

Discussion of
Pierre-Olivier Gourinchas,
The Dollar Hegemon? Evidence and
Implications for Policymakers

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Well done!

- Comprehensive and well-written essay....
- ...building on the many contributions of POG to the literature
- Agree with most of the points

Structure of discussion

- The international monetary system after the GFC
- The global importance of USD fluctuations
- Trade invoicing
- Exchange rate flexibility

The international monetary system after the GFC

- Safe assets and the demise of the global role of the euro
- Consequences of the euro area crisis....
- ...and the US economy has done notably better
- This has been reflected in asset prices and dollar valuation

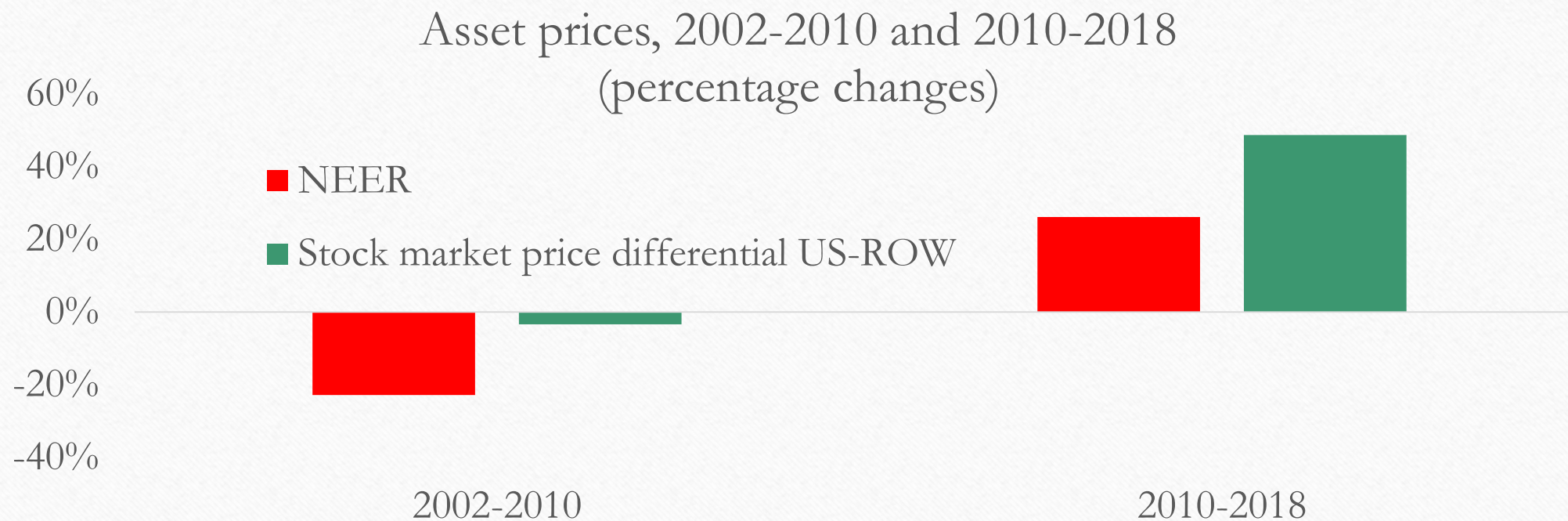
Explaining foreign holdings of government securities

- Capital market size
- Level of development
- Financial openness
- Exchange rate risk
- Reserve currency status

Explaining foreign holdings of government securities: Coefficients on euro area dummies (cross-section regressions of foreign share of GG debt securities for AEs, 2007 vs 2015)



