

CGResearch

Exchange rate regimes

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Tough recent years for Azerbaijan

Let's think about why

USD to AZN Chart

[Learn More](#)

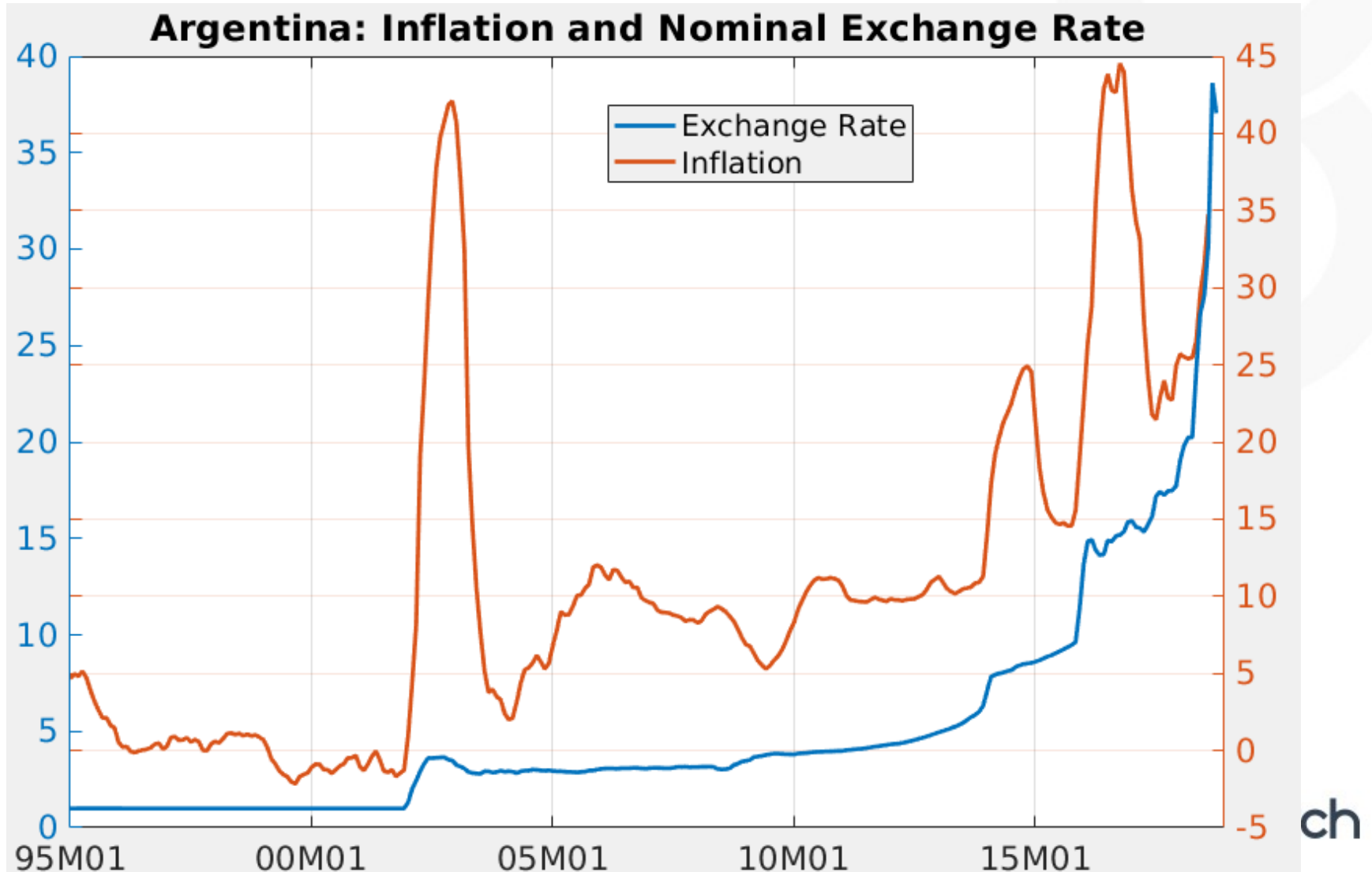
1 Mar 2009 00:00 UTC - 26 Feb 2019 15:06 UTC **USD/AZN close:1.69998 low:0.78254 high:1.95119**



A bit of theory...

