



THE ECONOMY AND THE BANKING SECTOR IN BULGARIA

FOURTH QUARTER OF 2020



SOFIA



HIGHLIGHTS

- In Q3 2020 the Bulgarian economy contracted by 5,2% on an annual seasonal and calendar adjusted basis, as there was a positive contribution by the private consumption and by the government consumption
- The inflation slowed its growth to 0,3% year-on-year in Q4 2020
- As of the end of December 2020 the unemployment in Bulgaria decreased to 4,8%
- The budget deficit was 3% of the GDP as of the end of Q4 2020
- As of the end of Q4 2020 the total assets of the banking system were at the amount of BGN 124 billion, representing 104,1% of the forecasted GDP
- In Q4 2020 the net profit of the banking sector was BGN 113,4 million (recording a decline of 39,1% on a quarterly basis)
- The impairment expenses and accrued provisions, the dynamics in lending, the lower income from fees and commissions, the low interest rates, the management of the operating expenses and the quality of the credit portfolio as well as some one-off effects influenced the financial result of the sector
- In December 2020 the application of the proposed by the Association of Banks in Bulgaria (ABB) and approved by the BNB in April 2020 *Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions* was reactivated
- The average interest rates on new loans and on new deposits with agreed maturity retained their low levels



CONTENT

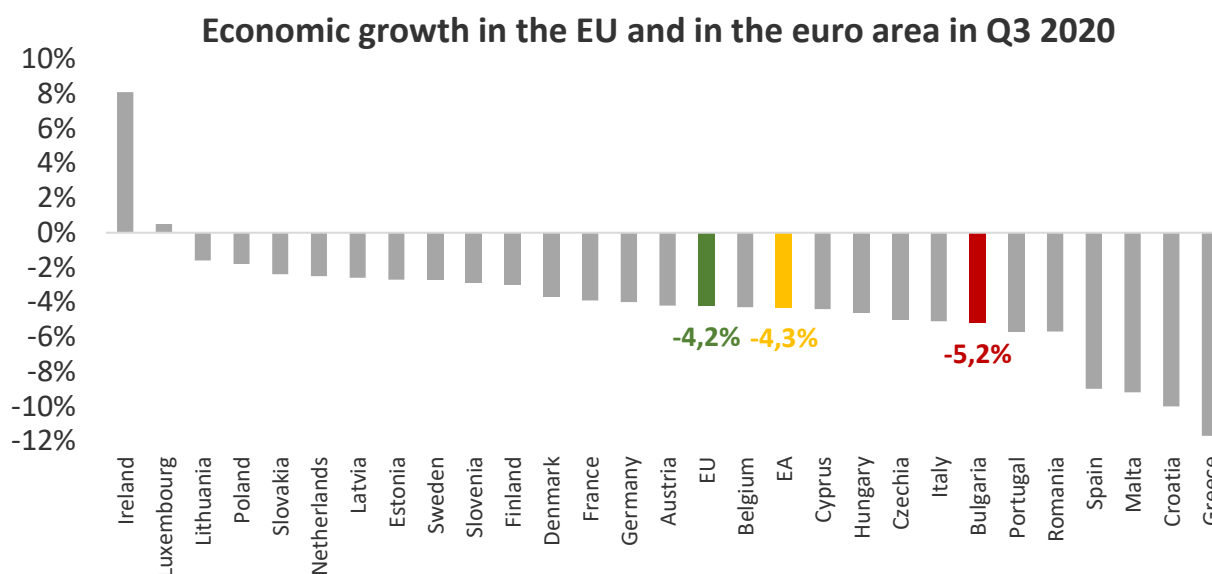
I. The Bulgarian economy	4
1. Economic growth	4
2. Inflation.....	6
3. Labour market	7
4. Public sector	8
5. Capital market	9
II. The banking sector in Bulgaria	11
1. Balance sheet statement (Statement of financial position).....	11
1.1. Assets	11
1.2. Liabilities	12
1.3. Equity	12
2 Statement of profit 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.....	15
3. Financial indicators.....	16
3.1. Liquidity	16
3.2. Capital adequacy.....	16
3.3. Profitability.....	18
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.....	24



I. The Bulgarian economy

Economic growth

In Q3 2020 the Bulgarian gross domestic product (GDP) contracted by 5,2% on an annual basis, according to the preliminary seasonal and calendar adjusted data of Eurostat. The average drop for the EU in the period July-September 2020 was by 4,2% year-on-year, and that of the euro area – by 4,3% on an annual basis.



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

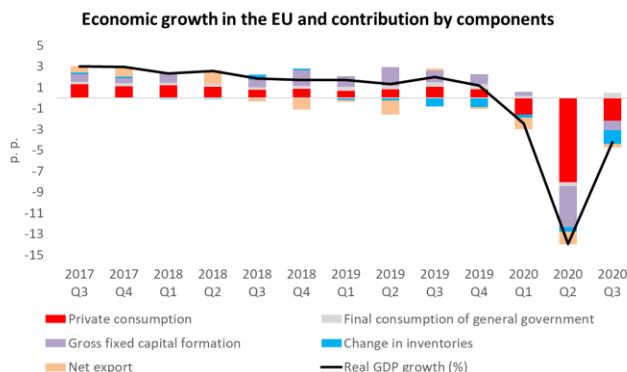
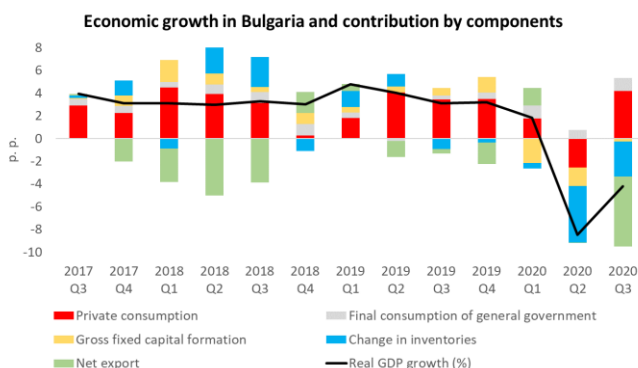
According to the preliminary data of Eurostat, the economic dip in Q3 2020 was driven by declines of the net export and investments, while the private consumption and the government consumption had a positive contribution.

During the observed period the growth of private consumption, which includes the consumption of the households and non-profit institutions, serving households (NPISH), increased by 7,1% on an annual basis (compared to the decline of 4% Y-o-Y in Q2 2020) and contributed to the yearly GDP drop by 4,2 percentage points (p.p.) compared to the registered negative contribution of -2,5 p.p. in Q2 2020. The consumption of the general government, which growth rate increased to 5,8% on an annual basis (from 3,9% Y-o-Y in the previous quarter), contributed by 1,1 p.p. compared to 0,8 p.p. a quarter earlier.

In Q3 2020 the growth of the gross fixed capital formation decreased by 1,4% on an annual basis after a decline by 11,8% on an annual basis in the previous quarter. In Q3 2020 the contribution of the business investments to the GDP was negative (-0,3 p.p.) compared to the negative contribution of -1,6 p.p. three months earlier. The contribution of inventories was negative (-3,1 p.p.) in comparison with the negative contribution of -5 p.p. in the second quarter of 2020.



In Q3 2020 the export of goods and services decreased by 17,7% on an annual basis after a drop by 19% Y-o-Y three months earlier. The import dipped by 6,1% on an annual basis after a decline of 19,5% Y-o-Y in Q2 2020. The contribution of the net export was negative (-6,2 p.p.) in the third quarter of 2020. The trade deficit was 1% of GDP compared with the deficit of 0,8% as of the end of the previous quarter.



Source: Eurostat, own calculations

In comparison, all components, except the government consumption, contributed negatively to the drop of the GDP in the EU by 4,2% on an annual basis in Q3 2020.

Different national and international organizations and institutions forecast that the economic slump in Bulgaria is going to vary between -5,5% and -3% in 2020. The forecasts are for an increase of the GDP between 2,5% and 3,7% in 2021.

Key indicators for the Bulgarian economy																	
	2012	2013	2014	2015	2016	2017	2018	2019	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2020F	2021F	2022F	2023F	
Gross domestic product																	
GDP (mln. BGN)	82 239	81 955	83 885	89 362	95 131	102 345	109 743	119 772	25 993	27 774	31 676	-	-	-	-	-	
GDP (real Y-o-Y growth, %)	0,4	0,3	1,9	4,0	3,8	3,5	3,1	3,7	1,8	-8,5	-4,2	-	-	-	-	-	
GDP (real Y-o-Y growth, %) - forecasts													MF (October 2020)	-3	2,5	3	3,2
													BNB (December 2020)	-4,4	3,7	3,6	-
													IMF (February 2021)	-4,6	3,6	-	-
													WB (January 2021)	-5,1	3,3	3,7	-
													EC (November 2020)	-5,1	2,6	3,7	-
													EBRD (October 2020)	-5,5	3	-	-
													OECD (January 2021)	-4,1	3,3	3,7	-
Total final consumption																	
Total final consumption	2,3	-2,0	2,3	3,4	3,2	3,9	4,6	4,7	3,7	-2,2	6,7	-	-	-	-	-	
Private consumption (of Households and NPISH)	3,3	-2,6	2,9	3,8	3,5	3,8	4,4	5,5	2,9	-4,0	7,1	-	-	-	-	-	
Final consumption of general government	-1,8	0,7	-0,1	1,8	2,2	4,3	5,3	2,0	6,3	3,9	5,8	-	-	-	-	-	
Gross fixed capital formation	1,8	0,5	3,5	2,7	-6,6	3,2	5,4	2,2	-10,2	-11,8	-1,4	-	-	-	-	-	
Export of goods and services	2,0	9,6	3,1	6,4	8,6	5,8	1,7	3,9	3,2	-19,0	-17,7	-	-	-	-	-	
Import of goods and services	5,6	4,3	5,2	4,8	5,2	7,4	5,7	5,2	0,4	-19,5	-6,1	-	-	-	-	-	
Trade balance/GDP (%)	-9,5	-7,0	-6,5	-5,8	-2	-1,5	-4,8	-4,7	-0,6	-0,8	1	-	-	-	-	-	
Foreign direct investments in Bulgaria (mln. EUR)	1 320,9	1 383,7	347,4	2 000,9	927,2	1 618,9	983,0	1 138,5	214,5	397,0	639,7	-	-	-	-	-	
Foreign direct investments/GDP (%)	3,1	3,3	0,8	4,4	1,9	3,1	1,8	1,8	0,4	0,7	1,1	-	-	-	-	-	
Harmonised index of consumer prices (HICP) (Y-o-Y change, average for the period)	2,4	0,4	-1,6	-1,1	-1,3	1,2	2,6	2,5	3	1,1	0,6	0,3	-	-	-	-	

