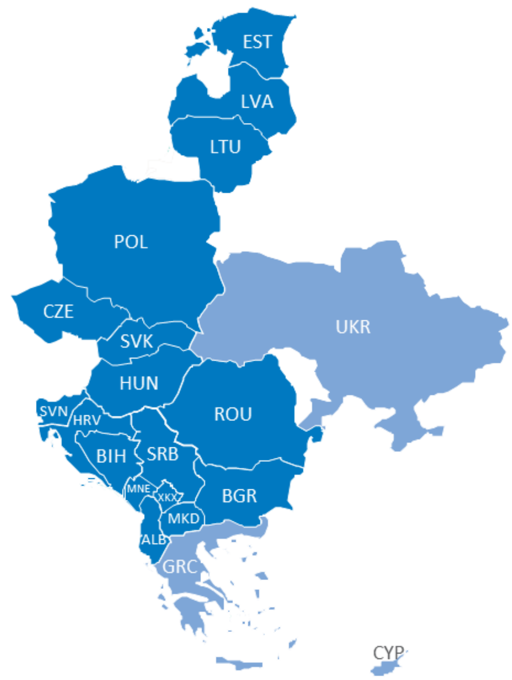
EBCI | Vienna Initiative

# NPL monitor for the CESEE region[1]

## Edition: H2 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 focuses on increased uncertainty and vulnerability in the financial sector while the war on Ukraine continues, and the sharply rising interest rates that are an attempt to curb soaring levels of inflation.

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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.

# Contents

## Executive summary

At the start of 2022 many feared that the termination of comprehensive Covid-19 government support measures implemented in most countries to shield against asset quality deterioration would lead to a significant rise in non-performing loans (NPLs). The ongoing war on Ukraine and the subsequent surge in energy prices, and overall deterioration in economic sentiment, also accentuated the risks of financial market disruption.

However, the latest figures show that the stability of the banking sector in the European Union (EU) and in the broader central, eastern and south-eastern European (CESEE) region has overall remained resistant to the crisis until now. In fact, NPLs in many countries in this region have continued to follow the downward trend, even declining to a historical low. As of 30 June 2022, the average share of NPLs in total loans (NPL ratio) in the CESEE region stood at 2.6 per cent, down by 0.5 percentage points from 30 June 2021. The ratio dropped to its lowest on record in recent years, indicating that the quality of bank assets has not deteriorated, at least for now, even after most government support measures were lifted. The region's NPL coverage ratio has also remained strong at 66.0 per cent as of 30 June 2022.[3]

While the region remained resilient to the current geopolitical and economic environment, concerns remain, especially with the pronounced trend of sharply rising interest rates to curb soaring inflation and the ongoing cost-of-living crisis. We also need to take into account the fact that the NPL statistics are not structured to reflect the immediate situation due to the time lag (at least 90 days) in realising NPLs. The share of loans in stage 2 under the International Financial Reporting Standard (IFRS) 9 were on the rise during the same period, indicating an increased level of credit risk. The diverging move of NPLs and stage 2 loans can foreshadow that pressure on asset quality is building.

In this context, regulators and banks need to be ready to put measures in place if NPLs start to build up. As we have learned from past experience, it is important to act pre-emptively to support stressed or distressed but viable borrowers, and to limit the accumulation of NPLs on banks' balance sheets. Most CESEE countries took the necessary action in past years to improve the adequacy of NPL provisioning by banks and to allow for the timely write-off and sale of uncollectable loans. This contributed to the development of a sound NPL market in the region and played an important role in achieving this record low NPL level.

The current crisis is expected to be different from the global financial crisis (GFC), as we can anticipate some of the challenges in banks' asset quality, which may then be reflected in NPLs. Banks are advised to closely monitor under-performing sectors and unlikely to pay (UTP) exposures, and be ready for early intervention. Banks should also have in place sound forward-looking NPL strategies and remediation plans, considering possible scenarios of an NPL rise.

[3] 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

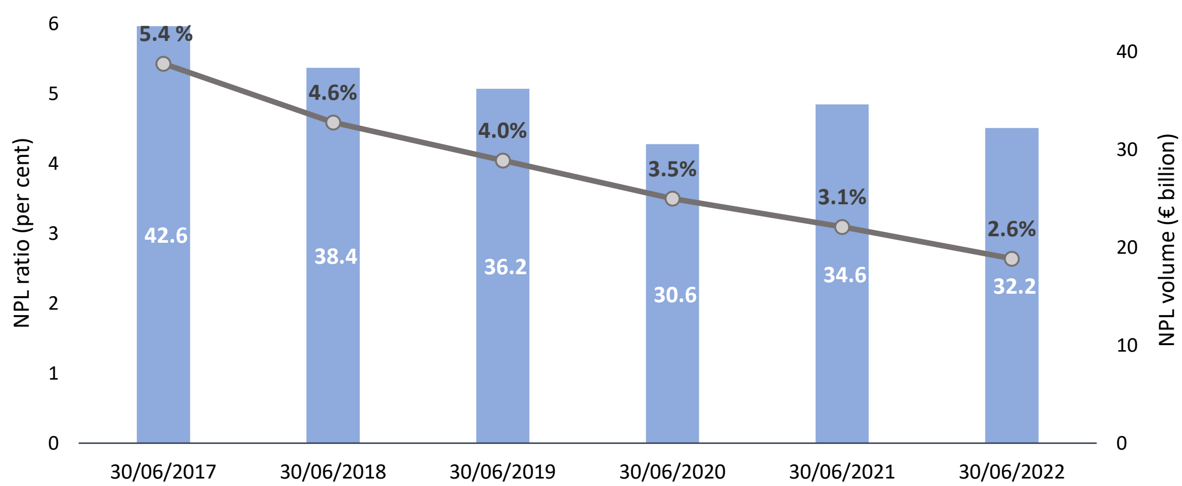
### Continued decrease in NPL volumes over the past 12 months for most CESEE jurisdictions

- At the regional level, NPL volumes fell 6.9 per cent to €32.2 billion in the 12 months leading up to 30 June 2022,[4] their lowest level in recent years.
- In relative terms, the decline in NPL stocks was most significant in Estonia, Latvia and Lithuania, where they fell 27.4 per cent, 24.8 per cent and 19.1 per cent, respectively.
- The largest contributor to the decline in absolute terms was Poland, where the stock of NPLs declined by almost €1.24 billion, or 11.2 per cent.
- The decreasing trend also continued in comparator countries (Greece, Cyprus and Ukraine). For example, NPL volumes in Greece fell by €15.8 billion (45.7 per cent) over the period, mainly due to a high volume of NPL securitisation deals under the Hercules Asset Protection Scheme (HAPS).
- Three countries experienced an increase in NPL volumes: Hungary (13.0 per cent), North Macedonia (3.5 per cent) and Montenegro (17.8 per cent).

### Considerable fall in the average NPL ratio by 0.5 percentage points in the 12-month period

- As of June 2022, the average regional NPL ratio (as a proportion of NPLs to total gross loans) across the CESEE region decreased to 2.6 per cent, a reduction of 0.5 percentage points compared with the level seen 12 months earlier. This is the lowest level recorded since the *NPL Monitor* was first published in 2016, 0.2 percentage points lower than the previous low recorded in the last H1 2022 edition.
- Croatia saw the largest decline, posting a 1.6 percentage point drop during the period reaching 4.9 per cent.
- Out of the countries covered, the NPL ratio increased only in Montenegro, by 0.6 percentage points, reaching 6.9 per cent.

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




[4] See notes for Table 1.

## Coverage ratios remained at 66.1 per cent, slightly lower than pre-crisis levels

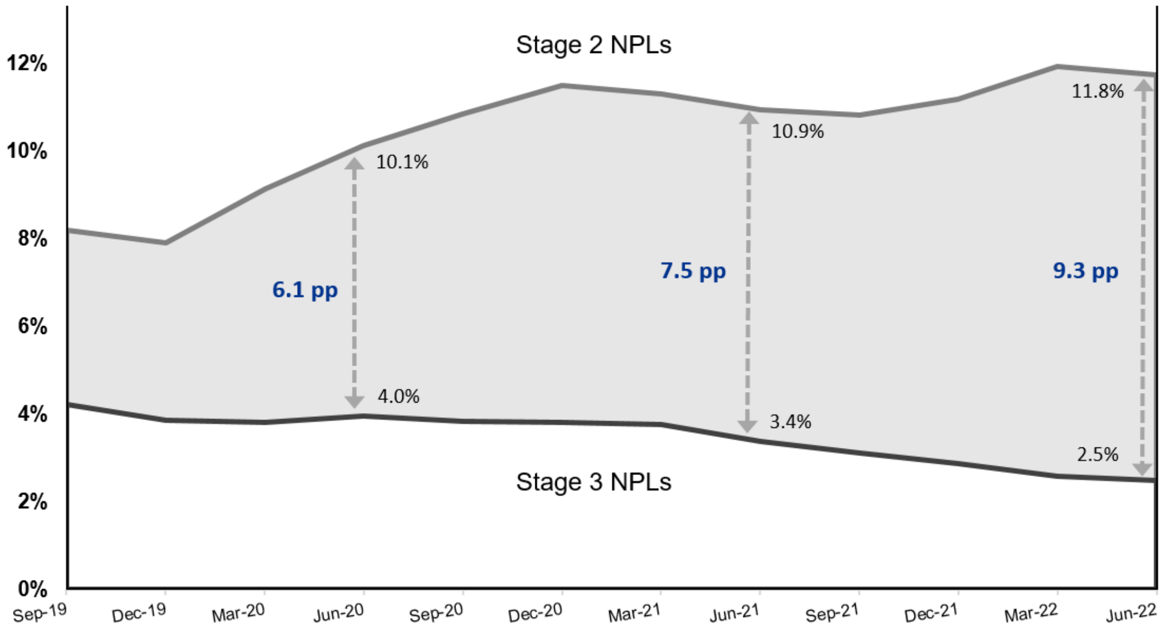
- On aggregate in the CESEE region, from June 2021 to June 2022, the average NPL coverage ratio[5] increased by 1.8 percentage points to 66.0 per cent, as banks started building up provisioning levels to prepare for the potential risks following the war on Ukraine.
- Croatia recorded the highest coverage ratio in the region, at 92.3 per cent with a 9.4 percentage point increase, followed by Slovenia at 91.2 per cent with a 6.5 percentage point increase.
- The most significant decline in the NPL coverage ratio was recorded in Albania, which saw a decrease of 4.6 percentage points.

## The gap between stage 2 and stage 3 loans widened further in the first half of 2022[6, 7]

- As demonstrated in Figure 2, the lagging effect of the Covid-19 pandemic and the macroeconomic downturn partly resulting from the war on Ukraine have widened the gap between stage 2 and stage 3 loans in the EU members of CEE[8] (EU CEE region). The spread increased to 9.3 percentage points as of 30 June 2022, up from 7.5 percentage points on 30 June 2020, and 6.1 percentage points on 30 June 2019.
- Despite the continued decrease in stage 3 loans by 0.9 percentage points, the share of stage 2 loans continued its increasing trend by 0.9 percentage points. The rise in stage 2 loans points to a higher share of loans showing a significant increase in credit risk.
- The level of stage 2 loans was more pronounced for loans subject to a public guarantee scheme (PGS). For example, as of 30 June 2022, for the EU-27 countries, banks reported that 23.7 per cent of loans subject to PGS were classified as stage 2, showing a 5.2 percentage point increase in 12 months.
- This raises further concerns that NPLs may increase in the near future as most Covid-19-related support measures have been phased out, with borrowers now also being stressed by surging inflation and sharply rising interest rates.
- Since 30 June 2021, stage 2 loans as a share of total loans held in the EU CEE countries showed a significant increase from 10.9 per cent to 11.8 per cent as of 30 June 2022. However, when comparing with the previous quarter – 12.0 per cent as of 31 March 2022 – the share of stage 2 loans has marginally decreased (0.2 percentage point). The share of stage 3 loans also decreased slightly from 2.6 per cent to 2.5 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 June 2022 were Croatia (up 6.3 percentage points over the period), Lithuania (up 4.4 percentage points) and Poland (up 4.1 percentage points).
- During the same period, the greatest decrease in the share of stage 3 loans was observed in Bulgaria (down 4.7 percentage points), Latvia (down 1.7 percentage points) and Romania (down 1.5 percentage points).

