EBCI | Vienna Initiative

NPL Monitor H2 2024

European Commission
European Investment Bank
European Bank for Reconstruction and Development
International Monetary Fund
World Bank Group
European Central Bank Banking Supervision

About the *NPL Monitor*

The *NPL Monitor*[1] is the semi-annual publication of the NPL Initiative, a work stream of the Vienna Initiative. This publication reviews the latest non-performing loan (NPL) trends in 17 countries[2] in central, eastern and south-eastern Europe (CESEE) and selected non-CESEE countries.[3]

This edition focuses on the impact that the challenging macroeconomic landscape and heightened geopolitical risks could potentially have on the quality of bank assets.

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[2] The 17 CESEE countries are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czechia, Estonia, Hungary, Kosovo, Latvia, Lithuania, Montenegro, North Macedonia, Poland, Romania, Serbia, the Slovak Republic and Slovenia.

[3] The non-CESEE countries are Armenia, Georgia, Greece, Kazakhstan, Moldova, Morocco, Türkiye and Ukraine. Although they are not covered by the CESEE data on NPLs, the NPL Initiative has begun following NPL reforms in these countries more closely.

Contents

Executive summary

Despite ongoing geopolitical challenges, supply chain disruption and shrinking disposable incomes, non-performing loan (NPL) trends in central, eastern and south-eastern Europe (CESEE) continue to show resilience.

The latest data reveal a marginal year-on-year decline of 1.2 per cent in NPL volumes, bringing the total to €27.6 billion as at June 2024. While short-term pressures persist and pockets of credit risk are beginning to appear, these are still only having a marginal impact on new NPLs. The regional NPL ratio has also continued falling, reaching a historic low of 2.08 per cent.[4] Although the gap between Stage 2 and Stage 3 loans[5] remains wider than before the pandemic, a marginal decrease has been observed over the past year.

The decline in NPL volumes is being driven primarily by general improvements in credit conditions and the resolution of stressed and distressed exposures, rather than significant NPL sales by banks. The NPL deal flow in the CESEE region remained subdued at the start of this year, with market dynamics being driven largely by routine tactical primary sales, as well as secondary sales on the back of deleveraging exercises by key market players. Notable NPL transaction activity has been seen in Poland, Romania and Türkiye, mainly through primary sales, while Greece has shown significant growth in secondary flows.

Despite the low overall NPL ratio in the CESEE region, recent analysis by EU authorities points to early signs of increasing credit risks. Vulnerabilities in sectors such as real estate and small and medium-sized enterprises (SMEs) continue to be identified. Higher borrowing costs for households and non-financial corporations could exacerbate challenges for already strained sectors and further contribute to rising corporate default rates.

In response, Claudia Buch, Chair of the Supervisory Board of the European Central Bank (ECB), has emphasised the urgent need to continue addressing credit risks and NPLs to safeguard financial stability. It is anticipated that credit risks will remain a key supervisory priority in 2025, with banks required to consider macroeconomic and geopolitical uncertainties in their credit risk assessments.

Pursuing the alignment of national supervisory frameworks for managing credit risks and NPLs also remains essential, particularly in the current uncertain environment. While progress has been made, discrepancies in terms of approaches continue to be observed in the CESEE region. The region can learn from the EU, where, ten years after the creation of the Single Supervisory Mechanism (SSM), the Supervisory Review and Evaluation Process (SREP) is itself being reviewed with a view to addressing shortcomings and adopting a more risk-based approach.

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

[5] As categorised by the accounting principles of the International Financial Reporting Standards (IFRS 9).

I. NPL developments in the *NPL Monitor* regions

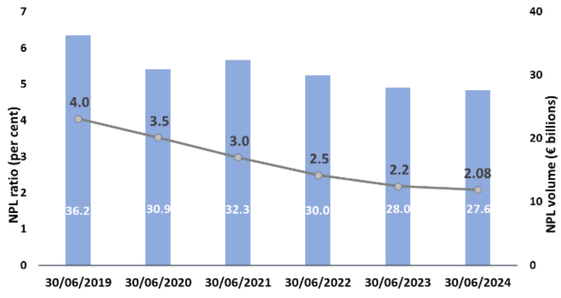
NPL trends in the CESEE region show sustained stability, reflecting resilience to external shocks, though economic uncertainties and financial pressures warrant continued vigilance. Overall, key indicators have not changed much relative to the previous NPL Monitor.

CESEE region

At a regional level, **NPL volumes decreased slightly** in the 12 months from June 2023 to June 2024, **falling by 1.2 per cent to stand at €27.6 billion.**[6] However, that figure represented a slight increase compared with the €27.5 billion that had been observed at end-2023, indicating that the slow upward pressure that began in 2023 remains in effect.

In relative terms, Hungary showed the largest decline, with NPL volumes dropping by 9.5 per cent over the 12-month period. In contrast, Estonia experienced a sharp increase, with NPL volumes rising by 53.5 per cent on the back of the country's most severe recession since 2009.[7]

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

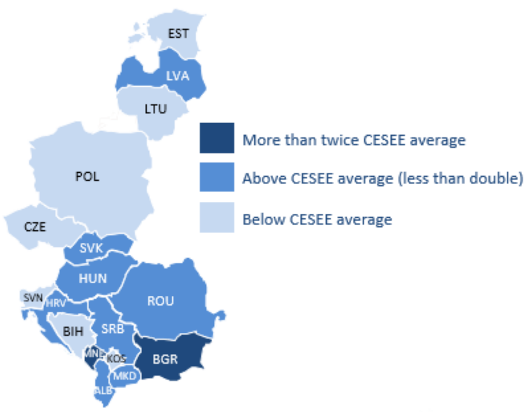


Source: IMF FSIs and central banks.

Despite minor fluctuations in NPL volumes, the **average regional NPL ratio**[8] **declined further**, falling by 0.1 percentage points over the 12 months to stand at **2.08 per cent** – thereby remaining at the **lowest levels** seen since the *NPL Monitor* was first published in 2016.

Most CESEE jurisdictions maintained stable NPL ratios with no significant changes. Bosnia and Herzegovina and Croatia achieved the largest reductions, with their NPL ratios declining by 0.6 percentage points each to stand at 3.5 per cent and 3.2 per cent respectively.

Chart 2. Net NPL ratio[9] (Q2 2024)



Source: IMF FSIs and central banks.

The **overall coverage ratio**[10] in the region remained largely unchanged compared with June 2023, **maintaining an average level of 64.4 per cent.** Lithuania and Slovenia continued to have the highest coverage ratios, recording figures of 117.7 per cent and 99.9 per cent respectively.

[6] See notes on Table 1.
[7] See EBRD (2024).
[8] The ratio of NPLs to total gross loans.
[9] The ratio of NPLs net of provisions to total gross loans.
[10] The ratio of NPL provisions to the NPL stock.

Despite lingering concerns about the delayed effects of the Covid-19 shock and ongoing economic uncertainties, **NPL trends in the CESEE region demonstrate stability and resilience to external shocks**.

However, rising operational costs, supply chain disruption and declining disposable incomes continue to pose risks and point to signs of worsening asset quality, **requiring ongoing vigilance from financial institutions**.

Thus, while data remain resilient, banks and supervisors must remain alert.

Other regions

As shown in Table 1, NPL stocks in **Moldova** decreased significantly, falling by 21.8 per cent over the 12 months to June 2024. This resulted in its NPL ratio falling to 4.8 per cent, reflecting sustained improvement.

In contrast**, Türkiye** experienced a surge in new NPLs during the review period (when measured in Turkish lira, without converting to euros), driven primarily by consumer loans and credit cards. However, NPL sales, robust collections and strong nominal loan growth helped to keep the country's NPL ratio at a low 1.4 per cent.[11]

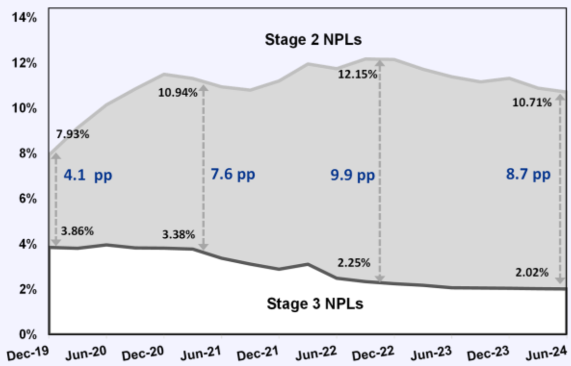
Ukraine continues to face challenges, with its NPL ratio standing at 34.6 per cent in mid-2024 due to the ongoing war. Nevertheless, both the NPL stock and the NPL ratio showed a slight improvement compared with the previous year. To manage elevated default risks, banks in Ukraine have maintained high provisioning levels, resulting in a net NPL ratio of 5.5 per cent.

