

Contents

Foreword by the Editor.....	23
Executive Summary	25
1 Currency and exchange rate regime options.....	55
I Background	
2 Economic developments in the euro area	73
3 Iceland's experience of independent monetary policy based on a flexible exchange rate	113
4 The Icelandic economy: structure and international integration	143
II Pros and cons of membership of a large currency area	
5 The optimal currency area theory	165
6 The microeconomic benefits of currency union membership	185
7 Business cycles, interest rate risk premia, and exchange rate regimes	195
8 Currency unions and trade	211
9 Effectiveness of independent monetary policy	229
10 Iceland's business cycles and comparison with other countries	247
11 Asset price bubbles and exchange rate regimes.....	271
12 Volatility of the króna and efficiency of the domestic foreign exchange market.....	289
13 Exchange rates: A shock absorber or a source of shocks?.....	307
14 Labour market flexibility and institutions	335
15 The role of fiscal policy in a currency union.....	367
16 The EMU and financial stability	387

17	The impact of the global financial crisis on countries inside and outside the euro area.....	429
III	Other exchange rate regime options	
18	Exchange rate targeting: from a soft peg to a currency board	451
19	Unilateral adoption of another currency	487
20	Which currency?	515
IV	Euro area: Structure and accession	
21	ERM-II and new member states' experience	533
22	The conversion rate upon entry into a currency area.....	551
23	The Maastricht criteria.....	563
24	The Eurosystem.....	573
25	Financial supervision in the EU and the role of central banks	599
	Chapter outline	5
	List of boxes	12
	List of charts.....	13
	List of tables	19

Chapter outline

1 Currency and exchange rate regime options

- 1.1 Introduction
- 1.2 Iceland's experience with its own currency
- 1.3 The euro project
- 1.4 Euro area membership: pros and cons for Iceland
- 1.5 Exchange rate targeting and adoption of another currency
- 1.6 Flexible exchange rate and improved framework for demand management and the financial system
- 1.7 Capital controls and exchange rate regime options
- 1.8 Conclusion

2 Economic developments in the euro area

- 2.1 Introduction
- 2.2 Main conclusions of the 1997 report
- 2.3 The changes since 1997
- 2.4 The euro project: the experience to date
 - 2.4.1 Inflation developments within the euro area
 - 2.4.2 Convergence of nominal and real interest rates within the euro area
 - 2.4.3 Can different short-term real interest rates within a currency union cause self-exciting imbalances?
 - 2.4.4 Competitiveness of euro area countries
 - 2.4.5 Convergence of output growth within the euro area
 - 2.4.6 The euro area labour market
 - 2.4.7 Euro countries' external trade
 - 2.4.8 Public sector finances within the euro area
 - 2.4.9 Financial system integration in the euro area
 - 2.4.10 The global financial crisis and the banking and sovereign debt crisis in the euro area
- 2.5 Conclusion

3 Iceland's experience of independent monetary policy based on a flexible exchange rate

- 3.1 Introduction
- 3.2 The role of monetary policy
 - 3.2.1 The goals of monetary policy
 - 3.2.2 Inflation-targeting monetary policy
 - 3.2.3 International experience of inflation-targeting
- 3.3 Monetary policy performance in Iceland
 - 3.3.1 Inflation developments in historical context
 - 3.3.2 Inflation developments since the introduction of inflation targeting
- 3.4 Possible causes of poor inflation performance
 - 3.4.1 Structure of the economy
 - 3.4.2 Global conditions: abundant liquidity and cheap credit
 - 3.4.3 Shortcomings of monetary policy implementation
 - 3.4.4 Systematic underestimation of economic activity
 - 3.4.5 Flaws in monetary policy transmission
 - 3.4.6 The monetary and fiscal policy mix
- 3.5 Conclusion

4 The Icelandic economy: structure and international integration

- 4.1 Introduction
- 4.2 Production structure
 - 4.2.1 Sectoral distribution
 - 4.2.2 Main reasons for rising share of services
- 4.3 Investment structure
- 4.4 Corporate structure and company size
- 4.5 External trade and international finances

