7th Annual Conference of the BCC

Discussion

Rahul Mukherjee, IHEID, Geneva

Paper 1

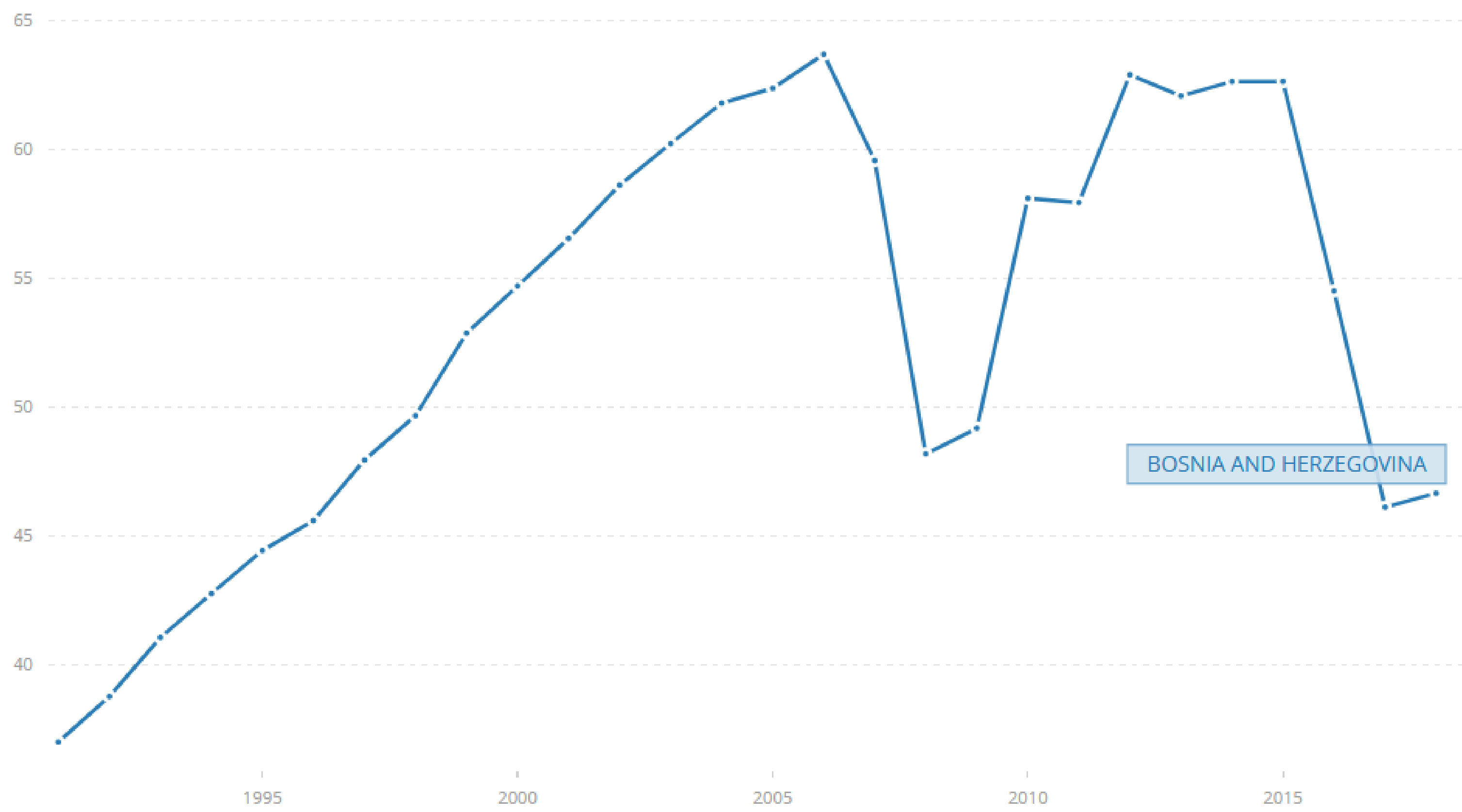
- *Capital Flows Impact on Labor market: How do FDIs and Remittances Effect Youth Employment in Bosnia and Hercegovina?*

by Bojan Baškot, Central Bank of Bosnia and Herzegovina.

