



EUROPEAN
INTERNATIONAL
UNIVERSITY



COVER PAGE AND DECLARATION

	Master of Business Administration (M.B.A.)
Specialisation:	Strategy Management
Affiliated Center:	CEO
Module Code & Module Title:	MGT590-Amira Abdullatif-Research
Student's Full Name:	Amira Hassan Kamel Abdullatif
Student ID:	EIU2020838
Word Count:	5000
Date of Submission:	27/02/2023

I confirm that this assignment is my own work, is not copied from any other person's work (published/unpublished), and has not been previously submitted for assessment elsewhere.

E-SIGNATURE: Amira Hassan Kamel Abdullatif

DATE: 27/02/2023

EIU Paris City Campus

Address: 59 Rue Lamarck, 75018 Paris, France | Tel: +33 144 857 317 | Mobile/WhatsApp: +33607591197 | Email: paris@eiu.ac



EIU Corporate Strategy & Operations Headquarter

Address: 12th Fl. Amarin Tower, 496-502 Ploenchit Rd., Bangkok 10330, Thailand | **Tel:** +66(2)256923 & +66(2)2569908 |
Mobile/WhatsApp: +33607591197 | **Email:** info@eiu.ac



The Evolution of Banks' Strategies in Light of the Global Economic Crises

Student Name . Amira Hassan Kamel Abdullatif

Course Name Research

Professor Name - - - -

University Name EIU University

Feb. 27, 2023

.

Abstract

This study examines the literature on monetary emergencies concentrating on three key areas. What are the primary causes of financial problems first? Meanwhile, many models on the grounds of economic troubles emphasize the significance of abrupt changes in the credit markets; the paper briefly summarizes theoretical and experiential research on how these markets have changed in response to fiscal crises. What are the main categories of financial problems? Second? It reviews the literature that aims to identify these occurrences and concentrates on the key conceptual and factual justifications of four distinct economic crises: monetary emergencies, sudden halts, banking, and debt crises. What are the third question's consequences for the economic and real sectors? The short- and medium-term effects of problems on the actual economy and financial sector are briefly discussed in the article. The important takeaways from the literature are summarised at the end, along with suggestions for further research.

In reaction to the crisis, regions have modified the global prudential framework and increased supervision. The main objective of the alterations has been to boost capital and liquidity barriers, progress and resolution procedures, and raise bank flexibility by letting down understood public grants and the adverse effects of banking crises on the economy. Moreover, controlling is essential due to the system's active adaptation and the overview of new risks. To regulate their innovative working situation, banks have been re-evaluating and altering their commercial strategies and models, particularly their financial statement structure, cost structure, range of activities, and geographic occurrence.

While significant improvements are still occurring, several banking institutions in industrialized economies also struggle with poor profitability and legacy issues. This research

study analyses trends in bank business models, performance, and the financial market, as well as the stability and efficacy of banking markets.

Table of Contents

INTRODUCTION	6
EXPLAINING FINANCIAL CRISES	8
TYPES OF CRISES	9
Currency Crises	10
Sudden Stops.....	10
Foreign and Domestic Debt Crises.....	11
Banking Crises	11
Bank Runs and Banking Crises	12
History of Banks Runs	12
Deeper causes of banking crises	13
IDENTIFICATION AND FREQUENCY	14
Identification	15
Frequency.....	17
IMPLICATIONS	17
Financial Effects.....	17
CONCLUSIONS.....	18
Summary.....	18
What are the third question's consequences for the financial and real sectors?	19
How many financial crises be avoided?	19
How may the costs of financial crises be reduced?.....	21
What are the main requirements for extra data and techniques?	23

References 24

INTRODUCTION

The international financial emergency of 2007–2009 served as a sobering notice of the complexity of problems. They affect both rich and poor, small and large nations. They may come from the public or private sectors and have domestic or foreign origins. They can quickly spread across boundaries, come in various sizes, and change into new forms over time. These frequently call for prompt and extensive policy responses, major fiscal and financial sector regulation alterations, and even global policy cooperation. The recent global financial crisis's extensive effects highlight how crucial it is to grasp concerns thoroughly. The most recent incident demonstrated how seriously financial instability could affect economic and monetary policies. Given that the influences of the freshest crisis are still being felt globally, considering the causes of problems and the best solutions has become a crucial component of current policy discussions. (Wang & Sun, 2020)

