

Productivity growth and the real appreciation of the accession countries' currencies

Kirsten Lommatzsch, Silke Tober
klommatzsch@diw.de, stober@diw.de

In the process of catch-up growth the Czech Republic, Hungary and Poland have experienced a transition to the production of higher-quality goods. We incorporate this effect in a theoretical model of exchange rates and econometrically estimate its impact on equilibrium real exchange rates. We find support for our hypothesis that productivity increases in industry can be regarded as one source of the observed PPI-based real appreciation of the accession countries' currencies. The productivity gains experienced during economic catch-up occur as higher-quality goods are produced and imply an increased export capacity as well as import substitution. To some extent real appreciation can therefore be viewed as an equilibrium phenomenon.

JEL: F41 C32 P3

Keywords: relative productivity growth, catch-up growth, real exchange rates, transition economies

Kirsten Lommatzsch
Dr. Silke Tober
German Institute of Economic Research
DIW Berlin
Koenigin-Luise-Str. 5
D-14195 Berlin
klommatzsch@diw.de
stober@diw.de

The authors would like to thank Wendy Carlin, Balázs Égert, Vladimir Kuzin and Jürgen Wolters for helpful comments.