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# An Empirical Study on Global Recession & Factors That Contribute to it

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**ABSTRACT:** The world economy has encountered four worldwide downturns throughout recent many years: in 1975, 1982, 1991, and 2009. During every one of these episodes, yearly genuine per capita worldwide total national output contracted, and this compression was joined by debilitating of other key signs of worldwide financial movement. The worldwide downturns were profoundly synchronized universally, with serious financial and monetary disturbances in numerous nations all over the planet. The 2009 worldwide downturn, set off by the worldwide monetary emergency, was by a wide margin the most profound and generally synchronized of the four downturns. As the focal point of the emergency, progressed economies felt the brunt of the downturn. The ensuing extension has been the most vulnerable in the post-war time frame in high level economies, as a large number of them have attempted to beat the traditions of the emergency. Conversely, most emerging business sector and creating economies endured the 2009 worldwide downturn generally well and conveyed a more grounded recuperation than after past worldwide downturns.

**KEYWORDS:** Global economy, Global expansion, Global recession, Global recovery; Synchronization of cycles, Financial markets, Real activity, Emerging market and Developing Economies (EMDE'S)

## 1. INTRODUCTION

"Worldwide downturn" has been a repetitive subject of discussion throughout the last 10 years, reflecting the expansiveness and seriousness of the 2007-09 worldwide monetary emergency, the stopping idea of the recuperation, and as of late, feelings of trepidation that the worldwide economy was on the edge of another slump. In 2009, the interest was naturally centred around the seriousness of the worldwide downturn and its staggering results. Consideration moved to the indications of a thriving worldwide recuperation in 2010-11, yet trusts that this would be supported were before long diminished by the chance of one more worldwide downturn because of the euro region obligation emergency. Monetary pressures in the euro region facilitated in late 2012, however in 2015-16 feelings of trepidation of a worldwide downturn reappeared mostly in light of monetary market disturbance in China. Since mid-2018, worries about a worldwide downturn have returned as the world economy encountered an asynchronized stoppage to a great extent driven by unprecedented shortcoming in exchange and producing in the midst of raised exchange pressures and uplifted arrangement vulnerabilities. Notwithstanding the interest in worldwide downturns, the term doesn't have a generally acknowledged

**Definition.** It is hard to plan the most viable meaning of public downturns — at least two sequential quarters of decrease in public result — to a worldwide setting, not just since solid quarterly information for worldwide result are inaccessible without a huge slack, yet additionally on the grounds that the worldwide economy seldom enlists a compression: 2009 was the main year in the post-war time frame to enrol a decrease in yearly worldwide result



**Main findings of this paper are as follows.**

**Global recessions:-** In the a long time starting around 1950, the world economy has encountered four worldwide downturns: in 1975, 1982, 1991, and 2009. In every one of these episodes, there was a constriction in yearly genuine per capita worldwide GDP and expansive based shortcoming in other key marks of worldwide monetary action. These episodes were profoundly synchronized universally, including serious monetary and monetary disturbances in numerous nations all over the planet. The 2009 worldwide downturn was by a long shot the most profound and generally synchronized episode among the four.

**Global recoveries:-** A worldwide recuperation ordinarily includes an expansive based bounce back in macroeconomic and monetary movement. Among the four episodes, the most grounded recuperation happened after the 1975 downturn. On account of enormous, brief, and universally organized strategy support, the recuperation following the 2009 downturn was the second most grounded episode.

**Global expansions:-** The duration of the global expansions varied, with a minimum of six years (following the 1975 recession) and a maximum of 17 years (following the 1991 recession). The latest global expansion registered average per capita growth comparable with that of previous episodes. The post-2009 expansion was the weakest of the four in advanced economies, as many of them struggled to overcome the legacies of the global financial crisis. Among the EMDEs, the recovery of per capita output growth has been exceptionally robust, despite a gradual slowdown after 2012.

**Policies:-** Monetary and fiscal policies often became expansionary going into global recessions, and they typically supported the ensuing global recoveries. Following the 2009 global recession, monetary policy remained highly accommodative for most of the 2010s, with advanced economy central banks introducing a wide range of unconventional measures to ease credit. However, after the initial implementation of large, coordinated, fiscal stimulus programs during 2008-09, advanced economies withdrew fiscal support, out of concerns for the growth of public debt, and government expenditures fell after 2010. 1960-2019 presents the rundown of nations used to register worldwide development.

