

***Financial Crisis and Southeast Europe:
Off the Cliff or Out of the Woods?
Panel 3: MFI Perspective***



**MFIs' Business Model - Weather-Resistance
in the Financial Storm?**

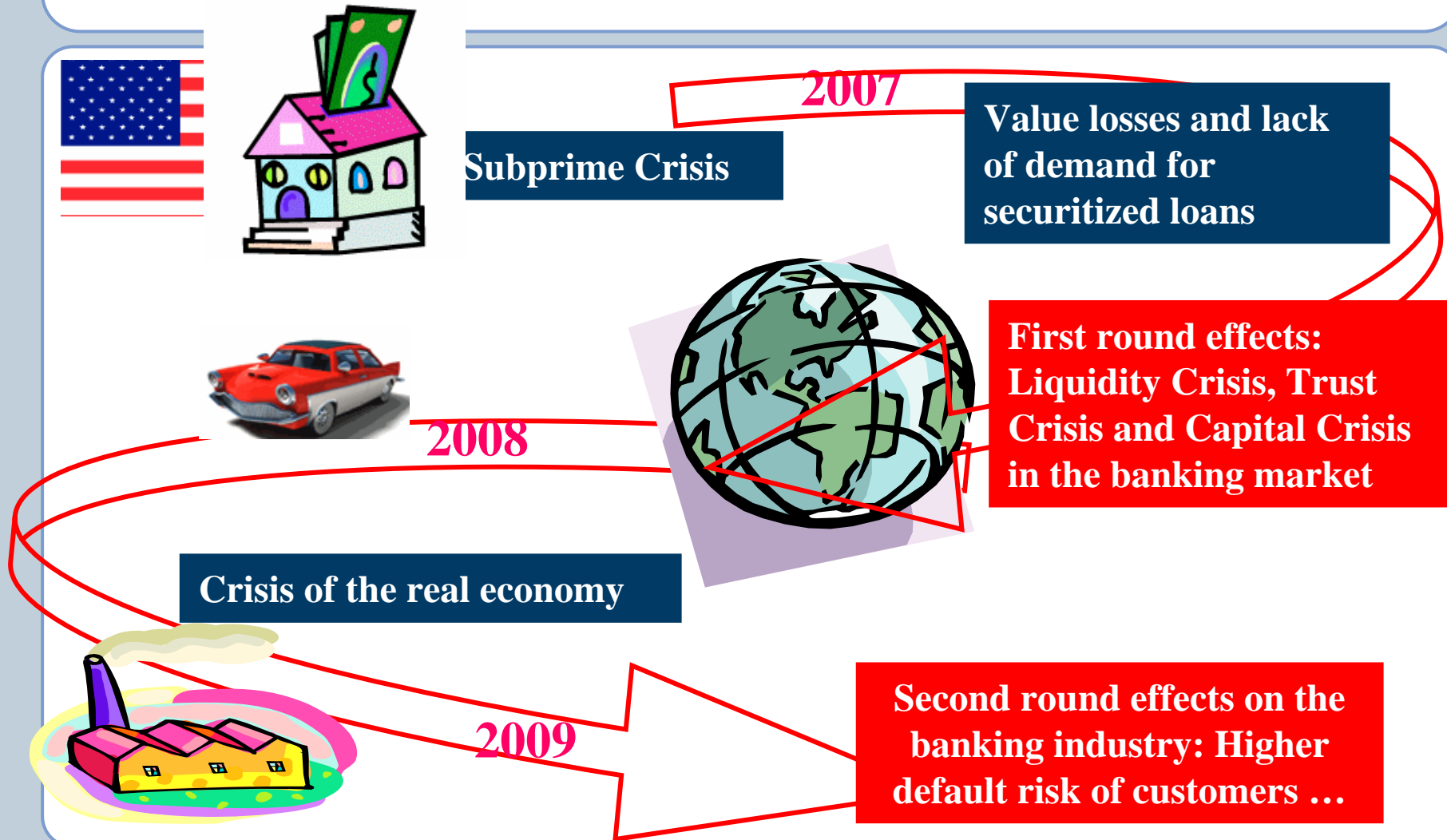
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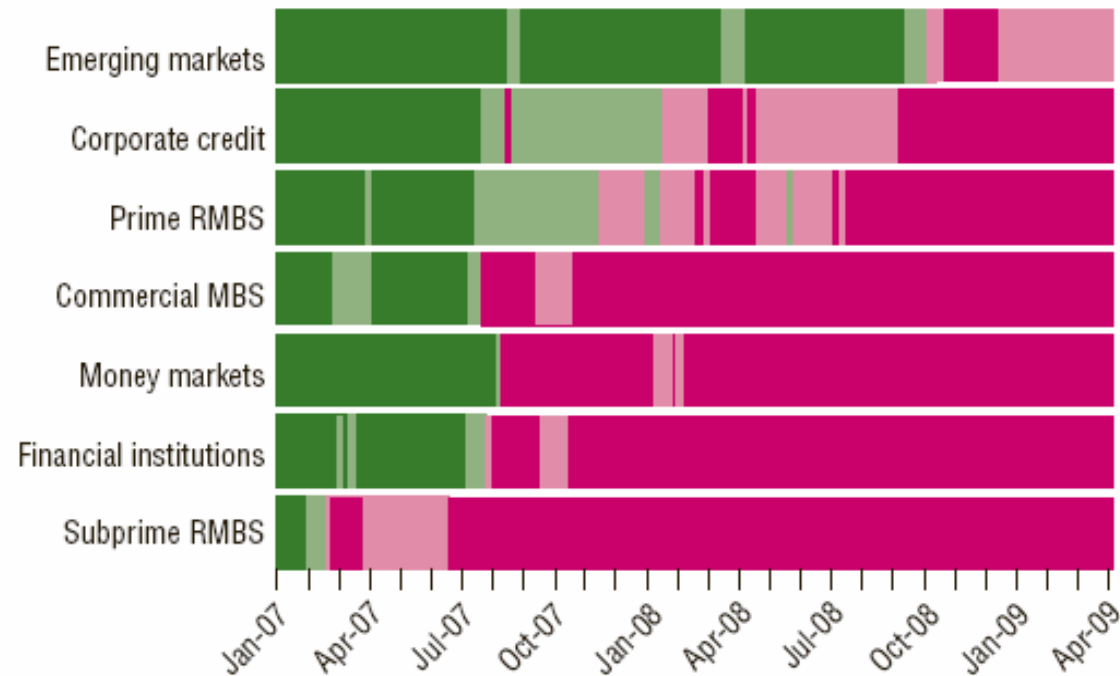


