External Shocks and FX Interventions in Emerging Economies by Alex Carrasco and David Florian Hoyle

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Overview

- A very interesting paper
- Relevant for policy
  - SMEs with high exchange rate volatility and financial frictions
- A novel channel of FX intervention
  - Non-neutral FX intervention in the presence of financial constraints
- A large yet elegant model

Comment 1: Net Worth

- Are there cutoff levels of networth for default/unconstrained
  - Can banks grow out of financial constraint if they survive sufficiently long?
  - Or more generally, under what circumstances would banks be (un)constrained?
- Analytically aggregatable even with heterogeneous levels of net worth
  - Consider the scenario where some banks are unconstrained
- Calibration
  - The probability of retirement
  - The start-up transfer to banks
    - $\xi = 1e^{-10}$

Comment 2: Currency Mismatch

- The interaction between currency mismatch and financial constraint
  - the assumption: the higher the mismatch size is, the easier to divert funds
  - a crucial assumption
  - how to motivate this assumption
- Is it possible to check this with the data of heterogeneous banks?
  - possible issues: omitted variable bias, etc.
  - heterogeneous responsed to FX interventions

Comment 3: Other Policies

- A possible extension
  - Macroprudential policies, bail-out, provision of net worth, etc.