Economic crisis and banking crisis

Crisis económica y crisis bancaria

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ABSTRACT

This research first presents a typology of various financial crises - the currency crisis, the debt crisis, the balance of payments crisis, and the banking crisis - and sets out criteria for measuring them. It then provides a specific definition of the banking crisis, and it examines the plurality and frequency of occurrence of bank crises at different times and in different countries. In the following, the coincidence and sequence of the banking crisis with other forms of financial crisis have been analyzed statistically. Then, the consequences of the banking crisis are estimated and estimates of the cost of the banking crisis in the countries that have suffered.

Key words: economic crisis, economic growth, financial crises, banking crisis, currency crisis

RESUMEN

Esta investigación presenta primero una tipología de varias crisis financieras (la crisis monetaria, la crisis de la deuda, la crisis de la balanza de pagos y la crisis bancaria) y establece criterios para medirlas. A continuación, proporciona una definición específica de la crisis bancaria, y examina la pluralidad y la frecuencia de ocurrencia de crisis bancarias en diferentes momentos y en diferentes países. A continuación, la coincidencia y la secuencia de la crisis bancaria con otras formas de crisis financiera se han analizado estadísticamente. Luego, se estiman las consecuencias de la crisis bancaria y las estimaciones del costo de la crisis bancaria en los países que han sufrido.

Palabras clave: crisis económica, crecimiento económico, crisis financiera, crisis bancaria, crisis monetaria.

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Introduction

In the wake of the financial crisis in America, economists evaluated continued growth with inflation and low unemployment in the United States as a sign of the success of macroeconomic knowledge. Reducing financial crises over the past few decades has also led the thinkers to misjudge that the regulatory arrangements and corporate risk management practices are sufficient to prevent these crises, and that the market mechanism itself provides sufficient incentives for firms to over-limit their risk Do not tolerate and take precautionary measures (Abiad, A; Dell'Ariccia, 2011). The unexpected occurrence of the financial crisis in the United States and its extension to the real sector of the US economy, as well as the spread of the crisis to other countries, has led to a false line on these projections. The intensity and depth of the financial crisis in 2008 were so severe that various economies in various parts of the world were confronted with various financial crises (Abiad, 2013). A better understanding of the phenomenon of financial crisis is due to the recognition of the types of financial crisis and their relationship with each other and its consequences on the economy. This article looks at the relationship between the banking crisis and other forms of financial crisis (Baldacci, 2009). To answer this question, a classification of financial crises is first introduced and a specific definition of the banking crisis is presented (4). Then, the prevalence of financial crises and the relationship of crises with each other in terms of synchronization and sequencing of crises have been studied. The implications of the banking crisis are outlined in the short and long term, and the estimates of the effects of the banking crisis on the economies of the crisis-affected countries are presented (Laeven, L. and F. Valencia, 2008).

Finally, the explanations that have recently been presented after the financial crisis are about how the financial crisis is affecting the real economy. In total, the report used to provide the above analysis of databases created by Lao and Valencia (commissioned by the International Monetary Fund). The database documented the occurrence of the financial crisis between 1970 and 2012 in 164 countries, and the calculations related to the length of each crisis and the exact time of start and end, the frequency of occurrence, the cost of coping with it and other large variables such as the amount of assistance liquidity, the maximum deferred interest rate, the percentage of public debt and the volume of money in terms of gross domestic product. The database provides additional and detailed information on actions taken at the crisis management stage and the crisis resolution stage, broken down by 57 countries. In a general category, financial crises can be divided into two parts. In the first part, there is a currency crisis and a balance of payments crisis, while the second part is the banking crisis and debt crisis (Laeven, 2011). The currency crisis occurs when the exchange rate is invaded by speculators. This would lead to the devaluation of the national currency, or the authorities will have to use a large part of their foreign exchange reserves to control the current rate or exercise control over the capital account (Laeven, L. and F. Valencia, 2010).

Experts have defined a threshold for the detection of a currency crisis to undermine the value of national currency and inflation. This threshold is for the weakening of the national currency, 15% per annum and for inflation, 20%. The form of this definition is that when the government does not use the reserves to repatriate currency-attacking attacks (Laeven, L. and F. Valencia, 2008). According to experts, the currency crisis has occurred if the value of the national currency weakens at least 30% and this weakening is at least 10% more than the weakening of the previous year. The crisis of the balance of payments, which is also called the sudden moratorium crisis, seeks to stop the entry of foreign capital or capital outflow from the country (Laeven, L. and F. Valencia, 2008). In the case of the balance of payments crisis, several criteria have been proposed, some of which are: declining production with inversion of capital flow, decreasing inflow of capital by two deviations below the average of the period under review, changes in capital flow by a standard deviation Below the average. Selection of different criteria has led various researchers to report different levels of pay-as-you-go crisis (Laeven, L. and F. Valencia, 2011).

