Comparison of Actual and EBA Regression-fitted Values for log(REER)

The graphs on the following pages present timeseries for observed log real effective exchange rates (REERs) together with the values implied by the EBA panel regression.

It must be emphasized these graphs *do not represent assessments or normative evaluations* of real effective exchange rates. Regression-fitted values do not themselves identify desirable or appropriate levels of the REER: since the EBA regression includes a number of policy variables as regressors, the regression-fitted values would include the contributions of any distortions in those policies and therefore would not represent desirable outcomes. Moreover, the regression-fitted values necessarily miss the potential contributions of any factors that may be relevant but could not be modeled in the regression.

Instead, these graphs serve to *illustrate the first, positive or descriptive, stage of EBA analysis of REERs*, which seeks to account for actual variation of REERs.

As can be seen, the ability of the EBA panel regression to fit the data is greater for some countries than for others, and also depends on the time period considered.

Other points to note:

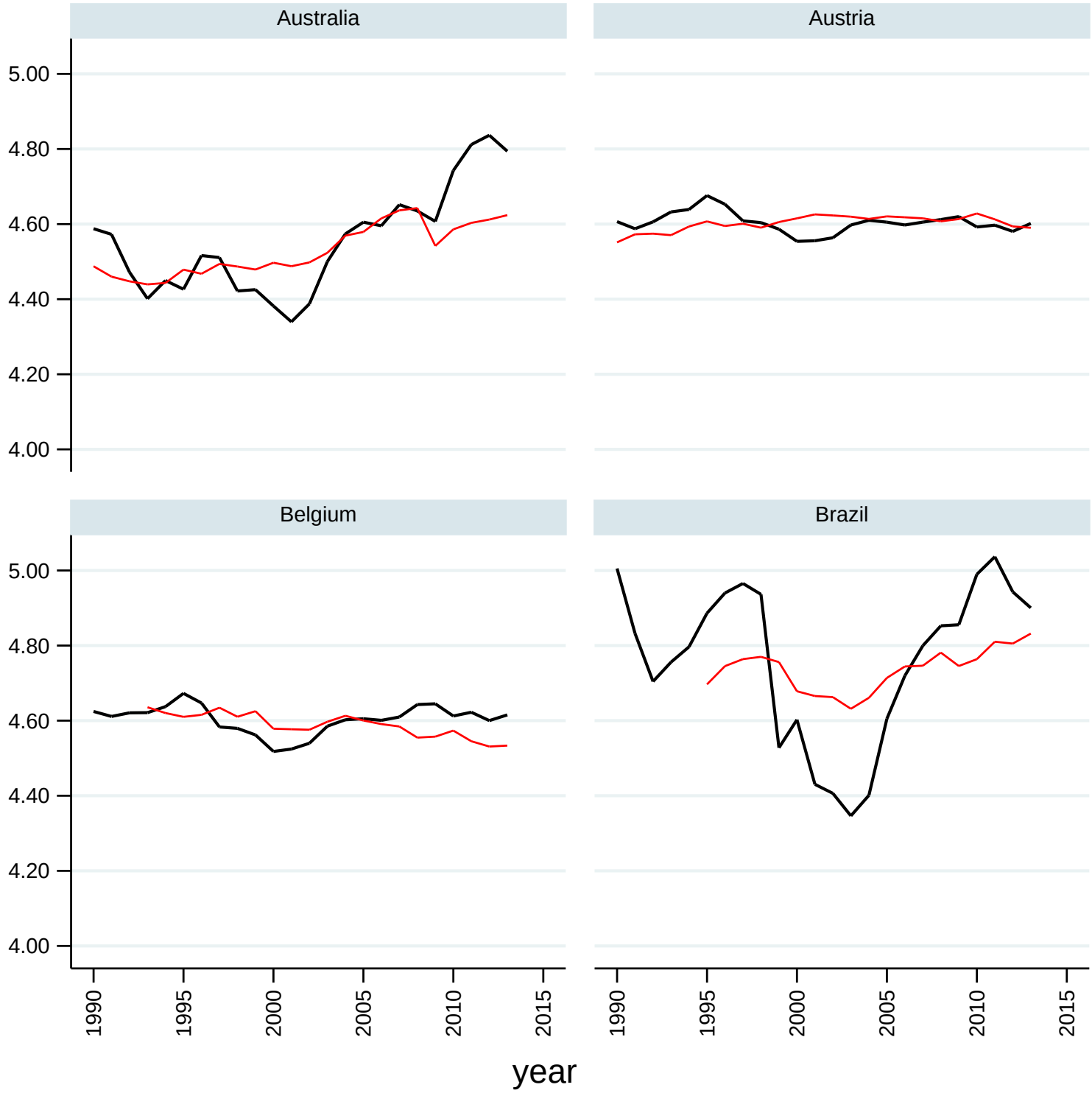
- The scaling of the graphs is intended to facilitate cross-country comparison. It is readily apparent that variability of actual REERs differs substantially across countries.

- Since the EBA REER (index) regression must utilize fixed country effects, the fitted REER values for a given country will necessarily match (on average, over time) the actual values.

