

Balassa-Samuelson Effect in Central and Eastern Europe

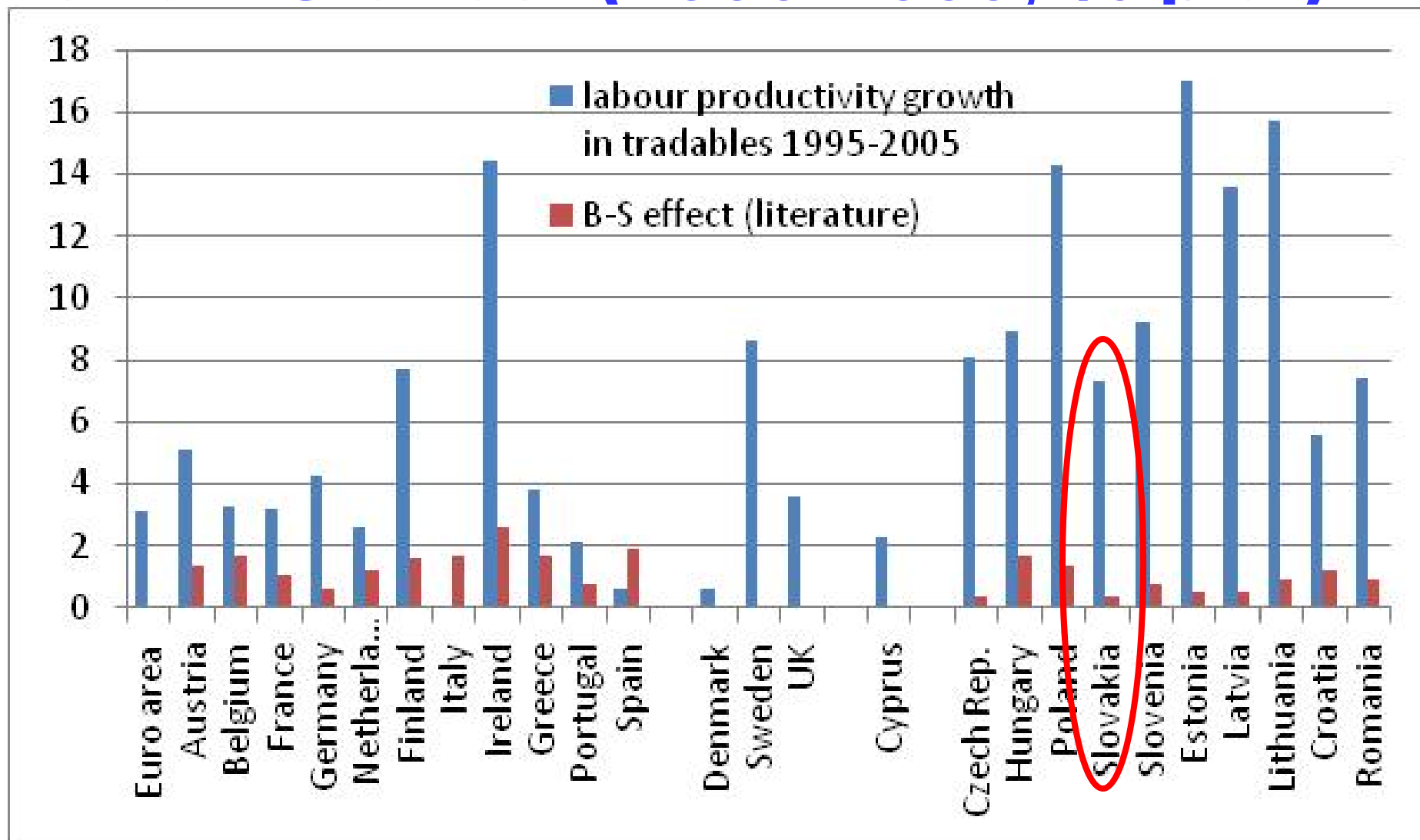
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Balassa-Samuelson Puzzle

Large productivity gains in tradables and yet low implied Balassa-Samuelson effect

