



HRVATSKA NARODNA BANKA

Macro-financial outlook with a view on NPL's and debt restructuring

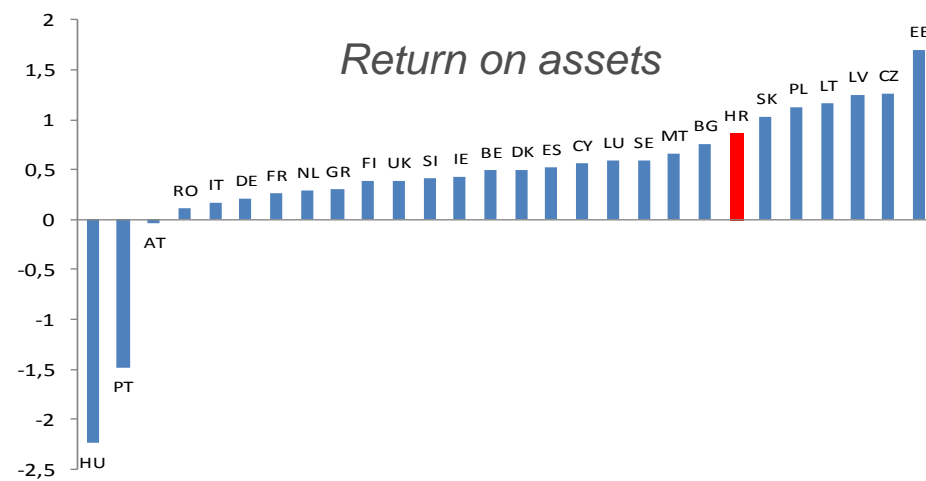
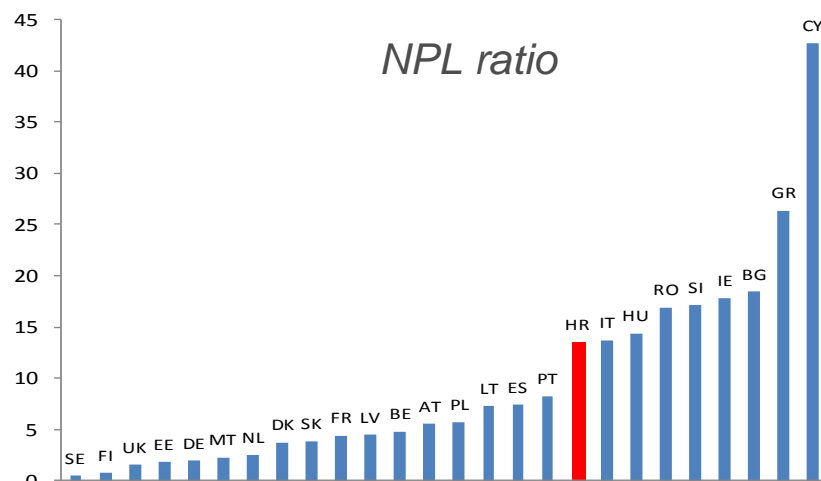
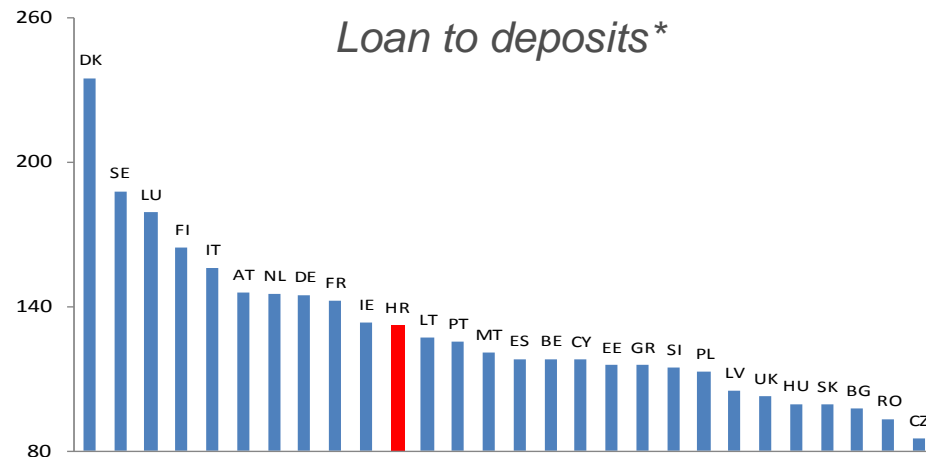
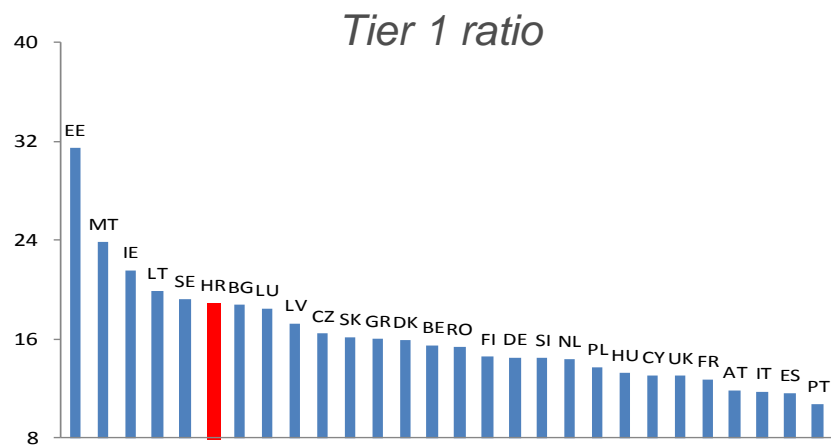
Vedran Šošić, Vicegovernor

