

THE CRISIS

Dr Sumon Bhaumik

(<http://www.sumonbhaumik.net>)

Plan of the talk

- The outcome
- The anatomy of the crisis
- The policy response
- White knights



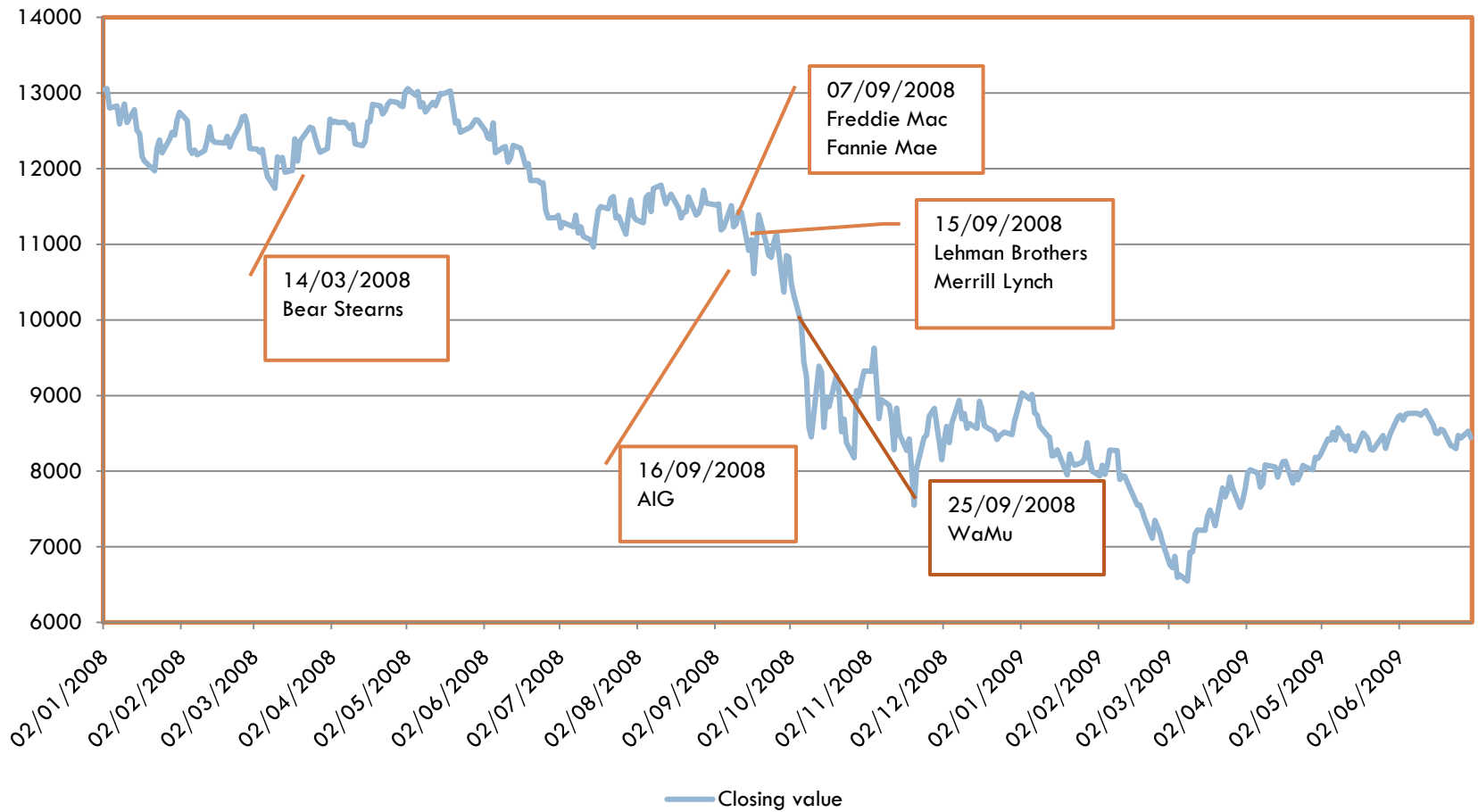
The outcome



