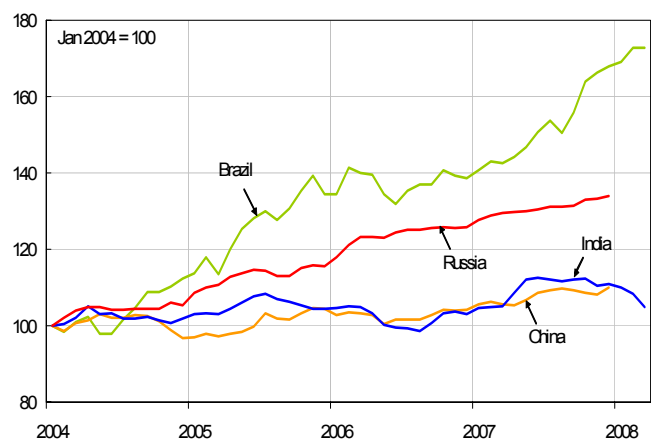


Real exchange rate appreciation in the emerging countries

- The catching up economies have experienced sharp productivity gains, and their currencies are under pressure to appreciate in real terms against the developed countries' currencies. Until July 2007, in most cases these resulted in significant nominal appreciations, while at the same time we saw rising inflationary pressures. This process, which is essentially structural in origin, has been amplified by the combination of other factors, namely: a sharply falling dollar against all currencies, buoyant global economic conditions, very high levels of liquidity in the world financial markets, and surging commodities prices.
- Most countries concerned have responded to this phenomenon by seeking to limit this appreciation, as it is eroding their competitiveness. The classic economic policy options, such as constituting foreign exchange reserves, sterilisation, and interest rate management, have been thwarted by the impossibility of simultaneously controlling exchange rates and preserving an independent monetary policy (with domestic objectives) in a context of free movement of capital and increasing international integration. This has led to other measures being considered, and in particular intervention in the control of capital flows, either by encouraging outflows or by restricting inflows.
- Since July 2007 and the onset of the subprime crisis, and above all since its aggravation from January 2008 onwards, the emerging currencies have experienced more contrasting and more volatile fluctuations. The economies of the countries concerned face hard economic policy choices as between pressures for a real appreciation, essentially in the form of short-term inflationary pressures, and a possible cooling, albeit limited, resulting from the economic slowdown in the developed countries in the medium term.

This study was prepared under the authority of the Treasury and Economic Policy General Directorate and does not necessarily reflect the position of the Ministry for the Economy, Industry and Employment.

Real effective exchange rates of the main emerging currencies



Source: Global Insight.

1. Until summer 2007, the emerging countries' currencies were under strong pressure to appreciate in real terms

1.1 The exchange rate tends to appreciate in real terms in a catching up economy

Catching up economies, enjoying high growth rates and hefty productivity gains, generally see their currency appreciate in real terms. This phenomenon flows from the Balassa-Samuelson effect (Box 1), and largely explains the observed trends regarding the emerging currencies until July 2007. As is pointed out in the box, this effect explains the differences in real exchange-rate trends by the relative differences in productivity between sectors exposed or not and between the economies. In an expansion or catching up phase, variations in productivity in the emerging economies generally take place faster in the tradable goods sector, notably involving faster technology transfers, greater adaptation to international standards, and greater efforts to boost productivity in those sectors open to international competition. This tends to bring down the relative price of tradable goods in the economy in relation to non-tradable goods, thus raising the real exchange rate.

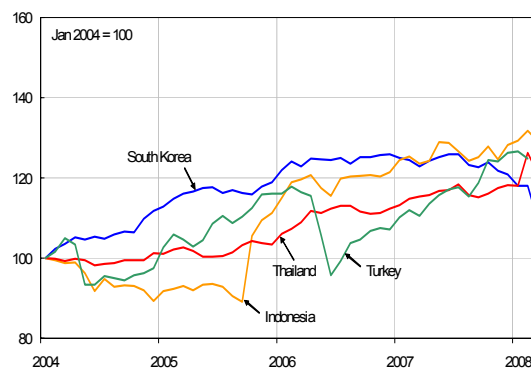
Various empirical studies have sought to measure the extent of the Balassa-Samuelson effect¹. They have generally concluded that there is a significant statistical effect, even if this may sometimes be overshadowed by other factors (e.g. large-scale capital inflows from abroad, or fiscal policy, whether expansionary or not), and that it is rendered relatively weak by the generally rapid diffusion of productivity gains through a broad range of sectors in some emerging economies (e.g. China).

