

Economic cycles and recent world crises on the example of Ukraine

Galyna Zhavoronkova, Vladimir Zhavoronkov, Irina Panasiuk,
National Aviation University,
Kyiv, Ukraine
zhavor@ukr.net

Annotation. *The theory of cycles as an objective form of development of the world economy (national economy) is studied. The phases of the economic cycle are named: recovery, prosperity, recession, depression. It is recognized that today the whole world is isolated due to the COVID-19 virus infection and all countries are experiencing an economic crisis. In these circumstances, it is important to explore ways out of this crisis and prevent the collapse of the economic system as a whole. The purpose of this article is to determine the theoretical and institutional causes of economic cycles to predict the crises that arise, and to find ways to mitigate their negative consequences. The theory of economic cycles and stages of their passage is generalized; conducted an analysis of Ukraine's economy before and during the crisis of 2019-2020. The application of the historical method allowed to use experience, generalize and systematize the development of economic theory and use the collected and systematized data to identify cause-and-effect relationships and predict the future dynamics of Ukraine's economy.*

KEYWORDS: *ECONOMIC CYCLE, CRISIS, INSTITUTIONAL APPROACH, COVID PANDEMIC.*

1. Introduction

The last global crisis was the 2008-09 financial crisis, which began in the United States in 2007. It quickly escalated into a global crisis that led to bank failures, falling stock indexes, and a sharp drop in the value of stocks and commodities around the world. The world has entered a global recession that is causing widespread business cuts, rising unemployment and declining government revenues [14]. Rescue packages for the economic and financial sectors have been announced in almost all industrialized countries and many emerging countries. The crisis has revealed fundamental weaknesses in financial systems around the world; showed how interconnected and interdependent economies are today. Today, when the whole world is isolated due to the COVID-19 virus infection, all countries are experiencing a recession and crisis [9]. Therefore, in these conditions, it is important to explore ways out of this crisis and prevent the collapse of the economic system as a whole.

2. Stages of research of economic cycles

A characteristic feature of cyclicity is the spiral movement of the economy, which indicates a tendency to progressive development. Today's cyclicity is one of the ways of self-regulation of the market economy.

Theories that explain economic cycles by external causes (wars and various political misunderstandings, the development of new territories) are called external. For short cycles, the material basis is the processes that have a place in the sphere of monetary relations. They are characterized by sharpness and intensity.

The average cycles are differentiated by the term of return to the pre-crisis state and by the depth of the fall of the economy. Today there are several dozen views on the emergence of the preconditions of the average economic cycles, among them are some:

- 1) discrepancy between the available money capital and its offer as the reason of occurrence of cycles;
- 2) the cycle as a result of technical innovations, which requires an increase in investment;
- 3) the main reason for the decline - the contradiction between the common nature of production and the private form of attracting its results;
- 4) cyclicity is caused by excess savings and lack of investment in production [13].

Despite the differences in the above approaches, all the mentioned concepts understand the economic cycle as a product of internal causes.

Kondratiev theory (so-called long waves) had a significant impact on the further development of this area of research [4]. According to this theory, scientific and technical progress develops with a cycle of 50-60 years. The material basis of these waves is the

technological renewal of capital goods and the increase of the professional level of workers. In the structure of long-term cycles, Kondratiev identified two phases of development: ascending and descending [2].

Studies of the origin of the cyclical nature of social reproduction in the context of state regulation of the economy have contributed to the spread of new ideas on this issue. Among these ideas are the concepts of "equilibrium business cycle" and "political business cycle" [7]. The concept of "equilibrium business cycle" implies the ideas of monetarism: the state acts as a generator of monetary "shocks" that bring the economy out of equilibrium and maintains the cyclical nature of social reproduction. Proponents of the theory of rational expectations believe that individuals and legal entities are able to assess the motives of decisions of civil servants and respond in a timely manner to their decisions.

The concept of the "political business cycle" is based on the fact that the dependence of inflation and unemployment is determined by the Phillips curve: the feedback between these values: lower unemployment means faster price increases.

3. The length of economic cycles on the example of the economy of Ukraine

In the ranking of countries by GDP, Ukraine ranks 57th. The real GDP of Ukraine as of 01/01/2017 amounted to UAH 984.016 million (Fig. 1).

