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**IMMEDIATE
ATTENTION**

EBD/82/317

December 23, 1982

To: Members of the Executive Board

From: The Secretary

Subject: Iceland - Extension of Approval of Multiple Currency Practice

It is not proposed to bring the attached memorandum to the agenda of the Executive Board for discussion unless an Executive Director so requests by noon on Wednesday, December 29, 1982. In the absence of such a request, the draft decision will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

ICELAND

Extension of Approval of Multiple Currency Practice

Prepared by the European and the
Exchange and Trade Relations Departments

(In consultation with the Legal Department)

Approved by Brian Rose and Subimal Mookerjee

December 22, 1982

In Decision No. 7210-(82/128) adopted September 27, 1982, the Executive Board granted approval until December 31, 1982 for the retention by Iceland of an exchange restriction and a multiple currency practice. The multiple currency practice arose from the imposition for fiscal reasons on September 20, 1978 by Iceland of a 10 per cent exchange tax on purchases of foreign exchange for travel abroad. This practice, and the circumstances which led to its retention, were described in the Staff Report for the 1982 Article IV consultation with Iceland (SM/82/144, 7/21/82 and Supplement 1, 9/16/82) and in the report on recent economic developments (SM/82/153, 8/3/82). The exchange restriction resulting from the deposit requirement on furniture imports will be eliminated on December 31, 1982, as intended.

Iceland's balance of payments position has recently deteriorated further, due mainly to supply constraints related to poor fish catch. The Executive Board granted Iceland a purchase equivalent to SDR 21.5 million under the compensatory financing facility (Decision No. 7270-(82/161), adopted December 17, 1982). In this connection, Iceland stated that it will cooperate with the Fund in efforts to find, where required, appropriate solutions for its balance of payments difficulties. A temporary retention of the travel tax is for the time being considered necessary by the Icelandic authorities in view of the external situation and the need to balance the budget.

The following draft decision is, therefore, proposed for adoption by the Executive Board:

The approval of Iceland's multiple currency practice under paragraph 2 of Decision No. 7210-(82/128), adopted September 27, 1982, is extended until December 31, 1983 or the completion of the next Article IV consultation, whichever is the earlier. The Fund urges the Icelandic authorities to adopt alternative solutions to raise revenue which would allow elimination of this practice as soon as possible.