THE ECONOMY AND THE BANKING SECTOR IN BULGARIA IN 2017

Sofia
HIGHLIGHTS

- In 2017 the Bulgarian economy recorded growth of 3.6% compared to the previous year, driven by the private consumption and the investments of the companies;

- The inflation was 1.2% in 2017;

- As of the end of 2017 the unemployment in Bulgaria was 6.2%, which is the lowest level since 2008;

- The budget surplus was 0.8% of GDP as of the end of December 2017;

- As of the end of 2017 the total assets of the banking system rose to BGN 97.8 billion and they were 99.2% of GDP;

- In 2017 the banking sector recorded net profit of 1.17 BGN billion;

- The credit growth, the better quality of the credit portfolio, the lower impairments and declining interest rates influenced the financial result of the sector;

- In 2017 the credit activity was moderate as it was higher regarding the households;

- The average interest rates on new loans kept the tendency to decline;

- The average interest rates on new deposits with agreed maturity retained their low values.
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I. The Bulgarian economy

Economic growth

In 2017 the Bulgarian gross domestic product (GDP) recorded real growth of 3.6% on an annual basis, according to the preliminary data of the National Statistical Institute (NSI). The pace of growth was slower compared to the growth of 3.9% in 2016. Nevertheless, the Bulgarian economy reported growth higher than 3% for third subsequent year as well as a higher growth than the average for the 28th EU Member States. The European economy grew by 2.4% in 2017 which has been the highest growth for 10 years. Bulgaria ranked tenth by the GDP growth in 2017 among the Member States.

Source: NSI, Eurostat, Ministry of Finance
According to the preliminary data of the NSI, the economic growth in 2017 was driven by the private consumption and business investments.

During the period the private consumption, which includes the consumption of the households and the non-profit institutions, serving households (NPISH), rose by 4,8% on an annual basis and contributed to the yearly GDP growth by 2,9 percentage points (p.p.) compared to 3,8% and the contribution of 2,2 p.p. a year ago.

In 2017 the gross fixed capital formation (investments of the business) grew by 3,8% on an annual basis compared to the decrease of 6,6% in the previous year. Their contribution to the growth was by 0,7 p.p. while that of the inventories was by 1,1 p.p. On the other hand, the share of foreign direct investments (FDI) to GDP was 1,9% as of the end of 2017 compared to 2,2% in 2016. According to the preliminary data the FDI amounted to 950,1 million EUR.

In 2017 the rate of growth of the export of goods and services was slower at a pace of 4% compared to 2016, while the import increased faster (9,1%) due to the growth in the internal demand. Thus, the contribution of the net export (the difference between export and import) to the growth was negative for the first time since 2014.

In its quarterly issue Economic Review the Bulgarian National Bank (BNB) expects that the internal demand is going to have a positive input to the real growth in 2018-2019 which is going to lead respectively to an increase in the import of goods and services. The faster growth of input in comparison with the growth of the export of goods and services is going to have a negative contribution of the net export to the growth. The BNB estimates the risks for the forecast of the economic activity as balanced.

The forecasts of the different national and international organization and institutions foresee that the economic growth is going to vary between 3,5% and 4% in 2018 and between 3,2% and 4,2% in 2019.

