



association of banks in bulgaria



THE ECONOMY AND THE BANKING SECTOR IN BULGARIA

FIRST QUARTER OF 2019



SOFIA



HIGHLIGHTS

- The Bulgarian economy recorded growth of 3% on an annual basis in Q4 2018, mainly driven by the private consumption, government consumption and business investments;
- The inflation stood at 2,5% year-on-year in Q1 2019;
- As of the end of Q1 2019 the unemployment in Bulgaria was 4,7%, remaining at historically low level;
- The budget surplus was 1,6% of GDP as of the end of Q1 2019;
- As of the end of Q1 2019 the total assets of the banking system were at the amount of BGN 108,25 billion and they were 93,8% of GDP;
- In Q1 2019 the net profit of the banking sector was BGN 309 million;
- The credit activity remained moderate as it was higher for the households' sector in Q1 2019;
- The average interest rates on new loans and on new deposits with agreed maturity retained their low values.



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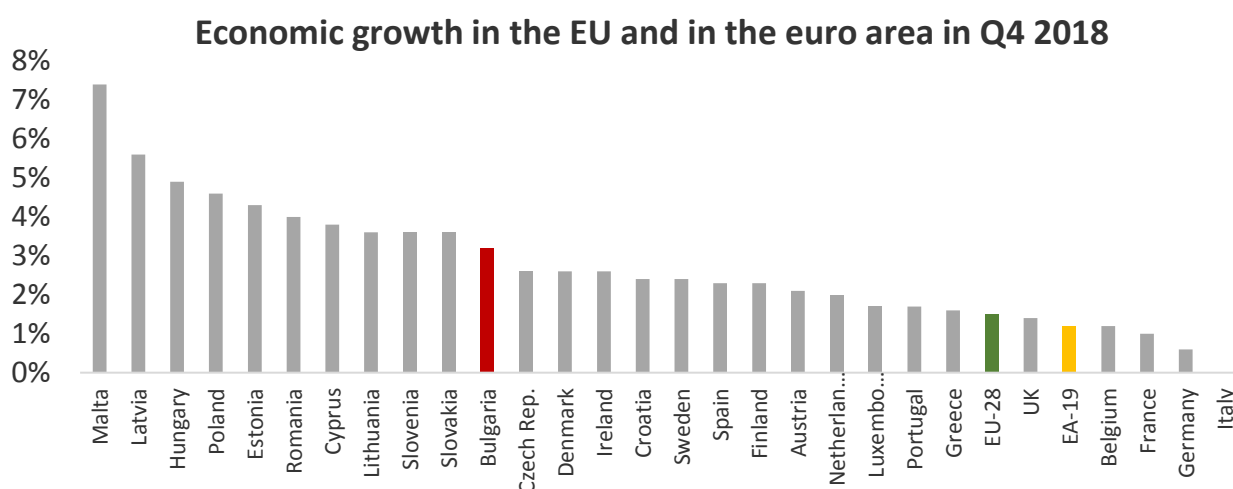
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I. The Bulgarian economy

Economic growth

In Q4 2018 the Bulgarian gross domestic product (GDP) recorded real growth of 3% compared to the same period of the previous year, according to the preliminary data of the National Statistical Institute (NSI). The average rate of growth for the EU in the period October-December 2018 was 1,5% year-on-year, and that of the euro area – 1,2% on an annual basis.



Source: Eurostat

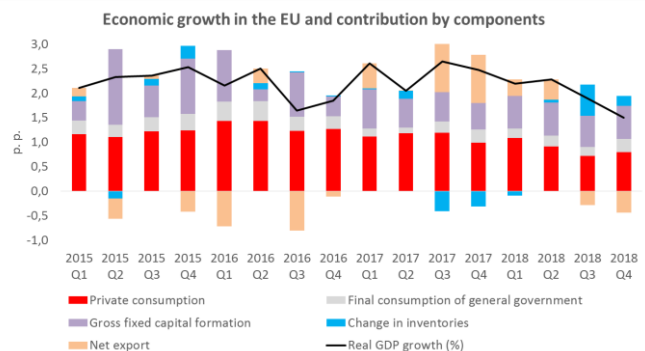
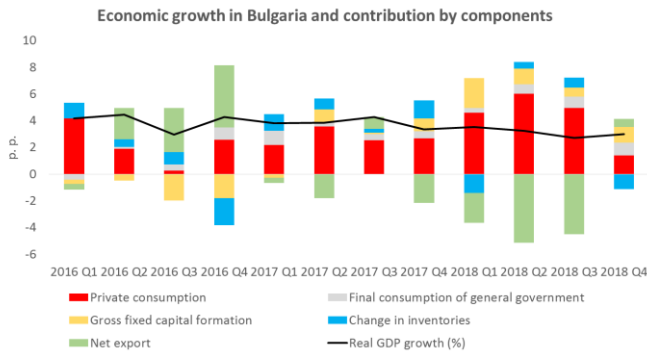
According to the preliminary data of the NSI, the economic growth in Q4 2018 was driven by the private consumption, government consumption and business investments.

In the observed period the private consumption, which includes the consumption of the households and non-profit institutions, serving households (NPISH), recorded growth of 2,5% on an annual basis and contributed to the yearly GDP growth by 1,4 percentage points (p.p.) compared to the registered contribution of 5 p.p. in Q3 2018.

The final consumption of the general government, which grew by 6,8% Y-o-Y, contributed by 1 p.p. compared to 0,9 p.p. a quarter earlier.

In Q4 2018 the growth of the gross fixed capital formation increased to 6,7% on an annual basis from 3% on an annual basis in the previous quarter. In Q4 2018 the contribution of the business investments to the GDP was 1,2 p.p. compared to 0,6 p.p. three months earlier. The contribution of inventories was negative (-1,1 p.p.) compared to 0,8 p.p. in the third quarter of 2018.

In Q4 2018 the growth of the export of goods and services increased to 2,2% on an annual basis compared with the drop of 3,2% Y-o-Y three months earlier. Import slowed its growth to 1,6% on an annual basis from 3,8% Y-o-Y in Q3 2018. The contribution of the net export was positive for the GDP growth for the first time since Q3 2017. The trade deficit was 4,1% of GDP compared with the deficit of 2,9% as of the end of the previous quarter.



Source: Eurostat, own calculations

In comparison, the growth of the GDP in the EU in Q4 2018 was driven mainly by the private consumption and business investments. The net export has had a negative contribution for the GDP growth for second consecutive quarter.

In its quarterly issue „[Economic Review](#)“ the Bulgarian National Bank (BNB) expects that in the first half of 2019 the real GDP will grow further on a quarterly basis with domestic demand contributing most to this effect. This will mainly reflect the projected increase in the government investments, and to a lesser extent, that of private consumption. The BNB assesses the risks to the macroeconomic outlook as oriented towards lower real GDP growth, mainly stemming from the external environment, including the uncertainty about economic growth in some important trading partners for Bulgaria, the possibility of the UK leaving the EU without a deal, and the potential introduction of additional protectionist trade measures. According to the BNB, an internal factor creating uncertainty to the outlook is the dynamics of public investment co-funded by the EU and the national budget.

Key indicators for the Bulgarian economy													
	2011	2012	2013	2014	2015	2016	2017	2018	2019 Q1	2019F	2020F	2021F	2022F
Gross domestic product													
GDP (mln. BGN)	80 759	82 040	81 866	83 756	88 575	94 130	101 043	107 925	-	-	-	-	-
GDP (real Y-o-Y growth, %)	1,9	0,0	0,5	1,8	3,5	3,9	3,8	3,1	-	-	-	-	-
GDP (real Y-o-Y growth, %) - forecasts									MF (April 2019)	3,4	3,3	3,3	3,3
									BNB (March 2019)	3,6	3,8	-	-
									IMF (March 2019)	3,3	3	2,8	2,8
									WB (January 2019)	3,1	3	2,8	-
									EC (February 2019)	3,6	3,6	-	-
									EBRD (November 2018)	3,4	-	-	-
Total final consumption	2	2	-1,9	2,2	3,8	3,3	4,3	6	-	-	-	-	-
Private consumption (of Households and NPISH)	2,0	3,0	-2,5	2,7	4,5	3,6	4,5	6,4	-	-	-	-	-
Final consumption of general government	2,2	-2,0	0,6	0,2	1,3	2,2	3,7	4,7	-	-	-	-	-
Gross fixed capital formation	-4,4	1,8	0,3	3,4	2,7	-6,6	3,2	6,5	-	-	-	-	-
Export of goods and services	12,6	2,0	9,6	3,1	5,7	8,1	5,8	-0,8	-	-	-	-	-
Import of goods and services	9,9	5,5	4,3	5,2	5,4	4,5	7,5	3,7	-	-	-	-	-
Trade balance/GDP (%)	-6,5	-9,5	-7,0	-6,5	-5,8	-2	-1,5	-4,1	-	-	-	-	-
Foreign direct investments in Bulgaria (mln. EUR)	1 476,3	1 320,9	1 383,7	347,4	2 399,1	1 003,3	2 314,1	1 744,4	-	-	-	-	-
Foreign direct investments/GDP (%)	3,6	3,1	3,3	0,8	5,3	2,1	4,5	3,2	-	-	-	-	-
Harmonised index of consumer prices (HICP) (Y-o-Y change, average for the period)	3,4	2,4	0,4	-1,6	-1,1	-1,3	1,2	2,6	2,5	-	-	-	-

