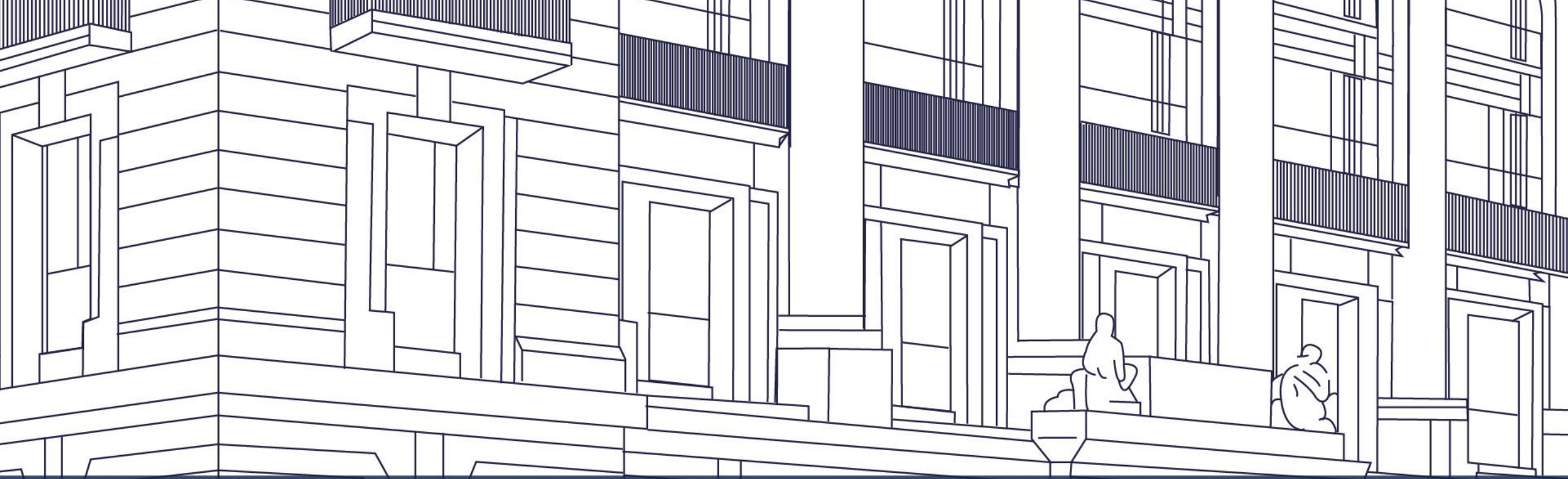

Discussion of “Monetary policy transmission in emerging markets: proverbial concerns, novel evidence”

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Sandri et al. (2024). MP transmission in EMEs

- **Paper focuses on an important topic for policy makers:**

  How much traction does monetary policy (MP) have in emerging market economies (EMEs)?

- **Paper addresses this question by answering:**
  1. **How do MP shocks transmit to financial markets in EMEs?**
  2. **How do MP shocks transmit to macroeconomic conditions in EMEs?**
  3. **Is there firm-level heterogeneity in the transmission of MP shocks?**

- **Paper provides an interesting approach to answering these questions and I enjoyed reading it.**
  - Clear contribution to the literature on the transmission of monetary policy shocks in EMEs.
  - Results shed light on the transmission channel of monetary policy on macroeconomic outcomes and financial conditions in emerging economies using high-frequency identification.

Motivation and key contribution

- **Identification of monetary policy shocks in Emerging Markets (EMEs) is a challenging task.**

  ✓ *In advanced economies, the availability of data facilitates research on the transmission of monetary policy. For example, recent efforts have focused on the identification of high-frequency policy shocks to study MP transmission. In EMEs, identifying monetary policy shocks through this strategy is challenging.*

- **CONTRIBUTION: Build a novel dataset of monetary policy surprises for a panel of EMEs based on Bloomberg's analysts forecasts survey, and provide evidence of the effectiveness of monetary policy in emerging markets.**

Main findings about MP transmission

- This study provides evidence on the transmission of monetary policy shocks in EMEs.

