

Response to Referee Report No:1

I would like to separate responses to the criticisms into two parts. The first part will be responding to criticisms about the content of this study. The second part will be dealing with criticisms about the format of the study.

PART 1:

- 1) The Referee suggests that *“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”*.

As the Referee suggested, before reporting results to the paper, I had already run regressions using 5-year moving average of (CA/GDP), however, the results were odd. On the other hand, I plan to report them in the revised version.

In the literature, in most of the financial crisis models, one-year lag of current account balance as a percentage of GDP (CA/GDP)¹ are taken as an explanatory variable. **As an example to such a case, in the crisis of 2001 in Turkey, current account balance was deteriorated in the year preceding the crisis.**

- 2) The Referee suggests that *“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?”*

I have given the answer above in item 1. Current account variable in 5-year moving average is found to be not significant.

- 3) The Referee suggests that *“Since Broad Money and M2 are probably very highly collinear, consider using only one of them as a control.”*

Of course, I have not used them in the same regression. I think presentation or format of tables somehow mislead the reader, as the Referee mentions it later.

¹ Lambregts and Ottens (2006), Barrell, Davis and Karim (2010), Ito (2004), Angkinand et al. (2008)

- 4) The Referee suggests that *“Your conclusion lacks punch. You seem to be confirming results in the literature and it is hard to see that much is new.”*

I am aware of the fact that I have to restate my main purpose and reorganize the paper accordingly. The major problem arises from the fact that I believe, I did not state my major purpose in this paper clearly and I did not highlight its contribution to the literature. I will correct this in the revised version. In this study, my major concern was to emphasize and highlight the importance of current account imbalances for developing countries as a major factor raising the probability of financial crises. Financial crises have been an important phenomenon for developing countries since many years, while crises of developed countries were rather few. Therefore, in literature, the analysis of developed financial crises was very few. Being inspired from the analysis of developed country crises carried by Jorda et. al. (2010), my purpose was to make a comparison between these two country groups in terms of triggering factors of financial crises, staying focused on developing countries.

PART 2:

Below, there are suggestions of the Referee about the format of the paper. I will correct and address them, they will be tackled in the revised version.

1. There are several typos in the text and grammatical mistakes. For example, p.5 2nd Paragraph: “Laeven and Valencia” not “Laeven ve Valencia.” You also tend to forget to include the articles.
2. 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.
3. 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.

4. Consider deleting page 9 entirely. The correlation tables are not very useful.
5. 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. The same goes with the regressors. Use words, not acronyms.
6. 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.
7. 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.
8. 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.
10. Please use words rather than acronyms to describe your controls in the tables.
11. 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.
12. 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.
13. Consider summarizing the salient cyclical features for each subpopulation. How long do crises last?