



Hoang-Sang  
NGUYEN

### École doctorale

UNIVERSITE  
BRETAGNE ECONOMIE  
LOIRE ET GESTION

### Affiliation



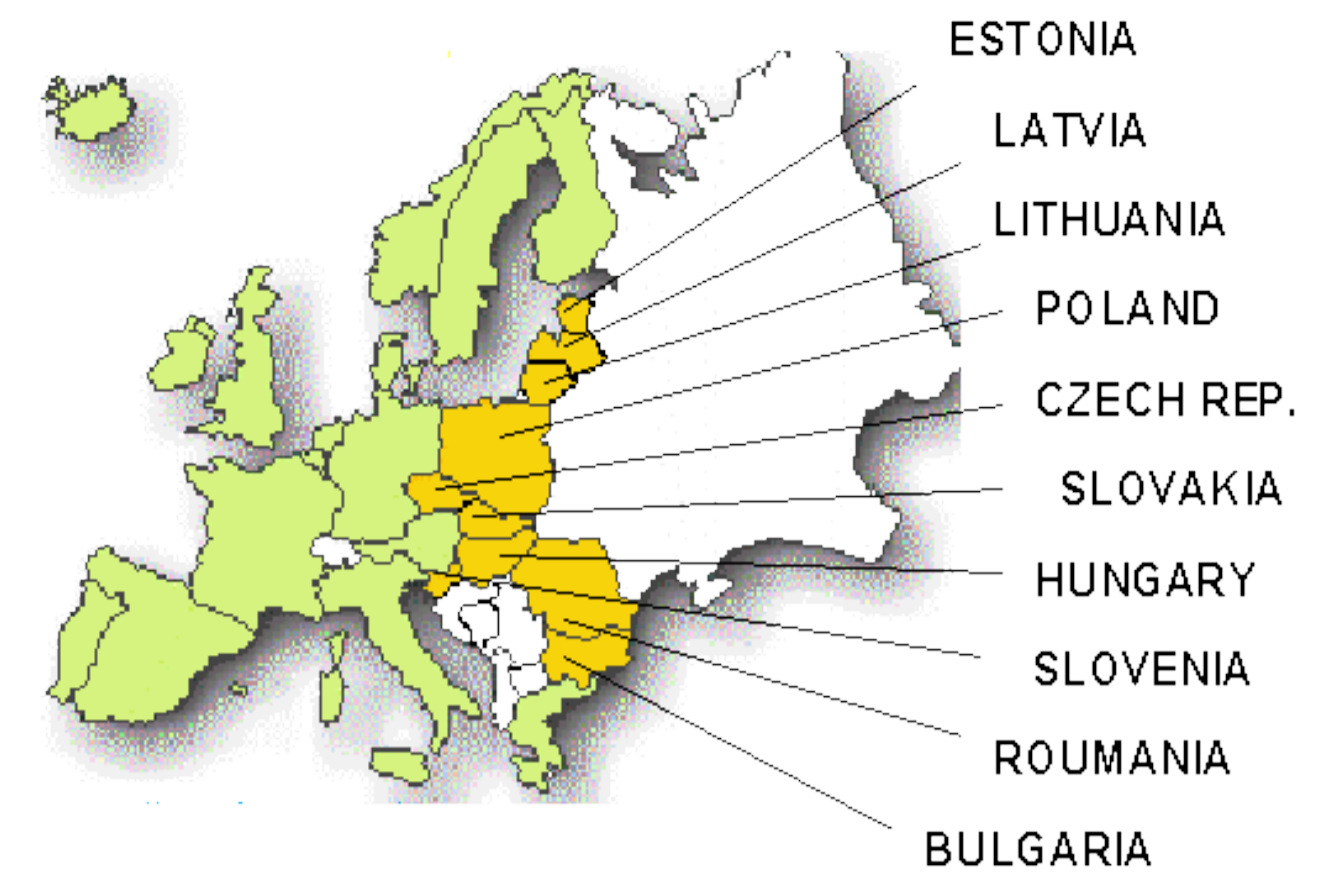
### Collaboration



### Financement



# The Transmission of Business Cycles: Lessons From the 2004 Enlargement and the Euro Adoption



## CONTEXTE

- Business cycle of an economy is defined as the rises and falls in gross domestic product around its long-term trend.
- Cross-border transmission of business cycles is a key issue specifically in the context of monetary integration. Countries with a high degree of business cycle synchronization may benefit from adoption of a common currency (Mudell, 1961)
- Bilateral trade affects positively business cycle synchronization.
- Common currency increases trade ex-post and so, the synchronization of business cycle between members (Frankel and Rose, 1998).

## QUESTION

How do trade effects on business cycle synchronization within common currency area differ from those between different currency areas?

## MÉTHODE

- Near-VAR model estimated by the SUR method
- Capturing both direct and indirect effects of trade
- Sample: seven Central and Eastern European countries (CEECs), twelve founding members of the euro area (EA-12), 1996 - 2015
- Data sources: OECD, DataStream, World Bank

## RÉSULTATS

- CEECs business cycle are more affected by EA-12 shocks after the enlargement in 2004 than before (3.3 times larger on average).
- Germany, France and Italy explain a large part (89%, 71% and 69%, respectively) of economic disturbances in the CEECs resulting from the EA-12.
- After the enlargement in 2004, the degree of economic integration increased more for CEECs that have adopted the euro than the other CEECs: *the Euro contributes positively to business cycle synchronization.*
- Trade effects are positive and important inside the same currency area but less important for the CEECs without the euro.

### Références:

- Mundell, R. A., 1961. A theory of optimum currency area. American Economic Review, 51, 657-665.
- Frankel, J. A. and Rose, A. K., 1998. The Endogeneity of the Optimum Currency Area Criteria. Economic Journal, Royal Economic Society, vol. 108(449), pages 1009-25, July.

