

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

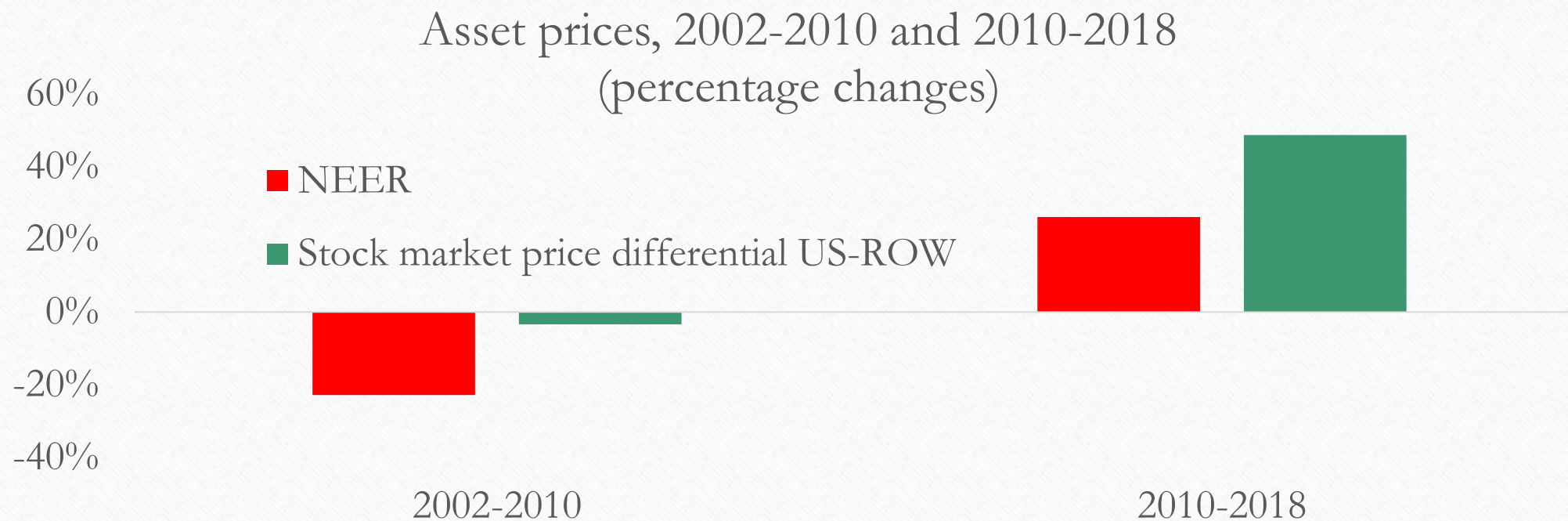
Explaining foreign holdings of government securities

