

Comments on “Re-examining exchange rate regimes in Asia after the global financial crisis”  
by Ila Patnaik, Ajay Shah, and Anmol Sethy

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# Comments

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- + Very nice paper
- + Very interesting topic
- + Nice set of results
- + Motivates much thinking
- + Results very appealing, intuitive, and suggestive

# Comments

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- ✦ Boost interpretation and framework for general audience
- ✦ General comments
  - ✦ Beyond Asia: more general phenomenon?
  - ✦ What has changed this time?
  - ✦ The “new new” on exchange rate regimes
- ✦ Some specific comments

# Comments: Beyond Asia, and FX

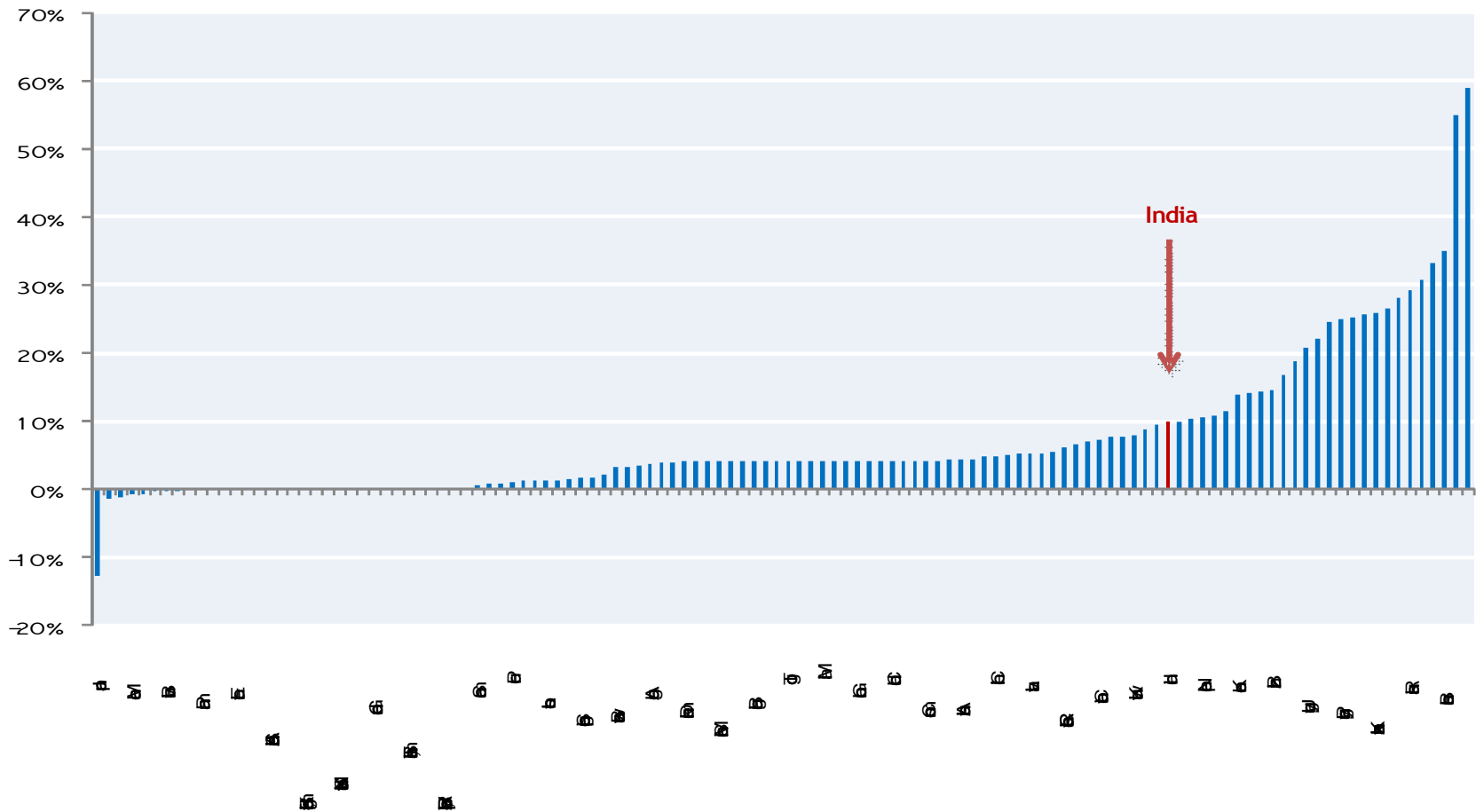
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- ✦ Is there anything of particular interest that the Asian experience teaches us?
- ✦ Move to flexibility seems to be across the board
- ✦ More secular trend, across countries and asset classes

