

THE VANISHING INTERIM REGIME HYPOTHESIS

^aMICHAŁ JUREK, ^bPAWEŁ MARSZAŁEK

The Poznań University of Economics, al. Niepodległości 10, 61-875 Poznań, Poland

Email: ^a*michal.jurek@ue.poznan.pl,*

^b*pawel.marszalek@ue.poznan.pl*

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Abstract: The paper verifies the strong and weak versions of the vanishing interim regime hypothesis. It is shown that the both versions of this hypothesis may be discredited. Results of the logistic model are in favor of the bipolar view only for the advanced countries, providing at the same time a strong support for the view that the probability of the use of interim regimes in emerging and developing countries significantly differs in various regions of the world.

Keywords: bipolar view, exchange rate regimes.

1 Introduction

Since the 1970s the interdependence of the world economy has grown to the unprecedented extent. This in turn has caused the increase in frequency and magnitude of capital flows, mostly of a speculative nature. The magnitude of these flows has become enormously high. As yield differentials have increasingly stimulated capital flows, sustaining restrictions on such flows has become very problematic because of their vanishing effectiveness (Kose et al. 2007). Taking this into account, many countries have already liberalized restrictions on capital flows (Mussa et al. 1994, Kose, Prasad 2007).

Observations of this process have induced many economists to insist that so-called interim exchange rate regimes with the particular emphasis on soft pegs do not fit changing macroeconomic circumstances anymore. It has been often argued that mounting problems with speculative attacks, fading credibility of interim regimes in the world of vastly expanding capital flows and proneness of such regimes to currency crises sooner or later must force countries to reject these regimes as obsolete (Calvo, Mishkin 2003, Eichengreen 1999b). This is the core of so-called bipolar view or vanishing interim regime hypothesis. According to its succinct hard version, all intermediate regimes are about to disappear (Eichengreen, Razo-Garcia 2006). Soft version of this hypothesis was formulated by S. Fischer (2001). According to it, for countries open to international capital flows: (i) soft exchange rate pegs are not sustainable; but (ii) a wide variety of flexible rate arrangements remain possible; and (iii) it is to be expected that policy in most countries will not be indifferent to exchange rate movements.

The conventional wisdom that sooner or later interim regimes cease to be an option in exchange rate policy has become well established since the outbreak of crises during the 1990s (Crockett 2003), even though some economists have emphasized the lack of its clear-cut empirical verification (e.g. Bird, Rowlands 2005, Frankel 2003, Rogoff et al. 2003). The outburst of the global crisis has changed this view. Since then, advantages of interim regimes have started attracting the attention of the academics and policymakers once again.

Taking it under consideration, we attempt to verify the strong and weak versions of the vanishing interim regime hypothesis. First, we briefly characterize the classification of exchange rate regimes used in the paper and present changes in the structure of the exchange rate regimes of the IMF members during the last decade. Then we describe framework of the logistic regression analysis, according to which the probability of the use of intermediate and corner solutions by the IMF members is estimated. Finally, we present the results of the analysis.

2 The exchange rate regimes of the IMF members

This paper uses the classification presented in IMF Annual Reports concerning de facto exchange rate policies. Such classification is a result of the IMF staff analysis concerning phenomena observed in the foreign exchange market and judgement, whether monetary authorities keep to their formal declarations. In the classification countries are categorized on the basis of these policies with the use of the IMF nomenclature introduced in 1999 (Table 1).

