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The Great Devaluation and the IMF

Does setting a cap on the value of the crown constitute a change in the country's exchange-rate regime? This is not an academic question; it has potential criminal implications. The law on the CNB states that the central bank must confer with the cabinet before setting the exchange-rate regime. The CNB did not do this before it engaged in the Great Devaluation of the Czech Crown on Nov. 7, 2013, and capped the currency at Kč 27/euro. The CNB argued that it didn't have to, because the exchange-rate regime didn't change. And that was that. As is often the case in today's world, such a major rule-of-law question was mostly forgotten. That is until the IMF took a look. In its Annual Report on Exchange Arrangements and Exchange Restrictions 2014, the IMF stated clearly on Pages 4-5 that the CR ceased to have a free-floating regime (arrangement) and instead adopted a "managed" regime. The IMF notes that its "reclassification" is based on its own observations, not what central bankers might say. So did the CNB violate the law? Do we believe the CNB, or the IMF?

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