In focus: Evolution of staging in EU CEE region[12]

Sustained downward trend in Stage 2 and Stage 3 loans[13,14]

The trend of rising Stage 2 loans and falling Stage 3 loans came to an end in late 2022. As shown in Chart 3, both Stage 2 and Stage 3 loans have exhibited a steady downward trend since 2023. Stage 2 loans, which peaked at 12.15 per cent in December 2022, have declined moderately, standing at 10.71 per cent in June 2024, approaching levels observed in 2020. Similarly, Stage 3 loans have consistently declined, reaching a record low of 2.02 per cent by mid-2024.

Chart 3. Evolution of Stage 2 and 3 loans in EU CEE region



Source: EBA Risk Dashboard.

Gap remains sizeable, still a long way from pre-pandemic levels

By June 2024, the gap between Stage 2 and Stage 3 loans had narrowed to 8.7 percentage points, a decrease of 1.2 percentage points from its peak of 9.9 percentage points at the end of 2022. However, further declines in Stage 2 loans will be essential to bridge the gap to pre-pandemic levels.

Ongoing economic uncertainties, including inflation, increasing energy costs and geopolitical challenges such as the war in Ukraine, continue to pose challenges, highlighting the importance of vigilance against potential downgrades to Stage 2 loans and movements from Stage 2 to Stage 3.

[11] See S&P Global (2024).

[12] The EU CEE countries are Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.

[13] 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 to be credit impaired, the loan is categorised as "Stage 3". See BIS (2017).

[14] As classified by IFRS 9, unless otherwise specified. Data on staging are from the interactive EBA Risk Dashboard.

Chart 4a. NPL volumes and ratios in the CESEE region as at Q2 2024

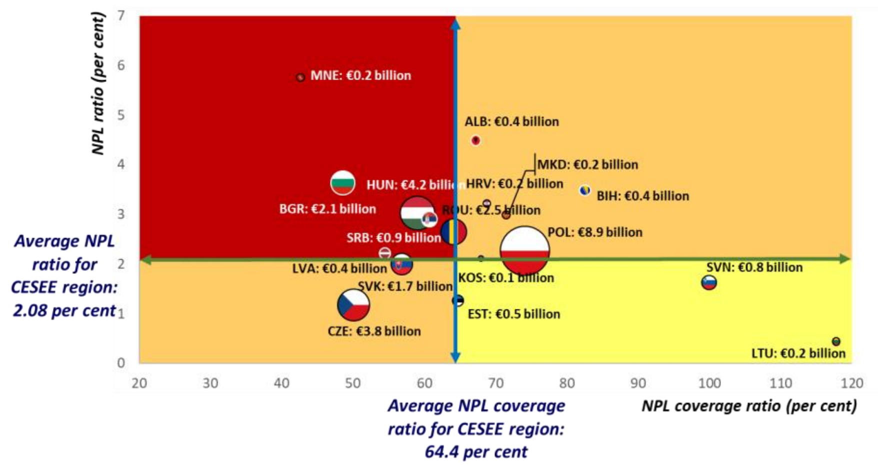
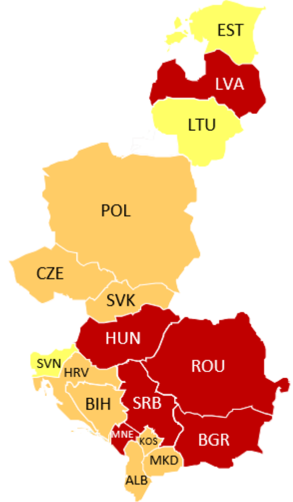


Chart 4b. NPL ratios and NPL coverage ratios as per coloured quadrants in Chart 4a



Source: IMF FSIs and central banks.

Table 1. Overview of the NPL profile in the CESEE region, 30 June 2023 to 30 June 2024

	NPL volume (€ billions)			NPL ratio (%)			NPL coverage ratio (%)			Net NPL ratio (%)			Net NPL/capital (%)			NPL-to-GDP ratio (%)		
Country	Jun-24		Variation (%)	Jun-24		Δ (pp)	Jun-24		Δ (pp)	Jun-24		Δ (pp)	Jun-24		Δ (pp)	Jun-24		Δ (pp)
Albania (ALB)	0.4	▲	9.9	4.5	▼	(0.5)	67.2	▲	2.6	1.5	▼	(0.3)	6.1	▼	(1.0)	1.6	▼	(0.1)
Bosnia and Herz. (BIH)	0.4	▼	(7.9)	3.5	▼	(0.6)	82.5	▲	1.1	0.6	▼	(0.2)	3.0	▼	(0.8)	1.6	▼	(0.3)
Bulgaria (BGR)	2.1	▲	1.3	3.6	▼	(0.2)	48.5	▼	(1.1)	1.9	▼	(0.0)	10.4	▼	(1.2)	2.1	▼	(0.1)
Croatia (HRV)	0.2	▼	(6.4)	3.2	▼	(0.6)	68.8	▲	1.7	1.0	▼	(0.3)	5.9	▼	(1.2)	0.3	▼	(0.0)
Czechia (CZE)	3.8	▼	(4.5)	1.2	▼	(0.1)	50.1	▼	(1.5)	0.6	▼	(0.0)	6.5	▼	(0.3)	1.3	▼	(0.1)
Estonia (EST)	0.5	▲	53.5	1.3	▲	0.4	64.7	▼	(21.2)	0.4	▲	0.3	2.9	▲	2.1	1.2	▲	0.4
Hungary (HUN)	4.2	▼	(9.5)	3.0	▼	(0.4)	59.0	▲	3.5	1.2	▼	(0.3)	7.0	▼	(2.6)	2.0	▼	(0.4)
Kosovo (KOS)	0.1	▲	21.2	2.1	▲	0.2	68.0	▼	(2.2)	0.7	▲	0.1	4.2	▲	0.4	1.1	▲	0.1
Latvia (LVA)	0.4	▲	21.1	2.2	▲	0.3	54.5	▼	(12.7)	1.0	▲	0.4	6.6	▲	2.3	1.0	▲	0.1
Lithuania (LTU)	0.2	▼	(7.2)	0.4	▼	(0.0)	117.7	▲	8.5	(0.1)	▼	(0.0)	(1.1)	▼	(0.5)	0.3	▼	(0.0)
Montenegro (MNE)	0.2	▲	0.9	5.8	▼	(0.3)	42.6	↔	0.0	3.3	▼	(0.2)	14.7	▼	(2.0)	2.8	▼	(0.2)
North Macedonia (MKD)	0.2	▲	14.9	3.0	▲	0.2	71.4	▲	1.0	0.9	▲	0.0	4.2	↔	0.0	1.6	▲	0.1
Poland (POL)	8.9	▼	(0.8)	2.3	▼	(0.2)	74.1	▲	0.2	0.6	▼	(0.1)	4.0	▼	(1.1)	1.1	▼	(0.1)
Romania (ROU)	2.5	▼	(0.5)	2.6	↔	0.0	64.1	↔	0.0	1.0	↔	0.0	6.9	↔	0.0	0.7	▼	(0.1)
Serbia (SRB)	0.9	▼	(2.2)	2.9	▼	(0.3)	60.7	▲	2.8	1.1	▼	(0.2)	4.7	▼	(1.1)	1.2	▼	(0.2)
Slovak Republic (SVK)	1.7	▲	4.3	2.0	▲	0.1	56.8	▼	(3.2)	0.9	▲	0.1	6.6	▲	0.3	1.3	▼	(0.0)
Slovenia (SVN)	0.8	▲	5.3	1.6	▲	0.1	99.9	▲	0.4	0.0	▼	(0.0)	0.0	▼	(0.0)	1.1	▼	(0.0)
CESEE	27.6	▼	(1.2)	2.08	▼	(0.1)	64.4	▲	0.1	0.7	▼	(0.0)	5.4	▼	(0.8)	1.2	▼	(0.1)
Armenia (ARM)	0.3	▲	6.7	2.5	▲	0.0	108.0	▲	2.8	(0.2)	▼	(0.1)	(0.8)	▼	(0.3)	1.4	↔	0.0
Georgia (GEO)	0.3	▲	16.4	1.6	↔	0.0	38.2	▼	(12.0)	1.0	▲	0.2	5.2	▲	0.9	1.1	▲	0.1
Greece (GRC)	11.4	▼	(11.9)	6.7	▼	(0.9)	52.4	▼	(4.3)	3.2	▼	(0.1)	16.8	▼	(3.0)	4.9	▼	(1.0)
Kazakhstan (KAZ)	1.9	▲	10.3	3.1	▼	(0.2)	73.4	▲	2.9	0.8	▼	(0.2)	3.4	▼	(1.1)	0.7	▼	(0.0)
Moldova (MLD)	0.2	▼	(21.8)	4.8	▼	(2.3)	55.0	▲	3.7	2.2	▼	(1.3)	5.6	▼	(3.1)	1.0	▼	(0.4)
Morocco (MAR)	8.9	▲	5.5	8.6	↔	0.0	65.7	▼	(2.3)	2.9	▲	0.2	-	-	-	6.3	▼	(0.1)
Türkiye (TUR)	6.2	▼	(16.2)	1.4	▼	(0.1)	79.0	▼	(7.5)	0.3	▲	0.1	1.8	▲	0.5	0.6	▼	(0.1)
Ukraine (UKR)	9.7	▼	(8.7)	34.6	▼	(4.4)	84.0	▼	(0.2)	5.5	▼	(0.6)	20.5	▼	(7.2)	5.6	▼	(1.0)
Other	39.0	▼	(7.2)	4.7	▼	(0.2)	68.9	▼	(3.1)	1.4	▲	0.1	6.7	▼	(0.4)	2.0	▼	(0.3)
Total countries	**66.7**	▼	**(4.8)**	**3.1**	▼	**(0.2)**	**67.0**	▼	**(1.9)**	**1.0**	↔	**0.0**	**6.0**	▼	**(0.7)**	**1.6**	▼	**(0.2)**

