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Possible Social, Political, and Economic Implications of Major Events. The Collapse of Financial Institutions, the Covid-19 Pandemic, and the Russian-Ukrainian War

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A B S T R A C T

The article examines the available literature of theoretical as well as empirical scope regarding the origins and aftereffects of banking crises and summarizes the insights drawn from relevant policies adopted as interventions to address these crises and limit their impact at the microeconomic and macroeconomic levels. While originating from a variety of causes, banking crises share common patterns, since their roots can be traced back to unsustainable macroeconomic policies, market failures, regulatory distortions, and government intervention in capital allocation; such crises are frequently described by cycles of credit and asset price - explosions and declines - and generally are addressed mainly via government intervention on a broad range of policies. When not handled efficiently and quickly, banking crises tend to impose huge costs on society by restricting the flow of credit to the real economy. Many of the possible proposals to strengthen the economic stability in an increasingly integrated financial system include making banking regulation more prudential in macroeconomics, by focusing on cycle and systemic risk rather than individual bank risk. Furthermore, by improving market discipline by limiting explicit and implicit government bank liability insurance. The global financial crisis that began in 2007 caught many by surprise, because what at first appeared to be a crisis sustained in the USA concerning subprime loans, quickly spread to financial markets around the world, triggering a large-scale government bailout activity in the financial sector, causing memories of previous crises to fade under a prolonged period of economic prosperity. When the crisis broke out, it developed at breakneck speed, infecting most financial markets around the world. Banking crises are like periodic waves that emerge unexpectedly and can destroy the real economy by restricting credit and causing costly clearances. Banking crises have been a frequent occurrence throughout history, counting almost 300 banking crises in the period 1800 to 2008. There are many commonalities between the current crisis and previous crisis episodes. Usually, banking crises are preceded by credit booms and asset price bubbles and are accompanied by intervention by the government in rescuing its finances. Although the timing of the bursting of such crises is uncertain, the burst of a crisis is many times inevitable.

Keywords: financial crisis, major events, political consequences, financial collapse, Covid-19, Russian-Ukrainian war

1. Bank crises and major events

History has shown that major events such as wars, pandemics, bankruptcies of financial and insurance institutions or of large companies – major players in the economic markets, economic scandals, political instability, etc., can lead to a series of serious events, creating a chain reaction that may cause major crises. The recent example of Lehman Brothers Holdings Inc's financial institution bankruptcy in 2008 and the subsequent economic crisis of the global market is only one case. Similar events with similar consequences and a lesser or greater impact can be seen in various cases of history. Economic theories accept the circularity of the economy as a fact, quite similar to the circularity of history itself. After all, the Global Financial Crisis of 2008 was a characteristic case of the relevance between the incautious bank loans and the dissemination of financial crises and business cycles (Mullineux, 2011). Presently, in the fifteen years since the severe financial crisis of the global market in 2008, the world is confronted with new major events that bring humanity back to the verge of a financial crisis. (Wiggins, Piontek, &Metrick, 2014).

Recent events such as the outbreak of Covid-19 and the conflicts between nations have been major events with economic outcomes as well. Of course, the coronavirus pandemic is not just an event with economic consequences. The past three years, as of 2020, when the World Health Organization declared SARS-CoV-19 a pandemic, were marked by a significant number of deaths as a result of the SARS virus, rendering a tragic situation for humanity. Moreover, its impact on all sectors of health and economic activity has been extremely serious. Indeed, even today, when prevention and protection measures have now been almost completely lifted, it is not possible to estimate precisely the damage it has caused or its future impact. In addition, despite the reduction in the symptoms of coronavirus and the number of deaths due to Covid-19 infection, immunity of the population has not been achieved, and possible strong mutations could at any time lead to new sad statistics (Gupta, Abdelmaksoud, Jafferany,…&Goldust, 2020). The outbreak of the Russo-Ukrainian war has led to a further intensification of already serious problems at a global level (Lava, de Luca, Milani,…& de Winter, 2022).

1.1 The Great Crash of 1929 and the Great Depression

A tendency of confusing the aspects of the 1929's Great Crash and the Great Depression that followed, being usually used as two different terms of the same condition is a common mistake. The terms describe two different major events of the global economy, that are related in essence although don't have a strong cause-and-causality relationship. The first signs of the forthcoming events that had a very significant impact on the global economy, growth and living conditions, appeared in August 1929 with the decline in real output. Of course, this decline was later much more intense as the collapse of the stock market in October 1929 signalled the Great Crash (Romer, 1990).