1.2 Some emerging currencies registered particularly significant real appreciations until mid-2007

Most emerging currencies appreciated substantially in both real effective and nominal terms until July 2007 (see

Chart p.1, Chart 1 and Table 2). The currencies that have moved most in nominal terms are naturally the most flexible ones (Brazil and Turkey), but considerable upward pressure has also been observed on currencies hitherto pegged to the dollar (China, India and Russia), whose fall has further amplified the scale of the trend.

Chart 1: real effective exchange rate



Source: Global Insight.

In general, moreover, these countries' exchange rate policies have moved in the direction of greater *de jure* flexibility, even though the currencies frequently remain fixed or managed *de facto* (table 1).

Several factors can account for the desire to keep the exchange rate from floating unduly (the fear of floating)². These include the greater monetary policy credibility that comes from pegging the national currency to one or more major currencies. Moreover, the emerging economies' expansion is often based on their high degree of trade competitiveness, which rules out any excessive appreciation of their currency. For others, exchange rate stability may be invaluable in maintaining a sustainable external balance.

Table 1: *de facto* exchange rate regimes (mid-2007)

Exchange rate regime	Country
Currency board	Bosnia-Herzegovina, Bulgaria, Estonia, Hong Kong
Peg	Argentina, Bolivia, Hungary, Jordan, Morocco, Mongolia, Pakistan, Ukraine, Venezuela, Vietnam
Sliding peg	China, Nicaragua
Managed float	Algeria, Colombia, Croatia, India, Indonesia, Kazakhstan, Peru, Russia, Singapore, Thailand, Tunisia
Free float	Albania, South Africa, Brazil, Chile, South Korea, Israel, Mexico, Poland, Turkey

Source: IMF-Global Financial Stability Report (Sept. 2007), Datastream-Market value, Datastream-External Position of Japan. DGTPE calculations.

(1) For a recent study, see Ricci L. A., Milesi-Ferretti G. M. and Lee J. (2008): "Real Exchange Rates and Fundamentals: A Cross-Country Perspective", *IMF Working papers WP/08/13*, January. The authors estimate that a 10% rise in productivity in the tradable goods sector relative to the non-tradable goods sector in an economy relative to the trend elsewhere in the world leads to a real appreciation in the exchange rate on the order of 2%.

(2) See Calvo G. and Reinhart C. (2000): "Fear of floating", *NBER Working papers 7993*.

Table 2: change in exchange rates versus the dollar (YOY and in %)

Currency	2004	2005	2006 S1	2006 S2	2007 S1	2007 S2
euro	5.4	-10.9	8.2	3.8	2.7	7.0
yen	2.4	-11.4	2.7	-3.4	-2.9	9.6
argentine peso	-1.6	-1.9	-1.9	0.8	-1.1	-1.9
south african rand	6.1	-9.8	5.6	1.1	0.1	6.9
brazilian real	6.7	15.9	8.0	1.2	11.4	7.7
yuan (China)	0.0	2.6	1.0	2.4	2.6	4.3
colombian peso	20.1	1.3	-11.3	15.3	13.5	-2.8
won (South Korea)	15.1	3.5	6.2	2.1	0.4	-1.5
roupee (India)	5.1	-3.2	-2.2	4.1	9.2	2.6
roupee (Indonesia)	-9.0	-5.6	7.5	1.8	-0.3	-4.0
mexican peso	-2.0	6.4	-4.6	3.5	0.1	-1.3
rouble (Russia)	6.1	-3.6	6.9	2.3	2.0	5.2
baht (Thailand)	0.9	-3.9	7.3	7.0	12.2	7.3
turkish pound	2.3	0.6	-12.6	9.9	8.3	10.7

Source: Global Insight.

1.3 Currency appreciation has been boosted by sharply higher capital inflows

For some emerging economies, pressure for a real appreciation has been fuelled and bolstered by substantial capital inflows. The integration of the emerging economies into the global financial system has resulted in a substantial increase in capital inflows, whether in the form of FDI or portfolio investment.

