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# NPL Resolution: Country Cases

IFC Workshop

REGULATORY FRAMEWORK FOR NPL RESOLUTION AND PRIVATE SECTOR  
PARTICIPATION

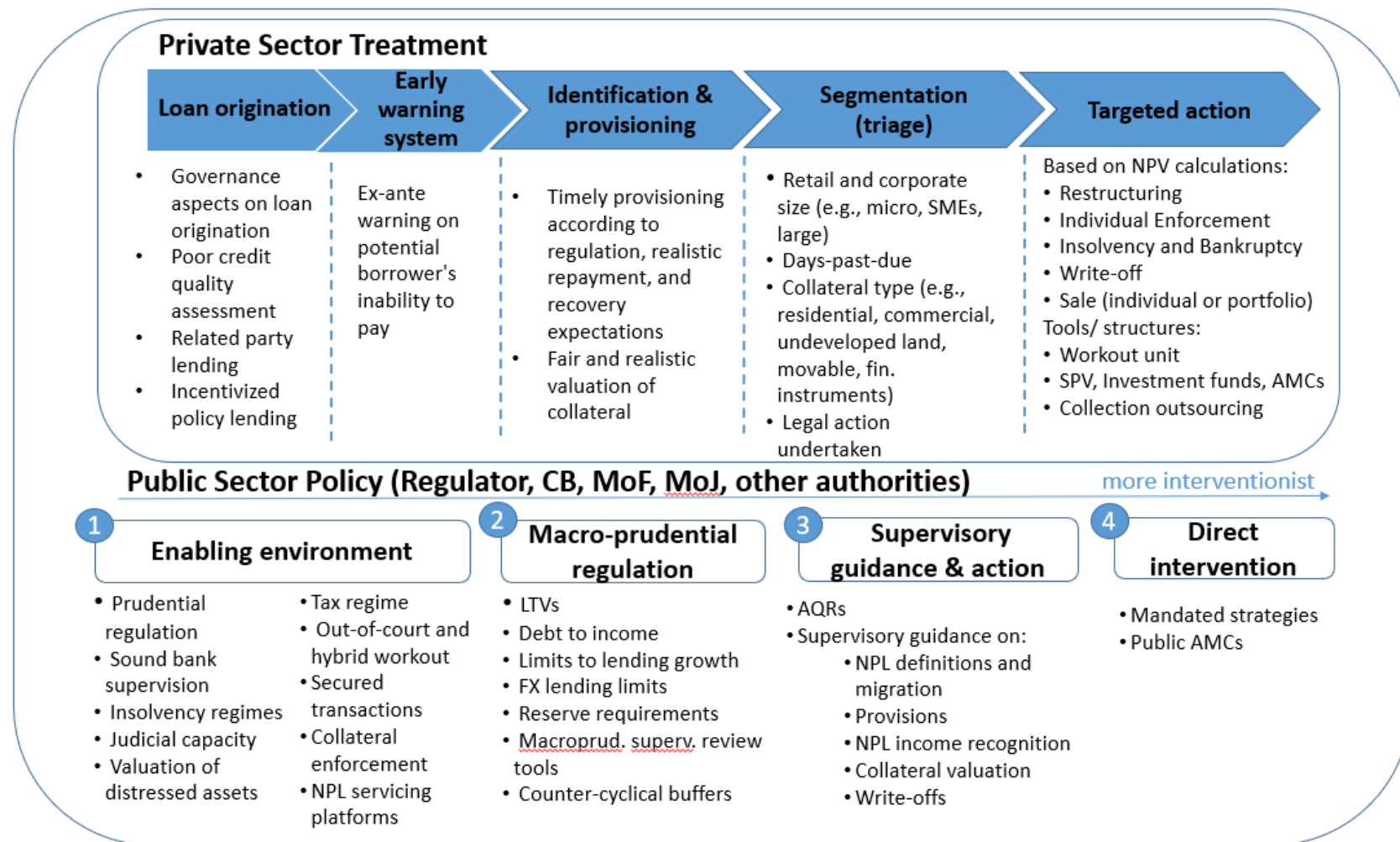
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**Vietnam, November 4, 2021**

