**RESPONSE TO REFEREE 1**

**Position, Issue and Response**

P1, abstract, 4th line "Africa" missing from "South". **Response see line 11**.

P2, first line what does "recent" mean? The crisis occurred in 2007/8, so over half a decade ago. Besides that, recent means nothing – why not simply use "the financial crisis of 2007/8"? **See line 73**.

P2, first para "more specifically" is a redundancy of terms. "More" is unnecessary. **Done**.

P2, second para What is the source of the statement "…the Basel III policy framework was introduced in 2010"? Why not use the BCBS source from the BIS website? It is used later, but why not here? **See line 46.**

P3, second last para "Logistic Smooth Transition Autoregressive" should be abbreviated to LSTA here, in the first instance, and the full expression should never be used again. Similarly for the Exponential Smooth Transition Autoregressive model. **Done**.

P5, Section 3 Data is a *plural* noun, it means numbers, not "information". Thus, the correct use is "Monthly data ARE sourced…and THEY SPAN the period". **See p. 135**.

P6, Table 1 No units are indicated for the statistics – so does "0.328942" mean "32.8942%" or "0.328942%"? Also, there is NO need for 6 decimal points for ANY statistics. What does "0.328942" tell the reader that "32.9%" does not? This is spurious accuracy. **See Table 1 (lines 164-165)**.

P6, last line "the recent financial crisis" is used but was defined as "GR" earlier. Either is fine, but be consistent. **Done**.

P7, Figure 1 there are two figures here, not one, thus it is unclear to what the author refers when indicating "Figure 1". Either label these Figure 1(a) and (b) or – far better – superimpose them on the same graph for easier comparison. The graphs share the same xaxis so this could be an interesting comparison. No units are specified for the "business cycle". Also, I think the composition of the business cycle indicator (currently on p6) should be moved to a point sooner in the document – I propose to about page 3 (second last paragraph before Section 2). **See lines 168-170**.

P8, Eq 1 Readers will be aware is the error term, but for completeness it should also be defined. **See line 204**.

P8, after Eq 3 " is the embedding dimension" and " determines the smoothness of transition of regimes" Most readers are unlikely to be familiar with the LSTA model. A little more explanation is required here. What is an embedding dimension? How is it determined? How is determined? What is its significance? **See lines 199-204**.

P8, last para "the’s, while …the  ’s" No need for apostrophes – *plural*, not *possessive* case. **Done**.

P10, Table 2 Six decimal places again tells the reader nothing and actually only serves to confuse. This is entirely spurious accuracy. **See lines 237-241**.

P13, Table 3 spurious accuracy again. The six decimal places tell the reader nothing more than 2 or 3 decimal places would reveal. **See lines 295-296**.

P14, 2 para up from Section 6 this paragraph is very similar to the paragraph on page 13 – directly after Table 3. Is it necessary to repeat much of the original paragraph? **Relevant paragraph has been deleted**.