

# WHY AN EFFICIENT INSOLVENCY AND FORECLOSURE FRAMEWORK MATTERS

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# SOLID GROWTH AND FISCAL ADJUSTMENT HELPED REBUILD CONFIDENCE

## Growth & Fiscal Outlook

- **Solid Growth**, supported by domestic demand, but with some signs of moderation
- **Strong fiscal performance** supports the decline of public debt from 100.6% of GDP in 2018 to 93.8% of GDP in 2019

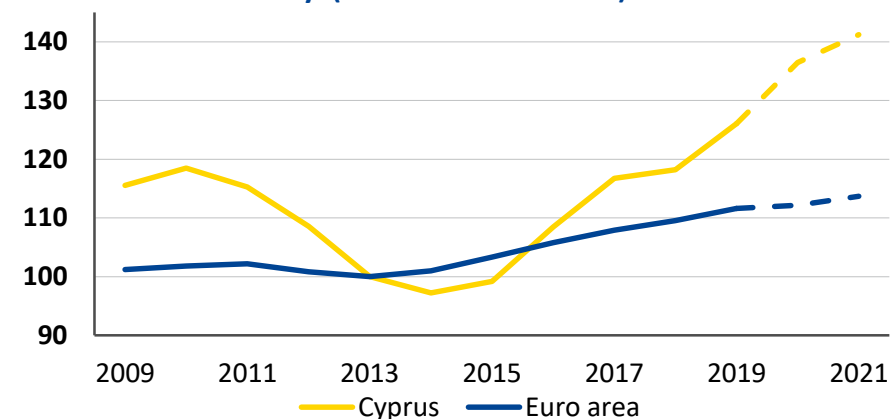
## Risks/others

- Domestic vulnerabilities remain: **high public and private debt, and NPLs.**
- **External risks:** global slowdown, lower demand from Brexit, and high exposure to financial market volatility

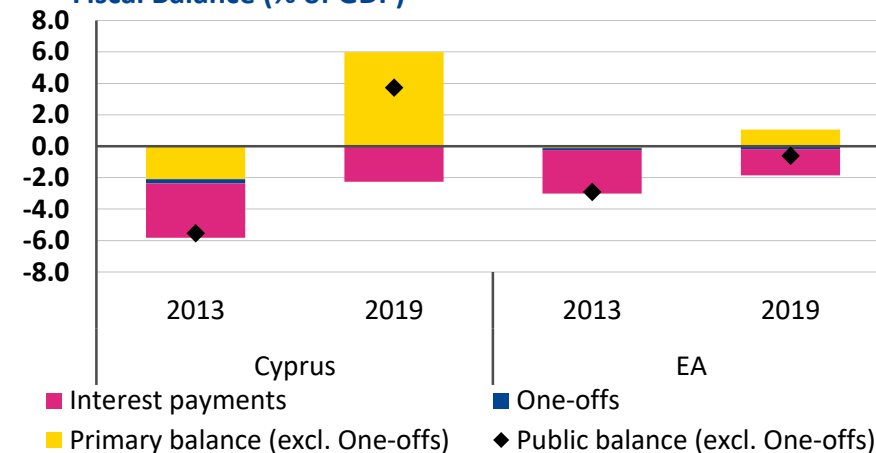
## Long term challenges

- Initiatives to diversify the economy to reduce vulnerabilities and increase potential growth
- Key Reforms related to the judicial system and public administration

Remarkable recovery (Real GDP - 2013=100)



