

# Charles University

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MASTER'S THESIS

## **Assessing Economic Linkages between the EU and the Eastern Europe Neighbours**

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## Abstract

*The proposed study analyses the economic linkages between five Central and Eastern European countries (Czech Republic, Romania, Moldova, Georgia and Ukraine) and the euro area, in the period 2006-2017, applying the block-restriction vector autoregression model. It allows evaluating the amplitude and persistence of the domestic vs. euro area shocks on four macroeconomic indicators: real GDP, short-term interest rate, CPI, and FX rate. The main findings emphasize that EU members are more economically synchronized with the euro area, responding to external factors in less than 10 months. Nevertheless, the Central Banks of the East European countries react extensively to the ECB monetary policy shocks, following broadly its short-term interest rate. Eastern Neighbourhood countries and Central EU members demonstrated tight connections with the euro area, in terms of international transmission of price shocks and economic activity synchronization. Thus, Czech Republic and Romania could be relevant models for the Eastern European countries, reaching their main aspiration - EU integration. Also, the paper presents a review on Deep and Comprehensive Free Trade Areas and Association Agreements, as well as their implementation in Georgia, Moldova and Ukraine, since 2014.*

**Keywords:** VAR, EU Eastern Neighbours, euro area, external shocks, monetary policy, linkages, integration, DCFTA.

**JELClassification:** E58, F15, F41, F42.