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CURRENT STATE OF FINANCIAL STABILITY OF US ECONOMY

Abstract

Financial stability refers to the ability of the financial system to function effectively and efficiently in normal and stressful conditions, while minimizing the risk of disruption to the overall economy. A stable financial system is crucial for economic growth and development because it enables the efficient allocation of economic resources, facilitates savings and investment, and supports the functioning of financial markets.

Financial stability is important because it can create confidence in the overall financial system and, in turn, boost economic growth. Conversely, financial instability can lead to a contraction of credit, lower economic activity, and increased volatility in markets. Therefore, policymakers and central banks must take measures to preserve financial stability, such as regulating financial institutions, monitoring systemic risks, and implementing policies to mitigate potential risks. In this way, financial stability is a vital component of economic stability and growth.

Key words: *financial crisis, federal reserve, inflation, inflation rate, FED, Covid-19, volatility.*

INTRODUCTİON

Financial stability refers to the ability of the financial system to function effectively and efficiently in normal and stressful conditions while minimizing the risk of disruption to the overall economy. A stable financial system is crucial for economic growth and development because it enables efficient allocation of economic resources, facilitates savings and investment, and supports the functioning of financial markets. Financial instability, on the other hand, can lead to a contraction of credit, lower economic activity, and increased volatility in markets. Mitigation of potential risks and regulatory oversight are crucial in maintaining financial stability in the economy.

The potential impacts on financial stability in the USA include risks associated with climate change, deteriorating credit quality of non-financial borrowers, liquidity stress, the transition to a low-carbon economy, advances in technology and fintech, and the COVID-19 pandemic. Effective mitigation of these risks and regulatory oversight are crucial to maintaining financial stability in the US economy.

Current state of financial stability of US economy.

Rising interest rates and the present recession were anticipated and forecasted. After the worldwide pandemic's early phase, the likelihood of a recession from September 2020 to March 2022 was almost zero, but it increased to almost 30% in April and 50% in May. This indicates that within a year of that time, a recession was anticipated to hit the US economy. Since then, the likelihood has increased. Finally, it took place. (Figure 1).

Figure 1. US Recession Probability (0-1)

Source: *The conference Board 2023*

Two-thirds of economic experts polled by the Wall Street Journal predict a recession in 2023 as the Federal Reserve raises interest rates to control inflation. Most respondents to the paper's survey of economists at 23 major financial institutions working with the Fed believe there will be a recession this year. Economists of the two companies expect the recession to happen next year. Survey respondents cited Americans spending the money they saved during the COVID-19 pandemic, the decline in the housing market, and banks tightening lending standards as reasons for recession concerns. FED data shows that the $2.3 trillion savings people saved at the height of the pandemic fell to $1.2 trillion. Deutsche Bank analysts expect savings to be completely exhausted by October. The newspaper reported that almost 40 percent of US banks tightened their credit standards in the fourth quarter of 2022.

The largest U.S. banking crisis since the financial crisis of 2008 occurred on March 10, 2023, when the primary lender to the tech sector fell victim to traditional bank management. Friday saw the start of Silicon Valley Bank's stunning decline when a bank run, a disruptive occurrence, saw clients rush to withdraw money from their accounts all at once. About half of the US venture-backed technological and healthcare startups received funding from the bank. Since Washington Mutual's fall in 2008, during the 2008 Recession, it was the biggest failure of a US bank. Although the bank's collapse took place over the course of just 48 hours, the story actually began years earlier with actions taken by the Fed and investment choices made by the bank. We can examine this crisis in 10 steps:

1. Banks buy a lot of inexpensive securities. While interest rates were nearly zero, SVB and other banks made massive investments in the secure US government bonds.

2. Deposit balloons. Until the end of 2022, SVB deposits surged from $62 to $198 billion as rising entrepreneurs deposited their cash at the bank.

3. Fed increases rates. The Fed started aggressively raising interest rates a year ago in order to slow down fast inflation.

4. Bond portfolio plummets in value. When interest rates increased, bond prices dropped, devaluing SVB's bond portfolio. Last week, the portfolio's average return was only 1.79%, far lower than the 3.9% yield on the 10-year Treasury.

