

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR

Jair Ojeda

This paper provides evidence of short-run predictability for the real exchange rate by performing out-of-sample tests of a forecasting equation which is derived from a consumption-based asset pricing model. In this model, the real exchange rate is predictable as a result of the implications of preferences with habit persistence on the pricing of international assets. The implied predictors are: domestic, US and world consumption growth. Empirical exercises show evidence of short-term predictability on the bilateral rates of 15 out of 17 countries vis-à-vis the US over the post Bretton-Woods float. A GMM estimation of the parameters of the model also finds evidence of the presence of habits in consumers' preferences.

The opinions expressed here do not necessarily correspond neither to the Banco de la República nor its Board of Directors.