Discussion of „Asset Purchase Programs and the Exchange Rate" by Sinem Yagmur Toraman

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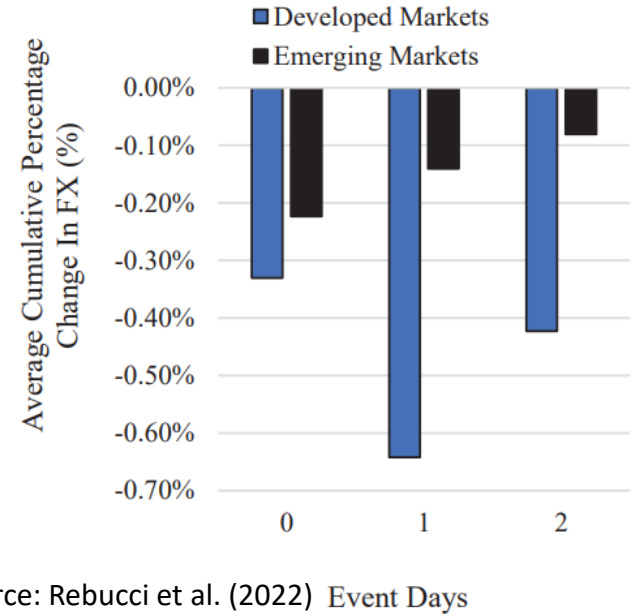
WHAT THE PAPER DOES

- Studies the impact of pandemic-related APPs on the exchange rate in EMEs & AEs
  - 23 EMEs, 7 AEs
  - Note: Limited availability of futures markets and of high frequency data for EMEs
  - Estimates APP surprises
  - Careful treatment of confounding factors (actions by Fed, by other AE CBs, and by domestic CB)
- Main findings
  - AEs: no effect on xrate (after adding controls); EMEs: xrate appreciation (with or without controls)
  - Surprising, given 1) AE evidence post GFC; 2) theory; 3) other evidence
  - Main factor: APPs lower sovereign credit risk in EMEs

- My overall take
  - Under-researched topic (EMEs, pandemic-related APPs)
  - Would like to understand better the results and the differences relative to the literature

WHAT IS DIFFERENT - EM, COVID, …?

- Most evidence on APP effects on xrate is AEs post-GFC
  - E.g., Swanson (2021): "A one-standard-deviation increase in LSAPs […] depreciates the dollar 0.2–0.3%"
- Is Covid different?
  - Post GFC: countries were at the ELB
  - Differentiate countries that were ***still*** at the ELB when Covid hit (ECB, Sweden, Japan) from those that went back to it?
- Some evidence on pandemic-related APPs
  - E.g. Rebucci et al. (2022):
    - Significant heterogeneity, but still depreciation on average, for AEs and EMEs
    - March & April 2020

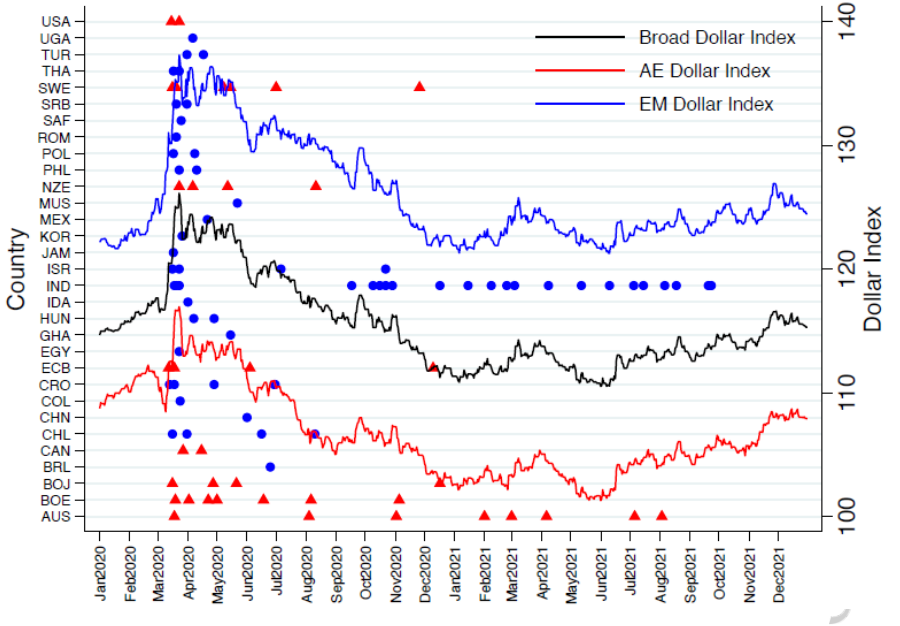


Source: Rebucci et al. (2022)

WHAT IS DIFFERENT - EM, COVID, …?

