Association des Banques Centrales Africaines

Association of African Central Banks

Annex 12

ASSOCIATION OF AFRICAN

CENTRAL BANKS (AACB)

43rd ORDINARY MEETING

OF THE ASSEMBLY OF GOVERNORS

(Organized virtually by the Banque Centrale du Congo)

SECOND CONTINENTAL SEMINAR OF THE ASSOCIATION OF AFRICAN CENTRAL BANKS (AACB) FOR THE YEAR 2021 ON THE THEME:

'HIGH LEVELS OF NON-PERFORMING LOANS IN AFRICA: DETERMINANTS AND IMPLICATIONS FOR FINANCIAL STABILITY AND THE REAL ECONOMY IN THE REGION'

Organized by: Central Bank of Egypt

(28th - 30th June 2021)

CONCLUSIONS AND RECOMMENDATIONS

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1. INTRODUCTION

In line with the decision taken during the extraordinary Bureau held on November 26th, 2020, the second 2021 Continental Seminar of the Association of African Central Banks (AACB) was held virtually from June 28th to 30th, 2021, on the theme "High Levels of Non-Performing Loans in Africa: Determinants and Implications for Financial Stability and the Real Economy in the Region". This Seminar was hosted by the Central Bank of Egypt (CBE). One hundred and sixty-six (166) delegates from thirty-four (34) member Central Banks and eighteen (18) delegates from nine (9) regional and international institutions attended the Seminar. The list of participants is attached in the appendix of the report.

2. OPENING CEREMONY

The opening ceremony was chaired by the Honourable Mohamed Abou Moussa, first Sub-Governor for Off-site Supervision of the Central Bank of Egypt.

In his introductory remarks, Dr. Djoulassi Kokou Oloufade, Executive Secretary of the AACB, on behalf of the Chairperson of the AACB, Honourable John Rwangombwa, Governor of the National Bank of Rwanda (NBR), and on his own behalf, expressed his deepest gratitude to the Central Bank of Egypt for accepting to host the second Continental Seminar of the year and making such excellent technical arrangements to kick off the proceedings. Furthermore, he thanked the Central Bank of Egypt staff for working closely with the AACB Secretariat and used this opportunity to express his sincere gratitude for their constant availability, competence, and professionalism. He also thanked them for being an invaluable source of support to the AACB Secretariat to ensure the success of this second virtual Seminar.

Moreover, he gave a special thanks to the experts for agreeing to share their knowledge on the Seminar's topics. He also saluted the presence of African and international Institutions and thanked them for their contributions to this event and the excellent collaborative relationship with the AACB. Finally, the Executive Secretary saluted colleagues from AACB member Central Banks for their massive participation, showing clearly that AACB member Central Banks are remarkably determined to contribute significantly to Africa's monetary and financial integration process.

He added that the Continental Seminar takes place in a context where the current health crisis related to the COVID-19 pandemic induced a significant increase in bad debts, stimulating the debate on Non-Performing Loans. The Executive Secretary indicated that the main objectives of the second Continental Seminar are to contribute to a better understanding of the concept of Non-Performing Loans (NPLs), the impacts of the current health crisis on the dynamics of NPLs. The Seminar additionally highlights the factors that induce their accumulation in credit institutions in Africa, the interactions between NPLs and financial inclusion. It also assesses the impact of NPLs on the financial system stability and the real economy in the Region.

To conclude his remarks, the Executive Secretary pointed out that this event constitutes an excellent opportunity to share experiences on Non-Performing Loans and have fruitful discussions that would generate pertinent and profound ideas to formulate practical recommendations.

In his opening speech, Honourable Mohamed Abou Moussa, First Sub Governor of the Central Bank of Egypt, welcomed all participants to this second Continental Seminar to exchange experiences. In addition, he extended to all participants the greetings of His

Excellency the Governor of the Central Bank of Egypt, Mr. Tarek Amer and the Deputy Governors, Mr. Gamal Negm and Mr. Ramy Abulnaga.

He thanked the AACB Executive Secretary and all colleagues in the Association for their continuous efforts and cooperation with the Central Bank of Egypt in organizing this important Seminar. He also thanked his colleagues from the Central Bank of Egypt, guided by Dr. Naglaa Nozahie, Sub-Governor, for their total dedication and efforts to arrange this Seminar.

Besides National economic problems in each country, Honourable Moussa recalled that the last decade had been a challenge for all banks' supervisors to deal with the gaps laid by the International Financial Crises until the COVID-19 pandemic. These issues caused many jurisdictions to high stock levels of NPLs that limit banks' ability to support the real economy. In recent years, Central Banks have helped steer the efforts to reduce the stock of non-performing assets on their banks' balance sheets.

He noticed that Supervisors are currently required to adequately manage macro and micro risks to have early warning systems to deal with NPLs. Thus, it will avoid their impact on liquidity, as NPLs are among the leading causes of liquidity risk. Therefore, supervised financial institutions should classify their loan portfolios promptly. In addition, he noted that proper and effective Licensing processes for Chief Risk Officers (CROs) and efficient governance processes are fundamental pillars to allow financial institutions to decrease NPLs levels. He also indicated that enforcing effective adequate provisioning methodology such as depending on Expected Credit Loss (ECL) for IFRS9 is critical to reducing NPLs.

Honourable Moussa added that proper guidance from Supervisors to banks on Non-Performing Loans, including a collection of best practices, had played a significant role in reducing the volume of NPLs. Due to these efforts, many banking systems entered the pandemic crisis in a relatively strong position. Nevertheless, NPLs are expected to increase again in the coming months as the impact of the COVID-19 crisis on the real economy intensifies.

After proffering a quick overview of how the CBE has dealt with NPLs during the past period, he asserted that most of the banks (more than 60) in the Egyptian Banking Sector in 2004 were insolvent due to a large stock of NPLs, which exceeded 30% of total loans. Thus, the CBE had set up a national plan, with the Ministry of Finance (MOF) and the Ministry of Investments, to finalize legacy public sector NPLs on the banking sector level. As for the Private sector, the Central Bank of Egypt convoyed a series of initiatives such as creating conciliation and arbitration mechanism in the CBE to finalize outstanding issues of large NPLs with multi lenders. Furthermore, the CBE worked on a series of mergers and acquisitions to strengthen the banking sector.

The first Sub-Governor indicated that this excessive work over six years led to an adequately managed banking sector that could sustain shocks. The number of banks, which stood at more than 60, is currently 38 strong banks. The NPLs ratio was reduced from over 30 percent to the current 3.5%. The coverage ratio, which shows the level of NPLs that are adequately collateralized, increased from 92.5 percent in 2010 to 95.0 percent. Although the number of banks decreased, the number of branches almost doubled from 2,800 branches in 2004 to approximately 4,500 in March 2021, enabling the 38 strong banks to strengthen financial inclusion. He mentioned Capital levels have grown very strong with CAR in line with Basel III that increased from around 16% in 2010 to record its current level of 19% with Tier 1 Capital constituting almost 90% of the capital component. Also, Capital base has

increased by around 5 times from around EGP 117 Bil. In addition, the leverage ratio increased from 4.8 percent in 2016 to its current level of around 7.0 percent.

He mentioned that the Egyptian banking sector is very liquid to sustain shocks. Moreover, he revealed that a sector in CBE Banking Supervision had been created, besides the macro-prudential sector created since 2008, to monitor the largest 200 borrowers and the largest borrowing industries as a means for the early warning system. These ratios, figures, and measures help the Egyptian banking sector stand firm during crisis times and support its customers, especially the non-performing ones.

