Discussion of

Riders on the Storm

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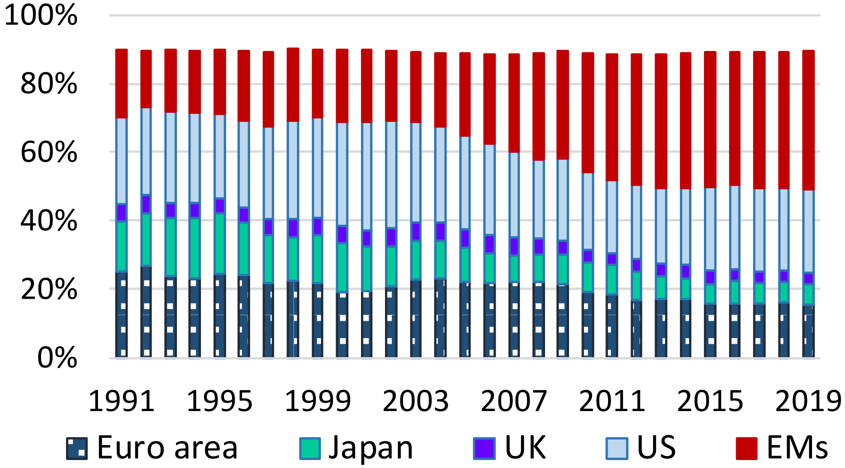
Key Focus

$$\underbrace{r_t}_{Policy\ rate} = \underbrace{(r_t - r_t^*)}_{Policy\ stance} + \underbrace{(r_t^* - r_{W,t}^*)}_{\substack{Domestic\ minus \\ World\ natural\ rate}} + \underbrace{r_{W,t}^*}_{\substack{World \\ natural\ rate}}$$

- **Concerns:**
  - Measurement of r_t ignores unconventional policy
  - Measurement of $r_{W,t}^*$ ignores emerging markets
  - Measures of r_t^* and policy stance very noisy—especially for capturing “divergence” in the cross-section

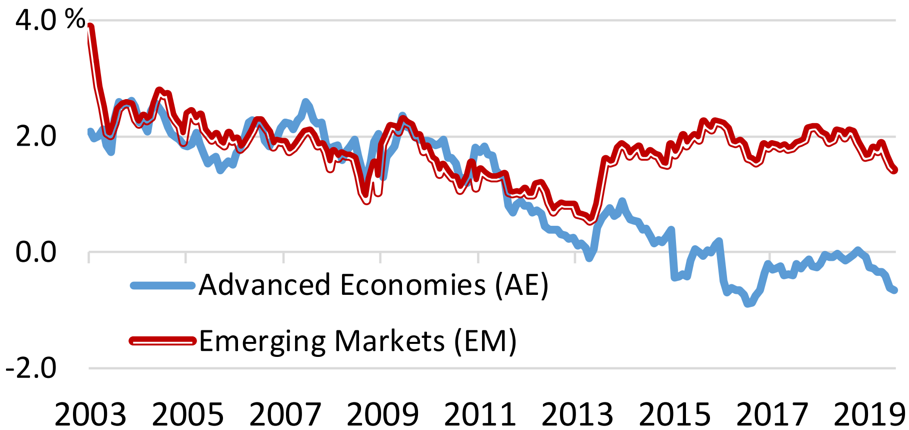
Important Role for Emerging Markets

Figure 1:
G4 and EM Share of Global GDP (in US$)



