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QUALIFICATION PAPER

on the topic " THE CRISIS IN THE GLOBAL AND NATIONAL FINANCIAL MARKET AND METHODS OF ITS EARLY WARNING "

Specialty 292 "International Economic Relations"

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ABSTRACT

on bachelor's degree qualification paper on the topic

student Vynohradov Vladislav

Against the background of the recent and current global financial crisis traceable to corporate irresponsibility on the part of some financial sector players in developed countries especially the United States of America in the housing and credit markets, many economists and non-economists are raising their voices against globalization of finance. In simple language, globalization of finance is evident as the integration of the financial systems of many countries of the world. On the other hand, the financial crisis describes various negative changes in the financial system evident as the sudden loss of value of assets, banking sector panics, credit crunch, sovereign defaults and stock market crashes among others.

The recent financial crisis has resulted in major losses on the part of individuals and corporate entities and nations even with reports of high-profile businessmen committing suicide following the loss of huge sums of money. This paper thus seeks to look at the problem of the spread and effects of the financial crisis from the scope of one country to another, especially among developing countries.

We can see many views on the causes of the financial crisis and it can include high personal and corporate debt, the inability of homeowners to make mortgage payments, poor sense of judgement by borrowers and lenders, speculation and overbidding during borrowing period, risky mortgage products, complex financial innovation that concealed default risk, lack of proper government regulation. The other important question on the other hand is whether globalization of finance’s benefits outweighs the adverse effects.

The global economic crisis that started in 2008 has engulfed the entire world and has laid waste to the process of globalization that was blamed by many as being the root cause of the crisis.

After the American Investment Bank, Lehmann Brothers filed for Bankruptcy in September 2008, the entire global financial system was at the risk of

collapse because of the integrated and interconnected nature of the global economy.

However, it would not be fair to say that globalization alone is responsible for the crisis and individual governments had a role to play in ensuring that their economies were well regulated and insulated from global shocks. This line of thinking holds the view that though the global economy is integrated, a mixture of policies designed to keep the flows of hot money and capital in check and ensuring proper regulation would have gone a long way in insulating the economies of the world from the aftershocks of the global economic crisis. The growth of trade, deliberate removal of barriers and the advancement of technology have led to the integration of the financial systems of nations with each other. This however has both beneficial and adverse consequences depending on what factors are on display at any point in time not minding the present financial crisis in the world.

Globalization, which is promoted by the growth of technology, migration, trade, tourism, currency convertibility and capital account liberalization makes the mobility of capital higher than it has ever been in the history of mankind. Individuals and firms who own idle funds do benefit from the globalization of finance largely through the possibility of reduced risk and improved returns synonymous with global diversification.

There are signs that are used for predicting crisis such as high unemployment, near-bank collapse, and an economic contraction. financial crises occur following either bank runs or a sudden severe drop of asset prices in capital markets, both of which will consequently cause the collapse of big financial and non-financial firms.

Using historical data on financial crises around the world, we show that crises are substantially predictable.

The combination of rapid credit and asset price growth over the prior three years, whether in the nonfinancial business or the household sector, is associated with about a 40% probability of entering a financial crisis within the next three years.

Financial crises are substantially predictable byproducts of rapid expansions of credit accompanied by asset price booms that show that rapid credit growth and asset price growth predict banking crises in 34 countries between 1970 and 1999, these are called "early warning indicators". One critical early warning is "super-exponential growth" in investment returns — 5% in year one, 10% in year two, 20% in year 3, and so on. This was the level of growth that inflated the bubble prior to 2007.

Financial crisis mostly caused by deregulation in the financial industry. That permitted banks to engage in hedge funds then demanded more mortgages to support the profitable sale of these derivatives. For example, in 2007-2009 economic conditions in the United States and other countries were favourable. Economic growth was strong and stable, and rates of inflation, unemployment and interest were relatively low. In this environment, house prices grew strongly. Expectations that house prices would continue to rise led households, in the United States especially, to borrow imprudently to purchase and build houses. A similar expectation on house prices also led property developers and households in European countries to borrow excessively. Many of the mortgage loans, especially in the United States, were for amounts close to the purchase of a house A large share of such risky borrowing was done by investors seeking to make short-term profits.

TASKS FOR BACHELOR'S DEGREE QUALIFICATION PAPER

MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE
SUMY STATE UNIVERSITY
Educational and Scientific Institute of Business Technologies "UAB"
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TASKS FOR BACHELOR'S DEGREE QUALIFICATION PAPER

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1. The theme of the paper is THE CRISIS IN THE GLOBAL AND NATIONAL FINANCIAL MARKET AND METHODS OF ITS EARLY WARNING approved by the order of the university from « __ » __________ 20 __ №___

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3. The purpose of the qualification paper is ___ ____________________________
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4. The object of the research is statistical, historical and theoretical work research on the problems of the financial crisis

5. The subject of research is information about past crises incidents and modern financial problems as well as recessions

6. The qualification paper is carried out on materials ______________________
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Chapter 1 Theoretical foundations of development, causes and effects of financial crises in the global and national economy

(title, the deadline for submission)

Chapter 1 deals with Theoretical overview of the topic, causes and effects of the crisis, history background of the crises and impacts of crises on global economy
(the content of concrete tasks to the section to be performed by the student)

Chapter 2 Theoretical and methodological bases of forecasting and overcoming financial crises

Chapter 2 deals with ways of predicting the crisis, methodical bases of predicting it, ways of overcoming the crisis, modern day crises problems, and lessons we can learn from the past cases
(the content of concrete tasks to the chapter to be performed by the student)

Chapter 3 ____________ ____
____
(title, the deadline for submission)

Chapter 3 deals with____
____
____
____
(the content of concrete tasks to the chapter to be performed by the student)

8. Supervision on work:

Chapter	Full name and position of the advisor	Date, signature	
		task issued by	task accepted by
1			
2			
3			

9. Date of issue of the task: « ___ » ______20 _

Research Advisor: _____ _______ ______________
(signature) (full name)

The tasks has been received: _____________ _______________
(signature) (full name)

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INTRODUCTION

In modern world problem of financial crisis is an important part of economic life. Global financial crisis can affect multiple countries and economies at once, and national economic crisis is another part of this qualification paper. I find this theme very interesting and important to learn as it brings a lot of inside information about how financial mechanisms work, and how some mismanagement or unprofessionalism can bring so much problems not only for national economy but for global economy as a whole.