He highlighted that the CBE had taken proactive preventive measures to curb and offset the negative implications of the COVID-19 pandemic outbreak. During the crisis, these measures aimed to maintain the balance between preserving financial stability, maintaining banking system soundness, and sustaining economic activity. The CBE has been firm and decisive in mitigating the effects of the pandemic through several initiatives and measures.

Moreover, he indicated that the CBE issued some initiatives for the most affected economic sectors such as industrial, agricultural, construction, and tourism by decreasing the interest rates. These initiatives also concerned non-performing clients in different economic sectors by restructuring their non-performing debts to take advantage of banks' funds during the COVID-19 pandemic. At the same time, banks were directed to shelve all credit dues for all their customers without charging late interest fees or additional fines for six months. This moratorium ended in September 2020 without leaving the banks in financial difficulties.

Finally, the first Sub-Governor encouraged all African Supervisors to concentrate on stress tests, dividends distribution and Capital planning through adequate Internal Capital Adequacy Assessment Process (ICAAP) to have firm banks sustain any crisis and implement different initiatives on performing customers level to avoid having them Non-performing and also on non-performing ones. To ensure that NPLs challenge across African countries is addressed effectively, banks need to ensure that they have the operational capacity to swiftly and thoroughly address NPLs at an early stage. A comprehensive plan to tackle rising NPLs across Africa is vital to deal with the consequences of the COVID-19 shock.

3. STRUCTURE OF THE SEMINAR

The Seminar was structured as follows: resource persons presented three sub-themes. In addition, representatives of Central Banks shared their experiences. Finally, three break-out sessions, divided into three groups, were organized to discuss specific topics and highlight the extent of NPLs in credit institutions in Africa, the interaction between financial inclusion and NPLs and the strategies to reduce them. The break-out sessions allow making recommendations to the Assembly of Governors for consideration.

3.1 Plenary Session 1: Presentation of the Sub-themes

Mr. Mohamed Abd El-Rehim, Chief Risk Officer, National Bank of Egypt (NBE), Dr. Ashraf Bahie Eldin, First Sub-Governor, Central Bank of Egypt, Mr. Kahled Bassiouny, General Manager, Financial Inclusion Department, Central Bank of Egypt, and Mr. Imanuel Hawanga, Deputy Director, Bank of Namibia, presented the following three sub-themes, respectively:

- Increase in Non-Performing Loans in Africa: Inventory and impact on the financial stability;
- Interaction between Non-Performing Loans (NPLs) and Financial Inclusion;

- Resolution of Non-Performing Loans: What Strategies for African Central Banks?

a) Increase in Non-Performing Loans in Africa: Inventory and impact on the financial stability

The first presentation focused on an overview of Non-Performing Loans (NPLs), the authorities' responses to the Covid-19 crisis and the NBE experience in managing NPLs.

According to the definition of the Bank of International Settlements (BIS), Mr. Abd El-Rehim indicated that Non-Performing Loans represent:

- All exposures that are "defaulted" under the Basel framework where applicable;
- All exposures impaired according to the applicable accounting framework; or
- All other exposures that are not defaulted or impaired. But they constitute material exposures that are more than 90 days past due or where there is evidence that full repayment of principal and interest without the realization of collateral is unlikely regardless of the number of days the exposure is past due.

Compared to other regions, he pointed out that Sub-Saharan Africa (SSA) had historically recorded high levels of Non-Performing Loans (NPLs) in the banking sector, with NPLs ratios exceeding 10.0 percent on average since the mid-2010s. In 2018, the NPLs ratio was estimated at 11.7 percent of the total loans in SSA, compared to 8.4 percent for South Asia and 3.8 percent for Europe and Central Asia.

Furthermore, the Presenter stressed two factors that affect NPLs, namely macroeconomic and bank-level determinants. The macroeconomic determinants are concerned with the deterioration of the macroeconomic environment and the increase in public debt. According to the International Monetary Fund (IMF) study conducted from 1994–2018, a one-percentage point decline in economic growth reduces the borrowers' capacity to service debt, increasing the country NPLs ratio instantaneously by 0.2 percent at impact and 0.4-0.6 percent in the medium term. In addition, higher public debt increases the sovereign risk premium, affecting banks' funding costs and lending rates. Furthermore, the bank-level determinants include the bank's efficiency and profitability, bank lending and moral hazard and governance.

The IMF bank-level analysis shows that an increase in banks' NPLs ratio by one percent is associated with an increase in risk-weighted assets by about 6.9 percent, a reduction in banks' capital by 6.5 percent and a decline in bank lending by about 3.0 percent, reducing bank's operating profits.

Moreover, Mr. Abd El-Rehim added that the COVID-19 pandemic had some impacts on the level of NPLs. According to Moody's forecasts, NPLs in Africa will double in 2021 versus 2019 as payment holidays during the pandemic expire.

The measures, which were undertaken by SSA Authorities to curb the health crisis, mainly included:

- Moratorium on debt repayments for exposed firms or individuals;
- Encouragement of banks to restructure loans, especially for small and medium-sized enterprises;
- Easing of prudential norms on capital;

- Use of capital buffers;
- Easing of supervisory guidelines on handling credit impairments by revising or suspending provisioning and classification rules for specific loan categories;
- Suspension of negative credit information;
- Issue guidance on the dividend and cash bonuses distribution to ensure the bank capital preservation; and
- Credit support encourages the banks to continue lending to the private sector and allows public institutions such as Central Banks or development banks to lend directly to the private sector.

Based on the IMF projections, these responses to the COVID-19 crisis could lead to a recovery in SSA countries' GDP growth, which is expected to stand at 3.4 percent and 4.0 percent in 2021 and 2022 against -1.9 percent in 2020.

The Presenter also showed that NPLs have some impacts on credit supply. He indicated that higher NPLs lead to higher impairment provisions, increased operational/legal costs, and higher funding costs. He also added that a significant NPLs level reduces interest income on loans, induces additional management time and servicing costs, and increases risk weight.

For Egypt, the Presenter showed that the monetary and fiscal authorities had taken measures to curb the negative impact of the COVID-19, given the recent global developments following the COVID-19 outbreak. He indicated that the Egyptian Ministry of Finance (MoF) dedicated the fiscal year 2020/21 budget to achieving sustainable and inclusive growth while fostering human development and implementing wide-ranging structural reforms. These included a stimulus package of EGP 100 billion (USD 6.4 billion), tax incentives by increasing the tax exemption limit, reducing the price of natural gas and electricity for industry, etc.

At the level of monetary authorities, he stated that they decreased the overnight deposit rate by 400 basis and the interest rates to 8.0 percent from 10.0 percent for mortgage finance for the middle-income class. They also delayed credit dues for all individuals, SMEs, and corporations for six months, supported the renovation of hotels, and financially stressed companies and individuals. Furthermore, the CBE allocated EGP 100 billion through banks at an interest rate of 8.0 percent to finance private sectors.

The IMF projected that these measures could lead to a gradual recovery in Egyptian's GDP growth rates, which are expected to stand at 2.5 percent and 5.7 percent in 2021 and 2022, respectively, compared to 3.6 percent in 2020.

Regarding the National Bank of Egypt (NBE), the State-owned bank established in 1898, Mr. Abd El-Rehim noted that the NBE had taken a strategy to transform from a state-owned bank business model to a regional bank business model to achieve sustainable growth and resilience. He stated that these measures were mainly based on the following building blocks:

- Restructuring the organization;
- Enhancing the capabilities of human capital;
- Inclusive development for I.T. and Operating System;

- Risk management; and
- Work out the problem of loans with corrective and preventive actions.