February 2015

Outline of the presentation

- Banking system performing well.
 - Elevated NPL level appears to be the only weak point.
- Corporate sector – solid operational profitability, but elevated leverage.
- Banks NPL resolution efforts grinding to a halt.
- PBS scheme – many agreements already reached, but with virtually no impact on the level of bank's claims.
- Foreign creditors of the Croatian corporate sector are also feeling the pain.
- Resolving corporate NPL's and fostering corporate restructuring will require joint effort of domestic and foreign creditors.

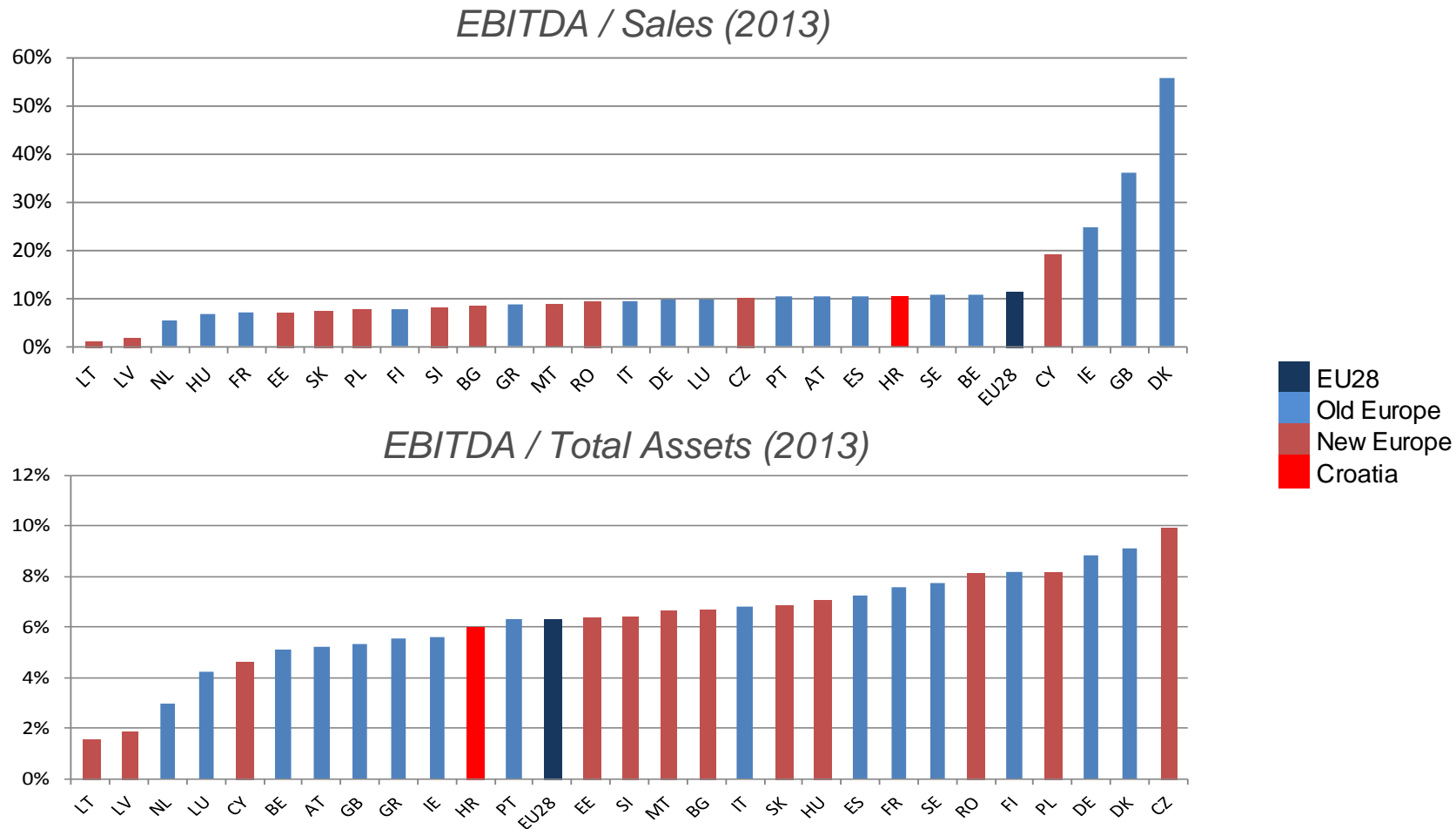
Banking system well-placed in European rank tables, H1/2014



