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The Banking Crisis, Facts, and the General Concept: Review from the World

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Abstract: **This paper aims to give a general picture of the basis of the work of banks, their vulnerability financial crises, and the effects of these crises on the economy at the local and global level through explained four facts banking crises with a brief summary of some of the banking crises these happened in some countries around the world. Through the review of the most important writings related to banking crises, we found out that, the systemic banking crisis occurs when many banks in a country are in serious solvency or liquidity problems at the same time. Either because there are all hit by the same outside shock or because failure in one bank or a group of banks spreads to other banks in the system. More specifically, a systemic banking crisis is a situation when a country's corporate and financial sectors experience a large number of defaults and financial institutions and corporations face great difficulties repaying contracts on time. As a result, non-performing loans increase sharply and all or most of the aggregate banking system capital is exhausted. This situation may accompany by depressed asset prices such as equity and real estate prices on the heels of run-ups before the crisis, sharp increases in real interest rates, and a slowdown or reversal in capital flows. In some cases, the crisis triggered by depositor runs on banks though in most cases it is a general realization that systemically important financial institutions are in distress. In the end, have been stated some of the reactions of governments to face banking crises.**

Keywords: **The Banking Crisis, Financial crises, Solvency, Liquidity, Systemic Banking Crisis, Financial Institutions.**

1. INTRODUCTION

The banks are liable to a range of risks. These include credit risk (loans and other assets that turn badly into liquidity or stop working), liquidity risk (when withdrawals exceed available funds), and interest rate risk (The rise in interest rates, which causes the devaluation of bonds held by banks, and banks pay more relative to their deposits than they receive on their loans).

The world has been facing severe financial pressure since 2007, unprecedented since the Great Depression. This crisis grew with the collapse of the mortgage market in a residential estate in the United States and moved to the rest of the world by dealing with US estate assets, often represented in the form of complex financial derivatives, and the collapse of world trade. These negative shocks have had a significant impact on many countries, causing systemic banking crises in a number of countries, despite exceptional policy interventions (Laeven and Valencia, 2010).

The problems of banks can also be caused or go deeply into if banks face many liabilities coming due and they do not have enough cash (or assets that can be easily converted into cash) to cover these obligations. This can happen, for example, if many depositors want to withdraw deposits at the same time (depositor run on the bank). In addition, it can occur when the bank's borrowers need their money in the bank and it has not enough available cash. The bank can become illiquid. It is important to note that the lack of liquidity is quite different from insolvency. For example, the bank can be solvent but does not have liquid money (it can have enough capital but not enough cash on its hands). However, often, insolvency and illiquidity come alongside. When there is a large decline in asset values, the depositors and other banks borrowers, oftentimes start feeling concerned and demand their money in the bank.

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Many times policymakers and macroeconomists mention us that banking crises are not a new problem, an observation sometimes used to argue that crises are inherent for the business cycle, or probably to human nature itself. Banking crises are not a historical stable, and subsequently, the tendency for banking crises cannot possibly to be the result of factors that have been constant over time and across countries for hundreds of years, including business cycles, human nature, or the liquidity transformation inherent in bank balance sheets (Calomiris, 2009).

Systemic banking crises may be very harmful. They tend to push the affected economies into a deep recession and sharp setbacks in current accounts. Some crises were found to be contagious and soon spread to other countries where there were no obvious weaknesses. There are many causes of banking crises represented in unsustainable macroeconomic policies (involving large current accounts deficits and unsustainable public debt), exaggerated credit booms, large capital inflows, and balance sheet fragilities, combined with policy disability due to a diversity of political and economic constraints. Mismatch of currency and maturity were a remarkable feature in many banking crises, however, in other off-balance sheet operations of the banking sector were prominent.

