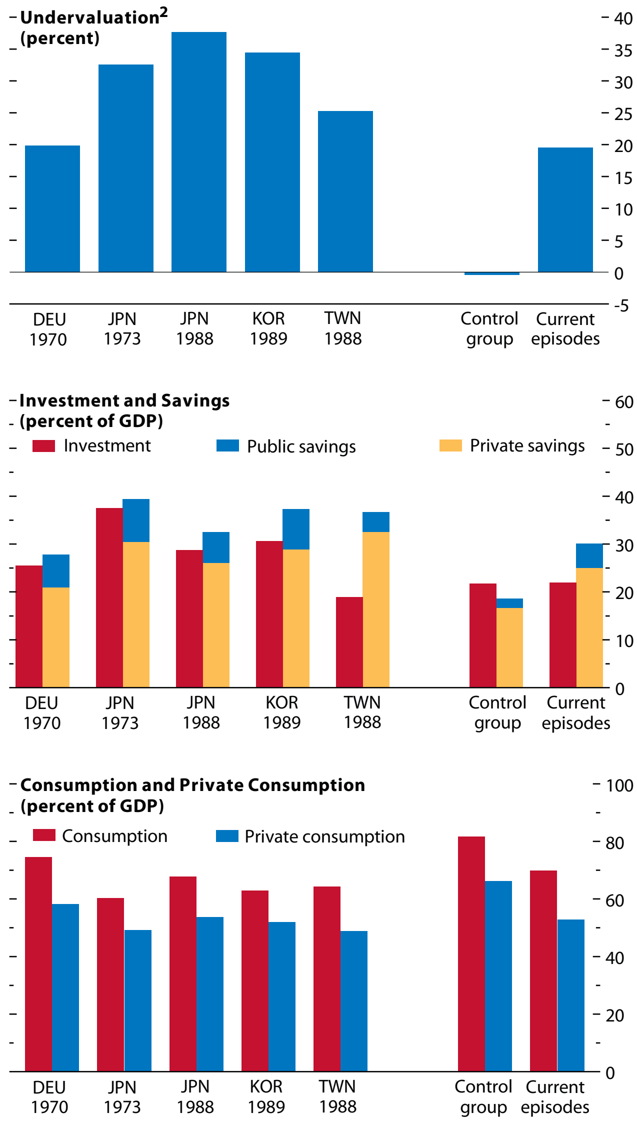
Figure 4.6 *(concluded)*[1]

...driven in part by undervaluation. The resulting surpluses were characterized by high investment, even higher saving, and low consumption.



Source: IMF staff calculations.

[1]DEU: Germany; JPN: Japan; KOR: Korea; TWN: Taiwan Province of China. The control group of nonreversals consists of all observations in the sample that are at least three years removed from a surplus reversal. The sample of current surplus episodes includes all economies with large and persistent current account surpluses, averaging at least 2 percent of GDP in the three years leading up to 2008.

[2]Undervaluation estimates are based on an application of the IMF Consultative Group on Exchange Rate Issues (CGER) macroeconomic balance methodology to historical data. For Germany 1970 and Taiwan Province of China 1988, lack of data precludes the use of this methodology, and the CGER's external sustainability approach is used instead; for details see Lee and others (2008). For current surplus episodes, the value is the average of available data for Argentina, China, Israel, Japan, Malaysia, Sweden, and Switzerland.