According to Investopedia financial crisis can be described as: financial crisis is when a financial instrument and asset have a huge decrease in value. After that businesses usually face trouble when they are unable to meet their financial obligations, and financial institutions don't have sufficient number of money or any convertible assets to fund projects and meet immediate needs. After that investors lose their confidence in the value of their assets and incomes of consumers and assets are usually compromised, making it very difficult for them to pay their debts.

To understand what can cause financial crisis you need to look at a specific crisis that occurred, but most frequently financial crisis isusually can be caused by overvalued assets, systematic and regular failures, and is often results in consumer panic, likes a large number of customers withdrawing their funds from a bank after learning of the institution's finance troubles. In this paper I want to find out how crisis of 2007-2008 occurred, what was the main cause and also understand how can we anticipate future cases of crisis, also how to anticipate in not only on global level but also how can it affect national economies. The other part I want to identify is the stages of financial crisis and how it can help to notify the crisis.

Reason I chose this theme in particular is that I think it brings not only the lessons about past crisis but also historical, and sociological value as most of the time big financial crisis can leave a mark on a country's history not only

historically but also culturally. Aside from my interest in the historical value of thistopic it is, in my opinon the lessons that weshould learn and know to apply them to prevent future creation of bubbles and mismanagement of crises cases that makes this topic of past crises even moremore important as alesson for scientists, statistical information workers, and goverment policymakers.Thissubject of financial crises not onlyhelps us tobetter understand financial and credit markets institution at national and international levels.Usually as we can see from the history government, policymakers and credit institutions respondto financial crisis by developing and creating institutions, agencies, and new regulation to fast during and aftermath of crises. We can not only learn of the successful actions but also from the failures to improve our wayto design the institutions,policies,and also market and bank regulation which in future can reduce the incidence and dangers of financial crisis. Let's look at the Federal Reserve for example. It was funded as a wayof dealing with Wall Street crisis back in1907, and FDIC with other major banking regulations were only introduced as far asin the 1930s during the Great Depression, 2008 crisis also forced countries to start sweeping reforms of national and international financial markets just as banks to implement tighter risk management productivity. Looking at those cases I can clearly tell that subject of crises helps us understand the work of an economy, how it is structured, and it's responses to domestic and external shocks.Statistycal information of the debt, currency, bank, and also inflation crises have, among other things, better our understanding of monetary flows, rate regimes,the role of interest rates,and macro linkages and helped develop plan which in future have influenced most developed banks and government policies.

The literature I found on this study varies from historical overviews of crises caused by macroeconomic mistreating or analytical work of financial systems with problems that are caused by the mistreating of banks and markets, credit obligations and financial institutions. Usually crisis recognized by mostknown features as: unusual level of banking asset prices and the volume of credit, liquidity problems and also solvency as well. Financial institutions, marked disruptions in

credit markets, balance sheet problems of firms and household and of sovereigns. Equity market is much different in that sense, they are quite often don't run as smooth at hard times. It shows that there are for sure more reliant places to look for clues about where is the economic growth is leading. Most of the time credit markets and banks are the main place where the crisis start to occur, and after that it goes through the economy and goes downturn in the equity markets. It is to say that some of credit crisis has gone most major downturns for the last thirty of forty years. These not only includes latest property smash in U. S. but also the crises are generated by overly high government borrowingsin south America in 80s and by high corporate borrowings in SouthAsia in 1997. So its not hard to tell why executives found a reason for smile in modern equity market, because the levels are less harsh looking in modern credit markets. According to this information I will use statistical information to understand the links between financial crises and statistical information that stand behind them, also the historical data, and scientific works that will help to understand how to predict crisis and what measures can be taken.

1. Theoretical foundations of development, causes and effects of financial crises in the global and national economy

1.1. Historical bases of financial crises in economy

To understand the problem its not enough to look only at 2007 crisis, by going back further we can identify how to crisis circle occurred. Since the post war boom in 1970s living standarts fell and oil prices rose. And it was going that direction until 1990s when cheap credits became affordable. It began, as usual, with good intentions.Countries like Ireland Spain and United states allowed their banks to lend hundreds of billions to developers who built homes in large number. After huge numbers of corporate scandals about accounting, and not only that but terrorist attacks of September 11, the FR (Federal Reserve)have downe their federal reserve rate from six percent in the spring of year 2000 to only one percent in summer of 2003. Main goal was to upgrade the economic cycle by switching politics and propose more money to businesses and consumers. Fast rise of lending to subprime borrowers rocketedinflate the housing price bubble. Before 2000 subprime lending was almost nonexistent, but it took off exponentially. After that there was a huge growth interest rates and because of that owners of estate become more washed up. After fed started to rise rates in summer of 2004, even it was just few years after the funds rate have reached more than five percent, it stayed that way until 2007.

These were the very clear sings that something was wrong. Already in 2004, owners of estate in U.S have grown to 69.2%.But after that, earlier in year 2006 prices on estate begin to fall fast. It was a very hard punch for a big amount of Americans. Real estate have cost so much less then people were paying for this, and people couldn’t even trade them without having owning money to people they took money from. The main high risk borrowers was in the middle with debts they could not pay what’s so ever. After that close to year 2007 every two subprime lenders field failure. During whole winter and start of spring more than twenty five

lenders have become bankrupt. But even this was a small deal compared to what will happen in the next year.

