

**Referee Report: “Rapid Credit Growth and Current Account Deficit as the Leading Determinants of Financial Crises” by Ganioglu.**

What is the best predictor of a financial crisis? This paper examines this question using a sample of 24 developed and 26 developing countries. Credit booms have been shown to be good predictors in numerous studies based on data for industrialized economies. For developing economies, current account imbalances have played a prominent role. This paper investigates these differences and mostly confirms the results in the literature.

The paper is not written very well, nor does it have a good “punch line.” Unfortunately the paper as it stands does not contain much that is not already known. For example see the NBER working paper by Alan Taylor (NBER wp 18606, “External Imbalances and Financial Crises”) and references therein. In the comments that follow I will try to provide some suggestions on how to improve the paper. The order in which suggestions appear is immaterial.

1. The credit boom variable is defined as a 5-year moving average but the current account variable is not. Consider using the same transformation or doing some robustness analysis. These two variables play a prominent role in your analysis.
2. There is no need to define acronyms for your controls if you have appropriate definitions in your tables. I will come back to this later.
3. There are several typos in the text and grammatical mistakes. For example, p.5 2<sup>nd</sup> paragraph: “Laeven and Valencia” not “Laeven ve Valencia.” You also tend to forget to include the articles.
4. Here are some suggestions to organize Table 1 better.
  - a. Use descriptions rather than mnemonics. For example “Current Account” instead of CABGDP.
  - b. Have a line titled, say, “Current Account” then in the next two lines report the summary stats for developed and developing countries. This will facilitate the comparison.
  - c. Do not use vertical lines.
  - d. Use double line at the top and at the bottom and a single line to separate the titles of the columns. It will make for a more readable table.
5. Figures 1a-2b are not very helpful. There are several ways they can be improved to convey the relevant information to the reader.
  - a. Consider ordering the data first and then plotting from largest to smallest.
  - b. Use country labels not numbers.
  - c. I don’t understand why there appear to be over 30 entries in figure 1a and about 16-17 in Figure 1b. You mention the sample sizes to be 24 developed and 26 developing countries.
  - d. Figure 1b is unreadable. Make it the appropriate size.
  - e. Consider calculating 2 numbers per country. For example, in figure 1a, calculate the average Current Account Balance during crises versus the rest.
  - f. Alternatively, show a scatter plot.
6. Consider deleting page 9 entirely. The correlation tables are not very useful.

7. Use mathematical symbols to present the logit specification. Then use words in the text to refer to the dependent variable as the “Bank Crisis indicator” rather than using acronyms.
8. The same goes with the regressors. Use words, not acronyms.
9. Generally, the tables should report average marginal effects, not coefficient estimates. This is trivial to do in STATA, which appears to be your software of choice. It allows the reader to determine the marginal effect of a one unit change in the regressor on the probability of outcome.
10. Since Broad Money and M2 are probably very highly collinear, consider using only one of them as a control.
11. Table 4a contains numerous entries without information in any of the columns. If there is an estimate that you omit because it is not significant, included for the reader to judge. If it is not included in the specification of the model, delete that row even if that regressor is later on used in a different table.
12. Please provide pseudo-R-squared numbers so that we can get a quick sense of model fit even if later you will provide estimates of the AUC. Or at least provide the value of the AUC for each model.
13. Please use words rather than acronyms to describe your controls in the tables.
14. Figure 3 uses the code xb1, xb2 and xb3 to refer to different specifications. Please change to words. The tables and figures should be self-contained. You should be able to read them and understand them without reference to the text.
15. Your conclusion lacks punch. You seem to be confirming results in the literature and it is hard to see that much is new.
16. There is little in the form of robustness checks. Why is the current account not in 5-year moving averages, like the credit variable? Would that make a difference?
17. You need to provide summary statistics on the number of crises in each subpopulation. I imagine that developed countries experienced far fewer crises than developed countries.
18. Consider summarizing the salient cyclical features for each subpopulation. How long do crises last? How much GDP is lost? How deep are the losses?