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## Monetary policy, exchange rates and labor unions in SEE and the CIS during the financial crisis

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### Abstract

The objective of this paper is to assess whether the levels of unionization and the rigidity of exchange rates represent a constraint for the monetary policy in South-Eastern Europe and the Commonwealth of Independent States, with a particular focus on the recent economic crisis. Towards that end, a New Keynesian model with price and wage rigidities is used. The results show that monetary policy responded counter-cyclically during the crisis only in countries with weak trade unions and in countries with flexible exchange rates, which indicates that fixed exchange rates and strong trade unions constrain monetary policy in countries in these regions. Also, the findings show that the main driver of price inflation in these countries is not economic activity, but wages, which are affected to a large extent by trade unions. Therefore, trade unions should be active partners in the decision-making processes in these countries.

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