

RETHINKING INTERNATIONAL MACROECONOMIC POLICY

Gita Gopinath
Harvard

Exchange Rate Policy

① *Gains to exchange rate flexibility are worse than you think*

- Casas, Federico, Gopinath, Gourinchas (2016); Boz, Gopinath, Plagborg-Moller (2017)
- Terms-of-Trade disconnect with exchange rates
- 1% depreciation of the bilateral exchange rate is associated with only a 0.1% depreciation of the bilateral terms of trade
- “Dominant Currency Paradigm”
 - Export expansions following depreciations weak
 - Inflation targeting still optimal, but less control of the output gap
- Strengthens the case for managed floats

Exchange Rate Policy

② *The 'Trilemma' lives on*

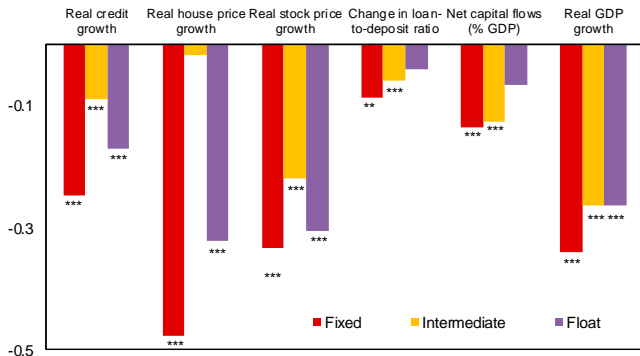


Figure: Trilemma; Source: Obstfeld, Ostry, Qureshi (2017)

Note: This figure plots the correlation of financial and macroeconomic variables in emerging market economies with global investor risk aversion.

Exchange Rate Policy

- ③ ***The U.S. dollar exchange rate drives global trade prices and volumes.***
- Bilateral trade not driven by the bilateral exchange rate but by the dollar exchange rate
 - 1% U.S. dollar appreciation predicts a 0.6–0.8% decline within a year in the volume of total trade between countries in the ROW

Capital Flows Management

- ④ ***Gross capital flows matter as much as net flows, and global banks have internationalized U.S. monetary policy.***

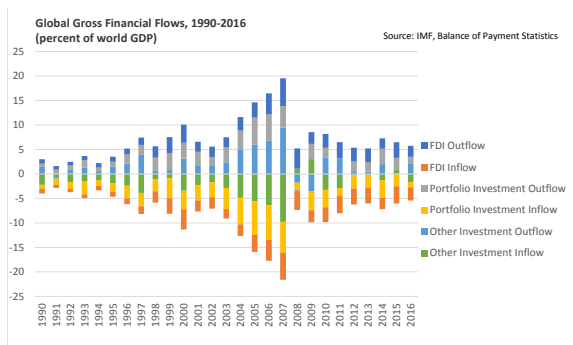


Figure: Cross border gross flows matter; Source: Obstfeld (2017)

- Brauning and Ivashina (2017): Over a U.S. monetary easing cycle there is a 32 percent loan volume increase for emerging market economies

Capital Flows Management

- ⑤ ***Emerging markets tilt away from foreign currency to local currency debt reduces their exposure to global risk factors***
 - Share of local currency debt: 10% in 2000 to 60% in 2013.
 - Local currency credit spreads much less correlated with global risk factors

Capital Flows Management

- 5 Emerging markets tilt away from foreign currency to local currency debt reduces their exposure to global risk factors**
 - Share of local currency debt: 10% in 2000 to 60% in 2013.
 - Local currency credit spreads much less correlated with global risk factors
- 6 Low interest rate environments can lead to misallocation of resources and lower productivity.**

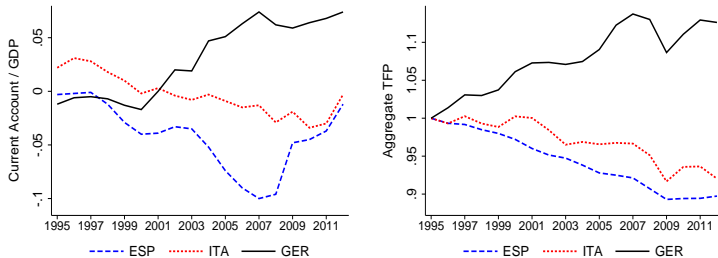


Figure: Misallocation of Capital: Source: Gopinath, Kalemli-Ozcan,

Protectionism

- ⑦ ***The empirical relationship between global imbalances, reserve accumulation, and currency manipulation is not well identified.***

Protectionism

- 7 *The empirical relationship between global imbalances, reserve accumulation, and currency manipulation is not well identified.*
- 8 *Uniform border taxes are not neutral.*

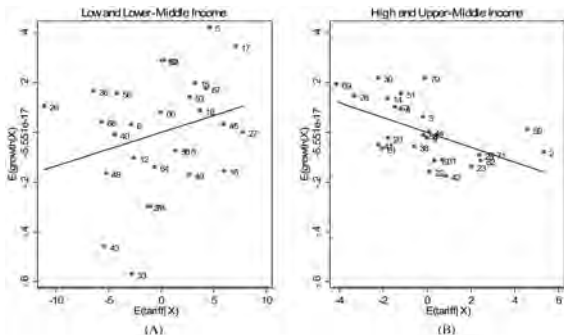
Protectionism

- 7 *The empirical relationship between global imbalances, reserve accumulation, and currency manipulation is not well identified.*
- 8 *Uniform border taxes are not neutral.*
- 9 *Trade is not the main driver of earnings inequality, but at the same time policy has failed to address its redistributive consequences.*

Protectionism

- High income countries: 10 percentage point increase in tariff rates \rightarrow 1.6 percentage point decline in per capita growth rates

FIGURE 2.—PARTIAL REGRESSION PLOTS FOR OLS—INCOME SAMPLE SPLITS



Note: The set of regressors X includes initial income, life expectancy, schooling, I/Y , and G/Y . $E(\text{growth}|X)$ is the fitted growth, and $E(\text{tariff}|X)$ is the fitted tariff.

Figure: Protectionism and Growth: Source DeJong and Ripoll (2006)

Global Cooperation

- ⑩ ***Global coordination of financial regulation is required alongside individual countries macroprudential policies.***

Reserve accumulation and currency swap lines do not substitute for the lender of last resort role of the International Monetary Fund.