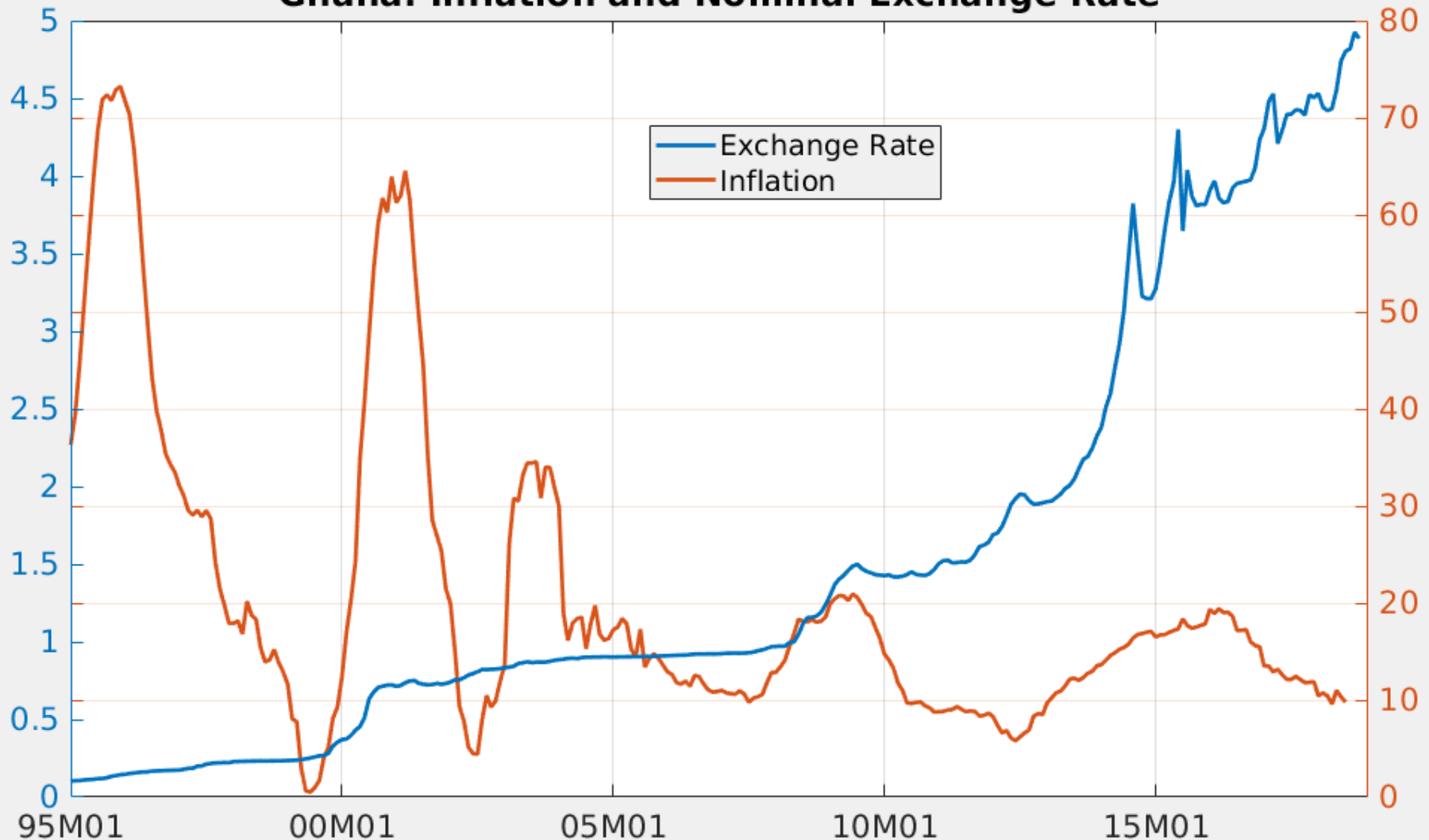
- Role of MP: provide a “nominal anchor”:
 - Some sort of price level / growth targeting:
 - Inflation targeting
 - Monetary aggregates targeting ($P \cdot T = M \cdot V$)
 - Different tools: exchange rate, reserve requirements, ...
 - Nominal exchange rate targeting:
 - Fixed exchange rate
 - Crawling peg
 - Weird rules (Laos, Angola, ...)
 - Commodity (gold) standard

