# Conference
# FERDI - Banque de France - AFD

# Foreign exchange policy and sustainable development in low-income countries

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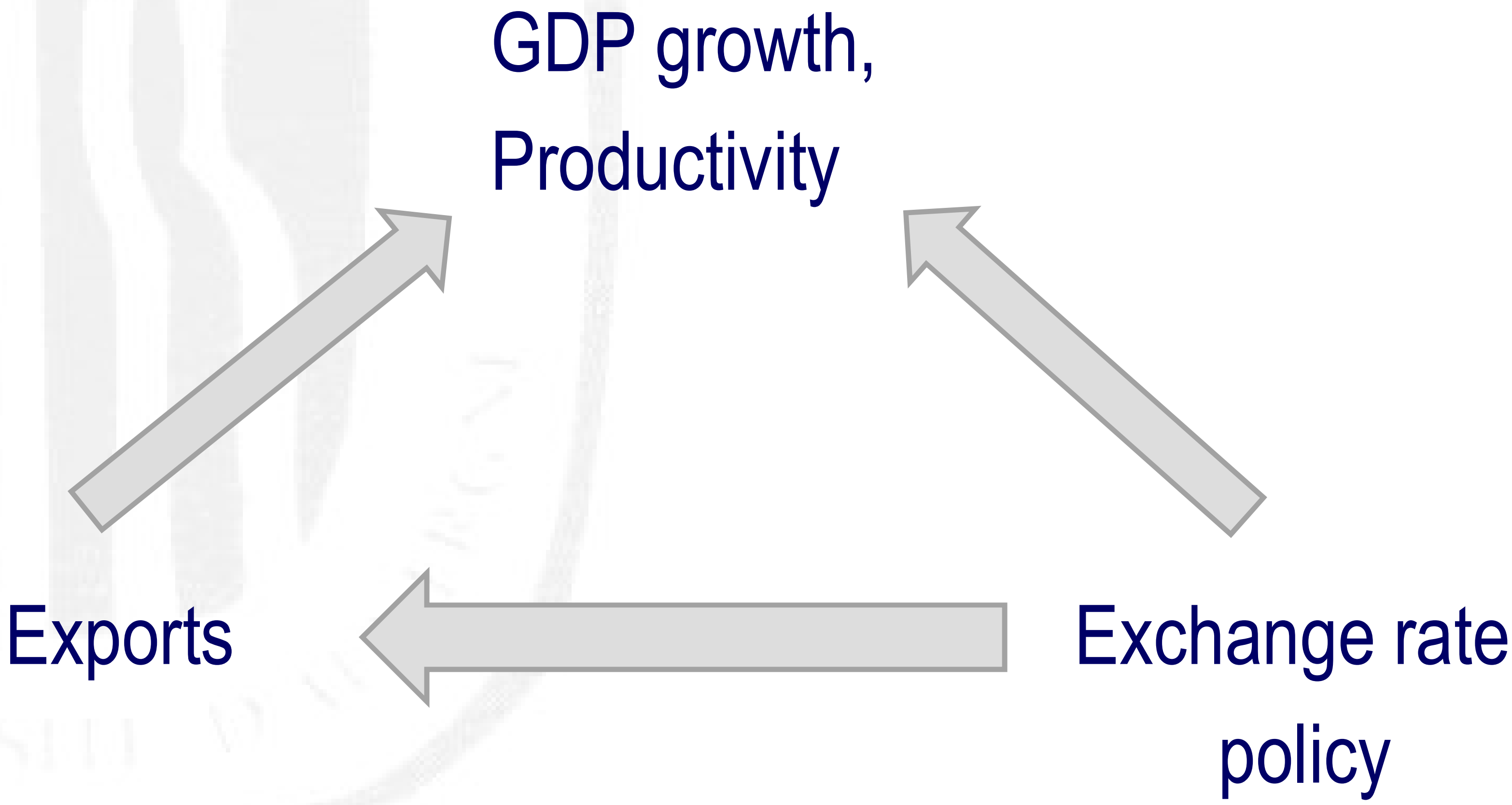
# GDP - Exports - Exchange rate policy nexus