- 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

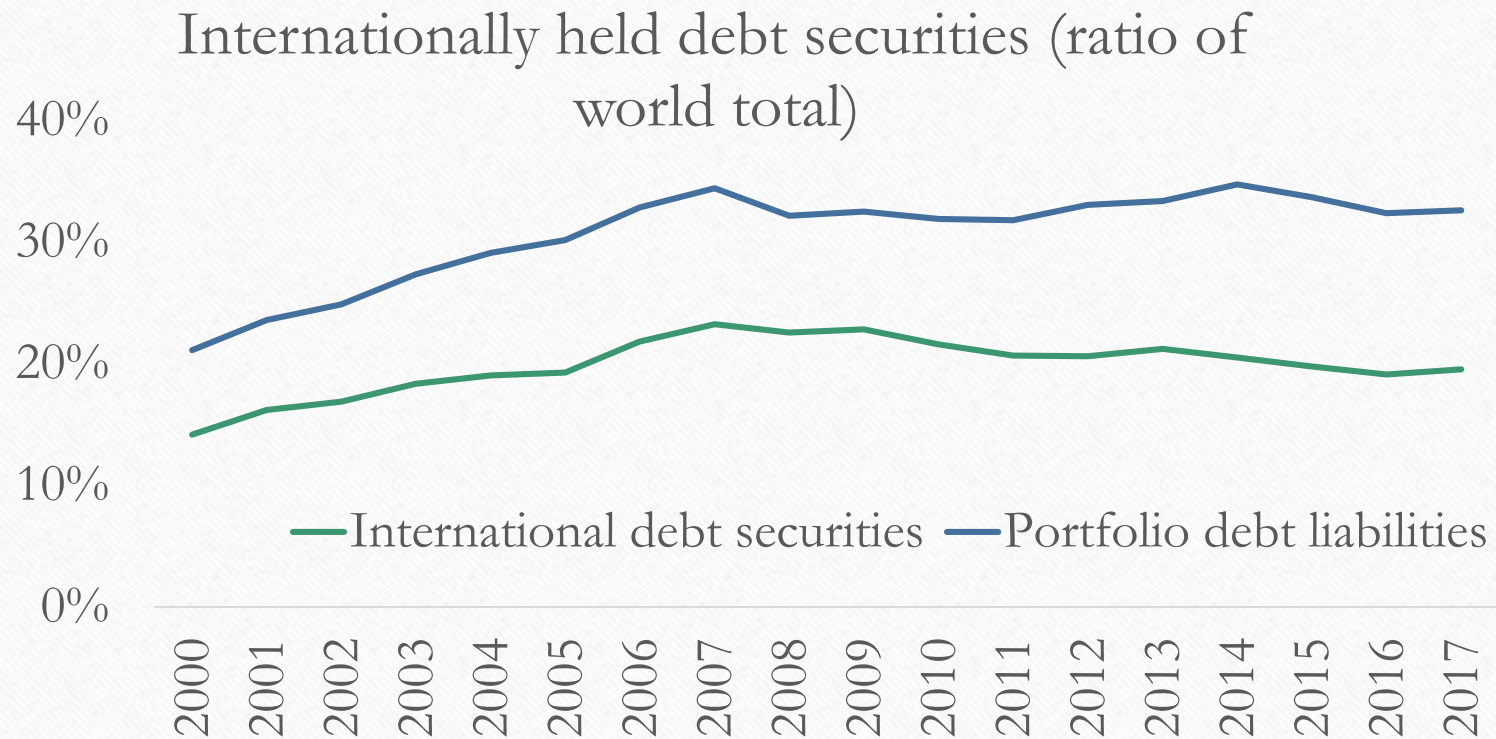
- Dollar more central in international financial markets but...
- ...an increasing share of EM liabilities are in domestic currency (portfolio equity; FDI; local currency debt held by nonresidents)
- ...exchange rate flexibility in emerging economies has increased notably

