Written by **Angeline Tan** on March 17, 2023

European Commission Claims SVB's Collapse Poses No Risk to EU, but Doubts Remain

The collapse of the American Silicon Valley Bank (SVB) poses no "significant risk" of contagion to the European Union (EU), the Commissioner for Economy Paolo Gentiloni declared in an interview prior to a Eurogroup meeting of the bloc's finance ministers on March 13.


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"The overall situation is less negative than expected," Commissioner Gentiloni told reporters, alluding to a comparatively quick recovery from Covid-19, among other issues.

Startup-focused lender SVB Financial Group became the largest bank to collapse since the 2008 financial crisis. Its failure has unnerved global markets.

For example, the pan-European STOXX banking index was down 5.38 percent by 1700 CET Monday after being down more than six percent, extending Friday's losses, when it shed 3.8 percent. Over two days, it lost nearly nine percent, after being down as much as 10.4 percent in afternoon trade and hitting its lowest level since early January.

Yet Gentiloni elaborated that low economic growth and high inflation remain challenges that Europe will have to face.

Monday's Eurogroup meeting agenda focused on discussing the Commission's updated fiscal guidance, authorized a week before. Nonetheless, SVB was not listed on the official agenda. Instead, reporters changed the subject to the collapse of SVB and its potential ramifications on European banks and economies.

"We don't see a specific risk of contagion. Of course, we are monitoring the situation with close contact with the ECB," Gentiloni said, adding that the Commission is observing the initiative taken by the U.S. authorities to prevent the crisis from spreading.

Despite mentions that some European markets have already displayed signs of being affected by the SVB collapse, the Commissioner reiterated his stance, saying that there is no "real risk of contagion at the moment in Europe."

Paschal Donohoe, the head of the group of eurozone finance ministers known as the Eurogroup, echoed Gentiloni's statements, saying on Monday that Europe had "no direct exposure" to SVB.

Likewise, the EU finance ministers appeared upbeat about Europe's prospects regarding SVB. Belgium's Deputy Prime Minister and Finance Minister Vincent Van Peteghem said the bloc's internal regulatory mechanisms should prevent any grave contagion from the U.S. financial market. "We have a very clear European regulatory framework … which helps us to keep trust in the banking system," he stated.

Antonio Fatas, Professor of Economics at INSEAD business school, opined that he did not anticipate a systemic risk in Europe from SVB's collapse.

"The fundamental difference is the type of regulation and stress tests that we do in Europe are more strict," he told Euronews Next.

"I think in Europe, we're a little bit more systematic when it comes to regulation. I think that's good news," Fatas said.

However, the Irish Minister for Finance seemed more muted in formulating his opinion. "I think we're still in the very early days of seeing the consequences of the effective collapse of [the SVB] and I think it will take some time for a full assessment to be done," Michael McGrath said in an interview about the default's possible consequences for EU inflation. "But we have seen the cost of borrowing rise in Ireland and all other EU member states in recent times, and that just underlines the need for us to manage the public finances carefully."

Notwithstanding the European Commission's efforts to be optimistic about Europe's prospects following the aftermath of the SVB collapse, the reality appears to be more complicated. While the bank's default may seem to be a mostly one-off incident that does not undermine the EU, observers posit that more scrutiny should be carried out to see if such a collapse could happen in Europe as well.

Markus Ferber, a German MEP for the European People's Party, stated that a more comprehensive evaluation of the situation would be necessary in the following days, to see "if European lenders could be vulnerable to interest rate shocks" comparable to what undermined the SVB.

The fall of the California-based SVB last Friday has already led to a domino effect in the United States, with Signature Bank defaulting soon after. Other banks, such as the First Republic Bank, lost up to 70 percent of market value.

"The name of the game is containment now," Ferber said. "Panic is infectious and must not be allowed to spread."

Nonetheless, Peter Warburton, the chief economist with the research group Economic Perspectives, contended that people have the right to be concerned, as the Federal Reserve has miscalculated the ramifications of high interest rates and the selling of bonds.

"Short-sellers and deposit withdrawals have brought down SVB, but the problem is systemic. The Fed has been removing chairs and there is no longer adequate seating capacity," Warburton asserted.

Meanwhile, France has claimed there is no worry that its banks including Societe Generale SA and BNP Paribas SA will be impacted by SVB's collapse.

The failure of SVB is not a systemic event, and there is no particular fear about a potential contagion to the French financial system, a Finance Ministry official told Bloomberg News Sunday, adding that the ministry was unaware of any direct exposure of the nation's lenders to the California-based bank.

On Sunday, U.K. Prime Minister Rishi Sunak also maintained that there was no contagion risk to U.K. banks, as the government works "at pace" to find a way to protect the country's technology and life-sciences industries.

SVB, which had branches in the U.K., China, Denmark, Germany, India, Israel, Canada, and Sweden, did not have one in France.

Despite assurances from the Democrat-controlled U.S. government, SVB's collapse has nevertheless sent European bank stocks plummeting.

Also, the Kremlin in Moscow said on Tuesday that there is no risk to Russia from the SVB failure in the United States because the country is now mostly isolated from the Western financial system due to sanctions on its economy.

When questioned if Russia was vulnerable to the fallout of SVB’s default, which has affected financial markets in the United States, Europe and Asia, Kremlin spokesman Dmitry Peskov said, “There are practically none right now.”

He elaborated, “Our banking system has certain connections with some segments of the international financial system, but it is mostly under illegal restrictions,” alluding to Western sanctions on Russia’s economy and most of its major banks.

“We are, to a certain extent, insured against the negative impact of the crisis that is currently unfolding overseas,” Peskov told reporters.