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Fin-O-Crisis Case Competition

CRISIS_CREATORS

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Executive Summary

Navigating Crisis: Challenges, Questions & Strategic Solutions

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FROM CRISIS TO CLARITY"

Primary Research

Brainstorming

Selection

Execution

SITUATION

Global trade volumes plummeted by **30%**, and emerging markets saw a **20% drop** in exports, severely impacting supply chains.

Tariff wars escalated, resulting in **20-30% losses** across global markets, logistical inefficiencies drove up freight costs

COMPLICATION

Diverging Interests: *Each stakeholder has distinct, and sometimes conflicting, objectives:*

Central Bank
Aims to control inflation while ensuring liquidity.

Government
Seeks economic recovery and fiscal stability as soon as possible

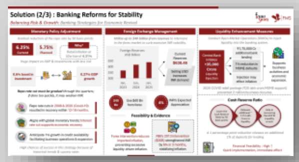
Corporates & Investors
Seek financial stability, policy clarity, and sustained market confidence

QUESTION

"How can we develop a holistic strategy that balances financial stability, economic recovery, and international trade cooperation while aligning the interests of all stakeholders?

ANSWER

Government Strategies to Resolve the Trade Crisis



Banking Reforms for Stability and strengthening

Corporate & Investor Response Comeback Plan

Unraveling the Great Trade Collapse

Understanding the Global Trade Crisis: Causes, Impact, and Implications

Financial Contagion & Banking Sector Crisis

The financial sector trends showed a massive decline which resulted in.....

Commodity markets experienced unprecedented volatility due to reduced demand and supply chain disruptions.

Global stock markets faced a significant downturn, with declines ranging from 20-30% washed away wealth of investors

Banks heavily exposed to trade financing faced liquidity crises, leading to consolidations and bankruptcies.

Banks reported massive losses

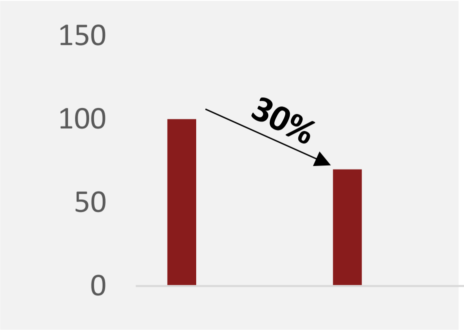
Banks struggled to stabilize currencies

Loan defaults and bad debts

Trade imbalances caused extreme exchange rate volatility leading to liquidity shortages.

Trade Volume Collapse & Supply Chain Disruptions

Global trade volumes **contracted by 30%**, the sharpest decline since the Great Depression.



Emerging markets faced a **20% drop** in exports within six months, crippling economic growth.

Just-in-time manufacturing systems failed, leading to shortages of essential goods and rising costs.

It leads to Geopolitical Tensions & Tariff Wars:

Worsening diplomatic relations led to **strict trade sanctions and retaliatory restrictions** on key exports.

Export-dependent economies **suffered GDP contractions, leading to large-scale corporate & sovereign debt defaults.**

Logistical Failures & Rising Freight Costs

20-30% stock market declines hit industrial and financial sectors hardest, triggering a confidence crisis

Impact :

Central banks struggled to stabilize currencies as trade imbalances caused **extreme exchange rate volatility**

The energy transition crisis exacerbated fuel shortages, making logistics **unpredictable and costly**

Limited access to essential raw materials caused **delays in manufacturing and price hikes in consumer goods**

These all are also leading towards:

Mass layoff in Export- driven Industries

Led to widespread protests and strikes

Economic Freefall: The Global Trade Disruption

Solution(1/3) : Government's Role in Crisis Resolution

From Policy to Progress: Stimulating Growth & Financial Resilience

Scaling Up Capital Investment

Increase government spending on **infrastructure** (roads, railways, ports) to **boost economic output** and ease trade logistics.

An additional increase of	Having Fiscal Multiplier of	Impact (% of GDP)
₹ 1,00,000 crore In Government Spending	**2.45**	**0.76%** ↑

Feasibility Analysis

Feasible (Within the 4.9% fiscal deficit target)

An additional **₹1 lakh crore** investment is realistic, given India's **₹10 lakh crore** infrastructure allocation in the **2023-24 Union Budget**

Tax Relief for MSMEs: Enhancing Competitiveness and Job Creation

Reduce **corporate tax** for MSMEs to **support small businesses**, boost exports, and create jobs.