It was more understandable by mid 2007 that financial markets could not deal with such huge financial frustration and that the problem were goingmuch beyond U.S. borders. By the close future, Central banks would try to act more dedicated to create huge amounts of money in loans to the credit markets. Also at that time, most of the financial institutions have struggled to understand the value of such amount of money worth of mortgage-backed securities.

By the end of the year United states started to struggle even more, markets around the world like wall street were most likely down just since terrorist attacks of 2001, and the economy was still in recession. But at this point bad news never ended. In February United Kingdomhave forced nationalization of Northern Rock. In a few months, a main base of Wall Street stock market that was founded in 1923, have crushed down and was bought by. In july of 2008 the insanity were still coming trough the banking region. IndyMac Bank havebecame the largest banks ever to fall in the United States, and the country's main estate lenders FM&FM, have been snatched by the united states government. But the most dramatic fall was the well recpected Bank Lehman Brothers of Wall street in September and market as the biggest bankruptsy in United States history, and became as the symbol of the devastation caused by the global financial crisis. In the same time period markets had a hard time when the majority of U.S. indexes had their lowest dropping on record in history (Picture 1.1).

Picture 1.1 The after effects of 2007-2008 crisis. Source: https://www.fool.com/investing/2016/12/12/how-much-did-the-financial-crisis-cost-bank-of-ame.aspx

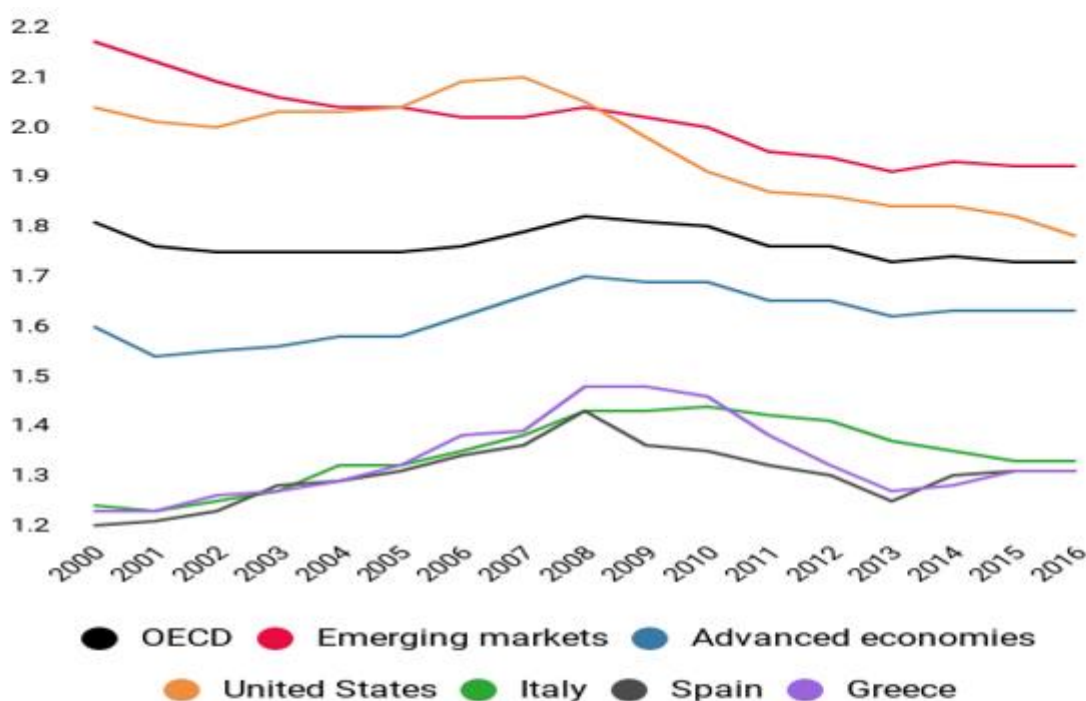
In October 2008 The wall street bailout package were approved, which had lots of counteracts such as huge government purchase of "toxic assets.It was looking like bank workers were rewarded for wrecking the economy, but it actually helped it get moving again. The entry of bailout policy stabilized markets that hit lowest points in summer of next year, then marked the longest growth in market in economic history. And yet, the damage from economy and impact on human life were huge. Rates of unemployment have grown to 10%. At least 3.8 million ofunited states citizens have loss their estates to foreclosures.

There is also a huge mark left on the other parts of the world. In the same period most of the economies had their losses more or less equal to pre-crisis numbers, aftermath consequences were different across countries. More developed economic powers and exporting countries with low income have been hit even harder than most of the other ones. From countires experienced crisis in 2007-2008 about 85% have been still operating at the levels of below pre-crisis numbers. Impact was not that big for countries that haven't experience the recession in the same year. Government policies before the crisis right at the aftermath improved the output differences. Policies that were taken have affected these economies very

hard until troublesome forces that were opened by financial crisis, the amount of harm it had taken, and theirhow to recover.These can be put into three categories:

1. **Containing financial vulnerabilities:** econimies that had more fast growth and much higher excess current account deficits in the future up to the crisis found these constraints binding them more tightly when condition become even worst after the end of the crisis.
2. **Buffers and frameworks:** the countries who had stronger before crisis fiscal positions had less output losses at the end of the crisis.
3. **After crisis policies:**some countries took unprecedented and exceptional policy actions to support their economies after the 2008 financial meltdown.

Through statistics we can see that financial recession have left harmful impact well beyond statistical numbers. One of which is birth rate. It had a hard decline in many countries (Picture 1.2.) – this is a big deal because in the future it will also drag employment rates after it, but not only that but net migration among advanced economies have fell after crisis.