# A holistic approach to NPL resolution

# NPL resolution needs a holistic approach

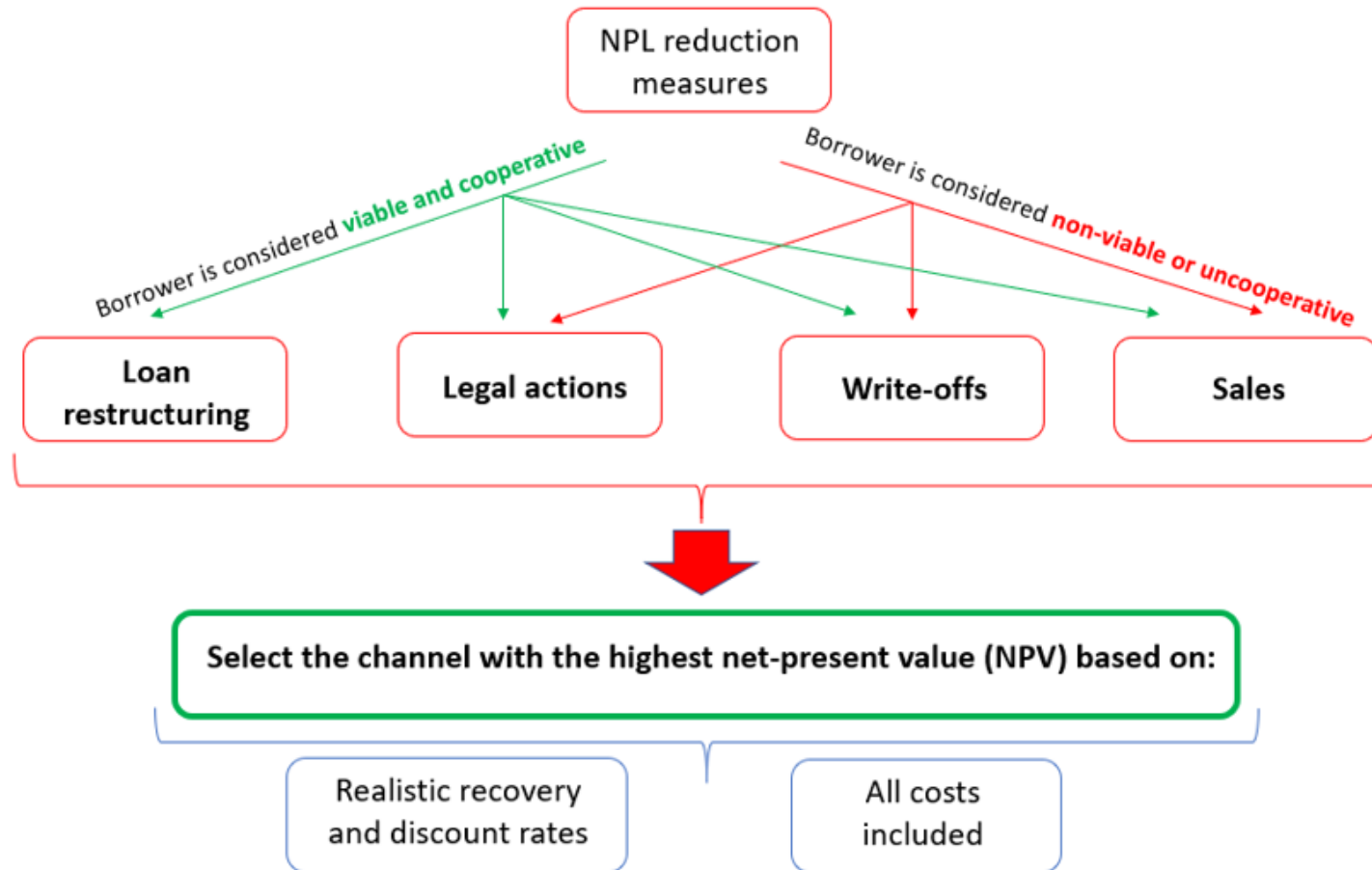


- Only a coordinated work of private and public sector stakeholders could bring meaningful results in NPL reduction
- Banks have the primary responsibility in NPL resolution at individual level and should ensure time bound and efficient NPL workout
- Public sector authorities should set a comprehensive and clear framework for NPL resolution (workout) in the system in order to remove impediments for financial stability and economic growth

# NPL reduction measures

Instrument	Sub-Category	Typology	Prerequisites	Description
Loan restructuring	Short-term restructuring	Rescheduling	Borrower is experiencing short-term liquidity difficulties. Borrower is cooperative.	Deferment of borrower's debt service obligations to a future date, usually in a net present value (NPV)-neutral manner.
	Concessional restructuring	Workout	Borrower is distressed but viability can be restored with restructuring that entails debt relief. Borrower is cooperative.	Loan restructuring that entails a net-present-value reduction.
Legal actions	Collateral enforcement	Collection	Debtor has been given notice of default and prescribed notice periods have been complied with.	Enforcing the collateral or guarantee pledged against the loan in or out of court actions to repossess and then sell collateral.
	Insolvency process		Debtor is unable to pay debts as they mature or has liabilities in excess of assets.	Initiation of an insolvency petition against the debtor to force a reorganization or liquidation of the borrower. In other cases, the debtor may voluntarily file for insolvency, in which case the bank will need to prove its claim.
Write off		Disposal	No realistic prospect of recovery. Loan is fully provisioned. Bank needs to demonstrate that all other measures have been exhausted	Fully provisioned NPL is moved to the off-balance sheet records. Write-offs do not imply that banks are forfeiting their claim on the borrower, nor does it involve debt forgiveness. A write off is instead a formal acknowledgement of un-collectability.
Sale	To a commercial distressed asset investor		Banks that are selling NPLs and distressed debt investors agree on pricing and terms of sale. Ownership rights are transferred to the investor.	Sale of NPL on commercial terms to an investor. Investor continues collection effort which may require the establishment of a servicing platform. Sales can be structured in various ways, the most common of which is a "true" sale, but profit sharing and securitization are practiced as well.
	To a public Asset Management Company	Used in systemic crises, complementing individual banks' efforts.	Transfer of NPLs to a centralized agency that manages recovery efforts.	

