

# The Essence of Economic Crises and Accumulations of Uncertainties

*Hovsepyan Meri H.*

*PhD student of the Chair of International Economic Relations of  
Armenian State University of Economics (Yerevan, RA)*

*hovsepyanmer@gmail.com*

**UDC:** 339.9; **EDN:** UJMFOR; **JEL:** G01, N1, D81;

**DOI:** 10.58587/18292437-2023.1-158

**Keywords:** Economic stability, macroeconomic fluctuations, crises classifications, recessions, crises, economic uncertainties

## Տնտեսական ճգնաժամերի էությունը և անորոշությունների կուտակումները

*Հովսեփյան Մերի Հ.*

*Հայաստանի պետական տնտեսագիտական համալսարան,  
Միջազգային տնտեսական հարաբերությունների ամբիոնի ասպիրանտ (Երևան, ՀՀ)  
hovsepyanmer@gmail.com*

**Ամփոփում.** Համաշխարհային տնտեսության զարգացման ներկա փուլում, երկրների միջև առկա սերտ կապերը տնտեսությունները դարձնում են ավելի փոխկապակցված, սակայն, միևնույն ժամանակ՝ առավել խոցելի: Վերջին տարիների տնտեսական անկայունությունների շարունակական դրսևորումներն ու կուտակումները վեր են հանել լրացուցիչ ուսումնասիրությունների իրականացման անհրաժեշտությունը: Ամբողջ աշխարհում ճգնաժամերի դասակարգումների, պատճառների և հետևանքների մանրակրկիտ վերլուծությունը դարձել է մասնագիտական քննարկումների անբաժանելի մասը: Սովորաբար տնտեսական ճգնաժամերն ունեն թե՛ ընդհանուր տարրեր, թե՛ տարբեր բնութագրիչներ: Այս հոդվածը ամփոփում է տնտեսական ճգնաժամերի տեսակները, դասակարգում դրանք ըստ տարբեր չափանիշների և ներկայացնում է գործալ անկայունության ազդեցությունը երկրների տարբեր խմբերի վրա:

**Հանգուցաբառեր՝** տնտեսական կայունություն, մակրոտնտեսական տատանումներ, ճգնաժամերի դասակարգում, ռեցեսիաներ, ճգնաժամեր, տնտեսական անորոշություններ

## Суть экономических кризисов и накоплений неопределенностей

*Овсепян Мери О.*

*Армянский государственный экономический университет,  
кафедра международных экономических отношений, аспирант (Ереван, РА)  
hovsepyanmer@gmail.com*

**Аннотация:** Современный уровень развития мировой экономики и более тесные связи между странами делают экономики более взаимосвязанными, но и более уязвимыми. Непрерывные проявления и накопления экономической нестабильности в последние годы показали необходимость проведения дополнительных исследований. Тщательный анализ характеристик, причин и последствий мировых кризисов стал неотъемлемой частью профессиональных дискуссий. Обычно экономические кризисы имеют как общие элементы, так и различные характеристики. В данной статье обобщены виды экономических кризисов, классифицированы они по разным критериям, представлено влияние глобальной нестабильности на разные группы стран.

**Ключевые слова:** экономическая стабильность, макроэкономические колебания, классификации кризисов, рецессии, кризисы, экономическая неопределенность.

*“If I had to identify a theme at the outset of the new decade it would be increasing uncertainty.”*

*Kristalina Georgieva,*

*Managing Director of the IMF, Peterson Institute  
for International Economics, January 17, 2020*

**Introduction:** The current level of development of the global economy and the closer ties between countries make economies more interconnected but more vulnerable. In recent years, the continuous manifestations and accumulations of economic instabilities have shown the need to

conduct additional studies. A thorough analysis of the characteristics, causes, and consequences of crises around the world has become an integral part of professional discussions. Usually, economic crises have both common elements and different characteristics. This article summarizes the types of economic crises, classifies them according to different criteria, and presents the impact of global instabilities on different groups of countries.