- The EBA panel regression does not include lagged values of the REER.

- The graphs depict results for all countries in the EBA REER panel regression sample, which was generally 1990-2010.

Log EBA REER Actual vs. Fitted (extended to 2013)



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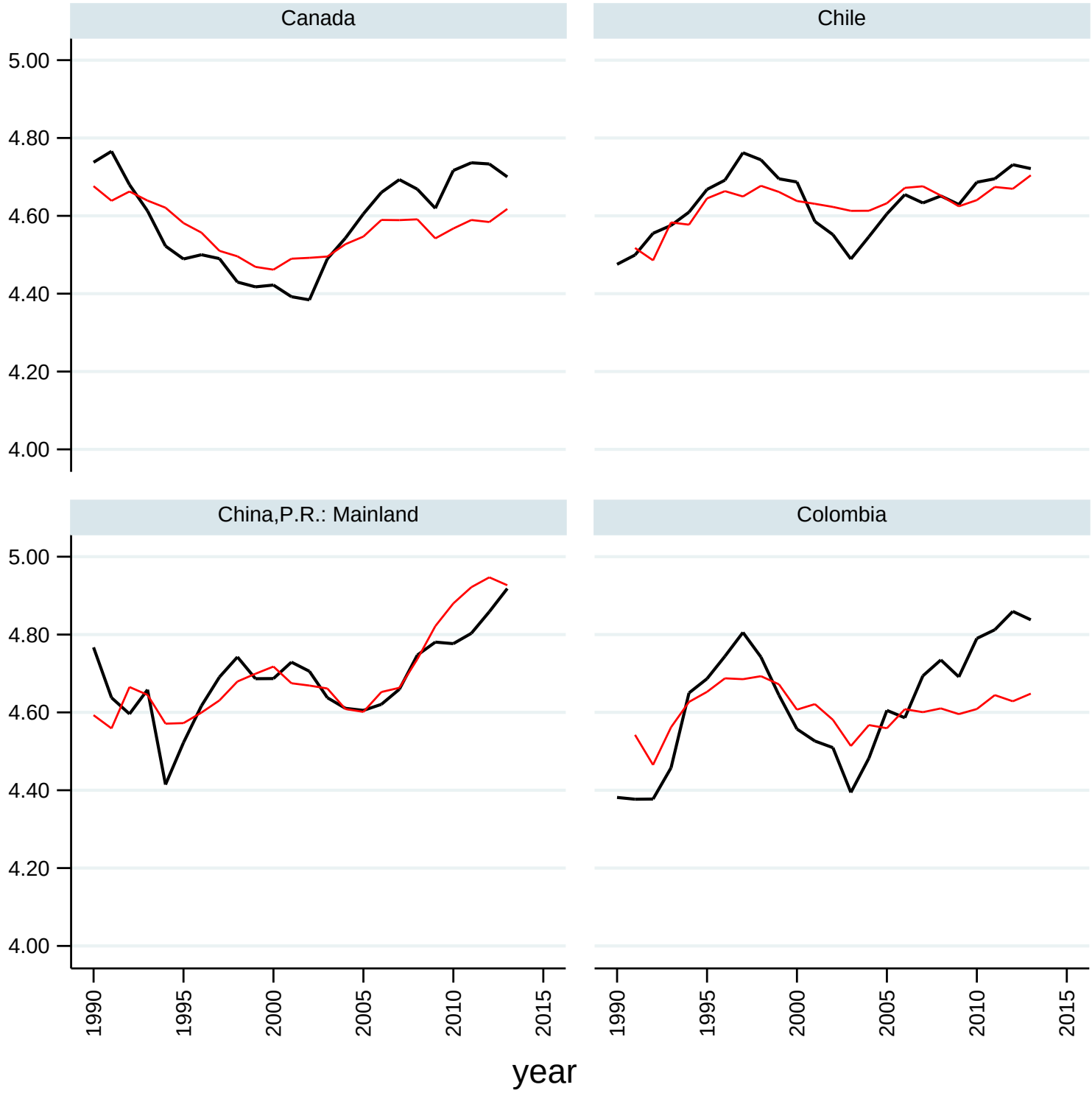

