

# Rethinking Exchange Rate Regimes

*Handbook of International Economics 2021*

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# Exchange Rate Regimes

Long historical debate: How to arrange the international system of currencies.

## 19<sup>th</sup> Century:

- Gold vs. bimetallism
- The Gold-pound standard vs. the Latin Monetary Union

## 20<sup>th</sup> Century:

- Bretton Woods, Euro, fixed exchange rates (Keynes, Nurske, Mundell)
- Flexible exchange rate “non-system” (Friedman, Johnson)

# Classifying Exchange Rate Regimes

League of Nations: Interwar period

IMF: Post-war 20<sup>th</sup> century

De jure

Levy-Yeyati and Sturzenegger

Reinhart and Rogoff

Shambaugh

De facto

Ilzetzki, Reinhart, and Rogoff

De facto synthesis  
+ anchor classification

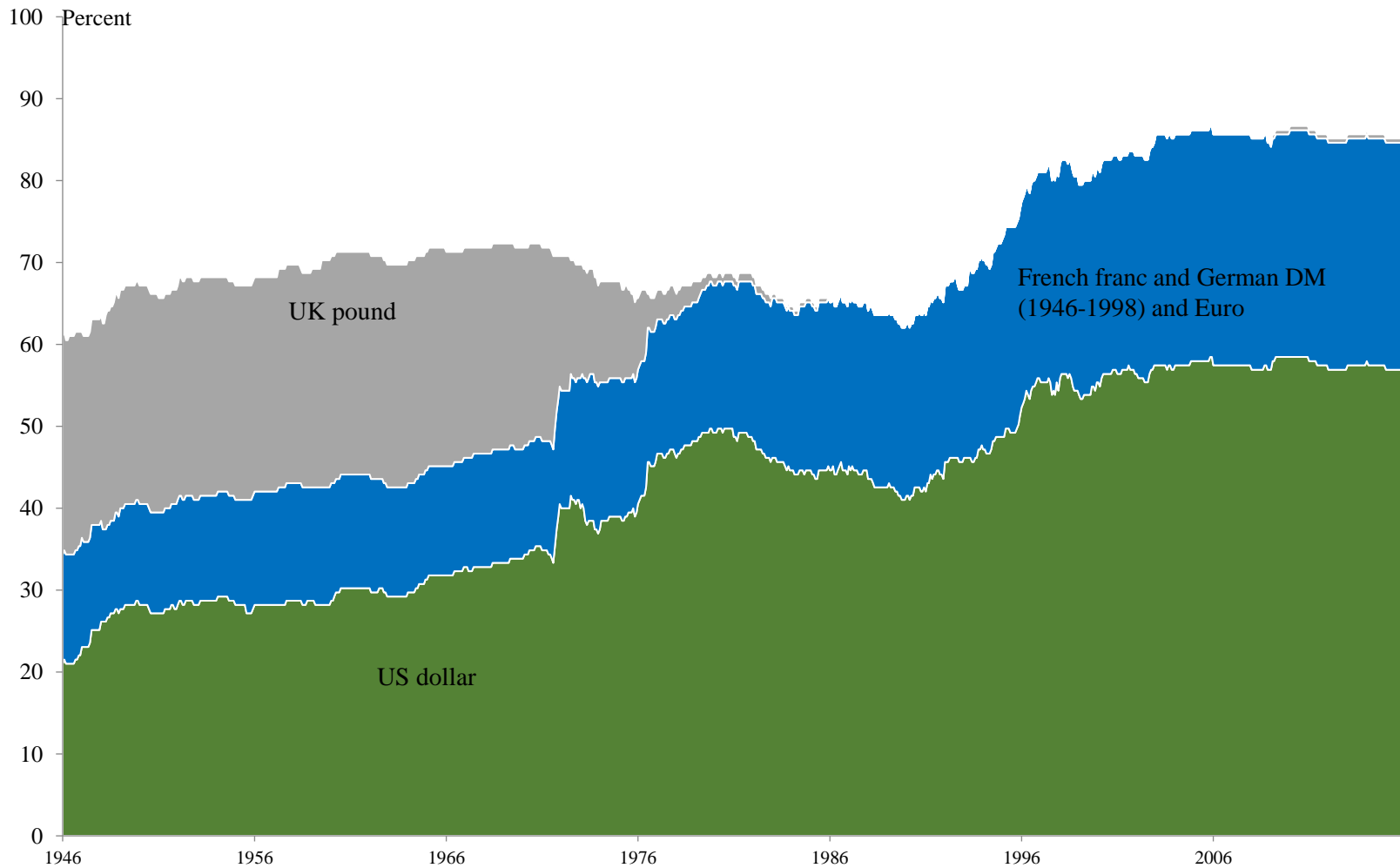
# The 21<sup>st</sup> Century International Monetary System

