

Global Financial Crisis: Causes and Implications**الأزمة المالية العالمية: الأسباب والآثار****Dr. Sobaihi Nawal¹**

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Abstract:

In the early years of the century, with the huge upsurge in the value of assets in the world - especially real estate - liquidity was a problem for banks and financial institutions. That is, they had huge surpluses of liquidity that they could not find investment outlets for, and because real estate seemed to be a safe haven for investment, a large amount of that liquidity went to the real estate sector. Then came the collapse of real estate prices in America, followed by Spain, Ireland, Britain and others. All the investment tricks to hide bad real estate loans were exposed. Some financial sources estimated mortgage losses at about “300” billion dollars in America alone, and “550” billion dollars in other countries of the world! So countries, especially the rich ones, began pumping billions of dollars into the financial markets to support the market and provide liquidity to move the economy, and thus a credit crunch crisis arose, which all attempts to pump money or governments buying some collapsed institutions did not succeed in completely eliminating.

Key words: Global financial crisis, Financial institutions, Mortgage, Algerian economy.

ملخص:

في سنوات مطلع القرن، ومع الغليان الهائل في قيمة الأصول في العالم. وفي مقدمتها العقارات. كانت السيولة مشكلة لدى البنوك والمؤسسات المالية. بمعنى أن لديها فوائض هائلة من السيولة لا تجد منافذ استثمارية لها، ولأن العقار يبدو ملاذا آمنا للاستثمار اتجه قدر كبير من تلك السيولة إلى قطاع العقارات. ثم جاء انهيار أسعار العقار في أمريكا، وبعدها إسبانيا وإيرلندا وبريطانيا وغيرها. وانكشفت كل الحيل الاستثمارية لإخفاء القروض العقارية الرديئة. لقد قدرت بعض المصادر المالية خسائر الرهن العقاري بنحو “300” مليار دولار في أمريكا وحدها، و “550” مليار دولار في دول العالم الأخرى! فبدأت الدول، وبخاصة الغنية، تضخ الأموال بالمليارات إلى الأسواق المالية لإسناد السوق وتوفير السيولة لتحريك عملية الاقتصاد، وهكذا نشأت أزمة الانكماش الائتماني، والتي لم تفلح كل محاولات ضخ الأموال ولا شراء الحكومات لبعض المؤسسات المنهارة في القضاء عليها تماما.

الكلمات المفتاحية: الأزمة المالية العالمية، المؤسسات المالية، الرهن العقاري، الاقتصاد الجزائري.

Introduction:

The roots of the current crisis in the global financial sector date back about three decades, with the development of the service sector at the expense of traditional sectors of the economy such as trade, industry and agriculture. However, before digging into the past, as important as it is to understanding what is going on and anticipating what is coming, we must first try to understand this crisis.

In the early years of the century, with the huge boil in the value of assets in the world - foremost among them real estate - liquidity was a problem for banks and financial institutions. In the sense that it has huge surpluses of liquidity that do not find investment outlets for it, and because the property seems to be a safe haven for investment, much of that liquidity has gone to the real estate sector.

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Two or three years ago, a media outlet did not abandon ads about mortgage brokers offering you the best interest rates without the need for any guarantees. There were even specific announcements for those with a bad credit history (i.e. doubtful of paying their debts), and how they could get loans. These brokers are only interested in getting the commission, as it is the bank that will eventually lend. Consequently, the volume of these "bad" real estate debts increased in a way that banks began to feel that it was necessary to resolve rather than keep them on their books. Here comes the role of investment banks (which were the first to collapse in the crisis) that accumulate those debts and securitize them through debt bonds secured by mortgages. With the skill of the senior investment officials of these banks, bonds are issued in categories.

Then came the collapse of real estate prices in America, followed by Spain, Ireland, Britain and others. All investment tricks have been exposed to hide bad mortgages, and there are many banks in the world in trouble, either as a result of financing those loans or buying the mortgaged debt securities. The situation has begun to worsen as a result of lack of confidence, because banks have stopped lending to each other, and borrowing from secondary markets has become very difficult for fear of exposure to unexpected risks.

The G20 Summit was held in London on the second Thursday of April 2009 in an attempt to get out of this suffocating crisis. The global economic crisis has worsened since the Washington summit in November, convened by the leaders of the 20 countries that account for 90% of global economic output and 80% of global trade and comprise two-thirds of the Earth's population.