Source: ECB (Consolidated banking data), June 2014.

*Loan to deposit ratio is calculated as total loans and advances to non-financial institutions deposits.

Croatian NFCs: Operational profitability on par with EU average

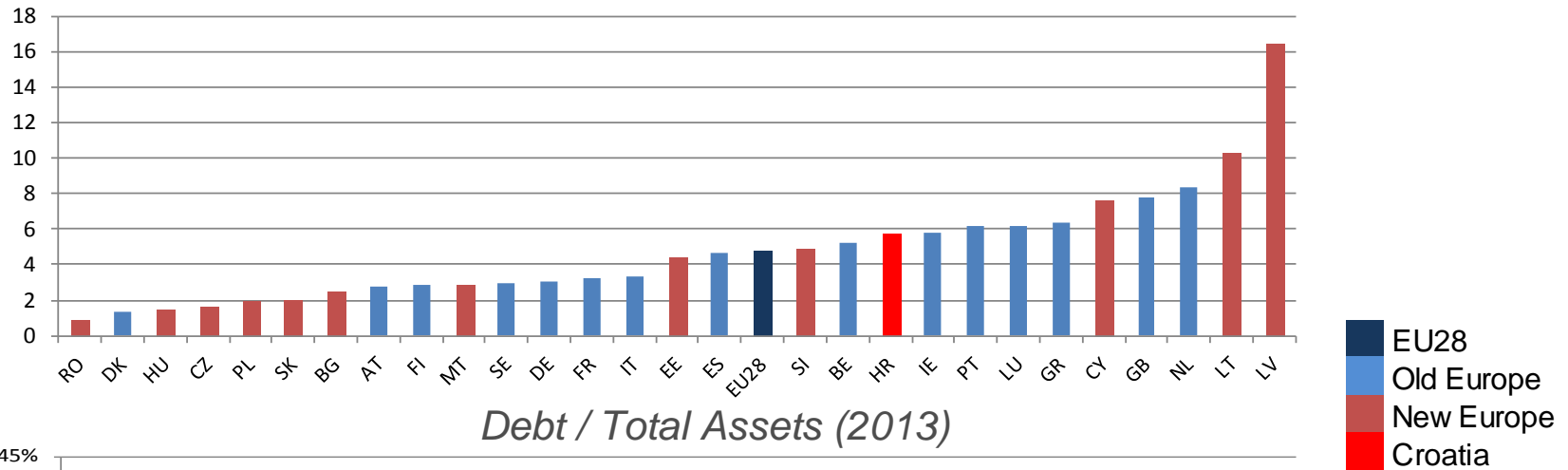


Source: BvD Orbis database.

