



THE ECONOMY AND THE BANKING SECTOR IN BULGARIA

FIRST QUARTER OF 2021



SOFIA



HIGHLIGHTS

- In Q4 2020 the Bulgarian economy contracted by 4,7% on an annual basis due to a drop of the net export and private consumption
- The inflation slowed its growth to 0,2% year-on-year in Q1 2021
- As of the end of March 2021 the unemployment in Bulgaria decreased to 5,1%
- The budget deficit was 0,5% of the GDP as of the end of Q1 2021
- As of the end of Q1 2021 the total assets of the banking system grew by 10,6% on an annual basis to the amount of BGN 127,36 billion (102,3% of the forecasted GDP)
- In Q1 2021 the net profit of the banking sector was BGN 349,4 million after a decline of the net interest income and the net income from fees and commissions
- The dynamics in lending, the impairment expenses, the lower expenses related to the restructuring funds and the deposits guarantee scheme, the low interest rates, the management of the quality of the credit portfolio as well as some one-off effects influenced the financial result of the sector
- The deadline for applications to 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* expired at the end of March 2021
- In Q1 2021 the loan growth was more pronounced for the household's sector
- The average interest rates on new loans and on new deposits with agreed maturity declined



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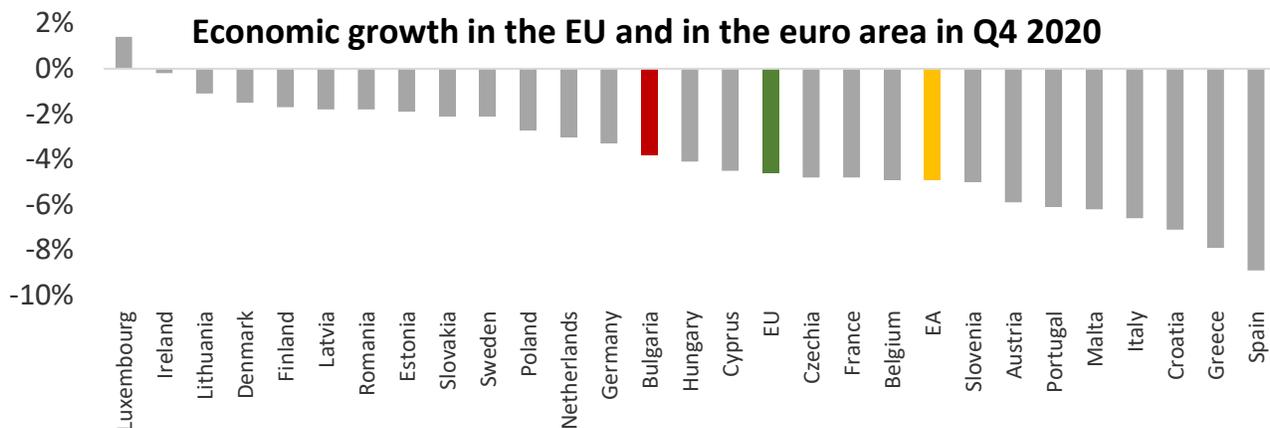
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I. The Bulgarian economy

Economic growth

In Q4 2020 the Bulgarian real gross domestic product (GDP) contracted by 4,7% on an annual basis, according to the preliminary unadjusted data of Eurostat. The average drop for the EU in the period October-December 2020 was by 4,6% year-on-year, and that of the euro area – by 4,9% on an annual basis.



Source: Eurostat, Seasonally and calendar adjusted data

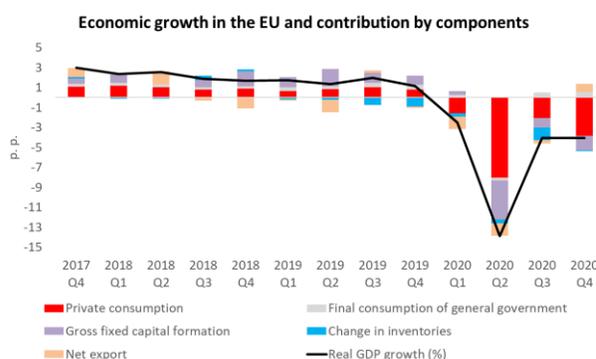
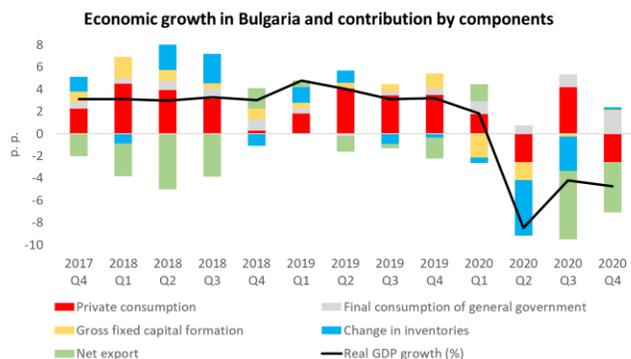
Note: The GDP of Bulgaria dropped by 3,8% on an annual basis, according to the seasonal and calendar adjusted data

