

## THE GLOBAL CRISIS OF 2008, THE IMPACT ON THE GLOBAL ECONOMY AND UZBEKISTAN IN PARTICULAR

**Emir Ildarovich Bagaev**

Bachelor Student of Tashkent State Transport University

**Alina Timurovna Khanbekova**

Bachelors Student of Tashkent State Transport University

**Oybek Rustamovich Achilov**

Scientific supervisor, senior teacher, Tashkent State Transport University

### ABSTRACT

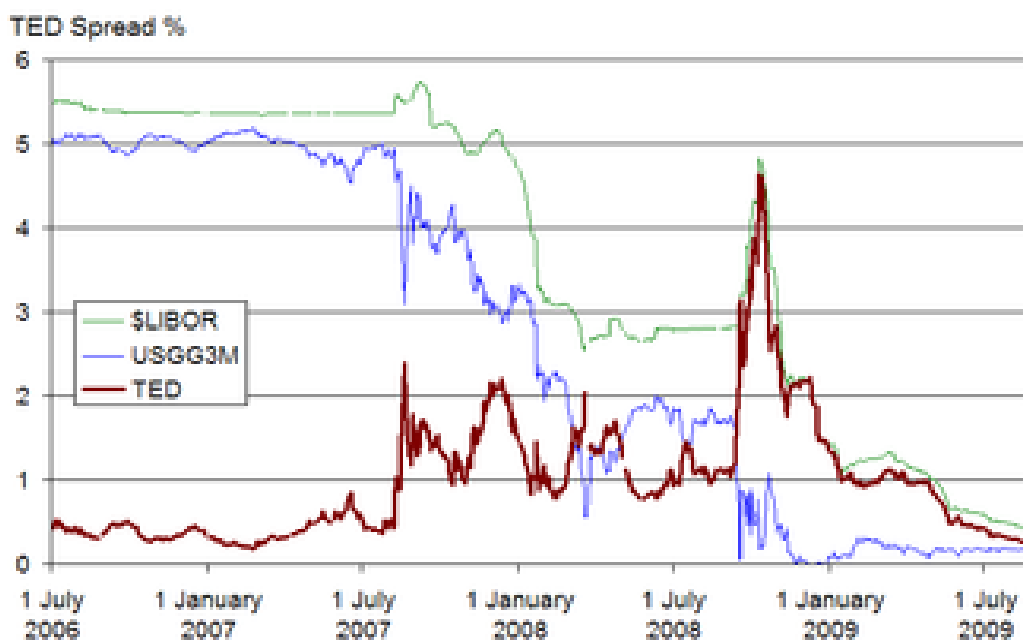
The purpose of the article is to consider the specifics and features of the global economic crisis of 2008 and its impact on the economic fortunes of various countries, including Uzbekistan. This paper is devoted to the study of the mistakes of countries in the past to build a strong economy in the future.

**Keywords:** Economic crisis, mortgage lending market, refinancing, economic system, stock assets, fiscal policy, inflation, investment, imports, transitional economy, liberalization, privatization.

We live in an age of uncertainty and chaos - a crisis can erupt at any moment. And not just a local crisis of any organization. Many companies could not cope with the crisis simply because they did not recognize the signs of a global crisis in time. In order to analyze this phenomenon, let's start with a simple one: what is an economic crisis?

An economic crisis is a sharp deterioration in the economic condition of a country, manifested in a significant decline in production, disruption of established production relations, bankruptcy of enterprises, growing unemployment, and as a result - in the decline of living standards and the welfare of the population.

One of these is the crisis of 2008, which we will focus on. The global financial crisis of 2007-2008 was characterized above all by its rapid spread and its unprecedented scale: it engulfed almost every country in the world, it has even been compared to the Great Depression of the 1930s [1].



The TED spread (highlighted in red), a measure of perceived risk in the overall economy, increased significantly during the financial crisis, reflecting an increase in perceived credit risk. The TED spread rose sharply in July 2007, remained volatile throughout the year, then rose even more in September 2008, reaching a record 4.65% on October 10, 2008.

