

Comment on A Stable System of Exchange Rate—
Implications of the Choice of Regime
by Atish Ghosh

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NIPFP-DEA 4th Research Meeting
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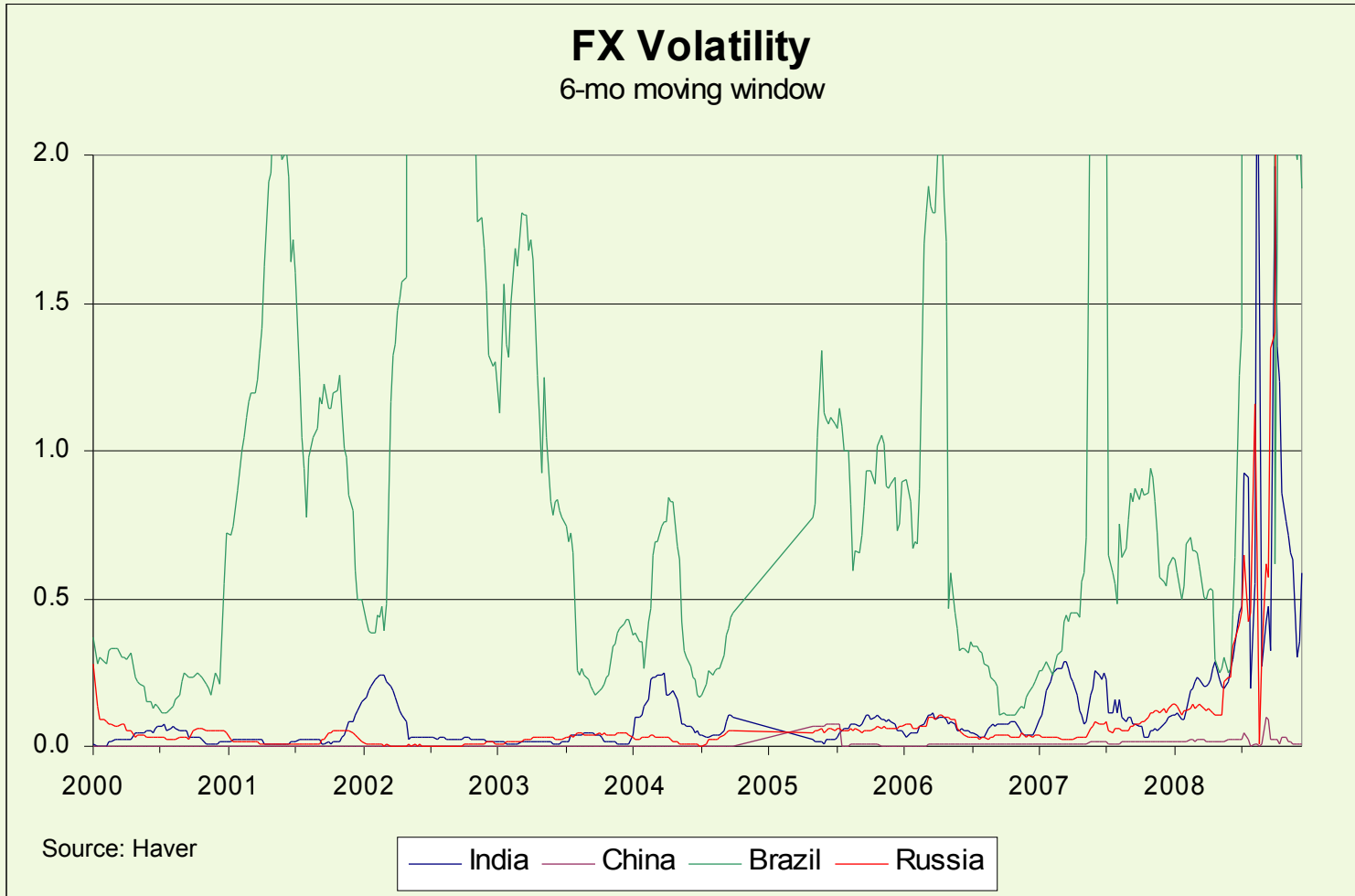
The views presented here represent my personal perspective and do not necessarily represent the position of the US government.

