



ECONOMIC SURVEYS

I. 2. b. 4.

# ICELAND

ORGANISATION FOR ECONOMIC  
CO-OPERATION AND DEVELOPMENT

PARIS DECEMBER 1965

# BASIC STATISTICS OF ICELAND

## THE LAND

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

## THE PEOPLE

Population, December 1964 . . . . .	190,200	Number of inhabitants per sq.km . . . . .	1.8
Net increase 1960-1964 annual average (per cent) . . . . .	1.8	Occupational distribution 1960, (per cent):	
<i>Of which:</i>		Dairy and sheep farming . . . . .	17
Net national increase . . . . .	1.9	Fisheries . . . . .	8
Net migration . . . . .	-0.1	Fish processing . . . . .	10
		Other manufacturing . . . . .	16
		Construction . . . . .	12
		Commerce and communications . . . . .	20
		Other services . . . . .	16

## GOVERNMENT AND PARLIAMENT

Government, from 1960, number of Ministers:		Parliament, from 1963, number of seats:	
Independence Party . . . . .	4	Independence Party (Lib. Cons.) . . . . .	24
Social Democrats . . . . .	3	Progressive Party (Agrarian) . . . . .	19
		Labour Alliance (Socialists, Communists) . . . . .	9
		Social Democrats . . . . .	8
			60
Last general election: 1963		Next general election: 1967	

## LIVING STANDARDS

Calories per head, per day . . . . .	3,240	Per 1,000 inhabitants 1964:	
Minimum hourly daytime wages for male unskilled labour in July 1965 (I.Kr.) . . . . .	42.81	Number of:	
Average yearly wage income of married workers, skilled and unskilled, and seamen in 1964 (I.Kr.) . . . . .	162,000	Passenger cars . . . . .	133
		Radio sets . . . . .	460
		Telephones . . . . .	275
		Energy consumption per head in 1964:	
		Coal equivalent (metric tons) . . . . .	4.4

## PRODUCTION AND CAPITAL FORMATION

Gross National Product in 1964:		Gross Fixed Capital Formation in 1964:	
Millions of I.Kr. . . . .	17,254	Millions of I.Kr. . . . .	4,969
Per head, US \$ . . . . .	2,128	Per cent of GNP . . . . .	29

## FOREIGN TRADE

Exports of goods and services in 1964 as percentage of GNP . . . . .	41	Imports of goods and services in 1964 as percentage of GNP . . . . .	43
Main exports 1964 as percentage of exports of goods:		Main imports 1964 as percentage of imports of goods:	
Fish and fish products . . . . .	92	Equipment . . . . .	37
Agricultural products . . . . .	6	Other manufactures . . . . .	35
		Fuels . . . . .	9

## THE CURRENCY

Monetary unit: Króna.		Currency unit per U.S. \$ . . . . .	43.00
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ECONOMIC SURVEYS BY THE OECD

# ICELAND

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

*The Organisation for Economic Co-operation and Development was set up under a Convention signed in Paris on 14th December 1960 by the Member countries of the Organisation for European Economic Co-operation and by Canada and the United States. This Convention provides that the OECD shall promote policies designed:*

- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;*
- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development;*
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.*

*The legal personality possessed by the Organisation for European Economic Co-operation continues in the OECD, which came into being on 30th September 1961.*

*The Members of OECD are: Austria, Belgium, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.*

This document was approved  
by the Economic and Development Review Committee  
in December, 1965.

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## INTRODUCTION

In 1965 the expansion of output continued at about the same rate as in 1964. Since export prices increased significantly, available resources for domestic consumption and investment continued to grow fast, and the balance of payments remained relatively strong. But the progress made in restoring better stability in the economy has been limited. Demand is rising rapidly, fed by large deficits in government finances and a strong credit expansion, and reflected notably in very tight labour market conditions. Wages and farmers' incomes have risen considerably, and prices are rising again following a more stable trend during the latter part of 1964. The balanced budget for 1966 proposed by the Government should, if achieved, help to restrict the growth of demand. But better stability is unlikely to be achieved unless the rise in wages and farmers' incomes is brought into better line with the productivity trend.

### I. CURRENT SITUATION

#### *Output and Demand*

Table 1 illustrates the strong growth of economic activity in recent years. The real gross national product rose by 8 per cent in 1962, 7 per cent in 1963, and 5.5 per cent in 1964. A very strong increase in the fish catch, resulting to a large extent from the introduction of new and better equipment, was an important element in the expansion, see Diagram 1. Building and construction activity increased significantly. Industrial production, excluding fish processing, rose fast in 1962 and 1963, but the combination of rapidly rising wage costs and stronger foreign competition resulting from a more liberal import policy led to some slowdown in 1964. Agricultural output also increased, but more slowly than GNP. The expansion in recent years has been influenced by a rapid increase in the labour force; between mid-1960 and mid-1964 the population rose by 1.8 per cent a year, and the labour force probably rose even faster.

TABLE 1. SUPPLY AND USE OF RESOURCES 1961-1965

	KRONUR MILLION 1964 <sup>1</sup> Current prices	PERCENTAGE CHANGE FROM PREVIOUS YEAR 1960 prices				
		1961	1962	1963	1964 <sup>1</sup>	1965 <sup>2</sup>
Gross national product .....	17,254	1.7	8.0	7.1	5.5	5.0
National expenditure .....	17,584	— 2.2	7.3	13.2	9.1	4.0
Private consumption .....	11,045	1.6	9.8	7.0	3.0	3.5
Public consumption .....	1,505	2.1	7.1	7.5	4.1	5.5
Gross fixed asset formation .....	4,969	— 22.1	16.9	30.7	17.6	—1.0
Change in livestock .....	42	—	—	—	—	—
Change in stocks of export pro- ducts .....	23	—	—	—	—	—
Balance of goods and services .....	— 330	—	—	—	—	—
Exports .....	7,020	1.5	22.0	7.1	6.0	5.0
Imports .....	7,350	— 6.4	20.1	18.6	12.5	3.0

1. Preliminary figures.

2. Estimates.

Source: Iceland's submission to OECD and Economic Institute, Reykjavik.

