

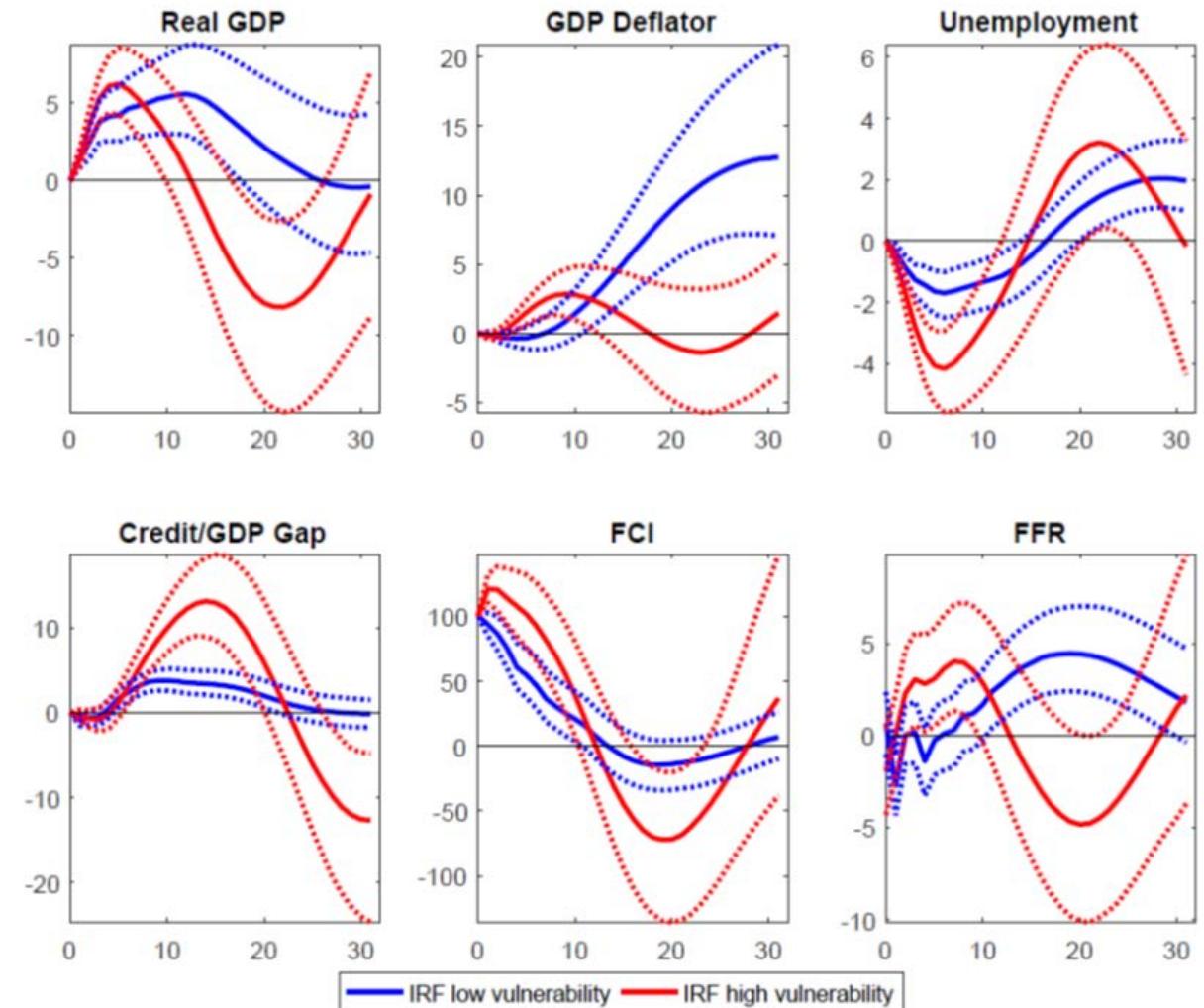
# Rethinking Financial Stability

at Rethinking Macro Policy  
Peterson Institute for International Economics

J. Nellie Liang  
Brookings Institution  
Oct. 12, 2017

# Financial sector and growth

- Threshold VAR by credit-to-GDP gap
- US 1975 to 2014
- Nonlinear effects of FCI
- Growth is less sustainable in high credit gap periods
- Aikman, Lehnert, Liang, Modugno (2016)

