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GLOBAL FINANCIAL CRISES AND THEIR EFFECTS ON ECONOMIC STABILITY ACROSS DIFFERENT COUNTRIES

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Abstract

The global financial crisis of 2007–2008 and the Asian financial crisis of 1997–1998 both had significant effects on economies and society throughout the globe, which are the subjects of this research. The collapse of the hot money bubble gave rise to the Asian Financial Crisis, which started in Southeast Asia and resulted in severe economic contractions, stock market crashes, and currency devaluations in the afflicted nations. This crisis had an impact that went beyond Asia, causing political instability and inciting anti-Western sentiment. Because of the interconnection of financial markets and trade channels, the global financial crisis, which was first caused by the collapse of subprime mortgage loans in the United States, spread around the world. Especially in the US, it resulted in a severe fall in economic activity, a significant loss of jobs, and protracted economic downturns. The interdependence of the world's financial institutions and the need of concerted governmental actions to lessen their effects are highlighted by both crises. In summary, in order to create resilience against future crises and guarantee shared prosperity for everyone, it is imperative that the core causes of financial instability be addressed, regulatory changes be supported, and inclusive economic development be fostered.

Keywords: *Economic Recession, Unemployment, Crisis, Global Financial Crisis, Economic impacts, Political instability.*

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1. INTRODUCTION

The first global financial crisis of the twenty-first century was caused by the subprime mortgage market in the United States (US) and the deleveraging process that followed by international financial institutions engaged in very complicated financial transactions. The abrupt decline that followed the financial system's collapse in September 2008 affected just a small number of nations that were connected to the world's financial markets and commerce. Everyone could see how the connected events spread or escalated, starting with the unexpected and abrupt shutdown of the securitization market and ending with bank balance sheet contraction and a widespread flight to quality. The combination of these occurrences caused chaos in markets and nations all around the globe.

1.1.Global Financial Crisis (GFC)

The term "global financial crisis" (GFC) describes the period beginning in the middle of 2007 and ending in the middle of 2009, when the world's banking and financial institutions were under severe pressure. A collapse in the US real estate market during the Great Financial catastrophe (GFC) served as a catalyst for a worldwide financial catastrophe that, via interconnections in the global financial system, spread from the US to every nation on the planet. Many financial institutions throughout the world were hit hard by the financial crisis and had to rely on government assistance just to stay afloat. The most severe recessions seen by the really industrialized economies since the Great Depression The economic downturn caused a great deal of job losses. Furthermore, contrasted with past downturns that were not joined by a financial crisis, the crises' recuperation was essentially more slow.

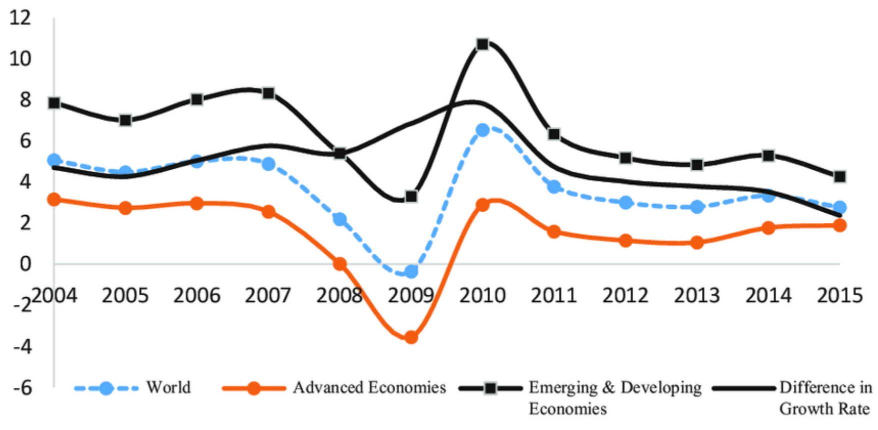

Figure 1: global economic growth before and after the global finance crisis

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1.2.Excessive risk-taking in a favourable macroeconomic environment

The US and different countries had ideal economic conditions a long time before the Incomparable Financial Crisis. Solid and consistent economic development was joined by similarly low paces of interest, joblessness, and expansion. Here, home estimations expanded fundamentally.