Table 1 Exchange rate regimes of the IMF members

Group	Category	Type of regime	Main rules of the exchange rate regime
intermediate regimes	hard pegs	(1) <i>exchange arrangement with no separate legal tender</i>	the currency of another country circulates as the sole legal tender; the complete surrender of the monetary authorities' control over domestic monetary policy
		(2) <i>currency board arrangement</i>	explicit legislative commitment to exchange the domestic currency for a specified foreign currency at a fixed rate, combined with restrictions on the issuing authority to ensure the fulfilment of this legal obligation; little space for discretionary monetary policy
	fixed pegs	(3) <i>conventional fixed peg arrangement</i>	a country pegs its currency within margins of $\pm 1\%$ or less vis-à-vis 1) another currency, 2) a cooperative arrangement, such as the ERM II, or 3) a basket of currencies; exchange rate may fluctuate within narrow margins of less than $\pm 1\%$ around a central rate or the maximum and minimum value of the exchange rate may remain within a narrow margin of 2% for at least 3 months; the fixed parity maintained via direct or indirect interventions, traditional central banking functions still possible
		(4) <i>pegged exchange rate with horizontal bands</i>	exchange rate maintained within certain margins of fluctuation of more than $\pm 1\%$ around a fixed central rate or the margin between the maximum and minimum value of the exchange rate exceeds 2%; currency can be peg to a single currency, a currency composite, or as a result of a cooperative arrangement; rather limited degree of monetary policy discretion
	soft pegs	(5) <i>crawling peg</i>	exchange rate adjusted periodically in small amounts at a fixed rate or in response to changes in selective quantitative indicators; the rate of crawl set according to inflation rate changes or to other indicators (backward looking), or set at a preannounced fixed rate and/or below the projected inflation differentials (forward looking); constraints on monetary policy similar to those in a fixed peg system
		(6) <i>exchange rate with crawling bands</i>	exchange rate maintained within certain fluctuation margins of at least $\pm 1\%$ around a central rate, or the margin between the maximum and minimum value of the exchange rate exceeds 2% and the central rate or margins are adjusted periodically at a fixed rate or in response to changes in selective quantitative indicators; bands either symmetric around a crawling central parity or widen gradually with an asymmetric choice of the crawl of upper and lower bands (in the latter case, there may be no preannounced central rate); constraints on monetary policy, the degree of its independence is a function of the band width

Group	Category	Type of regime	Main rules of the exchange rate regime
floating regimes	tightly managed floats	(7) managed floating with no predetermined path for the exchange rate	monetary authorities attempt to influence exchange rate without having a specific exchange rate path or target; indicators to manage the exchange rate are broadly judgmental (e.g., balance of payments position, international reserves etc.), and adjustments may not be automatic; intervention may be direct or indirect
	other floating regimes	(8) independently floating	exchange rate is market-determined, without official foreign exchange market intervention; monetary authorities prevent undue exchange rate fluctuations rather than stabilize exchange rate

Source: Bubula, Ötker-Robe (2004, 2002), IMF (2007).

De jure classification (published in Reports on Exchange Arrangements and Exchange Restrictions), which is based on official statements of the IMF members concerning implemented exchange rate regimes, is rejected, as many countries simply do not comply with their obligations and break officially announced commitments that should govern the behaviour of the exchange rate (Masson 2000, Poirson 2001).

In this very classification, 8 different exchange rate regimes are distinguished. Regimes can be divided into three groups and four categories (Table 1)¹. The group of fixed pegs consists of hard pegs and soft pegs. Floating regimes and tightly managed floats make floating regimes. On the other hand, soft pegs and tightly managed floats can be incorporated into intermediate regimes. In this respect, hard pegs and floating regimes are corner solutions.

Table 2 Exchange rate regimes of the IMF members in the years 1999-2008

Exchange rate regime ^a	Number of countries									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
(1)	6	6	7	8	9	9	9	9	10	10
(2)	14	14	14	14	13	13	13	13	13	13
(3)	58	59	58	55	56	55	56	63	70	68
(4)	8	6	6	5	5	4	5	6	5	3
(5)	6	5	4	4	5	5	5	5	6	8
(6)	9	7	5	6	5	5	1	0	1	2
(7)	25	27	33	42	46	49	52	53	48	44
(8)	59	61	59	52	48	47	46	38	35	40
Interim regimes (3+4+5+6+7)	106	104	106	112	117	118	119	127	130	125
Soft pegs (3+4+5+6)	81	77	73	70	71	69	67	74	82	81
Overall	185	185	186	186	187	187	187	187	188	188

^a Exchange rate regimes are numbered as in Table 1.

Source: own calculations based on IMF (1999-2008).

In order to test the bipolar view, the evolution of exchange rate regimes of the IMF members in the years 1999-2008 is analyzed

¹ Since 1999 IMF has modified rules of de facto classification. Effective January 1, 2007, exchange arrangements of the countries that belong to a monetary or currency union in which the same legal tender is shared by the members of the union are classified under the arrangement governing the joint currency. The new classification is based on the behaviour of the common currency, whereas the previous classification underlined the lack of a separate legal tender. In order to provide a comparability of the classification in the whole analyzed period, it appropriate changes are implemented to the classification for the years 1999-2006 as well.

