

THE 2007-2009 FINANCIAL CRISIS: AN ECONOMIC PERSPECTIVE

Nellie Liang and Andrew Metrick
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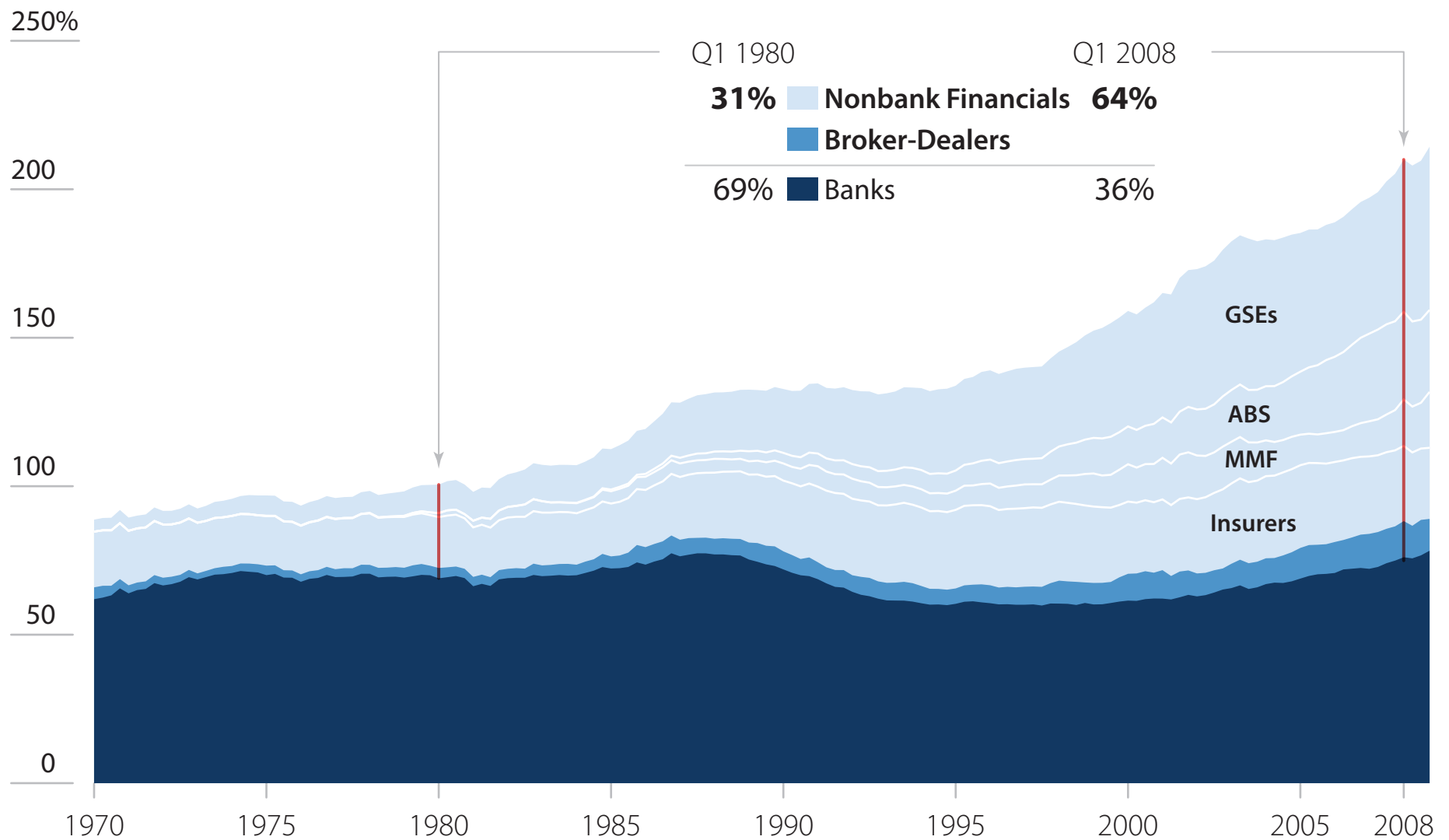
Hutchins Center
on Fiscal & Monetary Policy
at BROOKINGS



Yale SCHOOL OF MANAGEMENT
Program on Financial Stability

ARC OF THE CRISIS

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Source: Federal Reserve Financial Accounts of the United States Notes: GSE: government-sponsored enterprise (including Fannie Mae and Freddie Mac); ABS: asset-backed securities; MMF: money market funds

TOOLS AVAILABLE

FDIC

- Resolution authority for banks, with systemic risk exemption to allow FDIC to provide broader guarantees.
- Deposit insurance for banks.

Federal Reserve

- Discount window lending for banks, and in extremis for other institutions.
- Swap lines for foreign central banks.

NO AUTHORITY

- To intervene to manage the failure or nationalize nonbanks.
- To guarantee the broader liabilities of the financial system.
- To inject capital into the financial system.
- For the Fed to purchase assets other than Treasuries, Agencies and Agency MBS.
- To inject capital or guarantee the GSEs.

