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The Dollar Is Strong. That Is Good for the U.S. but Bad for the World.

The Federal Reserve may have no choice but to wage a relentless inflation fight, but countries rich and poor are feeling the pain of plunging currencies.

By Patricia Cohen
Reporting from London

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The Federal Reserve's determination to crush inflation at home by raising interest rates is inflicting profound pain in other countries — pushing up prices, ballooning the size of debt payments and increasing the risk of a deep recession.

Those interest rate increases are pumping up the value of the dollar — the go-to currency for much of the world's trade and transactions — and causing economic turmoil in both rich and poor nations. In Britain and across much of the European continent, the dollar's acceleration is helping feed stinging inflation.

On Monday, the British pound touched a record low against the dollar as investors balked at a government tax cut and spending plan. And China, which tightly controls its currency, fixed the renminbi at its lowest level in two years while taking steps to manage its decline.

Weakening Currencies

How the values of global currencies have changed against the U.S. dollar from three months ago

Data through 3 p.m. Eastern time Monday • Source: FactSet • By The New York Times

In Nigeria and Somalia, where the risk of starvation already lurks, the strong dollar is pushing up the price of imported food, fuel and medicine. The strong dollar is nudging debt-ridden Argentina, Egypt and Kenya closer to default and threatening to discourage foreign investment in emerging markets like India and South Korea.

"For the rest of the world, it's a no-win situation," said Eswar Prasad, an economics professor at Cornell and author of several books on currencies. At the same time, he said, the Fed has no choice but to act aggressively to control inflation: "Any delay in action could make things potentially even worse."

Policy decisions made in Washington frequently reverberate widely. The United States is a superpower with the world's largest economy and hefty reserves of oil and natural gas. When it comes to global finance and trade, though, its influence is outsize.

That is because the dollar is the world's reserve currency — the one that multinational corporations and financial institutions, no matter where they are, most often use to price goods and settle accounts. Energy and food tend to be priced in dollars when bought and sold on the world market. So is a lot of the debt owed by developing nations. Roughly 40 percent of the world's transactions are done in dollars, whether the United States is involved or not, according to a study done by the International Monetary Fund.

And now, the value of the dollar compared with other major currencies like the Japanese yen has reached a decades-long high. The euro, used by 19 nations across Europe, reached 1-to-1 parity with the dollar in June for the first time since 2002. The dollar is clobbering other currencies as well, including the Brazilian real, the South Korean won and the Tunisian dinar.

One reason is the string of crises that have rocked the globe including the coronavirus pandemic, supply chain chokeholds, Russia's invasion of Ukraine and the series of climate disasters that have imperiled the world's food and energy supply. In an anxious world, the dollar has traditionally been a symbol of stability and security. The worse things get, the more people buy dollars. On top of that, the economic outlook in the United States, however cloudy, is still better than in most other regions.

China set its currency at the lowest point in two years on Monday. Mark R Cristino/EPA, via Shutterstock

Rising interest rates make the dollar all the more alluring to investors by ensuring a better return. That, in turn, means they are investing less in emerging markets, which puts further strains on those economies.

The unusual concatenation of events, which has led to weakened global demand, is making things even worse for countries that might otherwise be able to take advantage of a devalued currency to export more of their own goods, which have become cheaper.

A fragile currency can sometimes work as “a buffering mechanism,” causing nations to import less and export more, Mr. Prasad said. But today, many “are not seeing the benefits of stronger growth.”

Still, they must pay more for essential imports like oil, wheat or pharmaceuticals as well as for loan bills due from billion-dollar debts.

Consider that a year ago, $100 worth of oil or a $100 debt payment cost 1,572 Egyptian pounds, 117,655 Korean won, and 41,244 Nigerian naira.

Assume there had been no price increases or inflation. Today — purely because of the strengthening dollar — that same $100 payment costs 1,950 Egyptian pounds; 143,158 won and 43,650 naira.