- Exports as the driver of growth: *the naïve perception:* correlation = causation (**Balassa, 1982; Feder, 1983**)
- The role of exports for GDP or firm performance revisited by controlling for endogeneity bias: *self selection vs learning by exporting* (**Dollar 1992; Sachs and Warner 1995; Rodriguez and Rodrik, 2001**).
- The role of the RER is important to explain the long run GDP performance through exports : Japan, tigers, dragons, China…

## Channel : why is exchange rate policy so important ?

**Rodrik (2008):** permanent undervaluation stimulates the tradable sector that suffers disproportionately from government weaknesses and market failures

**Guzman,Ocampo,Stiglitz (2018).** A Stable and competitive RER (SCRER) may correct externalities and other market failures, enabling the development of sectors with a larger contribution to inclusive economic growth.

**Ibrahim Elbadawi (2012, 2019)** is in this line….

# Normative recommendation :

RER compensates for market failures/ poor institutions ?

- ***Success stories*** of RER policies. Mainly focused on Asian countries
- ***Credible institutions*** complement the exchange rate policy (strong State ?) to promote economic growth
- Efficient ***Public-Private Partnership*** exemplified by the Japanese coordination : MITI-Keidanren

## Normative recommendation :

RER compensates for market failures/poor institutions

**Question**: *replicability* for low-income countries ?

*Ambiguity*: **Guzman,Ocampo,and Stiglitz (2018)**

- ❑ Stable and competitive real exchange rates (SCRER), can substitute to defective institutions provided that good public institutions are there (*Risk of a tautology ?*)

“*When political economy problems are not too intense, the direct allocation of funds by the government through national development banks may be a superior alternative to the market*”.

