Structural Causes of the Global Financial Collapse

(Translated)

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By: Ustadh Nabeel Abdul Kareem

Global financial crises are not isolated incidents arising from a vacuum, nor are they merely fleeting market disturbances. Instead, they are the culmination of long-standing structural imbalances that erode the very foundations of the global financial and economic system. When wealth is built more on debt than on production, when markets become arenas for speculation instead of genuine investment, and when money becomes detached from the productive economy, collapse becomes a natural consequence. Its occurrence is only a matter of time.

Over the past few decades, the world has witnessed a series of financial crises that have exposed the fragility of the international financial order, and demonstrated that the solutions implemented have not addressed the root causes of the problem, but instead have only postponed its explosion and amplified its scope. Each crisis has been met with further expansion of credit, injections of liquidity, and a deepening of reliance on financial instruments, until the system itself has become inherently unstable.

Therefore, the crises the world is witnessing today are not the product of exceptional events or fleeting errors, but instead the result of structural imbalances that have accumulated over decades, becoming inherent to the nature of the financial system itself. These imbalances are what cause crises to recur periodically, even if their immediate causes or timing differ.

First: Unprecedented Debt Inflation

Debt inflation is one of the most serious challenges facing the global economy. Debt is no longer limited to governments; it has extended to companies, individuals, and financial institutions, becoming an increasing burden on the global economy. The continued low interest rates for many years, coupled with the massive expansion in borrowing, have led to an unprecedented inflation in the volume of debt, without any corresponding real growth in production or the real economy. When debt servicing becomes more difficult, countries resort to borrowing to repay previous debts, entering a vicious cycle of indebtedness from which it is difficult to escape.

Second: Money Issuance Expansion

Since abandoning the gold standard, central banks have been able to issue enormous amounts of money, without a direct link to production or gold reserves. The use of this policy expanded after the 2008 global financial crisis, and even more so during the COVID-19 pandemic, when trillions of dollars were injected into the markets in what became known as "quantitative easing." While these measures helped postpone the collapse in the short term, they led to higher inflation rates, the formation of financial bubbles, and a weakening of currency purchasing power.

Third: The Inflation of the Financial Economy at the Expense of the Real Economy

The majority of global capital flows now circulate within financial markets, instead of being channeled towards productive investment. Speculation in stocks, bonds, futures contracts, and financial derivatives has expanded to the point where the value of financial transactions far exceeds the value of goods and services produced by the real economy. When money becomes detached from production, markets become more susceptible to sharp fluctuations and sudden collapses, because prices no longer reflect the true value of assets, but rather investor expectations and speculative waves.

Fourth: The Fragility of the Banking System

The modern banking system is based on the concept of fractional reserve banking, whereby banks hold a limited portion of depositors' funds while lending out the majority as loans. This system functions normally as long as confidence exists, but it becomes extremely fragile when confidence is shaken. A single withdrawal of funds by a large number of depositors can render some banks unable to meet their obligations, as witnessed in several banking crises in recent years, and worse is yet to come.

Fifth: Hyper-Globalization and the Interconnectedness of Economies

Globalization has contributed to the expansion of trade and investment, but it has also made economies more interconnected than ever before, such that any local crisis can quickly spread to all parts of the world. A disruption in one of the major financial centers, a breakdown in supply chains, or the outbreak of a geopolitical conflict can cause widespread turmoil in global markets, as happened during the COVID-19 pandemic, the energy crisis, and regional wars, and as is happening today with the unprecedented market turmoil.

Sixth: The Politicization of the Global Financial System

The global financial order is no longer merely a means of regulating trade and investment, but has gradually transformed into an instrument of political influence. Economic sanctions, freezing of assets, restrictions on financial transfers, and the barring of some countries from using international payment systems have been used, prompting a growing number of countries to seek alternatives that reduce their dependence on the US-dominated financial system. This has led to a decline in confidence in the neutrality of the global financial system and an acceleration of efforts to create alternatives in the areas of payments, trade, and monetary reserves.

Seventh: The Widening Gap Between the Real and Financial Economy

One of the most prominent manifestations of structural imbalance is that global financial wealth has grown at a much faster pace than real production. While many economies suffer from slowing growth, high unemployment, and declining productivity, financial asset prices have continued to rise due to expansionary monetary policies. This has led to a concentration of wealth in the hands of a limited number of people and a widening of the economic and social gap, increasing the fragility of the system and weakening its ability to survive.

The inevitability of the collapse of the global financial system is undeniable, and current events confirm that the world is approaching a pivotal moment where everyone may experience the bitter consequences of a system built on unsustainable foundations.

The true solution lies in an economic system that achieves happiness and prosperity for humanity, free from the crises, collapses, inflation, and recessions inherent in the capitalist system. Furthermore, the Islamic system, as a comprehensive framework, fulfills the needs of humanity because its Shariah rulings originate from the Creator of humankind, who knows what is best for them. These Shariah rulings were revealed to prevent fraud, usury, monopolies, and all other forms of economic corruption.

The true solution is the implementation of Islam, and this can only be achieved by establishing the Khilafah Rashidah (Rightly Guided Caliphate), which has been absent since 1924 CE. We ask Allah (swt) that its return be soon, and that it be restored as it was in the era of the Messenger of Allah (saw), through Allah’s nasr (support) and the efforts of those striving to establish it.

O People of Islam, the solution is in your hands. Do not let it remain confined to books, but instead translate it into reality by establishing the Khilafah Rashidah on the Method of the Prophethood, by the Permission of Allah (swt), as the Messenger of Allah (saw) gave glad tidings of. Let us return to being the best Ummah brought forth for mankind, for Allah (swt) has promised the believers victory if they adhere to His (swt) Laws and follow His Messenger (saw). Allah (swt) says, ﴿وَلَقَدْ أَرْسَلْنَا مِنْ قَبْلِكَ رُسُلاً إِلَىٰ قَوْمِهِمْ فَجَاءُوهُمْ بِالْبَيِّنَاتِ فَانْتَقَمْنَا مِنَ الَّذِينَ أَجْرَمُوا وَكَانَ حَقاً عَلَيْنَا نَصْرُ الْمُؤْمِنِينَ﴾ **“Indeed, We sent before you, O Prophet, messengers, each to their own people, and they came to them with clear proofs. Then We inflicted punishment upon those who persisted in wickedness. For it is Our duty to help the believers”** [TMQ Surah Ar-Rum, 30:47].