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MODERN APPROACHES OF USING THE CLASSIFICATION OF THE EXCHANGE RATE REGIMES

The article reviews current methodological approaches to the classification of exchange rate regimes, analyzes their differences and similarities. The conclusion about the importance of analyzing officially declared and actually realized exchange rate regime in the country in terms of their macroeconomic consequences.
Key words: exchange rate regime, de jure classification, de facto classification.

Problem statement. Exchange rate regime, as part of monetary policy, is an important element of influence on the achievement such macroeconomic objectives of the domestic economy, as the growth of employment and production of GDP, stabilize prices, development of the real sector. The implementation by the monetary authorities of the certain exchange rate regime, as a result of success or failure of realization of certain priorities of economic policy, both in monetary and in the real sector. The modern practice of exchange rate regime choice is actually a choice between two alternatives - the so -called de jure and de facto classifications.

The analysis of recent researches and publications. Methodological principles of separation of exchange rate regimes and their comparative analysis are created by researches of domestic and western scientists such as A. Bereslavska, A. Hal'chyns'kyi, A. Ghosh, E. Levy- Yeyati, B. Kozyuk, Z. Lutsyshyn, M. Musa , C . Mickle , A. Frost , VM Mishchenko , J. Oster , A. Rose, C. Reinhart and K. Rogoff, M. Savluk, M. Stelmach, J. Frenkel, M. Friedman, J. Shamba, F. Shturtsenehher, T. Shemet, S. Yariomenko et al. The last two decades the attention of researchers in this area is focused on the problem of choosing the optimal exchange rate regime, particularly for transformational economies and the new market countries.

Allocation unresolved before parts of a common problem. Despite the considerable scientific achievements of monetary and exchange rate policy, including exchange rate regimes, some aspects remain insufficiently studied, such as interrelation of the actual actions of the government with its official intentions when the latter often based on the standard modes of classification, developed by the International Monetary Fund.

The purpose of the article is to highlight the potential macroeconomic effects of using different classification approaches to exchange rate regimes.

The disclosure of the main material. The development of methodological approaches to the classification of exchange rate regimes is characterized by constant changes and reflects key changes in the “rules of the game” of the international monetary and financial system.

The methodology for determining the types of exchange rate regime - the prerogative of the International Monetary Fund, which is not only classifies regimes, but also requires member states of the official announcement of the exchange rate regime. Article IV, section 2 of the IMF Articles of Agreement establishes the competence of the IMF in monitoring the monetary policy of the countries-participants and the responsibility for the publication of an annual report on exchange rate regimes and currency restrictions [3].

The first attempt to classify exchange rate regimes took place in 1950, when the IMF just got the status of the international regulator of the global monetary system. Analyzing the dynamics of changes of the nominal exchange rate, specialists of IMF distributed countries by the types of exchange rates into two large groups. The first group comprised countries that had implemented the fixed parity policy, the second - a floating exchange rate policy. At that time, the classification that had been offered by IMF really reflected country’s course policy, since the era of the functioning of the Bretton Woods monetary system was characterized as the period of realization of the fixed currency parties [1, c. 98-99].

Classification of exchange rate regimes, which assumed free choice of the mode and was approved by the IMF in 1982, defined three main groups of modes depending on the degree of flexibility: fixed, limited flexibility and floating rates.

The choice of fixation were fixing to a single currency and fixing to a basket of currencies.

Modes of limited flexibility of exchange rate cover:

- Flexible rate limited to one foreign currency as defined and respected certain limits on fluctuations officially fixed parity to a concrete foreign currency;
- Flexible rate limited within joint policy (for example, within the European Monetary System).

Regimes of floating exchange rate were divided into three groups:

- Adjusted floating;
- guided floating;
- independent floating.

The main disadvantage of this classification was its unsuitability to determine the difference between the nominal and the actual exchange rate policy, while in real life between them often were significant differences.

For example, 60% of countries that are officially declared a managed floating of their currencies, actually adhered the fixed exchange rate regime. It allowed them to avoid the loss of confidence and the certain political costs that accompany official devaluation. At the same time, the country tried to take advantage of the exchange rate as an anti-inflationary anchor of the monetary policy. These actions significantly reduced the transparency of the exchange rate policy and ruling out accurate analysis of the currency market [4, c.119].

