



THE ECONOMY AND THE BANKING SECTOR IN BULGARIA

SECOND QUARTER OF 2019



SOFIA



HIGHLIGHTS

- The Bulgarian economy recorded growth of 4,8% on an annual basis in Q1 2019, mainly driven by consumption and net export;
- The inflation stood at 2,8% year-on-year in Q2 2019;
- As of the end of Q2 2019 the unemployment in Bulgaria was 4,5%, remaining at a historically low level;
- The budget surplus was 2,8% of GDP as of the end of Q2 2019;
- As of the end of Q2 2019 the total assets of the banking system were at the amount of BGN 108,58 billion and they were 94,1% of GDP;
- In Q2 2019 the adjusted net profit of the banking sector was BGN 535,8 million (recording an increase by 0,4% on an annual basis);
- The expenditure optimization, the lower impairments, the credit growth, the better quality of the credit portfolio as well as some one-off effects, influence the financial result of the sector;
- In Q2 2019 the credit growth was higher for the households. As for the non-financial corporations (as of March 2019), the highest increase in the lending amounts was reported for the real estate activities, manufacturing and accommodation and food service activities;
- The average interest rates on new loans and on new deposits with agreed maturity retained their low levels.



CONTENTS

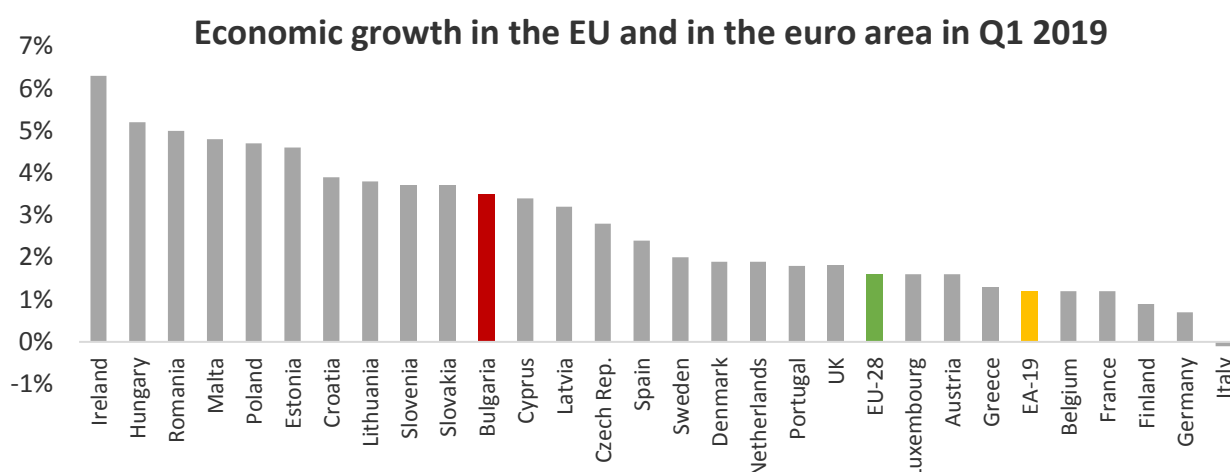
I. The Bulgarian economy	4
1. Economic growth	4
2. Inflation	6
3. Labour market	7
4. Public sector	8
5. Capital market	9
II. The banking sector in Bulgaria	11
1. Balance sheet statement (Statement of financial position)	11
1.1. Assets	11
1.2. Liabilities	12
1.3. Equity	12
2. Statement of profit or loss.....	13
2.1. Net profit.....	13
2.2. Net interest income	14
2.3. Net income from fees and commissions.....	14
2.4. Operating expenses and impairments.....	14
3. Financial indicators.....	16
3.1. Liquidity	16
3.2. Capital adequacy.....	16
3.3. Profitability.....	17
4. Loans and deposits	19
4.1. Loans and deposits to households	21
4.2. Loans and deposits of non-financial corporations	22
5. Interest rates	23
5.1. Interest rates on deposits	23
5.2. Interest rates on loans	23



I. The Bulgarian economy

Economic growth

In Q1 2019 the Bulgarian gross domestic product (GDP) recorded real growth of 4,8% 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 January-March 2019 was 1,6% year-on-year, and that of the euro area – 1,2% on an annual basis.



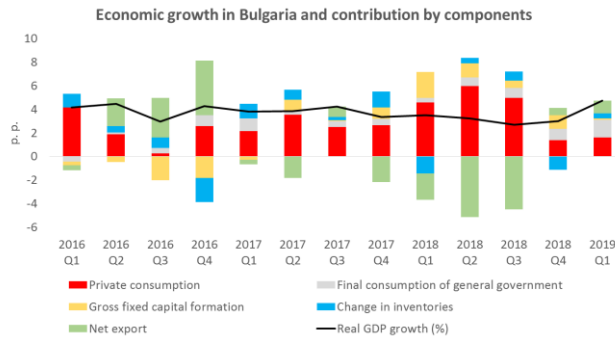
Source: Eurostat (Seasonally and calendar adjusted data; unadjusted data for Slovakia)

According to the preliminary data of the NSI, the economic growth in Q1 2019 was driven by the private consumption, government consumption and net export.

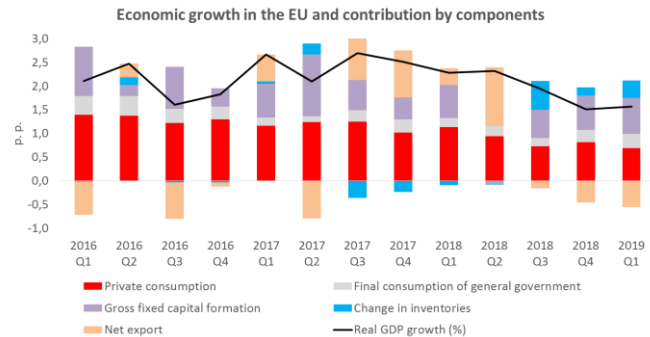
In the observed period the private consumption, which includes the consumption of the households and non-profit institutions, serving households (NPISH), recorded growth of 2,6% on an annual basis and contributed to the yearly GDP growth by 1,6 percentage points (p.p.) compared to the registered contribution of 1,4 p.p. in Q4 2018. The final consumption of the general government, which grew by 8,3% Y-o-Y, contributed by 1,5 p.p. compared to 1 p.p. a quarter earlier.

In Q1 2019 the growth of the gross fixed capital formation increased by 0,6% on an annual basis compared to the annual growth of 6,7% registered in the previous quarter. In Q1 2019 the contribution of the business investments to the GDP was 0,1 p.p. compared to 1,2 p.p. three months earlier. The contribution of inventories was 0,4 p.p. compared with the negative contribution (-1,1 p.p.) in the fourth quarter of 2018.

In Q1 2019 the export of goods and services increased by 6,9% on an annual basis compared with the growth of 2,2% Y-o-Y three months earlier. Import grew by 4,8% on an annual basis from 1,6% Y-o-Y in Q4 2018. The contribution of the net export had a positive effect on the GDP growth for second consecutive quarter. Its contribution by 1,1 p.p. was the highest since the end of the fourth quarter of 2016. The trade deficit was 0,6% of GDP compared with the deficit of 4,1% as of the end of the previous quarter.



Source: Eurostat, own calculations



In comparison, the growth of the GDP in the EU in Q1 2019 was driven mainly by the private consumption and business investments. The net export has had a negative contribution for the GDP growth for third consecutive quarter.

In its quarterly issue „[Economic Review](#)“ the Bulgarian National Bank (BNB) expects that in the second and in the third quarter 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 private consumption, and to a lesser extent, that of government investment. According to the BNB (the Central Bank of Bulgaria), the external environment will remain a source of uncertainty.

Different national and international organization and institutions forecast that the economic growth in Bulgaria is going to vary between 3% and 3,6% in 2019 and between 2,8% and 3,8% in 2020.

Key indicators for the Bulgarian economy	2011	2012	2013	2014	2015	2016	2017	2018	2019 Q1	2019 Q2	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	24 656	-				
GDP (real Y-o-Y growth, %)	1,9	0,0	0,5	1,8	3,5	3,9	3,8	3,1	4,8	-				
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 (June 2019)		3	2,8	2,8	-
									EC (July 2019)		3,3	3,4	-	-
									EBRD (May 2019)		3,4	3	-	-
Total final consumption	2	2	-1,9	2,2	3,8	3,3	4,3	6	3,8	-				
Private consumption (of Households and NPISH)	2,0	3,0	-2,5	2,7	4,5	3,6	4,5	6,4	2,6	-				
Final consumption of general government	2,2	-2,0	0,6	0,2	1,3	2,2	3,7	4,7	8,3	-				
Gross fixed capital formation	-4,4	1,8	0,3	3,4	2,7	-6,6	3,2	6,5	0,6	-				
Export of goods and services	12,6	2,0	9,6	3,1	5,7	8,1	5,8	-0,8	6,9	-				
Import of goods and services	9,9	5,5	4,3	5,2	5,4	4,5	7,5	3,7	4,8	-				
Trade balance/GDP (%)	-6,5	-9,5	-7,0	-6,5	-5,8	-2	-1,5	-4,1	-0,6	-				
Foreign direct investments in Bulgaria (mln. EUR)	1476,3	1320,9	1383,7	347,4	2399,1	1003,3	2314,1	1744,4	38,3	-				
Foreign direct investments/GDP (%)	3,6	3,1	3,3	0,8	5,3	2,1	4,5	3,2	0,1	-				
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	2,8				