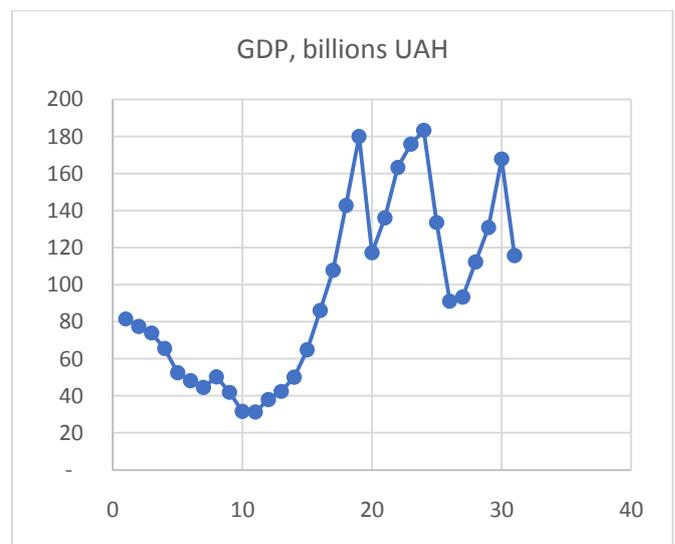


Figure 1. GDP of Ukraine from 1990 to 2020 [6].

This year, Ukraine's economy has shown growth in this indicator (2.3%) for the first time since 2013. The fall in GDP began in 2013 and amounted to 0.027%, accelerating in 2014-2015 due to the political, economic crisis, military action. During these years, the total decline was about 16% [6]. The decline in GDP was caused by deterioration in almost all sectors of Ukraine's economy. Destruction of production facilities and transport infrastructure.

As you can see from Fig. 2, since 2015 the inflation index has been falling. Today, inflation is 2.7%, which is a good sign of economic growth. The growth of the indicator is observed only from 2016 to 2017.

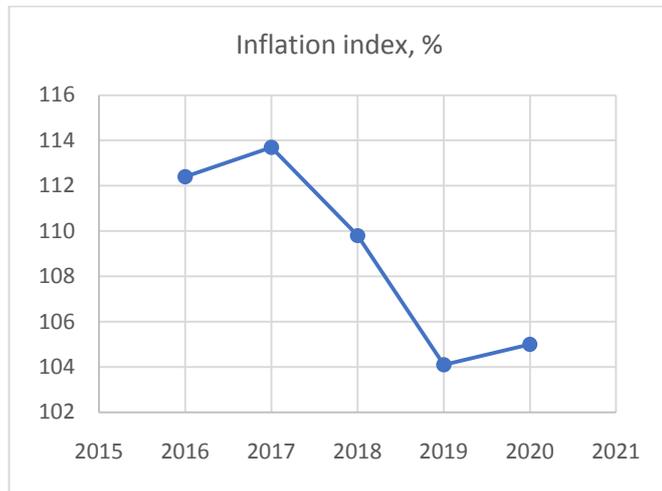


Figure 2. Dynamics of economic indicators of Ukraine from 2015 to 2020 [6]

As we see from Fig. 3, from 2015 to 2016 the figure fell, from 2016 to 2017 it increased, from 2017 to 2018 it fell again, from 2018 to the present it is growing.



Figure 3. Dynamics of gross external debt of Ukraine from 2015-20 [6]

Economic crises in Ukraine were permanent in 1997, 2007 and 2013. Thus, from 1990 to 1996 the economy experienced a phase of crisis, from 1996 to 1998 a rise, from 1998 to 2001 a decline, from 2002 to 2008 a rise again, as the economy successfully emerged from the decline of 1998-2001, and from 2008 to 2010 the recession caused by the global financial crisis, from 2010 to 2013 the rise again, and from 2013 to 2016 the crisis

sharply caused by actions in eastern Ukraine, from 2016 to the present day the rise and gradual stabilization of the economy (Fig. 4).

