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Abstract

This study provides an empirical analysis of the exchange rate policies in the transition economies in Central and Eastern Europe and the former Soviet Union during the 1990s. The topics of the include classifications of exchange rate regimes and their evolutions, the determination of official exchange arrangements, the causes of discrepancies between declared exchange regimes and actual exchange rate policies, and the interactions between exchange rate regime choices and capital account liberalization.

Despite of a common historical background and similarities in many aspects, the transition economies have adopted diverse exchange rate regimes. Moreover, many countries have pursued exchange rate policies very different from the declared official regimes. For official exchange rate regimes, the analysis suggests that the observed variety in regime choices can be explained by the traditional Optimal Currency Area criteria, stabilization considerations, and risks of currency crises. For de facto regimes, actual policy stances are influenced by exchange-rate pass-through effects and fragility of the banking system. There is evidence that the two regime choices are correlated with each other.

The evolution of regime choices shows that both official and de facto exchange rate regimes tend to be persistent, though the transitions among different regimes are also frequently observed. There is no convincing evidence that intermediate regimes are hollowing out due to their alleged vulnerability to currency crises in the environment of free capital movements. The empirical analysis on the capital control intensities suggests that the absence of the "hollowing-out" phenomenon can be attributed to low degrees of capital mobility in the transition economies, since countries choosing intermediate regimes also maintain more intensive capital controls than those with truly fixed or floating rates do. In general, countries tend to utilize capital controls to help pursue exchange rate objectives, rather than to adjust exchange rate regimes to accommodate changes in the degree of capital mobility.