



Global Financial Economy Crisis

Fluturim Saliu^{1*}, Fatmir Memaj²

¹Faculty of Economics, University of Tetovo, N.Macedonia

²Faculty of Economics, University of Tirana, Albania

Corresponding Author: Fluturim Saliu fluturim_saliu@yahoo.com

ARTICLE INFO

Keywords: Global World Economy Crisis, Russian Aggression on Ukraine, Restriction on Global Sources of Food, Gas, Oil, Energy

Received : 7 January

Revised : 17 January

Accepted: 18 February

©2023 Saliu, Memaj: This is an open-access article distributed under the terms of the [Creative Commons Atribusi 4.0 Internasional](https://creativecommons.org/licenses/by/4.0/).



ABSTRACT

The Global world economy crisis had its roots in the Covid 19 pandemic. The key factors back then were a combination of the macroeconomic processes and initialization in micro economic financial levels. Global trade began to recover from the negative impacts brought by the COVID-19 pandemic in June 2020. As it was obvious for the world's financial economic institutions, the expectations after the pandemics were to overcome the economic crises and start the growth of the world trade markets. Instead of that in 2022 the Russian aggression on Ukraine has made the financial crisis even worse and bended the world on the knees. The world now lacks on gas, oil, grain and the most important electrical energy. Both Russia and Ukraine were and still are the global source raw material markets, especially for energy, food and fertilizers, but since the war has no looks on ending, the severe restrictions that are up for the world's population may bring the worst still not expected rise of the financial crisis

INTRODUCTION

At the first glance the world economy crisis seems to be the biggest and the most rigid one in the past and the days that come to us globally. Nobody seems to have the right projections of what is to happen in the future of mankind. The global economy continues to face steep challenges, shaped by the lingering effects of three powerful forces: the Russian invasion of Ukraine, a cost-of-living crisis caused by persistent and broadening inflation pressures, and the slowdown in China. The importance for the essential means for living as the leading countries of Europe, UK and the USA, knew and practiced, disappeared. For the time being the only way is change, reconstruct and revise everything that seemed so far normal and essential.

There are numerous causes for crises to develop; some occur quickly, while others develop over time; some have external origins, while others have internal ones; some reflect the entire economy, while others only a particular economic system. Which implies that business cycles vary not just between nations but even within a single nation. These disparities become apparent when comparing the length of the entire economic cycle and its two primary phases, recession and expansion, as well as when comparing the intensity and effects on actual components, such as production, investments, and employment. That is why it is said that episodes of expansion and recessions are not "cyclical" in the sense of having regular periods or consistent amplitudes of their replacement, but, on the contrary, the duration of a business cycle can be very different, extending

over a period of more than a year, up to 10 or 12 years. So, the world economic crisis does not represent new concepts in economic science. Economic crises of a global nature are thought to occur every seventy-five years.¹

Nearly all of the Western world's developed nations encountered the crisis in recent years unprepared. Governments were overspending their budgets, resulting in significant budget deficits. As a result, when they needed to spend heavily to stabilize the economy, the deficits skyrocketed.

The New World of Inflation

The invasion of Ukraine by Russia has been severely destabilizing the world economy. In addition to the rising and senseless loss of life and livelihood, it has resulted in a major energy crisis in Europe that is dramatically raising living expenses and impeding economic growth. With Russia lowering supply to less than 20% of its 2021 levels, gas prices in Europe have grown by more than four times since that year, heightening the possibility of energy shortages over the upcoming winter and beyond. More generally, the conflict has increased food costs on global markets despite recent decreases following the Black Sea grain agreement, severely impacting low-income households around the world and more so in low-income countries.²

