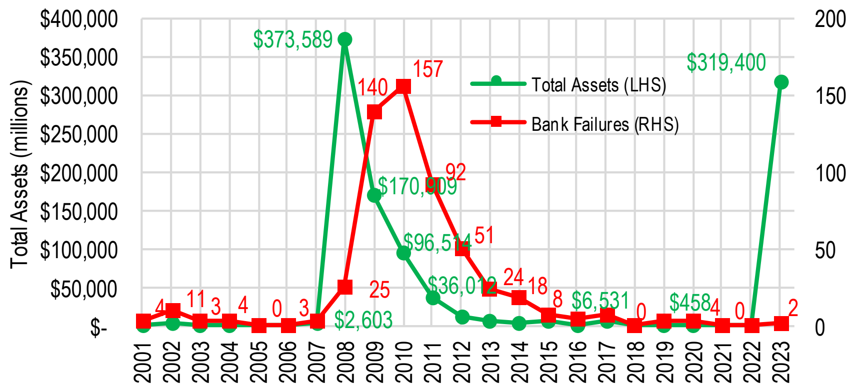
IATA's Chart of the Week

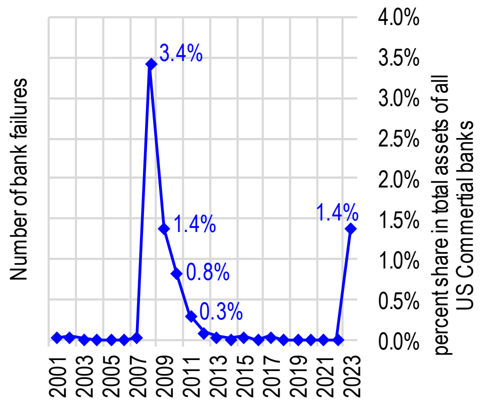
24 March 2023

Assessing recent US banking turmoil

Panel A. Number of bank failures and failed banks' total assets, USD



Panel B. Failed banks' assets, share of total commercial banks' assets, %



Source: U.S. Federal Deposit Insurance Corporation (FDIC), Federal Reserve Bank of St. Louis, and author's calculations.

- The banking unrest that began in the United States earlier this month has raised concerns about the stability of global financial markets. That seems somewhat warranted as in March 2023, the total assets of failed banks surpassed any previous year's total (green line in Panel A), reaching a level not far off the 2008 total. This situation might explain the Federal Reserve's quick and decisive intervention, despite only two banks collapsing (red line). Depositors have received guarantees on all deposits, even those in excess of the USD 250'000 limit pertaining to the habitual deposit insurance, and this should contain the risk of a deeper and broader financial crisis.
- We gain a further insight into the severity of the current situation by looking at failed banks' assets in % of total US commercial banks' assets (Panel B). At 1.4% in March 2023, we are back to the 2009 level, but still well below the 3.4% recorded in 2008.
- The origin of the collapse of the regional banks SVB and Signature bank can be traced to 2018 when rules introduced following the 2008 global financial crisis were eased for regional banks with assets below USD 250 billion. This allowed such banks to expose themselves notably to significant risk in the US Treasuries market which has tended to underperform since the Federal Reserve started raising interest rates at an unprecedented pace. Consequently, the banks' liquidity did not meet the demand for deposit withdrawal, leading to their demise.
- Large banks, particularly those deemed "too big to fail", still face the regulation enacted after 2008, including stress tests, higher liquidity ratios, and limits on risk taking. Today the large banks have substantially higher capital ratios compared to 2008 and this limits the risk of any major contagion from the recent events. However, we note the merger between UBS and Credit Suisse in Switzerland, prompted by a series of high-risk operations by Credit Suisse and its inability to regain the trust of financial markets already shaken by developments in the US.
- While depositors are saved from any loss of their deposits, investors, on the other hand, are exposed to falling share prices of the regional banks in particular. This is a vulnerability that arguably prompted the Fed to limit its rate hike to 25 basis points, rather than the 50 basis points previously expected.
- Hence, the situation remains somewhat fraught, and lingering concerns for the airline industry, as for any other industry, are the potentially tighter credit markets, increased borrowing costs, diminished consumer confidence, and weaker demand. A potential benefit could be a more timid approach on behalf of the Fed going forward.
- Nonetheless, the swift and bold action taken by central banks on both sides of the Atlantic are most likely sufficient at this junction to avoid further contagion.

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