NPL monitor for the CESEE region[1]

H2 2020

The NPL monitor is the semi-annual publication of the NPL Initiative, a subset of the Vienna Initiative. The publication reviews the latest trends with regard to non-performing loans (NPLs) in 17 countries[2] in central, eastern and south-eastern Europe (CESEE). Due to the Covid-19 pandemic, most of the policies implemented in the last six months have aimed to safeguard economies and industries in response to the crisis. Moreover, the impacts of the pandemic have not yet materialised into NPLs. This edition of the NPL Monitor therefore focuses on providing an interim view of the impacts in the CESEE region and in the European Union (EU).

[1] Prepared by Eric Cloutier, Senior NPL Adviser and Jaeyoung Wee, Analyst, EBRD. All remaining omissions or errors are our own. All views presented here are those of the authors and do not necessarily reflect the official EBRD standpoint. For more details, please contact NPL@ebrd.com.

[2] CESEE (dark blue on the map): Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovak Republic and Slovenia. Non-CESEE (light blue): Cyprus, Greece and Ukraine are not covered in the CESEE NPL data, although the NPL Initiative has started following more closely NPL reform in these countries.

Contents

Executive summary

The NPL ratios and overall volumes in the CESEE region have greatly improved over the last five years, with the region's NPL ratio having almost halved and NPL volumes decreased by close to one-third. NPL levels have continued to decline in the last 12 months, despite the Covid-19 pandemic. As of 30 June 2020, NPL volumes stood at €33.0 billion[3] for the region (a decrease of 8.9 per cent year on year) and the average NPL ratio reached 3.6 per cent (a decrease of 0.4 percentage point).[4] The region NPL ratio is now only slightly above the EU average of 2.9 per cent.[5] These data may however not be fully representative of how the situation will evolve due to the pandemic. Many unknowns remain, but greater clarity regarding the extent of the impact on the quality of banking assets should begin to materialise later in 2021, as the current measures begin to expire.

The Covid-19 pandemic is very different from the 2008-09 global financial crisis. This is a liquidity crisis affecting a large volume of borrowers, ranging from corporates to small and medium-sized enterprises (SMEs) and ultimately to consumers. A high volume of new unlikely-to-pay exposures and early defaults would require banks to apply focus and dedicated resources for adequate pre-emption and rapid intervention. Banks will need to act quickly to avoid a situation where liquidity is no longer available and loans can no longer be restructured. This will necessitate adequate strategy, systems, operations, resources and skills. In the EU, regulators are closely monitoring the evolution of NPLs due to the pandemic and are requiring banks to demonstrate sufficient and timely action to mitigate these credit risks.

The CESEE region is, however, better prepared than it was for the 2008-09 financial crisis, with well-functioning NPL transaction markets in many jurisdictions, as well as established servicing capabilities. This change in the typology of loans that are to be transacted is, however, expected to require some changes in the approach taken by investors and servicers, with more expertise and capabilities needed.

[3] Unless stated otherwise, all data are sourced from the IMF Financial Soundness Indicators (IMF FSI), available at http://data.imf.org/regular.aspx?key=61404590 (last accessed on 16 November 2020). For individual country definitions and more precise comparisons, please consult the IMF FSI metadata and refer to the individual country authorities for further details. Please also refer to Annex 1 of this NPL Monitor for more details. Unless stated otherwise, "NPL" refers to gross NPL values throughout the NPL Monitor.

[4] Net NPL ratio net of provision (per cent) is calculated by taking the value of total NPLs net of provisions as the numerator, and the value of total gross loans as the denominator. Please see Annex 1 for definitions.

[5] European Banking Authority (EBA) Risk Dashboard, Q2 2020. See https://eba.europa.eu/sites/default/documents/files/document_library/Risk%20Analysis%20and%20Data/Risk%20dashboard/Q2%202020/933053/EBA%20Dashboard%20-%20Q2%202020.pdf

1. NPL evolution in the CESEE region

NPL levels continued to decline in the 12 months ending 30 June 2020, despite the start of the pandemic in the first half of 2020. However, these data may not be fully representative of the situation as the actual impact of the Covid-19 pandemic on the quality of CESEE banks' assets is yet to materialise, with many unknowns remaining.

A broad range of measures have been implemented to counter the effects of the Covid-19 pandemic on economies and industries, with government support in many jurisdictions having been more extensive than initially anticipated. These measures have mitigated the impacts and prevented new and immediate surges in NPLs from borrowers facing a temporary shortage of liquidity. These measures have also had the effect of postponing some of the more material impacts on the quality of banks' assets.

The effect of the crisis on new surges of NPLs will become clearer towards the second half of 2021, as the measures (such as payment moratoria and tax holidays) implemented in various jurisdictions begin to expire and their benefits erode over time. The impact is likely to vary between countries, depending on how their authorities handle the crisis, including access to vaccines and the timing of distribution.

Continued decreased in NPL volumes in the last 12 months for most CESEE jurisdictions

- NPL volumes have recorded a decrease[6] of 8.9 per cent in the CESEE region in the 12 months leading up to June 2020, reaching a level of €33.0 billion.[7]
- Most countries in the region had a year-on-year reduction in their NPL volumes of more than 10 per cent: Hungary (-35.3 per cent), Latvia (-31.3 per cent), Albania (-25.3 per cent), Slovenia (-22.8 per cent), Croatia (-22.6 per cent), Serbia (-18.0 per cent), Bosnia and Herzegovina (-13.7 per cent), Lithuania (-12.4 per cent) and Czech Republic (-10.3 per cent). Only four countries experienced an increase in NPL volumes: Montenegro (€0.2 billion; 15.4 per cent), Estonia (€0.1 billion; 11.9 per cent), Kosovo (€0.1 billion; 10.2 per cent) and the Slovak Republic (€1.9 billion; 2.4 per cent).

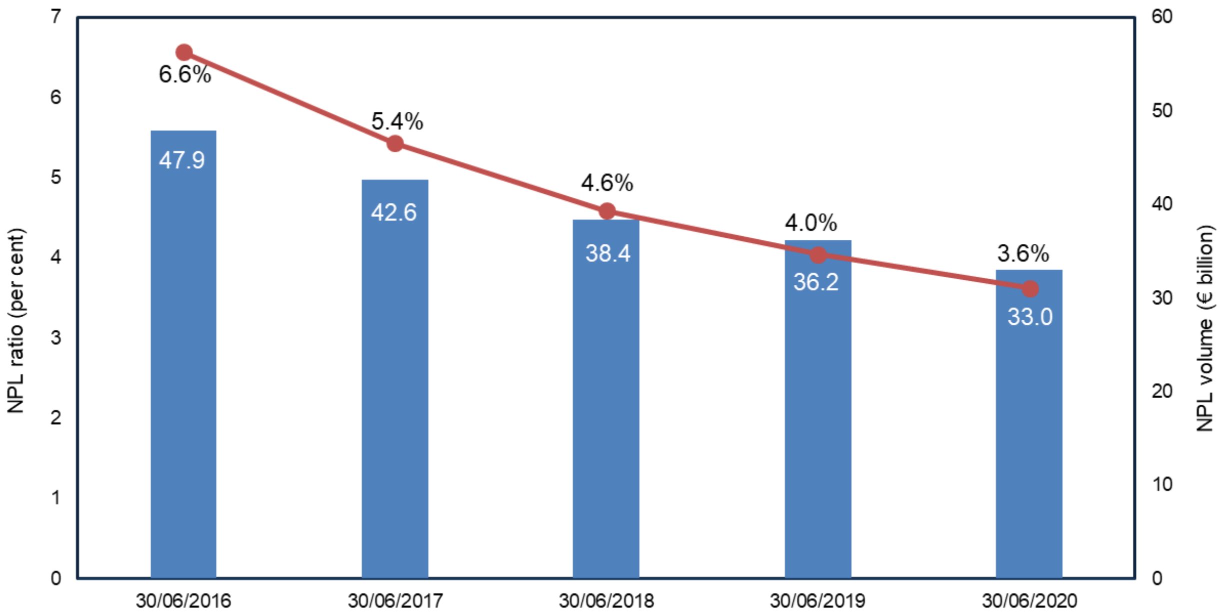
---

[6] Any variations between volumes are calculated as ((value period 1/value period 0) -1) and between ratios as (% period 1 - % period 0). See Annex 1 for all definitions.
[7] In Croatia, Greece and Lithuania, the data relate to the period from 31 March 2020. In Cyprus, the data cover the period from 31 December 2019.