Source: IMF FSIs 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)*100, with June 2024 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 2024 are the latest available.
- When not available from the IMF FSIs, 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 and Morocco. When information is available from neither national websites nor the IMF FSIs, time-adjacent data are used to plug the gaps. The countries for which data are not available for Q2 2024 are Lithuania (Q3 2023), Montenegro (Q1 2024), Poland (Q1 2024), Romania (Q2 2023), Slovenia (Q1 2024), Armenia (August 2023), Greece (Q1 2024), Kazakhstan (Q1 2024) and Morocco (Q2 2023, coverage ratio only).
- Net NPL/capital for Morocco is not calculated, as capital data could not be obtained from the IMF or the monetary authorities' websites.
- The NPL-to-GDP ratio is calculated using annual GDP values for 2023 and 2024 respectively (rather than quarterly data), in line with reporting for the IMF's *World Economic Outlook*.

II. NPL market trends

Market focus

- European Banking Authority (EBA) reports that NPLs have increased for "first time in a decade",[15] a conclusion echoed in the results of a secondary NPL market survey by the European Commission's NPL Advisory Panel[16]
- Low leverage and asset-liability matching crystallise as key competitive advantages in debt management segment,[17] spurring a wave of secondary deals
- Dominant small-ticket activity remains below the radar
- Greece poses question of returning cured loans to lenders, while market expects re-performing loans to appear in future securitisations

Deal flows

Market dynamics continue to be driven by routine tactical primary sales (from originators to investors), as well as secondary sales on the back of **deleveraging exercises** by some of the key market players.

As evidenced by some more pronounced transactions, there may be **more interest from strategic investors** in the future, given expectations of falling interest rates.

Although deal flows remained subdued at the start of the year, **activity was visible across the CESEE region.** Markets in Poland and Romania got off to a slower start in 2024, driven mostly by primary sales. Meanwhile, the Bank of Greece reported significant growth in secondary flows. Many Greek banks are expected to take advantage of the HAPS extension before it expires at the end of the year (unless it is extended). Traditionally a primary sales market, Türkiye saw close to €0.4 billion sold by banks.

In an effort to address high levels of NPLs in the Ukrainian banking system, the National Bank of Ukraine partnered with the International Finance Corporation to develop legal and regulatory mechanisms for the **creation of asset resolution companies**, which are expected to attract private investment and enhance the efficiency of NPL resolution.[18]

Credit servicers in the EU

Adoption of the NPL Directive (Directive 2021/2167/EU) continues to be on the sector's agenda. As part of the NPL Directive adoption process, the Bank of Greece reports that it has granted authorisation to 14 servicers and extended the licences of four more until the end of the year. Five servicers are said to have relinquished their licences.

[15] See EBA (2024b).
[16] See EU NPL Advisory Panel (2024).
[17] See Fitch Ratings (2024).
[18] See National Bank of Ukraine (2024).

Table 2. Close-up of selected transactions in 2024[19]

Transaction	Details
Project GAIA I (Greece) – ongoing	Alpha Bank has initiated the sale of €0.5 billion of mainly non-performing mortgage exposures via a securitisation structure.
Project GAIA II (Greece) – ongoing	Alpha Bank has initiated the sale of €0.4 billion of non-performing exposures (NPEs) – mainly secured NPEs to small businesses, mortgages and SMEs – via a securitisation structure.
Project SKY II (Cyprus) – ongoing	Alpha Bank has initiated the sale of €0.1 billion of mainly secured NPE portfolio exposures.
Project Frontier II (Greece)	In February 2024, National Bank of Greece completed the sale of a €1 billion portfolio of secured loans to large corporations, loans to SMEs, residential mortgages and consumer loans.
Project Pronto (Greece) – ongoing	National Bank of Greece has initiated the sale of non-performing leasing exposures through the sale of a €33 million leasing portfolio and shares in Probank Leasing S.A.
Project Frontier III (Greece) – ongoing	National Bank of Greece has initiated the sale of €0.7 billion of predominantly secured non-performing exposures to large corporations, SMEs, and mortgage and consumer loans.
Project Leon (Greece) – ongoing	Eurobank has initiated the sale of a €0.4 billion mixed NPE portfolio.
Garanti BBVA (Türkiye)	Garanti BBVA is reported to have sold over €100 million of NPL portfolio exposures in the first half of 2024.

[19] Source: EBRD, banks' Pillar III reporting, audited financials and public information.

III. The EU perspective on credit risks and NPLs

Current status of credit risks and NPLs in the European Union[20]

NPLs in the EU: a decade after the creation of the SSM[21]

In a speech entitled "European banking supervision a decade on: safeguarding banks' resilience amid global challenges", delivered on 12 February 2024, Claudia Buch, Chair of the Supervisory Board of the ECB, highlighted the importance of addressing NPLs and managing credit risks.

As we celebrate the 10th anniversary of the establishment of the SSM, significant strides have been made in reducing NPL ratios across European banks, with improvements in credit risk management and supervisory oversight. However, some banks still face challenges, with elevated NPL levels requiring sustained supervisory attention.

The ECB remains vigilant in monitoring credit risks amid ongoing economic and geopolitical uncertainties. Elevated NPL levels can erode banks' profitability and capital buffers, potentially weakening their ability to support economic growth. The ECB's focus is on ensuring that banks continue to enhance their risk management practices in order to proactively identify and mitigate potential loan defaults.

The latest EBA and ESRB risk dashboards point to early signs of increasing credit risks[22,23]

Recent risk dashboards produced by the EBA and the European Systemic Risk Board (ESRB) point to early signs of increasing credit risks. While still very low, the NPL ratio in the EU has increased slightly, rising to 1.8 per cent as at Q1 2024 (EBA), reflecting growing pressures on asset quality amid rising interest rates and economic uncertainties.

The ESRB also highlights the fact that the expected default frequency for corporations has gradually increased, indicating the impact of tightening financial conditions. These trends underline the need for banks to enhance their credit risk management and maintain vigilant monitoring.

The cost of borrowing for households and non-financial corporations has reached multi-year highs. This is partly due to the tightening of credit standards, particularly for real estate and SME lending. This tightening could potentially restrict access to credit, thereby impacting sectors already under financial strain.

In the EU, the EBA and the ESRB have identified some sectors that are particularly vulnerable to the current economic environment:

- **Real estate and construction**: The real estate sector, particularly commercial properties, remains under stress due to

[20] See EU NPL Advisory Panel (2024).
[21] See ECB (2024b).
[22] See EBA (2024c).
[23] See ESRB (2024).

higher borrowing costs, which are reducing investment and leading to deteriorating credit quality. The sector's exposure to rising interest rates is also increasing risks associated with mortgage affordability.

- **Hospitality and retail:** This sector continues to exhibit higher NPL levels due to ongoing economic pressures and fluctuating consumer demand. Retail businesses, particularly those reliant on discretionary spending, are being similarly affected as rising borrowing costs reduce consumers' purchasing power.
- **SMEs:** This sector is particularly vulnerable to tighter lending conditions, making it harder to access financing and exacerbating the risk of defaults. Firms in sectors such as retail and hospitality face elevated risks due to their limited financial buffers and reliance on external credit.

While the overall coverage ratio in the EU remains stable at 44.5 per cent (EBA), there is significant variation from sector to sector. For industries like construction and accommodation, where risks are rising, banks may need to adjust their provisioning levels to adequately cover potential losses. Banks need to adopt targeted provisioning strategies in high-risk segments.

Credit risks and NPLs beyond the EU[24]

The IMF's latest *Global Financial Stability Report* also highlights the heightened vulnerabilities in the commercial real estate sector and the increasing strain on corporate credit quality. Rising economic uncertainty and elevated debt levels are exacerbating credit risks, potentially leading to a rise in NPLs.

Bankruptcies among smaller firms have steadily increased in recent months, with cases exceeding pre-pandemic levels in Europe and Japan. This indicates that around one-quarter of firms are vulnerable to insolvency, especially those with weaker balance sheets.

