



THE ECONOMY AND THE BANKING SECTOR IN BULGARIA

FOURTH QUARTER OF 2019



SOFIA



HIGHLIGHTS

- The Bulgarian economy recorded growth of 3,1% on an annual basis in Q3 2019, mainly driven by consumption and net export;
- The inflation stood at 2,3% year-on-year in Q4 2019;
- As of the end of Q4 2019 the unemployment in Bulgaria continued its decline and stood at the historically low level at 3,8%;
- The budget deficit was 0,97% of GDP as of the end of Q4 2019;
- As of the end of Q4 2019 the total assets of the banking system continued their growth and were at the amount of BGN 114,2 billion, or 96,3% of GDP;
- In Q4 2019 the net profit of the banking sector was BGN 404,7 million (recording a decline of 11,7% on an annual basis) due to the unchanged net interest income and slower growth of the net income from fees and commissions;
- The higher lending growth, the low interest rates, the lower impairments, the better quality of the credit portfolio as well as some one-off effects influenced the financial result of the sector;
- In Q4 2019 the credit growth was higher for the households. Regarding the non-financial corporations (as of September 2019), the highest increase in lending was reported for the following sectors: information and communication, education, accommodation and food service activities, real estate activities and mining;
- The average interest rates on new loans and on new deposits with agreed maturity retained their historically low levels.



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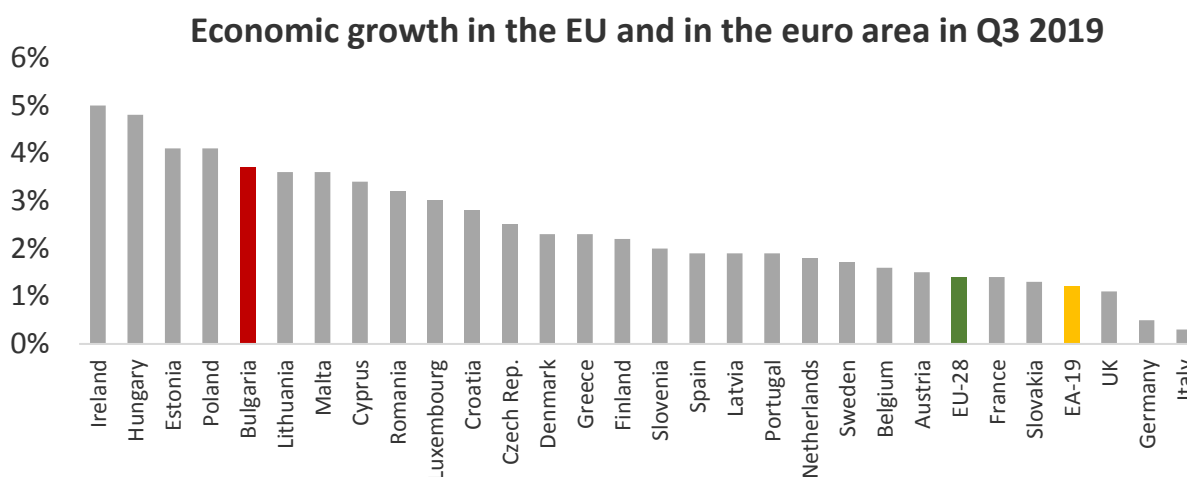
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I. The Bulgarian economy

Economic growth

In Q3 2019 the Bulgarian gross domestic product (GDP) recorded real growth of 3,1% 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 July-September 2019 was 1,4% 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)

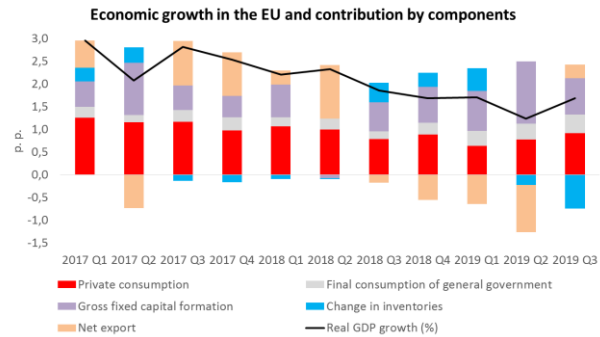
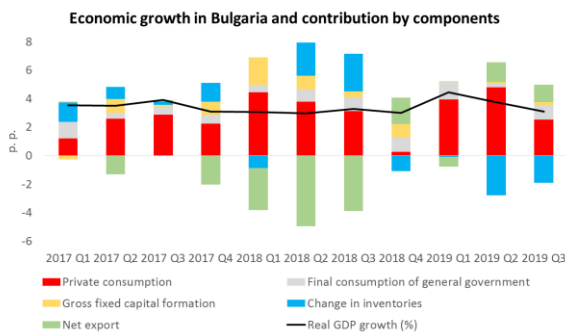
Note: GDP of Bulgaria grew by 3,7% on an annual basis, according to the seasonally and calendar adjusted data

According to the preliminary data of the NSI, the economic growth in Q3 2019 was driven by the private consumption and net export.

In the observed period the growth of the private consumption, which includes the consumption of the households and non-profit institutions, serving households (NPISH), slowed down to 4,4% on an annual basis and contributed to the yearly GDP growth by 2,5 percentage points (p.p.) compared to the registered contribution of 4,8 p.p. in Q2 2019. The final consumption of the general government, which grew by 6,1% Y-o-Y, contributed by 1,1 p.p. compared to 0,3 p.p. a quarter earlier.

In Q3 2019 the growth of the gross fixed capital formation increased again by 0,9% on an annual basis. In Q3 2019 the contribution of the business investments to the GDP was 0,2 p.p. compared to 0,1 p.p. three months earlier. The contribution of inventories was negative (-1,9 p.p.) for fourth consecutive quarter.

In Q3 2019 the export of goods and services increased by 3% on an annual basis compared with the drop of 3% Y-o-Y three months earlier. Import dropped by 0,2% on an annual basis compared with the decline of 5,1% Y-o-Y in Q2 2019. The contribution of the net export had a positive effect on the GDP growth by 1,2 p.p. The trade balance was well balanced compared with the trade deficit of 0,5% as of the end of the previous quarter.



Source: Eurostat, own calculations

In comparison, the GDP growth in the EU in Q3 2019 was driven mainly by the private consumption and business investments. The net export has had a positive contribution for the GDP growth for the first time after four consecutive quarters with negative contribution.

Different national and international organization and institutions forecast that the economic growth in Bulgaria is going to vary between 3,4% and 3,7% in 2019 and may slow down between 3% and 3,6% in 2020.

Key indicators for the Bulgarian economy

	2011	2012	2013	2014	2015	2016	2017	2018	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2019	2019F	2020F	2021F	2022F
Gross domestic product																	
GDP (mln. BGN)	80 682	82 209	81 919	83 857	89 333	95 092	102 308	109 695	24 860	29 534	31 764	-	-				
GDP (real Y-o-Y growth, %)	2,4	0,4	0,3	1,9	4,0	3,8	3,5	3,1	4,5	3,8	3,1	-	-				
GDP (real Y-o-Y growth, %) - forecasts												MF (October 2019)		3,4	3,3	3,3	3,3
												BNB (August 2019)		3,7	3,6	3,4	-
												IMF (November 2019)		3,7	3,2	3	-
												WB (January 2020)		3,6	3	3,1	3,1
												EC (November 2019)		3,6	3	2,9	-
												EBRD (November 2019)		3,7	3	-	-
Total final consumption	2,6	2,3	-2,0	2,3	3,4	3,2	3,9	4,6	6,5	6,1	4,7	-	-				
Private consumption (of Households and NPISH)	2,6	3,3	-2,6	2,9	3,8	3,5	3,8	4,4	6,4	7,4	4,4	-	-				
Final consumption of general government	2,3	-1,8	0,7	-0,1	1,8	2,2	4,3	5,3	6,9	1,4	6,1	-	-				
Gross fixed capital formation	-4,4	1,8	0,5	3,5	2,7	-6,6	3,2	5,4	0,2	0,9	0,9	-	-				
Export of goods and services	12,6	2,0	9,6	3,1	6,4	8,6	5,8	1,7	2,6	-3,0	1,8	-	-				
Import of goods and services	9,9	5,6	4,3	5,2	4,8	5,2	7,4	5,7	3,7	-5,1	-0,2	-	-				
Trade balance/GDP (%)	-6,5	-9,5	-7,0	-6,5	-5,8	-2,0	-1,5	-3,4	-0,5	-0,5	0	-	-				
Foreign direct investments in Bulgaria (mln. EUR)	1476,3	1320,9	1383,7	347,4	2000,9	927,2	1618,9	537,1	70,5	531,8	812,2	-	-				
Foreign direct investments/GDP (%)	3,6	3,1	3,3	0,8	4,4	1,9	3,1	1	0,1	0,9	1,3	-	-				
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	2,2	2,3	2,5				