Considerable fall in average NPL ratio by 0.4 percentage point in the 12-month period

- As of June 2020, the average NPL ratio (as a proportion of NPLs to total gross loans) across the CESEE region had decreased to 3.6 per cent, a reduction of 0.4 percentage point relative to the level seen 12 months earlier.
- The net NPL ratio (net of provision)[8] stood at 1.2 per cent, down by 0.2 percentage point over the same period.
- The NPL ratio in the region has almost halved since June 2016, with NPL volumes falling by nearly one-third.

Figure 1. NPL volumes and NPL ratios in the CESEE region



Overall improvements in NPL coverage ratios, with a few exceptions of deteriorating metrics

- On a region-wide basis, the NPL coverage ratio (measured as the proportion of loan-loss provisions to NPLs) has improved by 1.7 percentage points, reaching 65.6 per cent as of June 2020.
- On a country-by-country basis, Montenegro, a partner country of the NPL Initiative, has the highest coverage ratio, at 84.3 per cent, followed by Croatia (84.1 per cent, with an increase of 12.7 percentage points), Bosnia and Herzegovina (80.4 per cent, with an increase of 2.2 pp) and Slovenia (80.2 per cent, with an increase of 5.5 percentage points).

[8] Net NPL ratio net of provision (per cent) is calculated by taking the value of total NPLs net of provisions as the numerator, and the value of total gross loans as the denominator. See Annex 1 for all definitions.

Figure 2a. NPL ratio, coverage ratio and NPL volume (per cent, € billion, Q2 2020)

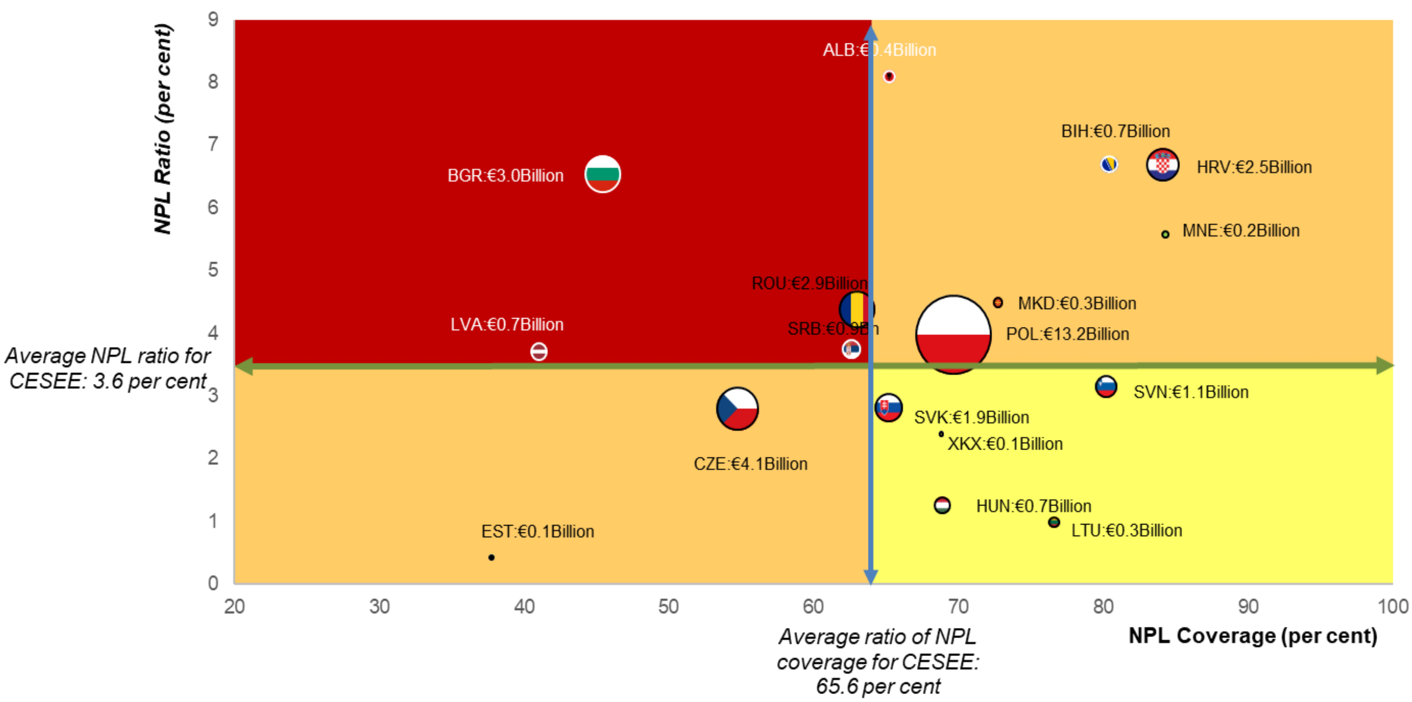


Figure 2b. NPL ratio and NPL coverage ratio (per cent), as per the colour quadrants in Figure 2a (per cent, Q2 2020)

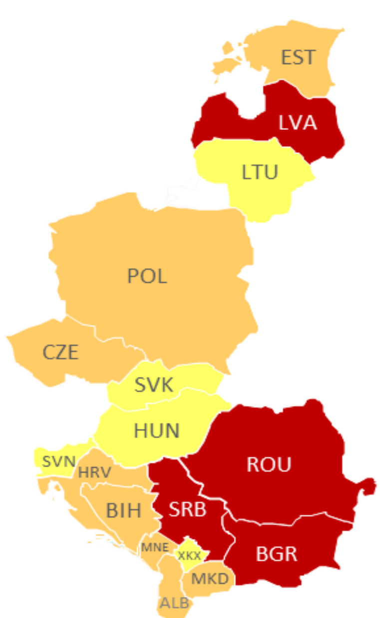


Figure 2c. Net NPL ratio (per cent, Q2 2020)