Comments

- Question: how do overall and youth (un)employment react to FDI and remittances
- VAR framework to take into account endogeneity of capital flows to economic conditions
- Obvious policy relevance: youth unemployment rate 46.7% in 2018 (ILO)
- For comparison: Croatia 25.5%, Serbia 32.1%

Youth unemployment rate (from ILO)



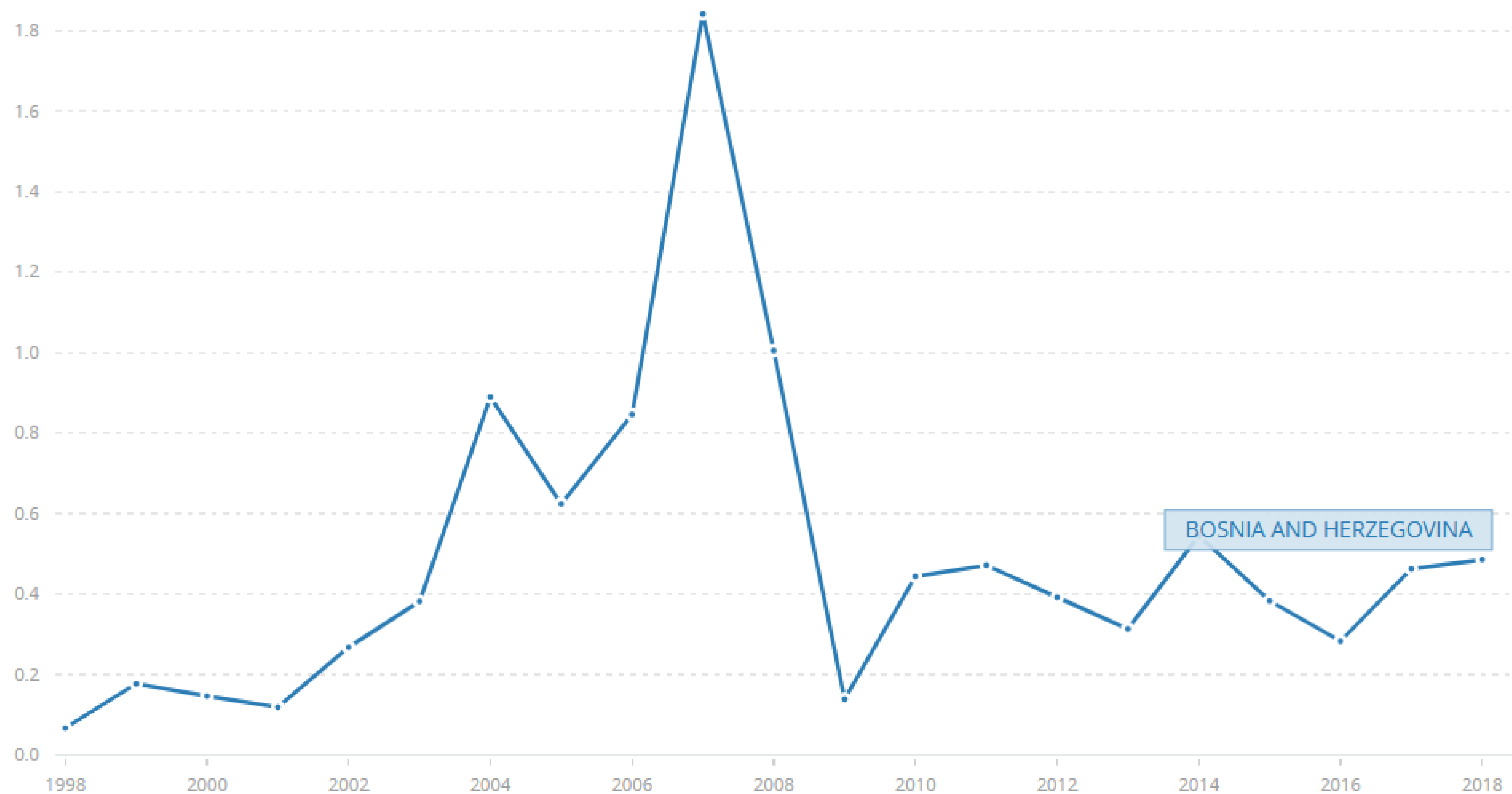
Comments

Variables used:

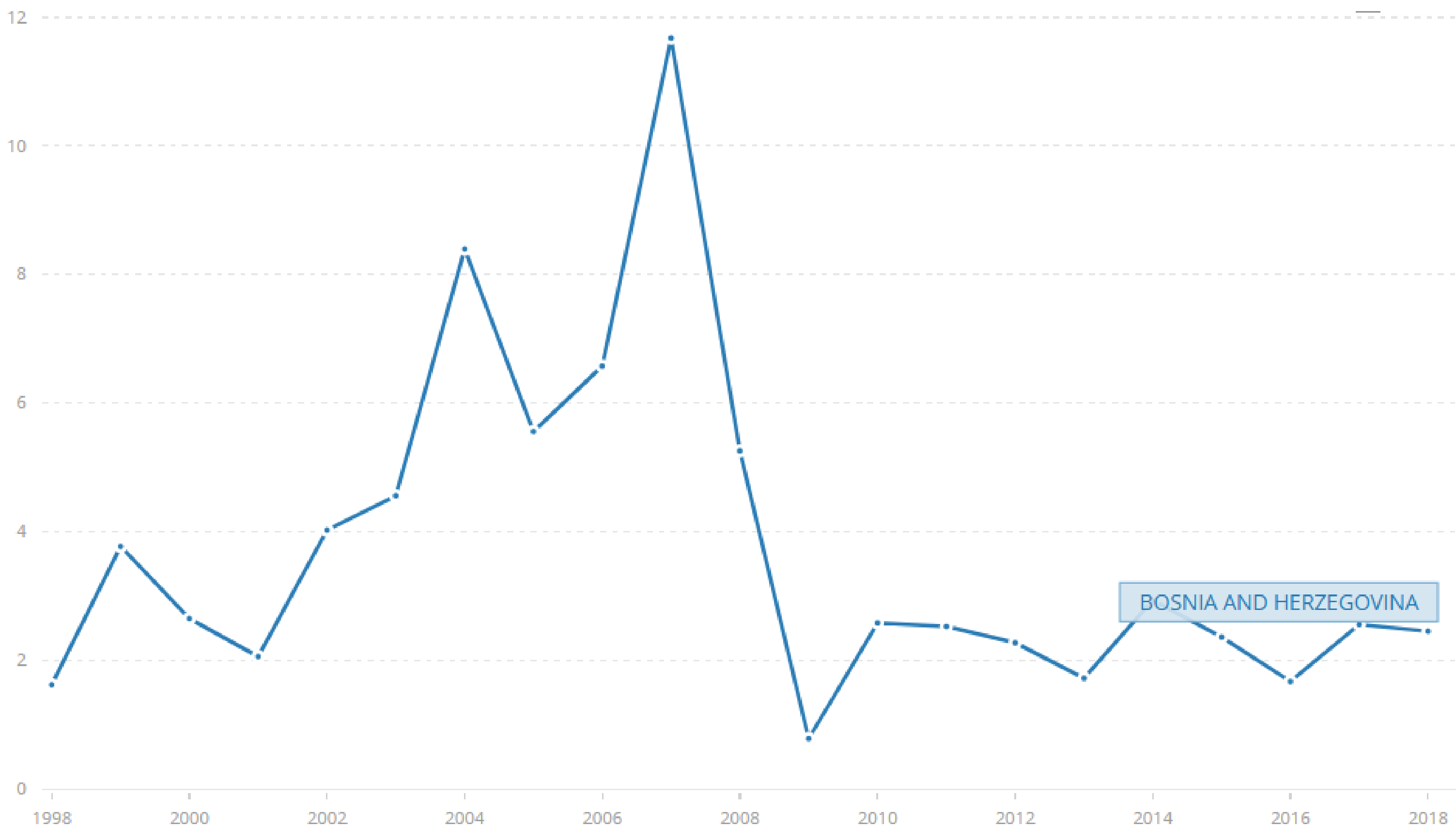
- IP – index of industrial production
- WAGES – average monthly wage

Parsimonious model; but perhaps a richer set of macro variables should be used: real interest rates, trade flows, inflation, etc.