These measures shifted the NBE's NPLs trend, which stood at one percent in Mars 2021 compared with 1.6 percent in December 2019 and 5.2 percent in December 2012.

To alleviate NPLs, the Presenter recommended sound management of the economic environment and prudential regulation of the banking sector that are critical factors in curbing the growth of loans in normal and stressed market conditions. In addition, he stressed fiscal and monetary bailout supporting measures to banks and firms to contain the consequences of the crisis. He also mentioned that banks should recognize the deterioration of their assets' quality by applying rules related to loan classification and provision.

To conclude, the Presenter pointed out that to address the negative impact of higher NPLs on banks' capital, supervisors may allow the use of capital buffers and monitor capital restoration plans for the banks that fall below regulatory norms. He also highlighted the need to "recycle bad debt" if there is a market for NPLs. Finally, he mentioned that robust underwriting criteria and policies, diversification and limit management, risk governance, integrated risk management, early warning system and the balance between growth, credit quality and capital adequacy are vital in sustaining the banks' value and increasing resilience against normal and stressed market conditions.

Following this presentation, some participants commented mainly on Asset Management Companies (AMCs) in Africa, improving the supervision and risk management framework and the threshold for NPLs. In this regard, it was noted that private and public AMCs in Africa, notably in Nigeria and Ghana, help manage NPLs. Furthermore, it was stated that the absence of an efficient secondary market in Africa is a barrier to the development of AMCs.

It is vital to have a practical risk management framework for which the manager is responsible (endogenous causes) to improve the supervisory framework. In this regard, it is necessary to implement effective policies that should be followed rigorously. Furthermore, Supervisors should know all the procedures to follow. In addition, to improve the risk management framework, it was recommended to place specific standards for each country. For example, in sub-Saharan Africa, each country can review its lending standards to identify its weaknesses.

Concerning the Basel 3 framework, the transition has been noted because of the delay induced by the pandemic. For this transition, it is necessary to strengthen our capacity to absorb shocks and to be able to control and reduce NPLs based on the mechanisms in place. This, in turn, will lead to a review of lending and loans standards.

Moreover, it was noted that there is no consensus for the NPLs threshold. The authority can decide on the threshold depending on the risk tolerance, the buffer and the risks that the country can absorb. However, each jurisdiction is working to reduce the NPLs ratio.

b) Interaction between Non-Performing Loans (NPLs) and Financial Inclusion

The second sub-theme: "Interaction between Non-Performing Loans (NPLs) and Financial Inclusion", was presented jointly by Dr. Ashraf Bahie Eldin, Sub-Governor and Mr. Khaled Bassiouny, General Manager, Financial Inclusion Department, at the CBE. The presentation focused mainly on an overview of financial inclusion policy in Egypt, the benefits and challenges of financial inclusion in the banking sector and the potential links between financial inclusion and NPLs.

Dr. Ashraf Bahie Eldin introduced the presentation by mentioning that the CBE has several methods to assure that banks correctly classified their loans through the CBE database, open discussions and meetings with banks and large corporates banks. He highlighted the importance of robust banking supervision of the CBE, allowing solving NPLs problems, especially the legacy of NPLs.

Dr. Bahie ElDin indicated that the coverage ratio is key to assess NPLs. He pointed out that the level of Non-Performing Loans stood at 30.0 percent fifteen years ago, while the current ratio is 3.5 percent in 2021 and opened a joint discussion with Mr. Khaled about the level of Non-performing loans and the promotion of financial inclusion and the interaction between them.

Regarding financial inclusion in Egypt, Mr. Khaled Bassiouny noted that the CBE law had been issued and approved. This law, which defines financial inclusion, and includes digital and electronic payments, gave a clear leadership to the CBE to undertake actions at the National level by partnering with Government entities and all stakeholders. Furthermore, consumer protection has been stated in the Central Bank Law.

Mr. Bassiouny indicated that the following regulations had been issued to enable the environment in the promotion of financial inclusion and assessment of NPLs:

- Consumer protection regulation;
- Simplified KYC regulations;
- Opening account for youth starting from 16 years of age;
- Saving and lending through mobile wallet;
- Establishing financial inclusion departments within banks;
- Default exemption initiative for individual and corporates; and
- MSMEs initiative, obligating banks to dedicate 25.0 percent from their loan portfolio for MSMEs.

Moreover, the following additional initiatives have been taken to strengthen financial inclusion in Egypt. These include Agent Banking, Tier 2 bank, digital banking, facilitating products and services for people with disabilities and regulating the use of non-cash payment methods law.

Mr. Bassiouny stated that the vision guiding the promotion of financial inclusion is based on the framework regarding economic empowerment for all segments of the society through an inclusive formal financial system. This provides fairness, quality and affordable products and services, which, in turn, will contribute to the achievement of sustainable growth.

He also mentioned the following four pillars are essential:

- Consumer empowerment;
- Improving Ecosystem for MSMEs and stratus;
- Customer-centric diversified product and services; and
- Digital financial services.

The aforementioned pillars would not be achieved without Enablers such as:

- Legal and regulatory framework and policy reforms;
- Financial technology and digital financial infrastructure; and
- Sustainable finance and economic stability.

Through various Pillars and Enablers, these initiatives would be sustained if the National dialogue surrounding a shared vision and targets prioritizing the implementation of financial inclusion agenda were in line with the country's Sustainable Development Strategy called "Egypt Vision 2030".

The implementation of this national strategy improved financial inclusion. As a result, the rate of bank penetration of the population was 19.4 percent in 2014, 33.8 percent in 2017 and 52.8 percent in 2020. It is expected to be high in 2030.

Some ongoing projects include:

- World Food Program Farmers Project for Smallholder farmers "land consolidation", enabling farmers to access financial services by providing tools to maximize their productivity;
- Village saving and loan association (low-income women in rural areas): getting these rural women to start saving in financial institutions;
- Financial Inclusion Events (targeting citizens in poor and marginalized villages) which allows banks to meet potential customers in rural areas, in very remote villages, which has led to the opening of nearly 8 million new bank accounts; and
- Financial literacy: targeting not only banking staff and policymakers but also citizens. The aim is to enable the bank to make financial inclusion a norm, to promote access to financial services for unbanked populations.

Regarding the link between financial inclusion and lending, the Presenters highlighted the diversification of actors. Indeed, financial inclusion allows for an increase in the number of actors. Financial inclusion contributes to better transmission of monetary policy mechanism. As the CBE is responsible for setting monetary policy, with the setting of key interest rates, the CBE must ensure that these policy decisions are relevant to the markets.

In terms of challenges, the promotion of financial inclusion could reduce asset quality, as individuals or legal entities without knowledge of how banks work could cause delays in loan payments. Developing training modules on financial education (repayment plan, a contractual commitment of the client, etc.) would alleviate the problem, allowing new clients to become the best clients for the banks. Moreover, the banks have adopted a risk-based approach. All procedures comply with money laundering regulations, leading to risk mitigation and KYC methods, for a good assessment of the creditworthiness of clients. Consequently, microfinance institutions have a near-zero default rate.

Another challenge is that banks, to increase the sale of their products (bank cards, marketing, production of bank statements, etc.), outsource these tasks to companies that implement them. However, this outsourcing could generate risks as these companies are not familiar with the bank's procedures and are not under the Central Bank's supervision.