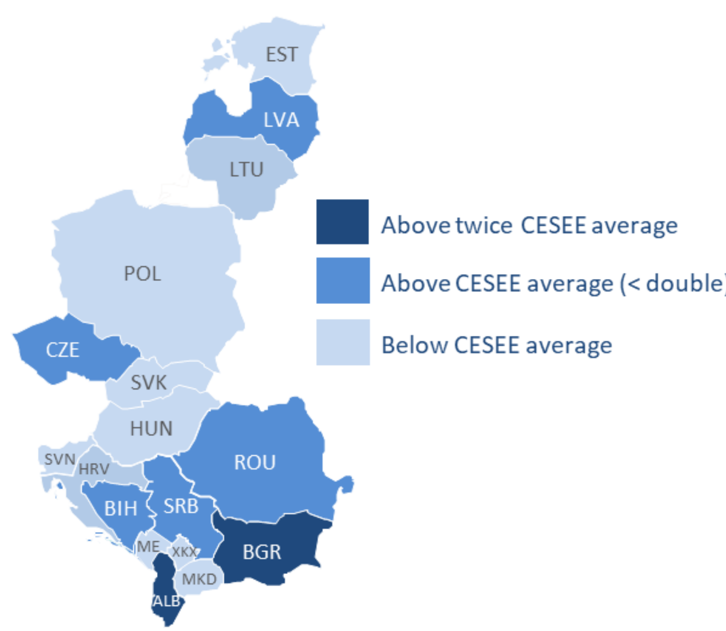


Table 1. Overview of the NPL profile in CESEE, 30 June 2019 to 30 June 2020

	NPL volume (€ bn)		NPL ratio (%)		NPL coverage ratio		Net NPL ratio (%)		Net NPL / Capital (%)		NPL to GDP (%)	
Country	**Jun-20**	**Variation(%)**	**Jun-20**	**Δ(pp)**	**Jun-20**	**Δ(pp)**	**Jun-20**	**Δ(pp)**	**Jun-20**	**Δ(pp)**	**Jun-20**	**Δ(pp)**
Albania (ALB)	0.4	▼ (25.3)	8.1	▼ (3.1)	65.2	▲ 3.2	2.8	▼ (1.5)	10.5	▼ (5.6)	3.1	▼ (0.8)
Bosnia & Herz. (BIH)	0.7	▼ (13.7)	6.7	▼ (1.3)	80.4	▲ 2.2	1.3	▼ (0.4)	7.8	▼ (2.6)	4.2	▼ (0.5)
Bulgaria (BGR)	3.0	▼ (7.3)	6.5	▼ (0.8)	45.4	▼ (4.8)	3.6	▼ (0.1)	22.3	▼ (1.1)	5.0	▼ (0.5)
Croatia (HRV)	2.5	▼ (22.6)	6.7	▼ (2.4)	84.1	▲ 12.7	1.1	▼ (1.5)	4.9	▼ (6.8)	4.8	▼ (1.1)
Czech Republic (CZE)	4.1	▼ (10.3)	2.8	▼ (0.2)	54.7	▲ 1.0	1.3	▼ (0.1)	8.8	▼ (2.3)	1.9	▼ (0.2)
Estonia (EST)	0.1	▲ 11.9	0.4	▲ 0.0	37.8	▲ 1.6	0.3	▲ 0.0	1.2	▲ 0.1	0.3	▲ 0.0
Hungary (HUN)	0.7	▼ (35.3)	1.3	▼ (0.8)	68.9	▲ 1.7	0.4	▼ (0.3)	1.8	▼ (1.3)	0.6	▼ (0.3)
Kosovo (XKX)	0.1	▲ 10.2	2.4	▲ 0.0	68.8	▼ (20.6)	0.7	▲ 0.5	4.3	▲ 2.9	1.2	▲ 0.2
Latvia (LVA)	0.7	▼ (31.3)	3.7	▼ (1.7)	41.0	▲ 2.2	2.2	▼ (1.1)	18.0	▼ (10.0)	2.4	▼ (1.0)
Lithuania (LTU)	0.3	▼ (12.4)	1.0	▼ (0.3)	76.6	▲ 36.9	0.2	▼ (0.5)	3.5	▼ (8.9)	0.6	▼ (0.1)
North Macedonia (MKD)	0.3	▼ (9.3)	4.5	▼ (0.9)	72.7	▼ (1.9)	1.2	▼ (0.2)	6.5	▼ (0.6)	2.4	▼ (0.3)
Montenegro (MNE)	0.2	▲ 15.4	5.6	▲ 0.3	84.3	▼ (6.3)	0.9	▲ 0.4	4.9	▲ 2.2	3.7	▲ 0.8
Poland (POL)	13.2	▼ (1.8)	4.0	▼ (0.1)	69.6	▲ 0.2	1.2	▼ (0.0)	8.9	▼ (0.3)	2.5	▼ (0.0)
Romania (ROU)	2.9	▼ (2.5)	4.4	▼ (0.4)	63.0	▲ 3.9	1.6	▼ (0.3)	10.1	▼ (1.8)	1.3	▼ (0.1)
Serbia (SRB)	0.9	▼ (18.0)	3.7	▼ (1.5)	62.6	▲ 1.3	1.4	▼ (0.6)	5.3	▼ (1.8)	1.8	▼ (0.5)
Slovakia (SVK)	1.9	▲ 2.4	2.8	▼ (0.1)	65.2	▼ (3.1)	1.0	▲ 0.1	7.2	▲ 0.5	2.0	▲ 0.1
Slovenia (SVN)	1.1	▼ (22.8)	3.2	▼ (1.3)	80.2	▲ 5.5	0.6	▼ (0.5)	4.3	▼ (3.5)	2.4	▼ (0.7)
CESEE	33.0	▼ (8.9)	3.6	▼ (0.4)	65.6	▲ 1.7	1.2	▼ (0.2)	8.2	▼ (1.7)	2.1	▼ (0.2)
Cyprus (CYP)	8.1	▼ (9.2)	17.1	▼ (1.5)	50.3	▲ 1.2	8.5	▼ (1.0)	76.7	▼ (9.9)	39.0	▼ (2.3)
Greece (GRC)	72.7	▼ (11.7)	35.3	▼ (5.0)	47.7	▼ (1.5)	18.5	▼ (2.0)	132.1	▼ (9.5)	41.9	▼ (2.8)
Ukraine (UKR)	17.9	▼ (8.1)	48.5	▼ (2.3)	90.9	▲ 1.9	4.4	▼ (1.2)	24.8	▼ (13.5)	14.1	▼ (0.2)
Other	98.7	▼ (10.9)	34.0	▼ (4.1)	55.7	▼ (0.4)	15.0	▼ (1.7)	107.5	▼ (12.6)	30.7	▼ (1.7)
Total Countries	**131.7**	▼ **(10.4)**	**11.0**	▼ **(1.4)**	**58.2**	▲ **0.1**	**4.6**	▼ **(0.6)**	**30.7**	▼ **(5.0)**	**7.1**	▼ **(0.7)**

Note:

- Variation (per cent) is calculated as ((value period 1/value period 0) -1), with June 2020 as period 1 and June 2019 as period 0 (where available).
- Δ (percentage points) is the variation, between 2 periods. It is calculated as (% period 1 - % period 0).
- 30 June 2020 is the latest date for which data are available for most of the countries covered in this edition of the NPL Monitor. The latest available data for Croatia, Greece and Lithuania are from 31 March 2020. For Cyprus, the latest available data are from 31 December 2019.
- The NPL-to-GDP ratio (per cent) is calculated using annual GDP values for 2019 and 2020, respectively (rather than quarterly data), which is in line with the IMF World Economic Outlook reporting.

2. Focus of EU regulators on pre-empting new NPL flows as a result of the Covid-19 pandemic

"According to ECB estimates, in a severe but plausible scenario NPLs at euro area banks could reach €1.4 trillion, well above the levels of the financial and sovereign debt crisis…. While we hope for the best, we must be ready for the worst. This time we need to do better than in the aftermath of the previous crisis"
Andrea Enria, Chair of the Supervisory Board of the European Central Bank, 27 October 2020

"History shows us that it is best to tackle NPLs early and decisively, especially if we are to maintain the banking sector's role in supporting the overall economy. We have a window of opportunity to take preventive action – now."
Vice-President Valdis Dombrovskis, European Commission Vice-President, 25 September 2020

In the EU, NPLs resulting from the previous crisis have been significantly reduced in recent years, thanks to reform carried out over that period. However, EU regulators are increasingly concerned that a new wave of NPLs in Europe is likely to materialise as a result of the Covid-19 pandemic.

European banks are better capitalised, more resilient in terms of liquidity and operationally better equipped to tackle new flows of NPLs than they were for the financial crisis of 2008-09. However, there are concerns that a rapid rise in new NPLs may lead to new accumulation in the balance sheets of banks, setting these institutions back when they are already under pressure in terms of profitability and dealing with the remaining legacy stocks of NPLs.

The unprecedented economic contraction and intense pressure on some industry sectors are anticipated to affect the asset quality of banks. While the diverse measures implemented at the EU and national levels have had the positive effect of diminishing the immediate impact of the crisis, NPLs are likely to begin to rise once the measures start to expire and the positive effects erode. However, many unknowns remain and the impacts are likely to vary between jurisdictions.

Therefore, EU regulators are closely monitoring the movements in asset quality and the foreseen impacts of the pandemic. They are emphasising prevention and preparedness, requiring banks to take all relevant action in anticipation of such potentially high volumes of new NPL flows. Measures of this kind can be also considered as benchmarks of good practice for non-EU countries.

The next section of this NPL Monitor discusses three recent EU measures for NPL resolution after the Covid-19 pandemic: 1) EU action plans for NPLs "2.0", 2) the EBA reactivates its Guidelines on legislative and non-legislative moratoria and 3) the use of moratoria and public guarantees in the EU.