Source: NSI, Eurostat, Bulgarian National Bank

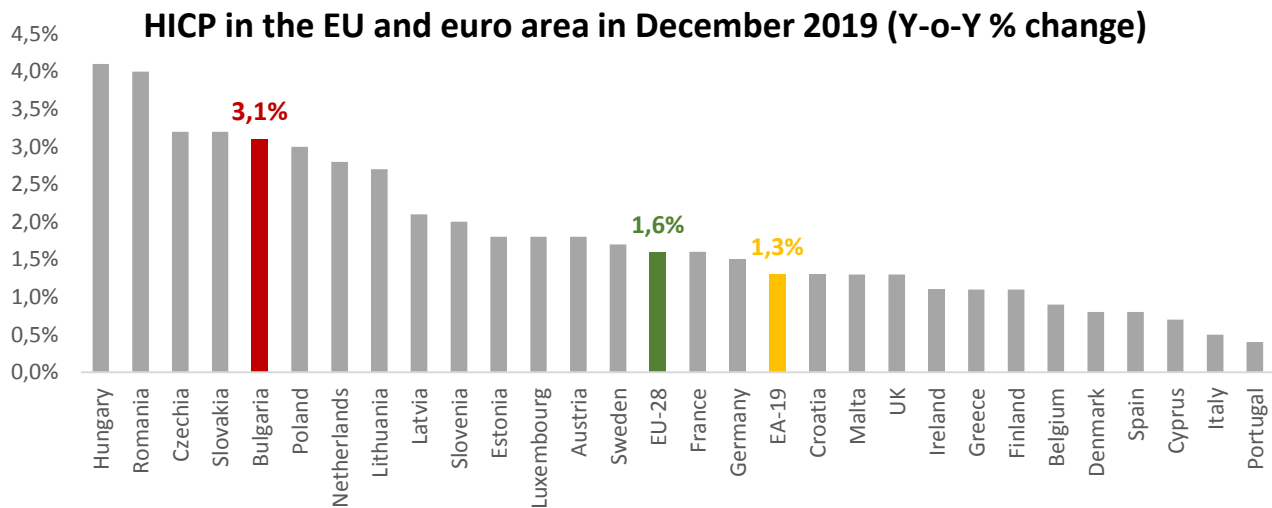
Forecasts: Bulgarian National Bank, Ministry of Finance, International Monetary Fund, World Bank, European Commission, European Bank for Reconstruction and Development



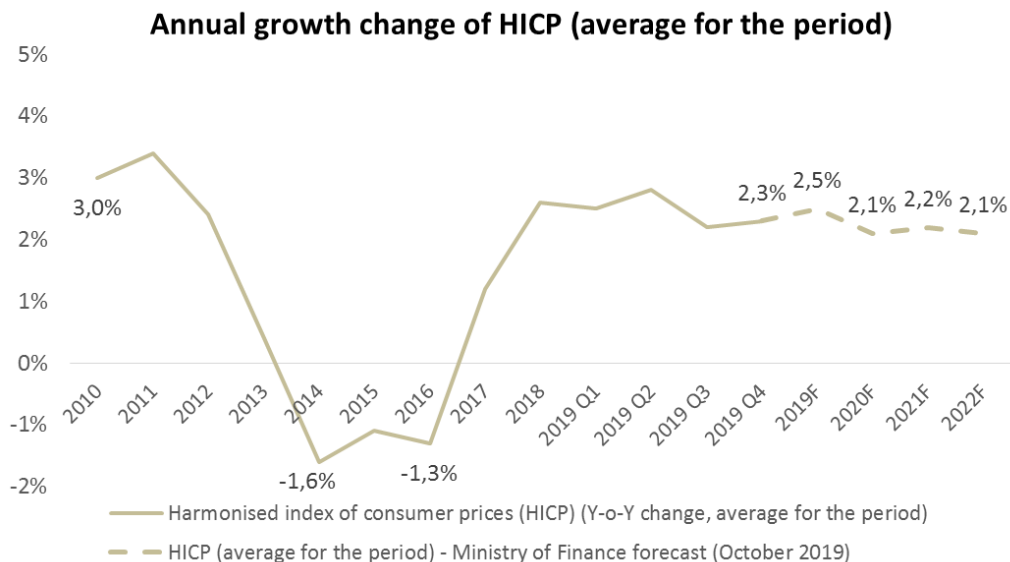
Inflation

In Q4 2019 the harmonized index of consumer prices (HICP) increased by 2,3% on an annual basis compared to 2,2% Y-o-Y in Q3 2019. In December 2019 inflation in Bulgaria stood at 3,1% Y-o-Y. It was higher than the average for the EU (1,6%) and the euro area (1,3%). In December 2019 Bulgaria ranked fifth regarding the increase of HICP in the EU.

In its regular [Monthly Report on Bulgarian Economy](#) the Ministry of Finance (MF) notes that in the final months of the year food, services and the increase of energy prices had the highest contribution for the overall HICP. For the period 2020-2022 the MF forecasts a level of inflation of 2,1-2,2%.



Source: Eurostat



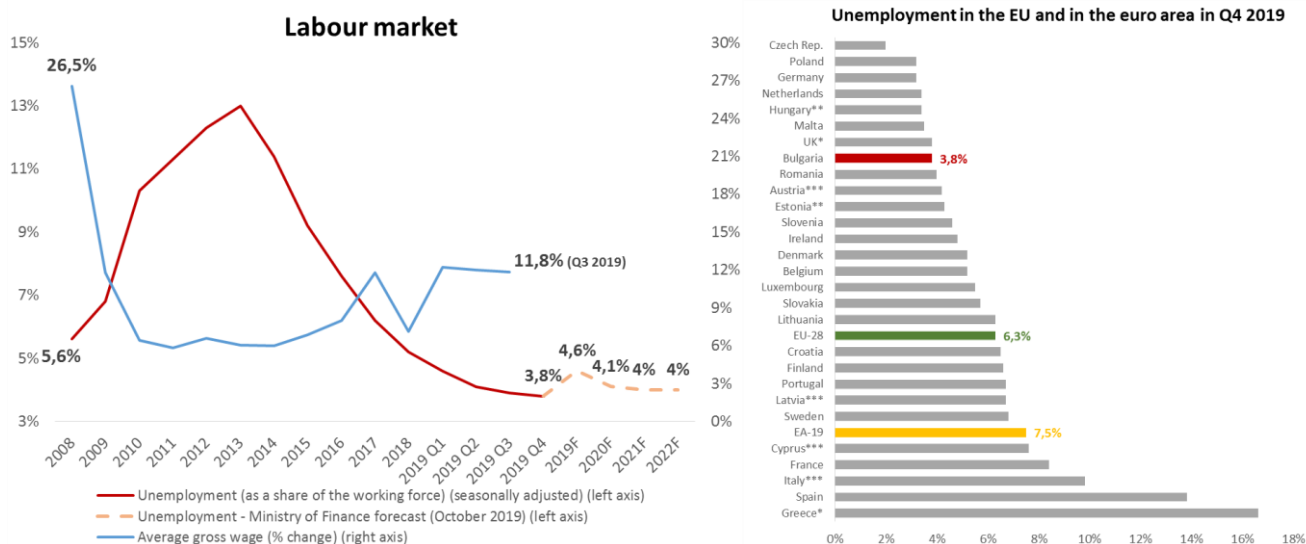
Source: NSI, Eurostat, Ministry of Finance



Labour market

In Q4 2019 the level of unemployment, measured as a share of the working force, decreased to 3,8% from 3,9% as it was at the end of Q3 2019. The unemployment in the country was lower than the EU average. In the period Bulgaria was ranked 8th amongst the EU Member States with the lowest unemployment rate and fourth amongst the countries in the Central and Eastern European (CEE) region. As of the end of Q4 2019 the number of unemployed in Bulgaria declined to 126 thousand from 131 thousand a quarter ago and from 161 thousand a year ago.

The level of the unemployed young people (under 25 years) decreased to 7% as of the end of Q4 2019 compared to 7,5% three months earlier. At the end of Q4 2019 the average level of the youth unemployment in the EU was 14,4%, as the higher share of unemployed young people was reported in Greece, Italy and Spain.



Source: Eurostat, Ministry of Finance, NSI

Note: * October 2019 ** November 2019 *** December 2019

Key indicators for the Bulgarian economy

	2011	2012	2013	2014	2015	2016	2017	2018	2019 Q1	2019 Q2	2019 Q3	2019 Q4
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	4,6	4,1	3,9	3,8
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	3 262,8	3 299,2	-
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	67,2	71,8	-
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	2 174	1 973	-

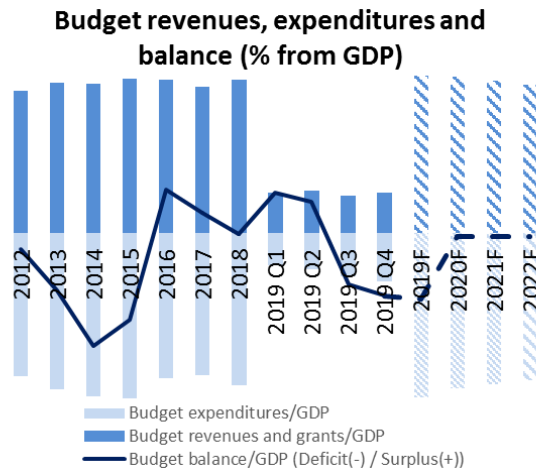
Source: Eurostat, Ministry of Finance, NSI, ECB



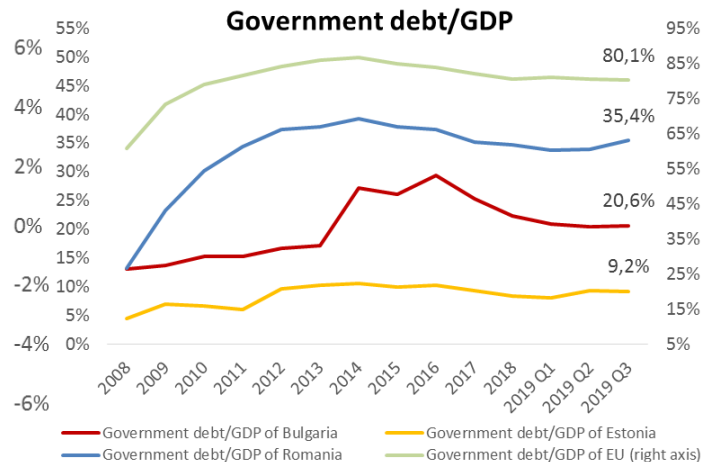
Public sector

According to the MF preliminary data, as of the end of December 2019 the state budget had a negative balance of BGN 1,148 billion. The deficit on the Consolidated Fiscal Programme equaled to 0,97% of the forecasted GDP. For January 2020 the MF forecasted a surplus of BGN 841,3 million (0,7% of the forecasted GDP).

