6 Country Case Studies on Resolving Problem Loans in Europe: Crises, Policies, and Institutions

Alexander Lehmann

6.1 Introduction

European Union (EU) countries feature some of the most developed banking systems worldwide. European banks have supported growth within economies primarily reliant on small and medium-sized enterprises, and increasingly established linkages across the EU's integrated financial market. Yet, on the back of the apparent stability in the early years of the euro area, several banking systems became highly reliant on international wholesale funding. In 2008, Europe was impacted by a "sudden stop" in capital flows, a phenomenon well-known to emerging market policy makers. This brought to light unsustainable private sector debt, and quickly resulted in widespread nonperforming loans (NPLs).

The ensuing rise in loan delinquency and excess private debt primarily affected the countries of the euro area periphery that had drawn on unsustainable debt flows within the currency union that suffered from growth imbalances. High NPLs undermined bank profitability and lending growth (IMF 2015a). Failure to resolve unsustainable corporate and household debt undermined growth more broadly, in turn perpetuating loan delinquency (Caracea et al. 2015). In the euro area periphery, NPL resolution therefore quickly emerged as a central element in national bank recovery policies, including in the five joint European Commission and International Monetary Fund (IMF)-led programs between 2008 and 2018.

However, it quickly became apparent that excessive NPL burdens in individual countries affected financial stability within the entire currency area due to cross-border exposures and tight links between sovereign and bank balance sheets (Council of the EU 2017a).

Once the financial and macroeconomic adjustment of the immediate post-crisis period was dealt with, EU bank regulation was therefore tightened, including to recognize problem loans more quickly and set aside provisions for future loan losses. Within the euro area, the European Central Bank (ECB) in 2014 took on its new role as supervisor of the largest banks in the currency area. Tentatively, and perhaps belatedly, Europe adopted an action plan for NPL resolution to contain risks from unsustainable private debt in bank assets.

It is often overlooked that success in NPL resolution was not just due to reformed EU regulation and newly established euro area supervision, but also depended on supportive national reforms, the subject of this chapter. Dealing with poor asset quality and write-offs required buffers in capital and profitability which were absent in banking systems that were undergoing profound structural change. Key areas of the resolution framework remained the prerogative of national policies, including legal frameworks for insolvency and debt restructuring, principles of provisioning and collateral valuation, and the restrictions in NPL sales and workout by third-party loan servicers. Some reforms were dealt with in IMF/EU financial adjustment programs with euro area countries, others were subject to diverging national policies. Europe thus offers a rich set of national resolution strategies, and some common principles for workout are now emerging that may be relevant for Asia.

Following the country case studies in Asia in Chapter 5, this chapter examines differing national approaches in NPL resolution in EU countries and derives policy implications for Asian economies. Seven case studies offer insights into the relative effectiveness of resolution strategies. This will address three key questions. To what extent were NPL resolution strategies well defined and a priority in individual EU countries? What have been the respective roles of bank-led resolution, systemic asset management companies, and of market solutions? What has been the relative success of such strategies in financial sector health and a recovery in lending? Throughout this study, the focus will be on national, not EU or euro area, policies. Making this distinction is crucial, even though absence of quantifiable indicators and identification problems prevent a clear attribution of success.

National impediments to NPL resolution in the EU remain significant, and section 6.2 offers a classification of such obstacles and reviews two surveys of national regimes. Section 6.3 then reviews the experience in addressing such national impediments in five euro area countries and two other EU countries with earlier NPL crises.

Section 6.4 assesses the impact of resolution policies. On the surface, the reduction in NPL ratios and stocks seems to be evidence that policies have been effective, though it is hard to attribute this reduction to any one actor—EU, IMF, or national authorities. The section therefore focuses on NPL markets and insolvency processes as two aspects on which policy effectiveness can be assessed directly. Section 6.5 then concludes and examines implications for emerging markets in Asia.

6.2 National Nonperforming Loan Resolution Frameworks

Why national obstacles to NPL resolution persist within common EU regulation and euro area supervision

NPL resolution has been an increasingly central aspect of the post-crisis agenda for European financial regulation and supervision since at least 2016, when clearer standards for banks were first published. Common policies emerged primarily at the euro area level, in preparation for the supervision established by the ECB in 2014, and the euro area bank resolution framework that was established in 2015. However, based on its powers to regulate within the single market for financial services, the EU also legislated in ways that made delinquent exposures more transparent, expedited more significant provisioning, and facilitated the transfer of loans. By early 2019, the following elements of the EU framework had been put in place.

- Common definition for nonperforming exposures and forbearance issued by the European Banking Authority in 2014 (EBA 2014).
- ECB guidelines for NPL management, issued to the about 120 euro area banks under direct ECB supervision in 2017, which put in place clear expectations for banks' internal management of NPLs. This was subsequently replicated in guidance by the EBA to smaller banks and non-euro area countries (ECB 2017a).
- Since 2018, International Financial Reporting Standard (IFRS) 9, which forces banks to adopt forward-looking provisioning (Lehmann 2017).
- Accelerated provisioning, through the ECB's supervisory expectations for the banks under its supervision, and in similar form for loans originated after April 2019 through the capital requirements regulation that applies across the EU, both significantly discouraging the renewed accrual of under-provisioned NPLs (the "prudential backstop").

- Other measures to stimulate the EU secondary loans market relating to data transparency and disclosure by banks, transfer of claims, and activities of loan servicers.

In mid-2017, the EU Council adopted a comprehensive NPL Action Plan, tasking various agencies with completing the framework (Council of the EU 2017b; see also Chapter 7). The EU law and common ECB standards in supervision have therefore considerably strengthened the framework for NPL resolution. This framework emerged relatively late after the crisis and as such could not prevent the significant buildup in NPLs and subsequent slow reduction in the stock of NPLs. Resolution policies were initially constrained by deep recessions in key crisis countries and the resulting weak banking sector capitalization and profitability. As the euro area recovered from 2014, NPL resolution and associated private debt restructuring moved to center stage.

This EU process ran up against numerous obstacles, arising in particular from national legal and tax regimes and the often poor quality of accounting information. These obstacles persisted because EU law derives from competencies relating to the single market, including through a common framework for bank regulation. EU law barely touches various areas of national law, importantly, principles for debt restructuring, enforcement, and insolvency law.[1]

National obstacles typically arise where investors and other financial institutions seek to acquire and service distressed assets and in banks' foreclosure or enforcement of collateral (the demand side). Investor appetite and valuations of NPLs offered in the market are constrained by the legal framework for insolvency and restructuring and poorly functioning or uncertain processes in national judiciaries.[2]

In addition, structural factors impede loan sales. National tax regimes, for instance, often do not offer tax relief for loan write-offs or for net present value reductions in the context of corporate debt restructuring. Bank supervision within the euro area remains a shared competency between the ECB and national authorities, which are responsible for less significant

[1] Two proposals in corporate debt restructuring and insolvency are not yet adopted though have reached political agreement: a 2016 proposal for enhanced preventive restructuring and the "fresh start" for entrepreneurs; and the March 2018 European Commission proposal for a directive for the extrajudicial enforcement of collateral and harmonized rules for credit servicers and purchasers.

[2] IMF (2015a) identified a clear negative correlation between the foreclosure periods and NPL stocks, and significantly higher expected rates of return and hence lower valuation can be imputed from such problems.

institutions. Common supervisory standards for the treatment of NPLs, including collateral valuation, have only been in effect since about 2017. Standards for less significant banks, let alone for EU banks outside the euro area, still vary significantly.[3]

These obstacles were identified, and to some extent addressed, in the financial support programs which the IMF and EU institutions jointly oversaw in the euro area crisis countries: in Ireland (2010–2013), Portugal (2011–2014), Spain (with a more focused financial sector program 2012–2014), Cyprus (2013–2016)—and of course in Greece, where the NPL ratio remains in excess of 40% in three programs between 2010 and 2018. All five countries underwent comprehensive bank restructuring and recapitalization essential for the write-down of delinquent claims or restructuring of private debt by banks.

However, no agreed inventory of national obstacles to NPL resolution exists and sufficiently comparable and comprehensive information is only available in two one-off surveys.

Stocktaking of national NPL frameworks

The first cross-country evidence emerged in a survey the IMF conducted in 2015 (IMF 2015a, 2015b). This was based on responses from national authorities in 9 euro area countries and 10 other jurisdictions in the EU and neighboring countries which had displayed high NPL ratios following the European debt crisis.[4]

The functioning of the judiciary and lengthy insolvency procedures were a recurring concern. Corporate insolvency law was seen as inadequate in numerous countries, suffering from poorly functioning resolution or rehabilitation procedures and an absence of simplified and cost-effective frameworks for small and medium-sized enterprises (SMEs) which constituted the bulk of corporate sector NPLs. Insolvency frameworks for households were often missing entirely, a particular concern in non-euro countries. These obstacles were, on the whole, more severe in the non-euro area countries which had less developed local debt markets. The inefficiency detected in this area broadly matched World Bank indicators for the efficiency and costs in national insolvency proceedings.

[3] EBA (2016) shows the variation in NPL levels across different types and sizes of banking institutions.

[4] Country responses were verified based on a survey of cross-border banking groups operating in these jurisdictions, though in the published version countries could not be identified.

The ECB also published a comprehensive stocktaking of national provisions and obstacles in NPL resolution in the 19 euro area countries in March 2016 and updated it in 2017 (ECB 2017b). Both exercises were designed as input to the then-emerging ECB NPL guidance to banks. Questionnaires were considerably more detailed than those in the IMF survey. Unlike in the IMF survey, the ECB drew only on responses from the authorities.

Ineffective supervisory regimes for NPLs emerged as a key concern (Box 6.1 lists the key aspects of such regimes). Most high-NPL jurisdictions had specific supervisory regimes for NPL resolution, though these often lacked teeth, for instance due to the absence of on-site inspections. The wide-ranging and fairly intrusive ECB guidance to banks on NPLs was drafted at the time of the survey and superseded national regimes when the ECB took over the supervision of the significant institutions in 2015.[5]

Country responses are highly detailed and do not lend themselves to aggregation across the 19 countries that responded. The IMF's finding that legal impediments have frustrated NPL resolution, however, seems to be reflected in the relatively poor indicators of some countries with persistent high NPL levels, such as Cyprus and Greece. A finding similar to that of the IMF was that reforms of legal, judicial, and out-of-court restructuring frameworks were progressing only slowly, and that inadequate capacity (for instance, specialist judges or insolvency experts) was a key obstacle.

