

THE BASIC FINANCIAL FEATURES OF THE CURRENT GLOBAL ECONOMIC CRISIS

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Abstract: Now, the analysis carried out demonstrates the global economic difficulties, which are largely due to the consequences of the pandemic crisis, the outbreak of the energy crisis and the war between Russia and Ukraine. The current global economic cataclysm also has certain financial features. First, it is about raising the level of global inflation and, consequently, interest rates on the financial market. Secondly, it is worth mentioning the formation and maintenance over a long period of the global debt bubble, which threatens the stability of the world financial system. Thirdly, in the year 2022, the currency wars began to take place on the international currency market, which can have an important impact on some segments of the world economy, as well as the economies of many countries. The study of these global processes is critical for reexamining the economic and financial policies of those affected.

Keywords: pandemic crisis, post-pandemic economic and financial crisis

JEL classification: F65, G01

Introduction

Now, we are living in an unprecedented period oriented towards changing the international economic and financial arrangements that have been established for a long time.

Recently, Pierre-Olivier Gourinchas mentioned "the displacement of geopolitical tectonic plates", declaring the following: "The Russian invasion of Ukraine has opened a new chapter in international relations, with important implications for the global economic order". In addition: "The war has brought the potential instability of the current global economic order into sharp relief." (Gourinchas, 2022)

On the other hand, Prachi Mishra and Antonio Spilimbergo (the International Monetary Fund), made an important statement for the academic world interested in studying the evolution of financial globalization. If we consider their analyses, the war between Russia and Ukraine divided the period of 2020–2022 into two large parts (Mishra, Spilimbergo, 2022):

- The first part represents the pandemic economic and financial crisis, which took place between February 2020 and February 2022.
- From February 24, 2022, with the launch of Russia's armed invasion of Ukraine, the second part began in the form of a new economic and financial crisis, which may become the third global economic-financial cataclysm of the 20th century and which may enter the history of world finance with the name *post-pandemic crisis*.

World Bank specialists confirm the difficult economic situation worldwide: "Global growth is expected to slump from 5.7 percent in 2021 to 2.9 percent in 2022— significantly lower than 4.1 percent that was anticipated in January." (*Stagflation...*, n.d.)

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Moreover, World Bank President David Malpass said: “The war in Ukraine, lockdowns in China, supply-chain disruptions, and the risk of stagflation are hammering growth. For many countries, recession will be hard to avoid.” (*Stagflation...*, n.d.)

In the World Bank Global Economic Prospects Report from June 2022, it is stated: “The world economy continues to suffer from a series of destabilizing shocks. After more than two years of pandemic, the Russian Federation’s invasion of Ukraine and its global effects on commodity markets, supply chains, inflation, and financial conditions have steepened the slowdown in global growth. In particular, the war in Ukraine is leading to soaring prices and volatility in energy markets, with improvements in activity in energy exporters more than offset by headwinds in most other economies. The invasion of Ukraine has also led to a significant increase in agricultural commodity prices, which is exacerbating food insecurity and extreme poverty in many emerging market and developing economies (EMDEs). Numerous risks could further derail what is now a precarious recovery.” (*Global Economic...*, n.d.)

The post-pandemic crisis was reflected in the prophecies of some experts.

For example, In the second half of 2020, the authors Fetiniuc, Luchian and Tvircun admitted the possibility of triggering a financial crisis following the manifestation of the following factors (Fetiniuc et al., 2020):

- The medium-term manifestations of the consequences of the cyclical international economic crisis;
- The impact of the consequences of the economic crisis of the COVID-19 pandemic;
- Exacerbating the problems of global economic and financial imbalances.

Once the global economic crisis is triggered, it will have certain financial aspects, which will be examined in this publication.

Description of the Problem

The predictions of the economic prophets have now become reality. With the outbreak of the war between Russia and Ukraine, it has become obvious that the entire global economic community has moved from the pandemic crisis to the post-pandemic economic and financial one. This process provides new experience for researchers of the links between globalization and international economic and financial crises. Apart from the traditional consequences of such cataclysms, the current crisis tends to affect the fundamentals of the international financial system. All these are of major importance for the respective adjustments of the economic and financial policies of the affected countries.

