

**Bank of England**

Macro Financial Risk Division

Financial Stability Strategy and Risk

20 Moorgate, London, EC2R 6DA

London, June 18, 2026

Subject: Submission of manuscript to the Review of Economic and Statistics

Dear Editor,

Please consider my manuscript “*Local Projections vs. VAR for structural parameter estimation*” for publication at the *Review of Economics and Statistics (REStat)*.

The paper studies the small sample properties of minimum distance estimators that target empirically estimated impulse responses. To that end, I carry out a Monte Carlo analysis to investigate the consequences of targeting Local Projections versus VAR estimated responses for the structural parameters of a DSGE model. In doing so I distinguish between impulse response function matching and indirect inference, consider various identification strategies for the aggregate shocks, as well as several variants of the LP and VAR estimators. Overall, the findings suggest that indirect inference outperforms IRF matching as the former is robust to potential misspecification coming from invalid identification assumptions, small sample issues or incorrect lag selection. If IRF matching is nonetheless used for estimation, then targeting LP-IRFs is more desirable as they exhibit lower bias.

I believe that this manuscript is well suited to *REStat* on the following grounds. First, the question of how to estimate structural parameters of quantitative models is of broad interest to structural economists. The comparison between Local Projections and VAR as binding functions speaks to those who were already using simulation based estimation techniques, while the comparison to IRF matching has direct implications for those who did not. And second, the methodology to address that question fits with the journal’s tradition of accepting papers where Monte Carlo evidence on the finite-sample properties of well-established estimators is the primary contribution (e.g. Killian and Kim, 2011).

Thank you for consideration. I look forward to hearing from you.

Sincerely,

Dr. Juan Castellanos  
Research Economist