IJFANS INTERNATIONAL JOURNAL OF FOOD AND NUTRITIONAL SCIENCES
ISSN PRINT 2319 1775 Online 2320 7876
Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, Iss 08, Aug, 2022

A New Approach - Global Financial Governance

Sunny Masand

Assistant Professor, RNB Global University, Bikaner, Rajasthan

Abstract

The post-pandemic economic scenario is akin to the Mona Lisa, revealing different aspects with each observation. Amidst the banking industry chaos, many analysts now foresee a potential "hard-landing" recession for the world economy. The once-popular notion of a "no-landing" scenario, untouched by rising interest rates, has faded, replaced by the current belief in an imminent economic downturn. The unpredictability extends to the Federal Reserve's actions on interest rates, with speculation ranging from a rate rise to no change or even a cut. The world's increasing volatility is evident through events such as Europe's largest land war in seven decades, supply-chain disruptions, an energy crisis, and recent banking turmoil. Each recession provides valuable lessons, contributing to the evolution of global financial development. This paper highlights commonalities between the 2007-09 recession and the 2023 bank run, including rising unemployment, mass layoffs, and similar impacts on productivity. While the earlier recession had a global reach, the recent bank run was confined to US and Credit Suisse banks.

Structural changes, particularly related to COVID-19 disruptions, add complexity. The abrupt shifts between crashing and soaring growth during lockdowns have disrupted the typical "seasonal adjustments" in economic data. Changes in factors affecting inflation calculations further complicate the interpretation of monthly rates. Euro-zone inflation, too, presents challenges in understanding. The global economy may remain ambiguous for some time, influenced by these ongoing shifts and uncertainties.

Introduction

In no other area have globalization and integration progressed in the last two decades more quickly and forcefully than in Finance? The world has witnessed unprecedented exponential growth in cross-border asset flows and holdings by non-financial institutions and banks after the generalized removal of capital controls in the 1970s and 1980s. This has been more prominent among industrialized countries than others. Among the emerging countries, financial integration has been lower, though still significant, probably due to their less developed financial markets. [1–7] Financial integration has peculiar characteristics and it differs from other economic activities because of the presence of greater information asymmetry between borrowers and lenders. Lenders put their money at risk without the benefit of the same information on the quality of the project and of the counterparts that borrowers enjoy. The more the information is asymmetric, the more the financial sector is inefficient and risky. Regulatory and supervisory policies have a major impact on the size and the nature of information asymmetries, e.g. disclosure requirements for securities, bank capital regulation etc. Such information asymmetries are more pronounced across the frontiers since countries possess individual legal systems, regulatory arrangements, and social and moral habits that are relatively foreign to foreigners. However, financial integration is not always associated with information asymmetry. For large transnational financial & non-financial agglomerates the asymmetry of information is not a problem as they are able to gain local knowledge; rather, on the other hand, their presence improves market management practices in the host countries.

The global financial crisis of 2008, after one a half decade, was followed by the sudden bank

 © 2012 IJFANS. All Rights Reserved,

runs in some banks in the US and Credit Suisse Bank of Switzerland. But both the crises were different from each other in many respects and some features were equipollent as in typical recession situations. The current banking crisis brings to mind the similar global phenomenon that occurredin 2008, similarly gestated in the US banking system. [8–11]

Differences: 2008 vs 2023

1. 2008 was a global crisis, but the present one seems regional. Without forgetting that an institution with global systemic risk has already gone bankrupt, Credit Suisse, the 2008 crisis was totally global because the relevance of the Lehman Brothers collapse was too regnant. Today we are facing a somewhat more local or regional crisis. The effect seemed similar and could have been sweeping, but so far it has been contained. Definitely, we cannot compare the collapse of institutions like Silicon Valley Bank or Signature Bank with that of Lehman Brothers. This last institution was 158 years at the time of its bankruptcy, but because it was considered at that time the second largest bank in the country with assets of 650 billion dollars and one of the 5 largest banks in the world.
2. Unconditional monetary support in 2023. The United States was willing to give as much money as possible to maintain the stability of its financial system, something that did not exist in 2008.
3. Global coordination, but limited in 2008; today a single financial circuit. In 2008, the central banks implemented global coordination to face the crises that were unleashed after the collapse of Lehman Brothers, but in the end, everything was the regional responsibility of each respective monetary institution. Today the central banks have announced the largest monetary operation in modern history. Thus, the place where it is required will have a massive presence of the central banks of the world's powers, there are no borders to face the crisis, and no part of the world, no matter where located, is not covered.
4. Banks are no longer too big to fail, but they don't do it alone. Let's take a moment at what happened with Credit Suisse, and at the same time, let's go back to 2008. In that year it was said that several more banks of the giants must have failed, not just Lehman Brothers. But the argument was that there were banks that were too big to fail, and they were bailed out somehow. Today we know that Credit Suisse, one of the largest in the global system, went bankrupt. However, it is striking that the bankruptcy was operated on a weekend by the government of the country. Unlike in 2008, today banks are no longer too big to fail or it doesn't matter that they are. But they do not go bankrupt alone, the governments and monetary systems of the respective countries operate behind them. to ensure the stability of the financial system as a whole.
5. Solvency crisis of 2008; liquidity crisis in 2023. The two banking crises appear to have had different origins; In 2008, the bankruptcy of Lehman Brothers was caused by its insolvency as it did not have the resources to cover the excessive indebtedness, and the registered losses. In 2023 it has been pointed out that at least the Silicon Valley Bank and the Signature Bank did have the necessary solvency, but not the immediate liquidity, which leads us to a point that is recorded in the similarities and that, ultimately, led to the same result: the bankruptcy of banks.

Similarities

1. Central banks stopped being passive. Until before 2008, central banks seemed to live in another world, one in which crises seemed to be alien. Bernanke precisely faced the 2008 crisis as head of the Fed and if he did anything it was to get the organization out of that "old world", which marks the beginning of the era of central bank interventions in crises. The big question is, without those interventions, what would have happened? Everything

IJFANS INTERNATIONAL JOURNAL OF FOOD AND NUTRITIONAL SCIENCES
ISSN PRINT 2319 1775 Online 2320 7876
Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, Iss 08, Aug, 2022

seems to indicate that the crises would be much deeper. As we know, todaythe central banks have decided on participation and everything indicates that this will be the case in the future also if any incident happens.

2. Rates, and effects in both periods. In 2008 the Fed hadfinished its bullish cycle and the effects were felt in themortgage sector; today the Fed is also escalating and the effects are being felt in the banking sector. When the Fed moves its rates, and indeed when any central bank does, there are always consequences.
3. Poor regulation. Neither in 2008 nor in 2023 didthe regulations seem to prevent what was to come or at least they did not do it with sufficient preventive force. In 2008, everyone wondered how the authorities didn't realize that Lehman Brothers was headed for the precipice. The same question is asked today bythe markets, no one could have prevented what could happen to the regional banks of the United States. Onething is clear, the recurring crises are a symptom that things are not going well in the global economy, and itis something that is several years old, if not the entire present century.

A general slowdown in economic activity is characterized by, a downturn in the business cycle, a reduction in the number of goods and services produced and sold, unemployment, major layoffs, and labour productivity. These are all characteristics of a recession.

The Financial Crisis of 2007-'09.

The financial crisis situation which occurred during 2007- 09, had the characteristics of the previous episodes of financial instability and also some of the characteristics specific to it. Seen from this angle, the crisis was not a new phenomenon but an acceleration of the then-existing trends.For example, views about the nature of the mortgage crisis are divided between those who stress its novel character andthose who emphasize the many things it had in common with the earlier episodes of financial instability. [12–18]

This crisis originated from unprecedented real estate & its securitization. Traditionally real estate finance had been carried out through relatively unsophisticated instruments maintaining a close link between the borrower (the household) and the financier (the banks). The loans used to remain in the bank's balance sheets as they are, based on fixed or floating interest rates. This could ensure ex-post monitoring of the borrowers. But in the new form of the business, these mortgages were packaged in sophisticated commercial instruments and derivatives and were dispersed widely throughout the country (the US) and across the globe. This resulted in the rapid spread of the risk too far many institutions and many countries. Because of the spread of the risk to many and better allocations, the system became more efficient and more resilient to shocks. In practice, this encouraged the banks & other financial institutions to expand their mortgages to cover even increasingly risky homeowners, using Special Investment Vehicles to escape the proportionate increase in their capital. Moreover, they tended to underestimate the risk of the loans made over to subprime. This was because these mortgages had a ready market for their quick securitization and passing over to other investors. These secondary player firms and banks were not aware of the quantum of the risks purchased by the originator firm or bank and they solely relied on the benevolent credit rating agencies. The financial crisis was preceded by a prolonged period of price escalation of assets:
–stock and real estate witnessed continuous escalation of prices in the global markets for about a decade beforethe crisis in August 2007. The prices went beyond allreasonableness and this fuelled further speculation and consequent additional unrealistic increase in prices. Noinvestor could bet against the trend in the market. Another example of the precedent similarities was that the period of the price boom on the stock and real estate markets was preceded by expansionary monetary policy and fast growth of money and credit in both the developed and the developing countries (for most of the 1990s and 2000s). All these old and new features

IJFANS INTERNATIONAL JOURNAL OF FOOD AND NUTRITIONAL SCIENCES
ISSN PRINT 2319 1775 Online 2320 7876
 © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, Iss 08, Aug, 2022

suggest an increase in the degree of interdependence of the international financial system. This system is now deeply embedded in the international markets and has become the irreversible future landscape of the global financial markets. This is evident from the fact that, as per the latest estimates, about 40% of the subprime mortgage segment in the US is ultimately borne by investors in Europe and other parts of the world. In other words, to an increasing extent, the supervisory and regulatory environment of the originating country will affect the risk profile of foreign investors.

1. One of the most widely recognized indicators of a recession is *higher unemployment rates*. In December 2007, the national unemployment rate was 5.0 percent, and it had been at or below that rate for the previous 30 months. At the end of the recession, in June 2009, it was 9.5 percent. In the months after the recession, the unemployment rate peaked at 10.0 percent (in October 2009). Compared with previous recessions, the higher proportion of long-term unemployed (those unemployed for 27 weeks or longer) in the 2007 recession and its post-recession period is notable as depicted in Figure-1. Compared with the unemployment rates of other industrialized countries, the U.S. unemployment rate was higher than a few and lower than most other countries before the start of the recession. By the end of the recession, the U.S. unemployment rate was higher than most other industrialized countries, and it remained so in the months following the recession.
2. The number of job openings, or unfilled jobs, is an important measure of the unmet demand for labour**.** In the months before the start of the recession, the number of job openings, which reached a pre-recession peak of 4.8 million in March 2007, began to decline even while nonfarm employment continued to increase to a peak of 138 million in January 2008 (the month after the start of the recession). During the recession, the number of job openings decreased by 44 percent while employment declined by 5 percent

Source: Current Population Survey

Fig. 1: Unemployment rate and long-term unemployment rate, January 1948- December 2011, seasonally adjusted over that same period. A month after the official end of the recession, in July 2009, the number of job openings declined to a series low of 2.1 million. Since then, the number of job openings has trended upward and it has been over 3.0 million each month from May to October 2011. Employment reached its recent low of 129 million in February 2010 as shown in Figure-2.

IJFANS International Journal of Food And Nutritional Sciences
Official Publication of International Association of Food and Nutrition Scientists

ISSN PRINT 2319 1775 Online 2320 7876
 © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, Iss 08, Aug, 2022

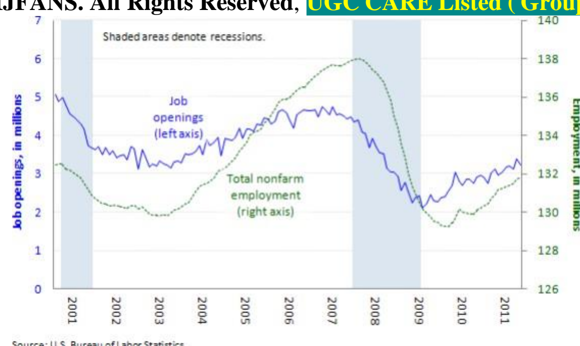


Fig. 2: Job openings and employment, January 2001-october 2011, seasonally adjusted

3. Mass Layoffs were another characteristic of the 2007-09 financial crisis. A mass layoff occurs when at least 50 initial claims of unemployment insurance are filed against an establishment. During the recession of 2007-09, employers took 3059 mass layoff actions in February 2009 involving 326,392 workers, both of which are very high. Figure-3 shows the number of Mass Layoff events from 1996 to 2010. Maximum lay-offs took place during the recession period i.e. 2008-09.
4. Consumer expenditure is another factor that is adversely affected by a recession. In constant 2010 dollars,

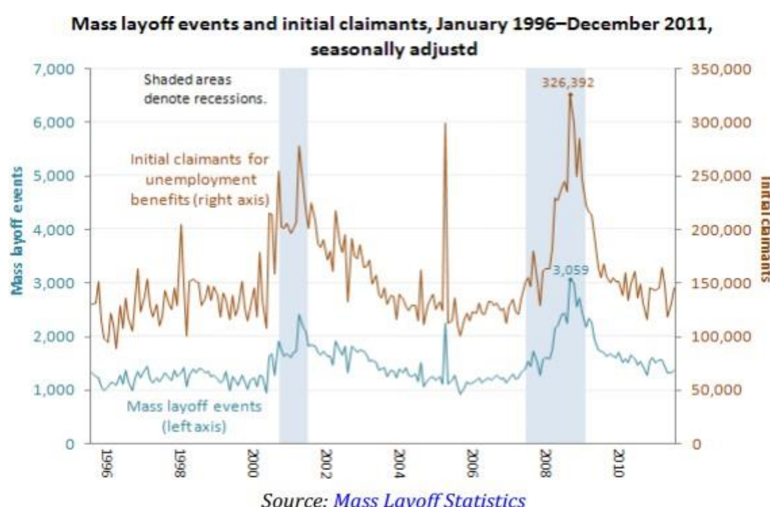


Fig. 3: Mass layoff events and initial claimants January 1996-December 2011, seasonally adjusted average expenditures per consumer unit (in ordinary language: "households") were $46,119 in 1984, and they peaked at $52,349 in 2006. Since the recent recession started, average expenditures (in constant 2010 dollars) have dropped from $52,203 in 2007 to $48,109 in 2010.

5. **Productivity fall,** though**,** is not a rule during a recession. In 3 of the 11 recessions, the output fell more than the labour input in the non-farm sector, leading to a fall in labour productivity. Productivity may increase sometimes in recessions with a fall in labour input. This occurred in 8 of the 11 recession times, including in the 2007-09 recession as shown in Figure-4.

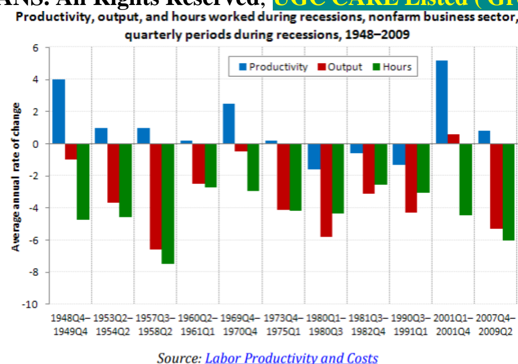
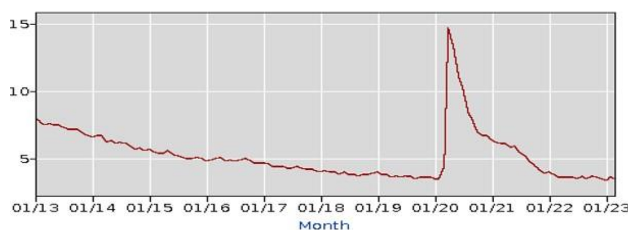


Fig. 4: Productivity, output, and hours worked during recessions, nonfarm business sector, quarterly periods recessions, 1948-2009

The Recent Bank Crises (2023)

Once again, we must confront the reality that the rules of finance are going to change. This time, the restructuring of finance looks less likely to be about a big new set of rules than about a deeper change in the political mindset: an acceptance of a mercantilist form of finance. We could be slithering toward a new form of financial capitalism, one laden more with peril than with promise. That won't happen overnight. Especially in the banks themselves, the accent for the moment is on survival rather than revolutionary ideas. Indeed, for financiers rather than politicians, the new normal can be summed up in one phrase: back to basics. If the 2008-'09 crisis was all about the quality of assets, the focus this time is on liquidity. They just did not have enough ready cash to cover the long line of depositors suddenly wanting their money back. But blaming everything on a sudden liquidity crunch lets SVB and Credit Suisse off the hook. Depositors only wanted their money back in a hurry when they don't trust their bankers. And when it comes to trust, SVB and Credit Suisse got some fairly basic things wrong. The most interesting change may be some redefinitions of what banks are. American regulators chose to concentrate on monitoring the balance sheets of big banks that were "too big to fail." Staggeringly they concentrated their stress tests on banks with more than $250 billion in assets. Mid-sized institutions like SVB (with aeests just over $200 billion) also did not need to meet the same liquidity ratio, thanks to a Trump administration rule change lobbied for by SVB's CEO and others. The other much bigger class of entities are all the non-banks that do versions of lending, including private equity firms, venture capital firms, hedge funds, and the host of special purpose vehicles that finance has invented to get around banking rules.

As far as unemployment rates are concerned, with the rise in rates by the FED hawkishly, the unemployment rate came down instead of increasing just like the previous recession of 2007-'09. The following figure-5 depicts this.



Source: -- Labour Force Statistics from the Current Population Survey

Fig. 5:

Like in the 2007-09 recession, the non-farm payroll growth was about in line with the expectations but showed that the jobs picture is in the early stages of a slowdown. The unemployment rate ticked lower to 3.5% with a decrease coming as labour force participation

rate increased to its highest level since covid. Though it was as economists expected, and came amidst efforts of the Federal Reserveto slow labour demand in order to cool inflation. Figure-6 isshowing the feature in graphical form.

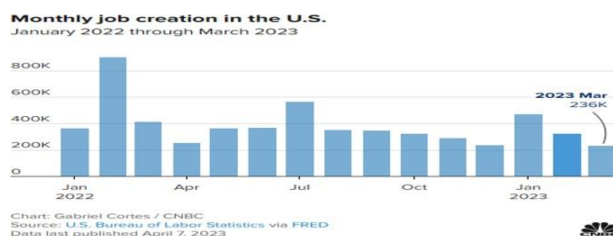


Fig. 6:

Mass layoffs during the 2023 Bank Run15.5 million people In the United States were laid off in 2022. Layoffs have significantly increased over the past years. The mental pressure faced by the employees due to the layoffs has also increased tremendously. Most employees in their youth face the dilemma of being laid off by their company. The recession and the poor performance of the employees are the major contributors to the layoffs. Big techs in their effort to build a strategic resistance to an assumed impending recession have indulged in rampant and extremely fast-paced layoffs impacting a whopping 102,943 workers in the US job sector, according to a report publishedby Layoffs.fyi. The report has further informed that the numbers of layoffs in January 2023 were twice as many as in December 2022 and an almost five-year rise since 2021. The massive layoffs come as consumer and corporate spending shrink due to high inflation and rising interest rates. The lay- offs by the major Tech-Companies in America are shown graphically in Figure-7 below. [18–21]

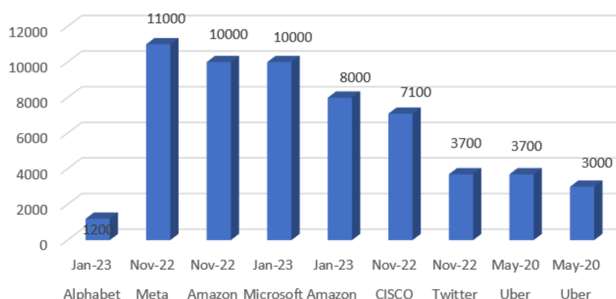


Fig. 7: The largest tech lay-offs by american tech companies

Consumer expenditure during the period from 2020, however, has recorded a minimum increase. The following graph (Figure-8) indicates the same.
The effect on productivity during the years 2020 to 2022 was mixed, due to rising in the rates by the FED reserve.

We are, therefore, seeing the birth of a new form of financial capitalism — banks are becoming more intertwined with governments, and governments are picking winners and trying to back the industries of the future. Some people will do extremely well out of this. Politicians will no

ISSN PRINT 2319 1775 Online 2320 7876
 © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 11, Iss 08, Aug, 2022

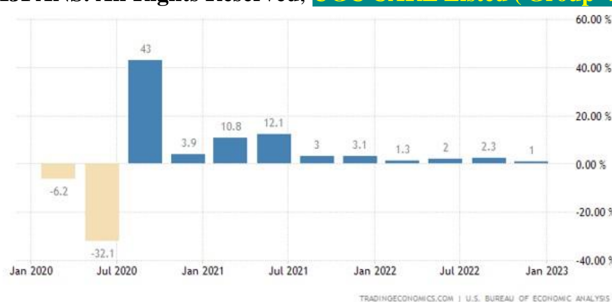
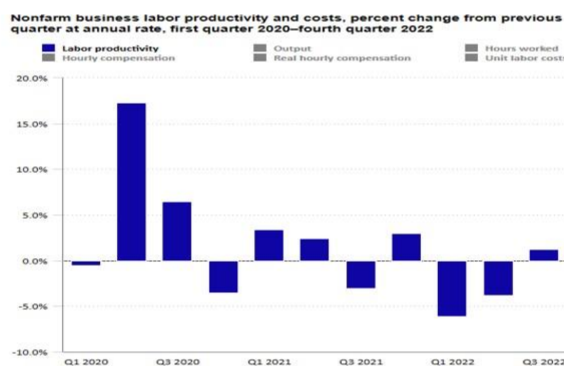


Fig. 8:



Source: - US Bureau of Labour Statistics.

Fig. 9:

Doubts welcome it because it increases their control over the economy. Perhaps we will look back on these few weeks as the time when the era of free market truisms ended — and Western governments decided that finance was their territory.

The 2008- '09 crisis also had widespread implications as far as the various Central Banks' Policies are concerned. As lenders of the last resort, the Central Banks are the first line of defense for financial stability in a crisis situation. With the evolution of big financial conglomerates and the complexity entering into their way of working like the invention of newer financial instruments for trading, sophisticated derivatives, and the launch of SIVs, the need for the Central Banks to increase interaction among them has increased. Banks all over the globe have responded almost similar to the crises. They have broadened their policy by opening gates for accepting a wide range of collaterals and by dealing with a large number of banks and even non-bank counterparties. In doing so, the central banks have decided to accept more risk in their balance sheet. The mortgage- backed securities also became acceptable to the banks as collaterals in many countries. A generalized move towards broad central bank refinancing practices seems inevitable. This crisis demonstrated that a liquidity crunch can have its genesis anywhere in the world and the money markets can fail to require state intervention.

Another issue is the need being felt to review the role of the central banks in targeting inflation directly. The crisis has demonstrated strongly that direct inflation targeting is not always the best possible policy. The central banks have to adopt a more elaborate framework, responding to money, credit, and financial market indicators in a more systematic way.

The Future of financial regulation

The global financial turmoil has brought into focus the need to rethink many aspects of financial market regulation. There is clearly a need to redesign the regulatory structures for the increasingly complex financial system in order to ensure greater transparency in the financial markets & institutions. These regulatory issues have greater relevance for the developed economies as compared to the emerging economies as the former try to put their financial

systems back on their feet and prevent further collapses. For emerging economies, the need is to rethink the financial development paradigm & right lessons they learn from the crisis.

Dealing with the increasing complexities offinancial markets

As discussed above, the financial landscape of the markets has undergone irreversible change becoming more complex and intertwined. Even if the financial instruments and derivatives found responsible for this crisis are abandoned, many other SIVs and complex derivatives will be invented.The financial institutions of every country have gainedbroad reach both domestically and across the border. Regulating these institutions as unified entities may make more sense than regulating them individually. The realityis that even the best-conceived regulation has its limits. One important lesson from these crises in the US is that instead of addressing only a handful of banking & non- banking institutions and tight regulation of just a part ofthe financial system can worsen the situation as they will distort the market discipline. Their liquidity positions and debt structures must also be monitored ensuring 100 percent liquidity to meet the demands of the depositors at any time.

Managing financial development with financialinnovations

Financial development differs significantly from exotic financial derivatives. Financial development will entail developing such financial markets where innovative financial intermediaries can be effectively dealt with and channeled into productive investment. This will involve fostering a broader range of markets, including corporate bond markets and exchange-traded currency derivatives. This is especially true for the countries which have lesser developed financial markets & emerging economies where the issue of 'Financial Inclusion' of the rural deprivedpopulation is offered opportunities in the markets promotingentrepreneurship, savings instruments, hedging facilities tomanage risks, etc.

Stabilizing the emerging economies

In most emerging economies, the Central Banks targetinflation, and therefore the degrees of freedom in ensuring the independence of the monetary policy get compromised,especially in cases where the credibility is low. Most of these economies suffered high rates of inflation during the initial months from July 2008 to October 2008 (in Indiait was running in double digits). Therefore, there are no easy solutions to these problems of pro-cyclic fiscal patternsin emerging economies. As far as the measures within the country are concerned, the reduction of interest rates is a viable option for increasing liquidity in the financial system.But this is fraught with the risk of inflation shooting up and also the devaluation of the home currency. Nevertheless, many countries have halted the rate hikes and have also taken other measures to increase liquidity in the system. However, the approach of international agencies like the IMF has been the same traditional way, extending short- term liquidity facilities to countries that have a track recordof "sound policies" and sustainable debt burdens. This willstill make credit available to the countries that do not need it. What should be done is to ensure coordination of the central banks and lower the interest rates so that in the future, counter-cyclical fiscal policies can be adopted. Also,there is a great need to develop regional and global marketswhere these countries can invest the large FOREX reserves,they have accumulated.

Reforming the aid mechanism

Financial markets penalize policy weaknesses and mistakes.For many emerging markets foreign finance has been a mixed blessing. On one hand, it has permitted the fastcreation of fixed capital while on the other hand, it has also been associated with crisis and development setbacks. However, most of the markets have chosen a safer strategy, with the cautious opening of domestic capital markets and an emphasis on stability. Their development policy has emphasized modernization and use of domestic savings and the pursuit of macroeconomic stability with low and stable inflation and exchange rates,

Poor countries have found it harder to resist external finance in the face of limited domestic

resources and large needs. They are heavily reliant upon ODA in the form of grants or cheap credits to build infrastructure and provide needed education, health, and other social services. But just like private capital, ODA is subject to sudden stops and starts. And just like private capital, volatility in ODA undermines its effectiveness as a tool to finance sustainable development and therefore, high return, but long gestation, projects are put off for fear that future funding might be hard to come by. Aid volatility is also linked to volatility in fiscal spending and volatility in real exchange rates. Multiyear financial programming mechanisms should become standard across all donors. And is best used when it supports long-term development programs. That means that donors should be prepared to provide predictable indicative funding commitments for the duration of the program.

The Human Toll

Beyond this, of course, is the human toll – families whose life dreams are destroyed as they lose their homes, their jobs, and their life savings. If we are to maintain global financial liberalization, with financial products moving easily across borders, we must be sure that these products are safe and that the financial institutions who are selling them can stand behind the products they create. The global financial architecture hasn't been working well. But more than that, it is unfair, especially to developing countries. They will be among the innocent victims of the crisis that wears the "made in America" label. Even countries that have done everything right – those which have managed their economy with far better regulation and better macro-economic prudence than the US – will suffer as a result of America's mistakes. Worse, the International Monetary Fund has – at least in the past – demanded pro- cyclical policies (raising interest rates and taxes, lowering expenditures when an economy goes into a recession), while Europe and America do just the opposite. The result is that capital flees developing countries in times of crisis, reinforcing the vicious cycle.

Flawed Governance Structure

There is mounting evidence that developing countries may require massive amounts of money, amounts that are beyond the capacity of the IMF. The sources of liquid funds are in Asia and the Middle East. But why should they turn their hard-earned money over to an institution with a failed track record; one which pushed the deregulatory policies that have gotten the world into the mess where are in now; one which continues to advocate the asymmetric policies which contribute to global instability; and one whose governance structure is so flawed?

Concluding Remarks

History remembers Paul Volcker as the slayer of inflation, and Ben Bernanke as the crisis firefighter. Jerome Powell and for that matter, all central bank governors are in danger of having to play both roles at once — or, what may be worse, to choose between them.

On the face of it, Powell's Federal Reserve pushed ahead with what's been its policy for the past year raising interest rates to bring down inflation — and so did other major central banks. But in reality, everything's changed after a string of bank collapses sent tremors through world markets.

The Fed only hiked by half as much as it was expected to before the collapse of Silicon Valley Bank and the shotgun takeover of Credit Suisse Group AG. The European Central Bank followed through with its planned half-point hike but backed away from giving much guidance as to what comes next.

The basic problem for monetary chiefs is that, in extremis, policy prescriptions for taming prices and bolstering banks point in opposite directions. To get inflation down, central banks jack up rates and withdraw liquidity from the banking system. To short-circuit crises,

they shove money out to stricken lenders and cut the cost of credit. And the danger is that they end up with the worst of both worlds: A full-blown crisis that triggers a recession. That would force central banks to abandon the inflation fight before it's finished, as they rush to shore up a teetering financial system. The tension between fighting inflation versus preserving financial stability is now starker than at any time in the Fed's history. For tighter credit to take a decent-sized bite out of inflation, the current crisis would have to take a significant turn for the worse. And if that doesn't happen, markets will have to revise their estimates for the Fed's policy path. Central bankers are themselves partly to blame for the unpalatable choices they now face. An extended period of low-interest rates fostered complacency and risk-taking throughout the financial markets and economy. That's now coming to a head as monetary policymakers ramp up rates to get on top of an inflation problem, they were slow to recognize.

Silicon Valley Bank, the 16th-largest lender in the US, didn't make a ton of risky loans to homebuyers. Instead, it loaded up on Treasury debt, supposedly the safest asset around. But then it got hit by a double whammy. The Fed's rate increased the value of those bonds deep into the red — while also hurting its depositor base in the tech industry. As investors survey the debris, a credit crunch has replaced stubborn inflation as the key risk.

Right now, the recession is the more immediate problem. If the inflation goes up, the reserves should be taken out as quickly as they were accumulated. The central banks should pursue the agenda of making available liquidity in the market through various means e.g. decreasing interest rates, repo rate reduction, managing CRR, increasing government investment in major development and infrastructure projects etc. so that the requisite credit is available to the businesses and confidence gets rebuilt, which measures will stimulate the economies again. The regulatory structure that permitted these events to occur will have to be redesigned. The regulatory problem that needs to be solved is roughly this: The public needs a conveniently provided medium of exchange that is free of default risk or "bank runs." The best way to achieve this would be to have a competitive banking system with government-insured deposits.

But this can only work if the assets held by these banks are tightly regulated. If such equilibrium could be reached, it would still be possible for an institution outside this regulated system to offer deposits that are only slightly riskier but that also pay a higher return than deposits at the regulated banks. The regulatory structure designed in the 1930s seemed to solve this problem for 60 years, but something else will be needed for the next 60. The exact nature of action to be taken will vary from country to country based on the peculiar characteristics of the economy, the behavior of the public, and the regulatory and legal system in place there, to regulate these spurious lenders. Already these measures are being taken by many central banks and the results of which will be tangibly available to assess their effectiveness after some time, say three to four months.

References

1. Lane P, Ferretti GM. The Drivers of Financial Globalization. Am Econ Rev Papers Proceedings. 2008;98:327–32.
2. Reinhart C, Rogoff K. Sub-Prime Financial Crisis So Different? An International Historical Comparison, mimeo. U.S; 2007. p. 339–44.
3. White W. Past financial crises, the current financial turmoil, and the need for a new macrofinancial stability framework; 2007. Available from: https://www.bis.org/speeches/sp080326.htm.
4. Nobel Economists Offer First Aid for Global Economy in their exclusive essays for SPIEGEL; 2008. Available from: https://www. spiegel.de/international/business/a-new-mindset-is-required-nobel- economists-offer-first-aid-for-global-economy-a-590038.html.

5. Bruegel Essay And Lecture Series.
6. RGE Monitor's Newsletter dated 12; 2008.Availablefrom: https://www.thestreet.com/economonitor/emerging-markets/rge-monitor-the-g20-s crowded-agenda.
7. Davies H, Green D. Global Financial Regulation: The Essential Guide (Now with a Revised Introduction). and others, editor; 2008. p. 200.
8. Lucas RE. The Recession is the More Immediate Problem; 2008. Available from: https://www.investopedia.com/terms/r/recession.asp.
9. The G-20 Financial Summit: Seven Issues At Stake", Brookings Global Economy and Development. Available from: https://www.brookings.edu/articles/the-g-20-financial-summit-seven-issues-at-stake/.
10. Working paper series no 1394 / november 2011 bank risk during the financial crisis do business models matter? by Yener Altunbas, Simone Manganelli and David Marques-Ibanez.; 2011. Available from: https://www.google.com/search?q=WORKING+PAPER+SERIES+NO+1394+/+NOVEMBER+2011+BANK+RISK+DURING+THE+FINANCIAL+CRISIS+DO+BUSINESS+MODELS+MATTER%3.
11. BLS spotlight on statistics: the recession of 2007–2009; 2007. Available from: https://ecommons.cornell.edu/handle/1813/78334.
12. Anna Burgess Yang," What's Going On? The Silicon Valley Bank Collapse vs. The; 2008. Available from: https://annabyang.medium.com/whats-going-on-the-silicon-valley-bank-collapse-vs-the-2008-financial-crisis-8b5539995e63.
13. U.S. Bureau Statistics downloaded on 09-04-2023. Available from: https://www.census.gov/programs-surveys/susb.html.
14. Can fall of three US banks create a 2008-like financial crisis?" downloaded from ETBFSI Research on. 2023;p. 8–12. Available from: https://bfsi.economictimes.indiatimes.com/news/banking/can- fall-of-three-us-banks-create-a-2008-like-financial-crisis/98645027.
15. Willy Q. Banking crisis: differences and similarities between; 2008. Available from: https://www.worldbank.org/en/publication/gfdr/gfdr- 2016/background/banking-crisis.
16. Philip Adler: «No Asset is More Valuable Than Clients' Trust»; 2023. Available from: https://www.finews.com/news/english-news/56802- banking-crisis-trust-philip-adler-union-bancaire-privee-bank-run#: ~:text=At%20a%20time%20when%20a,in%20an%20essay%20for% 20finews..
17. What comes next in the banking crisis? The early 1990s hold clues By Nicole Goodkind, CNN; 2023. Available from: https://edition.cnn.com/2023/03/14/investing/premarket-stocks-trading/index.html#:~:text=Here's%20the%20takeaway.,billion) %20in%20bonds%20if%20needed..
18. Narancich S. Recent bank stress is far different from 2008 financial crisis Industrywide performance, however, expected to be lag on economic recovery; 2023. Available from: https://www.spokanejournal.com/local-news/recent-bank-stress-is-far-different-from-2008-financial-crisis/.
19. The 2007-2009 Financial Crisis: An Erosion of Ethics: A Case Study. Available from: https://link.springer.com/article/10.1007/ s10551-016-3052-7.
20. CGFS Papers No 60 Structural changes in banking after the crisis"; 2018. Available from: https://www.bis.org/publ/cgfs60.htm.
21. Selim Elekdag, "Financial Stress; 2009. Available from: https://www. goodreads.com/en/book/show/32163114.