



# EBRD workshop in Zagreb on corporate out-of-court restructuring of NPLs

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## **Croatian authorities present guidelines for discussion**

The European Bank for Reconstruction (EBRD) has hosted a workshop on out-of-court restructuring under the Vienna Initiative (<http://vienna-initiative.com/npl-initiative/regional-npl-action-plan/>) in Zagreb today to identify ways of strengthening the cooperation of banks with regard to non-performing loans (NPLs).

The event was an occasion for the Croatian Ministry of Justice to present – and for workshop participants to discuss – its non-binding “Guidelines on Corporate Debt Restructuring by Means of Out-of-Court Agreement” introduced in October last year.

Opening the seminar, Vedrana Jelušić Kašić, EBRD Regional Director for Croatia (<http://www.ebrd.com/croatia.html>), Hungary (<http://www.ebrd.com/hungary.html>), Slovak Republic (<http://www.ebrd.com/slovak-republic.html>) and Slovenia (<http://www.ebrd.com/slovenia.html>), said: “The persistently high levels of NPLs and high corporate leverage in many countries where we invest remain a serious concern. Dealing with NPLs is a burden for banks. It diverts resources from other activities and, together with high corporate leverage, reduces the number of creditworthy companies. This holds back potential for growth in numerous countries as many companies in default or with high leverage cannot operate efficiently. We believe that out-of-court solutions could play an important role here.”

Michel Nussbaumer, Head of the EBRD’s Legal Transition team (<http://www.ebrd.com/what-we-do/sectors/legal-reform.html>), which takes a leading role in NPL-related legal reform in the region, commented: “Creating a stable framework for out-of-court restructuring and better conditions for the resolution of NPLs is essential if banks are to reduce their NPL levels and refocus on their core lending activities.”

Maja Grubišin, State Secretary in Croatia’s Ministry of Justice, said: “We have been working intensively to promote out-of-court settlements, especially for small and medium-sized enterprises (SMEs) and corporates. We have recognised the potential of this approach and we are aware that continued efforts are necessary in order to create and implement adequate measures for the timely resolution of disputes, thus securing uninterrupted business activities and preserving time, energy and money. This approach would be beneficial to all companies and especially to MSMEs.”

Carlos Piñerúa, World Bank Country Manager for Croatia and Slovenia, said: “The Croatian banking sector is still burdened with a high proportion of non-performing loans, which must be resolved in order to support normalised credit conditions for the economy. The new out-of-court NPL restructuring framework will further contribute to a comprehensive resolution set-up in the country and provide an additional tool to deal with the NPL problem.”

Bojan Fras, Vice Governor of the Croatian National Bank said: “To facilitate out of court restructuring we need to develop a culture of trust and confidence. Legal reform is not itself sufficient.”

Zdenko Adrović, Managing Director of the Croatian Banking Association said: “In Croatia there is room for more precise regulation which takes into account the needs and abilities of both sides. Our association, which speaks on behalf of 19 leading Croatian banks, will continue to be active in proposing new regulation which will create better conditions for agreements that will allow companies to continue their business, while creditors receive payments that enable them to finance new projects.”

The event was attended by senior representatives of the financial institutions Erste & Steiermärkische Bank, Addiko Bank, Hrvatska poštanska banka, Raiffeisenbank Austria and Zagrebačka banka, by the State Agency for Deposit Insurance and Bank Resolution, the President of the High Commercial Court of the Republic of Croatia, Mario Vukelić, as well as by legal and financial advisers. Comparisons between the Croatian and Austrian experience with out-of-court restructuring were presented by the law firm Schönherr.

While bilateral out-of-court restructuring is already in use in Croatia, multi-creditor cases remain fewer than in other European jurisdictions. The same is true for other countries of the region such as Hungary (<http://www.ebrd.com/hungary.html>) and Serbia (<http://www.ebrd.com/serbia.html>).

The workshop aimed to address this by encouraging banks to adopt a more cooperative and coordinated approach to multi-creditor cases. This should include requiring the debtor to share information at an early stage with all of its financial creditors on an equal basis and agreement among creditors to suspend any enforcement action thus allowing time (a “standstill period”) for the debtor and its advisers to formulate a restructuring proposal.

Another important element stressed by many participants was more engagement on the part of banks in consulting with each other and seeking a solution for the benefit of all creditors while respecting, as far as possible, their individual interests. Although enforcement action may often appear to be the only option, participants pointed out that agreement on a standstill period can provide the time necessary for the restructuring of viable businesses.

The workshop was held under the European Bank Coordination “Vienna” Initiative (<http://vienna-initiative.com/npl-initiative/regional-npl-action-plan/>), a framework for safeguarding the financial stability of emerging Europe. Launched at the height of the first wave of the global financial crisis in January 2009, today the Initiative is at the forefront of developing joint solutions to the NPL issue in a coordinated effort by all stakeholders. It has recently launched a new website dedicated to NPLs (<http://npl.vienna-initiative.com>), as an information-sharing hub for the industry.