- 4.5.1 Trade openness
- 4.5.2 Countries' shares in Iceland's exports
- 4.5.3 The unique position of Icelandic exports
- 4.5.4 Fluctuations in exports and terms of trade
- 4.6 Fluctuations in private consumption
 - 4.6.1 Subcomponents of private consumption expenditure
 - 4.6.2 The main reasons for fluctuations in private consumption
- 4.7 Conclusion
- 4.8 Appendix
- 5 The optimal currency area theory
 - 5.1 Introduction
 - 5.2 Overview of OCA criteria
 - 5.3 OCA criteria for Iceland
 - 5.3.1 Business cycle synchronisation
 - 5.3.2 Labour market flexibility
 - 5.3.3 Trade openness?
 - 5.3.4 The OCA criteria taken together
 - 5.4 Limitations of the OCA theory
 - 5.4.1 The exchange rate as an effective countercyclical tool
 - 5.4.2 Quality and credibility of independent monetary policy
 - 5.4.3 The economies of scale of currency areas
 - 5.4.4 Currency areas and risk diversification
 - 5.4.5 Fiscal policy as a tool for adjustment
 - 5.4.6 Are the OCA criteria endogenous?
 - 5.5 Conclusion
- 6 The microeconomic benefits of currency union membership
 - 6.1 Introduction
 - 6.2 Direct transaction costs of converting one currency to another
 - 6.3 The impact of exchange rate variability
 - 6.3.1 The costs associated with exchange rate volatility
 - 6.3.2 Exchange rate movements and countercyclicality
 - 6.3.3 Exchange rate movements and the unique characteristics of the Icelandic economy
 - 6.4 Conclusion
- 7 Business cycles, interest rate risk premia, and exchange rate regimes
 - 7.1 Introduction
 - 7.2 Comparison of fluctuations in key economic variables
 - 7.3 The impact of exchange rate regimes on domestic interest rate risk premia and income levels
 - 7.3.1 The exchange rate regime and domestic interest rates
 - 7.3.2 The exchange rate regime and domestic production levels
 - 7.4 Conclusion
- 8 Currency unions and trade
 - 8.1 Introduction
 - 8.2 Common currency and trade intensity
 - 8.2.1 Why could a common currency lead to increased trade?
 - 8.2.2 Are the effects more pronounced in smaller economies than in larger ones?
 - 8.3 Assessment of the effects of a common currency on trade
 - 8.3.1 Earlier studies: criticism and improvements
 - 8.3.2 Results of other studies on the effects of euro area membership on trade
 - 8.4 The economic effects of euro area membership on Iceland
 - 8.4.1 Iceland's external trade
 - 8.4.2 Effects on trade intensity
 - 8.4.3 Effects on domestic production and income levels
 - 8.5 Conclusion

- 9 Effectiveness of independent monetary policy
 - 9.1 Introduction
 - 9.2 The role of monetary policy
 - 9.2.1 The purpose and limitations of monetary policy
 - 9.2.2 The benefits of independent monetary policy
 - 9.3 Monetary policy: the relationship between credibility and performance
 - 9.3.1 Why does credibility matter?
 - 9.3.2 The importance of credibility for successful monetary policy
 - 9.4 The monetary policy institutional environment
 - 9.4.1 Monetary policy: objectives and implementation
 - 9.4.2 Central bank independence
 - 9.5 Problems with monetary policy implementation in very small, open economies
 - 9.6 Conclusion

10 Iceland's business cycles and comparison with other countries

- 10.1 Introduction
- 10.2 The amplitude of Iceland's business cycles
 - 10.2.1 Developments in output growth in Iceland since 1945
 - 10.2.2 The business cycle defined
- 10.3 Chief characteristics of the domestic business cycles
 - 10.3.1 Cyclical properties of domestic demand and external trade
 - 10.3.2 Cyclical properties of the labour market
 - 10.3.3 Cyclical properties of prices and inflation
 - 10.3.4 Cyclical properties of interest and exchange rates
- 10.4 Frequency and length of Icelandic business cycles and comparison with other countries
- 10.5 Are Iceland's business cycles synchronised with other countries business cycles?
 - 10.5.1 Correlation of output growth and inflation
 - 10.5.2 Correlation of business cycles
- 10.6 What are the main sources of business cycles in Iceland?
 - 10.6.1 The Icelandic business cycle: demand or supply driven?
 - 10.6.2 Links between structural shocks in Iceland and abroad
- 10.7 Conclusion
- 10.8 Appendix

11 Asset price bubbles and exchange rate regimes

- 11.1 Introduction
- 11.2 The main characteristics of asset price bubbles and the possibility of identifying them in advance
 - 11.2.1 Asset price bubbles defined
 - 11.2.2 Asset price bubbles: can they be foreseen, and how to respond to them?
- 11.3 Frequency of burst asset price bubbles
- 11.4 Comparison of developments in key economic variables during asset price bubbles
 - 11.4.1 Stock price bubbles
 - 11.4.2 House price bubbles
- 11.5 Does the choice of exchange rate regime affect the probability of asset price busts?
- 11.6 Conclusion
- 11.7 Data appendix

12 Volatility of the króna and efficiency of the domestic foreign exchange market

- 12.1 Introduction
- 12.2 Exchange rate policy framework
 - 12.2.1 Exchange rate policy in the 1970s and 1980s
 - 12.2.2 Exchange rate regime in the 1990s

- 12.3 Exchange rate volatility
 - 12.3.1 Fluctuations in the ISK exchange rate
 - 12.3.2 Comparison with other currencies
- 12.4 Turnover in the foreign exchange market
- 12.5 Price formation in the foreign exchange market
- 12.6 Conclusion

13 Exchange rates: A shock absorber or a source of shocks?

- 13.1 Introduction
- 13.2 Business cycles and exchange rate regimes
 - 13.2.1 Comparison among industrialised countries
 - 13.2.2 Comparison among small countries
 - 13.2.3 Excess exchange rate volatility and exchange rate regimes
 - 13.2.4 Other studies
- 13.3 The business cycle and fluctuations in the króna exchange rate
- 13.4 Main sources of business cycles and exchange rate volatility
- 13.5 Potential reasons why a floating exchange rate does not mitigate business cycle volatility
 - 13.5.1 Theoretical research
 - 13.5.2 Conditions specific to small countries
- 13.6 Conclusion