Application to BRICs

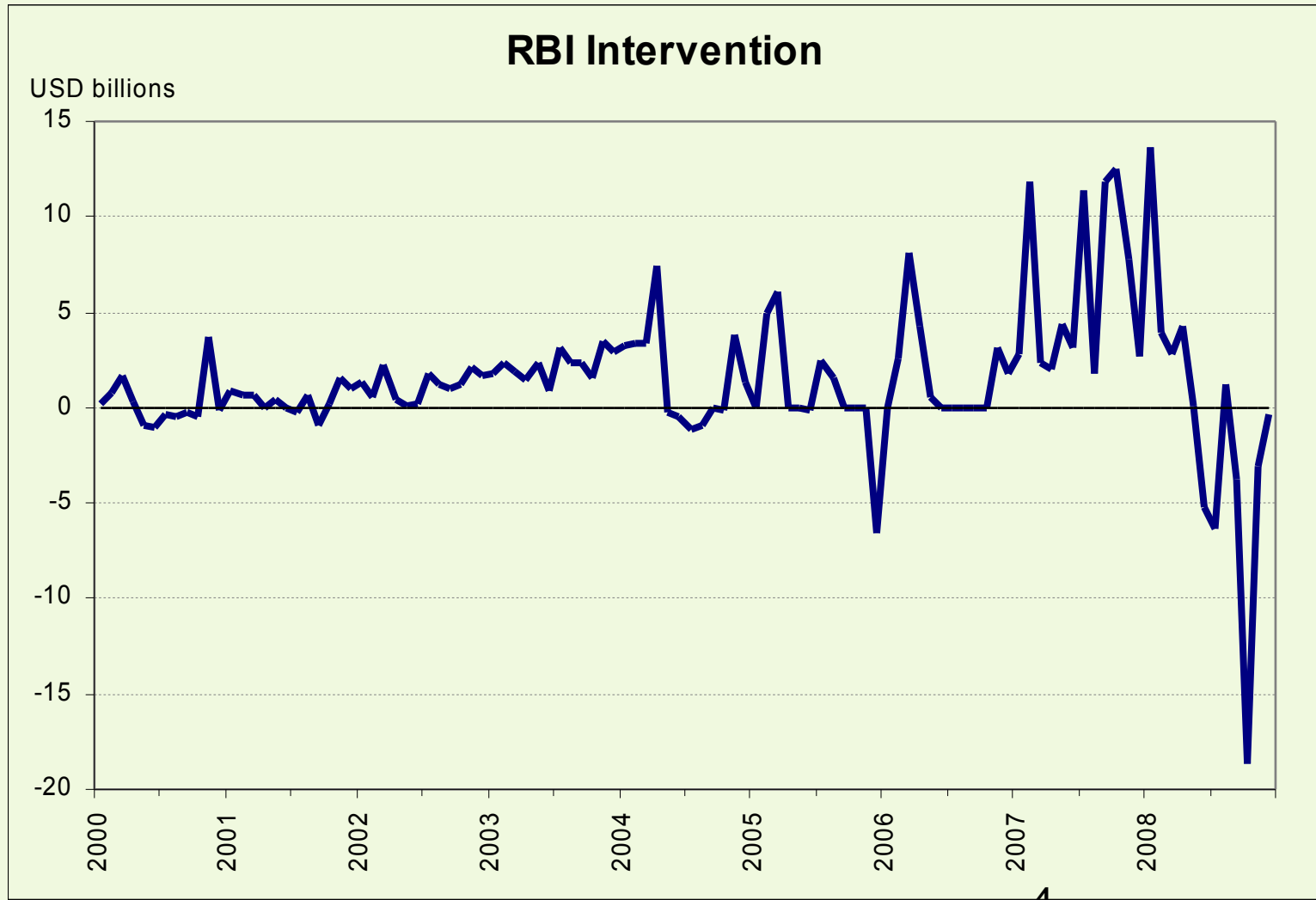
- FX Classification 2000-2005
 - Brazil – free float
 - Russia – managed float
 - India – managed float
 - China – conventional peg
- 2006-7
 - Brazil – free float
 - Russia – managed float
 - India – managed float
 - China – crawling peg?
- 2008
 - Brazil – free float
 - Russia – free float?
 - India – free float?
 - China – crawling peg?

Moving towards FX flexibility?

