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# THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON ALGERIAN ECONOMY

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## Abstract

*The Global Economic Crisis and 2008 financial crisis, is considered by many economists the worst financial crisis since the Great Depression of the 1930s , The financial crisis, brewing for a while, really started to show its effects in the middle of 2007 and into 2008. It is a situation where macro indicator like economic growth rate fall in most countries across the world. “Although economists largely failed to predict this global economic seismic shock, they have since made up for their oversight by generating a large and growing literature explaining the crisis.”*

*In this discussion paper explores what happened and what issues arise from the Global Financial Crisis on the global economy and the Algerian economic in particular.*

## Introduction:

The Global Economic Crisis and 2008 financial crisis, is considered by many economists the worst financial crisis since the Great Depression of the 1930s. The financial crisis, brewing for a while, really started to show its effects in the middle of 2007 and into 2008. In all major regions of the world, the economic recession is deep-seated, stock markets have fallen, large financial institutions have collapsed or been bought out, and governments in even the wealthiest nations have had to come up with rescue packages to bail out their financial systems. The meltdown of financial markets in 2008-2009 was the result of institutionalized fraud and financial manipulation.

With the worldwide deterioration of living standards and plummeting consumer spending, the entire structure of international commodity trade is potentially in jeopardy. The payments system of money transactions is in disarray. Following the collapse of employment, the payment of wages is disrupted. On the one hand many people are concerned that those responsible for the financial problems are the ones being bailed out, while on the other hand, a global financial meltdown will affect the livelihoods of almost everyone in an increasingly inter-connected world. The problem could have been avoided, if ideologues supporting the current economics models weren't so vocal, influential and inconsiderate of others' viewpoints and concerns.

To this end, we are going through this paper to define and determine the pivotal causes of the crises; distinguishing the impact of the financial crisis on international economics, in particular the Algerian economic. But before we diagnose the current financial crisis in details, let us present the previous crises that preceded this one.

### 1- The previous crisis:

In the last century, the world witnessed a group of financial crises in different countries; the important crises are states below as follows:

- **The Great depression 1929:** The deepest and sharpest economic downturn, the Great Depression began soon after the stock market crash of October 1929, which sent Wall Street into a panic and wiped out millions of investors. During the next three years stock prices in the United States continued to fall, until by late 1932 they had dropped to only about 20 percent of their value in 1929, over this year consumer spending and investment dropped, causing steep declines in industrial output and rising levels of unemployment as failing companies laid off workers.
- **The Banking Crisis Of The 1980s :** during most of the 1980s, the performance of the national economy, as measured by broad economic aggregates, seemed favorable for

banking (Hanc, 1998). After the 1980-82 recession the national economy continued to grow, the rate of inflation slowed, and unemployment and interest rates declined, nearly 100 banks were declined each year.

- **Latin American debt crisis 1980s:** the crisis of the foreign indebtedness in Brazil, Argentina and Mexico a major international debt crisis because several less developing countries in Latin America such as Brazil, Argentina and Mexico borrowed heavily during the 1970s to fund industrialization and in the early 1980s interest rates increased in the West. The National income of these countries was insufficient to meet interest repayments and its fell in the default of payment and lost its ability to repay its foreign debts because its incomes were not enough to cover its debts.
- **The crisis of Black Monday, 17<sup>th</sup> October 1987:** was the largest one-day percentage decline in the Dow Jones. (Colombo, 2012)
- **Loans and savings crisis 1989-1991 :** In the U.S a sharp down turn in housing activity and a deep economic recession, 747 lending and saving companies failed to meet its liabilities (wiki.mises.org). However, and usual, the state interfered to solve the crises and bore more than 124.6 \$ billion from 160.1\$ billion ( the global cost of the crises).
- **Japanese asset price bubble :** during the 1990's was an economic bubble in Japan from 1986 to 1990, in which real estate and stock prices greatly inflated as a reaction to this crises, the central bank in Japan lowered the interest rate to naught(0%). (Shiratsuka, 2003)
- **Asian Contagion:** a financial crisis in 1997, it was a series of currency devaluations and other events that spread through many Asian markets beginning in the summer of 1997. This one was stemmed somewhat by financial intervention from the International Monetary Fund and the World Bank.
- **The Argentinean economic crisis (1999-2002):** The local currency declined because the Argentinean government lost the confidence of investors and more capital flew away from the country, the government was unable to pay the value of bonds. This was accompanied by a downfall of the financial sector and an unprecedented and inflation rate.
- **The crisis of high tech bubble:** the economy expanded thanks to the internet and the high tech boom as investors made money on this new technology, which led others to float the stock of new companies that promised to do the same.
- **Financial crisis 2008 causes :** The subprime mortgage crisis is an ongoing financial crisis characterized by contracted liquidity in global credits markets and banking

