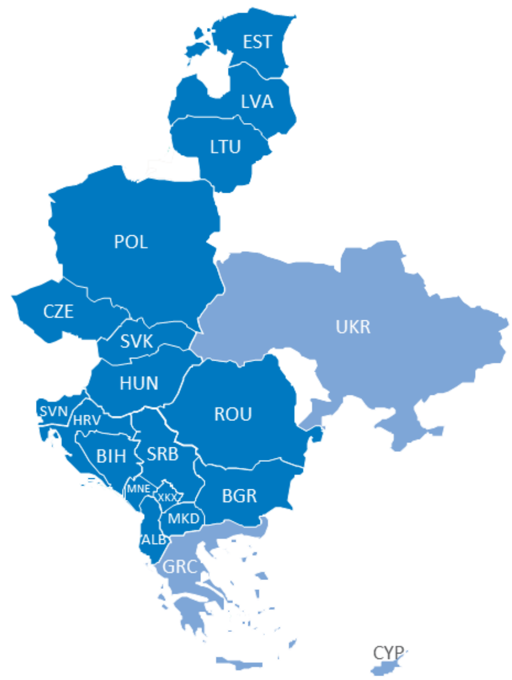
NPL monitor for the CESEE region[1]

Edition: H1 2022

The NPL monitor is the semi-annual publication of the NPL Initiative, a subset of the Vienna Initiative. The publication reviews the latest non-performing loan (NPL) trends in 17 countries[2] in central, eastern and south-eastern Europe (CESEE). This edition[3] focuses on rising volatility in the financial sector amid the ongoing war on Ukraine and the erosion of benefits from Covid-19 support measures.



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[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 by the CESEE NPL data, although the NPL Initiative has started to follow NPL reform more closely in these countries.

[3] The "NPL transaction trends" section is not available for this edition due to limited level of NPL sales in the CESEE region.

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Executive summary

The impact of the Covid-19 pandemic on bank credit risk in the European Union (EU) and the broader central, eastern and south-eastern European (CESEE) region has been largely mitigated by the comprehensive government support measures implemented by most countries. As a result, initial fears of a rapid deterioration in asset quality have not yet materialised and non-performing loan (NPL) stocks are now back on their pre-pandemic downward trend. As of 31 December 2021, the NPL ratio in the CESEE region stood at 2.8 per cent, the lowest level in recent years. The region's NPL coverage ratio has also remained relatively strong at 64.6 per cent as of 31 December 2021.[4]

While the immediate impact on financial-sector soundness and bank asset quality in the CESEE region seems moderate and manageable so far, pressures on asset quality are building. Concerns remain that some of the effects of the pandemic on NPLs might, at least in part, be delayed and may still materialise as the benefits of support measures wane. Adding to this is Russia's war on Ukraine, sparking new risks from faster inflation and geopolitical tensions along the EU border. In the event of a prolonged war, the share of NPLs and stage 2 loans is likely to increase, raising concerns about the potential impact on financial stability.

One of the main challenges for banks will be to understand the actual impacts on credit risk associated with second- or third-round effects from the war. This includes not just the various macroeconomic implications, such as inflation and rising energy prices, but also the potential knock-on effects across industries due to rising costs (such as shipping and raw materials) and expected disruptions in supply chains, which might exacerbate the disruptions already triggered by the Covid-19 pandemic. Retail banking risks are also a concern as the situation persists, especially with regard to the mortgages of lower-income households, which are likely to be struggling to cope with the erosion of their disposable income.

Regulators and banks need to act in a timely manner and take the necessary pre-emptive measures to prevent a new build-up of NPLs and avoid value erosion for banks and borrowers. For instance, banks should have adequate loan origination, monitoring and control policies and processes in place, including robust early-warning identification systems and comprehensive key risk indicators to allow the early identification of borrower stress or distress. Loan classification and staging should be accurate, enabling the proper monitoring and evaluation of bank risks, as well as sufficient and timely provisioning. Banks should also be prepared to act swiftly on any new inflows of NPLs, by having all the necessary processes in place to allow early intervention with sustainable measures to support viable and collaborative borrowers where necessary.

Preparations in the CESEE region in the coming months will be crucial to avoid repeating the mistakes of the past.

[4] Data are from the International Monetary Fund's (IMF) Financial Soundness Indicators (FSIs). Missing data are sourced from monetary authorities or, failing that, the most recently available data are used. More information on data and their interpretation is provided throughout this publication.

I. NPL evolution in the CESEE region

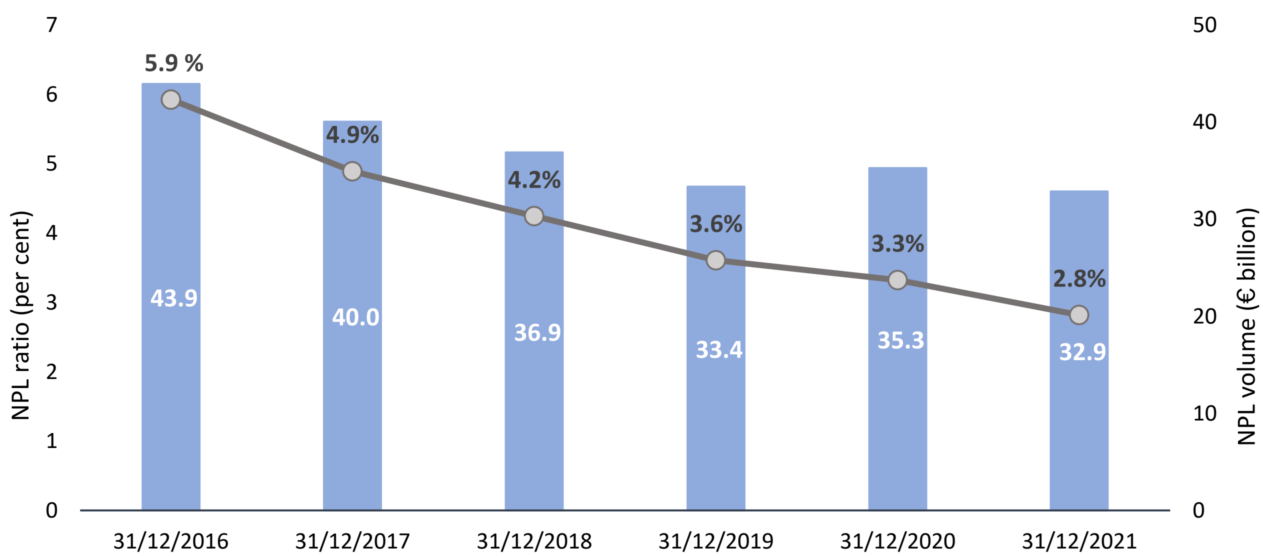
Continued decrease in NPL volumes over the past 12 months for most CESEE jurisdictions

- At the regional level, NPL volumes fell 6.8 per cent to €32.9 billion in the 12 months leading up to 31 December 2021,[5] their lowest level in the last six years.
- In relative terms, the decline in NPL stocks was most significant in Estonia, Slovenia and Albania, where they fell 28.2 per cent, 24.6 per cent and 21.8 per cent, respectively, during the period.
- The largest contributor to the decline in absolute terms was Poland, where the stock of NPLs declined by almost €9.8 billion, or 16.8 per cent.
- The decreasing trend also continued in comparator countries (Greece, Cyprus and Ukraine). For example, NPL volumes in Greece fell by €19.3 billion (66.8 per cent) over the period, mainly due to a high volume of NPL securitisation deals under the Hercules Asset Protection Scheme (HAPS).
- Six countries experienced an increase in NPL volumes: the Czech Republic (1.7 per cent), Hungary (12.8 per cent), North Macedonia (4.4 per cent), Montenegro (19.9 per cent), Romania (6.9 per cent) and Serbia (6.9 per cent).

NPL ratio fell 0.5 percentage point in year to December 2021

- Regional NPL ratios continued their decline in 2021, falling 0.5 percentage point to 2.8 per cent, the lowest level recorded since the *NPL Monitor* was first published in 2016.
- Albania saw the largest decline, with a 2.3 percentage point decrease.
- Out of the countries covered, the NPL ratio increased only in Montenegro, by 1 percentage point.

Figure 1: Evolution of NPL ratios and volumes in the CESEE region



[5] See notes for Table 1.

Coverage ratios remained at 64.6 per cent, slightly lower than pre-crisis levels

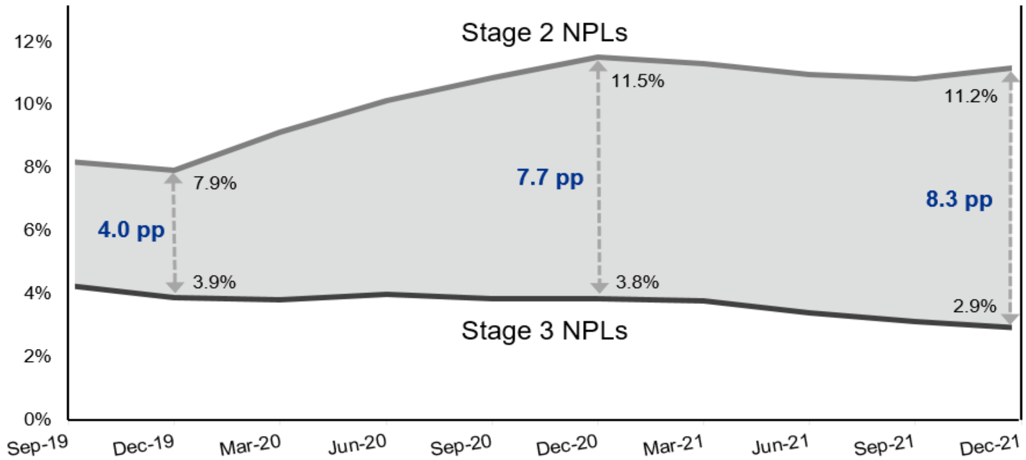
- On aggregate in the CESEE region, the average NPL coverage ratio[6] remained unchanged on the year, at 64.6 per cent.
- Slovenia recorded the highest coverage ratio in the region, at 88.7 per cent (also the biggest increase of 7.0 percentage points in the 12 months), followed by Croatia at 85 per cent (with a 1.8 percentage point increase).
- The most significant decline in the NPL coverage ratio was recorded in Lithuania, which saw a decrease of 39.1 percentage points.