Picture 1.2. At the end of the crisis, birth rates declined in several advanced economies. Source: https://blogs.imf.org/2018/10/03/lasting-effects-the-global-economic-recovery-10-years-after-the-crisis/

1.2Research of the causes of financial crises

In the case of financial crisis, you can never give a clear picture of why financial crisis can occur, but looking at a past cases we can see a matching problems. For example, crisis of 1929. If you look at the documents that was stated at the time you can see that most of the people blamed government for mistreating the system, but if you look deeper and take a different approach to the problem we can see that there were human frailties, as greed, hubris, or incompetence. It is little said that crisis happened because of human beings, bankers and regulators were not perfect, so it’s hard to suggest just to improve decision making of workers, after the crisis researchers took a deeper glance at a problem and found some key mistreatments.

We have to understand that our system of finance has grown to the point that it is no as easily impacts all the citizens. Just like any type of commons (for example fishery, or the atmosphere), democratic governance are essential or the commons gets captured. The ideas of this perspective run wide and deep as specified by subject of the stock exchanges. If only the exchanges had been understood to be, and governed as a commons, there are just simply no way in a modern society we would bear with high frequency exchanges that helps too little amount what so ever at the cost of lowering the resilience of the system.

Tax policy also have significant impact on the cost and flow of capital and modern tax code as it is affecting finance is needs in an overhaul. In my opinion a good thing for current tax system would be transaction tax, for discouragement short term speculation and at the main purpose to encourage investments in the long run.More progressive capital gain tax that has the effect of encouraging long term investment over short ones is much healthier for tax environment. The best

thing we can do is to eliminate idea of financial system that is based on debt, and even proposing more debt when we already have too much.

The other dangerous thing in modern financial system is companies that are “too big to fail”. Whole industry is filled with companies with that description that are too big, complex, and “systemically important” to manage, govern, or allow to fail. But if a country is always counting only at a big companies it can never balance between efficiency and resiliency. Resiliency can be improved by diversity, decentralization that in my opinion is most important factor, and controlling the excess amount of buffers. Future cluster of risk and scale of it only suits management first who earns more efficient “promote” from chairmans and investors, are only on the second number of people that can benefit from a fast expanding economy providing subsidy a much unequal advantage, all of which comes at the expense of society that still live with such catastrophic externalized cost of downfalls as we know them.

Another factor is liquidity. Liquidity mismatches have to be curtailed. Lehman B. idea was to fund into real estate in the Repo, and commercial paper markets was really foolish, and was apparently understood as a joke even inside the firm. For a bank it was simply no reason to speculate on building prices with backing of taxpayers.

Similarly to liquidity excess leverages is the core of most of the financial crises by definition. Often enough leverages is embedded in well build securities. There are no clear way of accounting for leverage, and how we learned it is almost no way of regulating or writing it into law. Only way for this I see is impose much higher capital requirements, while knowing and acknowledging the consequences, that are much more less dangerous than the consequences of the crisis we had before not so long ago. The other one is letting the industry to understand how to upgrade transparency and accounting management that will be more efficient yet still adequate, capital requirements.

These are all inside problems that can lead to the financial crises, and none of these are connected to some bad decision making of workers or corrupt work place, these are all problems that people can fix.

Now we should always acknowledge that everyone is a human being and can fail in any way. The other important question is will these changes allow banking system to direct capital to the real economies, producing jobs and long run prosperity. In my opinion it is possible but requires a lot more work and complex policy fixes because money don't flow naturally often enough to the productive uses in the society, as we could mention at this point. But it all can be done only after we restore our resilience.

1.3 Mutual impact of globalization on the financial crisis and the effects of the crisis on the global and national economy

The most severe case of economy suffering a severe downturn is in 2008 and 2009 and the impact on GDP and macroeconomic policy could be felt for some time. No difference if it’s the private sector or government, a crisis in only one country is very likely to spread in to another countries. This is even more expected when the economy it is affecting is big and highly connected to global economic system.The financial crisis of 2008 showed a best example on how fast crises can spread all over the globe like a disease and hurt economies worldwide.

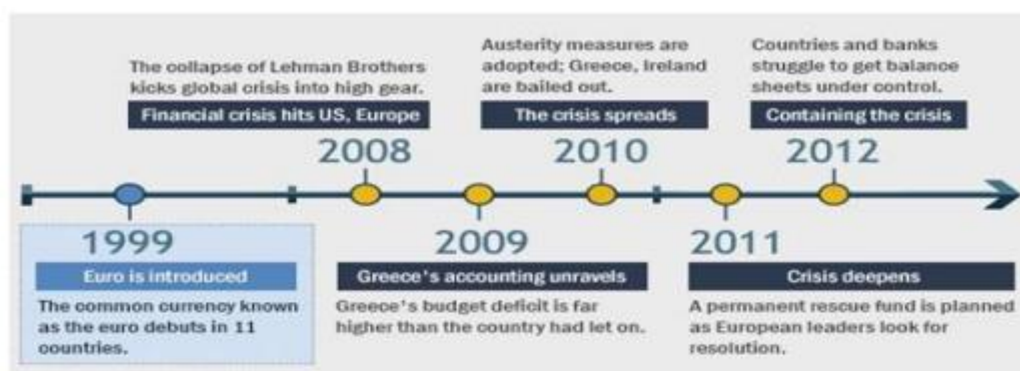
In Europe for example many countries also took their part in risky behavior –this crisis can be said that started in United States, with risky creditmanagement in the sub-prime mortgage market and extremely high derivatives trading on stock markets.United States have the most developedfinancial system and economics, and that lies as a link on why so many countries around the globe are depending so much on the well being of the American economy, the aftermath was widespread and fast, which caused market slumps all around the globe and a global financial recession. Consumers believed in the total collapse of the financial system and made them unwilling to buy and banks to lend, which brought even more downward economic spiral that took entire financial market.

