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The suitability of a currency board for an emerging market economy

Abstract

Emerging-market economies in general and in South Africa in particular, are vulnerable to a changing international environment. The monetary authorities in these countries have to contend at times with external disturbances of real and financial origin. They may, for example, apply a conventional central bank policy, or consider dollarisation. A third possibility may be a currency board arrangement.

This paper relates the currency board concept to an emerging-market economy. After defining a currency board, the history of such boards is briefly outlined and some modern examples discussed. Finally, the suitability of a currency board regime is considered for an emerging-market economy.

Key words: Currency boards; emerging market economy; exchange rate system