Banking crises in their various forms continue to be one of the most significant economic problems in the world. In this paper, we will review the concept of the banking crisis in general, facts on systemic banking crises, banking crises throughout the world and the reaction of the authorities. We will try to answer the following question: Does the systemic banking crisis occurs when many banks in a country are in serious solvency or liquidity problems at the same time or because failure in one bank or a group of banks spreads to other banks in the system?

2. THE BASICS OF BANKING

For analyzing the reasons for the banking crisis, it is useful to start from the basics of banking. The banks are in the business of borrowing short and lending long. Thus, the banks provide the rest of us with basic service, to create credit that allows the real economy to develop and expand. However, this credit-creation service is based on inherent fragility in the banking system. If depositors block a collective movement of mistrust and decide to withdraw their deposits at the same time, the banks are unable to meet these withdrawals, given their assets are illiquid. A liquidity crisis erupts. Ordinarily, when the banks are had confidence from people, these crises do not occur. However, confidence can quickly vanish, for instance, when one or more banks suffer from a solvency problem due to nonperforming loans. Bank runs are then possible. A liquidity crisis erupts that can also bring down well banks. The latter become innocent bystanders that hit in the same way as the insolvent banks by the collective movement of distrust. The problem did not end here. Interaction between the solvency crisis and the liquidity crisis is set in motion. Well, banks that hit by deposit withdrawals have to sell assets to be facing these withdrawals. The ensuing sales lead to drops in asset prices, reducing the value of banks' assets. This, in turn, corrodes the equity base of the banks and leads to a solvency problem. The cycle can start again: liquidity crises will arise again due to the solvency problem and so on (Grauwe, 2008).

Systemic banking risk is defined as a phenomenon that affects a large number of financial institutions in a strong significance, that way roughly destroys the general well-functioning of the financial system. This well-functioning of the financial system links to the effectiveness and efficiency with which savings are channeled into the real investments auspicious the highest returns. Hence, historically, most of the banking regulation was designed to decrease systemic risk. To measures reduce systemic risk; many countries used currently capital regulation in the form of the Basel agreements. In all norm models of banking, high capital levels are related to lower bankruptcy risk. However, current regulation is based only on a bank's own risk and ignores the externalities of the bank's actions (De Jonghe, 2009).

3. DEFINITION OF THE BANKING CRISIS

The banking crises can be defined as systemic if it has two conditions: (Laeven and Valencia, 2012).

1) If there are significant signs of financial hardship in the banking system (as indicated by significant bank works, losses in the banking system, or bank liquidations).

2) If there are considerable banking policy measures in response to significant losses in the banking system.

By considering the first year that both standards met to be the year when the crisis became systemic. Moreover, considering policy interferences in the banking sector to be worthy of at least three out of the following six measures have used:

1) Comprehensive liquidity support (5 percent of deposits and liabilities to non-residents).

2) Bank restructuring total costs (at least 3 percent of GDP).

3) Significant bank nationalizations.

4) Significant warranties put in place.

5) Important asset purchases (at least 5 percent of GDP).

6) Deposit freezes and/or bank holidays.

4. CAUSES OF BANKING CRISES

These days, there are many complaints from clients about the inefficiency and complication of the loan-service, which has become an additional challenge facing the management of banks, although it is very hard to estimate the existing process across the board. The current processes that cause the main problems are first, inefficiency - the precise consideration of the safety and profitability of the organization itself led to detailed and time costing steps to ensure the high credit degree of the customer. Second, Complex and strict procedures - so many departments and individuals were contributed in the process including the client, the bank employee, the lawyer, the loan agent, the loan processor and even the bank board (Ping and Ang, 2011)

A diversity of reasons may demonstrate the beginning of banking crises. Several of these may be related to the way in which the structure of the banking sector has developed. Potential causes classified according to the following: (Latter, 1997)

a. Macroeconomic circumstances

At times, macroeconomic instability can be seen as the main source of instability in the banking system. Maybe the reason for the collapse of asset prices, especially in real estate; a severe increase in interest rates or breakdown in the exchange rate; an abrupt slowdown in the pace of general inflation; or the starting of recession. All of these factors are of course, interrelated. As a principle, bank administration and bank supervisors should ensure that banks are able to shocks such as these, within acceptable limits of probability-although this it begs the question as to what considered “reasonable”.

b. Microeconomic policies

This classification covers all structural and supervisory standards under the supervision or direct influence of governments or central banks.

