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Author: Antonella Cavallo Antonio Ribba

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Measuring the Effects of Oil Price and Euro-area Shocks on CEECs Business Cycles

Antonella Cavallo^a

Antonio Ribba^b

*University of Modena and Reggio Emilia**

Abstract

Assessing the cyclical alignment of national business cycles with the Euro-area one is of great importance in order to guide policy decisions concerning the enlargement of the Euro Area. To this end, in this paper we aim to measure the effects of external macroeconomic shocks on business cycles of Central and Eastern European Countries, not yet Euro-area members. Using quarterly data from 1999 to 2015 and the structural near-VAR methodology, we focus on the effects of Euro-area monetary policy and global oil price shocks on prices and output of the analyzed countries. Results show that business cycle fluctuations are mainly explained by domestic shocks in the short run, while monetary policy and oil price shocks play an increasing role in the medium run. Adding domestic fiscal shocks, the overall picture does not change significantly, since fiscal policy turns out to be a minor driver of business cycle fluctuations in CEECs. In the whole, our findings do not support an Euro-area enlargement at short horizons.

Keywords: CEECs; Business Cycle Fluctuations; Euro Area; Common Shocks; near-Structural VARs;

JEL Classification: C32, E32, Q43;

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**Authors contacts:* Department of Economics. University of Modena and Reggio Emilia. Viale J. Berengario 51, 41121 Modena, Italy. ^aE-mail: antonella.cavallo@unimore.it; ^bE-mail: antonio.ribba@unimore.it.

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