This crisis, which is now ravaging the world, is not the first of its kind. There was a major crisis in 1929 called the Great Depression. One of the most famous crises of the capitalist system occurred in the last week of October 1997, where there was a sharp drop in stock prices in major financial markets, starting in Hong Kong and moving to Japan, then to Europe, and the decline from one country to another with the cascade of sunrise in each of them. This crisis was preceded by what was happening in Southeast Asia of the deterioration in the exchange rates of its countries and the decline in the prices of its companies. A number of banks and companies supervised the destruction from Thailand to the Philippines, Malaysia and Indonesia, then the crisis spread like infection to South Korea and Taiwan in North Asia. In these days, the mortgage crisis has interacted, and loans have expanded, and borrowers have been unable to repay, so the largest banks and financial institutions in America have almost gone bankrupt, and because of the intensity of advertising for the mortgage market in America, and the expected abundant profits according to the advertising industry, international banks and financial markets have accelerated to invest in this market, and thus the bankruptcy of American banks and financial institutions has been reflected in the world.

Some financial sources have estimated mortgage losses at about \$300 billion in America alone, and \$550 billion in other countries of the world! Countries, especially the rich, began pumping billions of dollars into financial markets to support the market and provide liquidity to move the economy, and some even intervened directly to the extent of nationalization of some banks, as happened in Britain. What happened recently in the severe and ongoing mortgage crisis is evidence of the corruption of the capitalist economic system, as thousands of families found themselves on the street after losing their homes that went to usurious institutions.

Thus a credit deflation crisis arose, which neither the attempts to pump money nor the purchase of some collapsed institutions by governments managed to eliminate completely, and which some economists defined as: “ **sudden disruption of the economic balance in one or several countries. In particular, it refers to the disruption caused by the imbalance between financial assets and real assets.**” Algeria's economy is not excluded from the rule, as it deals more with oil exports whose prices have been affected by the crisis, and therefore the following problem can be raised:

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- **What are the causes and effects of the global financial crisis with the Algerian economy?**

To answer this problem, we will try to address the following points in the intervention:

First: What is the financial crisis, its most important stages.

Second: The roots of the financial crisis.

Third: The main manifestations of the financial crisis.

Fourth: The repercussions of the financial crisis on the economy of developing countries and the Algerian economy.

First: What is the financial crisis

The beginning of the new crisis began with the announcement by a giant financial institution, Lehman Brothers, of its preventive bankruptcy, and this was a dangerous symbolic beginning, because this ancient institution was one of the few companies that survived the massacre of the Great Depression in 1929, and is considered one of the oldest American financial institutions, founded in the nineteenth century. But what is this crisis? Is it caused by the disruption of the real estate market or the separation of the financial economy from the real economy?

There are many definitions or explanations that have been provided in order to clarify the concept of the current financial crisis. Among these definitions, we find the following definition: **"A financial crisis is a situation that affects the stock markets and credit markets of a specific country or group of countries. Its seriousness lies in its effects on the economy, which in turn causes an economic crisis and then an economic downturn that is usually accompanied by a decline in loans, liquidity and monetary crises, a decline in investment, and a state of panic and anxiety in the financial markets."**^{1,.....}

Youssef Abu Farah defines it as a financial crisis that occurred due to a cumulative set of reasons, the latest of which was the reality of mortgage loans in the United States of America, in the summer of 2007, where cases of default on mortgage payments Mortgage Defaults increased very significantly, as well as cases of foreclosures Foreclosures due to the inability of borrowers in the United States to pay mortgage payments for their homes, and these things were indications that the mortgage loan market has entered into a real crisis. In light of the increase in defaults and the increase in foreclosures, housing prices have tended to decline rapidly and sharply, and this decline in prices has led to very large losses (estimated at trillions of dollars, where one trillion = one thousand billion) in the wealth of housing in the United States of America.

The global financial crisis has led to a sudden halt in the granting of loans, including lending operations between banking institutions Interbank Credit Market This sudden halt in lending has had substantial negative effects, which led to the collapse of Collapse a lot of institutions, and led to a decline in economic growth rates and increasing unemployment rates and entering a recession.

One of the reasons why this current global financial crisis is so unpredictable is that it has come on the heels of seven years of high economic growth (especially in the US), and some analysts had expected a slowdown in emerging market economies.⁽²⁾

The most important stages of the global financial crisis:

The global financial crisis has passed through several stages, which we summarize in the following:⁽³⁾

- February 2007: The United States is witnessing a significant rise in the inability of borrowers to pay mortgage loans, which led to the first bankruptcies of specialized banking institutions.