(Tables 2-3). One may observe there a sharp decrease in the number of corner solutions. This phenomenon is even more eye-striking in emerging and developing countries, as these countries have increasingly used the intermediate regimes.

Interestingly, the number of soft pegs also increased. After an initial decline in the number of these regimes in the years 1999-2005, the trend was reversed. Since 2006, the popularity of soft pegs has grown once again. As in case of interim regimes, this phenomenon it is more evident in the group of emerging and developing countries: in 1999 only 77 countries from this very group used soft pegs and in 2008 – 80.

Table 3 Exchange rate regimes of the emerging and developing IMF members in the years 1999-2008

Exchange rate regime ^a	Number of countries									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
(1)	5	5	6	7	8	8	8	8	9	9
(2)	13	13	13	13	12	12	12	12	12	12
(3)	58	59	58	55	56	55	56	63	70	67
(4)	5	3	4	3	3	2	3	4	3	3
(5)	6	5	4	4	5	5	5	5	6	8
(6)	8	6	4	5	4	4	1	0	1	2
(7)	23	25	31	41	45	48	51	52	47	43
(8)	39	41	37	29	25	24	22	14	10	13
Interim	100	98	101	108	113	114	116	124	127	123
Soft pegs	77	73	70	67	68	66	65	72	80	80
Overall	157	157	157	157	158	158	158	158	158	157

^a Exchange rate regimes are numbered as in Table 1.

Source: own calculations based on IMF (1999-2008).

Following presented data, it is logical to notice that soft pegs are still a monetary policy option in emerging and developing countries. It has to be stressed that such regimes are used almost exclusively by these very countries. In 2008 only one advanced country – Denmark – implemented the regime of a soft peg type (it was conventional fixed peg arrangement).

On the other hand, there was significant growth in the number of advanced economies that fully floated their currencies. On April 30, 1999 there were 20 such countries, and on April 30, 2008 number of these countries increased by a further 7. Countries, that have been included into this group were, among others, Cyprus, Greece, Malta and Slovenia. Taking this into account, it can be concluded that the intensification of the process of the European monetary integration and the admission of new members to the euro zone was an important cause of growth in the number of advanced countries using a corner regime in form of independent floating exchange rate regime.

3 The model

In order to identify the IMF members' choices between corner and interim solutions, a logistic model is used:

$$y_i^* = \beta_0 + \sum_{j=1}^5 \beta_j X_{ij} + \sum_{k=1}^6 \beta_k R_{ik} + \varepsilon_i \quad (1)$$

In equation (1) i means cases (i.e. every country in every year in the 1999-2008 period); j, k – are numbers of independent variables, β are unknown structural coefficients that determine strength and direction of the influence of independent variables on dependent variable

y_i^* , ε_i is a random error in the i -th case. y_i^* is a binary variable

and takes on values 1 if in the i -th case an interim regime is used and 0 if in the i -th case a corner regime is used:

$$y_i^* = \begin{cases} 1 & \text{if in the } i\text{-th case an interim regime is used} \\ 0 & \text{if in the } i\text{-th case a corner regime is used} \end{cases} \quad (2)$$

The logistic model can be rewritten in terms of the odds of an event occurring – the ratio of the probability that it will occur to the probability it won't. Such logistic transformation allows rewriting equation (1) in terms of the log of the odds:

$$\ln \left(\frac{P_i}{1-P_i} \right) = \beta_0 + \sum_{j=1}^5 \beta_j X_{ij} + \sum_{k=1}^6 \beta_k R_{ik} + \varepsilon_i \quad (3)$$

where $\left(\frac{P_i}{1-P_i} \right)$ is the odds ratio that the i -th case will be included to cases, in which interim regime is used, to the probability of the opposite.

Verification of both hard and soft versions of the vanishing interim regime hypothesis required two approaches while determining values of y_i^* . Namely, in the first case variable y_i^* takes value of 1 if in the i -th case *soft pegs* or *managed floats with no predetermined path for the exchange rate* is used. In the second one, variable y_i^* equals 1 only if in the i -th case a *soft peg* is used. Such approach allows estimating two versions of the equation (1).

As the main subject of the research is to grasp changes in the IMF classification of exchange rate regimes as well as changes of monetary authorities' decisions concerning these regimes, and not to measure the exchange rate duration, implemented logistic model implies that the choice of exchange rate regime in a given year is independent from the past choices. However, it should be emphasized that when examining the causal relationships that occur between the type of exchange rate regime and economic processes in the country, such a static approach has some weaknesses. This matter will be further considered.