Bank credit default swap spreads and Libor-OIS

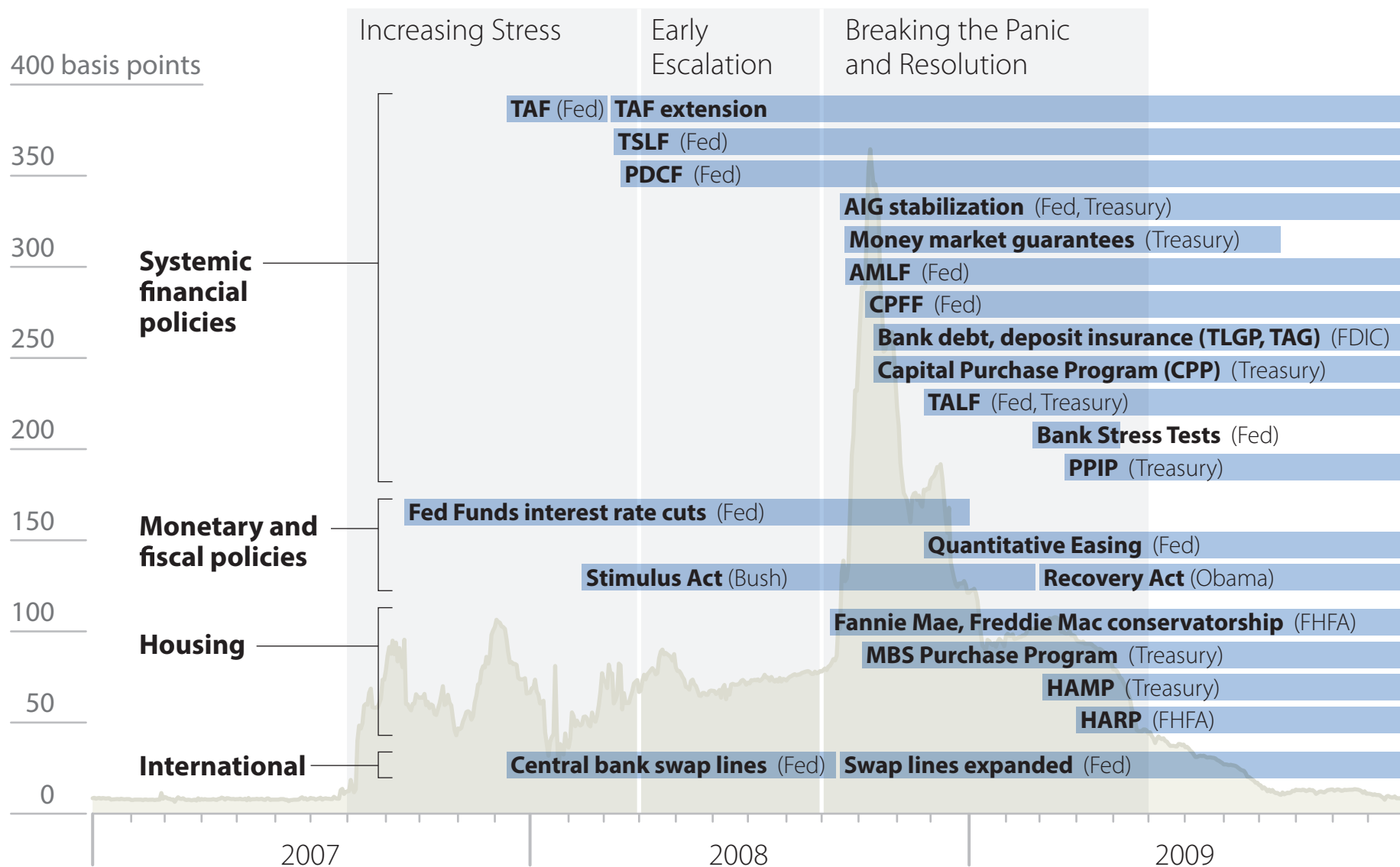
500 basis points



Source: Bloomberg. Note: Credit default swap spreads are equal-weighted averages of JPMorgan Chase, Citigroup, Wells Fargo, Bank of America, Morgan Stanley, and Goldman Sachs.

