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A New Banking (Financial) Crisis?

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Abstract

The collapse of three banks in the United States of America (U.S.), two of which were eventually dissolved and sold by the government, with the third receiving significant financial assistance from the largest U.S. banks, as well as of a European bank, which was eventually taken over by another bank, sent shockwaves throughout the global financial sector, with fears of a repetition of 2008 that led to a global financial crisis. The purpose of this policy paper is to examine the events that unfolded during March 2023, to analyse the causes of the collapse of the above banks, and to compare them with the events leading up to the 2008 financial crisis. What actions have been taken so far, what is the role of various private and public institutions, and what are the similarities or differences with 2008?

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Introduction

Th events that have been unfolding during the past few weeks in the financial sector have brought back memories of the 2008 financial crisis – if not the crisis itself – with several cases of financial institutions, mainly in the United States of America (U.S.) but also in Europe, facing serious problems. Three U.S. banks — two were eventually dissolved and sold by the government and one received financial assistance from the 11 largest U.S. banks — and one European bank — eventually acquired by the largest Swiss bank — collapsed within two weeks. What exactly has happened, how has the private and public sectors responded, what are the most likely causes, and are we really on the verge of a new economic crisis like the one that began in 2008?

The troubled banks in the U.S. and Europe

It all started on March 12, 2023, when Silicon Valley Bank (SVB)[1], the 16th largest U.S. bank with total assets of $209 billion, collapsed[2] (Buchwald et al. 2023; Morrow & Egan 2023). The bank had, by the end of December 2022, approximately $210 billion worth of assets and $175 billion in deposits, of which, however, more than 90% of deposits were not guaranteed (over $250,000; Morrow 2023). The collapse of SVB was primarily a result of the announcement a few days prior (March 8) that it had been necessary for the bank to sell new shares worth about $2 billion to maintain its balance sheet (Morrow & Egan 2023). Investment firms advised companies to withdraw their deposits from the bank, which they did, triggering a bank run and plunging SVB's stock. Just one day after the announcement (9 March), approximately 1/3 of the bank's deposits ($42 billion) were withdrawn, while the 4 largest U.S. banks lost $52 billion of their value within the same day (Bella 2023).

On March 12, the California's State government – where SVB is based – decided to shut it down and place it under the control of the Federal Deposit Insurance Corporation (FDIC, see Overview 1 below)[3] after the approval by the U.S. Department of the Treasury, with the FDIC initiating the bidding process for its purchase (FDIC 2023a and 2023b, U.S. Department of the

[1]SVB was founded in 1983 and had almost exclusively technology companies as clients (it provided funding to about half of the U.S. technology startup companies; Horowitz & Cooban 2023).

[2]A week later, on March 17, SVB Financial Group, of which SVB is a subsidiary, with total assets of about $9 billion, declared bankruptcy (SVB is not part of the bankruptcy; Helmore 2023).

[3] The FDIC immediately established, in accordance with the relevant legislative provisions (12 USC 1821(m); U.S. Office of the Law Revision Counsel 2023), a new financial institution (Deposit Insurance National Bank of Santa Clara) in order to protect depositors by transferring all guaranteed deposits of SVB to it.

Treasury 2023a). SVB thus became the second largest bank to collapse in the U.S. after the collapse of Washington Mutual Bank with assets of about $310 billion, which was eventually acquired by JPMorgan Chase for about $2 billion in September 2008, (FDIC 2008; Bella 2023)[4]. Eventually, SVB was purchased on March 26 by the Citizens Bank & Trust Company, with the FDIC estimating the cost of the collapse on the Deposit Insurance Fund at around $20 billion (FDIC 2023e) .

The 'bank run' issues did not stop there, however, and were transferred to Signature Bank of New York[5] (29the largest bank in the U.S.), with about 40 branches, about $110 billion in assets, and about $90 billion in deposits (Federal Reserve 2022a; Gandel & Joshua 2023). After 2019, the bank expanded to include multiple customers related to cryptocurrencies, and was even under a suit for allegedly facilitating fraud related to cryptocurrency company FTX, by knowingly transferring FTX customers' deposits to accounts of the FTX-linked hedge fund Alameda, which eventually lost all of its customer deposits (in fact, a document from an investor to the FDIC was released in January 2023, warning about the above transactions; Gandel & Joshua 2023).

Following the collapse of SVB, $10 billion in deposits were withdrawn from Signature Bank on March 10 alone (Son 2023). This led to the third largest bank collapse in the U.S., with the New York State government shutting Signature Bank down and placing it under the control of the FDIC[6] on the same day (12 March) and with the same procedure as with SVB (FDIC 2023c). The bank was purchased a few days later, on March 20, by Flagstar Bank, National Association, a subsidiary of New York Community Bancorp, Inc., with the FDIC estimating the cost of the collapse at about $2.5 billion (FDIC 2023d).