# Exchange rate fluctuation during crisis

## Nominal Exchange Rate Change vis-a-vis U.S. Dollar

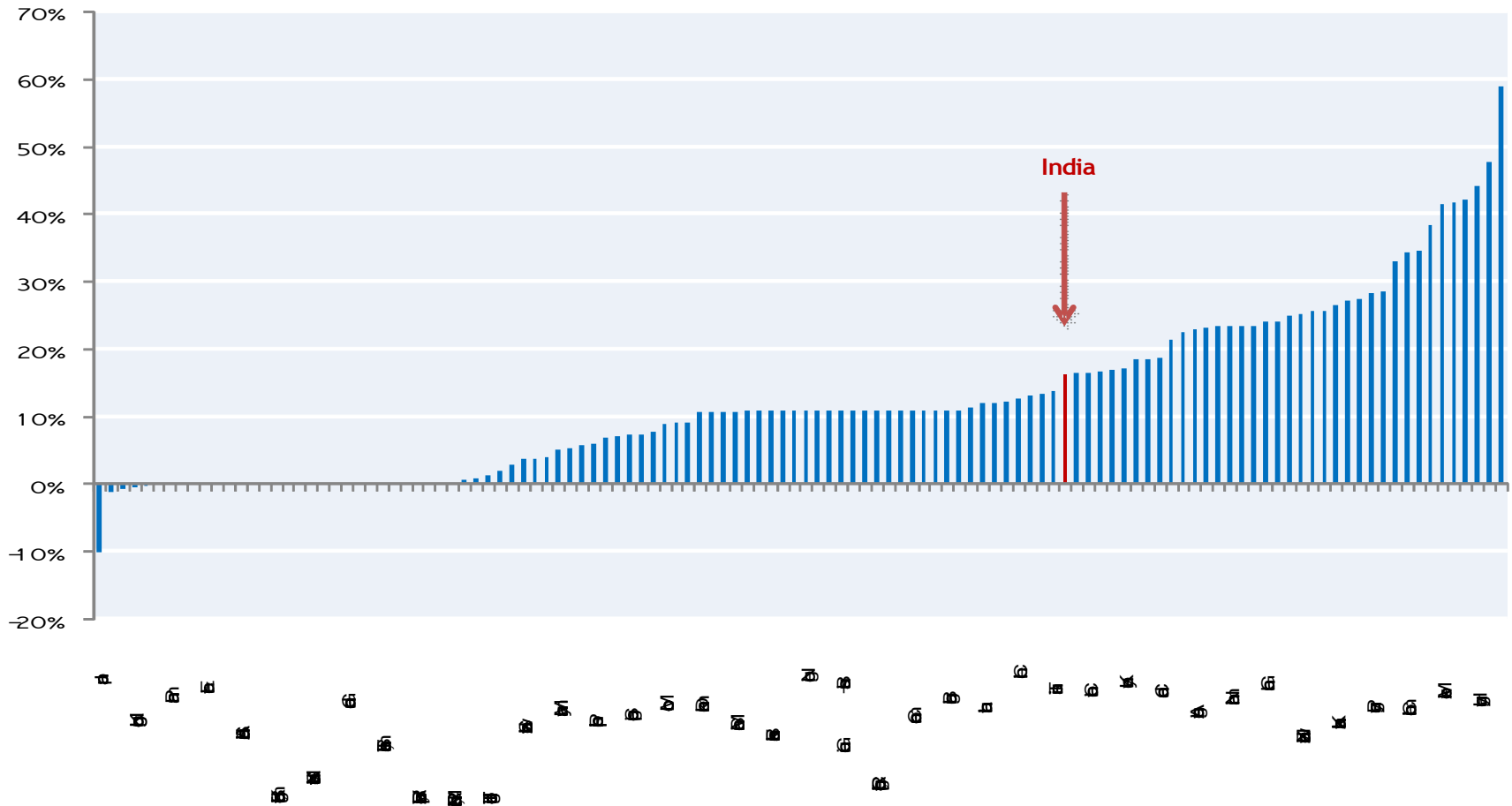
(Depreciation = Positive Value )  
Aug. 08 to Jul. 09 (End of Period)



# Exchange rate fluctuation during bust

## Nominal Exchange Rate Change vis-a-vis U.S. Dollar

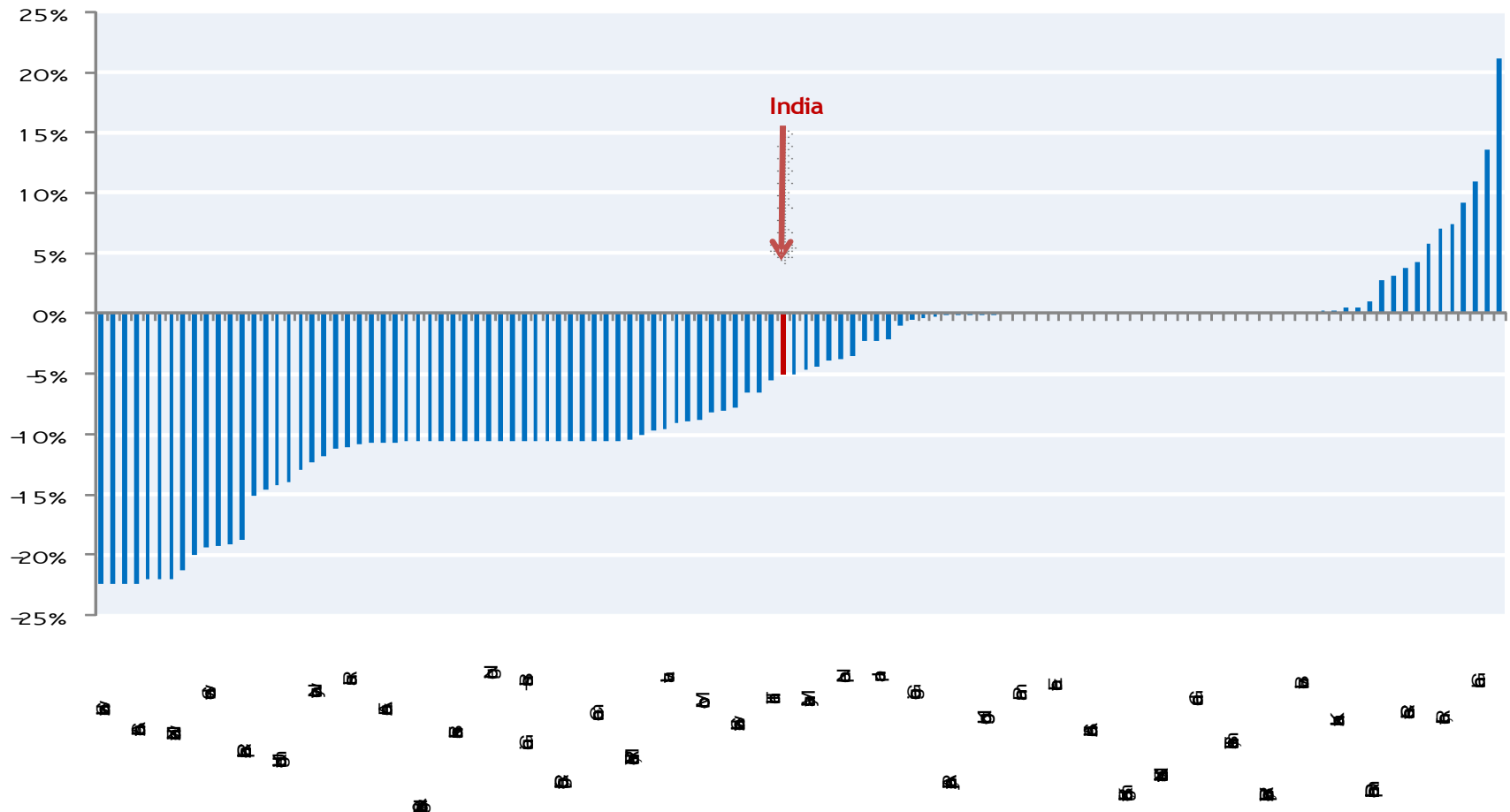
(Depreciation = Positive Value )  
Aug. 08 to Mar. 09 (End of Period)



