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On the Long-Run Calibration of the Credit-to-Gdp Gap as a Banking Crisis Predictor

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Karlo Kauko (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=332675)

Bank of Finland

Eero Tölö (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2215330)

Bank of Finland - Financial Markets

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Abstract

The trend deviation of the Credit-to-GDP ratio (“Basel gap”) is a widely used early warning indicator of banking crises. It is calculated with the one-sided Hodrick-Prescott filter using an extremely large value of the smoothing parameter λ . We recalibrate the smoothing parameter with panel data covering almost one and a half centuries and 15 countries. The optimal λ is found to be much lower than previously suggested. The 2008 crisis does not dominate the results. The long sample almost eliminates filter initialisation problems.

JEL Classification: G01, E44, N20

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