BRATISLAVA ECONOMIC SEMINAR

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Exchange Rate Mean Reversion within a Target Zone:
Evidence from a Country on the Periphery of the ERM

Abstract

The aim of this study is to assess to what extent the Portuguese participation in the European Monetary System has been characterized by mean reverting behaviour, as predicted by the exchange rate target zone model developed by Krugman (1991). For this purpose, a new class of mean reversion tests is introduced. The empirical analysis of mean reversion in the Portuguese exchange rate shows that most of the traditional unit root and stationarity tests point to the nonstationarity of the exchange rate within the band. However, using a set of variance-ratio tests, it was possible to detect the presence of a martingale difference sequence. This suggests that the Portuguese foreign exchange market has functioned efficiently, allowing us to conclude that the adoption of an exchange rate target zone regime has contributed decisively to the creation of the macroeconomic stability conditions necessary for the participation of Portugal in the euro area.

Venue: National Bank of Slovakia, Conference room

Imricha Karvasa 1, Bratislava

Date: November 19, 2014

Program: 14:50 Registration
15:00 Antonio Portugal Duarte: Exchange Rate Mean Reversion within
a Target Zone
16:30 Coffee