International Finance
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Lecture - 6
Currency Boards and Currency Basket Systems

Good morning. Let us discuss about session six on currency board and currency basket system. Here, like three sessions we have been discussing about the exchange rate regime, exchange rate determination, exchange rate regime. This session conclude with currency board and currency basket system.

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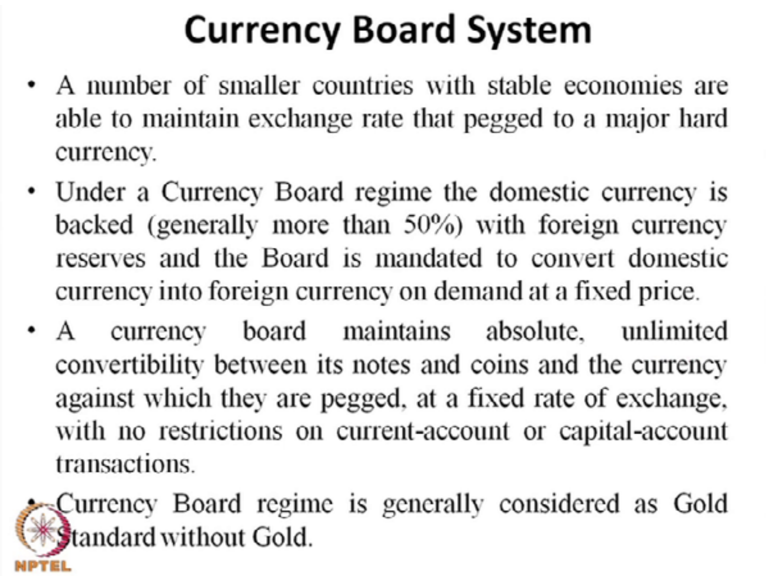

Here, we will be discussing, what actually currency board system; and what are the, what are the advantages of currency board system; disadvantages of currency board system; and also, we will be discussing about, the advantages, disadvantages of currency basket system. At the end, we will be concluding that, a small economy, where exporting depends upon export and imports completely, they generally practice the currency board or currency basket system.

We will, we will be also discussing about the foreign currency regime, of different country, particularly the emerging market economy. And we will conclude the session on the basis of, concluding on the basis of a outline that there are many way to practice exchange rate regime. And fixed and floating, these are the two extreme. Managed floating is the, market, market, managed floating is the requirement of foreign currency market at present. And also we will be, the basket currency or currency board system their requirement for small economy.

Let us come to, currency board system. A number of small countries with stable economy are able to maintain exchange rate that, pegged to a major hard currency. Small economy, that is a (( )) type economy, entirely depends upon their export and import. They generally peg their domestic currency with a hard currency of, hard foreign currency, particularly US dollar, pounds, sterling, Euro or some other, yen, Japanese yen. Where they are, why they are doing? Because they are very small economy; their entire export, entire imports, catered to one or a few country; and that country have, that country exchange rate for the, that country currency determines the value of their domestic economy. So, the domestic circulation of money, these small economy peg to the hard currency, or the currency where their trade depends.

Under a currency board regime, the domestic currency is backed, generally more than 50 percent with foreign currency reserve. And the board is mandated to convert domestic currency into foreign currency on demand, at a fixed price. We have to understand this point; this point mentioned here, under the currency board regime, and a country practice currency board, the domestic currency, the domestic circulation of money, generally pegged by 50 percent of foreign currency reserve, that is, the country is earning 100 billions of dollar. They convert the domestic currency, 50 percent pegged to their 100 billion; that means, 100 billion they are earning, 200 billions of dollar they are circulating in their domestic economy. That means, a 50 percent of domestic currency, which are, which has been circulated in the economy, is backed by a foreign currency reserve. And the board, or the central bank of the country, which practiced the foreign currency board, mandate to convert domestic currency at any point, into foreign currency at a fixed rate; that means they practice a fixed rate. Domestic currency, converted into foreign currency, any moment, any time, at that particular rate. Their circulation of money in the domestic economy depends, backed by, or depends upon, the, how much they are earning in the foreign currency market.

A currency board maintains absolute unlimited convertibility between its notes and coins; and the currency against which, they are pegged at a fixed rate, fixed rate of exchange, with no restriction on current account or capital account transaction. It means that, there is absolute unlimited convertibility of domestic currency into foreign currency. At what rate? A rate fixed by the currency board. And there is no restriction on current account or capital account movement; that means, exports, imports are free. And whenever imports are so on foreign currency, they will get as fixed rate. When our exporter earns foreign currency, they convert the foreign currency, domestic currency at fixed rate. There is no control on the movement of capital accounts; that is foreign direct investment, foreign institutional investments, or any kind of foreign purchase of foreign currency assets, there is no restriction, in case of currency boards.

And the currency board regime, it generally considered as a gold standard without gold. Because under the gold standard, the fixed exchange rate is linked to the gold. And on the basis of price of the gold, or in the meaned price of the gold, the currency rate determined. Similarly, in case of currency basket system, the domestic currency is pegged with the foreign currency; and exporter importer, any, all get, convert their domestic money, domestic money other foreign currency, at the fixed rate. There is no restriction on the movement of foreign currency, either in the form of inflow, or in the form of outflow.

Similarly, in case of gold standard, there is no restriction in the movement of gold from one country to another country. Similarly, here also currency board, there is no restriction on the movements of, movements of foreign currency from the country to any other country.

