Comments on Ho and McCauley’s

Living with Flexible Exchange Rates

Andrew K. Rose

UC Berkeley and NBER
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

• Ironic 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