The real exchange rate of the USD

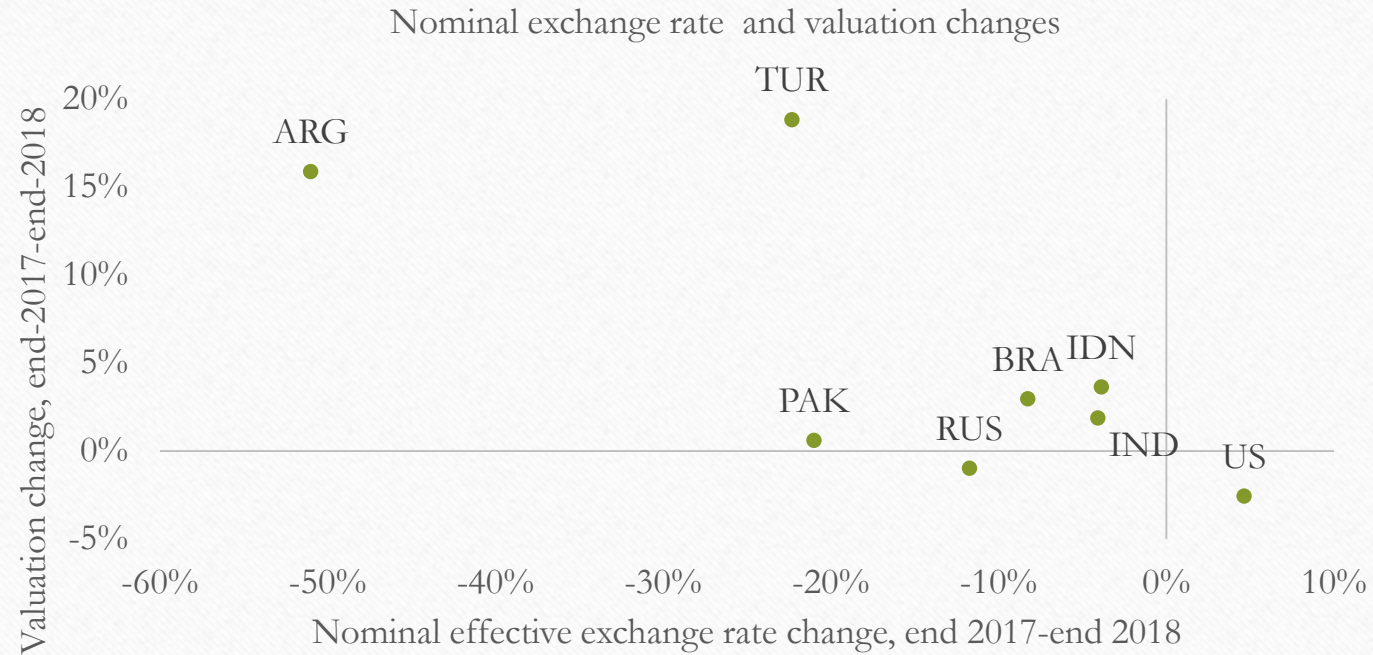
US Real Effective Exchange Rate



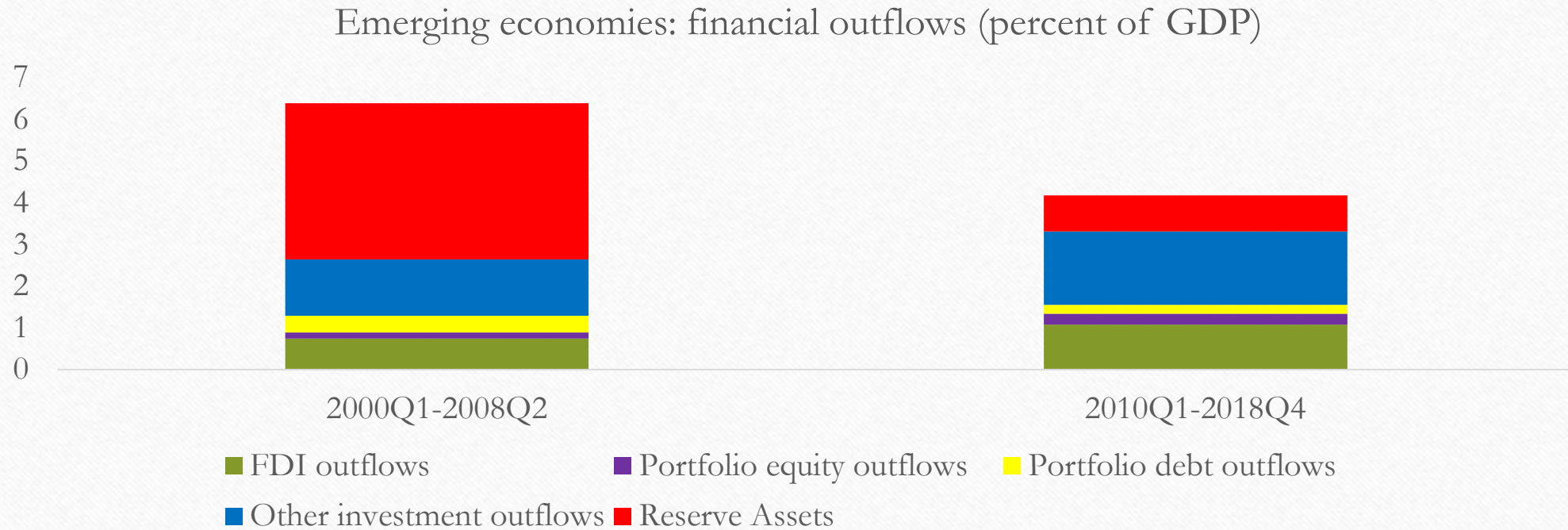
Evidence on portfolio investment



