Discussion on “Fiscal Regimes and Exchange Rates: A High-Frequency Identification by Enrique Alberola, Carlos Cantú, and Paolo Cavallino (BIS)”

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① “Unpleasant Monetaristic Arithmetic” Logic and FTPL. Same equation, different interpretation. One refers to a budget constraint, the other one to an equilibrium condition.

② For your main regressor you consider expected and unexpected changes jointly. Why? as in Bernanke and Kuttner (2005) which you follow.

③ The success with which you are measuring the Selic surprises right is unclear, in particular, given the discrepancies between the DI futures and the Bloomberg Survey. This is both in terms of magnitude and timing.

④ Many details are left unclear on the Regime-Switching model. To provide some examples. Not clear why $\delta_x$ is not affected by the regime. Similarly, why does the same regime affect $\delta_0$ and $\delta_1$? This might be making you misidentifying the regimes. Do you use filtered or smoothing state probabilities? This might also be playing a role in your regime identification.

⑤ Results could be better from the statistical point of view.
Suggestions

1. The paper needs to get “Unpleasant Monetaristic Arithmetic” and FTPL lines of reasoning straight.
2. It could be potentially relevant to make a distinction between expected and unexpected monetary and fiscal changes.
3. Moreover, you could consider regression with the monetary and fiscal changes jointly. It is the interaction of both which you have underscored in the theoretical part of your paper.
4. On the measurement of monetary policy surprises, you could average both measurements. Other measurements?
5. You should be more transparent on the details of the regime switching model. Filtered or smoothed probabilities, Most importantly, why?