Prospects for NPLs in CESEE

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Looking back at structural NPL issues in the CESEE

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Key impediment for NPL resolution in the region leading to build up of NPLs up to peak of 2012-13

Legal framework	Inadequate bankruptcy laws, lack of legal enforcement mechanisms, inadequate out-of-court debt restructuring procedures, and other institutional deficiencies (e.g. long enforcement procedures, lack of transparency, skills of the judiciary).
Supervision	Inadequate supervisory efforts in enforcing bank provisioning and timely resolution of NPLs.
Information	Lack of transparency in public registers and asymmetry of information.
NPL market	Market largely inexistent without any interest form investors, nor servicing capabilities, in addition to limited domestic know-how capabilities (both from the private and the public stakeholders).
Tax regime	Primarily disincentivising tax rules for NPL resolutions.

Sources: IMF, NPL Monitor

NPL Initiative (CESEE region) as catalyst to change

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The NPL Initiative was born in 2014 as a dedicated workstream, building upon the successful private-public sector coordination platform of the Vienna Initiative.

The NPL Initiative has three overlapping objectives

- Enhancing the transparency of restructuring frameworks
- Capacity building through technical assistance
- Knowledge sharing

A broad range of direct and indirect achievements

- **Creation of the NPL Initiative website** *(npl.vienna-initiative.com)*
- **Cross-institutional cooperation and coordination**
- **Capacity building** *(e.g. judicial, insolvency, restructuring)*
- **Secondary NPL markets**
- **Publication of a semi-annual NPL Monitor** *(12 editions published since 2016)*
- **Policy making and legal reforms** *(OOCR, insolvency laws, enforcement regimes)*
- **Building on international best practices** *(banks, supervision)*
- **Local servicing capabilities**

