



Exchange-Rate Policy Attitudes: Direct Evidence from Survey Data

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Exchange rate policy is political

- Constraints include constituency pressures
 - Electoral considerations
 - Distributionally relevant policy preferences

Constituency pressures

- Expected exchange rate policy preferences
 - Internationally exposed agents prefer a stable currency
 - Tradables producers prefer a weak (depreciated) currency

Or (for our purposes)

- Internationally exposed firms dislike currency instability
- Firms in tradables sectors (manufacturing, agriculture) dislike an appreciated real exchange rate

Simple and intuitive, but

- Very hard to evaluate – yet important (cf. trade policy)
- Most tests indirect
 - National policy outcomes as function of sector shares
 - Legislative voting
- Our work: Direct measures of firm attitudes from survey

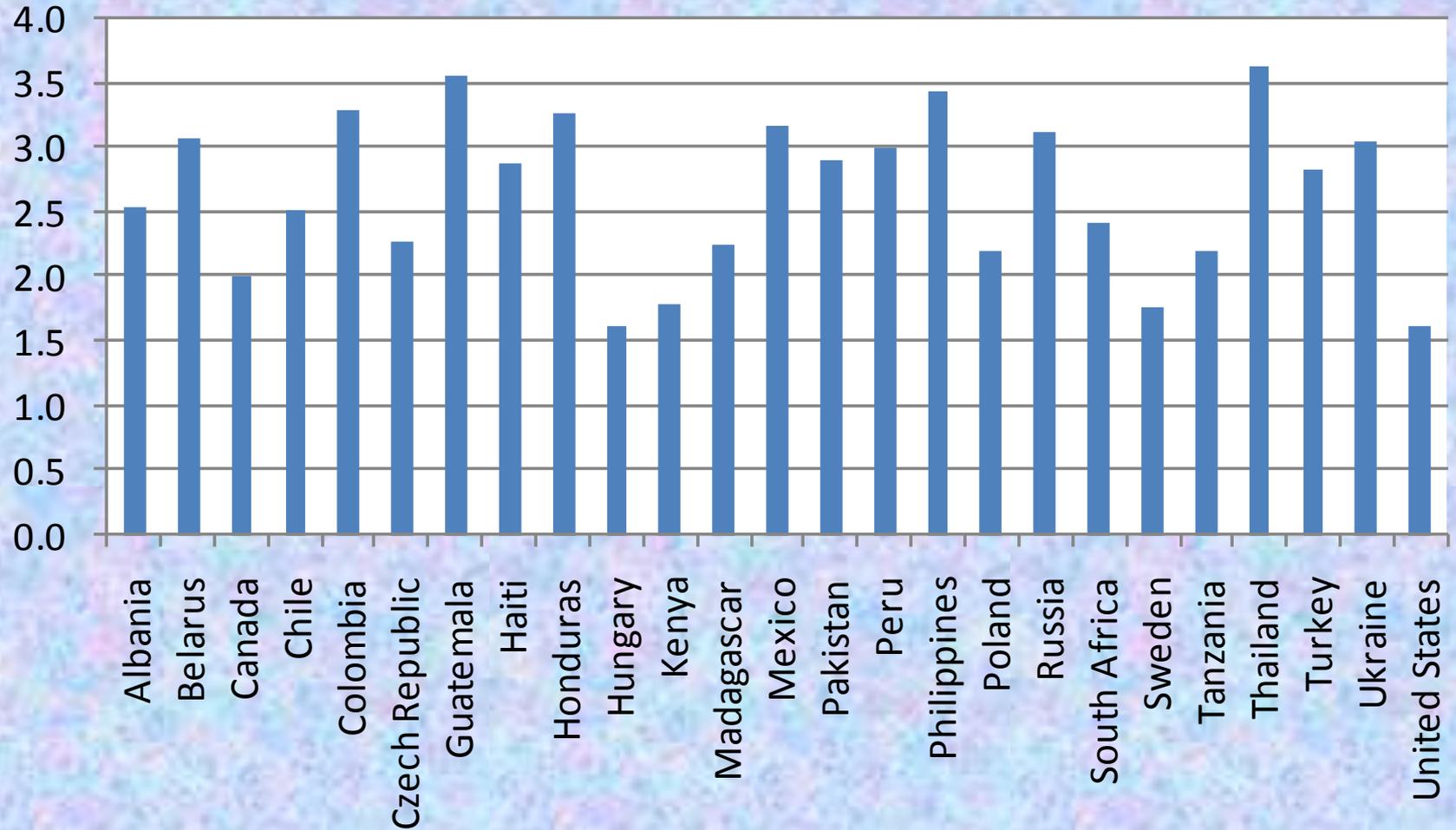
Individual Attitudes

- Responses of firm owners and managers to survey question about the exchange rate
- Survey administered to owners and managers of over 10,000 firms in 80 countries in 1999
- Source: World Business Environment Survey (WBES)

The Dependent Variable

- WBES asks:
 - *"How problematic is the exchange rate for the operation and growth of your business?"*
- Ordered responses:
 - 1 = No Obstacle
 - 2 = Minor Obstacle
 - 3 = Moderate Obstacle
 - 4 = Major Obstacle
- Sample mean: 2.59

