

# Empirical evidence on NPLs resolution: Serbia and CESEE countries

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# Introduction



- ❑ Poor risk management policy leads to significant portion of NPLs, which deteriorate portfolio quality and diminish bank's capital (Mirković & Knežević, 2014)
- ❑ The main question: *how to face with NPLs in the absence of unique definition and non-existence of harmonization between countries?*
- ❑ A lot of countries accepted the NPL definition given by IMF (2005), where the most often used criterion is: overdue days of 90 days or more
- ❑ **NPEs (Non-performing exposures)** are those that satisfy following criteria:
  - a) material exposures which are more than 90 days past-due; and/or
  - b) the debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral (EBA, 2014)

# Asset quality review (AQR)



ECB RESULTS OF AQR	2014	2015
Number of banks	130	9
% of Total Assets in EU	82	N/A
Aggregate adjustment	47.5 bln EUR	453 mln EUR
Capital shortfall	24.6 bln EUR	1.74 bln EUR
Banks with capital shortfall	25	5

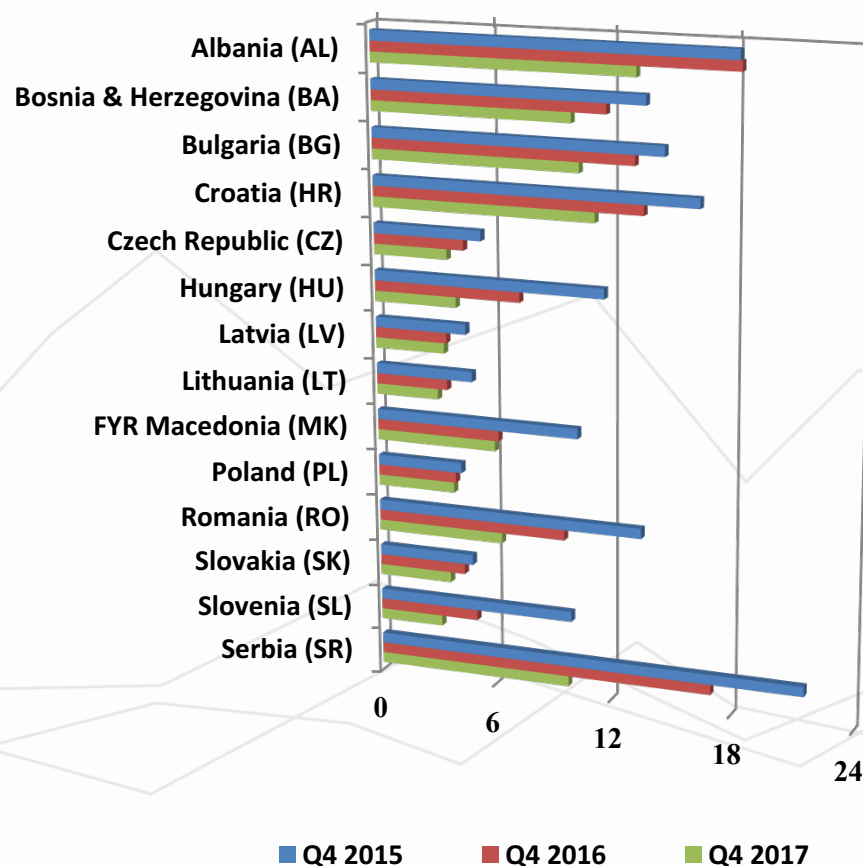
- ❑ In 2016: 4 banks were subject of AQR; without capital shortfalls
- ❑ In Serbia, AQR was conducted with data as end of March 2015: 14 banks participated (88% of total assets in Serbia) chosen on the principle of systemically importance.
- ❑ All banks covered with sample have capital adequacy ratio well above regulatory minimum set at 12% (6.45 p.p. higher than regulatory minimum)

# NPLs in CESEE countries



- Due to stricter write-off policies and strategic approach to NPL resolution, NPL situation has improved in CESEE countries, with NPL volumes reaching their lowest level in 7 years (42.8 bln EUR as of 30 September, 2017)

