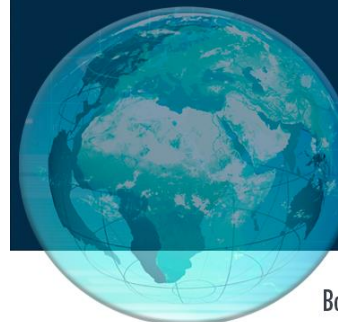




Politique de change et développement durable
dans les pays à faible revenu

14 FÉVRIER 2019 | 9h00 > 18h00



Foreign exchange policy
and sustainable development
in low-income countries

FEBRUARY 14, 2019 | 9h00 > 18h00

Banque de France - Espace Conférences - Paris

Comments on foreign exchange policy, environment and climate change

Roland Kpodar

(International Monetary Fund)

The views expressed herein are those of the author and should not be attributed to the IMF, its Executive Board, or its management

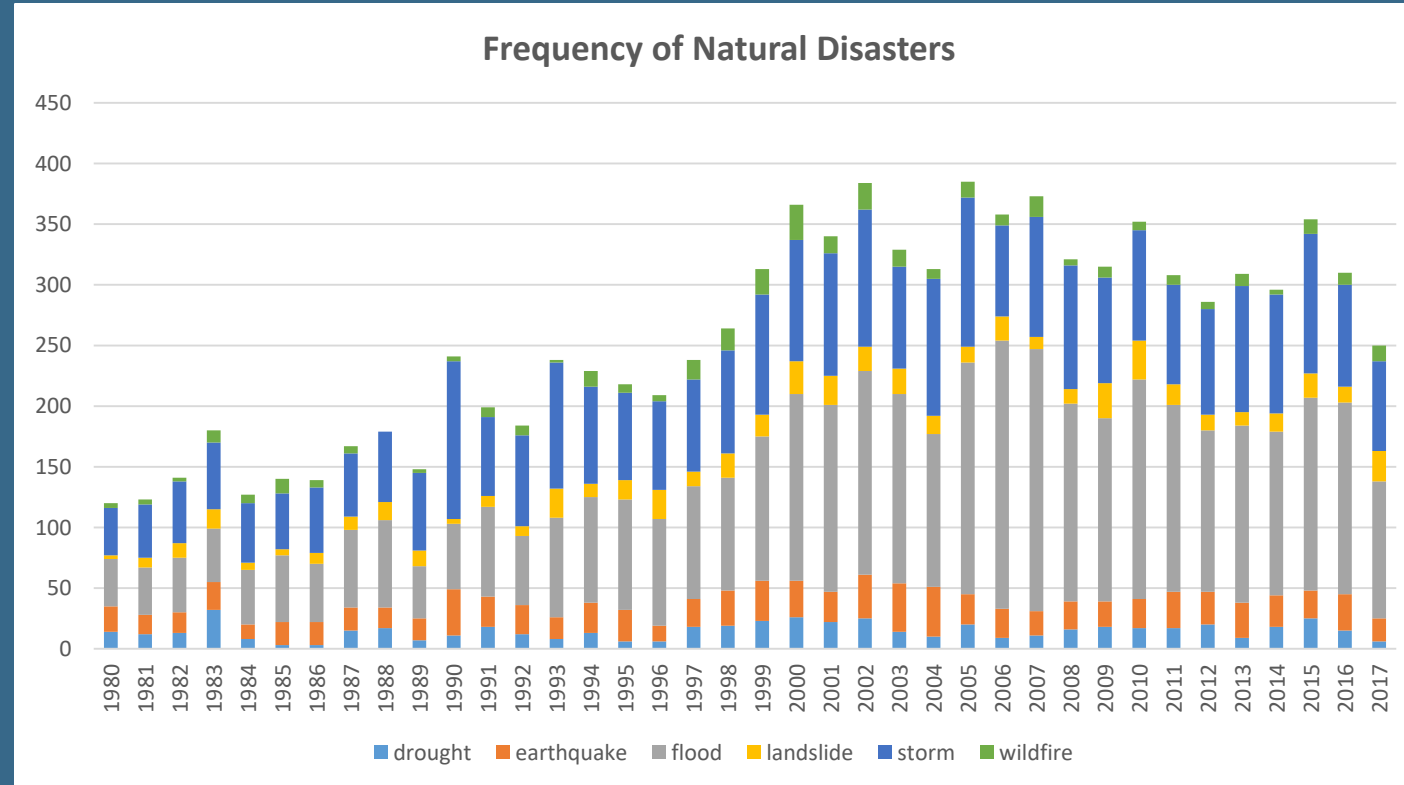
REER and CO2 emissions

- **A thought-provoking paper with empirically robust results**