[5] Percentage of NPL provisions divided by the NPL stock.
[6] As classified by International Financial Reporting Standard (IFRS) 9, unless otherwise specified. Data on staging are from the EBA interactive tool.
[7] See the EBA Risk Dashboard.
[8] 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[9]




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

- The hospitality industry has been one of the sectors hit hardest by the Covid-19 pandemic, and still remains somewhat vulnerable with the largest NPL ratio in the EU CEE region, at 11.4 per cent as of 30 June 2022.
- As most of the Covid-19 related restrictions were lifted starting in early 2022, the hospitality sector also continued its gradual recovery, showing a decline in the NPL ratio by 1.2 percentage points in the 12 months ending 30 June 2022.
- However, it remains too early to draw conclusions from this downward trend, due to the worsening macroeconomic environment and looming recession. The recent historic surge in inflation, soaring energy costs, rising interest rates and resulting higher cost of doing business have put a strain on consumers' disposable incomes.
- Slovenia, Poland and Lithuania still show double-digit NPL ratios in the hospitality sector, at 19.0 per cent, 15.2 per cent and 10.7 per cent, respectively, as of 30 June 2022.

[9] See the EBA Risk Dashboard.

**Figure 3a:** NPL volumes and ratios in the CESEE region as of 30 June 2022

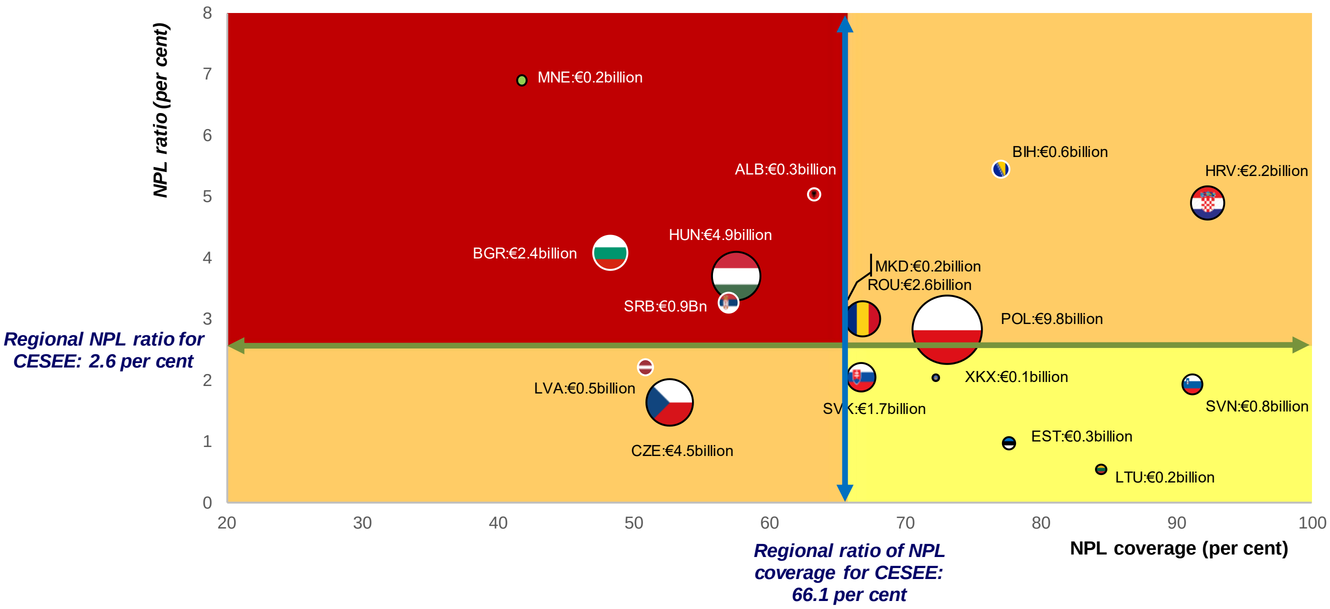



**Figure 3b:** NPL and NPL coverage ratios as per coloured quadrant in Figure 3a (Q2 2022)

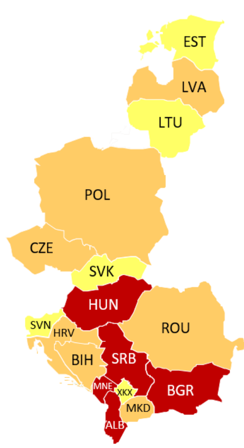
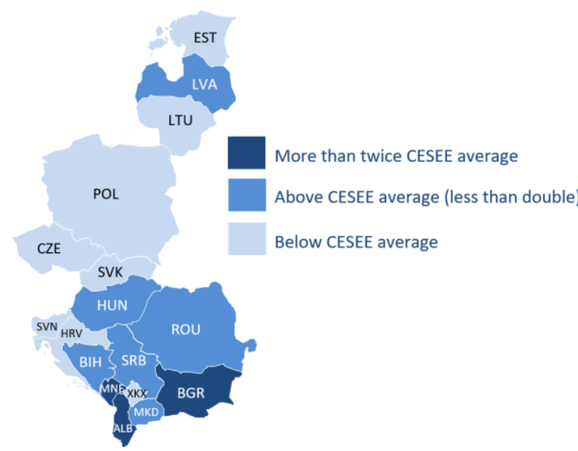



**Figure 3c :** Net NPL ratio (Q2 2022)



## **Table 1:** Overview of the NPL profile in the CESEE region, 30 June 2021 to 30 June 2022

| | NPL volume (€ bn) | | NPL ratio (%) | | NPL coverage ratio | | Net NPL ratio (%) | | Net NPL / Capital (%) | | NPL to GDP (%) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Country** | **Jun-22** | **Variation(%)** | **Jun-22** | **Δ(pp)** | **Jun-22** | **Δ(pp)** | **Jun-22** | **Δ(pp)** | **Jun-22** | **Δ(pp)** | **Jun-22** | **Δ(pp)** |
| **Albania (ALB)** | 0.3 | ▼ (12.8) | 5.0 | ▼ (1.5) | 63.3 | ▼ (4.6) | 1.8 | ▼ (0.3) | 7.6 | ▼ (1.1) | 1.8 | ▼ (0.6) |
| **Bosnia & Herz. (BIH)** | 0.6 | ▼ (3.0) | 5.4 | ▼ (0.2) | 77.1 | ▼ (2.8) | 1.2 | ▲ 0.1 | 6.3 | ▲ 0.5 | 2.7 | ▼ (0.6) |
| **Bulgaria (BGR)** | 2.4 | ▼ (10.9) | 4.1 | ▼ (1.3) | 48.3 | ▲ 1.4 | 2.1 | ▼ (0.8) | 15.7 | ▼ (2.2) | 3.0 | ▼ (1.1) |
| **Croatia (HRV)** | 2.2 | ▼ (16.4) | 4.9 | ▼ (1.6) | 92.3 | ▲ 9.4 | 0.4 | ▼ (0.7) | 2.0 | ▼ (3.5) | 3.4 | ▼ (1.4) |
| **Czech Republic (CZE)** | 4.5 | ▼ (3.9) | 1.6 | ▼ (0.2) | 52.6 | ▲ 2.4 | 0.8 | ▼ (0.1) | 7.8 | ▼ (1.5) | 1.6 | ▼ (0.4) |
| **Estonia (EST)** | 0.3 | ▼ (27.4) | 1.0 | ▼ (0.5) | 77.7 | ▲ 19.1 | 0.2 | ▼ (0.4) | 1.4 | ▼ (2.1) | 0.9 | ▼ (0.6) |
| **Hungary (HUN)** | 4.9 | ▲ 13.0 | 3.7 | ▼ (0.1) | 57.5 | ▼ (2.9) | 1.6 | ▲ 0.1 | 11.5 | ▲ 1.5 | 2.8 | ▼ (0.1) |
| **Kosovo (XKX)** | 0.1 | ▼ (0.9) | 2.0 | ▼ (0.3) | 72.3 | ▲ 3.1 | 0.6 | ▼ (0.2) | 3.6 | ▼ (0.8) | 1.0 | ▼ (0.2) |
| **Latvia (LVA)** | 0.5 | ▼ (24.8) | 2.2 | ▼ (0.9) | 50.8 | ▲ 11.9 | 1.1 | ▼ (0.8) | 9.4 | ▼ (6.7) | 1.3 | ▼ (0.8) |
| **Lithuania (LTU)** | 0.2 | ▼ (19.1) | 0.5 | ▼ (0.2) | 84.4 | ▲ 18.8 | 0.1 | ▼ (0.2) | 1.3 | ▼ (2.4) | 0.3 | ▼ (0.2) |
| **Montenegro (MNE)** | 0.2 | ▲ 17.8 | 6.9 | ▲ 0.6 | 41.8 | ▲ 2.7 | 4.0 | ▲ 0.2 | 21.6 | ▲ 2.5 | 3.9 | ▼ (0.1) |
| **North Macedonia (MKD)** | 0.2 | ▲ 3.5 | 3.1 | ▼ (0.3) | 66.0 | ▼ (3.4) | 1.1 | ▲ 0.0 | 5.8 | ▲ 0.3 | 1.6 | ▼ (0.2) |
| **Poland (POL)** | 9.8 | ▼ (11.2) | 2.8 | ▼ (0.6) | 73.1 | ▲ 2.9 | 0.8 | ▼ (0.3) | 6.1 | ▼ (1.3) | 1.5 | ▼ (0.5) |
| **Romania (ROU)** | 2.6 | ▼ (5.3) | 3.0 | ▼ (0.8) | 66.9 | ▲ 2.0 | 1.0 | ▼ (0.3) | 7.1 | ▼ (0.5) | 0.9 | ▼ (0.3) |
| **Serbia (SRB)** | 0.9 | ▼ (1.1) | 3.3 | ▼ (0.2) | 57.0 | ▼ (2.1) | 1.4 | ▼ (0.0) | 6.0 | ▲ 0.2 | 1.5 | ▼ (0.2) |
| **Slovak Republic (SVK)** | 1.7 | ▼ (6.1) | 2.0 | ▼ (0.4) | 66.8 | ▼ (0.5) | 0.7 | ▼ (0.1) | 5.7 | ▼ (0.5) | 1.6 | ▼ (0.3) |
| **Slovenia (SVN)** | 0.8 | ▼ (18.6) | 1.9 | ▼ (0.5) | 91.2 | ▲ 6.5 | 0.2 | ▼ (0.2) | 1.3 | ▼ (1.5) | 1.4 | ▼ (0.6) |
| **CESEE** | 32.2 | ▼ (6.9) | 2.6 | ▼ (0.5) | 66.0 | ▲ 1.8 | 0.9 | ▼ (0.2) | 7.1 | ▼ (1.1) | 1.6 | ▼ (0.5) |
| **Cyprus (CYP)** | 2.6 | ▼ (43.9) | 9.4 | ▼ (5.8) | 39.7 | ▼ (5.2) | 5.7 | ▼ (2.7) | 32.8 | ▼ (20.0) | 10.3 | ▼ (10.0) |
| **Greece (GRC)** | 18.8 | ▼ (45.7) | 8.8 | ▼ (8.4) | 49.3 | ▲ 2.9 | 4.5 | ▼ (4.8) | 39.1 | ▼ (33.2) | 9.0 | ▼ (10.6) |
| **Ukraine (UKR)** | 10.9 | ▼ (8.8) | 31.5 | ▼ (8.0) | 88.7 | ▼ (0.4) | 3.6 | ▼ (0.7) | 17.0 | ▼ (4.0) | 6.4 | ▼ (1.0) |
| **Other** | 32.3 | ▼ (36.9) | 11.8 | ▼ (7.8) | 61.9 | ▲ 5.6 | 4.5 | ▼ (4.1) | 33.9 | ▼ (27.2) | 8.0 | ▼ (6.2) |
| **Total countries** | **64.5** | ▼ **(24.8)** | **4.3** | ▼ **(1.9)** | **63.9** | ▲ **4.5** | **1.6** | ▼ **(1.0)** | **12.1** | ▼ **(6.2)** | **2.7** | ▼ **(1.6)** |

### Notes on the data and the interpretation of results

- Variation (per cent) is calculated as ((value period 1/value period 0) -1), with June 2021 as period 1 and June 2022 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 30 June 2022 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 Serbia. When information is available from neither national websites nor the IMF FSI, time-adjacent data are used to plug the gaps. The countries for which IMF data are not available for Q2 2022 are Bosnia and Herzegovina (Q1 2022), Bulgaria (Q3 2021), Cyprus (Q1 2022), the Czech Republic (Q1 2022), Greece (Q1 2022), Lithuania (Q1 2022) and Poland (Q1 2022).
- The NPL-to-gross domestic product (GDP) ratio (per cent) is calculated using annual GDP values for 2021 and 2022, respectively (rather than quarterly data), in line with reporting for the IMF World Economic Outlook. For Ukraine, annual GDP values for 2021 are used for 2022 due to data availability.
- The NPL ratio for Cyprus and Greece shows variation when compared with the EBA Risk Dashboard Q2 2022 data (Cyprus 3.6 per cent, Greece 5.2 per cent) due to the difference in latest data availability and reporting standards.

## II. Impact of the new and emerging credit risks on EU banks' asset quality and NPL expectations

In this section we discuss the recent analysis of credit risk and NPL outlook undertaken by EU regulators and supervisors. The areas of attention for the EU echo similar challenges faced in the broader CESEE region, although each country has its own local specificities.

