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GLOBAL FINANCIAL ECONOMIC CRISIS AND ITS IMPACT ON THE ECONOMY OF SELECTED NORDIC COUNTRIES

The article described the nature of financial and economic crises in the context of economic development cycles. In the empirical part of the study the author analyzes the data on how Sweden and Denmark have lived through the recent global financial crisis, special emphasis is placed on the most important macroeconomic parameters.
Keywords: *financial crisis; cyclicity of economic development; Sweden; Denmark.*

Сімона Чугурян

ГЛОБАЛЬНА ФІНАНСОВО-ЕКОНОМІЧНА КРИЗА ТА ЇЇ ВПЛИВ НА ЕКОНОМІКУ ОКРЕМИХ ПІВНІЧНИХ КРАЇН

У статті описано природу фінансових та економічних криз у контексті циклів економічного розвитку. В емпіричній частині дослідження проаналізовано дані щодо того, яким чином Швеція та Данія успішно пережили нещодавню світову фінансову кризу, при цьому особливу увагу приділено макроекономічним показникам даних країн.
Ключові слова: *фінансова криза; циклічність економічного розвитку; Швеція; Данія.*
Рис. 3. Літ. 14.

Симона Чугурян

ГЛОБАЛЬНЫЙ ФИНАНСОВО-ЭКОНОМИЧЕСКИЙ КРИЗИС И ЕГО ВЛИЯНИЕ НА ЭКОНОМИКУ ОТДЕЛЬНЫХ СЕВЕРНЫХ СТРАН

В статье описана природа финансовых и экономических кризисов в контексте циклов экономического развития. В эмпирической части исследования проанализировано данные о том, как Швеция и Дания успешно пережили недавний мировой финансовый кризис, особое внимание уделено макроэкономическим показателям данных стран.
Ключевые слова: *финансовый кризис; цикличность экономического развития; Швеция; Дания.*

Introduction. Since the beginning of the monetary system existence and trading, we hare seen the development of financial system, as well as its failures. Throughout the history various opinions and theories about crisis were developed.

In the past, based on Marxist theory, economic crisis was understood as the consequence of contradictions between productive forces and production relations.

Its consequences were not only economic, but also social, as well as political. Therefore, economic crises were necessary during middle-class (capitalistic) society, in addition they should become fatal for capitalism as a social-political system (St'ahel, 2005).

The reasoning of the economic crisis necessity led to the fact, that at the end of 19th and at the beginning of the 20th century the economic crisis was considered as some temporary phenomenon, which is fulfilling the so-called, scrubbing function in the economy.

Negative consequences of crisis led to a new understanding of crisis as a negative phenomenon, which was necessary.

The main theorist of this idea was J.M. Keynes. He claimed that the decrease of investments means accumulation of savings and accordingly lack of circulating

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money in an economy. Since in this model, nominal prices are not flexible enough to respond to a market situation, this phenomenon generates a decrease in goods and services demand and subsequent accumulation of resources. As a result there is a resources surplus, causing employment decrease in the primary sector, and thus weakening the workforce's purchasing capacity in this sector (Caplanova and Sujansky, 2011: 26)

Literature review. As the core notion of the article is the global financial economic crises, the author used the sources describing the effects and consequences of the crisis on Danish and Swedish economy. Another source of relevant information was official data from the World Bank Data Report, Nordic Statistical Yearbook, as well as opinions of relevant scholars – R. St'ahel (2005), P. Dvorak (2008), J. Lisy (2003), A. Caplanova and M. Sujansky (2011).

The main purpose of study is to characterize various theories of crises and economic cycles. The paper is based on the analysis, interpretation and explanation of the global financial crisis in selected Nordic countries – Denmark and Sweden. Subsequently, we will justify, using cognitive methods application, how the global financial crisis influences the economic stability of these countries.

Key research findings. Currently, as a result of global and financial economic crises, which hit the world in 2008, the crisis understanding gained completely new dimensions. The goal of economists is to predict crises, as well as to create a system, which will be able to discover a crisis formation in advance, and possibly resolve its causalities and eliminate its consequences.