Evidence on valuation effects

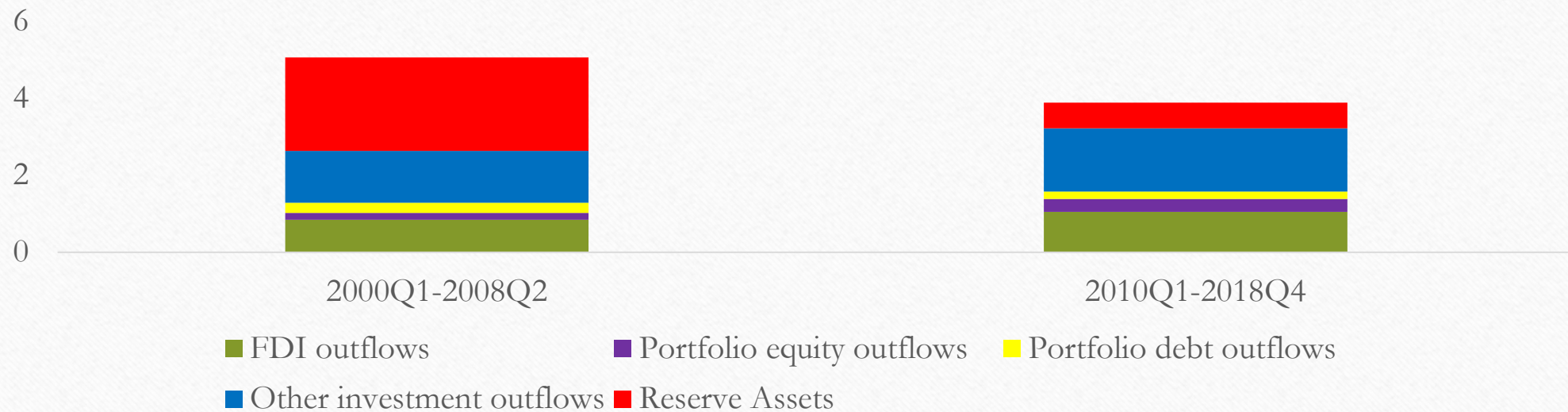


Nonresident purchases of US safe assets: diminished role of reserve accumulation

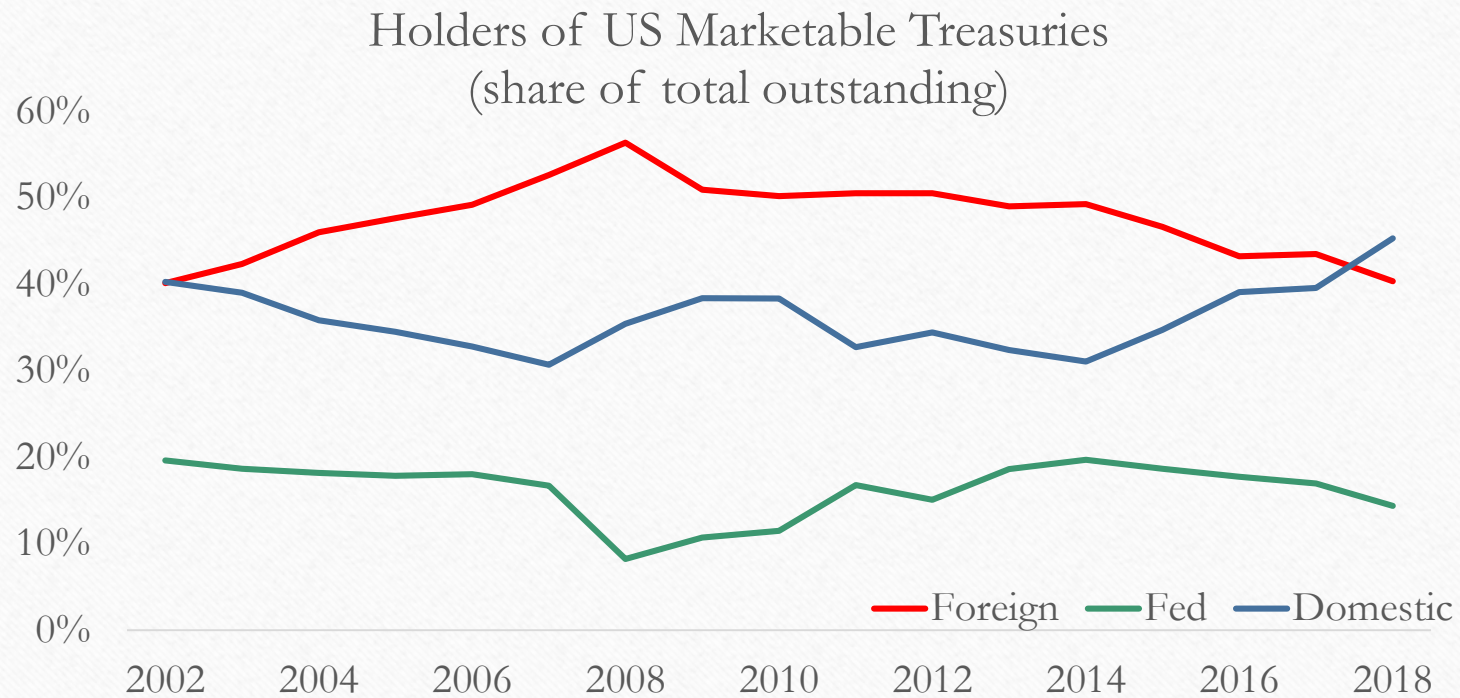