Verification of both hard and soft versions of the vanishing interim regime hypothesis required two approaches while determining the value of y_i . Hence, using the first approach variable y_i takes value of 1 for soft pegs and managed floats with no predetermined path for the exchange rate. In the second one, variable y_i equals 1 only if in the i -th case a soft peg is used. Implementation of the two approaches allows estimating two versions of the equation (1).

Then, it is assumed, that 5 independent variables may affect y_i variable: X_1 – year-on-year changes of constant price GDP, X_2 – GDP based on purchasing-power-parity (PPP), share of world total, X_3 – inflation rate, X_4 – modulus of the current account balance as a % of GDP, X_5 – foreign exchange as a % of GDP. Moreover, in order to capture the differences between the probability of the use of interim and corner solutions in emerging and developing countries from different regions of the world, a dummy variable R_{ik} is introduced to the model². R_{ik} takes on the value of 1, if the i -th case from the group of emerging and developing countries belongs to the region k and the value of 0 in the opposite situation.

According to the classification of the *World Economic Outlook*, six such regions are distinguished: R_1 – Central and Eastern Europe, R_2 – Africa, R_3 – Asia, R_4 – Commonwealth of Independent States and Mongolia, R_5 – Middle East, R_6 – Western Hemisphere.

In order to estimate the models, macroeconomic indicators and forecasts for the IMF members are used, according to the *Word*

Economic Outlook Database, as well as *IMF Annual Reports* data on exchange rate policies. Elimination of cases for which data appeared to be unavailable yielded a database of 1690 different cases.

4 Results of the logistic analysis

Table 4 contains estimated coefficients and related standard errors (in parenthesis) of the two logistic models that predict the probability of the use of corner and interim solutions by the IMF members. As signalled, in the first model variable y_i takes value of 1 if in the i -th case soft peg or managed floating regime is used. In the second model, variable y_i equals 1 only if in the i -th case a soft peg is used. Variables included in the models are statistically significant (using a significance level of 0,1). Both models fit the data quite well. The ability to predict the use of interim regimes is presented in Table 5.

In both models theoretical value of the probability, ($\hat{y}_i$) is negatively affected by GDP based on purchasing-power-parity (PPP), share of world total (X_2) and the modulus of the current account balance as a % of GDP (X_4) and in the second model also by the inflation rate (X_3). Foreign exchange as a % of GDP (X_5) has a positive influence on the $\hat{y}_i$ values of the two models, whereas the year-on-year changes of constant price GDP influences positively only the $\hat{y}_i$ value in the first model.

Table 4 Parameter estimates for the logistic regression models

Variables	Model 1			Model 2		
	B	S.E.	Sig.	B	S.E.	Sig.
X_0	0,32	0,14	0,02	-0,40	0,12	0,00
X_1	0,04	0,01	0,01	-	-	-
X_2	-0,24	0,06	0,00	-0,16	0,06	0,00
X_3	-	-	-	-0,02	0,01	0,00
X_4	-0,03	0,01	0,00	-0,01	0,01	0,03
X_5	0,04	0,53	0,00	0,02	0,40	0,00
R_1	-0,71	0,16	0,00	-0,41	0,16	0,01
R_2	0,60	0,13	0,00	0,44	0,11	0,00
R_3	0,80	0,18	0,00	0,42	0,14	0,00
R_4	0,37	0,22	0,08	-0,10	0,23	0,00
R_5	1,86	0,35	0,00	2,40	0,27	0,00
R_6	-0,43	0,13	0,00	-0,21	0,13	0,09

Source: own calculations.

Table 5 Classification table

Observed	Predicted	
Model 1		
Corner regime	328 (51,8%)	305
Interim regime	78	979 (92,6%)
Overall percentage	77,8%	
Model 2		
Corner regime	871 (84,7%)	157
Interim regime	319	343 (51,8%)
Overall percentage	69,2%	

Source: own calculations.

Achieved results partially support the view that emerging and developing countries are more prone to use interim regimes, as their GDP growth is usually faster and the share in the world GDP based on purchasing-power-parity is lower than in advanced economies. The link between the magnitudes of the foreign exchange relative to the GDP with exchange rate regime is also of a clear-cut character. Countries that use corner solutions do not need large volumes of foreign exchange. Under pure floating regimes they are *per se* needles, and under hard

² In order to avoid a dummy variable trap, R_{ik} for cases from the group of advanced countries equals zero.

pegs high level of credibility provided by such regimes can also weaken the need for foreign exchange accumulation.

