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TYPICAL BANKING CRISES INTERNATIONAL BUSINESS ENVIRONMENT AND WAYS TO OVERCOME THEM

Comments
Viewpoint

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Abstract

International financial environment is characterized as consisting of free trade and especially from the free movement of the capital on the financial markets, so very favourable, which also led to the rapid development of global financial markets.

We lack the ability to keep the peace (silence) for to counter the excesses of the financial markets. Without this ability, the global economy is exposed to the collapse. Financial capital enjoys a privileged position. He is more mobile than other factors of production and even more mobile than direct investment. Yet crises must be overcome.

To support the arguments of this paper, we use a flexible methodology, starting from simple to complex, from theoretical to practical, from principle, to particularly, adding, specialty practice examples, from the international sphere, convinced that work-international banking must be healthy, able to generate profitable and dynamic business environments, safe for entrepreneurs and bankers, but also ordinary people.

1. Introduction

"It is noted that the international financial environment, in turn, is ahead of trends, existing in the global economy". (Soros, 1999). The profound changes that occurred in the structure, mainly, is due to the following reasons: (Odobescu, 1999).

- Continued expansion of international trade in goods and services;
- Disclaimer fixed exchange rates;
- To Rapid expansion of Eurodollar;
- Internationalization of monetary and financial transactions;
- Creating enormous foreign debt, in third world countries;
- Progress in communications' technology;
- Releasing and increasing of capital flows;
- Ingenuity in the field of payments and innovations in financial operations;
- Changes in the number and nature of financial institutions.

On the environment around them banks, should be noted, first, that since 1985, over two decades has been a shift in monetary policy authorities. They have changed the previous concept, preponderant regulatory, becoming more liberal

under the influence of ideology - *markets know better*. These developments took place in the late '70s and early '80s, as a result of what was called Reagan-ism and Thatcher-ism, and in the middle of the ninth decade, when occurred the revival of the integrationist thinking, in Western Europe

The firm belief in the power of self adjustment and the market, will generate better efficiency and lead to a general liberalization and deregulation, including also, the banking and financial services sector" (Odobescu, 1999).

Secondly, there was an incredible technological revolution that has contributed greatly to almost unrestricted access to market information and transparency, in general, which made it possible for transactions to be conducted in a comprehensive integration, 24 hours, from 24. Information and transparency are prerequisites for efficient functioning of the financial markets.

Third, software developing, currently, allows processing of information and holding a volume of transactions, previously, unimaginable.

Following the evolution of human civilization and by the integration of financial civilization, national, strict regulations were abandoned, and geographical boundaries have disappeared.

It became impossible to segment the markets, by these criteria. "New types of financial activities have been developed in connection with banking, such as leasing and factoring. Competition between different financial institutions became so strong, including abroad, that the financial industry risks have increased considerably. With the financial civilization become direct component of global economic system, the risks of large market participants tend to become more and more risks to the entire system" (Odobescu, 1999).

These developments have forced a "regulatory" reaction, to oversight bodies of the central banks..

The forefront of efforts to control systemic risk Cooke Committee was created at the Bank of International Regulations from the Basel, (Joavină, 2007). So, "the Basel I, founded in 1988, was able to coordinate and regulate, in a uniform manner, international supervision of banks and financial institutions to establish minimum capital requirements in order to eliminate threats from banks capital with policies unstable". (Antofe, 2009).

2. Basel cooperation with international banking institutions

In the context of the '90s, from the last century, former Common Market cooperated closely with the Basel

Committee, "setting risk limits or restrictions on the foreign exchange, interest rates, money laundering" (Sav, 2007).

These measures affect all countries in the international community, whether they are members of the European Union or another community. Clearly, smaller countries should follow the example of the great financial powers to adjust their framework because the current level of economic independence does not allow deviations from generally accepted principles of the major markets of the world economy.

Given the changes in the banking system in general, many banking analysts believed that things will get worse, exemplifying the fact that the banking systems in Africa, recorded annually, two bankruptcies. As shown in a study by the World Bank, between 1988 and 1996, "20 African countries have experienced systemic banking crises, five of them spending more than a tenth of GDP to mitigate the negative effects of such crises". (Cristescu, 2001)

In statistics, Asia is lucky. Among the largest countries, only India has suffered what could be called a major crisis of the system.

In Eastern Europe, banks in almost all countries, have experienced difficulties in the transition process, from communism, to capitalism. The Hungary Government was forced to pay three times, state emergency assistance for banks, drawn from the central bank of the communist period, which took huge portfolios of bad, loans granted to energy-intensive industries.