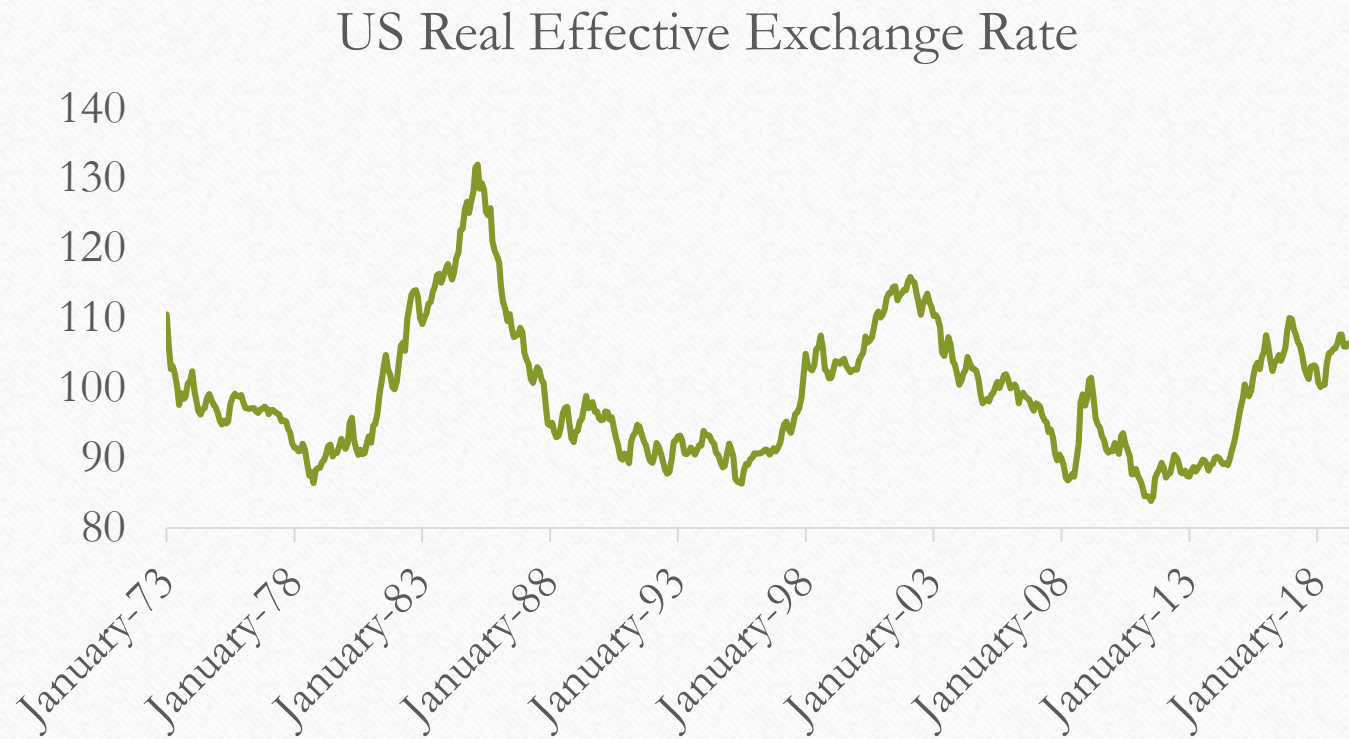
US dollar and equity prices



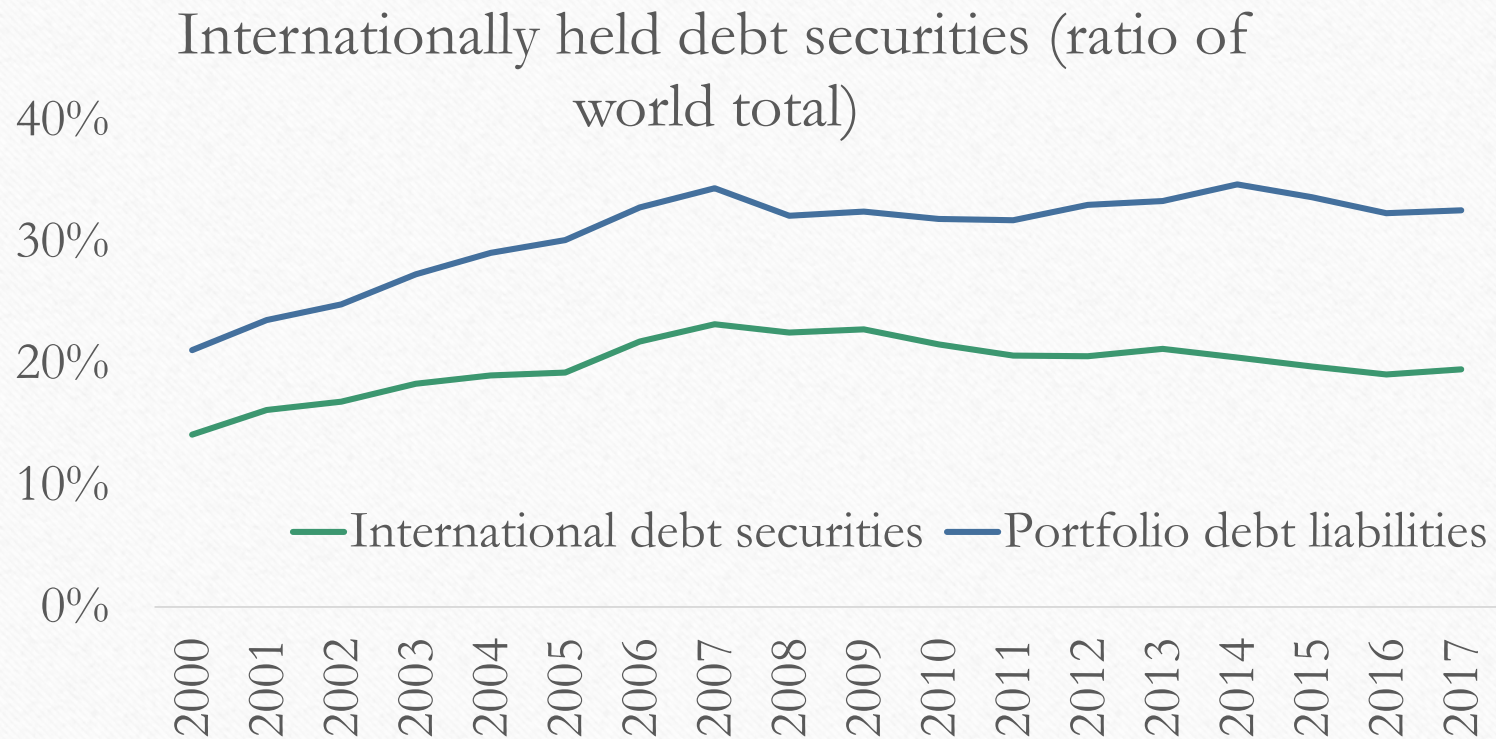
The global importance of USD fluctuations

- Dollar more central in international financial markets but...
- ...an increasing share of EM liabilities are in domestic currency (portfolio equity; FDI; local currency debt held by nonresidents)
- ...exchange rate flexibility in emerging economies has increased notably

