



GENERAL DIRECTORATE OF STUDIES AND RESEARCH

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# HAVE THE NATURE AND MAGNITUDE OF ECONOMIC CYCLES CHANGED?

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MOHAMED SALIM MOUHA

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### Three key questions:

- Are the nature and dynamics of economic cycles changing ?
- What are the main drivers of economic cycles ?
- What can emerging and less developing countries do to offset the potential negative effects of these changes ?

# INTRODUCTION :

## OVERVIEW

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- There are **country-specific and worldwide or common sources of economic cycle**, which play different roles at different points in time.
- **Historically, economic cycles have been heavily influenced by Western economies, particularly the U.S. and Europe.** The United States, as a key driver of the global economic cycle, plays a central role in shaping worldwide trends.
- **The growing influence of economies like China and India on the global economic structure is reshaping the dynamics of the world economic cycle.** The rise of China and India is making the global economic cycle more multipolar.
- Recent developments underline that growing protectionism, trade tensions, and geopolitical challenges are fueling a surge of economic fragmentation and raising concerns about the future of globalization. In addition, successive climatic and technological shocks (AI) are **raising concerns about the adaptive capacities of emerging and middle-income countries and their ability to remain connected to the global economic cycle thus avoiding further marginalization.**

## WHAT ARE THE MAIN DRIVERS OF CHANGES IN ECONOMIC CYCLES ?

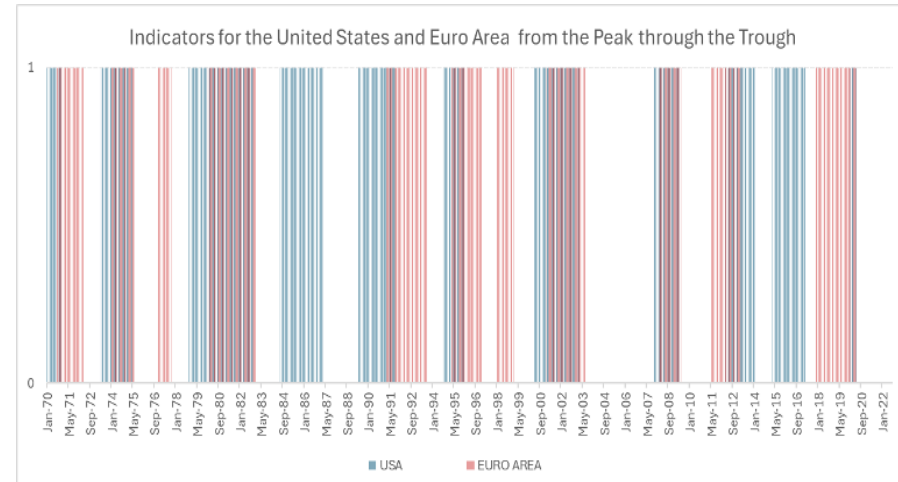
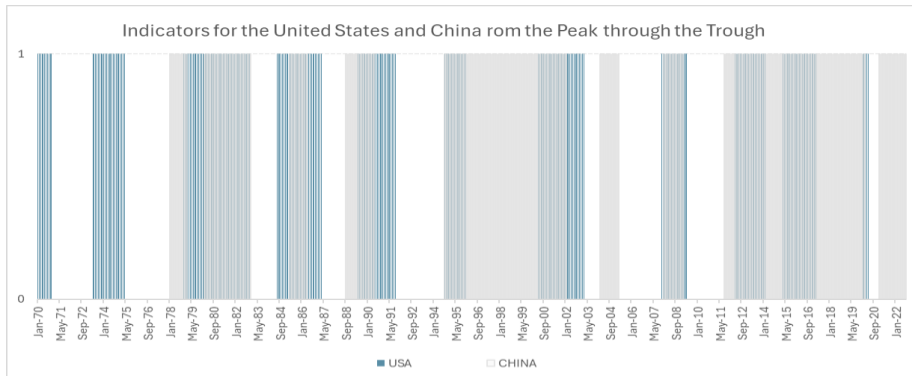
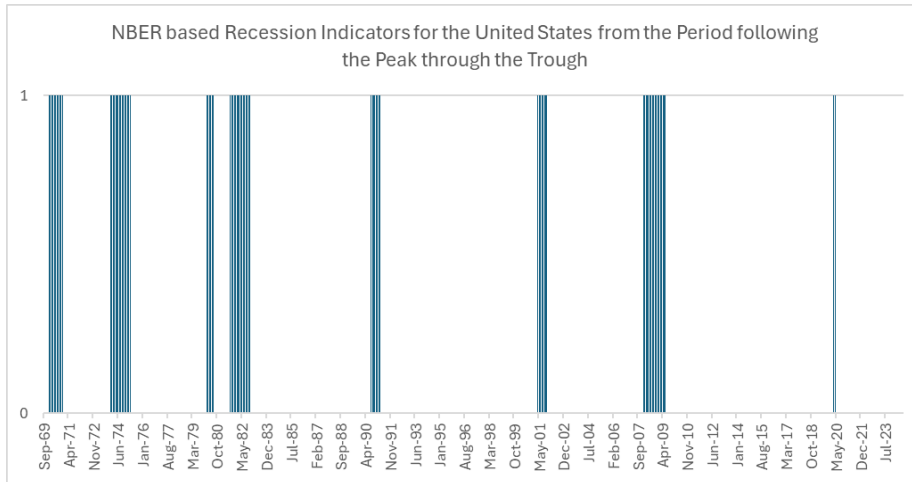
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The nature and magnitude of economic cycles have indeed evolved significantly over time, influenced by several factors such as :