The crisis began in the U.S. mortgage lending market, which accounts for 54% of U.S. GDP, or about \$7.5 trillion. The majority of borrowers (80 percent) received subprime loans with variable interest rates (the conventional name for a loan is subprime ARM). While home prices were rising rapidly, subprime ARM borrowers were able to re-borrow money and refinance their loans. In 2007, however, the refinancing rate continued to rise, and homes began to fall in price rapidly. Then borrowers in this group, about 1.8 million people, lost their ability to refinance. Mortgage defaults led to a chain reaction of asset write-offs at banks, which used collateral assets to create derivative securities (mortgage bonds, etc.). In September 2008, the U.S. crisis took on a scale that would allow it to be considered the largest postwar crisis. In fact, the largest U.S. financial institutions, which for many decades were the basis of the financial system of the largest economy in the world, became bankrupt.

The main reason for the crisis we are considering, as well as all postwar crises, is the systemic instability of the modern world economy. The global economic system has at its core a relatively small real sector, on which the giant financial superstructure is based. It is like a huge upwardly expanding pyramid standing on a thin and narrow top. At the

slightest hesitation in the financial system, parts of it that are not supported by the real sector begin to collapse, crumbling and collapsing, dragging other parts of the superstructure down with them. The financial superstructure began to form rapidly in the mid-1970s, almost immediately after the abolition of the gold backing of the dollar. In the market value of companies, the share of so-called fictitious capital was rapidly increasing and, accordingly, the share of real assets was decreasing. For example, of the approximately \$100 billion value of the Coca-Cola Company, at least 75% is fictitious capital (intangible assets, trademarks, etc.). The inordinately bloated fictitious portion of companies' capital is difficult to measure and is an important factor in the unsustainability of the economic system. An important trend of increasing volatility in the global economic system is a fundamental change in the nature of commodity markets. Commodities such as oil, gold, grain, etc., have actually become stock assets, i.e., they are purchased not as raw materials but as stock assets whose price is rising rapidly. Just as stock prices have become detached from the value of real assets, the prices of most commodities are no longer related to production costs or even to supply and demand for the commodity[2,3].

Thus, the main cause of the crisis is the current structure of the world economic and financial system, characterized by extreme instability. The huge financial superstructure creates a kind of cushion, or rather, a financial bubble of security for the relatively small real sector, on which it relies. The post-war world crises in developed countries mainly lead to the partial collapse of the financial superstructure and the lowering of the bubble. At the same time, the real sector is relatively little affected.

Economists and analysts cite a number of reasons for the 2008 crisis, including:

- Periodicity of the economy,
- over-expansion of credit, especially in the mortgage markets
- Rather high prices for raw materials
- application of ineffective methods of financial regulation in different countries

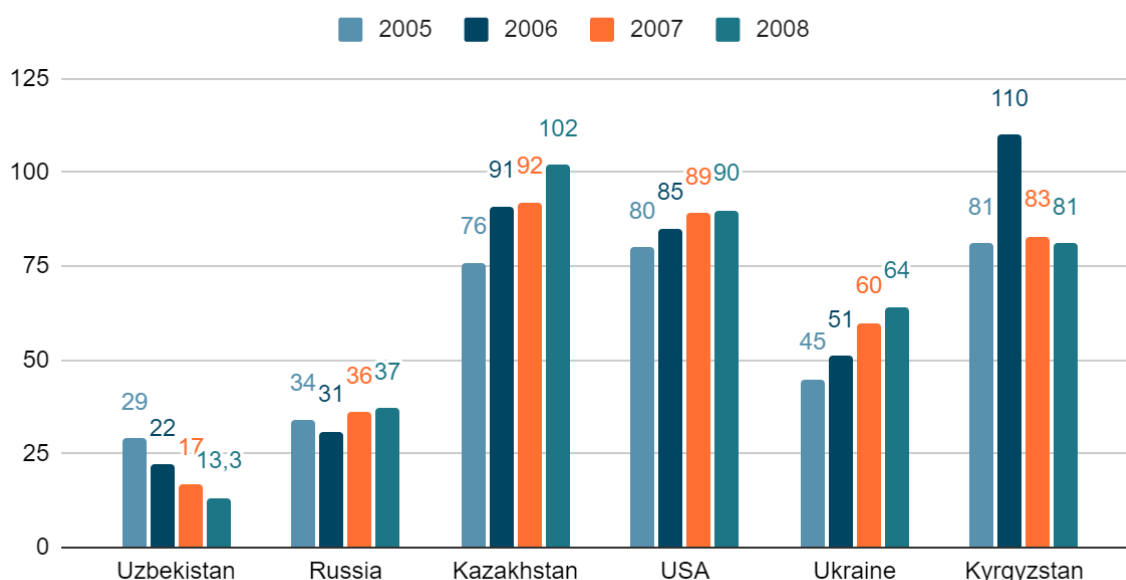
Regarding the consequences, it should be said that the crisis has affected a huge number of countries, especially the countries with developed economies. In general, the consequences of the crisis can be attributed to a real decline in global economic indicators: a decrease in world GDP, reduction in world trade, reduced production, recession in many countries, reduced economic activity, falling real estate prices. Among the Eurozone countries, Greece suffered the greatest losses due to its broken fiscal policy and disconnected and unready for solidarity actions of the EU member-states. The most

