

Appendix for

"Exchange Rate Policy and Sovereign Spreads in Emerging Market Economies"

by Inci Gumus

Exchange Rate Classifications

	<i>De jure classification (IMF)</i>	<i>De facto classification (IRR)¹</i>
Fixed	(1) No separate legal tender (2) Currency board arrangement (3) Conventional pegged arrangement (4) Pegged exchange rate within horizontal bands (band narrower than or equal to +/-2%)	(1) No separate legal tender (2) Pre-announced peg or currency board arrangement (3) Pre-announced horizontal band that is narrower than or equal to +/-2% (4) De facto peg
Intermediate	(5) Pegged exchange rate within horizontal bands (band wider than +/-2%) (6) Crawling peg (7) Crawling band (8) Managed floating with no pre-announced path	(5) Pre-announced crawling peg (6) Pre-announced crawling band that is narrower than or equal to +/-2% (7) De facto crawling peg (8) De facto crawling band that is narrower than or equal to +/-2% (9) Pre-announced crawling band that is wider than or equal to +/-2% (10) De facto crawling band that is narrower than or equal to +/-5% (11) Moving band that is narrower than or equal to +/-2% (12) Managed floating
Float	(9) Independently floating	(13) Freely floating
Intermediate1	(5), (6) and crawling band that is narrower than or equal to +/-2%	(5) - (8)
Intermediate2	Crawling band that is wider than +/-2% and (8)	(9) - (12)

¹ IRR classification has a separate "freely falling" category for the cases with annual inflation rate over 40%. Since the inflation rate is used as an explanatory variable, this distinction does not seem necessary in the current paper. Therefore, the "freely falling" observations are assigned to one of the three exchange rate categories using the information given in the data appendix of IRR.

Data Sources and Definitions

- *Sovereign spread*: Emerging Markets Bond Index Global (EMBIG), J.P. Morgan. Quarterly data are computed as averages of daily data.
- *Growth rate*: Annual growth rate of real GDP. Real GDP data from IMF's International Financial Statistics database (IFS).
- *Inflation rate*: Annual inflation rate measured by CPI. CPI data from IFS.
- *Current account*: IFS.
- *International reserves*: Total reserves minus gold, IFS.
- *Trade openness*: Exports plus imports divided by nominal GDP. Data on exports, imports and nominal GDP from IFS.
- *Financial openness*: Sum of gross stocks of foreign assets and liabilities divided by nominal GDP. Data on foreign assets and liabilities from the updated and extended version of dataset constructed by Lane and Milesi-Ferretti (2007).
- *US interest rate*: Three-month U.S. Treasury-bill rate, IFS.
- *Investment*: Gross fixed capital formation plus changes in inventories, IFS.
- *External debt*: World Bank Quarterly External Debt Statistics Database. When quarterly data are not available, annual data from World Bank Global Development Finance Database have been used. Quarterly data have been imputed from annual data as the annual debt stock multiplied by the average exchange rate for the period, divided by the annual GDP.
- *Short term debt/Total external debt*: Global Development Finance, World Bank
- *Debt service/Exports*: Global Development Finance, World Bank.

Table A1. Regression Results Excluding the Reserves-to-GDP Ratio

	<i>De facto</i>	<i>De facto</i>
Growth rate	-1.61 (-1.71)	-1.87 (-1.66)
Inflation rate	0.65 (1.51)	0.99 (2.01)*
CA/GDP	1.37 (1.71)	1.41 (1.38)
Trade Openness	-0.44 (-0.76)	-1.42 (2.01)*
Financial Openness	-1.07 (-3.31)***	
Reserves/GDP		
External debt/GDP	4.37 (7.36)***	3.02 (5.83)***
US interest rate	0.02 (0.32)	-0.01 (-0.14)
Float	-0.20 (-0.70)	-0.30 (-1.17)
Intermediate	-0.04 (-0.29)	0.26 (-1.90)*
Number of obs.	680	680
Number of groups	21	21
Adjusted R ²	0.42	0.47

Note: Robust t-statistics are in parentheses. *, **, *** denote significance at 10%, 5%, and 1%, respectively.

Table A2. Sample Means of the Explanatory Variables

	Whole sample	<i>De jure</i>			<i>De facto</i>		
		Fixed	Intermediate	Float	Fixed	Intermediate	Float
Growth rate	0.034 (0.002)	0.035 (0.003)	0.044 (0.004)	0.027 (0.002)	0.037 (0.003)	0.038 (0.002)	0.015 (0.005)
Inflation rate	0.095 (0.009)	0.091 (0.032)	0.125 (0.011)	0.074 (0.006)	0.111 (0.037)	0.074 (0.005)	0.147 (0.020)
CA/GDP	-0.003 (0.003)	-0.007 (0.007)	-0.004 (0.006)	-0.001 (0.003)	-0.008 (0.007)	-0.002 (0.003)	-0.013 (0.006)
Trade Openness	0.661 (0.013)	0.811 (0.032)	0.707 (0.025)	0.541 (0.012)	0.883 (0.037)	0.6189 (0.014)	0.533 (0.033)
Financial Openness	1.280 (0.016)	1.299 (0.026)	1.406 (0.036)	1.168 (0.019)	1.330 (0.030)	1.257 (0.020)	1.216 (0.036)
Reserves/GDP	0.161 (0.003)	0.200 (0.008)	0.175 (0.006)	0.130 (0.003)	0.186 (0.009)	0.167 (0.003)	0.088 (0.006)
External debt/GDP	0.476 (0.007)	0.525 (0.011)	0.507 (0.015)	0.423 (0.011)	0.547 (0.012)	0.459 (0.008)	0.369 (0.025)
Investment/GDP	0.217 (0.002)	0.222 (0.005)	0.229 (0.004)	0.206 (0.003)	0.221 (0.005)	0.221 (0.002)	0.196 (0.006)
Debt service/Exports	0.233 (0.006)	0.190 (0.010)	0.219 (0.008)	0.274 (0.010)	0.189 (0.011)	0.258 (0.007)	0.203 (0.016)
Short term debt	0.171 (0.003)	0.186 (0.007)	0.160 (0.005)	0.169 (0.005)	0.213 (0.008)	0.142 (0.003)	0.270 (0.013)

Note: Standard errors are reported in parentheses.