Covid-19: the outlook for FinTech in the Western Balkans

The Covid-19 pandemic has had a significant impact on the emerging economies of the Western Balkans, a region where governments have imposed strict lockdown measures to control the spread of the virus.

From discussions with business leaders in the region across various industries, I have learned that consumer lending FinTechs are among the most hard-hit companies, for two reasons. As the newest actors in the microfinance sector, FinTechs are still under consolidation in terms of capital means and financial position, and their potential market took a big hit with the sudden unemployment spike and consumer spending freeze. Severe government emergency measures have forced FinTech lenders to make hard decisions by suspending repayments, restructuring existing loans and providing liquidity to their customers to manage the crisis. In response to the current unprecedented market disruptions, FinTech lenders in the region are taking quick steps to adopt new digital initiatives; moving their businesses online, maintaining seamless operations, making temporary business adjustments and rethinking their distribution channels. In general, FinTechs are heading towards a Low Touch Economy, which will likely be our post-pandemic economy. I have compiled some observations for individual Western Balkan countries:

Albania

- Albania had an early and very strict lock-down, which completely paralyzed the commercial activity of FinTechs for several weeks.
- Larger and more offline FinTech players were forced to take drastic measures: massive layoffs of up to 30% of their staff, salary cuts of up to 50%, and closing more than 30% of branches. Smaller and more online companies, and those operating through third parties, have found it easier to adapt and continue business. Marketing and training expenses have also been cut.
- New business has been reduced by 80-90% compared to the same period in 2019, due to the lack of demand.
- The Albanian government has imposed a payment and restructuring moratorium. All customers, individuals and businesses that have been impacted by COVID-19 have the right to postpone loan repayments for a period of three months, with no penalty charged by lenders. The moratorium was initially miscommunicated as a mandatory restructuring for all borrowers; this error has caused repayments to drop by 60% or more compared to the previous quarter and distorted liquidity ratios, which has especially affected companies whose liquidity is highly dependent on their lending activity.
- This reduced liquidity has resulted in: a) inability to continue financing, even with revived demand, b) inability to make repayments to institutional lenders, MFI creditors, etc, c)

inability to pay operational expenses, especially staff salaries and point-of-sale lease payments.
- In an effort to preserve cash for better times, consumer lending FinTechs have been careful with their lending activity, while FinTechs operating in the car lending segment have been focusing on debt collection. Similarly, there has also been a tendency to lower the average loan ticket, and tighten lending conditions.

Bosnia & Herzegovina

- FinTech consumer lenders have been heavily impacted by Covid-19. They have seen a significant decrease in demand, with many consumers losing their jobs and thus their eligibility to apply for loans.
- The demand for goods has changed. Customers now prioritise covering basic needs over buying luxury products such as laptops and iPhones, jeopardising retailer partnerships.
- Some FinTech players were technologically ready to work from home offices using laptops and installed apps. At the same time, more traditional microfinance companies have been investing in digitalisation while lobbying for a more digital-friendly legal environment.
- Sporadic business growth has continued through the opening of new branches.
- In order to relieve the social and economic burden, the government has proposed several measures including a moratorium of up to twelve months, a grace period of up to three months, and a loan extension of up to six months. However, the final decision is made in a one-on-one consultation between lender and borrower.
- Companies have reduced Opex significantly by cutting salaries and keeping a skeleton crew in the branches to carry out business activity, while taking advantage of government compensation measures.
- New credit risk policies suggest that lending will shift away from red-flag industries such as hospitality and tourism.

Northern Macedonia

- The macroeconomic outlook for Northern Macedonia is more optimistic, due to the government's more relaxed lockdown measures and rapid reaction to assist unemployed people with their lack of income. As 50% of the Macedonian economy is closely linked to German investment in the automotive industry, it is good news that German companies are showing signs of revival and are bringing people back to work. The hospitality sector remains heavily impacted.
- The government decision to cut the APR cap from 50% to 28% for three months has hit many FinTechs.
- FinTechs that are financed by p2p platforms are experiencing a real crisis, and as a consequence the profit margins are at breakeven, or 0.5%. The banks are unwilling to lend to FinTechs under such extraordinary conditions.
- Plans for further expansion by opening new branches are now on hold, while cost-saving steps such as salary cuts were taken in April.
- Demand and collection have been heavily impacted, with the government extending instalment repayment periods by up to six months for banking clients and three months for microfinance.

Kosovo

- The Central Bank of Kosovo has announced that borrowers have the right to discuss restructuring terms. The CBK has also eased provisioning, classification and penalties for all banking and microfinance clients, except for public institutions.

- Demand for loans has decreased, while the criteria have become stricter, and there is less flexibility for lending.

- The financial sector in Kosovo has not seen any salary cuts, layoffs, or branch closures to date.

Bulgaria and other CEE Countries

- In general, FinTechs have accepted the measures taken by national regulatory bodies and are adopting their businesses to obey local legislations and respond to customers in the best, quickest way possible. This is challenging due to the constantly shifting situation. For example, in Poland legal changes happen on a weekly basis and it is difficult to keep up.
- Growth plans are on hold for the moment, and the priority is on stability, liquidity and compliance.
- Debt collection in Bulgaria is doing better than expected. Lenders are carefully negotiating and restructuring with clients. Unemployment has been the main cause.
- Marketing cost-cutting is widespread, as campaigns are no longer happening during Covid-19.
- In Bulgaria there was no moratorium on microfinance, just on banks. In other countries, the moratorium period varies from 1-2 months to the end of the year.
- In Bulgaria, lenders have lost their appetite for risk. Some companies continue to lend, while others have stopped their lending activity, despite huge operational costs. A few smaller players have even shut down business in Bulgaria.

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