

## **Productivity and the euro-dollar exchange rate**

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This paper analyses the impact of productivity developments in the United States and the euro area on the euro-dollar exchange rate. It discusses practical arguments for focusing on labour productivity in the context of exchange rate models and shows that this preference is consistent with theory. It presents a new and more accurate measure of relative labour productivity by relating a consistent measure of output to hours worked instead of persons employed. The paper shows that on the basis of this more accurate measure, relative productivity developments can account for only a small fraction of the euro depreciation in 1999/2000 . contrary to conventional wisdom.

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