With already two banks having failed, a third bank — First Republic Bank, the 14th largest U.S. bank founded in 1985 with mostly high-income clients and headquartered in California (San Francisco) like SVB — began to run into trouble (the bank's stock fell 70% after the announcement related to SVB; Federal Reserve 2022a; Son 2023; Rushe 2023). The problems arose despite an immediate deal with JPMorgan Chase & Co. to provide more than $70 billion

[4]The often-cited investment bank Bear Stearns was the fifth-largest investment bank in the U.S. Eventually, JPMorgan Chase bought both banks, and was forced to pay at least $19 billion in fines and settlements (Moyer 2018).

[5] The bank was founded in 2001 and focused on serving the real estate market (brokers, landlords, etc.; Gandel & Joshua 2023)

[6]Similar to the case of SVB, FDIC established a new financial institution (Signature Bridge Bank, N.A.) to protect depositors by transferring all guaranteed deposits of SVB to it.

in liquidity on March 12, and were primarily because of its similarity to SVB, its high-income clientele with knowledge and ability to move deposits quickly, a high ratio of unsecured deposits (2/3 of deposits were over $250,000), and a high loan-to-deposit ratio (111%). With the aim of preventing a widespread banking crisis, and following meetings between bank executives and the U.S. Secretary of the Treasury, it was announced on March 16 that the 11 largest U.S. banks[7] would directly deposit $30 billion to First Republic Bank (Barr 2023; Egan et al. 2023; US Department of the Treasury 2023b).

The problems also transferred to Europe. On March 15, Swiss bank Credit Suisse – the 17th largest loan bank in Europe, but with a problematic past[8] – faced similar problems (on the same day its stock fell 30%), partly due to the fact that the bank's largest shareholder, Saudi National Bank, stated it would not add liquidity over its existing 10% stake in the bank, due to regulatory constraints (Makortoff & Wearden 2023; Makortoff & Pegg 2022). On the same day, the Swiss Financial Market Supervisory Authority (FINMA)[9] and the Swiss Central Bank (Schweizerische Nationalbank; SNB)[10] announced that Credit Suisse meets regulatory capital and liquidity limits but, if needed, the SNB would provide further liquidity to the bank (FINMA 2023a). The very next day (16 March), Credit Suisse used this option for up to 50 billion Swiss francs (about $54 billion), without, however, this being sufficient to halt the bank's collapse (Credit Suisse 2023; Thompson 2023).

A few days later, on March 19, Union de Banques Suisses (UBS), Switzerland's largest bank and one of the largest in the world, announced the purchase of Credit Suisse (for 3 billion Swiss francs – about $3.3 billion), with the support of the Swiss federal government, FINMA and the SNB, the last of which enabled the two banks to obtain a liquidity loan of up to 100 billion Swiss francs (about $110 billion) to facilitate the purchase (Massoudiet al. 2023; UBS 2023; Halftermeyer et al. 2023; SNB 2023). The move was welcomed, among others, by the Minister

[7]JPMorgan, Citigroup Inc., Bank of America Corp., and Wells Fargo & Co. contributed $5 billion each, Morgan Stanley and Goldman Sachs Group Inc., $2.5 billion each, and 5 other banks $1 billion each.

[8]E.g., the bank had been accused of tax evasion by the U.S. in 2014, agreeing to pay $1.8 billion in fines (Resnikoff 2014). It has also been implicated in the case of Mozambique's 'tuna bonds' loan, being fined GBP 350 million (Makortoff & Wearden 2023; Hanlon 2017; Makortoff 2021).

[9]It was established in 2009 by the Financial Market Supervision Act, from the merger of three institutions: Swiss Federal Banking Commission (SFBC), Federal Office of Private Insurance (FOPI), Anti-Money Laundering Control Authority (AMLCO, Swiss Confederation 2007, FINMA 2023b).

[10]It was founded in 1907, and it is based primarily on Article 99 of the Swiss Federal Constitution (Swiss National Bank 2023a and 2023b).

of Finance and the U.S.'s Federal Reserve Chairman, (Fed; see Overview 2 below), as promoting financial stability (US Department of the Treasury 2023c).

On the same day (19 March), the world's largest central banks in Canada, the United Kingdome, Japan, the U.S., Switzerland, and the European Central Bank (ECB, see Overview 3 below), announced the injection of U.S. dollar liquidity to the market (following the establishment of acooperation on the use of common financial instruments in October 2013), with a view to preventing further stress on the financial sector (Federal Reserve 2013 and 2023a).

Overview 1: Deposit guarantee schemes in the U.S. and Greece.

