particularly vulnerable to changes in external conditions. Although a secular upward movement in Iceland's terms of trade<sup>38</sup> has been an important factor behind the rapid economic development of the country, the fluctuations in fish prices and fish catches have often made heavy calls on the efficiency of demand management. The present section reviews briefly the experiences of the 1970s—i.e. roughly the last full business cycle—and the extent to which policy-making is being adjusted to cope with the problems facing the economy.

In the 1950s and 1960s fluctuations in fish catches and export prices often coincided to produce large cyclical movements in gross national product and even more pronounced swings in gross national income, defined as GNP adjusted for changes in the terms of trade (Diagram 4)<sup>39</sup>. Using trend deviations of GNP and GNI as indicators, Iceland has experienced 3 major recessions since 1945<sup>40</sup>: in 1949-1952, in 1967-68 and in 1974-75. The most recent recession was exceptional in that it was only provoked by deteriorating terms of trade while marine production continued to grow and thus constituted a stabilising element. The decline in real incomes and domestic demand was therefore relatively modest compared with the previous recessions. The variability of GNP growth rates has consequently narrowed significantly in the 1970s<sup>41</sup>. The terms-of-trade deterioration, however, was more pronounced in 1974/75 than in the previous recession in the late 1960s: the fall from peak to trough in the annual average of the terms of trade amounted to 30 per cent in 1947-1952, to 14 per cent in 1966-68 and to 23 per cent in 1973-74. The annual averages may conceal even sharper movements as illustrated by quarterly data (only available since 1973) where the deterioration between the peak in early 1974 through to end-1975 amounted to one-third<sup>42</sup>. Adding the two effects, movements in real output and the terms of trade, the swing in gross national income in the 1974-75 recession was somewhat smaller than in the two previous recessions, in contrast with the experience of most other OECD countries.

### *Summary of economic performance 1970-1978*

With strong output growth and favourable export price developments, Iceland enjoyed an exceptionally rapid growth of real national income—of some 10 per cent annually—during the three years preceding the oil price increase. Although private

38 For a discussion of possible reasons for this development, see the 1977 Survey of Iceland, pp. 16-19.

39 A comparison reported in the 1972 Survey thus showed a standard deviation of GNP growth rates for Iceland during the 1953-70 period of slightly more than the average growth rate of 4.7 per cent and 2 to 3 percentage points more than for the other Nordic countries.

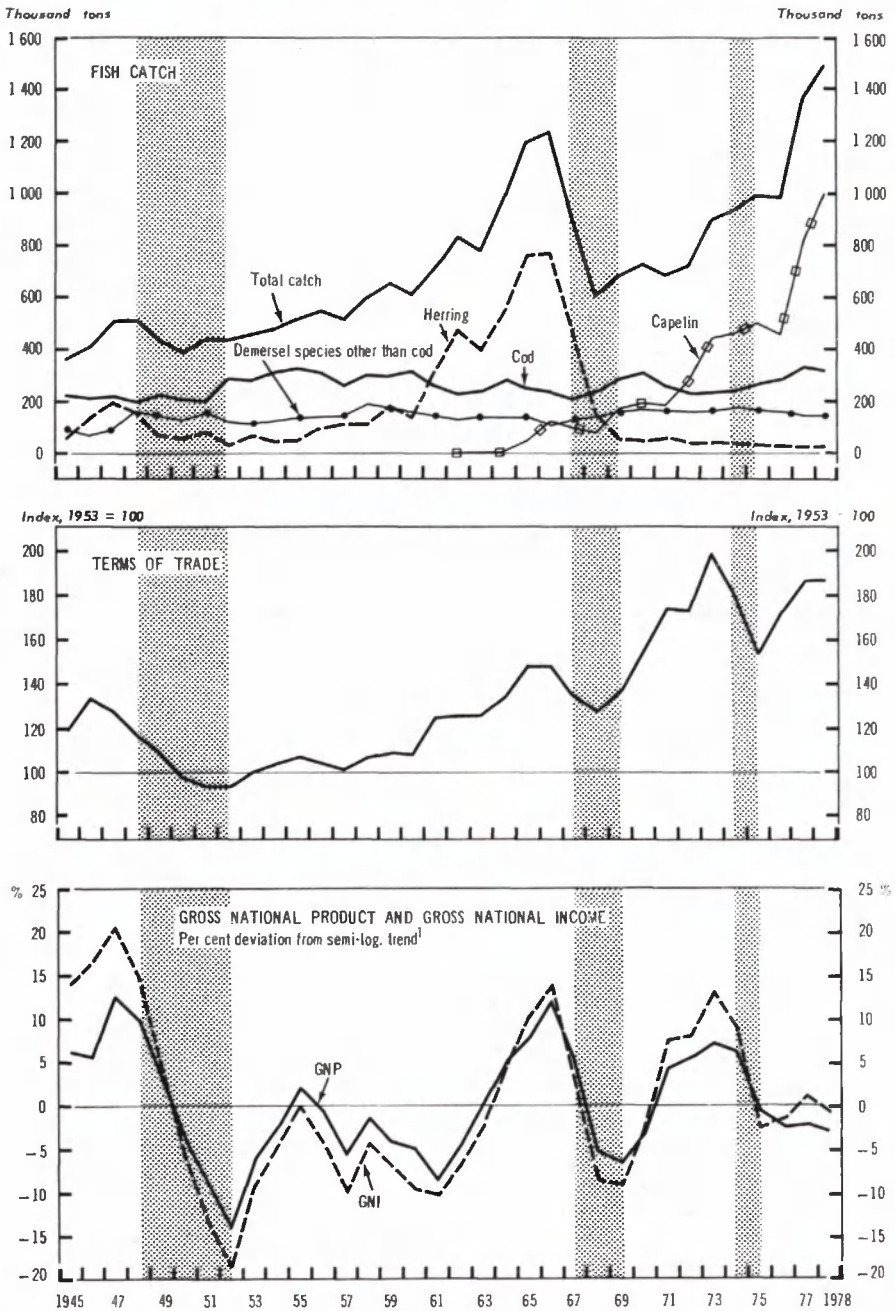
40 In addition, there were two smaller recessions in 1957 and 1961.

41 Over the period 1960-1978 the standard deviation of GNP growth rates amounted only to 1.4 per cent annually, with a mean growth rate of 4.6. However, growth variability has remained above that of other Nordic countries in the same period.

42 Measured by quarterly data the latest terms-of-trade peak in early 1978 was still some 11 per cent below the previous peak in the first quarter of 1974.



Diagram 4 The impact of fish catch and terms of trade on the business cycle



1. The estimated annual trend rate of growth for GNP and GNI respectively over the period 1945-1978 is 4.4 and 4.8 per cent.

Sources: National Economic Institute; OECD.

consumption rose at a similar rate, the current external deficit fell to some 1¼ per cent of GNP in 1973. But the rapid expansion of domestic demand soon led to growing imbalances in domestic product and labour markets and accelerating inflation. While the initial terms-of-trade impact of the oil price increase in late 1973 affected all Member countries, although in varying degrees, Iceland also experienced a fall in export prices as international food prices collapsed in early 1974. Due to the pressures built up in the previous period, the adjustment to the terms-of-trade loss did not get under way until late in 1974, entailing a sharp rise in the current external deficit to some 11 per cent of GNP in both 1974 and 1975. Though various incomes policy measures were taken, the adjustment process necessitated substantial depreciations of the krona; this again contributed to pushing the annual inflation rate to a record 50 per cent in 1975. In 1976, with the terms of trade starting to recover, the economic performance improved considerably: the external deficit fell—to 1.7 per cent of GNP in 1976 and 2.6 per cent in 1977—and the rise in prices decelerated to below 30 per cent by mid-1977. However, the significant decline in real earnings which made this adjustment possible entailed an explosive outcome of 1977 wage settlements, and a marked acceleration of inflation in 1978. The 1978 balance-of-payments outcome turned out to be much better than could have been expected due to favourable market conditions and lower capital gross imports.

On the basis of various macro-economic performance indicators, Iceland in many respects fared better during the international recession in the mid-1970s than many other smaller OECD economies, particularly the other Nordic countries. With a partial recovery of the terms of trade, Iceland has also experienced much more favourable conditions than New Zealand, the area's other smaller economy mainly dependent of primary goods exports<sup>43</sup>. Both 1977 and 1978 saw GNP growth rates well above the average for European Member countries; only Norway experienced a similar performance but largely as a result of the rapidly growing oil sector. Unemployment, at ½ per cent of the labour force, has remained one of the lowest in the area. With the current external balance in surplus in 1978 the balance-of-payments adjustment problem has—as in Finland—been tackled somewhat more successfully than in the Scandinavian countries in spite of the exceptional size of the deficit in 1974/75. However, the price performance has been much more unfavourable in Iceland than in most other Member countries, partly due to the instability of Iceland's exports and partly due to the policy response.

### *Changing composition of export production*

The composition of output has an important influence on the movement of the terms of trade. The European and U.S. markets for frozen and fresh fish have been relatively stable, and prices on these products have been on a fairly steady upward trend throughout most of the period. For salted fish Iceland's markets have occasionally been subject to quantitative restrictions and prices have been rather depressed since 1974. Fish meal and oil are the most volatile of Iceland's export products. Prices of these products fell by two-thirds between 1973 and 1975 and by 1977 had regained only half of this loss. Moreover, the size of the fish catch for production of meal and oil has been a major source of instability; temporarily abundant herring catches in the mid-1960s and the strong rise in the capelin catch since the early 1970s are prominent examples. The large fluctuations in prices of fish meal and oil are probably related to

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43 Like Iceland, though with exports dominated by farm products, New Zealand experienced a significant cut in export prices in the 1974/75 recession and a deterioration in the terms of trade of roughly one-third. However, subsequent foreign trade price developments have entailed only a small recovery of New Zealand's terms of trade and at an estimated \$750 million in 1978 the current balance of payments deficit has remained one of the highest in the area relative to GNP (4¼ per cent).

Table 9 Principal economic performance indicators

	1971	1972	1973	1974	1975	1976	1977	1978
<i>Real GNP/GDP</i>								
Per cent annual change								
Iceland	12.8	5.7	6.1	3.5	-2.1	2.5	4.8	4½
Denmark	3.6	4.3	2.8	0.2	-1.1	5.3	1.8	1½
Norway	4.6	5.1	4.1	5.3	3.5	6.0	4.1	3
Sweden	0.7	2.6	3.5	4.0	0.9	1.5	-2.5	2½
Finland	2.4	7.0	6.5	4.3	0.9	0.3	0.5	2½
OECD Europe	3.7	4.4	5.7	2.1	-1.4	4.5	2.2	2½
OECD Total	4.0	5.5	6.1	0.4	-0.6	5.2	3.7	3½
<i>Consumer prices</i>								
Per cent annual change								
Iceland	6.8	10.4	22.1	43.0	49.0	32.2	30.5	44
Denmark	5.8	6.6	9.3	15.3	9.6	9.0	11.1	10
Norway	6.2	7.2	7.5	9.4	11.7	9.1	9.1	8
Sweden	7.4	6.0	6.7	9.9	9.8	10.3	11.4	10½
Finland	6.5	7.1	10.7	16.9	17.9	14.4	12.6	7½
OECD Europe	6.3	6.5	8.6	12.9	12.7	10.9	11.5	9½
OECD Total	5.3	4.9	8.0	13.6	12.2	9.0	8.9	8
<i>Current balance</i>								
Per cent of GNP/GDP								
Iceland	-7.0	-1.5	-1.2	-11.1	-11.3	-1.7	-2.6	1½
Denmark	-2.4	-0.3	-1.7	-3.0	-1.5	-4.8	-3.8	-2½
Norway	-4.1	-0.4	-1.8	-4.8	-8.5	-12.1	-14.0	-5½
Sweden	0.6	0.7	2.4	-1.7	-2.3	3.6	-3.6	-¾
Finland	-3.0	-1.0	-2.2	-5.4	-8.1	-4.1	-0.2	1½
<i>Registered unemployment</i>								
Per cent of total labour force								
Iceland <sup>1</sup>	0.6	0.5	0.4	0.4	0.7	0.6	0.4	¾
Denmark <sup>2</sup>	1.7	1.7	1.1	2.5	6.0	6.1	7.7	8½
Norway <sup>1</sup>	..	0.9	0.8	0.6	1.1	1.1	0.9	1
Sweden <sup>1</sup>	2.6	2.8	2.4	2.0	1.6	1.6	1.8	2½
Finland <sup>1</sup>	2.3	2.5	2.3	1.7	2.2	4.0	6.1	7½

1 Per cent of total civilian labour force.

2 Per cent of dependent labour force.

Note: 1978 data for Iceland are based on estimates by the National Economic Institute; for other countries 1978 numbers are largely preliminary.

Sources: National publications and OECD.

the primary product nature of these products—with close substitutes in various kinds of oil seeds—whereas Iceland's other export products are sold for final consumption with less volatile substitutes (mainly poultry and beef) and probably smaller cross-price elasticities as well. Although the share of meal and oil in total exports has increased again in the 1970s—making Iceland more vulnerable to primary goods price movements—the increasing diversification of industry has pulled in the other direction. Before 1969, non-fish products accounted for only 10 per cent of exports; by the early 1970s the share had increased to 15 per cent and by 1977 it was 22 per cent. The diversification can primarily be attributed to the aluminium smelter which came into operation in 1969. Wholly foreign-owned, the aluminium smelter contributes to Iceland's GNP by a production levy, wages and salaries (it employed around 660 persons in 1978) and electric power purchases. Since the basic input (alumina) is imported, the share of domestic value added in exports is evidently much smaller than for fish exports, and the net export revenue for Iceland is less dependent on cyclical swings in market prices. Apart from aluminium, wool products, diatomite and other products now account for 7 per cent of export revenue, also contributing to more stability in export prices.

### *Real wages and demand in the adjustment process*

Given the magnitude of the imbalances which had developed in connection with the swing in the terms of trade in 1974, the subsequent adjustment meant a sharp departure from the previous upward trend in demand and the standard of living. Between 1974 and 1976 total domestic demand fell by as much as 11 per cent. This was primarily brought about by a sharp decline in real earnings and private consumption, but fixed investment also fell sharply from its all-time high share (almost one-third) of GNP in 1974/75. The role of real wages in this adjustment process is illustrated by Diagram 5. The notation of a "real wage gap" rests on the assumption that under certain conditions a terms-of-trade loss must be reflected in a fall in real wages relative to output. These conditions are that factor income shares and spending propensities do not change and that former employment and balance-of-payments positions should be restored. Indeed, the "wage gap" narrowed significantly in both 1975 and 1976, helping to keep the growth of private consumption below that of national income, defined as gross national product adjusted for changes in the terms of trade. As gross fixed investment also fell more than GNI, the overall "demand gap" in 1976 narrowed even more than the "wage gap". The subsequent widening of the "demand gap"—and hence the current deficit—in 1977 was due to both a pick-up of fixed investment and a new widening of the "wage gap". The latter continued in 1978, but a further decline in fixed investment produced a reduction of the "demand gap" and hence an improvement in the foreign balance.

