

GLOBAL SPILLOVER EFFECTS OF US UNCERTAINTY

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The views expressed in this discussion do not necessarily agree with or reflect the views of Norges Bank.

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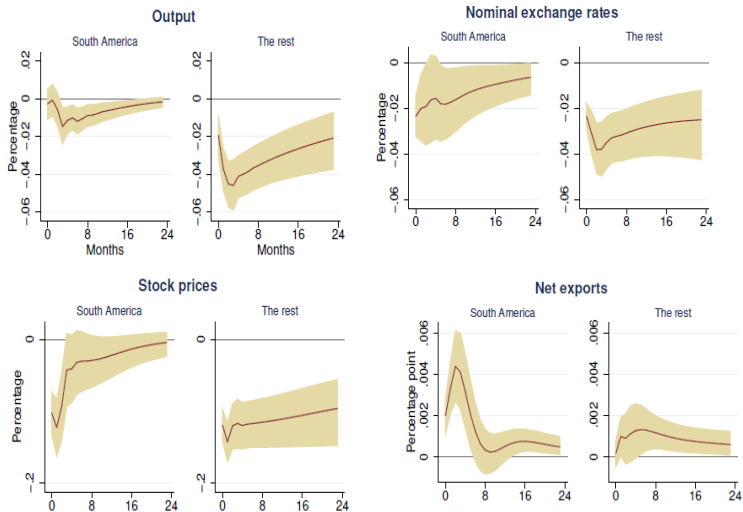
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- \Rightarrow **Highly important questions and right approach!**
- Empirical methodology: **Use of random coefficient approach new to this literature. Able to handle large number of variables and generalize across countries.**
- Could strengthen case 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?

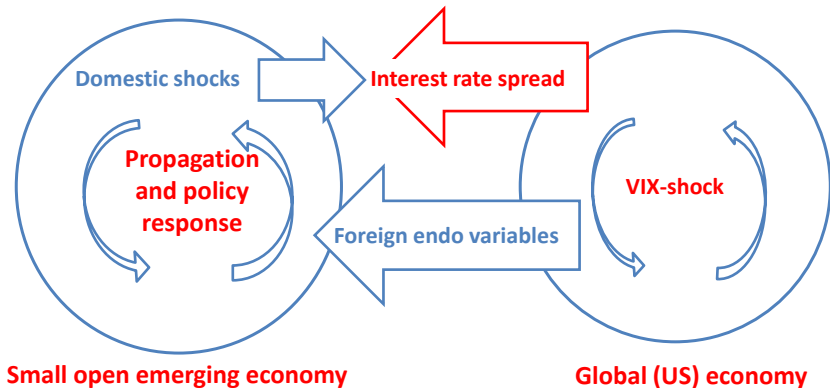
- Extract US uncertainty shock from VAR-model for the US
- Embed shock in EM countries panel VAR, random coefficient approach
- Study two subgroups of countries - different responses to uncertainty (\simeq VIX)-shock.
- Establish structural two-country/two-good model w/ monetary policy. Calibrate. Study exogenous spread as proxy for uncertainty (\simeq 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 \Rightarrow EXOGENOUS SPREAD. SOE MONETARY POLICY RESPONSE



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- 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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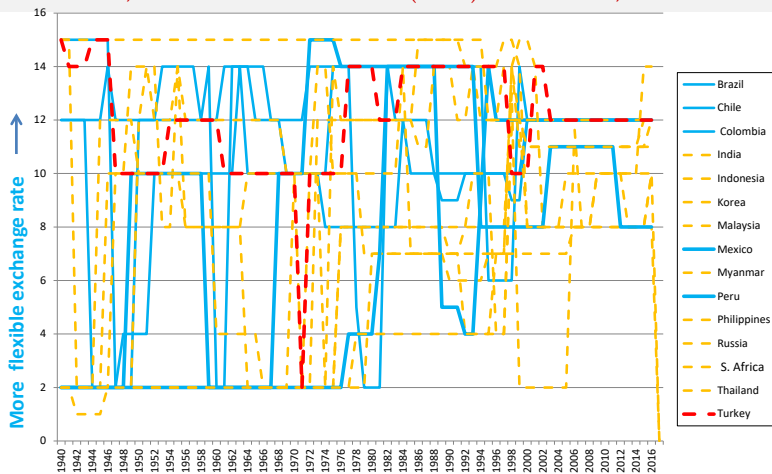
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- Suggestion: use external evidence on monetary policy established by others when deciding country groups, then estimate.

POSSIBLE EXTERNAL EVIDENCE ON MONETARY POLICY DIFFERENCES

FROM ILZETZKI, REINHART AND ROGOFF (2017). SOLID= SA, DASHED=REST



FINAL REMARKS AND SUMMARY

- 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.