  - ✓ ***Financial Market impact:*** *a monetary tightening rises the yield curve, in particular for short- and medium-run interest rates, appreciates exchanges rates (temporarily), and reduces stock prices.*

  - ✓ ***Macroeconomic impact:*** *Monetary tightening depresses industrial production, increases unemployment, and reduces inflation.*

  - ✓ ***Firm-level impact:*** *Monetary tightening leads to a decline in investment, sales, and employment. The contractionary effects are more pronounced for highly leveraged firms and those with lower liquidity.*

Comments & Suggestions: MP shocks

- Authors argue that a key contribution of their paper is their proposed measure of "MP shocks" based on the forecast error of analysts that submit forecasts to Bloomberg.
- Overall, authors did a good job arguing in favor of their proposed measure.
- Pushing the authors further, would like to see a little more in the paper to convince the reader about the superiority of their proposed measure relative to possible alternatives.

1. *Why not use median forecast error rather than average forecast error?*

   - Could be a useful robustness test to understand how sensitive is the constructed "MP shocks" to analyst that are "outliers".

2. *Would be nice to see if "commonly accepted" episodes of monetary surprises are well captured by the MP shocks constructed by the authors.*

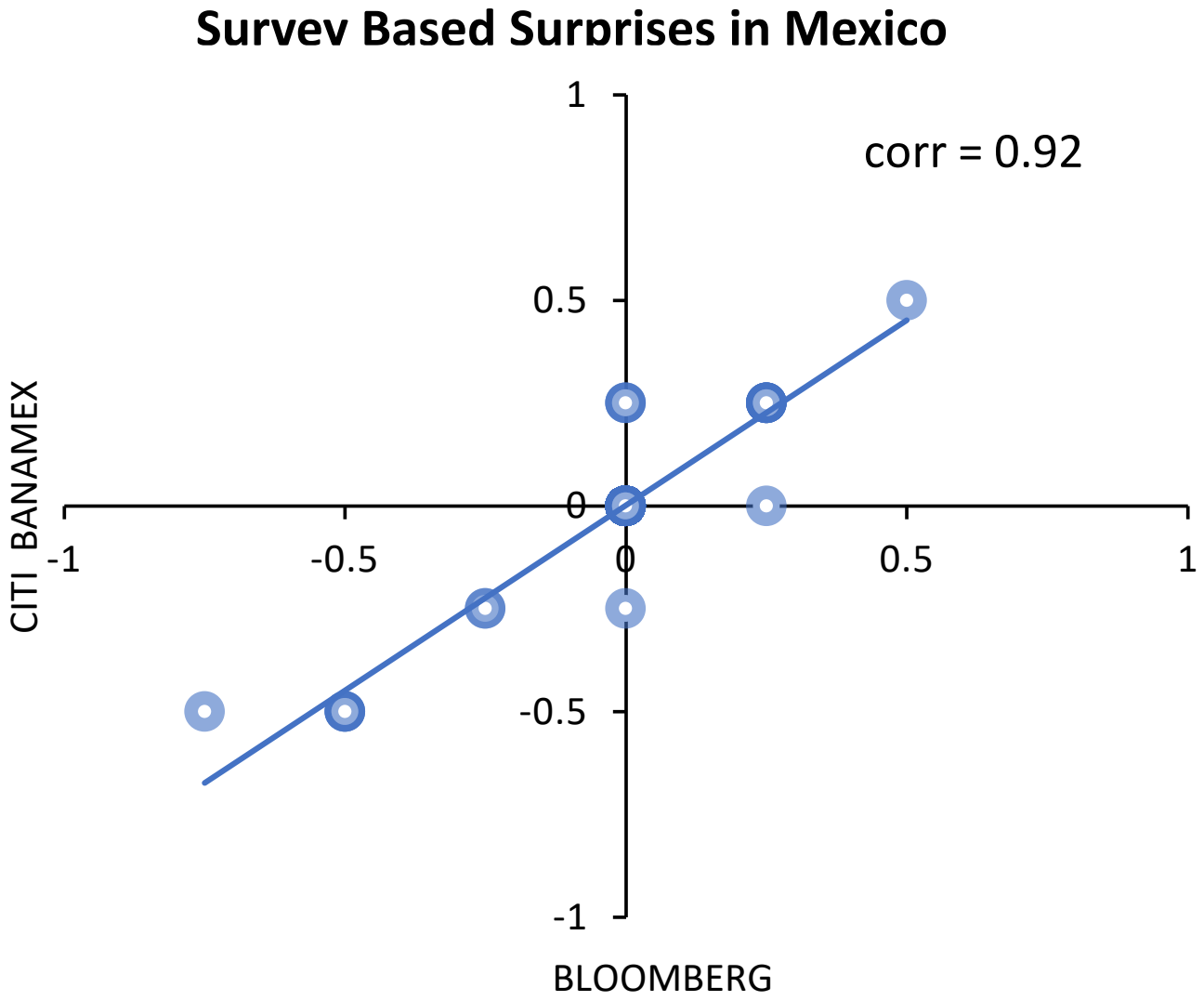
   - Similar to the exercise of Davis et al. (2016) to "validate" their economic policy uncertainty index.