In Central Europe after, 1990, the financial systems of the three Baltic countries, were shaken by "bursts" products among the private banks. Czech Republic, one of the countries in the region, with the best economic performance, has been the scene of a series of banking scandals and failures that led, in 1997, at the hazard of systemic collapse. In Bulgaria, the failure of reforms in the real sector and banking supervision has resulted, for banks, a cumulative net loss, of over a billion dollars.

"Banking crises are not only a characteristic of developing countries. During the 90s and developed countries faced with different financial crises, including the failure of real estate lending in Scandinavia, a financial disaster in the United States of America, totaling 150 billion dollars, about the work of saving-lending and Japan's huge public debt".

For example, "during 1992-1998, in developed countries, the most serious problems occurred in individual banks, like, Barings - the UK, which went bankrupt because of derivative speculation or Credit Lyonnais - in France, which accumulated at least four billion, credit loss. By contrast, in developing countries, were problems in the banking system, which affected, usually, the entire economy". (Odobescu, 1999)

Moreover, these crises have international implications. "Tequila effect" produced by Mexican crisis, has affected, not only Argentina, but and independent financial markets, such as Thailand.

Economists estimate that the risk of "contagion" is growing. Developing countries has established between them, consolidation links, for example, by increasing cross-border trade, by investment and credit - and the integration of these countries into the global markets. Also, link, between rich and poor countries, is strengthened continuously.

These facts have caused concern, that banks wich provide most channels routing these for flows will become more vulnerable, in the absence of a concerted international effort, to avoid crisis. Governments from the developing countries, have become, increasingly, preoccupied by the prospect of future crises. In 1995, the U.S. government has provided more than half of the 28 billion, injected into Mexico, by the international community.

Reached the brink of bankruptcy, the recapitalization is too heavy a burden on national budgets. An IMF study, shows that in a period of about 20 years, since 1980, the total amount supported by taxpayers from the developing countries for banking crisis, reached to 250 billion dollars.

Is should noticed that banks are special cases, but as special as their status, the developing countries operating below potential . Compared with developed countries, including those in which depositors mainly use mutual funds as in the United States, bank deposits have a low share in the economy, this is true, particularly in Latin America . " It has been shown that banks are unable to meet fully the two major functions:

- Mobilizing savings by channeling them to the most productive uses;
- Efficient management of payments in the economy;

Money, instead of being used for economic growth, are kept "under the mattress", being a huge waste of resources. For developing country governments, the solving of the banking instability problem is not limited to savings and restore the credibility, but, more importantly, is closely related to boosting economic development, banks having a vital role in this regard, based on role trust” (Odobescu, 1999).

The best way to learn from crises triggered and manage better the perspective on the banking and financial trends and customer segmentation, internationally, „is to explore and to learn causality occur” (Nenciu, 2009).

Although, there is a general consensus, on the effects, for example, they are very costly and quite difficult to solve. In terms of causes, opinions are contradictory. "One explanation is that a banking crisis is not one typical case, it is usually, the result of several factors which act in parallel.

3. Financial Dangers and causality of banking crises

For banks there are some dangers that transpire, and obviously form part of causality ". mentioned, favored by: (Nenciu, 2009).

- Macroeconomic instability;
- Credits "linked" - the employees and shareholders of the bank or company with whom the bank has links;
- Political intervention;
- Financial liberalization.

1. *Macroeconomic instability* There is an increasingly evident contact, between the health of the systems and the health of the savings bank, in which they operate. "The best way to ensure the stability of banks is to maintain a healthy economy” (Carse, 2003).

Conversely, no economy can be, truly, stable, if its banks are not safe. In this respect, a difficulty is that a fragile banking system has limited flexibility in the monetary policy of the central bank, increasing of the interest and rates being more difficult.

It is no coincidence that some of the worst banking crises, in the past 20 years, were preceded by economic shocks, including jumps in prices of resources and exchange rate fluctuations. Also, there is a direct relationship between banking crises and severe economic crises.

Macroeconomic instability strongly influence how banks operate. Since the growth rate and the inflation rate fluctuates constantly, assessing credit risk, becomes extremely difficult. Moreover, the company's credit history, in times of high inflation, does not reflect credibility in stable periods . Banks that survive in times of high inflation, through speculation in the currency markets, most often, fall into crisis when the prices return to normal, being obliged to resume conventional working methods .

2. *Credit "bound"* The second factor (cause) important credit "bound" - or domestic - made havoc among banks in

Bolivia, to Bangladesh. Known in developed countries, but it is currently a problem sober, usually in poorer countries (developing) where control bodies exhibit less rigorously for its eradication.

