ANATOMY OF FINANCIAL CRISES: PERIODIZATION AND CAUSES

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Financial crises have a significant impact on the global economy, leading to recessions, increased unemployment rates, and other negative consequences. Deep understanding of the mechanisms of origin and development of financial crises is necessary to enhance the resilience of economic systems. The aim of this article is to study financial crises in terms of their periodization and the systematization of their causes. The study employed methods such as analysis, systematization, and historical methodology to analyze and periodize financial crises during the transitional period from the late 20th century to the early 21st century; comparison, analogies, and systematization to generalize the causes of financial crises; and a logical-consequential method to draw conclusions based on the conducted research. The article explores the specific manifestations of financial crises in the global economy and summarizes their periodization. Systemic determinants of global financial crises are examined. The distinguishing features of banking and currency crises are characterized. The sequence of the development of financial crises in a state based on the “contagion effect” is considered. It is proven that financial crises are not random events; they are caused by various factors, including speculative operations, a lack of regulation and oversight, and excessive lending. Special attention is given to geopolitical factors as one of the most common causes of financial crises in recent decades and to their specific manifestations. It is established that, despite the cyclical nature of financial crises, their scales and consequences always vary, necessitating the development of dynamic tools for crisis management. The research aims to identify patterns and factors that cause financial crises. The results can serve as a basis for developing a system of indicators to predict the likelihood of financial crises, enabling timely preventive measures to prevent or mitigate possible negative consequences. Developing such a system is a complex and comprehensive task that presents prospects for further research. The type of article is theoretical.

Key words: financial crises; financial stability; risk; economic contagion effect; financial system.
INTRODUCTION

The specificity of financial crisis manifestations shapes the boundaries of economic agents’ activities in the market. Firstly, this is associated with the fact that socio-economic crises have financial consequences most characteristic of the dynamic and contradictory market transformation of the contemporary economic state. Secondly, the volume of available financial resources significantly influences the choice of method and effectiveness of crisis management in cash flow, as a significant cause of negative transformative changes in the economy is the gap in the movement of corresponding financial resources of different economic entities. Insufficient financial resources lead economic agents to resort to mutual crediting, an increase in mutual non-payments, and an increase in accounts payable, resulting in higher costs for servicing the value of cash flows.

Additionally, the “narrowing” of the domestic market, high dependence on external conditions, a low level of economic sovereignty in the context of accelerated monetization and changes in the exchange rate can become powerful factors of uncertainty and chaos in the economic system. This will lead to a imbalance of cash flows in time and volume, the worst manifestation of which is bankruptcy. Thus, the study of the causes and forms of crises becomes increasingly relevant for the timely development and selection of effective tools to neutralize their negative consequences.

LITERATURE REVIEW

Issues related to the study of the nature of financial crises, their causes, and methods of overcoming their consequences have been the subject of serious scientific research by both foreign and domestic scholars. For instance, C. Reinhart and K. Rogoff [1] conducted a thorough analysis of historical data on financial crises over the past 800 years, demonstrating their recurring nature by identifying common features with previous crises. R. Shiller [2] highlighted the importance of behavioral economic principles in understanding financial crises, proving that psychological factors can lead to asset overvaluation and the formation of “bubbles.”


O. Baranovsky’s work [5] deserves special attention as it provides a deep understanding of the causes and consequences of financial crises through a systematic approach to their study. By considering the interaction of economic, financial, and social factors, the author enables a more comprehensive understanding of the nature of financial crises for developing prevention methods. T. Shabelnyk, T. Marena and M. Shabelnyk [6] focused on the search for effective early warning indicators of financial crises. In their work, they proposed a typology of global financial crises based on their own classification criteria.

V. Kozik and V. Baranchuk [7] worked on developing a system for early warning of global financial crises based on retrospective research of their development. O. Voronova, S. Marushchak and M. Pugachov [8] focused on studying key macroeconomic indicators of financial crises, such as the state of the balance of payments, the ratio of external debt to GDP, the level of exchange rate volatility, and the ratio of international reserves to the growth of imports.