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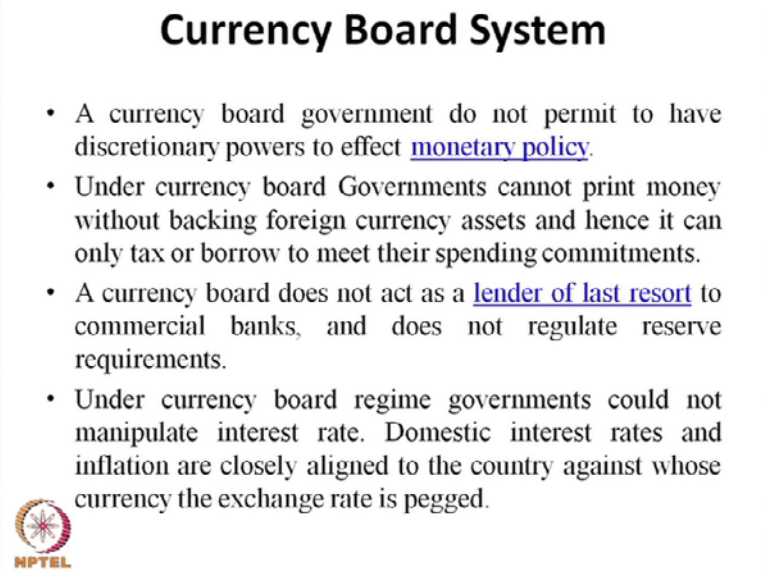

Let us come to the currency board system, what are the advantages are there? Currency board, a currency board government do not permit to have discretionary power to effect monetary policy. What does it mean? It means that the monetary policy independence is not there, on the part of domestic monetary authority. Because they practice indirectly a fixed exchange rate, under the currency board they had; they adapt to the fixed exchange rate. The domestic circulation of money depends upon how much foreign currency the country is earning. The domestic interest rate depends upon the country where the currency is pegged. There is the discretionary monetary policy, or the freedom to decide the interest rate, freedom to decide the, how much money the country, money supply the country needs; these are not there with the monetary policy. So, monetary policy of the currency board government do not have any freedom in deciding the interest rate, deciding the level of inflation, level of level of foreign currency, level of domestic currency circulation.

And, on the currency board, government cannot print money without backing foreign currency asset. And hence, it can only tax or borrow, to meet their spending commitments. As I mentioned, under the currency board system, the domestic circulation of money depends upon, how much foreign currency assets are there. Without having foreign currency asset, the monetary authority cannot print note or cannot circulate note, in the domestic economy. Thus, how the domestic government should function, whenever there is a requirement of money? They have to tax; they have to get money by taxing the domestic national; or they have to borrow from other country, other country, so that they can print foreign currency, they can print domestic currency.

So, there is no freedom on the part of the domestic authority, to print note, under the currency board system. At the same time, there is no freedom on the part of domestic authority, to have, what is called a free, free fiscal policy, monetary policy, or a deficit financing policy. A currency board does not act as a lender of last resort, to commercial bank; and does not regulate reserve requirements.

So, whenever the domestic banks of the currency board country, face any problem, they generally go to monetary authority. However, here, monetary authority cannot give them loan, or cannot give them any kind of, any kind of financial help. Because they are practicing a monetary, a exchange rate policy, which is linked to the, which does not allow them to print note; which linked to the, or pegged to a foreign currency, where, on the basis of which, they can circulate note.

Under currency board regime, government could not manipulate interest rate, because freedom of deciding the interest rate, cannot have, under the, under the currency board system. Because that domestic interest rate, will, is align, aligned with the currency, aligned with the country, where the domestic, the currency board peg their currency. If the currency board peg their currency, the US dollar, only US, US, or the United States America interest rate, same kind of interest rate, the domestic economy can have. If the interest rates are more in domestic economy, then there will be more currency inflow to the country, which will affect the fixed exchange rate. So, under the currency board system, the government of currency board system cannot have the freedom of deciding the domestic interest rate. Domestic interest rate and inflation are closely aligned, with, to the country, against whose the currency, against whose currency, the exchange rate is pegged. So, there is a currency align is US dollar; the US interest rate, US inflation rate prevail upon the domestic economy.

So, here we analysed, with, the domestic authority or the government of the currency board system, do not have freedom in deciding the level of money supply, deciding the printing of note, in deciding the interest rate policy, in deciding the exchange rate policy, or, in deciding or regulating the commercial bank, in their own country. The currency board is a very restrictive regime where, the freedom of deciding the domestic economy policy do not have with the monetary authority, or, the, with the government.

