On the basis of the NATREX model, several key studies are evaluated to answer the questions: How can the trends in the real exchange rates of the transition economies of Eastern Europe be explained? What are sustainable and equilibrium real exchange rates, current account deficits, and net investment positions in the medium and in the long-run? What are the policy implications for the transition economies planning to join the Euro area? Neither the PPP nor the Balassa-Samuelson hypotheses can explain the data. Both the reduced form and structural equations of the NATREX model are consistent with the data for Hungary and the Czech Republic. The exchange rate behavior for Poland and Bulgaria also are explained by the NATREX model.

Achieving Current Account Convertibility: 1949–64
Shinji Takagi

Chapter 2 reviews Japan’s restrictive system of trade and payments—how it worked and how it was liberalized. The restrictive system was not only conceived as a mechanism to conserve scarce foreign exchange reserves but also as a response to the realities of the early 1950s when most of the world’s currencies were inconvertible. After describing the system’s origins and principal features, the chapter explains its import control and export promotion aspects and shows how it was used to manage balance-of-payments crises. As background to the 1964 decision
to make the yen fully convertible for current international transactions, it highlights major deregulatory changes of the late 1950s, the associated expansion of foreign exchange market activity, and the program of trade and exchange liberalization of 1960.