14 Labour market flexibility and institutions

- 14.1 Introduction
- 14.2 Labour market adjustment to economic shocks
 - 14.2.1 Wage flexibility
 - 14.2.2 Flexibility of labour demand
 - 14.2.3 Flexibility of labour supply
- 14.3 Labour market institutions
 - 14.3.1 Wage formation and labour unions
 - 14.3.2 Minimum wages
 - 14.3.3 The tax wedge
 - 14.3.4 Protection against job layoffs
 - 14.3.5 Unemployment benefits
 - 14.3.6 Active labour market programs
- 14.4 Developments in the euro area labour market
 - 14.4.1 Institutional reforms in euro area labour markets
 - 14.4.2 Labour market adjustment through labour force mobility
 - 14.4.3 Developments in different euro area labour markets
- 14.5 Conclusion

15 The role of fiscal policy in a currency union

- 15.1 Introduction
- 15.2 The demand management role of fiscal policy
- 15.3 Fiscal policy under a fixed exchange rate regime
- 15.4 Fiscal policy in the euro area
 - 15.4.1 The fiscal policy framework in the euro area
 - 15.4.2 Fiscal performance in the euro area
 - 15.4.3 Review of the Stability and Growth Pact
 - 15.4.4 Fiscal coinsurance system in the euro area
- 15.5 Conclusion

16 The EMU and financial stability

- 16.1 Introduction
- 16.2 Currency unions and financial stability
- 16.3 Financial stability in the euro area
 - 16.3.1 Overheating and economic adjustment after the establishment of the euro area
 - 16.3.2 Shocks and adjustment within the euro area
 - 16.3.3 The interaction between the sovereign debt crisis and financial crisis in the euro area

- 16.3.4 The financial and sovereign debt crisis in the euro area and ECB liquidity facilities
- 16.3.5 Banking union and euro bond market as a solution to the euro area debt crisis
- 16.3.6 EU rescue funds
- 16.3.7 Competitiveness and resolution of the euro area debt crisis
- 16.3.8 Eurosystem stability undergoing a stringent stress test
- 16.4 Comparison of countries inside and outside the euro area
 - 16.4.1 Macroeconomic imbalances in times of abundant global liquidity
 - 16.4.2 The financial crisis: impact on countries inside and outside the euro area
 - 16.4.3 General lessons about the effect of the euro collaboration on financial stability
- 16.5 Iceland's experience of financial instability and possible currency union membership
 - 16.5.1 Large banking systems in small currency areas
 - 16.5.2 Exchange rate volatility and unhedged foreign exchange risk
 - 16.5.3 Independent monetary policy and asset price bubbles
 - 16.5.4 Flexible labour market and international trade
 - 16.5.5 Small financial markets and few market participants
- 16.6 Conclusion
- 16.7 Appendix

17 The impact of the global financial crisis on countries inside and outside the euro area

- 17.1 Introduction
- 17.2 Comparison of the effects of the financial crisis
 - 17.2.1 Depth and duration of the economic crisis
 - 17.2.2 Frequency of banking and currency crises
 - 17.2.3 Why was the crisis deeper in some countries than others?
- 17.3 Iceland and Ireland
 - 17.3.1 Structure of the Icelandic and Irish economies
 - 17.3.2 Economic developments during the run-up to the financial crisis
 - 17.3.3 The crisis strikes
 - 17.3.4 Comparison of economic effects of the financial crisis
- 17.4 Conclusion

18 Exchange rate targeting: from a soft peg to a currency board

- 18.1 Introduction
- 18.2 Different types of exchange rate targeting
- 18.3 Advantages and disadvantages of exchange rate targeting
 - 18.3.1 Advantages of an exchange rate target
 - 18.3.2 Disadvantages of an exchange rate target
 - 18.3.3 Is a soft peg a viable alternative for Iceland?
 - 18.3.4 Other countries' experience
- 18.4 Exchange rate targeting in international cooperation
 - 18.4.1 The $N - 1$ problem
 - 18.4.2 The ERM crisis of 1992-1993
 - 18.4.3 An option for Iceland?
- 18.5 A currency board as an exchange rate regime option
 - 18.5.1 What is a currency board?
 - 18.5.2 The history of currency boards
 - 18.5.3 Advantages of a currency board
 - 18.5.4 Disadvantages of a currency board
 - 18.5.5 Various countries' experience of a currency board
 - 18.5.6 Is a currency board an option for Iceland?
- 18.6 Conclusion

19 Unilateral adoption of another currency

- 19.1 Introduction

- 19.2 Unilateral adoption of another currency
 - 19.2.1 Advantages of unilateral adoption of another currency
 - 19.2.2 Disadvantages of unilateral adoption of another currency
- 19.3 Other countries' experience of unilateral adoption of another currency
 - 19.3.1 Panama
 - 19.3.2 El Salvador
 - 19.3.3 Ecuador
 - 19.3.4 Montenegro
 - 19.3.5 Liberia
- 19.4 Is unilateral adoption of another currency an option for Iceland?
- 19.5 Bilateral adoption of another currency
- 19.6 Conclusion