1) EU action plans for NPLs 2.0

In response to the challenge of high levels of NPL stocks remaining on banks' balance sheets from the previous financial crisis, the Council of the EU published in 2017 an action plan to tackle NPLs[9] in the EU. This plan sets out measures and actions implemented by EU regulators and national competent authorities in the last three years. These have enabled better pre-emption, management and provision with regard to NPLs, as well as contributing to the further development of NPL sales markets in Europe.

In addition, in 2018 the Council of the EU published a series of more systemic tools that could be used in the event of a similar crisis. Among other features, these tools include:

- a blueprint for national asset management companies (AMCs)[10]
- a proposal for a statutory prudential backstop to prevent under-provisioning of NPLs[11]
- a proposal for a Directive on credit servicers, credit purchasers and the recovery of collateral[12]
- a proposal to develop a European Platform for Non-Performing Loans.[13]

This 2017 Council action plan is now used as a stepping stone to develop a new NPL action plan to tackle the expected increase in NPLs arising from the pandemic. The new plan will build on the previous work but will be tailored to the specific circumstances and needs of the Covid-19 crisis. This time around, prevention and early action at the centre are required, to avoid a new accumulation of stock and prevent the erosion of value. The new NPL strategy will focus on two main areas: (1) further development of secondary NPL markets, and (2) further reform of the insolvency and debt-recovery frameworks.

The European Commission (EC) recently held two roundtables[14] to discuss and brainstorm the new action plan on NPLs: the 25 September 2020 industry roundtable and the 5 October 2020 event for regulators and official stakeholders. Topics for discussion at these roundtables included a possible approach to improving the usability of national AMCs, the state of play of an EC proposal for a Directive on credit servicers and credit purchases, initiatives to improve data standardisation and data infrastructure on secondary markets for NPLs, and the EC's recent proposal on the securitisation of non-performing exposures. A first draft of the new NPL action plan is expected by the end of 2020 but no specific timeline has been publicly communicated yet.

---

[9] See https://www.consilium.europa.eu/en/press/press-releases/2017/07/11/conclusions-non-performing-loans/
[10] See https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018SC0072&from=EN
[11] See https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/1183-Statutory-prudential-backstops-addressing-insufficient-provisioning-for-newly-originated-loans-that-turn-non-performing
[12] See https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018PC0135&from=en
[13] See https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018SC0472&from=EN
[14] See https://ec.europa.eu/commission/commissioners/2019-2024/dombrovskis/announcements/speech-executive-vice-president-valdis-dombrovskis-roundtable-tackling-non-performing-loans_en

2) EBA reactivates its guidelines on legislative and non-legislative moratoria

As a result of the impact of the second Covid-19 wave and government restrictions in many EU countries, the European Banking Authority (EBA) reactivated on 2 December 2020 its guidelines on legislative and non-legislative moratoria.[15] It aims to bridge liquidity shortages triggered by the second-wave lockdowns.

The initial EBA guidelines on legislative and non-legislative loan repayment moratoria were published on 2 April 2020,[16] with the deadline of application set as 30 September 2020.[17] This revision will now apply until 31 March 2021.

The EBA has introduced two new constraints (quoted here):

- "Only loans that are suspended, postponed or reduced under general payment moratoria not more than 9 months in total, including previously granted payment holidays, can benefit from the application of the Guidelines."
- "Credit institutions are requested to document to their supervisor their plans for assessing that the exposures subject to general payment moratoria do not become unlikely to pay. This requirement will allow supervisors to take any appropriate action."

3) Use of moratoria and public guarantees in the EU[18]

In the EU, member states provided moratoria on loan repayment, public guarantee schemes (PGSs) and fiscal measures, to mitigate the immediate impact of the Covid-19 pandemic on economies and industries. The EBA published on 20 November 2020 its first assessment of the use of Covid-19 moratoria and public guarantees across the EU banking sector (using data as of 30 June 2020).

Moratoria

- Loans under moratoria are likely to be associated with an increased credit risk, with around 17 per cent of loans under moratoria classified as stage 2 (in other words, double the share for total loans).
- The EBA expects that, on expiry of the moratoria provided, there might be increases in NPLs.
- The moratoria (or payment breaks) were provided in significant volumes in many countries.
- Moratoria were particularly widespread among SMEs and commercial real estate but were also significant among mortgage loans in some countries.
- In the EU, moratoria were provided for:

---

[15] See https://eba.europa.eu/eba-reactivates-its-guidelines-legislative-and-non-legislative-moratoria
[16] See https://eba.europa.eu/regulation-and-policy/credit-risk/guidelines-legislative-and-non-legislative-moratoria-loan-repayments-applied-light-covid-19-crisis
[17] See https://eba.europa.eu/eba-phases-out-its-guidelines-legislative-and-non-legislative-loan-repayments-moratoria
[18] See https://eba.europa.eu/banks-report-significant-use-covid-19-moratoria-and-public-guarantees

    - about 6 per cent of banks' total loans.
    - close to 7.5 per cent of total loans to households and non-financial corporations. Of these, moratoria were provided for:
        - 16 per cent of SME loans
        - 12 per cent of commercial real estate loans
        - 7 per cent of residential mortgage loans.
- In terms of timing, 85 per cent of the moratoria are due to expire before December 2020.
- However, some countries have already announced an automatic extension of the moratoria beyond the end of 2020.

Public guarantee schemes

- Only a few countries provided PGSs in a material manner.
- Newly originated loans subject to PGSs represented 1.2 per cent of the total loans.
- PGSs have focused mainly on loans to non-financial corporations, for about 95 per cent of the total PGSs.

3. Policy actions and measures implemented in response to Covid-19 by banking regulators of the five "partner countries" of the Vienna Initiative

Since the publication of the previous NPL Monitor in June 2020, most policy activities have been directed at mitigating the impacts of the coronavirus pandemic, supporting economies and industries and limiting the impacts of Covid-19. This section of the NPL Monitor for H2 2020 provides an update for the last six months for the five "partner countries" of the Vienna Initiative, looking at selected policy actions and measures in response to Covid-19 which are relevant to NPL prevention and resolution.

Albania

- **State support package**[19, 20]
  The government has implemented two support packages to support businesses and people affected by the Covid-19 crisis. This has included write-offs of penalties on late payments of energy bills, additional funding for the health sector, emergency payments for employees and income support for affected micro businesses and the self-employed. In July 2020, additional measures were adopted on the abolition of value-added tax for small companies. As of 3 November 2020, the government has paid out 96 per cent of the overall budgeted direct-support measures.
- **Financial measures**[21]
  The government has established a sovereign guarantee fund for banks to disburse loans to all private companies that have suspended or reduced their activity due to the Covid-19 pandemic. The moratorium on loan repayments was extended until the end of August 2020.
- **Repo line arrangement with the ECB**[22]
  In July 2020, the Bank of Albania (BoA) and the ECB set up a €400 million repo line, which will remain in place until June 2021. This line will provide additional euro liquidity to Albanian financial institutions in case of need.

---

[19] See https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19.
[20] See http://2020.tr-ebrd.com/countries/
[21] See http://2020.tr-ebrd.com/countries/
[22] See https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200717_1~f143ca1c56.en.html

Croatia

- **Financial package supported by the EIB[23]**
  On 1 October 2020, the European Investment Bank (EIB) and the Croatian Bank for Reconstruction and Development (HBOR) agreed on a financial package. Under this line, HBOR can borrow up to €200 million in loans to support the faster recovery of Croatian SMEs and mid-caps from the Covid-19 pandemic.
- **Resolution of NPLs[24]**
  On 5 October 2020, HBOR proposed that banks be encouraged (by means of profit tax breaks) to write off their NPLs instead of selling them to collection agencies.
- **Swap line agreement with the ECB[25, 26]**
  In mid-April, the Croatian National Bank (CNB) and the ECB set up a €2 billion precautionary currency swap agreement, which will remain in place until the end of the year. In September 2020, the ECB's euro liquidity line was extended by six months until the end of June 2021.
- **Framework for insolvency and restructuring practitioners**
  The EBRD recently assisted the Ministry of Justice in strengthening the framework for insolvency practitioners and establishing a sustainable training framework. Insolvency practitioners and trainers were trained by the EBRD in Q1 2020. The project, now concluded, was funded by the European Commission via the Structural Reform Support Service.

