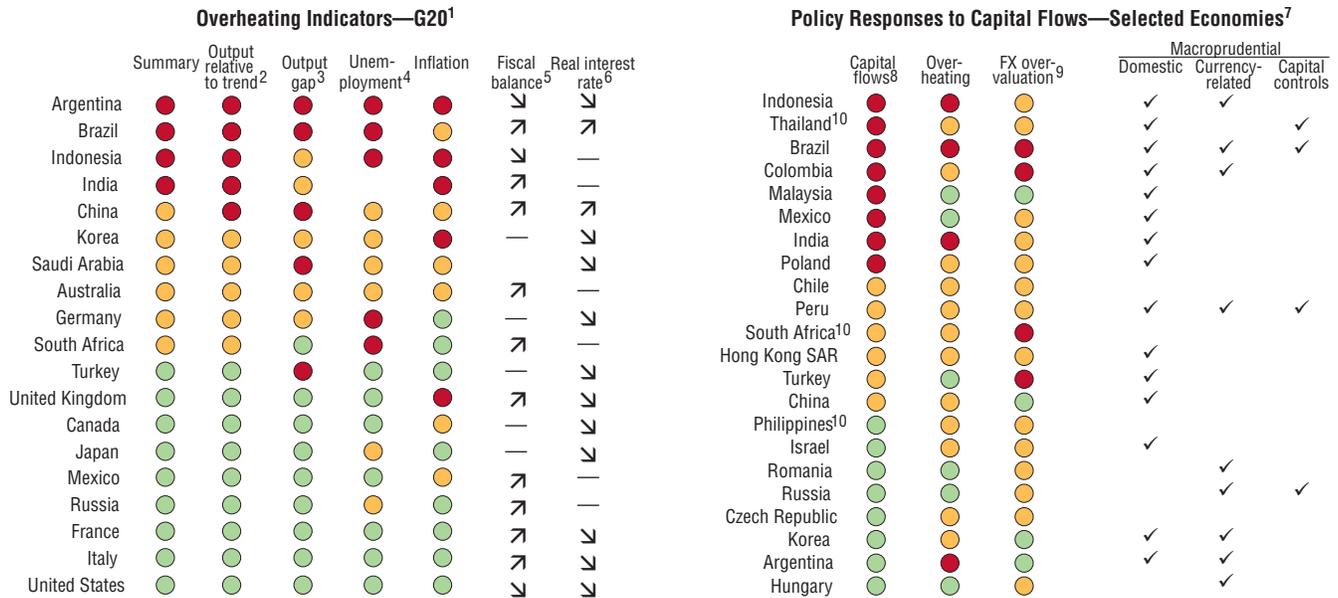


Figure 1.15. Overheating Indicators and Capital Inflows

Among G20 economies, a growing number of emerging market economies and a few advanced economies either are close to or are already overheating. Macroeconomic policies in these economies are still accommodative. Capital inflows have also rebounded, exceeding precrisis averages in a number of emerging market economies. With limited recourse to capital controls, these economies have relied widely on prudential measures.



Sources: Haver Analytics; and IMF staff calculations.

¹For each indicator, except inflation, economies are assigned “traffic lights” based on where they stand relative to other G20 economies. For inflation, economies with an inflation-targeting regime are assigned a red light if inflation is above the upper bound of their target and a yellow light if inflation is in the upper half of the target range; for nontargeters, a red light denotes historically high inflation, and a yellow light denotes rising inflation (above historically moderate levels). Individual indicators vary for idiosyncratic reasons (e.g., South Africa has a red light for unemployment because the rate is currently lower than precrisis levels, even though unemployment is still above 20 percent). For this reason, a summary column is included, which shows the average across individual indicators; economies are ranked according to this average.

²Output above the precrisis trend is indicated by a red light. Output less than 95 percent of the trend is indicated by a green light.

³An output gap above zero is indicated by a red light. A gap below 2 percent is indicated by a green light.

⁴The unemployment indicator is based on a comparison of current unemployment levels to average precrisis levels during 2002–07.

⁵Arrows in the fiscal balance column represent the forecast change in the structural balance as a percent of GDP over the period 2010–11. An increase of more than 0.5 percent of GDP is indicated by an up arrow; a decrease of more than 0.5 percent of GDP is indicated by a down arrow.

⁶Real policy interest rates below zero are identified by a down arrow; real interest rates above 3 percent are identified by an up arrow.

⁷For the purposes of this figure, policy responses are divided into three categories: (1) domestically focused macroprudential measures are those affecting the domestic activities of banks, such as loan-to-valuation ratio limits; (2) currency-related measures aim to limit institutions’ and residents’ exposure to currency fluctuations; and (3) capital controls are measures that distinguish between residents and nonresidents.

⁸Gross capital flows over the past year compared with the average during 2000–07. Current flows above 150 percent of the average are assigned a red light; a yellow light denotes flows above 100 percent. Economies are ranked based on this ratio.

⁹Economies with exchange rates higher than warranted by medium-term fundamentals are assigned a red light. Economies with lower-than-warranted exchange rates are assigned a green light. FX = foreign exchange.

¹⁰Has relaxed capital outflow restrictions.