20 Which currency?

- 20.1 Introduction
- 20.2 General considerations on selecting an anchor currency
 - 20.2.1 Composition of trading partner countries
 - 20.2.2 Composition of trade by invoicing currencies
 - 20.2.3 Currency composition of external debt
 - 20.2.4 Relationship between the domestic business cycle and the business cycle of the currency area
 - 20.2.5 Nominal anchor
 - 20.2.6 Size of currency area and network effects
 - 20.2.7 Which currencies have other countries chosen?
 - 20.2.8 Icelandic conditions
- 20.3 Which currencies are realistic options for Iceland?
 - 20.3.1 Links between economic shocks
 - 20.3.2 Composition of external trade and debt
 - 20.3.3 Summary
 - 20.3.4 Is pegging to a currency basket an option?
- 20.4 Conclusion

21 ERM-II and new member states' experience

- 21.1 Introduction
- 21.2 New member states
 - 21.2.1 The ERM-II system
 - 21.2.2 Support within ERM-II
 - 21.2.3 ERM-II countries and the control group
- 21.3 Exchange rate regimes of new member states
- 21.4 Economic developments in new member states
 - 21.4.1 Output growth and business cycles
 - 21.4.2 Inflation and inflation volatility
 - 21.4.3 Nominal and real interest rates
 - 21.4.4 Exchange rate volatility
 - 21.4.5 Public sector debt and performance
- 21.5 The ERM-II countries during the global financial crisis
 - 21.5.1 Comparison of the depth and duration of the economic crisis
 - 21.5.2 Why was the crisis in the Baltics so severe?
- 21.6 Conclusion

22 The conversion rate upon entry into a currency area

- 22.1 Introduction
- 22.2 Importance of selecting an appropriate conversion rate
- 22.3 Equilibrium real exchange rate
 - 22.3.1 Assessment of Iceland's equilibrium real exchange rate
- 22.4 Differing developments in euro area countries
- 22.5 Technical implementation of conversion
 - 22.5.1 Transition schedule for the euro
 - 22.5.2 Preparation for the conversion
 - 22.5.3 Technical implementation of conversion rate decision
- 22.6 Conclusion

23 The Maastricht criteria

- 23.1 Introduction
- 23.2 The Maastricht criteria
- 23.3 Fulfilling the Maastricht criteria and adopting the euro
 - 23.3.1 Position of current euro area countries at membership
 - 23.3.2 Entry of new countries into the EU
 - 23.3.3 Estonia: the newest euro area country
 - 23.3.4 Other EU countries outside the euro area
- 23.4 EU countries' position vis-à-vis the Maastricht criteria
 - 23.4.1 Position in 2004
 - 23.4.2 Position in 2009
- 23.5 Iceland's position
- 23.6 Conclusion

24 The Eurosystem

- 24.1 Introduction
- 24.2 The Eurosystem and its institutions
- 24.3 The European System of Central Banks
 - 24.3.1 Establishment and role of the ESCB
 - 24.3.2 ESCB central banks outside the Eurosystem
- 24.4 The ECB and the national central banks in the euro area
 - 24.4.1 The role of the national central banks in the euro area
- 24.5 Monetary policy of the ECB and the Eurosystem
 - 24.5.1 Objectives of the ECB and the Eurosystem
 - 24.5.2 Implementation of ECB monetary policy
 - 24.5.3 Decision-making in the ECB
- 24.6 Effects of potential euro area membership on Central Bank of Iceland activities
 - 24.6.1 Changes upon entry into the EU
 - 24.6.2 Changes upon entry into ERM-II
 - 24.6.3 Changes upon entry into the currency union
- 24.7 Euro area payment systems
 - 24.7.1 Target2: the ECB's real time gross settlement system
 - 24.7.2 What changes need to be made to the Icelandic payment system?
- 24.8 Conclusion

25 Financial supervision in the EU and the role of central banks

- 25.1 Introduction
- 25.2 The EU single market in the financial sector
 - 25.2.1 The establishment of the euro
 - 25.2.2 Development of financial markets and supervision
 - 25.2.3 Flaws in the regulatory framework
 - 25.2.4 Improvements to the regulatory framework
- 25.3 Challenges faced by countries with an independent currency
- 25.4 The European Systemic Risk Board
- 25.5 Last-resort lending
- 25.6 Macroprudential tools
 - 25.6.1 Global developments
 - 25.6.2 Developments in Iceland
- 25.7 Conclusion
- 25.8 Appendix

List of boxes

- 2.1 Background to the euro project
- 2.2 The Balassa-Samuelson effect
- 2.3 What impact would membership in a larger currency area have on domestic interest rates?
- 3.1 Efficient monetary policy frontiers
- 3.2 Monetary policy based on the Taylor rule
- 5.1 The Bayoumi-Eichengreen OCA index
- 6.1 A rough estimate of the transaction costs associated with the króna
- 7.1 A dynamic stochastic general equilibrium model of the Icelandic economy
- 7.2 A dynamic stochastic general equilibrium model to estimate the effect of different exchange rate regimes on domestic interest rate risk premia
- 8.1 Gravity models of international trade
- 9.1 The path towards modern monetary policy: Lessons from the US
- 10.1 The Baxter-King frequency filter
- 10.2 How can underlying supply and demand shocks be assessed?
- 12.1 Effective and real exchange rate
- 12.2 The relationship of the króna with the euro and the US dollar
- 13.1 Economic fundamentals
- 13.2 A simple theoretical model to identify structural shocks
- 14.1 Analysing real wage flexibility
- 14.2 The Okun relationship between labour supply and output growth
- 14.3 The labour market institutional structure and the effects of economic shocks
- 14.4 The Icelandic and US labour markets: a comparison
- 14.5 The 2011 wage agreement
- 14.6 Does currency union membership provide an incentive for labour market reforms?
- 15.1 Fiscal policy and fiscal rules
- 15.2 The sovereign debt crisis in the euro area
- 16.1 What is financial stability?
- 16.2 Euro bonds and the euro bond market
- 16.3 European rescue funds
- 18.1 Self-fulfilling speculative attacks
- 18.2 The $N - 1$ problem
- 19.1 Seigniorage revenues from currency issuance
- 19.2 Unilateral adoption of another currency: technical and legal factors
- 20.1 Selecting an anchor currency: lessons from Argentina
- 22.1 What happens when a conversion rate is announced?
- 24.1 Necessary statutory amendments related to Iceland's domestic financial system upon accession to the EU and the euro
- 24.2 Central Bank of Iceland payment systems