The history of economic development shows that various crises, instabilities, and economic fluctuations mostly followed economic booms and

phases of development<sup>1</sup>. Although they originally came from either internal and external sources, whether in the public or private sector, in the long run, they affected almost all sectors of the economy. At the current stage of the development of the world economy, the consequences of financial and economic shocks can be significant and strongly influence the conduct of financial and economic policy. This effect can be observed both in the country of the occurrence of these shocks, in integration associations, and in the region or countries that have close trade and economic ties with the given country. The world is facing similar challenges even today: the deterioration of the economic prospects of Russia and Ukraine affects the global economic conjuncture and the entities of the world economy, causing risks due to changes and rearrangements of global political and economic orders and conditions [1].

In this context, it is necessary to have a clear understanding of the factors, transmission channels, and consequences of crises and economic uncertainties as well as their prevention measures.

Even though the above-mentioned issues have always been at the center of economists' attention, and that for several decades there has been a large literature on the history of crises, their causes, and their manifestations, the main decision-makers of economic policy had great confidence in the efficiency of markets and the restorative properties of the economy. As Reinhart and Rogoff note, this "unrealistic optimism," known as "this time is different," afflicted bankers, investors, and policymakers before the 1930s Great Depression, the 1980s Third World debt crisis, the 1990s Asian and Latin American meltdowns, and the major 2008-2009 global downturn. Reinhart and Rogoff emphasized that the conditions were different, but the same mindset—a dangerous mix of hubris, euphoria, and amnesia—led to each of these collapses [2].

**Literature review and analysis:** In the professional literature, different terminology for economic stability disturbances is used: economic instability, economic crises, economic disruptions, crashes, etc. Ensuring **economic and financial stability** is not only an inner problem; it also touches subnational interests and goes beyond national borders. Several international organizations help countries implement this commitment. Stability is a generally accepted measure of development without sharp fluctuations. The World Economic Forum identifies the macroeconomic stability

environment as a key factor among the pillars of countries' competitiveness, suggesting that the economy cannot have sustainable growth unless the macroeconomic environment is stable. or that the economy cannot grow sustainably if the macroeconomic environment is not stable [3]. Although macroeconomic stability has always been the focus of attention among economists, there is no single scientific definition of this phenomenon, and very often different forms of stability are studied - financial, investment, currency, banking, environmental, etc. The importance of macroeconomic stability has been addressed both by representatives of classical and neoclassical theory [4]. Keynesians believed that unstable aggregate demand leads to macroeconomic instability, while real business cycle theorists believed that fluctuations in aggregate supply lead to business cycles. Economic instability negatively impacts the overall well-being of nations by creating an environment in which economic assets will be depreciated and investment can be hindered or suspended, resulting in negative economic phenomena such as the growth of unemployment and poverty, declines in economic sectors, etc.

According to the IMF definition, the promotion of economic stability is a matter of avoiding economic and financial crises, notable fluctuations in economic activity, high inflation, and excessive volatility of foreign exchange and financial markets [5]. Among them, macroeconomic stability depends not only on the macroeconomic management of the economy but also on the structure of major markets and sectors. In order to strengthen the macroeconomic stability, countries should support macroeconomic policies with structural reforms that strengthen and improve the functioning of these markets and sectors [6].

Summarizing existing approaches, we note that although there is no unified definition of macroeconomic stability, we come to the general formulation that **economic stability is the absence of sharp and large macroeconomic fluctuations.**

To describe financial crises, it is necessary to analyze microfinance links in depth. In a joint IMF working paper prepared by H. Dawood, P. Montiel, and A. Ter-Petrosyan, the authors argue that macroeconomic volatility and the inclusiveness of the economy have a complex relationship, influencing each other in multiple ways. Macroeconomic policies can play a vital role in promoting economic stability by minimizing the negative consequences of inclusiveness when the economy faces general shocks and rising uncertainty [7]. Thus, according to the authors, maintaining macroeconomic stability is a prerequisite for sustainable, long-term, and inclusive development.

---

<sup>1</sup> The word "crisis" comes from the Latin, which literally means "transition point". There is a transition from one point of economic upswing to the downswing phase of the economic cycle.