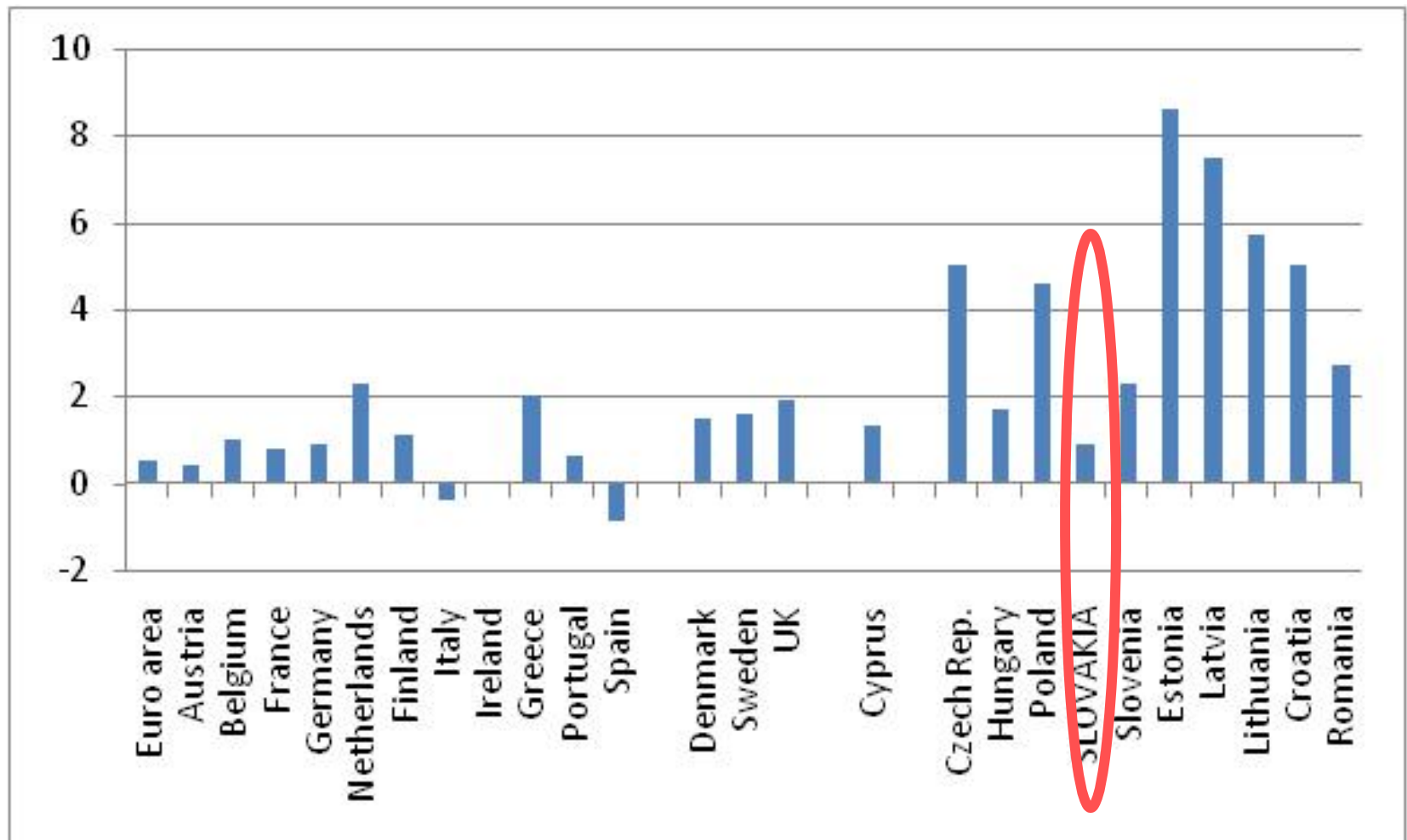
Productivity growth in tradables and BS effect (1995-2005, % p.a.)