According to the preliminary data of Eurostat, the economic drop in Q4 2020 was driven by declines of the net export and private consumption, while 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), decreased by 4,3% on an annual basis and contributed to the yearly GDP drop by 2,6 percentage points (p.p.) compared to the registered positive contribution of 4,2 p.p. in Q3 2020. The consumption of the general government, which growth rate increased by 12,5% on an annual basis, contributed by 2 p.p. compared to 1,1 p.p. a quarter earlier.

In Q4 2020 the gross fixed capital formation increased by 0,9% on an annual basis after a decline by 1,4% on an annual basis in the previous quarter. In Q4 2020 the contribution of the business investments to the GDP was by 0,1 p.p. compared to the negative contribution of -0,3 p.p. three months earlier. The contribution of inventories was by 0,2 p.p. after five consecutive quarters with a negative contribution.

In Q4 2020 the export of goods and services decreased by 9,3% on an annual basis after a drop by 17,7% Y-o-Y three months earlier. The import dipped by 1,2% on an annual basis after a decline of 6,1% Y-o-Y in Q3 2020. In the period the contribution of the net export was negative (-4,5 p.p.). The trade deficit was 3,1% of GDP compared with the deficit of 1,6% as of the end of the previous quarter.



Source: Eurostat, own calculations

In comparison, the drop of the GDP in the EU in Q4 2020 was due to the registered decline of the private consumption and investments.

In its [Macroeconomic forecast](#) the Bulgarian National Bank (BNB) expects the real GDP of Bulgaria to increase by 3,8% in 2021, accelerating further to 3,9% in 2022, followed by a slowdown to 3,2% in 2023. According to the BNB, the projected return to growth in the real GDP during 2021 would reflect mainly a transition from a negative to a positive contribution of both net exports and fixed capital investment. Private and government consumption would continue to contribute positively to GDP changes throughout the year. According to the BNB, the real GDP is expected to reach its pre-crisis level in 2022, followed by a slowdown in the growth rate of economic activity.

Different national and international organizations and institutions forecast that the economic growth in Bulgaria is going to vary between 2,7% and 4,4% in 2021. The forecasts are for an increase of the GDP between 3,6% and 4,9% in 2022.

Key indicators for the Bulgarian economy	2012	2013	2014	2015	2016	2017	2018	2019	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2020	2021 Q1	2021F	2022F	2023F	2024F
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	33 162	118 605	-	-	-	-	-
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	-4,7	-4,2	-	-	-	-	-
GDP (real Y-o-Y growth, %) - forecasts														MF (April 2021)	2,7	3,6	3,4	2,7
														BNB (March 2021)	3,8	3,9	3,2	-
														IMF (April 2021)	4,4	4,4	-	-
														WB (January 2021)	3,3	3,7	-	-
														EC (February 2021)	2,7	4,9	-	-
														EBRD (October 2020)	3	-	-	-
														OECD (January 2021)	3,3	3,7	-	-
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	-0,3	1,8	-	-	-	-	-
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	-4,3	0,2	-	-	-	-	-
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	12,5	7,5	-	-	-	-	-
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	0,9	-5,1	-	-	-	-	-
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	-9,3	-11,3	-	-	-	-	-
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	-1,2	-6,6	-	-	-	-	-
Trade balance/GDP (%)	-9,5	-7,0	-6,5	-5,8	-2	-1,5	-4,8	-4,7	-0,6	-1	-1,6	-3,1	-3,1	-	-	-	-	-
Foreign direct investments in Bulgaria (mln. EUR)	1320,9	1383,7	347,4	2000,9	939,8	1605,6	967,5	1538,8	341,0	673,9	2 218,7	2 123,9	2 123,9	-	-	-	-	-
Foreign direct investments/GDP (%)	3,1	3,3	0,8	4,4	1,9	3,1	1,7	2,5	0,6	1,1	3,7	3,5	3,5	-	-	-	-	-
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	1,2	0,2	-	-	-	-