Source: NSI, Eurostat, Bulgarian National Bank

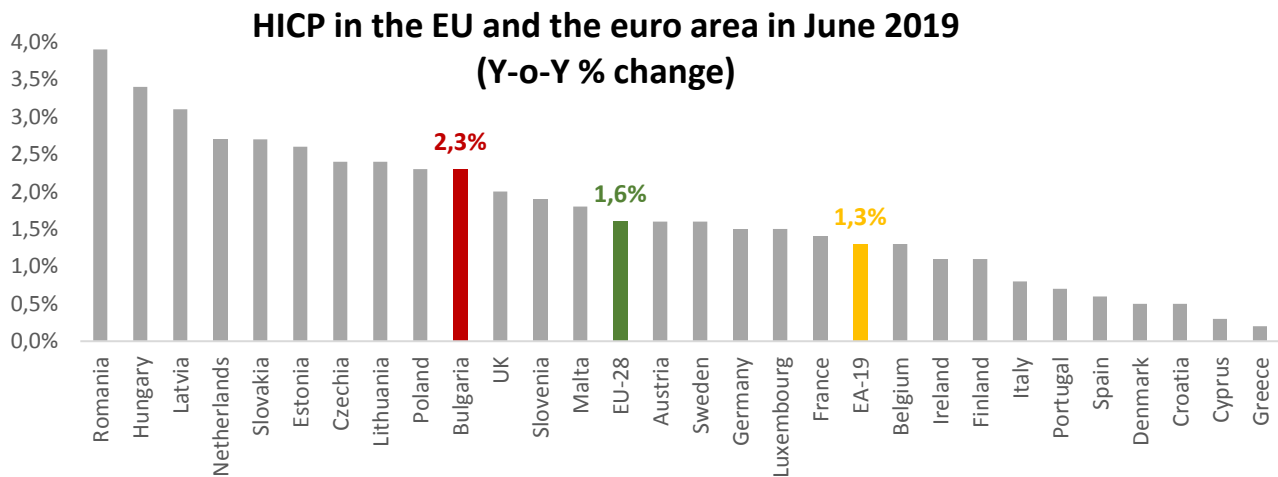
Forecasts: Bulgarian National Bank, Ministry of Finance, International Monetary Fund, World Bank, European Commission, European Bank for Reconstruction and Development



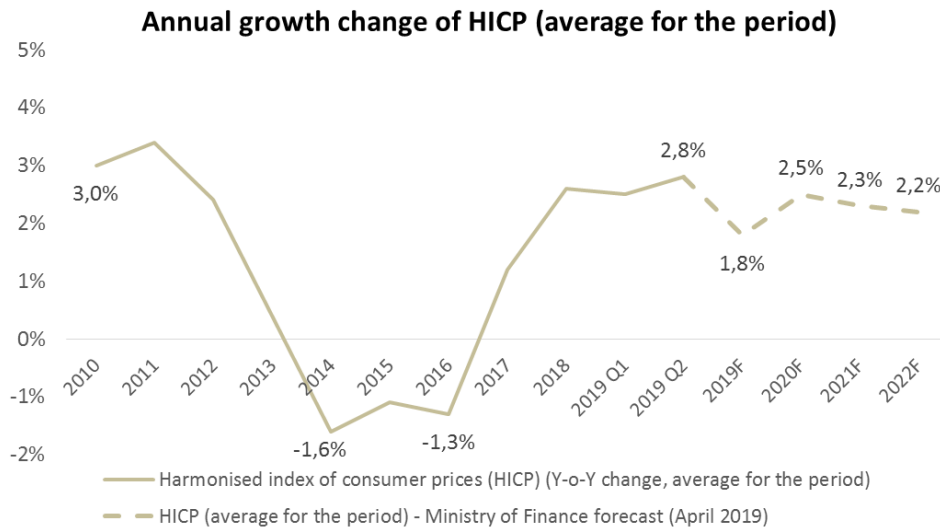
Inflation

In Q2 2019 the harmonized index of consumer prices (HICP) grew by 2,8% on an annual basis compared to 2,5% Y-o-Y in Q1 2019. In June 2019 inflation in Bulgaria stood at 2,3% Y-o-Y, it was higher than the average for the EU and the euro area. In June 2019 Bulgaria ranked tenth regarding the increase of HICP. The inflation dynamics in the period was mainly due to the price changes for the energy resources.

In its quarterly issue [„Economic Review“](#) the BNB forecasts that over the second and third quarter of 2019 the inflation rate is expected to slow down compared to the levels reported in the beginning of the year. According the BNB, the increased negative contribution of energy products in line with the expected downward dynamics in international oil prices in euro and the exhaustion of base effects regarding prices of services will be the decisive factors for this trend.



Source: Eurostat



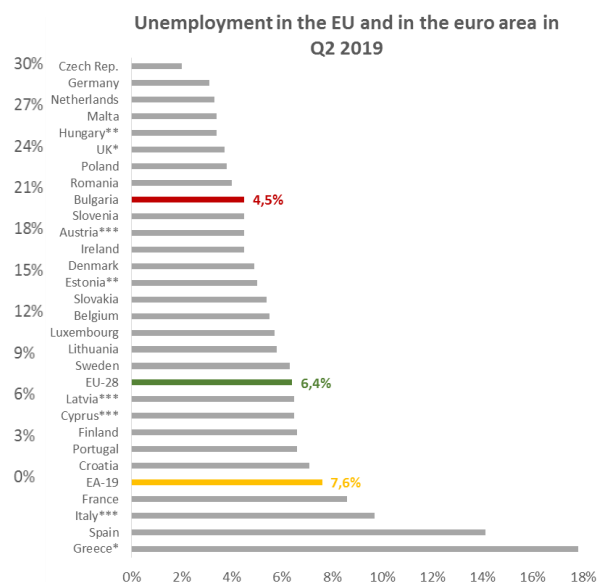
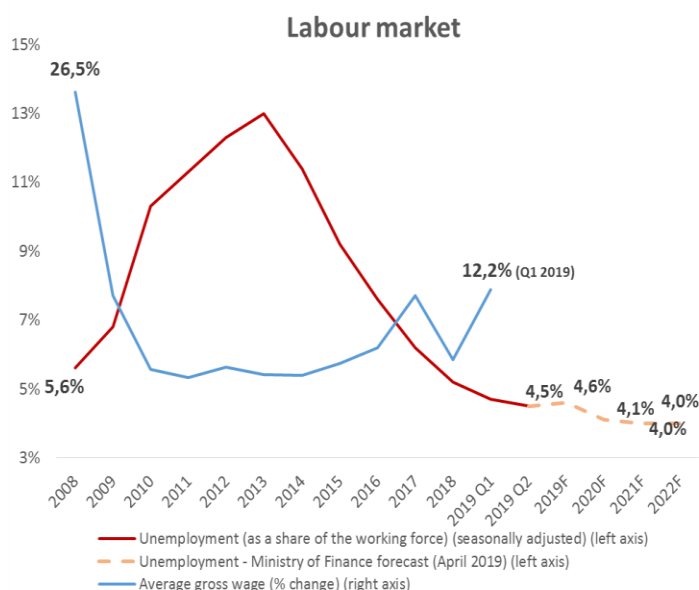
Source: NSI, Eurostat, Ministry of Finance



Labour market

In Q2 2019 the level of unemployment, measured as a share of the working force, decreased to 4,5% from 4,7% as it was at the end of Q1 2019. The unemployment in the country was lower than the EU average. In the period Bulgaria was ranked 9th 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 Q2 2019 the number of unemployed in Bulgaria declined to 150 thousand from 159 thousand a quarter ago and from 176 thousand a year ago.

The level of the unemployed young people (under 25 years) increased to 11,5% as of the end of Q2 2019 compared to 11% three months earlier. At the end of Q2 2019 the average level of the youth unemployment in the EU was 14,2%, as the higher share of unemployed young people was reported in Greece, Italy and Spain.



Source: Eurostat, Ministry of Finance, NSI
 Note: * April 2019 ** May 2019 *** June 2019

Key indicators for the Bulgarian economy

	2011	2012	2013	2014	2015	2016	2017	2018	2019 Q1	2019 Q2
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	4,5
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	3 147,8	-
Employed in "Finance and Insurance" sector (thousands), of which:	55	52,7	51,6	60,5	62,3	58,6	63,7	65,4	65,1	-
Employed in the banking sector (thousands)	33,9	33,5	32,8	31,7	30,7	30,4	30,1	29,9	-	-
Average monthly gross wage in "Finance and Insurance" sector	1 438	1 459	1 508	1 578	1 608	1 709	1 788	1 904	1 994	-

Source: Eurostat, Ministry of Finance, NSI, ECB

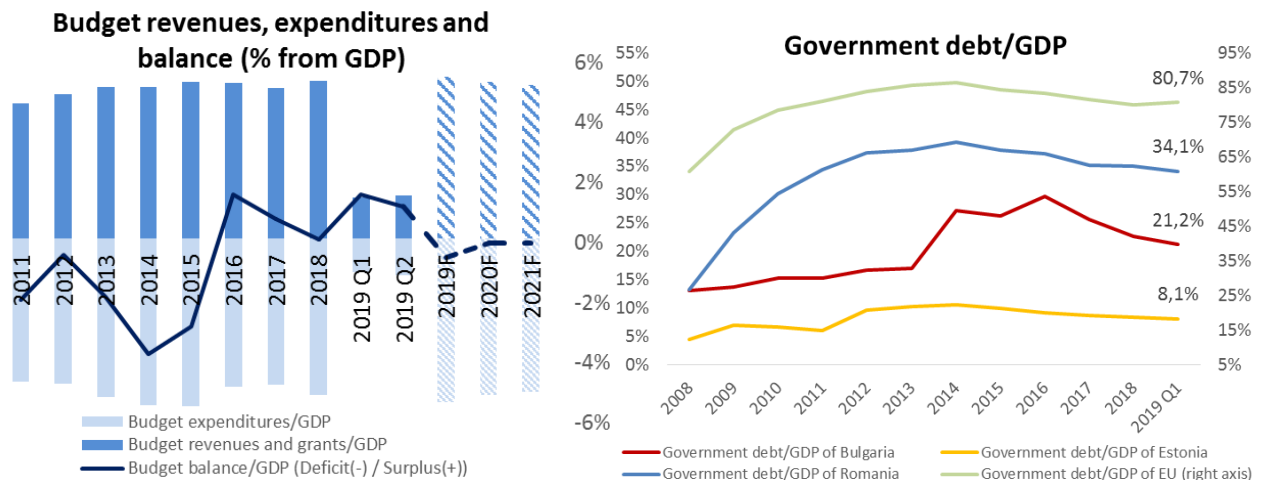


Public sector

According to the Ministry of Finance (MF) preliminary data, the state budget had a positive balance of BGN 3,225 billion as of the end of June 2019. The surplus equaled to 2,8% of the forecasted GDP. For July 2019 the MF forecasted a surplus of BGN 3,246 billion (2,8% of GDP), based on the state budget revision made at the end of July 2019.