The gap between stage 2 and stage 3 loans widened further in 2021[7, 8]

- Despite the decrease in stage 3 loans, the share of stage 2 loans was still higher than prior to Covid-19. The rise in stage 2 loans points to higher share of loans showing a significant increase in credit risk.
- As demonstrated in Figure 2, the Covid-19 crisis has widened the gap between stage 2 and stage 3 loans in the EU members of CEE[9] (EU CEE region). The spread increased to 8.3 percentage points as of 31 December 2021, up from 7.7 percentage points on 31 December 2020, and 4 percentage points on 31 December 2019.
- The level of stage 2 loans was more pronounced for loans benefiting from a moratorium or public guarantee scheme (PGS). For example, as of 31 December 2021, for the EU-27 countries, banks reported an elevated stage 2 allocation for loans under moratoria (25.0 per cent) and PGS loans (22.6 per cent).
- This raises further concerns that NPLs may increase in the near future as the benefits of support measures are phased out, coupled with new macroeconomic and geopolitical pressures.
- Since 31 December 2020, stage 2 loans as a share of total loans held in the EU CEE countries decreased slightly from 11.5 per cent to 11.2 per cent as of 31 December 2021. However, compared with 10.8 per cent as of 30 September 2021, the share of stage 2 loans started to increase, interrupting the downward trend. The share of stage 3 loans slipped from 3.8 per cent to 2.9 per cent over the same period.
- The EU CEE countries that saw the greatest increase in share of stage 2 loans from 31 March 2020 – the beginning of the Covid-19 pandemic – to December 2021 were Croatia (up 4.6 percentage points over the period), Hungary (up 4.4 percentage points) and Bulgaria (up 3.0 percentage points).
- During the same period, the greatest decrease in share of stage 3 loans was observed in Bulgaria (down 1.9 percentage points), Latvia (down 1.5 percentage points) and Hungary (down 1.4 percentage points).

[6] Percentage of NPL provisions divided by the NPL stock.
[7] As classified by International Financial Reporting Standard (IFRS) 9, unless otherwise specified. Data on staging are from the EBA interactive tool.
[8] See the EBA Risk Dashboard.
[9] EU-CEE: Bulgaria, Czech Republic, Estonia, Croatia, Hungary, Lithuania, Latvia, Poland, Romania, Slovak Republic and Slovenia.

Figure 2: Evolution of stage 2 and 3 loans in EU CEE countries[10]



Hospitality sector hit hardest by the Covid-19 crisis and still accounts for a large share of NPLs

- NPL ratios have continued their downward trend in the region since December 2019. Yet, some of the sectors that were hardest hit by the Covid-19 crisis still show vulnerabilities, not least, the hospitality sector.
- One of the main causes was diminished supply and demand brought about by multiple lockdowns and travel restrictions.
- The hospitality sector was also one of the sectors most supported by the diverse government measures adopted in most countries in the region, which helped to mitigate some of the negative impacts on banks' asset quality.
- Despite this, from March 2020 (the start of the pandemic) to December 2021, the hospitality sector experienced the biggest increase in NPL ratios in the EU CEE region, of 4.7 percentage points, bringing the NPL ratio to 12.2 percent from 7.5 per cent.
- The Czech Republic, Estonia, Latvia and Slovenia were the EU CEE countries that showed a double-digit increase in hospitality-sector NPL ratios since the beginning of pandemic, reaching 14.6 per cent, 17.7 per cent, 14.2 per cent and 19.2 per cent, respectively, as of 31 December 2021.
- As the restrictions ease, levels of activity in the sector are regaining strength.
- We also observed that the NPL ratio began to decrease slightly, from 12.8 per cent in September 2021 to 12.2 per cent in December 2021.
- This is still significantly higher than pre-Covid-19 levels, however, and it remains too early to draw conclusions from this downward trend, due to the time lag in realising NPLs.
- Rising inflation and a potential recession in some jurisdictions may cool the currently high demand, with a compounded effect on businesses already weakened and vulnerable to liquidity shortages.

[10] See the EBA Risk Dashboard.

Figure 3a: NPL volumes and ratios in the CESEE region as of 31 December 2021

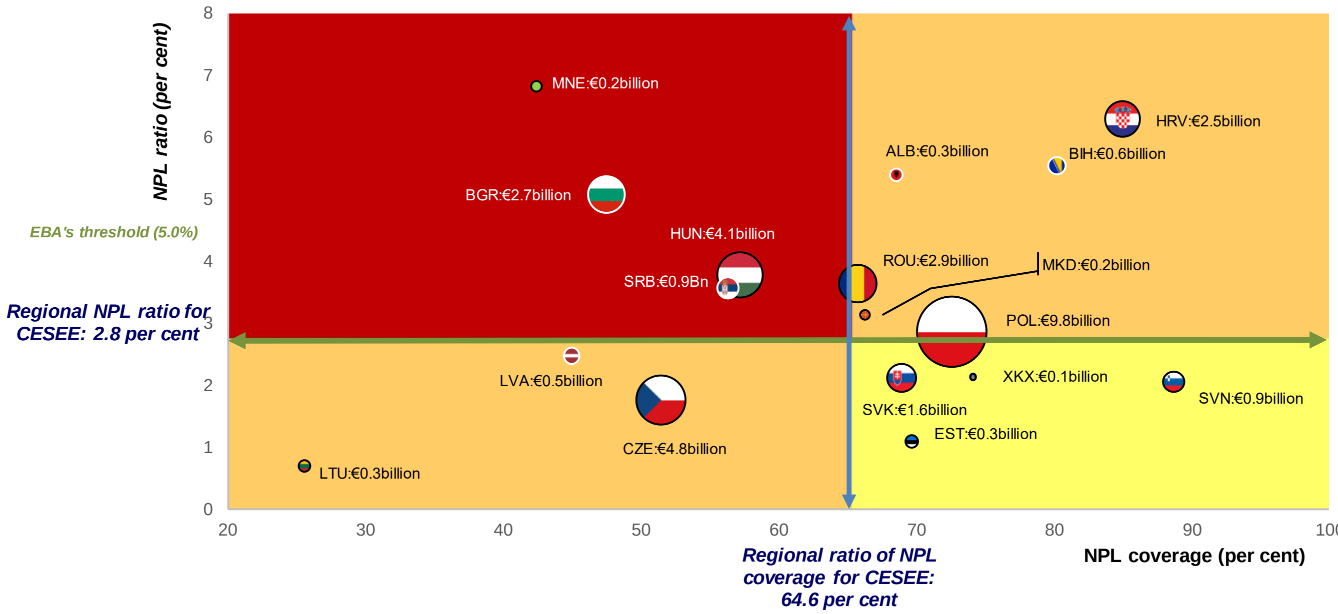


Figure 3b: NPL and NPL coverage ratios as per coloured quadrant in Figure 3a (Q4 2021)

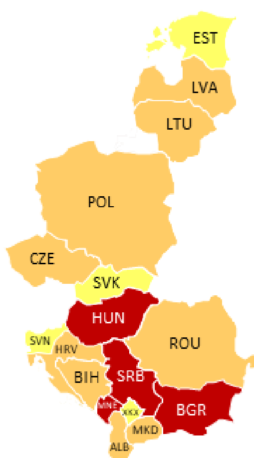


Figure 3c : Net NPL ratio (Q4 2021)

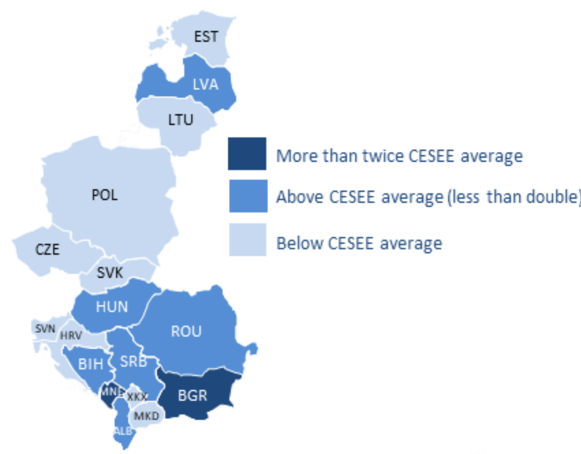


Table 1: Overview of the NPL profile in the CESEE region, 31 December 2020 to 31 December 2021