affected countries in the CIS were Armenia, Ukraine and Georgia. It should be noted that the crisis has affected the CIS countries to a varying degree due to differences in the level of economic development and the degree of integration into the global economy[4].

Particular attention should be paid to the impact of the crisis on the economy of Uzbekistan. The macroeconomic situation in our country for 2005-2008 can be characterized by the following indicators: continuation of economic growth, low inflation rates, increase in real incomes and employment, growth of foreign trade, as well as dynamic development of small business and entrepreneurship. In 2001-2007 the volume of transfers grew at an accelerated rate: in 6 years the value of net remittances increased by 1600% and amounted to almost 7.2% of GDP, and the growth rate in 2005-2007 was much higher than in 2001-2007 in general. Judging by these data, it can be noted that migration from Uzbekistan intensified during this period. World practice shows that this process has a positive impact on the development of the country, because in the long term it can contribute to an increase in investment and foreign trade turnover; on the other hand, the global financial and economic crisis poses serious risks to the stability of the national economy. Even earlier, experts had expected that the impact of the global financial and economic crisis would fully manifest itself in the Central Asian region as early as 2009. The impending catastrophe was evidenced by the decline in remittances from migrants after 2007, the decline in foreign investment inflows, and the decline in demand for the region's products. In addition, the crisis may have negatively affected finance (credit and foreign investment) and imports. Most Central Asian (CA) countries therefore sought to severely restrict public spending, reduce inflation and halt foreign exchange outflows; this could lead to a reduction in imports and support domestic producers. From the 1990s to the 2000s, the IMF and the WB did not provide the best expertise and advice on reforms in the transition economies, and during economic reforms, international financial institutions and Western countries were not prepared to provide the necessary loans to CA countries. The closest neighbors (Turkey and Iran), pursuing their own interests, also did not provide the necessary financial assistance[5]. The crisis showed once again that it is necessary to improve the work of international financial institutions and to develop comprehensive relations with the third world. The ill-considered policy of many states in relation to foreign borrowings has put their economies in a difficult situation, increasing their dependence on external threats. While Uzbekistan encouraged foreign investment, it refrained from hasty liberalization of the economy and privatization of strategic objects. At the initial stage

Uzbekistan largely retained state control over the economy and pursued a socially-oriented domestic policy, paying great attention to the protection of vulnerable segments of the population. The republic never encouraged short-term speculative credits and foreign loans were mainly attracted on a long-term basis at preferential interest rates. The government of the republic repeatedly declined offers of loans for certain projects if there was no firm assurance that the loans would be serviced in a timely manner.

Dynamics of external debt of some countries of the world (as % of GDP)



Uzbekistan's total external debt as of January 1, 2009 was 13.3% of GDP and is characterized as "less than moderate" according to the international classification. Measures to overcome the crisis differed from country to country, but most countries relied on monetary policy to overcome the crisis. Paul Krugman's proposal was considered as an alternative exit measure from the crisis, arguing that in times of crisis one should not be afraid of spending, on the contrary, one should spend rather than save. However, this opinion is very controversial, and many leading economists have criticized it.

In conclusion, we can say that this article is not an in-depth analysis of this economic problem. But nevertheless, with its help, we can make indirect conclusions on the problem of the global crisis of 2008 and its consequences, in order to avoid repetition of similar problems in the future. After all, we need to know what started such a large-scale problem, which practically led to the economic collapse of many developed countries.