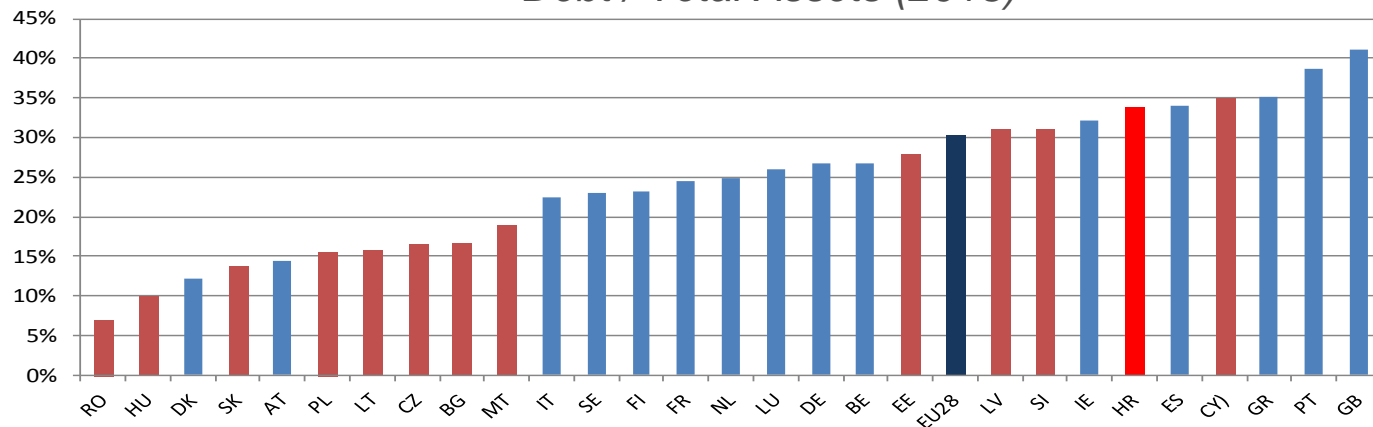
The reports on Orbis database are standardised into a format created to accommodate regional variations in filing regulations and accountancy practices. The indicators are calculated based on aggregated values.

Croatian NFCs: Slightly higher leverage than EU average

Debt / EBITDA (2013)



Debt / Total Assets (2013)