Commercial banks outsource many services to conduct their business better. There are few bank branches in rural areas, and to reach these populations, intermediary banking agents have a license from the Central Bank. Concerning microfinance institutions, they are often in rural areas and grant loans on behalf of the bank, increasing the rate of NPLs.

In conclusion, Dr. Bahie ElDin and Mr. Bassiouny emphasized the importance of financial inclusion for the banking sector despite the risks to asset quality, which can be mitigated by compliance with regulations and good management of bank loans.

Following this presentation, participants discussed the concept of the banking agent in the context of improving financial services, whether it performs credit assessment. Discussions also focused on the challenges faced by FinTech and the high level of interest rates charged by microfinance institutions.

Responding to the Participants' concerns, the Presenters clarified that the banking agent is a retail agent whose role is to enable the accessibility of banking services to customers in rural and remote areas. These banking agents are organized and have information systems to deliver banking services such as making deposits, payments and issuing bank cards. They also have KYC facilities. However, they do not assess loans applications.

Concerning FinTech, they stressed that they are crucial to improve financial inclusion policy, with solutions that reach customers in remote areas. Nevertheless, there are regulatory challenges, even though the CBE supervises their activity and grants them the licence to authorize the operations. Regarding the high-interest rates charged by microfinance institutions, the explanatory factors are the cost of operations and risk. Clients are willing to pay this cost to obtain the loan, and NPLs are almost non-existent in microfinance institutions.

c) Resolution of Non-Performing Loans: What Strategies for African Central Banks?

The third sub-theme: "Resolution of Non-Performing Loans: What Strategies for African Central Banks?" was presented by Mr. Imanuel Hawanga, Deputy Director-Offsite Analysis, Banking Supervision Department at the Bank of Namibia. The presentation focused in particular on factors of policy determination and NPLs recovery options.

According to the Africa CEO Forum study, Non-Performing Loans (NPLs) in Africa are estimated at USD 60.0 billion, compared to Europe, where NPLs amount to USD 600 billion. The problem of NPLs is accurate as the rate of NPLs is about 10.0 percent in more than 30 African countries.

Mr. Hawanga indicated that high NPLs hampered banks from allocating credit to the economy because income from bad assets falls below normal levels, decreasing their profitability. In addition, there is a need to increase provisions. Moreover, funding costs rise as counterparties seek to cover the risks of lending to weakened banks.

It is crucial to highlight that write-down and write-off deplete capital buffers, and NPLs require higher risk weight. Moreover, NPL crowd out new lending, as a bank with high NPLs has a reduced capacity to extend further credit. Thus, overall, banking systems with high NPLs experience low growth.

He indicated that the banks adopted a policy of restructuring their customers' debts and a six-month moratorium to resolve the NPLs issue. However, the impact of the COVID-19

exacerbated the recession in Namibia, increasing NPLs from 1.6 percent in 2015 to 6.4 percent in 2021. The Presenter noted the importance for African countries to know the level of NPLs that could trigger a systemic impact on the banking sector.

In Namibia, the banks' NPLs affect their portfolio and the banks' ability to lend to the private sector. Indeed, without these loans, companies could have difficulties in their activity and development. Therefore, stress testing is an effective tool in the determination of the systemic impact of NPLs.

The Presenter identified key factors for policy determination based on the Financial Stability Institute's study "FSI Insights on policy implementation - Resolution of Non-Performing Loans - policy option". An assessment of banks' loss-absorption capacity is also needed to address NPLs. Once the size of the NPLs stock has been estimated, together with some projections over new NPLs flows, this measure is compared with banks' provisions and capital buffers. In the absence of sufficiently large buffers, NPL losses can quickly erode banks' solvency. Several tools are available to gauge the size of the NPLs problem, such as on-site inspections, asset quality reviews (AQRs) and stress testing.

Furthermore, a clear definition of NPLs and harmonization at the continental level by adopting international standards (the Basel rules) are needed. Definitions of NPLs for regulatory purposes vary between countries.

In an NPL crisis, cyclical macroeconomic conditions and structural banking sector issues are relevant for designing an effective policy response. Macroeconomic conditions are essential as they affect average credit quality and bank balance sheets.

It is important to mention that competition between banks can lead to excessive credit growth to increase operating results. It is then crucial to map the NPLs, based on the loan registers to solve this problem. In addition, collateral strongly affects the feasibility of resolution options, as it can alleviate information gaps and mitigate losses. In this way, collateral not only fulfils its traditional function of reducing loan losses but can also help to support a market for NPLs once loan resolution becomes necessary.

The Government's ability to provide support to the banking sector depends on the fiscal space available. If NPLs losses erode banks' capital buffers and no privately funded safety net is available or sufficiently large, a resolution has typically required support from the official sector.

The final key factor relates to the legal and judicial constraints. For example, in Namibia, stringent rules have been established to classify loans when the loans remained for 365 days in the bank's portfolio without any repayment. However, between 2019 and 2021, regulations have been issued that were contrary to the one, which included the High Court rule 108 on the tangible property of customers, allowing them to repay bank loans in a defined number of days. Otherwise, the Central Bank registered the loan as an NPL.

In terms of NPLs recovery options, many resolution options are categorized into debtor-focused solutions and bank-focused solutions. Debt restructuring is a standard way of restoring a creditor's repayment capacity. Debt restructuring allows a non-financial company to reduce and renegotiate its non-performing debts. Out-of-court workouts do not involve a judicial process and are therefore cheaper and faster.

Concerning the Bank-focused resolution instruments, the Presenter mentioned the following instruments:

- *Write-offs:* banks usually hesitate to write off NPLs from their balance sheet, due to the implications for profits and capital. They prefer to keep the total value of the loan on their balance sheet and either count on the passage of time or improve macroeconomic conditions to turn around the loan or eventually restructure it. This option has been implemented in Tanzania and Tunisia;

- *Direct sales:* in a direct sale, the bank sells the NPLs asset to a counterparty, which is typically another financial institution, possibly a bank, but also various types of investment funds. There was a direct sale in Namibia to a German institution that provides services to private sector companies. It was able to help these companies get rid of their outstanding debts. The International Financial Corporation (IFC) has carried out similar activities in South Africa, Botswana, Eswatini, etc. In addition, the issues relating to the creation of secondary markets were raised;

- *Securitization:* the cash flows from several NPLs are pooled to create security with senior, mezzanine and subordinated tranches. Each tranche has a different risk-reward profile. The advantage of securitization is that there is some diversification of risk away from a single credit name. With the use of tranches, investors can choose the risk-reward combination that best reflects their preferences. Securitization was implemented during the U.S. subprime debt crisis that triggered the Global Financial Crisis in 2007 to clean up banks' balance sheets;

- *Asset Management Companies (AMCs):* AMCs are companies to which problem banks can transfer their bad assets. The AMCs can be privately or publicly owned, centralized or bank-specific, and the scope of banking assets to be treated under AMCs varies. AMCs have been used extensively in NPLs resolution, according to countries' needs; and

- *Asset protection schemes (APS):* An APS is an insurance scheme to support banks with high NPLs levels, where a state agency offers to cover a certain amount of the losses on their legacy loans against a fee. One of the goals of APS is to support credit provision by banks, as NPLs can crowd out new credit. APS have typically been put in place during the acute phase of a banking crisis. However, in other times the risk of a credit crunch is more manageable (the experience of Zimbabwe and Nigeria in cleaning up the banking sector).

In conclusion, Mr. Hawanga recommended the need for countries to determine systemic risks, develop a good mapping of characteristics, and adopt relevant policy instruments to address NPLs.

