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GLOBAL FINANCIAL CRISIS OR THE «GREAT RESESSION»

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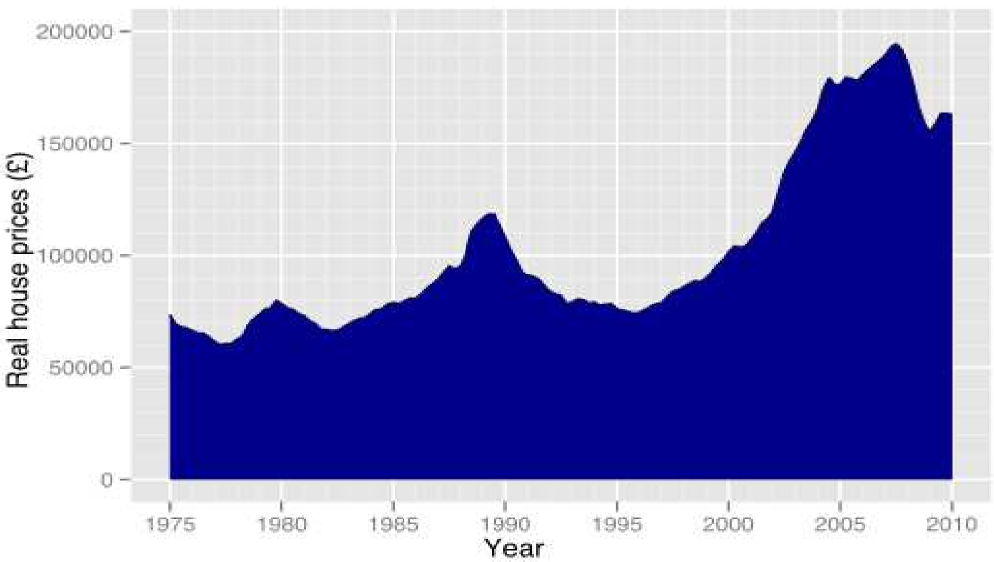
Global Financial Crisis is claimed to be the worst financial crisis since the Great Depression of the 1930s by many economists. There is hardly ever any sphere of society that Global Financial Crisis didn't touch. That's why changes both in global economic relations and in the economy of a definite state and defining of the directions of further economic development have become urgent.

The Great Recession is a marked global economic decline that began in December 2007 and took a particularly sharp downward turn in September 2008. The active phase of the crisis, which manifested as a liquidity crisis, can be dated from August 7, 2007 when BNP Paribas terminated withdrawals from three hedge funds citing "a complete evaporation of liquidity".The bursting of the U.S. housing bubble, which peaked in 2006, caused the values of securities tied to U.S. real estate pricing to plummet, damaging financial institutions globally.

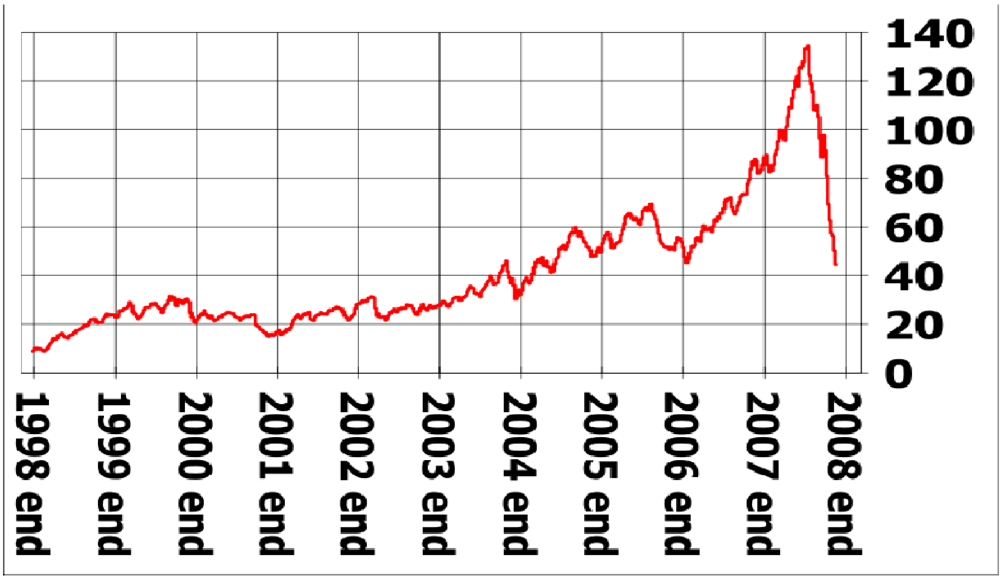
The reasons of the crisis are connected with the following factors:

- The disbalance of international trade and funds movement;
- The devaluation of US dollar led to the decrease of using it as a reserve currency by some countries; (that caused some problems in the US economy and the economy of other countries)
- General recurrence of economic development;
- Overheating of fund market;
- Overheating of credit market and mortgage crisis as its consequence;
- High prices on raw materials (especially oil).