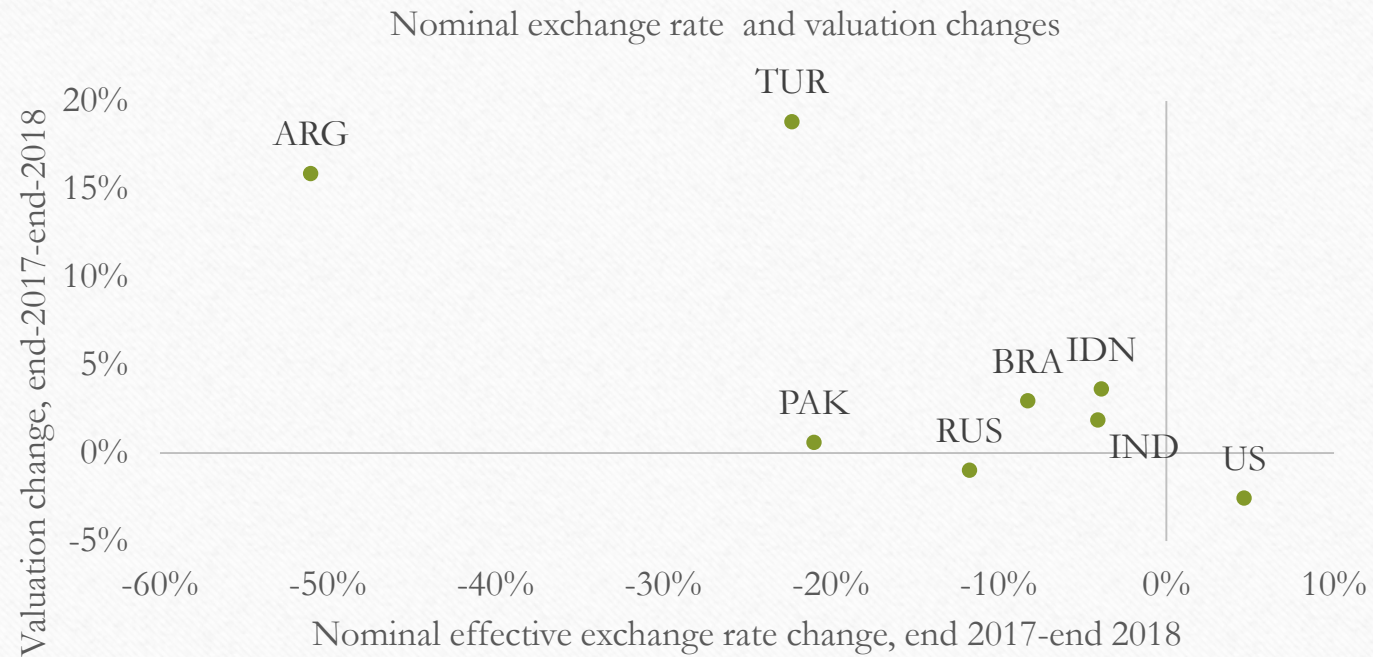
The real exchange rate of the USD



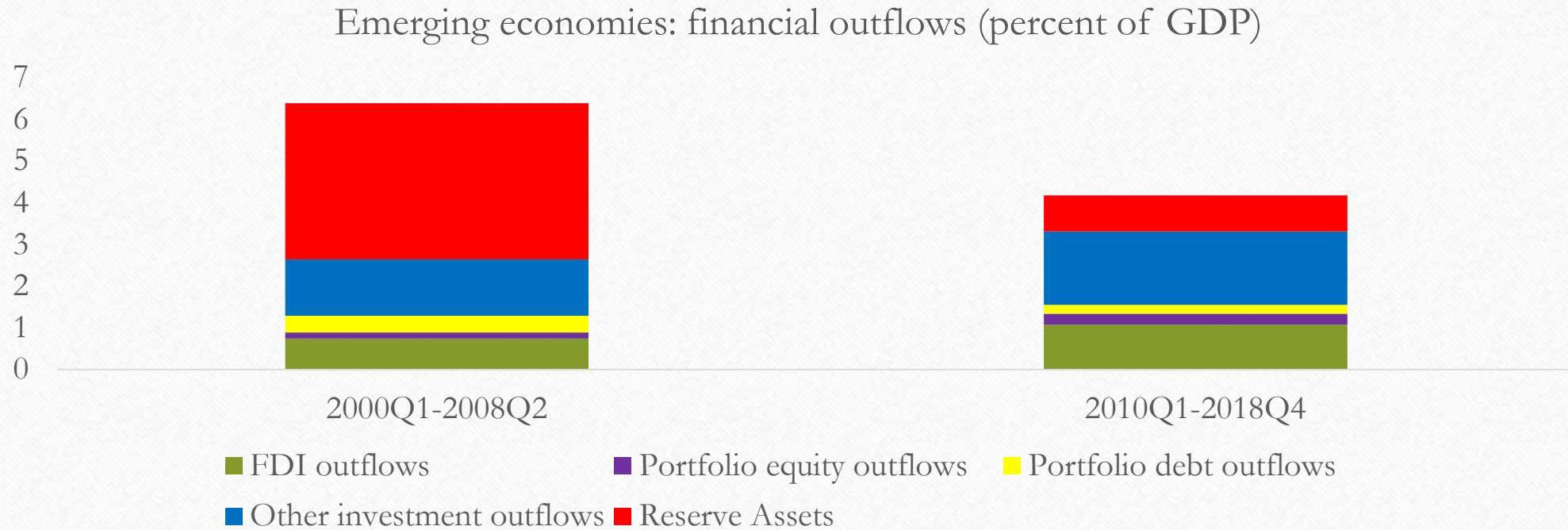
Evidence on portfolio investment



Evidence on valuation effects