In the U.S., the Federal Deposit Insurance Corporation (FDIC) was established by the Banking Act of 1933 following the financial crisis of the 1930s that led to the collapse of 9,000 banks and the loss of $1.3 billion in deposits (FDIC 1984, 3-4; Federal Reserve Bank of New York 1933). There had already been, however, relevant initiatives to guarantee bank deposits at the State level in place as early as 1829, starting with New York State[11]. It is an independent government body to guarantee deposits and minimize financial unrest following bank failures.

The Act has now been incorporated into 16 USC 1811 to 1835a, and provides for a guarantee of deposits up to $250,000 each (US Office of the Law Revision Counsel 2023). For this purpose, the FDIC has established the Deposit Insurance Fund (DIF), which obtains its resources from premiums paid by financial institutions insured by the FDIC and from interest of FDIC investments on U.S. government securities (FDIC 2021). 4,700 institutions with approximately $20 billion deposits participate in the FDIC, while, as of December 2022, the DIF's resources amount to approximately $128 billion (FDIC 2023f and 2023g).

In Greece, the corresponding agency is the Hellenic Deposit and Investment Guarantee Fund (TEKE), which was initially established in 1995 under article 41 et seq. of Law 2324/1995, following European Union (EU) Directive 94/19/EEC[12]. The Fund, in which all credit institutions must participate, initially guaranteed only deposits up to €20,000 (the minimum possible according to the Directive), had a founding capital of 3,000,000 drachmas (approximately €9,000), paid by the Bank of Greece (6/10) and the Hellenic Bank Association (4/10), and, similarly to the FDIC, obtained its resources from annual regular contributions from participating institutions (Hellenic Republic 1995, EP & CEU. 1994).

At the beginning of the financial crisis of 2008, the Fund was transformed into the now existing TEKE under Chapter A of Law 3746/2009, which now included the possibility of compensation to investors of credit institutions, as well as depositors. The starting capital was approximately 9,000,000 euros and was covered in the same way as above; its resources were obtained the same way as well. The amounts covered are set at up to €100,000 for each deposit and up to €30,000 for investment services (Hellenic Republic 2009). TEKE has under its jurisdiction 15 credit institutions in Greece with deposits of approximately €129 billion; about 99% of them are guaranteed (up to €100,000). Resources to cover deposits amounted to approximately €4 billion in 2021 (Hellenic Deposit & Investment Guarantee Fund 2023).

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[11]The program was designed by entrepreneur Joshua Forman, inspired by the requirement that American businessmen trading with foreigners had to be guarantors of each other's debt (FDIC 1984, 13-4).

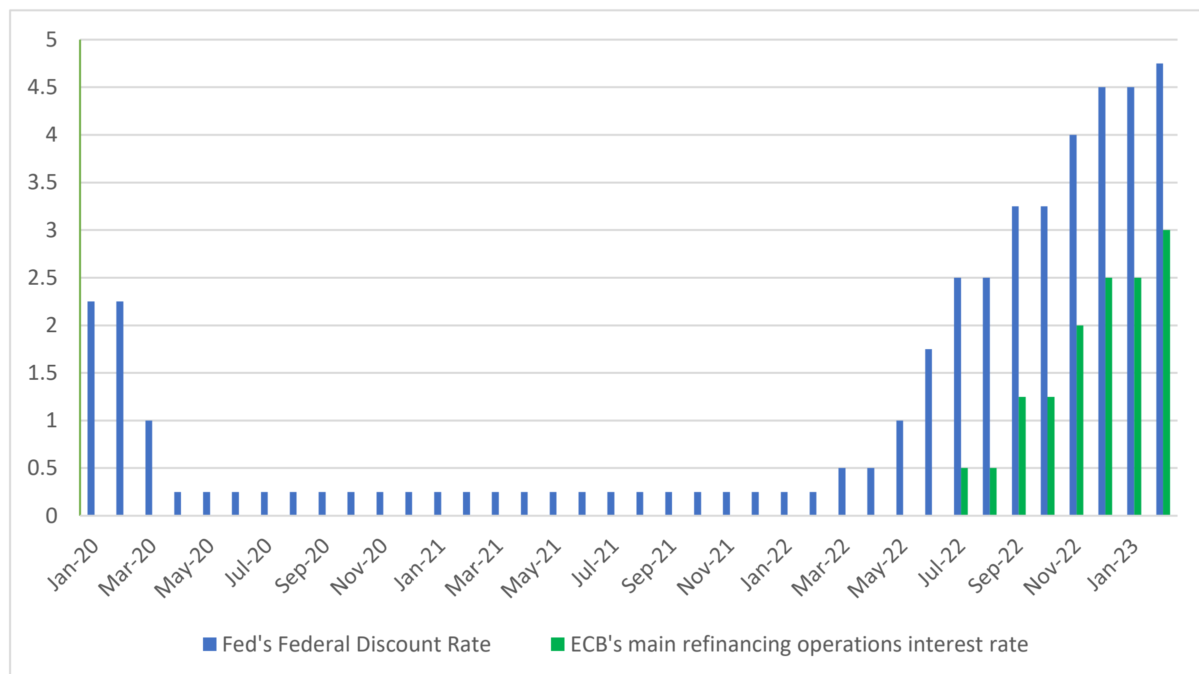
[12]Directive 2009/14/EC amended Directive 94/19/EC by, inter alia, increasing the guaranteed deposit limit to €100,000, while the overall deposit guarantee framework within the EU was reformed by Directive 2014/49/EU, which is in force today and was incorporated into the Greek legal order by Law 4335/2015 (EP & CEU 2009 and 2014; Hellenic Republic 2015).