The decade of 1920s seemed to be a decade of evolution and prosperity, often characterized as the "Golden 20s" (Schmidt, 2019). New technology, innovative practices in manufacturing, expansion of industrialization, increase in the range of goods offered, growth in consumerism, market development, credit growth, and a radical change in lifestyle contributed - to the extent that each of these factors ultimately accounted for - to the view that this decade would have been a decade of growth. However, the overall growth construct was not stable as the world was coming out of World War I, still trying to recover from its tragic consequences (Bruner & Miller, 2019). As stated by Schmidt (2019), the countries involved or affected by WWI had to face significant challenges that included hyperinflation, unstable political conditions, huge reconstruction costs and reparation payments. At the same time, industrialization, and the transition from traditional methods of production and development of the economy to more modern or alternative methods, transferred the pillars of the economy as well as the wealth distribution. Moreover, the age was marked by reforming political regimes, with the founding of the Soviet Union and the Republic of China being the main examples (Schmidt, 2019; Morris, 2017). Despite these difficult circumstances, the development effort was evident - at least in the more "powerful" countries. The economy was booming and banking systems seemed to be stronger than ever, providing an ever-increasing number of financial products.

The growth in the United States of America was rapid and included several sectors of the economy (e.g., car industry and sales, electricity sales, construction, radio broadcasting, etc.) (Morris, 2017). But, on the 24^{th} of October 1929 (Black Thursday) started the collapse of the New York Stock Exchange (NYSE) after the trade of 13 million shares, a fact that ignited panic in the market. Although certain actions took place with the contribution of a total of $100 million by five banks, in an effort to restore confidence in the market, the crash was inevitable. On the 29^{th} of October 1929 (Black Tuesday), the Dow Jones Industrial Average collapsed by -11.73% (following a collapse of -13.47% on the previous day – Black Monday). Following actions of massive stock purchases by banks were not capable of saving the downfall of the economy, with the results being soon evident worldwide (Charles &Darné, 2014). As stated by Bruner and Miller (2019), the rapid growth that preceded the Great Crash of 1929, and which has been characterized by economists and researchers as a great "bubble" that resulted from speculative actions, may simply have been the result of the great industrial revolution of the time. Nevertheless, the Great Crash was inevitable and triggered a series of events that led to the Great Depression. Also, it was partly the cause of serious changes in public policy that, eventually, led to the recession (Bruner and Miller, 2019).

The Great Depression resulted from the stock market crash, banking crisis, political mistakes, and the inaction of the Federal Reserve System of the USA. It lasted from 1929 to the late 1930s in the US and Europe, while by 1933 25% of US citizens had lost their jobs (Schmidt, 2019; Pascal & Who, 2015). The magnitude of the Great Recession was profound - and, even today, it is considered the greatest economic recession in human history. Its influence on macroeconomic approaches is undeniable. According to Benmelech, Frydman and Papanikolaou (2019), financial frictions were a significant factor in the high levels of unemployment during the Great Depression, and firms that needed to refinance their bonds during the crisis contracted their workforce more than others. Furthermore, the impact of financing difficulties on employment may have been greater for smaller firms than for large businesses.

1.2 The US financial crisis (2007-2008)

The financial crisis that took place in the US at the end of the 2000s is considered the worst for the country since the Great Depression of the 1930s. The crisis started in 2007 in the subprime mortgage market and developed into an international banking crisis that culminated in September 2008 with the collapse of one of the world's largest investment banks, Lehman Brothers. Many financial sector companies, including banks, hedge funds, hedge funds, investment funds, pension funds and mutual fund companies were active in the derivatives market and held large volumes of mortgage-backed securities (Bordo, 2008).

When borrowers became financially weak, these financial products began to lose value sharply. The same happened with credit default swaps, which were designed to cover potential losses as their sellers were unable to meet their financial obligations. The realization that no company was able to absorb the losses incurred by the investment positions taken, led the market to panic. Banks were very reluctant to lend to each other and interbank market interest rates soared to levels unprecedented in the market. The lack of trust between financial institutions inflated liquidity problems and accelerated the development of the crisis. A recession unavoidably entered the US economy, unemployment rates doubled (from 5% in 2007 to 10% at the end of 2009), the housing market collapsed and the stock market crashed (the S&P 500 index lost more than half its value between October 2007 and March 2009), the country's debt as a percentage of GDP rose from 66 % in 2008 to 103 % at the end of 2012 and, in overall terms, the concentration of wealth increased at the expense of the middle class and the economically weaker, with younger generations being affected most adversely (Vyas, 2011). Nevertheless, the US managed to exit the crisis relatively smoothly and speedily. This was mainly due to the economic and management policies it adopted, which were based on expansionary financial policy, public investment, social reforms, and long-term income tax allowances. These policies burdened mostly the public finances (Kontsas et al., 2013).

