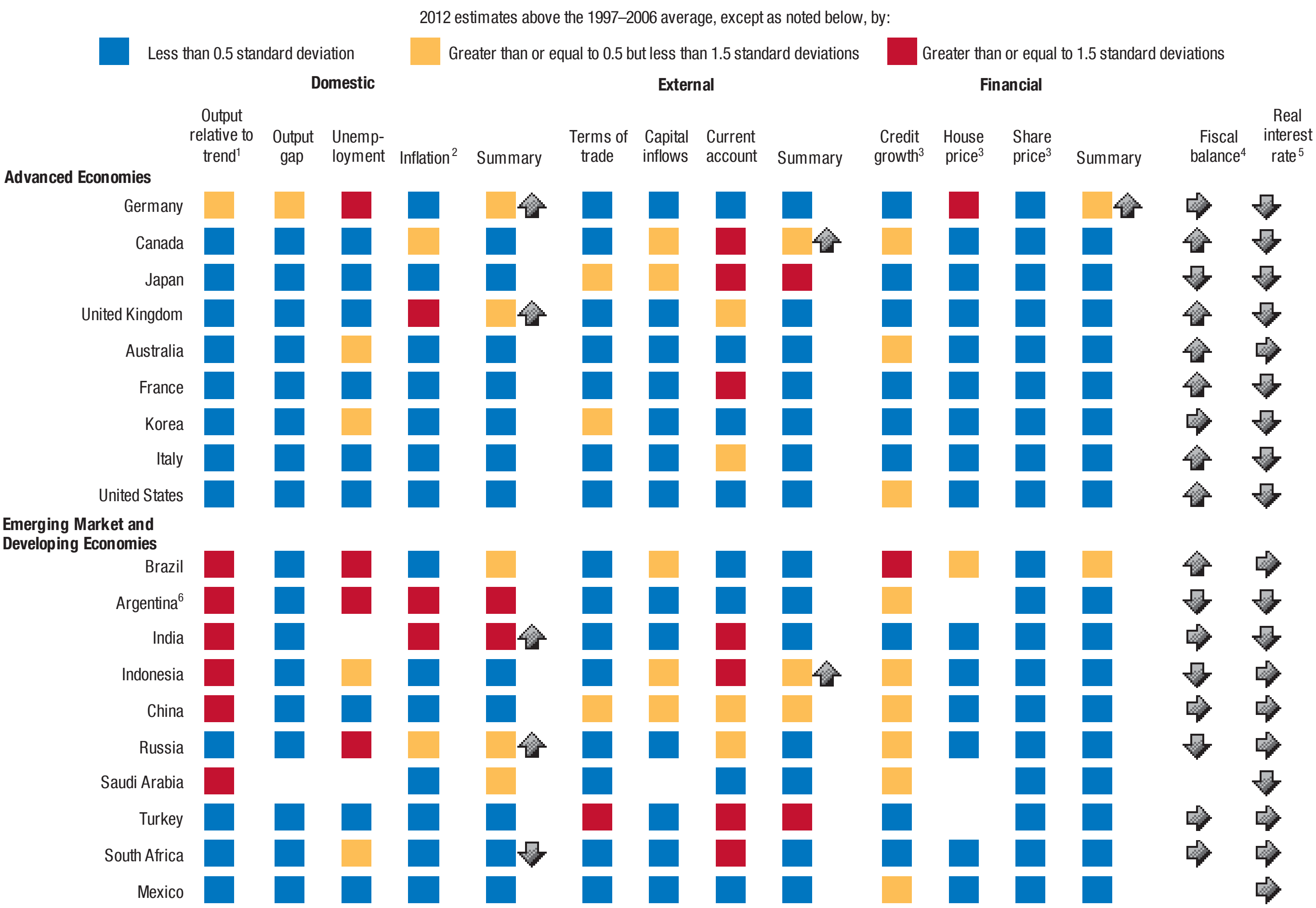
Figure 1.9. Overheating Indicators for the G20 Economies

Domestic overheating indicators point to ample slack in the advanced economies—most indicators flash blue. By contrast, a number of yellow and red indicators for the emerging market and developing economies point to capacity constraints. External overheating indicators flash yellow or red for Japan and China—rather thanraising concerns, these are symptoms of an internal demand rebalancing process that has helped bring down global current account imbalances. However, in China, the rebalancing is overly reliant oninvestment. In Germany, which is the world's other major surplus economy, the rebalancing process is lagging. The red indicators for Turkey point to external vulnerabilities.Credit indicators point to excesses in many emerging market and developingeconomies. Other financial indicators are mostly reassuring about overheating, except for Brazil.



Sources: Australia Bureau of Statistics; Bank for International Settlements; CEIC China Database; Global Property Guide; Haver Analytics; IMF, Balance of Payments Statistics Database; IMF, International Financial Statistics Database; Organization for Economic Cooperation and Development; and IMF staff estimates.

Note: For each indicator, except as noted below, economies are assigned colors based on projected 2012values relative to theirprecrisis (1997–2006) average. Each indicator is scored as red = 2, yellow= 1, and blue = 0; summary scores are calculated as the sum of selected component scores divided by the maximum possible sum of those scores. Summary blocks are assigned red if thesummaryscore is greater than or equal to 0.66, yellow if greater than or equal to 0.33 but less than 0.66, and blue if less than 0.33. When data are missing, no color is assigned. Arrows up (down) indicate hotter (colder) conditions compared with the April 2012 WEO predicted values for 2012.

[1]Output more than 2.5 percent above the precrisis trend is indicated by red. Output less than 2.5percent below the trend is indicated by blue. Output within ±2.5 percent from the precrisis trend is indicated by yellow.

[2]For the following inflation-targeting economies, the target inflation rate was used instead of the 1997–2006 average in the calculation of the inflation indicator: Australia, Brazil, Canada, Indonesia, Korea, Mexico, South Africa, Turkey, United Kingdom. For the non-inflation-targeting economies, red was assigned if inflation is approximately 10 percent or higher, yellow if inflation is approximately 5 to 9 percent, and blue if inflation is less than 5 percent.

[3]The indicators for credit growth, house price growth, and share price growth refer to the latest2012 values relative to the 1997–2006 average of output growth.

[4]Arrows in the fiscal balance column represent the forecast change in the structural balance as apercent of GDP over the period 2011–12. An improvement of more than 0.5 percent of GDP is indicatedby an up arrow; a deterioration of more than 0.5 percent of GDP is indicated by a down arrow.

[5]Real policy interest rates below zero are identified by a down arrow; real interest rates above 3 percent are identified by an up arrow. Real policy interest rates are deflated by two-year-ahead inflation projections.

[6]Calculations are based on Argentina's official GDP data. The IMF has called on Argentina to adopt remedial measures to address the quality of the official GDP data. The IMF staff is also using alternative measures of GDP growth for macroeconomic surveillance, including data produced by private analysts, which have shown significantly lower real GDP growth than the official datasince 2008. The IMF staff's estimate of average provincial inflation is used as a measure of inflation and to deflate nominal variables.