There are various methods of evaluating instabilities in the professional literature. Some of these approaches are based on the volatility of key economic and financial variables. Among the proponents of this approach are Leahy and Whited (1996); Bloom (2009); Fernandez-Villaverde (2011), Jurado, Ludvigson & Ng (2013), and Ludvigson, Ma & Ng, (2021); others are focused on the uncertainty and disagreements of business leaders about the prospects for selling their enterprises. However, all of these approaches are useful but have important limitations. They are usually limited mainly to developed countries, and for many of these countries, data became available only in the early 1990s. To fill this gap, the National Bureau of Economic Research published the World Uncertainty Index, based on quarterly data from 1952 for 143 countries with a population of at least 2 million (*Data is based on Economist Intelligence Unit reports*). Accordingly, instabilities have increased sharply in recent years. Moreover,

according to IMF estimates, it was possible to find out the following arguments through this index:

- First, global uncertainty has increased significantly since 2012. The latest data for the fourth quarter of 2019 shows that after the decline in the third quarter of 2019, the composite index of the GDP-weighted average of 143 countries, is at an all-time high.
- Second, increases in uncertainty are more synchronized in advanced economies than in developing and low-income economies.
- Third, the average level of uncertainty is higher in low-income economies than in developing and developed economies.
- Fourth, there is a U-shaped relationship between uncertainty and democracy.
- Finally, an increase in the index predicts a significant decline in gross output, with the impact being greater in countries with weaker infrastructure and institutions.

Figure 1. Global World Uncertainty Index, 1990 Q1 to 2022 Q3 [8].