Source: NSI, Eurostat, Bulgarian National Bank

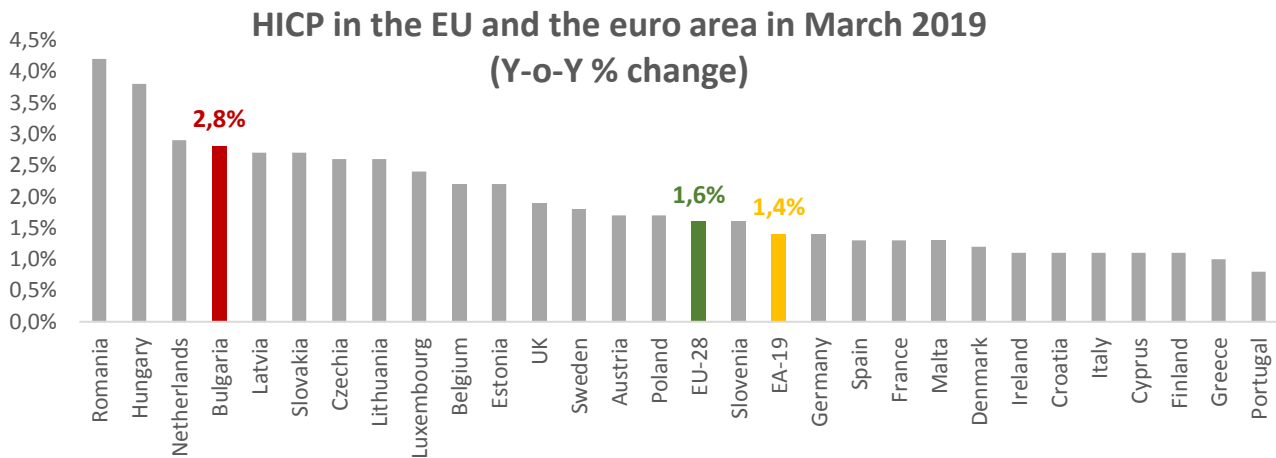
Forecasts: Bulgarian National Bank, Ministry of Finance, International Monetary Fund, World Bank, European Commission, European Bank for Reconstruction and Development



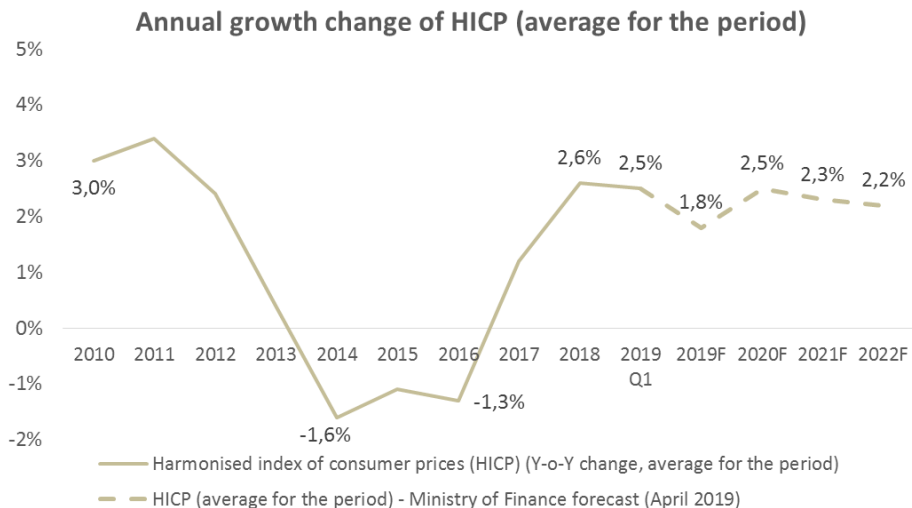
Inflation

In Q1 2019 the growth of the harmonized index of consumer prices (HICP) slowed down to 2,5% on an annual basis compared to 3% Y-o-Y in Q4 2018. In March 2019 the inflation in Bulgaria stood at 2,8% Y-o-Y, which was higher than the average for the EU and the euro area. In March 2019 Bulgaria ranked fourth regarding the increase of HICP. The inflation dynamics in the period was mainly due to the price changes in the energy resources.

In its quarterly issue [„Economic Review“](#) the BNB forecasts that over the first two quarters of 2019 the annual inflation rate is expected to increase, relative to the end of 2018, as it is mainly driven by food and services prices. According to the BNB, the inflation increase will be limited to some extent by the expected decrease in the growth of the energy product prices and goods and services with administratively controlled prices. Reflecting service price dynamics, in the first half of the year the BNB expects the core inflation to have a positive contribution to the overall inflation.



Source: Eurostat

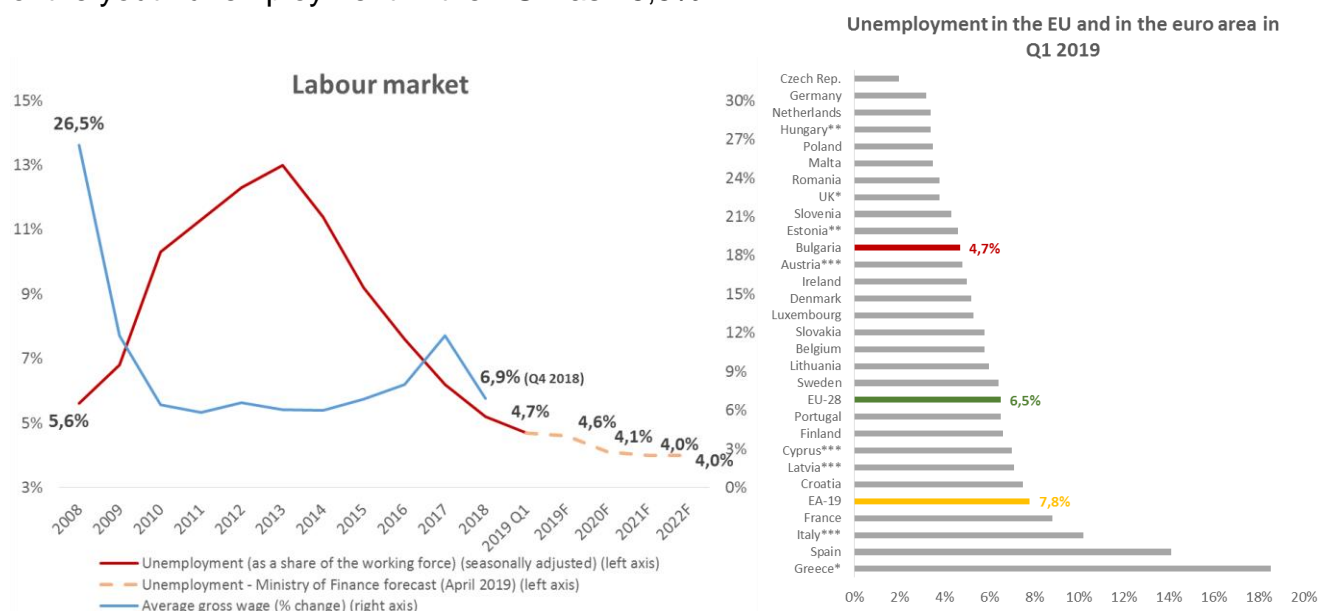


Source: NSI, Eurostat, Ministry of Finance



Labour market

In Q1 2019 the level of unemployment, measured as a share of the working force, decreased to 4,7% from 4,9% as it was at the end of Q4 2018. The unemployment in the country was lower than the EU average. In the period Bulgaria was ranked 11th amongst the EU Member States with the lowest unemployment rate and fifth amongst the countries in the Central and Eastern European (CEE) region. As of the end of Q1 2019 the number of unemployed in Bulgaria declined to 157 thousand from 162 thousand a quarter ago and from 183 thousand in Q1 2018. The level of the unemployed young people (under 25 years) increased to 12,8% as of the end of Q1 2019 compared to 11,8% three months earlier. At the end of Q1 2019 the average level of the youth unemployment in the EU was 15,5%.



Source: Eurostat, Ministry of Finance, NSI

Note: * January 2019 ** February 2019 *** March 2019

Key indicators for the Bulgarian economy

	2011	2012	2013	2014	2015	2016	2017	2018	2019 Q1
Labour market									
Unemployment (as a share of the working force) (seasonally adjusted)	11,3	12,3	13	11,4	9,2	7,6	6,2	5,2	4,7
Employed (15+ years) (thousands)	2 965,2	2 934	2 934,9	2 981,4	3 031,9	3 016,8	3 150,3	3 152,7	-
Employed in "Finance and Insurance" sector (thousands), of which:									
Employed in the banking sector (thousands)	55	52,7	51,6	60,5	62,3	58,6	63,7	65,4	-
Average monthly gross wage in "Finance and Insurance" sector	33,9	33,5	32,8	31,7	30,7	30,4	30,1	-	-
	1 438	1 459	1 508	1 578	1 608	1 709	1 788	-	-

Source: Eurostat, Ministry of Finance, NSI, ECB

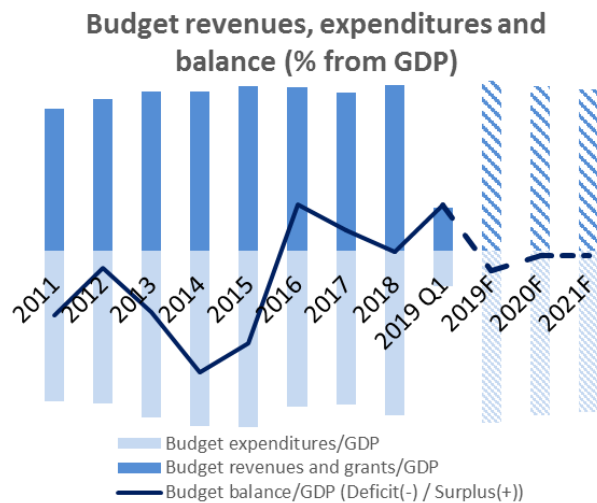


Public sector

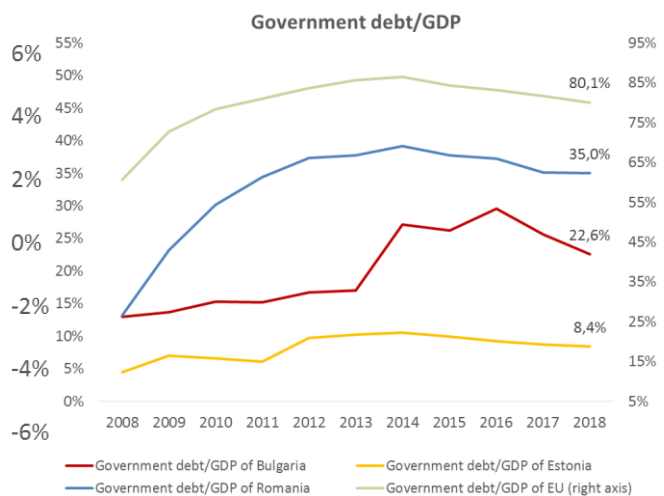
According to the Ministry of Finance (MF) preliminary data, as of the end of March 2019 the state budget had a positive balance of BGN 1,8 billion. The surplus equaled to 1,6% of the forecasted GDP. For April 2019 the MF forecasted a surplus of BGN 2,68 billion (2,3% of GDP).

