A GAME THEORY APPROACH TO OPTIMIZING THE BANKING AND FINANCIAL RESOLUTION FRAMEWORK

Gabriel Mitrache[*]
Bucharest University of Economic Studies, Romania
National Bank of Romania

Abstract

Before the 2007-2008 financial crisis, credit institutions were assured (though not officially or formally) that if they were large enough they would be rescued with tax-payers' money, an action also known as bail-out, denoting what became known as the "too big to fail" paradigm. The introduction of the Bank Recovery and Resolution Directive (2014/59/EU) proposes a legal framework that aims at eliminating the possibility of bailing-out institutions. This paper has the objective of assessing through a game theory approach to what extent the BRR Directive has the potential to achieve its purpose and if there are identifiable possible improvements to this framework that could be considered for practical purposes or for a possible future review of the legal framework. The term institution, for the purpose of this paper, refers to credit institutions but can also be read as referring to other types of financial institutions such as investment firms or insurance companies.

Keywords: *banking, banking union, bank resolution, central banking, bank recovery, bank supervision, BRRD, game theory*

JEL Classification: D04, E61, G18, G21, G28, H12, K23

[*] Corresponding author, Gabriel **Mitrache** – *gabriel.mitrache@gmail.com*
The author of this paper is employed by the National Bank of Romania within the Bank Resolution Department. The opinions and assessments herein presented pertain to the author and should not be related to the views of National Bank of Romania.