Possible broader causes

Central bank interest rates

Although many factors contributed to the collapse of the aforementioned banks, a key cause was the rapid increase of basic interest rates by the Fed and the ECB after a long period of extremely low interest rates, mainly during the pandemic (Siegel 2023; Dimos 2023). In terms of the Fed, while in early March 2020 the Federal Discount Rate was set at 1.75%, it was decided to reduce it to 0.25% on March 16 (a decrease of approximately 86%), due to the declaration of COVID-19 as a pandemic by the World Health Organization on March 11 (Federal Reserve 2020; WHO 2020). The rate remained the same for the next 2 years, and it was raised dramatically in 2022: within just 10 months (May 2022 to February 2023), it increased by around 850%, from 0.5% to 4.75%. For the ECB, the main refinancing operations interest rate was 0% or almost 0% for 2.5 years from January 2020 to July 2022, when, in just 8 months, it was then raised by around 300% to 3.0% until February 2023. The data is illustrated in Figure 1 below.

Figure 1: Basic interest rates (%) of the Fed and the ECB, January 2020 to February 2023[13].



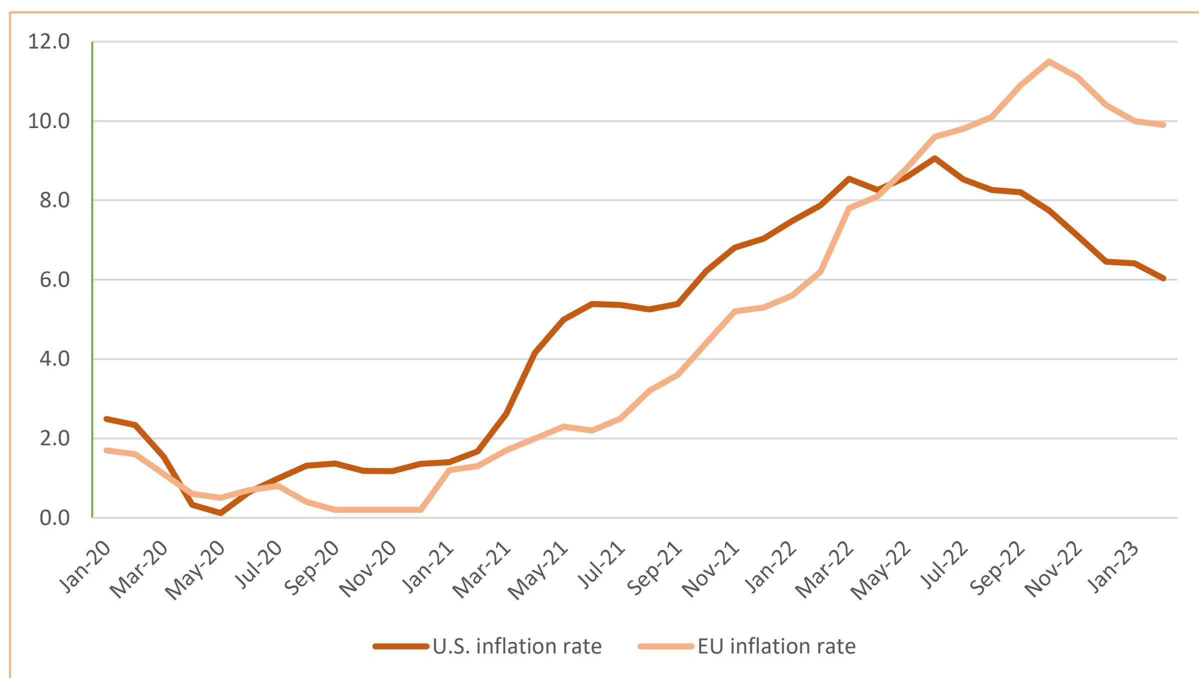
This drastic increase in basic interest rates has had negative consequences for the above (and many more) banks (Silber 2023). For example, SVB had invested heavily in long-term bonds (e.g., U.S. T-bills; Smith 2023), to the amount of $91 billion (Escande 2023). The above rate 'hikes' significantly reduced the value of these bonds that had been purchased – and therefore linked – to the previous, lower interest rates, without this loss appearing in the bank's balance

