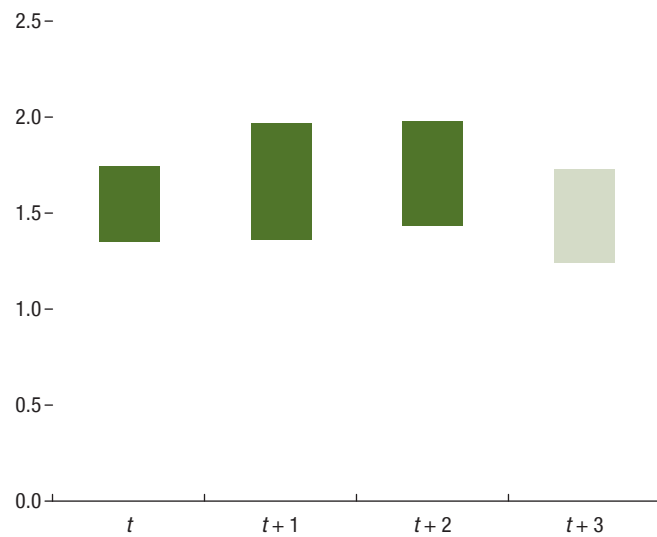


**Figure 2.10. Higher Riskiness of Credit Allocation Signals
Greater Risk of Banking Sector Stress**

(Proportional increase in the odds of banking sector stress)



Source: IMF staff estimates.

Note: The figure shows the multiplicative effect of a one standard deviation increase of the riskiness of credit allocation on the odds of bank equity stress in a time window from t to $t+h$, in which $h=0, 1, 2, 3$. Bank equity stress is defined as annual bank equity excess return over the short-term government bond yield that is lower than the country-specific mean by at least one standard deviation. Each bar shows the minimum and maximum effects across the four (leverage-, interest coverage ratio-, debt overhang-, and expected default frequency-based) measures. Dark-colored (light-colored) bars indicate that the effects are statistically significant at the 10 percent level or higher for four (two) measures out of four. See Annex 2.3 for methodology.