Reduction of Corporate Tax by average of 5%

25% → **20%**

Having Fiscal Multiplier of	Impact (% of GDP)
1.5	**0.12%**

Feasibility Analysis

0.12% GDP boost, increases MSME survival rate and export capacity

Manageable amount of earning **(₹25,000 crore = 0.07% of GDP)**

Expanding Trade Frontiers

Counter the **30% trade decline** by encouraging **exports** through targeted policies.

Export Credit Support (₹40,000 crore):

Fiscal Multiplier (Export-Related): 1.8
Acc. to World Bank

GDP Increase	Impact (% of GDP)
₹72000 crore	**0.22% (Approx)**

Port & Logistics Modernization (₹10,000 crore):

Fiscal Multiplier (Export-Related): 1.8
Acc. to World Bank

GDP Increase	Impact (% of GDP)
₹18000 crore	**0.05% (Approx)**

Feasibility Analysis

- Existing programs like **Remission of Duties & Taxes on Exported Products (RoDTEP)** can be expanded
- **0.28% GDP boost**, reduces trade bottlenecks and improves export competitiveness

Solution (2/3) : Banking Reforms for Stability

Balancing Risk & Growth: Banking Strategies for Economic Revival

Monetary Policy Adjustment

Gradual reduction of the repo rate by 50 basis points

6.25% Current

5.75% Planned

Why?
Retail inflation at 52w low of **4.31%**

Huge Impact on GDP & Investments with less risk

0.6% boost in investment ⟷ **0.27% GDP growth**

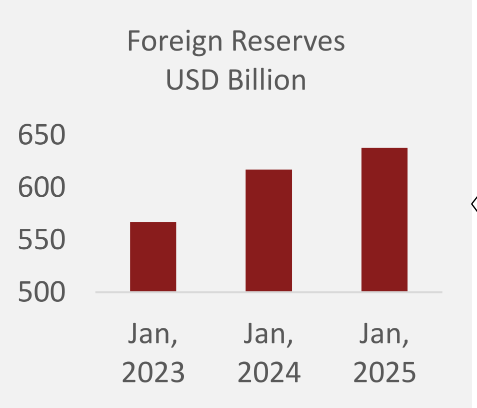
Repo rate cut must be gradual *through the quarters; if done too quickly, it may weaken INR.*

- Repo rate cuts in 2008 & 2020 (Covid-19) resulted in recovery within 12-18 months.
- Aligns with global monetary trends; Interest rate cut supports economic recovery.
- Anticipate 1% growth in credit availability facilitating business operations & expansion

High chances of success in this strategy because of historical trends & success rates

Foreign Exchange Management

Utilize up to $40 billion from reserves *to intervene in the forex market to curb excessive INR volatility.*



Current Reserves **$638.46**

Selling USD increases INR demand

$40 Bn Use $40 Bn from forex

4% INR's Expected Appreciation

Feasibility & Evidence

Forex intervention reduces imported inflation, preventing excessive liquidity-driven inflation.

RBI's 2013 intervention ($30B) strengthened INR by 6% in 3 months, stabilizing inflation

Liquidity Enhancement Measures

Conduct Open Market Operations (OMOs) to inject liquidity into the banking system.

Central Bank initiates **₹35,000 Crore** Liquidity Injection

- ₹1,75,000 Cr additional bank lending
- 1% reduction in MSME defaults
- Injection may effect inflation

Supports business activities and economic expansion.

2020 COVID relief package (₹20 lakh crore MSME support) prevented 2 million business closures.

Cash Reserve Ratio

Lower the Cash Reserve Ratio by 50 basis points → Releases additional ~ 1.15 Lakh Crore in liquidity → Help in recovering the GDP & Liquidity crunch

A 1 percentage point reduction releases an additional 1% of deposits for lending

Financial Feasibility : High ↑
Quick implementation, immediate effect

Solution (3/3) : Corporate & Investor Response Plan

Empowering Businesses & Investors: Diversification, Innovation, and Sustainable Growth

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CORPORATE STRATEGY

Objective:
"Reviving corporate profitability through efficient supply chains and strategic high-growth sector investments."

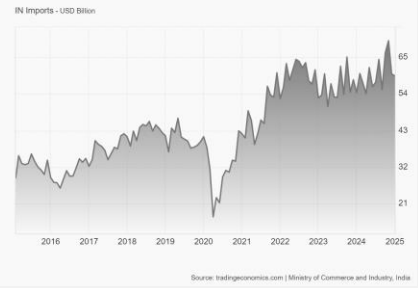
Optimized Supply Chain to Restructure Costs

With global trades at an all time low, nearshoring to India & ASEAN will reduce dependence on China & EU, ensuring cost efficiency.