Source: NSI, Eurostat, Bulgarian National Bank

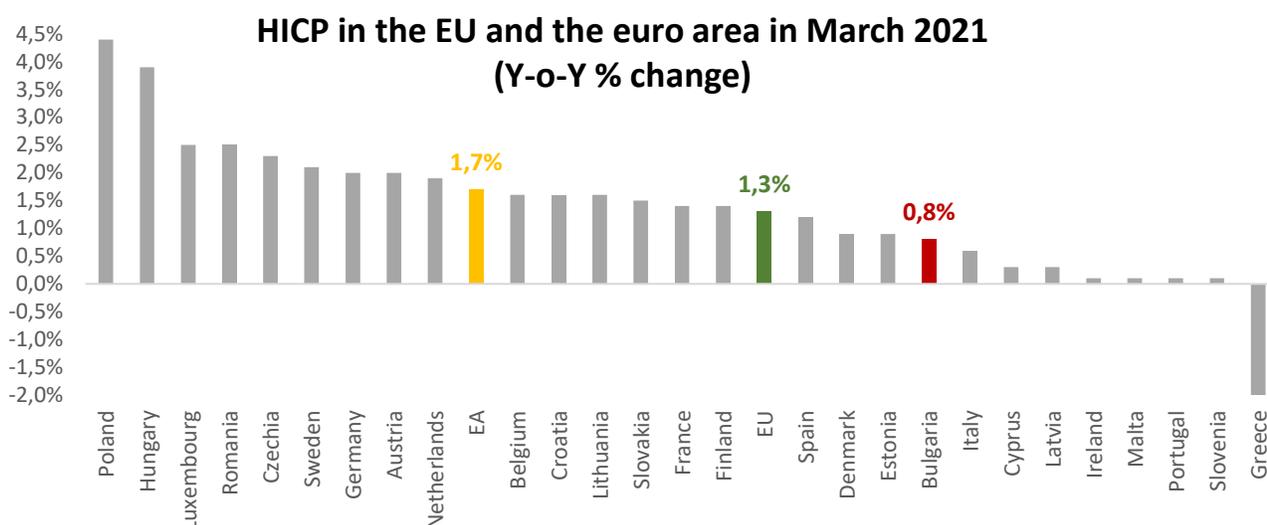
Forecasts: Bulgarian National Bank, Ministry of Finance, International Monetary Fund, World Bank, European Commission, European Bank for Reconstruction and Development, Organisation for Economic Co-operation and Development



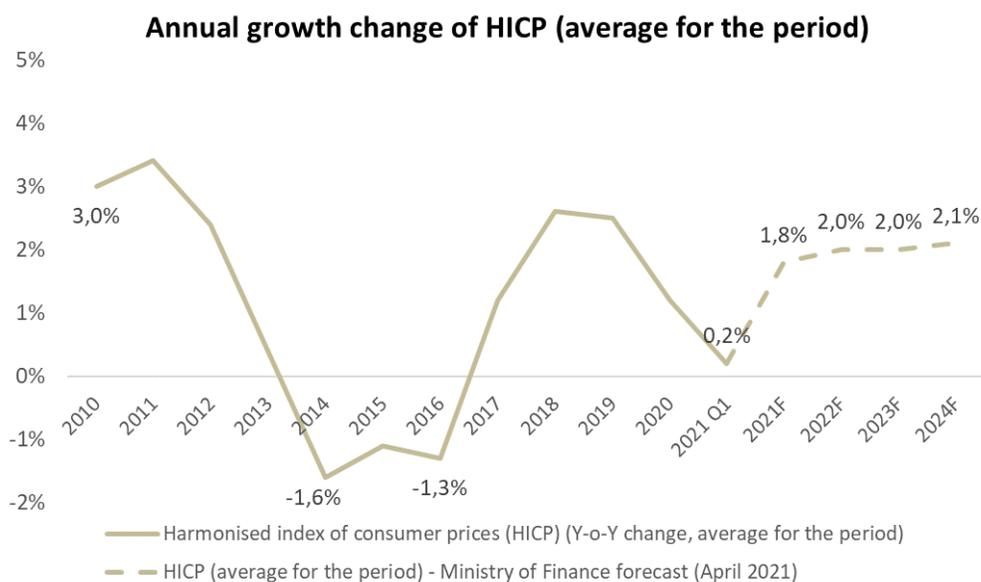
Inflation

In Q1 2021 the growth of the harmonized index of consumer prices (HICP) slowed down to 0,2% on an annual basis from 0,3% Y-o-Y in Q4 2020. In March 2021 the inflation in Bulgaria stood at 0,8% Y-o-Y, compared to 1,3% in the EU and 1,7% in the euro area.

