



SOLVING NPLs: Macro and Micro Perspectives

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Executive Board Member



- Introduction
- Beyond the Programme
- Macro Perspective
- Micro Perspective
- Concluding Remarks



Key programme objectives:

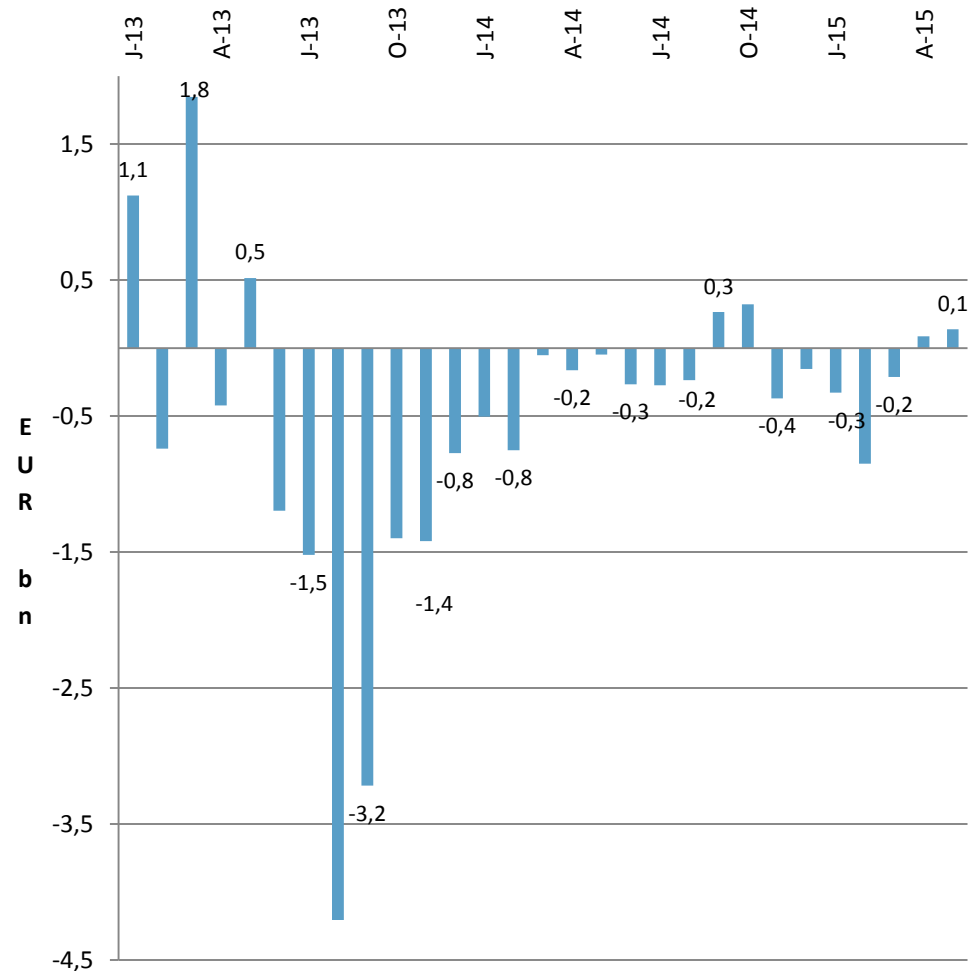
- to restore the soundness of the Cypriot banking sector and rebuild depositors' and market confidence;
- to continue the on-going process of fiscal consolidation in order to correct the excessive general government deficit by 2016; and
- to implement structural reforms to support competitiveness and sustainable and balanced growth, allowing for the unwinding of macroeconomic imbalances.