Shift 30% of imports from China to India, Vietnam, & UAE.	Establish procurement hubs to reduce logistics dependency.	Digitize supply chains with AI-driven tracking & blockchain verification.

₹ 3.49 lakh crore

15% cost saving



COVID-19 Recession: India's ₹20 lakh crore Aatmanirbhar stimulus revived demand & increased exports by 35% in 2 years.

Export-Oriented Manufacturing Shift
(Semi-conductors & EV Sector)

While overall trade is declining, high-tech exports are growing

Global semiconductor market is expected to hit $1.4 trillion by 2030

- Leverage India-UAE CEPA & ASEAN FTAs for tariff-free exports.
- Scale up EV battery exports by Public Private Partnership
- Expand India's role in semiconductor & Electronic Vehicles Industries

~3 Years
Breakeven for companies

~1.5 lakhs+
high paying jobs created

Investment in Green Technologies and sustainable development

INVESTORS STRATEGY

Objective:
"Maximizing financial returns while stabilizing markets through smart and crisis-resilient investments."

Protect and grow investments by focusing on resilient and future-oriented sectors.

Industries like FMCG and Pharma tend to remain stable during economic downturns.

Growing global emphasis on sustainability offers lucrative opportunities.

Feasibility Analysis

Investment of
₹1,00,000 Crore

7% annualized growth

Projected Gain (10 Years)
₹1,96,715 crore

"Trade Revival Fund" for Market Stabilization

Why?
Stock Market is down by 30%

Stabilizes markets, attracts global capital

₹2 lakh crore sovereign-backed Hedge Fund

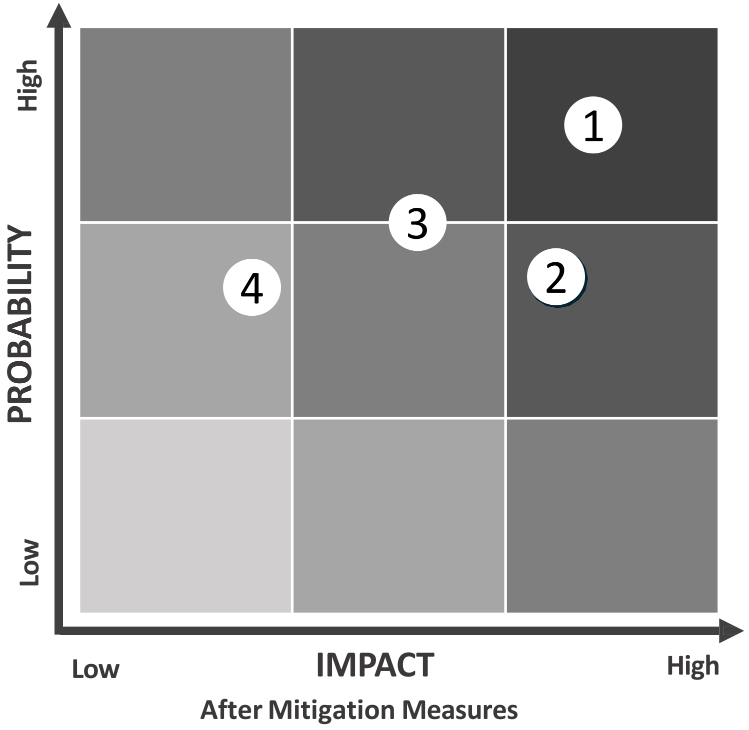
Offer 10% yield bonds to attract global capital inflows

Attracts ₹3.5 lakh crore in FDI & FIIs.

Projected Market Recovery: +18% in 1 year

Impact & Risk Mitigation

Risk-Aware, Impact-Driven: A Roadmap for Success



	Risk	Mitigation	Impact
1	**Excessive Liquidity may leads to Inflation**	Phased CRR cuts instead of a one-time drop, controlling liquidity expansion Issue Long term Bonds to absorb Excess cash if inflation spikes above 6%	Inflation stable at 4.5-5% instead of surging above 6%
2	**Heavy government spendings may increase fiscal Deficit**	Use Public Private Partnership Model for 30-40% of projects, reducing burden on government in a phased manner	Deficit stays < 5.8% of GDP Exports grow more than 7% YOY
3	**What if there is any sectoral investment failure happens?**	Diversify the portfolio by taking others sectors into consideration with a lower stake Partner with Government for Risk-sharing incentives, if global demand falls	50-60% risk reduction by spreading investments
4	**Green bonds & Defensive stocks may offer lower returns**	Temporarily Lower capital gain tax for Foreign Investors to boost FII Inflows Instead of just low yield bonds, include Venture Capital investments	Green investments yield 10-12% CAGR, instead of 6-7%