Source: NSI, Eurostat, Bulgarian National Bank

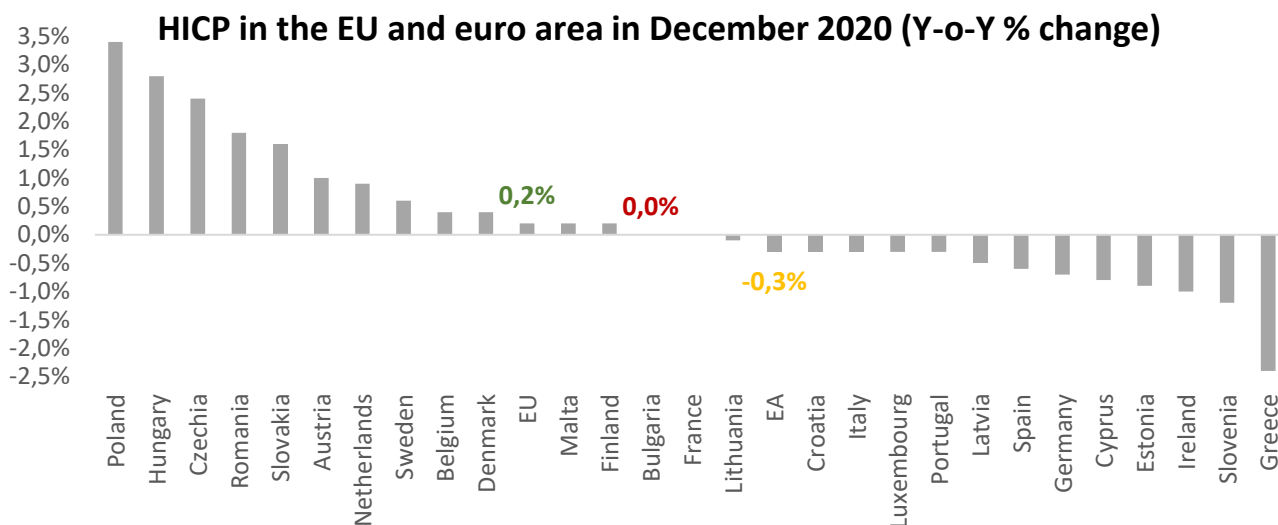
Forecasts: Bulgarian National Bank, Ministry of Finance, International Monetary Fund, World Bank, European Commission, European Bank for Reconstruction and Development



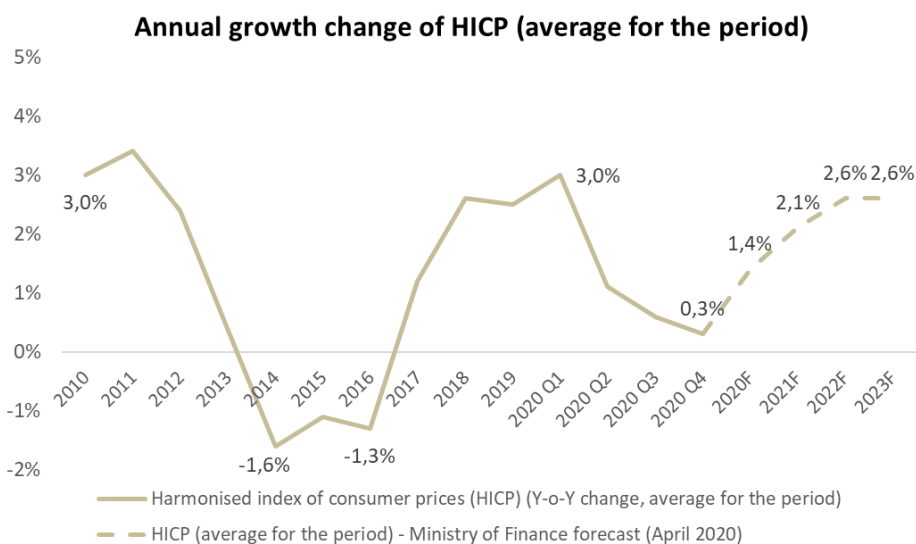
Inflation

In Q4 2020 the growth of the harmonized index of consumer prices (HICP) slowed down to 0,3% on an annual basis from 0,6% Y-o-Y in Q3 2020. In December 2020 the inflation in Bulgaria stood at 0% Y-o-Y, compared to 0,25% in the EU and -0,35% in the euro area.

In its regular [Monthly Report on the Bulgarian Economy](#) the Ministry of Finance (MF) pointed out that in the final months of the year services, prices of energy goods and processed food contributed for the overall inflation. For the period 2021-2023 the MF forecasts inflation between 2,1-2,6%.



Source: Eurostat



Source: NSI, Eurostat

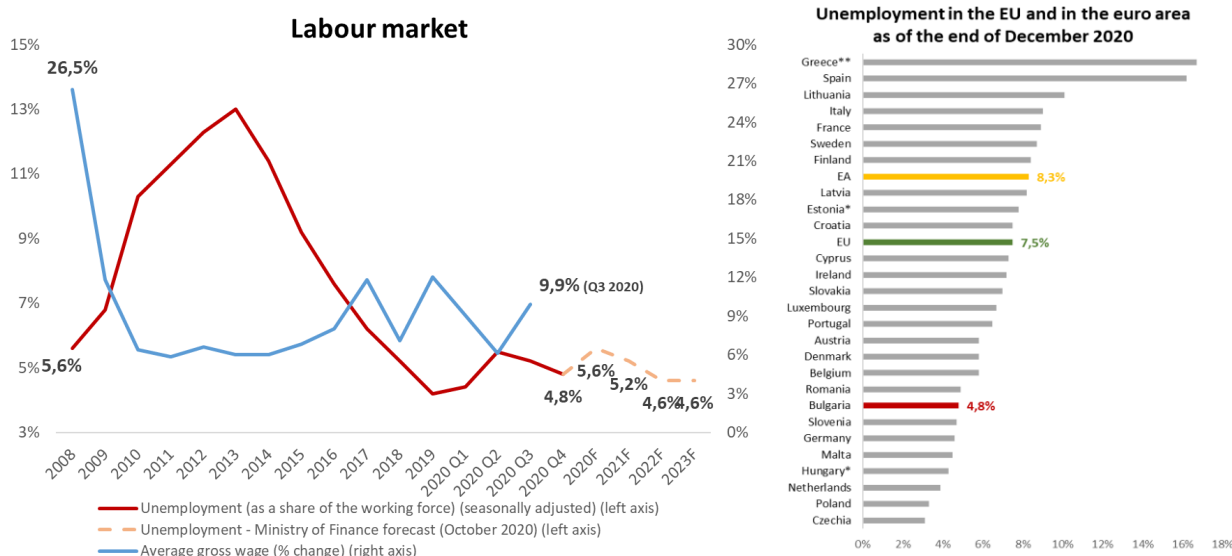
Forecast: Ministry of Finance, October 2020



Labour market

In December 2020 the level of unemployment, measured as a share of the working force, decreased to 4,8% from 5,2% at the end of Q3 2020. The unemployment in the country was lower than the EU average. In the period, Bulgaria ranked 8th 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 December 2020 the number of unemployed in Bulgaria dropped to 159 thousand from 171 thousand as of the end of Q3 2020, but it was higher than the registered 140 thousand as of the end of Q4 2019.

The level of the unemployed young people (under 25 years) decreased to 14% as of the end of December 2020 compared to 14,3% three months earlier. At the end of December 2020, the average level of the youth unemployment in the EU was 17,8%, as the largest share is observed in Spain, Greece and Italy.



Source: Eurostat, Ministry of Finance, NSI

Note: * November 2020 ** October 2020

Key indicators for the Bulgarian economy	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 Q1	2020 Q2	2020 Q3	December 2020
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	4,2	4,4	5,5	5,2	4,8
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	3 233,1	3 107,2	3 079,6	3 173,2	-
Employed in "Finance and Insurance" sector (thousands), of which:	55	52,7	51,6	60,5	62,3	58,6	63,7	65,4	67,3	58,5	62,4	65,7	-
Employed in the banking sector (thousands)	33,9	33,5	32,8	31,7	30,7	30,4	30,1	29,9	28,2	-	-	-	-
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	2 074	2 120	2 287	2 106	-

Source: Eurostat, Ministry of Finance, NSI, ECB

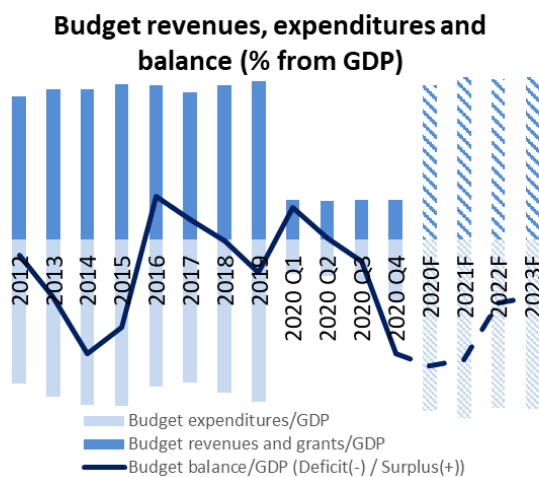


Public sector

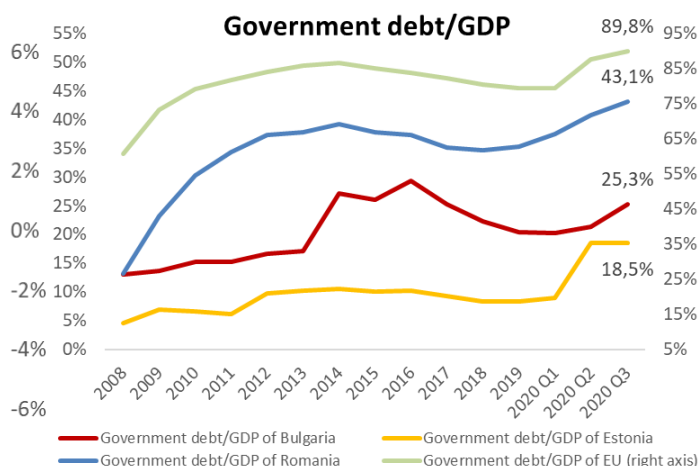
According to the Ministry of Finance (MF) preliminary data, as of the end of December 2020 the state budget had a negative balance of BGN 3,532 billion (-3% from the projected GDP). For January 2021 the MF forecasts a surplus of BGN 405 million (0,3% from the projected GDP).

