Figures 1.18. Policy Requirements in Emerging Market Economies

Estimates obtained from the Global Projection Model (GPM) point to the need for further policy rate hikes in Latin America and emerging Asia. The GPM estimates assume that a number of emerging market economies in Asia also adopt other measures to tighten monetary conditions, such as controls on credit growth. Requirements differ across economies. Simple Taylor rules point to a need for major tightening in Argentina, India, Russia, and Turkey. In other economies, much less tightening may be needed or tightening can pause while uncertainty stays high. Also, in most economies structural fiscal balances should be brought back up to levels prevailing before the crisis.

\[ i = \infl + r^* + 0.5(\infl - \infl^*) + 0.5(ygap), \]

where \( i \) is the policy rate (prescribed); \( \infl \) is actual inflation, core inflation, and two-year WEO projected inflation; \( r^* \) is the equilibrium real rate = 2; \( \infl^* \) is 2 percent for advanced economies and 4 percent for emerging economies; \( ygap \) is the output gap (WEO) and output relative to the precrisis trend in percent.

Figures are based on official GDP and CPI data. The policy rate is proxied by the short-term interbank lending rate.

Sources: Bloomberg Financial Markets; Consensus Economics; Haver Analytics; and IMF staff calculations.

1GPM = Global Projection Model.
2AR: Argentina; BR: Brazil; CL: Chile; CN: China; CO: Colombia; ID: Indonesia; IN: India; KR: Korea; MX: Mexico; MY: Malaysia; PE: Peru; PH: Philippines; PL: Poland; RU: Russia; TH: Thailand; TR: Turkey; TW: Taiwan Province of China; ZA: South Africa.
3Taylor rule in the form of \( i = \infl + r^* + 0.5(\infl - \infl^*) + 0.5(ygap) \).
4Figures are based on official GDP and CPI data. The policy rate is proxied by the short-term interbank lending rate.
5As of July 2011; overnight interbank rate for Turkey.