It is a bit surprising, however, that parameters estimated for the modulus of the current account balance as a % of the GDP in both models and for the inflation rate in the second model are negative. This challenges the common view that corner regimes are favourable to disinflation as monetary authorities can fully concentrate on restoring an internal balance whereas hard pegs increase anti-inflationary credibility of the monetary authorities via the use of an official exchange rate as a solid nominal anchor, allowing them to achieve a sustainable reduction in inflation rate. Similarly, it is often assumed that corner regimes are associated with smaller external imbalance. Under floating regimes changes of the exchange rate should provide buffer for imbalance accumulation. On the other hand, preserving external balance appears to be one of preconditions for hard pegs' effective functioning as mounting current account deficit or surplus can trigger speculative attack off, thus undermining official exchange rate supported by the central bank. However, signs of estimated parameters show that in some cases the use of the corner regime doesn't lead *per se* to a reduction in the rate of inflation, nor to achieve external balance. To put it in more explicitly – corner regimes don't always protect from high inflation rates and mounting current account deficits.

Comparison of the two models leads to another conclusion. As shown in Table 4, variable X_1 appears to be statistically significant only in the first model, whereas variable X_3 – only in the second one. Hence, achieved results indicate that countries under managed floats suffer from higher inflation rate but achieve higher real GDP growth, than these under soft pegs. This is quite interesting, as usually higher real GDP growth and inflation rate are considered to be characteristic for the whole group of flexible regimes, capturing both independently floating regimes and managed floats (Markiewicz 2006). However, achieved results indicate that there are differences between the two regimes concerning real GDP growth and inflation rate, as these variables tend to be significantly higher in countries under managed floating regimes.

Inclination to use interim regimes is different in emerging and developing countries in various regions of the world. In both models $\hat{y}_i$ takes the highest values for countries from the Middle East. Moreover, increases for Asian and African countries and decreases for CEECs and Western Hemisphere. Estimated models provide divergent results for CIS and Mongolia. Different magnitude and direction of influence of the R_k variable can be interpreted as an evidence of the existence of other factors that influence emerging and developing countries' choices concerning exchange rate regimes, partly resulting from differences in institutional fundamentals and different economic structures as well as macroeconomic policy stabilization programs. Due to this lack of homogeneity countries can to different extent manifest the “fear of pegging” and “fear of floating”. According to them, monetary authorities may tend to smooth exchange rate movements, even though they have no official commitment to maintaining the official central exchange rate (Calvo, Reinhart 2000) or on the other hand, monetary authorities can claim to have a pegged exchange rate, in fact carrying out frequent changes in reference exchange rate (Alesina, Wagner 2006).

Conducted analysis allows to find out what are the threshold values of variables that – if put into models – result in high values of $\hat{y}_i$. Such threshold values can be also identified in the ranking of analyzed cases in Tables 6-9. Countries with relatively high real GDP growth, very low share in the world GDP based on the purchasing-power-parity (0,1% and less), modest inflation rate and high share of reserves of foreign currencies in GDP are classified high in the ranking. It is interesting, however, that there is no such straight dependence between the theoretical value of the probability and the external imbalance – countries with balanced current account got up to the top of the ranking as well as countries suffering from mounting deficits.

Table 6 Ranking of cases according to the probability of the use of the interim regime (model 1, ranks 1-15)

Ranking ^a	Country	Year	Model 1							
			$\hat{y}_i$	X_1	X_2	X_4	X_5	R^b	y^*	
1	Libya	2007	0,997	7,5	0,1	40,7	108,7	5	1	
3	Botswana	2000	0,996	5,9	0,0	9,7	110,8	2	1	
3	Botswana	1999	0,995	9,8	0,0	10,5	105,0	2	1	
4	Libya	2006	0,995	6,7	0,1	44,6	102,5	5	1	
5	Libya	2008	0,994	3,4	0,1	40,7	101,0	5	1	
6	Lebanon	2008	0,993	8,5	0,1	11,6	68,8	5	1	
7	Libya	2003	0,993	13,0	0,1	19,9	69,3	5	1	
8	Libya	2005	0,993	10,3	0,1	38,9	86,8	5	1	
9	Botswana	2002	0,993	9,0	0,0	3,2	88,3	2	1	
10	Botswana	2001	0,992	3,5	0,0	9,9	96,2	2	1	
11	Libya	2004	0,990	4,4	0,1	21,4	70,2	5	1	
12	Libya	2002	0,990	-1,3	0,1	3,0	60,0	5	1	
13	Lebanon	2003	0,989	4,1	0,1	13,2	62,9	5	1	
14	Lebanon	2006	0,989	0,6	0,1	5,3	59,3	5	1	
15	Jordan	2004	0,988	8,6	0,0	0,8	46,1	5	1	

