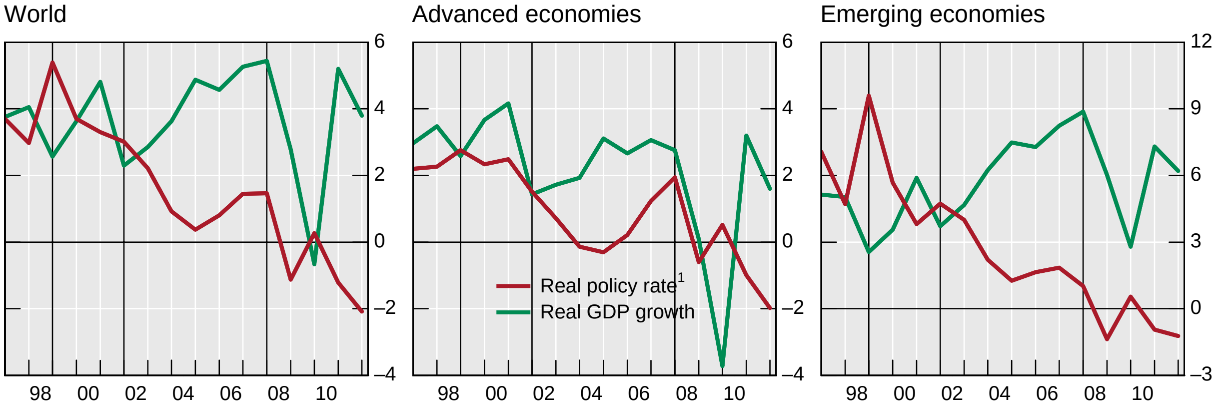
Graph 1

Real policy rates and real growth

In per cent



The vertical lines indicate the LTCM crisis (1998), the bursting of the dotcom bubble (2001) and the beginning of the global credit crisis (2007).

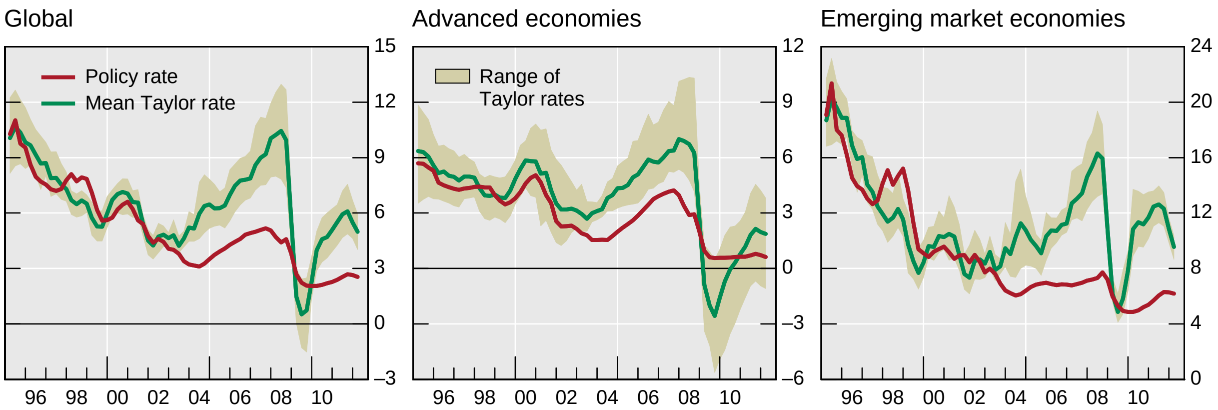
[1] Weighted average based on 2005 GDP and PPP exchange rates of 62 economies for world, major advanced economies or major emerging economies. Nominal policy rates adjusted for consumer price inflation.

Sources: Bloomberg; CEIC; Datastream ; IMF.

Graph 2

The Taylor (1999) rule and policy rates[1]

In per cent



The Taylor rates are calculated as $i = r^*+\pi^* + 1.5(\pi-\pi^*) + 0.5y$, where π is a measure of inflation, y is a measure of the output gap, π^* is the inflation target and r^* is the long-run level of the real interest rate. We compute Taylor rates for all combinations of four measures of inflation (headline, core, GDP deflator and consensus headline forecasts) and measures of the output gap obtained from three different statistical ways to compute potential output (HP filter, segmented linear trend and unobserved components). For the advanced economies, we also use the structural output gap estimate from the IMF WEO. In each case, the long-run real interest rate is set equal to the trend output growth rate as estimated by the trend filter used to construct the respective output gap measure. π^* is set equal to the official inflation target or goal levels when available. Implicit target levels for the inflation measures to which the official inflation target does not refer are constructed by adding the average difference over the sample period between the respective inflation measure and the targeted inflation measure to the official inflation target. For countries that do not have an official inflation target, we use the sample average of the respective inflation measure in the case of advanced economies, and the inflation trend obtained from an HP filter in the case of emerging market economies. For the consensus CPI inflation forecast we use the same target level as for the actual CPI inflation rate. The graph shows the range and the mean of the Taylor rate of all inflation-output gap combinations.

[1] Weighted average based on 2005 PPP weights. “Global” comprises the economies listed here. Advanced economies: Australia, Canada, Denmark, the euro area, Japan, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States. Emerging market economies: Argentina, Brazil, China, Chinese Taipei, the Czech Republic, Hong Kong SAR, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Poland, Singapore, South Africa and Thailand.

Sources: IMF, *International Financial Statistics* and *World Economic Outlook*; Bloomberg; CEIC; © Consensus Economics; Datastream; national data; authors’ calculations.