Apprehensive that home estimations would just ascension, families in the US specifically assumed wild obligation to purchase and build homes. Due to similar assumptions about accommodation values, property engineers and families in European nations also accepted enormous obligations. Especially in the US, an enormous number of home loan credits had totals that were comparable to or considerably more than the expense of purchasing a home. A critical piece of these dangerous credits were taken out by theorists expecting to benefit rapidly from "flipping" homes and by "subprime" borrowers, who are bound to fall flat in light of their nearly low riches and pay or earlier credit reimbursement defaults).

1.3.An increase in bank and investor borrowing

In the years leading up to the Great Recession, banks and other financial institutions throughout the world raised more capital to increase their lending and buy mortgage-backed securities (MBS). Applying for a new line of credit to purchase a resource (here and there alluded to as expanding influence) increments both imminent increases and misfortunes. Since they had acquired so a lot, banks and financial backers experienced huge misfortunes when property estimations began to decline.

Moreover, banks and a small group of investors have been receiving funds for shorter periods of time, even temporarily, in order to buy resources that aren't likely to sell soon. Thus, they depended an ever increasing number of on moneylenders, including different banks, to give them extra credits when their ongoing transient advances were repaid.

1.4.Regulation and policy errors

MBS items and subprime credits were not satisfactorily directed. In particular, there was deficient guideline of the associations that delivered and offered financial backers the murky and muddled MBS. Extortion was turning out to be more pervasive, with numerous singular borrowers getting credits that were too enormous for them to reimburse and exaggerating their pay or the security of the MBS items they were offering to financial backers, in addition to other things.

2. LITERATURE REVIEW

In 2022, Kohler, K., and Stock Hammer, E. By analysing growth factors both before and after the 2008 Global Financial Crisis (GFC), the study adds to the current discussion on growth models. It contends that since the Great Financial Crisis, the commonly accepted contrast between export-led and (debt-financed) consumption-led growth has become less relevant. In particular, when the factors influencing economic development change, determining growth models based on growth contributions may provide inaccurate findings. According to the analysis, comparative political economy (CPE) has overemphasized price competition as a growth driver, effectively disregarded fiscal policy, and underestimated the unstable character of financial growth drivers. Empirical evidence demonstrates that: (1) debt-financed growth is cyclical, with financial booms accompanied by busts and debt overhang; (2) the response of fiscal policy has a significant impact on post-GFC growth dynamics; and (3) wage deflation has had a minimal impact on price competitiveness and growth. We come to the conclusion that in order to comprehend how the GFC changed growth models, CPE must expand the scope of its examination of development factors.

Kim, H., Ryu, D., and Secure, J. A. (2020). We look at the effect of bank broadening on financial security utilizing an example of business banks settled in OECD countries, and we find a quite nonlinear (i.e., modified U-molded) association. As per these outcomes, banks are more steady when they are modestly broadened, though outrageous variety has the contrary effect. Moreover, we discover that there is a time component to this interaction. For instance, before to the financial crisis, bank stability variance was reduced by bank diversification; yet, during the crisis, this variance rose. As a result, it is preferable for banks to focus on their core lending and deposit operations during times of crisis as opposed to expanding their business and investment portfolios. Besides, that's what the discoveries suggest despite the fact that bank enhancement is advanced by most of controllers globally with an end goal to bring down bank risk, it might rather deteriorate financial precariousness in banks or raise the chance of a financial market breakdown on account of particular events like financial crises.

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A. Sufi and A. M. Taylor (2022). Due to their significant negative consequences on economic activity, financial crises have been the subject of much investigation. This review examines the body of research on financial crises, including the measurement of crises, their predictability, and the reasons for their correlation with recessions in the economy. Although the fundamental methods of evaluating crises remain historical narrative approaches, there have been significant advancements in the use of quantitative data as well. Growth in credit and high asset values are two factors that contribute significantly to the prediction of crises; current research persuasively demonstrates the role that behavioral biases play in explaining this predictability. Both the crisis itself and the imbalances that lead up to it are to blame for the unfavorable effects. Financial crises are not a random occurrence, thus studying the booms that precede them is necessary to comprehend financial catastrophes.