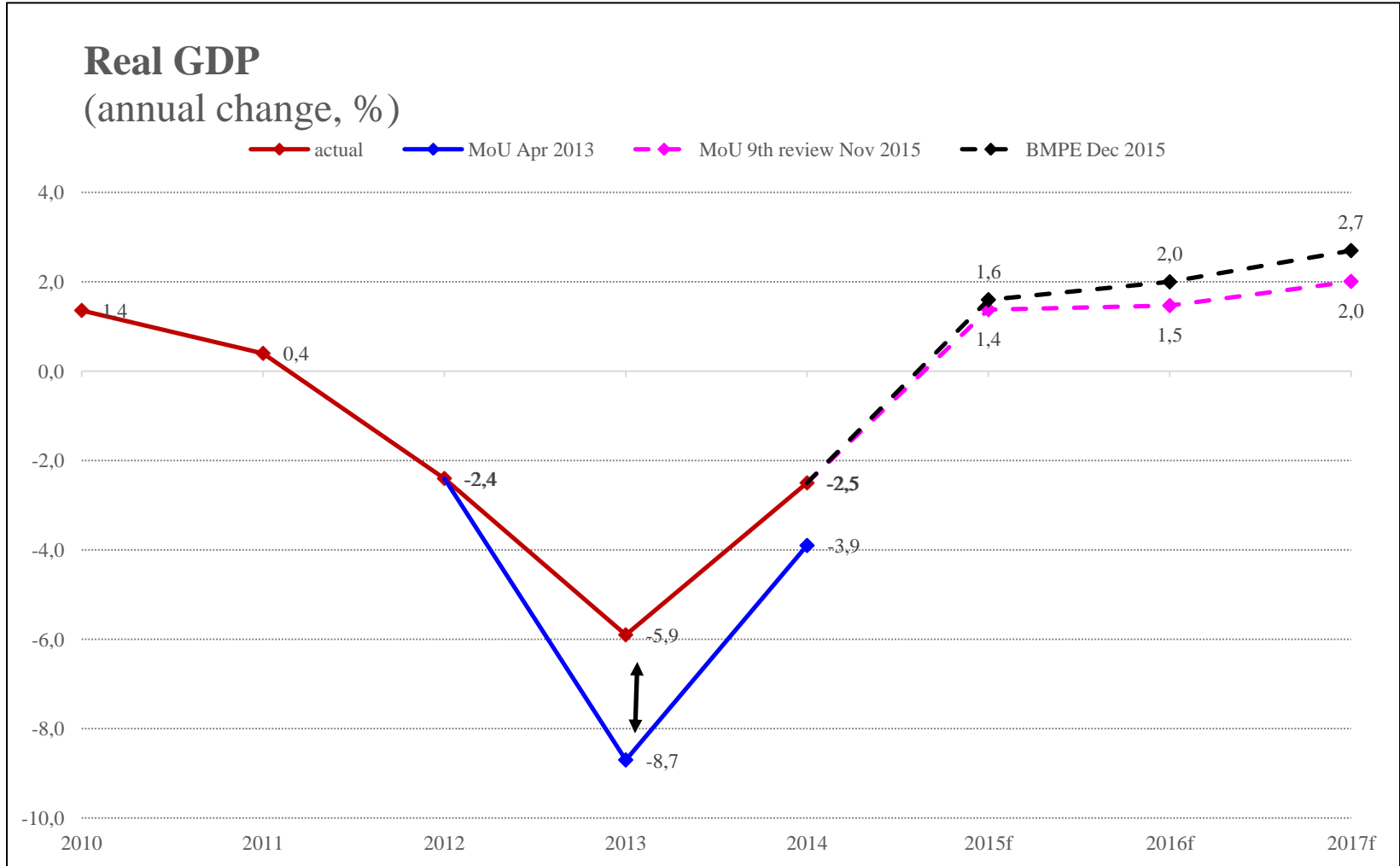


- The Government's bet: Restart the Cypriot economy and avoid falling into a vicious circle trap – Regain Confidence
 - Adherence to the Programme
- GDP and Fiscal Programme Targets
 - Fear of severe contraction - Outperform
- EU Funds
- Restoring Banking Confidence
 - Outflow of deposits
- Abolition of Capital Controls



- A proportion of deposit reductions relates to the offsetting with loans.
- The deposits outflows have stabilised, as a result of the rising confidence in the financial sector.
- Deposit stabilisation contributed to the full abolishment of capital controls.

