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SM/85/333  
Correction 1

CONTAINS CONFIDENTIAL  
INFORMATION

January 17, 1986

To: Members of the Executive Board  
From: The Secretary  
Subject: Iceland - Staff Report for the 1985 Article IV Consultation

The following corrections have been made in SM/85/333 (12/19/85):

Page 22, under "Real disposable income," columns 3-5:

for "-10.3 0.5 5.5"  
read "-10.7 0.3 5.5 4/"

add footnote 4/ at bottom of page.

A corrected page is attached.

Att: (1)

Other Distribution:  
Department Heads

B. Nonfinancial Relations

VII. Exchange rate arrangements

Iceland does not maintain exchange margins. There is no organized foreign exchange market in Iceland, and official buying and selling rates for the U.S. dollar, the principal trading and reserve currency, are quoted by the Central Bank of Iceland. The effective exchange rate depreciated by 19 percent during 1984 and by a further 12 percent during the first ten months of 1985. On December 3, 1985 the official market rates were ISK 41.45 buying, and ISK 41.57 selling per US\$1. There are no multiple currency practices or exchange restrictions.

VIII. Last Article IV consultation

Discussions for the 1984 Article IV consultation were held in Reykjavik during the period September 6-17, 1984. The Staff Report (SM/84/251, 11/7/84 and Supplement 1) was discussed by the Executive Board on November 28, 1984 (EBM/84/170).

Iceland: Basic Data

Area: 103,100 square kilometers  
Population: (December 1984) 240,443  
GNP in 1984: ISK 77,012 millions; per capita SDR 9,859

|   | <u>1981</u>                        | <u>1982</u> | <u>1983</u> | <u>1984</u> | <u>1985</u> <u>1/</u> |
|---|------------------------------------|-------------|-------------|-------------|-----------------------|
| <u>Demand and supply</u>                | <u>(Volume changes in percent)</u> |             |             |             |                       |
| Private consumption                     | 4.7                                | 1.4         | -8.3        | 3.0         | 4.5                   |
| Public consumption                      | 7.2                                | 5.5         | 5.5         | --          | 3.0                   |
| Gross fixed investment                  | 1.0                                | -0.5        | -12.3       | 6.8         | 0.5                   |
| Final domestic demand                   | 4.2                                | 1.6         | -6.8        | 3.3         | 3.3                   |
| Changes in stocks <u>2/</u>             | 0.6                                | 1.2         | -3.6        | 2.3         | -1.3                  |
| Total domestic demand                   | 4.7                                | 2.8         | -10.1       | 5.6         | 2.0                   |
| Exports of goods and services           | 1.4                                | -9.7        | 10.3        | 2.2         | 5.7                   |
| Imports of goods and services           | 7.2                                | -1.1        | -5.7        | 8.7         | 4.9                   |
| Gross domestic product                  | 2.6                                | -0.3        | -5.0        | 3.1         | 2.4                   |
| Gross national product                  | 2.1                                | -0.9        | -5.7        | 2.5         | 2.0                   |
| Marine export production                | 1.5                                | -12.7       | -6.6        | 11.0        | 3.5                   |
| <u>Labor market</u>                     | <u>(Annual averages)</u>           |             |             |             |                       |
| Unemployment, number of persons         | 406                                | 770         | 1,184       | 1,480       | 1,110 <u>3/</u>       |
| Unemployment, as percent of labor force | 0.5                                | 0.7         | 1.0         | 1.3         | 0.9 <u>3/</u>         |
| <u>Incomes and prices (averages)</u>    | <u>(Changes in percent)</u>        |             |             |             |                       |
| Earnings per employee                   | 56.2                               | 53.8        | 56.5        | 27.9        | 36.0                  |
| Cost of living index                    | 50.9                               | 51.0        | 84.3        | 29.2        | 32.5                  |
| Real disposable income                  | 7.0                                | 2.2         | -10.7       | 0.3         | 5.5 <u>4/</u>         |
| Terms of trade                          | 1.3                                | 3.8         | 4.0         | 1.2         | -0.5                  |
| <u>Balance of payments</u>              | <u>(In millions of SDRs)</u>       |             |             |             |                       |
| Exports, f.o.b.                         | 767                                | 622         | 700         | 725         | 755                   |
| Imports, f.o.b.                         | -790                               | -760        | -683        | -735        | -769                  |
| Trade balance                           | -23                                | -138        | 17          | -10         | -14                   |
| Net services and transfers              | -100                               | -94         | -67         | -116        | -106                  |
| Current balance                         | -123                               | -232        | -50         | -127        | -120                  |
| Direct investment                       | 46                                 | 33          | 1           | 14          | ...                   |
| Long-term borrowing, net                | 125                                | 174         | 109         | 100         | 78                    |
| Short-term capital, net                 | 1                                  | -61         | -66         | 6           | 125                   |
| Balance on capital account              | 171                                | 147         | 44          | 120         | 203                   |

1/ Official estimate of November 1985.

2/ Change as percent of previous year's GNP.

3/ Average for January-September.

4/ Staff estimate.