DISCUSSION ON

"FINANCIAL STRESS IN EMERGING MARKETS: PATTERNS, REAL EFFECT AND CROSS-COUNTRY SPILLOVERS"

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CONTRIBUTION OF PAPER

Overall, this paper has the interesting results and provides at least two contributions to the literature:

1. Developing the Financial Stress Indicators (FSIs) for fourteen emerging markets

- This indicators not only provide early warning signal to monitor financial stress situations for emerging markets but also can be used to investigate the further issue related to financial crisis and spillovers.

2. Analyze the patterns, effect on real sector and cross-country spillover.

- The results show that the patterns of financial stress and spillovers in each country are different.

COMMENT 1: DEVELOPING THE FSI

The application of the Balakrishnan et al (2011)'s methodology (PCA-based) are interesting in summing up the variation from the set of the indicators into single one. Such indicator usually represents the degree of financial stress in each country.

However, the paper still does not provide the discussion on the use of each variable, especially the variables that authors adapt from the original Balakrishnan index.

Moreover, the author should compare the FSIs with other alternative measures in literature, e.g. spillover index of Diebold and Yilmaz (2012).

COMMENT 1: DEVELOPING THE FSI (CONT.)

As mentioned in the paper, the results of FSI seem to be dominated by the sovereign CDS and the stock market variables (price and volatility).

This results provide the narrow dimension of financial stress and neglect the banking sector that is the important source of financial stress, especially in case of Asian countries that the financial sectors are mostly bank-based.

The alternative variable may be considered, e.g. non-performing loan (NPL) ratio, BIS's bank capital adequacy.

COMMENT 2: ANALYZING THE EFFECTS OF FSI

The results of the effect of FSI on real sector and on other countries rely heavily on the BVAR model where the causality tests and impulse response are used as the important tools.

This study includes the data from fourteen countries, therefore, the VAR are estimated for each individual country to measure the effect of FSI on real sector. In addition, the VAR are then estimated between pairs of country to check the spillover effect.

COMMENT 2: ANALYZING THE EFFECTS OF FSI (CONT.)

This approach has two major drawbacks.

1. The VAR is usually sensitive to the lag length and number of variables used, especially in the short span of dataset used in this paper.

2. The results are difficult to compare the effects among each pair.

COMMENT 2: ANALYZING THE EFFECTS OF FSI (CONT.)

Alternatively, the Global Vector AutoRegression (GVAR) model of Pesaran, Schuermann and Weiner (2007) and Dees, et al. (2009) can be used to estimate

1. the linkages between the FSI and real sector

2. The spillover of FSI among each pair and with the global variable such as the oil prices and metal prices.

The GVAR model could not only estimate the linkage via the impulse response and spillover via the causality test, but also could estimate the contribution of variation of FSI in each countries to other countries.