

## Did you know?

## The Banking Crisis

Three U.S. banks and Swiss banking giant Credit Suisse failed in March 2023, causing banks' stock and bond prices to be battered by the crisis:

### Can fall of three US banks create a 2008-like financial crisis?

The speed at which regulators acted over the weekend to address the situation suggests they may be worried about potential ripple effects. The Wall Street crisis of 2008 and the 1929 financial crisis began with the failure of one or two banks.

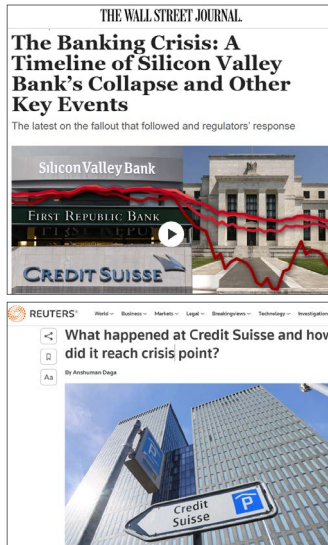
### Three U.S. Banks Collapsed in a Week. Here's Why Others Might Follow.

Global markets fear that other banks will fail after the collapse of Silicon Valley Bank, Silvergate and Signature Bank in New York. Here's why.

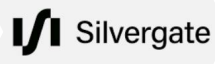




The recent banking crisis has sparked market disruption, leading to increased levels of volatility and uncertainty in the overall economic landscape and financial markets.

The banks that recently failed all had one thing in common - a large portion of their deposits were in long-term investments that lost value as the Federal Reserve pursued its nine-time interest rate hike (since March 2022 when rates were near zero, to a range of 4.75% to 5% today).

The collapse of four banks have reignited the fear of recession risk. Rising interest raises the cost of borrowing and discourage consumer spending. It could also cause corporations to default on debt or breach certain covenant such



as interest coverage ratio that forces companies to restructure their debt at a higher cost. And if banks become conservative from these events, it makes it harder for businesses and individuals to borrow money, which ultimately leads to recession risk and slower growth. The series of events has also caused other countries such as India, Australia, Canada and Indonesia to pause any further increase in interest rates.

				
<b>Silvergate Capital</b> <b>8 March 2023</b>	<b>Silicon Valley Bank</b> <b>10 March 2023</b>	<b>Signature Bank</b> <b>12 March 2023</b>	<b>Credit Suisse</b> <b>19 March 2023</b>	<b>Swift response to banks failure</b>
<p><b>Silvergate</b>, a crypto bank</p> <p><b>Fall of Silvergate</b> In the wake of FTX crypto collapse, Silvergate crypto clients scrambled to withdraw deposits which forced the bank to raise cash by selling debt securities at a loss which ultimately led to a collapse.</p> <p>Silvergate has plans to made full repayment to depositors, hence the depositors will be made whole without government intervention.</p>	<p><b>Silicon Valley Bank (SVB)</b>, the central lender to Silicon Valley startups and a bank with \$209 billion in assets</p> <p><b>Fall of SVB</b> SVB collapsed into receivership due to inadequate liquidity and insolvency, as a result of a bank run and losses in bond portfolios.</p> <p>The Federal Deposit Insurance Corporation ("FDIC") announced full protection of all deposits held with SVB and Signature, while the Federal Reserve announced additional funding up to US\$25 billion through the Bank Term Funding Program (BTFP).</p>	<p><b>Signature Bank (SB)</b>, a New York-based bank with ties to real estate and the legal industry</p> <p><b>Fall of SB</b> In the wake of the SVB failure, SB's panicked customers withdrew billions of dollars to move their funds into bigger banks leading to a trading halt.</p> <p>Shortly after, Swiss Financial Market Supervisory Authority swooped in to broker a deal with UBS to takeover CS in order to shore up Switzerland's financial system.</p>	<p>Swiss investment bank UBS Group AG agreed to buy Swiss banking giant <b>Credit Suisse (CS)</b> for CHF 3 billion (US\$3.2 billion)</p> <p><b>Fall of CS</b> Market panic spread and this led to a selloff in shares of banks around the world, including CS which has been plagued by a series of scandals had seen its stock slumped as much as 24% and experienced a bank run in the week leading to its collapse. Its largest shareholder, Saudi National Bank, ruled out investing any more in the company.</p> <p>Despite the efforts made by Swiss National Bank to throw a lifeline of CHF 50 billion, the credit line failed to restore confidence.</p>	<p>The U.S. Federal Reserve established a Bank Term Funding Program to offer loans of up to one year to eligible depository institutions to prevent a domino effect. Global industry regulator such as Canada, England, Japan, Switzerland and European banks have taken steps to provide extraordinary liquidity.</p> <p>U.S. President Joe Biden has made statements about the bank failures and reassured that the U.S. banking system is safe, and the banking crisis had calmed down.</p>