Wholesome Impacts : By the Adoption of Different Strategies by The Stakeholders…

Government: **1.16%** Impact on GDP

Central Bank: **4%** Appreciation in INR

Corporate & investors: **15%** Cost saving on Imports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THANK YOU

*Workings for the prescribed solution - **Scaling Up Capital Investment***

Fiscal Impact Calculation for ₹1,00,000 Crore Investment

Investment Amount:

$$\underline{₹1,00,000 \text{ crore}}$$

Fiscal Multiplier (Infrastructure Spending,

$$\underline{2.45}$$

GDP Increase Calculation

$$\text{GDP Increase} = \text{Investment} \times \text{Fiscal Multiplier}$$

$$= \underline{1,00,000 \times 2.45 = 2,45,000} \text{ crore INR}$$

Percentage of GDP Contribution

$$\text{Impact (\% of GDP)} = \left(\frac{\text{GDP Increase}}{\text{Total GDP}}\right) \times 100$$

$$= \left(\frac{\underline{2,45,000}}{\underline{3,24,11,000}}\right) \times 100$$

$$= \underline{0.76\%}$$

*Workings for the prescribed solution - **Tax Relief for MSMEs***

Current Tax Rate	-	**25%**
New Tax Rate	-	**20%**
Number of MSMEs	-	**50,00,000 (5 million)**
Average Profit per MSME	-	**₹10 lakh/year**
Tax Savings per MSME	Profit × (Old Tax Rate - New Tax Rate)	**₹10,00,000 × (25% - 20%) = ₹50,000**
Total Tax Relief	Number of MSMEs × Tax Savings per MSME	**50,00,000 × ₹50,000 = ₹25,000 crore**
Fiscal Multiplier	-	**1.5**
GDP Boost	Total Tax Relief × Fiscal Multiplier	**₹25,000 × 1.5 = ₹37,500 crore**
India's Nominal GDP	-	**₹3,24,11,000 crore**
Impact on GDP (%)	(GDP Boost / Total GDP) × 100	**(₹37,500 / ₹3,24,11,000) × 100 = 0.12%**

Number of MSMEs in India: 50 Lakh (5 Million)

According to **MSME Ministry reports**, India has **63 million MSMEs (6.3 crore)** as of 2024.
However, **not all MSMEs are profitable or taxable**.
The estimate **filters down to 50 lakh (5 million)** profitable and tax-paying MSMEs.

Average Profit Per MSME: ₹10 Lakh/Year

Micro MSMEs: ₹5-10 lakh annual revenue with low margins (10%).
Small & Medium Enterprises: ₹50 lakh - ₹5 crore annual revenue with 10-20% margins.

Weighted Average Assumption: If we take an average net profit margin of **10-12%**, then an MSME with ₹1 crore in revenue earns **₹10 lakh in profit per year**.

Appendix (2/5)

Workings of the Solutions provided

*Workings for the prescribed solution - **Expanding Trade Frontiers***

Total Investment	-	**₹50,000 crore**
Fiscal Multiplier	-	**1.8 (Source: World Bank)**
GDP Increase	Total Investment × Fiscal Multiplier	**₹50,000 × 1.8 = ₹90,000 crore**
India's Nominal GDP	-	**₹3,24,11,000 crore**
Impact on GDP (%)	(GDP Increase / Total GDP) × 100	**(₹90,000 / ₹3,24,11,000) × 100 = 0.28%**

Export Multiplier Given by World Bank is 2.2

Export Multiplier taken by us is 1.8

Reason – There is a great Trade Depression in the world as per the case

Total Impact

Enhanced CapEx	**0.76%**
MSME Tax Relief	**0.12%**
Export Promotion Measures	**0.28%**
Total	**1.16%**

Appendix (3/5)

Workings of the Solutions provided

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Rationale Behind 15% Cost cutting

Cost Factor	Estimated Savings (%)	Rationale
Tariffs & Duties	8	Eliminates import duties & tariffs (Avg 8%)
Shipping & Logistics	6	Reduces shipping costs due to nearshoring (~40-50% freight savings)
Operational Efficiency	2	Local supply chains reduce inefficiencies & FX risk (1-2%)

Imports as % of GDP: 24.07% (~₹77.6 lakh crore)
Top Imports: Electronics, crude oil, machinery, chemicals, metals, textiles.

