Abstract

In this thesis, we investigate the relative importance of foreign shocks in the Ukrainian economy by estimating a small-scale SVAR model with block exogeneity restriction over the period 2003:2 – 2016:12. We find that external shocks from the EU and Russia account for a significant share of the macroeconomic variation in Ukraine. In particular, external shocks account for up to 97 % of variance in Ukraine's output and 85 % in inflation. Remarkably, foreign monetary policy shocks (both from the EU and Russia) account only for a tiny share of variance in all Ukrainian macro variables. Finally, we show that the inclusion of Russia in the 'foreign' block is important to achieve correct model specification. Without accounting for the effects of the Russian economy, Ukrainian variables over-react to shocks originating from the EU. We conclude that the National Bank of Ukraine should closely track external developments to achieve inflation targets.

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