Li, Z., Itani, R., Farmanesh, P., & Kirikkaleli, D. (2022). Globally, the COVID-19 situation has had profoundly negative impacts on several economies, exacerbating their circumstances and perhaps precipitating a severe recession or even depression. Throughout recent months, there has been a critical expansion in the quantity of positive cases, and the quantity of passings has likewise topped. The objective for this investigation is to find out what effects the global financial crisis and the Coronavirus pandemic have had on the US economy's macroeconomic indicators. On top of that, it provides an enthralling, visually appealing analysis and connection between the Coronavirus outbreak and the worldwide financial crisis. For this study, we referred to the standard procedures and tables. Graphs depicting the last months of 2008 and the start of the worldwide financial crisis in 2009 have been used. Furthermore, the main portion of the Coronavirus pandemic's spread has been thought of. The discoveries have checked that the Coronavirus pandemic presently influencing the world's economy is more extreme than what the global financial crisis had been. Moreover, the ongoing pandemic's impact of the crisis on the probability of a downturn is short of what it was during the global financial crisis.

Iyke, B. N., Sharma, S. S., Phan, D. H. B., & Affandi, Y. (2021). This review looks at how financial stability is affected by uncertainty in economic policy. By using data from 23 nations between 1996 and 2016, we demonstrate that the effect is statistically significant and unfavorable. In terms of economic policy, for every one standard deviation increase, financial stability decreases by 2.66 to 7.26 percent of its sample mean. Smaller financial systems, less

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regulatory capital, and higher levels of competition are places where economic policy uncertainty has a more negative impact on financial stability. Using bank-level data and several global panel portfolio designs, we demonstrate the robustness of our findings while accounting for endogeneity, the Global Financial Crisis, and Z-score skewness.

3. CASE STUDIES OF MAJOR FINANCIAL CRISES

3.1. Asian Financial Crisis (1997)

The Asian Financial Crisis has its roots in the bursting of the hot cash bubble and the collapse of the scale of cash exchange. From its July 1997 beginnings in Thailand, it quickly expanded across East and Southeast Asia. The financial crisis had a significant impact on the prices of resources, stock markets, and currencies in many East and Southeast Asian nations.

- **The Asian Financial Crisis's causes**

For many perplexing and dubious causes, the Asian financial crisis occurred. The burst of the hot money bubble is seen to be one of the main causes. Several Southeast Asian nations, including South Korea, Indonesia, Malaysia, Singapore, and Thailand, had massive economic growth in the late 1980s and early 1990s, with GDP (Gross domestic product) increases ranging from 8 to 12 percent. The feat was hailed as the "economic miracle of Asia." Still, there was a major peril related with the achievement.

Unfamiliar venture and expanded trades were the essential drivers of economic extension in the previously mentioned countries. To attract hot cash, exorbitant loan costs and fixed money trade rates (connected to the US dollar) were set up. Moreover, the conversion scale was set at a level that leaned toward exporters. In any case, in view of the proper money conversion standard system, the capital market and partnerships stayed helpless against unfamiliar trade risk.

After the US rose up out of a downturn during the 1990s, the Central bank expanded loan costs to battle expansion. The U.S. dollar appreciated because of hot cash streaming into the market because of the greater financing cost.

The enthusiasm for the dollar-fixed monetary standards additionally prevented the advancement of commodities. A shock to sends out and unfamiliar speculation caused resource

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values, which were intensely utilized by credit, to begin falling. The global financial backers began to take out in a frenzy.

The huge scope capital flight put squeeze on the monetary forms of the Asian countries, making them debilitate. At first, the Thai government had to drift the baht since it ran out of unfamiliar trade to keep up with its swapping scale. Thus, the baht's worth crashed immediately. Before long, exactly the same thing happened to the excess Asian countries.

- **The Asian Financial Crisis's aftereffects**

The countries of Indonesia, Thailand, Malaysia, South Korea, and the Philippines were the most ridiculously seriously hit by the Asian Financial Crisis. Their securities exchanges, cash trade rates, and the worth of different resources generally fell. The influenced countries' GDPs even saw twofold digit declines.

