No Economic Recovery? : Empirical Analysis on Recovery after Banking Crises

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Abstract

The paper studies the process of recoveries from recessions associated with banking crises across 50 countries over the period 1900-2008. Using a state-space unobserved component (UC) model with a crisis dummy, we decompose the real GDP into two components of trend and cycle and analyse how these two different components respond to a negative shock from a banking crisis over time. Our main endings are as follows:

First, we find that the onset of banking crises cause negative contemporaneous and lagged impacts on both trend and cycle components of output, which is consistent with Cerra and Saxena (2008). Second, the size of output loss differs across disparate income groups of countries. The upper middle income countries are the most negatively affected and the high income countries are the least affected. The contribution of cycle to the total output reduction is larger for high and low income countries and less for emerging market economies.

Keywords: Recovery; Recessions; Banking crisis; impulse response; Trend; Cycle