The impact of this financial crisis was significant and caused a series of drawbacks globally (Migkos et al., 2022). In Europe, the crisis started in the banking sector and developed into a debt crisis, as many governments were forced to inject large amounts of money into the financial system. Greece was hit harder by the crisis, as it had to confront its debt, more than the issues related to the banking sector. The increase in systematic risk and the high borrowing needs of many European countries pushed up government bond yields. For several countries, issuing new debt became impossible, forcing them to take out loans from the European Central Bank, the European Commission and the International Monetary Fund. Most European countries implemented austerity programs in order to reduce their debt-to-GDP ratio and improve their risk profile. However, despite all efforts to reduce debt in nominal terms, the decline and further weak GDP growth did not allow this ratio to improve. In particular, the debt-to-GDP ratio of the euro area countries rose from 70.1% in 2008 to 79.9% in 2009, 85.3% in 2010 and 87.2% in 2011. At the same time, unemployment in Spain, Greece, Italy, Ireland, Portugal and the United Kingdom increased, in France, it remained at the same level, while only in Germany it decreased. At the euro area level, unemployment reached an all-time high in September 2012, exceeding 11.5%. (Stuckler, Basu, Suhrcke, Coutts, & McKee, 2011).

In addition to Europe, the crisis spread to Asia and Oceania. In particular, Japan, Hong Kong, Singapore and New Zealand have entered a recessionary phase since the beginning of 2008. The exception was China, which continued to show strong economic growth rates. In response to the crisis, the US Federal Reserve and the central banks of other countries took measures to increase the money supply in order to avoid the risk of the economy entering a deflationary phase, where low wages and high unemployment would further slowdown global consumption. In addition, governments introduced a package of fiscal measures to offset the decline in private sector demand as a result of the crisis. Central banks have expanded the amount of liquidity available, provided access to more financial institutions and enabled the use of new alternatives to raise liquidity. In essence, central banks have fulfilled their traditional role of lender of last resort (Erkens, Hung, & Matos, 2012).

The US Federal Reserve, the European Central Bank and the Bank of England bought $2.5 trillion worth of government bonds at the end of 2008 and tripled the value of the banks' assets they held, and that was recorded as the largest liquidity provision in global history. Given the critical role of banks in the economy, the governments of the US and European countries devised a plan of action that had to be taken, as to strengthen the capital adequacy of domestic banking institutions. On the one hand, they guaranteed the debt issued by the banks and on the other hand, they participated in the capital increases of the banks by acquiring $1.5 trillion worth of preferred shares. Following the central bank's initiatives, fiscal measures and structural reforms implemented in most countries, the economic situation began to normalize. The recession that emerged in the US in December 2007 ended in June 2009, and that was the time the financial crisis began to fade. In the eurozone, the economy went into recession in two stages, namely from early 2008 to mid-2009 and from the end of 2011 to early 2013. The crisis is considered to have ended in 2013, but significant economic imbalances existed and continue to exist among the euro area countries (Cecchetti, 2008).

1.3 Lehman Brothers Holdings Inc

Lehman Brothers Holdings Inc. was a global financial services company. Before its bankruptcy in 2008, Lehman was the fourth largest investment bank in the United States (Fitzpatrick IV, & Thomson, 2016). On September 15, 2008, the company filed for bankruptcy, resulting in the massive withdrawal of most of its clients, drastic losses of its shares and a devaluation of its stock. This was the largest bankruptcy in the history of the United States and is believed to have played a major role in the unfolding of the global financial crisis of the late 2000s. The next day, the bank Barclays announced that it had agreed to buy Lehman's North American operations, including the building that housed its headquarters in New York. On 20 September 2008, a revised version of this agreement was approved by the US Bankruptcy Court, and the following week, Nomura Holdings announced that it intended to claim Lehman Brothers' franchised businesses in the Asia-Pacific region, including those in Japan, Hong Kong and Australia, as well as its subsidiaries and branches in Europe and the Middle East, a deal which was completed on 13 October 2008. In August 2007, the group closed its subsidiary, BNC Mortgage, eliminating 1,200 jobs in 23 locations, and paying $25 million in taxes. Lehman said it was driven to the move by low market conditions for mortgages (Fleming, & Sarkar, 2014).