List of charts

- 2.1 Inflation in the euro area
- 2.2 Average inflation in the euro area and the OECD
- 2.3 Average inflation and inflation dispersion in the EMU12 countries
- 2.4 Inflation dispersion among euro area and OECD countries
- 2.5 Inflation in euro area countries implied by the Balassa-Samuelson effect
- 2.6 Inflation in the euro area and exposure to external conditions
- 2.7 Unsecured interbank lending rates dispersion in the euro area
- 2.8 Long-term interest rates in Germany and dispersion vis-à-vis other EMU12 countries
- 2.9 Long-term real interest rates in Germany and dispersion vis-à-vis other EMU12 countries
- 2.10 CDS spreads on five-year Treasury bonds in several euro area countries
- 2.11 Real exchange rate in terms of relative price levels in several euro area countries
- 2.12 Unit labour costs in several euro area countries
- 2.13 Unit labour costs in Ireland
- 2.14 Unit labour costs in Greece
- 2.15 Output growth in euro area and OECD countries
- 2.16 Output growth dispersion in euro area and OECD countries (two-year centred moving averages)
- 2.17 Employment protection in 1995 and 2008 in EMU12 and OECD countries
- 2.18 Migration between countries/regions, 2010
- 2.19 Composition of changes in unit labour costs in EMU12 countries
- 2.20 Unemployment in euro area and OECD countries
- 2.21 Unemployment dispersion in euro area and OECD countries
- 2.22 Trade openness in euro area countries
- 2.23 Goods traded in euro area countries
- 2.24 Changes in the share of goods traded in euro area countries before and after EMU membership
- 2.25 Changes in trade openness in euro area countries before and after EMU membership
- 2.26 Fiscal balance in EMU12 countries
- 2.27 Gross public sector debt in EMU12 countries
- 2.28 Percentage of cases where fiscal balance and debt are inconsistent with the Maastricht criteria
- 2.29 Investment funds' holdings of securities issued in other euro area countries as a share of total securities holdings
- 2.30 European credit institutions' loans to the non-financial private sector in other EU countries
- 2.31 Lending rate dispersion in the euro area
- 2.32 Current account balances in several euro area countries
- 2.33 Size of several central banks' balance sheets
- 2.34 Developments in goods and services exports in the wake of the financial crisis

- 2.35 Share of goods and services exports in GDP, 1995-2011
- 3.1 Number of countries with an inflation target
- 3.2 Exchange rate pass-through
- 3.3 Impact of the financial crisis on inflation-targeting and non-inflation-targeting countries
- 3.4 Inflation and inflation targets
- 3.5 Inflation: five-year moving averages and standard deviations
- 3.6 Composition of goods exports, 1995-2010
- 3.7 Efficient monetary policy frontiers
- 3.8 Volatility of inflation and output growth in 15 industrialised countries
- 3.9 Global liquidity and the exchange rate of the króna
- 3.10 Central Bank collateralised lending rate and comparison with Taylor rule
- 3.11 Money supply and credit growth
- 3.12 Revisions to official GDP growth data, 2004-2007
- 3.13 Contribution of public sector finances to demand management
- 3.14 Output growth and average income tax rate for individuals
- 3.15 Investment and contribution of energy-intensive investment
- 3.16 Effects of structural changes in the housing market on house prices
- 4.1 Sectoral distribution of total output
- 4.2 Sectoral distribution of total output in various countries, 2000-2009
- 4.3 Business investment classified by type, 2000-2010
- 4.4 Sectoral distribution of business investment, 2000-2010
- 4.5 Population per registered company
- 4.6 Average number of workers per company
- 4.7 Businesses: organisational structure by company size
- 4.8 Distribution of labour force by company size
- 4.9 Trade openness and population
- 4.10 Composition of goods exports, 2000-2010
- 4.11 Financial integration and population
- 4.12 Currency area share in services exports
- 4.13 Trade concentration, 2000-2010
- 4.14 Trade diversification, 2000-2010
- 4.15 Export sophistication and GDP per capita in OECD countries
- 4.16 Development level of exports: comparison with other Nordic countries
- 4.17 Open forest and GDP per capita in OECD countries
- 4.18 Export growth, 1971-2010
- 4.19 Terms of trade, 1971-2010
- 4.20 Fluctuations in terms of trade and exports, 1971-2010
- 4.21 Standard deviation of GDP growth and private consumption growth, 1994-2010
- 4.22 Private consumption growth, 1971-2010
- 4.23 Standard deviation of private consumption growth as a percentage of the standard deviation of GDP growth

