

Determinants of Regional Business Cycle Synchronization in Greece

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Abstract

We assess the determinants of regional business cycles synchronization in Greece vis-à-vis the Greek reference business cycle, using NUTSII annual data for the period 2005-2018. The computation of the time-varying synchronization is based on the dynamic estimate of a conditional variance-covariance model and subsequently a panel regression model is used to evaluate its determinants. The findings show that tourism, distance from Attica, investments, savings, disposable income and unemployment are the key determinants, based on the GVA business cycle synchronization. We also assess the determinants of unemployment synchronization and we find that island regions and regions with higher importing activity tend to exhibit lower level of synchronization. We further show that inter-regional GVA business cycle synchronization is driven by differences in investments, disposable income and unemployment. Finally, tourism (island) regions tend to exhibit higher (lower) inter-regional unemployment synchronization, whereas differences in regional disposable income and public spending on regions also lead to lower unemployment synchronization. These findings lead to important policy implications, which are thoroughly discussed.

Keywords: Business Cycle, Dynamic correlation, Panel analysis, Synchronization, Unemployment rate