China's economy has suffered as a result of the periodic lockdowns imposed by its zero COVID policy, particularly in the second quarter of 2022. This will have a significant impact on worldwide activity and trade given the size of China's economy and its significance for global supply chains. Many emerging markets and growing economies already face significant difficulties from the external environment. A large number of low-income and developing nations

continue to be in debt crisis, and capital flows have not returned. The shocks of 2022 will reopen economic scars that had only recently fully recovered from the epidemic. While policy trade-offs to solve the cost-of-living crisis have grown acutely difficult, downside risks to the outlook remain considerable.³

At a time when the global economy is still historically weak and financial markets are displaying symptoms of stress, the danger of monetary, fiscal, or financial policy miscalibration has increased significantly. As real earnings are squeezed and macroeconomic stability is threatened, rising price pressures continue to pose the biggest urgent threat to present and future prosperity. The goal of restoring price stability has taken center stage for central banks worldwide, and tightening has escalated quickly. Both under- and over-tightening have hazards. The inflation process would become more entrenched with insufficient tightening, and expectations for inflation would be disanchored. This would ultimately cost more money to manage inflation, as history has repeatedly taught us. Overtightening could cause an unduly severe recession in the global economy.⁴

Global real GDP slightly decreased (growth of -0.1 percentage point at a quarterly annualized rate) in the second quarter of 2022, with negative growth in China, Russia, and the US as well as significant slowdowns in the eastern European nations most directly impacted by the conflict in Ukraine and international sanctions meant to pressure Russia to end hostilities. Some significant economies, however, did not collapse at the same time. In the second quarter, euro area growth surprised to the upside, driven by expansion in the economies of southern Europe, which rely heavily on tourism. New factory orders and sentiment indices, among others, point to a decline in major economies.

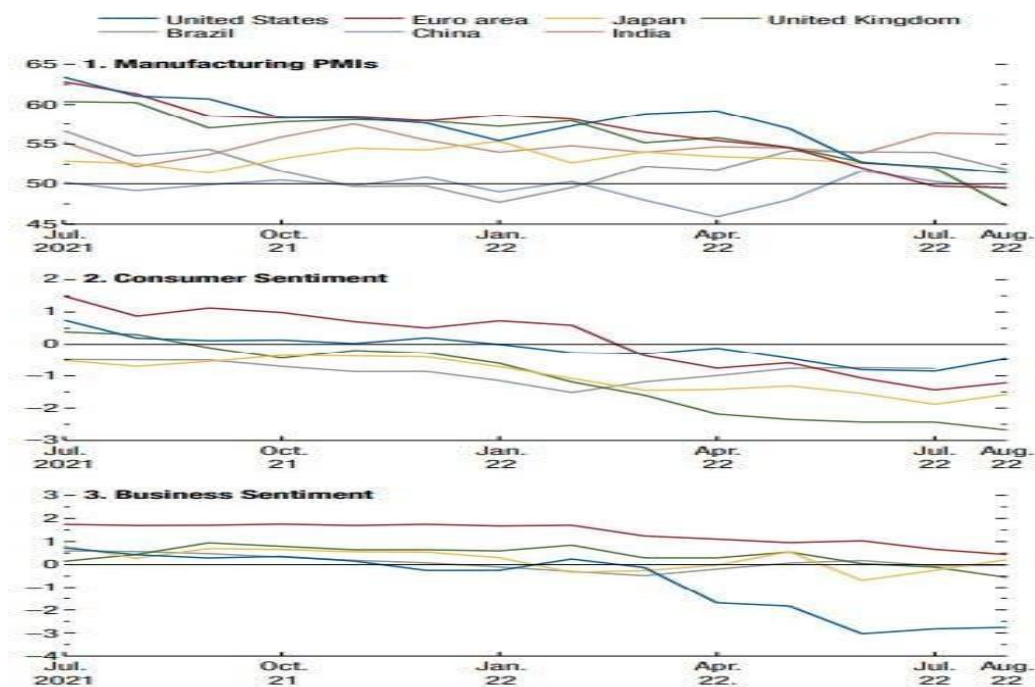


Figure 1. Leading Indicators Show Signs of Slowdown (Indices)

Source: Haver Analytucs IMF Staff Calculations

Signals can clash, too, with some measures reflecting output contraction while the labor market is strong. The swift removal of monetary assistance as many central banks attempt to reduce persistently rising inflation is a significant element underlying the downturn in the first half of this year.