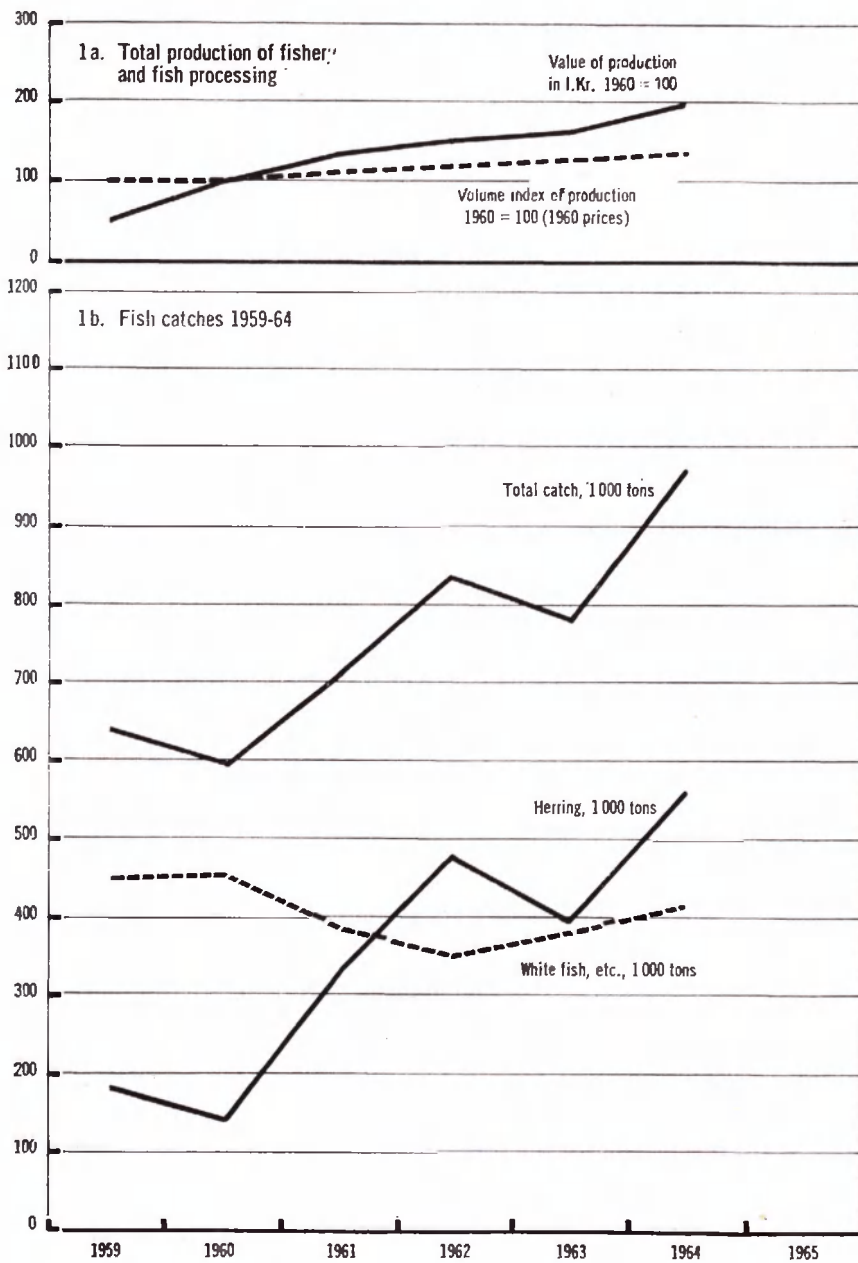
In 1965, available information points to a continued expansion of production. The fish catch, which was on a very high level in 1964, showed a further strong increase in 1965. Last year the result of the winter season (mainly white fish) was much poorer than a year earlier, because of less concentration of fish shoals and less favourable weather. The herring fisheries in the summer also yielded less than in 1964, but large catches in the autumn brought the total volume of herring caught as well as the total fish catch well above the 1964 level. With a significant increase in export prices, the value of the fish catch was substantially higher than in the previous year. The rise in construction activity, although remaining significant, slowed down. Agricultural output is estimated to have been 5 per cent higher than in 1964.

According to a regular sample survey, the average number of employees in the home market industry declined by almost 4 per cent in 1964 and again by almost 7 per cent in the first half of 1965 as compared to the same period in the preceding year. These series usually understate increases in manpower and overstate declines. Taking account of productivity changes, total output of the home market industry is estimated as approximately unchanged in 1964 from the year before. A slight decline would seem probable in 1965.

Exports remained an important dynamic element in 1965; the first eight months of the year showed an increase of 15.4 per cent over a year earlier. With a decline in the fish catch, this was due to a much smaller



Diagram 1. FISHERY AND FISH PROCESSING



Source : Economic Institute, Reykjavik.

increase in stocks of exportable goods than normal for the season, and to the rise in export prices. The unit value index of exports rose by 12 per cent in 1964, and probably by some 8 per cent in the first half of 1965.

Between 1961 and 1964 fixed investment rose by 80 per cent in real terms. Almost two-fifths of the increase was accounted for by investment in ships and aircraft, most of it imported; excluding ships and aircraft the increase in real fixed investment was 57 per cent. Table 2 illustrates the distribution of gross fixed asset formation in this period. Investment in industry has shown a rising trend. Gross fixed asset formation in fishing vessels and equipment and in transport equipment, although falling in 1965, has been very high.

TABLE 2. PERCENTAGE DISTRIBUTION OF GROSS FIXED ASSET FORMATION 1961-1965 (1960 PRICES)

	1961	1962	1963	1964	1965 <sup>1</sup>
INDUSTRIES .....	49.1	49.8	53.1	55.3	51
Agriculture .....	11.1	10.8	9.7	9.5	10
Fisheries .....	5.6	6.7	9.7	10.5	6
Fish processing .....	4.8	7.9	5.8	4.4	12
Manufacturing other than fish processing .....	6.5	6.8	7.7	6.9	
Transport equipment .....	12.0	9.8	10.0	16.4	15
Commercial buildings .....	5.7	4.8	5.1	4.1	4
Various machinery and equipment .....	3.4	3.0	5.1	3.5	4
RESIDENTIAL CONSTRUCTION .....	22.7	21.9	21.5	20.2	23
PUBLIC WORKS AND BUILDINGS .....	28.2	28.3	25.4	24.5	26
Electricity and water supply, geothermal heating .....	7.1	7.3	7.8	6.1	6
Communication .....	12.6	13.4	11.8	11.8	12
Public buildings .....	8.5	7.6	5.8	6.6	8
Total .....	100.0	100.0	100.0	100.0	100

1. Estimates.

Source: Iceland's submission to OECD and Economic Institute, Reykjavik.

There is little information available on the recent movement of domestic demand. Preliminary estimates point to little, if any, increase in real gross fixed asset formation in 1965, in marked contrast to the sharp upward trend of the preceding years. Since imports of fishing vessels and aircraft declined, other types of gross fixed asset formation continued to rise. An estimate based on very incomplete data points to a 7 per cent increase in investment in building and construction, but this may be revised upwards later; in 1964 building and construction activity rose by 14 per cent. The moderate increase in imports in the first half of 1965 suggests that private

consumption and stockbuilding were not rising very considerably in this period. But the sharp increase in incomes after mid-year has probably led to a strengthening of consumers' demand.

Although the trade balance improved in 1965, such indications as exist suggest that the labour market has remained tight, with a considerable shortage of labour, and that some easing of the pressure of demand would be desirable. Some unemployment has appeared on the Northern coast, but this has to a large extent been caused by a decline in the supply of fish to the processing plants that may to a large extent reverse itself.

### *Prices and Incomes*

Iceland experienced a strong wave of inflation from 1961 to 1964, with building costs rising by 38 per cent and the cost-of-living index by as much as 50 per cent. The rise was particularly strong in 1963 and early in 1964. But there was little increase in the cost-of-living index after May 1st last year. This stability was to some extent due to a slowdown of the rise in wages and salaries, but also reflected a substantial increase in subsidies. The upward trend was resumed in 1965 when price subsidies were no longer being increased, but the rate of increase was more moderate than in 1963; in August the cost-of-living index was 5.7 per cent higher than a year earlier. This index includes both direct and indirect taxes; the domestic sales tax was increased from 5.5 to 7.5 per cent in January, but the effect of this on the cost-of-living index was offset by a cut in direct taxes later in the year.