Cash buffers are also dwindling, particularly for a weak tail of companies, with an increasing share of firms having cash-to-interest-expense ratios below 1.5. The interest coverage ratio (ICR) has also deteriorated over the past year, impacting firms in some European and emerging Asian countries.

Defaults have risen among weaker firms, despite solid economic activity and large cash buffers at the top end of the corporate sector. Loan and bond defaults have steadily increased as weaker firms have struggled.

Refinancing costs remain elevated, especially for corporations in emerging markets that are reliant on foreign currency bonds, creating debt sustainability challenges due to higher yields and shorter maturities. Geopolitical risks and trade restrictions could further increase input costs, placing additional pressure on firms in emerging markets.

Like the EBA and the ESRB, the IMF also believes that increased attention to vulnerable sectors such as real estate, construction, retail and SMEs is critical.

European Commission NPL Advisory Panel's survey on secondary markets for NPLs in the EU[25]

The European Commission NPL Advisory Panel has conducted a survey (the results of which were published in May 2024) on the current state of secondary markets for NPLs in the EU.

The findings from this survey provide insights into the dynamics of the NPL market,

[24] See IMF (2024).

[25] See EU NPL Advisory Panel (2024).

highlighting areas that require regulatory attention and potential improvements to facilitate market growth and enhance consumer safeguards.

- **State of the NPL market:** Most survey participants do not expect a significant rise in NPLs. Most (71.1 per cent) believe that the stock of non-performing/Stage 3 loans will only increase slightly over the next two years. Very few (3.3 per cent) believe that the level will be much higher than at present.

- **Sectors more at risk:** Some sectors have been identified as being more likely to contribute to such a rise in NPLs, including (in decreasing order of probability) corporate/SME lending, commercial real estate, unsecured consumer loans, credit cards and unsecured business loans.

- **Current state of NPL secondary market in EU:** The types of NPL asset that are most frequently traded in the NPL secondary market include (starting with the most popular) residential real estate, corporate/SME lending (both secured and unsecured) and commercial real estate. NPL buyers in EU markets are still mostly international distressed debt investors, with their domestic equivalents accounting for a much smaller percentage.

- **Barriers to market development:** The most significant barrier to transactions in the EU is the limited number of NPLs available for sale, followed closely by the pricing of primary market transactions. Respondents also mentioned the fact that legal and regulatory restrictions on NPL disposals and inefficient judicial systems remain impediments to be resolved.

- **Data quality and availability:** Progress has been made in this area, with less than 29 per cent of participants reporting that data quality and availability remain serious issues.

- **Lagging impacts of Covid loans:** Only a small percentage of participants (16.7 per cent) think that Covid-related loans may experience higher default rates post-2025 and possibly transform into NPLs. Nearly half of all respondents consider these loans to be no different from other loans. Nevertheless, the majority feel that banks are sufficiently equipped to manage the workout of these loans.

Banking-sector regulators and supervisors in other regions can leverage lessons learned in the EU

On 7 November 2024, the EBA published its **updated report on the supervision of NPEs by credit institutions, building on the findings of its 2022 Peer Review.**[26] Significant advances have been made in supervisory practices across competent authorities in the EU, starting with implementation of the EBA Guidelines on the management of non-performing and forborne exposures. In particular, progress has been made with incorporating NPE management into EU and national supervisory frameworks, and further aligning supervisory practices for managing credit risk.

However, that report emphasises the importance of continued vigilance given the observed rise in NPEs. Competent authorities are urged to monitor developments in credit

[26] See EBA (2024a).

quality closely, proactively addressing early signs of NPE growth within their jurisdictions.

This EBA analysis complements the **report published by the European Court of Auditors (ECA) in December 2023**, which looked at whether the ECB's approach to supervising credit risk in banks and addressing legacy NPLs was operationally efficient. The report acknowledged improvements, but highlighted critical gaps that need addressing in order to enhance the robustness of ECB supervision.[27]

More specifically, in the context of the SREP process, the report found that the ECB made inefficient use of its existing tools and supervisory powers to ensure appropriate coverage of credit risk and did not apply its methodology consistently. Moreover, the ECB did not escalate its supervisory measures for some banks, even in the presence of high and sustained levels of credit risk and persistently weak controls. Several national supervisors also fell short of their commitments to provide staff resources.

In April 2023, an **independent group of experts also performed an assessment of the ECB's SREP process.**[28] As it enters its second decade in operation, the SREP process has already started to be reformed as an important milestone towards more efficient and effective supervision in a new risk environment. One important observation from these changes to the ECB's supervisory approach is that the ECB will clearly increase its use of the entire toolbox, which includes supervisory fines and other enforcement actions, such as temporary bans on certain activities and enhanced scrutiny of governance practices.[29]

[27] See European Court of Auditors (2024).
[28] See ECB (2024a).
[29] See ECB (2024b).

IV. Recent policy actions in *NPL Monitor* countries[30]

Europe and the Western Balkans

Albania

- **Monetary policy:**[31] On 6 November 2024, the Supervisory Council of the Bank of Albania reduced its policy rate to 2.75 per cent and its overnight deposit and overnight lending rates to 1.75 per cent and 3.75 per cent respectively. The Supervisory Council deemed that this would establish more adequate monetary conditions for controlling the impact that short-term supply-side shocks might have on inflation in the future.
- **Risk management in non-bank financial institutions (NBFIs):** Following the strengthening of consumer protection measures via Bank of Albania Decision No. 47/2024,[32,33] thorough creditworthiness assessments are now required to prevent irresponsible lending, effective from 1 January 2025.

Croatia

- **Monetary policy:** The Croatian National Bank increased its 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 applicable as of 30 June 2024.
- **Measures to tackle rising energy prices:** In September 2024, the Croatian government adopted a seventh package of anti-inflation measures with a total value of €205 million (0.3 per cent of GDP) to mitigate and absorb the consequences of rising energy prices for end users.
- **Insolvency policy:** Croatia was the first EU member state where the EBRD invests to transpose Directive (EU) 2019/1023 on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt into national law following the extension of the deadline to 22 July 2022. The amended provisions of the Croatian Bankruptcy Act became effective on 31 March 2022. In accordance with Article 3 of the EU directive, the Croatian legislator introduced an early warning system to notify debtors in financial difficulties about the need to take appropriate action.

Hungary

- **Removal of interest rate caps:** The cap on deposit interest rates was removed on 1 April 2024. The decision to lift the cap follows significant declines in both inflation and the central bank's base rate, which have reduced the need for such restrictions.
- **New economic policy framework:** The government is currently developing an economic plan named after Sándor Demján, which will include soft equity, subsidised loans and grants, with detailed announcements expected in Q4 2024.

30 Based on information provided by EBRD staff.
31 See Bank of Albania (2024c).
32 See Bank of Albania (2024a).
33 See Bank of Albania (2024b).

Europe and the Western Balkans

Montenegro

- **Insolvency law:** In July 2024, the government of Montenegro adopted the Amended Law on Recovery and Resolution of Credit Institutions, aligning it with the EU's Bank Recovery and Resolution Directive II (BRRD II), along with the Amended Law on the Bankruptcy and Liquidation of Banks. Both laws are currently with the country's parliament for adoption, which is expected by year-end.

Serbia

- **Temporary measures for debt securities extended again:** The temporary Fair Value through Other Comprehensive Income (FVOCI) measures, under which local banks are not obliged to recognise 70 per cent of losses for FVOCI debt securities as CET 1, have been extended again until the end of 2024.
- **Temporary measures for housing loans:** The National Bank of Serbia has adopted a decision that 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 until the end of 2024.

North Africa

Morocco

- **Measures to tackle NPLs:** Since 2023, Morocco's central bank, Bank Al-Maghrib, has been helping to set up a secondary market for NPLs with the aim of facilitating the management and reduction of NPL portfolios held by credit institutions and enhancing their capacity to finance the economy. This work has led to the drafting of a reform addressing the transferability of NPLs.

Caucasus and Central Asia

Georgia

Annual inflation dropped sharply in 2023 and eased further in 2024, standing at 1.0 per cent in August 2024. The National Bank of Georgia responded to falling inflation with rate cuts, with its policy rate standing at 8 per cent in October 2024.

Türkiye

The Central Bank of the Republic of Türkiye hiked its policy rate nine times between February 2023 and March 2024, raising it from 8.5 per cent to 50 per cent. In October 2024, the policy rate remained unchanged at 50 per cent. Nevertheless, inflationary pressures remain, with the inflation rate standing at 49.4 per cent in September 2024, down from 61.5 per cent a year earlier.

Kazakhstan

- **Monetary policy:** With inflationary pressures receding, the National Bank of Kazakhstan has started gradually reducing its policy rate. Having peaked at 16.75 per cent between December 2022 and July 2023, the policy rate currently stands at 14.25 per cent as at October 2024.
- **New law on household indebtedness and retail loans:** This new law prohibits the issuance of unsecured loans to individuals with arrears exceeding 90 days, to control the level of household debt. The government has introduced a moratorium, effectively prohibiting the transfer or sale of non-performing retail loans to collection agencies from 1 July 2024 to 1 May 2026.