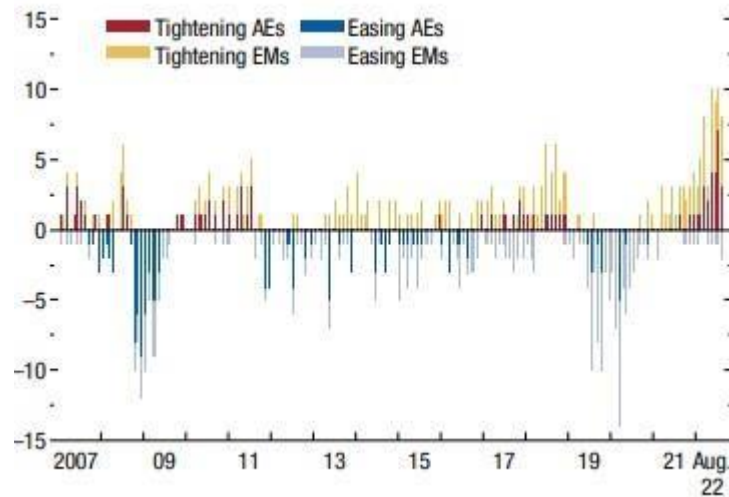


Figure 2. Change in Monetary Policy Cycle among G20 Economies (Number Source: Bloomberg Finance of Increases and Cuts in Policy Rates)

The clearest observable indications of a recession in economies like the US are higher interest rates and the corresponding rise in borrowing costs, particularly mortgage rates. Although not always, monetary policy tightening has been followed by a reduction in fiscal support. In general, nominal.

Policy rates in developed, emerging market, and developing economies are currently higher than they were before to the pandemic. Real interest rates have generally not yet returned to their pre-pandemic levels due to high inflation. A significant real increase in the value of the US dollar was caused by strengthening financial position in most regions, with the notable exception of China (October 2022 Global Financial Stability Report). Additionally, this has increased yield spreads for debt-stressed lower- and middle-income nations. A yield spread is the distinction between a country's government bond yield in US dollars or euros and US or German government bond yields (figure 3).⁵

The conflict in Ukraine and the gas crisis have intensified major pressures on the world's commodity markets, pushing up the price of natural gas. The price of gas, oil, and fertilizers for food continued to rise as sanctions against Russia were put in place and as Europe and the United States supported Ukraine. The effects of the reductions in gas supplies will be felt by all European economies, including the biggest, Germany. Slower real economic growth in Europe has been attributed to ongoing energy supply uncertainty.

