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To End the Nation's Financial Crisis, the Banking System was Evaluated

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Abstract: *This study examines the literature on financial crises with a focus on three key areas. What are the primary causes of financial crises, first? Since numerous hypotheses on the causes of financial crises emphasise the significance of abrupt changes in the asset and credit markets, the paper provides a brief summary of theoretical and empirical research on how these markets have changed in response to financial crises. What are the main categories of financial crises, second. The paper provides a review of the literature that aims to identify these occurrences and focuses on the key theoretical and empirical explanations of four different financial crises: currency crises, sudden halt, debt crises, and banking crises. What are the third question's consequences for the financial and real sectors? The report provides a brief overview of the short- and medium-term effects of crises affecting the real economy and financial sector. It concludes with a summary of the main lessons from the literature and future research directions.*

Keywords: Financial Crisis.

I. INTRODUCTION

This study examines the literature on financial crises with a focus on three key areas.

What are the primary causes of financial crises, first? Since numerous hypotheses on the causes of financial crises emphasise the significance of abrupt changes in the asset and credit markets, the paper provides a brief summary of theoretical and empirical research on how these markets have changed in response to financial crises. What are the main categories of financial crises, second?

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Directions.Concludes with a summary of the main lessons from the literature and future researchdirections. A critical advancement on In order to oversee organisations within the official safety net and enhance how they operate, financial stability forums have been established as committees in each country.

Both macro- and micro-prudential issues are governed by them. Financial stability committees, however, are nothing new, thus it is unlikely that the revival of a formal supervisory group will accomplish everything that is expected of it. We investigate the expectations gap that results from this.

concludes with a summary of the main lessons from the literature and future research directions.

Although it is cliché to state that financial market crises frequently have comparable origins, Reinhart and Rogoff (2009) explain why they do. However, recent experience reveals that very little thought has been devoted to the best way to manage them. One possible explanation is that it is challenging to predict the end points of crises since they appear to spiral out of control. Another possibility is that crisis management requires more focus in order to incorporate lessons learnt into more effective methods to lessen the effects of catastrophic disasters. Despite the fact that lessons from the past don't seem to be helping to influence future paths, there is still a risk of making the same mistakes because there has been a lot learned about crisis management from earlier events.

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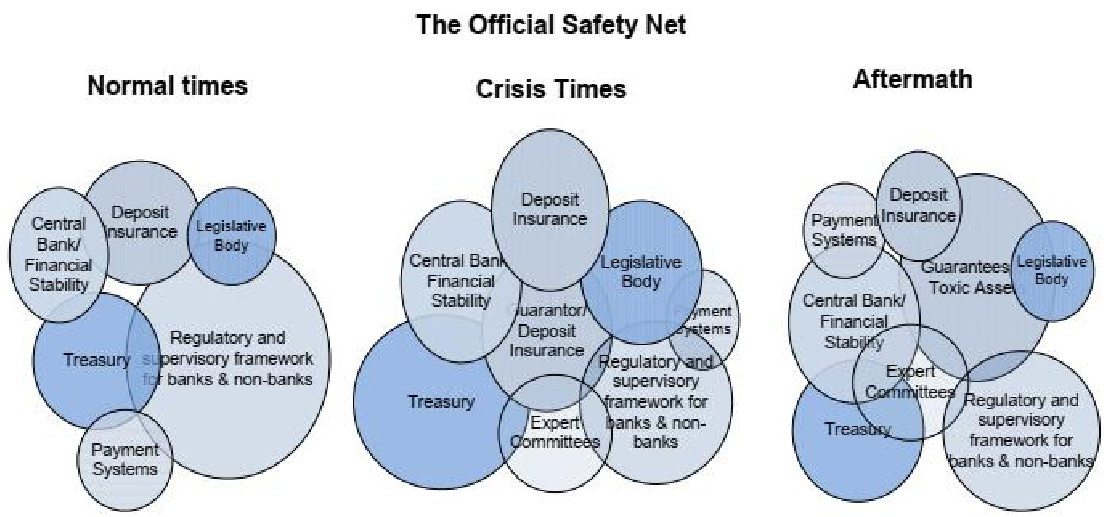
Likenesses on the FSN Players: Their Parts and Errands in Promoting Financial System Constancy

concludes with a summary of the main lessons from the literature and future research directions.