In Asian case for example financial crisis in country like Thailand and other Asian countries took part in we can see even a small debt crisis in a much smaller economy than Untied states, that is tight to global trade very strong can bringchaos in other countries. The crisis initially started after government of Thailand acknowledged financial imbalance— fastgrowing external debt and their reliment on short-term inflows of foreign capital—have mostly caused the government to much devalue its currency, the baht. The result hasn’t take much time to unveil itself a decline in the currency, that made Thailand almost impossible to pay their creditors. After that crises grew even quicker in countries close to them, just like cases of Indonesia and South Korea. Currency also started to fell around the region

because of the expectation that Thailand's export competitors was forced to devalue the currency, for them to make so it would be more difficult for borrowers to get their money back to them. Rates of interest as well streamed after countries tried to slow capital flows, which stopped financial grow.

For the developing countries, which have become increasingly integrated into global trade and finance over the past few decades, the crisis is not one of credit but of falling demand in the markets of developed countries. At the start crisis in developed countries did not affect developing and countries in transition, as crisis did not originate within their financial systems, it was even hoped that these countries could get out from crisis unscratched. But when the need in developed countries fell thevolumes and prices of exports from countries in developmentwas going down. What was seen not so big of a problem, the lack of output and employmers in exporting industries of countries in development and transition turn has spread like and epidemic to other industries in these countries, which causeda big hit in output rates and employment.

The extent of the crisis in developing countries depended on the importance of the growth of exports and capital inflows in their economies. In south Asian countries for example, exports and goods and services average 22 percent of GDP, while in sub-Saharan Africa 35 percent. In central Asian and eastern European countries had 40 percent and in east Asian countries almost 50 percent. Large developed countries varied from 15 to 30 percent. And 40 and 34 percent for China and Russia. Countries that depend on exports of oil has also have been hit hard because of the sharp decline of the prices of export commodities.



Picture 1.3. Timeline of European debt crisis. Source: https://www.bankrate.com/banking/timeline-of-european-debt-crisis/

The ongoing development of the world economy began back in 19th century when growth and economic progression were determined by nonlinear development of economic fundamentals and things such as crisis, depression, revival and prosperity. Today if we look back on the history of world economy we can see how it has experienced difficult times of recession and depression during which any economic activity was usually marked by contraction of the monetary markets, stock exchanges, unemployment, and financial markets. Today modern economic theorists have developed new way of classification into two main phases that are different from one another but usually connected: recession or economic decline and stage of growth or expansion phase.

Financial market system an important vector in the global economy, which brings with it another feature that current crisis has been worldwide just as soon it have started. After American home mortgage co. stated its incapacity to meet its financial obligations, and week after it declared bankruptcy, the aftermath didn't take long to wait. The downfall of stock markets and capital markets was not long to wait. And right then the liquidity become the most desired value of financial system, and what may seem as a local banking U.S. problem, it became even worse as a global problem.

This event of international financial investment shows the other side of the globalization: the massive imbalance of the strongest economic powers that occurred in early 21st century. On one hand we have a huge upwarding deficit in

the balance of services and goods in developed countries like U.S. and United Kingdom, and then on the other side we have fast expanding surplus in China and Germany's trade. That gives a growing freedom for international trade, specially if we acknowledge that China have entry to the WTO , that helps it accomplish a process of faster economic growth in China that relies on a very developed industrial base and have a unappreciated currency. Everything to the fact that China's producing and logistic complex gave it much faster development of industrial export made China one of the biggest producers in the world. It even adds more if we acknowledge that liberalization of foreign capital in China has strengthed even more, which gives it even more advantages as a manufacturing base. Outsourcing in developed countries from north America and Europe that was forced by a way of searching for a lower costs and better productivity rates, helped China and other developing countries increase their impact as a exporting country.

We can't truly blame economic globalization as main cause of the financial crises, but it is to acknowledge that with growing economic and financial connections world wide communication of the crises travels faster and much more enormous. But if we look at the other side same thing considered bad, can be just as a good thing in some way. International market flow and big investments in developing countries when most of the world panic about the financial situation could give a great impulse for international economic communication and growth impact.

2. Theoretical and methodological bases of forecasting and overcoming financial crises

2.1. Methodical bases of predicting the financial crisis

It is usually said that financial crisis is hard to predict because world is so complex and sophisticated, far for being impossible to forecast crises are easy to spot as they all follow the same pattern. The early signs would be fast growing banks by issuing low loans against nominal yields and uses extreme leverage to do this and fails to set aside money for possible future losses. As the bank takes more risk to generate return the market gets hidden and the drive off the share price, so rather the share price falling it goes through the roof, and you know the bank is in trouble when it starts recording record profits, chief executive gets very rich. The real cause of systemic banking failures and collapses lies with ethics at the top.

If we look at other viewsthey usually see financial problems and crises as predictable that much that government should try to prevent or at least avoid them impart. The way of looking of financial crises as if the outcome of overfloated credit market, mostly characterized by high growing expansion of credit usually tiedto asset price grows, shows fast growth in credit and asset price at the same time predict banking crises in at least 32 countries between 1974 and 2005 and are mostly called as“early warning indicators”. Not so long ago, economic authors Schularick and Taylor (2012) and others brought that most of the time credit expansions and narrow credit spreads can predict financial instability.

Usually if there is a huge asset price growth as well as large credit expansion the financial crisis is fairly easyto predict. When there is non-financial stock market valuations have risen fast, or business credit fast growing, or when household credit growth ishigher than usualprices for housesare rising sharply, the likehood of a crisis is highly elevated. This can be seen at Table 2.1 Where observe the probability of financial crisis occurrancein theoretically three years as a function of past credit and asset price growth.

