Depreciation in real effective exchange rate (REER) has helped reduce the output costs associated with a deficit reversal (the larger the depreciation of the currency, the lower the output costs of the reversal).

Sources: IMF, International Financial Statistics; OECD, Economic Outlook (2006); World Bank, World Development Indicators (2006); and IMF staff calculations.

1Maximum change in REER within the period surrounding the reversal (−T . . . T). A decrease represents a real depreciation of a country’s currency relative to its trading partners.

2Average real GDP growth after the reversal (1 . . . T) less average real GDP growth before the reversal (−T . . . −1).