5. Finances run out. Startups are experiencing a shortage of venture capital funding as a result of rising borrowing prices. To pay for operations and expansion, they were compelled to withdraw funds held by SVB.

6. Everything happened at the same time. The bank then stood on a hill of unrealized bond losses as consumers continued to withdraw money at an increasing rate.

7. Securities are sold by SVB at a loss. SVB disclosed on Wednesday that it had sold a significant amount of those securities at a significant loss and that it would also issue $2.25 billion in new shares in order to strengthen its balance sheet.

8. According to reports, significant venture capital companies panicked and advised their customers to withdraw money from the bank.

9. Stocks tumble. Thursday morning saw a 60% decline in SVB's price, which also caused other bank shares to decline. Wall Street started to fear a repeat of the financial disaster of 2008. 10. After the bank appointed the insurance company as receiver, the FDIC stepped in. Shares of SVB were not traded Friday morning. The Federal Deposit Insurance Corporation was named as a receiver after intervention by California authorities.

SVB-s assets are over $200 billion. In return, it also collects deposits of around $180 billion from customers. FDIC seized this bank as the SVB could not meet its obligations in exchange for its current assets. This event is described as the 3rd largest bank failure in American history. FDIC insures deposits up to $250,000. The only problem is that assets of 250 thousand dollars make up 2% of the total deposits. Most of these deposits belong to companies in Silicon Valley. (Figure 2)

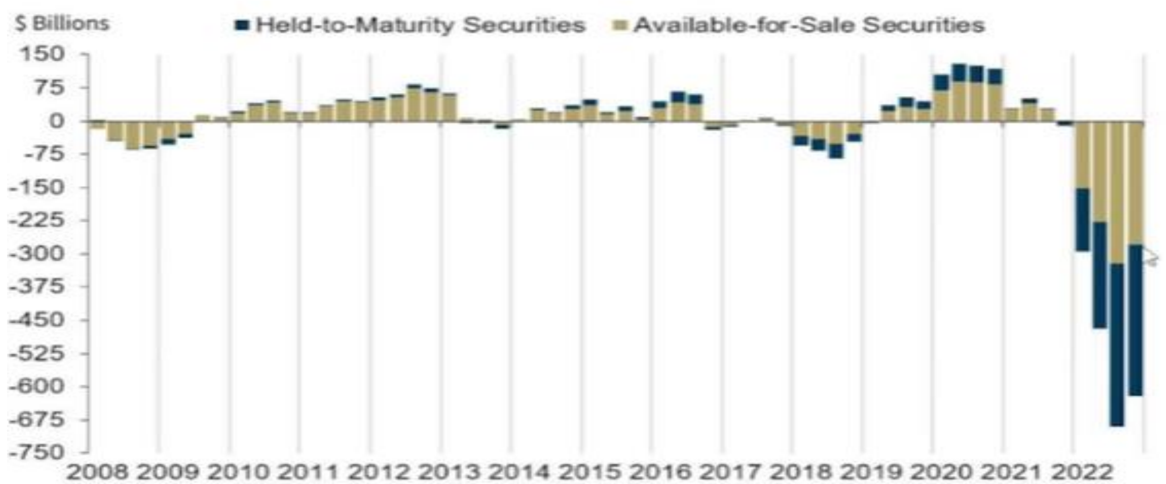

Figure 2. Unrealized gains(losses) on İnvestment Securities

Source: *FDIC*

Clients of Silicon Valley Bank were quickly withdrawing funds from the California-based institution before US regulators intervened to seize control. The collapse, on the other hand, spooked the markets and added to the misery suffered by weaker financial institutions already struggling with the unanticipated consequences of increasing interest rates and identity damage.

Friday, March 10 — The Federal Deposit Insurance Corporation (FDIC), a department of the US government, acquired SVB. The worst financial disaster in American history, since the collapse of Washington Mutual in 2008, occurred. The bank had started the process 48 hours earlier by selling US government bonds to obtain money to compensate depositors, which resulted in a multibillion-dollar loss. It tried to raise money by selling shares, but it was unsuccessful. That was the catalyst for the panic that put an end to it.