Nonresident purchases of US safe assets: diminished role of reserve accumulation

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

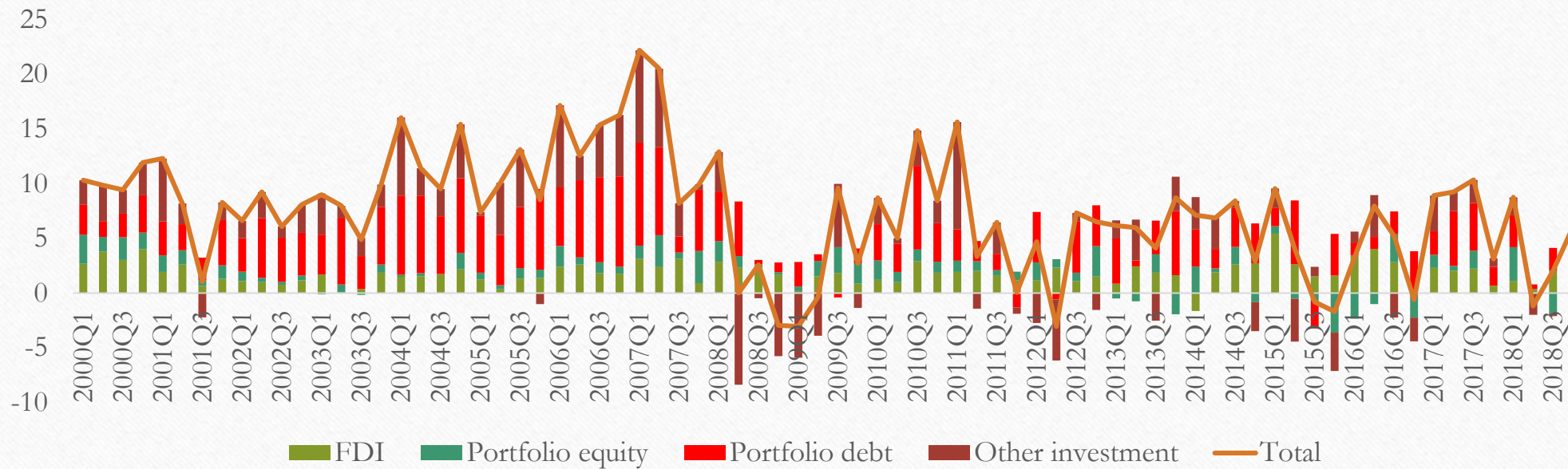