The graphic below illustrates the house prices during the last 30 years. The peak of prices for houses falls to 2008.



As we can see from the next graphic, the peak of prices falls to the end of 2007 and the beginning of 2008.



Rapid rise of prices on oil and housing strongly influenced financial markets.The International Monetary Fund estimated that large U.S. and European banks lost more than $1 trillion on toxic assets and bad loans from January 2007 to September 2009.

Initially the companies affectedwere those directly involved in home construction and mortgage lending such as Northern Rock and Countrywide Financial, as they could no longer obtain financing through the credit markets. Over 100 mortgage lenders went bankrupt during 2007 and 2008.

And this is a list of the largest U.S. bank failures with respect to total assets under management at the time of the bank failure during the Global Financial Crisis. Assets of the banks listed here are figures provided by the Federal Deposit Insurance Corporation. They are ranged from the largest failure to the least.

Bank	**City**	**State**	**Date**	**Assets at time of failure**
Washington Mutual	Seattle	Washington	2008	$307 billion
IndyMac	Pasadena	California	2008	$32 billion
Colonial Bank	Montgomery	Alabama	2009	$25 billion
Guaranty Bank	Austin	Texas	2009	$13 billion
Downey Savings and Loan	Newport Beach	California	2008	$12.8 billion
Bank United FSB	Coral Gables	Florida	2009	$12.8 billion
AmTrust Bank	Cleveland	Ohio	2009	$12.0 billion

Though the US is the birthplace of Financial Crisis it spread all over the world. It had global effects.Some developing countries that had seen strong economic growth experienced significant slowdowns. For example, growth forecasts in Cambodia show a fall from more than 10% in 2007 almost to zero in 2009, and Kenya may achieve only 3-4% growth in 2009, down from 7% in 2007.

Reductions in growth influenced the falls in trade, commodity prices and investment. Ithas led to a dramatic rise in the number of households living below the poverty line, be it 300,000 in Bangladesh or 230,000 in Ghana.

The recession that began in December 2007 ended in June 2009, according to the U.S. National Bureau of Economic Research and the financial crisis appears to have ended about the same time. President Barak Obama declared on January 27, 2010, "the markets are now stabilized, and we've recovered most of the money we spent on the banks."

Nevertheless, the lack of fundamental changes in banking and financial markets, worries many market participants, including the International Monetary Fund.

The financial crisis has caused the emerging and developing economies to replace advanced economies to lead global economic growth. Here you can see the List of Largest Economies by Incremental Nominal GDP from 2007 to 2011 by the International Monetary Fund. The countries are ranged from the highest GDP in China to the lowest in Australia. The average GDP growth in the world is 6.4 %.

Country	**GDP (billions of USD)**	**Share of Global Incremental GDP**	**Annualized GDP Growth**
World	**14,331.570**	**100.00%**	**6.4%**
China	3,494.240	24.38%	25.0%
United States	1,477.420	10.31%	8.4%
Brazil	1,139.740	7.95%	20.7%
Japan	1,036.140	7.23%	1.8%
European Union	985.438	6.88%	1.5%
India	690.569	4.82%	15.0%
Russia	585.200	4.08%	11.3%
Australia	553.746	3.86%	14.5%

October 8, 2008 all the leading central banks of the world took the unprecedented decision of the simultaneous reduction of interest rates. This decision was seen as a browser recognition of the global nature of the crisis, which requires coordinated action by major economies.

October 14, 2008 the U.S. government "rescue plan" providing for the allocation of $ 250 billion to stabilize the financial system, some of which, namely the 125 billion will go to buy stakes in nine major U.S. banks, including: Bank of America Corp, Citigroup and others. The plan provides for unprecedented in U.S. history, a partial nationalization of private banks that was necessary to revive the economy.

November 14, 2008 Leaders of the Group of Twenty gathered at an anti-crisis summit. Following the working session, the summit adopted a declaration in which general principles for reform of financial markets, the restructuring of international financial institutions, the obligation to refrain from the use of protectionist measures were proclaimed.

Summing up, the investigation outlined the reasons of the crisis and its consequences and mainly the fact that the stabilization and further development of financial market is possible only by joint efforts of all the leading economies.

But the crisis turned out to be not so deep and the global financial system didn’t undergo crucial changes thanks to the interference of the state into the financial market.

Though, not all the reasons were done away with economies of leading states still live under threat of the following crises.