[13] Combination by the author of data obtained from Federal Reserve 2023b και ECB 2023a.

sheet; the value of the bank's assets was actually less than what was apparent (Dimos 2023). Selling these bonds before maturity resulted in significant financial losses, given the decline of the value of the bonds but also the possible need to further reduce the selling price since new bonds had, in the meantime, been issues (with increased interest rates) that performed much better and were therefore more attractive to investors. Consequently, there was a loss not only of a large part of the profit on those bonds, but also a loss of the value originally paid by the bank for their purchase.

The main argument of the ECB and the Fed for raising interest rates is the need to reduce the elevated inflation that has followed the policy of low interest rates during the pandemic (e.g., ECB 2023b; Horsley 2023; Federal Reserve Bank of Cleveland 2023). Figure 2 below shows inflation in the European Union (EU) and the U.S. for the same period (January 2020 – February 2023).

Figure 2: Inflation (Consumer Price Index) in % in the EU and U.S. January 2020 – February 2023[14].

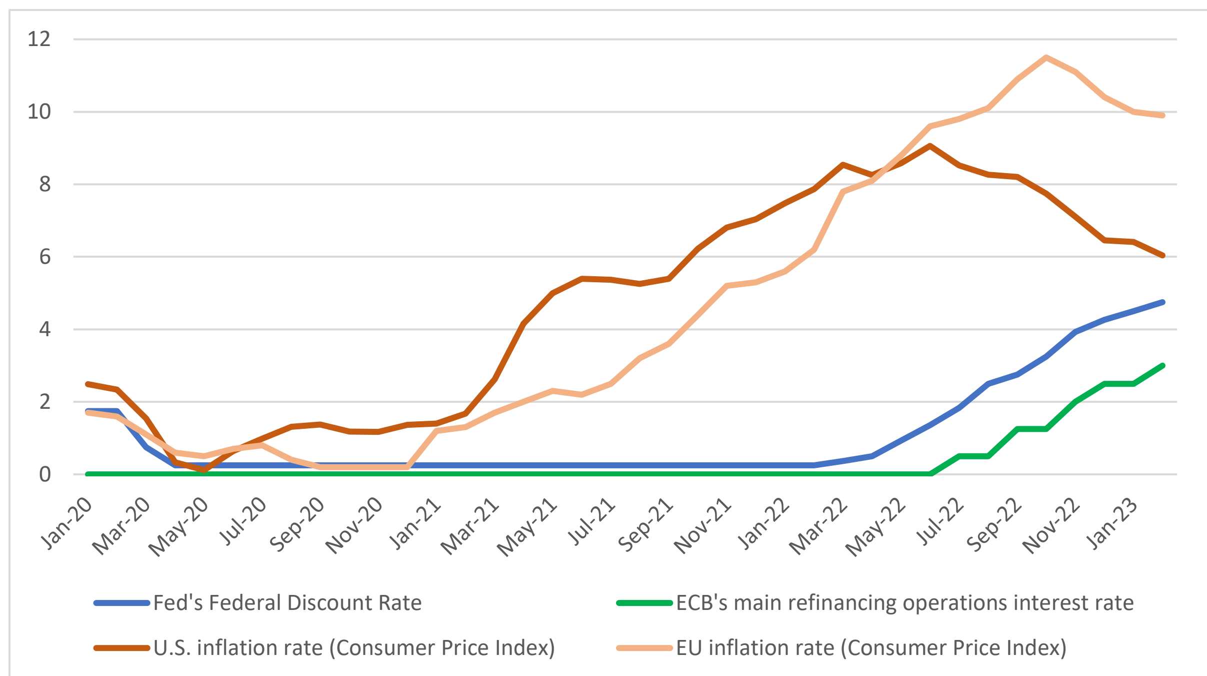


The data indeed demonstrate a similar increase in inflation in the EU and the U.S. In the U.S., the increase started in April 2021, when inflation, which over the previous year had remained less than or equal to 2.5%, rose to 4.2%. From then on, it continuously kept increasing about one percentage point every two to four months reaching a peak of 9.1% in June 2022 (an increase of about 70% within one year). It then declined, but remained above 8% until September 2022, above 7% until November 2022, and above 6% until February 2023.

[14] Linear chart representation by the author of date obtained from OECD 2023.