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Annexes

Annex 1. NPL servicers in the *NPL Monitor* regions

Table 3. List of major NPL servicers in the *NPL Monitor* regions

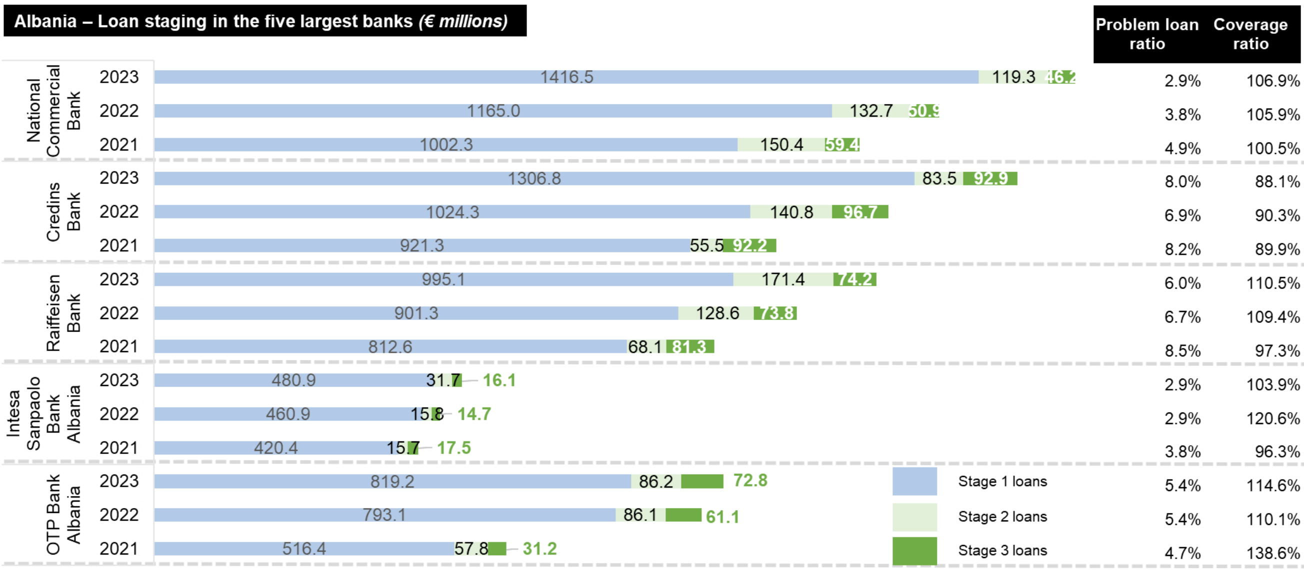
NPL servicer	Type of servicer		Asset class					Country																								Website
	Own assets*	Third-party assets	Retail	SME	Corporate	Residential real estate	CRE	Albania	Bosnia and Herz.	Bulgaria	Croatia	Czechia	Estonia	Georgia	Greece	Hungary	Kazakhstan	Kosovo	Latvia	Lithuania	Montenegro	North Macedonia	Poland	Romania	Serbia	Slovak Republic	Slovenia	Türkiye	Ukraine	
APS Holding	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓			✓	✓					✓		✓	✓	✓	✓	✓		✓	https://www.aps-holding.com/
AxFina		✓	✓	✓	✓	✓	✓				✓					✓							✓	✓			✓			https://www.axfina.com/
Best S.A.	✓	✓	✓	✓	✓	✓																	✓							https://www.best.com.pl/en/home
B2 Impact	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓		✓	✓			✓	✓	✓		✓	✓	✓		✓			https://www.b2-impact.com/
Cabot Credit Management (Encore Capital Group)	✓	✓	✓	✓	✓	✓	✓																✓							https://www.cabotcreditmanagement.com/
Cepal Hellas Financial Services S.A.		✓	✓	✓			✓								✓															https://www.cepal.gr/?lang=en
Copernicus Hellas		✓	✓	✓	✓	✓									✓															https://copernicusservicing.com/
CreditExpress	✓	✓	✓								✓	✓											✓	✓	✓				✓	https://www.creditexpress.com/
Debt Agency	✓	✓	✓	✓	✓	✓	✓			✓														✓						https://theagency.bg/en/
doValue Group	✓	✓	✓	✓	✓	✓	✓								✓															https://www.dovaluegreece.gr/en/services https://dovalue.it/en
Dunya Varlık Yönetim A.Ş.	✓	✓	✓	✓	✓	✓	✓																					✓		https://www.dunyavarlik.com/
DV01 Asset Management		✓		✓	✓										✓															https://dv01am.com/
EOS Group	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓			✓	✓		✓			✓	✓	✓	✓	✓	✓	✓			https://eos-solutions.com/
EuPraxis FSI		✓	✓	✓	✓	✓	✓								✓															https://www.eupraxis-fsi.com/
Gelecek Varlik	✓	✓	✓	✓	✓	✓	✓																					✓		https://www.gelecekvarlikyatirimciiliskileri.com.tr/en/
Hipoges Hellas	✓	✓	✓	✓	✓	✓	✓								✓															https://www.hipoges.com/en/home-en/
Hoist Finance	✓		✓	✓											✓								✓	✓						https://www.hoistfinance.com/
Intrum	✓	✓	✓	✓	✓	✓						✓	✓		✓	✓			✓	✓			✓	✓		✓				https://www.intrum.com/
Kredyt Inkaso	✓		✓	✓	✓	✓	✓			✓	✓												✓	✓						https://www.kredytinkaso.pl/
Kruk	✓	✓	✓	✓	✓	✓	✓					✓											✓	✓		✓				https://en.kruk.eu/
NPA Servicing S.A.	✓	✓	✓	✓	✓	✓	✓								✓															https://npa-servicing.gr/en/
PraGroup	✓	✓	✓	✓																			✓							https://pragroup.co.uk/
Primo Collect Ukraine	✓	✓	✓	✓	✓	✓	✓																						✓	https://primocollect.com.ua/en
Resolute Asset Management		✓	✓	✓	✓	✓	✓			✓						✓								✓						https://www.resoluteassetmanagement.com/
Silverton Servicing Solutions S.A.	✓	✓	✓	✓	✓	✓	✓								✓															https://silverton-group.gr/about/
QQuant Master Servicer		✓	✓	✓	✓	✓	✓								✓															https://www.qquant.gr/en/home/
Tagor Asset Management	✓	✓			✓	✓	✓																	✓						https://www.tagor.ro/
Thea-Artemis Financial Solutions		✓	✓	✓	✓										✓															https://www.thea-artemis.com/
UCI Greece Loan Management Services	✓	✓	✓			✓									✓															https://uci.gr/en/home/

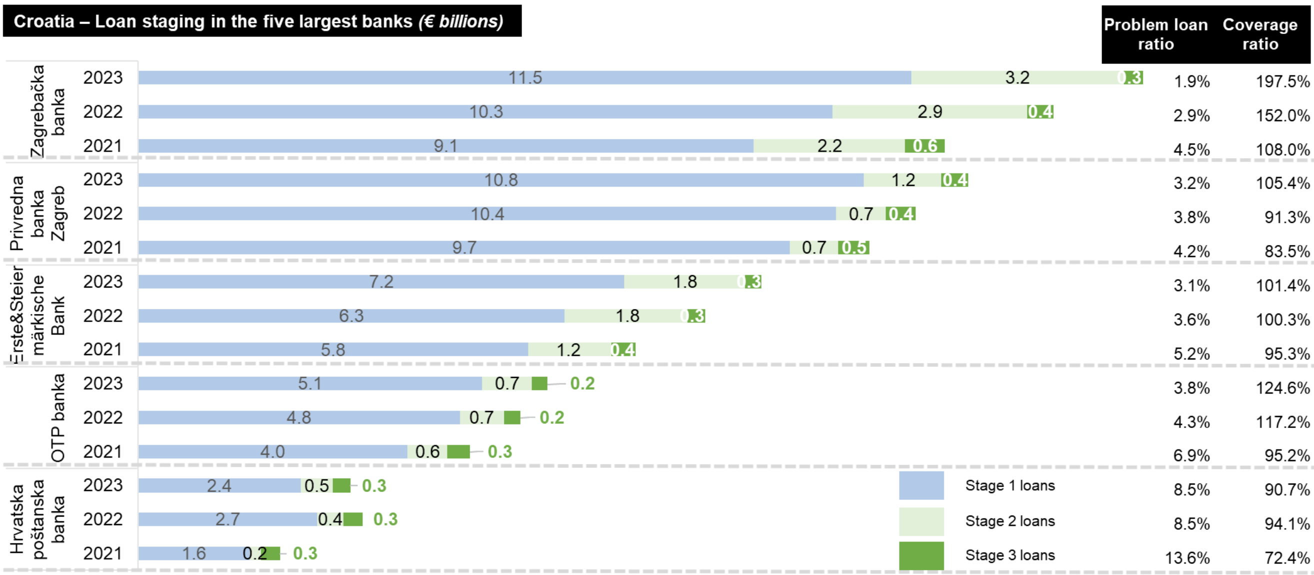
Source: Public information and EBRD.