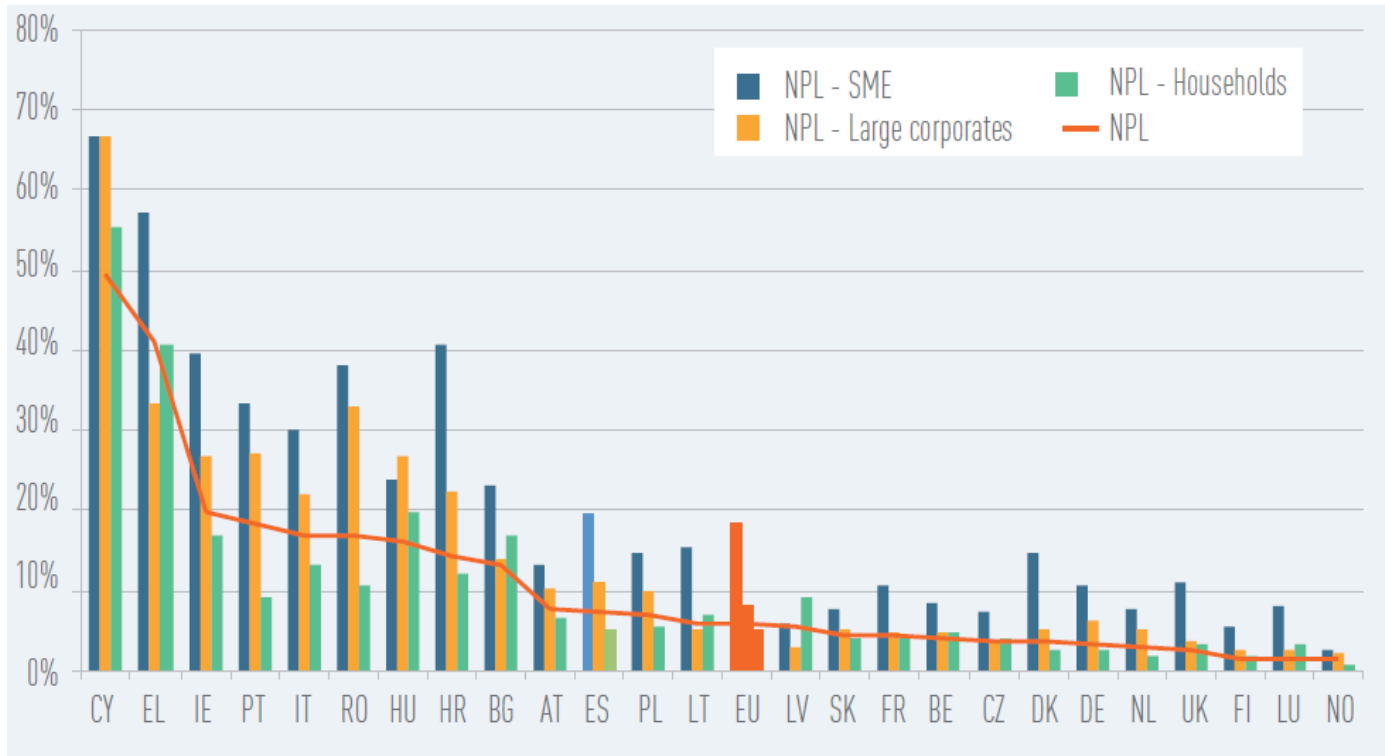






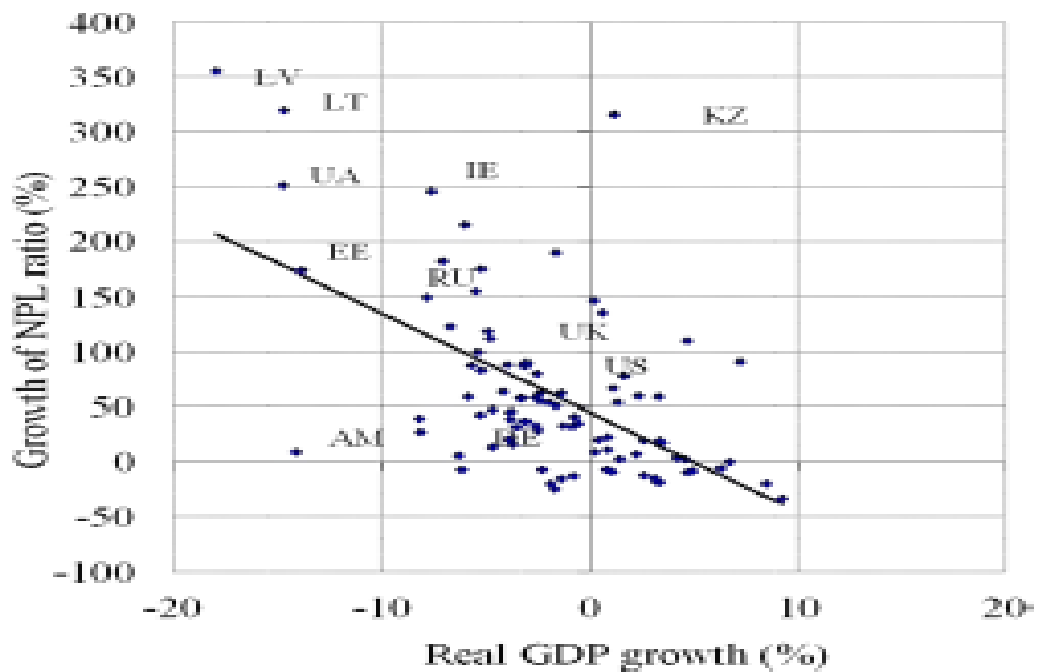
Non-performing loans ratios by sector, 2015Q2

Source: EBA





- “Notably, reducing the excessive level of NPLs remains the number one priority. It is a necessary condition for a sustainable stabilization of the banking system and the resumption of lending”. Joint Statement: Commission, IMF, ECB, Nov. 2015
- **“Persistently high NPLs hold down credit growth and economic activity”** A Strategy for Resolving Europe’s Problem Loans, Shekhar Aiyar et al (2015), IMF Discussion Note
- NPLs \longrightarrow GDP
- NPLs \longleftarrow GDP

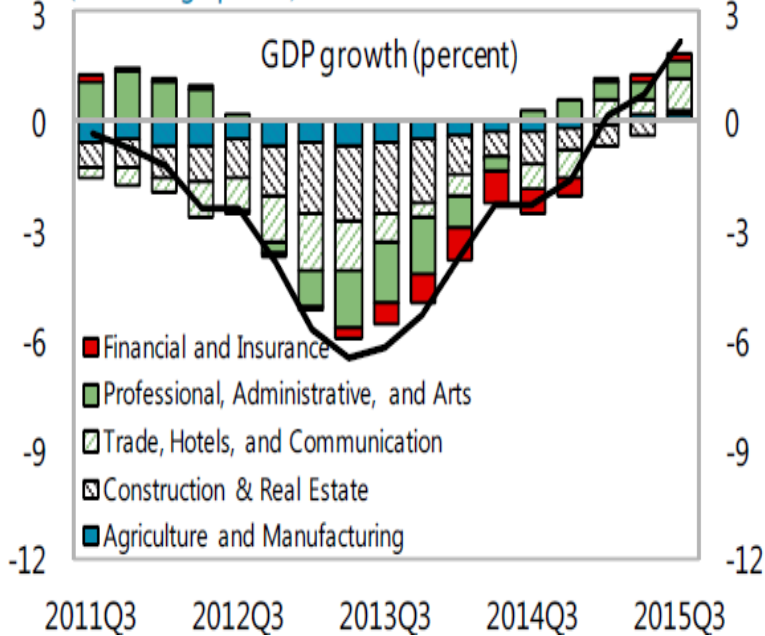




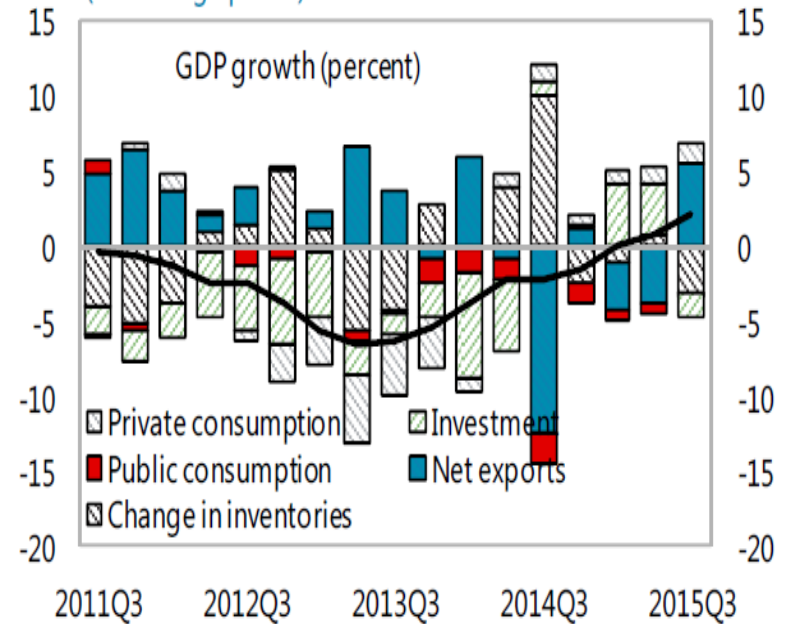
- NPLs ← GDP
 - Ability to repay
 - Collateral Value
- Critical Success Factors to NPLs solutions
 - Restructurings
 - AMC
 - Sales of loans



Contributions to GDP Growth-Supply Side (Percentage points)



Contributions to GDP Growth-Demand Side (Percentage points)

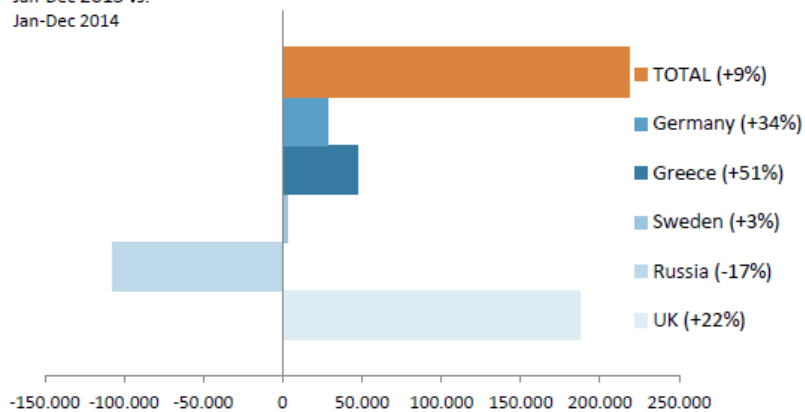


Sources: Cystat; Eurostat; and IMF staff estimates.