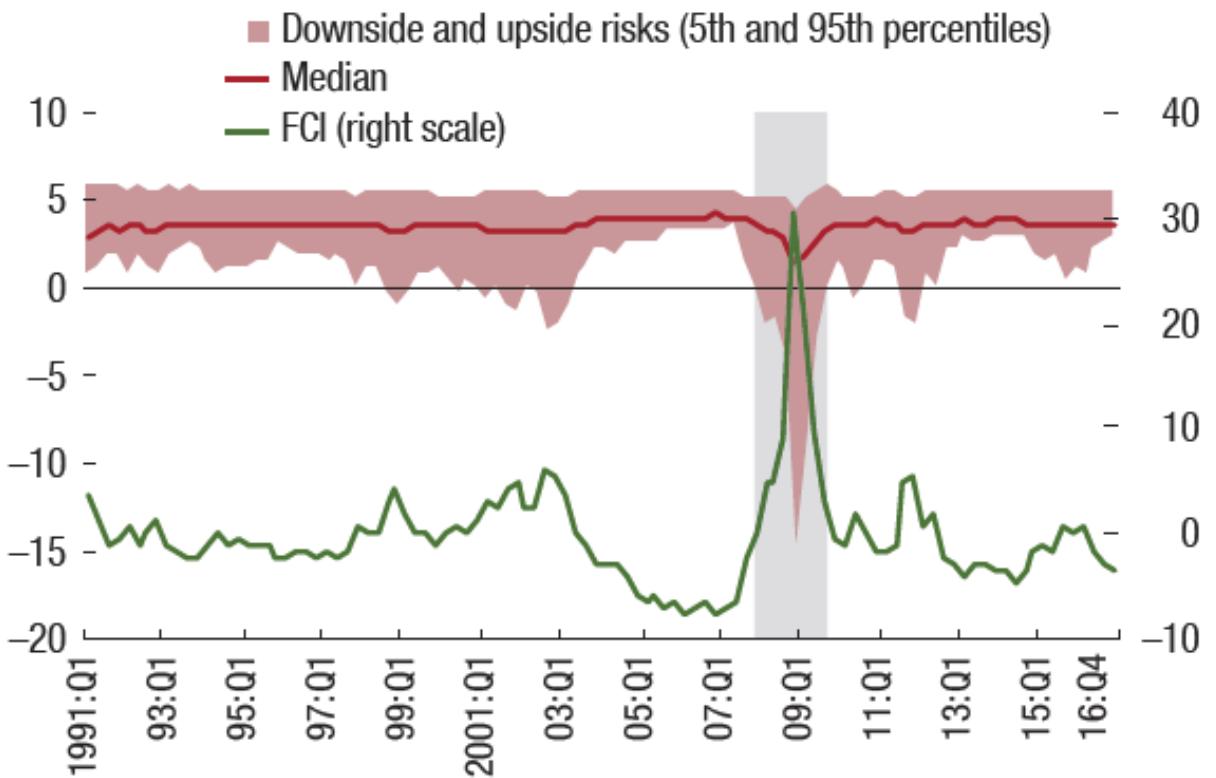


# Growth at risk

IMF GFSR Oct. 2017, Ch. 3

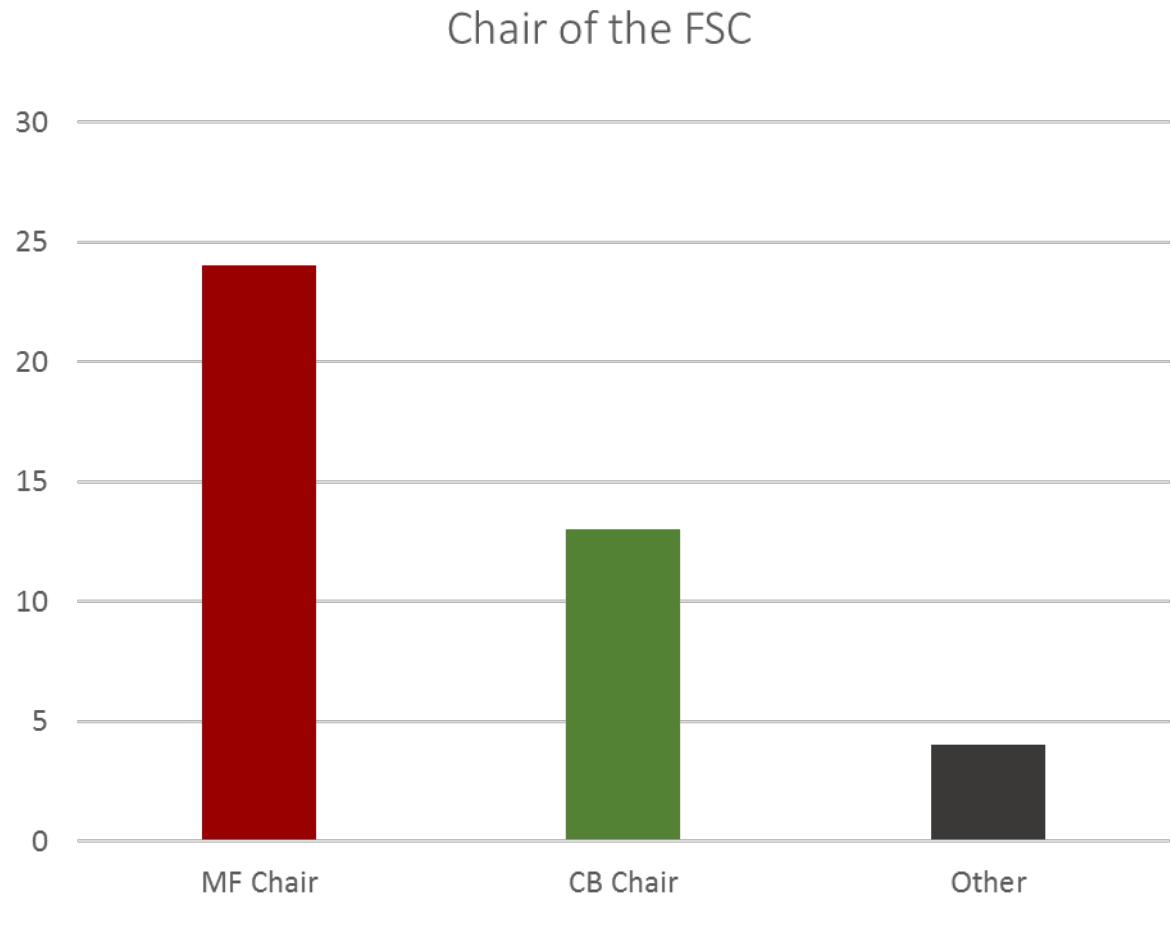
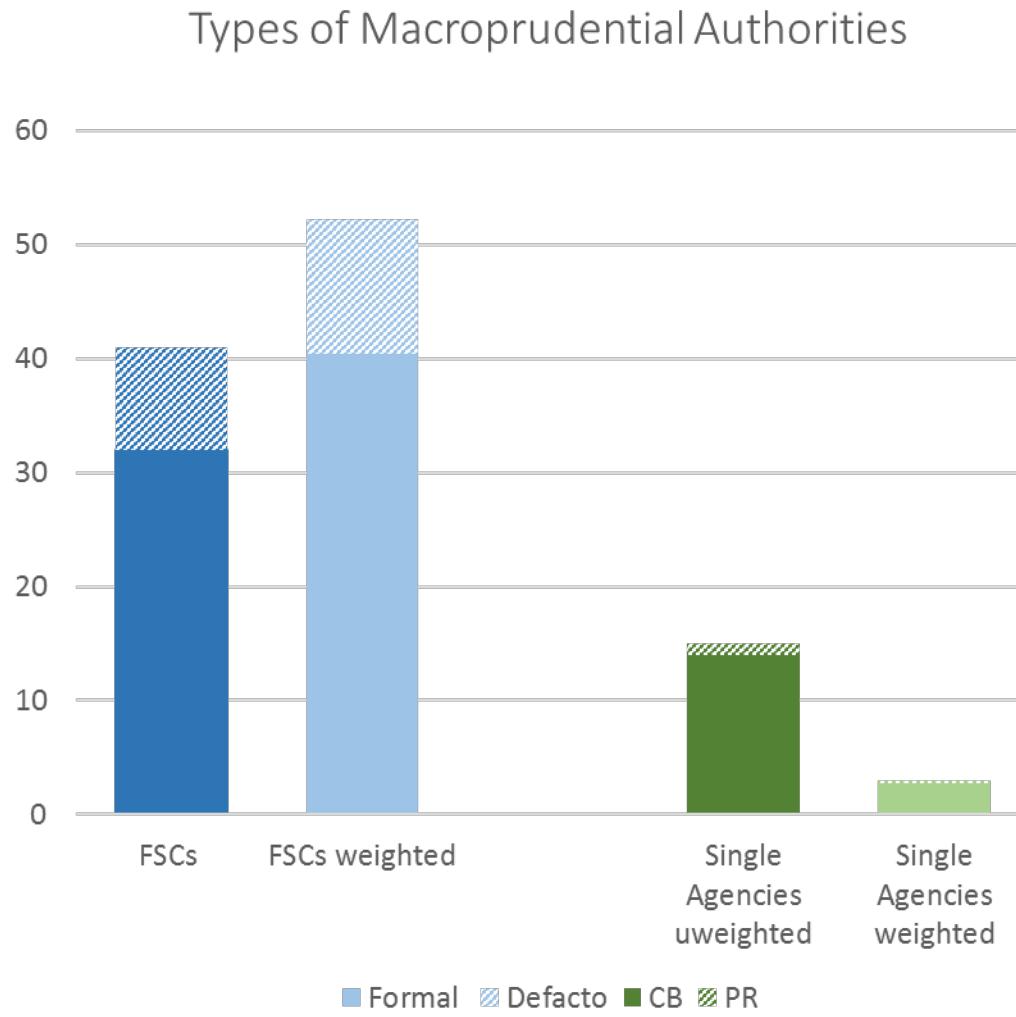
- Can FCI predict the probability distribution of growth one-year-ahead?
- Tighter FCI (higher price of risk) predict greater downside risks in the near-term
- For medium-term, higher leverage predicts increased downside risks
- Growth at risk a measure for macroprudential policies

## 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.

# Financial stability governance



END

# Private Nonfinancial Credit-to-GDP, by Lender

Excluding Treasuries and Munis

