Looking back at structural NPL issues in the CESEE

<table>
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<tr>
<th>Key impediment for NPL resolution in the region leading to build up of NPLs up to peak of 2012-13</th>
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<tr>
<td><strong>Legal framework</strong></td>
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<td>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).</td>
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<td><strong>Supervision</strong></td>
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<td>Inadequate supervisory efforts in enforcing bank provisioning and timely resolution of NPLs.</td>
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<td><strong>Information</strong></td>
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<td>Lack of transparency in public registers and asymmetry of information.</td>
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<td><strong>NPL market</strong></td>
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<td>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).</td>
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<td><strong>Tax regime</strong></td>
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<td>Primarily disincentivising tax rules for NPL resolutions.</td>
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Sources: IMF, NPL Monitor
NPL Initiative (CESEE region) as catalyst to change

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

The NPL Initiative was born in 2014 as a dedicated workstream, building upon the successful private-public sector coordination platform of the Vienna Initiative.
Asset quality remained resilient to C-19, with a caveat

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
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?

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

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.

Thank you!

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