Table 2.1 Probabilty of financial crisis start

	Business Credit Growth					**Household Credit Growth**				
	Low Growth	**2**	**3**	**4**	**High Growth**	**Low Growth**	**2**	**4**	**4**	**High Growth**
Low Asset Price Growth	4.2%	4.9%	4.1%	7.1%	19.3%	9.5%	4.8%	11.1%	8.2%	28.3%
Middle	3.5%	5.3%	8.0%	9.5%	19.4%	7.2%	4.0%	3.3%	16.2%	13.1%
High Asset Price Growth	11.5%	9.3%	11.1%	19.3%	45.3%	2.7%	3.2%	1.4%	17.4%	36.8%

The likehood of financial crisis starting in three years from now is 45.3% when equity price growing is in the top tercile of its business credit debtand growth in it's distribution is in the top quintile of its historical distribution.Also when household credit grow the likehood of financial crisis start within three years is 36.8% as shown.

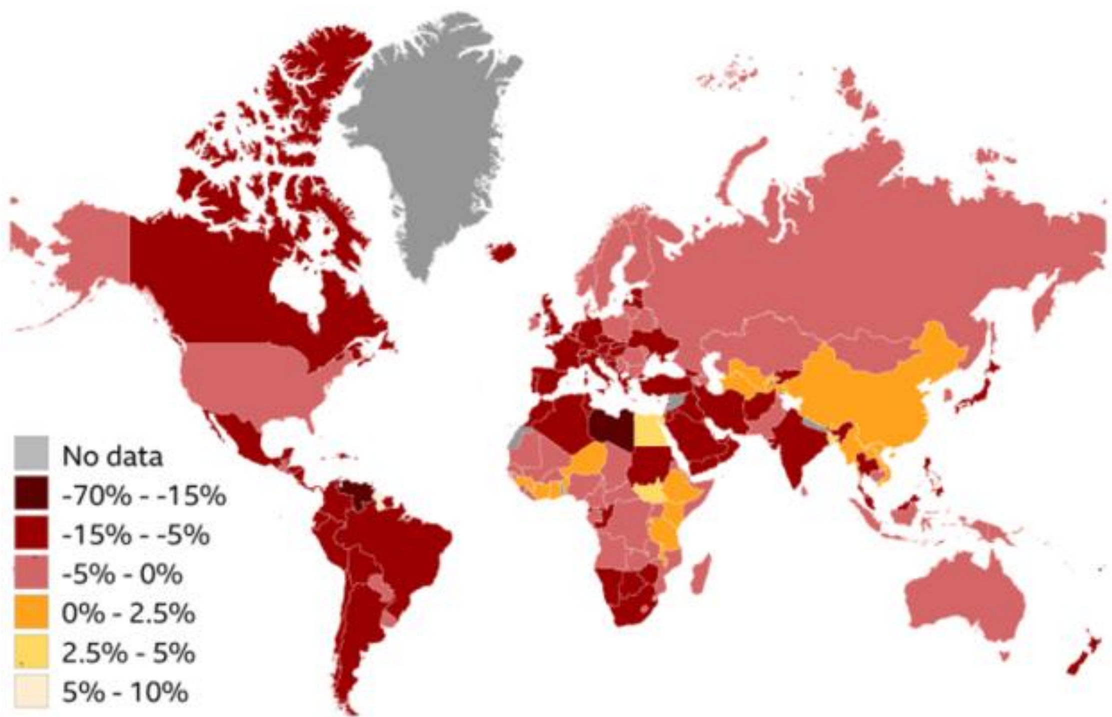
The growth of domestic credit, and decreased bank profitability (as measured by falling lending-to-deposit interest rates) also hints the periods preceding developed currency crashes. This signifies spillover from the banking sector to the foreign exchange market, and thus the increased likelihood of twin currency-banking crises. This result is common with the most recent literature, which can be found that banking distresses tend to increase the likelihood of currency crises.

A lot of specialists usually foresee financial crisis by looking at recent politic either big financial events and their straight effects on volatility in the stock markets and other markets. While the volatility of stock market indices are used to measure risks and evaluate state in capital and financial markets, or even the economy as a whole, we have confirmed that volatility at it self has, historically, been an untrustworthy predictor of economic crisis. Flow in the stockmarkets can show us how much high if you also look at the other measures such as rate-of-

return and rate-of-return to the volatility ratio. Usually rate of return in capital stock markets show the risk at that is most oftenly can be associated not just as the common business or stock but it also can be seen as an improvement in financial system as a whole.

