

## A Storm of Bankruptcy of US Banks: What is the Reason, and Will There be Repercussions?

As expected, the collapse of Silicon Valley Bank (10th of March 2023) panicked markets, and put pressure on relatively weak financial institutions already struggling with rising interest rates. Few days later, a second US regional bank (Signature Bank) is shut down, and a third bank (First Republic Bank) is propped up. To make matters even more uncertain, a bank of global financial weight (Credit Suisse) could have gone under.



The relative calm that has been restored is due to the provision of huge sums of cash from central banks and from some of the industry's largest banks. However, markets remain on edge. Indeed, indexes of shares in the US and European banks have already experienced heavy losses.

What happened was a typical "bank run". The Silicon Valley Bank was heavily involved in the US technology startups. During the COVID-19 pandemic, the bank experienced large increases in deposits as its customers (the tech companies) realized huge increases in their profits. The Silicon Valley Bank, and others, had deposits more than they could lend to borrowers. Unfortunately, the banks invested much of this cash in US government bonds. Indeed, the rapid increase in interest rates in 2022 and 2023 caused the value of these securities to fall. As a result, the bank had to sell these securities at a heavy loss to pay its depositors. To make matters worse, the bank tried, unsuccessfully, to sell shares and this triggered the panic and the downfall.

The case of Credit Suisse is somewhat different. During the past few years, Credit Suisse suffered from a few scandals (tax evasion, money laundering, collapse of Greensill Capital, and frequent changes in chief executives). As a result, the bank's share price has been falling consistently. The bank's customers have also been withdrawing their money. To alleviate uncertainty, Credit Suisse has agreed to a takeover by the largest bank in Switzerland (UBS). Interestingly, this move was engineered by the Swiss government.

**IN A NUTSHELL,** The Federal Reserve is expected to meet on March 2023, 22 to decide on the interest rate decision. In this context, it is necessary to answer the following question: Will the Fed continue to raise interest rates to curb inflation, or will it abstain from such a decision? In the event that the interest rate is raised, banks will be affected by the decrease in the prices of their investment portfolios in fixed-interest bonds. If interest rates do not change, the Federal Reserve will not be able to reduce and control inflation. The final decision will depend on the extent to which banks in the United States (and abroad) will be affected by a further increase in interest rates and the extent of the diversification of their assets. The current state of uncertainty, and the economic implications of bank bankruptcies in the near future will be disastrous relative to the failure to control inflation.