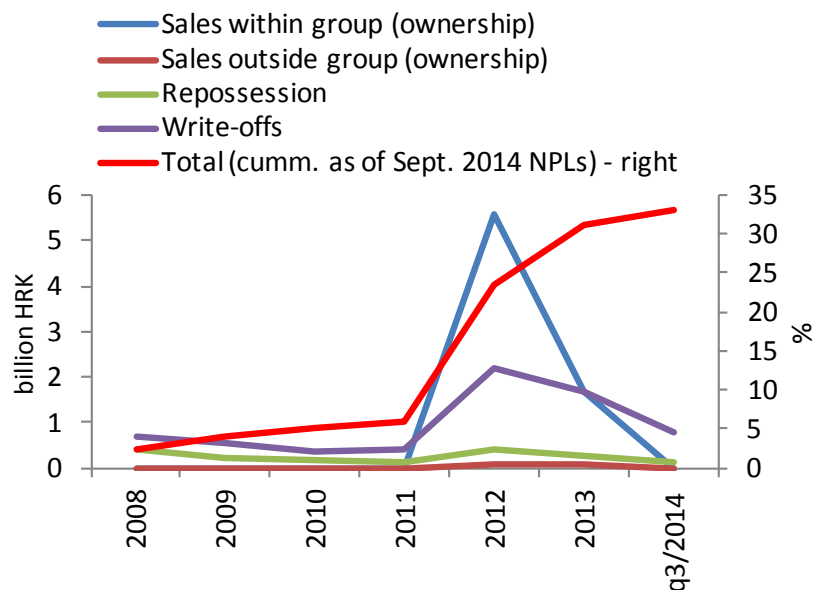


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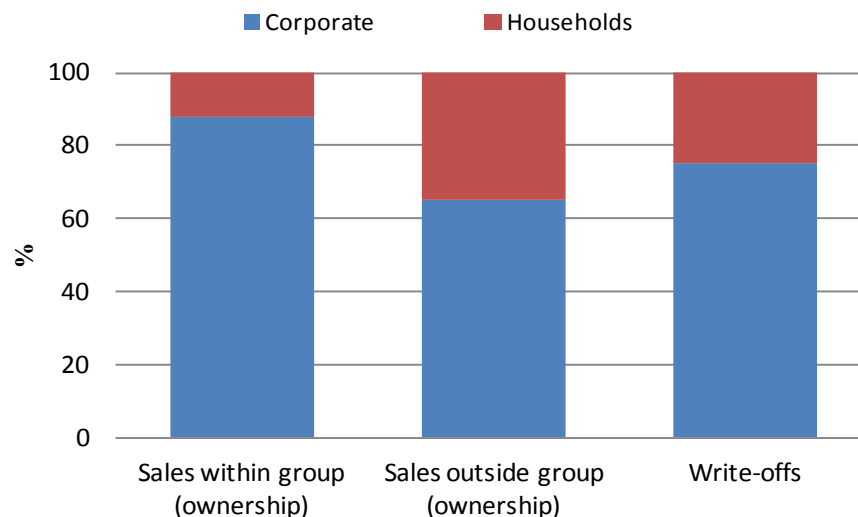
NPL resolution efforts grinding to a halt

NPL resolution, by method



Source: HNB.

NPL resolution structure, by sector (debtor), from 2010-2014

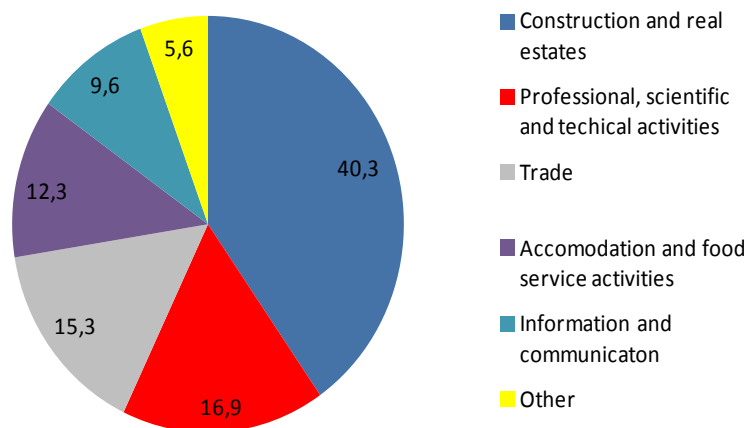


Source: HNB.

- ❑ Without NPL resolution activities implemented so far, NPL ratio would amount to over 19%.
- ❑ On average, more than 80% of all resolution activities referred to corporate sector.
 - ❑ Banks have been more inclined to deal with the corporate NPL's "in house".

Pre-bankruptcy settlements (PBS) making a good progress

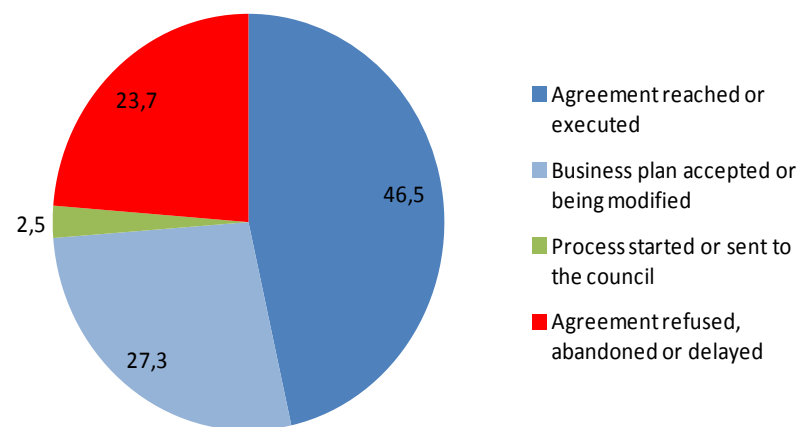
Construction has high share in all debt of companies in PBS (also significant part of professional, scientific and technical activities are also connected with construction)



Source: Financial agency (July 2014 data).

- ❑ During 2013 and 2014, 6.662 firms entered PBS with 61 billion kuna of total liabilities.
- ❑ Those companies hold about 10% of total corporate loans.

