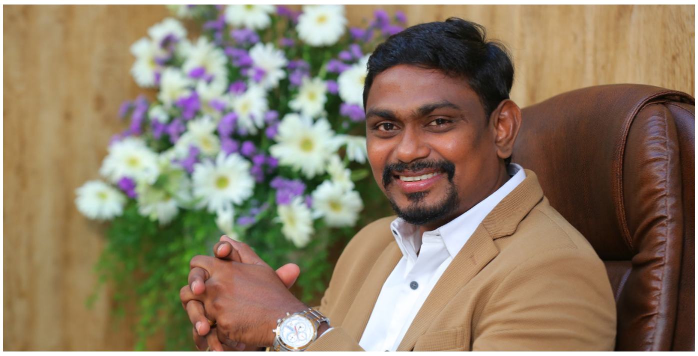
I - CAN - IDEATE

IDEAS THAT HELP US GROW TOGETHER

MAY 2023

FROM THE DESK OF GENERAL SECRETARY

RAVI KUMAR K



Dear Canpals,

We are a part of Canara Bank - the prodigious organisation with exceptional roots and high-spirited employee engagement, coupled with strong fundamentals. The entire Banking Industry is looking at us with admiration, on witnessing our swift and humongous growth. Our Canpals have been the mainstay behind every massive historic moment. Under the able leadership of our beloved MD & CEO and through your untiring, dedicated and committed efforts, we have successfully completed financial year 2022-23.

Friends, in this first edition of our newsletter for FY 2023-24, our editorial team has researched on Global Banking Crisis that has impacted major US based banks and their impact on World and Indian economy. The banking crisis of 2023 has been triggered by a range of factors, including rising debt levels, low-interest rates, and the ongoing impacts of the COVID-19 pandemic. These factors have combined to create a volatile and unstable financial system, with many global banks struggling to meet their obligations and stay afloat. Whether our Indian economy is strong enough to face the upcoming recession? Our editorial team has come up with status quo of International Banking Arena and the strength of Indian banking System which will guard our economic safety and freedom in the days ahead.

Happy Reading and Happy Learning!

INTERNATIONAL BANKING ARENA

Banks are the spine of any economy. Think - what if the spine quivers?

Of late, frequently we have come across the term “Failure of Banks” – The term which makes every individual to think about their future. Let us have a look at few major Global Bank collapses which happened recently.

SILICON VALLEY BANK

With assets to the tune of $212 Billion (As on 31st Dec 2022), SVB is the 16th largest bank in USA, which commenced operations in the year 1983 to fund Start-ups through Venture Capital and also private banking services to HNI.
Reason for Collapse: The rise of FED rates and high deposit outflows made SVB Financial Group to announce the sale of $2.21 Billion shares and it also said it has sold $21 Billion worth of its securities from its portfolio. Due to this, a loss of $ 1.8 Billion occurred after TAX. Upon this blazing up customers started withdrawing money from SVB due to fear of Bankruptcy, which initiated the share price fall to an all-time low at $0.40 from 52 weeks high at $600 per share.

SIGNATURE BANK

The bank which started in the year 2001 provide digital services in form of creation of digital assets for its clients. Till the end of the year 2022, the bank has 40 branches spread across the country with $110.36 billion in assets and deposits to the tune of $88.59 billion.
Reason for Collapse: Regulators shuttered Signature Bank on March 12th,2023 after its depositors had withdrawn billions following the collapse of SVB. Depositors panicked after SVB failed because Signature had high amounts of uninsured deposits and was exposed to the crypto sector. The signature bank is taken over by the New-York Department of Financial Services.

CREDIT SUISSE

Zurich-based Credit Suisse was one among a group of 30 banks known as globally systematically important and find traces its history to 1856 and it was founded to finance the expansion of Swiss railroads.

Reason for Collapse: Despite its long history, Credit Suisse was plagued by a series of scandals, management shifts, and significant losses in recent years. When the chair of Saudi National Bank, Credit Suisse's largest shareholder, subsequently ruled out further investment, deposits flowed out and the share price collapsed. The larger and long-time rival of Credit Suisse, UBS Group have agreed to take over the bank.

IMPACT ON THE INDIAN ECONOMY

The collapse of US Banks will have very minimal effect on the Indian banks as the Indian banking system is more insulated and regulated under the supervision of RBI. As per the report submitted by the Reserve Bank of India through Financial Stability Report in the year 2022, "The Indian Banks are able to deal with Credit risk or Minimal Capital Requirements even in severe stress scenarios due to better regulation".

