

IV Concluding Remarks

One main theme of this paper has been that, in the current global economic context, no single exchange rate regime may be prescribed for all countries. However, it is crucial that the chosen exchange rate regime be credibly supported by a set of policies, in particular monetary and fiscal policy, that is fully consistent with the logic of that regime. The particular circumstances of the country and of the times will in turn dictate which policies and regimes are feasible and appropriate. With rising capital mobility and integration into world asset and goods markets, however, an increasing number of countries are moving, and are likely to continue to move, toward the ends of the spectrum that extends from purely floating exchange rates to very hard pegs. This “hollowing of the middle” does not mean that all countries will or should move to the very end of the exchange rate spectrum. In particular, for any but the largest and most advanced countries moving to the floating end of the range of regimes, the behavior of the exchange rate typically will remain a matter for policy concern and intervention may occasionally be appropriate. Neither will the middle be hollow for some time to come. Thus, crawling pegs or bands, for instance, can represent viable alternatives provided, however, that macroeconomic policies be

kept consistent with the particular system that is chosen.

Taking a broader view of the evolution of the international monetary system, the advent of the euro and the move of a number of countries toward euro- or dollar-based pegs (possibly as a precursor to full monetary union or dollarization) indicates a trend movement toward a bi- or tri-polar system of major currency areas. At the same time, one would expect a number of countries to maintain basically floating exchange rates toward the major currencies while pursuing efforts at regional monetary cooperation, particularly within the Mercosur and ASEAN groups. The realization of the more ambitious projects for full monetary integration within those groups, however, will become a live option only in the longer run as they require a degree of political cohesion and institutional development that can be forged only over time. In the meantime, the relations among the euro, the dollar, and the yen are likely to be characterized by floating exchange rates that will exhibit a degree of volatility similar to that witnessed in the past few decades. In such a system, the anchor of stability for the system at large will have to remain the macroeconomic policies in the three major currency areas.