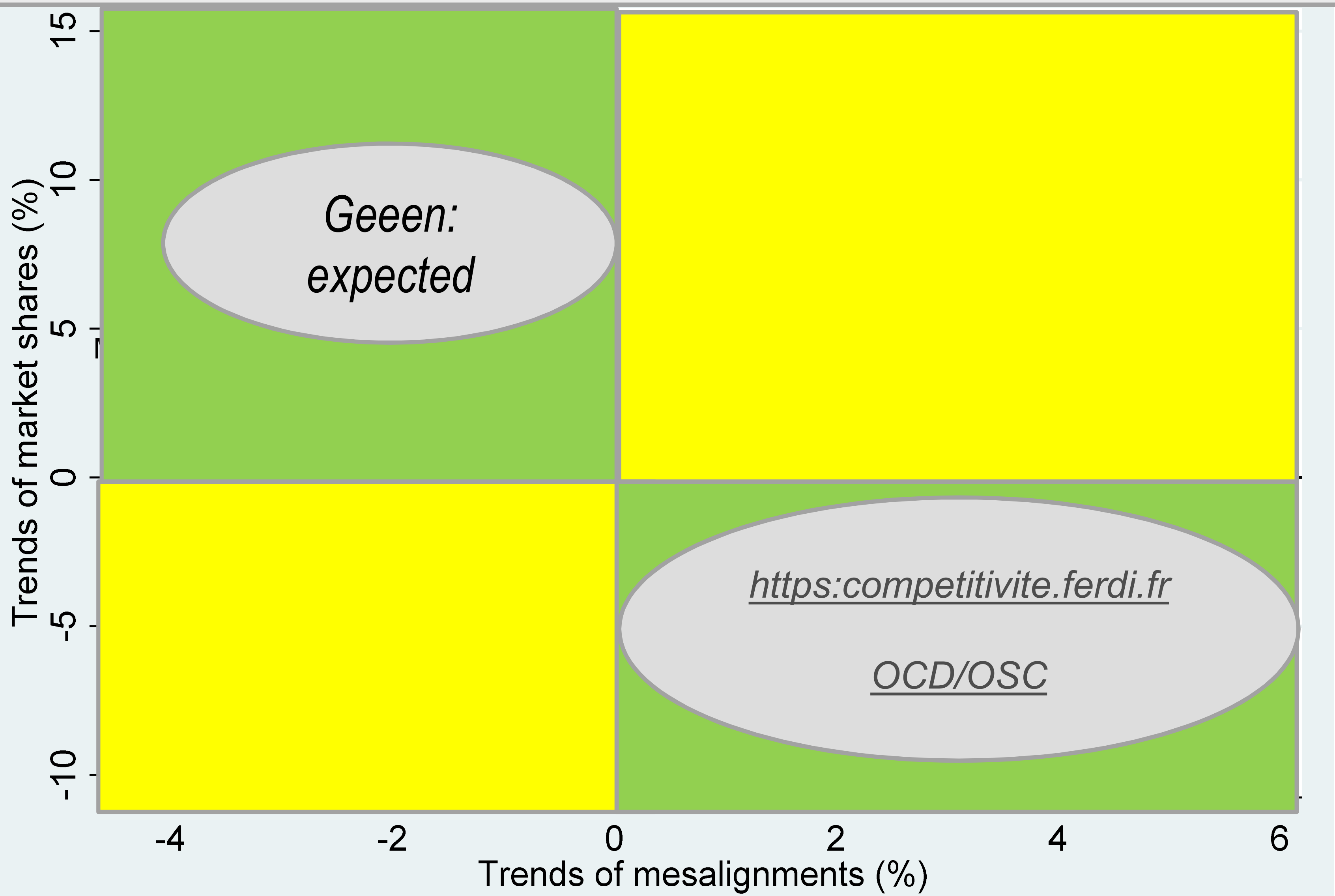
## **Normative recommendation :**

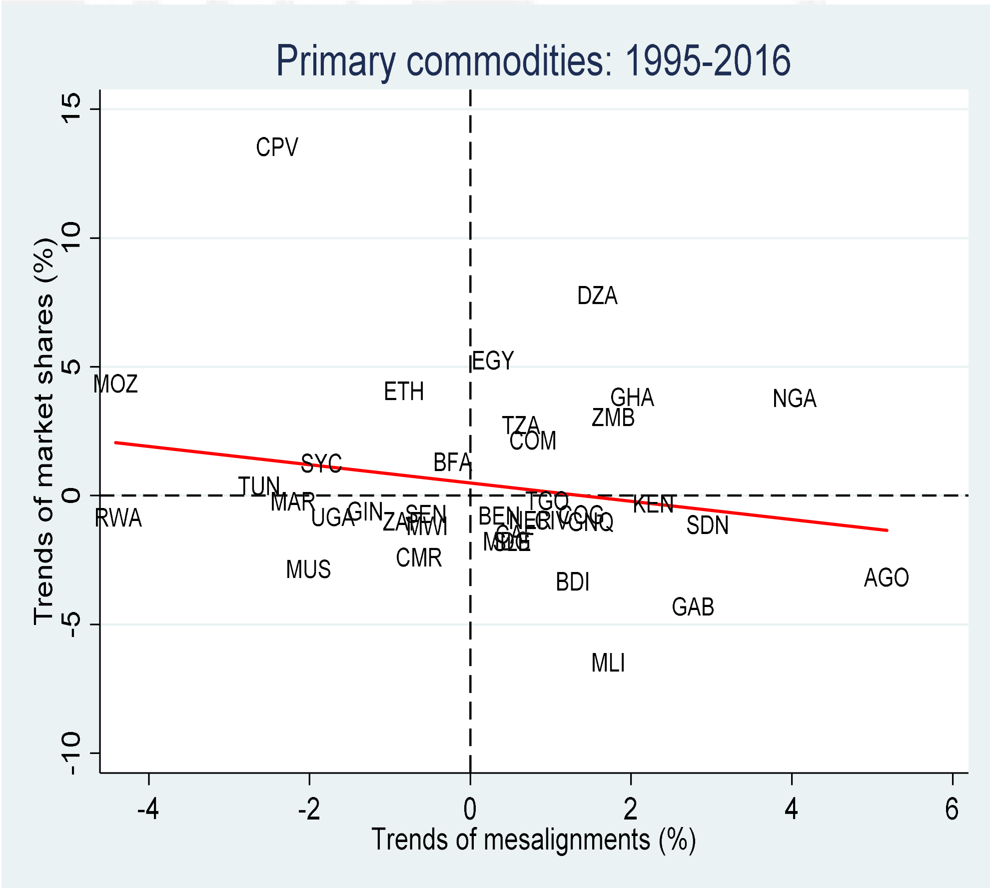
RER compensate for market failures/poor institutions

