Figure 3.1. Tighter Financial Conditions Forecast Greater Downside Tail Risk to Global Growth

As financial conditions tighten, the probability of a large economic contraction increases ...

... as was seen in the recent global financial and euro area sovereign debt crises.

2. One-Year-Ahead Density Forecast
(Left scale = percent; right scale = standard deviations)

Sources: Bloomberg Finance L.P.; Haver Analytics; IMF, Global Data Source and World Economic Outlook databases; Thomson Reuters Datastream; and IMF staff estimates.

Note: Panel 1 depicts the estimated coefficients on the current quarter FCI in a quantile regression of four-quarters-ahead GDP growth on current quarter FCI and GDP growth. Panel 2 depicts the time series of estimated, conditional 5th, 50th, and 95th quantiles of four-quarters-ahead GDP growth. The median (red) line denotes the forecast of the 50th quantile of GDP growth made four quarters earlier using the methodology described in Annex 3.3. The shaded area is bound at the top and bottom by, respectively, the forecasts of the 95th and 5th quantiles of GDP growth made four quarters earlier. FCI = financial conditions index.