

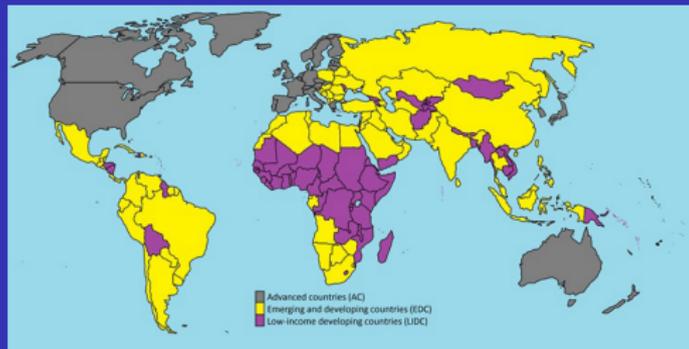
Fiscal Crises

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Discussion by Carlo A. Favero, ECB, Frankfurt

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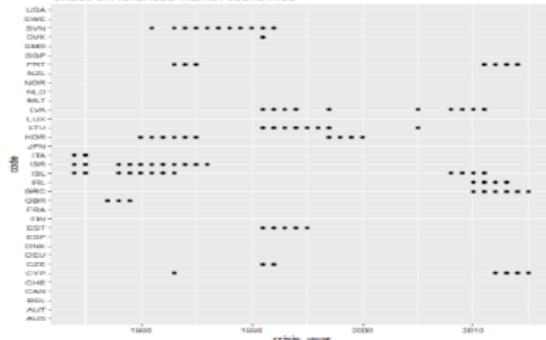
- This paper:
 - a new database on fiscal crises
 - policy and economic dynamics during (and after) the crises
- My discussion:
 - some interesting features of the database
 - their implication to analyze policy and economic dynamics



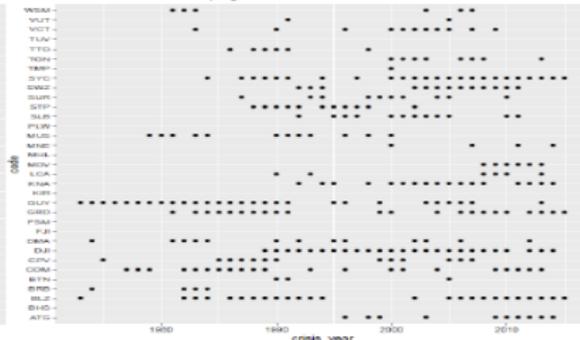
188 Countries AM (35), SMD(33), LIDC(50), EM(65), annual data 1970-2015

The distribution of crises

Crisis in Advanced Market economies



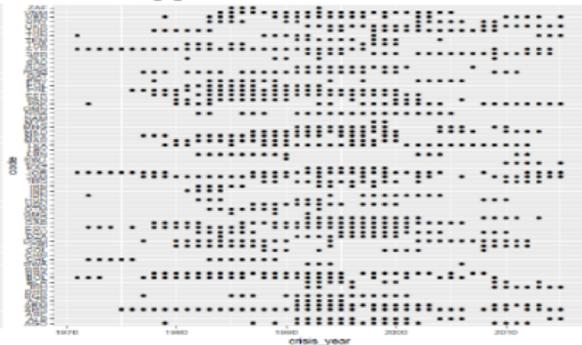
Crisis in Small Developing State economies



Crisis in LIDC economies

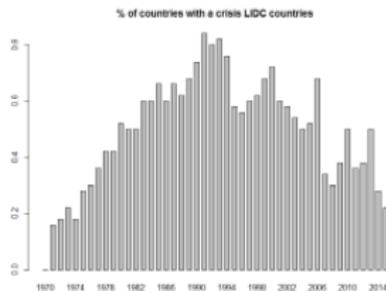
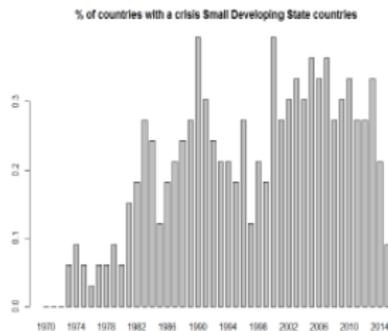
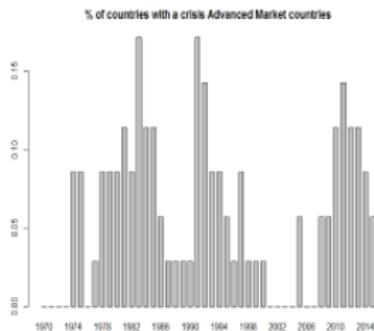


Crisis in Emerging Market economies



The (unconditional) probability of crises

The sum of ones for each group of countries over time scaled by the number of countries in each group



$$y_{i,t} = \alpha_i + \sum_{j=-5}^5 \beta_j D_{t+j} + \varepsilon_{i,t}$$

$y_{i,t}$:fiscal policy (debt and deficit), economic growth

- Are there sufficient observations in "normal times" for LIDC and EM economies ? Are there sufficient observations in "crisis time" for AM?
- D_{t+j} captures both within country dynamics and interdependence+contagion. It would be nice to disentangle these two effects

$$y_{i,t} = \alpha_i + \sum_{j=1}^p \beta_j y_{i,t-j} + \sum_{s=0}^q \beta_j D_{i,t-s} + \varepsilon_{i,t}$$

$y_{i,t}$:fiscal policy (debt), economic growth.

- the model is aimed at capturing macrodynamics after the crisis, but within the specification chosen the crisis **does not** affect macrodynamics (the β_j are constant).

$$y_{i,t} = (1 - F(s_{i,t}))A_1^{NC}(L)y_{i,t-1} + F(s_{i,t})A_1^C(L)y_{i,t-1} + \gamma_j D_{i,t} + \varepsilon_{i,t}$$

- $F(s_{i,t})$ is the probability of a crisis that can be proxied, for example, by using the info on the unconditional probability of crisis. Within this specification impulse response do depend on the probability of crisis
- the specification could be further enriched via a global variable to capture network effects of the crises.