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CCAMTAC - Regional Research Seminar Series

"Nonlinearities and state-dependence in the monetary transmission mechanism: Evidence from a commodity-dependent economy"

March 28, 2025

Introduction:

Mr. Norbert Funke, Director, CCAMTAC

Moderation:

Mr. Nurdaulet Abilov, Economist, CCAMTAC

Presenters:

Ms. Arman Juragat, Economist, Monetary Policy Department, Bank of Mongolia

Interventions:

Mr. Mikheil Mgebrishvili, Acting Head of Macroeconomic Modeling Division, Macroeconomic Analysis and Fiscal Policy Planning Department, Ministry of Finance of Georgia

In a recent research seminar, Arman Juragat from the Bank of Mongolia presented an insightful paper titled "Nonlinearities and State Dependence in the Monetary Transmission Mechanism: Evidence from a Commodity Dependent Economy," with a focus on Mongolia's unique economic landscape. The speaker pointed out that recent research suggests the effectiveness of monetary policy is not uniform; rather, it is state-dependent, varying significantly based on current economic conditions. This observation led to the core of the seminar: an exploration of how monetary policy impacts the economy under different states.

Utilizing a local projection method, the paper took a novel approach, especially in the context of emerging market and developing economies (EMDE), contrasting with VAR and other traditional time series models. This methodology allowed for a nuanced analysis of monetary policy shocks, focusing on different economic states, including business cycles, inflation regimes, and policy rate cycles.

Arman also emphasized the varying impacts of monetary policy on GDP growth across various states. For instance, during economic expansions, a one-percentage-point decrease in the policy rate resulted in a significant positive response in GDP growth. However, in recessionary periods, initial declines in GDP growth were followed by sharp recoveries, highlighting the complex dynamics of the Mongolian economy. The discussion also touched on inflation responses, which varied significantly depending on whether the economy was in a high or low inflation regime. Notably, high inflation periods exhibited stronger responses to changes in the policy rate, indicating a critical interplay between monetary policy and inflationary pressures.

A significant part of the presentation focused on the asymmetric effects of monetary policy shocks. Arman articulated that expansionary shocks tended to exert a larger impact on both GDP growth and inflation compared to contractionary shocks, reaffirming the notion that monetary policy is often more potent during economic downturns. As the seminar concluded, Arman underscored the implications of the research for policymakers. The findings suggest that understanding the state-dependent effects of monetary policy can greatly enhance its effectiveness, particularly in a commodity-dependent economy like Mongolia. The insights shared during the seminar not only shed light on Mongolia's economic challenges but also offered valuable lessons for other emerging markets facing similar vulnerabilities in the global economy.