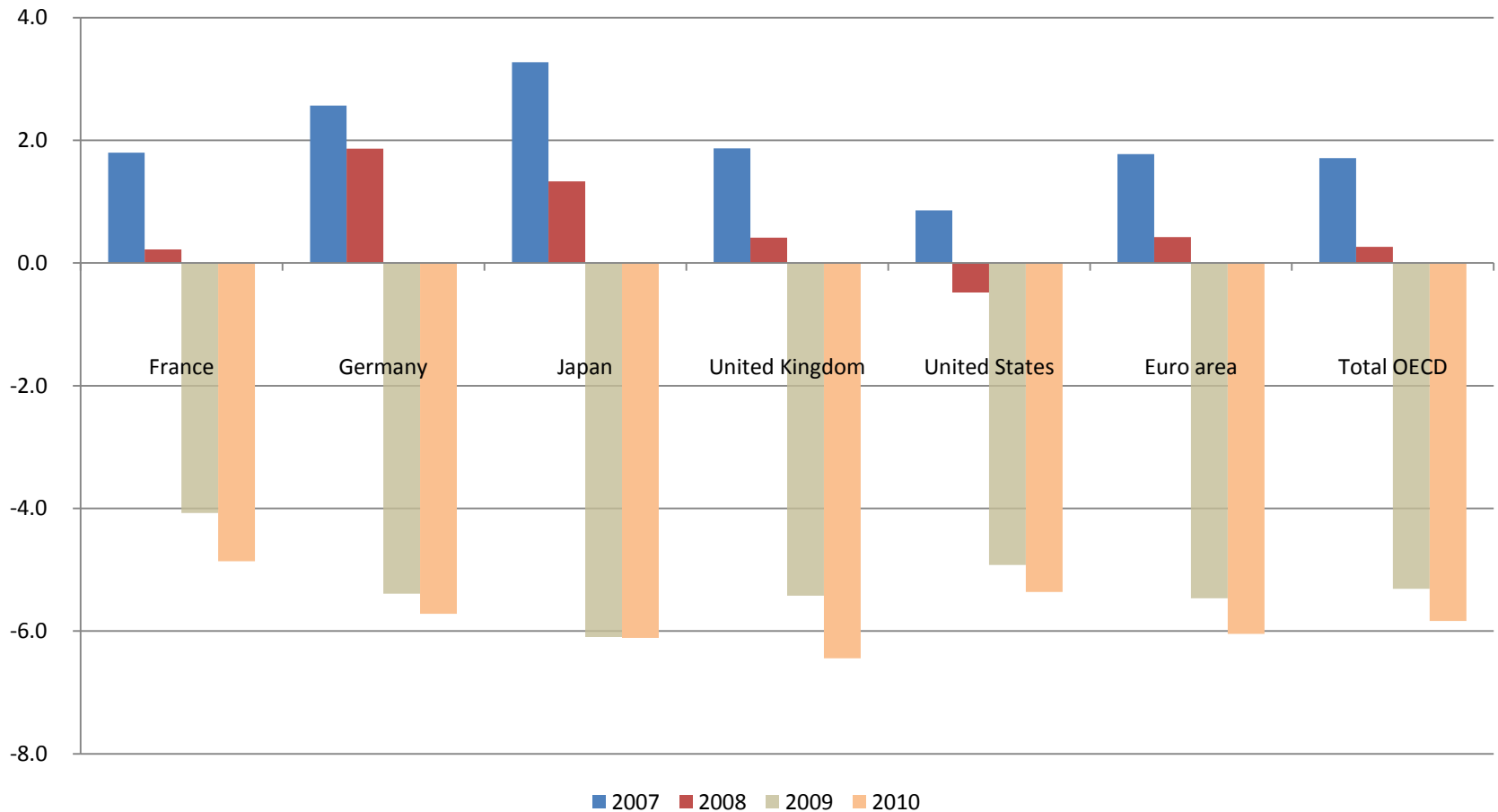
How the mighty fall



The Dow

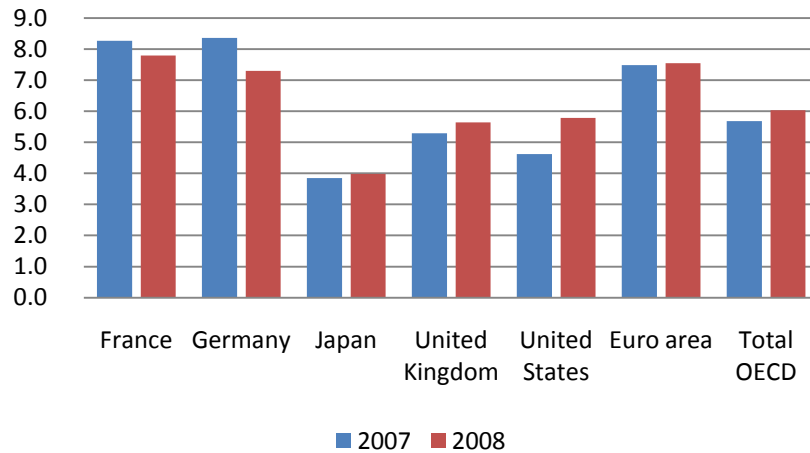


Output gap as a percentage of potential GDP

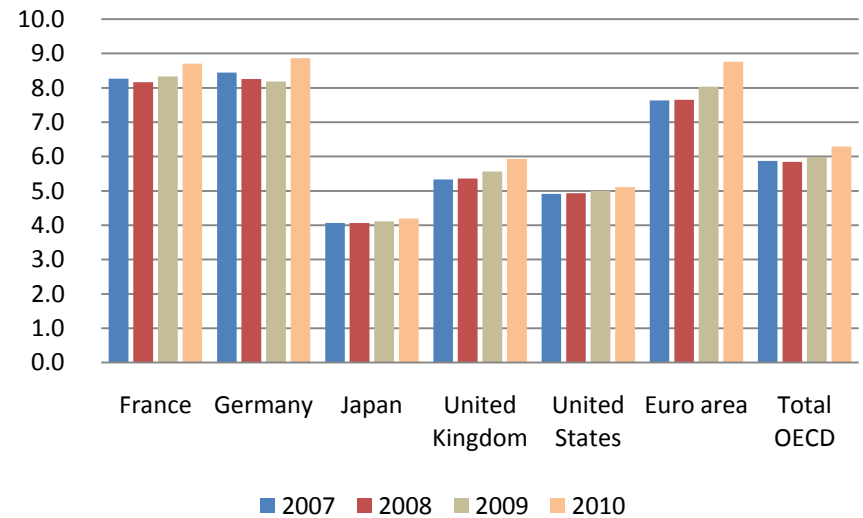


