

## **Monetary Policy Shocks and Macroeconomic Variables: Evidence from Fast Growing Emerging Economies**

**Summary:** This paper investigates the effects of two shocks for six emerging market economies: domestic monetary policy and external demand shocks. The authors adopt a structural VAR model with a block exogeneity procedure to identify domestic monetary policy shocks and external shocks. Their results are in line with what the literature has reported for advanced economies. They also do not find any evidence of the different puzzles that we have seen in different studies in the literature.

**Comments:** The interpretation of the results by the authors indicates perfect pattern in the data in these large emerging economies. Looking at the impulse responses, it is hard to believe how the authors derived what they have claimed. Let us take monetary policy shock which the authors interpret as effective in stabilizing inflation and output gap – a scenario observed in advanced economies. When the shock itself is not significant raising concerns about its identification, how can we believe its impact on the other macroeconomic variables? For China, the impulse responses are unstable and hence we cannot conclude what the authors have claimed. 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.

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.

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. Besides, a historical decomposition exercise may help to show the relative importance of different shocks and then understand the sources of business cycle fluctuations in these emerging economies.