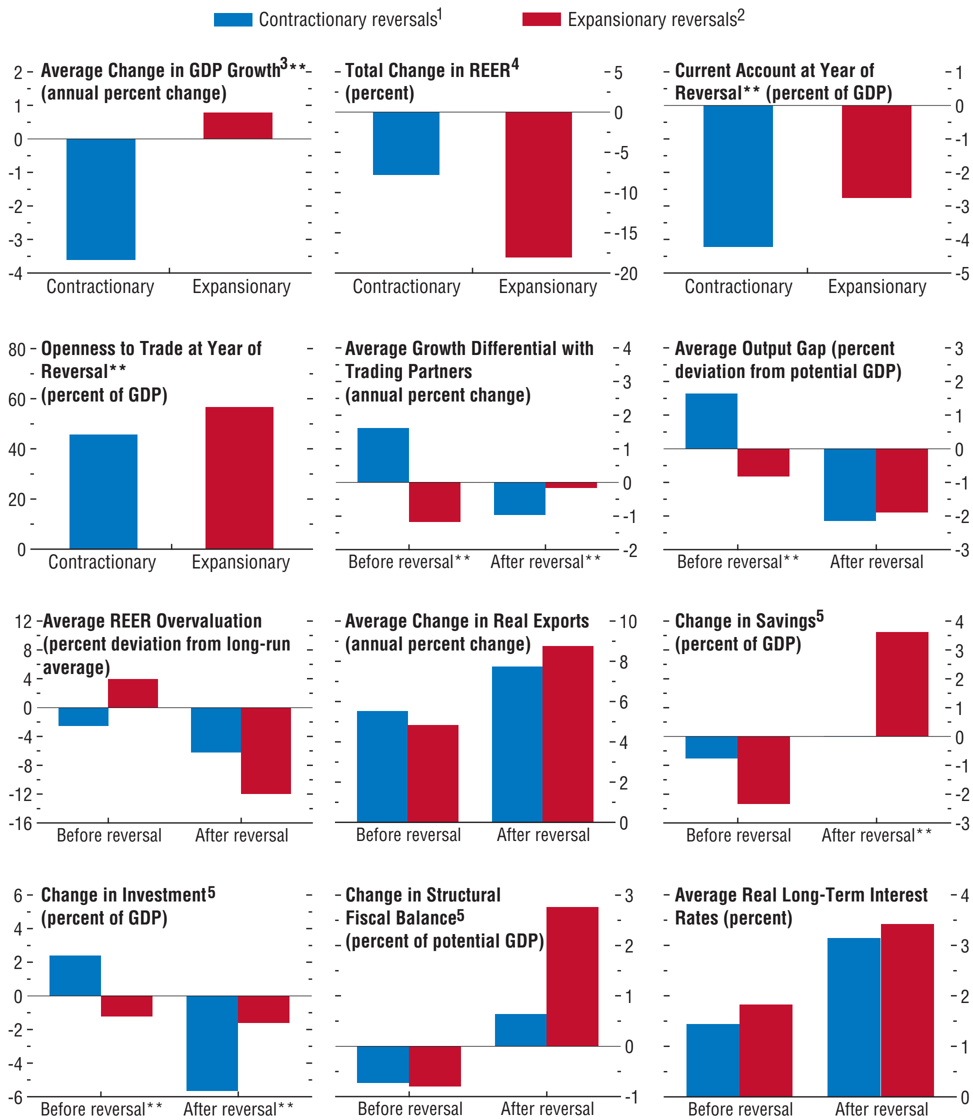
Figure 3.3. Deficit Reversals in Advanced Economies: Episode Characteristics by Average Change in GDP Growth

(Medians across the two groups of episodes; asterisks show that the difference between the medians in the contractionary and expansionary deficit reversals is statistically significant at the 10 percent confidence level)

Total depreciation of real effective exchange rate (REER) is much higher in the expansionary reversals. These cases are also characterized by higher openness to trade and smaller current account deficits.



Sources: IMF, *International Financial Statistics;* OECD, *Economic Outlook* (2006); World Bank, *World Development Indicators* (2006); and IMF staff calculations.

[1]Contractionary deficit reversals are the 11 deficit reversals with the largest average decline in GDP growth (the bottom quartile in the sample ordered by the change in growth).

[2]Expansionary deficit reversals are the 10 deficit reversals with the smallest average decline in GDP growth (the top quartile in the sample ordered by the change in growth).

[3]Average of GDP annual growth rates in the period after the reversal (1 . . . T) less average annual growth rates in the period before the reversal ($-T$ . . . -1).

[4]Maximum change in REER within the period surrounding the reversal ($-T$ . . . T). A decrease represents a real depreciation of a country's currency relative to its trading partners.

[5]"Before reversal" is the change in the variable between $-T$ and 0. "After reversal" is the change in the variable between 0 and T.