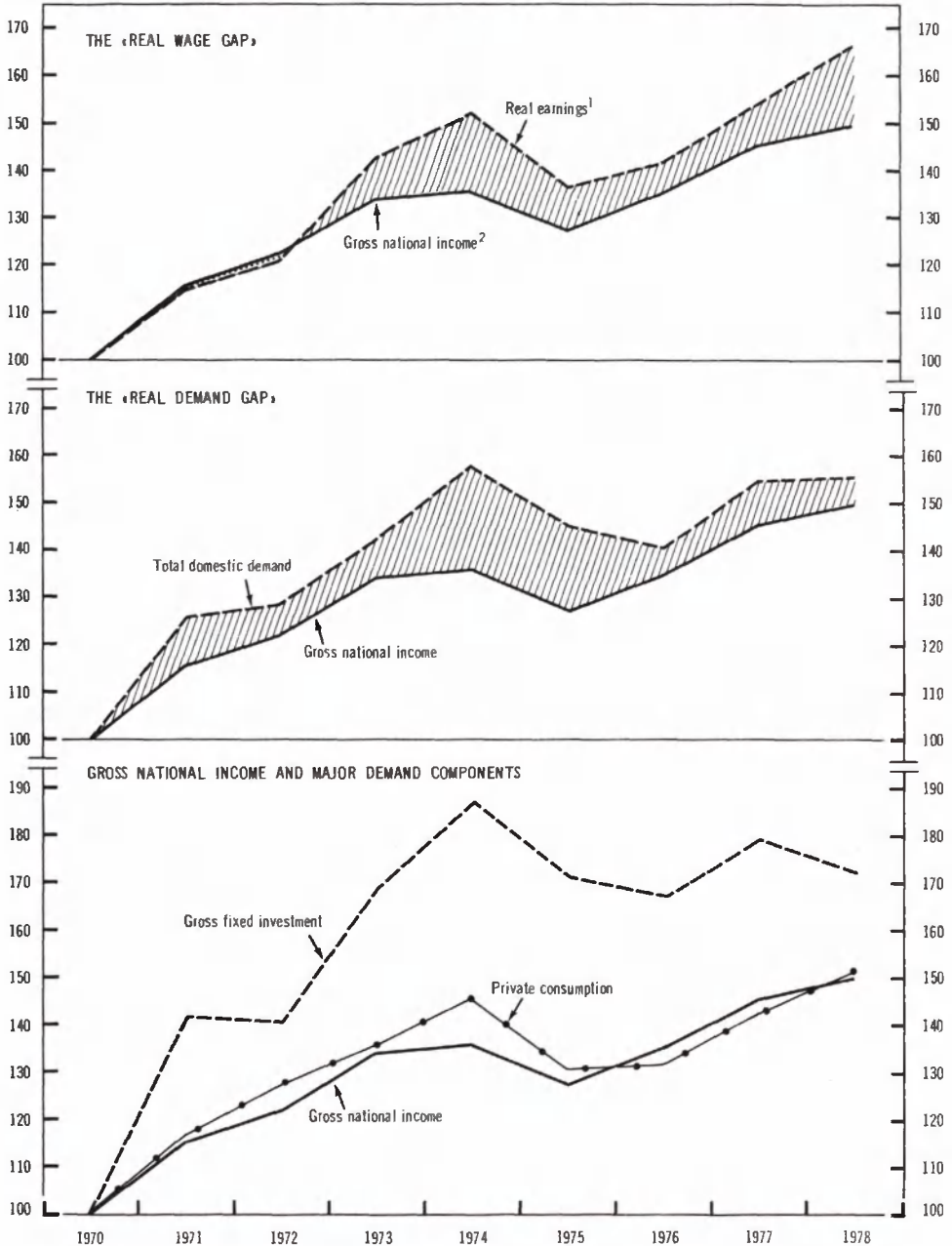
### *The role of demand management policies*

#### a) *Traditional instruments*

Traditionally, *fiscal policy* has not been an important tool of stabilisation policy in Iceland. In the period under review, the budgeted balance of current and capital revenue and expenditure—excluding purely financial transactions—has typically shown a small surplus, apparently little related to the cyclical position of the economy. However, given the continuous pressure on resources largely due to low and probably falling saving propensities in the private sector, as witnessed by the persistent—though fluctuating—external deficits, a general objective of public finance has been to raise overall savings to achieve better balance in the economy. Nevertheless, the size of the planned budget surpluses has been rather modest in relation to needs. With a planned revenue surplus of Kr. 6.7 billion (1 per cent of GNP) the voted budget for 1979 seems to attribute a more active role to fiscal policy as a demand management instrument. Budget outcomes have varied considerably more than budget plans, but on several occasions the discrepancy between budget outcomes and plans seems to have been procyclical rather than stabilising. Thus, in both 1971 and 1973 the budget position deteriorated in spite of sharp increases in terms of trade and national income<sup>44</sup>. In 1974 and 1975, the sharp increase in public expenditure undoubtedly served to delay the balance-of-payments adjustment process. It is important to note that since the 1974-75 recession was caused by a terms-of-trade loss rather than a fall in the fish catch, the impact on GNP, and hence employment, was relatively small and the need for employment supporting public expenditure increases less pressing. On the positive side the sharp swing in the budget balance in 1976 of 4½ per cent of GNP provided a major contribution to reducing the external deficit and inflationary pressures. The impact on unemployment was insignificant. Budgetary developments in 1977 as well as preliminary estimates for 1978 suggest that public finance again

44 It should be noted that part of the 1973 budget shortfall was related to special measures taken after the volcanic eruption on the Vestmannaeyjar.

**Diagram 5 The real wage and real demand gaps**  
Volume indices, 1970 = 100



1. Deflated by implicit deflator for private consumption.

2. Gross national product at constant 1969 prices adjusted for changes in terms of trade.

Sources: National Economic Institute; OECD.

Table 10 Fiscal policy indicators  
Central authorities

	Cyclical position: % dev. of GNI from trend	Budget revenue balance <sup>1</sup>			Shares in GNP					
		Budgeted Kr. billion	Outcome Kr. billion	Change in outcome in % of previous year's GNP	Revenue			Expenditure		
					Direct taxes	Indirect taxes	Total revenue	Current	Capital	Total expenditure
1970	-2.4	0.21	0.42	2.2	4.0	18.1	22.7	15.8	5.9	21.7
1971	7.8	0.51	-0.34	-1.8	4.5	19.3	24.1	18.1	6.6	24.7
1972	8.3	0.35	0.13	0.9	7.2	19.5	27.1	20.5	6.3	26.9
1973	13.4	0.03	-0.25	-0.6	6.7	18.9	26.0	20.6	5.6	26.2
1974	9.0	0.66	-3.29	-3.2	5.1	21.6	27.0	23.1	6.2	29.3
1975	-2.3	1.44	-7.53	-3.0	4.2	22.3	26.9	23.1	7.7	30.8
1976	-1.5	1.49	0.82	4.4	4.4	22.4	27.2	20.5	6.4	26.9
1977	1.3	0.81	-2.54	-1.3	3.8	22.6	26.9	21.5	6.1	27.6
1978	-0.6	1.00	-5.00	-0.7	4.9	22.6	27.9	23.9	4.9	28.8

<sup>1</sup> Balance before financial transactions (i.e. current saving less gross fixed investment and capital transfers).

Sources: National Economic Institute and OECD.

became expansionary (by 2 per cent of GNP over the two years combined) and undoubtedly contributed to the renewed acceleration of inflation.

There are several reasons for the apparent lack of built-in budget stabilisers. Most important, perhaps, is the structure of the budget's revenue side. The share of direct taxes—4 to 5 per cent of GNP in recent years—is exceptionally small. A fiscal reform in 1972 aimed at increasing the share of direct taxes but this policy was reversed already in 1974. The 1979 Budget again aims at raising the share of direct taxes in total revenue. Even when adding direct taxes received by local authorities—up to 11 per cent of the tax basis—the overall share is small compared with other countries. Since direct taxes are levied on previous year's incomes, tax revenue measured in relation to current incomes may decline considerably in periods of rapid inflation. The fiscal authorities have some discretionary power, by means of a "tax-index" applied to both deductions and income brackets, to vary the overall tax ratio, but this instrument has been little used. Instead, the central authorities have relied on a broad spectrum of indirect taxes and fiscal tariffs, particularly on imported consumer goods<sup>45</sup>. Since indirect taxes enter fully into the wage-regulating cost of living index, attempts to tighten fiscal policy by indirect tax increases tend to cause an acceleration of inflation and have little impact on real demand. Another feature hampering budgetary management is the high share of earmarked taxes for various investment credit funds. The budget has also frequently been used together with incomes policy arrangements where various tax concessions and/or consumer subsidies have been offered to reduce wage claims or to compensate for less than full price compensation. These arrangements have also tended to weaken the budget whereas the impact on inflation may not always have been as dampening as intended.

The impact of rapid inflation on the budget is difficult to assess. The fact that direct taxes are levied on previous year's incomes constitutes a destabilising element and tends to lower "real" taxes in periods of accelerating inflation unless offset by an adjustment of the tax index and/or the incomes basis for tax collections<sup>46</sup>. However, indirect taxes provide an element of "built-in stabiliser" since their elasticity with respect to private consumption is probably above 1 given the high rates on many consumer durables. On the expenditure side, public sector wages, pensions and social security outlays will normally tend to increase roughly proportionately with inflation—and more or less automatically—whereas appropriations for investment and capital transfers often require new legislation to be raised above the budgeted amounts. In sum, for the central authorities, inflation will not necessarily weaken the budget position due to automatic effects; a certain strengthening may even take place. But discretionary action in the form of tax-based incomes policy or higher consumer subsidies has tended to cause a deterioration of the budget position in step with faster inflation. For local authorities, where information on budgetary developments in recent years is incomplete, inflation is likely to exert a destabilising impact on total budgetary transactions because the major revenue source is direct taxes levied on previous year's incomes.

By most standards, *monetary policy* has tended to accommodate the increase in prices. And given the quality and nature of instruments available, attempts to check

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45 Before Iceland's membership of EFTA in 1970, general customs duties were very important (30 per cent of total revenue in 1970; 16 per cent in 1976). The gradual reduction of tariffs on industrial goods (to be phased out completely end-1979) has led to a significant change in the structure of taxes, with frequent increases in the general sales tax and particularly heavy tax rates on cars, beverages and tobacco (as in other Nordic countries). Such levies are considered fiscal tariffs and are generally not prohibited in trade agreements.

46 A report on a Pay-As-You-Earn (PAYE) tax system was commissioned last year by the government, but no decision on its introduction has been taken.

the development of real demand have not been very successful. Diagram 6 shows that the growth of the money supply (M2) accelerated from some 20 per cent annually in the early 1970s to around 30 per cent in the 1974-76 period and more than 40 per cent over the last two years. However, except for 1977, the growth of M2 has generally been slightly below that of nominal GNP implying a steady increase in the velocity of circulation. This phenomenon undoubtedly reflects the impact of inflation and negative real interest rates on spending propensities of both households and business. In conditions of accelerating inflation, money demand relationships can thus be expected to result in lower cash balances because of the increasing cost of holding money in any form rather than physical goods.

The rapid growth of monetary aggregates can to some extent be related to the lack of financial stability resulting from budgetary transactions. This was particularly the case in 1974 and 1975 when the overall cash requirement of the central government accounted for 15 and 22 per cent respectively of the increment to the banking system's total credit volume. Although this contribution has subsequently fallen somewhat, it has remained an obstacle for monetary management. Another major source of money supply growth has been commercial banks' access to borrowing abroad. Indeed, the importance of foreign funds relent seems to have increased over time (Diagram 6)<sup>47</sup>. Moreover, the share of foreign funds relent by the banking system seems to be closely correlated with the rate of growth of total bank credit. Thus, in 1974 total bank credit including relent foreign funds rose by more than 60 per cent against the 45 per cent growth of deposit money bank credit excluding such relending. Indicators available for 1978 suggest that total bank credit accelerated sharply, partly due to a renewed increase in foreign borrowing. A final factor which has contributed to the speedy monetary accommodation is the growing importance of rediscounted export produce bills. Measured at the Central Bank level<sup>48</sup>, these bills accounted for around 20 per cent of total bank credit in 1978, somewhat less than in 1977 but 3 to 4 times more than in the early 1970s. Since the rediscounting of such bills is automatic, the monetary system has tended to accommodate most variations—both real and nominal—in output of exporting sectors, fisheries in particular.

As often pointed out in previous Surveys, monetary policy instruments in Iceland are generally insufficient to control money and credit developments<sup>49</sup>. However, the period under review has seen a few changes which could increase the scope for monetary control. The most important innovation is probably the credit budget, presented for the first time in late 1975 for the subsequent year. Prior to 1976, credit control mainly relied on a voluntary credit ceiling for deposit money banks, exempting rediscounted produce bills. The credit ceiling was generally exceeded by large margins. Like the Norwegian approach, the credit budget attempts to set up comprehensive guidelines for lending and borrowing in all sectors of the economy