Asset quality remained resilient to C-19, with a caveat

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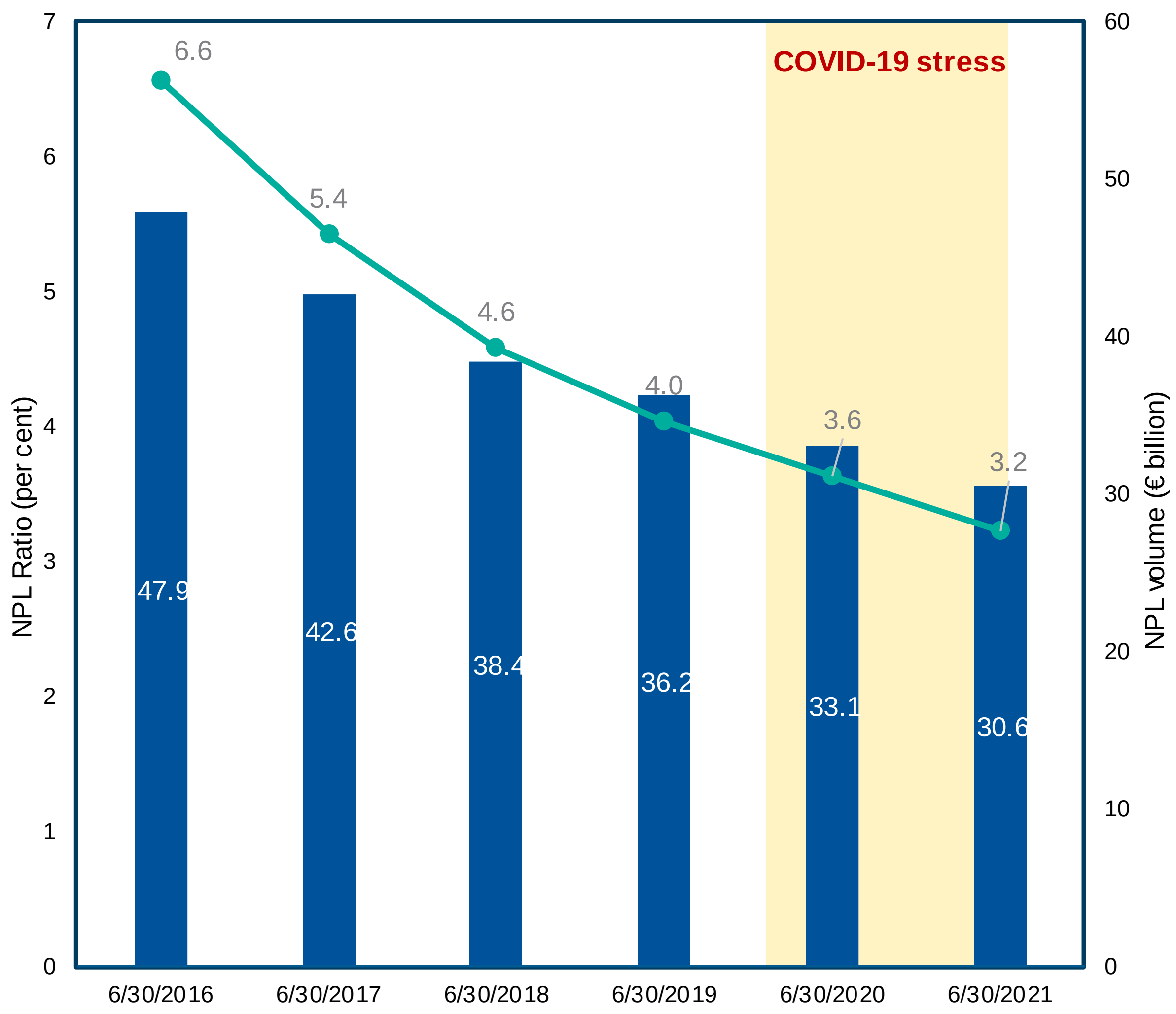
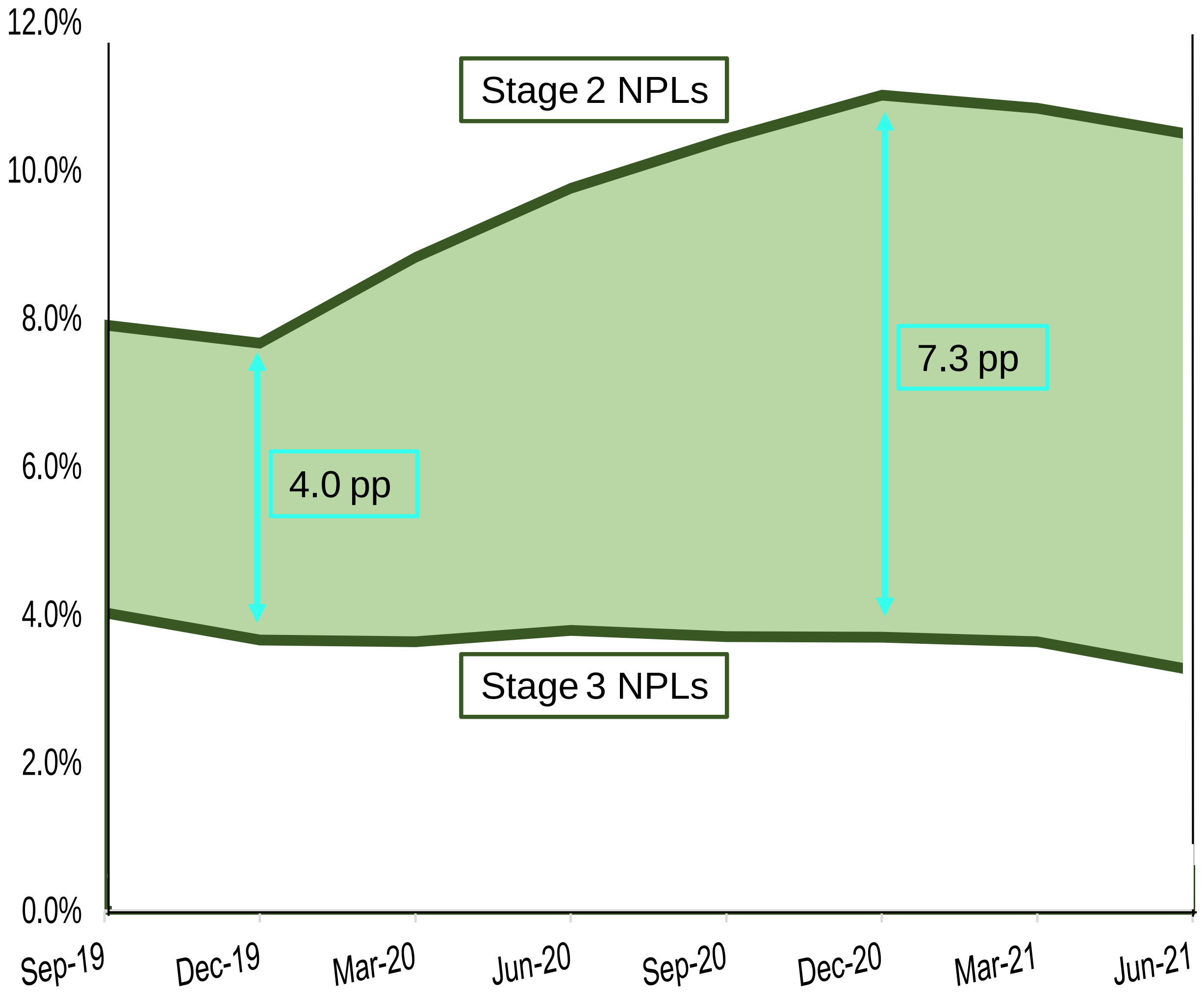
Decelerating decrease in NPL ratios and volumes in the CESEE



