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Discussant comments on

Emerging markets, decoupling, and financial performance during the crisis

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Ugur Lel and Daniel Silver

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* These comments reflect the views of the author and not necessarily those of the BIS or of central banks participating in the meeting.

Emerging Markets, Decoupling, and Financial Performance During the Crisis by Mark Carey, Laurie Pounder DeMarco, Steven Kamin, Ugur Lel, and Daniel Silver

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Overview

The paper studies international dissemination of the recent financial crisis.

Examine the evolution of financial distress for financial and non-financial firms for developed and emerging economies.

Empirical evidence:

- Little evidence of decoupling of emerging markets from advanced economies.
- Little evidence of systematic differences in financial performance due to differences across nations in macroeconomic or financial sector characteristics.

Overall Assessment

- The paper is well placed within the recent literature.
- It presents new and interesting results.
- It employs two methods - cross-section regressions and panel data regressions - both with qualitative same results !
- It looks at a large panel of countries - emerging x advanced.

Cross-Section Regressions

$$FP = \alpha + \beta D + \gamma Z + \delta(D * Z) + \epsilon_i \tag{1}$$

where, Financial performance = CDS premia or stock returns and Z = country-specific indicators.
Add a dummy variable to assess whether there are significant differences between developed and emerging economies.

Panel regression set-up

Better capture how the global crisis was disseminated across countries

$$FP = \mu + \theta(LiborOIS) + \tau D + \phi Z + others \qquad (2)$$

where LiborOIs = spread of Libor over OIS one-month interest rates Monthly changes

Questions and suggestions - 1

- Drop the first tables looking at cross-section regressions ! Omitted variables bias ! Difficult to conclude anything and difficult to read.
- The paper could focus on the results from the stepwise regressions.
- Why not use Factor Analysis to build indicators for these large number of fundamentals ?

Questions and suggestions - 2

- Its not clear in the equations which are the global and country specific variables. The paper lacks a more precise notation.
- Example: the LiborOIS variable. That is a variable that measures funding illiquidity in the US but is not a country specific variable.
- Why not use a variable to capture global risk aversion as well ?

Questions and Suggestions - 3

- Is there persistence in Financial Performance ?
- If returns are mean reverting we should expect a negative coefficient on lagged FP.
- There is very little information on the panel estimation method that was used.

Questions and Suggestions - 4

- The country selection seem too heterogenous. Many countries are not emerging countries - some are in transition and some are just underdeveloped.
- It would be worthwhile looking at differences of performance across different regions - Latin America, Eastern Europe and Emerging Asia - and compare these countries to developed economies.

Questions and Suggestions - 5

- An interesting extension would be to include a dummy for emerging countries that have implemented "sound macroeconomic policies"
- Since this is difficult to measure an alternative would be to include a dummy variable to countries which have Inflation Targeting framework in place.
- Or perhaps including a measure of "economic risk" or "political risk" for these countries.

Final Considerations

- The paper has an important contribution to the debate on the dissemination of the recent crisis.
- Anyone interested in the effects of the recent crisis should read the paper.
- A few improvements could enhance its value for the readers.

Thank You !