The amount of the budget revenues and grants according to the Consolidated Fiscal Programme for the period October-December 2019 was BGN 11,25 billion (9,5% of GDP). Compared to the same period last year, the tax and the non-tax revenues grew by 7,3% on an annual basis. In the fourth quarter of 2019 the expenditures on the consolidated fiscal programme (including the EU budget contribution of Bulgaria) amounted to BGN 13,66 billion (11,5% of GDP). As of 31st of December 2019, the fiscal reserve totaled BGN 8,8 billion.



Source: Ministry of Finance, Eurostat



The share of the government debt to GDP increased to 20,6% as of the end of Q3 2019 compared to 20,4% at the end of Q2 2019. Bulgaria ranks third among the countries with the lowest government debt after Estonia (9,2%) and Luxemburg (20,2%). The government debt to GDP ratio for Bulgaria is below the EU average, which was 80,1% as of the end of Q3 2019. According to the forecasts of the MF the debt-to-GDP ratio for Bulgaria is expected to continue its decrease and to reach 19,8% at the end of 2020, to decrease to 19,5% at the end of 2021 and to register a further drop to 18,2% at the end of 2022.

The Long-term Interest Rate for Convergence Assessment Purposes (LTIR) increased to 0,18% as of the end of December 2019. For comparison, as of the end of December 2019 the LTIR in Romania was 4,57%, in Poland – 2,03%, in Hungary – 1,88%, in Croatia – 0,59%, and in the Czech Republic – 1,51%. 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

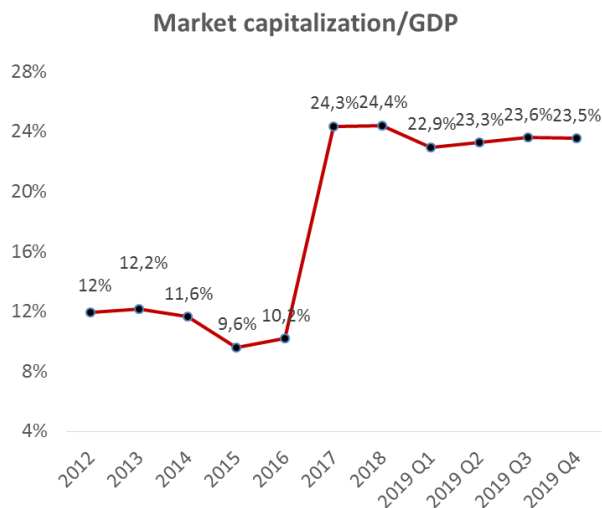
As of the end of December 2019 the main indices on the Bulgarian Stock Exchange (BSE) changed as follows: SOFIX dropped by 0,4%, BGBX40 decreased by 1,4%, BGREIT rose by 1,5%, and BGTR30 increased by 1,8%, compared to the end of Q3 2019.

In Q4 2019 the Bulgarian index SOFIX is the only index that recorded a drop among the major stock market indices in the CEE region.

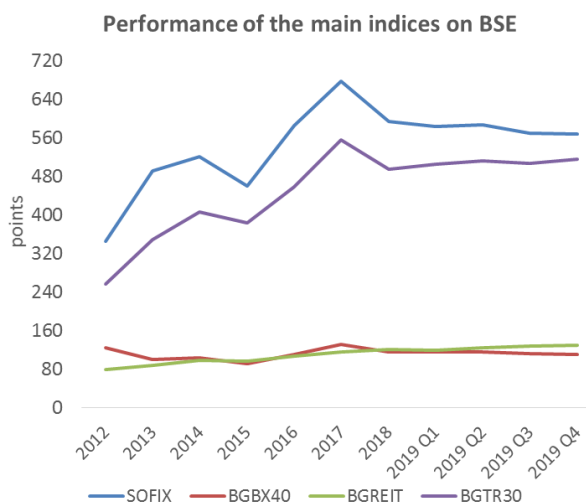
As of December 31, 2019, the market capitalization on the BSE (BSE Main market and BaSE Alternative market) decreased by 0,3% on a quarterly basis to BGN 27,9 billion from BGN 27,98 billion. In Q4 2019 the market capitalization dropped to 23,5% of the forecasted GDP compared to 23,6% a quarter earlier.

During the period October-December 2019 the turnover on the stock exchange increased by 8,2% on a quarterly basis to BGN 97,752 million. A drop of 45,8% was recorded on an annual basis. In Q4 2019 the number of transactions rose by 9,3% on a quarterly basis to 10 652, while on an annual basis there was a decline by 30,4%.

In Q4 2019 the banks, members of the BSE, performed 8,9% of the turnover and 6,6% of the total transactions on the regulated market (the principle of double reporting). In the previous quarter the banks, members of BSE, made 6,4% of all transactions and 9,3% of the total turnover on the regulated market.



Source: BSE, own calculations





No	Country	Index	31 December 2018	30 September 2019	31 December 2019	Change in Q4 2019	Change in 2019
1	Turkey	ISE 100	91 270,48	105 033,00	138 830,10	32,18%	52,11%
2	Hungary	BUX	39 138,95	40 601,18	46 082,82	13,50%	17,74%
3	Russia	MOEX	2 358,50	2 747,18	3 045,87	10,87%	29,14%
4	Slovenia	SBITOP	805,06	854,71	926,10	8,35%	15,03%
5	Serbia	BELEX	1 589,35	1 605,66	1 726,82	7,55%	8,65%
6	North Macedonia	MBI 10	3 469,03	4 328,09	4 645,17	7,33%	33,90%
7	Czech Republic	PSE	986,56	1 041,75	1 115,63	7,09%	13,08%
8	Greece	ASE	613,30	868,42	916,67	5,56%	49,47%
9	Romania	BET	7 383,68	9 574,37	9 977,30	4,21%	35,13%
10	Slovakia	SAX	332,37	341,68	351,14	2,77%	5,65%
11	Croatia	CROBEX	1 748,81	1 963,54	2 017,43	2,74%	15,36%
12	Poland	WIG	57 690,50	57 320,30	57 832,88	0,89%	0,25%
13	Bulgaria	SOFIX	594,46	570,58	568,14	-0,43%	-4,43%

Source: BSE, Bloomberg, own calculations

Key indicators for the Bulgarian capital market												
	2011	2012	2013	2014	2015	2016	2017	2018	2019 Q1	2019 Q2	2019 Q3	2019 Q4
Capital market												
Market capitalization/GDP	15,4%	12,0%	12,2%	11,6%	9,6%	10,2%	24,3%	24,4%	22,9%	23,3%	23,6%	23,5%
SOFIX	322,11	345,46	491,52	522,1	460,9	586,43	677,45	594,46	583,87	587,81	570,58	568,14
BGBX40	113,69	125,11	100	104,61	92,82	111,3	132	115,91	116,27	116,33	113,44	111,83
BGREIT	51,25	79,62	88,66	98,75	97,03	108,11	116,1	121,07	120,64	125,83	128,08	130,03
BGTR30	264,5	257,87	349,03	407,5	383,82	459,19	555,98	496,14	506,03	512,3	507,3	516,28
Turnover on BSE (thousand BGN)	717 023	864 038	1 522 000	774 900	410 800	416 003	705 851	550 041	99 673	50 968	85 182	97 752
Number of deals on BSE	109 260	68 855	87 069	118 074	60 047	58 442	79 629	54 341	14 165	9 604	9 746	10 652

Source: BSE, own calculations



II. The banking sector in Bulgaria

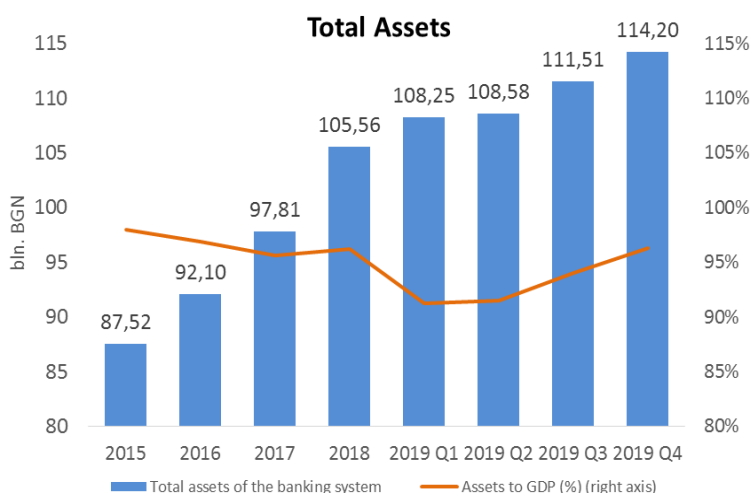
The state of the economy continued to influence the activities of the banking system. In its quarterly report „Banks In Bulgaria“ the BNB pointed out that the banking sector is going to perform its activities in an environment where the economic conditions will be influenced by the expectations for slow-down in the global economic growth and lower external demand despite comparatively optimistic expectations of the consumers and enterprises. The risk for slow-down in the global trade is determined by the increased geopolitical uncertainty and the contradictions about the protectionist policies. In that environment the policy for monetary stimulus in the euro area continues which determines the low interest level rate levels in Bulgaria.