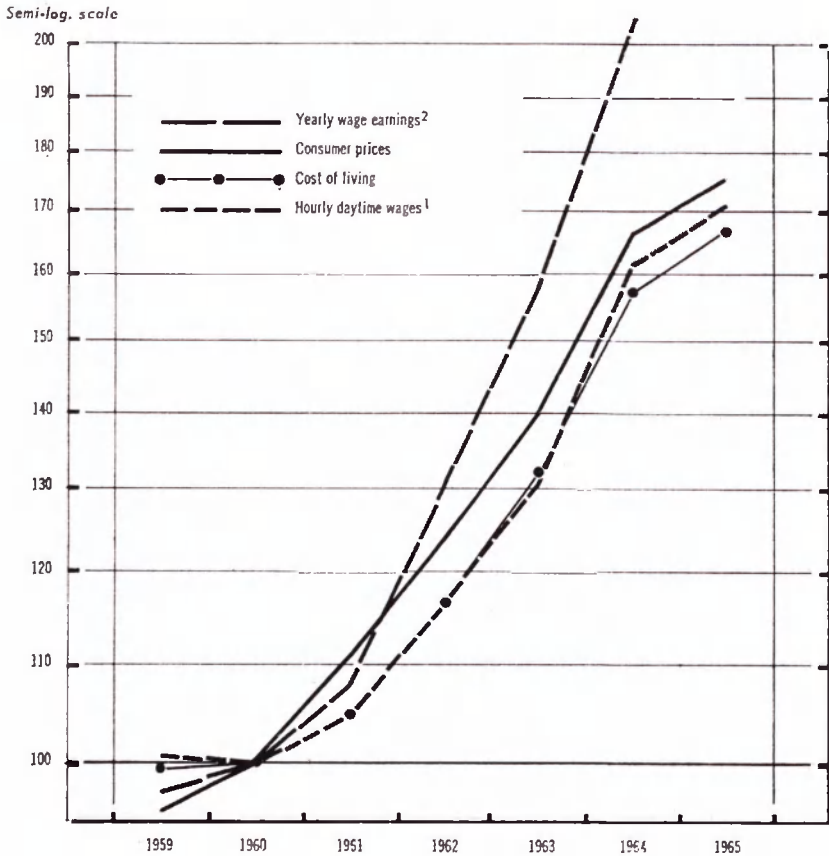
TABLE 3. PERCENTAGE INCREASES IN PRICES AND WAGES  
1960-1965

	COST OF LIVING <sup>1</sup>	CONSUMER GOODS <sup>2</sup>	HOURLY DAYTIME WAGES <sup>3</sup>	YEARLY WAGE EARN- INGS <sup>4</sup>
1960 to 1961 .....	5.0	11.0	5.1	8.1
1961 to 1962 .....	11.4	11.7	11.5	21.3
1962 to 1963 .....	12.8	12.9	12.0	20.5
1963 to 1964 .....	18.9	19.3	22.3	29.6
Sep. 1, 1964 to Sep. 1, 1965. . . . .	6,7	6,5	17,5	N.A

1. Direct taxation and family allowances included.
2. Cost-of-living index excluding rent, direct taxation and family allowances.
3. Averages for unskilled workers in Reykjavik, including vacation pay (raised from 6 to 7 per cent, 30th June 1964).
4. Refer to a sample of income tax returns for married workers and seamen of the fishing fleet and the merchant marine. Earnings of wife and children, property earnings and social security payments are excluded.

Source: Iceland's submission to OECD.

Diagram 2. INCOMES AND PRICES (1960 = 100)



1. Unskilled workers in Reykjavik.
2. According to a sample from income tax returns.

Source : Economic Institute, Reykjavik.

In June 1964, the Government, the Federation of Labour and the Employers' Association as well as other employer organisations reached a frame agreement, on the basis of which new wage settlements of one year's duration were to be concluded in individual industries. According to the frame agreement, there was not to be any general increase in wages during the agreement period. On the other hand, workers were to receive benefits in the form of slightly reduced working hours at unchanged pay, lengthened vacation and the inclusion of payment for official holidays, other than Sundays, in weekly and monthly pay. These benefits were largely to be limited to unskilled workers, as most of them had already

been obtained by most other groups. In addition, the Government undertook to carry out several measures to improve financing of residential construction with the aim of ensuring sufficient housing and helping low income families to acquire apartments. The linking of wages to the cost-of-living index, which had been prohibited by law since 1960, was to be resumed. A new wage compensation index, excluding the increase in agricultural prices resulting from an increase in wages, was to be computed. Full wage compensation was to be paid according to changes in this index of one point or more. The increase in labour costs per hour resulting from the agreement, if observed, would amount to 6 to 7 per cent for unskilled workers receiving weekly or monthly pay; for other groups the increase would be smaller.

The first contracts concluded (for unskilled labour) were in line with the frame agreement, but each subsequent settlement exceeded the provisions of this agreement by a growing margin. The total wage round therefore resulted in an average increase in wage costs per hour of about 8 per cent, and the wage differential between unskilled and skilled labour increased rather than decreased, contrary to the provisions of the frame agreement.

In 1965, no formal frame agreement was reached, because the trade unions were unable to find common ground for bargaining. But the Government had close contacts with both sides of industry and was prepared to make adjustments in tax rates and an extraordinary effort to improve housing conditions for lower income families. The Government hoped that the principles laid down in the first contracts concluded in June-July with the general workers unions (unskilled labour) would form the basis for subsequent settlements. These contracts provided for a 4 per cent increase in hourly wages and a reduction in working hours from 48 to 44 or 45 hours a week without loss of pay. The cut in working hours was smaller for other groups since they had already come close to the 44-hour week. Subsequent bargaining showed that those skilled trades that mainly work on time rates were unwilling to concede to any relative deterioration as compared with unskilled labour. But piece rates of skilled workers were raised less than time rates, implying for the first time recognition of the fact that earnings of piece rate workers also benefit from the advance in productivity. Altogether the wage round resulted in increases in wage costs per hour ranging from 6 to 19 per cent, including compensation for shorter working hours and various fringe benefits. In addition, the rise in the wage compensating index led to automatic increases in wages of 7.3 per cent in 1965.

The annual adjustment of farmers' prices in the autumn has for a number of years been determined by a group of six members, with three representatives of the farmers and three representatives appointed by the trade unions; any dispute was settled by an official mediator. In 1965

the trade union representatives withdrew from the group, and the adjustment of farmers's incomes and prices was in principle determined by provisional law but in further detail fixed by a specially appointed committee of public officials. The review resulted in a basic increase in farmers' labour income of about 12 per cent, of which 3 percentage points represented compensation for a shortfall of the 1964 review. Furthermore, the rise in the wage compensation index released an additional 4.9 per cent increase in farmers' labour income.

### *Balance of Payments*

As in most other countries, exports and imports have risen faster than output in recent years, so that the importance of foreign trade is growing progressively. In 1964 merchandise imports (c.i.f.) amounted to \$ 697 per capita compared with figures ranging between \$ 200 and \$ 300 for France, Germany and the United Kingdom, and between \$ 500 and \$ 550 for the Scandinavian countries. The fact that fish and fish products account for more than 90 per cent of merchandise exports has, inevitably, entailed some instability in the movement of exports. But, as already noted, the fluctuations in the fish catch are being reduced; and with some flexibility in the preparation and marketing of the fish, Iceland has been able to avoid the sharp fluctuations in export earnings experienced by many mono-culture countries.