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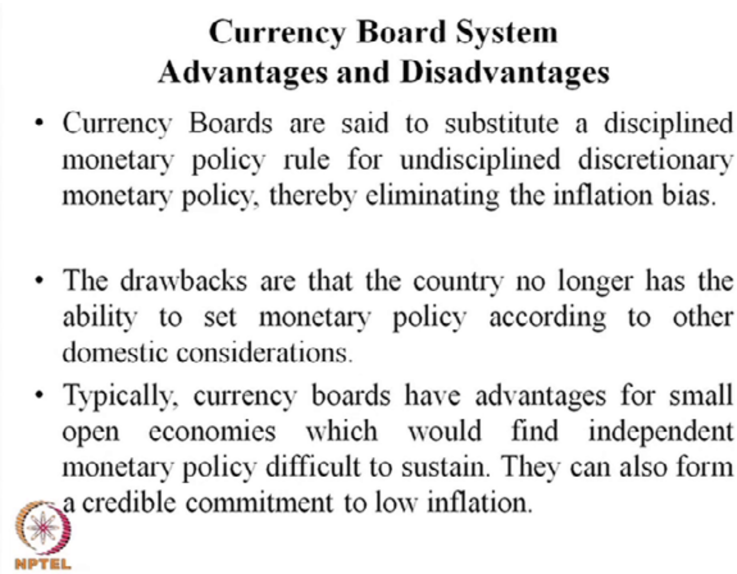

There are many advantages and disadvantages of currency board system. So, first, the currency boards are said to substitute a disciplined monetary policy rule, for undisciplined discretionary monetary policy, thereby, eliminating the inflation bias. As we discussed, under the currency board system, the monetary authority had to practice a policy or monetary policy, which should be aligned with the currency against which their domestic, their domestic currency depends. Because the currency board cannot have a independent monetary policy; they cannot have a interest rate policy; they cannot have a have a, print no money policy, monetary policy, money supply policy without, without aligning with the country, against which, against whose, the domestic currency depends.

Because in case of currency board system, the monetary authority need to practice a disciplined monetary policy, by a disciplined monetary policy, we mean, a policy which, which may not allow the monetary authority to decide, what should be the interest rate; what should be the exchange rate; what should be the money, level of money supply in the economy. I can mention here, by a disciplined monetary authority mean, there is no freedom on the part of the currency board government, to decide the monetary policy.

However, this may be a advantage, may be a disadvantage, on the, for the currency board system. Advantage in the mean that the discretionary monetary policy or predominant deciding monetary policy, may sometime create deficit financing, which may create more inflationary bias in the economy. However, a discipline monetary authority cannot create deficit financing; and always whistle in, controlling inflation, in controlling interest rate, in controlling money supply, which may create inflationary bias in the economy. In case of currency board system, this discretionary monetary policy is not there. And hence, a disciplinary monetary policy, need to be practiced by the currency board regime.

The drawbacks are, drawback in case of currency board is that, country no longer has the ability to set monetary policy, according to other domestic considerations. Because as I mentioned here, there is no discretionary power on the part of currency board regime to practice a monetary policy, hence they have to align the monetary policy with the country, where the currency is pegged. So, this may be a drawback; this is may be a disadvantage, on the part of the currency board regime. Because the country may require some monetary policy, which is for economic consideration; there is a requirement for more supply of money; there is requirement of reducing the interest rate, for the growth reason, for the growth concept.

However, since they are practicing currency board regime, they cannot have a monetary policy, which is independent of currency board. Means, it is a greatest advantage, disadvantage on the part of the currency board system. They cannot practice a independent monetary policy, which may, which may require for their own domestic economy. The currency board have advantages for small economy. Where, the entire economy depends upon the export import only. Because when the entire earning depends upon the export, they should have an exchange rate policy which is linked to their trade regime. That, the import because the domestic productions are on the basis of import only; they generally required a sizable amount of import, to, for their own domestic economy. So, they need to practice a currency board system. Because a small open economy, where export import decide their, decide their survival. They need to practice a currency board by linking their, or aligning their currency with the country where they have significant trade.

In this context, a small banana economy, lie, requires, or generally practice a currency board system; and it is helpful to them. However, a peak economy, where export import do not decide their level of development, this economy requires a independent monetary policy; and they should not practice, and cannot practice a currency board's regime. Because by supplying, by supplying, by supplying more money, creating a interest rate regime which is suitable for their country, it is suitable for their country, require, is a basic requirement of a large economy. Hence, large economy, where domestic demand is significant, they cannot practice, a currency board regime, which never allow a discretionary monetary policy. So, the, a small economy where the export import decide the economic, economic level, level of economy, they should practice a currency board system which is more advantage for them.

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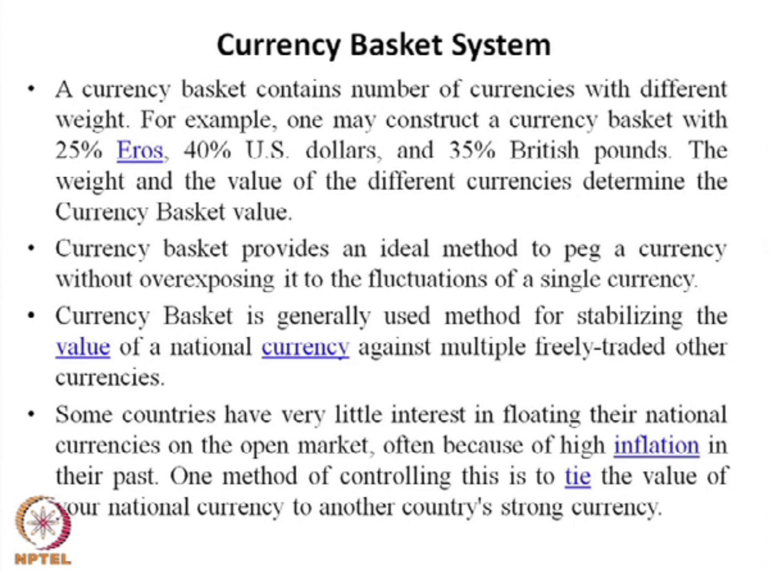

Let us discuss about, currency basket system. Currency basket, as I mentioned here, there is a basket of currency. The currency may be 2, may be 2, less than, less than 5. Each currency has their own weight. By multiplying the level, the rate and the weight, the currency basket decides the exchange rate. And generally, the currency basket, the weight in currency decided by the country, against which the trade, trade relations are there. Their exports imports are more. That, that country's currency, and the trade weight, the linkage of trade, decide the exchange rate.