In its regular [Monthly Report on the Bulgarian Economy](#) the Ministry of Finance (MF) pointed out that the prices of energy goods and of services contributed to the overall inflation. For the period 2021-2024 the MF forecasts inflation between 1,8-2,1%.



Source: Eurostat



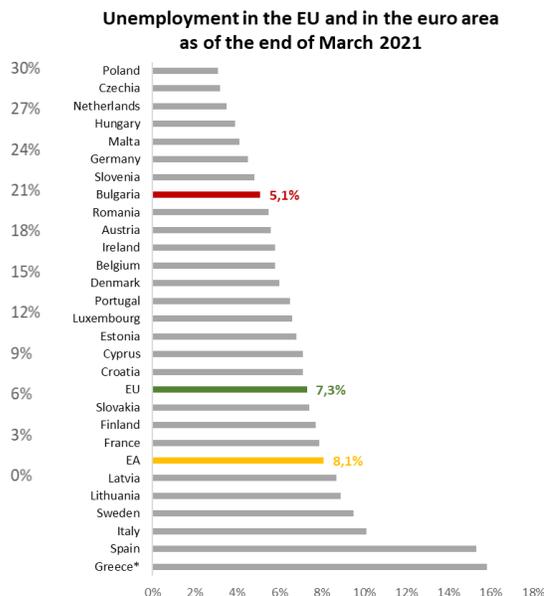
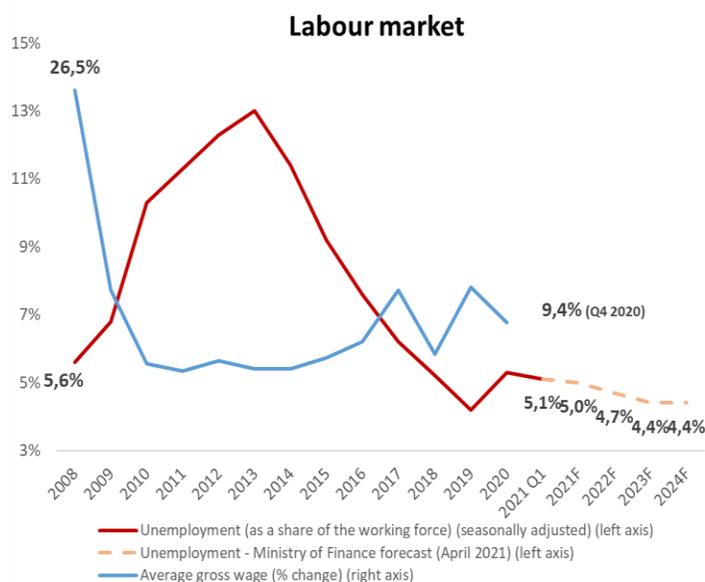
Source: NSI, Eurostat
Forecast: Ministry of Finance



Labour market

In March 2021 the level of unemployment, measured as a share of the working force, decreased to 5,1% from 5,4% at the end of Q4 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 fourth amongst the countries in the Central and Eastern European (CEE) region. As of the end of March 2021 the number of unemployed in Bulgaria dropped to 169 thousand from 177 thousand as of the end of Q4 2020, but it was higher than the registered 135 thousand as of the end of Q1 2020.

The level of the unemployed young people (under 25 years) remained unchanged at 14,9% as it was at the end of Q4 2020. At the end of March 2021, the average level of the youth unemployment in the EU was 17,1%, as the largest share is observed in Spain, Greece and Italy.