The FDIC closed down Signature Bank after customers who were worried by the failure of SVB made a run on its accounts. Both banks relied on extremely large percentages of uninsured deposits to fund their operations.

In October 2020, the most recent bank failures before the demise of SVB, First City Bank of Florida and Almena State Bank in Kansas, were bought by the FDIC. These two banks were rather small, with a combined deposit base of about $200 million. SVB was the biggest bank to fail since Washington Mutual's demise in September 2008, when its assets totaled $307 billion. WaMu collapsed together with Lehman Brothers' bankruptcy, which nearly brought an end to the whole global financial system. In general, American bank failures are not extremely frequent. As an example, there were none in 2021 or 2022. SVB was the 16th-largest bank in the US as of the end of 2022, with $209 billion in assets. Although it may appear substantial, it only accounts for 0.91% of total banking assets in the United States. The likelihood that SVB's bankruptcy will have an impact on other banks is quite low[1].

Despite this, the collapse of SVB does highlight the risk that many banks' investment portfolios pose. If interest rates rise as the Federal Reserve has forecast, the value of the investment portfolios of U.S. banks would keep falling.

Despite this, the collapse of SVB does highlight the risk that many banks' investment portfolios pose. If interest rates rise as the Federal Reserve has forecast, the value of the investment portfolios of U.S. banks would keep falling. Although these losses are simply hypothetical because they won't really occur until the assets are sold, they can nonetheless increase a bank's overall risk. The extent of the risk increase will vary from bank to bank. The effects of the financial crisis of 2008 have mostly not yet been fully felt.

METHODOLOGY

Regression analysis is powerful tool for exploring the relationship between financial stability and key economic indicators such as the Yield on a 10-year Treasury note, the Interest rate on a 30-year fixed-rate mortgage, and Net household wealth. However, it is important to interpret the results of regression analysis with caution and to consider other factors that may be influencing financial stability in the United States. We will analyze the US’s financial stability with set a regression analysis with regard to Federal funds as the independent variable The Yield on a 10-year Treasury note, the Interest rate on a 30-year fixed-rate mortgage, and Net household wealth as independent variables.

ANALYSİS

The Yield on a 10-year Treasury note, the Interest rate on a 30-year fixed-rate mortgage, and Net household wealth can impact the Federal funds rate in different ways:

Yield on 10-year Treasury note: The Federal Reserve uses the federal funds rate to influence short-term interest rates in the economy. The yield on the 10-year Treasury note is a benchmark for long-term interest rates. As the yield on the 10-year Treasury note rises, it can signal to investors that interest rates are likely to rise in the future, which can lead to an increase in the federal funds rate. Conversely, if the yield on the 10-year Treasury note falls, it can signal to investors that interest rates are likely to stay low, which can lead to a decrease in the federal funds rate.

The interest rate on a 30-year fixed rate mortgage: The interest rate on a 30-year fixed rate mortgage is an important determinant of the demand for housing. As the interest rate on a 30-year fixed-rate mortgage rises, it can lead to a decrease in the demand for housing, which can have a negative impact on the economy. To counteract this negative impact, the Federal Reserve may lower the federal funds rate to stimulate economic growth. Conversely, if the interest rate on 30-year fixed rate mortgage falls, it can lead to an increase in the demand for housing, which can have a positive impact on the economy. To prevent the economy from overheating, the Federal Reserve may increase the federal funds rate.

Net household wealth (US$ trillion): Changes in net household wealth can impact consumer spending, which is a major driver of economic growth. As net household wealth increases, consumers may feel more confident about their financial situation and may be more likely to spend money, which can stimulate economic growth. To prevent the economy from overheating, the Federal Reserve may increase the federal funds rate. Conversely, if net household wealth decreases, consumers may feel less confident about their financial situation and may be less likely to spend money, which can slow

[1] Insured U.S.-chartered commercial banks that have consolidated assets of $300 million or more, ranked by consolidated assets as of December 31, 2022. (https://www.federalreserve.gov/releases/lbr/current/)

down economic growth. To stimulate economic growth, the Federal Reserve may lower the federal funds rate.