The amount of the budget revenues and grants according to the Consolidated Fiscal Programme for the period January-March 2019 was BGN 10,86 billion (9,4% of GDP). Compared to the same period last year, the tax and the non-tax revenues grew by 13,4% on an annual basis.

Budget expenditures (including the EU budget contribution of Bulgaria) for the first quarter of 2019 amounted to BGN 9,05 billion (7,8% of GDP). In comparison, the budget expenditures for the same period of 2018 were BGN 8,6 billion. As of the end of March 2019, the fiscal reserve totaled BGN 10,33 billion.



Source: Ministry of Finance, Eurostat



The share of the government debt to GDP declined to 22,6% as of the end of December 2018 compared to 23,1% at the end of September 2018. Bulgaria is among the countries with the lowest government debt and it remains third after Estonia (8,4%) and Luxembourg (21,4%). The government debt to GDP ratio for Bulgaria is below the EU average, which was 80,1% as of the end of Q4 2018. The MF foresees a decrease in the debt-to-GDP ratio to 20,5% as of the end of 2019 and a further decline to 17,7% at the end of 2021.

The Long-term Interest Rate for Convergence Assessment Purposes (LTIR) decreased to 0,67% as of the end of March 2019 from 0,716%, as it was a quarter ago. For comparison, as of the end of March 2019 the LTIR in Romania was 4,8%, in Poland – 2,75%, in Hungary – 3,03%, in Croatia – 2,07%, and in the Czech Republic – 1,82%. The level of the LTIR in Bulgaria is the lowest in comparison with the countries in the CEE region, members of the EU but not members of the euro area.



Capital market

As of the end of March 2019 the main indices on the Bulgarian Stock Exchange (BSE) changed as follows: SOFIX dropped by 1,8%, BGBX40 increased by 0,3%, BGREIT decreased by 0,4%, and BGTR30 grew by 2% compared to the end of 2018.

In Q1 2019 the Bulgarian index SOFIX was the only one with a drop among the major stock market indices in the CEE region.

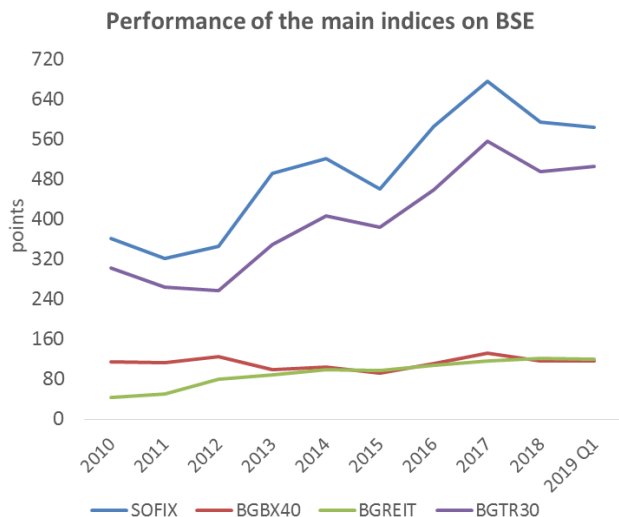
As of March 31, 2019, the market capitalization on the BSE main market increased by 0,6% on a quarterly basis to BGN 8,72 billion from BGN 8,67 billion. In Q1 2019 the market capitalization was 7,6% of the forecasted GDP compared to 8,1% a quarter earlier.

During the period January-March 2019 the turnover on the stock exchange declined by 25,8% on a quarterly basis to BGN 83,428 million, but in comparison with the same period of the last year there was a decline by 17,9%. In Q1 2019 the number of transactions dropped by 3,6% on a quarterly basis to 13 078, but on an annual basis the decrease was by 25%.

In Q1 2019 the banks, members of the BSE, performed 13,8% of the turnover and 7% of the total transactions on the regulated market (the principle of double reporting). In the previous quarter the banks, members of BSE, concluded 7% of all transactions and 23,1% of the total turnover on the regulated market.



Source: BSE, own calculations





No	Country	Index	31 December 2018	31 March 2019	Change in Q1 2019
1	Greece	ASE	613,30	721,37	17,62%
2	Romania	BET	7 383,68	8 045,38	8,96%
3	Czech Republic	PSE	986,56	1 074,39	8,90%
4	Slovenia	SBITOP	805,06	867,66	7,78%
5	Hungary	BUX	39 138,95	41 683,78	6,50%
6	Russia	MOEX	2 358,50	2 497,10	5,88%
7	North Macedonia	MBI 10	3 469,03	3 664,66	5,64%
8	Slovakia	SAX	332,37	350,40	5,42%
9	Poland	WIG	57 690,50	59 668,03	3,43%
10	Croatia	CROBEX	1 748,81	1 797,81	2,80%
11	Turkey	ISE 100	91 270,48	93 784,18	2,75%
12	Serbia	BELEX	1 589,35	1 593,45	0,26%
13	Bulgaria	SOFIX	594,46	583,87	-1,78%

Source: BSE, Bloomberg, own calculations



II. The banking sector in Bulgaria

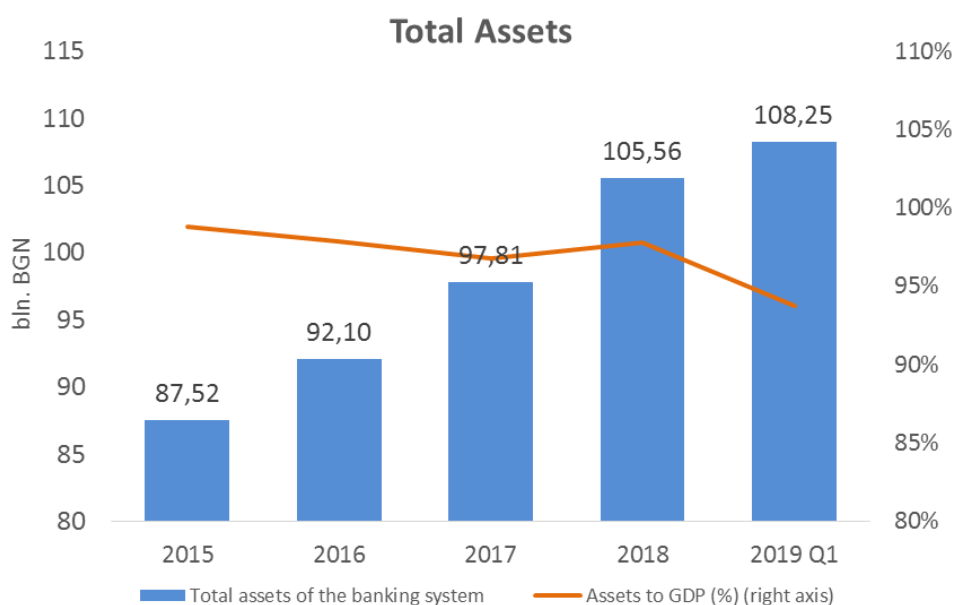
The state of the economic environment continued to affect the activities of the banking system. In its quarterly report „[Economic Review](#)“ the BNB forecasts that in the first half of 2019 the deposits of the non-government sector will continue to increase and the credit will grow with a slower rate than the currently observed. The interest rates on the new deposits and loans tended to stabilize at historically low levels.

Balance sheet statement (Statement of financial position)

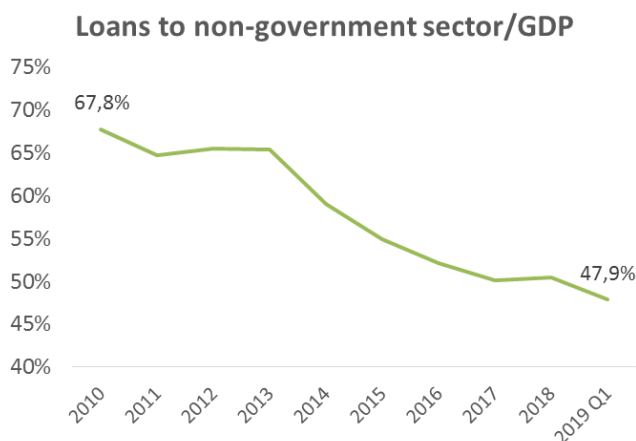
Assets

The growth of assets in the banking sector at the end of Q1 2019 was 10,9% on an annual basis reaching BGN 108,25 billion. The share of total assets to the projected GDP for 2019 was 93,8% as of March 31, 2019. The market share of the five biggest banks in terms of assets grew to 59,8% from 59,4% as it was at the end of Q4 2018. The banks from the second group recorded a decline in their market share to 37,1% from 37,7% three months ago. The share of the assets of foreign bank branches remained unchanged at 3,1% of the total assets of the banking system.

According to the BNB, the dynamics of the balance sheet items was affected by the inclusion in Q2 2018 in the aggregated data of a new entity – a foreign bank branch, earlier reported as a non-bank financial institution. Some activities related with the acquisition of Societe Generale Expressbank by DSK Bank had one-off effects on some balance sheet indicators in the banking system.

