COMMENTS TO: “FISCAL SUSTAINABILITY ANALYSIS AND REACTION FUNCTION: THE COSTA RICAN CASE”

IVÁN KATARYNIUK
• ... provides a rich analysis of Costa Rican debt sustainability.

• ... explains the fiscal situation, including a description of the recent increase in debt and the fiscal measures to tackle it.

• ... performs several econometric analyses:
  • fiscal reaction functions show a sustainable reaction of primary balance to debt increases, in the spirit of Bohn
  • reaction of fiscal variables is less strong when debt is high, showing some degree of fiscal fatigue
  • debt paths calculated with fan charts points to higher importance of future interest rates in determining the debt path
SUGGESTIONS

- Include domestic financial variables in the estimation: it might help to improve the forecasts of the VAR and explain the different behaviour of fiscal balance when debt is high or low.

- Perform some calculation about how parameters change taking into account debt in foreign currency.

- Although fan charts are useful for policy communication, they do not say much about fiscal sustainability: see literature on endogenous fiscal limits.

- Use dummies for political changes: governments might behave differently in electoral periods (a la Alesina-Perotti).

- Rely more on narrative about compliance to assess the latest fiscal reform. If effective, it might change the structural parameters; but it may be ineffective.
GRACIAS POR SU ATENCIÓN