

Discussant Comments on:
The Asymmetric Effects of Exchange Rate on Inflation

Focus: Albania, 2002–2024

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Core Summary & Key Contribution (The “What”)

A High-Quality Study on a Critical Topic

Central Question: How do currency changes (depreciations vs. appreciations) affect Albania's CPI, and does this effect depend on the current inflation environment?

Methodology Strength: Quantile Nonlinear Autoregressive Distributed Lag (QNARDL) to capture two forms of non-linearity simultaneously:

Sign Asymmetry: Positive vs. negative exchange rate shocks.

State Dependence: Pass-through varies across inflation quantiles.

Key Finding (The Core Policy Result):

Depreciations lead to **stronger and faster** inflationary effects.

Appreciations have **weak/negligible** disinflationary influence.

The effect is **strongest when inflation is already high** (upper quantiles) — a finding crucial for credibility.

Major Strengths & Context (The “Why”)

A Significant Contribution to Small, Open Economies (SOEs)

Methodological Innovation: The combined NARDL and quantile approach is highly appropriate for examining non-linear pricing behavior and sticky markups prevalent in EMEs.

Policy Relevance: The results provide a clear mandate for the central bank:

Monetary policy must be **preemptively aggressive** during inflationary periods.

Relying on “wait and see” or subsequent currency appreciation to reverse price hikes is **likely to fail**.

This is a critical insight for **inflation-targeting regimes** in transition economies.

Empirical Gap: Provides rigorous, up-to-date evidence for Albania, a **highly euroized** and **import-dependent** transition economy in the Western Balkans.

Assessing Data Granularity and Policy Implications

Challenge: Interpolated GDP. The use of Denton Interpolation to generate monthly GDP may affect the short-run dynamics.

NARDL/QNARDL models thrive on **high-frequency shocks**.

Interpolation forces the monthly series to follow the quarterly trend, potentially **obscuring or falsely attributing** short-run effects.

This risks distorting the estimated **speed of adjustment (38%)**, which is vital for calibrating the central bank's timely reaction function.

Suggested Robustness Check:

Use an available **high-frequency proxy** for economic activity (e.g., Industrial Production Index, perhaps using a more granular decomposition method) to check robustness.

Formally report the **Wald Tests for symmetry** to demonstrate the statistical significance of the asymmetry finding.

Secondary Suggestions & Structural Factors

Broadening the Scope and Applicability of Findings

The Price Chain (First vs. Second Stage): Test for asymmetry in the first-stage pass-through (Import Prices) versus the second-stage (Consumer Prices).

Policy focus: Does the asymmetry originate at the border (importers' currency invoicing) or within the domestic market (retail markups/menu costs)?

Alternative ER Measures: A robustness check using **NEER** or **REER** would better capture trade-weighted currency effects and external competitiveness.

Shock Dependence: Explore ERPT by shock type (monetary vs. external)

Parameter Stability: Allow for regime breaks (pre/post inflation targeting).

Global Context: Explore the role of **global financial conditions** (e.g., US monetary policy shocks), given the high correlation between EME external debt and global finance.

Literature & Discussion Points

Key Literature Confirmed:

Taylor (2000) Hypothesis: Low/stable inflation reduces ERPT → The paper confirms the converse: **High inflation increases ERPT**—a warning for policy credibility.

Asymmetry Literature: Confirms the widespread finding that **depreciation pass-through** is stronger than **appreciation pass-through** (Downward Price Rigidity).

Questions for the Authors / Audience:

What structural/behavioral **mechanisms** drive the quantile effect? Is this purely expectations-driven, or do firms **increase markups more** during high-inflation regimes?

Given Albania's high **euroization**, how sensitive are results to assuming **EUR/ALL** as the only ER driver?

Given the asymmetry, which **structural/supply-side policies** (e.g., competition, import dependency) could **lower pass-through**, and complement the central bank

Thank you

Shin, Yu & Greenwood-Nimmo (2014): *Modelling Asymmetric Cointegration and Dynamic Multipliers in a Nonlinear ARDL Framework*.

Cho, Kim & Shin (2015): QNARDL approach.

Delatte & López-Villavicencio (2012): Asymmetric ERPT.

Caselli & Roitman (2016): IMF ERPT analysis.

Ha et al. (2019): World Bank