### Pulse on credit risks in the EU banking sector [10,11,12,13,14]

While banks' asset quality has remained resilient until now, there is an overall growing concern from EU regulators that pressure is mounting on credit risk, with a likely increase in NPLs from next year. The European Central Bank (ECB) calls for vigilance and prudence, which is likely to shape its supervisory priorities for 2023 (to be published later this year).

**On a positive note, banks entered the current crisis in a relatively robust position**

- Despite the effects of the pandemic, unemployment and corporate defaults (and ultimately NPL levels) remained much lower in the EU than initially anticipated, in large part due to the broad range of government support measures implemented across the EU.
- Moreover, the efforts in recent years to reduce EU banks' NPL stock levels have been largely successful. The EBA Risk Dashboard of Q2 2022 shows that NPLs in the EU/EEA reached 1.8 per cent in Q2 2022, which is the lowest level since the global financial crisis (GFC). The ECB also reiterates this downward trend in NPLs for the first half of 2022 in the latest ECB Financial Stability Report of November 2022.
- The reduction in NPLs has been largely driven by the sale of NPL portfolios by banks and securitisation initiatives (especially in countries such as Italy and Greece, where government-sponsored NPL securitisation schemes were implemented).
- Moreover, banks entered the crisis with strong capital positions and liquidity buffers and are profitable overall. Most banks expect the rising interest rates to offset some of the impacts of potentially deteriorating asset quality and higher funding costs.

**EU regulators are calling for prudence as the first signs of weakness are apparent**

- Although banks are resilient and profitable, the ECB reiterated the need for prudence as the threats to asset quality may lead to higher provisioning needs.[2] The ECB expects banks not to be overly optimistic in their modelling and forecasting, and to closely monitor the downside risks ahead on their credit portfolio.

[10] See ECB (2022j).
[11] See ECB (2022k).
[12] See ECB (2022f).
[13] See KPMG (2022b).
[14] See KPMG (2022a).

- While it remains unclear to what extent the current volatility will affect defaults and NPLs in the months to come, EU regulators and supervisors agree that pressure on both household and corporate borrowers will continue to intensify in the near future.
- The ECB emphasised that the deteriorating macroeconomic conditions – economic downturn, high inflation and rising interest rates – may lead to a decrease in asset quality and a potential increase in NPLs, especially for energy-intensive corporate sectors, residential and commercial real estate, consumer finance and leveraged finance.[15]
- The ECB mentioned[16] that it can already observe signs of credit risks increasing despite the decreasing NPL ratios, underscoring that the asset quality outlook has deteriorated significantly in the last six months.
- Some of this pressure on borrowers may already be observed in the movement of stage 2 loans (under IFRS9). According to the EBA[17], stage 2 loans in the EU/EEA increased to close to 9.5 per cent[18] as of Q2 2022, which is higher than the previous peak in Q4 2020. This may indicate first signs of a deterioration in asset quality.
- In addition to pressures identified in the corporate portfolios, rising credit risk for the household segment is also noticeable, as the quality outlook for these credits will be impacted by the likely increases in the cost of living.
- The future, therefore, remains uncertain, and a further worsening of the macroeconomic environment may lead to a rise in defaults and NPLs and, ultimately, a provisioning increase.

**The tightening of credit standards and supply may accentuate borrowers' vulnerabilities**

- In recent months, bank lending rates for both households and corporates have increased further, as banks tighten their credit standards amid concerns over worsening economic conditions. This is also likely to be reflected in bank lending volumes in the short term. In addition, the ECB has already indicated that it will raise interest rates again in the coming months.
- As financial conditions continue to tighten, this is expected to accentuate the vulnerabilities of the more indebted households and corporates. The European Systemic Risk Board (ESRB) has echoed these concerns,[19] emphasising that the deterioration in the macroeconomic outlook combined with the tightening of financing conditions put increased stress on the balance sheet of non-financial corporations (NFCs) and households, ultimately negatively affecting their debt servicing capacity. This is particularly true for sectors and countries most affected by the rise in energy prices.

[15] See ECB (2022e).
[16] See ECB (2022j).
[17] See the EBA Risk Dashboard.
[18] As detailed in Section 1, the stage 2 loan ratios for the EU CEE countries only is slightly higher, at 11.8 per cent as of Q2 2022.
[19] See ECB (2022l).

**Government measures to prevent NPLs similar to the pandemic levels are not expected**

- Some measures have been implemented since the start of the war on Ukraine, mostly to mitigate the impacts of the rise in energy prices and inflation. Eurozone governments have until now spent around 1.4 per cent of GDP on such discretionary measures, with many energy support measures to extend into 2023.
- It is, however, very unlikely that households and corporates will benefit from the same level of government support to mitigate credit risks as they did during the pandemic (such as Government Guarantee Schemes, moratoria). Both the ECB and the IMF have called on fiscal authorities to restrain from introducing large, untargeted support schemes that could limit the inflation-taming effects of monetary tightening.

**The ECB is aligning its priorities with the new and emerging risks**

- The ECB already mentioned that the macroeconomic climate could result in targeted adjustments to the ECB priorities for the next supervisory cycle of 2023-25. These revised priorities are expected to be published by the end of 2022.[20]
- To align with the rapidly evolving risks faced by banks and borrowers, the ECB has already shifted its supervisory attention away from monitoring the lagging effects of the pandemic to addressing the new and emerging risks arising from the geopolitical and macroeconomic uncertainty – especially in energy-intensive sectors and the most interest rate-sensitive portfolios.

## EU regulators' view on the sectors most at risk from the worsening macroeconomic environment

**Corporates are likely to face declining earnings and rising default risks**[21]

- Overall, corporates saw a return to profitably to pre-pandemic levels in the first half of the year, as some of their higher input costs could be passed on to their customers. However, more recently, the weaker economic outlook has led corporate earnings growth expectations to turn negative in real terms, which was last observed during the GFC.
- With the recession looming, combined with higher funding costs and energy prices, the ECB anticipates that corporates will be facing declining earnings, weaker growth expectations and rising default risks. This can already be observed by the increase in expected default frequencies for eurozone-listed non-financial firms across multiple industry sectors (December 2021 vs October 2022).[22]

[20] See ECB (2022e).
[21] See ECB (2022j).
[22] See ECB (2022j) Chart 5.

**Corporate vulnerabilities are more pronounced for energy-intensive firms**

- According to the ECB[23] (as also previously raised by the European Systemic Risk Board (ESRB)),[24] corporates which are highly energy-intensive may face growing debt servicing problems and have seen higher probabilities of default since the start of the war on Ukraine. According to AnaCredit,[25] exposures to vulnerable sectors represent approximately 18 per cent of non-financial portfolios, concentrated mainly on energy suppliers and construction.
- The EBA reiterates these concerns[26] and emphasises how a rationing of energy supply could affect production in many sectors, amplifying supply-chain bottlenecks and ultimately increasing the risk of defaults.
- The ECB reported that the loan quality of energy-intensive firms has deteriorated since the start of the war on Ukraine.[27] The ECB mentions that the average probabilities of default (PDs) for highly energy-intensive firms has increased by 50 basis points since March 2022, while less energy-intensive firms benefited from a slight decrease in their PDs over the same period. Furthermore, the provisioning ratio for non-defaulted loans of energy-intensive firms nearly doubled over the same period.

**Commercial real estate sector is likely to face further tension**[28]

- Banks' commercial real estate (CRE) lending has been under close scrutiny by the ECB for some time. The focus is now sharpening with the current crisis, with rising concerns over this sector. CRE already accounts for about 30 per cent of European banking NPLs, partly due to legacy loans left over from the GFC.
- According to the ECB, the higher interest rates and anticipated downturn are expected to put further strain on the sector. The ESRB also emphasised that the challenges faced by this sector are now accentuated by the worsening macroeconomic environment, namely the rising cost of financing and construction, the remaining bottlenecks in the supply of construction materials, and the structural trends affecting overall demand for office space. This is likely to further impact the already low profitability of CRE investments projects in the EU, ultimately increasing the risks of default and potentially leading to a rise in NPLs for the sector.
- Supervisors are, therefore, monitoring banks' CRE loans and underlying collateral more closely. The ECB is pursuing, for example, its programme of on-site inspections (OSIs) which began in 2018 and which include collateral re-valuation. Further ECB supervisory activities for this sector are expected in 2023, particularly to ensure that banks are

[23] See ECB (2022j).
[24] See ECB (2022l).
[25] See ECB (2022d).
[26] See the EBA Risk Dashboard.
[27] See ECB (2022j).
[28] See ECB (2022d).

addressing the weaknesses identified previously, such as with data, collateral valuations and lending standards.

**Possible vulnerabilities in the residential real-estate sector**

- Residential real estate (RRE) is also a growing area of apprehension for the regulators, as it represents a significant portion of European bank lending and is beginning to show signs of stress.
- Loans and advances collateralised by residential immovable property total €4.1 trillion, which is one-third of all loans to households and non-financial corporates in the EU.[29] Mortgage portfolios also represent over 200 per cent of banks' Common Equity Tier 1 (CET1) capital in most eurozone countries[30]. Therefore, the risks related to this sector are significant. Most regulators[31,32,33] have recently voiced concerns over vulnerabilities in this segment.
- One of the main risks identified is the potential for downward corrections in RRE prices in some markets. Both the ESRB and the ECB have warned of the increasing residential real-estate overvaluation and household indebtedness, ultimately making mortgage loans riskier.
- RRE price corrections, combined with higher interest rates and tighter financial conditions, could compound the issue by leading to a decrease in housing demand.
- Moreover, the deterioration in financing conditions may also increase the risk of default by the more indebted households. This risk is particularly pronounced for lower-income households, as the ECB points out that high inflation is having a particular impact on their disposable income and debt servicing capacity.
- The EBA,[34] therefore, reiterated the importance for banks and supervisors to closely monitor mortgage portfolios, to exert prudence with loan origination and enhance loan monitoring as the crisis continues to unfold.

**Leveraged loans continue to be perceived as a major risk for European banks**[35]

- Significant institutions in the eurozone now hold over half a trillion euros of leveraged loans, which represents an increase of 80 per cent on 2017 levels. On aggregate, leveraged loans held by significant banks now represent around 60 per cent of CET1. EU regulators are now concerned that vulnerable corporates which are highly leveraged may

[29] See EBA (2022).
[30] See ECB (2022h).
[31] See ECB (2022b).
[32] See ECB (2022a).
[33] See Bank of England (2022).
[34] See ECB (2022b).
[35] See ECB (2022i).

struggle to service their debt or refinance with the higher interest rates and wider credit spreads.

- Earlier this year the ECB sent a "Dear CEO letter" to the banks it supervises to ascertain supervisory expectations on leveraged transactions.[36] The ECB's initial assessment of the responses from banks revealed significant deficiencies compared with its expectations and its 2017 guidance on leveraged transactions.[37] Next year the ECB will continue working closely with banks in ensuring the gaps identified are closed, with capital charges likely to be imposed on banks with excessive leveraged lending risks.

[36] See ECB (2022g).
[37] See ECB (2017).

# III. Measures implemented in the EU as part of the 2020 NPL action plan of the European Commission

As discussed in previous editions of the *NPL Monitor*, 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 focus is to further develop the EU secondary distressed debt markets for the eventuality of a new wave of NPLs. While the plan was initially designed as a response to the Covid-19 pandemic, the purpose has not been realigned to also consider the NPL risks faced by the current volatile geopolitical and macroeconomic environment. The European Commission put together earlier this year an NPL Advisory Panel,[38] tasked with supporting the development of the diverse initiatives defined in the action plan.

Since the last *NPL Monitor*, the European Commission – with the support of its Advisory Panel – published *Guidelines on a best-execution process for sales of NPLs on secondary markets*.

The guidelines are based on best practices for NPL transactions, with each chapter focusing on a specific stage of the transaction process. They outline best practices and conditions considered necessary to achieve a successful outcome with NPL transactions.

The main target audience of the guidelines is the less experienced seller, so they provide a clear and structured approach to follow. While it is not compulsory to follow the guidelines, sellers are encouraged to do so.

The European Commission NPL Advisory Panel is also working on a similar document for NPL securitisation, as well as on a document on national NPL market specificities. It is hoped that both will be published in the coming months.

[38] Composed of experts from the industry and observers/contributors from the ECB and EBA. Eric Cloutier, Senior Adviser to the ERBD on NPLs and Partner KPMG International, is a member.

## IV. Recent policy actions in the partner countries of the Vienna Initiative in response to the pandemic, the war on Ukraine and the current macroeconomic environment

According to the EBRD's latest *Regional Economic Prospects* report,[39] more than two-thirds of economies in the EBRD regions implemented fuel subsidies per unit of consumption. Price controls, state aid, preferential loans and export restrictions have been widely used in the EBRD regions. Targeted support, which is less costly but requires higher levels of administrative capacity, was used somewhat less frequently.