The surplus on the current account of the balance of payments achieved in 1961 and 1962, following the introduction of the Stabilisation Programme in 1960, was replaced by deficits in 1963 and 1964. This movement was partly caused by a sharp increase in imports of ships and aircraft. Since the capital inflow was more than sufficient to cover the current deficit, the foreign exchange reserves rose. In the first eight months of 1965 the trade deficit fell somewhat, and the foreign exchange reserves continued to rise.

In the first eight months of 1965 merchandise exports were 15.8 per cent higher than a year earlier. Imports rose rather less than this (5.4 per cent) partly because of a decline in purchases of fishing vessels; excluding ships and aircraft, imports rose by about 10.3 per cent. This is a relatively moderate increase, given the strong upward trend in incomes. Imports of several commodities were lower than a year earlier; purchases of motor vehicles, for example, declined, probably because of an increase in the special tax on passenger cars, and because of a higher degree of market saturation following the high level of imports in recent years. Furthermore, demand seems to have been directed more towards the domestic market and towards services including travelling abroad.

The authorities also expect 1965 as a whole to show a small surplus on trade balance. Marketing conditions abroad are favourable, and the fish catch in the second half of the year was good. Imports (exclu-

TABLE 4. BALANCE OF PAYMENTS AND FOREIGN EXCHANGE POSITION  
1961-1965

U.S. \$ million.

	1961	1962	1963	1964 <sup>1</sup>	JAN.-JUNE	
					1964	1965
Merchandise imports (fob) . . . . .	71.7	83.2	101.9	120.5	59.2	60.0
<i>of which: ships and aircraft</i> . . . . .	4.7	4.5	8.8	22.1	13.5	10.9
Merchandise exports (fob) . . . . .	71.5	84.4	94.0	111.0	50.2	57.0
Balance on goods . . . . .	-0.2	1.2	-7.9	-9.5	-9.0	-3.0
Military receipts . . . . .	11.4	10.4	9.0	6.5		
Interest on foreign debt, net . . . . .	-2.9	-2.3	-2.3	-2.4		
Other services, net . . . . .	-3.1	-1.7	-4.7	-2.3		
Balance on goods and services . . . . .	5.2	7.6	-5.9	-7.7		
Amortisation of foreign debt . . . . .	-8.8	-10.4	-9.1	-9.5		
Public borrowing . . . . .	5.8	5.5	11.0	3.8		
Private borrowing . . . . .	2.7	3.1	7.4	17.7		
Other capital movements, net . . . . .	4.4	8.7	0.4	2.2		
Change in official foreign exchange reserves . . . . .	9.3	14.5	3.8	6.5	-0.6	2.3
<i>of which: clearing currencies</i> . . . . .	-3.9	1.8	1.1	-3.6	1.0	0.5
Net foreign exchange position (end of period) . . . . .	12.2	26.7	30.5	37.0	29.9	39.3

1. Provisional figures.

Source: Iceland's submission to OECD.

ding ships and aircraft) may rise faster in the latter part of the year than in the former, given the considerable increase in domestic incomes and costs, but imports of ships and aircraft will be lower than a year earlier, and the rise in total imports for the year as a whole is likely to be smaller than that of exports.

Prospects for 1966 are uncertain, but some deterioration of the trade balance is not unlikely. Unless the inflationary trend is arrested, imports may well rise faster than in 1965. The sharp increase in export prices in the last two years, which has been especially marked for herring oil and meal, was related to relatively low production in Peru — an important supplier of these products — and to the strong increase in world prices for animal and vegetable oils; in 1964 and the first half of 1965 there was a strong increase also in prices of frozen fish. It is uncertain whether the upward trend in export prices will continue. In the somewhat longer run, the entering into force of the common external tariff of the European Economic Community entails an increase in protective tariffs against fish and fish products in important markets. Tariff reductions by the European Free Trade Association are placing Iceland in an increasingly disadvan-

tageous competitive position in that area. The over-fishing that is taking place in the North Atlantic, mainly on other fishing grounds than the Icelandic, may gradually come to impair the basic resources of the country and limit its possibility of expansion. The effects of this are, however, not likely to make themselves strongly felt in the immediate future.

The policy of progressive liberalisation of foreign trade has been continued. The list of products that can be freely imported was extended further both in 1964 and 1965. On the basis of 1964 imports, about 80 per cent of Iceland's merchandise imports are liberalised, and about half the remainder is imported under global quotas. Tariffs have been reduced in recent years, but generally remain high.

TABLE 5. PERCENTAGE DISTRIBUTION OF IMPORTS AND EXPORTS BY AREAS 1960-1965

	1960	1961	1962	1963	1964	JAN.-JUNE	
						1964	1965
<b>IMPORTS :</b>							
European OECD countries..	54.2	50.7	55.8	63.8	56.6	58.9	56.6
USA and Canada .....	13.9	16.3	14.2	11.9	19.8	20.2	20.5
Eastern Europe .....	23.1	22.9	19.2	17.7	16.2	12.5	13.9
of which: USSR .....	13.8	14.5	11.5	10.7	8.4	5.6	5.8
Other countries .....	8.8	10.1	10.8	6.6	7.4	8.4	9.0
Total .....	100	100	100	100	100	100	100
<b>EXPORTS :</b>							
European OECD countries..	50.2	60.6	56.8	59.1	60.2	55.5	58.1
USA and Canada .....	14.3	14.4	16.0	16.1	16.1	17.7	20.7
Eastern Europe .....	24.5	14.0	18.5	17.3	14.4	21.5	14.0
of which: USSR .....	14.8	7.1	12.9	11.3	9.1	11.7	6.0
Other countries .....	11.0	11.0	8.7	7.5	9.3	5.3	7.2
Total .....	100	100	100	100	100	100	100

Source: Iceland's submission to OECD.

The geographical pattern of foreign trade has changed markedly since 1960, influenced notably by the liberalisation of foreign trade. Table 5 shows that the trend has been towards increased trade with European OECD countries. Eastern Europe's share in Iceland's exports and imports has shown a downward trend. The share of North America has not changed much, except for the rise in imports from that area to about 20 per cent of the total in 1964, largely because of purchases of aircraft from Canada.

The foreign exchange reserves of the Central and commercial banks rose by \$ 6.5 million in 1964; this reflected an increase in convertible currencies of \$ 10.1 million and a decline of \$ 3.6 million in clearing currencies. The



improvement was due to an increase in net private borrowing abroad, mainly on account of the purchase of ships and aircraft; the public sector's foreign debt was somewhat reduced. In the first half of 1965 the foreign exchange reserves rose by \$ 2.3 million, reflecting inter alia a strong increase in short-term suppliers' credits. At the end of June the reserves amounted to \$ 39.3 million, representing about 3.5 months' merchandise imports (cif).

### III. ECONOMIC POLICY

In the General Economic Programme for 1963-1966 the authorities formulated the broad aims of economic policy, notably with respect to growth and resource allocation. But an important condition for a rational economic policy is that a better balance is restored in the economy. Since most direct regulations have been abolished, the authorities rely mainly on general fiscal and monetary measures, and the Government is making considerable efforts to influence the determination of incomes. Over the past couple of years greater fiscal and monetary restraint would have been desirable, and much remains to be done with respect to the difficult task of developing an incomes policy.

#### *Fiscal Policy*

The change to a large deficit in the central government budget in 1964, following the previous years' surpluses, represented an unfortunate setback in fiscal policy which served to strengthen demand pressure. The turn-around in the budget balance between 1963 and 1964 amounted to almost 2.5 per cent of GNP. Budget expenditure rose sharply, partly due to an increase in subsidies following the wage and agricultural agreements in 1964.