June 2007: American investment bank Bear Stearns, the first major bank to suffer mortgage loan losses.

August 2007: The European Central Bank pumps 94.8 billion euros of liquidity, the US Federal Treasury pumps 24 billion dollars, and many other banks, such as the Bank of Japan and the Swiss National Bank, intervened in the process.

- September 2007: The Bank of England grants an emergency loan to Northern Rock Bank to avoid bankruptcy, which was then nationalized.

- October 2007: Swiss bank UBS announces a decrease in the value of its assets by 4 billion francs.

January 2008: The U.S. Federal Reserve cuts its key interest rate by three-quarters, to 3.50%, a measure experts described as exceptionally far-reaching.

March 2008: The US Federal Treasury says it is prepared to provide up to \$200 billion to a limited group of large banks.

March 2008: US banking giant JP Morgan Chase announces its purchase of struggling bank Bear Stearns, a process that has received financial support from the US Federal Treasury.

July 2008: Pressure intensifies on the American institutions Freddie Mac and Fannie Mae, which specialize in refinancing mortgages, and the US Treasury announces a plan to save the real estate sector.

September 15, 2008: Business bank Lehman Brothers admits bankruptcy, while American bank Bank of America announces the purchase of a Wall Street business bank, Merrill Lynch.

September 16, 2008: The Federal Reserve and the US government secure the world's largest insurance group, IG, which is threatened with bankruptcy, by granting it \$85 billion in financial assistance in exchange for owning 9.79% of its capital.

- The American mortgage crisis continues to have consequences on the global economy, as it has affected various economic sectors in the United States and Europe and led to financial losses that are difficult to count.

- It also closed First Heritage Bank with its three branches. The assets of the two banks owned by First National Bank Holding were sold to branches of Bank of Omaha, and the banks' assets reached \$3.6 billion at the end of July, down from \$4.1 billion six months ago.

Chovia Corp. reported record quarterly losses of \$8.86 billion.

In Britain, the British Northern Rock Bank for Real Estate Finance was nationalized and more than 2,000 employees were laid off as part of the British government's efforts to get the bank out of its severe crisis and huge losses as a result of that crisis.

The British Royal Bank of Scotland (RBS) announced losses of 691 million pounds (\$1.35 billion).

In Germany, Commerzbank, the second largest German bank, decided to cut 9,000 jobs as part of the purchase of its rival Dresdner Bank. The deal was valued at \$14.5 billion, in what is described as the largest restructuring of the German banking sector in more than seven years.

The door remains open to further repercussions of the mortgage crisis on the world markets without exception. IMF chief Dominique Strauss predicted more trouble, and former US Treasury Secretary Robert Rubin called it the worst crisis the global economy has experienced since the Great Depression of the 1930s.

Second: The roots of the financial crisis.

During the era of neoliberal globalization that began in the 1970s, the major capitalist centers, especially the United States, went through a process of "deindustrialization", according to which Western capitalism moved from reliance on local-nationalist markets to the current form of globalization, by transferring polluting heavy industries to China, India and others.

This was accompanied by the "liberalization" of financial markets and the deregulation of all their restrictions, which led to a mass migration of capitalists to Asian markets, and also to a new international division of labor, and it is related to advanced technology, research and

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development, and private goods such as financial services in capital centers and traditional industrial processes in the peripheries.

This development led not only to the creation of large-scale unemployment in the West, but also to a massive expansion of financial markets that were rapidly globalized. The financial sector in Britain, for example, became responsible for half of economic growth, as well as the real-estate financial sector in America until 2006. Both sectors relied entirely on speculation and not on the real economy.

The crisis began after the increasing concern of dealers in the financial markets about the conditions in the credit markets in the world, which analysts attributed mostly to the problems experienced by the American real estate lending market known as "SAP Prime", which deals with those wishing to live, without requiring the borrower to have a strong financial record, which contributed to the deterioration of stock prices significantly during the past period. The shares of the banking sector, specifically UBS, HSBC, and Barclays banks, were the locomotive of the collapse in stock prices, as they were the most affected during the crisis, which drew the attention of financial analysts who explained that investors in the stock exchange do not know which banks are vulnerable to real estate credit problems and the extent of their potential losses, so everyone began to sell hysterically.