The amount of the budget revenues and grants on the Consolidated Fiscal Programme for the period October-December 2020 was BGN 11,87 billion (9,3% from the projected GDP). Compared to the same period last year, the tax and the non-tax revenues increased by 5,5% on an annual basis. In Q4 2020 budget expenditures (including the EU budget contribution of Bulgaria) amounted to BGN 16,29 billion (14,4% from the projected GDP). The amount of the expenditures was BGN 13,67 billion compared to the same period of 2019.

As of the end of December 2020, the fiscal reserve totaled BGN 8,6 billion.



Source: Ministry of Finance, Eurostat
Forecast: Ministry of Finance, October 2020



The share of the government debt to GDP increased to 25,3% as of the end of Q3 2020 compared to 21,3% at the end of Q2 2020. Bulgaria is the second among the countries with the lowest government debt after Estonia (18,5%). The government debt to GDP ratio for Bulgaria is below the EU average, which rose to 89,8% at the end of Q3 2020.

The Long-term Interest Rate for Convergence Assessment Purposes (LTIR) dropped to 0,19% as of the end of December 2020 from 0,2%, as it was at the 30th of September 2020. For comparison, as of the end of December 2020 the LTIR in Romania was 2,94%, in Poland – 1,29%, in Hungary – 2,16%, in Croatia – 0,63%, and in the Czech Republic – 1,26%. The level of the LTIR in Bulgaria continues to be the lowest in comparison with the countries in the CEE region, members of the EU but not members of the euro area.



Capital market

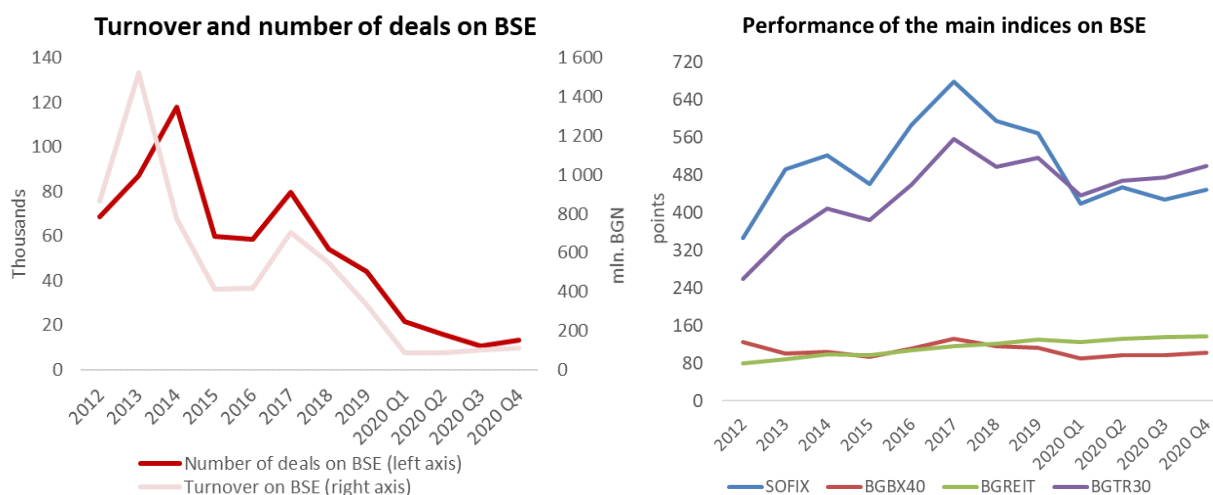
At the end of December 2020, the main indices on the Bulgarian Stock Exchange (BSE) rose compared to the end of Q3 2020 as follows: SOFIX by 4,7%, BGBX40 by 5,2%, BGREIT by 1,8% and BGTR30 by 5,1%.

In Q4 2020 the Bulgarian index SOFIX was with the second lowest drop among the major stock market indices in the CEE region.

As of December 31, 2020, the market capitalization on the BSE (main market and alternative market) increased by 1,8% on a quarterly basis to BGN 28,25 billion (23,8% of GDP) from BGN 27,85 billion (23,4% of GDP).

During the period October-December 2020 the turnover on the stock exchange rose by 9% on a quarterly basis to BGN 112,52 million. In Q4 2020 the number of transactions increased by 28,2% on a quarterly basis to 13 382.

In Q4 2020 the banks, members of the BSE, performed 6% of the turnover and 3,5% of the total transactions on the regulated market (the principle of double reporting). In the previous quarter the banks, members of BSE, concluded 5,1% of all transactions and 12,5% of the total turnover on the regulated market.



Source: BSE, own calculations



No	Country	Index	31 December 2019	30 September 2020	31 December 2020	Change in Q4 2020	Change in 2020
1	Turkey	XU 100	1 144,25	1 145,24	1 536,11	34,13%	34,25%
2	Hungary	BUX	46 082,82	32 923,53	43 507,13	32,15%	-5,59%
3	Greece	ASE	916,67	624,75	808,99	29,49%	-11,75%
4	Czech Republic	PSE	1 115,63	868,33	1 055,77	21,59%	-5,37%
5	Russia	MOEX	3 045,87	2 910,12	3 390,76	16,52%	11,32%
6	Poland	WIG	57 832,88	49 411,53	57 025,84	15,41%	-1,40%
7	Croatia	CROBEX	2 017,43	1 608,54	1 791,94	11,40%	-11,18%
8	Slovenia	SBITOP	926,10	846,20	940,92	11,19%	1,60%
9	Romania	BET	9 977,30	9 007,20	9 805,60	8,86%	-1,72%
10	North Macedonia	MBI 10	4 645,17	4 485,18	4 704,85	4,90%	1,28%
11	Bulgaria	SOFIX	568,14	427,55	447,53	4,67%	-21,23%
12	Serbia	BELEX	1 726,82	1 503,29	1 525,26	1,46%	-11,67%
13	Slovakia	SAX	351,14	355,39	351,09	-1,21%	-0,01%

Source: BSE, Bloomberg, own calculations

Key indicators for the Bulgarian economy													
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 Q1	2020 Q2	2020 Q3	2020 Q4
Capital market													
Market capitalization/GDP	15,4%	12,0%	12,2%	11,6%	9,6%	10,2%	24,3%	24,4%	23,3%	22,0%	23,3%	23,4%	23,8%
SOFIX	322,11	345,46	491,52	522,1	460,9	586,43	677,45	594,46	568,14	419,35	453,26	427,55	447,53
BGBX40	113,69	125,11	100	104,61	92,82	111,3	132	115,91	111,83	90,38	96,7	96,36	101,38
BGREIT	51,25	79,62	88,66	98,75	97,03	108,11	116,1	121,07	130,03	125,07	132,53	135,3	137,69
BGTR30	264,5	257,87	349,03	407,5	383,82	459,19	555,98	496,14	516,28	436,89	466,98	475,16	499,17
Turnover on BSE (thousand BGN)	717 023	864 038	1 522 000	774 900	410 800	416 003	705 851	550 041	333 574	88 408	85 303	103 270	112 521
Number of deals on BSE	109 260	68 855	87 069	118 074	60 047	58 442	79 629	54 341	44 167	21 480	15 870	10 441	13 382

Source: BSE, Bloomberg, own calculations



II. The banking sector in Bulgaria

The banking sector operates in an environment of partial recovery of the economic activity, albeit remaining significantly lower compared to the same period of the previous year, and in an environment of restricted measures initiated against the COVID-19 pandemic.

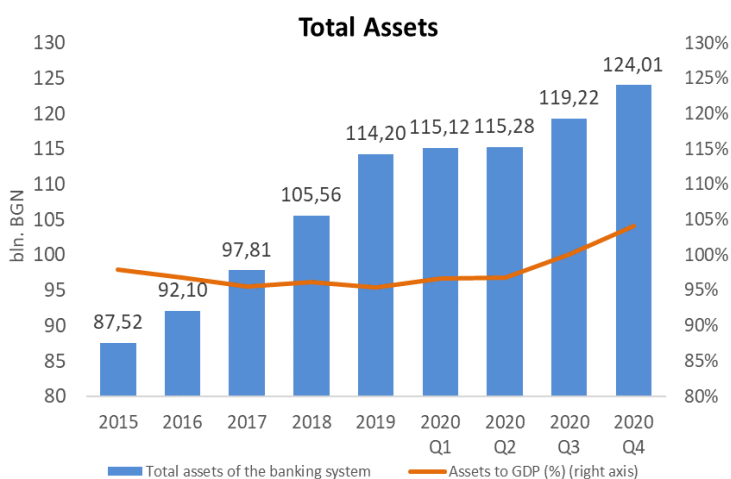
In its quarterly publication [Banks in Bulgaria](#) the Bulgarian National Bank (BNB) pointed out that there is high uncertainty of the outlook for the financial position of corporations and households in the following months. The significant uncertainty surrounding the economic situation requires an increase in the accrued impairments, which, according to the BNB, was among the major factors behind the decreased profits and lower profitability indicators of the banks compared with the previous year.