The 1965 budget as adopted by the Althing envisaged a small overall surplus. This required some increase in taxation. From 1st January, the domestic sales tax was increased from 5.5 to 7.5 per cent and the special automobile tax from 100 to 125 per cent; direct taxes, however, were somewhat reduced later in the year. In January, shortly after the budget had been adopted, subsidies were granted to the fishing industry, and public service salaries were increased. To prevent a deterioration of the budget, the Government reduced most investment expenditures by 20 per cent. The cut that was realised was somewhat smaller than the increases in other expenditures. Estimates for the first eight months of the year suggest that the budget is developing in a less favourable manner than originally expected, and that the year as a whole may show a sizeable deficit, although a lower one than in 1964.

The 1966 budget presented to the Althing aims at a small surplus; if realised, this would represent an appropriate tightening of fiscal policy which would serve to improve the balance in the economy. The proposed

fiscal restraint is expected to be achieved by a 20 per cent cut in most investment expenditure in relation to the original 1965 budget, resulting in total investment outlays close to the actual 1965 expenditure. In addition to the effects of an expanded tax basis, the budget contains increased monopoly revenue and a substantial rise of various fees.

TABLE 6. CENTRAL GOVERNMENT FINANCES 1962-1966

I. kr. million.

	1962	1963	1964	AP- PRO- VED BUD- GET 1965	PRO- POSED BUD- GET 1966
<b>CURRENT REVENUE :</b>					
Direct taxes .....	119	183	259	375	406
Indirect taxes .....	1,561	1,904	2,233	2,637	2,799
of which: general import duties .....	1,109	1,332	1,422	1,491	1,543
domestic sales tax .....	193	234	537	849	938
Revenue of government monopolies and enterprises .....	306	361	379	431	472
Other .....	66	70	76	80	108
Total .....	2,052	2,518	2,947	3,523	3,784
<b>CURRENT AND INVESTMENT EXPENDITURE :</b>					
Subsidies .....	378	429	581	726	773
Social securities and pensions .....	463	563	769	827	961
Transportation and communication .....	201	246	192	184	141
Economic development .....	149	202	250	427	429
« Capital » investment expenditure <sup>1</sup> .....	63	75	112	142	127
Other .....	565	738	1,172	1,138	1,272
Total .....	1,819	2,253	3,076	3,444	3,703
<b>SURPLUS ON CURRENT AND INVESTMENT ACCOUNT</b>					
Other Transactions <sup>2</sup> :	233	265	— 129	79	81
Amortisation of debt .....	— 14	— 16	— 15	— 13	— 13
Contribution to the State Guarantee Fund .....	— 59	— 38	— 46	— 46	— 50
New lending .....	— 16	— 84	— 63	— 10	—
Miscellaneous transactions .....	18	— 3	— 49	7	6
Total .....	— 71	— 141	— 173	— 62	— 57
<b>NET CHANGE IN FLOATING DEBT, BANK DEPOSITS AND CASH HOLDINGS .....</b>					
	162	124	— 302	17	25

1. « Capital » expenditure is so designated for budgetary classification purposes; other items include investment expenditure also.

2. Loan transactions in which the Treasury has only acted as an intermediary are not included.

Source: Iceland's submission to OECD.

Expenditure of municipalities constitutes an important element of demand, representing about 9 per cent of GNP. This type of expenditure increased by 30 per cent in current prices between 1962 and 1963. The

Government has no direct influence on the expenditure policies of the municipalities, although the latter, by law, are entitled to financial support from the Government for various investment projects, e.g., schools and hospitals. The Government can, however, by legislation make changes in municipal tax schedules, thereby influencing their ability to spend. In the spring of 1965 these tax schedules were reduced. The authorities have also urged the most important municipalities to restrict the growth of their expenditures; the municipality of Reykjavik has taken steps in this direction.

### *Monetary Policy*

Table 7 shows that, in 1964 and 1965, the increase in the foreign exchange reserves and the deterioration of the Government's net position vis-à-vis the Central Bank associated with the budget deficits resulted in a considerable increase in bank liquidity. To a large extent the improvement of the banks' net position with the Central Bank reflected an increase in the reserves which the banks are obliged to keep with the Central Bank according to existing minimum reserve requirements; this significantly limited the increase in the credit base of the banks. But there was also an increase in the banks' free reserves which formed the basis for a strong expansion of bank credit.

The volume of outstanding commercial and savings bank credit increased by 12 per cent in 1964, somewhat less than in 1963 (15 per cent) when the expansion was very steep in the first part of the year. The increase in bank credit accelerated somewhat in 1965; the first eight months saw an increase of 12 per cent<sup>1</sup>, compared with one of 11 per cent in the corresponding period of 1964.

In view of the strong external position and the relative stability of prices achieved in the second half of 1964, the Central Bank took steps to reduce somewhat the very high interest rates of commercial and savings banks as well as its own rates. These measures entailed some change in the structure of rates, with increased differentiation according to the terms of the loans and the quality of the collateral.

In 1964, the general minimum reserve requirements were raised to 25 per cent of the increase in demand and savings deposits; previously the ratios had been 20 per cent of the increase in demand deposits, and 15 per cent of the increase in savings deposits. Special reserve requirements of 5 per cent of the increase in total deposits were introduced in 1964 to offset the effect on bank liquidity resulting from special purchases of securities by the Central Bank associated with the implementation of the 1964

1. After adjustment for a book-keeping transaction which served to inflate the 1965 figure.

TABLE 7. MONETARY SURVEY 1962-1965. CHANGES IN MAJOR ITEMS

I. kr. million.

	1962	1963	1964	JAN.-AUG.	
				1964	1965
<b>a) CENTRAL BANK</b>					
Claims on Government .....	- 81	- 21	198	254	316
Claims on private .....	202	6	30	10	- 144
Claims on banks .....	- 155	72	49	107	66
Foreign assets (net) .....	875	163	327	43	94
<b>Total</b> .....	<b>841</b>	<b>220</b>	<b>604</b>	<b>414</b>	<b>332</b>
Reserve money <sup>1</sup> .....	533	141	590	433	378
Restricted deposits .....	47	- 19	8	- 2	- 191
Government deposits .....	55	147	37	- 31	124
Counterpart funds .....	186	- 61	- 30	- 26	- 20
Other .....	20	12	- 1	40	41
<b>Total</b> .....	<b>841</b>	<b>220</b>	<b>604</b>	<b>414</b>	<b>332</b>
<b>b) COMMERCIAL AND SAVINGS BANKS</b>					
Lending .....	585	762	712	661	953
Financed by :					
Deposits .....	979	658	1,085	754	823
of which: demand .....	209	- 63	316	360	290
savings .....	770	721	769	394	533
Borrowing from Central Bank .....	- 156	63	47	117	71
Borrowing from abroad .....	234	19	6	- 5	- 83
Decline in foreign assets .....	- 41	- 16	- 7	- 6	- 1
Decline in reserves .....	- 356	- 19	- 386	- 357	- 251
of which: blocked reserves <sup>2</sup> .....	- 273	- 206	- 301	- 183	- 206
Decline in restricted deposits .....	- 47	19	- 8	2	191
Other (increase in other liabilities) .....	- 29	37	- 25	158	204
<b>Total</b> .....	<b>584</b>	<b>761</b>	<b>712</b>	<b>663</b>	<b>954</b>

1. Currency plus deposits of commercial banks with Central Bank.

2. Time deposits and blocked deposits under existing reserve requirements.

Source: International Financial Statistics.

wage agreement<sup>1</sup>. The 25 per cent marginal reserve ratio was maintained in 1965, but it was decided that the required reserves should not exceed 18 per cent of total deposits of each individual bank. The minimum amount to be blocked each year was increased from 2 to 3 per cent of total deposits.

