



Effects of Financial Crisis on Systems and Financial Markets

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THE EFFECTS OF THE FINANCIAL CRISIS ON THE SYSTEMS AND FINANCIAL MARKETS

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ABSTRACT

The emphasis on financial liberalization in emerging countries, including those in the transition to a functioning capitalist competitive economy, has aggravated the problem of financial crises, but not only. The governments of the great powers (who were going to overcome the effects of the real estate crisis in the early 1990s) and the big financial institutions jointly developed a doctrine called *the Washington Consensus* - through the IMF tried to *persuade the* governments of the states in development and former socialist states to adopt as soon as possible the financial liberalization. The states that responded enthusiastically/favorably to this request have been labeled as *emerging markets* or *emerging economies*. They immediately came to the attention of major international financial intermediaries for the purposes of financial agreements optimistic and drew a veritable avalanche of capital. Here lies the origin of the worst *financial crises* emerging after the Great Depression.

Key words : financial globalization , securities market , financial markets , financial crisis , stock market

JEL classification: G32

Introduction

Globalization is a plurivalent concept, a gradual and oscillatory process, accepted or disputed due to its implications, considered both with deep origins / roots in the more distant past of mankind, but also as a more recent phenomenon (the phenomenon manifests itself under different facets on various stages and at certain stages of social evolution). We appreciate the fact that some points are worth mentioning in the evolution of scientific thinking about globalization, among which: the holistic conception of global consciousness; criticism or imputation of the holistic conception of global consciousness; the differentiation of state- nation concepts and the relationship between postmodernity and globalization. Their detailed analysis goes beyond the scope or purpose of the present study. Undoubtedly, however, is the inexorable character of globalization in the contemporary world, as well as the fact that the economic segments considered the most sensitive to this phenomenon are the financial sector and the banking sector [\[1\]](#) .

¹The two areas of activity are different, they have specific, areas of their own, but, however, their strict delimitation is quite difficult; there are components of financial banking activity, but also components of the financial activity itself, which are carried out through banking institutions (it is well known that one and the other of the two domains exceeds the traditional area of action - they are intertwined to such an extent that it is usually spoken about a financial-banking field).

The financial markets and the banking sector are at the forefront of radical transformations that mark the contemporary world. *The financial markets* and banking institutions involved in their operations (*of financial markets*) are the most open to the process of globalization, but also the most conducive ground for triggering imbalances with notable negative effects and with significant force of propagation through their own trigger mechanisms themselves. The banks, although institutions of a different nature than strictly financial institutions, are in the epicenter of *crisis* triggering and propagation global *financial* system itself through the central place it occupies in the functioning mechanisms of the contemporary economies. There are, of course, differentiations from from one state to another. This is favored by the complexity and diversity of the operations carried out on the *financial markets* and the banking system and the instruments used (often of questionable quality).The impact of the banks, structured by various criteria) on the overall economic and social development is very old. This impact was predominantly positive as long as the banks have fulfilled their traditional role (it is understood that only the prospect of a positive impact contributed decisively to the organization of these institutions). Over the time, the banks have distanced themselves from their natural functions and have become more and more involved in sophisticated and insufficiently managed operations, especially under the impetus of changing the ratio between real flows and financial-money flows in contemporary competitive economies (in favor of the latter) and the explosive nature of the innovations in the field (the so-called financial derivatives have progressively lost their connection with the real assets they should represent). Banking crises have rapidly spread and generated dysfunction in all sectors of economic and social life at national and international level. We therefore appreciate the pertinent observation that chained bank failures are significant episodes of financial crises. A milestone in this respect is the

Great Depression in the United States, when it was even econometric proof that bank failures (some after the other) contributed to the deepening of the *financial* crisis and economic recession through influences that were more than destruction of reserves and global monetary mass - the opinion belongs exclusively to the representatives of the monetary union [2] .

