Classification of Exchange Rate Arrangements and Monetary Policy Frameworks Home Page

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Data as of December 31, 2004

This classification system is based on members' actual, de facto, arrangements as identified by IMF staff, which may differ from their officially announced arrangements. The scheme ranks exchange rate arrangements on the basis of their degree of flexibility and the existence of formal or informal commitments to exchange rate paths. It distinguishes among different forms of exchange rate regimes, in addition to arrangements with no separate legal tender, to help assess the implications of the choice of exchange rate arrangement for the degree of monetary policy independence. The system presents members' exchange rate regimes against alternative monetary policy frameworks with the intention of using both criteria as a way of providing greater transparency in the classification scheme and to illustrate that different exchange rate regimes can be consistent with similar monetary policy frameworks. The following explains the categories.

Exchange Rate Regimes

Exchange Arrangements with No Separate Legal Tender

The currency of another country circulates as the sole legal tender (formal dollarization), or the member belongs to a monetary or currency union in which the same legal tender is shared by the members of the union. Adopting such regimes implies the complete surrender of the monetary authorities' independent control over domestic monetary policy.

Currency Board Arrangements

A monetary regime based on an explicit legislative commitment to exchange domestic currency for a specified foreign currency at a fixed exchange rate, combined with restrictions on the issuing authority to ensure the fulfillment of its legal obligation. This implies that domestic currency will be issued only against foreign exchange and that it remains fully backed by foreign assets, eliminating traditional central bank functions, such as monetary control and lender-of-last-resort, and leaving little scope for discretionary monetary policy. Some flexibility may still be afforded, depending on how strict the banking rules of the currency board arrangement are.

Other Conventional Fixed Peg Arrangements

The country (formally or de facto) pegs its currency at a fixed rate to another currency or a basket of currencies, where the basket is formed from the currencies of major trading or financial partners and weights reflect the geographical distribution of trade, services, or capital flows. The currency composites can also be standardized, as in the case of the SDR. There is no commitment to keep the parity irrevocably. The exchange rate may fluctuate within narrow margins of less than ±1 percent around a central rate-or the maximum and minimum value of the exchange rate may remain within a narrow margin of 2 percent-for at least three months. The monetary authority stands ready to maintain the fixed parity through direct intervention (i.e., via sale/purchase of foreign exchange in the market) or indirect intervention (e.g., via aggressive use of interest rate policy, imposition of foreign exchange regulations, exercise of moral suasion that constrains foreign exchange activity, or through intervention by other public institutions). Flexibility of monetary policy, though limited, is greater than in the case of exchange arrangements with no separate legal tender and currency boards because traditional central banking functions are still possible, and the monetary authority can adjust the level of the exchange rate, although relatively infrequently.

Pegged Exchange Rates within Horizontal Bands

The value of the currency is maintained within certain margins of fluctuation of at least ±1 percent around a fixed central rate or the margin between the maximum and minimum value of the exchange rate exceeds 2 percent. It also includes arrangements of countries in the exchange rate mechanism (ERM) of the European Monetary System (EMS) that was replaced with the ERM II on January 1, 1999. There is a limited degree of monetary policy discretion, depending on the band width.

Crawling Pegs

The currency is adjusted periodically in small amounts at a fixed rate or in response to changes in selective quantitative indicators, such as past inflation differentials vis-à-vis major trading partners, differentials between the inflation target and expected inflation in major trading partners, and so forth. The rate of crawl can be set to generate inflation-adjusted changes in the exchange rate (backward looking), or set at a preannounced fixed rate and/or below the projected inflation differentials (forward looking). Maintaining a crawling peg imposes constraints on monetary policy in a manner similar to a fixed peg system.

Exchange Rates within Crawling Bands

The currency is maintained within certain fluctuation margins of at least ±1 percent around a central rate-or the margin between the maximum and minimum value of the exchange rate exceeds 2 percent-and the central rate or margins are adjusted periodically at a fixed rate or in response to changes in selective quantitative indicators. The degree of exchange rate flexibility is a function of the band width. Bands are either symmetric around a crawling central parity or widen gradually with an asymmetric choice of the crawl of upper and lower bands (in the latter case, there may be no preannounced central rate). The commitment to maintain the exchange rate within the band imposes constraints on monetary policy, with the degree of policy independence being a function of the band width.

