Financial crisis and causes of it

Introduction

The financial crisis of 2008 and 2009 were strong blows to the US economy, and it’s necessary to go back and know what was the real causes behind it, some people said that private-sector greed, the financial crisis were the direct sources of the crisis, but actually it was a misguided monetary and the important causes the financial crisis were the housing policies.

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The Department of development of Urban and Housing 2, and The Administration of Federal Housing decreasing 3.

However, 4, the leaders of the congress strongly refused to stop the distortions that the government’s implicit created to guarantee that the firms would be disallowed to fail, that was the engine to their expansion. 5

The credit that supported these risky mortgages was provided by the less expansive money policy of the Federal Reserve. After the 2001 recession, Fed chairman Alan Greenspan decreased the federal funds rate from 6. 25 to 1. 75 %. And it was effectively reduced in 2002 and 2003, until reaching a record low of 1 %in mid 2003 and it stayed for a year. This generated a big demand and created excess of liquidity.

So, the causes of the financial problems were exceptional monetary policy moves, prudent regulations, and wrong federal housing policies. These bad chosen policies affected directly the interest rates and asset prices, converted loanable funds into the worse investments.

The housing and the department of development of Urban the budget and costs taxpayers is more than $50 billion on a yearly basis, the economic damage that caused by bad advised federal housing policies has cost the economy of U. S more than that, and for this, Housing and development of Urban housing finance subsidies should be cancelled and should (Fannie Mae and Freddie Mac) be privatized of government guarantees. Without interventionist approach to housing policy, this would led to markets would work more efficiently and federal taxpayers would save more money to benefit everybody except those looking for subsidies at taxpayer expenses.

The origins of the financial crisis

The real causes of the financial troubles were unexpected monetary policy moves and federal regulatory interventions. These bad chosen public policies change in interest rates and asset prices, converted loanable funds into the worse investments, and put financial institutions into unsustainable positions.

Let’s review and see how the financial crisis happened. The first problem showed in flexible and strange home mortgage lending. Some creative lenders had expended the size of unconventional mortgage with high risks which are the junk bonds equivalent to the housing markets. Unconventional mortgages helped to run-up in condo and house prices. House prices turned downward. Borrowers with low income began to default in their debts. These borrowers had counted on being able borrow under a higher value of house in the future to meet their mortgage payments in each month, or on being able to flip their property at a price more than repay mortgage.

For the financial industry. The mortgages that have high risk came back and bite mortgage holders. And firms that are holding mortgages saw a reduction in cash flows, And Firms holding securitized mortgage bundles saw the future expectation of continuing the reductions in cash flows reflected in declining market values for their securities.

Doubts in the value of mortgage-backed securities led to doubts about the solvency of institutions that were invested in those securities. Financial institutions that had stocked junk-mortgage-backed securities found their stock prices falling, and the worst cases, the investments banks, and the sponsored of government to mortgage purchasers (Fannie Mae and Freddie Mac), went broke to find a last purchaser to avoid bankruptcy.

The Moroccan economic system

Moroccan economy operates in a relatively stable rate of growth. She has recorded over the last ten years the average growth rate of 3%. Indeed, in 2001 and cons in the context of agricultural sector performance, the sluggish world economy, the Moroccan economy achieved a growth rate estimated at 6. 5% against 1% in 2000, 3. 2% in 2002 and 5. 5% in 2003.

The financial balances are gradually restored. 12% of gross domestic product (GDP) in 1982, the budget deficit was reduced to 2. 7 in 2001 and 3. 5% in 2003.

Inflation is under control: from 6. 1% in 1995, rising prices have been reduced to below 3%. In 2000, it has been contained to 2. 5%, 1. 4% in 2001 to 2. 1% in 2002 to 1. 2 in 2003.

The recovery in investment is also very clear in the balance sheet of 2003. This recovery has increased by 8% compared to 2002. The launch of major projects in the construction industry and public works largely explains the upturn in investment.

Another sign of macroeconomic consolidation, the level of national savings which is around 26% of GDP, due mainly to increases in transfers of Moroccans living abroad (4. 7%) to maintain a high level of investments in foreign assets abroad and lower expenses and interest on external public debt.

Thus the Moroccan economy has a sound macroeconomic framework may constitute an effective lever for the achievement of sustainable growth, reduction of unemployment and poverty reduction.

Today Morocco is part of the category of emerging countries, as well as India or Turkey.

Morocco has a liberal market economy governed by the law of supply and demand (although today some economic sectors are still in government hands).