Global economic and financial conditions were very favourable until the onset of the subprime crisis of summer 2007. Economies were continuing to grow robustly and the outlook for the emerging countries was good. The stabilisation of their economic situations and improving financial structures (in terms of both deepening and improved supervision) had enhanced their attractiveness to foreign investors.

Financial markets at that time were highly liquid. The very strong international financial conditions had encouraged the search for yield among investors, who found ever higher yields in emerging countries' securities, coupled with a perceived reduction in risk.

As confidence in the emerging currencies increased, this growth in demand for emerging countries securities may also have encouraged some investors to engage in carry trade operations³ wherever financial conditions permitted. That is because the conjunction of the perception of upward pressures on the emerging currencies and more restrictive monetary policies in the emerging countries than in certain developed economies made this type of operation profitable. With foreign exchange markets still limited in size and sizeable carry trade volumes, these carry trades on emerging currencies had a significant impact on currency variations and volatility in Brazil, Turkey and South Africa.

Box 1: The Balassa-Samuelson effect

The Balassa Samuelson^a effect explains differences in real exchange rate movements in terms of productivity differences. In particular, it explains why catching up countries tend to experience heavy pressure in favour of a real appreciation.

The real exchange rate (Q) is defined by:

$$Q = \frac{E.P^*}{P}$$

where E is the nominal exchange rate, P and P^* respectively the domestic and foreign price indexes. By indicating respectively by T and N the variables concerning the tradable and non-tradable goods sectors, we can rewrite:

$P = (P_T)^\alpha (P_N)^{1-\alpha}$ where α is the weight of the country's tradable goods sector. Similarly, $P^* = (P_T^*)^\beta (P_N^*)^{1-\beta}$ with β the relative weight of the tradable goods sector abroad.

We can then rewrite the real exchange rate as:

$$Q = \left(\frac{E.P_T^*}{P_T} \right) \left(\frac{(P_N^* / P_T^*)^{1-\beta}}{(P_N / P_T)^{1-\alpha}} \right)$$

i.e. the product of a real exchange rate based on the price of tradable goods Q_T and of a factor depending on the relative prices between tradable goods and non-tradable goods in the country and abroad.

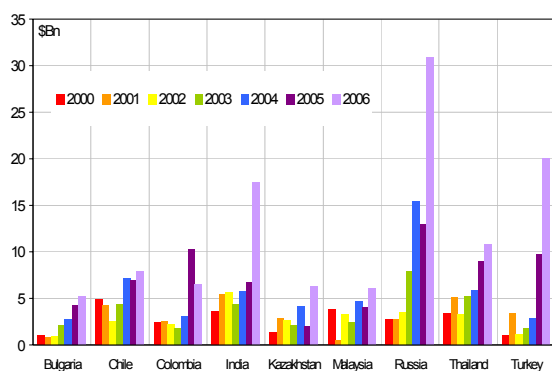
On the (strong) assumption of purchasing power parity for tradable goods, Q_T equals 1 and the price of tradable goods is the same everywhere (otherwise arbitrages could occur).

In a catching up economy exposed to international competition, productivity in the tradable goods sector tends to rise faster on average than in the non-tradable goods sector. All wages in the economy in question need to adjust to this increase, pushing up the cost of labour in the non-tradable goods sector relative to the sector's productivity. This tends to raise the relative price of non-tradable goods relative to tradable goods, more so than abroad, and thus the real exchange rate tends to rise.

a. C. Balassa, B. (1964): "The Purchasing Power Parity Doctrine: A Reappraisal", Journal of Political Economy, vol. 72, as well as Samuelson P. (1964): "Theoretical Notes on Trade Problems", Review of Economics and Statistics, volume 23.

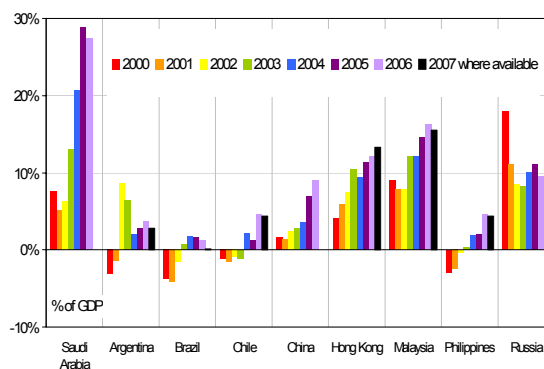
(3) See Grislain N., Jacquet-Saillard F. (2008): "The carry trade and recent yen movements", Trésor-Economics no. 33, DGTPE.

