

CURRENCY UNION TECHNICAL EXPERT GROUP (CUTEG)

OUTCOME PAPER (CUTEG) # 1 (July 23, 2004)

(1) Topic: **Definition of a Currency Union**

(2) Issues – see CUTEG Issues Paper #1

(3) Recommendations:

1. The group agreed that the *External Debt Statistics Guide* (EDS) definition of a common currency area (para 6.12) was a starting point for the definition of a currency union. But it should be expanded to mention that a CU implies a common monetary policy, and perhaps foreign exchange policy for the area. Some considered as significant the agreement by member countries to transfer sovereignty for monetary policy to a common body. In this context, the existence of a legal arrangement (e.g., a Treaty) establishing the CU was also raised, although in some instances it might not be necessary. There was not support for a suggesting that the definition should refer to a common or coordinated budget (fiscal) policy among CU members.
2. The group considered that what is essential in a CU is the existence of a “central” and “commonly participated” decision making institution—a monetary authority—that defines the monetary policy and, perhaps, foreign exchange policy objectives. Indeed, the existence of a policy making body in charge of the common monetary policy may or may not imply the existence of a CU central bank.
3. Some members considered that to qualify as a member of a CU, a country or economy needed to participate in the decision making process of the CU monetary policy. As a consequence, economies with bilateral monetary agreements to use the CU currency as legal tender but which do not participate in the CU decision making body do not qualify as members of the CU. The same applies for unilateral adoption of the CU currency by third party countries (e.g. dollarization, euroization, other “-ization”).
4. Based on experience, it was noted that in a CU, while there is one official interest rate all over the CU, actual interest rates may not be the same among participating economies due, for instance, to segmented markets.
5. The group agreed that the various forms of exchange rate agreements among different countries, such as establishing bands in which currencies can trade, do not qualify as CU. Such agreements allow for the bilateral exchange rates to be modified/abandoned, even unilaterally.
6. The group agreed to replace the term “Regional Central Bank” with the “Currency Union Central Bank” (CUCB).

(4) Rejected Alternatives:

None.

(5) Actions before the next meeting of CUTEG

- Investigate the situations of dual legal tender arrangements (e.g. in Southern Africa), as well as the adoption of another country's currency under some form of legal agreement (e.g. Belarus and Russia), and report on whether these types of arrangements could be regarded as forms of CU (IMF staff).
- Investigate what does it mean to be part of the CU decision making body (IMF staff).
- Develop a definition of CU for inclusion in the revised manual (IMF staff).