Unemployment rate

Harmonised unemployment rate

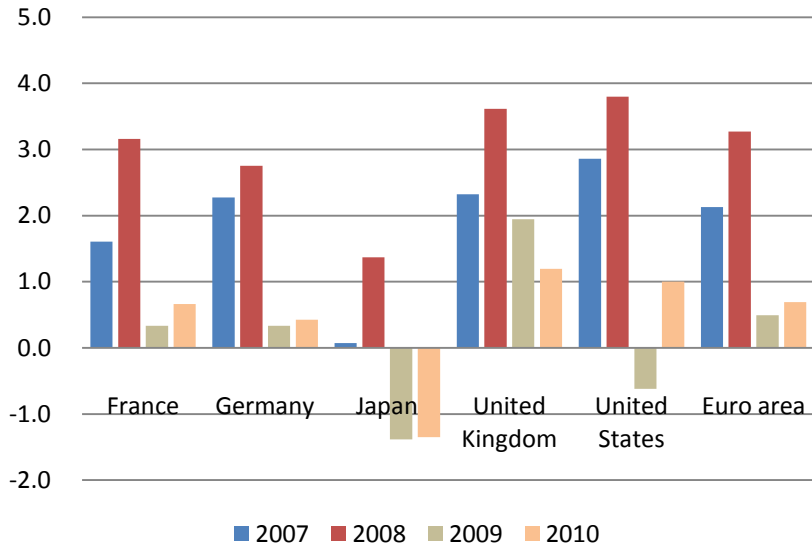


Structural unemployment rate

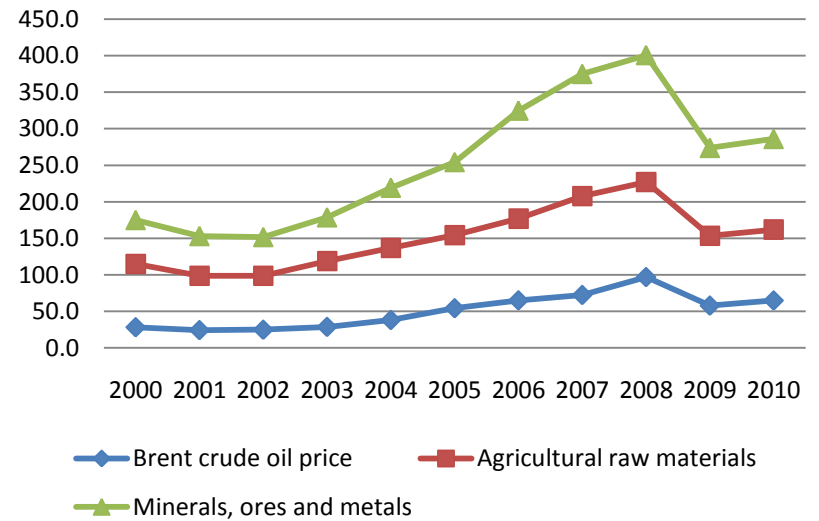


Prices

Consumer price inflation



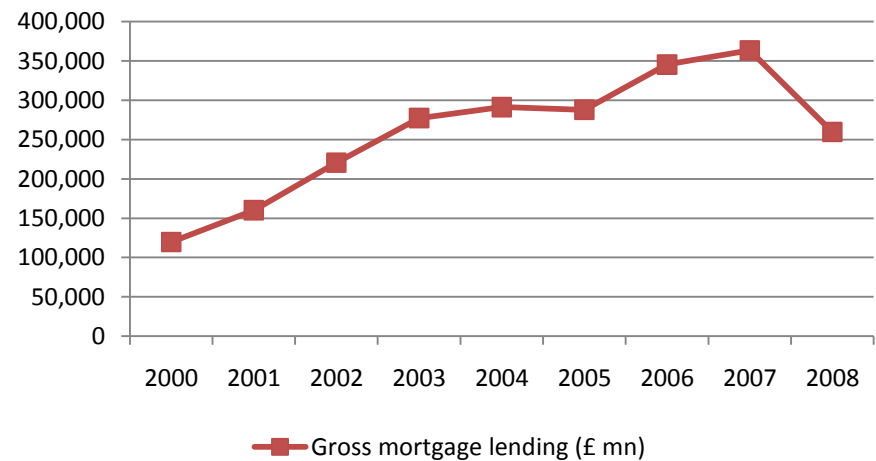
