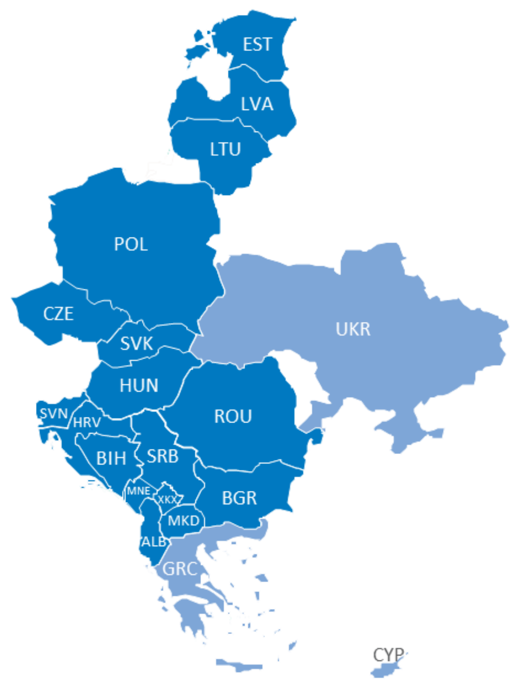
EBCI Vienna Initiative

NPL monitor for the CESEE region[1]

Edition: H2 2023

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 the potential impact of the challenging macroeconomic landscape and heightened geopolitical risks on bank asset quality.



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

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Executive summary

Heightened geopolitical risk, compounded by inflationary pressures and a surge in the cost of living, continues to put strain on the debt-servicing capacity of borrowers. Banking regulators and supervisors remain vigilant, reiterating their warning of possible deterioration in banks' asset quality across the European Union (EU) and the broader central, eastern and south-eastern European (CESEE) region. The banking sector has shown resilience to date, thanks to the comprehensive government support measures put in place to mitigate negative impacts on bank asset quality, as well as prudent and effective banking supervision. However, early – albeit limited – signs of credit stress are starting to emerge across most types of borrower and asset class.

The latest data show that the average share of non-performing loans (NPLs) to total loans in the CESEE region stood at 2.2 per cent as at 30 June 2023, down 0.3 percentage point from the previous year, once again setting a new multi-year low. The NPL coverage ratio remained stable at 64.3 per cent. Stage 2 and stage 3 loans, as categorised by the accounting principles of the International Financial Reporting Standards (IFRS) 9, both showed a marginal decrease over the same period. As the European Central Bank (ECB) has said, the recent positive data indicate that banking institutions are well capitalised and have strong liquidity positions compared with past crises, enabling them to maintain low NPL levels despite the challenging macroeconomic landscape.

Nonetheless, the uncertain economic backdrop continues to raise concerns about the medium-term outlook for banks' asset quality. While inflation and interest-rate hikes have not yet led to a significant decline in asset quality, persistent inflation, rapid monetary policy tightening and geopolitical uncertainties could potentially trigger new shocks, leading to further corrections in asset prices, in turn affecting credit risk and possibly NPLs.

Risk assessments in the EU are now all pointing to a potential decline in asset quality for most large loan segments in the coming year. Rising interest rates and persistent inflation may adversely impact over-leveraged households and companies, hampering their ability to service debt. A tightening of financial conditions can also be observed, both in terms of the cost of credit and its availability, putting additional strain on already stressed borrowers. Regulators are also warning that the real economic impact of tighter financial conditions has yet to fully materialise, which could exacerbate the pressure on credit risk and NPLs.

Assets most likely to be affected by further shocks include real-estate lending, unsecured consumer lending, assets that have benefited from pandemic-related support measures, and sectors particularly vulnerable to rising inflation and volatile commodity prices. Despite recent corrections in the real-estate market, the sector remains subject to further risk of a downturn as interest rates affect both asset valuations and affordability for borrowers.

In this context, it is crucial for regulators and banking supervisors to further assess banks' readiness to manage any increase in distressed debt and refinancing challenges. They need to remain vigilant for any signs of deteriorating asset quality or a rise in NPLs within the financial sector. It is of utmost importance for supervisors to continue preparing for potential economic downturns and emphasise the necessity of robust valuation, modelling and risk management practices. Furthermore, banks also need to be fully prepared for potential declines in asset quality. This includes ensuring that they have robust credit risk monitoring and management, appropriate loan classification, accurate loan staging and adequate loan loss provisioning.

I. NPL evolution in the CESEE region

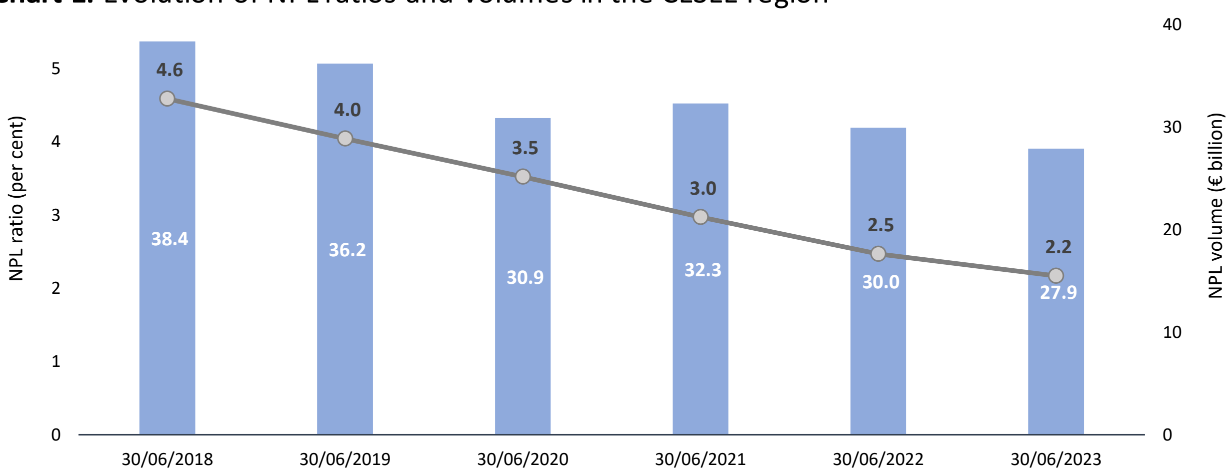
NPL volumes decreased 6.8 per cent in the 12 months to June 2023

- At a regional level, NPL volumes fell 6.8 per cent to €27.9 billion in the 12 months from 30 June 2022 to 30 June 2023.[3]
- In relative terms, the decline in NPL stocks was most significant in Latvia, Croatia and Bosnia and Herzegovina, where they fell 26.2 per cent, 23.9 per cent and 17.7 per cent, respectively.
- In absolute terms, the largest contributor to the decline was Poland, where the stock of NPLs declined by €0.7 billion, or 7.1 per cent.
- Only three economies saw an increase in NPL volumes: Albania (8.4 per cent), Serbia (5.8 per cent) and Kosovo (1.2 per cent).
- While some of this decrease in NPL volumes can be attributable to NPL sales from banks to third-party investors, this is expected to account only for a fraction of the reduction, as the level of publicly reported transactions remained subdued during the period. Loans write-offs and progress on restructuring, enforcement and recovery efforts are expected to have played a key role.

The average NPL ratio across the CESEE region declined slightly once again in year to June 2023, reaching its lowest level in recent years

- The average regional NPL ratio (the proportion of NPLs to total gross loans) decreased 0.3 percentage point to 2.2 per cent over the 12-month period to 30 June 2023. Once again, this set a record low since the *NPL Monitor* was first published in 2016.
- Bulgaria saw the largest decline during the year, with a 1.5 percentage-point drop to 3.8 per cent.
- None of the countries experienced an increase in the NPL ratio during this period.

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



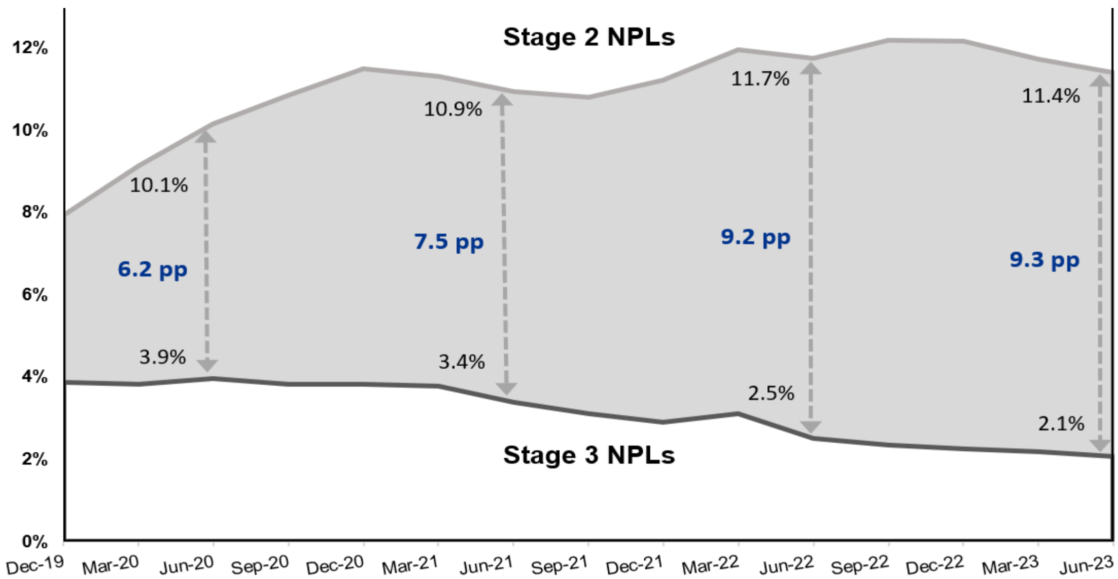
Source: International Monetary Fund (IMF) Financial Soundness Indicators (FSI) and central banks.

[3] See notes for Table 1.

The overall coverage ratio fell moderately to 64.3 per cent, maintaining its average level since the Covid-19 pandemic

- On aggregate, in the CESEE region, the average NPL coverage ratio[4] showed a continued slight decline of 0.2 percentage point to 64.3 per cent between June 2022 and June 2023.
- Lithuania recorded the highest coverage ratio in the region, at 115.4 per cent, corresponding to a 25.9 percentage-point increase, as banks increased their overall provisioning for potential losses in view of economy-wide risks.[5] It was followed by Slovenia, at 99.5 per cent, with an 8.3 percentage-point increase.
- The most significant decline in the NPL coverage ratio was recorded in Croatia, which saw a decrease of 25.3 percentage points, echoing the country's overall reduction in NPLs. However, a slight increase of 1 percentage point in the net NPL ratio was observed for the same period, potentially indicating a timing mismatch with provisioning for new NPLs.

Chart 2: Evolution of stage 2 and 3 loans in EU CEE countries



Source: EBA Risk Dashboard.