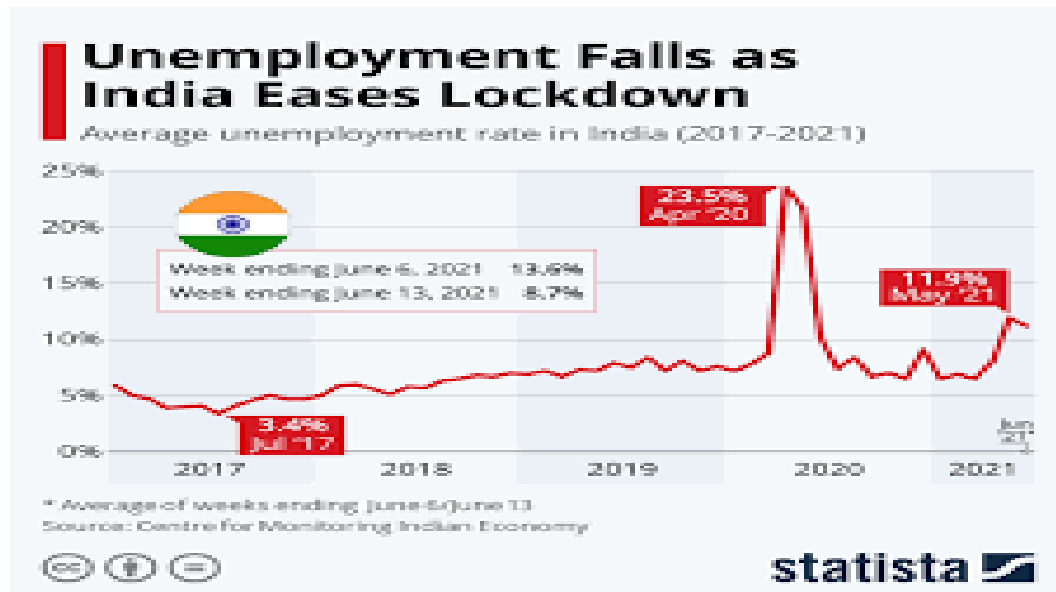
## Methodology

Two approaches are employed to identify the turning points of the global business cycle: a statistical method and a judgmental method. The methods are complementary but employ different information sets. Both follow the “classical” definition of a business cycle (Burns and Mitchell 1946), under which business cycle expansions are marked by increases in many measures of economic activity, and contractions by broad declines in activity. Both are widely used in the context of national business cycles, and often arrive at similar turning points.

**Statistical Method:-** The statistical dating method used here was introduced by Harding and Pagan (2002).<sup>10</sup> The method is convenient since the turning points identified are robust to the inclusion of newly available data. The method makes it possible to identify global recessions, defined as taking place when the annual growth rate of per capita global



real GDP is negative. However, per capita real GDP growth alone may not be sufficient **Judgmental Method:** -This method involves analysing a broad set of macroeconomic indicators and reaching a judgment on whether the evidence points to expansion or recession. The NBER uses this method to determine the dates of cyclical turning points, expansions, and recessions in the U.S. economy, and the CEPR does so for the euro area.



### III .GLOBAL RECESSIONS AND RECOVERIES: DATES AND EVENTS

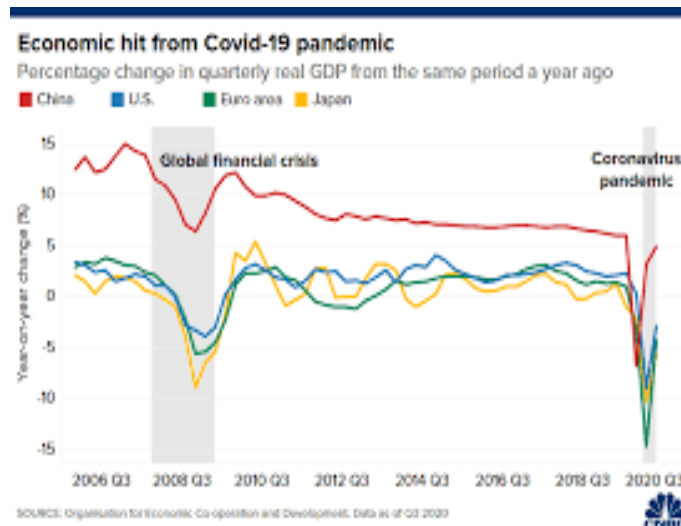
#### 3.1. Turning Points of the Global Business Cycle

**Global Recessions:-** The baseline statistical method identifies four declines (troughs) in annual real global per capita GDP, using market exchange rate weights, since 1950 in 1975, 1982, 1991, and 2009. The use of PPP weights rather than market exchange rate weights does not affect the dates of the troughs. However, with market exchange rate weights, which are tilted toward advanced economies, global per capita GDP growth is lower especially during global recessions when many advanced economies experience synchronized contractions in activity. With both sets of weights, the dates of peaks in the global business cycle are found to be 1974, 1981, 1990, and 2008, with the annual data showing each global recession lasting just one year.