However, while acknowledging the theoretical and practical value of these studies, it should be noted that certain theoretical and methodological aspects of the chosen issue still require further development to align with the dynamics of the modern world.

AIMS AND OBJECTIVES

The aim of this article is to study financial crises in terms of their periodization and the systematization of their causes.
METHODOLOGY AND RESEARCH METHODS

In the course of the research, general scientific methods were employed, such as analysis, systematization, and the historical method for studying and periodizing financial crises of the late 20th and early 21st centuries; comparison, analogy, and systematization for summarizing the causes of financial crises; the logical-consequential method for forming conclusions from the conducted research.

DATA ANALYSIS AND RESULTS

The prerequisite for identifying the causes of global financial crises is the examination of the features of crisis management in cash flow, which has become exceptionally acute only in the last 15-20 years. The reason for this is not the bankruptcy of individual companies and banks or crises in state finances in different countries, which have occurred before, but the speed of imbalance in cash flows and the scales at which they arise and spread. For instance, the collapse of savings and loan associations in the U.S. lasted for 20 years (from 1972 to 1992); the American investment pool Orange County, within three years (from 1992 to 1994), increased its monthly losses from acceptable 1.8% to alarming 5% of the total deposits, losing a total of 1.67 billion dollars. The collapse of the Barings bank in 1995 took just a few months to accumulate losses of about 1.1 billion dollars [3].

Even more rapid was the downfall of the hedge fund Long Term Capital Management (LTCM), which, as a result of the crisis in August 1998, lost 2.1 billion dollars (47% of its asset value) in just one month. On August 21, 1998, the fund incurred losses of 550 million dollars, and on September 21, 1998, another 500 million dollars. However, the most significant at that time was the bankruptcy of the investment bank Lehman Brothers on September 15, 2008, which lowered the company’s asset value by 75 billion dollars in a month [9]. This triggered a chain reaction of bankruptcies of major banks worldwide, for the rescue of which governments around the world spent 15 trillion euros in two years (a third of the global GDP for 2008) [10].

There are various approaches to classifying financial crises. Within this study, we agree with the authors [11], who identify the main kinds of financial crises as banking, currency, debt and stock market crises.

Analyzing indicators of banking and currency crises, one can observe a close connection between them. In the study [4], out of 25 warning indicators, 19 are common. At the same time, it is necessary to note that the content of these factors is different, as: firstly, countries may export (import) different sets of goods and services and, accordingly, be prone to different commodity "shocks"; secondly, the stability of the country’s financial system directly depends on the features of the legal regulation of foreign economic activities.

The banking crisis, as a result of a currency crisis, manifests itself in the impossibility of banks to fully cover the scale of currency risk. For example, during the devaluation of the national currency, especially when a significant portion of currency liabilities exists in the total liabilities of the banking system or in the liabilities of a group of banks, it negatively affects the system. The reverse dependence of “banking crisis – currency crisis” is no longer so obvious.

The poor state of accounting information in the banking system contributes to the accumulation of disproportions in the economy as a whole [12]. In the case of active government intervention, such as massive emissions for refinancing troubled banks, currency devaluation becomes inevitable. Primarily the impact of the banking crisis on the securities market is reflected in the change in the value of company cash flows, leading to a decrease in the value of its financial assets. The reason for this is that credit institutions are forced to sell securities to cover losses, such as losses from credit transactions, or to restore liquidity.

On the other hand, accounting information leading to market uncertainty about securities results in a sharp devaluation of investors’ investments, inevitably causing difficulties in the system due to the high level of investments in securities that were considered liquid assets. Problems in this case are most likely to occur when there is insufficient capital for banks to cover losses on securities, accompanied by an increase in the overdue debt of credit institutions from loans.

The results of the thorough analysis conducted by K. Reinhart and K. Rogoff [1] vividly demonstrated the presence of common features in the causes of the emergence of financial crises, proving their cyclical nature. At the same time, it is necessary to take into account the peculiarities of the manifestation of the consequences of different types of financial crises, which are constantly changing under the influence of dynamic realities and conditions of the historical periods in which they unfold.

