4th NBRM Research Conference
Structural Rigidities, Growth and Monetary Policy

Discussion
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Techniques, databases, and models of MP


• Trade in Goods, Globalization in Production Structure and Inflationary Dynamics: Cross Country Evidence (*Hulya Saygili*)

• Price and Wage Rigidities in the Republic of Macedonia: Survey Evidence from Micro-Level Data (*Florian Huber, Magdalena Petrovska*)
The Impact of Structural Reforms on Long-term Growth

- Proposes a framework to support evidence based policy advised to evaluate the effects of structural policies at country level and globally
  - Making reference to the inclusion of developing countries in the analysis
- Broad discussion of problems in modeling economic behavior in the presence of:
  - Missing and low frequency data,
  - Incorporation of Institutional indicators
  - Discussion of literature and results of previous studies
- Methodology
  - Panel (unbalanced) error-correction methodology
  - The role of institutions (principal component analysis)
Discussion

• Bountiful of information and discussion
  – Problems of estimation with missing data vs. discussion of the methodology and estimation
  – Role of institutions and development economics

• The exogeneity status of additional channels...

• Panel cointegration vs. “Global Var” in a heterogeneous environment.

• WB indicators vs. alternative indices
  – Global Competitiveness Report; Economic freedom index; Economic Transition Report; ...
Trade in Goods, Globalized Production Structure and Inflation Dynamics

• How and to what extent globalization influences inflation dynamics.
  – Trade openness
  – Financial integration

• Methodology: panel estimation with fix effects

• Conclusion: globalization and financial markets have become more relevant to inflation than domestic output gap!
Discussion

• Very elegant theoretic model & motivation
  – The role of the assumptions
    • Potential endogeneity problems
      – Perfect foresight assumption
      – The lower the deviation in bond prices, the higher the integration
    • Potential autocorrelation
      – Financial integration and output gap (general consensus: financial integration defines the trend of economic growth)

• Recursive estimates
  – Robustness vs. economic explanation
Price and Wage Rigidities survey evidence MCMC

• The relative influence of important determinants on the frequency of price changes in Macedonia

• Micro-level survey data

• Bayesian ordered probit model (MCMC)

• Higher price and wage flexibility depend on:
  – Higher competition pressure
  – Exposure to foreign sales
  – Lower labor cost share

• Companies have adjusted to the global financial and economic crisis.
Discussion

• Methodology
  – Connection between the theoretic discussion and practical implementation of the model

• Discussion Macro developments vs. Micro characteristics of the enterprises
  – Tradable (manufacturing) vs. nontradable (construction & services); large vs. small firms

• Some of the results could also benefit from further discussion
  – Hypothesis vs. results; firm behavior before vs. after crisis.
Implications for central bankers

• Structural changes affect the conduct of monetary policy
  – Globalization (trade & financial),
    • Foreign prices & foreign interest rates
  – Structural changes in domestic economy
    • Labor markets, wage bargaining, demographics of labor force
  – Industry competitive structure
    • Prices and wages rigidities
  – Rational vs. adaptive expectations
    • Expectations, output gaps and inflation, central bank transparency

• Monetary policy must adjust accordingly to these changes
  – Potential structural changes and proper implementation in the policy models,
  – Potential gaps in the materialization of these long term trends.

• The value of econometric analysis for policy analysis must be twofold
  – Good estimation of economic outcomes & forecasts of endogenous variables
  – Accurate inference of the best (among many competing) models...