Comment: The Global Financial Crisis: Explaining Cross Country Differences in the Output Impact

Abhijit Sen Gupta

Associate Professor,
Centre for International Trade and Development,
Jawaharlal Nehru University

6^{th} NIPFP-DEA Workshop

Outline

Outline

Main Highlights

- Attempts to explain the differences in the crisis impact across emerging and non-emerging developing countries.
- Use revisions of consensus forecast and WEO projections for GDP growth to measure the impact of the crisis.
- Focuses on alternative transmission mechanisms viz. trade, financial, policy framework and inherent vulnerabilities and the financial structure.
- Uses both graphical and regression analysis to capture the key determinants of impact of the crisis.

Main Highlights

- Attempts to explain the differences in the crisis impact across emerging and non-emerging developing countries.
- Use revisions of consensus forecast and WEO projections for GDP growth to measure the impact of the crisis.
- Focuses on alternative transmission mechanisms viz. trade, financial, policy framework and inherent vulnerabilities and the financial structure.
- Uses both graphical and regression analysis to capture the key determinants of impact of the crisis.

Main Highlights

- Attempts to explain the differences in the crisis impact across emerging and non-emerging developing countries.
- Use revisions of consensus forecast and WEO projections for GDP growth to measure the impact of the crisis.
- Focuses on alternative transmission mechanisms viz. trade, financial, policy framework and inherent vulnerabilities and the financial structure.
- Uses both graphical and regression analysis to capture the key determinants of impact of the crisis.

Main Highlights

- Attempts to explain the differences in the crisis impact across emerging and non-emerging developing countries.
- Use revisions of consensus forecast and WEO projections for GDP growth to measure the impact of the crisis.
- Focuses on alternative transmission mechanisms viz. trade, financial, policy framework and inherent vulnerabilities and the financial structure.
- Uses both graphical and regression analysis to capture the key determinants of impact of the crisis.

Main Highlights

- Graphical representation indicates that financial linkages, financial vulnerabilities, current account deficit, primary deficit and exchange rate rigidity are associated with a greater impact.
- Baseline regressions indicate that leverage and credit growth explain a large part of variation in growth revisions.
- EU accession and exchange rate rigidity seems to have exacerbated the impact while a strong fiscal position mitigated it.
- Expanding the sample by using the WEO forecast dataset shows that composition of trade is a key factor for non-emerging developing countries.

Main Highlights

- Graphical representation indicates that financial linkages, financial vulnerabilities, current account deficit, primary deficit and exchange rate rigidity are associated with a greater impact.
- Baseline regressions indicate that leverage and credit growth explain a large part of variation in growth revisions.
- EU accession and exchange rate rigidity seems to have exacerbated the impact while a strong fiscal position mitigated it.
- Expanding the sample by using the WEO forecast dataset shows that composition of trade is a key factor for non-emerging developing countries.

Main Highlights

- Graphical representation indicates that financial linkages, financial vulnerabilities, current account deficit, primary deficit and exchange rate rigidity are associated with a greater impact.
- Baseline regressions indicate that leverage and credit growth explain a large part of variation in growth revisions.
- EU accession and exchange rate rigidity seems to have exacerbated the impact while a strong fiscal position mitigated it.
- Expanding the sample by using the WEO forecast dataset shows that composition of trade is a key factor for non-emerging developing countries.

Main Highlights

- Graphical representation indicates that financial linkages, financial vulnerabilities, current account deficit, primary deficit and exchange rate rigidity are associated with a greater impact.
- Baseline regressions indicate that leverage and credit growth explain a large part of variation in growth revisions.
- EU accession and exchange rate rigidity seems to have exacerbated the impact while a strong fiscal position mitigated it.
- Expanding the sample by using the WEO forecast dataset shows that composition of trade is a key factor for non-emerging developing countries.

Main Highlights

- Financial vulnerabilities and financial variables continue to play a significant role.
- Robustness tests show that the results are largely unaffected in case of a change in dates for the Consensus forecast.

Main Highlights

- Financial vulnerabilities and financial variables continue to play a significant role.
- Robustness tests show that the results are largely unaffected in case of a change in dates for the Consensus forecast.

Main Comments

- Does the dependent variable accurately capture the impact of the crisis?
  ▸ Forecast
- Is the conclusion on exchange rate peg dummy driven by the sample of countries used in the analysis.
  - Includes a number of East European countries that are either a part of ERM II or are potential entrants.
  - Most of the floaters tend to be the OECD countries, which are out of the purview of this study. Nevertheless, a number of these countries have been hit hard.