American buyers, meanwhile, are getting a bargain. Last year, a £12 tin of tea from Britain cost

$16.44, and today it costs $13.03. A €50 box of Belgian chocolates has gone from $58.50 to $48.32. Cheaper imports are helping keep American inflation in check.

"I can't remember the last time when the issue was that a strong dollar was a way the United States was exporting inflation, extinguishing some of its own, but by adding more of it around the world," said Jason Furman, an economics professor at Harvard who was a chief economic adviser in the Obama administration.

The most vulnerable face the biggest blowback. Poor countries often have no choice but to repay loans in dollars, no matter what the exchange rate was when they first borrowed the money. Spiraling U.S. interest rates were what set off the catastrophic debt crisis in Latin America in the 1980s.

Increases in fuel price led to protests near the presidential palace in Jakarta, Indonesia. Mast Irham/EPA, via Shutterstock

The dinar in Tunisia is getting clobbered by the dollar, helping propel food insecurity. Sergey Ponomarev for The New York Times

The situation is particularly fraught because so many countries ran up above-average debts to deal with the fallout from the pandemic. And now they are facing renewed pressure to offer public support as food and energy prices soar.

In Indonesia this month, thousands of protesters, angry over a 30 percent price increase on subsidized fuel, clashed with the police. In Tunisia, a shortage of subsidized food items like sugar, coffee, flour and eggs has shuttered cafes and emptied market shelves.

Brazil has cut fuel taxes and increased social welfare payments, but soaring prices remain a daily struggle.

Maria Cícera da Silva lives with her daughter and granddaughter in a 160-square-foot apartment in Rocinha, a poor hillside neighborhood in Rio de Janeiro. “You go to the grocery store, you buy something at a price today,” she said, but then the next day, it costs more. “It’s been hard.”

Private companies, too, in emerging markets like Korea, Brazil and Indonesia over the last decade borrowed large amounts of dollars, attracted by what seemed to be reliably low interest rates.

New research on the impact of a strong dollar on emerging nations found that it drags down economic progress across the board.

“You can see these very pronounced negative effects of a stronger dollar,” said Maurice Obstfeld, an economics professor at the University of California, Berkeley, and an author of the study.

Then there is a pile-on effect. Even in countries where inflation is not as high, central banks feel pressure to raise interest rates to bolster their currencies and prevent import prices from skyrocketing. Last week, Argentina, the Philippines, Brazil, Indonesia, South Africa, the United Arab Emirates, Sweden, Switzerland, Saudi Arabia, Britain and Norway raised interest rates.

Despite the pain a strong dollar is causing, most economists say that the global outcome would be worse if the Fed failed to halt inflation in the United States.

At the same time, the sweep of rising interest rates around the globe is causing concerns that central bankers might move too far, too fast. The World Bank warned this month that simultaneous interest rate increases are pushing the world toward a recession and developing nations toward a string of financial crises that would inflict “lasting harm.”

Clearly, the Fed’s mandate is to look after the American economy, but some economists and foreign policymakers argue it should pay more attention to the fallout its decisions have on the rest of the world.

In 1998, Alan Greenspan, a five-term Fed chair, argued that “it is just not credible that the United States can remain an oasis of prosperity unaffected by a world that is experiencing greatly increased stress.”

The United States is now facing a slowing economy, but the essential dilemma is the same.

“Central banks have purely domestic mandates,” said Mr. Obstfeld, the U.C. Berkeley economist, but financial and trade globalization have made economies more interdependent than they have ever been and so closer cooperation is needed. “I don’t think central banks can have the luxury of not thinking about what’s happening abroad.”

With inflation still high in the United States, most economists argue that a failure for the Federal Reserve to act would be a worse outcome for the world. Timothy Mulcare for The New York Times

Flávia Milhorance contributed reporting from Rio de Janeiro.

Patricia Cohen is the global economics correspondent based in London. Since joining The Times in 1997, she has also written about theater, books and ideas. She is the author of "In Our Prime: The Fascinating History and Promising Future of Middle Age." @PatcohenNYT • Facebook