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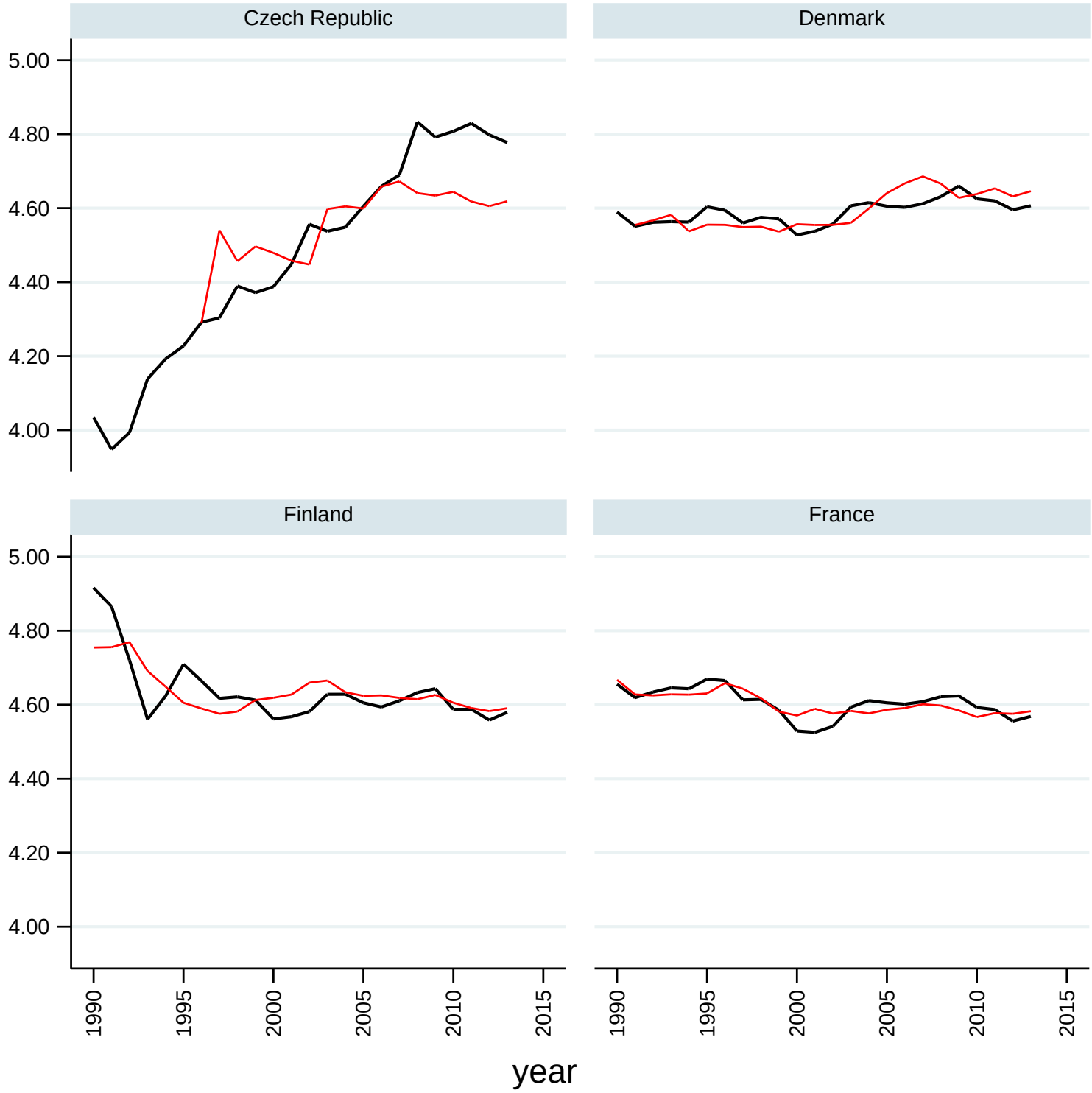

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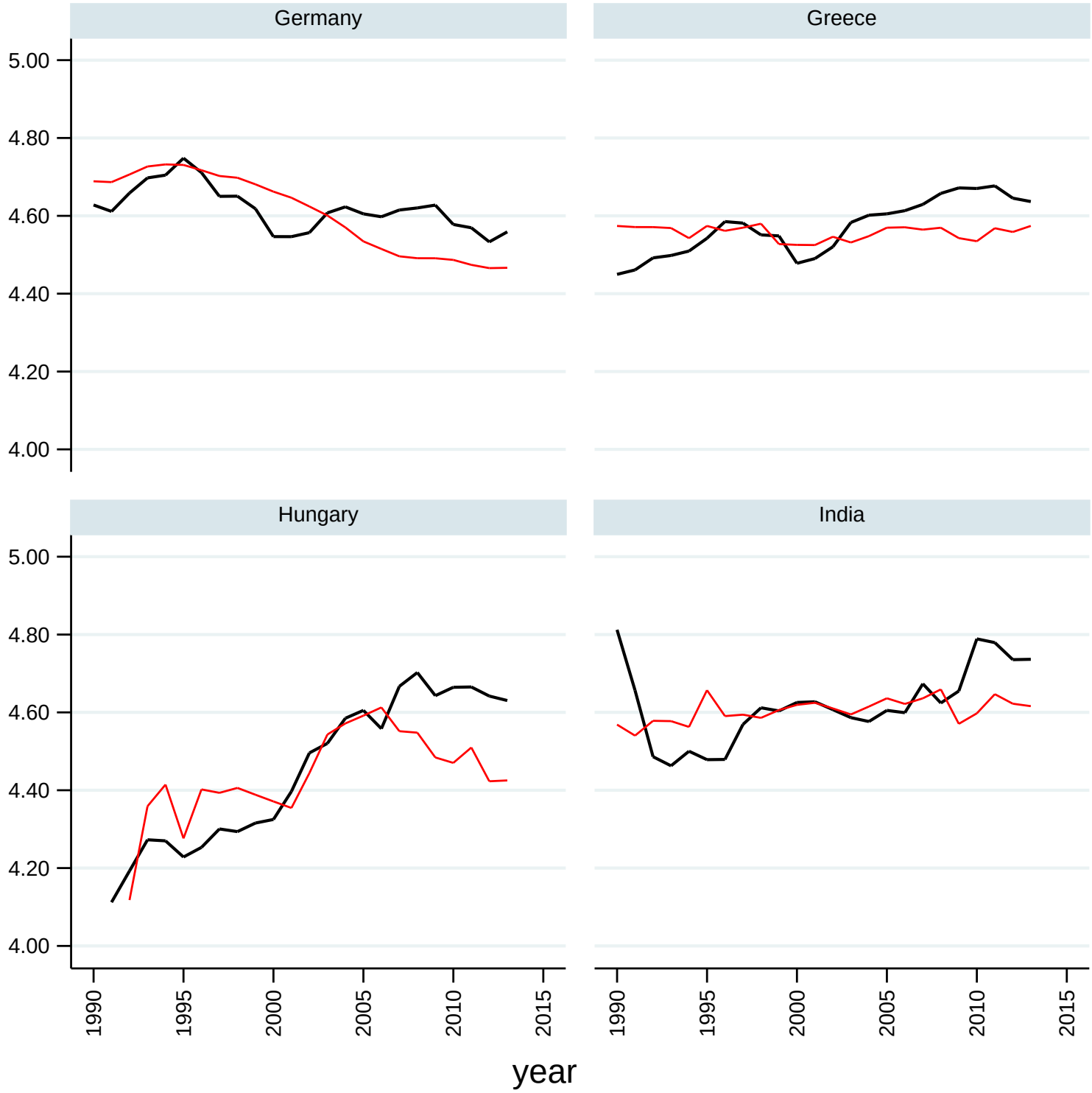