The amount of the budget revenues and grants according to the Consolidated Fiscal Programme for the period January-June 2019 was BGN 22,29 billion (19,3% of GDP). Compared to the same period last year, the tax and the non-tax revenues grew by 14,2% on an annual basis.

Budget expenditures (including the EU budget contribution of Bulgaria) for the first half of 2019 amounted to BGN 19,06 billion (16,5% of GDP). In comparison, the budget expenditures for the same period of 2018 were BGN 17,5 billion. As of the end of June 2019, the fiscal reserve totaled BGN 11,7 billion.



Source: Ministry of Finance, Eurostat

The share of the government debt to GDP declined to 21,2% as of the end of March 2019 compared to 22,6% at the end of 2018. Bulgaria is among the countries with the lowest government debt and it is second after Estonia (8,1%). The government debt to GDP ratio for Bulgaria is below the EU average, which was 80,7% as of the end of Q1 2019. According to the forecasts of the European Commission the debt-to-GDP ratio for Bulgaria is expected to continue its decrease and to fall to 18,4% as of the end of 2020. The MF foresees a decrease in the debt-to-GDP ratio to 17,8% as of the end of 2021 and a further decline to 16,7% at the end of 2022.

The Long-term Interest Rate for Convergence Assessment Purposes (LTIR) decreased to 0,32% as of the end of June 2019 from 0,67%, as it was a quarter ago. For comparison, as of the end of June 2019 the LTIR in Romania was 4,59%, in Poland – 2,35%, in Hungary – 2,74%, in Croatia – 1,36%, and in the Czech Republic – 1,58%. 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

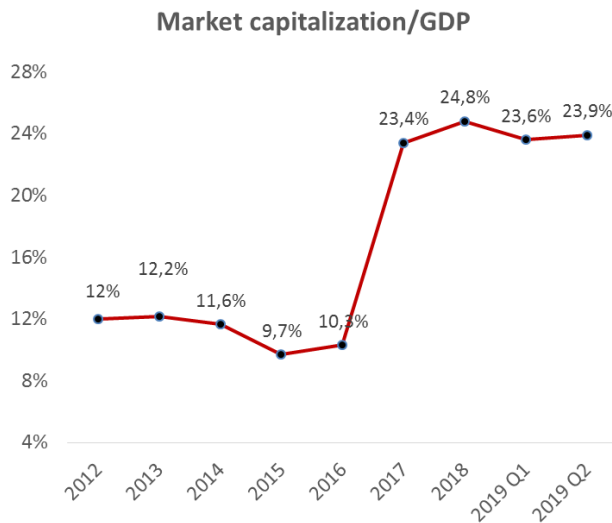
As of the end of June 2019 the main indices on the Bulgarian Stock Exchange (BSE) changed as follows: SOFIX grew by 0,7%, BGBX40 increased by 0,1%, BGREIT rose by 4,3%, and BGTR30 grew by 1,2% compared to the end of Q1 2019.

In Q2 2019 the Bulgarian index SOFIX recorded the lowest growth among the major stock market indices in the CEE region.

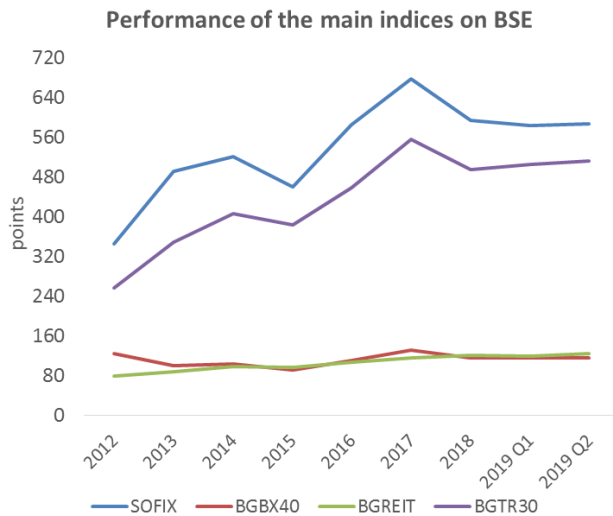
As of June 30, 2019, the market capitalization on the BSE (BSE main market and BaSE Alternative market) increased by 1,4% on a quarterly basis to BGN 27,6 billion from BGN 27,2 billion. In Q2 2019 the market capitalization grew to 23,9% of the forecasted GDP compared to 23,6% a quarter earlier.

During the period January-June 2019 the turnover on the stock exchange declined by 48,9% on a quarterly and by 68,8% on an annual basis to BGN 50,97 million. In Q2 2019 the number of transactions dropped by 32,2% on a quarterly and by 11% on an annual basis reaching the number of 9 604.

In Q2 2019 the banks, members of the BSE, performed 3,8% of the turnover and 7,1% 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 13,8% of the total turnover on the regulated market.



Source: BSE, own calculations





No	Country	Index	31 December 2018	31 March 2019	30 June 2019	Change in Q2 2019	Year to date change
1	Greece	ASE	613,30	721,37	868,48	20,39%	41,61%
2	Russia	MOEX	2 358,50	2 497,10	2 765,85	10,76%	17,27%
3	Romania	BET	7 383,68	8 045,38	8 814,27	9,56%	19,38%
4	Croatia	CROBEX	1 748,81	1 797,81	1 883,11	4,74%	7,68%
5	North Macedonia	MBI 10	3 469,03	3 664,66	3 821,61	4,28%	10,16%
6	Turkey	ISE 100	91 270,48	93 784,18	96 485,32	2,88%	5,71%
7	Slovenia	SBITOP	805,06	867,66	881,59	1,61%	9,51%
8	Poland	WIG	57 690,50	59 668,03	60 187,43	0,87%	4,33%
9	Bulgaria	SOFIX	594,46	583,87	587,81	0,67%	-1,12%
10	Slovakia	SAX	332,37	350,40	345,27	-1,46%	3,88%
11	Czech Republic	PSE	986,56	1 074,39	1 041,73	-3,04%	5,59%
12	Hungary	BUX	39 138,95	41 683,78	40 279,31	-3,37%	2,91%
13	Serbia	BELEX	1 589,35	1 593,45	1 535,29	-3,65%	-3,40%

Source: BSE, Bloomberg, own calculations



II. The banking sector in Bulgaria

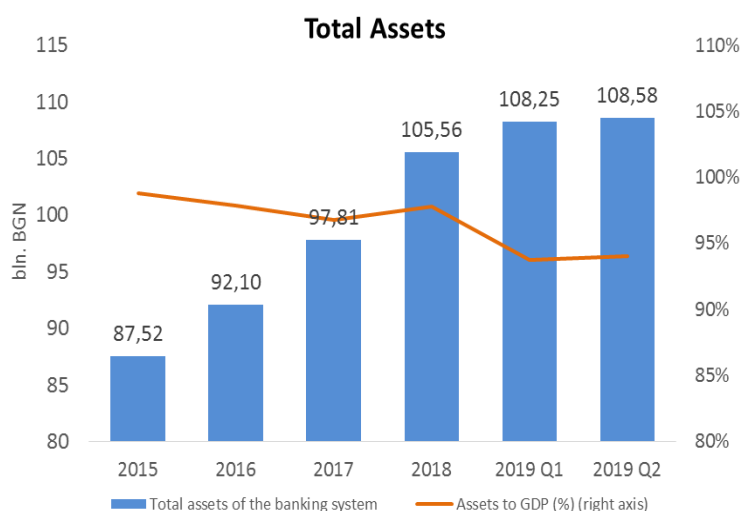
The state of the economy continued to affect the activities of the banking system. In its quarterly report „[Economic Review](#)“ the BNB pointed out that the favourable macroeconomic environment, persistently high levels of consumer confidence and comparatively low lending rates contributed to the retention of the upward trend in total loans to the non-government sector (non-financial corporations and households).

According to the BNB, deposits to the non-government sector are expected to accelerate further in the second and the third quarter of 2019 at comparatively high rate and the credit to non-financial corporations and households is also expected to increase however at weaker rates compared with current ones. The interest rates on the new deposits and loans tended to stabilize at their historically low levels.