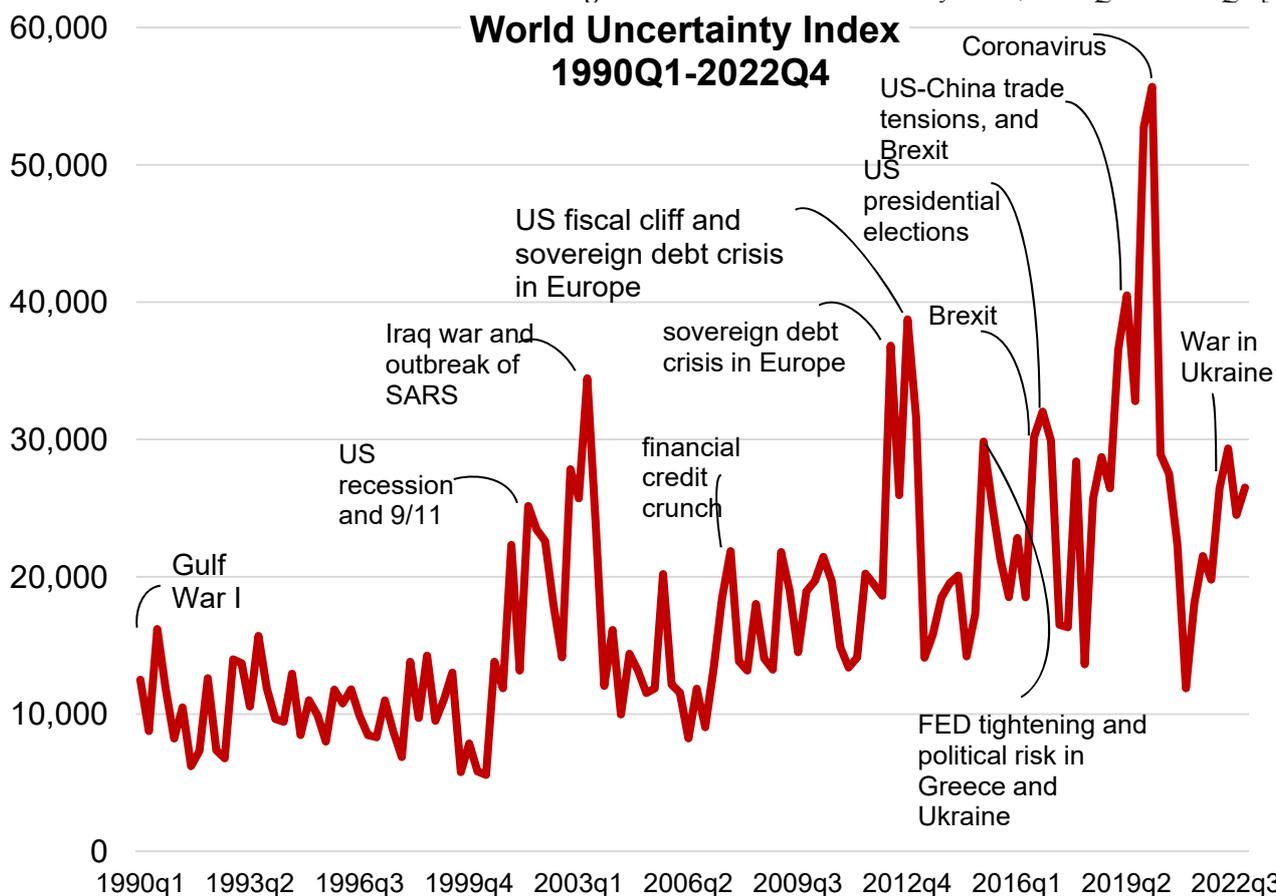
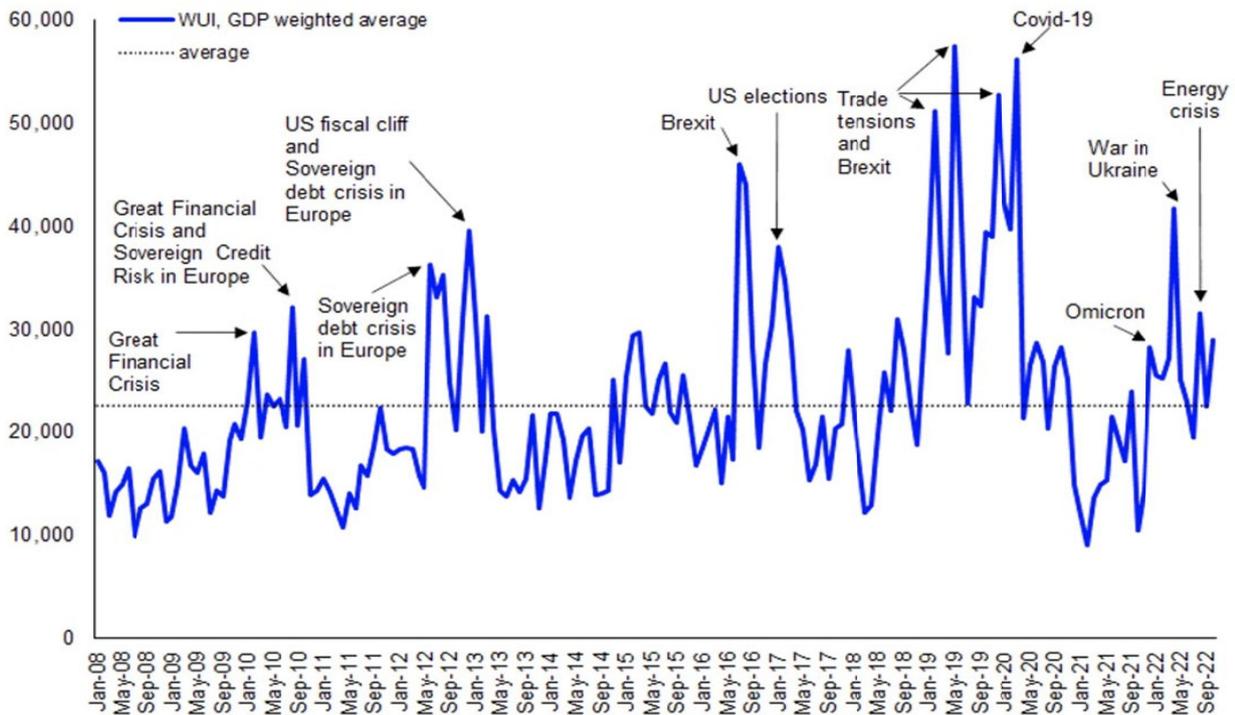


Figure 2 shows the monthly version of the World Uncertainty Index from January 2008 to October 2022. It shows that global uncertainty has been constantly high since the 2016 Brexit vote. It reached historically high values in September 2019

with the US-China trade tensions and in March 2020 with COVID-19 spreading across the globe. After declining to levels below the historical average in 2021, it has resurged with the Russian invasion of Ukraine and the associated cost-of-living crisis [9].