* Note: NPL servicers investing in and servicing own NPL portfolios.

Annex 2. *NPL Monitor* – bank level

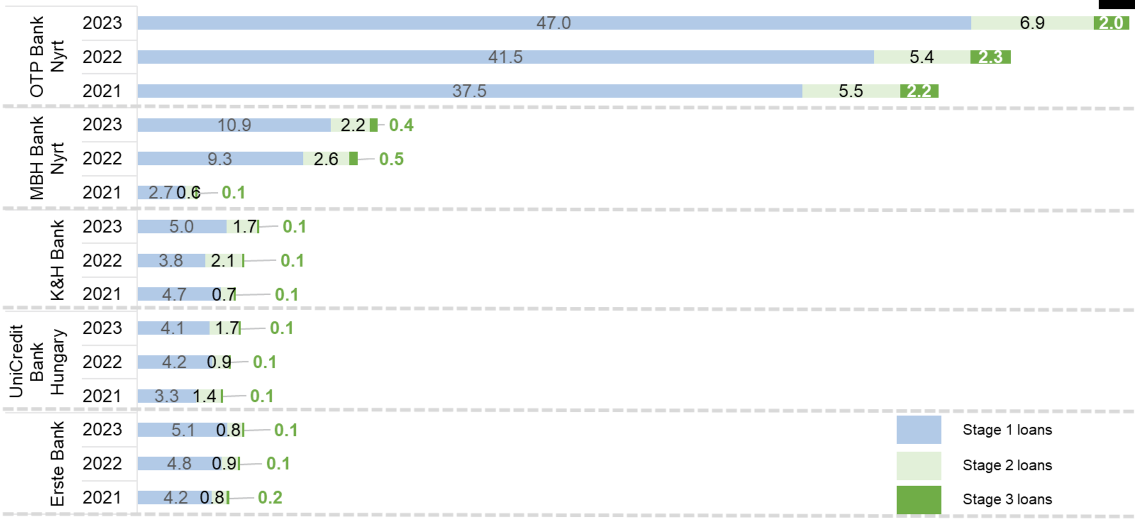
This section focuses on the asset quality of the five largest banks in each of the Vienna Initiative partner countries.[34]





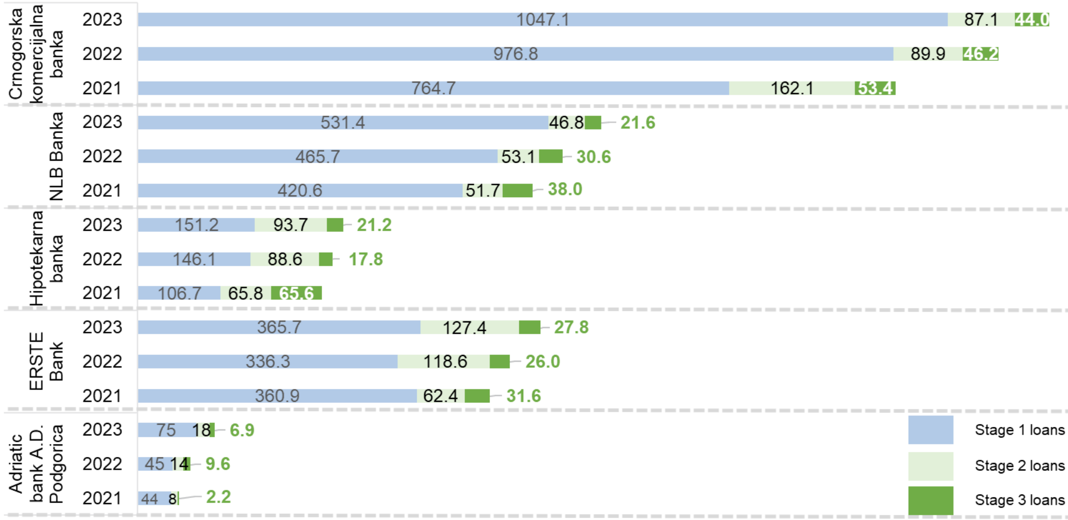
[34] Data are based on S&P Capital IQ Pro as at 1 December 2024. "Problem loans" are as reported by S&P Capital IQ Pro and may cover different categories of loan (non-performing, impaired and/or net impaired), depending on the bank in question. Consequently, caution is advised when comparing banks' "problem loan ratios". Where data were unavailable, banks' financial statements were used. Reserves are the amount of impairment allowances as reported by banks.

Hungary – Loan staging in the five largest banks *(€ billions)*



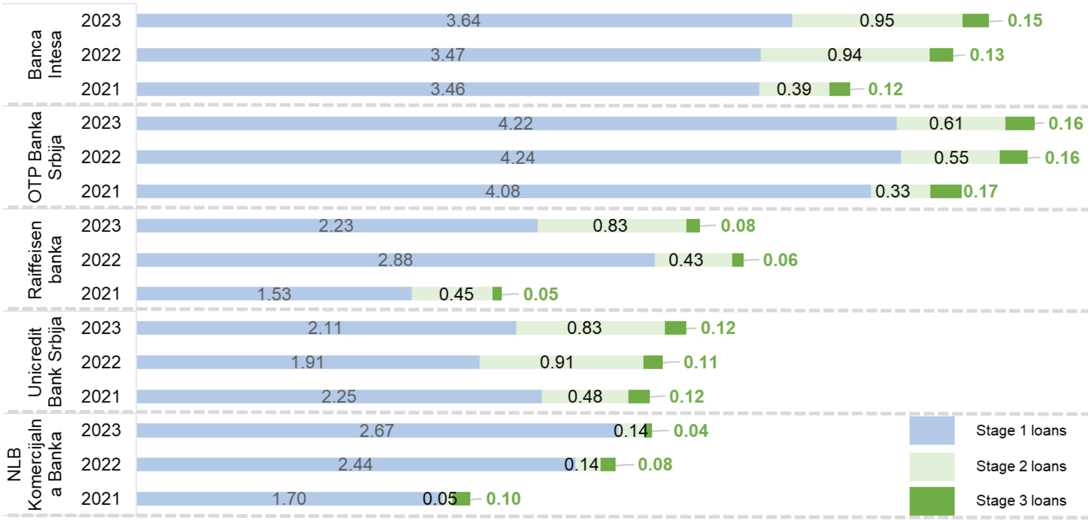
		Problem loan ratio	Coverage ratio
OTP Bank Nyrt	2023	3.6%	121.8%
	2022	4.6%	112.3%
	2021	4.8%	110.2%
MBH Bank Nyrt	2023	3.2%	162.1%
	2022	3.1%	137.5%
	2021	2.8%	138.3%
K&H Bank	2023	2.0%	72.1%
	2022	2.3%	89.1%
	2021	2.3%	84.4%
UniCredit Bank Hungary	2023	2.0%	98.8%
	2022	2.3%	114.3%
	2021	2.7%	100.4%
Erste Bank	2023	2.3%	126.8%
	2022	2.3%	127.1%
	2021	3.0%	114.6%

Montenegro – Loan staging in the five largest banks *(€ millions)*



		Problem loan ratio	Coverage ratio
Crnogorska komercijalna banka	2023	3.7%	96.9%
	2022	4.2%	106.7%
	2021	5.4%	97.9%
NLB Banka	2023	n.a	n.a
	2022	7.3%	45.6%
	2021	11.2%	34.4%
Hipotekarna banka	2023	8.0%	83.6%
	2022	7.2%	86.5%
	2021	27.6%	25.1%
ERSTE Bank	2023	5.1%	94.0%
	2022	5.1%	108.7%
	2021	6.9%	94.1%
Adriatic bank A.D. Podgorica	2023	6.9%	54.5%
	2022	14.0%	36.6%
	2021	4.1%	84.3%

Serbia – Loan staging in the five largest banks *(€ billions)*



		Problem loan ratio	Coverage ratio
Banca Intesa	2023	3.1%	121.4%
	2022	2.9%	123.0%
	2021	2.9%	122.0%
OTP Banka Srbija	2023	3.3%	112.5%
	2022	3.1%	115.6%
	2021	3.8%	95.6%
Raiffeisen banka	2023	2.4%	122.5%
	2022	1.9%	146.9%
	2021	2.6%	114.0%
Unicredit Bank Srbija	2023	3.8%	97.7%
	2022	3.7%	110.6%
	2021	4.2%	89.4%
NLB Komercijalna Banka	2023	1.5%	128.7%
	2022	3.0%	93.5%
	2021	5.4%	77.3%

Annex 3. Regional economic prospects in the EBRD regions – H2 2024[35]

According to the EBRD's Regional Economic Prospects report of September 2024, average growth in the EBRD regions is estimated to have picked up to 2.9 per cent year on year in the first half of 2024, with energy prices moderating and economic activity in emerging Europe adjusting to reduced gas imports from Russia.

