Comment on Exchange Rate Regimes in Sub-Saharan Africa

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Chapter Overview

- Considers the influence of different exchange rate regimes on:
  - Inflation rates
  - Output Growth
  - Growth Volatility
  - Fiscal Discipline
Characteristics of Exchange Regimes

• Larger percentage of countries have fixed systems (60%) than world developing country average (47%)
• DeFacto tendency to move towards fixed after 2008
• Fixed regime countries have lower inflation on average but also lower growth rates (after 2000)
• Intermediate regimes tended to have higher fiscal deficits than all others, but no notable increase in debt ratios
Policy Implications of Exchange Regimes

• For Less Flexible Regime Countries
  • Maintain Fiscal Discipline
  • Aggressively diversify and improve competitiveness

• For More Flexible Regime Countries
  • Strong frameworks for Price Stability
  • Fiscal Adjustment in face of Low commodity prices
Study Strengths

• Evaluation of relationships of regime to inflation and fiscal discipline, besides relationship to growth alone

• Breakdown of analysis to different timeframes
  • Growth Differences Fixed vs Float reversed in 80-89 period

• Breakdown according to different transmission mechanisms, eg competitiveness, trade openness, etc.
de Jure / de Facto distinction

- Not sure what to make of deJure/deFacto distinction.
- A difference might increase uncertainty
- Do these countries have a different inflation, growth or fiscal discipline experiences.
  - Although you evaluated inflation effects both dJ and dF, it is hard to discern the effects of differences
Characterizing Fixed Regimes

- Important to highlight which currency is the reserve
  - Success of a fixed regime is dependent on the policies of the reserve
  - Most are to the Euro. Or to French Franc before... how many to the dollar?
  - Impossible to see the variation of reserves in the report
  - Are there any reserve switches, besides FF to Euro?
Reserve Holdings

• Performance of countries on pegs may depend on reserve holding patterns
• In particular, did any countries suffer BoP crises?
• To what degree did reserve shortfalls inspire devaluations, or adjustments in exchange rate regimes?
Exchange Controls

- Effectiveness of exchange rate regimes depend upon capital mobility
- Report provides no detail about the extent of controls across the region
International Results - Box 2.1

• Indicates much stronger growth outcomes for fixed currency countries in other developing and emerging markets.

• Suggests that fixers with more undervalued exchange rates and who had more open trade grew faster.

• Indicates that the exchange rate regime itself is not a precise indicator
Nigeria - Box 2.2

• The case study about Nigeria provides some useful detail
• It illustrates the pressures and difficulties with transitioning from a fixed to a more flexible system.
• Also, how shocks, like the sudden decline in oil prices, forces adjustments to the exchange rate regime.
Thank You