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OVERVIEW OF THE RECENT FINANCIAL CRISIS

The recent financial crisis has had an extremely large impact on the financial sector and created a lot of discussions worldwide about the stability of the whole financial system. The failure of the economies all over the world to respond effectively to the crisis is the proof of their imperfection. Our concise understanding of the reasons of the crisis and some of its peculiarities are described below.

During the last three decades it has been a stable trend for western multinational corporations to transfer manufacturing from their plants in developed countries to China and other South-East Asian countries which were trying to attract foreign investments. The major advantage of these arrangements was a great economy on payroll, which significantly decreased the cost of manufacturing. As the prices for products remained unchanged or even went up, this had led to the accumulation of greater margin. Finally, the excess of cash on the accounts of the corporations was invested into the high risk instruments like collateralized debt obligations and other asset-backed securities and into consumer loans.

The economies grew each year, and there were no doubts that the continuous growth was going to be the long-run trend. Interest rates went down, and GDP grew as the consumption was stimulated with the excess of funds. One of the most booming sectors in the USA and in West European countries was the construction industry, which gave tremendous impulse to the economies worldwide due to the increased demand for industries such as metal, gas, wood production, etc.

In the situation of constant growth of consumption and excess of money supply, the demand for real estate increased significantly. Many people considered the realty as an investment (to sell the house when the prices were to get higher); some people would just take a mortgage to move into a bigger house. The bankers who were motivated to increase their loan portfolios in order to get higher bonuses performed formal procedures instead of deep analysis of debtors. Hence, many banks, insurance companies, mutual fund companies, and trusts failed to adequately estimate the large risks as a nationwide collapse of mortgage scheme. Defaults in payments and debt restructuring led to the supply and demand imbalance which resulted in total overestimation of assets, loans, and level of trust. As a result, the organizations that used to play first fiddle in the industry went bankrupt – Fannie Mae and Freddie Mac, Lehman Brothers, Bear Stearns and Merrill Lynch, AIG.

Научно-практическая конференция "Бизнес-образование как инструмент устойчивого развития экономики"

After a series of tremendous institutions' bankruptcies, the countries and institutions worldwide started to overestimate the risks. The loss of confidence and trust in financial instruments and in long-term projects generated global mistrust. The mortgage bubble in European markets affected all the industries in the region. Europe experienced recession in industrial output, high unemployment and a record budget deficit. As a result the economies of the Euro zone faced difficult times: Greece, Spain, Ireland, and Portugal were close to defaults. Only due to the mutual European Union financial efforts, the governments of the countries were able to stabilize the situation and develop an action plan to diminish the budget deficit.