## Extended Bretton Woods II

1. Strong dollar dominance
2. No increase in exchange rate flexibility, “intermediate” regimes dominate
3. Increased G3 exchange rate stability
4. Capital controls removed, increased capital mobility
5. Massive accumulation of safe assets, central bank reserves

# 1. Dollar Dominance

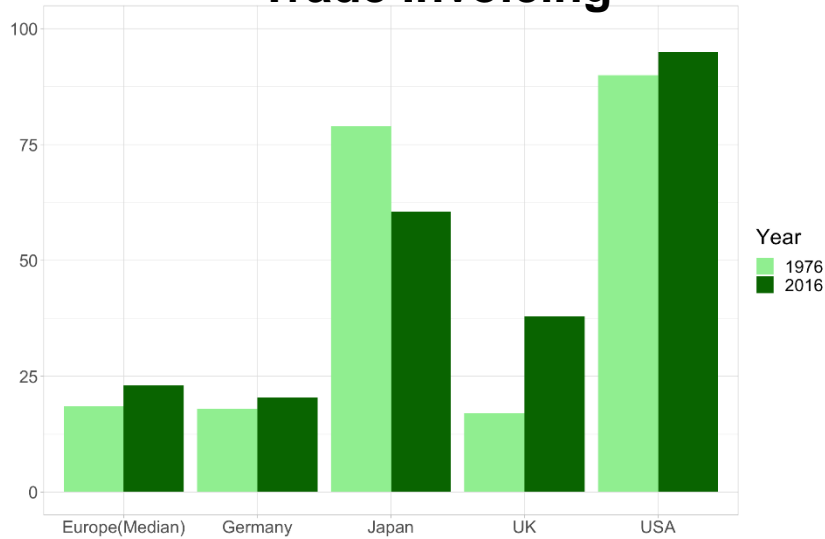
# Anchor Currencies



Share of countries, weighted by GDP . Source: Ilzetki, Reinhart, & Rogoff (2019)

