Reply to the comments on 'Monetary Policy Shocks and Macroeconomic Variables: Evidence from Fast Growing Emerging Economies'

Response to anonymous referee comments:

We would like to thank the referee for taking the time to read our paper and for her/his comments.

In the following, we group reviewer comments by theme in order to answer them.

Referee comments in italics, our replies in regular type.

Comment:

For all other countries, impulse responses are very noisy and it does not appear that the identified shock is a monetary shock (a shock in nominal interest rate – the third figure on the first column on p.23). Here the monetary shock should be an one-standard deviation increase in the structural residuals – this is not apparent from the monetary responses shown for all countries in figure 1 raising questions about correct identification.

Reply:

With all due respect, the monetary policy shock mentioned in our paper is not a shock in nominal interest rate but a shock in the money equation. The monetary policy shock is a standard deviation disturbance in the monetary equation as we discuss on page 9, "...Following Cushman and Zha (1997), Manamperi (2013) and Carleroy (2013), we use a monetary aggregate (M) as a measure of monetary policy in the SVAR model. A monetary policy shock is modeled as a standard deviation disturbance in the monetary policy equation as in Cushman and Zha (1997)..." Therefore, the third figure on the first column on p.23 is not a response of monetary policy shock to itself, it is the response of interest rate to a monetary policy shock.

Please see the RATS program for the way we define a monetary policy shock, which is now posted alongside our discussion paper so that any estimates and impulse responses can be reproduced and checked.

Comment:

Their findings imply that the exchange rate is the main transmission mechanism in BRICS_T economies. But impulse responses indicate that the identified shock is probably an exchange rate shock, not a monetary shock.

Reply: Please see the figures below for our exchange rate shock- the first figure on the first column on page 2- and Interest rate shock- the third figure on the first column on page 3- for South Africa.





Comment:

Since, as the authors point out, world output shock is not a dominant source of fluctuations in these economies, the paper hinges on correct identification of a monetary policy shock alongside identifying a local demand shock (or a shock in output gap). Without identifying a demand shock, it would be hard to know the response of monetary policy whether it is counter-cyclical or not.

Reply: With all due respect, we do not analyze the sources of business cycles in emerging countries, we just try to analyze the response of macroeconomic variables to monetary policy and external shocks in emerging economies.

Once again, I would like to thank the referee for taking the time to read our paper and for her/his comments.