

NPL Monitor H2 2024: NPL Developments in CESEE

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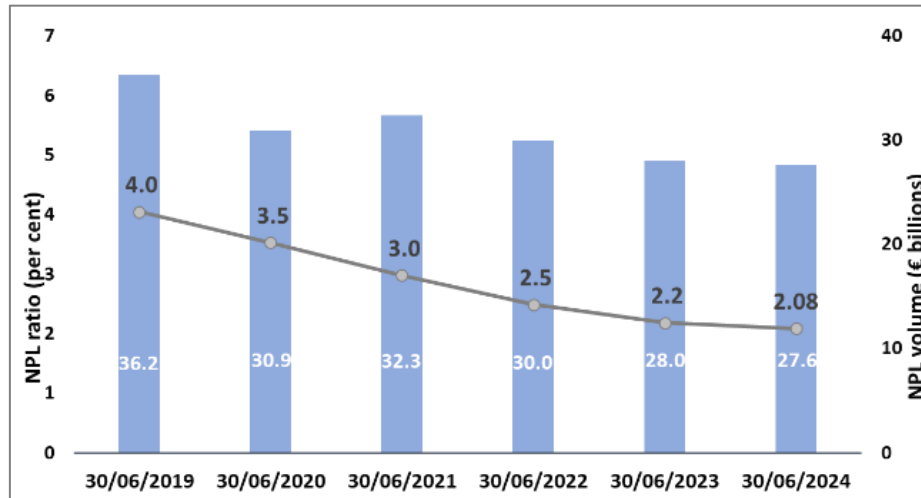


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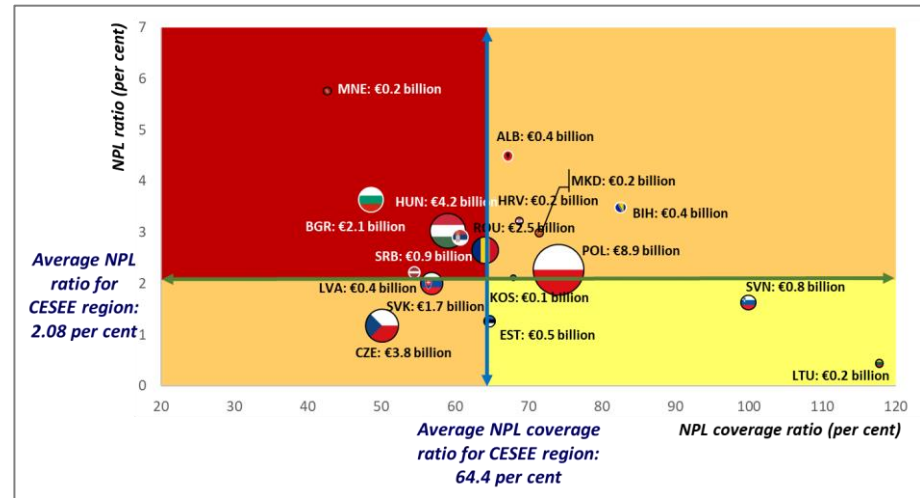