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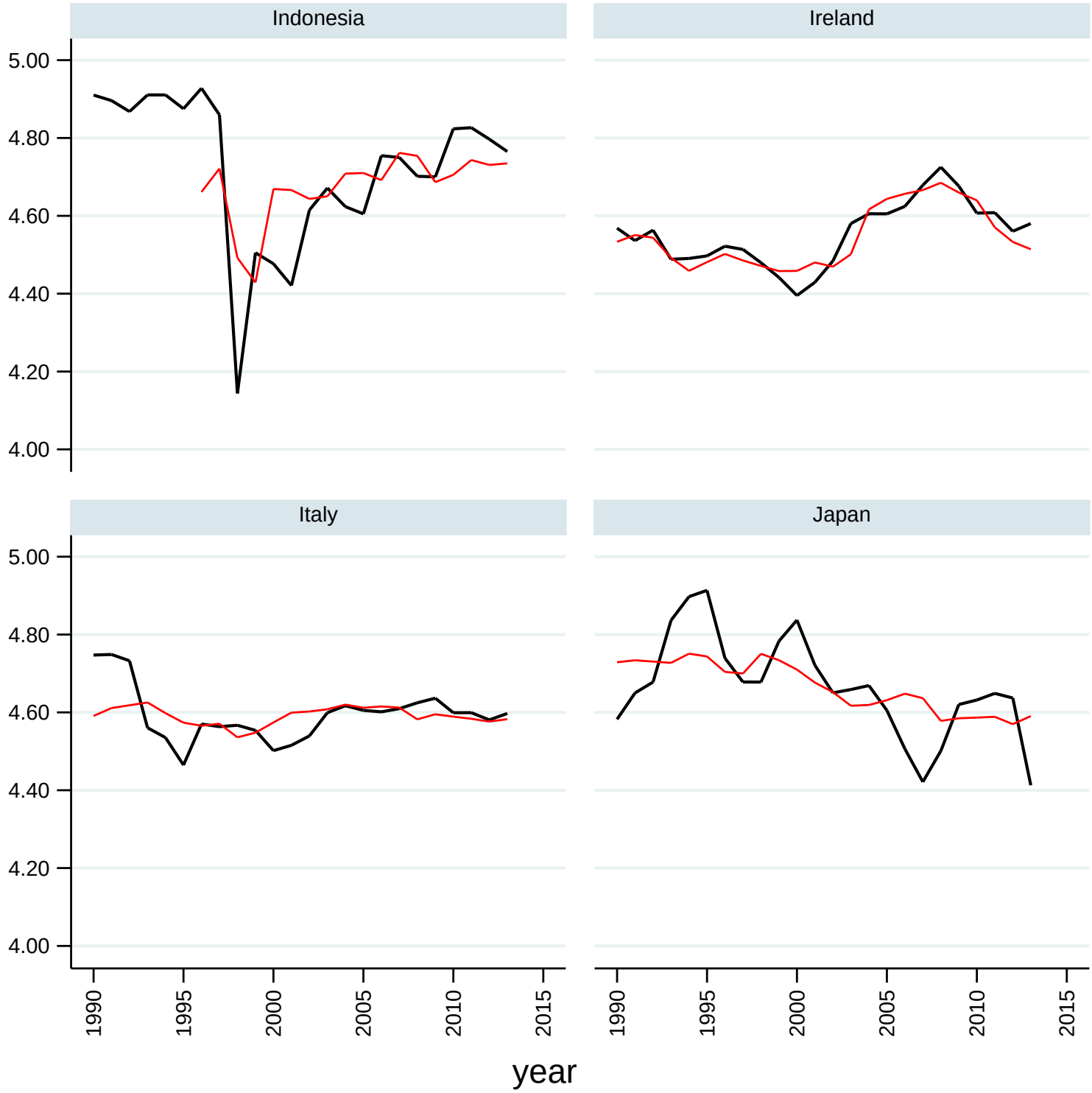

