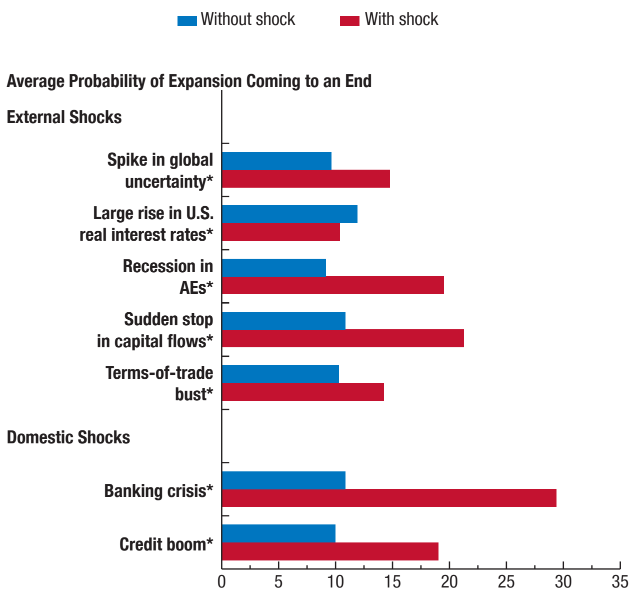
Figure 4.7. Emerging Market and Developing Economies: Effects of Various Shocks on the Likelihood that an Expansion Will End

(Percent)

Various shocks, both external and domestic, are associated with expansions coming to an end. Among external shocks, sudden stops in capital flows, spikes in global uncertainty, recessions in advanced economies, and terms-of-trade busts all significantly increase the likelihood that an expansion will end. Among domestic shocks, credit booms double and banking crises triple the likelihood that an expansion will shift to a downturn by the following year.



Source: IMF staff calculations.

Note: AE = advanced economy. The bars show the average probability of exiting an expansion in the absence or presence of various types of external and domestic shocks. For external shocks, which are more likely to be exogenous, the red bars present the contemporaneous effect, that is, the probability that the expansion will end and the downturn will begin in the same year as the shock. For domestic shocks, for which endogeneity is more of a concern, the red bars are the lagged effect, that is, the probability that the expansion will end and the downturn will begin in the year after the shock. The probability of exit conditional on a shock also depends on the length of the expansion at the time the shock occurs; the average probability is used as a summary measure of the distribution of conditional probabilities. Statistically significant differences at the 10 percent level between the underlying distributions are denoted by starred and bolded labels.