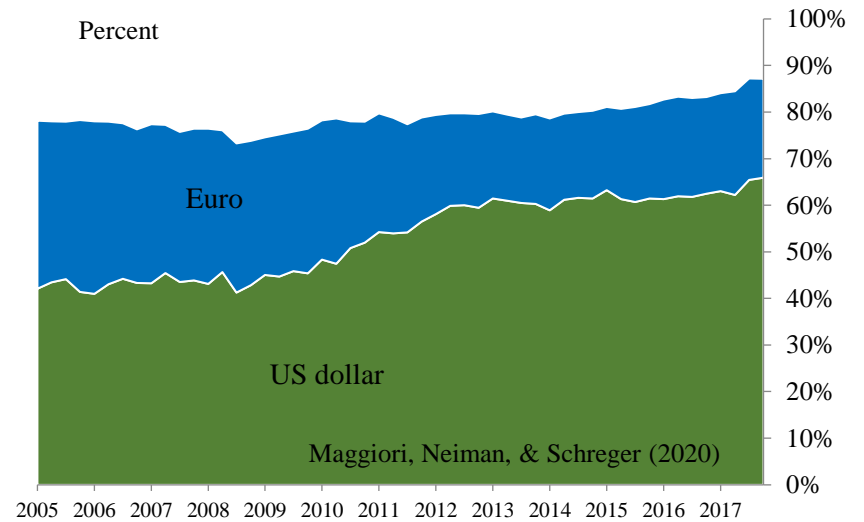
# Dimensions of Dollar Dominance

## Trade Invoicing



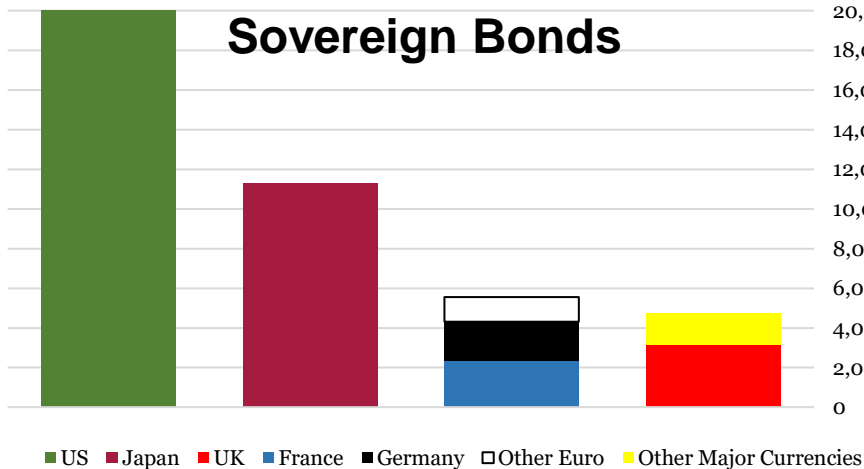
Source: Black (1985), Gopinath (2015)

## Corporate Bonds

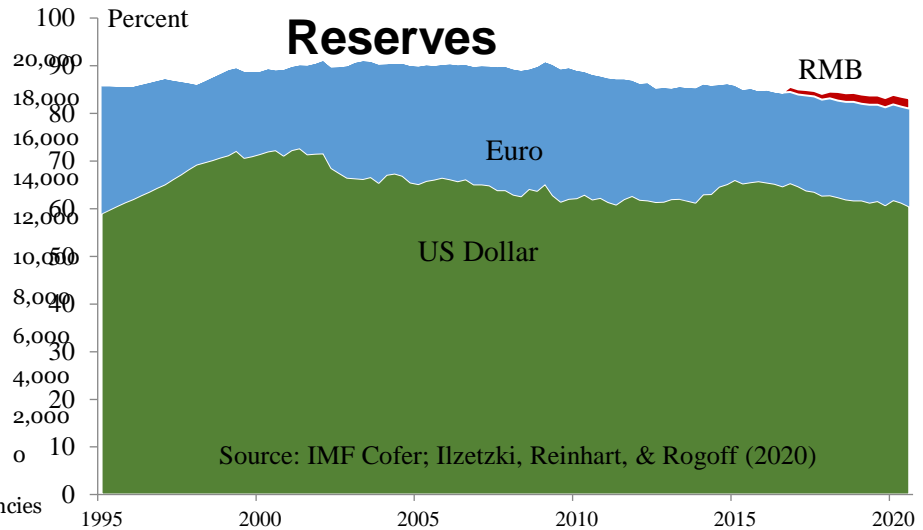


Maggiore, Neiman, & Schreger (2020)

## Sovereign Bonds



Source: National finance ministries, Ilzetzi, Reinhart, & Rogoff (2020)