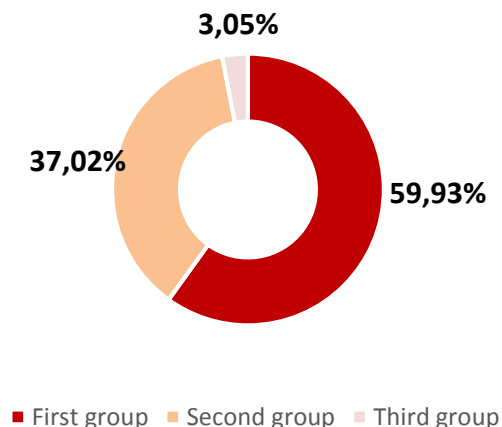
Balance sheet statement (Statement of financial position)

Assets

The growth of assets in the banking sector at the end of Q2 2019 was 8,4% on an annual basis reaching BGN 108,58 billion. The share of total assets to the projected GDP for 2019 was 94,1% as of June 2019. As of the end of Q2 2019 the market share in terms of assets of the three banking groups remained almost unchanged compared with the previous quarter.



Market share in terms of assets as of the end of Q2 2019



Source: BNB, Ministry of Finance, own calculations



As of June 30, 2019, 63% of the assets in the banking system were held in loans and receivables, totaling BGN 70,42 billion. Cash balances amounted to BGN 18,06 billion and comprised 16,6% of the assets. The share of investments in financial instruments was 12,7% (BGN 13,77 billion). For comparison, as of the end of Q1 2019 the share of loans and receivables was 63,2%, the share of the cash balances – 18,8%, and the investments in financial instruments – 12,3%. The indicator determining the level of financial intermediation in the economy – the share of loans and receivables to the forecasted GDP for 2019 – was 48,3%.

One-off effects on some balance sheet items, for example, affecting Investments in subsidiaries, joint ventures and associates, were related with some activities with the acquisition of Societe Generale Expressbank by DSK Bank. Another factor was the entry into force from the 1st of January 2019 of the new International Financial Reporting Standard 16 (IFRS 16), which resulted in an increase of the tangible assets due to accounting changes related to assets for rent.

Liabilities

The liabilities in the banking system (excluding equity) amounted to BGN 94,44 billion and rose by 7,2% compared to the end of Q2 2018. The banks in the first group comprised 59,2% of the liabilities (BGN 55,9 billion), the second group – 37,4% (BGN 35,28 billion), and branches of foreign banks – 3,4% (BGN 3,25 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 6,6% on an annual basis to BGN 91,8 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 248,7 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

The equity in the banking system decreased (by BGN 18 million, 0,1% Q-o-Q) to BGN 14,14 billion as of the end of June 2019. At the end of March 2019 the amount of equity was BGN 14,16 billion. As of the end of June 2019 the amount of equity was by 17,4% higher compared to the end of June 2018. The equity of the banks in the first group amounted to BGN 9,17 billion, and that of the second group – BGN 4,91 billion.



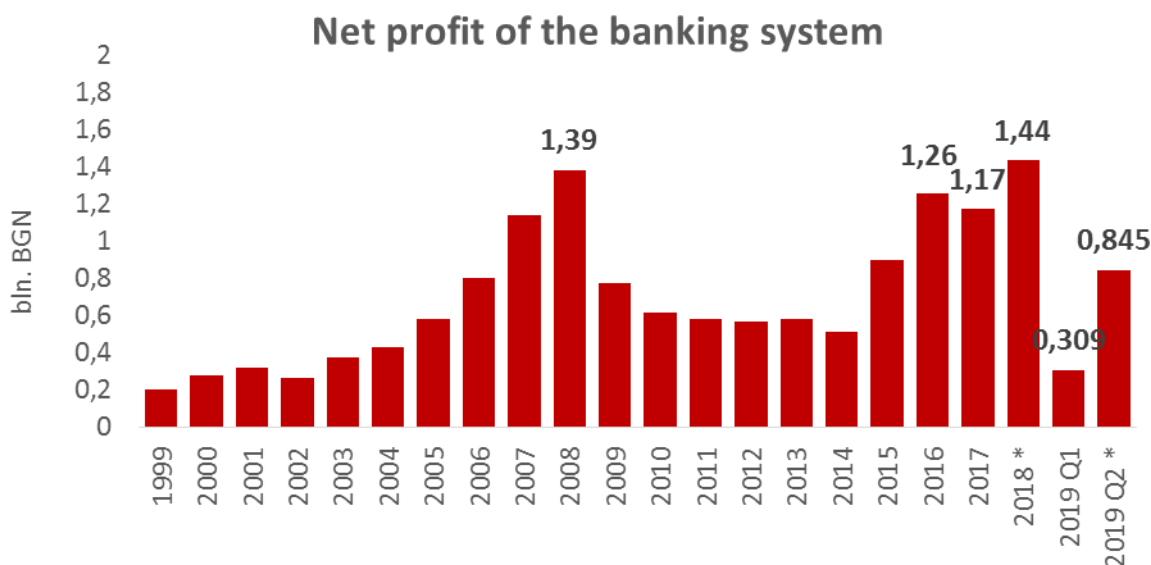
Statement of profit or loss

Net profit

In Q2 2019 the banking sector registered an increase of the net profit to BGN 608,8 million. In comparison, in Q2 2018 the net profit of the banking sector was at the amount of BGN 533,8 million.

The financial performance of the system was influenced by the higher credit activity. This affected positively the interest revenues and the revenues from fees and commissions. The higher income from financial assets, the lower level of the interest rates on liabilities, lower impairment costs, expenditure optimization as well as the better quality of the lending portfolio also influenced the profitability of the credit institutions.

Some one-off effects as income from revaluation of real estate property (at approximately BGN 73 million) influenced the net profit of the sector in Q2 2019 as well. If that effect is eliminated, it could be concluded that the net profit of the sector was practically at the amount of BGN 535,8 million in Q2 2019, growing by 0,4% on an annual basis. For the first half of 2019 the adjusted net profit was at the amount of BGN 855,9 million, increasing by 5,55% on an annual basis.



Source: BNB

Note: * Net profit excluding one-off effects

The first group of banks generated 68,8% of the net profit at the end of Q2 2019, the second group – 28,2%, and the third group – 2,9%. In comparison, as of the end of Q1 2019 the five biggest banks in terms of assets contributed by 59,9% to the net profit, the banks in the second group – by 36,7%, and the third group – by 3,5%.



Net interest income

As of the end of June 2019 the net total operating income of the banking system was at the amount of BGN 2,13 billion compared to BGN 2 billion as of the end of Q2 2018. It rose by 6,8% on an annual basis.

The net interest income of the banks increased by 2,4% on an annual basis to BGN 1,38 billion as of the end of June 2019.

The net interest income is the difference between the interest income and the interest expenses. As of June 30, 2019 the interest income rose by 1,7% Y-o-Y to BGN 1,523 billion. The interest expenses were at the amount of BGN 143,1 million, which was by 4,6% lower on an annual basis.

The net interest income comprised 64,7% of the net total operating income of the banking system at the end of Q2 2019. For comparison, the share of the net interest income was 58,2% of the total operating income in the EU, according to the EBA data as of the end of Q1 2019.

Net income from fees and commissions

As of the end of Q2 2019 the net income from fees and commissions grew by 5,2% Y-o-Y to BGN 544,9 million.

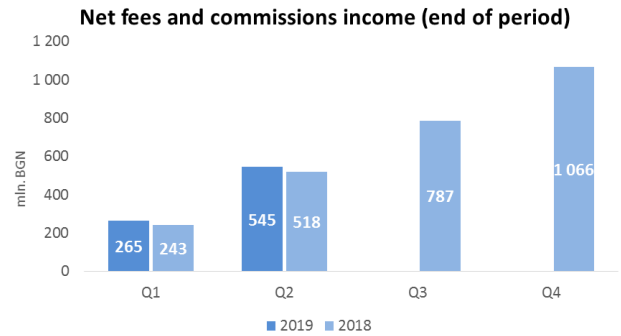
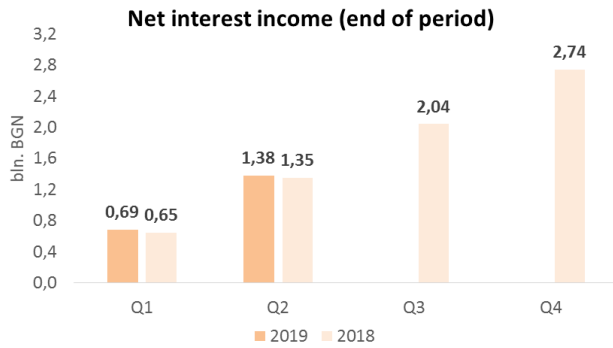
In the period January-June 2019 the income from fees and commissions rose by 7,5% on an annual basis to BGN 646 million, and the expenses related with fees and commissions – by 21,4% reaching BGN 101 million.

The income from fees and commissions made up 25,6% of the net total operating income of the system as the share of fees was closer to the EU average, which was 28,2%, according to the EBA data for the first quarter of 2019.