Country Average Responses

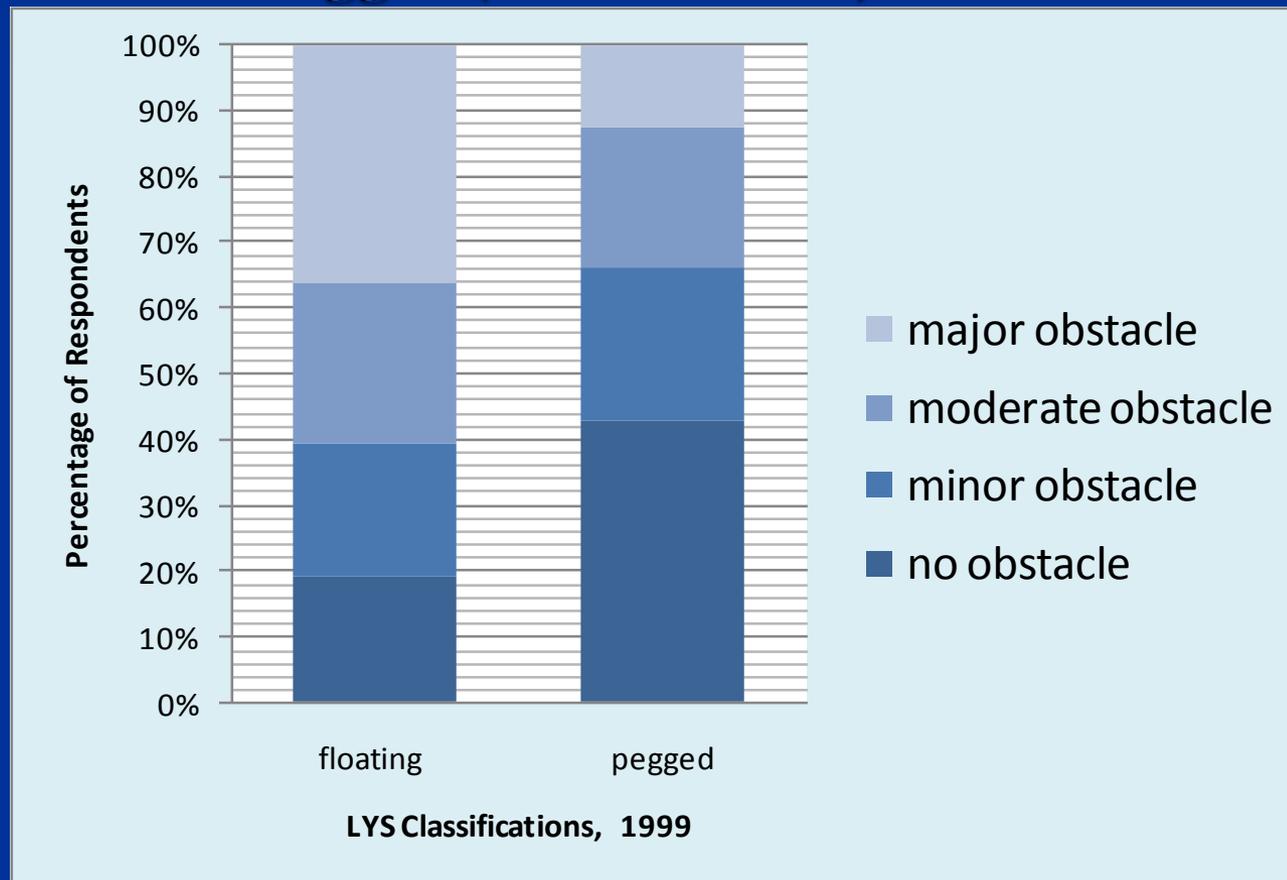


Strictly limited information, but

- We know the context
 - Exchange rate regime in force in country at time of survey
 - Movement of country's real exchange rate prior to survey
 - Many characteristics of respondent firms

Country Level: ER Regime

- *de facto* regime classifications from Levy-Yeyati and Sturzenegger (2005; ‘LYS’)