Source: Eurostat, Ministry of Finance, NSI

Note: * December 2020

Key indicators for the Bulgarian economy

	2012	2013	2014	2015	2016	2017	2018	2019	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2020	March 2021
Labour market														
Unemployment (as a share of the working force) (seasonally adjusted)	12,3	13	11,4	9,2	7,6	6,2	5,2	4,2	4,1	5,8	5,3	5,4	5,1	5,1
Employed (15+ years) (thousands)	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	3 126,9	3 121,7	
Employed in "Finance and Insurance" sector (thousands), of which:														
Employed in the banking sector (thousands)	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	1 459	1 508	1 578	1 608	1 709	1 788	1 904	2 074	2 120	2 287	2 106	2 250	-	-

Source: Eurostat, Ministry of Finance, NSI, ECB



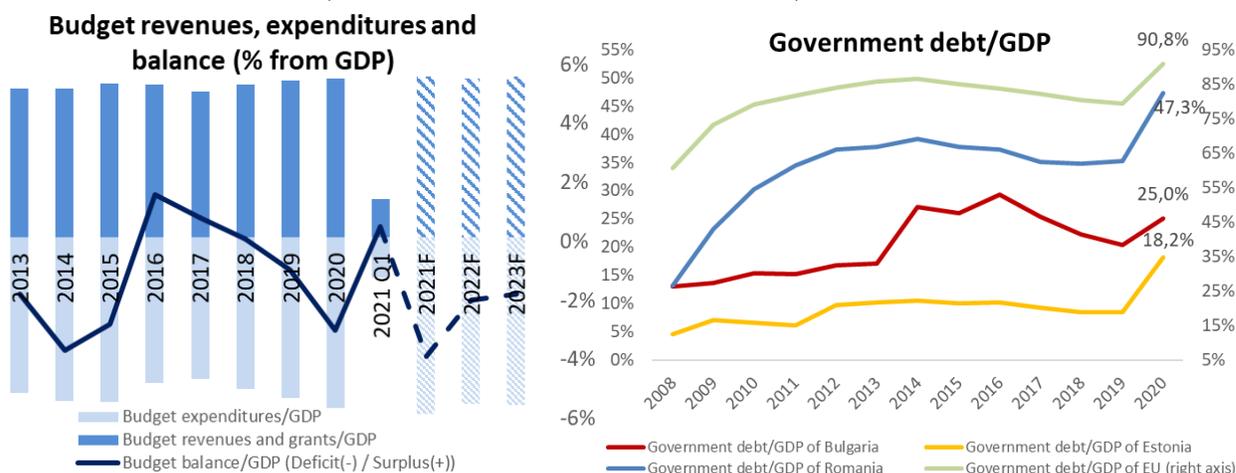
Public sector

According to the Ministry of Finance (MF) preliminary data, as of the end of March 2021 the state budget had a negative balance of BGN 619,4 million (0,5% from the projected GDP). For April 2021 the MF forecasts a surplus of BGN 735 million.

The amount of the budget revenues and grants on the Consolidated Fiscal Programme for the period January-March 2021 was BGN 11,348 billion (9,1% from the projected GDP). Compared to the same period of the previous year when budget revenues were not yet affected negatively by the COVID-19 outbreak in Bulgaria, proceeds as of March 2021 have grown by BGN 370,8 million (or by 3,4%). Tax and non-tax proceeds register a growth by BGN 501,6 million (4,9%).

In Q1 2021 budget expenditures (including the EU budget contribution of Bulgaria) amounted to BGN 11,968 billion (9,6% from the projected GDP). The amount of the expenditures was BGN 9,55 billion compared to the same period of 2020. The considerable growth of expenditures in Q1 2021, as compared to the same period of the previous year, was related, on the one hand, with the lower base in 2020 when insignificant expenditures for fighting COVID-19 were reported, while in Q1 2021 those expenditures were considerable, and, on the other hand, with the income and social policies.

As of the end of March 2021, the fiscal reserve totaled BGN 7,9 billion.



Source: Ministry of Finance, Eurostat

The share of the government debt to GDP increased to 25% as of the end of 2020 compared to 25,3% at the end of Q3 2020. Bulgaria is the second among the countries with the lowest government debt after Estonia (18,2%). Luxembourg is third with 24,9%. The government debt to GDP ratio for Bulgaria is below the EU average, which rose to 90,8% at the end of 2020.

