International Economics 147 (2016) 27–52

Contents lists available at ScienceDirect

International Economics

journal homepage: www.elsevier.com/locate/inteco

New evidence on the (de)synchronisation of business cycles: Reshaping the European business cycle[☆]

Veaceslav Grigoraş[a,b,*], Irina Eusignia Stanciu[b]

[a] Bucharest University of Economic Studies, 6 Piata Romana Street, Bucharest 1, 010374 Romania
[b] National Bank of Romania, Macroeconomic Modelling and Forecasting Department, 25 Lipscani Street, Bucharest 3, ;030031 Romania

ARTICLE INFO

Available online 1 April 2016

JEL classification:
E32
F44

Keywords:
Business cycle dating
Business cycles synchronisation
International business cycles

ABSTRACT

Business cycle synchronisation (or the lack thereof) has fallen once again under the spotlight of policy and academic circles. In the spirit of Burns and Mitchell and the NBER, this paper dates turning points for most European countries and the US. Later on, synchronisation is addressed through a series of measures, studying the clustering of turning points, along with indicators of concordance and correlation. Last but not least, the main properties of cycles are analysed, in order to provide a more comprehensive view on business cycle similarities. We conclude that previous to the Great Recession the European business cycle has been constantly enforced by formal or informal cohesion between EU member states. However, post-crisis developments show signs of a great disconnect, both within Europe and between Europe and the US. Moreover, heterogeneity of business cycle measures hints at a possible overstating of business cycle synchronisation within the EU.

© 2016 CEPII (*Centre d'Etudes Prospectives et d'Informations Internationales*), a center for research and expertise on the world economy. Published by Elsevier B.V. All rights reserved.

[☆] The views expressed in this paper are those of the authors and do not necessarily reflect the views of the National Bank of Romania or the Bucharest University of Economic Studies.

[*] Corresponding author at: National Bank of Romania, Macroeconomic Modelling and Forecasting Department, 25 Lipscani Street, Bucharest 3, 030031 Romania.

E-mail addresses: grigorasveaceslav@yahoo.com (V. Grigoraş), stanciuirinaeusignia@yahoo.com (I.E. Stanciu).

http://dx.doi.org/10.1016/j.inteco.2016.03.002

2110-7017/© 2016 CEPII (*Centre d'Etudes Prospectives et d'Informations Internationales*), a center for research and expertise on the world economy. Published by Elsevier B.V. All rights reserved.

1. Introduction

Business cycle synchronisation (or the lack thereof) has fallen once again under the spotlight of policy and academic circles. While it is widely acknowledged that the international financial crisis of 2007–2009 has had a profound and wide spread effect on both the US and European economies, post-crises developments have been a catalyst for debates surrounding the divergence in economic activity.[1] On the one hand, strong labour market developments and robust domestic growth support a normalisation of Fed's monetary policy, notwithstanding a grim outlook for emerging markets that is expected to have limited spillovers.[2] On the other hand, the European Central Bank has scaled up its quantitative easing programme hoping to revive a lacklustre euro area (EA) economy, which seems to be facing additional headwinds stemming from a crippled banking system and impending sovereign debt issues. Furthermore, the mere foundations of European integration have started to crumble as questions were raised whether Greece's EA membership is revocable or as politicians and academics alike try to figure out the impact of a possible UK's exit from the European Union (EU).

All these facts point to the need for a better understanding of business cycles synchronisation. The idea is not new, being about as old as the definition of business cycles itself (Mitchell, 1927). Later on, the deep scars of the Great Depression or the development of cross-border trade and increased international financial flows have spurred research into the matter. Subsequently, the creation of the EA has provided a further boost to the academic literature in the field, being of great importance for current and prospective members (Krolzig and Toro, 2005; Darvas and Szapáry, 2008; Einarsson et al., 2013; Antonakakis and Tondl, 2014). However, the causal relationship between membership and synchronisation is not straightforward. It is not clear whether this should be a strict prerequisite, as posited by the Optimal Currency Area literature (based on the seminal work of Mundell, 1961; McKinnon, 1963), and thus implied by the convergence criteria,[3] or whether it is one of the perks of monetary unions. The idea that synchronisation is an endogenous process first arose with Frankel and Rose (1998). This belief was enforced by the fact that exogenous asymmetric shocks associated with structural differences between members would be considered less likely, due to structural convergence produced by the European monetary union (Buti and Sapir, 1998). Yet the manifestation of the Eurozone debt crisis has revealed a wide heterogeneity between core and periphery, questioning the strength of convergence. As a result, rethinking the Eurozone is avidly debated, but as Baldwin et al. (2015) point out, it is impossible to agree upon the steps to be taken without agreement on what went wrong.

To support these debates, we believe that the issue of business cycle synchronisation needs revisiting. Hence, in this paper we perform business cycle dating for the US and most of the European countries using a procedure that emulates NBER's dating process and analyse the main characteristics of classical business cycles. Afterwards, using a narrative approach, we look into the chronology of turning points and later assess business cycle synchronisation across Europe, focusing on the cross-border links between the countries under study and the US, on the one hand and Germany, on the other.

This paper contributes to the existing literature by bringing further evidence on the shaping of the European business cycle and by broadening the scope of study to countries rarely included in previous work (the Czech Republic, Hungary, Bulgaria and Romania). Furthermore, it adds to the rather small set of papers that address classical business cycles, as opposed to the wide-spread body of literature focused on growth cycles. We focus on the contribution of our analysis in further enhancing the possibility of benchmarking the European business cycle, in order to add to the ongoing debate on

[1] For example in: Mandalinci and Mumtaz (2015), or the current debate on CEPR's policy portal http://www.voxeu.org/article/how-eurozone-has-been-infected-us-slowdown.

[2] At the FOMC meeting from December 2015, the press release indicated that the Committee expected economic activity to continue its expansion along with the strengthening of labour market. At the time, the balance of risks stemming from domestic and international developments was appreciated as being balanced. Subsequently, in January 2016 the press release suggested a somewhat more cautious approach with regard to external developments.

[3] As summed up by Furceri and Karras (2008), the higher the degree of synchronisation, the lower the stabilisation cost of giving an independent monetary policy.

Download English Version:

https://daneshyari.com/en/article/999117

Download Persian Version:

https://daneshyari.com/article/999117

Daneshyari.com