The *financial market* phrase is used both singularly and pluralistically, namely *financial markets*, to designate the process that directly or indirectly confronts financing requests and offers (not precise institutions, and even less locations). The resources obtained from investors in the *financial markets* are different from those obtained from banks, called *commercial banks* , through credit logic. In the case of the funds financed by a bank loan, the risk represented by the borrower is included in the balance sheet of the bank (or banks, if it is an important amount). Consequently, the financial resources mobilized in the balance sheet (own funds) are intended to cover the risks that would actually be incurred and thus to immunize or protect bank depositors against the risk they undertake through their lending activity. The conversion of deposits into loans / loans by banks is based on special procedures for the selection of case files and borrowers. As far as financing through *financial markets is concerned*, it is based on a logic and procedures distinct from those specific to bank financing. This difference has led to the distinction between *indirect* or bank *financing* and *direct funding* or *financial markets*. We consider it necessary to mention, however, that this terminology is somewhat misleading as supply against resource needs money in *financial markets* is conducted or orchestrated intermediaries, *investment banks* appointed by the phrase (Investment Banks). These intermediaries, called *banks* , are distinguished by the *unsustainable* reflection , in their balance sheet, of the risks generated by the beneficiary of the resources they mobilize from the investors. In the case of *direct financing* , the risk is assumed directly by the investors concerned, not by a bank. The role or role of *investment banks* is , in fact, the adaptation of the formula for the acquisition of financial resources to the actuarial balance of investors.

Financial markets facilitate meeting the needs of the institutional investors ' investment and, at the same time, cover the financing needs of other agents in the economy or society. In today's economy, the financial bids and offers resources are mainly the needs of two categories of businesses: from the supply side, it is the companies / institutions and local government (central state, municipalities, and others), which need financial resources to ensure the commencement or continuation of a part or the fullness of their economic activity; from the perspective of the offer, it is the savings, insurance and placement institutions / organizations that have or assume the contractual responsibility to place the amounts entrusted by their clients on the *financial markets* in order to meet the needs of the person - the need to cover up or protect against insurance risks, the need to accumulate a heritage and earn income from it, for example, in the case of capitalization pension schemes.

There is often talk of *financial markets* , consequence of the segmentation of *the financial market* in specialized compartments (in practice there are a multitude of needs and financial products) that correspond to different practices,

² It has been demonstrated that there is a close correlation between bank bank waves and macroeconomic deflation. A first wave of bank failures neutralized the stabilization that had occurred in the early 1930s and expected the return of the economy after the crash of the end of 1929. In mid-1931, the second stage of panic began (which was further emphasized) as a reflex to the banking crises in Central Europe that had begun in the first half of the year. The third wave of bank failures began at the end of 1932, after the illusion of a new stabilization, and withdrew in the first quarter of the following year, when the depression reached its lowest point, coinciding with the complete closure of all banks. The consequence of recurring bank crises was the disorganization of banking intermediation. Banks have been unable to obtain information on potential or potential borrowers; in other words, it has become impossible for them to carry out their first-order function, namely lending or borrowing.

resort to different techniques and are animated or served by different professionals and institutions. However, the use of the *financial market* expression / expression is justified, since segmentation ultimately translates into interconditioning, interdependence specific to systems or the whole, not isolation. The same event may in many cases have an effect or a consequence, a rather similar repercussion on different compartments, which is why it is stated that *the financial market* has responded in a certain way to a particular event / announcement. Bond markets, foreign exchange or foreign exchange markets, money markets, derivatives markets (options, *futures* , but not only) can be distinguished . Segmentation is also possible at a more profound / sophisticated level of separation, such as the bonds of relatively risky ventures in Western Europe, stock options quoted on the Paris Stock Exchange, exchange of loan arrangements (or the *swap* market), market short-term securities issued by US non-financial corporations to meet their treasury needs (US *Commercial Paper*), the *global loan swaps* and the enumeration could continue.

Drive and even its *effectiveness* / segmentation are provided or depend on what are designated by the term / concept *arbitration*. The fact that the different compartments of *the financial market* communicate with each other is mainly due to *arbitrage*, since both investors and borrowers often have alternative options to obtain the risk and return characteristics corresponding to their needs and, under such conditions , may opt / choose to intervene in a particular market compartment than another (for example, borrowing in euro rather than US dollars, making placements in shares rather than in bonds, but the list does not end here) . By meeting the needs of investors and the

financing needs of others, *financial markets* assume the economic function of determining the prices of financial assets. From the perspective of investors, financial assets are essentially promises of future income, reason or consideration for which the price depends on the information available to assess the possibilities of achieving these promises. This explains the importance of information for *financial markets*. In addition, *financial markets* are all the more *efficient* as they have the ability to translate all available information into financial asset prices. In general, however, *financial markets* are able to determine only the price, not value of financial assets since determining either / or determining the amount would mean there NTA capacity estimation or prediction definite / error-free future income and probability of this happens is quite small, we can even say insignificant.