Recent trends in NPL resolution policies

The IMF and ECB assessments of national obstacles to NPL resolution take stock at two points in time and have not been updated. Looking at recent trends in such policies, the European Commission found that more than half of the EU's then 28 member states had undertaken some steps to reduce NPLs. These were focused on NPL sales (at least six countries); establishment of central asset management agencies (in Ireland, Slovenia, and Spain); securitization schemes (Italy); and improved capacity within banks. Initiatives in NPL management are part of a broader package of measures aimed at risk reduction in the financial system, also comprising legal and judicial reforms and micro and macroprudential policies. Such measures are now regularly and comprehensively monitored, albeit based on diverging understanding among the authorities of what reforms

[5] As with other documents issued by the supervisor, such guidance is not legally binding, though it has become a key part of the ECB's supervisory review and evaluation process, the second pillar of banking supervision.

should comprise. Appendix 2 lists recent reforms in the five case study countries as they were reported by national authorities.[6]

Box 6.1: Main Elements of the 2017 European Central Bank Stocktaking

Supervisory regime regarding credit risk and nonperforming loans (NPLs)

- Is there specific guidance on the treatment of NPLs and forborne exposures; data collection requirements and exit criteria?
- Guidance on provisioning beyond accounting standards.
- Guidance on collateral valuation, and requirements for appraisers and data collection.
- Guidance on NPL governance and workout, covering internal strategy and internal governance, operational targets; outsourcing of NPL management and role of nonbanks.
- On-site inspections and thematic reviews of NPL management.

Legal, judicial, and extrajudicial framework

- Development of the NPL markets, impediments to the transfer of loans and to sales to nonbanks and foreign investors; presence of asset management companies.
- Out-of-court enforcement of collateral; sales of repossessed assets and bans on foreclosures.
- Quality of corporate insolvency and restructuring framework.
- Quality of the household insolvency and restructuring framework.
- Features of the judicial system (e.g., specialized judges, time requirements)
- Main features of the tax regime.

Information framework

- Central credit registries and asset registers, debt counselling, and impediments through excessive data and consumer protection.

Source: European Central Bank (2017b).

6 For a stocktaking of recent reforms based on such a classification, see EU Commission, ECB, and Single Resolution Board (SRB) (2018).

6.3 Case Studies of Resolution Strategies

The detailed case studies of national NPL resolution strategies in this section review two countries outside the euro area with relatively independent policy design in the early post-crisis period, and five euro area countries afflicted by high NPL levels with more protracted resolution histories. Table 6.1 summarizes indicators on the evolution of NPLs and private debt, and Table 6.2 the principal dimensions of resolution strategies.

Table 6.1: NPL Ratios and Private Debt in Case Study Countries

	NPL Ratio[a]		Coverage Ratio[b]	Corporate Debt, % of GDP[c]		Household Debt, % of GDP[c]	
	2012	2017	2017	2012	2017	2012	2017
Euro Area Economies							
Greece	23.3	45.6	46.9	65.9	60.6	64.6	56.4
Italy	13.7	14.4	50.6	73.6	60.3	43.3	40.8
Portugal	9.7	13.3	48.6	99.1	76.3	88.8	67.7
Spain	7.5	4.5	41.9	105.6	75.0	80.2	60.7
Slovenia	15.2	3.2	62.9	79.3	46.2	30.6	27.0
Ireland	25.0	11.5	29.5	175.1	190.1	98	47.2
Germany	2.9	1.5	41.3	40.7	40.9	55.8	52.2
Other EU Countries							
Romania	18.2	6.4	67.6	51.4	34.8	20.6	16.1
UK	3.6	0.7	31.9	68.3	65.7	87.5	84.6

EU = European Union, GDP = gross domestic product, NPL = nonperforming loan, UK = United Kingdom.
Sources: [a]World Bank, based on IMF Financial Soundness Indicators; [b]European Banking Authority Risk Dashboard; [c]Eurostat, based on consolidated reporting.

Table 6.2: Dimensions of Resolution Strategies in Case Study Countries

	Supervisory Guidance[a]				OECD Indicator on Quality of the Insolvency and Restructuring Regime[b]		AMC		Cumulative NPL Sales
	NPL Recognition	Provisioning	Collateral Valuation	NPL Governance	2010	2016	Year Established	Initial Portfolio, Gross (€ billion)	2015–2017 (€ billion)
Euro Area Economies									
Greece	2	0	1	5	0.63	0.38			7.5
Italy	1	0	3	0	0.53	0.44			119.0
Portugal	2	4	4	0	0.52	0.31			4.8
Spain	3	2	4	1	0.39	0.31	2012	€106	43.0
Slovenia	3	2	3	5	0.58	0.33	2013	€5.5	1.4
Ireland	3	2	4	5	0.39	0.31	2009	€74	36.0
Germany	0	0	3	1	0.44	0.28	2010	€252[c]	15.0
Other EU Countries									
Romania									5.6
UK					0.10	0.10	2010	£75[c]	53.0

AMC = asset management company, EU = European Union, NPL = nonperforming loan, OECD = Organisation for Economic Co-operation and Development, UK = United Kingdom.

Notes: [a] The indicators represent the number of additional requirements in force in addition.
[b] Lower indicators represent better regimes.
[c] Bank-specific asset wind-down entity; in the case of Germany, two entities were set up in 2010 with initial portfolios of €77 billion and €175 billion, respectively.

Source: European Central Bank. 2017b. Stocktake of National Supervisory Practices and Legal Frameworks Related to NPLs. Frankfurt.

6.3.1 Two Early Resolution Experiences in European Union Countries outside the Euro Area

United Kingdom

The United Kingdom (UK) was the first EU country to be impacted by a full-blown banking crisis, in 2008. Unlike in the later crises in the euro area periphery, two midsized failing UK banks (Northern Rock and Bradford & Bingley) were swiftly resolved and the funding and capital position of others protected through the state. The emerging NPLs were separated relatively quickly, primarily through a government-owned resolution agency.

In 2009, the UK Treasury established an asset protection scheme into which the Royal Bank of Scotland as the largest distressed bank placed assets valued at pound sterling (£) 282 billion. The bank guaranteed a first loss of 6% of assets. The protection by the state of the remaining portfolio value represented considerable contingent liability to the taxpayer but was conditional on the bank's commitment to increase lending (Baudino and Yun 2017). In 2010, an asset management company (AMC) was established (UK Asset Resolution) which initially took over £75 billion in gross value of residential mortgage assets from the two failed banks, making it one of the earliest, though by no means largest, "bad banks" in Europe.

Even though the UK's banking crisis was severe and unexpected, three factors helped in NPL resolution. First, highly liquid capital markets for NPLs, other distressed debt, and banks' noncore portfolios assisted considerably in bank restructuring. For many years following the crisis the UK market was the most liquid, whereas other European countries encountered considerable delays in making NPL sales an effective resolution tool. NPLs were concentrated in real-estate backed loans, which could be easily absorbed in UK distressed debt markets. Second, insolvency law, and out-of-court workouts of corporate debt, were always reasonably efficient in the UK. This was evident in the courts' processing of insolvency, but also in the UK's world leading standard in out-of-court restructuring (the INSOL Principles), which helped in saving distressed but viable enterprises. Third, the government's resolution scheme was relatively swiftly approved in compliance with EU state aid rules (which resulted in significant delays in later crisis countries). By early 2020, the UK Asset Resolution had wound down its balance sheet to £6.3 billion, from £116 billion at the time of formation.

Romania

Romania, as many other formerly socialist transition economies, saw a period of extremely rapid financial sector growth leading up to, and immediately following, its accession to the EU in 2007.[7] The majority of banking sector assets was under the control of foreign-owned subsidiaries. While foreign subsidiaries brought much-needed banking skills and technology to the country, they also engaged in some risky funding practices and in foreign-exchange-based lending, for which loan quality later deteriorated most rapidly. Weak credit standards and lending to the overly buoyant real

[7] Between 2004 and 2010 (the year immediately following the crisis), Romania's credit-to-GDP ratio increased from 16.6% of GDP to 40%. In 2007, the year of EU accession, real credit growth stood at 50%.

estate sector proliferated. The steep recession of 2008–2010 was then followed by a period of foreign bank deleveraging and a brief contraction in domestic credit.

By 2013, Romania's NPL ratio had reached a peak of nearly 22%, one of the highest ratios in emerging Europe. The stock of delinquent loans was predominantly owed by nonfinancial corporations, in particular by microenterprises and SMEs. Until about 2011, nearly half of corporate lending was in foreign exchange, resulting in risky unhedged exposures within enterprises and households.

Nevertheless, the banks' capital coverage was at an ample 14.7%, and the provisioning ratio at 63% under IFRS standards. This provided buffers with which the banking industry could implement NPL resolution. Underpinned by a rapid economic recovery, Romania then saw one of the steepest reductions in the NPL ratio of any country in the EU (Figure 6.1).

Under the 2013 IMF program, the government and central bank had already committed to a package of measures, which subsequently was articulated in a so-called NPL resolution action plan (IMF 2013). This plan clarified the supervisory powers of the National Bank of Romania in this area, set clear standards for supervised banks, and put in place prudential incentives to divest NPLs with no chance of recovery.

Between 2014 and 2016, the National Bank of Romania then adopted a series of recommendations on provisioning and write-offs:

- to write off uncollectable NPLs fully covered by provisions;
- to fully cover with provisions the exposures having debt service overdue by more than 360 days where no legal action had been taken against borrowers, followed by their removal;
- to establish 90% provision coverage of NPLs for exposures against insolvent borrowers;
- to carry out an external audit on the IFRS provisions established by banks to cover losses for the existing loans and on the banks' collateral; and
- to fully cover by provisions the unsecured NPLs overdue for more than 180 days, followed by their write off (Voinea 2017).

Collateral valuation was also strengthened between 2013 and 2015 and shortfalls had to be swiftly corrected through additional provisioning.

These measures implemented by the supervisor were backed by reforms to bankruptcy proceedings, which were typically very lengthy, and resulted in low recovery values (World Bank 2014). An inefficient court system did not allow swift processing of cases. The government committed to the establishment of a specialized court and the training of judges for such cases. Out-of-court workouts were relatively rare and only subsequently became part of the program.

