



OESTERREICHISCHE NATIONALBANK

EUROSYSTEM

***NPLs in CESEE:  
Snapshot of their definitions and recent development***

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Nonperforming loans in CESEE: macroeconomic dimension and resolution strategies

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# Introduction

- Despite some easing most recently (from 2014-15), NPLs in most Central and Eastern European countries remain at relatively high level
- **But: data on NPLs have often been of limited use** because difficult to compare across countries
- This **presentation**: attempt to **shed light on NPL comparability** in CESEE countries
- = *summary and **update** of three studies on NPL definitions in Europe, recently published in **OeNB FEEI***

## Elements of CESEE NPL definitions and their approximation

- **Basic quantitative NPL criterion recommended by IMF:**
  - „principal or interest 90 days or more overdue“ (90 days+)
- Focusing on European countries, **additional qualitative NPL yardstick:**
  - „existence of well-defined weakness of loan or borrower“ (well-defined weakness)
- **Third possible feature, typical to CESEE countries or emerging markets:**
  - credit quality categories „substandard-doubtful-loss“
- in recent years: welcome tendency toward **approximation of NPL definitions**  
going in the direction of →

## EBA Standards as benchmark for NPL definitions

- under Article 99 of EU Capital Requirements Regulation
- „**primary elements**“ of NPLs:
- „Nonperforming exposures“.... are those that satisfy either or both of the following criteria:
  - a. Exposures are more than **90 days past due**
  - b. The debtor is assessed as **unlikely to pay his/her credit obligations** in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past due“
- This definition is consistent with
  - BCBS‘ definition of default and with the
  - IIF‘s credit quality classification

## EBA Standards as benchmark for NPL definitions (cont.)

- „**Secondary elements**“ (non-defining, but have impact on the content of NPLs):
  - a. Classification of **restructured loans (benefiting from forbearance) as NPLs** for at least one year
  - b. NPLs categorized **irrespective of any collateral** or guarantee
  - c. NPLs categorized **for their full outstanding amount**
  - d. **Multiple loans to a single borrower** subject to qualified (20%) downgrade requirement

⇔ **NPL customer view** versus **NPL product view**

A number of CESEE countries have either adopted or moved near EBA standards for their NPL definitions

## Validity of „primary elements“ of NPL definition

Central and Eastern Europe		BGR	HRV	CZE	HUN	POL	ROM	RUS	SRB	SVK	UKR	EBA (bench mark)
Primary elements of NPLs	90 days+	✓	✓	✓	✓	✓	✓	✓ x	✓	✓	✓	✓
	Well-defined weakness	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
<i>Symbolic scoring</i>		4	4	4	4	4	4	3	4	4	4	<b>4</b>

Indications of assessment of country-specific regulations (as of mid-2017) against benchmark:

- ✓ corresponds to benchmark
- ✓ x slightly weaker than benchmark
- x weaker than benchmark

## Treatment of „secondary elements“ (vis-à-vis EBA benchmark)

Central and Eastern Europe		BGR	HRV	CZE	HUN	POL	ROM	RUS	SRB	SVK	UKR	EBA (bench mark)
Secondary elements of NPL comparability	Treatment of restructured loans	✓	✓ x	✓ x	x	x	✓	x	✓ x	✓ x	✓	✓
	Collateral consideration	✓	✓ x	x	x	x	✓	✓	✓ x	✓	✓ x	✓
	Share of loan recorded NP	✓	x	✓	x	✓	✓	✓	✓	✓	✓	✓
	Multiple loans	✓	x	✓	✓	✓	✓	✓	✓	✓	✓	✓
<i>Symbolic scoring secondary elements</i>		4	1	2½	1	2	4	3	3	3½	3½	4

Indications of assessment of country-specific regulations against benchmark:

✓ corresponds to or is even stricter than benchmark

✓ x slightly weaker than benchmark

x weaker than benchmark

## Tentative assessment of definitional comparability

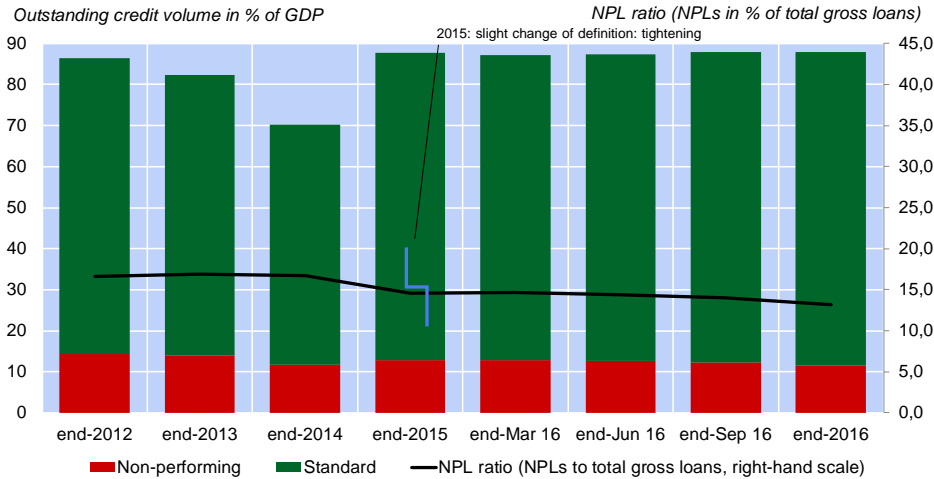
Central and Eastern Europe	BGR	HRV	CZE	HUN	POL	ROM	RUS	SRB	SVK	UKR	EBA (bench mark)
<i>Symbolic scoring sum (NPL definitional comparability)</i>	8	5	6.5	5	6	8	6	7	7.5	7.5	<b>8</b>
➔ Taking EBA standards as a measurement yardstick, official NPL data appear:											
• <i>(largely) comparable</i>	✓					✓		✓	✓	✓	✓
• <i>(somewhat) downward biased</i>		✓	✓	✓	✓		✓				

- In recent years, degree of **convergence/ movement** toward EBA/ international NPL standards:
- SVK (2015), BGR (2015), ROM (2015), SRB (2016), UKR (2017)
- and none of the other above observed countries has moved away from these standards



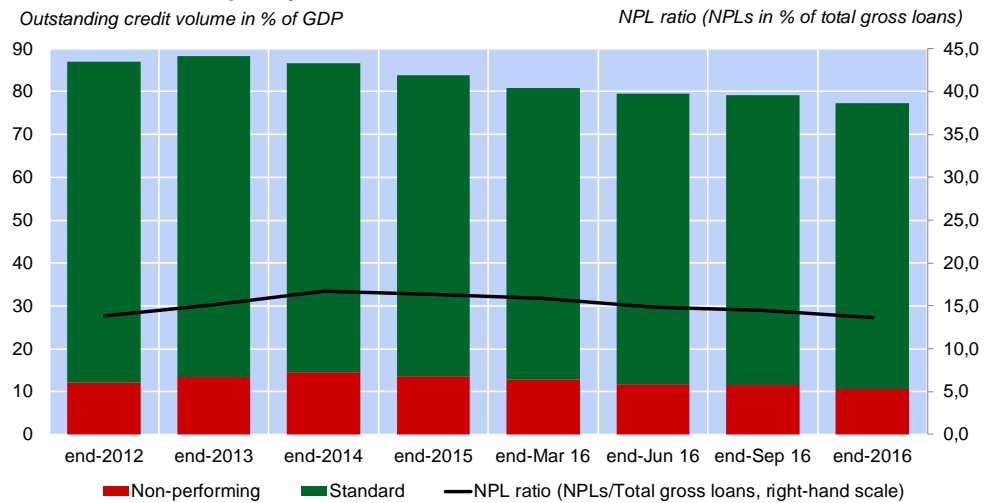
# Empirical snapshot of recent NPL developments in CESEE (2012-17)

## Bulgaria: credit quality



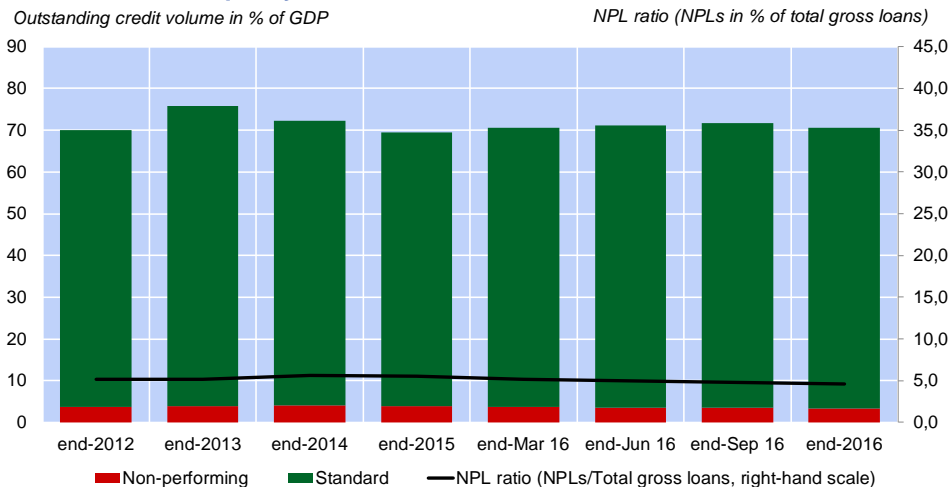
Source: NCB, IMF Financial Soundness Indicators, Eurostat.