	NPL volume (€ bn)			NPL ratio (%)			NPL coverage ratio			Net NPL ratio (%)			Net NPL / Capital (%)			NPL to GDP (%)		
Country	Dec-21	Variation(%)		Dec-21	Δ(pp)		Dec-21	Δ(pp)		Dec-21	Δ(pp)		Dec-21	Δ(pp)		Dec-21	Δ(pp)	
Albania (ALB)	0.3	▼	(21.8)	5.4	▼	(2.3)	68.6	▲	3.4	1.7	▼	(1.0)	7.1	▼	(3.8)	1.9	▼	(1.3)
Bosnia & Herz. (BIH)	0.6	▼	(4.8)	5.5	▼	(0.6)	80.2	▲	1.8	1.1	▼	(0.2)	5.6	▼	(1.2)	3.2	▼	(0.8)
Bulgaria (BGR)	2.7	▼	(6.8)	5.1	▼	(0.7)	47.5	▲	1.5	2.7	▼	(0.5)	17.2	▼	(2.8)	3.8	▼	(1.2)
Croatia (HRV)	2.5	▼	(7.8)	6.3	▼	(0.9)	85.0	▲	1.8	0.9	▼	(0.3)	5.7	▼	(1.6)	4.1	▼	(1.6)
Czech Republic (CZE)	4.8	▲	1.7	1.8	▼	(0.2)	51.5	▲	1.1	0.9	▼	(0.1)	8.8	▼	(0.9)	1.9	▼	(0.4)
Estonia (EST)	0.3	▼	(28.2)	1.1	▼	(0.6)	69.7	▲	12.8	0.3	▼	(0.4)	2.0	▼	(2.0)	1.1	▼	(0.8)
Hungary (HUN)	4.1	▲	12.8	3.8	▼	(0.2)	57.2	▼	(3.6)	1.6	▲	0.1	10.8	▲	0.7	2.6	▼	(0.3)
Kosovo (XKX)	0.1	▼	(2.1)	2.1	▼	(0.3)	74.1	▲	5.0	0.6	▼	(0.2)	3.2	▼	(1.4)	1.1	▼	(0.3)
Latvia (LVA)	0.5	▼	(13.0)	2.5	▼	(0.6)	45.0	▲	4.7	1.4	▼	(0.5)	11.5	▼	(4.2)	1.6	▼	(0.7)
Lithuania (LTU)	0.3	▼	(17.9)	0.7	▼	(0.3)	25.6	▼	(39.1)	0.5	▲	0.2	10.3	▲	5.0	0.5	▼	(0.3)
North Macedonia (MKD)	0.2	▲	4.4	3.1	▼	(0.1)	66.3	▼	(7.0)	1.1	▲	0.2	5.7	▲	0.8	1.7	▼	(0.3)
Montenegro (MNE)	0.2	▲	19.9	6.8	▲	1.0	42.4	▲	2.4	3.9	▲	0.4	19.6	▲	2.4	4.1	▼	(0.4)
Poland (POL)	9.8	▼	(16.8)	2.9	▼	(0.8)	72.6	▲	1.1	0.8	▼	(0.3)	6.1	▼	(2.6)	1.7	▼	(0.8)
Romania (ROU)	2.9	▲	6.9	3.6	▼	(0.2)	65.7	▲	2.4	1.2	▼	(0.2)	8.0	▼	(0.8)	1.2	▼	(0.2)
Serbia (SRB)	0.9	▲	6.9	3.6	▼	(0.1)	56.3	▼	(2.5)	1.6	▲	0.0	6.6	▲	0.8	1.7	▼	(0.3)
Slovakia (SVK)	1.6	▼	(10.2)	2.1	▼	(0.5)	68.9	▲	2.2	0.7	▼	(0.2)	5.3	▼	(1.4)	1.6	▼	(0.5)
Slovenia (SVN)	0.9	▼	(24.6)	2.1	▼	(1.0)	88.7	▲	7.0	0.2	▼	(0.3)	1.8	▼	(2.4)	1.7	▼	(1.1)
CESEE	32.9	▼	(6.8)	2.8	▼	(0.5)	64.6	↔	0.0	1.0	▼	(0.2)	7.7	▼	(1.4)	1.9	▼	(0.6)
Cyprus (CYP)	3.8	▼	(18.6)	12.8	▼	(2.3)	43.7	▼	(0.7)	7.2	▼	(1.2)	45.0	▼	(8.6)	15.9	▼	(7.6)
Greece (GRC)	19.3	▼	(66.8)	9.2	▼	(17.8)	47.4	▼	(0.7)	4.8	▼	(9.2)	40.7	▼	(67.9)	10.2	▼	(27.6)
Ukraine (UKR)	11.3	▼	(8.8)	31.7	▼	(11.8)	91.6	▲	2.3	2.7	▼	(2.0)	13.1	▼	(9.2)	6.5	▼	(3.3)
Other	34.5	▼	(54.2)	12.5	▼	(14.9)	61.5	▲	6.9	4.8	▼	(7.6)	35.8	▼	(52.5)	8.9	▼	(16.2)
Total Countries	**67.4**	▼	**(39.1)**	**4.7**	▼	**(3.6)**	**63.0**	▲	**5.2**	**1.7**	▼	**(1.8)**	**13.2**	▼	**(13.2)**	**3.1**	▼	**(3.2)**

Notes on the data and the interpretation of results

- Variation (per cent) is calculated as ((value period 1/value period 0) -1), with December 2020 as period 1 and December 2021 as period 0 (where available).
- Δ (percentage points) is the variation between two periods. It is calculated as (per cent period 1 – per cent period 0).
- For most of the countries covered in this edition of the NPL Monitor, data to 31 December 2021 are the latest available.
- When not available from the IMF financial soundness indicators (FSI), data are found on the websites of the monetary authorities of the countries in question. Such data include the latest information on selected indicators for Romania and Serbia. When information is neither available on national websites nor from the IMF FSI, time-adjacent data are used to plug the gaps. The countries for which IMF data are not available for Q4 2021 are Bosnia and Herzegovina (Q3 2021), Bulgaria (Q3 2021), Croatia (Q3 2021), Cyprus (Q3 2021), the Czech Republic (Q3 2021) and Lithuania (Q1 2021).
- For Hungary, the recognisable difference in figures compared with the last edition is partly due to the change in accounting standards used for IMF FSI data. The standard changed from national GAAP to IFRS9 for data starting from Q1 2020.
- The NPL-to-gross domestic product (GDP) ratio (per cent) is calculated using annual GDP values for 2020 and 2021, respectively (rather than quarterly data), in line with reporting for the IMF World Economic Outlook.

II. Initial impact assessment of the war on Ukraine on credit risk

Despite further reductions in overall NPL ratios,[11] supervisors continue to take a prudent approach to asset quality. Concerns remain that the exceptional public-sector support provided to the real economy during the pandemic may have inadvertently made it harder for banks to assess borrowers' creditworthiness and created delays in recognising new NPLs. This is now being accentuated by the fast-changing macroeconomic and geopolitical environment, as the war on Ukraine is expected to have direct and indirect impacts on credit risks in the short to medium term.[12]

Challenges, therefore, continue to lie ahead as increases in food and energy prices add to inflationary pressures that were already high, primarily due to a strong rebound in demand, supply-chain disruptions and record high commodity prices. For example, the price of Brent crude oil is projected to average US$ 100/barrel in 2022, a 42 per cent increase from 2021 and its highest level since 2013.[13] The Food Price Index also reached 159.7 points in March 2022, its highest level since its inception in 1990.[14]

The initial direct impacts of the war on Ukraine on the banking sector have been mitigated, but the potential worsening of credit risks is a concern

For now, the risks of the Russian war on Ukraine on financial markets are still deemed moderate. While some foreign banks with lending exposure to Ukraine and Russia are exposed to a deterioration in loan quality and capital erosion due to declining ratings, most banks globally have limited direct risk exposure to both markets.[15] Indeed, many European banks reduced their exposure to Russia after the international sanctions issued in 2014 in response to Russia's invasion of Crimea.[16] The full extent of the wider economic repercussions of the war will be felt more intensely in Europe, however, due to many countries' high dependency on Russian oil and gas and on Ukrainian food supplies. The combination of rising inflation and interest rates is also expected to negatively affect the loan quality of banks through their exposure to increased delinquencies.

The latest European Banking Authority (EBA) risk dashboard**,** published on 1 April 2022, includes a special feature on the impact of the Ukraine crisis and its implications for the EU/EEA banking sector. In its analysis, the EBA concludes that the first-round risks stemming from the Ukraine crisis are not a fundamental threat to the stability of the EU banking system. Exposures to Russia and Ukraine are small (0.3 per cent of total assets) and concentrated in a few banks, so are manageable.

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[11] See the EBA risk dashboard.
[12] See KPMG (2022a).
[13] See World Bank (2022).
[14] See FAO (2022).
[15] See Moody's Investors Service (2022), p. 2.
[16] See Moody's Investors Service (2022), p. 3.

The European Central Bank (ECB) corroborated this analysis in a written overview, published on 4 April, ahead of the exchange of views of the Chair of the Supervisory Board of the ECB with the Eurogroup. It underscored that credit exposure to Russian counterparties was largely concentrated in a handful of significant institutions and was, therefore, generally manageable. For those institutions, the ECB estimated the impact of an exit scenario from the Russian market, implying a full write-off of direct cross-border exposure to Russian counterparties and of equity held in Russian subsidiaries. The average CET1 capital depletion suffered by the nine euro-area banking groups with a presence in Russia would range from approximately 70 to 95 basis points. Individual capital depletion figures in any scenario would remain below 200 basis points.

However, both the EBA and the ECB agree that second-round effects may be more material and are more worrying from a financial stability perspective. The key drivers of these concerns are the current high level of uncertainty about the outcome of the crisis and the potentially large impact on the wider EU and global economy. This includes the direct economic fallout of the crisis, such as the fiscal impact, the impact of the sanctions (on all actors involved), cyber risks, and the longer-term impact on supply chains in the global economy.

On 13 April, the Joint Committee of the European Supervisory Authorities (the ESA, comprising the EBA, the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA)) also published its first common risk assessment report for 2022. The report includes the ESA's preliminary analysis of the consequences of the Russian invasion of Ukraine on the financial system and recommends several actions to market participants, banks and competent authorities. Among other things, the report calls for the careful monitoring of banks' asset quality and recommends preparedness for a possible deterioration, especially in assets that benefited from Covid-19 support measures.

Andrea Enria, Chair of the ECB Supervisory Board, recently reiterated these messages to the Italian banking association, to which he presented further analysis on the impact of the war on the euro-area banking sector and Single Supervisory Mechanism (SSM) priorities. Despite its overall resilience to the pandemic, investors are far less optimistic about the banking sector than they were before the conflict. Credit risks also present some potential challenges ahead, with the second-round effects of the war on Ukraine and the sanctions on Russia feared to become more material in the coming months.