[23] See https://www.eib.org/en/press/all/2020-254-eib-and-hbor-agree-on-covid-19-recovery-package-for-croatian-smes-and-mid-caps
[24] See https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19
[25] See http://2020.tr-ebrd.com/countries/
[26] See https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200828~412bf7c3fd.en.html

Hungary

- **Moratorium on loan repayments** [27]
  In March 2020, the National Bank of Hungary (NBH) adopted a moratorium on loan repayments for both the corporate and retail sectors until the end of 2020.
- **SME lending programme**[28]
  In April 2020, the NBH introduced an SME lending programme called the "Funding for Growth Scheme Go!" to promote liquidity alongside the current corporate bond purchase programme, known as the Bond Funding for Growth Scheme (BGS).
- **New insolvency law**
  Since May 2019, the European Commission and the EBRD have supported the Ministry of Justice with the reform of Hungary's 1991 Bankruptcy Law. The reform has focused on transposition of the new EU Directive 2019/1023 on preventive restructuring frameworks. The draft is being finalised and consultation at the State Secretarial level is expected before the end of 2020. It is hoped that the Hungarian parliament will adopt the draft legislation during the spring special term.

Montenegro

- **Moratorium on loan repayments** [29,30]
  On 30 July 2020, the Central Bank of Montenegro (CBCG) imposed an obligatory moratorium for clients from the tourism, agriculture, forestry and fishery sectors. On 22 October 2020, a six-month moratorium on loan repayment was implemented for private individuals who have lost their jobs since March 31 due to the Covid-19 crisis, who did not delay the repayment of their loans by more than 90 days before the end of 2019, and whose loans were not classified as non-performing by the end of 2019.
- **Alignment with EU regulations**[31]
  CBCG, with assistance from the World Bank Financial Sector Advisory Centre (FinSAC), implemented new minimum standards for managing credit risk in line with the EBA guidelines. CBCG announced the decision in 26 July 2019 with an effective date of 1 January 2020. The amendments included: (1) terminating the use of collaterals as the criteria for loan classification; (2) removing the definition of prime collateral; (3)

[27] See https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19

[28] See http://2020.tr-ebrd.com/countries/

[29] See https://www.cbcg.me/en/public-relations/information/faq/moratorium-on-loan-repayment-and-benefits-to-bank-clients-during-the-government-of-montenegros-interim-measures-to-mitigate-the-effects-of-the-new-coronavirus-pandemic.

[30] See http://2020.tr-ebrd.com/countries/

[31] See https://cbcg.me/slike_i_fajlovi/eng/fajlovi/fajlovi_brzi_linkovi/propisi/supervision/odluka_min_stand_upr_kreditnim_rizikom_42-19en.pdf

subjecting loan classification to the borrower's ability to repay; and (4) ensuring unified prudential treatment of restructured loans.

- **Strengthening of the central bank's supervisory function**
  Since 2015, CBCG has worked on asset quality review (AQR) based on recommendations from the International Monetary Fund (IMF) and the World Bank. The new AQR is expected to be completed in H1 2021, with some delays on its initial target of year-end 2020 due to the Covid-19 pandemic. The AQR will be carried out in all 13 banks in Montenegro, in accordance with the methodology based on the ECB's "AQR Phase 2 manual" of June 2018 and tailored to the local institutional and legal framework and the market.

Serbia

- **State financial support programme**[32, 33]
  At the end of March 2020, an initial aid package of €5.1 billion was made available, representing 11 per cent of GDP. The measure included payment of minimum wages to SMEs and a subsidy set at 50 per cent of the minimum wage to large companies, deferment of payroll taxes and social security contributions, deferment of corporate income tax advance payments and a state guarantee for €2 billion of new loans. July 2020 saw the adoption of a second set of similar measures, including coverage of 50 per cent of the minimum wage, deferment of payroll taxes and social security contributions for all private companies and continued subsidies applicable to large companies. In August 2020, the authorities introduced a fixed subsidy to help hotels in cities. In early November, a programme of subsidies for public-sector health workers was adopted.
- **Moratorium on loan repayments** [34, 35]
  In mid-March 2020, the National Bank of Serbia (NBS) adopted a decision imposing a 90-day loan repayment moratorium for all debtors, including natural persons, farmers, entrepreneurs and corporations. On 1 August 2020, NBS introduced a second moratorium on loan repayment, for clients of commercial banks and financial leasing companies. This second moratorium will apply to loan repayments which worth approximately €1 billion.
- **Repo line arrangement with the ECB**[36]
  In July 2020, the NBS established a repo line arrangement with the ECB to promote euro liquidity, which will remain in place until June 2021. Under this line, the NBS can borrow up to €1 billion from the ECB in exchange for adequate euro-denominated collateral.

---

32 See http://2020.tr-ebrd.com/countries/
33 See https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19
34 See https://home.kpmg/xx/en/home/insights/2020/04/serbia-government-and-institution-measures-in-response-to-covid.html.
35 See https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19
36 See https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200717_2~7d1fb908e4.en.html

4. NPL transaction trends

The CESEE region enters this new crisis in a much better position than it was in for the previous global financial crisis. It now has a well-functioning NPL transaction market in many jurisdictions. There are also well-established regional investors with capital to invest in NPLs and adequate servicing capabilities to manage the loans acquired. NPL sales are therefore likely to remain central to banks' deleveraging strategies in the CESEE region in 2021 to tackle new flows of NPLs arising from the Covid-19 pandemic.

Investors have a "wait and see" approach but there are positive signs for 2021

- Investors remain interested in acquiring loans from banks, albeit currently with a prudent, wait-and-see approach.
- While NPL sales have been put on hold temporarily since the start of the pandemic, investors' capital remains in the region to invest.
- Banks are also willing to restart their sales preparation processes, but uncertainty remains with regard to the best timing for putting new loans and/or portfolios up for sale.
- The market is already showing signs of slowly resuming, although currently this is mainly for single-name transactions.
- At present the impacts of the crisis on investors' risk appetites and on the pricing of transactions are uncertain.
- However, it is expected that investors previously active in the region will look at acquiring new portfolios as the situation clarifies in 2021.
- While no immediate signs of pressure on pricing from investors have been noticed, it remains too early to know what the effects of the crisis on investors' demand and risk premiums will be.
- One important consideration is that the types of loan for sale are expected to be different to the ones acquired from the previous crisis.
    - The stress is expected to be more concentrated among smaller corporates and SMEs, as well as for consumer loans.
    - Moreover, the loans that will come to market are likely to have a higher recovery potential than the older accumulated stocks that banks deleveraged from the previous crisis. This time around, NPLs for sale will be composed of recent defaults (and possibly also unlikely-to-pay exposures) in need of work-out rather than enforcement and judicial recovery.
- This foreseen change in the typology of loans yet to be transacted is expected to require changes in the approach taken by investors and servicers, with more expertise and capabilities required.