Mean Values
Floating: 2.78
Pegged: 2.04

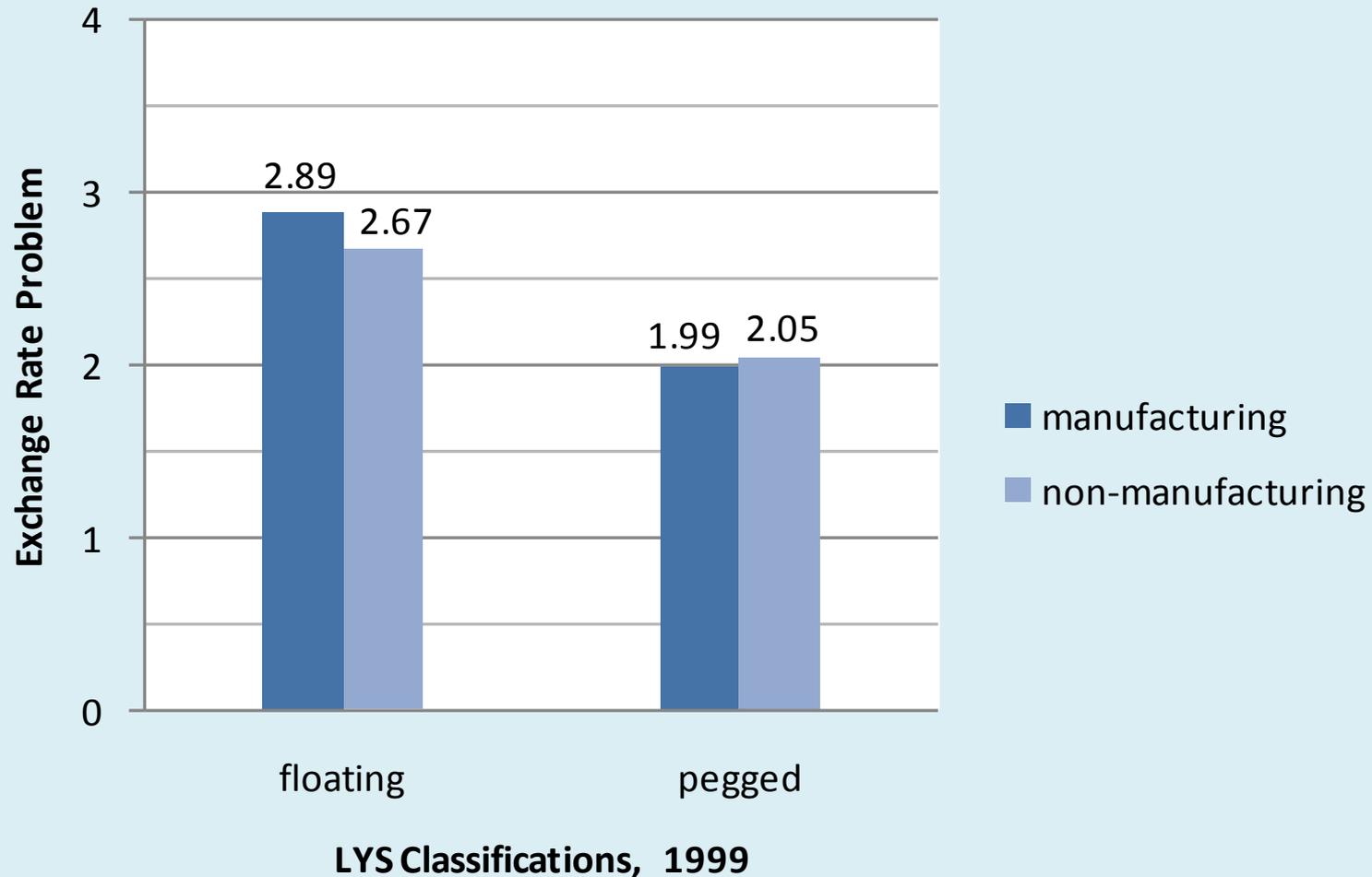
Country level: RER movement

- Percentage change in real exchange rate over year prior to survey (from IFS and BIS)
 - Mean: -3.9%
 - Min: -21.2% (Ukraine)
 - Max: 9.3% (Mexico)

Firm-level: Sector Identifiers

- WBES responses provide three proxies for international exposure