- 4.24 Standard deviation of subcomponents of private consumption, 1991-2010
- 4.25 Fluctuations in private consumption and exports, 1971-2010
- 4.26 Fluctuations in private consumption and terms of trade, 1971-2010
- 4.27 Standard deviation of real wages, 1994-2010
- 4.28 Exchange rate fluctuations, private consumption, and expenditure subcomponents (%)
- 5.1 OCA index in several European countries in 1998 and 2008
- 8.1 Assessment of the effects of EMU membership on Iceland's external trade and GDP
- 8.2 Relationship between population and trade openness in industrialised countries 2000-2010
- 8.3 Trade openness in Iceland
- 9.1 Central bank independence and average inflation, 1955-1988
- 9.2 Central bank independence and variability of inflation, 1955-1988
- 10.1 Output growth in Iceland, 1946-2010
- 10.2 Output growth in Iceland and other industrialised countries, 1994-2010
- 10.3 Output growth and contributions of expenditure components for various time periods
- 10.4 Standard deviation of output growth and contributions of expenditure components for various time periods
- 10.5 A stylised example of output developments over the cycle
- 10.6 A stylised example of output growth over the cycle
- 10.7 A stylised example of business cycles and cyclical comovement
- 10.8 Fluctuations in private consumption, disposable income, and the króna exchange rate (%)
- 10.9 Fluctuations in króna exchange rate, private consumption and its subcomponents (%)
- 10.10 Correlation of supply and demand shocks
- 10.11 The share of common euro area supply shocks explaining individual countries' output variability
- 10.12 The share of common euro area demand shocks explaining individual countries' output variability
- 11.1 Percentage of countries battling burst house price bubbles
- 11.2 Percentage of countries battling burst stock price bubbles
- 11.3 Percentage of countries battling burst house and stock price bubbles simultaneously
- 11.4 Changes in major economic variables before and after a stock price bubble bursts
- 11.5 Changes in major economic variables before and after a house price bubble bursts
- 12.1 Real exchange rate in terms of relative prices
- 12.2 Exchange rate of the króna against various currencies
- 12.3 90-day standard deviation of daily ISK exchange rate movements against various currencies
- 12.4 Linkage of various currencies to the euro

- 12.5 Nominal and real exchange rate
- 12.6 Standard deviation of annual changes in various countries' real exchange rate
- 12.7 Fluctuations in real exchange rate and composition of exports
- 12.8 Fluctuations in real exchange rate and export concentration
- 12.9 Fluctuations in real exchange rate and GDP per capita
- 12.10 Fluctuations in real exchange rate and financial integration
- 12.11 Annual turnover in the domestic foreign exchange market
- 12.12 Foreign exchange market turnover in various industrialised countries
- 12.13 Foreign exchange market turnover and GDP per capita
- 12.14 Bid-ask spread for the króna US dollar exchange rate
- 12.15 Bid-ask spread for various currencies against the US dollar
- 12.16 Bid-ask spread for various currencies and GDP per capita
- 12.17 Bid-ask spread for various currencies and exchange rate volatility
- 13.1 Business cycles and exchange rate volatility by exchange rate regime
- 13.2 Real exchange rate and relative output gap
- 13.3 Contemporaneous correlation of the real exchange rate and relative output gap
- 13.4 Real exchange rate and estimated demand shocks
- 13.5 Population and exchange rate regime
- 13.6 Exchange regimes in 78 small countries (population under 2 million)
- 13.7 Exchange rate regimes of the world's countries, 2010
- 14.1 Real wage flexibility
- 14.2 Real wages and output growth
- 14.3 Standard deviation of changes in real wages relative to the standard deviation of output growth 1997-2011
- 14.4 Inflation, exchange rate developments, and real wages
- 14.5 Subcomponents of total hours worked
- 14.6 Full- and part-time employed persons
- 14.7 Unemployment and output growth
- 14.8 Labour participation and output growth
- 14.9 Migration and output growth
- 14.10 Unemployment in OECD countries
- 14.11 Minimum wages as a percentage of average and median wages
- 14.12 Tax wedge, 2010 (%)
- 14.13 Employment protection, 2008
- 14.14 Average length of permanent employment
- 14.15 Unemployment benefits and minimum wages
- 14.16 Long-term unemployment
- 14.17 Unemployment benefits as a share of wages
- 14.18 Participation in active labour market programmes
- 14.19 Deregistration from unemployment register due to active labour market programmes
- 14.20 Employment protection in 1995 and 2008 in EMU12 and OECD countries

- 14.21 Employment protection for non-permanent employees in EMU12 countries in 1995 and 2008
- 14.22 Immigrants to EU15 countries and Iceland, 2009
- 14.23 Migration between countries/regions, 2010
- 14.24 Unemployment in EMU12 countries
- 14.25 Unemployment in EMU12 countries – deviation from EMU average
- 14.26 Unemployment in industrialised OECD countries outside the euro area
- 14.27 Unit labour costs in EMU12 countries – deviation from EMU average
- 14.28 Composition of changes in unit labour costs in EMU12 countries
- 14.29 Unit labour costs in the wake of the financial crisis in several euro area countries