## Croatia: credit quality



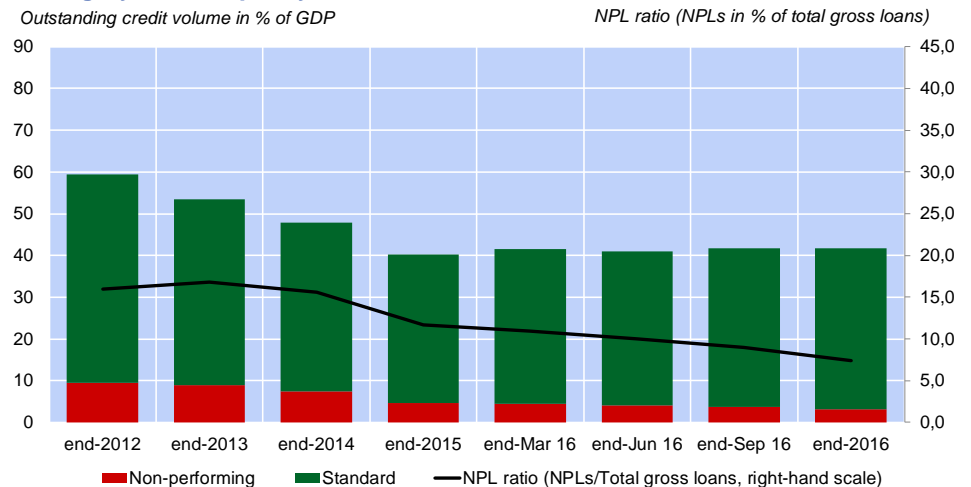
Source: NCB, IMF Financial Soundness Indicators, Eurostat.

## Czechia: credit quality



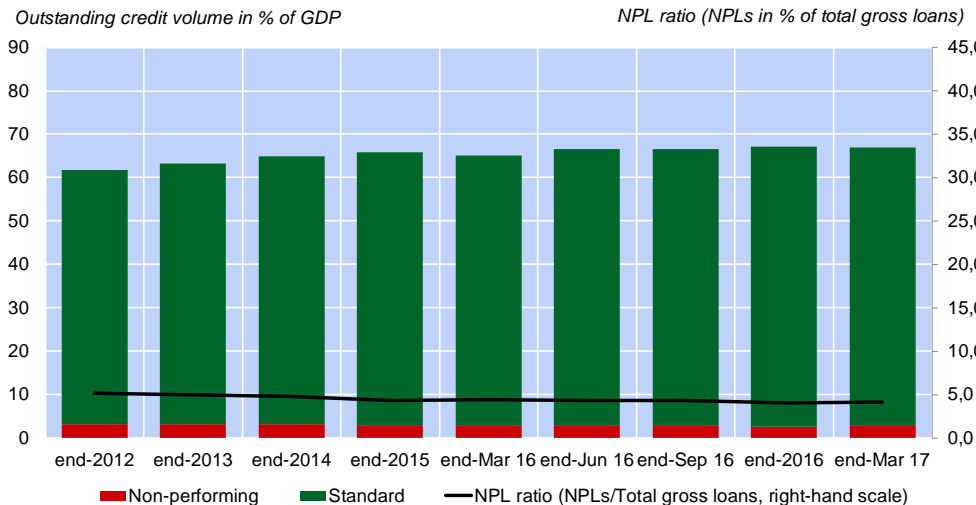
Source: NCB, IMF Financial Soundness Indicators, Eurostat.