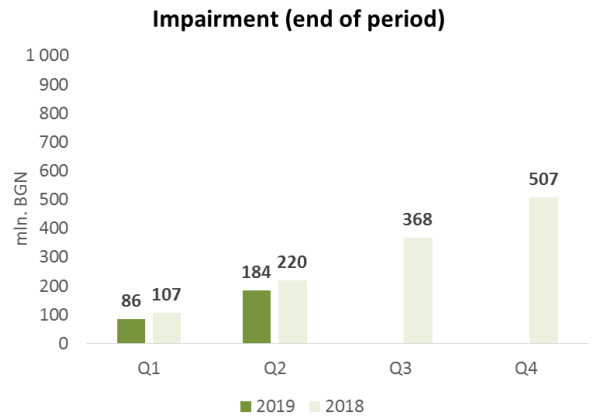
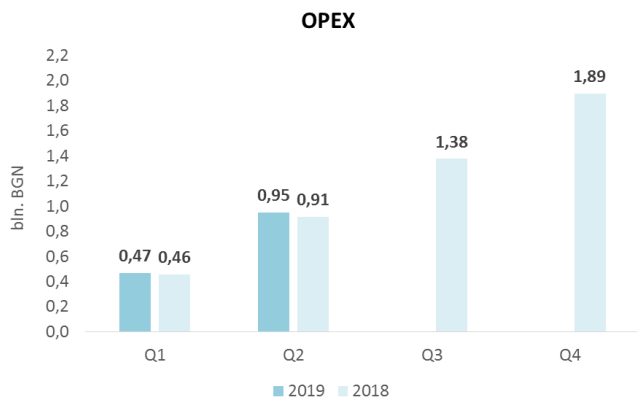
Operating expenses and impairments

As of the end of Q2 2019 the administrative expenses, which include overhead expenses, were by 0,8% lower compared to the same period of 2018 as they reached BGN 820,1 million. The total operating expenses, as a sum of the administrative expenses and depreciation, increased by 4% on an annual basis to BGN 948,5 million. The banking system made less impairments in comparison with the same period in the previous year due to the tendency for a drop in the level of non-performing loans. The impairments have dropped by 16,5% Y-o-Y to BGN 183,9 million.

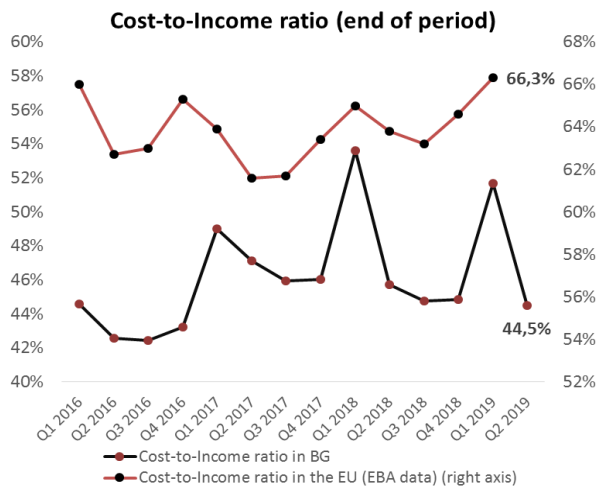
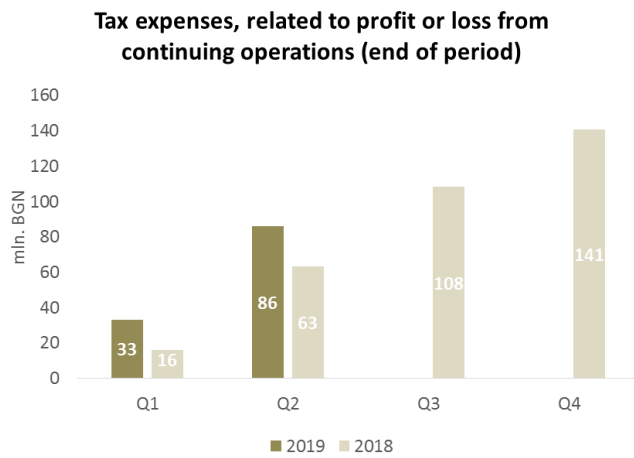
As of the end of Q2 2019 Cost-to-Income ratio for the banking system decreased to 44,5% from 51,7% as it was at the end of Q1 2019. According to the EBA data, the average Cost-to-Income ratio in the EU was 66,3% as of the end of Q1 2019.



Source: BNB, own calculations



Source: BNB, own calculations



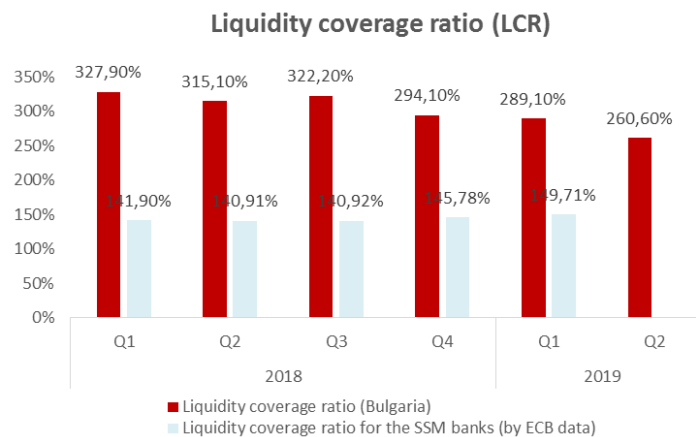
Source: BNB, own calculations



Financial indicators

Liquidity

As of the end of June 2019 the liquidity buffer and the net liquidity outflows were respectively BGN 27,8 billion and BGN 10,7 billion, according to the BNB data. The liquidity coverage ratio (LCR) was 260,6% compared to 289,1% as of the end of March 2019. According to the ECB data, as of the end of Q1 2019 the LCR for the banks in the Single Supervisory Mechanism was 149,71%.



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 Q1 2019 the common equity tier 1 (CET 1) of the banking system declined to 17,88% from 18%, as it was at the end of Q4 2018. For the first group of banks the level of the indicator dropped to 17,67% from 19,02%, and for the second group – to 18,21% from 18,94%.

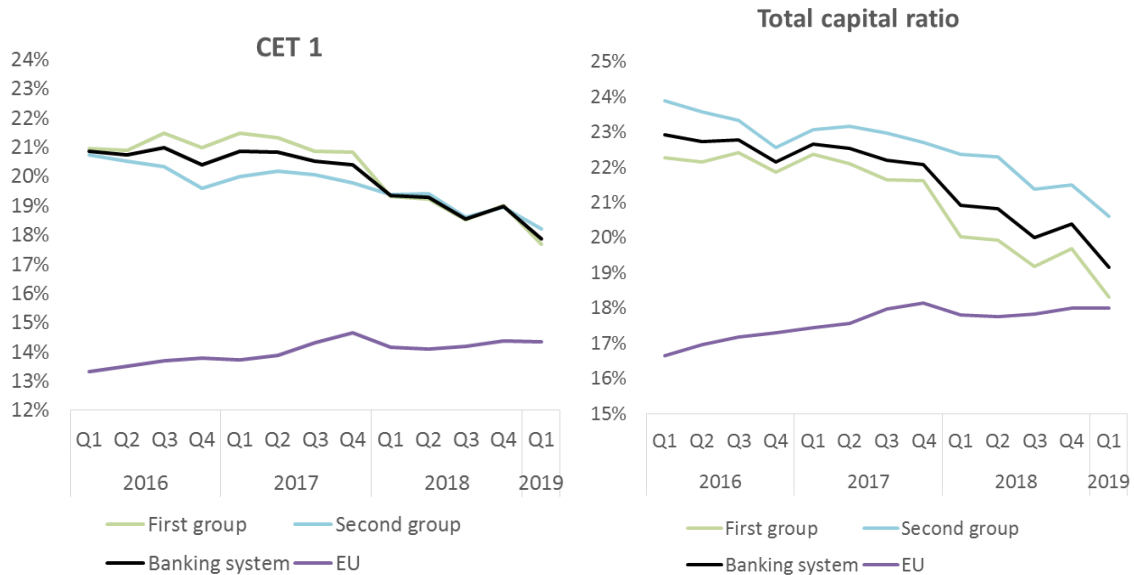
On a systemic level the total capital ratio for the Bulgarian banking system decreased to 19,17% from 20,38%. As of the end of March 2019 its level for the banks in the first group was 18,31% and 20,6% for the banks in the second group compared to 19,7% and 21,49%, respectively, a quarter earlier.

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) as of the 1st of January 2019, accounting changes, changes in the total amount of the risk exposures as well as in the total equity.

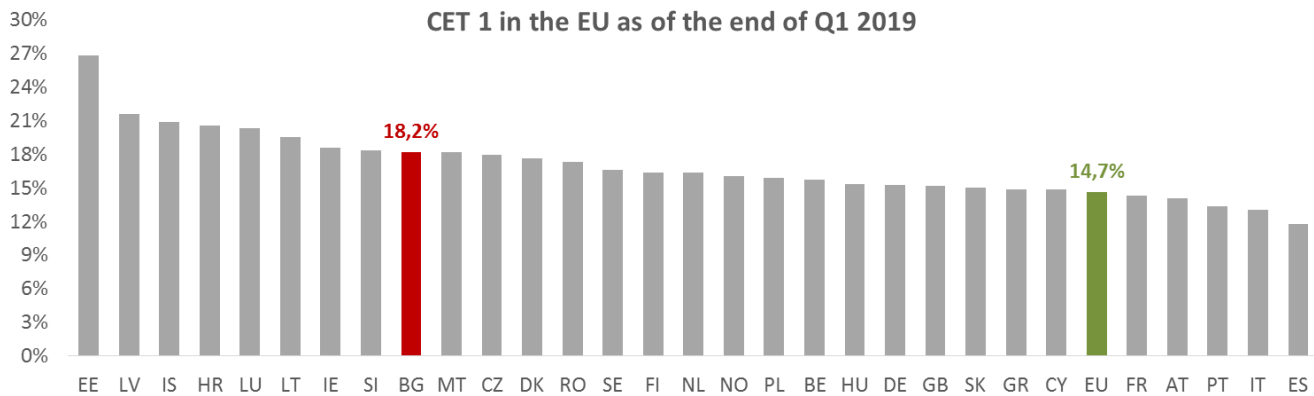
The level of the indicators for the capital adequacy for the banks in Bulgaria is above the average level reported by the European banks which, according to the ECB data, was respectively for CET 1 – 14,34% and for the total capital ratio – 17,99% as of the end of March 2019.



