Discussant: Monetary Policy Effects on Firm's Inflation Uncertainty

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Great paper that checks all the boxes!

- Addresses an interesting question
- Derives novel analytical results
- Provides a quantitative assessment of the mechanism
- Has important policy implications

Summary of the paper

- Motivation
  - EU shapes household and firm decisions, yet limited evidence exists on how policymakers can actively reduce these effects.
  - MP announcements can play a crucial role in guiding agents, especially in EMEs where external shocks make uncertainty more disruptive.
- Open questions
  - How monetary policy affects inflation uncertainty?
  - During periods of heightened uncertainty, can unexpected monetary policy actions contribute to reducing overall uncertainty?
  - Do monetary policy shocks mitigate uncertainty more effectively for firms that are highly exposed to risk?
- Main Results
  - A 25 b.p. monetary policy shock reduces firms' expected inflation uncertainty by 0.5 p.p.
  - The impact of monetary policy on uncertainty is amplified under higher aggregate risks.
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How do they do it?

- Quasi-experimental identification: by exploiting random timing of survey responses around monetary policy meetings and using monetary policy surprises, the study isolates causal effects of policy decisions on firms' expectations.
- They use Banxico's Regional Survey: collects firms' 12-month inflation expectations, including scenario probabilities, allowing a direct measure of firm-level uncertainty.

Some comments

1. Modeling assumptions and robustness exercises

2. Discussion, transmission mechanisms and open questions

Modeling assumptions and robustness exercises

- Drivers of interest rate movements:
  - MP surprises are driven by information shocks, pure monetary policy shocks, or forward guidance shocks.
  - Literature shows that a rate hike driven by strong growth has different effects than one driven by inflationary pressures. My concern is that the current design may be combining these effects.
- Fears of recession: being in an upward or downward phase of the business cycle may affect inflation uncertainty differently. Are MP shocks symmetrical across the cycle?
- Exchange rate: MP surprises often coincide with exchange rate adjustments. Including FX dynamics would test if this channel affects uncertainty.
- Robustness:
  - Window size: The 5-day window risks contamination from nearby macro releases (unemployment, cpi, trade balance, among others. Testing 3-day and 7-day windows could be useful.
  - Limiting to 3-month futures may miss longer-term signals or FW effects.

Discussion, transmission mechanisms and open questions

- What is the optimal size of a rate increase that reduces inflation uncertainty without triggering excessive second-round effects? This is a delicate balance, and the paper could expand on the practical implications.
- In recent years, monetary cycles have been synchronized across advanced and emerging economies. What happens when uncertainty is driven by external shocks, such as U.S. monetary policy? Can a central bank still reduce domestic uncertainty in that context, or do second-round effects become even stronger?
- Finally, it would be useful to test whether similar uncertainty patterns appear in other expectation measures (Bloomberg growth forecasts, inflation expectations, recession probabilities, or interest rate forecasts). If dispersion declines after announcements in these markets as well, it would reinforce the interpretation that monetary policy announcements anchor expectations more broadly.

Thank you