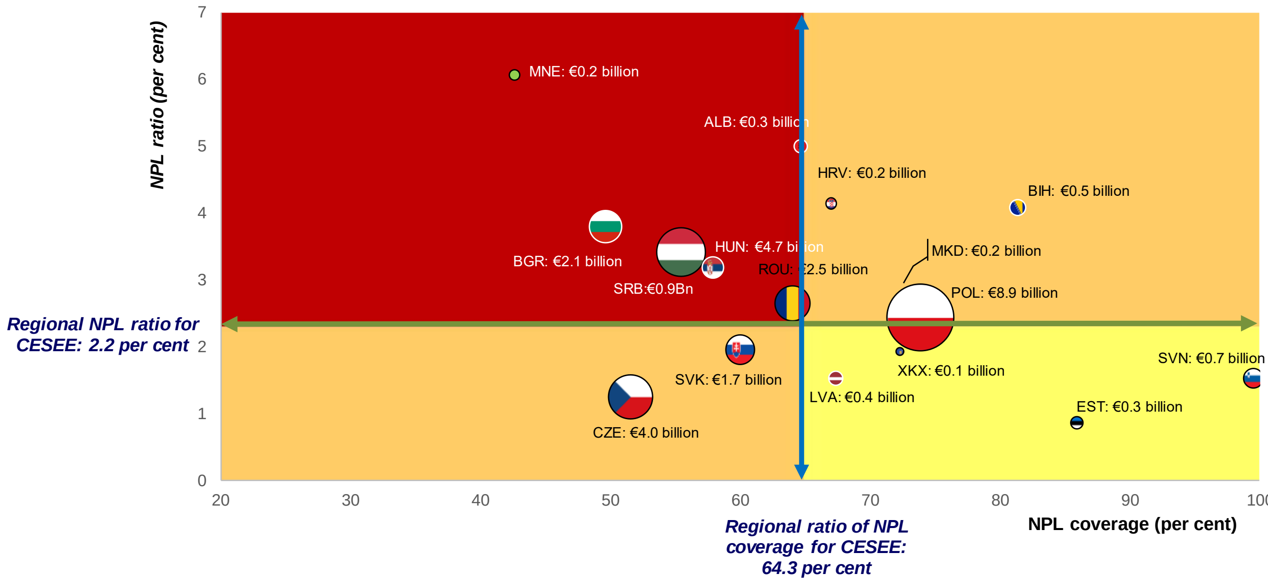
Stage 2 and stage 3 loans both decreased, yet the gap remains[6, 7, 8]

- As can be seen in Chart 2, stage 2 loans in the EU central and eastern European region (EU CEE)[9] started to decline through the latter half of 2022 and the first half of 2023, slipping 0.3 percentage point to 11.4 per cent.
- Stage 3 loans also continued their downward trend, falling to 2.1 per cent as at 30 June 2023.

[4] Percentage of NPL provisions divided by the NPL stock.
[5] See Bank of Lithuania (2023).
[6] Under IFRS 9, which includes forward-looking recognition of loan impairment, when a loan's credit risk has increased significantly since initial recognition, the loan is categorised as "stage 2". When a loan's credit risk increases to the point where it is considered credit impaired, the loan is categorised as "stage 3". See BIS (2017).
[7] As classified by IFRS 9, unless otherwise specified. Data on staging are from the EBA interactive tool.
[8] See the EBA Risk Dashboard.
[9] EU CEE countries: Bulgaria, the Czech Republic, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.

- However, a notable gap between stage 2 and stage 3 loans (9.3 percentage point) remains compared with pre-pandemic levels, similar to the same period last year.
- This slightly elevated level of stage 2 loans, combined with the wide gap to stage 3 loans, could indicate underlying risks in asset quality and a potential rise in NPLs in the near future, particularly coupled with current macroeconomic pressures.

Chart 3a: NPL volumes and ratios in the CESEE region as of 30 June 2023



Source: IMF FSI and central banks.

Chart 3b: NPL and NPL coverage ratios per coloured quadrant in Chart 3a (Q2 2023)

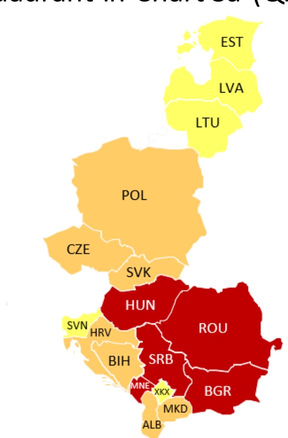
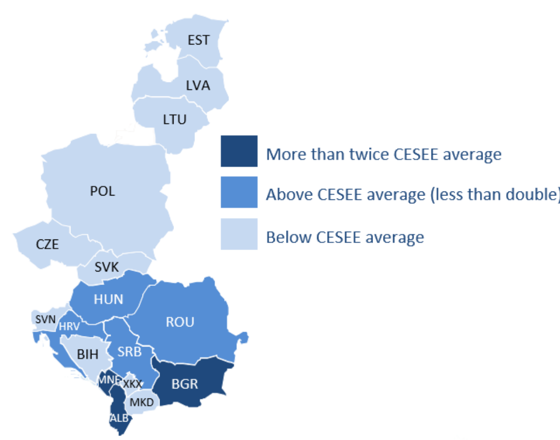


Chart 3c: Net NPL ratio (Q2 2023)



Sources: IMF FSI and central banks.

Table 1: Overview of the NPL profile in the CESEE region, 30 June 2022 to 30 June 2023

	NPL volume (€ billion)		NPL ratio (%)		NPL coverage ratio		Net NPL ratio (%)		Net NPL/capital (%)		NPL to GDP (%)	
Country	**June-23**	**Variation(%)**	**June-23**	**Δ (pp)**	**June-23**	**Δ (pp)**	**June-23**	**Δ (pp)**	**June-23**	**Δ (pp)**	**June-23**	**Δ (pp)**
Albania (ALB)	0.3	▲ 8.4	5.0	▼ (0.0)	64.7	▲ 1.4	1.8	▼ (0.1)	7.1	▼ (0.6)	1.9	▲ 0.1
Bosnia & Herz. (BIH)	0.5	▼ (17.7)	4.1	▼ (1.1)	81.4	▲ 3.7	0.8	▼ (0.4)	3.8	▼ (2.1)	2.1	▼ (0.5)
Bulgaria (BGR)	2.1	▼ (13.6)	3.8	▼ (1.5)	49.6	▲ 1.7	1.9	▼ (0.8)	11.6	▼ (3.4)	2.6	▼ (0.5)
Croatia (HRV)	0.2	▼ (23.9)	4.1	▼ (0.8)	67.0	▼ (25.3)	1.4	▲ 1.0	7.1	▲ 5.1	0.3	▼ (0.1)
Czech Republic (CZE)	4.0	▼ (7.2)	1.2	▼ (0.2)	51.6	↔ 0.0	0.6	▼ (0.1)	6.8	▼ (1.0)	1.4	▼ (0.2)
Estonia (EST)	0.3	▼ (2.5)	0.9	▼ (0.1)	86.0	▲ 8.3	0.1	▼ (0.1)	0.8	▼ (0.6)	0.8	▼ (0.1)
Hungary (HUN)	4.7	▼ (4.5)	3.4	▼ (0.3)	55.4	▼ (2.1)	1.5	▼ (0.1)	9.6	▼ (1.9)	2.6	▼ (0.2)
Kosovo (XKX)	0.1	▲ 1.2	1.9	▼ (0.1)	72.3	▲ 0.1	0.5	▼ (0.0)	3.4	▼ (0.1)	1.0	▼ (0.0)
Latvia (LVA)	0.4	▼ (26.2)	1.5	▼ (0.7)	67.4	▲ 16.5	0.5	▼ (0.6)	4.2	▼ (5.1)	0.9	▼ (0.4)
Lithuania (LTU)	0.2	▼ (2.8)	0.4	▼ (0.1)	115.4	▲ 25.9	(0.1)	▼ (0.1)	(1.1)	▼ (2.1)	0.3	▼ (0.0)
Montenegro (MNE)	0.2	▼ (6.4)	6.1	▼ (0.8)	42.6	▲ 0.9	3.5	▼ (0.5)	16.7	▼ (4.9)	3.4	▼ (0.5)
North Macedonia (MKD)	0.2	▼ (5.8)	2.8	▼ (0.3)	72.9	▲ 6.9	0.8	▼ (0.3)	3.8	▼ (2.0)	1.5	▼ (0.2)
Poland (POL)	8.9	▼ (7.1)	2.4	▼ (0.3)	73.9	▲ 0.0	0.6	▼ (0.1)	5.1	▼ (0.6)	1.3	▼ (0.1)
Romania (ROU)	2.5	▼ (2.9)	2.6	▼ (0.4)	64.1	▼ (2.8)	1.0	▼ (0.0)	6.9	▼ (0.2)	0.9	▼ (0.0)
Serbia (SRB)	0.9	▲ 5.8	3.2	▼ (0.1)	57.9	▲ 0.9	1.3	▼ (0.1)	5.7	▼ (0.3)	1.4	▼ (0.0)
Slovak Republic (SVK)	1.7	▼ (1.2)	2.0	▼ (0.1)	60.0	▼ (6.8)	0.8	▲ 0.1	6.4	▲ 0.7	1.5	▼ (0.1)
Slovenia (SVN)	0.7	▼ (14.5)	1.5	▼ (0.4)	99.5	▲ 8.3	0.0	▼ (0.2)	0.1	▼ (1.3)	1.2	▼ (0.2)
CESEE	27.9	▼ (6.8)	2.2	▼ (0.3)	64.3	▼ (0.2)	0.8	▼ (0.1)	6.2	▼ (0.9)	1.4	▼ (0.2)
Georgia (GEO)	0.3	▲ 12.7	1.6	▼ (0.1)	50.3	▲ 0.0	0.8	▼ (0.1)	4.3	▼ (0.8)	1.2	▲ 0.1
Greece (GRC)	13.0	▼ (16.0)	7.5	▼ (1.9)	56.7	▲ 6.6	3.3	▼ (1.4)	19.8	▼ (11.4)	6.2	▼ (1.2)
Kazakhstan (KAZ)	1.7	▲ 2.0	3.4	▼ (0.3)	76.9	▲ 0.7	0.8	▼ (0.1)	3.9	▼ (0.1)	0.7	▼ (0.0)
Turkiye (TUR)	7.4	▼ (22.6)	1.5	▼ (0.8)	86.5	▲ 5.1	0.2	▼ (0.2)	1.4	▼ (1.7)	0.9	▼ (0.3)
Ukraine (UKR)	10.7	▼ (2.0)	38.9	▲ 9.2	84.2	▼ (4.5)	6.2	▲ 2.8	27.7	▲ 10.8	8.0	▲ 1.6
Other	33.0	▼ (12.6)	4.4	▼ (1.3)	73.3	▲ 3.0	1.2	▼ (0.5)	7.3	▼ (3.7)	2.3	▼ (0.4)
Total countries	**61.0**	▼ **(10.1)**	**3.0**	▼ **(0.6)**	**69.2**	▲ **1.4**	**0.9**	▼ **(0.2)**	**6.7**	▼ **(2.0)**	**1.7**	▼ **(0.3)**

Source: IMF FSI and central banks.

Notes on the data and the interpretation of results

- Variation (per cent) is calculated as ((value period 1/value period 0) -1), with June 2022 as period 1 and June 2023 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 2023 are the latest available.
- When not available from the IMF 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 2023 are Kazakhstan (Q4 2022), Kosovo (February 2023) and Lithuania (Q1 2023).
- 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 ratios for Croatia, Poland, Bulgaria and Latvia vary from EBA Risk Dashboard Q2 2023 data (2.1 percentage points, 2.0 percentage points, 1.7 percentage points and 1.1 percentage points, respectively) due to differences in reporting standards.

II. The EU perspective: ongoing regulatory and supervisory activities around credit risks and NPLs

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

Update on credit risks and NPLs in the European Union

Subdued economic outlook and tightening of financing conditions[10, 11]

Economic forecasts for the euro area have recently been subject to downward adjustments, particularly for 2023 and 2024. These revisions can be attributed to multiple factors, including a decline in the near-term growth outlook, but also increasingly restrictive financing conditions, including elevated lending rates and less favourable credit supply conditions.

This tightening of financing conditions, which is largely the result of rising interest rates, is expected have a secondary effect of constraining credit supply. The adverse effects on credit supply may be more pronounced than anticipated in the June 2023 projections, despite the generally healthy state of household and corporate balance sheets. Indeed, the ECB's latest euro-area bank lending survey reveals that credit supply conditions have been tightening since the beginning of the year, leading to a significant contraction in loan growth.

This tightening of the credit supply and financing conditions puts additional strains on borrowers in need of financing, who are already affected by other macroeconomic challenges, ultimately exacerbating credit risk and the likelihood of default.

