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ROOM C-120

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EBD/83/154

May 31, 1983

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

The Fund has received the following communication from the Central Bank of Iceland dated May 27, 1983:

The Central Bank of Iceland has decided with the consent of the Icelandic Government to devalue the Icelandic krona by 14.6 per cent effective as of the opening of business today, May 27. This change implies a weighted average increase of 17 per cent in the price of foreign currency in terms of the Icelandic krona. The foreign exchange departments of Icelandic banks which have been closed for the past two days have now reopened.

This change in the exchange rate is necessitated by significant increases in the domestic cost level as well as falling fish catches. The devaluation will help maintain the competitiveness of export industries and contain the deficit on the current account of the balance of payments.

At the same time the incoming Government has presented an economic program with the principal aim of reducing the inflation rate substantially, which includes i.a. the abolition of the present link between prices and wages for two years. The anti-inflation program will be supported with increased monetary restraint.

Other Distribution:
Department Heads