(i) Supervision

There is a widespread perception that every failure of a bank is a supervisory failure, but this is clear misinformation. Certainly, in some cases, failure supervision is one of the reasons for bank failure but it will not be the main or sole reason, because there must first be some shortcomings in the bank that escaped the proper supervisory attention. Furthermore, if supervision were so tight as to eliminate all chances of bank failure, banking would in all likelihood be an extremely repressed and uncompetitive business, and therefore fail in its ultimate function of providing efficient financial intermediation to the rest of the economy.

(ii) Inadequate infrastructure in matters of accounting, law, and others.

These are rarely direct or only causes of bank failure. However, deficiencies or weaknesses in accounting or auditing may vanish or delay the early identification of problems of liquidity or insolvency. In addition, the shortcomings of accounting by bank customers may be as critical as these shortcomings in the banks themselves.

(iii) Liberalization / deregulation

Deregulation in the financial sector has sometimes promoted rash behavior, leading to subsequent problems. This is not an argument versus deregulation but rather a reason for ensuring that bank managements - and regulators - understand the possible consequences and are particularly alert to possible adverse ones.

(iv) Government interference

Government interventions in the bank's business such as directives or pressure to lend to particular customers, possibly at preferential interest rates, or to maintain or extend uneconomic branch networks - may participate or expedite the onset of a liquidity or solvency crisis, or has bequeathed an unhelpful legacy in terms of assets or culture.

(v) Moral hazard

When banks expect that no bank is allowed to collapse and fail, or if financial support in troubled times is too easily available to either banks or their depositors, moral hazard emerges: banks may be tempted into behavior that exacerbates rather than ameliorates their position. Moreover, depositors may not bother to recognize between "good" and "bad" banks, thereby possibly prolonging survival but magnifying a crisis when it eventually breaks.

(vi) Lack of transparency

Inadequate legal or regulatory framework or perhaps simply as a matter of culture may result in the circumstances of a bank lack transparency to depositors and other counterparties, or even to shareholders. The role of market forces in determining the bank's fate will be impeded and problems may be allowed developing and multiplying to an extent that might not otherwise have been possible.

c. Banking strategies and operations

In many cases, the Bank's problems grow from shortcomings in its own strategy or through operational failure. It is questionable to what extent supervisors should also be responsible for allowing weak strategies to be developed; strategies are usually only known to be fantastic or catastrophic after the event, and in a market economy it is questionable how supervisors should intervene. Some of the most common operational failures are (interest rate or exposure to exchange rate risk, weak credit rating, and concentration of lending, related lending, new activity areas, unauthorized trading or placing of positions, associated with failure of internal controls).

d. Fraud, corruption

Major frauds may occur such as BCCI committed by the management or pervading the whole structure, rather than being the work of just one or two errant employees. Employees, management or strangers may all be susceptible to corruption or capable of fraud on a bank; and there are many possible channels for fraud - an obvious one in the present day is computer systems.

5. THE OUTCOMES OF BANKING CRISES

Most major empirical studies have shown that the banks' financial conditions, which relate to lending decisions, have real consequences. Calomiris and Mason (2003) find that the US banking crisis during the Great Depression has led to a reduction in the capacity allocated for credit and that rising costs and shrinkage of credit volume, resulting in the reduction of total output through aggregate demand. Peek and Rosengren (1995), using data of bank in the United States, each existing proof consistent with the hypothesis that bank lending will be curtailed at the point when bank capital is low or when the banking sector has endured critical capital misfortunes.