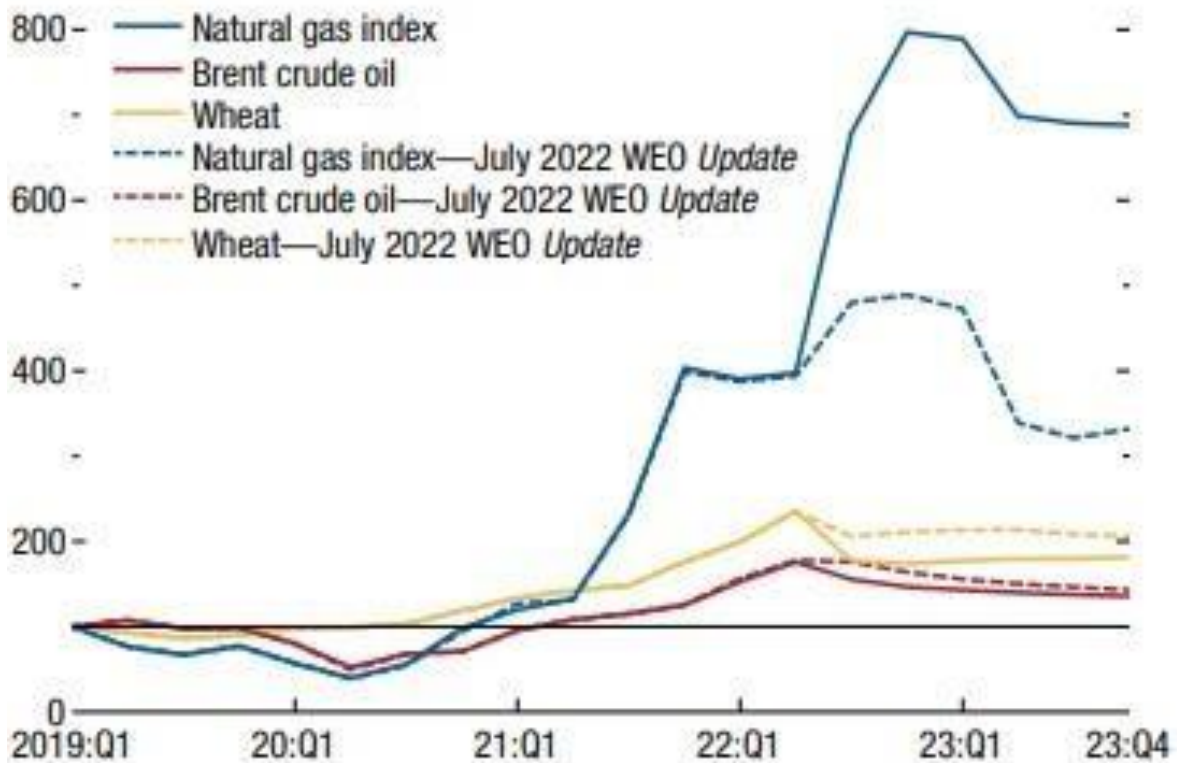


Figure 3. World Economic Forum Annual Meeting
 Source: IMF projections and calculations

With futures prices declining, food prices—a major contributor to global inflation so far this year—have brought about a rare bit of good news. More generally, some indications suggest that, as global demand declines, commodity prices may be beginning to fall off, which would assist to restrain inflation. The world economy is expected to grow by 3.2% in 2022 compared to 2021, with advanced economies expanding by 2.4% and emerging market and developing economies by 3.7%. In 2023, the world economy will increase by just 2.7%, with advanced economies rising by 1.1% and emerging market and developing economies by 3.7%. This economic picture is significantly influenced by three important variables: the direction of monetary policy in response to high inflation, the effects of the war in Ukraine, and the continuing effects of supply chain disruptions and lockdowns caused by the virus.

Global Economy in 2023

The chaotic 2022 has ended and another on is likely in sight. People have experienced a seismic shift in rates that is still being processed. Together with improved supply-chain considerations, those belated increases have done well to improve the inflation forecast. But in terms of consumer behavior, business investment strategies, and asset values, the repercussions of those interest rate rises are still being felt.

Even though some areas of inflation have improved, we are still well below a level that is sustainable. It will take longer than most people think for

higher rates to be sustained before the last push toward sustainable inflation levels can be made. In other words, 4-5% inflation will be reached by May 2023, but returning to 2-3% inflation will be more difficult and take longer, leading to a protracted discussion about the dual mandate of the Federal Reserve.

The labor market remained remarkably strong at year-end, and it seems inevitable that it will weaken. The only question is the pace and severity of that weakening.

Sudden changes in businesses' ability to produce collided with sharp changes in the mix of goods and services that consumers wanted to buy, leading to both gluts and shortages across the economy. The good news is that most of the inflation attributable to these one-off factors seems to be on its way out. Overall inflation probably peaked over the summer. The bad news is that there also seems to have been a modest uptick in the underlying rate of inflation from around 2% a year to 4-5% a year.

