

[Dominant Currency Pricing Transition](#)

CFM-DP2024-19

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This paper studies a rare episode of aggregate transition to dominant currency pricing in a developed economy, the UK, relying on transaction level data. We uncover a previously overlooked channel of currency invoicing choice, driven by operational FX mismatch valuation effects. Furthermore, we document how since Brexit the UK economy has become twice more sensitive to movements in the dollar exchange-rate.

Until 2016, most UK non-EU exports were invoiced in pounds. However, in the aftermath of the June 2016 Brexit referendum and the subsequent depreciation of the pound, the share of non-EU UK exports invoiced in pounds decreased sharply – by more than 20pps. This was mirrored by an increase of similar magnitude in the share of US dollar invoicing, which by 2019 overtook the pound as the main non-EU export invoicing currency.

Using shift-share and event-study identification strategies, we show that large foreign-exchange movements can generate a transition in invoicing choices for firms with low levels of operational hedging, that is whose exports are not denominated in the same currency as their import. We find that that this currency-mismatch valuation channel accounts for most of the transition away from producer currency pricing, above and beyond effects from strategic complementarities and market power.

We find that UK exports exhibit significantly higher elasticity to the dollar exchange-rate movements after the Brexit referendum: a US dollar appreciation depresses demand for exports by twice as much than before this ‘dominant currency pricing transition’.