



4 The Global Financial Crisis and Unconventional Monetary Policy

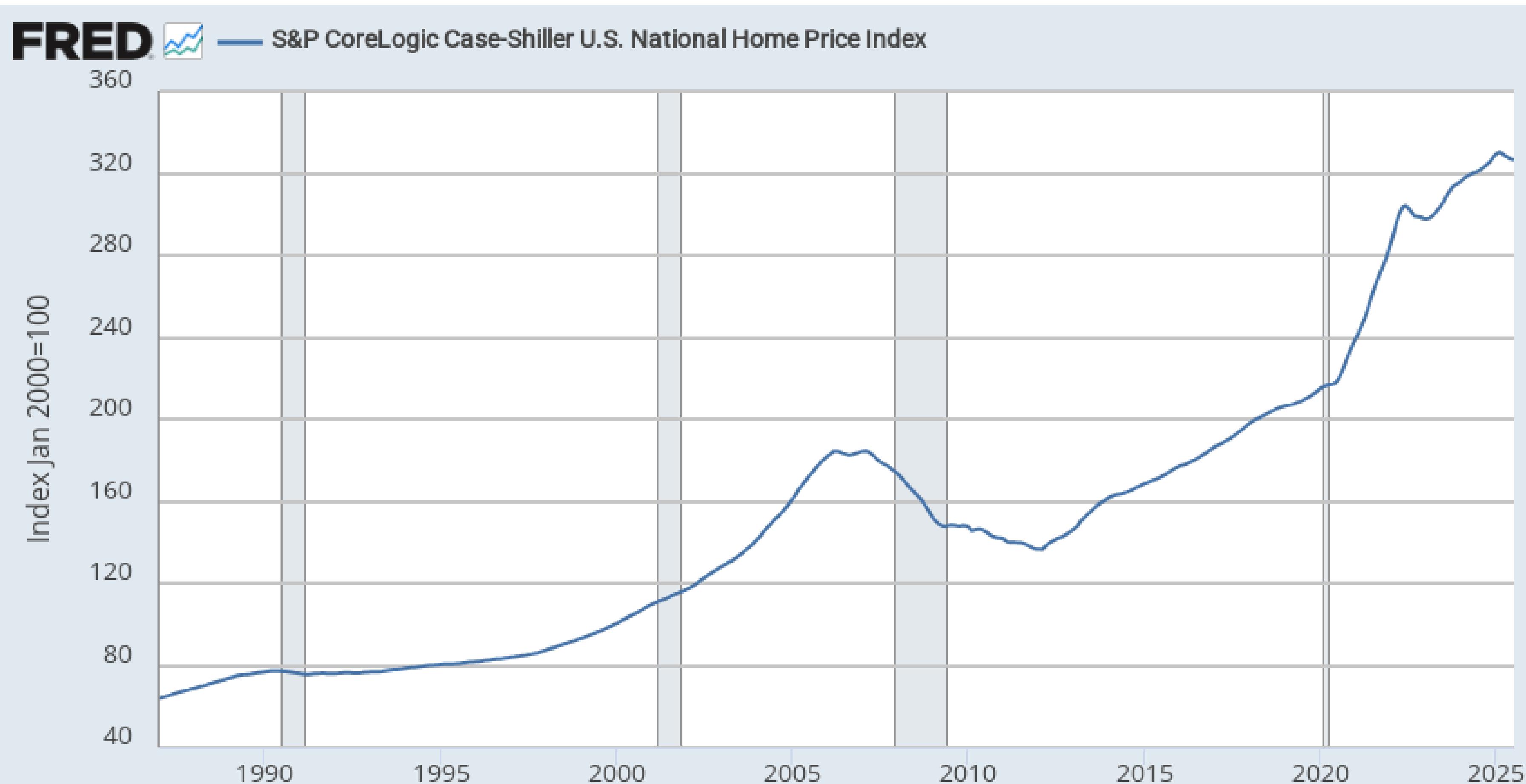
Global Business Environment

Luisa Lambertini

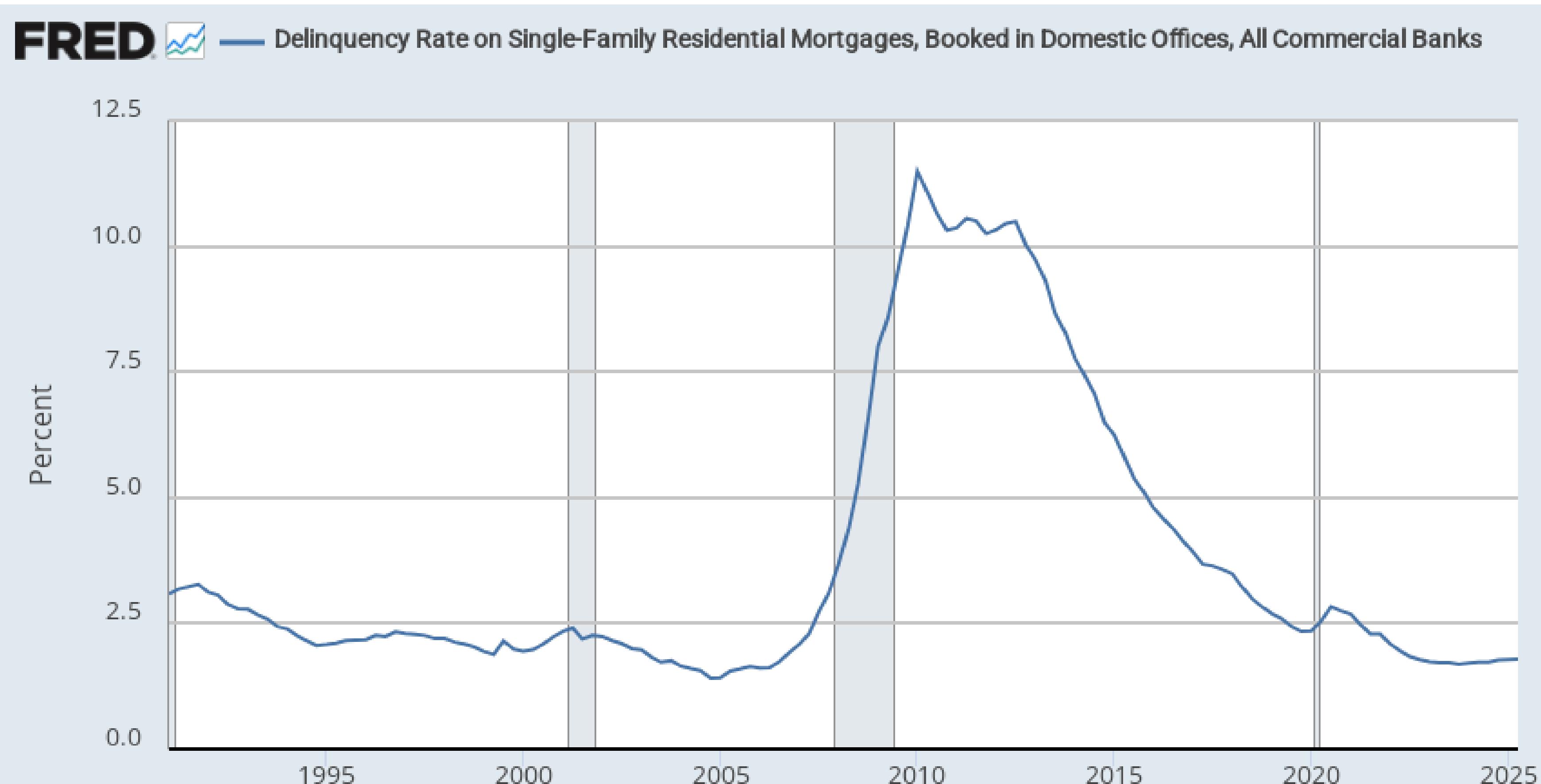
The Global Financial Crisis of 2008-09

- Triggered by a liquidity shortfall in the United States banking system in 2008
- Pre-crisis:
 - Inflows to the United States: global saving glut → easy credit → housing bubble
