

EFSE Annual Meeting 2009

SEE Banking Sector in Distress – Current Situation and Outlook

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1. The role of IFIs in supporting commercial banks manage the crisis

- Discussing funding needs and providing long-term funding in a coordinated way between IFIs and on a regional basis to allow banks to continue lending
- Executing equity investments in existing and new partner banks to support their capital base when capital is hit by the crisis
- Coordinating approaches between IFIs and host countries of subsidiaries



1. The role of IFIs in supporting commercial banks manage the crisis (cont'd)

Joint IFI Initiative (Vienna Meeting)

- **Objective:** joint work to address funding needs in a co-ordinated manner
- **Need for a flexible co-ordination framework** that brings together key stakeholders:
 - Home-country authorities
 - Host-country authorities
 - IFIs
 - Parent banks and subsidiaries



1. The role of IFIs in supporting commercial banks manage the crisis (cont'd)

Burden Sharing

- **Parent banks:** contributions in terms of maintaining capital and funding commitments
- **IFIs:** complementary contributions (Debt and Equity) in line with capacity to deliver
- **Host governments:** liquidity support, capital injections, regulatory changes (e.g. decreasing reserve requirements, tolerating higher open FX position, allowing for rescheduling of loans, etc.)
- **Home governments:** follow up on implementation of national support packages



2. Where are the support limits of IFIs?

- **Sound banking principles:** IFIs have to follow the same quality standards as always, also in times of crisis
- **Volume constraints:** Although some IFIs are increasing their commitment volumes (EBRD +25% in 2009), their absolute resources are limited
 - Single exposure limits for clients
 - Possible sector limits
 - Possible country limits



The financial crisis is not over for SEE banks

Impact of the Crisis on SEE Banks:

- **Deteriorating SEE economies:**
 - GDP will decline and some more than expected
 - Financing of current account deficit is unsecured
 - Decrease of FDI and exports are affected more than other aspects of economies
 - Local currencies are losing value
 - Increasing unemployment
 - Budget constraints increasing due to higher social spending



The financial crisis is not over for SEE banks (cont'd)

Impact of the Crisis on SEE Banks:

- **SEE banks sustain the following impact:**
 - Quality of assets is deteriorating
 - Banks are exposed to a regional real-estate bubble
 - Parent bank funding scarce, hence other sources of funding to be sought
 - Increasing costs due to growing risk concerns
 - Currency risks affecting local banks and equity investments



A long way to recovery requires multilevel action plan in SEE

Ways Out of the Crisis:

- **Macroeconomic measures:**
 - Renew cooperation with IMF to strengthen the local currency and stabilize the budget (Serbia, Bosnia, Romania)
 - Attract more IFI financing (WB, EIB, EBRD)
- **Microeconomic measures:**
 - **Redefine business scope** (focus on core, capital allocation, identify target businesses, disposals, outsourcing)
 - **Reinvent products** (simplify, bundle, share results, innovate, life cycle support)
 - **Rebuild brand and trust** (continuity in message, emotional appeal, total disclosure, regain inflow of deposits)



A long way to recovery requires multilevel action plan in SEE (cont'd)

Ways Out of the Crisis:

- **Different approach to risk management** (intensify monitoring of clients especially cash flows, proactive approach to early restructuring, more efficient MIS for early warnings, mobilize owner's funds and equity investments)
- Do not stop lending



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