The Downward Spiral



Emerging Markets are affected

Figure 1.2. Heat Map: Developments in Systemic Asset Classes



Source: IMF st

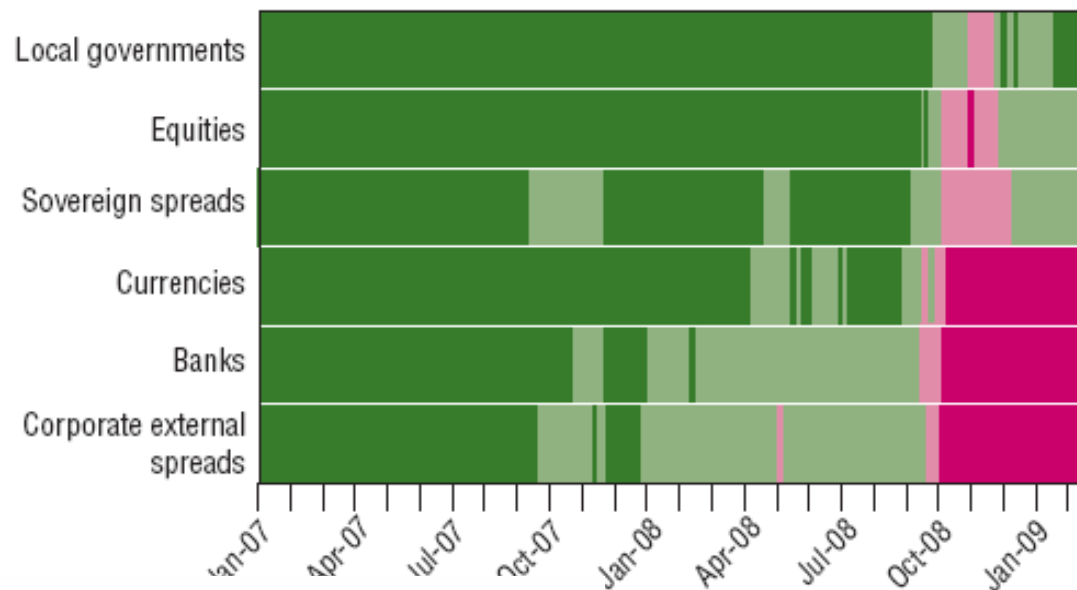
Note: The heat map measures both the level and one-month volatility of the spreads, prices, and total returns of each asset class relative to the average during 2004–06 (i.e., wider spreads, lower prices and total returns, and higher volatility). That deviation is expressed in terms of standard deviations. Dark green signifies a standard deviation under 1, light green signifies 1 to 4 standard deviations, light magenta signifies 4 to 7 standard deviations, and dark magenta signifies greater than 7 standard deviations. MBS = mortgage-backed security; RMBS = residential mortgage-backed security.

