

# **Financial Stress and Economic Downturns in Emerging Markets**

## **Discussion**

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## **This paper**

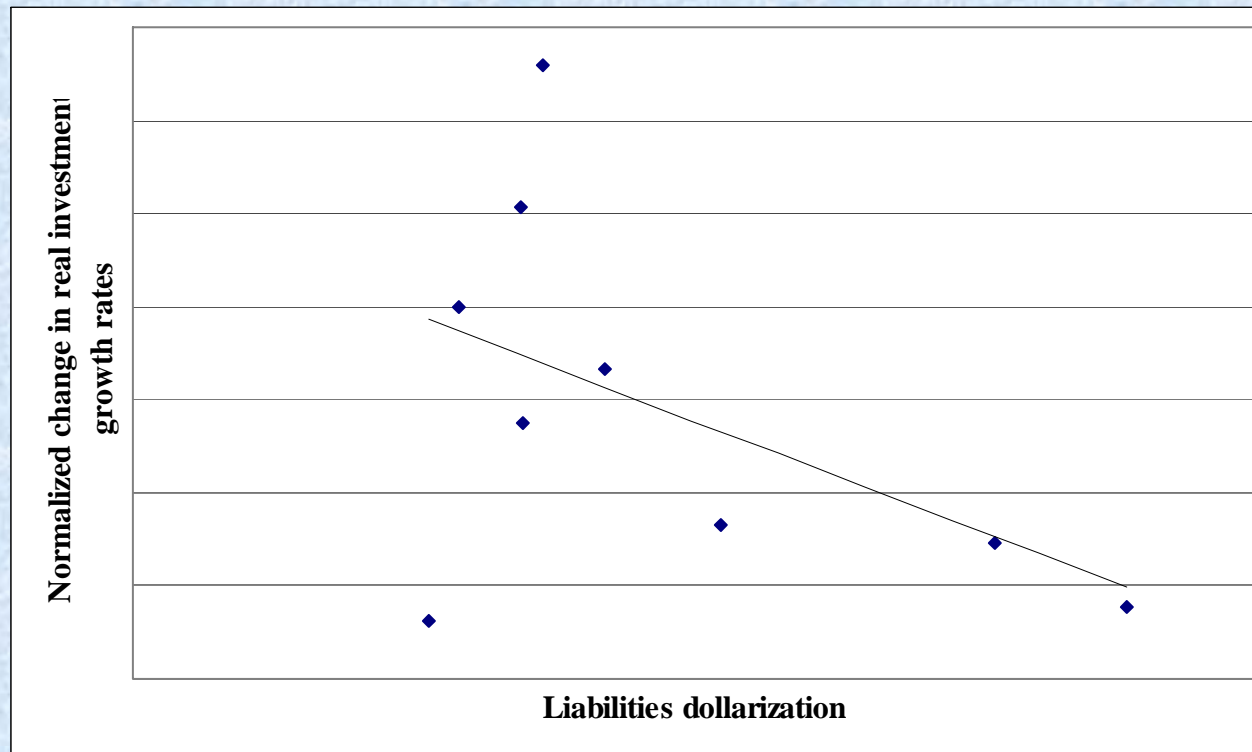
- Identifies significant impact stemming from financial stress on industrial production for the sample of EMs
- Finds that more severe real sector contractions in response to financial stress are associated with:
  - ✓ Lower level of international reserves
  - ✓ Higher money and credit growth
  - ✓ Higher government consumption growth
  - ✓ More open economies



## Comments

- The measures of financial stress and econometric approach seem a good choice. The degree of financial dollarization can be analyzed along with other macroeconomic indicators.