Asset-quality resilience persists, according to the latest data[12,13]

Despite this challenging macroeconomic landscape, the asset quality of banks has managed to remain robust up to now. The ECB has said that the banking institutions under its purview are well capitalised, with strong liquidity positions and low levels of NPLs.

According to the most recent data from the European Banking Authority's (EBA) Risk Dashboard for Q2 2023, the NPL ratio has remained at a historically low level of 1.8 per cent for EU/European Economic Area banks, while the allocation of stage 2 loans has been stable at 9.1 per cent. The cost of risk was reported at 45 basis points, closely aligned with the levels of the past two years.

[10] See ECB (2023f).
[11] See ECB (2023a).
[12] See EBA (2023e).
[13] See ECB (2023g).

Warnings of an imminent deterioration in credit risk across all lending segments[14, 15, 16, 17]

Despite these positive data, the uncertain economic backdrop continues to raise concerns about the medium-term outlook for banks' asset quality. For example, the latest EU Joint Committee report on risks and vulnerabilities, published in autumn 2023, warns of an impending deterioration in credit risk across all lending segments, albeit from a strong starting point. While inflation and interest-rate hikes have not yet led to a significant decline in asset quality, there have been increasing indicators of this trend over the past three quarters. Persistent inflation, rapid monetary policy tightening and geopolitical uncertainty could potentially trigger new shocks, leading to further corrections in asset prices, in turn impacting credit risk and possibly NPLs.

The ECB also warned earlier this year, and reiterated more recently in the ECB financial stability review of November 2023, of the risks to the corporate sector's resilience in the face of rising financing costs and an uncertain economic outlook. Small and medium-sized enterprises (SMEs), which have benefited less from economic recovery, are particularly susceptible to the impacts of slower economic growth and higher borrowing costs.

Demand for loans is also cooling rapidly, partly due to the tightening of financial conditions, both in terms of cost and availability.

Increases in loan losses are starting to be observed, albeit still low. Bankruptcies in some euro-area countries are beginning to reach pre-pandemic levels. The ECB, however, warns that the real economic impact of tighter financial conditions has yet to fully materialise.

Emerging challenges across loan segments[18, 19, 20]

According to the EBA Spring 2023 risk-assessment questionnaire, expectations are pointing to a decline in asset quality for most loan segments and types of borrowers in the coming year. Already, the primary negative contributor to credit-risk losses for EU banks are corporate and SME exposures, which account for the majority of those losses. Rising interest rates and ongoing inflation may adversely affect over-leveraged households and corporates, hampering their ability to service debt. Assets most likely to be affected by further shocks include real-estate lending, unsecured consumer lending, assets that have benefited from pandemic-related support measures, and sectors particularly vulnerable to rising inflation and volatile commodity prices.

Concerns about the solvency of indebted companies persist, therefore. Rising interest rates and potentially higher risk premiums are resulting in higher funding and operational costs for companies. The repricing of loans due to rising interest rates further impacts the ability of highly indebted borrowers to service their debt, in addition to the negative effects of inflation and the

[14] See EBA (2023d).
[15] See ECB (2023a).
[16] See ECB (2023c).
[17] See ECB (2023d).
[18] See EBA (2023e).
[19] See EBA (2023d).
[20] See EBA (2023f).

subdued economic environment. The real-estate market is also at a potential inflection point, with the risk of a downturn due to higher interest rates affecting both asset valuations and affordability for borrowers.

Both supervisory and sectoral data suggest that certain portfolios could experience faster deterioration due to their sensitivity to rising interest rates, for example, consumer credit and real estate-related exposures.

Continued cautions over potential shift in the euro-area property-market cycle [21, 22, 23, 24, 25, 26, 27]

The ECB already warned earlier this year – a message it reiterated more recently – of the risks associated with a shift in the euro-area property-market cycle, with rising interest rates beginning to impact affordability. Some jurisdictions have already reported an uptick in NPL volumes for the real-estate segment.

In specific loan portfolios, such as those of residential and commercial real estate, there are already reports of corrections in asset prices. While price corrections are still orderly and a stabilisation point may be approaching, they remain a matter of concern for the supervisor. The ECB warned more recently, in its latest financial stability review, of the risks of the real-estate correction turning disorderly if not adequately managed.

The latest EBA Risk Dashboard also stated that vulnerabilities persist in the real-estate sector, especially given the further corrections observed in real-estate markets. This indicates that risks to banks' asset quality are increasing, albeit from a low base, as inflation remains comparatively high and economic growth decelerates. With the residential real estate market likely entering a correction phase, this poses risks to households, particularly if falling prices and higher interest rates make mortgages less affordable.

The ECB also notes that the commercial real-estate market is facing a downturn, with declining valuations and reduced demand in office and retail segments. The slight uptick in exposure to commercial real estate in Q1 2023 compared with the previous quarter could pose additional risks in the context of declining real-estate prices and increasing interest rates.

[21] See KPMG (2022a).

[22] See EBRD (2023b).

[23] See KPMG (2023b).

[24] See ECB (2023c).

[25] See EBA (2023f).

[26] See EBA (2023d).

[27] See ECB (2023d).

Focus of EU banking supervisors on monitoring and mitigating credit risks and NPLs

Supervisory focus on asset quality and resilience[28, 29, 30, 31, 32, 33]

These recently identified credit-risk vulnerabilities, together with the supervisory activities of recent months, echo the ECB's supervisory priorities for 2023 to 2025. In mid-December, the ECB will publish its revised priorities for the coming period, including any changes or evolution in risks and sectoral focus.

Overall, EU banking supervisors, including the ECB and national competent authorities, remain vigilant for any signs of deteriorating asset quality or a rise in NPLs within the financial sector. The ECB's ongoing assessments and the results of the 2023 EU-wide stress-test exercises by both the ECB and the EBA have reinforced the need for supervisors to continue preparing for potential economic downturns, emphasising the importance of robust valuation, modelling and risk management practices.

As a result, supervisors continue to require banks to be fully prepared for potential declines in asset quality. This includes ensuring that banks have robust credit risk monitoring and management, appropriate loan classification, accurate loan staging (in line with IFRS 9) and adequate loan loss provisioning. They are also continuing to closely monitor sectoral and concentration risks, including for banks exposed to highly leveraged transactions.

This continued focus on mitigating credit risks in the EU banking sector is evidenced by the broad range of supervisory activities already performed this year, such as on-site inspections and targeted reviews for different asset classes and clusters of asset-quality risks in supervised banks. Banks are required to be fully compliant with supervisors' expectations as regards credit risks and NPL management, with any findings identified last year to be remediated. Non-compliant banks risk being allocated capital add-ons to pillar 2 requirements.

In addition, the European Supervisory Examination Programme (ESEP) recently highlighted that asset and liability management will be a specific point of attention for supervisors in 2024, reflecting the current challenges and vulnerabilities in the EU banking sector. In the coming year, competent authorities are expected to allocate sufficient supervisory efforts to further assess system resilience and ensure that institutions have updated recovery plans containing credible and feasible recovery options. Specifically, according to the ESEP, supervisors should focus on evaluating and challenging banks in the areas of liquidity and funding risk management, interest-rate risk management and hedging, and recovery operationalisation.

[28] See EBA (2023b).
[29] See KPMG (2022b).
[30] See KPMG (2023a).
[31] See EBA (2023d).
[32] See EBA (2023c).
[33] See ECB (2023i).

Real-estate lending: assessing the adequacy of classification, IFRS 9 stage transfers and provisioning[34]

The ECB's latest on-site inspections and deep-dive assessments have shifted from primarily valuing banks' commercial real-estate portfolios to a broader examination of risk classifications, IFRS 9 stage transfers, and impairments. Banks are expected to adequately incorporate the evolving risk landscape into their provisioning and capital planning. Recent assessments have integrated these evaluations into more extensive IFRS 9 on-site inspections, reflecting the ECB's focus on ensuring that banks' provisioning frameworks are robust and responsive to the current economic environment.

The need to capture and quantify novel risks in a robust way[35, 36]

As discussed in the *NPL Monitor H1 2023*,[37] the ECB recently performed a review of banks' IFRS 9 provisioning frameworks to evaluate their preparedness for novel risks, such as those arising from energy, supply chains, inflation, geopolitical upheaval and environmental factors. The ECB found that, while overlays are commonly used to address novel risks, a significant minority of banks have yet to robustly capture or quantify these risks. Therefore, the ECB continues to encourage banks to further adopt evidence-based approaches to quantifying novel risks at a sectoral level and identifying affected client groups, rather than relying heavily on judgment or umbrella overlays.

Closing the gaps with forbearance practices and frameworks[38, 39]

The ECB has underscored in recent months its focus on the topics of forbearance and unlikely-to-pay assessments, following last year's finding that too many of the banks it supervises are still falling short of its expectations in these areas.

The ECB has identified and communicated key areas for improvement in banks' forbearance practices, particularly in light of the potential growth in distressed debt and refinancing risks. Banks are advised to rapidly adopt more consistent and proactive approaches to identifying clients in financial difficulty, granting suitable forbearance measures, and improving the monitoring of such measures. ECB deep dives on forbearance, which started in September 2023, aim to further assess banks' readiness to manage any increase in distressed debt and refinancing challenges.

[34] See KPMG (2023b).
[35] See ECB (2023b).
[36] See ECB (2023h).
[37] See EBRD (2023b).
[38] See ECB (2023e).
[39] See KPMG (2023b).

For the coming months, the ECB is expected to continue monitoring banks' preparedness for current economic conditions and a potential increase in distressed debt and refinancing risks, either as part of further ECB deep dives on forbearance and/or as part of broader credit risk reviews.

Recent ECB stress test reiterated risks from high exposure to leveraged transactions[40, 41, 42]

The recent ECB stress test, conducted on 98 banks under its direct supervision, also revealed that exposure to leveraged finance carries a high degree of credit and market risk, which could become manifest in an economic downturn. The stress-test results reinforce the ECB's message for banks to remain vigilant and for supervisors to be prepared for potential economic downturns.

Earlier this year, the ECB had already raised alarms about the potential exposure of debt instruments, such as leveraged loans, to rate hikes, which could be exacerbated by any further tightening of financial conditions. This prolongs the ECB's intensified focus in recent years on the potential risks of some banks' high exposure to this asset class.

The ECB has already emphasised numerous times, both this and last year, the urgency of compliance, indicating that capital add-ons to pillar 2 requirements may be imposed on banks that exhibit high levels of leveraged lending risk without satisfactory risk frameworks and controls. As a result, the ECB began sending Operational Act letters to selected banks in the first half of 2023. More recently, some banks have been informed they will be subject to an asset quality review exercise, focused on their leveraged transactions portfolios, in the coming months.

The topic is, therefore, expected to remain a key priority in 2024 for those banks most exposed to such lending.

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[40] See ECB (2023i).

[41] See ECB (2023a).

[42] See ECB (2023c).

III. Latest EU regulatory activities related to NPLs

As discussed in previous editions of the *NPL Monitor*, in December 2020, the European Commission published its NPL action plan. It introduced a broad range of policy initiatives to be implemented at the EU level, with a particular focus on developing the bloc's secondary distressed debt market. We discuss some of the latest updates below.

EBA's draft guidelines for assessing management competency in NPL credit servicers[43, 44]

On 19 April 2023, the EBA published a consultation paper on the development of guidelines to assess the knowledge and experience of the management or administrative organs of credit servicers. The consultation ran until 19 July 2023, with the final guidelines expected by end of 2023 and application from 2024. The guidelines will apply to competent authorities and NPL credit servicers (that is, servicers of a creditor's right under a non-performing credit agreement or of the non-performing credit agreement itself). The development of these guidelines is an important step for the implementation of the requirements of European Commission Directive 2021/2167 on credit servicers and credit purchasers (otherwise known as the EU Directive on NPLs). This will provide a framework for competent authorities to assess the adequacy of the knowledge and experience of management or administrative organs of credit servicers based on their size, nature and complexity.