In this regard, about 70 American mortgage companies have suspended their operations and declared bankruptcy, or have been offered for sale since the beginning of 2006. Country Financial stated that the difficulties of the mortgage market have become a serious threat to their profits and financial situation. Finally, Home Mortgage Investment Company announced its bankruptcy, and the quarterly revenues of Toll Brothers Real Estate Company decreased, and Home Depot, which operates in the real estate field, announced that it expects its profits to decline as well due to the decline in the residential real estate market.

Despite all the measures, this did not prevent the spread of the crisis globally, which manifested itself in the decline of financial markets in Thailand, Malaysia, Hong Kong, Indonesia, Korea, Singapore and Taiwan. The decline of China's market was less than that of its Asian counterparts, as banks in China announced that they do not have investments related to US mortgage problems. In Europe, financial analysts described the crisis there as a serious crisis that threatens the European financial system, but it is not catastrophic. The markets of Sweden, the Netherlands, Norway, Belgium, Austria, Denmark and Finland have fallen, and the British Financial Times Index, the German Dax, the French CAC 40, the British Vosti, the Italian Maple and the broader Topix, which recorded its lowest point since November 2006, and the Japanese Nikkei index, which closed at its lowest rate, have declined. ⁴

The occurrence of this financial crisis is due to different reasons, which led to the confluence of these reasons to the global financial institutions in a large spiral, and some of these reasons contributed directly, and others indirectly, the most important of which the following: ⁽⁵⁾

✚ **Consecutive and accumulated borrowing and the growing volume of debt:** In addition to the large volume of US government debt, the volume of individual debt in the United States of America has reached more than \$9 trillion, and most of these individual debts are real estate debt (these real estate debts amounted to about \$6.6 trillion). In addition to government debt and individual debt, corporate debt has also grown, reaching about \$18.4 trillion. (Herrmann-Pornupatham-Vichitsarawong, 2008) confirms that the volume of mortgages granted with mortgages has increased (especially from American financial institutions), which have been granted at variable interest rates, rising in light of the Central Bank's increase in interest rates. Many of these mortgages have been granted, without obtaining sufficient guarantees, and large numbers of customers have been encouraged to borrow real estate in light of the available facilities, noting that interest rates were low, appropriate and encouraging to borrow, and the volume of these loans has increased, and customers have obtained these loans either for the purpose of housing, for long-term investments, for speculative purposes, or otherwise. (Uludag, 2008) believes that in order for banks to benefit increasingly from these loans, they have tended to

convert the loans granted into bonds that are traded in financial markets (securitization operations) through selling to securitization companies. Investors who bought these bonds, mortgaged them with banks to obtain new loans, which they may use to buy more of these bonds. The use of loans - debts - has been repeated to secure them for more loans, and these operations have led to a significant increase in the gap between the financial economy and the real economy. The purchase of bonds has increased in light of the tendency of banks to strengthen the position of bonds, by insuring these bonds with insurance companies, and the customer (the holder of the bond) bears the insurance fees in exchange for protection against the bankruptcy of the bank or the bankruptcy of the landlord (the house, for example).

✚ **Granting mortgages with high risks:** (Liu-Rizzi, 2008) indicates that the real estate markets in the United States of America witnessed a great boom during the years 2001-2006, and this great boom was one of the fundamental reasons that encouraged banks and other financial institutions to grant mortgages with high degrees of risk, and without obtaining sufficient guarantees for repayment, and its motivation was to obtain interest at high rates (earning profits). Mun, 2008) confirms that real estate lending operations have grown and increased until they reached very large amounts at the level of the American real estate market. At the end of 2006, the value of these mortgages amounted to about \$700 billion.

✚ The **dominance of distrust in the markets:** (Lim, 2008) believes that the negative financial repercussions, poor financial performance, uselessness, inefficiency and effectiveness of modern financial instruments have pushed towards distrust in the markets, and depositors have tended heavily towards withdrawing their deposits from banks, and this has led to severe negative repercussions on the liquidity of banks, and central banks' interventions have not succeeded in addressing this effectively. (Shore-Manwani, 2009) confirms that the bankruptcy of Lehman Brothers has deepened the intensity of mistrust, and its bankruptcy was a great shock to investors, and made their confidence shake in the financial and economic system, and in the government role. They believed that the US government would not allow the bankruptcy of an important bank such as this bank, and this matter (the failure to bail out Lehman Brothers) may have been one of the fundamental strategic mistakes that entrenched and deepened the severity of the global financial crisis. It should be noted that Lehman Brothers Bank went bankrupt after its share value fell to more than 90% and its losses amounted to about seven billion dollars.

