

Discussion of “International Economic Sanctions and Monetary Policy”

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Summary

What is the effect of trade sanctions for:

Transmission of monetary policy $\rightsquigarrow$ no-sanction vs sanctions

Inflation-output tradeoff $\rightsquigarrow$ shape of Phillips curve

How? Asymmetric two-region model of international trade with sanctions (JME 2024)

- ▶ Commodity sector: natural gas as intermediate input (upstream)
 - * Home imports gas from foreign (relative endowments)
 - * Sanctions: restrict volume of trade (aggregate)
- ▶ Consumption-good sector (downstream)
 - * Fixed trade cost determines entry and export decision
 - * Sanctions: restrict entry into exports (firm level)

Exercise : Trace out the effect of monetary policy shocks

- intermediate-good sanctions PC steeper
- final-good sanctions PC flatter

My discussion

I will focus on big picture issues motivated by results in the paper

1. Economic importance and relation to literature
2. Is the transmission of monetary policy shocks sensible?
3. Where does the monetary policy trade-off come from?
4. Is the shape of the Phillips Curve really different under sanctions?
5. Suggestions

1. Economic Importance and Relation to Literature

Why study monetary policy under sanctions? → rising geopolitical fragmentation

Empirical implications (Airaudo, De Soyres, Richards, and Santacreu (2025))

- ▶ Significant reduction in trade flows between countries of opposing blocks
- ▶ Limited reduction in portfolio flows

Sources of geoeconomic power matter (Clayton, Maggiori, and Schreger (2025))

- ▶ U.S.-bloc: geoeconomic power from control of international financial architecture
- ▶ China-bloc: geoeconomic power from control of goods trade

Renewed interest in the role of tariffs and trade costs

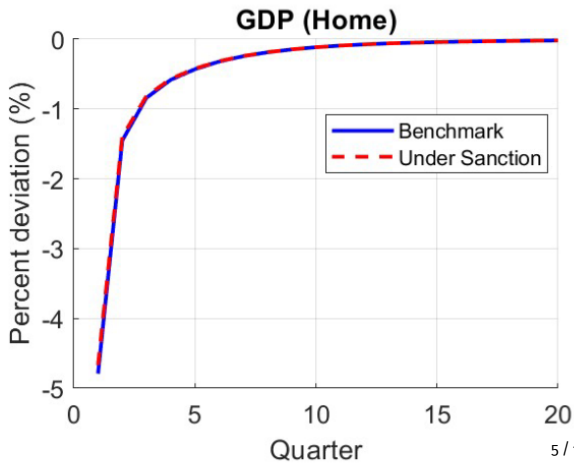
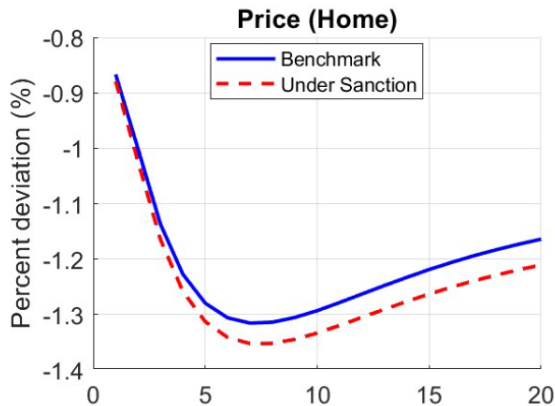
- ▶ Optimal monetary policy (Bergin and Corsetti (2023), Bianchi and Coulibaly (2025), ...)
- ▶ Role of intermediate inputs (Cuba-Borda, Queralto, Reyes-Heroles, and Scaramucci (2025))

Bottom line: Sanctions at the intersection of trade, geoeconomics, and monetary policy

2. Is the transmission of monetary policy shocks sensible?

Benchmark model without sanctions (blue line) – 25 basis point increase in rates

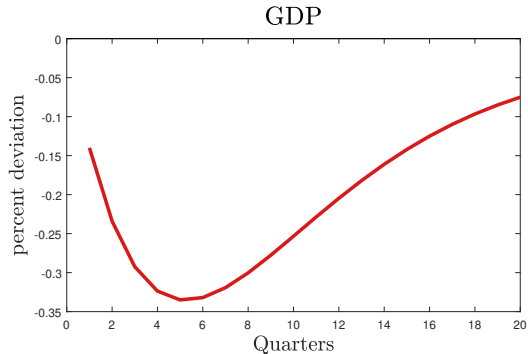
- ▶ Large effects on prices and activity → at odds with empirical estimates
- ▶ Front-loaded effects on GDP with very quick recovery



2. Is the transmission of monetary policy shocks sensible?

25 bps monetary policy shock in Cuba-Borda, Queralto, Reyes-Herole, and Scaramucci (2025)