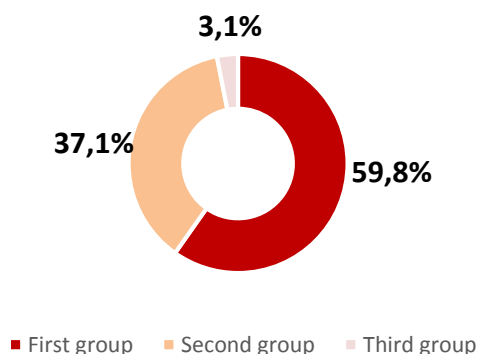


Source: BNB, Ministry of Finance, own calculations



Source: BNB, own calculations

Market share in terms of assets as of the end of Q1 2019



As of March 31, 2019, 63,2% of the assets in the banking system were in the form of loans and receivables, totaling BGN 68,45 billion. Cash balances amounted to BGN 20,32 billion and comprised 18,8% of the assets. The share of investments in financial instruments was 12,3% (BGN 13,32 billion). For comparison, as of the end of 2018 the share of loans and receivables was 63,3%, the share of the cash balances – 19,3%, and the investments in financial instruments – 12,9%. The indicator determining the level of financial intermediation in the economy – the share of loans and receivables to the forecasted GDP for 2019 – was 47,9%.

Liabilities

The liabilities in the banking system (excluding equity) were at the amount of BGN 94,09 billion and rose by 10% compared to the end of Q1 2018. The banks in the first group comprised 59% of the liabilities (BGN 55,54 billion), the second group – 37,5% (BGN 35,27 billion), and branches of foreign banks – 3,5% (BGN 3,27 billion).

The growth was driven by the increase in deposits, which comprised 97,2% of the total liabilities (excluding equity). From the statement of financial position of the system it was evident that the amount of deposits grew by 9,4% on an annual basis to BGN 91,5 billion.

The share of the provisions for loan losses which include unsettled legal issues and lawsuits, credit commitments, guarantees, pensions, etc., accounted for 0,3%, or BGN 280,4 million in absolute terms. The share of financial liabilities, held for trading and other liabilities were respectively 0,1% and 1%. The share of all other remaining liabilities is negligible, complementing the sum up to 100%.



Equity

As of the end of March 2019 the equity in the banking system increased by 2,2% Q-o-Q to BGN 14,16 billion. At the end of December 2018 the amount of equity was BGN 13,86 billion. During the past quarter the equity increased by BGN 303,5 million mainly due to the increase of the profit. The equity of the banks in the first group amounted to BGN 9,15 billion, and that of the second group – BGN 4,92 billion.

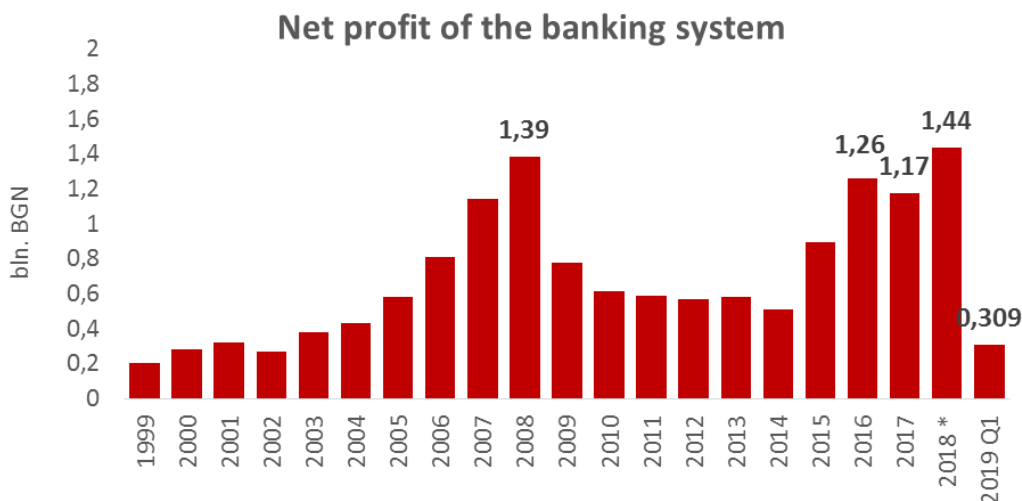
Statement of profit or loss

Net profit

In Q1 2019 the banking sector registered a decrease in the net profit by 32,6% on quarterly basis to BGN 309 million compared to BGN 458,2 million reported in Q4 2018. In comparison, in Q1 2018 the net profit of the banking sector was at the amount of BGN 267,2 million.

The financial performance of the system was influenced by the higher credit activity, which is a core activity for the banks. This affected positively the interest revenues and the revenues from fees and commissions. The lower level of the interest rates on liabilities, lower impairment costs as well as the better quality of the lending portfolio also influenced the profitability of the credit institutions. Some one-off effects like received dividends, revenues from sales of non-interest-bearing assets and the inclusion in Q2 2018 of a new entity – a foreign bank branch, also influenced the net profit of the sector in 2018. Those factors have to be considered when comparing the financial result of the system for 2019 with that in the previous year.

Thus, it could be concluded that practically the net profit of the sector grew by 12,5% on an annual basis in Q1 2019.



Source: BNB

Note: * Net profit excluding one-off effects



The first group of banks generated 59,9% of the net profit at the end of Q1 2019, the second group – 36,7%, and the third group – 3,5%. In comparison, as of the end of Q4 2018 the five biggest banks in terms of assets contributed by 68,8% to the net profit, the banks in the second group – by 28,4%, and the share of the third group was 2,9%.

Net interest income

As of the end of March 2019 the net total operating income of the banking system was at the amount of BGN 902,5 million compared to BGN 852,2 million as of the end of Q1 2018. It rose by 5,9% on an annual basis. After excluding the net total operating income of the new bank (BGN 28,2 million), the net total operating income of the banking sector in Q1 2019 grew with a slower pace – by 2,6% to BGN 874,3 million.

The net interest income of the banks increased by 6,1% on an annual basis to BGN 685,4 million. However, after excluding the net interest income of the new bank (BGN 21,7 million), the net interest income of the banking system grew with a slower pace – by 2,7% on an annual basis to BGN 663,7 million, which is not a significant increase despite the higher lending activity.

The net interest income is the difference between the interest income and the interest expenses. As of March 31, 2019 the interest income rose by 4,9% Y-o-Y to BGN 755,8 million. The interest expenses were at the amount of BGN 70,5 million, which was by 5,8% lower on an annual basis. After excluding the effect from the inclusion of the new bank in the statistical reporting the interest income increased by only 1,6% Y-o-Y to BGN 732,6 million and the interest expenses dropped by 7,9% Y-o-Y to BGN 68,9 million.

The net interest income comprised 75,9% of the net total operating income of the banking system at the end of Q1 2019. For comparison, in the EU the share of the net interest income was 58,7% of the total operating income, according to the EBA data as of the end of Q4 2018.

Net income from fees and commissions

As of the end of Q1 2019 the net income from fees and commissions grew by 9,1% Y-o-Y to BGN 264,6 million. However, after excluding the net income from fees and commissions of the new entity (BGN 7 million), the net income from fees and commissions for the banking system grew by a slower pace of 6,2% on an annual basis to BGN 257,6 million.

The income from fees and commissions rose by 10,8% on an annual basis to BGN 312,3 million, and the expenses related with fees and commissions – by 21,7% on an annual basis to BGN 47,7 million. After considering the one-off effect from the inclusion of the new bank in the statistical reporting the income from fees and commissions increased by 7,9% on an annual basis to BGN 303,9 million, and the expenses related with fees and commissions rose by 18,1% on an annual basis to BGN 46,3 million.

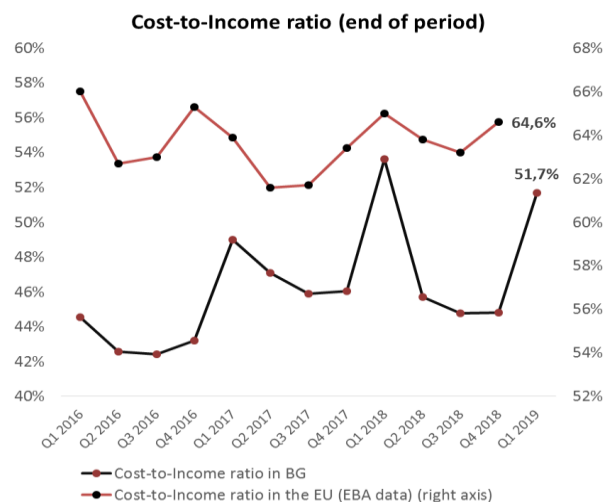
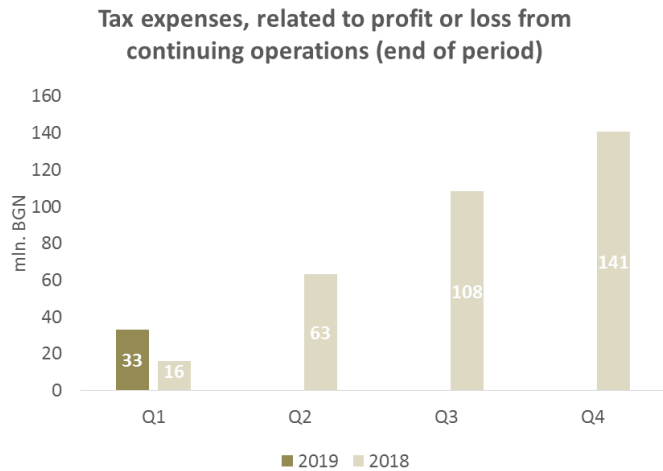
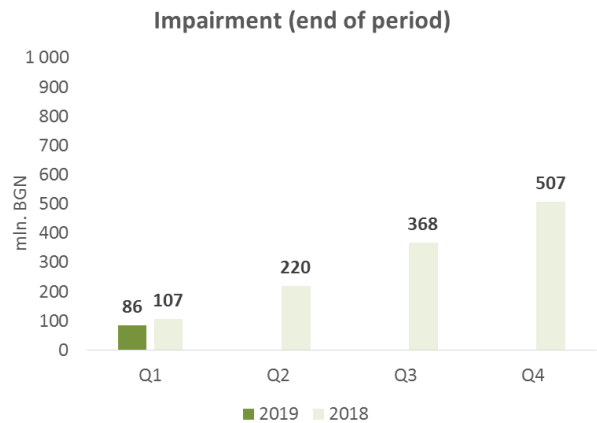
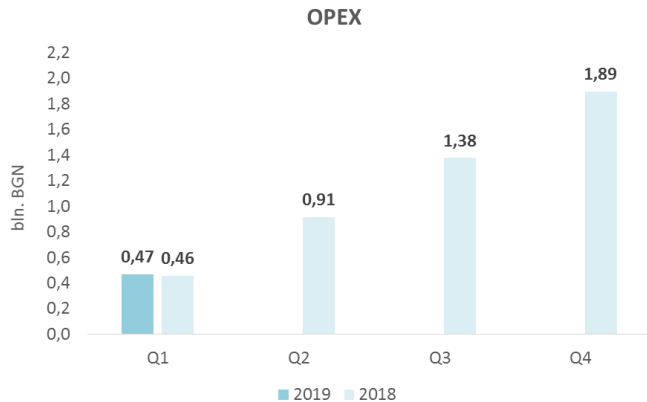
The income from fees and commissions made up 29,3% of the net total operating income of the system as the share of fees was closer to the EU average, which was 28,7%, according to the EBA data for the fourth quarter of 2018.