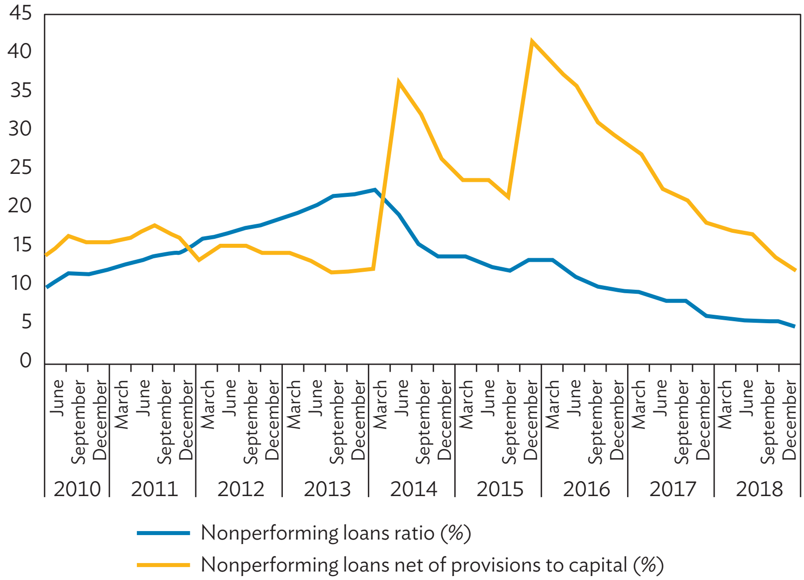
The central bank also adopted measures to open the secondary market for distressed debt. This market had been held back by discrepancies in how debt sales were treated in the tax code and in accounting terms. Together with the stricter rules for provisioning and write-offs, this resulted in a temporary boom in NPL sales, even though by 2016 government measures aimed at the protection of mortgage borrowers raised uncertainty over enforcement and valuation.[8]

While this program of measures was initiated under the IMF program, the National Bank of Romania subsequently continued implementing it. Ownership and policy will to deal with NPLs seemed very strong. Success was underpinned by a rapid recovery in growth and property values and by a number of successful NPL transactions that attracted the interest of international investors. Until today, relatively high corporate debt lingers, and insolvency cases remain protracted.

In late-2017, Romania adopted an innovative systemic risk buffer, which set higher capital requirements for high-risk institutions with either elevated NPL ratios or inadequate loan-loss coverage. This is expected to equip banks to deal with a future rise in NPLs (European Systemic Risk Board [ESRB] 2019).

[8] These initiatives refer to limiting the tax deductibility of write-offs arising in loan sales and to limiting the amounts that can be collected from debtors to, at most, double the purchase price of the loan. The National Bank of Romania expressed concern that these measures would limit supply of NPLs for market sales and reduce prices for such sales (also see Cloutier and Montes-Negret [2014]).

Figure 6.1: NPL Ratio and Provisioning Ratio in Romania



NPL = nonperforming loan.
Note: A new European Union standard for the classification of nonperforming exposures and forbearance came into effect in 2013 and led to a one-time upward revision in reported NPL figures.
Source: National Bank of Romania.

6.3.2 Nonperforming Loan Resolution in Five Euro Area Countries

The euro area crisis of 2010 to 2013 was as much a financial sector crisis as a sovereign one. The crisis exposed flaws in the architecture of the currency union which had fostered large credit flows to the periphery of the region but featured no tools to deal with country-specific shocks or the resulting banking fragilities. Until 2014, banking sector policy was firmly in national hands and the coordination of macroprudential policies between EU countries had only just begun.

Protection of large national banking institutions and deep exposures by banking sectors to the respective sovereigns therefore endured in the first decade of the currency union. Regulatory forbearance that tolerated poor asset quality was widespread. With the crisis, booming property prices came to a sudden halt in Ireland and Spain as credit flows reversed. Protracted corporate debt crises lingered for much longer in other euro area countries, such as Italy and Portugal, and national insolvency regimes did not facilitate the necessary reductions in excess debt.

The rise in euro area NPLs was the predictable result of the abrupt tightening in financial conditions and the ensuing recession of 2009–2010. The very tepid recovery, and a second recession in Italy in 2012, led to a protracted worsening of private sector debt distress. For the euro area as a whole, the NPL ratio peaked at about 8% in 2013, though NPL stocks were heavily concentrated in just six countries (Chapter 1).

Ireland epitomized the earliest resolution experience within the currency union, and some key elements preceded the IMF/EU program initiated in 2010. The valuation and speedy divestment of commercial real estate and other business lending is still regarded as exemplary. The National Asset Management Agency was set up in 2009 and acquired property loans with a gross value of €74 billion from Irish banks, valuing the assets at 43% of gross value. The agency has successfully recovered value and, in fact, returned a surplus over the acquisition value to the state.[9] Banks themselves also enforced on collateral of delinquent corporate loans on their books. At the same time, the workout of residential mortgages proceeded much more slowly. Restructuring solutions were offered only much later, and the arrears reduction targets set by the central bank were based on restructuring solutions with questionable value for borrowers (Coffey 2018). As would later become evident in other euro area countries, public opposition would make enforcement in this sector very difficult.

In other euro area countries, banking distress was more contained and the public sector balance sheet more comfortable, allowing more leeway in designing resolution strategies. Germany in 2009 and 2010, for instance, created two sizable state-owned AMCs to assist in the wind-down of two failed banks. Political considerations in saving regional savings banks outweighed the significant impact on public debt (8% of GDP in the case of the larger AMC).

It was not until 2014, when the ECB took over bank supervision, that the significant threat from the "legacy debt" to the financial stability in the entire euro area was recognized. Together with the so-called sovereign-banking nexus, NPLs quickly became the main focus of risk reduction within the currency area. The stocks of NPLs were seen as the main obstacle to further financial integration and to the establishment of joint tools for stabilization, most notably the common bank resolution fund and the attempt to create

[9] The National Asset Management Agency was initially set up as a private entity to comply with new statistical rules on state support to the banking sector. This private nature subsequently came to an end when important shareholders were nationalized (Medina Cas and Peresa 2016).

a deposit insurance system. While NPL problems were concentrated in only six countries, negative spillovers across the entire currency area were evident in discouraging financial integration through cross-border credit or bank mergers, and in perpetuating sovereign risks from contingent liabilities.[10]

In 2014, the EU-wide definition of NPLs became the basis for the asset quality review and stress test, and subsequent assumption by the ECB of microprudential supervision of the largest banks. Under the supervision of the ECB, banks improved their internal procedures and documentation standards, and this effort is now gradually mirrored by national supervisors elsewhere in the EU. Ultimately, a more comprehensive strategy was articulated in the EU-wide "NPL action plan" of 2017.

Common bank supervision in the euro area was only gradually backed by more consistent national policies, importantly in insolvency law and debt restructuring. Efforts in the key countries built on reforms in earlier IMF/EU programs in Cyprus, Ireland, Portugal, and Spain, where the fund as well as European institutions were engaged between 2010 and 2014, and the second and third programs in Greece. In the euro area, the IMF also made NPL resolution a key element of its supervision through the periodic Financial Sector Assessment Programmes and additional research (IMF 2015a).

Five country cases illustrate how national policies underpinned, or frustrated, common euro area financial policies. The marked drop in euro area NPLs, and a somewhat less pronounced fall in excess private debt, are evidence that this effort has partially succeeded, barring remaining problems notably in Greece.

Spain

Spain illustrates a national resolution strategy that was closely guided and supported by the IMF, the European Commission, and the ECB. The combination of thorough asset quality reviews in 2012 and comprehensive bank restructuring contained the costs of bank equity and liquidity support borne by the government and brought an end to the credit contraction. Spain's AMC, SAREB, was established in 2012 and remains Europe's largest.

[10] The ECB first designated Cyprus, Greece, Ireland, Italy, Portugal, Slovenia, and Spain as high-risk jurisdictions through more in-depth coverage in its stocktaking of national supervisory practices (2017b).

Problems in the Spanish banking sector resulted to a large extent from poor governance in savings banks, the so-called *cajas*. These institutions benefited from a more lenient regulatory regime but suffered from poor risk management and often thin capital coverage of questionable quality. Control by local foundations and other stakeholders exposed these banks to political interference, and in many cases a culture of forbearance took hold (also see Garicano 2012).

Asset quality problems were concentrated in commercial property.[11] This sector had concerned the supervisor for some time. Innovative regulation, such as the system of dynamic provisioning, however, proved insufficient in the face of the ultimate capital shortfall once the bubble in commercial and residential real estate had burst.

The Spanish banking sector benefited from an as-yet unique financial assistance for recapitalization obtained by the Spanish government from the European Stability Mechanism.[12] The agreement with the EU, with the IMF participating as observer, put in place the key elements of the financial sector adjustment program: an asset quality review and a stress test, bank resolution, recapitalization and consolidation of the cajas sector, and the establishment of an AMC. As a result of this review in late-2012, a capital gap of €59 billion was identified for the sector in total, and this was bridged largely through public capital injections and a limited bail-in of bond holders (Véron 2016). This provided relative certainty for the valuations of property portfolios in a rapidly declining market.

SAREB, the systemic AMC, was established relatively swiftly in late 2012. The transfer of distressed real estate assets of €106 billion at book value, was subject to an average 52% “haircut” and compulsory for banks receiving public capital injections. With a relatively long-life horizon of 15 years, the institution could focus on valuation and recovery in the real estate sector and is phasing divestments as the property market recovers. SAREB also catalyzed a market for distressed assets. It played a key role in attracting investors and in developing four servicers with restructuring expertise, making Spain one of the most significant distressed loan markets in Europe, with SAREB as a key source of supply.

11 Construction and real estate accounted for 60% of defaulted exposures in mid-2012.

12 At the insistence of some euro area countries, the IMF supported this program through advice, though not additional finance.

Bank restructuring was supported by a number of reforms to the legal framework and supervision, including:

- upgrades in the framework for provisioning and collateral valuation;
- legal amendments facilitating debt restructuring for both enterprises and households, offering a “fresh start” to those previously insolvent (IMF 2015c);
- amendments to the insolvency law which appears to have been effective in taking nonviable companies into liquidation (EU Commission 2019);
- requirements set by the Bank of Spain for strengthened disclosure of distressed assets by individual banks; and
- stronger internal audit functions and procedures for dealing with impaired assets.