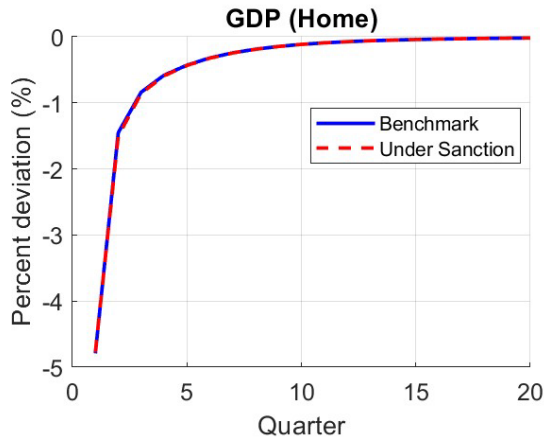
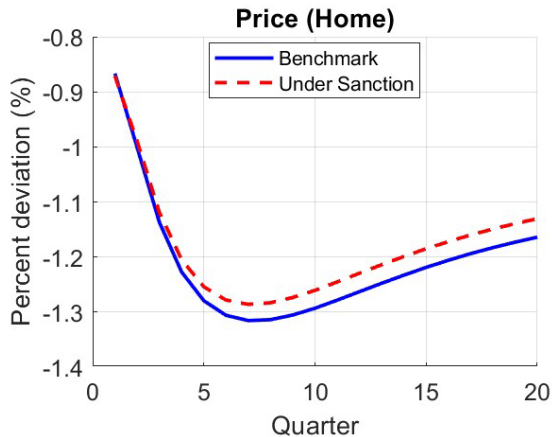
- ▶ Model calibrated to match empirical responses to monetary policy shocks
- ▶ Substantially more muted impact effects on prices and GDP
- ▶ Hump-shaped and persistent GDP effects



3. Where does the monetary policy trade-off come from?

Sanctions on final goods → dampens price response to monetary policy shock

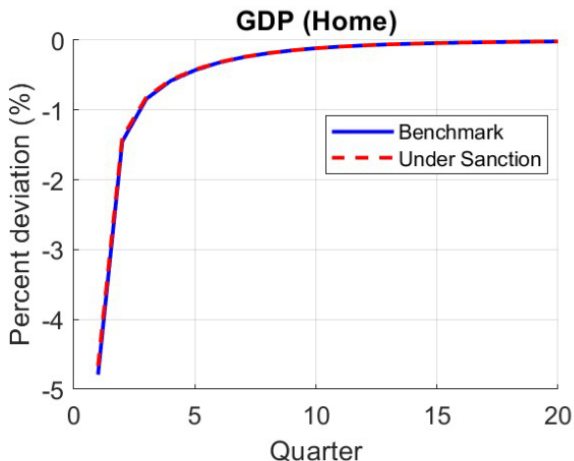
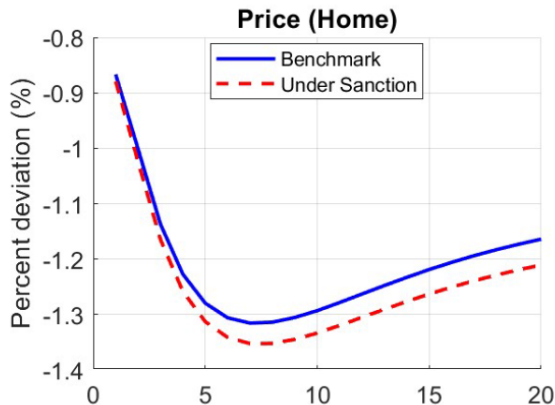
- Puzzle: sanctions do not affect the transmission of monetary policy shocks to activity



3. Where does the monetary policy trade-off come from?

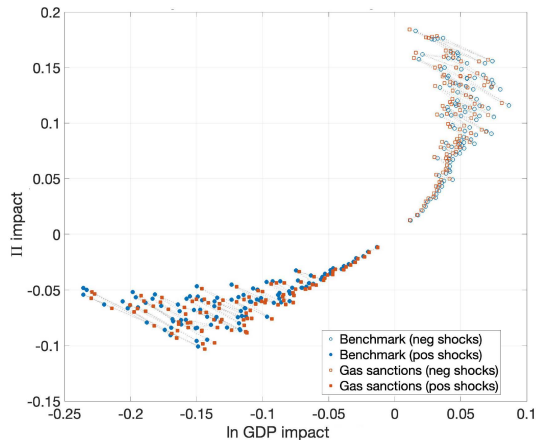
Sanctions on intermediate inputs → amplifies price response to monetary policy shock

- Puzzle: sanctions do not affect the transmission of monetary policy shocks to activity



4. Non-Linear Phillips Curve

Transmission of shocks shapes the Phillips curve



- ▶ Strong short-run non-linearity
 - * Steep for (+) demand shocks
 - * Flat for (-) demand shocks
- ▶ Source of non-linear PC
 - * Intermediate inputs (gas): rationing
 - * Final goods: entry-margin into exporting
- ▶ Benchmark PC $\approx$ sanctions PC.
 - * Sanctions don't amplify GDP response

5. Suggestions

- ▶ Ensure monetary policy shocks have plausible effects without sanctions
- ▶ Emphasize the difference in transmission at short vs long horizons
- ▶ Could frame the problem as a regime-switching model
 - * Transmission of shocks may depend on the duration of the regime
 - * Risk of sanctions may generate interesting firm-entry dynamics
- ▶ Related question: optimal policy response to sanctions

Very relevant paper; still work in progres. Looking forward to the next iteration.