Chart 2: net FDI flows to emerging countries



Source: IMF.

Chart 3: emerging countries current account balances



Source: IMF.

There are several transmission channels for the impact of these capital flows on the real exchange rate, as for the nature of the capital. FDI flows promote activity by reviving local demand and can reinforce the Balassa-Samuelson effect by being frequently concentrated on the tradable goods sector. The purchase of financial assets in the local currency can also stimulate demand for the currencies of the economies receiving these flows.

1.4 The growth in current revenues has also contributed to real appreciation in certain cases

In some countries, and especially those with substantial natural resources, it is rapidly rising current revenues, fuelled notably by the greater integration of the emerging countries into world trade and rising agricultural, energy and raw materials prices, that have tended to foster pressure on these currencies for a real appreciation.

Large current account surpluses are generally associated with high trade revenues leading to a large trade surplus. Nevertheless, they may also be fuelled by current account transfers, notably in the shape of remittances from immigrant workers, which have grown very significantly in recent years and which in some cases account for more than 10% of GDP for certain economies⁴.

The oil countries are a special case. High oil and gas prices have generated large trade surpluses for the oil producing countries. Oil and gas exports are billed in dollars, the currency to which the exporting countries' local currencies are generally pegged. These substantial current revenues, fuelled by surging oil prices and coupled with the need to maintain parity with the American currency, have led to the accumulation of very substantial foreign exchange reserves. At the same time, these economies must strive to avert the "Dutch syndrome" and its adverse consequences (Box 2).

2. The classic economic policy options available to governments and central banks to avoid excessive real appreciation of their currency are limited

Faced with the appreciation of their currencies, emerging countries' authorities have often sought to curb their rising exchange rate in order to maintain a high level of competitiveness. For that, they have intervened heavily to slow nominal appreciations, with limited results and at a high cost, using the two traditional instruments available to them, namely foreign exchange market interventions and interest rates.

2.1 The emerging economies have considerably increased their foreign exchange reserves

Faced with rising current revenues, or with growing capital inflows, many emerging economies, especially in

Asia, have accumulated very substantial foreign exchange reserves.

At first, the constitution of these reserves was seen essentially as a mean of protection against possible external shocks, especially in the wake of the Asian crises in the late-1990s. **Today, the amounts concerned rule out considering the precautionary motive alone and suggest that these reserves stem from foreign exchange market interventions aimed at limiting currency appreciation in order to preserve competitiveness.**

(4) Philippines (10.2% in 2007), Macedonia (18.7% in 2007), Bosnia-Herzegovina (14.8% in 2007), Albania (13.8% in 2007), Moldavia (26.1% in 2007), Nicaragua (16.1% in 2007). These are often small countries, or countries with a large overseas population making transfers to their country of origin.

Box 2: Oil economies and the "Dutch disease"

The concept of the Dutch disease emerged in the 1970s, following the discovery of natural gas in the Netherlands in the 1960s. It refers in general to an environment in which a rent-generating situation ultimately damages an economy's productive system.

High external revenues tend to trigger a real appreciation of the local currency *via* two main channels, namely: on the one hand they lead to an expansion of the money stock, and secondly the increase in disposable income increases consumption of non-tradable goods and drives up their price, and subsequently wages, thereby fuelling inflation.

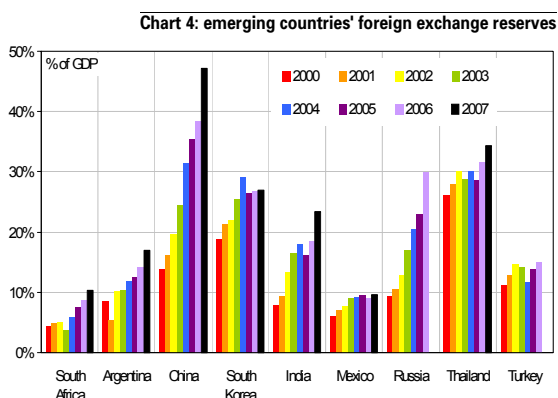
This real appreciation tends to impair the competitiveness of the non-hydrocarbon tradable goods sector and can lead to deindustrialisation, especially since it may be reinforced by the movement of labour towards the highest-paying sector.