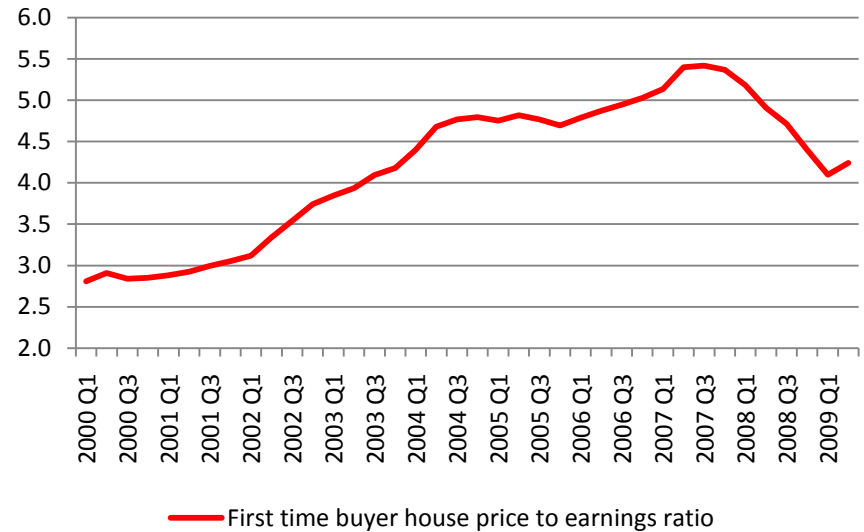
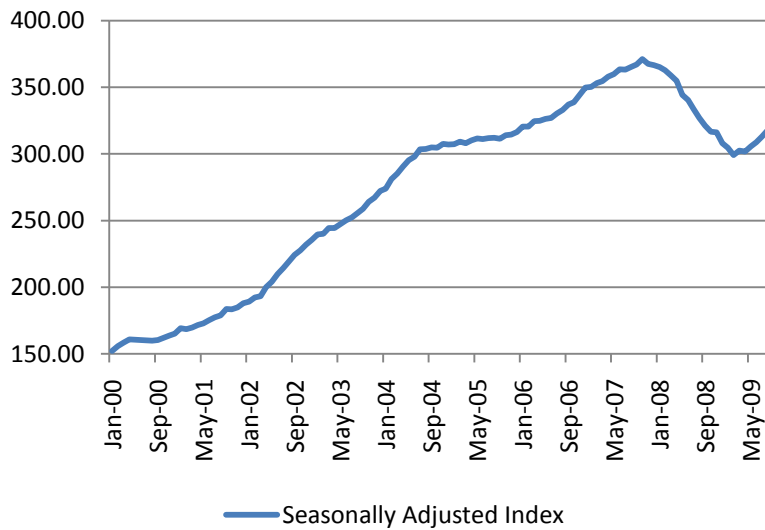
Commodity prices - \$ index



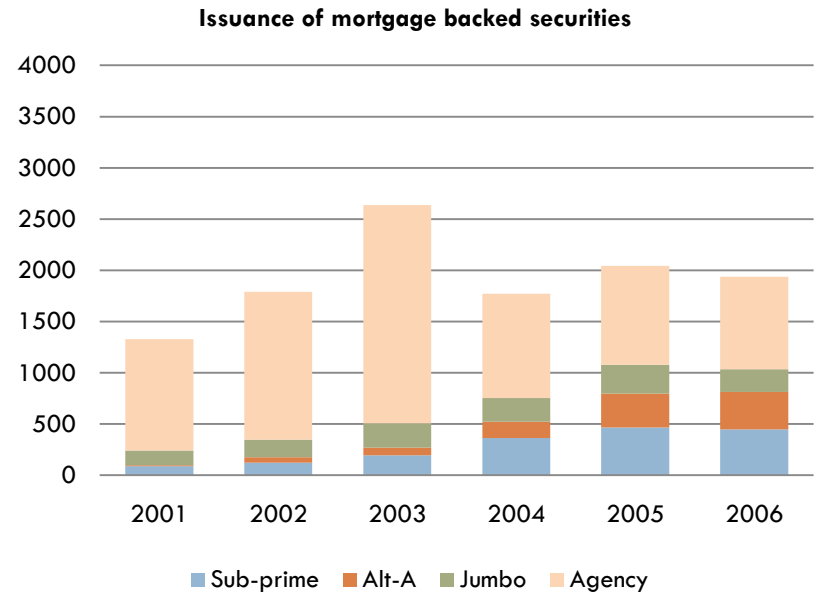
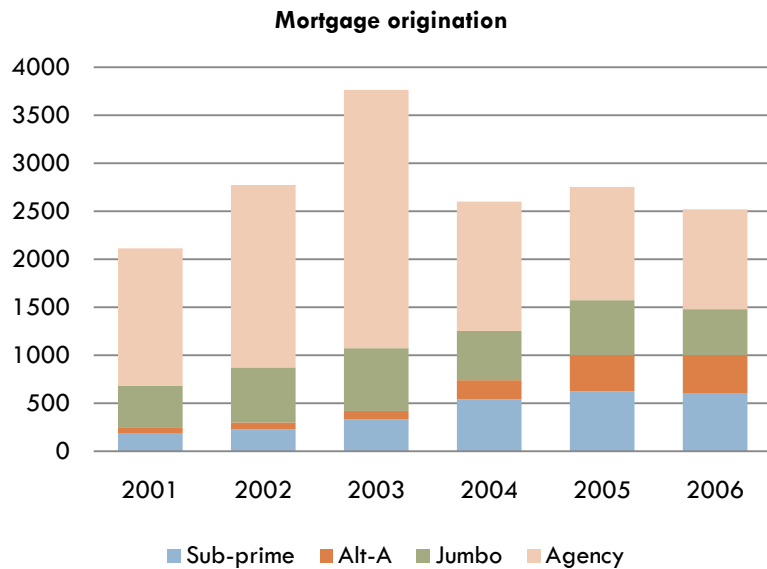