Multiple drivers may lead to asset-quality deterioration across sectors and regions

Multiple drivers may lead to asset-quality deterioration in the corporate sector including for small and medium-sized enterprises (SMEs), such as increased costs for inputs, including energy and commodities, and disruption to supply chains. This may all contribute to an increase in corporate defaults, particularly in those sectors that were already the most vulnerable to the pandemic and among companies that may not have fully recovered yet. Moreover, the foreseen tightening in financing conditions and access to finance may exacerbate the situation for companies that are already highly leveraged and/or with lower credit ratings.[17]

The residential sector has remained resilient to the pandemic, with house prices continuing to rise in the euro area. However, net mortgage lending is starting to show signs of a decrease in some jurisdictions, with fears that households might begin to struggle as inflation rises and disposable incomes continue to shrink. The rapid rise in the cost of living is feared to be particularly challenging for low-income families, leading to potential issues for the residential mortgage sector in the medium term.

The cumulative negative effects of the pandemic and the recent crisis could be felt deeper in the latter part of the year. Banks' exposure to these inherent risks could also be accentuated by persistent deficiencies in credit risk management, such as with the timely identification of credit deterioration, forward-looking measurement, the mitigation of credit risks, collateral valuation, and the adequacy of provisioning practices.

It is, therefore, important for banks, supervisors and regulators to monitor the situation very closely and to understand the granular impacts on credit risks across sectors and geographies. This includes understanding the potential knock-on effects between industries and regions. It is also essential to closely monitor those loans that were subject to moratoria or other forms of government support, as signs of financial weakness may not yet be apparent.

Strong supervisory focus on robustness of banks' loan origination and monitoring frameworks

To mitigate these risks, banks must strengthen their risk-prevention capacities. It is essential that access to finance prevail to avoid exacerbating any temporary financial stress of borrowers and turning it into long-term distress and NPLs. Still, sound lending practices, robust loan monitoring and a solid control framework are particularly important in times of uncertainty.

In its Dear CEO letters of 2020, the ECB clearly set out its expectations of EU banks with regard to credit risk management during the pandemic.[18] It subsequently conducted an in-depth assessment of banks' alignment with these expectations in 2021, and credit risk remains at the top of its agenda when it comes to supervisory priorities for 2022-24.[19] The need to focus on credit risk has been reinforced by the expected impact of the war on Ukraine on the banking sector.

The Covid-19 pandemic also confirmed the ECB's concerns as regards the high risks entailed in leveraged transactions. In March 2022, in response to growing levels of such loans and weaker

[17] See ECB (2022b)
[18] See ECB (2020)
[19] See ECB (2021)

covenants in Europe, the ECB sent a new Dear CEO letter on leveraged transactions[20] to the banks it supervises. In this letter, the ECB set out its supervisory expectations for the design and functioning of risk appetite frameworks and high levels of risk taking.

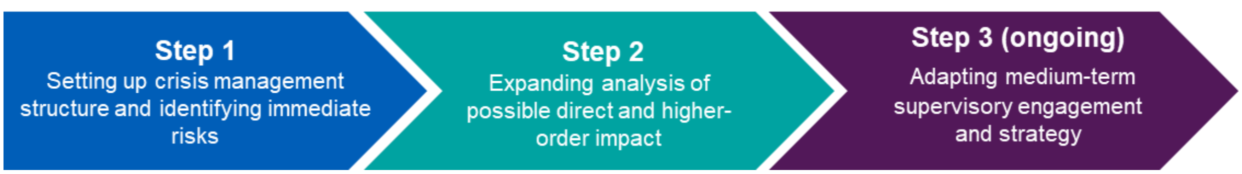
Initial response of the ECB to mitigate the risks of the war on Ukraine on the banking sector

As the situation evolves, EU regulators are adapting their supervisory approach in order to be able to anticipate the impacts of the new risks to the banking sector and to ensure that banks are ready to tackle any increase in credit risk and potential new NPLs.

Overall, the war on Ukraine has confirmed and reinforced the ECB's supervisory priorities for 2022-24, to which credit risk management was already central. The ECB confirmed that it will maintain its scrutiny of sectors already vulnerable to the pandemic, including continuing supervisory deep dives on commercial and residential real estate.

The ECB has also announced its intention to increase its supervisory focus to new conflict-related vulnerable sectors, such as commodity trading and energy utility sectors, for which it plans to perform supervisory deep dives in the coming months. It will perform close monitoring of concentrations in other sectors that are highly dependent on energy or on raw materials.

The ECB recently published the Supervisors' reaction to the war in Ukraine. In this article, the ECB highlighted its **response to the new challenges of the war on Ukraine**, defining **three steps**:



[20] See ECB (2022a)

III. Other ongoing measures implemented in the EU in anticipation of new waves of NPLs

As discussed in previous NPL Monitors (H1 and H2 2021), the European Commission published in December 2020 its [Action Plan for tackling NPLs] in the aftermath of the Covid-19 pandemic. The plan introduced a broad range of policy initiatives to be implemented at the EU level.

A key area of focus was to further develop the EU secondary distressed debt markets for the eventuality that a new wave of NPLs would arise from the pandemic. A series of actions has been put in motion as a result. These actions include the EU Directive on credit servicers and credit purchasers, which officially entered into force in December 2021, and, more recently, the publication for public consultation of a new (mandatory) EBA NPL templates.

EU Directive on credit servicers and purchasers[21,22]

The new EU Directive on credit servicers and credit purchasers (Directive (EU) 2021/2167) officially entered into force on 28 December 2021. EU member states are expected to transpose the Directive by 29 December 2023 and to apply the relevant measures from the following day.

The Directive on NPLs is a key element of the European Commission's action plan on NPLs. It aims to further harmonise the regulation of Europe's secondary NPL markets, facilitating cross-border risk-sharing while protecting borrowers' rights. This is expected to impact all the main actors involved in the sale process: originators, servicers and credit purchasers.

Impacts for credit servicers: Credit servicers will need to be authorised in a home member state before commencing activities in that jurisdiction. Entities already carrying out credit servicing on 30 December 2023 will be allowed to continue those activities until 29 June 2024, or the date when they obtain authorisation, whichever is earlier. The Directive also introduces a broad range of new requirements, including with regard to governance, internal control, policies, suitability of management, anti-money laundering and counter-terrorist financing procedures.

Impacts for purchasers: Credit purchasers will not need to be authorised unless they intend to perform credit-servicing operations themselves. Where the borrower is a natural person or a micro, small or medium-sized entity, third-country credit purchasers (that is, not domiciled in the European Union) must appoint both an EU-domiciled representative and an authorised credit servicer. The Directive also prescribes minimum requirements for what must be incorporated into the credit servicing agreements, including the descriptions of credit-servicing activities, remuneration and their calculation, the extent of representation to the borrower, and a clause requiring the fair and diligent treatment of borrowers.

[21] See Vienna Initiative (2021).
[22] See KPMG (2022b).

Impacts for sellers: For credit institutions, as sellers of NPLs, one of the main changes is the call for further standardisation of the data requirements for sales of non-performing credit agreements. The EBA is mandated by the Directive to develop new standardised and mandatory data templates (see next section).

EBA NPL data templates

Improving banks' NPL data has been a significant focus of EU regulators in recent years, including in the European Commission's Action Plan of December 2020, which underscored the need to further standardise the information required for the sale of NPLs.

The EBA was subsequently mandated by the Directive on credit servicers and credit purchasers to draw on its existing (voluntary) EBA NPL templates, published in 2018, to develop new standardised and mandatory data templates to be used by credit institutions for the provision of information to credit purchasers when selling NPLs.

As a result, the EBA launched on 16 May 2022 a public consultation paper on the draft Implementing Technical Standards (ITS) on non-performing loans (NPL) transaction data templates. Once final, these new templates will be used for the purposes of financial due diligence and the valuation of NPLs by investors.

The consultation paper is open for comment by the industry until 31 August 2022. The finalised ITS will then be submitted to the European Commission by the end of 2022. The templates will be used for transactions in loans that are originated on or after 1 July 2018 and that became non-performing after 28 December 2021. For loans outside this timeframe, credit institutions will still be expected to fill in the templates, but on a best-effort basis using available information. The templates will not apply to the disposal of NPLs through NPL securitisation transactions or to the sale of NPLs as part of sales of branches or business lines.

The data required include loan-by-loan information for five new templates: (1) counterparty, (2) relationship between the counterparty, loans and collaterals, (3) loan, (4) collateral, guarantee and enforcement and (5) collection and repayment. The templates include a total of 157 data fields, of which 133 are mandatory and 24 non-mandatory. The non-mandatory data should still be provided if possible, but unavailability can be explained.

The principle of proportionality will also apply to the templates, with fewer (91 instead of 133) mandatory data fields required for smaller loans with a carrying value of less than €25,000. In addition to the size of loan, different data fields are mandatory based on the nature of the borrower and the nature of the loan.

The proposal does not define a formal role for monitoring or enforcing the use of the templates, but the competent authorities may use the template as part of their supervisory activities.

Creditor coordination in resolving non-performing corporate loans

As part of its Financial Stability Review of November 2021, the ECB published a special feature in which it identified creditor coordination failures and costs for corporate NPLs as a source of market failure, ultimately leading to potential losses on NPL sales.[23]

The ECB proposed using data platforms to overcome creditor coordination issues. Such data and coordination platforms would allow for all the exposures belonging to the same borrower to be consolidated, providing more transparency to NPL investors and facilitating the acquisition of a qualified majority of a borrower's debt. The structure could also be enhanced through a securitisation structure to further facilitate the transfer of the exposures and allow the provision of state or private guarantees.