^a Ranking is created according to non-growing probabilities of the use of the interim regime.

^b $R = 0$ means that country belongs to the group of advanced economies.

Source: own calculations.

Table 7 Ranking of cases according to the probability of the use of the interim regime (model 2, ranks 1-15)

Ranking ^a	Country	Year	Model 2							
			$\hat{y}_i$	X_1	X_2	X_4	X_5	R^b	y^*	
1	Libya	2007	0,957	0,1	6,2	40,7	108,7	5	1	
3	Libya	2002	0,956	0,1	-9,9	3,0	60,0	5	1	
3	Libya	2006	0,955	0,1	1,4	44,6	102,5	5	1	
4	Libya	2008	0,949	0,1	10,4	40,7	101,0	5	1	
5	Libya	2003	0,947	0,1	-2,1	19,9	69,3	5	1	
6	Libya	2005	0,945	0,1	2,9	38,9	86,8	5	1	
7	Libya	2004	0,944	0,1	1,0	21,4	70,2	5	1	
8	Lebanon	2003	0,943	0,1	1,3	13,2	62,9	5	1	
9	Lebanon	2006	0,941	0,1	5,6	5,3	59,3	5	1	
10	Lebanon	2008	0,940	0,1	10,8	11,6	68,8	5	1	
11	Lebanon	2005	0,937	0,1	-0,7	13,4	54,1	5	1	
12	Jordan	2004	0,934	0,0	3,4	0,8	46,1	5	1	
13	Lebanon	2007	0,934	0,1	4,1	6,8	51,3	5	1	
14	Lebanon	2004	0,933	0,1	1,7	15,5	54,4	5	1	
15	Libya	2001	0,933	0,1	-8,8	12,3	40,4	5	1	

^a Ranking is created according to non-growing probabilities of the use of the interim regime.

^b $R = 0$ means that country belongs to the group of advanced economies.

Source: own calculations.

Table 8 Ranking of cases according to the probability of the use of the interim regime (model 1, ranks 1676-1690)

Ranking ^a	Country	Year	Model 1						
			$\hat{y}_i$	X_1	X_2	X_4	X_5	R^b	y^*
1676	Japan	1999	0,200	-0,1	7,8	2,6	6,4	0	0
1677	Chad	2002	0,179	8,5	0,0	94,7	10,9	2	1
1678	Timor-Leste	2006	0,026	-5,8	0,0	165,2	25,6	3	0
1679	USA	2008	0,008	0,4	20,6	4,9	0,3	0	0
1680	USA	2007	0,008	2,1	21,1	5,2	0,3	0	0
1681	USA	2006	0,007	2,7	21,7	6,0	0,3	0	0
1682	USA	2005	0,006	3,1	22,1	5,9	0,3	0	0
1683	USA	2004	0,006	3,6	22,4	5,3	0,4	0	0
1684	USA	2003	0,006	2,5	22,7	4,7	0,4	0	0
1685	USA	2002	0,005	1,8	22,9	4,3	0,3	0	0
1686	USA	1999	0,005	4,8	23,7	3,2	0,3	0	0
1687	USA	2000	0,005	4,1	23,5	4,2	0,3	0	0
1688	USA	2001	0,005	1,1	23,2	3,9	0,3	0	0
1689	Timor-Leste	2007	0,002	8,4	0,0	296,1	57,9	3	0
1690	Timor-Leste	2008	0,000	12,8	0,0	408,3	42,2	3	0

^a Ranking is created according to non-growing probabilities of the use of the interim regime.

^b $R = 0$ means that country belongs to the group of advanced economies.

Source: own calculations.

