

Exchange rate regimes and the real sector: a sectoral analysis of CEE countries

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Abstract

This paper analyses the impact of exchange rate regimes on the real sector. While most studies in this field have so far concentrated on aggregate variables, we pursue a sectoral approach distinguishing between the tradable and nontradable sectors. Firstly, we present a survey of the relevant theoretical and empirical literature. This demonstrates that evaluations of exchange rate regimes and their impact on the real economy are largely dependant on specific assumptions concerning, in particular, the parameters of a utility function, the nature of the price adjustment process and the characteristics of analysed shocks. Secondly, we conduct an empirical analysis of the behaviour of the tradable and nontradable sectors under different exchange rate regimes for seven Central and Eastern European countries. We find no firm evidence of a differential impact of given exchange rate regimes on the dynamics of output and prices in the two sectors. We proffer a conceptual and technical interpretation of this.