Bank failures may also have negative external effects for other banks such as loss of confidence in the stability and sustainability of the financial system as a whole, losses due to interbank exposure due to failed banks, and losses resulting from the sale of the bank's failed assets. This is different in other industries, where competitors generally benefit from the failure of another company. These negative externalities connected with bank failures offer the main rationale for financial regulation: to prevent socially costly bank failures (Bhattacharya et al. 1998).

The effects associated with financial crises are the collapse in the value of guarantees, resulting in a severe reduction in credit supply. This can lead to a credit crunch or credit freeze. Bernanke et al. (1996) show that credit market conditions can propagate and amplify negative shocks to a borrower's wealth in the presence of asymmetric information between borrowers and lenders. Kiyotaki and Moore (1997) show that the decline in the value of collateral resulting from asset price shocks could lead to a decline in asset prices by reducing the amount that can be borrowed against such collateral, thereby lowering asset prices, etc. in a downward spiral. Caballero and Krishnamurthy (2001) argue that such downward spirals can be particularly severe in emerging markets because the guarantees they can put to utilize locally are frequently restricted because they have to keep up a lot of guarantees to borrow internationally.

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Come down in liquid assets (often related to the banking crises) may result in a freeze in the credit market. Sales at fire-sale prices are may trigger when banks that keep large quantities of illiquid assets faced with negative liquidity shocks. Diamond and Rajan (2010) argue that although the prospect of such fire sales depresses the bank's current value, banks may actually prefer to hold on to the illiquid assets because the bank's survival is positively correlated with a recovery in asset prices. This makes a rise in demand by banks for liquid assets, causing banks to drop on loans. Holmstrom and Tirole (1998) show that when credit markets crumble, economies may suffer significant losses inefficiency, such as banking crises, and will no longer be able to provide funds to entrepreneurs who have been hit by a lack of liquidity and the need to raise funds to avoid bankruptcy. Thus, these bankruptcies will cause a great loss of well-being.

Banks suffering serious losses not only appear growing costs but also to experience liability rationing, either because they have to contract deposits to satisfy their regulatory capital requirement, or because depositors at risk of loss prefer to place money in more steady intermediaries. This problem and the difficulties will shift through the bank to borrowers in the form of a contraction in the credit offer (Valencia, 2008). Credit will turn out to be even more expensive, making financial distress of borrowers and banks more probable.

Bank crises often have important distributional outcomes, as government actions that attempt to bail out the financial sector generally depend on transfers of wealth from taxpayers to banks and from savers to creditors. For example, converting wealth from taxpayers to banks by recapitalizing insolvent banks, and generalized debt relief through inflation or currency lowering constitutes a transfer of the costs of the crisis to nominal creditors.

Finally, the impact of bank failures and crises in a country can be transferred to other countries, through interbank markets. The risk of this infection has increased due to the internationalization of banks and the continued growth of cross-border banking services (Laeven and Valencia 2008). Regulatory arbitrage across countries and competition for safety nets across countries also creates negative externalities.

6. KEY FACTS ON SYSTEMIC BANKING CRISES

Boissay, Collard and Smets (2013) gave a brief description of the main facts about systemic banking crises using the historical data set. This data set includes annual observations on real GDP per capita, total local currency bank loans, total bank assets, peak business cycle dates, and bank crisis dates from 1870 to 2008.

Table1: Statistics on recessions and banking crises

	N. obs.	N	Frequency (%)	Magnitude (%) from peak	Duration (Years) to trough
All banking crises	1,736	78	4.49	-	-
Systemic Banking Crises (SBC)	1,736	42	2.42	-	-
All recessions	1,736	176	10.20	4.86 (5.91)	1.85
Recessions with SBC (A)	1,736	42	23.86	6.74 (6.61)	2.59
Recessions w/o SBC (B)	1,736	134	76.13	4.27 (5.61)	1.61
Test A6=B, p-value (%)	-	-	-	2.61	0.00

Fact 1: Systemic Banking Crises are Rare Events. 78 banking crises are identified in the sample, which includes 1,736 observations. The recurrence of crises is therefore 4.49%, which means that countries in sample experience a crisis, on average, every 22 years. Half of those 78 banking crises were systemic. Hence, systemic banking crises are unusual events, which happen on average every forty years. However, recessions are much more frequent and occur every ten years or so.