Suppose, a currency basket contains number of currency with different weight, as I mentioned. Suppose, a currency basket 25 percent of Euro, 40 percent of US dollar, 35 percent of British Pound is the currency, is a currency basket. Here, Euro, US dollar and British Pounds are currency. And the trade, percentage to trade, that is 25 percent of their export import with Euro, 40 percent their export import with US dollar, and 35 percent of export import is Pounds sterling; this way decides the exchange rate. So, when you, calculate the exchange rate of the country, then you have to multiply 25 percent with the value of the Euro, 40 percent with the value of the US dollar, and 35 percent with the value of the British pound, that decide the exchange rate. The weight and the value of the different currency are determined by the currency basket line.

Currency basket provides an ideal method to peg a currency without over exposing it to the fluctuating, fluctuation of, single currency. If you see the currency board system, there is a only single currency. And in the single currency, may be US dollar, may be euro, may be pounds sterling, may be yen, so that country linked to only single currency, so they are more exposing to the fluctuation of single currency. But in case of currency basket system, there are more than 2 to 5, more than 2, more than 2 to 5 currencies are there. So, they are not exposing to any particular currency fluctuation. It may happen sometime the, one currency may have a appreciation and other currency may have might to have a depreciation. So, the fluctuation of single currency is not there, in case of currency basket system. So, currency basket system maintains a stable, stable exchange rate.

Currency basket is generally used, method for stabilizing the value of national currency, against multiple freely traded other currency. Because when a domestic currency linked to a basket of currency, there is a stable, there is a stabilizing effect. Because when the currency, domestic currency decides the value of the, domestic currency decides a market forces, here, then more than 10 15 currency, are the, decide the value of the currency, demand supply of the domestic currency, decide the value of the currency.

However, in case of currency basket system, there are, few currencies are there. Their value, their weight decide the value of the domestic currency. In the over, over exposing of fluctuation, or the freely traded market, market determination exchange rate is not there, in case of currency basket system. Some country have very little interest in floating their national currency, in the open market. Because they know that in open market, it is not because of trade, because of speculation, because of instability, that may create a appreciation or depreciation, in domestic currency. So, they do not want to have a free floating exchange rate regime. So, they practice a currency basket regime, where they decide, which are the important currency for them, for trade reason, for the domestic reason. And by linking the domestic currency with these currency, the decided currency, they decide the exchange rate for their domestic currency.

So, in this context, the inflation, the interest rate, the monetary, the monetary policy formulation, everything, some extent, the currency basket country enjoy. At the same time, they have a, they have a stabilized currency, currency value, because they are not exposing their domestic currency, completely to the market forces. They link they are linking their domestic currency to such currency, where they have significant amount of trade relation.

So, currency basket system is a ideal, ideal, or more, more, more genuine, than practicing a single currency board system. Small economy, even many emerging market economy, like, they have currency basket system; where they link their domestic currency to a, to more than 2 to 3 international currency. And the international currency is, currency value decided by the market forces; and the, and in turn, they decide the value of the domestic currency of the currency basket regime.

So, in this context, we discussed the currency basket, and currency board system. How we analyse the currency board, linked to a single currency, which generally create more instability; and may not have, may not, may not decide the actual value of the domestic currency; and also, do not allow the monetary authority to practice independent monetary policy. At the same time, we also discuss currency basket system. Here, the currency, the currency basket have more than 2, 2 to 3 currencies are there. That is, the weight of the trade, linked to the currency value, and which decide in term, the value of the domestic currency. And here, that the currency basket system create a stabilizing effect on the value of the domestic currency. And also, here, the single currency effect is not there. Since, and the currency, the domestic currency is not overexposing to any single currency.

The trade, trade relation decide the weight. And trading partner, trading partner, value, currency value, decide the currency value of the currency basket regime. So, it is more advantage to have currency basket regime system than the currency board system. So, we have, we are concluding here, the various currency regime; we discussed the last section: free floating, fixed exchange rate, managed floating, the advantage disadvantage. In this section, we discussed about currency board and currency basket system.

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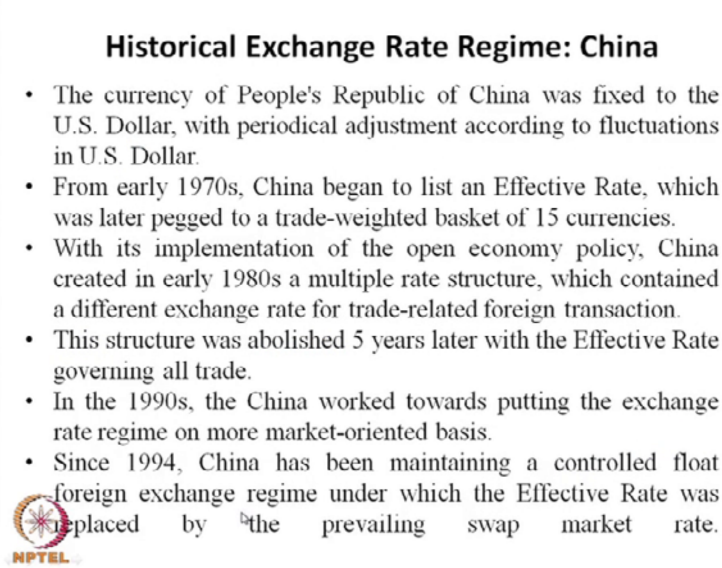