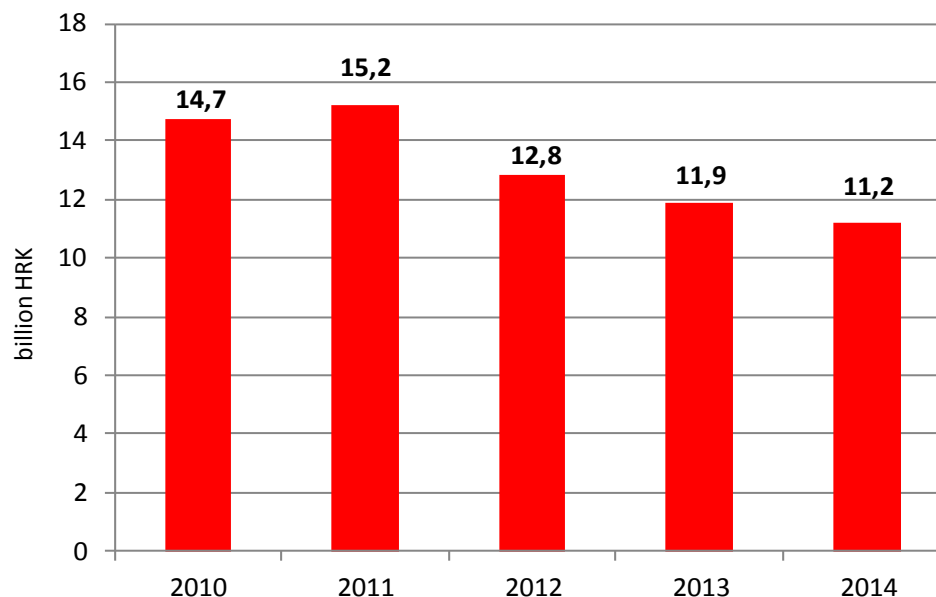
Pre-bankruptcy settlements for bank clients seem to be progressing slightly better (by shares in banks' corporate loans)



Source: Financial agency (July 2014 data).

However, initiating PBS has not yet produced a visible effect on the corporate debt

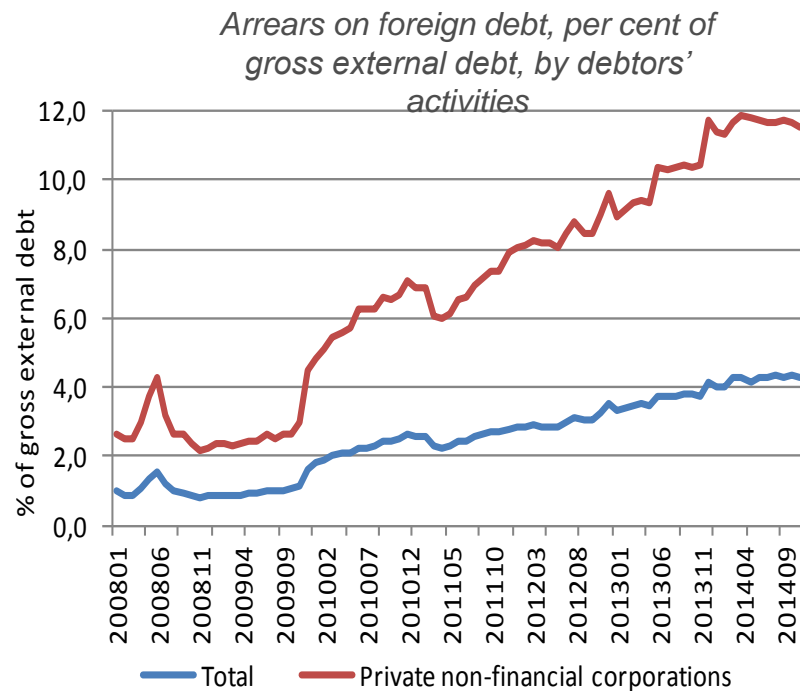
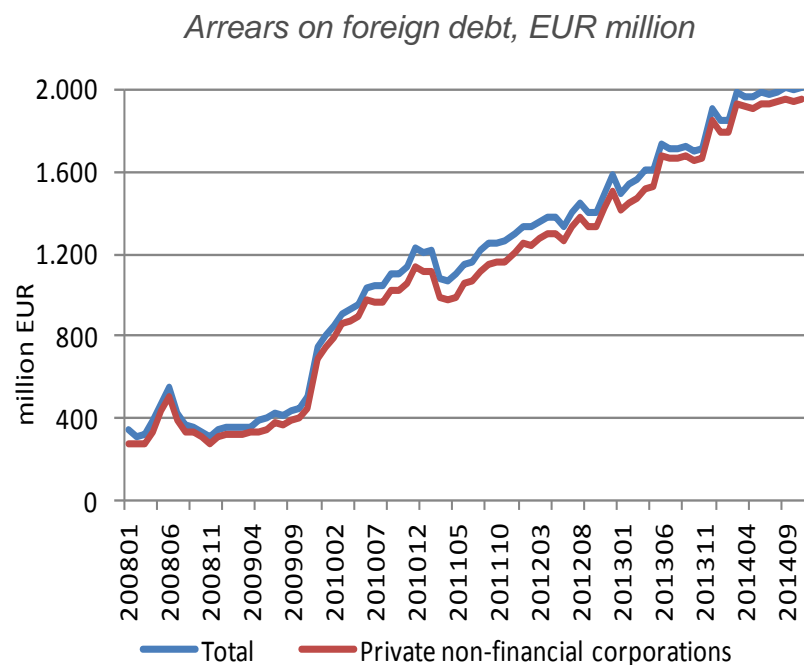
Total bank loans to NFCs in pre-bankruptcy