- Dummy variables for:
 - MANUFACTURING
 - TRADABLE (manufacturing and agriculture)
 - EXPORTER

Attitudes in Floating Regimes: Preliminary Evidence



Attitudes in Floating Regimes

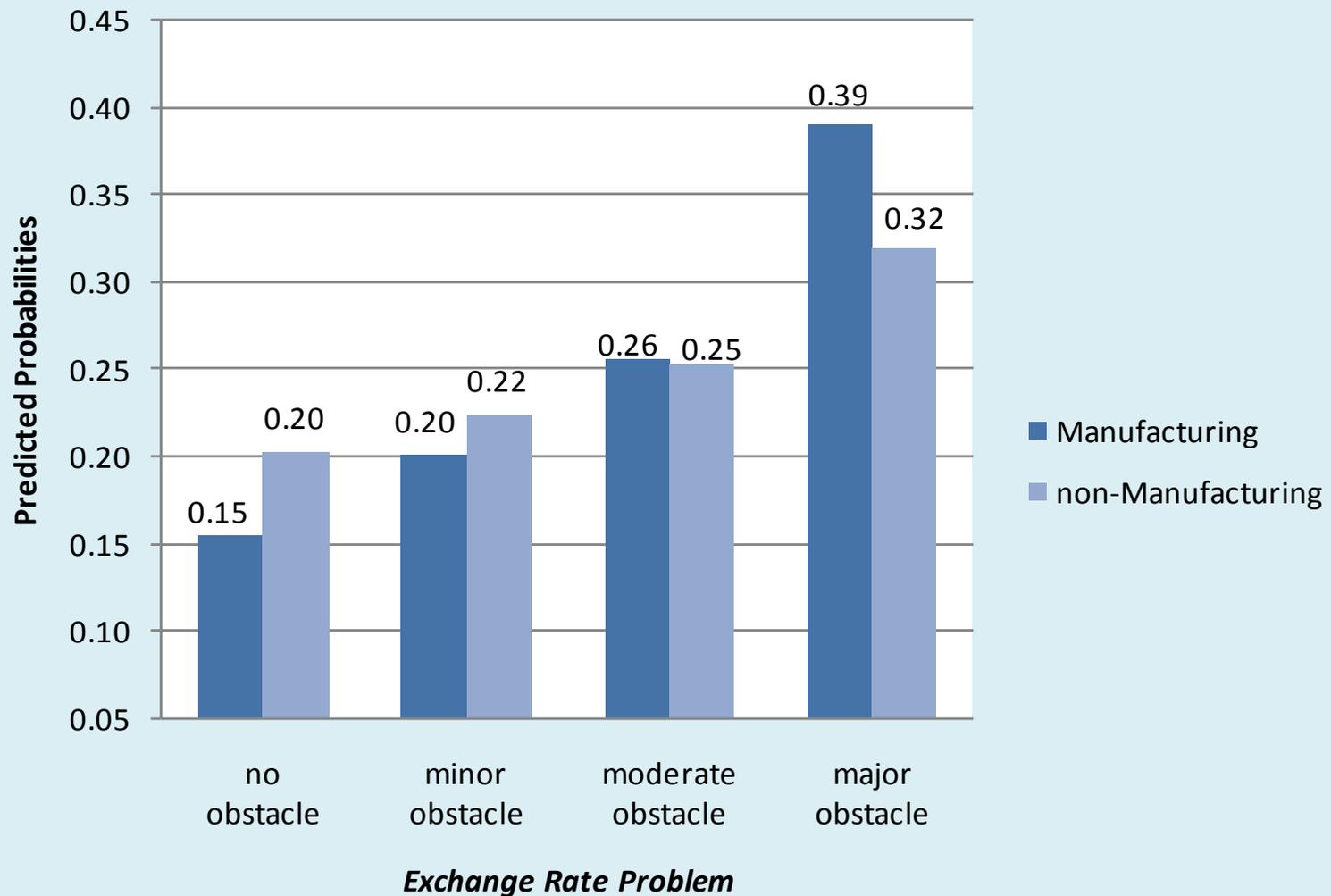
$$\text{ER PROBLEM}_{ij} = \alpha + \beta_1 \text{SECTOR}_{ij} + \beta_2 \text{FIRM}_{ij} + \beta_3 \text{ECONOMY}_j + \varepsilon_{ij}$$

