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The Term Structure of Growth-at-Risk

by Tobias Adrian, Federico Grinberg, Nellie Liang, and Sheheryar Malik

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I N T E R N A T I O N A L M O N E T A R Y F U N D

IMF Working Paper

Monetary and Capital Markets Department

The Term Structure of Growth-at-Risk¹**Prepared by Tobias Adrian, Federico Grinberg, Nellie Liang, and Sheheryar Malik**

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Abstract

Using panel quantile regressions for 11 advanced and 10 emerging market economies, we show that the conditional distribution of GDP growth depends on financial conditions, with growth-at-risk (GaR)—defined as growth at the lower 5th percentile—more responsive than the median or upper percentiles. In addition, the term structure of GaR features an intertemporal tradeoff: GaR is higher in the short run; but lower in the medium run when initial financial conditions are loose relative to typical levels, and the tradeoff is amplified by a credit boom. This shift in the growth distribution generally is not incorporated when solving dynamic stochastic general equilibrium models with macrofinancial linkages, which suggests downside risks to GDP growth are systematically underestimated.

JEL Classification Numbers: G1, E1, F44

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	Page
Contents	
Abstract.....	2
I. Introduction.....	4
II. Modeling Growth-at-Risk.....	8
A. Model Estimation with Quantile Regressions.....	8
B. Conditions for a Credit Boom.....	11
III. Data.....	13
IV. Empirical Results.....	15
A. Estimated FCI Coefficients with Interaction	15
B. Time Series of Average GaR.....	17
C. Probability Density Functions of Expected Growth and GaR.....	17
D. Term Structures of GaR by Initial FCI Groups	20
E. Term Structures of Expected Median and GaR by Initial FCI Groups.....	22
F. Interpreting the Intertemporal Risk-Return Tradeoff	25
V. Robustness	26
A. Growth at Risk in a Heteroskedastic Variance Model—Two-Step OLS Regressions.....	27
B. Quantile Estimates for the AEs, Excluding the Global Financial Crisis	30
C. Comparison of Quantile Regression Panel Estimates to U.S. Estimates.....	32
VI. Conclusion	33
Tables	
1. Independent Variables	14
Figures	
1. Estimated Coefficients on FCI for GaR and Median Growth—AEs and EMEs.....	5
2. Coefficient Estimates on Credit Boom for 5th Percentile: AEs and EMEs.....	16
3. Average Growth-at-Risk, Median, and 95th Percentile at $h=4$: AEs and EMEs.....	18
4. Probability Density Functions of Conditional GDP Growth: AEs and EMEs	19
5. Term Structures of GaR by Initial FCI Groups and Differences: AEs.....	21
6. Term Structures of GaR by Initial FCI Groups and Differences: EMEs.....	23
7. Term Structures by Initial FCI Groups—Conditional Median and GaR: AEs and EMEs.....	24
8. Difference of Term Structures by Initial FCI Groups—Top 10 Minus Mid 40: AEs and EMEs.....	25
9. Marginal Effects of FCI on Growth and Volatility from Two-Step OLS Estimations: AEs and EMEs.....	29
10. Term Structures of GaR by Initial FCI Groups—From Two-Step OLS Estimations: AEs and EMEs.....	30

11. Estimates after Excluding the Global Financial Crisis: AEs	31
12. Projected Growth-at-Risk, Median, and 95th Percentile:	32
Appendices	
I. Start Dates for Model Estimation and for Individual Components of FCI: AEs and EMEs.....	35
II. Probability of Low Growth at Different Horizons: AEs and EMEs	36
References.....	37