In current terminology, an influential Czech economist Musilek, defines financial crises as significant worsening of the most of financial indicators, manifested through insufficient liquidity of the financial system, extensive insolvency of financial institutions, financial instruments' volatility increase of return rate, significant decrease of financial and non-financial assets' amount, and substantial decrease of savings allocation range within financial system (Musilek, 2004).

Financial crisis is a general term, which mostly comprises the below listed specific cases of financial system errors:

- currency or exchange rate crisis;
- banking crisis;
- credit or debit crisis;
- systematic financial crisis (Dvorak, 2008: 343).

Globalization of world's economy is caused by the enlargement of dependency and connection of individual economies. Every positive or negative decision of bigger economy influences other countries' economics in some way. As a result of globalization process and cooperation of financial markets' individual segments, possible crises intervenes not only the economy of a particular country, but it leads to weakening of the whole world's economy (Cech, 2011). By progressive globalization of financial markets, the connection of financial crisis is increasing, as well as possibility of "infection" between countries is growing. G. Soros (1999) was warning that during the recent decades, the global financial market has arisen is principally non-stable due to the fact that its mechanism is not enough theoretically and institutionally mastered, among other things. In addition, the non-stability of financial markets is transferred to the global capitalistic system.

The most recent crisis started as a local mortgage crisis in the USA, then continued as a financial one, later transformed into economic crisis getting a global dimension.

Frequent sign of financial crises is that causes for economic problems don't appear in real economy, but arise directly in the financial system.

Global financial and economic crisis, which intervened almost the whole world in 2008, is labeled by experts as the most serious and the most extensive crisis after the World War II. It intervened all areas of economy on both regional and international levels (Besinova and Chuguryan, 2011).

The mentioned crisis resulted into significant changes of individual European countries economies, which subsequently led to fast and continual actions from national governments and also from the European Central Bank's and European Commission's sides. All these institutions were working closely on the support of growth, creation of new jobs, defense of savings, maintenance of loan's grants to business as well as to households, provision of financial stability and introduction of better economic management rules and control in future.

Economic cycles of a crisis. Economic development cannot be denoted as linear. It passes various stages, which are called economic cycles. "Part of an economic cycle, during which the amount of GDP decreases; the goods, which are not sold are being accumulated; the workforce demand starts to decrease, as well as the prices of consumable goods. Therefore, companies' incomes are decreasing, the interest for loans and subsequently the interest rate is decreasing and the problems are rising also at the stock exchange" (Slosar et al., 1992: 118).

Economists classify crisis as some temporary wave of economic cycle, while economic cycle is understood as a regular and permanently repeating decreasing and increasing phases in the development of an economy (Figure 1).

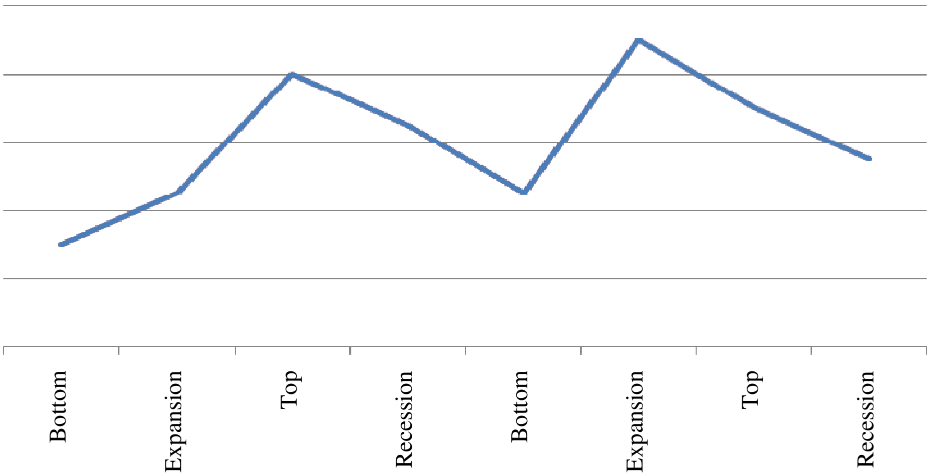

Figure 1. **Description of economic cycles,** *own presentation*

Along with long-term growth of economy, upwards or downwards fluctuations occur. These fluctuations are called economic cycle phases, which are as follows:

- *Recession,* characterized by GDP decrease (when real GDP is continuously decreasing through two consecutive quarters), and by decrease of activity in the whole macroeconomic structure. Fast decrease of consumer purchasing occurs, companies are enlarging their stocks. Production is decreasing, respectively stagnating, and investments into production are decreasing. There are employee's layoffs, which result into unemployment increase, salaries are decreasing, as well as companies' incomes and subsequently prices for their shares. The bottom of economic cycle or the lowest point of reversal is when GDP and also economic activities reach the bottom or the "rest period". The economy is mobilizing its strength for the coming increase; investments start to increase and the expansion period occurs, due to the help of market power or the state.
- *Expansion* starts with recovery and increase of real GDP, in direction to full production resources utilization; complete utilization of all the factors, which appeared during recession, occurs.
- *Top* is the limiting phase of economic cycle. The economy is on the top of its possibilities and after particular (various lengths) period of time, its productivity starts to decrease until the period of recession occurs again (Lisy et al., 2003: 333–334).

During historical development of individual countries, we observe various periods of economic growth, which is gradually replaced by economic attenuation or serious economic crises, when we talk about the recession period. In the case when attenuation is long-termed, it is defined as depression. It is the period of complete decrease of companies' incomes, real incomes of population and is accompanied with high unemployment. After complete attenuation is gained, the recovery of economy comes, which can be slow or fast, as well as partial or strong, economy starts to grow fast – it comes to conjunction. This period of time is called expansion and its highest point is top. It is the period with the most significant growth with low unemployment and healthy markets.

It is necessary to realize that in cyclical development, where phases of growth and phases of decrease are alternating, there always exists the crises phenomenon. It is not in our power to eliminate them, however, it is possible to reduce their course and partially eliminate their impact to the economy (Kucharcik, 2012).

Nordic countries are commonly mentioned as a positive example for other countries. They are often called "the states of welfare" since they are able to combine market economy with social justice showing high levels of redistribution of good economic results and economic effectivity. In spite of their economic power they still are not completely irresistible to global crises and they are also facing some negative impacts. However, this impact was much lower than in the other countries and their recovery was faster and easier.

"2007 marked the beginning of the financial crisis throughout the world. All the Nordic countries have been affected by the global crisis though to varying degrees. GDP growth was negative in all of the Nordic countries in 2008 and 2009" (Haagensen, 2014: 97).

Using the examples of Sweden and Denmark, we will try to describe, how the Nordic region was influenced by the recent global financial crisis.

Both chosen countries are part of the European Union, and this fact to some extent influences the direction of their economies' development.

Financial crisis caused the decrease of Denmark's economic growth and effectivity. Opportunities for export showed considerable attenuation, what was the result of the investors' foresight and of the demand decrease in the EU countries. Goods and services demand at the domestic market was also stagnating. Gross domestic product in Denmark, as the basic macroeconomic indicator, had significant overflow in 2007. Later there was some sort of balancing between crisis influence and economic growth. Since 2011, there was a slight decrease. At the end of 2013 and at the beginning of 2014 already economic growth was observed (Figure 2). Nowadays, GDP per capita in Denmark, as compared to other developed countries, is reaching a very good level. The last released data was 37,000 USD/person, which is 25% above the EU-28 average (Dansko: Ekonomicka..., 2014).

