

Editorial of the special issue on debt, taxation, economic activity and financial variables

Georgios P. Kouretas¹ · Athanasios P. Papadopoulos²

Published online: 15 May 2017
© Springer Science+Business Media New York 2017

The Department of Economics of the University of Crete organizes annually since 1997 an international conference on Macroeconomic Analysis and International Finance. The articles included in this special issue are refereed versions of papers presented at the 20th International Conference on Macroeconomic Analysis and International Finance held at the University Campus, Rethymno 26–28 May 2016, and submitted to the *Economic Convergence and Restructuring* in an open call for papers. The central theme of this Special Issue is *debt, taxation, economic activity and financial variables*. We begin the Special Issue with an overview of these papers.

Suleyman Degirmen and Omur Saltik, in their paper, “Impacts of Realized Volatility of Oil Price over Macroeconomic Activities in Turkey”, investigate the effect of oil prices on small open economies that have considered sudden and highly volatile movements in currencies and current account deficits. Oil prices have been breaking new historical price records since second quarter of 2014, especially from last quarter of 2015 to first quarter of 2016, which have gradually put pressure on political, geographical, and currencies risks in the Middle East and Eastern European countries. They focus their analysis on the Turkish economy which has been experienced serious current account deficit problems especially since 2002 and therefore, the effect of decline in oil prices and increased volatility has been worth of investigating. The use monthly data for the period 2003M1–2015M7 and the initial empirical results show that price volatility increases and total import

✉ Georgios P. Kouretas
kouretas@aub.gr

Athanasios P. Papadopoulos
appapa@uoc.gr

¹ Department of Business Administration, Athens University of Economics and Business, 14304 Athens, Greece

² Department of Economics, University of Crete, 74100 Rethymno, Greece

decreases more sharply than total export after the decline in oil prices; thus, export–import ratio increases. Another finding is that there is a negative relationship between real exchange rate index and export–import ratio for real economy because of low oil substituents. As expected, inflation has an adverse effect on foreign trade ratio. Consequently, because of lower pressure of energy-induced inflation, economy policy makers will have some ability to change their priorities from inflation issue to other structural problems.

In their paper “The dynamic evolution of the Greek regional net fixed capital time series”, Kyriakos Emmanouilidis, Christos Karpetis, Erotokritos Varelas and Spyros Zikos analyze the impact of different depreciation methods on the dynamic characteristics of the Greek regional net fixed capital series. Using annual data over the period from 1974 to 2006, Karpetis and Zikos (2014) constructed the series of nominal net fixed capital in the case of the thirteen administrative regions of Greece, applying four different depreciation methods of capital. In the context of the present analysis, these series were initially deflated, using the country’s G.D.P. deflator (2005 = 100), and subsequently were exploited to investigate their dynamic characteristics through estimation of the best fitted *ARIM A*(p,d,q) models and determination of the roots of the characteristic polynomials. The statistical findings reveal, firstly, the impact of the employed depreciation methods of capital on the evolutionary pattern (monotonic or sinusoidal) of the series and secondly, the slow convergence of the Greek regional net fixed capital towards its long-run equilibrium value.

Minoas Koukouritakis in his paper, “Eurozone debt crisis and bond yields convergence: evidence from the new eu countries”. examine 10-year bond yields convergence between each of the new EU countries and Germany, including a structural break that embodies the effects of the current sovereign debt crisis in the Eurozone. The analysis is based on a new definition of bond yields convergence that can be interpreted either as strong or weak monetary policy convergence, depending on whether the conditions of uncovered interest-rate parity and ex-ante purchasing power parity hold or are violated, respectively. The empirical results provide evidence of either strong or weak monetary policy convergence to Germany only for five new countries, namely Croatia, the Czech Republic, Lithuania, Romania and Slovakia. In contrast, for the rest of the new EU countries the empirical evidence suggests lack of monetary policy convergence to Germany. The latter result could be probably explained by the increased risk premia in these countries, as a result of the Eurozone sovereign debt crisis.

In “The return of financial variables in forecasting GDP growth in the G-7”, Petri Kuosmanen and Juuso Vataja, The financial crisis and subsequent sovereign debt crisis together had a profound impact on the current economic environment. This study reexamines the established stylized facts and previous evidence regarding the predictive association between financial variables and real economic activity considering changed economic circumstances. This paper focuses on the predictive ability of the term spread, short-term interest rate and stock returns for real GDP growth in the G-7 countries. We compare the predictive content of nominal financial variables with that of real financial variables and consider the proper number of financial predictors and time variations of forecasting performance. The forecasting

results unambiguously indicate that financial variables have regained their predictive power since the financial crisis. Moreover, this study shows that real financial variables are superior to nominal variables and that using several financial indicators for forecasting GDP growth is preferable.

Finally, Mark A. Roberts in his paper, “Recurrent default on public debt or policy-optimal taxation”, investigates the syndrome of “*this time is different*” with respect to Reinhart and Rogoff’s (2011) interpretation of their extensive, historical data on financial default, and with particular regard to public debt in a closed-economy. Recurrent and over-generous promises to credulous investors of an *ex ante*, policy-optimal return amounts to an extra policy instrument in boosting the demand for public debt. In a numerical simulation of a version of the Diamond (1965) model, we find that the incentive for the policy-maker to pursue this strategy is trivial if taxes can be set at a policy-optimal level, but possibly over-riding if they cannot. Thus, the main result lines up with the empirical conclusion of Reinhart et al. (2003) that “debt intolerant countries have weak fiscal structures”. The subsidiary result of the model is that defaulting countries will also have higher shares of public expenditure. Thus the model also predicts *Wagner’s Law* to the extent that fiscal structure is correlated with economic development.

Acknowledgements We wish to thank the discussants, referees and all participants at the Conference whose comments have improved substantially the papers presented in this issue. We are also grateful to the University of Crete, Bank of Greece and National Bank of Greece and the Hellenic Bank Association for their generous financial support. Last but not least we would like to thank Ms. Ioanna Yotopoulou for her superb secretarial assistance as well as Mr. Pericles Drakos and Mr. Kostis Pigounakis for their technical support.

References

- Diamond PA (1965) National debt in a neoclassical growth model. *Am Econ Rev* 55:1126–1150
- Karpetis C, Zikos S (2014) Fixed capital formation in regional level: the case of Greece. *Int J Econ Res* 11(2):333–354
- Reinhart CM, Rogoff KS (2011) *This time is different: eight centuries of financial folly*. Princeton University Press
- Reinhart CM, Rogoff KS, Savastano MA (2003) Debt intolerance. NBER working paper 9908