Other adverse effects are often associated with the Dutch disease, moreover. The concentration of revenues in many oil economies can sometimes lead to capture of public interests by a handful of oil sector leaders and to rent-seeking behaviours. In addition, the short-term impact of growing wealth can sometimes divert the authorities' efforts away from promoting long-term growth (by diversifying the economy, through education, etc.) in favour of redistributive measures.

When raw materials-based revenue flows dwindle or come to a halt, the economy may be severely handicapped by the underdevelopment of its tradable goods sector, which needs time to readjust.

The oil economies generally run fixed exchange rate regimes pegged to the dollar. Over the recent period, the sharp rise in oil prices has allowed them to accumulate huge foreign exchange reserves that can be only imperfectly sterilised. This has stoked up the inflationary pressures already at work in these economies (notably through rising agri-foodstuffs prices and very strong demand for goods in the face of limited supply), making it harder to maintain their exchange rate regime. The falling dollar, notably, can lead to imported inflation. Further, some of these economies have already embarked on a revision of their exchange rate regime (Kuwait pegged its currency to a basket of currencies in spring 2007, and no longer to the dollar alone).

When reserves are constituted with no subsequent "sterilisation"⁵ by the authorities, this increases the money stock in the domestic economy, which can in turn boost inflation. Moreover, holding a high level of foreign exchange reserves can prove costly, especially when these produce low returns.



Source: IMF.

The current debate over sovereign wealth funds⁶ has its origins in the desire of the emerging economies to improve returns on their foreign exchange reserves by investing them in higher-yielding assets and by investing abroad, in addition to simple risk free investments (traditionally US Treasury securities). The scale of the sums

concerned suggests that the way in which they are invested could have an impact on global financial markets (in particular, reduced purchases of US long bonds could push up long-term rates in the United States).

2.2 Sterilising foreign exchange operations can prove costly and ineffectual

To reduce the impact of foreign exchange intervention on the domestic money market, the authorities can opt for a process of sterilisation. The two most commonly used methods are open market operations (where the monetary authority either repurchases or issues debt securities in order to control the money stock), or more "administrative" methods such as raising the ratio of compulsory reserves for banks⁷. But these operations are risky and can incur hefty costs for the authorities⁸.

In the first place, open market operations are heavily dependent on prevailing conditions in the domestic financial markets. The cost of these operations can have a substantial impact on the budget and may even jeopardise the sustainability of the public finances. In particular, the authorities issue securities on the local markets with a yield generally greater than the one on the foreign securities held in the reserves. Moreover, lack of liquidity in the local market or a mismatch between the

- (5) Sterilisation seeks to eliminate the impact on the local money market of foreign exchange operations carried out by the authorities. For that, the monetary authorities can seek to offset the expansion of the money supply resulting from the increase in the central bank's foreign exchange reserves by withdrawing part of the liquidity in circulation.
- (6) See Odonnat I. (2008): "The conditions for a positive contribution of sovereign wealth funds to the world economy", *Tresor-Economics no. 28, DGTPE*.
- (7) Other methods of sterilisation sometimes used include modifying the rate at which banks raise funds from the central bank, shifting a portion of public savings held with the commercial banks to the central bank, or again currency swap operations in which the central bank swaps domestic money today against foreign exchange, pledging to repurchase the domestic money at a predefined rate at some future date.
- (8) See for example Jang-Yung Lee (1997): "Sterilizing Capital Inflows", *IMF Economic Issues (February)*.

supply of domestic securities and local investors' demand can also limit the effectiveness of this method (the securities on offer may have difficulty finding takers, or may be traded at a higher premium, which would be even more costly for the authorities).

Next, there are major drawbacks to the use of instruments such as compulsory reserve ratios, notably in terms of distortions to the local financial and banking market, with respect to the supply of credit. Repeated use of this instrument can prove highly damaging to the functioning of local finances (which did not prevent the Chinese authorities from raising the compulsory reserve ratio more than ten times in 2007).

Finally, in addition to their potentially high costs, sterilisation operations are frequently ineffectual, in particular when the monetary institutions do not enjoy a high degree of credibility or when the local financial markets are relatively underdeveloped.