# Exchange rate fluctuation during recovery

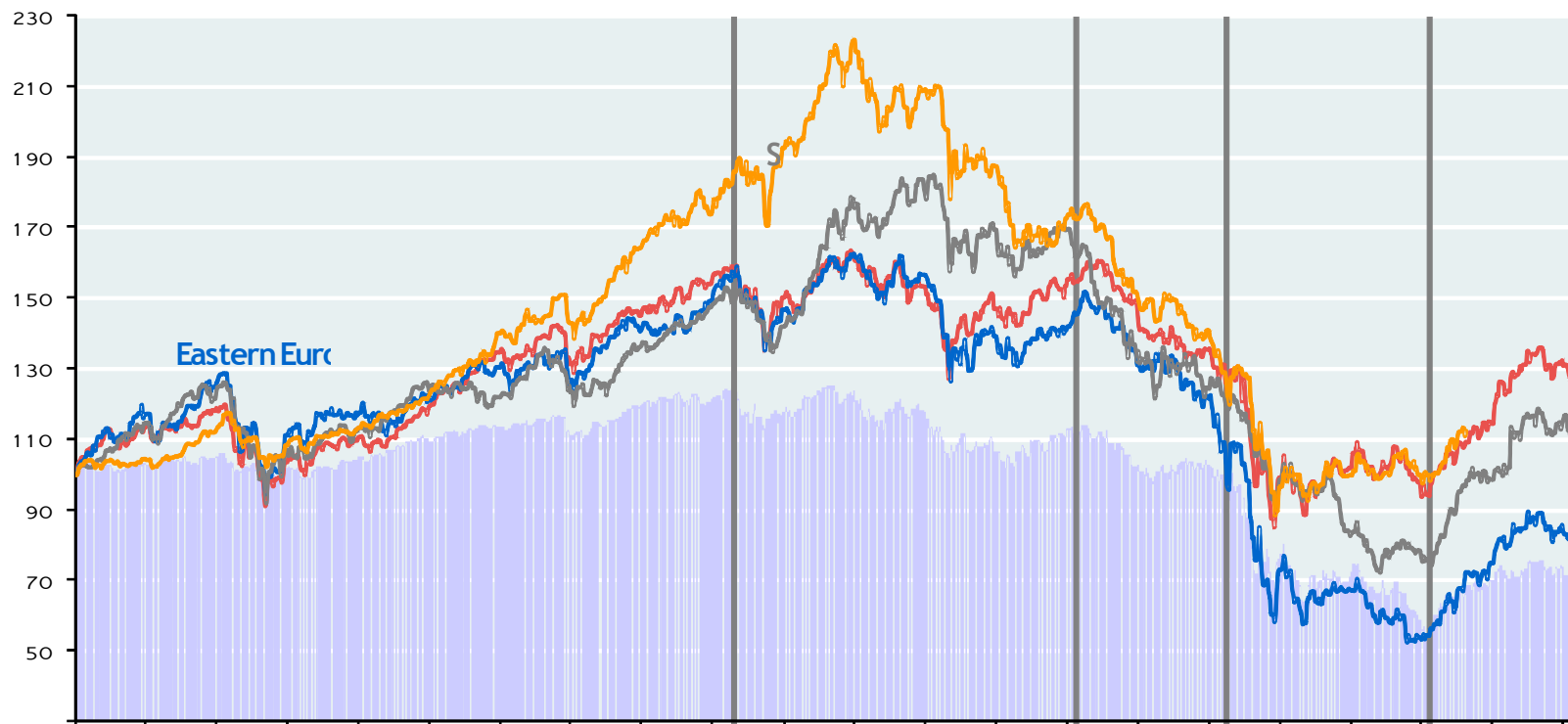
## Nominal Exchange Rate Change vis-a-vis U.S. Dollar

(Depreciation = Positive Value )  
Feb. 09 to Jul. 09 (End of Period)