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 impacts of Covid-19 and the war on Ukraine on banks' asset quality.

See also Bruegel's dataset on national fiscal responses to the energy crisis for more information on measures implemented.

### Albania

#### Policy actions[40]

- **Social Resistance Package to support rising prices**: On 8 September 2022 Prime Minister Edi Rama announced his government's new Social Resistance Package intended to help Albanians cope with sharply rising prices. Among the key elements of the Social Resilience Package are a hike in the minimum monthly wage to ALL 34,000 (€290), a 10 per cent increase in economic benefits, with an extra boost for women-led households with two or more children, a 7.5 per cent increase in disability payments, and pay rises for the police and civil servants. Pensions are being re-indexed to the new inflation rate, bringing the annual indexation to 9.5 per cent.

- **Monetary policy**: Since 6 July 2022 the Bank of Albania has raised the base interest rate four times from 1.25 per cent to 2.75 per cent – the highest rate since 2015 – in response to the soaring inflation driven by the war on Ukraine.

[39] See EBRD (2022).
[40] Information provided by EBRD staff.

## Croatia

### Policy actions[41]

- **Recovery and resilience plan**: In July 2022, the European Commission lowered the maximum eligible grant amount to €5.5 billion on account of improved 2021 GDP figures. So far, Croatia has received €1.5 billion in grants under the plan (27.7 per cent of Croatia's total financing allocation under the recovery plan) following the €818 million advance payment in September 2021 and the first tranche worth €700 million in June 2022. Recently, Croatia submitted a payment request for the second €700 million tranche, which is scheduled to be transferred by the end of the year.

- **Measures against rising energy prices:** In March 2022 the government brought in a €640 million package which 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. In September 2022 the Croatian government approved a further package of €2.8 billion to mitigate and absorb the consequences of rising energy prices for end-users by limiting gas and electricity prices for end-users from October 2022 to March 2023. Additional measures include capping basic food prices, tax relief measures and one-time energy allowances for pensioners and families with children, among others.

## Hungary

### Policy actions[42]

- **Successive loan moratoria extension**: 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), then extended again to the end of 2022. Hungary will also include variable-rate loans to small and medium-sized enterprises (SMEs) in a scheme designed to cap loan rates (previously it has been available for retail loans only). Business loans will be capped at the three-month interbank rate of 28 June 2022 which was 7.77 per cent.

- **Support measures on basic needs:**[43] Starting on 1 October 2022, the earlier system of utility bill subsidies described under local government decree 30/2020 for Budapest residents in need has been extended, and the amounts awarded were doubled in view of the current

[41] Information provided by EBRD staff.
[42] Information provided by EBRD staff.
[43] See Eurofound (n.d.).

energy crisis. The subsidy is given for 12 months and criteria include having low income and/or a low pension. Price caps on fuels and basic foodstuffs have also been extended by three months until the end of 2022 in a bid to shield households from soaring living costs.

- **Monetary policy:** The National Bank of Hungary (NBH) hiked its overnight collateralised lending rate by 950 basis points to 25 per cent on 14 October 2022, while keeping the benchmark base rate unchanged at 13 per cent. The NBH also created a new one-day deposit facility with an interest rate of 18 per cent, effectively replacing the base rate. The decision was made to support the forint and stem inflation.

## Montenegro

### Policy actions[44]

- **Covid-19 measures and the war on Ukraine:** On 24 May 2022 the Central Bank of Montenegro adopted the "Decision on interim measures to mitigate the negative impact of the Covid-19 pandemic and the situation in Ukraine on the financial system of Montenegro". The measures include: (i) an extension of repayment periods by a maximum of five years for private individuals that lost their jobs due to Covid-19 or saw earnings reduced by at least 10 per cent or were not paid for more than three months; (ii) no dividend payments until further notice; (iii) mandatory reserve fees halved from 12 per cent to 6 per cent and (iv) credit institutions are allowed to exclude 70 per cent of accumulated unrealised losses incurred after 25 May 2022 from the calculation of Common Equity Tier (CET) 1 capital items when valuing available-for-sale debt instruments in accordance with IFRS 9. The first three measures came into effect on 1 January 2022 – valid until further notice, while the fourth one on 25 May 2022 and is valid until 31 December 2022.

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

[44] Information provided by EBRD staff.

## Serbia

### Policy actions[45]

- **Monetary policy**: In response to rising inflation the National Bank of Serbia (NBS) increased the reference rate eight times in 2022 (from 1.0 per cent to 4.5 per cent). The impact could, however, be amplified as banks face uncertainties in the market because of the war on Ukraine, with potential spill-over effects on the overall economy.
- **Temporary measure for debt securities**: The disruption to markets caused by the war on Ukraine has created further uncertainties, characterised by increased bond spreads and the ensuing shrinkage of the securities portfolio. Against this background, the NBS introduced temporary measures for Fair Value through Other Comprehensive Income (FVOCI)-valued debt securities in June 2022. Namely, the local banks are not obliged to recognise 70 per cent of losses for FVOCI debt securities as CET 1 deductible for a period of six months until the end of 2022.
- **Moratorium in the agriculture sector**: In October 2022, as a consequence of food supply shortages and macroeconomic disruptions, the NBS introduced a moratorium for debt facilities to agricultural producers. The measure is valid until 30 April 2023, while the moratorium ranges from 6 to 12 months.

[45] Information provided by EBRD staff.

## V. NPL transactional trends[46,47]

In the EU, the levels of NPL transactions remained relatively buoyant in 2022 in many European jurisdictions, albeit less so than in 2021 in some countries. However, activity in most CESEE countries remained very subdued this year, partly because most large portfolios had already been deleveraged by banks in past years. In the CESEE region, the core of the transactions in the last 12 months have been single names, small tickets and/or confidential trades. In fact, we are not aware of any publicly available large NPL transactions in the five partner countries of the Vienna Initiative[48] since 2019.

However, as discussed previously, early signs of asset quality deterioration are starting to be observed. While the future remains uncertain, the consensus is that this will likely lead to a rise of NPLs in 2023-24, especially if the macroeconomic conditions continue to deteriorate. The question is to what extent.

Considering the effort that was required in the CESEE region to reduce the high level of NPL stocks resulting from the GFC to the current level, it is expected that regulators and supervisors will continue to put pressure on banks to avoid any new accumulation of NPLs on their balance sheets.

Banks are already required by most supervisors (at the national level and by the ECB for Single Supervisory Mechanism (SSM)-supervised banks in the EU) to be prepared for a potential rise in unlikely-to-pay (UTP) loans and NPLs. This includes performing a series of scenarios on their loan portfolio to assess potential credit risks and NPL increases, and having a viable NPL strategy and credible deleveraging plan in such scenarios. Depending on the level of NPLs that materialise, these factors are expected to accelerate banks' deleveraging activities from 2023.

Considering the significant development of the secondary NPL market in the region over the last few years, banks are well prepared to rapidly bring new NPL portfolios to market as required. Moreover, while the number of investors in the CESEE region remains mostly limited to a handful of players, there is still a significant amount of dry powder[49] available in Europe,[50] which is deployable to the CESEE region for NPL portfolio acquisitions.

Another sector that banks and investors are monitoring closely is real estate. As pressure mounts on the underlying assets and borrowers, we can anticipate more defaults and, ultimately, a rise in NPLs and foreclosed assets to divest by banks.

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[46] See KPMG (2022d).
[47] See KPMG (2022c).
[48] Albania, Croatia, Hungary, Montenegro and Serbia.
[49] Dry powder is a term used by venture capital and private equity firms and refers to the amount of committed, but unallocated capital a firm has available to invest.
[50] See G. Murgatroyd (2021).

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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 | | | | | | | | | | | | | | | | | | | | Website |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Primary | Special | Recovery agency | Own assets only | Yes / No | Retail | SME | Corporate | Residential real estate | CRE | Albania | Bosnia & Herzegovina | 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 | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | | | | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | https://www.aps-holding.com/ |
| **AxFina** | ✓ | ✓ | | | | ✓ | ✓ | ✓ | ✓ | ✓ | | | | | ✓ | | | | ✓ | | | | | | | ✓ | | | ✓ | | https://www.axfina.com/ |
| **Best S.A** | ✓ | | ✓ | | Yes | ✓ | ✓ | ✓ | ✓ | | | | | | | | | | | | | | | | ✓ | | | | | | https://www.best.com.pl/en/home |
| **B2 Holding** | ✓ | ✓ | ✓ | | Yes | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | | ✓ | | https://www.b2holding.no/ |
| **Cepal** | ✓ | ✓ | ✓ | | No | ✓ | ✓ | | | ✓ | | | | | | | | ✓ | | | | | | | | | | | | | https://www.cepal.gr/?lang=en |
| **CreditExpress** | | | ✓ | | No | ✓ | | | | | | | | | ✓ | | | | | | | | | | ✓ | ✓ | ✓ | | | ✓ | https://www.creditexpress.com/ |
| **Coface** | | | ✓ | | No | ✓ | | | | | ✓ | | ✓ | ✓ | ✓ | | | | ✓ | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | | https://www.coface.com/ |
| **Delfi** | | | | | No | | | | | | | | | | | ✓ | | | | | | | | | | | | | | | https://delficorp.com/ |
| **doValue Greece** | ✓ | ✓ | ✓ | | Yes | ✓ | ✓ | | | ✓ | | | | | | | | ✓ | | | | | | | | | | | | | https://www.dovaluegreece.gr/en/services |
| **EOS Group** | ✓ | ✓ | ✓ | | Yes | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | | | ✓ | ✓ | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | https://eos-solutions.com/ |
| **Hoist Finance** | | | | ✓ | Yes | ✓ | ✓ | | | | | | | | | | | ✓ | | | | | | | ✓ | ✓ | | | | | https://www.hoistfinance.com/ |
| **Intrum** | ✓ | ✓ | ✓ | | Yes | ✓ | ✓ | ✓ | ✓ | | | | | ✓ | | | ✓ | ✓ | ✓ | | ✓ | ✓ | | | ✓ | ✓ | | ✓ | | | https://www.intrum.com/ |
| **Kredyt Inkaso** | ✓ | ✓ | ✓ | ✓ | Yes | ✓ | ✓ | ✓ | ✓ | ✓ | | | ✓ | | ✓ | | | | | | | | | | ✓ | ✓ | | | | | https://www.kredytinkaso.pl/ |
| **Kruk** | ✓ | ✓ | ✓ | | Yes | ✓ | ✓ | ✓ | ✓ | ✓ | | | | ✓ | | | | | | | | | | | ✓ | ✓ | | ✓ | | | https://en.kruk.eu/ |
| **Lexus EGF** | | | ✓ | | No | ✓ | | ✓ | | ✓ | | | | | | | | | | | | | | | ✓ | | | | | | https://www.egf.pl/index.php?id=5 |
| **Mount Street** | ✓ | ✓ | ✓ | | No | | ✓ | ✓ | | ✓ | | | | | | | | ✓ | | | | | | | | | | | | | https://mountstreet.com/ |
| **Pepper** | ✓ | ✓ | | | No | | | | | | | | | | | ✓ | | | | | | | | | | | | | | | https://www.peppercyprus.com/ |
| **Pillarstone** | ✓ | ✓ | ✓ | | Yes | | ✓ | ✓ | | ✓ | | | | | | ✓ | | ✓ | | | | | | | | | | | | | https://www.pillarstone.com/en/ |
| **PraGroup** | | ✓ | ✓ | | Yes | ✓ | ✓ | | | | | | | | | | | | | | | | | | ✓ | | | | | | https://pragroup.co.uk/ |
| **Resolute** | | ✓ | ✓ | | No | ✓ | ✓ | ✓ | ✓ | ✓ | | | ✓ | | | ✓ | | ✓ | ✓ | | | | | | | ✓ | | | | | https://www.resoluteassetmanagement.com/ |
| **QQuant Master Servicer** | ✓ | ✓ | ✓ | | No | | | | | | | | | | | | | ✓ | | | | | | | | | | | | | https://www.qquant.gr/en/home/ |
| **Tagor Asset Management** | | ✓ | ✓ | | Yes | | | ✓ | | ✓ | | | | | | | | | | | | | | | | ✓ | | | | | https://www.tagor.ro/ |

*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[51]