2.3 Managing interest rates is complicated by the high degree of international mobility of capital

Interest rate management is one of the classic instruments of monetary and foreign exchange policy. However, its use has become considerably more problematic with the gradual liberalisation of financial and capital accounts, and the determination to preserve a nominal exchange rate policy for as long as possible. One reason is that managing interest rates can pursue several objectives not all of which are consistent. On the domestic side, the authorities may pursue inflation objectives (inflation targeting), or seek to support growth. Externally, the impact of the interest rate differential with

other countries may be substantial, and this differential is one of the factors determining the exchange rate.

We are thus confronted with the "Mundell triangle of incompatibility"⁹, which states that in an open financial and trade system it is impossible for a country to reconcile the three following factors:

- an independent monetary policy with domestic objectives (inflation, growth);
- freedom of capital flows with other countries;
- a fixed exchange rate.

Until summer 2007, in countries whose main objective is exchange rate stability it was impossible to raise local interest rates in order to curb the growth in the money supply (and hence inflation). That was because higher interest rates were liable to attract capital inflows, which could in turn lead to currency appreciation and fuel inflationary pressures negating the initial purpose of the measure. Moreover, interest rates are generally already high in many emerging economies (which notably explains part of the high level of capital flows), and raising them would not necessarily be sustainable.

Conversely, countries wishing to lower their interest rates in order to limit capital inflows could find themselves confronted with very serious domestic constraints, notably in terms of inflationary pressures. This option may be adopted when inflationary pressures are low, but it deprives the authorities of the possibility of adapting their monetary policy to the domestic situation. In these conditions, managing interest rates is severely constrained by the foreign exchange objectives, and its effectiveness as a monetary policy and exchange rate instrument is thus partly impaired.

3. Given the difficulties associated with classic exchange rate interventions, other, more structural solutions may be envisaged, notably regarding capital inflows and outflows

3.1 Some countries have maintained or strengthened their controls on capital inflows

In the present situation, some emerging countries may prefer to limit capital inflows, notably by introducing or maintaining restrictions on financial flows. This may allow them to limit the destabilising impact of sometimes rapid or speculative capital flows. Some countries have attempted to introduce this kind of control, with mixed

results. This has been the case with Colombia and Thailand (and Chile earlier)¹⁰.

In Colombia, grappling with an exchange rate under heavy pressure, high inflation and constant interest rate increases, the authorities sought to re-establish a handle on economic policy.

Consequently they introduced capital controls in May 2007 in the form of compulsory deposits for a six-month

(9) Mundell R. (1960): "The Monetary Dynamics of International Adjustment under Fixed and Flexible Exchange Rates", *Quarterly Journal of Economics*, vol 74.

(10) For further details on this subject, see Mongruet P., Robert M. (2005): "L'Asie émergente et la libéralisation du compte de capital" (Emerging Asia and the liberalisation of the capital account), *DPAE no. 93, DGTPE*.

period, representing 40% of the amount of any new portfolio investment, to be held in an interest-bearing account with the central bank. This measure, while not entirely effective, gives the monetary authorities greater freedom in managing their monetary policy. The result has been to modify the structure of capital inflows to the detriment of short-term flows and portfolio investments.

In Thailand, the authorities also sought to introduce controls on capital flows in December 2006. Following the announcement of the institution of controls on foreign currency deposits the Bangkok stock exchange lost nearly 15%, finally forcing the authorities to rescind their decision.

While reintroducing capital controls may appear to be an attractive solution in certain countries seeking to regain their independence in terms of economic policy and to curb the impact of contagion in times of financial turmoil, there are obstacles, and the introduction of these controls can trigger sudden and destabilising movements.

3.2 Other countries have attempted to introduce measures to facilitate capital outflows

Some countries that have developed a sufficiently solid investor base and have not yet fully liberalised their capital account have retained restrictions on capital outflows. This is the case with a number of major emerging countries such as India and China, for example, whose outflows are extremely tightly controlled, and where the current inflationary pressures are partly due to the

enforced concentration of investments by local agents on the local markets: this creates surplus demand for local securities and the possible emergence of a bubble on the domestic markets.

By authorising or facilitating capital outflows (either by removing certain existing barriers for countries that still have controls, or by creating incentives to capital outflows), the authorities can alleviate the upward pressure on demand for domestic assets and hence for domestic money. On the domestic side, facilitating investment abroad can also improve the allocation of domestic savings and allow local investors to diversify their risks better.

