Cost-push inflation and world input-output tables

# Abstract

Understanding how exchange rate movements impact inflation is critically important for monetary policy.

Using several datasets covering most advanced and emerging economies, this column analyses which countries and sectors are under pressure to adjust their prices when subject to an exchange rate variation.

It documents the heterogeneous reactions of consumer prices to exchange rate variations across countries, reflecting differences in foreign product content of consumption and intermediate products.

# Introduction

With the rise of global value chains, numerous researchers have used world input-output tables (WIOTs) to shed light on international economics issues. Theses tables are important to measure the exposure to international risk (Borin, Mancini and Taglioni 2022), attributing carbon emissions across countries (Airebule, Cheng and Ishikawa 2022), looking into the beneficiary of trade-generated income (Bohn, Brakman and Dietzenbache 2021)…

As part of a research team at Banque de France, we have also been using WIOTs to analyze cost-push inflation. Specifically, we have studied the effect of sectoral price shocks and exchange rate movements. In doing so, we have unearthed regularities that should be of interest to all WIOTs users.

Understanding how exchange rate movements impact inflation is critically important for monetary policy. The transmission of exchange rate movements to consumer prices differs across countries. It depends, among other things, on their respective trade openness, the relative integration of sectors and firms in international production chains and the currency of invoicing for trade. In a recent paper (Camatte et al., 2021), we analyse the impact of exchange rate variations on domestic consumer prices using several datasets covering most advanced and emerging economies, from 1995 to 2019.

# Bibliography

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