Balance sheet statement (Statement of financial position)

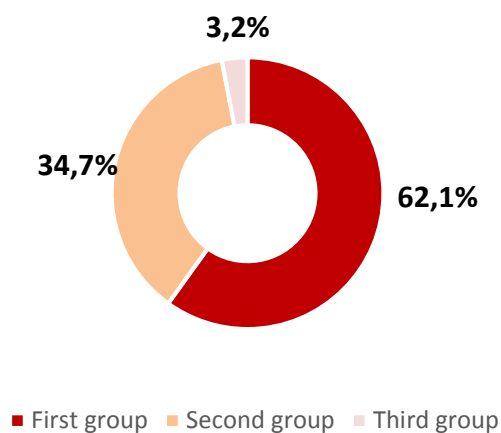
Assets

The growth of assets in the banking sector at the end of Q4 2019 was 8,2% on an annual basis as they reached BGN 114,2 billion. The share of total assets to the projected GDP for 2019 was 96,3% as of 31st of December 2019. At the end of Q4 2019 the market share in terms of assets of the five biggest banks increased to 62,1% from 60% as it was in the third quarter of the year. The banks in the second group registered a decrease in their market share to 34,7% from 36,9% as it was three months ago. The assets of the foreign branches increased to 3,2% of the total assets in the system compared to 3,1% in the third quarter.

According to the BNB the dynamics in some balance sheet items is affected by the merge of Piraeus Bank Bulgaria, a bank from the second group, in Eurobank Bulgaria which a bank from the first group, that took place in November 2019.



Market share in terms of assets as of the end of Q4 2019



Source: BNB, Ministry of Finance, own calculations



As of December 31, 2019, 65,7% of the assets in the banking system were held in loans and receivables, totaling BGN 75,08 billion. Cash balances amounted to BGN 18,14 billion and made up 15,9% of the assets. The share of investments in financial instruments was 13% (BGN 14,79 billion). For comparison, as of the end of Q3 2019 the share of loans and receivables was 64,9%, the share of the cash balances – 16,7%, and the investments in financial instruments – 12,7%. The indicator determining the level of financial intermediation in the economy – the share of loans and receivables to the forecasted GDP for 2019 – was 49,3%.

Liabilities

The liabilities in the banking system (excluding equity) amounted to BGN 99,8 billion and rose by 10% compared to the end of Q4 2018. The banks in the first group comprised 61,5% of the liabilities (BGN 61,35 billion), the second group – 35% (BGN 34,94 billion), and branches of foreign banks – 3,5% (BGN 3,52 billion).

The liabilities' growth was driven by the increase in deposits, which made up 97,4% 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 9,8% on an annual basis to BGN 97,21 billion.

The share of the provisions which include unsettled legal issues and lawsuits, credit commitments, guarantees, pensions, etc., accounted for 0,3%, or BGN 310,2 million in absolute terms. The share of financial liabilities, held for trading and other liabilities were respectively 0,1% and 0,8%. The share of all other remaining liabilities is negligible, complementing the sum up to 100%.

Equity

The equity in the banking system's balance sheet increased (by BGN 66 million, 0,5% Q-o-Q) to BGN 14,396 billion as of the end of December 2019. At the end of September 2019, the amount of equity was BGN 14,33 billion. The increase in profits influenced the equity dynamics. As of the end of December 2019 the amount of equity was by 3,9% higher compared to the end of the previous year. The equity of the banks in the first group amounted to BGN 9,6 billion, and that of the second group – BGN 4,7 billion.

Statement of profit or loss

Net profit

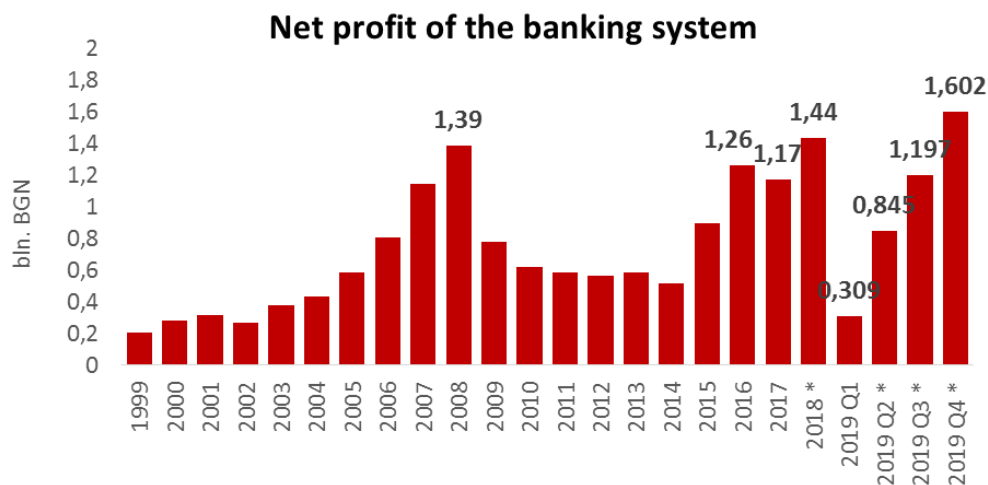
In Q4 2019 the banking sector registered a decrease of the net profit by 11,7% on an annual basis to BGN 404,65 million. In comparison, in Q3 2019 the net profit of the banking sector was at the amount of BGN 352,5 million.

After excluding one-off effects, the banking systems' net profit for 2019 was BGN 1,6 billion compared to BGN 1,44 billion in 2018.



The financial performance of the system was influenced by the higher credit activity, low interest rates, lower impairment costs, expenditure optimization, the better quality of the credit portfolio as well as some one-off effects incurred in current and in the previous year.

In its quarterly issue „[Banks In Bulgaria](#)“ the BNB noted that the increase in credit amounts contributed to limiting partially the effect of the lower lending rates on the interest income. Nevertheless, interest rate margins compressed. The revenues from fees and commissions also influenced the profitability of the credit institutions. According to the BNB, in terms of payment services the changes in the European regulations for those services would limit banks' income growth.



Source: BNB

Note: * Net profit excluding one-off effects

The first group of banks generated 69,6% of the net profit at the end of Q4 2019, the second group – 27,2%, and the third group – 3,2%. In comparison, as of the end of Q3 2019 the five biggest banks in terms of assets contributed by 65,4% to the net profit, the banks in the second group – by 31,2%, and the third group – by 3,4%.

Net interest income

As of the end of Q4 2019 the total net operating income of the banking system was at the amount of BGN 4,232 billion compared to BGN 4,222 billion as of the end of Q4 2018. It rose by 0,2% on an annual basis.

The net interest income of the banks slowed its rate of growth to 0,1% on an annual basis (from 2% on an annual basis as of the end of September 2019) and it totaled BGN 2,745 billion as of the end of December 2019 which was due to the higher credit activity.

The net interest income is the difference between the interest income and the interest expenses. As of December 31, 2019, the interest income dropped by 0,3% Y-o-Y to BGN 3,03 billion (after growth of 1,5% Y-o-Y as of the end of Q3 2019). The interest expenses were at the amount of BGN 286 million, as they were by 3,8% lower on an annual basis.



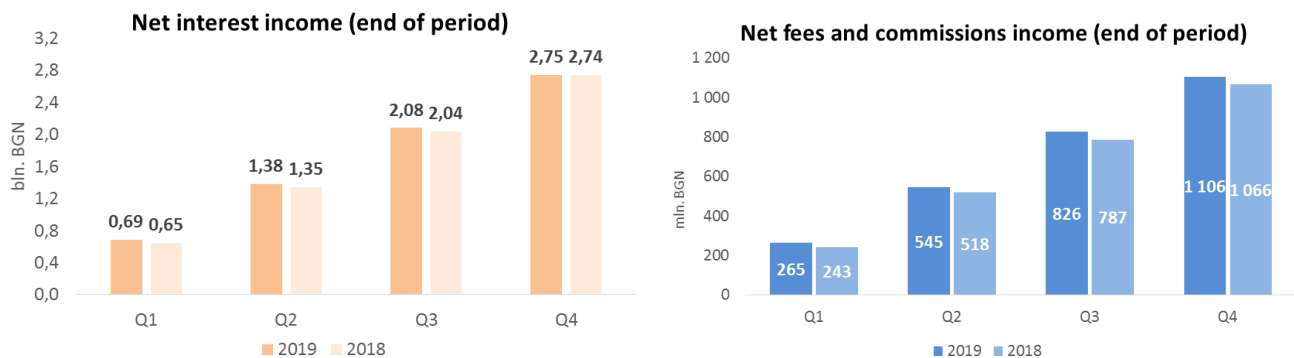
The net interest income comprised 64,9% of the total net operating income of the banking system at the end of Q4 2019. For comparison, the share of the net interest income was 58,5% of the total operating income in the EU, according to the EBA data as of the end of Q3 2019.