Figure 2. Global World Uncertainty Index, January 2008 to October 2022 (GDP weighted average) [9]



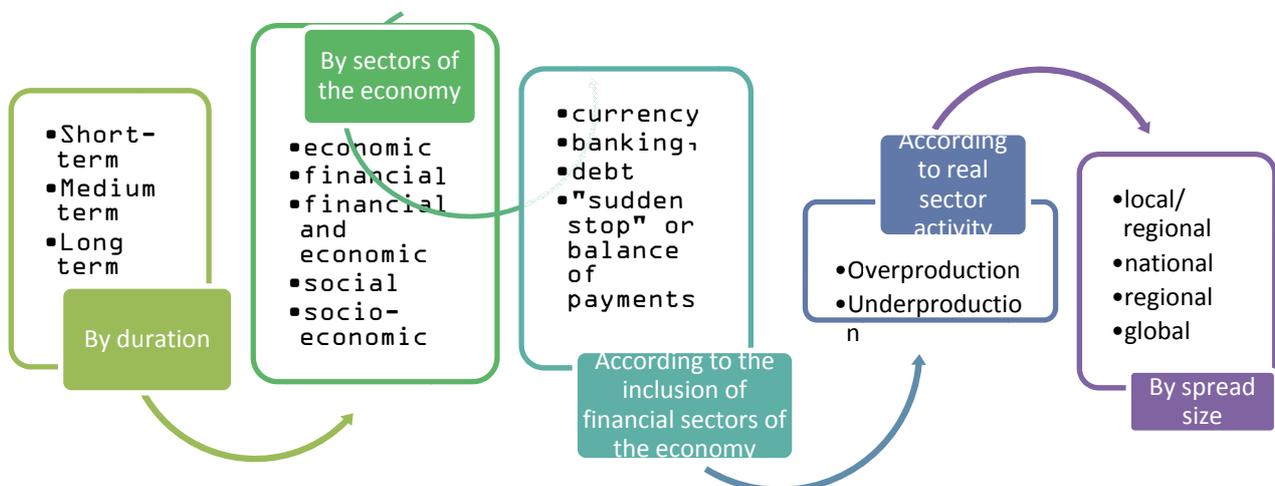
In the economic literature, theorists at different times put forward various definitions of economic crises, and each of them interpreted it in their own way, taking as a basis the characteristics of the given period and the manifestations of the crisis. **Economic crises** are long-term imbalances in the economic system or one or more of its parts that significantly affect the main macroeconomic indicators of the economy (GDP, unemployment, economic activity index, and price level) [10]. In other words, economic crises are manifested by a sharp decline in the country's economic indicators, which is expressed by a decrease in production and demand, an increase in unemployment, and business

bankruptcy. This automatically leads to high levels of poverty and, unemployment in the country [11].

There are several directions for crisis classification. by duration, by the extent of spread or effect, and by variety [12].

According to the classification of duration, the factor of the economic period is also taken as the basis, regarding which there are different approaches in the literature reviews of economists: short-term or "Kitchin cycles" (lasting 2-4 years), medium-term or "Marxian industrial cycles" (lasting 8-12 years), "Kuznetsi construction cycles" (lasting 17-20 years), and long-term or "Kondratev big conjunctural (situational) cycles" (duration: 40-60 years) [13].

Figure 3. Classification of crisis types.<sup>2</sup>



<sup>2</sup> The scheme was drawn up by the author based on the study of professional literature.

According to the degree of spread or impact, crises can be classified as local or sectoral, national, regional, and global [14]. In general, economic (includes only the real sector), financial (includes only the financial sector), financial-economic (initially includes the real sector, then also extends to the financial one), social, and socio-economic crises (which include not only the economy but also the social sectors) are distinguished according to the sectors of the economy. Besides that, four types of crises are distinguished according to the inclusion of financial sectors of the economy: currency, banking, debt, and "sudden stop" or balance of payments crises.