Comparative evolution of stage 2 and 3 NPLs in the EU-CEE countries



Sources: IMF, National Central Banks, EBA

Current NPLs Market Environment in the CESEE

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2. Collateral values remain strong

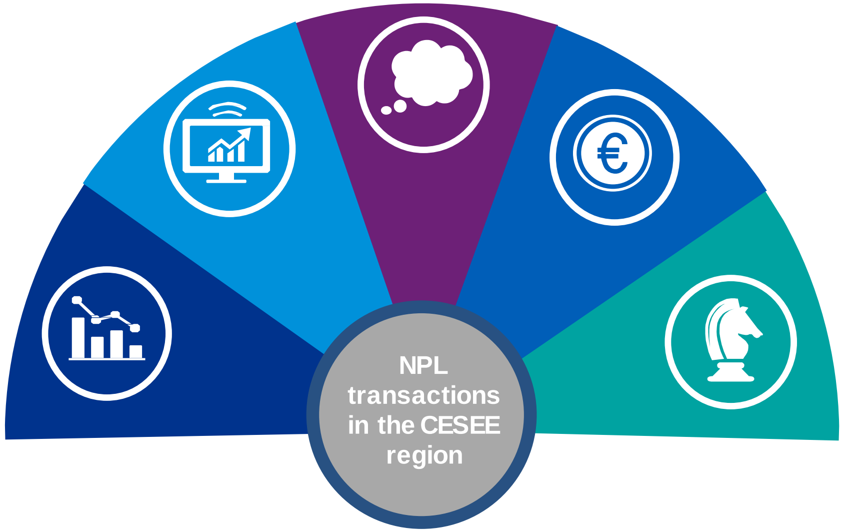
- Real estate (collateral) values have increased significantly in many jurisdictions, providing greater exposure coverage.
- Most of the large distressed cases (CRE and corporates) have been restructured already.
- Will there be values readjustment?

1. Stable banks’ asset quality

- Impacts of COVID-19 on banks’ asset quality more limited than anticipated.
- Overall, NPL ratios are low and banks have good levels of provisions.
- Some sectors more at risk (e.g. food & accommodation, SME)

3. Limited pressure to sell NPLs

- A large part of the remaining NPL stock in banks is old vintage with low value.
- No pressure for banks to sell NPLs, thus very limited market activities.



4. Investors’ liquidity in the market

- There is still investors’ demand and liquidity in the region; the issue is supply.
- Limited number of investors (the ones already present in CESEE, with servicing capabilities and can acquire small books).
- Investors remain prudent on prices in case of downwards correction.

5. The crisis is not over

- Final impacts (post moratoria and state guarantees) remain uncertain.
- Situation might change in 2022-23 if the effect of the crisis begins to materialise.
- Importance of prudent lending practices.
- Identifying new signs of distress early on will be key to value preservation.
- Unlikely to pay could be the challenge.

