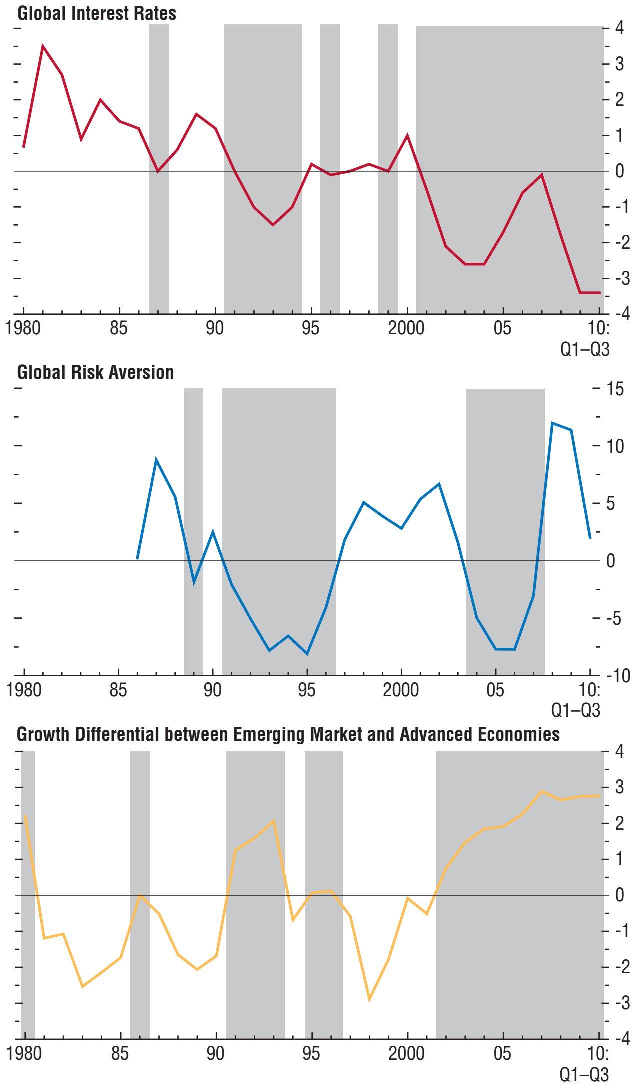
Figure 4.12. Historical Periods of Easy External Financing and High Growth Differential between Emerging Market and Advanced Economies

(Deviations from median in percentage points)

There are two long periods during which easy external financing conditions—low interest rates in the advanced economies and low risk aversion—coincided with high growth differential between emerging market and advanced economies: the run-up to the Asian crisis (1991–96, excluding 1994–95) and the run-up to the global financial crisis (2004–07).



Sources: Haver Analytics; and IMF staff calculations.

Note: Global interest rates are proxied by a GDP-weighted average of the real European Central Bank financing rate (the Bundesbank base rate prior to 1999) and the real U.S. federal funds rate. One-year-ahead expected inflation is subtracted from the nominal rates of each economy to measure the ex ante real interest rates. Global risk aversion is measured by the level of the Chicago Board of Options Exchange Volatility Index (VIX), which proxies for the market's expectation of stock market volatility over the following 30 days. The growth differential between emerging market and advanced economies is measured as the difference between the weighted average real GDP growth rate of each group (excluding offshore financial centers), where the weights are the economy's share in the group aggregate nominal GDP in U.S. dollars. Shaded areas represent periods of easy external financing or high growth differential.