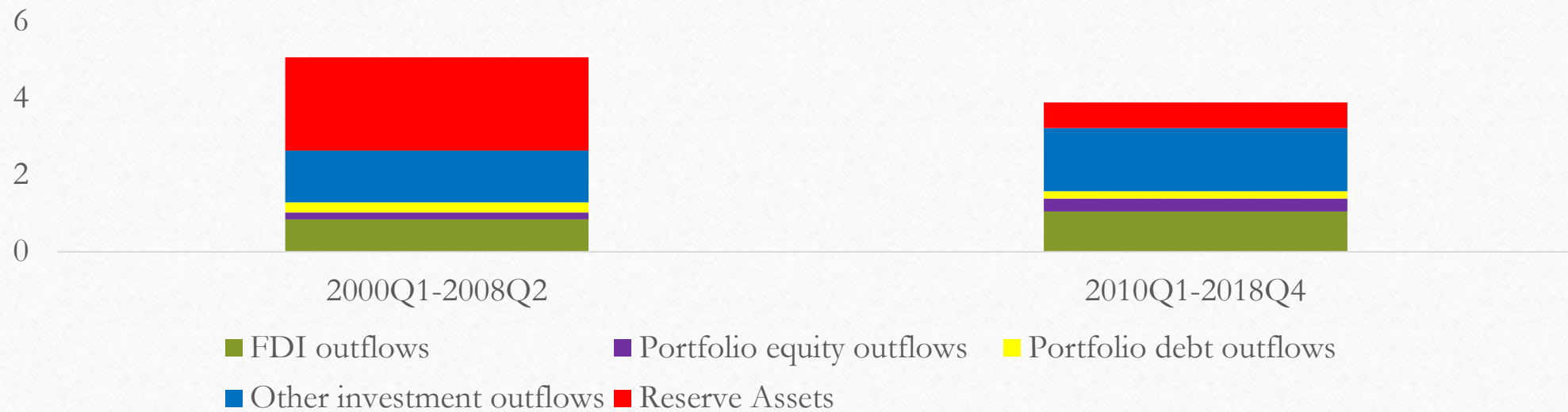


Nonresident purchases of US safe assets: diminished role of reserve accumulation

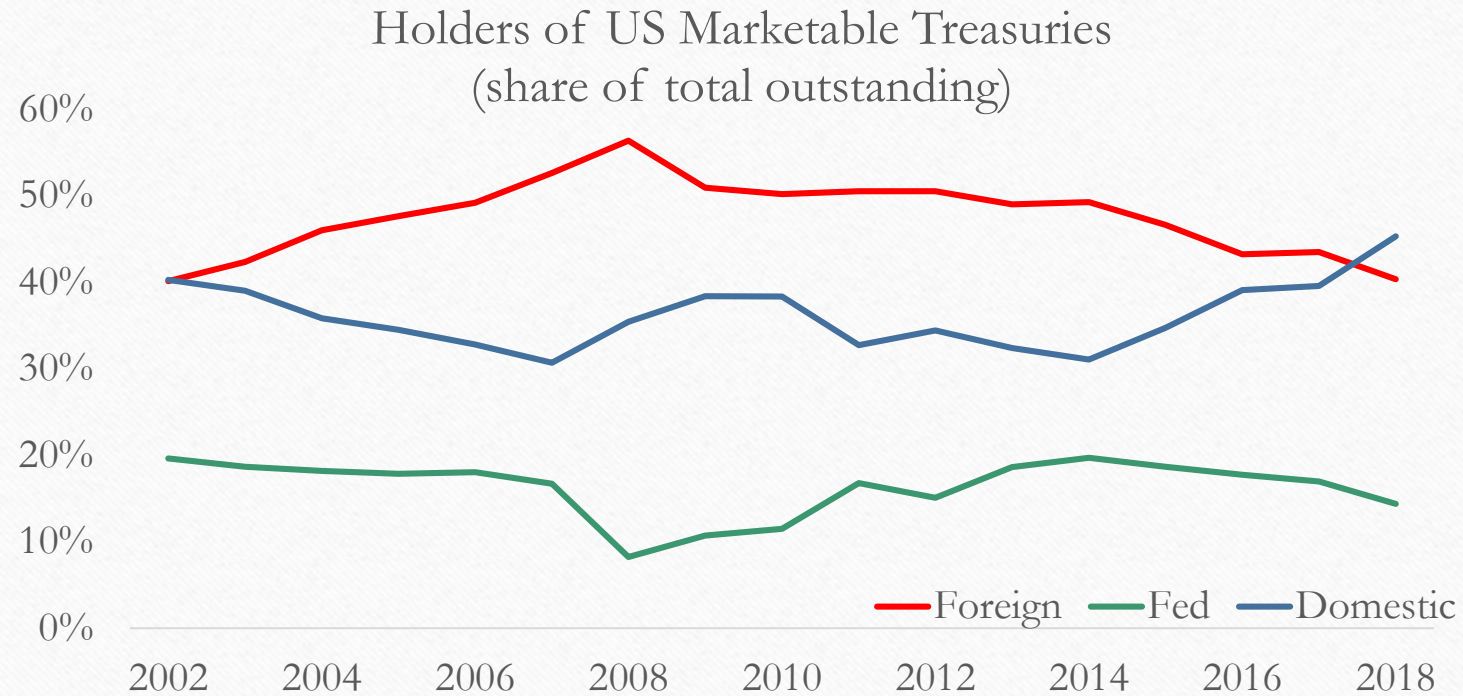


Nonresident purchases of US safe assets: diminished role of reserve accumulation

Emerging economies excluding China: average financial outflows (percent of GDP)

