



A CRITICAL ANALYSIS BETWEEN GLOBAL FINANCIAL CRISIS AND COVID-19 PANDEMIC CONSIDERING THE IMPACT ON THE GLOBAL ECONOMY

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Abstract

The main purpose of this research article is to provide a critical analysis between global financial crisis and COVID-19 pandemic considering the impact on the global economy. The subprime mortgage crisis which affected the United States of America since mid - 2007 was the major cause responsible for the trigger of the global financial crisis. The Covid-19 pandemic which erupted in late 2019 in Wuhan, Hubei Province of China, represents a global health crisis with severe social, economic and financial implications. Both this extreme events have significantly affected the global economy.

Keywords: extreme event, investment risk, stock market, volatility, global economy, global financial crisis, COVID-19 pandemic, subprime mortgage crisis

I. INTRODUCTION

The financial crisis that was triggered in the second half of the year 2007 in United States of America, and it soon had a global echo with severe implications for the global economy. The subprime mortgage crisis which erupted in United States of America since mid - 2007, was the main cause for the global financial crisis. Thus, the financial crisis of 2007-2008 became known as the global financial crisis or GFC and has affected most of the world's economies. In fact, the global financial crisis is comparable to the turmoil caused by the Great Depression which was triggered by the stock market crash of 1929. The impact on the economy has been devastating, while unemployment has risen significantly, labor market was affected, poverty has exploded, production has collapsed. Globally, many of the developed economies as well as the emerging economies have been affected by the global financial crisis and its disruptive implications.

On the other hand, COVID-19 pandemic is a very important current challenge having unprecedented economic and social implications. According to the World Health Organization: "Coronavirus disease (COVID-19) is an infectious disease caused by a newly discovered coronavirus". The COVID-19 health crisis occurred at the end of 2019 in Wuhan, Hubei Province of China and subsequently spread throughout the world with alarming rapidity. However, the COVID-19 pandemic has certain unique characteristics that have characterized this severe health crisis. COVID-19 pandemic caused unprecedented economic and social dynamics.



II. LITERATURE REVIEW AND EMPIRICAL ANALYSIS - A CRITICAL APPROACH

Shala et al. (2013) investigated the impact of the Global Financial Crisis during the period 2008-2012 and provided an extensive analysis of the triggering events that followed the global financial crisis in mid-2007. The authors concluded that a remarkable aspect was the speed of crisis propagation from the U.S. stock market, i.e. Wall Street to many other countries all around the world, but the major implications have been for European countries. Moreover, Amutha (2013) examined the implications of the global financial crisis on the emerging economy of India and concluded that there are the following consequences: “plummeting stock prices, a net outflow of foreign capital, a large reduction in foreign reserves and a sharp tightening of domestic liquidity”.

The World Trade Organization also known over the acronym WTO (2021) argued that the COVID-19 pandemic constitute „an unprecedented disruption to the global economy and world trade, as production and consumption are scaled back across the globe”. Batool et al. (2020) suggested that pandemics determine economic distress so this was expected to happen in this case of COVID-19 pandemic as well. In another train of thoughts, Spulbar et al. (2019) consider that sustainable development constitute a great challenge for the global economy so it is very important to consider this essential aspect by decision makers. The current COVID-19 pandemic crisis determined high uncertainty, social panic and economic losses. The financial markets suffered due to COVID-19 pandemic being affected in the sense of the considerable increase of the market volatility and high uncertainty. Gunay (2021) highlighted the fact that COVID-19 pandemic significantly affected the emerging financial markets.

The following figure no.1 represents the evolution of World’s GDP growth (annual %) for the sample period 1961-2019:

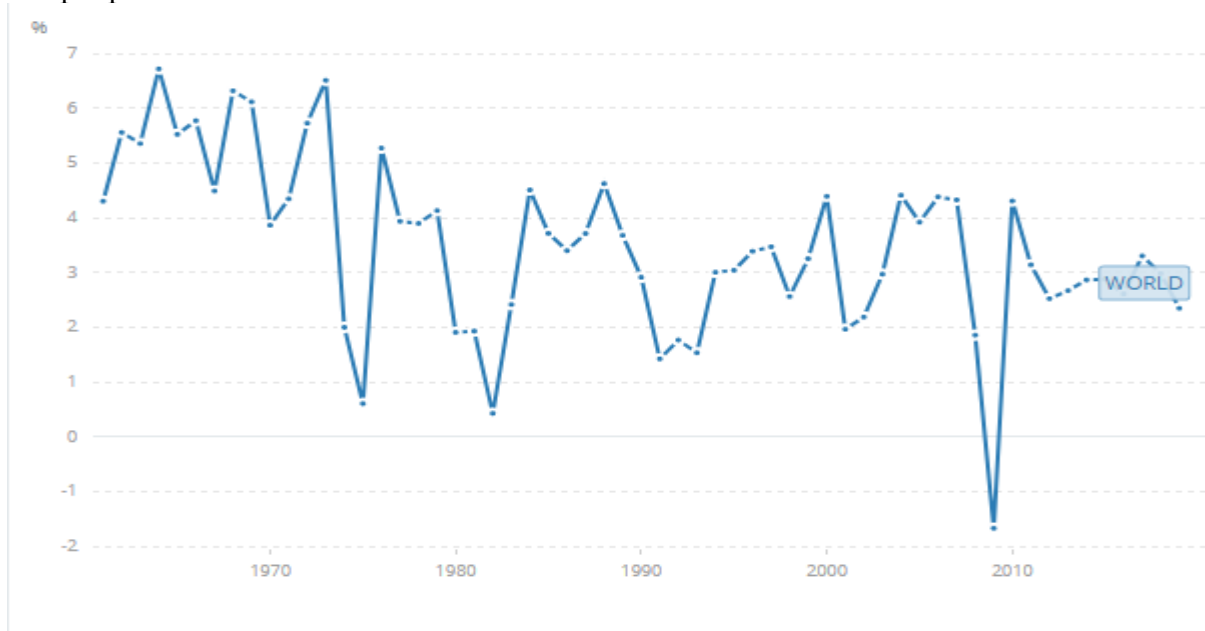


Figure:1 The dynamics of World’s GDP growth (annual %) for the sample period 1961-2019
Source: World Bank national accounts data, and OECD National Accounts data files



According to the World Bank, economies fall into certain main categories, namely low, lower-middle, upper-middle, and high income using gross national income (GNI) per capita data converted in U.S. dollars based on the World Bank Atlas method.

The following figure no.2 represents the dynamics of GDP growth (annual %) for all income categories countries for the sample period 1961-2019.

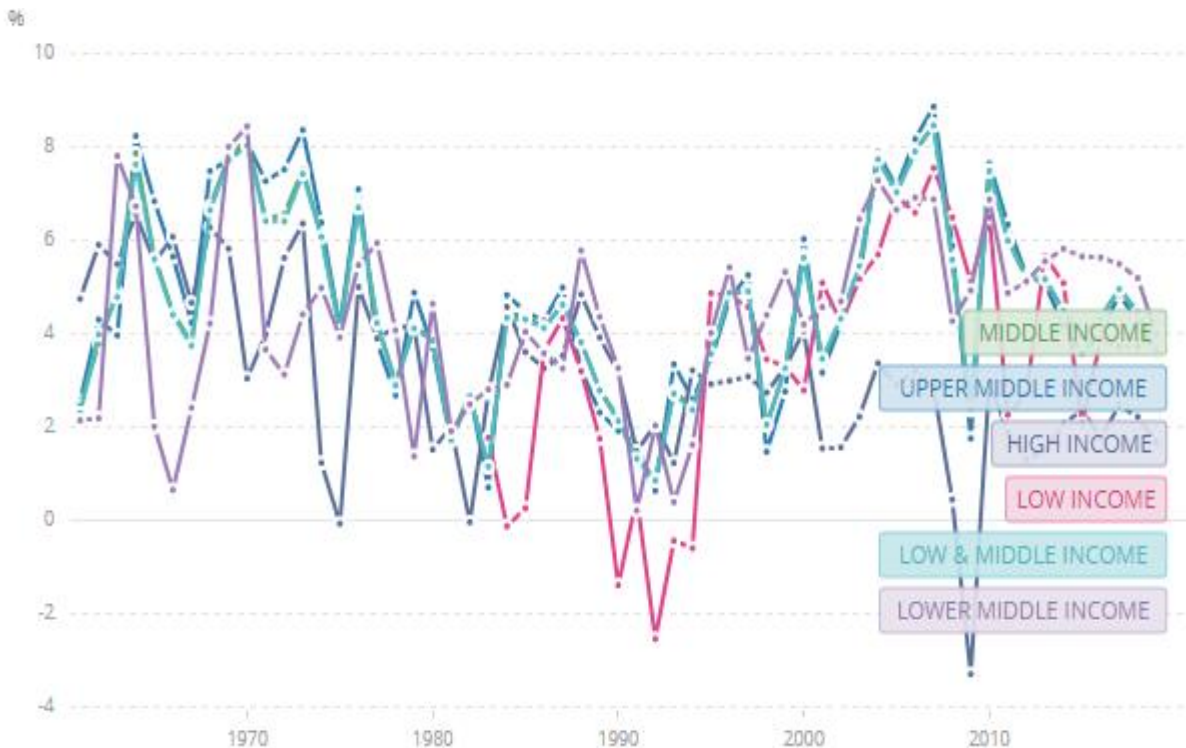


Figure: 2 The dynamics of GDP growth (annual %) for all income categories countries for the sample period 1961-2019

Source: World Bank national accounts data, and OECD National Accounts data files

III. CONCLUSIONS

The social panic caused by lockdown and the severe economic damages suffered by countries all around the world, with almost no exception, represent specific characteristics of the COVID - 19 health crisis. Moreover, the social distancing, extremely rapid contagion and spread of the disease, the extremely high number of deaths caused by this disease, are extremely strong arguments regarding the severity of the COVID - 19 pandemic crisis. Obviously, the magnitude and speed of the spread are much more pronounced in the case of the COVID - 19 pandemic



than in the case of the global financial crisis (GFC) of 2008. According to Gunay (2021) who conducted a complex empirical study, the “shockwave of the COVID-19 pandemic in the total volatility spillover is about eight times greater than that of the GFC”. COVID-19 pandemic determined a strong and efficient international coordination in order to reduce the damage to the global economy, while and government authorities in most countries have mobilized quite firmly to limit the spread of devastating effects. In the case of the global financial crisis, the initial effect was felt by the collapsed financial markets. It should be noted that not all countries have been affected by the global financial crisis, some emerging countries for example have even registered positive developments.

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