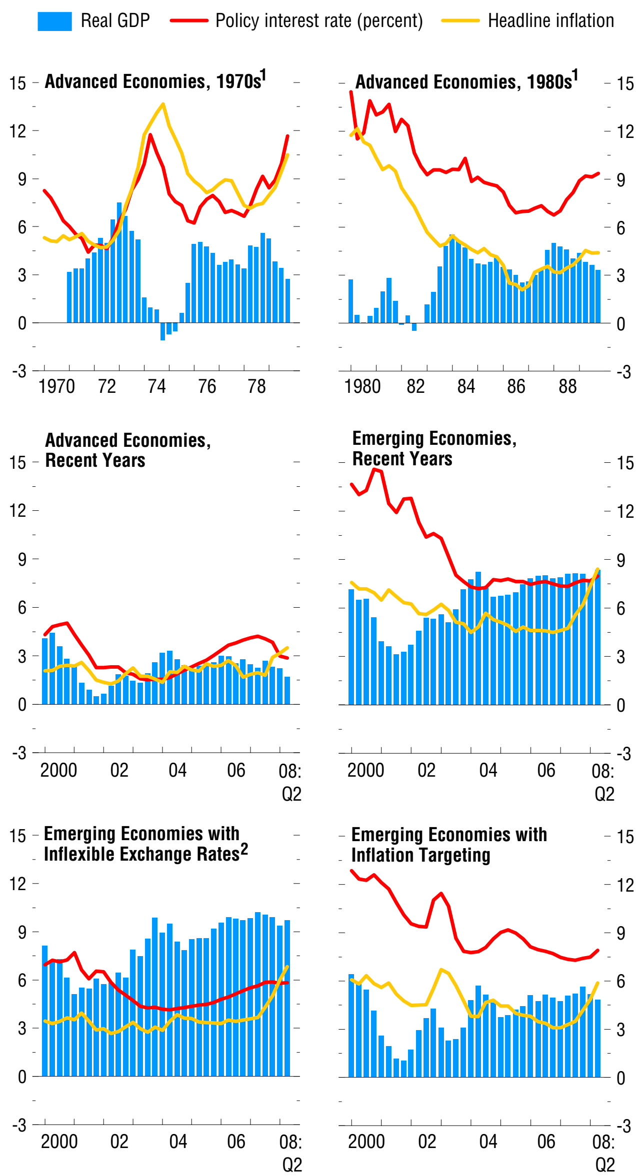
Figure 3.13. Activity, Interest Rates, and Inflation

(Percent change from one year earlier unless otherwise noted)

Low or negative real interest rates were a feature of the inflationary period in the 1970s in advanced economies, in contrast to the period of stabilization that followed in the 1980s. Recently, real interest rates have turned negative in emerging economies—especially those with inflexible exchange rates—alongside substantially more buoyant activity than in advanced economies.



Source: IMF staff calculations.

[1]For data availability reasons, money market rates are used in place of policy rates for a number of countries.

[2]Inflexible exchange rate regimes include all de jure and de facto exchange rate pegs, bands, and crawling pegs or bands that are narrower than ±2 percent. See Reinhart and Rogoff (2004) and Ilzetzki, Reinhart, and Rogoff (forthcoming).