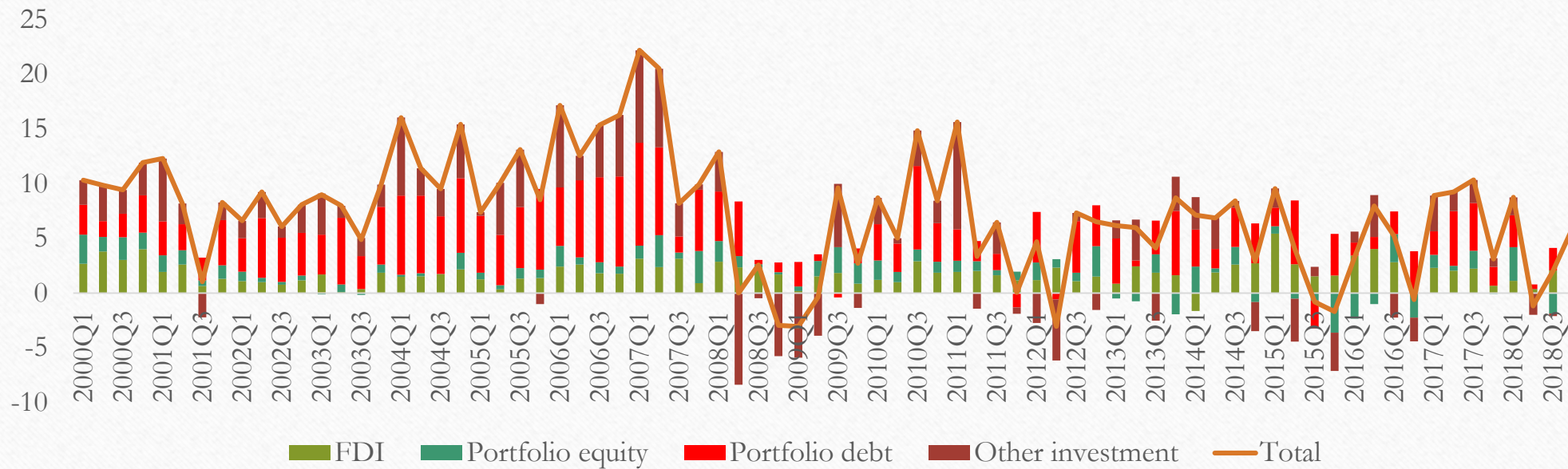


Lower foreign holdings of US Treasuries



Weaker financial flows to the United States

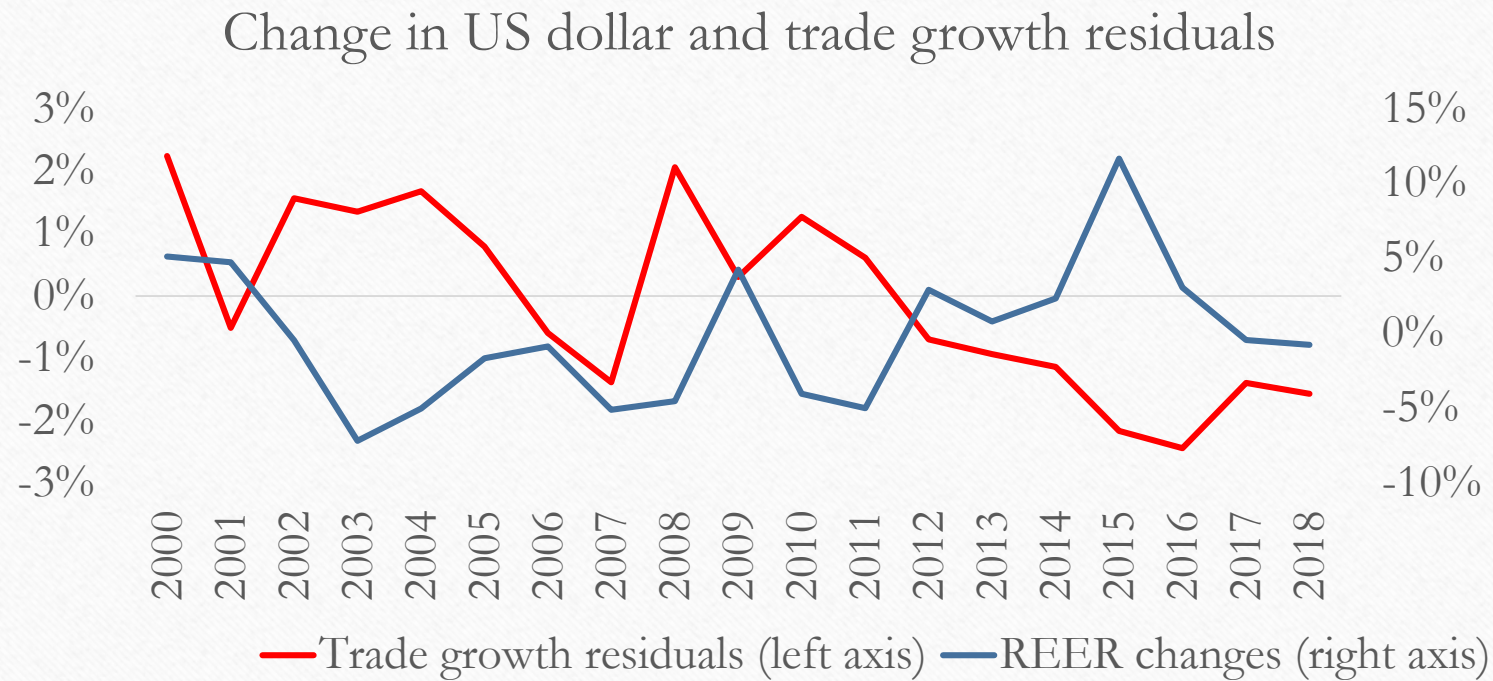
United States: Financial Inflows (percent of US GDP)



Trade invoicing

- Fascinating work and intriguing evidence...
- How to interpret trade and trade prices within multinational corporations?
- Evidence on global USD movements: does US appreciation reduce world trade (substantially!!) because of USD export price rigidity?
- Hard to think of exchange rate movements as responses to shocks not affecting global trade as well
- Evidence on global dollar movements: alternative explanations