In summary, some of the requirements introduced by the proposed guidelines include:

- The credit servicer should have a documented policy on the assessment of knowledge and experience of the management or administrative organ.
- The assessment should be conducted by a designated person or committee within the credit servicer with the necessary knowledge and experience to carry out the assessment.
- The assessment should take into account the specific nature, scale and complexity of the credit-servicing activities carried out by the credit servicer.
- The assessment should cover both the collective knowledge and experience of the management or administrative organ, as well as the individual knowledge and experience of each member of the organ.
- The assessment should be conducted on a regular basis and should take into account any changes to the credit servicer's activities or organisational structure.
- The assessment should be documented, and the results of the assessment should be communicated to the relevant internal and external stakeholders.
- The credit servicer should have a plan in place to address any identified gaps in knowledge or experience of the management or administrative organ and should take appropriate measures to address these gaps.

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[43] See EBA (2023a).

[44] See European Union (2021).

The proposed guidelines, together with the broader EU Directive on NPLs, are expected to have a significant impact on some NPL credit servicers, especially the ones that do not already carry out such tasks (for example, due to their size). They are likely to affect existing business practices, require additional resources and training and, ultimately, lead to greater operational complexity and costs. We expect this to lead to an increase in the number of mergers of credit servicers and market exits, especially for smaller firms.

Implementation of new NPL transaction data templates by the EBA[45, 46, 47, 48]

In line with the requirements of the EU Directive on NPLs, the European Banking Authority (EBA) was tasked with formalising its voluntary NPL transaction data templates into a standardised and compulsory format for credit institutions to use when selling their NPLs (under certain conditions). This is aimed at streamlining the information provided to credit purchasers during NPL sales. Following a period of public consultation, the EBA finalised its Implementing Technical Standards (ITS) on these NPL transaction data templates in December 2022 (EBA/CP/2022/05). These ITS were then submitted to the European Commission for adoption. On 26 September 2023, the Commission published in the Official Journal of the European Union its implementing regulation on the templates to be used by credit institutions when providing buyers with information on their credit exposure in the banking book. The ITS came into effect on 19 October 2023.

The finalised templates comprise a total of 129 data fields, out of which 69 are mandatory. The applicability of different data fields varies depending on whether the NPL is associated with a private individual or a corporate borrower, as well as the type of collateral securing the loan. Please refer to the previous edition of this report, the *NPL Monitor H1 2023*, for more details, as no new changes have been introduced since then.

These templates are intended for loans originated on or after 1 July 2018, which were classified as NPLs after 28 December 2021. Moreover, the application of the ITS (that is, the NPL templates) will rely solely on the principle of market discipline and will not be subject to supervisory reporting requirements. That said, it is foreseeable that banking supervisors – both the ECB and at the national level – may ask banks they supervise to demonstrate (post-transaction) the completeness of the data they have used and/or provided for NPL portfolios they have sold to third-party investors. Some non-EU countries are also assessing how they can implement a version of these templates relevant to their own market specificities, to demonstrate to NPL investors their local alignment with EU best practices. This is, therefore, a topic to continue monitoring closely.

[45] See European Union (2021).

[46] See EBA (2022).

[47] See European Commission (2023a).

[48] See NPL Markets (2023).

IV. Recent policy actions in NPL Initiative partner countries in response to the current macroeconomic environment

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

See also Bruegel's dataset on national fiscal responses to the energy crisis for more information on the measures implemented.[49]

Albania

Policy actions

- **Monetary policy:**[50] On 1 November 2023, the Bank of Albania (BoA) increased its base interest rate by 0.25 percentage point, bringing the rate to 3.25 per cent – its highest since 2015 – in a bid to tackle inflation. The BoA emphasised that high inflationary pressures from the domestic economy continued to pose a risk to price stability in the country and that the inflation risk balance had shifted upwards. The BoA intervened with an interest-rate increase for the first time in March 2022, breaking a 13-year-long period of cuts in the base interest rate to an historical low of 0.5 percent.
- **State of energy supply emergency extension:**[51] In July 2023, the Albanian government decided to extend its "state of energy supply" emergency, first introduced in 2021, by a further six months, to the end of 2023. Under the "state of energy supply" emergency, the government is able to allocate funding for electricity imports and suspend any kind of investment by state-owned energy suppliers, except from mandatory expenditures.

Croatia

Policy actions[52]

- **Monetary policy:** Amid elevated financial stability risks owing to rising consumer price inflation, higher energy prices, an upsurge in residential property prices and mounting geopolitical risk, the Croatian National Bank decided to further enhance the resilience of

[49] See Sgaravatti, Tagliapietra, Trasi and Zachmann (2023).
[50] See Tirana Times (2023).
[51] See SeeNews (2023).
[52] Information provided by EBRD staff.

banks in the event of adverse economic and financial scenarios by increasing the countercyclical buffer rate from 0.5 per cent (31 March 2023) to 1.0 per cent (applicable from 31 December 2023), with a further rise to 1.5 per cent to apply from 30 June 2024.

- **Measures against rising energy prices:** In September 2023, the Croatian government introduced a fifth package of anti-inflationary measures to mitigate and absorb the consequences of rising energy prices for end users, worth €464 million (0.7 per cent of GDP). The largest part of the package aims to ease the impact of rising electricity prices (€288 million) and protect against inflation (€116 million), with special support for farmers and other incentives worth another €60 million. As a result, the price of electricity for households, the public and non-profit sector, and enterprises will remain the same until March 2024. The price of gas will also remain unchanged until March 2024 thanks to a previous round of measures. The cost of the energy subsidies will continue to be covered by the state-owned power utility. The government also capped the prices of 30 basic products and allocated a further €1.2 billion to energy-efficiency programmes for buildings.

Hungary

Policy actions

- **Interest-rate caps on lending rates:** [53] In October 2023, the Ministry of Economic Development asked banks to impose a voluntary cap on interest rates on new loans for households and companies to boost lending and support economic recovery. As a result, from 9 October 2023, banks set a 12 per cent rate for working capital loans for businesses and an 8.5 per cent rate for home loans (new and resale properties). In exchange, the government told banks it would phase out the interest-rate cap for businesses if the base rate dropped below 10 per cent (from 13 per cent at present) and review the retail interest-rate cap.

- **Mandatory food-price discounts and a price monitoring system:** [54] Both initiatives were launched in June 2023, catalysed by the abolition of food-price caps in August 2023. The mandatory price discount scheme is another anti-inflationary tool that forces supermarkets to provide a 15 per cent discount on the lowest price in the preceding 30 days on one food product in each of 20 categories, to be applied on a weekly basis. At the same time, the Competition Authority launched a new price monitoring system in July 2023, which allows customers to compare the offerings of six retail chains and more than 1,000 smaller shops.

[53] See BNE IntelliNews (2023).
[54] Information provided by EBRD staff.

Montenegro

Policy actions[55]

- **Covid-19 measures and the war on Ukraine**: Two measures based on 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" of 5 December 2022 are still active: 1) a ban on the payment of dividends to shareholders of credit institutions other than payments in the form of shares of a credit institution; and 2) a reduction in mandatory reserve fees to be paid by credit institutions to the Central Bank of Montenegro from 12 per cent to 6 per cent (annually). Both measures remain valid until further notice.

- **Action to reduce inflation from October 2023**: In October 2023, to fight against inflation (8.6 per cent as of 30 September 2023), the Government of Montenegro launched its "Stop to inflation 100+" initiative, in cooperation with wholesale and retail traders, importers and distributors, to fix the prices of 100-plus consumer goods necessary for everyday life. The action will remain in place until year end 2023.

Serbia

Policy actions[56]

- **Monetary policy:** In response to rising inflation (at 10.2 per cent year on year in September 2023), the National Bank of Serbia (NBS) hiked its reference rate nine times in 2022 and six times in the first seven months of 2023 (from 1 per cent at the beginning of 2022 to 6.5 per cent in July 2023). In addition, the NBS increased its reserve requirement ratio with a view to supporting its previous monetary tightening and reducing the amount of local-currency (RSD) liquidity in the banking sector. The potential effect of this measure will be the withdrawal of liquidity to the tune of about RSD 115 billion (€1 billion).
- **Temporary measure for debt securities**: The disruption to markets caused by the war on Ukraine has created further uncertainties, characterised by widening bond spreads and shrinking securities portfolios. Against this backdrop, the NBS introduced temporary measures for Fair Value through Other Comprehensive Income (FVOCI)-valued debt securities in June 2022. Under these measures, local banks were not obliged to recognise 70 per cent of losses for FVOCI debt securities as CET 1 deductible for six months until the end of 2022. This deadline was subsequently extended to the end of 2023.
- **Temporary measures for housing loans:** The NBS adopted a decision on temporary measures for banks related to housing loans to individuals. The decision limits the interest rate for first-time buyers with a variable interest rate, whose contracted amount does not exceed €200,000. For those debtors, the nominal interest rate is temporarily limited for the

[55] Information provided by EBRD staff.
[56] Ibid.

next 15 months, starting with the October instalment. The bank will not have the right to claim the difference in interest from the debtor resulting from this decision.

Heightened costs of energy continue to put strain on companies and households

According to the EBRD's latest *Regional Economic Prospects* report,[57] oil and gas prices have fallen back to below their pre-war levels. However, gas prices in Europe remain almost four times the US price and are expected to pick up further during the winter. As a result of this spike in energy prices and the reduced supply of gas from Russia, gas consumption in emerging Europe declined by more than 20 per cent during the winter of 2022-23 .

The Annual Report[58] of the European Commission's Social Protection Committee published in October 2023, however, indicated that the prevalence of people's inability to keep their home adequately warm had increased from 6.9 per cent of the EU population in 2021 to 9.3 per cent in 2022. Those at risk of poverty had increased from 16.4 per cent in 2021 to 20.2 per cent in 2022. People at risk of poverty were also more frequently in arrears on their utility bills (heating, electricity, gas, water and so on) than the overall population (15.9 per cent in 2022 compared with 6.4 per cent in 2021).

The impacts of high energy costs on credit risk echoes previous analysis discussed in the *NPL Monitors* for H2 2022 and H1 2023. Vulnerable households are at greater risk of failing to meet their credit obligations as a result of high inflation, including high energy costs.[59] The high interest rates implemented to curb inflation are also intensifying the pressure on individual borrowers, heightening their risk of defaulting on their credit obligations, especially with regard to residential real-estate mortgages. As for companies, according to previous analysis by the ECB and European Systemic Risk Board (ESRB),[60, 61, 62] firms that are highly energy intensive are more likely to face growing debt-servicing problems and have seen a higher probability of default since the start of the war on Ukraine.

[57] See EBRD (2023a).
[58] See European Commission (2023b).
[59] See KPMG (2023c).
[60] See ECB (2022a).
[61] See ECB (2022b).
[62] See ESRB (2022).