Source: HNB.

- ❑ So far, deleveraging intensity and loan trends do not significantly differ in PBS firms relative to total population.
- ❑ Outstanding loan amount in PBS firms in 2014 is relatively stagnant, suggesting that banks have not yet taken haircuts on loans to companies in PBS.

Foreign creditors are also feeling the pain: Foreign debt falling into arrears

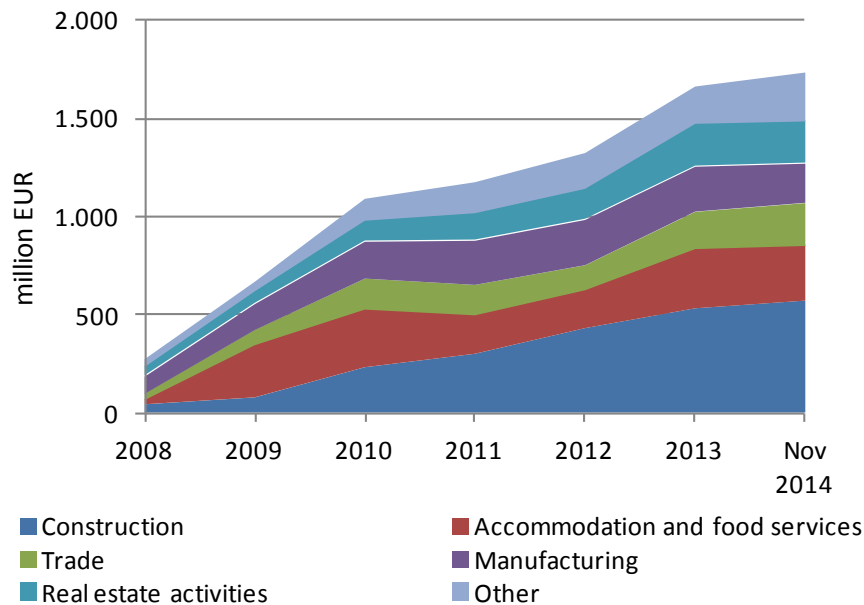


Source: HNB.