Financial markets are projections of the real economy - the amounts traded within them amount to extraordinarily high figures (considered or sometimes appreciated as *astronomical*) but, in our view, it is unjustifiable, meaning / meaningless comparison with flows economic realities. This is explained in particular by the fact that the largest part a *arbitrations* are carried out in the financial sphere of financial relations, so their vocation is specific to the latter - the purpose of *arbitrage* is to transmit information and to ensure the *efficiency of financial markets* , not the direct satisfaction of a precise need (ie from the real sphere). We also consider that there is a tendency to *report* data on amounts transiting *financial markets* to real-life data, although most movements and balances on *financial markets* refer to sizes expressed in terms of stocks rather than flows. For example, the US / US supplementary pension / capital regimes are often highlighted by capitalization, without stating that they are accumulated and capitalized over several decades, and that it is inappropriate to compare these amounts with the EU's gross domestic product, parable, which represents an annual flow. The frequent evocation of a supposed autonomy of the *financial markets* to the real economy is largely unfounded, because, on the one hand , the comparison of the amounts or resources circulated by the two spheres is generally meaningless, and on the other hand , the financing and placement needs that *financial markets* satisfy are indisputable in the real economy.

Financial Markets also have a number of shortcomings, such as time compression, focusing on actors or agents, and gregarious behavior. *Financial markets*, as mentioned, are by definition projections of the real economy, but nevertheless often *capture* by interpreting information that the latter or the real economy, provide them. This reality is due in large part to the compression of time, thanks to the markets, in the process of fixing / disposing of the prices of financial assets. It is the fact that while the real economy, information is interpreted in terms of its immediate consequences on the *financial markets*, the same information is interpreted in terms of completeness of its repercussions in a future time horizon indefinite / infinite. For this reason, *financial markets* often leave the impression that they are exagerately reactive. Another cause of frequently misunderstood *financial market* behavior is the relatively strong / major homogeneity of the rationale behind the professionals on these markets, the homogeneity of which results in a form of gregarious or mimetism that amplifies / amplifies reactions to information likely to modify the way in which future revenue generated by financial assets is perceived.

Financial markets make a major contribution to the rigorous monitoring of the effectiveness of overseeing the allocation of production resources and human welfare. The role of agents (investment banks, curators, financial analysts) who intervene in the *financial markets* on behalf of their clients, especially institutional investors, is to ensure that the promises / income expectations associated with financial assets. To that end, they devote / allocate an essential part of their time by exercising proper oversight of the issuers' securities business and strategy. On the one hand (like some nostalgists of the order of Jean-Jacques Rousseau), this state of affairs can be interpreted only as a form of dictatorship of those who provide / finance. From the economic point of view, however, it seems undeniable that the action of *financial markets* in this respect, by detecting / identifying parasitism and other incompetences of any order, contributes significantly to the efficiency of the production activity, stimulates economic growth and ultimately leads , increasing the welfare of human beings (Lecaillon J., 2006, pp. 652-654; Regniez J., 2006, pp. 654-656).

Financial crises are, by their nature, economic crisis, because the financial are essentially economic relations, which is why *financial crises* can be approached from the same perspective as economic crises in general. Therefore, *the financial crisis* evokes a more or less dramatic pathological situation through its consequences: a rapid increase in inflation or a decline in activity (recession or, more seriously, depression) that lead to rising unemployment or sometimes occur at the same time . According to some opinions, the crisis is just a moment / phase of the economic cycle, where the expansion phase is interrupted and leaves room for a slowdown in growth or even a production crash. Such a perception, which is part of the theory of crises an aspect of cycle theory, is, for example, the vision of a famous economist in his fundamental synthesis (Haberler G., 1937). But that concept is promoted by others. For some specialists, the crisis is a major rupture due to an inadequate anticipated shock. Shock may itself be diverse: political (eg war), economic (eg oil shocks of 1973-1974 and 1979), social (eg, the events of 1968 in Paris), financial (stock market crash, but not only) and enumeration can continue. The common point / element of these different events is that they introduce qualitative leaps, which are readily predictable for mathematical analysis of discontinuity (chaos theory, catastrophe theory, for example).

