Sanctions and the Exchange Rate in Time

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April 2023

77th Economic Policy Panel Meeting, Sveriges Riksbank, Stockholm, Sweden
An Empirical Exercise Motivated by Theory

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  - Data available in real time
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  - Historical data: 128 sanctions from 1914 to 1945, categorized by type of sanction
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  - Sanctions on large economies and during military events
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- **Local projection** method
  - One regression per sanction, with a dummy on the week of the sanction
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- Results in line with the theory
  - Imports restrictions ⇒ Appreciation
  - Export restrictions ⇒ Depreciation
  - Assets freeze ⇒ Depreciation
  - Trade embargo ⇒ No response
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- **Results driven by currencies with less heavily managed exchange rates**
Comments

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  - Fascinating Appendix C
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- Comments
  - On the main result and the goal of the exercise
  - On the dataset and the choice of the time period
  - On the robustness of the results and other econometric details
Shedding Light on Theoretical Mechanisms

- Goal of the paper: Verify the theory
  - Import sanctions should result in appreciation
  - Export sanctions should result in depreciation

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- Can we use this new dataset to learn more on the mechanisms?
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- Alternative mechanisms for import sanctions
  - Itskhoki & Mukhin (2022): “sanctions on imports result in appreciation of the exchange rate because they reduce demand for foreign currency.”
  - Lorenzoni & Werning (2022): “when Russians are unable to buy the mix of foreign goods they wish, foreign goods becomes less attractive. [...] A real appreciation is needed to raise the relative price of domestic goods and incentivize imports from non-sanctioning countries.”

Can we use the data to disentangle the two models? To verify the mechanisms?

- Testing Itskhoki & Mukhin’s hypothesis
  - Import/export sanctions should have different effects when combined with asset freeze?

- Testing Lorenzoni & Werning’s hypothesis
  - Identify episodes where non-sanctioned imports are more or less diversified?
  - Run state-dependent local projection methods?
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  - Depending on trade balances before sanctions, etc.
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Focus on the Pre-1945 Period

Key novelty, motivated by two reasons

- Large economies as well faced sanctions before 1945
- Sanctions are associated with military events before 1945

Results are driven by economies with less heavily-managed currencies

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On the Robustness of the Results

- Extensive robustness checks
  - Controlling for financial openness, trade openness, etc.
  - Adding past levels of exchange rates in controls may help?

Export sanctions generate more robust and persistent effects on exchange rates.

Is this actually a result?

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- Exogeneity: Is the nature of sanctions exogenous to pre-sanction conditions?
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Thank you!