system triggered by the failure of mortgage companies, investment firms and government sponsored enterprises which had invested heavily in subprime mortgage (Jickling, 2010). It is commonly believed to have begun in July 2007 with the credit crunch, when a loss of confidence by US investors in the value of sub-prime mortgages caused a liquidity crisis. This, in turn, resulted in the US Federal Bank injecting a large amount of capital into financial markets (cashmoneylife.com). By September 2008, the crisis had worsened as stock markets around the globe crashed and became highly volatile. Consumer confidence hit rock bottom as everyone tightened their belts in fear of what could lie ahead.

The collapse of Lehman Brothers on September 14, 2008 marked the beginning of a new phase in the global financial crisis (American essays, 2012). Governments around the world struggled to rescue giant financial institutions as the fallout from the housing and stock market collapse worsened. Many financial institutions continued to face serious liquidity issues.

In general, credit rating agencies and the enormous lack of regulation of investment bank practices led to the creation of a veil that seemingly produced endless profit at very low costs but which was really enormously damaging to the economy in the long term. **Figure N°1**

The greed of the CEOs and managing directors of such banks and companies inhibited financial regulators from taking action and especially the financial lobbyists who often support presidential campaigns have a lot of influence in the U.S. congress and can readily oppose any propositions for financial regulation. **Figure N°2.**

## **2- Impact of the current Financial Crisis on World Economy:**

The global financial crisis is an outcome of deep economic recession which slowdown activity (Shirai, 2009). The whole world is now in the grip of this financial crisis which is far more serious than any experiences over the last four decades. In spite of billions of dollars of bailout and liquidity injections by a number of industrial countries the crisis is showing no signs of abating. This global financial situation was triggered by the advent of the subprime mortgage crisis in the United States that became apparent from the mid-2007s. Europe was the next affected, thereafter its contagion spread to the rest of the world. European stock indices such as UK's FTSE, German's Dax and France's CACHave tumbled as much as the Indian bourses. Hong Kong's Hang Seng also witnessed a sharp fall of 14.5 per cent in the year so far. Major markets were pummeled, led by banks and mining companies, as concern that the US will fall into a

recession caused major panic among global investors. Even emerging markets Brazil, South Korea, Mexico and Russia, have witnessed a fall in the range of 10-13 per cent this year.

The global financial crisis slows down the global economy which was unprecedented in scale and has clearly spilled over the real world. Also has a severe implication on economic growth rates in most countries across the world. **Table N° 1** (*Economic Intelligence Unit, 2008, <http://www.eiu.com>*).

The table below shows the variations of economic growth rates in some countries which were affected by the current crisis from 2005 to 2010 to compare economic growth rates before during and after the crisis.

## **3- Impact of the current Financial Crisis on Algerian Economy:**

There is no doubt that the Algerian economy, an oil producing economy with an annual growth rate of 3.2%, like other global economies was affected by the global economic crisis. But the implication of this crisis was less compared to other countries because of the following reasons: (Turkish, 2009)

- a- The absence of an effective financial market in Algeria.
- b- The lack of banking links between Algerian banks and international banks a way that affects each other's.
- c- The Algerian economy is characterized by a lack of openness in relative to the global economy, and its production does depend in exports only on hydrocarbons and that's what makes Algeria safe from any recession that might affect the global economy and a lot of countries that rely on its exports may be affected by the recession in countries that are consumer of its products.
- d- The Algerian budget in 2009 has been benchmarked against the \$37.0 per barrel oil earnings.

The banking sector and capital market are the first major victims of the current crisis. This is so for the margin lending operations in the financial industry. But on the Algerian banking sector as it was presented in economic reports that Algerian banking sector is safe from its consequences because of non-correlation of Algerian banks with banks over the world (Benziddane, 2009). Despite the losses recorded in the assets of the major banks, estimated by the bank for international settlements with 650 billion dollars and more than 1,400 billion dollars, according to the International Monetary Fund (Touitou, AbulQuasem and Gazi, 2014). And as a result of the good management of the Algerian foreign exchange reserves with the absence of any investment in assets with risks, and avoidance of losses in capital and asset portfolio, all this

contributed to the achievement of cost-effectiveness ratio estimated at 4.6 % in 2007, parallel with the reduction in the foreign debts volume which reached at the end of November 2008 3.9 billion dollars. **Table N°2** (La Banque d'Algérie, 2009).