Methodology and Data

The study started with the examination of the economic and financial databases of different international institutions. Then the articles published by experts in the studied field from different countries were researched. All this allowed the elaboration of the synthesis table on the global international economic and financial crisis and the elaboration of the related conclusions.

Results

The study carried out allows the presentation of the general model of the post-pandemic economic-financial crisis (Figure 1).

In our opinion, the current global economic and financial crisis is largely determined by three groups of basic factors:

- The consequences of the global pandemic crisis;

- The impact of the global energy crisis;
- The negative influence of the armed conflict between Russia and Ukraine.

The analysis of international economic statistics leaves no doubt that the global pandemic crisis was a strong shock to the world economy, expressed by reductions in some indicators in 2020 compared to 2019:

- Decrease in production by 6.8% (*Sustainable...*, n.d.);
- Reduction in global trade by 8.9% (*How...*, n.d.);
- Decrease in the volume of world trade in goods by 5.3% (Zhang, 2021);
- Reduction in the world market for services by 9.2% (*Global Services...*, n.d.).

Likewise, disruptions to supply chains have been, as has the transmission of demand and supply shocks through supply chains and their propagation across borders.

In addition, the pandemic crisis had a complex of financial consequences:



Figure 1 - The model of the current global economic and financial crisis

Source: developed by the authors

- Increase in the level of global inflation;
- Demonstration of the instability of the liquidity of the global financial market;
- Global disturbances on the capital markets;
- Provocation of exchange rate fluctuations on the international currency market;
- Temporary reduction of the global volume of official reserve assets;
- Increase in global debt;
- Significant reduction in the volume of direct investments.

In our opinion, this shock will have effects that propagate over time.

Wikipedia approaches the energy crisis (or energy shortage) as “any significant bottleneck in the supply of energy resources to an economy. In literature, it often refers to one of the energy sources used at a certain time and place, in particular, those that supply national electricity grids or those used as fuel in industrial development and population growth have led to a surge in the global demand for energy in recent years.” (*Energy...*, n.d.)

In particular, “the 2021–present global energy crisis is the most recent in a series of circular energy shortages experienced over the last fifty years”. (*2021...*, n.d.)

According Fatih Birol, the global energy crisis “has pushed up energy prices for many consumers and businesses around the world, hurting households, industries and entire economies – most severely in the developing world where people can least afford it”. (Birol, 2022)

The Russia-Ukraine war has become an additional factor of international economic and financial destabilization.

According to some experts, it has “an outsized impact on the global supply chain, impeding the flow of goods, fueling dramatic cost increases and product shortages, and creating catastrophic food shortages around the world”. (Stackpole, 2022)

In our opinion, inflation can be considered as a primary sign of the current global financial crisis.

At the same time, opinions regarding global inflationary trends are different.

In May 2021, the famous billionaire investor Warren Buffett drew attention to the substantial inflation in the US economy, which had as its main causes the acute shortage of raw materials and a large volume of savings among those who kept jobs, which could not be done due to lockdowns as anti-pandemic measures. (Jolly, 2021)

In July 2021, financial experts, especially Yakushova, Mironenko, and Astognei (2021), The compression of the global economy in 2020 was so sharp and the exit so fast that developed and developing countries were engulfed in a wave of inflation in the period May 2020–May 2021.

In December 2021, experts from Nomura Holdings Inc. state: “The bigger risk facing the global economy by late 2022 could be stagnation, not stagflation, as cost-driven price pressures hurt still-weak domestic demand and tighter fiscal and monetary policies turn into a drag... For most countries, there is a “dominance of cost-push inflation -- the bad type of inflation that squeezes profit margins, erodes real household income and tends to self-correct when demand is weak” (Lee, 2021)

Many specialists have expectations for long-term inflation growth because of the influence of a combination of factors (Luchian, Filip, 2022):

- The unprecedented influx of trillions of central banks important to the world financial system into the economies of the respective countries;
- The high level of savings accumulated by citizens during isolation;
- The success of vaccination end masse in Western countries, opening up all new opportunities to spend money every month.