# NPL reduction flowchart



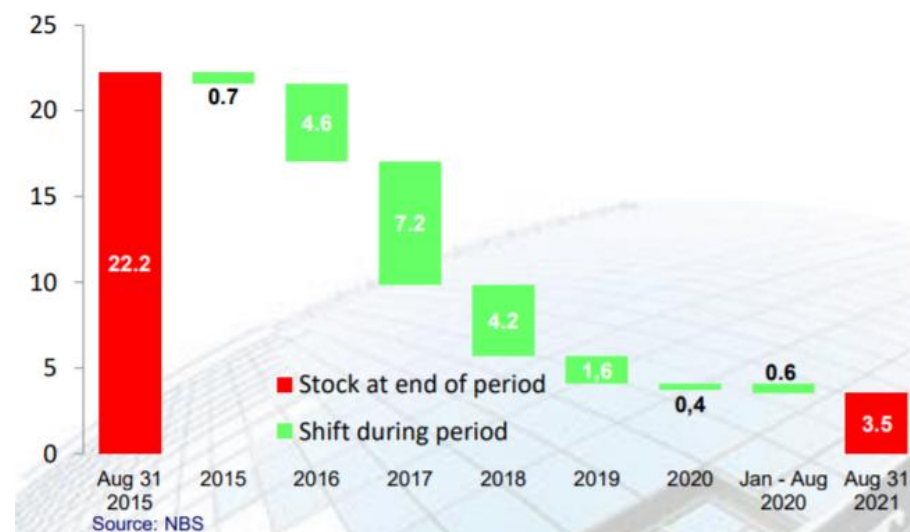
# NPL resolution in Serbia

# NPL working group in Serbia



- After the Global Financial Crisis, the level of **NPLs in Serbia** was above **20 %** in 2015
- In 2015, almost 50% of construction, 40% of real estate business, and 25% of manufacturing and mining loans were NPLs
- By the Government Decree, the **NPL Working Group** was formed in May **2015**
- The **Ministry of Finance** was coordinating this inter-institutional working group (WG)
- A three-year **Strategy** was prepared to remove impediments for NPL resolution building on an impediment study
- The main aim of the Strategy was to: 1) improve **banks' capacity** for dealing with NPLs; 2) enable conditions for **NPL market** development; 3) improve and promoting **out-of-court debt restructuring**; and 4) improve **in-court debt resolution** and mortgage framework
- Participants of the WG: Ministry of Finance, Ministry of Justice, National Bank of Serbia, Deposit Guaranty Fund
- Due to this coordinated work, the NPL ratio decreased to **3.5% in 2021**

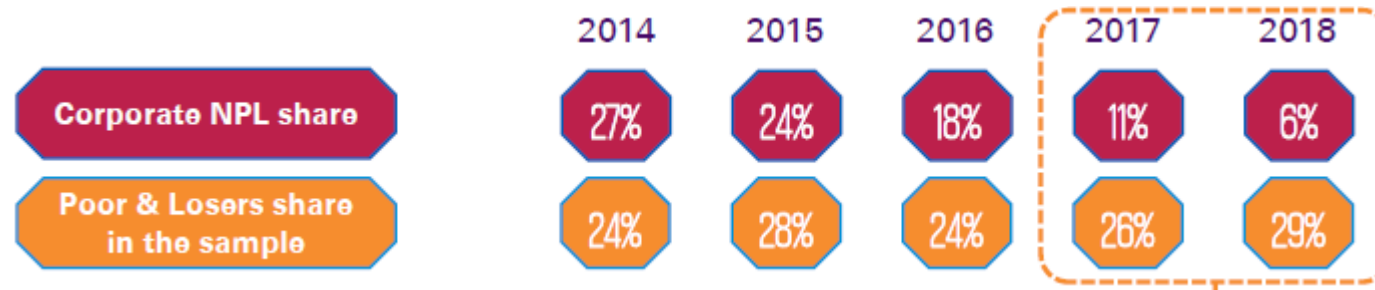
Effect of the Strategy on NPL ratio



Source: NBS

# NPLs and corporate viability in Serbia

- After the successful initial decrease in NPLs, the Working Group launched a **second initiative** with the aim to prevent NPLs
- To inform this initiative, FinSAC and KPMG did a **study on corporate viability** in 2019
- Findings of the study:
  - The **NPL ratio dropped** from 27% in 2014 to 6% in 2018 due to many regulatory measures (e.g., write-offs, adequate provisions, proper NPL identification)
  - But the **level of zombie companies** even **increased** during the same period – from 24% in 2014 to 29% in 2018
  - This means that banks have eliminated NPLs from their balance sheets (i.e., moved to off-balance sheet, sold, or repossessed collaterals), but the **financial health of companies** has not been re-established
  - Zombie companies, by definition, should not be bankable