The anatomy

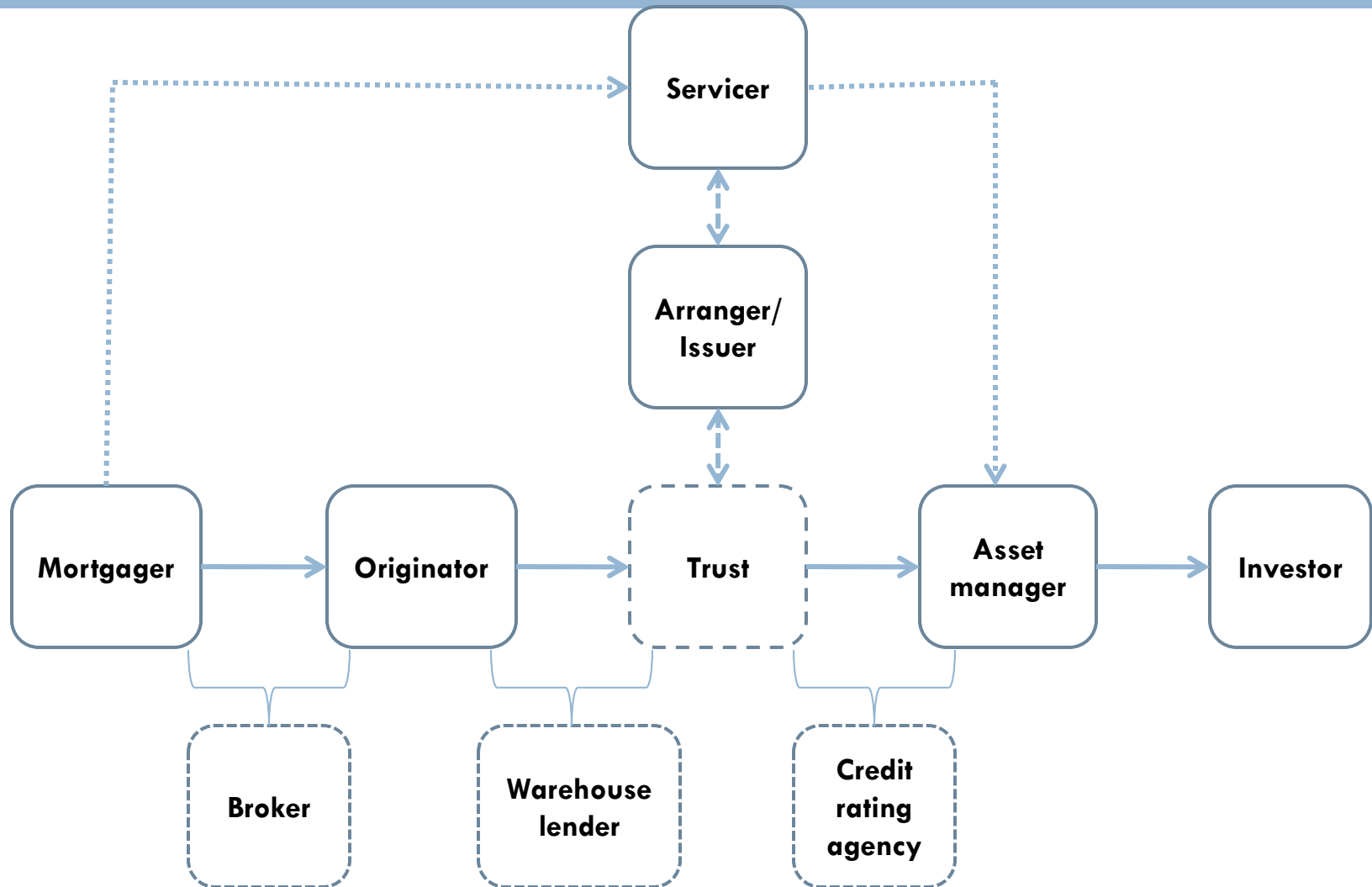
House price and mortgage lending in the UK