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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[63]

Table 3: Measures related to the war on Ukraine and broader macroeconomic constraints implemented by EU regulators since the H1 2023 edition of the *NPL Monitor*

Date	Authority	Measure	Source
13/10/2023	EC	The European Commission approved direct grant aid of up to €24 million (RON 118.6 million) for a Romanian initiative to support investments in sea and inland ports in the context of Russia's war on Ukraine. The measure, partially funded through EU Cohesion Funds, will help private port operators to enhance the functioning of the Ukraine-EU Solidarity Lanes. The aim of the measure is to overcome shortcomings in the capacity of the ports' superstructure to facilitate the procurement of equipment for the short-distance transport of freight and to extend temporary storage capacity.	Source
10/10/2023	EC	The European Commission approved a measure worth around €400 million (BGN 800 million) to support Bulgaria's public-sector supplier of natural gas, Bulgargaz EAD, in the context of Russia's war on Ukraine. Bulgargaz EAD is the exclusive public-sector supplier of natural gas in Bulgaria, indirectly wholly owned by the state. Because of Russia's suspension of Bulgargaz EAD's long-term contract with Gazprom Export OOO, which accounted for 90 per cent of the natural gas Bulgargaz EAD delivers to customers, the company faced unusual liquidity needs to secure a supply of natural gas amid the surge in gas prices on the European energy markets. The aid will take the form of a loan with subsidised interest rates granted by the Bulgarian Ministry of Energy.	Source
6/10/2023	EC	The European Commission approved a €1.2 billion (PLN 5.5 billion) Polish scheme to support energy-intensive companies facing increased energy costs in the context of Russia's war on Ukraine. The aid will take the form of direct grants. The purpose of the scheme is to cover additional costs due to exceptional increases in energy prices linked to the current geopolitical crisis. The measure will be open to energy-intensive companies active either in industrial production sectors, such as mining, quarrying and manufacturing, or the particularly affected sectors listed in Annex I of the European Commission's Temporary Crisis and Transition Framework.	Source
14/9/2023	ECB	The ECB raised its three key interest rates by 25 basis points. Accordingly, the interest rates on its main refinancing operations, marginal lending facility and deposit facility will be increased to 4.50 per cent, 4.75 per cent and 4.00 per cent, respectively, from 20 September 2023. The Governing Council's future decisions will ensure that the key ECB interest rates will be set at sufficiently restrictive levels for as long as necessary. The Governing Council will also continue to follow a data-dependent approach to determining the appropriate level and duration of restriction.	Source
23/8/2023	EC	The European Commission approved a Czech scheme worth around €800 million (CZK 19 billion) to support companies affected by rising energy costs in the context of Russia's war on Ukraine. The measure will be open to large companies in all sectors. The aid will take the form of direct grants to cover additional costs arising from exceptional year-on-year price increases for natural gas and electricity from 1 January 2023 to 31 December 2023. The beneficiaries will be entitled to aid as soon as the market prices for natural gas and electricity go above the maximum prices set by the scheme (approximately €210/MWh [CZK 5,000/MWh] for natural gas and €105/MWh [CZK 2,500/MWh] for electricity).	Source
27/7/2023	ECB	The ECB raised its three key interest rates by 25 basis points. Accordingly, the interest rates on its main refinancing operations, marginal lending facility and deposit facility will be increased to 4.25 per cent, 4.50 per cent and 3.75 per cent, respectively, from 2 August 2023. The Governing Council's future decisions will ensure that the key ECB interest rates will be set at sufficiently restrictive levels for as long as necessary to achieve a timely return of inflation to the 2 per cent medium-term target.	Source
26/7/2023	EC	The European Commission approved a €5 billion (CZK 125 billion) Czech scheme to support large energy producers in the context of Russia's war on Ukraine. The aid will take the form of subsidised loans. The purpose of the scheme is to help large energy producers to meet collateral requests in the energy trading markets, with the final aim of supporting the functioning of markets and the supply of energy to the economy.	Source

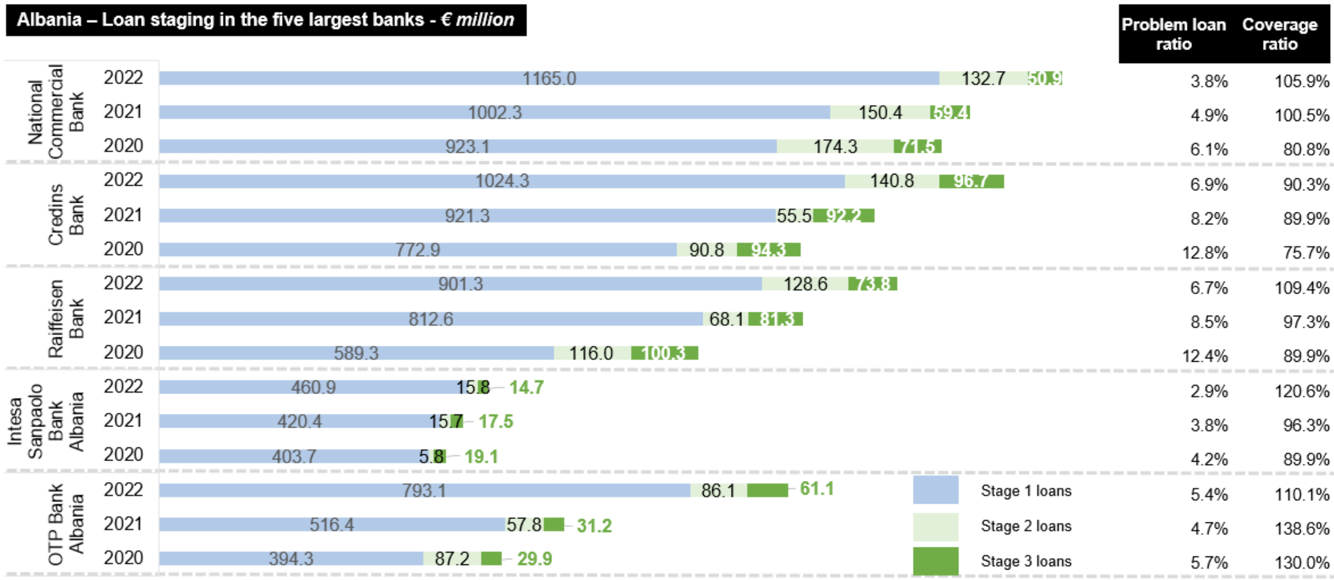
[63] Unless otherwise specified, sources are the websites of the respective institutions.

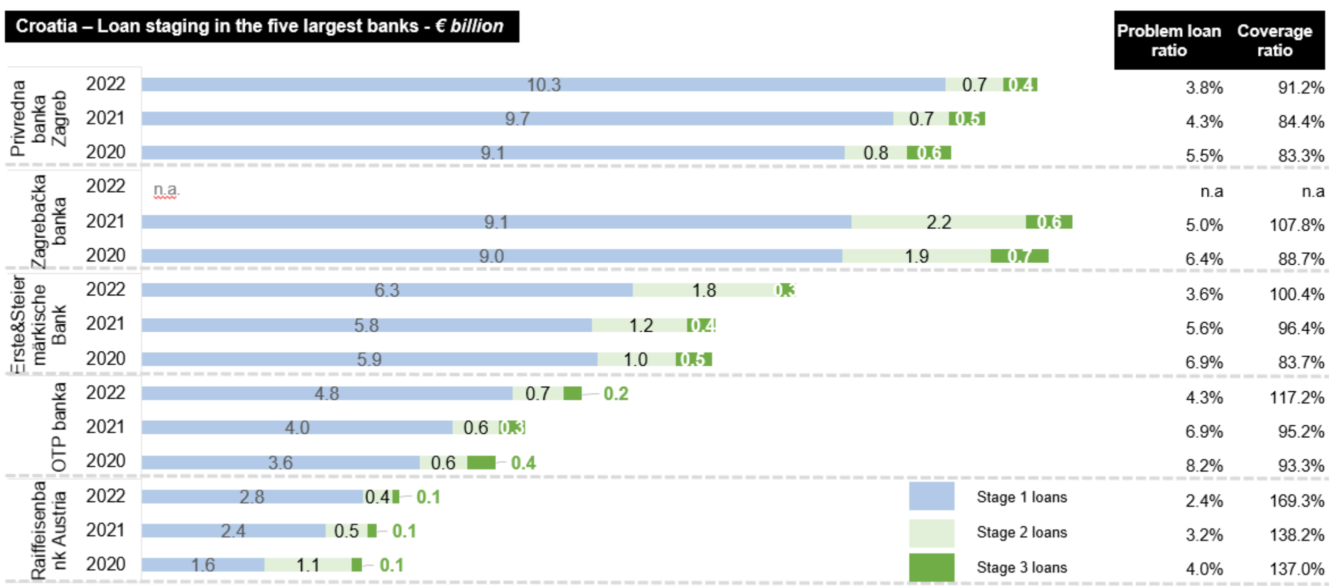
Table 4: Measures related to the war on Ukraine and broader macroeconomic constraints by stakeholders of the NPL Initiative since the H1 2023 edition of the *NPL Monitor*

Date	Authority	Measure	Source
12/10/2023	EIB	The European Investment Bank (EIB) announced that it would provide €30.7 million in EU guarantee-supported funds to enhance municipal infrastructure and urban public transport, particularly in major cities such as Kyiv, Odesa and Lviv. The funding includes €22 million for the acquisition of sustainable buses and trams and €8.7 million for various key municipal developments, such as rehabilitating landfill sites, introducing energy efficiency in kindergartens and improving water and sewerage systems. This support is part of the EIB Ukraine Solidarity Urgent Response package, which has already provided Ukraine with €1.7 billion since 2022.	Source
12/9/2023	EBRD	The EBRD, backed in part by the EU, is expanding its cooperation with ProCredit Bank Ukraine by issuing new risk-sharing instruments to the bank to support continued access to finance for enterprises in Ukraine. The EBRD is providing an unfunded risk-sharing instrument to ProCredit Bank in the amount of €7.5 million. This guarantee will back up to 50 per cent of the credit risk on €30 million in newly originated financing to private businesses in Ukraine from ProCredit Bank, subject to a portfolio cap of 50 per cent. It follows similar facilities signed with ProCredit Bank in May and November 2022 and brings the total volume of the EBRD's enabled financing in Ukraine to €738 million (under similar guarantees) since the start of the war.	Source
23/8/2023	EIB	The EIB and the Ministry of Education and Science of Ukraine have concluded a cooperation agreement on consultancy services to support the implementation of Ukraine's vocational education and training project. The cooperation includes an €8.5 million EU grant from the Neighbourhood Investment Platform. Since the start of Russia's war on Ukraine in 2022, investing in vocational education capacity has become even more important and is critical to Ukraine's recovery. Many new forms of technical expertise will be required to ensure that reconstruction in the country is green, inclusive and successful.	Source
10/8/2023	EBRD	The EBRD approved a financial package to Ukraine's Bank Lviv, comprising a local-currency loan worth the equivalent of €15 million and a €7.5 million risk-sharing instrument. This will support €30 million in loans to private micro, small- and medium-sized enterprises (MSMEs), including those affected by Russia's war on the country. Since Russia's invasion in February 2022, more than 5.5 million Ukrainians have relocated to the western part of the country from other regions, some bringing their businesses with them. The loan will help Bank Lviv to maintain a sustainable and diversified funding base to provide continued access to medium-term finance for businesses.	Source
10/8/2023	EBRD	The EBRD announced a strategic cooperation with PrivatBank, Ukraine's largest systemically important bank (nationalised in 2016), by issuing €60 million of risk-sharing instruments to support €240 million of newly originated loans to agribusinesses and other critical industries in Ukraine. Food security and the private sector are two of the EBRD's five areas of focus in supporting wartime Ukraine's real economy. The facility, composed of two elements, will back up to 50 per cent of the credit risk on PrivatBank's newly originated loans, subject to a portfolio cap of 50 per cent. The risk-sharing project brings the total volume of the EBRD's enabled financing in Ukraine to €708 million since the start of the war.	Source
18/7/2023	EBRD	The EBRD announced support for agribusinesses and other critical industries in Ukraine by providing a €20 million unfunded risk-sharing instrument to OTP Leasing, the country's largest leasing company, with a strong presence in the agricultural sector. Supporting food security in wartime Ukraine is one of five priorities for EBRD investment in the country's real economy. The facility, composed of two elements, will cover up to 50 per cent of the credit risk of €80 million in newly originated contracts provided by OTP Leasing, subject to a portfolio cap of 50 per cent. This instrument brings the total volume of similar guarantees signed since the start of Russia's full-scale war on Ukraine up to €368 million.	Source
12/7/2023	EBRD	The EBRD announced a €9.6 million loan to Ukrainian agribusiness firm Agrosem to expand a rail terminal near the Polish border and develop a grain transhipment complex and container yards facility that will increase exports of grain from the country. Since Russia invaded Ukraine in 2022, Ukraine has faced major disruptions to its economy and supply chains from attacks on critical infrastructure and uncertainty over whether goods can be exported via its ports, which traditionally moved over 90 per cent of the country's grain and oilseeds to foreign markets. This investment will facilitate the development of alternative overland routes for exporting grain.	Source
12/7/2023	EBRD	The EBRD announced the relocation of a €22.7 million existing loan to the Ukrainian national postal service, Ukrposhta, to increase the company's operational resilience despite Russia's war on Ukraine. The war, which has made access to customers both harder and more urgent, has changed priorities. In December 2022, the EBRD approved a €4.5 million co-investment grant, funded from its Shareholder Special Fund (SSF), to support the acquisition of satellite internet terminals and power generators for mobile post office vans. The aim was to help keep people who are facing power cuts as a result of Russian bombing of civilian infrastructure in digital contact, even in remote rural areas. The Bank is now making it possible to use €22.7 million for the acquisition of more than 5,000 e-bikes and around 350 commercial trucks.	Source