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</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic product</td>
<td>80 759</td>
<td>82 040</td>
<td>82 166</td>
<td>83 634</td>
<td>88 571</td>
<td>92 635</td>
<td>20 066</td>
<td>24 149</td>
<td>26 990</td>
<td>27 427</td>
<td>98 631</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>GDP (mln. BGN)</td>
<td>1,9</td>
<td>0,9</td>
<td>0,9</td>
<td>1,3</td>
<td>3,6</td>
<td>3,9</td>
<td>3,6</td>
<td>3,9</td>
<td>3,8</td>
<td>3</td>
<td>3,6</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>GDP (real Y-o-Y growth, %)</td>
<td>MF (October 2017)</td>
<td>4</td>
<td>3,9</td>
<td>3,9</td>
<td>3,9</td>
<td>-</td>
<td>-</td>
<td></td>
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<tr>
<td>GDP (real Y-o-Y growth, %) - forecasts</td>
<td>BNB (March 2018)</td>
<td>4</td>
<td>4,2</td>
<td>4</td>
<td>-</td>
<td>-</td>
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<td></td>
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<tr>
<td>Total final consumption</td>
<td>-4,4</td>
<td>-1,8</td>
<td>0,3</td>
<td>3,4</td>
<td>2,7</td>
<td>-6,6</td>
<td>2,4</td>
<td>4</td>
<td>4,2</td>
<td>4,1</td>
<td>3,8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final consumption of general government</td>
<td>2,2</td>
<td>2,0</td>
<td>0,6</td>
<td>0,1</td>
<td>1,4</td>
<td>2,2</td>
<td>5,8</td>
<td>1,2</td>
<td>2,5</td>
<td>3,5</td>
<td>3,2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross fixed capital formation</td>
<td>-4,4</td>
<td>-1,8</td>
<td>0,3</td>
<td>3,4</td>
<td>2,7</td>
<td>-6,6</td>
<td>2,4</td>
<td>4</td>
<td>4,2</td>
<td>4,1</td>
<td>3,8</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Export of goods and services</td>
<td>12,6</td>
<td>2,0</td>
<td>9,6</td>
<td>3,1</td>
<td>5,7</td>
<td>8,1</td>
<td>6,1</td>
<td>3,6</td>
<td>4,6</td>
<td>4,6</td>
<td>2,1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Import of goods and services</td>
<td>9,9</td>
<td>5,5</td>
<td>4,3</td>
<td>5,2</td>
<td>5,4</td>
<td>4,5</td>
<td>9,1</td>
<td>6,2</td>
<td>5,4</td>
<td>8,2</td>
<td>7,2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign direct investments in Bulgaria (mln. EUR)</td>
<td>1 476,3</td>
<td>1 320,9</td>
<td>1 345,0</td>
<td>1 160,9</td>
<td>2 475,9</td>
<td>1 079,6</td>
<td>214</td>
<td>487,2</td>
<td>736,1</td>
<td>950,1</td>
<td>950,1</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Foreign direct investments/GDP (%)</td>
<td>3,6</td>
<td>3,1</td>
<td>3,3</td>
<td>2,7</td>
<td>5,5</td>
<td>2,2</td>
<td>0,6</td>
<td>1</td>
<td>1,5</td>
<td>1,9</td>
<td>1,9</td>
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</tbody>
</table>

Source: NSI, Eurostat, Bulgarian National Bank
Forecasts: Bulgarian National Bank, Ministry of Finance, International Monetary Fund, World Bank, European Commission, European Bank for Reconstruction and Development

5
Inflation

The last year was the first year with inflation since 2012. The average annual change of the harmonized index of consumer prices (HICP) in Bulgaria was 1,2%. It was below the EU average of 1,7%. In 2017 Bulgaria ranked eighth by the low level of inflation in the EU.

In 2017 the dynamics of HICP was mainly due to the price changes in the energy resources, traded on international markets as well as the higher prices of utilities defined on administrative basis.

In its Autumn macroeconomic forecast the MF foresees a rise in HICP to 1,4% at the end of 2018, to 1,7% in 2019 and to 1,8% in 2020 due to the assumptions for higher prices of oil and non-energy commodities on the international markets and due to increasing domestic demand.

According to the BNB, the administrative prices are expected to have a positive contribution to the level of inflation in 2018-2019 due to the forecasted excise on tobacco products and the increase of prices of water supply.

Source: NSI, Eurostat
Forecast: MF, European Commission

Source: Eurostat
Labour market

In 2017 the level of unemployment, measured as a share of the working force, declined to 6.2%. The unemployment in Bulgaria remained at its lowest level since 2008 when it was 5.6%. The last year was characterized by forth subsequent annual decrease of unemployment. The number of unemployed decreased to 207 thousand from 247 thousand a year before.

The Ministry of Finance foresees decrease of unemployment up to 5.9% in 2019 and to 5.6% as of the end of 2020. Considering the favorable expectations for the GDP growth the Ministry of Finance assumes that the increase of employment is going to slow down in 2019 and 2020 due to the faster running of the potential for the increase of employed and the influence of demograph development in the midterm.

The share of the unemployed young people (under 25 years) also decreased for forth subsequent year as that decrease was to 12.9% as of the end of 2017 compared to 17.2% in 2016. The average number for the EU member states was 16.8%.

As of the end of 2017 there was registered an annual increase of the average salary in Bulgaria. In the fourth quarter of 2017 its increase was 10.6% on annual basis compared to 10.2% in the third quarter in 2017.