# All asset prices co-move, not just FX

Stock Prices in Emerging Markets and  
*Index number - Jan 06=100*



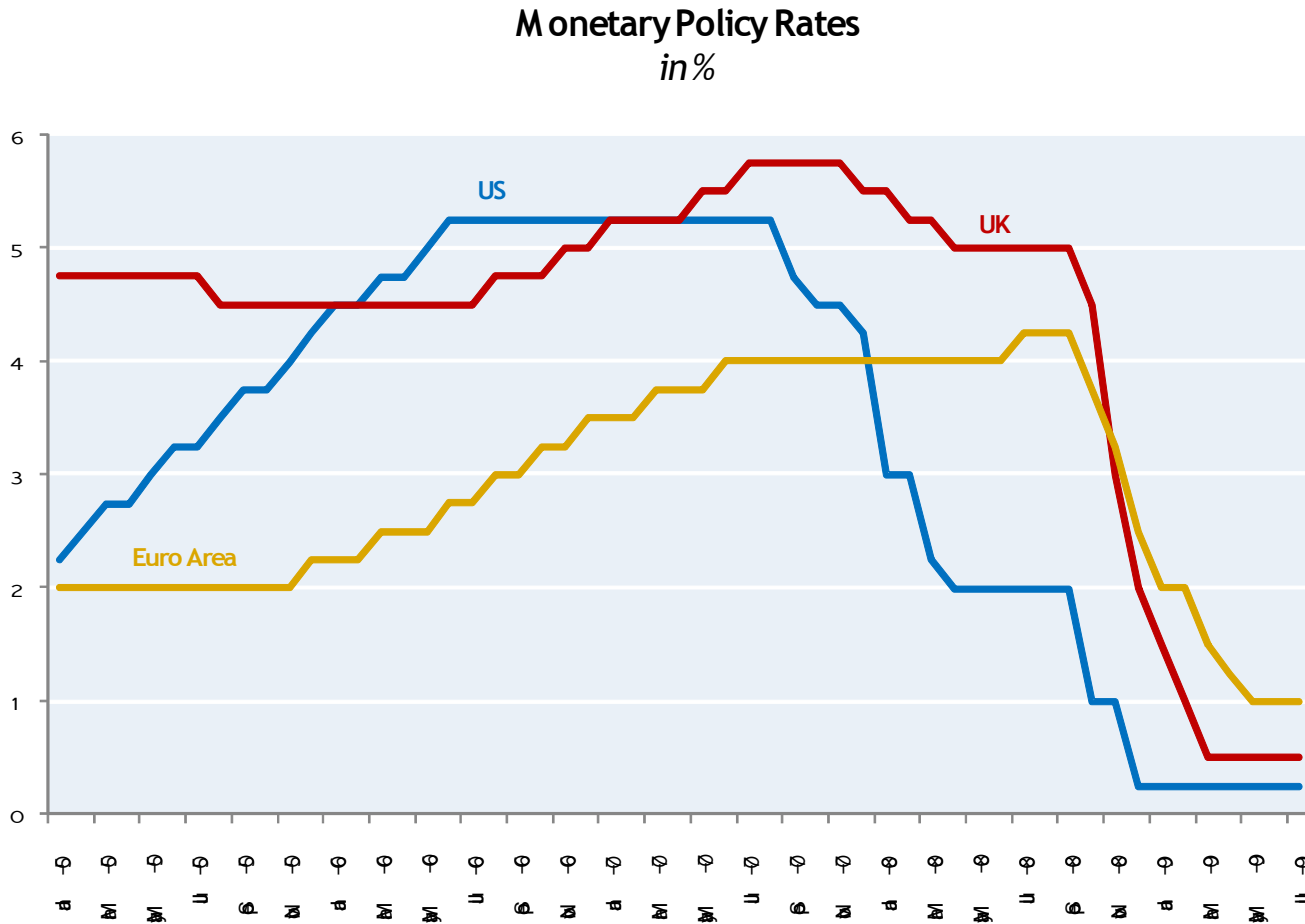


# Comments: What has changed?

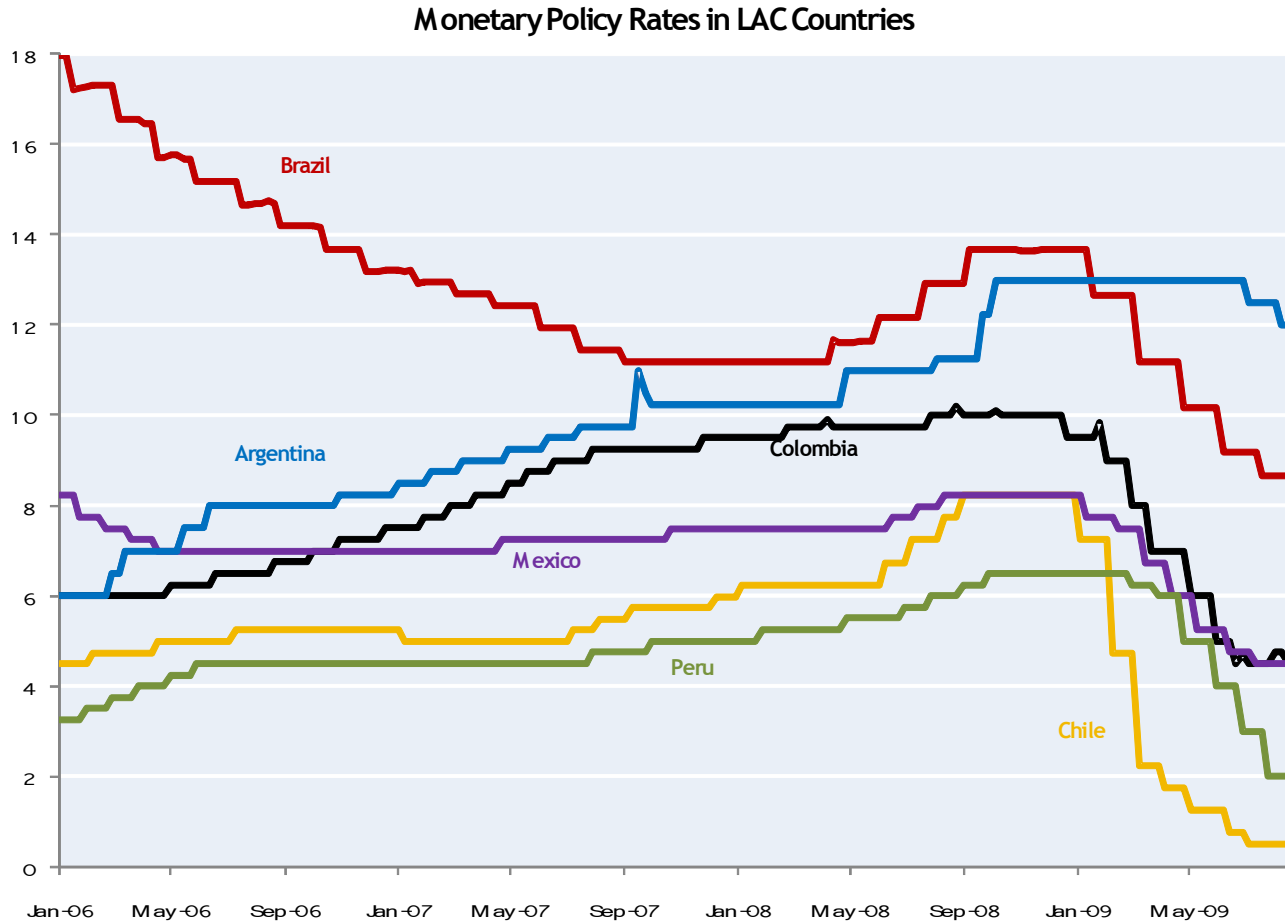
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- ✦ What is new about this particular crisis, and period?
- ✦ Many changes on the fundamental side
  - ✦ Learning from the past on exchange rate regimes and exchange rate behavior
  - ✦ Countries in better fiscal, monetary, and financial stance
  - ✦ Countries wanted to regain use of monetary policy
  - ✦ External positions have improved (assets and liabilities)
  - ✦ Reserves have piled up
  - ✦ Inflation remained tamed

