

# Abstract

In this diploma thesis, we analyse inflation differentials in the EU. The aim of the study is twofold. First, based mainly on literature review, we describe long-term trends and potential causes of inflation differentials in the euro area as well as in the new EU member states. Second, we investigate the driving factors for inflation differentials in the new EU member states. In particular, we use the methodology of the influential study by Honohan and Lane (2003) exploring the role of nominal effective exchange rate, cyclical conditions, fiscal policies and price convergence in inflation differentials across the euro area countries. Our results suggest that these factors are important determinants of inflation differentials in the new EU member states, too.