Higher capital requirements are applied as of the beginning of this year. Since the beginning of 2019 an increase of the buffer for Other Systemically Important Institutions (O-SIIs) between 0,25% and 0,75% on individual basis for the banks defined as O-SIIs is foreseen. The activation of the counter-cyclical capital buffer as of October 2019, which is going to be set at the level of 0,5% and the announced increase to 1% as of April 2020 are also going to influence the capital indicators of the system.



Source: BNB, ECB



Source: EBA

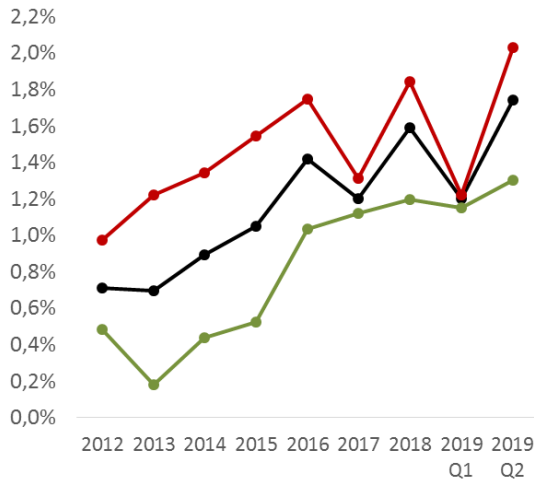
Profitability

As of June 30, 2019 the Return on Assets (ROA) was 1,74% compared to 1,2%, recorded as of March 31, 2019 (the average for the European banks was 0,38%, according to the ECB data for Q1 2019). The value of the indicator was 2,03% for the banks in the first group and 1,3% for the banks in the second group as of the end of June 2019.

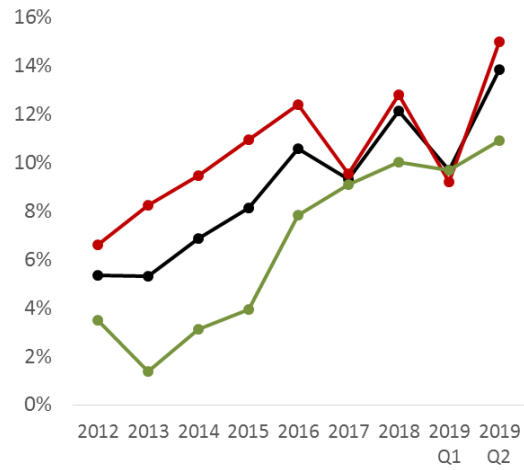


The Return on Equity (ROE) was 13,84% as of the end of Q2 2019 compared to 9,67% as of the end of the first quarter (according to the ECB data the average ROE for the European banks was 5,76% as of the end of Q1 2019). For the banks falling in the first group of in Bulgaria the ratio was 14,98% and for those in the second group – 10,89%, as of the end of Q2 2019.

ROA by banking groups



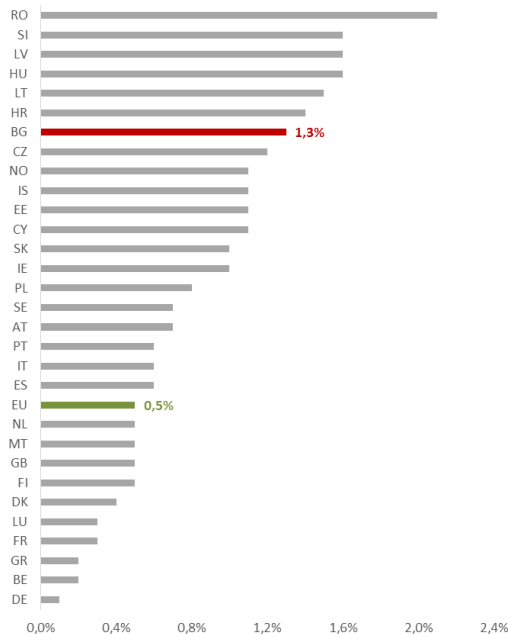
ROE by banking groups



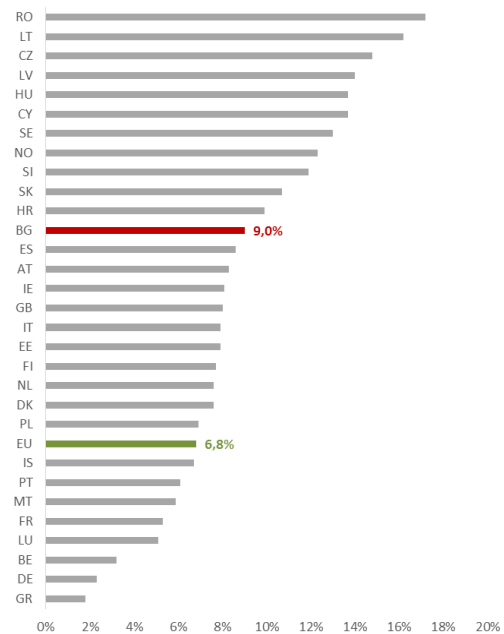
— Banking system — First group — Second group — Banking system — First group — Second group

Source: BNB, own calculations

ROA in the EU as of the end of Q1 2019



ROE in the EU as of the end of Q1 2019



Source: EBA

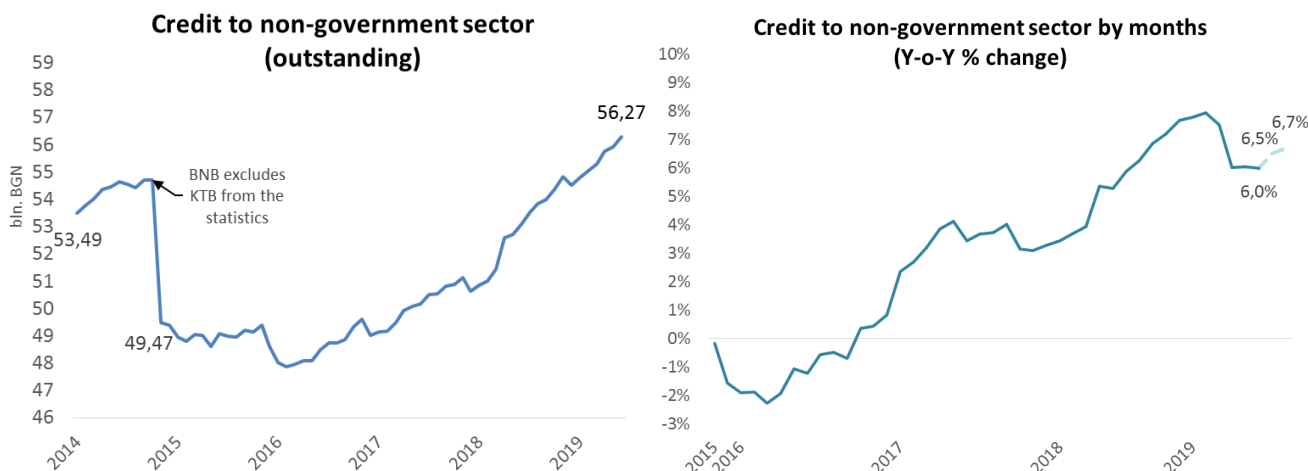


Loans and deposits

In Q2 2019 the credit growth was higher for the households. As for the non-financial corporations, the highest increase in the lending amounts was reported for the real estate activities, manufacturing and accommodation and food service activities (according to the BNB data as of March 2019).

In its quarterly issue „[Economic Review](#)“ the BNB expects the credit to the non-government sector to increase further, though at a weaker rate. According to the BNB, credit growth is going to be supported by the low interest rates. However, the factors that are going to limit credit growth are associated with the expected lower growth rate of domestic demand, continued government repayments on the loans on the National Programme for Energy Efficiency of Multi-family Residential Buildings and the decreased amounts of new loans under this programme together with the exhausted one-off effect of the new reporting unit which was included in the scope of monetary statistics.

As of the end of June 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 56,27 billion from BGN 55,28 billion as it was at the end of the previous quarter.



Source: BNB, own calculations
Forecast: BNB, March 2019

As of the end of Q2 2019 the share and the amount of non-performing loans continued to decline. As of June 30, 2019 the amount of non-performing loans (excluding Central Banks and Credit Institutions) declined to BGN 4,366 billion. The share of non-performing loans in the banking system dropped to 6,91% from 7,17%, as of the end of March 2019, according to the calculations based on the data of the BNB Banking Supervision Department. That share has been the lowest since 2009.

The share of non-performing loans to non-financial corporations declined to 7,85%, compared to 8,33% at the end of the first quarter of 2019. The share of non-performing housing loans dropped to 5,11% from 5,46% in the previous quarter. For the same period the ratio in the



segment of consumer loans increased to 6,59% from 6,53% as of the end of Q1 2019. The share was lower compared to the same period of the previous year (7,24% as of the end of June 2018).