The banks and largest savings banks in 1963 agreed to participate in the financing of public investment funds; 15 per cent of the increase in their deposits were to be used for this purpose. In 1964 the ratio was reduced to 10 per cent; this rate was maintained in 1965.

1. This was a special financing to enable the Housing Fund to meet its commitments to finish the backlog of applications.

The frame agreement concluded in June 1964 between the authorities and the labour market organisations included a decision to tie loans from the Housing Administration to the index of building costs. In November 1964, the Treasury floated its first issue of index-linked savings certificates (Kr. 75 million); a second issue followed in May 1965 (Kr. 47 million); and a third one was floated in November (Kr. 28 million). These funds are being used mainly to finance the public investment projects. The Government has submitted a Bill to the Althing which, if adopted, would authorise the tying of long-term financial contracts to a price index. The object of this policy is to encourage long-term financial savings and discourage speculative investment in housing and other real assets, thereby contributing to ease the pressure of demand.

Important changes will be made in the set-up of long-term credit institutions. The existing Development Bank will be replaced by a Development Fund which will serve as the central body for channelling long-term finance to the various public investment funds and to major public investment projects; it will no longer lend directly to business firms. The Development Fund will be administered by the Central Bank. The authorities hope that these changes will improve the allocation of available investment finance, and facilitate a more active use of credit policy.

### *Incomes Policy*

The Government has made considerable efforts to keep the rise in wages, salaries and other incomes within reasonable limits, and to achieve better co-ordination of wage settlements in individual industries. The 1964 settlements represented an improvement in wage determination. The settlements covered a period of one year; in earlier years wage contracts had generally not covered a fixed period and were therefore open to renegotiation at any time. The rise in costs resulting from the settlements, although considerable, was lower than in earlier years. And the agreement no doubt reflected an improvement in labour relations, although co-ordination of wage settlements fell considerably short of what was envisaged. But the 1965 wage round represented a serious setback; only a loose and informal recognition of some main lines was achieved, and the average increase in wage costs was much larger than in 1964.

The breakdown of the machinery for determining the annual adjustment of farmers' incomes and prices provides the authorities with an opportunity to establish a more appropriate system. Under the system applied so far, the Government has been debarred from influencing either the magnitude of adjustment of farmers' incomes or the change in individual agricultural prices paid to farmers, thereby excluding government influence from important areas of agricultural policy. One result of this policy has been a strong increase in dairy products of which there is a sizeable surplus which can only be exported with the aid of subsidies,

at a great loss for the economy as a whole. Production of sheep products, however, for which natural conditions are much better, has hardly increased at all over the last five years. In 1964 the agricultural export subsidies reached the ceiling imposed by existing legislation, i.e., 10 per cent of the value of agricultural output.

To improve the contact between the authorities and the various interest groups in the economy, an Economic Council will be established. The Council will consist of representatives of the authorities, the trade unions, private business associations and the farmers, and will probably meet at least once a quarter.

### III. POLICY CONCLUSIONS

Restoration of more stable economic conditions remains a major problem, with three main policy aspects. First, the pressure of demand remains too strong. The budget has exerted an expansionary impact on demand, and the financing of the budget deficit by Central Bank credit together with the rise in foreign exchange reserves has entailed strong increases in bank liquidity and credit. Moreover, the income settlements have clearly been excessive.

To reduce the pressure of demand, a considerable tightening of budget policy is desirable. This may not be easy, although a balanced 1966 budget has been submitted to the Althing. If unforeseeable events should make it impossible to achieve the tightening proposed by the Government, entailing continued budget deficit, the manner in which the deficit is financed will have to be considered so as to minimise the increase in bank liquidity. Measures to restrict the expansion of bank credit may also have to be considered, although much may depend on whether the Government succeeds in tightening budget policy. If the banks' free reserves should continue to grow, the authorities may wish to take steps to limit the increase in bank lending.

A particular problem of demand management will arise if the plans for the construction of an aluminium plant are carried through; Press reports suggest that the negotiations between the authorities and a foreign firm are making progress. The construction of the aluminium plant which is planned eventually to produce 60,000 tons a year, is an important element of the Government's policies to diversify the economy. But the plant, together with the development of the hydro-electric energy required to operate it, will represent an investment effort which is very large in relation to the Icelandic economy. It is therefore essential that adequate resources should be freed from other activities so that the pressure on resources will not be increased.

Second, given the very considerable income increases negotiated in 1965, there is clearly a danger that the price-wage spiral will continue even if appropriate budgetary and monetary measures to reduce demand pressures were adopted. Apart from an increase in subsidies, which would not seem desirable, there is little the authorities can do which would have a very immediate influence on the movements of prices and incomes. A further cut in customs duties, however, should increase competition, encourage rationalisation, and limit the rise in prices. Given the relatively strong external position, and the fact that tariffs generally remain high, some further reduction of tariff protection might be appropriate, especially in the context of multilateral negotiations that would provide reciprocal benefits to Iceland.

Third, the authorities will no doubt continue their efforts to develop an incomes policy. Since wages and salaries are now linked to prices, it might be possible to achieve wage contracts for a longer period than one year. Further efforts to achieve better co-ordination of wage settlements are desirable, despite the discouraging 1965 experience. It would seem appropriate for the Government to take a more active part in the negotiations of farmers' incomes and prices than in the past; these negotiations very often have important consequences for the government budget; and prices paid to farmers constitute an important determinant of the volume and composition of agricultural production. Moreover, better co-ordination of the negotiation of farmers' incomes and wages would seem desirable. Such co-ordination might be easier to achieve if the negotiations were concerted in time. The Economic Council could *inter alia* play an important role in incomes policy. It will provide a forum for confrontation of views of all parties concerned. This should help to produce better understanding of the real scope for income increases as well as of the pattern of income adjustment that a given situation requires, thereby reducing competition between individual branches to improve their relative positions.

If the authorities manage to solve the stabilisation problems discussed above, more attention could be devoted to the longer-term development of the economy — notably the important problems related to resource allocation and structural change. The restoration of more stable economic conditions would improve the prospects for continued strong economic growth.

#### IV. SUMMARY

The real national income showed a further increase in 1965. Output continued to grow, and the terms of trade rose significantly because of an increase in export prices. The balance of payments remained strong; the current deficit declined and the foreign exchange reserves continued to rise.

But these favourable features were accompanied by continued inflation. The achievement of better stability would seem to require action in three directions. To ease the pressure on resources, a tightening of budget policy would seem essential, and a tighter credit policy may also be needed. To put a brake on the price-wage spiral, the authorities may wish to go further in reducing tariff protection. To develop an incomes policy, better co-ordination of wage and income settlements would be desirable. The Government is making considerable efforts in this direction, but co-operation of labour, management and farmers is an essential condition for success.



