The Impact Of Global Financial Crisis On The World Economy: Lessons Learned

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Abstract
This article analyzes the profound impact of global financial crises in history (the Great Recession of 2008-2009, the Asian financial crisis of 1997-1998, etc.) on the world economy and summarizes their main causes and characteristics. The author focuses not only on the negative consequences of crises (decrease in GDP, sharp increase in unemployment, increase in public debt), but also on their positive role in subsequent development - namely, on important lessons such as strengthening financial systems, better supervision of banks, increased international cooperation and changes in macroeconomic policies. The article emphasizes that the lessons learned from crises should serve as a basis for preventing future risks and making economies more resilient to them. In conclusion, the study once again emphasizes the importance of proactive measures, strict regulation and international cooperation in ensuring the stability of the global economy.

Keywords
Financial crisis, Financial market instability, Credit risk, Liquidity problem, Bankruptcy, Financial regulation, Inflation, Deflation, Currency crisis, Economic slowdown, International debt, Public debt, Banking system reform, Interest rates, Investment decline, Capital flow, Risk management, Financial policy, Corporate debt, Mortgage credit, Recovery processes.

Introduction

The history of the world economy has been marked by a series of global financial crises, each with its own causes, consequences, and lessons to learn. The most recent major crisis, the 2008 global financial crisis, was triggered by the mismanagement of US mortgage loans and spread throughout the world economy. These crises not only caused short-term economic downturns, but also exposed systemic vulnerabilities, which necessitated the implementation of measures to achieve stability and prevent future risks. Many countries have experienced financial crises throughout history, and their consequences have been felt globally.

Main Part

The Great Depression: The Initial Financial Crisis The Great Depression was a financial crisis that had a significant impact on the economies of all countries, especially Canada, Great Britain, the United States, Germany and France, whose biggest victims were Canada. It began in the United States in 1929 and lasted until 1939. It began on October 24, 1929, with a sharp drop in stock prices on the New York Stock Exchange on "Black Thursday". The weakening of the banking system, the increase in credit and the bankruptcy of many banks led the economy into a deep recession. Incomes fell, consumption and investment decreased, as a result, businesses closed, and the unemployment rate in the United States reached 22%.

International trade was also hurt by rising tariffs. During the Depression, millions of people were unemployed and living in poverty, and agriculture, especially in the United States, was severely damaged by the Dust Bowl storms. Trust in political systems declined, and extremist ideas spread. These four factors contributed to the onset of the Great Depression.
First, during the economic boom in the United States in the 1920s, stock prices were artificially inflated. Investors borrowed and invested heavily in stocks, creating a speculative bubble. When stock prices skyrocketed in 1929, investors began to bail out, leading to a stock market crash.

Second, banks expanded their lending policies uncontrollably, issuing excessively risky loans. With the collapse of the stock market, many banks suffered huge losses and went bankrupt, which led to the loss of deposits of the population.
Third, At that time, state control over the financial system was very weak. Due to the fact that the stock market and the activities of banks were practically not regulated, economic risks were accumulating.
Fourth, the crisis in the US economy quickly spread to other countries.
After World War II, international trade and financial systems were heavily dependent on the US economy, so the crisis took on a global dimension. In addition, the US government passed the Smoot-Hawley Tariff Act in 1930 to protect its economy. This act reduced international trade and further damaged the economy.

Effects on national economies: Industrial cities were hit hardest, and construction almost stopped in a number of countries. Due to the decline in demand, agricultural prices fell by 40-60%. Between 1929 and 1932, global gross domestic product (GDP) fell by about 15%. By comparison, global GDP fell by less than 1% during the Great Depression from 2008 to 2009. Some economies began to recover by the mid-1930s. However, the negative effects of the Great Depression in many countries lasted until the outbreak of World War II.

The devastating impact was felt in both rich and poor countries, with personal incomes, prices, tax revenues, profits, and prices falling. International trade fell by more than 50%. Cities around the world, especially those dependent on heavy industry, were hit hard. Construction came to a virtual standstill in many countries. Farming communities and rural areas suffered as crop prices fell by about 60%. Areas dependent on primary industries suffered the most, with demand falling sharply and jobs becoming scarce. Economic historians generally consider the catalyst for the Great Depression to be the sudden, catastrophic collapse of U.S. stock market prices beginning on October 24, 1929. However, some challenge this conclusion and see the stock market crash as a symptom, not a cause, of the Great Depression.