It follows that remedies and explanations are different, as the crisis is perceived as a stage of the cycle or as a fundamental rupture. Certain configurations are specifically identified with the idea of a crisis. This is the case of deflation, a situation of significant and sustainable decline in activity, prices and wages and the occurrence of mass unemployment. Deflation that followed the crash of 1929 in the United States is still present in the individual and collective representations fears. However, deflation has to be distinguished from a less dramatic situation, in which

there are deflationary pressures (falling prices, unemployment, weak or zero growth), without speaking of deflation in the strict sense. Hyperinflation is another shock, slightly inverse to deflation, as it is usually accompanied by a collapse of production and employment. In this case, inflation is fed by itself *through a race against the coin* (the *coin* circulation speed / its velocity tends to grow to infinity) and becomes explosive. The hyperinflation in Germany (1929-1933 and the post-war period), more recently, hyperinflation in Latin America, Israel, most of the Central and Eastern European states, after the so-called anti-communist revolutions, but not only, left strong fingerprints in collective memory.

The Financial crises, similar to the economic crises as a whole, are grouped or structured, most frequently, depending on their causes, the impact on economic and social life and the way they are addressed by economic policy makers. There are, therefore, several typologies of *financial crises*.

Some crises are caused by an exogenous shock, which is left untouched by the established economic models. This current / way of thinking can be associated with analyzes and events that are time-consuming and very heterogeneous. It is, for example, the importance given by some theorists of the sunspot cycle (Jevons SW, 1875) and their influence on agricultural production, the share / contribution or contribution of the two oil shocks of 1973-1974 and 1979 to change the world (considered *exogenous* in a first approximation, but can be explained by previous economic development), more recently the success of real-life cycles (RBC), which focuses on the productivity shocks. In most RBC models and, in any case, in basic contributions (for example, Kydland F. & Prescott E., 1982), technical progress corresponds to a random evolution since it is supposed to result from a set of small factors, numerous and little or no interdependent or interrelated.

We note / observe that the listed / evoked events are, beyond their essential differentials, supply shocks. Some of these may be considered endogenous events, rather than being considered or suspected of endogenous events. For example, this issue has focused, through a very ambitious and more or less successful, approach on the theory of endogenous growth on ethnic progress. But there are demand shocks in addition to supply shocks. These, supposed or considered exogenous in the most summative Keynesian models, are explained in more sophisticated analyzes. In practice, due to accounting close links between production, income and expenses, but not only, it becomes very difficult to distinguish / discriminate between what is owed and what is attributable to supply demand. Moreover, through varied and divergent perspectives / prisms, the most representative theorists of economic cycles and crises, from *Th. Malthus* at *JM Keynes*, passing through *K. Marx* and *J. Schumpeter*, combined the phenomena of overproduction and underconsumption, the dynamics of capital accumulation and indebtedness, the evolution of production and income distribution (especially the dynamics of return on capital and profit), and some even the pace of industrial innovation and the impact of technical progress.

Other useful differences exist depending on whether the shocks are internal or external, if they are of a mainly monetary and financial nature or undoubtedly *real* (material conditions of production or technical progress, for example, but not only), if they are related to behaviors private or, rather, economic policy errors. Some reference economists (Friedman M. & Schwartz A., 1963) had already imputed to the US Federal Reserve / US Federal Reserve System the main responsibility for the *crisis* (both economic and financial) from 1929, at least in its aggravation, if not in its triggering. The message was taken up relatively recently (Romer Ch., 1999), when the post-war *crises* in the US were perceived as a consequence of the monetary policy oscillations. The theory of economic cycles is, however, much more complex, without the need, and even without necessity, of being widely developed in the present scientific approach.

A crisis can be systemic, instantaneous (oil shocks of the 1970s are just one example, among others), or it can gradually become global when a difficulty at the outset occurs, usually through a contagion act, in a global problem. The extent of the problems to be faced with characterizes all types of crises, but especially the *banking* and *financial crises*. The risk is indeed great that the bankruptcy of a credit institution, especially if it exceeds a certain size, provokes *the* running of the other banks, even if they essentially operate in good conditions.

Crises can also be differentiated according to their way of solving. *The Financial* and *banking crises* are structured from this perspective in three categories, as follows: a) crises solved by calling to private capital, coming from case to case either from the shareholders of an institution / entity or from its creditors (sometimes from both sources) - one can recall here the procedure in France for banks in difficulty or the quasi-money of the US Long Term Capital Management (LTCM) in the autumn of 1998, saved with the help of its creditors under the aegis of the Federal Reserve; b) crises solved through the involvement of one or more central banks (as a creditor (s) of last resort / preteur (s) en dernier resort - PDR (example of the crash of October 1987, and c) crises requiring recourse / calling for public funds - this category includes, among other things, the crisis of US savings banks in the late 1980s, the banking crisis in the Scandinavian states of the same period, the Credit Lyonnais case, the crisis of Japanese banks and others.

