

FORUM: Economic and Social Council
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Introduction

The current inflation rate (June 2023) in the US is 3.0%, indicating a significant decrease from its peak in 2022 which the inflation rate was risen to 9.1%. This decline in the inflation rate is attributed to factors such as increased employment, rising wages, and household income growth, leading to an increase in consumer spending and GDP growth, which in turn boosted overall demand. As a result, businesses have had the opportunity to raise prices of goods and services in order to maintain profitability.

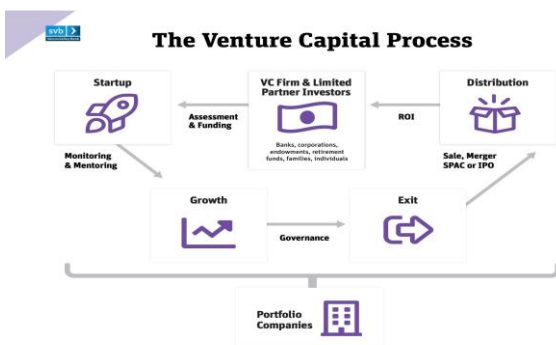


United States Inflation Rate

According to the Reserve Bank of Australia, inflation is driven by factors such as job growth and wage growth, and this can have an impact on household income and consumer behavior. When people earn more money, they tend to spend more, leading to an increase in demand for goods and services, and consequently resulting in a higher inflation rate. This leads to an increase in consumer spending and GDP, increasing aggregate demand. As a result, companies have the opportunity to raise the price of their goods and services to remain profitable. This dynamism can have both positive and negative impacts on the economy.

One important aspect affected by inflation is the banking sector. Because higher inflation often leads to higher interest rates, and if the interest rates rise too high, it can hurt banks' profitability. For example, an increase in interest rates can reduce the demand for new loans and refinancing from borrowers, affecting

both the debt costs for borrowers and the value of investment securities held by banks as assets. Ultimately, this makes borrowing and lending money more expensive for customers at the bank. Silicon Valley Bank (SVB) was a State-charted commercial bank headquartered in Santa Clara, California. It was a bank which specializes in financing and banking for venture capital-backed startup companies, especially



SVB's stages of raising Venture Capital



technology companies. Startups, especially technology companies, often face higher risks and have unique financial demands, which Silicon Valley Bank (SVB) catered to. The bank relied significantly on deposits as a source of revenue and played a crucial role in supporting and funding numerous venture-backed technology companies in the United States.

Background



Depositors moving their funds out 1

The Silicon Valley Bank collapsed within 48 hours on March 10, 2023. SVB, Silicon Valley Bank, was the 16th largest bank in the United States which means its achievements was noticeable in the banking sector. According to the Federal Deposit Insurance Corporation (FDIC), SVB had assets totaling \$209 billion at the end of 2022. Many of the most innovative and rapidly growing companies in the technology sector have benefited greatly from the financial services provided by SVB. Nearly half of American venture-backed technology and healthcare

companies were funded through it.

But once interest rates increased, problems started to emerge. When interest rates started to climb sharply and more startups were borrowing money and withdrawing it, SVB had an abundance of deposits since it had purchased long-dated asset-backed securities at historically low rates. These deposits prompted SVB to sell its illiquid securities, which were invested in long-term fixed-rate securities and will ultimately result in a loss for SVB. Due to the widespread dissemination of information on SVB's crisis through social media, the situation has worsened. Entrepreneurs influenced by these reports have borrowed more money from SVB to sustain their ongoing operations, exacerbating the vulnerability of the bank.

Not only those, but the lack of diversification could also be the reason for this collapse. The increasing interest rates have led bonds and treasury values to decline since SVB has heavily relied on long-term US treasuries and agency mortgage-backed securities.

Even the fundamental economic issue has prompted concerns about SVB's failure. According to several business writers, social media platforms' role in SVB's collapse differentiates it from prior bankruptcies.

Problems Raised

Impact of SVB collapse on startups and innovation

Due to SVB's long history of investing in and assisting startups, startups will be highly impacted by SVB's collapse. For small and medium-sized businesses, this tragedy is like losing their main stockholders because it wasn't simple for banks to invest as much in startups as SVB did. The sudden closure of the bank has thrown their business into disarray. Employees cannot be paid since their company's money are stuck in SVB. According to Y Combinator, about 10,000 startups with accounts at SVB could face payroll issues, resulting in 100,000 job losses. Moreover, since the technology industry heavily relied on the funding of the bank, the collapse of SVB could potentially impact the development of new and more advanced technologies. Lack of funds can hinder innovation and delay progress in the field of technology.



Collapse of Silicon Valley Bank

Delayed Interest Rate Hike on Economic Growth

Many analysts expect the federal government to hold back on raising interest rates due to this issue. This might lead to slower economic growth in the U.S. Moreover, Michael Feroli, chief U.S. economist of JPMorgan, has expected: “a bigger hit to other surrounding midsize banks and further recommends them to restrict lending because of concerns that the SVB episode would increase regulatory scrutiny of their practices.” This statement has shown the significance of Silicon Valley Bank and its impact on the whole bank sector surrounding SVB. If subsequent collapse follows SVB, the concerns of spreading across the globe might be real, which might lead to a U.S. recession.

Federal Deposit Insurance Corporation (FDIC) Insurance Limit

Even though The Federal Deposit Insurance Corporation (FDIC) has backed each depositor maxing out at \$250,000, the vast majority of SVB's customers were businesses with more than that on deposit at the bank. For company accounts, \$250,000 is not much as they may spend millions monthly. Moreover, it was unclear how many deposits were above the \$250,000 insurance limit. Big companies that invested much money in SVB must have been hit hard by SVB's fall. They may have yet to be able to pay their employees properly or they may have to compete fiercely to revive their company from short-term or long-term financial difficulties.



