

a Discussion of
**Measuring monetary policy shocks in emerging
economies: Evidence from India**
by **Aeimit Lakdawala and Rajeswari Sengupta**

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Summary of the Paper

- Most of what we know about MP comes from US data... or Euro Area, or UK
- Relatively little research on the effects of MP in EME using state-of-the-art tools

This paper: filling a gap!

- **Daily changes** in 1, 3, 6, 9-month and 1-year OIS rates on **115** RBI announcements
- **Target & path** factors as Gürkaynak et al. (2005)
- **Narrative analysis** for diagnostics and interpretation
- Event study
- IRFs (to target shock)

Results:

- Bond & stocks react strongly to surprises in the event study
- ... but heterogeneity across governors
- puzzling macro effects

Comment 1: Why are EME complicated?

- Poor data
- Volatility and instability
- Less liquid markets
- Un-stable policy framework...

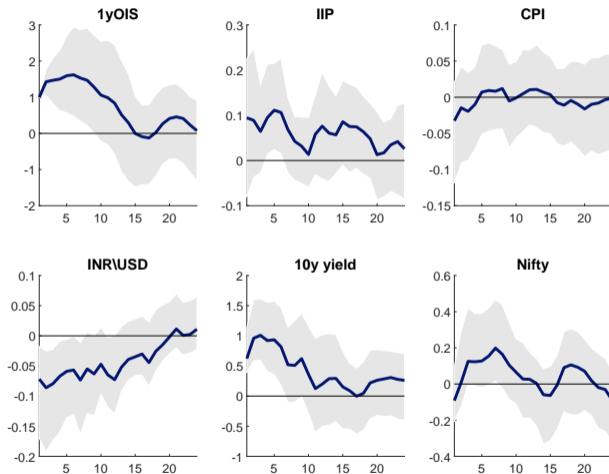
Comment 1: Why are EME complicated?

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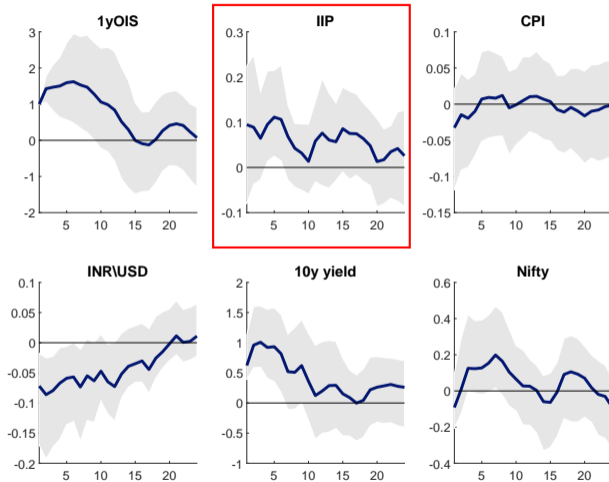
- Poor data
- Volatility and instability
- Less liquid markets
- Un-stable policy framework...
 - Many goals...
 - ... many tools (capital flow management, exchange rates interventions...)
- Policy reaction function less well understood by agents
- Bigger role for risk premia shocks
- Bigger role for external shocks

Comment 2: Puzzling Macro IRFs



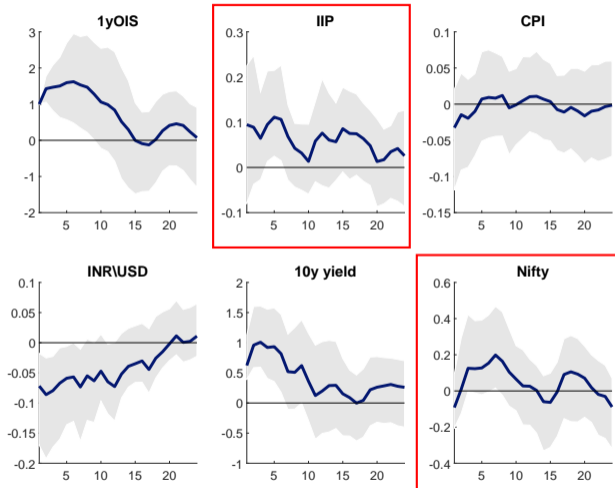
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Comment 3: Surprises and Shocks

- Monetary surprises are **news** w.r.t the **information set of market participants**
- **Structural shocks** are un-forecastable stochastic disturbance
- To identify casual effect of MP shocks one needs innovations
 - **news to agents** and
 - **orthogonal to the state of the economy**
- In full-information rational expectations (FIRE) models the two coincide...
... not in the presence of deviations from FIRE (\neq REE of the 80's)
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- What 'information' is contained in the surprises?
- Can we decompose surprises into shocks?

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 &\quad \text{Information effects}
 \end{aligned}$$

Comment 4: Information in MP Surprises

Different approaches to disentangle shocks

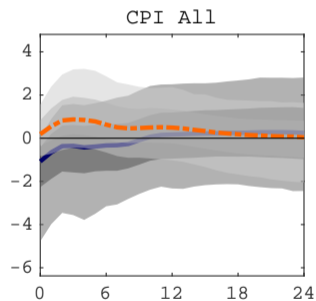
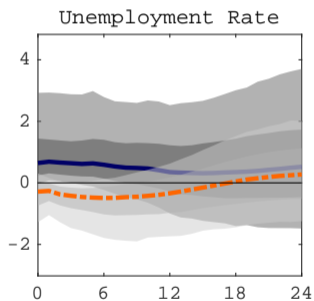
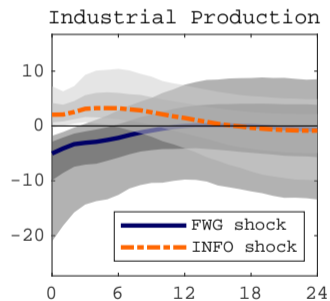
- **Survey-based:** Campbell et al. 2012, mine with S. M.-Agrippino
 - Forecasts/surveys data to disentangle information effects
 - Correlation of the surprises with the **CB's forecasts** (mine with S. M.-Agrippino)
 - Difficult to distinguish between risk premia and macro news shocks

- **Market-based:** Jarociński and Karadi 2020, Cieslak and Schrimpf 2019, ...
 - Stock-bond correlation to distinguish pure policy surprise from information revelation
 - Focus only on the **market's information set**
 - Strong fundamentals-based pricing assumption on stock prices

⇒ Can these methods be extended?

Comment 4: Could it matter for path surprises?

US path surprises decomposition (Degasperri, Ricco, 2022)



Conclusions

- **Very interesting paper!**
- One of the very first papers in bringing and adapting HFI to EME
- Interesting exercise to understand how MP works
- Some interesting questions on causal effects