

Fiscal Nowcasting

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Frankfurt, 29 September 2017

Summary of the paper

- The paper proposes to use a mixed-frequency framework to obtain nowcasts of the budget balance to GDP ratio.
- Fiscal data are generally only quarterly available with a long delay. Cash monthly data on the government borrowing requirements are however published monthly and with no delay.
- A mixed-frequency BVAR setup allows to get a good nowcast of the budget balance to GDP ratio extracting information from the monthly available cash flow series.
- The good nowcasting performance of the model is tested on Italian data.

Nowcast of a ratio or ratio of nowcasts?

- I read that 4 variables enter into the VAR: GDP (Y), GDP deflator (P), government revenue and expenditure (budget balance) (D), cash data for the government borrowing requirement.
- Your target variable is the budget balance to GDP ratio: $\frac{D}{Y}$.

You forecast D, Y and P with the VAR and then compute the ratio of the forecasts. Am I correct?

Nowcast of a ratio or ratio of nowcasts?

If I am correct:

- It would be interesting to look at the forecasts of the different components of the ratio: D, Y, P. What is more precise, what is less?
- How is for example the forecast of GDP? If it is not great, why don't you take the forecast for GDP from a model that we know have good forecasting performance and use that into the ratio?
- Why don't you try to use a bivariate VAR, with a measure of your ratio and the cash data and see how the forecast looks like?

Nowcast of a ratio or ratio of nowcasts?

If I am not:

- The opposite: why don't you forecast the components of the ratio independently?

All in all:

- It would be interesting to see what performs better: the forecast of the ratio or the ratio of the forecasts.

Data issues

- 1 **Nominal vs real GDP.** You consider (real) GDP and GDP deflator. Can you consider substituting them with Nominal GDP? It would imply a smaller VAR with only three variables.
- 2 **Budget balance vs cash data.** I assume Figure 1 plots the data in differences. Can you compute the correlation? Further, it seems that the series are more correlated after 2009. Maybe it is worth investigating. The forecasting performance looks better towards the end of the sample (Figure 2).

On the mixed frequency VAR

- 1 **Your approach.** Is your approach different than Schorfheide and Song (2015)? In what?
- 2 **Alternative approach.** Why don't you try the stacked form version of the mixed-frequency VAR introduced by Ghysels (2016)?