**Currency crises** occur as a result of speculative attacks, which lead to a sharp depreciation of the currency, forcing monetary policy authorities to "protect" the national currency by spending large amounts of international reserves, sharply raising interest rates, or imposing capital controls. These types of crises are characterized by significant fluctuations in exchange rates in foreign exchange markets and declines in their purchasing power. Currency crises include large changes in exchange rates and associated inflationary crises, which are relatively easy to detect. To distinguish this type of crisis, Reinhart and Rogoff set threshold values for the relevant variables. As a result, an annual exchange rate depreciation of more than 15%, and an annual inflation threshold of 20%, will be considered a crisis situation.

In the case of a **banking crisis**, actual or potential bank failures may prompt banks to default, or prompt the government to intervene to prevent such defaults by extending liquidity and providing capital injections [15]. As a result, the system falls into a state of instability and paralysis, and the credit crisis is expressed by a severe shortage of loans and their difficult access. Currency crises were highly prevalent in the 1980s, while banking crises and sudden stops were typical of the 1990s and the first decade of the 2000s. In 2012, Valencia and Levin defined the criteria under which, in case of deviation, it will be considered that a banking crisis has occurred. Among them are deposit flight, bank holidays, large-scale bank nationalization, and so on.

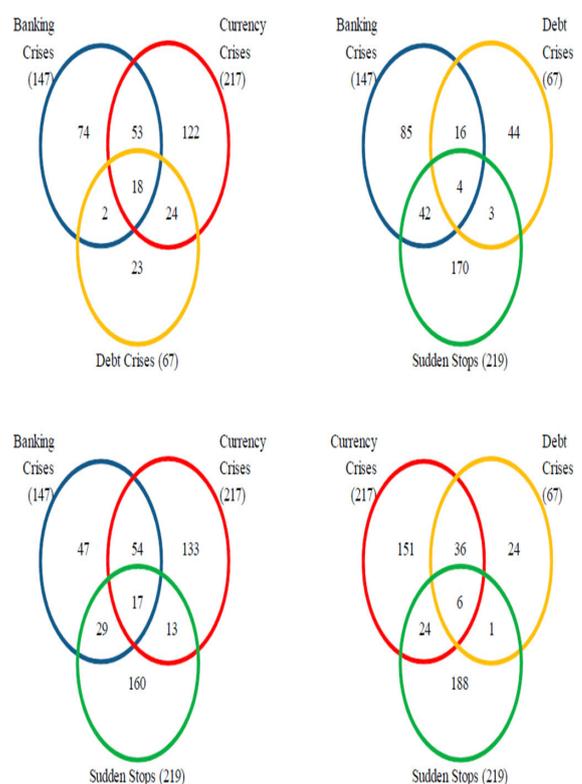
**Debt crises** consist of both internal and external debt crises. A foreign debt crisis occurs when a country cannot (or does not want to) service its foreign debt, whether sovereign or private. A domestic debt crisis occurs when a country fails to meet its fiscal obligations on time, either through default, currency devaluation, or other forms of financial repression.

In the case of a "sudden stop" crisis (a capital account or balance of payments crisis), there is a

sharp, significant, and often unexpected decline in international capital inflows or a dramatic change in aggregate capital flows in a country, which is likely to occur simultaneously with a sharp increase in its credit spreads [16]. Calvo, Izquierdo, and Mejia (2004) consider similar situations in the coincidence of systemic output declines and changes in capital flows. The above-mentioned authors expanded these criteria in two directions in 2008: first, it was considered declines in capital flows over one or more years that were at least two standard deviations (thus meeting the "sudden" requirement of a sudden stop); second, it begins (ends) when the annual change in capital flows falls (exceeds) one standard deviation (below the mean) (Mauro and Becker, 2006).