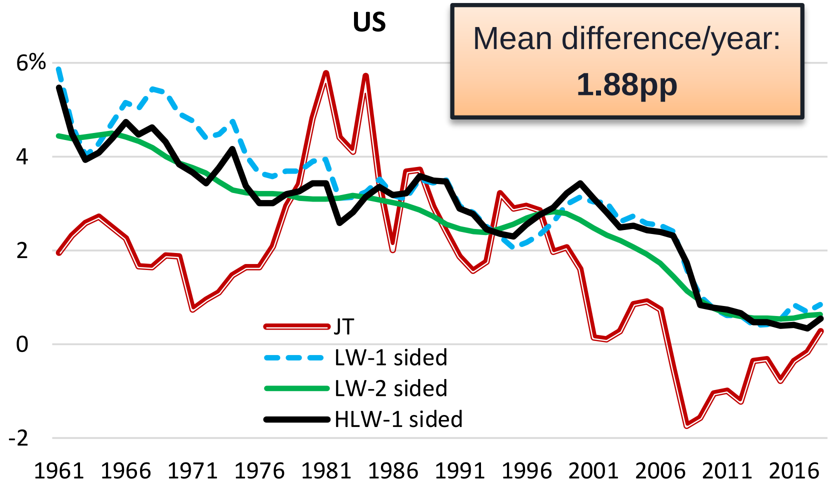
Source: Underlying data from the IMF Data Mapper, accessed 08/16/19. Emerging markets includes emerging markets and developing economies. GDP calculated based on US$. Data for Euro area GDP starts in 1991.

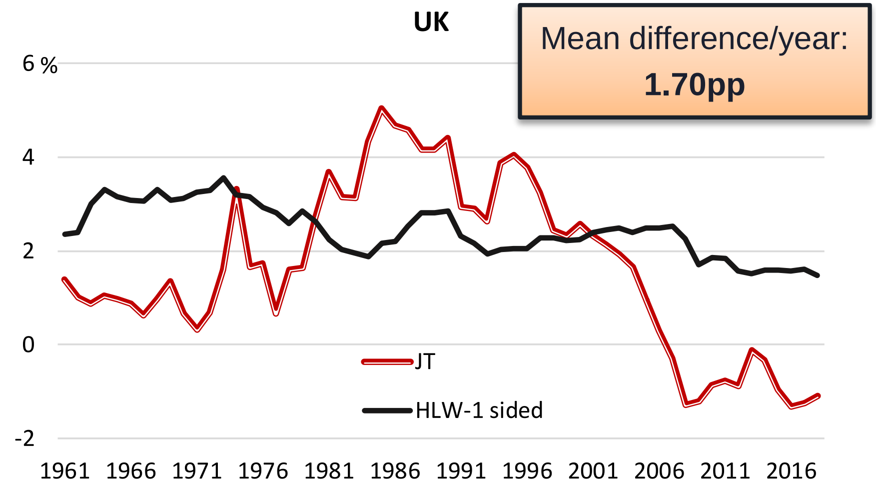
Figure 2:
Real Interest Rates for AEs vs. EMs



Real interest rates are GDP-weighted for each country group. Based on Rachel and Smith (2015), with updated data.

Different Estimates of r*





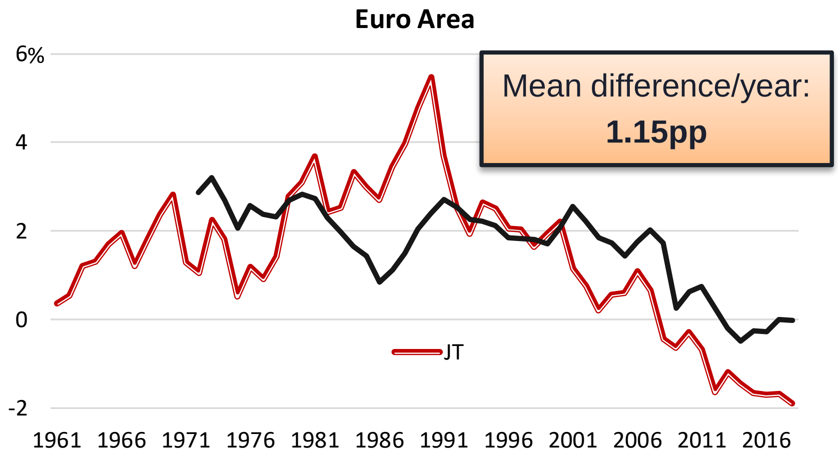


Figure 3

Notes:

JT is Jordà and Taylor (2019).

