

TARIFFS, EXCHANGE RATES AND MONETARY POLICY

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Federal Reserve Bank of Minneapolis

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The views expressed herein are those of the authors and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.

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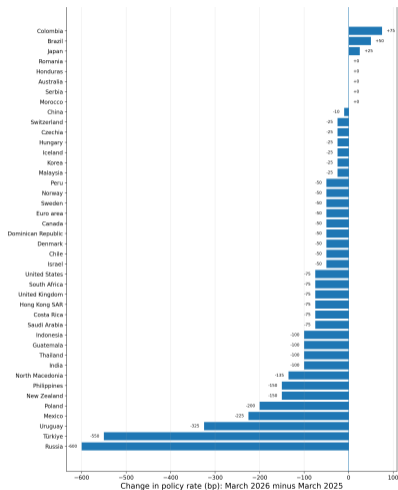
Well-understood:

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For the country whose competitors face tariffs on exports

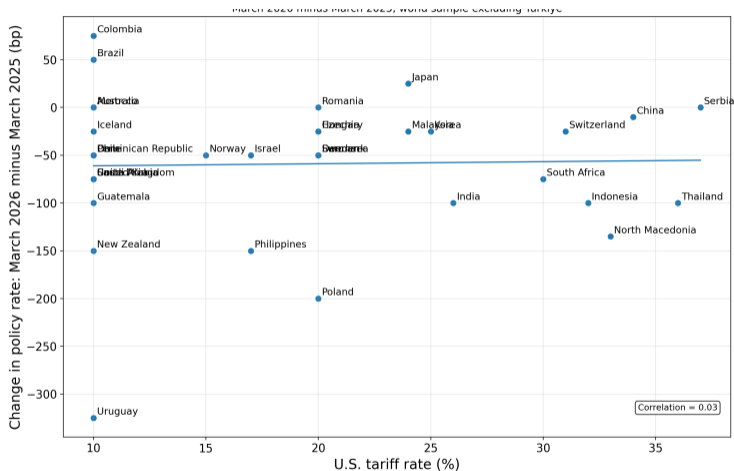
- Equivalent to positive terms-of-trade shock \Rightarrow opposite response

POLICY RATE CHANGES: APRIL 2025–APRIL 2026



Most countries have eased monetary policy

POLICY RATE CHANGES AND TARIFFS



However, little correlation between tariffs and change in rates

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Jay Powell has been under fire from the US president over the Federal Open Market Committee's decision to keep interest rates on hold © Mark Schiefelbein/AP

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Christopher Waller joined the Fed's policy-setting panel in 2020 after being nominated by Donald Trump during his first term as president © Bloomberg

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Bianchi and Coulibaly (2024)

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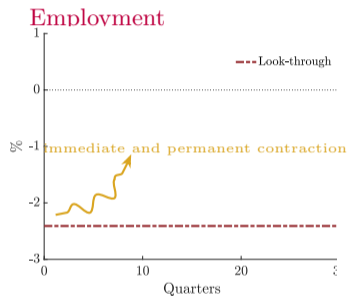
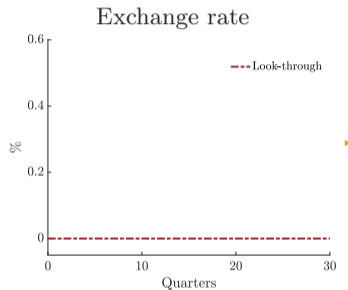
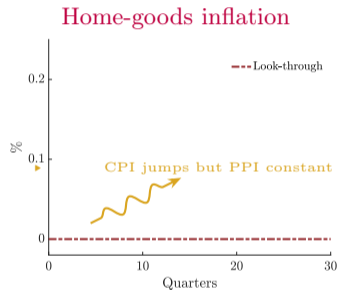
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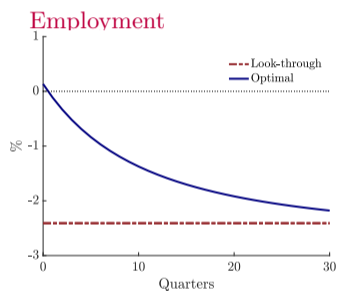
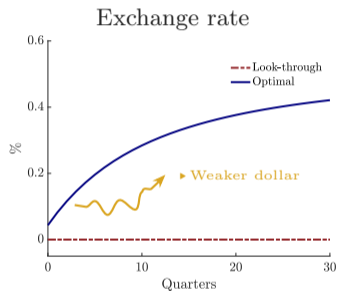
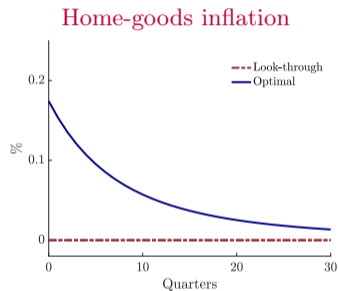
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- Even if tariffs are permanent, net exports increase \rightsquigarrow *monetary stimulus raises savings*