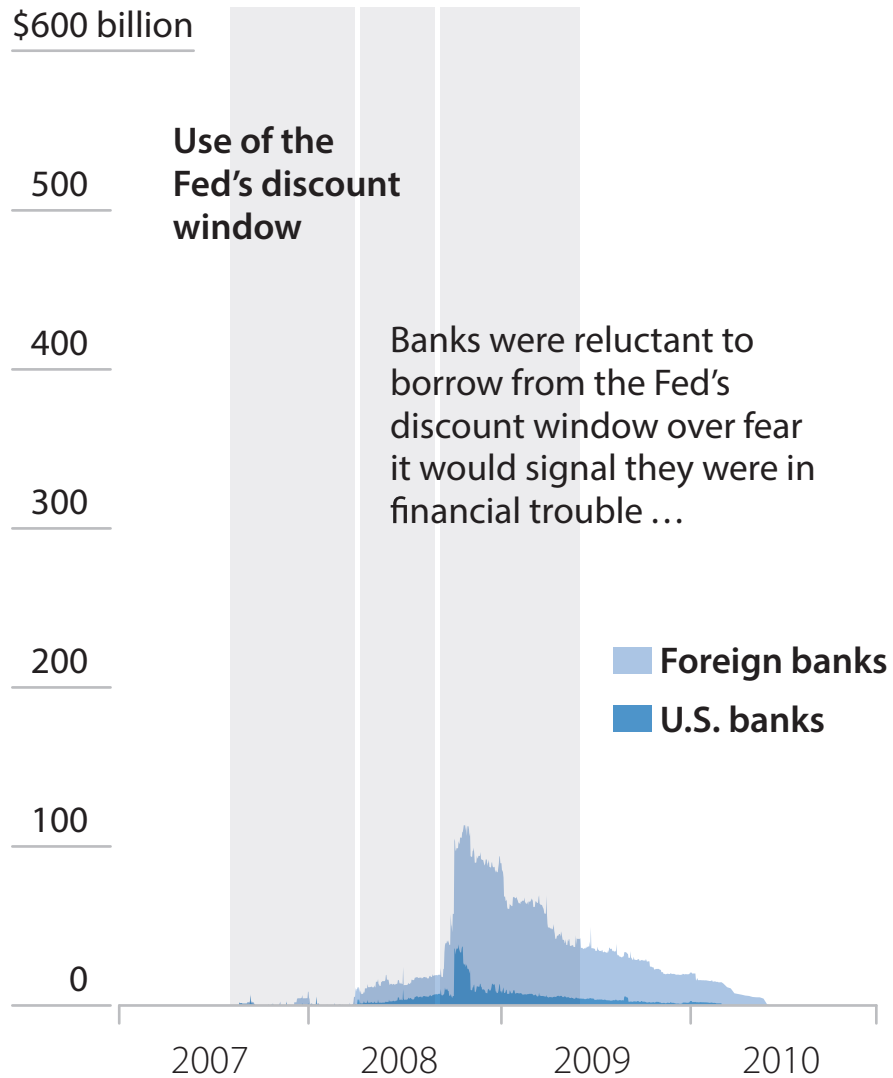
POLICY RESPONSES

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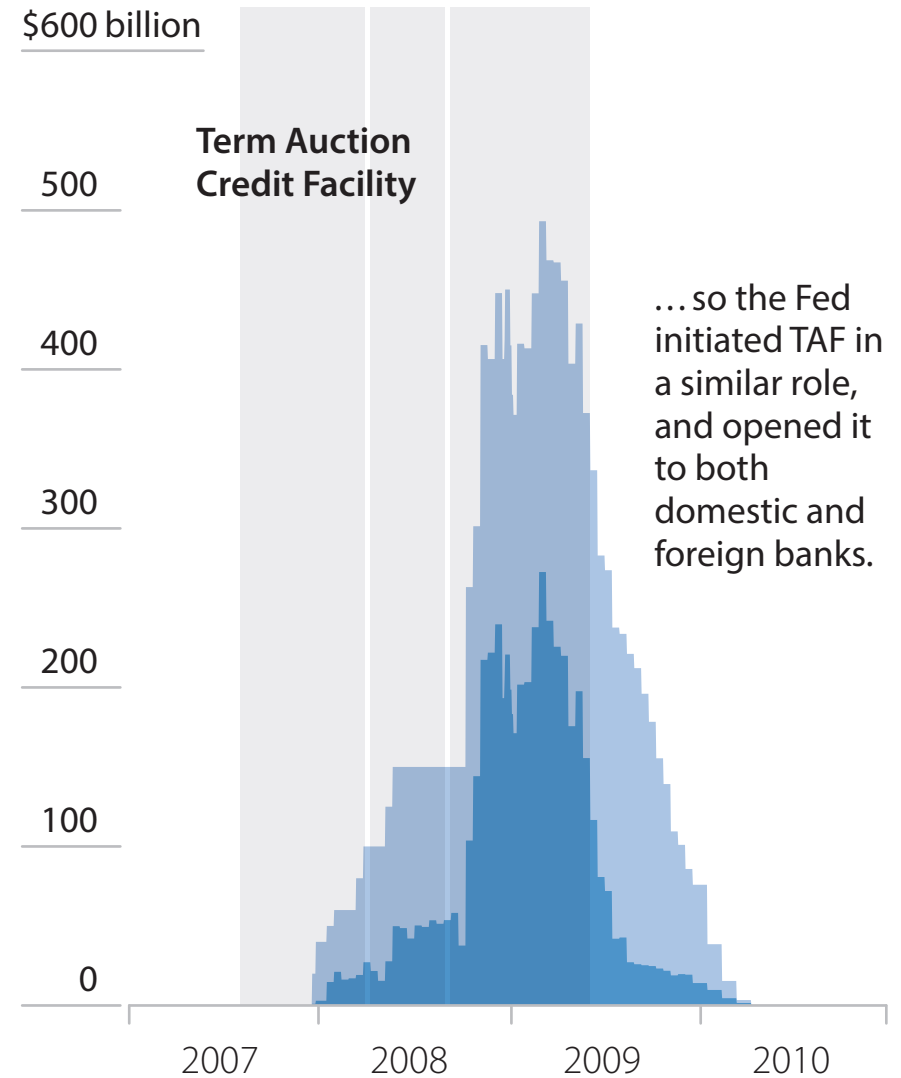


Source: Libor-OIS: Bloomberg

Federal Reserve discount window usage



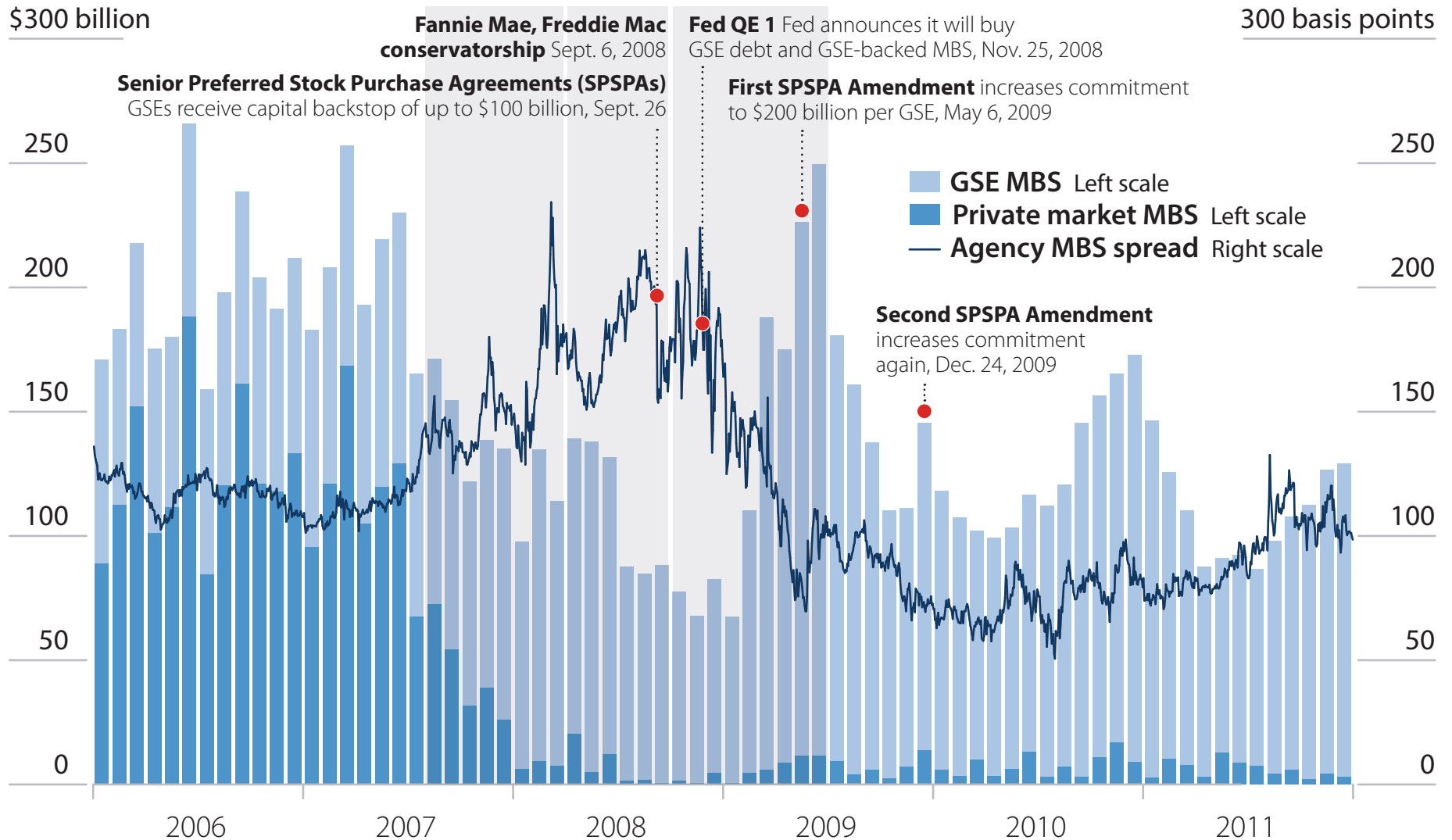
Term Auction Credit Facility (TAF) usage



