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INVESTIGATING DE FACTO AND DE JURE EXCHANGE RATE REGIMES

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Abstract

Exchange rate regimes have evolved a lot of the years, specifically the past century, right from the Gold standard to the Bretton Woods era that led to the creation of the International Monetary Fund (IMF) and Post Bretton Woods periods that have seen the emergence of currency unions and a whole range of hybrid and more sophisticated exchange rate regimes. This evolution has led to the emergence of de jure and de facto exchange rate regimes. This discrepancy can be very misleading and pervasive for monetary policy and stability. In this paper, we combine an empirical econometric approach to develop an algorithm that will classify the de facto regimes that countries are practising by modelling exchange rate bands and the behaviour of a particular currency towards an anchor. The sample is representative of the globe. We believe the algorithm performs well and may be adopted by monetary authorities and international bodies like the International Monetary Fund.

Keywords: Exchange rate regime, algorithm

Jel Classification: F33

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