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IMPACT OF THE AMERICAN BANKING CRISIS ON EUROPEAN BANKS

Abstract

Until the disruption in the banking market, in 2023, monetary policy was considered a less important indirect factor that can lead to banking crises. In 2023, a disruption occurred, which proved exactly the opposite, namely that monetary policy can directly cause imbalances in the banking market. According to many authors, this crisis is much stronger than the one in 2008. It was caused by an aggressive increase in interest rates by the American FED (Federal Reserve System). The measure led to huge losses on government bond portfolios held by US banks. The losses influenced the emergence of fear among depositors who withdrew their money from banks and thus led to the collapse of four American banks. The imbalance in the banking market did not remain only in the United States of America but spread through a domino effect to the rest of the world, and above all to the European market. The reason for the emergence of this disorder was not only interest rates. The atmosphere in the financial sector has been tense for a long time. Covid-19, the war in Ukraine, but also the unethical behavior of certain banks are just some of the factors that contributed to the appearance of instability in the banking market. The aim of this paper is to point out the causes and consequences of the banking crisis that just started in the United States of America [USA] and spilled over to the rest of the world, but also to point out the importance of the responsible behavior of banks and the deposit insurance system in prevention and preventing banking crises.

Key words: *banking crisis, interest rates, deposit insurance, instability*

JEL classification: *E52, G21, G22*

УТИЦАЈ АМЕРИЧКЕ БАНКАРСКЕ КРИЗЕ НА ЕВРОПСКЕ БАНКЕ

Апстракт

Све до настанка поремећаја на банкарском тржишту, 2023. године, монетарна политика се сматрала мање битним индиректним фактором

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који може довести до банкарских криза. 2023. године се десио поремећај, који је доказао управо супротно, а то је да монетарна политика може директно узроковати неравнотеже на банкарском тржишту. Ова криза је по многим ауторима доста јача од оне из 2008. године. Настала је агресивним повећањем каматних стопа од стране америчког ФЕД-а (Федерал Ресерве Сустем). Ова мера је довела до огромних губитака на портфељима државних обвезница које држе америчке банке. Губици су утицали на појаву страха код депонената који су свој новац извлачили из банака и тако довели до пропасти четири америчке банке. Неравнотежа на банкарском тржишту се није задржала само у Сједињеним Америчким Државама већ се домино ефектом проширила и на остатак света, а пре свега на европско тржиште. Разлог настанка овог поремећаја нису биле само каматне стопе. Атмосфера у финансијском сектору је већ дужи период била затегнута. Цовид-19, рат у Украјини, али и неетичко понашање појединих банака само су неки од фактора који су допринели појави нестабилности на банкарском тржишту. Циљ овог рада је да се укаже на узроке и последице банкарске кризе која је управо почела у Сједињеним Америчким Државама и прелила се и на остатак света, али и да се укаже на значај одговорног понашања банака и система осигурања депозита у превенцији и спречавању банкарских криза.

Кључне речи: *банкарска криза, каматне стопе, осигурање депозита, нестабилност*

Introduction

The biggest concern of all banks is exposure to risks - primarily to systemic risks. Therefore, great attention is paid to risk measurement. In this process, the balance categories are first assigned to different risk categories, then the merging, that is, the aggregation of different risk categories that belong to the same model is performed, and finally, various risk protection measures are implemented. For example, if a credit portfolio is considered, its risk analysis is performed based on various credit rating analysis models. The common measure of risk directly affects the level of liquid assets that a bank must have available to meet liquidity requirements. It is a model-based approach, and it has drawbacks: those related to the risk situations that the model captures based on experience, and those related to the possibility of risk manipulation by those who know the model. It is extremely expensive and unfeasible to predict all situations that may arise in business, and therefore it is unrealistic to expect that all these models can predict and eliminate risks in advance.

The situation in the financial sector has recently been further aggravated by developments in the real sector, which have worsened since 2020, when the crisis began due to the escalation of the pandemic caused by the Sars-cov-19 virus. The whole world stopped for a few months, people lost their jobs and activities that can be done from home and online flourished. The Covid-crisis was just an introduction. Already in 2021, the Russian-Ukrainian war occurred, which led to the impossibility of importing strategically important products from these countries. These are the situations that shook the real sector in the past period but also led to a collapse in the financial market when only one move - an increase in interest rates - led to the collapse of banks.