2.2. Methodical bases of ways of overcoming financial crises

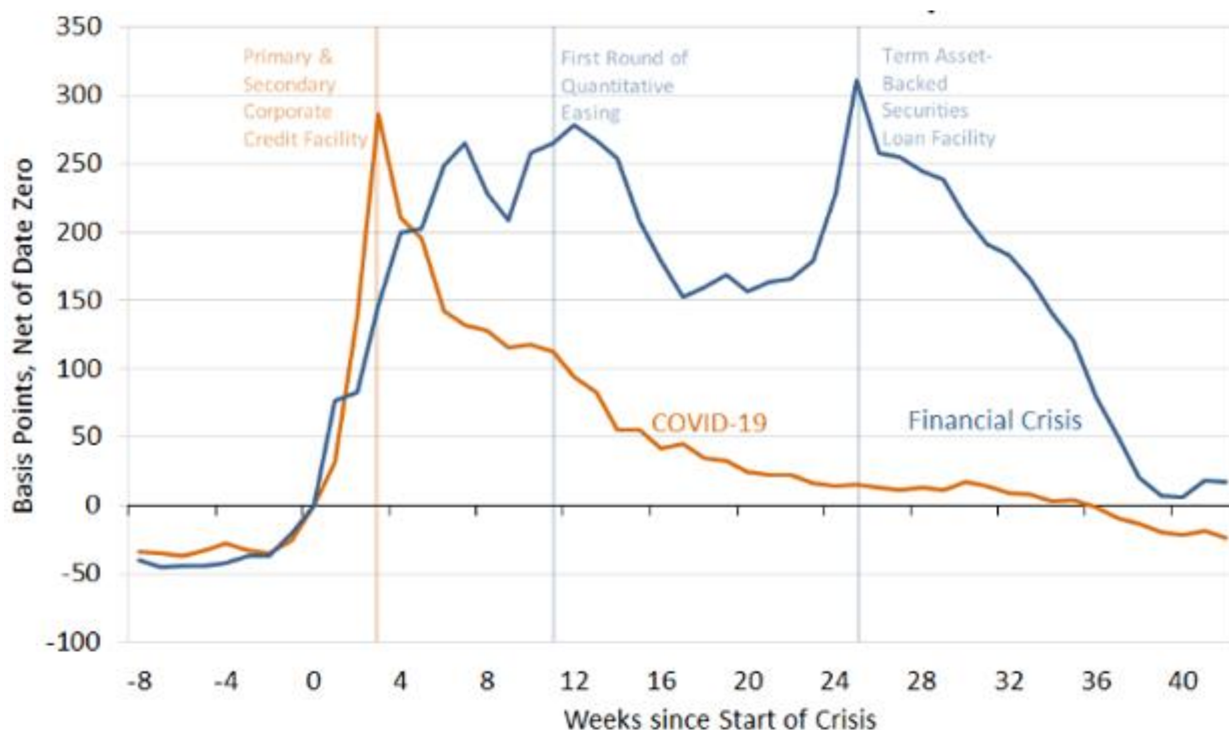
Today world is at ongoing economic recession that is a result of COVID-19 pandemic and is worst global economic crisis since the Great Depression. After the 2019 recession and stagnation of consumer activity and stock markets things got even worse after series of lockdowns and other precautions that were taken during the pandemic threw the global economy into crisis. Within a short period of time of seven months every developed and advanced economies have fallen to recession and depression, while the emerging economies stood in recession. Despite the development of new vaccines, many are still wondering what recovery could look like. Specialist even say that the world will stay in this condition until a full recovery at least until 2025 or beyond.



Picture 2.1 Real GDP growth in recession. Source: https://www.bbc.com/news/business-51706225

The only major that have grown to this point is China, that registered a growth of 2.3%, and countries that have been hit the most like Italy, United Kingdom, India is said to be slow growing.

Credit management during pandemic is also a very important topic. As I wrote about how government mistreated credit management in 2008 crisis, here I found that this time governments looked at the past cases and got some lessons from them. COVID-19 pandemic disrupted financial markets, to such extent that have never been experienced since 2007-2009. But in this case markets have recovered much faster than they did during the 2007 crisis. On this graph you can see comparison of credit spreads at the start date to focus on changes in spreads relatively to the beginning of each crisis.



NOTES: The figure shows the change in corporate bond spreads relative to the spreads on day zero. For the financial crisis, day zero is Sept. 15, 2008; for COVID-19, day zero is Feb. 28, 2020.

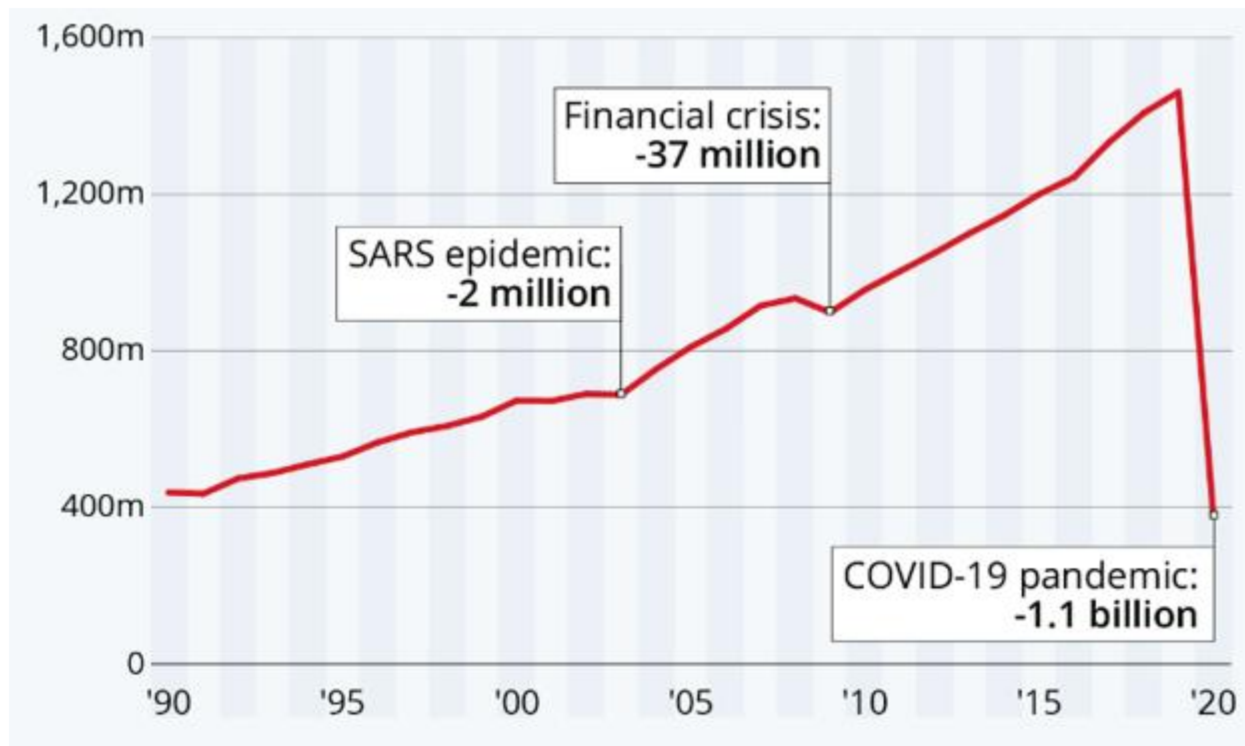
Picture 2.2 Evolution of Median Credit Spreads. Source: https://www.stlouisfed.org/on-the-economy/2021/february/credit-spreads-financial-crisis-covid19