By 2017, the ECB had assessed the NPL resolution framework as superior to the average in the euro area (ECB 2017b). Overall, the Spanish adjustment program, through an early recovery and policies aimed at NPL resolution, has succeeded in reducing the aggregate NPL ratio from a peak of 13.6% of gross loans in 2013 to 4.1% by mid-2018. The domestic enterprise sector still showed a slightly elevated ratio of 6.8%, though debt ratios were improving. By the third quarter of 2018, corporate debt had fallen to 75% of GDP from a peak of 116% in 2009, as buoyant GDP growth reduced the debt servicing burden for enterprises that increasingly took on new credit to fund investments.

By 2018, the period of banking sector deleveraging appears to have come to an end. Credit to the corporate sector was still declining as NPLs were divested, in the construction and property sectors in particular. Bank profitability indicators were improving, as were indicators of credit availability. This was a striking contrast with the situation in early 2013, when credit to enterprises had been falling at an annual rate of almost 8%, and the risk premium over lending rates in Germany had exceeded 2 percentage points. A significant share of delinquent real estate related debt remained within SAREB. Given the losses incurred over recent years and the ongoing recovery in property prices, the latest SAREB business plan foresaw a back-loading of divestments toward the end of the institution’s lifetime (Medina Cas and Peresa 2016).

Portugal

Portugal's NPL problem has proved more intractable than that in Spain. After Greece and Cyprus, the country in 2018 showed the third-highest NPL ratio in the currency union. The country's experience underlines how the absence of early and comprehensive asset quality review, and inadequate private debt restructuring processes can undermine NPL reduction.

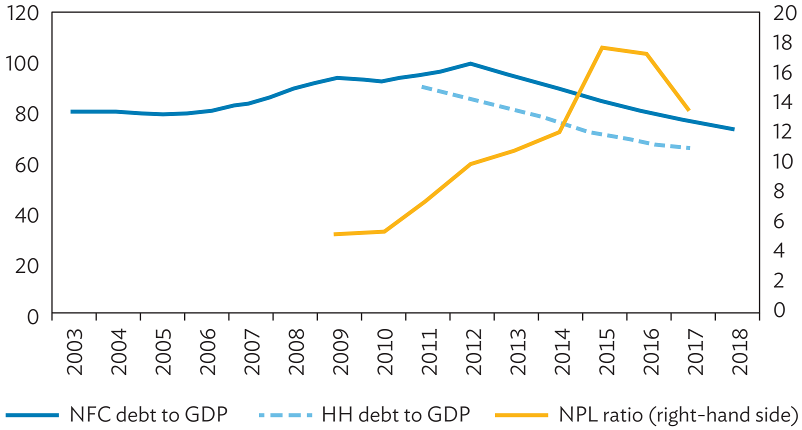
Portugal did not experience a major property boom, as was the case in Ireland or Spain. However, unlike other countries in the euro area periphery, a period of low growth and rising private sector debt distress started already in about 2000 and was more wide-ranging across sectors, as it exposed a profound lack of productivity growth well ahead of the later euro area crisis. Despite a rapid rise in external bank funding following accession to the currency union at its inception in 1999, capital inflows were channeled to a narrow part of the economy and funded largely unproductive firms in the domestic services sector. As the real exchange rate appreciated, resources were channeled away from export-oriented sectors (Reis 2013).

Portugal therefore experienced a very rapid rise in corporate sector debt in the years leading up to the financial crisis of 2008–2009. By 2012, the ratio of corporate debt on a consolidated basis had peaked at 99% of GDP. This ratio was extremely high in the EU context, and well above the threshold level identified in the empirical literature beyond which damaging effects to growth set in (Table 1) (Cecchetti, Mohanty, and Zampoli 2011). Excess leverage rendered firms vulnerable to the post-crisis phase of consolidation and low growth and resulted in a rapid further deterioration in company finances and loan performance.[13] Bank asset quality problems therefore were more protracted than in other euro area countries (Figure 6.2).

Addressing excessive private sector indebtedness was one of the key objectives under the IMF/EU program, as coordinated with the ECB and EU within the troika. As agreed with the IMF, the authorities reformed court-led and out-of-court corporate debt restructuring, and in 2014 a strategic plan for corporate debt restructuring was launched. Changes to the commercial code promoted the issuance of equity-type instruments, encouraging private restructuring schemes rather than liquidation of over-indebted companies. Also, a new debt restructuring mechanism was added to the bankruptcy

[13] The debt stock of the nonfinancial corporate sector peaked at about 213% on an unconsolidated basis in 2013. The unconsolidated corporate debt figures do not net out claims within the sector. This is a more accurate reflection of the likely debt burden of individual enterprises.

Figure 6.2: NPLs and Private Debt in Portugal



GDP = gross domestic product, HH = household, NFC = nonfinancial corporation, NPL = nonperforming loan.
Sources: International Monetary Fund Global Financial Soundness Indicators (NPL ratios) and Eurostat.

code, facilitating out-of-court procedures. Courts could now enforce out-of-court agreements concluded between creditors representing a majority of claims. A public mediator facilitates such out-of-court agreements with micro and small enterprises, supported by an electronic platform to reduce paperwork (EU Commission 2016).

Still, by the end of the program period (2011–2014), the IMF assessment found progress to be inadequate (IMF 2014a). Creditor coordination was still poor, the government agency tasked with out-of-court procedures seemed inefficient, and agreed restructuring schemes did not entail sufficient write-downs, rendering borrowers prone to relapse into delinquency. A strategy for the numerous SME cases was lacking.

For these reasons the banking sector remained fragile. Reliance on ECB liquidity provision was not meaningfully reduced, NPLs remained very high, and the banking sector remained loss-making. No significant private investors could be attracted into the sector. Unlike in Greece and Spain, no independent balance sheet review had been undertaken, and the IMF did not seem to press for equity injections, possibly from new owners, even though the state held significant stakes in the sector. Also, the central bank in its role as supervisor did not exert sufficient pressure to address forbearance in delinquent private sector loans

(Véron 2016 and IMF 2014a). The resolution of two systemic banks shortly after the conclusion of the IMF program underlined this rather poor outcome in restoring banking sector health.[14]

More recently, the authorities seem to have become more ambitious. A comprehensive strategy for NPLs adopted by the Banco de Portugal in 2017 mirrored the ECB guidance (Banco de Portugal 2017). The main elements envisaged that:

- banks need to report impairments in specific asset types and in assets with longer-running impairment history;
- there would be more intense information requests of banks with NPL ratios above a certain threshold, leading to in-depth diagnostics of such portfolios;
- reduction targets were set by asset class and time horizon; and
- supervisory pressure would be stepped up on banks to develop strategic and operational plans in the internal management.

The government also appeared to support corporate deleveraging. Tax and social security authorities took common decisions in corporate restructuring negotiations and write-offs were made tax-deductible under certain conditions.

The problem of multiple credit relationships of distressed borrowers was also being addressed. In early 2018, a private coordination platform was launched by the three largest banks which aims to expedite restructuring.[15] The platform negotiates restructuring solutions with delinquent borrowers on behalf of the lenders, and it is also open to represent the claims of other lenders. It may also sell the joint claims to investors. The platform aims to attract both public and private funds and offers technical assistance to restructure debt-distressed but viable businesses (EU Commission 2018a).

In sum, the Portuguese supervisor began to scrutinize NPLs and excess corporate leverage relatively late and did not seem to coordinate sufficiently with the government. Government support emerged only in 2016, when excessive corporate leverage was clearly holding back the recovery materializing elsewhere in Europe.

[14] Banco Espirito Santo, Portugal's third-largest bank, was resolved through a good bank–bad bank split in August 2014. Banif, a smaller bank, was resolved in December 2015.

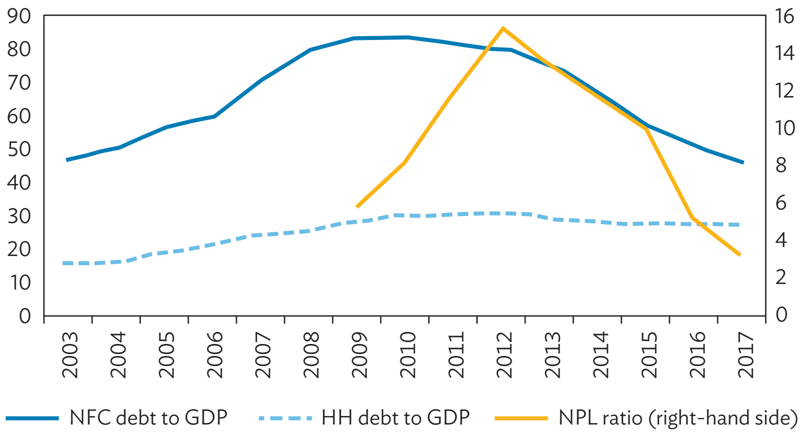
[15] The Integrated Bank Credit Trading Platform was launched in early 2018 by Portuguese lenders Caixa Geral de Depositos, Banco Comercial Português Millennium, and Novo Banco.

Slovenia

As a former Yugoslav Republic, Slovenia showed a historically large state-ownership of the corporate sector, with the largest three banks also in state hands.[16] These close linkages, and the fragilities that they entailed, remained intact following EU accession in 2004. From that point, EU law constrained state aid though did not result in ownership separation or changed lending practices by state banks.

The otherwise sound macro policies then allowed accession to the euro area in 2007, making Slovenia the first of the EU's "new" member state to take this step. Membership in the currency area resulted in a compression in country risk premiums and a surge in wholesale funding directed to the banking sector (the loan-to-deposit ratio similarly doubled). Loans were mainly directed to the corporate sector, while household indebtedness remained relatively low. The total credit-to-GDP ratio increased from 90% to over 170% of GDP in 2008, while corporate debt remained above 80% of GDP until 2011 (Figure 6.3).

Figure 6.3: NPLs and Private Debt in Slovenia



GDP = gross domestic product, HH = household, NFC = nonfinancial corporation, NPL = nonperforming loan.
Sources: International Monetary Fund Global Financial Soundness Indicators (NPL ratios) and Eurostat.