Considering these factors, this paper examines the impact of the 2023 US banking crisis on European banks. The hypothesis of the research is that this crisis had a significant negative impact on the stability and operational performance of European banks, with some banks demonstrating greater resilience while others proved more vulnerable in times of financial instability.

The real sector and the population were affected by the aggressive behaviour of banks which, even in previous crises, showed that excessive risk-taking leads to financial instability (Ashton & Christophers, 2015; Ivashina & Scharfstein, 2010). The fact is that such behaviour of banks undermines public confidence in the banking sector's ability to efficiently allocate financial resources and thus contribute to social development (Claessens, 2017). In view of this, numerous regulators have enacted stricter regulations for risk control in the banking industry. Established new procedures and bodies to identify, monitor and mitigate risks affecting financial security, such as the Dodd-Frank document for consumer protection in the United States (Acharya et al., 2011) or the Financial Security Committee in the United Kingdom (Duncan & Nolan, 2020). To increase trust in the banking sector, socially responsible initiatives are increasingly encouraged, which means that banks support environmental protection initiatives, make lending decisions not only based on profitable but also based on ethical criteria.

In 2023, one of the banking crises happened, first in the United States of America and then in the whole world. No one expected that the rise in interest rates would lead to the collapse of banks caused by the withdrawal of deposits. Banks did not adequately assess the risk of an increase in interest rates and therefore did not have adequate stocks of liquid funds with which to react in the event of a "bank raid".

The aim of this paper is to point out the factors that led to the banking crisis in 2023 and the consequences that the crisis left behind, but with reference to the responsible behaviour of banks and the establishment of a deposit insurance system. In the first part of the paper, there will be more words about banking crises – the factors, causes and consequences of the banking crisis from 2023. After that, there will be talk about deposit insurance as a response to banking crises, and at the end there will be more words about impact of the American banking crisis to European banks.

Theoretical Framework of Banking Crisis

The American banking crisis of 2023 can be analysed through various theoretical lenses, including macroeconomic theory, financial stability theory, and banking regulation theory.

Macroeconomic factors play a significant role in banking crises. According to the Keynesian framework, economic downturns can lead to banking crises as declining aggregate demand results in reduced business revenues and higher default rates on loans (Keynes, 1936). In 2023, the U.S. experienced a significant economic slowdown due to a combination of factors, including:

1. *Post-pandemic economic adjustments:* The economic disruptions caused by the COVID-19 pandemic led to significant adjustments in consumer behaviour, supply chain structures, and labour markets (Centre for Economic Policy

Research [CEPR], 2020).

2. *Monetary Tightening*: The Federal Reserve's aggressive interest rate hikes to combat rising inflation increased the cost of borrowing, which in turn put pressure on borrowers and increased the risk of loan defaults (Board of Governors of the Federal Reserve System, 2023).
3. *Global Economic Uncertainties*: Geopolitical tensions, trade disruptions, and fluctuations in commodity prices created uncertainties that adversely affected economic stability (World Bank, 2024).

The theory of financial stability emphasizes the importance of a sound and resilient financial system. Banking crises often stem from systemic risks and the interconnectivity of financial institutions (Mishkin & Serletis, 2011). Key aspects include:

1. *Asset Bubbles and Credit Expansion:* Rapid credit expansion and speculative bubbles in asset markets (e.g., real estate or stock markets) can create vulnerabilities. In 2023, a significant correction in the housing market and declining stock prices put pressure on banks' balance sheets.
2. *Liquidity Mismatch*: Banks operate on a maturity mismatch, borrowing short-term while lending long-term. In times of stress, this can lead to liquidity shortages. The sudden withdrawal of deposits and the freezing of interbank lending markets exacerbated the liquidity crunch.
3. *Contagion Effect:* The interconnectedness of financial institutions means that the failure of one bank can trigger a domino effect, leading to broader financial instability. The collapse of a few mid-sized banks in 2023 had a cascading effect on the broader banking sector.