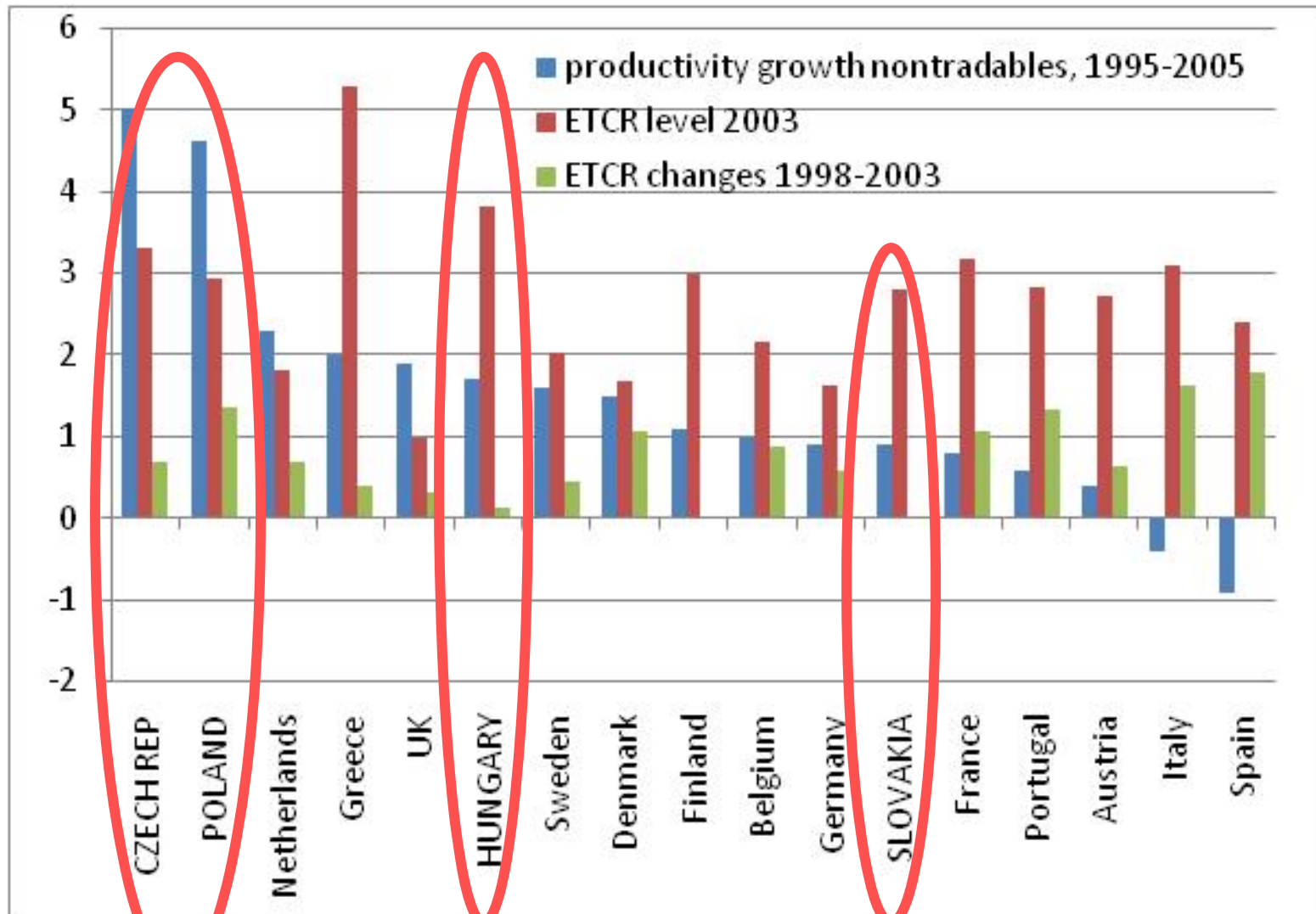
Explaining the puzzle

- Large dispersion of productivity gains in tradables
 - Productivity \leftrightarrow Wages
- Incomplete wage equalization
- Large productivity gains in non-tradables
- Low share of market-based non-tradables in the CPI

Productivity growth in nontradables 1995-2005 (% p.a.)



Productivity growth in nontradables and regulation





Thank you!