We can see two main differences in those cases: in 2008 crisis credit spread was much higher than pre-crisis levels for many weeks, when we look at the other side of the chart we can see how fast credit spread returned back to normal.

It looks like that reason for this much different approach of dealing with situation.In 2008 crisis the first measures was taken in only ten weeks from the beginning, and even after twelve weeks credits were still on higher values, and only after 24 weeks the TABLF was announced credits fell back to normal levels.

Looking at this we see how fast measures were taken, just after a month of the pandemic, after which credit percentages started to return to pre-crisis levels much faster.

Other important part about the pandemic crisis is how it affected the tourism and commercial flights. Travel industry is severely damaged and the most impact can be seen in countries where tourism is a big part of the GDP. New types of the COVID that were discovered in just recent months have forced airline companies to and countries to begin even tighter travel restrictions.



Picture 2.3 Tourism levels are back to 1990 levels as pandemic halts travel.

Source: https://www.statista.com/chart/21793/international-tourist-arrivals-worldwide/

All around the world tourism attractions such as museums, hotels, amusement parks have been closed for several of months, and planned travel dropped down by 80-90%. The long term impact of the commercial flights decline is downfall of business travel and international conferencing, and the rise of their virtual equivalents.

2.3. Lessons from past crises for the present

Today we see a crisis that is anything world have ever confronted, it's not only economy that is being dismantled but also other important parts of market. In past crises offered lessons on economy and health can crush the delivery of services, and usually how governments and financial investors respond to these challenges. Lessons that 2008 crisis gave us is much important in case of COVID-19 crisis. After the collapse of Lehman Brothers financial system almost went to state of 1930 depression levels. These conditions of severe uncertainty at the peak of financial crisis looks very similar to pandemic conditions. Because of that governments quite often have to set aside rules of a good government and become more quicker and have more scale to their decisions. Things like cost and consequences becomes a problem for later, they have to make decisions on basis of imperfect and fast changing information, and often enough they have to improvise, and accept that most of their decisions will be imperfect.

But if we look at modern economists and policymakers, we see that they have learned from the past, and absorbed many lessons.In some areas fiscal and monetary interventions had been on a huge scale, United Kingdom for example in the start of the pandemic stated that they are unable to sustain their households because they are dependent on demand. At this time governments often use policies similar to war time economic policies, so they prioritised volume over quality.

Current crisis have shown that unforeseen weakness in food supply chain, healthcare, medical provision. In times of crisis problem in food supply is one of the most weak spots of every government. But in the case of pandemic it's even worse because usually pandemics come very unexpected with major consequences, but on the other hand private and public sectors are usually on way low down in the list of threats. We can see how Asia shaped their public care after the pandemic and now we can be sure that businesses at a large risk core when it comes to pandemics.

Most of the time term external shock used to describe processes with immediate effects. Like in a case of first terrorist attacks in U.S. it didn't shake the economy off balance , and even become their defence policy. In the case of Japan after the Fukushima disaster government started a programme to surge fossil fuel imports that in future caused more damage that nuclear disaster originally done.

When it comes to pandemics and economic crises it tied to we don't have to many examples in the past. Last big pandemic was in 1918, and took estimated 50 million lives. Most of this could be avoided but at the time there was no such thing as social security, and government at the time concerned too much about the state of economy, and they thought that if some restrictions would be taken it would worsen the situation even more than dealing with it like this. As we see in the current pandemic crisis world now have more opportunity to not contact each other which was impossible back in the day, and now lockdown policy still kicks economy hard but in the past it would mean total stop of production in cities or even in country, now people can work on distance and still do work, but still impact on the economy and GDP is huge.

Modern pandemic recession is anything we have ever seen before and it's even hard to say how long we will have to deal with consequences. But still we see that government do learn from the past crises, if in the past they usually tries to boost economic activity, this time the main goal is to suppress economic activity through restriction of movement. This is done not to stimulate activity, but to preserve workplaces and businesses for future.

CONCLUSIONS

After the research about financial crises I think that in the future crises will be more significant in scale, globalization is getting tighter, but on the other hand governments have more experience to deal with economic problems by now in any term. Before 2020 world didn't had pandemic crisis at this scale, and I think that compared to other economic crises governments in economic terms did a better job than those before them. After end of the pandemic world have a wider range of experience in any subject, and become more protected in the future. Just like in the start of the pandemic it had similar credit spread cases like in 2008, but because of the gathered experience quick policies that balanced the market was rolled out and the credit bubble was avoided this time.

COVID-19 pandemic after the end will bring a huge impact on the polices and economy of the world, it dealt so much damage that the consequences will be felt for a long time, but for the best or worse this impact will make future policies more protected and tought-out.

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SUMMARY

Final paper is devoted to study the problem of financial crisis and how it can impact not only world economy, but also quite often common peoples lives. The situation with financial market is quite often unstable and people started to pay more attention on the ways they can react and deal with the problem, every new crisis not as bad as the last one, but every time people find how they can learn from the past and make only the best from it.

Keywords: Financial crisis, global economy recession, how countries deal with crises and recession, modern day crises.