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MONETARY POLICY AND ANTI-CRISIS MEASURES OF THE FEDERAL RESERVE SYSTEM DURING THE CRISIS IN THE PERIOD 2007–2008

Abstract: The economic and financial crisis of 2007–2008 began with the American mortgage sector, which was highly sensitive to changes in interest rates. Changes in the rules of monetary policy should be sought as early as in 2001. Then the American economy plunged into recession caused by the crack of the so-called internet bank (dot-com bubble) and terrorist attacks on the World Trade Center. From these events, the Federal Reserve System began to conduct a particularly active monetary policy, which undoubtedly contributed to the boom in the housing market. The aim of these activities was, of course, to bring about economic recovery, mainly by increasing consumption expenditure in construction. Low interest rates significantly contributed to the reduction of credit costs, which undoubtedly was an incentive for large-scale debt. Private consumption financed to a large extent by an increase in debt was one of the main drivers of imports, and as a result has also contributed to the widening of the US current account deficit. It should also be noted that in addition to very low nominal interest rates, real rates have started to take negative values. The real federal fund interest rate was negative for 31 months from October 2002 to April 2005. Business entities could read that the Fed's policy means a lasting improvement in farming conditions and a unique opportunity to grow their business. All this affected the mortgage market, which was and is very sensitive to changes in interest rates. At the same time, the rapid development of modern financial instruments began, which enabled the securitization of receivables from loans for other financial instruments with a very complex structure. They practically prevented inexperienced investors from correctly assessing the risk associated with their purchase.

Keywords: Federal Reserve System, monetary policy, economic and financial crisis 2007/2008, mortgage sector, real estate market, positive and negative interest rates, household debt, financial speculation, Great Depression.
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