Comments & Suggestions: MP shocks

- Authors emphasize that key to their "MP shock" measure is the fact that Bloomberg forecasts are such that analysts can submit and revise their forecasts *any time* prior to the MP meeting, allowing them to incorporate any relevant information that may influence the MP decision.

- **However:**
  - ✓ *Early submitters in Bloomberg's survey tend to have smaller forecast errors than late submitters.*
    - ➢ Push a little further the argument in Table B.1 and present baseline results for monetary transmission using the "MP shock" constructed with *only* those analysts that submit in the last 3 days prior to the MP decision & "MP shock" constructed with *only* those analysts that submitted between 10 to 14 days prior to the decision.
  - ✓ *At least for the case of Mexico, "MP surprises" constructed with Bloomberg forecast are highly correlated with "MP surprises" constructed using other surveys.*
    - ➢ Authors could compare their "MP shock" measure to what can be constructed with other surveys (for example, "Blue Chip" in the U.S.) and check correlations. If this correlation is relatively high, it might suggest that the feature of the Bloomberg survey being emphasized is not as important as the authors are making it out to be.

Comments & Suggestions: MP shocks



Note. Monetary policy surprises for Mexico, based on data from Bloomberg and the Citibanamex survey of policy rate decisions from 2008-2023.

Comments & Suggestions: MP transmission

- **How can we reconcile the effects on FX showcased in Figs 3 and 4:**

  ✓ *The exchange rate in the macroeconomic conditions analysis appears to appreciate up to a year later, contrary to their findings on financial markets and our knowledge of a quicker response.*

Fig 3. Financial market responses

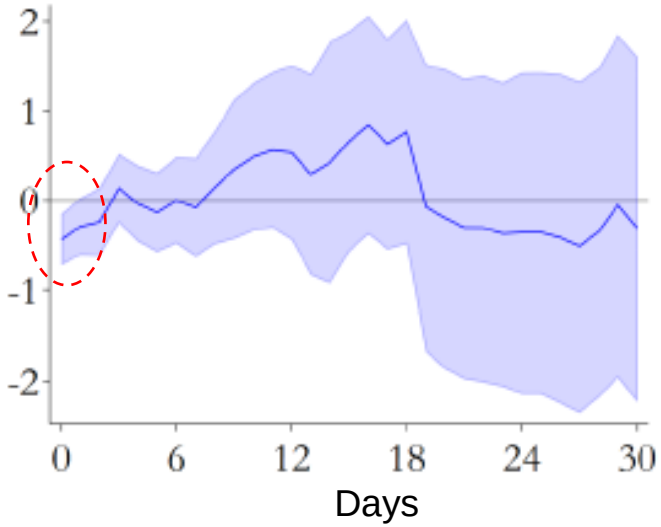
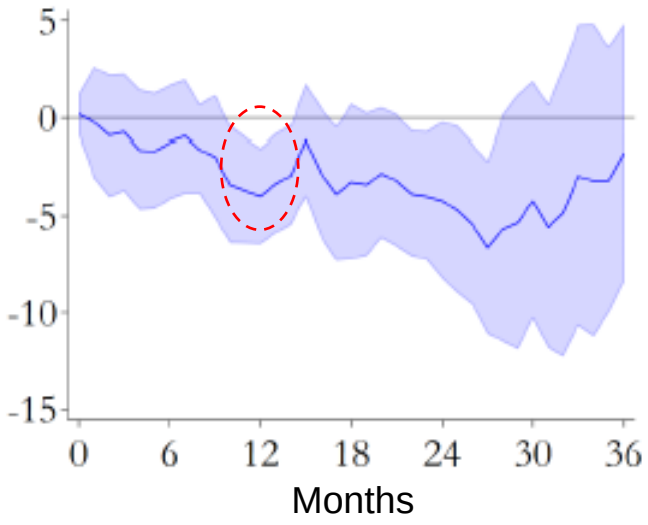