In summary, the yield on the 10-year Treasury note, the interest rate on 30-year fixed rate mortgage, and net household wealth can impact the federal funds rate in different ways. The Federal Reserve takes into account various economic indicators, including these three factors, when making decisions about the federal funds rate.

However, it's important to note that these relationships are complex and can be influenced by many different factors, including global economic conditions, government policies, and geopolitical risks. Additionally, while the 10-year Treasury note yield and the federal funds rate are often seen as inversely related, this relationship is not always consistent and can depend on a variety of different factors.

Table 1

Comparing Financial aggregator

		Federal funds rate	Yield on 10-year Treasury note	Interest rate on 30-year fixed rate mortgage	Net household wealth (US$ trillion)
	2016	0.39	1.84	3.65	95
	2017	0.97	2.33	3.99	103
	2018	1.78	2.91	4.54	104
	2019	2.16	2.14	3.94	117
	2020	0.42	0.89	3.11	131
	2021	0.13	1.44	2.96	150
History	2022	1.73	2.95	5.33	137
	2023	1.73	4.44	6.52	134
	2024	4.97	5.86	7.33	132
	2025	5.13	6.39	8.06	131
	2026	5.13	6.31	8.06	135
Forecast	2027	5.13	6.27	8.03	142

Regression Statistics								
Multiple R	0,951159							
R Square	0,904703							
Adjusted R Square	0,863861							
Standard Error	0,744073							
Observations	11							
ANOVA								
	df	*SS*	*MS*	*F*	*gnificance F*			
Regression	3	36,79206	12,26402	22,15145	0,000598			
Residual	7	3,875508	0,553644					
Total	10	40,66756						
	Coefficients	*andard Err*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*ower 95.0%*	*Upper 95.0%*
Intercept	0,440859	2,379799	0,185251	0,858286	-5,18647	6,068189	-5,18647	6,068188711
1,84	1,303431	0,838243	1,554955	0,163907	-0,6787	3,285561	-0,6787	3,2855611
3,65	-0,40295	0,872672	-0,46175	0,65827	-2,4665	1,660588	-2,4665	1,660588023
95	-0,00374	0,016974	-0,22016	0,832028	-0,04387	0,0364	-0,04387	0,036399554

R square (R^2) is a statistical measure that represents the proportion of variation in the dependent variable that is explained by the independent variables in a multiple regression model. It is also known as the coefficient of determination.

R square ranges from 0 to 1, with a value of 1 indicating that 100% of the variation in the dependent variable is explained by the independent variables in the model. A value of 0 indicates that the independent variables do not explain any of the variation in the dependent variable.

In our multiple regression analysis, R square value is equal to 0.9047, which suggests that approximately 90% of the variation in the Federal Funds rate variable can be explained by the Yield on 10-year Treasury note, Interest rate on 30-year fixed rate mortgage and Net household wealth in the model. This means that the independent variables in the model are able to account for a large proportion of the variation in the dependent variable.

In multiple regression analysis, the F-statistic is a measure of the overall significance of the regression model. It tests the null hypothesis that all the regression coefficients (except the intercept) are equal to zero, indicating that the predictors do not have any significant effect on the outcome variable.

In other words, the p-value of 0.000598498541987919 is much smaller than the commonly used significance level of 0.05, which suggests that we can reject the null hypothesis and conclude that the predictors have a significant effect on the outcome variable.

The coefficients table shows the estimates of the regression coefficients, their standard errors, t-statistics, and p-values. The intercept coefficient of 0.441 is the estimated mean response when all predictor variables are equal to zero. The coefficient for the first predictor variable is 1.84, which indicates that a one-unit increase in this predictor variable is associated with an increase in the response variable. However, the p-value of 0.164 suggests that this relationship is not statistically significant at the 5% level. The second predictor variable has a negative coefficient of 3.65, indicating that a one-unit increase in this variable is associated with a decrease in the response variable. Again, the p-value of 0.658 suggests that this relationship is not statistically significant. The third predictor variable has a coefficient of -0.004, which indicates a weak negative relationship with the response variable. The p-value of 0.832 suggests that this relationship is not statistically significant.