✚ The **huge uncontrolled financial expansion in the issuance of financial assets:** The banking sectors have played a major role in the huge expansion in the issuance of various types of diversified financial assets, in increasing the volume of financial assets in circulation, and in establishing confidence in these assets. Markowitz, 2009) indicates that with the increasing expansion in the issuance of various types of diversified financial assets, the gap between the financial economy and the real economy has increased, and business has become conducted in financial markets away from the actual reality expressed by the real economy. Financial institutions have continued to issue financial assets far more than the need and burden of the real economy. (Horton, 2009) confirms that this expansion in the issuance of financial assets has led to a very large expansion in the number of debtors, and this has increased the risk of non-payment for reasons related to the circumstances of these debtors. There are a number of reasons that have helped financial institutions expand the issuance of financial assets, the most important of which are:

- (a) A significant increase in the volume of indebtedness.
- (b) Inactive control over intermediary financial institutions and over new financial instruments.
- (c) Greed that led to the concentration of risks in one sector (real estate markets sector). The greed that dominated

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The behavior of the administrations of financial institutions has led to the expansion of the issuance of financial assets, and this greed can be explained by focusing on

Some practices, such as the lack of attention of the departments of financial institutions to the great risks resulting from the huge expansion of operations

Lending, improper use of financial derivatives.

- ✚ The **domination of markets by an immoral culture**: One of the most important criticisms directed at the capitalist system is that this system does not give sufficient attention to the moral dimension. The capitalist system believes that the market is an arena for conflict and competition that is not governed by clear rules or restrictions with an advanced horizon. Rather, its focus is on the freedom and liberalization of trade, and this leads to the survival of the strongest companies and organizations in the markets, and enhances the domination of forces over the weak. (Park, and Lee, 2009) indicates that this unethical culture has pushed institutions operating in the markets to run after maximizing profits, and they have resorted to manipulating and falsifying the numbers to give a cosmetic image of these institutions away from the real reality of the market economy.
- ✚ The **negative role of the media**: The positive and active role that the media should play and play is to put the public interest at the top of priorities, and to build an integrated system of awareness that ensures the preservation of the interests of all parties in the markets, and in a way that does not promote any negative culture or wrong behaviors in these markets. (Pauly, 2008) believes that in light of the intertwining of interests, the media did not focus on highlighting the essential indicators that predict and foreshadow a major crisis to come, but rather focused on beautifying the image of business institutions in the market. This behavior of the media had a real role in the nature of the global financial crisis, and after the crisis erupted, there were calls and calls in the media about the emergence of a serious financial crisis.
- ✚ **Corruption**: (Partnoy, 2009) and (Markowitz, 2009) emphasize that one of the reasons behind this crisis is corruption, and this corruption occurred at different levels, including at the level of companies, and some of them are at the level of some government institutions. The main role of government institutions is to preserve the public interest, but some corrupt groups in some government institutions in capitalist countries were working to achieve the interests of some groups at the expense of the public interest, and with the aggravation and increase of this phenomenon, especially in the field of financial markets and institutions, it has clearly contributed as one of the causes of the current global financial crisis.
- ✚ The **policies of the International Monetary Fund**: The policies pursued by the International Monetary Fund over decades were one of the reasons that contributed to the deterioration of the economies of many countries (especially in Asia and Africa), and (Taylor, 2009) believes that these policies have contributed directly or indirectly to the financial and economic deterioration globally, and contributed to the outbreak of this financial crisis. It is strange that despite the negative role played by the policies of the International Monetary Fund, decisions have been issued to increase the resources of this fund by about \$500 billion in order to help it face the crisis (the decisions of the London Summit), and many researchers expect that this institution will not play its strategic and effective role in facing this crisis despite the support and increase of its financial resources.

Third: The main manifestations of the financial crisis.

As a result of the multiple causes of the global financial crisis, its manifestations have varied, and the following are the most important features and manifestations of this crisis: ⁽⁶⁾

- **Expansionary economic policies**: (Partnoy, 2009) indicates that after the occurrence of the Dotcom Bubble web companies in 2000, and after the attacks of September 11, 2001, the United States of America and most other advanced economies have stabilized in a

phase of expansionary economic policies that keep these economies alive and successfully face recession, for example, the US Federal Reserve cut the interest rate more than 27 times between the years 2001-2003.

