Essays on Monetary Policy in Emerging Markets
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The effects of monetary policy on financial markets are less understood in emerging markets than in advanced economies. This thesis contributes to the literature by analyzing the effects of foreign and domestic monetary policies on asset prices in emerging markets.

1 Term Premia and Credit Risk in Emerging Markets: The Role of U.S. Monetary Policy (Job Market Paper)

This paper documents the channels through which U.S. monetary policy impacts the sovereign bond yields of emerging markets. Traditional decompositions of sovereign yields are not suitable for emerging markets because they rely on a default-free assumption. Instead, I decompose the yields of 15 emerging markets into average expected future short-term interest rates, a term premium and compensation for credit risk. I use this decomposition to analyze the transmission channels of U.S. monetary policy surprises identified with intraday data. I find that the response of emerging market yields to target, forward guidance and asset purchase surprises is economically significant, yet delayed over days. In addition, unanticipated U.S. monetary policy decisions lead to a reassessment of policy rate expectations and a repricing of interest and credit risks in emerging markets. Finally, U.S. unconventional monetary policies limit the monetary autonomy of emerging markets along the yield curve.

2 Does the Exchange Rate Respond to Monetary Policy in Emerging Markets? Evidence from Mexico (Submitted)

This paper addresses the exchange rate puzzle in emerging markets. While monetary policy in advanced countries exerts a strong impact on exchange rates, existing evidence for emerging markets shows that the response is small, nonexistent or inconsistent with standard open economy models. I use a new dataset of intraday changes in asset prices around policy events to estimate the impact of monetary policy on the exchange rate and the yield curve in Mexico. I find that an unanticipated increase in the policy rate appreciates the currency and flattens the yield curve, in line with the evidence for advanced economies. I show that the puzzle is the result of wide event windows when measuring changes in the exchange rate with daily data, giving rise to a standard omitted variable bias.

3 Price and Quantity Effects of Monetary Policy Actions and Statements in an Emerging Economy

This paper studies the effects of monetary policy actions and statements on the exchange rate, the yield curve and portfolio flows in Mexico. I use a new dataset of intraday changes in asset prices around central bank announcements to identify exogenous monetary policy surprises. I show that changes in both the policy rate and statements significantly impact asset prices and portfolio flows, albeit asymmetrically. For instance, the exchange rate does not respond to target easing surprises, while bond yields respond more to them than to target tightenings surprises.