Annex 1

Table 1. Covid-19 measures for the banking sector implemented by EU regulators (2 pages)

Date	Authority	Measures
12/03/2020	ECB	Announced temporary capital and operational relief[37]
12/03/2020	ECB	Supported bank liquidity conditions and money market activity[38]
12/03/2020	EBA	Announced actions to mitigate the impact of the Covid-19 pandemic[39]
13/03/2020	EC	Introduced European coordinated response to counter the economic impact of the Covid-19 crisis[40]
16/03/2020	EIB	Introduced up to €40 billion to fight Covid-19 crisis [41]
18/03/2020	ECB	Introduced €750 billion pandemic emergency purchase programme (PEPP)[42]
20/03/2020	ECB	Provided guidance on NPLs and IFRS 9 [43]
25/03/2020	EBA	Published statement on accounting implications of Covid-19[44]
25/03/2020	ESMA	Published public statement on accounting implications of Covid-19[45]
27/03/2020	ECB	Recommended that banks do not pay dividends for 2019 and 2020[46]
02/04/2020	EBA	Published guidelines on legislative and non-legislative moratoria[47]
07/04/2020	ECB	Introduced complementary package of temporary collateral-easing measures[48]
15/04/2020	ECB	Introduced supervisory reporting measures in the context of Covid-19[49]
16/04/2020	ECB	Announced temporary relief with regard to capital requirements for market risk[50]
22/04/2020	EBA	Announced the application of the prudential framework on targeted aspects of market risk in the Covid-19 outbreak[51]
22/04/2020	ECB	Introduced temporary measures on capital markets[52]
23/04/2020	EBA	Introduced €5 billion investment for Covid-19-related business resilience and medical technology[53]
28/04/2020	EC	Announced state aid framework flexibility and other measures, including comprehensive banking package to support banks' lending[54]
04/05/2020	EBA	Introduced additional EU-wide transparency exercise for information prior the start of the Covid-19 pandemic[55]
20/05/2020	EC	Published report on the proposed regulation for amendments to the Capital Requirements Regulation (CRR) for adjustments in response to the Covid-19 pandemic[56]

[37] See https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200312~45417d8643.en.html
[38] See https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200312_2~06c32dabd1.en.html
[39] See https://eba.europa.eu/eba-statement-actions-mitigate-impact-covid-19-eu-banking-sector
[40] See https://ec.europa.eu/commission/presscorner/detail/en/ip_20_459
[41] See https://www.eib.org/en/press/all/2020-086-eib-group-will-rapidly-mobilise-eur-40-billion-to-fight-crisis-caused-by-covid-19
[42] See https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200318_1~3949d6f266.en.html
[43] See https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200320~4cdbbcf466.en.html
[44] See https://eba.europa.eu/eba-provides-clarity-banks-consumers-application-prudential-framework-light-covid-19-measures
[45] See https://www.esma.europa.eu/sites/default/files/library/esma32-63-951_statement_on_ifrs_9_implications_of_covid-19_related_support_measures.pdf
[46] See https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200327~d4d8f81a53.en.html
[47] See https://eba.europa.eu/eba-publishes-guidelines-treatment-public-and-private-moratoria-light-covid-19-measures
[48] See https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200407~2472a8ccda.en.html
[49] See https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200415~96f622e255.en.html
[50] See https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200416~ecf270bca8.en.html
[51] See https://eba.europa.eu/eba-provides-further-guidance-use-flexibility-relation-covid-19-and-calls-heightened-attention-risks
[52] See https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200422_1~95e0f62a2b.en.html
[53] See https://www.eib.org/en/press/all/2020-103-eib-backs-eur5-billion-investment-to-mitigate-economic-impact-of-coronavirus-and-support-medical-technology
[54] See https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_757
[55] See https://eba.europa.eu/eba-launches-additional-eu-wide-transparency-exercise
[56] See https://www.europarl.europa.eu/doceo/document/ECON-PR-652396_EN.pdf

Date	Authority	Measures
25/05/2020	EBA	Published report on preliminary assessment of the Covid-19 impact on EU banks[57]
27/05/2020	EC	Proposed a €750 billion temporary recovery instrument, called NextGenerationEU [58]
02/06/2020	EBA	Published guidelines to address gaps in reporting data[59]
04/06/2020	ECB	Increased the PEPP[60]
08/06/2020	EBA	Released bank-by-bank data at the start of the Covid-19 crisis[61]
08/06/2020	ESRB	Introduced second set of measures in response to Covid-19[62]
10/06/2020	EC	Published report on proposed CRR Amending Regulation[63]
24/06/2020	EC	Adopted CRR Amending Regulation at first reading, the proposed Regulation containing amendments[64]
25/06/2020	ECB	Established new Eurosystem repo facility to provide euro liquidity to non-euro area central banks [65]
02/07/2020	ECB	Published report on forecasting macroeconomic risk in real time: 2008-09 recession and Covid-19 recession[66]
07/07/2020	EBA	Published report on implementation of selected Covid-19 policies[67]
28/07/2020	ECB	Announced supervisory mitigating measures including recommendation not to pay dividends until January 2021[68]
06/09/2020	BIS	Published a brief on prudential response to debt in the context of Covid-19[69]
16/09/2020	ECB	Adopted a decision excluding certain central bank exposures from the leverage ratio[70]
17/09/2020	ECB	Announced temporary relief in banks' leverage ratios[71]
21/09/2020	EBA	Announced the phasing-out the EBA's guidelines on legislative and non-legislative moratoria on loan repayments[72]
09/11/2020	ECB	Proposed liquidity in resolution by providing a quantitative assessment of the liquidity gaps of banks in resolution[73]
13/11/2020	EBA	Published EU-wide banking-sector stress test[74]

Source: KPMG.

[57] See https://eba.europa.eu/sites/default/documents/files/document_library/Risk%20Analysis%20and%20Data/Risk%20Assessment%20Reports/2020/Thematic%20notes/883986/Thematic%20note%20-%20Preliminary%20analysis%20of%20impact%20of%20COVID-19%20on%20EU%20banks%20%E2%80%93%20May%202020.pdf
[58] See https://ec.europa.eu/info/strategy/recovery-plan-europe_en#:~:text=NextGenerationEU%20is%20a%20%E2%82%AC750,about%20by%20the%20coronavirus%20pandemic.
[59] See https://eba.europa.eu/eba-issues-guidelines-address-gaps-reporting-data-and-public-information-context-covid-19
[60] See https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.mp200604~a307d3429c.en.html
[61] See https://eba.europa.eu/eba-releases-bank-bank-data-start-covid-19-crisis
[62] See https://www.esrb.europa.eu/news/pr/date/2020/html/esrb.pr200608~c9d71f035a.en.html
[63] See https://www.europarl.europa.eu/doceo/document/A-9-2020-0113_EN.pdf
[64] See https://www.consilium.europa.eu/en/press/press-releases/2020/06/24/covid-19-council-adopts-exceptional-rules-to-facilitate-bank-lending-in-the-eu/
[65] See https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200625~60373986e5.en.html
[66] See https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2436~df6319728a.en.pdf
[67] See https://eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2020/888311/Report%20on%20implementation%20of%20selected%20COVID-19%20policies%20.pdf
[68] See https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200728_1~42a74a0b86.en.html
[69] See https://www.bis.org/fsi/fsibriefs10.pdf
[70] See https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020D1306
[71] See https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200917~eaa01392ca.en.html#:~:text=PRESS%20RELEASE-,ECB%20allows%20temporary%20relief%20in%20banks'%20leverage%20ratio%20after,exceptional%20circumstances%20due%20to%20pandemic&text=The%20European%20Central%20Bank%20announced,exposures%20from%20the%20leverage%20ratio.
[72] See https://eba.europa.eu/eba-phases-out-its-guidelines-legislative-and-non-legislative-loan-repayments-moratoria
[73] See https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op250~c7a2d3cc7e.en.pdf
[74] See https://eba.europa.eu/sites/default/documents/files/document_library/Risk%20Analysis%20and%20Data/EU-wide%20Stress%20Testing/2021/936417/2021%20EU-wide%20stress%20test%20-%20Methodological%20Note.pdf

Table 2. Other Covid-19-related measures from the stakeholders of the NPL Initiative

Date	Authority	Measure
03/03/2020	World Bank	Announced up to US$ 12 billion fast-track financing package[75]
13/03/2020	EBRD	Announced €1 billion Solidarity Package of measures to help companies across its regions[76]
16.03/2020	EIB	Announced €40 billion financing package to set up a further guarantee for SME and mid-cap support[77]
17/03/2020	World Bank	Increased package of fast-track financing to US$ 14 billion[78]
19/03/2020	World Bank	Announced US$ 8 billion fast-track financing facility under IFC (part of a US$ 160 billion broader economic programme over the next 15 months)[79]
25/03/2020	IMF and World Bank	Announced joint statement to the G20 concerning debt relief for International Development Association (IDA) countries[80]
26/03/2020	EIB	Introduced €25 billion Pan-European Guarantee Fund[81]
08/04/2020	EIB	Contributed €5.2 billion to the EU Response to Covid-19 outside the EU[82]
09/04/2020	IMF	Increased the Fund's emergency financing toolkit to US$ 100 billion[83]
13/04/2020	IMF	Announced US$ 500 million of grants for debt relief to 25 countries[84]
15/04/2020	IMF	Announced Short-term Liquidity Line for member countries[85]
23/04/2020	EBRD	Increased Solidarity Package to €21 billion over the period 2020-21[86]
10/06/2020	EC	Proposed an emergency European recovery instrument, NextGenerationEU, equipped with €750 billion raised on the financial market to be channelled through the EU budget to EU member states[87]
13/07/2020	IMF	Approved a temporary increase in annual access limits on financial support[88]
13/10/2020	World Bank	Approved an envelope of US$ 12 billion to finance developing economies' acquisition and deployment of Covid-19 vaccines[89]

Source: KPMG.

