

# EBCI | Vienna Initiative



September 26, 2014

## Vienna Initiative pushes for action plan to deal with NPLs in central and south-eastern Europe

*Fostering an effective framework for NPL restructuring and resolution*

Participants at a workshop of the Vienna 2 Initiative have called for decisive, timely and targeted action to address non-performing loans (NPLs) in central and south-eastern Europe (CESEE), while taking note of recent progress in some jurisdictions from NPL sales and write-offs.

The Vienna Initiative is a private-public sector platform which brings together key International Financial Institutions (IFIs), international organisations, public authorities and private banks to coordinate responses to pressing financial sector issues in emerging Europe.

This latest meeting was also attended by other market players, including potential investors and advisory services.

NPLs are a serious impediment to recovery from the financial crisis in certain CESEE countries.

The overhang of distressed assets distracts banks from focusing on developing new businesses. As the European Central Bank is about to conclude its asset quality review and stress tests for systemically important Eurozone banks, participants at the workshop, held in Vienna on 23 September, stressed the importance for action also outside the euro area.

The systemic importance of subsidiaries of Eurozone-based banks in the region should foster an effective coordination mechanism for addressing NPLs.

The meeting recommended that country-specific groups be set up in order to identify and address the key obstacles to NPL resolution and propose potential remedies. These groups will draw on the input of workout professionals of commercial banks, legal experts, local regulators and IFIs.

They will assess a range of resolution strategies, many of which may be mutually reinforcing, including:

- Better coordination of out-of-court restructuring of viable enterprises. Actions to accelerate the repair of borrowers' balance sheets should also be critical elements in dealing with the NPL problem. Restructuring principles, complemented by the original International Association of Restructuring, Insolvency & Bankruptcy Professionals (INSOL) principles, can help devise and harmonise country specific restructuring guidelines in CESEE. Six banks present at the Vienna meeting committed to establishing such guidelines over the coming months, and abiding by them in due course.<sup>1</sup> They called on other banks -- whether foreign or local -- to do so as well, and for regulators to provide a supportive context for their own restructuring efforts.
- Establishing asset management companies (AMCs) and in particular where comprehensive banking sector restructuring is required. Given constrained government finances, these entities should be private sector owned and led.
- Setting up other workout vehicles jointly-owned and funded by multiple parent banks, thereby overcoming coordination problems.
- Fostering the sale of distressed assets. Specialised outside investors may bring important workout skills and financing, to raise recovery values while establishing a more liquid secondary markets in such assets. Dialogue between banks and investors should be intensified. This could be facilitated through support to local servicing companies. Investors, in turn, may benefit from pooling of portfolios with similar characteristics and risk profiles.
- Pooling of cross-border assets to achieve critical size. The overall size of the NPLs pool in emerging Europe can be significant, but they are locked in smaller national markets. Harmonisation of local standards and possible pooling may be considered.
- Addressing legal, regulatory and tax treatment impediments to NPL removal remains an urgent task in many countries.

IFIs re-confirmed their support to this work and are committed to facilitate early resolutions of NPLs according to their respective mandates, via technical assistance and participation in projects.

NPL action plans will be drawn up by each newly created country group in the selected countries. Reporting and monitoring on the proposed actions will be reviewed under the Vienna Initiative. The next major event will be the Vienna Initiative's Full Forum in November.

For additional information and the latest publications visit: [www.vienna-initiative.com](http://www.vienna-initiative.com)

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<sup>1</sup> Erste Bank Group AG, Unicredit Bank Austria AG, Raiffeisen Bank International, Société Générale, Intesa San Paolo, and Alpha Bank AE.

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