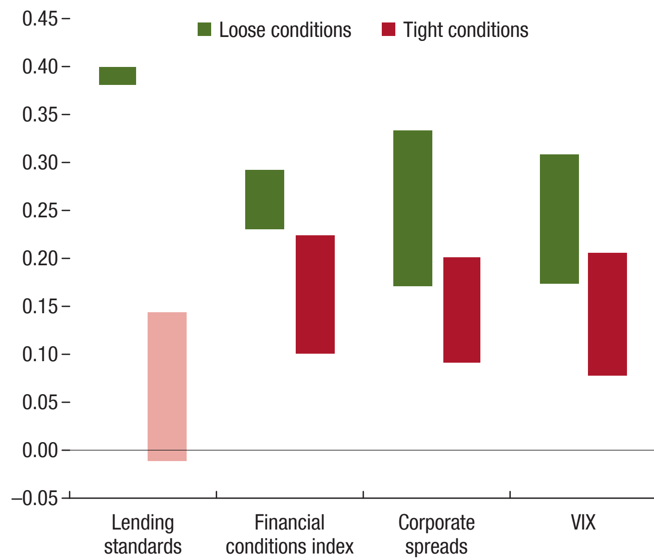
Figure 2.7. The Association between the Size of a Credit Expansion and the Riskiness of Credit Allocation Is Greater When Lending Standards and Financial Conditions Are Looser

(Standard deviations of the riskiness of credit allocation)



Sources: Worldscope; and IMF staff estimates.

Note: The figure shows the range of impact of a contemporaneous increase in the change in the credit-to-GDP ratio by one standard deviation on the four (leverage-, interest coverage ratio–, debt overhang–, and expected default frequency–based) measures of the riskiness of credit allocation when lending standards or financial conditions (financial conditions index, corporate spreads, and VIX) are "loose" or "tight." The level of a variable is defined as loose (tight) when it is equal to the 25th percentile (75th percentile) of its distribution. Dark-colored (light-colored) bars indicate that the effects are statistically significant at the 10 percent level or higher for four (one) measures out of four. See Annex 2.2 for details on methodology. VIX = Chicago Board Options Exchange Volatility Index.