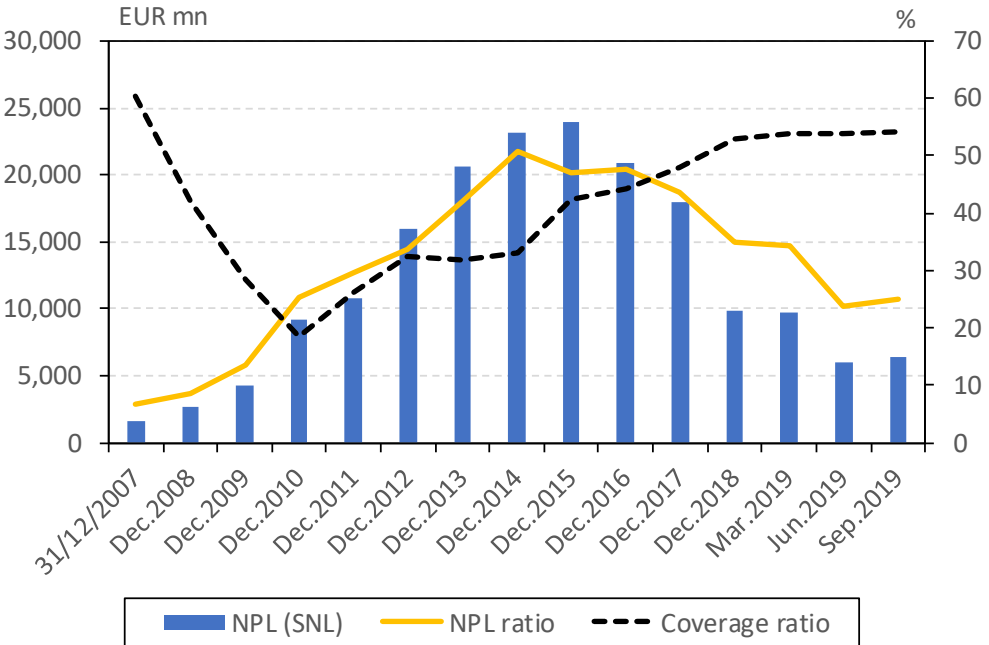
Fiscal Balance (% of GDP)



Source: Ameco

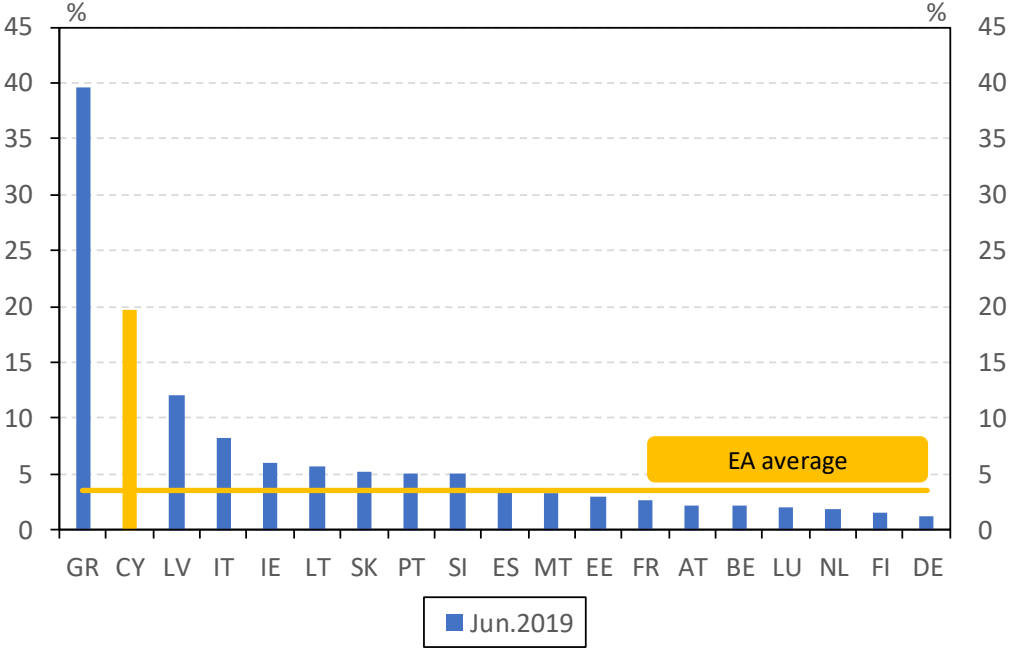
# STRONG PROGRESS IN NPL REDUCTION, BUT THE NPL RATIO REMAINS HIGH

NPLs, NPL ratio and Coverage ratio



Source: SNL, FitchConnect, ESM calculation.

NPL ratios in the euro area Q2 2019



Source: ECB.

# LESSONS LEARNED FROM THE CRISIS

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Recommendation from the Evaluation Report:

“...an explicit and comprehensive financial sector specific strategy, including the management of non-performing loans, is put in place from the start.”

Source: Evaluation of EFSF and ESM financial assistance.

