Monthly Client Memo
25 January 2022

Dear Clients and Partners,

Your Monthly Client Memo for Q4 2021 is available below. If you have missed any of the previous Memos, you can access them via this link: symbioticsgroup.com/covid-19/.

2022 outlook: walking a tightrope

The global inflationary wave shaping central banks', particularly the Federal Reserve's (FED), monetary policies coupled with the evolution of the pandemic are expected to continue driving the global sentiment. Although the pace and extent of the FED tightening are still unclear, the consensus is that it will end its bond purchases in March and the first interest-rate increase could come immediately afterwards. Even though, this period of transitioning from the massive fiscal stimulus and monetary accommodation of 2020-2021 is expected to create a challenging environment for emerging and frontier economies, there is a light at the end of the tunnel.

The divergence in the monetary policy stances of the various central banks might benefit countries that have already been acting to cool inflationary pressures. Countries that have been able to stay ahead of the curve by maintaining high relative rates or hiking rates ahead of others should be in a better position to handle the global tightening cycle. A majority of the emerging and frontier countries continue to offer an attractive real yield premium compared to developed countries, presenting a favorable narrative for the local currency debt despite the risks. In addition, current and fiscal accounts, and reserves are in a much better shape than during previous downturn periods.

The mildness of the new coronavirus variant, Omicron, may signal the transition of the Covid pandemic into an endemic. While the outlook on the growth of the US, the EU and China is becoming less optimistic, this might turn the investors' attention to emerging and frontier markets that could offer relatively higher growth prospects. In addition, commodity and energy prices are expected to remain high, if not further increase, in the short term, therefore providing a good rationale for commodity-dependent countries to benefit from.

Our monthly update:

- **Microfinance institutions' portfolio quality:** As Omicron infections continued to increase towards the end of 2021, majority of countries refrained from implementing lockdowns and turned to less critical, more targeted measures instead. Highly affected by the spread of the variant, countries in Latin America and Asia, and particularly China in light of the fast approaching Beijing Winter Olympics, might impose further restrictions to tackle the virus. In Central Asia and the Caucasus, sanitary restrictions related to the Covid pandemic have been unsubstantial and have not affected business activity too much. Similarly to Sub-Saharan Africa, where the absence of restrictive lockdown measures, together with commodities price increase, led to regained confidence and activity during H2 2021. While non-performing loan (NPL) levels remain stable, cash collection rates and return on assets (ROA) are rising. On an aggregate basis, increased disbursement levels and gross loan portfolio (GLP) growth slightly reduced average Symbiotics capital adequacy ratio (CAR), which remains at an acceptable level for most institutions. The hard currency shortfall and liquidity crisis in Myanmar has somewhat stabilized from microfinance institutions' (MFI) perspective. Disbursement and collections are improving although the risk of violence between the military and opposition groups continues to threaten the economy. Unrest in Kazakhstan in early January 2022 is expected to have only a limited impact on Symbiotics investees in the country.

- **Currencies & interest rates:** Whilst majority of Emerging and Frontier Markets registered inflation increase, in Latin America, rising and even skyrocketing (Argentina at 49%) inflation and large fiscal deficits are expected to prompt more policy tightening in 2022. Central banks in the region have started to rise referential interest rates in response. While moderate GDP growth is expected for the region in 2022 (between 2% and 3%), increasing inflation, restrictive monetary and fiscal policies, and potential pressure on local currencies might cause adverse effects.

- **Liquidity & solvency cases:** In South Asia, while disbursements and collections have been picking up for most Financial Institutions (FI), loan portfolio risk indicator (PAR30+R) increased primarily due to a higher number of restructured loans as the implementation window for the one-time restructuring closed in Dec-21. Profitability remains low due to higher provisioning, although solvency and liquidity buffers are adequate. There is an increasing risk of economic contagion due to rising defaults among China's property developers. This could further threaten China's economic recovery and trickle down to our financial institutions, as Chinese FIs have already started reporting slower growth.

- **Demand:** Symbiotics disbursed USD 196.3 million to 39 institutions in December 2021, bringing the total for 2021 to USD 1,174.9 million, compared to USD 990.7 million in 2020. We witnessed the strongest origination in Latin America (40% of all loans), Asia (24%), followed by Africa (19%) and Europe and Central Asia (17%).

Should you have any questions, please contact your relationship manager.

Sincerely,
Symbiotics