 - Large increase in financial instruments that derived their values from mortgage payments and housing prices, for example mortgage-backed securities and collateralized debt obligations
- The collapse of the U.S. housing bubble in 2007 caused the values of securities tied to U.S. real estate to plummet, damaging financial institutions globally

Real House Prices in the U.S.



Mortgage Default Rate



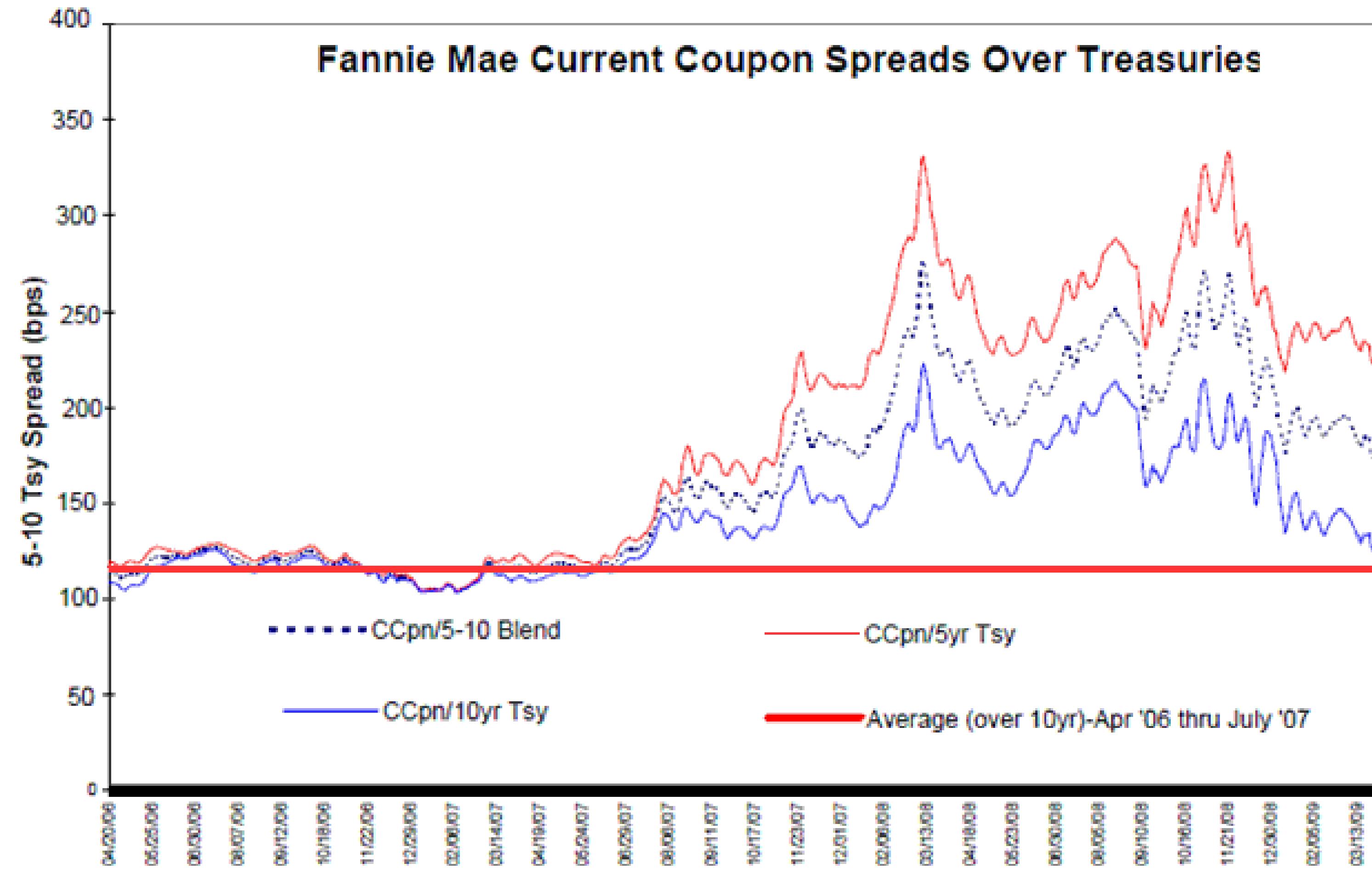
Source: Board of Governors of the Federal Reserve System (US) via FRED®

Shaded areas indicate U.S. recessions.