The Crises, including *the financial* crises, can be transmitted or can be propagated across multiple channels. These are the ways in which these crises manifest themselves first and then spread throughout the system and, in an open economy, into other economies. The channels or paths referred to concern both real variables, such as production, demand, employment, for example, monetary and financial variables, including interest rate, exchange rate, over-indebtedness, wealth effects but not only.

Anticipations are omnipresent and always have / have a cardinal role. Specialists (Kindleberger Ch., 1989) provide in this sense a multitude of examples from various eras. Anticipations come first to create the conditions of

a crisis, causing *bubble* phenomena, ie cumulative gaps between observed prices (real estate, financial securities, for example) and equilibrium prices (no matter how difficult it is to define them). Random behavior, mimetic, sometimes called *herd* behavior, in such cases encourages speculation and separation / removal *foundation* courses / their *economic fundamentals*. The crisis stems from the reversal of expectations, owing, in turn, as a general rule to a combination of structural causes (such as the US external deficits and Japan's external surpluses) and circumstantial elements (among which the announcement of a more unfavorable figure than the one provided, the comment of a public officer, and others).

The transmission channels are identified fairly well and show some continuity over time but, nevertheless, the speed of propagation has increased considerably due to globalization and deregulation and, on the other hand, to new technologies (the Internet is considered an important stage in this respect, but only one stage). Savings and markets are increasingly interdependent due to trade opening, total capital markets integration, and new information and communication technologies.

To illustrate transmissions, it is usually recourse to or appeals to the example of the international *financial crisis* triggered in 1997, which has affected *growth* in the OECD area through various channels, acting directly or indirectly. As a general rule, there are significant time intervals between initial shock and its impact on exports and imports. Thus, certain consequences of the Asian crisis have reverberated in the US and French trade balance figures or positions only in 1998, with a gap of almost one year. In this regard, the effect of income, price effect and competitiveness channel and, in particular, banking and financial transmission channels are concerned.

The effect of slowing *growth* or even worse the recession in *emerging countries* was to reduce their imports. Multiplier Keynesian income in open economy acting needles of st complicated situation downwards, and is accompanied by a phenomenon of feedback, ie reducing sales OECD countries, due to the difficulties Member called *emerging*, a fact that leads first to slow down the dynamics of imports from the latter, generating a vicious circle that affects *growth* both in *emerging* and developed nations.

The international financial crisis has been marked since the second half of 1997, the collapse of currencies of several countries *emerging*. This inflexion of competitiveness, without taking into account competitiveness beyond its structural price, was more difficult to control, but it was after an inverse phase of overestimating the coins of Thailand, Indonesia, but also of other Asian and Latin American countries, too rigidly anchored, some of them to the US currency. From this perspective, even though the analogy is imperfect, there are some similarities between the two crises of the European Monetary System 1992-1993, with the experience of Italy and the United Kingdom of Great Britain and Northern Ireland, and the evolution of foreign exchange rates in Southeast Asia before and after July 1997 (in the case of the ruble, before and after August 1998). Indeed, since 1998, the currencies of some Southeast Asian countries have seen a spectacular recovery.

In the current world, customized by quasi- perfect capital mobility and financial globalization, shocks spread faster through finance than through commerce. A strong channel of shock propagation is the fragility or lability of the debtor states' banking systems, as well as the ricochet, of crediting states. Shocks are likely to be transmitted in real time from one *financial market* to another with financial globalization. Towards the end of the 1990s, but also on the occasion of the previous turmoil, financial instability was accompanied by two classic behaviors, namely one called the *reorientation towards quality* (flight to quality) - investors tend to opt for treasury bills and government bonds, considered to be the lowest signature risk, and the other to be referred to as *liquidity guidance*, ie either short-term financial assets or assets with a longer maturity, but for which there are expanding secondary markets.