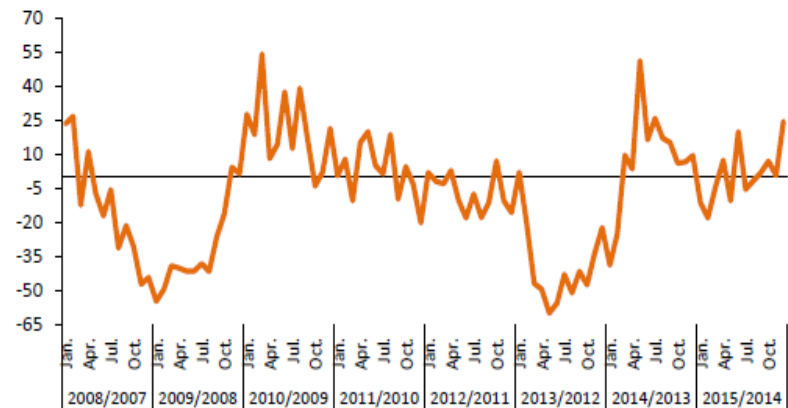
Tourist arrivals

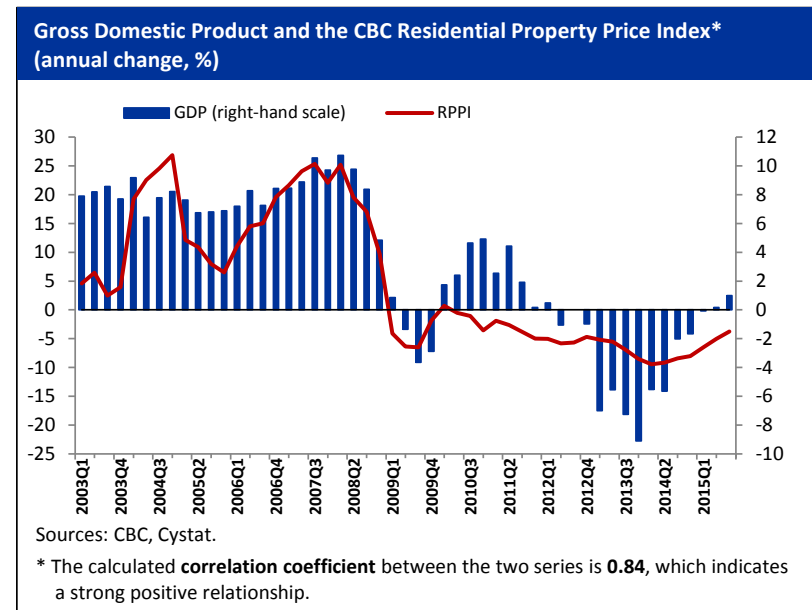
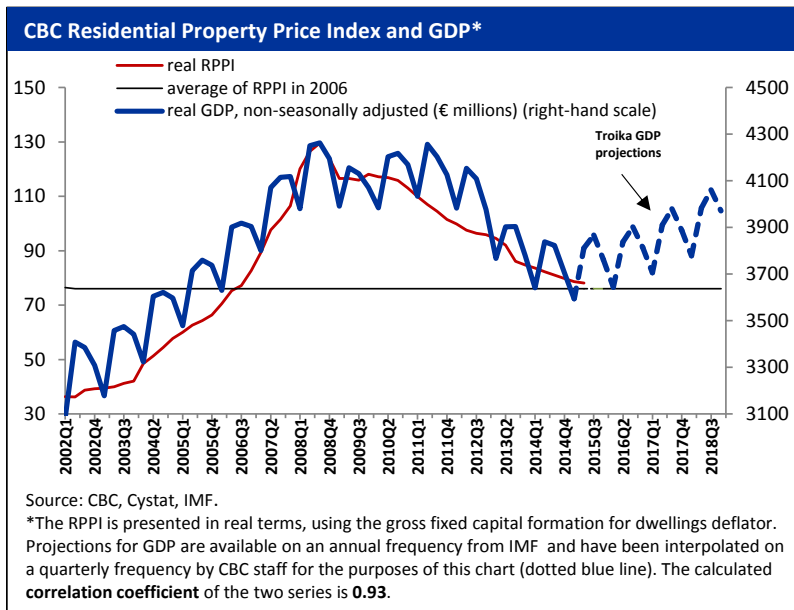
Jan-Dec 2015 vs.
Jan-Dec 2014