FDI in billions (from UNCTAD)



As % of GDP

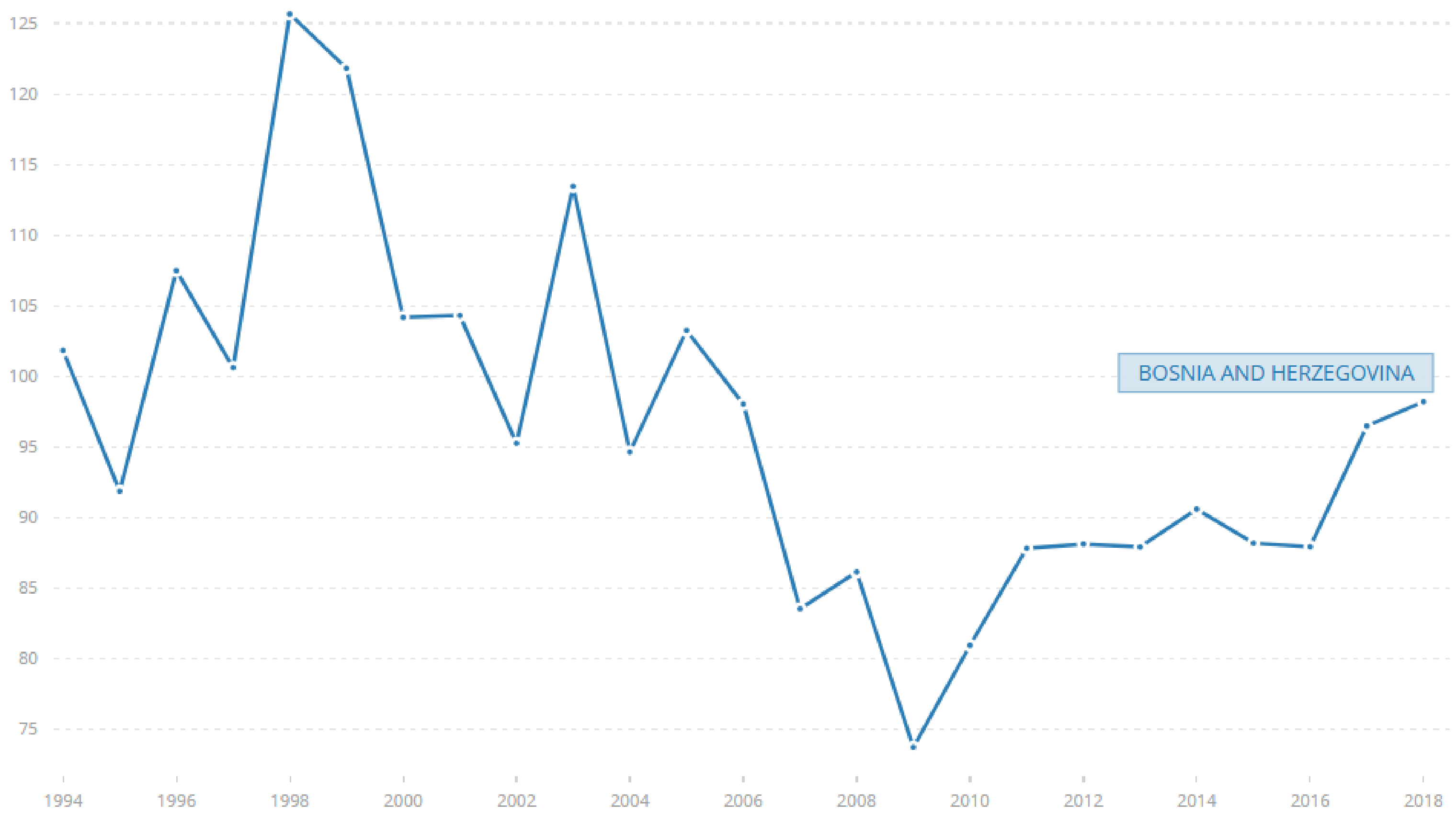


12
10
8
6
4
2
0
1998
2000
2002
2004
2006
2008
2010
2012
2014
2016
2018
BOSNIA AND HERZEGOVINA

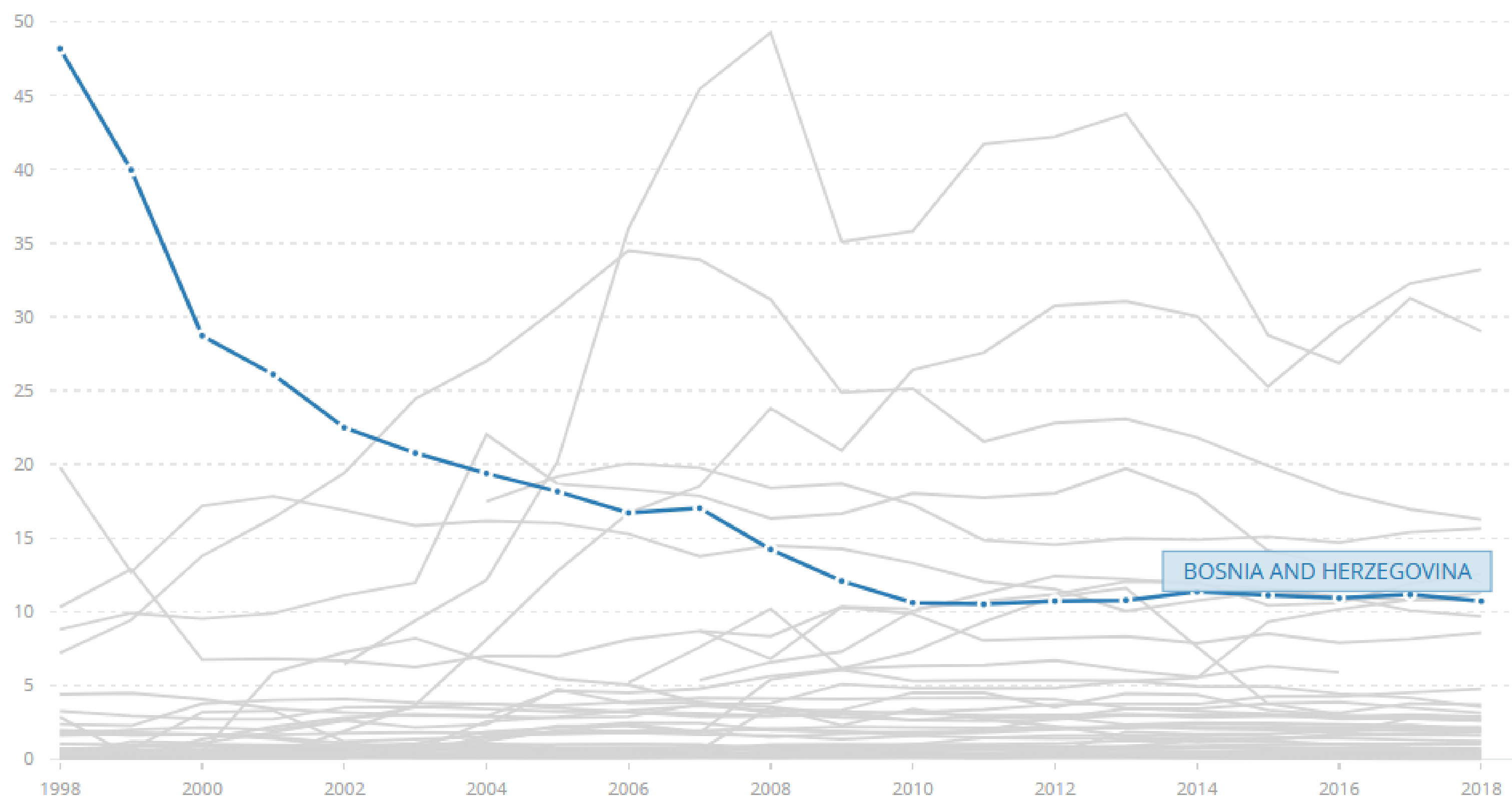
Comments

- FDI flows clearly dependent on rest of the world financial and business cycle conditions
- So then, what if FDI in the model is proxying for the world cycle, world demand for B&H goods etc.?
- Especially relevant since B&H is SOE