In December 2020 the proposed by the Association of Banks in Bulgaria (ABB) and approved by the BNB in April 2020 [Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions](#) in relation to the measures taken by the authorities of Republic of Bulgaria to limit the COVID-19 pandemic and its consequences, was reactivated as the households and non-financial corporations continued to take advantage of it.

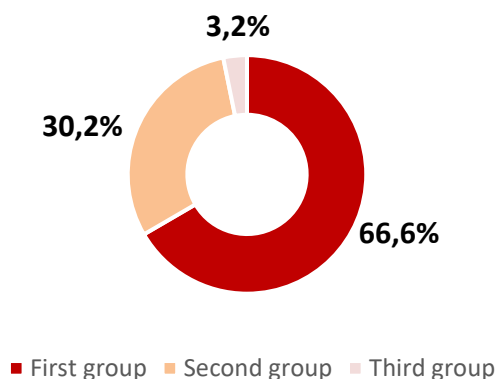
Balance sheet statement (Statement of financial position)

Assets

The growth of assets in the banking sector at the end of Q4 2020 was 8,6% on an annual basis reaching BGN 124 billion. The share of the assets to the projected GDP was 104,1% as of the end of December 2020.



Market share in terms of assets as of the end of Q4 2020



Source: BNB, Ministry of Finance, own calculations



As of the end of Q4 2020 the market share of the five biggest banks in terms of assets increased to 66,6% from 66,2% as it was at the end of Q3 2020. The market share of the banks from the second group rose to 30,2% from 30,1%. The share of the assets of foreign bank branches decreased to 3,2% from 3,7% of the total assets of the banking system as of the end of Q3 2020.

As of December 30, 2020, 58,9% of the assets in the banking system were in the form of loans and receivables, totaling BGN 73,07 billion. Cash balances amounted to BGN 27,11 billion and they comprised 21,9% of the assets. The share of investments in financial instruments was 14,6% (BGN 18,14 billion). For comparison, as of the end of Q3 2020 the share of loans and receivables was 60,4%, the share of the cash balances – 20%, and the investments in financial instruments – 14,9%.

Liabilities

The liabilities in the banking system (excluding equity) were at the amount of BGN 108,65 billion and rose by 11,8% on an annual basis. The banks in the first group comprised 71,7% of the liabilities (BGN 72,07 billion), the second group – 32,5% (BGN 32,67 billion), and branches of foreign banks – 3,9% (BGN 3,91 billion).

The growth of liabilities was driven by the increase in deposits, which comprised 97,3% of their total amount (excluding equity). From the statement of financial position of the system it was evident that the amount of deposits grew by 11,9% on an annual basis to BGN 105,73 billion.

The share of the provisions for loan losses which include unsettled legal issues and lawsuits, credit commitments, guarantees, pensions, etc., accounted for 0,4%, or BGN 388,8 million in absolute terms. The share of financial liabilities, held for trading and other liabilities were respectively 0,2% and 0,7%. The share of all other remaining liabilities is negligible, complementing the sum up to 100%.

Equity

In Q4 2020 the total equity in the banking system increased by BGN 239,6 million (1,6% Q-o-Q) and at the end of December 2020 it stood at the amount of BGN 15,35 billion. At the end of September 2020, its amount was BGN 15,11 billion. That dynamic was influenced mainly by the paid-in capital, premium reserves, accumulated other income and the profit in the banking sector. As of the end of December 2020 the equity increased by 6,6% compared to the same period of the previous year. The equity of the banks in the first group amounted to BGN 10,54 billion, and that of the second group – BGN 4,76 billion.



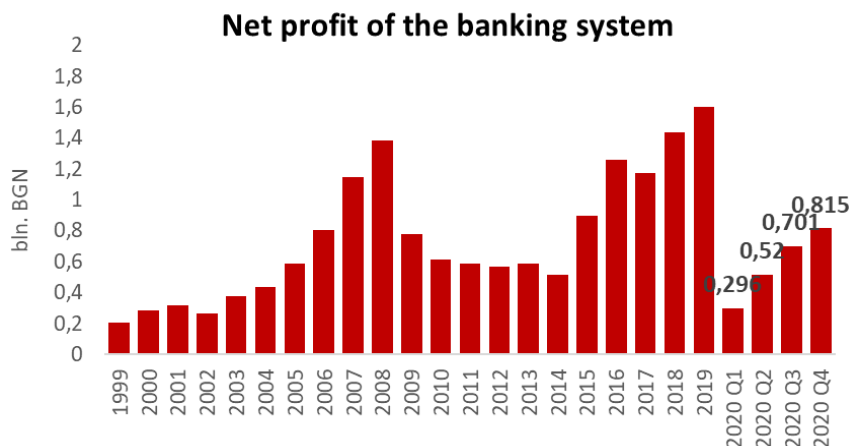
Statement of profit or loss

Net profit

In Q4 2020 the banking sector registered a decrease in the net profit by 39,1% on a quarterly basis to BGN 113,4 million. For comparison, in Q4 2019 the net profit of the banking sector was at the amount of BGN 404,7 million, while in Q3 2020 the net profit was BGN 186 million.

The net profit of the banking sector for 2020 was at the amount of BGN 814,7 million, which was a decline by 51,4% on an annual basis. The financial performance of the system was influenced by the impairment costs and accrued provisions, the dynamics in the lending activity, the lower income from fees and commissions, low interest rates, the optimization of the core expenses and the quality of the credit portfolio. Some one-off effects observed in the financial statements of some banks, as received dividends from subsidiaries, positive result from derecognition of financial assets and liabilities, currency exchange differences and higher impairments and provisions also influence the financial result of the system. By taking into account the one-off effects, the drop of the net profit would be higher.

In its quarterly publication [Banks in Bulgaria](#) the BNB pointed out that the banking system profitability indicators are kept at good level, but at a higher risk level related to future developments in the context of increasing impairment costs. A possible strong decline in the demand for loans amid uncertainty and worsened economic conditions, according to the BNB, may directly affect the operating income of the banks, which, coupled with the need of higher impairment costs in the event of increased credit risk, which may weaken the banking sector profitability.



Source: BNB

The first group of banks generated 88% of the net profit at the end of Q4 2020, the second group – 8,9%, and the third group – 3,2%. For comparison, as of the end of Q3 2020 the five biggest banks in terms of assets contributed by 77,4% to the net profit, the banks in the second group – by 18,5%, and the share of the third group was 4,2%.



Net interest income

As of the end of Q4 2020 the total net operating income of the banking system was at the amount of BGN 4,162 billion compared to BGN 4,232 billion as of the end of Q4 2019. It dropped by 1,7% on an annual basis.

The net interest income of the banks decreased by 3,5% on an annual basis (BGN -96,7 million) to BGN 2,649 billion as of the end of December 2020.

The net interest income is the difference between the interest income and the interest expenses. As of December 31, 2020, the interest income declined by 1% Y-o-Y (BGN -29,7 million) to BGN 3 billion. The interest expenses were at the amount of BGN 353,1 million, which was by 23,4% higher on an annual basis.

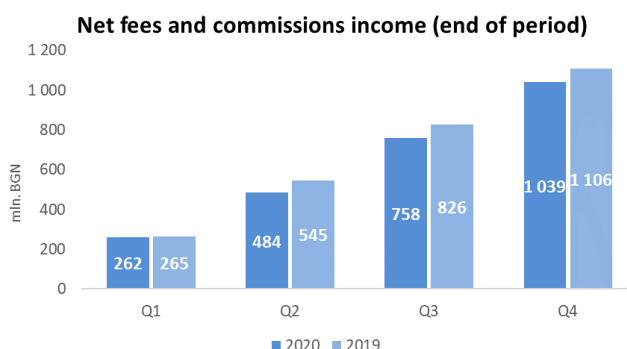
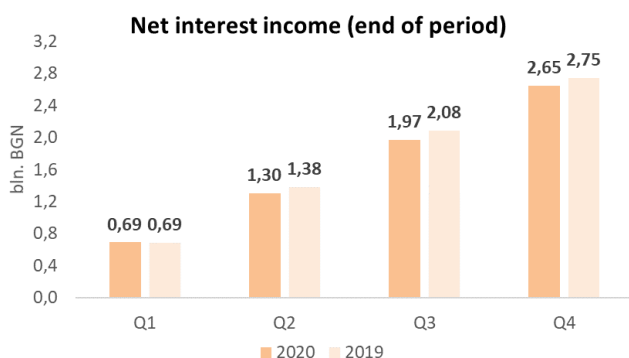
The net interest income comprised 63,6% of the net total operating income of the banking system at the end of Q4 2020. For comparison, in the EU the share of the net interest income was 59,8% of the total operating income, according to the EBA data as of the end of Q3 2020.

Net income from fees and commissions

As of the end of Q4 2020 the net income from fees and commissions decreased by 6,1% on an annual basis (BGN -67,7 million) to BGN 1,039 billion from BGN 1,106 billion a year ago.

The income from fees and commissions dropped by 6,5% on an annual basis (after a drop of 7,8% on an annual basis as of the end of September 2020) to BGN 1,237 billion, and the expenses related with fees and commissions decreased by 8,2% on an annual basis to BGN 198,4 million.

The income from fees and commissions made up 25% of the total net operating income of the system as the share of fees was lower than the EU average, which was 30,2%, according to the EBA data for the third quarter of 2020.