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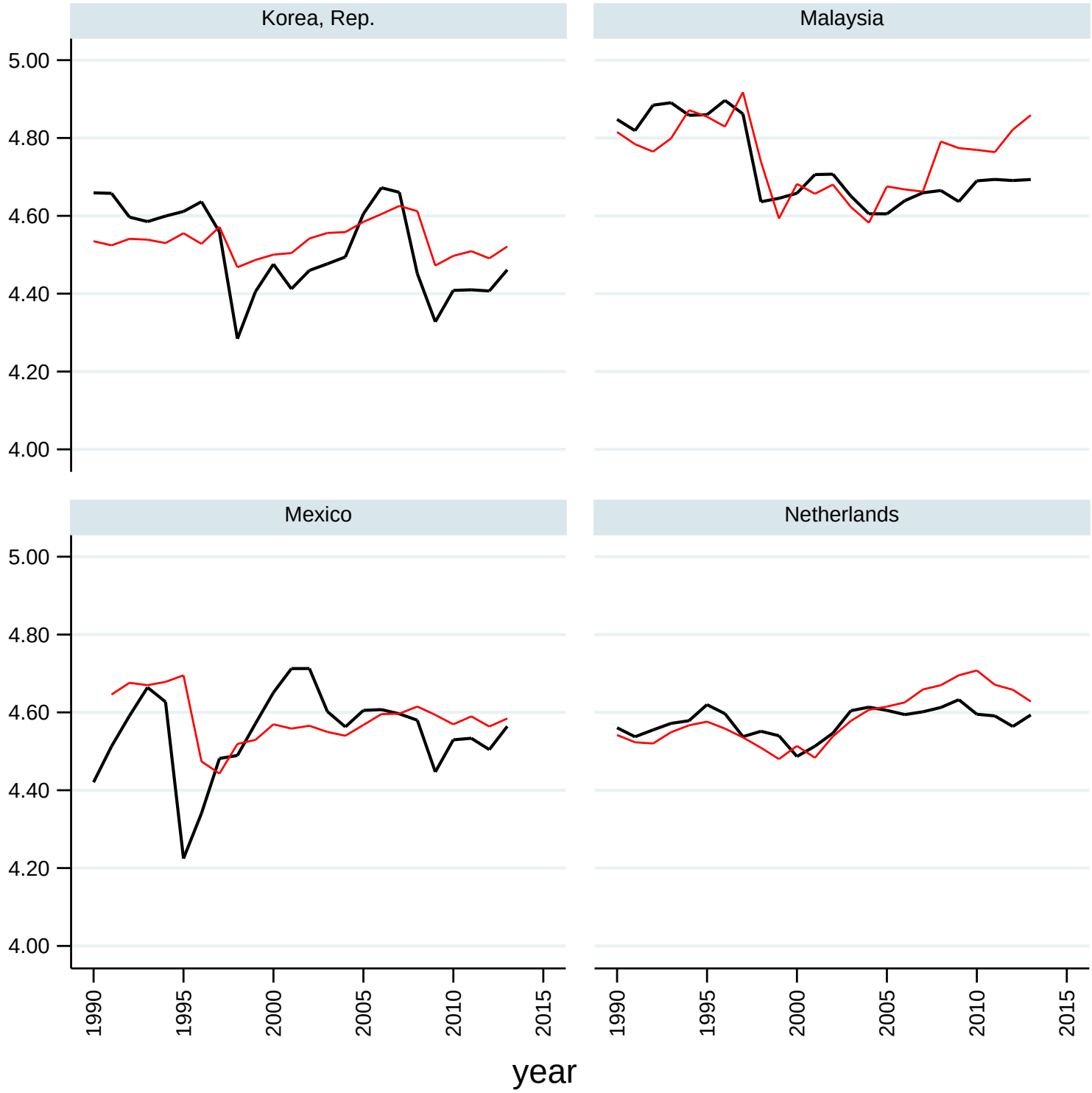