The next indicator is the level of unemployment, which had a decreasing trend since 2005. By the end of 2008 it decreased significantly, and reached the lowest volume for the past 34 years. However, at the beginning of 2009, economic recession resulted into its increase (Figure 3). Despite that, the unemployment level in Denmark is showing the lowest volumes from all EU and all OECD countries.

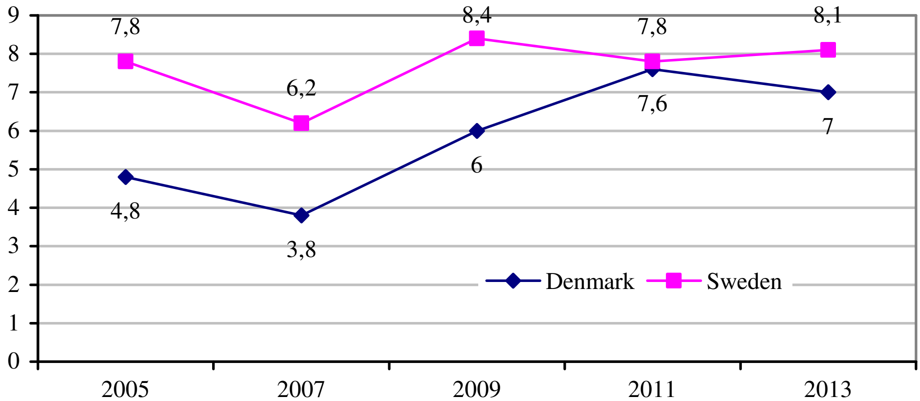

Figure 2. **GDPs during 2005–2013** (The World Bank)

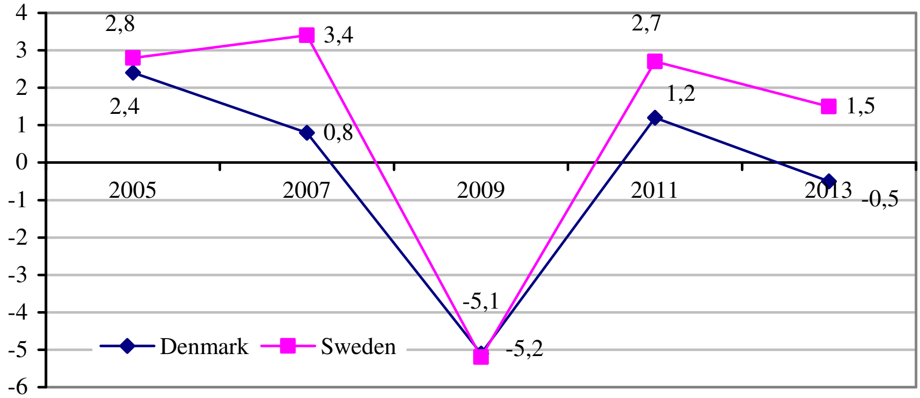

Figure 3. **Unemployment during 2005–2013** (The World Bank)

The economy of Sweden is significantly dependent on international trade, especially with the EU countries, as 70% of its transactions are with these countries. High connection of EU countries economics caused overflow of Sweden economy. In 2009, it reached the sharpest decrease since World War II, due to the influence of the financial crisis. Together with industry production, they caused decrease of GDP amount. The development was similar to that of Denmark. The greatest decrease was in 2007 (Figure 2). GDP, which was in 2006 at the same level as in the Eurozone, is 5 times higher in 2014 (Svedsko: Ekonomicka..., 2014). For Swedish economy, high interventions of the state are characteristic, manifested by high public expenditures to GDP. It even reaches the highest values within the OECD countries. Since 2010, the unemployment level is stable, around 8%. In 2014, it reached around 7.9%, which is better than in majority of the EU countries (Figure 3).

Conclusion. Although every crisis is unique and occurs under different economic conditions, we can find similar attributes and signs, which enable us predict the approaching crisis and possibly prevent it. Looking at macroeconomic indicators we can claim that Denmark and Sweden overcome the crisis influences successfully and nowadays, they can be considered among the strongest and most competitive world's economies.

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