## Hungary: credit quality



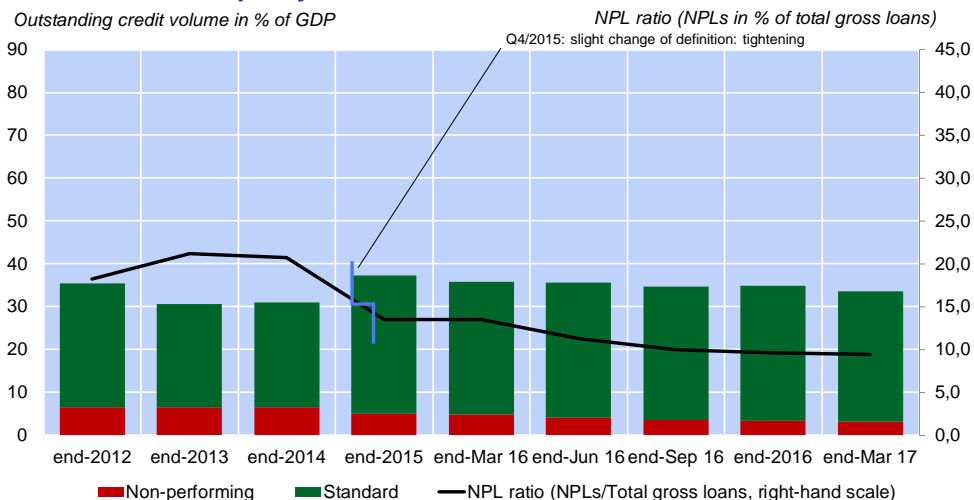
Source: NCB, IMF Financial Soundness Indicators, Eurostat.

## Poland: credit quality



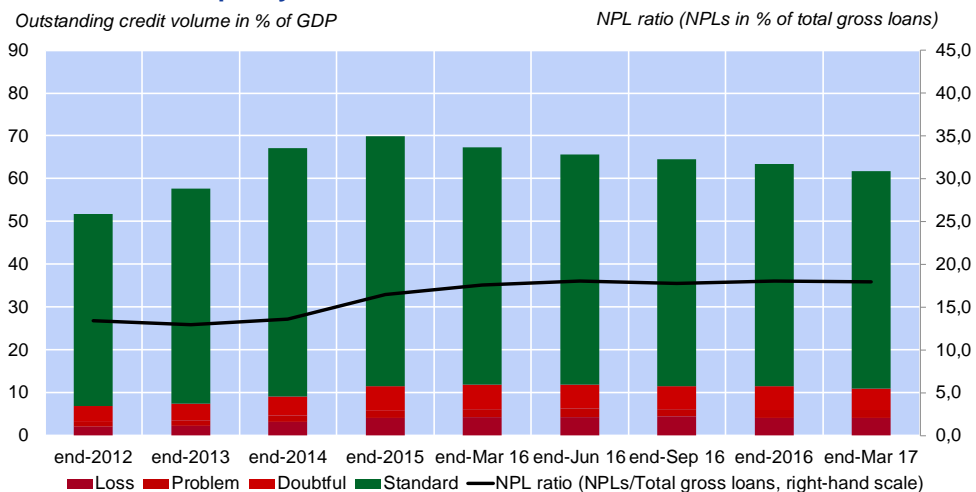
Source: NCB, IMF Financial Soundness Indicators, Eurostat.

## Romania: credit quality



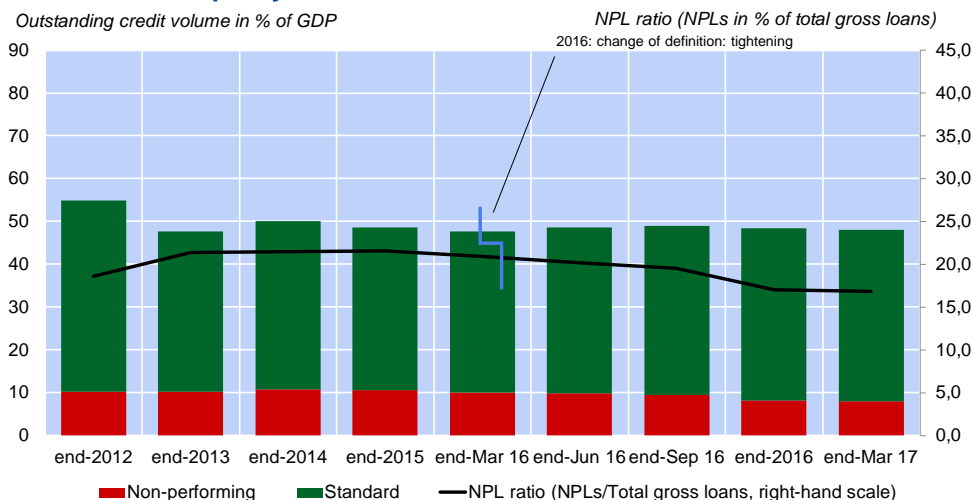
Source: NCB, IMF Financial Soundness Indicators, Eurostat.