Source: BNB, own calculations

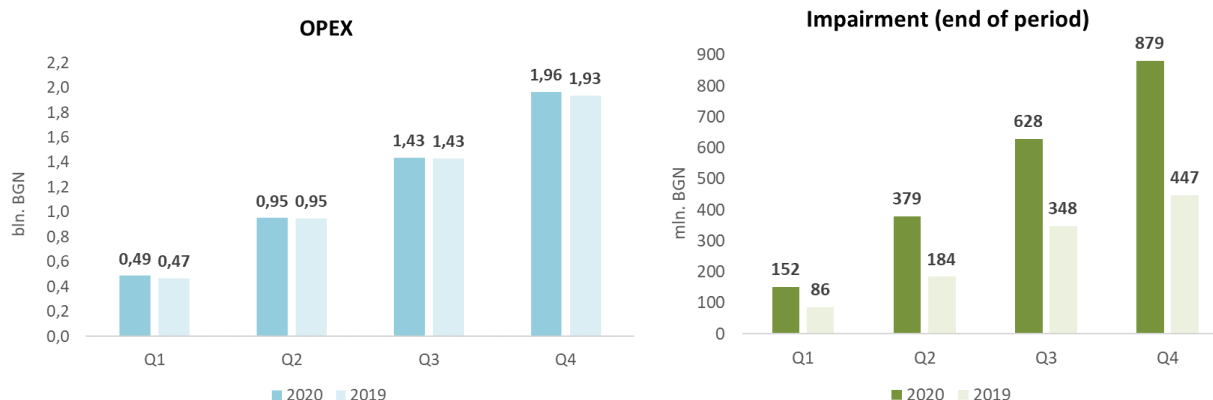


Operating expenses and impairments

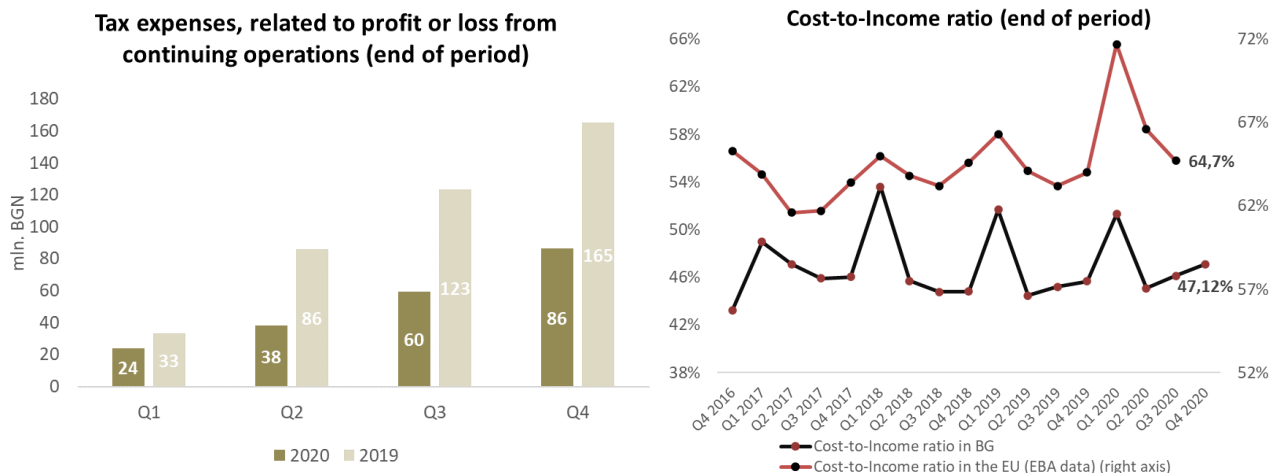
As of the end of Q4 2020 the administrative expenses, which include overhead expenses, were by 0,8% higher compared to the same period of 2019 as they reached BGN 1,677 billion. The total operating expenses, as a sum of the administrative expenses and depreciation, increased by 1,5% on an annual basis to BGN 1,961 billion.

The banking system made more impairments in comparison with the same period in the previous year. The impairments increased to BGN 879 million from BGN 446,8 million a year earlier. According to the application of the International Financial Reporting Standard 9 (IFRS 9), the banks by using their own models make forecasts for potential impairments for the expected credit losses due to COVID-19 and accumulate preliminary provisions before the potential negative effect on the loan impairments occurs. Those actions, in accordance with IFRS, affect the amount of the impairments, made by banks in the course of 2020.

As of the end of Q4 2020 Cost-to-Income ratio for the banking system increased to 47,12% from 46,14% as it was at the end of Q3 2020. According to the EBA data, the average Cost-to-Income ratio in the EU decreased to 64,7% as of the end of Q3 2020.



Source: BNB, own calculations



Source: BNB, EBA, own calculations

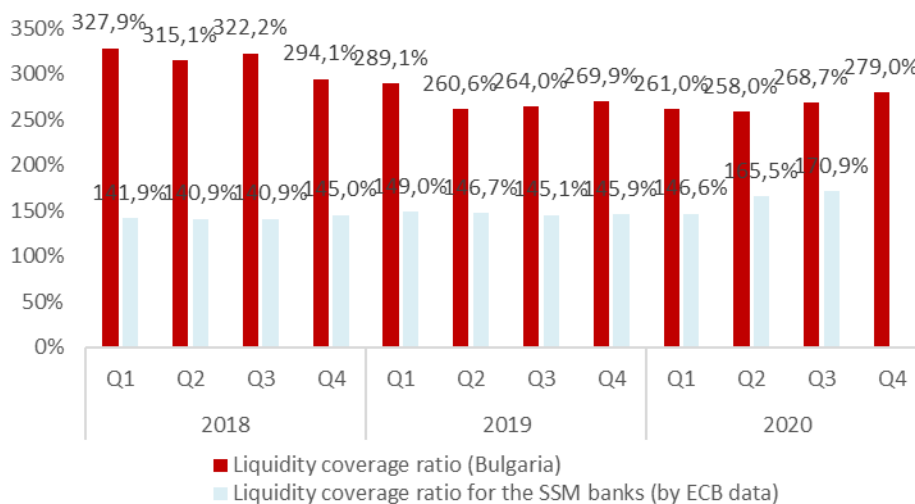


Financial indicators

Liquidity

As of the end of December 2020 the liquidity buffer and the net liquidity outflows were respectively BGN 36,2 billion and BGN 13 billion, according to the BNB data. The liquidity coverage ratio (LCR) was 279% compared to 268,7% as of the end of September 2020. According to the ECB data, as of the end of Q3 2020 the LCR for the banks in the Single Supervisory Mechanism was 170,94%.

Liquidity coverage ratio (LCR)



Source: BNB, ECB

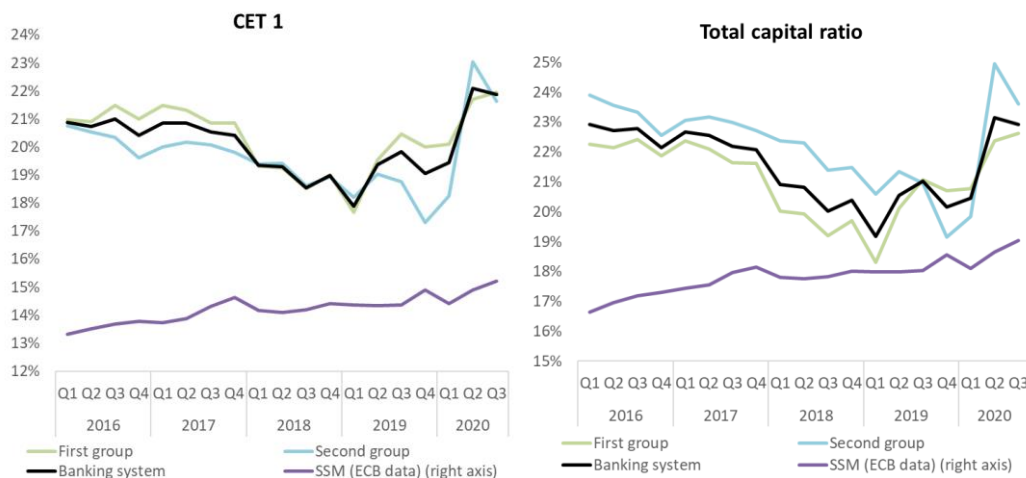
Capital adequacy

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

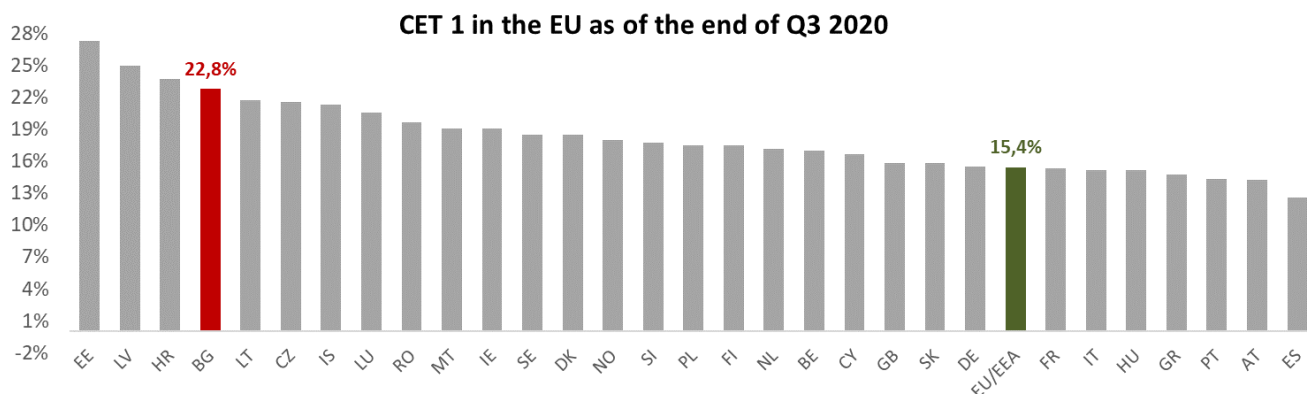
As of the end of Q3 2020 the common equity tier 1 (CET 1) of the whole banking system decreased to 21,86% from 22,10%, as it was at the end of Q2 2020. For the first group of banks the level of the indicator increased to 21,96% from 21,69%, and for the second group it declined to 21,64% from 23,04%.

