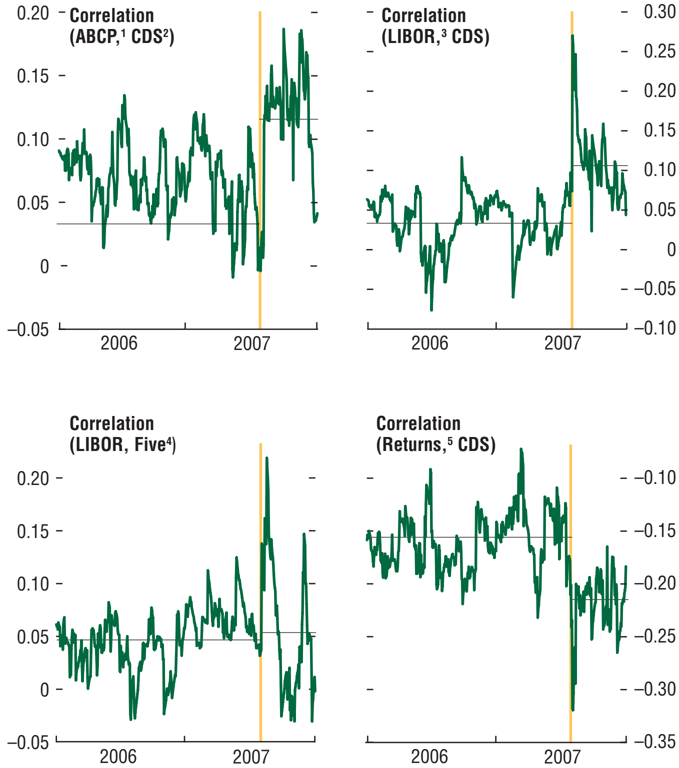
Figure 3.13. U.S. Model: Implied Correlations from Dynamic Conditional Correlation GARCH Specification



Sources: Bloomberg L.P.; Datastream; and IMF staff estimates.

Note: The horizontal lines represent the arithmetic average of the correlations before and after the break in late July 2007.

[1]Spread between yields on 90-day U.S. asset-backed commercial paper (ABCP) and on three-month U.S. Treasury bills.

[2]The unweighted daily average of the five-year credit default swaps (CDS) for the following institutions: Morgan Stanley, Merrill Lynch, Goldman Sachs, Lehman Brothers, JPMorgan, Deutsche Bank, Bank of America, Citigroup, Barclays, Credit Suisse, UBS, and Bear Stearns.

[3]Spread between yields on three-month U.S. LIBOR and on the three-month U.S. overnight index swap.

[4]Spread between yields on five-year off-the-run and on-the-run U.S. Treasury notes.

[5]S&P 500 stock market returns.