Fact 2: Financial recessions are deeper and last longer than other recessions. While only a quarter of the recessions that were identified involve a banking crisis, these "financial recessions" are on average significantly deeper than other, regular recessions. For example, we can observe that the drop in real GDP per capita from peak to trough is 40% bigger during financial recessions (6.74%) than during the average recession (4.86%) (60% deeper than recessions without systemic banking crises), or about 12% when the data are filtered. On average, systemic banking crises also last for more than one year.

Fact 3: Systemic banking crises break out the middle of credit intensive booms. Systemic banking crises do not hit at random. Crises break out at a particular point in the business cycle, typically in good times, in the midst of a credit boom.

Fact 4: perhaps the most important, banking crises of both types vary in their frequency across countries and time, and the variations in the affections for crises are spectacular. The U.S. banking system experienced an unusually high propensity for both panics and waves of bank failures historically. The banking crises are also distinguished from other financial crises because of their especially big social costs (Calomiris and Mason, 2003).

7. BANKING CRISES THROUGHOUT THE WORLD

In the USA before the 1980s, federal deposit insurance seemed to work exceedingly well. In contrast to the pre-1934 period, when bank failures were common and depositors frequently suffered losses, the period from 1934 to 1980 was one in which bank failures were a rarity, averaging 15 a year for commercial banks and fewer than 5 a year for savings and loans. After 1981, this rosy picture changed dramatically. Failures in both commercial banks and savings and loans climbed to levels more than ten times greater than in earlier years, banking crises have struck a large number of countries throughout the world, and many of them have been substantially worse than the USA. Here are some of the banking crises are experienced by some countries around the world (Mishkin, 2004):

An important factor in the banking crises in Norway, Sweden, and Finland was the monetary advancement that happened in the 1980s. Before the 1980s, banks in these Scandinavian countries were highly regulated and subject to restrictions on the interest rates they could pay to depositors and on the interest rates they could earn on loans. In this non-competitive climate, and with misleadingly low rates on the two deposits and loans, these banks loaned just to the best credit dangers, and the two banks and their controllers had little need to create skill in screening and controlling borrowers. With the deregulated conditions, a lending growth ensued, especially in the real estate sector. Given the lack of experience in both the banking industry and its regulatory powers in terms of keeping risk in check, banks involved in lending are risky. At the point when real estate prices crumbled in the late 1980s, enormous credit misfortunes came about. The result of this procedure was like what occurred in the savings and loan industry in the USA. Englund (2015) said about Sweden, There was regulatory arbitrage via loosely regulated shadow banks with links back to the banking system. There was no regulation of bank liquidity, even though market funding had come to be crucial for the banking system. Overall, many of the elements of the 2008 crisis were present in the Swedish crisis and that much of the new regulatory structure that is introduced today would have been helpful in preventing the Swedish crisis. The Swedish resolution of the crisis is sometimes hailed as a model for other countries. The key element was the blanket guarantee, which managed to restore market confidence in the Swedish banks and allow them to continue to operate normally. The guarantee worked because it was seen as credible. Credibility depended on two conditions which both were fulfilled in Sweden in 1992. First, the guarantee had the broad political support and there was no risk that it would be overturned later by parliament. Second, the government finances were sufficiently strong that there could be little doubt of the ability to honor the obligations, even if more banks would come in need of support. Swedish crisis management was obviously successful in the sense that the Swedish economy got out of the crisis faster than most observers expected. This success, however, depended to a large extent on the decision to leave the fixed exchange rate combined with an improved world economy. As a result, the burden put on government finances by the blanket guarantee was rather modest and the “Swedish model” was never put to a hard test.