- **Important insights to policy implementation** (growth-environment trade-off associated with exchange rate depreciation)
- **However, two points may merit further discussions :**
 - ❖ **Technological change is considered as a long-run phenomenon in the analysis, but today's technological change is more likely to be rapid and disruptive.** To what extent this could alter the conclusions of the paper?
 - ❖ **Exchange rate depreciation could also reduce CO2 emissions in developing countries,** since an overvalued exchange rate reduces the cost of imported fuels (acting as a subsidy) and thus encourages overconsumption.

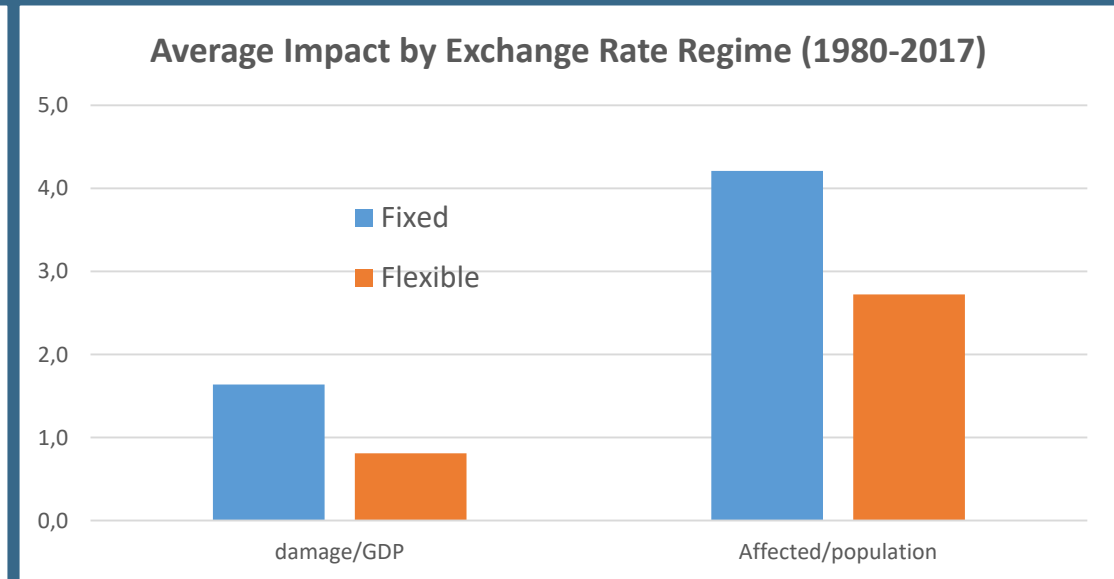
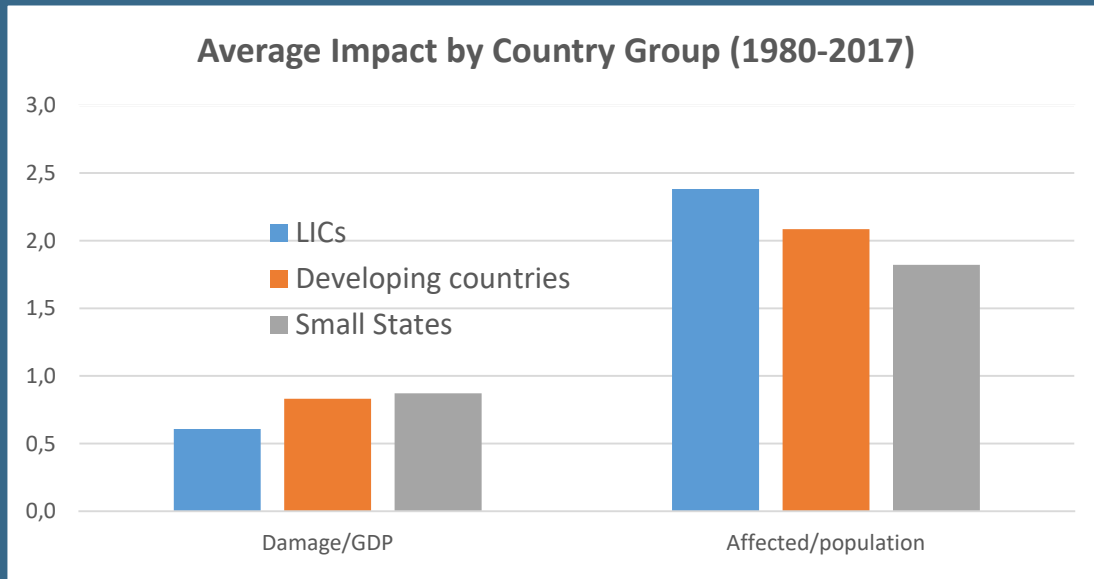
REER and CO2 emissions