Inflation followed a similar path in the EU, with the initial significant increase (28%) occurring shortly after than it did in the U.S., between June and July 2021 (from 2.5% to 3.2%), while for the previous 1.5 years inflation had reached a maximum to 2.5% (for almost 1 year, it was below 1%). The increase was at a rate of one percentage point every one to three months, reaching more than 10% in August 2022 (an increase of about 215% within a year), over 11% in October and November 2022, and returning to around 10% between January and February 2023. Figure 3 shows, in a linear diagram, the progression of basic interest rates of the Fed and the ECB and of the inflation rate in the EU and the U.S., from which it can be deduced that, after the significant increases in interest rates of the two central banks, inflation is beginning to fall.

Figure 3: Basic interest rates of the Fed and the ECB, and inflation rate in the EU and the U.S., January 2020 – February 2023[15].



[15] Linear chart representation by the author of data obtained from the aforementioned sources.

Overview 2: The U.S. Federal Reserve System

The central bank of the United States is the Federal Reserve System (Fed) created in 1913 under the Federal Reserve Act, (sections 221 through 522 of the U.S. Code; U.S. Office of the Law Revision Counsel 2023; U.S. 1913). The Fed is chiefly concerned with setting the monetary policy of the U.S. , which it implements by conducting Open Market Operations (Federal Reserve 2023c), i.e. securities trading, etc., by defining the federal discount rate on private banks, and by setting the required reserves that banks must hold. It consists of 3 pillars (Federal Reserve 2021, 7-12):

- the 7-member Federal Reserve Board of Governors, the members of which are nominated by the President and appointed by the Senate for a term of 14 years (the President and Vice-President are appointed by the same procedure but for a term of 4 years), which has the exclusive right to issue the dollar (Federal Reserve 2022b)[16], and undertakes the supervision of the Federal Reserve Banks and, by extension, of specific financial institutions and activities;

- the 12 independent Federal Reserve Banks, each of which is governed by a 9-member Board of Directors (6 members are elected by the private banks that are members of the Fed and 3 members are appointed by the Board of Governors), which supervise the private banks of the States within their region, conduct financial operations, and collect data used to inform monetary policy;

- the Federal Open Market Committee, which consists of the 7 members of the Board of Governors, the President of the Federal Reserve Bank of New York, all of whom have permanent voting rights (ECB 2023c), and of 4 of the Presidents of the other Federal Reserve Banks with 1-year terms[17], and is responsible for setting monetary policy in accordance with the Fed's statutory objectives.

The Federal Open Market Committee is responsible for conducting Open Market Operations, while the Federal Reserve Board of Governors, and the Fed in general, are responsible for setting the lending rate and the required reserves that private banks must hold (Federal Reserve 2023c).

The System has three statutory objectives (set out in more detail after the 1977 revision of the Federal Reserve Act) that the Board and the Committee must promote: maximum employment, stable prices (inflation), and average long-term interest rates. Since long-term interest rates remain average in a stable economy with low expected inflation, the 3 objectives are usually referred to as a dual mandate: maximum employment and price stability.

[16] For example, for 2023, the Board requested from the U.S. Treasure to issue 4.5 – 8.6 billion coins, with a total value of $166.5 – 190.5 billion.

[17] The selection is held on a rotating basis for 1 President from each of the following four groups of Reserve Banks: Boston, Philadelphia and Richmond; Cleveland and Chicago; Atlanta, St. Louis, and Dallas; Minneapolis, Kansas City, and San Francisco (Federal Reserve 2023c).

Overview 3: European Central Bank

The European Central Bank (ECB) is the central bank of the Eurozone[18] and one of the seven EU institutions, with sole responsibility for issuing the euro currency, having as its sole statutory objective maintaining price stability through conducting monetary policy. It is governed by the Governing Council, consisting of the 6-member (with an 8-year term) Executive Board[19], appointed by the European Council, and by the 20 governors of the national central banks of the Eurozone Member States (EU 2016, 167-8 and 230-237; ECB 2023c).

The ECB was designed as part of Stage 3 of the EU's Economic and Monetary Union (EMU), which, among other things, includes the irrevocable fixing of conversion rates (of the then-existing national currencies), the creation of the European System of Central Banks (ESCB), the introduction of the Euro as the single currency, and the application of binding rules regarding Member States' budgets (deficit, debt, etc.; Delors et al. 1989, 30-36). All EU Member States, except Denmark[20], must join the euro area at some point (ECB 2022, 3 and 2023d), but only after a positive recommendation and evaluation of compliance with the acquis communautaire[21] (EC 2023a) and the convergence criteria[22] (the most important of which are the 3% deficit and 60% debt limits; EC 2023b) by the ECB and the European Commission, following periodic assessments (e.g. ECB 2022).[23]

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[18] Together with the national central banks of the Eurozone Member states they form the Eurosystem, and together with the national banks of all EU Member states they form the European System of Central Banks.