**Global downturns: -** In addition to the four global recessions, the global economy experienced low growth in 1958, 1998, 2001, and 2012: in these four years, the global economy registered its lowest growth rates of the past seven decades, except for the years of global recession and the two years before and after each of them. World output per capita grew by slightly less than 1 percent a year, on average, over these four downturns (Table 2). These downturns fall short of qualifying as global recessions because world real GDP per capita did not contract and there was no broad-based weakness in multiple. In **1997-98**, economic activity in many EMDEs, particularly those in Asia, weakened sharply. In fact, the global economy experienced a contraction in per capita GDP in 1998 as the East Asian financial crisis took a heavy toll on emerging market economies in the region. However, the world economy did not experience a recession in 1998 because growth in advanced economies held up.

In **2001**, many advanced economies experienced mild slowdowns or recessions: global per capita output declined in 2001, when per capita growth turned negative in a number of advanced economies, including the United States (-2.7 percent, annualized) and Japan (-4.2 percentage annualized). However, growth in some major EMDEs, such as China and India, remained robust, helping the global economy escape a recession. The **2012** global downturn was mainly driven by the euro area debt crisis.<sup>18</sup> Although world per capita output did not contract in any of the quarters of 2012, growth was very low (0.4 percent in 2012). The global economy was supported by growth in the United States and some major Admeasuring these four global downturns, the behaviour of other global indicators was mixed, again

implying that these episodes do not qualify as global recessions. In **2019**, the performance of the global economy looked somewhat similar to the previous global downturns. The current estimates suggest that global output growth in 2019 was lower than that in 1998 and 2012 but still higher than that in 1958 and 2001. However, when measured in per capita terms, estimated growth in 2019 was higher than that in any of the four global downturns. Although global labour markets were tight, global trade was quite weak in 2019. Since the available data for the full year are mostly estimates at the time of writing this paper, it is not possible to conclude whether the year 2019 constituted a global downturn.



### 3.2. Events Surrounding the Global Recessions

The four global recessions identified above were all characterized by severe economic and financial disruptions in many countries around the world. But each recession had its own unique features. In particular, the shocks that contributed to the global recessions were different. The 1975 global recession was driven mainly by a global supply shock—the oil price shock of 1973-74. The 1982 episode followed a series of shocks, including the oil price shock of 1979; the subsequent rise in global inflation; monetary policy responses to that increase in inflation, especially the marked monetary tightening by the U.S. Federal Reserve; and the Latin American debt crisis.

**The global recession of 1975** followed the shock to world oil prices from the Arab oil embargo initiated in October 1973. Although the embargo ended in March 1974, the supply shock and associated sharp rise in oil prices triggered a substantial increase in inflation and a significant weakening of growth in a number of countries. Monetary and fiscal policy easing, especially by some major advanced economies, helped spur a rebound of growth in 1976. However, the Group of Seven countries except for Germany and Japan—Canada, France, Italy, the United Kingdom, and the United States—experienced persistent and high inflation, and the 1975 global recession was the beginning of a half-decade of stagflation, with low output growth and high inflation (Knoop 2004).