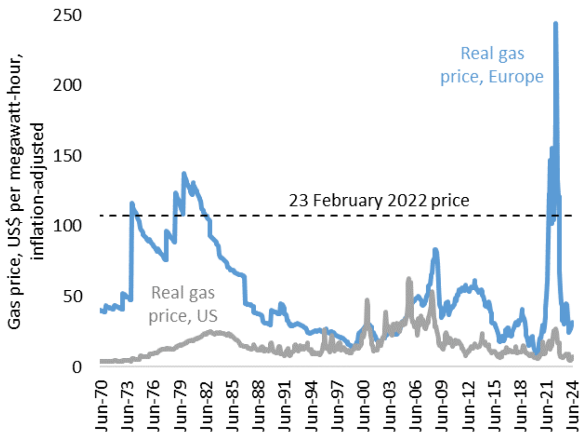
Table 4. GDP growth in real terms

GDP growth in real terms							
	Actual			Forecast (Sep 24)		Revision since May 24	
	2022	**2023**	**H1 2024**	**2024**	**2025**	**2024**	**2025**
EBRD regions	**3.4**	**2.6**	**2.9**	**2.8**	**3.5**	**-0.2**	**-0.1**
Central Asia	**4.6**	**5.7**	**4.7**	**5.1**	**5.9**	**-0.3**	**0.0**
Kazakhstan	**3.2**	**5.1**	**3.2**	**4.0**	**5.5**	**-0.5**	**0.0**
Central Europe and the Baltic states	**4.3**	**0.2**	**2.0**	**2.3**	**3.2**	**0.1**	**0.1**
Croatia	7.0	3.1	3.6	3.6	3.0	0.7	0.2
Czechia	2.8	-0.1	0.4	1.1	2.4	0.2	-0.1
Estonia	0.1	-3.0	-1.6	-0.8	2.5	-1.6	-1.0
Hungary	4.6	-0.9	1.3	1.8	3.3	-0.4	-0.2
Latvia	3.0	-0.3	0.3	0.9	2.4	-0.9	-0.2
Lithuania	2.4	-0.3	2.4	2.3	2.5	0.8	0.2
Poland	5.6	0.2	2.9	3.2	3.8	0.3	0.3
Slovak Republic	1.9	1.6	2.3	2.3	2.6	0.5	-0.1
Slovenia	2.5	2.1	1.4	1.5	2.6	-0.8	0.0
Eastern Europe and the Caucasus	**-12.8**	**4.4**	**6.0**	**3.7**	**4.1**	**0.2**	**-0.8**
Armenia	12.6	8.3	6.5	6.2	4.8	0.0	0.0
Georgia	11.0	7.5	9.1	6.5	4.6	1.3	0.0
Moldova	-4.6	0.7	2.2	3.2	3.5	-0.3	-0.2
Ukraine	-28.8	5.3	6.5	3.0	4.7	0.0	-1.3
South-eastern EU	**4.6**	**2.0**	**1.7**	**1.9**	**2.6**	**-0.9**	**-0.5**
Bulgaria	3.9	1.8	2.1	2.2	2.9	-0.4	-0.1
Greece	5.6	2.0	2.1	2.4	2.6	0.1	0.0
Romania	4.1	2.1	1.3	1.4	2.6	-1.8	-0.8
Southern and eastern Mediterranean	**3.4**	**2.7**	**2.1**	**2.8**	**3.9**	**-0.6**	**0.0**
Morocco	1.5	3.4	2.7	2.9	3.6	-0.1	0.0
Türkiye	**5.5**	**5.1**	**3.8**	**2.7**	**3.0**	**0.0**	**0.0**
Western Balkans	**3.4**	**2.5**	**3.7**	**3.4**	**3.7**	**0.1**	**0.0**
Albania	5.0	3.4	3.6	3.5	3.7	0.2	0.0
Bosnia and Herzegovina	4.1	1.7	2.7	2.8	3.0	0.0	0.0
Kosovo	4.3	3.3	5.6	4.0	4.0	0.0	0.0
Montenegro	6.4	6.0	4.4	3.8	2.9	0.3	-0.2
North Macedonia	2.2	1.0	1.2	2.2	3.5	-0.3	0.0
Serbia	2.5	2.5	4.3	3.8	4.0	0.3	0.0

Source: National authorities and EBRD.

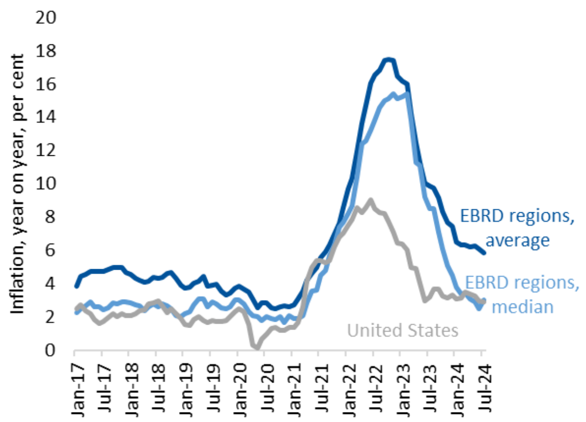
[35] See EBRD (2024).

Chart 5. Gas prices in Europe are around their 2017-21 averages, but almost five times the US price



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

Chart 6. In a typical (median) economy, inflation was on a par with the United States by February 2024



Source: National authorities via Refinitiv and authors' calculations.

Gas prices in Europe have stabilised around their 2017-21 averages, but they are still almost five times the US price and some economies in the EBRD regions are paying significantly higher average import prices for gas than Germany. Disinflation has proceeded largely as expected. Average inflation in the EBRD regions stood at 5.8 per cent in July 2024, down from its peak of 17.5 per cent in October 2022, but it remained 1.6 percentage points above the pre-pandemic average.

For a while, governments (as well as firms) have been benefiting from higher inflation, which has helped to reduce the effective burden of servicing previously issued debt. As a result, increases in corporate bankruptcies have been modest to date. Going forward, the effective burden of interest payments for corporations and governments may increase even as central banks reduce policy rates. On average, fiscal deficits in the EBRD regions remain above pre-Covid levels, and interest payments and debt levels are significant as a share of GDP in Greece, Hungary and Ukraine.

Central Asia

Sustained remittance inflows, increased wages and favourable tourist seasons have supported demand, boding well for the services sector. Investment activity has continued to boom, reflecting efforts to develop transport, logistics and energy infrastructure. In line with global trends, inflation in the region has fallen to single digits (except in Uzbekistan), allowing central banks to start gradually loosening their monetary policies. Nevertheless, inflationary risks persist, related to utility tariff adjustments and elevated government spending.

Central Europe and the Baltic states

Average annual growth in central Europe and the Baltic states (CEB) stood at 2 per cent in the first half of 2024, up from 0.2 per cent in 2023. Rising government deficits are a source of concern, with Hungary, Poland and the Slovak Republic being under European Commission scrutiny, calling for tax increases and fiscal consolidation. The war on Ukraine, energy price fluctuations and declining trade with Russia and Belarus are all exacerbating external vulnerabilities, particularly in Estonia and Latvia. Labour markets in Czechia, Hungary, Poland and Slovenia remain tight, with low unemployment and significant participation by foreign workers, particularly in Poland.

Eastern Europe and the Caucasus

Growth rates in the Caucasus have generally been strong, while Moldova's economic performance has remained sluggish and Ukraine has continued to face severe disruption as a result of the war. After successful disinflation efforts over the past year, inflation has ticked upwards again in some countries, but remains within the central banks' target ranges. Monetary policy remains tight across the region. With the exception of Ukraine (and, to some extent, Moldova), fiscal deficits and public debt levels are moderate.

South-eastern EU

The south-eastern EU region is facing weak external demand, while domestic consumption has been resilient on the back of strong real wage growth. In Bulgaria and Romania, rising minimum wages have stimulated demand, but also resulted in a widening of the trade deficit and added to inflationary pressures. Growth in tourist revenue has accelerated in Greece. Fiscal positions have continued to deteriorate amid significant increases in spending, including capital spending.

Southern and eastern Mediterranean

The southern and eastern Mediterranean region has shown mixed economic performance amid ongoing regional droughts and geopolitical tensions. Inflation has moderated across the region (most notably in Egypt, where foreign exchange issues have gradually been resolved). The region's average growth is forecast to reach 2.8 per cent in 2024 and 3.9 per cent in 2025 as regional stability improves. Significant downside risks remain, including the potential for the escalation of regional tensions, policy regression and climate shocks.

