

Trade agreements, exchange rate disagreements

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This paper tests whether the negative effects of large real exchange rate misalignments are exacerbated when they originate within regional integration agreements. In particular, the paper shows that the negative effect on exports and FDI flows of an exchange rate misalignment is amplified when the misalignment is among countries that share a regional integration agreement. The paper also shows that regional integration agreements strengthen the well-established relationship between real appreciation and currency crises. The paper concludes that coordination to achieve real exchange rate consistency within blocs is key for macro stability and, a fortiori, sustainable trade agreements.