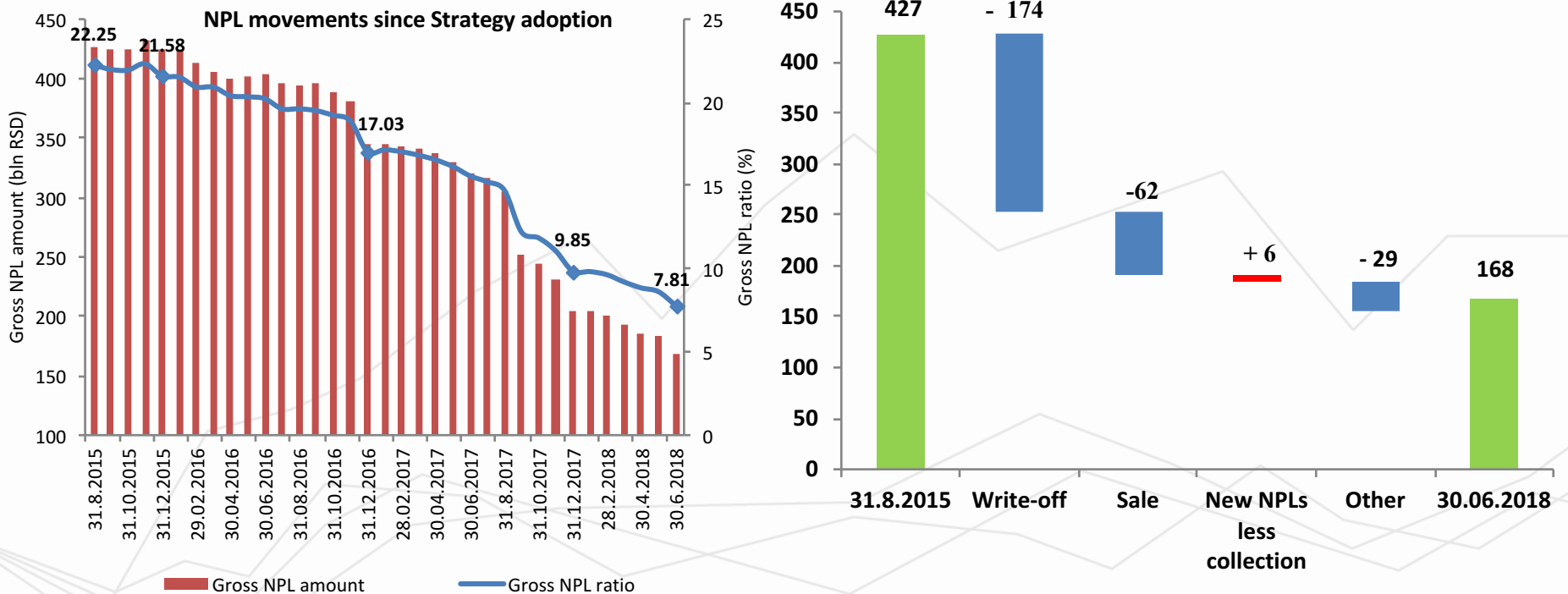
NPLs to Total Gross Loans	Q4 2015	Q4 2016	Q4 2017
Albania (AL)	18.2	18.3	13.2
Bosnia & Herzegovina (BA)	13.7	11.8	10.0
Bulgaria (BG)	14.6	13.2	10.4
Croatia (HR)	16.3	13.6	11.2
Czech Republic (CZ)	5.5	4.6	3.7
Hungary (HU)	11.7	7.4	4.2
Latvia (LV)	4.6	3.7	3.5
Lithuania (LT)	4.9	3.7	3.2
FYR Macedonia (MK)	10.3	6.3	6.1
Poland (PL)	4.3	4.0	3.9
Romania (RO)	13.5	9.6	6.4
Slovakia (SK)	4.9	4.4	3.7
Slovenia (SL)	10.0	5.1	3.2
Serbia (SR)	21.6	17.0	9.8



