1. This decision is taken by the Executive Directors in concluding the 1966 consultation with Iceland, pursuant to Article XIV, Section 4 of the Articles of Agreement.

2. In the last four years output was rising sharply. In 1965, real national income rose by 9 per cent partly because of a substantial further improvement in the terms of trade brought about mainly by strongly rising export prices for fish and fish products. The current account of the balance of payments also improved in 1965, partly because of reduced imports of ships and aircraft. There was again a sizable inflow of capital and the gold and foreign exchange reserves of the banks rose by $7.4 million and net reserves amounted to $44.4 million at the end of 1965. The budget showed a sizable deficit and the monetary expansion, under the influence of the increase in foreign exchange reserves and a substantial outflow of Central Bank funds, was considerable. Personal incomes have risen substantially. These developments led to considerable increases in unit costs and prices. In order to obtain a greater degree of price stability and thus strengthen the ability of the economy to absorb effects of a possible moderation in the upward trend of exports of fish and fish products, renewed efforts should be made, especially in the forthcoming wage and farm price negotiations, to restrain the rise in incomes to a level commensurate with the increases in productivity.

3. The Fund believes that efforts toward the above end would be greatly facilitated by fiscal and monetary restraint. Accordingly it notes with satisfaction that the budgetary position was much strengthened during 1965 with the help of tax increases and the curtailment of government expenditures and that in 1966 a surplus is expected. It also notes that reserve requirements and interest rates were raised effective January 1, 1966 and hopes that further contractive measures would be taken should the situation require it.

4. The Fund notes that further substantial progress has been made in reducing import restrictions and believes that an early further reduction in reliance on restrictions is feasible. The present balance of payments and reserve position justifies bolder steps in this sphere. The Fund notes the readiness of the Icelandic authorities to reconsider the need for the one remaining bilateral payments agreement with a Fund member.