Source: KPMG and FinSAC study

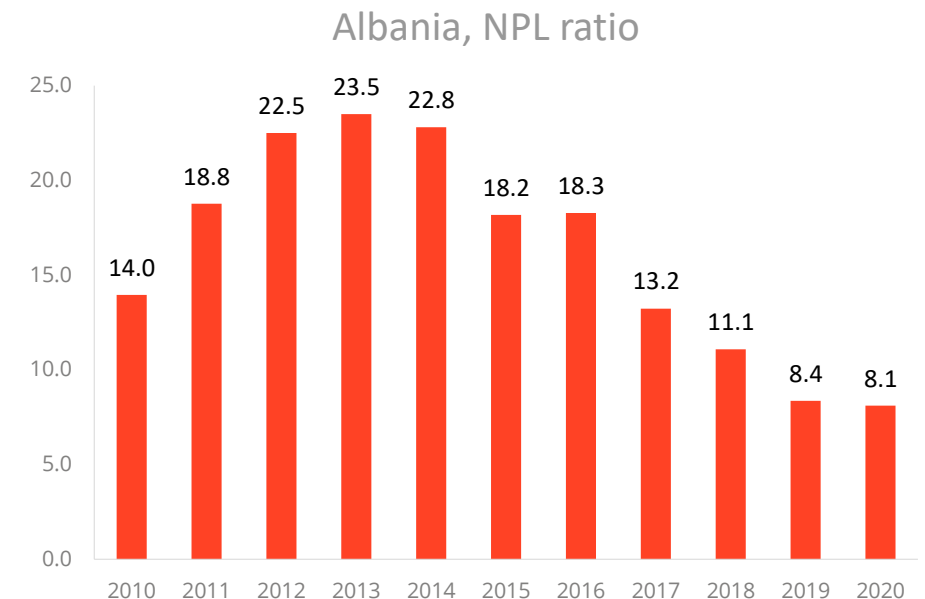


# NPL resolution in Albania



# NPL working group in Albania

- After the Global Financial Crisis, the level of NPLs in Albania increased from below 5% in 2007 to peak **24.9%** in September 2014
- By a Decree of the Prime Minister, a **working group for NPL resolution** in Albania was established in **June 2015**
- The Ministry of Economic Development, Tourism, Trade and Entrepreneurship was coordinating this inter-institutional working group (WG)
- The main aim was to decrease the level of NPLs
- The working group developed, with the help of the World Bank and IMF, the **NPL Action Plan** to remove impediments for NPL resolution and improve the regulatory framework in **August 2015**
- Participants of the WG: Ministry of Economy, Ministry of Finance, Ministry of Justice, and Bank of Albania with WB and IMF as observers
- Albanian Association of Banks played an active role in the work of the WG
- The NPL Action Plan was benefiting from FSAP, DPL, and other policy materials from IFIs
- Due to this coordinated work, the NPL ratio decreased to **8.1%** in 2020



Source: FSI, WB

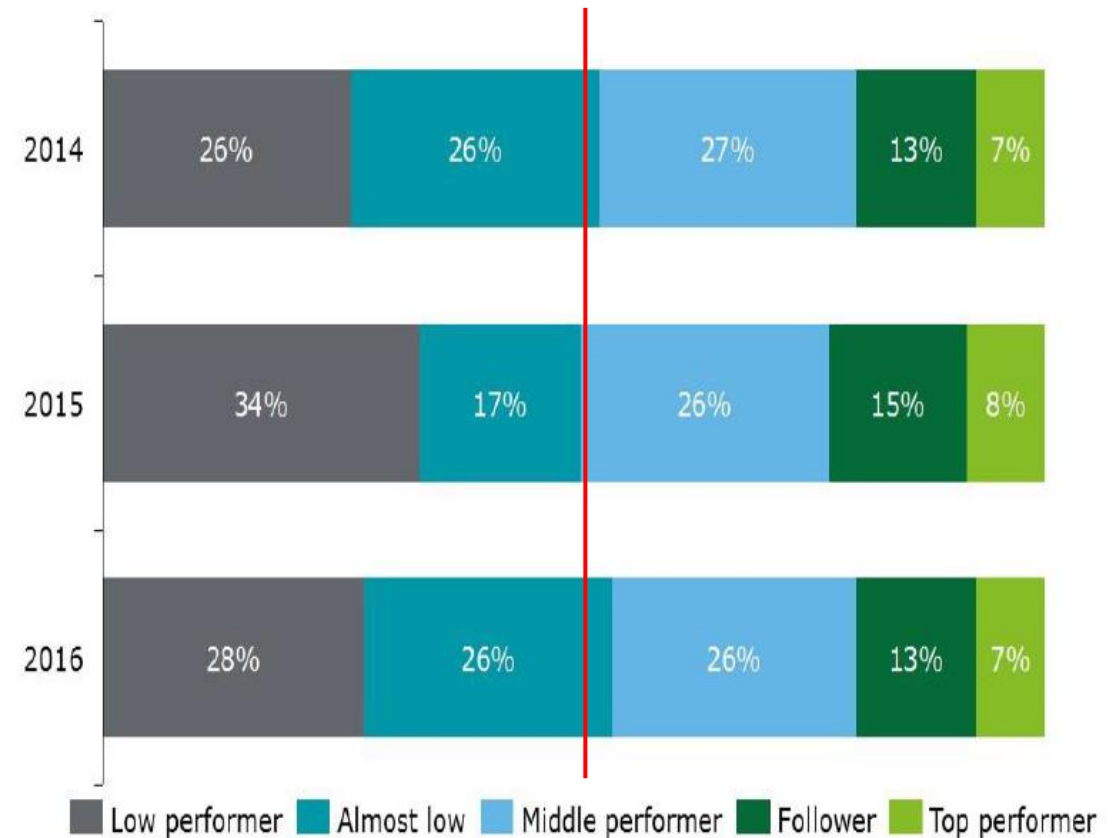
# NPL Action Plan

Action	Responsible authority	Deadline
New Bankruptcy law	MoJ	November 2015
Amendments to the Code of Civil Procedure (bailiff reform)	MoJ	November 2015
Amendments to the law On The Registration of Immovable Property	MoJ	October 2015
Amendments to the law On Securing Charges	MoJ, MoF, MoE	October 2015
<b>Handling of 35 large groups/companies</b>	BoA	October 2015
<b>Regulatory amendments (write-offs)</b>	BoA	September 2015
Relaxing licensing for NPL servicing companies	BoA	December 2015
Improvements to the Credit Registry	BoA	April 2016
Granting loans based only on fiscal declarations	BoA	December 2015
<b>Tirana approach – out-of-court restructuring framework</b>	BoA, AAB	December 2015



# Corporate health study in Albania

- Deloitte together with FinSAC conducted a study on the **financial health of corporates** in Albania
- It covered 231 largest corporates during the period **2014-2016**
- 81% of enterprises fall in the medium and below performers
- **54%** of enterprises **fall in the almost low/low performer category**
- 68 of enterprises are low performers
- This study facilitated the implementation of the out-of-court settlement framework (**Tirana approach**)