In 2008, according to Callan (2008), Lehman Brothers faced a major loss due to the ongoing crisis in the mortgage market, as it did not sell its shares in this sector. The company's losses amounted to USD 2,8 billion. In the first half of 2008 alone, Lehman's stock lost 73% of its value. In August 2008, Lehman announced that it intended to lay off 6% of the group's workforce, representing 1500 employees. On 9 June 2008, Lehman Brothers announced another loss of $2.8 billion, followed by a series of management changes. On 22 August 2008, Lehman's shares closed up 5% (16% weekly gain), following reports that the Korea Development Bank was considering buying the bank. However, a very large portion of those gains were quickly reduced as it became known that the Korean bank was experiencing difficulties. Investor confidence continued to wane as the company's stock continued to lose value, with the Dow Jones index losing 300 points on 9 September 2008, due to investor concerns about the bank's safety. The following day, Lehman announced a loss of USD 3,9 billion and its intention to sell a large proportion of its shares. The stock plunged 7% that day, and on 11 September it lost another 40% of its value. On 15 September 2008, Lehman Brothers announced that it would declare bankruptcy, with $613 billion in debt and $155 billion in equity debt. It announced, however, that its subsidiaries would continue to operate normally.

According to Anton Valukas (2010), Richard S. Fuld Jr., former CEO of Lehman Brothers, had at that time ordered the concealment of information. In the second quarter of 2008, the company's 'Repos 105' practice moved $50 billion of assets off its balance sheet. In these deals, Lehman Brothers, by a special condition, designated the transactions as a sale, although it was required to reset the securities at a later date. In this way, it concealed assets from its balance sheet and used the proceeds from its transfer to repay other liabilities.

2. Possible triggers of economic crises nowadays

2.1 Covid – 19 Pandemic

The Covid-19 pandemic outbreak in 2020 has acted as a brake on the growth drivers of the global economy, as it has affected living conditions in approximately 190 countries, being responsible for millions of deaths, changing the social and economic reality worldwide (Kalogiannidis, Chatzitheodoridis, &Kontsas., 2020; Kalogiannidis, 2020; Hazakis, 2022). The pandemic's impact (on life, the economy, and policies) was tremendous with the most severe impact in less developed areas (Makwana & Parmar, 2023). These unprecedented conditions led to a rise in unemployment and a recession in economic activity, with a significant, arise in poverty and inequality (Metsiou, Broni, Papachristou, & Kiki, 2022). An important aspect was also the need to balance health demands and financial activities, in accordance with the worldwide mandatory lockdowns (Hazakis, 2022).

According to research conducted by the European Central Bank (2021), although the effects of the Covid-19 pandemic were global, its economic impact was disparate among each country. Nineteen of the twenty eurozone countries were examined as per the change in real Gross Domestic Product (GDP) from the introduction of the SARS-CoV-2 in late 2019 to March 31st, 2021. The research showed that at the beginning of 2021, the real GDP of the eurozone was 4.9% lower than it was before the pandemic. In 2020, it dropped by 6.5%. The percentage difference varied among the eurozone countries, with Ireland showing a positive difference of 13.2%, while Spain had the largest negative difference of 9.3%. Although the deepest recession occurred in 2020, the real GDP levels in the first quarter of 2021 were still lower than pre-pandemic levels in all countries, except for Estonia, Ireland, Lithuania, and Luxembourg. Countries such as Spain, Italy, Malta, Austria, and Portugal experienced the most significant decrease in real GDP, with Portugal and Spain suffering the largest losses of 9.1% and 9.3%, respectively, as international travel bans affected deeply their economy, which heavily rely on the tourism sector (see Fig. 1).

Furthermore, as can be seen in Figure 1, during the pandemic-induced recession, the decrease in private consumption was the biggest contributor to the negative economic impact in most countries, due to reduced spending opportunities and uncertainty leading to more precautionary savings by households. However, the relative importance of different demand components varied across countries. In Germany, Belgium, and the Netherlands, the decrease in real GDP was solely due to private consumption, highlighting the resilience of their external sector and less vulnerable exports. The total investment and net exports growth, which were less significant in size, played a more volatile role in amplifying cross-country differences, sometimes fostering GDP growth while suppressing it in other countries (European Central Bank, 2021).

The economic impact of the Covid – 19 pandemic on the global economy cannot be clearly and accurately calculated. However, it is a fact well established that its negative impact has been severe. According to data provided by Statista (2023a), the total global GDP showed a decline of 3.4% in 2020, which corresponds to more than US$84.54 trillion. Despite this significant decline in GDP in the first year of the pandemic, positive growth levels were recorded in 2021 with total global GDP showing an increase of 5.8% (US$92.3 trillion). After the coronavirus outbreak, global stock markets declined significantly but were able to recover relatively quickly. On 16 March 2020, was recorded the biggest daily loss in the Dow Jones (approximately 3,000 points) (Statista, 2023a).