Sources: Federal Reserve Board; internal calculations

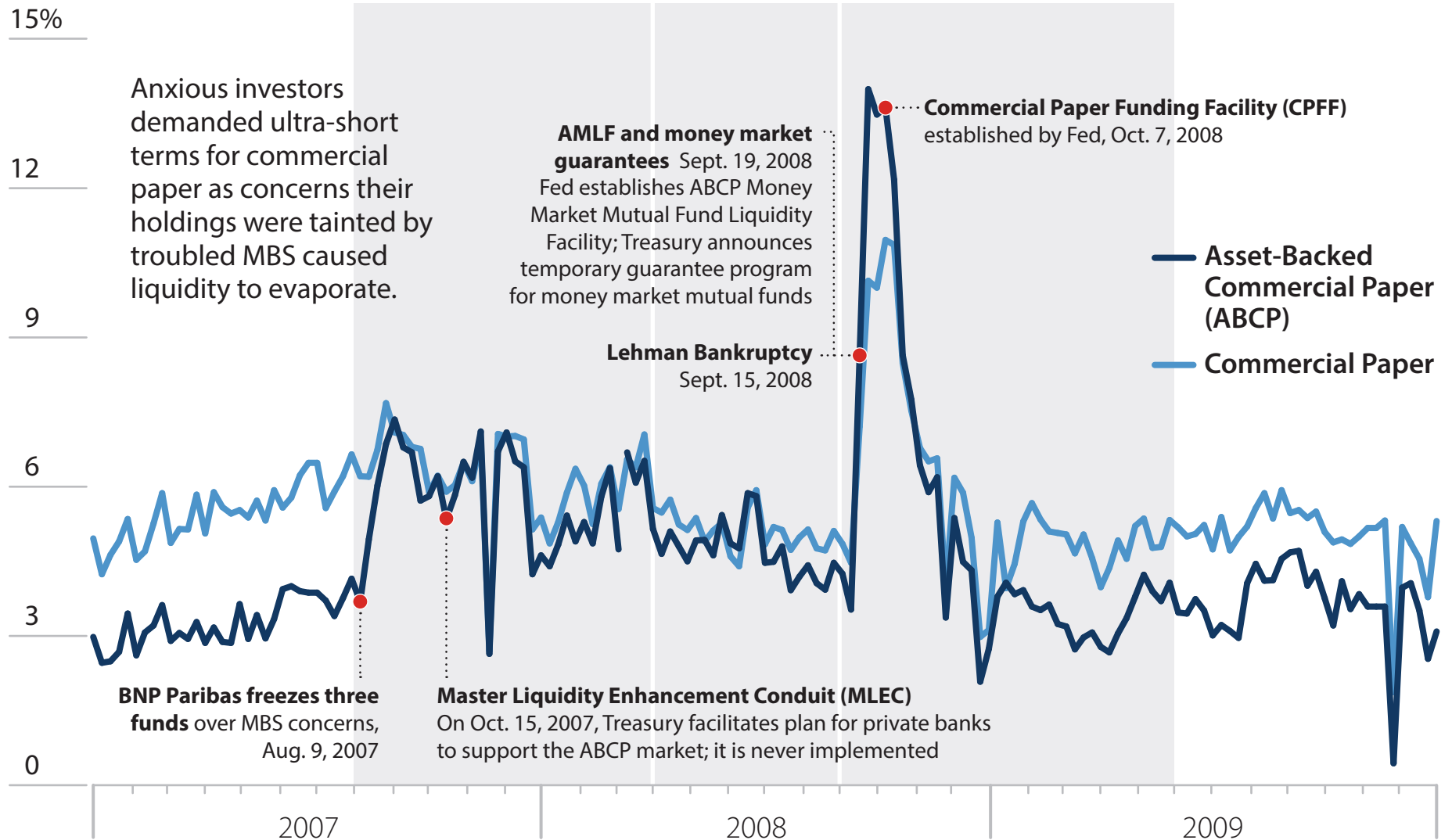
Mortgage-related securities issuance

Spread between FNMA 30-year current coupon MBS and 10-year Treasury



Sources: MBS issuance: Securities Industry and Financial Markets Association; agency MBS spread: Bloomberg

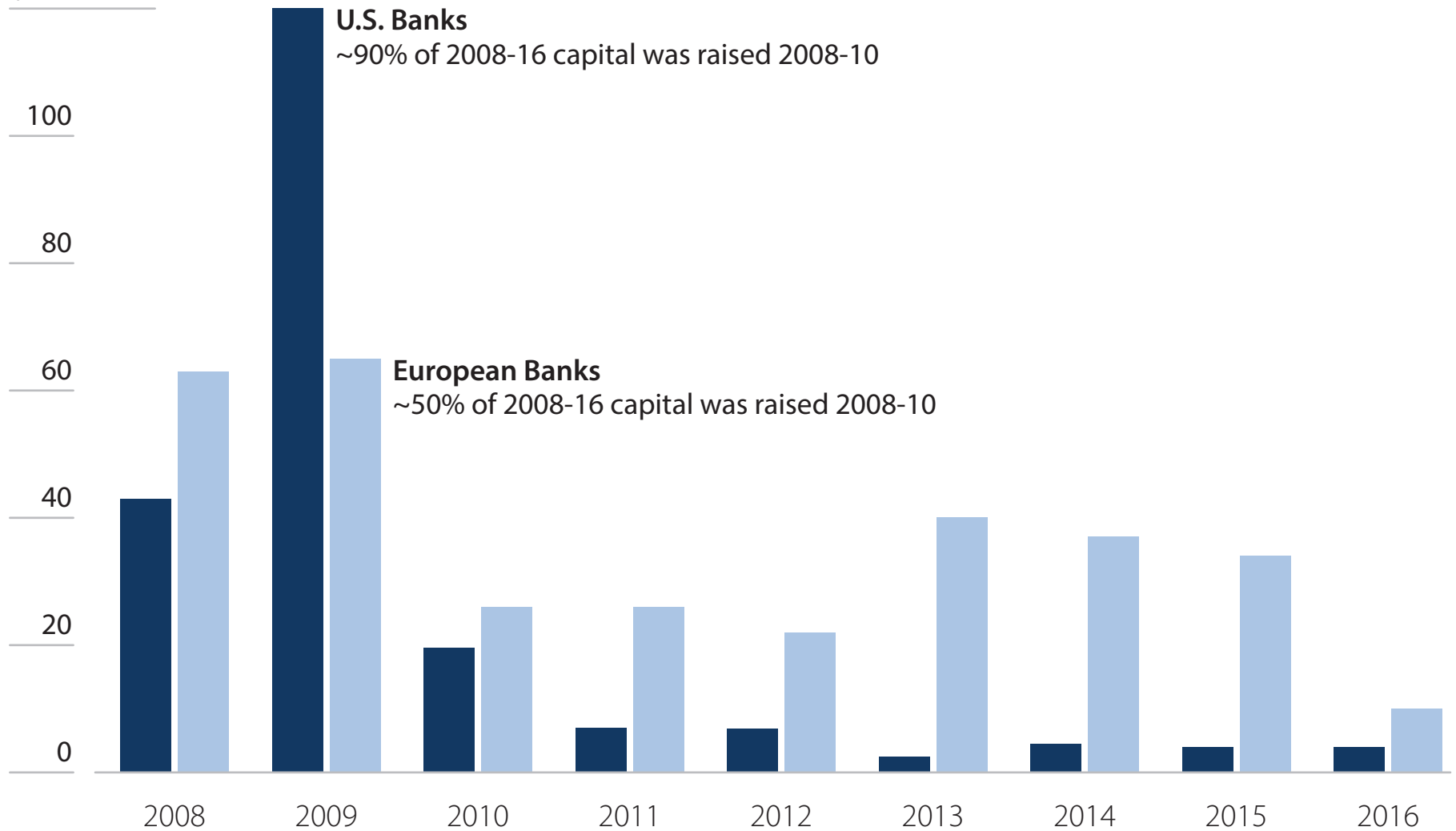
Overnight issuance as a share of outstanding commercial paper