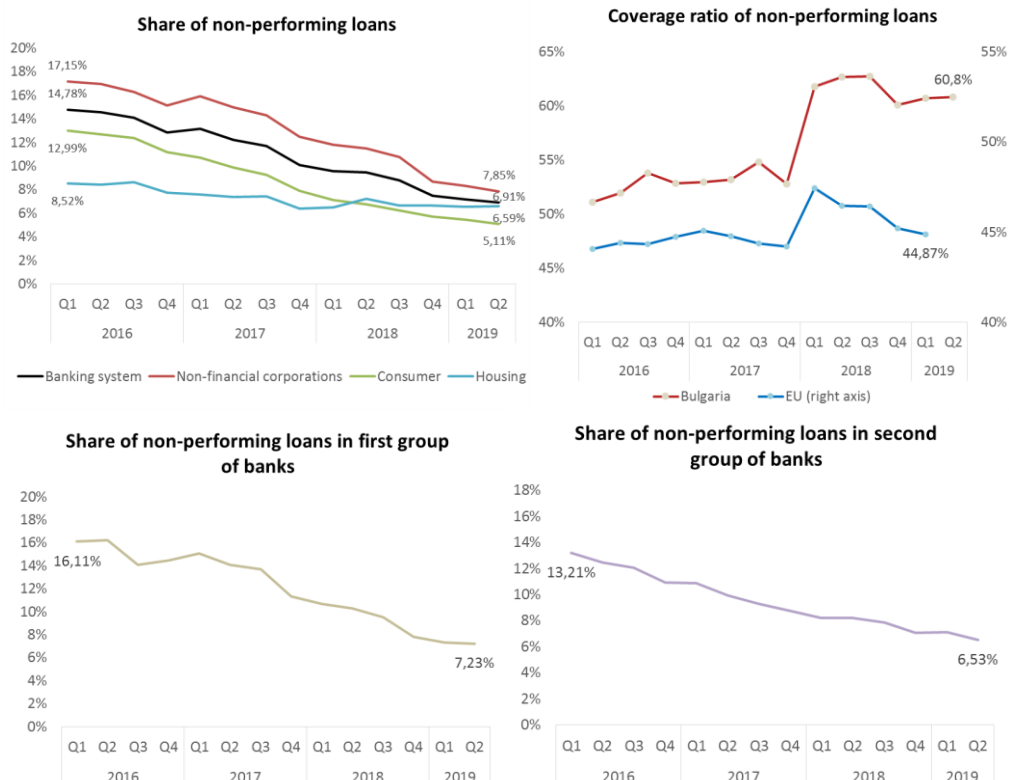
As of the end of June 2019 the level of non-performing loans to non-financial corporations declined to BGN 2,816 billion from BGN 2,947 billion a quarter ago. In the segment of housing loans the amount dropped to BGN 593,6 million from BGN 615,2 million a quarter earlier. The non-performing consumer loans were at the level of BGN 787,2 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 for the EU countries. This is a typical trait for the Bulgarian banking system.

The impairment coverage ratio of gross non-performing loans in the Bulgarian banking system was 60,8% as of the end of Q2 2019 compared to 60,7% a quarter earlier. In comparison, the coverage ratio for the European banks, according to the ECB data for Q1 2019 was 44,9%.

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 3,199 billion or 3,7% of the net total amount of loans and receivable (compared to 3,8% at the end of March 2019).

The level of non-performing gross loans reported by the banks in the first group declined to 7,23% as of the end of the second quarter of 2019 compared to 7,32% a quarter earlier. The level for the banks in the second group dropped to 6,53% from 7,1% as of the end of Q1 2019.

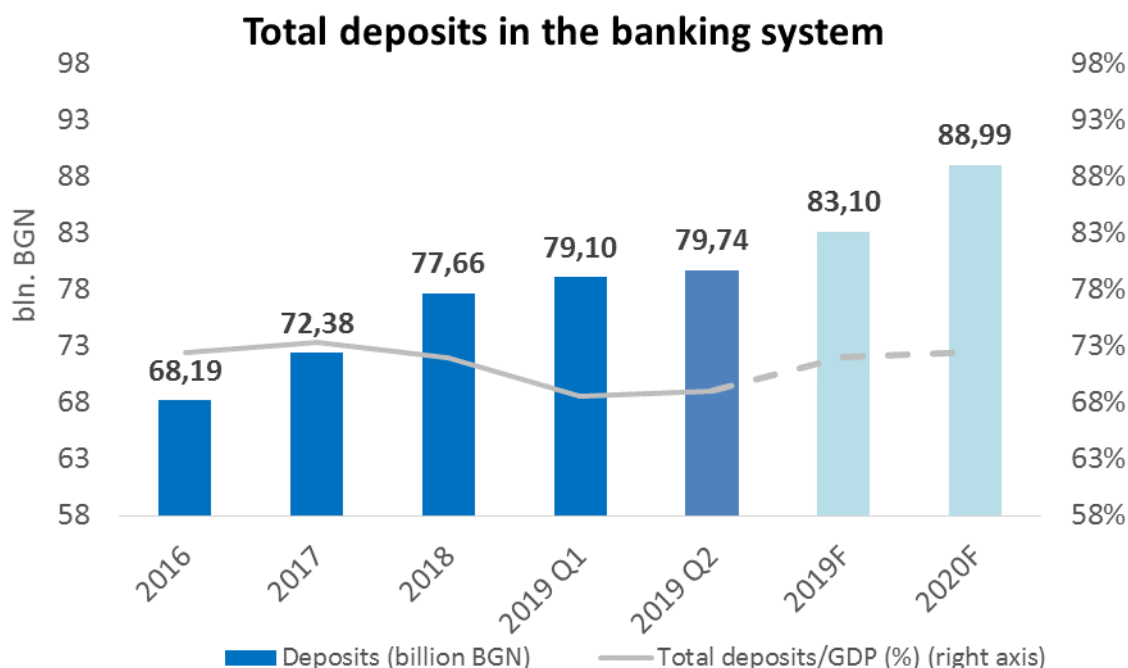


Source: BNB, ECB, own calculations



Deposits, attracted by the banks, continued to grow. As of the end of June 2019 the total amount of the outstanding deposits in the banking system reached BGN 79,74 billion (69,1% of GDP) as an annual growth of 7,2% was recorded, despite the low interest rate levels. The deposits' growth was slower compared to the growth of 9,3% which was reported at the end of March 2019.

In its quarterly report „[Economic Review](#)“ the BNB foresees that in the second and the third quarter of 2019 deposits of the non-government sector are expected to accelerate further at comparatively high rates, in the context of rising labour income and corporate profits amid a heightened uncertainty stemming from the external environment, and the lack of a sufficiently safe alternatives to bank savings.



Source: BNB, own calculations

Forecast: BNB, Ministry of Finance

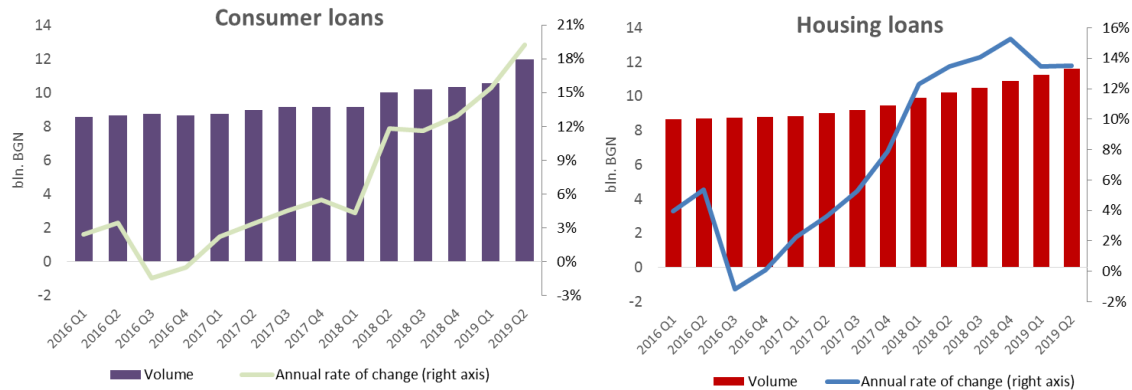
Loans and deposits to households

As of the end of June 2019, according to the data of the BNB Banking Supervision Department, the amount of consumer loans was BGN 11,95 billion compared to BGN 10,55 billion a quarter earlier and BGN 10,02 billion a year earlier. According to the BNB, in the second quarter of 2019, there was a significant increase in credit for consumption owing to a correction in relation to the scope and manner of its presentation. In Q2 2019 the amount of consumer loans grew by 13,3% on a quarterly basis (according to the data from the BNB's Banking Supervision Department).

The amount of housing loans, according to the data of the BNB Banking Supervision Department, was BGN 11,62 billion compared to BGN 11,26 billion as of the end of Q1 2019



and BGN 10,23 billion as of the end of the second quarter in the previous year. The annual increase was by 13,5%, remaining unchanged in comparison with the growth in the first quarter of 2019. The quarterly increase was by 3,1%.

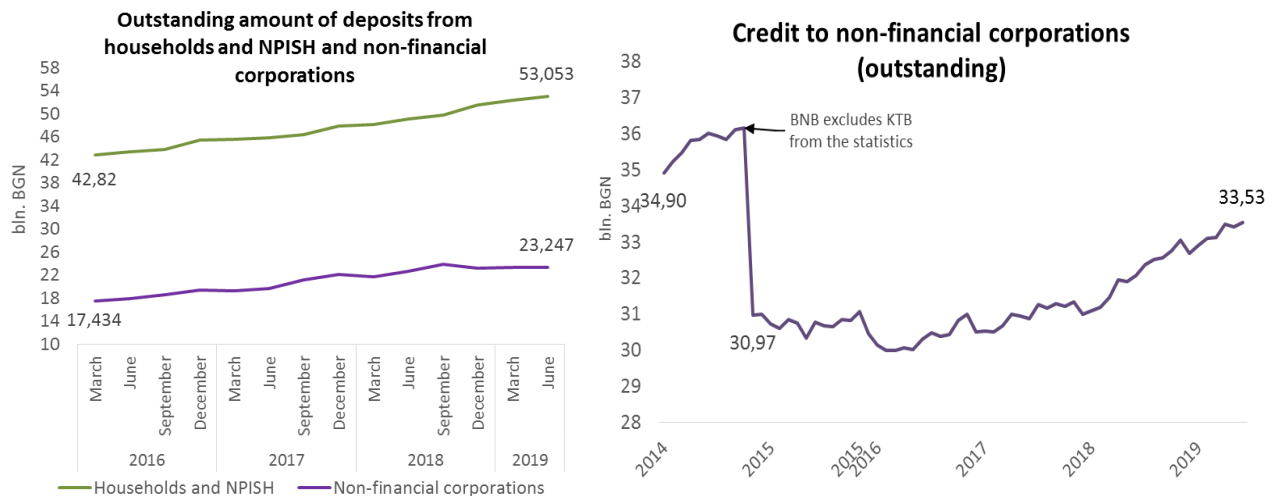


Source: BNB, Banking Supervision Department data, own calculations

As of the end of June 2019 the total amount of deposits to households and NPISH recorded a growth rate of 8,2% compared to 8,9% at the end of Q1 2019. Deposits from households were BGN 53,05 billion as they made up 46% of GDP. The share of the household sector in the total amount of deposits in the banking system was 66,5%.