Crisis became international and global only after the development of industrial society. Over the decades, crises have occurred in both emerging markets and developed economies. Over time, some types of crises occur more frequently than others. Of the 431 banking (147), currency (217) and sovereign (67) crises Laeven, Valencia, Kose (2013) report, they consider 68 as twin crises, and 8 can be classified as triple crises. The overlaps are thus far from complete. There are also relative differences in coincidences of these episodes. A systemic banking crisis, for example, often involves a currency crisis and a sovereign crisis sometimes overlaps with other crises, 20 out of 67 sovereign crises are also a banking and 42 also a currency crisis.

**Figure 4. Coincidence of Financial Crises 1970-2011 [18].**



Very often, one type of crisis can lead to another, and consequently, due to common factors, two crises can occur simultaneously. For example, banking system crises often tend to coincide with currency and sovereign debt crises, which also overlap with other crises, 20 of the 67 sovereign debt crises are also banking crises, and 42 are also currency crises<sup>3</sup>. As a result of figure 4, we can assume that out of 650 crises, 219 were sudden stops, 217 were currency crises, 147 were banking crises, and 67 were debt crises [17].

Updating the existing database in their latest 2020 report, Laeven and Valencia noted that during the period of 1970 to 2017, 151 banking, 236 currency, and 79 sovereign debt crises occurred, of which only 12 occurred in 2007. Most countries experienced at least one systemic banking crisis between 1970 and 2017, with many going through multiple episodes. However, only three countries have experienced more than two systemic banking crises in the past 48 years: Argentina (4 in total), the Democratic Republic of the Congo (3), and Ukraine (3).

**Conclusions.** To sum up, in recent years, a significant accumulation of economic instabilities and uncertainties can be detected in the world economy, which creates prerequisites for the emergence of economic crises. At the current stage of globalization, the consequences of these accumulations have become even more pronounced. Increasing instabilities in the region or at the global level immediately make the provision of global economic growth vulnerable. As a result of economic crises and fluctuations, positive perspectives on the economic growth of countries are disrupted in the short term. As a result of the global disruptions caused by the Russian-Ukrainian war, the effects of economic risks have further intensified, so policymakers have "homework" to review current economic security systems based on the risks posed by the types of crises and their likelihood of co-occurrence. The latest Global Economic Prospects report makes clear that even though the world is now in a very tight spot, there should be no room for defeatism [19]. The study shows that although there are different types of crises, they undermine the economic security foundations of countries. The current level of interconnectedness of the economy's branches also shows that crises are very often accompanied by several sectors at the same time, leading to systemic collapses.

<sup>3</sup> This phenomenon Kaminsky and Reinhart interpret as "twin crises" (Kaminsky and Reinhart, 1999).

