

## **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 loosing 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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