Following this presentation, participants commented on the issues of NPLs in normal times and the context of COVID-19. The causes of the accumulation of NPLs can be linked to factors intrinsic to the banks, namely weaknesses in the risk management system and internal control. For factors relating to the economic and judicial environment, the structural difficulties of specific economic sectors may favour an increase in NPLs. Moreover, shortcomings in companies' competitiveness revealed problems of positioning on local or foreign markets. Another factor could be the slowness of judicial recovery procedures concerning the business environment and the lack of a secondary market for the disposal of NPLs.

Therefore, Participants called for an overall strategy for NPLs resolution that should be based on a national strategy with a five-year action plan, including a resolution pillar, to tackle the existing stock of NPLs on banks' balance sheets. In addition, a review of collective enforcement procedures and a framework for out-of-court mediation are required. The NPLs market should be revitalized with the creation of specialized structures. A resolution unit should be created at the preventive pillar level, with specific powers to restructure NPLs portfolios and improve risk management tools (big data, efficient information systems, risk selection procedures, etc.).

Finally, in the context of the COVID-19 pandemic, they emphasized the need to help businesses restructure and strengthen their equity capital. To this end, governments, Central Banks and multilateral institutions should join forces to create a Recovery Fund.

3.2 Plenary session 2: Experiences of AACB Central Banks

Three AACB Central Banks shared their experiences concerning the main theme of the Seminar.

3.2.1. Banque d'Algérie

The regulatory framework for the supervision of the Algerian banking system underwent a substantial reform following the adoption of the prudential framework in the last quarter of 2014, in line with the Basel II standards.

A regulation on the terms and conditions for the classification of receivables and their accounting was promulgated in 2014 to revise the 1994 version.

This regulation includes a series of improvements compared to the previous system. It aimed at encouraging banks and financial institutions to be proactive in managing their portfolios, revising the provisioning rate of claims with potential problems reduced from 30% to 20%. It also includes introducing the principle of contagion and establishing special provisions relating to the restructuring of classified claims, the passage at a loss of claims with small amounts, and the treatment of real guarantees in the provisioning.

The NPLs rate (gross) of banks in Algeria seems relatively high compared to several emerging and developing countries due to the lack of a regulatory framework allowing impaired loans to pass into losses. Furthermore, there are no hive-off companies in Algeria seeking to specialize in the recovery of non-performing loans.

However, taking into account the provisions made by banks to cover these non-performing loans reduces classified loans to low levels.

Monitoring of the banks' credit portfolio quality is maintained through permanent control and on-site control through periodic reports dedicated and site inspections covering this topic.

In addition, a process of close on-site monitoring is implemented by the supervision at the level of the banks presenting quality problems of the commitments' portfolio.

Challenges

The following challenges were mentioned:

1. Lack of a regulatory framework;
2. High level of NPLs;
3. No hive-off companies.

Proposed solutions

With the advent of the COVID-19 pandemic, and like other Central Banks, the Bank of Algeria has taken prudential measures aimed to allow adequate support of companies mitigate the level of classified claims and provisions of banks, curbing the adverse effects of the pandemic on the national economy. Applying these measures has reduced the level of increase in non-performing loans compared to previous years and the rise in companies financing.

3.2.2. Central Bank of Nigeria

Introduction

One of the core mandates of the Central Bank of Nigeria (CBN) is the promotion of the safety, soundness and stability of the financial system.

The Nigerian banking sector has, over the decades, witnessed different episodes of banking crises and bank failures largely attributable to high incidences of Non-Performing Loans (NPLs). Other factors, such as illiquidity and under-capitalization, have also threatened the stability of the financial system.

The global financial crisis of 2007/2008 and the Nigerian banking sector crisis of 2009 highlighted the need for more robust regulatory measures to deal with the problem of NPLs and enhance the stability of the financial system. Consequently, the CBN introduced several reform measures to address the problem, including initiatives to strengthen the effective supervision of banks.

Evolution of Non-Performing Loans (NPLs)

The non-performing loan portfolio witnessed an increase in the Nigerian banking industry in the late 1980s and early 1990s. Some identified causes of the deterioration in the quality of loans at that time were:

1. Existence of predatory debtors who abandoned their loan obligations in some banks and obtained more debts in other banks;
2. Weaknesses in the status enquiry by banks on obligors, as some banks did not feel obligated to respond promptly to enquiries by other banks on loan obligors;
3. Lack of sound risk management practices in some banks which continued to extend more loans to customers that had non-performing loans; and
4. Paucity of information on the part of regulators to aid assessment of banks' loan portfolio.

The consolidation exercise of 2005 led to the emergence of 25 well-capitalized and strong banks; however, the banks soon began to engage in excessive risk-taking owing to the level of liquidity at their disposal. Consequently, many banks financed Oil & Gas transactions which were largely capital intensive and engaged in granting margin loans when there was a boom in both sectors. Other factors that accounted for the increase in NPLs were: the global financial meltdown, the poor corporate governance practices in banks and the weaknesses in regulatory provisions and practices.

Strategies adopted by the CBN to reduce NPLs in the Nigerian banking industry

The CBN has deployed multi-pronged measures to tackle identified causes of NPLs increase, and these have yielded the desired results. Some of the initiatives that the CBN has deployed to address/mitigate surge in NPLs include:

The establishment of the CBN Credit Risk Management System (CRMS) allows to address the challenge of paucity of credit information, an application of Prudential guidelines to guide credit processes and practices, and licensing of the private credit bureau to collect information from banks and available sources on an obligor's or potential borrower's credit history.

Furthermore, the establishment of Asset Management Corporation of Nigeria (AMCON) served as a distress resolution vehicle, strengthened the corporate governance practices, and reviewed the Code of Corporate Governance, Provision for Credit concentration limit, Regulations to address the limitation of exposure to insiders and single obligor. The CBN also issued directives on the strengthening of the Risk Management frameworks of DMBs.

In addition, the Bank Verification Number (BVN) introduction has helped in consolidating multiple individual and corporate accounts. Moreover, the Global Standing Instruction (GSI) in 2019 by the Bankers' committee allows curbing the predatory impact of serial debtors in the Nigerian banking industry.

In 2020, the CBN approved regulatory forbearance for the restructuring of credit facilities in response to the COVID-19 outbreak to cushion the impact of the global pandemic. Some of the policy measures include:

- Extension of a moratorium on all CBN intervention facilities by one year;
- Reduction of interest rate on all intervention facilities.

To further empower the CBN in its enhanced supervision of banks, the National Assembly enacted the Banks and Other Financial Institutions Act (BOFIA) 2020 to introduce bail-in tools to resolve failing DMBs and other financial institutions.

3.2.3. Bank of Zambia

The rising inflation, slowdown in GDP growth, high-interest rates, among others, have played a role in increased cost of doing business and ultimately putting a strain on cash flows of banks' customers, and therefore leading to increased default rates and the level of Non-Performing Loans (NPLs). Further, the NPL situation has been exacerbated by the advent of the COVID-19 pandemic, whose effects began to reflect by the third quarter of 2020.

The high NPLs continue to constrain profitability and capital growth as banks set aside the loan loss provisions to cover the potential loan losses. Consequently, this has had a drag on banks' credit intermediation capacity, negatively affecting economic growth. In addition, particularly in Zambia, high NPLs have tended to shift banks' investment preference to relatively low-risk investments, mostly Government securities, thereby crowding out the private sector from the much-needed credit.

However, the ratio of Non-Performing Loans to total loans (NPLs ratio) started to trend downwards at the beginning of 2021, dropping to 10.7 percent at end-April from 11.9 percent at end-January 2021.