Source: Eurostat, Ministry of Finance, NSI
Public sector

According to the Ministry of Finance preliminary data, as of the end of 2017 the state budget had a positive balance of BGN 845.2 billion. The surplus was equal to 0.8% of GDP as such a surplus had been realized for a second time since 2008.

The amount of the budget revenues and grants according to the Consolidated Fiscal Programme for 2017 was BGN 35.32 billion (35.5% of GDP), or 99.6% of the annual estimates. In its quarterly issue Economic Review the BNB indicates that the expectations are the tendency for sustainable growth of tax revenues in the first half of 2018 as a result of the favorable dynamics of the macroeconomic indicators, the increase of the pension funds, the duty of cigarettes and the constant measures for increasing collection to continue.

Budget expenditures on Consolidated Fiscal Programme (including the EU budget contribution of Bulgaria) for 2017 were at the amount of BGN 34.47 billion (34.6% of GDP). In comparison, the budget expenditures for 2016 were at the amount of BGN 32.49 billion and according to the estimations for 2017 there were BGN 34.87 billion. The amount of the fiscal reserve as of the end of 2017 was BGN 10.3 billion compared to BGN 12.9 billion as of the end of 2016.

According to the BNB the fiscal policy is going to have a positive net influence on the economic growth in the first half of 2018. Government investments are going to have a positive influence on the economic growth for the first half of the year in case the expectations for realizing the expenditures for EU programmes and the recovery of the national investment expenditures. The MF forecasts a budget deficit of 1% (BGN 1.1 billion) as of the end of 2018 and a gradual decrease to 0.5% of GDP (BGN 610 billion) as of 2019 – until reaching a balanced budget in 2020.

In 2017 the level of gross external debt decreased to 66.1% of GDP compared to 70.7% as of the end of 2016. Its value decreased to EUR 33.31 billion from EUR 34.05 billion a year ago. The external debt of the banking sector decreased to 8.5% of GDP compared to 8.6% of GDP as of the end of the previous year.
Capital market

In 2017 compared to 2016 the main indices on the Bulgarian Stock Exchange-Sofia (BSE) increased as follows: SOFIX by 15,5%, BGBX40 by 18,6%, BGREIT by 7,4%, and BGTR30 by 21,1%. The Bulgarian index SOFIX was seventh in terms of growth among the major stock market indices in the region of Central and Eastern Europe.

As of December 31, 2017, the market capitalization on the BSE main market increased to 22,44% of GDP from 10,3% as of the end of 2016 due to the high market price of a single company. Due to the placement of that public company to the Alternative market BaSE in January 2018, after a decision of BSE-Sofia, the market capitalization to GDP dropped to 9,3% as of the end of January, e.g. it returned to the levels observed in the previous periods.

The turnover on the stock exchange grew by 50% on an annual basis to BGN 623,6 million, and the number of transactions recorded an increase by 30,7% to 76 359. In 2017 the banks, members of the BSE-Sofia, performed 6,8% of the transactions and 11% of the total turnover of BSE on the regulated market.

Key indicators for the Bulgarian capital market

<table>
<thead>
<tr>
<th>Year</th>
<th>Market cap/GDP</th>
<th>SOFIX</th>
<th>BGBX40</th>
<th>BGREIT</th>
<th>BGTR30</th>
<th>Turnover on BSE-Sofia (thousand BGN)</th>
<th>Number of deals on BSE-Sofia</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>15,4%</td>
<td>322,11</td>
<td>113,69</td>
<td>51,25</td>
<td>264,5</td>
<td>717 023</td>
<td>109 260</td>
</tr>
<tr>
<td>2012</td>
<td>12,0%</td>
<td>345,46</td>
<td>125,11</td>
<td>79,62</td>
<td>257,87</td>
<td>864 038</td>
<td>68 855</td>
</tr>
<tr>
<td>2013</td>
<td>12,1%</td>
<td>491,52</td>
<td>100</td>
<td>88,66</td>
<td>349,03</td>
<td>1 522 000</td>
<td>87 069</td>
</tr>
<tr>
<td>2014</td>
<td>11,7%</td>
<td>522,1</td>
<td>104,61</td>
<td>98,75</td>
<td>407,5</td>
<td>774 900</td>
<td>118 074</td>
</tr>
<tr>
<td>2015</td>
<td>9,7%</td>
<td>460,9</td>
<td>92,82</td>
<td>97,03</td>
<td>383,82</td>
<td>410 800</td>
<td>60 047</td>
</tr>
<tr>
<td>2016</td>
<td>10,5%</td>
<td>586,43</td>
<td>111,3</td>
<td>108,11</td>
<td>459,19</td>
<td>416 003</td>
<td>58 442</td>
</tr>
<tr>
<td>2017</td>
<td>22,4%</td>
<td>677,45</td>
<td>132</td>
<td>116,1</td>
<td>555,98</td>
<td>623 629</td>
<td>76 359</td>
</tr>
</tbody>
</table>