# Monetary policy rates, developed countries



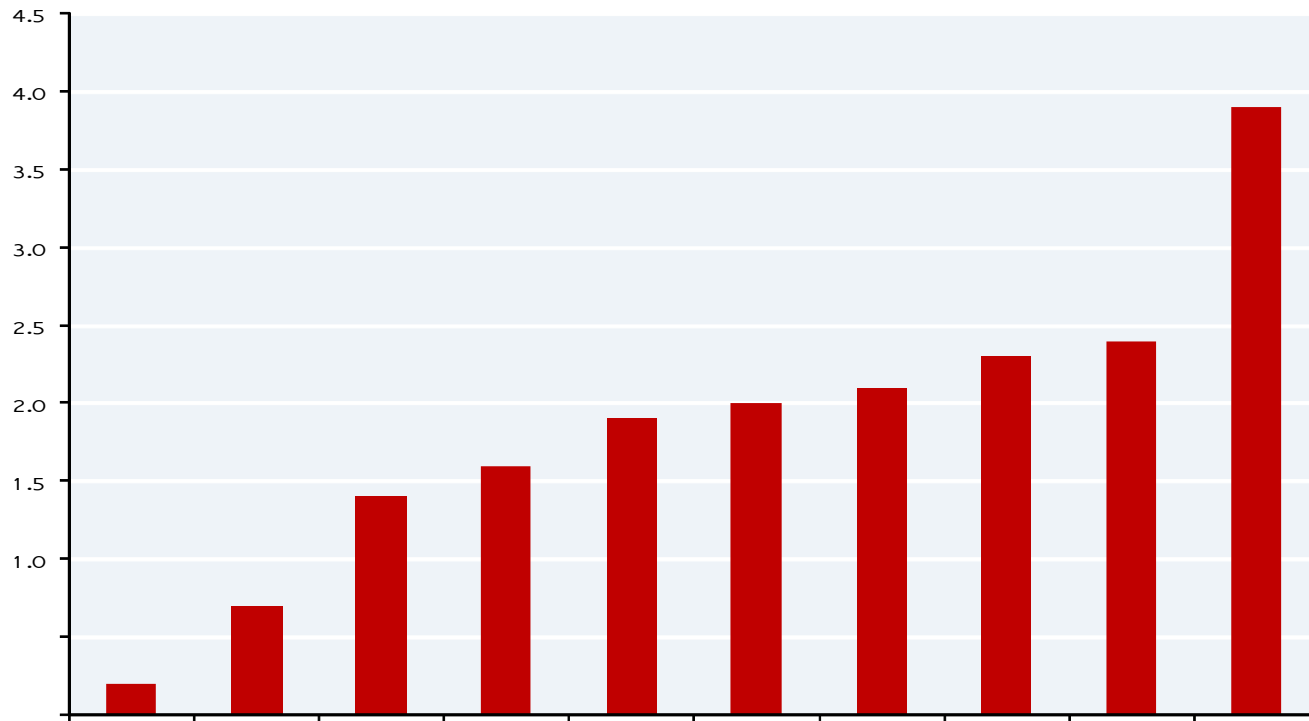
# Monetary policy rates, Latin America



# Fiscal policy

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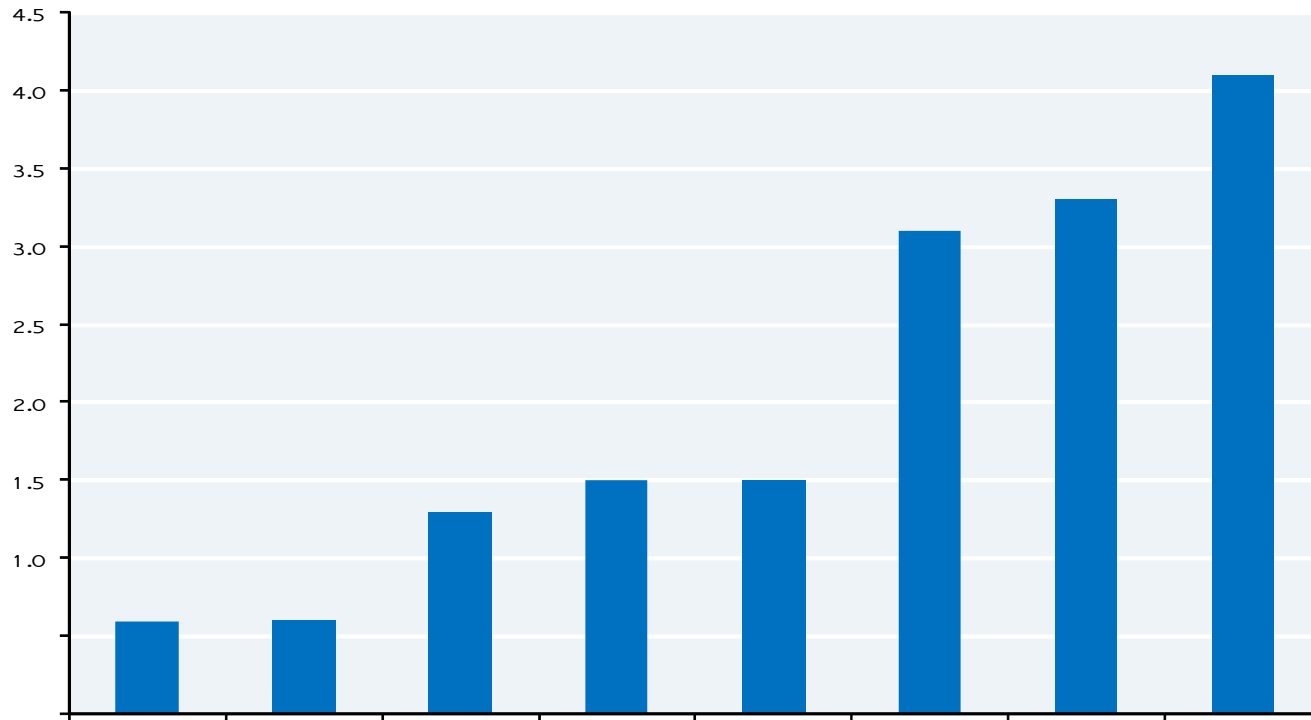
Estimated Cost of Fiscal Discretionary M  
*as % of GDP*