LW is Laubach and Williams (2003).

HLW is Holston, Laubach and Williams (2017).

1-sided are estimates are closer to real-time estimates as they only use current and past data instead of the full distribution.

Measuring Monetary Policy Dispersion

Difference in natural rate between country *i* and *World*:

$$r^*_{(i-W)} = r^*_i - r^*_W$$

Difference in *policy stance* between two countries *i* and *j*:

$$\underbrace{(r_i - r_i^*) - \left(r_j - r_j^*\right)}_{\substack{\text{difference in} \\ \textbf{policy stances}}} = \underbrace{\left(r_i - r_j\right)}_{\substack{\text{difference in} \\ \textbf{policy rates}}} - \underbrace{\left(r^*_{(i-W)} - r^*_{(j-W)}\right)}_{\substack{\text{difference in} \\ \text{relative } r*}}$$

Dispersion in Policy Stances vs. Policy Rates

Figure 4a

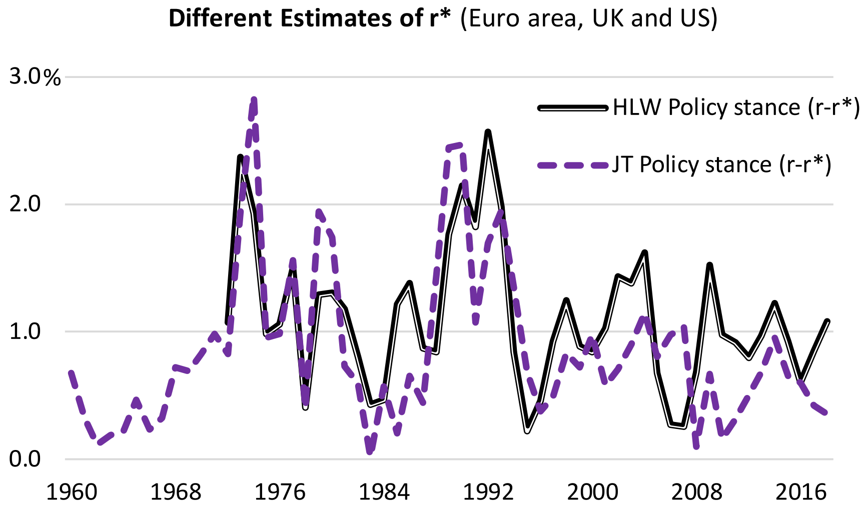
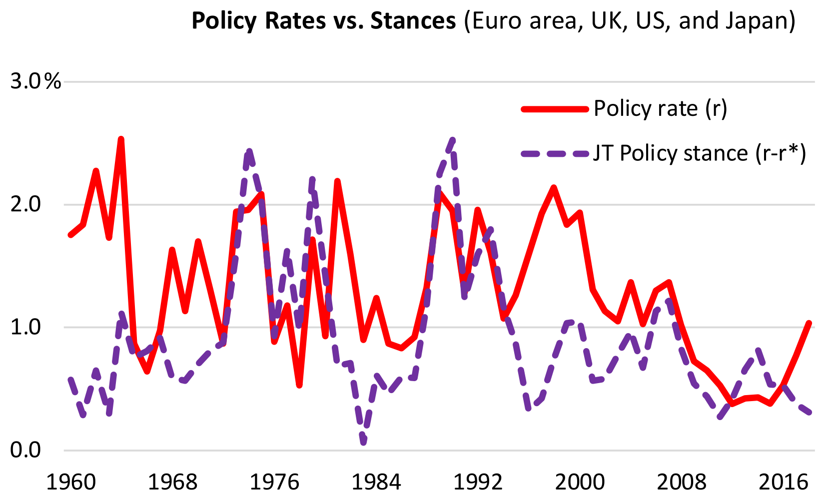