It's conceivable that the weakening will be slow and moderate, but the larger issue is a possible decline of consumption. Consumers are facing higher prices, higher interest rates, declining savings rates, more borrowing, and lower wealth levels. For now, consumer spending has held up. As the economy slows, we could be facing a longer consumer-driven recession rather than just significant declines in investment and associated losses in employment.⁶

As shown in the table 1 – Summary of Current Account Balance (billions of US dollars) it can be seen that the forecasts for 2023 up till 2027 are not bright.

Table 1. Summary of Current Account Balance (Billions of US dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	Projections		
									2022	2023	2027
Advanced Economies	225.5	273.0	369.3	489.3	398.6	379.3	179.9	339.4	-370.9	-170.2	236.6
United States	-370.1	-408.5	-396.2	-361.0	-439.8	-446.0	-619.7	-846.4	-985.3	-822.9	-701.4
Euro Area	316.9	313.5	364.0	402.1	398.0	311.1	247.7	356.9	137.3	194.7	424.8
Germany	280.3	288.8	295.1	288.9	316.3	294.3	272.5	313.6	168.7	216.6	301.1
France	-27.3	-9.0	-12.0	-19.9	-23.2	14.0	-47.4	10.6	-35.1	-42.3	-9.1
Italy	41.0	26.4	48.9	50.7	52.9	64.8	70.9	51.3	-3.3	5.6	57.1
Spain	23.3	24.2	39.1	36.4	26.7	29.3	10.6	13.2	-2.4	-3.5	25.3
Japan	36.8	136.4	197.8	203.5	177.8	176.3	146.9	142.2	58.1	94.4	165.6
United Kingdom	-157.9	-152.7	-145.6	-98.1	-112.6	-76.8	-69.0	-82.5	-153.9	-157.9	-155.9
Canada	-41.9	-54.4	-47.2	-46.2	-41.0	-35.5	-29.4	0.9	11.6	-5.3	-51.9
Other Advanced Economies ¹	351.0	350.3	330.2	333.0	330.6	345.6	401.0	591.7	484.5	448.5	462.0
Emerging Market and Developing Economies	161.4	-76.1	-99.4	-21.9	-55.4	-3.4	157.8	343.8	598.0	492.3	-108.2
Regional Groups											
Emerging and Developing Asia	227.4	296.1	212.3	166.4	-51.3	93.2	319.8	250.2	191.6	166.9	-25.2
Emerging and Developing Europe	-10.9	34.2	-8.4	-19.9	66.1	50.1	0.4	71.0	131.9	131.5	-13.5
Latin America and the Caribbean	-189.9	-172.7	-102.3	-94.7	-142.1	-106.6	-8.7	-79.3	-97.6	-83.7	-98.2
Middle East and Central Asia	199.7	-140.8	-146.4	-39.0	111.8	17.3	-105.7	121.8	406.5	333.0	89.8
Sub-Saharan Africa	-64.9	-92.9	-54.6	-34.6	-40.0	-57.4	-48.0	-19.9	-34.6	-55.4	-61.2
Analytical Groups											
By Source of Export Earnings											
Fuel	252.0	-144.7	-99.4	41.0	201.3	72.9	-89.8	180.8	498.3	406.6	152.1
Nonfuel	-88.8	70.6	2.2	-60.7	-254.5	-74.5	249.4	164.5	101.6	87.4	-257.7
Of Which, Primary Products	-57.7	-65.0	-45.1	-57.7	-76.3	-48.5	-4.5	-19.0	-37.6	-36.7	-35.8
By External Financing Source											
Net Debtor Economies	-384.4	-353.3	-271.6	-306.0	-382.1	-299.2	-114.0	-294.5	-459.0	-430.2	-508.5
Net Debtor Economies by Debt-Servicing Experience											
Economies with Arrears and/or Rescheduling during 2017–21	-59.2	-72.7	-65.9	-59.5	-52.0	-52.5	-35.6	-40.0	-41.2	-51.1	-45.4
Memorandum											
World	386.8	196.9	269.8	467.4	343.2	375.9	337.7	683.3	227.1	322.2	128.4
European Union	451.8	443.2	472.3	502.2	509.1	467.7	418.7	571.6	190.5	262.3	541.2
Middle East and North Africa	191.5	-122.2	-121.1	-19.3	127.5	36.5	-90.2	128.9	399.4	321.3	112.8
Emerging Market and Middle-Income Economies	204.3	-1.0	-58.8	11.4	-0.7	54.2	209.2	418.9	690.8	583.7	-16.5
Low-Income Developing Countries	-42.9	-75.1	-40.6	-33.3	-54.7	-57.6	-51.4	-75.0	-92.8	-91.3	-91.7