An overview of the literature on financial crises is given in this essay. At some level, crises are extreme examples of how the finance industry and the real economy interact. As a result, comprehending macro and financial associations is essential for considering monetary crises, which is a genuinely difficult task in and of itself. This paper's goal is relatively modest: it offerings an absorbed review viewing three topics. First, what are the main reasons for financial crises? Which major subcategories of financial crises exist? Second? What are the third question's consequences for the economic and real sectors? The works on crisis forecast and the development of early cautionary models are also briefly reviewed in the study. (Wang & Sun, 2020)

Part II examines the main reasons for fiscal crises. A financial crisis is commonly the significance of various interrelated factors, including large changes in credit capacity and asset values, serious interruption in financial mediation, notably the accessibility of external funding, numerous balance sheet problems, and the need for significant government aid.

Even though multiple factors might result in these catastrophes, asset and debt expansions that later experience collapses usually precede credit crises. As a result, many theories addressing the origins of financial problems have recognized the relevance of rapid shifts in the asset markets. It briefly summarises theoretical and experiential studies assessing the changes in the credit markets related to monetary problems. (Wang, 2019)

Section III categorizes the forms of fiscal crises outlined in several research studies. It is helpful to divide problems into 4 categories: debt crises, sudden stop, banking crises, and currency crises. The findings on the theoretical reasons and experiential factors that influence each type of crisis are compiled in this section. (Wang, 2019)

In Part IV, the topic of crisis identification is covered. The literature on crisis identification is led by theories intended to explain crises, and Yet, it has been difficult to put models' projections into practice. While creating quantitative ways to detect currency crises and abrupt halts is simple, detecting banking and debt crises often rely on qualitative and subjective analysis. (Wang et al., 2021)

Different types of crises may overlap regardless of the classification system used. For instance, many financial concerns involve sudden stop occurrences and currency crises. As a result, the literature uses various techniques to recognize and categorize crises. The section evaluates the incidence of problems across time and distinct groups while considering different identification methodologies. (Wang et al., 2021)

The implications of fiscal crises are examined in Section V. The macroeconomic and economic effects of problems are frequently severe and have many characteristics in common with other types. There are huge output losses in many crises, and other macroeconomic indicators often show significant decreases. Despite variations in the length and intensity of decreases, financial variables typically exhibit fundamentally similar designs throughout

disasters. The section looks at how problems affect economies in the short- and medium-term and gives some stylized statistics on crises' macroeconomic and financial effects. (Wang et al., 2021)

The primary techniques for crisis prediction are outlined in Section VI. The timing of crises has proven to be difficult to forecast. Fickleness is the primary factor contributing to the difficulty in predicting the precise timing of concerns in financial markets with high leverage since these markets are particularly susceptible to confidence crises. In addition, since economic and financial structures develop over time, problems also alter in character. Early warning systems can easily become outmoded or insufficient, which is not surprising. This section summarises the development of several prediction model types and discusses the situation of early warning models today. (Theodore, 2019)

With a summary and recommendations for additional research, the final section comes to a close. The main takeaways from this literature review are first summarised. In light of these insights, it then considers the most important research topics. One is that the "this-time-is-different" syndrome should be eliminated from future studies. However, this is a very large endeavor that must solve two key issues: How may financial crises be avoided? And how may their costs be reduced once they occur? To direct both theoretical and empirical studies, there must also be more concentrated efforts made to gather the essential data and create new approaches. (Theodore, 2019)

EXPLAINING FINANCIAL CRISES

Monetary crises can take numerous forms, but they all share common elements. Large-scale balance sheet issues and widespread government support are frequently linked to financial problems. Due to their complexity, financial crises are usually hard to define with just one indicator. (Tambunan, 2018)

Financial calamities are typically headed by asset and credit bubbles that erupt. The meaning of asset and financial system booms has been recognized in many theories investigating the causes of crises. But it remains a mystery why asset price or debt booms can continue before they become unsustainable and give way to crunches. Naturally, this calls for explaining why neither players in the financial markets nor policymakers strive to cut down credit expansion and increase asset prices. (Tambunan, 2018)

Much research has been done on macroeconomic and financial variables dynamics during crises. According to empirical investigations, economic problems can go through various stages, from small-scale initial monetary disturbances to major national, local, or global concerns. They have also talked about the long-term effects of financial crises on the real budget and how asset standards and praise development may decline for a long time afterward. As a result of their crucial responsibilities, we will now briefly explore recent changes in the asset and credit markets related to financial crises. (Stubbs et al., 2020)

