

The banking sector under COVID-19



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Governor of BNB

The spread of COVID-19 poses serious challenges to both human health and the economy. The Bulgarian National Bank adopted a package of measures within our legal mandate to mitigate the negative effects from the pending crisis. An important part of our efforts in the current situation concerns commercial banks.

The areas we work on cover both the short and the long term, including a strategic horizon.

In the short term, our measures are aimed at the sector's preparedness to bear the burden of the coming economic crisis. In parallel, the BNB's actions are targeted at mitigating the effects from the crisis on households and businesses.

Our banking sector enters the new situation secured for a term of at least several months. In times when the very survival of many other industries and business areas is at risk, the preparedness of the banks in the Bulgaria makes them part of the solution rather than of the problem.

What was of key importance for the sector's currently strong starting position were the stress tests conducted by the BNB and ECB in 2016 and 2019, respectively. The Bulgarian banks passed the tests successfully. As of this day, that also applies to the two banks which achieved significant progress in the implementation of their capital plans after the latest tests.

The good state of our banking sector is the foundation upon which the central bank, as the regulator and supervisor and in coordination with the commercial banks, builds and applies measures consistent with the new situation.

More specifically, the current measures are directed along three lines.

First, additional measures for the smooth operation of the monetary regime and the infrastructure related to it, including cash circulation, payment systems and the BNB's activities as a fiscal agent of the government. The details of these measures are not publicly available, but they are generally aimed at creating additional fallback capacity ensuring the continuity of functions that are of critical importance for the state and the economy.

Second, further strengthening of the capital and liquidity base of the commercial banks. The scale of the coming crisis may possibly exceed the parameters of the adverse scenarios of the latest stress tests. The BNB's actions in this direction, [which we have already announced](#), are in the amount of

BGN 9.3 billion. These measures, already completed by the commercial banks, cover capitalization of the full profit in the sector, cancelling the intended increases of the countercyclical capital buffer and reducing banks' international exposures.

Third, regulatory measures, which allow for the commercial banks' greater flexibility in alleviating the negative effects from the crisis on their customers – households and companies. These measures are based on the implementation of a targeted and temporary moratorium that suspends or postpones payments on bank loans. The BNB is working on the regulatory treatment of the measures related to it, and commercial banks – on the business model for implementation of these measures vis-à-vis their customers. These measures will be activated in the coming days based on criteria and guidelines adopted by the European Banking Authority. The BNB participates in the process of adopting these common EU guidelines in our capacity as member of the Board of Supervisors of the European Banking Authority.

The above-listed measures supplement other government initiatives related to the banking sector, such as the moratorium on the late payment penalty interests on bank loans and raising the capital of the Bulgarian Development Bank with BGN 700 million, BGN 500 million of which for portfolio guarantees on bank loans and BGN 200 million for interest-free consumer loans for citizens on unpaid leave.

The duration of the pending crisis period is that important parameter determining our actions and measures which still features significant information insufficiency and uncertainty. For that purpose, we work on different macroeconomic scenarios and forecasts which evolve depending on the incoming information. Within the second quarter of the year, we are expecting considerably greater clarity, to take the form of more precise estimates of the expected magnitude and length of the adverse effects caused by the COVID-19 situation.

Beyond the intensity of all current and immediately pending actions, in the longer term horizon we continue to pursue our orientation towards more comprehensive integration in the EU financial infrastructure. This is the optimal strategy for Bulgaria. It is possible to have some technical delay in the timeline due to the current unfavourable financial and economic environment. However, there are no grounds for slowing the efforts of the Bulgarian institutions, including the BNB. Any delay in the process of accession to the exchange rate mechanism, the banking union and the euro area will discourage the implementation of important structural reforms and will delay the real convergence of the Bulgarian economy. This also implies slower growth of domestic incomes – with a particularly adverse effect on all Bulgarians that that would have been already affected by the disturbances in the economy due to COVID-19.



We are working very intensively to take actions coordinated with the authorities to support citizens and businesses affected by COVID-19



Peter Andronov
Chairman of the Executive Board of the
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At the time of an unprecedented pandemic and an imposed state of emergency on the territory of the Republic of Bulgaria, banks in the country are fully prepared and continue to serve their customers fully and uninterruptedly, making efforts to mitigate the negative effects on the economy.

In this difficult time for all of us, healthcare professionals are at the forefront, fighting tirelessly to control the epidemic and their efforts deserve all our respect, gratitude and support. Equally important to the normal functioning of the state and the citizens' access to vital services is the work of pharmacists, staff in the food shops, in gas stations, employees in the transport and public order, as well as bank employees. They all serve thousands of citizens and businesses every day, putting not only their own health at risk, but also the health and life of their relatives. In circumstances of forced social isolation, it is evident more than ever that digitalization and investments in electronic banking channels are timely and essential processes in order to provide customers 24/7 access to banking services including from home.

Above all, we are confident that banks will continue to serve their clients professionally and responsibly, as they have done so far. Even in this emergency, people and businesses can rest assured that their bank is always available and will support them.

We are aware that the measures - indisputably necessary and timely, taken against the spread of the virus, both in Bulgaria and globally, already have a strong negative impact on the economy and the situation of the workforce. Unfortunately, many customers fall into the difficulty of paying their bills, debts and paying off their loans. To the best of their ability, the banks in Bulgaria are committed to helping people and businesses cope with this difficult and unprecedented challenge. Our biggest capital are the people and companies that we have been together with for years, who shared with us their hardships and victories, were correct, honest and loyal. We will continue together when the pandemic is over, upright, motivated and confident.

Therefore, even before the announcement of the state of emergency, without any delay, the banks began to work individually with their customers to identify the problems and the difficulties that they have already been facing or expecting and to alleviate credit conditions. At the same time, we have been in constant contact with the respective authorities in the country, and of course, most often with the Bulgarian National Bank and the Ministry of Finance, working closely to find the most appropriate national solution and to develop a common mechanism

for rescheduling loan repayments. A significant part of the banks' activities in Bulgaria are regulated by the EU rules and acts, which in their pre-pandemic form did not provide the necessary freedom and flexibility to find appropriate solutions for clients. For that purpose, we have been actively involved, together with all other Member States, in developing proposals and changes to reflect force majeure in the treatment for regulatory purposes of overdue loans.

Developing a mechanism for rescheduling loan repayments depends directly on the possibility to have more flexible prudential treatment of the loans whose repayments are going to be delayed due to the emergent situation. Providing more flexible treatment would have a positive impact on banks' capital adequacy and credit risk management. In this way, banks could continue to fulfill, as before, their primary function, namely to fund the economy and the citizens in a situation where consumers and businesses will need additional resources. At the same time, the opportunity to postpone their loan repayments will be provided to people and companies that were loyal and correct payers before the pandemic, enabling them to deal with the temporary difficulties that they experience.

A few days ago, the European Banking Authority came up with its first key decision, which opened the door for national authorities and banking sectors to find adequate approaches to address the challenges. We work hard and round the clock to comply with these requirements and to prepare our framework and the mechanism for postponing loan repayments. In the next few days, the European Banking Authority will also issue detailed guidelines which, once validated by the Bulgarian National Bank, will give us the possibility to finalize the efforts to find a common national solution. It will be announced immediately, so that citizens and businesses whose problems are caused by the emergent situation can, at their request, benefit from it.

Banks will be ready to begin applying the mechanism as soon as it is disclosed.

We will continue to stand with our clients and support them, not only when the most significant and happy events happen in their lives, but also in times of distress, difficulties and challenges.

We are confident that together we will overcome this unexpected tremendous challenge and will continue stronger and wiser than before.