Governments have provided numerous ways to curb such practices, many of these, already putting them into practice. Today, "in all more advanced countries, on the development way, exist regulations, for to limite the exposure of a bank, to a single loan, at a fraction of the capital - usually, between a tenth and quarter, similar limits similar with those in force, in developed countries" (Sav, 2008).

However, in many countries, control bodies lack the will and resources to the practical application of those rules.

"Since 1990, some banks in Indonesia, have failed, in part due of the loans or conglomerate families, that had interests, despite of the regulations, designed to prevent disasters hub. IMF, expressing concern that banks will always find new and ingenious ways to avoid the most recent attempts by supervisory bodies, identifying and penalizing, particularly close relationships, between banks and "friends" them. Crises in Latin America and Eastern Europe have highlighted the use of false accounts and fake names debtors who escaped, under normal conditions, attention control bodies" (Sav, 2008).

3. *Political intervention in banking activity* - the third factor (cause) - is more damaging than the first two. In all developing regions, governments have used unscrupulous state-owned banks, to finance fiscal deficits and dubious projects. Many state governments only consider banks, as tools for achieving the national industrial policy or social.

The Degree of state participation, at the capital of banks, varies, from country, to country. In countries, such as China and India, where the state is still dominant. In any case, the banks do not conduct effective and prudent. Often, state banks distort financial markets loans with interest rates that make competition impossible for private banks, credit rating activity not usually impressive.

Political intervention, in the banking activity and central administration, concern not the only worry motivation for banks, many recent banking scandals are caused by local government fiscally inappropriate.

Privatization does not guarantee the end political intervention in the banking system. Governments, whether local or national do not need to have banks, so that to can influence the activity.

An independent study conducted in the mid 90s, showed that loans to politically represent about 50% of the total grant loans of commercial banks. (Odobescu, 1999)

"One example is that of Hambo, a large Korean manufacturer of steel, which went to bankrupt, after the banks have granted loans worth over three billion dollars for a viable project to build a steel plant. Investigations conducted have revealed no evidence of political intervention", (Cristescu, 2001) but the scandal led to the resignation of several cabinet ministers in office. Central Bank was forced to inject seven billion dollars into the financial system, to avoid a crisis in lending and other failures. This type of intervention, with different variations, is specific to developing regions of Asia.

4. *Financial liberalization* At first glance, it seems inconceivable that financial liberalization is listed as factor (cause) that causes cirisis. Few the developing countries are questioning the long-term benefits whom they bring.

Through letting of the banks in the will of the market force, the liberalization should lead to better organization and management, at a more efficient allocation of the better credit and loan transactions.

From the first period of the '80s, many developing countries have liberalized financial systems by removing restrictions, regarding interest rates, foreign banks accepting the activity on their territory, granted by commercial banks, freedom to start new businesses or to expand their branch networks etc.

However, financial liberalization and banking crises often seem related. Federal Reserve Bank of the United States and the IMF have undertaken a study about financial crises of the 80s and early 90s, with a sample of 25 countries. In 18 of the 25, financial sector was liberalized to some extent during the five years preceding the crisis. The study attempted to answer, giving the explanation that a measure with so obvious effects on banks, bring benefits, in long-term, but produces difficulties, short-term.

The problem is that liberalization expose the banks to new risks, which without proper precautionary measures make it possible occurrence of a crisis. In most cases, removal of restrictions issued the unexpressed demand of credits which can lead to a rapid and uncontrolled lending. The most important precaution is to improve surveillance activities, to monitor these risks.

The risks are multiplied by accepting the newcomers from the country or abroad, in the banking system.

By deepening competition, the new competitors put pressure on existing banks profits" (Cristescu, 2001). these being tempted to finance highly risky business, trying to get past profits.

Moving, from a comfortable system controlled by state, to one in which operate the competition laws, you must learn how to analyze credit risk, this requires time and preparation" (Brânză, 2002).

The time of the decentralization is, also, important for other reasons,.

In a climate of political instability, banking liberalization can be dangerous or even impossible. Even in countries renowned for economic stability and high economic growth, the plans ill-conceived, for the recovery of the banking sector can wreak havoc.

For example, in Indonesia, in the early '90s, the growth rate of bank credit was approximately 50% per year. But, beyond appearances, accumulated bad loans. In 1995, according to official estimates, bad loans accounted for 11% of total loans outstanding, more than in any other Asian country located in the economic expansion.