Ostensible Gross domestic product per capita fell in the accompanying nations somewhere in the range of 1996 and 1997: Indonesia, 21.2%, Thailand, 19%, Malaysia, 18.5%, South Korea, and 12.5%. Less decisively, Hong Kong, Central area China, Singapore, and Japan were undeniably influenced.

The Asian Financial Crisis has political impacts notwithstanding economic ones. Suharto, the leader of Indonesia, and Yongchaiyudh, the state head general of Thailand, both offered their abdications. Hostile to Western feeling was stirred, especially coordinated towards George Soros, who was considered mindful by some for actuating the crisis through huge money hypothesis.

The impact of the Asian Financial Crisis was not confined to Asia. Global banks and financial backers lost revenue in loaning to and putting resources into emerging countries, in Asia as well as around the world. The strife likewise caused a drop in oil costs. Along these lines, the oil business saw various critical consolidations and acquisitions to get economies of scale.

- **The Asian Financial Crisis and the IMF's Role**

The Global Money related Asset (IMF) is an overall establishment that upholds financial solidness, decreases destitution, and supports worldwide trade and global financial participation. During the financial crisis, the IMF made many salvage bundles for the most

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weak countries. To hold them back from defaulting, South Korea received $59 billion, Indonesia received $40 billion, while Thailand received bundles totaling around $20 billion.

The rescue plans consist of structural modification plans. The nations that got the packages were instructed to sharply increase interest rates, cut down on government expenditure, and let bankrupt banking firms fall. Supporting currency values and trust in the nations' solvency was the goal of the changes.

3.2.Global Financial Crisis (2007-2008)

A financial crisis occurs when there is a significant impact on the way the financial system operates. The financial system consists of investment banks, mutual funds, banks, and so on. A financial crisis is characterized by a precipitous drop in asset values and loan volume, disruptions in financial intermediation, serious issues with balance sheets, and extensive government involvement. They are multifaceted and preceded by booms in assets and credit, which finally result in busts before the authorities recognize or do action to stop them.

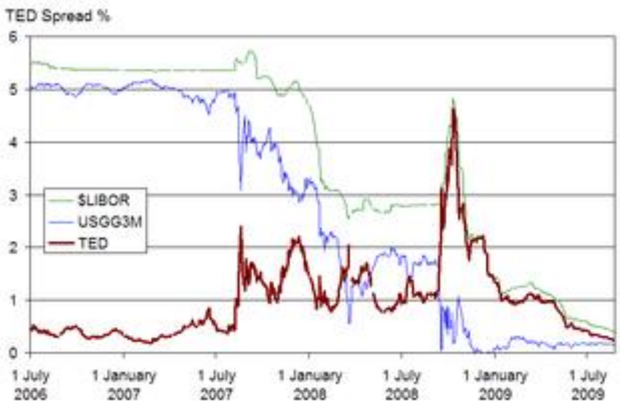

Figure 2: 2007-2008 Financial Crisis

The main reasons for the world crisis The subprime mortgage loan crisis is seen to have been the catalyst for the global financial crisis of 2008, which resulted in the biggest and steepest decline in global economic activity in modern history.

- The subprime mortgage market's high default rate was caused by the following factors;
- Low mortgage interest rates promoted lending.

- Securitization, in which mortgages were bundled into a new financial instrument and offered as low-risk securities (backed by insurance on credit default swaps) in the secondary markets.)
- The public authority gave contract ensures, which urged banks to bundle and sell some high-risk credits to financial backers and government associations, with the public authority covering the misfortunes.
- The Community Reinvestment Act (CRA), approved by the US federal government, allowed low-income individuals (high risk borrowers) to get mortgage loans; predictably, many were not cleared.