Creating a centralised NPL data hub at EU level

The potential creation of a centralised NPL data hub at EU level has also been discussed by the European Commission advisory panel on NPLs. Such a data hub could act as a data repository to underpin the NPL market, allowing the storage of anonymised data on NPL transactions that have taken place in order to increase transparency on these transactions. More specifically, it would allow a more efficient assessment of the price of NPL portfolios across European markets, reducing executional risk. The idea was put out to the industry for comment by September 2021. The results of the targeted consultation of the industry were published in a summary report.

No decision has been made yet on whether to create such a data hub, but it is not expected to happen for some years in any case. It would be a significant undertaking and would require the support of market participants. In any event, the first step is for the ITS on the EBA NPL transaction data templates to be finalised and, in effect, serve as a foundation for the data that could be shared with such a data hub. Other options, such as private-sector solutions, might also be considered in parallel.

[23] See ECB (2017).

IV. Recent policy actions in the partner countries of the Vienna Initiative in response to Covid-19 and the war on Ukraine

A recent survey conducted by the EBRD[24] on NPL-related emergency measures introduced as a Covid-19 response in the EBRD regions, including all Vienna Initiative partner countries, has shown that 85 per cent introduced a package of temporary emergency measures in the banking and taxation sectors to mitigate the negative impacts of the pandemic. The measures include capital injections, a payout ban on dividends, loan moratoria, tax deferrals, tax reductions and more. These measures appear to have played a critical role in keeping NPL figures low, even if temporarily, despite the economic downturn.

In this section, we summarise recent updates on the coordinated measures implemented by the government or the main public institutions in five partner countries of the Vienna Initiative to mitigate the impact of Covid-19 and the war on Ukraine on banks' asset quality.

Albania

Policy actions[25]

- **Distribution of bank dividends**: On 13 January 2021, the Bank of Albania (BoA) lifted its suspension of the distribution of 2019 bank dividends, but suspended the distribution of 2020 and 2021 dividends to end 2022.

- **Monetary policy decision:** On 23 March 2022, the BoA increased the base interest rate by 0.5 percentage point from 0.5 per cent to 1.0 per cent, reversing a 0.5 percentage point decrease announced 25 March 2020.

- **Extension of the euro liquidity line:** Following a positive assessment of a request for an extension of its current euro liquidity worth €400 million, announced in 2020, the ECB and BoA agreed on 28 March 2022 to extend its maturity until 15 January 2023. Although this collateralised credit line has not been used so far, the BoA considers this back-up instrument to be necessary as a precautionary measure to address the potential impacts of the pandemic and geopolitical developments on the domestic financial system.

[24] See Annex 3-2.
[25] See IMF (n.d.). Additional information provided by EBRD staff.

Croatia

Policy actions[26]

- **Pay-out ban on dividends**: The Croatian National Bank (CNB) lifted its dividend payout ban from 1 October 2021 (three months earlier than planned). The measure was initially put in place to strengthen the resilience of the banking system.

- **Recovery and resilience plan (RRP)**: In July 2021, the European Commission issued a positive assessment of Croatia's recovery and resilience plan. Croatia had requested €6.3 billion in grants from the EU's Recovery and Resilience Facility (RRF), with 40 per cent of its allocation going to green measures, 20 per cent to digital measures and 40 per cent to economic and social resilience and others. The first tranche, worth €700 million, is scheduled to be transferred in June 2022. Croatia also received a pre-financing of €818 million (13 per cent of Croatia's total financial allocation under the RRF), which was disbursed on 28 September 2021.

- **Measures against rising energy prices:** In March 2022, the Croatian government introduced a fixed merchant's margin for oil derivatives, as well as a temporary decrease in excise duty on oil derivatives. It also reduced VAT rates on gas deliveries, food, agricultural costs and other items. The measures were put in place to absorb the effect of the recent significant rise in energy prices.

Hungary

Policy actions[27]

- **Successive loan moratoria**: Hungary introduced significant economic safeguards worth 30 per cent of GDP, including loan moratoria, an economic recovery fund and guarantee programmes. The March 2020 moratorium on loan repayments for the corporate and retail sectors was partly extended to 30 June 2022 for vulnerable groups (such as pensioners, parents and expectant parents, those enrolled in public works programmes and individuals who lost income in 2020).[28]

- **Monetary policy normalisation**: The Hungarian central bank raised its base rate on 27 April 2022, from 4.40 per cent to 5.40 per cent, marking its 11th consecutive increase and the joint-largest hike since 2008 to tame spiralling inflation.[29]

[26] Information provided by EBRD staff.
[27] Information provided by EBRD staff.
[28] See Eurofound (n.d.).
[29] See Simon (2022).

- **Reorganisation within insolvency**: The Hungarian legislator introduced a new reorganisation procedure aimed at improving the financial situation of companies that suffered huge losses due to Covid-19 pandemic. The availability of the procedure was extended to 31 December 2022. The procedure was an extraordinary measure to help debtors to continue operating by reaching an agreement with creditors involved in the procedure within the framework of a reorganisation plan. The court can impose a moratorium of 90 days (which may be extended by another 60 days), applicable only in relation to the creditors involved in the procedure. The debtor and its creditors can include any tool in the plan that they deem appropriate to the reorganisation of the company, for example, new financing, debt relief or rescheduling.

- **Cap on fuel and food price extension**: In April 2022, Hungary's government extended a price cap on fuel and some basic food items by two months until July 2022 as consumer prices continue to rise following Russia's invasion of Ukraine. The cap on gasoline and diesel prices, which the government fixed at HUF 480 (US$ 1.33) per litre in November will remain until 1 July 2022. A limit in place since 1 February 2022 on the price of basic food items such as sugar, flour and sunflower oil will also remain in place until 1 July 2022.[30]

Montenegro

Policy actions[31]

- **Covid-19 measures:** Most moratoria measures introduced by the regulators in response to the Covid-19 pandemic have expired, except for three that are still active: (i) an extension of repayment periods by a maximum of five years for private individuals that lost their jobs due to Covid-19; these loans can also be treated as new lending without additional provisioning; (ii) no dividend payments until further notice; (iii) mandatory reserve fees halved from 12 per cent to 6 per cent. These measures came into effect on 1 January 2022.

- **Reduction in excise duties on oil and fuel:** The government of Montenegro decided to reduce excise duties on oil and fuel by 50 per cent and to abolish or reduce VAT on certain basic food products.

[30] See AP (2022).
[31] Information provided by EBRD staff.

Serbia

Policy actions[32]

- **State financial support programme to bolster the economy during the Covid-19 crisis:** In March 2021, the support programme was extended to 30 June 2022, increasing the value of the package by €500 million, along with a €500 million expansion of the state-guaranteed bank-loan scheme for SMEs.
- **The three moratoria introduced in 2020** ended in April 2021.
- **The National Bank of Serbia (NBS) started tapering monetary policy**. The NBS switched to reverse repo purchases of government LCY bonds in Q3 2021, thus tightening monetary policy due to inflationary pressures. This resulted in an increase in the BELIBOR rate, with parallel pressure on the NBS reference rate. The NBS eventually raised the reference rate twice in Q2 2021, from 1 per cent to 1.5 per cent and, again, from 1.5 per cent to 2 per cent in May 2022, thus reducing inflationary pressure.

[32] Information provided by EBRD staff.

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Annex 1: NPL servicers in the CESEE region

Table 2: List of major NPL servicers in the CESEE region

Servicer	Type of servicer *				Also investor?	Asset class					Country																				Comments
	Primary	Special	Recovery agency	Own assets only	Yes / No	Retail	SME	Corporate	Residential real estate	CRE	Albania	Bosnia	Bulgaria	Czech Republic	Croatia	Cyprus	Estonia	Greece	Hungary	Kosovo	Latvia	Lithuania	Monte negro	North Macedonia	Poland	Romania	Serbia	Slovak Republic	Slovenia	Ukraine	
APS Holding	✓	✓	✓		Yes	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓		✓	✓				✓		✓	✓	✓	✓	✓	✓	
AxFina	✓	✓				✓	✓	✓	✓	✓					✓				✓							✓			✓		
Best S.A	✓		✓		Yes	✓	✓	✓	✓																✓						
B2 Holding	✓	✓	✓		Yes	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓		✓	✓	✓		✓		Present in Poland through Ultimo
Cepal	✓	✓	✓		No	✓	✓			✓								✓													
Chartered Debt Management	✓	✓	✓		Yes	✓	✓	✓																		✓					CDM typically partners with international investors in Romania to act as their servicing partner.
CreditExpress			✓		No	✓									✓										✓	✓	✓			✓	
Coface			✓		No	✓					✓		✓	✓	✓				✓						✓	✓	✓	✓	✓		
Delfi					No											✓															
EOS Group	✓	✓	✓		Yes	✓	✓	✓	✓	✓		✓	✓	✓	✓			✓	✓	✓			✓	✓	✓	✓	✓	✓	✓		
Eurobank FPS	✓	✓	✓		Yes	✓	✓			✓								✓													Bought by DoValue
Hoist Finance				✓	Yes	✓	✓											✓							✓	✓					
Intrum	✓	✓	✓		Yes	✓	✓	✓	✓					✓			✓	✓	✓		✓	✓			✓	✓		✓			In June 2017, Intrum Justitia officially merged with Lindorff. The new entity is called Intrum.
Kredyt Inkaso	✓	✓	✓	✓	Yes	✓	✓	✓	✓	✓			✓		✓										✓	✓					
Kruk	✓	✓	✓		Yes	✓	✓	✓	✓	✓				✓											✓	✓		✓			
Lexus EGF			✓		No	✓		✓		✓															✓						
Mount Street	✓	✓	✓		No		✓	✓		✓								✓													In January 2017, Mount Street acquired EPA, the German asset management subsidiary of EAA, created in 2009 to manage the assets of the former WestLB AG
Pepper	✓	✓			No											✓															
Pillarstone	✓	✓	✓		Yes		✓	✓		✓						✓		✓													
PraGroup		✓	✓		Yes	✓	✓																		✓						
Resolute		✓	✓		No	✓	✓	✓	✓	✓			✓			✓		✓	✓							✓					
QQuant Master Servicer	✓	✓	✓		No													✓													
Tagor Asset Management		✓	✓		Yes			✓		✓																✓					Tagor often bids alongside international investors in Romania, acting as their servicing partner

