PURCHASING POWER PARITY: EVIDENCE FROM FOUR CEE COUNTRIES

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Abstract

This paper explores the purchasing power parity influence on exchange rate determination for 4 CEE countries: Czech Republic, Hungary, Poland and Romania. In order to achieve our goal, we applied Johansen cointegration procedure to find out a long-run equilibrium relationship between nominal exchange rate and price indices. Also, considering the fact, that results of other studies are mixed, we find as being necessarily to use three different price indices: consumer price index, consumer price index without regulated prices and industrial producer price index. The monthly data cover the 2001 M 01-2011 M 09 period. The empirical analysis provided mixed results depending on the country and used price index.

Keywords: purchasing power parity, cointegration.
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