Annex 3: NPL Monitor – bank level[64]

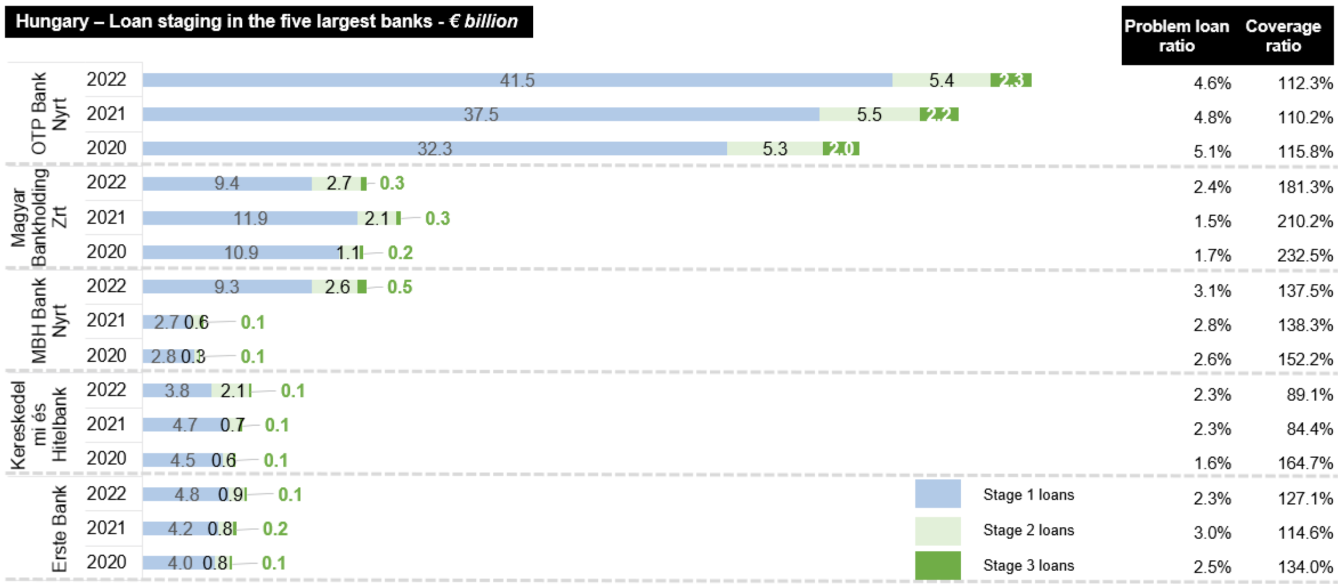
This section focuses on the asset quality of the five largest banks in each of the Vienna Initiative partner countries.[65]



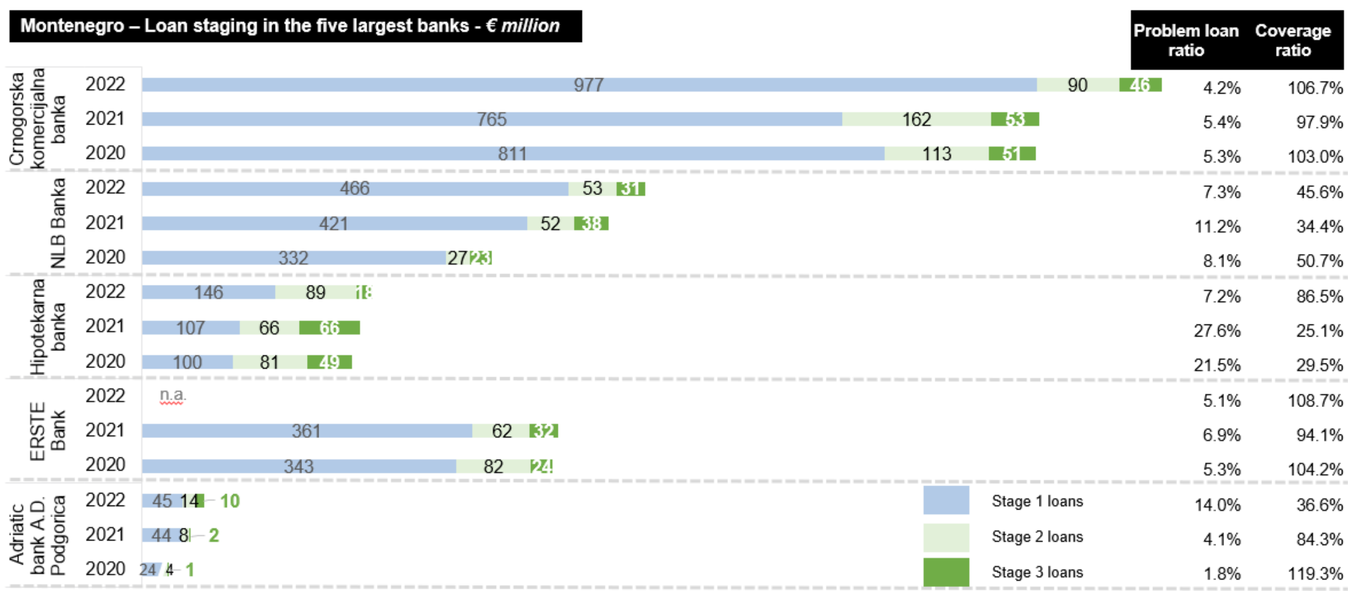


[64] Prepared by the EBRD Capital and Financial Markets Development team – Matthieu Riolacci (Analyst).

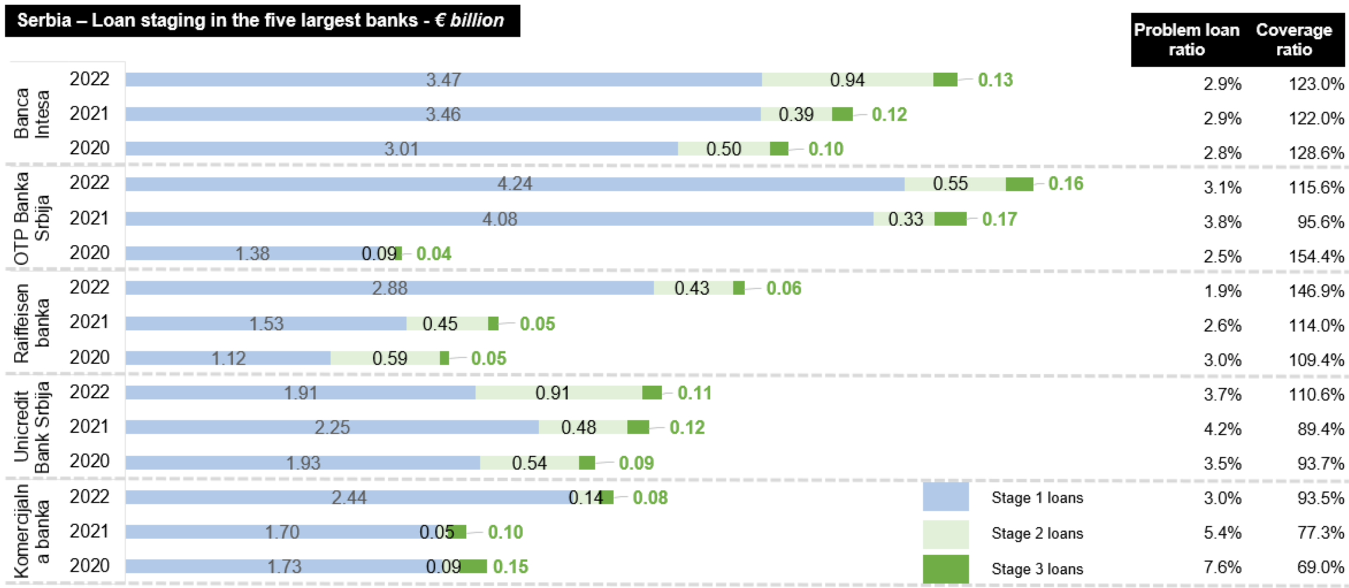
[65] Data used are from S&P Capital IQ pro as of 13 November 2023. "Problem loans" are as reported by S&P Capital IQ pro and may cover different categories of loan (nonperforming, impaired, net impaired) depending on the bank in question. Caution is advised when comparing the "problem loan" ratios of 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 loan ratio
Coverage ratio
OTP Bank Nyrt
2022 41.5 5.4 2.3 4.6% 112.3%
2021 37.5 5.5 2.2 4.8% 110.2%
2020 32.3 5.3 2.0 5.1% 115.8%
Magyar Bankholding Zrt
2022 9.4 2.7 0.3 2.4% 181.3%
2021 11.9 2.1 0.3 1.5% 210.2%
2020 10.9 1.1 0.2 1.7% 232.5%
MBH Bank Nyrt
2022 9.3 2.6 0.5 3.1% 137.5%
2021 2.7 0.6 0.1 2.8% 138.3%
2020 2.8 0.3 0.1 2.6% 152.2%
Kereskedelmi és Hitelbank
2022 3.8 2.1 0.1 2.3% 89.1%
2021 4.7 0.7 0.1 2.3% 84.4%
2020 4.5 0.6 0.1 1.6% 164.7%
Erste Bank
2022 4.8 0.9 0.1 2.3% 127.1%
2021 4.2 0.8 0.2 3.0% 114.6%
2020 4.0 0.8 0.1 2.5% 134.0%
Stage 1 loans
Stage 2 loans
Stage 3 loans



Montenegro – Loan staging in the five largest banks - € *million*
Problem loan ratio
Coverage ratio
Crnogorska komercijalna banka
2022 977 90 46 4.2% 106.7%
2021 765 162 53 5.4% 97.9%
2020 811 113 51 5.3% 103.0%
NLB Banka
2022 466 53 31 7.3% 45.6%
2021 421 52 38 11.2% 34.4%
2020 332 27 23 8.1% 50.7%
Hipotekarna banka
2022 146 89 7.2% 86.5%
2021 107 66 66 27.6% 25.1%
2020 100 81 49 21.5% 29.5%
ERSTE Bank
2022 n.a. 5.1% 108.7%
2021 361 62 32 6.9% 94.1%
2020 343 82 24 5.3% 104.2%
Adriatic bank A.D. Podgorica
2022 45 14 10 14.0% 36.6%
2021 44 8 2 4.1% 84.3%
2020 24 4 1 1.8% 119.3%
Stage 1 loans
Stage 2 loans
Stage 3 loans


Serbia – Loan staging in the five largest banks - € billion
Problem loan ratio
Coverage ratio
Banca Intesa
2022
3.47
0.94
0.13
2.9%
123.0%
2021
3.46
0.39
0.12
2.9%
122.0%
2020
3.01
0.50
0.10
2.8%
128.6%
OTP Banka Srbija
2022
4.24
0.55
0.16
3.1%
115.6%
2021
4.08
0.33
0.17
3.8%
95.6%
2020
1.38
0.09
0.04
2.5%
154.4%
Raiffeisen banka
2022
2.88
0.43
0.06
1.9%
146.9%
2021
1.53
0.45
0.05
2.6%
114.0%
2020
1.12
0.59
0.05
3.0%
109.4%
Unicredit Bank Srbija
2022
1.91
0.91
0.11
3.7%
110.6%
2021
2.25
0.48
0.12
4.2%
89.4%
2020
1.93
0.54
0.09
3.5%
93.7%
Komercijalna banka
2022
2.44
0.14
0.08
3.0%
93.5%
2021
1.70
0.05
0.10
5.4%
77.3%
2020
1.73
0.09
0.15
7.6%
69.0%
Stage 1 loans
Stage 2 loans
Stage 3 loans

Annex 4.1: Economic prospects in the EBRD regions[66]

According to the EBRD's *Regional Economic Prospects* report of September 2023, growth in the EBRD regions slowed from 3.3 per cent in 2022 to an estimated 1.7 per cent year on year in the first half of 2023 as high inflation weighed on the purchasing power of households.

