

GLOBAL ECONOMIC RECESSION IN EUROZONE (2008-2009) PROPAGATION MECHANISMS AND LEAD/LAG PATTERNS

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In the literature on economic fluctuations and crisis, much attention has been devoted to analyzing the sensitivity of countries to global shocks. Indeed, economic factors behind this sensitivity have been thoroughly and heatedly discussed in a number of studies. However, far less attention has instead been devoted to studying the sources and propagation mechanisms behind the evolution of global crisis. In other words, the question of which countries experience earlier and propagate the recessions remains largely uncovered.

The aim of the present paper is to investigate this issue for countries in Eurozone. In particular, we attempt to identify the countries which tend to lead (experience earlier) the global recession in 2008 and also figure out the ones which instead lag behind (followers). With regard to the data and methodology used, we first employ Industrial Production Index data (monthly) for each Eurozone country and for the period between 2000:1 and 2012:8. Then, we estimate the business cycle of each country using a Baxter-King filtering and apply afterwards Bry-Boschan Algorithm to identify the start date (peak) and end date (through) of the recession for each country. Finally, using these dates, we try to understand which countries are first affected from global crisis and which others tend to follow.

Our empirical analysis reveals three major conclusions. First, Eurozone has experienced a severe crisis during 15 months between 2008:3 (peak) and 2009:6 (trough) which resulted in overall 8.9 % negative economic growth. Second, most of the Southern European Economies (Portugal, Spain, Greece) experienced the recession 1-5 months earlier than other Eurozone countries. Furthermore, some countries in Central and Northern Europe (Austria, Slovenia, Finland) experienced the recessions 1 or 2 months later. Third, Southern countries (Italy, Spain, Portugal) and some Central European countries (Belgium, France, Netherlands) recovered from crisis 1-2 months earlier than other countries. In total, Southern economies seem to exhibit a leading role in global crisis in Eurozone.

Key words: Global crisis, recession, propagation, lead/lag patterns, business cycles

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