Effective banking regulation is critical in preventing and mitigating banking crises. However, regulatory failures or inadequacies can contribute to crises (Admati & Hellwig, 2013):

1. *Regulatory Arbitrage:* Banks may engage in regulatory arbitrage, exploiting loopholes to take on excessive risks. The 2023 crisis highlighted gaps in the regulatory framework that allowed some banks to over-leverage and engage in risky lending practices.
2. *Capital Adequacy:* Regulatory requirements for capital adequacy are designed to ensure that banks have sufficient capital buffers to absorb losses. In 2023, several banks were found to have inadequate capital levels, exacerbating the crisis.
3. *Supervisory Oversight:* Effective supervisory oversight is essential to monitor and address emerging risks in the banking sector. In some cases, supervisory failures allowed problems to fester until they reached a critical point.

The American banking crisis of 2023 had significant spillover effects on the European banking sector, driven by several channels: cross-border lending, investment in U.S. financial instruments, operations of subsidiaries. Banking crises erode confidence in the financial system. The crisis in the U.S. led to a loss of confidence among European investors and depositors, prompting precautionary withdrawals and reduced lending. The contagion effect was particularly pronounced in countries with weaker banking systems or existing vulnerabilities.

When prepared this work, authors used various references related to this topic, including the latest published papers about U.S. banking crisis. During the research, content analysis of secondary data sources was also used. The result of this paper is an attempt to understand the impact of American banking crisis to European banks.

A banking crisis implies the bankruptcy of one bank or the entire system of banks. They arise suddenly due to changes in the private sector's perception of macroeconomic and financial stability. Often, the state does not recognize the first signs of a crisis, so ex post measures are implemented late.

Financial and therefore banking systems are very sensitive to changes and subject to frequent periods of instability. Due to the nature of their balance sheet, which is a reflection of the bank's activities (illiquid assets and short-term liabilities), banks are more prone to problems than other sectors, and the spillover of those problems on a global level. Banking crises are not good for the economy itself. They affect the economy more than the collapse of other financial institutions. Banking crises cause the loss of depositors and creditors, lead to disruption of the payment system, break up long-term business relationships between the bank and the client, but also affect the operations of other banks on a global level. As a result of the banking crisis, there is also a disruption in the real sector, in the sense that the relationship between consumption and accumulation is disrupted, which leads to reduced efficiency in business entities. This trend leads to the creation of panic, which in the end usually results in political and social unrest (Todorović, 2010).

The costs of exiting the crisis are not harmless, but they are not the same either. They vary from case to case. In any case, they capture a large part of the GDP (gross domestic product [GDP]), i.e. taxpayers' money, so it is necessary to implement deposit insurance programs on time, in order not to lose confidence in the banking system and thus avoid banking crises.

Because of the fear of the emergence of new crises, after the Second World War, stricter regulation and control of banks was established, all in fear of a repeat of the crisis from the beginning of the 1930s. For these purposes, a measure of state ownership of banks was introduced in some countries, which worked until the 70s. However, the emergence of innovations in financial institutions did not go in accordance with the rigid rules of the functioning of the banking system, so these restrictions were gradually abolished, and the emergence of financial liberalization occurred. All this led to several global banking crises in the 1980s and 1990s. Simply, liberalization leads to an increase in interest rates and thus increases the risk of crisis.

Research and methodology

In this research, authors focused on qualitative analysis to investigate the impact of the recent US banking crisis in 2023 on the operations of European banks. The basic research hypothesis is that this crisis had a significant negative impact on the stability and operational performance of European banks.

The authors drew conclusions by analysing the reports of relevant institutions that monitor business operations at the global level, both in the financial and real sectors. The goal of this analysis is a deeper understanding of the dynamics of the impact of the American banking crisis on the operations and success of European banks, emphasizing their resilience or vulnerability in challenging times.

For these purposes, the authors summarized in Table 1 the changes in performance indicators of American and European banks, such as stock prices, net interest income, capital adequacy ratio, loan and deposit ratios.

Table 1: Changes in performance indicators of American and European banks during the American banking crisis in 2023