Net income from fees and commissions

As of the end of Q4 2019 the net income from fees and commissions slowed down its rate of growth to 3,8% (after increase by 4,9% Y-o-Y in Q3 2019) to BGN 1,1 billion. On a quarterly basis the net income from fees and commissions remained unchanged.

As of the end of December 2019 the income from fees and commissions grew by a slower pace of 5,8% on an annual basis (compared to 7,1% on an annual basis as of the end of September 2019) to BGN 1,32 billion, and the expenses related with fees and commissions increased by 17,1% Y-o-Y reaching BGN 216 million. On a quarterly basis the income from fees and commissions dropped by 0,6%, and the expenses related with fees and commissions decreased by 3,6%.

The income from fees and commissions made up 26,1% of the total net operating income of the system as the share of the fees was lower than the EU average, which was 28,3%, according to the EBA data for the third quarter of 2019.

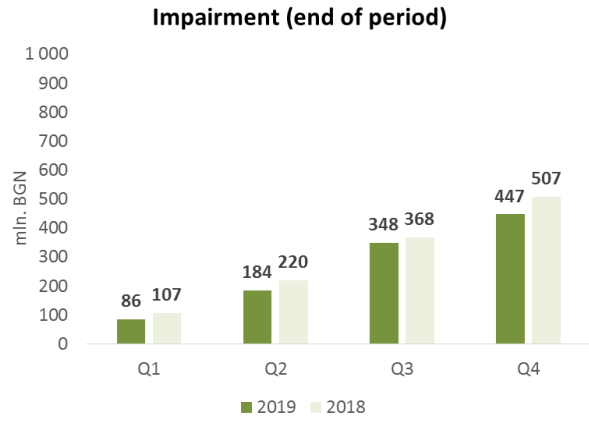
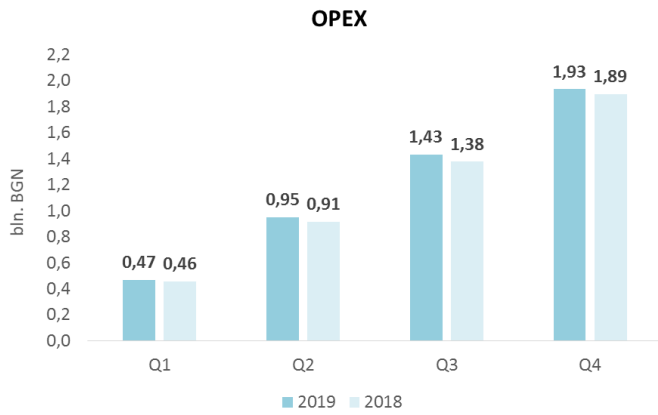


Source: BNB, own calculations

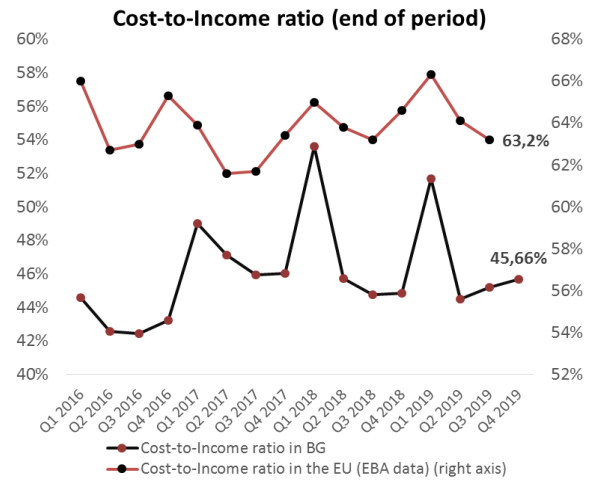
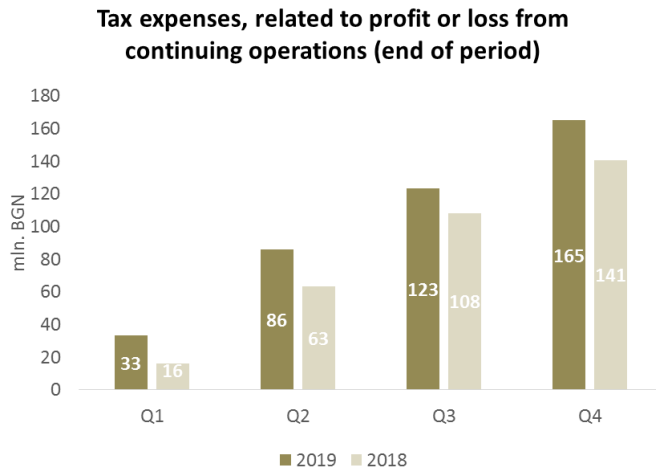
Operating expenses and impairments

As of the end of Q4 2019 the administrative expenses, which include overhead expenses, were by 3,1% lower compared to the same period of 2018 as they reached BGN 1,66 billion. The total operating expenses, as a sum of the administrative expenses and depreciation, increased by 2,1% on an annual basis to BGN 1,93 billion. 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 12% Y-o-Y to BGN 446,8 million.

As of the end of Q4 2019 Cost-to-Income ratio for the banking system increased to 45,7% from 45,2% as it was at the end of Q3 2019. According to the latest EBA data, the average Cost-to-Income ratio in the EU was 63,2% as of the end of Q3 2019.



Source: BNB, own calculations



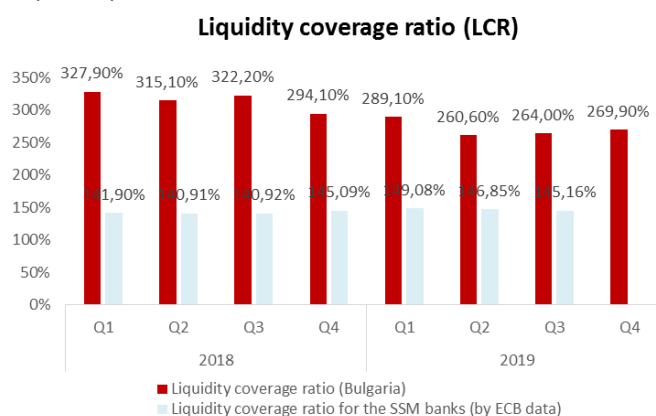
Source: BNB, EBA, own calculations



Financial indicators

Liquidity

As of the end of December 2019 the liquidity buffer and the net liquidity outflows were respectively BGN 30,9 billion and BGN 11,5 billion, according to the BNB data. The liquidity coverage ratio (LCR) was 269,9% compared to 264% as of the end of September 2019. According to the ECB data, as of the end of Q3 2019 the LCR for the banks in the Single Supervisory Mechanism (SSM) was 145,16%.



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 Q3 2019 the common equity tier 1 (CET 1) of the banking system increased to 19,84% from 19,36%, as it was at the end of Q2 2019. For the first group of banks the level of the indicator rose to 20,46% from 19,54%, and for the second group it dropped to 18,75% from 19,02%.

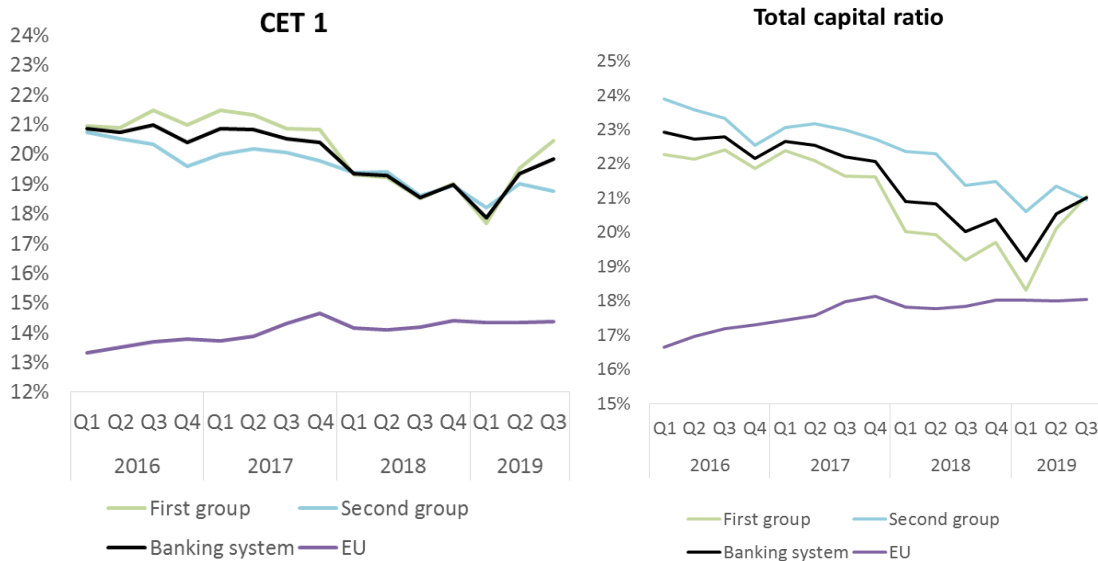
On a systemic level the total capital ratio for the Bulgarian banking system rose to 21,02% from 20,54%. As of the end of September 2019 its level for the banks in the first group was 21,06% and 20,95% for the banks in the second group compared to 20,1% and 21,34%, respectively, a quarter earlier.

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.