# NPL resolution in Serbia



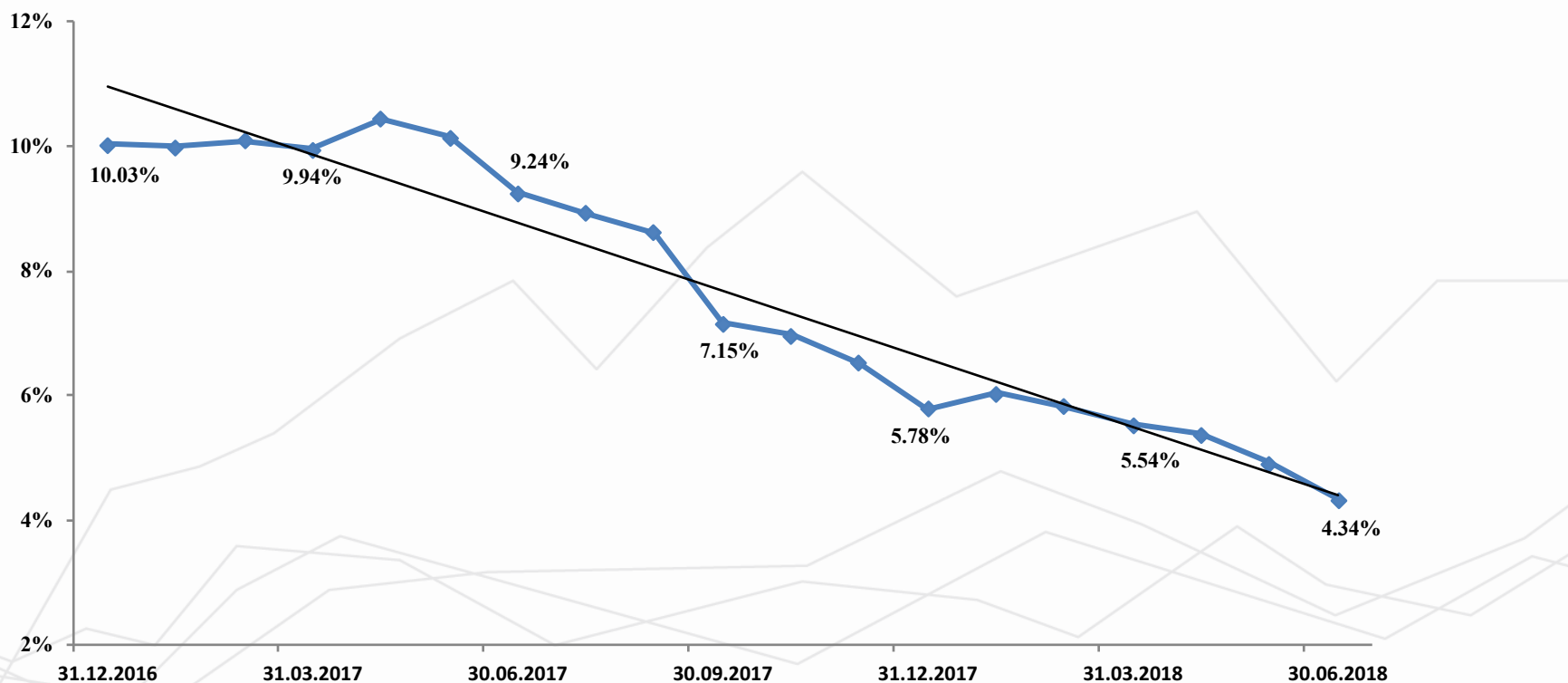
- ❑ In August 2015, the Government of the Republic of Serbia adopted the Strategy for NPL resolution emphasizing market approach
- ❑ At end-September 2017, “Decision on the accounting write-off of bank balance sheet assets” entered into the force