The improvement in the NPLs ratio is attributed to an actual reduction in NPLs and partly due to the relaxed requirements on restructured credit facilities, given in April 2020 as part of the relief measures during the COVID-19 pandemic. Without this relief measure, a significant portion of the restructured facilities would have continued to be classified as non-performing under the strict rules of classifying and provisioning loans regulations. In this regard, the Bank of Zambia is closely monitoring the restructured facilities and is cognisant of the effect on the overall asset quality if the relief measures were to be lifted. As of March 2021, 5.9 percent of gross loans were restructured due to the COVID-19 pandemic, and therefore, assuming all the restructured facilities were classified as NPLs, the NPL ratio would worsen to 17.3 percent.

The impact of NPLs on the stability of the financial sector and the real economy in Zambia is quite evident. Due to elevated NPLs, many financial soundness metrics and real sector indicators have deteriorated. For instance, due to heightened credit risk, banks increased risk-premiums on corporate, business and consumer loans, which to some extent has undermined credit extension to the private sector. While there has been a slowdown in lending to the private sector, lending to Government has remained elevated. Consequently, economic activities have remained subdued, with the country recording negative growth in 2020 coupled with a double-digit inflation rate.

However, the sector has relatively sufficient loan loss coverage such that the residual risk as reflected by net NPLs to total net loans has largely remained below 4.0%. Further, the banking sector has remained adequately capitalized. As of end-March 2021, both primary and total regulatory capital adequacy ratios, at 17.3 percent and 19.7 percent, respectively, remained above the minimum regulatory requirement of 5.0 percent and 10.0 percent. The sector, therefore, held sufficient capital to absorb unexpected losses and support balance sheet growth.

Challenges

The following challenges were mentioned:

1. Slowdown in GDP growth;
2. High level of NPLs;
3. High level of inflation rate;
4. slowdown in lending to the private sector; and
5. Deterioration of financial soundness metrics and real sector indicators.

4. BREAK-OUT SESSIONS

Delegates deliberated on three topics in the break-out sessions.

Break-out session I: Non-Performing Loans: Determinants, Implications for Financial Stability and Economic Growth

Understanding of NPLs

The regulatory and accounting definition of NPL is a loan that was advanced to an obligor, which is 90 days overdue and no longer generates income for the bank. This definition is in line with Basel 2 standards and adopted by the majority of Central Banks. It is, however, necessary to extend the definition to have a broader view of defining NPLs in that it undermines socio-economic development. This is because the emphasis is mostly on the economy rather on defaulting corporates financed by banks to create employment and contribute to economic growth. NPLs created by defaulting corporates distorts health competition because these corporates still operate in the market and prevent the circulation of liquidity. When loans are granted to bank customers, liquidity leaves the banking system, but if loans become non-performing, the liquidity does not recycle back into the banking system. For most banks, the non-performing loan is not declassified. The lack of efficiency of the company due to its non-performing status will impact the bank and not contribute to economic growth. In substance, the accumulation of NPLs is a threat to financial stability and constrains the capacity of the banking system to support economic growth.

Determinants of NPLs

1. **Macro-economic issues:** The macro-economic environment is important because it affects the performance of businesses. The political environment is essential because it affects policy-making, which influences macro-economic policies. Vulnerability to exogenous economic shocks such as climate change and other crises also affect the macro-economic environment in which companies operate. If the macro-economic and political environment is healthy, the banks will continue to inject money into the economy through financing companies that create employment opportunities. Therefore, the potential build-up of vulnerabilities in the financial system should be monitored closely.

2. **Institutional issues:** There is a lack of supporting infrastructure in the banking system and business environment, including the non-availability of credit information/ credit bureaus, credit guarantee schlemes/companies and collateral registries. There is also inadequate regulation on bankruptcies. There is an untimely implementation of accounting standards by businesses. The poor coordination by the various government organs and the central bank adversely affects business efficiency, which results in poor bank performance and exacerbates NPLs.

3. **Regulatory issues: some** Central Banks lack effective regulation and supervision. This includes a lack of early warning systems and enforcement actions.

4. **Micro issues**

   (a) *Bank specific issues*: Banks may have weak internal governance, poor risk management culture and processes, including weak loan administration (underwriting and monitoring standards), poor identification of risk in specific economic sectors, high concentration risk and inadequate early warning models.

   (b) *Demand-side issues*: SMEs' are poorly capacitated in financial education, funding and business expertise. On the other hand, some banks do not adequately monitor SMEs to ensure their existence.

African Central Banks Roadmap for Addressing NPLs

1. **Safe and sound financial system:** This should be based on a stable political environment and effective micro and macro-prudential policies. There should be consistency in policy making on a micro and macro-prudential level to promote a safe and sound banking and financial system. In this regards, all stakeholders such as Government, central banks and businesses should coordinate in policy implementation to ensure financial stability.

2. **Stakeholder relationships:** Better coordination of the various government organs is needed, such as the judicial system and regulators, when bank regulators invoke formal enforcement actions. There should be special courts to handle foreclosure on non-performing businesses that are financed by banks.

3. **Regulatory practices:** Central Banks should adopt sound regulatory and supervisory practices and strict enforcement. This could be achieved by adopting the Basel standards and adapting them to the specificities of the African jurisdictions.

4. **Capacity building:** The fast-changing regulatory environment and emerging risks require central banks to capacitate bank supervisors with skills to effectively supervise banks. Some banks lack the capacity in monitoring the risks inherent in the businesses they fund and should therefore build capacity in this regard to ensure sustainability of such businesses. In addition, some businesses lack capacity to successfully drive the strategy for the business models they adopt and should therefore build capacity to retain their market share and reputation in the business environment.

5. **Business models:** Banks should adopt innovative lending models that cater to customers' various tiers while promoting stiffer competition.

6. **Emerging risks:** Banks and regulators should improve risk management practices and benefit from big data analysis, artificial intelligence, blockchain and the use of Regulation Technology (RegTechs).

Break-out session II: Interactions between Financial Inclusion and Non-Performing Loans

Key Issues:

1. Promoting financial inclusion, i.e., greater access to financial services for low-income households and small firms is a priority on the agenda of many of our AACB member Central Banks for economic and financial development reasons. This raises the question whether NPLs and financial inclusion are, broadly speaking, substitutes or complements. In other words, does the move toward greater financial inclusion tend to increase or decrease NPLs rates?
2. AACB member Central Banks, in general, tend to see a large portion of their population and firms not having access to formal financial services for a number of reasons. These reasons include limited branch networks and automated teller machines (ATMs), the relatively high costs of servicing small deposits and loans, inadequate know your customer (KYC) information and limitations on collaterizable assets and credit information.
3. Although financial inclusion is most commonly thought of in terms of access to credit from a formal financial institution, the concept has more dimensions. Formal accounts include both loans and deposits, and can be considered from the point of view of their frequency of use, mode of access, and the purposes of the accounts. There may also be alternatives to formal accounts, such as mobile money.
4. The structurally high level of NPLs in the region is explained by various factors, including macroeconomic volatility, a legacy of problem loans, and poor credit risk management practices. In addition, the COVID-19 crisis is likely to aggravate the NPLs problem.