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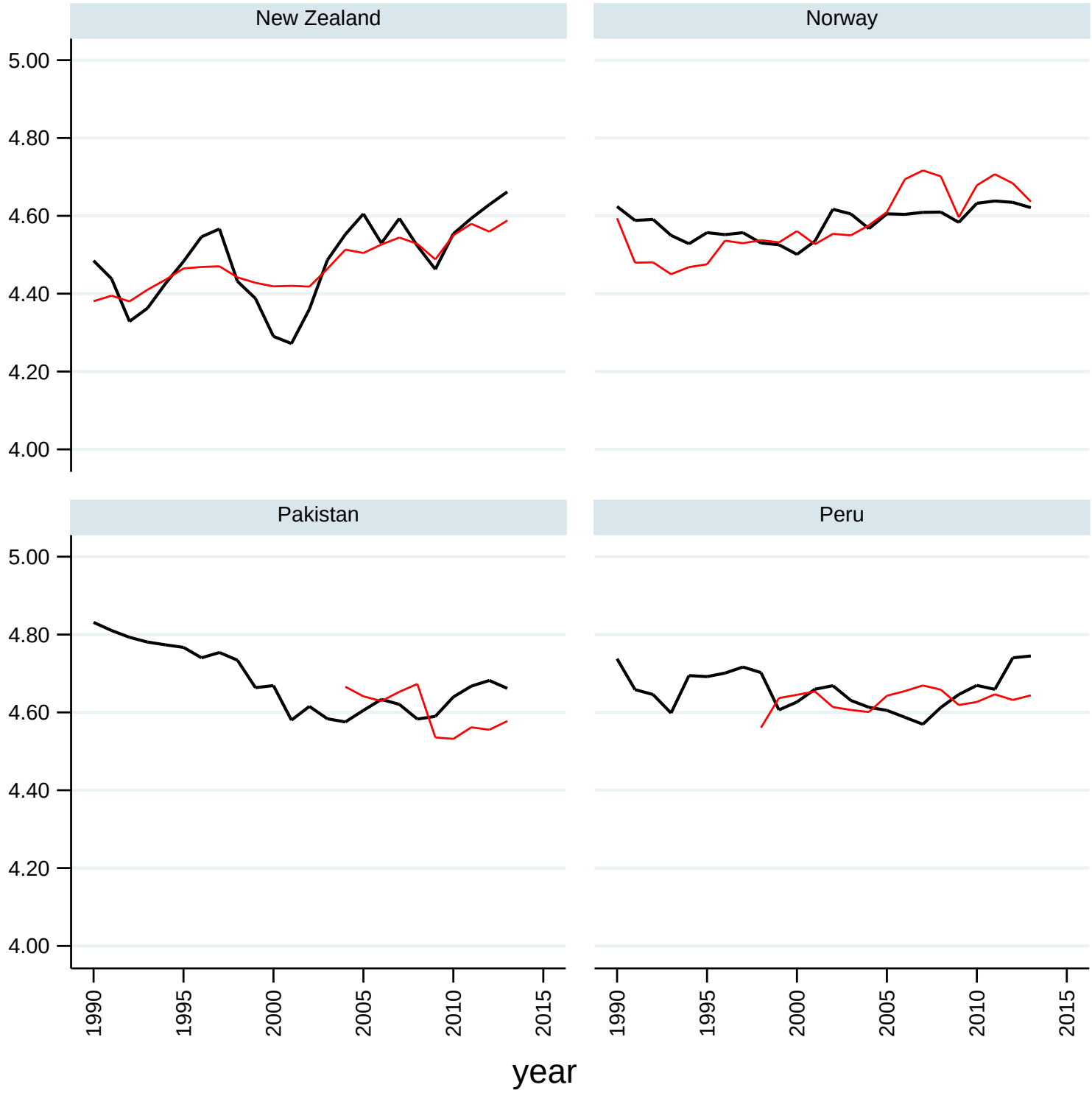