[16] In 2013, state-owned enterprises in Slovenia were estimated to generate one-sixth of value added.

As elsewhere in the euro area, the 2008 crisis resulted in rapid deleveraging by the largely domestically owned banking sector. This was reinforced by high leverage of the corporate sector, an abrupt tightening of risky lending practices by state banks, and a rapid rise in NPLs to 19% in 2012, which eroded bank profitability.[17]

Despite the sharp macroeconomic and financial sector deterioration, with GDP contracting by nearly 10% in the 4 years to 2013, the adjustment in the following years took shape without a formal support program of the IMF, EU, and ECB. The concerted resolution strategy was designed by the government and central bank from 2013, and was closely coordinated with the EU to address concerns over state aid. In effect, the central bank's asset quality review was the first under the new EU standards.

Stress tests and asset quality reviews of the eight largest banks in late 2013 exposed large gaps in capital. The three largest state-owned banks were recapitalized by the state following a write-down of subordinated claims and of previous shareholders. State support to the banking sector was subject to commitments to the EU that two banks would be fully privatized, and that state ownership would be significantly reduced.[18] Along with the imminent transfer of supervision of significant institutions to the ECB, this raised incentives for NPL resolution within the banks.

A key element of bank restructuring was the establishment of the Bank Asset Management Company. In 2013 and 2014, this AMC took over distressed corporate loans from six banks valued at €1.7 billion (or €5 billion in gross value). But takeover of these portfolios suffered lengthy delays. New EU rules for determining state aid to banks had just come into effect, requiring valuation of portfolios at market prices. In addition, documentation of loans within the banks was often poor.

The asset transfers were comprehensive and equivalent to 60% of NPLs to domestic enterprises, or about 16% of Slovenian GDP. Two-thirds of this portfolio consisted of loans in foreclosure, where the AMC acquired collateral, mostly real estate. However, the portfolio also included a substantial portion of about 100 cases of potentially viable companies, where the AMC initiated restructuring. This restructuring work was supported by

[17] Damijan (2014) found half of the firms to have unsustainable leverage ratios, undermining firm performance and survival rates. However, this debt, and particular debt within unviable firms, was also highly concentrated in the largest firms. Focused restructuring efforts were hence easier to design.

[18] The three largest banks were recapitalized by the state with €3.7 billion, of which €700.0 million was in the form of the bail-in of certain creditors.

special powers under Slovenian law, which allowed it to acquire exposures from other banks, thereby attaining a critical vote in restructuring decisions. Unlike Europe's two other system-wide AMCs, in Ireland and Spain, which acquired large real estate portfolios, the Slovenian AMC was confronted with significant challenges in recovering value through corporate restructuring. The work of the Slovenian AMC, and that of the banks with the remaining exposures, was facilitated through the revision of the Slovenian insolvency code in 2013, and the related out-of-court restructuring principles, agreed within the banking industry.

Despite the protracted restructurings and changes in the Bank Asset Management Company management directed by the government, its financial performance has been positive. In the 5 years following its inception, the AMC generated cumulative cash flows of nearly €1.1 billion, representing nearly 60% of the fair value of the loans transferred. Most of these cash flows arose from maturing loans, and in recent years loan sales also picked up. The guarantee exposure of the state to the AMC was substantially reduced and through guarantee fees and interest payments an annual average return of 25% on equity has accrued (Balogh 2018).

Supervision was considerably tightened, building on the asset quality reviews and stress tests of 2013. In 2015, the Bank of Slovenia issued guidance to banks on the organizational structure of NPL management and debt workout, and annual reduction targets, foreshadowing a similar approach by the ECB relative to the largest banks in the euro area. Following the transfer to the AMC, the NPL ratio fell to 13%, with most delinquent loans concentrated in the corporate sector. The affected banks significantly stepped up their efforts in corporate debt restructuring.[19]

The case of Slovenia underlines that a program for banking sector recovery needs to comprise a framework for restructuring of corporate exposures, possibly extending into operational and financial restructuring. Even for the more complex asset types among larger enterprises in Slovenia, this restructuring could proceed once the legal framework and capacity in the judiciary had been upgraded. Close coordination between the government and central bank as financial sector supervisors was essential to tackle long-standing and risky lending practices. Slovenia's corporate debt crisis came to a head as the euro area was already recovering, benefiting the highly export-oriented corporate sector.

[19] Under the new EU classification for nonperforming exposures, even restructured and newly performing loans would remain classified as NPLs for at least another year.

Italy

Italy, which accounted for roughly a third of the stock of euro area NPLs in 2018, remains a focus of European efforts to deal with the stock of so-called legacy debt. NPL workout is intricately linked to the complex and long-delayed reform of the Italian banking system, which will require tackling chronically low profitability and excessive fragmentation of the sector and the destructive links between bank and sovereign balance sheets. Banking sector reform has been slow and intermittent. Yet, Italy's experience is instructive, given the recent dynamism in its NPL market and a government scheme to support this market, until 2018 without the help of an asset management entity.

Unlike in other euro area countries, Italy did not experience a credit or property boom ahead of the crisis. Household debt and credit quality were not excessive. Yet, economic growth had been chronically weak throughout Italy's membership in the Economic and Monetary Union. NPLs rose quickly once the 2009 recession hit and in the subsequent very weak recovery and further recession (Table 1). Bank capital buffers were thin (at 11.7% capital adequacy in 2009), discouraging write-offs, and the Bank of Italy exerted only limited pressure on banks. A complex insolvency law, obstacles in the tax system, and lengthy processes in the judiciary further impeded a workout led by the banks. The ECB (2017b) assessment found the framework to be weaker in most dimensions than the average of jurisdictions with high NPL levels.

Without the more comprehensive support awarded in the IMF/EU programs in other countries, and given continued political uncertainty, concerted measures aimed at NPL resolution in Italy came relatively late.

In the summer of 2015, the government adopted a package of measures that shortened the length of insolvency procedures, accelerated the tax deductibility of provisions, strengthened debt enforcement, and reformed the civil justice system. In 2016, there were also reforms to out-of-court enforcement through exercising real estate collateral and other measures to enhance transparency of insolvency procedures (Garrido, Kopp, and Weber 2016). The Italian law on loan securitization has been reformed to allow more flexible use, including by simplifying loan sales and allowing special purpose vehicles (SPVs) to engage in loan restructuring. By 2016, supervisory pressure on the largest banks, including through the setting of reduction targets, brought considerable additional supply of NPLs to the distressed loan market.

In addition, several measures have been aimed at a consolidation of smaller banks, strengthening of bank governance, and liquidation of various smaller banks. Consolidation and resolution of smaller banks moved a considerable stock of distressed debt into markets and removed inherently fragile institutions from the sector.

As in other countries, the Italian NPL market has historically displayed large gaps between valuations offered by investors and those demanded by the originating banks. To bridge this gap, the Italian government in 2015 proposed establishing a publicly backed AMC. This scheme could not be agreed with the EU Commission, however, as the acquisition of portfolios by the AMC at valuations above the market price would have triggered state aid procedures.

An alternative scheme (GACS) was agreed in early 2016.[20] Government guarantees are provided for securitizations of NPLs. Each participating bank establishes an SPV which funds the portfolio acquisition by issuing bonds in different risk tranches. The most senior tranche could be guaranteed by the government in return for a guarantee fee that is based on market prices for comparable credit default swap instruments, though this is only possible once at least half the junior tranches have been placed with private investors. Until September 2018, 14 transactions with a total gross value of €59 billion had been concluded. The scheme appears to have been of limited use to the smaller banks in Italy which face more difficulties in pooling assets of sufficient size, and in providing detailed loan-level data.

Also, in early 2016, a bank recapitalization fund (Atlante) was set up. This was funded by several private Italian banks, with only minority participation by a public fund, but emerged only after state pressure on the banks. Atlante was to act not only as a buyer of last resort of bank equity, but also of junior tranches of NPL securitizations. The fund has been criticized for elevating the role of the state and raising the risk of contagion between key banks (Merler 2016).

By mid-2018, the Italian NPL ratio had decreased to under 10%. This relatively rapid decline from a peak of 18% in 2018 reflects a number of large NPL sales and securitizations by the largest banks. The rapid emergence of a dynamic NPL market in Italy in recent years came on the back of a fairly well-developed loan servicing industry and through the

[20] GACS is the Italian scheme, Fondo di Garanzia sulla Cartolarizzazione delle Sofferenze, for the securitization of NPLs.

engagement of a small number of specialist investment funds. Nevertheless, the market has been mainly in foreclosed assets offered by the largest banks, rather than those with payment delays where borrowers may still be viable but require restructuring. In future, valuations and investor interest are susceptible to renewed economic weakness and the associated rise in risk sovereign premiums.

Greece

With €87 billion in NPLs in June 2018, equivalent to 48% of gross loans, Greece remained the euro area's most severely affected country by a crisis in banks' loan delinquency and the underlying excess private debt.

Economic growth resumed in 2017 following the steep and protracted economic recession in which GDP fell by over 25%. NPL resolution and a resumption of bank lending then became the focus of efforts aimed at a recovery in bank credit, which is seen as essential for macroeconomic stabilization.

Unlike in some other countries in the euro area periphery, the crisis in Greece was at root a fiscal one that spread to the financial sector. Concerns over sovereign solvency that emerged in 2009 led to rapid deposit withdrawals, as bank capital deteriorated amid a deep recession. The second IMF/EU program from 2012 then put in place a strategy for the recapitalization of Greek banks, as bank funding relied increasingly on emergency facilities from the ECB.

The economic recession that extended over almost a decade showed an early and dramatic impact on sovereign as well as private debt. Household and corporate debt each increased to about 65% of GDP and have declined only marginally since then. Corporate debt is concentrated in firms that remain loss-making and exhibit significant excess leverage. The OECD estimated that in 2013 "zombie firms" in Greece accounted for 28% of the capital stock and 18% of employment.[21] These estimates underline that a significant amount of debt write-off would be required in the resolution of bank NPLs.

[21] These firms are defined as aged more than 10 years and showing an interest-coverage-ratio less than 1 for more than 3 consecutive years (McGowan, Andrews, and Millot 2017).