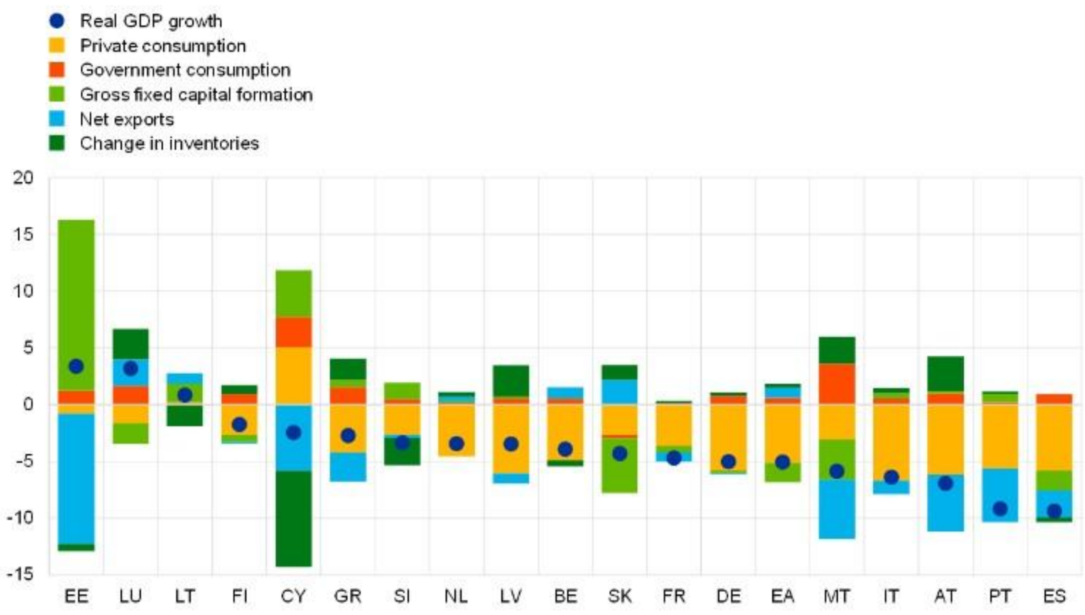

Fig. 1 - Decomposition of the change in real GDP from the fourth quarter of 2019 to the first quarter of 2021 by demand components
Source - EuropeanCentralBank (2021)

2.2 The Russian – Ukrainian war

The Russian- Ukrainian war breakout on February 24, 2022, changed the global financial and growth dynamics once again. The high revaluations of essential commodities because of the war and the ensuing energy crisis have had a significant economic impact on the global market (Kalogiannidis, Chatzithodoridis, …, &Toska, 2022; Metsiou et al., 2022). Wiseman, and McHugh (2022), in an early analysis of the war's possible effects, draw attention to the potential for severe financial impact on the global market. They further supported their prognosis by pointing out that the world economy, even before the outbreak of the war, was already facing certain aggravating factors (continued rising inflation, supply chain problems, falling stock prices, and efforts to reduce the carbon emissions footprint). Therefore, the outbreak of the Russo-Ukrainian war simply contributed to the emergence and intensification of these existing problems. Before the outbreak of the war, relations between the two countries were not entirely peaceful, with several conflicts (in the form of a hybrid war) preceding the main military conflict in 2022. According to Bluszcz and Valente (2022), this ongoing hybrid war in the Donbass region – a region that represented the productive core of Ukraine- had a serious impact on the country's per capita GDP.

The initiation of the Russian – Ukrainian war came at a period when the whole world was trying to recover from a pandemic with a severe impact on life and the economy alike. The fact of the war was directly linked to a serious deterioration of the world economy. It seemed to be very likely that new price increases for basic commodities would occur, with direct consequences for the supply chain (Mbah, &Wasum, 2022). The forecasts were quite ominous as Russia represents the largest wheat production in the world, being the largest supplier to other countries. Also, the combined exports of Russia and Ukraine accounted for about 25% of total global exports, while the two countries had a significant part in oil and gas exports as well (Cohen & Ewing, 2022). As reported on Statista's website (2023b) on the economic impact of the Russo-Ukrainian war, it led to the upgrading of Asian countries to become the main exporters of fossil fuels, while at the same time creating major problems at the global level, due to the fact that the two countries were the main exporters of grain, while Russia occupied an important position as an exporter of aluminium and palladium.