Source: BSE-Sofia, Bloomberg, own calculations

Performance of the main indices on BSE-Sofia

Turnover and number of deals on BSE-Sofia

Source: BSE-Sofia
<table>
<thead>
<tr>
<th>№</th>
<th>Country</th>
<th>Index</th>
<th>31 December 2016</th>
<th>30 September 2017</th>
<th>31 December 2017</th>
<th>Change in Q4 2017</th>
<th>Change in 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Turkey</td>
<td>ISE 100</td>
<td>78 138,66</td>
<td>102 907,70</td>
<td>115 333,00</td>
<td>12,07%</td>
<td>47,60%</td>
</tr>
<tr>
<td>2</td>
<td>Greece</td>
<td>ASE</td>
<td>643,64</td>
<td>755,61</td>
<td>802,37</td>
<td>6,19%</td>
<td>24,66%</td>
</tr>
<tr>
<td>3</td>
<td>Poland</td>
<td>WIG</td>
<td>51 754,03</td>
<td>64 289,69</td>
<td>63 746,20</td>
<td>-0,85%</td>
<td>23,17%</td>
</tr>
<tr>
<td>4</td>
<td>Hungary</td>
<td>BUX</td>
<td>32 003,05</td>
<td>37 290,65</td>
<td>39 377,31</td>
<td>5,60%</td>
<td>23,04%</td>
</tr>
<tr>
<td>5</td>
<td>Macedonia</td>
<td>MBI 10</td>
<td>2 134,91</td>
<td>2 688,66</td>
<td>2 538,86</td>
<td>-5,57%</td>
<td>18,92%</td>
</tr>
<tr>
<td>6</td>
<td>cz. republic</td>
<td>PSE</td>
<td>921,61</td>
<td>1 045,17</td>
<td>1 078,16</td>
<td>3,16%</td>
<td>16,99%</td>
</tr>
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<td>7</td>
<td>Bulgaria</td>
<td>SOFIX</td>
<td>586,43</td>
<td>688,11</td>
<td>677,45</td>
<td>-1,55%</td>
<td>15,52%</td>
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<td>8</td>
<td>Slovenia</td>
<td>SBITOP</td>
<td>717,59</td>
<td>796,55</td>
<td>806,52</td>
<td>1,25%</td>
<td>12,39%</td>
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<td>9</td>
<td>Romania</td>
<td>BET</td>
<td>7 072,28</td>
<td>7 877,92</td>
<td>7 753,74</td>
<td>-1,58%</td>
<td>9,64%</td>
</tr>
<tr>
<td>10</td>
<td>Serbia</td>
<td>BELEX</td>
<td>1 569,43</td>
<td>1 604,31</td>
<td>1 662,53</td>
<td>3,63%</td>
<td>5,93%</td>
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<tr>
<td>11</td>
<td>Slovakia</td>
<td>SSI</td>
<td>318,57</td>
<td>316,77</td>
<td>325,62</td>
<td>2,79%</td>
<td>2,21%</td>
</tr>
<tr>
<td>12</td>
<td>Russia</td>
<td>MICEX</td>
<td>2 232,72</td>
<td>2 077,19</td>
<td>2 109,74</td>
<td>1,57%</td>
<td>-5,51%</td>
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<tr>
<td>13</td>
<td>Croatia</td>
<td>CROBEX</td>
<td>1 994,84</td>
<td>1 811,12</td>
<td>1 842,87</td>
<td>1,75%</td>
<td>-7,62%</td>
</tr>
</tbody>
</table>

Source: BSE-Sofia, NSI, own calculations
II. The banking sector in Bulgaria

In 2017 the banking sector was solid, highly capitalized, and highly profitable with a stable development at the background of growing loan portfolio and attracted deposit resources. The growing loan portfolio and deposit resources were supported by the favorable state of the Bulgarian economy which was characterized by a faster growth on average level compared with the European and the global economy, low level of unemployment and increasing income despite the effects of the low interest rates and the regulatory environment on the banking system.