Trade as % of GDP



Personal remittances received/GDP (from World Bank)



Comments

- The importance of remittances appears to be declining in the period and fairly stable towards the end; hard to discern relationship

Comments

- In my view, hard to formulate policy prescriptions about tough issues such as youth unempoyment using a black box such as a VAR
- Channels remain completely opaque
- I think this is an important question and important first step, but dig deeper with micro data

Comments

- Identify plausible exogenous shocks to remittances using crises in sender and diaspora countries ; regional dispersion in youth unemployment rates and diaspora location outside B&H?
- Regional dispersion in youth unemployment rates and FDI location within B&H?

Paper 2

- *How much is too much? The fiscal space in emerging market economies*

by Carlos Montoro et al., Central Reserve Bank of Peru.

Comments

- Question: Assessing the fiscal space in EMEs by estimating debt limits (beyond which debt would be unsustainable) for these governments in deterministic and stochastic cases
- Follows the methodology of Ghosh et al.: estimate a cost of borrowing function (supply) and a fiscal reaction function (demand)
- Main finding: not much space at all (more like wiggle room!)

Comments

- Main finding: not much space at all (more like wiggle room!)
- Nice, well executed paper

Comments

- General comment about methodology: harks back to the old days of estimating policy response functions
- Is this immune to the Lucas Critique?
- Are these estimated reduced form parameters stable over time? Your results themselves speak about the uncertainty.
- Are they invariant to the policies themselves?
- If you had longer data series would be interesting to see with a rolling window, when does the uncertainty around the estimates increase?

Comments

- Rationing? What you observe in the data is the equilibrium level of debt
- It is conceivable that EMEs are rationed in equilibrium (i.e. face a vertical supply curve, see sovereign debt literature Eaton and Gersovitz etc.)
- You do take into account possible non-linearities, but what would be the effects on your estimates and conclusions in the presence of a (theoretical) debt limit?

Comments

- Related comment: from the work of Aguiar and Gopinath we know EME business cycles could be subject to stochastic trends and other regime shifts
- Therefore would have liked to see much more of these large non linearities in the model

Comments

- Also recall: from other work of Aguiar and Gopinath that EME borrowing and interest rates behave very differently from developed markets
- In good times both supply and demand for debt shift due to changes in default risk (hence countercyclical borrowing and interest rates)
- Implications for your methodology?

Paper 3

- *The fiscal stance in Colombia implied by the Tax Policy.*

by Jorge Toro et al., Central Bank of Colombia.

Comments

- Question: Assessing the fiscal stance in Colombia over a long period of time using tax rates; speaks to a large literature on the ``puzzling'' pro-cyclicality of fiscal policy in EMEs
- Careful data construction of weighted average of statutory tax rates (avoiding well known endogeneity problems of average tax rates)
- Considers all the major tax rates (VAT, corporate taxes mainly) covering over 90% tax revenues
- Main finding: procylical tax policy (tax rates increase in bad times)

Comments

- Nice paper, few complaints; simple and cleanly conducted exercise
- Would simply encourage to go further along this research line and utilize this tax rate rate for many different questions since the hard work of constructing series has been completed

Comments

- What are the effects of changes in corporate taxes or VAT on employment, financial policies of firms (see recent literature in finance and macro on this)
- Personal income taxes are small fraction; but can those tax rates be used to assess long run effects on LFP, employment and hours?

Comments

- Pappada and Zylberberg (2017) show that a VAT increase of 10% is associated with a decrease in VAT compliance of about 4% in a panel of 35 countries; what are the implications for Colombian tax procylicality?
- Any measurement issues? Is variable capital utilization important in the Colombian context? Can adjustments be made accordingly?