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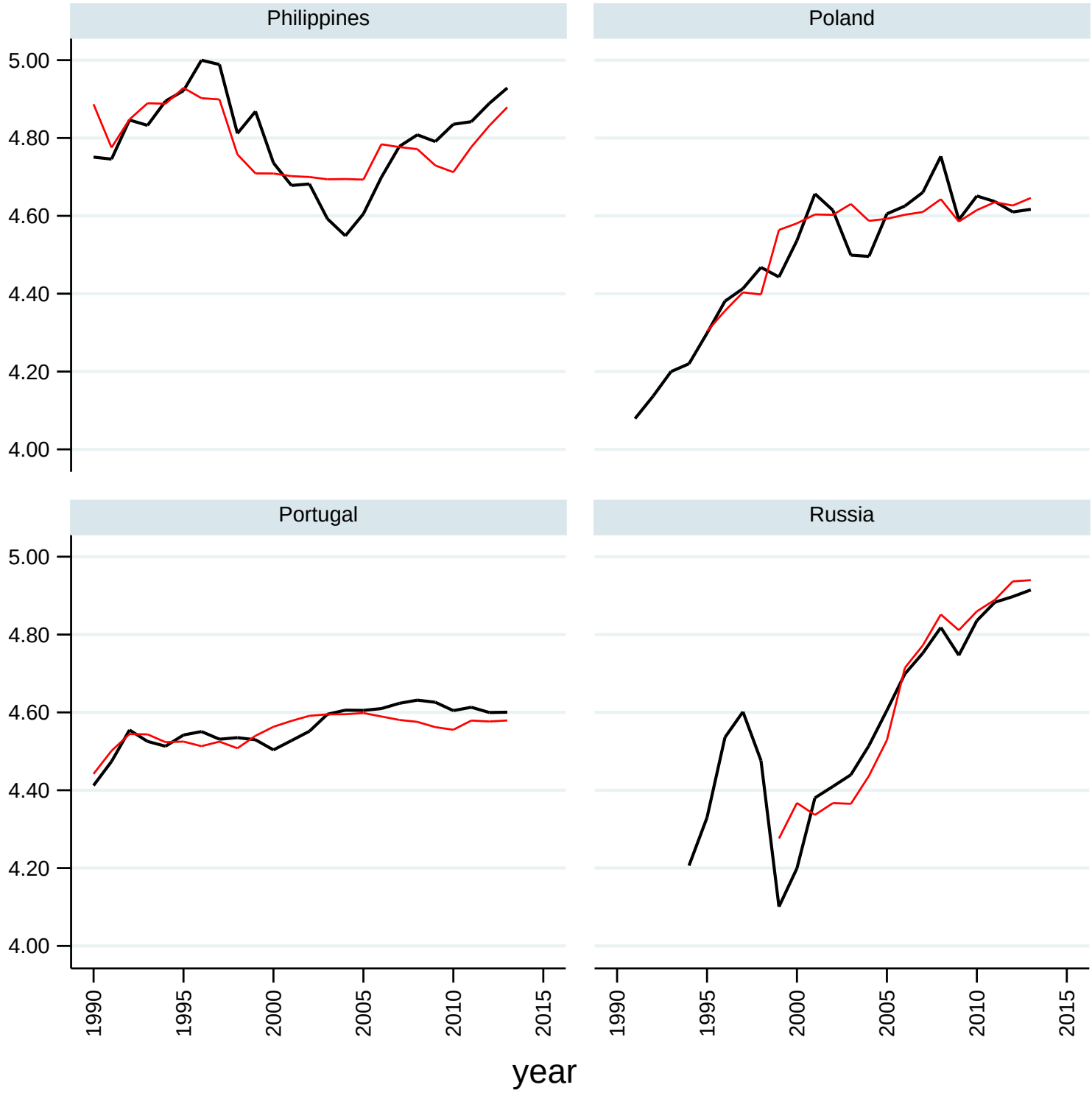

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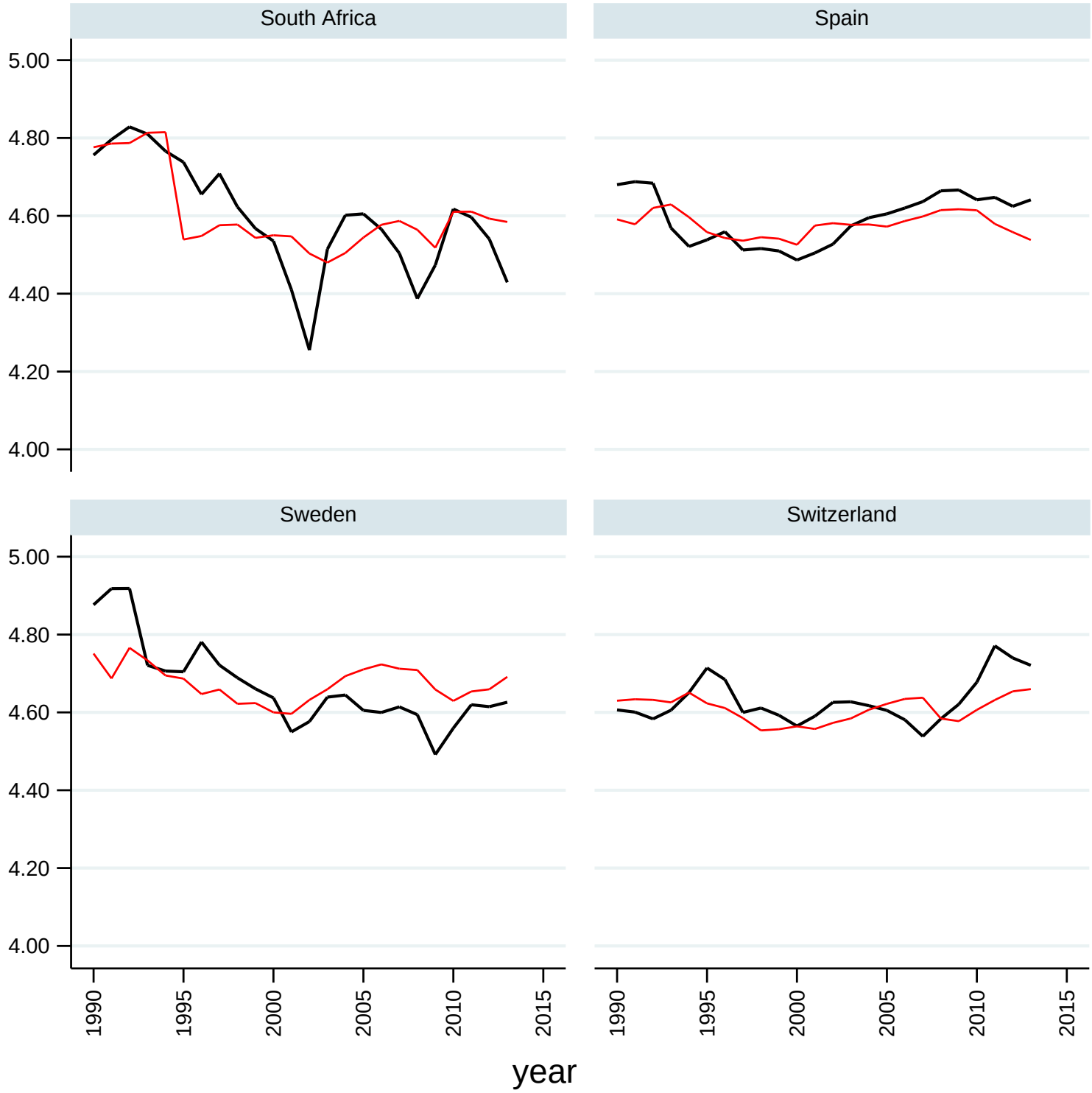
Log EBA REER Actual vs. Fitted (extended to 2013)



