Discussion of:
Industry Specific Real Exchange Rates in Central and Eastern European Countries
by
Đozović* and Pripužić

Kathryn M.E. Dominguez

University of Michigan and NBER

19th Dubrovnik Economic Conference

June 12-14, 2013

Contributions of this Paper

- Construction of real effective exchange rates at the two-digit industry level for seven CEE countries

- Examines whether these industry-specific REERs help explain inter-country and inter-industry competitiveness.

- Puzzle: REERs for many (12 of 18) industries are insignificant and/or incorrectly signed (indicating that an appreciation led to increases in exports).

Clear Writing and Detailed

- Paper is "replicable"

- Authors use a straightforward approach to industry-specific REER construction

- Authors provide a thorough discussion of data limitations and construction issues (only manufacturing industries, trade with 27 EU member countries, export trade weights, producer price index deflators)

Less Detailed Analysis of Results

- Criteria for judging whether REERs are useful?
  - Current approach: F-test for joint significance of REER lags
  - Fraction of the variance in exports explained by REERs? Statistical vs economic significance.

- Need more discussion of why REERs matter for some industries (traditional low-tech) and not others.

- Dig deeper to understand some puzzling industry results:
  - Pharmaceutical product industry results: coefficient on REER is negative and significant, coefficient on first lag of REER is positive and significant (F-test insignificant)

- Formal test for whether aggregate REER is less informative than industry-specific REERs (only 6 of 18 of these are statistically significant)?

Next Steps…

- Estimate standard (industry-level) export equations and test whether aggregate REER or industry-specific REERs provide explanatory power.

- Two-step estimation approach?
  - Step 1: estimate degree of industry competitiveness
  - Step 2: test whether industry-specific REERs better explain export dynamics in the more competitive industries

Broader Issues…

- Endogeneity: export prices and quantities are likely to be co-determined
  - Current set-up assumes prices explain quantities, could also be that export quantities explain prices

- Global Market Dynamics: focus on EU trade may be inappropriate if export prices and quantities are determined by the global market
  - Include China? US?

- Time period: 2009-11 may not be representative, includes end of the global financial crisis (2008Q2-2009Q1) and an unusually slow recovery period