Regarding the frequency and severity of debt crisis, rating agencies and international institutions usually provide statistics, but there are some differences in how these crises are identified in terms of defaults, claims, and length of claims (Laeven, L. and F. Valencia, 2010).The debt crisis is a situation in which a country does not want or cannot pay its foreign debt. This debt can be national debt or debt of the private sector of the country abroad. There is another debt crisis that is different from this state, when the government cannot repay its debt to domestic and domestic legal entities and either solicit this problem or openly defaults on its debt or to borrow from the central bank and Creates inflation and pays off its debt. Sometimes a banking crisis begins with an attack on one or more banks to withdraw deposits, but the crisis goes to the entire banking system. Therefore, the banking crisis is a different system of crisis in a particular bank (Reinhart, C. M. and K., 2009). If a particular bank accepts excessive risk and therefore faces liquidity risk and becomes bankrupt, but this bankruptcy does not pose a threat to other banks, the banking crisis is not a system, but only for that specific bank. In a systemic banking crisis, companies and financial sectors face a significant amount of debt defaults, and financial institutions and firms are finding it difficult to repay their contracts. As a result, deferred claims have risen sharply and most or all of the capital of the banking system is vacant. It may also be associated with a sharp decline in asset prices, such as stock prices and housing, a sharp rise in interest rates, and a slowdown or reversal of capital inflows. Usually bank crises are characterized by the following two characteristics:

> Major problems in the banking system, such as the influx of money to withdraw money from the bank, the damage to the banking network and the bankruptcy of banks.
>
> Government interventions in the face of network banking losses.

This method is used to identify a quantitative criterion for identifying bank crises. If the amount of the loan default is more than 20% of the total loans or more than 20% of the bank's network goes bankrupt, the first condition is considered satisfied. If the government intervention cost to repair the banking network's losses is more than 5% of GDP, then the second is estimated. Experts have applied this criterion that a crisis has occurred if an outbreak occurs in order to exit the deposit so that the situation leads to the closure, merger or acquisition of that bank or financial institution by other financial institutions or government.

Methodology

Between 1970 and 2007 there were about 208 cases of currency crises, but if we extend the time period by 2011, this figure will increase to 218.In the case of the debt crisis, statistics show that between 1970 and 2007, there have been 63 debt crises occurred if we extended the period under review to 2011 this figure will increase to 66.American history is a reflection of banking crises. In the nineteenth and early twentieth centuries, the invasion has repeatedly occurred to withdraw deposits from banks. With a deposit insurance plan in the 30's, the number of bank crises declined. Between 2007 and 1970 there were nearly 124 banking crises. If the time period expands by 2011, the number of bank crises will reach 147. Experts have considered the longer period from 1800 to 2008 for 66 countries and the number of banking crises is 268.In this extended period, developed and non-developed countries are equally affected by the phenomenon of a banking crisis. If the source dates back to 1800, the history of developed countries has been a continuous flow of banking crises, but if the start of World War II is over, the picture is changing much and most of the developing countries have been struggling with the banking crisis. The interesting point is that the frequency of banking crises on both continents of the continent of Europe is greater than that of the African continent, due to the further expansion of the financial system. It is seen in the following figure that the occurrence of banking crises has occurred in the form of waves, that is, in times of banking crises in different countries simultaneously created. It is worth noting that the number and severity of the banking crisis has increased since the 1970s. One of the most important reasons is that during this period of fluctuation and changes in the global economy have occurred. Financial and economic liberalization in a situation where the institutional environment has not been strong has caused much inefficiency to emerge and public banks face risks that they have not previously faced. As it can be seen in the 1990s, banking crises were three times more frequent, but at the beginning of the twenty-first century, crisis rates were lower. Of the 129 banking crises in which information is available on the amount of lending, 45 cases of rapid growth of credits occurred before the banking crisis occurred.

