Fiscal Crises

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Plan of the discussion

- 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
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.
Macroeconomic and Policy Dynamics

\[ y_{i,t} = \alpha_i + \sum_{j=-5}^{5} \beta_j D_{t+j} + \epsilon_{i,t} \]

\( y_{i,t} \): 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
Dynamics after the crisis

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

\( y_{i,t} \): 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 \( \beta_j \) are constant).
Dynamics after the crisis: an alternative specification

\[ y_{i,t} = (1 - F(s_{i,t}))A_{1}^{NC}(L)y_{i,t-1} + F(s_{i,t})A_{1}^{C}(L)y_{i,t-1} + \gamma_{j}D_{i,t} + \varepsilon_{i,t} \]

- \( F(s_{i,t}) \) 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.