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

Asset prices, 2002-2010 and 2010-2018
(percentage changes)

- NEER
- Stock market price differential US-ROW

2002-2010

2010-2018
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

Internationally held debt securities (ratio of world total)

- International debt securities
- Portfolio debt liabilities
Evidence on valuation effects

Nominal exchange rate and valuation changes

Valuation change, end 2017-end 2018

Nominal effective exchange rate change, end 2017-end 2018

-60% -50% -40% -30% -20% -10% 0% 10%

-5% 0% 5% 10% 15% 20%

ARG TUR BRA IDN US

PAK RUS IND
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

Holders of US Marketable Treasuries
(share of total outstanding)

Foreign
Fed
Domestic

0% 10% 20% 30% 40% 50% 60%
Weaker financial flows to the United States

United States: Financial Inflows (percent of US GDP)

- FDI
- Portfolio equity
- Portfolio debt
- Other investment
- Total
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

Change in US dollar and trade growth residuals

- Trade growth residuals (left axis)
- REER changes (right axis)
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

Change in US dollar and trade growth residuals

- Trade growth residuals (left axis)
- REER changes (right axis)
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