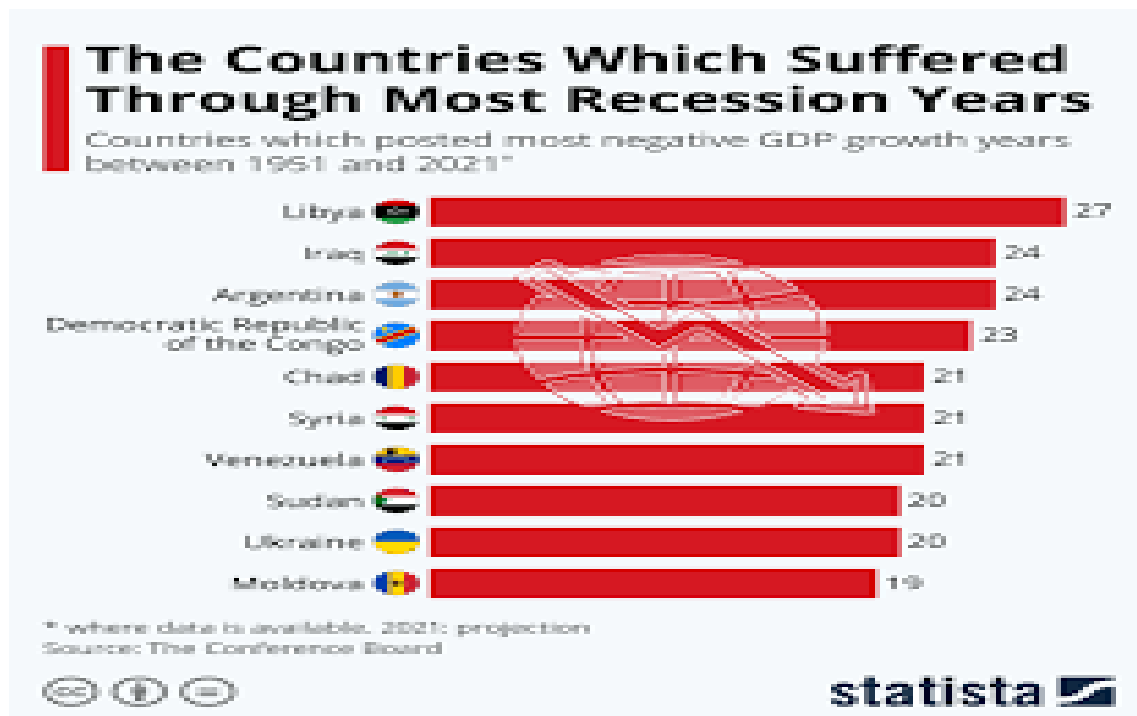
**The global recession of 1982** was triggered by several developments, including the second oil shock of 1979; a tightening of monetary policies in the United States and other advanced economies; and the Latin American debt crisis (Kose et al. 2020). Oil prices rose sharply in 1979, partly owing to disruptions caused by the Iranian revolution, and this helped push inflation to new highs in several advanced economies. Partly in response, monetary policies were tightened significantly in several major advanced economies, including Germany, Italy, Japan, the United Kingdom, and the United States, causing sharp declines in activity and significant increases in unemployment rates in many cases in 1982-83.

**The 1991 global recession** also resulted from the confluence of a wide range of factors (Perry and Schultze 1993). The 1990-91 Gulf War was associated with heightened geopolitical uncertainty and another sharp increase in oil prices. In the United States, widespread weakness of lending institutions, evident since the mid-1980s, weighed on the housing market, especially during the credit crunch of 1990-91 (Bernanke and Lown 1991; Hall 1993). Scandinavian countries had severe banking crises in the early 1990s, following the liberalization of financial sectors and rapid expansion in credit markets in the 1980s.

**The 2009 global recession** followed the worst financial crisis since the Great Depression. The crisis started in mid-2007 in major advanced economies and followed a period of loosening regulation and supervision of financial markets and institutions, asset price and credit booms in a number of countries, and the rapid expansion of high-risk lending, particularly in U.S. mortgage markets. The collapse of Lehman Brothers, in September 2008, triggered a full-blown financial and macroeconomic crisis. Although the initial trigger for the crisis was the U.S. mortgage markets, the high degree of interconnectedness between the U.S. and other financial markets caused the crisis to spread to other advanced

### 3.3. Synchronization of National Recessions,

Global recessions are highly synchronized events internationally. The fraction of countries in recession increased during the four global recessions. The GDP-weighted fraction of countries in recession was about 50 percent in the first three global recessions, but rose to slightly more than 80 percent in the latest episode. The unweighted fraction of countries in recession reached local peaks during the global recession years. For example, it was about 60 percent during the 2009 episode. In all four global recessions, the fraction of countries in recession started picking up ahead of the recession year. The number of countries in recession was often relatively low two to three years prior to each global recession.



## IV. CONCLUSION

The year 2019 was the tenth anniversary of the last global recession. Yet 2019 also marked an intensifying speculation about whether another such episode was looming. During 2019, global growth forecasts were repeatedly downgraded as a broad-based slowdown enveloped both advanced economies and EMDEs. Trade tensions between major economies led to unprecedented policy uncertainty and took a heavy toll on global industrial production and trade. In light of the resurgence of interest on the topic, this paper analyses the main features of global recessions and the ensuing global recoveries and expansions. Thus, a post-crisis global economic restructuring is needed. This should include reforms in the sphere of finance so as to reduce the susceptibility of the world economy to recurrent crises and to remove the deflationary bias in the international financial architecture. But it should also seek to tackle global under-consumption by restoring the balance between labour and capital through high wage settlements and a return to full employment policies.

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