

## **Abstract**

This master thesis focuses on the assessment of the recent development in the Economic and Monetary Union (EMU) in the light of current sovereign debt crisis. The main goal is to reassess the alignment of business cycles within the EMU with the use of a simple semi-structural model in quarterly frequency and the Kalman filter, in order to examine the harmonization of the individual economies which is necessary for an efficient functioning of the monetary union. Moreover, an ex-post analysis of the fulfillment of the Optimum Currency Area criteria by the EMU area is performed. The results suggest that after more than a decade of the euro playing the role of common currency, the predictions of self-fulfilling convergence did not come true and that in the context of the asymmetric impact of the sovereign debt crisis, divergent tendencies arose in business cycle alignment, inflation differentials and in OCA index as well.

**JEL Classification:** C39, C53, E12, E37, F15, F33

**Keywords:** Sovereign debt crisis, euro area, monetary union, business cycles alignment, OCA index

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