

SPILLOVER INDEX FOR THE EUROPEAN BUSINESS CYCLE

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Abstract

The Covid-19 pandemic has had a significant impact on the international economy. The paper analyses the interdependence between the business cycles of the European Union economies to capture the effect of the Covid-19 pandemic on them.

Using cluster analysis on the monthly data of industrial production indices, two blocks of savings were identified within the European economy. In the second step with the help of an, a contagion index was estimated with a Vector Autoregressive model for the last 10 years.

The results indicate a rapid response, transmitted by contagion, between European economies, leading to a change in the business cycles. The less developed economies absorbed the shocks asymmetrically generated by pandemics amid structural economic problems, which were pre-existing in these economies, thus allowing for a rapid expansion of economic shocks.

Keywords: Covid-19, spillover index, business cycle, European Union, VAR, dendrogram

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