Operating expenses and impairments

As of the end of Q1 2019 the administrative expenses, which include overhead expenses, were by 3% lower compared to the same period of 2018 as they reached BGN 402,6 million. The total operating expenses, as a sum of the administrative expenses and depreciation, increased by 2,1% on an annual basis to BGN 466,5 million. The banking system made less impairments in comparison with the same period in the previous year. The impairments have dropped by 20% Y-o-Y to BGN 85,6 million.

As of the end of Q1 2019 Cost-to-Income ratio for the banking system increased to 51,7% from 44,8% as it was at the end of Q4 2018. According to the EBA data, the average Cost-to-Income ratio in the EU was 64,6% as of the end of Q4 2018.



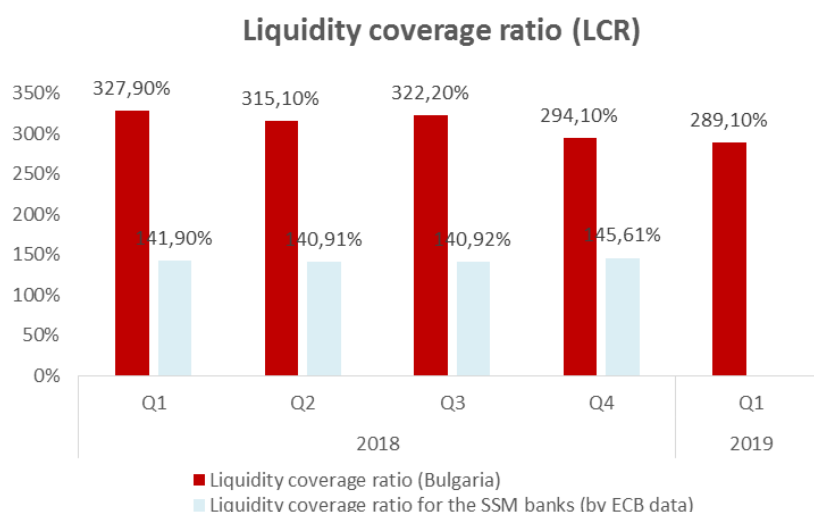
Source: BNB, own calculations



Financial indicators

Liquidity

As of the end of March 2019 the liquidity buffer and the net liquidity outflows were respectively BGN 29 billion and BGN 10 billion, according to the BNB data. The liquidity coverage ratio (LCR) was 289,1% compared to 294,1% as of the end of Q4 2018. According to the ECB data, as of the end of Q4 2018 the LCR for the banks in the Single Supervisory Mechanism was 145,61%.



Source: BNB, ECB

Capital adequacy

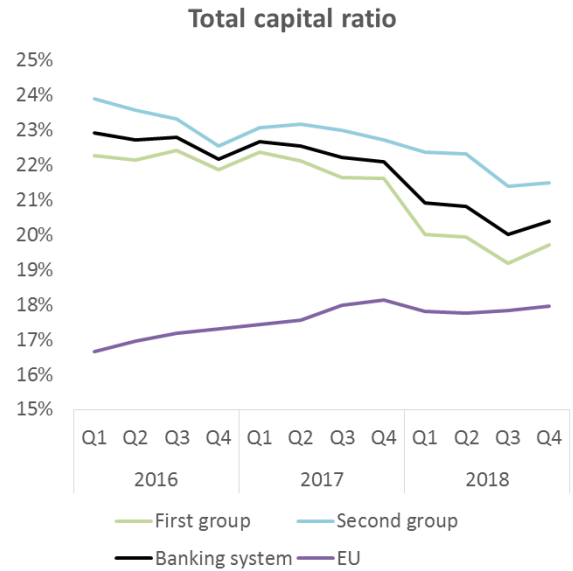
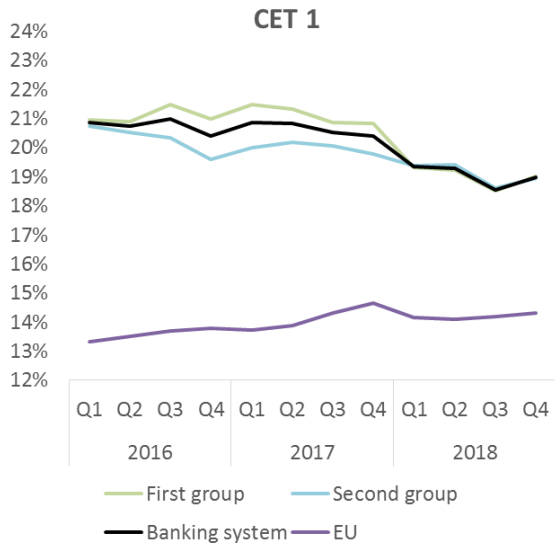
The capital position of the banking sector is being marked by a significant capital surplus above the regulatory requirements for the capital adequacy and leverage ratios.

As of the end of Q4 2018 the common equity tier 1 (CET 1) of the banking system increased to 19% from 18,55%, as it was at the end of Q3 2018. For the first group of banks the level of the indicator grew to 19,02% from 18,51%, and for the second group – to 18,94% from 18,61%.

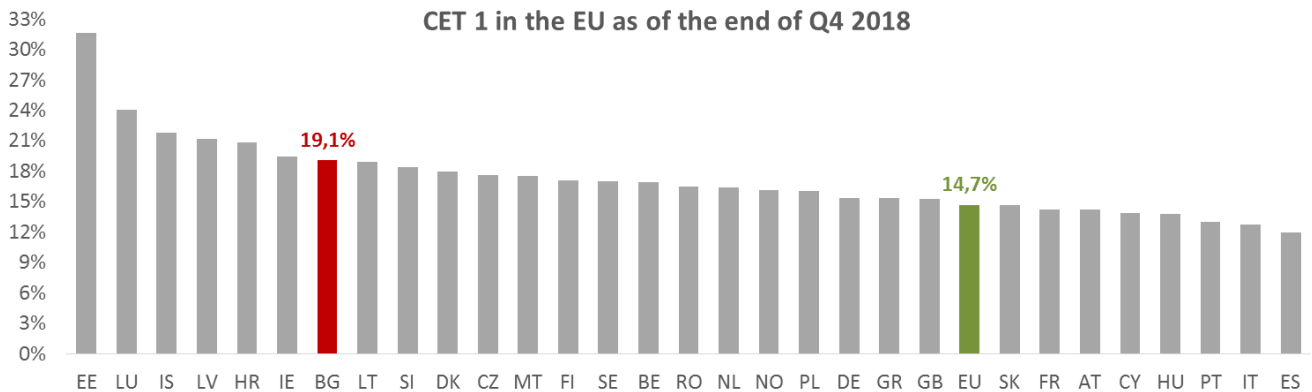
On a system level the total capital ratio for the Bulgarian banking system increased to 20,38% from 20%. As of the end of December 2018 its level for the banks in the first group was 19,7% and 21,49% for the banks in the second group compared to 19,2% and 21,38%, respectively, a quarter earlier.

According to the BNB, the dynamics in the capital ratios was due to the regulatory changes, including the implementation of the International Financial Reporting Standard 9 (IFRS 9), changes in the total amount of the risk exposures and in the total equity.

The level of the indicators for the capital adequacy for the banks in Bulgaria is above the average level reported by the European banks which, according to the ECB data, as of the end of December 2018 was respectively for CET 1 – 14,3% and for the total capital ratio – 17,95%.



Source: BNB, ECB



Source: EBA

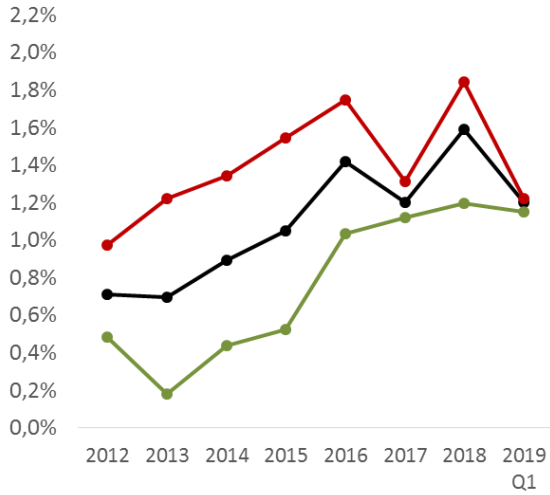
Profitability

As of March 31, 2019 the Return on Assets (ROA) was 1,2% compared to 1,6%, recorded as of December 31, 2018 (the average for the European banks was 0,42%, according to the ECB data for Q4 2018). The value of the indicator was 1,22% for the banks in the first group and 1,15% for the banks in the second group as of the end of March 2019.