According to the FSAP (2010), IMF (2010), LaBrosse and McCollum (2011), the FSN has flaws. While there were flaws practically everywhere, the European markets had the worst issues, partly because there was a lack of coordination, consultation, and the creation of cohesive policies to deal with the crisis (European Commission, 2010a, 2010b). For these reasons, it's critical to understand up front which organisations should be a part of an FSN, their obligations, and why other stakeholders' interests are also very significant. Simply put, who should be considered the fundamental stakeholders in the financial system and be a part of the official safety net? The response is crucial since a crisis requires a high level of concludes with a summary of the main lessons from the literature and future research directions.

The FSN has typically comprised a central bank as the lender of last resort, prudential a government agency (such as the Ministry of Finance or the Treasury), regulation (by a bank supervisor), and explicit deposit protection (such as insurance or another type of restricted guarantee). However, the recent financial crisis highlighted how somewhat more elastic the group of official safety net players has grown. It is necessary to take into account the roles of the legislative body, non-bank regulators such securities commissions, housing agencies, and insurance business regulators, since their choices may have a significant impact and jeopardise the stability of the financial system. In addition, there are strong arguments for taking into account and engaging other parties in the conversation in order to solve financial system stability.

Figure 1: Official Safety Net Players



Concludes with a summary of the main lessons from the literature and future research directions. The Treasury or Ministries of Finance are particularly interested in the effective the operation of FSNs. The Treasury controls a nation's finances, oversees the government's accounts, and advises on tax policy during reasonably stable periods.

Difficulties with financial sector policy. In light of these responsibilities, it has control over monetary and economic policy. Because of its function, the Treasury is necessarily watched over by the IMF and invited to OECD meetings, where its performance is regularly evaluated. In general, the Treasury will manage a nation's finances in a fair and honest manner. The government can and may well direct the exercise of its discretion with a degree of autonomy or, as in the case concludes with a summary of the main lessons from the literature and future research directions.

The protection of deposits has grown in importance in contemporary banking systems. it plays in a systemic crisis is constrained because it is often built to handle one or a few closures of small or medium-sized banks. What is clear from the present financial situation problem is that, as happened in the UK with Northern Rock, a badly thought-out deposit protection regime can turn a bank failure into a crisis.

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Stakeholders in the Financial Markets