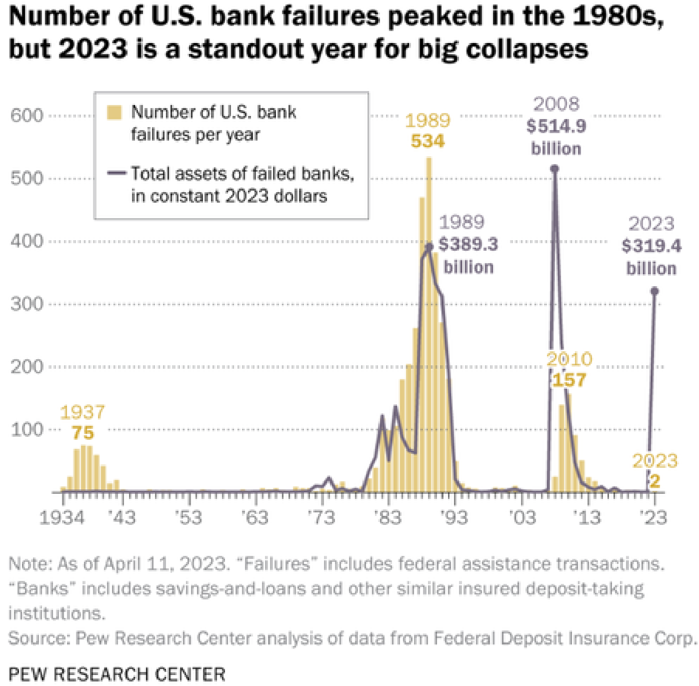
THE FIRST REPUBLIC BANK

The lender is rooted in San Francisco, founded in 1985, is known for its private banking and private business banking services and they were also into wealth management affiliates that offer investment and wealth management services.

Reason for Collapse: It all started when the bank's rating was downgraded by Fitch and S&P recently, citing risks to its funding and liquidity. Share of the bank slumped on fears of a bank contagion. Fitch downgraded First Republic Bank to 'BB', and placed it on negative watch. It said that First Republic's deposit concentrations were viewed as a rating weakness.

GLOBAL IMPACT OF CONTINUOUS FAILURES

SVB's collapse has had a knock-on effect in international markets, impacted the reputation of SVB's international partners and brought uncertainty for its overseas employees.
SVB crisis causes bloodbath across global financial stocks. It triggered traders and investors to panic sell on all financial markets. Global financial stocks have lost $465 billion in market value in two days as investors cut exposure to lenders from New York to Japan in the wake of Silicon Valley Bank's collapse. All major indices took a hit.



Gold's spot price saw a 2.06% increase, the highest intra-day gain since November 2022.
The US and European economies were already experiencing stagflation: high inflation and slowing growth. The banking crisis will worsen the stagflation and possibly tip the US and Europe into recession. Many of the world's leading technology companies which relied on SVB for essential financial services such as lending, cash management, and investment banking are finding it difficult to get a replacement that could provide comparable services, particularly in the short term.

With the failure of this bank, it has led to a loss of confidence in the United States' ability to maintain its position as a leader in technology and finance. This loss of confidence raises some question of the United States' ability to maintain its global influence.

REASONS WHY INDIAN BANKS WON'T FACE THE HEAT

1. **Indian banks have very low exposure to the collapsed Banks**
2. **Better Capital Position**
3. **Low NPA**
4. **Strong CRAR**
5. **RBI's less aggressive policy than the Fed**
6. **RBI caps HTM at 23 percent of deposits. Secondly HTM had MTM gains when interest rates went down. Also, interest rates in India were never zero so there cannot be any dramatic loss.**
7. **Above all Trust of Indian Citizens towards PSBs**


Mid-sized banks that are more exposed to specific industries or customer types, especially tech startups and the cryptocurrency industry, are more likely to face the turmoil of SVB collapse.

European banking stocks have been sinking following the news of SVB's collapse. The bank's presence in Europe was mainly concentrated in the UK, where its London-based subsidiary, Silicon Valley Bank UK, was established in 2012. Not long after the collapse, the subsidiary was subject to a hurried takeover by HSBC that was brokered by the government to avoid a massive fallout for UK startups. Europe may see more of an impact on the venture debt front.

Israel from the middle east, where the majority of the country's startups were clients of the bank. Many of VC-backed companies have been transferring money out of the country in recent months in the wake of the judicial reform controversy—a significant portion of which is likely to have landed with SVB.