International Actions

U.S. guarantees all deposits

In a statement, U.S. President Joe Biden stated that he commanded the federal government to make sure that all the money owed to customers of Signature Bank, New York State, and Silicon Valley Bank in California would be paid back. This measure is significant because, unlike the insurance of up to \$250,000 applied to US bank accounts, emergency programs implemented by federal financial institutions, including the Treasury Department, guarantee all customer deposits. All customer deposits will be covered by the emergency program put in place by the Treasury Department and other Federal economic agencies. As a result, many benefits have been received due to this measure, enabling individuals to fulfill financial obligations, including wages and expenses. However, there has been a great deal of argue surrounding this emergency program because some people believe that the U.S. government must act to stop a bank run if customers have more than \$250,000 deposited in other financial institutions.

SVB Branches

SVB has branches in Canada, China, Denmark, Germany, India, Israel, Sweden, and the United Kingdom. Various governments emerged into action to assess the situation in regard to the damage caused by SVB's failure. For India, over 60 startups backed by the American startup accelerator Y Combinator (YC) have secured over \$250,000 in SVB, and well over a dozen have secured over \$1 million. In response, India's state minister of technology, Rajeev Chandrasekhar, spoke that he would meet with startups to assess the damage this week. For China, many of these companies were in the biotechnology industry, and they have rushed to reassure jittery investors. Even SVB's joint venture in China has stated that its operations are "stable" and "independent." Meanwhile, other startups are seeking alternative banking options. According to a manager at a Chinese venture capital fund with deposits at SVB, few banks are venture capital friendly. Nonetheless, the market space vacated by SVB will be filled by the subsequent bank, presenting an opportunity.

Key Players

USA-Federal

In the scathing 114-page report, the Federal Reserve had admitted that they were also to blame for Silicon Valley Bank's failure. To be specific, the weakened regulations and lax government supervision has led to the failure of SVB. Since the Federal Reserve are trying to grasp the reason of the problems at



Silicon Valley Bank, and the truth that the economy of USA will highly affect other countries' economics, USA should highly be active in resolving these issues.

India

India ranks among the top five nations in 29 of the 44 critical technologies; moreover, it is now known as a startup hub with 90,000 Startup and \$30 billion unicorn companies. SVB had played a crucial role in attracting foreign investors to India's shores, so its failure was likely to have far-reaching effects on a variety of aspects of the country, especially foreign investments. However, according to numerous experts, the collapse of SVB had little effect on India's economy. In response to the failure of SVB and its repercussions on India, the government has swiftly taken measures to mitigate the effects. As India's economic resurgence could serve as a model for other nations, their role in advising affected nations will be crucial.



Flag of India

Social Media

Even though SVB's poor management and the Federal were the primary causes of the SVB crisis, some experts believe that the widespread availability of online banking and the viral nature of social media accelerated SVB's demise. Considering the role that social media played in the demise of SVB, there will be a growing need for financial institutions and regulators to improve their communication strategies and crisis management plans. This may include financial institutions monitoring social media platforms to promptly recognize and fix misinformation and to mitigate the impact of potential bank runs. However, there are still some concerns that regulating social media is impossible. The reason is that any attempt to do so will be seen as an attack on a person's right to express themselves.

Possible Solutions

Enhancing Financial Awareness

Spreading the importance of 'Diversify', increasing awareness of economics. Through the failure of this Silicon Valley Bank, venture companies should notice the importance of diversifying their money. The more the company grow, the more they need to include redundancy on the banking side. According to the research, it shows that the lack of knowledge toward business and the rapid spread of news in Social Media Platforms has caused the tragedy of SVB. Therefore, not only for the employees in bank,



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but the customers should also learn the basic knowledge about the relationship between bank and the business to ensure they are making a wise choice.

Diverse services tailored to startups

Many startups were lack of access to large banks, and instead relied on community and regional banks to meet their needs. SVB was uniquely situated to support the startup ecosystem, offering more favorable terms for loans and connections for founders. It is true that Startups play the most crucial role in an economy since they boost economic activity through technological innovations. This innovation can eventually improve the GDP of an economy. It will be necessary to alleviate the uncertainty caused by SVB's collapse while meanwhile preparing an alternative service. A solid framework that will complement SVB's shortcomings and support startups and the lagging economy.

Strengthen Regulation

Numerous economists have emphasized the need of government supervision. In the case of SVB, the Federal Reserve's extra interest rates had a significant impact on its collapse. To be more specific, the fundamental cause of SVB's downfall was unrealized losses on their balance sheets. The losses were mainly attributed to investments such as US Treasury securities, which were under water on paper due to interest rate rises. Such paper losses are common in the industry and The Federal Deposit Insurance Corporation (FDIC) estimates that more than \$600 billion in such losses are lying on U.S. bank balance sheets. This indicates that, even for banks smaller than SVB, there is a strong probability that bad regulation may have systemic consequences.

Glossary

Silicon Valley Bank (SVB)

As a local bank in the Bay Area, SVB provided services customized to the demands of the tech sector. As a result, it grew rapidly to be Silicon Valley's largest bank by deposits and the bank of choice for nearly half of all venture-backed tech startups.

Gross Domestic Product (GDP)

The sum of the market value of the final product produced within a country's territory over a period of time.



The Federal Deposit Insurance Corporation (FDIC)

An Independent agency created by the Congress to maintain stability and public confidence in the nation's financial system. They insure deposits, examines, and supervises financial institutions for safety.

Venture Capital (VC)

A type of private equity financing provided by venture capital firms or funds to startups with high growth potential or that have demonstrated high growth.

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