

# Stock Market Warning Mechanisms and the Occurrence of Financial Crisis

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## ABSTRACT

The financial markets manage the supply of bank funds has resulted in the collapse of those markets cracked the economy in various countries of the world and prejudice Bhetwasenh and stability and could lead to the risk of entering into a financial crisis.

Here become predictable financial crises presents itself strongly to avoid the latter risk, and perhaps one of the tell-tale impending financial crisis indicators, we find the problem of liquidity and insolvency and the deterioration of the international exchange rates, the sharp rise in interest rates, slowing the performance of the global economy, increasing domestic fiscal deficit, low value of the currency, ..

Attic and this will be our study to analyze these indicators and how to exploit the efficiency of financial markets to prevent the occurrence of any financial or banking or economic crises in the future.

## Keywords

financial markets, the financial risks, the financial crisis, monetary system, monetary policy.

## 1. INTRODUCTION

Since that occurred financial crises in Latin America and East Asia interested international organizations devoted to the economic and the international monetary system and the researchers their efforts to trace the causes and factors that lead to a financial crisis, as a step leading up to develop a framework or model through which the predictability of occurrence of these crises in advance, and despite the fact that Per characteristics of the crisis and its causes, there are common factors found in these crises, some third-party these factors and others are internal or local, some of them due to a malfunction in the economic structure and others are due to factors within the banking system itself, "The financial markets and the bank system will not work efficiently unless there is a commitment to the basic rules of the market in which it operates (rules of the game) and must be characterized bank supervision effectiveness to ensure its failure to assume increased risk and that they maintain sufficient financial resources to meet the demands of depositors and the financial markets will not allocate funds to investors unless the Investor sufficient and accurate information and sound timing on investment opportunities and use this information effectively, and that the institutions must follow the proper rules of management to ensure that the managers - on behalf of the shareholders - to perform their jobs well and are acting out of responsibility, and when these are not for the financial system factors misplaced, it is

expected - and dramatically - to go a great deal of money to the authorities error becomes the economy vulnerable to the collapse of a sudden confidence between institutions and investors "This picture puts forward the main features of the necessary factors to the banking system working properly, and in the absence of the banking system will be exposed the failure or collapse, what are the indicators that help to understand what might happen from the problems plaguing the financial markets and then on the local economies and international intervention in the financial or banking crisis?

Methodology: descriptive approach we are trying to concepts and definitions related to aspects of the financial markets and the analytical method which will be appointed to assess the crisis and study some of the early warning indicators are listed.

## Divisions of the study:

- Growing and historical development of financial markets
- Early warning indicators occurrence of financial crisis

## 2. GROWING AND HISTORICAL DEVELOPMENT OF FINANCIAL MARKETS :

Financial markets play a crucial role in attracting surplus capital is the employee and is packaged in the national economy, and its transformation through investment operations carried out by individuals or companies in the stock and bonds and instruments that are put forward in the financial markets, in addition to the relevant markets the financial resources to provide the truth to finance projects by offering shares or bonds or resale of these shares and bonds owned by the project and then to emphasize the importance of cash resources for project management. Moreover, the availability of financial markets, channels and revenues healthy for individuals and especially small investors, as it represents a key tool for promoting economic development in the countries and achieve a number of economic benefits, including the benefits of the acquisition and the acquisition and utilization and appropriate investment yield, as an incentive listed companies and it listed its shares in those markets to follow changes in securities and push it to improve its performance and increase profitability leading to improved stock price of this company and then her financial Alusaah rates.

Were not the moral legitimacy and the political to bear fruit if it did not exist what is known as Street Lombard Lombard Street in England, described by the newspaper Economist Economist editor journalist Walter Bagehot Anmako is the author of a book entitled "Lombard street 1873" which recognizes that the glory economic

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England the capital Display , and the possibility of access to him in the street, and thanks to this street back in England to attract rail project in Alalazabita age of this growth in capital.

In short Bagehot review how the victory turned the new man New Man and is a merchant in Lombard Street that does not lose very little of his money and gain much Bnfazh to this market and lending to Nicozh in this street on the old capital account, which avoids the risk of borrowing them for a few of the capital, and the achievement of this new Earner possible for a man to dominate the capitalist old man offered his services through Bosaroql and taken it in this business of it.

In 1902 he took the young American small Bernard Baruch Bernard Baruch idea of Lombard Street, through message Walter Bagehot to become the first to deal in money Street in New York and is the Wall Street Wall Street Investment Pool, and since then it has become streets represent financial centers most famous the level of the world.