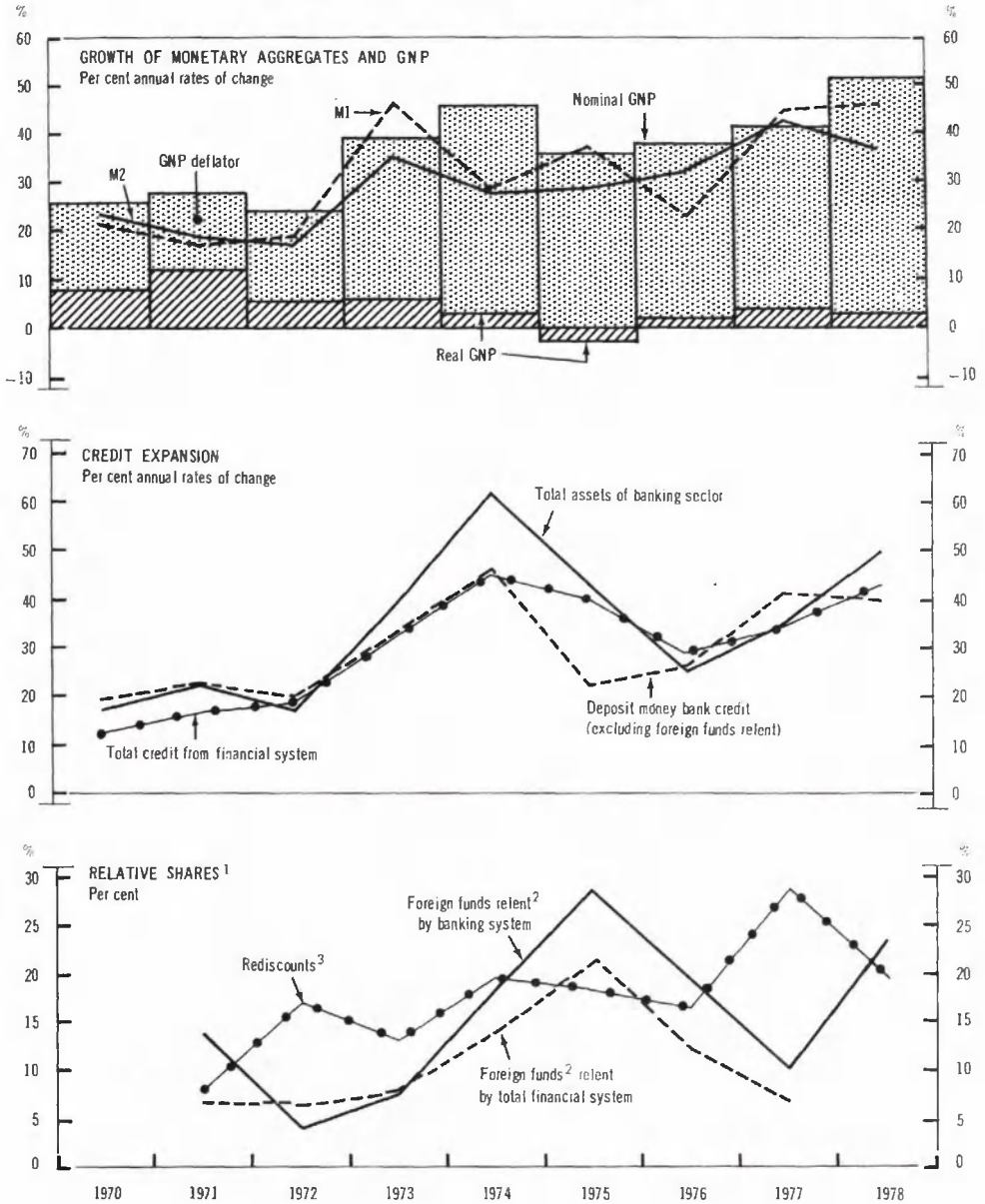
47 The structure of the financial system is probably also an obstacle for monetary management. The banking system only accounts for 55 per cent of total lending, with investment credit funds (34 per cent) and pension funds (10 per cent) accounting for the rest. Through various capital transfers and earmarked taxes, the investment credit funds are subject to control by the authorities and the volume of borrowing abroad for relending purposes has to be approved by the Government. The activities of the pension funds are to a large extent outside the control of monetary authorities, but in recent years their lending has been increasingly directed towards the investment credit funds.

48 The relative importance for the commercial banks is somewhat higher since only 75 per cent of the banks' credit advance can be rediscounted. The banks themselves also finance only 75 per cent of the nominal bills, so that the Central Bank's rediscount facility amounts to roughly 56 per cent of the bills' value.

49 The main direct instrument of the monetary authorities is a compulsory reserve requirement on total deposits, raised from 20 to 22 per cent in 1973, to 23 per cent in 1975 and to 25 per cent in 1976 (its legal maximum). The adjustments have generally taken place by applying a 30 per cent marginal reserve requirement.



Diagram 6 Money and credit developments



(including foreign borrowing) consistent with a forecast of real and nominal domestic demand as well as the balance of payments. A straightforward comparison of credit budget targets and outcome does not suggest much success although the authorities have repeatedly emphasised the usefulness of the exercise for the co-ordination of monetary policy decisions. If inflation is higher than assumed, monetary policy is faced with a difficult choice: if monetary targets are maintained, the financial system will be strained and credit will have to be rationed; if monetary policy is accommodating, as has been the practice, the credibility of the whole approach is reduced. Since the credit budget is primarily based on voluntary agreements between the Central Bank and other financial institutions, only moral suasion can prevent the volume of credit supply from being adjusted to finance the higher rate of inflation. However, Table 11 suggests that the rise in credit has been adjusted even more than justified by the higher rate of inflation, largely due to more extensive foreign borrowing.

Table 11 The credit budget : targets and outcome 1976-1978  
Per cent annual rates of change

	1976		1977		1978	
	Target	Outcome	Target	Outcome	Target	Outcome
Assumed inflation rate	25	32½	24	30½	31	44
M1	— <sup>1</sup>	23½	24½	44½	29½	36½
M2	13½	32½	24½	43½	33½	46½
Total domestic assets of banking system	8½	25½	15½	35½	30½	50
Deposit money bank credit	14½	26½	26½	42½	30	40

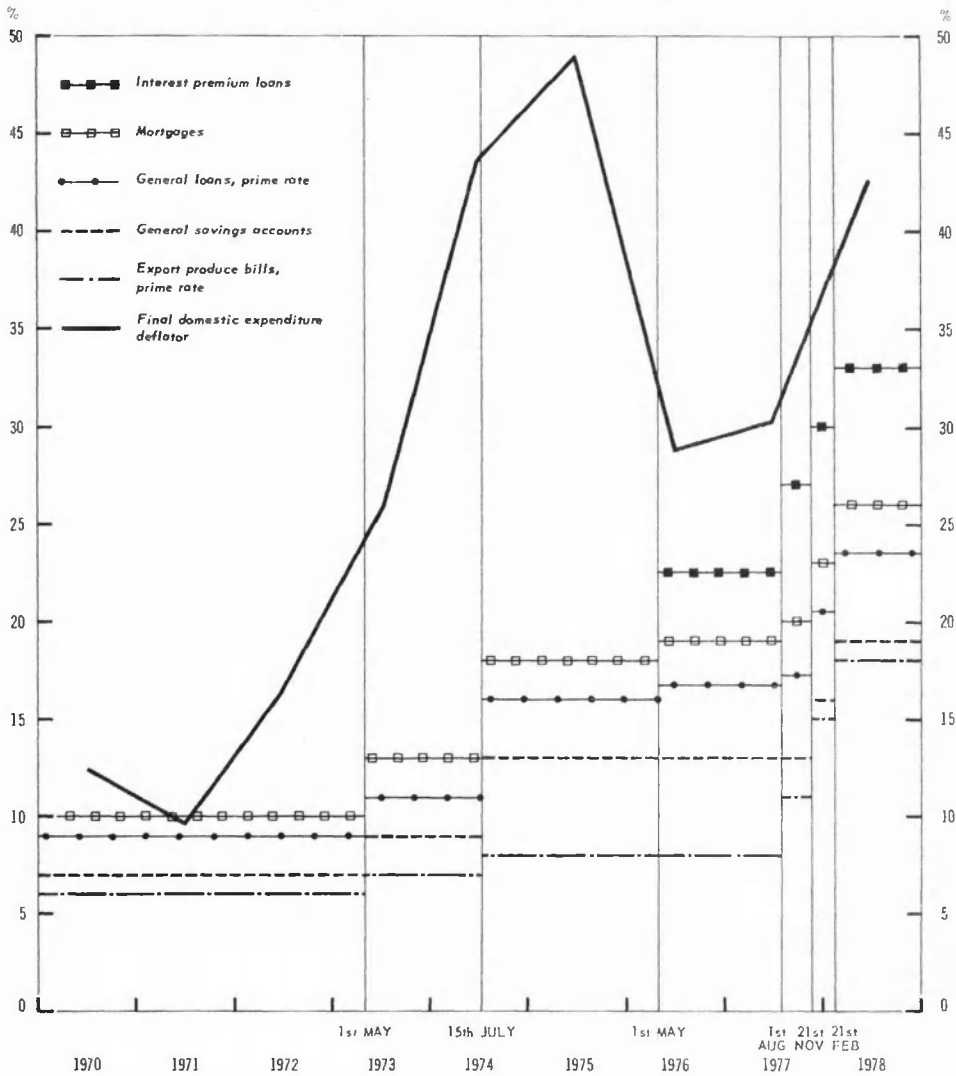
<sup>1</sup> Not available.

Source: Submission to OECD.

A second major change in monetary policy in recent years is the recognition that voluntary agreements on the availability of credit are not a very reliable instrument, particularly since the compulsory reserve requirement ratio reached its legal maximum of 25 per cent in 1976. Since 1973, a policy of gradually raising the cost of credit has thus been initiated. Before 1973 interest rates had hardly varied since the early 1960s when the first attempt to raise the cost of credit was made. As the initial interest rate adjustments in 1973 and 1974 failed to match the acceleration of inflation, the negative real interest rates widened significantly up to 1975 (Diagram 7). But the subsequent moderation of inflation and the introduction of price compensation factors (i.e. partial indexation) in 1976 along with other increases in basic rates reduced the disincentive to save. With the acceleration of inflation last year, the price compensation factor was frozen at its February 1978 level<sup>50</sup>, again resulting in widening negative real interest rates. Except for some delay in adjusting interest rates on export produce bills, the whole spectrum of interest rates was raised by between 10 and 15 per cent for both lending and deposit rates between 1973 and 1978 (although rates on demand accounts have not changed). Outside the banking system, the adjustment of

<sup>50</sup> Initially put at 6 per cent (resulting in a total rate of interest on one-year savings accounts of 22 per cent), the price compensation factor was intended to raise the interest rate by 60 per cent of increments to the mid-1976 inflation rate (26 per cent).

Diagram 7 The structure of interest rates



Sources : Central Bank of Iceland.

interest rates has mainly taken the form of legal obligations for pension funds to index lending to investment credit funds, resulting in an increasing share of indexed lending from the latter. The Government also issues index-linked bonds providing an opportunity for both individuals and pension funds to protect the value of savings. Among the methods applied, indexation of the loan principal may be preferable to the interest rate compensation factor used in the banking system since the latter puts heavy strain on the financial system because of the high debt service charge. This is not the case with indexation of loan principals; here it is rather the redemption period which is lengthened.

*Incomes policy* has been frequently used in this period and, notwithstanding the high rate of inflation compared to other OECD countries, occasionally with some measure of success. Thus, the stabilisation efforts of 1974 and 1975 largely relied on incomes policy, through a temporary replacement of wage indexation by flat wage adjustments, tax concessions (in 1974) and threshold clauses (in 1975-76). Except for a brief spell of industrial unrest in the spring of 1975, these arrangements were generally accepted by labour. This policy resulted in a marked downward adjustment of real wage rates (of almost 15 per cent). After some consolidation in the course of 1976 and the first half of 1977—by August 1977 the inflation rate had fallen to 27 per cent year-on-year, the lowest figure for four years—and in spite of fiscal concessions including direct tax cuts and higher consumer subsidies, the mid-1977 wage settlement resulted in an excessively large step increase in basic wages and restored full indexation for most categories of workers. As explained in Part I the authorities then again had to interfere more directly in the wage adjustment process, and at the beginning of 1979 policy discussions are again centred on incomes policy issues. In addition to wage policy, price controls have been constantly in operation throughout this period, mainly aimed at mitigating the effects on profits (via modifications in mark-ups) of rapid inflation and frequent devaluations.

#### b) *The Fisheries Price Equalisation Fund*

The FPEF constitutes perhaps the potentially most efficient instrument for evening out the impact of shocks to the economy through fluctuating fish export prices. The Fund was established in 1969 (although the use of price equalisation methods started somewhat earlier) with the aim of reducing fluctuations in the prices actually received by the sector and thereby weakening one of the most important sources of financial instability in the economy. On the basis of a reference price set by the Board of the FPEF at the beginning of each production period, part of price increases is paid into the Fund, forming the basis for partial compensations out of the Fund in periods of falling prices. Originally, payments into or out of the Fund amounted to 50 per cent of the difference between market and reference prices; since 1974 the share has been up to 75 per cent for the most important branches of the sector. However, the impact of the Fund's operations has so far been rather limited.

The comparison of market prices and the reference prices of the FPEF shown in Table 12 suggests that the reference prices generally have been raised too quickly in response to improved market conditions, so that payments into the Fund have been rather small. For frozen products, only the first two years shown (1970 and 1971) saw significant payments into the Fund (of around 20 per cent of the market price) and there were significant outpayments from the Fund in the 1974-75 period as market prices fell significantly. For salted products, the reference prices have generally also been raised fairly rapidly in response to higher market prices, but the Fund did not make actual outpayments until 1977. For both frozen and salted products the main consideration of the Fund seems to have been to secure short-term profitability of processing firms—continuously threatened by rapidly rising wage costs—rather than the need for levelling out price fluctuations over the medium term. The original purpose of the Fund has been more closely observed in the fish meal and oil sections of the Fund, also subject to much larger price fluctuations than the more consumer market oriented salted and frozen products.

#### c) *Exchange rate adjustments*

With insufficient demand management—which over the 1970-1978 period on occasion may have resulted in pro-cyclical budgetary and monetary policies—exchange rate changes have constituted a major weapon of stabilisation policy. Between

Table 12 Comparison of market and reference prices of the FPEF

	1970	1971	1972	1973	1974	1975	1976	1977 <sup>1</sup>
<b>I Frozen fish products</b>								
Market price (Kr. per lb.)	24.77	35.29	37.36	53.75	63.13	102.89	146.86	201.93
Reference price (Kr. per lb.)	20.39	27.82	36.79	50.14	67.27	112.08	149.88	193.38
Ratio between reference and market prices	0.82	0.79	0.98	0.94	1.07	1.09	1.02	0.96
<b>II Saltfish products</b>								
Market price (Kr. per kg.)	38.18	53.38	61.28	90.09	157.59	227.73	279.13	310.67
Reference price (Kr. per kg.)	34.26	40.76	59.25	81.09	115.78	206.33	259.41	327.90
Ratio between reference and market prices	0.90	0.76	0.97	0.90	0.73	0.91	0.93	1.05
<b>III Oil</b>								
Market price (Kr. per kg.)	17.90	19.25	11.76	21.28	38.05	53.94	57.55	80.34
Reference price (Kr. per kg.)	10.57	13.82	16.69	19.62	32.36	55.78	55.54	77.80
Ratio between reference and market prices	0.59	0.72	1.42	0.92	0.85	1.03	0.97	0.97
<b>IV Meal</b>								
Market price (Kr. per kg.)	17.83	18.59	16.37	39.70	41.93	38.55	64.51	99.99
Reference price (Kr. per kg.)	14.94	17.80	18.28	25.99	48.26	27.75	64.58	83.09
Ratio between reference and market prices	0.84	0.96	1.12	0.65	1.15	1.24	1.00	0.83

<sup>1</sup> Preliminary.

Source: National Economic Institute.

1970 and 1973 the krona's value measured in effective terms<sup>51</sup> fell by some 73 per cent, implying an increase in the average price of foreign currency by 3.7 times over the 8 years, or roughly 18 per cent annually. By far the biggest part of the depreciation took place since 1974. As shown in Diagram 8 the depreciations were particularly steep in 1974 and 1978, years of record inflation rates. This instrument has been used only once in the opposite direction: with the terms of trade improving rapidly, the krona was revalued by 6 per cent in April 1973, and under conditions of a controlled float it subsequently rose further, so that the effective rate appreciated by 12½ per cent between early 1973 and early 1974. The purpose of the appreciation was to remove a source of inflation and instability in the face of rising export prices while spreading the benefits of terms-of-trade gains to other sectors of the economy via lower import prices. To assist this process, a 2 per cent rollback in prices of virtually all goods and services was decreed.

