

Reply to referee report 1

Dear Sir or Madam,

thank you for the valuable feedback we received. Regarding to the respective concerns you mentioned, here is our reply.

1. We agree that the actual rate of exchange was a result of several factors together with the SNB interventions. However, the exchange rate floor was the explicit target the SNB announced (e.g. SNB 2011). That is the reason we chose the rate of exchange to be the leading variable for the prices to response to. In other words, the SNB believed that CHF 1.20 per euro is the right exchange rate to reach the inflation target. As far as the desired rate of exchange is reached, the way to reach it does not matter. Also, we assumed linear relationships to keep the idea of prices' responses along the distribution chain.
2. Papers that work with the idea of distribution chain are cited in our study, so that we can relate the results. Nonetheless, it is clear to us that papers using other methodologies are relatable as well, since the very same thing is studied. We will include these, too.
3. The exogenous variable was the oil price indeed, we are sorry for the confuse we left in the paper. However, the euro-area GDP could work as well – we will try to estimate the model with the euro-area GDP included.
4. The variable ordering was based on the idea of prices responding to the rate of exchange. Reason to do so was that the SNB main monetary policy tool was unusable. We will discuss the chosen ordering wider in the revised version of the paper.
5. We agree the 3M Libor did not capture all monetary policy decisions – it was supposed to do so together with the interventions, as these two variables were set by the SNB. We supposed the exchange rate interventions are reflected in the rate of exchange. It is true, however, that since the interventions can be sterilized or non-sterilized, the money supply can differ based on the type of interventions. Thus, we will also alternate the model by including money aggregate.
6. We will add the confidence bands to the results in the paper's revised version.

References:

SNB, 2011. Swiss National Bank sets minimum exchange rate at CHF 1.20 per euro Swiss National Bank sets minimum exchange rate at CHF 1.20 per euro [online].
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