GLOBAL SPILLOVER EFFECTS OF US UNCERTAINTY

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**Discussion**

**Global Spillover Effects**
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- ⇒ Highly important questions and right approach!
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- Empirical methodology: Use of random coefficient approach new to this literature. Able to handle large number of variables and generalize across countries.
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⇒ **Highly important questions and right approach!**

- Empirical methodology: Use of random coefficient approach new to this literature. Able to handle large number of variables and generalize across countries.

- Could strengthen case for spread-channel and monetary policy explanation?
  - Contrast interest spread channel with possible alternatives?
  - Strengthen analysis of different monetary policy responses?
What do Bhattarai, Chatterjee and Park do?

- Extract US uncertainty shock from VAR-model for the US
- Embed shock in EM countries panel VAR, random coefficient approach
- Study two subgroups of countries - different responses to uncertainty (≈ VIX)-shock.
- Establish structural two-country/two-good model w/ monetary policy. Calibrate. Study exogenous spread as proxy for uncertainty (≈ VIX)-shock.
- Compare estimated responses to uncertainty to exogenous spread-shock in calibrated model under different monetary policies and interpret.
- Supportive evidence: responses to US mp shock, text based evidence of mp preferences, varying prevalence of capital flow controls
DIFFERENT RESPONSES ACROSS COUNTRY GROUPS:
Benchmark models for the two country groups. US uncertainty shock.
WHERE DOES THIS PAPER FIT INTO THE LITERATURE?

Here: VIX ⇒ Exogenous spread. SOE monetary policy response

Diagram:
- Domestic shocks
- Propagation and policy response
- Interest rate spread
- Foreign endo variables
- VIX-shock
- Small open emerging economy
- Global (US) economy
Authors look at negative global income shock as *alternative* proxy for risk shock in structural model in an appendix. Case for spread channel seems supported for SA countries, less clearly for the rest? Elaborate here?

Could also look at empirical responses to global output shocks/trade shocks: if very different from responses to VIX-shock, case for spread channel supported. Different channels important for SA and rest?

Question: Technically possible to integrate foreign exogenous block in panel VAR? If so, check out possible effect of VIX on US output/trade ⇒ more directly assess spread channel versus other channels.
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Might be omitted variables, causing different response across countries. Domestic stability/fiscal challenges may incapacitate monetary policy. Useful to acknowledge this, but also refer to e.g. Eichengreen and Gupta (2016) who point to increasing importance of global shocks.
Strengthen case for m.p causing differences?

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- Suggestion: use external evidence on monetary policy established by others when deciding country groups, then estimate.
POSSIBLE EXTERNAL EVIDENCE ON MONETARY POLICY DIFFERENCES

FROM ILZETZKI, REINHART AND ROGOFF (2017). **SOLID= SA, DASHED= REST**
Great paper, right direction of work on spillovers!

Could compare empirical impact of risk shock to impact of e.g. trade/global activity shock - may make message even clearer

Follow up analysis of global income shock as proxy for uncertainty shock in structural model. Different channels of impact of uncertainty in SA versus the rest causing difference across groups?

Consider allowing country groups to be determined by external information on exchange rate arrangements in order to support monetary policy interpretation of difference across groups.