The Long-term Interest Rate for Convergence Assessment Purposes (LTIR) dropped to 0,14% as of the end of March 2021 from 0,19%, as it was at the 31st of December 2020. For comparison, as of the end of March 2021 the LTIR in Romania was 2,96%, in Poland – 1,53%, in Hungary – 2,68%, in Croatia – 0,51%, and in the Czech Republic – 1,87%. 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

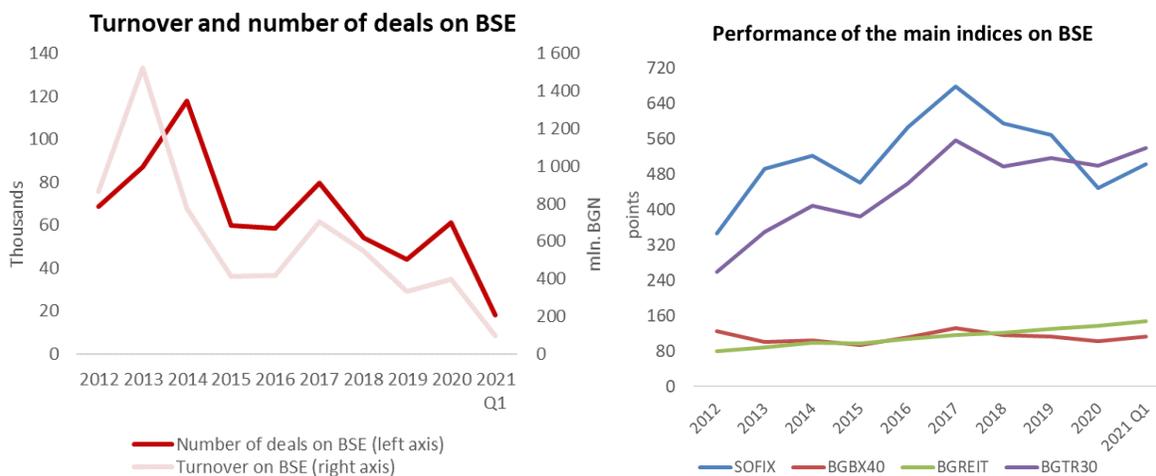
At the end of March 2021, the main indices on the Bulgarian Stock Exchange (BSE) rose compared to the end of Q4 2020 as follows: SOFIX by 12,2%, BGBX40 by 11,6%, BGREIT by 7,1% and BGTR30 by 7,9%.

In Q1 2021 the Bulgarian index SOFIX was with the second largest increase among the major stock market indices in the CEE region.

As of March 31, 2021, the market capitalization on the BSE (main market and alternative market) decreased by 1,1% on a quarterly basis to BGN 28,67 billion (23% of GDP) from BGN 28,35 billion (23,9% of GDP).

During the period January-March 2021 the turnover on the stock exchange dropped by 15,3% on a quarterly basis to BGN 95,3 million. An increase of 7,8% was registered on an annual basis. In Q1 2021 the number of transactions increased by 34,3% on a quarterly basis, but there was also a drop by 16,3% on an annual basis, to 17 969.

In Q1 2021 the banks, members of the BSE, performed 3,1% of the turnover and 4,4% of the total transactions on the regulated market (the principle of double reporting). In the previous quarter the banks, members of BSE, concluded 3,5% of all transactions and 6% of the total turnover on the regulated market.



Source: BSE, own calculations



No	Country	Index	31 December 2020	31 March 2021	Change in Q1 2021
1	Romania	BET	9 805,60	11 189,60	14,11%
2	Bulgaria	SOFIX	447,53	502,28	12,23%
3	Greece	ASE	808,99	865,05	6,93%
4	Slovenia	SBITOP	940,92	990,21	5,24%
5	Croatia	CROBEX	1 791,94	1 872,22	4,48%
6	Russia	MOEX	3 390,76	3 541,72	4,45%
7	Serbia	BELEX	1 525,26	1 585,54	3,95%
8	Slovakia	SAX	351,09	363,36	3,49%
9	Czech Republic	PSE	1 055,77	1 090,50	3,29%
10	North Macedonia	MBI 10	4 704,85	4 845,05	2,98%
11	Hungary	BUX	43 507,13	44 326,18	1,88%
12	Poland	WIG	57 025,84	58 081,50	1,85%
13	Turkey	XU 100	1 536,11	1 391,73	-9,40%

Source: BSE, Bloomberg, own calculations

Key indicators for the capital market in Bulgaria

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 Q1
Capital market										
Market capitalization/GDP	12,0%	12,2%	11,6%	9,6%	10,2%	24,3%	24,4%	23,3%	23,8%	23,0%
SOFIX	345,46	491,52	522,1	460,9	586,43	677,45	594,46	568,14	447,53	502,28
BGBX40	125,11	100	104,61	92,82	111,3	132	115,91	111,83	101,38	113,15
BGREIT	79,62	88,66	98,75	97,03	108,11	116,1	121,07	130,03	137,69	147,43
BGTR30	257,87	349,03	407,5	383,82	459,19	555,98	496,14	516,28	499,17	538,57
Turnover on BSE (thousand BGN)	864 038	1 522 000	774 900	410 800	416 003	705 851	550 041	333 574	397 500	95 305
Number of deals on BSE	68 855	87 069	118 074	60 047	58 442	79 629	54 341	44 167	61 173	17 969

Source: BSE, Bloomberg, own calculations



II. The banking sector in Bulgaria

The banking sector operates in an environment of continuing recovery of the economic activity and in an environment of new restricted measures initiated against the COVID-19 pandemic.

