Comments on foreign exchange policy, environment and climate change

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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.
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.
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


THANK YOU