Performance	*American banks*	*European banks*
Stock prices	Stock prices have seen a significant decline due to the economic slowdown, aggressive interest rate hikes by the Federal Reserve and the failure of several mid-sized banks. The increase in borrowing costs led to a decrease in consumption and investment, increasing the risk of loan defaults. The collapse of several banks caused panic in the markets and a massive sell-off of banking stocks. Although regulatory interventions provided some stability, bank stocks remained under pressure throughout the year.	The decline in investor confidence led to the withdrawal of capital from European banks. This situation particularly affected banks that were exposed to the US market or had significant investments in US financial instruments. In addition, pressure on liquidity and rising borrowing costs further weighed on European banks, causing their stock prices to fall.
Net interest income	The American banking crisis in 2023 had multiple effects on net interest income in banks. Although higher interest rates may have initially increased NII, other factors such as reduced lending activity, liquidity problems, increased deposit costs, and deteriorating credit quality have collectively reduced NII in many banks.	Although the US banking crisis in 2023 did not directly affect European banks, its impact on the global economy and financial markets had significant repercussions on the NII of European banks. Increased global economic uncertainty, restrictive monetary policy, withdrawal of capital from European banks, increase in credit risk, fluctuations on the currency and real market led to a decrease in net interest income in European banks.
Capital adequacy ratio	The American banking crisis in 2023 had multiple negative effects on the capital adequacy ratio of American banks. Asset losses, increased loan loss provisions, liquidity problems, declining investor confidence, and regulatory pressures all contributed to the decline in banks' capital and their CARs. Although some measures may have temporarily improved revenues, the overall effects of the crisis have reduced banks' capital adequacy, putting additional pressure on their financial stability.	The decline in the value of US investments, increased credit risks, increased funding costs, liquidity problems, currency fluctuations, regulatory pressures and declining investor confidence have collectively contributed to the decline in European banks' capital and their CAR. European banks, therefore, had to take additional measures to ensure their stability and resistance to similar shocks in the future.
Loan – to - deposit ratio	Increased demand for deposits, reduced demand for loans, cautious banks in issuing new loans, liquidity measures, tightened regulatory requirements, and rising interest rates all contributed to the decline in loan to deposit ratio.	The US crisis caused global economic uncertainty, which increased the demand for safe deposits around the world, including European banks. However, the reduced demand for loans, the increased caution of banks when issuing loans, liquidity measures, and increased regulatory requirements have influenced the reduction of loan to deposit ratios in European banks as well.

Sources: Board of Governors of the Federal Reserve System, 2023; World Bank, 2023; Ozili, 2023; Stanković et al, 2022; Admati & Hellwig, 2013; Claessens, 2017; De Grauwe, 2010; ILOSTAT, 2022; World Bank, 2024.

Causes and Contributing Factors of the 2023 Banking Crisis

Until 2023, monetary policy was seen as one of the potential causes that indirectly led to the financial crisis. This especially applies to earlier banking crises, such as the one in 2008-2009. years. Mostly, instead of monetary policy, factors such as inadequate risk management, ineffective regulation and control of banking and financial transactions, a large share of non-performing loans, and a low capital adequacy ratio were highlighted (De Grauwe, 2010).

Changes in interest rates were not considered as a potential direct cause of banking crises and therefore the scenario from the beginning of 2023 happened. The increase in interest rates led to the banking crisis in the USA and the systemic collapse of banks in Europe (Živkov, 2011). It was this banking crisis that led to the unconventional - full insurance of deposits to solve it (Ozili, 2023). This way of suppressing the banking crisis leads to short-term positive results, however, previous literature says that this type of deposit insurance is economically unprofitable and politically difficult to implement (Cerrone, 2018).

There is a lot of research on the factors that cause banking and financial crises. However, so far, no consensus has been reached on this issue. It is obvious that the list of factors that can influence the occurrence of banking crises increases over time. The literature often divides the factors that cause banking crises into microeconomic and macroeconomic. This is also logical considering that crises can affect individual banks, but also the banking system. Microeconomic banking crises are inevitable in situations when the value of banking assets falls below the value of banking liabilities due to the growth of banking liabilities. This conditions the decline of the bank's capital, which results in the bank's illiquidity or insolvency. A factor that leads to bank bankruptcy is inadequate forecasting and risk management, which causes poor quality of bank assets. There are many reasons for inadequate risk management. They often mention the granting of loans that cannot provide the bank with adequate performance, but also the granting of loans in an amount greater than bank debtors can handle. Among the reasons are the large approval of loans based on collateral, but also the dominant share of loans granted to one company or one branch (Alnabulsi et al, 2023).

When comparing the banking crises of 2008-2009. and in 2023, it should be noted that the banking sector was much more capitalized but also more strictly regulated in 2023 than in 2008. In addition to the application of instruments that serve to preserve financial stability, there was still a banking crisis, which has been resolved for the time being with full deposit insurance. The question arises, however, whether this method is really justified.

