

## **The interest rate and exchange rate relation: a literature review**

The inflationary trend that followed the COVID-19 crises was appointed by central banks as the reason for the rise of the interest rates in most of countries. What has not been so widely discussed, however, was its consequence on the exchange rates of countries, specially on the emerging countries' currencies.

To better understand the consequences of monetary policy in the exchange rate of emerging countries this work proposes to review the literature on its relation with the interest rates.

In the first part of the article, it will be discussed the determination of the exchange rate in the orthodox macroeconomic field according to the generations proposed by Prates (2015) and the role of the interest rate in this view. In a second moment it will be discussed the heterodox models of exchange rate determination, the specificities of emergent countries' currencies (see Prates, 2005) and the role of the interest rate in this approach. After the theoretical analyses, the more recent empirical work will be presented. Finally, it will be discussed the compatibility of these different theorical approaches to the relation of the interest rate and the exchange rate.

### **Bibliography**

Prates, D. M. (2005). As assimetrias do sistema monetário e financeiro internacional. *Revista de economia contemporânea*, 9(2):263–288.

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