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Reviving credit markets and enterprises in emerging Europe:

The Regional NPL Action Plan under the Vienna Initiative

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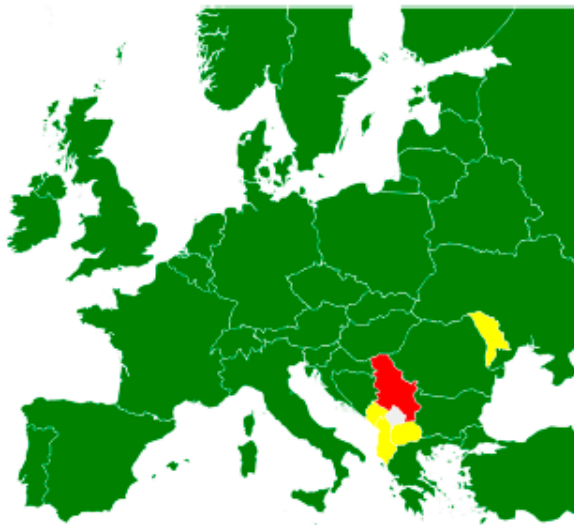
Europe's NPLs after the crisis



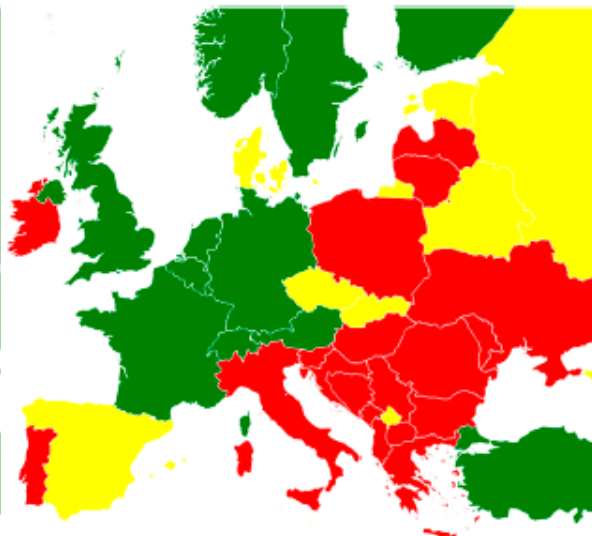
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Green = less than 5% ; Yellow = between 5% and 10%; Red = above 10%

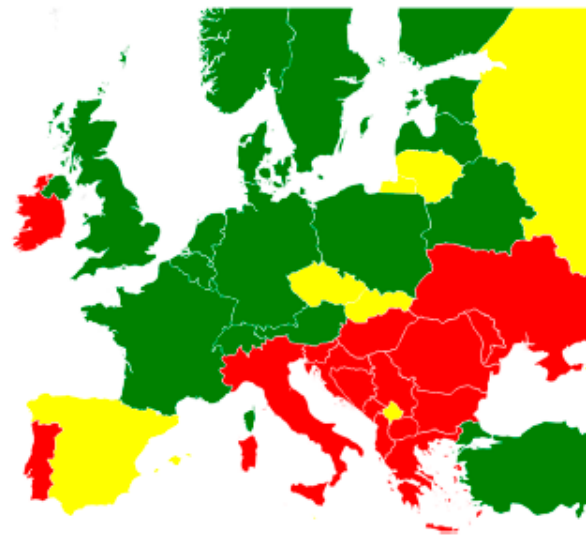
2008



Postcrisis Peak



2014



Re-launching the Vienna Initiative

NPL work: the original ambition



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- ✓ Deal with crisis legacy in bank balance sheets
- ✓ Maintain equal pace in balance sheet cleansing within and outside the SSM area (i.e. subsidiary networks will not become residual of poorer asset quality).
- ✓ Financial restructuring in debt-distressed corporates
- ✓ Thereby revive credit markets and ultimately growth

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.

The regional NPL action plan: 3 pillars



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Transparency

- Improve access to existing analysis
- Country assessments based on comparable methodology, making local distressed assets and restructuring situations more accessible to investors and advisors
- Local workshops and communities of experts
- National action plans and reform targets
- Regular interaction on progress with other regulators

Capacity building

- Further technical assistance: focused, and coordinated between the IFIs
- Upgrade to out-of-court restructuring principles employed by bank subsidiaries (INSOL replication)
- Training of local restructuring professionals

Knowledge sharing

- Regional conferences and workshops to exchange experience
- Notes on best practice in restructuring and NPL resolution
- Empirical foundation to underline real sector benefits and enhance ownership
- Regional 'community of practice'

The regional NPL action plan: progress to date



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Transparency of the restructuring environment and of reform efforts

Capacity building

Knowledge sharing

- Country **workshops** materials on website
 - Croatia, Feb. 2015
 - Hungary, March
 - Serbia, April
 - Albania, June
 - National action plans in Serbia, Albania and Hungary
 - AQRs under IMF programmes in Serbia, and Albania; on own initiative in Romania and Bulgaria
- Ongoing **technical assistance/advisory work**
 - World Bank: e.g. FinSAC in Croatia or under Albania DPL
 - IMF: Serbia and Croatia
 - EBRD: Serbia obstacles to NPL sales and restructuring principles, and Croatia report; Hungary imminent
 - **Training seminar** at JVI, Nov. 2015
- Regional conference September 2014
 - Vienna workshop June 2015

The regional NPL action plan: the next steps (and open issues)



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Transparency	Capacity building	Knowledge sharing
<ul style="list-style-type: none">• How to present restructuring environment in a consistent format?• National NPL working groups across government and central bank?• Action plans?• FSAP/FSSAs in Bulgaria and Romania.	<ul style="list-style-type: none">• Coordinated TA: match needs with capacity• Further training seminars: which priority countries? Funding? Learning platform?• Cross-border management of workout groups	<ul style="list-style-type: none">• Notes on best practice: topics?<ul style="list-style-type: none">• Tax treatment• Out-of-court restructuring• Private asset management companies• Regional NPL Monitor<ul style="list-style-type: none">• Financial indicators• Reform efforts• Transactions and restructuring• Empirical study to emphasize prioritization and network effects• Mid-term conference with investors and advisors planned for mid-2016

Resources: our advisers and consultants



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Eric Cloutier

- Assessment of restructuring framework, identification of priority actions
- Support in-country workshops
- NPL Monitor

Fernando Montes-Negret

- Expertise on regulatory and policy issues in target countries
- Notes on best practice
- Liaison between IFIs

Jože Damijan

- Input on incidence of debt-distress
- Empirical study on benefits from restructuring

Lars Nyberg

- Internal organisation of work-out efforts in cross-border setting
- Incentives from SSM and local regulators

A shared agenda



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<http://vienna-initiative.com/npl-initiative/news-on-the-initiative/>