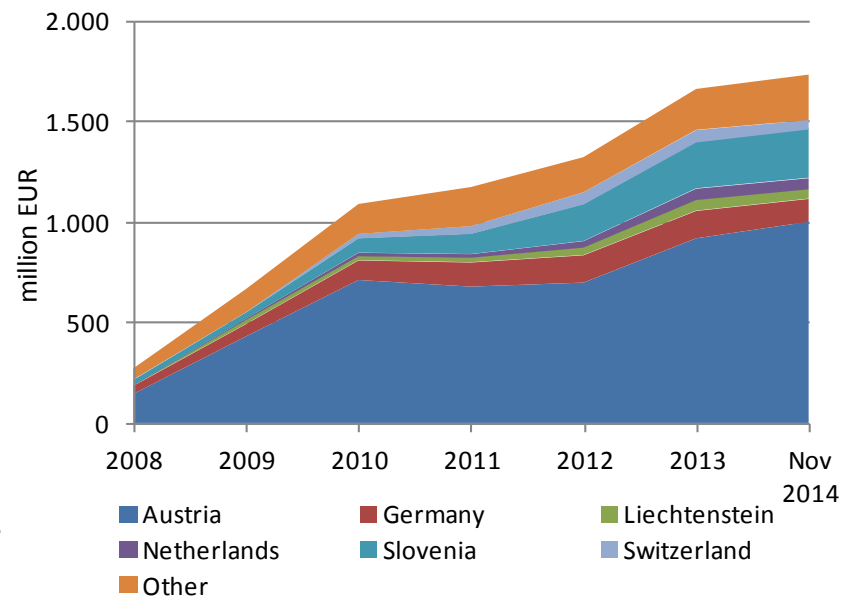
- Arrears on foreign debt basically comprise of corporate arrears.

NFC's arrears concentrated in only a handful of activities and countries of origin

By debtors' activities



By creditors' country of origin

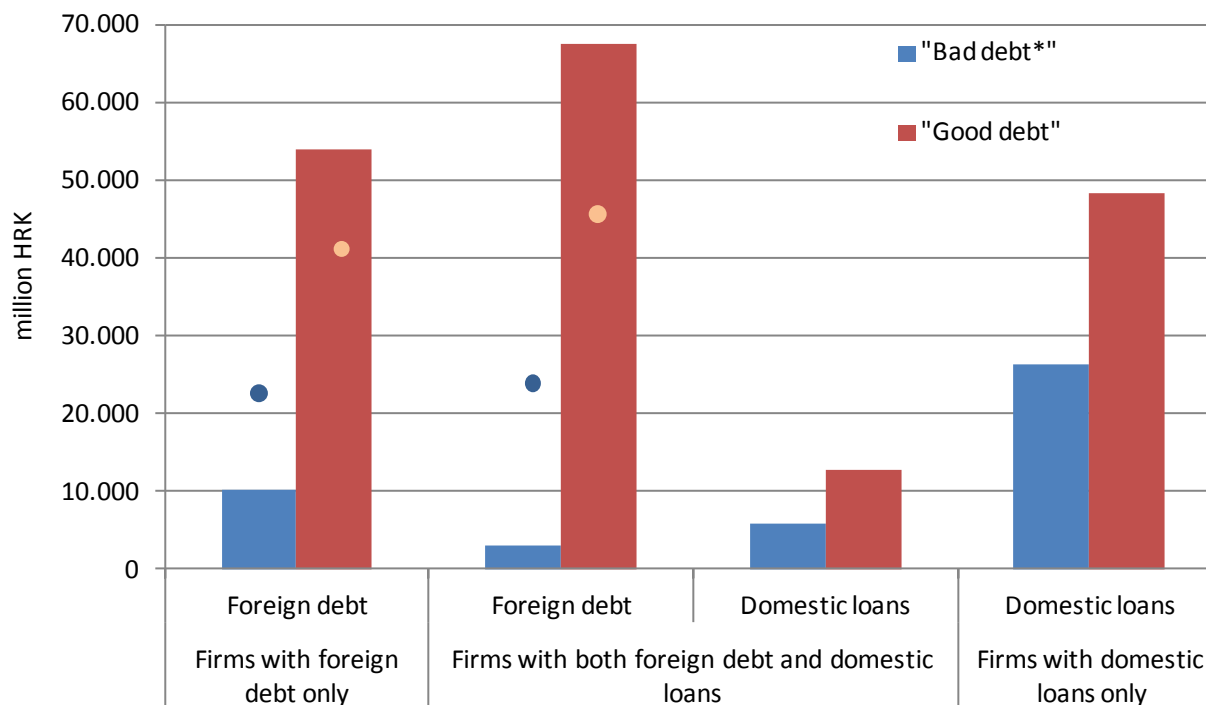


Source: HNB.

- Construction and real estate, accommodation and trade account for the bulk of arrears.

Resolution of corporate NPL's will require a joint effort

Debt outstanding as at end-November 2014



Source: HNB.

*"Bad debt" refers to NPLs and/or arrears

- Companies that rely solely on domestic debt comprise only a small portion of total corporate debt.