Part of the blame even wore a liberalization itself. Supervisors number has not increased, over the expansion of banking activity. In fact, inspectors should familiarize themselves, first with the new demands of their work. The Government did not act strongly to the development and approval of new regulations necessary for the new system still faced with problems. (Odobescu, 1999)

By appropriate regulations, such countries should be able to avoid the worst effects of liberalization. There is nothing wrong with banking regulations, but they must be appropriate.

The conclusion is that in the context of crisis and metamorphosis, both in developed countries and those in developing countries, commercial banks can be found in the so-called new "challenges". Moreover, banks have always faced with a constantly changing environment and formed the generally forefront of managerial and institutional changes. Qualified staff in a highly professional, strategic thinking, access to information and the ability to understand the phenomenological development of the economy, gave always banks ability to be one step towards change, in an effort to constantly adapt to environment.

However, in the future, banks will have to consider the characteristics of the financial markets more united and highly competitive: financial products tend to be more homogeneous and easier to copy innovation, infrastructure becomes more expensive, and branch networks networks of computers or electronic terminals, networks outlets or ATMs, national regulations, tend to standardize and to join the international standardized structures and solutions to the crisis are increasingly inspired by the experience.

This is the market to be more uniform, offering equal opportunities for all participants, but leveling in the same time greatly, revenues and profits.

4. Countering the "challenges" arising from or imposed by the dynamical system of banking and financial market.

Therefore, banks will have to face in the future, with some "challenges" generated by the system or imposed by a set of common banking dynamics and of financial market. These "challenges" could be problems related to:

- Implications that would bring competition given that it will not be possible to market segmentation;
- Risks related to the "industry" liberalized financial;
- The manner of implementation by banks of their particular strategies and anticipation of the opportunities that will bring the single market of the euro area.

Introducing of structures and funding instruments nonbank of sophisticated type, will increase. Also, the alternatives of choice, both for investors and for those who save will increase.

Banks will have to position themselves strategically in the global market. This would mean that they must decide whether to become mega banks, global, medium-sized regional banks and special banks or small.

The Banks will have to comply the requirement of cost - competitiveness, and in this context, the operational control is to give more importance of this issues .

Also, the banks will have to develop, continuously, the most precious resource whom they have.

The competent staff - will, in addition, be up to date with what is international technology The issue of integration should not be seen only in the global international financial environment . These changes in international banking , are very complex and can not be separated from the development of national economy .

Among the most important issues in commercial banking may bring into question:

- Last resolution of the external debt problem of the third world - vis-à-vis commercial banks, although introduced changes and are better equipped, have difficulty regarding restitution payments;
- Financial innovation of different types, which include improving the use and development activities "off-balance-sheet", though it received little attention from the public, is of equal importance. Financial innovation is closely related to the regulation or deregulation, both nationally and internationally. The use of modern technology is still facilitated by the internationalization and globalization of the inancial markets;
- Another important set of issues is related to completion of economic reforms in the countries of central Europe and economic reforms in the countries of Eastern Europe and involving them in their openness to international financial markets; - The issue of the role of the IMF and World Bank agreements extending the IMF loan facilities are an indicator that these two institutions will strengthen their strategic positions in the area and the importance of international capital flows.

Although the role of IMF credit will increase in the future, the more the responsibility will consider the monitoring of the foreign exchange markets.

From the perspective of the international banking, can conclude that capital and financial markets, from the world countries, are in a transitional phase and steady-state and the nature of international affairs can not be anticipated.

Despite their growing, these markets become more integrated, more competitive and will cause them to grow in defined geographical areas and also between the different types of financial institutions.

Development of international banking activities will depend on the measures taken in liberalizing trade, aid in exchange rates, the transfer of resources to private international investment, coordination of regulatory efforts.

Perhaps the most important factors to be taken into account in designating nature of financial markets are strength, flexibility and ability to adapt to changes, to these markets.

5. Conclusions

In the banking business, approximately the last decade of the twentieth century end and the beginning of the XXI century were, is considered a period of profound restructuring of the entire world economy. Scientific, technological and industrial increasingly complex, which led to the internationalization of trade in goods and services. Areas of the world such as the Far East, Oceania and Latin America, experienced the influence of North American or Japanese capital and became, in turn, strong economic areas in the world, able not only to take development into their own hands, but seek to expand into neighboring or more distant regions, such as South Korea.

European countries have found a new identity in the context of the European Union, trying, directly or covertly, to not lose their national specificity. Creating a single market and the removal of legal impediments allowed, however, materialize the objective enshrined in the Treaty of Rome stating that "economic and monetary union merger involves their national markets, providing not only free movement community of goods, but also services and capital and labor ...", (Golea, 2002) and expansion outward of each country and will be carried out either by providing services across borders, or by establishing effective economic activities in other countries.

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