Source: KPMG and EBRD

NPL Servicers * Primary servicers: monitor and manage loans
* Special servicers: try and restructure the loan and work with the debtor in case of default
* Recovery servicers: aim to collect as much as possible in case of default and after all restructuring options have been exhausted

Annex 2: Summary of recent decisions by Vienna Initiative stakeholders and EU regulators[33]

Table 3: Measures related to Covid-19 and the war on Ukraine implemented by EU regulators since the H2 2021 edition of the NPL monitor

Date	Authority	Measure	Source
16/05/2022	EC	The European Commission approved a €2 billion Greek scheme under the State Aid Temporary Framework, aimed at providing investment support towards a sustainable recovery in the context of the Covid-19 outbreak. Under this measure, the aid will take the form of loans with subsidised interest rates.	Source
12/05/2022	EC	The European Commission announced that the State Aid Covid-19 Temporary Framework adopted on 19 March 2020 (amended November 2021), enabling Member States to remedy a serious disturbance in the economy in the context of the coronavirus pandemic, would not be extended beyond the current expiry date of 30 June 2022. The existing phase-out and transition plan will not change, including the possibility of Member States providing specific investment and solvency support measures until 31 December 2022 and 31 December 2023, respectively.	Source
05/05/2022	EC	The European Commission announced a new aid package of €200 million to support displaced people in Ukraine in the context of the International Donor's Conference convened jointly by Poland and Sweden.	Source
27/04/2022	ECB	The ECB and the National Bank of Romania (BNR) agreed to renew a repo line arrangement to provide euro liquidity to the BNR, which will expire on 15 January 2023, to address increased uncertainty and regional spillover risks from the war on Ukraine.	Source
19/04/2022	EC	The European Commission approved a €836 million (PLN 3.9 billion) Polish scheme to support the agricultural sector in the context of Russia's invasion of Ukraine.	Source
17/04/2022	EU	The EU allocated a further €50 million in humanitarian funding to support people affected by Russia's war on Ukraine, including €45 million for humanitarian projects in Ukraine and €5 million for Moldova.	Source
24/03/2022	ECB	The ECB announced the timeline for gradually phasing out temporary pandemic collateral-easing measures introduced in April 2020 as part of its policy response to the pandemic, in three steps between July 2022 and March 2024.	Source
11/03/2022	EC	The European Commission disbursed €300 million in emergency macro-financial assistance (MFA) to Ukraine. The disbursement of funds aims to enhance Ukraine's macroeconomic stability in the context of Russia's invasion.	Source
02/03/2022	EC	The European Commission approved a €2 billion Hungarian scheme aimed at providing investment support with a view to a sustainable recovery. The scheme was approved under the State Aid Temporary Framework.	Source

[33] Unless otherwise specified, sources are the websites of the respective institutions.

Table 4: Measures related to Covid-19 and the war on Ukraine from stakeholders of the NPL Initiative since the H2 2021 edition of the NPL Monitor

Date	Authority	Measure	Source
12/05/2022	EBRD	The EBRD guaranteed €30 million out of more than €53 million in lending to support food security in Ukraine. The risk the EBRD took on with ProCredit Bank, OTP Bank Ukraine and OTP Leasing was part of the Bank's €1 billion in activity in Ukraine this year together with donors and partners.	Source
06/05/2022	EIB	The EU's national promotional banks and institutions and the European Investment Bank (EIB) launched the €2 billion Quick Response — Care for Ukrainian Refugees in Europe initiative. The joint initiative aims to provide immediate relief for refugees fleeing the war on Ukraine and promote the rapid and humane integration of Ukrainian refugees in EU member states.	Source
27/04/2022	EBRD	The EBRD boosted trade finance support for Ukraine by €100 million. The support was part of the Bank's €1 billion in activity in Ukraine this year together with donors and partners.	Source
09/04/2022	EIB	The EIB announced a €4 billion programme to support EU member states hosting Ukrainian war refugees and to develop vital social infrastructure, as part of the EIB's Ukraine Solidarity Package.	Source
04/04/2022	EBRD	The EBRD Board of Governors approved taking firm action against Russian and Belarus following the invasion of Ukraine. Access by both countries to Bank resources was formally suspended with immediate effect, meaning no new financing of projects or technical cooperation activities.	Source
31/03/2022	WB	The World Bank approved US$ 200 million in additional financing to support South Sudan's continued efforts to improve its capacity to respond to Covid-19.	Source
29/03/2022	WB	The World Bank approved US$ 400 million in additional financing for the Tunisia Covid-19 Social Protection Emergency Response Support Project, which aims to help about 900,000 vulnerable Tunisian households, or 30 per cent of the total population, to cope with the health and economic impacts of the Covid-19 crisis.	Source
22/03/2022	WB	The World Bank approved US$350 million in additional financing for Jordan's Covid-19 Emergency Response Project to continue cash support to poor and vulnerable households and workers in firms most affected by the pandemic.	Source
14/03/2022	WB	The World Bank announced nearly US$ 200 million in additional and reprogrammed financing to bolster Ukraine's social services for vulnerable people, as a part of the US$ 3 billion package previously announced.	Source
09/03/2022	EBRD	The EBRD announced an initial €2 billion resilience package of measures to help citizens, companies and countries affected by the war on Ukraine. Funding will be made rapidly available to support Ukrainian companies– for example, with deferred loans, liquidity support and trade finance. Where possible, businesses will be helped to relocate so their work can continue. The Bank also pledged to do all it can to help with the country's reconstruction once conditions allow.	Source
09/03/2022	IMF	The International Monetary Fund (IMF) approved US$ 1.4 billion in Emergency Financing Support for Ukraine to help meet urgent financing needs and mitigate the economic impact of the war.	Source
04/03/2022	EIB	The EIB approved €668 million of immediate financial support to Ukraine, to help the Ukrainian authorities to meet the country's most urgent financial needs, including buying food, medical supplies and fuel for its citizens.	Source
24/02/2022	WB	The World Bank approved US$ 300 million to help Bangladesh strengthen its urban local government institutions to respond to the Covid-19 pandemic and to improve preparedness to future shocks, benefiting about 40 million urban residents.	Source
08/02/2022	EIB	The EIB signed €2.7 billion worth of guarantees with Greek banks under the European Guarantee Fund, translating into €6.5 billion in financing to companies across Greece impacted by the pandemic.	Source
01/02/2022	WB	The World Bank approved a US$ 700 million loan for Ecuador to support government efforts to mitigate the impact of the Covid-19 crisis.	Source
22/12/2021	WB	The World Bank approved additional grant financing of US$ 25 million to the Tajikistan Emergency Covid-19 Project, to support Tajikistan's efforts to respond to the health, social and economic impacts of the Covid-19 pandemic.	Source
17/12/2021	WB	The World Bank approved a €300 million Second Economic Recovery Development Policy Loan for Ukraine to support the country's economic recovery and growth and to help mitigate the impacts of the Covid-19 pandemic.	Source
13/12/2021	EIB	The Lithuanian Ministry of Finance and the European Investment Fund (EIF) announced substantial new support for Lithuanian SMEs. Guarantee agreements with five Lithuanian financial intermediaries will make as much as an additional €364 million in new financing available for businesses dealing with the economic fallout of the Covid-19 pandemic.	Source

Date	Authority	Measure	Source
07/12/2021	EBRD	The EBRD signed a risk-sharing facility of up to €7.11 million with OTP Bank Albania under the Albanian Agribusiness and Tourism Support Facility. The funds will be provided through the Albania Agribusiness and Tourism Support Facility, a framework aimed at improving access to finance for SMEs. The agribusiness sector is facing similar constraints in terms of access to finance, particularly in light of the Covid-19 pandemic and the deadly earthquake of 2019.	Source
03/12/2021	EBRD	The EBRD is supporting the Slovak Recovery and Resilience Plan (RRP) in the field of energy efficiency and the green economy, boosting green investments as a crucial part of its long-term response to the Covid-19 pandemic.	Source
24/11/2021	EIB	The EIB announced a €50 million loan to the Investment and Development Fund of Montenegro to support the faster recovery of the local economy from Covid-19.	Source

Annex 3-1: Regional Economic Prospects in the EBRD regions[34]

According to the EBRD's latest *Regional Economic Prospects* report, the war on Ukraine has been having a profound impact on the economies in which the Bank invests. Output in the EBRD regions is expected to grow by 1.1 per cent, down from 6.7 per cent in 2021. Increases in food and energy prices have added to inflationary pressures, which were already high before the war. Some economies are further affected through trade, tourism and remittance links and a reassessment of geopolitical risks. Below, we provide a summary of our report on the latest economic developments and our latest forecasts for CESEE countries.

