

Year: 2013
Volume: 58
Issue: 2

STUDIA
Universitatis Babeș-Bolyai
OECONOMICA

**REAL EXCHANGE RATE AND CATCHING-UP PROCESS IN ROMANIA: THE
BALASSA-SAMUELSON EFFECT**

Diana SADOVEANU *
Alexandru Ioan Cuza University, Iasi, Romania

Abstract. In this paper we examined the implications of the Balassa-Samuelson effect for Romanian currency (leu). Because the traditional form of the approach was only partially validated for Romania, we investigated the extended version of this model by adding the relative administered prices and net foreign assets variables. We showed that productivity in the tradable sector determined the appreciation of the real exchange rate of the leu deflated with producer prices. Also, an increase in the relative productivity from non-tradable and tradable sectors in Romania and euro zone, influenced positively the real exchange rate of the leu, deflated with consumer prices, contrary to the Balassa-Samuelson model assumptions. We explained this weak evidence of the HBS effect in Romanian case by the convergence of the administered prices and the influence of the net foreign assets, which appreciated significantly the nominal exchange rate and busted demand.

JEL Classification: F31, C22

Keywords: real exchange rate, Balassa-Samuelson, relative productivity, price convergence

* Corresponding author. Address: Blvd. Carol I, no.11, 700506, Iasi, Romania, e-mail: diana.sadoveanu@gmail.com