While the recession was the principal cause of the NPL problem, structural problems also clearly aggravated loan delinquencies.[22] In 2016 (6 years after the initiation of IMF/EU support), the ECB survey still found significant impediments. In most of the surveyed dimensions of supervision, the legal framework and the information provision Greece scored worse than other euro area jurisdictions with high NPLs (ECB 2017b).

In addressing the NPL overhang following the banks' recapitalization, the second and third financial programs (extending between 2012 and 2018) therefore relied on a combination of measures in regulation, judicial reform, and supervision. An important objective was the creation of a market for NPL sales and a better targeting of debtor protection through streamlined insolvency codes.

Over the course of the second financial adjustment program, the government committed to several legal reforms that support NPL resolution, including:

- an out-of-court debt restructuring framework, which also included a write-down of tax arrears;
- a reform of the insolvency regime for households and enterprises;
- acceleration of the sale by banks of collateral in defaulted loans through electronic auctions;
- the simplification of the sale of NPLs through the liberalization of the loan servicing regime; and
- a strengthening of efficiency in the courts to deal with NPL-related cases and improved staffing in the judiciary (EU Commission 2018b).

Over the 2 years to mid-2018, the absolute stock of NPLs fell by over €20 billion. This occurred largely through write-offs, and, in its assessment, the EU Commission does not as yet see sustainable restructuring solutions designed by either banks or the acquirers and servicers of NPLs (EU Commission 2018b).

Implementation of the reform measures has been slow, and the impact of the various legal reforms has been limited. For instance, the reformed out-of-court mechanism, including an electronic platform for the submission

[22] See speech by Governor Stournaras (Stournaras 2017) pointing to the ineffectiveness of judicial procedures, excessive borrower protection, preferential claims of the state and pension funds on the proceeds of liquidations as against other classes of creditors, unfavorable tax treatment of provisioning and write-offs, lack of an out-of-court-workout framework, and absence of a secondary market for distressed debt.

and processing of cases, only started in 2017, and required a further upgrade in late 2018 to collect data on claims from all creditors. The previous system for auctions of collateral faced aggressive public resistance and was replaced by an electronic platform in late 2017. The rate of liquidations remains very low compared to the pre-crisis period. Auctions often fail or result in the bank reacquiring the collateral due to a lack of bids.

Excessive borrower protection has continuously impeded resolution efforts. As in other euro area countries, this is primarily a problem in residential real estate. The "Katseli" law of 2010 initially provided near universal protection from foreclosure on primary residences. Despite a number of attempts to better target the law, until 2019, protection remains very comprehensive and has prevented NPL reduction in the household mortgage sector. What was intended as a temporary measure amid the acute crisis has in effect become a permanent and blanket protection (IMF 2019). Moreover, estimates suggest that at least one-sixth of firms are in a situation of a strategic default (Stournaras 2017). The recent major reform of the corporate insolvency code and the strengthening of the profession of insolvency administrators does not seem to have led to an increase in new cases.

By contrast, the emergence of NPL markets and securitizations are encouraging. At the end of 2017, Greece saw the first significant NPL sales, which was much later than in other euro area countries. Transactions are now facilitated by a new framework for nonbank credit servicing firms. Completion of announced transactions could bring the total volume to €20 billion over the course of 2019. The four largest banks already established a common platform (Project Solar) which aims at maximizing recoveries from SMEs that are in default, and a similar platform that is primarily designed for larger borrowers.

In addition, the ECB and the Bank of Greece (as the supervisor of the smaller banks) have become much more assertive. In line with the ECB's NPL guidelines, targets for NPL reduction were agreed between the four largest banks and the ECB. NPL ratios were to fall to 35% at the end of 2019 and possibly to 20% at the end of 2021. These targets were set for all banks under ECB supervision in a dialogue with bank management and revised on a rolling basis. While the national legal framework is gradually improving, it is clear that these targets cannot be accomplished through the banks' own restructuring work.

In early 2020, an asset protection scheme (Plan Hercules) was to be implemented. This will result in the establishment of a number of SPVs by each of the four systemic banks. Each SPV would purchase NPL portfolios from an individual bank, funded by the sales of asset-backed securities to private investors. The most senior tranches of these securities would be guaranteed by the government for a fee once a large enough share of the riskier tranches has been sold to other investors (only then would the NPL portfolios no longer require capital coverage by the bank). This proposal is very similar to the Italian scheme GACS, which the EU Commission approved in 2016 as complying with state-aid rules. The key idea is that government backing helps bridge wide gaps between the pricing of NPL portfolios sold by the banks and prices offered by investors in very illiquid local markets. Limitations will be the low credit rating of the government, which will result in a relatively high guarantee fee, and the underdeveloped servicing industry in Greece.

6.4 Impact of National Reforms in the Euro Area

6.4.1 National Resolution Policies and Success in Nonperforming Loan Reduction

By the end of 2019, just ahead of a new and sharp recession triggered by the COVID-19 pandemic, the aggregate EU NPL ratio had declined to 2.7% (from 6.5% 5 years earlier), and for the largest euro area banks subject to ECB supervision this ratio stood at 3.2%.[23] With the exception of Greece and Portugal, NPLs have declined substantially in most countries studied in the previous section, both in absolute and ratio terms.

In early 2019, the NPL crisis legacy seemed to be squarely concentrated in just a handful of countries which experienced sharp recessions or protracted stagnation: Cyprus, Greece, Italy, and Portugal (Table 6.3, based on Georgosouli et al. 2019).

Lower aggregate euro area NPL levels coincided with a recovery in growth and asset prices in the currency area from 2014 (ESRB 2019). Yet, the decline was due to active policy efforts in reducing NPL stock, rather than passively growing out of NPLs.[24] Common standards in euro area supervision and the

[23] Data reported for such significant institutions supervised by the ECB differ from the data the European Banking Authority reported for entire banking systems. As the EU-wide NPL definition only came into effect in 2014, earlier national data are not comparable.

[24] Also see the distinction between active and passive periods of NPL reduction in Balgova, Nies, and Plekhanov (2016).

new ECB guidance on NPL management became effective in 2016. National reforms were necessary for this common framework to be effective. Above all, banking sector restructuring and recapitalization allowed write-downs and portfolio sales at market prices. Such reforms explain relatively early successes in Ireland, Slovenia, and Spain, all of which created system-wide AMCs. Conversely, delays in bank restructuring explain persistently high NPL levels. Italy in particular has long delayed corporate governance reforms and consolidation in its banking sector, reducing banks' willingness to write down and dispose of distressed assets.

Table 6.3: Turning Points in NPL Levels in Euro Area Countries

No Significant NPL Accumulation	Moderate Increases, Relatively Swift NPL Resolution	Sharp Increase, Persistently High NPL Ratios
Germany (Q1 2010) Belgium (Q4 2013) France (Q4 2013) Netherlands (Q4 2013) Luxembourg (Q4 2016) Finland (Q2 2017)	Lithuania (Q2 2010) Estonia (Q3 2010) Latvia (Q4 2010) Austria (Q4 2010) Slovakia (Q4 2010)	Slovenia (Q3 2013) Spain (Q4 2013) Ireland (Q4 2013) Malta (Q2 2014) Italy (Q4 2015) Cyprus (Q2 2016) Portugal (Q2 2016) Greece (Q3 2017)

NPL = nonperforming loan, Q = quarter.
Source: Georgosouli et al. (2019).

Large parts of the NPL framework remain under national prerogative, rather than subject to EU-wide regulation or ECB supervision. Crucially, this concerns the legal framework for insolvency and restructuring and the process for loan sales. Early reforms in these aspects of the framework helped. NPL sales in Spain boomed due to, inter alia, the activity of its AMC and a conducive environment for loan servicers, though only on the back of the bank restructuring already noted. By contrast, the inefficient corporate restructuring framework in Portugal and excessive protection of household borrowers in Greece explained delays in these countries, aggravating the effects of inadequate capital in the banking sector.

In terms of the policy process and ownership, NPL resolution was rarely a distinct agenda, but rather formed part of a broader crisis recovery program. Few countries coordinated well between macrofinancial policies, such as bank consolidation and resolution, and microeconomic reforms, such as of insolvency laws and loan sales. IMF/EU programs forced such a coordination between different policy fields, though Slovenia, which in 2012/2013 came close to the point where it would have required a program, illustrated that this may well happen independently.

The evolution of the NPL stock is clearly only partially under the control of national policy makers. Macroeconomic and financial market factors play key roles, in particular in the integrated EU financial market. Two narrower aspects of NPL resolution frameworks, distressed loan markets and restructuring and insolvency frameworks, offer more direct evidence of whether national reforms have worked.

Policies to develop secondary loan markets

All national reforms have sought to facilitate NPL sales as an alternative to bank-internal restructuring. Based on the ECB guidance to banks on NPL management, from 2016 supervisors began to set NPL reduction targets for the most affected banks under ECB supervision. Supervisory guidance on internal governance and data standards was in principle not biased toward either internal workout or sales, though it was increasingly clear that capacity within banks to restructure or foreclose on a large scale was inherently limited (ECB 2017a, 12–15).

Therefore, the rapid emergence of NPL markets in Spain and Ireland, and, belatedly, in Italy, was reassuring. In 2017, loans with a gross value of about €130 billion were transacted in the euro area (Figure 1.10 in Chapter 1).[25] Transactions remain concentrated in Ireland, Italy, Spain, and the UK, while NPL sales in other markets have not matched the severity of the loan distress (Figure 6.4) (Lehmann 2018).

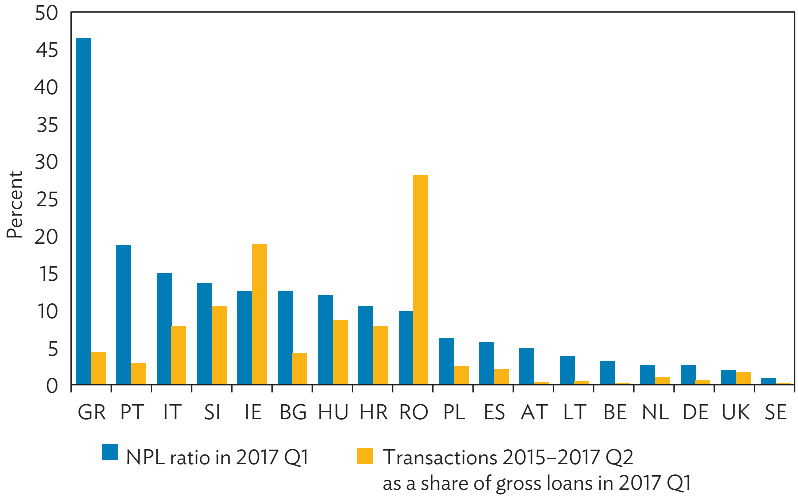
A number of factors contributed to the rise of NPL sales. Policies included more assertive provisioning policies, as in Romania, market engagement by an AMC, as in Ireland, Spain, and Slovenia, or government risk-sharing, as in Italy.