Breaking Down Cost Components of Imports

- Import costs = (Product Cost + Shipping + Tariffs + Supply Chain Inefficiencies).
- Breakdown of cost components in imports:
  - Product cost from foreign manufacturers (~70%).
  - Tariffs & duties (~8-10% depending on item).
  - Shipping & logistics (~12%).
  - Currency exchange rate fluctuations & inefficiencies (~3-5%).

Total Cost Savings = 8%(tariffs) + 6%(shipping) + 2%(efficiency gains) = **16%~15%**

Timeline Implementation Banks

Immediate (0-3 Months):

- Initiate 25 basis point repo rate cut.
- Deploy $20 billion from forex reserves for market intervention.
- Begin OMOs to inject short-term liquidity.

Short Term (3-6 Months):

- Assess economic indicators and, if favorable, implement an additional 25 basis point repo rate cut.
- Allocate an additional $10 billion for forex interventions if INR volatility persists.
- Continue OMOs as needed to maintain adequate liquidity.

Repo Rate Impact

Investment Growth Calculation

Investment Growth (%) = Rate Cut × Investment Sensitivity (1.2% per 1%)

Expected Impact: 0.5% repo cut × **1.2%** = **0.6% boost in investment**

Credit Growth Calculation

Credit Growth (%) = Rate Cut × Credit Sensitivity (2% per 1%)

Expected Impact: 0.5% repo cut × **2%** = **1% increase in credit availability**

GDP Growth Impact

GDP Increase = (Investment Growth × Investment-to-GDP Ratio) × Fiscal Multiplier

GDP Growth Boost: (0.6% × 30%) × 1.5 = **0.27% GDP growth**

Forex Reserve Intervention

Historical Trend: $10B intervention = INR appreciation by **1%**
Expected Impact: $40B → **4% INR appreciation**

Inflation Reduction Calculation
- **Formula**: Inflation Reduction (%) = INR Appreciation × Inflation Sensitivity (0.5% per 1% INR gain)
- **Expected Impact**: 2% INR appreciation × **0.5%** = **1% inflation reduction**

Import Cost Reduction
- **Formula**: Import Cost Reduction = Total Imports × INR Appreciation Effect
- **India's Import Bill (2024-25):** ~$760B
- **Impact**: 2% INR appreciation → **$15.2B reduction in costs**

Appendix (4/5)

Workings of the Solutions provided

Strong supportive evidences of Banking Reforms

Repo Rate Cuts Boost Growth
India's repo rate cuts in **2008 (GFC) & 2020 (COVID-19)** resulted in **GDP recovery within 12-18 months**.

Forex Reserves Stabilize INR
RBI's 2013 forex intervention ($30B) helped INR recover by **6% in 3 months**.

Liquidity Injection Helps MSMEs
2020 COVID relief package (₹3T MSME support) prevented **2 million business closures**.

Strong supportive evidences of Government Reforms

The NIPFP study emphasizes that capital expenditure has a higher multiplier effect compared to other forms of government spending, making it a potent tool for economic stimulus.

The Reserve Bank of India (RBI) has also highlighted the importance of quality public expenditure, particularly in infrastructure, to stimulate growth and improve fiscal health.

Feasibility & Impact Table for Corporates Expansion into Sectors

Aspect	**Details**
Financial Feasibility	High – Potential **15% revenue growth** offsets trade loss
Management Feasibility	Medium – Requires strong logistics & market research
Economic Impact	High – Increases global trade participation

Supply Chain Feasibility

Investment Required: Establishing new supplier relationships, auditing facilities, and integrating digital tools are estimated to cost approximately ₹5,000 crore.

Justification:
This figure is based on industry reports indicating that companies often allocate around 2-3% of their annual revenue to supply chain restructuring. For a company with annual revenues of ₹1,50,000 crore, this equates to ₹3,000-₹4,500 crore. Considering the current heightened need for diversification, a 3.33% allocation (₹5,000 crore) is reasonable.

Cost Savings from Nearshoring

Imports Worth: ₹77.6 lakh crore (~24.07% of GDP).

Nearshoring Shift: 30% of imports = **₹23.31 lakh crore.**

Savings = 23,31,000 × 15% = ₹3,49,650 crore annually

Appendix (5/5)

Workings of the Solutions provided

Sources…

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