## Will the banking crisis affect Southeast Asia **capital market**?

In Southeast Asia, a number of central banks have issued media releases in an attempt to assure that the countries' banking systems remain sound and resilient amid heightened volatility in global financial markets.

The regulators' swift handling of the bank collapses in U.S. and Switzerland has restored confidence in the global banking sector, however, the high global inflation, the possibility of further hikes in interest rates and a global recession risk remains as the key economic concerns.

Over the course of 2022, the Southeast Asian region has been inadvertently impacted by global international issues, including the COVID-19 pandemic, the Russian-Ukraine situation, geo-political instability, and the steep interest rate hikes.

However, in spite of these circumstances, the Southeast Asian IPO capital market held up relatively well in 2022 - as was analysed in our [SEA IPO Report 2022](#), especially compared to the U.S., UK and Hong Kong IPO capital markets.

This is proof of the resilience of the Southeast Asia economy in spite of a volatile global economic climate, which has been further exacerbated by the current troubles in the banking sector.



### In the face of the high interest rates and the banking crisis, we analyse how Southeast Asia, barring unforeseen circumstances, will remain an economic powerhouse with strong growth potential in 2023:

- Asian start-ups did not have much exposure to the collapse of SVB, but the crisis could prompt Asian start-ups to review their portfolio with banks.

- In light of the fall of these U.S. and Switzerland banks, global investors may look to Southeast Asia to hedge their risks.

- In spite of the region's heavy reliance on international trade and investment, there is strong domestic demand and capital activity within Southeast Asia. We have also observed that the number of IPO deals in the SEA<sup>1</sup> region rose by approximately 37% to 52 deals, netting approximately US\$1.4 billion in proceeds. The clear leader is Indonesia, raising US\$823 million across 28 IPOs in Q1 2023, followed by Thailand with 12 IPOs raising US\$ 338 million, Malaysia with 10 IPOs raising US\$231 million, Singapore and Vietnam had one IPO each, raising US\$15 million and US\$1 million respectively.

- Tourism has returned to Southeast Asia, after two years of lockdowns and border restrictions.

- China has stepped back from their zero-COVID-19 stance, removed COVID-19 restrictions and lockdowns, and has re-opened their borders to the world, which will benefit the Southeast Asia region in tourism, trade and investments.

- The tariffs and bans imposed to China by U.S. companies have resulted in some labour-intensive businesses relocating from China to Southeast Asia, including Malaysia, Vietnam and Thailand.

- The International Monetary Fund (IMF) expects Southeast Asia to be the world's fastest growing region, with the five largest economies expanding at 4.3 per cent in 2023 and 4.7 per cent in 2024 despite the rising inflation and interest rate.

- Philippines and Vietnam are expected to continue to hit record high growth rates in the years to come. Vietnam's economy grew 8.02% in 2022, a solid recovery from the pandemic years, back by strong domestic retail sales and exports. Philippines's economy grew at a pace of 7.6% in 2022, and GDP growth is expected at 6.0% in 2023 and 6.2% in 2024.

1: SEA region refers to IPO statistics from Indonesia, Thailand, Malaysia, Singapore, Vietnam and Philippines

Despite headwinds, the Southeast Asian economy is forecasted to grow by 4-5% annually over the next 10 years, with Vietnam leading the charge at a projected growth of 5-7%. With each country's pro-growth policies, stable macroeconomics and healthy demographics of Southeast Asia, coupled with the growing impact of tech-enabled entrepreneurs on investment, and strong trading relationships with China, SEA will likely remain resilient with high growth potential.

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