- 15.1 Fiscal balance in EMU12 countries
- 15.2 Gross public sector debt in EMU12 countries
- 15.3 Percentage of cases where fiscal balance and debt are inconsistent with the Maastricht criteria
- 15.4 Public sector finances in euro area countries and the Maastricht criteria in 2007 and 2011

- 16.1 Risk premia in the interbank market in the US and the euro area
- 16.2 Output growth in leading industrialised countries
- 16.3 Trade-weighted effective exchange rate of the euro
- 16.4 Public and private sector debt in various industrialised countries, 2011
- 16.5 Public sector debt (Maastricht definition) in 2007 and 2011
- 16.6 Public sector finances in the euro area in comparison with other developed countries in 2007 and 2011
- 16.7 CDS spreads on 5-year Treasury bonds
- 16.8 Interest on 2-year Treasury bonds
- 16.9 ECB main refinancing rate
- 16.10 Long-term ECB financing (LTRO)
- 16.11 Net balance within the TARGET2 system
- 16.12 Debt crisis support programme measures in the euro area
- 16.13 Contributions of EU countries to the European Stability Mechanism (ESM) (%)
- 16.14 Public sector debt (Maastricht definition), 2006-2013
- 16.15 Government debt and interest rates
- 16.16 Goods and services exports in several Central European countries
- 16.17 Exchange rates and share of exchange rate-linked loans to households
- 16.18 Output loss and nominal currency depreciation, 2008-2011
- 16.19 Banks' assets in 2001 and 2007
- 16.20 Banks' foreign assets in 2001 and 2007
- 16.21 Private sector debt in Iceland
- 16.22 Currency composition of exchange rate-linked loans and export revenues in Iceland
- 16.23 Real disposable income of households in Iceland and the euro area

- 16.24 Unemployment, 1980-2014
- 16.25 Developments in goods and services exports in the wake of the financial crisis
- 16.26 Pension fund assets at year-end 2009
- 17.1 Developments in the real economy during the global financial crisis
- 17.2 Frequency of banking and currency crises during the global financial crisis
- 17.3 GDP per capita, adjusted for purchasing power parity
- 17.4 Private sector lending
- 17.5 Real asset prices
- 17.6 Investment
- 17.7 Residential investment
- 17.8 Gross national savings
- 17.9 Current account balance
- 17.10 Inflation
- 17.11 Real exchange rate
- 17.12 Net private sector capital flows
- 17.13 Exports of goods and services
- 17.14 Terms of trade for goods and services
- 17.15 Public sector finances
- 17.16 Risk premia on sovereign debt
- 17.17 Interest on 5-year Treasury bonds
- 17.18 Developments in GDP during the global financial crisis
- 17.19 Gross national product growth in Iceland and Ireland
- 17.20 Developments in private consumption during the global financial crisis
- 17.21 Developments in unemployment during the global financial crisis
- 18.1 Central bank credibility and the probability of speculative attack
- 18.2 Various types of exchange rate pegs
- 20.1 Share of countries in global output
- 20.2 Share of anchor currencies in various exchange rate pegs (%)
- 20.3 Share of countries in Iceland's goods trade (%)
- 20.4 Share of countries in Iceland's services trade (%)
- 20.5 Share of currencies in Iceland's goods trade (%)
- 20.6 Share of currencies in Iceland's external debt (%)
- 20.7 Correlation of supply shocks in Iceland and other countries
- 20.8 Correlation of export prices in Iceland and other countries
- 20.9 Correlation of terms of trade in Iceland and other countries
- 20.10 Share of countries in Iceland's goods trade
- 20.11 Share of countries in Iceland's services trade
- 20.12 Share of currencies in Iceland's goods trade
- 20.13 Share of currencies in Iceland's external debt
- 20.14 Share of currency areas in goods and services trade, 2009-2010
- 20.15 Linkage of various currencies to the euro
- 21.1 Comparison of developments in output growth
- 21.2 Comparison of developments in inflation
- 21.3 Comparison of developments in nominal interest rates

- 21.4 Comparison of developments in real interest rates
- 21.5 Public sector debt and changes in primary balances
- 21.6 Output losses and nominal currency depreciation, 2008-2011
- 21.7 Developments in goods and services exports in the wake of the financial crisis
- 21.8 Output losses and current account balance in 2007
- 21.9 Output losses and inflation in 2007
- 21.10 Output losses and private sector indebtedness in 2007
- 22.1 Iceland's real exchange rate, 1980-2011
- 22.2 Unit labour costs in several euro area countries
- 22.3 Consumer prices in several euro area countries
- 22.4 Real unit labour costs in several euro area countries
- 22.5 Market exchange rate of the German mark in the run-up to euro adoption
- 25.1 New financial supervision structure in the EU, 2010

