Devaluation and revaluation expectations in the Venezuela crawling band regime

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Abstract

The 90's could be characterized as a decade in which both developed and emerging countries have suffered important episodes of exchange rate instability; some of these episodes have resulted in exchange rate devaluations and others, in important exchange rate depreciations. This paper focuses on the study of devaluation and revaluation expectation in the crawling band system adopted by Venezuela from 1996 until the first of 2002. We use a Binary Dependent Variable Model (Logit Method) to estimate the readjustment probability, in which the dependent variable is calculated from two different methods: Svensson simple credibility test and the drift adjustment method.

Keywords: Crawling-bands, Currency Crises, Readjustment Probability.

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