The global financial crisis is a complex process that has had a significant impact on the global economy. Such crises are usually caused by weaknesses in financial systems, errors in economic policies, and imbalances in international financial markets.

The causes of financial crises are diverse, and their main factors are associated with uncontrolled credit growth, improper management of financial risks, and political uncertainty.

In addition, factors such as insufficient stability of the banking system, geopolitical conflicts, and sharp changes in commodity prices also play an important role.

The Great Depression of 1929 and the global financial crisis of 2008 occupy a special place in the history of financial crises. In the Great Depression, the global economy collapsed as a result of the collapse of the stock market in the United States, many banks closed, and unemployment rose sharply. The 2008 crisis, on the other hand, was caused by problems in the mortgage market, which damaged the entire global financial system.

The main causes of the 2008 global financial crisis:

1. Irrational mortgage lending policy. The main cause of the 2008 crisis was the granting of mortgage loans by banks in the United States to customers with doubtful repayment capacity. This practice led to an excessive increase in real estate prices, but then the market collapsed due to the inability of borrowers to repay their loans.
2. Inadequate financial regulations. In the pre-crisis period, financial institutions were excessively liberalized, which led to an incorrect assessment of risks and an increase in speculative operations. Methods of financial stimulation were based on quantitative indicators, and qualitative aspects were not taken into account.
3. Global macroeconomic imbalances. Chronic budget deficits and negative foreign trade balances in developed countries were one of the factors that exacerbated the crisis. The ratio of US foreign debt to GDP approached 90% in 2008, causing financial instability.

Impact of the crises on the world economy:

1. Slowdown in economic growth. After the crisis, gross domestic product (GDP) growth in many developed countries fell sharply. World trade volumes decreased, foreign direct investment inflows decreased by 20%, which led to a slowdown in global economic activity.
2. Increased unemployment. The decline in economic activity led to an increase in unemployment, especially in developed countries.

Lessons learned and future measures

1. Strengthening financial regulations. After the crisis, many countries strengthened financial system regulation. Banks increased capital requirements, improved risk management systems, and introduced restrictions on speculative transactions.
2. Focus on macroeconomic stability. The crisis showed that it is very important to manage budget deficits and external debt levels. Countries learned to better monitor and stabilize their macroeconomic indicators.
3. Developing social protection systems. The importance of social protection programs has increased during the crisis. In developed countries, income inequality has been reduced by one third through taxes and transfers. Developing countries, however, are weak in this area and are advised to increase social spending and distribute it more efficiently.
4. Strengthening international cooperation. Global crises cannot be solved by national measures alone. Cooperation has been strengthened through international financial institutions (IMF, World Bank) and multilateral agreements. Issues such as the uneven distribution of vaccines during the COVID-19 pandemic have shown that global cooperation is still insufficient.

5. Combating inequality. Since crises can exacerbate inequality, governments should take measures such as progressive taxation and expanding access to education and health services. At the global level, rich countries can play a major role in helping less developed countries. For example, rich countries can double the income of the poorest 10% of the world's population by allocating just 2% of their national income.

Conclusion

Mismanagement, speculative bubbles, and excessive borrowing were cited as the main causes of financial crises. These events exposed weak economic stability and structural problems in financial systems. During this period, the gross domestic product (GDP) of some countries shrank significantly, which led to widespread social problems, including high unemployment and a general sense of depression among the population. The 44th President of the United States, Barack Obama, noted that the crisis was “rooted in irresponsibility and recklessness” and emphasized the need to draw important lessons to prevent such situations from recurring. The examples of the “Great Depression” and the “Asian Financial Crisis” also show that the causes of crises are related to poor decisions and weak management. While the economic difficulties in the United States and Europe had a global impact during the Great Depression, the Asian Financial Crisis exposed the fragility of financial markets and problems in monetary policy in Asian countries. These crises went beyond national economies and revealed the inefficiency of economic cooperation and regulatory systems on a global scale. Effective regulation, strengthening global financial cooperation, and making financial markets more transparent are essential to prevent such crises in the future. Cooperation between international financial institutions and the use of advanced technologies play a special role in this. In this way, it will be possible not only to ensure economic stability, but also to strengthen the international financial system, reduce the negative consequences of financial crises, and build immunity against them in the future.

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