On a system level the total capital ratio for the Bulgarian banking system dropped to 22,93% from 23,14%. As of the end of September 2020 its level for the banks in the first group was 22,63% and 23,61% for the banks in the second group compared to 22,37% and 24,94%, respectively, a quarter earlier.

The levels of the indicators for the capital adequacy for the banks in Bulgaria are above the average levels for the SSM banks, which according to the ECB data, as of the end of September 2020 were respectively for CET 1 – 15,21% and for the total capital ratio – 19,05%.



Source: BNB, ECB



Source: EBA, Risk Dashboard, Q3 2020

Note: On the graphs, the data for Bulgaria is based on the information submitted to EBA by four banks, and do not refer to the entire banking system

According to the BNB, as of the end of June 2020, the total banking system risk exposures increased by BGN 1,5 billion (2,4%) to BGN 64,3 billion. This increase was mainly driven by credit risk exposures, which rose by BGN 1,6 billion (2,7%) to BGN 58,6 billion, while the credit risk exposures under the standardized approach were by BGN 1 billion (2,3%) more compared to the amount as of the end of June 2020.

The share of the risk weighted exposures for credit risk in the total risk exposures increased to 91,2% at the end of September 2020 from 90,0% at the end of June 2020. The share of exposures to position, currency, and commodity risk decreased to 0,4% at the end of the period from 0,5% at the end of Q2 2020, while the share of risk exposures to operational risk decreased to 8,4% from 8,6% three months earlier, which is evident by the BNB data.

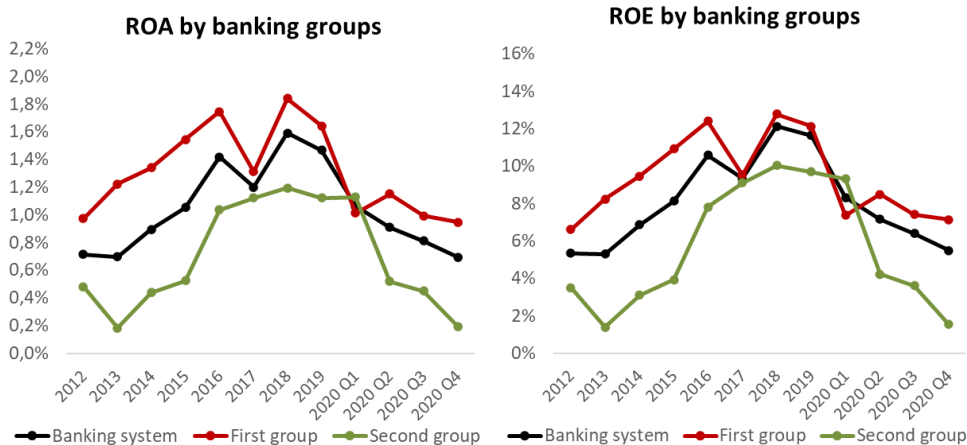
As regards the amount of the capital exceeding the capital requirements and the capital buffers, the BNB registered a level of BGN 4,7 billion compared to BGN 4,8 billion as of the end of June 2020.



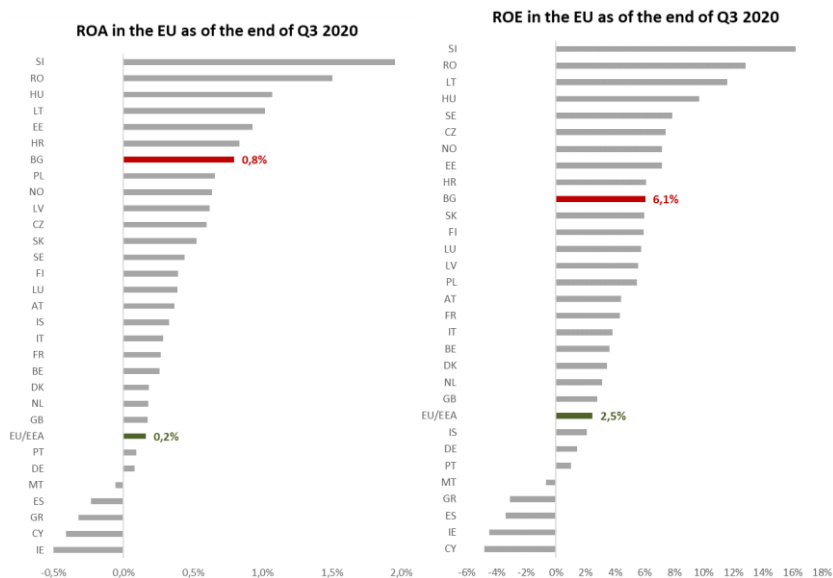
Profitability

As of December 31, 2020, the average Return on Assets (ROA) for the Bulgarian banking system was 0,7% compared to 0,81%, which was recorded as of the end of September 2020 (the average for the European banks was 0,13%, according to the ECB data for Q3 2020). The value of the indicator was 0,95% for the banks in the first group and 0,19% for the banks in the second group as of the end of December 2020.

The average Return on Equity (ROE) for the Bulgarian banking system was 5,48% as of the end of Q4 2020 compared to 6,39% as of the end of the third quarter of this year (according to the ECB data the average ROE for the European banks was 2,12% as of the end of Q3 2020). For the first group of banks in Bulgaria the ratio was 7,14% and for the second group – 1,52%, as of the end of Q4 2020.



Source: BNB, own calculations



Source: EBA Risk Dashboard, Q3 2020

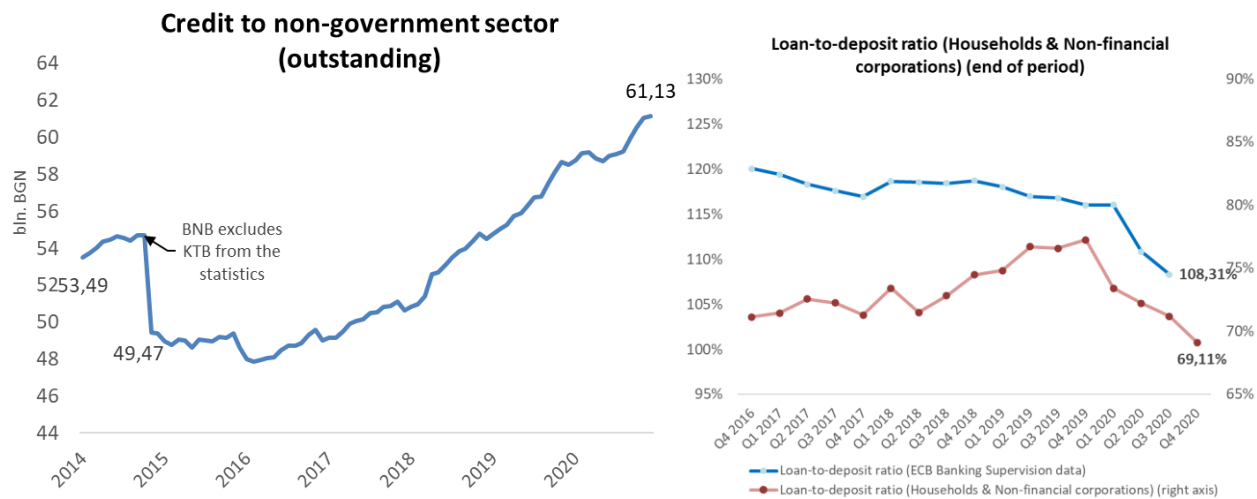
Note: On the graphs, the data for Bulgaria is based on the information submitted to EBA by four banks, and do not refer to the entire banking system



Loans and deposits

In its quarterly publication [Economic Review](#) the BNB expect in the fourth quarter of 2020 and the first quarter of 2021 the formation of precautionary savings by economic agents to continue to contribute to a relatively high growth rate of banking system deposits, while for the lending to the non-government sector the BNB projects further deceleration of the annual growth rates.

As of the end of December 2020, according to the BNB monetary statistics data, the total outstanding amount of loans to the non-government sector (non-financial corporations and households) grew by 4,5% on an annual basis to BGN 61,13 billion, compared with the growth of 4,2% to BGN 59,95 billion as it was at the end of September 2020.



Source: BNB, Monetary Statistics, ECB, own calculations

In December 2020, by a decision of its Governing Council the BNB reactivated the proposed by the Association of Banks in Bulgaria (ABB) and approved by the BNB in April 2020 [Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions](#), from which households and non-financial corporations took advantage of.

As of 31 December 2020, 108 211 applications were filed consisting total amount of loans of BGN 8,76 billion as 89 478 applications for loans at the amount of BGN 8,074 billion were approved. Corporations submitted 13 506 applications amounting to BGN 6,365 billion, as 12 354 of them amounting to BGN 6,365 billion were approved. Households submitted 94 705 applications for BGN 1,94 billion, of which 77 124 amounting to BGN 1,709 billion were approved.

Compared to the end of September 2020, the total number of approved applications by corporations and households decreased by 17 003, and the gross amount of approved liabilities subject of the private moratorium, within the meaning of the Guidelines of the European Banking Authority on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 (EBA/GL/2020/02), dropped by BGN 949,5 million. The BNB data includes the borrowers that applied for, and subsequently voluntarily gave up using the benefits under the moratorium, and also those for whom the grace period had expired.



As of the end of Q4 2020 the amount of non-performing loans (past due more than 90 days; excluding Central Banks and Credit Institutions) declined to BGN 3,322 billion from BGN 3,723 billion a quarter earlier. The share of non-performing loans in the banking system dropped to 4,78% from 5,45% as of the end of September 2020, according to the calculations based on the data of the BNB Banking Supervision Department.