Fig 4. Macroeconomic responses



✓ *Could be useful to add a country-by-country analysis to identify heterogeneity in exchange rate responses. This could help identify countries with delayed exchange rate responses that could be useful to reconcile these estimates.*

Comments & Suggestions: MP transmission

- **Rationale behind impulse responses for inflation in Figures 4 and 5:**
  - ✓ *Estimated effect on **inflation** suggest that it peaks at three years with large effects following a 100 bp monetary increase.*
  - ✓ *These results are in contrast to what is commonly found in the literature. For instance, IMF[2/] estimates find international evidence of inflation peaking within 8 quarters, with effects being much lower than suggested by this paper.*

Effects of a 100bp increase in Monetary policy rate at 90 percent confidence bands

	IMF[2/]		This paper	
	Effect	Horizon	Effect	Horizon
Output	0.1% - 0.5%	7 months - 2 years	0.5 – 4.0%	7 - 9 months
Inflation	0.1% - 0.45%	8 months - 2 years	2.0 – 4.0%	2.5 - 3 years

  - ✓ *What accounts for the difference? How can we reconcile the results of this paper with the magnitude of effects more commonly found in the literature?*
    - ➢ Would be useful to have more disaggregated analysis to see if particular countries are driving the average effect.
  - ✓ *Taking the results at face value, what would they imply for inflation stabilization in a "reasonable time horizon"?*

2/ Deb, P., Estefania Flores, J., Firat, M., & Furceri, D. (2023). Monetary policy transmission heterogeneity: Cross-country evidence.

Comments & Suggestions: MP transmission

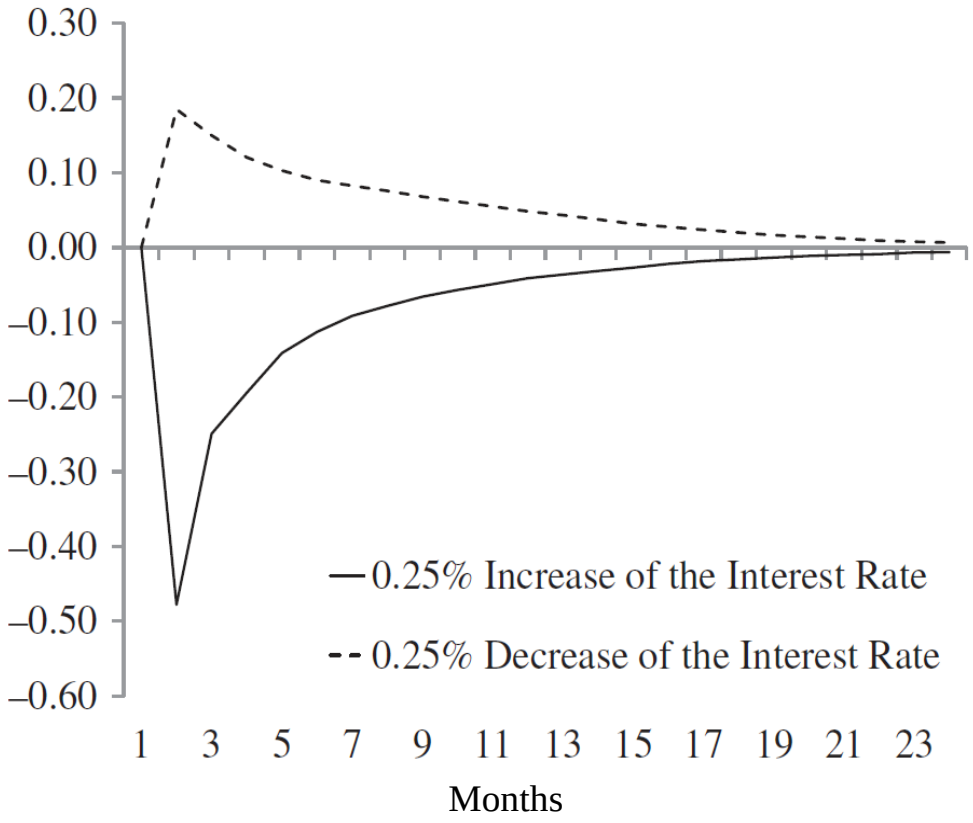
- **Effects by Groups (i.e. Regions/Income Level/Financial development):**
  - ✓ *Consider analyzing the data by specific regions (i.e. Latin America, Asia, Europe, etc) or other relevant characteristics that may influence monetary policy transmission (i.e. Income level, financial development)*
  - ✓ *This could reveal heterogeneous dynamics and a better sense of what is driving the average effect that we see in the pooled estimation.*