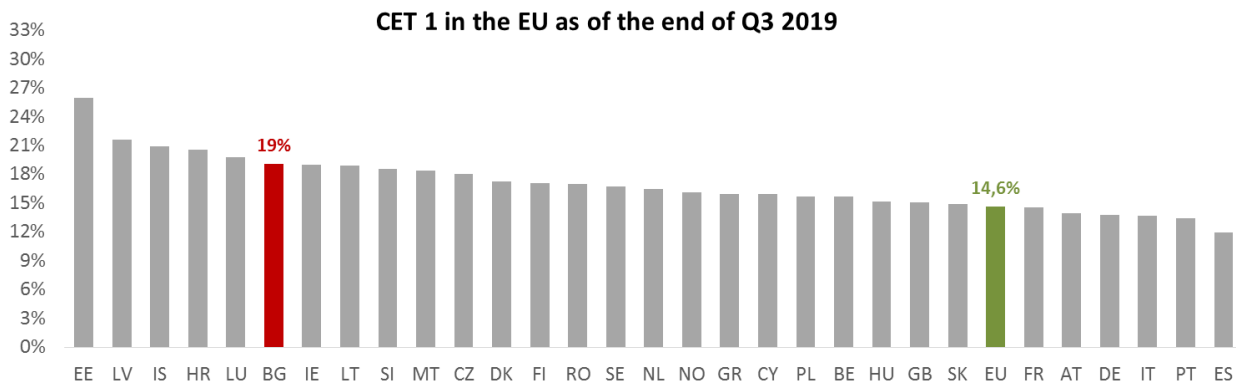
The level of the indicators for the capital adequacy for the banks in Bulgaria is above the average level reported by the European banks which, according to the ECB data, was respectively for CET 1 – 14,37% and for the total capital ratio – 18,05% as of the end of September 2019.



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



Source: BNB, ECB



Source: EBA

Profitability

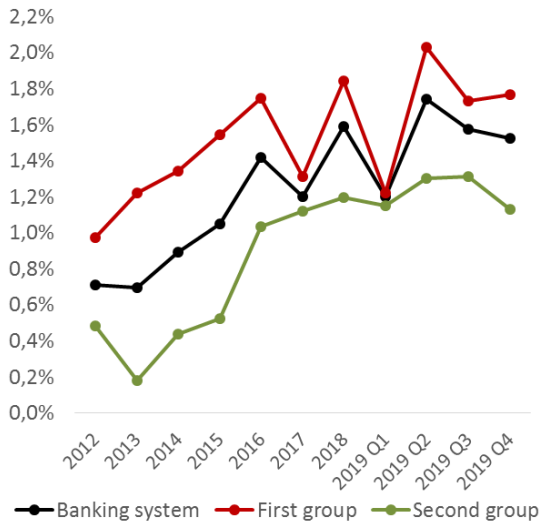
As of December 31, 2019, the Return on Assets (ROA) was 1,47% compared to 1,58%, recorded as of September 30, 2019 (the average for the European banks was 0,38%, according to the latest ECB data for Q3 2019). The value of the indicator was 1,64% for the banks in the first group and 1,15% for the banks in the second group as of the end of December 2019.

The Return on Equity (ROE) was 11,63% as of the end of Q4 2019 compared to 12,33% as of

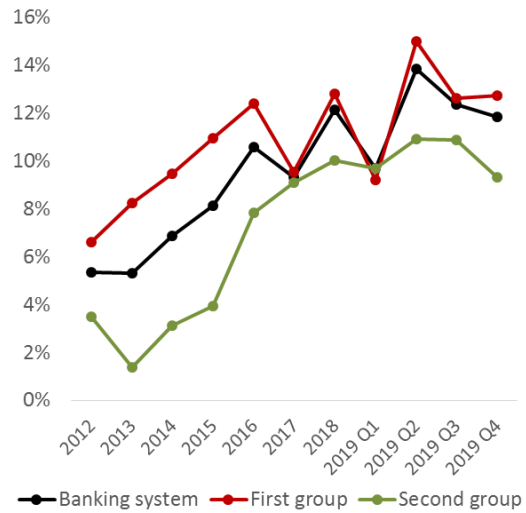


the end of the third quarter (according to the ECB data the average ROE for the European banks was 5,83% as of the end of Q3 2019). For the banks falling in the first group the ratio was 12,13% and for those in the second group – 9,7%, as of the end of Q4 2019.

ROA by banking groups

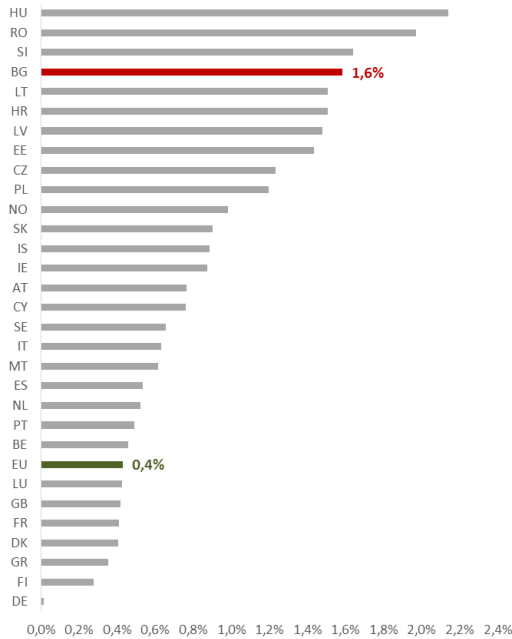


ROE by banking groups

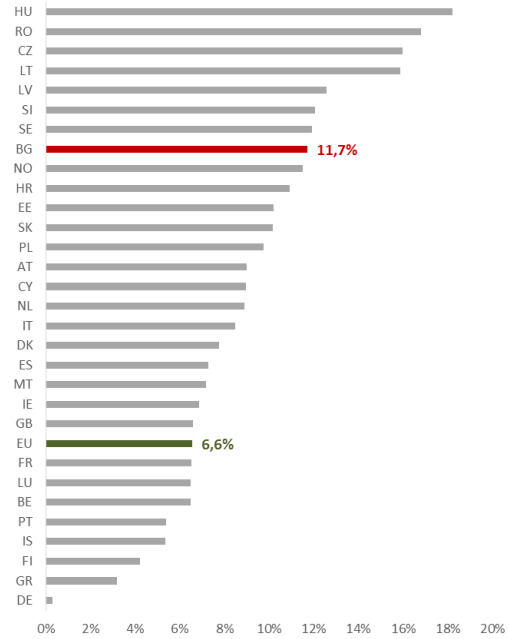


Source: BNB, own calculations

ROA in the EU as of the end of Q3 2019



ROE in the EU as of the end of Q3 2019



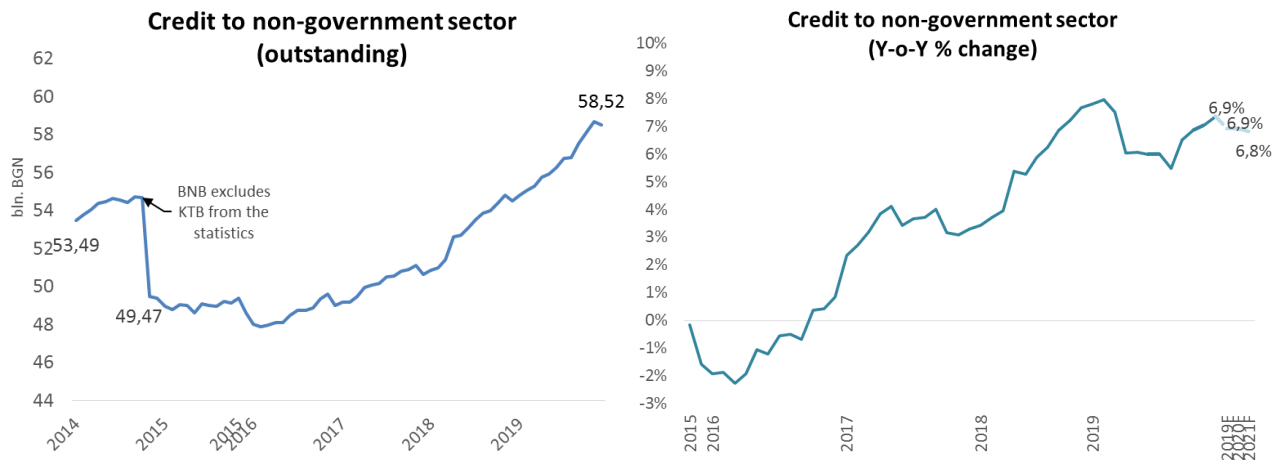
Source: EBA



Loans and deposits

In its quarterly report „[Banks In Bulgaria](#)“ the BNB pointed out that the low interest levels and the rising income stimulate the demand for loans which in combination with the strengthened bank competition and increased supply of borrowings led to increased lending, most obvious in the segment of the household loans. As for the non-financial corporations, the highest increase in the lending amounts was reported for the sectors information and communication, education and accommodation and food service activities, real estate activities and mining, (according to the BNB data as of September 2019). The growth rates are high because of the low credit base for these sectors.

As of the end of December 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 by 7,4% on an annual basis to BGN 58,52 billion and compared to BGN 57,5 billion as it was at the end of September 2019.



Source: BNB, Monetary statistics, own calculations
Forecast: BNB, August 2019

As of the end of Q4 2019 the share and the amount of non-performing loans continued to decline. As of December 31, 2019 the amount of non-performing loans (excluding Central Banks and Credit Institutions) declined to BGN 3,935 billion from BGN 4,695 billion a quarter earlier. The share of non-performing loans in the banking system dropped to 5,94% from 7,27%, as of the end of September 2019, 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 6,8%, compared to 8,53% at the end of the third quarter of 2019. For the same period the share of non-performing housing loans dropped to 3,98% from 4,85%. The ratio in the segment of consumer loans decreased to 6,31% from 6,75% as of the end of Q3 2019.