Managed Floating with No Predetermined Path for the Exchange Rate

The monetary authority attempts to influence the exchange rate without having a specific exchange rate path or target. Indicators for managing the rate are broadly judgmental (e.g., balance of payments position, international reserves, parallel market developments), and adjustments may not be automatic. Intervention may be direct or indirect.

Independently Floating

The exchange rate is market-determined, with any official foreign exchange market intervention aimed at moderating the rate of change and preventing undue fluctuations in the exchange rate, rather than at establishing a level for it.

Monetary Policy Framework

The exchange rate regimes are presented alongside monetary policy frameworks in order to present the role of the exchange rate in broad economic policy and help identify potential sources of inconsistency in the monetary-exchange rate policy mix.

Exchange Rate Anchor

The monetary authority stands ready to buy/sell foreign exchange at given quoted rates to maintain the exchange rate at its pre-announced level or range; the exchange rate serves as the nominal anchor or intermediate target of monetary policy. This type of regime covers exchange rate regimes with no separate legal tender; currency board arrangements; fixed pegs with and without bands; and crawling pegs with and without bands.

Monetary Aggregate Anchor

The monetary authority uses its instruments to achieve a target growth rate for a monetary aggregate, such as reserve money, M1, or M2, and the targeted aggregate becomes the nominal anchor or intermediate target of monetary policy.

Inflation Targeting Framework

This involves the public announcement of medium-term numerical targets for inflation with an institutional commitment by the monetary authority to achieve these targets. Additional key features include increased communication with the public and the markets about the plans and objectives of monetary policymakers and increased accountability of the central bank for attaining its inflation objectives. Monetary policy decisions are guided by the deviation of forecasts of future inflation from the announced target, with the inflation forecast acting (implicitly or explicitly) as the intermediate target of monetary policy.

Fund-Supported or Other Monetary Program

This involves implementation of monetary and exchange rate policies within the confines of a framework that establishes floors for international reserves and ceilings for net domestic assets of the central bank. Indicative targets for reserve money may be appended to this system.

Other

The country has no explicitly stated nominal anchor but rather monitors various indicators in conducting monetary policy, or there is no relevant information available for the country.

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[1] Based on "Exchange Arrangements and Foreign Exchange Markets: Developments and Issues" (SM/02/233, July 22, 2002).

Table. De Facto Exchange Rate Arrangements and Anchors of Monetary Policy

as of December 31, 2004[1]

Exchange Rate Regime (Number of countries)	Monetary Policy Framework: Exchange rate anchor				Monetary aggregate target	Inflation targeting framework	IMF-supported or other monetary program	Other
	Another currency as legal tender (9)	ECCU (6)[2]	CFA franc zone (14): WAEMU	CFA franc zone (14): CAEMC				
Exchange arrangements with no separate legal tender (41)	Ecuador El Salvador[4] Kiribati Marshall Islands Micronesia, Fed. States of Palau Panama San Marino Timor-Leste, Dem. Rep. of	Antigua and Barbuda Dominica* Grenada St. Kitts and Nevis St. Lucia St. Vincent and the Grenadines	Benin Burkina Faso* Côte d'Ivoire* Guinea-Bissau Mali* Niger Senegal* Togo	Cameroon* Central African Rep. Chad Congo, Rep. of Equatorial Guinea Gabon*				**Euro area (12)[3]** Austria Belgium Finland France Germany Greece Ireland Italy Luxembourg Netherlands Portugal Spain
Currency board arrangements (7)	Bosnia and Herzegovina[9] Brunei Darussalam Bulgaria China—Hong Kong SAR Djibouti Estonia[10] Lithuania[10]							
Other conventional fixed peg arrangements (41)	**Against a single currency (33)** Aruba Bahamas, The[5] Bahrain, Kingdom of Barbados Belize Bhutan Cape Verde* China, P.R. of†[6] Comoros[7] Eritrea Guinea[6] Iraq [6] Jordan*[6] Kuwait Lebanon[6] Lesotho* Macedonia, FYR*[6] Malaysia		**Against a composite (8)** Botswana[5] Fiji Latvia Libyan Arab Jamahiriya Malta Morocco Samoa Vanuatu		China, P.R. of†[6]			