In its quarterly publication [Banks in Bulgaria](#) the BNB pointed out that the risks for the financial position and creditworthiness of corporations and households still persist, as the economic activity and internal demand, measured on an annual basis, are well below their levels from the pre-pandemic 2019.

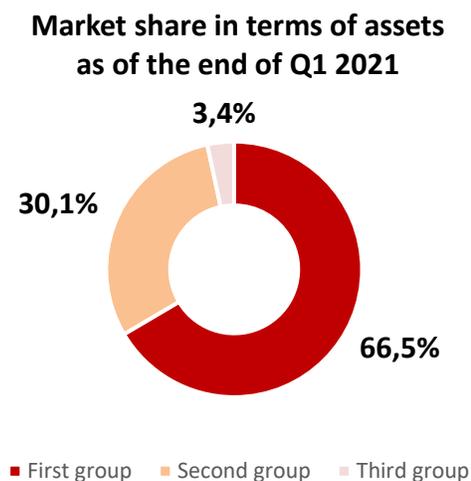
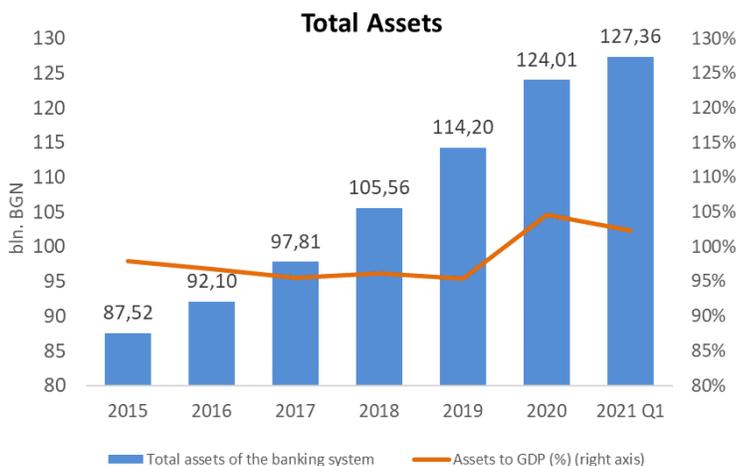
The deadline for applications to the proposed by the Association of Banks in Bulgaria (ABB) and approved by the BNB in April 2020 [Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions](#) in relation to the measures taken by the authorities of Republic of Bulgaria to limit the COVID-19 pandemic and its consequences, expired at the end of March 2021.

Balance sheet statement (Statement of financial position)

Assets

The growth of assets in the banking sector at the end of Q1 2021 was by 10,6% on an annual basis reaching BGN 127,36 billion (102,3% of the forecasted GDP).

As of the end of Q1 2021 the market share of the five biggest banks in terms of assets decreased to 66,5% from 66,6% as it was at the end of Q4 2020. The market share of the banks from the second group declined to 30,1% from 30,2%, while the share of the assets of foreign bank branches increased to 3,4% from 3,2% registered at the end of Q4 2020.



Source: BNB, Ministry of Finance, own calculations



As of March 31, 2021, 60,2% of the assets in the banking system were in the form of loans and receivables, totaling BGN 76,62 billion. Cash balances amounted to BGN 25,49 billion and they comprised 20% of the assets. The share of investments in financial instruments was 15,3% (BGN 19,49 billion). For comparison, as of the end of Q4 2020 the share of loans and receivables was 58,9%, the share of the cash balances – 21,9%, and the investments in financial instruments – 14,6%.

Liabilities

The liabilities in the banking system (excluding equity) were at the amount of BGN 111,72 billion and rose by 11,2% on an annual basis. The banks in the first group comprised 66,2% of the liabilities (BGN 73,95 billion), the second group – 30% (BGN 33,54 billion), and branches of foreign banks – 3,8% (BGN 4,23 billion).

The growth of liabilities was driven by the increase in deposits, which comprised 97% 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 11,2% on an annual basis to BGN 108,4 billion.