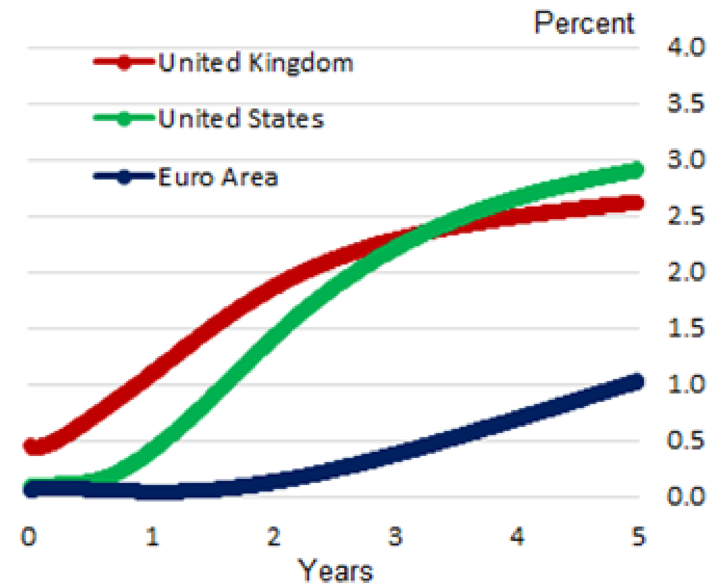
Figure 4b



Note: Dispersion measured as standard deviation of *policy stance* or *policy rate* for all measures available for each year in the sample.

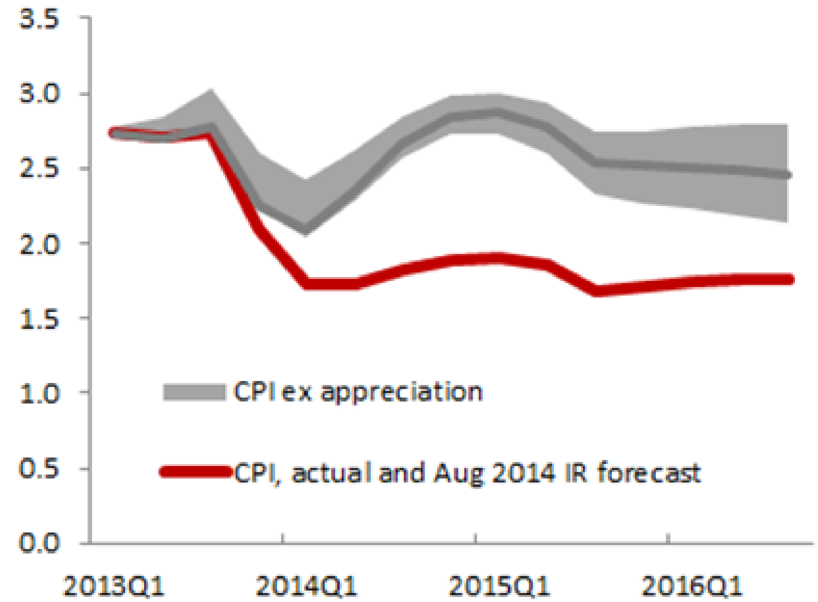
UK Experience in 2014

Figure 5: Market Expectations for Interest Rates in 2014



Notes: Curves of market expectations for interest rates are estimated using instantaneous forward overnight index swap rates in the fifteen working days to August 6, 2014. Based on data from Bank of England, *Inflation Report*, August 2014.

Figure 6: UK Inflation Forecast and Simulated Inflation Path Assuming no Sterling Appreciation



Notes: The gray swathe is COMPASS' predictions of CPI inflation if the exchange rate remained at its 2013Q1 level, under different degrees of persistence of the appreciation. The appreciation is assumed to be exogenous, with no other changes in policy and no other shocks. **Source**: Replicated from Forbes (2014).

Aborted UK Liftoff: Key Considerations

1. Shock unrelated to UK monetary policy?
2. Feedback effect related to monetary policy divergence?
3. Different channels through which monetary policy “works”?
4. Did the role of non-policy rate mechanisms change (*i.e.*, the exchange rate)?
5. Was the *policy rate* or *policy stance* more important?

The Future?

Navitron Autopilot Type NT921MKII