- **Key contribution of this paper:** opens new opportunities to deepen our understanding on the complex relationship between exchange rate and climate along the path of economic development.
- Not only it is important to understand how exchange rate affects climate change, but also **to what extent the economic effect of climate change can be mitigated by the exchange rate.**
- **A few thoughts focusing on natural disasters follow in the next slides**

Frequency of natural disasters has been on the rise

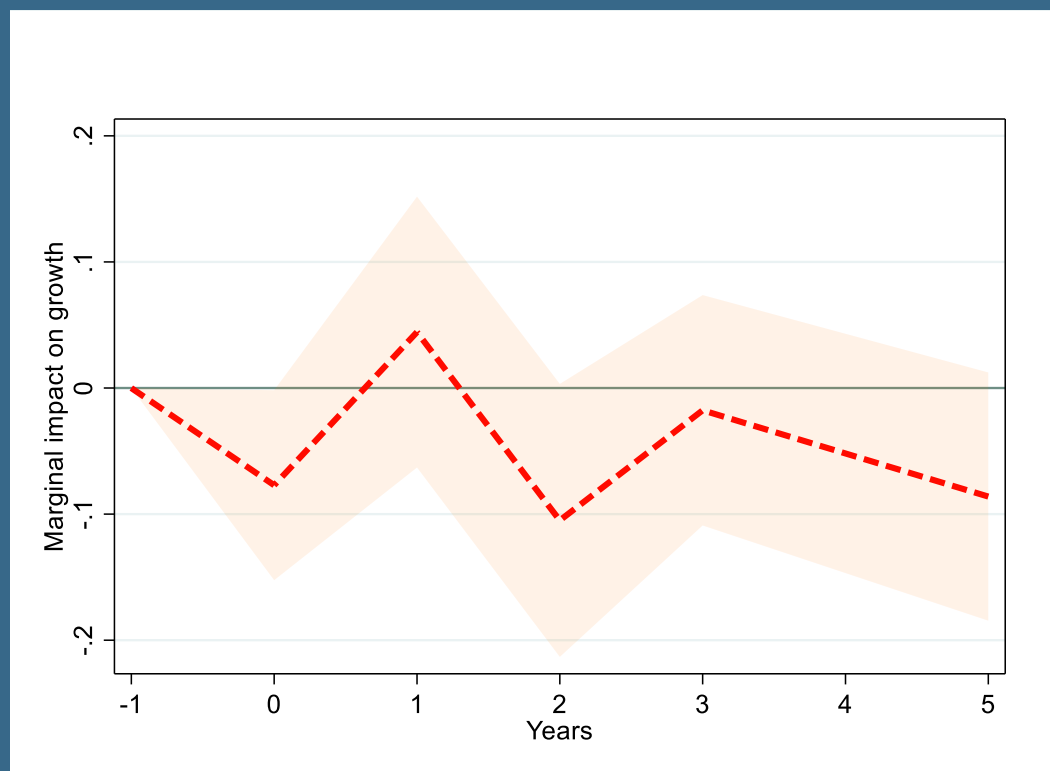


Economic impact and human cost are significant



Natural disasters and growth : does exchange rate policy matter?