The banking crisis of 2023 did not happen all at once. It was created in a period when the world economy was still recovering from the consequences of the pandemic caused by the Sars-cov-19 virus. In parallel with that, the Russian-Ukrainian war was happening, which is still current.

The Covid-19 crisis has led to a widespread economic recession. The task of the states was to stimulate aggregate demand, and the states of most countries decided to reduce interest rates but also to give some fiscal relief to bear the burden of the crisis more easily (International Labor Organization [ILOSTAT], 2022). These incentives led to an increase in inflation in many countries, including in the United States of America in the following period, and inflation could only be contained by increasing interest rates.

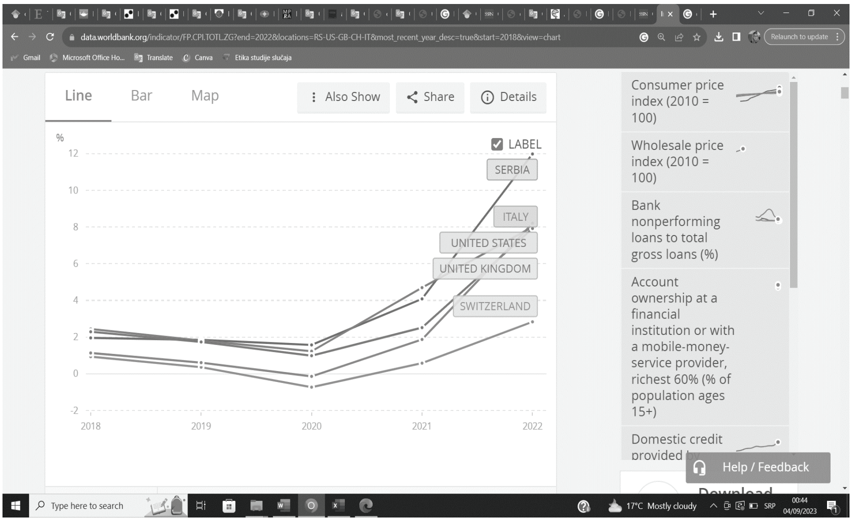
On the other hand, the war in Ukraine led to numerous interruptions in supply chains, but also to energy and food shortages, which further increased inflation (Ozili, 2022). Inflation rates during the period 2020-2023. years were skyrocketing everywhere in the world. Table 2 and Figure 1 show the growth of the inflation rate for the period 2018-2022. for the USA but also for other developed countries and Serbia.

Table 2: Inflation rates in the observed countries

Year	*USA*	*Great Britain*	*Switzerland*	*Italy*	*Serbia*
2018.	2,4	2,3	0,9	1,1	2
2019.	1,8	1,7	0,4	0,6	1,8
2020.	1,2	1	-0,7	-0,1	1,6
2021.	4,7	2,5	0,6	1,9	4,1
2022.	8	7,9	2,8	8,2	12

Source: World Bank, 2023.

Figure 1: Inflation rate in observed countries



Source: World Bank, 2023

From the attached data, the observed developed countries, including the USA, had a stable trend of declining inflation rates until 2020, when the crisis arose due to the depression in that period was solved by an expansive monetary and fiscal policy, and as a result, there was an increase in the inflation rate in 2021 and 2022 (Stanković et al, 2022). As for Serbia as a country that, according to the World Bank's categorization, belongs to the group of countries with higher middle incomes, the situation is the same in terms of the trend. The only difference is that in Serbia, as a less developed country, the inflation rate is higher after these events compared to developed countries.

In such circumstances, central banks found themselves in a dilemma - whether to continue stimulating aggregate demand in the manner already described or to stifle the existing inflation by increasing interest rates. However, most central banks have opted for restrictive measures to bring inflation under control. The rise in interest rates therefore caused a greater financial burden on borrowers who had to allocate more funds to finance their loans. Higher interest rates on loans caused loans to become more expensive, which prompted many potential clients to give up taking loans. This move also led to a decrease in demand for goods and services, which slowed down economic growth and pressure on prices. In addition to these effects caused by the increase in interest rates, there were also other effects. This refers primarily to depositors' expectations that banks will not be able to service their obligations to them, especially if banks have long-term loans and securities in their portfolio. Accordingly, the banking crisis of 2023 was caused by the following causes (Ozili, 2023):

1. inadequate bank portfolio management strategy
2. inadequate interest rate risk management
3. pessimism of investors and depositors

Regulatory Measures and Crisis Management

Banking and financial crises are a constant. No matter how reliable some instruments are for crisis protection and containment, banking crises have always existed and will continue to exist in the future. However, this does not mean that we should wait for the crisis to arise because it is inevitable. It is necessary to think in the direction of better management of banking assets and risk, so as not to lose public trust.