Source: Federal Reserve

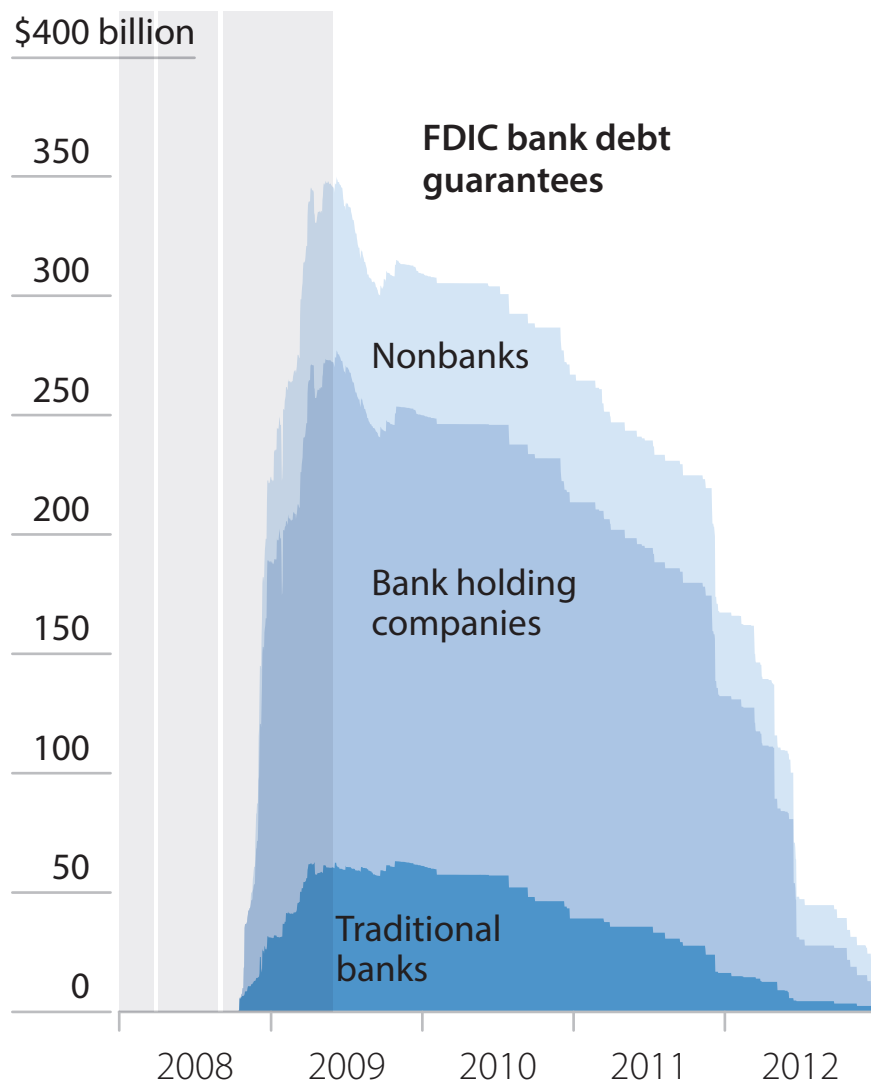
Capital raised each year

\$120 billion

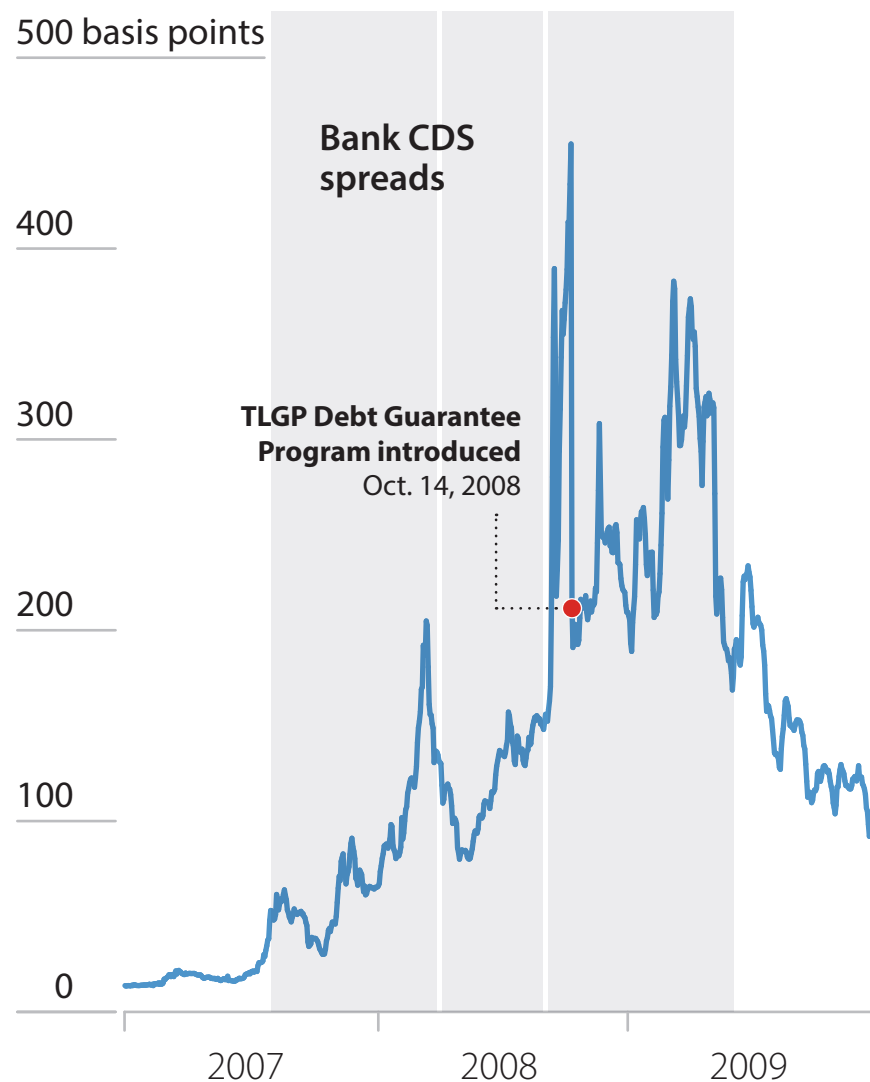


Source: Goldman Sachs

Senior unsecured U.S. bank debt issuance under TLGP (DGP)*



Average-weighted CDS spread for six big banks



