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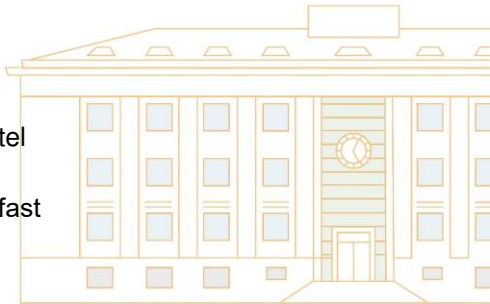
Comments on:
Spillover Effects of ECB Policies in a SoE framework
Bledar Hoda

BCC, 22 September 2022

Rebecca Stuart
Université de Neuchâtel
and
Queen's University Belfast



This paper

- An empirical investigation of how the ECB's unconventional monetary policy (UMP) and conventional monetary policy impacted on Albania.
- The author uses a 12-variable VAR using monthly data for Jan 2008 – May 2018.
- To deal with the large number of variables, the author uses a Bayesian VAR.
- Overall, the paper is technically very elegant and also well written.

Comments (1)

- The ECB introduced unconventional monetary policy much later than the Fed or the Bank of England. It would be useful to have a summary of what those UMPs were, and when they were introduced.

- Since the ECB's UMP measures were introduced so late, data from before that period must be uninformative about the effects of these policies. Why not start in 2012 or later? And why not include the period 2018 – 2022?

- During part of the sample period, the ECB's interest rates were stuck at the lower bound and could not respond to contractionary shocks. This is why the ECB introduced UMP. How should we think of that? Does the system undergo an endogenous structural break?

Comments (2)

- The author uses sign restrictions to identify ECB monetary policy shocks, but a Cholesky factorisation to identify the Albanian shocks. This is a bit of a mixture. Why not use a single approach to identification?

- If we are interested only in the effects of ECB policy, is it necessary to identify the Albanian shocks?

- Economic historians are forced to work with short and incomplete data sets, and to deal with structural breaks. The same is true for many emerging market economies. What are Albanian data like? Are there large structural breaks? Perhaps plot of the data?

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Comments on:
Monetary Policy and Portfolio Flows in an Emerging Market Economy
Martha López-Piñeros, Norberto Rodríguez-Niñoa and Miguel Sarmiento

BCC, 22 September 2022

Rebecca Stuart
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and
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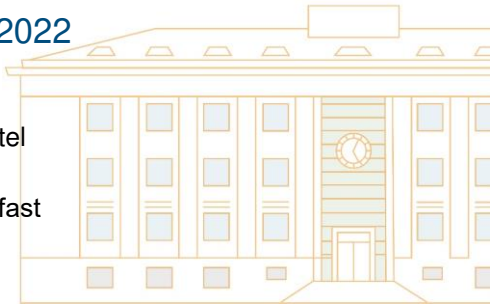
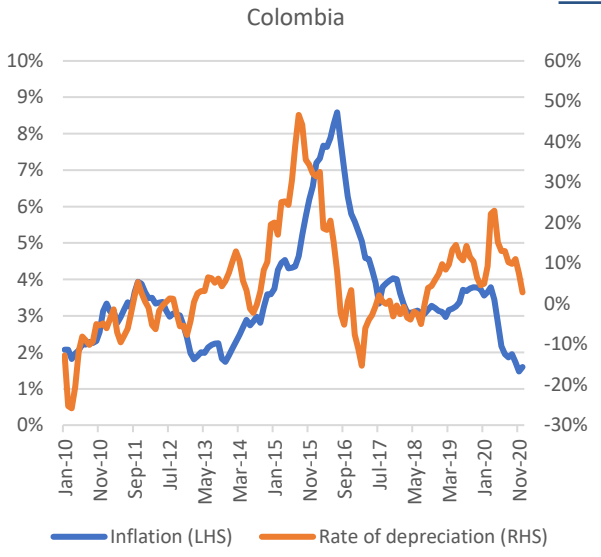


This paper

- The authors study the effect of domestic and US interest rates, and domestic inflation, on portfolio inflows in Colombia.
  - Important issue for other countries, including for Switzerland where SNB policy can be thought of as setting an interest rate differential against the euro and USD.
- Paper distinguishes between government securities (TES, 70.3% of inflows), corporate bonds (2.9%) and equities (26.8%).
- Uses monthly data on non-residents over the period 2011-2020 and a structural VAR framework with long-run restrictions.
- Several interesting findings:
  1. Inflows into the government bond market increase with the domestic policy rate but decline with higher US rates and domestic inflation (Fig 2).
  2. Inflows into the stock market rise with domestic inflation but do not appear to respond much to domestic and US interest rates (Fig 5).
  3. Inflows into the corporate bond markets respond negatively to higher domestic inflation rates but do not seem much affected by inflation and US interest rates cumulatively after 2 months (Fig 6).

Comments (1)

- The paper emphasises the role of inflation and how it depresses real returns. But Colombian inflation only matters for Colombian residents; for US residents it is US inflation that matters.
- Paper does not discuss the USD exchange rate. Could it be that higher inflation is caused by, or causes, exchange rate depreciation? If so, higher inflation could signal exchange rate losses.



Comments (2)

- The paper uses long-run restrictions to identify the shocks but only the responses of inflows to interest rates and inflation are shown. This makes it difficult for the reader to assess how well the identifying restrictions "work."
  - For instance, how do Colombian interest rates respond to US rates? To inflation? How does inflation respond to interest rates?
- While US interest rates are exogenous, under inflation targeting domestic rates are endogenous. Higher rates in response to stronger growth may attract inflows, but higher rates in response to political uncertainty and exchange rate depreciation would not. The reader would benefit from a discussion of such shocks (if there were any).
- The SVAR comprises 7 endogenous (and some exogenous) variables but discusses only the impact of 3 shocks on inflows. Would it be interesting to look at a smaller system comprising the federal funds rate, domestic interest rates and inflation where shocks might be identified using short run restrictions?

Overall

- Interesting paper on questions that are important to many economies.
- Nice empirical framework but it would be interesting to see more results.
- Explore whether smaller system focusing on the key variables of interest and identified with short-run restrictions yield similar results.