- **Easy lending operations:** (Nan Kuang-Hung Jen, 2008) confirms that low interest rates have led to great stimulus and rapid growth in lending operations, and some countries (such as China) have used the huge trade surplus with the United States of America to buy US Treasury bonds.
- **Bad loans (especially mortgage loans):** The rise in house prices has led to a growing demand for loans, especially mortgage loans. (Richard, 2009) indicates that low-quality mortgage loans have increased, and the value of these loans has reached about \$1.3 trillion, noting that this type of loan does not provide sufficient guarantees to ensure that borrowers repay these loans.
- **Weak regulations, legislation, and supervision and control of financial instruments:** (Xiong-Liu, 2009) believes that the global financial crisis highlighted the great weakness and apparent inadequacy of risk management tools used in global financial markets, and proved that these tools are insufficient to assess risks in light of the upward movement of the global economy.
- **The trend of institutions and individuals towards saving and the decline in consumption and investment processes:** (Tsuo, 2009) confirms the trend of institutions and individuals towards saving, and the sharp decline in consumption processes, and in investment processes, especially in the advanced industrial countries (America, Britain, France, Germany, Italy, Canada, and Japan). The losses suffered by many international investment institutions within developed countries have prompted these institutions to withdraw their investments from emerging markets (as well as from the markets of developing countries) in order to respond to the reality of the serious problems they face in the countries of origin of these international investment institutions.
- (Pounder, 2009) indicates that the global financial crisis is fundamentally weakening and declining growth globally, and this fundamentally affects the returns and revenues achieved in markets (emerging and developed markets), and that the global financial crisis has caused a state of decline and slowdown in the global economy. Markowitz (2009) points out that European banking institutions were affected by the global financial crisis due to the high correlation with financial markets in the United States.
- **Increasing unemployment rates:** (Meltzer, 2009) confirms that the global financial crisis has deepened and magnified a deep state of poor working conditions, and has also led to a significant increase in unemployment rates, due to institutions laying off millions of workers and laying them off, due to their bankruptcy, or a significant decline in the size of their business. Unemployment rates were not limited to the labor market in the United States of America, but spread to Europe and to many countries of the world. For example, about 20 million people lost their jobs in China within less than two years of the global financial crisis, due to the significant decline in the business of China's economic sectors (especially the export sector).
- **Substantial decline in stock markets:** (Dowd, 2009) confirms that the global financial crisis caused a fundamental decline in stock markets in developed and developing countries, and the value of this decline rate reached about 50% at the end of 2008, and the value of this decline rate reached more than 60% in the stock markets of some countries (such as China), and the value of this decline rate was about 30% in the stock markets of other countries (especially some rich countries).
- **The Ghost of a Great Depression:** (Uludag-Louis, 2008) believes that the initial loss of financial wealth, and the psychological shock caused by the retreat of a group of leading Wall Street companies, have prompted many analysts and commentators on radio and television stations (as well as in newspapers and magazines) to talk in a terrifying and frightening way about the specter of a Great Depression that will hit the economies of the world.

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- **Harm to individuals within different social classes:** (Sinnakkannu-Nassir, 2008) and (Hawes, 2009) explained that the global financial crisis led to harm to ordinary individuals, noting that this harm occurred in different forms and in multiple patterns. It can be said that in most emerging markets, rich and middle-income individuals are accustomed to buying and owning stocks, and the damage and losses in these stocks have led to substantial negative effects on the income of these individuals, as well as substantial negative effects on their wealth. On the other hand, there are negative substantive effects on poor people who do not own any shares, and these negative substantive effects have affected them indirectly.
- **Negative effects on government revenues:** (Xiong-Liu, 2009) confirms that the crisis caused negative effects on government revenues, and to place significant restrictions on government spending on social services, aid and transfers to the poor sectors.
- **The spread of financial panic and panic:** (Musil, 2009) indicates that, in light of the great interdependence between financial markets, especially in developed countries, financial panic spread very quickly, and this caused institutions to refrain from lending. This global financial crisis looked like a financial hurricane hitting and crushing the world's economies. In light of this, many analysts have issued many warning warnings to all countries of the world to take all preparations to face the serious negative effects that may affect the economies of these countries.
- **The failure of the managers of leading institutions (who receive very high wages) to heed the warnings that warned of the great dangers that hit the economies of the world:** (Shore-Manwani, 2009) confirms that there are some factors that encouraged the managers responsible for financial assets (especially those resulting from the securitization of mortgage loans) not to heed the warnings that portend potential great dangers due to dealing with these financial assets, and the most important of these factors: that the global economy was witnessing encouraging growth, as well as these managers were receiving high financial incentives that made them turn a blind eye to the risks surrounding their business.
- **Decisions to stop lending operations:** (Nan Kuang-Wang, 2008) indicates that, in light of the escalation of the global financial crisis, banking institutions have tended to exert all efforts and direct all capabilities towards supporting and strengthening their capital, and this made them take decisions to stop lending operations, stop many of their investments and use the remaining returns to cover operational costs, and some institutions have tended to start laying off part of their workers.