Registration of new companies

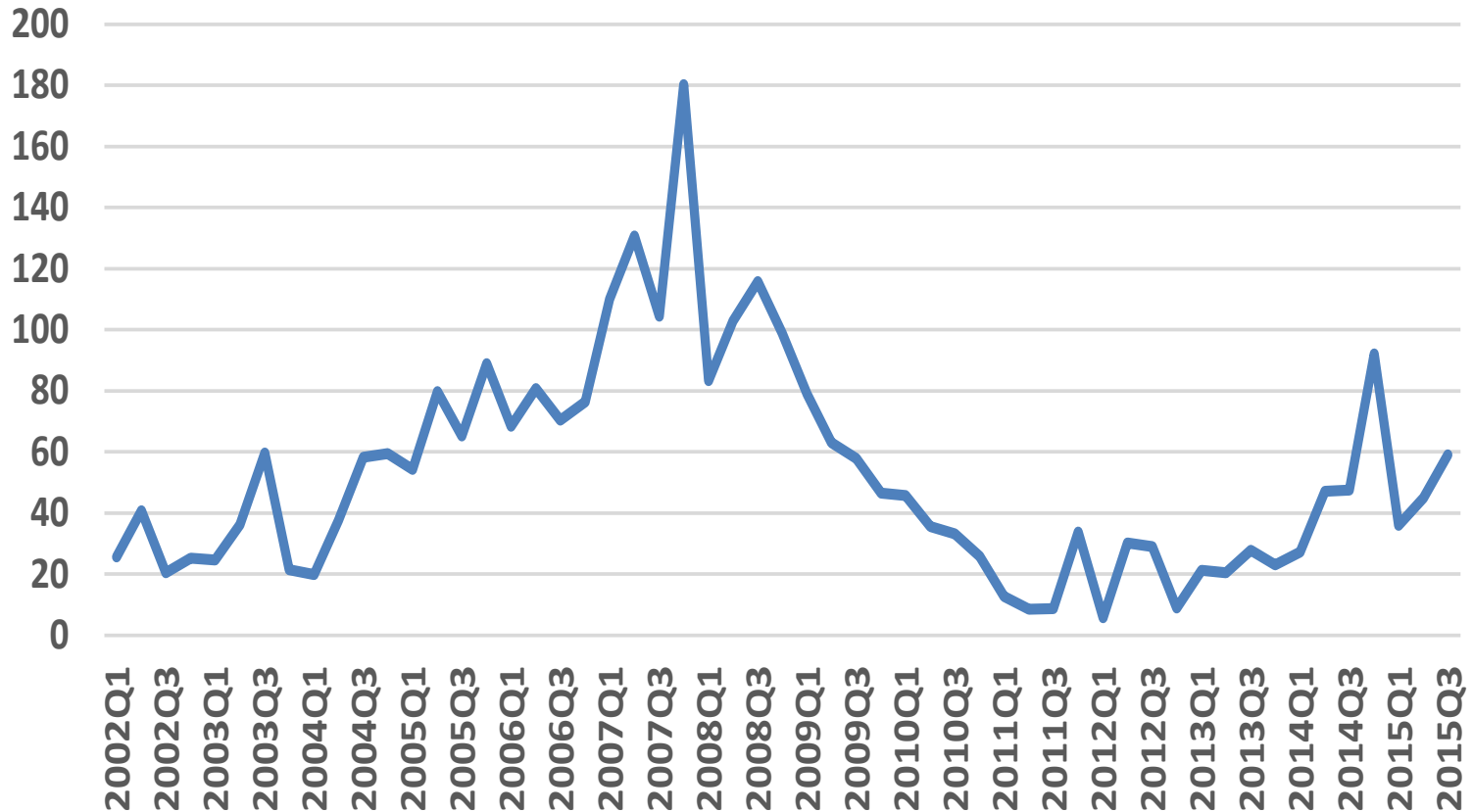
annual % change







Investment in real estate by foreigners (€million)

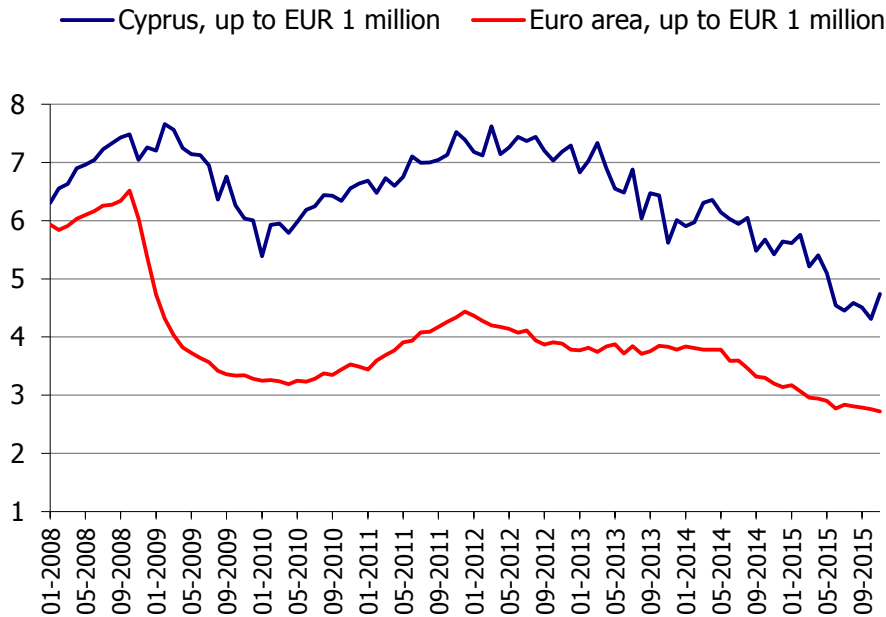




MFI interest rates on euro-denominated loans (new business) to euro area residents ⁽¹⁾
(% per annum, period averages)

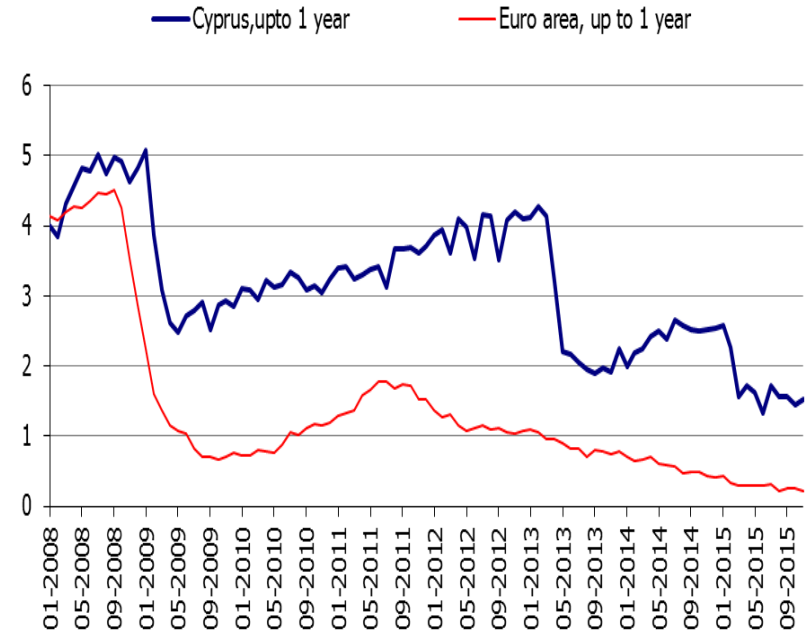
Euro area MFI interest rates on euro-denominated deposits (new business) by euro area residents ⁽¹⁾
(% per annum, period averages)