- **Asymmetry in monetary cycles:**
  - ✓ *Examine whether monetary transmission in EMEs happens differently during tightening versus loosening cycles.*

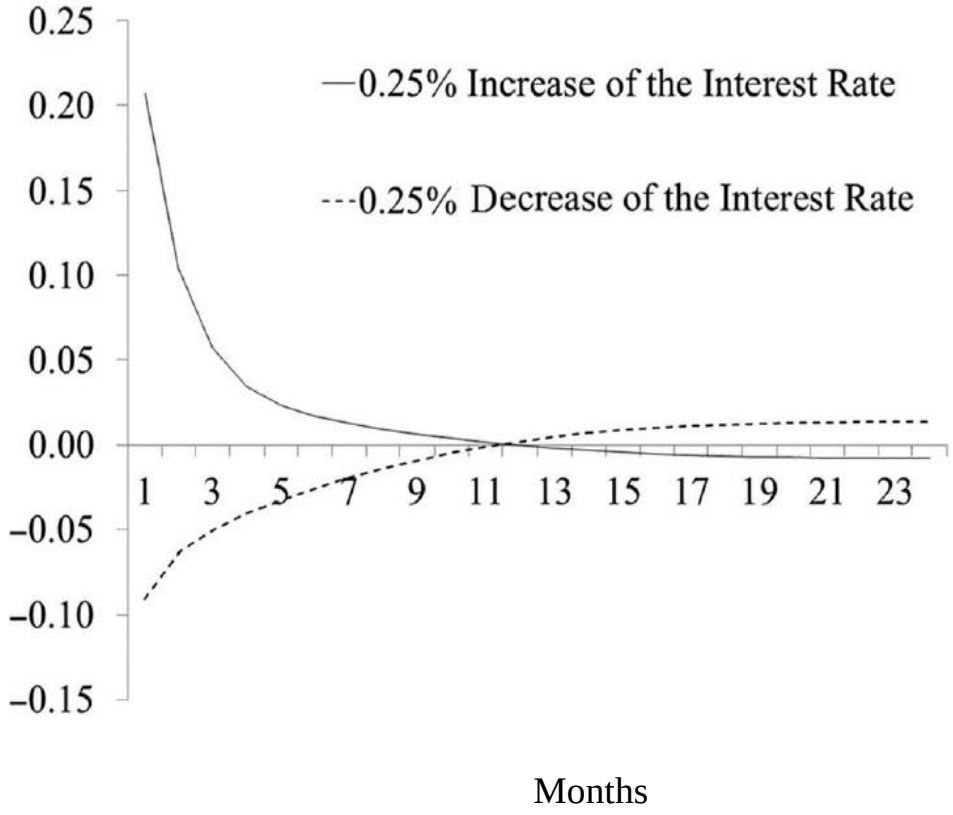
Comments & Suggestions: MP transmission

- Evidence for Mexico suggests asymmetric effects for MP transmission (*Ibarra, 2016*).

Effects of MP on Ouput



Effects of MP on Lending Spread



Note: Results based on a non-linear threshold VAR (TVAR) model for Mexico from 2004–2013. See Ibarra, R. (2016). How important is the credit channel in the transmission of monetary policy in Mexico?. Applied Economics, 48(36), 3462-3484.

Comments & Suggestions: MP transmission

- **Consider including an analysis that only covers the pre-pandemic period.**
  - ✓ Atypical dynamics during the pandemic could distort the average effect estimated by the authors.
  - ✓ Excluding pandemic period could be useful to establish a "better" baseline of what MP transmission is and whether the pandemic period was different.
- **Identification of the effect of MP shocks could be cleaner in the pre-pandemic period as concerns stemming from the implementation of unconventional measures are avoided:**
  - ✓ *Work by the IMF[1/] shows that post-pandemic, unconventional monetary measures were implemented in emerging markets.*
  - ✓ *Additionally, Central banks' communication in EMEs also increased post-pandemic due to higher uncertainty.*

1/ Fratto, C., Vannier, B. H., Mircheva, M., De Padua, D., & Ward, M. H. P. (2021). Unconventional monetary policies in emerging markets and frontier countries. IMF

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