**Table 3**: Measures related to Covid-19 and the war on Ukraine implemented by EU regulators since the H1 2022 edition of *NPL Monitor*

| Date | Authority | Measure | Source |
|---|---|---|---|
| **23/11/2022** | EC | The European Commission approved a €7.75 million Cypriot scheme to support some agricultural producers in the context of Russia's war on Ukraine. Under this measure, the aid will take the form of direct grants. The measure will be open to the agricultural sector, in particular to producers of potatoes, deciduous trees, vegetables and eggs as well as to some recognised organisations and cooperatives. | Source |
| **17/11/2022** | EC | The European Commission approved an approximately €500 million (RON 2,500 million) Romanian scheme to support companies across sectors in the context of Russia's war on Ukraine. Under the scheme, which will be administered by the 95 per cent state-owned Romanian public development bank Banca de export import a Romaniei EximBank S.A (EximBank), the aid will take the form of (i) guarantees on loans; and (ii) subsidised loans. | Source |
| **15/11/2022** | EC | The European Commission issued a further €8.5 billion, of which €6 billion through a NextGenerationEU green bond for its recovery programme and €2.5 billion to support Ukraine under the emergency macro-financial assistance (MFA) programme put forward following Russia's war on Ukraine. The MFA bond has a 30-year maturity, due on 4 March 2053. The proceeds from the 30-year bond will be used to finance the latest instalment of MFA loans to Ukraine. So far in 2022, the Commission has raised €6.7 billion to finance MFA loans to Ukraine. A further €500 million is foreseen before year-end. | Source |
| **15/11/2022** | EC | The European Commission approved a €1.23 billion scheme to support the Czech economy in the context of Russia's war on Ukraine. Under this measure, which will be administered by the Ministry of Trade and Industry, the aid will take the form of direct grants. The measure will be open to all large companies that do not benefit from an energy price cap and that are currently facing significant extra costs in light of the increase of electricity and natural gas prices. The scheme will cover the period from February to December 2022. | Source |
| **27/10/2022** | ECB | The European Central Bank raised the three key ECB interest rates by 75 basis points. With this third major policy rate increase in a row, the Governing Council has made substantial progress in withdrawing monetary policy accommodation. The Governing Council expects to raise interest rates further, to ensure the timely return of inflation to its 2 per cent medium-term inflation target. | Source |
| **19/10/2022** | EC | The European Commission announced a new emergency shelter and winterised facilities programme for Ukraine, as Russia's war continues to destroy civilian infrastructure. Furthermore, the Commission will provide an additional €175 million in humanitarian assistance to support those most in need in Ukraine and Moldova. | Source |
| **18/10/2022** | EC | The European Commission has today disbursed the first instalment of €2 billion under the €5 billion exceptional MFA operation for Ukraine. This is part of an MFA package of up to €9 billion, announced in the Commission's 18 May Communication on Ukraine Relief and Reconstruction and endorsed by the European Council of 23-24 June 2022. | Source |
| **12/10/2022** | EC | The European Commission approved a €10 million Slovak scheme to support agricultural product processors and the food production sector in the context of Russia's war on Ukraine. The measure will be open to companies of all sizes. Under the scheme, the eligible beneficiaries will be entitled to receive limited amounts of aid in the form of direct grants. | Source |
| **10/10/2022** | EC | The European Commission has approved, under EU state-aid rules, two Slovak schemes with a total budget of over €1.1 billion to help companies subject to the EU Emissions Trading System (ETS) decarbonise their production processes and improve their energy efficiency. The schemes will be made available in part through the Recovery and Resilience Facility (RRF) and in part through the EU Modernisation Fund. | Source |
| **03/10/2022** | EC | The European Commission approved an €800 million Greek scheme to support non-household electricity consumers in the context of Russia's war on Ukraine. The scheme aims to support small non-household electricity consumers that are particularly | Source |

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

| Date | Authority | Measure | Source |
|---|---|---|---|
| | | vulnerable to sharp increases in electricity prices caused by the current geopolitical crisis and the related sanctions and counter-sanctions. | |
| **30/09/2022** | EC | The European Commission approved, under EU state aid rules, a €390 million Romania scheme, made available in part through the Recovery and Resilience Facility (RRF), to support the production of electricity and heat from high-efficient cogeneration installations connected to district heating networks in Romania. The scheme will also contribute to the EU's strategic objectives relating to the EU Green Deal. | Source |
| **09/09/2022** | EC | The European Commission approved a €4 billion (approximately RON 19.7 billion) Romanian scheme to support companies across sectors in the context of Russia's invasion of Ukraine. Under this measure, the aid will take the form of: (i) loan guarantees with a maximum budget of €3.6 billion (approximately RON 17.75 billion), and (ii) direct grants with a maximum budget of €390 million (approximately RON 1.93 billion) to compensate parts of the costs due under the guaranteed loans. | Source |
| **08/09/2022** | ECB | The European Central Bank decided to raise the three key ECB interest rates by 75 basis points. This major step frontloads the transition from the prevailing highly accommodative level of policy rates towards levels that will ensure the timely return of inflation to the ECB's 2 per cent medium-term target. Based on its current assessment, over the next several meetings the Governing Council expects to raise interest rates further to dampen demand and guard against the risk of a persistent upward shift in inflation expectations. | Source |
| **19/08/2022** | EC | The European Commission approved a €125 million Estonian scheme to support the liquidity needs of companies across sectors in the context of Russia's invasion of Ukraine. The scheme was approved under the State aid Temporary Crisis Framework, adopted by the Commission on 23 March 2022 and amended on 20 July 2022. | Source |
| **16/08/2022** | EC | The European Commission approved a €218 million (BGN 426 million) Bulgarian scheme to support certain agricultural producers in the context of Russia's invasion of Ukraine. The scheme was approved under the State aid Temporary Crisis Framework, adopted by the Commission on 23 March 2022 and amended on 20 July 2022. | Source |
| **11/08/2022** | EC | The European Commission approved modifications, including a budget increase of €5.1 billion (PLN 24.5 billion), to an existing Polish scheme to support companies across sectors in the context of Russia's invasion of Ukraine. The amendments were approved under the Temporary Crisis Framework, adopted by the Commission on 23 March 2022 and amended on 20 July 2022. | Source |
| **01/08/2022** | EC | The European Commission approved two Latvian schemes with a total budget of €181.5 million to support SMEs and large companies across sectors in the context of Russia's invasion of Ukraine. The scheme was approved under the State aid Temporary Crisis Framework, adopted by the Commission on 23 March 2022. | Source |
| **01/08/2022** | EC | The European Commission disbursed the first half (€500 million) of a new €1 billion macro-financial assistance (MFA) operation for Ukraine. The second tranche (another €500 million) was disbursed on 2 August 2022. The decision about this new exceptional MFA was adopted by the European Parliament and the Council on 12 July 2022. It is the first part of the exceptional MFA package of up to €9 billion announced in the Commission's communication of 18 May 2022 and endorsed by the European Council of 23-24 June 2022. | Source |
| **21/07/2022** | ECB | The European Central Bank decided to raise the three key ECB interest rates by 50 basis points. In line with the Governing Council's strong commitment to its price stability mandate, the Governing Council took further key steps to make sure inflation returns to its 2 per cent target over the medium term. | Source |
| **14/07/2022** | EC | The European Commission approved a €20.2 million (CZK 500 million) Czech scheme to support primary agricultural producers in the context of Russia's invasion of Ukraine. The scheme was approved under the State aid Temporary Crisis Framework, adopted by the Commission on 23 March 2022. | Source |
| **30/06/2022** | EC | The European Commission approved a €140 million Slovenian scheme to support companies across sectors in the context of Russia's invasion of Ukraine. The scheme was approved under the State aid Temporary Crisis Framework, adopted by the Commission on 23 March 2022. | Source |
| **30/06/2022** | EC | The European Commission approved a €1.2 billion Polish scheme (PLN 5.5 billion) to support companies across sectors in the context of Russia's invasion of Ukraine. The scheme was approved under the State aid Temporary Crisis Framework, adopted by the Commission on 23 March 2022. | Source |
| **28/06/2022** | EC | The European Commission approved a €60.7 million (RON 300 million) Romanian scheme to support companies active in road transport of goods and persons in the context of Russia's invasion of Ukraine. The scheme was approved under the State aid Temporary Crisis Framework, adopted by the Commission on 23 March 2022. | Source |

| Date | Authority | Measure | Source |
|---|---|---|---|
| **23/06/2022** | EC | The European Commission approved a €1 million (HRK 7.5 million) Croatian scheme to support maize seed producers in the context of Russia's invasion of Ukraine. The scheme was approved under the State aid Temporary Crisis Framework, adopted by the Commission on 23 March 2022. | Source |
| **20/06/2022** | EC | The European Commission approved a €3.9 million Estonian scheme to support the beef, poultry and horticulture sectors in the context of Russia's invasion of Ukraine. The scheme was approved under the State aid Temporary Crisis Framework, adopted by the Commission on 23 March 2022. | Source |
| **20/06/2022** | EC | The European Commission approved a €1.14 billion (HUF 442.37 billion) Hungarian scheme to support companies across sectors in the context of Russia's invasion of Ukraine. The scheme was approved under the State aid Temporary Crisis Framework, adopted by the Commission on 23 March 2022. | Source |
| **17/06/2022** | EC | The European Commission approved a €226 million (HUF 90 billion) Hungarian scheme to support SMEs across sectors in the context of Russia's invasion of Ukraine. The scheme was approved under the State aid Temporary Crisis Framework, adopted by the Commission on 23 March 2022. | Source |

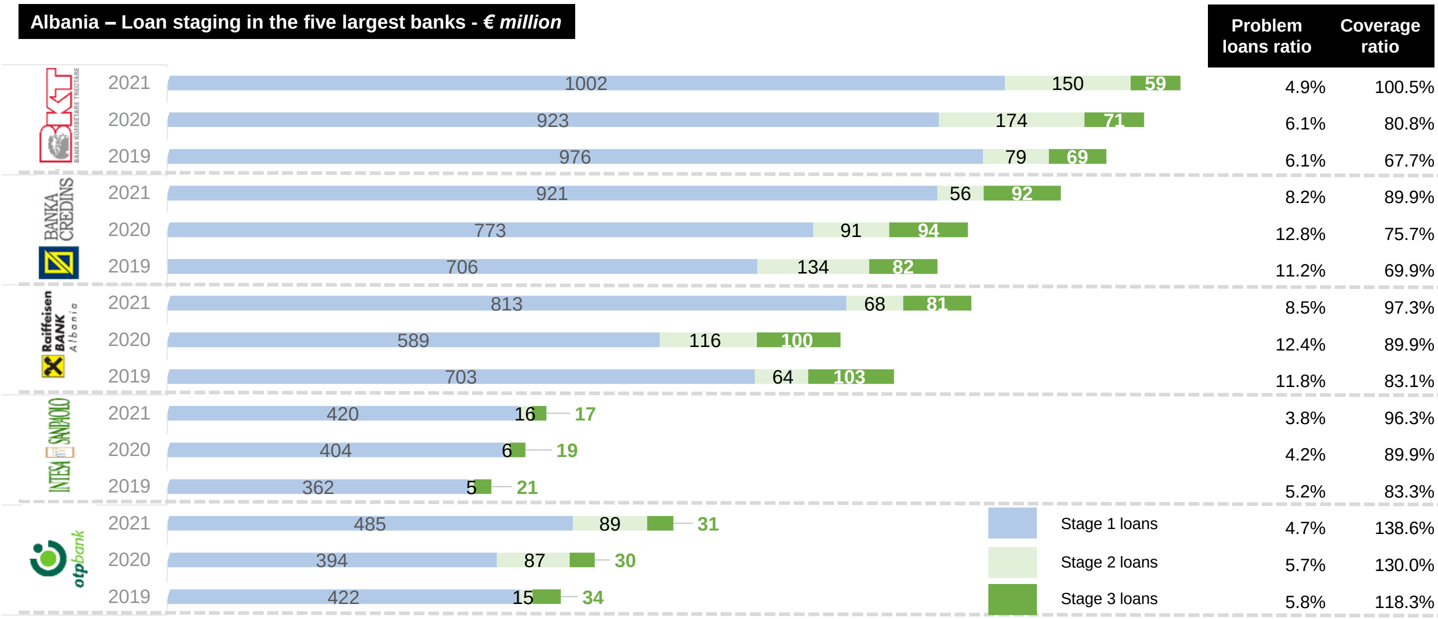
**Table 4**: Measures related to Covid-19 and the war on Ukraine from stakeholders of the NPL Initiative since the H1 2022 edition of *NPL Monitor*