Balance sheet statement (Statement of financial position)

Assets

The growth of assets in the banking sector at the end of 2017 was 6.2% on an annual basis reaching to BGN 97.81 billion. The share of total assets of all 27 banks, operating in Bulgaria, to GDP increased to 99.2% as of the end of 2017 compared to 97.8% as it was at the end of 2016. That share increased due to the increase of the bank's assets as well as the higher economic growth.

The concentration in the sector remained high. The market share of the five biggest banks in terms of assets according to the classification of the Banking Supervision Department at the BNB comprised 55.9% of the total amount of assets in the banking system. As of the end of 2016 their market share was 57.3%. As of 31st of December 2017 the market share of the banks falling in the second group increased from 40.3% to 41.7% and the share of the banks falling in the third group which includes the branches of foreign banks remained constant as it was 2.4%.

Source: BNB, own calculations
The share of loans and receivables in the total amount of assets increased to 61% in comparison with 60.7% as of the end of December 2016. Cash balances increased to 19.9% from 19.7% and the share of financial instruments decreased from 14.7% to 14.3% as of the end of 2017.

Liabilities

The total amount of liabilities in the banking system was BGN 85.2 billion as they rose by 6.6% compared to the end of 2016. The first group of banks comprised 55.3% of the liabilities (BGN 47.12 billion), the second group – 41.9% (BGN 35.7 billion), and the rest of the banks – 2.8% (BGN 2.35 billion). A year ago their shares were respectively 56.8%, 40.4% and 2.8%.

The growth was driven by the increase in deposits, which accounted to 98.2% of the total amount of liabilities. The amount of deposits grew by 6.5% on an annual basis up to BGN 83.7 billion. A year ago the share of deposits in the total amount of liabilities was 98.3%.

Equity

As of the end of December 2017 the equity in the banking system increased by 3.8% on an annual basis to BGN 12.6 billion from BGN 12.13 billion. The changes in equity were mainly due to changes in the dividends and profit. The amount of equity of the banks falling in the first group was BGN 7.54 billion and that of the banks in the second group was BGN 5.04 billion.
Statement of profit or loss

Net profit

The increase in lending, the better quality of the lending portfolio, lower costs of impairments and the decreasing interest rates influenced the financial result of the sector.

The realized unaudited profit as of 31st of December 2017 in the banking system amounted to BGN 1,17 billion compared to BGN 1,262 billion an year earlier. It should be considered that the financial result in the system for 2016 was influenced by one-off effects, one of which was the extraordinary revenue for the banks from the deal between Visa Europe and Visa Inc. The one-off effect, estimated by the BNB at the amount of BGN 186 million, occurred in June 2016. Without it, in 2017 the net profit of the sector rose by 9,1% Y-o-Y.

Banks in the first group generated 61,1% of the profit as of the end of 2017, the second group – 39%, while the third group registered a minor loss. As of the end 2016 the five largest banks in terms of assets registered 70,9% of the financial result after taxes and the banks in the second group – 29%.
Net interest income

As of the end of 2017 the net total operating income of the banking system decreased by 8.9% to BGN 3.89 billion compared to BGN 4.08 billion as of the end of 2016 as 68.8% of it was due to the net interest income which was BGN 2.67 billion compared to BGN 2.81 billion.

The net interest income is the difference between the interest revenues and the interest costs. As of 31st of December 2017 the interest revenues decreased by 8.2% on annual basis up to BGN 3.04 billion. The interest expenses amounted to BGN 367.8 million or by 28% on annual basis.

Net income from fees and commissions

As of 31st of December 2017 the net income from fees and commissions grew by 8.1% Y-o-Y reaching BGN 995.7 million. It made 25.6% of the net total operating income of the system. The increase in the revenues from fees and commissions, which at the end of the year was BGN 1.15 billion, was by 7.9%. The expenses from fees and commissions increased their growth to 6.3% compared to 4.3% a year ago as they amounted to BGN 151.6 million as of the end of 2017.