- Globalization and Interconnectedness
- Monetary and Fiscal Policies
- Shift from Manufacturing to Services
- Increased Role of Emerging Markets
- Financial markets complexity
- Trends in oil prices
- Climate Change
- Technological Advances
- Demographic Changes

# GLOBAL BUSINESS CYCLE OVERVIEW

## RECESSION INDICATORS



- The world's four 20th century locomotor economies of the US, UK, Germany and Japan are statistically significantly, reasonably strongly and positively synchronized with the world cycle.
- This is not the case for China and India, the emerging 21st century likely powerhouse economies.

# GLOBAL BUSINESS CYCLE OVERVIEW

## CHARACTERISTICS OF ECONOMIC CYCLES







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Parameters of the business cycle have changed:

- ❑ **Volatility:** stronger fluctuations.
- ❑ **Duration:** Some cycles were relatively short and sharp (e.g., the COVID-19 recession), while others have been prolonged (e.g., the recovery from the 2008 crisis took years for many economies).
- ❑ **Magnitude:** more severe downturns.

# GLOBAL BUSINESS CYCLE OVERVIEW

## OUTLOOK OF THE ECONOMIC CYCLE'S MAIN DRIVERS

HISTORICAL ORIENTATIONS	RECENT ORIENTATIONS
GLOBALIZATION 	PROTECTIONISM 
INTERCONNECTEDNESS 	POWERHOUSE ECONOMIES 
SHIFT FROM MANUFACTURING TO SERVICES 	RELOCATION & REINDUSTRIALIZATION 

# ECONOMIC CYCLES TRANSMISSION AND ADJUSTMENT RISKS FOR LESS DEVELOPING COUNTRIES

## KEY IMPACTS

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The nature and magnitude of international economic cycles—such as global recessions, booms—have significant impacts on MIC. These impacts can be both positive and negative, depending on various factors including the structure of the economy, the level of integration within global markets, the country's policy responses...

Here are some key impacts:

1. Economic Growth and Employment
2. Trade Flows and Export Earnings
3. Capital Flows
4. Debt Levels
5. Policy Responses and Structural Reforms



# ECONOMIC CYCLES TRANSMISSION AND ADJUSTMENT RISKS FOR LESS DEVELOPING COUNTRIES

## RISKS & ADJUSTMENT PATH FOR LESS DEVELOPING COUNTRIES

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While global booms present opportunities for growth and development for MIC, recessions and downturns pose substantial risks. Here are the main risks:

- Business cycles in emerging economies are substantially more volatile than in developed ones
- Less developing countries often rely heavily on a small number of trade partners, which can leave them vulnerable.
- MIC often struggle to shift from low-productivity sectors which can reduce the ability to recover from downturns.
- MIC have less room for maneuver than industrial countries in terms of fiscal policy
- Weak institutions in some MIC can hinder the timely and effective implementation of countercyclical policies and structural reforms.
- Lag in adopting new technologies and innovations by MIC limits their ability to compete globally and adjust to rapid technological changes, increasing the risk of their marginalization.