#### Conclusion:

The global financial crisis that hit the global economy. As the economies of North America, Europe, and East Asia slowed or dropped into recession, the concomitant drops in commodity prices, international trade flows, and remittances along with tightening credit, and depreciating caused similar contraction in growth in developing and emerging market countries. The global financial crisis has also some major impacts on the Algerian economy, but the repercussions on the Algerian economy were not the same effect is remarkable. Only official local reports or foreign reports indicate that the Algerian economy has achieved positive results economically and financially in the context of a serious international crisis of 2008 and 2009.

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*Appendices***Table No1.**  
***World Economic Growth ( Real GDP growth in per cent) , 2005-2010***

	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>
<i>United States</i>	2.9	2.8	2.0	1.1	-2.0	0.7
<i>Japan</i>	1.9	2.4	2.1	0.3	-0.5	0.7
<i>Euro area</i>	2.0	2.9	2.6	1.1	-1.2	0.5
<i>Bahrain</i>	7.5	4.3	3.4	6.4	-1.6	-1.0
<i>Kuwait</i>	39.4	29.1	42.4	31.5	4.0	5.6
<i>Qatar</i>	9.2	9.7	8.0	10.9	2.3	3.6
<i>SaudiArabia</i>	18.4	21.0	12.3	11.6	-2.8	-3.1
<i>United ArabEmirates</i>	8.1	11.6	14.2	13.8	1.7	1.1
<i>Oman</i>	2.0	3.7	3.0	6.1	3.4	5.0
<i>Tunisia</i>	4.0	5.7	6.3	4.5	3.1	3.1
<i>Morocco</i>	2.8	7.8	2.7	5.6	4.9	3.6
<i>Mauritania</i>	5.4	11.4	1.0	3.5	-1.2	5.1

The current financial and economic crisis has affected the drivers of different economic growth in the countries across the world .The global financial crisis that started to show its effects in the middle of 2007, and running into 2008, led to the fall of stock markets, and the collapse and eventual demise of large financial institutions in the United States, Europe and other countries.

In the United Sate the real GDP growth changed from 2, 8% in 2006 to 2.0% in 2007 and only 1, 1% in 2008 .while in 2009 was -2, 9 %. The same thing happened in most countries with various rates.

The consequences and effects of the economic crisis have varied from one country to another and from one region to another, depending on a whole range of factors, including financial capabilities and demography. For instance, in the Arab world, these negative effects, along with other factors, have played a major role in the political events that have swept the region since 2010.

**Table N° 2**  
**Economic growth and growth outside hydrocarbons in Algeria (2000-2007)**

	<i>The growth rate in the crude product out of hydrocarbons</i>	<i>The growth rate in the crude product</i>
<i>Unit</i>	<i>%</i>	<i>%</i>
<b>2000</b>	1.2	<b>2.2</b>
<b>2001</b>	4.6	<b>2.1</b>
<b>2002</b>	5.4	<b>4.9</b>
<b>2003</b>	6.0	<b>6.9</b>
<b>2004</b>	6.2	<b>5.2</b>
<b>2005</b>	4.7	<b>5.1</b>
<b>2006</b>	5.6	<b>2.0</b>
<b>2007</b>	<b>6.3</b>	<b>3.0</b>

Algeria has been able to achieve good economic growth rates outside the hydrocarbon sector on account of the policy of economic reforms and spending on infrastructure to be known as the policy of economic recovery as well as to attract foreign investment.

**Table N°3**  
**Algerian Economic Growth after the global financial crisis**

<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>3,0%</b>	2,4%	2,4%	3,3%	2,5 %	3,1%

The Algerian economy still strongly growing during this global financial crisis, but it has future impacts on Algerian economy and financial system on two possible ways because Algerian financial system is not in real integration within the international one, so when the crisis happens, the shock does not make any earthquake to Algerian economy.