As of the end of December 2019 the level of non-performing loans to non-financial corporations declined to BGN 2,488 billion from BGN 3,11 billion a year ago. In the segment of housing loans, the amount dropped to BGN 496,9 million from BGN 583,8 million a quarter earlier. The



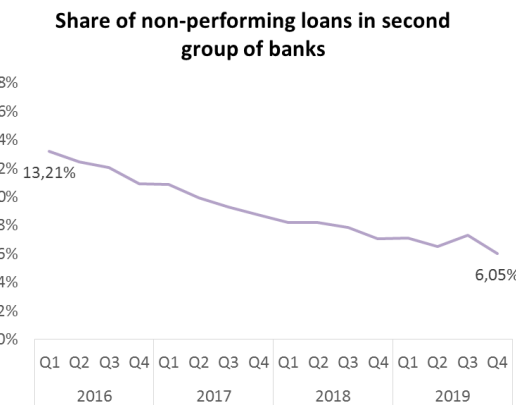
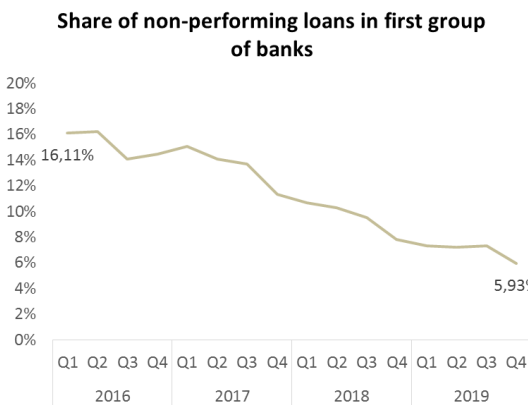
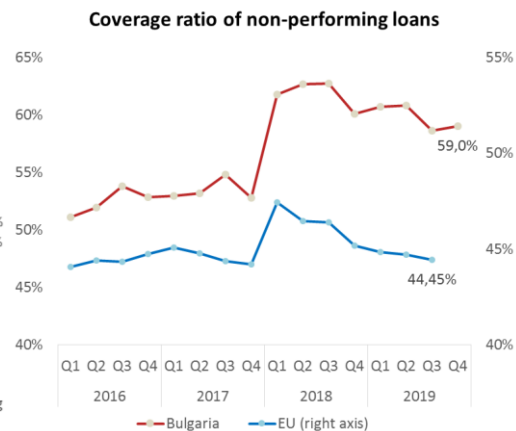
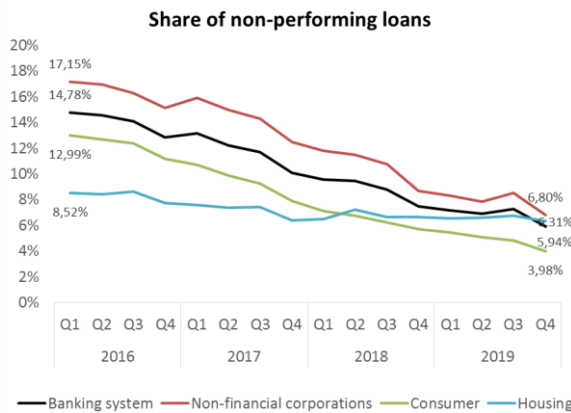
non-performing consumer loans were at the level of BGN 784,4 million compared to BGN 828,4 million as of the end of the previous quarter.

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 59% at the end of Q4 2019 compared to 58,6% a quarter earlier. In comparison, the coverage ratio for the European banks, according to the ECB data for Q3 2019 was 44,45%.

According to the BNB data, the net amount of non-performing loans and receivables (after deducting the allowances for loan losses) was BGN 3,2 billion or 3,5% of the net total amount of loans and receivable (compared to 3,9% at the end of September 2019).

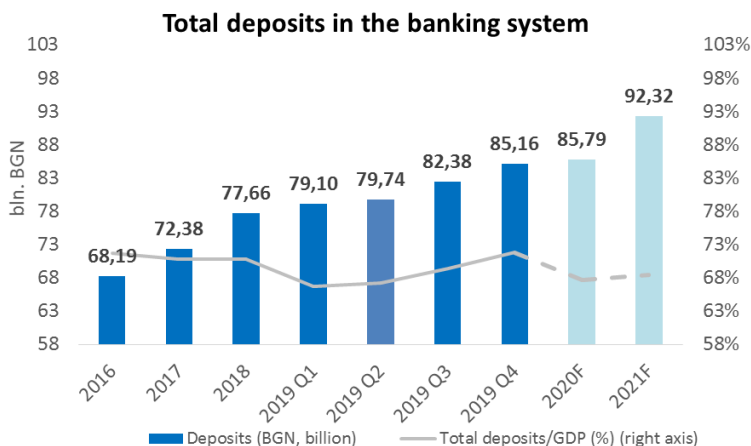
The level of non-performing gross loans reported by the banks in the first group declined to 5,93% as of the end of the fourth quarter of 2019 compared to 7,33% as of the end of Q3 2019. The level for the banks in the second group dropped to 6,05% from 7,33% as of the end of September 2019.



Source: BNB, ECB, own calculations



Deposits, attracted by the banks, continued to grow. As of the end of December 2019 the total amount of the outstanding deposits in the banking system reached BGN 85,16 billion (71,8% of GDP) as an annual growth of 9,7% was recorded, despite the low interest rate levels. The deposits' growth was faster compared to the growth of 7,9% which was reported at the end of September 2019.

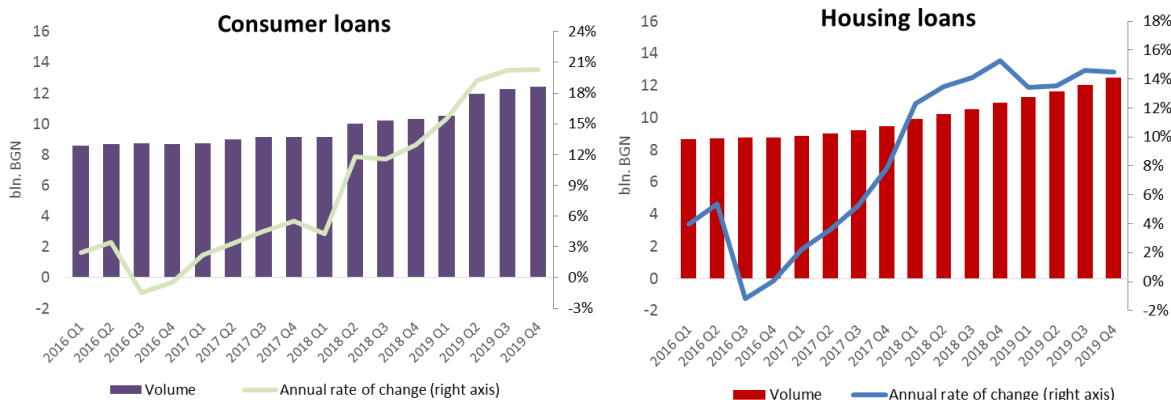


Source: BNB, own calculations
Forecast: BNB, Ministry of Finance

Loans and deposits to households

As of the end of Q4 2019, according to the data of the BNB Banking Supervision Department, the amount of consumer loans was BGN 12,43 billion compared to BGN 12,27 billion a quarter earlier and BGN 10,33 billion a year earlier. In Q4 2019 the amount of consumer loans grew by 1,3% on a quarterly basis and by 20,3% on an annual basis (according to the data from the BNB Banking Supervision Department).

The amount of housing loans, according to the data of the BNB Banking Supervision Department, was BGN 12,49 billion compared to BGN 12,03 billion as of the end of Q3 2019 and BGN 10,91 billion as of the end of the fourth quarter in the previous year. The quarterly increase was by 3,8% and the annual increase was by 14,5%.



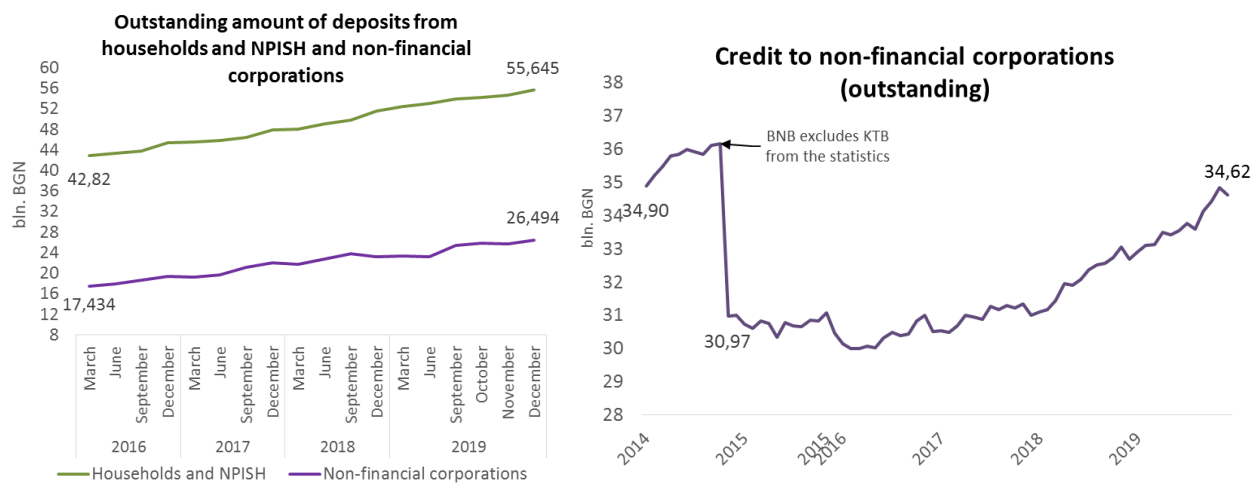
Source: BNB, Banking Supervision Department data, own calculations



As of the end of Q4 2019 the total amount of deposits to households and NPISH recorded a growth rate of 8% after an increase by 8,2% at the end of September 2019. Deposits from households were BGN 55,65 billion as they made up 46,9% of GDP. The share of the household sector in the total amount of deposits in the system was 65,3%.

