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Predicting the Lack of GDP Growth: A Logit Model for 40 Advanced and Developing Countries

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Abstract : This paper identifies leading triggers of deficient episodes in terms of GDP growth based on a sample of countries at different stages of development over 1994-2017. Using logit models, we build early warning systems (EWS), and our results show important differences between developing countries (DCs) and advanced economies (AEs). For AEs, the main predictors of the probability of entering in a GDP growth deficient episode are the deterioration of external imbalances and the vulnerability of fiscal position while DCs face different challenges that need to be considered. The key indicators for them are first, the low ability to pay their debts, and second, their belonging or not to a common currency area. We also build homogeneous pools of countries inside AEs and DCs. The evolution of the proportion of AE countries in the riskiest pool is marked first, by three distinct peaks just after the high-tech bubble burst, the global financial crisis, and the European sovereign debt crisis, and second by a very low minimum level in 2006 and 2007. In contrast, the situation of DCs is characterized first by the relative stability of this proportion and then by an upward trend from 2006, that can be explained by a more unfavorable socio-political environment leading to shortcomings in the fiscal consolidation.

Keywords : currency area, early warning system, external imbalances, fiscal vulnerability, GDP growth, public debt
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