Source: WEO Countering the Cost-of-living crises

Unexpected geopolitical events, as always, remain wild cards. Specifically, China's ability to navigate an exit from "zero-Covid" safely and the European exposure to spiking energy prices remain critical risks. The success of China's reopening has potentially opposed inflationary effects by lessening supply chain disruptions but also contributing to global demand for commodities and energy.⁷

It does not look like Covid shutdowns are going to weigh heavily on economic activity, especially now that China is rolling back its zero-Covid policy. But Covid is still very relevant in the sense that disabilities related to past cases of Covid and ongoing fear of the virus appear to be factors impeding the return of some workers to the labor force. The labor force participation rate for older adults in the United States is still well below its pre-pandemic level. And that's contributing to the worker shortage that is pushing up wage inflation.

Covid is probably not going to be a major factor for the economy in 2023 unless there are new variants that are extremely dangerous even to those with booster shots. China's Covid lockdowns this year have had surprisingly little economic impact on the rest of the world, except insofar as they have reduced the pressure on commodity prices. China's reopening could lift commodity prices next year, although much will depend on how they go about it (and whether they change their mind).

The war in Ukraine also remains a key storyline for the global economy. The most important channel is that the restricted supply of Russian natural gas has created an energy crisis in Europe. This crisis appears to have tipped some European economies into recession, and that has major implications not only for those economies, but also for their trading partners.

The economic impact of the war in Ukraine for the rest of the world probably peaked back in the summer, if not earlier. The damage that has been done is mostly baked in for everyone outside of Russia and Ukraine. That said, there is room both for positive surprises (a just peace settlement) and negative ones (a major escalation of the war). As stated in the latest World bank press release the growth in advanced economies is projected to slow from 2.5% in 2022 to 0.5% in 2023. Over the past two decades slowdowns have forecasted a global recession. The GDP levels in emerging and developing economies will be about 6% below what was anticipated before the epidemic by the end of 2024. Although it is predicted that worldwide inflation would moderate, it will still be higher than before the pandemic.⁸

Economic Forecast 2022 -2023: Forecast for the Next Five Years

The economy will stagnate soon and start to decline, economists are more and more certain. Beginning in June 2022, The Financial Times and the Initiative on Global Markets, a center for economic research and policy at the University of Chicago, polled 49 experts in American macroeconomics. Additionally, the recession will start in 2023.

According to the National Bureau of Economic Research (NBER), a recession is defined as a sharp decline in economic activity that lasts for two fiscal quarters. The GDP for the first quarter fell by 1.5%. The B.E.A. will release second-quarter results in late September. The NBER will likely reach this decision

in 2023, according to over 70% of the economists polled; 38% of them forecast a recession in the first two quarters and 30% in the third.⁹

Only one expert predicts a recession for this year, while 30% predict one won't occur until 2024. Food and gas prices have increased the highest since Russia's invasion of Ukraine at the end of February, contributing to inflation. For the remainder of 2022 and into 2023, according to more than half of the economists surveyed, the same forces—geopolitical concerns related to the Ukraine war and higher oil prices—would persist, pushing inflation in the United States to increase.