Now, the controversies in the specialized information environment are placed between inflationary expectations and stagflation at the global level.

The basic trends in the field of global inflation are presented in Figure 2.

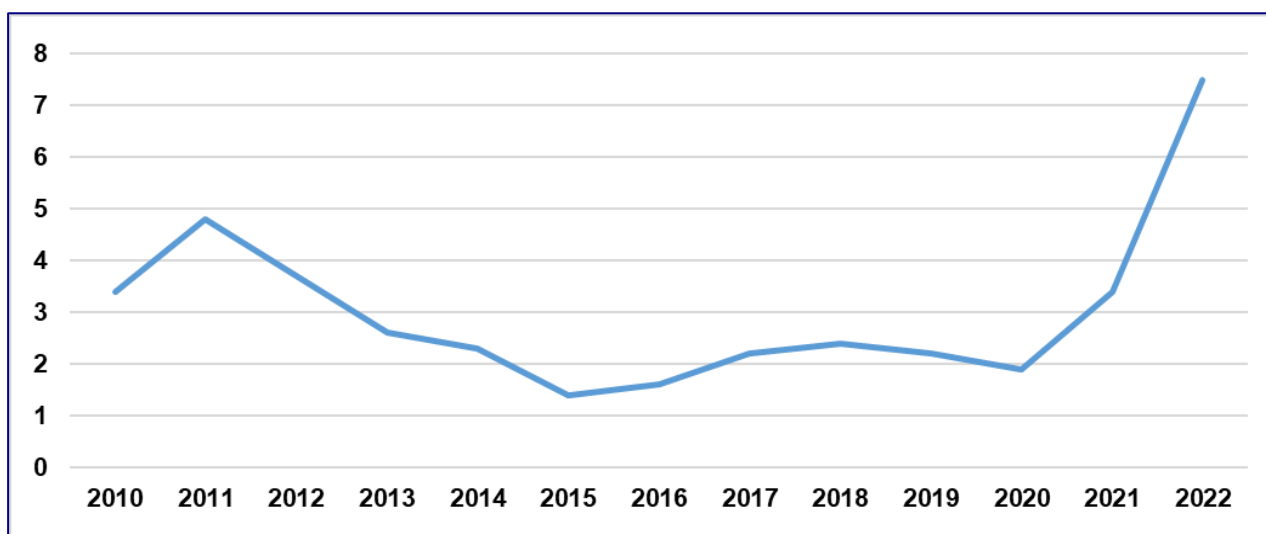


Figure 2 - Dynamics of global inflation (%)

Source: *(Inflation..., n.d.)*, *(Global inflation..., n.d.)*

The upward trend started in 2020 at the level of global inflation of 1.9%, followed by the level of 3.4% in 2021.

According to some experts, the global inflation rate for the end of 2022 can reach 7.5%. *(Global inflation..., n.d.)*

In September 2022, Justinas Liuima stated “Under the baseline scenario, global inflation is now predicted to reach 8.7% in 2022 and then fall to 5.3% in 2023”. *(Liuima, 2022)*

In turn, the author Lan Ha affirms: “Under the global stagflation scenario, global real GDP growth would be 0.5-2.0 percentage points below the baseline forecast and fall to 0.7-2.5% in 2022, followed by a figure of between -1.3% and 1.0% in 2023. Global inflation would rise to 7.2-9.4% in 2022 and 5.7-8.3% in 2023.” *(Ha, 2022)*

Expectations of rising inflation have launched the process of raising interest rates.