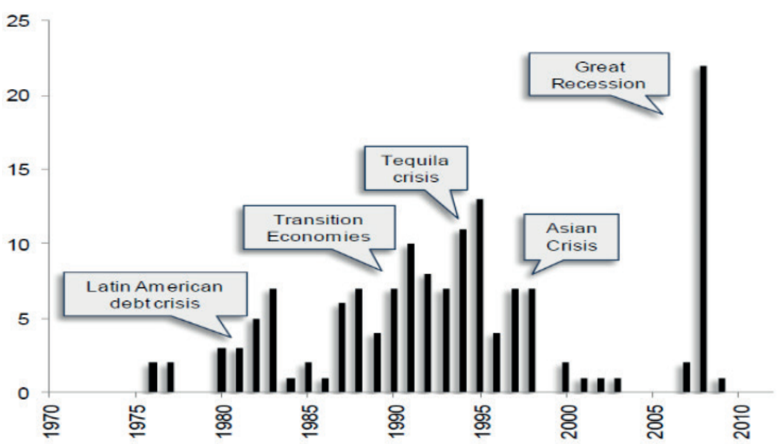

Fig 1. Bank Crisis Periods

Fig 2. The average number of financial crises decades apart

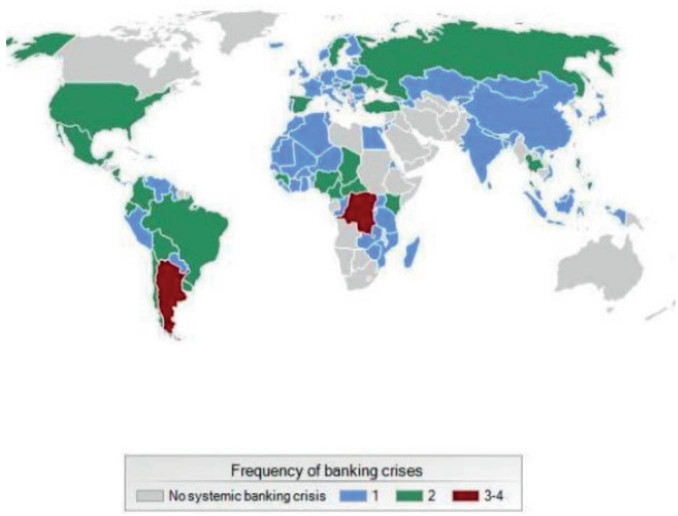

Fig 3. The geographic distribution of bank crises frequently

Table1. Banking crisis in the recent financial crisis

When crisis became systematic.	Once the crisis began	Country	When crisis became systematic.	Once the crisis began	Country
2008	2008	Luxembourg	2008	2008	Austria
2009	2008	Mongolia	2008	2008	Belgium
2008	2008	Netherlands	2009	2008	Denmark
2011	2009	Nigeria	2009	2008	Germany
2011	2008	Spain	2009	2008	Greece
2009	2008	Ukraine	2008	2008	Iceland
2008	2007	Great Britain	2009	2008	Ireland
2008	2007	America	2010	2008	Kazakhstan
			2008	2008	Latvia
Border cases					
2008	2008	Switzerland	2008	2008	Russia

2008	2008	Portugal	2008	2008	Slovenia
	2008		2008	2008	Sweden

Results

Consequences of Bank Crisis are about: the consequences of crises can be divided into four categories:

1. Production drop
2. The financial cost of the crisis,
3. Increased public debt,
4. The cost of credit, including the growth of non-repayable loans.

Financial crises have led the economy to enter a period of stagnation, but the record created by these crises is usually deeper and longer than the usual recession in the business cycle. Some average recession periods due to the financial crisis have been calculated in six seasons, which is two seasons longer than conventional recessions. The stagnation is characterized by a drop-in production, and the purpose of a drop-in production is the difference in production performance from potential production. At the same time as the recession, most other variables such as investment, consumption, employment, exports and imports are also decreasing. For example, in emerging markets, the decline in consumption in the recession from the crisis is 7 to 10 times higher than the recession. In normal recessions, the growth rate of consumption is reduced but not below zero, while in the recession due to the financial crisis this happens. The recession caused by the financial crisis is not only national, but sometimes global production is falling. For example, due to the recent financial crisis, the global economic growth rate dropped by 2% in 2009.Another important finding is that the exit from the recession in cases where the recession caused by the financial crisis has been slower and weaker. For example, experts found that seven years after a banking crisis, production would still remain 10 percent below its level before the crisis. They also found that in the long run, the employment rate, the ratio of capital to labor, and the total productivity of the factors would be as weak as the proportion, but in the short term, only a decline in the total productivity of the factors with the production would fall sharply, but this variable could in the medium to The process will return before the crisis, but capital and employment simply will not return to those amounts. Another interesting finding is that, in the medium term, the decline in production is unavoidable, and countries that have adopted anti-monetary and monetary policies immediately after the crisis have seen a weaker decline in output over the medium term.