Source: Deloitte and FinSAC

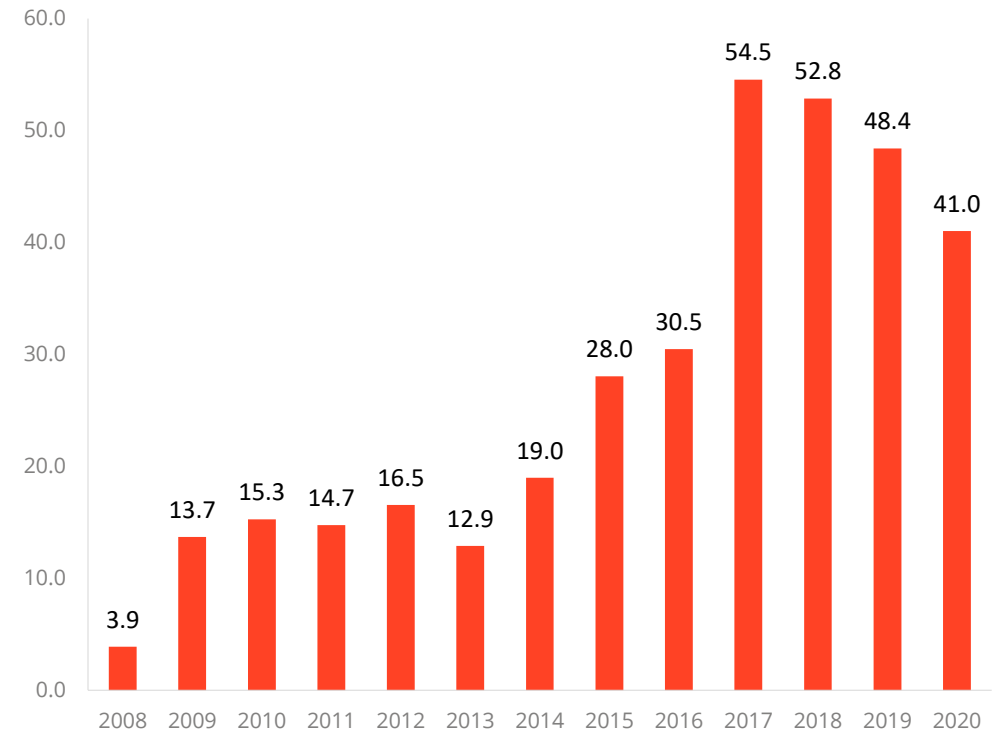
# NPL resolution in Ukraine

# NPL resolution in Ukraine



- Ukraine was hit by the Global Financial Crisis, currency devaluation, and a territorial conflict with Russia
- In 2014-2015, **Ukrainian hryvnia lost its value almost 3 times** (from 8 to 24 hryvnias per USD)
- NPLs remained **above 50% for more than 2 years**
- The Bank of Ukraine tightened the regulatory framework over the years
- The nationalization of the largest bank (Privatbank), in December 2016, contributed to the recognition of the true NPL level
- IMF and WB had a few economic adjustment programs in Ukraine to stabilize the economy
- **No “classical” NPL working group was established**
- **WB** took initiative to draft an **NPL resolution plan** and present it to authorities
- Only in the end-2019, a subcommittee, under the Financial Stability Council, was created to deal with NPLs at the state-owned banks

Ukraine NPL ratio

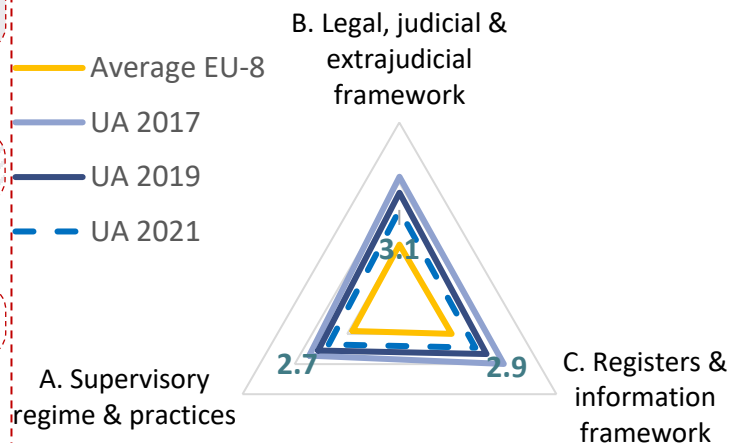


Source: FSI, WB

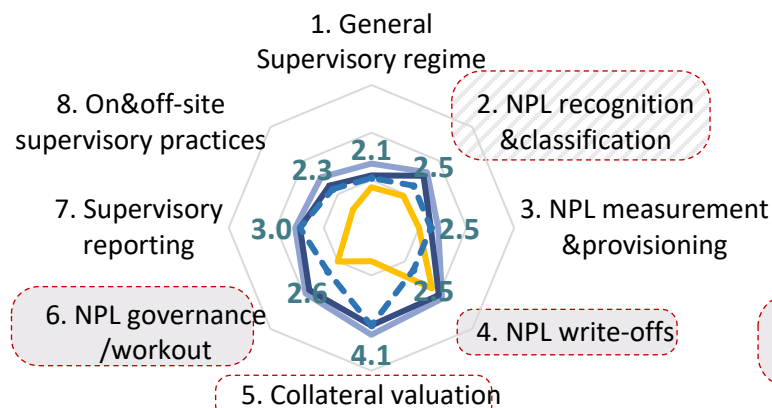
# World Bank's assessment of the NPL framework in Ukraine and progress made during 2017-2021