Lower foreign holdings of US Treasuries



Weaker financial flows to the United States

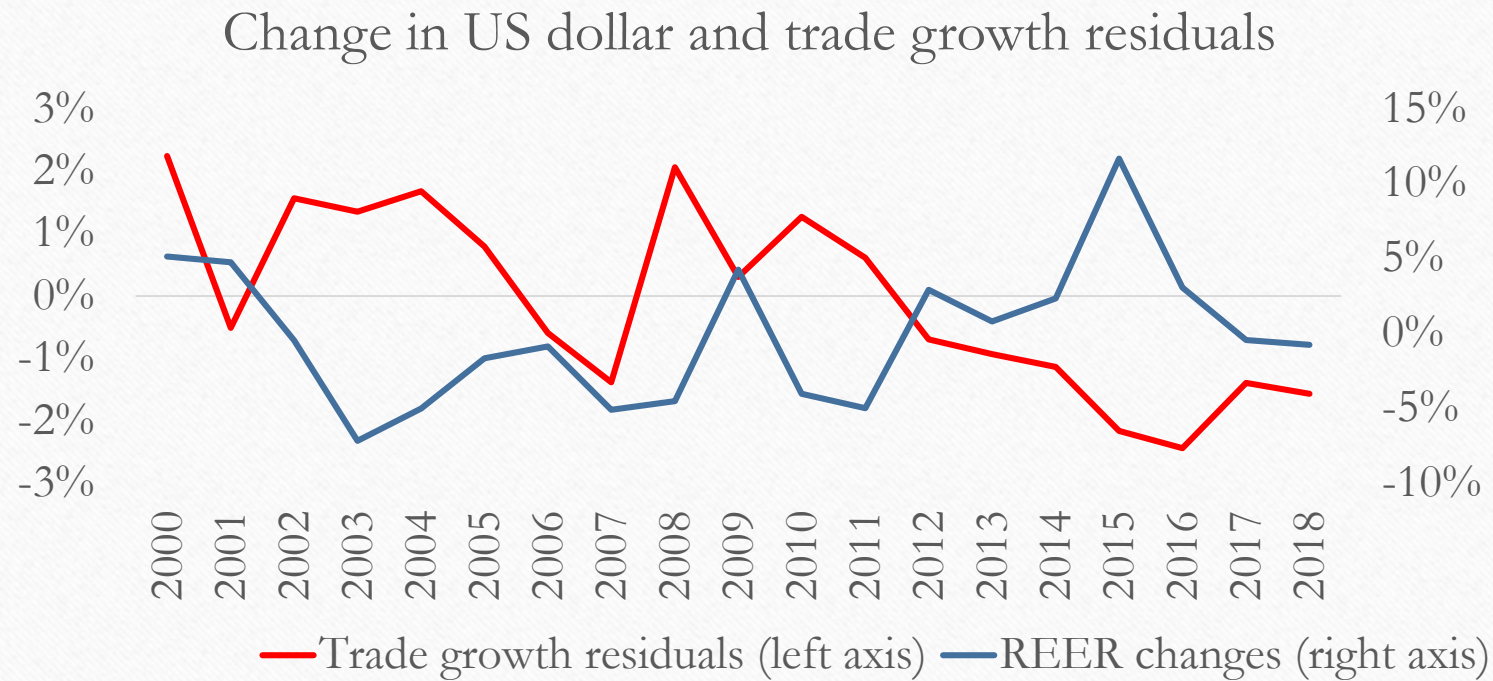
United States: Financial Inflows (percent of US GDP)