Source: IMF, Global Financial Stability Report April 2009, p. 4

Currencies, Banks and Corporates are most endangered



Figure 1.11. Heat Map: Developments in Emerging Market Systemic Asset Classes



Source: IMF staff estimates.

Note: The heat map measures both the level and one-month volatility of the spreads, prices, and total returns of each asset class relative to the average during 2004–06 (i.e., wider spreads, lower prices and total returns, and higher volatility). That deviation is expressed in terms of standard deviations. Dark green signifies a standard deviation under 1, light green signifies 1–4 standard deviations, light magenta 4–7, and dark magenta greater than 7 standard deviations.

Source: IMF, Global Financial Stability Report April 2009, p. 10

High refinancing needs, high exposure to credit risk and foreign exchange risk in Eastern Europe



Table 1.1. Macro and Financial Indicators in Selected Emerging Market Countries

	Current Account Balance ¹ (Percent of GDP)	External Debt Refinancing Needs in 2009 ² (Percent of reserves)	Net External Position vis-à-vis BIS Reporting Banks ³ (Percent of GDP)	Average Real Credit Growth over the Last Five Years ⁴ (Percent, year-on-year)	Loan/Deposit ⁵ (Ratio)	Forex Share of Total Loans (Percent of total loans)
Europe						
Bulgaria	-12.3	132	-34.9	35.9	1.3	66.9
Croatia	-6.5	136	-44.5	13.1	1.1	62.0
Czech Republic	-2.8	89	-13.1	16.0	0.8	13.6
Estonia	-6.3	346	-68.8	27.3	2.1	85.3
Hungary	-3.9	101	-50.2	14.3	1.4	65.7
Kazakhstan	-6.4	82	-5.1	50.1	1.7	43.6
Latvia	-6.7	331	-57.6	38.4	2.8	89.3
Lithuania	-4.0	204	-41.5	43.2	2.0	64.0
Poland	-4.9	141	-15.4	14.7	1.1	32.6
Romania	-7.5	127	-32.5	47.1	1.3	55.5
Russia	0.2	34	3.1	34.5	1.3	15.3
Serbia	-12.2	...	-12.2	26.2	1.2	68.0
Turkey	-1.1	110	-11.9	29.8	0.7	28.9
Ukraine	0.6	117	-10.3	47.5	2.0	59.5

Shaded boxes are areas of potential concern

Source: IMF, Global Financial Stability Report April 2009, p. 13

MFI's advantages to deal with the first round effects



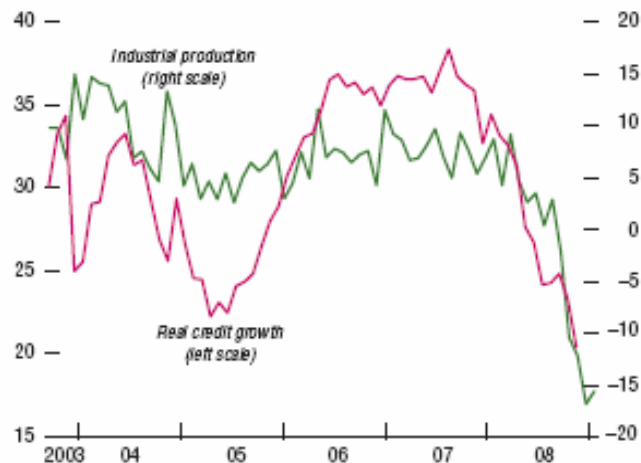
- No exposure to „toxic“ securities
- Low average maturity of loan portfolio allows swift adaption to tighter refinancing
- Relationship to IFIs means higher trust of depositors
- IFI refinancing more reliable in crisis than other bank refinancing
- Special crisis support by IFIs (e.g. Microfinance Enhancement Facility)

International commercial banks might be „too big to fail“, the business model of MFIs is „too smart and too nice to fail“!

Credit default risk – MFIs' most important second round risk



Figure 1.12. Emerging Europe: Real Credit Growth to the Private Sector and Output
(In percent, year-on-year)



Sources: Bloomberg L.P.; IMF, International Financial Statistics database; and IMF staff estimates.

Note: GDP-weighted average for emerging European countries shown in Table 1.1.

MFIs' credit customers

- Higher indebtedness than five years ago
- exposure to foreign currency risk
- consumer loan repayment as a burden on future income streams
- Crisis as a negative income shock (microentrepreneurs less affected than larger firms?)

MFIs' business model as a tool to mitigate credit risk



- **MFI's credit technology**
 - **Superior knowledge how crisis affects the customer**
 - **Superior knowledge and short term lending allow swift adaption of loan terms (interest rates, amount, maturity and currency)**
- **Long term relationship allows crisis support for customers with positive future outlook**

Responsible cash flow based lending protects entrepreneur against over-indebtedness and MFI against credit default!

Thank You!