In January 1999, the IMF announced the development of a new version of its own classification, called “Classification of exchange rate regimes of the IMF from 1999” Its key difference from the previous one is the need to study the actual dynamics of nominal exchange rates: the official in case of the existence in the country of a unified exchange rate and the course of the parallel (black) market in terms of multiple exchange rates. Moreover, this classification introduces additional categories of fixed to reflect the degree of monetary autonomy and the nature of the liabilities of the monetary authorities, concerning exchange rate.

According to the classification of exchange rate regimes since 1999, identifies the following conditions: lack of the national legal tender, ie official or formal dollarization , the lack of separate means of payment, ie monetary union, currency board , the traditional fixation to anchor currency or to the composite currency , creeping binding , fixation within a horizontal corridor; fixation within the elderly (creeping) corridor; rigidly controlled floating without a specific range of limits fluctuations, independent floating. Among the scholars and practitioners the classification of IMF received the brief definition - de jure classification.

The assessment of the exchange rate regimes, according to the new IMF classification, revealed interesting results: multiple exchange rates (set for the different types of operations and currencies) and the black currency markets are still prevalent. During the post-war period, the dual exchange rates existed almost in all industrialized countries as well that illegal parallel currency markets. For example, in 1950 45% of all countries of the world officially established the dual exchange rates. The practice of multiplicity of courses was conducted close to 1990. In the UK they existed prior to 1970, in Italy - until 1980, and in Belgium and Luxembourg - to 1990, when the transition to euro began. Among the developing countries, the share of them with the dual rate decreased from 32% in 1980 to 20% in 1990. If to consider the distribution of parallel currency markets, it appears that during the Bretton Woods monetary system, floating exchange rates were not rare. Exchange rate regime of 45 % of the countries in the 1970s rather characterized as a managed or even independent floating [4, c. 122].

Over the last decade there were some other approaches to the classification of the exchange rate regime. The two most famous of these approaches have been called by using the first letters of the surnames of the scientists-developers: (1) LYS, proposed by scientists Levy- Yeyati and Shturtsenehher (Levy-Yeyati and Sturzenegger, 2003) [5], (2) RR, the authors are Reinhart and Rohof (Reinhart and Rogoff, 2004) [6]. The third approach – Shambo's classification (Shambaugh, 2004) [7]. Various methodical approaches are put in a basis of each of these classifications. LYS, combining the statistics of the exchange rates and the international reserves, uses the cluster analysis. This allows analysis the foreign exchange intervention and the exchange rate dynamics. RR is based on studying the dynamics of the market exchange rates, which in the parallel circulation of the rates and capital's control of movement are often different from the official rates. Shamba classifies the national currency of the country as tied if its official rate long time remains in narrow limits.

It should be noticed that these methods, as well as the classification of the IMF are used to classify modes of nominal exchange rates. All three methods are united by a common trait - they call in question the reliability of the classification of de jure, ie that officially declared by the country. Many countries, declaring floating, in reality carry out foreign exchange intervention for alignment of course deviations (the phenomenon known as “fear of floating”). Conversely, many countries which declare a binding, allow inflation and control of capital movement.

IMF de jure classification determines the exchange rate regime on the basis of the late 1990s (in particular, according to leading scientific researches), when the official declaring, by the countries of exchange rate regimes, often do not coincide with the real measures of the central banks in the domestic exchange market.

But between three de facto methods of classification more differences than similarities. In particular, they differ in temporary periods. For example, LYS don’t classify the exchange rate regime for the UK to 1987, or RR operates with monthly data, while the other two approaches are applied in annual terms.

Discrepancy is also shown in the number of classification groups: RR allocates fifteen Shamba - two (linked and unlinked mode). In addition, these approaches involve different levels of volatility regimes. According to LYS, the country changes its exchange rate regime on average once in five years, but according to RR, the mode changes at least once in twenty years.

Thus, de facto classifications are conflicting with each other and with the de jure classification. For example, on IMF approach, the currency of Canada floated since 1970, but RR never identified the Canadian currency as floating. LYS shows at least nine changes of modes between 1974 and 2004. In 1990, the Bank of Canada officially declared floating, Shambo showed binding, RR - crawling in a narrow range, LYS - floating rate.