**Figure No1. The Financial crisis in one graph**

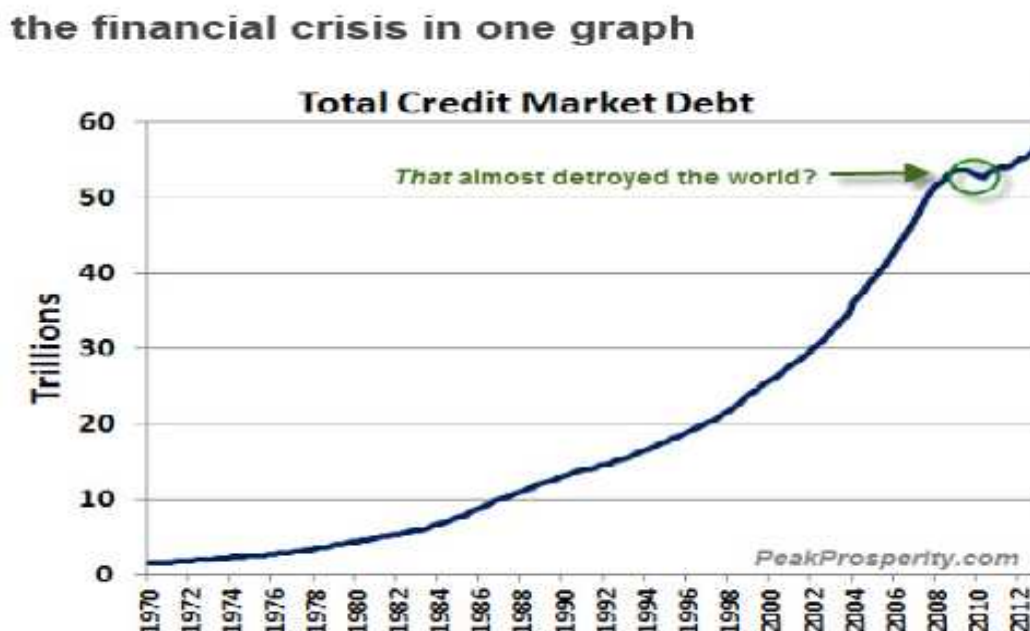


Figure N°2: Subprime Mortgage Originations

### Subprime Mortgage Originations

*In 2006, \$600 billion of subprime loans were originated, most of which were securitized. That year, subprime lending accounted for 23.5% of all mortgage originations.*

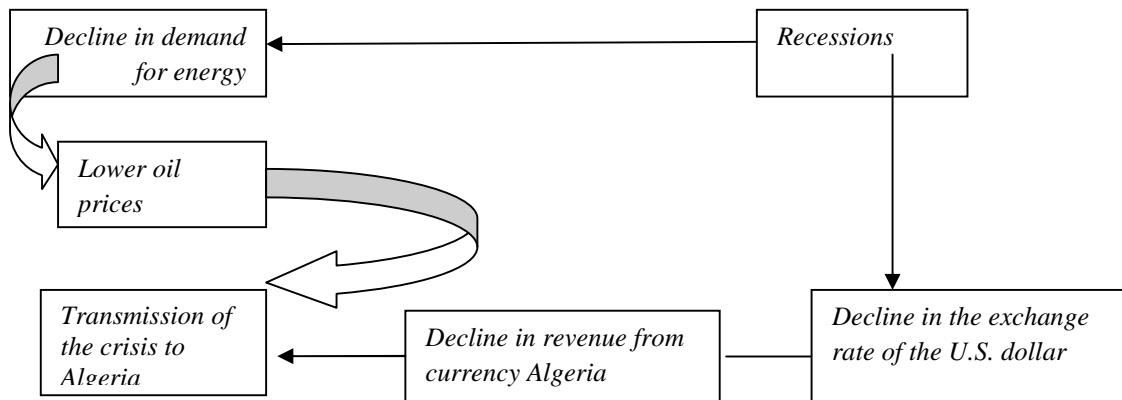
IN BILLIONS OF DOLLARS



NOTE: Percent securitized is defined as subprime securities issued divided by originations in a given year. In 2007, securities issued exceeded originations.

SOURCE: Inside Mortgage Finance

*Scheme shows the impact of global financial crisis on the Algerian economy:*



The World Bank (WB) in its latest report indicates that Algeria "stands in fair stead to weather financial spillovers from the global crisis." The same positive acknowledgement has been recently presented by the International Monetary Funds (IMF) on Algeria's macro-economic and financial trends. In its new report on Global Economic Prospects for 2009, in which it examines the impact of financial crisis on Gross Domestic Product (GDP) growth, the WB pointed out the significant increase in Algeria's growth rate in 2008 compared with the previous year. In this respect, the report said that as regards Maghreb countries, "Algeria experienced a fillip to growth in 2008, to 4.9 percent from 3.1 in 2007."