[19] The Governing Council has a group voting system for the central banks of the Eurozone Member states: Germany, France, Italy, Spain and the Netherlands share 4 voting rights, while the remaining 15 member states share 11 voting rights. Voting rights are exercised by the Governors of the national central banks on a monthly basis. The 6 members of the Executive Board have permanent votes (ECB 2023c).

[20]According to Protocol (No16) to the EU Treaties on certain provisions concerning Denmark, Denmark is exempted from the automatic transition to Stage 3, pending the satisfaction of relevant national legislation (referendum; EU 2016, 287).

[21]The basic fundamental principles, laws, etc., of the EU on a wide range of policy areas, consisting of 35 chapters (EC 2023c).

[22]There are 4 convergence criteria: Price stability (Consumer Price Index/Inflation up to 1.5% higher than the rate of the three best performing Eurozone Member states), Healthy (government deficit below 3% of Gross National Product – GDP) and sustainable (government debt below 60% of GDP) public finances, Durability of convergence (long-term interest rates up to 2% above the interest rate of the three best performing Eurozone Member states in terms of price stability), and Exchange rate stability (participation in the Exchange Rate Mechanism II – ERM II without severe tensions for at least 2 years; EU 2016, 99-102, 180-9, 279-282).

[23] Article 140 of the Treaty on the Functioning of the EU (EU 2016, 108-110).

Changes to U.S. legislation

In addition to the above, the change in the relevant U.S. legislation played an important role, primarily in the ability of the financial and public sectors to be aware of, and, hence, better prepared for, the issues of the problematic U.S. banks. After the late-2000s financial crisis, following a proposal by then U.S. President Barack Obama and the federal government, the Dodd-Frank Wall Street Reform and Consumer Protection Act was adopted by Congress in 2010 (Chapter 53 of the U.S. Code; U.S. Department of the Treasury 2009; U.S. Office of the Law Revision Counsel 2023; U.S. 2009). The Act provisions a wide range of reforms in the financial sector aimed at preventing and avoiding crises like the one after 2008. Among other things, it provided (e.g., articles 116, 165) for stricter monitoring (e.g., stress tests) and for strengthening of the rules and standards, applicable to financial institutions that were deemed systemic; those were defined as institutions with total assets of at least $50 billion (Federal Reserve 2016; U.S. 2009).

But in 2018, during the Presidency of Donald Trump, and with the support of both Republicans and Democrats (17 in favor and 31 against in the Senate, 33 in favor and 158 against in the House of Representatives; Dale 2023) in Congress, the Economic Growth, Regulatory Relief, and Consumer Protection Act was adopted (U.S. 2018). This Act, inter alia, amended (Section 401) the Dodd-Frank Act, raising the minimum threshold of assets for financial institutions to be deemed systemic, and thus subjected automatically to increased surveillance, from $50 billion to $250 billion. It also provisions the possibility of imposing, on a case-by-case basis, increased control and monitoring standards on other institutions following a decision by the Fed, but those institutions must have at least $100 billion in assets – double the threshold set by the Dodd-Frank Act. Even in this case (institutions with assets from $100 billion to $250 billion), enforcing stricter standards and rules is at the discretion of the Fed. These changes clearly implemented and also signaled a deregulation of the financial sector.

Both SVB and Signature Bank had assets of more than $100 billion (SVB had over $200 billion), but neither met the threshold of $250 billion imposed by the above legislation. Therefore, despite their systemic size (as of December 2022, SVB had about $175 billion in total deposits alone), these banks were not subject to increased oversight by the Fed, under which they would be obliged to undergo periodic reviews and stress tests, etc. Although it is not possible to determine whether, by imposing the above provisions included in the pre-2018 legislative framework, their collapse would have been avoided, it is the case that there would certainly have been much better information and anticipation and, therefore, more effective preparation for what occurred by both the private and the public sectors.

Comparison with the late-2000s financial crisis

Although the banks that faced issues this time were systemic, there are significant differences with the late-2000s financial crisis. That crisis started almost exclusively due to the overexposure of financial institutions in the U.S. but also in the United Kingdom (e.g. the acquisition by the Treasury of Northern Rock, the 5th largest mortgage creditor) in the Asset-Backed Securities market, primarily in mortgages (Federal Reserve Bank of St. Louis 2014). The dramatic increase in demand for mortgages in the 2000s led to the relaxation of the relevant criteria and the provision of mortgage loans to people who had a high risk of non-repayment (Alternative A-paper and Sub-prime mortgages; Wallison 2010, 8). These mortgages, along with other assets of varying risks, were grouped and reconfigured into Collateralized Debt Obligations (CDOs), making it impossible to calculate the risk for specific categories of securities.