This discrepancy between words and actions of governments (represented by the central banks) on exchange rates has taken an important place in scientific research. Alesina and Wagner argue that countries with high levels of corruption and weak protection of property rights are subject to fluctuations of an exchange rate within de jure fixed regimes, as not able to maintain macroeconomic stability under the conditions of weak domestic monetary policy. Contrary to it, a rigid course within the de jure floating regimes associates with government efforts to enhance the credibility and signal macroeconomic severity [8]. Calvo and Reinhart offer different explanations of “fear of floating”, namely that the governments seek to reduce the risk premium on foreign borrowing, connected with instability of an exchange rate [9].

It also should be noticed that, for developing countries, slippage between the public liabilities and the actual exchange rate changes can have disastrous consequences. As Henberh and Freedom note, in the conditions of the capital’s mobility, countries that officially announced the fixed exchange rate, are more prone to speculative attacks. The governments wishing more benefits from exchange rate stability, including stabilization of the cost servicing of external debt, and to avoid inflationary shock devaluation of its currency, they will rather prefer the actual limited fluctuations of the exchange rate, than risk acceptance of the official declaring the target parameters of the course [10].

The historical situations also deserve a special attention that related with development of the international cooperation in the currency sphere, which also affects on the interpretation of the essence of the real exchange rate regime of the country.

In reality, de facto fixing not always reflects the deliberate government actions; in particular, exchange rate stability can be achieved through the introduction of a common monetary policy under a high level of economic integration, such as occurred between Switzerland and Germany in the 1980s. Or modern exchange rate fixing of the Swiss franc against the euro, while Switzerland has de jure floating currency. This situation is explained by the high degree of integration of the Swiss economy in the Eurozone countries.

From the analysis of a wide range of existing researches concerning problems of using the exchange rate regimes, follows that de jure and de facto regimes with different efficiency signal to society about the real intentions and priorities of monetary policy.

In our opinion, de facto fixed regime is a loud signal of intentions of the monetary authorities in the monetary and credit sphere, while de jure fixed regime suggests more restrictive monetary policy as a priority of monetary authorities. Efficiency of the signal given through announcements of de jure fixed exchange rate depends on the authority of country's government, gained during the previous cases of declaring and realization of fixed modes. In particular, the success in fight against inflation depends on binding of inflationary expectations of the population in officially declared exchange rate regime.

The conclusions and recommendations. The behavior of individuals in the economy of any country is determined by their expectations of government policy. If economic agents believe that the government is not fully susceptible to maintain price stability, their behavior is defined by expectations of higher prices. Fixed exchange rate, which is the nominal anchor for monetary policy, may result in strengthening of inflationary expectations. However, in recent years the cost of government applications often appears in doubt, because of the de facto exchange rate regime.

Analyzing the monetary policy of any country, it is necessary take into account not only de jure, but also de facto regimes if their effects can be measured.

The official declaration of the exchange rate regime is a powerful signal of the government's preferences in the area of monetary policy. The biggest impact in struggling against the inflation, countries achieved when officially declared exchange rate regime coincides with the actual behavior of exchange rates.

In modern conditions when integration processes enhanced, not always a rigid fixed rate reflects the government strategy. Thus, further research issues of exchange rate regimes, in the context of monetary integration is the relevant and useful direction.

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СУЧАСНІ ПІДХОДИ ДО ВИКОРИСТАННЯ КЛАСИФІКАЦІЇ РЕЖИМІВ ВАЛЮТНОГО КУРСУ

Резюме
У статті розглядаються актуальні методологічні підходи до класифікації режимів валютного курсу, аналізуються їх спільні та відмінні риси. Зроблено висновок про важливість аналізу офіційно декларованого і фактично реалізованого режиму валютного курсу в країні з точки зору їх макроекономічних наслідків.
Ключові слова: режим валютного курсу, de jure класифікація, de facto класифікація.

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Резюме
В статье рассматриваются актуальные методологические подходы к классификации режимов валютного курса, анализируются их общие и отличительные черты. Сделан вывод о важности анализа официально декларируемого и фактически реализуемого режима валютного курса в стране с точки зрения их макроэкономических последствий.
Ключевые слова: режим валютного курса, de jure классификация, de facto классификация.