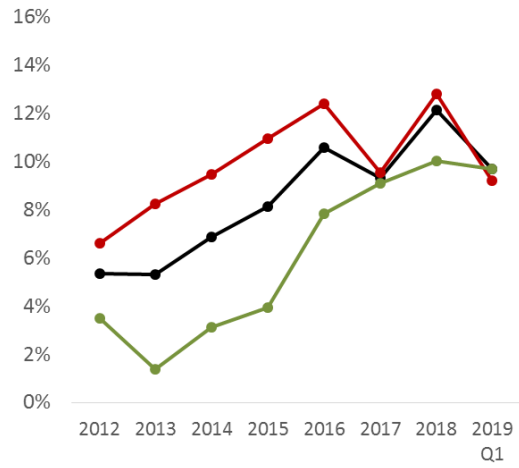
The Return on Equity (ROE) was 9,67% as of the end of Q1 2019 compared to 12,1% as of the end of the fourth quarter (according to the ECB data as of the end of Q4 2018 the average ROE for the European banks was 6,16%). For the first group of banks in Bulgaria the ratio was 9,21% and for the second group – 9,68%, as of the end of Q1 2019.



ROA by banking groups



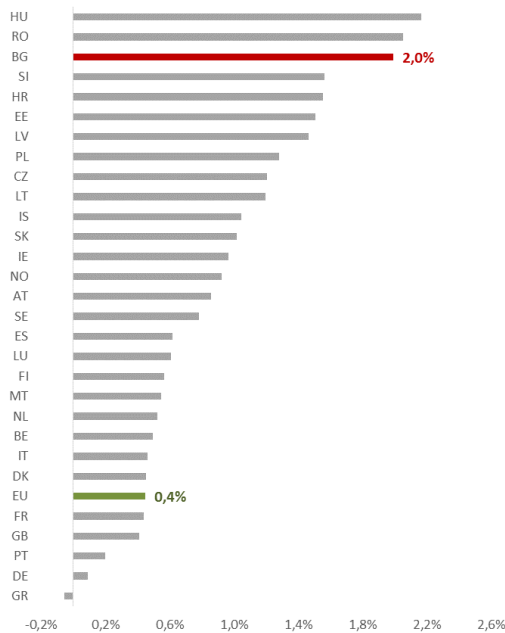
ROE by banking groups



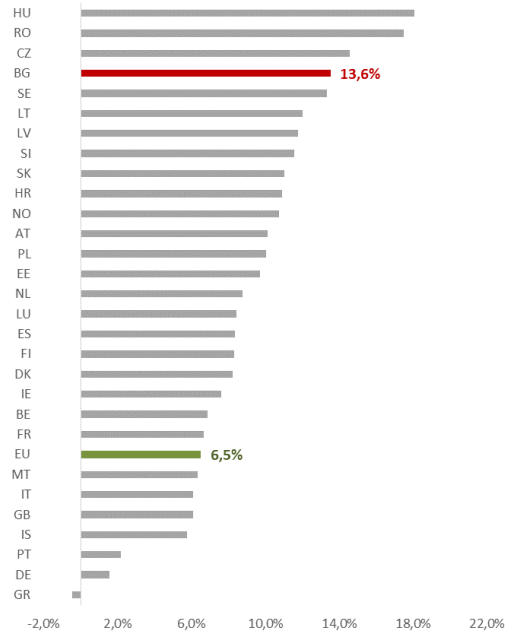
— Banking system — First group — Second group — Banking system — First group — Second group

Source: BNB, own calculations

ROA in the EU as of the end of Q4 2018



ROE in the EU as of the end of Q4 2018



Source: EBA

Loans and deposits

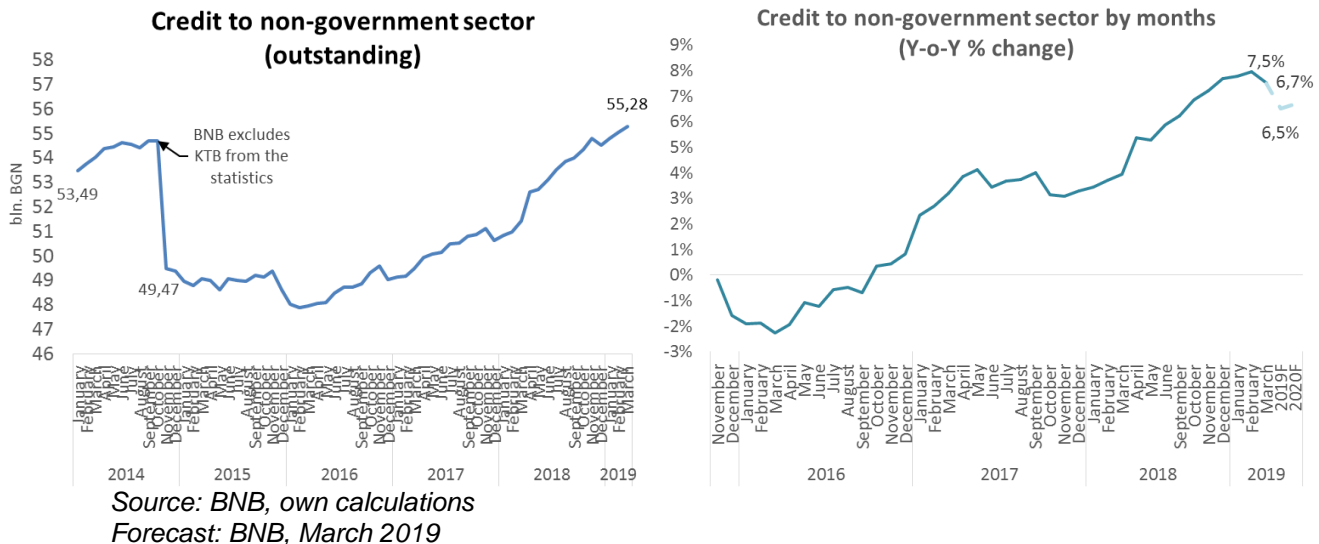
In Q1 2019 the credit activity remained relatively high. In its quarterly issue „[Economic Review](#)“ the BNB expects the credit to the non-government sector to continue to grow, albeit with a slower pace compared to the growth rates, observed at the end of 2018. According to the BNB,



both the projected continuous increase in domestic demand and retained comparatively low lending rates are going to be the drivers behind credit growth during the projected horizon. At the same time, the factors which are going to limit the credit growth, according to the BNB, are associated with continued government repayments on energy efficiency loans and the decreased amounts of such newly contracted loans along with exhaustion in the second quarter of 2019 of the one-off effect of a new reporting unit included in the scope of the statistics.

According to the BNB, retained bank policies of writing-off non-performing loans and selling credit portfolios along with the comprehensive assessment of six Bulgarian banks in the first half of 2019 due to the announced intention to join the Single Supervisory Mechanism by establishing a close cooperation with the ECB, could have a possible limiting effect on credit dynamics. The activation of the countercyclical capital buffer from October 2019 and the announced change from April 2020 by the BNB could also be a potential factor for limiting credit growth.

As of the end of March 2019, according to the BNB monetary statistics data, the total outstanding amount of loans to the non-government sector (non-financial corporations and households) rose to BGN 55,28 billion from BGN 54,51 billion as it was at the end of the previous quarter.



As of the end of Q1 2019 the share and the amount of non-performing loans continued to decline. As of March 31, 2019 the amount of non-performing loans (excluding Central Banks and Credit Institutions) declined to BGN 4,43 billion. The share of non-performing loans in the banking system dropped to 7,17% from 7,46%, as of the end of December 2018, according to the calculations based on the data of the BNB Banking Supervision Department. The share of non-performing loans to non-financial corporations declined to 8,33%, compared to 8,7 at the end of the fourth quarter of 2018. For the same period the ratio in the segment of consumer loans decreased to 5,46% from 5,69%. The share of non-performing housing loans dropped to 6,53% from 6,63% in the previous quarter.



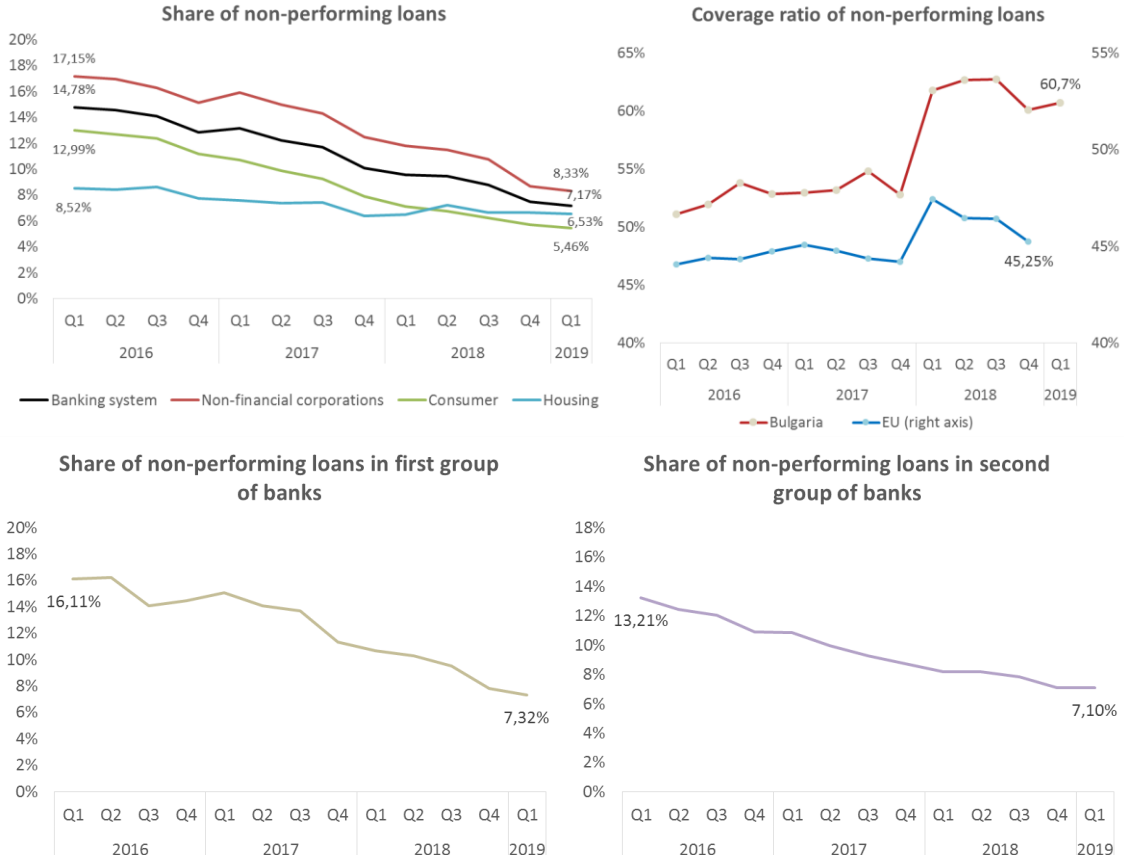
As of the end of March 2019 the level of non-performing loans to non-financial corporations declined to BGN 2,95 billion from BGN 3,04 billion a quarter ago. In the segment of consumer loans the amount dropped to BGN 615,2 million from BGN 620,8 million. The housing loans were at the level of BGN 689 million.