The analysis could not distinguish between a severe or moderate recession in 2023, but analysts found a number of factors that might lessen the detrimental economic effects of tighter monetary policy. According to one-fourth of analysts, inflation-driven increases in consumer spending will lessen losses and enhance the likelihood of a mild economic downturn.¹⁰

The Conference Board projects that the economy will have grown modestly during the past year and will experience a brief recession in late 2022 or early 2023. This prognosis is related to inflation and the Federal Reserve's escalating hawkishness. They anticipate 1.7% Real GDP growth in 2022 and 0.5% in 2023. They have reduced their Q2 2022 growth prediction from 1.9% to 0.8% even though they do not think the US economy is in a recession.

The US adopts an aggressive monetary policy due to high inflation rates. The Fed has indicated that it plans to sharply increase interest rates over the next few months, and that the Fed Funds rate would likely conclude 2022 in "restrictive" zone (over 3 percent), before perhaps rising further to 3.75–4.00 percent in 2023. The job market, corporate investment, and consumer spending will all be slowed by higher interest rates.

The OECD Economic Outlook is an examination of the important global economic trends and prospects for the following two years, published by the OECD every two years. The Outlook, which is produced by the OECD Economics Department, presents a consistent set of estimates for output, employment, government spending, prices, and current balances. It is based on an analysis of each member countries and the impact that each has on global events. The assessment of the OECD Economic Outlook from June 2022 is updated in the Interim Report for September.¹¹ The following is an assessment of the world economy for 2022 and 2023 in light of the conflict in Ukraine.

- Energy and food costs have significantly increased as a result of the war, escalating inflationary pressures at a time when the global cost of living was already growing quickly.
- Global growth is anticipated to fall from 3% in 2022 to 21% in 2023, significantly slower than the rate anticipated before the war.
- In 2023, real global incomes could be around USD 2.8 trillion lower than expected a year ago (a shortfall of just over 2% of GDP in PPP terms).
- Inflation has become broad-based in many economies.
- Next year, inflation pressures should be reduced by tighter monetary policy and fewer supply constraints, but increased

energy prices and labor costs are anticipated to impede the rate of fall.

- To lessen the impact of rising energy costs on homes and businesses, financial support is required.
- The need to avoid additional sustained stimulus at a period of high inflation and to guarantee fiscal sustainability should be considered when taking short-term fiscal measures to cushion living standards.
- Governments must make sure that the mitigation of climate change and the security of energy are mutually supportive.
- Stronger policy measures to promote investment in clean technology and energy efficiency should be taken in conjunction with efforts to assure short-term energy security and affordability through fiscal assistance, supply diversification, and decreased energy usage.
- Global food security continues to be threatened by the effects of the war, especially if they are paired with more extreme weather occurrences brought on by climate change.
- In order to maintain open agricultural markets, respond to urgent needs, and increase supply, international collaboration is required.¹²

First and foremost, G20 nations should act quickly to provide the necessary liquidity to help economically fragile nations weather the storm and strengthen their resilience going forward. They should bring back the debt service suspension plan, which helped create financial breathing room during the coronavirus outbreak, and keep their commitment from October 2021 to give \$100 billion in SDRs as emergency liquidity. To date, just a small portion of the \$81 billion pledged to this goal has been paid out, including \$21 billion from the US that Congress has not yet authorized. These monies should be quickly allocated to the multilateral development banks (MDBs), the IMF's Poverty Reduction and Growth Trust, and the IMF's recently created Resilience and Sustainability Trust and the newly created Resilience and Sustainability Trust of the IMF, allowing vulnerable countries to access these funds.

Finally, there are growing demands for countries in the Global South to have a significant voice at the negotiating table. A permanent seat for the African Union at the G20 would be a significant signal, and the IMF's 2023 quota review could be an opportunity to create a new African chair on the board in addition to increasing or changing the distribution of quotas in favor of African nations.¹³

These specific actions would send a clear message that Western nations are paying attention to the Global South, provide urgent funding on the scale required to address the problems at hand, and spark a larger discussion about the types of international institutions required in the twenty-first century.