NPLs in CESEE: continued Improvement

Evolution of NPL ratios and volumes in the CESEE region



NPL volumes and ratios in the CESEE region as of 30 June 2024



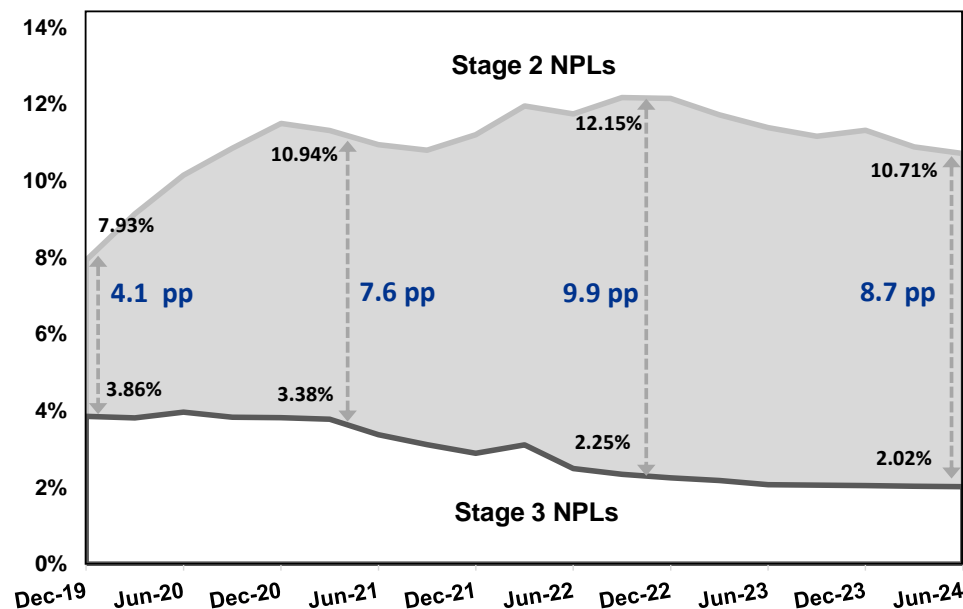
NPLs stable in CESEE region despite continued economic uncertainty (as of Q2 2024*):

- The average NPL ratio in the region stands at **2.08%**, a 0.1 pp decrease since Q2 2023, the lowest level recorded.
- NPL volumes in the CESEE region show a marginal year-on-year decline to **€ 27.6 bn**, despite persistent short-term pressures and emerging pockets of credit risk.
- The NPL coverage ratio maintains an average level of **64.4 per cent**.

* Source: IMF and central banks (Serbia) - data for Q2 2024 except for Lithuania (Q3 2023), Montenegro (Q1 2024), Poland (Q1 2024), Romania (Q2 2023), Slovenia (Q1 2024)

NPLs in CESEE: continued Improvement

Evolution of stage 2 and 3 loans in EU CEE countries



Decrease of stage 2 and stage 3 loans in EU CEE (as of Q2 2024):

- Both Stage 2 and Stage 3 loans have shown a steady downward trend since 2023, with Stage 3 loans continuing to decrease, reaching a record low of 2.02 per cent by mid-2024.
- However, a sizeable gap (8.7 percentage point) between stage 2 and stage 3 loans remains, highlighting underlying risks in asset quality and a potential rise in NPLs, coupled with ongoing economic uncertainties.

5 Partner Countries in focus

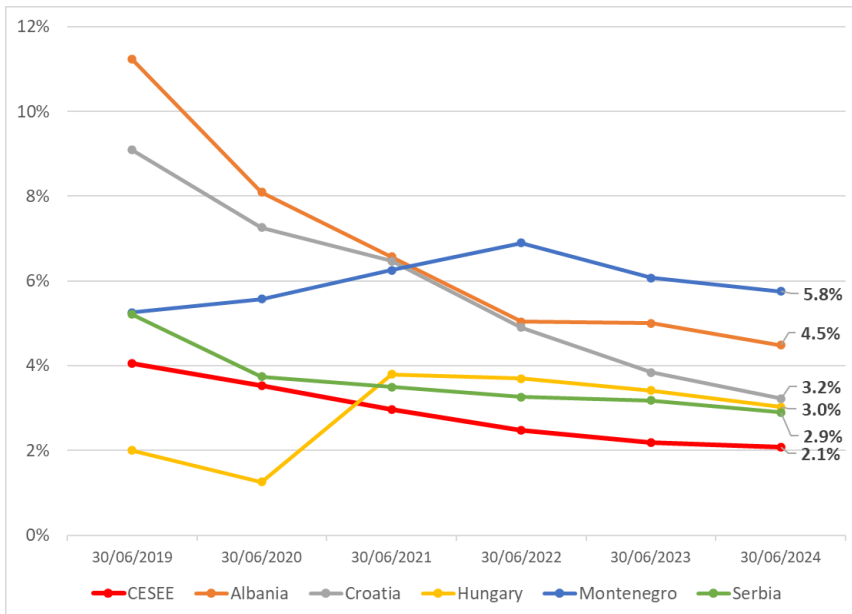


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Evolution of NPL volume, NPL ratio, and coverage ratio (€ bn, %), 2024 Q2* vs. 2023 Q2