The Latin American banking crises ordinarily like those in the United States and in Scandinavia. Prior to the 1980s, banks in numerous Latin American nations were possessed by the legislature and were liable to loan cost limitations as in Scandinavia. Their loaning was limited to the administration and other generally safe borrowers. With the deregulation trend that was occurring worldwide, many of these countries liberalized their credit markets and privatized their banks. We then see the same pattern we saw in the United States and Scandinavia, a lending boom in the face of inadequate expertise on the part of both bankers and regulators. The result was again massive loan losses and the inevitable government bailout. Guidotti and Nicolini (2016) they could get light on the direction of causality between macroeconomic stress and banking crises. They have shown that, despite the significant reforms put in place in the early 1990s, the crisis experienced by the Argentine banking system in early 1995 (after the December 1994 devaluation of the Mexican Peso) can be attributed largely to internal weaknesses of the system, which was still in the process of adapting to the new prudential regulatory environment. In that case, as macroeconomic policy stayed the course, and reforms were

consciously designed to meet the limitations of the lender-of-last-resort function of the central bank, as well as to maintain fiscal sustainability, the banking crisis was virulent but short-lived and its successful resolution translated into renewed public confidence in the system. The 2001 crisis shows the reverse. The consolidation of the banking system and the new macro-prudential regulations implemented after 1995 had made the financial system more resilient, both in terms of capitalization as well as in terms of liquidity. However, the macroeconomic side of the 2001 crisis proved to be an insurmountable obstacle for the financial system, and the macroeconomic crisis led to a banking crisis as well. Argentina had policy options that could have mitigated and even avoided the 2001 crisis, but these options now remain as elements for an ex-post analysis of the causes of the crisis, rather than part of its factual history.

In the communist countries of Eastern Europe and the Soviet Union, banks were owned by the state. When the downfall of communism occurred, banks in these countries had little expertise in screening and monitoring loans. Furthermore, bank regulatory and supervisory apparatus that could rein in the banks and keep them from taking on excessive risk barely existed. Given the lack of experience on the part of regulators and banks, it was not surprising that this resulted in large loan losses, resulting in many banks failing and even trying to bail them out of the government. For example, in the second half of 1993, eight banks in Hungary with 25% of the financial system's assets were insolvent, and in Bulgaria, an estimated 75% of all loaning in the banking system was evaluated to be substandard in 1995. Japan was late in the banking crisis. Before 1990, the vaunted Japanese economy looked unstoppable. Regrettably, it has newly experienced many of the same pathologies that we have seen in other countries. Before the 1980s, Japan's financial markets were among the most regulated heavily in the world, with very strict restrictions on the issuing of securities and interest rates. Financial deregulation and innovation produced a more competitive environment that set off a lending boom, with banks' lending aggressively in the real estate sector. As in the other countries we have examined here, financial disclosure and monitoring by regulators did not keep pace with the new financial environment. The result was that banks could and did take on excessive risks (Mishkin, 2004).

The 2007-2009 global crises, the United States and several other advanced economies experienced an uninterrupted upward trend in real estate prices, which was particularly pronounced in residential property markets. The surge in real estate prices has been exacerbated by the ability of financial institutions to exploit loopholes in capital regulation, allowing banks to increase leverage significantly while maintaining capital requirements. High asset prices resulted in a lifting cycle in which increases in house values led to increases in debt. Assets prices hikes have fallen in relation to value at risk in financial institutions, creating reserve capacity in their balance sheets, leading to an increase in leverage and credit supply. The first signs of distress came in early 2007 from losses at the origin of loans from the United States of America and institutions that own mortgage derivatives. Later in 2007, these localized signs of distress turned into a global event, with losses spreading to banks in Europe (such as U.K. mortgage lender Northern Rock), and distress was no longer limited to financial institutions with exposure to the U.S. subprime mortgage market. To ease the liquidity shortfall, the US Federal Reserve lowered the sanctions on banks to obtain the discount window, and later that year established a time auction facility. While some aspects of the crisis seem new, such as the role of asset securitization in spreading risk across the financial system, it is much like the earlier boom and bust, many of which followed a period of financial liberalization. A common characteristic of these crises is a significant rise in private sector indebtedness, with the affected sectors alongside the banks being the family sector, the corporate sector or both (Laeven and Valencia, 2010).