# Fiscal policy

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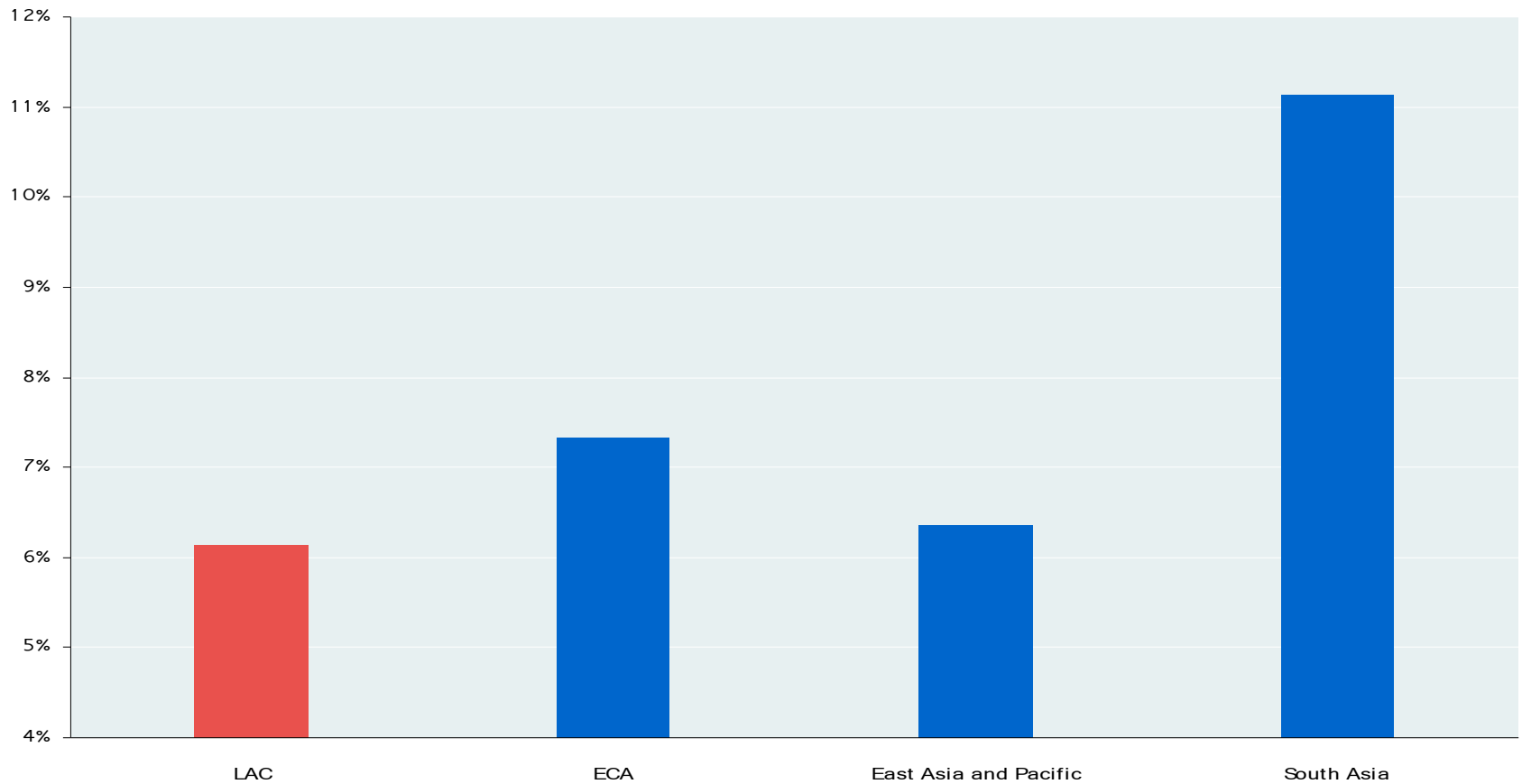
Estimated Cost of Fiscal Discretionary M  
*as % of GDP*



# Inflation

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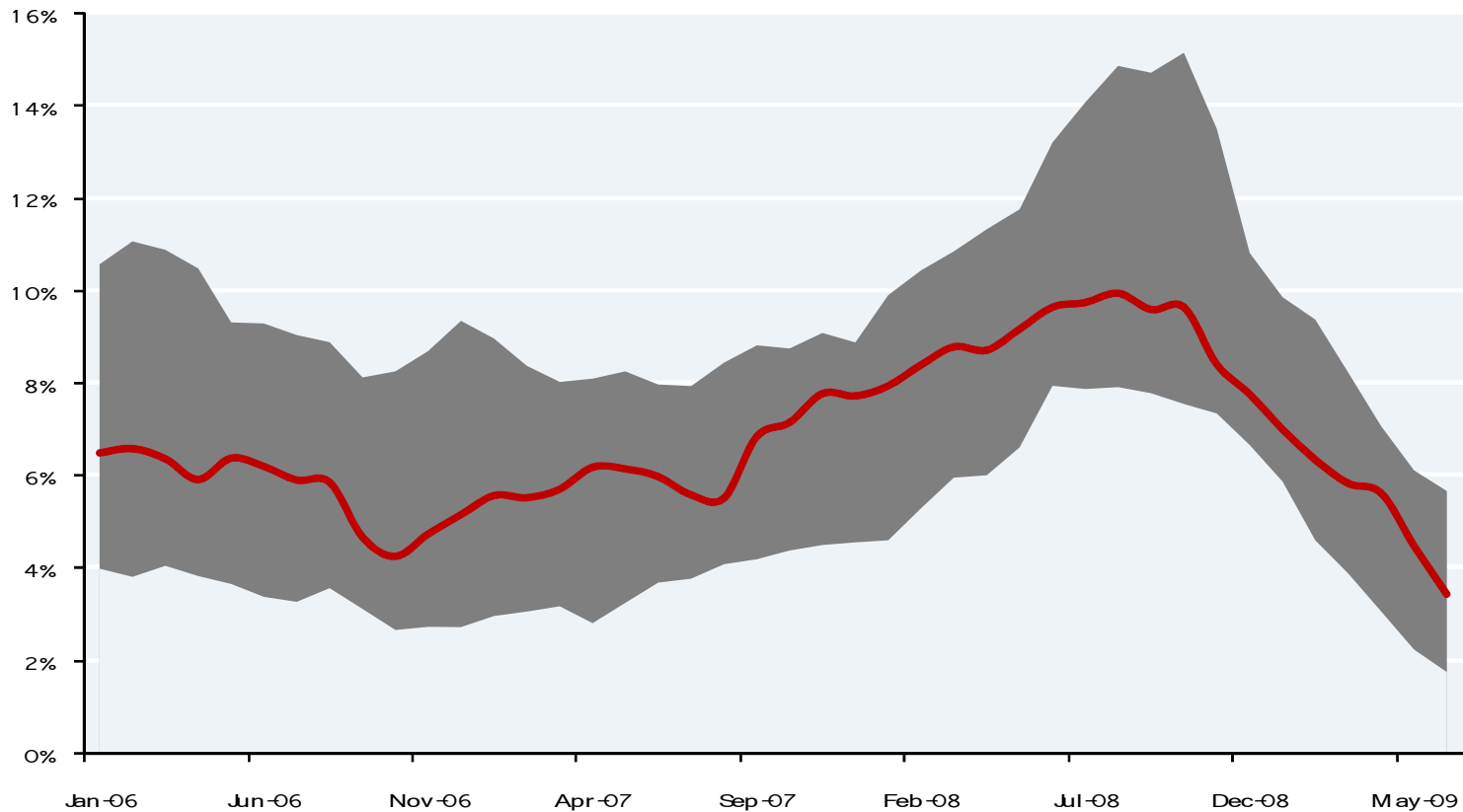
Inflation in selected regions  
*annual variation*