Key Takeaways

1. It is observed that NPLs levels among AACB member Central Banks are mainly driven by credit impairment in exposures to large corporates, which are not linked to customer segments targeted in financial inclusion initiatives.
2. Financial inclusion has important beneficial effects on the economy. There is a possibility of increased NPLs in exposures to customer segments targeted by financial inclusion initiatives mainly on account of the fragile economic conditions of these customer segments.
3. There is a need for enhanced financial literacy programmes targeting financial inclusion initiative customers so that they can develop better skills to manage their finances. This will enable these customers to make better financial decisions, and hence, there is a reduction in the possibility that their loans would turn bad. Thus, there is a need for a clear-cut financial literacy strategy to be implemented at state level to be efficient and effective.
4. Some AACB member Central Banks do not currently collect sufficient data in quantitative and qualitative terms with respect to financial inclusion (from both supply and demand sides). Hence, it is difficult to quantify any link between financial inclusion and NPLs based on current data. Therefore, it is suggested that AACB

member central banks consider stepping up data collection regarding financial inclusion indicators to be able to have meaningful information to carry out research in this respect.

5. Microfinance Institutions (MFIs) have a significant role in making banking products available to financial inclusion targeting customer segments. Based on observations from a few AACB central banks, it was noted that the NPLs rates of banks in exposures to MFIs, as well as NPLs rates within MFIs, were not necessarily higher than the average NPL rate. However, it was suggested that AACB member central banks consider implementing appropriate regulatory frameworks for MFIs such that their credit riskiness could be better controlled.

6. Given the presumption that more favourable credit appraisal measures can be applied to financial inclusion targeted customer segments, it should have resulted in higher NPLs in exposures to such segments. However, banking legislation and regulatory frameworks in some central banks did not lower lending standards for financial inclusion targeted customers.

7. In general, wider access and availability of credit products would have diversification benefits on bank assets, which might positively affect bank-specific NPLs rates. However, the financial inclusion drive is still at a nascent stage in most AACB jurisdictions. Hence, there is insufficient data to support the notion that more diversification from financial inclusion could lead to lower NPLs rates. Therefore, there is a need for more research by AACB member central banks on the diversification benefits of financial inclusion.

8. On the macroeconomic front, when more economic actors are brought into the formal banking system, this would contribute to better transmission of monetary policy and overall achievement of macroeconomic objectives. However, data limitations again proved to be an issue in exploring the above link with overall countrywide NPLs rates.

It was observed that digital loans could be an effective and quick way to improve financial inclusion across AACB member states. However, digital loans, being unsecured in nature, tend to attract a higher NPLs rate. Nevertheless, when assessed at the overall level, digital loans were not a significant driver of total NPLs, given the small proportion of such exposures in the total loan portfolio. Therefore, it was concluded that banks could raise lending standards on digital loans as well as request the pledging of cash collaterals to discourage derelict behaviour as a means to reduce NPLs rate.

9. High fees and charges may lead customers in the unbanked segment to delay repayments promptly, thus resulting in new NPLs. There is therefore the need to have a proper examination of the determination of fees and charges related to services offered in the context of financial inclusion in a bid to reducing future NPLs.

10. Resolving NPLs can help to free up funds for new credit. Thus, there is need to look into faster NPLs resolutions that may encompass out-of-court settlements and/or write-offs. However, loans write-off has implications for the banks' profitability. This subject can be explored further to help in NPLs faster resolution.

11. With the removal of COVID-19 relief measures as economies begin to recover, the lower income group may be hard hit. Therefore, there is need for a more targeted approach to different customer segment alongside having different timelines for removing support measures.

Break-out session III: Health Crisis of Covid-19 and Non-Performing Loans: Impacts and Challenges

Background on Covid-19

The World Health Organization (WHO) declared Covid-19 as a pandemic in 2020 and many AACB countries declared state of emergencies in their countries. Many jurisdictions took immense strains on the health systems in terms of handling this pandemic. They implemented total lockdown for their economies in an endeavor to fight the spread of the virus. Many AACB countries are experiencing new more deadly waves of this pandemic. Therefore, more restrictions are being implemented in many countries. Covid-19 vaccinations are at slow pace in many jurisdictions and far from head-immune levels.

Impact of Covid-19 at macroeconomic level

Many jurisdictions are recording negative (or small) GDP growth, resulting in increased fiscal challenges. Lockdowns had negative impact on employment, credit growth and NPL levels, with business shutdowns in some cases.

Initial policy initiatives adopted in many AACB countries

Government/central bank led initiatives

1. Credit support lines for specific sectors with credit support in the form of government guarantee schemes for working capital purposes, and sector specific loans with low interest rates and limited collateral requirements;
2. Cost reductions for natural gas and electricity for affected industrial sectors;
3. Increased tax incentives;
4. Reduced bank policy rates to ease borrowing costs; and
5. Liquidity injection in financial markets to enable banks to continue lending.

Prudential regulation initiatives

6. Encouraged banks to offer moratoria to Covid-19 affected exposures/repayment grace periods;
7. Allow use of capital buffers or adjusted Capital Adequacy Ratio (CAR) requirements;
8. Restricted payments of dividends and bonuses;
9. Banks required to periodically submit Covid-19 related exposures to Supervisors for monitoring;
10. Increase in single obligor limits for large exposures/in some cases suspension of new limits proposed for large exposure lending;
11. Ongoing communication with banks and business sectors;
12. Onsite examination plans suspended in some cases;
13. Upward adjustments on digital payment platform to limit cash handling and enhance convenience for banking customers; and
14. Guidance on regulatory treatment of IFRS9 amid Covid-19.

Challenges

1. Covid-19 protocols meant business unusual for banks. New normal limited onsite examinations and many AACB countries adopted working from home (WFH) arrangements. The banks also followed WFH in the Covid-19 environment;
2. Digitalization and remote working solutions are exposing banks to new forms of cyber risk;
3. Some banks do not fully utilize the policy relief measures put in place. For example, they do not take advantage of the capital forbearance and liquidity support given to them, thereby undermining their credit extension; and
4. In many AACB jurisdictions, NPLs started to pick up noticeably in 2021 and banks recorded elevated loan impairments (IFRS 9).

Recommended strategies

1. It is recommended that supervisors should conduct close monitoring of development in sectoral performance, in particular corporate sector and financial institutions. Central banks should also monitor both macro and micro prudential issues, and strengthen early warning systems (EWS) to ensure that threats to financial stability are detected and mitigated at appropriate times. There should also be close monitoring of industry sector interconnectivity, for example, between the insurance, money market and banking sectors. Financial institutions should enhance the use of stress testing to inform decisions and actions taken.
2. It is important to have crisis management strategies. For this reason, financial institutions should be required to have effective contingency, recovery and resolution plans. There is also a need for coordination between central banks and other stakeholders. With regard to faster NPL resolution, the establishment of asset management companies and/or asset protection schemes to acquire and restructure NPLs should be considered.
3. Ensure that banks enhance risk management and build a risk culture in financial institutions. In addition, centralized credit registries would enhance credit scoring for lending purposes and risk management purposes. Provisioning regimes should remain robust, and central banks are encouraged to consider a convergence measure for reasonable NPLs levels.
4. Central banks/regulators should continue to restrict payments of dividends and bonuses in order to preserve banks' and other financial institutions' capital requirements.
5. Central banks/regulators should also continue with liquidity support C to ensure that the banking sector continues to lend to the affected sectors.
6. Furthermore, central banks, regulators and government should consider carefully a "safe path" of un-winding the policy relief measures at the right and appropriate time to avoid cliff- effects or unintended consequences.