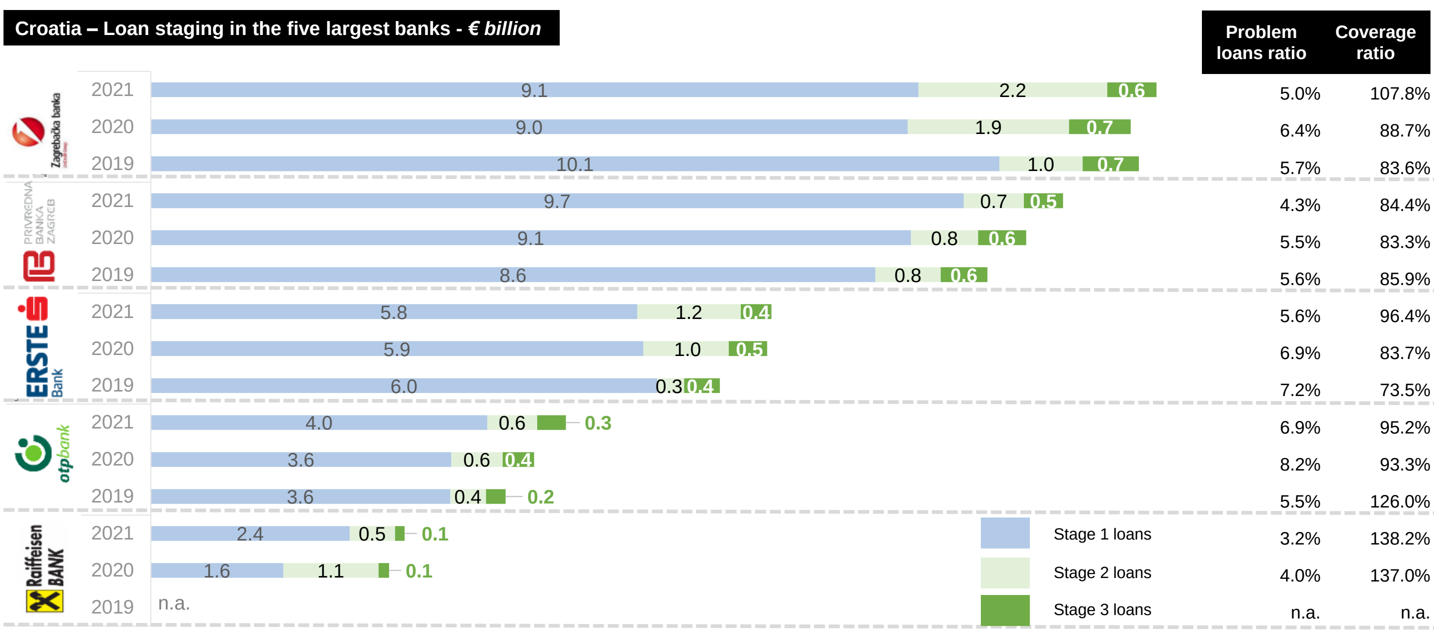
| Date | Authority | Measure | Source |
|---|---|---|---|
| **23/11/2022** | EBRD | The European Bank for Reconstruction and Development (EBRD) announced a €50 million guarantee to support lending to critical industries in Ukraine. The facilities will back up to 50 per cent of the credit risk of €200 million in newly originated financing which is being provided by OTP Leasing (€80 million), Credit Agricole (€50 million), ProCredit Bank (€40 million) and OTP Bank (€30 million), subject to a portfolio cap of 50 per cent. The guarantees follow similar facilities signed in May 2022, and bring the total volume of enabled financing to €253 million since the start of the war. | Source |
| **22/11/2022** | WB | The World Bank announced an assistance package for Ukraine of US$ 4.5 billion in additional grant financing provided by the United States government. The grant is mobilised under the World Bank's Public Expenditures for Administrative Capacity Endurance in Ukraine (PEACE) Project, which aims to help the government of Ukraine sustain essential services and core government functions at the national and regional levels. As with previous financing packages under the PEACE project, the grant will help the government of Ukraine pay wages for hospital workers, government and school employees, pensions for the elderly, salaries for public servants, and social programmes for the vulnerable. | Source |
| **24/10/2022** | EBRD | The EBRD announced its commitment of up to €3 billion over 2022-23 to help Ukraine's businesses and economy to continue functioning. Since the invasion began in February 2022, the EBRD has committed more than €1 billion and aims to triple that figure by the end of 2023. Its primary focus will be to support the 'real' economy – maintaining energy and food security, restoring rail infrastructure, and supporting the pharmaceutical industry. | Source |
| **24/10/2022** | WB | The World Bank announced the disbursement of an additional US$ 500 million to help Ukraine meet urgent spending needs created by the Russian invasion. The IBRD financing is supported by US$ 500 million in loan guarantees from the United Kingdom, announced on 30 September 2022, and was mobilised under the PEACE project, which supports continued government capacity, including the provision of core public services such as health, education, pensions and social protection. | Source |
| **17/10/2022** | EIB | The European Investment Bank Group and UniCredit Bulbank Bulgaria signed a guarantee on a synthetic securitisation of SME and mid-cap loans originated by UniCredit Bulbank. The notional amount of the guarantee is €90 million on a portfolio of €1 billion. The EIB Group's guarantee will allow UniCredit Bulbank to finance new eligible projects undertaken by Bulgarian SMEs. The operation, backed by the Pan-European Guarantee Fund (EGF), is expected to unlock new loans of more than €630 million under more favourable conditions to SMEs suffering from the economic consequences of the Covid-19 pandemic and exposed to instability due to events in Ukraine. | Source |
| **12/10/2022** | EIB | The European Investment Bank (EIB), the European Union's bank, disbursed the remaining €550 million of its €1.05 billion in immediate assistance to Ukraine. The first tranches (€500 million) were paid out on 14 September 2022. This €1.05 billion of immediate assistance is part of the €1.59 billion Ukraine Solidarity Urgent Response package. The remaining €540 million will be used for resuming implementation of existing EIB-financed projects in Ukraine, as they progress, excluding areas of active hostilities and territories not controlled by the Ukrainian government. | Source |
| **11/10/2022** | EIB | The EIB and the Polish development bank, Bank Gospodarstwa Krajowego (BGK), signed the agreements that enable them to jointly support Polish cities and regions hosting Ukrainian refugees. Thanks to the first tranche of bonds issuance, Poland will receive €600 million from the EIB. The total amount approved for Poland by the EU bank is €2 billion. The EIB solidarity package is a dedicated support mechanism for EU countries to deal with the consequences of Russian aggression against Ukraine. | Source |
| **30/09/2022** | WB | The World Bank announced an additional US$ 530 million to help the government of Ukraine meet urgent needs created by Russia's invasion of Ukraine. The IBRD financing is supported by timely loan guarantees by the United Kingdom (US$ 500 million) and Denmark (US$ 30 million) and was mobilised under the PEACE project, which supports continued government capacity, including the provision of core public services such as health, education and social protection. | Source |
| **16/09/2022** | EBRD | The EBRD announced a €50 million lending in local currency to UniCredit Bank Romania to further increase its funding base and continue supporting the economy, focusing on private businesses in the challenging economic environment caused by the war on Ukraine. The loan falls within the EBRD's Resilience and Livelihoods framework – €2 billion pledged by the EBRD to support companies and countries directly or indirectly affected by the war on Ukraine. | Source |
| **14/09/2022** | EIB | The EIB, the EU bank, disbursed the first tranches of the €1.59 billion Ukraine Solidarity Urgent Response package, supported by an EU guarantee. The disbursed financing of | Source |

| Date | Authority | Measure | Source |
| --- | --- | --- | --- |
| | | €500 million will help the Ukrainian government cover priority short-term financing needs, and ensure urgent repairs of damaged roads, bridges and railway infrastructure. It will also support strategic state-owned companies — Ukravtodor, Ukraine's roads agency, and Ukrainian rail company Ukrzaliznytsia. Repairs to the train network, roads and bridges will help Ukraine keep people, goods and grain moving. | |
| **02/09/2022** | EBRD | The EBRD announced €25 million in lending to Banca Transilvania, Romania's largest systemic bank, to support its on-lending to businesses in the challenging economic environment caused by the war on Ukraine and help it continue supporting the economy. The loan falls within the EBRD's €2 billion Resilience and Livelihoods framework which supports companies and countries directly or indirectly affected by the war on Ukraine. | Source |
| **26/08/2022** | EBRD | The EBRD and Ukrainian authorities have agreed to repurpose the final €97.3 million of an existing loan to Ukrenergo, the country's electricity transmission company, for emergency liquidity, after repurposing a first tranche of €50 million of emergency liquidity in May. The aim is to keep the lights on in a country whose economy has been hard hit by Russia's war on Ukraine. | Source |
| **15/08/2022** | EBRD | The EBRD announced it is providing a €10 million A/B loan for Bank Lviv to on-lend to private businesses, including clients from food security sectors and those who relocated their businesses to the western part of Ukraine. Bank Lviv is working to diversify its funding base and help SMEs withstand the negative shocks caused by war. | Source |
| **08/08/2022** | WB | The World Bank announced US$ 4.5 billion in additional financing mobilised for Ukraine under the PEACE project, which aims to help the government of Ukraine meet urgent needs created by the ongoing war. The financing package comprises a US$ 4.5 billion grant provided by the United States of America. The additional financing will help sustain the government's administrative and service delivery capacity to exercise core functions at the national and regional levels. Specifically, the project will help the government of Ukraine to cover social payments, healthcare services and pensions, which are essential for the well-being of the country's citizens and will mitigate the social and economic impacts of the war. | Source |
| **02/08/2022** | EBRD | The EBRD approved a €20 million loan to Agricover Credit IFN, a non-bank agricultural lender, to on-lend to farmers for their investment or working capital financing needs. The loan is part of the EBRD's €2 billion Resilience and Livelihoods Framework helping countries and companies affected by the war on Ukraine. | Source |
| **25/07/2022** | EIB | The EIB approved a further €1.59 billion of support for Ukraine to address the country's infrastructure financing gap and urgent needs. €1.05 billion will be made available immediately. This relief package is part of the EIB Ukraine solidarity response prepared in cooperation with the European Commission. It benefits from the EU guarantee under the external lending mandate and complements €668 million of immediate financial support for Ukraine provided by the EIB in early March 2022. | Source |
| **30/06/2022** | WB | The World Bank approved the establishment of a financial intermediary fund (FIF) that will finance critical investments to strengthen pandemic prevention, preparedness and response (PPR) capacities at national, regional and global levels, with a focus on low- and middle-income countries. The fund will bring additional, dedicated resources for PPR, incentivise countries to increase investments, enhance coordination among partners, and serve as a platform for advocacy. The FIF will complement the financing and technical support provided by the World Bank, leverage the strong technical expertise of WHO, and engage other key organisations. | Source |
| **15/06/2022** | EIB | The EIB approved the first national allocation under a new financing initiative agreed in May 2022 to support investment for Ukrainian refugees by public authorities across Poland. The new EIB-backed credit line for Poland follows the Board's approval, on 19 May, of a plan to invest €4 billion in support of Ukrainian refugees to EU and other neighbouring countries. The Solidarity Package for Ukraine has been prepared in cooperation with the European Commission. | Source |

# Annex 3: NPL Monitor – Bank level[52]

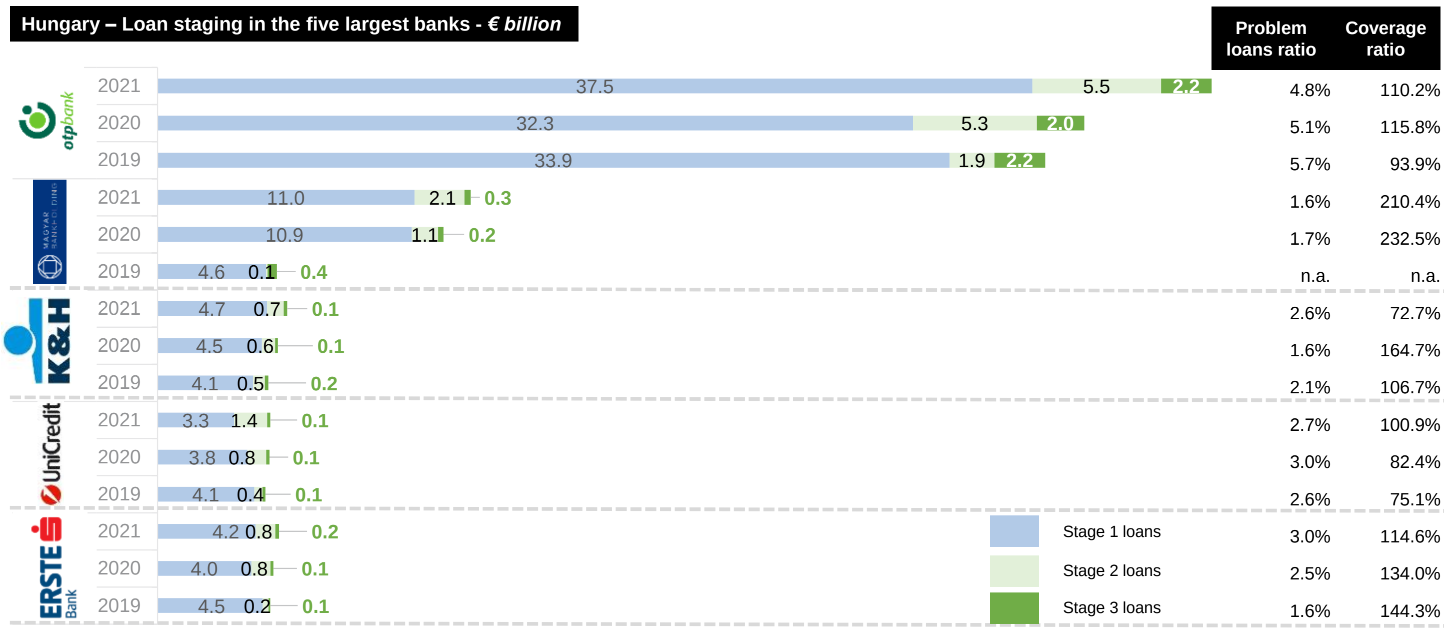
This section focuses on asset quality of the five largest banks in each of the Vienna Initiative partner countries.[53]

