Comments on: “Assessing the effect of US Monetary Policy Normalization on Latin American Economies”

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* The opinions expressed here do not necessarily reflect the view of Banco de Mexico.

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- The topic of the paper is interesting and relevant because, as monetary conditions in the US normalize, Latin American countries are likely to be less subject to favorable external financial conditions.
- Looking ahead, this is a major source of risk for both their financial sector and their real economy.

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- Some aspects of the analysis can be improved so as to raise even further the quality of the paper:
  - To capture monetary policy in the US during the zero lower bound period, the author employs the shadow FED fund rate of Wu and Xia. This strategy has the advantage of relying on a continuous measure of unconventional monetary policy, i.e., Wu and Xia’s measure is continuous relative to the Fed fund rate before the zero lower bound period. However, this strategy does not account for the fact that one of the main channels through which spillovers effects act is the compression of term premia.
    - The well-known search for yield and the surge of inflows in EMEs by institutional investors provides an example.
  - The sample is small to focus only on the unconventional monetary policy period. This raises estimation uncertainty. The author may employ a larger sample and use some structural break identification procedure.
    - Would the use of a method with different regimes be suitable?

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- Concerning the latter point, the paper is unclear about the uncertainty around the estimates:
  - The confidence bands around the impulse response functions for the US are reported at a 68% level. Reporting larger bands can improve the quality of the paper.
  - The confidence bands around the impulse response functions of Latin American countries seem not to be reported. This does not allow the reader to understand whether the estimates are significant or not. What is the significance level of these impulse responses?
  - Reporting variance decomposition can be of great help. In particular, this would allow understanding the relative importance of US monetary policy shocks, against demand and supply shocks, in driving the business cycle in Latin America.