Done virtually on 30th June 2021

Appendix: List of participants

N°	First Name	Last Name	Job Title	Central Bank / Institution
1.	Hugues	Tsafack	Financial Sector Advisor	African Development Bank (AfDB)
2.	Ayagi	Mota Dias	Chefe de Secção de Supervisão das Instituições Financeiras	Banco Central de Sao Tome e Principe
3.	Gernaldo	Rosário	Director de Estatísticas Económica e Financeira	Banco Central de Sao Tome e Principe
4.	Alsis	da Cruz	Technicien Superieur	Banco Central de Sao Tome e Principe
5.	Cruyff	Conceição	Director de Supervisão de Instituições Financeiras	Banco Central de Sao Tome e Principe
6.	Mario	Silva	Supervisor	Banco Central de Sao Tome e Principe
7.	Aiwsthey	Reis	Supervisor	Banco Central de Sao Tome e Principe
8.	Paulina	Fonseca	Técnica de Supervisão Bancária	Banco Central de Sao Tome e Principe
9.	Nimérsio	Trindade	Supervisor	Banco Central de Sao Tome e Principe
10.	Edygelque Seny	Do Rosário Quaresma	Supervisor	Banco Central de Sao Tome e Principe
11.	Hedlane	Cassandra	Técnica	Banco Central de Sao Tome e Principe
12.	Vivianne	Saraiva	Tecnica de Inclusão Financeira	Banco de Mozambique
13.	Leta	De Castro	Técnica	Banco de Mozambique
14.	manuel	cavele	Técnico de Análise Macroprudencial	Banco de Mozambique
15.	Artemisia	Gove	Economist	Banco de Mozambique
16.	Carlos	Manuel	Tecnichian of the Monitoring and Credit Office	Banco Nacional de Angola
17.	Ângela	Nunes	Subdirector	Banco Nacional de Angola
18.	Hilaria	Cunha	Bank Supervisor	Banco Nacional de Angola
19.	Analdete	Garcia	Supervision Bank	Banco Nacional de Angola
20.	Elizabeth	Joaquim	Manager	Banco Nacional de Angola
21.	Salima	Alami Hamdouni	Chargé Suivi des Risques Transfrontaliers	Bank Al Maghrib

22.	Baatlholeng	Goememang	Deputy Director, Research and Financial Stability Dept	Bank of Botswana
23.	Jacqueline	Mpofu	Principal Bank Examiner	Bank of Botswana
24.	Pearl	Nanfuri	Assistant Director, Governors Dept	Bank of Ghana
25.	Joseph	Acquah	Head of Research Unit of the Financial Stability Dept	Bank of Ghana
26.	Stephen	Nortey	Deputy Chief Manager	Bank of Ghana
27.	Joseph	France	Director, Head Financial Stability Department	Bank of Ghana
28.	Osei	Gyasi	Director, Head Banking Supervision Department	Bank of Ghana
29.	Yaw	Sapong	Director, Head other Financial Institutions Department	Bank of Ghana
30.	Divya	Seewon	Bank Officer Grade 1	Bank of Mauritius
31.	Hemlata	Nundoochan	Chief-Supervision Department	Bank of Mauritius
32.	Arjun	Munbodh	Analyst	Bank of Mauritius
33.	Imanuel	Hawanga	Deputy Director	Bank of Namibia
34.	Sofia	Aspara	Principal Financial Analyst	Bank of Namibia
35.	Postrick	Mushendami	Deputy Director Macro Models and Financiial Stability	Bank of Namibia
36.	Moses	Moses	Director General for Supervision, Research and Statistics	Bank of South of Sudan
37.	Johnny	Damian	First Deputy Governor	Bank of South of Sudan
38.	Emmanuel	Akaro	Manager	Bank of Tanzania
39.	Sadati	Musa	Manager	Bank of Tanzania
40.	Grace	Aswile	Manager	Bank of Tanzania
41.	Jerry	Sabi	manager	Bank of Tanzania
42.	Asimwe	Bashagi	Manager	Bank of Tanzania
43.	Dickson	Lema	Manager	Bank of Tanzania
44.	Tumubweinee	Twinemanzi	Executive Director Supervision	Bank of Uganda

45.	Hannington	Wasswa	Director Commercial Banking	Bank of Uganda
46.	Augustine	Kwebeiha	Senior Principal Bank Examiner	Bank of Uganda
47.	ROSE	Kuteesa	Head - External Sect. Pol.	Bank of Uganda
48.	Robert	Mbabazize	Director Financial Stability	Bank of Uganda
49.	Adam	Mugume		Bank of Uganda
50.	Rafael	Kasonde		Bank of Zambia
51.	Gladys	Mposha	Director - Bank Supervision	Bank of Zambia
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55.	Mohamed	Filali	Directeur Général	Banque Centrale de Mauritanie
56.	Mohamed Lemine	Bebacar	Chef Département des Banques non Systémiques et Etablissements Financiers	Banque Centrale de Mauritanie
57.	Mamadou	Diawara	Directeur de cabinet	Banque Centrale de Mauritanie
58.	Mourad Khazri	Mersni	Département de la Supervision Bancaire	Banque Centrale de Tunisie
59.	Said Twahire	Sayyed Chaikhan	Responsable du contrôle permanent	Banque Centrale des Comores
60.	M'ZE MBABA	Radjab	superviseur	Banque Centrale des Comores
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62.	Yves-Markamp	N.Kampwo	Chef de Service	Banque Centrale du Congo
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65.	AYADI	Faiza	Directrice du Contrôle sur Pièces- Inspection Générale	Banque d'Algérie
66.	Mourad	Dahim	Directeur du Contrôle sur Place	Banque d'Algérie
67.	Walbourgue	Ndabakunda	Analyste de la Stabilité Financière	Banque de la République du Burundi

68.	Benita Rachel	Ndayikeze	Financial analyst	Banque de la République du Burundi
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74.	Mohamed Lamine	Conté	DG de la Supervision des Institutions Financières	Banque Centrale de la République de Guinée (BCRG)
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79.	Khaled	Bassiouny	General Manager for Financial Inclusion	Central Bank of Egypt
80.	Ashraf	Bahie Eldin	Sub-Governor Banking Affairs Sector	Central Bank of Egypt
81.	Mohamed	Abdelrehim	Head of Risks Sector at the National Bank of Central Bank of Egypt	Central Bank of Egypt
82.	Ezzeldin	El Badry	Executive banking regulations	Central Bank of Egypt

83.	Wahba	Fouqueh	General Manager	Central Bank of Egypt
84.	Akram	Farid	Deputy General Manager- Large Corporate & Risk Reform	Central Bank of Egypt
85.	Yasmine	Rostom	Deputy General Manager	Central Bank of Egypt
86.	Ahmed	Taha	Inspector - On Site Banking Supervision	Central Bank of Egypt
87.	Ahmed	Maghraby	Banking Supervisor	Central Bank of Egypt
88.	Dina	Abdelsalam	Regulations officer	Central Bank of Egypt
89.	Ahmed	Abd ELmoneim Elsayed	Banker A	Central Bank of Egypt
90.	Tarek	Sami	DGM - Team Leader	Central Bank of Egypt
91.	Alshaimaa	Amer	Deputy General Manager	Central Bank of Egypt
92.	Yasmine	Elkhouly	Assistant Manager	Central Bank of Egypt
93.	Amina	Desouky	Supervision Manager	Central Bank of Egypt
94.	Aya	Mostafa	Assistant Manager	Central Bank of Egypt
95.	Nisreen	Nabil	Assistant Manager	Central Bank of Egypt
96.	Mohamed	Farghaly	Financial Analyst	Central Bank of Egypt
97.	Laila	Elkoussy	Relationship Manager	Central Bank of Egypt
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