Foreword by the Editor

Ever since Iceland adopted its own currency, the pros and cons of various currency and exchange rate options for Iceland have been a subject of regular debate. This debate has centred on whether it is better for Iceland to retain its own currency and, if so, which exchange rate regime is most appropriate. The recent banking and currency crisis that shook the foundations of the economy, on the one hand, and the Government's application for European Union (EU) membership, on the other, have brought the issue to the forefront again. Other things being equal, EU membership will mean that the króna will be abolished and Iceland will become a member of the Economic and Monetary Union (EMU) and adopt the euro within a few years.

In the latter half of 2010, the Central Bank of Iceland began preparing an in-depth report on the currency and exchange rate options available to Iceland. Work on the project has continued intermittently since then. The objective was to produce a report that would provide a basis for informed debate on the topic and enable the authorities and the general public to take an informed view on how Iceland should handle its currency affairs.

The report is titled *Iceland's currency and exchange rate policy options*. It presents a detailed discussion of various issues that must be considered in an assessment of the most appropriate currency and exchange rate options for Iceland. Although the primary emphasis is on examining the pros and cons of abandoning the króna and adopting the euro via EMU membership, the report also covers the advantages and disadvantages of other currency areas, adoption of another currency, and other types of exchange rate peg.[1] The report also reviews Iceland's experience of its current monetary and exchange rate regime and compares it with the experience of euro area countries, both after

[1] The Central Bank has also published a report on monetary policy options based on Iceland's retaining the króna: Monetary Policy in Iceland After Capital Controls, *Special Report* no. 4, December 2010.

joining the EMU and before and after the financial crisis. Finally, the report examines the institutional structure of the euro area and the institutional elements that must be changed in Iceland if it joins the EMU.

A number of Central Bank staff members participated in the preparation of this report. The bulk of it was prepared by the Economics and Monetary Policy Department. Chapters 2-15 and 17-24 were prepared by Ásgeir Daníelsson, Bjarni G. Einarsson, Gudjón Emilsson, Gunnar Gunnarsson, Hördur Gardarsson, Jósef Sigurdsson, Karen Á. Vignisdóttir, Lilja G. Jóhannsdóttir, Magnús F. Gudmundsson, Marías H. Gestsson, Markús Möller, Ólafur Ö. Klemensson, Ólafur G. Halldórsson, Rannveig Sigurdardóttir, Regína Bjarnadóttir, Rósa B. Sveinsdóttir, Svava J. Haraldsdóttir, and Thórarinn G. Pétursson. Other staff members who contributed are Deputy Governor Arnór Sighvatsson (Chapters 2 and 16); Sigrídur Benediktsdóttir, Financial Stability Department (Chapter 16); and Thorsteinn Thorgeirsson, International Relations and General Secretariat (Chapters 16 and 25). In addition, Gerdur Ísberg, Market Operations and Financial Management; Páll Kolka Ísberg, Payment Systems; and Ragnar Á. Sigurdsson, Legal Department contributed to Chapter 24. Helga Gudmundsdóttir, Margrét L. Hrafnkelsdóttir, Pétur Urbancic, and Thorvardur Tjörvi Ólafsson read the entire manuscript or large portions of it and made useful comments on substantive and linguistic points in the text.

I would like to thank these staff members and other participants for their contribution to this extensive project.

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