Loans and deposits from non-financial corporations

As of June 30, 2019 the outstanding amount on deposits from non-financial corporations increased by 2,4% Y-o-Y (in comparison with the rise of 7,8% as of the end of March 2019) to BGN 23,25 billion (20,1% from GDP). The outstanding amount on loans to non-financial corporations grew by 4,6% Y-o-Y to BGN 33,53 billion. Except overdrafts, loans to non-financial corporations grew by 5,1% on an annual basis, reaching BGN 22,05 billion in absolute terms.



Source: BNB, Monetary statistics



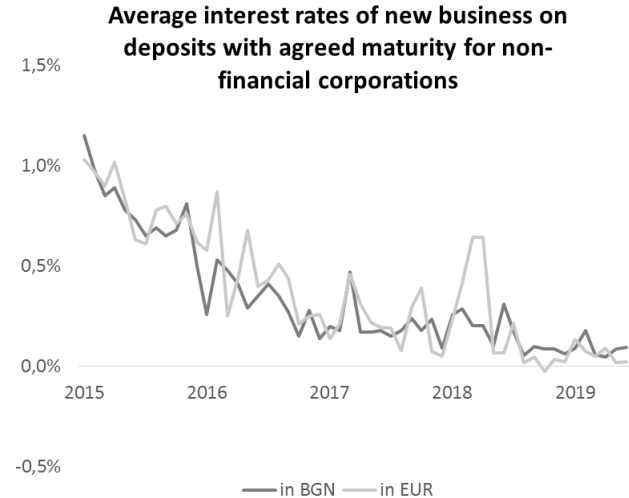
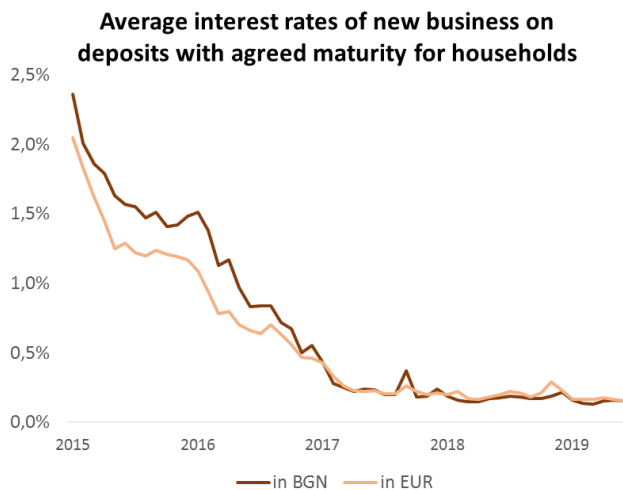
Interest rates

In its quarterly report „[Economic Review](#)“ the BNB foresees unchanged interest rate levels on new deposits and loans in the second and in the third quarter of 2019. According to the BNB, the main factors will be the expectations about changes in the interest rate cycle in the euro area, according to the decisions, taken by the ECB Governing Council, the high liquidity and the competition in the banking sector in Bulgaria.

Interest rates on deposits

As of the end of Q2 2019 the average interest rates on deposits with agreed maturity to non-financial corporations on new business in BGN rose to 0,09% from 0,06% as they were at the end of March 31, 2019. Regarding the interest rates in EUR a drop by 3 basis points to 0,02% was recorded from 0,05% as of the end of March 2019.

As of June 2019 deposits with agreed maturity on new business in BGN to households increased on a quarterly basis to 0,15% compared to 0,13% at the end of March 2019. The interest rate levels on deposits with agreed maturity on new business in EUR remained unchanged at 0,16% compared to the end of Q1 2019.



Interest rates on loans

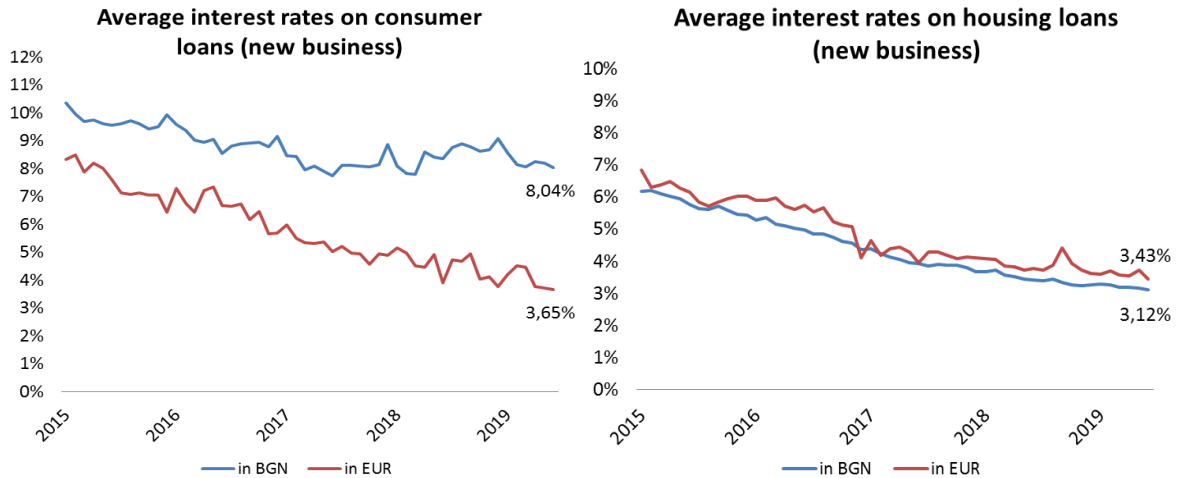
The interest rates on loans for households and non-financial corporations retained their low values, reached in the recent quarters, declining slightly in Q2 compared to Q1 2019.

As of the end of Q2 2019 the average interest rates on housing loans declined to 3,12% for the loans agreed in BGN compared to 3,19% a quarter earlier. The average interest rates on housing loans in EUR reached 3,43% compared with 3,58% a quarter earlier.

As of the end of June 2019 the average interest rates on consumer loans agreed in BGN



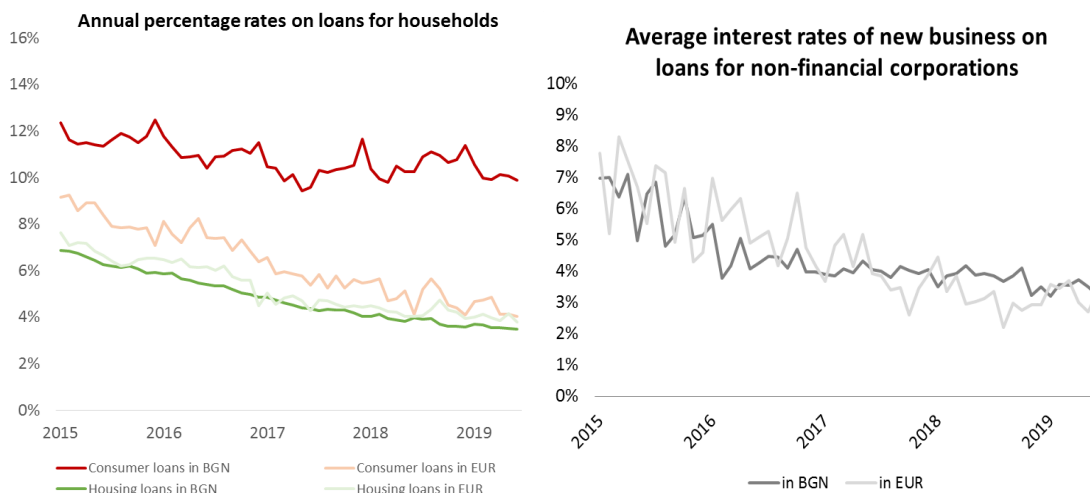
decreased to 8,04%, compared to 8,07% at the end of the first quarter of 2019. The interest rates on consumer loans agreed in EUR decreased to 3,65% as of the end of June 2019 in comparison with 4,46% three months earlier.



Source: BNB

As of the end of June 2019 the annual percentage rate (APR), which includes the interest rate component and the component of all other fees and commissions, dropped to 3,48% for housing loans in BGN and to 3,79% for housing loans in EUR from 3,54% and 3,98%, respectively, a quarter earlier. The level of the APR on consumer loans was 9,89% and 4,02%, respectively, for loans in BGN and in EUR, compared with 9,91% and 4,85% three months earlier.

The average interest rates on new business on loans to non-financial corporations dropped to 3,25% for loans in BGN and to 3,29% for loans in EUR compared to 3,55% and 3,68%, a quarter earlier. There was no change in the level of the interest rates for the loans to non-financial corporations agreed in US dollars, remaining at 4,35%.



Source: BNB



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All historical rates, statistical data and graphs are up to date, up to and including August 5, 2019, unless otherwise stated.

The views provided are those prevailing as of August 5, 2019.