Correlation between USD and non-US trade: 2000-2018



Alternative explanations

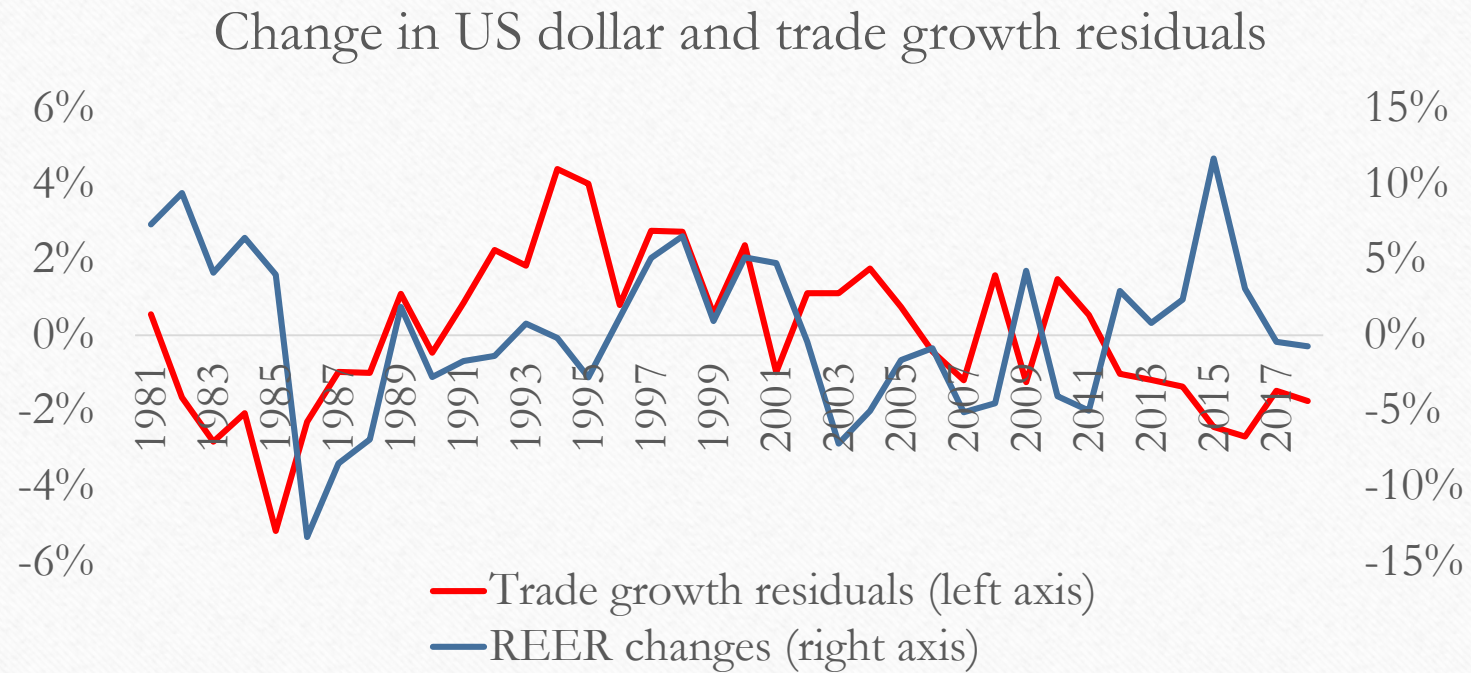
PRE-CRISIS PERIOD:

- Lengthening of supply chains
- Risk on environment—strong investment, which is trade intensive

POST-CRISIS PERIOD

- Risk-off environment during 2015-16
- Shift in composition of demand leading to diminished elasticity of global trade to global demand
- Weaker supply chains dynamics

Correlation between USD and non-US trade: 1981-2018



The benefits of exchange rate flexibility

- Very much agree with the paper's line on the usefulness of flex exchange rates
- But doubt the point that more EMs shadow the dollar now than 30 years ago
- WEO chapter , October 2018 on the decline in inflation in EMs
- Importance of strength of MP frameworks for anchoring of inflation expectations and ability to conduct counter-cyclical monetary policy
- At least part of financial spillovers are de facto endogenous

Dollar anchoring in Latin America?

Real effective exchange rates: Brazil, Mexico, Peru