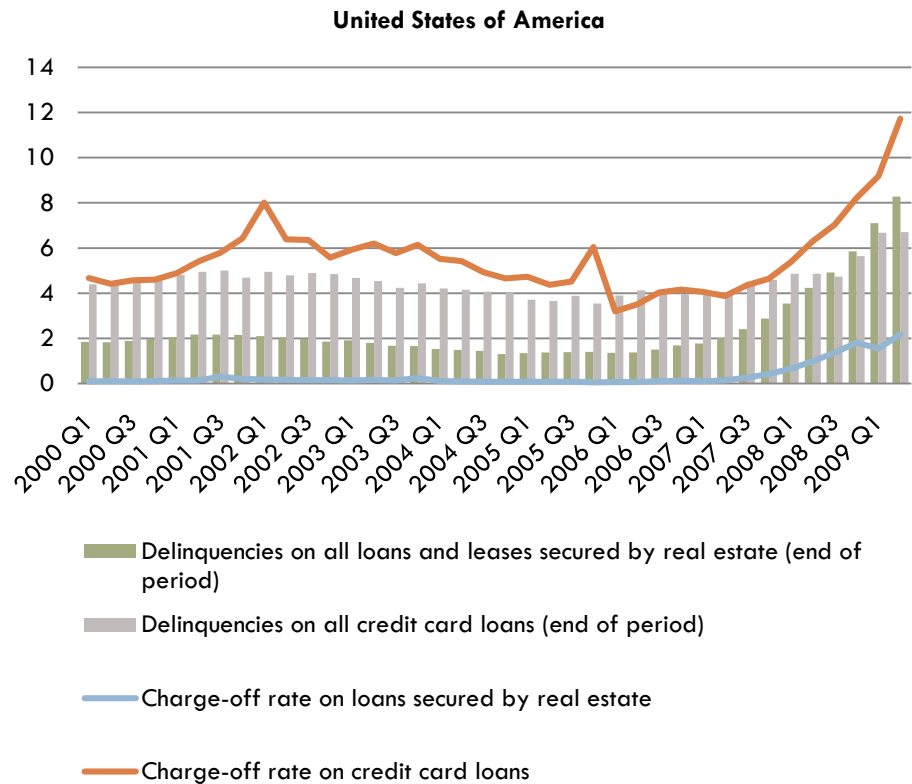
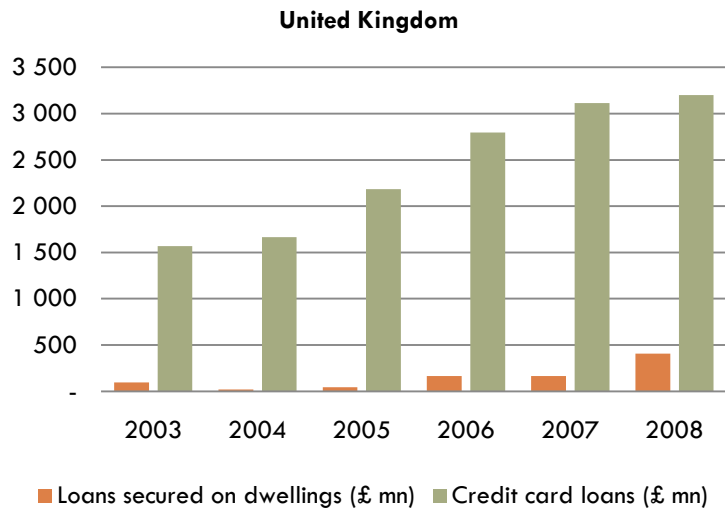
Sub-prime mortgage in the USA