Exchange rate policy has partly relied on a series of large devaluations, generally vis-à-vis the dollar. These steps have had important announcement effects and have often constituted an element of major policy packages. In addition, the Central Bank has since 1974 operated so as to ensure a downward float of the krona by a few percentage points per month, roughly in line with the inflation differential between Iceland and other OECD countries. Indeed, as shown in Diagram 8, Iceland's inflation rate deflated by the inverse effective exchange rate (which measures the price of foreign currency) over the 1970-78 period has been close to the average inflation rate for other Member countries. The only years when this «purchasing power parity» rule does not seem to hold are 1974 (14 per cent difference) and 1977 (7½ per cent difference), when the krona may be said to have been overvalued; indeed, both years witnessed a widening of the wage gap (as mentioned above) and a deteriorating foreign balance.

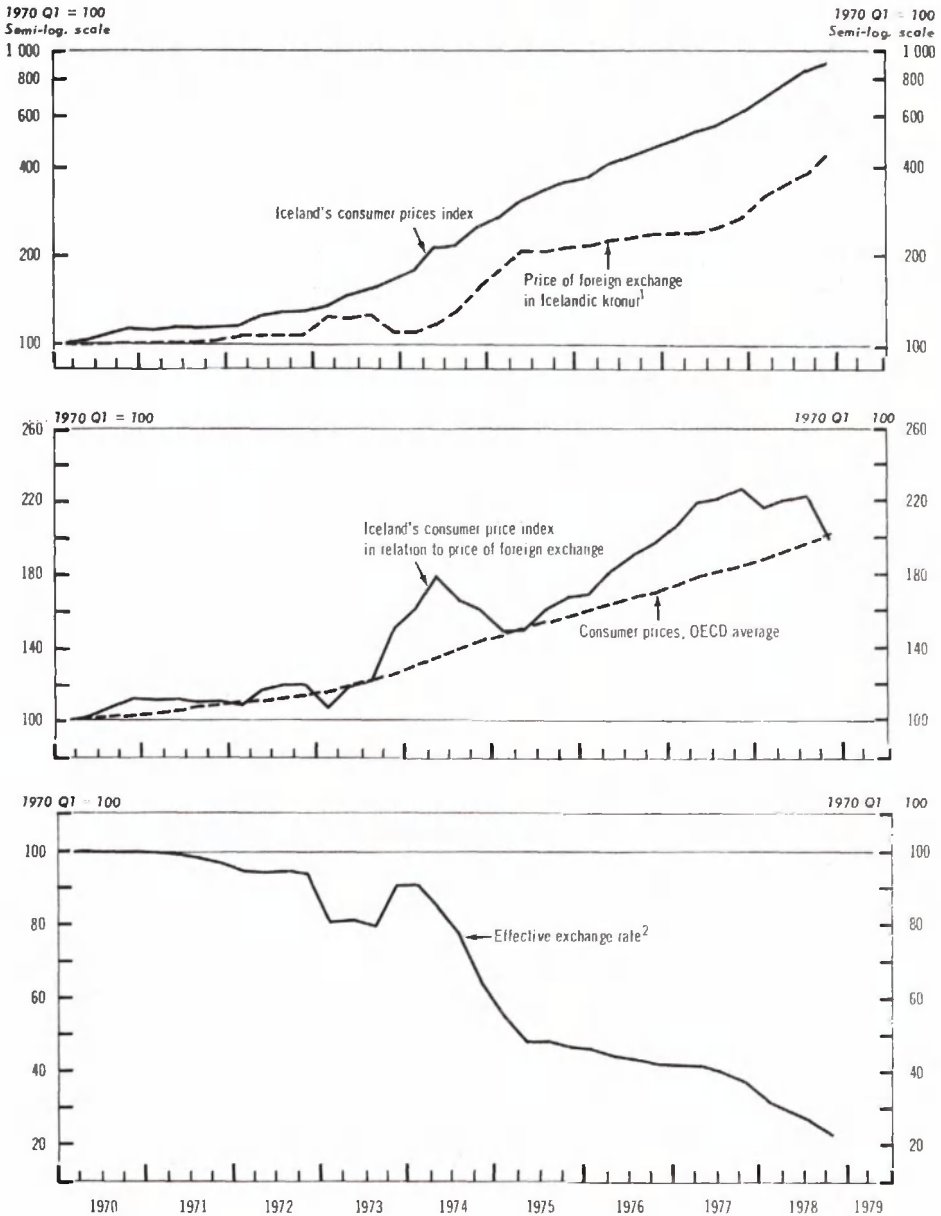
### *The inflationary trade-off*

The shocks imparted to the economy through foreign transactions and the choice of adjustment policies help to explain Iceland's exceptional inflationary experience. Although the mechanisms differ, it is interesting to note that both improvements and deteriorations in the terms of trade and in the level of export production tend to accelerate inflation. Higher fish catches or export prices lead to higher incomes of fishermen and fish processing firms. The increasing value of output provides a basis for stronger credit demand through the rediscounting of produce bills. Higher incomes in the fisheries sector lead to stronger wage claims in other sectors which are difficult to resist in the close-to-permanent situation of strong demand pressures and heavy wagedrift. The cost-push spiral tends to work its way through the economy extremely quickly, due to the general use of indexation procedures. Also, the cost of food will rise through the wage-component of agricultural prices. As profits of exposed sectors outside fisheries—exporting or import-competing—will normally be squeezed and relative import prices will tend to move in favour of imports, a corrective devaluation is unavoidable, and this in turn gives an additional twist to the inflationary spiral. Simulations by the National Economic Institute suggest that a 1 per cent increment to either wages or import prices will increase the consumer price index by around ½ per cent with an unchanged exchange rate (within the first year). But with maintenance of a purchasing power parity and in the absence of counteracting measures, the increase in inflation could approach 1 per cent.

Should the fish catch or export prices decline, nominal wage rates in fish processing industries as well as the share-prices used in the transactions between boats and

51 Trade weighted average of other countries' exchange rates vis-à-vis the krona.

**Diagram 8 The effective exchange rate and inflation**  
Indices, 1st quarter 1970 = 100



1. Inverted effective krona exchange rate.

2. The effective krona rate is a trade weighted average of krona spot rates vis-à-vis currencies of Iceland's trading partners (expressed in units of foreign currency per krona).

Source: OECD.

processing plants would be totally inflexible in a downward direction. Unless the FPEF is able to offset the decline in market prices by outpayments, the profitability of the fishing industry will deteriorate and so will the foreign balance as real domestic demand and imports fail to react to the decline in exports. Depreciations then again become necessary to restore profitability and increase relative costs of imports, thus fuelling the cost-price spiral. In both situations, exchange rate changes are the main vehicle whereby profitability in exposed sectors and a manageable balance-of-payments situation are being maintained. To check the inflationary spiral, the policy mix adopted has generally included incomes policy arrangements.

### III SHORT-TERM PROSPECTS AND POLICY CONSIDERATIONS

#### A *The outlook for 1979*

##### *Policy assumptions*

The credit budget for 1979, presented to the Althing in February (Tables 7 and 8), emphasises the same general objectives as the fiscal budget, i.e. to check the rate of growth of domestic demand, to lower inflation and to keep the external account balanced while maintaining full employment. Stipulating general guidelines for the allocation of financial flows, the credit budget foresees in particular a curtailment of foreign borrowing. The target rate of growth of money supply (M1) is set at 25 per cent, or significantly below the forecast rate of inflation (30 per cent in the course of 1979). The growth of domestic lending should not exceed 28 per cent. The achievement of these targets is clearly related to the forecast surplus in the fiscal budget (of Kr. 6.7 billion), which implies a dampening swing of 2 per cent of GNP as compared with the Kr. 5 billion deficit last year (Table 6). The budget foresees considerable increases in direct taxes and a cut in consumer subsidies from their level attained in late 1978. Recent incomes policy proposals discussed in February stipulated an upper ceiling on wage indexation of 5 per cent per quarter throughout 1979. While this limit was exceeded by 1.9 percentage points as of 1st March, a recent proposal to adjust the wage compensation index for changes in the terms of trade—which may deteriorate this year due to higher oil prices (see below)—might give greater scope for lowering the rate of wage increases in the remainder of the year. The revision to the wage indexation procedure was part of a major policy package presented to the Althing by the Prime Minister (although not as a government Bill) in the middle of March. The package also comprised a number of proposals which aim at improving the efficiency of fiscal and monetary policy, general introduction of indexation of financial assets, labour market measures to increase mobility, tripartite incomes policy consultations and plans to improve the counter-cyclical use of the Fisheries Price Equalization and the Catch Equalization Funds. This stabilisation policy programme could—if enacted—help to improve demand management in the future. However, at the finalisation of the present Survey, the measures were still being discussed in the Althing and have therefore not been fully incorporated in the forecast.

##### *Exports and the terms of trade*

With export market prospects generally favourable, the main limitation for export growth relates to output where only minor increases are foreseen due to resource



constraints. In fisheries, the catch has been extremely high over the last couple of years and official action to cut efforts devoted to cod fishing and probably also the take of capelin seem unavoidable if the fish stocks are not to be depleted. The Icelandic Marine Research Institute has recommended a maximum catch of cod in 1979 of 250 000 tons, constituting a reduction of 65-70 000 tons from last year's level. Since the implementation of such a limit would jeopardise the profit and employment situation in fisheries, alternative proposals have been put forward (with a catch of approximately 280 000 tons), implying a somewhat longer delay to permit the cod stock to recover. Nevertheless, if the planned diversion of effort from cod to other species proves to be successful, there would still be room for a small increase in output of the fisheries sector (2 per cent) as assumed in the forecast. Exports of aluminium may not rise in volume this year since a planned extension of the aluminium smelter's capacity by 14 per cent will not come into operation until 1980<sup>52</sup>. However, a ferro-silicon plant<sup>53</sup> is expected to come into operation after mid-year, permitting faster growth of exports of other manufactured products. With no changes in exportable stocks after the adjustment in 1978, total export volumes might remain roughly unchanged after a 16 per cent increase in 1978.

Table 13 The external balance

	Million current US dollars			Percentage volume change		
	1977	1978	1979	1977	1978	1979
<i>Export production</i>	549.4	627.7	701.8	16.4	4.5	3.5
Marine products	423.6	482.2	532.2	19.0	5.5	2.0
Aluminium	71.4	85.1	93.6	7.0	5.0	—
Other	54.3	60.4	76.0	11.0	-5.0	20.0
Changes in export stocks <sup>1</sup>	-36.7	21.7		..	..	..
<i>Merchandise exports, f.o.b.</i>	512.6	649.4	701.8	6.4	16.0	0.0
Imports of special investment goods	67.9	40.9	32.5	33.8	-44.0	-25.5
Ships and aircraft	61.9	25.8	21.6	125.7	-61.0	-22.0
Special projects <sup>2</sup>	6.0	15.1	10.8	-73.3	126.0	-32.0
Imports for aluminium smelter	40.2	49.4	54.7	6.0	7.5	4.0
General merchandise imports	457.3	530.4	611.7	21.9	7.4	-0.5
<i>Merchandise imports, f.o.b.</i>	565.4	620.7	698.8	21.9	1.2	-1.5
Trade balance	-52.8	28.7	2.9			
Balance of services	4.0	4.4	2.9			
Exports	218.3	278.9	309.9	12.1	16.0	5.0
Imports	214.3	274.4	307.0	10.9	16.0	5.0
<i>Balance of goods and services</i>	-48.9	33.2	5.8			
Balance of goods and services as per cent of GNP	-2.6	1.6	0.3			
<i>Memorandum item:</i>						
Conversion factor, kronur per U.S. dollar	198.78	271.47	342.00			

1 -- = increase in stocks.

2 National Power Company, Krafla geothermal power plant and ferro-silicon plant.

Source: National Economic Institute.

52 The aluminium smelter has been operating at full capacity (73 000 tons a year) throughout 1978.

53 The initial capacity of the ferro-silicon smelter will be 25 000 tons per year. In 1980 a second furnace will be in operation, bringing the capacity to 50 000 tons annually.

Prospective price developments do not point to any marked increase in export prices this year. The latest issue of OECD Economic Outlook (No. 24, December 1978) foresees a 5½ per cent increase in food commodity prices (in dollar terms). Even if fish prices on average might rise somewhat faster, no indicators at present seem to suggest a rise in excess of manufactured export prices of OECD countries (9 per cent in U.S. dollar terms). Regarding import prices, the most uncertain element is probably the oil price, which for Iceland (as stipulated in supply contracts with U.S.S.R.) is determined by the spot market price in Rotterdam. Triggered by the political developments in Iran, the spot price increased sharply towards the end of 1978 and in early 1979 and in spite of a relatively small share of oil products (some 12 per cent) in total imports, this development could have serious consequences on the Icelandic economy. In the more recent period price quotations have been very volatile but spot prices in early March were well below the peak in mid-February. In the official forecast it is assumed that the rise in oil prices will lead to a 7 per cent deterioration in the terms of trade in 1979, equal to 1½-2 per cent of GNP. To alleviate the impact on the economy, a number of measures have been proposed to speed up the replacement of oil with indigenous energy sources and to economise on the use of oil products. Special measures have also been taken to offset the impact of higher oil prices in fisheries, notably for the fishing fleet.

#### *Incomes, inflation and demand*

Assuming that the proposed incomes policy measures will be enacted, average wage and salary rates may rise by around 34 per cent in 1979 (year-on-year), down from 55 per cent last year. Earnings per hour might rise slightly faster while hours worked are likely to decline slightly. Given the voted tax increases, nominal disposable incomes are unlikely to exceed 34 per cent except for the lowest income groups. With the dollar/krona exchange rate assumed to remain on a moderately declining trend and given the wage cost increases as mentioned above, the increase in consumer prices could average some 34-35 per cent, roughly similar to the forecast rise in average disposable income.

Private consumption may nevertheless show a rise of almost 3 per cent in volume, largely on account of the carry-over from 1978, while later in the year there could well be some decline. In manufacturing, capital expenditure may fall significantly as the first phase of the ferro-silicon plant is being completed. The planned enlargement of the aluminium smelter will start this year but will mainly affect next year's level of investment. Residential construction is unlikely to change significantly as compared with last year, whereas public investment expenditure should show a significant decline in step with the gradual completion of geothermal heating installations and various power projects. Total fixed investment might thus fall by almost 7 per cent, reducing the investment ratio to GNP to less than 25 per cent, almost 10 percentage points below the peak in 1974-75 and similar to the Government's target. As inventories are not expected to rise significantly, total domestic demand may only rise by 1 per cent in real terms.