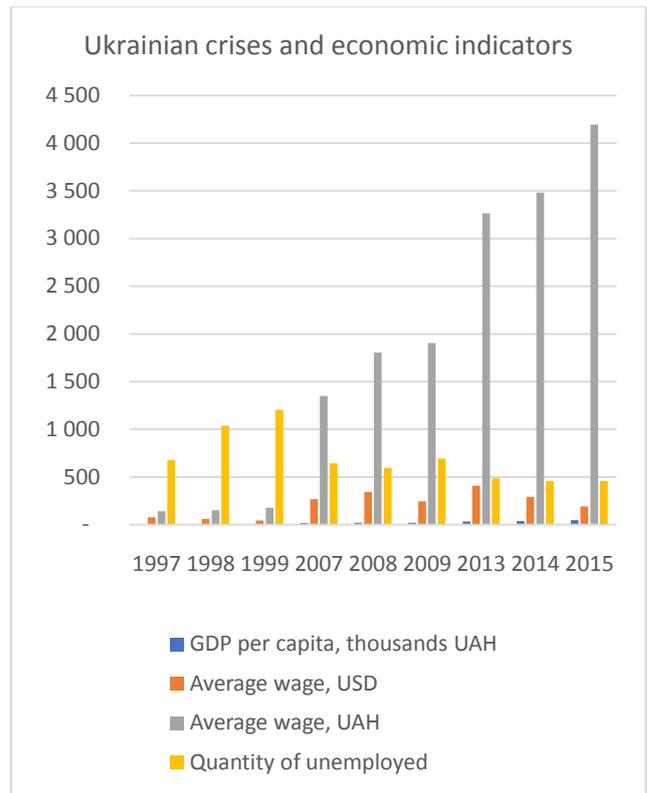


Figure 4. Crises of Ukraine and economic indicators [6]

That is, since 1990, Ukraine has experienced three crises (for 20 years). On average, the crisis occurs every 5-7 years.

4. Ukraine's economy during the crisis from the coronavirus pandemic

Ukraine's economy has been hit hard by the COVID-19 outbreak. GDP decreased by 11.4% in the second quarter of 2020 [2]. However, the negative impact was less severe than originally anticipated, as the full-scale blockade lasted only from mid-March to early May and was replaced by adaptive quarantine, which allowed many services (except passenger transport) to return to normal operation. The next block took place in January 2021.

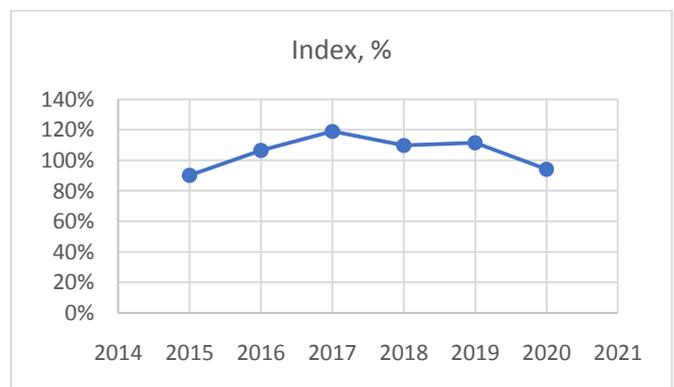


Figure 5. Dynamics of the index of real wages of Ukraine in 2014-2020 [6]

The real wage index (Fig. 5) grew from 2018 to 2019, and in 2020 domestic demand was supported by the recovery of real

wages (growth of 4.8% year on year in June compared to -0.4% in April) and constant receipt of remittances (Fig. 6). Metals and mining, as well as the manufacturing industry, are significantly affected by weak external demand.



Figure 6. Money transfers to Ukraine from abroad from 2008 to 2020 [6]

Improvements in conditions and a contraction in imports contributed to the current account surplus of 4.8% of GDP in January-July. Remittances were relatively resilient (Figure 6), declining by 10% in the first half of the year, while private capital inflows also resumed after a short period of limited outflows in the second quarter. This helped reduce external financing needs and restore international reserves, which stood at \$ 28.5 billion at the end of July. USA (Fig. 7, 8), which was about 4.6 months of imports the following year.



Figure 7. Official international reserves of Ukraine, mln USD [6]

Starting in 2019, tight monetary policy, as well as control over public sector wages and current expenditures, have helped reduce inflation from more than 9% in 2018 to 2.4% in July 2020. This was below the Central Bank's 5% inflation rate, allowing it to lower its key policy rate by more than 10 percentage points to 6% in June 2020. Expecting inflation to average 6.7% in August, real interest rates are close to zero, and further easing may contribute to inflationary pressures in light of more tailored fiscal policies.

Demand for credit declined in the second quarter, reflecting the impact of the COVID-19 shock. Bank liquidity remains

supported by a significant increase in deposits (Fig. 9). At the level of 25% (level 2), capital reserves significantly exceed the regulatory minimums, while the ratios of outstanding loans in the second quarter of the year were 96.8%.

