Sanctions and the Exchange Rate

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- Analytical model: develop intuition on different mechanisms at play
- Quantitative analysis: decompose effect of individual sanctions

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Stationary Equilibrium

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Import demand: $C_F = \frac{\gamma}{1-\gamma} \frac{P}{\epsilon P^*} Y$

Balance of payments: $P^* C^F = Y^* + (1-\beta) F^*$

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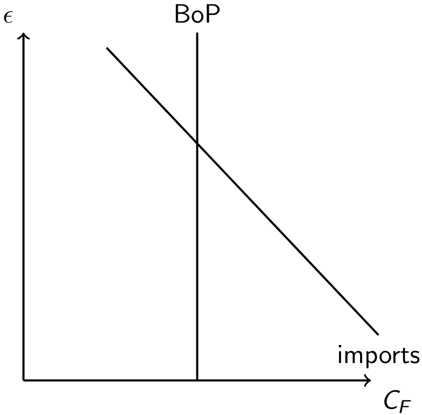

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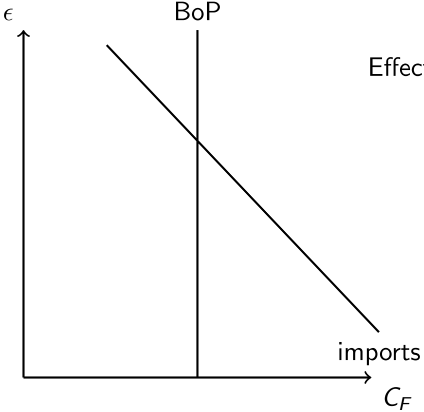

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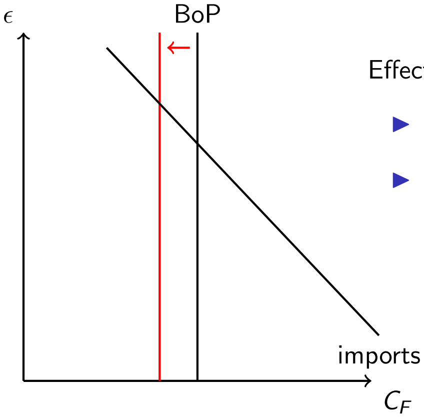

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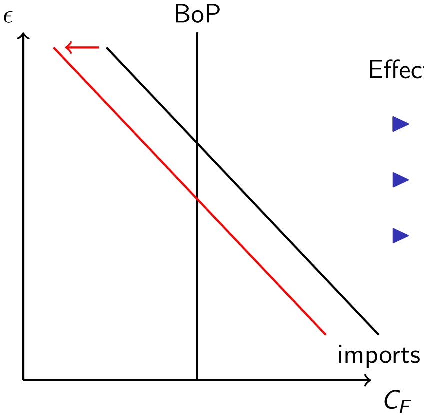

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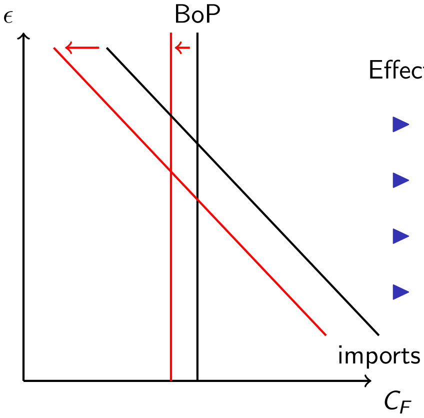

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- FX interventions or financial repression keep (C_{Ft}, ϵ_t) unchanged.

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Summary of my main comments

1. Russia is not small on energy markets
   - Potentially interesting second-round effects
2. Paper builds on a specific output - exchange rates interaction
   - There are alternatives worth exploring
3. The exchange rate is not the right metric, I agree
   - Then, more on effects of sanctions on fiscal resources

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Suggestion: explore (and quantify) second round effects

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Suggestion: no need to go full HA, TA should work. Also need domestically consumed tradables.

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  * Government resources used to counteract sanctions should also be accounted for.
  * Ultimately what matters is how big is the reduction of fiscal capacity relative to cost of war

Other minor comments

- While financial sanctions have not fully turned Russia into a financial pariah, why not consider them (at least) partially?
- Closely related, Eichengreen et al (2022) estimate dynamic responses of exchange rates in a panel of sanction episodes
- In steady state, government fiscal balance should read

$$W \leq \epsilon (1-\beta)(F^* - B^*) + \epsilon Y^* + PY$$

If $B^* = 0$, $F^* - B^*$ does not affect nominal wage commitment

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- Looking forward to future versions