In the broader, Asia region seem to have been impacted minimally. The potential impact of SVB's failure is likely to be felt the least in Africa, because of its minor presence. In particular, investors will remain very cautious, and will continue to doubt the financial stability of the midsize US banks in the days ahead. Things will get even more complicated if there are bank failures in the European Union. EU banks are vulnerable to similar risks given that ECB has been tightening monetary policy as well.

>>> PREDICTED ECONOMIC EFFECTS

There would be an impact on the stock market though as the sentiments get imported into India with the fear that this may lead to a financial crisis. The startup ecosystem would also be impacted and may lead to further stiffening of funding at least temporarily.

The negative impact can be seen in Indian Tech-based start-ups or IT firms and Indian investors on SAAS(Software as a Service provider Start-up). The collapse of Silicon Valley Bank (SVB), the largest vendor in the startup ecosystem, is likely to adversely impact the Indian startup scenario as well as it has injected a lot of uncertainty in the sector overnight, say industry experts.

There will be a surge in demand for “safe” assets such as gold, while the currencies of emerging economies like the Indian rupee will come under pressure as foreign investors flee these markets. The rupee has depreciated a fair bit in the last one year and this trend may intensify. The decline in crude oil prices may have a short-term positive impact on the Indian economy, as it relies heavily on oil imports.

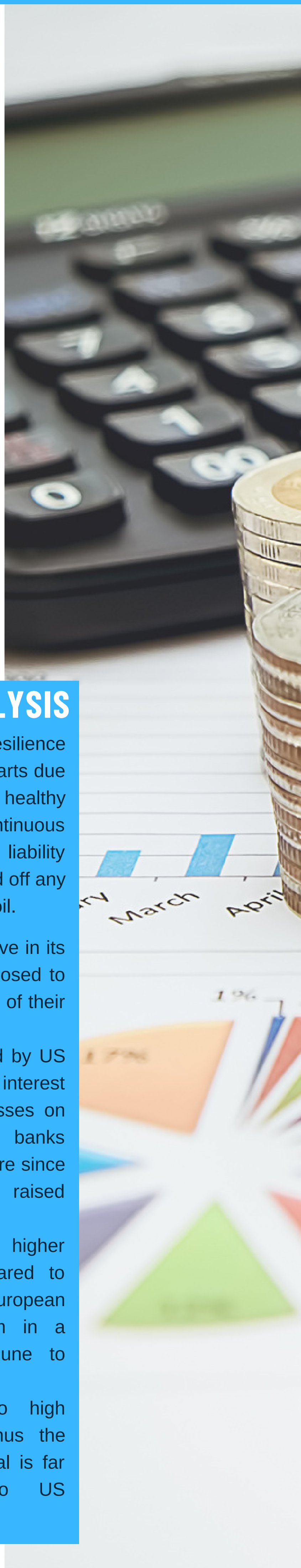
Exports, which bailed out the Indian economy during the pandemic, will take a beating, if the recession impacts more countries globally.

Finally, if the Fed abandons its fight against inflation, this too will be problematic for India because we end up importing high inflation from the countries we trade with. This would aggravate domestic inflation, at a time when it is already running at 6.5%, well above the Reserve Bank of India’s 4% target.

ANALYSIS

Indian Banks have shown resilience compared to their US counterparts due to their higher capital levels, healthy asset quality and continuous monitoring of asset liability management by the RBI to fend off any impending risks by global turmoil.

- RBI has been less aggressive in its monetary tightening as opposed to the FED which led to failure of their two prominent banks.
- One of the pressures faced by US Banks is the sharp rise in interest rates leading to market losses on their portfolios but Indian banks have not faced such pressure since their rates have been raised significantly less.
- Indian banks also have higher CASA deposits as compared to their US and European counterparts placing them in a robust position and immune to global instability.
- Indian PSB's have also high liquidity coverage ratio thus the chance in erosion of capital is far less as compared to US counterparts.



CONCLUSION:

The capital position of the banking system in India is strong enough to protect itself from any external crisis.

NPA levels in Indian banks especially PSB's have shown a remarkable decline in the last few quarters which has led to strong capital-to-risk weighted assets ratio (CRAR) and high liquidity coverage ratio.

The exposure of Indian banks to the recently failed banks is very low and hence would not require any significant stimulus measures by either RBI or the central government.

> "THE TRUST OF OUR INDIAN CITIZENS TOWARDS PSBS CANNOT BE UPROOTED VERY EASILY"

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