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(A)SYMMETRIC SHOCKS IN CEECS AND EURO AREA

Abstract:

Similar response of economies to demand and supply shocks is one of the most important feature which can define if there are foundations to form by a group of countries a currency area. This criterion, together with mobility of factors of production, elasticity of prices and wages, production diversification and financial and policy integration is the main principle of optimum currency area (OCA) theory. High level of similarity in responses to economic shocks among countries forming a currency area enables a supranational central bank to conduct an effective monetary policy. The analysis is aimed to verify if responses to common shocks in CEECs are correlated with the response of euro area. Supply and demand shocks are identified on the basis of SVAR model. Decomposition of shocks is based on Blanchard and Quah methodology. Quarterly data on GDP growth and inflation are used. Results show that the correlation coefficients of responses to demand shock with reaction of euro area economy are the highest for Czech Republic (0.87) and Poland (0.83), while in case of supply shock correlation coefficients are generally much lower, with the highest value for Poland (0.83) and Hungary (0.77).

Keywords:

economic shocks, optimum currency area, SVAR model

JEL Classification: F44, A10, C32