Sources: Debt issuance: Federal Deposit Insurance Corp.; internal calculations; CDS spreads: Bloomberg

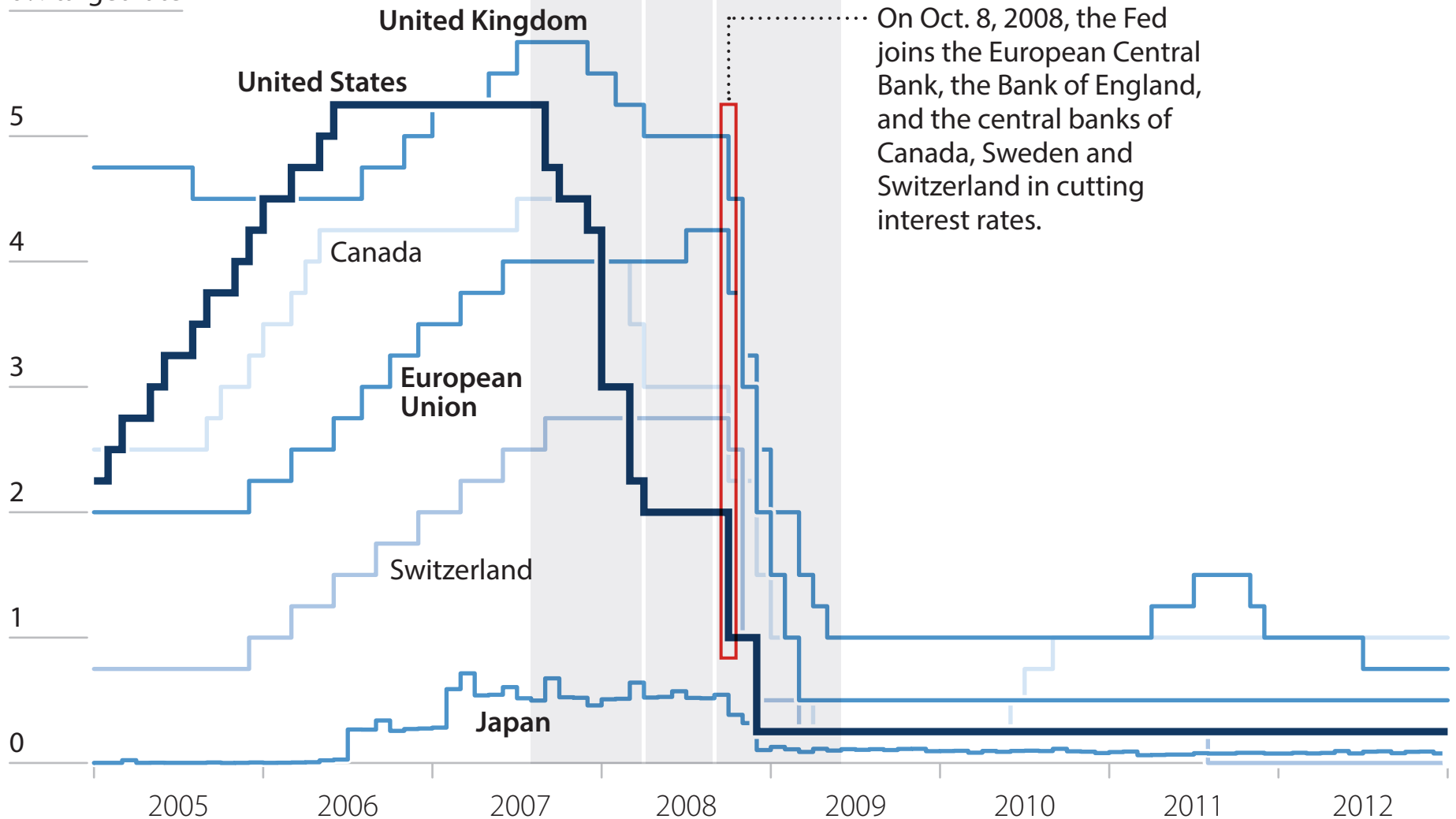
*Debt Guarantee Program covered debt issued by both the parent company and its affiliates