One of the ways to overcome banking crises is deposit insurance. The first deposit insurance system appeared precisely in the USA with the establishment of the Federal Deposit Insurance Corporation (FDIC) 90 years ago, in 1933 after the Great World Economic Crisis. This instrument was designed to ensure the stability of the banking system within a country. If, due to the movement of some economic parameters, panic prevails in the public, depositors will withdraw their funds from the banking system, which will have a negative impact on payment mechanisms. This withdrawal of funds from the banking system does not refer to a single bank, but to the entire banking system on a global level, which undermines the role of the bank in the financial market (Suljić et al, 2014).

The reasons for applying deposit insurance are its simplicity and low application costs. Deposit insurance essentially performs two functions:

1. protects depositors, i
2. protects the entire banking system.

Deposit insurance performs its first function - the protection of depositors, by preventing the outflow of deposits in the event of bank insolvency. Another function - protection of the banking system, deposit insurance achieves by ensuring the safety of the financial system while avoiding systemic risk (Colaert, 2015).

In case the bank does bad business, the client - depositor doubts that the bank will be able to fulfil its obligations. If there is no protection system such as deposit insurance, depositors will be uncertain about the safety of their financial assets and the so-called "attacks" the banks. On the other hand, the security of the banking system is called into question, because the problem of one bank's operations can spread to other banks as well. Therefore, to strengthen the trust of the bank's clients and save budget funds in case of bankruptcy or liquidation, a deposit insurance system was introduced (Kostić, 2017).

In addition to these reasons, the deposit insurance system is also good because it enables the protection of small depositors who do not have adequate access to information. It is considered that large depositors are strong enough to have timely access to information about the movement of economic parameters, so they can react more quickly in case some unexpected changes occur. The deposit insurance system therefore enables the protection of all depositors by paying depositors an amount up to the coverage level in the event of bank failure.

Deposit insurance is also good for another reason, which is the reputation of banks in certain countries. A better reputation of the bank leads to a better competitive position. Therefore, banks in countries where there is no deposit insurance system are not considered safe enough, and therefore are less competitive and have a worse reputation. They do not have the capacity to attract many depositors, and therefore are not efficient enough (Tošić, 2019).

In addition to the listed advantages, the deposit insurance system has some disadvantages. The main disadvantage is precisely the asymmetry of information, that is, the potential occurrence of moral hazard. When there is a deposit insurance system, banks tend to behave riskier than when this system does not exist because banks will not bear the potential loss (Payne, 2015). This strategy is common for banks that are already in financial problems, because in the event of a loss due to risky behaviour, the bank will not lose much precisely because of the existence of deposit insurance. If these ventures succeed, the bank stands to gain a lot.

The introduction of the deposit insurance system has two opposing effects - it guarantees that the depositor's funds are safe, and the banking system is reliable, while on the other hand it removes the need for non-professional depositors to supervise the operations of banks. With the establishment of this system, everyone can go about their business - depositors not to worry that their money is trapped in the wrong hands, and banks to deal with the placement of those funds in safe and profitable placements.

Discussion and Consequences of the 2023 Banking Crisis

Like every crisis, this banking crisis also had some consequences for the economy (Ozili, 2023). We are talking about the consequences that were expected, and which are in line with the developments on the financial market

The crisis was caused by the increase in interest rates. The rise in interest rates in the US led to the tightening of financial conditions and the emergence of a banking crisis, and the crisis tightened financial conditions even more. Due to these restrictive conditions, the demand for loans decreased.

The withdrawal of deposits from the banking system, first in the USA and then in other countries of the world, led to a loss of confidence among investors who wanted to withdraw their funds invested in banks as soon as possible. Despite the assurances of the Federal Deposit Insurance Corporation and US President Biden, during the crisis there was a loss of confidence in the banking system.

The banking crisis also led to difficulties with financing the state. To finance their needs, states were happy to issue and sell long-term securities with low interest rates, which banks were happy to buy. Due to the emerging crisis, banks were not ready to buy government bonds, which led to difficulties in the financing of governments. In that case, government bonds are bought by central banks, which in that case increase the money supply, thus accelerating the already existing inflation, which means an additional increase in interest rates.