## References

1. **Alfred Kammer, Jihad Azour, Abebe Aemro Selassie, Ilan Goldfajn, Changyong Rhee**, 2022, How War in Ukraine Is Reverberating Across World's Regions, <https://blogs.imf.org/2022/03/15/how-war-in-ukraine-is-reverberating-across-worlds-regions/>
2. **Carmen M. Reinhart & Kenneth S. Rogoff**, 2009, "This time is different" Princeton University Press, 496 pages <https://www.economist.com/media/pdf/this-time-is-different-reinhart-e.pdf>
3. **Klaus Schwab**, World Economic Forum, The Global Competitiveness Report, <http://reports.weforum.org/global-competitiveness-index-2017-2018/appendix-a-methodology-and-computation-of-the-global-competitiveness-index-2017-2018/>
4. **Mutalimov V. A.** MACROECONOMIC STABILITY AS THE PRIMARY OBJECTIVE OF ENSURING THE ECONOMIC SECURITY OF THE COUNTRY <https://www.science-education.ru/pdf/2013/6/906.pdf>
5. IMF, <https://www.imf.org/en/About/Factsheets/Sheets/2016/07/27/15/22/How-the-IMF-Promotes-Global-Economic-Stability>
6. **Brian Ames, Ward Brown, Shanta Devarajan, Alejandro Izquierdo**, 2001, IMF and WB, Macroeconomic Policy and Poverty Reduction, <https://www.imf.org/external/pubs/ft/exrp/macropol/eng/#:~:text=Box%2020i,Macroeconomic%20Stability,necessarily%20be%20in%20exact%20balance.>
7. **Hamid R. Davoodi**, Peter Montiel, and Anna Ter-Martirosyan, 2021, Macroeconomic Stability and Inclusive Growth <file:///C:/Users/User/Downloads/wpia2021081-print-pdf.pdf>
8. Ahir, H, N Bloom and D Furceri (2022), "World Uncertainty Index", NBER Working Paper. [https://www.nber.org/system/files/working\\_papers/w29763/w29763.pdf](https://www.nber.org/system/files/working_papers/w29763/w29763.pdf)
9. **Nicholas Bloom Davide Furceri Hites Ahir**, December 2022: "Tracking uncertainty in a rapidly changing global economic outlook," <https://cepr.org/voxeu/columns/tracking-uncertainty-rapidly-changing-global-economic-outlook>
10. Karen Sargsyan, A8men Sa8gsyan, The Entities of Crises, Their Types and Classifications [file:///C:/Users/User/Downloads/257576\\_.pdf](file:///C:/Users/User/Downloads/257576_.pdf) ; <https://arar.sci.am/dlibra/publication/280541/edition/257576/content>
11. **Mufaro Dzingirai** (Midlands State University, Zimbabwe) and **Rodgers Ndava** (Midlands State University, Zimbabwe), 2022, Entrepreneurship Education as a Driver for Economic Recovery in the Post-Pandemic Era <https://www.igi-global.com/chapter/entrepreneurship-education-as-a-driver-for-economic-recovery-in-the-post-pandemic-era/297534>
12. **Claessens, S., Kose, M. M. A., Laeven, M. L., & Valencia, F.** (2014), Financial Crisis Explanations, Types and Implications:
13. **Korotayev, Andrey V, Tsirel, Sergey VA**, Spectral Analysis of World GDP Dynamics: Kondratieff

- Waves, Kuznets Swings, Juglar and Kitchin Cycles in Global Economic Development, and the 2008–2009 Economic Crisis <https://escholarship.org/content/qt9jv108xp/qt9jv108xp.pdf>
14. The scheme was drawn up by the author based on the study of professional literature.
  15. **A. Eghiazaryan**, Economic crisis in Armenia, comparative analysis, Luys Foundation <https://www.luys.am/img/artpic/small/03f3e7f1102f1e44d1ad%D5%8F%D5%B6%D5%BF%D5%A5%D5%BD%D5%A1%D5%AF%D5%A1%D5%B6-%D5%B3%D5%A3%D5%B6%D5%A1%D5%AA%D5%A1%D5%B4.pdf>
  16. **Laeven, L., & Valencia, F. (2012)**. Systemic banking crises database: An update. IMF Working Paper WP/12/163, page 5
  17. **MENACE Carmen M. Reinhart Kenneth S. Rogoff**, BANKING CRISES: AN EQUAL OPPORTUNITY [https://www.nber.org/system/files/working\\_papers/w14587/w14587.pdf](https://www.nber.org/system/files/working_papers/w14587/w14587.pdf)
  18. **Stijn Claessens and M. Ayhan Kose**, Financial Crises: Explanations, Types, and Implications <https://www.imf.org/external/pubs/ft/wp/2013/wp1328.pdf>
  19. Global Economic Prospects, 2023, World Bank group, [https://openknowledge.worldbank.org/bitstream/handle/10986/38030/GEP-January-2023.pdf?fbclid=IwAR3Vfu4dbas5MvoHn\\_dWlvB0dKwds3OeNHXWEIs44IL\\_EuMs8UztbnX9h08](https://openknowledge.worldbank.org/bitstream/handle/10986/38030/GEP-January-2023.pdf?fbclid=IwAR3Vfu4dbas5MvoHn_dWlvB0dKwds3OeNHXWEIs44IL_EuMs8UztbnX9h08)

*Сдана/Հանձնվել է՝ 23.01.2023*  
*Рецензирована/Գրախոսվել է՝ 10.02.2023*  
*Принята/Ընդունվել է՝ 17.02.2023*