With an advance of private consumption the associated increase in consumer goods imports is likely to offset the projected decline in imports of capital goods, leading to only a marginal improvement in the real foreign balance. The resulting growth of real GNP is thus expected to amount to 1½ per cent, constituting a significant slowdown compared with recent years' growth performance. Nevertheless, unemployment is unlikely to increase much as the reduced pressure in the labour market may well be matched by a decline in average hours worked. As noted above, the expected deterioration in the terms of trade would imply that real national income stagnates. On these assumptions the current external balance is expected to deteriorate somewhat from a surplus of \$33 million in 1978 to approximate balance this year.

Table 14 Prospects for 1979  
Official estimates

	1977 Billion Kronur	Per cent changes at constant prices	
		1978	1979
Private consumption	226.0	6.0	3.0
Public consumption	38.8	2.0	1.0
Gross fixed investment	103.8	-3.7	-6.8
Business	44.4	2.4	-11.3
Dwellings	22.0	2.0	—
Public	37.3	-14.3	-5.0
Changes in stocks <sup>1</sup>	7.0	-2.9	0.9
<b>TOTAL DOMESTIC DEMAND</b>	<b>375.6</b>	<b>0.0</b>	<b>1.1</b>
Foreign balance <sup>1</sup>	-9.7	4.3	0.1
Exports of goods and services	145.3	16.0	1.5
Imports of goods and services	154.9	5.3	0.5
<b>GROSS NATIONAL PRODUCT</b>	<b>365.9</b>	<b>4.2</b>	<b>1.5</b>
Effects of changes in terms of trade <sup>2</sup>	..	0	-1.5
<b>GROSS NATIONAL INCOME</b>	<b>..</b>	<b>4.2</b>	<b>0</b>
		Per cent changes	
<i>Memorandum items:</i>			
Implicit GNP deflator	35.5	45.6	33
Consumer prices	30.5	44.5	35

<sup>1</sup> Changes in stockbuilding and foreign balance in per cent of GNP of the previous year.

<sup>2</sup> In per cent of GNP.

Source: National Economic Institute.

## B Conclusions

The instability which has characterised the Icelandic economy since 1973 should not be allowed to conceal the favourable development of the real economy. The rapid expansion of the economy after the second world war has continued in the 1970s, even after the 1974/75 recession; in particular, activity has continued to expand at a relatively high rate, the share of investment in GNP has remained high, progress has been made in diversifying the economy, and unemployment has remained virtually non-existent. But performance over the last two years, particularly as far as inflation is concerned, has not been satisfactory. After a marked slowdown between late 1975 and mid-1977, inflation has again accelerated to an unsustainable rate, essentially caused by the excessive wage increases granted in 1977 and rather accommodating fiscal and monetary policies. The more than 50 per cent increase in average earnings in 1978 meant that real wages rose significantly faster than real national income, with a squeeze of profits in the fisheries and other exporting and import-competing industries. The widening of the real wage gap was an important reason why the current external balance did not show a higher surplus last year when the terms of trade were relatively favourable, imports of capital goods fell and stocks of exportables were reduced.

As discussed in the OECD Economy Survey of Iceland in 1976, the Icelandic economy has been able to cope with rates of inflation well above those experienced in most other Member countries. But a new situation has arisen with the acceleration of inflation to around 45 per cent in 1978. The frequent adjustments of all kinds of incomes associated with this rate of inflation, and the momentum which the inflationary

process has acquired, must entail a risk that price developments are getting out of control. Greater emphasis on efforts to reduce inflation to a more acceptable level is therefore required.

In this respect, it is to be hoped that stabilisation measures along the lines referred to above will be implemented as quickly as possible. The proposed terms-of-trade adjustment of the wage regulating price index may thus reduce inflationary pressures in the short run, given the terms-of-trade deterioration caused by the exceptional increase in Iceland's oil import bill. However, the proposed use of this adjustment method may impede stabilisation efforts in case of a strengthening of export prices. As this would hardly be desirable, an alternative adjustment for import price fluctuations might be preferable. Such a procedure would put a brake on wage adjustments when the terms of trade deteriorate due to a rise in import prices.

In 1979, achievement of the proposed incomes policy targets may be the best that can be envisaged in present circumstances. For this to happen, it would be essential that the relatively tight fiscal policy stance implied by the voted 1979 budget should be maintained and that monetary policy should be less than fully accommodating. Should wages tend to rise faster than now envisaged, a tightening of monetary and fiscal policies would be needed.

As pointed out in Part II, the root of the inflation problem in Iceland lies in the structure of exports—the very high share of marine products—and the instability of export volumes and prices. In periods of favourable fish catches and/or export prices, the rapid rise in incomes in the fishing sector tends to be followed by high demand pressure and claims for similar income increases in other sectors, the result usually being that the rise in nominal incomes exceeds the improvement in the real economy. On the other hand, falls in export earnings do not have a corresponding restraining impact on income claims. As a consequence, devaluations are frequently resorted to as a means of improving profitability in the fishing sector, thereby adding further strength to inflationary pressures. Demand management has not played a major role in anti-inflationary policy. It would seem that the inflationary consequences of external shocks have tended to be amplified rather than dampened by the policy impact. The question therefore arises whether policy-making could be improved.

During the 1970s, several attempts have been made to improve the efficiency of demand management. The 1972 tax reform aimed at increasing the share of direct taxes in budget revenue, and the comprehensive credit-budget approach in operation since 1976 has provided the basis for better monetary control. But the budgetary strategy has been constantly undermined by other considerations than demand management, and monetary policy has generally been accommodating despite the ambitious monetary targets implied by the annual credit budgets. It is unfortunate that the decision to introduce a P.A.Y.E. type of income taxation—which would have strengthened the automatic stabiliser properties of the budget—has been postponed. But while it is true that better policy instruments can help to improve policy-making, the decisive element clearly is the relative priority given to competing policy aims. If higher priority will now be given to stabilisation policy, it seems inevitable that a somewhat lower pressure of demand will have to be accepted; the use of tax-based incomes policies in various forms and consumer subsidies is unlikely to be successful in reducing inflation as long as pressures on resources remain as high as has been the case in Iceland. If inflation is to be reduced, greater fiscal restraint and non-accommodating monetary policy will be necessary. The cost of credit may have to be increased to reduce spending propensities.

The Fisheries Price Equalization Fund, established in the late 1960s, was designed to level out fluctuations in export prices within the fisheries sector. Potentially a very strong instrument, experience shows, however, that FPEF has only been

able to level out a small part of price fluctuations due to the fact that its price decisions have been excessively influenced by short-term profitability considerations. A more market-price oriented policy for the FPEF seems to be required. Disregarding short-term fluctuations, fisheries is one of the most profitable branches of activity in Iceland because of the economic rent accruing from the exploitation of a valuable natural resource. There is therefore a constant need for transferring income to the rest of the economy. This could best be done by more efficient use of price equalisation methods, suitable tax instruments and by appropriate exchange rate policy. Such instruments would also facilitate the use of counter-cyclical policies in periods of less favourable external conditions.

Better financial stability would facilitate the continued diversification of the economy. Much has already been done to exploit the abundant indigenous energy resources (hydro and geothermal). This has reduced the dependence on imported oil and provided opportunities for the development of energy-intensive industries. The aluminium smelter, already in operation for a number of years, and the ferro-silicon plant which is starting production this year, are prominent examples of this development. Extensions of both plants are being planned, a development which could lower the share of fish in total export revenue even further. The need for diversification is underlined by the limited scope in the medium-term for increases in fish catches due to the present state of important stocks of fish (both cod and capelin) in Icelandic waters and the need for conservation measures. In the absence of very substantial terms-of-trade gains in the next few years, real income increases will therefore to a large extent have to be based on new industrial activities to substitute imports or to raise exports. On the other hand, if the policies to replenish the important cod stock are successful, there could be considerable scope for increased fish exports in the 1980s.

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## Annex

## CALENDAR OF MAIN ECONOMIC EVENTS AND POLICY MEASURES

1977

*January*

Raw white fish prices raised by 9.7 per cent for period January-June. FPEF decisions of out-payments 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.

Treasury Bills worth Kr. 400 million issued.

*March*

Interest rates on non-rediscountable produce loans raised from 11 to 16.75 per cent. Interest rates on operation 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.

Treasury Bills worth Kr. 300 million issued.

*April*

Treasury lottery bonds worth Kr. 250 million issued.

*May*

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

May cost-of-living 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.

Treasury Bills worth Kr. 1 700 million issued. The major part (Kr. 1 678 million) resold by banks to the Central Bank in July.

By a change in the Act on Fishing within the Icelandic fishing limits, the Marine Research Institute was authorised to close off specific areas temporarily for conservation purposes.

*June*

New central wage agreement signed after extended negotiations. The main features of the new agreement were:

- 1 An immediate 26 per cent increase (of Kr. 18 000) on basic monthly rates of low-paid workers;
- 2 A flat rate increase of Kr. 18 000 for other categories of workers;
- 3 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;
- 4 Adjustments equivalent to the above in absolute terms for other categories of workers;

- 5 Full (and virtually immediate) indexation for low-paid workers as from September 1977 (indexation based on a « price compensation index » derived from the cost of living index but excluding alcohol and tobacco and rises in the wage component of farm prices);
- 6 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.

Government fiscal policy measures to facilitate the June income settlements:

- 1 Consumer subsidies were increased by Kr. 1 500 million a year;
- 2 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;
- 3 Social security benefits were raised in line with the rise in lowest wages.

Prices to farmers raised by 0.8 per cent.

Wage contracts of public employees expired on 30th June; ongoing negotiations for a new contract postponed until around mid-August.

### 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.

Excise tax on petrol raised from Kr. 19.96 to Kr. 23.28 per litre.

New central agreements for all fishermen signed. Main points are changes of the wage and share allotment system on smaller fishing vessels and stern-trawlers. Guaranteed minimum wages raised by about 24 per cent.

All cod fishing banned from 26th July to 1st August. Moreover, cod fishing by stern-trawlers banned for 30 days from 14th July to 15th November with a minimum of 7 consecutive days each time.

### August

Changes in interest rates as of 1st August:

- 1 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. (2) below, whereas lending rates were raised, cf. (3) below.
- 2 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.
- 3 Interest rates on all rediscountable loans were set at 11 per cent p.a. but had previously ranged between 8 and 15 per cent p.a.
- 4 Other lending rates were raised as follows: discount rates by ½ 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 19 per cent.

Central Bank and commercial banks established a target ceiling rate of increase of 20 per cent for general bank lending for 1977 as a whole.

### October

FPEF decision on outpayments for the frozen fish products of Kr. 1 800 million on an annual basis

Following a general strike the Treasury and the Federation of Public Employees agree on a settlement for salary increases in instalments: from 1st July, 1977, average increase of 18 per cent for all salaries, 1st September 3 per cent and 1st December 1½ per cent. June and September 1978 further increases of 3 per cent. Moreover, the indexation clause in the agreement was made almost similar to that of the June agreement of the Federation of Labour.

FPEF decision on outpayments for frozen fish products of Kr. 1 800 million on an annual basis.



*November*

1978 Budget proposals presented to Althing. Main features were a 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.

Wage agreements concluded for bank employees and university graduates. The new agreements more or less similar to the general agreement of the Federation of Public Employers.

*December*

The wealth assessment of real estate values raised by 34 per cent and the tax-exempt limit for net wealth taxation raised.

The additional 1 per cent tax on personal incomes—liable to local income tax and earmarked for social security—extended throughout 1978 and raised to 2 per cent.

Introduction of a special compulsory savings scheme for higher incomes. Savings are fully indexed but bear no interest. Savings tied until 1984.

The special airport tax raised by 100 per cent.

Excise taxes on petrol and diesel vehicles raised by 57 per cent.

Report of the Government on a credit budget for 1978 presented to the Althing. It implied an estimated increase in lending by the banking system as a whole of 29 per cent (year-on-year), reduction of commercial bank lending to Investment Credit Funds, and reduction of the Central Bank's financing of produce loans from 58.5 to 56.5 per cent of the export bills' value.

In connection with the presentation of the Credit Budget, the Althing introduced provisions on foreign borrowing for public investment projects within a limit of Kr. 4.9 billion and decided that up to 40 per cent of the Pension Funds' disposable funds should be invested in fully indexed bonds issued by the Treasury, with the whole amount accruing from the bond rates being channelled on to the Investment Credit Funds.

Special excise tax of 18 per cent extended to end-1978.

Alcohol and tobacco prices raised by 20 per cent.

Residents permitted to open foreign currency accounts (in U.S. dollars, Deutschemarks, pounds sterling and Danish kroner) with Icelandic banks.

Price compensation index rose by 9.6 per cent with contractual increases of about 3 per cent; wages and salaries rose by 13 per cent on average.

Prices to farmers raised by 18 per cent.

Budget approved by the Althing.

All cod fishing banned from 12th to 31st December.

**1978***January*

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

Treasury savings certificates worth Kr. 1 500 million issued.

Raw white fish prices raised by 13 per cent for the January-May period. FPEF decision on out-payments for frozen fish products of Kr. 6 000 million on an annual basis. New reference prices for fish meal and oil implied minor payments into the Fund.

Consumer subsidies (on butter) increased temporarily at a cost of Kr. 300 million in the period January-June.

*February*

Exchange markets closed from 6th-10th February.

The krona devalued by 13 per cent against the U.S. dollar.

The estimated exchange gains on existing export stocks of fish products (Kr. 1 900 million) redistributed as follows: 20 per cent to subsidise exchange losses of owners of fishing vessels, 15 per cent to improve efficiency in fish processing industry, and 65 per cent to FPEF.

At the same time the following provisions were enacted:

- 1 Full price compensation of wages as stipulated in the June 1977 wage agreements reduced to compensate for only half the price increases in 1978. Minimum price compensation for low incomes assured through flat rate income increases in accordance with price developments.
- 2 Social security and children's allowances (mostly tax credits) raised.
- 3 Compulsory savings scheme for corporate income. Savings are bound until 1984, bearing no interest, but are fully indexed.
- 4 Special excise tax lowered from 18 to 16 per cent.
- 5 Government authorised to cut expenditure by Kr. 1 000 million in 1978 and to issue Treasury bonds worth Kr. 1 500 million.

Price compensation factor of interest rates raised by 3 per cent.

The Central Bank and commercial banks agreed on a target ceiling rate of increase of 29 per cent for bank lending during the year.

### *March*

According to the new wage indexation system wages are increased by about 6 per cent on average (instead of some 11 per cent according to the previous scheme).

Treasury bills worth Kr. 1 billion issued.

Prices to farmers raised by 9 per cent.

All cod fishing banned during the last week of March.

### *April*

The Central Bank and the Ministry of Finance established a target for the position of the Treasury current account with the Bank. The target was presented as monthly figures, taking into account seasonal fluctuations.

The General Workers' Union instigated a partial ban on exports in protest against the February wage compensation scheme. The ban was lifted by the end of July.

### *May*

The Althing enacted legislation on changes in State income taxes and wealth tax as of January 1979. The provisions included changes in taxation of married couples, new rules for taxing self-employed persons and changes in the provisions governing depreciation of assets.

