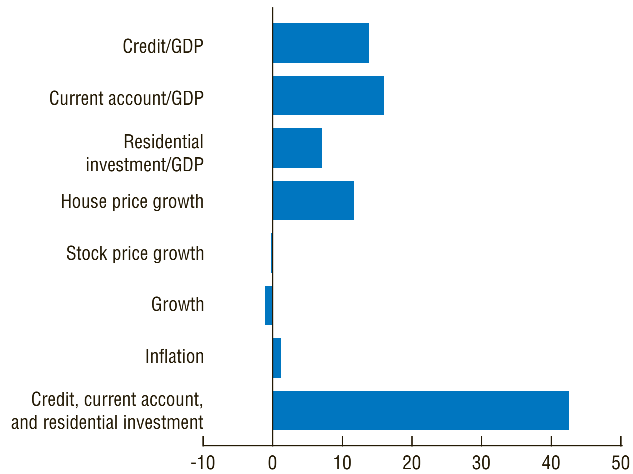
Figure 3.5. The Probability of an Asset Price Bust

(Percent of times a bust occurs 1–3 years after an alarm is raised relative to the unconditional probability of a bust)

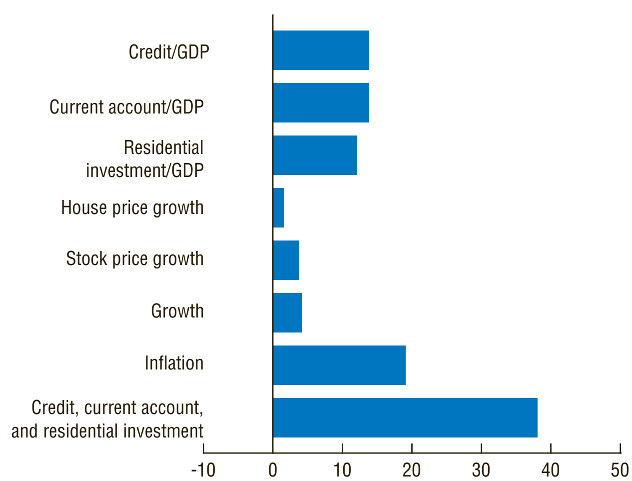
For house price busts since 1985, large deviations in credit, current account, and residential investment to GDP are particularly predictive of the likelihood of an impending bust. In the case of stock price busts, these variables are also more predictive than the unconditional probability, though the difference is smaller.

1985–2008

House Price Busts



Stock Price Busts



Source: IMF staff calculations.