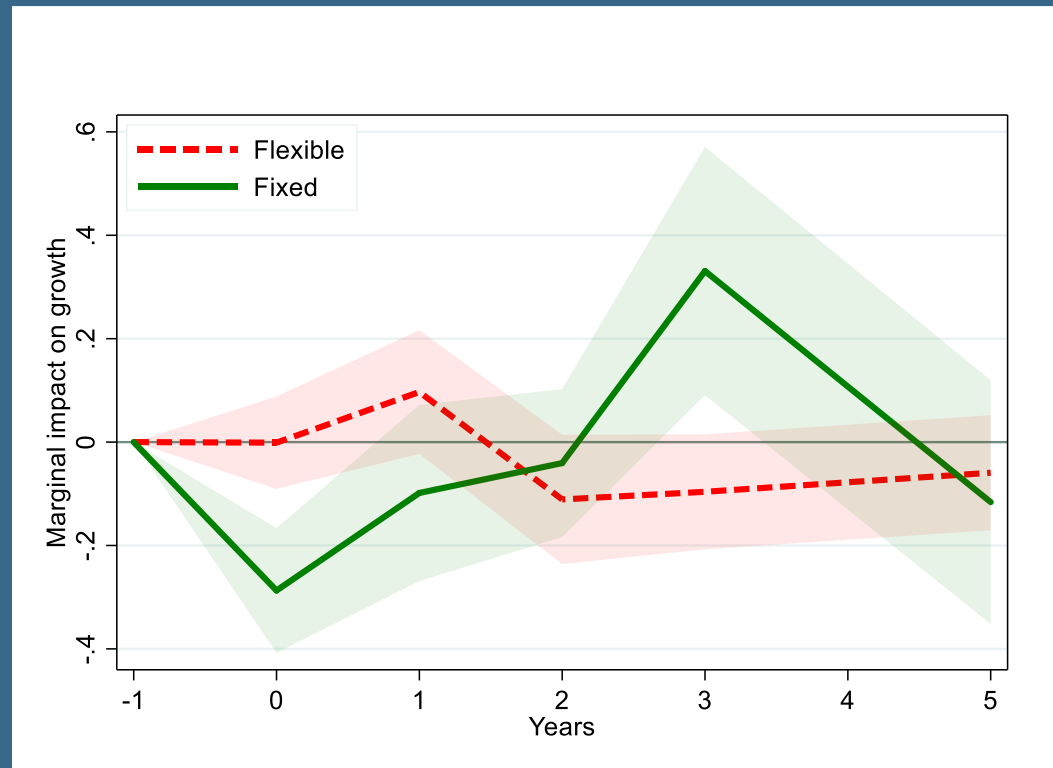
Impulse response function of real GDP growth to a natural disaster shock (all countries)



Notes. Local projections (Jorda, 2005). Real GDP growth rate is the dependent variable. Natural disaster shock is captured by the log of the share of population affected. Control variable includes initial GDP per capita, inflation, trade openness, government spending/GDP, primary school enrollment rate, and private credit ratio. Regression estimated over the period 1960-2015.

Natural disasters and growth : does exchange rate policy matter?

Impulse response of real GDP growth to a natural disaster shock: fixed vs flexible exchange rate



Notes. Local projections (Jorda, 2005). Real GDP growth rate is the dependent variable. Natural disaster shock is captured by the log of the share of population affected. Control variable includes initial GDP per capita, inflation, trade openness, government spending/GDP, primary school enrollment rate, and private credit ratio. Regression estimated over the period 1960-2015.

Natural disasters and growth : does exchange rate policy matter? Yes but with some caveats

- Vulnerability to natural disasters, arguably not a major driver of the choice of an exchange rate regime.
- While exchange rate flexibility may help buffer shocks, it could also amplify balance sheet effects.
- Resilience building is key (resilient infrastructure, policy buffers, insurance, external financings including concessional loans, and so on...)

References

- Arcand, Jean-Louis & Guillaume, Patrick & Jeanneney, Sylviane Guillaume, 2008. "Deforestation and the real exchange rate," *Journal of Development Economics*, vol. 86(2), pages 242-262.
- Arcand, Jean-Louis & Guillaume, Patrick & Jeanneney, Sylviane Guillaume, 2019. "Carbon Emissions and the Real Exchange Rate," FERDI/Banque de France/AFD Conference, Paris, February 14, 2019.
- Ramcharan, Rodney, 2007. "Does the exchange rate regime matter for real shocks? Evidence from windstorms and earthquakes," *Journal of International Economics*, vol. 73(1), pages 31-47.

THANK YOU