Introduction of a 3 per cent import equalisation tax, levied on imported manufactured goods for the period May 1978 to December 1980.

By provisional legislation, the limits set by the February legislation on wage indexation were partly eased, especially with respect to the lowest incomes.

### *June*

The price compensation index rose 12.8 per cent. Including contractual increases, wages and salaries increased on average 16 per cent.

Raw white fish prices raised by 13-14 per cent for the period June-September. FPEF decision on outpayments for frozen fish products of Kr. 5 500 million on an annual basis. FPEF commitments partly guaranteed by the Government.

Prices to farmers raised by 14.5 per cent.

### *July*

Alcohol and tobacco prices raised by 20 per cent and petrol tax by 33 per cent.

### *August*

Exchange markets closed from 28th August to 6th September.

All cod fishing banned from 1st to 7th August. Further, cod fishing by stern-trawlers was banned altogether for 30 days during the period 11th July to 15th November, with a minimum of 7 consecutive days each time.

### *September*

The new Government introduced several incomes policy measures that kept the price compensation index (scheduled to rise by 8.1 per cent) at its June level. The measures included:

- 1 Full indexation reintroduced with, however, a flat rate ceiling for higher incomes.
- 2 Social security benefits raised and consumer subsidies increased by Kr. 3 000 million for the rest of the year. At the same time sales tax on food abolished (cost to Treasury in 1978 Kr. 1 400 million).

- 3 Price control tightened.
- 4 Additional wealth tax levied on persons and corporations until the end of the year (revenue estimated at Kr. 1 380 million). Special tax on higher incomes and on gross profits of firms, estimated revenue in 1978 of Kr. 1 880 million.
- 5 The special excise tax levied at two rates, 16 per cent on most commodities and 30 per cent on certain durable consumer goods. A 10 per cent tax on foreign currencies purchased for the purpose of travelling abroad. Total revenue estimated at Kr. 600 million in 1978.
- 6 Government authorised to reduce expenditure by Kr. 2 000 million.

The krona devalued by 15 per cent vis-à-vis the U.S. dollar.

Devaluation gains on fisheries export stocks (estimated at Kr. 7 000 million) allocated as follows: 50 per cent to FPEF, 25 per cent to owners of fishing vessels, and 25 per cent to fish processing industry.

Prices to farmers raised by 11.6 per cent.

Alcohol and tobacco prices raised by 20 per cent and petrol tax raised from Kr. 36.40 to 48.40 per litre.

Treasury savings certificates worth Kr. 1 200 million issued.

#### October

1979 Budget proposal presented to the Althing. The Budget included considerable increases in direct taxes, a deceleration in the growth in real public capital outlays and a cut in consumer subsidies.

Raw white fish prices raised by 5 per cent.

#### November

Temporary measures against inflation included:

- 1 Price compensation index should rise by only 6.1 per cent instead of 14.1 per cent according to the wage agreement.
- 2 Consequently, consumer subsidies were raised by 3 per cent of the price compensation index, social improvement corresponding to another 3 per cent, and reduction of taxes on low incomes corresponding to a further 2 per cent of the price compensation index.

Cod fishing during the latter part of the month restricted.

#### December

The Budget for 1979 approved by the Althing. In connection with the budget the Althing passed several fiscal measures, the principal ones being:

- 1 Measures replacing the provisional legislation of September:
  - instead of the provisional net wealth tax, the tax rate raised for both individuals and corporations (estimated yield in 1979 Kr. 1 830 million);
  - instead of special tax on profits, depreciation allowances tightened (yield in 1979 Kr. 2 360 million).
- 2 Lowering of taxes according to November measures against inflation:
  - tax index raised (estimated loss of revenue Kr. 2 500 million);
  - social security tax lowered (estimated revenue loss of Kr. 1 450 million).
- 3 New measures for raising revenue:
  - taxes increased for higher income groups and corporations (yield Kr. 3 050 million);
  - imputed rent in owner-occupied dwellings raised (yield Kr. 800 million);
  - lower rate of special excise tax raised from 16 per cent to 18 per cent. Higher rate of 30 per cent unchanged (yield Kr. 1 150 million);
  - new tax on building starts other than dwellings, real estate tax on commercial and office buildings and the airport tax raised (total yield in 1979 Kr. 1 200 million).

Prices to farmers raised by 6.7 per cent.

### 1979

#### January

Introduction of an import deposit scheme for furniture, windows and doors to reduce the impact on domestic industry of tariff reductions. Obligation of importers to deposit 35 per cent of the import value on interest-bearing blocked accounts with the Central Bank for a period of 90 days. The scheme is intended to be in force until end-1980.

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***STATISTICAL ANNEX***

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

	1969	1970	1971	1972	1973	1974	1975	1976	1977 <sup>1</sup>
Private consumption	21 774	28 183	35 144	44 140	59 235	90 630	121 540	159 580	225 950
Public consumption	3 300	4 050	5 385	7 000	9 200	14 430	19 300	26 200	38 850
Gross fixed asset formation	8 600	10 511	16 050	19 100	28 610	45 150	63 560	78 010	103 750
EXPENDITURE ON FINAL DOMESTIC USE	33 674	42 744	56 579	70 240	97 045	150 210	204 400	263 790	368 550
Change in stocks of export products and livestock	131	-393	1 580	-840	-189	2 578	3 680	-1 710	7 030
NATIONAL EXPENDITURE	33 805	42 351	58 159	69 400	96 856	152 788	208 080	262 080	375 580
Exports of goods and services	16 132	21 138	22 373	26 205	37 390	48 080	72 190	105 520	145 270
Imports of goods and services	15 741	20 487	26 233	27 960	40 025	63 610	93 570	109 910	154 925
GROSS NATIONAL PRODUCT (market prices)	34 196	43 002	54 299	67 645	94 221	137 258	186 700	257 690	365 925
Depreciation	5 400	6 061	6 703	8 458	11 353	17 175	28 332	37 144	48 650
NET NATIONAL PRODUCT (market prices)	28 796	36 941	47 596	59 187	82 868	120 083	158 368	220 546	317 275
Indirect taxes	6 650	9 370	12 640	15 600	22 560	36 360	51 460	69 400	95 300
Subsidies	1 400	1 600	2 950	3 220	4 230	7 800	12 100	13 050	16 400
NET NATIONAL INCOME	23 546	29 171	37 906	46 807	64 538	91 523	119 008	164 196	238 375
Net income to abroad	612	481	509	890	1 180	1 915	4 863	7 283	8 830
NET DOMESTIC INCOME	24 158	29 652	38 415	47 697	65 718	93 438	123 871	171 479	247 205

1 Provisional.

Source: Direct Icelandic communication to the OECD.

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

	1969	1970	1971	1972	1973	1974	1975	1976	1977 <sup>1</sup>
Private consumption	21 774	25 311	29 081	32 047	34 130	36 520	32 868	33 197	35 853
Public consumption	3 300	3 449	3 670	3 890	4 123	4 330	4 417	4 638	4 731
Gross fixed asset formation	8 600	9 272	13 171	13 043	15 670	17 360	15 900	15 490	16 650
EXPENDITURE ON FINAL DOMESTIC USE	33 674	38 032	45 922	48 980	53 923	58 210	53 185	53 325	57 234
Change in stocks of export products and livestock	131	-255	1 351	-787	-350	952	1 243	-770	570
NATIONAL EXPENDITURE	33 805	37 777	47 273	48 193	53 573	59 162	54 428	52 555	57 804
Exports of goods and services	16 132	19 095	18 366	20 255	22 052	21 888	22 187	24 836	27 403
Imports of goods and services	15 741	19 932	24 356	24 699	29 368	33 250	29 819	29 455	34 950
GROSS NATIONAL PRODUCT	34 196	36 940	41 283	43 749	46 257	47 800	46 796	47 936	50 257
Effect of changes in terms of trade	—	1 462	2 802	2 849	4 814	3 680	1 594	3 300	5 028
Export income	16 132	20 557	21 168	23 104	26 866	25 568	23 781	28 136	32 431
Income balance of goods and services	391	625	-3 188	-1 595	-2 502	-7 682	-6 038	-1 319	-2 519
GROSS NATIONAL INCOME <sup>2</sup>	34 196	38 402	44 085	46 598	51 071	51 480	48 390	51 236	55 285

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: Direct Icelandic communication to the OECD.



Table C Production and employment

		1969	1970	1971	1972	1973	1974	1975	1976	1977
<b>FISHERIES AND FISH PROCESSING</b>										
Export production: Value, current prices	Kr. mill.	7 532	9 609	11 405	11 823	19 510	26 576	37 891	53 648	84 186
	1973 prices	Kr. mill.	18 780	19 954	18 820	17 691	19 510	19 944	19 922	21 450
Fishing fleet <sup>1</sup> , end of year: Trawlers	GRT	16 837	16 981	17 911	20 340	29 810	34 796	36 523	36 843	38 422
	Motor boats	GRT	62 509	61 698	60 984	62 146	62 042	62 982	62 456	60 313
Total	GRT	79 346	78 679	78 895	82 486	91 852	97 778	98 979	97 156	101 239
Employment in fish processing	1962 = 100	100.9	103.9	109.0	107.0	105.7	111.0	117.1		
<b>AGRICULTURE</b>										
Production: Value, current prices <sup>2</sup>	Kr. mill.	3 104	3 686	4 700	5 868	8 032	11 651	15 969	21 114	30 604
	1969 prices	Kr. mill.	3 104	3 114	3 420	3 558	3 709	3 840	3 703	3 807
Capacity <sup>3</sup> : Cultivated grassland	1 000 hect.	100.9	104.5	108.4	111.3	113.8	115.0	117.0	119.2	121.6
	Sheep	1 000 heads	820.2	780.6	735.5	786.2	828.6	845.8	863.6	850.8
	Cattle	1 000 heads	52.3	53.4	53.3	59.2	65.3	67.3	66.5	61.8
<b>MANUFACTURING (exc. fish processing)</b>										
Production, volume <sup>4</sup>	1970 = 100	89.1	100.0	116.4	125.8	136.6	137.0	134.8	140.2	145.8
Employment	1970 = 100	91.9	100.0	106.9	111.2	112.2	111.1	110.3	113.8	
<b>DWELLING CONSTRUCTION</b>										
Started	Number	1 030	1 469	1 833	1 963	3 377	2 640	2 261	2 268	
Completed	Number	1 460	1 329	1 362	1 930	2 220	2 193	2 068	2 172	
Under construction, end of year	Number	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

	1969	1970	1971	1972	1973	1974	1975	1976	1977 <sup>1</sup>
<b>GROSS FIXED ASSET FORMATION, TOTAL</b>	<b>8 600</b>	<b>10 511</b>	<b>16 050</b>	<b>19 100</b>	<b>28 610</b>	<b>45 150</b>	<b>63 560</b>	<b>78 010</b>	<b>103 750</b>
Classification by end-use:									
<b>INDUSTRIAL ASSET FORMATION</b>	<b>3 400</b>	<b>4 718</b>	<b>8 350</b>	<b>8 910</b>	<b>13 140</b>	<b>20 800</b>	<b>25 810</b>	<b>27 730</b>	<b>44 430</b>
Agriculture	530	728	960	1 300	1 860	2 920	3 850	4 770	6 350
Fishing	152	705	790	1 880	4 640	4 910	4 880	3 500	10 130
Fish processing	118	282	530	800	1 265	1 920	2 640	2 570	4 435
Manufacturing other than fish processing	1 865	1 320	1 850	2 370	1 805	2 770	4 500	5 240	8 750
Transport equipment	180	742	2 750	1 010	1 380	3 650	4 550	5 490	7 510
Commercial buildings	409	613	690	930	1 250	2 710	2 930	3 970	4 120
Various machinery and equipment	146	328	780	620	940	1 920	2 460	2 190	3 135
<b>RESIDENTIAL CONSTRUCTION</b>	<b>1 804</b>	<b>2 138</b>	<b>2 700</b>	<b>4 120</b>	<b>7 740</b>	<b>10 200</b>	<b>13 460</b>	<b>16 940</b>	<b>22 020</b>
<b>PUBLIC WORKS AND BUILDINGS</b>	<b>3 396</b>	<b>3 655</b>	<b>5 000</b>	<b>6 070</b>	<b>7 730</b>	<b>14 150</b>	<b>24 290</b>	<b>33 340</b>	<b>37 300</b>
Electric power, generation and distribution	1 223	1 053	1 510	1 680	1 800	4 100	9 960	15 720	13 220
Geothermal heating and water supply	243	338	350	540	650	1 350	2 600	3 350	5 900
Communications	1 186	1 263	1 880	2 350	3 480	5 450	7 250	8 810	11 080
Public buildings	744	1 001	1 260	1 500	1 800	3 250	4 480	5 460	7 100
Classification by type of assets:									
<b>MACHINERY AND EQUIPMENT</b>	<b>1 738</b>	<b>2 857</b>	<b>5 948</b>	<b>5 339</b>	<b>8 837</b>	<b>13 418</b>	<b>16 443</b>	<b>15 846</b>	<b>28 875</b>
Machinery and other equipment	1 558	2 115	3 198	4 329	7 457	9 768	11 893	10 356	21 365
Transport equipment	180	742	2 750	1 010	1 380	3 650	4 550	5 490	7 510
<b>BUILDINGS AND OTHER CONSTRUCTION</b>	<b>6 862</b>	<b>7 654</b>	<b>10 102</b>	<b>13 761</b>	<b>19 773</b>	<b>31 732</b>	<b>47 117</b>	<b>62 164</b>	<b>74 875</b>
Residential buildings	1 804	2 138	2 700	4 120	7 740	10 200	13 460	16 940	22 020
Non-residential buildings	2 160	2 582	3 324	4 696	5 644	9 942	11 963	15 222	20 440
Other construction	2 898	2 934	4 078	4 945	6 389	11 590	21 694	30 002	32 415

1 Provisional.

Source: Direct Icelandic communication to the OECD.

