

The paper examines the effectiveness of fiscal and monetary policies for governments with low credibility. This is an important and interesting question. The paper builds a theoretical model, which predicts that policies of countries with lower credibility are less effective. Then the paper takes the predictions of the model to the data, and estimate that the predictions of the model are supported in the data.

While the question is important, the paper is not ready for publications. I see a variety of problems.

The paper does not discuss what it adds to the existing literature and it is doubtful whether it adds much. The paper by Bossone (2019), which is cited in the abstract, uses the same model equations as this paper (13 equations are the same). This suggests that only the empirical part is new.

Moreover, the model part is poorly written and hard to follow. There are some strong assumptions (for example that the exchange rate pass through depends on the credibility of the country), which should be supported. Moreover, it should be discussed how these assumptions affect the main results.

The paper claims that an important part of the model is the intertemporal budget constraint. It shows that the current debt of a country is equal to the present discounted value of future primary surpluses and monetary financings. The discount factor reflects the credibility that investors attribute to the country. This is exogenous in the model, but probably this should be endogenous and be a function of past policies. It would have been helpful to discuss how this credibility differs from a risk premium that a country has to pay.

For low credibility countries default is an option if they cannot or will not pay their debt. Empirical works show that this is quite common. The paper should at least mention this option, and discuss why it is not incorporated in the model.

Unfortunately, also the empirical part is poorly implemented and not convincing. Identification is not discussed in detail. No robustness checks are provided.

The high credibility countries seem to be selected without further explanation. From Europe, for example, the paper only uses Denmark, Norway, Sweden, Switzerland and UK. Why? Similar questions arise regarding the selection of low credibility countries.

It does not help that the result tables are not exactly nice to look at (Stata output copy-pasted).

Finally, it is irritating, to say the least, that when taking the logarithm of certain variables the authors derive that $\ln(-x) = -\ln(x)$ for negative x . The logarithm of a negative number is not defined.