MACRO POLICIES

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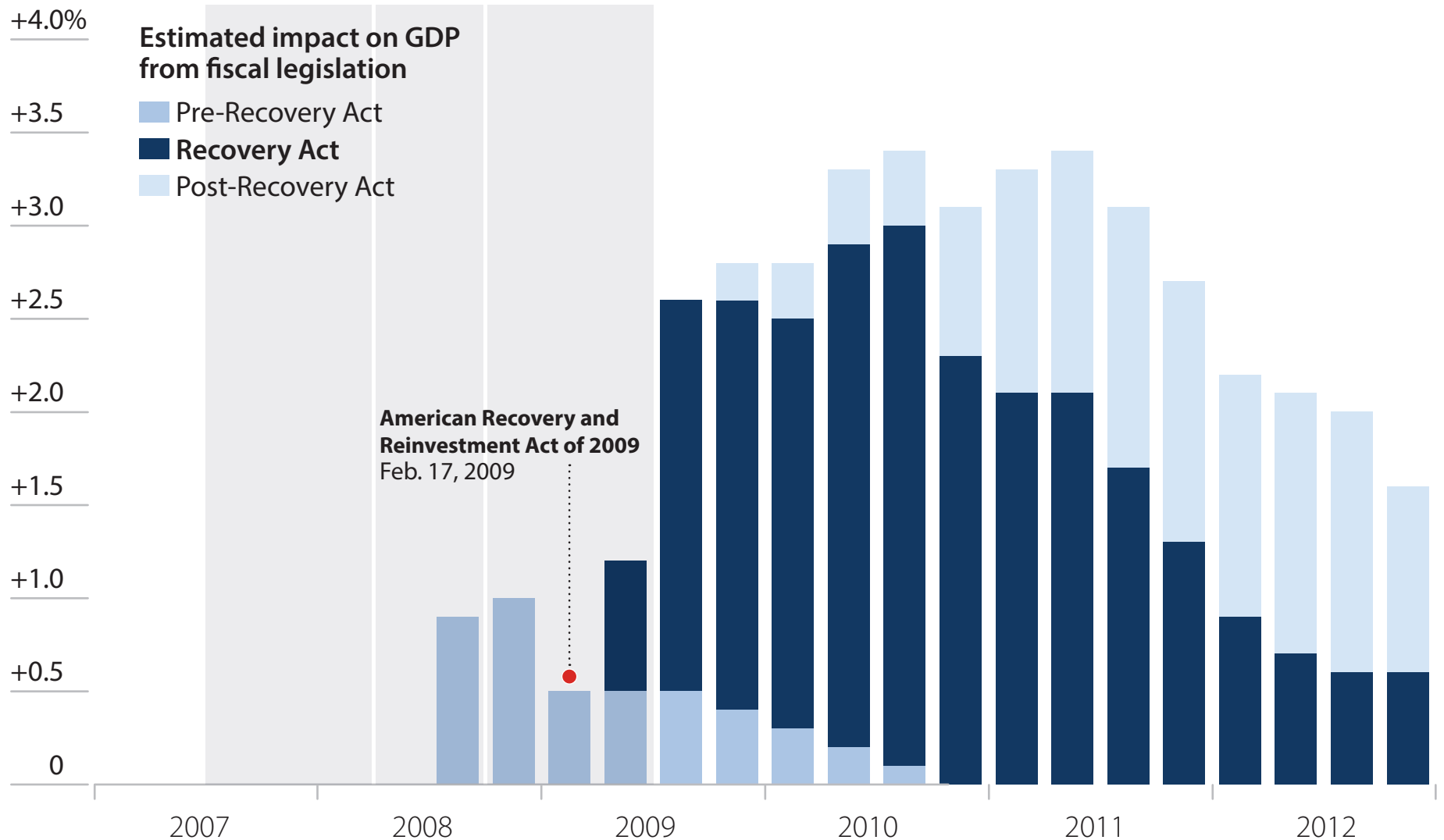
Central bank target interest rates for each country (month-end)

6% target rate



Source: Bloomberg

Quarterly effect of fiscal stimulus measures on GDP



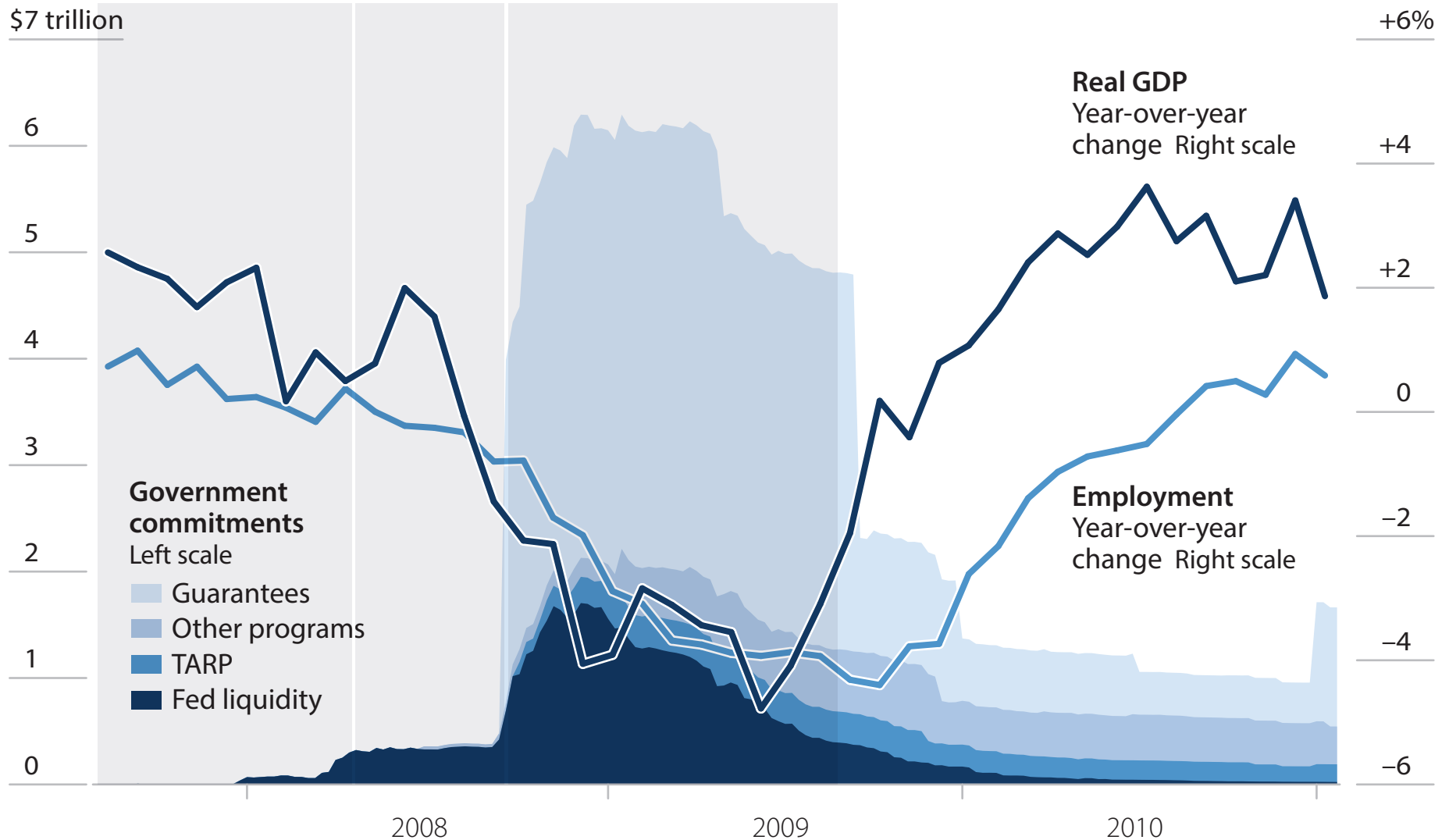
Sources: Council of Economic Advisers; Congressional Budget Office; Bureau of Economic Analysis; calculations by Jason Furman

Note: \$712 billion represents the stimulus from the Recovery Act through 2012.