Application to BRICs

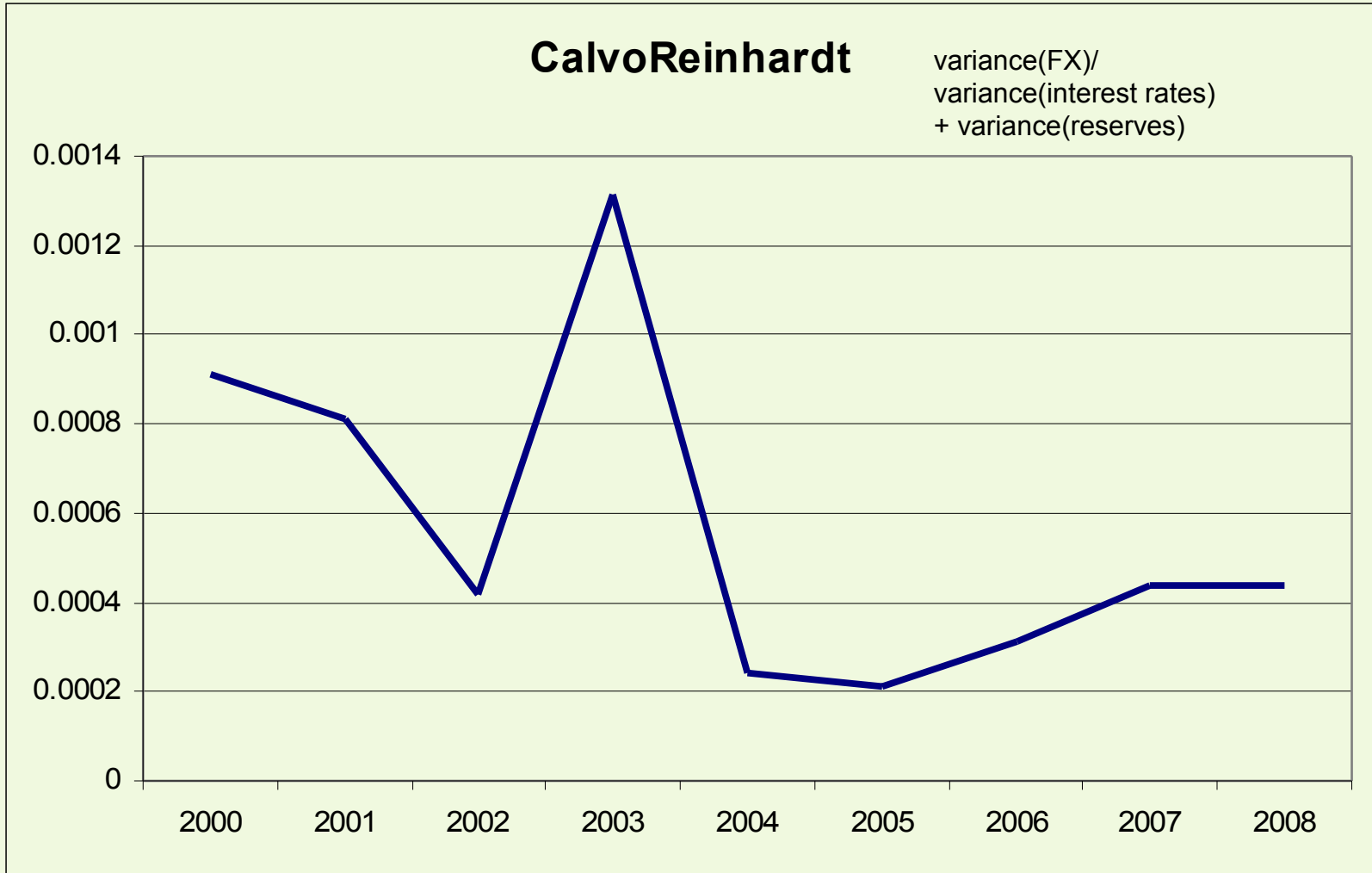


Application to India

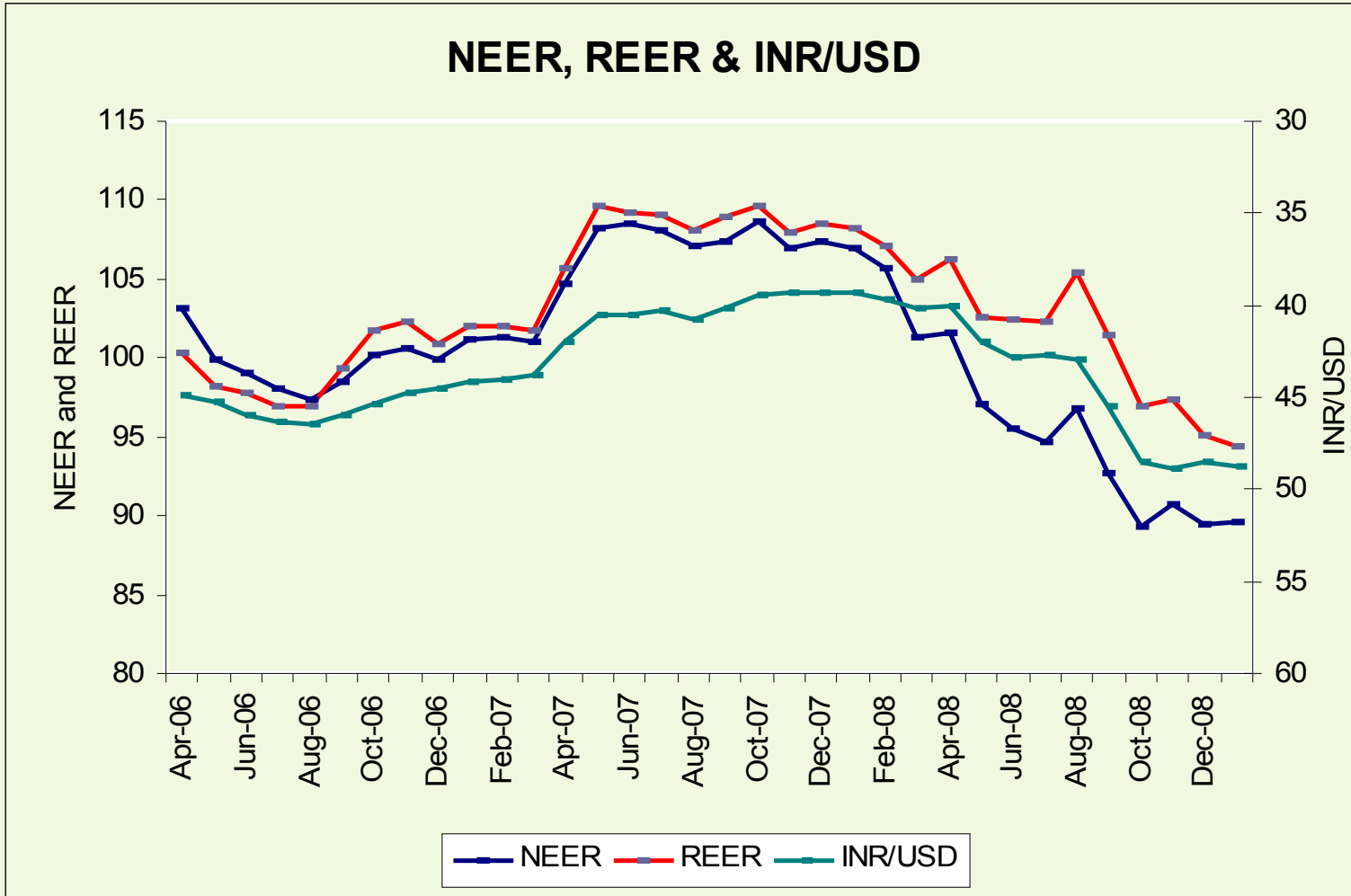


Source: RBI

Application to India

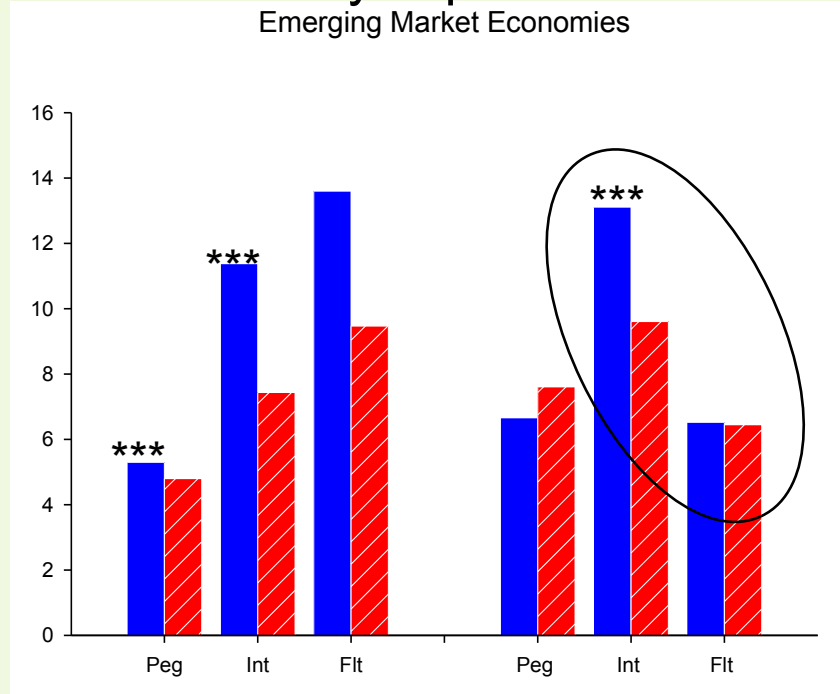


Application to India



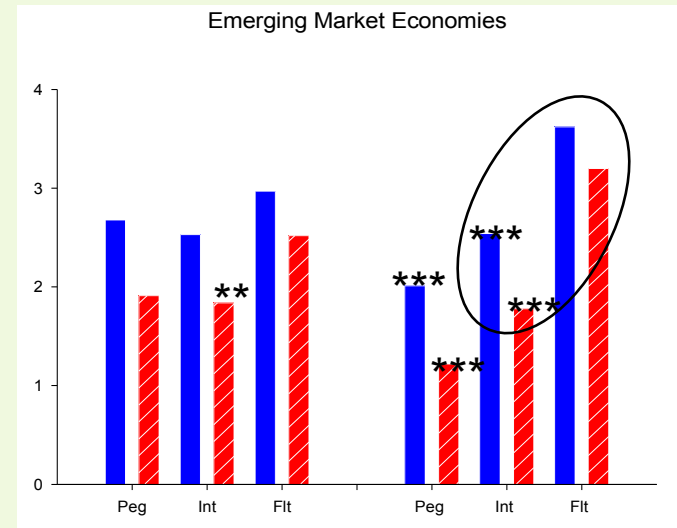
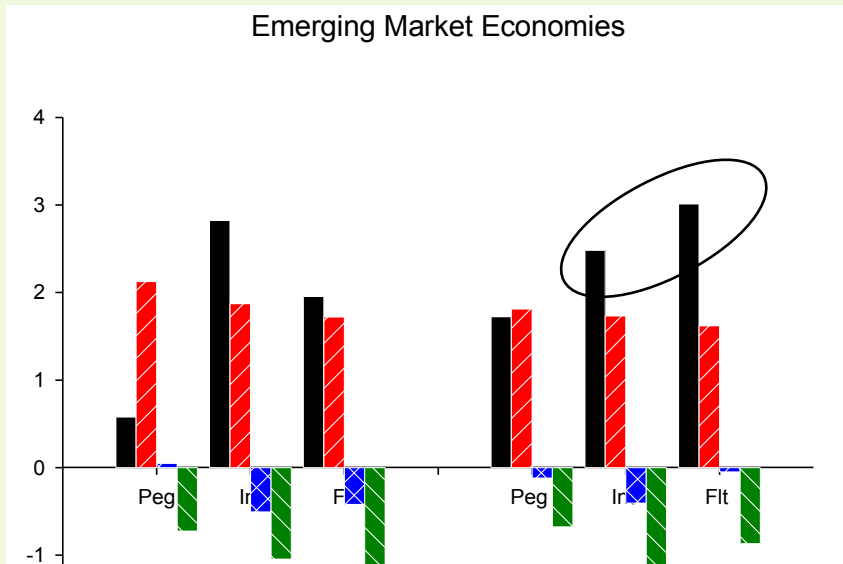
Application to India

- India falls into the “intermediate” regime category, and hence is a bit harder to interpret
- Monetary and fiscal policy will be more effective as the RBI allows greater flexibility, but what do the results say for Europe?
- Inflation performance may improve



Application to India

- Indian growth may improve, but growth volatility may decline



- Exposure to currency and financial crisis should also diminish, though increasing Rupee flexibility coincides with increasing capital account openness
- India's current account deficit may prove less troublesome

Notes on the Paper

- Contribution
 - Consistency – using the same data set and FX regime classification for all analysis to enable holistic appraisal
 - Breadth – covers nearly all aspects of interest to selecting an FX regime
 - Depth – thorough robustness checks and exploration of relevant permutations
- Questions
 - Why do countries bother to peg without formally announcing it?
 - Why do intermediate regimes demonstrate better growth?
 - Why do floating regimes demonstrate superior resilience to financial crises?
- Suggestions
 - Trade-weighted current account measures
 - Deeper examination of capital account adjustment
 - Magnitude of deficit/surplus
 - Capital account reversals
 - Composition of flows