The mechanisms driving financial crises in the 1970s-80s were markedly different from those in the 1990s. During the 1970s and 1980s, financial crises were predominantly crises of state finances. These were largely due to governments’ inability to manage financial inflows effectively, coupled with inadequate monetary and credit policies. This period saw high inflation, significant currency devaluations, and mounting foreign debt, especially in Latin America.

In contrast, the financial crises of the 1990s were primarily the result of failures in the private sector. Banks and financial institutions made critical errors.
in financial policy, particularly in risk assessment. This was exacerbated by a lack of access to pertinent information for decision-making. The liberalization of currency regulation during this time often led to a surge in capital inflows, which resulted in the accumulation of «bad» loans in banks and a real appreciation of the recipient countries’ national currencies. This era highlighted the strong interdependence between banking and currency crises, as seen in the Asian financial crisis of 1997, where banking sector failures precipitated significant currency devaluations [13].

Table 1 presents the major financial crises of the past 30 years.

<table>
<thead>
<tr>
<th>Period</th>
<th>Countries</th>
<th>Kind of Financial Crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-1993</td>
<td>USA</td>
<td>Currency, debt</td>
</tr>
<tr>
<td>1994-1995</td>
<td>Mexico, Brazil, Poland Countries of Southeast Asia</td>
<td>Stock, currency, debt, banking</td>
</tr>
<tr>
<td>1995</td>
<td>Argentina</td>
<td>Stock, banking</td>
</tr>
<tr>
<td>1997</td>
<td>Thailand, Malaysia, Indonesia South Korea, Philippines</td>
<td>Currency, debt, banking</td>
</tr>
<tr>
<td>1997</td>
<td>Japan</td>
<td>Banking, stock</td>
</tr>
<tr>
<td>1997-1998</td>
<td>Czech Republic</td>
<td>Banking, debt, currency</td>
</tr>
<tr>
<td>1998</td>
<td>Russia</td>
<td>Banking, debt, currency</td>
</tr>
<tr>
<td>1999</td>
<td>Brazil</td>
<td>Stock, currency</td>
</tr>
<tr>
<td>2000-2001</td>
<td>Turkey</td>
<td>Debt, banking, currency</td>
</tr>
<tr>
<td>2001</td>
<td>USA</td>
<td>Stock, debt</td>
</tr>
<tr>
<td>2001-2002</td>
<td>Argentina</td>
<td>Debt, currency, banking</td>
</tr>
<tr>
<td>2002</td>
<td>USA</td>
<td>Stock, debt, currency</td>
</tr>
<tr>
<td>2008-2012</td>
<td>USA, EU, developing countries</td>
<td>Banking, currency, debt</td>
</tr>
<tr>
<td>2013-2014</td>
<td>Cyprus</td>
<td>Banking, currency</td>
</tr>
<tr>
<td>2014-2016</td>
<td>Brazil</td>
<td>Debt, currency, banking</td>
</tr>
<tr>
<td>2014-2016</td>
<td>Ukraine</td>
<td>Currency, banking</td>
</tr>
<tr>
<td>2015-2016</td>
<td>Russia</td>
<td>Currency, debt, banking</td>
</tr>
<tr>
<td>2018-2019</td>
<td>Turkey</td>
<td>Debt, currency, banking</td>
</tr>
<tr>
<td>2020-2021</td>
<td>World (COVID-19 pandemic)</td>
<td>Banking, currency, debt</td>
</tr>
<tr>
<td>2023 - to the present</td>
<td>Russia</td>
<td>Banking, currency</td>
</tr>
</tbody>
</table>

Source: systematized by the authors on [5-8]

During the period from 2000 to 2008, financial crises were mainly caused by speculative operations in financial markets, insufficient regulation and oversight of financial institutions, and excessive lending. The subprime mortgage crisis in the United States in 2007-2008 led to a global financial crisis that affected all countries in the world.

