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Purchasing Power Parity in economies in transition: evidence from Central and East European countries

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Abstract

The present study tests for the validity of long-run Purchasing Power Parity (PPP) for 17 European countries. The results suggest that the hypothesis of long-run PPP is not supported for each country. The results also suggest that the hypothesis of long-run PPP is not supported for the whole region. The results also suggest that the hypothesis of long-run PPP is not supported for the whole region. The results also suggest that the hypothesis of long-run PPP is not supported for the whole region.

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Notes

¹ In this, the categorization of Froot and Rogoff ([1995](#)) is followed.

² Dibooglu and Kutan ([2001](#)) identify the impact of nominal shocks on the nominal and real exchange rates in Hungary and Poland; Suppel ([2003](#)) illustrates the important effect of real shocks to the real exchange rates of Poland, the Czech Republic and the Slovak Republic; Borghijs and Kuijs ([2004](#)) show that it is mainly nominal shocks, which have contributed significantly to nominal exchange rate variability in five CEE Countries (the Czech Republic, Hungary, Poland, the Slovak Republic and Slovenia).

³ Most of these papers find evidence for relative PPP but fail to support strong PPP.

⁴ See Taylor ([1988](#)), for the derivation of Equation [3](#) in a model allowing for transportation costs and measurement errors.

⁵ The panel cointegration analysis uses a common sample length for all countries.

⁶ Their diagnostic tests do not indicate any serious mis-specification (serial correlation and/or non-normality) but are available upon request.

⁷ They are based on the real exchange rates, the non-stationarity of the real exchange rates in the long run is not to be generalized.

⁸ In any case, the system analysis is based on the real exchange rates.




Related Research Data

Uncovering the link between a flexible exchange rate and fundamentals: the case of Central and Eastern European economies

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