

# Terms-of-Trade Shocks and Slovak Economy

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**Abstract:** *Using the structural vector auto-regression analysis of the terms-of-trade, trade balance, output, consumption and investment cyclical components we show that the relationship between the terms-of-trade and trade balance is negative and that the terms-of-trade shocks explain only a small fraction of business cycles in the Slovak economy. We use quarterly data in constant prices in the period 1997-2014. The results are in line with the theoretical and empirical studies in the contemporary world economic literature. The negative relationship between the terms-of-trade and the trade balance confirms a theoretical Obstfeld-Svensson-Razin effect. The positive effect of a change in the terms-of-trade on the trade balance – so called Harberger-Laursen- Metzler effect – is the smaller, the more persistent terms-of-trade shocks are. By capital adjustment costs, the theoretical effect may be even negative. A modest contribution of the terms-of-trade shocks to the business-cycle fluctuations in Slovakia is in line with other empirical papers around the world.*

**Key words:** Terms of Trade · Business Cycle · Slovak Economy · Trade Balance

**JEL Classification:** C32 · E32 · F14

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