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# European investors fear contagion from US banking crisis

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In the United States, two banks ran into serious problems on Monday: Western Alliance and First Republic. There are fears in Europe that the crisis, as in 2008, is heading our way.


Investors are particularly concerned about the decline in the value of banks' bond investments.Photo: Michael M. Santiago/Getty

## In brief

- Again two American banks have run into serious problems.
- Bank share prices are also falling in Europe as fears of contagion grow.
- Bankers and analysts here believe that things will not go that fast.

While the US authorities are doing their utmost to nip the banking crisis in the bud, reassuring sounds are heard from Europe. Experts do not consider the chance of the crisis to spread very high, according to conversations with ten bankers, financial consultants and analysts.

They are, however, concerned about losses suffered by European banks on their investments in bonds. Rapidly rising interest rates make them worth less. However, stress tests show that they can take a beating, says regulator DNB.

The fear of major losses at banks was reflected in the price signs of the European stock exchanges on Monday. The index for European financial companies fell by almost 6%. Also on the stock exchange in Amsterdam, it was the banks and insurers that lost the most. Aegon lost 6.4%, ASR 6.2%. This while ING showed a decrease of 5.8% and ABN Amro of 4.7%.

## Truly American

The current issues would be truly American. Many start-ups there, stimulated by the low or even negative interest rates, have attracted millions they don't really need and have parked that money in a bank. Now that the investment climate is deteriorating, they are taking it away again.

'When that money was removed, the bank had an acute liquidity problem,' says Hugo van Wijk of Vallstein bureau, which advises companies on their banking affairs. “Fundamentally there is not much going on. Savers are compensated. The bondholders bear the pain. The entire US banking system has $23 trillion outstanding. In that light, the $600 billion in unrealized losses being talked about in the US is nothing at all.”

Jorn Koch of credit risk platform Ub Technologies has been seeing unrest in the app groups he is part of for days. “There is panic in the United States. A lot of start-ups get their money from small banks.' That trend has been going on for some time. The investment climate for young companies has deteriorated sharply in the past year. Start-ups use up their reserves and withdraw their savings. At SVB there was a real bank run last Thursday. In one day €42 billion was withdrawn and the liquidity crisis was a fact.

Not only the poor investment climate plays a role. Dutch bankers believe that the SVB has not sufficiently responded to the fact that the bond portfolio has fallen sharply in value since interest rates were raised from 2020. In the event of a sale, they will only receive 60% of the value, plus a discount due to the forced sale.

Dutch bankers take into account that the bank has insufficiently covered the interest rate risk and has therefore run into problems. 'They have pretended that their deposits contain normal savings that remain in the account for a very long time and have sought a ditto investment with long-term government bonds. But suddenly liquidating costs a lot of value,' says a former director on the condition of anonymity.

The fact that the Federal Reserve immediately opened an emergency fund to compensate savers regardless of the amount of damage and is willing to take bank bonds as collateral at nominal value indicates that regulators fear a crisis of confidence. Savings must be prevented from withdrawing their money from other small banks just to be on the safe side.

## Larger buffers

Certainly since the credit crisis of 2008, the rules for maintaining buffers have been tightened considerably. In the US, banking rules have been relaxed again under former President Donald Trump. For example, banks with assets of up to €250 billion fall outside the strictest supervision. SVB did not have to do a stress test. The bank also had no risk director for most of 2022.

DNB says it has repeatedly pointed to volatility in the markets in an environment of tightening financial conditions and rising interest rates. 'We see the risk... But our analyzes also show that our banks are well capitalized and resilient.'

## 'Little risk of infection'

According to DNB, investors are particularly concerned about the decline in the value of banks' bond investments. 'We have previously tested whether Dutch banks can handle large fluctuations in the value of their bonds, and those stress tests only showed a minor impact.' Also, the Belgian authorities stated the risk of contagion is low.

The decline of SVB is an unusual coincidence, says Jon Peace, co-head of European banks research at Credit Suisse. Regulators have taken firm action after the last financial crisis. The balance sheets of European banks are robust enough to withstand the turmoil in the United States, he believes. The strong price reaction on the European stock markets is seen by the analyst as a temporary fluctuation. "This has all the hallmarks of an overreaction."