***STATISTICAL ANNEX***

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TABLE I. NATIONAL ACCOUNTS 1958-1964

	<i>I. Kr. Mill.</i>							<i>Per cent of GNP</i>			
	1958	1959	1960	1961	1962	1963	1964	1958	1962	1963	1964
<i>Current prices:</i>											
1. Consumers expenditure .....	4,113	4,758	5,376	6,036	7,451	8,985	11,045	64.6	64.9	65.7	64.0
2. Public consumption .....	582	631	721	802	963	1,227	1,505	9.1	8.4	9.0	8.7
3. Private fixed asset formation .....	1,471	1,709	2,179	1,805	2,316	3,295	4,183	23.1	20.2	24.1	24.2
4. Public fixed asset formation .....	194	233	320	390	513	558	786	3.1	4.5	4.1	4.6
5. Change in stocks .....	95	104	- 93	163	- 110	- 171	65	1.5	-1.0	- 1.3	0.4
6. Exports of goods and services .....	1,536	1,556	3,790	4,315	5,612	6,137	7,020	24.1	48.8	44.9	40.7
7. Imports of goods and services .....	1,627	1,777	4,204	4,084	5,257	6,357	7,350	25.5	45.8	46.5	42.6
8. Gross national product at market prices .....	6,364	7,214	8,089	9,427	11,488	13,674	17,254	100.0	100.0	100.0	100.0
<i>1958 — prices:</i>											
1. Consumers expenditure .....	4,113	4,369	4,391	4,462	4,899	5,242	5,399	64.6	66.5	65.2	63.5
2. Public consumption .....	582	596	656	669	717	770	800	9.1	9.7	9.6	9.4
3. Private fixed asset formation .....	1,471	1,572	1,622	1,226	1,426	1,925	2,183	23.1	19.4	23.9	25.7
4. Public fixed asset formation .....	194	220	268	290	348	358	449	3.1	4.7	4.5	5.3
5. Change in stocks .....	95	73	- 17	71	- 71	- 69	28	1.5	-0.9	-0.9	0.3
6. Exports of goods and services .....	1,536	1,538	1,695	1,721	2,100	2,249	2,385	24.1	28.5	28.0	28.0
7. Imports of goods and services .....	1,627	1,771	1,826	1,710	2,054	2,435	2,740	25.5	27.9	30.3	32.2
8. Gross national product at market prices .....	6,364	6,597	6,789	6,729	7,365	8,040	8,504	100.0	100.0	100.0	100.0

Source: Icelandic submission to the OECD.

TABLE II. GROSS FIXED ASSET FORMATION 1959-1964 BY INDUSTRY OF USE

1960 PRICES	I. Kr. Million						Percentage distribution					
	1959	1960	1961	1962	1963	1964	1959	1960	1961	1962	1963	1964
GROSS FIXED ASSET FORMATION, TOTAL .....	2,300	2,499	1,946	2,274	2,971	3,494	100.0	100.0	100.0	100.0	100.0	100.0
I. Industrial asset formation .....	1,078	1,337	955	1,132	1,579	1,933	46.9	53.5	49.1	49.8	53.1	55.3
1. Agriculture .....	249	208	216	246	290	334	10.8	8.3	11.1	10.8	9.7	9.5
2. Fisheries .....	204	478	108	151	287	366	8.9	19.1	5.6	6.7	9.7	10.5
3. Fish processing .....	108	108	93	179	174	154	4.7	4.3	4.8	7.9	5.8	4.4
4. Manufacturing other than 3 .....	134	138	127	154	229	241	5.8	5.5	6.5	6.8	7.7	6.9
5. Transport equipment .....	230	247	234	223	296	572	10.0	9.9	12.0	9.8	10.0	16.4
6. Commercial buildings .....	57	97	111	110	152	142	2.5	3.9	5.7	4.8	5.1	4.1
7. Various machinery and equipment .....	96	61	66	69	151	124	4.2	2.5	3.4	3.0	5.1	3.5
II. Residential construction .....	663	578	442	498	638	705	28.8	23.1	22.7	21.9	21.5	20.2
III. Public works and buildings .....	559	584	549	644	754	856	24.3	23.4	28.2	28.3	25.4	24.5
1. Electric power, generation and distribution .....	188	140	98	108	142	122	8.2	5.6	5.1	4.7	4.8	3.5
2. Geothermal heating and water supply .....	55	58	39	58	91	91	2.4	2.3	2.0	2.6	3.0	2.6
3. Communication .....	200	254	246	304	349	414	8.7	10.2	12.6	13.4	11.8	11.8
4. Public buildings .....	116	132	166	174	172	229	5.0	5.3	8.5	7.6	5.8	6.6

Source: Icelandic submission to the OECD.

TABLE III. FISHERIES AND AGRICULTURE

	UNITS	1958	1959	1960	1961	1962	1963	1964	1965
<b>FISHERIES AND FISH PROCESSING :</b>									
<i>Value of production:</i>									
1. Current prices .....	I. Kr. mill.	1,129	1,136	2,345	3,083	3,459	3,747	4,658	
2. 1960 prices .....	I. Kr. mill.	2,467	2,348	2,345	2,571	2,725	2,889	3,132	
<i>Tonnage of fishing fleet, end of year<sup>1</sup>:</i>									
3. Trawlers .....	GRT	29,024	28,367	33,470	33,470	32,816	30,027	28,046	26,681 <sup>3</sup>
4. Motor boats.....	«	28,774	32,092	37,528	39,866	41,834	45,144	51,637	53,769 <sup>3</sup>
5. Total .....	«	57,798	60,459	70,998	73,336	74,650	75,171	79,683	80,450 <sup>3</sup>
<b>AGRICULTURE :</b>									
<i>Value of production<sup>2</sup>:</i>									
6. Current prices .....	I. Kr. mill.	737	769	838	1,025	1,210	1,419	1,601	
7. 1960 prices .....	I. Kr. mill.	824	816	838	904	939	923	903	
<i>Cultivation and livestock, end of year :</i>									
8. Cultivated grassland .....	1,000 hect.	75.4	79.0	82.7	87.0	90.9	95.3	101.3	
9. Sheep .....	1,000 heads	774.8	794.9	833.8	829.8	777.3	736.4	766.4 <sup>3</sup>	
10. Cattle .....	1,000 heads	48.0	49.9	53.4	55.7	55.9	57.2	59.7	

1. Including whale-catchers, excluding open boats.

2. Excluding change in livestock.

3. Provisional figures.

Source: Icelandic submission to the OECD.

TABLE IV. PRICES

*Indices, March 1959 = 100.*

	1962				1963				1964				1965		
	MARCH	JUNE	SEPT.	DEC.	MARCH	JUNE	SEPT.	DEC.	MARCH	JUNE	SEPT.	DEC.	MARCH	JUNE	SEPT.
1. Goods and services . . . .	132	133	138	143	147	149	154	166	180	187	185	186	191	194	197
2. <i>of which</i> : Food . . . . .	129	131	138	146	150	153	160	180	198	206	199	200	205	208	211
3. Rent . . . . .	103	103	104	104	105	107	108	108	109	113	115	115	116	122	126
4. Consumer prices total (1 + 3) . . . . .	127	128	132	136	140	142	146	156	168	174	173	174	178	181	185
5. Direct taxes less transfers	28	24	45	45	47	47	72	72	80	80	92	92	92	92	90
6. Cost of living index (1 + 3 + 5) . . . . .	116	116	122	126	129	131	138	146	158	163	163	165	168	171	174

*Index of Building Costs, February 1959 = 100.*

	1962			1963			1964			1965		
	FEBRU- ARY	JUNE	OCTOBER	FEBRU- ARY	JUNE	OCTOBER	FEBRU- ARY	JUNE	OCTOBER	FEBRU- ARY	JUNE	OCTOBER
7. Index of building costs . . .	130	132	135	137	138	148	159	165	165	178	186	201

Source: Hagtidindi.

