Phoenix Miracles in Emerging Markets: Recovering without credit from systemic financial crises.

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What the profession has been doing?

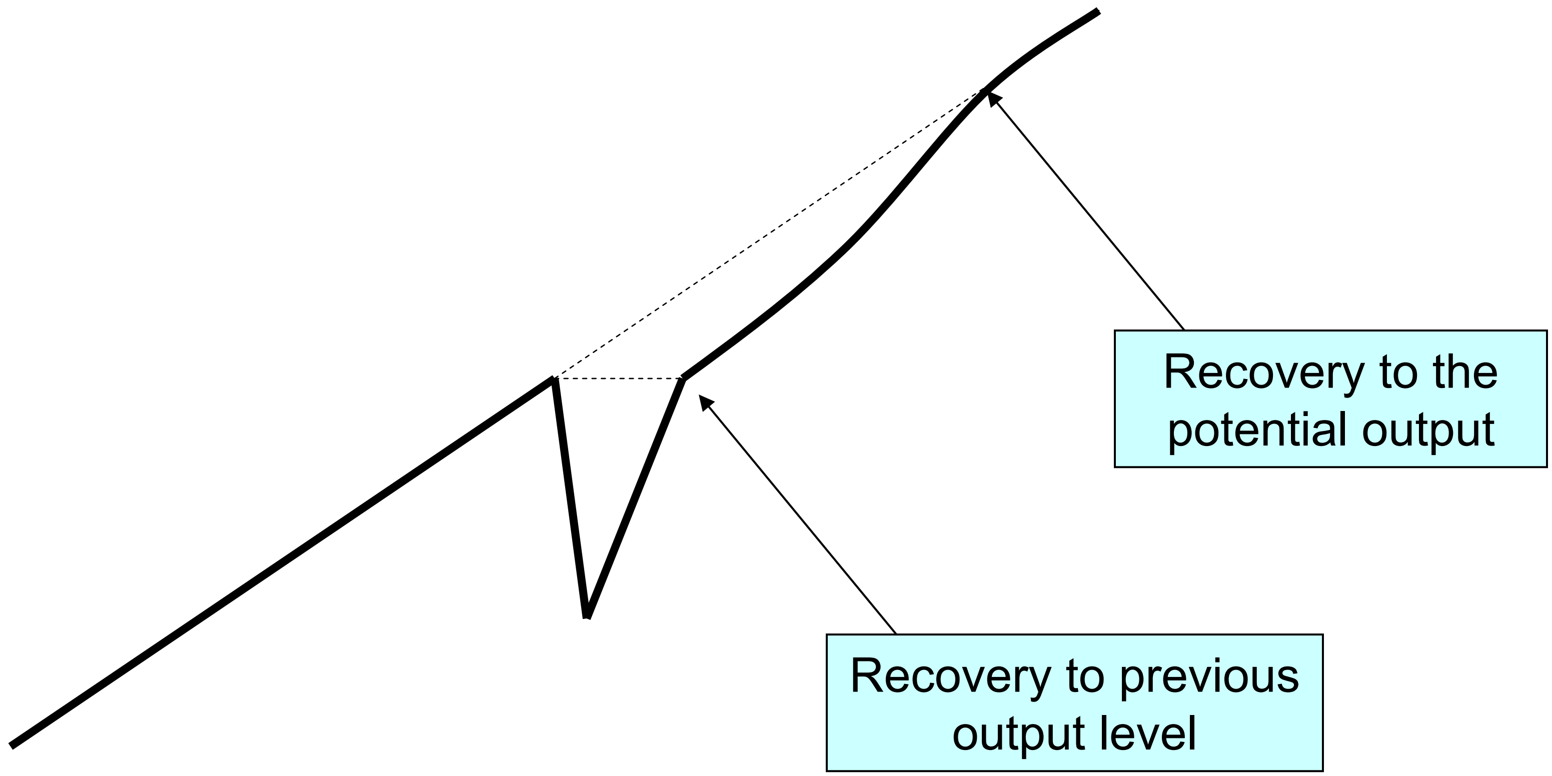
- Years studying crises
  - Causes, predictions, mechanisms, equilibrium, etc.
- CIT study the recoveries
  - Recoveries are extremely fast
  - Recoveries occur without credit expansions
  - Therefore, it takes place in the absence of formal financial markets.

What do they find?

- Summary of the patterns

	Crises	Recoveries
Y	↓	↑
TFP	↓	↑
K	~	~
L	~	~
I	↓	↑
Credit	↓	~

What is “recovery”?



Which Crises?

- Crises where there is a closure of international inflows – sudden stops.
- Deflationary crises (Great Depression) seem to have some common components, except for inflation and depreciation
- Could pure fiscal crises be different?

What are the possibilities?

- Maybe we have overestimated the importance of the financial sector.
- Maybe the financial sector is important only in downturns
- Maybe firms use informal financial markets during the recovery
- Maybe there is some sort of “real overshooting” during recessions due to reorganization

Can be related to lack of default cost?

- Defaults do not seem to be as costly as we thought. Recent papers by
  - Kaminsky studying the behavior of bond and loans issuances
  - Della Paolera and Taylor studying the boom and default cycles since the 1800's
  - Panizza and Levy-Yeyati studying the output loss of defaults find that most of the cost occurs before the default.

Final comments

- I liked the paper a lot.
- I think the stylized fact seems robust, and it is very interesting.
- It is questioning the consensus.

- I would like to have seen a full anatomy of the recoveries.
  - Three different crises (sudden stops, deflation, and fiscal)
  - Two different definitions of recovery (previous and potential)

- Further research is required.