Loans and deposits from non-financial corporations

As of December 31, 2019 the outstanding amount on deposits from non-financial corporations increased by 14,3% Y-o-Y (in comparison with the rise of 6,4% as of the end of September 2019) to BGN 26,49 billion (22,3% from GDP). The outstanding amount on loans to non-financial corporations grew by 5,9% Y-o-Y to BGN 34,62 billion. Except overdrafts, loans to non-financial corporations grew by 7,5% on an annual basis, reaching BGN 23,14 billion in absolute terms.



Source: BNB, Monetary statistics

Interest rates

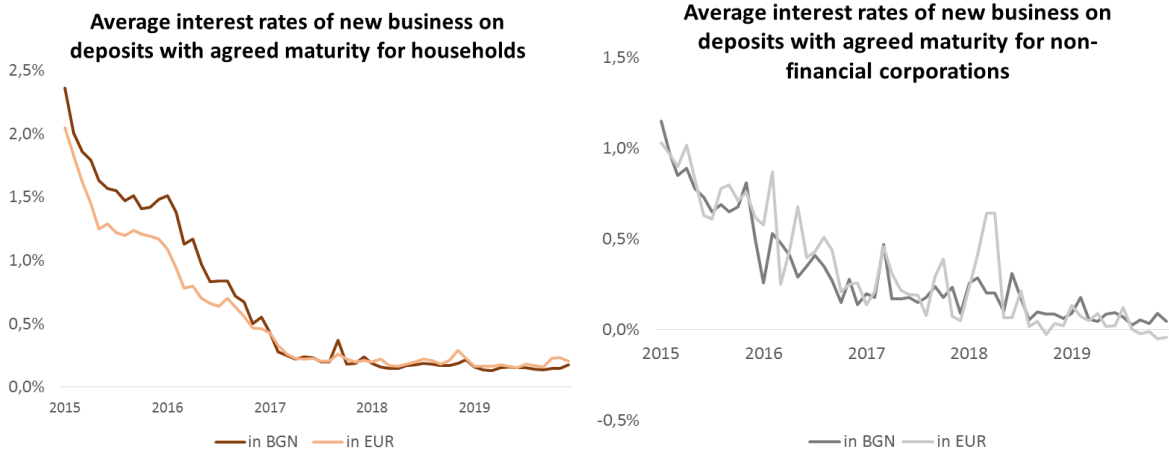
Overall, in Q4 2019 the average interest rates on new loans and on new deposits with agreed maturity retained their low levels. In comparison with the previous quarter a slight increase was recorded in the interest rates on deposits to households and in the interest rates on consumer and housing loans in BGN.

Interest rates on deposits

As of the end of Q4 2019 the average interest rates on deposits with agreed maturity to non-financial corporations on new business in BGN dropped to 0,05% from 0,06% as they were at the end of September 2019. Regarding the interest rates in EUR the BNB monetary statistics recorded an average level of -0,04% as of the end of December 2019 compared with -0,02% as of the end of September 2019.



As of Q4 2019 deposits with agreed maturity on new business in BGN to households increased on a quarterly basis to 0,17% compared to 0,14% at the end of September 2019. The interest rate levels on deposits with agreed maturity on new business in EUR grew to 0,20% from 0,16% compared to the end of Q3 2019.

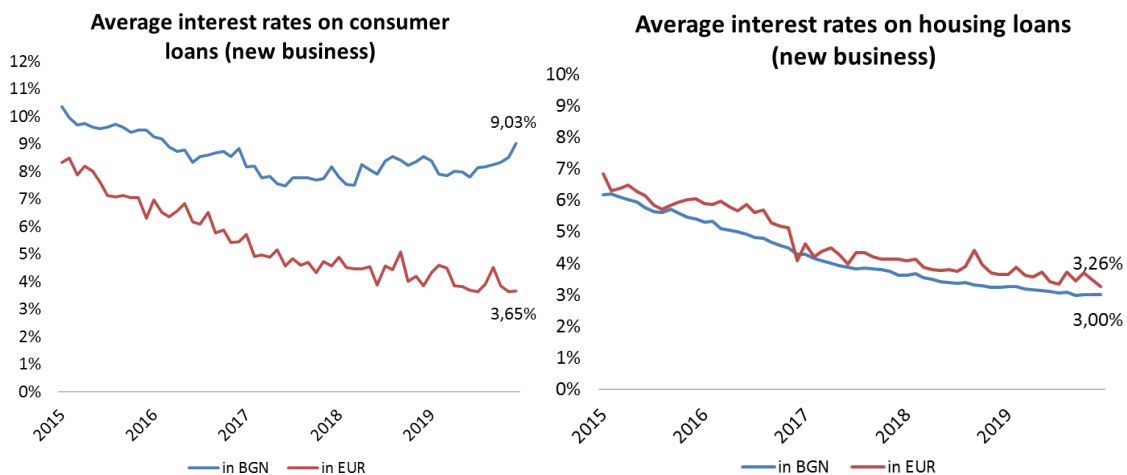


Source: BNB

Interest rates on loans

As of the end of Q4 2019 the average interest rates on housing loans increase slightly to 3% for the loans agreed in BGN compared to 2,98% a quarter earlier. The average interest rates on housing loans in EUR declined to 3,36% compared with 3,44% a quarter earlier.

As of the end of December 2019 the average interest rates on consumer loans agreed in BGN increased to 9,03%, compared to 8,24% at the end of the third quarter of 2019. The interest rates on consumer loans agreed in EUR dropped to 3,65% as of the end of December 2019 in comparison with 4,51% three months earlier.

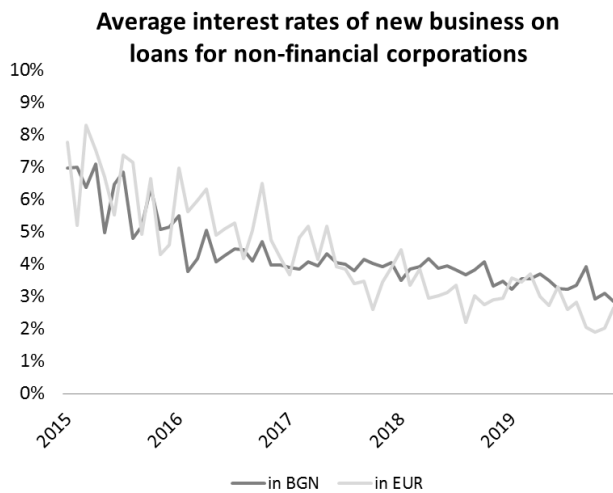
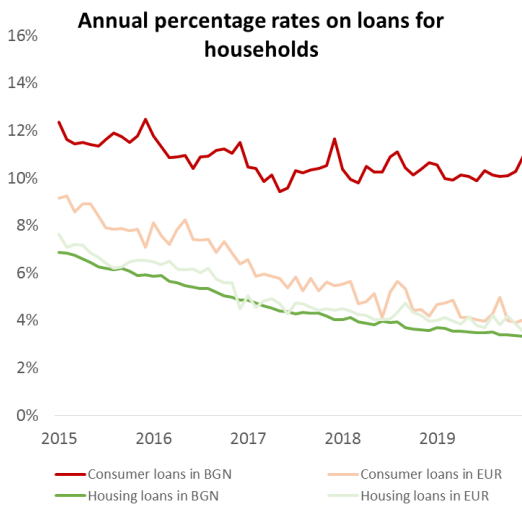


Source: BNB



As of the end of December 2019 the annual percentage rate (APR), which includes the interest rate component and the component of all other fees and commissions, dropped to 3,32% for housing loans in BGN from 3,39% and to 3,50% for housing loans in EUR from 3,81% a quarter earlier. The level of the APR on consumer loans was 10,96% and 4,02%, respectively, for loans in BGN and in EUR, compared with 10,06% and 4,97% three months earlier.

The average interest rates on new business on loans to non-financial corporations decreased to 2,86% for loans in BGN from 3,92% and declined to 2,05% from 3,29% for loans in EUR. The level of the interest rates for the loans to non-financial corporations agreed in US dollars increased to 3,69% from 3,19% a quarter ago.



Source: BNB



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Notes

With the published data for the monetary statistics for September 2019, on the basis of received additional information from the reporting institutions, the BNB revised the loans data (incl. consumer and housing loans) for the period from February 2018 to August 2019.

The loans data for the period December 2015 – July 2018 have been revised additionally by the BNB.

All historical rates, statistical data and graphs are updated until February 6, 2020, unless otherwise stated.

The views provided are those prevailing as of February 6, 2020.