Misgivings remain, however, regarding the removal of capital controls, notably with the potential emergence of the risk of contagion from movements on the international markets. A high degree of opening up to foreign capital in these circumstances could lower domestic markets' resistance to external shocks.

Liberalising capital outflows should not be conducted in too brutal a manner. A sudden opening in China, for example, could have very serious consequences in the sense that the holders of capital compulsorily invested inside the country, in an overprotected financial structure, could massively find overseas investment opportunities and thus trigger a very rapid contraction of local markets.

4. The behaviour of emerging currencies has become more heterogeneous since the onset of the "subprime crisis" in July 2007, and economies are faced with a new dilemma as between inflationary pressures and fears of cooling

4.1 Since July 2007, the behaviour of the emerging currencies has been volatile and varied, while inflationary pressures have grown distinctly

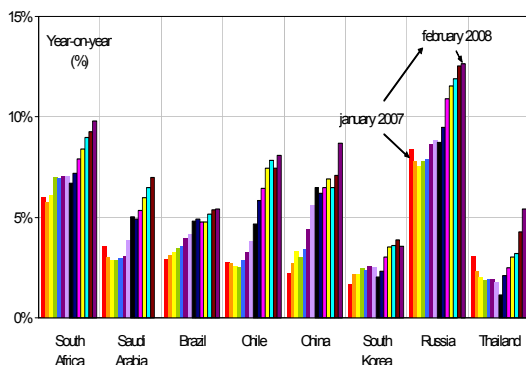
The main emerging currencies have appreciated relatively little in nominal terms *vis-a-vis* the dollar on the whole since July 2007, even if some of them, such as the yuan, have begun to appreciate slightly faster. Generally, emerging countries' exchange rate volatility has increased significantly.

Until the outbreaks of turbulence in January 2008, the emerging financial markets had been relatively unaffected by the "subprime crisis" and even came to be seen as a haven in the very early stages of the crisis. Now, however, financial turbulence is also being transmitted to the emerging markets, and the beginning of

2008 witnessed a distinct reduction in capital flows in the direction of the emerging economies. In particular there has been an unwinding of carry trade operations, as signalled by the especially pronounced swings in the Turkish, South African and Brazilian currencies.

However, the emerging economies taken together are confronted with another source of pressure for a real appreciation, in the form of substantial inflationary pressures (Chart 6), these being especially strong in those economies whose currency is pegged to the dollar. The main cause of these pressures is the rise in world agri-foodstuffs and energy prices, as well as in some cases the sustained growth in domestic demand, capital inflows, or again expansionary fiscal policies.

Chart 5: inflation rates in the emerging countries



Source: Global Insight.

4.2 The emerging economies may suffer an impact in the medium term in the wake of the slowdown in the developed economies

While today the emerging countries as a whole are close to overheating as a result of strong growth, inflationary pressures and appreciating currencies, the impact of the slowdown in the developed economies and the transmission of global financial turbulence could have cooling effect.

This creates an economic policy dilemma for the emerging economies and confronts them with a delicate trade off, since restrictive measures in the face of an approaching slowdown could aggravate the latter, while failure to respond in a timely fashion to the current overheating could be prejudicial. Foreign exchange policy remains one of the tools at the authorities' disposal in attempting to manage these constraints.

In this context, the behaviour of the emerging economies in terms of foreign exchange policy has been heterogeneous, some maintaining their peg and adopting the same stimulus measures as in the US (e.g. Hong Kong), while others are considering revising their current foreign exchange regime. Examples of the latter notably include some oil economies such as Qatar, which recently announced that it was contemplating moving from a dollar peg to one based on a basket of currencies, as Kuwait did in spring 2007. Similarly the Russian authorities announced at the end of January 2008 their intention to move to an inflation-targeting policy over the next three years, which necessarily implies easing up on its foreign exchange interventions to adapt to the new global economic and financial conditions. Nor can other major shifts in foreign exchange policies be ruled out in certain emerging economies, in China for example, with a faster appreciation of the yuan against the dollar, or in Brazil in order to dampen inflation. The Thai authorities, meanwhile, have announced in February 2008 that they planned to remove the previously instituted controls on capital inflows.

The impact of the recent turbulence on the emerging currencies has yet to stabilise and be assessed precisely. Its exact economic policy consequences for the emerging countries will necessarily depend on the consequences of this still unfolding episode.

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