Operating expenses and impairments

The administrative expenses, which include overhead expenses, were by 1.6% higher compared to 2016 as they reached BGN 1.6 billion. The total operating expenses, as a sum of the administrative expenses and depreciation, increased by 1.5% on an annual basis to BGN 1.79 billion. The banking sector improved its financial result also due to the lower expenses for impairments. In 2017 they decreased by 11.6% up to BGN 805 million from BGN 911 million a year before. Profit or loss tax expenses from the current banking activities decreased to BGN 134 million from BGN 147.6 million as they were at the end of 2016. The Cost-to-Income ratio increased to 46% from 43.2%.
The current challenges are related with improving the profitability through decreasing the expenses on behalf of the low interest margins, reasonable management of the credit risk and efforts for increasing the efficiency, incl. through consolidation.

Changes in the ownership of some banks were observed in the last year. In 2017 the deal between the Belgian KBC, the sole shareholder of CIBANK EAD which was in the second group and the Greek National Bank of Greece for acquiring its subsidiary United Bulgarian Bank AD which was in the first group of banks was performed. The merger between CIBANK and United Bulgarian Bank took place effectively in February 2018 as the new bank ranks third in terms of assets.

As of the beginning of 2018 Sofia municipality sold its majority ownership of 67,65% in Municipal bank which is in the second group of banks to Novito Opportunities Fund AGmvK.

At the beginning of 2018 Isbank AG, a branch operating in Bulgaria, falling in the third group of banks, ceased its activities.
Financial indicators

Liquidity

As of the end of December 2017 the liquid assets’ ratio calculated in accordance with the requirements of Ordinance №11 of the BNB increased to 38.97% from 38.24% as it was at the end of December 2016. The ratio is substantially higher than the recommended 20% by the BNB. The liquid assets ratio for the first group of banks was 38.09%, for the second group – 38.88%, and for the third group – 57.93%.

By information from the BNB, the liquidity coverage requirement introduced under Article 412 of Regulation (EU) № 575/2013 became fully applicable as of 1 January 2018. There are several major differences between the liquidity coverage ratio (LCR) and the liquid asset ratio (LAR) calculated under the BNB Ordinance № 11. The liquidity buffer (numerator of the ratio) does not include balances on current accounts with other banks and interbank deposits with a term to maturity up to seven days reported under Ordinance № 11. They are included in the calculation of net outflow (denominator of the ratio). Pursuant to Commission Delegated Regulation (EU) 2015/61 liquidity outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by the rates at which they are expected to run off or be drawn down. The amount of the outflow calculated in that way differs from the outflow used for the calculation of the liquid asset ratio (where the approach is more conservative). Therefore, the values of both ratios reflecting the state at the same time are different.

The liquidity coverage ratio for the Bulgarian banking system was well above the minimum required level of 100 per cent even before the entry into force of the binding requirement. As of the 30th of September 2017 it was 298.6 per cent, remaining almost unchanged on a quarterly
basis (299.7 per cent as of the end of June 2017).

Although the liquidity coverage requirement under Article 412 of Regulation (EU) № 575/2013 became fully applicable from the 1st of January 2018, the changes had no effect on the manner in which the liquidity position of credit institutions and the banking system could be assessed. This was due to the BNB policy of maintaining sufficient liquidity in the banking system. High values of liquidity coverage ratio (under Article 412 of above Regulation) reflect also different approaches in calculating the outflows compared to the liquid assets ratio calculated under the BNB Ordinance № 11.

Capital adequacy

As of the end of 2017 the common equity tier 1 (CET 1) of the banking system remained unchanged – 20.41% as it was at the end of 2016. The capital adequacy of the banks falling in the first group decreased to 20.83% from 21% while it increased from 19.6% to 19.8% for the banks in the second group.

The total capital adequacy increased from 20.88% to 22.08% on a system level. The total capital adequacy for the banks in the first group was 21.62% and for the banks in the second group – 22.72% as of the end of 2017 compared to 21.66% and 19.81% a year earlier.

The indicators for the capital adequacy for the banks in Bulgaria are above the average levels for the European banks which according to the ECB data as of the end of September 2017 are respectively 14.3% for CET 1 and 17.98% for the total capital adequacy.

Source: BNB, ECB
Profitability

As of December 31, 2017, the value of ROA (Return on Assets) decreased to 1.2% from 1.42% as of December 31, 2016. The value of ROA was 1.31% for the banks in the first group and 1.12% for the banks in the second group.

