

## Topic 09: The 2008 Global Financial Crisis

### The Essence of the Crisis:

The crisis originated from a serious disconnect between the financial economy (banking and financial markets) and the real economy (actual productive sectors). Banks excessively expanded the issuance and trading of complex financial assets (derivatives) independently of the real economic base, creating a fragile financial bubble.

### I. Causes and Genesis of the Crisis

The crisis began as the "U.S. Subprime Mortgage Crisis" and evolved into a global financial crisis. Its main causes were:

**1. Irresponsible Expansion of Mortgage Lending:** U.S. banks granted mortgages (especially high-risk "subprime" loans) to borrowers with weak creditworthiness and without sufficient guarantees.

**2. Securitization and Financial Derivatives:** Banks packaged these high-risk loans into complex securities (bonds) and sold them to investors worldwide (securitization). These mortgage portfolios were then used as collateral to issue new debts and financial derivatives (financial derivatives), creating a fragile pyramid of interconnected and multiplied debt.

**3. Rising Interest Rates:** Interest rate hikes led to:

A decline in real estate prices.

Borrowers' inability to repay their loans.

An increase in foreclosures (banks seizing properties).

**4. Collapse of Confidence and Liquidity:** As loan defaults increased, the value of securitized mortgage bonds plummeted, causing:

- Massive losses for banks and global financial institutions that had invested in them.
- A freeze in interbank trust and a disappearance of cash liquidity from markets.

**5. Global Contagion:** The financial contagion spread from the U.S. to Europe, Asia, and then to most of the world, transforming from a local housing crisis into a global financial and banking crisis.

### II. Developments and Impacts of the Crisis

- **Timeline:** It began with indicators in 2007 (bankruptcies of specialized institutions) and escalated in 2008 to threaten the global financial system with the collapse of giants like Lehman Brothers (September 15, 2008) and the threat to AIG, prompting unprecedented government interventions (bailout plans, nationalizations, liquidity injections).
- **Impacts on the Global Economy:**
  - Collapse of major financial institutions (banks, insurance companies, mortgage firms).
  - Global stock market crashes and massive wealth destruction.
  - Spread of the crisis to the real economy: recession, declining growth, rising unemployment, reduced consumption and investment (especially in industries like automobiles).

- Impact on European countries, with major economies (Germany, Italy) entering recession and declining real estate prices.
- Impact on Asian countries (China, Japan, India) through declining exports and industrial production.
- **Impacts on Algeria (relatively limited):**
  - Protective Factors: Absence of a real financial market, limited connections of Algerian banks abroad, reliance of the economy on hydrocarbons.
  - Indirect Effects: Falling oil prices (a threat to the budget), falling import prices (positive in the short term), decline in financial remittances and potential foreign investments.

### III. Policies Adopted to Confront the Crisis

Governments and central banks took exceptional and rapid measures to save the financial system, including:

- 1. Massive Financial Bailout Plans:** Such as the U.S. \$700 billion plan to purchase troubled assets from banks.
- 2. Nationalization and Direct Bailouts:** Nationalizing or bailing out institutions deemed "too big to fail" like Fannie Mae, Freddie Mac, and AIG.
- 3. Massive Liquidity Injections:** Coordinated global central banks (U.S., Europe, Japan) injected hundreds of billions of dollars into markets to provide liquidity to the banking system.
- 4. Interest Rate Cuts:** Central banks worldwide cut their key interest rates to record lows to stimulate borrowing and spending.
- 5. Other Emergency Measures:** Creating joint liquidity funds among banks, and restricting some speculative activities.

#### Conclusion:

The 2008 Global Financial Crisis was a revealing shock to the fragility of the global financial system when it detaches from the real economy and expands into complex, high-risk financial products without adequate oversight. The crisis forced governments into unprecedented interventions to save the system and left profound impacts on global growth, unemployment, and market confidence for years to come.