Oil and gas prices fell back below pre-war levels, however, gas prices in Europe remained almost four times US prices and are expected to pick up further over the winter. As a result of this spike in energy prices and the reduced supply of gas from Russia, gas consumption in emerging Europe declined by more than 20 per cent during the winter of 2022-23.

As increases in the prices of energy and, to a lesser extent, food moderated, inflation started to decline, averaging 9.7 per cent in the EBRD regions in July 2023, down from 17.5 per cent in October 2022. Core inflation (excluding food and energy) accounted for 68 per cent of inflation in June 2023. Disinflation is expected to slow as core inflation dominates price increases.

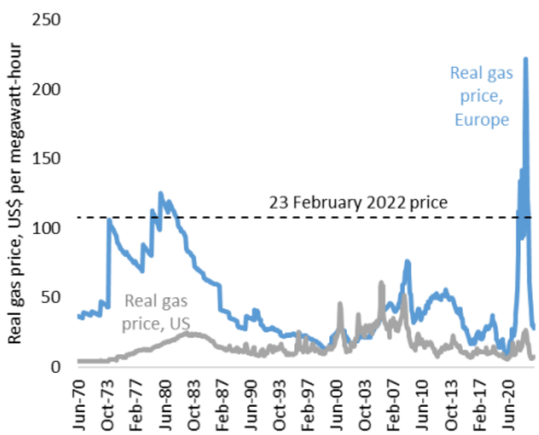
Table 5: GDP growth in real terms

GDP growth in real terms							
	Actual			Forecast (Sep 23)		Revision since May 23	
	2021	2022	H1 2023	2023	2024	2023	2024
EBRD regions	**7.3**	**3.3**	**1.7**	**2.4**	**3.2**	**0.2**	**-0.2**
Central Asia	**5.1**	**4.5**	**5.5**	**5.7**	**5.9**	**0.5**	**0.5**
Kazakhstan	4.1	3.2	5.1	5.0	5.0	1.1	0.8
Central Europe and the Baltic states	**6.4**	**3.9**	**-0.5**	**0.5**	**2.5**	**0.0**	**-0.4**
Croatia	13.1	6.2	2.7	2.5	2.3	1.0	0.0
Czech Republic	3.6	2.4	-0.6	0.1	2.5	0.2	-0.4
Estonia	7.2	-0.5	-3.3	-1.8	2.0	-0.5	-0.8
Hungary	7.2	4.6	-1.7	-0.2	2.8	-0.6	-0.7
Latvia	4.3	2.8	0.1	0.3	2.0	0.3	-0.5
Lithuania	6.0	1.9	-0.8	-0.5	1.5	-0.5	-0.5
Poland	6.9	5.1	-0.8	0.6	2.7	0.0	-0.3
Slovak Republic	4.9	1.7	1.3	1.0	2.2	-0.4	-0.8
Slovenia	8.2	2.5	1.1	1.5	2.3	0.0	0.0
Eastern Europe and the Caucasus	**5.3**	**-13.0**	**-4.2**	**1.9**	**3.1**	**0.0**	**-0.2**
Georgia	10.5	10.1	7.6	6.0	4.5	1.0	-0.8
Ukraine	3.4	-29.1	-10.5 e	1.0	3.0	0.0	0.0
South-eastern EU	**7.0**	**4.9**	**2.0**	**2.0**	**2.8**	**-0.3**	**-0.2**
Bulgaria	7.6	3.4	1.9	1.6	2.6	0.3	-0.3
Greece	8.4	5.9	2.4	2.4	2.3	0.0	0.0
Romania	5.8	4.7	1.7	1.8	3.2	-0.7	-0.3
Western Balkans	**7.8**	**3.2**	**1.8**	**2.0**	**3.4**	**-0.2**	**0.0**
Albania	8.9	4.8	2.7 e	2.5	3.3	0.0	0.0
Bosnia and Herzegovina	7.5	4.1	1.1 e	1.5	3.0	-0.5	0.0
Kosovo	10.7	3.5	3.9 e	3.5	4.0	0.0	0.0
Montenegro	13.0	6.1	6.1 e	3.5	3.7	0.2	0.0
North Macedonia	3.9	2.1	2.1 e	2.0	3.0	0.0	0.0
Serbia	7.5	2.3	1.2	1.8	3.5	-0.2	0.0

Source: National authorities and EBRD. Where H1 is not yet available, "e" refers to Q1 numbers.

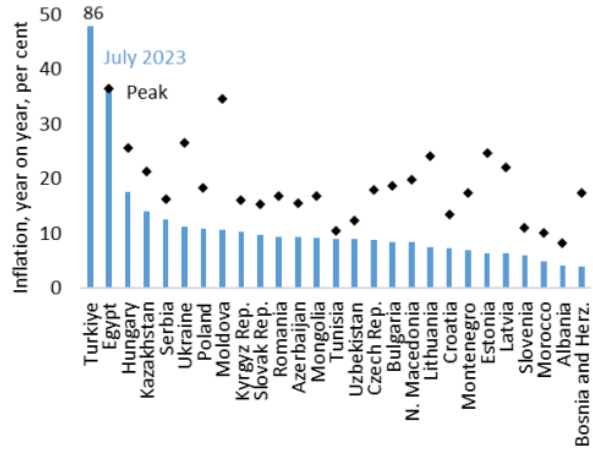
[66] See EBRD (2023a).

Chart 4: Gas prices in Europe have eased to levels seen in early 2021



Source: Bloomberg, CEIC, IMF and authors' calculations.

Chart 5: Inflation has declined from its recent peak across the EBRD regions



Source: National authorities via CEIC and authors' calculations.

- **Central Asia**: The Central Asian economies posted strong growth in the year to June 2023, driven by government spending; China's reopening and its demand for Central Asian commodities; intermediated trade with and exports to Russia; and remittances and the relocation of companies and individuals from Russia. As inflation receded across all countries, central banks started to lower policy rates. The strong growth is expected to continue, though higher borrowing costs could weigh on investment. The uptick in growth in Kazakhstan relative to the first half of 2022 can be attributed to strong domestic demand driving significant expansion in retail and wholesale trade (up 10.4 per cent year on year, contributing 1.5 percentage points to GDP growth) and construction (up 12.3 per cent, contributing 0.6 percentage points to GDP growth). Having peaked in February 2023, inflation came down gradually to 13.1 per cent in August 2023 on the back of a high central bank policy rate (16.0 per cent) and lower imported inflation.

- **Central Europe and the Baltic states**: In central Europe and the Baltic states, economic activity slowed in 2022, followed by negative growth in the first half of 2023. Elevated price levels, especially of food and energy, have weighed on households' purchasing power. Tight financing conditions have discouraged many companies, especially small and medium-sized enterprises (SMEs), from going ahead with significant investment projects, and the situation has been aggravated by higher energy costs and weakening orders. Sluggish external demand from western Europe has negatively hit the manufacturing sector.

- **Eastern Europe and the Caucasus**: In 2023, economies in eastern Europe and the Caucasus have been adjusting to the extreme shock to their economies caused by the war on Ukraine. The Ukrainian economy is likely to show modest growth in 2023, subject to the high uncertainty associated with the intensity of the war. In Armenia and Georgia, inflation is already below the target level, but it remains in the high single-digits in Ukraine, Moldova and Azerbaijan. In all economies, the war on Ukraine remains a major risk to the economic outlook.

- **South-eastern EU**: Economies in the south-eastern EU have seen a significant deceleration in growth in 2023, mostly due to the weaker external environment and the impact of inflation on household spending and confidence. However, investment trends remain positive and the availability of substantial EU funds in the coming years will be an important driver of short- and medium-term growth.

- **Western Balkans**: The Western Balkan economies faced weakening external demand from key eurozone trading partners at the beginning of 2023, but this was partly offset by the strong performance of the tourism sector in the service-based economies of Albania, Montenegro and Kosovo. Annual inflation peaked at high levels, driven by the large shares of food and energy in the consumer basket, institutional factors such as market power in some sectors (including retail) and expansionary fiscal policies in some cases. GDP growth is expected to slow further in 2023 as key eurozone trading partners see sluggish growth (with a recession forecast in Germany) and as inflation, while slowing, continues to take a toll on household consumption. Economies in the region are increasingly turning to external market financing after years of high fiscal spending, with Serbia, North Macedonia and Albania issuing Eurobonds in the first half of 2023 and Kosovo, North Macedonia and Serbia engaged in ongoing financing programmes with the IMF.

Annex 4.2: Developing the distressed assets market in Kazakhstan[67]

In October 2020, the Agency for Regulation and Development of the Financial Market of the Republic of Kazakhstan and the National Bank of Kazakhstan (NBK) requested the EBRD's assistance in promoting the sale and transfer of distressed assets in Kazakhstan to private investors. The first phase of the project, funded by the EBRD's Shareholder Special Fund and the NBK, involved a legal, financial and regulatory analysis of the NPL landscape in Kazakhstan, benchmarked against EU best practices, and recommendations for opening the NPL market to domestic and international investors. The most important and urgent recommendations were: (1) to expand the list of buyers authorised to purchase impaired loans in Kazakhstan and (2) to establish a new regulated entity and associated legal concept of "credit servicer". These recommendations were reflected in the Law on Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on the Development of the Market for Distressed Assets No. 133-VII, which was adopted by the government in July 2022 and came into effect in September 2022. The EBRD then began working with the Agency and the NBK to support the alignment of the Agency's regulations with ECB guidance to banks on the management of NPLs.

In January 2022, the President of Kazakhstan ordered the creation of a secondary market for banks' distressed assets and tasked the Agency and the government with establishing a digital platform and the necessary infrastructure for the online sale of distressed assets. In response, the EBRD team also began to work with the Agency to develop a model for the electronic sale of distressed assets that would stimulate the development of the private NPL sales market. Legislative changes are expected by end of 2023, which will impose an obligation on banks, organisations that conduct certain types of banking activity, subsidiaries of banks acquiring distressed assets, and microfinance organisations to use digital platforms accredited by the Agency when selling foreclosed property and loans with signs of impairment in accordance with IFRS (distressed assets).

In early 2024, the Agency will need to develop implementing regulations on the accreditation procedure for issuing a permit to carry out the activities of an operator of an electronic platform and other related regulations governing trades, information security, disclosure of information and conclusion of a sale and purchase agreement on an electronic platform. As part of the project, the expert team led by the EBRD has developed data templates, aligned with the NPL data templates recently mandated by the EBA, containing mandatory fields suitable for the Kazakh banking sector. It is expected that these data templates will be used in future, subject to some specific exceptions, for any sale of distressed assets. The use of such data templates will improve the availability of information on distressed assets and the transparency of sales in Kazakhstan for potential investors.

See the EBRD's new edition of *Law in Transition journal 2023: Building resilience through legal reform* for an overview of the EBRD's support for NPL resolution.