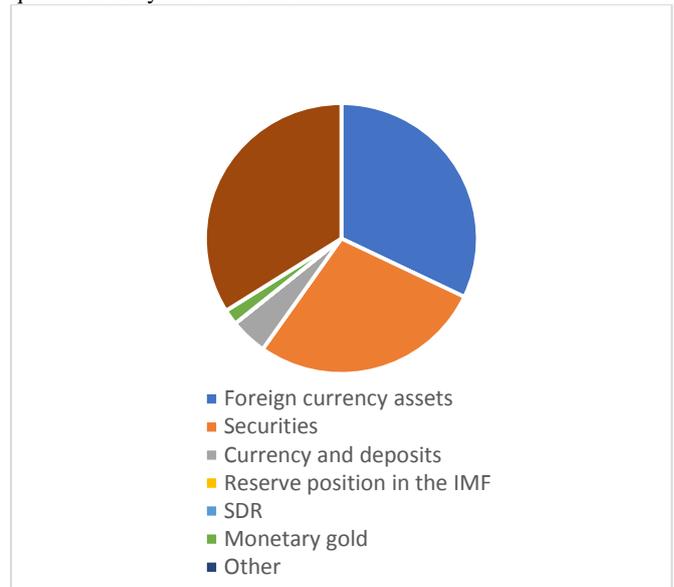


Figure 8. Official international reserves of Ukraine as at 31/12/2020, mln USD [6]

Fiscal pressures in 2020 stemmed from declining revenues, additional costs associated with COVID-19 support measures, and large debt payments. As a result, an additional budget was adopted in April, which provided for a budget deficit of 7.6% of GDP (compared to 2.5% in the initial budget). Significant financing needs during 2020 were mitigated by official funding from the European Union and the International Monetary Fund of \$ 2.7 billion, plus the issuance of 12-year Eurobonds worth \$ 1.3 billion in July. Domestic financing remains sufficient to cover domestic debt repayment needs. Ukraine still expects to attract additional official funding (from the IMF, the World Bank and the EU) of \$ 2.9 billion by the end of the year. If these funds are withheld, the government will have to restrain spending or borrow more in its own country.

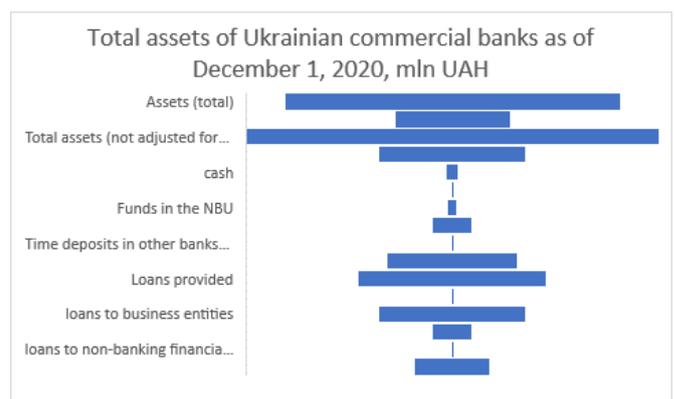


Figure 9. Total assets of Ukrainian commercial banks as at 01/12/2020, mln UAH [6]

Moderate poverty (the World Bank's national methodology for Ukraine) fell from a peak of 26.9% during the 2015 crisis to about 17.8% in 2019 due to a decrease in the unemployment rate to 8.6% and an increase in real wages by 9.8 % (Fig. 10). Disposable income increased by 6.6% in the first quarter of 2020, but the COVID-19 outbreak is likely to have a negative impact on employment and real wages and create conditions for increasing poverty.

Poverty, based on the international level of 5.5 US dollars per day, the poverty line in Ukraine is low, and it is expected to

increase by 0.2 percentage points in 2020. At higher thresholds, the increase in poverty will be greater, and poverty will be based on the World Bank's national poverty line. Ukraine is expected to increase by 2 percentage points. Sustainable economic growth is needed to reduce poverty in the medium term.

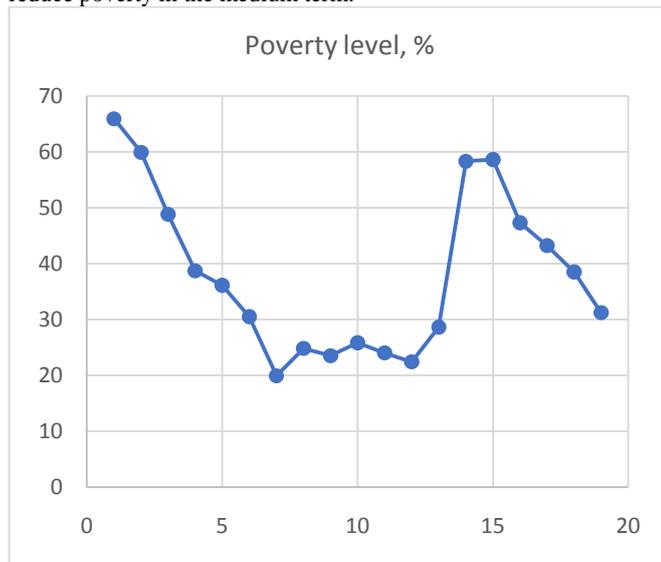


Figure 10. Dynamics of the poverty level from 2002 to 2020, % [6]