As stated by Orhan (2022, p. 141) "*Russia's invasion of Ukraine has created a catastrophic humanitarian crisis and threatened the stability of geopolitical relations. The war has added to mounting concerns about a sharp slowdown in global growth, a rise in inflation and debt and a surge in poverty. The economic impact of the conflict has rippled through various global channels, including commodity and financial markets, trade and migration links and confidence*".

According to the Organization for Economic Cooperation and Development (OECD, 2022; OECD, 2023), the Russian – Ukrainian war impedes global growth and exacerbates inflationary pressures, via the creation of a new negative shock to the global economy, at a time when some of the supply chain challenges seemed to weaken. In fact, initial forecasts for the global economic recovery after the pandemic were favourable and supported by international macroeconomic policy support efforts at the macroeconomic level, as well as economic support measures. However, the introduction of the new parameter on the map - that of the Russo-Ukrainian war - has changed the forecasts, mainly because of the problems related to the revaluations in the energy sector, the alteration of energy sources and the increase in their efficiency. As a result, the forecasts have been fully diversified, with projected global growth rates showing a slowdown of 2.6% for 2023 and 2.9% for 2024. The real GDP growth projection for 2023 and 2024 according to the OECD's Interim Report of March 2023 is shown in Figure 2.

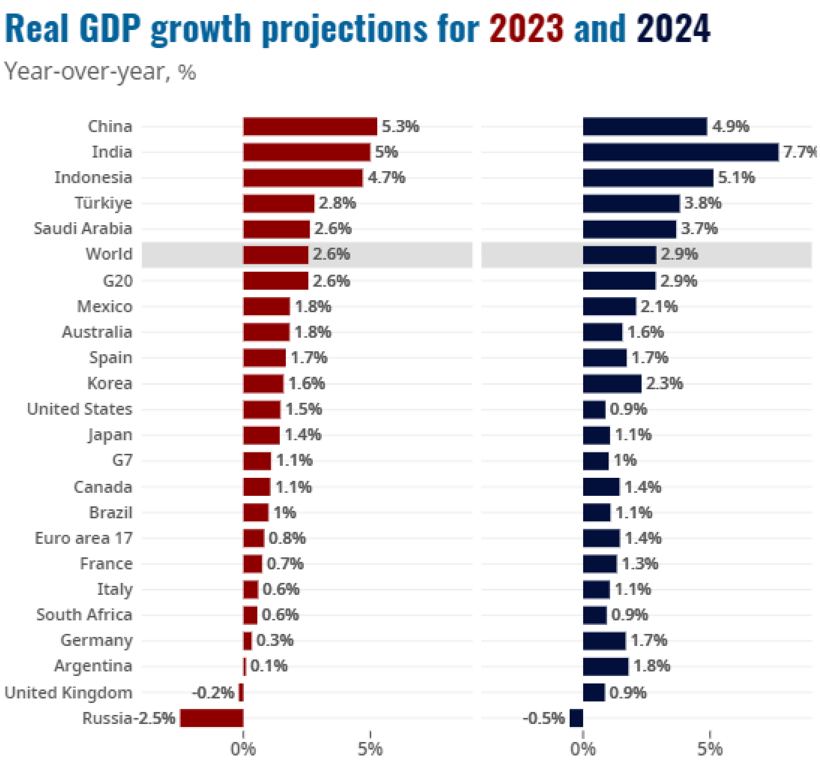

Fig. 2. Real GDP growth projections for 2023 and 2024

Source – OECD (2022)

3. Recent financial events that may invoke a crisis

3.1. Silvergate Bank

The current financial events began on 8 March, with Silvergate's announcement that it was shutting down its operations after its customers left. SVB was an important pillar in the startup ecosystem and among small businesses in the San Francisco Bay Area. On March 12, regulators shut down Signature Bank in New York City over fears that it was illiquid because customers were also making massive cash withdrawals. The bank had focused on cryptocurrency customers. The SVB bank used part of its cash to invest in mortgage loans with a state guarantee, but when SVB bought the bonds during the pandemic, interest rates were very low. Nevertheless, rates have risen sharply as the Fed from 2021 onwards fights inflation and since bond prices fall as interest rates rise, these older bonds with low-interest rates could only be sold at much lower prices than new bonds carrying higher interest rates. Also, mortgages, like the ones SVB invested in, were even more vulnerable because when interest rates rise, people tend not to pay off their mortgages early with refinancing. The other problem that SVB hadn't thought of was that the vast majority of its clients, which were tech companies, would eventually see their cash flow curtailed (Oxford Analytica, 2023).