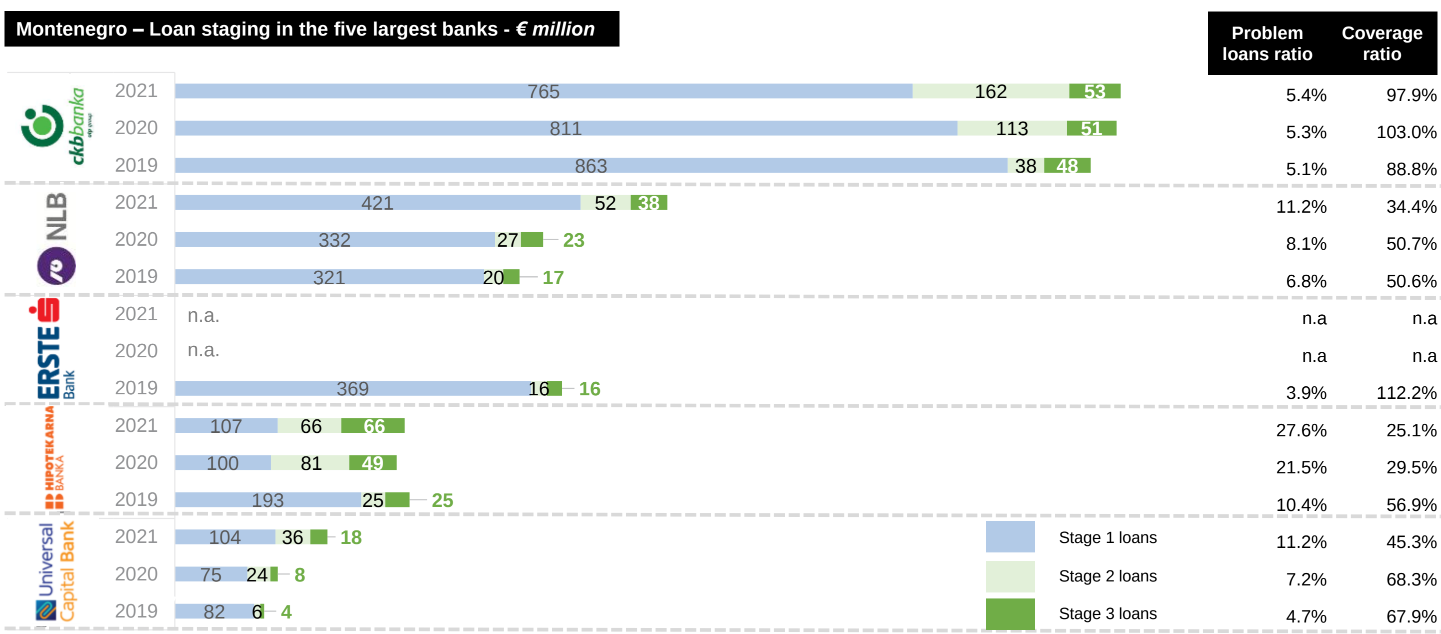


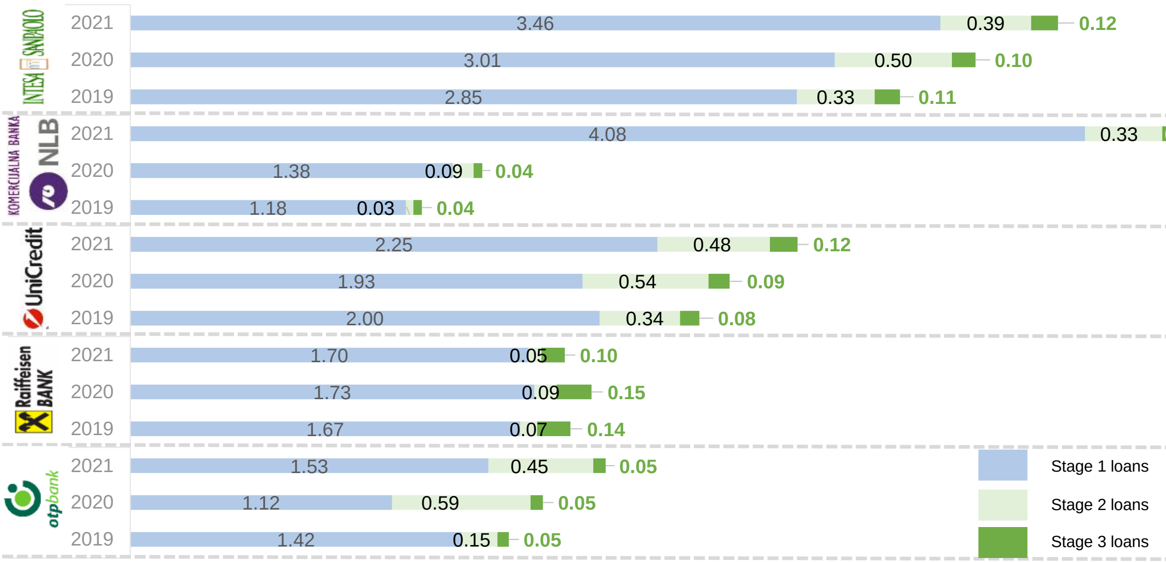

[52] S&P Capital IQ pro as of 30 November 2022.

[53] Data used are from S&P Capital IQ pro. "Problem loans" are as reported by S&P Capital IQ pro and may cover different categories of loan (non-performing, impaired, net impaired) depending on the bank in question. Caution is advised when comparing the "problem loan" ratios of one bank with another. Where data were unavailable, bank financial statements were used. Reserves are the amount of impairment allowances as reported by banks.


Hungary – Loan staging in the five largest banks - € billion
Problem loans ratio
Coverage ratio
2021 37.5 5.5 2.2 4.8% 110.2%
2020 32.3 5.3 2.0 5.1% 115.8%
2019 33.9 1.9 2.2 5.7% 93.9%
2021 11.0 2.1 0.3 1.6% 210.4%
2020 10.9 1.1 0.2 1.7% 232.5%
2019 4.6 0.1 0.4 n.a. n.a.
2021 4.7 0.7 0.1 2.6% 72.7%
2020 4.5 0.6 0.1 1.6% 164.7%
2019 4.1 0.5 0.2 2.1% 106.7%
2021 3.3 1.4 0.1 2.7% 100.9%
2020 3.8 0.8 0.1 3.0% 82.4%
2019 4.1 0.4 0.1 2.6% 75.1%
2021 4.2 0.8 0.2 3.0% 114.6%
2020 4.0 0.8 0.1 2.5% 134.0%
2019 4.5 0.2 0.1 1.6% 144.3%
Stage 1 loans
Stage 2 loans
Stage 3 loans


Montenegro – Loan staging in the five largest banks - € million
Problem loans ratio
Coverage ratio
2021 765 162 53 5.4% 97.9%
2020 811 113 51 5.3% 103.0%
2019 863 38 48 5.1% 88.8%
2021 421 52 38 11.2% 34.4%
2020 332 27 23 8.1% 50.7%
2019 321 20 17 6.8% 50.6%
2021 n.a. n.a n.a
2020 n.a. n.a n.a
2019 369 16 16 3.9% 112.2%
2021 107 66 66 27.6% 25.1%
2020 100 81 49 21.5% 29.5%
2019 193 25 25 10.4% 56.9%
2021 104 36 18 11.2% 45.3%
2020 75 24 8 7.2% 68.3%
2019 82 6 4 4.7% 67.9%
Stage 1 loans
Stage 2 loans
Stage 3 loans

**Serbia – Loan staging in the five largest banks - € *billion***




| Problem loans ratio | Coverage ratio |
|---|---|
| 2.9% | 122.0% |
| 2.8% | 128.6% |
| 3.3% | 99.1% |
| 3.8% | 95.6% |
| 2.5% | 154.4% |
| 2.9% | 111.3% |
| 4.2% | 89.4% |
| 3.5% | 93.7% |
| 3.4% | 81.6% |
| 5.4% | 77.3% |
| 7.6% | 69.0% |
| 7.6% | 76.1% |
| 2.6% | 114.0% |
| 3.0% | 109.4% |
| 3.0% | 92.1% |

# Annex 4-1: Regional Economic Prospects in the EBRD regions[54]

According to the EBRD's latest *Regional Economic Prospects* report of September 2022, the war on Ukraine has been having a profound impact on the economies in which the Bank invests. A downward revision to growth forecasts of 2023 compared with the forecast made in May 2022 reflects reduced supply of gas from Russia, including mounting inflationary pressures in the global economy and the EBRD regions. Since late February 2022, gas prices in Europe have averaged around 2.5 times their 2021 level (in inflation-adjusted terms). For many countries in the EBRD regions higher gas prices imply increases in gas import bills equivalent to up to 4-5 per cent of GDP, as economies are highly dependent on gas in their energy mix. Below, we provide a summary of our report on the latest economic developments and forecasts for CESEE countries.

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

| | Actual | | | Forecast(Sep'22) | | Revision since May'22 | | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022H1 | 2022 | 2023 | 2022 | 2023 | 2022-23 |
| **EBRD Regions** | -2.4 | 6.8 | 3.9 | 2.3 | 3.0 | 1.2 | -1.7 | -0.5 |
| **Central Europe and the Baltic states** | -3.5 | 5.6 | 5.9 | 3.7 | 1.3 | 0.5 | -2.1 | -1.6 |
| Croatia | -8.1 | 10.2 | 7.4 | 6.5 | 2.0 | 3.5 | -1.5 | 1.9 |
| Czech Republic | -5.5 | 3.5 | 4.2 | 2.5 | 0.5 | 0.0 | -3.0 | -2.9 |
| Estonia | -0.6 | 8.0 | 2.4 | 1.5 | 1.0 | 0.0 | -1.5 | -1.5 |
| Hungary | -4.5 | 7.1 | 7.3 | 5.0 | 1.5 | 1.5 | -2.0 | -0.5 |
| Latvia | -3.8 | 4.5 | 4.7 | 2.5 | 0.8 | 1.0 | -1.2 | -0.2 |
| Lithuania | -0.1 | 5.0 | 3.2 | 2.0 | 1.5 | 0.0 | -1.5 | -1.5 |
| Poland | -2.2 | 5.9 | 6.9 | 4.0 | 1.5 | 0.0 | -2.0 | -1.9 |
| Slovak Republic | -4.4 | 3.0 | 2.4 | 2.0 | 1.0 | 0.0 | -2.5 | -2.4 |
| Slovenia | -4.3 | 8.2 | 8.9 | 6.0 | 1.8 | 2.5 | -1.2 | 1.2 |
| Ukraine | -3.8 | 3.4 | -27.8 | -30.0 | 8.0 | 0.0 | -17.0 | -13.6 |
| **South Eastern EU** | -5.8 | 6.6 | 6.6 | 5.0 | 2.0 | 2.4 | -1.2 | 1.1 |
| Bulgaria | -4.4 | 4.2 | 4.5 | 3.0 | 1.5 | 0.5 | -1.5 | -1.0 |
| Greece | -9.0 | 8.3 | 8.4 | 5.2 | 2.2 | 2.3 | -1.3 | 1.0 |
| Romania | -3.7 | 5.9 | 5.8 | 5.4 | 1.9 | 2.9 | -1.1 | 1.7 |
| **Southern and Eastern Mediterranear** | -1.9 | 6.0 | 2.8 | 2.9 | 4.7 | 0.4 | -0.1 | 0.2 |
| **Western Balkans** | -3.1 | 7.6 | 4.1 | 3.2 | 3.0 | 0.0 | -0.6 | -0.6 |
| Albania | -3.5 | 8.5 | 2.4 | 3.0 | 3.0 | 0.0 | -0.3 | -0.3 |
| Bosnia and Herzegovina | -3.1 | 7.5 | 3.0 | 3.0 | 2.3 | 0.0 | -0.7 | -0.7 |
| Kosovo | -5.3 | 10.5 | 8.6 | 4.0 | 3.7 | 0.0 | -0.3 | -0.3 |
| Montenegro | -15.3 | 12.4 | 10.7 | 3.7 | 4.0 | 0.0 | -0.5 | -0.5 |
| North Macedonia | -6.1 | 4.0 | 2.6 | 2.7 | 2.3 | -0.3 | -0.7 | -1.0 |
| Serbia | -0.9 | 7.4 | 4.1 | 3.3 | 3.3 | 0.0 | -0.7 | -0.7 |

**Figure 4**: Gas prices in Europe are far above historical highs

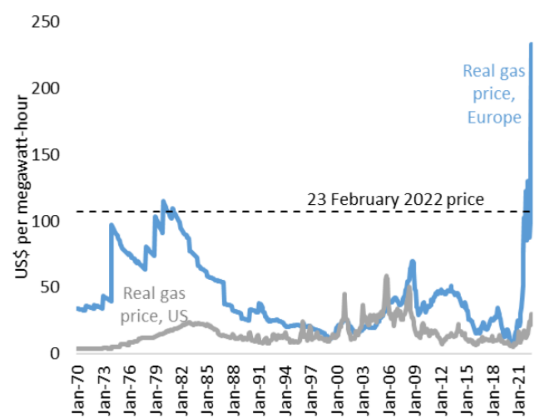
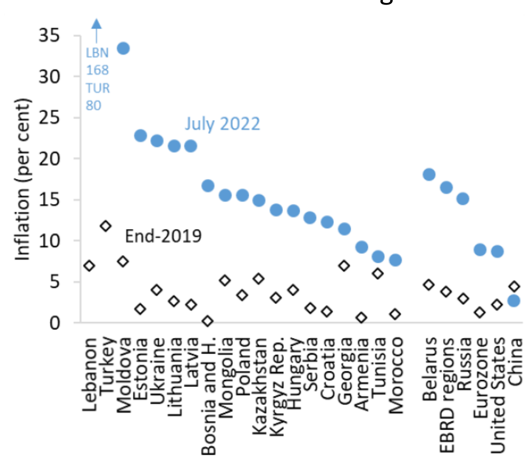



**Figure 5**: Inflation in double digits in over 80 per cent of economies in the EBRD regions




[54] See EBRD (2022).

