

DISCUSSION OF
THE DOMINANT CURRENCY FINANCING
CHANNEL OF EXTERNAL ADJUSTMENT
(CASAS, MELESHCHUK, TIMMER)

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Disclaimer

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- I worked in valuation effects...
- ...but I am not an expert on this literature

A very nice paper

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- Fantastic dataset!!
- Very sensible results
- Role of model
- Macroeconomic role of oil price shock
- Prices vs quantities

Empirical results

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- Notable impact of FX leverage on imports
- Very nice finding of a complete dichotomy between impact of foreign exchange exposure on exporting and non-exporting firms
- Exporters: no impact of FX exposure on imports or exports
- Many alternative angles (hedging; interest rates; default...) all pointing in the same direction
- Overall, very convincing

Model

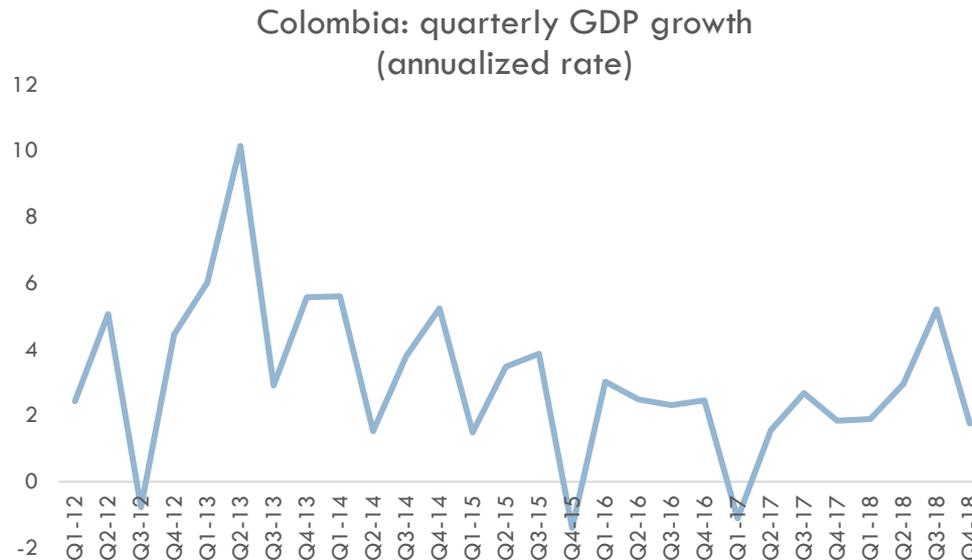
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- Really necessary?
- No discussion of choice between domestic and FX borrowing
- Dangers of borrowing in FX when revenues are in domestic currency are well understood

Macroeconomic role of oil price shock

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- This was a very large macro shock -- GDP contracted slightly in the 4th quarter of 2015
- Average growth was lower but resilient (EM robustness to e.r. fluctuations)
- Was the exchange rate was only relevant change?