The future remain uncertain and prudence must prevail

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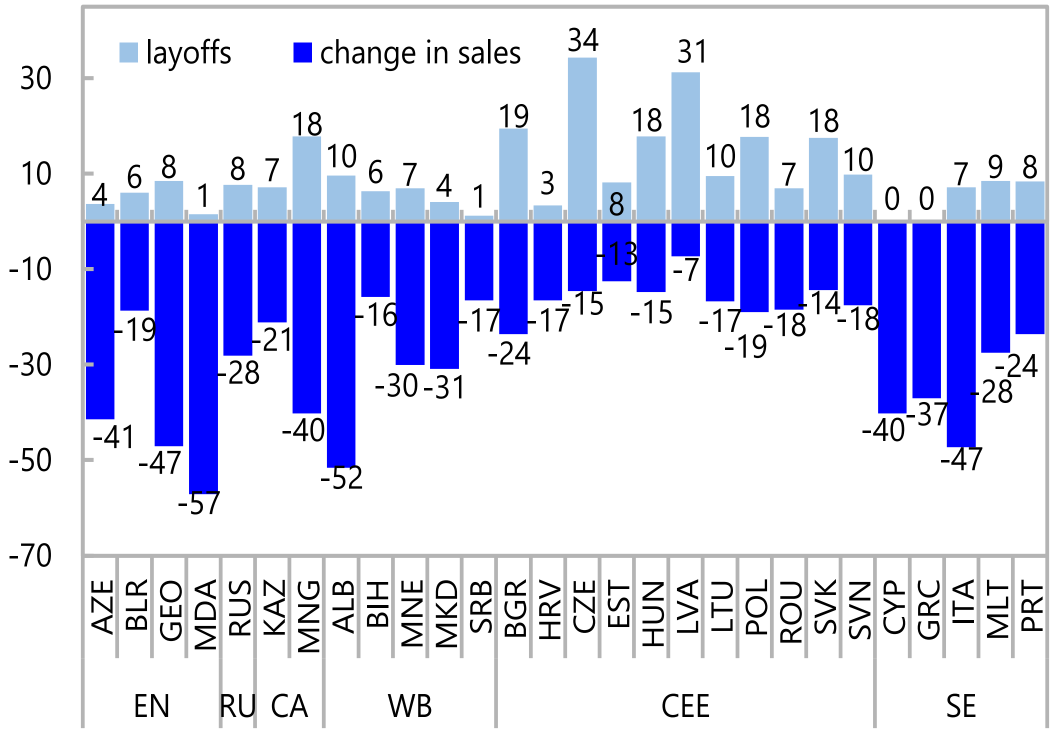
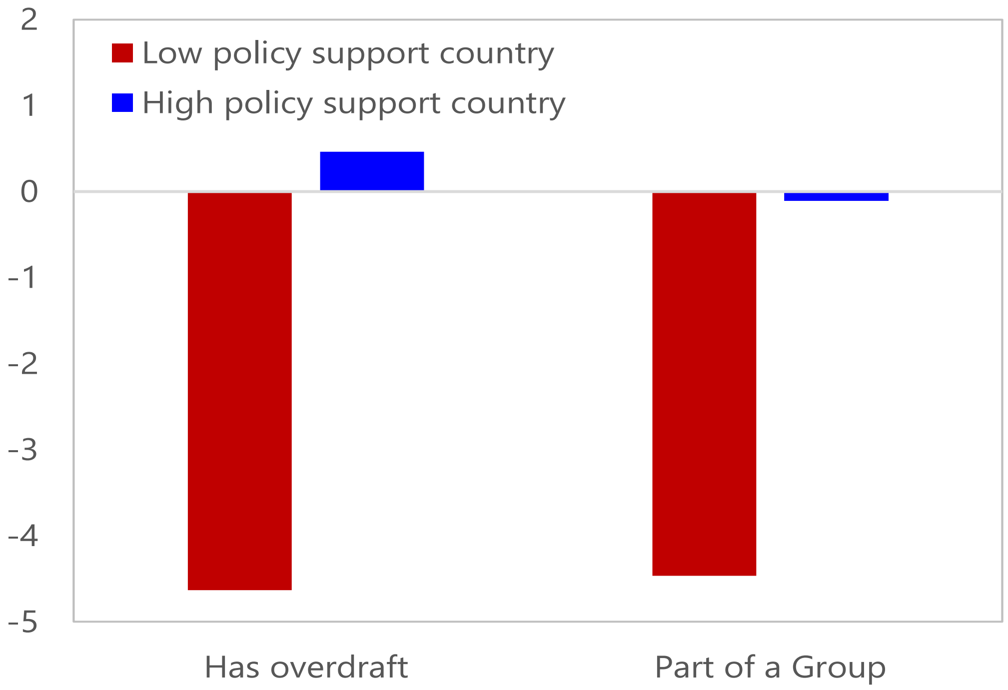
Companies have bet on a temporary shock

Change in sales and layoffs by country - *Percent, year-on-year*



Public support is essential to companies, even when they have access to group funding

Difference in predicted bankruptcy rates in high vs low corporate support countries - *Percent, year-on-year*



Note: the study is based on a sample of c. 16,000 firms (42% CEE, 11% central Asia, 10% Western Balkans, 8% Russia, 39% UK and South Europe). It covers the period from March 2020 to June 2021 with varying sample size.

Sources: EIB and EBRD (forthcoming): Business resilience in the pandemic and beyond. Adaptation, innovation, financing and climate action from Eastern Europe to Central Asia.

Thank you!

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