- **Central Europe and the Baltic States (CEB)**: Most CEB countries registered a strong post-pandemic recovery in 2021 and at the beginning of 2022, propelled by a shift in household demand towards services from accumulated savings. However, the second half of 2022 is seeing a significant reduction in economic activity in this region. In the second quarter of 2022, GDP growth had already started to decelerate, dragged down by fast-rising inflation, especially in energy and food prices, weakening currencies, waning external demand, droughts and a strained geopolitical situation. Governments have launched price-curbing measures to reduce the high energy cost burden to households, though such measures can in the short term provide the wrong incentives for energy efficiency measures. The frequency and magnitude of droughts have been on the rise, hurting agriculture yields and poisoning rivers. In light of the major growth slowdown under way, GDP growth in the CEB region is expected to reach 3.7 per cent in 2022 and decline significantly to 1.3 per cent in 2023. Major uncertainty surrounds these forecasts, depending on the persistence of high energy prices and the possibility of gas rationing if supplies from Russia dry up completely.

- **South-eastern European Union**: All three economies in this region – Bulgaria, Greece and Romania – have enjoyed a strong first half of 2022, continuing the post-Covid recovery that began in 2021, but signs of a significant slowdown are emerging in the second half of the year. Inflation has moved into double-digit levels, prompting the governments to respond with measures to alleviate the impact on businesses and households, but uncertainty over energy supplies in the coming months is weighing on confidence and investment. GDP growth rates will remain strong, especially in Greece and Romania, for 2022 as a whole, but all three economies are forecast to see a major reduction in growth in 2023.

- **Western Balkans**: Economies in the Western Balkans region continue to grow, but face an increasingly difficult macroeconomic environment. Double-digit inflation figures in all but one country – Albania – weigh on people’s disposable incomes and consumption habits, though steady inflows of remittances, good tourism seasons and still-growing export inflows are propping up most economies. Elevated oil prices are hitting the external accounts and at least four of the six countries in the region are additionally hit with high electricity prices, though these remain largely regulated for households. While the tax windfall from elevated inflation somewhat supports the budgets, fiscal space and liquidity management are already being tested, ahead of a winter with likely high energy prices.

## Annex 4-2: Financial restructuring framework in Ukraine[55]

There is growing recognition internationally of the need for effective debt restructuring tools to improve the opportunities for business recovery and to tackle the systemic issue of non-performing loans (NPLs). The Ukrainian authorities supported by the EBRD and the World Bank prepared the Law of Ukraine On Financial Restructuring No. 1414-VIII (Law on Financial Restructuring, or LFR) which came into effect on 19 October 2016. The purpose of the LFR is to facilitate the systemic restructuring of NPLs within the banking sector. It was introduced at a time when NPLs were at a historic high. The LFR provides an innovative, consensual solution for out-of-court restructuring, based on a number of incentives, tax, regulatory and legal. Under the LFR, the voluntary restructuring process is administered by a technical secretariat, managed by the Independent Association of Banks of Ukraine (NABU) and tasked with processing and coordinating cases. The LFR complements the existing pre-packaged restructuring procedure under Article 5 of the Bankruptcy Law.

Since April 2017 there have been 61 concluded restructurings registered with the LFR secretariat. The total value of such restructurings equals UAH 80.9 billion (US$ 2.2 billion). According to data published by the LFR secretariat, companies from the industries listed in the table below use the LFR restructuring procedure most often.

| Sector | Cases | Amount (US$ million) | Amount (UAH million) | % |
|---|---|---|---|---|
| **Agriculture** | 10 | 165.6 | 6,056.4 | 7.5 |
| **Automotive** | 2 | 38.4 | 1,403.2 | 1.7 |
| **Extraction from quarries** | 2 | 6.0 | 219.9 | 0.3 |
| **Metallurgical production** | 2 | 214.7 | 7,852.0 | 9.7 |
| **Mining** | 2 | 75.2 | 2,750.5 | 3.4 |
| **Production of beverages** | 4 | 79.9 | 2,922.7 | 3.6 |
| **Production of food products** | 8 | 144.1 | 5,268.4 | 6.5 |
| **Production of rubber and plastic** | 1 | 41.1 | 1,501.7 | 1.9 |
| **Real estate** | 24 | 1,237.9 | 45,266.7 | 56.0 |
| **Retail trade** | 4 | 110.3 | 4,033.4 | 5.0 |
| **Wholesale** | 2 | 99.0 | 3,618.6 | 4.5 |
| **Total** | 61 | 2,212.1 | 80,893.4 | 100.0 |

In times of war, the demand for financial restructuring tends to increase, not only in terms of volume, but also in terms of the number of affected industries. Almost all sectors of the Ukrainian economy have been significantly affected by the negative consequences of Russia's war on Ukraine. In 2022 from 1 January to 30 November, the secretariat opened eight restructuring cases, which totalled UAH 2.5 billion (US$ 69.5 million).

The LFR was introduced as a temporary measure and was initially meant to end on 19 October 2022. However, it has proved to be an important tool for managing NPLs, especially in state-owned banks (SOBs). According to a recent survey conducted by the Ukrainian Association of Banks, most SOBs that took part in the survey are interested in financial restructuring, as were half of participating private banks. Therefore, the LFR was extended until 2028 to deal with the crisis and war-related NPLs.

[55] Prepared by the EBRD Legal Transition Team – Catherine Bridge Zoller (senior counsel) and Kateryna Yashchenko (associate counsel).

## Annex 4-3: Developments in the Greek NPL frameworks[56]

The Bank of Greece has reported a 40 per cent drop in the corporate NPL ratio between June 2018 and June 2022. In this annex we discuss recent legal and infrastructure reforms in the Greek insolvency system and the potential for further improvements to Greek banks' balance sheets.

During the pandemic, many countries witnessed a plethora of credit measures from governments aiming to make economies more robust and keep the private sector "alive". An overview of these measures across the EBRD regions (including the CESEE) can be found in Annex 2. However, suboptimal allocation of capital to non-viable companies only postpones the recognition of NPLs on banks' balance sheets. A solid and efficient insolvency framework can prevent the build-up of NPLs through early and effective intervention.

In recent years, Greece has prioritised the alignment of its insolvency framework with EU requirements and norms, and has introduced new digital tools that should, ultimately, support further development of the NPL markets. Alongside the legal reforms, initiatives such as "Hercules"[57] for corporate debtors and "Gefyra"[58] for individuals were in the first line of combat against rocketing NPL ratios. In the first period of Hercules (December 2019 to April 2021), NPLs of the four systemic banks were reduced by €31.35 billion. However, the second period of Hercules expired in October 2022 and figures are not yet available.

Greece started "going digital" in 2018, with the launch of its electronic submission and electronic case management system e-justice. E-justice is now available in limited magistrate courts, first instance courts and appellate courts. Insolvency applications and filings and applications for judicial enforcement measures, such as payment orders, are included in the scope of e-justice and can be submitted online to the competent first instance courts.

In accordance with Article 24 of the European Regulation on Insolvency Proceedings, Greece introduced in March 2021 an Electronic Insolvency and Reorganisation Register. The Register centralises aggregated and disaggregated insolvency data for all available insolvency proceedings, is updated in real time and, moreover, is accessible free of charge. This provides greater transparency for banks and NPL investors. Article 29 of the EU Directive on Preventive Restructuring provides for some optional data, which could eventually become mandatory, such as the average cost of each type of procedure and the average recovery rates for the secured and unsecured creditors.

Member states may collect and aggregate, on an annual basis, at national level, data on: (i) the average cost of each type of procedure; (ii) the average recovery rates for secured and unsecured creditors and, where applicable, other types of creditors, separately.

Developments on court and registry infrastructure have been supported by reform and modernisation of the country's insolvency framework to introduce greater opportunities for

[56] Prepared by the EBRD Legal Transition Team – Catherine Bridge Zoller (senior counsel) and Natalia Pagkou (consultant).
[57] SPVs are issuing junior, mezzanine and senior securities tranches of NPLs sold to investors.
[58] Mortgages of primary residences of debtors in distress are subsidised by the Greek government.

financial restructuring within the insolvency context. The Greek authorities introduced a new piece of legislation – the Debt Settlement and Facilitation of a Second Chance Law – which replaced the 2002 Bankruptcy Code and transposed the EU Directive on Preventive Restructuring.

The new Law came into force on 1 January 2021 and introduces two new procedures for the reorganisation and financial restructuring of businesses.

One is an out-of-court confidential settlement mechanism under the aegis of the Special Secretariat for the Administration of Private Debt, rolled out exclusively through an electronic platform. This mechanism is limited to debt write-offs and the rescheduling of liabilities towards the Greek state or financial and social security institutions.

The other is a pre-insolvency business rehabilitation procedure, which is available with minimal court intervention, on the grounds of present or threatened insolvency of the debtor.

The Law prescribes tax incentives for both procedures. With respect to an out-of-court settlement procedure, income generated as a result of the voluntary write-off of a debtor's debt is not considered a gift or a taxable income, and the agreement enjoys an exemption from otherwise applicable stamp duties or levies.

Fees and rights of notaries, lawyers and bailiffs are limited to 30 per cent of the legal amount for each contract or act relating to both new procedures but are also available for liquidation procedures. Greece, being a country with one of the highest historical NPL ratios, has managed to unburden the banks' balance sheets and at the same time satisfy many international standards for insolvency laws and frameworks. It remains to be seen what effect these legal and infrastructure improvements will have on further development of the NPL market. Current data disseminated by the Greek Special Secretariat for the Administration of Private Debt indicate that, from April 2022 to October 2022, there have been 1,014 requests submitted via the online platform for restructuring negotiations under the out-of-court special settlement mechanism, while data published in the Electronic Insolvency and Reorganisation Register show that for the same six-month period 30 filings for approval of a pre-insolvency rehabilitation plan were submitted. The Hellenic Statistical Authority reported, in November 2022, that in 2021 there was a 7 per cent decrease in application for insolvent liquidation compared with 2020 (53 and 57, respectively). This shows that the number of formal proceedings is not particularly high and that the consensual out-of-court settlement mechanism is a good practical tool.

## Annex 5: 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 from 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.<br>- 60 days past due for limit loans (excl. overdrafts).<br>- 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. | |

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| | | 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. | | |
| 2 | **Bosnia and Herzegovina** | 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** | In 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: (i) material exposures which are more than 90 days past-due; (ii) 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 carry out 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 number 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. | |

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| 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:<br>- 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)<br>- 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).<br>The bank shall assess whether there is unlikeliness to pay by the client, at least on the basis of the following data and information:<br>- blocked account of the client<br>- deteriorating risk category at the banking system level<br>- deteriorating financial position of the client<br>- client's work permit revoked by the competent body<br>- sale of another credit exposure from the client with a significant loss<br>- extension of grace period for the payment of principal and interest longer than 18 months<br>- a write-off that significantly reduces the amount of credit exposure.<br>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.<br>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 risks, banks were required to fully adjust to the existing "regular" criteria for determining non- | 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. |

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| | | 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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