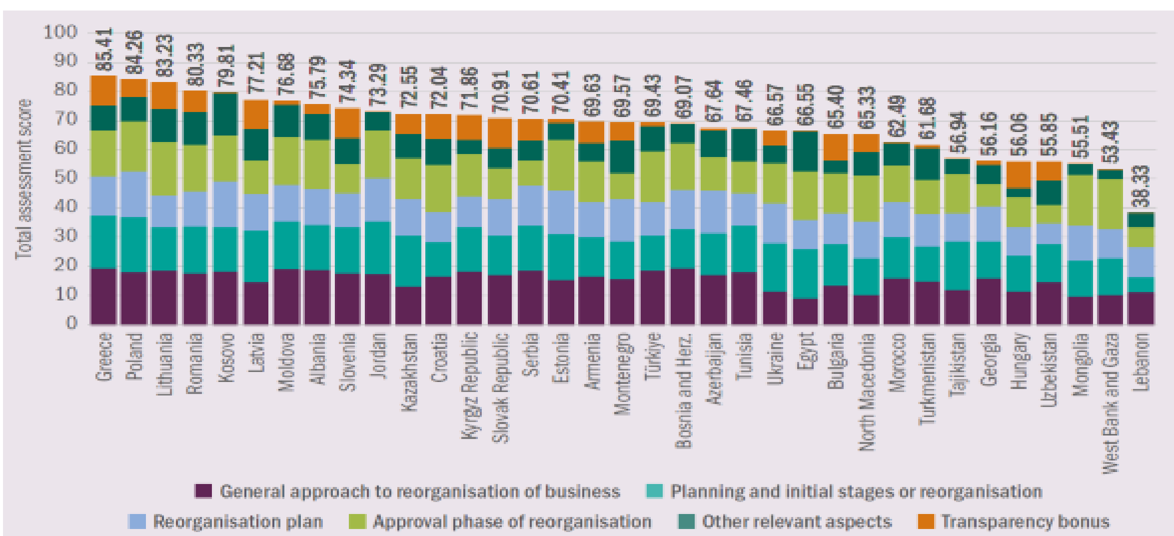
[67] Prepared by the EBRD Legal Transition Team – Catherine Bridge Zoller (senior counsel).

Annex 4.3: Insolvency frameworks: Georgia, Kazakhstan and Türkiye[68]

One of the routes for resolving NPLs is insolvency. In 2022, the EBRD completed an assessment to measure the availability, effectiveness and extensiveness of national insolvency procedures aimed at reorganising insolvent or financially distressed businesses across 39 economies. Georgia, Kazakhstan and Türkiye, the three new economies included in this edition of the *NPL Monitor*, were covered by the EBRD Business Reorganisation Assessment.[69] The assessment analysed the legal, institutional and professional framework for insolvency and covered the main measures that could be used to rescue a business, including temporary moratoria on creditor action and "cram-down" provisions. This was done through a combination of a review of laws on the books, law-firm consultations and a questionnaire distributed to stakeholders.[70]

The assessment prepared individual national profiles of the insolvency systems in Georgia, Kazakhstan and Türkiye. In Georgia and Türkiye, the Ministries of Justice are the main insolvency regulators, while in Kazakhstan, this role is performed by the Ministry of Finance. In Kazakhstan, specialised economic courts oversee insolvency cases, while in Türkiye, commercial courts fulfil this role. In Georgia, a much smaller country, however, only two city courts, located in Tbilisi and Kutaisi, have jurisdiction in first instance over insolvency cases. In all three economies, insolvency practitioners require formal state authorisation to take on insolvency appointments.

Figure 1. Overall business reorganisation assessment performance including data transparency factor[71]



Source: Business Reorganisation Assessment, EBRD.

[68] Prepared by the EBRD Legal Transition team – Catherine Bridge Zoller (senior counsel) and Natalia Pagkou (consultant).
[69] Including Belarus and Russia.
[70] A total of 457 respondents completed the assessment questionnaire.
[71] The chart illustrates the performance (in descending order) of each economy on an aggregate basis with respect to each of the five sections of the assessment questionnaire, as well as the level of transparency and availability of insolvency data in each economy (the data transparency factor). Each section of the questionnaire has a maximum of 20 points, and the data transparency factor has a maximum of 10 points. The maximum possible 110 points signals the existence of optimal legal and regulatory frameworks for business reorganisation, as well as good availability of data on insolvency procedures.

In terms of overall performance in the assessment, Kazakhstan ranked 14th, Türkiye 23rd and Georgia 34th out of the 39 economies assessed for the strength of their insolvency framework for business rescue.[72] While the scope of the assessment was focused on business reorganisation, the results are also instructive about the overall quality of a country's insolvency framework, given the assessment's emphasis on efficiency of process, which is important for all types of insolvency proceedings. Kazakhstan (with a score of 72.6 points) ranked first among EBRD economies in Central Asia, revealing itself to be a regional leader in terms of the quality of the insolvency framework. Georgia presented a lower score (56.2 points) and ranked last among the six economies of the eastern Europe and Caucasus region. Türkiye was not compared with any other economies and scored an overall 69.4 points, slightly behind Kazakhstan.

The availability of insolvency data was a weak area for both Türkiye and Georgia. Both collected only one out of ten points for the transparency and availability of their insolvency-related data. In Türkiye, the Ministry of Justice does not publish any comprehensive insolvency data related to judicial procedures, while in Georgia, insolvency data are not centralised or published and can only be retrieved through a review of individual published court decisions. Kazakhstan scored much higher, with a score of seven points, as data on insolvency procedures are centralised and maintained by the State Revenue Committee and published online.

New insolvency law in Greece

In the overall EBRD Business Reorganisation Assessment, Greece ranked first, scoring a total of 85.41 points out of the available 110 points. During the assessment, a new Greek insolvency law, called the Debt Settlement and Facilitation of a Second Chance Law, came into force on 1 March 2021. Provisions with respect to early warning tools and the out-of-court debt settlement mechanism in the law entered into force on 1 June 2021. The new law transposes Directive (EU) 2019/1023 on preventive restructuring frameworks, on the discharge of debt and disqualifications and on measures to increase the efficiency of procedures concerning restructuring, insolvency and the discharge of debt.

The OECD insolvency indicator, initially introduced in 2016 and updated in 2022, ranked Greece in second place after the United Kingdom in terms of elements in national insolvency frameworks that enhance resource reallocation and productivity growth. The OECD insolvency indicator uses three main components,[73] subdivided into 13 key features,[74] to measure the consequences for productivity growth of delaying the initiation and increasing the duration of insolvency proceedings.

The introduction of the Debt Settlement and Facilitation of a Second Chance Law has enabled Greece to comply with EU standards and to be recognised as having one of the most robust insolvency frameworks for productivity growth among the OECD economies.

[72] Including the data transparency factor with a maximum 10 extra points for transparency and availability of insolvency data in each jurisdiction.

[73] i) Treatment of failed entrepreneurs that may deprive them of a "fresh start" opportunity, ii) lack of prevention and streamlining mechanisms that can push viable firms experiencing temporary financial distress into formal insolvency proceedings, and iii) availability of restructuring tools that can strengthen productivity.

[74] For a more in-depth analysis of the indicators, see: André and Demmou (2022).

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 FSI 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 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 (for example, from 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 published directly). While most countries report to the IMF, they do not always report the same data. For example, some countries include loans to 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 instalment loans - 60 days past due for limit loans (excluding overdrafts) - 60 days over limit usage for limit loans. 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 their financial condition.	Book value of principal plus accrued interest. The accrued interest for non-performing loans, after becoming non-performing, is not counted.	Specific provisions for NPLs are accounted for. Only financial collateral is taken into consideration for loan provisioning.	
2	**Bosnia and Herzegovina**	Until Q4 2010, NPLs consisted of C (substandard, 90 days) and D category loans. E category loans became part of non-performing loans from Q4 2011.		From Q4 2009, FSIs used non-performing loans net of provisions to Tier 1.	
3	**Bulgaria**	Until 2014, NPLs were the risk exposures where principal or interest payments had been past due for more than 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 definition and the scope of NPLs have been in line with EBA standards. The source of the data is FinRep template (F18, rows 70 and 250, column 10), which covers 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**	NPLs are all gross loans (to all sectors) not classified as performing (90 days overdue). However, a loan can be considered a "pass" even if it is 90 days overdue if it is well covered with collateral and if the process of foreclosure has started.		Provisions refer to NPLs.	
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 their 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 to be 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. 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.			

		NPLs	Gross loans	Provisions (or net NPLs)	Comments
8	**Greece**	In accordance with EBA ITS on supervisory reporting, non-performing loans will comprise the exposures defined under Commission Regulation 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 comprise NPLs 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 NPLs.	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**	NPLs 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 the EBA guidance note on compiling the IMF FSIs 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 by 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.	These include interest accrued on some NPLs. In their accounting policies, banks specify the individual provisions and conditions under which interests on non-performing assets are not accrued.		
13	**Montenegro**	NPLs include only principal and exclude 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 central bank'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 categories C, D and E are considered to be non-performing. A loan that is more than 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 central bank-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 is defined as: - 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 that is due for a period longer than 90 days is greater than: MKD 1,000 (for credit exposures to natural persons), MKD 3,000 (for credit exposures to small companies) or MKD 10,000 (for credit exposures to other legal entities). - credit exposure for which it has been determined that the client will not be able to meet his/her liabilities to the bank, regardless of whether collateral has been established and regardless of the amount that has not been collected or the number of days of delay (unlikeness to pay). The bank shall assess whether there is unlikeliness to pay by the client, at least on the basis of the following data and information: - blocked account of the client - deteriorating risk category at the banking-system level - deteriorating financial position of the client - client's work permit revoked by the competent body - sale of another credit exposure from the client with a significant loss - extension of grace period for the payment of principal and interest longer than 18 months - a write-off that significantly reduces the amount of credit exposure. All of a bank's credit exposures to one client legal entity should be treated as non-performing credit exposures if the bank's own	These include loans to the financial and non-financial sectors.	Provisions include provisions for non-performing and performing loans.	Definitions of 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 NPLs in the non-financial sector only and net-NPLs netted by loan loss provision against NPLs only.

		NPLs	Gross loans	Provisions (or net NPLs)	Comments
		balance-sheet credit exposure that is past-due for more than 90 days exceeds 20 per cent of the total balance-sheet credit exposure of the bank to that client. Amid the Covid-19 pandemic, amendments to the decision on the methodology for credit risk management were introduced (in March and April 2020). These amendments allowed for a temporary change in the definition of an NPL. The threshold of 90 days past due 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 bank's total balance-sheet credit exposure to that client. Banks could use these exceptions until 30 September 2020 for credit exposures that were determined to be performing (classified in the A, B or C risk category) as of 29 February 2020, or were approved (as performing credit exposures classified in the 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-performing credit exposures (90 days and unlikeliness to pay) no later than 31 December 2020.			
15	**Poland**	NPLs exclude repurchase agreements that are not classified as deposits. They include some other financial assets besides loans: data represent total receivables, such as originated loans, purchased receivables and guarantees that are being exercised. They exclude loans to the central bank. Deposit-takers in distress or in receivership are not included.	These exclude repurchase agreements that are not classified as deposits. They include some other financial assets besides loans: data represent total receivables, such as originated loans, purchased receivables and guarantees that are being exercised. They exclude loans to the central bank.	From the Q1 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 in the 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 met 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 to 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 NPLs determined (based on reports from all banks) were subtracted from NPLs. Since December 2015, NPLs net of provisions have been compiled as the gross carrying amount of NPLs and advances minus the accumulated impairment of NPLs 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 deemed the borrower's repayment ability to have deteriorated and doubts that the payments will be made in full.		Specific provisions of NPLs.	Not reported by the 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, the 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.	

		NPLs	Gross loans	Provisions (or net NPLs)	Comments
19	**Slovenia**	NPLs include 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).	These include 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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