- 9 priority areas have definite progress since the assessment
- 1 priority area have significant legislative progress that should be continued with implementation process
- 3 priority areas have tentative or small progress and need further efforts for proper implementation

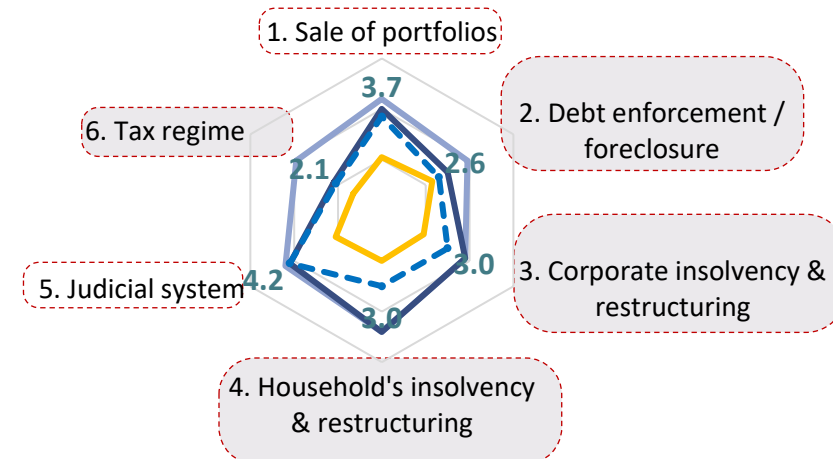
## NPL framework assessment



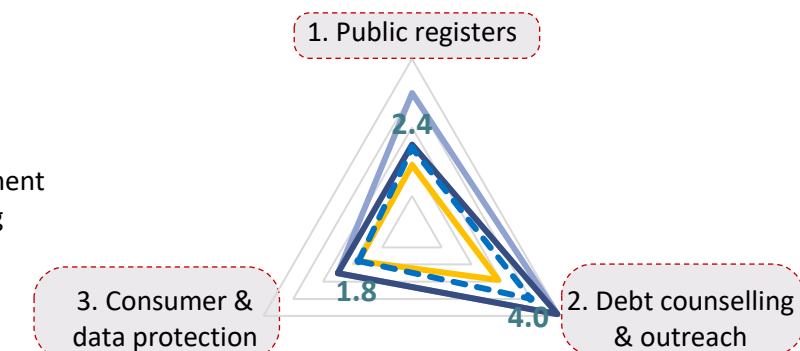
## A. Supervisory regime & practices



## B. Legal, judicial & extrajudicial



## C. Registers & information framework



# A. Supervisory regime and practices: initial assessment and progress

## Country evaluation results for NPL framework

	CY	DE	GR	IE	IT	PT	SI	ES	EU8 average	UA 2017	UA 2018	UA 2019	UA 2020	UA 2021	Progress 2017-21
1. General supervisory regime	0.0	2.1	2.1	1.0	2.0	3.0	2.1	1.2	1.7	2.7	3.0	2.2	2.2	2.1	🚩
2. NPL recognition & classification	2.6	3.2	2.6	0.1	2.6	2.5	1.9	0.0	1.9	3.3	3.3	3.1	2.5	2.5	🚩
3. NPL measurement & provisioning	1.4	4.2	2.6	0.7	2.5	2.4	1.9	0.0	2.0	2.8	2.5	2.5	2.5	2.5	🚩
4. NPL write-offs	3.5	5.0	3.2	3.7	5.0	5.0	1.8	1.9	3.6	4.2	4.0	4.0	2.5	2.5	🚩
5. Collateral valuation	1.2	0.0	2.5	0.6	3.8	0.4	1.9	0.7	1.4	4.5	4.3	4.1	4.1	4.1	🚩
6. NPL governance /workout	1.5	2.9	1.9	1.0	2.7	2.7	1.0	2.3	2.0	3.9	3.9	3.7	2.7	2.6	🚩
7. Supervisory reporting	1.2	2.6	1.0	1.0	0.0	0.9	1.0	0.0	1.0	3.2	3.0	3.0	3.0	3.0	🚩
8. On & off-site supervisory practices	1.9	1.1	1.5	0.7	0.1	1.0	2.0	0.3	1.1	3.0	2.7	2.5	2.3	2.3	🚩

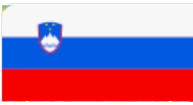
Score 5 stands for the worst NPL framework, whereas 0 score stands the best practice NPL framework

Source: ECB Stocktake of national supervisory practices and legal frameworks related to NPLs (November 2016)



