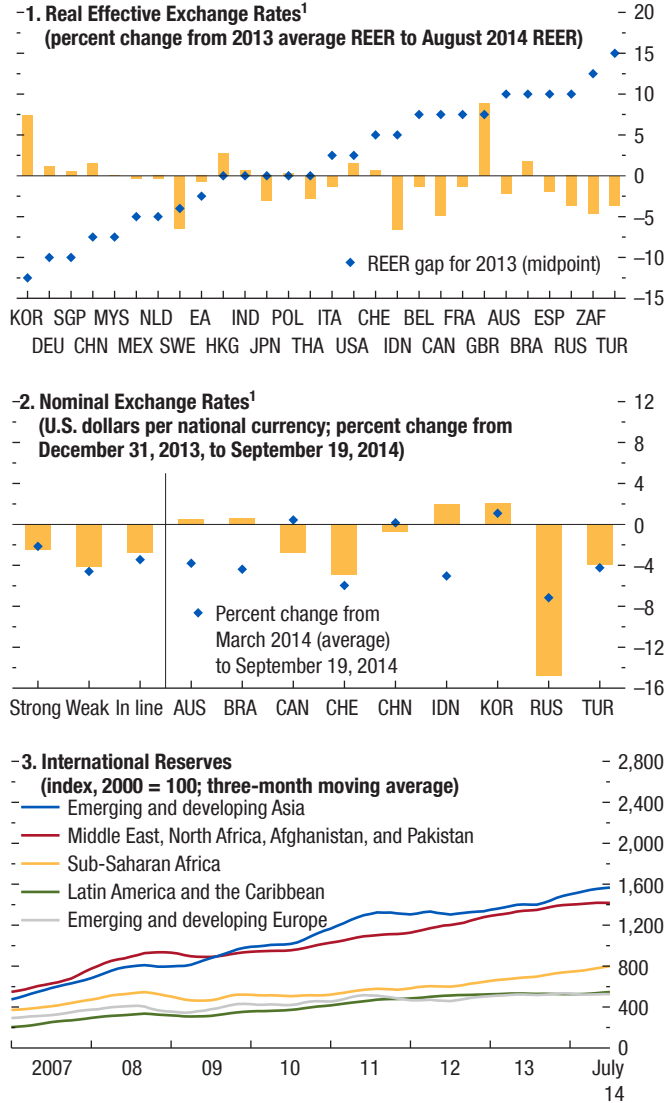


**Figure 1.10. Exchange Rates and Reserves**

Currencies of major emerging market economies have depreciated against the U.S. dollar in 2014, reflecting financial market turmoil early in the year and relatively weaker medium-term prospects compared with advanced economies. More broadly, exchange rate movements during the past year have generally been consistent with further corrections in currency over- and undervaluation (as measured by the REER gaps identified in the IMF's *2014 Pilot External Sector Report*). The pace of reserve accumulation has slowed in Latin America and emerging and developing Europe, reflecting lower capital inflows and reserve losses from foreign exchange interventions. It has remained strong in the Middle East, reflecting still-high oil prices, and has accelerated recently in emerging and developing Asia.



Sources: Global Insight; IMF, *2014 Pilot External Sector Report*; IMF, International Financial Statistics database; and IMF staff calculations.

Note: Strong = relatively stronger economies; weak = relatively weaker economies; in line = broadly in-line economies; EA = euro area; REER = real effective exchange rate. Data labels in the figure use International Organization for Standardization country codes.

<sup>1</sup>REER gaps and classifications are based on the *2014 Pilot External Sector Report*.