NON-FINANCIAL CORPORATIONS



(1) At floating rate and up to 1 year initial rate fixation

NON-FINANCIAL CORPORATIONS



(1) With agreed maturity of up to 1 year

Source: SDW, CBC



- CONFIRMS MACRO FUNDAMENTALS-
 - GDP
 - Unemployment
 - Interest rates
- UNEXPLAINED PART- STRATEGIC DEFAULTERS
 - Household Finance and Consumption Survey 2010, 2014



- Household Finance and Consumption Survey (HFCS)
 - Two waves 2010, 2014, Panel Data, 1200 sample size, Wealthy oversampling
 - Financial means (monthly salary > Loan instalments + living expenses)
 - Comparison of two waves- Strategic defaulters
- Bank Data Analysis
 - Aggregate Bank Data
 - Granular Analysis

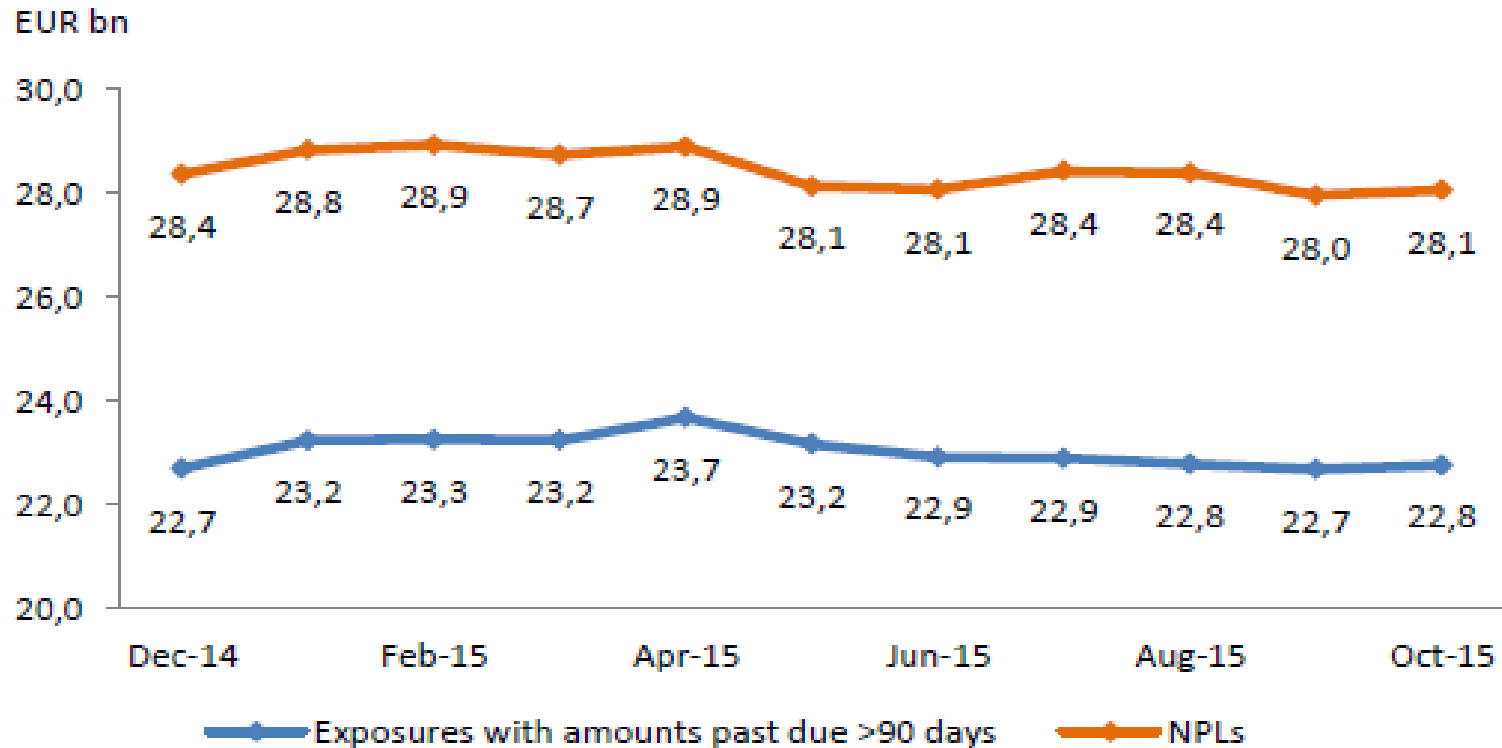


- Structural Change

- Institutional & Legal framework in place
 - Insolvency and foreclosure frameworks
 - Sale of loans
 - Asset Securitisation (in progress)
 - Bank internal operational units
 - Arrears Management and Provisioning Directives
 - Monitoring of NPLs-Targets
 - Detailed reporting to CBC