Let us move and discuss something different. Because we have to analyze, the historical exchange rate regime of emerging market economy. Here, I have selected some market economy; and we are going to discuss the development of the foreign currency market, or foreign currency exchange rate regime, in this economy. Here, I have outlined the foreign currency rate, foreign currency exchange rate regime of China, India, Argentina, and Singapore. And we will be discussing this 4 country separately. Let us first discuss with the China.

As I mentioned here, China is one of the biggest economy in the world. China initially practiced a fixed exchange rate linked to US dollar. However with a periodical adjustment according to fluctuation of US dollar and the requirement of China; China has a fix, China had a fixed exchange rate; however, the fixed exchange rate linked to US dollar. And Chinese authority had a, had freedom in adjusting the exchange rate. So, it is again, it is a, we can mention here that, that regime was a fixed exchange rate, with interval of adjustment. The adjustment decided by the Chinese authority. Their adjustment, they did on the basis of the, requirement of their economy.

From early in 70’s, China began to list an effective rate, which was later pegged to trade weighted basket of 15 currencies. In early 70’s China practiced, what is called a, what is call an effective rate, in the form of a currency basket regime. They decided 15 currencies, where they had trade link. The trade weight, and the value of the currency, individual currency decide the effective rate. And they practiced this effective rate, for a few years.

After early 90s, when they, early 80s, that is when they started opening up their economy, and following a market, market, opening of the economy, in the form of a liberalized economy, they, they have multiple exchange rate structure. What they did? The early 80s, they opened their economy; they liberalized their trade regime; and they practiced multiple exchange rate system. The multiple exchange rate system linked to export, import, trade requirement, current foreign currency inflow in the form of F I investment, in the form of FDI investment; all these have a multiple exchange rate system. And this continued till, some extend early 80s, 85, 90s.

But, however, they abolished the exchange, all these rate; and they shall allow the market forces to decide the exchange rate in the economy. However, the market oriented exchange rate regime, also not completely decided by the market forces. They regularly intervene exchange rate market, so that, they want to prevent any excess fluctuation. They want to boost their domestic economy, and practice an exchange rate, which is suitable for their domestic requirement. Since 94, China has maintaining a controlled float, what is called a floating exchange rate, with a controlled float. They decide an effective rate, by prevailing, which is prevailing, a swap market rate. A market rate, they swapped with a control market, controlled floating exchange rate. In other word, they are having a managed floating exchange rate, which is managed significantly; at the same time, some extent, the market forces also decide, the exchange rate.

So, China, over the year from the fixed control, fixed exchange rate system to a basket exchange rate system, to a market floating exchange rate system, the regime, the historical regime developed. At the, at present also they have a significantly managed floating exchange rate system, where not the market forces, but by the, trade by the people authority that current people’s republic of china the monetary authority decide the exchange rate. However, some extent, the market forces also decide the value of the currency.

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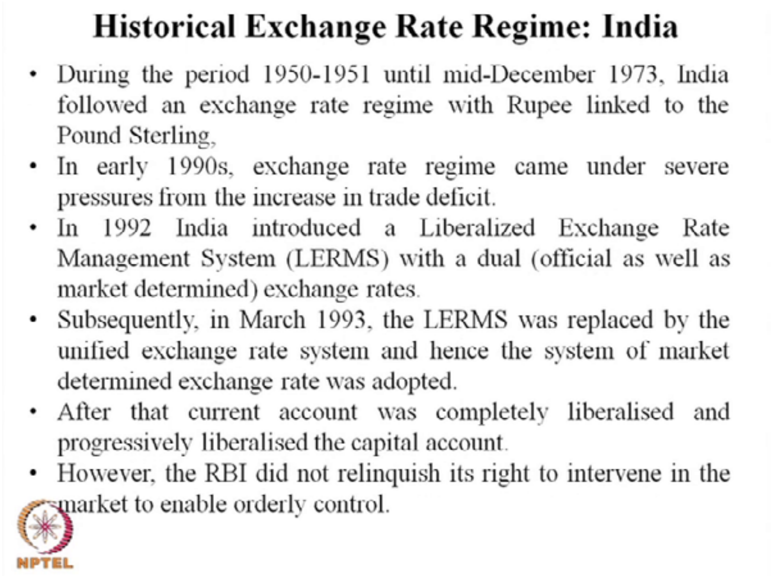

Let us move to the other country, here the country is India. Let us discuss over the historical exchange rate of India. As you know, during the early independence period, in 1950, we had a trade link with the Great Britain. Because of the colonial expansion, colonial expansion of our country, the colonial expansion of the British. India was a, India was controlled by the British government. And this, we inherited some extent, the exchange rate policy of the great Britain; and we practiced the exchange rate by linking our domestic currency to pound sterling, till 1973. And we had a fixed exchange rate regime. The regime is fixed in the sense that, our exchange rate that is domestic value of the currency linked to pound sterling. And the monitoring authority here reserve bank of India, they decide, what should be the conversion of pound sterling, a rupee against the pound sterling. This continued till 1973, 1973; after 1973, we started developing our foreign currency market. But however, till early 90s, the RBI controlled the exchange rate regime and decided the exchange rate; the exchange rate was linked, exchange rate were linked to pound sterling, linked to US dollar, and slowly, slowly we adopted a market oriented exchange rate regime.

