The Transmission of International Monetary Policy Shocks on Firms Expectations and Decision: Discussion

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Overview of the paper

- Broad: Investigate the effect of foreign shocks, US MP, on SOEs
- Specific focus on firm's expectations and decisions
- Relates to the literature on international spillovers of US MP owing to it's "exorbitant privilege of the USD" and GFC
- Contribution: Interaction between GFC and firms' expectations of the local economy

Summary of the findings

- US MP shock reduces firms' 1 and 2-year ahead inflation and cost expectations
- Heterogeneity depending on firms' debt level and denomination of the debt
  - **Expectations**: Cost expectations for foreign-currency borrowers increase relative to others less exposed but no significant effect on inflation expectations for this group
  - **Decisions**: Firms reduce their foreign-denominated debt after a contractionary US MP shock
  - Firms with foreign exposure increase their imports

Data: While Uruguayan peso does depreciate after US MP, no evidence of reduction in actual inflation

Questions or further discussions

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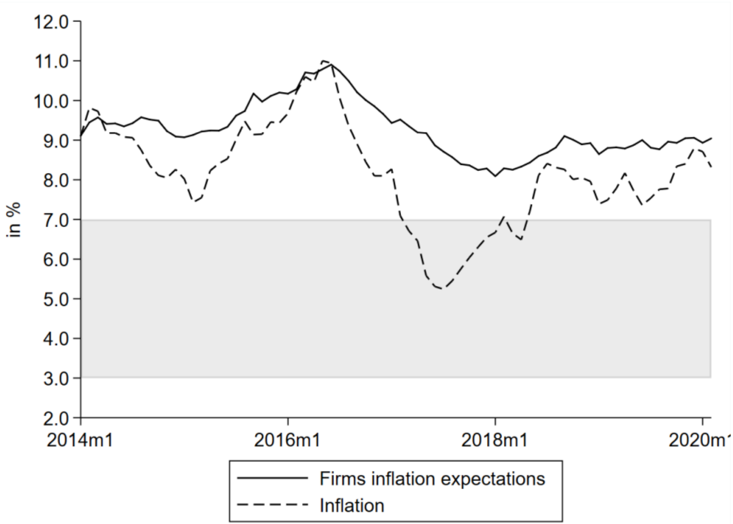
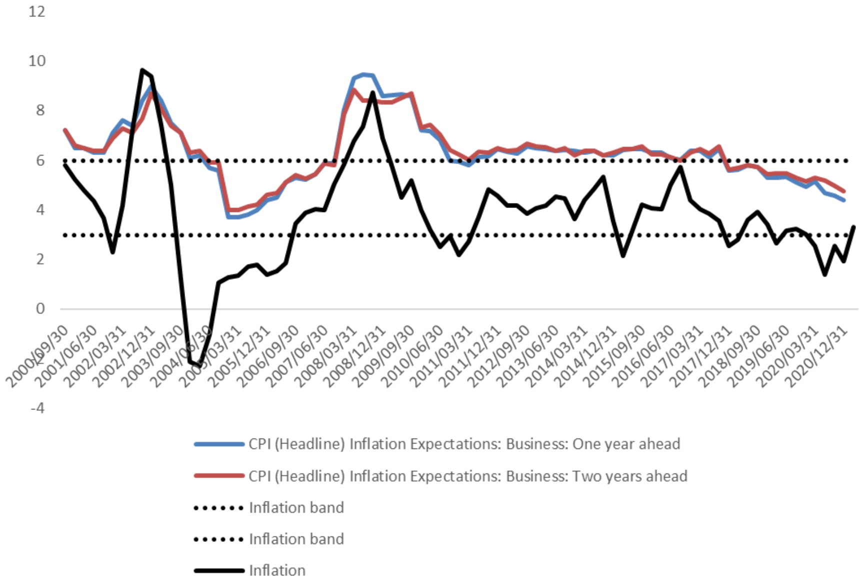
5. Policy framework - should we really blame the US for lack of monetary policy independence?

Figure 1: Inflation and inflation expectations in Uruguay

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CPI (Headline) Inflation Expectations: Business: One year ahead
CPI (Headline) Inflation Expectations: Business: Two years ahead
Inflation band
Inflation band
Inflation