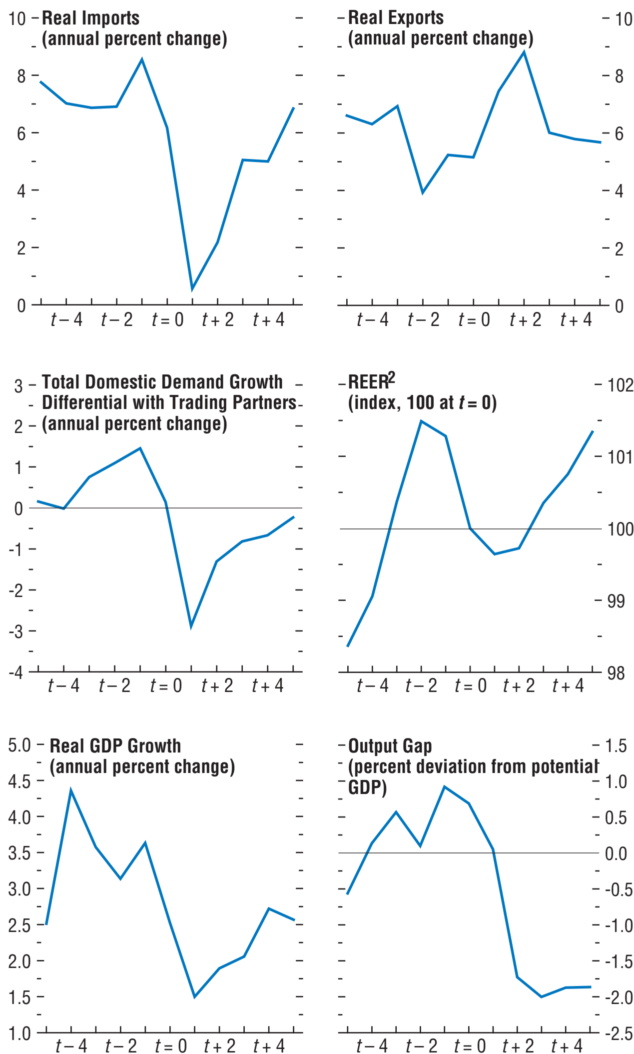
Figure 3.2. Advanced Economies: Key Indicators During Deficit Reversals[1]

(Medians across episodes; t *= 0 is the trough year of the ratio of current account deficit to GDP; x-axis in years before and after* t *= 0)*

The real effective exchange rate (REER) starts depreciating around two years before the trough of the current account deficit. Total domestic demand growth is above that of trading partners before the reversal but falls below after the reversal. Output is above potential before the trough but the output gap widens and remains low afterwards.



Sources: IMF, *International Financial Statistics;* OECD, *Economic Outlook* (2006); World Bank, *World Development Indicators* (2006); and IMF staff calculations.

[1] See Appendix 3.1 for the definition of deficit reversals and information on country group composition.

[2] An increase in the index represents a real appreciation while a decrease represents a real depreciation of a country's currency relative to its trading partners.