[75] See https://www.worldbank.org/en/news/press-release/2020/03/03/world-bank-group-announces-up-to-12-billion-immediate-support-for-covid-19-country-respons
[76] See https://www.ebrd.com/news/2020/ebrd-unveils-1-billion-emergency-coronavirus-financing-package.html
[77] See https://www.eib.org/en/press/all/2020-086-eib-group-will-rapidly-mobilise-eur-40-billion-to-fight-crisis-caused-by-covid-19.htm
[78] See https://www.worldbank.org/en/news/press-release/2020/03/17/world-bank-group-increases-covid-19-response-to-14-billion-to-help-sustain-economies-protect-jobs
[79] See https://www.worldbank.org/en/news/press-release/2020/05/19/world-bank-group-100-countries-get-support-in-response-to-covid-19-coronavirus
[80] See https://www.imf.org/en/News/Articles/2020/03/25/pr20103-joint-statement-world-bank-group-and-imf-call-to-action-on-debt-of-ida-countries
[81] See https://www.eib.org/en/press/all/2020-126-eib-board-approves-eur-25-billion-pan-european-guarantee-fund-to-respond-to-covid-19-crisis
[82] See https://www.eib.org/en/press/all/2020-096-eib-group-contributes-eur-5-2-billion-to-eu-response-to-covid-19-outside-european-union
[83] See https://www.ebrd.com/news/2020/ebrd-targets-coronavirus-financing-of-21-billion-through-2021.html
[84] See https://www.imf.org/en/News/Articles/2020/04/13/pr20151-imf-executive-board-approves-immediate-debt-relief-for-25-countries
[85] See https://www.imf.org/en/News/Articles/2020/04/15/pr20163-imf-adds-liquidity-line-to-strengthen-covid-19-response
[86] See https://www.ebrd.com/news/2020/ebrd-targets-coronavirus-financing-of-21-billion-through-2021.html
[87] See https://ec.europa.eu/info/sites/info/files/about_the_european_commission/eu_budget/1_en_act_part1_v9.pdf
[88] See https://www.imf.org/en/News/Articles/2020/07/21/pr20267-imf-executive-board-approves-temporary-increase-annual-access-limits-financial-support
[89] See https://www.worldbank.org/en/news/factsheet/2020/10/14/world-bank-covid-19-response

Definitions

- **NPL volume (or gross NPLs):**
  - NPLs are defined and reported differently across countries as there is no one international standard. For countries that report financial soundness indicators to the IMF, the *Financial Soundness Indicators Compilation Guide* of 2006, published by the IMF, recommends reporting NPLs when: (1) payments of principal and interest are past due by 90 days or more or (2) interest payments equal to 90 days' interest or more have been capitalised, refinanced or rolled over, and (3) loans are less than 90 days past due but are recognised as non-performing under national supervisory guidance.
  - European national supervisory authorities tend to use bankruptcy and the quantitative threshold of "90 days of payments past due" as objective criteria for reporting NPLs.
  - It is also important to note that in January 2015, the EU adopted harmonised and consistent definitions of both forbearance and non-performing exposures (Regulation (EU) No. 680/2014, which lays down the technical standards submitted by the EBA).
  - While most NPL data in this report are sourced from the IMF Financial Soundness Indicators (FSI), NPL data for Serbia come directly from information made available by its central banks (financial stability reports, banking reports, macroeconomic reports or statistical databases). Serbia adopts a definition that is in line with the IMF's own definition. Montenegro defines NPLs as loans past due longer than 90 days, without interests, prepayments and accruals.
- **NPL ratio:** NPL volume divided by the total gross value of the loan portfolio (including gross NPLs, before the deduction of specific loan-loss provisions).
- **NPL coverage ratio:** Total specific loan-loss provisions divided by gross NPLs.
- **Net NPLs:** NPLs minus specific loan-loss provisions.
- **Net NPL ratio:** Net NPLs divided by the total gross value of the loan portfolio (including gross NPLs, before the deduction of specific loan-loss provisions).
- **Net NPL/ Capital:** Net NPLs divided by capital. Capital is measured as capital and reserves, and for cross-border consolidated data, total regulatory capital can also be used.
- **Market share NPLs:** Total country gross NPLs divided by total CESEE gross NPLs.
- **Market share loans:** Total country gross loans divided by total CESEE gross loans.

Metadata

To provide a comprehensive view of the underlying data used in this NPL Monitor, key indicators used in the analysis are summarised below, as detailed by central banks when reporting to the IMF (or, as in the case of Kosovo, North Macedonia and Serbia, directly published). While most countries report to the IMF, they do not always report the same data. For example, some countries include loans among deposit-takers when calculating the total gross loan portfolio whereas some exclude such loans (increasing the NPL ratio for the latter). Other specifics listed below may also create a slight upwards or downwards bias in the results presented. However, despite some discrepancies, the definitions and data used in this monitor are consistent overall across countries and can be relied on for the purposes of comparability.

Table 3. Definitions

		NPLs	Gross loans	Provisions (or Net NPLs)	Comments
1	**Albania**	- 90 days past due for the instalment loans; - 60 days past due for limit loans (ex. Overdrafts) - 60 days over limit usage for limit loans borrower's financial situation and inflows are assessed as insufficient to regularly meet the default liabilities; or the bank does not possess the complete required or updated information, needed to fully assess his financial condition	Book value of principal plus accrued interest. The accrued interest for non-performing loans, after becoming non-performing, is not counted.	Specific provisions for NPLs are counted for. Only financial collateral is taken into consideration for loan provisioning.	
2	**Bosnia and Herzegovina**	Until the fourth quarter of 2010 non-performing loans consisted of C (substandard, 90 days) and D category loans. E category loans are part of non-performing loans beginning from the fourth quarter of 2011.		From the fourth quarter of 2009, FSI used non-performing loans net of provisions to Tier 1.	
3	**Bulgaria**	Until 2014, non-performing loans were the risk exposures where principal or interest payments had been past-due over 90 days. Since 2015 the definitions and the scope of the NPLs have been in line with EBA standards.	Until 2014, loans to deposit takers were excluded from the calculations. Since 2015, the definitions and the scope of the NPLs have been in line with EBA standards. The source of the data is the FinRep reporting template (F18, rows 70 and 250, column 10) which cover all loans and advances, including to deposit-takers.	All deposit-takers must assess, classify and provision loans at least on a quarterly basis and submit a regulatory report to the Bulgarian National Bank. Compliance is enforced via off-site surveillance and on-site inspections.	
4	**Croatia**	Non-performing loans are all gross loans (to all sectors) not classified as performing (90 days overdue). However, a loan can be considered as a "pass" even if it is 90 days overdue if it is well covered with collateral and if the process of foreclosures has started.		Provisions refer to non-performing loans.	
5	**Cyprus**	From December 2014, the EBA Final Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No. 575/2013 have come into force. Non-performing exposures are those that satisfy either or both of the following criteria: (a) material exposures which are more than 90 days past-due; (b) the debtor is assessed as unlikely to pay credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.			
6	**Czech Republic**	Besides the FSI Guide-recommended 90-day rule, the financial condition of the debtor is also used in determining loans as non-performing.	This excludes non-current assets (or disposal groups) classified as held for sale.		
7	**Estonia**	Deposit-takers usually undertake loan reviews monthly, depending on the needs of any given credit institution. Collateral and guarantees are not taken into consideration. Restructured loans are treated as performing loans. There is no credit register in Estonia, but there is a register containing information on bad loans and problematic debtors only. If there is a problem with a loan granted by bank "A" and that debtor has also taken a loan from bank "B" and that loan "works well", bank "B" does not need to make any provisions or downgrade the loan.			
8	**Greece**	In accordance with EBA ITS on supervisory reporting, non-performing loans will comprise the exposures defined under Commission Regulation (EU) № 680/2014 of 16 April 2014 laying down implementing technical standards, with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.	In accordance with EBA ITS on supervisory reporting. Total gross loans will comprise non-performing loans before the deduction of specific loan-loss provisions.	In accordance with EBA ITS on supervisory reporting. Only specific loan provisions are deducted from NPLs.	
9	**Hungary**	Loans that are overdue by 90 days are classified as non-performing loans.	These are gross loans provided to customers and banks.	Only the specific provisions (impairment) attributed to the NPLs are netted out from NPLs.	