- Ordered probit; robust standard errors clustered by country
- Control variables:
 - Firm level: firm size, government ownership
 - Country-level: GDP/capita, M3/GDP, FDI stock/capita

Results: LYS Floating Regimes

	(1)	(2)	(3)	(4)
Government Owned	-0.330** (0.132)	-0.293** (0.127)	-0.293** (0.130)	-0.313** (0.137)
Size	0.042 (0.066)	0.020 (0.064)	0.029 (0.065)	0.025 (0.054)
Log GDP/Capita	-0.120 (0.098)	-0.100 (0.094)	-0.110 (0.094)	-0.122 (0.096)
M3/GDP	0.006 (0.007)	0.007 (0.007)	0.007 (0.006)	0.006 (0.007)
Log FDI Stock/Capita	-0.130*** (0.048)	-0.152*** (0.045)	-0.147*** (0.045)	-0.134*** (0.051)
Manufacturing		0.187*** (0.056)		
Tradable			0.102* (0.053)	
Exporter				0.092 (0.101)
Observations	3108	2918	2918	3049
Countries	25	25	25	25
Pseudo R-squared	0.034	0.041	0.039	0.035

Economic Interpretation: Predicted Probabilities



Attitudes in Floating Regimes

$$\text{ER PROBLEM}_{ij} = \alpha + \beta_1 \text{SECTOR}_{ij} + \beta_2 (\text{SECTOR} * \text{REER APPRECIATION})_{ij} + \beta_3 \text{FIRM}_{ij} + \beta_4 \text{ECONOMY}_j + \varepsilon_{ij}$$