# ECONOMIC CYCLES TRANSMISSION AND ADJUSTMENT RISKS FOR LESS DEVELOPING COUNTRIES

## TUNISIA'S BUSINESS CYCLE

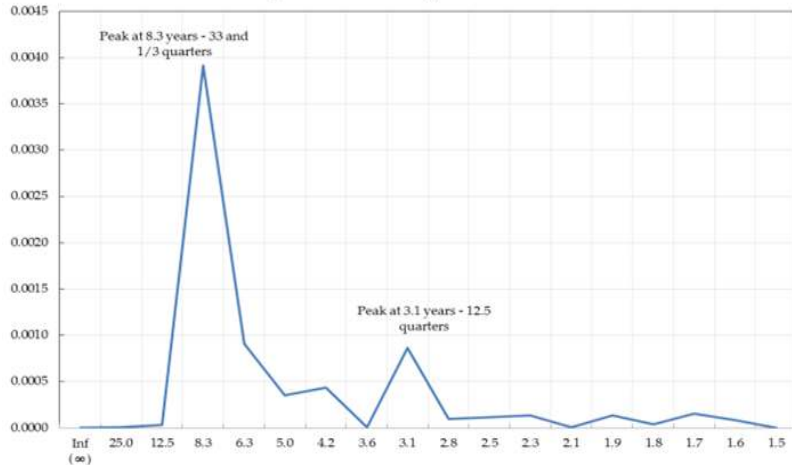
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- ❖ Tunisia's economy is heavily dependent on external factors such as tourism, foreign investment, and exports, particularly to the European Union, which accounts for over 70% of its trade.
- ❖ Tunisia has faced significant economic challenges, including political instability, structural inefficiencies, and external shocks, all of which have shaped its business cycle in recent years.

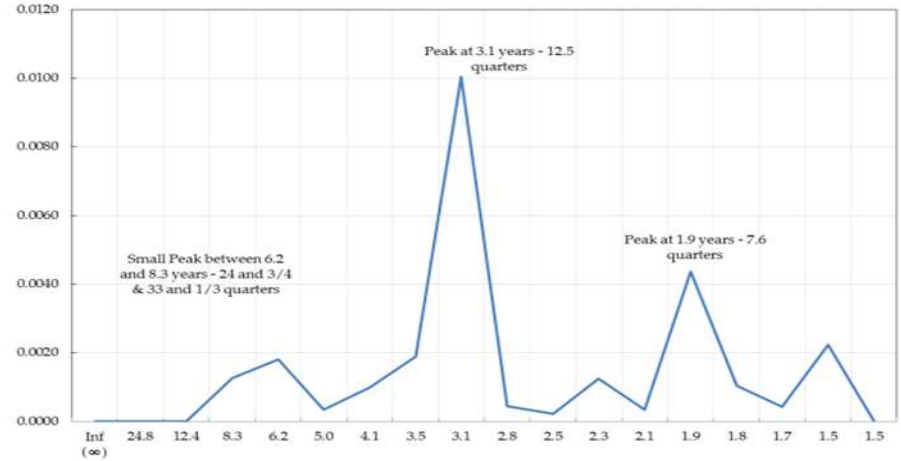
# ECONOMIC CYCLES TRANSMISSION AND ADJUSTMENT RISKS FOR LESS DEVELOPING COUNTRIES

## TUNISIA'S BUSINESS CYCLE: MAIN CHARACTERISTICS

Spectral Density - IPI-CFA



Spectral Density - DIF-CFA



Strong evidence of the superposition of at least two types of cycles at different frequencies :

- A major cycle with a duration varying from 6.3 to 8.3 years (24-33 q)
- A minor cycle with a duration around 3.1 years (12.5 q)

# ECONOMIC CYCLES TRANSMISSION AND ADJUSTMENT RISKS FOR LESS DEVELOPING COUNTRIES

## TUNISIA'S BUSINESS CYCLE: SYNCHRONIZATION WITH THE EUROZONE

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- Tunisia's business cycle tends to align with that of the Eurozone to a significant degree. Empirical researches indicate significant presence of *minor cycles at the same frequency in Tunisia as Eurozone (3.1 years (12.5 q))*.
- Significant and moderate correlation between the Tunisian and the European business cycles *at low frequencies (major cycle around 8.3 years)*.
- *The transmission of cyclical shocks from the Euro Area to Tunisia is instantaneous for short cycles probably caused by the short-term adjustment of stocks in the European industry. However, the delays are much longer for the major cycles. They could reach 5 to 6 quarters.*

The synchronization between Tunisia's business cycle and that of the Eurozone can be explained by three factors:

- **Trade** : The Eurozone countries are Tunisia's largest trade partners.
- **Tourism**: Tunisia's tourism industry is highly dependent on European tourists.
- **Foreign Direct Investment (FDI)**: European companies are significant investors in Tunisia, particularly in sectors like textiles, machinery, and electronics.

## POLICIES IMPLICATIONS FOR MIDDLE-INCOME COUNTRIES

### POLICIES IMPLICATIONS :

In short, less developing countries must take proactive measures to adapt to the shifting global landscape:

- ❖ Flexible Exchange Rate Regimes
- ❖ Build Fiscal Buffers
- ❖ Diversify the Economy and the trade partners
- ❖ Adopting new technologies
- ❖ Enhance Policy Coordination
- ❖ Improve Institutional Quality
- ❖ Structural reforms

Implementing these policies can help MIC to better manage the economic cycle, reducing volatility and promoting long-term economic stability. To achieve this, should we request developed countries (cycle makers) and multilateral institutions to have a more active role supporting MIC (cycle takers) to reduce costs and spillover effects of changes in the global economic cycle?

**THANK YOU FOR YOUR ATTENTION**