Securitization of mortgage assets



Write offs and revaluation of loans, and delinquency rates



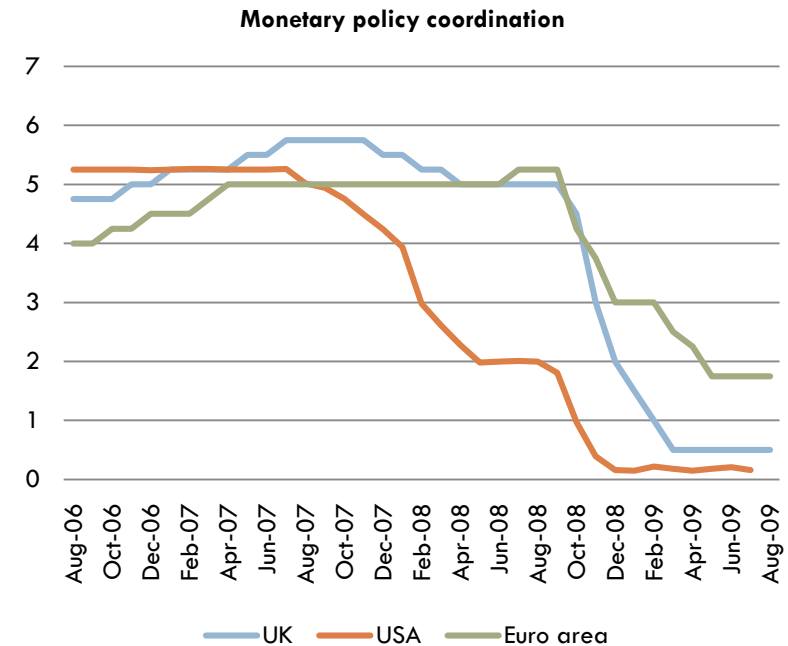
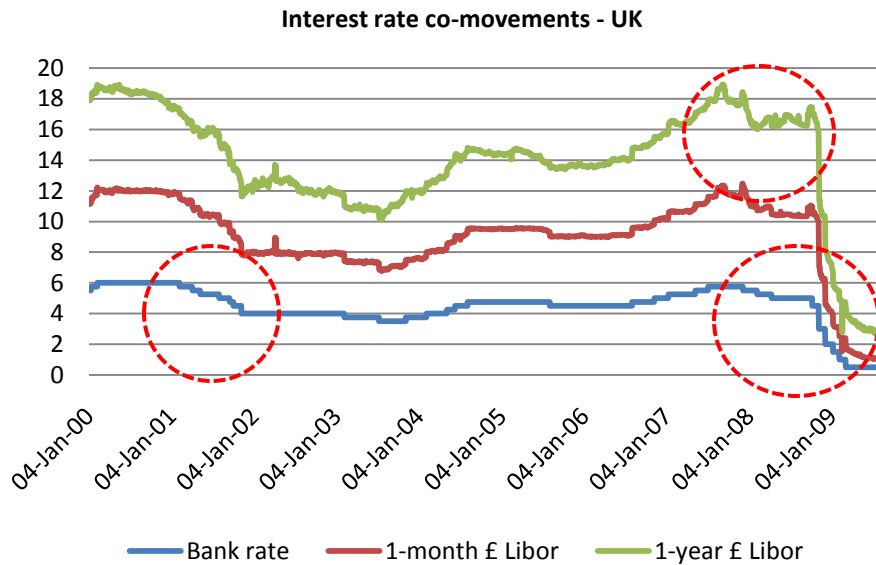


The response

Policy response

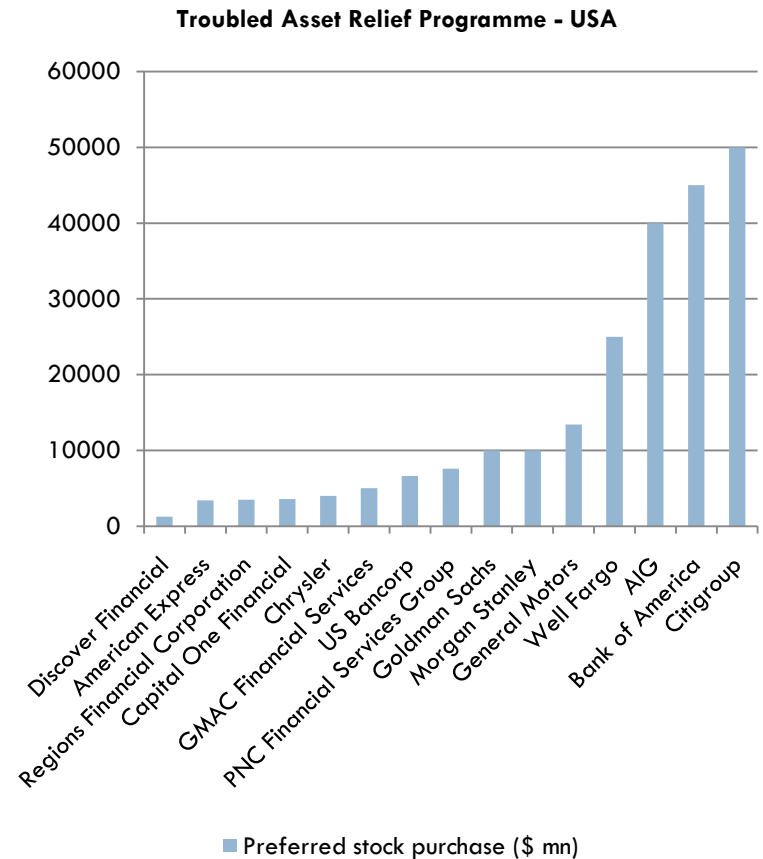
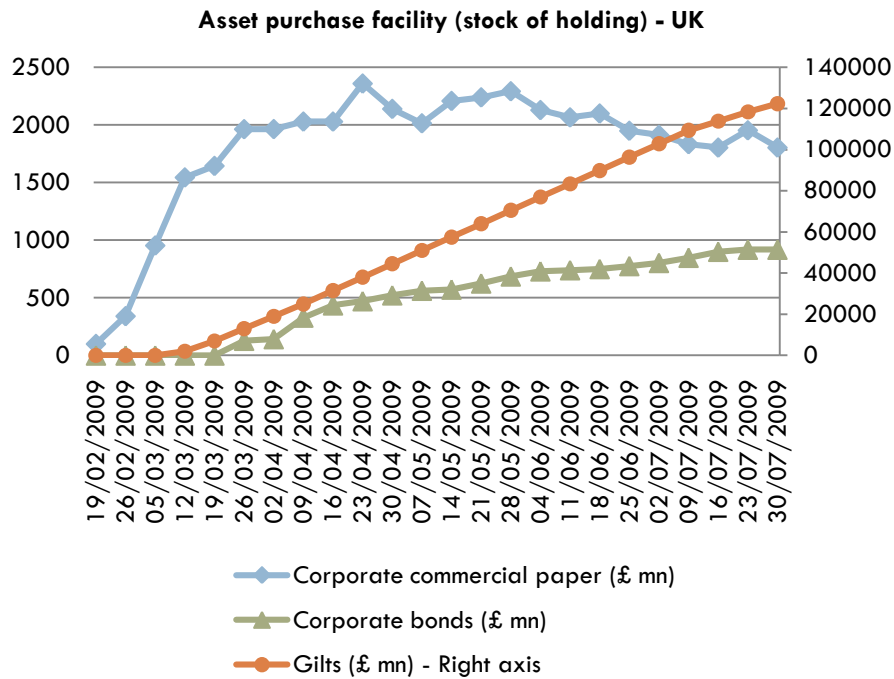
- Emergency liquidity support
- Expansion of financial safety nets
- Recapitalisation of financial institutions
- Resolution of problem assets
- Direct government intervention in credit markets
- Fiscal stimulus

