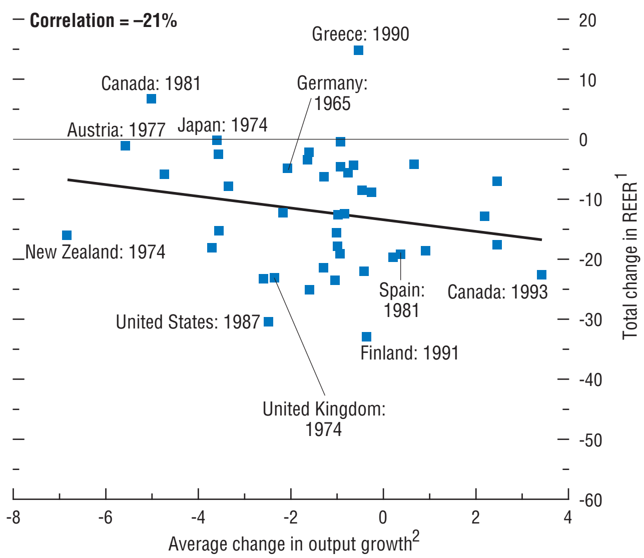
Figure 3.4. Advanced Economies: Total Change in Real Effective Exchange Rate and Average Change in GDP Growth During Deficit Reversals

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.

[1] Maximum 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.

[2] Average real GDP growth after the reversal (1 . . . *T*) less average real GDP growth before the reversal (–*T* . . . –1).