A particularly complicated problem is considered the predictable *financial crises*. We have mentioned previously that a *financial crisis* usually depends on meeting structural causes and very circumstantial elements. Economists are able, even to a high degree, to identify / identify structural causes that correspond to fundamental economic indicators, but show a similar degree of inability to anticipate circumstantial factors. One example, among many others, is that in Russia the financial crisis started in August 1998, neither earlier nor later, as probably expected, due to the exclusive, of course, political circumstances, difficult to predict. The anticipation of the chronology is as important as the provision of the shock itself. In addition, experience and learning processes show that people are always better prepared to cope with past crises than those that are about to happen. Crises tend to take precedence over past shocks just as the rational expectations of private agents are detrimental to the effectiveness of economic policies. When the Mexican financial crisis of 1994-1995 is qualified as the *first crisis of the twentieth century*, new essential features are taken into account and, at the same time, the repeatability and regularity of crises in history are overestimated.

It is understood that the next crisis is likely to occur where it is the least expected, ie where minimum precautions are in place. However, people need to avoid, bypass / ignore sterile pessimism. It is possible, however, that due to appropriate policies, the prudential device (by intensifying the supervision of banks and *financial markets*, for example) should be strengthened, the so-called leverage of the *policy mix* (monetary-budget combination) and structural policies to limit or counteract fluctuations and improve the direction of growth. The introduction of the euro has reduced and even eliminated certain instability factors in Europe, but the single currency is far from being a single, impenetrable or infallible insurance against all risks. It requires country improved or improving monetary system and international finance by identifying appropriate balance between exchange rates too rigid and courses fully floating strengthening almost everywhere the device overview and

internal control in banks and by clarifying the division of responsibilities between the various internal body ation . A negligible part or significant instability stems from the fact that economic policies are much less integrated than the systems in which they apply. To reduce this gap is necessary, but not enough, more ambitious and more effective international coordination (Boissie u Ch. De, 2006, pp . 245-247).

The integrating expression of bank failures and current *financial crises* is system risk; banks have a critical role in this because of the plurality of bank panic sources (the volatility of demand for converting / converting cash deposits, deficiencies or deficiencies, interbank settlement regulations, and the decline in the quality of bank claims as a result of their vulnerability / weakness). Macroeconomic uncertainty, in such situations, plays a role as important as liquidity crises when operating with fragile / vulnerable balance sheets. The net value of banks depends on money market interest rates and asset prices (variables outside their control); as a result, bank creditors / lenders are unable to distinguish between viable banks and potentially insolvent or bankrupt banks. The central position of the banking system in a monetary economy , as are the economies of contemporary states, makes the phenomena of mellosphere or contagion to become absolutely devastating, especially when the victims are banks. Banks become vectors / channels or levers the transmission of externalities under the impact of concerted circumstances, which generates the very systemic risk dynamics.

We consider that from this perspective, the following should be emphasized:

a) A bank malfunctioning is also transmitted to another bank, in the sense that the shock affecting a bank affects another bank (despite the large enough or implacable volume of sight bonds available to banks and the possibility of repurchasing at a fixed price which could provide a balancing solution) - malpractices or contagion in this area are particularly rapid in relation to any other set of economic agents and, in addition, extend over a very wide area (banks' creditors and those offering them resources, pay particular attention to information asymmetries), and small, small-scale depositors are deprived of the possibility and interest of banks' valuation, especially if the costs of obtaining information are taken into account;

b) Perceiving banks as a whole or a homogeneous system, collectively, in the service of liquidity, although their financial viability may deteriorate globally as a result of macroeconomic situations / conjunctions - perception (unrealistic, as shown experience) is fueled, on the one hand, by the magnitude of interbank transactions and, on the other hand, by the structural interconnections of banks in the payment system; the greatest danger, in this situation, is a generalized contagion, the effect of which is the destruction (not redistribution) of all existing deposits;

c) The lower level of capitalization of banks compared to other financial institutions - it is reasonably accredited that, in our opinion, latent macroeconomic shocks induce negative net balances in banks, so that the probable losses are higher than the mobilizable capital also affects depositors and shareholders); is the reason why the repercussions or consequences of bank contagion exceed / exceed the profile of the institutions and affect the whole economy;

d) Accrediting the false idea that transferring the provision of payment instruments from banks to markets would be a factor in increasing the stability of the financial system - the truth is that the proliferation of UCITS, such as variable capital investment companies (SICAVs)) or common investment funds, on the back of non-negotiable bank deposits, perpetuate (not eliminate) the risk of contagion, because the UCITS parties do not have to defend a guaranteed nominal value when the holder is wound up; buyers of the OCPVM are deprived of the ability to assess the financial situation of those funds, so they can generate contagion phenomena as well as banks whose viability comes out of the scope of customer rating.