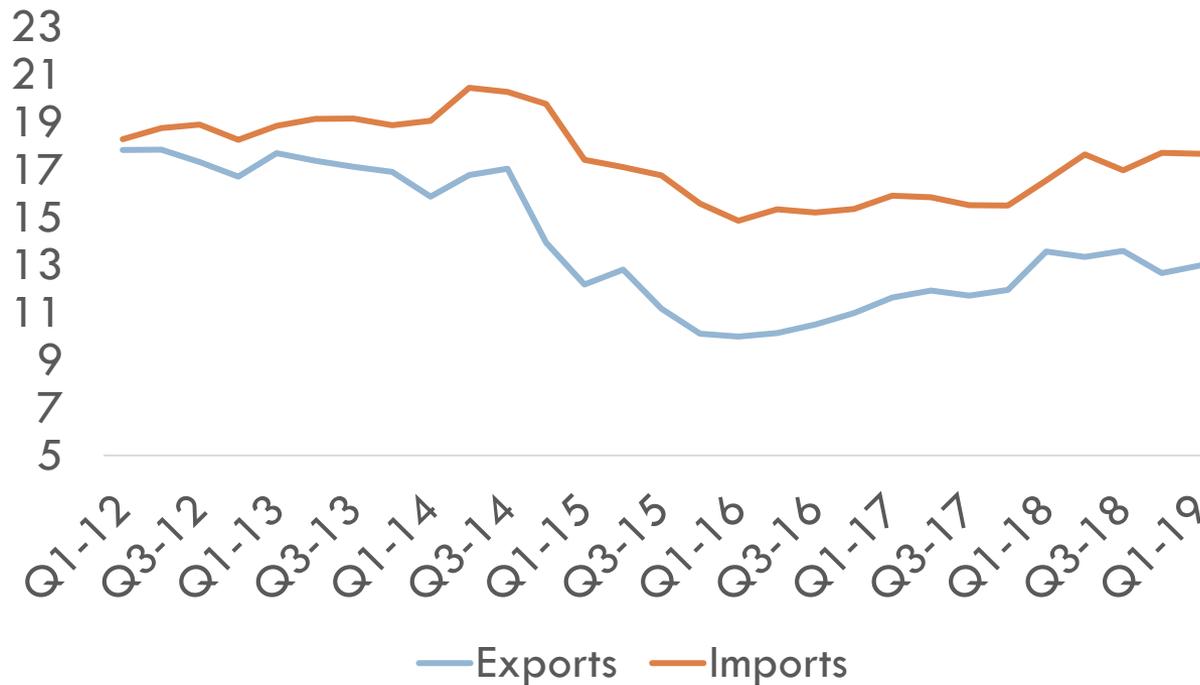
Volumes and values

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- The data in regressions are import and export values

Export and import values

Colombia: export and import values
(billions USD)



Volumes and values

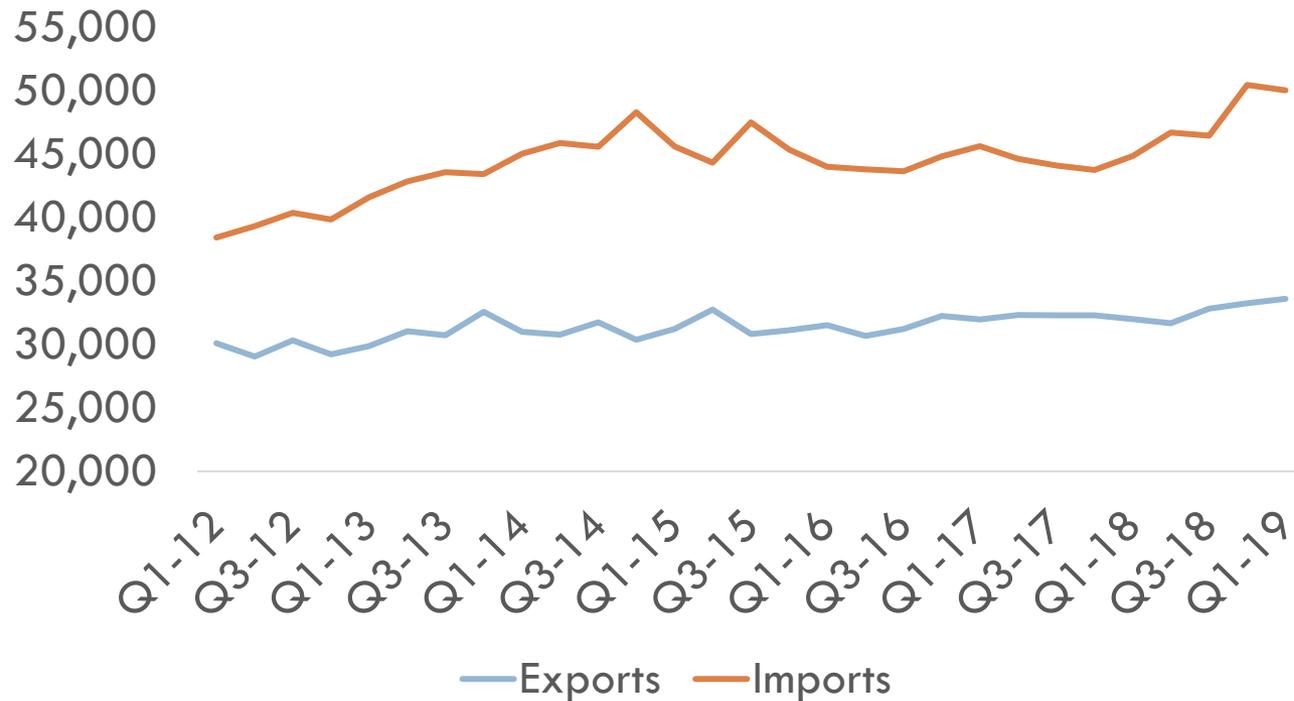
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- The data in regressions are import and export values
- ...but in this period these differed sharply from volumes

Export and import volumes

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Colombia: export and import volumes
(billions 2015 pesos)



Volumes and values

- The data in regressions are import and export values
- but in this period these differed sharply from volumes
- Export prices fell (as the paper highlights, this is the shock that led to exchange rate depreciation)...
- ...but import prices in dollars also fell sharply

Import prices in USD fell sharply too

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Colombia: export and import prices (USD)



Volumes and values

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- Import volumes were much more stable than values
- Effects of depreciation may be particularly severe for FX-exposed firms importing goods whose US\$ price did not fall

Bottom line

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- Excellent paper
- Nice exploitation of a fantastic dataset
- Very convincing empirical evidence on the importance of FX exposure for firm import behavior
- Paper presents a lot of material
- Model does not seem central
- Suggest a bit more attention to the macroeconomic background and prices vs quantities in particular