Country	NPL volume (€ billions)		NPL ratio (%)		NPL coverage ratio (%)	
	Jun-24	Variation (%)	Jun-24	Δ (pp)	Jun-24	Δ (pp)
Albania (ALB)	0.4	▲ 9.9	4.5	▼ (0.5)	67.2	▲ 2.6
Croatia (HRV)	0.2	▼ (6.4)	3.2	▼ (0.6)	68.8	▲ 1.7
Hungary (HUN)	4.2	▼ (9.5)	3.0	▼ (0.4)	59.0	▲ 3.5
Montenegro (MNE)	0.2	▲ 0.9	5.8	▼ (0.3)	42.6	↔ 0.0
Serbia (SRB)	0.9	▼ (2.2)	2.9	▼ (0.3)	60.7	▲ 2.8
CESEE	27.6	▼ (1.2)	2.08	▼ (0.1)	64.4	▲ 0.1

NPL Ratio in CESEE and 5 Partner Countries 2019Q2 – 2024Q2



5 Partner Countries vs. CESEE (2019Q2 – 2024Q2):

- The total NPL volume** in 5 Partner Countries consists of 21% of the total volume in the CESEE, standing at € 5.9 bn as of 2024Q2. The volume in Croatia, Hungary and Serbia decreased (6.4%, 9.5%, 2.2%, respectively) compared to the level seen 12 months earlier, while Albania and Montenegro showed increase (9.9%, 1%, respectively) during the same period.
- The NPL ratio** in all 5 countries saw a decrease between 2023Q2 and 2024Q2. However, all 5 Partner Countries' NPL ratios are above the average in CESEE.
- 5 Partner Countries' NPL coverage ratios** showed an increasing trend over the past year.

* Source: IMF and central banks (Serbia) - data for Q2 2024 except for Montenegro (Q1 2024)

NPL market trends



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Transactions

- NPL transactions **remained subdued** at the start of this year, **activity was visible across the CESEE region**.
- ✓ **Greece:** The Greek market shows significant growth in **secondary flows**.

Transaction	Details
Project GAIA I	Alpha Bank has initiated the sale of €0.5 billion of mainly non-performing mortgage exposures via a securitisation structure.
Project GAIA II	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 Frontier II	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 Leon	Eurobank has initiated the sale of a €0.4 billion mixed NPE portfolio.

- ✓ **Poland, Romania:** Markets in Poland and Romania got off to a slower start in 2024, driven mostly by **primary sales**.
- ✓ **Türkiye:** Türkiye saw **primary sales of NPLs** totaling close to €0.4 billion.
- ✓ **Ukraine:** 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.

Servicers

- **Adoption of the NPL Directive (Directive 2021/2167/EU)** continues to be on the sector's agenda.
- **The Bank of Greece** has granted authorisation to 14 servicers and extended the licences of four more until the end of the year.



EU perspective on credit risks and NPLs

A

ECB: highlighted the importance of addressing NPLs and managing credit risks

- ✓ The ECB **remains vigilant in monitoring credit risks** amid ongoing economic and geopolitical uncertainties.
- ✓ **The ECB's focus is on ensuring that banks continue to enhance their risk management practices** in order to identify and mitigate potential loan defaults.

B

EBA, ESRB: pointed to early signs of increasing credit risks

- ✓ **EBA:** the NPL ratio in the EU has been increasing slightly, reflecting growing pressures on asset quality amid rising interest rates and economic uncertainties.
- ✓ **ESRB:** the expected default frequency for corporations has gradually increased, indicating the impact of tightening financial conditions.
- ✓ The EBA and the ESRB have identified **some sectors that are particularly vulnerable** to the current economic environment: **real estate and construction, hospitality and retail, SMEs.**

C

EC: conducted a survey on the current state of secondary markets for NPLs

- ✓ **Sectors more at risk:** corporate/SME lending, commercial real estate, unsecured consumer loans, credit cards and unsecured business loans.
- ✓ **Types of NPL asset that are most frequently traded in the NPL secondary market:** residential real estate, corporate/SME, commercial real estate.
- ✓ **Barriers to market development:** limited number of NPLs available for sale, the pricing of primary market transactions, legal and regulatory restrictions on NPL disposals, etc.

Thank you!



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