8. THE POLICY RESPONSE OF THE AUTHORITIES

The authorities of the major developed countries have reacted to the crisis by using three types of instruments (Grauwe, 2008):

First, central banks pumped huge liquidity to prevent the liquidity crisis from dropping the banking system.

Second, through the introduction of state guarantees on deposits between banks, governments tried to prevent the collapse of the interbank market, which certainly led to a large-scale liquidity crisis.

Third, governments have recapitalized large banks in response to bank failures and in many cases through explicit nationalization processes.

Appropriate policy response depends on whether the cause of the crisis is the loss of depositors' confidence and the recognition of bank insolvency, or the narrow effects of financial market turmoil outside the banking system, including

the exchange rate and wider macroeconomic pressures. For example, attempts to reassure depositors through confidence-building measures will not succeed if the crisis does not result in panic and lack of coordination (Diamond and Rajan, 2005). Honohan and Klingebiel (2000) find that such guarantees tend to be fiscally costly, though this is in large part driven by the fact that guarantees are usually adopted when crises are severe.

Crisis resolution involves complex coordination problems primarily between debtors and creditors. Whether it is an individual institution or financial institution, the best course of action for its owners and managers will depend on the work of many others and a comprehensive economic outlook. Because of coordination problems as well as lack of capital and the importance of the financial system for economic growth, governments often take the lead in systemic restructuring, especially the banking system. In this process, Governments often bear significant financial costs, assuming that their aim is to accelerate the exit from the crisis. Key policy approaches at the recent crisis resolution phase include non-performing asset measures, debt restructuring, troubled asset purchases, nationalization, and bank recapitalization. Countries typically apply a group of resolution strategies. The government can facilitate the experimentation of distressed loans through government supports to distressed borrowers, conditional on the borrower's shareholders introducing some new capital, as an attempt to let the market determine which firms are capable of surviving given some modest assistance. In addition, there have been planners offering an injection of government capital funds for insolvent banks whose shareholders were readying to supply matching funds. To the extent that such schemes are estimated, they carry the risk of ethical hazard as debtors stop trying to repay in the hope of being added to the list of beneficiaries (Laeven, 2011).

9. CONCLUSION

By reviewing the most important literature, which tried to determine and explain the causes of the banking crises and their consequences. We can draw the following to answer our question: the systemic banking crisis occurs when many banks in a country are in serious solvency or liquidity problems at the same time—either because there are all hit by the same outside shock or because failure in one bank or a group of banks spreads to other banks in the system. More specifically, a systemic banking crisis is a situation when a country's corporate and financial sectors experience a large number of defaults and financial institutions and corporations face great difficulties repaying contracts on time. As a result, non-performing loans increase sharply and all or most of the aggregate banking system capital is exhausted. This situation may be accompanied by depressed asset prices (such as equity and real estate prices) on the heels of run-ups before the crisis, sharp increases in real interest rates, and a slowdown or reversal in capital flows. In some cases, the crisis is triggered by depositor run on banks, though in most cases it is a general realization that systemically important financial institutions are in distress.

In this paper, have been clarified the basis of the work of banks and their vulnerability to financial crises and the effects of these crises on the economy at the local and global level. In addition, it explained four Facts banking crises with a brief summary of some of the banking crises in some countries around the world. In the end, have been stated some of the reactions of governments to face these crises.

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