Real Equilibrium Exchange Rate in Colombia: Thousands of VEC Models Approach

Download Keep in mind
The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. 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 Salazar-Díaz, Andrea Garavito Acosta, Aaron Levi Restrepo-Ángel, Sergio Arcila-Agudelo, Leidy Viviana

The series Borradores de Economía (Working Papers on Economics) contributes to the dissemination and promotion of the work by researchers from the institution. On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. This series is indexed at Research Papers in Economics (RePEc). The opinions contained in this document are the sole responsibility of the author and do not commit Banco de la República or its Board of Directors.

Publication Date: Tuesday, 20 of December 2022 Abstract
Behavioral Equilibrium Exchange Rate (BEER) models suggest many variables as potential drivers of equilibrium real exchange rates (ERER). This gives rise to model uncertainty issues, as ERER depends and varies, often drastically, on a particular set of chosen variables. We address this issue by estimating thousands of Vector Error Correction (VEC) specifications for Colombian data between 2000Q1-2019Q4. According to an extensive literature review, we employ thirty-five proxies categorized among five fixed groups of economic fundamentals that underlie the ERER: Indebtedness, Fiscal sector, Productivity, Terms-of-Trade, and Interest Rate Differentials. Our approach derives an empirical distribution of ERER that allows us to state with greater certainty, among hundreds of plausible economic specifications, whether the real exchange rate is either misaligned or in equilibrium.

Fuente: https://www.banrep.gov.co/en/real-equilibrium-exchange-rate-colombia-thousands-vec-models-approach