



Silicon Valley Bank's collapse

Description

Theme:

- On 10th March 2023, one of the largest US banks, Silicon Valley Bank (SVB) collapsed, failing to meet its financial obligations to its creditors and depositors. This is said to be the biggest bank failure since the 2008 banking crisis.

What caused SVB's collapse?

- SVB had invested in long-term government bonds, but after the US Federal Reserve increased interest rates, the value of the bonds fell by \$15 billion because they paid lower interest rates than comparable bonds issued in today's higher interest rate environment.
- During the same period, SVB's deposits dropped by \$20 billion in just three quarters.
- SVB's customers are typically tech startups who were finding it difficult to obtain loans at reasonable rates, so they began to withdraw their deposits from the bank.
- To provide customers with their money, SVB had to sell their long-term bonds before their maturity date, resulting in a loss of \$21 billion.
- This caused panic among the bank's investors, including venture capitalists such as Peter Thiel Fund, COATUE management, and Union Square Ventures, who began withdrawing their investments from the bank. Ultimately, this led to the collapse of Silicon Valley Bank.

Consequences:

- Many startups and venture capital firms rely on SVB for financing, banking services, and other support. The fall of SVB will disrupt the flow of capital to these companies and potentially cause them to fail.
- SVB is a major player in the tech industry and its failure will cause a ripple effect throughout the industry and the broader economy. SVB's collapse will trigger a broader financial crisis in the tech industry and beyond, similar to the collapse of Lehman Brothers in 2008.
- The collapse of SVB can damage investor confidence and lead to a downturn in the stock

market.

- SVB plays a critical role in financing and supporting many innovative and high-growth tech startups. Without access to financing and other services provided by SVB, these companies may struggle to continue to innovate and grow, potentially leading to a reduction in innovation & growth and a loss of jobs and economic activity.

Effect of SVB's collapse on India:

- Indian banks were not invested in SVB and SVB did not have any of its portfolios in any Indian bank. This means that Indian banks are not directly exposed to any financial risks related to the collapse of SVB.
- Indian banks are well-regulated and supervised by the Reserve Bank of India, which has implemented various measures to ensure the stability and safety of the Indian banking system. These regulations and measures make Indian banks relatively insulated and better equipped to handle any potential shocks or disruptions in the financial sector.
- The main damage is to the Indian startups that had invested in SVB, as it is estimated that they have collectively lost around \$1 million.
- The collapse of SVB may impact the sentiment of global financial markets in the short to medium term, as it could be perceived as a negative development for the technology industry and investor confidence. However, it is unlikely to have a significant impact on Indian equity markets in the long term.
- The venture capitalists and other investors may become more cautious and risk-averse, which would make it harder for startups in India to acquire the investment they need to establish and scale their businesses. However, this will be temporary, and the ecosystem will rebound as investor confidence returns.

Conclusion:

The tech sector and the overall economy would be significantly impacted by the failure of Silicon Valley Bank. It is undeniably the policymakers' fault for wildly printing money and then raising interest rates without considering the impact on financial stability.

Although the collapse of SVB may not significantly impact the Indian financial market, it is important for India to learn from this situation and take necessary measures to avoid similar crises in the future. India needs to develop a framework to monitor risks and intervene early in case of a bank crisis. Furthermore, it should ensure that taxpayers are not directly or indirectly burdened in the event of a bank failure, as is the case when SBI and LIC purchase shares of troubled banks.

Your Turn...

What's your take on the Silicon Valley Bank's crisis? Express your point of view through the comment section below. And subscribe to our blog to read answers to the trending GD topics.

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References:

- [Why India need not worry about Silicon Valley Bank's collapse, but must learn from it](#)
 - [Silicon Valley Bank collapse: No major impact on Indian banking system, say experts](#)
 - [Effects of the Silicon Valley Bank Collapse](#)
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