Accepted Manuscript

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PII: S0939-3625(15)00035-7
DOI: http://dx.doi.org/doi:10.1016/j.ecosys.2015.01.002
Reference: ECOSYS 515

To appear in: *Economic Systems*

Received date: 17-7-2014
Revised date: 20-11-2014
Accepted date: 7-1-2015

Please cite this article as: Reboredo, J.C., Tiwari, A.K., Albulescu, C.T.,An analysis of dependence between Central and Eastern European stock markets, *Economic Systems* (2015), http://dx.doi.org/10.1016/j.ecosys.2015.01.002

An analysis of dependence between Central and Eastern European stock markets

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Research highlights

- We study the dependence structure between four Central and Eastern European stock markets
- We use static and dynamic copula functions with different forms of tail dependence
- We provide evidence of positive dependence with different strengths across markets
- Dependence evolved over time and increased after the onset of the global financial crisis
- We find evidence of symmetric extreme market dependence between CEE stock markets

Abstract

We examine the dependence structure between four Central and Eastern European (CEE) stock markets (Czech Republic, Hungary, Poland and Romania) using static and dynamic copula functions with different forms of tail dependence. We find evidence of positive dependence between all CEE stock markets, although this dependence is stronger between the Hungarian, Czech and Polish markets than between these markets and the Romanian market. We also find evidence of symmetric tail dependence, although not for the Hungarian and Czech markets. The dependence is time-varying and intensified after the onset of the recent global financial crisis. These results confirm that CEE stock markets are