# Inflation

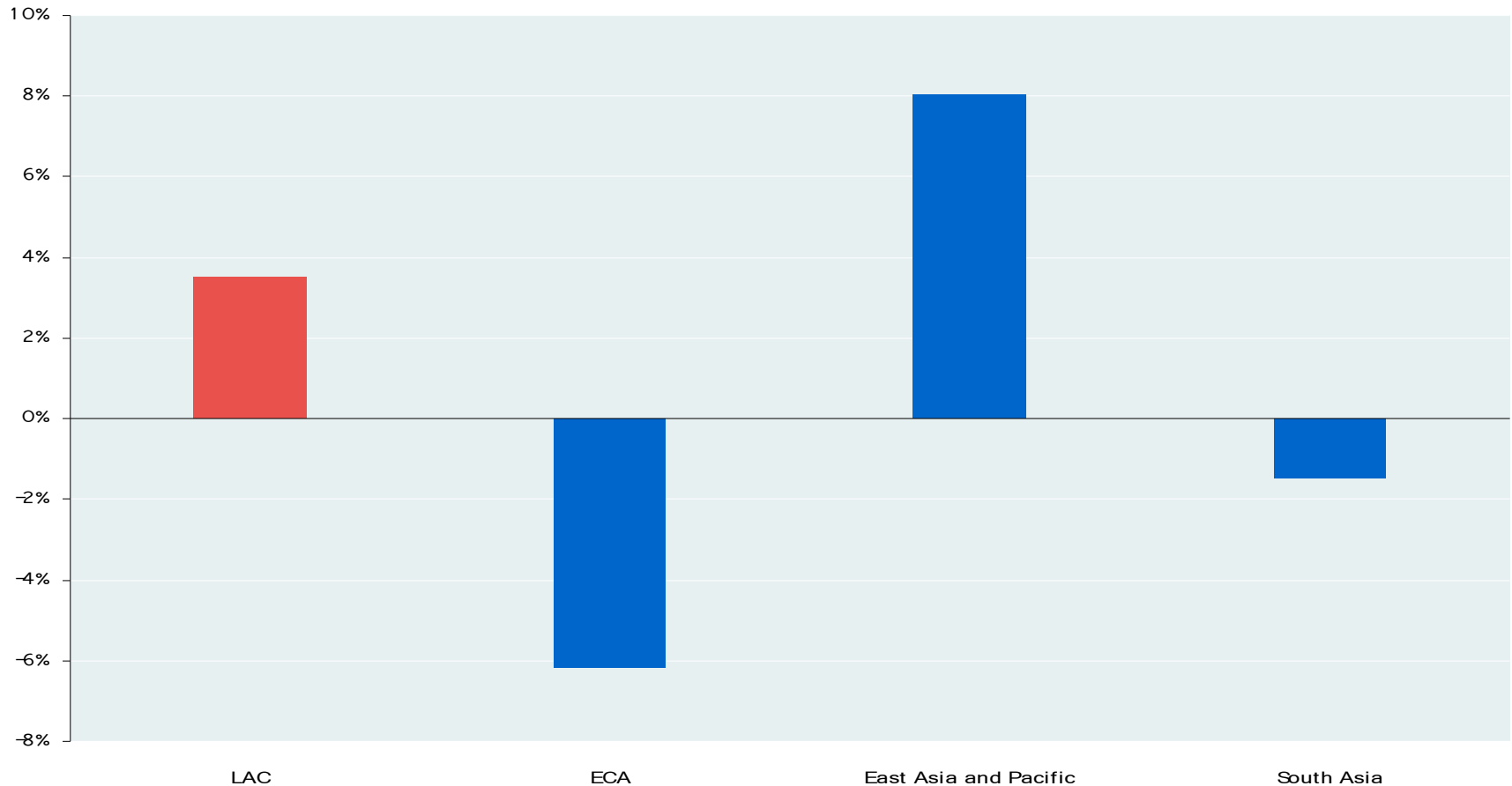
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Consumer Price Inflation in LAC  
*annual variations, in %*