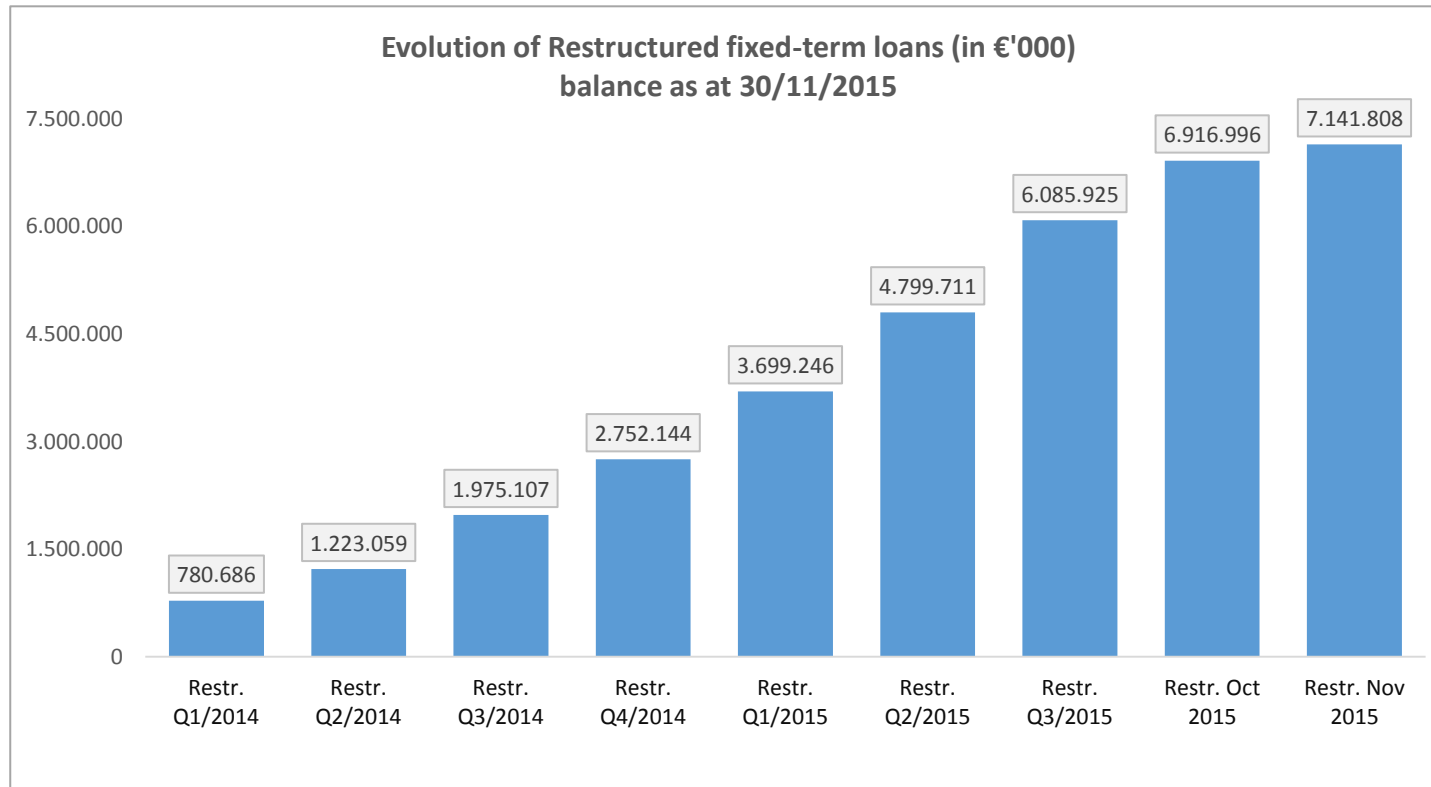
- NPL Classification

- Probation period of 12 months
- One NPL → all loans NPLs of the same debtor
- Collateral is ignored
- Deleveraging
- Interest accrued on NPLs





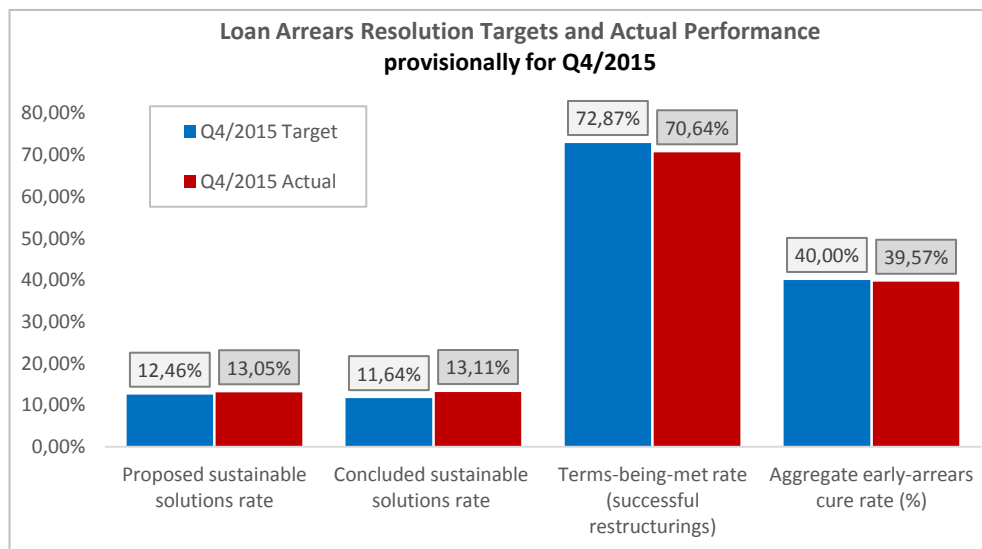
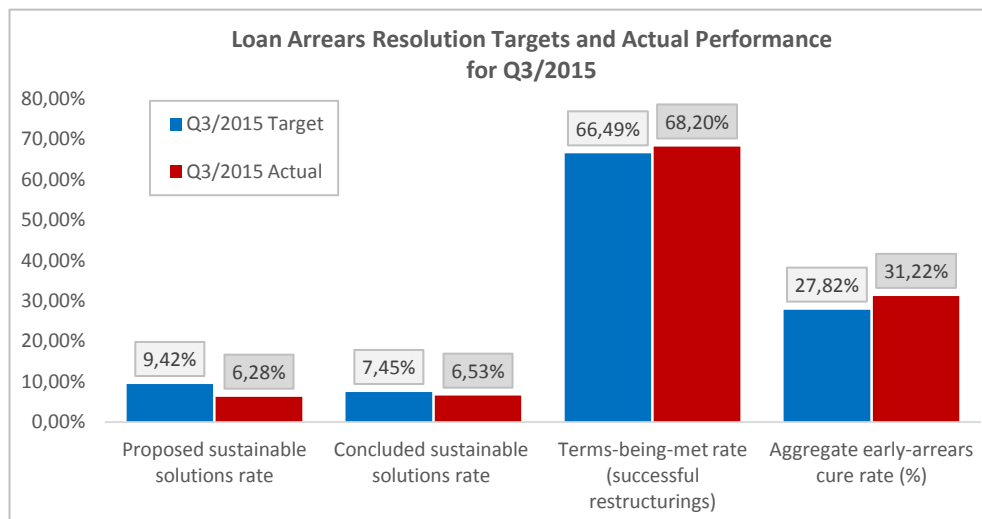
Evolution of Restructured (fixed-term) loans