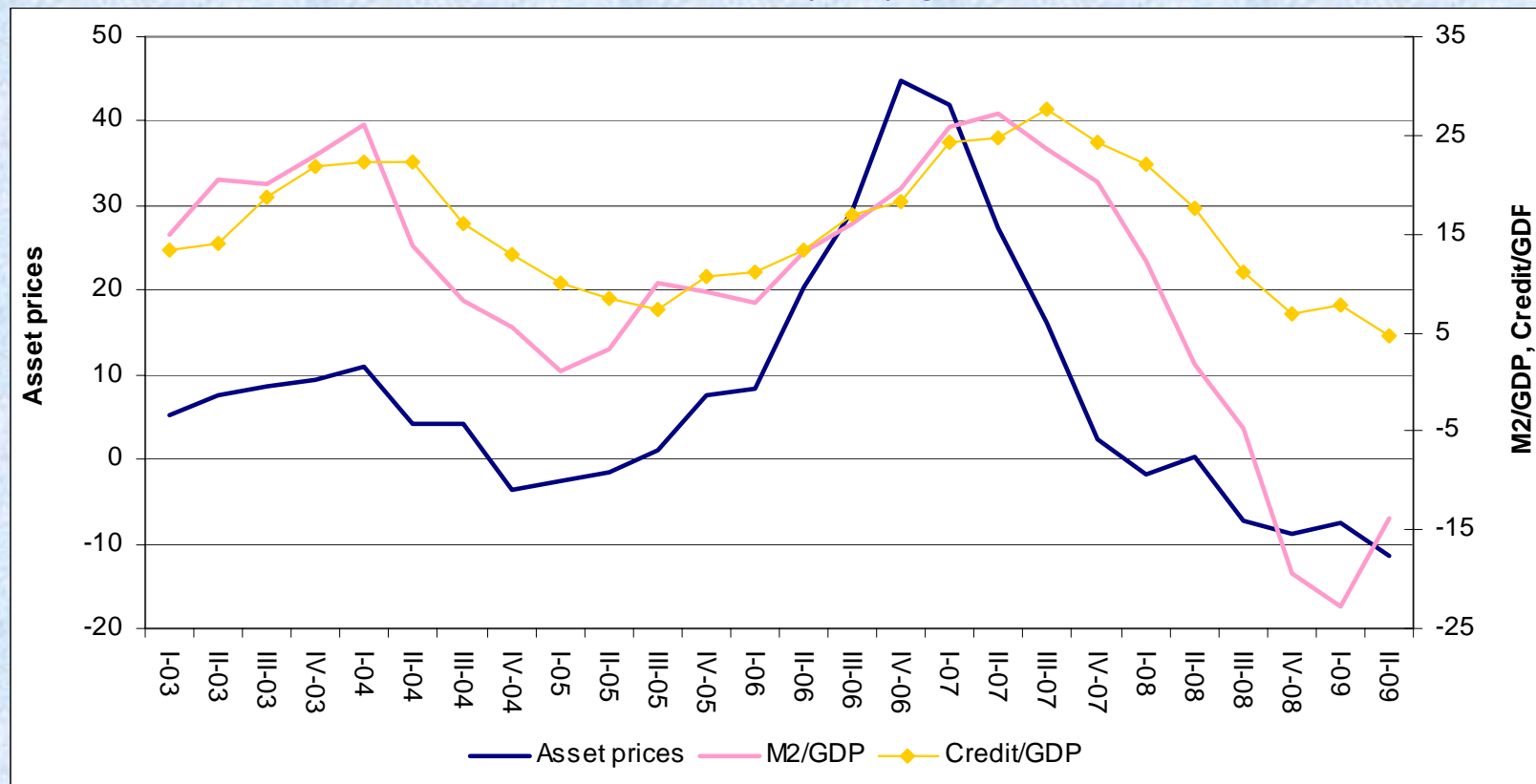
Real sector liabilities' dollarization and changes of real investment growth (in 2008-2009 compared to 2006-2007) in CEE countries



## Comments

- The findings regarding the risks of rapid money and credit growth definitely make sense and are in line with recent research on identification of “costly” asset prices busts

Real asset prices (weighted average of housing and equities prices), M2/GDP and Credit/GDP in Russia (y-o-y growth rates, %)





## Comments

- The role of international reserves would need further examination. What are the channels?
- Procyclical fiscal expansions may have amplified the downturns. Although the fiscal policy *during and after* the financial stress episodes is of particular importance.

## Conclusion

- Interesting paper on the topical issue of financial-real sectors linkages
- Financial stress shocks may lead to significant contractions of economic activity in EMs
- The empirical findings regarding the factors that may amplify this effect are presented and provide a good basis for further research