TYPES OF CRISES

Even though fiscal crises can take many different shapes, two groups can be distinguished. The authors claim two problems: primarily categorized using qualitative and subjective criteria and exclusively organized using quantitative measures. Most debt and financial crises fall under the first category, including currency and sudden-stop crises. But theories that aim to explain issues have a big impact on definitions. (Stubbs et al., 2020)

Financial crises can take many different forms, but because of literature, many have precise definitions. A sudden rise in a country's credit spreads frequently coincides with a sudden decline in foreign capital arrivals or a swift turnaround in total capital flows to that country. As these factors are measurable, it is appropriate to use quantitative methods. (Stubbs et al., 2020)

A problem in public or private debt could develop. A domestic debt crisis develops when a government cannot pay its domestic debts as they should be, via a legal default, devaluation of the currency, inflation, or many (other) financial repression measures. In a banking disaster, current or anticipated bank runs and disappointments may compel sets to stop converting their commitments into cash or make the government step in and provide significant liquidity and capital support. (World Bank, 2019). Because they are harder to assess, these features lend themselves better to qualitative approaches. Although there may be additional categories, the different crises most likely overlap. Financial issues include, for example, sudden stop occurrences and currency crises. (Sheikh et al., 2020)

Currency Crises

While other crises have developed through time, so have the theories surrounding currency crises, which are frequently more explicitly described. The literature, in particular, has changed from emphasizing the basic reasons for money crises to stressing the potential for many balances and the importance of monetary variables, particularly variations in balance sheets, in precipitating currency crises. Currency crises during the previous 40 years are often explained using three generations of models. Subsequent empirical research abandoned explicit structural model testing. Others used gesturing models to assess the value of some variable star in indicating an imminent crisis. The results of this literature have been disappointing, even though some indicators tend to be linked to concerns. Later, we shall talk about crisis prediction again. (Sheikh et al., 2020)

Sudden Stops

Models that abruptly halt have a stronger correlation with disruptions in the external financial supply. Nonetheless, they frequently emphasize global factors' role in the "sudden halt" in capital flows. These theories explain real exchange rate depreciation and current account reversals often seen during crises in emerging nations. The models don't adequately

account for the frequent abrupt decreases in output and total factor productivity. (Rao-Nicholson & Salaber, 2015)

According to empirical investigations, many abrupt halts have been linked to global shocks during significant capital inflows for several emerging economies. A dramatic contraction or reversal of capital flows happens due to external shocks, and large cross-border financial links make sudden stops more likely. Rapid fluctuations in capital flows during the recent crisis were significant catalysts for local problems, finding minimal evidence of the influence of global issues, such as capital flows, on the current situation. (Rao-Nicholson & Salaber, 2015)

Foreign and Domestic Debt Crises

Sovereign lending theories are closely related to those explaining foreign debt crises and default. Foreign (sovereign) financing must be justified economically rather than legally without an enforcement mechanism, the equivalent of domestic bankruptcy. (Rao-Nicholson & Salaber, 2015)

The models that have been created mostly rely on either infratemporal or intertemporal punishments. Intertemporal penalties result from the fear of future lending being halted if a government defaults. (Rao-Nicholson & Salaber, 2015)

Banking Crises

These are likely the least understood, even though they occur regularly. Due to their intrinsic fragility, banks are vulnerable to depositor runs. Moreover, issues with specific institutions can swiftly blow out to the entire system. While governmental safety nets, such as deposit cover, can reduce this risk, they also come with misrepresentations that may make a catastrophe more likely. Institutional flaws can also make a crisis more likely. Chances may be higher when institutions have vulnerabilities. Banking crises have existed for millennia

and have shown certain common characteristics, but it is still difficult to predict when they will occur empirically. (Orazalin & Mahmood, 2019)

Bank Runs and Banking Crises

Financial institutions could encounter various coordination problems due to their inherent fragility. Banking and other financial intermediation-related businesses might therefore be dangerous. Due to their fragility, organization—or the lack thereof—is a significant challenge in the financial markets. These issues result when investors, institutions, or both act out of concern that others may do the same. Fears that the situation will occur come to pass. (Orazalin & Mahmood, 2019)

