Comments to

ECB-Global: Introducing the ECB's Global Macroeconomic Model for Spillover Analysis

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Summary

- **Objective**
  - ***analyzing cross-country spillovers given structural and behavioral economic relations***
  - ***simulate policy relevant scenarios***
- **Based on IMF's Global Projection Model (Blagrave et al. (2013))**
  - ***Global perspective*** *(euro area, US, JP, UK, China, oil exporting countries and rest of the world)*
  - ***Variables*** *(GDP, unemployment rate, inflation, MP's interest rate and exchange rate)*
  - ***Trade and financial linkages*** *(credit tightening)*
- **Better micro foundation and extended to incorporate**
  - ***Private domestic demand***
  - ***Financial sector*** *(interbank markets, sovereign risks, private sector credit risk premium and equity markets)*
  - ***Fiscal policy / rules***

Assessment

- **The paper**
  - ***improves a state of the art model (IMF's Global Projection Model) by introducing financial frictions and, thus, it better accounts for (financial) spillovers***
  - ***adapts the country coverage to tailor the needs of the euro area***
  - ***given the complexity of these models, it is a very remarkable step forward***

Comments

- **ECB-Global could be used for broader purposes than simulation**
  - ***Forecast***
  - ***Story telling: assessing macroeconomic developments***

- **C1. Further scope for spillovers**
  - ***More linkages than trade and financial ones ➔ Confidence***

- **C2. Policies**
  - ***Unconventional monetary policy***
  - ***Fiscal structure and fiscal shocks***

- **C3. Robustness**
  - ***Robustness of the calibration***
  - ***Towards estimation***

Comment 1. Spillovers

- **Trade channel**
  - ***IMF's Direction of Trade Statistics based weights***
  - ***Value added weights ➔ Final goods and services better account for exposure!!!***
- **Financial channel**
  - ***Weights based on IMF Coordinated Portfolio Survey, that only considers portfolio investment***
  - ***Cross country bank claims (even FDI) is crucial!!!***
- **Confidence channel**
  - ***Consumer and investment are also linked across countries and not fully explain by trade or financial ties***
  - ***IS curve to include cross country correlations!!!***

Comment 2. Policies

- **Unconventional Monetary Policy**
  - ***The effectiveness of unconventional measures differs from nominal interest rates***
  - ***Zero lower bound activates unconventional measures, which pushes sovereign and term premia down***

- **Fiscal Policy**
  - ***Distinction between public investment and public consumption (supply side effects)***
  - ***Fiscal shocks should have an impact on activity (IS curve), not fully Ricardian agents***

- **Structural policies**
  - ***Supply side not developed***

Comment 3. Robustness

- **Calibration**
  - ***Are IRFs stable when changing to other plausible values of the parameters?***

- **How to determine the steady state (or trend) values?**
  - ***Steady states govern model dynamics (deviation from steady state)***
  - ***Is the averaging over the sample the best approach to obtain the steady state?***

- **Estimation? Bayesian estimation?**
  - ***Calibration gives reasonable properties but criticized for reflecting little more than modelers judgment***
  - ***Bayesian estimation. Middle ground between estimation and calibration (confront priors with the data)***