The country's economic system has several facets. It is characterized by great openness to the outside, as such we can cite the various free trade agreements that Morocco has ratified with its principal economic partners:

* The free trade agreement with the European Union with the aim of integrating (FTA) European Free Trade Area by 2012.

*< The Agadir agreement signed with Egypt, Jordan, and Tunisia, as part of the establishment of the Arab Free Trade Zone.> 6

*< The free trade agreement with the UAE.> 7

*< The free trade agreement with Turkey> 8

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Morocco is among one of the few Arab countries, as well as Lebanon and Palestine, does not possess oil and gas resources. After independence, the leaders have decided to exploit the immediate opportunities afforded by the country.

The effects of the crisis on the moroccan economic

The current crisis have surpris the worldwide governments. Despite the economic plans to stimulus and the massive capital injections designed to support the financial systems, the confidence of the economic players is still and uncertainty spreads in the climate of the global economy.

Also the crisis still stands out given the share of overarching, the question here is what will be the world like after this crisis. at the international level The crisis have led to concerted action in a try to review financial system regulations, but, this process of consultation hasn’t prevented countries from adopting repositioning strategies and new global negotiation, in terms of international relations it will have substantial implications as well as in terms of redrawing the world economic and industrial map.

The deceleration of the activity of the secondary industries and tertiary sector in 2008 is likely to be prolonged in 2009. But this deceleration will be compensated by the primary sector which will take again its activity to record a rate of variation of 15% instead of 10% this year. " The effects of the crisis are limited for Morocco. But it should not be forgotten that there is a shift of business cycle. The year 2009 will be decisive for the Moroccan economy", specified Nezha Lahrichi, chairman of Smaex, at a meeting of the Economic commission and financial, with the seat of the French Room of trade and industry of Morocco (CFCIM). Certain activities go indeed, to record breathlessness. If the financial system were up to that point immunized, a phase of doubt awaits it in 2009. Bound to 40% with the activities of the building, he will know a fall from 20 to 30%. For 2009, the operators of the building revise their forecast with the fall (up to 20%). " Our customers will be affected, which will be reflected on our activities. One expects a first much tended six-month period 2009, underlined a banker. According to the forecasts of the center of economic conjuncture (CMC), the elasticity of the production compared to the external request (exports of goods and services) is around 0. 3, while compared to the inner demand, it is about 0. 6. " On the basis of these parameters structural and foreseeable tendencies of the main components of the total request, the incidence of the crisis will be translated compared to the tendency of reference varying between 1, 5 to 2 points", explained Mohammed Tahraoui of the CMC. Indicators of the economic situation relating to the period covering the first ten months of year 2008 being registered for the majority in this tendency. In the same way, a rise of the trade deficit will be recorded for the trade of the goods. It will reach 126 billion DH, that is to say 35% of more than in 2007 (80 billion for the goods and services) with a deposit rate in fall (73%). Nevertheless these negative effects will be counterbalanced by strength of the inner demand, which will remain the main motor of growth. Another positive factor, the fall of the course of oil. Without forgetting the deceleration of the imports under mode of the temporary admission.

On medium term, the crisis should not produce effect really devastator on the nation's economy. A resumption of the world growth due to the oil counterblow is awaited in 9 to 18 months. What should " make set out again the markets after a strong volatility". With that the large waves of delocalization are added which the companies in the countries developed following the crisis know. " Of the externalizations which suppose even more IDE towards the emergent countries, in particular towards Morocco which has a advanced statute with Europe"

The moroccan financial system

The Moroccan financial system has been thoroughly reformed since the early 90s, around multiple axes including the deregulation of capital markets by transforming the relationships between different components of the financial system, liberalization of financial transactions and regulatory reform of banks and financial market.

Thus were introduced under the Banking Act 1993 and the attached documents, the elimination of credit, the elimination progressive employment requirements, liberalization of interest rates receivable in 1996 and that same year, the launch of a foreign exchange market interbank. In 2000, a new accounting plan for credit institutions was adopted. This liberalization of the banking was conducted in a prudential framework strengthened (in particular classification of bad loans to be provisioned) that the banking system able to integrate globally, with the exception of former financial institutions specialized. The financial market, meanwhile, after its modernization by battery of measures in 1993, was in 2004, an update of its infrastructure and operating rules and a strengthening of powers of the market authority. In 2006, the enactment of new law bank provides two basic elements that are a part of New prudential rules under Basel II which are more qualitative and specific and require the use of new profiles for human resources and sophisticated technical means and on the other hand, the autonomy of the central bank, the only institution responsible for ensuring the regulation and supervision of the banking system and to conduct policy money.