A bank run is an elementary illustration of a coordination issue. The saying goes that banks lend long and borrow short. Nonetheless, it exposes banks to unforeseen liquidity demands or "runs." It is known as a run when several clients remove their deposits from a bank because they think it is. A bank run gains pace as it goes along, creating a self-fulfilling prophecy (or perverse feedback loop) wherein the chance of default rises as more deposits are withdrawn, which promotes still more withdrawals. As a result, the bank may become so unstable that it will eventually risk bankruptcy because it cannot sell off assets quickly enough to pay its immediate obligations. (Orazalin & Mahmood, 2019)

History of Banks Runs

Throughout history, runs have taken place in numerous nations. Runs happened less frequently in other progressive countries and even less frequently in fresh periods, partly because deposit insurance is widely available. However, Northern Rock, a UK bank specializing in mortgage finance, represents a relatively recent example of a bank run in a developed nation. During the current crisis, when several investments and commercial banks

were confronted with significant liquidity demands from investors, wholesale market funding was also rapidly withdrawn. (Orazalin & Mahmood, 2019)

Deeper causes of banking crises

Although funding issues can serve as catalysts or immediate causes, a bigger picture reveals that matters in the asset markets frequently play a role in banking crises. Although banking crises often involve solvency problems, they may initially appear to come from the liability side. It occurred in various crises, including the recent problems in Europe and Japan and the Scandinavian banking crises in the late 1980s and 1990s. There were no significant bank deposit runs in any of these periods. Still, real estate loans caused widespread issues that left many banks undercapitalized and needing government assistance. These asset market issues can go unnoticed for a while, and a financial crisis frequently comes to light when many institutions experience funding issues. (McPhilemy & Moschella, 2019)

Policies can also cause panic. When some banks encounter problems and governments, respond haphazardly, without clearly indicating the state of other institutions, an alarm might result. Poorly managed early actions have been blamed for the 1997 banking panic in Indonesia. Government actions can also cause runs. For example, the 2001 bank runs in Argentina happened when the limited government withdrawals led depositors to doubt the stability of the entire banking system.

The financial industry benefits from various public programs, making it simple for policy distortions to develop that could trigger crises. Large government assistance for housing finance has been claimed to encourage excessive risk-taking in the recent monetary crisis in the US. At least in some sophisticated nations, the propensity to pursue accommodating fiscal and monetary policies in the wake of problems can also be seen. Another frequently brought-up issue is "connected lending," which can increase systemic risk

because it incentivizes politicians and corporations to borrow excessive amounts from banks. Mexico is one country where this phenomenon has been well investigated. (McPhilemy & Moschella, 2019)

Many unanswered questions remain regarding systemic banking panics, particularly how contagion develops. Since many of the causes mentioned above frequently occur simultaneously, it is unknown how important each one is in creating crises. Financial intermediation still has its share of vulnerabilities, and panics frequently have unknown root causes. Little shocks can cause serious issues for the entire financial system for often unexpected reasons. Similar to how shocks can spread from one country or market to another, causing economic crises. (McPhilemy & Moschella, 2019)

IDENTIFICATION AND FREQUENCY

Despite much research on crisis identification and timing, many unanswered concerns remain. Using approaches based on the main theories underlying the numerous crises, problems can be found (and then categorized). Nevertheless, in reality, this is not a simple task. Although currency (and inflation) crises and abrupt pauses are more suited to quantitative approaches, the chronology of debt and financial problems frequently relies on qualitative and judgmental analysis. Strategy changes can make issues of any kind start and end at various times. Also, as said, many crisis categories can coexist in a single episode, raising questions about categorizing the episode. (Liu et al., 2020)

It is partially due to changes in the number and kinds of financial crises over time. In reality, situations are identified and categorized using various quantitative and qualitative methods incorporating judgment. The data also demonstrates the evolution of problems over time.

Identification

Inflation crises are easy to identify as they entail major changes in exchange rates, currency, and (linked). For inflation, they employ a threshold of 20% annually, and for currency crises, they define crises as exchange rate depreciations exceeding 15% annually. A devaluation of at least 25 percent cumulatively over 12 months and at least ten percent more than in the prior 12-month period is what defines a currency crisis. The applicable thresholds will surely have an impact on the dates listed. (Liu et al., 2020)

Even if there were pressures or attacks, a measuring problem inevitably develops when there is no meaningful change in the currency. Exchange rate pressures can be absorbed and swings prevented or reduced by changes in international reserves or interest rates. Nonetheless, incidents involving such forces and assaults should also be recorded and studied. Several approaches have been used to solve the issue. Then, thresholds are established to identify currency events, such as significant fluctuations in exchange rates and pressure-filled intervals. (Liu et al., 2020)

