Discussion of:

Early Warning for Currency Crises: What is the Role of Financial Openness?

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THE PAPER

- Literature on EWS vast and diverse, but still difficult to come up with a system of indicators that would reliably predict the "next crisis".

- Large number of variables studied for their potential to be leading indicators of crises e.g. Kaminsky et al (1998), Rose and Spiegel (2011), Frankel and Saravelos (2012).

- This paper augments a standard EWS with two financial openness variables and finds that:
  - More open economies are less likely to experience currency crises, although this may not be the case for EMEs.
  - Surges in capital flows are associated with a higher probability of c.c.
  - Out-of-sample performance is "moderate".

VARIABLE NO.1: CAPITAL ACCOUNT OPENNESS

- **Could KA openness stand for something else?**
  - Quality of institutions, level of development

- ***De jure* measure of KA openness may not be the most appropriate:**
  - Slow moving – not useful to signal accumulation of vulnerabilities
  - In cross-section, comparisons may be misleading
  - De facto measures, capturing the actual exposure to international capital markets, might be more useful

- **I like your robustness checks more than your baseline regression!**

- **Results square with the existence of thresholds effects à la Kose et al (2011).**

VARIABLE NO.2: GROSS CAPITAL FLOWS

- **Unusual definition of "surges" in capital flows.**
- **No significant association between surges in capital flows and vulnerability to crises in EMEs.**
- **Suggestions:**
  - Distinguish between inflows and outflows (i.e. "surges" and "flights")
  - Look at whether shifts in the composition of capital flows signal vulnerability to crises.
  - Deal with the huge heterogeneity of data on capital flows (e.g. eliminate hubs, de-mean and standardize).
  - Increase the sample of EMEs by reallocating some of the countries to this group.

OTHER COMMENTS

- **I miss a better discussion of where in the literature this paper is.**
  - e.g. Glick, Goi and Hutchins (2006)
- **Crises often combine - twin, triple crises.**
  - Babecky et al (2012) show that leading indicators of crises depend on which type of crisis sets on first.
- **RE probit**
  - How realistic is the assumption of lack of correlation between country effects and the independent variables?
  - A multinomial logit as in Busiere and Fratzcher (2006).
- **What happens to the growth in private credit?**

SUMMARY

- Interesting paper, very relevant topic, timely contribution.
- I see a stronger case for including capital flows rather than KA openness in an EWS.
- Contribution should be better placed in the literature.
- Could go a long way with just a bit more refinement of the results already in the paper.
- Several avenues to advance on.

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THANK YOU FOR YOUR ATTENTION

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