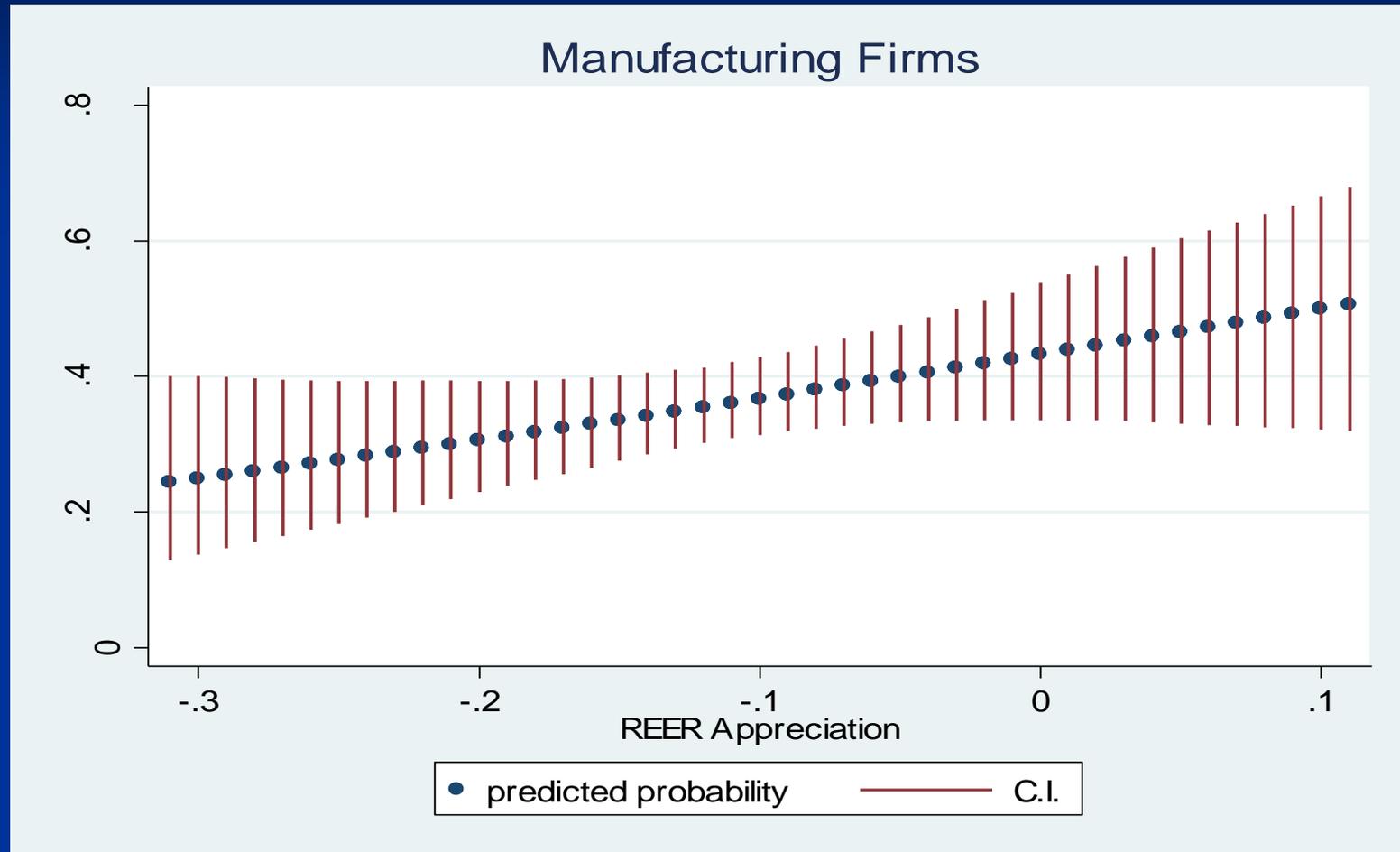
■ Same control variables:

- Firm level: firm size, government ownership
- Country-level: GDP/capita, M3/GDP, FDI stock/capita

Results: Level of the Exchange Rate in Floating Regimes

	(1)	(2)	(3)	(4)
REER Appreciation (1yr.)	1.353	0.522	0.450	0.879
	(1.134)	(1.006)	(1.038)	(1.226)
Manufacturing		0.267***		
		(0.078)		
Manufacturing * REER Appreciation		1.168***		
		(0.358)		
Tradable			0.212***	
			(0.063)	
Tradable * REER Appreciation			1.249***	
			(0.330)	
Exporter				0.278***
				(0.105)
Exporter * REER Appreciation				1.599***
				(0.615)
Observations	2323	2258	2258	2276
Countries	16	16	16	16
Pseudo R-squared	0.078	0.084	0.083	0.082

Substantive Impact



- 10% REER appreciation associated with change in predicted probability that ER is “major problem” from .43 to .50

Conclusions

- Basic expectations largely borne out
 - Internationally exposed actors: more likely to be dissatisfied with floating rate
 - Tradables producers and exporters: more likely to be dissatisfied with an appreciated real exchange rate
- Provides confidence for moving forward on this basis