

20120126 Banque de France: The European way out of recession (Working Paper No. 360)

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Absract

This paper proposes a two-regime Bounce-Back Function augmented Self-Exciting Threshold AutoRegression (SETAR) which allows for various shapes of recoveries from the recession regime. It relies on the bounce-back effects first analyzed in a Markov-Switching setup by Kim, Morley and Piger [2005] and recently extended by Bec, Bouabdallah and Ferrara [2011a]. This approach is then applied to post-1973 quarterly growth rates of French, German, Italian, Spanish and Euro area real GDPs. Both the linear autoregression and the standard SETAR without bounce-back effect null hypotheses are strongly rejected against the Bounce-Back augmented SETAR alternative in all cases but Italy. The relevance of our proposed model is further assessed by the comparison of its short-term forecasting performances with the ones obtained from a linear autoregression and a standard SETAR. It turns out that the bounce-back models one-step ahead forecasts generally outperform the other ones, and particularly so during the last recovery period in 2009Q3-2010Q4.

To read the paper please click [here](#).

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