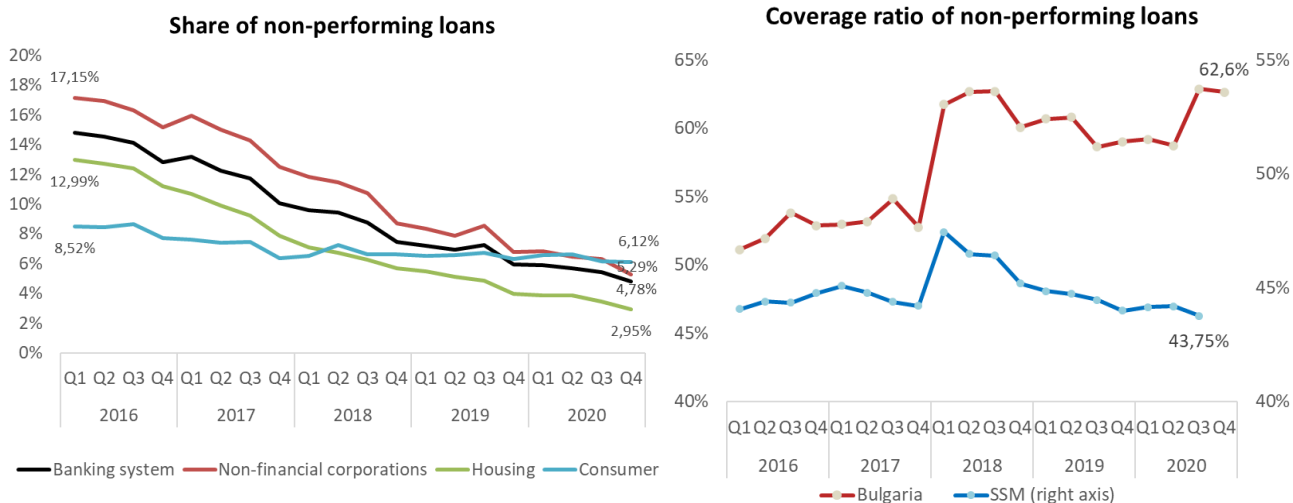
The share of non-performing loans to non-financial corporations declined to 5,29%, compared to 6,33% at the end of the third quarter of 2020. For the same period the ratio in the segment of housing loans decreased to 2,95% from 3,46%. The share of non-performing consumer loans fell to 6,12% from 6,15%.

At the end of December 2020, the amount of non-performing loans to non-financial corporations declined to BGN 2,012 billion from BGN 2,342 billion three months earlier. In the segment of housing loans the amount decreased to BGN 405,6 million from BGN 461,9 million. The non-performing consumer loans were at the amount of BGN 788,6 million, compared to BGN 789,1 million a quarter ago.

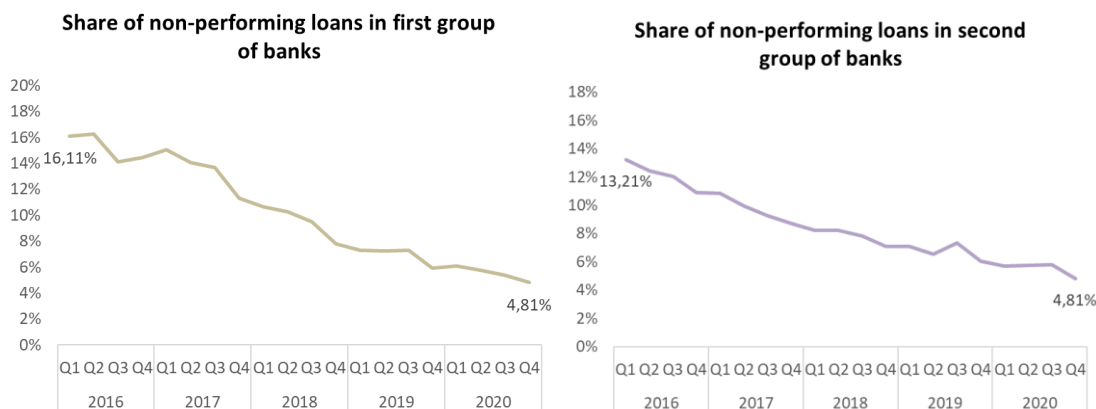
The level of non-performing gross loans reported by the banks in the first group declined to 4,81% as of the end of the fourth quarter of 2020 compared to 5,40% as of the end of Q3 2020. For the banks in the second group the level decreased to 4,81% from 5,78%.

Despite the higher level of non-performing loans compared with 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.

The impairment coverage ratio of gross non-performing loans in the Bulgarian banking system was 62,6% as of the end of Q4 2020 compared to 62,9% a quarter earlier. For comparison, the coverage ratio for the European banks, according to the ECB data for Q3 2020 was 43,75%.

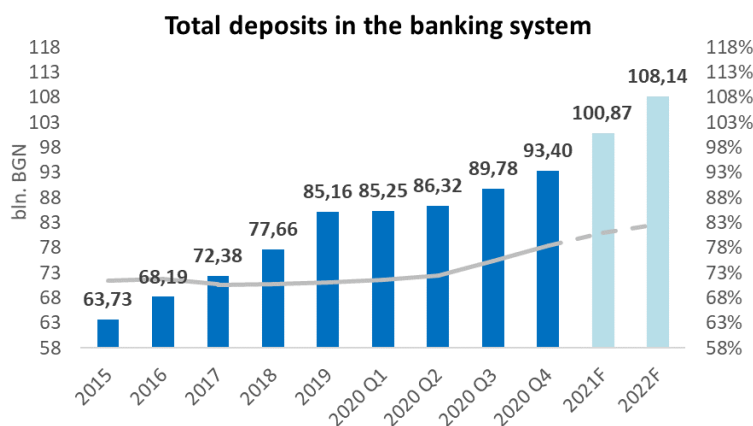


Source: BNB, ECB, own calculations



Source: BNB, own calculations

Deposits, attracted by the banks, continued to grow. As of the end of December 2020 the total amount of outstanding deposits in the banking system reached BGN 93,4 billion 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 9% which was reported at the end of September 2020.

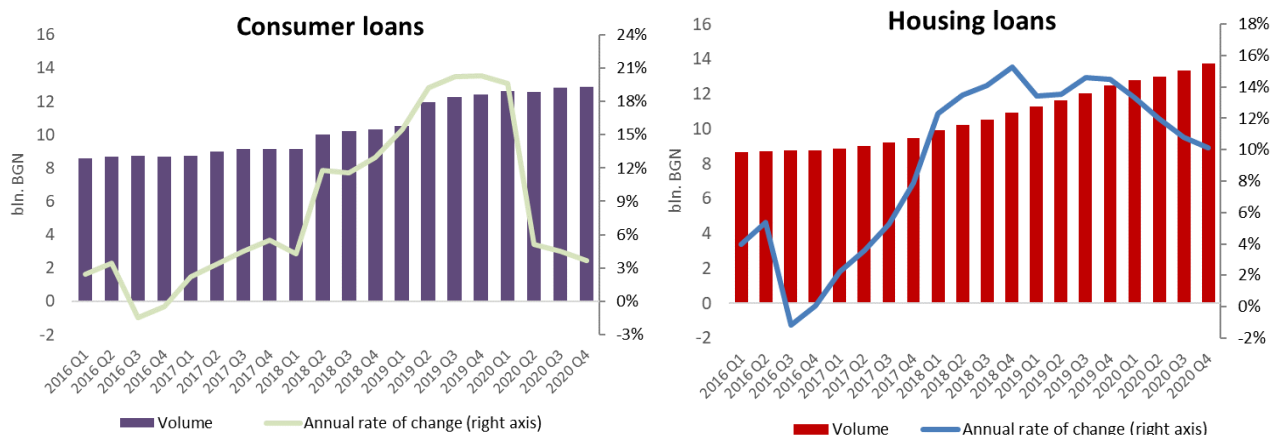


Source: BNB, own calculations, Forecast: BNB, Ministry of Finance

Loans and deposits to households

As of the end of Q4 2020, according to the data of the BNB Banking Supervision Department, the amount of consumer loans was BGN 12,88 billion compared to BGN 12,82 billion a quarter earlier and BGN 12,43 billion a year earlier. In Q4 2020 the amount of consumer loans grew by a slower pace of 3,7% on an annual basis and increased slightly by 0,5% on a quarterly 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 13,75 billion compared to BGN 13,33 billion as of the end of Q3 2020 and BGN 12,49 billion as of the end of the fourth quarter in the previous year. The quarterly increase was by 3,1% and by 10,1% on an annual basis, which was slower, according to the BNB statistics.

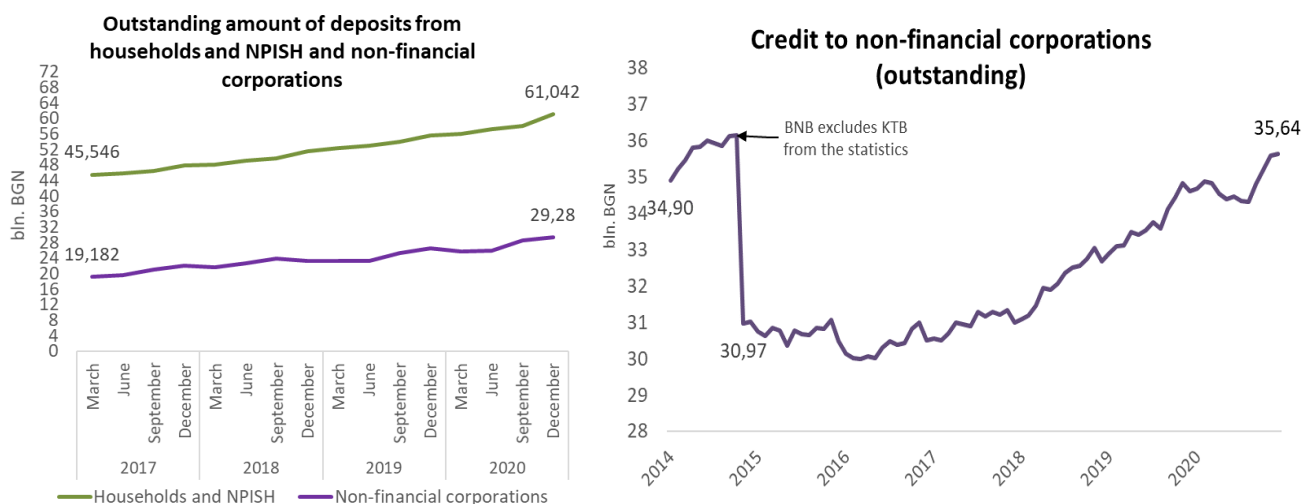


Source: BNB, Banking Supervision Department, own calculations

As of the end of Q4 2020 the total amount of deposits to households and NPISH grew by 9,7% on an annual basis after an annual increase by 7,9% at the end of September 2020. Deposits from households were BGN 61,04 billion (51,3% of the forecasted GDP). The share of the household sector in the total amount of deposits in the banking system was 65,4%.