It is also quantifiable to categorize unexpected stops and balance-of-payments crises. Periods of output collapses and major capital flow reversals are sudden systemic stops. The annual shift in capital flows must fall (must surpass) one standard deviation below (must exceed) its mean before it begins (must cease). (Liu et al., 2020)

With capital flow data, balance-of-payments crises and other parallel phenomena can be recognized. Although methodological differences and statistical differences between studies, many points to comparable samples of actual events. Instead of the more common net capital flows, analysis of gross flows for many nations (or current accounts). By distinguishing between local and foreign actors, they use quarterly data to pinpoint instances of extreme capital flow fluctuations.

They categorize incidents as "surge," "stop," "flight," or "retrenchment," with flows and pauses corresponding to ages of significant gross capital inflows or outflows from abroad and flights and cutbacks corresponding to significant gross capital outflows or inflows from within the country. However, the subsequent study continues to categorize these occurrences differently. Yet, there are options for methodology. (Liu et al., 2020)

Some view the widening of spreads on national bonds as a sign of impending default. Yet it's more difficult to pinpoint when bankruptcy ends. Finding their end can be a big problem with dating, notably for default and national debt problems. According to certain analyses, this is when nations reclaimed access to private financial markets. Others use this standard to determine when a country regains a credit rating. As a result, there are variations in how long a nation can recover from sovereign default. Internal financial crises can be harder to spot. First, until recently, there was a lack of comparable historical data on domestic public debt across nations. In addition, unrecorded debt commitments may become apparent after a crisis. (Kranke, 2019)

Secondly, there are numerous ways in which a country can go into default. It might be difficult to predict when a banking crisis will begin and, more importantly, when it will finish. (Kranke, 2019)

Researchers using a qualitative methodology have generally been able to date such crises based on a combination of events, including such compelled closures, amalgamations, or govt takeovers of many banking firms, banking crises, or the extension of government aid to one or more banking firms. The amount of money spent to settle these occurrences has also been utilized as a measure, and detailed studies of financial circumstances have been used as criteria. A banking crisis can last long, making it impossible to predict when it will end. (Kranke, 2019)

Frequency

Throughout history, both advanced nations and emerging market economies have experienced crises. Seeing "emerging" markets more vulnerable to catastrophes is not new. History demonstrates that many of today's industrialized nations, such as those that went through financial crises. At the same time, they underwent their processes of emergence. For instance, from 1550 to 1800, France missed eight payments on its foreign debt. Problems, according to some, have gotten worse over time. The three decades following World War II were comparatively free of catastrophes compared to the most recent three decades. Some attribute this growth to broader financial market liberalization, floating exchange rates, and monetary integration. (Ioannou et al., 2019)

IMPLICATIONS

The economic effects of crises are frequently severe and have many characteristics in common with one another. While there are undoubtedly distinctions among concerns, there are also many commonalities in the macroeconomic indicators' trends during these episodes. Other macroeconomic variables often drop considerably, and significant output losses are common in many crises. (Ioannou et al., 2019)

Financial Effects

Large downward corrections in financial variables are linked to crises. A sizable study program has examined the development of economic factors concerning problems. In contrast, others analyze how fiscal variables behave when disruptions like credit crunches, housing bubbles, and stock market crashes occur. Although results vary depending on the nature of the crisis, credit values tend to decrease or rise at much slower rates throughout problems and disturbances than during peaceful times, which confirms boom-bust sequences in key variables indicated in sections. (Ioannou et al., 2019)

Regarding their temporal evolution, asset values (exchange rates, stock, and home prices) and credit in advanced and emerging market nations have fundamentally similar qualities. After credit crunches-related recessions, aggregate output and its components typically recover before credit growth resumes and home prices begin to heal. Like house price busts, these temporal trends show that economic recovery occurs before the bottoming out of house values during recessions that coincide with significant reductions in home prices. (Hein et al., 2020)

CONCLUSIONS

Summary

To address three specific problems, this study surveys financial crises. What are the primary causes of financial crises first? Although the literature has defined some of the key reasons for situations, it is still difficult to pinpoint their root causes. Over the years, several ideas about the fundamental factors that lead to troubles have been established. They have acknowledged the significance of asset and credit market booms that became busts as the primary causes of most problems. Given their essential relevance, the study briefly reviews the theoretical and experiential literature examining trends in credit markets around fiscal crises. What are the main categories of problems, secondly? (Hein et al., 2020)

Even though there are numerous financial crises, the works have mainly been attentive to four: currency crises, debt crises, sudden stop crises, and banking crises. Although various ways exist to classify concerns, their diverse categories frequently overlap. For instance, several financial issues entail abrupt halts and currency crises. Also, a review of studies on various methods for identifying problems, their incidence through time, and across distinct groupings of countries is presented. (Gulzar et al., 2019)

What are the third question's consequences for the financial and real sectors?