In 90s, the exchange regime came under the severe pressure, because we had a significant amount of trade deficit. The trade deficit mean, are, in export, we are not in a position to pay for our import in, we have a significant amount of trade deficit. As we know, when country having a trade deficit, the domestic value of the currency depreciated significantly. And we had created a exchange rate regime, where the economy was in a collapsing state, in, during the early 90s.

In 91, 92, we liberalized our economy; and allowed the market forces to decide the interest rate, exchange rate; and also, we given, we have given significant freedom to central bank that is RBI, to monitor the exchange rate, to monitor the interest rate. In 92, the, as a part of liberalization, the central bank that is the RBI, introduced a policy, what is called a liberalized exchange rate management system, with a dual exchange rate, exchange rate. That is, official exchange rate; at the same time, there is a market oriented exchange rate. The official exchange rate, importers get import requirement that is the foreign currency requirement for import, at the official exchange rate. And also, we have a market oriented exchange rate, where exporter are allowed some extent, some part of their export earning, to get the market value of, value of the currency, and some part as a fixed exchange rate policy.

Subsequently, in 1993, the dual exchange rate was unified; and we adopted a market, completely market oriented exchange rate policy. Where, we liberalized the current account completely. Now, at present, the current account is completely liberalized; the market forces of demand and supply decide the current account rate; however, the capital account is controlled.

Over the period, since 92, 93, 94 onwards, we have been liberalizing the capital accounts. And at present, one can, we can tell, we can mention here that, our capital account, that is the purchase of foreign currency asset FDI, FI other thing investment process, has significant, has been significantly liberalized. In the current account, that is called export trade account plus the invisibles; invisible in the form of payment of interest, services payment, family living expenses, your requirement for travelling, all this requirement we need foreign currency; that foreign currency market we have to go to, you have to get at the market rate.

So, current account, the significant part of the current account is export import; that has been completely deregulated or liberalized; the market forces decide the exchange rate. At the bank and financial institutions, those are authorized dealer of foreign currency market, they have got significant freedom in deciding the exchange rate as per the market forces. They are the player in the market; and they are deciding the market rate on the basis of demand and supply, in the, demand and supply of foreign currency in the market.

We have liberalized the foreign currency market. There is at present, at present we have, we have, what is called spot market rate; we have a forward market rate; we have currency option, currency future for risk management practices. The RBI, though not declared any official exchange rate for intervention; however, regularly intervene foreign currency market, to prevent any kind of significant fluctuation in foreign currency market. Any kind of fluctuation which affect our trade, where RBI is generally intervene in foreign currency market, in the form of direct intervention, by selling and purchase of foreign currency asset; in the form of indirect, indirect intervention through policy regime, through policy changes. So, India at present, is a liberalized exchange rate regime. The liberalization is completely on the current account. And there has been significant liberalization in the capital account also.

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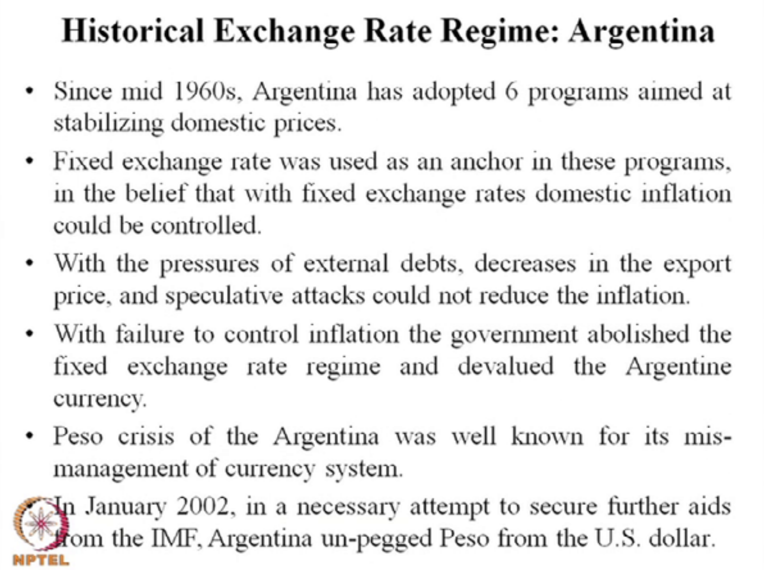

Let us discuss about, the foreign currency market of Argentina. As you know, Argentina is very important for us, because Argentina foreign currency that is peso, was a part of the foreign, exchange rate crisis, or currency crisis, which world have witnessed very recently. Since mid 1960s, Argentina has adopted 6 program, aimed at stabilizing domestic prices, because they practiced different kind of exchange rate regime, in different time period. Their main aim is, was to control inflationary bias in the economy;

control the excessive fluctuation currency market; and at the same time, and the same time, they want to have a exchange rate regime, which can help in growth of their economy.