The major causes of banks ' vulnerability or fragility , in particular the financial and banking crises, in the 1980s, can be as follows: focusing lending to the same categories of credit; underestimating credit risks due to these safety illusion induced increase in market prices real assets financed through the needle 's ste credits; banks' exposure to short-term interest rate fluctuations (Barke D. et D. Holdsworth, 1993). It is natural , so that increasing / rising asset prices and abundance of liquidity can creates an optimistic climate (underlined by case studies based on reports prepared / developed by banking supervisors). In this context, the immediate causes of individual accidents (due to which the information asymmetry questioned the quality of bank balances) were often frauds and mistakes or management errors.

In the US, for example, banks ominous signs began to appear since 1987. Total doubtful debts has alerted banks, it has become a source of anxiety for them, with increasing short-term interest in the year 1989. The reaction EAM DISCLOSURES ba nwhich starting at aproximately half of 1989, so the year before the spike economic cycle, was to increase provisions and restriction of credit (of increased restrictive in terms of opening new loans). Restructuring bank balances was supported by public authorities.

The Scandinavian states are characterized by the combination of sudden financial liberalization with the asset price cycle, the result being an explosive mixture - according to some authors, this situation seems to be detached from a manual (Aglietta M., p. 143). The degree of fragility of banks increased through a profound restructuring or change in their own balance sheets following the deregulation process (a decisive step towards fragility) - the share of government securities (from 25% to 11% in the period 1983-1992) and significantly increased (by almost one third, from 46% to 60%) the loans granted to the private sector, the growth, financed by money market loans, being focused on the real estate sector. Banks have thus come to the discretion of real estate speculation and the marginal cost of their resources. Restricting monetary policy in parallel with the return of world speculation in 1989 favored the emergence of a bleak crisis.

In order to avoid global financial turmoil, large-scale government intervention was needed. It is understood that the social costs, expressed as percentages of GDP bank losses, were adequate. Banking losses amounted to 8% of GDP in Sweden and 15% of GDP in Finland. As a result of the government intervention, the banks could continue to operate without creating panic among the depositors, which led to a shorter period of government's move by initiating complex and sustained plans. All legal commitments were secured credit institutions to create a suitable climate circles bank creditors so that they to beware of the temptation of the choice of the way for individual judicial actions that would have paralyzed any restructuring effort.

In each Scandinavian state, a public agency was created to provide financial assistance from Parliament from the state budget. These agencies assessed the assets of the banks as evidenced by the balance sheets and took over the problematic claims. Banks functioned for some time under the leadership of interim administrations. Have undergone recapitalization, then came under surveillance, following to be redeemed, to merge and to redirect / divert activity to specific areas of interest. The essential and indispensable elements in the success of banks' recovery efforts can be considered rapid action, political will and the clarity of the authorities involved.

The economic, social, political and natural world in which people live, act and evolve is full of uncertainties. It is now increasingly recognized that an organism aimed at getting bad a future outcome by definition operates in a state of uncertainty, even when specific situations are characterized by varying degrees of risk and uncertainty or indeterminacy. Risk and uncertainty are, however, subjects beyond the scope of options; they are simply part of the human condition. The uncertainty is defined as the sum of all potential dangers around us, whether or not they are perceived.

It is worth mentioning that with the development of the economic and social system, with the increase of its complexity, it multiplies / multiplies the uncertainties that it contains and, as a result, becomes more and more vulnerable. Under such circumstances, the action against uncertainties is of great significance, meaning that controlling the various degrees and levels of uncertainty is, in a certain way and to an increasing extent, a real contempt for the present; it essentially consists in reducing, not eliminating, uncertainties, and in reducing non-elimination.

Attitude to risk depends largely on the psychological structure of the individual who assumes it and the likely results. Owing to deny tive that can induce laughter cul is justified aversion to it and trying to prevent it, conceived as an attitude of ACC 's PTA increased risk only if compensated by a gain suplimentar. In order to issue risk-oriented value judgments, several indicators or statistical estimators are determined, including probability, probability distribution, expected value and dispersion.

Risk is naturally associated with the competitive market. In the unitary and interdependent market system, however, the financial ones stand out for the fact that one of their main functions is to facilitate the exchange of *risk units* between the participants, ie to allow some of them to cover / protect against the risks, and to others adopt speculative positions, not because it holds the monopoly of uncertainty. The risk is so d should a component of financial markets and analysis in this context is particularly developed. System risk has direct correspondence with financial markets - the theater of the most serious contemporary imbalances at national and global level.

