
Discussion

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Sovereign Debt Virtual Workshop - FRB Richmond

August 25, 2020
Brazil 1960-2016

(a) deficit

(b) debt/GDP

(c) seigniorage and inflation

(d) real exchange rate

Source: Ayres, Garcia, Guillem and Kehoe (2019)
This paper...

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- Analyze through lenses of model effects of unanticipated COVID shock
Main Comments (1): Sectoral output

- In the data we observe asymmetric effects of COVID pandemic on sectoral output
  - Overall NT sector hit more severely

Historical decomposition of growth rate of hours by sector

(a) March 2020

(b) April 2020

Source: Brinca, Duarte, Faria-e-Castro (2020)
The productive capacity of industry (18% of GVA and 17% of employment) could also continue to be restricted by the high degree of uncertainty, and the performance of the economy and its various sectors will largely depend on how the pandemic develops and the degree to which restrictions affecting the revival of tourism are lifted.

Nevertheless, retail accounts for around 25% of GVA and employment is comparatively low (2.7% of total employment). This exercise also suggests that the retail, transport and information and communications sectors would have suffered a slight boost if imports are replaced by domestic production. In any case, the industrial sector could receive a slight boost if demand, especially in the durable consumer goods sector, restarts.
Main Comments (2): RA framework

- Heterogenous effects on households from COVID pandemic
  - workers in certain types of occupations are more economically vulnerable (Mongey, Pilossoph, Weinberg (2020))
  - more likely to experience decline in employment
  - characteristics: less educated, low income, more financially constrained

- Importance of unemployment benefits, transfers, etc. for optimal policy response to COVID
  - missing feature in representative-agent model
  - transfers are exogenous

- Perfect “storm” could also feature a shock to NT preference
  - people avoid consumption through purchases of services
Main Comments (3): Fiscal side

- Role of government consumption
  - no aggregate demand stabilization
  - no room for countercyclical government spending
    - incorporate nominal rigidities (Bianchi, Ottonello, Presno (2020))?
  - model does not capture that higher output raises contagion
    - optimal output may be too high in model
    - disutility from health concerns gives rise to externality (Guerrieri, Lorenzoni, Straub, Werning (2020))
    - key feature for policy analysis
  - more parsimonious alternative: exogenous $g^N$

Of-the-book government transfers in Latin American EMEs
- due to nationalization of banking sector, subsidies through state-owned companies/development banks
- largely covered with seigniorage (Kehoe, Nicolini (2020))
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Other Comments

- Quantitative performance of model in pre-COVID times
  - report second moments (relative volatilities, correlations)
  - consistent with data for EMEs?

- Control for degree of central bank independence
  - has been evolving over time for some EMEs (Garriga (2016))
  - fiscal and monetary authority are consolidated in the model
Concluding remarks

- Role of seigniorage quite overlooked in sovereign default literature
- Interesting paper on very current and relevant topic
Thank you!