The above uncertainty in the risk of securities led to a credit crunch in the financial sector, resulting in an economic crisis (Martins 2010, 3). A large number of financial institutions (Lehman Brothers, Merrill Lynch, etc.) either went bankrupt, or sold or bought by the U.S. Treasury, with the most significant case that of Lehman Brothers, which went bankrupt with a debt of $ 613 billion (Lehman Brothers 2008). In just one year (2008 to 2009), the number of troubled financial institutions increased by 300, from 252 to 552 (FDIC 2009, 3). The crisis spread to other sectors of the economy (e.g., automobile industry), and the U.S. government adopted the Troubled Asset Relief Program (TARP)[24], which authorized the U.S. Treasury to purchase troubled assets from any financial institution.

Within the EU, the crisis was initially transferred as a banking crisis, and eventually turned into a sovereign debt crisis (Murray-Brown & Dennis 2008). The first countries affected by it were EU member states outside the Eurozone, requesting financial assistance from the EU and the International Monetary Fund (IMF): Hungary (September 2008, approximately EUR 20 billion), Latvia (January 2009, approximately EUR 7 billion); Romania (March 2009, approximately EUR 20 billion; CEU 2009a to 2009e; EC 2013 and 2020; IMF 2008 and 2020). The first Eurozone member state affected was Ireland, where in September 2009 the government provided a guarantee for loans and deposits of the entire banking sector, worth around EUR 400 billion to prevent a bank run, combined with adopting austerity measures (Guider & O'Brien 2008; Republic of Ireland 2008, 4-5; Little 2008; Irish Examiner 2008). The crisis spilled over to other Eurozone member states that eventually requested financial

[24]Emergency Stabilization Act of 2008 (U.S. 2008).

assistance from the EU and the IMF (e.g., Greece, Kyriakidis 2016). In order to avoid a recurrence of the crisis, in line with the case of the U.S. with the Dodd-Frank Act, relevant legislation was adopted at the EU level with the aim of enhancing coordination and stricter surveillance of economic policy of member states (with emphasis on Eurozone member states), given that the crisis was mainly of sovereign debt, such as the Six-Pack, the Two-Pack, the Treaty on Stability, Coordination and Governance, the creation of various financial support mechanisms, most notably the now permanent European Stability Mechanism, etc. (Kyriakidis 2017).

Observations: A new crisis;

So, is this a a new banking crisis? The events have certainly unfolded at high speed and involved systemic financial institutions. Within just 15 days (March 12 to March 26, 2023), two of the largest banks in the U.S., with $265 billion in deposits and $320 billion in assets, and one Swiss bank, collapsed, and eventually purchased by other banks, while a third bank in the U.S. was supported with $30 billion in direct liquidity from the largest U.S. banks and the global financial system was correspondingly reinforced by the world's most powerful central banks with dollar liquidity. The collapse and takeover of the two U.S. banks alone cost the FDIC's DIF 20 percent of its available resources (approximately $23 billion of the $128 billion available).

Despite the above, and although there is still concern in the financial sector (Shalal & Bose 2023; Evans 2023), it seems that, for the time being at least, the worst has been avoided, primarily due to the immediate and decisive actions of governments and central banks. This stands in contrast to the late-2000s financial crisis, during which the domino effect was much more widespread and the public sector responded more gradually and conservatively. There are additional differences as well. The crisis of 2008 was created by the expansion and the predatory lending practices of promoting mortgage loans to people who had a high risk – and ultimately ended up – not repaying these loans, through a relaxation of eligibility criteria.

In contrast, the current situation concerns banks with high-income customers (at SVB and First Republic Bank, about 90% and 70% of deposits respectively were over $250,0000). Also, so far, there is no single underlying cause, as was the case of the 2008 crisis. Each of the affected banks had, to an extent, different problems: SVB was overexposed to U.S. securities that lost value due to interest rate hikes by the Fed, Signature Bank was overexposed to and participated in cryptocurrency transactions and investments – mainly the bankrupt FTX – Credit Suisse had

multiple cases of tax evasion and corruption, and First Republic Bank had a high loan-to-deposit ratio.

The immediate response of governments and central banks was also noteworthy, primarily in effectively preventing a domino effect in the banking – and, unavoidably later, just as in the late-2000s – the financial sectors. However, especially in terms of the Fed, an additional incentive in relation to SVB – the first bank to have collapsed – was the size of the exposure of SVB to U.S. securities: the bank was holding more than $90 billion in U.S. Treasury bonds, and, therefore, its potential bankruptcy would affect the entire U.S. economy to a significant extent. Finally, broader issues arise regarding the deregulatory approach to the post-2018 relevant legislative framework in the U.S., which resulted in, at the very least, an inability to prepare, if not prevent, such phenomena.

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