10	**Kosovo**	N/A	N/A	N/A	
11	**Latvia**	Non-performing loans are considered to be those whose term due for the accrued income payment is overdue for a period of more than 90 days or the payment.	According to EBA Guidance note compiling the IMF financial soundness indicators for deposit-takers using the ITS on supervisory reporting (June 2018 edition).	Provisions are the total amount of provisions (general and specific) for the total loan portfolio of the credit institutions.	
12	**Lithuania**	NPLs are the sum of impaired loans and advances and non-impaired loans and advances that are past due 60 days or more. In their accounting policies, banks specify the individual provisions and conditions under which interests on non-performing assets are not accrued. This includes interest accrued on some NPLs. This also includes some financial assets besides loans, for example, deposits and funds held in other banks and credit institutions.	This includes interest accrued on some NPLs. In their accounting policies, banks specify the individual provisions and conditions under which interests on non-performing assets are not accrued.		
13	**Montenegro**	NPLs include only principal, excluding interest due as well as accrued interest and fees. Loans are defined as non-performing using the 90-days past due criterion, or if there is a high probability of incurring losses due to clearly disclosed weaknesses jeopardising their repayment. According to CBM's "Decision on Minimum Standards for Credit Risk Management in Banks" ("Official Gazette of MNE", no. 22/12, 55/12, 57/13, 44/17, 82/17) loans are classified in five categories (A, B, C, D, E) depending on the probability of incurring losses. Loans that fall into C, D and E categories are considered to be non-performing. A loan that is over 90 days past due may not be classified in higher classification category other than C. Indeed, banks may determine a loan to be non-performing if they have evidence suggesting the inability of the borrower to repay debt.		Provisions refer to value adjustments as per IAS 39 / IFRS 9, as they are allocated by banks' own criteria. Apart from value adjustments, which are balance sheet data, there are also regulatory provisions, which are not balance sheet data. They are calculated by the CBCG-prescribed criteria and serve as a prudential filter. Namely, if regulatory provisions are higher than value adjustments for a particular loan, the difference essentially leads to a deduction from the bank's core capital.	
14	**North Macedonia** [90]	According to the Decision on credit risk management (currently applicable), as non-performing is considered: - credit exposure which on any basis (principal, interest, other non-interest claims) has not been collected in a period longer than 90 days from the maturity date (with defined materiality thresholds for credit exposures to natural persons, to small companies and to other legal entities); - credit exposure for which it has been determined that the client will not be able to meet his/her liabilities to the bank, regardless whether collateral has been established and regardless of the amount that has not been collected or the number of days of delay (unlikeness to pay). This definition of NPLs is valid from 1 July 2019.	This includes loans to financial and non-financial sectors.	Provisions include provisions for non-performing loans.	Definitions on gross loans and provisions (or net NPLs) are published based on the IMF FSI compilation guide. The Central Bank also calculates and publishes on its website loans and non-performing loans in the non-financial sector only and net-NPLs netted by loan-loss provision against NPLs and performing loans.
15	**Poland**	This excludes repurchase agreements that are not classified as deposits. It includes some other financial assets besides loans: data represent total receivables, such as originated loans, purchased receivables and guarantees that are being exercised. It excludes loans to the central bank. Deposit-takers in distress or in receivership are not included.	This excludes repurchase agreements that are not classified as deposits. It includes some other financial assets besides loans: data represent total receivables, such as originated loans, purchased receivables and guarantees which are being exercised. It excludes loans to the central bank.	From the first quarter of 2010, data include all receivables excluding the central bank. Banks that follow Polish Accounting Standards decrease the carrying value of all loans except those classified to loss category by proportional share of general provisions as well as by impairment provisions.	

[90] This information was provided by the National Bank of the Republic of North Macedonia.

16	**Romania**	Since June 2014, NPLs are based on reports from all banks, for Romanian legal persons for which loans meet the non-performance criteria (overdue for more than 90 days and/or in which case legal proceedings were initiated). Since December 2015, based on a definition by the EBA: the ratio of the gross carrying amount of non-performing loans and advances to the total gross carrying amount of loans and advances.	These exclude loans among deposit-takers. Deposit-takers in distress or receivership are not included.	From June 2014 to December 2015, International Financial Reporting Standards impairment losses (provisions) for non-performing loans determined (based on reports from all banks) were subtracted from non-performing loans. Since December 2015, NPLs net of provisions have been compiled as gross carrying amount of non-performing loans and advances minus the accumulated impairment of non-performing loans and advances.	
17	**Serbia**	NPL means the total outstanding debt under an individual loan (including the amount of arrears), where the debtor is past due (as envisaged by the decision governing the classification of bank balance sheet assets and off-balance sheet items) for over 90 days, with respect to payments of interest or principal; where at least 90 days of interest payments have been added to the loan balance, capitalised, refinanced or delayed by agreement; where payments are less than 90 days overdue, but the bank has assessed that the borrower's repayment ability has deteriorated and doubts that the payments will be made in full.		Specific provisions of NPLs.	Not reported by FSI. Sources: Quarterly Review of Dynamics of Financial Stability; Quarterly banking report statistical annex; Annual Financial Stability Report.
18	**Slovak Republic**	Deposit-takers use not only quantitative criteria (in other words, 90-days past due criterion) but also their own judgement for classifying loans as NPLs.		Specific provisions that are netted out from NPLs in compiling the series NPLs net of provisions include not only the provision attributed to the NPLs but also the provisions constituted for performing loans. General provisions are not netted out.	
19	**Slovenia**	This includes all financial assets at amortised cost (not just loans) and some non-loan assets (tax assets, non-current assets and disposal groups classified as held for sale, and so on).	This includes all financial assets at amortised cost (not just loans) and some non-loan assets (tax assets, non-current assets and disposal groups classified as held for sale, for example).	All financial assets at amortised cost and that risk-bearing off-balance sheet items are included. Off-balance sheet items comprise financial guarantees issued, avals, uncovered letters of credit and transactions with similar risk, based on which a payment liability could arise for the bank.	
20	**Ukraine**	This is consistent with the criteria "of 90 days". Since the first quarter of 2017, NPLs include loans classified as the lowest class, in particular: class 10 – loans to corporate borrowers (excluding banks and state-owned entities); and class 5 – loans to other borrowers or counterparties accounted in the balance sheet. The bank is a legal entity with separate subdivisions in Ukraine and abroad.	Since the first quarter of 2017, debts arising from credit transactions that comprise loans to customers, interbank loans and deposits (including the accrued interest) and do not include off-balance sheet liabilities on guarantees and loans given to banks and customers are used for credit risk assessment. The bank is a legal entity with separate subdivisions in Ukraine and abroad.		

NPL INITIATIVE CONTACTS

Dejan Vasiljev
Acting Associate Director, Senior Economist
Economics, Policy and Governance Department
EBRD
Tel: +44 7884 738886
Email: vasiljed@ebrd.com

Eric Cloutier
Senior Adviser, NPL Initiative
Economics, Policy and Governance Department
EBRD
Tel: +44 7775 704 154
Email: eric.cloutier@kpmg.ie