Table 5: Gross domestic product (GDP) growth in real terms

	Actual			Forecast(May'22)		Revision since		
						Mar'22		Nov'21
	2019	2020	2021	2022	2023	2022	2023	2022
EBRD Regions	**3.4**	**-2.5**	**6.7**	**1.1**	**4.7**	**-0.6**	**-0.2**	**-3.1**
Central Europe and the Baltic states	**4.0**	**-3.7**	**5.5**	**3.2**	**3.4**	**-0.2**	**-0.8**	**-1.5**
Croatia	3.5	-8.1	10.4	3.0	3.5	-0.2	-0.5	-1.2
Czech Republic	3.0	-5.8	3.3	2.5	3.5	-0.5	-0.5	-2.1
Estonia	4.1	-3.0	8.3	1.5	2.5	-0.5	-0.5	-2.5
Hungary	4.6	-4.5	7.1	3.5	3.5	0.0	-1.0	-1.3
Latvia	2.5	-3.8	4.7	1.5	2.0	-0.5	-0.5	-4.0
Lithuania	4.6	-0.1	5.0	2.0	3.0	-0.5	-0.5	-2.0
Poland	4.7	-2.5	5.7	4.0	3.5	0.0	-1.0	-0.8
Slovak Republic	2.6	-4.4	3.0	2.0	3.5	-0.5	-0.5	-3.0
Slovenia	3.3	-4.2	8.1	3.5	3.0	-0.1	-0.8	-1.0
Ukraine	3.2	-3.8	3.4	-30.0	25.0	-10.0	2.0	-33.5
South Eastern EU	**3.3**	**-5.8**	**6.6**	**2.6**	**3.2**	**-0.2**	**-0.7**	**-1.6**
Bulgaria	4.0	-4.4	4.2	2.5	3.0	-0.3	-0.6	-1.9
Greece	1.9	-9.0	8.3	2.9	3.5	0.0	0.0	-1.0
Romania	4.2	-3.7	5.9	2.5	3.0	-0.3	-1.2	-1.9
Southern and Eastern Mediterranean	**4.1**	**-1.9**	**6.0**	**2.5**	**4.8**	**0.0**	**0.1**	**-1.8**
Western Balkans	**3.7**	**-3.1**	**7.5**	**3.2**	**3.6**	**0.1**	**0.0**	**-0.8**
Albania	2.1	-3.5	8.5	3.0	3.3	-0.3	-0.2	-0.7
Bosnia and Herzegovina	2.8	-3.1	7.1	3.0	3.0	0.7	0.0	0.0
Kosovo	4.8	-5.3	10.5	4.0	4.0	0.0	0.0	-0.5
Montenegro	4.1	-15.3	12.4	3.7	4.5	0.0	0.5	-2.0
North Macedonia	3.9	-6.1	4.0	3.0	3.0	0.0	0.0	-1.0
Serbia	4.3	-0.9	7.4	3.3	4.0	0.0	0.0	-1.0

Figure 4: Many economies in the EBRD regions are highly dependent on Russian gas

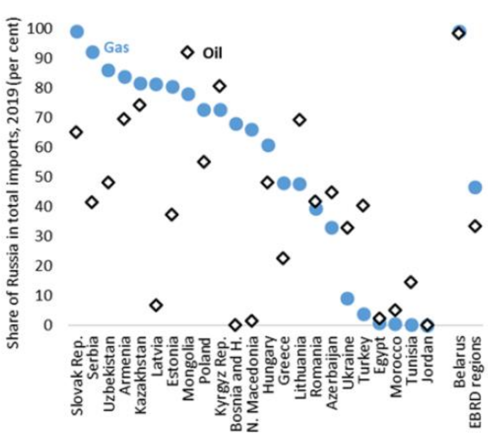
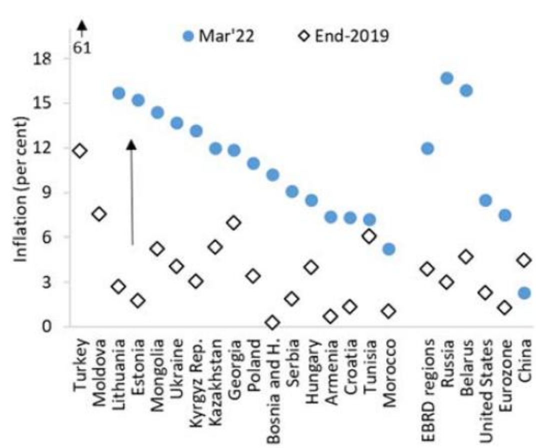


Figure 5: Energy and food price spikes have added to inflationary pressures



[34] See EBRD (2022).

- **Central Europe and Baltic States (CEB)**: Bolstered by a strong recovery in private consumption and investment, the economies of the CEB region increased, on average, by 5.5 per cent in 2021. GDP in most countries has now exceeded pre-pandemic levels. However, the positive developments have been overshadowed by the knock-on effects of the Russian invasion of Ukraine. Continued disruptions in supply chains and rising commodity and energy prices, intensified by the war on Ukraine, resulted in a sharp increase in inflation rates in March 2022, ranging from 6.0 per cent in Slovenia and 7.3 per cent in Croatia to a high of 15.6 per cent in Lithuania. Inflation is likely to remain elevated at least during the first half of 2022 and will negatively affect the disposable income of households. To mitigate inflationary pressures, central banks in the Czech Republic, Hungary and Poland have increased interest rates. Wide-ranging government responses to inflation, from reducing VAT to zero per cent on basic products in Poland to price caps on basic food and fuel in Hungary and on electricity prices in the Slovak Republic, are likely to cause general government deficits to rise further in 2022. As gas constitutes on average 21 per cent of CEB countries' energy mix, with Russia a major gas supplier, higher energy prices are likely to weigh further on consumers.

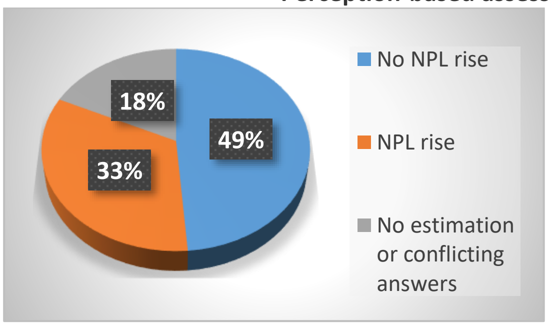
- **South-eastern European Union**: Growth in south-eastern European Union countries is falling in 2022 after staging a robust recovery in 2021. Rising inflation is a concern in all three cases, prompting government efforts to protect the most vulnerable. In Bulgaria and Greece, both of which have major tourism industries, there was a partial recovery in tourism numbers in 2021 and the hope is for a tourism season close to or even exceeding 2019 levels this year. The war on Ukraine is causing spillover effects on supply chains, and rising energy prices are a major challenge in all cases, given their dependence on energy imports.

- **Western Balkans**: Following a better-than-expected performance in 2021, the Western Balkans economies are forecast to continue growing in 2022, though at a slower pace than initially predicted. Overall, the economies in the Western Balkans have limited exposure to Russia, Ukraine and Belarus in terms of direct economic links such as trade, investment and remittances. Montenegro has some exposure via the tourism channel, given the high share of tourists coming in normal times from Russia and Ukraine. All countries in the region are adversely affected by higher oil prices, some by rising gas prices (Serbia, North Macedonia, and Bosnia and Herzegovina to a small degree), while North Macedonia and Albania are more exposed than others to an increase in electricity prices, as they import significant amounts of power. Domestic weaknesses in the energy sectors across the Western Balkans economies increase their vulnerability to a potential global energy crisis and also weigh on government budgets, given the high level of subsidies involved.

Annex 3-2: NPLs – Covid-19 response in the EBRD regions

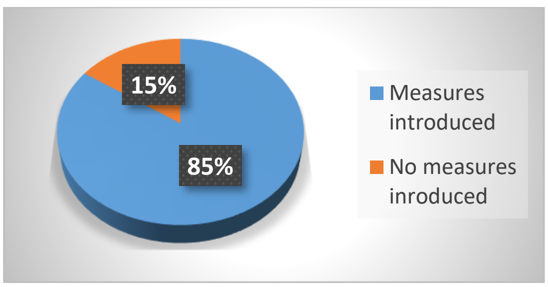
In April 2022, the EBRD Legal Transition Programme[35] conducted a survey on selected NPL-related emergency measures introduced as a Covid-19 response across the EBRD regions, including all Vienna Initiative countries. The survey included a perception-based assessment of the rise in NPLs due to Covid-19, emergency measures in banking, taxation and insolvency.

Perception-based assessment of NPL rise due to Covid-19



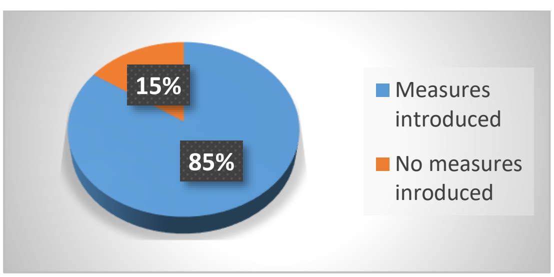
Respondents from 13 of the 39[36] economies perceived an increased level of NPLs. **Perceived NPL rise:** Armenia, Belarus, Bulgaria, Hungary, Jordan, Lebanon, Mongolia, Montenegro, Slovak Republic, Tunisia, Turkmenistan, Ukraine, Uzbekistan, West Bank and Gaza. **No perceived NPL rise:** Albania, Azerbaijan, Croatia, Cyprus, Czech Republic, Egypt, Kazakhstan, Kosovo, Latvia, Moldova, Morocco, Poland, Romania, Russia, Slovenia, Tajikistan.

Emergency measures in banking



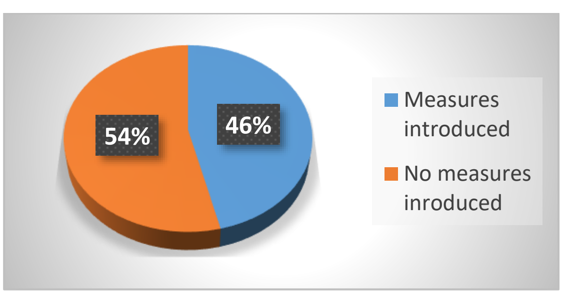
Thirty-three out of 39 economies introduced emergency measures in banking. These included capital injections to banks, prohibitions on the payment of dividends to bank shareholders, grace periods for loan servicing for households and businesses, including full or partial relief from repaying loan principal, capitalisation of interest, prohibition on increasing interest rates, interest-rate subsidies and state credit guarantee programmes.