List of tables

- 2.1 EMU member countries and other EU countries
- 3.1 Inflation and business cycle volatility, 1989-2004 (%)
- 3.2 Average inflation in Iceland in various time periods (%)
- 3.3 Inflation developments and inflation target in Iceland (%)
- 3.4 Estimated monetary policy rule for the Central Bank of Iceland
- 4.1 Trade openness and financial integration (%)
- 4.2 Goods exports to the euro area and the EU as a share of total goods exports, 2000-2010 (%)
- 4.3 Fluctuations in private consumption and several of its subcomponents
- 4.4 Common characteristics and differences between Iceland and comparison countries
- 7.1 Difference in standard deviation of changes in economic variables under floating and fixed exchange rates (percentage points)
- 7.2 Economic size and interest rate risk premia
- 7.3 Exchange rate regimes and interest rate risk premia
- 7.4 Exchange rate regimes and economic performance
- 8.1 Different empirical estimates of the impact of EMU membership on trade
- 10.1 Icelandic business cycles, 1970-2010
- 10.2 GDP growth and inflation, 1946-2010 (%)
- 10.3 Correlation of various economic variables with private consumption
- 10.4 Characteristics of business cycles in various countries
- 10.5 Characteristics of "classical" business cycles in various countries
- 10.6 Correlation of output growth and inflation in Iceland to other countries
- 10.7 Correlation of the business cycle in Iceland to other countries, 1993-2010
- 10.8 Volatility and contemporaneous correlation of the business cycle in Iceland to other countries
- 10.9 Share of supply and demand shocks in the business cycle (%)
- 10.10 Correlation of supply and demand shocks in Iceland to other countries
- 10.11 Correlation with supply and demand shocks in the euro area
- 10.12 The share of common supply and demand shocks in the euro area explaining individual countries' output variability
- 10.13 Main properties of the Icelandic business cycle
- 11.1 Frequency and duration of asset price busts inside and outside the EMU
- 11.2 Exchange rate regime and marginal probabilities of an asset price bust
- 11.3 The data

- 12.1 Major milestones in exchange rate policy in Iceland
- 12.2 Year-on-year changes in the exchange rate of the króna against major currencies
- 12.3 Linkage of various currencies to the euro
- 12.4 Fluctuations in the effective exchange rates of various currencies
- 12.5 Foreign exchange market turnover as a share of GDP
- 12.6 Bid-ask spread for various currencies (%)

- 13.1 Economic performance by exchange rate regime
- 13.2 Economic performance of groups of countries by exchange rate regime
- 13.3 Economic performance of small countries by exchange rate regime
- 13.4 Exchange rate volatility and fluctuations in economic fundamentals
- 13.5 Excess exchange rate volatility
- 13.6 The relationship between the real exchange rate and the business cycle
- 13.7 Variance decomposition of economic volatility (%)
- 13.8 Variance decomposition of economic volatility (%)

- 14.1 Assessment of Okun relationships for Iceland, 1991-2010
- 14.2 Labour unions and the scope of collective bargaining agreements

- 16.1 Economic developments inside and outside the euro area

- 17.1 Comparison of depth and duration of economic contractions
- 17.2 Main determinants of different economic outcomes of the financial crisis
- 17.3 Comparison of Iceland and Ireland: institutional structure
- 17.4 Comparison of Iceland and Ireland: various economic variables
- 17.5 Comparison of Iceland and Ireland: international trade
- 17.6 Comparison of Iceland and Ireland: financial system
- 17.7 Comparison of Iceland and Ireland: indebtedness
- 17.8 Comparison of Iceland and Ireland: Depth and duration of the economic contraction

- 18.1 Money supply and foreign exchange reserves (June 2012)
- 18.2 Sovereign states with a soft exchange rate peg
- 18.3 Balance sheets of currency boards and central banks
- 18.4 Sovereign states with a currency board
- 18.5 Summary of foreign exchange reserves and money supply variables of several currency boards

- 19.1 Money supply and foreign exchange reserves (June 2012)
- 19.2 Sovereign states that use another country's currency

- 20.1 Correlation of economic shocks in Iceland versus other industrialised countries

- 21.1 Countries that have been members of ERM-II
- 21.2 Exchange rate regime

- 21.3 Output growth, inflation, and interest rates before and after ERM-II membership
- 21.4 Business cycles and fluctuations in inflation and exchange rate before and after ERM-II membership
- 21.5 Output growth, inflation, and interest rates before and after 2004
- 21.6 Business cycles and fluctuations in inflation and exchange rate before and after 2004
- 21.7 Public sector performance before and after ERM-II membership
- 21.8 Public sector debt before and after ERM-II membership
- 21.9 Comparison of depth and duration of economic contractions

- 22.1 Assessment of Iceland's equilibrium real exchange rate

- 23.1 The Maastricht criteria
- 23.2 Member countries of the EU and the EMU
- 23.3 Countries' position vis-à-vis the Maastricht criteria upon entry into the EMU
- 23.4 Position of non-EMU countries in the EU vis-à-vis the Maastricht criteria, spring 2010
- 23.5 EU countries' position vis-à-vis the Maastricht criteria, 2004
- 23.6 EU countries' position vis-à-vis the Maastricht criteria, 2009
- 23.7 Iceland's position vis-à-vis the Maastricht criteria

- 24.1 EMU member countries and other EU countries
- 24.2 ESCB committees
- 24.3 ECB monetary policy tools

- 25.1 Structure of the European Systemic Risk Board
- 25.2 Categories of macroprudential tools
- 25.3 Various types of macroprudential tools
- 25.4 Recent financial stability measures in the EU
- 25.5 Institution names and acronyms