

Comments on Ho and McCauley's
Living with Flexible Exchange Rates

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Summary

1. Ask why exchange rate matters for emerging markets
2. Examine recent exchange rate experience with inflation-targeters

A Difficult Paper to Discuss!

1. Very much a paper written by central bankers
for central bankers
 - Caveats, caution, and plain vanilla abound
 - Central banker concerns (e.g., 2.7% inflation target vs. 1.6% on p21)
2. Hard to disagree with anything
 - Very sensible views

Irresistible

- Ironical to (write and) present a paper on exchange rate policy in inflation-targeting countries in Hong Kong

Much analysis of exchange rate pass-through

- **Determinants include:**

1. Openness
2. Stage of Development
3. History (of inflation and currency crises)
4. Dollarization (not dollarisation!)
5. Time? (why?)

Suggestion

- A natural forum for meta-analysis to combine it all together quantitatively
- Use pass-through estimates as dependent variables

Much Analysis of Policy Responses

- Hard not to wonder if sample is big enough:
 - 18 inflation targeters
 - 4 recent years of data
- There's no obvious way to *add* to the sample
 - Still, many results somewhat weak
- Perhaps this work a little premature?

Link from Policy to Exchange Rate a Big Issue

- Clearly acknowledged, but still an issue
- Part of fundamentally uncertain issue of exchange rate determination
- Would like more rigorous work comparing policy options and effect of monetary policy tools on exchange rates

Transparency

- (Also ironic coming from BIS!)
- Would like more evidence that clarity of intentions determines efficacy of exchange rate (and monetary) policy
- A good area for future work