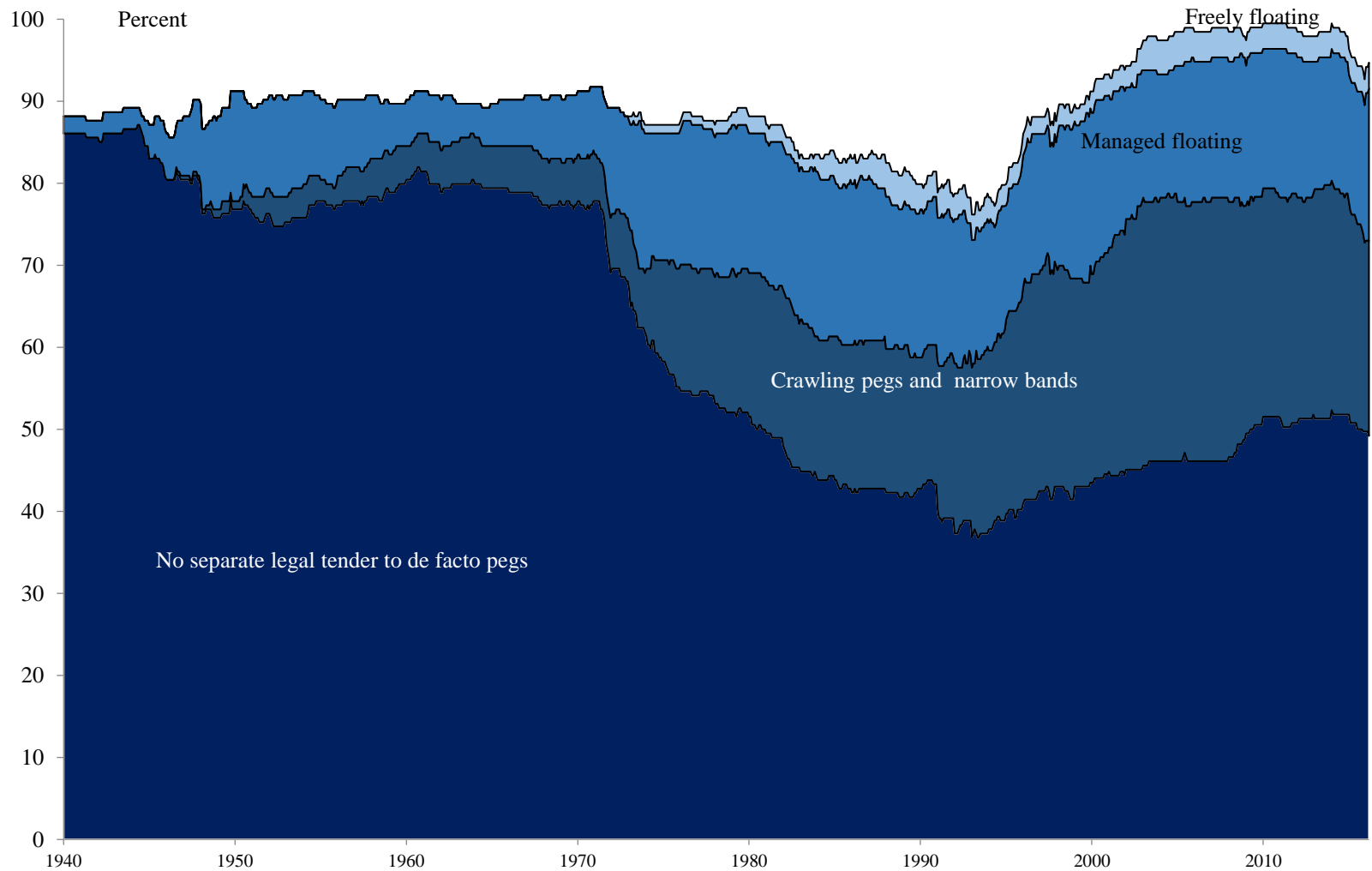


Source: IMF Cofer; Ilzetzi, Reinhart, & Rogoff (2020)