So, fixed exchange rates were used, as an anchor in this program. In the, they believed that a fixed exchange rate only can provide stability in inflation, or controlling inflation. Because they understood that, the fixed exchange rate directly linked to inflation; if they practiced a fixed exchange rate, there will be disciplinary monetary policy; and the voluntary authority can practice a low inflation regime, you can have a low inflationary regime. With the pressure of external debt, to practice the fixed exchange rate, the domestic authority that is central bank of Argentina, need to interfere in the market, every moment, to prevent any kind of excessive fluctuation in foreign currency rate. To prevent appreciation or depreciation of foreign currency made, or to have a fixed exchange rate, they need to intervene every moment. For that reason, they need excessive foreign currency reserve.

The, only the reserve, they can control the foreign currency movement. So, over the period, the Argentina had significant external debt, which reduced their export; there is a speculative attack on, attacked; they could not, could not reduce the inflation. They practiced exchange, fixed exchange rate to control inflation, but to practice fixation they developed what is called excessive, excessive foreign debt, external debt; and they could not, usually, decrease their export; and they could not practice, they could not control the inflation.

With the failure of controlling inflation, the government, Argentina government, abolished the exchange, fixed exchange rate; and devalued the Argentina currency. They devalued many time their currency, so as to, so as to, control inflation, and increase export. Peso crisis of Argentina was well known for this misallocation of, mismanagement of foreign currency system, because they practiced different regime of foreign, different, different foreign currency regime, in different time period. And this lead to, what is called a, in the mismanagement of current foreign currency system, and this lead to, what is called a Peso crisis, or the Peso is the currency of Argentina or what is called foreign currency crisis of Argentina was a part of this currency crisis.

In January 2002, in a necessary step, attempt to secure further aid, from the IMF Argentina, un-pegged peso from US dollar. And they practiced, what is called a managed floating exchange rate, without linking to any currency with their peso, with the Argentina currency. They regularly intervened foreign currency market; tried to address excessive fluctuation foreign currency market; they borrowed money or foreign currency from IMF, significantly to, for the, controlling the, controlling the foreign external debt; control in giving importance, giving further importance to the export; pay for the required import; and also, they added to the IMF policy. Hence, over the period they liberalized their exchange rate regime. At present, they are practicing, what is called a managed floating exchange rate regime.

So, we understand that the Argentinian, Argentinian Foreign exchange policy, or exchange rate regime is quite devastating in, or devastating, or quite mismanagement in nature. They could not understand, what should be the ideal policy for their, for the domestic economy. They practiced different regime in different time period, to control the inflation, to control excessive flip to their export; and practice, what is called a, policy, which is good for their country.

However, when you change the exchange rate regime, with a short span of time, it create havoc in domestic policy; and create uncertainty speculation, speculation and currency attack, what we call, generally attack on the currency. And this speculator create more problem in the, in domestic economy; rather than, the market forces decide the exchange rate. However, over the period, they managed the exchange rate, you know; at present, they are practicing a managed floating exchange rate which is good for their own country.

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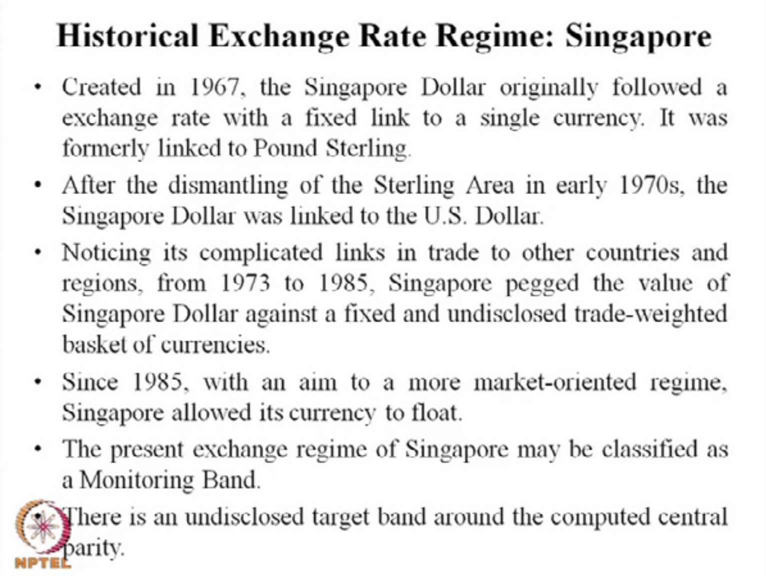

Let us move to Singapore exchange rate regime. Here, Singapore, we know the, it was, it, we generally call the tiger economy; economy which is which practiced export oriented policy for the domestic development. It is a very small country, but with impressive growth. They, in early 70s, early, early 70s, they practiced, they moved from the inward development strategy to a export oriented development strategy. And they give more importance to the export sector; and for that, they adopted a exchange rate regime, which is suitable, or which is advantage for their export sector.

In 1967, Singapore dollar originally followed a exchange rate, with a fixed link to single currency. A Singapore dollar linked to one currency; and there is a fixed link. It was firm, firmly linked to pound sterling. It is linked to pound sterling; and it has a fixed regime, they practiced. After that, after dismantling the sterling area in early 70, the Singapore dollar was de-linked to the US dollar. Though, in 1970s, as I mentioned, a Singapore adopted a outward development strategy, gave more importance to the export sector; they dismantled the sterling area, and linked the domestic Singapore dollar to US dollar.

