Discussion of Resolving Puzzles of Monetary Policy Transmission in Emerging Markets by Ha et al.

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Summary

- **Aim:** Solve the two common puzzles in empirical models of the transmission mechanism of monetary policy in emerging markets (EMEs):
  1. The price puzzle: *a positive response of prices to a monetary contraction*
  2. The exchange rate appreciation (FX) puzzle: *a negative (or a delayed positive) response of the exchange rate to a monetary contraction*

- **Approach:** Run a battery of SVAR models on monthly data for 26 countries, including specifications and potential solutions identified in the literature for advanced economies (AEs) and EMEs.

- **Results:**
  1. Incorporating forward-looking expectations from consumers, businesses and/or professional forecasters into standard open economy SVAR helps to solve the puzzles.
     → proxy for central bank's forecasts
  2. Contrary to the standard assumption in the literature, the puzzles appear to be related. → Eliminating the FX puzzle helps to solve the price puzzle.

Empirical specifications

- Cholesky decomposition
  * Baseline specification: output, prices, exchange rates (xUSD), monetary policy rates, short term interest rates and stock prices + controls: commodity prices, US policy rates, VIX and time trends.
  * Closed economy model with no controls.
  * Adding controls one by one.
  * Baseline + expectations of inflation, output, interest rates and exchange rates from consumers, businesses and professional forecasters.
  * Baseline with high frequency identification.
  * Baseline with alternative ordering.
  * Baseline FAVAR with global variables.
- External instruments
  * Romer & Romer (2004) approach using expectations from consumers, businesses and professional forecasters to estimate the systematic and anticipated component of monetary policy.
  * Jarocinsky & Karadi (2020) or Bu, Rogers & Wu (2020) approach removing the information content from central bank news shocks.
- Sign restrictions
  * Restrictions on output and prices.
  * Restrictions on Forex.
  * Restrictions on policy rate.

Take home messages

- This work provides further supporting evidence of the *omitted variable* problem.
  - Standard SVAR info sets are not enough to capture Central Bank's inflation expectations.
  - As a consequence the econometrican incorrectly interprets a policy tightening in anticipation of future inflation as a policy shock.
  - The opposite behavior of output and prices is a sign that this bias might mainly be capturing supply side shocks. (as well as the link between FX and price puzzle)
- Impressive work!
- The paper is very comprehensive and covers a lot of ground.
- I'll focus my discussion on:
  1. Link with the recent literature on AEs.
  2. Mixing SVAR and LP results.
  3. Presentation and summary of the very large number of results.
  4. Some minor suggestions.

Comment I: Recent work on AEs

- The discussion about potential solutions to the price puzzle in AEs is missing some recent important contributions:
  - **Miranda-Agrippino & Ricco (2021)**: control for the CB info set similarly to Jarocinsky and Karadi (2020).
  - **Arias, Caldara & Rubio-Ramirez (2018)**: augment sign restrictions with systematic component of MP coming from the Taylor rule.
  - **Antolin-Diaz & Rubio Ramirez (2018)**: narrative sign restrictions.
  - **Bauer & Swanson (2022)**: reasses high frequency identification and the correlation between monetary policy surprises and macro/financial variables publicly available before FOMC dates. → no asymmetry between CB and the public info set.

Comment II: SVAR vs LPs

1. Are confidence bands comparable across the two methodologies?
2. More generally are the two comparable? For example the LP is estimated over 15 countries vs 26 for the SVAR.
3. Why not exploiting the panel dimension also in the SVAR set up?

Comment III + minor points

1. Given the very large set of empirical specifications and results it would be good to have a summary table.
2. Also more details and explanations needed for each specification. For example the LP set up is explained in a footnote.
3. Uhlig (2005) sign restrictions left output unrestricted.
4. In Figure A 10 prices and output do not decline for all the countries reported as mentioned in the text.
5. Equivalent of Figure 3 in the draft for the median country.