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

	1969	1970	1971	1972	1973	1974	1975	1976	1977 <sup>1</sup>
<b>GROSS FIXED ASSET FORMATION, TOTAL</b>	<b>8 600</b>	<b>9 272</b>	<b>13 171</b>	<b>13 043</b>	<b>15 670</b>	<b>17 360</b>	<b>15 900</b>	<b>15 490</b>	<b>16 650</b>
Classification by end-use:									
<b>INDUSTRIAL ASSET FORMATION</b>	<b>3 400</b>	<b>4 323</b>	<b>7 219</b>	<b>6 578</b>	<b>7 920</b>	<b>9 205</b>	<b>7 200</b>	<b>5 970</b>	<b>8 160</b>
Agriculture	530	634	770	927	1 025	1 140	1 000	980	1 060
Fishing	152	651	634	1 398	2 975	2 400	1 430	680	1 940
Fish processing	118	249	438	543	680	730	690	550	820
Manufacturing other than fish processing	1 865	1 221	1 578	1 723	1 040	1 150	1 260	1 170	1 630
Transport equipment	180	729	2 552	872	940	1 880	1 380	1 300	1 470
Commercial buildings	409	523	529	580	610	870	660	730	580
Various machinery and equipment	146	316	718	535	650	1 035	780	560	660
<b>RESIDENTIAL CONSTRUCTION</b>	<b>1 804</b>	<b>1 825</b>	<b>2 057</b>	<b>2 569</b>	<b>3 775</b>	<b>3 270</b>	<b>3 040</b>	<b>3 100</b>	<b>3 100</b>
<b>PUBLIC WORKS AND BUILDINGS</b>	<b>3 396</b>	<b>3 124</b>	<b>3 895</b>	<b>3 896</b>	<b>3 975</b>	<b>4 885</b>	<b>5 660</b>	<b>6 420</b>	<b>5 390</b>
Electric power, generation and distribution	1 223	909	1 215	1 095	920	1 470	2 490	3 300	2 080
Geothermal heating and water supply	243	275	259	331	320	430	590	610	830
Communications	1 186	1 086	1 463	1 535	1 855	1 945	1 570	1 510	1 480
Public buildings	744	854	958	935	880	1 040	1 010	1 000	1 000
Classification by type of assets:									
<b>MACHINERY AND EQUIPMENT</b>	<b>1 738</b>	<b>2 717</b>	<b>5 367</b>	<b>4 276</b>	<b>5 802</b>	<b>6 798</b>	<b>5 039</b>	<b>3 765</b>	<b>5 930</b>
Machinery and other equipment	1 558	1 988	2 815	3 404	4 862	4 918	3 659	2 465	4 460
Transport equipment	180	729	2 552	872	940	1 880	1 380	1 300	1 470
<b>BUILDINGS AND OTHER CONSTRUCTION</b>	<b>6 862</b>	<b>6 555</b>	<b>7 804</b>	<b>8 767</b>	<b>9 868</b>	<b>10 562</b>	<b>10 861</b>	<b>11 725</b>	<b>10 720</b>
Residential buildings	1 804	1 825	2 057	2 569	3 775	3 270	3 040	3 100	3 100
Non-residential buildings	2 160	2 228	2 562	2 988	2 764	3 193	2 731	2 812	2 940
Other construction	2 898	2 502	3 185	3 210	3 329	4 099	5 090	5 813	4 680

<sup>1</sup> Provisional.

Source: Direct Icelandic communication to the OECD.

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

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977 <sup>1</sup>
Exports, fob	82.5	107.1	146.2	150.4	191.7	290.2	329.3	308.8	404.0	512.6
Imports, fob	130.6	107.0	143.5	200.0	215.5	325.4	476.6	442.9	429.5	565.2
Trade balance	-48.1	0.1	2.7	-49.6	-23.8	-35.2	-147.3	-134.1	-25.5	-52.6
Services, net	2.0	4.3	4.7	5.5	3.7	5.9	-8.3	-5.1	1.3	4.0
Balance on goods and services	-46.1	4.4	7.4	-44.1	-20.1	-29.3	-155.6	-139.2	-24.2	-48.6
Current transfers, net	-0.9	-0.8	-0.4	-0.1	0.2	16.2	0.6	-0.6	0.2	-0.1
Current balance	-47.0	3.6	7.0	-44.2	-19.9	-13.1	-155.0	-139.8	-24.0	-48.7
Long-term capital (excl. spec. trans.)	32.1	20.0	0.4	48.1	24.4	23.3	85.1	107.5	47.5	98.4
(a) Private	8.3	5.8	0.6	35.5	0.4	0.9	39.9	43.5	6.6	22.0
(b) Official	23.8	14.2	-0.2	12.6	24.0	22.4	45.2	64.0	40.9	76.4
Basic balance	-14.9	23.6	7.4	3.9	4.5	10.2	-69.9	-32.3	23.5	49.7
Non-monetary short-term capital	-0.5	-1.6	3.7	3.8	0.7	-15.6	-9.5	-26.6	-22.6	-28.7 <sup>2</sup>
Errors and omissions	1.2	-0.8	1.0	-0.6	—	-1.8	0.4	-0.4	-4.2	—
Balance on non-monetary transactions	-14.2	21.2	12.1	7.1	5.2	-7.2	-79.0	-59.3	-3.3	21.0
Private monetary institutions short-term capital	0.7	-9.6	2.7	3.6	9.9	-0.6	-9.3	-3.1	-1.7	-1.3
Balance on official settlements	-13.5	11.6	14.8	10.7	15.1	-7.8	-88.3	-62.4	-5.0	19.7
Use of IMF credit	3.7	3.8	-9.5	-1.8	—	—	18.6	19.4	28.9	—
Special transactions	—	—	—	—	—	—	—	—	—	—
Miscellaneous official accounts	3.0	-4.9	6.0	3.5	-3.6	23.8	20.2	43.8	7.1	-4.2
Allocation of SDRs	—	—	2.5	2.5	2.6	—	—	—	—	—
Change in reserves (+ = increase)	-6.8	10.5	13.8	14.9	14.1	16.0	-49.5	0.8	31.0	15.5
(a) Gold	—	—	—	—	—	—	—	—	—	—
(b) Currency assets	-6.8	14.2	13.3	6.7	10.4	16.0	-42.5	2.6	—	—
(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	—	—

1 Provisional.

2 Includes errors and omissions.

Sources: Direct Icelandic communication to the OECD; 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	1977 <sup>1</sup>
<b>CURRENT REVENUE</b>	<b>6.74</b>	<b>7.46</b>	<b>9.80</b>	<b>13.26</b>	<b>18.53</b>	<b>24.88</b>	<b>37.72</b>	<b>51.04</b>	<b>71.32</b>	<b>100.28</b>
Direct taxes	1.33	1.52	1.73	2.46	4.94	6.44	7.14	7.93	11.50	14.02
Indirect taxes	5.33	5.82	7.83	10.63	13.38	18.15	30.19	42.35	58.67	84.36
Other	0.08	0.12	0.24	0.17	0.21	0.29	0.39	0.76	1.15	1.90
<b>CURRENT EXPENDITURE</b>	<b>5.12</b>	<b>5.62</b>	<b>6.82</b>	<b>9.98</b>	<b>14.06</b>	<b>19.74</b>	<b>32.33</b>	<b>43.86</b>	<b>53.72</b>	<b>80.18</b>
Purchase of goods and services <sup>2</sup>	2.01	2.53	3.12	4.15	5.38	7.56	11.95	16.38	22.65	38.93
Current transfers and subsidies	3.11	3.09	3.70	5.83	8.68	12.18	20.39	27.48	31.07	41.25
<b>GROSS SAVING</b>	<b>1.62</b>	<b>1.84</b>	<b>2.98</b>	<b>3.28</b>	<b>4.47</b>	<b>5.14</b>	<b>5.39</b>	<b>7.18</b>	<b>17.60</b>	<b>20.10</b>
Gross fixed asset formation	0.44	0.47	0.82	1.40	1.59	2.13	3.01	4.80	4.70	8.01
<b>SURPLUS ON CURRENT AND FIXED INVESTMENT ACCOUNT</b>	<b>1.18</b>	<b>1.37</b>	<b>2.16</b>	<b>1.88</b>	<b>2.88</b>	<b>3.01</b>	<b>2.38</b>	<b>2.38</b>	<b>12.90</b>	<b>12.09</b>
Lending, net <sup>3</sup>	-0.05	-0.13	-0.11	-0.25	0.02	0.05	0.10	-2.04	1.33	-0.78
Net capital transfers to other sectors	1.35	1.71	1.74	2.22	2.75	3.26	5.66	9.92	12.09	14.63
<b>OVERALL BALANCE<sup>4</sup></b>	<b>-0.32<sup>5</sup></b>	<b>-0.21</b>	<b>0.52</b>	<b>-0.10</b>	<b>0.12</b>	<b>-0.30</b>	<b>-3.39</b>	<b>-5.50</b>	<b>-0.52</b>	<b>-1.76</b>

1 Preliminary.

2 Including interest.

3 "-" = net borrowing.

4 Net change in floating debts and cash balances.

5 Including -0.20 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 <sup>1</sup>	Cost of living index <sup>2</sup>				Building cost Reykjavik <sup>3</sup>	Export prices of fish products <sup>4</sup>					
							Total	Goods and services				Rent	Fresh and iced fish	Frozen products	Salted products	Fish meal and oil	
								Total	Food, beverages	Other							
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16		
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	
1977	1 374	518	29	813	14	1 676.0	1 207.6	1 385.2	1 626.2	1 248.5	618.9	1 536.0					
1978	1 542	523	35	967	17	2 600.0	1 750.4	2 012.2	2 340.3	1 839.2	875.1	2 258.0					
Quarterly:																	
1974	1	565	98	—	464	3	701.2	389.0	438.1	509.8	382.7	241.1	511.0	..	296.3	336.8	419.5
	2	151	140	8	1	2	701.2	464.5	523.1	625.1	447.9	266.5	688.6	..	249.5	416.1	304.3
	3	129	108	18	—	3	701.2	477.4	524.8	572.4	478.2	291.9	..	..	250.9	424.0	244.6
	4	93	76	14	—	3	788.3	549.7	617.9	705.3	545.3	301.7	776.6	..	235.3	367.2	194.0
1975	1	526	106	—	418	2	880.6	597.9	671.9	799.6	578.4	315.8	834.3	..	211.2	342.6	169.1
	2	187	143	6	35	3	980.1	684.7	765.1	870.5	678.5	368.0	1 004.3	..	236.8	406.2	140.4
	3	119	112	5	—	2	1 019.1	737.8	837.0	927.4	754.0	399.0	..	..	237.8	367.1	136.5
	4	155	82	22	48	3	1 025.0	785.6	902.0	1 016.4	832.6	402.3	1 059.9	..	233.6	345.9	134.3
1976	1	447	112	—	332	3	1 122.0	811.2	926.5	1 014.4	858.6	433.2	1 098.0	..	250.2	346.2	164.0
	2	156	146	1	6	3	1 122.0	905.6	1 031.0	1 160.5	955.0	492.1	1 160.0	..	276.3	427.5	163.1
	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	..	297.5	436.8	195.2
	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	..	296.8	392.4	235.9
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	..	312.1	415.8	235.8
	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				
	3	280	123	4	146	2	1 896.0	1 225.6	1 403.6	1 627.1	1 281.0	640.7	1 661.0				
	4	245	99	25	117	4	2 167.0	1 344.0	1 544.1	1 823.5	1 385.1	674.3	1 839.0				
1978	1	586	113	—	468	5	2 297.0	1 497.6	1 732.0	2 058.5	1 559.6	700.9	2 006.0				
	2	196	192	—	—	4	2 710.0	1 670.4	1 906.9	2 249.6	1 726.4	895.8	2 267.0				
	3	395	145	3	242	5	2 916.0	1 859.2	2 135.6	2 584.5	1 903.9	930.8	2 507.0				
	4	365	73	32	257	3	3 094.0	1 974.4	2 274.5	2 468.8	2 167.1	972.9	2 695.0				

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 Hagtíðindi.

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	
		17	18	Total	Europe		USA	Eastern Europe	Developing countr.	25	26	Total	Europe		USA	Eastern Europe	Developing countr.
				19	20	21	22	23	24			27	28	29	30	31	32
					EEC	Others							EEC	Others			
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
1977		50.7	..	41.6	24.1	10.7	3.3	6.3	2.7	42.7	..	34.8	13.1	7.9	12.9	6.1	1.7
Quarterly:																	
1974	1	32.6	40.9	28.2	14.9	6.7	3.8	3.5	0.9	22.9	28.7	20.9	8.9	5.3	4.0	1.2	0.8
	2	51.7	44.1	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	41.6	32.5	18.8	8.1	3.2	4.6	0.8	27.4	27.7	23.7	7.0	9.0	7.1	3.5	0.3
	4	50.5	44.1	42.8	23.5	10.6	3.1	6.6	1.1	25.9	26.3	20.9	9.2	5.0	6.4	3.7	1.2
1975	1	35.7	43.8	29.6	16.0	6.4	3.9	4.9	1.2	17.6	21.8	14.7	4.9	4.0	5.7	2.4	0.5
	2	45.8	39.5	40.2	20.7	12.9	3.2	4.6	0.9	32.0	26.7	26.9	7.2	13.0	6.3	4.7	0.4
	3	36.5	39.8	30.3	17.7	7.0	2.8	4.9	1.2	25.0	24.8	18.5	5.1	5.1	7.9	6.1	0.4
	4	44.5	39.4	37.1	19.0	9.1	5.1	6.0	1.4	28.0	27.7	22.6	8.5	3.7	10.2	4.2	1.2
1976	1	30.8	37.5	24.2	13.8	5.7	2.6	5.2	1.4	21.5	26.2	16.6	6.1	4.7	5.8	4.1	0.7
	2	37.9	34.3	31.2	17.3	9.3	3.5	5.4	1.1	39.5	32.5	35.2	10.9	12.7	10.4	3.3	1.1
	3	39.4	43.2	32.6	18.5	6.4	3.1	5.2	1.6	37.2	39.0	33.0	12.4	7.7	12.0	3.3	1.0
	4	47.6	41.4	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	47.3	31.4	19.4	7.4	2.8	4.4	1.8	37.8	47.2	28.4	11.3	6.7	10.0	6.2	3.2
	2	56.6	49.0	43.3	24.2	11.7	3.6	9.6	3.6	45.2	37.5	34.5	13.8	7.4	11.8	8.7	1.7
	3	48.1	52.6	40.4	24.1	8.6	3.5	5.4	2.1	44.0	45.0	40.2	11.5	11.7	16.1	3.6	0.3
	4	59.5	51.7	50.3	28.2	14.6	3.4	5.9	3.2	43.6	42.8	36.0	15.7	6.0	13.6	5.8	1.7
1978	1	48.5	61.7	40.1	23.3	8.8	3.5	5.7	2.6	41.8	55.3	34.6	14.4	9.3	10.8	4.0	3.1
	2	61.5	55.9	52.3	27.7	15.5	4.6	6.2	2.9	49.5	41.3	39.1	15.2	6.0	17.0	7.5	2.9
	3	54.0	59.4	45.5	27.7	11.2	4.2	6.0	2.4	57.3	59.4	46.1	15.5	8.0	19.7	3.9	7.4