OUTCOMES

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Treasury, Federal Reserve, and FDIC exposures; real GDP and employment, year-over-year percent change (monthly)



Sources: U.S. government exposures: U.S. Treasury, Federal Reserve Board; Federal Deposit Insurance Corp.; Federal Housing Finance Agency; Congressional Oversight Panel, "Guarantees and Contingent Payments in TARP and Related Programs" via Federal Reserve Bank of St. Louis; internal calculations. Real GDP: Macroeconomic Advisers; Haver Analytics. Employment: Bureau of Labor Statistics; internal calculations

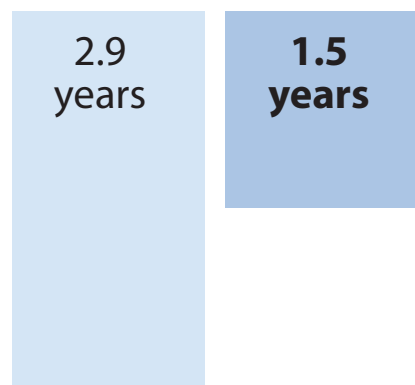
How bad was the drop in GDP?

Decline in output peak to trough
(real GDP per capita)



How long was the recession?

Duration of recession



How fast was the recovery?

Recovery of output to previous peak

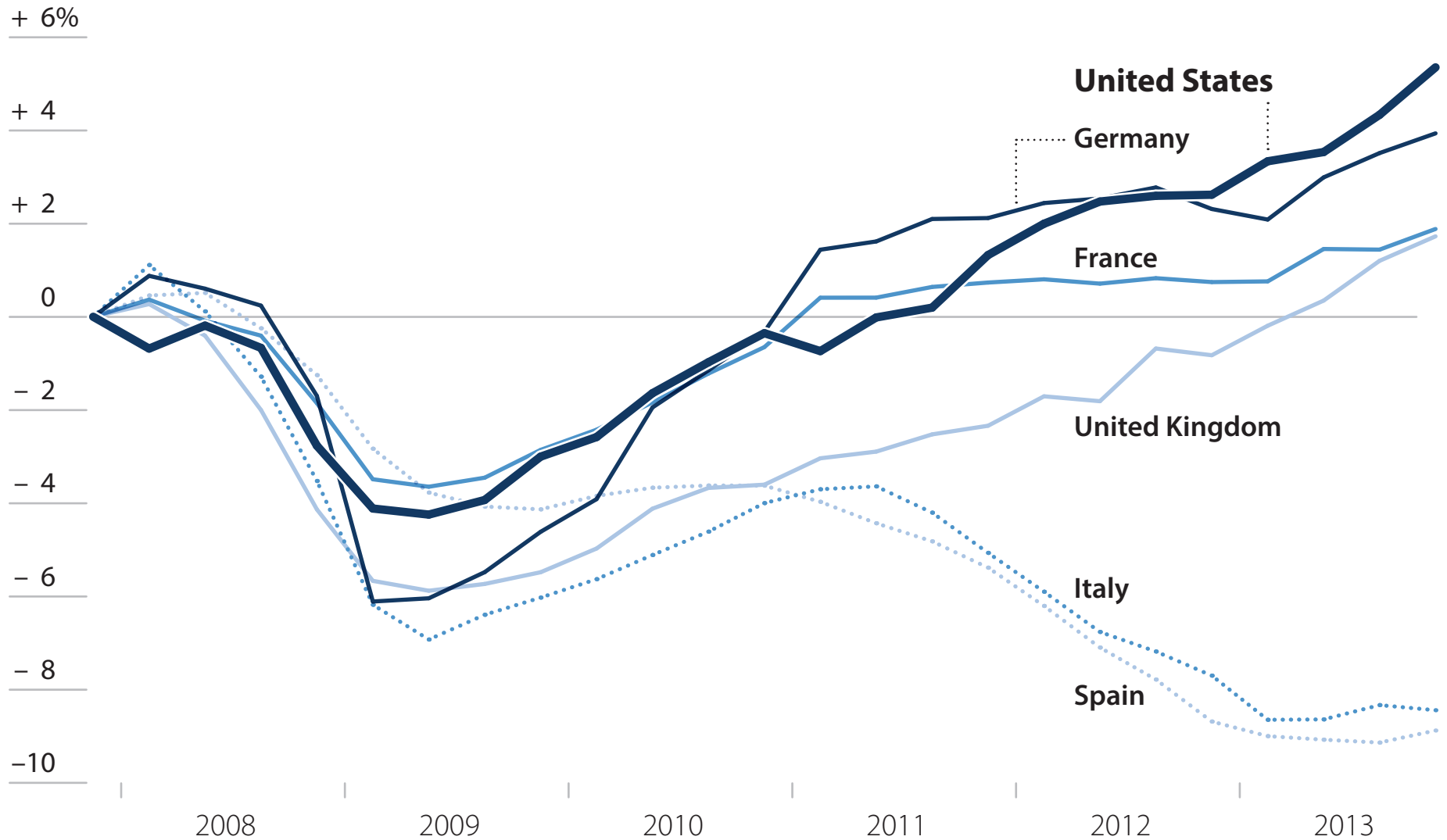


■ 63 financial crises in advanced economies, 1857 to 2013

■ U.S. financial crisis

Sources: National Bureau of Economic Research, "Recovery from Financial Crises: Evidence from 100 Episodes"; Bureau of Economic Analysis via Federal Reserve Economic Data, internal calculations

Real GDP, percentage change from 4th quarter 2007



Source: Organisation for Economic Co-operation and Development