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

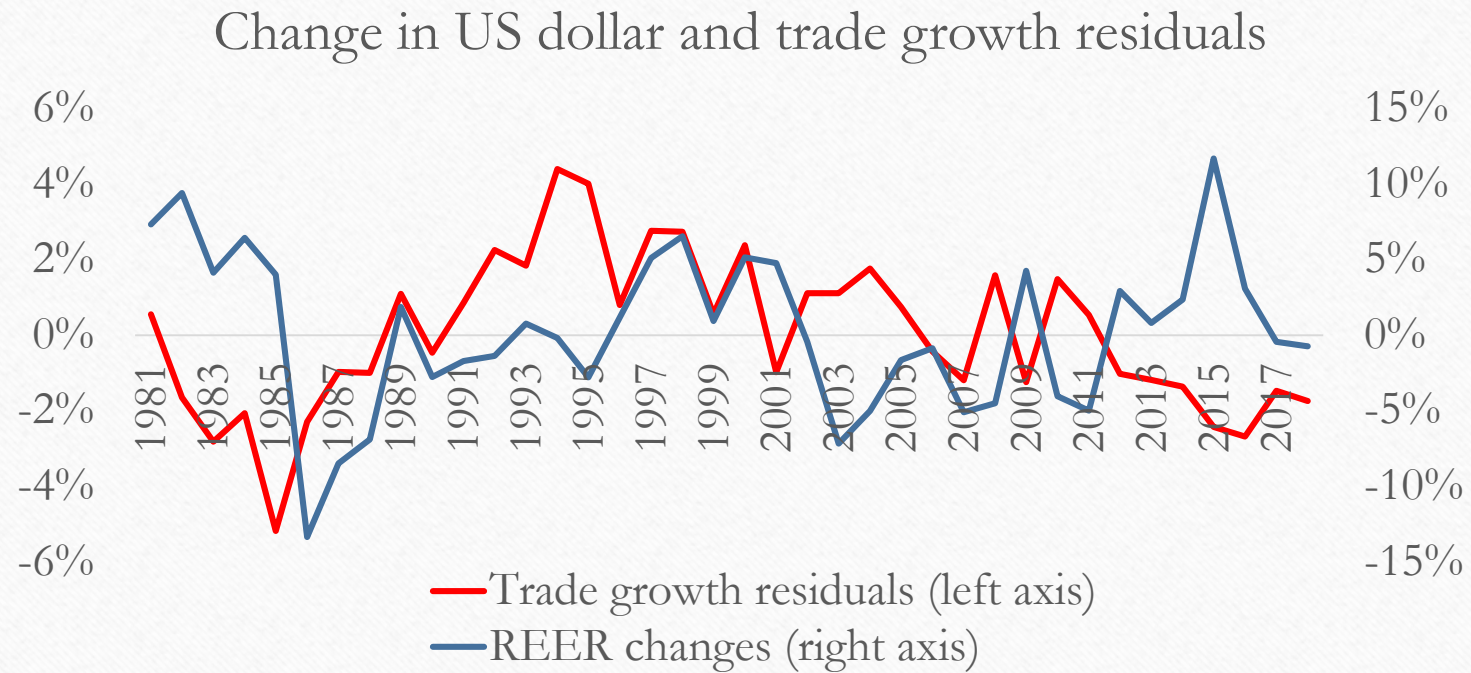
PRE-CRISIS PERIOD:

- 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