Table 9 Ranking of cases according to the probability of the use of the interim regime (model 2, ranks 1676-1690)

Ranking ^a	Country	Year	Model 2						
			$\hat{y}_i$	X_1	X_2	X_4	X_5	R^b	y^*
1676	USA	2008	0,020	20,6	3,8	4,9	0,3	0	0
1677	USA	2007	0,018	21,1	2,9	5,2	0,3	0	0
1678	USA	2006	0,016	21,7	3,2	6,0	0,3	0	0
1679	Timor-Leste	2008	0,016	0,0	7,6	408,3	42,2	3	0
1680	USA	2005	0,015	22,1	3,4	5,9	0,3	0	0
1681	USA	2004	0,015	22,4	2,7	5,3	0,4	0	0
1682	USA	2003	0,014	22,7	2,3	4,7	0,4	0	0
1683	USA	2002	0,014	22,9	1,6	4,3	0,3	0	0
1684	USA	2001	0,013	23,2	2,8	3,9	0,3	0	0
1685	USA	2000	0,013	23,5	3,4	4,2	0,3	0	0
1686	USA	1999	0,012	23,7	2,2	3,2	0,3	0	0
1687	Belarus	2000	0,012	0,1	168,6	3,2	3,4	4	0
1688	Angola	1999	0,010	0,1	248,2	27,5	8,1	2	1
1689	Angola	2000	0,003	0,1	325,0	8,7	13,1	2	0
1690	Belarus	1999	0,001	0,1	293,7	1,6	2,4	4	0

^a Ranking is created according to non-growing probabilities of the use of the interim regime.

^b $R = 0$ means that country belongs to the group of advanced economies.

Source: own calculations.

The ranking supports conclusions which have been already formulated. It occurs that the countries at the forefront of the ranking come from the Middle East and Africa. Among the first 100 cases in the ranking based on the first model 70 are cases from the Middle East (56) and Africa (14). In the ranking based on the second model all first hundred places fall to countries from the Middle East. It proves once again that the probability of the use of the interim regime in countries from these regions is especially high.

To sum up, emerging and developing countries are not prone to renege on interim regimes as fast, as proponents of the bipolar view believe. Implementing a hard peg unilaterally requires abiding very tough monetary rules concerning money supply (like for example under currency board arrangement). Introducing a hard peg in a multilateral manner means joining the monetary union, what in turn requires the fulfilment of strict economic criteria and must be accepted by other members of such union. Enlargement of monetary union is hence a long-lasting and sometimes very painful process.

On the other hand, the extensive institutional and operational requirements needed to support a floating exchange rate as well as difficulties in assessing the right time of the exit from peg dampen the move towards pure floating corner of the Impossible Trinity triangle (Calvo, Reinhart 2000). That's why managed floating regimes and soft pegs appear to be more durable, as usually assumed.

5 Conclusions

Conducted research challenge the bipolar view. During the analyzed period number of the interim regimes in emerging and developing countries doubled. The share of soft pegs in overall regimes in the years 1999-2008 was relatively stable, fluctuating around 50 %, whereas the share of the whole group of interim regimes increased from 64 % to 78 %. The evolution of the interim regimes is then opposite to what is assumed by the authors and supporters of the vanishing interim regime hypothesis.

Results of the logistic analysis also don't support the bipolar view. The analysis of the probabilistic curves allows to notice that the $\hat{y}_i$ value approaches 0,01 only when the share of a specific country in the world GDP based on the purchasing-power-parity reaches 23 % (model 1) or 25 % (model 2). For the sake of comparison – share of the U.S. economy in the world GDP based on the purchasing-power-parity fluctuated in the years 1999-2008 in the range of 20,6 %-23,7 %. Moreover, as shown in Table 10, $\hat{y}_i$ lowers if at least one of variables X_2 , X_3 and X_4 reaches extremely high values. It has to be underlined, however, that such phenomena are not typical for a normal economic situation. High inflation rates as well as deep external imbalance are rather a sign of an unusual shock that affects the economy.

It is reasonable then to agree with Calvo and Mishkin (2003) that the exchange rate regime choice is rather in the background of the structure of the economy and a whole package of macroeconomic policies. Exchange rate regimes are not to be blamed for the inappropriate functioning of the domestic economy, they are also not a panacea to eliminate economic disturbances. Openness to capital flows is only one among the variety of economic and political factors influencing the choice of the exchange regime. This is why, the bipolar view eventually – if ever – may be positively verified in the very (very) long run. This makes this view of little relevance to the contemporary macroeconomics.

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