

Second term – Priorities and Challenges



Radoslav Milenkov
Deputy Governor
and Head of the Banking
Supervision Department of BNB

During the past first term, one of the most significant successes so far in the history of the BNB and banking supervision was achieved, namely the accession of Bulgaria in 2020 to the European Banking Union.

The development of banking supervision in the country within the next term will certainly follow the framework of the Single Supervisory Mechanism Development Strategy in view of our country's membership in the Banking Union. The long-term goal remains unchanged – maintaining a stable and resilient banking sector with the capacity to absorb shocks, including from emerging risks, and which is capable of supporting the broader economic agenda in Bulgaria.

Banking supervision will continue to monitor, assess and, where necessary, apply proportionate supervisory impacts on banks' capacity to implement an adequate provisioning policy in the context of a conservative capital and liquidity position. The focus will remain on ensuring that identified weaknesses are addressed effectively and in a timely manner, using all supervisory tools to achieve this objective.

The Supervisory Review and Evaluation Process as well as on-site inspections will remain focused on granting and monitoring of loans, and guidance on the management of non-performing and forborne exposures. The capacity for the early identification by banks of potential financial difficulties of borrowers will be assessed, including through a targeted review of corporate credit files, identification of related parties, internal exposures, as well as an assessment of the strategy for reducing acquired assets.

Banking supervision will continue the practice of supervisory dialogue with LSIs directly supervised by the BNB regarding stated intentions to pay dividends and/or buy back shares. As before, these banks will have to demonstrate a sound capital trajectory based on conservative assumptions defined by Banking Supervision and embedded in the bank's business plan, subject to supervisory review.

With regard to its macroprudential mandate, the BNB has defined the level and scope of all capital buffers in a conservative and timely manner. The accumulation of all capital buffers in Bulgaria leads to one of the highest system level of combined buffer requirement in Europe. The active application of macroprudential tools has contributed to preserving banks' resilience and securing their lending capacity as a prerequisite and driver of sustainable

economic growth, both during the Covid pandemic and in times of heightened geopolitical uncertainty.

The vector of the future development of macroprudential policy will remain subject to the principles of conservatism, preventive orientation and active application.

The macroprudential approach is defined by the synergy of capital buffer requirements and the requirements introduced for credit standards when granting and renegotiating loans secured by residential immovable property. The purpose of the requirements is to ensure that credit growth is within conservative risk parameters.

Over recent years, one of the focal points of the work of the Banking Supervision Department has been the assessment of risks arising from the digitalisation of the banking sector. A special unit has been set up in the Banking Supervision Department, and it has developed, validated and will further deepen its specific supervisory expertise in the field of banking digitalisation and cybersecurity.

Banks operate in an environment characterised by dynamic structural and long-term trends, including digitalisation. The rapid advances in technology, including the emergence of generative artificial intelligence, and the speed of implementing such technologies are changing the banking sector, accelerating and altering the product and process developments, but also pose new challenges and risks.

The technological advances, and especially digital transformation, are becoming a priority for the future of the banking sector, and it is vital that banks have adequate mechanisms in place to ensure adequate management of risks arising from the implementation of new technologies. Therefore, the complex cyber threat landscape also plays a key role as the progress in digitalisation is creating a new dimension of risks to banks' operational resilience.

Last but not least, the preventive measures against money laundering and terrorist financing are of key importance to the banking sector. The BNB's powers under the national law cover the prevention of money laundering and terrorist financing in the banking sector, while the ECB has no powers in this area, except as part of the assessment of acquisitions of qualifying holdings.

These powers at European level have been assigned to a newly established supervisory authority, the Anti-Money Laundering Authority (AMLA). The Bulgarian National Bank has established full cooperation with this new supervisory authority and works with it in accordance with the relevant European legal framework.

Banking supervision will continue to undertake systematic actions to comply with the regulatory requirements for prevention, as well as to identify and mitigate the related risks in the banking sector by means of regular review and analysis of credit institutions' activities in the field of prevention of money laundering

and terrorist financing, and by applying a risk-based approach in line with the European Supervisory Authorities' guidelines and the national legal framework.

In conclusion, supervisory strategies in the context of the priorities set out will increasingly be defined on the basis of banks' risk profiles. The banks with more complex or higher-risk profiles will be subject to even more intense supervision. Emphasis will still be placed on timely intervention in identifying risks, ensuring that the corrective measures are effective, timely and proportionate.



Integrated Capital Markets: Bulgaria's Path to Sustainable and Innovative Finance



Vasil Golemanski
Chairman of the Financial
Supervision Commission

In times like these, the direction of development is not dictated by circumstances but by the choice to act purposefully with a clear vision. As Europe strives for better integration of its capital markets, Bulgaria must not only catch up but also be part of the change towards sustainable and innovative finance.