During the pandemic, tech startups were doing well, but after the exit from the pandemic, the economy halted, and these startups found themselves struggling to find capital to fund their projects. In order to cover their expenses and stay afloat, they began to resort to deposits with the SVB. As a result, SVB was forced to meet its customers' increasingly large withdrawal requests by selling the low-interest bonds they were buying at steeply discounted prices, which caused them financial losses. That's because they benefited immensely from paying nothing on their deposits since interest rates were near zero until the second half of 2021 and big banks are diversified and not dependent on a single economic sector like the startup economy moreover SVB hasn't had a management risk team for several months (Fleming, Caffrey, Van Belle, ... & Thomas, 2023).

Investors believe that contagion risk, the prospect that many other banks will fall like dominoes after the three recent ones, remains and they express their fear that more banks will follow. As a result, investors have turned against banks that are seen as "weak" or have been in trouble for many months. This is the case, for example, of Credit Suisse, a European bank plagued by repeated scandals since 2021. In the US, in particular, investors are targeting any bank that may have a profile similar to SVB or Signature Bank in New York. Some banks that have been targeted have said that they have sufficient capital to meet the massive withdrawals from their customers and that they have different sources of funding if needed. Credit Suisse even said a government bailout was not an issue, meaning the bank was confident it could manage on its own. The Fed also created an emergency facility to lend money to banks that need it. Essentially, the Fed is ready to print as much money as possible to avoid a financial crisis like the one in 2008. In Europe, where bank stocks have collapsed, investors have not heard this assurance and have not been reassured that the collapse of Silicon Valley Bank would not affect them. But, as it was shown, the crisis crossed the Atlantic and came to the European continent, hitting an already vulnerable continent due to the many weaknesses of Credit Suisse. Consequently, executives and analysts are now beginning to fret about the developments in the coming days (Jiang, Matvos, Piskorski, &Seru, 2023).

The collapse of SVB could be the start of a slow-rolling crisis in the US financial system that will lead to the collapse of other banks, with foreclosures and lockouts, the chief executive of the world's largest asset manager has warned. It is also predicted that inflation will continue, and so will interest rate hikes, trends that both contributed to the SVB's collapse. These concerns were further fueled on Wednesday, 3/15/23 when Credit Suisse shares fell to unprecedented lows when its largest investor ruled out the possibility of providing it with more funding.

3.2. Credit Suisse

UBS has agreed to increase its offer to more than $2 billion to buy Credit Suisse, with Swiss authorities preparing to change the law to override a shareholder vote on the transaction and reach a deal within the day. The deal to sell Credit Suisse to UBS is expected to be signed in a few days and will involve a price lower than that at which the bank's shares have closed and according to sources, UBS will now pay more than 0.50 Swiss francs per share, well below the 1.86 Swiss francs, the price at which Credit Suisse shares closed on. Prior to this development, Swiss authorities were reportedly considering a full or partial nationalization of Credit Suisse, according to Bloomberg, as the bank's shareholders rejected the initial $1 billion offer that UBS made for its takeover. It should be noted that before the UBS takeover talks intensified, Credit Suisse was already planning to cut down 9,000 jobs (Haki, Rieder, Buchmann, & W. Schneider, 2023).

The situation remains critical as Swiss authorities try to have a definitive solution for the bank's future. The offer was made at a price of 0.25 Swiss francs ($0.27) per share to be paid in UBS shares. It should be noted that Credit Suisse shares closed at 1.86 Swiss francs ultimately (Zhang, & Huang, 2023). Credit Suisse rejected UBS's offer, deeming it too low and that it would hurt shareholders and those employees of the bank who have shares in the company, which would be paid last in line after a possible bankruptcy. UBS has asked for $6 billion from the Swiss government as part of a possible takeover of Credit Suisse. The guarantees would cover the cost of liquidating parts of Credit Suisse and possible legal costs. Finally, on March 19, 2023, UBS announced the takeover of Credit Suisse, by paying 3 billion Swiss francs ($3.25 billion), a price that corresponded to approximately 1/3 of the bank's stock market value. As part of the agreement, the Swiss National (Central) Bank agreed to provide a $100 billion liquidity line to UBS. At the same time, the Swiss government provided guarantees to UBS of $9 billion against potential losses (Λίτσης, 2023; Thomson, 2023).

4. Discussion

The Great Crash of 1929 and the Great Depression that followed are examples of significant events that caused a severe economic crisis, while the discussion also highlights recent events, such as the Covid-19 pandemic and the Russo-Ukrainian war, which have affected the global economy.