	Maldives Namibia Nepal* Netherlands Antilles Oman Qatar Saudi Arabia Seychelles[6] Swaziland Syrian Arab Rep.[5] Trinidad and Tobago[6] Turkmenistan[6] Ukraine*[6] United Arab Emirates Venezuela, Rep. Bolivariana de					
Pegged exchange rates within horizontal bands (5) [8]	**Within a cooperative arrangement (2)** Denmark[10] Slovenia[10]	**Other band arrangements (3)** Cyprus Hungary† Tonga		Hungary†		
Crawling pegs (6)	Bolivia* Costa Rica Honduras*[6] Nicaragua* Solomon Islands[6] Tunisia		Tunisia		Honduras*[6]	
Exchange rates within crawling bands (1)[10]	Belarus					
Managed floating with no pre-determined path for the exchange rate (51)			Bangladesh* Cambodia[5] Egypt Ghana*[6] Guyana* Indonesia Iran, I.R. of Jamaica[6] Mauritius Moldova Sudan Suriname[5] Zambia*	Czech Rep. Guatemala[6] Peru* Thailand	Argentina* Azerbaijan* Croatia Ethiopia* Georgia* Haiti[3,6] Kenya* Kyrgyz Rep.* Lao PDR*[5] Mongolia* Mozambique[6] Rwanda* Serbia and Montenegro*[12] Tajikistan* Vietnam	Afghanistan, I.S. of Algeria[3] Angola [3] Burundi*[3] Gambia, The*[3,6] India[3] Kazakhstan[3] Mauritania* Myanmar[3,5,6] Nigeria[6] Pakistan[3] Paraguay*[3] Romania Russian Federation[3] São Tomé and Príncipe

					Singapore[3] Slovak Rep.[3] Uzbekistan[3,5] Zimbabwe[5]
Independently floating (35)		Malawi* Sierra Leone*[6] Sri Lanka* Uruguay* Yemen, Rep. of	Australia Brazil* Canada Chile Colombia* Iceland Israel†[6] Korea Mexico New Zealand Norway Philippines Poland South Africa Sweden Turkey* United Kingdom	Albania* Armenia* Congo, Dem. Rep. of* Madagascar* Tanzania* Uganda*	Dominican Rep.*[3] Japan [3] Liberia[3,6] Papua New Guinea[3] Somalia[5,13] Switzerland[3] United States[3]

Sources: IMF staff reports; *Recent Economic Developments*; and *International Financial Statistics*.

[1] An asterisk (*) indicates that the country has an IMF-supported or other monetary program. A dagger (†) indicates that the country adopts more than one nominal anchor in conducting monetary policy (it should be noted, however, that it would not be possible, for practical reasons, to include in this table which nominal anchor plays the principal role in conducting monetary policy).

[2] The ECCU has a currency board arrangement.

[3] This country/these countries have no explicitly stated nominal anchor, but rather monitors various indicators in conducting monetary policy.

[4] The printing of new colones, the domestic currency, is prohibited, but the existing stock of colones will continue to circulate along with the U.S. dollar as legal tender until all colón notes wear out physically.

[5] The member maintains an exchange arrangement involving more than one foreign exchange market. The arrangement shown is that maintained in the major market.

[6] The regime operating de facto in the country is different from its de jure regime.

[7] Comoros has the same arrangement with the French Treasury as the CFA franc zone countries.

[8] The band widths for these countries are as follows: Cyprus ±15%, Denmark ±2.25%, Hungary ±15%, Slovenia ±15%, and Tonga ±5%.

[9] In the Republika Srpska, the Serbian dinar circulates.

[10] The member participates in the ERM II of the European monetary system.

[11] The band widths for these countries are adjusted frequently (Belarus).

[12] The description of the exchange rate regime applies to the Republic of Serbia only, which accounts for about 93% of the economy of Serbia and Montenegro; in the Republic of Montenegro, the euro is legal tender. In the UN-administered province of Kosovo, the euro is the most widely used currency.

[13] As insufficient information on the country is available to confirm this classification, the classification of the last official consultation is used.