GLOBAL FINANCIAL CRISES: CHALLENGES & OPPORTUNITIES. A CONCEPTUAL PAPER

DR. AMRI MOHAMAD

The present adverse economic conditions, characterized by elevated inflation rates and increases in federal interest rates, can be attributed to a combination of internal and external forces. Consequently, the scarcity of stock and inflation have resulted in a rise in pricing for items. The COVID-19 pandemic has resulted in supply chain disruptions, particularly due to the closure of international borders. This has had a significant impact on the global movement of commodities, affecting not only the United States but also several countries worldwide. The supply chain problem has been intensified by the ongoing conflict between Russia and Ukraine, resulting in the imposition of export restrictions on key food commodities, including grain, originating from Ukraine. Furthermore, this has resulted in a rise in costs for food and other commodities as a consequence of insufficient supply relative to demand, hence exacerbating the issue of hunger.

In order to curb rising prices or inflation in the US, the Federal Reserve (the Fed) has increased the rate multiple times in the US (Rodini, 2024). The justification is that by raising rates, the Fed hopes its rate hikes will moderate demand for consumer goods and services by making it more expensive to borrow money. The philosophy is that if goods and services become too pricey, fewer people will buy them, and sellers will have to lower their prices to retain customers. Because of the high rates in the US, other central banks in the world will also need to raise their own interest rates as a precautionary measure to curb inflation and prevent outflows of funds to the US due to the high rates offered to depositors in the US. Thus, by matching rate hikes in their own respective countries, the central banks in those countries intend to prevent the outflow of capital while curbing inflation at the same time.

But these rate hikes can also have the opposite effects on businesses and ordinary people in those countries. Rate hikes translate to higher borrowing costs (Sorkin et al., 2023) for ordinary people and businesses who are now in the post-pandemic period, and they need every single financial help, inclusive of lower borrowing costs, to help them revive their businesses that were badly affected by the pandemic. Not to mention, many businesses went bankrupt because they just could not sustain themselves with COVID measures such as lockdown and movement restrictions. On a personal level, the COVID pandemic has made many people lose their jobs, facing disclosures on their mortgages, and many were made homeless by the situation. High borrowing costs are certainly not working in their favor for them to restart their lives.

So, this is the financial crisis still enveloping us today, and according to the forecast, it will get worse when there are full-circle financial crises. Many experts have predicted it to happen, and we can hope that we are able to manage it to acceptable levels. According to World Bank President David Malpass,

> **“Global growth is slowing sharply, with further slowing likely as more countries fall into recession. My deep concern is that these trends will persist, with long-lasting consequences that are devastating for people in emerging markets and developing economies.”**

Meanwhile, the World Bank press release in 2022 stated that;

> **"To achieve low inflation rates, currency stability, and faster growth, policymakers could shift their focus from reducing consumption to boosting production. Policies should seek to generate additional investment and improve productivity and capital allocation, which are critical for growth and poverty reduction."**

An assessment by the Bank Negara Malaysia (Outlook and Policy, 2023) stated that the Malaysian economy will face challenges, especially on the external front since Malaysia is a trading nation with external countries, and if their economies are affected, then Malaysia will be affected too. For example, a slowing in global economic growth will affect the demand for Malaysian products, and this will be reflected in the slower export volumes during the year. On the domestic front, rising costs of products and the cost of living are major concerns that will reduce the purchasing power of the majority of Malaysians.

This study will utilize finance methods, be they Islamic finance or not, in order to find the best approach to dealing with financial crises. Among the Islamic finance methods proposed are Mudarabah, Murabaha, Musyarakah, Ijarah, Sukuk financing, and the application of other Islamic monetary instruments in order to provide stability in the financial market and reduce the effects of speculative and non-Shariah-compliant activities on the monetary and financial markets. The inherent problem 'financial bubble burst' as it happened in 2007–2008 due to easy credit and lax regulation (Singh, 2023) can be avoided if due diligence were practiced instead of looking to maximize profit as per the goal of most corporations in the capitalist economic system. The contribution is huge because it can suggest to the Malaysian government how best to deal with the financial crisis for the wellbeing of humanity worldwide.

References:

Andrew Ross Sorkin, Ravi Mattu, Bernhard Warner, Sarah Kessler, Michael J. de la Merced, Lauren Hirsch and Ephrat Livni (2023). Retrieved from https://www.nytimes.com/2023/09/19/business/dealbook/fed-interest-rates-economy.html

Outlook and Policies (2023). Retrieved from https://www.bnm.gov.my/documents/20124/10150285/emr2022_en_ch2.pdf

Rodini, L (2024). A timeline of the Fed's 2022–2023 rate hikes and the factors that caused them. Retrieved from https://www.thestreet.com/fed/fed-rate-hikes-2022-2023-timeline-discussion

Singh, M (2023). The 2007–2008 Financial Crisis in Review. Retrieved from https://www.investopedia.com/articles/economics/09/financial-crisis-review.asp

World Bank Press Release (2022). Risk of Global Recession in 2023 Rises Amid Simultaneous Rate Hikes. Retrieved from https://www.worldbank.org/en/news/press-release/2022/09/15/risk-of-global-recession-in-2023-rises-amid-simultaneous-rate-hikes