## 2. Exchange Rate Stability



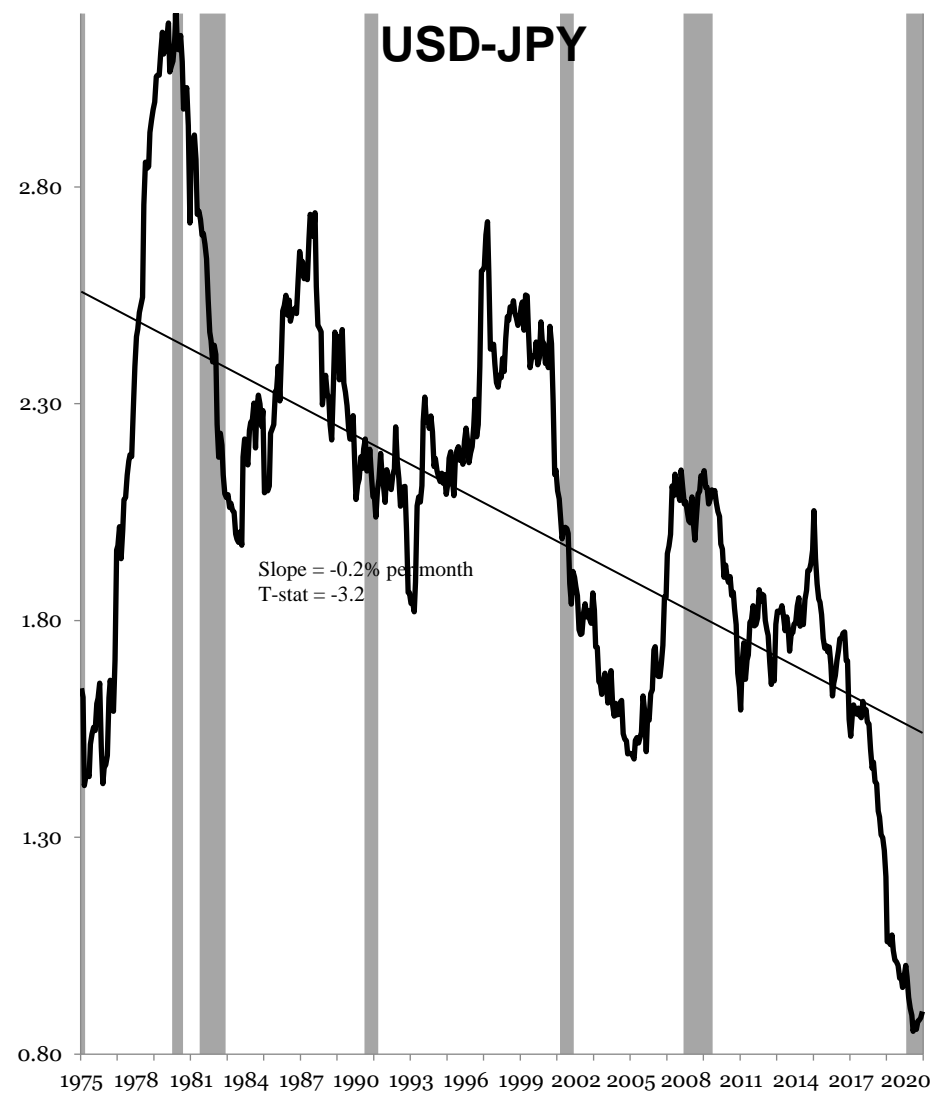
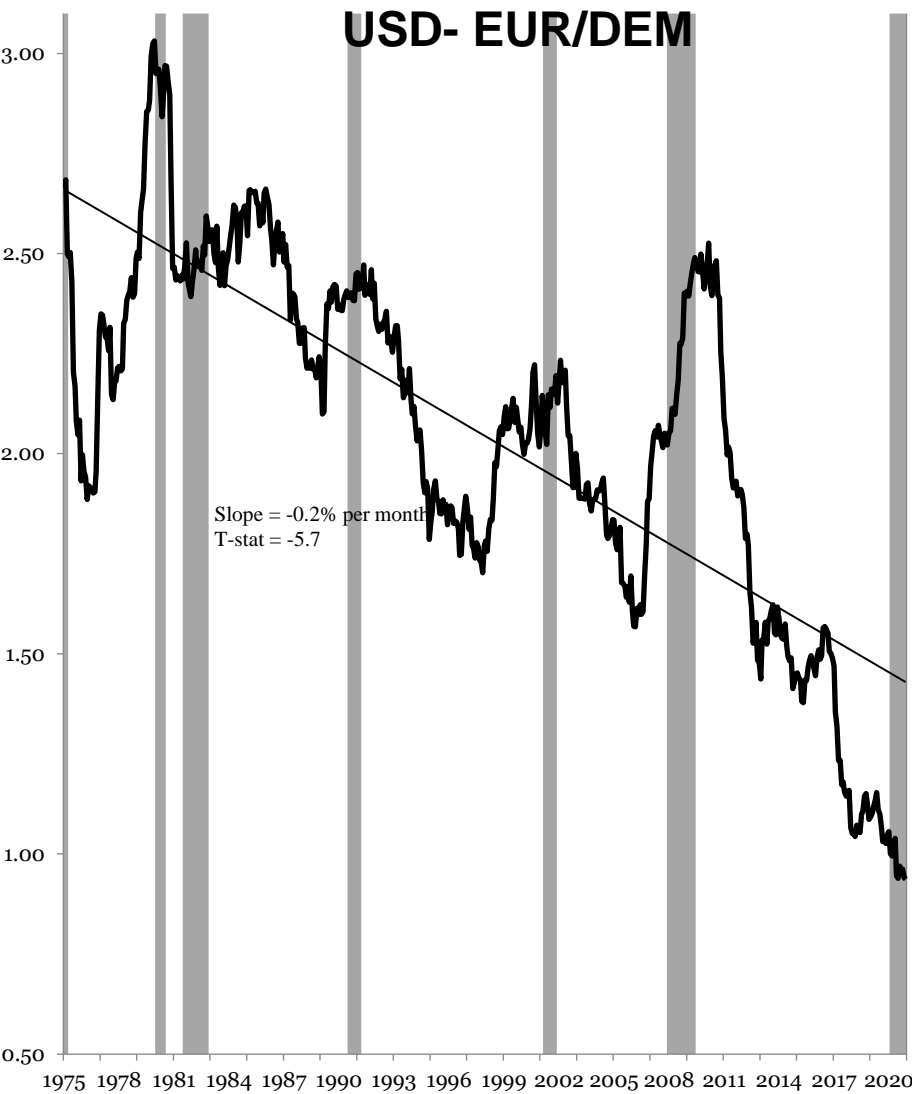
# Exchange Rate Regimes