ROE (Return on Equity) decreased to 9.32% from 10.57% as it was a year earlier. The indicator was 9.52% for the banks in the first group and 9.09% for the banks in the second group.

*Source: BNB, own calculations*
Loans and deposits

In 2017 the banking sector is characterized by growth in lending, increase in the amounts of new business and decrease in the amounts of non-performing loans in the light of the low interest rates and the challenges arising from the regulatory environment.

Deposits attracted by the banks continued to grow despite at a lower rate. The total amount of deposits in the banking system increases by 6.2% on annual basis up to BGN 72,38 billion despite the low interest rates. As of the end of 2016 the rate of growth was 7%.

In 2017 the total amount of Loans to non-government sector (non-financial corporations and households), reported as outstanding amounts by the BNB monetary statistics increased by 3.3% on annual basis reaching BGN 50,71 billion in comparison with the reported growth of 1% in 2016. The newly contracted loans to the non-government sector in 2017 increased by 0.3% up to BGN 22,2 billion. The ratio Loans to non-government sector to GDP was 51.4% as of the end of 2017.

As of the end of 2017, the share and the amount of non-performing loans continued to decrease – in all segments and in all banking groups. As of 31\textsuperscript{st} of December 2017 the amount of non-performing loans (without central banks and credit institutions) decreased to BGN 5,65 billion as the tendency for decrease continued.

The average share of non-performing loans for the banking system decreased to 10.07% from 12.83% as it was as of the end of 2016, according to the data of the Banking Supervision Department at the BNB. That share has been the lowest since 2010. The coverage of non-performing loans and receivables in the Bulgarian banking system was 52.8% as of the end of 2017.

The non-performing loans for the sector of non-financial corporations decreased to 12.48% from 15.14% as it was at the end of 2016 while the level of consumer non-performing loans decreased to 7.88% from 11.18%, and the level of housing loans – to 6.39% from 7.72%.

As of the end of 2017 the amount of non-performing loans to non-financial corporations decreased to BGN 4,14 billion from BGN 5,02 billion as they were the year before. In the
segment of consumer loans the amount of non-performing loans decreases to BGN 745.7 million from BGN 980.3 million, and for housing loans – to BGN 584.4 million from BGN 670.2 million at the end of 2016.

The share of the outstanding amounts of non-performing loans for the banks in the first group decreased to 11.31%, compared to 14.45% as they were 12 months ago, while for the banks in the second group the share was 8.73%, compared to 10.92%, reported as of the end of 2016.

![Image](attachment://chart.png)

*Source: BNB, ECB, own calculations*

**Loans and deposits to households**

As of the end of 2017 consumer loans reported as outstanding amounts increased by 5.8% on annual basis reaching BGN 7.74 billion. The newly contracted consumer loans increased by 23.3% Y-o-Y to BGN 4.12 billion, as slightly over 98% of those loans were agreed in BGN.

Housing loans (outstanding amounts) recorded an annual growth of 7.4% up to BGN 9.41 billion. In 2017 the share of newly contracted loans in that segment was by 45% higher compared to 2016 and they reached BGN 5.37 billion. Approximately 53% of the newly contracted housing loans were agreed in BGN as the rest of the loans were contracted in EUR.

![Image](attachment://chart2.png)

*Source: BNB*
As of the end of 2017 the total amount of deposits to households and NPISH increased at a lower rate –5,4% compared with the registered increase of 6,6% in 2016. As of December 2017 deposits to households went beyond BGN 47 billion and at the end of 2016 they amounted to BGN 47,83 billion which was 48,5% of GDP. The household sector also held approximately two third of the deposits in the banking system (66,1%).

Loans and deposits to non-financial corporations

In 2017 the total amount of deposits to non-financial corporations increased by 13,8% Y-o-Y up to BGN 22 billion compared with the growth of 6,3% as of the end of 2016.

In the last year the outstanding amounts on loans to non-financial corporations increased by 1,7% reaching BGN 31,08 billion. Loans to non-financial corporations (except overdrafts) registered an increase of 1,1% Y-o-Y reaching BGN 21,8 billion. The newly contracted loans to non-financial corporations decreased by 15,7%, as their amount for 2017 was BGN 12,73 billion. Of these new loans 53% were agreed in BGN, 42% in EUR and the rest 5% in USD. By sectors the highest amount of loans and deposits were in the trade, manufacturing and construction industry.