For the most part, these reforms have either reached their goals or meet all the conditions to achieve the desired results, and point of view Morocco currently has the institutional financial system as structured on the southern shore of the Mediterranean and certainly the most efficient, that displays real rate of return very attractive, the best after those observed in South Africa. However, few institutions or companies financial claim can be large enough to compete with biggest banks in South Africa or even Egypt. The search critical mass through a process of concentration and raises the question of terms and forms of the concentration. The problem of integrating market structures inevitable for the survival of the market is about him and currently not yet arisen.

Recent years have seen an improvement of interesting functioning of competitive mechanisms in the banking system and an early concentration which is not always reflected a sharpening of competition. The concentration observed in the Moroccan banking system remains smaller compared to that observed in most developed countries. In France, for example, 10% of credit institutions concentrate nearly 90% of banking while in Morocco almost 20% credit institutions focus only about 64% of the activity bank in 2004, and no Moroccan bank, with the possible exception being the Attijariwafa Bank Group, has reached a critical size of the first Algerian and Egyptian banks in the Arab world and South African banks Africa as shown by the following indicators:

•The total balance sheet of the first bank of Morocco (Attijariwafa Bank) is lower than the first three Egyptian banks (National Bank of Egypt, Banque Misr and Banque du Caire);

• The Total balance sheet of the first South African bank (Amalgamated Banks of Africa Saouth ltd) is more than 4 times the first Moroccan bank;

• The total balance sheet of the first Moroccan bank (Attijariwafa Bank) represents a third of the second South African bank (First National Bank Holding Ltd.).

Also, improved conditions of competition would lead to a fairly significant reduction in the number of establishments banking and thereby increase the critical size of Moroccan banks.

Conclusion

The financial crisis of 2008 is directly affecting millions of Americans and is one of the famous topics in presidential campaigns, and we have seen that the main causes of this financial crisis were the housing policies, The federal government was encouraged the investments in risky mortgages to under qualified borrowers, where was of exchanging money buy mortgages, these mortgages goes to lenders through brokers who takes a good commission, and lenders connect with investment bankers to sell those mortgages, the investment bankers borrows money to buy the mortgages, and then investment bankers thinks to sell the mortgages and put them all in one basket and call it CDO < collateralized debt obligation> 10 and divide it into three slices (safety, okay, risky) with a different interest rate, the risky one has high interest rate, the okay in the middle, and safety has less interest, in addition the investment bankers insures the safety slice and paying for it a small fee, after they started selling the slices, at the end they all made a big profits.

The investors started asking for more slices, the investment bankers started asking lenders for mortgages, and lenders went to see with brokers who couldn’t find mortgages, and then, they came up with an idea, if a home owner defaults the lenders takes the house knowing that housing prices keep increasing and they can start adding risk to new mortgages not requiring down payment, no proof of income, no documents at all, and that’s exactly what they did, so instead of lending to responsible home owners , call prime mortgage to less responsible home owners this call sub-prime mortgage, and again the circular of home owners with brokers, then lenders with investment bankers, and the investments bankers put again the mortgages in a basket and sell them to investors and makes all of them rich, no one was worry because as soon as they sold the mortgage to the next one it was his problem if the home owners wants to default he did not care he was selling off their risks to the next one and making millions, but in a time a home owners default on their mortgages which in the hand of the investment banker, this means that one of his monthly payments will turn into house, for him it's not a big, he will put it off to sell and that's it, but as more of his monthly payments turns into houses will makes him put many houses for sell, and in the law of demand and supply, more supply create a decrease in price, then the housing prices stop rising, in fact they went down, this created a problem for home owners who still paying their mortgages, if all their neighborhoods houses goes up for sell, the value of all of their houses will goes down, then they will end up by paying mortgages of much more than the value of their houses, they started defaults, now the investment bankers keep holding a worthless houses, and no one became able to sell, because they got too in a trouble until they went bankrupt.

The Moroccan financial system makes the credit so complicated to gets so that's why this financial crisis did not affect the Moroccan economy like US or other country's economy.

For morocco to mange the effects of the crisis, it will be necessary to enhance security and migration related to surveillance at the regional level will have to vigilant especially about warding off ongoing and long-term threats related to climate and healthcare, by integrating in the public policies the environmental dimension, and morocco will also have to prepare to contend with water and energy shortages , it will also be of paramount importance for our country to adopt an ongoing active approach to communication that is likely to sustain the trust of citizens and foreign partners alike.

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