

Abstract

The great recession of 2008-2010 has impacted the world's economy, which has begun with the sub-prime crisis in the US subprime mortgage market and subsequently spread to the world economy through the contagion effect. Moreover, the influence of the recession on the other nation's economy has been markedly differentiated, depending on their vulnerability to financial system problems (credit crunch, liquidity inflows). Some countries were hit very hard and experienced a drop in GDP, rising unemployment, etc. However, other countries were affected slightly, or the direct effects on them were not visible. Similarly, Central and Eastern Europe (CEE) countries have experienced a very differentiated course of the crisis. As a result of the recession, economic policymakers have tightened financial supervision and regulatory frameworks.

This study adopts seven Eastern and Central European Countries (Poland, including Czech Republic, Hungary, Romania, Slovakia, Lithuania and Bulgaria) and analyzes the effect of recession on the stock market of the selected countries. The relevant leading stock market indices of individual countries are adopted as an indicator of the development of the financial market. Monthly data for January 2000-May 2021 is used, and this period is further divided into two samples separated by the period of recession related to the financial crisis (December 2007-June 2009).

The results show that the recession has reduced the linear relationship between the CEE and US stock markets. However, the linear relationship has intensified between the markets of the CEE countries. This result is also supported by the fact that trade in goods increased significantly after the 2010 recession. The vector autoregression model (VAR) displays the predictability of the financial market, with European markets predicting each other after the recession and not the US market. The recession has also affected European countries. As a result of the 2008-2009 recession, following trade and investment with the US fell, the integration of European countries with each other improved.

Keywords: Global recession, Financial market, VAR, CONTAGION