### **Hypothesis for a stimulating research agenda** :

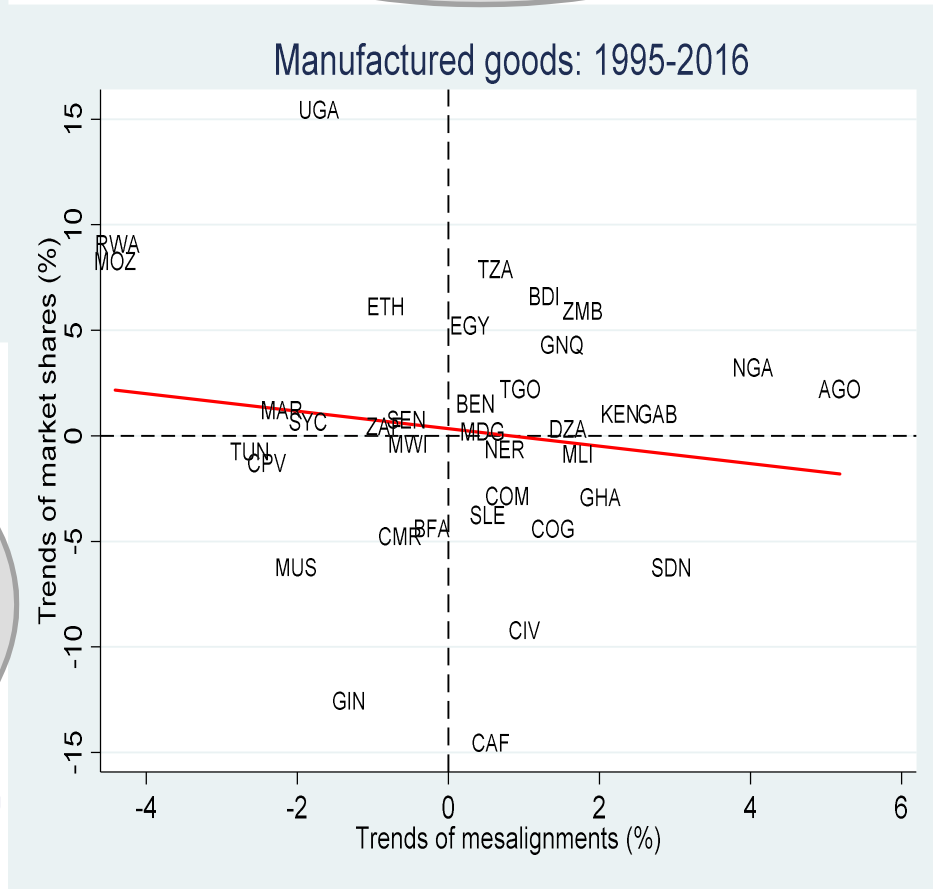
- The efficiency of the RER on economic growth ***is not linear***. It could be conditional on a threshold of quality as regard institutions
- As it is he case for the export - economic growth nexus, need to explore ***causation*** between RER and institutions Development of corruption with active RER in countries with poor institutional credibility : *Russia, Argentina, Nigeria, RD Congo*…