Emergency measures in taxation



Thirty-three out of 39 economies introduced emergency measures in taxation. These included temporary tax relief or a reduction in personal and corporate income tax, in particular for micro, small or medium-sized enterprises, VAT reductions, concessions on real-estate tax, the deferral of taxes with further payment in instalments or tax credit, no fines for late submission of tax declarations and late payment of taxes, acceleration of tax refunds.

Emergency measures in insolvency



Eighteen out of 39 economies introduced emergency measures related to general corporate insolvency and bankruptcy legislation. These included the introduction of a moratorium on creditor-initiated insolvency/ bankruptcy proceedings, the suspension of managerial obligation to file for insolvency where applicable, the suspension of pending insolvency/bankruptcy proceedings, an extension of deadlines with regard to insolvency duties, simplified out-of-court restructuring proceedings and the suspension of enforcement proceedings.

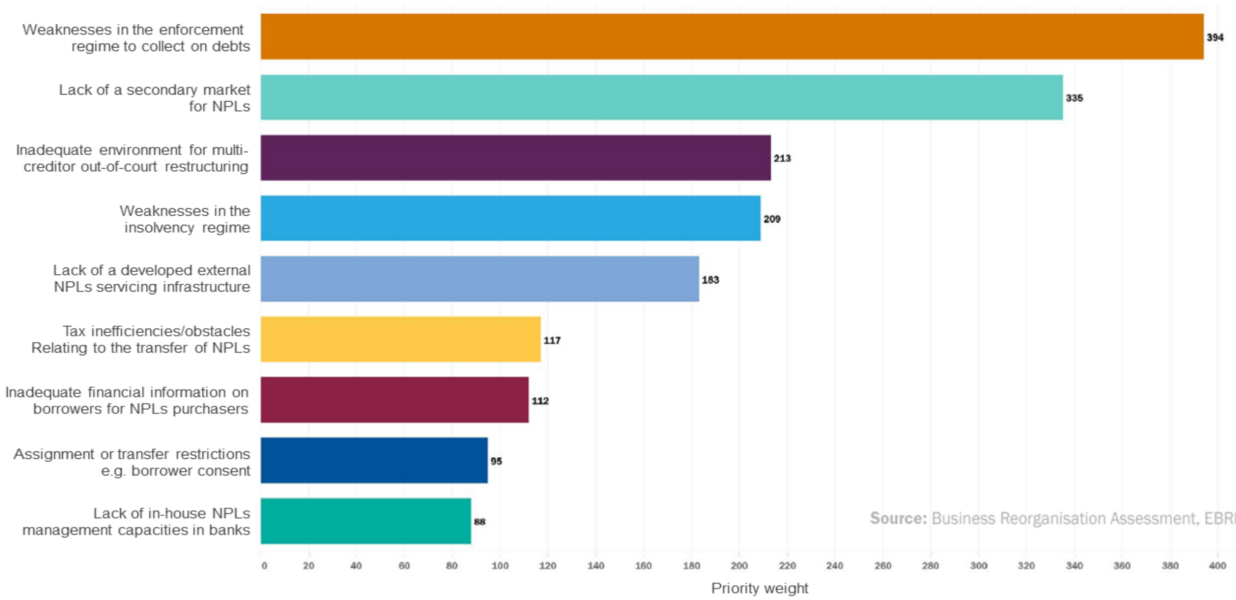
[35] Conducted by Catherine Bridge Zoller (Senior Counsel), Kateryna Yashchenko (Associate Counsel) and Natalia Pagkou (Consultant).

[36] This comprises the 38 economies in the EBRD regions, plus Cyprus, where the Bank's mandate ended in December 2020.

Annex 3-3: EBRD study maps business rescues across emerging markets

In response to the economic crisis induced by the Covid-19 pandemic, in 2020, the EBRD Legal Transition Programme launched its Business Reorganisation Assessment, a comprehensive cross-jurisdictional analysis of business reorganisation tools and stakeholders' perceptions on business reorganisation. The assessment covered 38 economies in which the EBRD invests, including all Vienna Initiative countries, while exploring recent insolvency trends and practices in more advanced markets such as France, Germany, England and Wales, and the United States of America.

As a part of the assessment, the team conducted a short NPL survey in the final quarter of 2020. The survey contained a series of perception-based questions aimed at gathering data on the obstacles to NPL resolution in economies where the EBRD operates and considered the views of interested parties and local financial institutions in assessing its effectiveness. The survey revealed the main impediments to NPL resolution in order of priority in the EBRD regions:



These results confirm that insolvency and debt enforcement regimes are vital to NPL resolution. Reorganisation within insolvency is one potential strategy for NPL resolution and can be facilitated and enhanced by proper reorganisation tools, particularly hybrid approaches and out-of-court restructuring (workouts). These contribute to a swift restructuring, whether operational or financial, the latter being particularly relevant for the purposes of NPLs.

The *Business Reorganisation Assessment Report* was published in January 2022. It is interactive and designed to be viewed online. To access the data, click here for the dashboard associated with the business reorganisation questionnaire, or here for the dashboard related to the survey on non-performing loans. The Guide to EBRD Business Reorganisation Data and Visuals can be found here. Economy profiles contain a visual overview of options for NPL resolution within insolvency proceedings across the EBRD regions.

Annex 4: Definitions

- **NPL volume (or gross NPLs):**
  - NPLs are defined and reported differently from country to country, as there is no international standard. For countries reporting FSIs to the IMF, the FSI Compilation Guide recommends reporting NPLs when: (i) payments of principal and interest are past due by 90 days or more; or (ii) interest payments equal to 90 days' interest or more have been capitalised, refinanced or rolled over; and (iii) loans are less than 90 days past due, but recognised as non-performing under national supervisory guidance.
  - European national supervisory authorities tend to use 90 days past due as a quantitative threshold, alongside bankruptcy, 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 sets out the technical standards submitted by the EBA).
  - While most NPL data in this report are sourced from the IMF FSI, NPL data for Serbia come directly its central bank (from, for example, its financial stability reports, banking reports, macroeconomic reports and statistical databases). Serbia uses a definition in line with that of the IMF. Montenegro defines NPLs as loans that are more than 90 days past due, without interest, 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 plus reserves; 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 monitor, we summarise below the key indicators used in the analysis, as detailed by central banks when reporting to the IMF (or, in the case of Serbia, as 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, while some exclude such loans (increasing their NPL ratio). Other specificities listed below may also create a slight upward or downward bias in the results. However, despite some discrepancies, the definitions and data used in this monitor are consistent overall between countries and can be relied on for comparability purposes.

		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 (excl. overdrafts) - 60 days over limit usage for limit loans	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 accounted for. Only financial collateral is taken into consideration for loan provisioning.	

		NPLs	Gross loans	Provisions (or Net NPLs)	Comments
2	**Bosnia and Herzegovina**	A 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. Until Q4 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 Q4 2011.		From Q4 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 came 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.	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 interest on non-performing assets is not accrued. This includes interest accrued on some NPLs. It 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.		

		NPLs	Gross loans	Provisions (or Net NPLs)	Comments
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 the 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 into 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 a higher classification category than C. Indeed, banks may determine a loan to be non-performing if they have evidence suggesting the inability of the borrower to repay the debt.		Provisions refer to value adjustments 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**	"Non-performing credit exposure" shall denote: - 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, while the uncollected amount which is due for a period longer than 90 days is greater than: MKD 1,000 (for credit exposures to natural persons), MKD 3,000 (for credit exposures to small companies) or MKD 10,000 (for credit exposures 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 of 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). The bank shall assess whether there is unlikeliness to pay by the client, at least on the basis of the following data and information: - blocked account of the client - deteriorating risk category at the banking system level - deteriorating financial position of the client - client's work permit revoked by the competent body - sale of another credit exposure from the client with a significant loss - extension of grace period for the payment of principal and interest longer than 18 months - a write-off that significantly reduces the amount of credit exposure. All of a bank's credit exposures to one client-legal entity should be treated as non-performing credit exposures if the bank's on balance-sheet credit exposure that is past-due for more than 90 days exceeds 20 per cent of the total balance-sheet credit exposure of the bank to that client. Amid the Covid-19 pandemic, amendments to the decision on the methodology for credit risk management were introduced (adopted in March and April 2020). More specifically, these amendments allowed for a temporary change in the definition of an NPL. The threshold of 90 days past due for assigning the non-performing status was increased to 150 days past due for all clients with a performing status before the pandemic (before the entrance into force of the amendments). Moreover, banks were not obliged to apply provisions for determining clients' unlikeliness to pay nor the provision according to which all of the bank's credit exposures to one client-legal entity should be treated as non-performing credit exposures if the bank's on balance-sheet credit exposure past due for more than 90 days exceeded 20 per cent of the total balance-sheet credit exposure of the bank to that client. Banks could use these exceptions until 30 September 2020 for credit exposures that were determined to be performing (classified in A, B or C risk category) as of 29 February 2020, or were approved (as performing credit exposures classified in A or B risk category) in the period from 1 March to 30 September 2020. However, in order to adequately address the possible	This includes loans to financial and non-financial sectors.	Provisions include provisions for non-performing and 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 only.

		NPLs	Gross loans	Provisions (or Net NPLs)	Comments
		risks, banks were required to fully adjust to the existing “regular” criteria for determining non-performing credit exposures (90 days and unlikeliness to pay), not later than 31 December 2020.			
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 that 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.	
16	**Romania**	From June 2014, NPLs were 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, NPLs have been 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 the 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 criterion 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.		

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