In the future, growth is expected to remain moderate in 2021 at 1.5%, and by about 3.7% by 2023. The outlook depends on the duration of the health crisis and reforms that address investment bottlenecks and ensure macroeconomic sustainability. Given the recent slowdown in reforms, fixed investment is not expected to reach pre-crisis levels until late 2022, and net exports (as demand for imports is recovering but export diversification remains slow) will continue to slow in 2021.

5. Conclusions

After analyzing the above, we summarize the main components of the cycle:

- 1) the industrial (technological) revolution passes to the next;
- 2) the introduction of scientific and technological progress leads to changes in the industry structure and the emergence of new achievements;
- 3) the emergence of crises of various scales is cyclical;
- 4) the dominance of the technological system is replaced by the following;
- 5) each new cycle brings new components associated with its features.

So, we have identified 4 crises in Ukraine for the period from 1990 to 2020. That is, on average we have one crisis in 5 years, which is a negative indicator, because the way out of the crisis also takes a long time. As the economy adjusts, new challenges emerge and other areas need to be restructured and rebuilt. On the one hand, this is positive, because more attention is paid to the affected sector and its complete recovery, and on the other hand it takes a lot of time, money (which the country has so little) and less directing funds to other areas, which affects other sectors economy.

During the onset of the 2019 crisis (coronavirus pandemic), the Ukrainian economy declined, but not as significantly as other developed countries. Entrepreneurs and all those employed in areas that require the physical presence of workers were affected. Instead, remote work has become especially relevant, the number of online works has increased, the IT sector has achieved great results and brought Ukraine to the international level on this indicator.

Although crises are constantly being analyzed and attempts are being made to prevent them, no one has yet been able to stop the new crisis prematurely. Therefore, this area needs further and more thorough research and development, namely bringing order and stability in all areas, which will prevent their sharp impression.

6. References

1. Baranovsky O.I. Financial crises: preconditions, consequences and ways of prevention: Monograph / O.I. Baranovsky. - Kyiv: Kyiv. nat. trade and economy University, 2009.
2. Large cycles of M. Kondratiev in the West. URL: <http://repository.hneu.edu.ua/bitstream>
3. Galchinsky A.S. Crisis and cycles of world development / Galchinsky A.S. - K.: АДЕФ-Україна, 2009. - 392 с.
5. Kushlin V. Factors of the economic crisis and the basis for overcoming it // Economist. 2009. № 3. S. 9.
6. Ministry of Finance of Ukraine. Official web portal. URL: <https://index.minfin.com.ua/en/economy/gdp/>
7. Olefir V.K. Economic cycles and crises: history and modernity // Actual problems of economy. - №10 (148), 2013. - P. 23-35.
8. Features of economic crises of the 20th century. URL: <https://studfile.net/preview/9334989/page:20/>
9. Panasiuk I.V. Trends in the world economy in a pandemic caused by the virus COVID-19 // Economic Studies. Scientific and practical journal. 3 (29) - 2020. Lviv, 2020. S. 61-65
10. Plotnikov V.O. Global problems of socio-economic development and neutralization of risks of economic security during the economic crisis // Economics and Management. - 2014 - № 3.6. - P. 12-16.
11. Poverty level of Ukraine. URL: <https://thepage.ua/en/news/riven-bidnosti-v-ukrayini>
12. Average cycles and their phases. URL: https://pidruchniki.com/1753060739985/politekonomiya/klasifikatsiya_ekonomichnih_tsikliv_trivalistyyu_harakteristika_sere_dni_tsikli_fazi
13. Characteristics of the economic cycle and its phases. URL: https://otherreferats.allbest.ru/economy/00133923_0.html
14. Zhavoronkova G., Skoda T. Human capital management problems in Ukraine in crisis period // Krysys finansowy: przebieg i skutki społeczno-gospodarcze w Europie Środkowej i Wschodniej / Pod redakcją Sławomira Partyckiego. - T. 2. - Lublin: Wydawnictwo KUL, 2012. - P. 733-740.