Floating exchange rate comes with great responsibility



... and can give pretty bad results

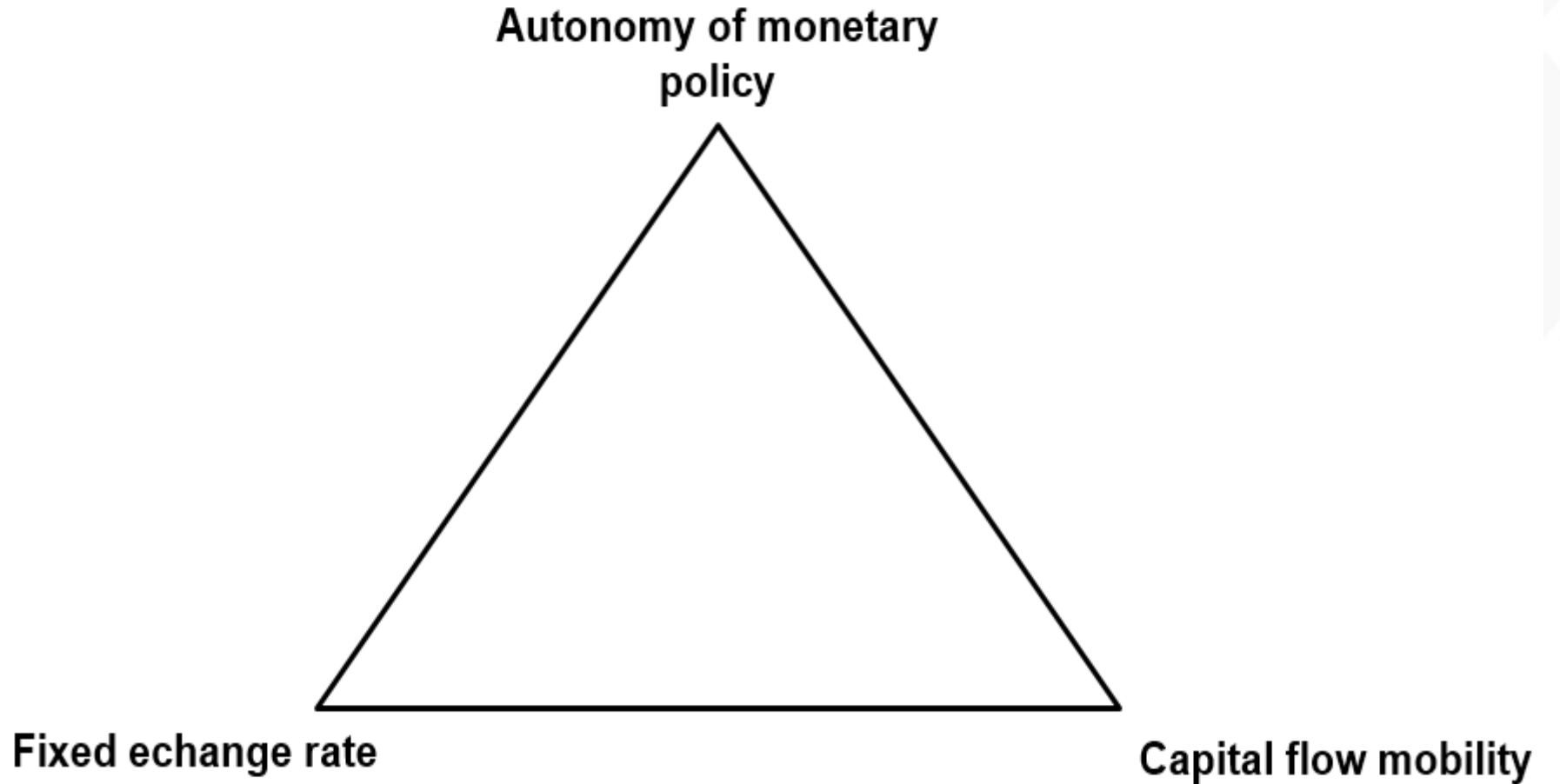
Ghana: Inflation and Nominal Exchange Rate



What do you need for successful fixed exchange rate regime?

- Fixed exchange rate requires:
 - Money (foreign reserves)
 - Will to tighten macroeconomic policies if needed
 - Luck
- What it doesn't require:
 - Capable central bank and policymakers
- That's why resource-rich countries like fixed exchange rate

Fixed exchange rate often comes with restrictions



Why doesn't everyone float?

- New responsibilities:
 - How do you set interest rates?
 - How do you set money growth targets?
 - How do you communicate your decisions?
- The transition is not easy nor fast process, there are many risks

Homework for the next block

- Separate into groups, 3-4 persons each
- Prepare a presentation on Azerbaijan
- Goals:
 - Explain the key features of AZ economy before the 2014
 - Explain how (if at all) the AZ economy changed since 2014
 - Explain why the FX rate depreciated so much in 2014-2016, but not before or after
- Should be around 20 slides
- Deadline March 13, send by email

Sources to use – suggestions

- IMF reports from 2014-2016
 - <https://www.imf.org/en/Countries/AZE>, scroll down
- <https://atlas.media.mit.edu/en/>
- AZ screening report (Study Materials)
- Use Google to find news, analysis, etc.
- Construct AZ real exch. rate against USD and EUR
 - I'll provide the data in the Study Materials
- CB website: <https://www.cbar.az/home?language=en>

What should it cover

- Monetary policy regime before 2014 and after 2014
- Key industries in Azerbaijan
- Key sources of forex inflows to the country
- What happened to GDP, inflation, FX rate, and interest rates in 2014-2017
- Reasons for the depreciation
- How the CB reacted in 2014-2016
- What has changed in the monetary policy since 2014
- **Feel free to email me to clarify if you are not sure**