Euro area countries have consistently supported NPL disposals by banks through national reforms. By 2016, the ECB's stock taking of national legal frameworks (ECB 2017b) did not identify formal restrictions in the legal and regulatory frameworks that would impede the entry of NPL investors and their acquisition of assets. All 19 euro-area jurisdictions allowed the transfer of loans without the borrower's consent, and all countries allowed their banks to sell NPL assets to foreign investors and nonbanking institutions. Several countries liberalized the activity of loan servicers, and the initial transactions in Greece in 2017 underlined that this liberalization can unlock sales. Government guarantees offered for securitized portfolios was key

[25] Deloitte estimates.

to market development in Italy. Transactions with a gross value of nearly a fifth of the total NPL stock were securitized in this way. In early 2020, the onset of the COVID-19 crisis in Europe substantially widened the spreads on high-yield bonds and made access to bond markets for other issues highly uncertain.

Figure 6.4: NPLs and Cumulative Loan Sales as a Share of Gross Loans



AT = Austria, BE = Belgium, BG = Bulgaria, DE = Germany, ES = Spain, GR = Greece, HR = Croatia, HU = Hungary, IE = Ireland, IT = Italy, LT = Lithuania, NL = Netherlands, NPL = nonperforming loan, PL = Poland, PT = Portugal, Q = quarter, RO = Romania, SE = Sweden, SI = Slovenia, UK = United Kingdom.
Source: Lehmann (2018), based on European Banking Authority and KPMG data on loan transactions.

Market development is still impeded by differing licensing and regulatory regimes, poor data quality, tax disincentives, and difficulties for loan servicers to move between markets. This motivated an EU directive in this area, which was adopted in 2019.[26] Going forward, more complex asset classes (viable enterprises and SMEs in need of restructuring) or country cases (Greece) may require a different type of investors. Market failures, due to poor transparency of loan quality or inadequate investor incentives to engage in restructuring, explain persistent gaps between valuations sought

[26] See the Eur-Lex website for more information: https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A52018PC0135.

by the originating banks and those offered by investors (ECB 2017c).[27] EU policy makers have therefore initiated work on a pan-European transaction platform (EU Commission 2018c).

Reforms of corporate insolvency and restructuring frameworks

For many countries in the EU periphery, accession to the euro area resulted in a substantial expansionary demand shock as interest rates and risk premiums became inordinately compressed. In several countries, high corporate and household debt were vulnerable to the subsequent shock from the financial crisis. In the ensuing protracted period of low growth and high unemployment, NPLs quickly rose. In some countries debt was concentrated in specific sectors, such as property and residential real estate in Ireland and Spain. In others it was more widely spread, as in Greece and Italy (ESRB 2019).

National NPL resolution strategies therefore typically comprised a reform of insolvency legislation. About half the EU's members states with active NPL resolution policies have implemented legal reforms in this area (EU Commission, ECB, and SRB 2018). Unlike supervisory regimes that guide banks' management of distressed exposures, national insolvency frameworks have remained squarely within national law (efforts to set a common EU standard on foreclosure and insolvency law have stalled due to fundamental differences in legal systems). Progress in corporate insolvency has been more significant than for households, which remain generally sheltered from foreclosure.

A corporate insolvency framework is efficient if excess debt in viable companies is quickly restructured, while debt in nonviable companies is resolved through foreclosure and liquidation. The law defines conditions for restructuring and the respective rights of creditors and borrowers in a court-led procedure, in turn setting incentives for private restructuring. In a court case, proceedings need to be transparent and speedy, maximizing value recovered (Consolo, Malfa, and Pierluigi 2018).

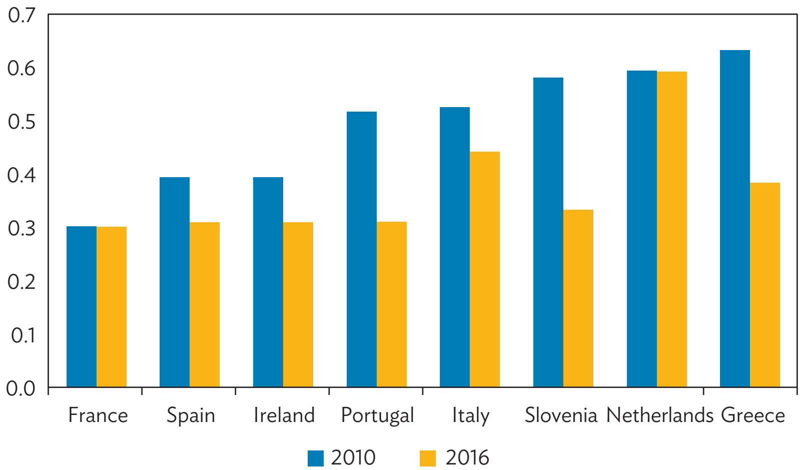
Targeting this aspect of the law within national NPL policies has been justified by a number of empirical studies examining the connection between insolvency law and loan defaults. For instance, Consolo, Malfa, and Pierluigi (2018) show that countries with better insolvency frameworks

[27] See the special feature "Overcoming Nonperforming Loan Market Failures with Transaction Platforms" in ECB (2017c).

deleverage faster and reduce NPLs more quickly than countries with weaker frameworks. A similar result is obtained for the level of NPLs, with more efficient frameworks associated with lower levels. Good insolvency laws will also speed up *reductions* in NPL ratios once an adverse macroeconomic shock has occurred, and will otherwise limit the rise in NPLs.[28] Reforms in this area were also motivated by evidence that valuation gaps arising in NPL sales are largely explained by costs of enforcing claims within national legal systems (ESRB 2019, ECB 2017c).

An indicator developed by the OECD suggests that national reforms have been effective on the whole. Figure 6.5 shows an aggregate index for eight euro area countries for 2010 and 2016. All euro area crisis countries appear to have made progress, including Greece, Portugal, and Slovenia.

Figure 6.5: OECD Composite Indicator for Corporate Insolvency for Selected Euro Area Countries



OECD = Organisation for Economic Co-operation and Development.
Note: Lower scores represent better regimes. The composite indicator is based on a quantification of four aspects of insolvency laws, including treatment of failed entrepreneurs, prevention and streamlining regimes, and restructuring tools.
Source: OECD.

[28] Also see Caracea et al. (2015).

Effective and sustainable nonperforming loan resolution

NPL markets in the euro area expanded rapidly, and loan sales have become a significant resolution tool, alongside loan restructuring performed within banks. Yet, it is not clear that investor interest is sustainable. Large swathes of distressed assets, in particular among SMEs, will require reform of legal frameworks and development of local capital markets. In most markets only foreclosed assets have transacted. NPLs of delinquent enterprises, though in principle viable following a financial restructuring, are no more than a negligible part of this market.

Insolvency laws have been reformed, but in practice a more mixed picture emerges, evident for instance in the World Bank indicators on resolving insolvency. This can reflect constraints in the actual implementation of the law, including in the functioning of the judiciary, and ineffective private restructuring. The number of successful debt restructurings of midsized and large European enterprises is small, as most legal systems retain a bias toward liquidation.

As debt resolution, in particular within enterprises, is essential for NPL resolution, effective national NPL policies have been implemented only in countries that coordinated well between these two reform areas. Progress in both aspects, as evident in Table 1, allows the grouping of euro area countries into three distinct categories.

- *Effective NPL reduction mechanisms, supported by corporate debt deleveraging*. Of the case study countries, Slovenia and Spain have made impressive progress in both aspects, and policy reforms were well coordinated. NPL resolution is sustainable in that even a renewed recession would not likely lead to widespread or protracted corporate loan delinquencies, as corporate debt vulnerabilities have been addressed to a significant extent.
- *NPL reduction, though continued vulnerabilities from corporate debt.* Italy clearly still belongs in that category. Despite sizable NPL sales, largely of foreclosed loans, corporate debt distress remains significant, in particular among SMEs.
- *Marginal NPL reduction, combined with continued excess debt in the corporate sector.* Greece still belongs to this category, even though a tentative banking recovery and some loan sales are encouraging.[29]

[29] The specter of undercapitalized banks and debt distressed enterprises has given rise to several empirical studies, though most other euro countries seem to have escaped this scenario (McGowan Andrews, and Millot 2017).

6.5 Conclusions and Implications for Emerging Asia

Europe confronted a dual challenge of a rise in NPLs and excess private debt following the dramatic financial crisis and recession of 2009–2010. Five countries benefited from the IMF/EU financial support to bank recapitalizations. These adjustment programs guided and disciplined structural reforms. AMCs at bank-level and system-wide, as in Ireland, Spain, and Slovenia, were an important element of these adjustment programs. As the case studies in this chapter demonstrate, national reforms played a key role in this process, sometime accelerating it, for example in Slovenia but sometime also slowing it down, e.g., through excessive debtor protection (in Greece) or lack of a comprehensive strategy for banking sector restructuring, as in Italy, could easily frustrate loan restructuring within the sector.

By 2016, it was clear that excess private debt and loan delinquencies within national banking systems undermined sovereign credit quality and integration and risk-sharing within the currency union as a whole. Common policies quickly became imperative.

Concerns over state aid have made public support to distressed banks more difficult over time, whereas the workout process has benefited from much more intrusive supervision by the ECB. It was quickly recognized that internal bank capacity for workout is inherently limited, so the rapid expansion of the NPL market played an important part in delivering on ambitious reduction targets. The market failures that are inherent in loan sales by banks, such as asymmetric information about loan quality, have to some extent been addressed through better standards in documentation. More wide-ranging innovations, such as regulatory incentives for private transaction platforms, remain on the drawing board (see Chapter 6 for more details).

