Serial Defaulters: an attempt to account for the unobservable
by Vivian Norambuena

Comments by Branimir Jovanovic

NBRM conference 2014, Skopje

What this paper does

- Analyzes role of unobserved heterogeneity, which has been largely neglected, for determinants of sovereign default
- Very solid analysis (I'll skip the details)
- Finds that unobserved heterogeneity really matters and that omitting it leads to wrong conclusions and policy recommendations
- Policy implications – emerging market economies do not really have debt intolerance in the way Reinhart and Rogoff describe

Unobserved heterogeneity

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- Or, some countries have corrupted public administration. Whichever political party comes to power, it employs its voters. Hence, they always run budget deficits. Hence, they often default.

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- Discuss *time-varying unobserved heterogeneity*.

Countries

- Which countries you analyze? There are many classifications of emerging markets (EM) - IMF, Economist, S&P... (see Wikipedia for all).
- Which classification you use?
- Also, this can change over time. An EM in 1980 may not be that in 2010.
- Why is Russia missing? Russia is one of the few countries that is classified as an EM in all the 9 classifications on Wikipedia. Russia had a default in 1998.

Additonal explanatory variables you may include:

1. Fiscal deficit
2. CA deficit
3. Exchange rate appreciation/depreciation
4. Interest rate changes
5. Oil prices or terms of trade
6. Financial depth

Other comments

- Why do you assume away the random effects (a-la McFadden et al, 1985), instead of testing for them? Compare RE vs. FE, using the Hausman test. If they don't differ, you should use RE, they are more efficient. So, you may get that debt becomes significant then.

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- Why don't you analyse determinants of length of default?
- Add a table with descriptive statistics of variables.

References

Phakawa Jeasakul, Cheng Hoon Lim, Erik Lundback (2014), "Why Was Asia Resilient? Lessons from the Past and for the Future", IMF Working Paper 14/38

Effects of Fiscal Policy on the Post-Crisis Recovery of European Economies by Rilind Kabashi and Ana Mitreska

Comments by Branimir Jovanovic

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What this paper does

- Analyzes effects of fiscal policy, measured through cyclically adjusted fiscal balance, on GDP growth after the crisis, in 37 European countries.
- It claims to find that '*fiscal conslidation had a relatively small, but fairly robust positive impact on output recovery in European countries*'.
- *'These findings lend support to the argument for expansionary fiscal contraction.'*

My verdict

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- However, I'm afraid it overreaches with the interpretation of the results and the conclusions.

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- Endogeneity, of course. You acknowledge this. Still...
- Cyclically-adjusted balance (CAB) well known to push results towards finding evidence for austerity (Guajardo et al, 2011).

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3. Shocks to output after fiscal measures have been adopted will contaminate CAB.
4. Elasticities for calculating CAB are problematic. They differ in recessions and expansions. Usually, they assume they are same.

Despite this...

- You interpret the results causally.
- I would say that you just find that there is a positive correlation between budget balance and GDP growth. Simply put, you find that countries with fiscal deficits have lower growth, and countries with low growth have deficits.
- This CAN be read as a notion that consolidation is good for growth (as you do).
- But, it CAN be also read as a notion that low growth leads to high deficits (as I would read it).
- Acknowledge this. Be more reserved in the conclusions about austerity.

How to alleviate the problem

- Include GDP growth expectations (WEO forecasts) as additional explanatory variable.
- Date your fiscal variable prior to the GDP. Now, CAB and GDP growth overlap (2009-2012 vs. 2009-2013).

Other comments

- Why don't you try alternative measures of fiscal policy?
- For example, public spending.
- Original arguments for austerity were in terms of government spending. The story was - by cutting public spending now, government avoids future, more disruptive spendings. This increases agents' expected lifetime income, and output.
- How is the cyclical adjustment done? Not explained, and is important.