Share of countries. Source: Ilzetki, Reinhart, & Rogoff (2019)

## 3. G3 Exchange Rate Stability

# Exchange Rate Volatility

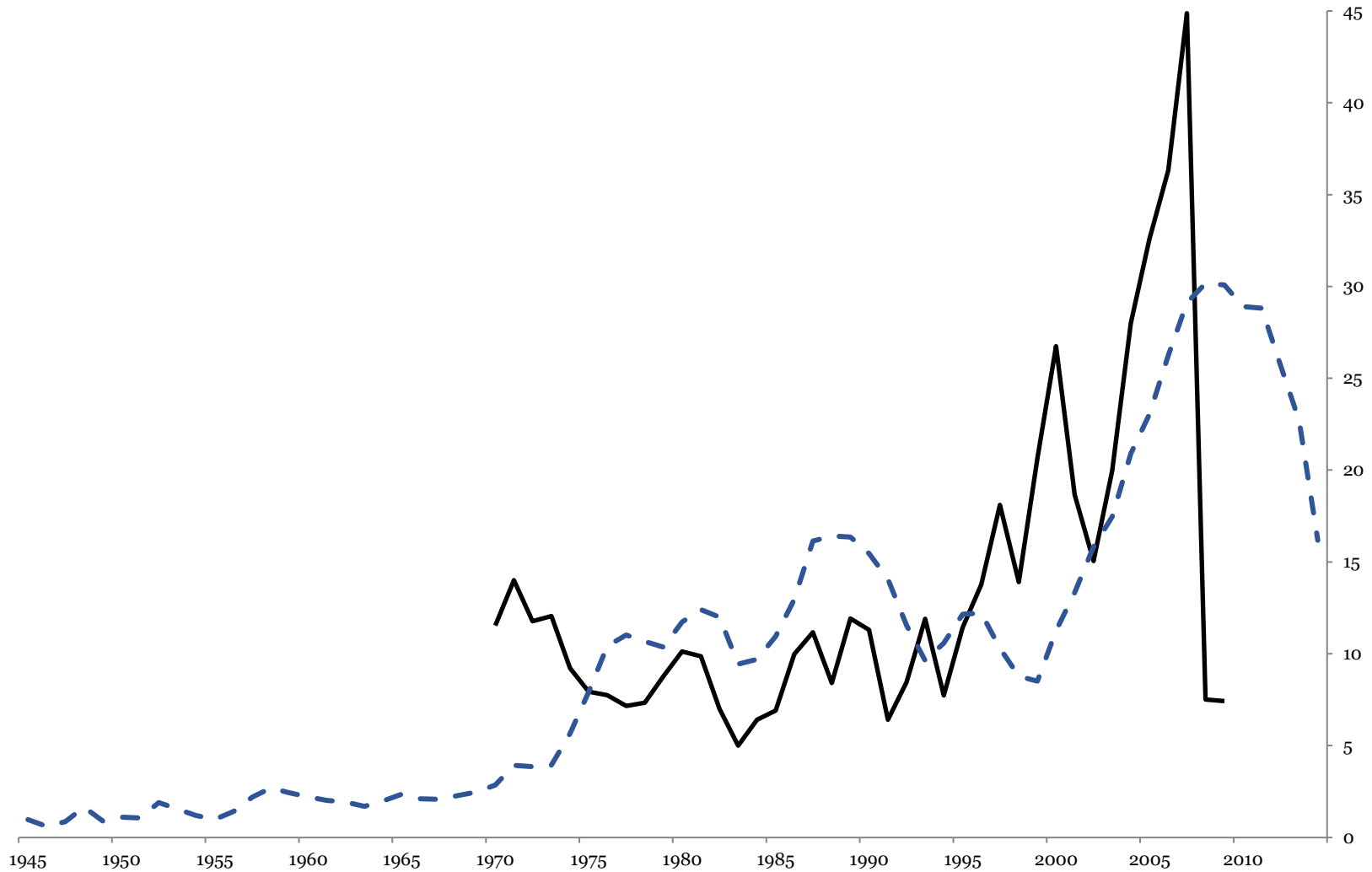


Absolute value of month on month exchange rate change, 4 month moving average.

