

The dynamics of wages and relative prices in Estonia: Does the Balassa-Samuelsion effect hold?

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The aim of this paper is to investigate, in the framework of the cointegrated Vector Autoregression model, the Balassa-Samuelsion effect in the Estonian economy. Estonia like other Eastern European countries also strives for a membership in the European Monetary Union. Critiques to such a membership or even to euroisation argue that due to the Balassa- Samuleson e.ect these countries with fixed exchange rate regime in general, and Estonia in particular, will not be able to sustain low inflation which will be an obstacle for them to enter the EMU (to euroise). However, in Estonia, as our results suggest, similarly to the case of Bulgaria, the Balassa-Samuelsion effect does not receive much empirical support.