Fourth: The repercussions of the financial crisis on the economy of developing countries and the Algerian economy.

The economies of developing countries have been affected by the current financial crisis in various ways, and these effects are as follows: ⁽⁷⁾

- 1- The weakness of banking institutions and their low ability to lend to individuals and local institutions, which need these loans to achieve their strategic survival, as with the occurrence of the financial crisis in the United States, the greatest fear that has spread throughout the world is the fear and horror of the rapid transmission of infection and the effects of this crisis, and the institutions have acted on this basis, and this was a source of great danger that brings great negative effects on financial institutions in developing countries.
- 2- Decline in revenues from exports: If it is assumed that developing countries have been able to avoid the harm and material negative effects of the global financial crisis, and have been able to spare their financial systems from the material negative effects of the financial crisis, the bitter fact that advanced economies have entered a recession cannot be overlooked. (Takeuchi-Nakamichi, 2008) indicates that this recession affects developing economies and brings them harm and harm, and the level of harm and harm to developing economies depends on multiple factors, the most important of which is the degree of

correlation between developing economies and advanced economies. It is known that developing countries have established a large part of their economies based on exports, and the decline in revenues from these exports clearly affects these economies, and the economic growth rates in developing countries are affected by the revenues of their exports. The International Monetary Fund has projected that the growth rate in world trade will decline from 7.4% in 2006 to 2.1% in late 2009. The most important sources of this decline are:

- The **decline in the prices of goods:** The decline in the prices of goods is causing substantial damage to the export revenues of a large number of countries that are major exporters of goods, and the World Bank has predicted that the prices of some exported goods will decline by about 19% in 2009 (this estimate does not include oil and energy products).
 - The **decline in the demand of developed countries for many goods:** The effects of the global financial crisis are not limited to the economies of developing countries, but the recession that is worsening in the countries of the Group of Eight (the United States, Russia, Britain, France, Germany, Italy, Canada and Japan) has extended its effects on these countries and others and led to a decline in demand for their exports, that is, it was not limited to the decline in exports of developing countries to the markets of these industrialized countries.
 - **Decline in tourism demand:** Another important source of hard currency revenues in developing countries is tourism. Since September 2008, the number of travelers (especially via airlines) has declined sharply globally. Although an important part of this decline is due to a decrease in business travel, it includes a clear decrease in the level of tourist demand, and individuals have reduced their spending on luxury and recreational goods, as well as the demand for mortgage loans for the purposes of obtaining second homes (homes) in other countries (other than their own) to spend vacations in these homes, in addition to the difficulty of obtaining this type of loans.
- 3- The decline and decline in cash flows to developing countries: To accelerate economic growth in developing countries and stimulate trade, these countries rely on financial flows from developed countries, and these flows take the following forms:
- Official Development Assistance (ODF).
 - Investment flows (in the form of investment portfolios or in the form of foreign direct investment).
 - Trade Credits.
 - Remittances from abroad.

All of the aforementioned elements have shrunk substantially in light of the current global financial crisis, and have led to negative repercussions on the economies of developing countries. There was a decline in the financial resources of developing countries in late 2008, reaching about \$300 billion, and there are other estimates that this amount has reached about \$400 billion.

The impact of the current financial crisis on the economies of Arab countries:

The Arab stock markets have remained untouched by what is happening in global markets, due to the fact that the majority of parties dealing in these markets are individuals with little presence on the global scene. Investors from international banks and institutions who invested in bonds covered by real estate assets were directly affected by the current financial crisis and suffered significant losses.

The fluctuations in global financial markets will have some impact on Arab stock exchanges, especially stock markets that allow global portfolios to invest in them. In a period of crisis, the investor tends to reduce his risk ratio, and shifts from emerging markets to more liquid and safer investments such as government bonds.

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It is noted that the largest stock market in the Arab countries in terms of market capitalization is the Saudi stock market, which allows foreigners to own shares only indirectly through investment funds managed by local banks, while the markets of the UAE, Kuwait, Qatar, Egypt and Jordan are witnessing an increasing volume of foreign investments in their stock exchanges.