Overall, the regression model is significant, and the predictor variables explain a significant amount of variation in the response variable. However, the results suggest that only the first predictor variable is statistically significant in predicting the response variable, and the other two variables do not have a significant relationship with the response variable.

CONCLUSİON

In conclusion, it is possible to conclude from the research that USA is currently in a volatile state of financial stability and has actually faced a major recession. One of the main reasons for this recession is the economic damage caused by the Covid-19 pandemic and the wrong decisions made by American financial institutions regarding interest rates during this crisis.

In this research, we evaluated the current financial stability and balance by comparing various financial indicators. Financial stability is important for businesses and investors. A stable financial system creates a predictable and safe environment for investment and business operations, while financial instability can create uncertainty and discourage investment. Overall financial stability is paramount to both individual and community well-being, as well as the stability and health of the economy as a whole.

Taking into account the importance of the studied economic phenomenon, we will consider the process from different aspects

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ABŞ iqtisadiyyatının maliyyə sabitliyinin cari vəziyyəti

Xülasə

Yekun olaraq, araşdırmadan belə nəticəyə gəlmək olar ki, ABŞ hazırda qeyri-sabit maliyyə sabitliyi vəziyyətindədir və faktiki olaraq böyük tənəzzüllə üzləşib. Bu tənəzzülün əsas səbəblərindən biri Covid-19 pandemiyasının vurduğu iqtisadi zərər və bu böhran zamanı Amerika maliyyə qurumlarının faiz dərəcələri ilə bağlı verdiyi yanlış qərarlardır.

Bu araşdırmada biz müxtəlif maliyyə göstəricilərini müqayisə edərək cari maliyyə sabitliyi və tarazlığını qiymətləndirdik. Maliyyə sabitliyi biznes və investorlar üçün vacibdir. Sabit maliyyə sistemi investisiya və biznes əməliyyatları üçün proqnozlaşdırıla bilən və təhlükəsiz mühit yaradır, maliyyə qeyri-sabitliyi isə qeyri-müəyyənlik yarada və investisiyaların qarşısını ala bilər. Ümumi maliyyə sabitliyi həm fərdi, həm də cəmiyyətin rifahı, eləcə də bütövlükdə iqtisadiyyatın sabitliyi və sağlamlığı üçün çox vacibdir.Tədqiq olunan iqtisadi hadisənin əhəmiyyətini nəzərə alaraq, prosesi müxtəlif aspektlərdən nəzərdən keçirəcəyik.

Açar sözlər: *maliyyə sabitliyi, inflyasiya, faiz dərəcəsi, FED, Covid-19,qeyri-sabitlik.*

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Текущее состояние финансовой стабильности экономики США

Резюме

В статье можно прийти к выводу, что Соединенные Штаты в настоящее время находятся в состоянии нестабильного финансового положения и фактически сталкиваются с серьезной рецессией. Одной из основных причин этой рецессии является экономический ущерб, вызванный пандемией Covid-19 и неправильные решения, принятые американскими финансовыми институтами в отношении процентных ставок в период этого кризиса.

В данном исследовании мы оценили текущую финансовую устойчивость и сбалансированность путем сравнения различных финансовых показателей. Финансовая стабильность важна для бизнеса и инвесторов. Стабильная финансовая система создает предсказуемую и безопасную среду для инвестиций и деловых операций, в то время как *финансовая нестабильность может создавать неопределенность и препятствовать инвестициям. Общая финансовая стабильность очень важна как для индивидуального, так и для общественного благосостояния, а также стабильности и здоровья экономики в целом.Учитывая важность изучаемого экономического явления, данный процесс был рассмотрен с различных аспектов.*

Ключевые слова: *финансовая стабильность, инфляция, процентная ставка, ФРС, Covid-19, нестабильность.*