

**Ramune Rimgailaite**

**EXCHANGE RATE MODELLING FOR LITHUANIA  
AND SWITZERLAND**



## Abstract

In this research, the equilibrium real exchange rate as well as exchange rate misalignment in Switzerland and Lithuania is estimated based on behavioural equilibrium exchange rate and structural vector autoregression models. Moreover, driving forces of the real effective exchange rate are identified based on these methods for both countries. For estimation purposes data from various sources, such as Reuters, Eurostat, Swiss National Bank, Bank of Lithuania, Datastream, World Bank, IMF and others, is used. The results indicate that openness differential, net foreign assets, commodity terms of trade, productivity differential and fiscal balance to gross domestic product differential are significant determinants of the real effective exchange rate in Switzerland, and the latter three variables are significant in determining the real effective exchange rate in Lithuania. Results also give evidence that real effective exchange rate is mainly driven by demand (corresponds to real effective exchange rate) shocks in both countries. Several periods of significant misalignment are detected for both Switzerland and Lithuania. The Thesis supports the exchange rate policy implemented by the Swiss National Bank and the internal adjustment strategy pursued by the Lithuanian government.