Source: Ilzetki, Reinhart, & Rogoff (2020) ILZETKI, REINHART AND ROGOFF: HANDBOOK

## 4. Capital Mobility and Capital Controls

# Increased Capital Mobility

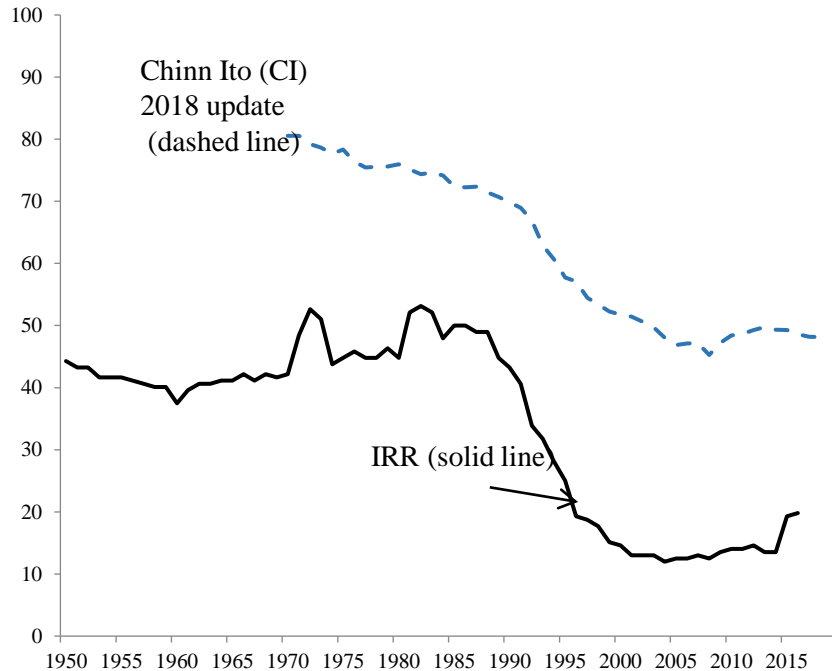


Solid line: gross international capital flows for 103 countries, percent of world GDP. Source: Broner et al (2013)

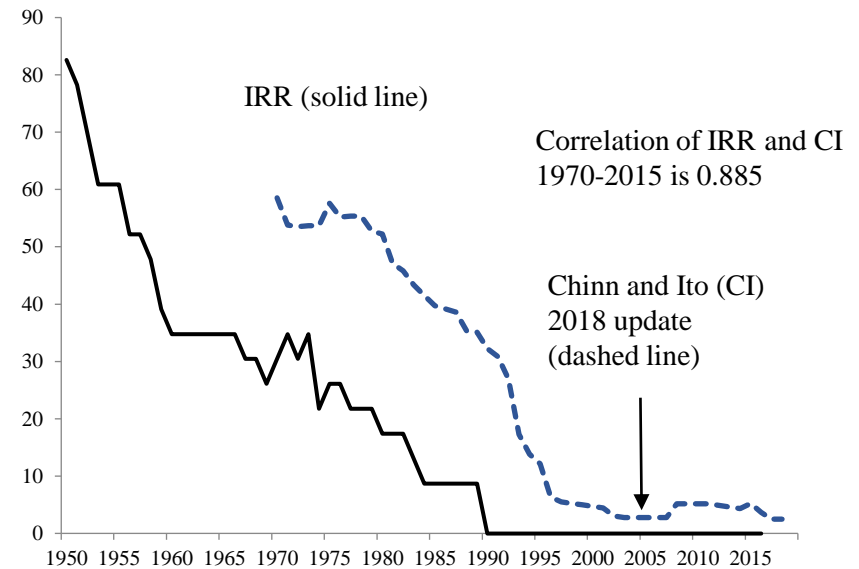
Dashed line: shows capital flows into 68 countries, percent of US GDP. Source: Reinhart, Reinhart, and Trebesch (2016).