At the beginning of the twentieth century the foundations of John Pierpont Morgan JPMorgan steel company in the United States with the acquisition of Caregie Steel Company and other companies to buy shares worth \$ 1.5 billion at the beginning of the twentieth century to represent the largest financial transaction markets did not know of before in history.

And during the first quarter of the twentieth century became the capital markets in New York leading the global level, and expanded corporate America in the issuance of securities and sold to American investors or Europeans and these investors looked for a place to put their wealth in it and then bought European Securities perhaps in the belief that it more safer.

After World War I, European financial markets have stopped, while the increased activity of US financial markets, and busy American banks to provide loans to companies and foreign governments and investment companies, where the US banks from the type of Universal Banks ie banks operating in commercial fields and investment together , and there is no separation between the two activities through banks do this version, distribution and trading in securities, and there are some other banks to focus its activities in the field of international trade finance across the world.

Aiza has these banks to issue new securities to foreign agents, which amounted to 25% of the volume of versions before the 1929 crisis and had these correspondents banks overseas

The financial meltdown in 1929, is a global incidents where the capitalist world acknowledged the occurrence of the financial crisis and its repercussions on the real side, not only in the US economy, but at the level of the whole world has lost all markets collapsed around the same time, but it is noticeable that sell orders size in financial markets carried out by foreigners were very high before this collapse immediately, despite the seemingly American banks that did not play a role is this crisis, but it is important to arrange for this crisis affected the results of three Tdhiraa US banks<sup>1</sup>. • The issuance of the decree banking Banking Act 1933, which provided federal system of deposit insurance, has also been issuing Glass / Stijl Steagel- glass and the law by which the separation of commercial banks, investment banks, E became the activity of commercial banks is limited to certain activities because of their impact Payment on Tools and then money.

• reduce the US bank's activities and limit it to receive deposits and provision of credit in the domestic market limits over 30 years and until the end of World War II, and the local US banks growth became limited during this period and is something which is due recession, which resulted in the collapse of 1929.

• required increased government interference in the activities of banks and financial companies and has gained the legitimacy of this disposal and extended until the end of the sixties.

After the end of World War I, most countries reverted to a fixed exchange rate system, and regained the European economies and Japan Aavihma, and emerged and expanded European dollar markets and European bond markets, and then drop the role of commercial banks and investment and their activities during this period in the markets International money.

After the end of World War II, and spread waves of the Cold War at the end of the fifties and what was of the potential for the United States to the US to freeze or confiscate dollar deposits for Eastern Europe, led by the former Soviet Union deposited US financial markets, so these countries thought to withdraw their deposits in dollar From there and deposited in European banks, which are considered safer and this market is known markets European currencies Euro-Markets Currencies of here and political factors have played a fundamental role in the emergence of the European currency markets that deal in dollar-denominated assets outside the United States.

And in 1971 and after the collapse of the Bretton Woods system in 1947, a fixed exchange rate system collapsed as the dollar was tied to gold, and has been replaced with a floating exchange rate systems, and in the years 1973 to 1974 oil crisis emerged after the October 1973 war and the emergence of what is known in the literature "Crisis transfer of wealth"

From developed countries to developing countries, have the owner of this crisis formation surpluses of petroleum with oil-producing countries fail to local economic potential of this Aldsl absorbed and from here originated the idea of recycling petrodollars and balances was the European currency markets is the place in which these funds employ.

And in the eighties and with the continued flow of oil surpluses were developing countries, the non-oil deficit in the balance of payments which was associated with an increase demand for European credit to fix the problem, prompting these markets to expand outside the scope of the European continent to open centers have known centers offshore Offshore Centers These centers are providing loans and take deposits in foreign currencies on the same terms to the markets of the European currencies and, in particular, that the prevailing conditions in the market of London known as the price within Alennox LIBOR.

In light of the previous presentation of the origins and development of the capital market is clear to us the emergence of a new subsidiary financial markets and the birth of financial instruments, as evidenced by the presence of considerable overlap between the functions of the various markets that are on the whole capital market.

### 3. EARLY WARNING INDICATORS OCCURRENCE OF FINANCIAL CRISIS :

The importance of leading and early warning systems worth of financial indicators that it provides a permanent and ongoing guidance and warning and warning to decision-makers and policy tool policies the possibility of exposure economy, financial crisis or currency crisis, and the introduced them prospects occur in early before the event to take the necessary policies, procedures and preventive or weatherproof the occurrence of crises, and help early-warning systems in general are as follows:

- continuous assessment system for banking institutions in the form of a formal structure or framework for assessing whether the examination or inspection intervals between

- to identify the institutions or sites within the institutions where the problems or is likely to have occurred in the problems.
- to assist in the prioritization of examination and supervisory optimal allocation of resources and planning for pre-screening.
- interest and directing the proper time by the supervisors of the banks.