# NPL resolution in Serbia



- ❑ In June 2016, National bank of Serbia introduced NPE definition in line with technical standards published by EBA
- ❑ The first regular reporting date for NPEs was December 31, 2016
- ❑ Parallel reporting has been retained to ensure continuity of NPL data series

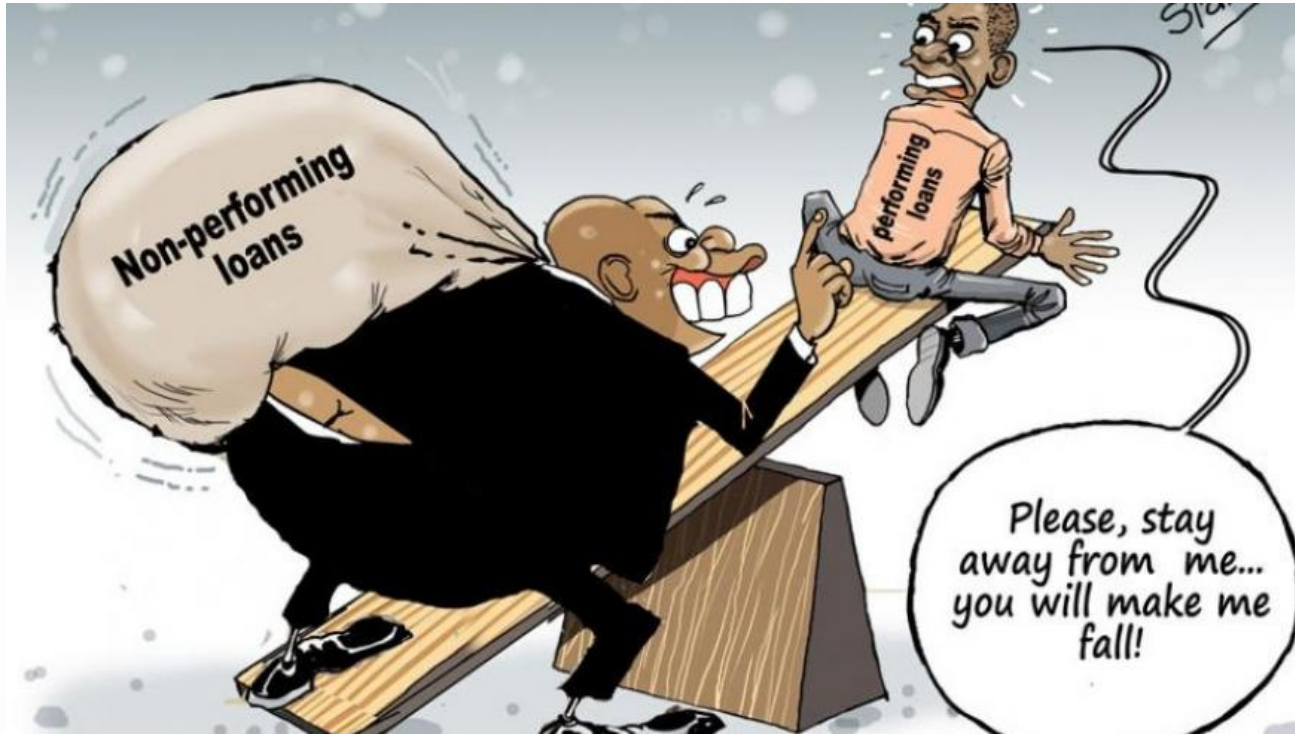


# Conclusion



- ❑ Extraordinary high level of NPLs in Serbia and CESEE countries represented large threat for future survival of financial systems
- ❑ Focusing on market approach of NPL Resolution and regulatory changes in Serbia were created conditions for bank's balance sheet "cleaning" and opening the path for new lending
- ❑ Results of AQR showed the stability of banking systems and provided valuable help for further improvements in the process of NPLs resolution
- ❑ Serbia and selected CESEE countries are examples of efficient and successful NPL resolution

# Q&A



**THANKS FOR YOUR  
ATTENTION!**