Other macroeconomic variables often drop considerably, and significant output losses are common in many crises. Despite variations in the length and intensity of decreases, financial variables. The works on the macroeconomic and economic effects of problems are summarised in this essay. The literature on crisis prediction is also briefly reviewed in the study. (Gulzar et al., 2019)

Knowing when and when a crisis might emerge has several advantages, but doing so has proven difficult. Vulnerabilities like rising asset values and excessive leverage levels are simple to identify, but it is still challenging to forecast crises with some degree of accuracy. A single set of indications cannot predict the numerous sorts of problems. The report examines the development and current condition of the empirical research on crisis prediction. (Gulzar et al., 2019)

How many financial crises be avoided?

Many concur that asset price bubbles and credit booms can result in significant losses if they deflate quickly in light of the lessons learned from the most recent crisis. Particularly, there is widespread agreement on some topics relating to asset prices and credit booms. First, sudden rises in credit and asset values can trigger monetary instability and crises with negative macroeconomic repercussions. Second, it's critical to monitor any weaknesses brought on by such rapid increases and evaluate whether they might be followed by equally huge and swift decreases (crashes, busts or crunches, capital outflows). Third, if bubbles form due to "distortions," the ensuing busts and crunches will likely be more damaging. (Elnahass et al., 2021)

The two challenges facing researchers and policymakers are when and how to intervene. They must first identify the times (and the degree to which) increases in asset

prices and credit constitute significant departures from those that fundamentals may explain. Second, they must decide the best policy responses to reduce risks and alleviate the negative belongings when risks appear if the activity of the credit and asset marketplaces indicates risk indicators.

Significant lessons remain to be gained about creating institutional structures and micro-prudential rules for crisis prevention. The most recent crisis has again highlighted weaknesses in macroprudential policies' institutional and regulatory systems. The fact that the problem is global in scope has also demonstrated that markets with financial integration have advantages but also current hazards, with the global financial manner still far from institutionally meeting the policy requirements of the highly integrated economic schemes. The crisis has spurred a reconsideration of regulatory rules, leaving many unanswered problems even though existing frameworks' constituent parts serve as foundations. (Elnahass et al., 2021)

While regulations (such as Basel III) requiring banks to be transparent, liquid, and conform to sound accounting principles are being implemented, it is still unclear how to handle massive, sophisticated financial organizations that operate across numerous borders. Furthermore, it is still unknown which institutional environment changes, such as modifications to employee compensation policies, changes to AS for mark-to-market valuation, the transfer of some derivatives trading to formal exchanges, and increased reliance on central counterparties, will work best to lessen the procyclicality of financial markets and the accumulation of systemic risks. It has also demonstrated how micro and macro-fiscal policies can contribute to vulnerabilities by limiting the resources available to cope with financial problems. Nevertheless, it is not always clear which adjustments are required. (Demirgüç-Kunt et al., 2020)

The overview demonstrates the necessity for additional analytical study and empirical investigation into these problems unequivocally. The functions of financial intermediaries need to be properly reflected in macroeconomic models, and the manner that current models now reflect financial frictions is frequently constrained. In terms of financial stress, they often make the erroneous assumption that the instruments at their disposal can completely counteract economic shocks and ignore aspects like monetary policy's impact on financial stability. It is necessary to simulate policies and mechanisms more accurately and the routes that lead to economic instability. (Demirgüç-Kunt et al., 2020)

How may the costs of financial crises be reduced?

