BANGKO SENTRAL NG PILIPINAS

Comments on “State-dependent exchange rate pass-through”

by Carrier-Swallow, Firat, Furceri and Jimenez

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June 13, 2023

STRATEGIC COMMUNICATION AND ADVOCACY
CORPORATE AFFAIRS OFFICE

Classification: GENERAL

A cool paper

State dependency means different mechanisms are at work in exchange rate pass-through

- There are many moving parts: states include levels of inflation, degree of uncertainty and whether source of shock is US monetary policy

Most intriguing: Why does pass-through get much larger when US monetary policy is source of shock?

- The paper measures US monetary policy shock by means of the Kuttner surprise, but there are actually more than one such shock

There are monetary policy shocks and there are monetary policy shocks

Kuttner surprise

A possible mechanism: the Obstfeld-Zhou global dollar cycle

The cycle tracks global financial conditions

- “Over the global dollar cycle, world asset prices, leverage, and capital flows move in concert with global growth.”

It heavily influences emerging economies

- “The global dollar cycle influences especially the fortunes of emerging economies…”

References

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