Comments on:
“Global impact of US monetary policy at the ZLB”

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What questions are being asked?

• What are the effects of US monetary policy on other countries at the zero lower bound (ZLB)?

• In particular, does US monetary policy affect growth, inflation, and financial conditions...

• Compare these effects to a pre-crisis period when the US policy rate > ZLB
What do the authors do?

• Estimate single country VARs and then put them together in a globally consistent model

• Assume the US is exogenous and trace out the effect of US MP shocks on all variables

• Use the same VAR framework to trace out counterfactuals—what if the US stopped easing at the ZLB?
Contributions

• Extends this literature beyond the event studies that have been popular

• “All-encompassing” approach including dynamic effects, third-country spillovers...

• Use new data, including credit and time-varying linkages
Key results

- US easing at the ZLB applied appreciation pressures on EM exchange rates...
- ...but growth and inflation typically increased as a result
- Effects for a similar sized US monetary policy shock have more statistical significance post-crisis
Questions

• Over-parameterized —always an issue with VARs, more important here?

• VECMs—are these variables really cointegrated?

• Shadow rate—is this the right measure of US unconventional monetary policy?

• Should we focus more on policy reaction functions?
Shadow Rate – Right Measure?

Shadow Rate and Forward Rates
Forward rates 1-10Y

Yield curves (forward rates)

Post-QE Events
- FG Jan-2012
- FG Aug-2011
- QE2 Sep-2010
- QE2 Aug-2010
- QE1 Nov-2009
- QE1 Sep-2009
- QE1 Mar-2009

Change - basis points
-80 -60 -40 -20 0
Policy response – reserve accumulation

Δe=0, ΔY*>0
Policy response – exchange rate appreciation

\[ \Delta e < 0, \Delta Y^* > 0 \]
## Key EM results from the paper

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<tr>
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<th>Brazil</th>
<th>China</th>
<th>Indonesia</th>
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<tr>
<td>Exchange rate pressure</td>
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<td>Monetary policy</td>
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Policy responses

Exchange Rates versus the USD

FX Reserves
Policy response

Monetary Policy Rates

China (RRR)
Brazil
Indonesia

Base money growth

China
Brazil
Indonesia
Conclusion

• An important paper and a solid contribution to a new literature

• Raises more questions than it provides answers—but this is no bad thing

• This paper makes me want to write my own research on the topic!