

INSEAI 2023 - DISCUSSION

MEASURING THE DYNAMICS OF INFORMALITY: A PANEL FAVAR APPROACH



Javier Baquero Pérez
(UAM, Spain)

javier.baquero@uam.es



Daniel Fernández Romero
(UAM, Madrid)

daniel.fernandezr@uam.es



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Abstract

Within this webinar, we propose a novel methodology to estimate unobserved informality using a Panel Factor-Augmented Vector Autoregression (Panel FAVAR) approach. By integrating information from multiple observable indicators across countries and time, this framework captures the latent dynamics of informal economic activity. The panel structure allows for heterogeneity across units while exploiting commonalities in the factor structure, and the FAVAR framework enhances the identification of dynamic responses to policy shocks. This methodology offers a flexible and data-rich environment for tracing the evolution of informality and assessing its macroeconomic implications.

More information: INSEAI2023@uam.es
www.inseai.eu