❖ **Market features and conditions that constitute a financial crisis in general**

The most common characteristics of a financial crisis are the following: a sudden change in economic indicators, such as interest rates, inflation levels, currency exchange rates, declining unemployment rates, lower gross domestic product, and trade balances; disruption in financial intermediation, which can be attributed to default rates and the ensuing loss of confidence in the market. Research has also shown that there was a lot of liquidity in the global capital markets, which was fueled by significant payment imbalances between the major nations and areas of the global economy. Specifically, the United States has a significant and ongoing current account deficit, which is financed by a lot of capital flows from emerging and oil-exporting nations. Without the emergence of robust international financial markets, these "global" imbalances would not have been able to support the boom in financial activity for very long.

4. EFFECTS OF FINANCIAL CRISES ON ECONOMIC STABILITY

Two primary causes led to the crisis being really global: the abrupt increase in risk aversion and financial market volatility spread around the globe due to the high degree of global financial market integration. Furthermore, the abrupt decline in demand spread quickly across the whole global supply chain, particularly for capital-intensive industries. Since supply chains and financial markets are more integrated in Europe than they are globally, the crisis has affected every member nation, including those that had not displayed any signs of a bubble (i.e., had stable housing prices and no increase in leverage).

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4.1.GDP Contraction and Recessionary Impacts

A persistent decline in economic activity is the definition of contraction in the language of economics. Decreases in employment, industrial output, and GDP are its defining features. One may characterize it as a downturn in the overall economy. A period of economic decline may last many years or just a few months. A more severe kind of economic downturn that lasts for at least half a year is called a recession. It is distinguished by a two-quarter run of declining GDP. While recessions are more severe and can result in a lower standard of living, contractions of the economy are thought to be a normal part of the business cycle.

Recessions often follow economic contractions. A recession is a prolonged period of significant drop-in overall economic activity. Generally speaking, a recession is defined as two quarters of economic downturn that occur back-to-back.

4.2.Unemployment Spikes and Labour Market Disruptions

The US encountered its most terrible economic interruption since the 1930s Economic crisis because of the Incomparable Downturn of 2007-2009. While economic downturns are not unusual, the length and intensity of the most recent recession were unprecedented. Since the Great Depression, this recession has lasted the longest. The length of the recession from December 2007 to June 2009 was eighteen months, longer than the sixteen-month recessions from 1973–1975 and 1981–1982, with an average of 11.1 months between the top and the bottom of the post–World War II recessions. The Great Recession was particularly bad; median family incomes fell by almost 8%, the GDP and employment count fell by roughly 6%, and so on. In view of the Public Department of Economic Exploration's dating philosophy, the Incomparable Downturn was particularly meriting its moniker because of the delayed decrease in work that continued even after it was announced to be done.

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Figure 3: Unemployment On the Economy and The Society

The inability of motivated and capable people to find adequate job, or unemployment, has a significant negative influence on economies and society. In terms of the economy, it hinders GDP and growth, lowers productivity, and puts pressure on government budgets by increasing welfare expenditure and decreasing income. Socially, it exacerbates economic disparity, causes financial stress, and negatively impacts some groups more than others. In response, governments implement measures like financial stimulus packages, job-creation plans, and educational campaigns. Looking forward, tackling the possibilities and problems of unemployment, assuring resilience, and promoting equal prosperity need adjusting to technology advancements and encouraging inclusive development.

5. CONCLUSION

The Asian Financial Crisis of 1997 and the Global Financial Crisis of 2007–2008 are the two main financial crises that are examined in this book. Both crises had a profound effect on society and economy throughout the globe. The burst of the hot money bubble in Southeast Asia set off the Asian Financial Crisis, which resulted in severe economic contractions, stock market meltdowns, and currency devaluations in the afflicted nations. It had an impact that went beyond Asia, causing political unrest and inciting anti-Western feelings. Because of the interconnection of financial markets and trade channels, the global financial crisis, which was first caused by the collapse of subprime mortgage loans in the United States, spread around the world. Especially in the US, it resulted in a severe fall in economic activity, a significant loss of jobs, and protracted economic downturns. The interdependence of the world's financial institutions and the need of concerted governmental actions to lessen their effects are

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highlighted by both crises. In summary, in order to create resilience against future crises and guarantee shared prosperity for everyone, it is imperative that the core causes of financial instability be addressed, regulatory changes be supported, and inclusive economic development be fostered.

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