## Russia: credit quality



Source: NCB, IMF Financial Soundness Indicators.

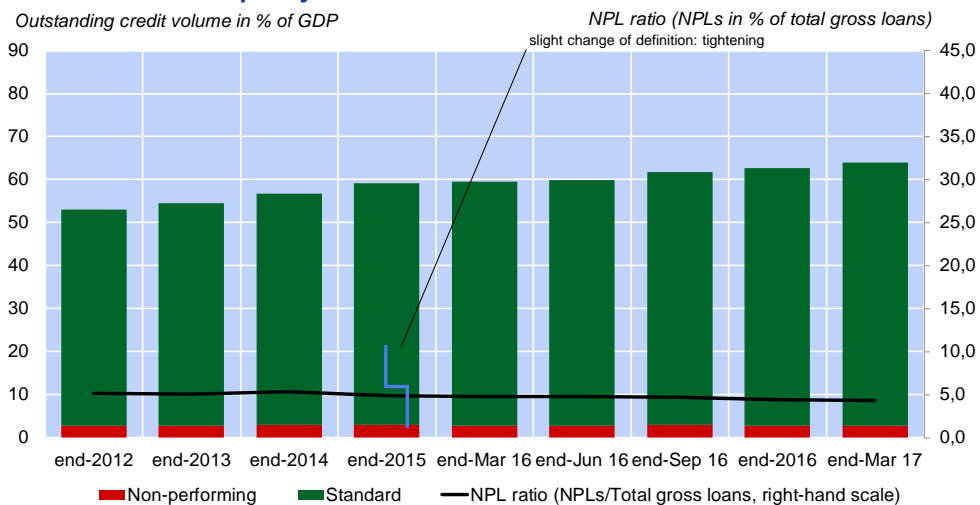
## Serbia: credit quality



Source: NCB, IMF Financial Soundness Indicators, Eurostat.

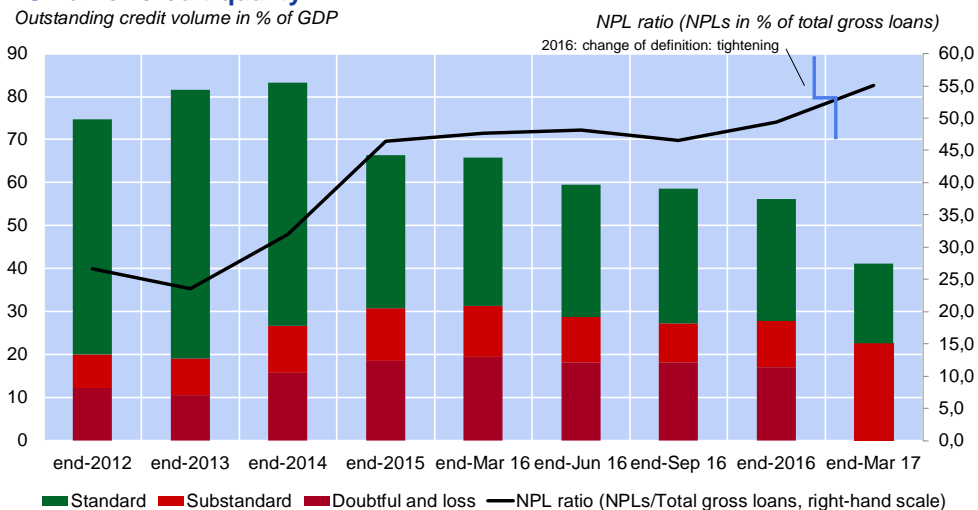
## Empirical snapshot of recent NPL developments in CESEE (2012-17) (cont.)

### Slovakia: credit quality



Source: NCB, IMF Financial Soundness Indicators, Eurostat.

### Ukraine: credit quality



Source: NCB, IMF Financial Soundness Indicators

→ Possible areas of further research:

- Attempt to quantify secondary elements
- Comparative look at forbearance norms and practices
- Detailed observation of exit conditions for NPLs

Summing up,

- At least in CESEE (as well as euro area), our national NPL definitions are slowly converging, which
- increases comparative utility of NPL data for banks and policy makers, which in turn,
- may contribute to facilitating attempts to tackle problems linked to stubbornly high or persistent NPLs
- In this sense....

*Many thanks for your attention!*