For example, the Federal Reserve in September 2022 raised the interest rate on federal funds 0.75 percentage points, the new target range being of 3.00% to 3.25%. *(Kolakowski, 2022)*

The average level of US Dollar LIBOR rates in 2022 increased from 0.076% in January to 2.315 % in August. *(US Dollar..., n.d.)*

In September 2022, the European Central Bank decided to raise rates by 0.75 percentage points to 1.25%. *(ECB..., n.d.)*

The average EURIBOR rate increased from (-0.576%) in January 2022 to 0.424% in August 2022. *(Euribor..., n.d.)*

The second financial factor of the worldwide crisis remains the global debt bubble (Figure 3). In the first quarter of 2022, the volume of global debt reached a level of 305 trillion USD, continuing the rising level launched since the beginning of the 2000s.

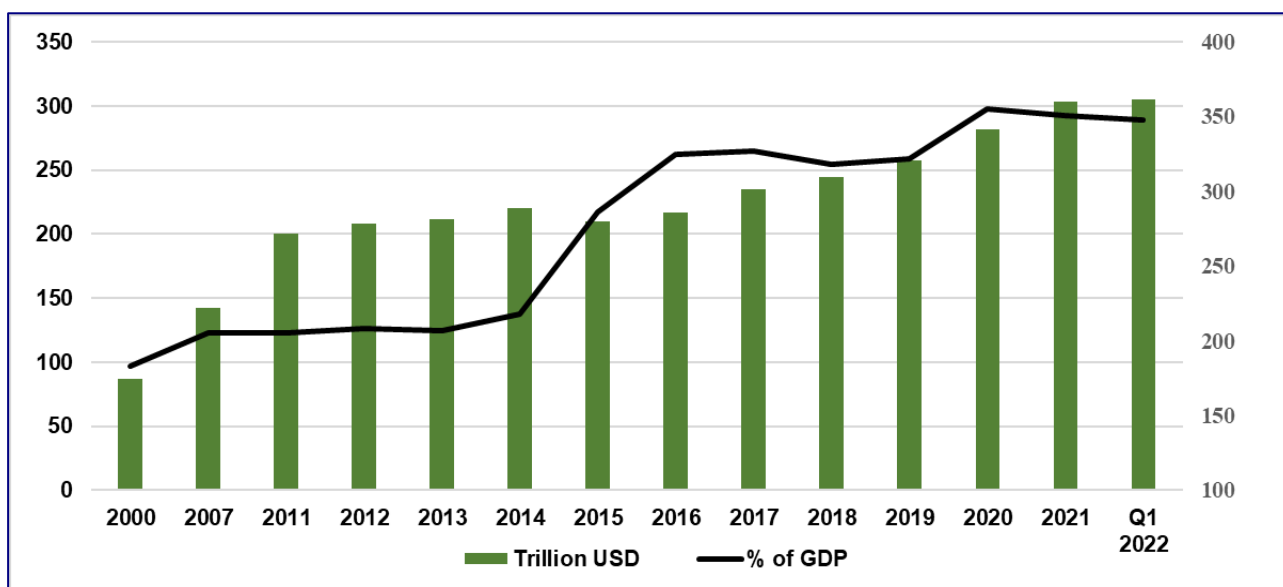


Figure 3 - Global debt dynamics

Source: (Luchian, Filip, 2022), (Wilkes, 2022)

Nevertheless, its share of GDP decreased from 355% in 2020 to 348% in the first quarter of 2022, remaining at an extremely high level.

This increase is largely due to the increase in debt in China by 2.5 trillion USD and in the United States - by 1.5 trillion USD.

In this context, some experts mention: “Global government debt jumped 7.8% in 2021 to \$65.4 trillion as every country assessed saw borrowing increase, while debt servicing costs dropped to a record low of \$1.01 trillion... Global sovereign debt is expected to climb by 9.5% to a record \$71.6 trillion in 2022, according to a new report, while fresh borrowing is also broadly set to remain elevated”. (Smith, 2022)

Regarding private sector debt, Rodrigo Campos stated: “Corporate debt outside banks and government borrowing were the largest sources of the increase in borrowing, with debt outside the financial sector rising above \$236 trillion, some \$40 trillion higher than two years ago when the COVID-19 pandemic hit”. (Campos, 2022)

An uncertain situation has been created in the field of foreign direct investments (FDI).

