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November 21, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Iceland - Exchange Rate

The staff has received the following information dated November 20, 1984 from Mr. Tvedt:

Effective today, November 20, 1984, the exchange rate of the Icelandic króna will be devalued by 12 percent in terms of a trade weighted basket of currencies. The devaluation is undertaken in order to restore the level of competitiveness prevailing before the recent wage settlements, and to prevent a further erosion of the external accounts. Following the devaluation, the previous policy of maintaining a stable exchange rate will be restored in order to provide a framework for a continuation of the anti-inflationary policies of the Government.

The quotation of foreign exchange rates, which was suspended yesterday, will be resumed at the opening of business today.

An account of Iceland's exchange rate policy against the context of the wage settlements referred to and recent economic developments will be contained in a forthcoming supplement to the staff report for the 1984 Article IV consultation with Iceland (SM/84/251, 11/7/84) scheduled for Board discussion on Wednesday, November 28, 1984.

Other Distribution:
Department Heads