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 equip- ment	Other imports					Total	Fish products, total	Frozen fish filets	Herring salted	Herring and capelin meal	Other fish and misc. prod.	Agricul- tural prod.	Alumi- nium prod.	Other manuf. prod.	
			Total	Food and live animals	Semi- manu- factured goods	Machin- ery and appa- ratus	Other goods										
			0	6	71.72												
SITC No.	73	35	36	37	38	39	40	41	42	43	44	45	46	47	48		
	33	34															
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	
1977	607.0	90.5	516.5	53.2	120.9	109.8	232.6	512.6	377.9	162.6	10.2	48.0	4.2	12.1	75.1	37.3	
Quarterly:																	
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
	3	148.2	11.2	137.0	16.0	33.0	30.1	57.9	135.6	103.8	52.1	0.0	4.6	0.6	1.1	19.2	10.7
	4	176.1	37.4	138.7	12.9	30.9	29.0	65.9	127.4	90.4	39.2	3.9	7.1	2.7	4.5	16.0	12.4
1978	1	146.6	11.0	135.6	13.5	30.5	29.1	62.5	125.3	97.1	38.1	9.5	18.0	0.8	4.8	15.6	6.8
	2	191.5	31.1	160.4	16.7	38.8	35.4	69.5	154.1	111.5	58.0	0.3	16.5	0.7	2.7	28.9	9.6
	3	172.8	15.0	157.8	15.1	35.0	44.0	63.7	183.7	142.6	65.6	0.0	11.6	1.0	2.1	23.6	14.0

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 <sup>1</sup>	Commercial banks' short-term 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	
1973	6.25	1 440	9 585	10 351	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	13 405	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	14 381	20 767	22 211	51 260	15 891	16 010	-9 681	70 781	9 586	16 146	20 962	7 733	69	1 395	
1977	14.00	16 853	30 515	32 601	73 244	22 482	26 499	-15 041	100 869	15 293	26 399	26 716	10 548	82	1 764	
Quarterly:																
1974 1	6.25	2 302	10 937	11 229	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	11 954	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	12 552	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	13 405	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	13 686	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	14 425	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	15 942	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	18 665	38 841	12 752	12 216	-9 678	60 096	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	64 433	6 153	16 290	20 813	6 574	72	1 260	
3	7.25	13 337	21 085	21 001	44 649	15 098	14 877	-8 982	69 179	6 987	17 436	21 044	7 528	78	615	
4	7.25	14 381	20 767	22 211	51 260	15 891	16 010	-9 681	70 781	9 586	16 146	20 962	7 733	69	1 395	
1977 1	7.25	14 183	24 589	25 091	55 312	18 213	18 499	-10 396	79 265	8 262	21 137	24 071	8 534	78	1 284	
2	7.25	12 506	27 553	26 341	58 204	20 462	19 780	-11 027	85 033	8 562	23 883	24 609	9 664	93	1 027	
3	10.00	14 493	27 925	27 869	60 366	20 269	22 682	-11 992	94 743	9 709	26 869	27 285	10 358	80	1 309	
4	14.00	16 853	30 515	32 601	73 244	22 482	26 499	-15 041	100 869	15 293	26 399	26 716	10 548	82	1 764	
1978 1	17.00	25 774	33 951	34 644	78 207	25 702	26 590	-17 097	112 084	13 197	31 004	31 422	11 961	71	1 962	
2	17.00	26 717	37 071	35 475	84 737	27 932	30 046	-19 463	126 598	12 740	36 485	36 037	13 696	58	675	
3	17.00	29 802	38 544	38 505	87 066	28 442	33 909	-23 861	137 006	15 306	38 878	37 794	14 955	33	2 471	

<sup>1</sup> Excluding IMF position.

Sources: Icelandic Statistical Bulletin (col. 50, 54, 55, 56, 63); IMF, International Financial Statistics (col. 49, 51, 52, 53); OECD, Main Economic Indicators (col. 62); 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	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia <sup>1</sup>	
POPULATION		Mid-1977	Thousands	14 073	7 520	9 830	23 316	5 089	4 740	53 084	61 400	9 268	221	3 180	56 446 <sup>2</sup>	113 860	355	13 853	3 128	4 043	9 773	36 672	8 255	6 327	42 135	55 919	216 817	21 775	
	Inhabitants per sq. km	"	Number	2	90	322	2	118	16	96	247	70	2	45	187	302	137	410	12	12	106	73	20	153	54	229	23	85	
	Net average annual increase	Mid-1967 to Mid-1977	%	1.8	0.3	0.3	1.3	0.5	0.3	0.7	0.4	0.6	1.1	0.9	0.7	1.3	0.6	1.0	1.4	0.7	0.7	1.1	0.5	0.4	2.5	0.2	0.9	0.9	
EMPLOYMENT	Total civilian	1977	Thousands	6 000	2 988	3 711	9 754	2 414	2 101	20 884	24 488	(3 167)	98 <sup>14</sup>	1 022	19 847	53 420	147	4 555	1 215	1 824	3 781	12 462	4 099	2 817	14 151	24 550	90 546	9 234 <sup>3</sup>	
	of which: Agriculture, forestry, fishing	"	% of total	6.6	11.8	3.3	5.7	9.1	12.9	9.6	6.8	(28.4)	14.2	23.1	15.9	11.9	5.9	6.3	11.6	9.0	32.5	20.7	6.1	8.5	55.8	2.7	3.6	42.6	
	Industry <sup>4</sup>	"	"	32.5	40.6	37.9	28.9	30.4	34.8	37.7	45.3	(30.3)	37.9	30.3	38.6	35.4	45.1	33.2	34.6	32.3	33.1	37.4	34.3	42.7	13.6	40.0	(28.9)	21.2	
	Other	"	"	60.9	47.6	58.8	65.4	60.5	52.3	52.7	47.9	(41.3)	47.9	46.6	45.5	52.7	49.0	60.5	53.8	58.7	34.4	41.9	59.6	48.8	30.6	57.3	(67.5)	36.2	
GROSS DOMESTIC PRODUCT at market prices		1977	US \$ billion <sup>11</sup>	95.8	48.0	79.2	200.3	46.0	30.2	380.7	516.2	26.2	1.9	9.4	196.1	691.2	2.8	106.4	14.2	35.6	16.3	115.6	78.3	60.6	44.8	244.3	1 878.8	33.9 <sup>5</sup>	
	Average annual volume growth <sup>6</sup>	1972 to 1977	%	3.3	3.6	3.2	4.2	2.5	2.4	3.3	2.3	3.8	3.5	3.2	3.0	4.5	1.5	3.0	1.9	4.7	3.8	3.7	1.3	-0.5	7.2	1.8	2.6	5.7	
	Per capita	1977	US \$ <sup>11</sup>	6 810	6 380	8 060	8 590	9 040	6 360	7 170	8 410	2 830	8 680	2 940	3 470	6 070	7 700	7 680	4 550	8 800	1 670	3 150	9 480	9 580	1 170	4 370	8 670	1 560	
GROSS FIXED CAPITAL FORMATION		1977	% of GDP	23.1	27.2	21.2	22.7	23.3	26.7	22.6	20.9	23.0 <sup>8</sup>	27.3	24.7	19.8	29.9	25.8	21.1	22.7 <sup>9</sup>	36.6	20.4	21.5	20.5	20.7	25.8	18.1	17.5	34.3	
	of which: Transport, machinery and equipment	"	"	7.4 <sup>19</sup>	10.6	6.4	7.6	7.4	10.3	7.3	8.3	8.4	7.6	14.7	8.5	13.8	8.6 <sup>20</sup>	8.6	..	13.3	5.5 <sup>14</sup>	8.9 <sup>14</sup>	8.5	6.9	..	9.0	7.3	..	
	Residential construction	"	"	4.6 <sup>19</sup>	..	7.1	6.0	7.7	6.9	7.5	5.9	7.1	5.8	14.0	5.5	6.9	7.6 <sup>20</sup>	5.8	..	4.9	2.8 <sup>14</sup>	..	4.2	..	3.7	3.3	4.8	..	
Average annual volume growth <sup>6</sup>	1972 to 1977	%	1.0	2.1	2.9	4.5	-0.3	-0.2	1.5	-1.1	-1.4	4.9	1.8	-0.2	4.4	0.3	0.9	..	8.1	-1.6 <sup>21</sup>	3.7	-0.4	-5.0	10.3	-0.6	0.3	7.1		
NATIONAL SAVINGS RATIO <sup>12</sup>	1977	% of GNP	18.3	24.6	21.7	21.3	18.8	27.2	23.4	24.2	19.9	27.1	17.0	22.1	32.2	38.3 <sup>14</sup>	23.5	23.6	23.2	11.0	20.2	16.7	26.5	17.2	20.3	17.7	35.2		
GENERAL GOVERNMENT	Current expenditure on goods and services	1977	% of GDP	16.3	17.3	17.3	20.3	24.3	20.4	14.9	20.0	15.9	11.2	18.6	14.0	19.1	15.4	18.3	18.7	18.7	14.0	10.3	28.5	12.9	14.5	20.8	18.4	17.4	
	Current transfer payments	"	"	9.6	20.6	22.0	12.4	15.8	14.5	24.8	19.5	11.6	..	13.3	22.7	9.2	28.7 <sup>14</sup>	30.9	..	24.6	15.8 <sup>14</sup>	12.7	24.4	15.3	9.2	13.9	11.6	..	
	Current revenue	"	"	25.9	43.0	41.8	36.4	45.5	43.5	42.2	43.5	29.4	..	35.6	37.7	24.5	52.8 <sup>14</sup>	54.0	..	51.2	28.3 <sup>14</sup>	26.7	60.9	34.3	21.6	40.0	32.0	43.1	
NET OFFICIAL DEVELOPMENT ASSISTANCE	1977	% of GNP	0.5	0.2	0.5	0.5	0.6	0.2	0.6	0.3	..	..	..	0.1	0.2	..	0.9	0.4	0.8	..	..	1.0	0.2	..	0.4	0.2	..		
INDICATORS OF LIVING STANDARDS	Private consumption per capita	1977	US \$ <sup>11</sup>	4 000	3 660	5 000	4 870	5 080	3 250	4 450	4 690	1 890	5 200	1 900	2 220	3 510	4 760	4 480	2 590 <sup>9</sup>	4 940	1 260	2 180	5 140	6 100	810	2 580	5 600	849	
	Passenger cars, per 1 000 inhabitants	1976	Number	366	243	279	388 <sup>20</sup>	265	218	300	308	55	298	175	283	163	367	273	383	253	107	148	350	281 <sup>20</sup>	11	255	505	80	
	Telephones, per 1 000 inhabitants	"	"	395	303	300	596	494	409	293	343	238	411	150	271	426	442	391	515	366	119	237	689	634	28	394	721	66	
	Television sets, per 1 000 inhabitants	1975	"	274	306	247 <sup>16</sup>	411	308	306	268	306	126	234	192	213 <sup>16</sup>	235	257 <sup>16</sup>	259 <sup>16</sup>	259	255	65	184	352	273	12 <sup>16</sup>	320	571 <sup>16</sup>	159	
	Doctors, per 1 000 inhabitants	"	"	1.4 <sup>13</sup>	2.1	1.9	1.7	1.6	1.4	1.5	2.0	2.0	1.6 <sup>10</sup>	1.2	2.1	1.2	1.1	1.6	1.3	1.7	1.3	1.8 <sup>14</sup>	1.7	1.8	0.6	1.3	1.6	1.4	
	Access to higher education <sup>15</sup>	"	% of relevant age group	39.7	15.9 <sup>16</sup>	34.4 <sup>16</sup>	49.8 <sup>13</sup>	36.3 <sup>16</sup>	24.5	31.4 <sup>14</sup>	24.2 <sup>16</sup>	..	..	..	31.0	34.3 <sup>16</sup>	..	21.1 <sup>16</sup>	..	40.3 <sup>16</sup>	(9.8) <sup>10</sup>	29.3 <sup>10</sup>	(31.1) <sup>13</sup>	..	..	21.8 <sup>16</sup>	43.2	..	
	Infant mortality <sup>17</sup>	"	Number	14.3	20.5	14.6	15.0 <sup>16</sup>	10.6	10.2 <sup>16</sup>	12.6	15.7	24.1	11.1	18.4	20.7	10.1	14.8	10.6	16.0	10.5 <sup>16</sup>	37.9 <sup>16</sup>	18.9	8.3	10.7	..	16.0	16.1	39.7	
	WAGES AND PRICES	Average annual increase																											
Hourly earnings in industry <sup>18</sup>	1972 to 1977	%	16.9	11.9	15.4	12.5	16.4	16.7	15.7	8.7	23.2	33.6	20.0	24.4	16.4	..	12.0	13.2	15.0	17.5	23.2	11.7	5.8	27.5	16.5	8.1	..		
Consumer prices	"	%	13.1	7.7	9.7	8.9	10.8	14.5	10.3	5.7	16.1	34.7	16.1	16.5	12.9	8.6	8.7	13.0	9.4	21.1	16.6	9.6	5.6	30.0	16.3	7.7	18.6		
FOREIGN TRADE	Exports of goods, fob	1977	US \$ million <sup>11</sup>	13 260	9 792	37 488 <sup>7</sup>	41 556	10 068	7 680	63 516	117 936	2 724	516	4 392	45 036	80 496	—	43 680	3 219	8 712	2 028	10 223	19 080	17 544	1 753	57 516	120 168	5 254	
	As percentage of GDP	"	%	13.9	20.5	47.2	21.1	23.3	25.7	16.7	22.9	10.6	27.2	47.7	23.0	11.7	—	41.1	22.4	24.5	11.9	8.8	24.3	28.7	3.9	23.5	6.4	16.2	
	Average annual volume increase	1972 to 1977	%	2.7	6.0	4.8	3.7	3.5	2.8	6.3	6.7	11.3	..	9.0	6.1	10.5	..	5.4	2.9	4.9	1.8	8.6	1.6	5.9	1.8	6.7	6.4	2.9	
	Imports of goods, cif	1977	US \$ million <sup>11</sup>	12 240	14 208	40 248 <sup>7</sup>	39 540	13 260	7 620	70 488	100 704	6 780	612	5 388	47 556	70 809	—	45 600	3 379	12 876	4 956	17 835	20 112	17 904	5 796	63 696	147 852	9 634	
	As percentage of GDP	"	%	12.8	29.7	50.7	20.1	30.7	25.5	18.5	19.6	26.3	32.2	58.6	24.3	10.3	..	42.9	23.5	36.2	29.2	15.4	25.7	29.3	12.9	26.1	7.8	29.7	
Average annual volume increase	1972 to 1977	%	5.9	7.3	5.8	5.4	4.3	1.5	5.5	5.5	5.1	..	6.3	1.4	3.8	..	3.8	1.8	8.1	3.4	3.8	3.6	1.5	8.7	3.1	4.5	7.2		
TOTAL OFFICIAL RESERVES	End-1977	US \$ million	2 384	4 244	5 761 <sup>7</sup>	4 608	1 671	570	10 194	39 737	1 020	100	2 372	11 629	22 848	—	8 065	445	2 200	1 377	6 590	3 668	13 830	630	21 057	19 390	2 600		
As percentage of imports of goods	In 1977	%	19.5	29.9	14.3 <sup>7</sup>	11.7	12.6	7.5	14.5	39.5	15.0	16.3	44.0	24.5	32.3	—	17.7	13.2	17.1	27.8	36.9	18.2	77.2	10.9	33.1	13.1	26.9		

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 Including Luxembourg.

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 1976.

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 Private.

20 1975.

21 1971 to 1976.

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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