TABLE V. CONSOLIDATED STATEMENT OF THE CENTRAL BANK, END OF PERIOD

I. Kr. million.

	1959	1960	1961	1962	1963	1964	JUNE 1964	JUNE 1965
NET ASSETS .....	879.7	904.7	915.4	1,201.6	1,226.9	1,323.4	1,280.9	1,443.0
<i>Treasury and public institutions</i> .....	73.0	56.9	52.5	60.6	— 86.9	130.2	186.3	362.3
Advances .....	139.4	203.6	160.6	135.8	76.7	280.3	288.3	560.9
Securities .....	95.5	112.3	201.7	294.6	353.8	403.9	373.8	421.3
— Deposits .....	— 161.9	— 259.0	— 309.8	— 369.8	— 517.4	— 554.0	— 475.8	— 619.9
<i>Monetary institutions</i> .....	940.5	813.4	250.9	— 375.6	— 352.8	— 752.8	— 584.8	— 784.5
Rediscounts, loans on bonds and advances .....	992.7	951.4	841.8	686.7	748.6	797.2	767.3	757.3
— Deposits .....	— 52.2	— 138.0	— 590.9	— 1,062.3	— 1,101.4	— 1,550.0	— 1,352.1	— 1,541.8
<i>Net foreign assets</i> .....	— 191.6	— 288.8	185.6	1,063.0	1,225.2	1,551.2	1,251.6	1,645.7
Gold .....	16.5	38.6	43.7	43.7	43.7	43.7	43.7	43.7
Foreign assets .....	213.1	643.3	1,171.5	1,465.9	1,459.9	1,778.7	1,516.7	1,949.7
— Foreign liabilities .....	— 421.2	— 970.7	— 1,029.6	— 446.6	— 278.4	— 271.2	— 308.8	— 347.7
<i>Investment funds, net</i> .....	37.9	28.8	297.7	331.8	319.2	272.5	305.5	91.6
<i>Loans to Treasury covering IBRD. Subscription</i> .....	19.9	103.2	11.3	4.8	4.7	4.7	4.7	10.3
<i>Treasury's Devaluation Account</i> .....	—	191.2	— 2.1	— 2.5	— 2.6	— 2.6	— 2.6	— 2.6
<i>Net IMF subscription</i> .....	—	—	119.5	119.5	120.1	120.2	120.2	120.2
NET LIABILITIES .....	879.7	904.7	915.4	1,201.6	1,226.9	1,323.4	1,280.9	1,443.0
Notes .....	411.6	413.3	509.9	583.8	654.4	776.5	723.0	852.3
Counterpart funds .....	226.9	232.2	205.2	391.2	330.1	299.6	324.8	316.3
Sundry .....	15.3	15.0	— 33.3	— 9.9	— 3.5	— 8.8	— 13.0	18.0
Own capital .....	225.9	244.2	233.6	236.5	245.9	256.1	246.1	256.4

Source: Icelandic submission to the OECD.

TABLE VI. SUMMARY STATEMENT OF THE COMMERCIAL AND SAVINGS BANKS, END OF PERIOD

I. Kr. million.

	1959 <sup>1</sup>	1960 <sup>1</sup>	1961	1962	1963	1964	JUNE 1964	JUNE 1965
<i>Commercial Banks:</i>								
Total credit.....	3,397.5	3,651.8	4,062.2	4,525.5	5,209.5	5,817.1	5,588.6	6,476.8
Total assets.....	3,638.1	4,529.2	5,477.9	6,650.8	7,501.0	8,736.3	8,462.7	9,546.9
Total savings deposits.....	1,470.0	1,772.9	2,417.1	3,086.5	3,730.9	4,425.4	4,027.8	4,894.9
Total deposits on current account.....	589.6	556.6	827.9	942.9	831.3	1,073.1	1,027.0	1,205.4
<i>Savings Banks:</i>								
Total credit.....	501.5	545.7	485.7	607.4	685.9	791.1	735.6	852.7
Total savings deposits.....	509.5	586.2	549.3	697.6	809.3	947.8	873.5	1,025.7
Total deposits on current account.....	41.0	37.7	30.2	44.8	48.9	64.5	50.3	62.9
<i>Commercial and Savings Banks:</i>								
Total credit.....	3,899.0	4,197.5	4,547.9	5,132.9	5,895.4	6,608.2	6,324.2	7,329.5
Total savings deposits.....	1,979.5	2,359.1	2,966.4	3,784.1	4,540.2	5,373.2	4,901.3	5,920.6
Total deposits on current account.....	630.6	594.3	858.1	987.7	880.2	1,137.6	1,077.3	1,268.3

1. During 1963 and 1964 seven savings banks have been taken over by or converted into commercial banks. In the table, figures for commercial banks for 1961-1965 include those of the seven savings banks, whereas the figures 1959 and 1960 are uncorrected. Total credit of these savings banks in 1961 amounted to I. Kr. million 175.8. The consolidated credit of commercial and savings banks is not affected and can therefore be compared over the whole of the period.

Source: Icelandic submission to the OECD.



TABLE VII. CREDITS GRANTED BY COMMERCIAL AND THREE LARGEST SAVINGS BANKS

I. Kr. million.

	CHANGES DURING				STATUS 31/12 1964	CHANGES DURING		STATUS 30/6 1965
	1961	1962	1963	1964		Jan.-June 1964	Jan.-June 1965	
1. Agriculture and processing of agricultural products	+ 69.5	+ 65.4	+ 124.6	+ 40.7	732.5	- 49.7	- 48.3	684.2
2. Fisheries and fish processing	- 86.7	+ 30.7	+ 74.7	+ 92.9	1,498.2	+ 163.9	+ 85.9	1,584.1
3. Commerce	+ 107.9	+ 160.3	+ 215.0	+ 105.1	1,358.4	+ 131.9	+ 189.9	1,548.3
4. Manufacturing	+ 81.7	+ 76.3	+ 129.4	+ 95.7	851.1	+ 15.5	+ 65.1	916.2
5. Construction	+ 39.7	+ 79.6	+ 54.5	+ 103.5	698.8	+ 27.6	+ 38.9	737.7
6. Transportation and communication	+ 26.3	+ 12.7	+ 13.9	+ 27.6	127.0	+ 18.3	+ 52.9	179.9
7. General government <sup>1</sup>	+ 17.3	+ 30.7	+ 22.0	+ 119.3	391.1	+ 45.5	+ 72.6	463.7
8. Monetary institutions	- 0.7	- 0.5	+ 1.9	- 1.8	1.8	- 3.0	+ 185.6	187.4
9. Miscellaneous	+ 57.1	+ 61.6	+ 77.9	+ 67.7	530.9	+ 46.1	+ 36.1	567.0
Total	+ 312.1	+ 516.8	+ 713.9	+ 650.7	6,189.8	+ 396.1	+ 678.7	6,868.5

1. Including electric utilities.

Source: Icelandic submission to the OECD.

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