Main Comments

- Does the dependent variable accurately capture the impact of the crisis? Forecast
- Is the conclusion on exchange rate peg dummy driven by the sample of countries used in the analysis.
  - Includes a number of East European countries that are either a part of ERM II or are potential entrants.
  - Most of the floaters tend to be the OECD countries, which are out of the purview of this study. Nevertheless, a number of these countries have been hit hard. Lat Am

Main Comments

- Does the dependent variable accurately capture the impact of the crisis? ▸ Forecast
- Is the conclusion on exchange rate peg dummy driven by the sample of countries used in the analysis.
  - Includes a number of East European countries that are either a part of ERM II or are potential entrants.
  - Most of the floaters tend to be the OECD countries, which are out of the purview of this study. Nevertheless, a number of these countries have been hit hard. ▸ Lat Am

Main Comments

- Does the dependent variable accurately capture the impact of the crisis? ▸ Forecast
- Is the conclusion on exchange rate peg dummy driven by the sample of countries used in the analysis.
  - Includes a number of East European countries that are either a part of ERM II or are potential entrants.
  - Most of the floaters tend to be the OECD countries, which are out of the purview of this study. Nevertheless, a number of these countries have been hit hard. ▸ Lat Am

Main Comments

- Some aspects of the trade channel is important for the emerging markets.
- While trade openness might not be significant for the overall sample, it might be a contributing factor in some regions like the Asia Pacific (IMF 2009). ▸ Trade Channel

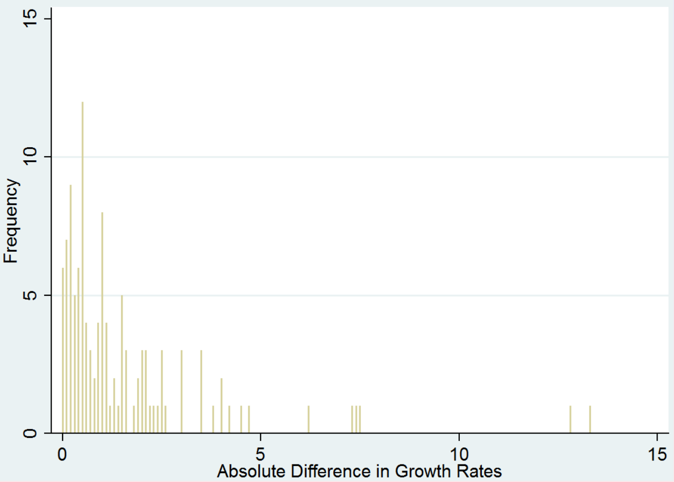
Main Comments

- Some aspects of the trade channel is important for the emerging markets.
- While trade openness might not be significant for the overall sample, it might be a contributing factor in some regions like the Asia Pacific (IMF 2009). Trade Channel

Thank You!!!

Appendix Outline

Growth Revisions



Comments

Impact of Crisis: Latin America

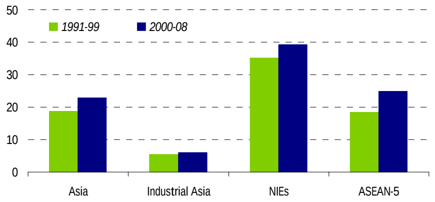
Impact of Crisis: Latin America

Country	Impact	Exchange Rate Regime
Mexico	-9.6	Independently Floating
Paraguay	-9.0	Managed Float
Argentina	-7.0	Other Conventional FixedPeg
Chile	-6.2	Independently Floating
Costa Rica	-5.5	Crawling Band
Panama	-5.4	Exchange Arrangement with No Separate Legal Tender
Ecuador	-5.1	Exchange Arrangement with No Separate Legal Tender
Colombia	-4.8	Managed Float
Peru	-4.5	Managed Float
Brazil	-4.3	Independently Floating
Uruguay	-3.4	Managed Float
Bolivia	-2.2	Crawling Peg

Comments

Trade Channel

Figure 1.3. Asia: Export Exposure to G-2[1]
(In percent of GDP)

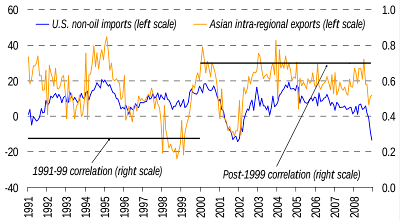


Sources: Guimarães-Filho and others, 2008; and IMF, *Direction of Trade Statistics* database; and staff calculations.

[1] Includes indirect exposure through exports of intermediate and capital goods via intra-regional trade. Regional aggregates are simple averages of the total exposure of consituent economies.

Figure: Trade Exposure

Figure 1.4. Emerging Asia Intraregional Exports and United States Non-Oil Imports[1]
(Year-on-year percent change)



Sources: Haver Analytics; and IMF, *Direction of Trade Statistics* database.

[1] Includes China, Hong Kong SAR, Korea, Singapore, Indonesia, Malaysia, the Philippines, and Thailand.

Figure: Trade Linkage

Comments