Despite the level of non-performing loans which is higher than the average EU level, the coverage for gross non-performing loans by provisions in Bulgaria is higher compared with the average level of the EU countries, which is typical for the Bulgarian banking system.

The impairment coverage ratio of gross non-performing loans in the Bulgarian banking system was 60,7% as of the end of Q1 2019 compared to 60,1% a quarter earlier. In comparison, the coverage ratio for the European banks, according to the ECB data for the fourth quarter of 2018 was 45,3%.

According to the BNB data, the net amount of non-performing loans and receivables (after deducting the allowances for loan losses) also dropped and at the end of the period it amounted to BGN 3,28 billion or 3,8% of the net total amount of loans and receivable (compared to 3,9% at the end of December 2018).

The level of non-performing gross loans reported by the banks in the first group declined to 7,3% as of the end of the first quarter of 2019 compared to 7,8% a quarter earlier. That level remained unchanged at 7,1% for the banks in the second group.

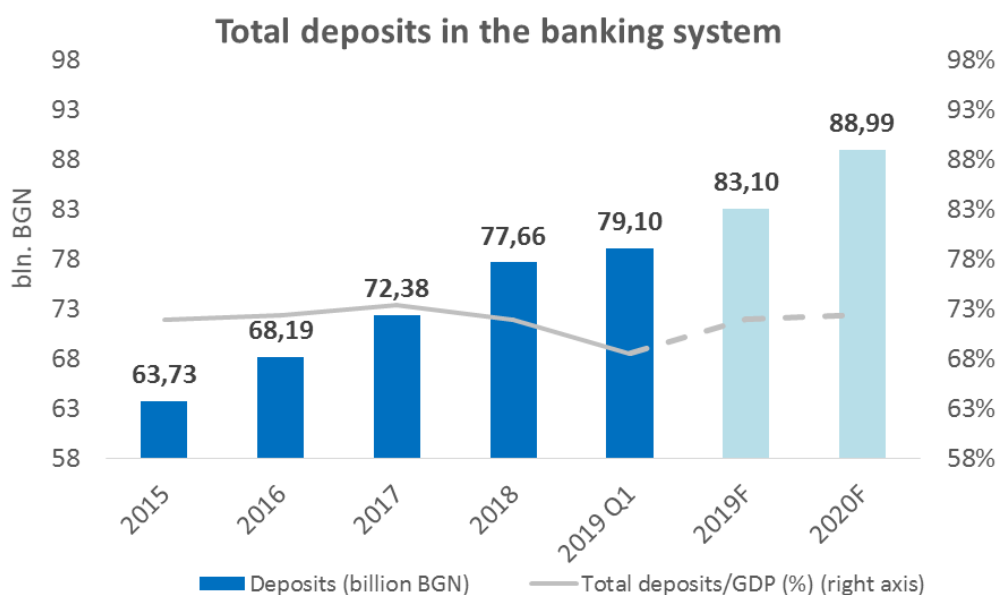


Source: BNB, ECB, own calculations



Deposits, attracted by the banks, continued to grow. As of the end of March 2019 the total amount of outstanding deposits in the banking system reached BGN 79,1 billion as an annual growth of 9,3% was recorded, despite the low interest rate levels. The deposits' growth was higher compared to the growth of 7,3% which was reported at the end of December 2018.

In its quarterly report „[Economic Review](#)“ the BNB foresees that in the first half of 2019, non-government sector deposits will increase further at comparatively high rates, amid increased uncertainty stemming from the external environment, continued labor income growth and the lack of a sufficiently safe alternative to bank savings.



Source: BNB, own calculations

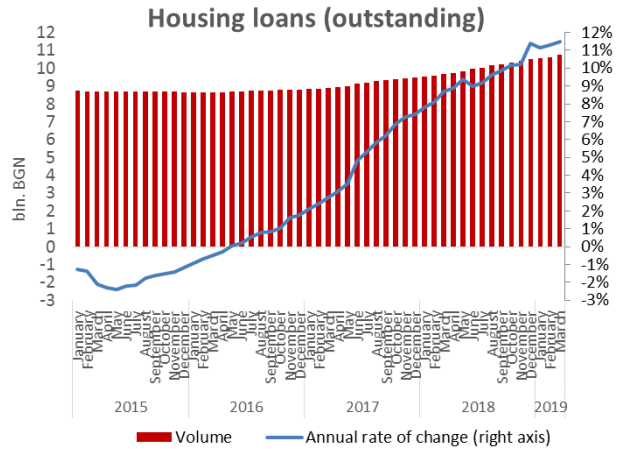
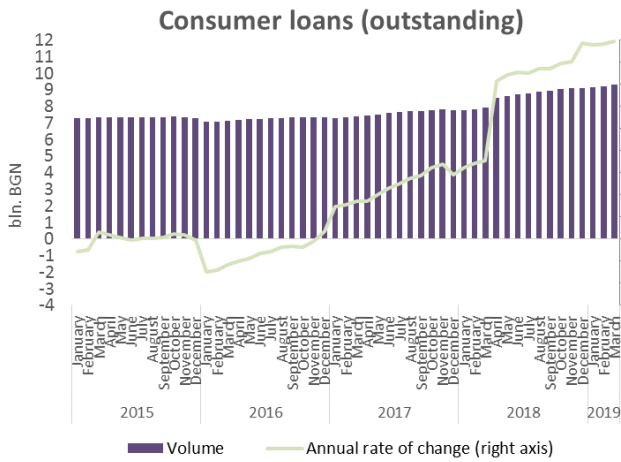
Forecast: BNB, Ministry of Finance

Loans and deposits to households

As of the end of March 2019 the outstanding amount of consumer loans was BGN 9,33 billion compared to BGN 9,12 billion a quarter ago and BGN 7,92 billion a year earlier. The inclusion of a new reporting entity within the scope of the statistics since the second quarter of 2018 influenced significantly the annual increase of consumer loans. The accounting reclassification and sale of loan portfolios by some banks also had an impact on the reporting data.

After eliminating the effect from the inclusion of a new bank in the statistics, as of the end of Q1 2019 the rate of growth of consumer loans is calculated to decline by 0,4% on an annual basis (according to calculations based on the data of the Banking Supervision Department at the BNB). The calculations also showed that consumer loans grow by 2,1% on a quarterly basis.

The outstanding amount of housing loans was BGN 10,76 billion compared to BGN 10,6 billion as of the end of Q4 2018 and BGN 9,65 billion as of the end of the first quarter of the previous year.

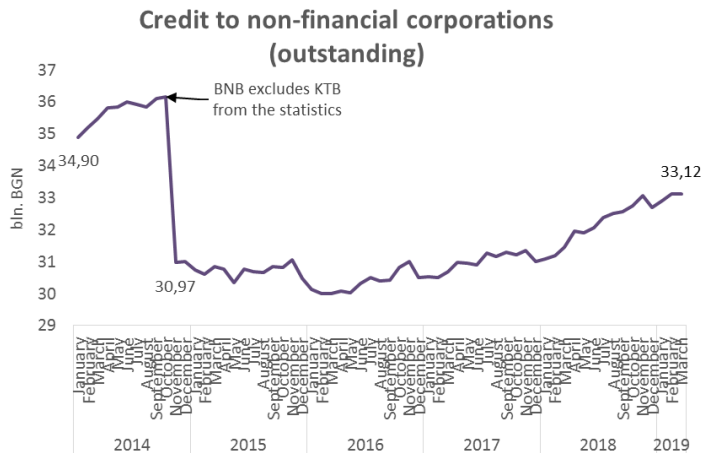
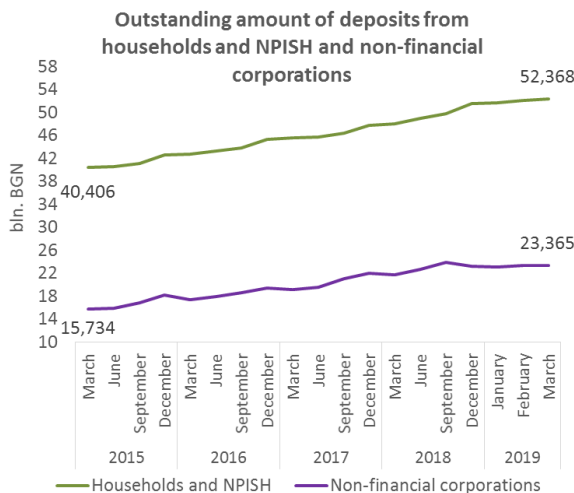


Source: BNB, own calculations

As of the end of March 2019 the total amount of deposits to households and NPISH recorded a faster growth rate – 8,9% compared to 7,7% at the end of Q4 2018. Deposits from households were BGN 52,4 billion as they made up 45,4% of GDP. The share of the household sector in the total amount of deposits in the banking system was 66,2%.

Loans and deposits of non-financial corporations

As of March 31, 2019 the outstanding amount on deposits from non-financial corporations increased by 7,8% Y-o-Y to BGN 23,34 billion (20,2% from GDP). The outstanding amount on loans to non-financial corporations grew by 5,3% Y-o-Y to BGN 33,12 billion. Except overdrafts, loans to non-financial corporations grew by 5,6% on an annual basis, reaching BGN 21,78 billion in absolute terms.