Table 2. The consequences of the banking crisis between 1970-2011

Country	Reduce production	Increase debt	Monetary expansion	Financial expenses	Financial expenses	Length of time	Peak of liquidity	Liquidity assistance	The peak of troubled loans
Average									

Percentage of GDP					Percentage of financial system	To year	Percentage of deposit		Percentage of loans
All	23	12/1	1/7	6/8	12/7	2	20/1	9/6	25
Developed	32/9	21/4	8/3	3/8	2/1	3	11/5	5/7	4
appear	26	9/1	1/3	10	21/4	2	22/3	11/1	30
developing	1/6	10/9	1/2	10	18/3	1	22/6	12/3	37/5

The relationship between the banking crisis and the real sector of the economy

The question of how the financial crisis extends to the real sector of the economy, and ultimately leads to an economic crisis, is a question that has been researched and has not yet been resolved. An analysis is that the banking crisis causes the factors of production to be affected. Most people who have studied the consequences of a banking crisis have been the main factor behind the decline in credit supply that comes after these crises. Most of them have reduced investment and, consequently, reduced capital accumulation. In this regard, some experts consider bank crises to be a recession rather than a recession. From their point of view, the recession is causing default on some borrowers, and this failure creates problems for some banks. The rest of the banking network refuses to pay a loan because of the fear of repeating the default on them, which will exacerbate the recession itself. In his famous article in 1983, Bernanke notes that the Great Depression of the 1930s was prolonged because of the collapse of the financial system. The following figure shows the economic growth pattern for both the developed and developing countries. A banking crisis from another channel also leads to a reduction in credit, which is the relationship between customers and the bank. It should be noted that banks collect information about their customers and establish relationships with them on a loan basis. Usually customers who have close ties with banks are more comfortable lending, and this has been effective in making a loan decision. When a bank goes bankrupt, these relationships will be lost and the borrower will increase the cost to the client. Increasing borrowing costs reduces access to credit, reducing demand by reducing demand. In this study, the banking crisis, the currency crisis, the balance of payments crisis, and finally the debt crisis was introduced as different types of banking crisis, and definitions of each were presented.

It was then shown that financial crises in general and the banking crisis are particularly common phenomena in both advanced economies and developing economies, and since the 1970s, the number of financial crises has increased sharply. It was also shown that in many cases the currency crisis and the banking crisis coincide, but the coincidence of the banking crisis and the debt crisis is not so common. In the paper, the decline in production, its financial containment, the increase in public debt, and, ultimately, the cost of credit as crisis costs were introduced and an estimate of these costs was provided for countries that were in the crisis of the banking crisis. Finally, the issue was how financial crises were spreading to the real sector of the economy. This research shows that the phenomenon of the banking crisis is a phenomenon that is quite tolerable, and if it happens, there will be heavy costs for each economy. Although Iran has not experienced a banking crisis in the past, it does not guarantee that there will not be a banking crisis in the future. The current situation of the Iranian banking system indicates that the banking system of the country is facing a banking crisis and will face heavy costs in the event of a banking crisis. This reminds us of the need for vigilance in relation to banks' risky activities and the intensification of regulatory and preventive measures. One of the important lessons of the banking crisis in different countries is that, along with the expansion of the financial sector, the regulatory component of them should be strengthened quantitatively and qualitatively. Neglecting the strengthening of banking supervision as the banking network expands, weak monitoring and opportunity for offending banks to carry out risk activities can lead. The second policy recommendation that can be drawn from this article is that inappropriate macroeconomic policies can quickly turn into a coincidence of crises or turn a crisis into another type of crisis. As a stabilization of the exchange rate for a long time in spite of inflation, it can eventually turn into a severe exchange rate and currency crisis, and this currency crisis can trigger a banking crisis. The important message of the crisis in different countries is that the imbalance in the economy of the field for the emergence of the banking crisis and the subsequent financial crises of the crisis is sharply accelerating.

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