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

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

- 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

- 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)

India
Exchange rate fluctuation during bust

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

(Deprecation = Positive Value)

Aug. 08 to Mar. 09 (End of Period)
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?

- 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**

*in %*

- **US**
- **UK**
- **Euro Area**

(Jan-05 to Jan-09)
Monetary policy rates, Latin America

Monetary Policy Rates in LAC Countries

- Brazil
- Argentina
- Mexico
- Colombia
- Peru
- Chile

Time periods: Jan-06, May-06, Sep-06, Jan-07, May-07, Sep-07, Jan-08, May-08, Sep-08, Jan-09, May-09
Fiscal policy

Estimated Cost of Fiscal Discretionary Measures in 2009 as % of GDP
Estimated Cost of Fiscal Discretionary Measures in 2009 as % of GDP
Inflation

Inflation in selected regions

annual variation

LAC | ECA | East Asia and Pacific | South Asia
--- | --- | --- | ---
4%  | 7%  | 6%  | 11%
Inflation

Consumer Price Inflation in LAC
annual variations, in %
Current account balance

Current account balance in selected regions
as % of GDP

-8% -6% -4% -2% 0% 2% 4% 6% 8% 10%

LAC ECA East Asia and Pacific South Asia
International Reserves in selected regions

as % of GDP

LAC  ECA  East Asia and Pacific  South Asia
## Banking Crises in LAC Countries

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The table shows the start year of banking crises based on Laeven and Valencia (2008) and Reihart and Rogoff (2008).
Comments: What has changed?

- 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

- 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

- 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

- 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

- 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?
Thank you!