Figure 2: Stakeholders in the Financial Markets

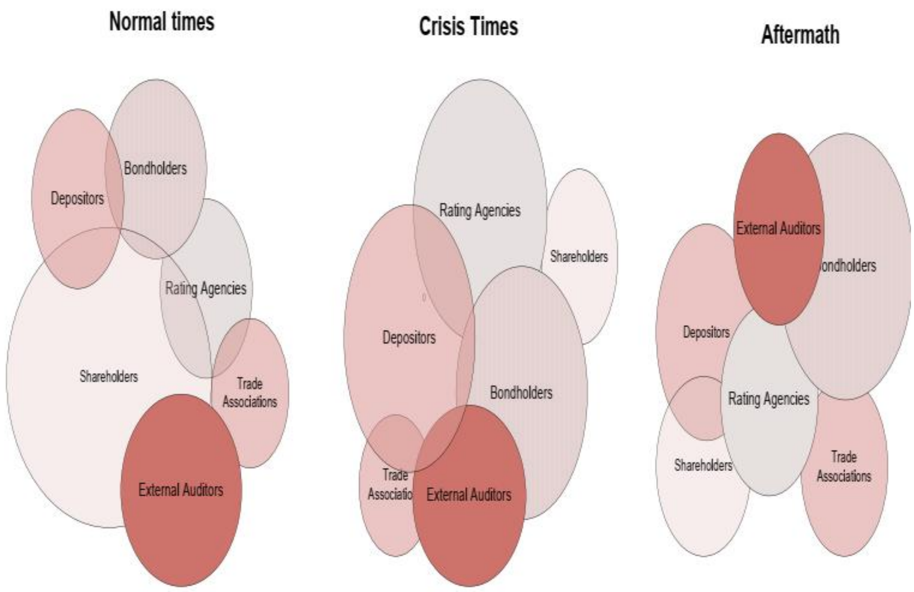

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Figure 2 depicts the dynamics of a few significant financial system stakeholders. Inability of financial intermediaries to raise money on the markets contributed to government intervention during the crisis. Figure 2 only emphasises a few of the stakeholders. It is implied that management's primary concern in typical circumstances is the interests of shareholders and shareholder wealth. The asymmetry in the information that the principals and agents have about one another and how distress affects their institutional interests will also influence how different stakeholders respond.

The job of the external auditor, who is expected to give the party an assessment of the institution's performance, is interrelated.

concludes with a summary of the main lessons from the literature and future research directions. During such times, depositors' interests are not always prioritised by the Despite not having a duty to the shareholders as a whole, the FSN has a broad duty to protect depositors and, to a lesser extent, investors. An illustration is the obligation to enforce regulations and perform monitoring duties to safeguard investors' and depositors' interests.

concludes with a summary of the main lessons from the literature and future research directions.

The requirement to get the markets to choreograph a response that is regarded acceptable without sparking a panic is a key component of the containment process. In many cases, the prudential supervisor is the one who starts the process of recapitalizing a bank. However, the market's faith in the institution will ultimately determine the viability of the rights issue that the institution offers (Ferran 2008; Hupkes 2009). The FSN players may act with public funds to recapitalize the institution if it is not obvious. In these situations, the interests of shareholders and other creditors come first to be eliminated. Bondholders of failing banks will be worried about haircuts and any threat to the institution's credit rating as well.

Crisis Managing and the Decision-Making Procedure:

Concludes with a summary of the main lessons from the literature and future research directions. Dealing with a collapsing financial institution or crises in general is a difficult task that engage a large number of FSN stakeholders and actors. A realistic decision-making tree for handling financial crises is shown in Figure 3. In the event of a crisis (stage), it's crucial to ascertain if it's a material occurrence (stage 2), especially if it involves a bank failure that attracts media attention. If not, there could be no need for action. The failure of a significant bank or a number of smaller or