Monetary policy and interest rates

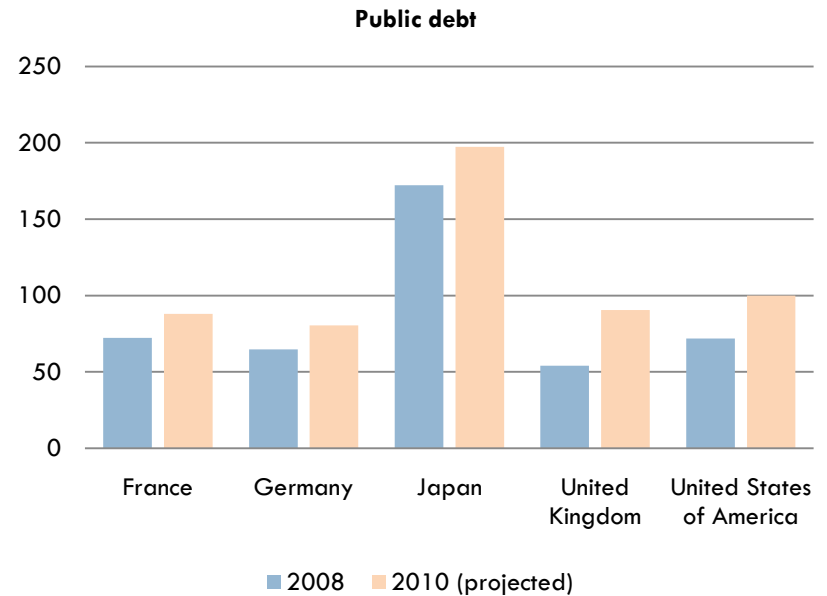
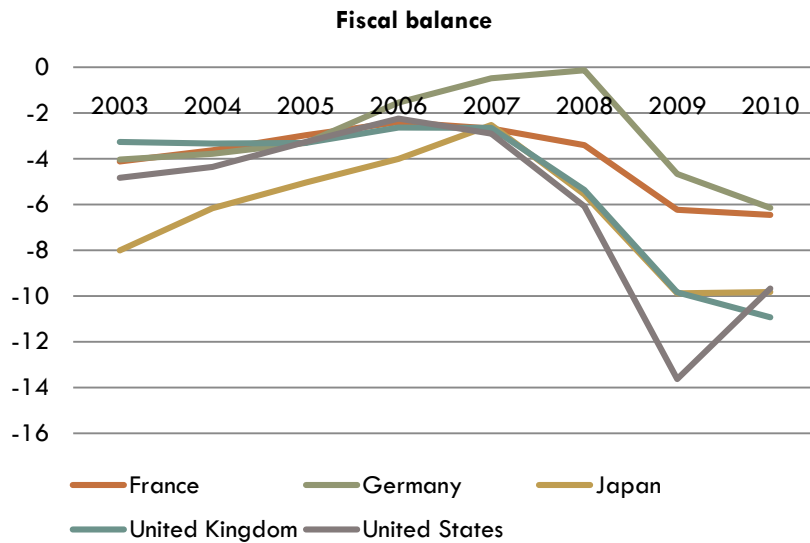


Sources: Bank of England
 Federal Reserve Bank of New York
 European Central Bank

Asset purchase and recapitalisation



Fiscal stimulus



Macro-prudential regulations

- Problems with micro-prudential regulation
 - ▣ Prudent behaviour on the part of individual banks can aggravate systemic problems
 - ▣ Risks are counter-cyclical but net earnings are pro-cyclical
- Capital requirement under macro-prudential regulation
 - ▣ A bank's asset growth rate compared to the rate that is consistent with a macroeconomic target (e.g., inflation)
 - ▣ Tenure of a bank's leverage



White knights

Their response to crisis

	Brazil	China	India	Korea
Emergency liquidity support	√	√	√	√
Increased deposit insurance coverage				
Guarantees on bank debt				√
Capital support		√	√	√
Troubled asset purchase or guarantees				√
Measures to kick start lending	√	√	√	√

Are they ready?