# Export performance in Africa : *Long period1995-2016*



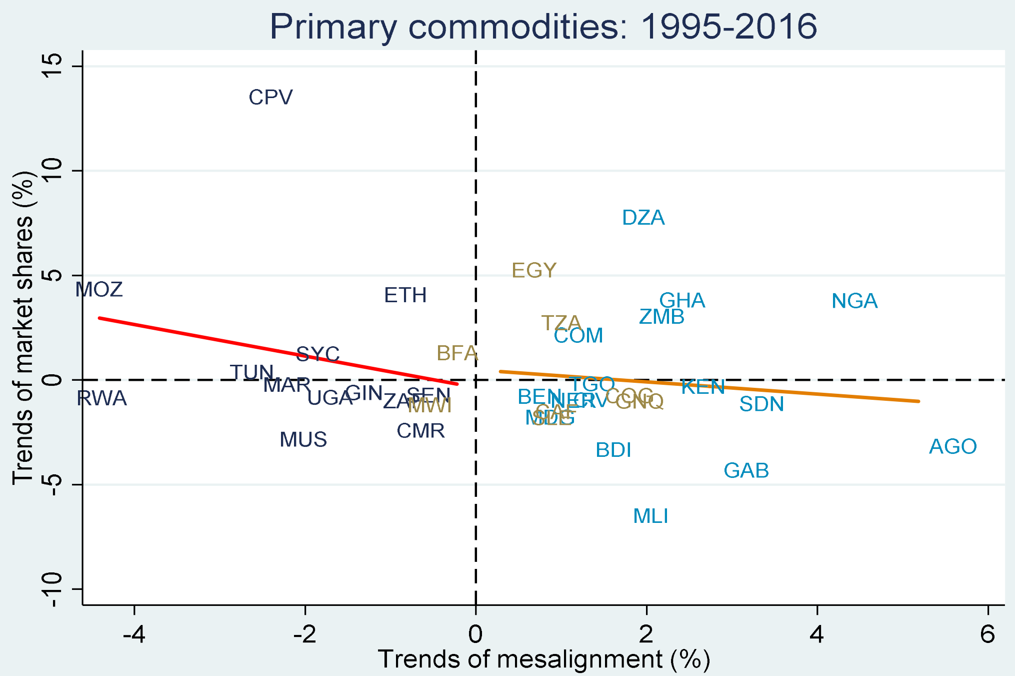


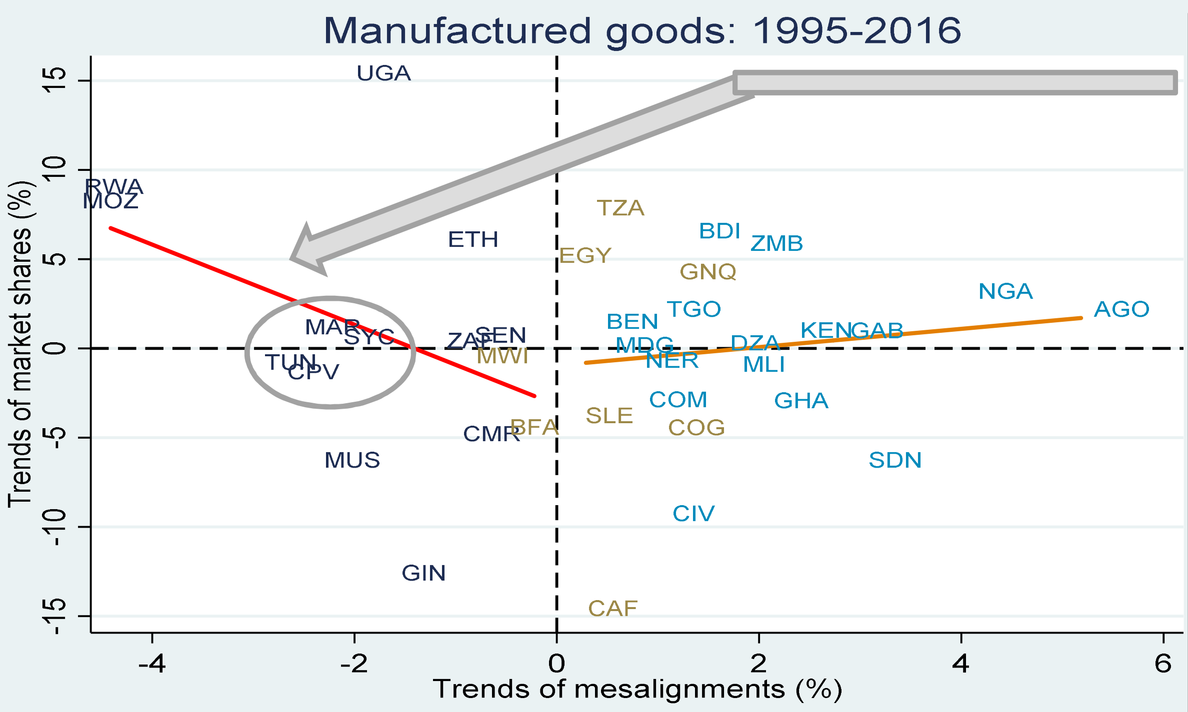

*Correlation of trends*: Market shares and misalignments




*Regression lines not statistically significant*

Hypothesis of non linearity: undervaluation vs overvaluation




Regression line significant but …

*8 winners and only 4 countries with real gains*

# Thanks a lot

# for

# your kind attention