Loans and deposits of non-financial corporations

As of December 31, 2020, the outstanding amount of deposits from non-financial corporations increased by 10,5% Y-o-Y, after an annual increase of 12,4% as of the end of September 2020 amounting to BGN 29,28 billion (24,6% of the forecasted GDP). The outstanding amount on loans to non-financial corporations grew by only 2% Y-o-Y to BGN 35,64 billion. Except overdrafts, loans to non-financial corporations slowed their pace of growth to 4,2% on an annual basis, reaching BGN 24,12 billion in absolute terms (after growth of 5,3% on an annual basis in September 2020).



Source: BNB, Monetary statistics



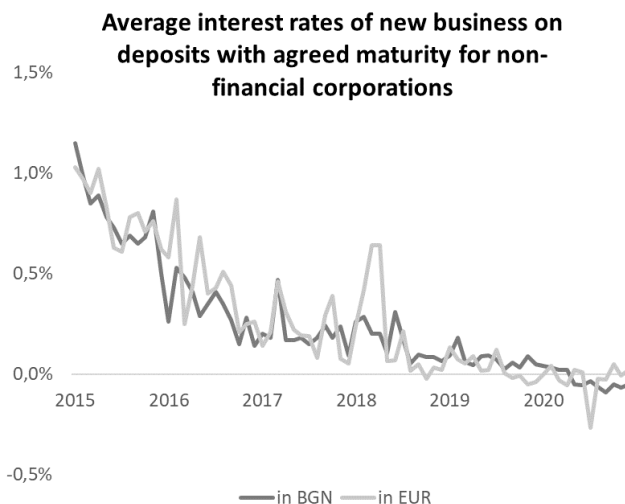
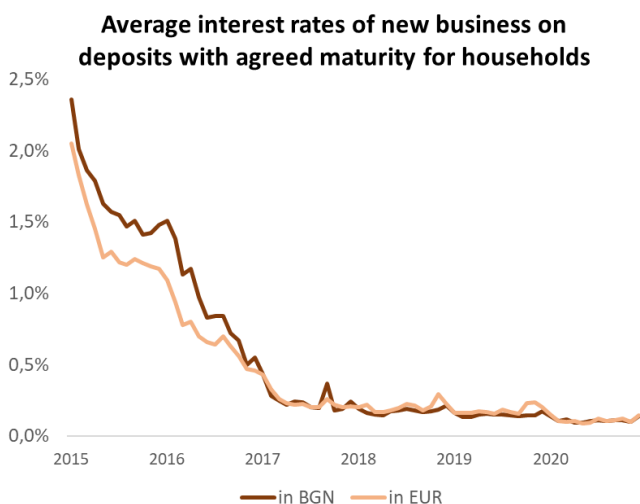
Interest rates

In its quarterly publication [Economic Review](#) the BNB assumes that in the fourth quarter of 2020 and the first quarter of 2021 interest rates on deposits would remain at their very low levels, reflecting the continuous inflow of attracted funds and the high liquidity in the banking system. According to the BNB, the expiry of the deadline for deferring liabilities declared by firms and households under the *Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions* as well as the propensity of the economic agents for loan demand and the risk appetite perception of the banks would influence the lending interest rates.

Interest rates on deposits

As of the end of Q4 2020 the average interest rates on deposits with agreed maturity to non-financial corporations on new business in BGN increased to -0,05% from -0,09% as they were at the end of September 2020. Regarding the interest rates in EUR the BNB monetary statistics recorded an average level of 0,02% as of the end of December 2020 compared with -0,03% as of the end of September 2020.

As of the end of December 2020 the average interest rates on deposits with agreed maturity on new business in BGN to households increased slightly on a quarterly basis to 0,14% compared to 0,11% at the end of September 2020. The interest rate levels on deposits with agreed maturity on new business in EUR also rose to 0,14% from 0,11% compared to the end of Q3 2020.



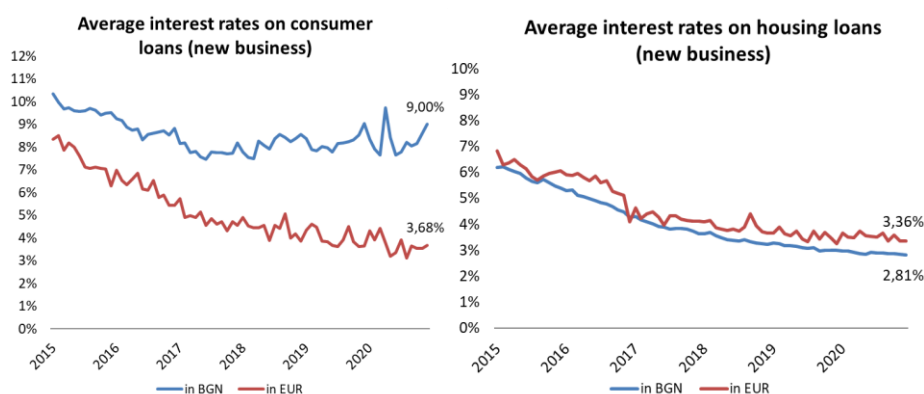
Source: BNB



Interest rates on loans

As of the end of December 2020 the average interest rates on consumer loans agreed in BGN increased to 9%, compared to 8,06% at the end of the third quarter of 2020. The interest rates on consumer loans agreed in EUR rose to 3,68% as of the end of December 2020 in comparison with 3,66% three months earlier.

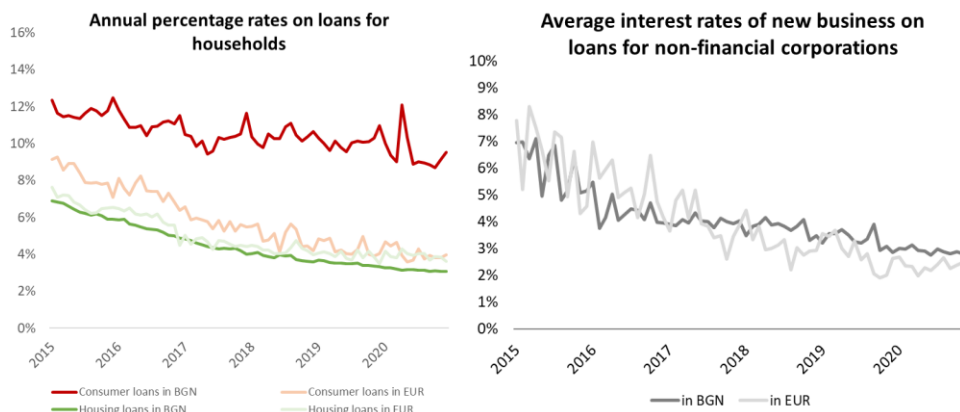
As of the end of Q4 2020 the average interest rates on housing loans fell to 2,81% from 2,87% for the loans agreed in BGN compared with a quarter earlier. For the same period the average interest rates on housing loans in EUR recorded a slight increase to 3,36% from 3,35%.



Source: BNB

As of the end of December 2020 the annual percentage rate (APR), which includes the interest rate component and the component of all other fees and commissions, dropped to 3,07% from 3,08% for housing loans in BGN and fell to 3,61% for housing loans in EUR from 3,67% a quarter earlier. The level of the APR on consumer loans was 9,53% and 3,96%, respectively, for loans in BGN and in EUR, compared with 8,85% and 3,94% three months earlier.

The average interest rates on new business on loans to non-financial corporations remained unchanged at 2,80% for loans in BGN, while it declined to 2,15% from 2,26% for loans in EUR compared to the end of the previous quarter. The level of the interest rates for the loans to non-financial corporations agreed in US dollars increased to 3,38% from 3,01% a quarter ago.



Source: BNB



Disclaimer

This document is for information purposes only. It is prepared by Banking Policy and Analyses Division of the Association of Banks in Bulgaria, using materials and data, published by the National Statistical Institute (NSI), Eurostat, the Bulgarian National Bank (BNB), the Ministry of Finance (MF), the European Central Bank (ECB), the European Banking Authority (EBA), the European Commission (EC), the International Monetary Fund (IMF), the World Bank (WB), the European Banking Federation (EBF) and the European Bank for Reconstruction and Development (EBRD). Pictures' source – pixabay.com.

The information in this publication is general in nature. It cannot be perceived as a recommendation for buying or selling financial instruments or securities and it is not a proposal or prospectus within the meaning of the Law on Public Offering of Securities, the Law on Markets in Financial Instruments or other related regulatory acts, including foreign ones.

Neither the Association of Banks in Bulgaria, nor its members cannot be held responsible for the accuracy or completeness of this information.

All historical rates, statistical data and graphs are up to date, up to and including February 4, 2021, unless otherwise stated.

The views provided are those prevailing as of February 4, 2021.