Türkiye

Since June 2023, monetary and fiscal policies have been tightened with the objective of bringing inflation down. After hiking the policy rate by a total of 4,150 basis points between June 2023 and March 2024, the Central Bank of the Republic of Türkiye has held the rate steady at 50 per cent, used sterilisation tools to tighten the monetary stance further and enhanced the transmission of monetary policy by implementing macroprudential measures. The return to orthodoxy, coupled with Türkiye's removal from the Financial Action Task Force (FATF) grey list in June 2024, has helped to improve investor confidence. The external position has also improved. The 12-month cumulative current account deficit has declined steadily, standing at US$ 19.1 billion in July 2024, down from a peak of US$ 57 billion in May 2023, driven by lower imports of goods (due to weaker domestic demand and constrained consumer lending) and stronger exports of services (with tourism, in particular, seeing record revenues).

Western Balkans

Growth accelerated markedly in all Western Balkans countries at the beginning of 2024, averaging around 4 per cent year on year in the first quarter of 2024, up from 2.5 per cent in 2023. This surge was mainly driven by private consumption (which was boosted by easing inflation and rising wages), as well as a rise in capital investment throughout the region. On the other hand, external demand and goods exports have remained weak. Average inflation is now within the target range in most countries, down from double-digit levels in 2023, allowing the gradual easing of monetary conditions, although policy rates have remained elevated. Overall, growth in 2024 is expected to be higher than in 2023.

Annex 4. Debt restructuring in Ukraine: The impact of war[36]

Russia's full-scale invasion of Ukraine in February 2022 has inflicted severe damage on Ukrainian businesses, including SMEs. Assets that previously generated profits and supported loan repayments have been destroyed, leading to an increase in NPLs and raising questions about Ukraine's insolvency and restructuring laws.

The legal framework and NPL trends

Ukrainian banks' aggregate NPL ratio stood at 34.6 per cent in July 2024, reversing some of the declining trend observed between 2018 and March 2022, when the NPL ratio fell from 55 per cent to 27 per cent. That earlier reduction was supported by the Insolvency Law of 2018, as well as the Financial Restructuring Law of 2016, which was part of efforts by the Ukrainian authorities to tackle high NPLs, with assistance from the World Bank and the EBRD.

Restructuring statistics and tools

By July 2024, 63 restructuring cases had been completed under the Financial Restructuring Law framework, worth more than UAH 81 billion (US$ 2 billion). However, there has been a sharp decline in new cases since February 2022, with only one case being initiated in the last two years. Meanwhile, formal insolvencies surged in 2023, increasing by 44 per cent relative to 2022. While Ukraine has a relatively new Bankruptcy Code, it still lacks certain restructuring tools, such as express protection of new financing, protections for essential contracts, and cross-class cram downs, making it less effective than EU frameworks.

Functioning courts and the impact of war

Ukrainian courts have continued to hear insolvency cases during the war by transferring proceedings to safer locations. In practice, a wide range of debt restructuring mechanisms outside the formal insolvency framework have been used since 2022, as banks, supported by the National Bank of Ukraine, have offered options such as the waiving of mandatory fees, a freeze on penalty interest and loan repayment holidays. Ukraine's parliament has also introduced temporary amendments to the Civil Code (such as the disapplication of penalty amounts under credit agreements and the suspension of the statutory default interest rate) to protect borrowers.

Currency and loan issues

In 2022, the National Bank of Ukraine prohibited any restructuring involving a change in loan currency from foreign currency to Ukrainian hryvnia, exposing borrowers with foreign currency loans to heightened exchange rate risks. While interest rates on UAH loans remain high, preferential state-supported loans under the "5-7-9 per cent" programme have helped borrowers to refinance or cover working capital. Typical restructuring measures since February 2022 include reduced interest rates and extended repayment terms, although debt reductions or cancellations remain rare.

[36] Prepared by the EBRD Legal Transition Programme – Catherine Bridge Zoller (Senior Counsel) and Liubov Skoryk (Associate Counsel).

Restructuring challenges and assistance

The war has created significant challenges for businesses, including the documentation of damage and the estimation of future cash flows in highly unstable market conditions. Since 2020, the EBRD, with the support of the law firm Arzinger, has been providing SMEs with legal guidance through the Ukraine SME Business Guide,[37] offering updates on legal and regulatory changes affecting their businesses and emergency measures introduced by the government.

Future reforms

Ukraine’s insolvency framework is expected to benefit from further reforms that strengthen restructuring, following transposition of the EU’s 2019 Preventive Restructuring Directive. Signed by the President of Ukraine on 22 October 2024, Law 3985-IX transposing the EU directive will enter into force on 23 January 2025. However, in the short term, a more radical solution may be needed to address the volume of restructuring required for Ukrainian businesses. The Financial Restructuring Law, which is scheduled to expire on 1 January 2028, requires further development to gain more mainstream appeal. The EBRD and other international partners stand ready to help Ukraine with reconstruction efforts, including financing and technical assistance.

[37] See: https://businessguide.ebrd.com.ua.

Annex 5. Definitions

- **NPL volume (or gross NPLs):**
  - NPLs are defined and reported differently from country to country, as there is no international standard. For countries reporting FSIs to the IMF, the FSI Compilation Guide recommends reporting NPLs when: (i) payments of principal and interest are past due by 90 days or more; (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 an objective quantitative threshold, alongside bankruptcy, when 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 (see Regulation No. 680/2014, which sets out the technical standards drawn up by the EBA).
  - While most NPL data in this report are sourced from the IMF FSIs, NPL data for Serbia come directly from its central bank (being taken, 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, meanwhile, 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 of NPLs:** Total country gross NPLs divided by total CESEE gross NPLs.
- **Market share of loans:** Total country gross loans divided by total CESEE gross loans.

Annex 6. Metadata

To provide a comprehensive overview of the underlying data used in this report, 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 report 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. For non-performing loans, interest accrued 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 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	**Czechia**	Besides the 90-day rule recommended by the FSI guide, the financial condition of the debtor is also used in classifying loans as non-performing.	This excludes non-current assets (or disposal groups) classified as held for sale.		
7	**Estonia**	Deposit-takers usually carry out loan reviews monthly, depending on the needs of any given credit institution. Collateral and guarantees are not taken into consideration. Restructured loans are treated as performing loans. There is no credit register in Estonia, but there is a register containing information on bad loans and problematic debtors. 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 the EBA ITS on supervisory reporting, non-performing loans 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.	Calculated in accordance with the EBA ITS on supervisory reporting. Total gross loans comprise NPLs before the deduction of specific loan loss provisions.	Calculated in accordance with the 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.	Calculated in accordance with 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, such as 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 interest on non-performing assets is 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, Nos. 22/12, 55/12, 57/13, 44/17 and 82/17), loans are classified in five categories (A, B, C, D and E) depending on the probability of incurring losses. Loans in 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 category than C. Indeed, banks may deem 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 as per IAS 39/IFRS 9 as they are allocated by banks' own criteria. Apart from value adjustments, which are balance-sheet data, there are also regulatory provisions, which are not balance-sheet data. They are calculated using 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**	A non-performing credit exposure is defined as: - a credit exposure which on any basis (principal, interest or 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) - a 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's assessment of whether the client is unlikely to pay will be based, as a minimum, on 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 of the client's credit exposures with a significant loss - grace period for the payment of principal and interest extended beyond 18 months	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's 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
		- write-off that significantly reduces the amount of the 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 balance-sheet credit exposure that is past due for more than 90 days exceeds 20 per cent of the bank's total balance-sheet credit exposure 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 deemed to be performing (classified in risk category A, B or C) as of 29 February 2020, or were approved (as performing credit exposures classified in risk category A or B) 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) by 31 December 2020 at the latest.			
15	**Poland**	NPLs exclude repurchase agreements that are not classified as deposits. They include some other financial assets besides loans: data represent total receivables, including originated loans, purchased receivables and guarantees that are being exercised. They exclude loans to the central bank. Deposit-takers that are 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 Q1 2010, data include all receivables excluding loans to the central bank. Banks that follow Polish Accounting Standards decrease the carrying value of all loans except those classified in the loss category by a 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 legal proceedings initiated). Since December 2015, NPLs have been based on the EBA definition: 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 that are in distress or receivership are not included.	From June 2014 to December 2015, IFRS impairment losses (provisions) for NPLs identified (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**	An NPL is the total outstanding debt under an individual loan (including the amount of arrears) where (i) 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, (ii) at least 90 days of interest payments have been added to the loan balance, capitalised, refinanced or delayed by agreement or (iii) 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 FSIs. Sources: Quarterly Review of Dynamics of Financial Stability; statistical annex to Quarterly Banking Report; 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 when 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 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 on the basis of which a payment liability could arise for the bank.	
20	**Ukraine**	This is consistent with the 90-day criterion. Since the first quarter of 2017, NPLs have included loans classified in 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 for in the balance sheet. A 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. A bank is a legal entity with separate subdivisions in Ukraine and abroad.		

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