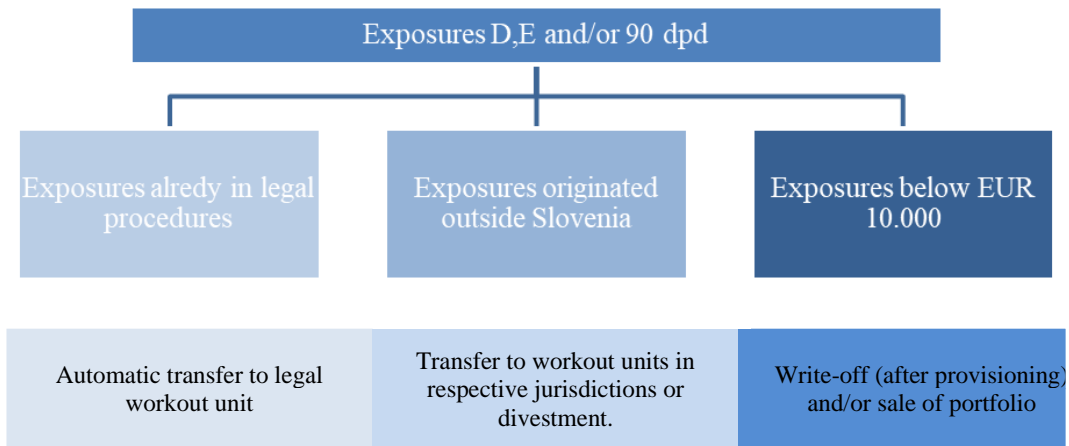
# NPL resolution in Slovenia

# SME NPL reduction in Slovenia



- The level of NPLs peaked in November 2013 at **18%** and many measures by authorities were taken to decrease the stock (i.e., an AMC, new regulations)
- However, **micro and SME** NPLs remained high and accounted for **70% of all NPLs** (4% of GDP) in mid-2016
- The **Bank of Slovenia**, in cooperation with the World Bank, issued **Handbook for MSME NPL Management and Workout** in March 2017
- The Handbook provided a framework for NPL resolution including guidelines for **triage** and **viability assessment** in two stages

## Stage 1 – triage (segmentation)

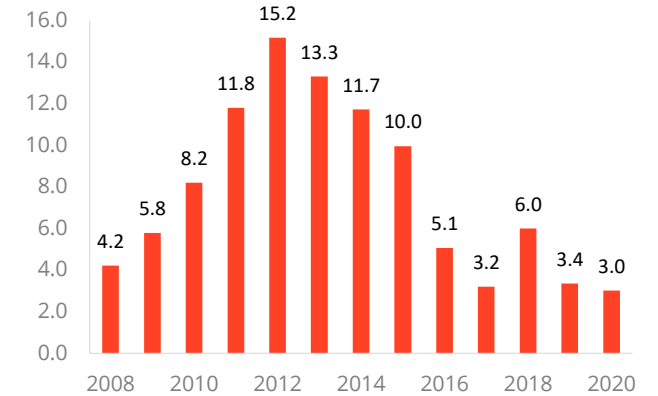


## Stage 2 – viability assessment

Viable borrower $LTV \leq 80$ $Debt/EBITDA \leq 5$	Viable borrower $LTV \geq 80$ $Debt/EBITDA \leq 5$
Marginally viable borrower $LTV \leq 80$ $Debt/EBITDA \leq 8 \geq 5$	Marginally viable borrower $LTV \geq 80$ $Debt/EBITDA \leq 8 \geq 5$
Non-viable borrower $LTV \leq 80$ $Debt/EBITDA \geq 8$	Non-viable borrower $LTV \geq 80$ $Debt/EBITDA \geq 8$
Viable	Semi-viable
Non-viable	Non-viable