Models more suited to answering the pertinent policy concerns have not yet been used to study the roles of liquidity. Further insights, particularly those from empirical investigations, are required to standardize these models and enable the creation of policy recommendations that may be tailored to varied country contexts. One can only expect to avoid some of these incidents, be better prepared with better regulations when they occur, and reduce their effects through advancements in financial crisis modeling. (Claessens & van Horen, 2015)

Explaining financial markets' abrupt, non-linear behavior in reaction to "small" shocks is difficult. Although the procyclicality of leverage among financial institutions has been extensively documented, the precise causes of this behavior are still unknown. This procyclicality was highlighted by the increase in influence leading up to the 2007–2009 crisis and the sharp deleveraging that followed. It is still unclear why concerns involve the level of liquidity hoarding that disrupts the transmission of monetary policy and causes overall liquidity shortages. Although capital constraints at financial institutions are somewhat to blame for lending crunches, this does not explain the phenomenon entirely, as lenders seem too risk-averse after a crisis. (Christensen & Hearnson, 2019)

Our ignorance of the factors influencing dynamics before and during financial stress makes formulating effective policy responses difficult. Investigating why financial contagion is so prevalent and much more powerful than most fundamentals would indicate (for example, institutions, markets, countries, etc.) is crucial. Financial crises frequently have global impacts and ripple ramifications throughout markets. The most recent occurrence is a prime example, as its scope and complexity are unprecedented in the post-World War II era. It highlights the importance of better understanding the transmission processes by which such occurrences spread to other nations. (Christensen & Hearson, 2019)

Since domestic loan defaults occur relatively frequently despite being less common than defaults on external debt, it is necessary to reconsider the conventional belief that public debt is risk-free. Furthermore, it appears that domestic and international loan failures interact. Even though domestic debt often makes up a sizable portion of total debt in developed and developing nations, many developing nations experience foreign debt default at surprisingly low debt thresholds. It implies that the cost of defaulting on external debt appears lower than that on domestic debt for a given amount of unsustainable debt. In general, tradeoffs may vary by country conditions, maybe due to the variable danger of excessive inflation.

Research must consider the functions new financial and trade channels, such as vertical trade networks, commercial paper conduits, cross-border banking relationships, and shadow banking, play in broadcasting crises across borders. Due to their negative impact, the precise nature of these spillovers is important for properly designing crisis mitigation and crisis management strategies. Given their cross-border ramifications, pooling resources to supply enough liquidity proactively becomes, for example, more crucial as it can prevent liquidity runs from developing into self-fulfilling solvency crises and assist in breaking contagion chains. (Becchetti et al., 2016)

What are the main requirements for extra data and techniques?

This review demonstrates that a deeper understanding of crisis occurrences necessitates the creation of new data series and the development of new approaches. Several recent studies that created fresh data sets on financial crises are listed in the review. Despite these, it is obvious that more research is necessary to gather more international data on issues related to financial problems. Better statistics on household debt and house prices are critically required to gain a deeper knowledge of domestic debt dynamics and housing market volatility.

Another requirement is to develop fresh approaches to more robustly categorize crises to gain a deeper knowledge of problems and the policy concerns surrounding these episodes. Also, looking at instances of financial instability that are not necessarily crises would be crucial even though great fortune or effective policy metrics may have precluded an economic crisis. (Becchetti et al., 2016)

References

- Becchetti, L., Ciciretti, R., & Paolantonio, A. (2016). The cooperative bank difference before and after the global financial crisis. *Journal of International Money and Finance*, *69*, 224–246. <https://doi.org/10.1016/j.jimonfin.2016.06.016>
- Christensen, R. C., & Hearson, M. (2019). The new politics of global tax governance: taking stock a decade after the financial crisis. *Review of International Political Economy*, *26*(5), 1068–1088. <https://doi.org/10.1080/09692290.2019.1625802>
- Claessens, S., & van Horen, N. (2015). The Impact of the Global Financial Crisis on Banking Globalization. *IMF Economic Review*, *63*(4), 868–918. <https://doi.org/10.1057/imfer.2015.38>
- Demirgüç-Kunt, A., Martinez Peria, M. S., & Tressel, T. (2020). The global financial crisis and the capital structure of firms: Was the impact more severe among SMEs and non-listed firms? *Journal of Corporate Finance*, *60*, 101514. <https://doi.org/10.1016/j.jcorpfin.2019.101514>
- Elnahass, M., Trinh, V. Q., & Li, T. (2021). Global banking stability in the shadow of Covid-19 outbreak. *Journal of International Financial Markets, Institutions, and Money*, *72*, 101322. <https://doi.org/10.1016/j.intfin.2021.101322>
- Gulzar, S., Mujtaba Kayani, G., Xiaofeng, H., Ayub, U., & Rafique, A. (2019). Financial cointegration and spillover effect of global financial crisis: a study of emerging Asian financial markets. *Economic Research-Ekonomska Istraživanja*, *32*(1), 187–218. <https://doi.org/10.1080/1331677x.2018.1550001>
- Hein, E., Meloni, W. P., & Tridico, P. (2020). Welfare models and demand-led growth regimes before and after the financial and economic crisis. *Review of International Political Economy*, 1–36. <https://doi.org/10.1080/09692290.2020.1744178>