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Business Environment

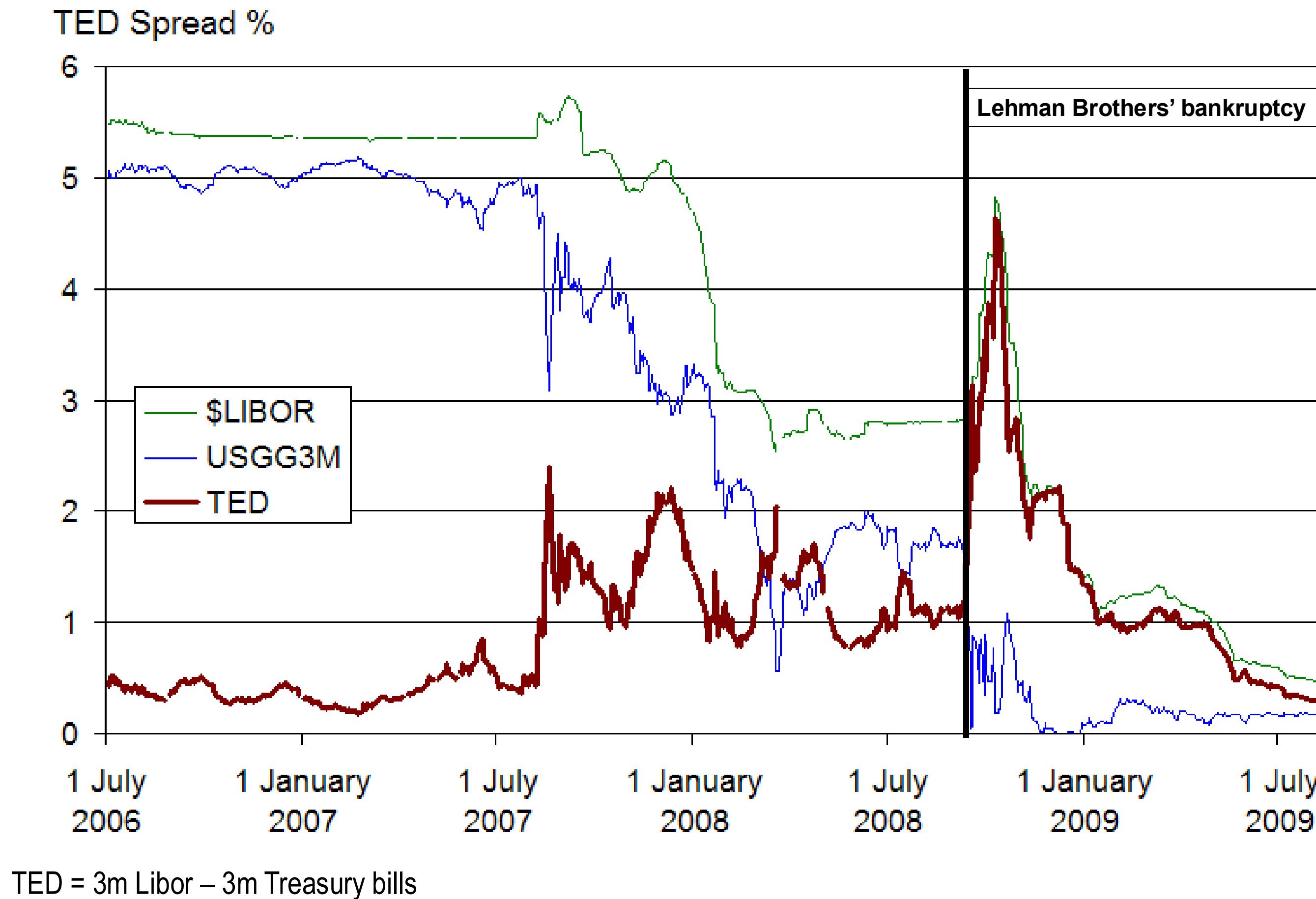
Mortgage-Backed Security Spread



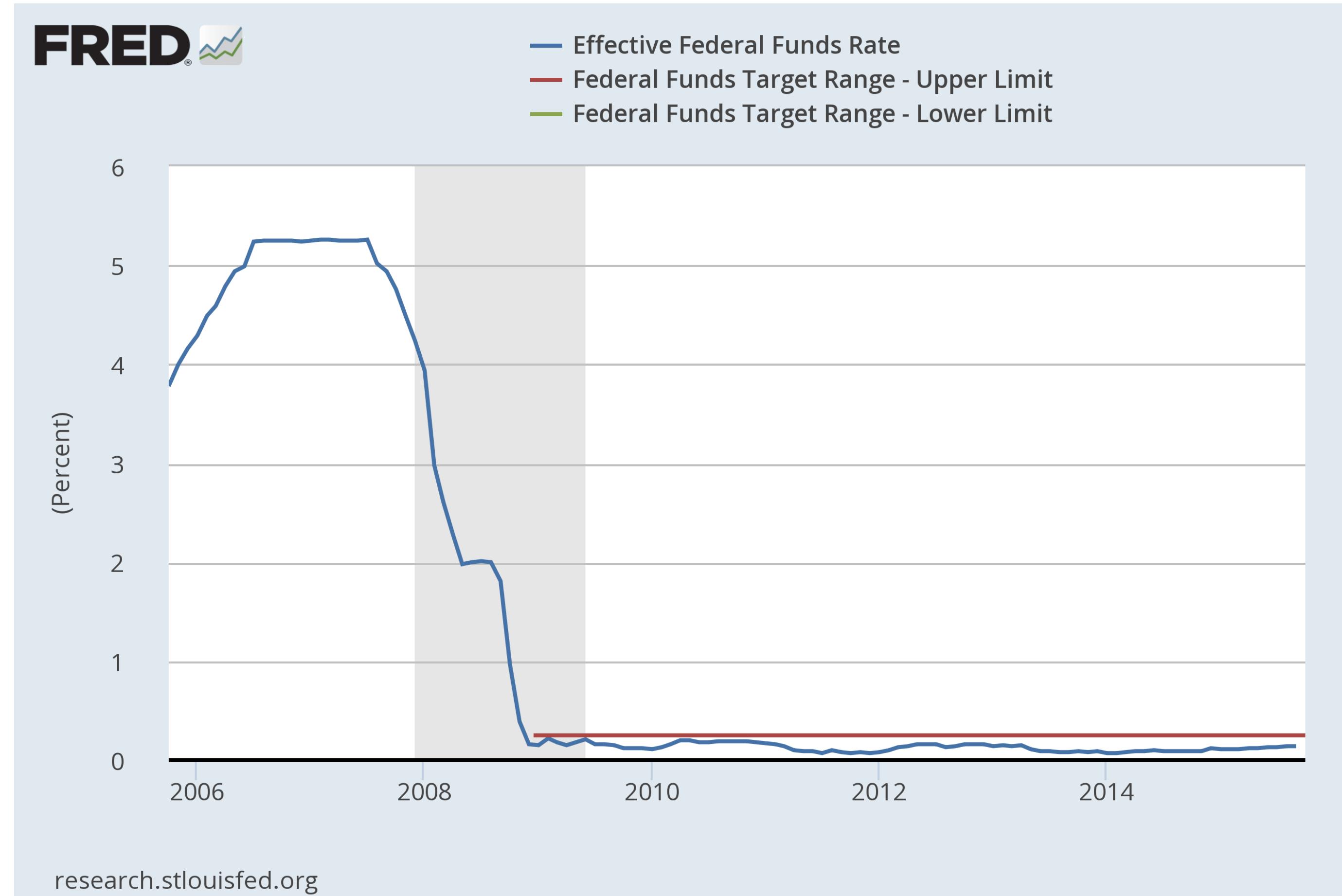
The Global Financial Crisis of 2008-09

- Questions regarding bank solvency, declines in credit availability and damaged investor confidence had an impact on global stock markets, where securities suffered large losses during 2008 and early 2009
- Banks lend to each other overnight and in the short term. Doubts about solvency froze the money market
- Bear Stearns was purchased by JP Morgan Chase on March 16, 2008; Lehman Brothers filed for bankruptcy on September 15, 2008
- TED spread: difference between the three-month LIBOR and the three-month T-bill interest rate

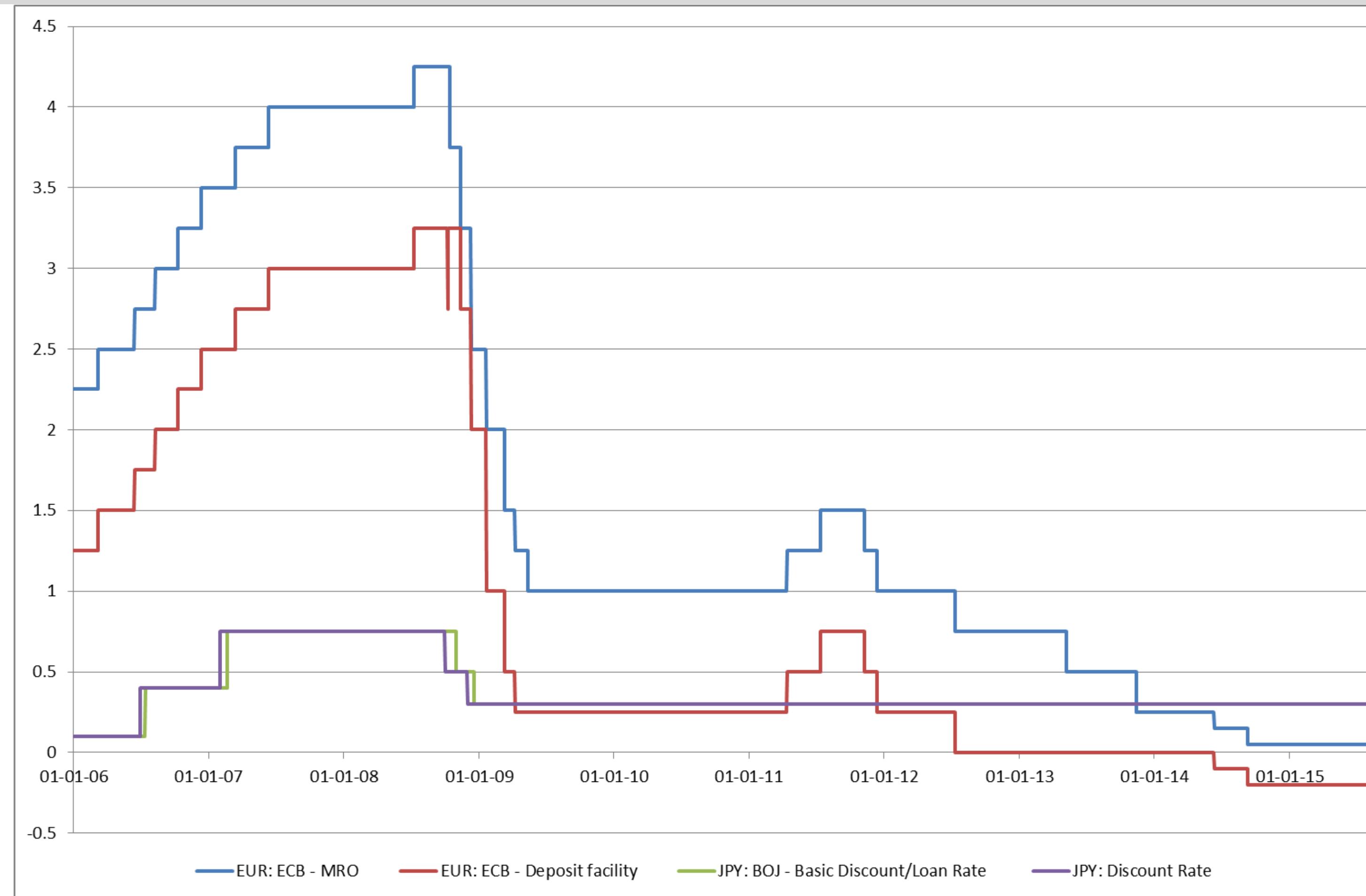
Pressure in the Interbank Market



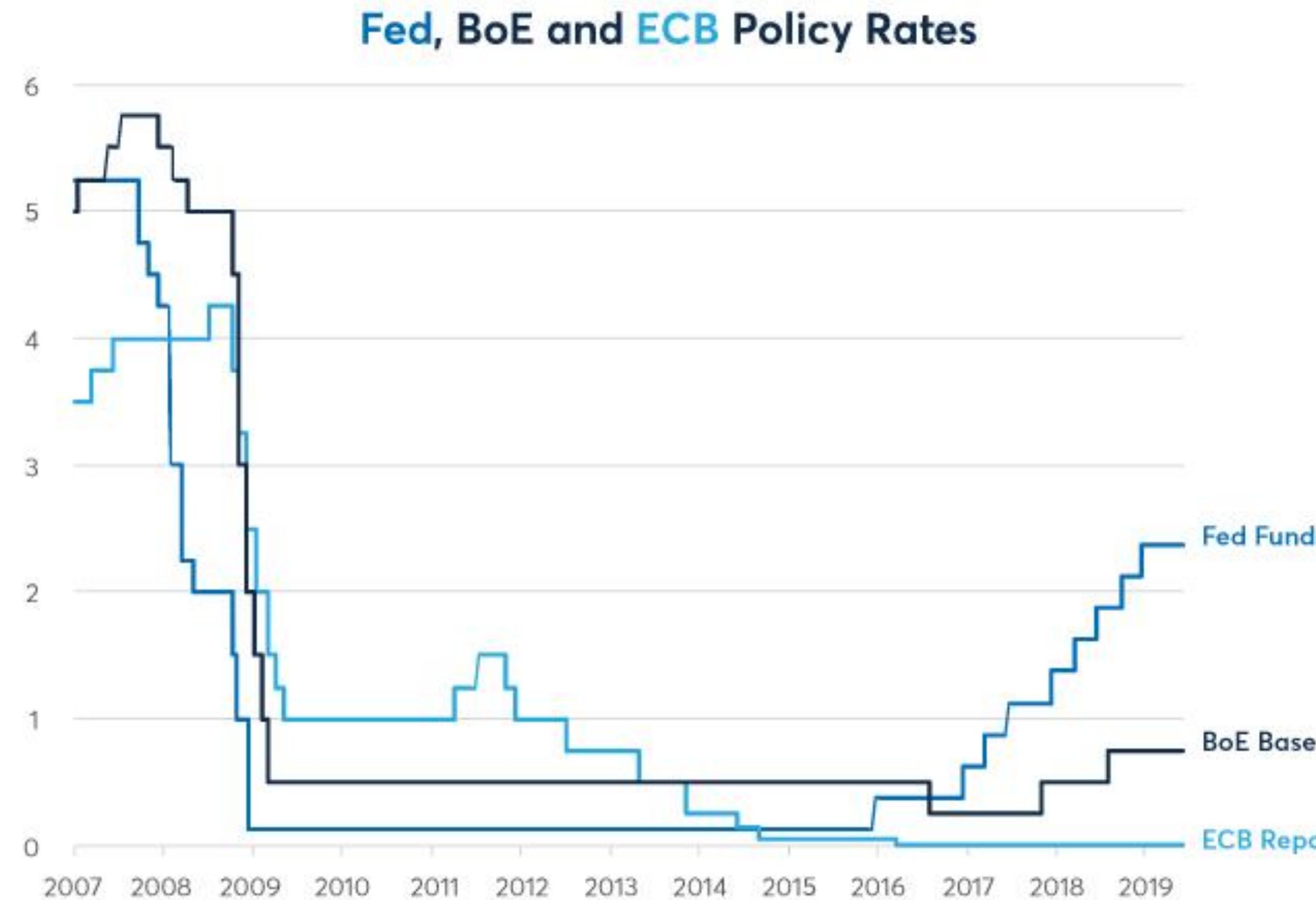
U.S. Standard Monetary Policy Response



Standard Monetary Policy Response: ECB and BoJ



Standard Monetary Policy Response: Comparison

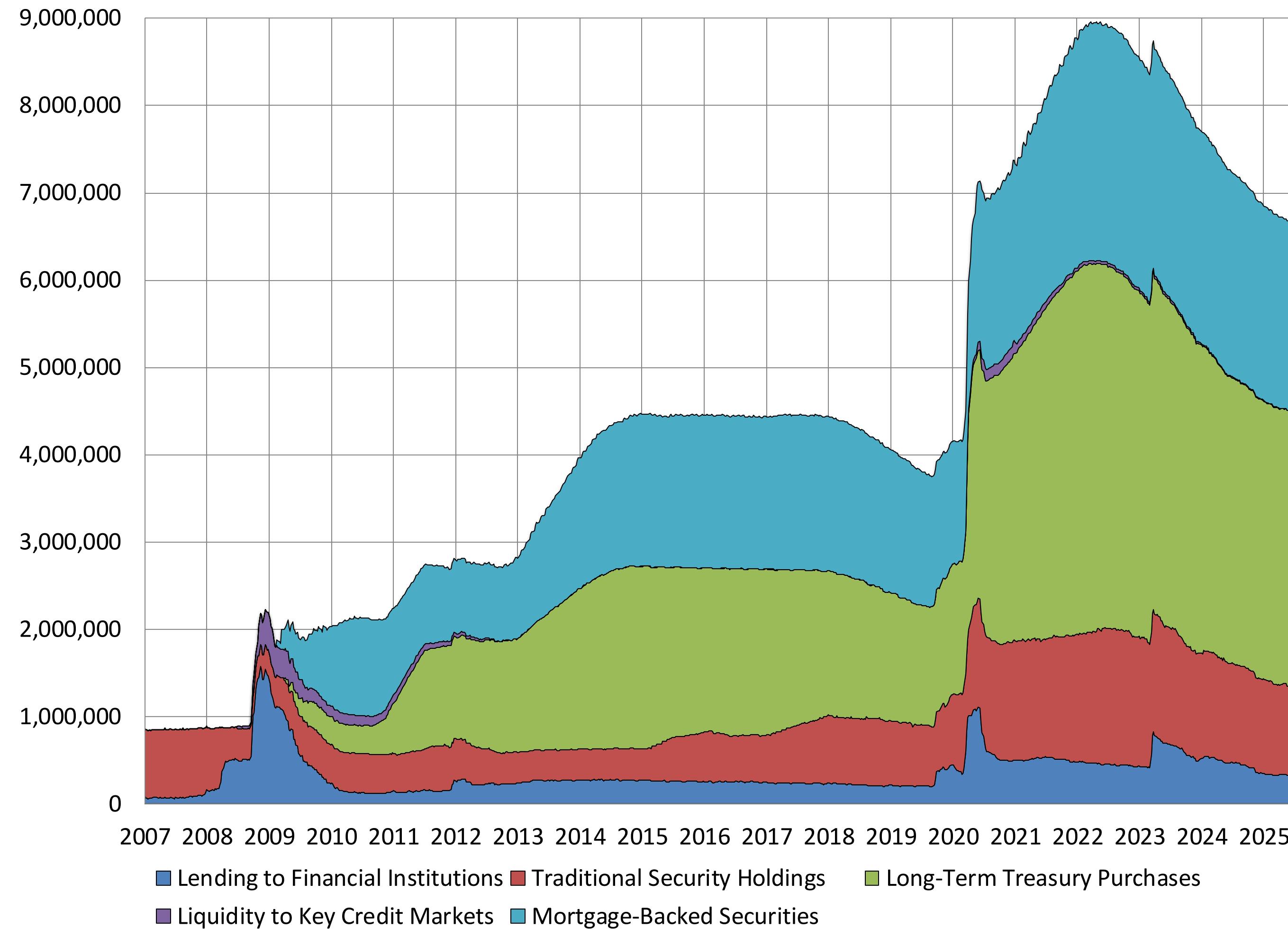


Source: Bloomberg Professional (FDTR, UKBRBASE, EURR002W)

Nonstandard Monetary Policies

- Central banks introduced new policy tools to support the functioning of financial markets and provide additional accommodation to the economy
- Credit easing: a central bank's purchase of financial assets whose composition aims to affect specific credit conditions
- Quantitative easing: a central bank's purchase of financial assets in a pre-determined *quantity*; composition is not relevant
- These policies have greatly altered the size and composition of central banks' balance sheet
- FX Intervention: smaller economies (like Switzerland) relied mostly on FX intervention

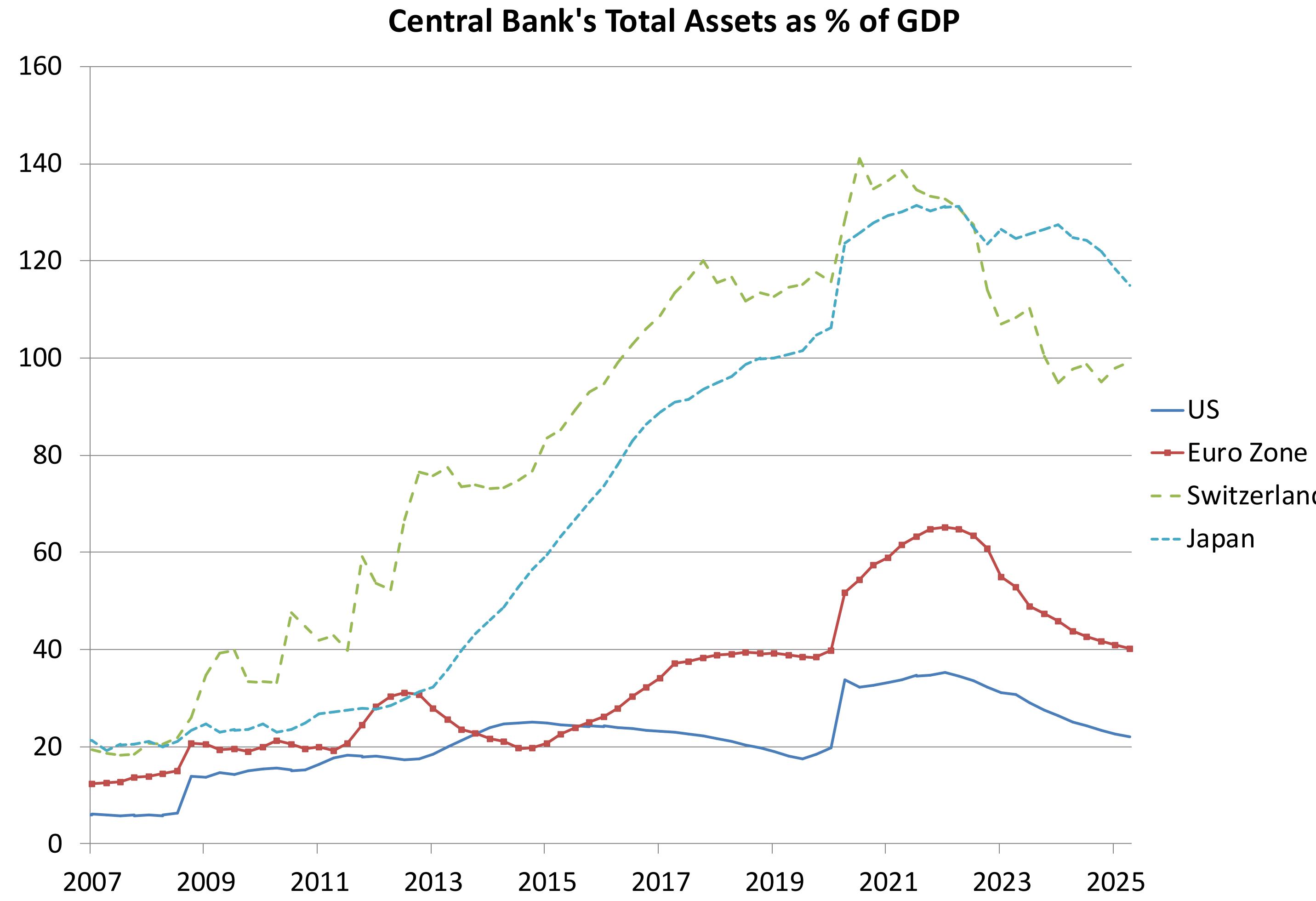
Federal Reserve Balance Sheet



In a Nutshell

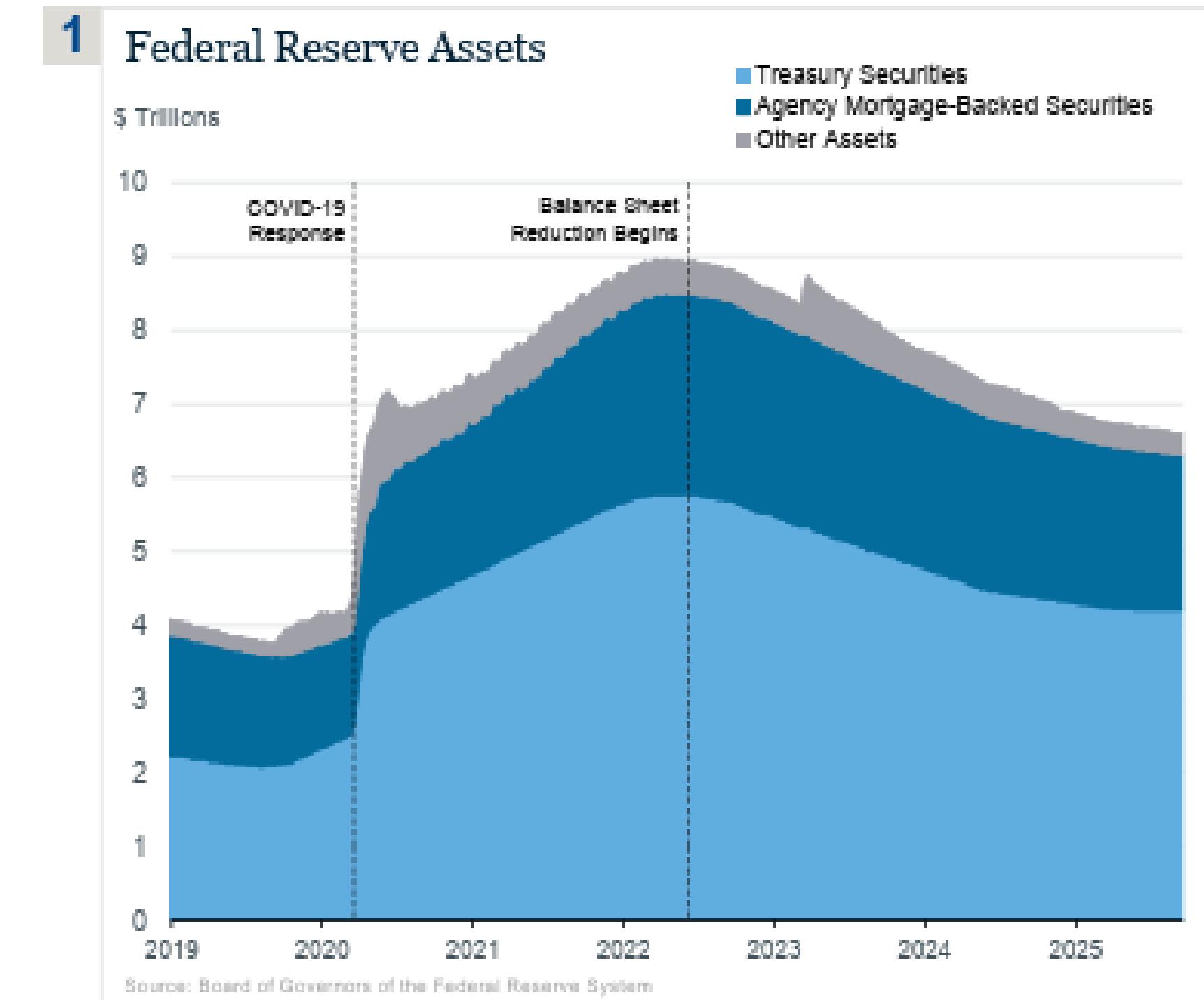
- Federal Reserve
 - Provided short-term liquidity to financial institutions
 - Large scale asset purchase programs: MBS and long-term Treasury securities
- ECB
 - Enhanced credit and liquidity support
 - Securities Market Program
 - Long Term Refinancing Operations
 - Outright Monetary Transactions (linked to EFSF/ESM programs, replace SMP)
- SNB
 - USD liquidity operations with repos
 - Stabilization fund in October 2008
 - CHF liquidity provision to Poland, Hungary

Unconventional Monetary Policy around the World



Federal Reserve – Post-Covid Tapering (from 2022)

- June 2022: start of balance sheet reduction (Quantitative Tightening)
- Runoff of Treasury securities and MBS with monthly caps (\$30bn Treasuries, \$17.5bn MBS; later \$60bn and \$35bn)
- 2025: slowdown in pace, Treasury cap cut from \$25bn to \$5bn/month
- Overall reduction: about \$2.2 trillion (2022–2025)



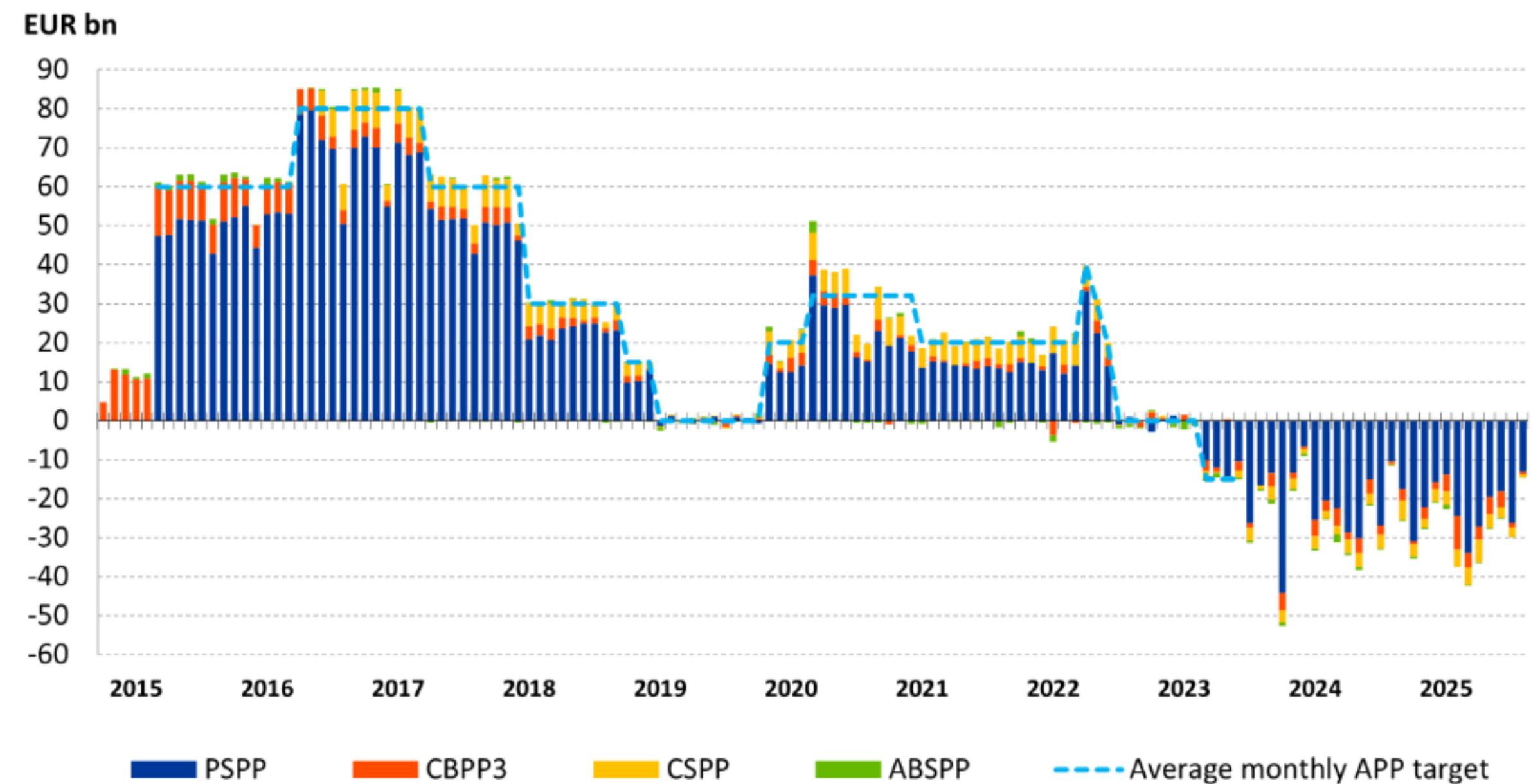
European Central Bank – Post-Covid Tapering

- July 2022: Net purchases under the APP stopped, but full reinvestments of maturing securities continued.

- March–June 2023: Partial reinvestments introduced, with APP portfolio shrinking by about €15 bn per month.

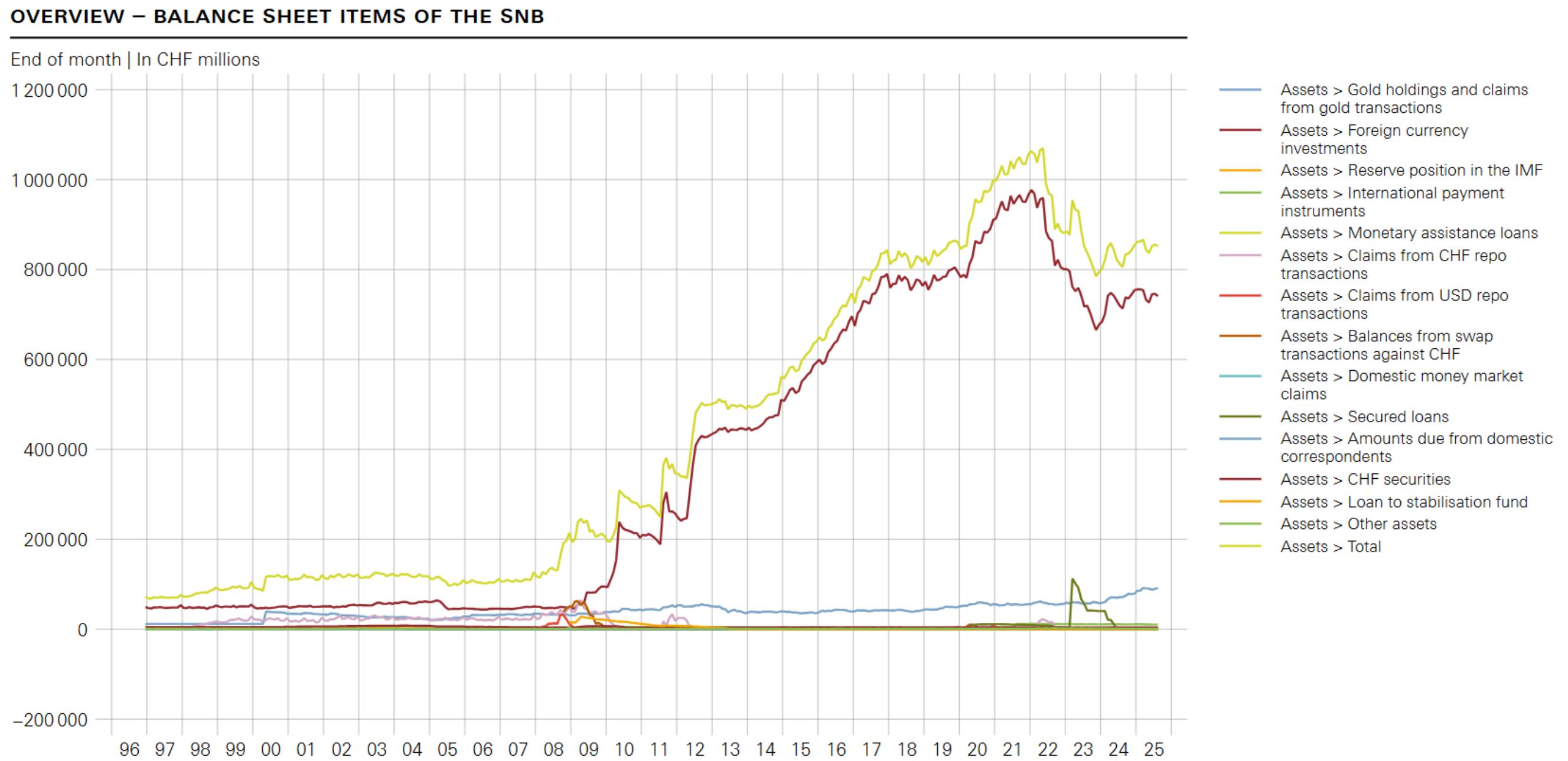
- July 2023: All reinvestments under the APP discontinued, marking the start of a full passive roll-off

Chart: Net asset purchases by programme under APP



SNB – Post-Covid Balance Sheet Reduction

- Since 2022: balance sheet reduction mainly via net FX sales
- 2022–23: balance sheet shrank by ~23% (FX sales + valuation losses)
- Liquidity absorption tools: repo operations, sight deposit reduction, SNB Bills
- Monetary policy relies primarily on policy rate, not balance sheet size



Unconventional Monetary Policy - Summary

- Credit and quantitative easing
- Central bank's balance sheet
- Restart