In 2021 global flows of FDI recovered to pre-pandemic level, reaching 1.6 trillion USD. However, for the year 2022, the prospects are very pessimistic. According to UNCTAD experts: “This year, the business and investment climate has changed dramatically as the war in Ukraine results in a triple crisis of high food and fuel prices and tighter financing. Other factors clouding the FDI horizon include renewed pandemic impacts, the likelihood of more interest rate rises in major economies, negative sentiment in financial markets and a potential recession”. (UNCTAD, 2022)

The examined crisis also affected the world capital market.

Thus Matthew Toole (2022) comments on the situation for the first half of 2022 as follows: “The biggest falls have been in equity markets, where issuance has slumped 67% year-on-year to raise just \$237bn, the slowest opening half since 2005. Meanwhile, the number of issues reached just 2,000, a fall of 48% and a 10-year low. It was a similar story for secondary

offerings, down 63% by value and 48% by number of follow-ons. Convertible offerings have become particularly unloved, suffering a 78% drop in proceeds.”

In 2022, some processes carried out on the international currency market were treated as currency wars.

In the classic sense, the term "currency war" refers to the intentional depreciation of a currency in order to obtain competitive advantages in international trade. On the other hand, the reverse currency war implies a competitive appreciation expressed by strengthening currencies in order to control inflation. (Frankel, 2022)

In May 2022 the expert Jeffrey Frankel writes: “The US dollar is up 12% against the euro over the past year and, at €0.93, is approaching parity. If prices of oil and other commodities now seem high in dollar terms, they look even higher in euros. With the greenback surging, and inflation in many countries currently at multi-decade highs, we may be entering so-called “reverse currency wars” – in which countries compete to strengthen their currencies’ foreign-exchange values.” (Frankel, 2022)

In June 2022, in the opinion of experts Amelia Pollard and Saleha Mohsin, a real global currency wars have begun now against the backdrop of inflationary processes. (Pollard, Mohsin, 2022)

The US dollar strengthened against a number of currencies. Thus, the EUR/USD exchange rate decreased from 1.1364 on 01/03/2022 to 1.0022 on 09/19/2022. Likewise, the GBP/USD exchange rate decreased from 1.3403 on 01/01/2022 to 1.1394 on 09/19/2022. (*Yahoo...*, n.d.)

In these conditions, some experts consider that “the yuan will be the most stable major currency amid the dollar's general strengthening trend, underpinned by China's solid economic fundamentals, its sizable international payments surplus, and its strong trade and investment performances”. (Daye, 2022)

As during the pandemic crisis, the post-pandemic crisis has episodically caused a semi-effective increase in current gold prices. (Figure 4)



Figure 4 - Dynamics of world gold prices (USD/oz)

Source: (Gold..., n.d.)

In March 2022, they reached the level of 2052.6 USD for an ounce.

Conclusions

The global economic and financial crisis has become a reality with uncertain prospects. Along with the basic economic problems, its financial aspects should also be highlighted. The main global financial difficulty has become the high level of inflation and, consequently, the increase of interest rates on the financial market, which tends to trigger a chain reaction resulting in the deepening of the financial crisis. In addition, an important risk factor remains the global debt bubble, whose behavior remains unpredictable. Likewise, important qualitative movements take place in the international currency market. The current manifestations of the global economic and financial crisis create serious uncertainty for the operation of the basic segments of the world financial market.

Future Directions

The current global economic and financial crisis is in full swing. The current post-pandemic crisis offers a unique experience of an economic and financial nature for perfecting the concepts related to the mechanisms of global cataclysms of this kind in order to develop anti-crisis measures. In order to make definitive conclusions regarding global post-pandemic crisis, it is necessary to determine the end of this process. Therefore, it will be necessary to continue the observations on the unfolding of events and synthesize the related results.

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