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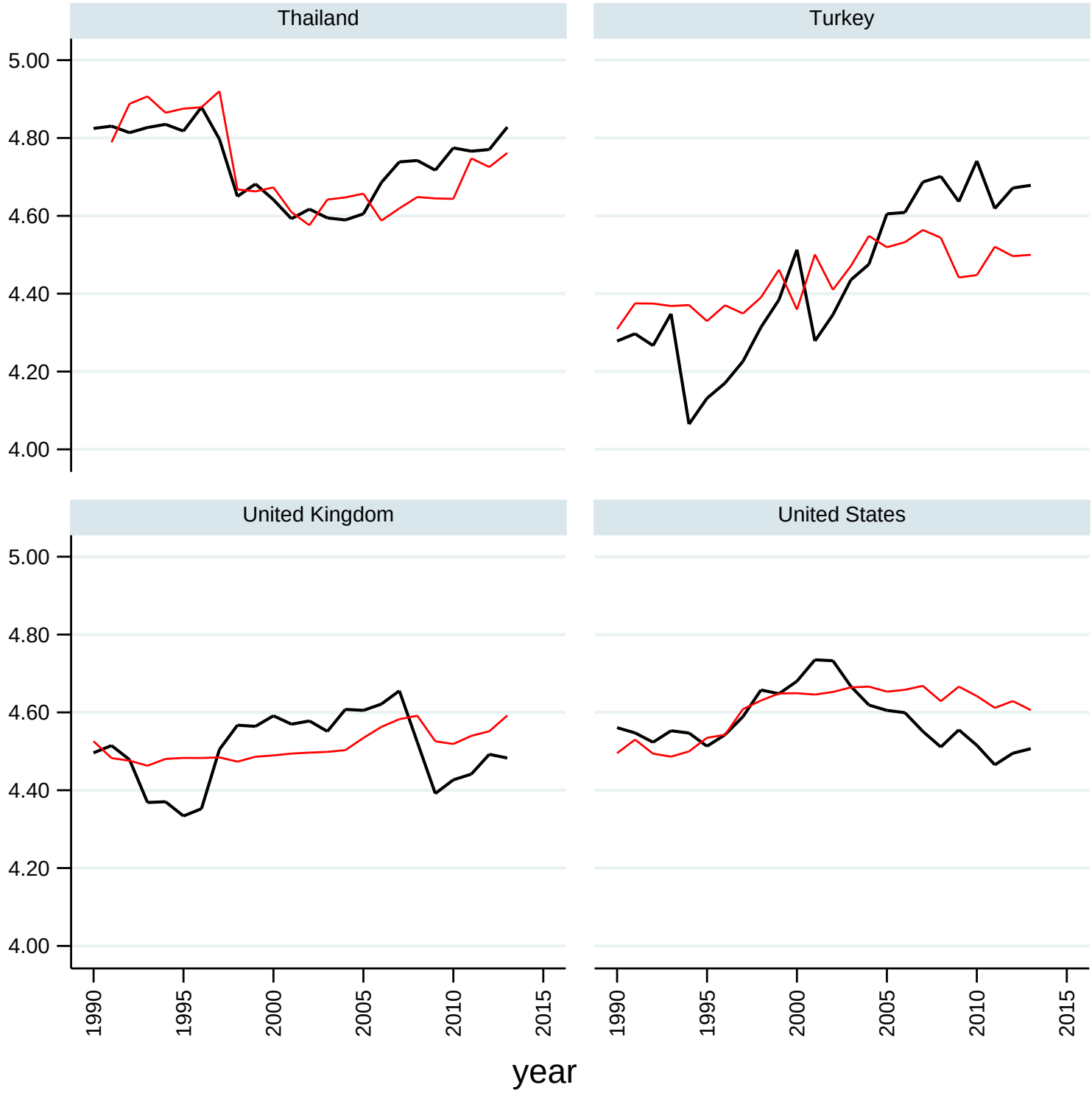

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