

Currency Union Technical Expert Group (CUTEG)

OUTCOME PAPER (CUTEG) # 1-1

JANUARY 24, 2005

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

(2) Issues – see CUTEG Issues Paper #1, Outcome Paper # 1, and Draft Follow-up Paper # 1

(3) Outcome of the discussion:

The following definition was agreed:

“For statistical purposes, a currency union (CU) is a union to which two or more economies belong and that has a regional central decision making body, commonly a currency union central bank (CUCB), endowed with the legal authority to conduct a single monetary policy and issue the single currency of the union. A CU is established by means of a [formal] intergovernmental legal agreement (e.g. a Treaty). To belong to a CU, the economy must be a member of the central decision making body, participate in its regular monetary policy decision making process, and be subject to its monetary policy decisions. Participation in the monetary policy decision making process includes representation and voting rights in the central decision making body.”

Some CUTEG participants stressed that for a CU to exist there must be an element of nonreversibility. It was agreed that the reference to the CU as being established by means of a formal intergovernmental legal agreement is in itself an indication of the level of commitment. (The agreement itself can address the procedures for both joining and leaving the CU.)

The need for the word “formal” will be reviewed by the Fund. Some CUTEG members considered it unnecessary given that a legal agreement is formal.

(4) Rejected Alternatives:

There was agreement not to make reference to the common foreign exchange policy as an essential element to the definition of a CU for statistical purposes. (Some CUTEG members indicated that the notion of foreign exchange policy can include the foreign exchange control policy, which may or may not be the same among CU members.)

It was agreed that the decision of the CUCB to share seignorage with a nonmember economy does not define membership. It remains essential to the notion of membership to the CU to participate as full member to the CU decision making body.

(5) Actions

None.