Since the credit conditions are tightened, companies do not have the possibility of borrowing, and therefore their investments in new jobs are paused because it is not economically profitable to take loans in periods of crisis. In addition, layoffs may occur to reduce costs. As for households, in crisis conditions, they tend to borrow less from banks, there is a fear that one of the family members will lose a job, and therefore there is a decrease in consumption compared to the previous period.

The idea of full deposit insurance during a banking crisis may make sense. In this case, if there was ever a new banking crisis, depositors would not have to panic and withdraw their deposits from the banks. However, an argument that completely rejects this idea is the fact that depositors do not fully trust their governments. When such mistrust exists in the event of unfavourable developments on the financial market, there would again be panic and withdrawal of deposits despite full deposit insurance. There is also the possibility of introducing full deposit insurance, but only for large banks, but this would lead to the vulnerability of smaller banks and the migration of deposits from smaller to larger banks.

Overall, perhaps the biggest problem of all is the loss of public confidence in the banking sector. Unfortunately, the corporate social responsibility of banks after banking crises (Corporate Social Responsibility [CSR]) can also be negatively understood. One can see it as a desperate move by the banks to divert attention from the recent banking crises (Jain & Zaman, 2020). On the other hand, such moves can be positively understood to build social capital and gain public trust, all with the aim of preserving and improving the competitive position on the financial market (Azmi et al, 2021).

Based on all that has been said, it can be understood that the American banking crisis of 2023 significantly affected European banks through several key channels. First, the crisis caused a decline in confidence in the global banking sector, which led to withdrawal of deposits and a reduction in credit activity in European banks. This particularly hit banks that were already vulnerable or had higher exposures to the US market.

Second, European banks that invested in US financial instruments or had significant operations of their branches in the US suffered direct losses due to the decline in the value of those instruments and the decrease in the profitability of their US operations. These losses further burdened the balance sheets of European banks and increased the need for capital reserves.

Third, the crisis caused increased volatility in financial markets, leading to fluctuations in exchange rates and disruptions in trade flows. This volatility has made risk and liquidity management difficult for European banks, forcing them to adjust their strategies and increase their focus on stability and resilience.

Overall, the US banking crisis of 2023 caused a chain reaction in the European banking sector, highlighting the need for stronger international regulatory frameworks and better coordination between central banks to mitigate the effects of future financial shocks.

Conclusion

If it is assumed that the socially responsible behaviour of the bank will have a positive effect on its operations and if previous experiences are considered, it can be concluded that banks must limit their tendency to excessive risk taking, especially in times when it is expected that there may be banking crisis. In this way, banks protect not only their own interests, but also the interests of the entire real sector and the population. In such situations, the bank acts as a socially responsible entity that protects the interests of its stakeholders.

Seen through the prism of global banking, it can be said that the banking sector is strongly regulated precisely because of its great influence on all spheres of the economy as well as the population. However, despite the strict regulation of the banking sector, some theorists believe that bank managers who made aggressive lending decisions despite the accelerating financial crisis and global economic recession are responsible for the emergence of banking crises in the past. This happened during the Global Financial Crisis of 2007-2009. year, but also in earlier and later crises, which creates public resistance towards the banking sector.

For a long time, it was considered that monetary policy does not have a decisive influence on the emergence of banking crises. However, it was in 2023 that the rise in interest rates led to the emergence of a banking crisis, so the existing models of bank regulation cannot predict all new risks, but they need to be improved to have a better system for managing bank operations in the future.

It is obvious that movements in the real sector, starting with the pandemic and continuing through the Russian-Ukrainian war, led to shortages of certain products, but also to price growth that was higher than wage growth. These factors caused inflation in the real sector, which had to be controlled by monetary policy measures. Unfortunately, the new banking crisis and the withdrawal of deposits from the banking system have worsened business conditions, so that inflation and interest rates are still high and hinder the survival and development of the real sector.

The deposit insurance system has not fully taken root in all countries, but even in developed countries where it has existed for the last 90 years, it does not fully cover all deposits that exist in that financial system. Therefore, it is necessary to extend this system to underdeveloped countries, but also to find an appropriate level of deposit insurance in order to adequately respond to them in the event of new crises.

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