# Current account balance

Current account balance in selected regions  
*as % of GDP*

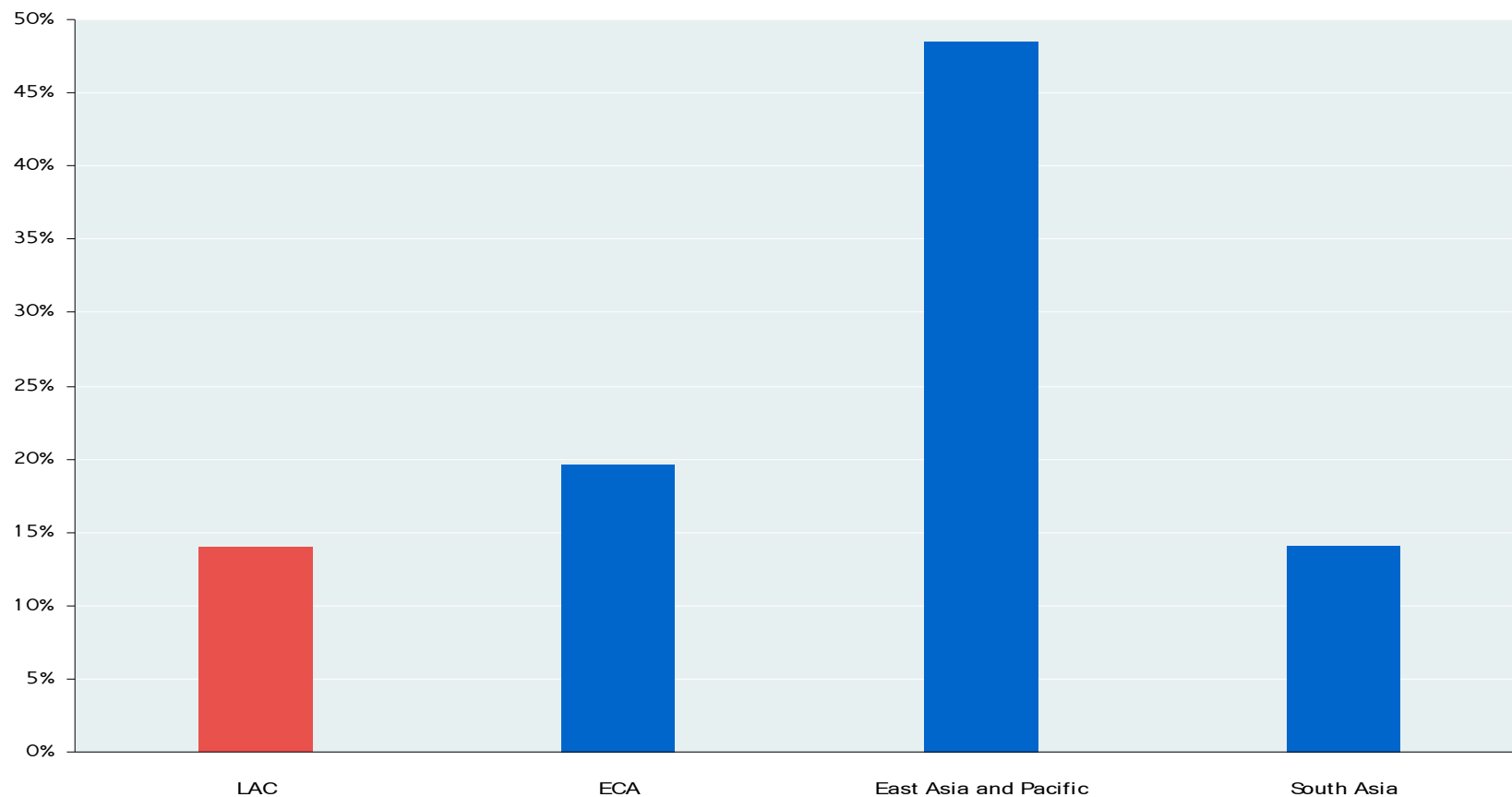




# Reserves

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International Reserves in selected regions  
*as % of GDP*



# Banking crisis

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## Banking Crises in LAC Countries

| 1980-1985 |      | 1995-2000 |            | 2008-2009 |  |
|-----------|------|-----------|------------|-----------|--|
| Argentina | 1980 | Argentina | 1995       |           |  |
| Brazil    | 1985 | Brazil    | 1995       |           |  |
| Chile     | 1980 | Colombia  | 1998       |           |  |
| Colombia  | 1982 | Ecuador   | 1996, 1998 |           |  |
| Ecuador   | 1980 | Honduras  | 1999       |           |  |
| Mexico    | 1981 | Jamaica   | 1996       |           |  |
| Peru      | 1983 | Nicaragua | 2000       |           |  |
| Uruguay   | 1981 | Paraguay  | 1995       |           |  |
|           |      | Peru      | 1999       |           |  |

The table shows the start year of banking crises based on Laeven and Valencia (2008) and Reinhart and Rogoff (2008).

# Comments: What has changed?

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- + This time IS different!
- + Lessons from the past on overvaluation and crises
- + Overvaluation bad
- + Crises as opportunities to adjust
- + Don't lag behind
- + Crisis in the center, able to use some flexibility
- + Unique event?
- + Difference between global and idiosyncratic shocks

# Comments: New new on ERRs

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- ✦ Bipolar view: boom and bust
  - ✦ Full flexibility or full fixing after Asia
  - ✦ Full flexibility difficult
    - ✦ Need anchor
    - ✦ Needs institutions
    - ✦ Much pressure
  - ✦ Full fixing difficult
    - ✦ Mismatches: credit risk
    - ✦ Price flexibility hard to achieve
    - ✦ No transfers, no capacity to adjust to shocks

# Comments: New new on ERRs

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- ✦ How would intermediate regimes look like?
  - ✦ Discretion
  - ✦ Verifiability
  - ✦ Lack of anchor
  - ✦ Rely on (often lacking) credibility
  - ✦ Role of the U.S. dollar versus other currencies

# Specific comments

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- + Do periods have meaning?
- + Changes in regime mean economically different regimes?
  - + Provide reader with meaning of “flexibility,” beyond  $R^2$
- + Pegging to major currency vs. “pegging” to within Asia
  - + Common shocks might be moving all Asian currencies
- + Why weekly instead of daily, given crisis focus?

# Specific comments

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- ✦ Does volatility play a role in identifying exchange rate regimes?
  - ✦ Seems so
  - ✦ Some results in paper but not very transparent
  - ✦ Not obvious that takes care of increases in volatility
- ✦ Permanent or temporary shift?
  - ✦ Do results mainly capture crisis management?
- ✦ Does full flexibility in Korea have meaning?

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Thank you!