The circularity of the economy is a well-known fact, and history has shown that major events can cause a chain reaction leading to severe economic crises, such as the Lehman Brothers bankruptcy in 2008, that has caused the subsequent global economic crisis. Nowadays, the Covid-19 pandemic has created a unique situation with severe economic impact worldwide. The pandemic has caused significant losses in all sectors of the economy and has resulted in an unquantifiable future impact. The outbreak of the Russo-Ukrainian war has further intensified already serious global economic problems.

The Great Crash of 1929 and the Great Depression that followed are other examples of significant events that had a severe impact on the global economy. While the 1920s was an era of growth and prosperity, resulting in its characterization as the “Golden 20s,” with technological advancements, manufacturing innovations, industrialization, consumerism, and market development. At that time, the global economy was still recovering from the devastating consequences of World War I, and the growth construct was not stable. Industrialization and the transition from traditional to more modern methods of production and development of the economy transformed the pillars of the economy and wealth distribution. Despite the difficult circumstances, the economy was booming, and banking systems seemed stronger than ever, providing an ever-increasing number of financial products. However, the collapse of the New York Stock Exchange in October 1929 ignited panic in the market, resulting in the Great Crash, followed by the Great Depression. The collapse of the stock market was due to the trade of 13 million shares, and panic spread worldwide, resulting in the downfall of the global economy. The Great Depression had a severe impact on the living conditions of people worldwide, and it took years to recover from the crisis.

Taking into consideration the aforementioned events is prominent that major events can have a severe impact on the global economy, leading to a chain reaction of events resulting in severe economic crises. While history has shown that the economy is cyclical, and it is not possible to avoid crises, measures can be taken to mitigate the impact of such events. It is essential to learn from past events, identify potential risks, and take necessary steps to minimize their impact on the global economy.

Lehman Brothers' bankruptcy in 2008 was a significant event that had a major impact on the global financial crisis of the late 2000s. The bankruptcy was primarily caused by the company's exposure to the subprime mortgage market and its failure to sell its shares in this sector. Lehman's losses amounted to USD 2.8 billion, and its stock lost 73% of its value in the first half of 2008 alone. The bankruptcy also revealed fraudulent practices, including the concealment of information, by the company's former CEO, Richard S. Fuld Jr.

In contrast, the Covid-19 pandemic outbreak in 2020 affected living conditions in approximately 190 countries and had an impact on the global economy, causing a rise in unemployment, a recession in economic activity, and an increase in poverty and inequality. The pandemic's effects were global, but its economic impact was disparate among each country, with some countries experiencing a positive difference in their real Gross Domestic Product (GDP) while others had a negative difference. Possible triggers of economic crises today include the Covid-19 pandemic, which has affected the global economy, as well as other factors such as political instability, cyber-attacks, and climate change. These triggers can have severe and long-lasting effects on the economy, leading to increased unemployment, decreased economic activity, and other negative consequences. To mitigate the impact of economic crises, policymakers must take proactive measures to address the root causes of these triggers and implement effective policies to stabilize the economy.

The Russian-Ukrainian war that broke out on February 24, 2022, had a significant economic impact on the global market, with high revaluations of essential commodities and an ensuing energy crisis. The war also intensified the existing problems faced by the world economy, such as rising inflation, supply chain problems, falling stock prices, and efforts to reduce carbon emissions. Before the outbreak of the war, relations between Russia and Ukraine were not entirely peaceful, with several conflicts preceding the main military conflict in 2022. This ongoing hybrid war in the Donbass region had a serious impact on Ukraine's per capita GDP. The war has created a catastrophic humanitarian crisis and threatened the stability of geopolitical relations. According to the Organization for Economic Cooperation and Development (OECD), the Russian-Ukrainian war impedes global growth and exacerbates inflationary pressures.

Recent financial events that may invoke a crisis include the shutdown of Silvergate Bank and Signature Bank, which were important pillars in the startup ecosystem and among small businesses in the San Francisco Bay Area and New York City, respectively. Silvergate Bank had invested in mortgage loans with a state guarantee, but when interest rates rose sharply, these older bonds with low-interest rates could only be sold at much lower prices than new bonds carrying higher interest rates. Additionally, tech startups, which were doing well during the pandemic, found themselves struggling to find capital to fund their projects after the exit from the pandemic and began to resort to deposits. This caused regulators to shut down Signature Bank over fears that it was illiquid because customers were making massive cash withdrawals. These events could potentially lead to a financial crisis.

Last but not least, it is essential to learn from past events and identify potential risks to mitigate the impact of future economic crises. Policymakers must take proactive measures to address the root causes of these triggers and implement effective policies to stabilize the economy.

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