A strong banking system remains the backbone of the economy, but the new realities require more – more flexible forms of financing, digital connectivity and transparent access to investments. For long time now it's not just about regulations, but about building an ecosystem in which markets develop sustainably, businesses grow and citizens participate in an informed way.

Change is underway. The Digital Operational Resilience Act entered into force across the EU in 2025 and sets specific requirements for the financial sector regarding cybersecurity and ICT risk management. At the same time, the MiCA Regulation, which represents the first EU framework for regulating crypto-assets, is already in force and national legislative measures, implementing the Regulation, are about to be adopted by the Bulgarian Parliament. These initiatives are clear signals that the financial system is moving towards higher standards of security, innovation and trust. In this context, the Financial Supervision Commission organised an important conference for the non-banking financial sector, promoting the joint work in the process of implementing the two regulations and the achievement of resilient environment.

It is often spoken of the Eurozone as a political goal, but for those who are busy in the capital markets' area it has a broader significance, it is an affirmation that Bulgaria should be observed as a stable and predictable partner. The accession will eliminate currency risk, reduce transaction costs and facilitate cross-border investments. These opportunities should not be missed. The Financial Supervision Commission, as a responsible authority directly involved in the process of the Republic of Bulgaria's accession to the euro area, monitors the progress of all supervised entities in introducing the euro in the non-banking financial sector.

The results of the survey conducted by the Financial Supervision Commission indicate that the preparation of the non-banking financial sector for introduction of the euro is at a very advanced stage. Many participants have already taken concrete steps for adaptation, amongst them updated internal plans, informing customers and partners, and information systems updates. Despite the progress, there are still sectors, like the technology and the regulatory one, which need to be improved.

The Financial Supervision Commission actively works to upgrade supervisory capacity through innovative digital tools, supports sustainable financing and ESG standards, and promotes a culture of openness and transparency among market participants. Apart from that, it acts as one of the initiators of the process of implementing the principles of corporate governance in Bulgaria, following internationally recognized standards for transparency, accountability, effective supervision and protection of shareholder rights. It is a key part of the requirements set by the OECD to strengthen confidence in the financial sector in Bulgaria. Ensuring good corporate governance not only improves the stability of markets, but also attracts new investments and supports the long-term growth of the economy.

The insurance sector and the pension funds have the actual potential in becoming a sustainable source of financing for the economy. The multi-fund model already allows consumers to choose between different investment strategies in accordance with their life cycle and risk tolerance. The next step is to fully use this tool to direct savings towards productive investments and to support the real economy.

For the market to be vibrant, it needs active and well-informed participants. This means better financial literacy, digital solutions for access to products and clear communication. The development of capital markets in Bulgaria cannot be left to the natural course of events – it requires strategic vision, institutional capacity and broad public support. Only through partnership between the public and private sectors, through innovation and trust, we can build a modern and sustainable financial environment.

In 2025, the Financial Supervision Commission has set itself the goal of demonstrating that the power of regulation is not in restriction, but in creating an environment for trust, innovation and growth. Stable supervision, a predictable regulatory framework and an open dialogue with the participants in the sector - this is the model by which Bulgaria confirms its place in the heart of the European financial architecture.



Banking Sector in Bulgaria: Stability, Innovation and Prospects



Petia Dimitrova
Chairperson of the
Executive Board of the ABB,
CEO and Chairperson of the
Management Board of Postbank

In the year that will be key for the successful transition to the eurozone, I am pleased to welcome the members of the Association of Banks in Bulgaria through the pages of this newsletter.

In 2024 Bulgarian banking sector demonstrated stable growth, despite the economic challenges related to inflation and international uncertainty. The banking system continued to develop sustainably, preserving its capital stability and maintaining high levels of liquidity. This resilience was the result of effective risk management, strategic investments in digitalization and innovation, as well as the ability of banks to adapt to the dynamically changing economic environment. Despite rising costs, the banking sector managed to maintain its stability thanks to well-structured management decisions and optimized resource allocation. Regulatory mechanisms imposed in recent years ensured high levels of capital adequacy, which contributed to confidence in the sector. Digitalization remained a top priority, with banks making significant investments in new technologies, improving access and efficiency of the services offered. Customer service also underwent transformations, driven by automation and the introduction of modern remote banking platforms, which facilitated financial transactions for businesses and households.

Last year, Bulgaria went through a complex political situation that had an impact on macroeconomic stability. The parliamentary elections, as well as international geopolitical events, led to some postponement of the investment intentions of entrepreneurs. However, the banking system remained well-capitalized and able to meet the needs of businesses and households. Over the past year, corporate lending increased its growth to almost 10% on an annual basis, mortgage lending maintained strong dynamics with an annual growth of over 25%, and consumer loans grew by 17%. It is important to note that the levels of non-performing loans (overdue for more than 90 days) are at historically low levels, decreasing significantly on an annual basis, in almost all business segments.