This experience cannot be easily transferred to Asian emerging markets. Macroeconomic and private sector financial balances are sounder and would offer more buffers to withstand a liquidity shock as it occurred in Asia 20 years ago.

Yet, Europe offers a number of lessons.

A first is that a clear and comparable asset quality definition is a precondition for supervisory action. Spain and Slovenia underlined how on the basis of such a standard, set by the IMF and the EU, respectively, a wider bank restructuring can proceed. The EU-wide definition for NPLs and forbearance of 2013 was a precondition for the ECB assuming supervision of the largest euro area banks from 2014. This standard has been adapted by the Basel Committee on Bank Supervision (BCBS) and could be a relevant best-practice benchmark for a number of Asian emerging markets (BCBS 2017). Where an asset quality review reveals that an NPL crisis has resulted in a deep undercapitalization of the banking system, and external support to the financial sector, as in Spain in 2012, may need to be part of a regional financial safety net.

Second, banks will not sufficiently resource internal workout, and are typically poorly equipped to engage with investors in a loan sale process. They do not take the economy-wide effects of persistent excess debt and loan default into account, presenting a clear case for supervisory guidance. In Europe, a key change came with the ECB guidance on NPL management in 2016. This only applied to the largest euro area banks and was a priority in those with the highest NPL burdens, where ambitious reduction targets were set. By now, this document has set a standard for bank-internal processes in handling delinquent assets, alongside supervisory scrutiny of business models, risk policies, and corporate governance.

Third, NPL sales can be an important relief mechanism. While supervisory guidance can stimulate the supply side, numerous structural reforms need to facilitate the engagement of investors and loan servicers. European banks have worked with an international investor base that is also engaged in Asian markets. These investors will apply the same due diligence standards, and will seek similar standards in loan documentation, and in local frameworks for loan transfers and servicing.

Fourth, policy must address the market failures that are inherent in the process of loan sales. Asset management companies (AMCs) offered crucial support in systemic crises in several countries but inherently raise concerns over state aid in asset transfers. For important parts of the European NPL stock, including in Italy, and possibly in the future in Greece, a public guarantee for a low-risk tranche of securitized NPL structures was sufficient to stimulate loan sales. The private sector by itself has not overcome such market failures. Creditor coordination of common exposures, setting standards for loan documentation, and establishing a joint platform for loan transactions are now being developed and may help addressing remaining issues.

Lastly, the legal framework for insolvency and debt restructuring is part and parcel of sustainable NPL resolution. The emerging empirical literature on insolvency regimes and NPL resolution has confirmed this link. Unless the process to deal with excess private debt is transparent and efficient, and recovers value, delinquent exposures will accumulate within banks. Once cured, restructured loans would then likely relapse into delinquency.

In these areas, Europe and its emerging common financial market have accumulated valuable policy experience. The risks of excess debt and widespread loan delinquency are now better understood, also internationally, and will hopefully be preempted in future.

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Appendix 2: Risk-Reducing Measures Adopted Nationally in Selected Euro Area Countries

Ireland

Legal/Judicial, Tax, or Other Reforms	Prudential Supervisory Actions	NPL Management Initiatives	Macroprudential Measures
- A mortgage-to-rent scheme has been announced, which allows qualifying homeowners in arrears to remain in their homes as social tenants of a housing association which buys the property from the lender. - Code of Conduct on Mortgage Arrears established to provide statutory safeguards for financially distressed borrowers in arrears or at risk of falling into arrears. A review of the code was concluded. - Personal insolvency legislation introduced in 2012 significantly modernized the regime by providing a range of debt resolution options which balances the rights of creditors and debtors. - Enhanced money advice and budgeting service introduced for distressed borrowers.	- Mortgage Arrears Restructuring Targets encouraged restructuring efforts by banks to move from a short-term forbearance model to one where longer-term sustainable restructuring products were offered to borrowers. These targets were a contributing factor to the reversal in the Irish banks' NPL ratio since 2013. - Legislation introduced to regulate credit servicing firms in 2015 introduced a new regulatory regime for credit servicing firms to clarify that consumers maintained the same protections when their loans are sold to an unregulated purchaser. - Ongoing supervisory focus on addressing NPL levels in Irish banks.	- Centralised Credit Register introduced in 2017 - Asset Management Company established (National Asset Management Agency) -Dedicated NPL workout units established by banks	- Authorities introduced macroprudential measures to limit the high loan-to-value and loan-to-income ratios on new residential mortgage loans in February 2015. The aim was to lower risks to vulnerable borrowers and dampen cyclical dynamics between house prices and lending volumes. The rules have been revised in 2016 (i.e., introduction of a sliding loan-to-value limits) and in 2017 (i.e., stricter rules for second and subsequent buyers).

NPL = nonperforming loan.

Spain

Legal/Judicial, Tax, or Other Reforms	Prudential Supervisory Actions	NPL Management Initiatives	Macroprudential Measures
- Establishment of a new legal framework for savings banks and banking foundations - Introduction of new personal and company insolvency regimes - Enhancement of consumer protection legislation for financial instruments	- Spain implemented a financial assistance program between July 2012 and January 2014 which resulted in the cleaning-up and transfer to an AMC of legacy assets of former savings banks and the restructuring and recapitalization of those entities.	- NPLs remain on a solid downward trend, supported by the announcement of large portfolio disposals by the two largest banks, Santander and Banco Bilbao Vizcaya Argentaria. In addition, smaller operations for the sale of NPLs and foreclosed assets have already been finalized or are ongoing. - Following the resolution of Banco Popular, other banks have accelerated the cleaning-up of their balance sheets.	- Creditors' preferential claim on secured collateral increased to 70% in 2015 and 90% in 2018.

AMC = asset management company, NPL = nonperforming loan.

Italy

Legal/Judicial, Tax or Other Reforms	Prudential Supervisory Actions	NPL Management Initiatives	Macroprudential Measures
- Reform of the insolvency and foreclosure frameworks in 2015 and 2016 to shorten the recovery period for collateral and foster the repossession of collateral - Reform of large cooperative banks *(banche popolari)* and small mutual banks *(banche di credito cooperativo)*; once fully implemented, these reforms are expected to also impact positively on the arrears management capacity of those banks - Introduction of immediate tax deductibility for loan loss provisions	- Enhanced reporting by all banks on nonperforming exposures and collateral reporting template introduced in 2016 by the Italian central bank	- Establishment of an NPL securitization scheme with state guarantees (GACS) to support banks' resolution of NPLs. That scheme, which was introduced in 2016, was extended several times. - Establishment of a private sector backstop facility to invest in NPLs sold or securitized by banks (i.e., Atlante Fund II, renamed the Italian Recovery Fund in 2017)	

NPL = nonperforming loan.

Portugal

Legal/Judicial, Tax, or Other Reforms	Prudential Supervisory Actions	NPL Management Initiatives	Macroprudential Measures
- Expedited insolvency proceedings: technology used to (i) accelerate proceedings, and (ii) ensure transparency in judicial sales procedures - Flexibility for tax credit to be restructured and creation of a common decision-making body between social security and tax authority to participate in company restructuring negotiations - Creation of an early warning mechanism for entrepreneurs—compares various indicators to past levels and industry benchmarks to create awareness and promote preventive approach - Measures to facilitate the transfer of NPL portfolios – regime allowing mass registration of the transfer of collateral and mass communication to courts in insolvency proceedings	- In line with Single Supervisory Mechanism recommendations, Portuguese banks have submitted 5-year NPL reduction plans forecasting at least a 50% reduction in NPL stocks over the coming years. - On-site and off-site inspections to segment banks' NPL portfolios by type, vintage, size, and sector of activity	- Initiatives to promote coordination between creditors to accelerate credit restructuring and/or NPL sales; the flagship measure is a "coordination platform." - Financing lines and/or guarantees for viable companies that go through the restructuring process. - Creation of credit recovery funds, which allow banks to dispose of bad assets through dedicated marketable investment funds, boosting the secondary market for bad assets. - Creation of incentives to develop the secondary market for NPLs by enabling new servicing companies to enter the market	- Recommendation on new credit agreements for consumers, which places limits on new credit relating to residential immovable property, credit secured by a mortgage or equivalent guarantee, and consumer credit agreements concluded as of July 2018; this measure aims to promote the adoption of prudent credit standards in order to enhance the resilience of the financial sector and the sustainability of households' financing, thereby minimizing defaults. i. Maximum loan-to-value ratios: (i) 90% for credit for own permanent residence, (ii) 80% for credit for purposes other than own permanent residence, and (iii) 100% for credit for purchasing immovable property held by credit institutions and for property financial leasing agreements.

continued on next page

Appendix 2 (continued)

Legal/Judicial, Tax, or Other Reforms	Prudential Supervisory Actions	NPL Management Initiatives	Macroprudential Measures
- Creation of new insolvency practitioners acting as mediators for companies in "recovery" mode and assisting debtors in both in-court and out-of-court restructuring procedures - Framework allowing majority creditors (holding at least two-thirds of debtor's liabilities) to convert their credit into share capital without the consent of shareholders, outside of insolvency proceedings (in certain strictly specified situations) - Framework for voluntary out-of-court restructuring for recovery of companies - Ability for banks to fiscally recognize write-offs (to a larger extent than before)			ii. Maximum debt-service-to-income ratio of 50%, with the following exceptions: (i) up to 20% of the total amount of credit granted by an institution in a year may have a maximum debt-service-to-income ratio of 60%; and ii) up to 5% of credit granted may exceed that 60% limit. For variable and mixed interest rate agreements, the impact of an interest rate rise should be taken into account, as should a reduction in the borrower's net income if the borrower will be aged 70 or over at the end of the contract. iii. Original maturity of loans: (i) maximum of 40 years for new credit agreements secured by a mortgage; (ii) average maturity of new credit agreements should be 30 years by 2022; and (iii) maximum of 10 years for new consumer credit agreements. All credit agreements must have regular principal and interest payments. The relevant limits must be observed simultaneously. The recommendation follows the principle of "comply or explain", and its implementation will be monitored on at least an annual basis.

NPL = nonperforming loan.
Note: The document on which this is based is, in turn, based on responses by the authorities which may be partial and reflect different time horizons. No specific date of adoption of individual measures is available.
Source: Excerpts from EU Commission, European Central Bank, and Single Resolution Board (2018).