Source: BNB



Interest rates

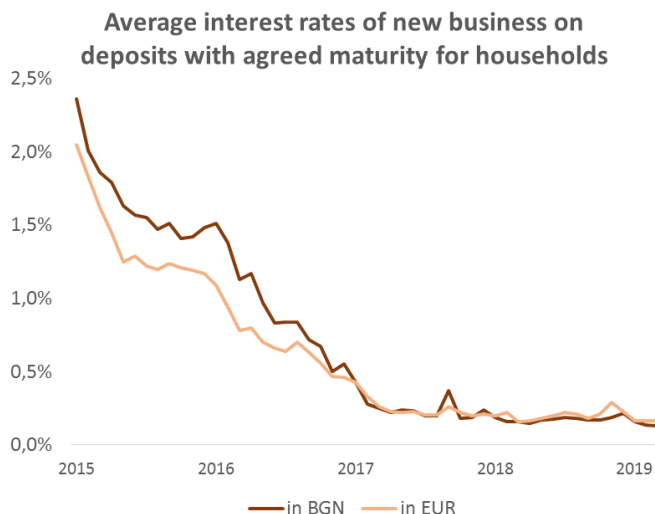
In Q1 2019 the interest rates on newly agreed time deposits kept their low levels for non-financial corporations and they slightly declined for the household sector compared to the fourth quarter of 2018. The interest rates on housing loans continued to decrease slightly. The interest rates on consumer loans retained their low values, while the interest rates on loans for non-financial corporations grew in comparison with the previous quarter.

In its quarterly report „[Economic Review](#)“ the BNB foresees unchanged interest rate levels on new deposits and loans for the first half of 2019. According to the BNB, the internal factors that support the low interest rate levels are going to remain unchanged. These are the high levels of the attracted funds as well as the level of competition in the sector. According to the BNB, the main external factor which is going to affect the interest rate dynamics will be the euro area interest rate cycle.

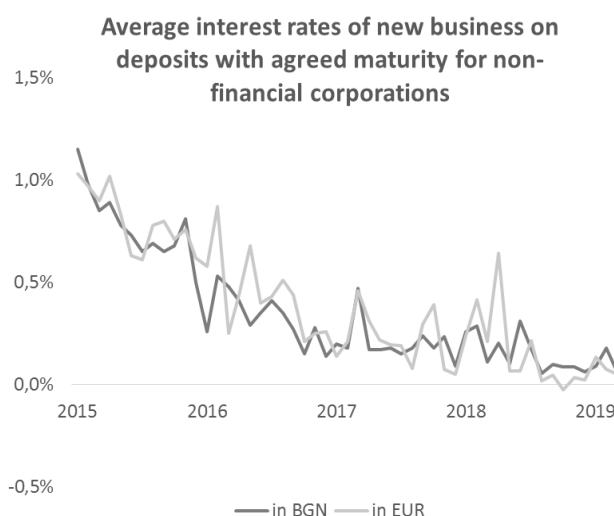
Interest rates on deposits

As of March 2019 deposits with agreed maturity on new business in BGN to households decreased on a quarterly basis to 0,13% compared to 0,21% at the end of December 2018. The quarterly drop on deposits with agreed maturity on new business in EUR was by 7 basis points – to 0,16% from 0,23% (as of the end of Q4 2018).

As of the end of Q1 2019 the average interest rates on deposits with agreed maturity to non-financial corporations on new business in BGN remained unchanged at 0,06% as they were at the end of December 2018. The increase in the interest rates in EUR was by 3 basis points to 0,05% from 0,02% as of the end of December 2018.



Source: BNB



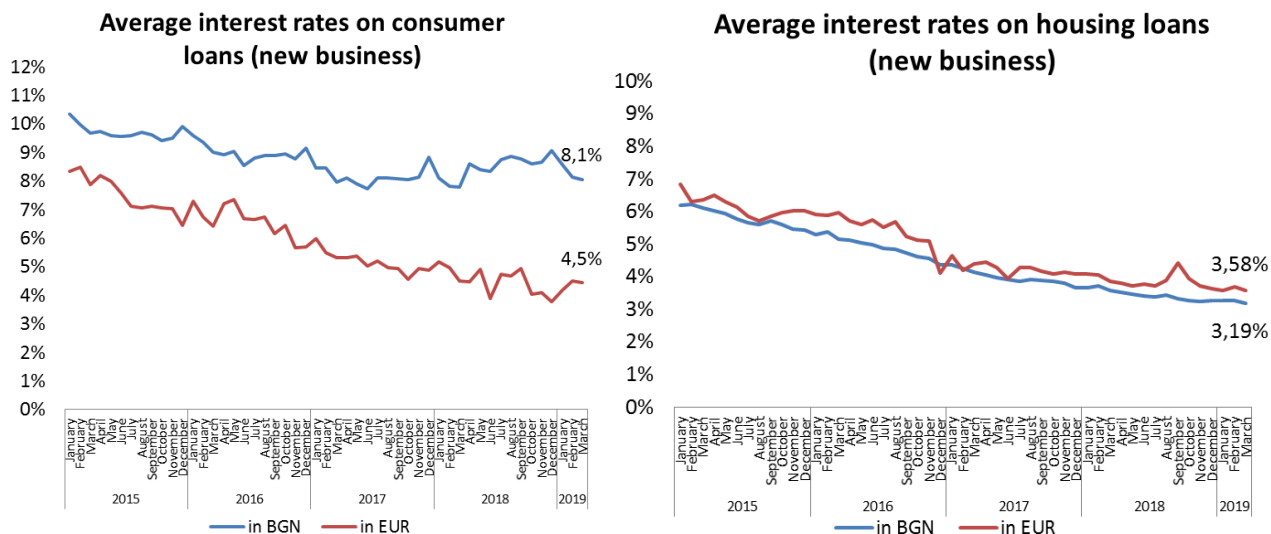


Interest rates on loans

The interest rates on loans for households retained their low values, reached in the recent quarters, while the interest rates on loans for non-financial corporations grew in comparison with the previous quarter.

As of the end of Q1 2019 the average interest rates on housing loans declined to 3,19% for the loans agreed in BGN compared to 3,25% a quarter earlier. The average interest rates on housing loans in EUR reached 3,58% compared with 3,63% a quarter earlier.

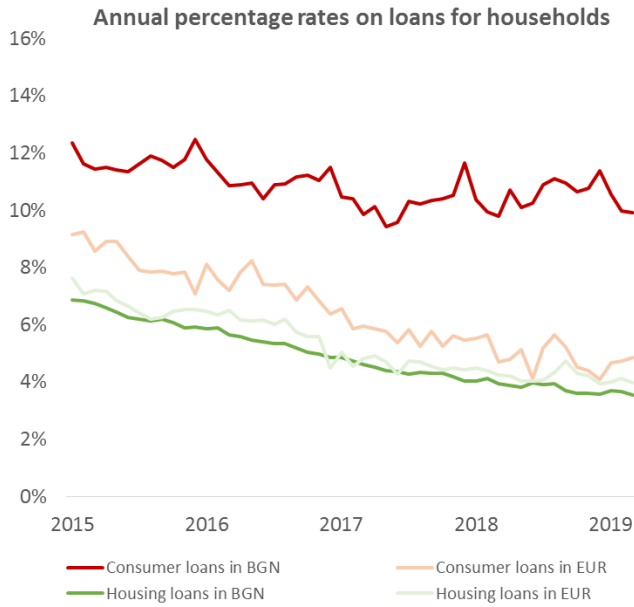
As of the end of March 2019 the average interest rates on consumer loans agreed in BGN decreased to 8,07%, compared to 9,08% at the end of the fourth quarter of 2018. The interest rates on consumer loans agreed in EUR as of the end of March 2019 increased to 4,46%, in comparison with 3,78% three months earlier.



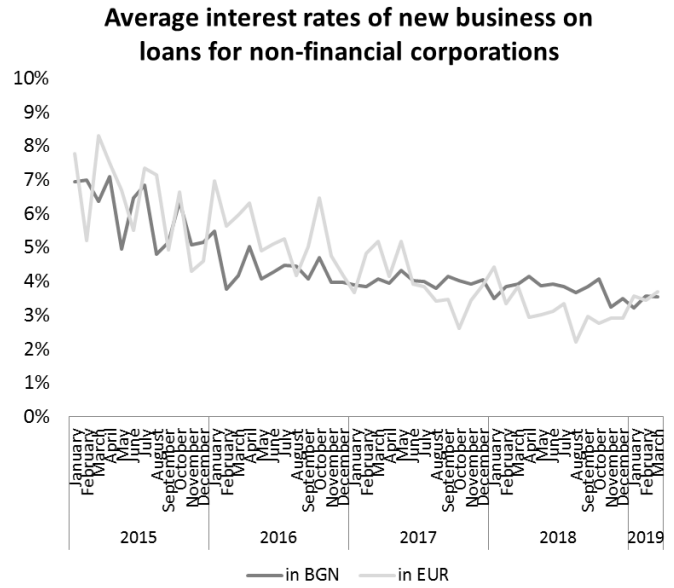
Source: BNB

As of the end of March 2019 the annual percentage rate (APR), which includes the interest rate component and the component of all other fees and commissions, dropped to 3,54% for housing loans in BGN and rose to 3,98% for housing loans in EUR from 3,57% and 3,94%, respectively, a quarter earlier. The level of the APR on consumer loans was 9,91% and 4,85%, respectively, for loans in BGN and in EUR, compared with 11,39% and 4,08% three months earlier.

The average interest rates on new business on loans to non-financial corporations rose to 3,55% for loans in BGN and to 3,68% for loans in EUR compared to 3,48% and 2,91%, a year earlier. The increase in the level of the interest rates for the loans to non-financial corporations agreed in US dollars was to 4,35% from 4,26%.



Source: BNB





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All historical rates, statistical data and graphs are up to date, up to and including May 7, 2019, unless otherwise stated.

The views provided are those prevailing as of May 7, 2019.