Loan Arrears Resolution Targets and Actual Performance

- "Proposed sustainable solutions rate"** = The percentage of the balances of sustainable solutions proposed during the quarter in relation to the borrowers with loans exhibiting arrears of over 90 days at the beginning of the quarter
- "Concluded sustainable solutions rate"** = The percentage of the balances of sustainable solutions concluded during the quarter in relation to the borrowers with loans exhibiting arrears of over 90 days at the beginning of the quarter
- "Terms-being-met rate"** = The percentage of the balances of solutions concluded from 1/1/2014 upto the end of the previous quarter which exhibited arrears of less than 8 days at the end of the reporting quarter
- "Aggregate early-arrears cure rate"** = The percentage of the amount of loans that presented early arrears (i.e. 31-90 days in arrears) at the beginning of the reporting quarter which were cured during the quarter (i.e. presenting no arrears at the end of the reporting quarter) by (i) being restructured with a sustainable repayment schedule and (ii) other effective means





Performance of Restructured Loans

Cash collection rate % (amounts collected / amounts contractually due)	58,24%
Cure rate % (restructured balances with no arrears / total restructured)	72,16%
Default rate % (restructured balances with arrears over 90 days / total restructured)	12,39%

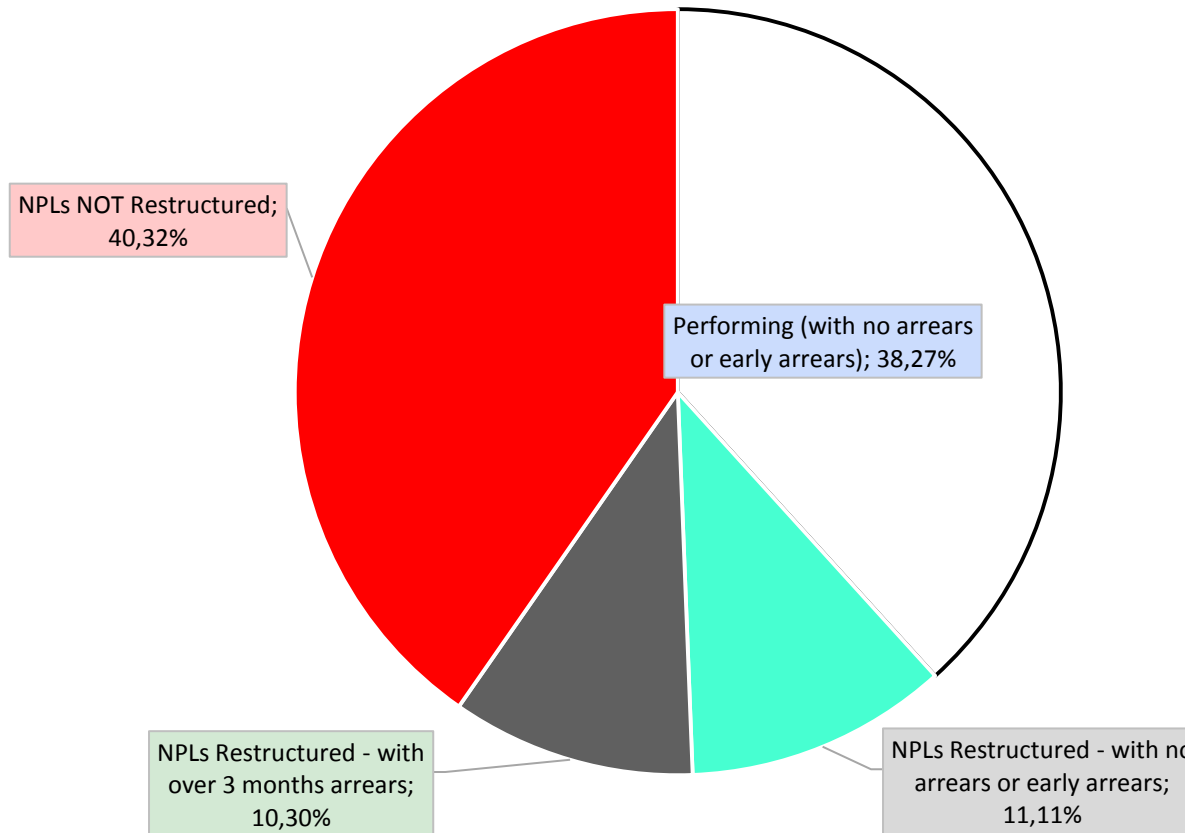


- Granular Analysis

- Solutions offered (maturity extensions, interest rate reductions, grace period, new facility etc)
- Vintage Analysis by performance
- Counterparty (Individuals, Corporate, SMEs)
- Loan category distribution by DPD
- Repayments of loans



Loans category distribution as at 31/10/2015





Repayments of loans by DPD	
Repayments from 0 DPD loans	69,43%
Repayments from 1-30 DPD loans	5,48%
Repayments from 31-60 DPD loans	5,20%
Repayments from 61-90 DPD loans	1,83%
Repayments from 91-180 DPD loans	2,71%
Repayments from 181+ DPD loans	15,34%



- NPL Resolution National Priority
- Two Pillar Strategy
- Progress but further Acceleration is needed
- Multidimensional Problem
- Restructurings Complemented by other Solutions
- Analysis and Monitoring



Thank you for your
Attention