Source: BNB
Interest rates

The last year was characterized by retaining the levels of the low interest rates on deposits on new business in all sectors and currencies. The interest rates on loans continued the tendency to decrease in 2017. The BNB expects in the first half of 2018 the interest rates on newly contracted loans and deposits to remain at their current comparatively low levels. The low price and the increasing volumes of the attracted resources in the banking system as well as the competition between the banks and the lack of investment opportunities contribute to that. An additional factor for keeping the interest rates at their low levels in Bulgaria are the market expectations for the ECB interest rates to be kept without a change during the period.

Interest rates on deposits

The average interest rate on deposits with agreed maturity to households in BGN decreased by 31 basis points – to 0.24% from 0.55%, as it was as of the end of 2016. The decrease for deposits agreed in EUR was by 25 basis points – to 0.21% from 0.46%. The average interest rate on deposits with agreed maturity on new business to non-financial corporations dropped to 0.09% from 0.14% regarding the BGN denominated deposits and to 0.05% from 0.26% regarding deposits denominated in EUR.

Interest rates on loans

As of the end of 2017 the average interest rates on loans for house purchases in BGN decreased to 3.66% from 4.37% as they were at the end of 2016. Regarding loans for house purchases in EUR the decrease was to 4.10% from 4.11%. As of the end of December 2017 the annual percentage rate of charges (APRC), which except the interest rate component includes all other fees and commissions related with the loan decreased to 4.01% for loans for house purchases regarding loans in BGN and for loans in EUR it decreased to 4.44%.

As of the end of December 2017 the average interest rate on consumer loans in BGN decreased to 8.85% compared to 9.15% as it was at the end of December 2016. The interest
rate in EUR dropped to 4.94% compared with 5.45% as it was 12 months ago. The APRC on consumer loans in BGN was 11.65%, and on EUR loans – 5.54%.

The average interest rates in 2017 on loans on new business to non-financial corporations in BGN decreased to 3.71%, for those in EUR – to 3.38% and for those in USD – to 4.28%. The decrease was respectively from 3.90%, 4.16% and 4.40% at the end of 2016.

Together with the favorable economic development the lower interest rates provide additional expectations for increasing credit activity both for the households and non-financial corporations.

Source: BNB, own calculations
Payment statistics

As of the end of 2017 the total number of payment accounts decreased to 13 246 669 from 14 298 169 at the end of 2016.

For one year the total number of payment cards decreased to 7 789 560 from 7 813 815 at the end of 2016. As of the end of 2017 the total number of debit cards was 6 533 619 and of credit cards - 1 015 186. A year ago their number was respectively 6 410 103 and 1 072 982.

Source: BNB

As of the end of 2017 the number of ATMs decreased to 5 773 from 5 860 as of the end of 2016. For the same period the number of POS terminals increased to 131 787 from 101 617.

Source: BNB, own calculations
In 2017 the number of cash withdrawal operations from ATM increased by 4,7% on annual basis reaching 137,43 million from 131,24 million a year ago and their amount increased by 12,5% - to BGN 27,15 billion from BGN 24,12 billion. The average amount withdrawn from ATM increased by 7,5% reaching BGN 197,52 in 2017 compared with the average amount of BGN 183,81 in 2016.

As of the end of 2017 the number of operations on payments of goods and services through POS increased by 32,2% – to 137,63 million from 104,1 million a year before and their amount increased by 29,8% to BGN 9,77 billion from BGN 7,53 billion. The average amount of payments of goods and services through POS decreased by 1,9% – to BGN 71,01 from BGN 72,35 as of the end of 2016.

In 2017 the number of transfers through the payment systems was approximately 199,9 million at the amount of BGN 678,78 billion. In 2016 the number of transfers through the payment systems was 172,9 million at the approximate amount of BGN 874 billion. As of the end of 2017, 79,9% cash transfers were executed through RINGS, 17,9% – through BISERA, as at the end of 2016 their share was respectively 86,1% and 12,5%.

As of the end of 2017 the total amount of cash in circulation increased by 6,7% – to BGN 15,1 billion from BGN 14,15 billion as of the end of 2016. The share of cash in circulation to GDP was 15,3% as of the end of 2017 compared to 15% a year ago.
Disclaimer

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All historical rates, statistical data and graphs are up to date, up to and including April 4, 2018, unless otherwise stated.

The views provided are those prevailing as of April 4, 2018.