Since the beginning of 2025, Bulgaria has become a full member of the Schengen Area by land, which has opened new opportunities for business and improved conditions for trade and investment. This factor is expected to have a positive impact on economic growth in the coming years.

At the same time, the effect of the European Central Bank's interest rate cut will begin to be reflected in the banking system, with the ECB expected to continue its gradual reduction of key interest rates in 2025. It is expected that by mid-year the key interest rate will be reduced to 2%, which will have an impact on banks' interest income and will lead to better lending conditions.

The main focus this year will be the successful transition to the eurozone. The introduction of the euro is a strategic moment for the country and will support Bulgaria's economic integration, strengthening its competitiveness on international markets. It is expected that the new currency will contribute to the activation of international trade and will provide Bulgarian companies with easier access to capital markets. The reduction of currency risk will encourage foreign investment, and the financial system will become even more transparent and predictable for the business environment.

The banking sector will continue to play a key role as a stable partner to businesses and households, providing support during the transition to the euro. In 2025, efforts will be intensified to increase financial and digital literacy so that all economic participants can effectively adapt to the new conditions. In addition, banks will continue to invest in innovation and technology to ensure a smooth and effective transition to the euro and to offer even more flexible and accessible services to their customers.

In conclusion, the banking sector in Bulgaria entered 2025 with a sustainable foundation, readiness for new challenges and a clear focus on the country's successful integration into the euro area. Despite the dynamics of macroeconomic processes, banks remain stable and continue to be a reliable partner for businesses and citizens.



IN BRIEF

■ On March 20, 2025, Bulgaria participated in the European Money Quiz for the first time. The competition is held at the initiative of the European Banking Federation, of which ABB has been a member since 2007. ABB is the organizer of the national round of the competition European Money Quiz, which this year is implemented with the strategic partnership of the Association of Economic Schools in Bulgaria /AESB/. Over 100 students from 5 schools in Bulgaria took part in the competition - the National Commercial and Banking High School, the National Financial and Economic High School, the Private Professional High School of Banking, Trade and Finance in Sofia, the National Commercial High School in Plovdiv and the Commercial High School in Burgas. The competition was held online, with students answering questions related to financial literacy, money and financial management. The first three places were won by Lora Kirilova from NTBG, Kristiyan Kostov from NTBG and Raya Georgieva from Commercial High School, Burgas. The first two winners - Lora Kirilova and Kristiyan Kostov - will represent our country at the European Money Quiz finals, that will be held in Brussels on May 22-23, where they will compete against participants from 35 countries.

■ Mr. Radoslav Daskalov from Postbank Bulgaria, Deputy Chairman of the Payment Infrastructure Committee, part of the ABB structures and current ABB representative in the Payment Schemes Evolution and Maintenance Working Group /PSEMWG/ of the European Payments Council /EPC/, was elected in April as ABB representative for a further two-year term in the EPS Working Group.

■ During the past year, the chairmen of the newly formed structures at the Board of Directors of ABB were elected and they are as follows: Mr. Stefan Ivanov, Director of Strategic, Credit and Integrated Risk at UniCredit Bulbank, was elected as the Chairman of the Committee „Regulations and Accountability“, and Mr. Todor Plugchiev, Head of the „Strategic Planning“ Department at Postbank, was elected as the Deputy Chairman; Mr. Kiril Velichkov, Director of European Projects and Financial Institutions at UBB, was elected as the Chairman of the WG „European Programs and Financing“, and Mr. Kamen Kirilov, Director of Small Business at DSK Bank, was elected as the Deputy Chairman; Mr. Teodor Petrov, Director of the Card Payments Directorate, was elected as the Chairman of the WG „Card Payments“, and Ms. Mariela Atanasova, General Manager of the Individual Banking Directorate at UBB, was elected as the Deputy Chairman; Ms. Borislava Dimitrova, Senior Manager „Institutional Sales and Stock Brokerage“ at UniCredit Bulbank, was elected as the Chair of the Working Group „Capital Markets“, and Ms. Daniela Georgieva, Head of the „Depository Services - Front Office“ Department at Postbank, was elected as the Deputy Chair; Ms. Mila Razsolokova, Director of the „Regulatory Control“ Department at UniCredit Bulbank, was elected as the Chair of the Working Group „Anti-Money Laundering“, and Ms. Vessela Stefanova, Director of the „Property“ Department at Postbank, was elected as the Deputy Chair; Mr. Emil Petrov, Head of the „Security“ Department at Postbank, was elected as the Chair of the Working Group „General Bank Security“, and Mr. Dimitar Dimitrov, Director of the „Human Resources and Branch Network Security“ Department at DSK Bank, was elected as the Deputy Chair.