But, later part they realised that, it is very difficult to peg the value of Singapore dollar against a fixed, fixed rate. So, they abandoned the policy. And they, in place of fixed exchange rate, they adopted a trade weighted basket currency. They adopted in place of US dollar, few more country. And they give their weight to, the country, each currency, on the basis of trade, on disclose; that, you never disclose what is the weight of a single currency; and they adopted the basket of currency approach. The currency basket system was a ultimate development of Singapore exchange rate regime.

Since 1985 with an aim to more market oriented regime, Singapore allowed the currency to float. Now, since 1985, the currency is floating now. The present value, present exchange rate regime of Singapore may be classified as a monitoring band. However, they are allowing the Singapore dollar to float, they have a, the Singapore monetary authority decide what will be the limit of floating with a monitoring band. There is a undisclosed target band around the, around, the computed central parity. The basket regime computed a parity rate. The central parity rate, they allowed to fluctuate with a, with a monitoring band. And then, the central of bank never disclosed, what is the monitoring band, what is the central parity rate.

However, Singapore exchange rate regime is primarily, primarily it is export oriented. And to give more incentive to export, they practiced exchange rate regime which is basket, a currency basket system, linked to their trade partner.

With this, let us, we are completing the exchange rate regime, particularly the fixed floating currency basket, currency, currency board system. And you can understand that, exchange rate regime is a very complicated issues. And countries should practice exchange rate regime, which is suitable for their national growth.

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There are the, these are the references. We can go through the references to understand more on the exchange rate regime.

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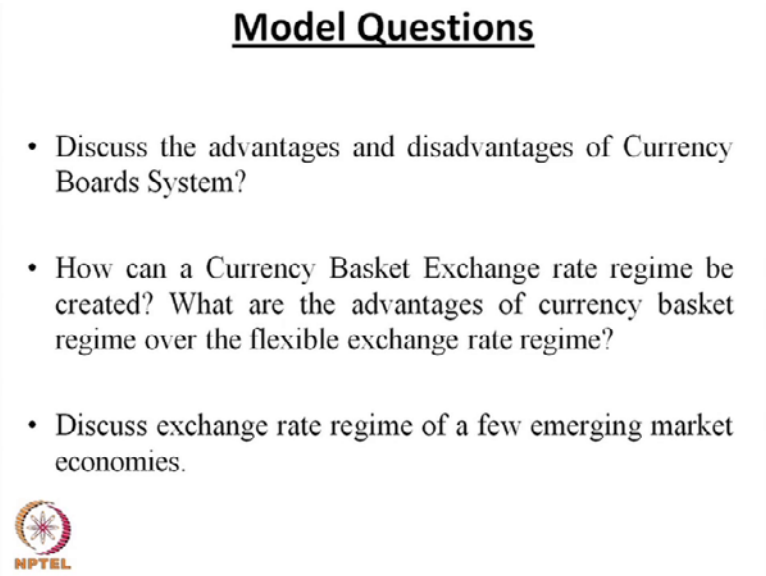

Let us discuss, let us discuss, some kind of model question here. Discuss the advantages and disadvantages of currency board system? You have to outline which are, which are the advantage, which are the disadvantage of the currency board system. In this process, you can discuss what is called the primary requirement of currency board system. The requirement of currency board system is a single currency linked, either linked to trade, or a fixed exchange rate. A currency board system, nothing but a, what is called a fixed exchange rate regime. The fixed exchange rate what are the advantages are there? What are the disadvantages are there? We should have to outline there.

How can a currency basket exchange rate regime be created? How you can create a currency basket regime? Here, you have to mention that, how you have to, currency basket regime is contained more than 2 to 3 currency 4, and how to decide the currency? The currency decided on the basis of trade link, and how to decide the weight of the currency? The currency, it is trade weight decided on the basis of trade, trade, trade percentage, because the country have a significant trade with the 5 country; the 5 country has the currency, will a part of the basket. The basket weight is individual currency weight decided by the amount of trade they are having with the respective currency. And on that, and after the currency basket system, after the deciding the currency and currency weight, you can calculate the value of the currency, on the, by multiplying the currency value with the, a respective currency value with the, with that trade weight. And that will give you the exchange rate. And the exchange rate will fluctuate; fluctuation depends upon the trade weight; it depends upon the currency fluctuation.

A currency basket regime, some extent a managed floating, or some, some extent they, if exchange some extent is a regime, which is floating in nature. Because individual currency fluctuating, the currency basket value also fluctuates. So, we have to discuss all these things in designing a currency basket regime.

Discuss the exchange rate regime of a few emerging market economies. We have already discussed, in our discussion part, the exchange rate of many, 3, 5 emerging market as a India, China, Singapore, Argentina; you can discuss about the Brazil, Mexico, Mexico, Brazil. We can also discuss Hongkong; their exchange rate regime here. You can go to their respective monetary authority, monetary central bank site, and try to download their exchange rate regime, mention, given there. And discuss the advantage, disadvantages of their exchange rate regime. You can also discuss about the exchange rate regime of Srilanka, Pakistan, and also Mexico, Brazil, the because these are the emerging market economy. You can also discuss the South Africa which is a more open economy and a large economy. And also, you can discuss the Australian currency regime also, this is very important. And these are essential, because these countries are large in nature, and also, they have practiced a currency exchange rate regime, which is evolving in nature.

Thank you a lot.