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Appendix

DEFINITION OF CONCEPTS USED IN THE PROJECT

Exchange Rates.

1. *Nominal exchange rate:* The official parity for a transaction. For countries maintaining a single exchange rate registered with the International Monetary Fund, the nominal exchange rate is the registered rate.

2. *Effective exchange rate (EER):* The number of units of local currency actually paid or received for a one-dollar international transaction. Surcharges, tariffs, the implicit interest foregone on guarantee deposits, and any other charges against purchases of goods and services abroad are included, as are rebates, the value of import replenishment rights, and other incentives to earn foreign exchange for sales of goods and services abroad.

3. *Price-level-deflated (PLD) nominal exchange rates:* The nominal exchange rate deflated in relation to some base period by the price level index of the country.

4. *Price-level-deflated EER (PLD-EER):* The EER deflated by the price level index of the country.

5. *Purchasing-power-parity adjusted exchange rates:* The relevant (nominal or effective) exchange rate multiplied by the ratio of the foreign price level to the domestic price level.

Devaluation.

1. *Gross devaluation:* The change in the parity registered with the IMF (or, synonymously in most cases, de jure devaluation).

2. *Net devaluation:* The weighted average of changes in EERs by classes of transactions (or, synonymously in most cases, de facto devaluation).

3. *Real gross devaluation:* The gross devaluation adjusted for the increase in the domestic price level over the relevant period.

4. *Real net devaluation:* The net devaluation similarly adjusted.

Protection Concepts.

1. *Explicit tariff:* The amount of tariff charged against the import of a good as a percentage of the import price (in local currency at the nominal exchange rate) of the good.

2. *Implicit tariff:*(or, synonymously, tariff equivalent): The ratio of the domestic price (net of normal distribution costs) minus the c.i.f. import price to the c.i.f. import price in local currency.

3. *Premium:* The windfall profit accruing to the recipient of an import license per dollar of imports. It is the difference between the domestic selling price (net of normal distribution costs) and the landed cost of the item (including tariffs and other charges). The premium is thus the difference between the implicit and the explicit tariff (including other charges) multiplied by the nominal exchange rate.

4. *Nominal tariff:* The tariff—either explicit or implicit as specified—on a commodity.

5. *Effective tariff:* The explicit or implicit tariff on value added as distinct from the nominal tariff on a commodity. This concept is also expressed as the effective rate of protection (ERP) or as the effective protective rate (EPR).

6. *Domestic resources costs (DRC):* The value of domestic resources (evaluated at "shadow" or opportunity cost prices) employed in earning or saving a dollar of foreign exchange (in the value-added sense) when producing domestic goods.

DELINEATION OF PHASES USED IN TRACING THE EVOLUTION OF EXCHANGE CONTROL REGIMES

To achieve comparability of analysis among different countries, each author of a country study was asked to identify the chronological development of his country's payments regime through the following phases. There was no presumption that a country would necessarily pass through all the phases in chronological sequence.

Phase I: During this period, quantitative restrictions on international transactions are imposed and then intensified. They generally are initiated in response to an unsustainable payments deficit and then, for a period, are intensified. During the period when reliance upon quantitative restrictions as a means of controlling the balance of payments is increasing, the country is said to be in Phase I.

Phase II: During this phase, quantitative restrictions are still intense, but various price measures are taken to offset some of the undesired results of the system. Heightened tariffs, surcharges on imports, rebates for exports, special tourist exchange rates, and other price interventions are used in this phase. However, primary reliance continues to be placed on quantitative restrictions.

Phase III: This phase is characterized by an attempt to systematize the changes which take place during Phase II. It generally starts with a formal exchange-rate change and may be accompanied by removal of some of the surcharges, etc., imposed during Phase II and by reduced reliance upon quantitative restrictions. Phase III may be little more than a tidying-up operation (in which case the likelihood is that the country will re-enter Phase II), or it may signal the beginning of withdrawal from reliance upon quantitative restrictions.

Phase IV: If the changes in Phase III result in adjustments within the country, so that liberalization can continue, the country is said to enter Phase IV. The necessary adjustments generally include increased foreign-exchange earnings and gradual relaxation of quantitative restrictions. The latter relaxation may take the form of changes in the nature of quantitative restrictions or of increased foreign-exchange allocations, and thus reduced premiums, under the same administrative system.

Phase V: This is a period during which an exchange regime is fully liberalized. There is full convertibility on current account, and quantitative restrictions are not employed as a means of regulating the ex ante balance of payments.