This includes – amongst others – the streamlining of the insolvency and foreclosure frameworks

# WHY IS IT IMPORTANT TO HAVE AN EFFICIENT AND STABLE LEGAL FRAMEWORK IN PLACE?

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## Economic perspective

- Creates the right incentives for both the borrower and the lender ex post and ex ante of the origination

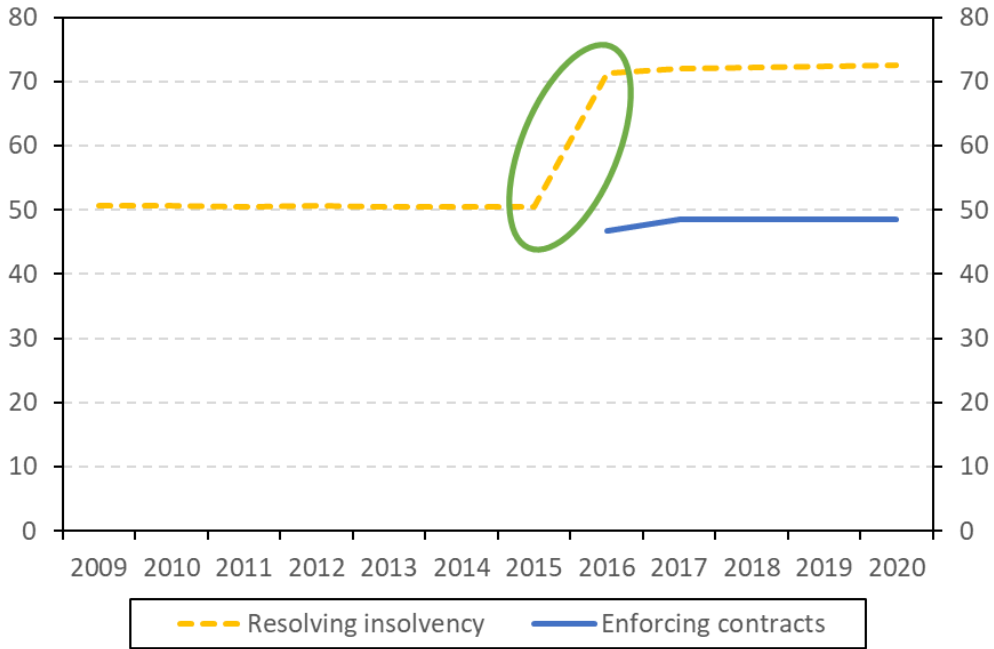


## Financial perspective

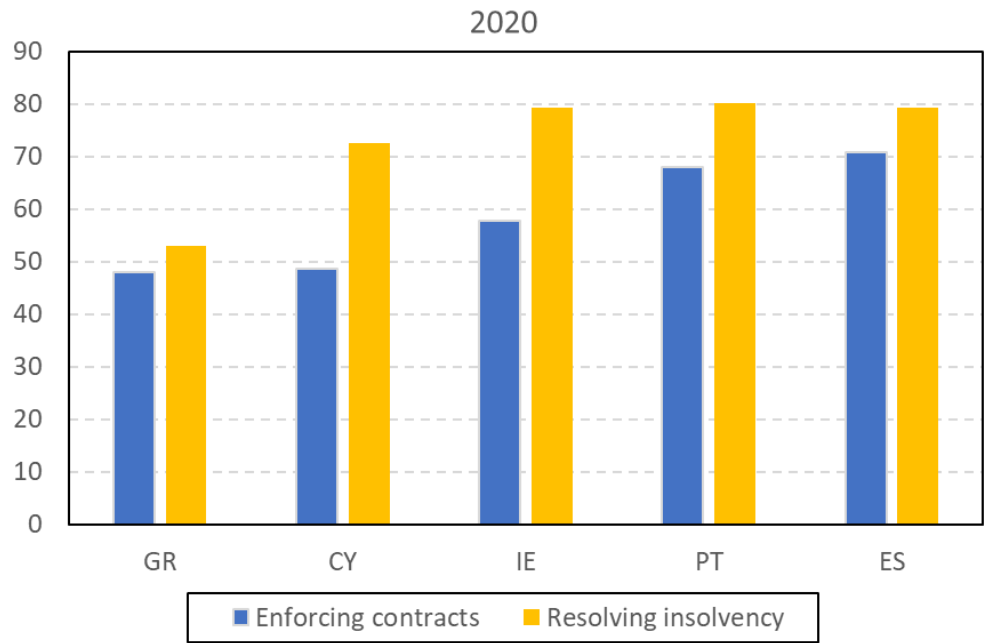
- Increases the price of NPLs in the secondary market via the speed and better predictability of the enforcement procedure's outcome

# WHERE DOES CYPRUS STAND RIGHT NOW?

Resolving insolvency improved...



...but is still weaker than in other PPS countries



Source: World Bank Doing Business.

# MAJOR REFORMS IN 2018...

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- **Until 2017, foreclosure levels stayed at low levels.** In 2017, total value of assets sold amounted to €11.5 million
- **The insolvency framework did not seem to have been used to the expected extent.** 15,000 bankruptcies and liquidations, 1,200 applications for Debt Relief Order out of which only 424 were issued, 71 applications for Personal Repayment Plans out of which 9 were concluded.