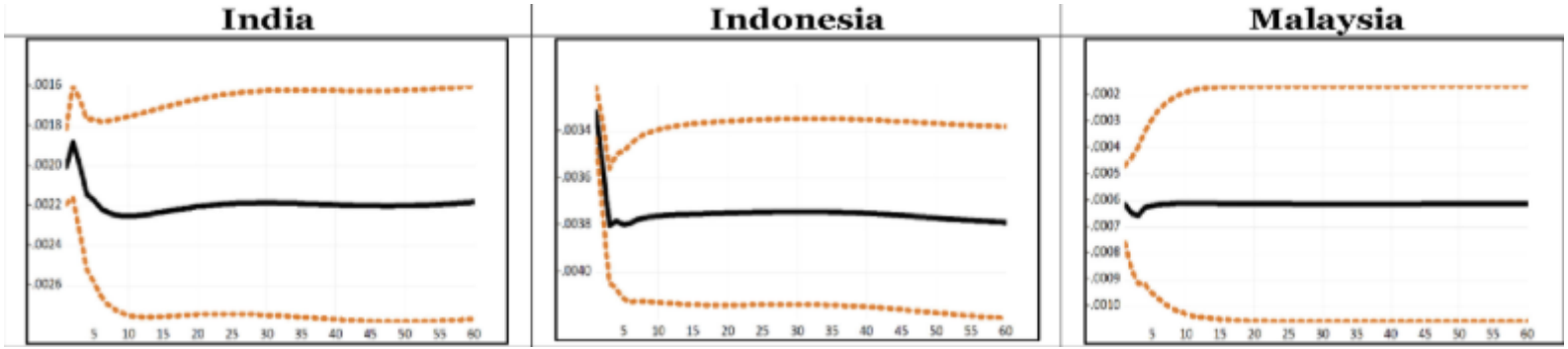
- Vast majority announced in the initial months of the pandemic (studied by Rebucci et al. 2022)
- Note that India accounts for >20 of the 60 EME events, most of which later
- Another difference to Rebucci et al. is the use of APP surprises

- Split sample, differences for later announcements?
- Differences due to use of APP surprises?



WHAT IS DIFFERENT - EM, COVID, …?

- Beirne and Sugandi (2023)
  - Extended sample, March 2020 – September 2021; 14 EMEs
  - “The implementation of QE by EME central banks leads to an accommodative monetary policy stance through an initial depreciating effect on exchange rates, which rapidly stabilizes.”



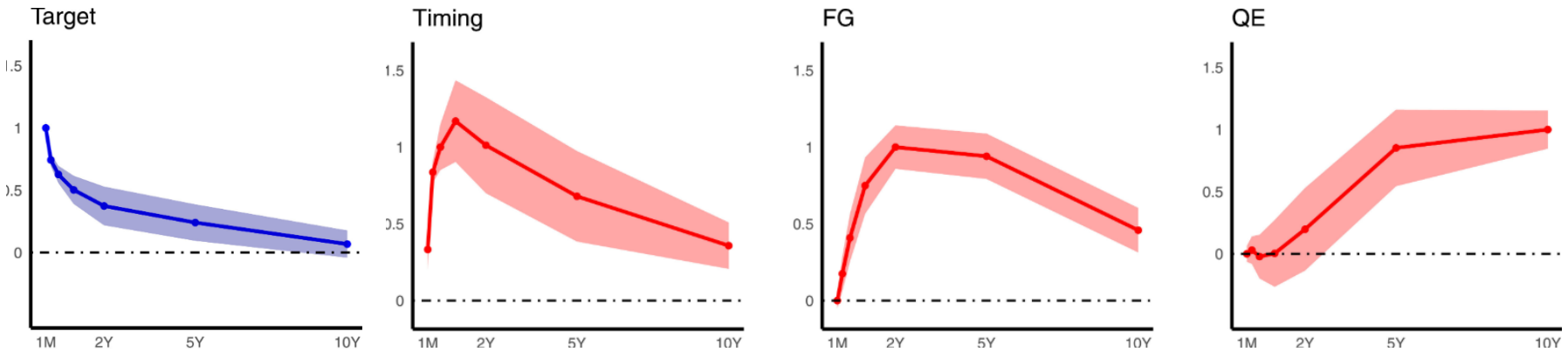
Source: Beirne and Sugandi (2023)

ECONOMETRIC CHOICES

- Choice of countries – are these all that implemented APPs?
  - Beirne and Sugandi (2023) also include Malaysia and Peru
- Exclusion of events
  - Continuation of existing purchase programmes
  - Reductions in purchase programmes
- 2-day time window
  - To cover countries with different trading hours and slower information diffusion in EMEs
  - But:
    - Fast-moving policies and markets during the pandemic
    - More confounding factors
    - Exchange rate is trading continuously
- Confounding factors
  - Fiscal policy?
  - Xrate communication?

ESTIMATING APP SURPRISES

- $\Delta i_{i,t}^{LT} = \alpha \Delta i_{i,t}^{ST} + \varepsilon_{i,t}$
- Control for intermediate maturities, too?



Source: Altavilla, Brugnolini, Gürkaynak, Motto and Ragusa (2019)

MISCELLANEOUS

- Check number of observations
  - Data section: 60/38 EMEs/AEs
  - Tables 2-5 (xrate): 50/28
  - Table 6 (CDS): 53/36
  - Table 8 (risk-free rate): 67 in total
- Elaborate control for US policy surprises; for other AEs, just change in short-term rates?
- Test for significant differences between AEs and EMEs throughout, not only in Table 8

CONCLUSION

- Paper deals with an important question that merits more research
- Paper takes a thorough approach at overcoming a couple of severe challenges, e.g. related to limited data availability
- Results differ from previous studies
- This is interesting and welcome, but…
- … I would like to understand why, by discussing the choices made and by testing them one by one

THANK YOU FOR YOUR ATTENTION