# Reduced Capital Controls

## All Countries



## High Income Countries



Source: Chinn and Ito (2008), Ilzetki, Reinhart, and Rogoff (2019)

## 5. The New Triffin Dilemma

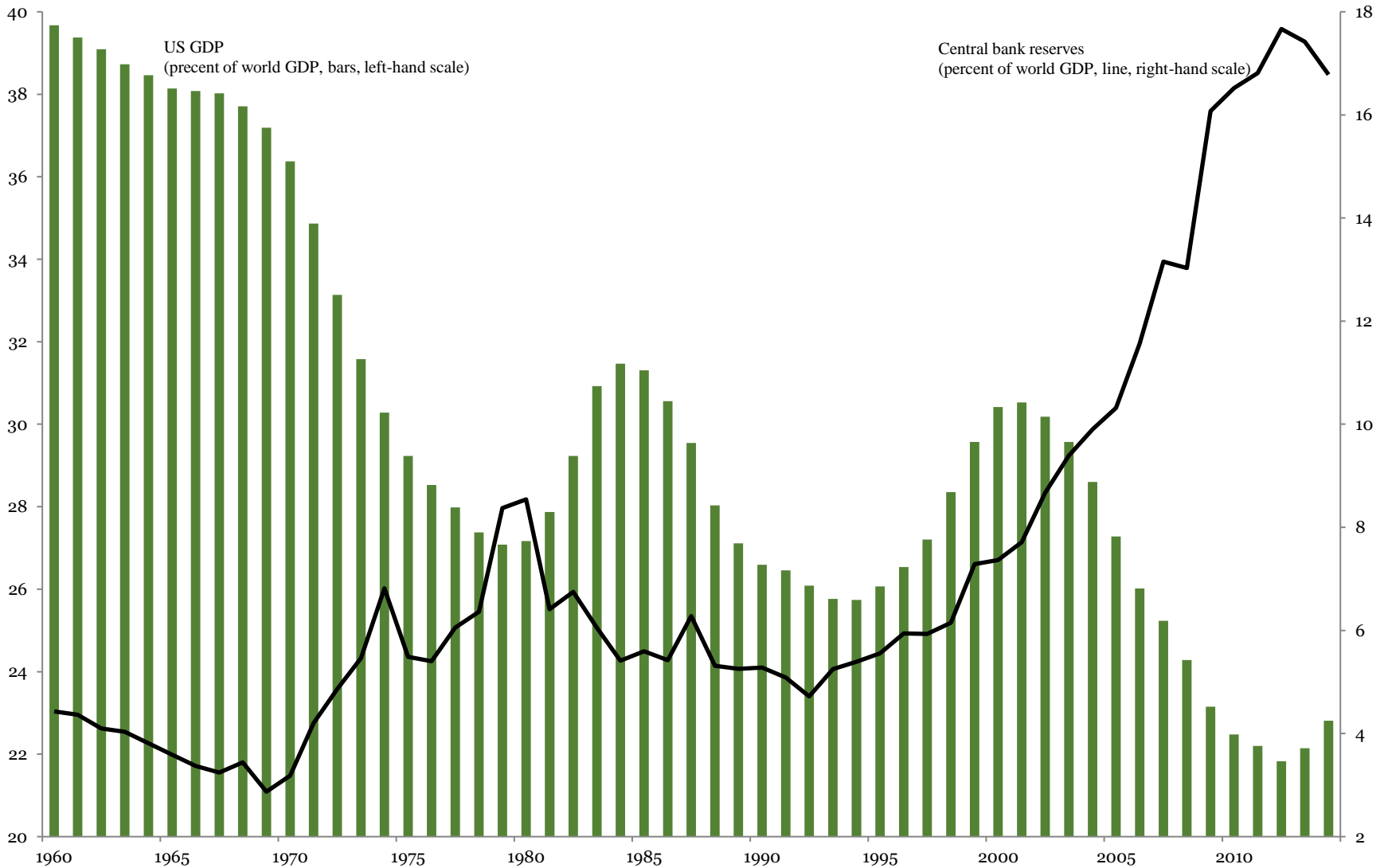
# The Trilemma (Impossible Trinity)

Countries cannot simultaneously have

- Free flow of capital
- Fixed exchange rates
- Monetary Autonomy



# The Modern Triffin Dilemma



# Triffin Dilemma

## Original dilemma

(Triffin, 1960)

Demand for US dollars will outstrip US gold reserves

## Modern Triffin dilemma

(Farhi, Gourinchas, & Rey, 2011; Obstfeld 2013; Farhi and Maggiori, 2018; Ilzetzki, Reinhart, & Rogoff, 2019)

Demand for US dollar liabilities/safe assets will outstrip US fiscal capacity