There are many risks in the bank's activities and the task of early warning systems for leading financial indicators are drawing attention to these risks, which include credit and liquidity risk, market, operational risk and business risk and early detection of these risks will help policy makers to take preventive measures to prevent their occurrence or minimize the effects of by reducing losses to a minimum if there is no possibility to avoid these risks, next to that to avoid a repeat of these risks occurring and have early interest began using the financial indicators to support the banks and financial institutions by the Basel Committee under the auspices of Bank for International Settlements to develop standards for capital adequacy in 1992 and since then rolled efforts and studies to develop systems or indicators to reduce risk and measuring the banking system's health, have been proposed CAMEL (system of covering solvency capital C, asset quality A, Administration M, profitability E, and liquidity L) and are expressed in each element of the These elements of a number of financial indicators, and then there were many early warning systems of various central banks and has developed this system in accordance with the circumstances, there are two studies important - along with many other studies - contributed thoroughbred in the development of leading or early financial indicators, the first carried out by Kaminsky & associates in 1998 and the second Demirguc - Kunt & E.Detrajiache next Patric T study .Downes & als. The study Ranjana Sahajwala & Paul Van der Berger Some of these studies presented standard formats and other descriptive and quantitative analysis to evaluate the tendency of financial institutions to fall into financial crises using macroeconomic indicators and other quality of the banking sector, was not a Westerner to find a consensus of all these studies on a certain number of indicators (GDP growth, domestic real interest rate, inflation, domestic credit growth rate, the proportion of M2 to reserves

International These findings are consistent shocks banks theory, and these shocks linked to fluctuations in the gross domestic product, the deterioration of the international exchange rates, the decline in financial asset prices, and the banking system level there non-performing loans and provisions for doubtful debt problems in debts, rising short-term interest rates, restrictive monetary policies, the liberalization of interest associated with the policies of financial liberalization prices, banks' exposure to crises foreign currencies when they lend money to local foreign exchange clients to ensure the depreciation of the local currency value of local money, the impact of moral hazard when there is no control or good supervision on loans operations, a great deal of head short of foreign capital flow -term etc .. Through many of these studies can be classified into those indicators the first two sets and other macroeconomic indicators on the banking system level.

**Table 1: Early Warning Indicators**

Macroeconomic indicators	Quality banking indicators
Real GDP growth rate	Capital Adequacy
And the real exchange rate	Liquidity indicators
The real interest rate	Financial hardship indicators
current account	Profitability or return
International Reserves	Distressed debt and allocations
Stock and bond prices	Bank deposits
Foreign capital flows and structure	Loans to deposits ratio

**Source:** researcher

Through the above table about forecasting indicators which are only detailed indicators according to the circumstances of each country and the banking system followed them, and the abundance and quality of published data on the banking system, but most of the early warning systems came from the reality of the advanced industrial countries have such systems are not compatible with conditions developing countries, has focused on some of the studies the development of these systems and indicators to suit the circumstances of developing countries and to choose more honest and expression by the indicators, among these studies Liliana Rojas -Swarez study, has also been set up system Egypt's leading financial indicators next to some of the Egyptian banking system studies and requires no an early warning system or leading indicators put the base of the data that is collected and developed and expanded on a regular basis for the preparation of reports on these indicators quarterly and annual to support the banking system and to protect the national economy capabilities from falling into financial crises, whether coin or bank crisis, and analyze the reasons for the change from period to period so that you can take corrective action early and reduce losses to the minimum possible.

#### 4. CONCLUSION

If the world has been able to tame the recent global financial crisis acceptable degree this time, other factors still exist threaten the return of the emergence of a new financial crisis, and still symptoms phenomenon and visible and is what drives us in the last to conclude that the indicators in the hands of the monetary authority and politicians to work to prevent any bank or financial problems, .. or at least control them, as well as to be considerate to the development and growth of the views of the cash consideration and financial pushing to the need to update indicators in line and each stage and through the latter to be the establishment of centers for studies strategic means such Alaschraivat and future forecasts.

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## Stock Market Warning Mechanisms and the Occurrence of Financial Crisis

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