# SME NPL resolution in Slovenia

NPL rate in Slovenia

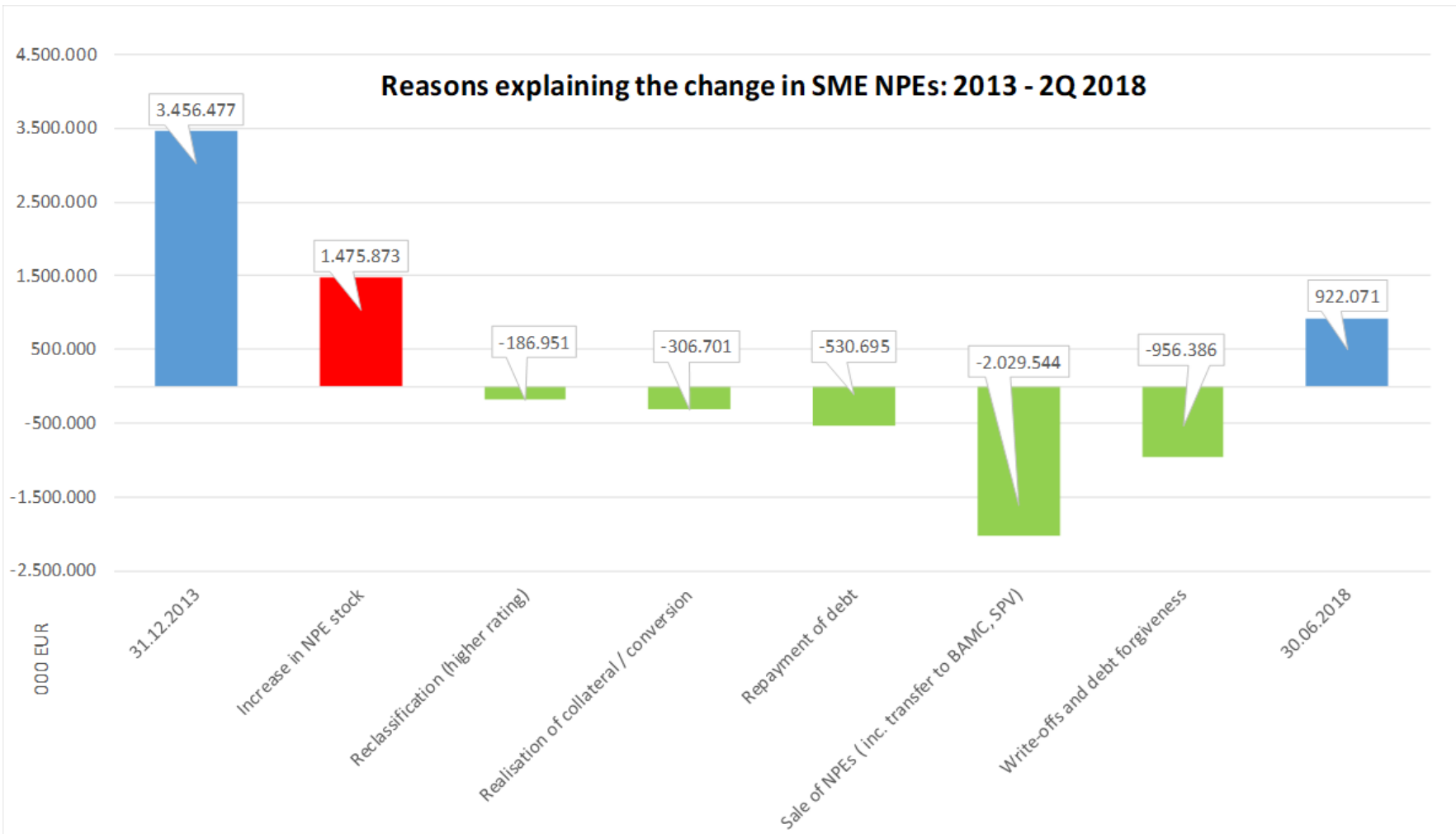


Source: FSI, WB

## Main developments:

- **Reduction of SME NPLs from EUR 3.5 billion down to below EUR 1 billion**
- Decline in relative terms is even higher than in total
- Main reason of this decrease is **sale and write-offs**
- Write-offs and debt forgiveness in SME portfolio represent relatively higher proportion than in the portfolio of large exposures
- **Repayment ratio** is lower in comparison to non-performing large exposures

Reasons explaining the change in SME NPEs: 2013 - 2Q 2018



Source: Bank of Slovenia

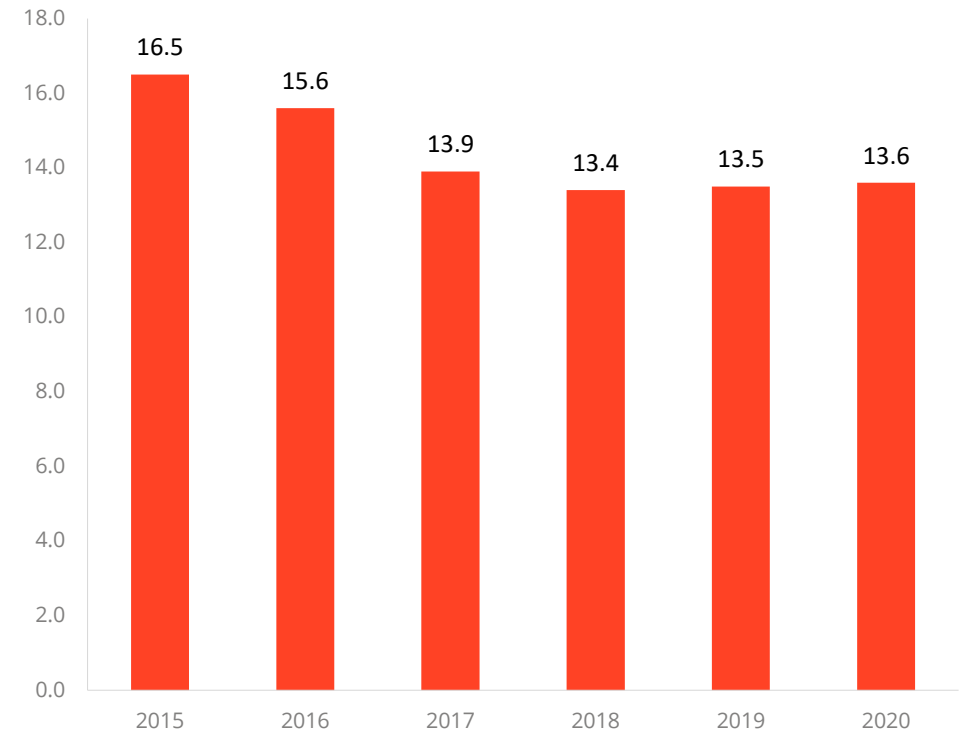
# NPL resolution in Tunisia

# NPL resolution in Tunisia



- Tunisia experienced **two economic crisis** (2010 and 2015) that contributed to the buildup of NPLs
- The NPL rate reached **16%** in 2015
- **Tourism sector** has the highest rate of NPLs
- **State-owned banks** hold 50% of NPLs and the NPL rate is 18%
- The Central Bank of Tunisia has asked the World Bank to prepare a **Strategy for NPL reduction** (2021)
- The Strategy is built around **three pillars**:
  - **Prudential regulation**: new credit risk regulation, IFRS 9, regulation on workout units, mandatory write-offs, collateral valuation, NPL market development
  - **Legal**: insolvency law, debt forgiveness in public banks, assignment of debt to third parties, regulation of servicers, court system
  - **Tax**: tax treatment of write-offs and debt forgiveness, assignment of debt to third parties
- To achieve better results, a **Working Group** will be created to introduce and supervise envisaged reforms

Tunisia NPL ratio



Source: Central Bank of Tunisia



# Lessons learned

- A holistic approach to NPL resolution brings better results
- The ownership of reforms is key
- IFIs can play an important role of a facilitator
- The prioritization of reforms should be done
- The earlier NPLs are resolved, the better results
- NPL resolution should be meaningful, based on a sustainable loan restructuring



**Many thanks for your attention!**

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