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BANKRUPTCY AND CONTAGION RISKS IN BANKS

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Abstract: *This research aims to identify the effects of contagion risks on the European banking market, after the bankruptcy of the US Silicon Valley Bank. This is the biggest bank failure since the global financial crisis. Wall Street's biggest banks lost no less than 55 billion USD in market value in a single day. And also, the shares of some European banks registered a strong decrease as a result of contagion effects on the banking market. The fear and panic of depositors led to the withdrawal of liquidity. No bank can withstand such pressure. And also, the big European banks were under the pressure of contagion effects. All this has led to a loss of customer confidence in banks.*

• Introduction

In the current global financial context, new regulations were issued, the Romanian financial and banking legislation was completed, and a series of European Union regulations were implemented, intended to improve the activity of credit institutions. In Romania, the National Bank of Romania is the regulatory authority in banking matters, but also the prudential supervisory authority of credit institutions. The legal framework that regulates the banking activity has a vital role in strengthening a modern and efficient banking system in Romania. A major step in the line of rehabilitation of the Romanian banking system and the removal of non-viable banks from it was the regulation of the bank bankruptcy procedure.

• Material and method

The scientific research methods used in this paper are: identification of the issues subject to research, selection and collection of relevant data and information, systematization, classification according to the importance of the identified criteria, definition of concepts, comparison, selection of banking regulations regarding the issues addressed in the research, analysis and scientific synthesis, generalization and scientific abstraction, induction and deduction, as well a professional reasoning.

• Results and discussions

In the context of the current international financial crisis and the contagion phenomenon, the prudential supervision activity of credit institutions, carried out by the National Bank of Romania, allows it to effectively manage financial crises and to plan for unforeseen situations. Considering this international dimension of prudential supervision, it is interesting to analyze the effects of interdependencies between financial and banking institutions, in the context of bank bankruptcy and contagion risks.

• Conclusions

The increase in moral hazard in banking activity and the fragility of banks, precipitate even more these bank failures in times of money's price increase. It also generates the domino effect, because all banks are remarkably similar and connected to each other. This inevitably leads to a loss of customers' confidence in banking entities. The loss of trust in banks is an extremely inconvenient situation to manage. In order to limit the effects of the contagion risk and bank bankruptcy, it is necessary to increase the role of the prudential supervision activity of banking entities.