PERMANENT TARIFF: LOOK-THROUGH



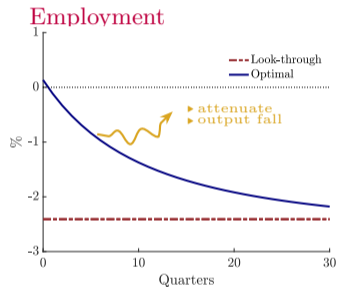
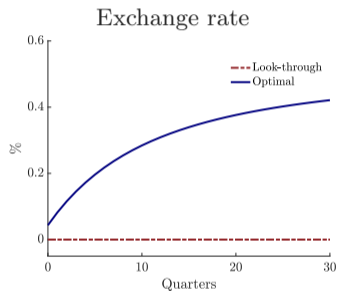
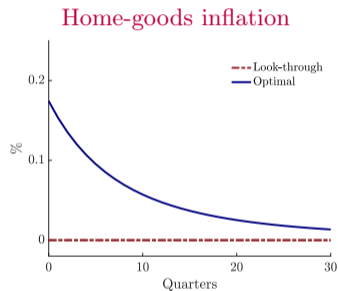
Inflation is annualized. Consumption, employment and the exchange rate are expressed in percentage deviation from the pre-tariff allocation. Trade balance is expressed as a fraction of GDP.

PERMANENT TARIFF: LOOK-THROUGH VS. OPTIMAL POLICY



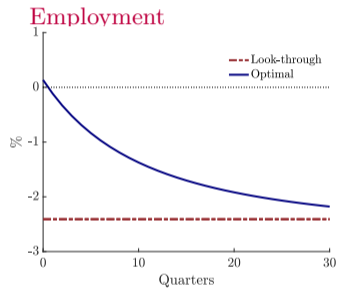
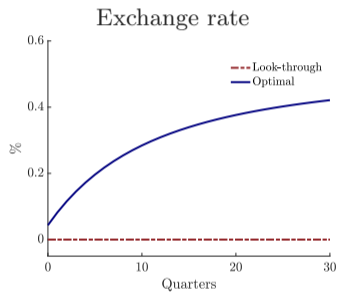
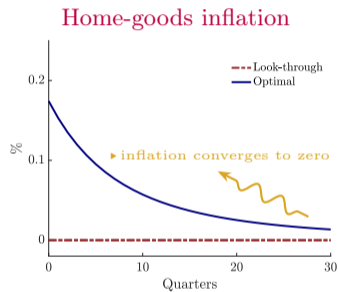
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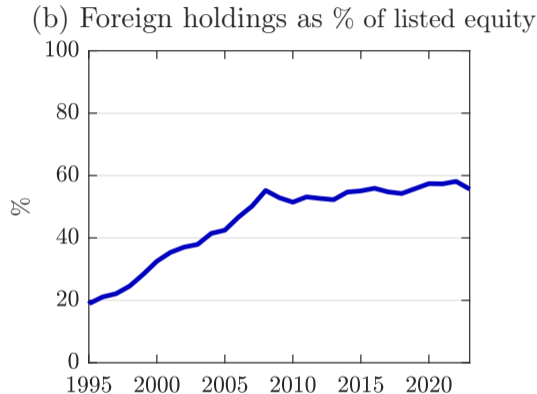
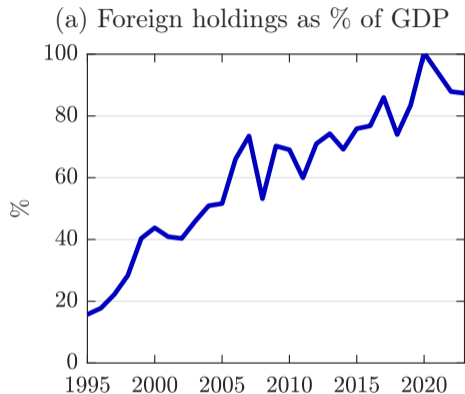
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- Bianchi (2025): tariffs as a way to **extract resources from foreign equity holders**
 - ▶ When firms are domestically owned, maximizing value added is efficient \Rightarrow zero tariffs on inputs are optimal
 - ▶ However, when firms are foreign-owned, tariffs on intermediate inputs may lead to higher wages and lower profits
 - ▶ This benefits households at the expense of foreigners

FOREIGN OWNERSHIP + FDI, OECD



Bianchi and Van der Ghote (2024). Data source: External Wealth of Nations (EWN) database Lane and Milesi-Ferretti and the OECD National Accounts Statistics. [» Back](#)

CONCLUSIONS

- Tariffs generate large changes in relative prices with significant implications for monetary policy
- External shocks are real, but inflation is ultimately a choice: monetary policy needs to decide how much to lean against their inflationary effects
- Quantifying the contribution of tariffs and energy-price shocks can help clarify the policy trade-offs and improve communication with the public

PRESENTATION IS BASED ON

1. “Who Pays for Tariffs? Optimal Trade Policy under Foreign Ownership.” 2025.
2. “The Optimal Monetary Policy Response to Tariffs.” 2024, with Louphou Coulibaly
3. “Financial Integration and Monetary Policy Coordination.” 2024, with Louphou Coulibaly
4. Bianchi & Coulibaly. “Monetary Policy Coordination during a Trade War.” 2026. with Louphou Coulibaly