

Real exchange rates in small open OECD and transition economies: Comparing apples with oranges? ☆

Balázs Égert^{a,b,c}, Kirsten Lommatzsch^{e,*}, Amina Lahrière-Révil^d

^a *Oesterreichische Nationalbank, Austria*

^b *EconomiX, University of Paris X-Nanterre, France*

^c *William Davidson Institute, USA*

^d *CEPII, France*

^e *German Institute for Economic Research DIW Berlin Königin-Luise-Strasse 5, 14 195 Berlin, Germany*

Available online 17 July 2006

Abstract

We find that productivity gains in tradables cause an appreciation of the real exchange rate via both tradable and nontradable prices in the CEE-5 and have no affect in the Baltic countries, while they lead to a depreciation of the real exchange rate of tradables in OECD economies that overcompensates the appreciation due to nontradable prices. Rising net foreign liabilities lead to a real appreciation in the Baltic countries instead of the expected depreciation found in OECD and CEE-5 countries. These differences are due to the different impact of the fundamentals on the real exchange rate depending on the time horizon studied.

© 2006 Elsevier B.V. All rights reserved.

JEL classification: C15; E31; F31; O11; P17

Keywords: Real exchange rate; Equilibrium exchange rate; Productivity; Tradables; Balassa–Samuelson effect

☆ This is a substantially revised version of CEPII Working Paper 2004/15. We would like to thank László Halpern, Gian Maria Milesi-Ferretti, Paul Wachtel and two anonymous referees for their useful comments and suggestions. Special thanks go to Rena Muehldorf for excellent language advice. The views expressed in the paper do not necessarily reflect the opinion of the Oesterreichische Nationalbank or the European System of Central Banks (ESCB).

* Corresponding author. Tel.: +49 30 89 789 373.

E-mail addresses: balazs.egert@oenb.at, begert@u-paris10.fr (B. Égert), klommatzsch@diw.de (K. Lommatzsch), amina.lahreche@cepii.fr (A. Lahrière-Révil).

1. Introduction

Most of the currencies of Central and Eastern European economies (CEE economies) have experienced substantial real appreciation since the outset of the transition process. The real exchange rate appreciated sharply in some countries already during the early years of transition, perhaps to correct an initial undervaluation. In addition, real exchange rates have appreciated strongly and quite steadily for most of the post-communist period. This phenomenon overlaps with strong catching-up economic growth following the transitional recession of the early 1990s, which is conventionally viewed to drive productivity-induced nontradable price inflation (Balassa–Samuelson effect) and consequently a trend real appreciation. However, according to the consensus recently reached in the literature, the Balassa–Samuelson effect can account only for part of the observed appreciation (for an overview, see e.g., Égert et al., 2006). The main reason for this is that purchasing power parity (PPP) has not been holding for tradable goods either, as the real exchange rate

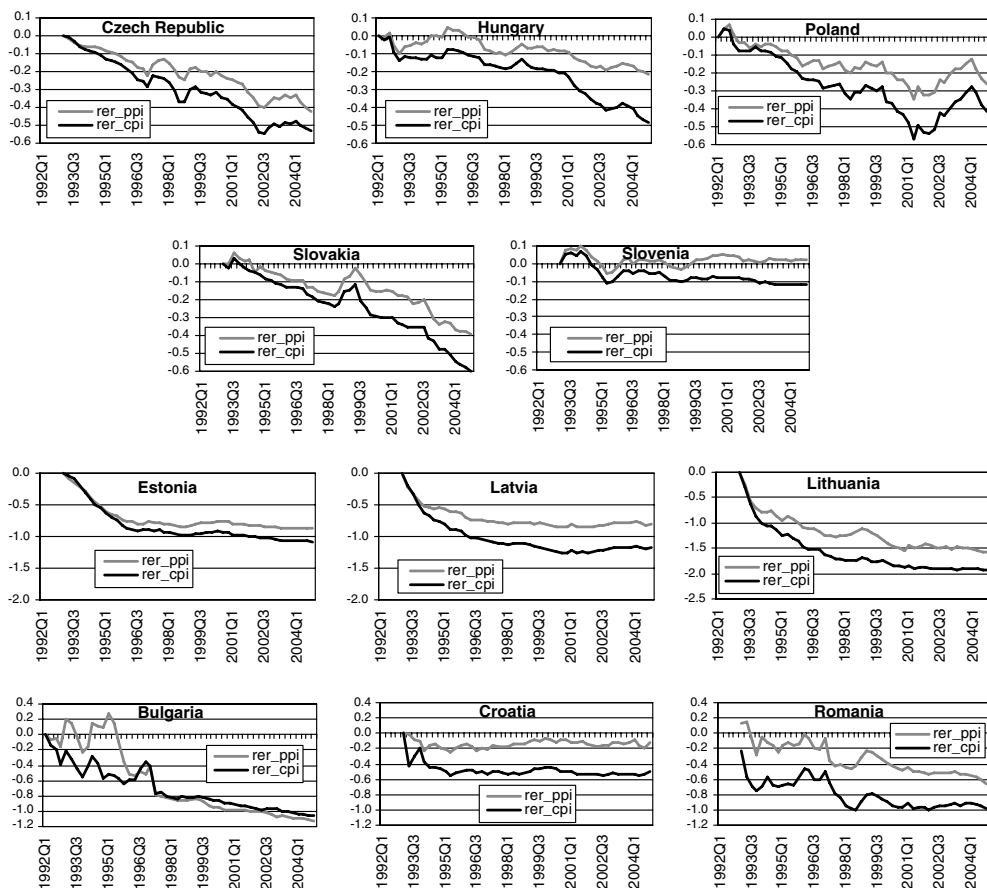


Fig. 1. (Log) real exchange rates in transition economies, 1990–2004. *Source:* Own calculations based on data from IFS (IMF). A declining series corresponds to real appreciation.

Download English Version:

<https://daneshyari.com/en/article/5091270>

Download Persian Version:

<https://daneshyari.com/article/5091270>

[Daneshyari.com](https://daneshyari.com)