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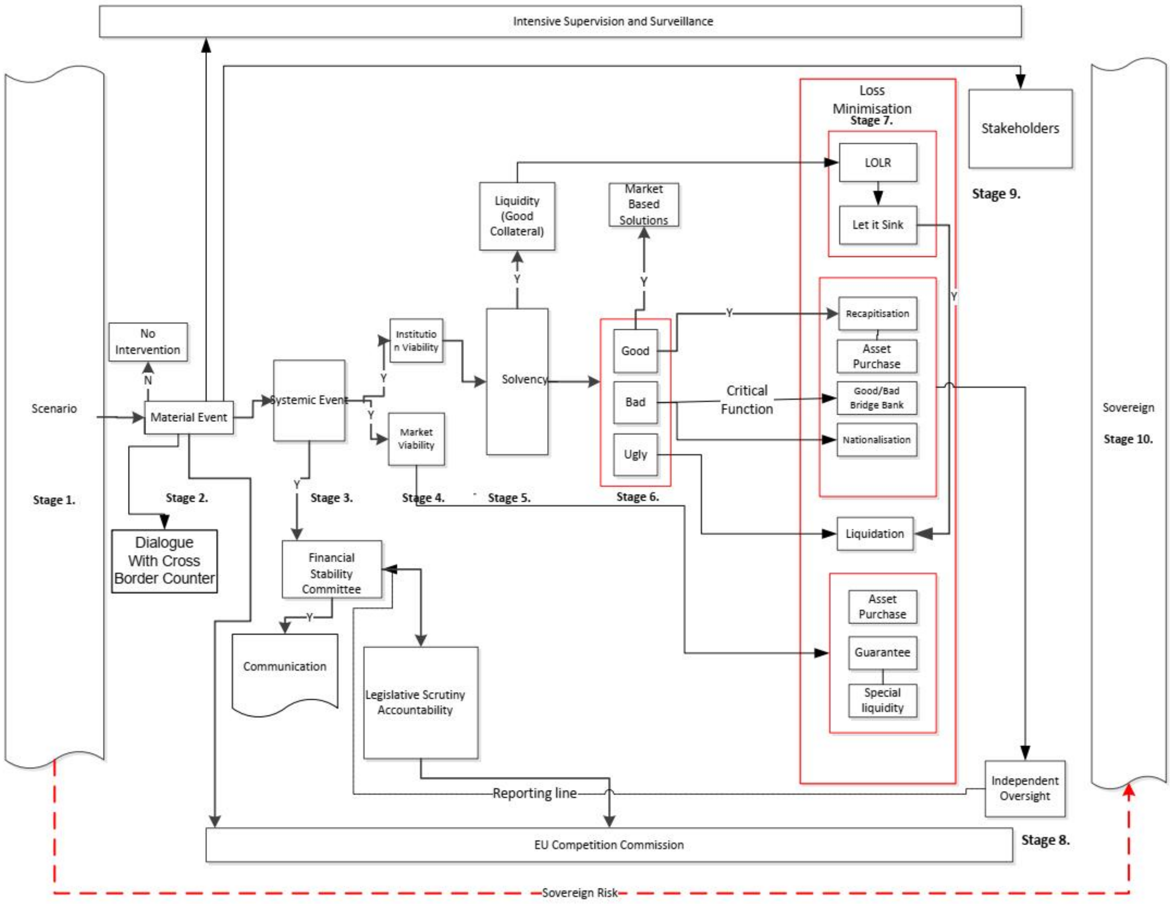
medium-sized banks in a short period of time, on the other hand, could be troublesome and result in a systemic event that could cause a number of subsequent actions.

Figure 3: Decision Tree Surrounding Financial Crisis Management



Concludes with a summary of the main lessons from the literature and future research directions.

Although some sections of a bank's assets book may be "ugly" (non-performing after three months or simply ready to be written off), they may be rehabilitated with the careful attention of a bank resolution agency. By injecting cash or acquiring an equity stake in the property's completion, a bank resolution agency would be able to reduce its exposure to loss if a bank has placed security on a property that would have little to no value after liquidation, for instance. The availability of guidance about bank resolutions has increased, and some of the more crucial aspects have been established based on an examination of best practises and lessons learned.

II. CONCLUSION

Concludes with a summary of the main lessons from the literature and future research directions. Because the stability of markets may be threatened by the potential failure of several banks quickly, we have included market viability in a distinct category with bank viability. We contend normatively that the provision of creative restructuring and resolution powers may not inevitably diminish the need to preserve market viability. Therefore, the FSN players may still be required to intervene in a market with limited liquidity by providing extra liquidity support or by implementing other schemes, such as asset purchase or obligation assurance schemes. Closing numerous banks or non-banks may not be an option if the market as a whole becomes too weak.

Concludes with a summary of the main lessons from the literature and future research directions. The subsections offer choices to restructure the bank, ring-fence the good components from the problems, or recapitalize it. As a last resort,

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the FSN may decide that nationalising the bank is the appropriate course of action if it is possible that the bank is too large to be saved. Making ensuring that the crucial functions are protected is a top priority with these options (Hupkes 2005). The final set of options, offering market assurances, results in contingent liabilities that need to be carefully monitored. Finally, we've established stage 9: The different stakeholders must be taken into account by the FSN because they can significantly influence decisions.

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