Without making substantial expenditures from domestic budgets or political capital, all of this may be done. The typical justifications for inaction are invalid in this regard.¹⁴

CONCLUSIONS

The world is currently experiencing instability as a result of changes in the economy, the geopolitical situation, and the environment. As the COVID-19 pandemic-related budgetary support is dwindling, inflation has skyrocketed to multidecade highs, necessitating rapid monetary policy tightening and straining household finances. Deep fiscal challenges are being faced by several low-income nations. At the same time, the risk of a huge global upheaval has been raised by Russia's protracted conflict in Ukraine and other concerns. Although the pandemic's effects have subsided in the majority of nations, their lasting effects are still having an adverse influence on the global economy, particularly in China.

In the near future, declining global demand will be the main development, which will restrain inflation. While the price of crude oil should fall through 2023, high energy costs will act as a ceiling on the cost of processed commodities and restrain the rate of inflation decline.

One of the things the world has learned from the COVID-19 epidemic and the recovery that followed is that the global supply was not prepared for the tremendous demand shock that happened with the reopening of the world's main economies.

The US, Canada, Western Europe, and Australia are among the economies that relied on migration for the supply of workers to keep their economies humming before the pandemic. Migration flows will likely improve, but probably not quickly enough to prevent capacity restrictions.

Along with a sustained gradual recovery of cross-country labor movement, the surge of workers who fled from urban to rural regions during the worst of the epidemic may take a while to return in emerging markets. Given the dearth of local labor markets, migrants from East Africa and South Asia will continue to be essential in sustaining planned investments. Another exception is developing Europe, where a sizable portion of the Russians and Ukrainians who fled the conflict in 2022 will continue to do so in 2023, increasing the region's population and labor pool.

In 2023, major layoffs will be less frequent than hiring freezes globally as firms try to keep talent. Job losses will be concentrated in industries like real estate and finance that are dependent on credit conditions.

REFERENCES

The Economist: why the world recession is inevitable? Available at: <https://www.economist.com/the-world-ahead/2022/11/18/why-a-global-recession-is-inevitable-in-2023>

United Nations, (2021). Key Statistics and Trends in International Trade 2020

The Diplomat, China's low-growth Zero - COVID Policy Signals Transition Away from Reform Period, Available at: <https://thediplomat.com/2022/08/chinas-low-growth-zero-covid-policy-signals-transition-away-from-reform-period/>

Official site of the European Union. Available at: https://european-union.europa.eu/news-and-events/press-releases_en

Global Financial Stability report, IMF October 2022 available at: <https://www.imf.org/en/Publications/GFSR/Issues/2022/10/11/global-financial-stability-report-october-2022>

World Economic Forum Annual Meeting, available at: <https://www.weforum.org/reports/>

Martin, & B. Mercurio, (2017). Doha dead and buried in Nairobi: lessons for the WTO. Journal of International Trade Law and Policy

Harvard Business Review. Available at: <https://hbr.org/2022/12/what-will-the-global-economy-look-like-in-2023>

World Bank press release. Available at: <https://www.worldbank.org/en/news/press-release/2023/01/10/global-economic-prospects>

<https://www.conference-board.org/research/us-forecast>

<https://www.igmchicago.org/wp-content/uploads/2022/06/RESULTS-2022-06-06-Survey-05.pdf> https://www.oecd-ilibrary.org/economics/oecd-economic-outlook/volume-2022/issue-1_ae8c39ec-en

<https://www.bea.gov/news/2022/gross-domestic-product-second-estimate-and-corporate-profits-preliminary-first-quarter>

<https://fortune.com/2022/06/13/recession-economists-survey-2023-inflation-interest-rates/>

Saliu, Memaj

Organisation for Economic Cooperation and Development, Query Wizard for International Development Statistics (accessed October 18, 2022), <https://stats.oecd.org/qwids/>.