In response to the 2008 financial crisis, many countries took measures to stabilize the financial system, including introducing financial aid programs, increasing the level of regulation and oversight of financial institutions, and implementing macroprudential policies.

Since 2020, the world has faced new challenges related to the COVID-19 pandemic, which caused a global economic crisis. Governments and central banks took unprecedented measures to stabilize the financial system and support the economy, including introducing financial aid programs, lowering interest rates, and implementing effective monetary policy tools for inflation targeting.

It should also be noted that starting from the 2000s of the 21st century, there has been a tendency for financial crises to increase due to geopolitical factors. An example is the financial crisis in Ukraine, caused by the war, that began in 2014. It is primarily characterized by growing imbalances in the trade balances of countries worldwide.

During the 2010s, financial crises continued to occur, but they were less widespread and less severe than the 2008 crisis. In many developing countries, financial crises were caused by exchange rate instability, insufficient foreign currency reserves, and governments’ inability to finance their debt.
investment attractiveness, and deterioration of macroeconomic indicators.

The war in Ukraine illustrates how geopolitical conflicts lead to significant economic losses. Sanctions imposed against Russia in response to the annexation of Crimea and support for separatists in Donbas significantly affected its economy. At the same time, Ukraine also suffered serious losses due to military actions, loss of control over part of its territory, and the forced restructuring of economic ties.

Such events demonstrate the importance of stability and predictability in international relations to ensure sustainable economic development. Governments of many countries, taking into account the lessons of recent decades, are trying to develop policies that minimize the negative consequences of geopolitical risks and enhance the resilience of national economies to external shocks.

In the work [11], the authors emphasize that kinds of financial crises, such as banking, currency, stock, and debt crises, are interconnected. Figure 1 illustrates the sequence of the "economic contagion effect," where a crisis in one country increases the likelihood of its occurrence in other countries within the same region and/or those actively linked through trade channels; it also examines the clear dependence between the imbalance of cash flows and the increased probability of crisis events (heightened financial risk).

![Fig. 1. The sequence of unfolding a financial crisis in a country based on the 'economic contagion effect' Source: prepared by the authors](image)

**DISCUSSION**

Financial crises have a significant impact on the global economy, causing recessions, rising unemployment, and other negative consequences. On one hand, financial crises reduce confidence in financial institutions, leading to a decrease in investments and economic growth. On the other hand, they cause inflation and budget deficits, making it difficult for governments to finance social programs and economic recovery. Furthermore, the dynamism and contradictions of market transformations induced by the current stage of economic development lead to increased imbalances in cash flows over time and volume, and the specific manifestations of these financial crises pose challenges for economic agents’ activities.

Therefore, a deep understanding of the mechanisms of financial crisis emergence and development is necessary to enhance the resilience of economic systems. Given the cyclical nature of financial crises, it can be stated that their occurrence is inevitable, but there is always the possibility to timely influence their scale and future consequences.

Universal solutions are not always effective, so each crisis requires specific approaches and methods to overcome it. A flexible and adaptive crisis management toolkit will enable better responses to new challenges and minimize negative impacts on the economy, ensuring its stability and development.

**CONCLUSIONS**

The comprehensive analysis of various kinds of financial crises, their periodization, and underlying causes highlights the complexity of this issue in the economic sphere. The conducted study of the major financial crises of the late 20th and early 21st centuries demonstrated that financial crises are not random occurrences but are caused by diverse factors, including speculative operations, regulatory and supervisory deficiencies, and excessive lending. Research also indicates that financial crises tend to be cyclical, although their scales and consequences vary.

Given the globalization of the modern world, financial crises in specific countries are no longer localized phenomena. They directly impact the development of the global economy. The interconnection of global financial markets means...
that crises in specific regions can quickly spread, impacting economies worldwide. The contagion effect within economies amplifies the necessity for a deep understanding of the mechanisms of financial crises to support financial stability and develop effective risk management strategies at the global level. This is a complex yet pertinent area that requires further research into finding contemporary methods of crisis management and their adaptation to the dynamic conditions of today.

REFERENCES: