

A balance sheet perspective to crisis intervention: capital injections and guarantees

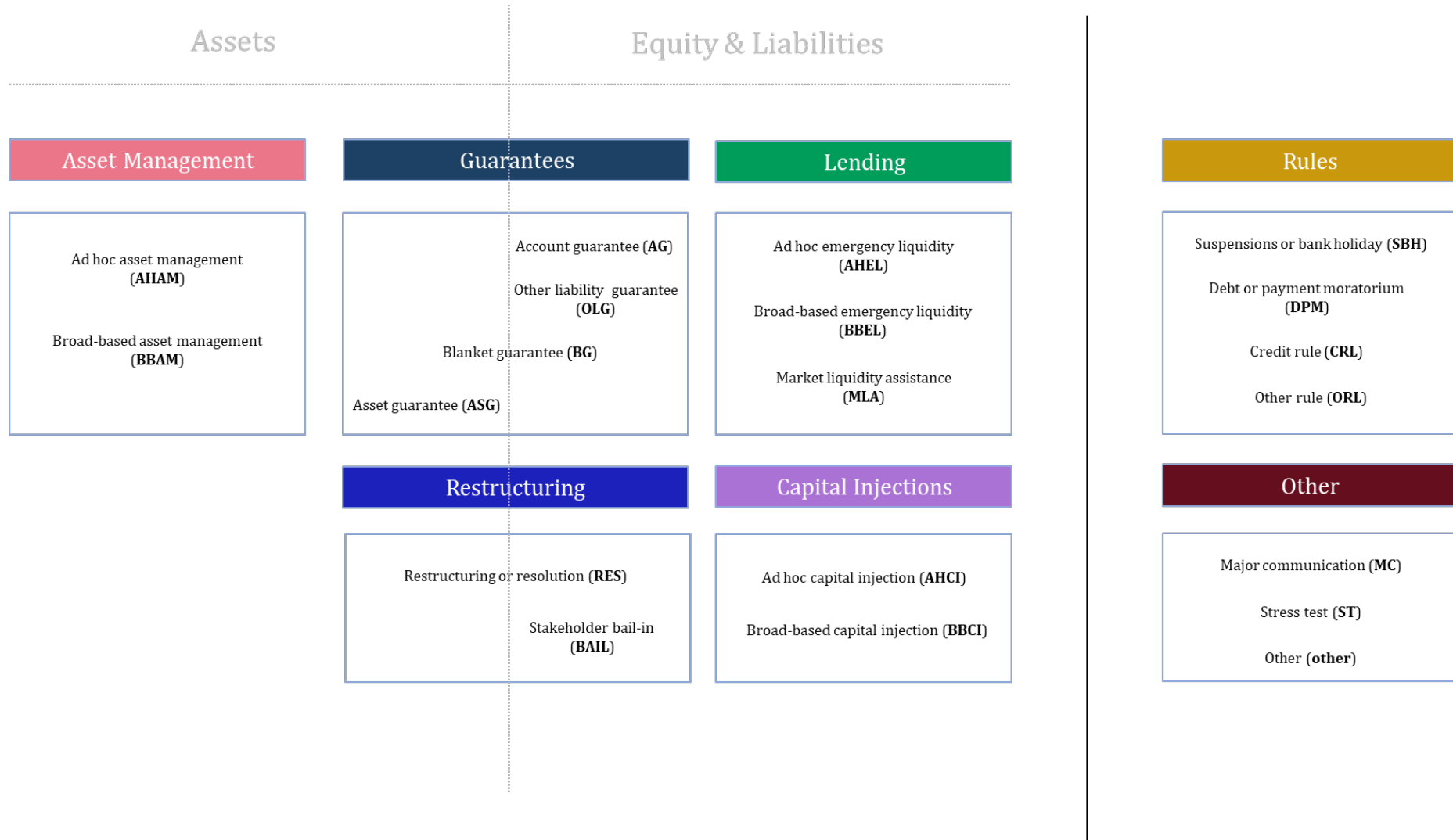
June Rhee

Director, MMS in Systemic Risk, Yale Program on Financial Stability



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New Bagehot Project: Taxonomy of Interventions, A Balance-Sheet Perspective



Metrick, Andrew, and Paul Schmelzing. 2021. *Banking-Crisis Interventions Across Time and Space*. NBER Working Paper Series, no. w29281. Cambridge, Mass: National Bureau of Economic Research.

Capital Injection and Guarantee Case Series – Overview

Case studies of 36 broad-based capital injection programs and 23 ad-hoc capital injection used in different crises taking place during 1805-2020

- Rhee, June, Junko Oguri, Greg Feldberg, and Andrew Metrick (Rhee et al.). 2022. “Broad-Based Capital Injection Programs.” *Journal of Financial Crises* 4, no. 1.
- Rhee, June, Benjamin Hoffner, Greg Feldberg, and Andrew Metrick. 2024. “Ad Hoc Capital Injections.” *Journal of Financial Crises*, 2024.

Case studies of 23 bank debt guarantee programs, 10 blanket guarantee programs and 27 account guarantee programs used in different crises taking place during 1990-2008

- McNamara, Christian, Greg Feldberg, David Tam, and Andrew Metrick (McNamara, Feldberg, et al.). 2020. “Bank Debt Guarantee Programs.” *Journal of Financial Crises* 2, no. 3: 71–100.
- McNamara, Christian, Adam Kulam, Greg Feldberg, and Andrew Metrick (McNamara, Kulam, et al.). 2022. “Account Guarantee Survey.” *Journal of Financial Crises, Account Guarantee Programs* 4, no. 2.
- McNamara, Christian, Carey Mott, Greg Feldberg, and Andrew Metrick. 2022. “Blanket Guarantees Survey.” *Journal of Financial Crises* 4, no. 4: 103–32.

Combining recapitalization and guarantees

Combining interventions during a crisis may be a signal to the counterparty that a country has credible resources to use various tools as necessary

Laeven and Valencia (2018) acknowledge that guarantees are essentially available only to high-income countries

Nevertheless, combining interventions can have real benefits.

- **Addressing different facets of the banking system failure**
- **Optimal distribution of fiscal and political capital across various interventions**

Complimentary relationship from the perspective of guarantees

A liability guarantee may address a liquidity problem but not a solvency problem.

Bank Debt Guarantee (liability)

- **US during GFC with the Debt Guarantee Program and Capital Purchase Program for nine US major financial institutions**
- **UK during GFC with Credit Guarantee Scheme and Bank Recapitalisation Fund for eight major UK financial institutions**

Account Guarantee (liability)

- **Early in GFC, AG reassured depositors in smaller banks while capital injection rebuilt larger banks**

Blanket Guarantee (liability and assets)

- **To sufficiently address a failing banking system, bank rehabilitation efforts, including recapitalization, is combined**

Complimentary relationship from the perspective of recapitalization

Capital injection is the most direct method to solve undercapitalized banking system but fiscally and politically expensive

Capital injection and **guaranteeing bank liabilities**

- **Germany combined the two to minimize budgetary impact of its recapitalization of HSH Nordbank**

Capital injection and **guaranteeing bank assets**

- **Citibank during GFC, senior debt and transaction account guarantee with recapitalization did not stop market's concerns on the solvency of Citibank due to deteriorating asset value of the bank. Subsequently the authorities attached an asset guarantee**