**Author Responses to Valuable Comments**

Reviewer A:

The aim of this paper is to explore the relationship between the aggregate
output and the real appreciation of the Euro and whether the
appreciation/depreciation of the Euro is expansionary or contractionary for
Slovenia. My opinion is that the paper is publishable in SEE journal with
changes/amendments. I suggest the author(s) to consider the following
issues:

1. Please take care about references, both in the text and at the end of the
paper

*References have been taken care of in the text and at the end of the paper.*

2. Please reference where referring to different studies or other research

*A new section of literature review has been added on pp. 4-6.*

3. Please avoid using words such as: "most expectations", "many observers",
"some" without exact support in the reference

*These words/phrases have been removed.*

4. Please provide more details in the abstract such as gap in the field
–what is currently known and also contributions

*These have been addressed in the abstract.*

5. Check the key words

*Keywords have been checked. A correction is made.*

6. I recommend that the author(s) include a literature review section in
which they will discuss how this research answers the gap in the field. This
will be later on linked with the contributions and recommendations for
further studies

*A section for literature review has been added.*

7. I also recommend that the author(s) provide a separate section on the
background of the country where the details provided in the introduction
about the Slovenian economy will be discussed and expanded with appropriate
references

*A new section for Slovenia’s background has been added on. pp. 3-4.*

8. The empirical results table should also include the p-values so the
significance of the various coefficients is clear

*P-values have been added to Table 1 on p.13.*

9. I recommend that the author (s) include a section on discussion of
findings and results which will link better the results to the general
discussion in the literature

*A section of “Discussion of Findings and Results” has been added beginning on p. 10.*

*Comparisons are added on p. 14.*

10. Finally the summary and conclusion section should be expanded in
discussing the recommendations for future research, limitations in the
study, policy implications in more detail, contribution to knowledge and
impact of research.

*The summary and conclusions have been expanded to include future research, limitations and policy implications in more details.*
Reviewer B:

REVIEW OF THE PAPER:

‘Is real depreciation or more government deficit expansionary? The case of
Slovenia ‘

The author uses secondary data and macroeconomic modelling to investigate if
changes in Euro exchange rate and government deficit affect economic growth
in Slovenia. The findings are different for different sub-periods which
author covers in this research (2003-2008; 2008-2015) indicating that recent
depreciation of Euro should help to Slovenian’s output while government
deficit has no systematic effect on output. The paper is rather short, it
has some literature review but it needs quite structural revision to make it
publishable. I suggest the following changes

- Abstract - the abstract does not function well. It is very mechanical and
should be rewritten saying in a catchy language what was the research task,
research methodology, and what are the main findings and policy
implications. Try to avoid these periods which are disturbing the reader’s
attention.

*It has been rewritten and addressed on p. 1.*

- Introduction, please provide the source of data that are used in the very
beginning

*Sources have been added.*

- I think euro should be ‘Euro’, change it throughout the paper

*The Euro is used.*

- In the end of ‘Introduction’ you are referring to studies that have
covered similar issue, please, list them to convince the reader that you are
using them in your research.

*A new section of literature review has been added on pp. 4-6.*

- ‘The model’ section. This needs introduction based on the existing
theory and literature. Please, introduce the reader an economic logic how
you obtain this model, why you are using this specification and why it is
relevant for Slovenia. You are using a reduced form of equation but saying
that in your conclusion without a proper discussion here.

*The first paragraph in the model section on p. 6 has been rewritten to address the comments.*

- You are using different acronyms for inflation in your specification,
please, be consistent.

*The inflation rate and the expected inflation rate are two different variables. A change in the inflation rate would move real GDP along the same aggregate supply curve whereas a change in the expected inflation rate would shift the short-run aggregate supply curve.*

- Why these ‘?  ?  -  + …’ are used. They deserve explanation if you
want to leave them. I assume this is linked to the expected results, but do
explain it.

*An explanation has been added below the equation on p. 7.*

- ‘Empirical results’ below:
o We need appropriate source as a reference in the very beginning.

*Sources have been added.*

o When you are discussing independent variable, use acronyms introduced
earlier to make reading easier.

*Acronyms are used in Table 1 and afterwards.*

o I am not fully sure that you are using the dummy variable correctly.
Please, check it out. If you are interacting the dummy with 2008-2015, what
is the first period covered without dummy, 2003-2015. Also, your Table 1
should have acronyms to enable us to follow what you are doing. Currently,
it is hard to link discussion in the manuscript with results in Table 1a

*The coefficient of log(*$ε)$ *refers to the period of 2003.Q1-2008.Q3 whereas the coefficient of the interactive term log(*$ε)×B$ *refers to the period of 2008.Q4-2015.Q4.*

*In Table 1, acronyms are used.*

o Explain arguments why you need DF-GLS (in full please) and EGARCH (in
full).

*It has been explained on p. 10-11.*

o Explanation of the obtained results needs to be better, clear. The reader
can mix different periods, please, do it carefully

*It has been addressed beginning on p. 10. Comparisons are added on p. 14.*

o Anything more about model diagnostics?

*The Theil inequality coefficient is added in Table 1. A note beneath Table 1 explains the meaning.*

o Your explanation that what was before means for tomorrow deserves more
elaboration – is that a long run behavior of indicators. Please, do not
over interpret your results.

*Your advice has been followed.*

o In general, the discussion of the obtained results is hard to follow. This
needs a reader friendly elaboration, step by step. Currently, it is covering
too much at once and we do not know where to focus. Especially, the last
paragraph is confusing.

*The discussion has been polished. The last paragraph in the original paper has been deleted.*

o Conclusion could be better

*The conclusion has been polished. Future research and limitations are added.*

o Policy implication needs a more careful formulation.

*It has been addressed on p. 15.*