**BEFORE**



- Some important new elements:**
- Foreclosure framework
- Faster auction process
  - E-auctions introduced
  - Easier notification procedure
  - Amendments to shorten the implementation of the law
- Insolvency law
- Clear definition of “secured debt”
  - Streamlined Personal Repayment Plan tool
  - Better incentives for Insolvency Practitioners

# ...STILL SOME EFFORTS NEEDED TO REAP THE REFORM BENEFITS

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## Implementation of the reformed framework to reduce existing NPLs

- Court resources: more and specialised judges
- E-justice system
- Civil procedures and alternative dispute resolution

## Business environment can be improved further

- Efficient issuance and transfer of title deeds – and resolving the backlog
- Enhance creditors' access to information about borrowers



# HOW TO IMPROVE FURTHER?

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## Locally

### **Maintain a stable and predictable legal environment**

- Less volatile NPL prices
- Reduced bid/ask price gap

**Crucial for addressing legacy issues as well as increasing the banking sector's resilience going forward**

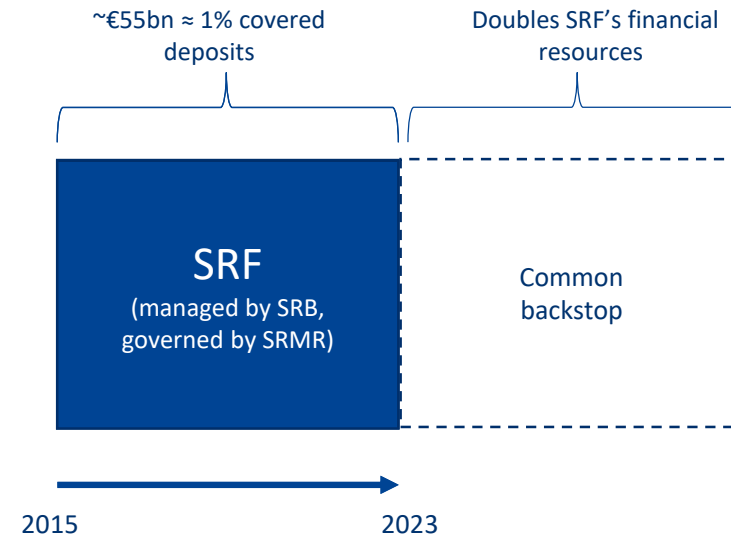
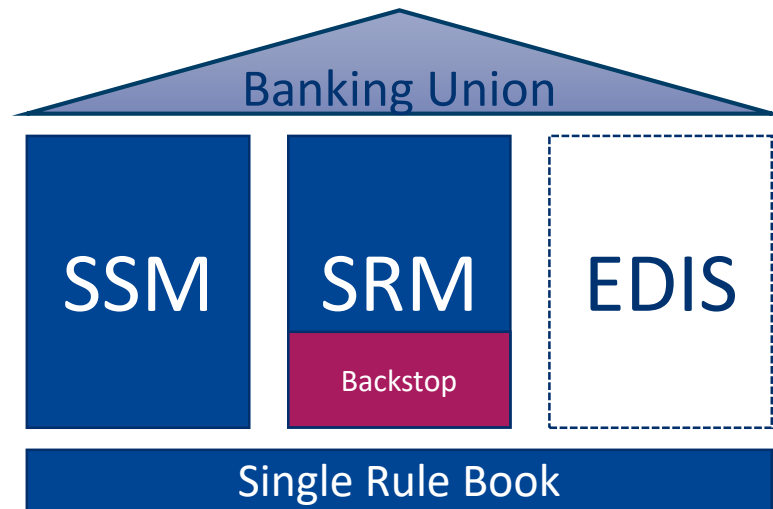
## At European level

### **Completing Banking Union**

- Introduce the common backstop
- Further harmonization of national insolvency and foreclosure regimes

**Help stimulate secondary market transactions across the borders**

# NEW MANDATES STRENGTHEN THE BANKING UNION VIA A BACKSTOP TO THE SRF AND CLOSER MONITORING OF MS



- ESM will provide the common backstop to the Single Resolution Fund (SRF) in form of a revolving credit line
- The strengthened mandate furthermore foresees that the ESM can follow macro-economic and financial risks in all euro area member states (pre-emptive surveillance): work in progress

# • CONTACT/FURTHER INFORMATION



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