- Ioannou, S., Wójcik, D., & Dymski, G. (2019). Too-Big-To-Fail: Why Megabanks Have Not Become Smaller Since the Global Financial Crisis? *Review of Political Economy*, 31(3), 1–26. <https://doi.org/10.1080/09538259.2019.1674001>
- Kranke, M. (2019). IMF -World Bank Cooperation Before and After the Global Financial Crisis. *Global Policy*. <https://doi.org/10.1111/1758-5899.12743>
- Liu, Y., Lee, J. M., & Lee, C. (2020). The challenges and opportunities of a global health crisis: the management and business implications of COVID-19 from an Asian perspective. *Asian Business & Management*, 19(3). <https://doi.org/10.1057/s41291-020-00119-x>
- McPhilemy, S., & Moschella, M. (2019). Central banks under stress: Reputation, accountability and regulatory coherence. *Public Administration*, 97(3), 489–498. <https://doi.org/10.1111/padm.12606>
- Orazalin, N., & Mahmood, M. (2019). The financial crisis as a wake-up call: corporate governance and bank performance in an emerging economy. *Corporate Governance: The International Journal of Business in Society*, 19(1), 80–101. <https://doi.org/10.1108/cg-02-2018-0080>
- Rao-Nicholson, R., & Salaber, J. (2015). Impact of the Financial Crisis on Cross-Border Mergers and Acquisitions and Concentration in the Global Banking Industry. *Thunderbird International Business Review*, 58(2), 161–173. <https://doi.org/10.1002/tie.21731>
- Sheikh, U. A., Asad, M., Ahmed, Z., & Mukhtar, U. (2020). Asymmetrical relationship between oil prices, gold prices, exchange rate, and stock prices during global financial crisis 2008: Evidence from Pakistan. *Cogent Economics & Finance*, 8(1), 1757802. <https://doi.org/10.1080/23322039.2020.1757802>

- Stubbs, T., Kring, W., Laskaridis, C., Kentikelenis, A., & Gallagher, K. (2020). Whatever It Takes? The Global Financial Safety Net, Covid-19, and Developing Countries. *World Development*, 105171. <https://doi.org/10.1016/j.worlddev.2020.105171>
- Tambunan, T. T. H. (2018). The impact of the economic crisis on micro, small, and medium enterprises and their crisis mitigation measures in Southeast Asia with reference to Indonesia. *Asia & the Pacific Policy Studies*, 6(1), 19–39. <https://doi.org/10.1002/app5.264>
- Theodore, N. (2019). Governing through austerity: (Il)logics of neoliberal urbanism after the global financial crisis. *Journal of Urban Affairs*, 42(1), 1–17. <https://doi.org/10.1080/07352166.2019.1623683>
- Wang, C., Wang, D., Abbas, J., Duan, K., & Mubeen, R. (2021). Global Financial Crisis, Smart Lockdown Strategies, and the COVID-19 Spillover Impacts: A Global Perspective Implications From Southeast Asia. *Frontiers in Psychiatry*, 12. *Frontiersin*. <https://doi.org/10.3389/fpsy.2021.643783>
- Wang, H. (2019). The New Development Bank and the Asian Infrastructure Investment Bank: China's Ambiguous Approach to Global Financial Governance. *Development and Change*, 50(1), 221–244. <https://doi.org/10.1111/dech.12473>
- Wang, Z., & Sun, Z. (2020). From Globalization to Regionalization: the United States, China, and the Post-Covid-19 World Economic Order. *Journal of Chinese Political Science*, 26(1). <https://doi.org/10.1007/s11366-020-09706-3>
- World Bank. (2019). *Global Financial Development Report 2019/2020: Bank Regulation and Supervision a Decade after the Global Financial Crisis*. Washington, DC: World Bank. <https://doi.org/10.1596/978-1-4648-1447-1>