As a result, a major concern of central banks, but not only, is the security of financial systems and systems and the prevention of systemic risk. Vulnerability to system risk is a function of the evolution of financial structures. Analysis of contemporary crises, both in economically developed countries and in countries labeled with economies and emerging markets, allows conclusions to be drawn from which a definition of systemic risk can be advanced. However, financial stability appears to be a common good that can not be assured only / only through financial market adjustments. Financial globalization means the extension of the specific area to be defined a what good common good.

It should also be stated in terms of my view that financial liberalization renewed prudential organization without the means the obsolescence of collective action of public authorities, which have enhanced methods in parallel with the expansion of the field of action. The objective of prudential control is to prevent behaviors that can lead to crises and their management when triggered. The involvement of the monetary authorities in the prudential approach and the organization of control between different institutions is, however, the object of controversy and debate.

The study of economic reality from a historical perspective highlights a certain type of ambiguity that can generate different opinions about the nature of financial crises, in the sense that they could be considered real financial imbalances, given the force of their propagation, or pseudo-crimes, which remain located at the place of production. In this regard disseminate two streams: one r is presented d e monetarists, which makes a definition very restritivã - in the sense that one can speak of a financial crisis only while appearing bank run and the other represented by historians Economic - which tend to has a broad view of the problem, but unfortunately their theory of the phenomenon is less grounded in terms of rigor. It is appreciated in the literature that the views on this issue are inconsistent from an academic perspective as it makes the extension of the phenomenon conditional on the responsiveness and the mode of action of the authorities in relation to the systemic risk. The dilemma concerns the mode of intervention, or formulates its terms according to a clearly-articulated or acting on a case-by-case basis, thus perpetuating an ambiguity that can be considered nonconstructive .

Conclusions

The proper definition of systemic risk must be based on the fact that it is more than a simple juxtaposition of individual and independent risks, although it has interest for all the economic agents (the group of stakeholders is therefore quite large). It is a particular relationship between the microeconomic components and the macroeconomic states resulting from the interaction of these components. In this context, the systemic risk is defined as the eventuality / probability of emergence of economic-financial states in the context of which the rational reactions of the economic agents after perceiving the risks, amplifies the degree of general uncertainty, ie the scope of suboptimal distribution of risk through diversification is exceeded.

This formula is considered to cover for different assumptions with important implications and, furthermore, underlines that financial structures influence all possible macroeconomic balances, ie they are not neutral. Personally, we educate here that systemic risk is present in all the macroeconomic states as normal. The firm has a reliable support, as follows: a) serious dysfunctions in the allocation of resources, fact that is materialized in the inefficient state of the respective economic states; b) these states are, according to the economic logic, the involuntary result of the individual behavior in the field of risk management, depending on the information provided by the market - it must be concluded that the risk of the system is generated by the errors markets coordination, not by unreasonable operators and c) the perpetuation of the spontaneous abnormal situations – business agents, due to poor coordination are unable to perceive the effect of their actions on to others, even though there is a clear decline in prosperity at all levels; at the same time, it is normal for them to avoid adopting behaviors that would lead to abnormal balances.

The microeconomic argument for the unification of all the phenomena grouped under the generic of *systemic risk* is the asymmetry of information, because it strengthens the analysis of coordination issues arising in the case of financial relations. A relationship with financial connotation of the kind to fall under asymmetric information is the credit. The path is characterized / customized by the fact that the object of the transaction is a promise, not a real value available, which is why one of the two parts of the relationship does not sufficiently know the characteristics of the other to make the best decisions. The asymmetry of information results in the failure of market-based coordination, both before and after the transaction closure.

As a result, a major concern of central banks, but not only, is the security of the financial and market systems and the prevention of systemic risk. Vulnerability to system risk is a function of the evolution of financial structures. Analysis of contemporary crises, both in economically developed countries and in countries labeled with economies and emerging markets, allows conclusions to be drawn from which a definition of systemic risk can be advanced. However, financial stability appears to be a common good that can not be assured only / only through financial market adjustments. Financial globalization means the extension of the specific area for which this common good has to be defined.

It should also be stated, from my point of view, that financial liberalization renewed prudential organization without the means the obsolescence of collective action of public authorities, which have enhanced methods in parallel with the expansion of the field of action. The objective of prudential control is to prevent behaviors that can lead to crises and their management when triggered. The involvement of the monetary authorities in the prudential approach and the organization of control between different institutions is, however, the object of controversy and debate.

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