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ROOM C-120

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January 6, 1983

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

The Fund received on January 4, 1983, the following communication from the Central Bank of Iceland:

The Central Bank of Iceland has decided, with the consent of the Icelandic Government to devalue the Icelandic krona by 9 per cent effective as of the opening of business tomorrow January 5. This change implies a weighted average increase of 9.9 per cent in the price of foreign currency in terms of Icelandic krona. The foreign exchange departments of Icelandic banks, which were closed today, will reopen tomorrow.

This change in the exchange rate of the krona was necessitated by large increases in the operating cost of fish processing resulting from the recent 14 per cent increase in raw fish prices and the need to protect the competitiveness of this sector.

Iceland's last major devaluation of 14 per cent occurred on August 23, 1982, and was discussed by the Executive Board on September 27, 1982 in the context of the 1982 Article IV consultation with Iceland. Since the August devaluation, the Icelandic krona has been depreciated in small steps which, together with the present devaluation, cumulate to 18 1/2 per cent in effective terms. This is to be seen against the background of a rate of inflation in Iceland which has amounted to some 60 per cent over the last year.

The importance of timely adjustment of exchange rate policy was stressed by Directors during the recent Board discussion of the Article IV consultation with Iceland.

Other Distribution:
Department Heads