International Finance Corporation
World Bank Group

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Panel Discussion: Capital Markets Perspective

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Previous Crises – Observations and Actions

- Over the past two decades: IFC has faced 17 major crises in developing countries
- Countercyclical preparedness – crisis takes time to unfold – gauging severity of consequences; selective partnering for the longer term – strong development impact
- Phased Response: liquidity and advisory services first to financial sector and then others, and subsequently long term financing as recovery commenced – examples : Brazil, Argentina, Indonesia, Korea, Lebanon, Mexico

- Current crisis: the interdependence of economies - global contagion – unprecedented in scope

Current Vulnerabilities: Emerging Economies in Europe and Central Asia

- Deficiencies in capital inflows
- Rapidly slowing growth
- Declining commodity and oil prices
- Declining international trade
- Large current account deficits (emerging European economies)
- Large external debt burdens – a significant part in FX
- Weakening currencies
- Impact on remittances
- Wide presence of West European banks in CEE countries – sponsors themselves vulnerable
- Banks: deteriorating asset quality; increased provisioning; currency mismatches on balance sheet; reduced profitability; stress on capital base

IFC

Crisis Demands Cooperation & Partnership

• **Coordination is Critical**: Global crisis leads to massive needs - beyond each IFI's traditional capacity

-IFC initiatives benefiting from partnership with other IFIs

– KfW and IFC partnered to establish the Microfinance Enhancement Facility jointly contributing $280m – planned size : US$500 million – to provide refinancing to over 100 MFIs in up to 40 countries

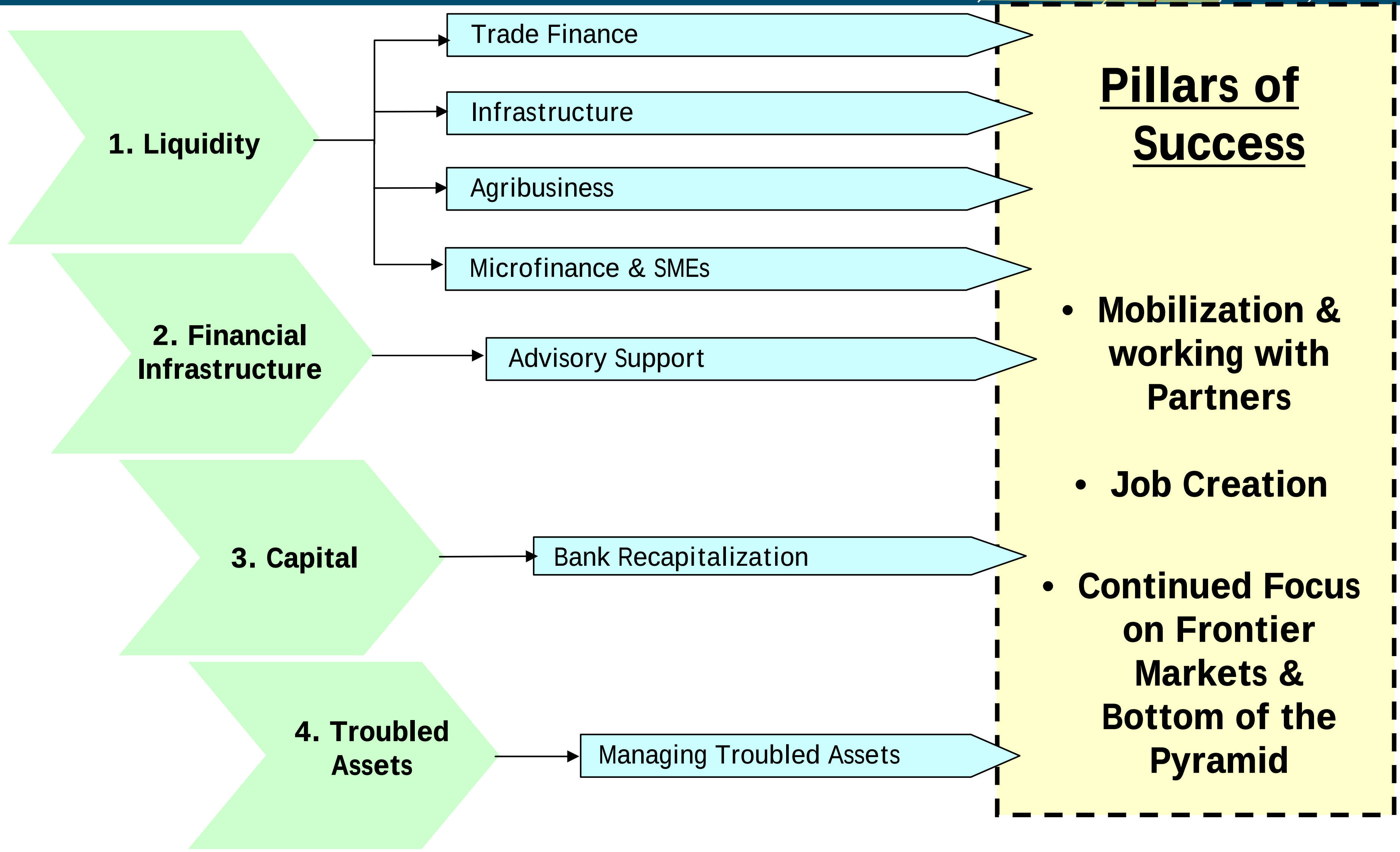
– Targeted Regional Intervention: IFC and other World Bank Group members plus EBRD and EIB pledged to provide up to €24.5 billion to support the banking sectors in Central/Eastern Europe (region first point of contagion)

– Japan, through JBIC, co-founder in IFC Recapitalization Fund - contributed $2bn

• **Fund Mobilization:** Mobilizing funds from governments and other sources critical to all our efforts

– IFC has established wholly owned subsidiary, IFC Asset Management Company LLC, to serve as fund manager of third-party capital mobilized under various IFC initiatives

Phased Approach in Response to Market Needs



So Where do MF Institutions Stand in All of This

- Yes, they have been resilient until now; what's next?
- Concerns stem from:
  - – MF borrowers – entrepreneurs impacted by rapidly contracting economies
  - – Entrepreneurs impacted by slower international trade - exporters and importers
  - – MF institutions typically borrow in hard currency and pass on currency risk to borrowers through indexed loans – in stressed environments, the currency risk rapidly transforms to credit risk
  - – Significant impact from reduction in remittances (Moldova, Tajikistan, Uzbekistan)
  - – Declining commodity prices – eg. cotton --> Tajikistan
- Lead to declining asset quality, slow/no business growth, impact on profitability
- Supporting MF continues to be a priority area for IFC:
  - - IFC/KfW sponsored MF Facility – support of MF institutions when needed most
  - - Advisory support in risk management, NPLs
  - - Close engagement with existing partners – advisory, board presence, funding