But economists point out that the US government is aware that European and Western institutions in general cannot or do not want to risk injecting more money to stop even temporarily the deterioration of the US economic situation, so the US administration is focusing on forcing the Arab Gulf countries to risk their money. A senior banking official revealed to Al Eqtisadiyah that Gulf financial, banking, and investment institutions may have responded to the purchase of \$1,000 billion of US mortgage risk assets for Fannie Mae and Freddie Mac, which total more than \$5,000 billion in housing loans, although at the beginning of the current century the Arab Gulf countries lost more than \$620 billion of their investments and financial investments that they sought to help the American economy, but the rescue calls did not stop and all the lost Arab money only served to gain months for the ailing American economy. Throwing more Arab money into American bankruptcy will only serve to delay the fall for a short time.^{/8}

- The impact of the current financial crisis on the Algerian economy:

Algeria, in its strategy for growth, has made great efforts throughout the previous decade, in order to attract foreign investment. However, with the emergence of the global financial crisis, and the confinement of capital, most investors froze their activity abroad, and thus most joint ventures stopped.

As for the modernization of the Algerian public banks, they have developed schemes for the partial privatization of their capital, such as in the case of the Algerian People's Loan, and the Local Development Bank, these operations have been repeatedly postponed for internal regulatory reasons, related to the banks themselves and then finally suspended, without specifying the dates for the continuation of the privatization process. This suspension and suspension, even if for purely internal reasons, has spared the Algerian banks the direct effects of the current crisis.

On the other hand, the bulk of development revenues in Algeria come from the hydrocarbon sector, and with the sharp decline in oil prices, development plans will falter in the medium and long term, especially if the crisis is prolonged.

Conclusion:

The biggest risk that may result from the current financial crisis is the possibility of a global economic slowdown. The recent decline in the prices of residential real estate in America and other assets, accompanied by additional pressures on the lending process, will have a negative impact on the already heavily indebted American consumer, which may later lead to a crisis in the credit card lending sector and a rise in corporate default rates. These are all signs of an economic slowdown that may be prolonged or shortened depending on US fiscal and monetary policy. Those in charge of monetary policy in the countries of the region will feel compelled to follow the expansionary monetary policy that the United States has recently begun to follow, and this will lead to a decrease in local interest rates and exchange rates of Arab currencies linked to the dollar and will increase the inflationary pressures that are beginning to appear in a number of countries in the region. Therefore, to face the current financial crisis, it is necessary to focus on the following: ⁽⁹⁾

- Improve and develop the effectiveness of financial and non-financial control over financial institutions, and that this is implemented through independent international supervisory bodies that work with full transparency and have accountability powers for financial institutions.
- Introduce real reforms in the mechanisms of work followed and adopted in the institutions of the World Bank and the International Monetary Fund, and that these reforms ensure the

prevention of the hegemony and control of any state or group of states over these international institutions.

- Develop programs that ensure effective and efficient liquidity management globally.
- Work to restore confidence in the markets, because lack of confidence is fundamentally involved in deepening the severity of the global financial crisis.
- The limited and deliberate intervention of central banks and governments in the market in order to rescue, not to allow the crisis to continue to deepen and consolidate, and in order to ensure the provision of sufficient liquidity to banking devices globally as a whole.
- Reassessing the international monetary system currently adopted, and building a new international monetary system that guarantees each country the political and economic freedoms that allow it to choose to link its currency to a basket of currencies whose composition is universally agreed upon. This requires reconsidering the dependence on the US dollar as it currently prevails.

Margins

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(2) Youssef Abu Farra, "**Features and Causes of the 2008 Global Financial Crisis and its Implications for Developing Countries** ", (Research Paper, Fourth International Forum on the Current Global Financial Crisis and its Implications for the Economies of the Countries of the Middle East and North Africa Region, University of Algiers, 08/09 December 2009), p. 03.

(3) Hazem Al-Beblawi, " **The Current Global Financial Crisis: An Attempt to Understand,**" www.iid-alraid.com, pp. 19-21.

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⁴ Ibid., pp. 07-08.

(5) - Youssef Abu Farra, op. Cit., Pp. 08-12.

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⁶ Ibid ., pp. 03-07.

⁷ Ibid., pp. 13-18.

(8) Al-Dawi Al-Sheikh, op. Cit., Pp. 14-15.

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(9) Youssef Abu Farra, op. Cit., P. 19.

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