The share of the provisions which include unsettled legal issues and lawsuits, credit commitments, guarantees, pensions, etc., accounted for 0,4%, or BGN 430 million in absolute terms. The share of financial liabilities, held for trading and other liabilities were respectively 0,2% and 1%. The share of all other remaining liabilities is negligible, complementing the sum up to 100%.

Equity

In Q1 2021 the total equity in the banking system increased by BGN 289,5 million (1,9% Q-o-Q) and at the end of March 2021 it stood at the amount of BGN 15,64 billion. At the end of December 2020, its amount was BGN 15,35 billion. As of the end of March 2021 the equity increased by 7,1% compared to the same period of the previous year. The equity of the banks in the first group amounted to BGN 10,79 billion, and that of the second group – BGN 4,78 billion.

Statement of profit or loss

Net profit

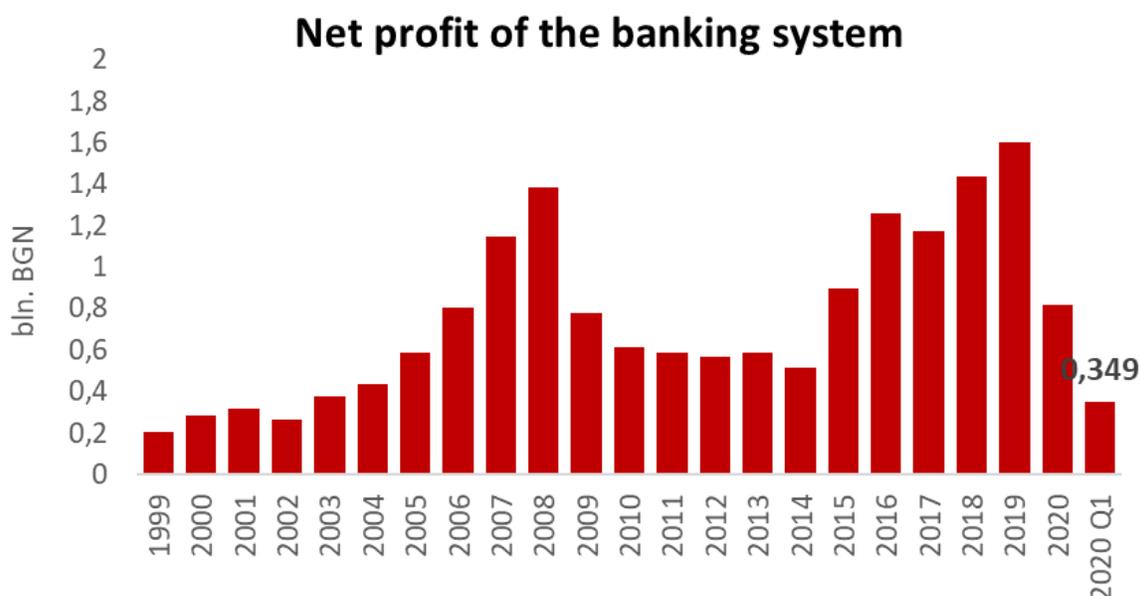
In Q1 2021 the banking sector registered an increase of the net profit by 18% on an annual basis to BGN 349,4 million. For comparison, in Q1 2020 the net profit of the banking sector was at the amount of BGN 296,2 million, while in Q4 2020 the net profit was BGN 113,4 million.

The financial performance of the system was influenced by the dynamics in the lending activity, impairment costs, the lower net interest income and income from fees and commissions, the low interest rates, the impairment expenses and accrued provisions, the better quality of the credit portfolio. The lower expenses for restructuring funds and deposit guarantee scheme, as



well as some one-off effects observed in the financial statements of some banks, as received dividends from subsidiaries, also influenced the financial result of the system.

Due to joining to the Single Supervision Mechanism and regards to a decision of the Governing Council of the BNB from April 2021 the liabilities of the credit institutions for preliminary contributions to the Single Resolution Fund (SRF) for 2021 in the total amount of EUR 81 million were deducted from the already accumulated BGN 700 million in the national resolution fund. The remaining amount of about BGN 540 million remains under the governance of the BNB, as this year's contributions to the SRF would be made by using the funds in the national resolution fund but not from new contributions from the banks. The rest of the sum remains under the governance of the BNB. In 2020 the total amount of contributions to the deposit guarantee scheme for the whole banking system was BGN 161,7 million, as for 2021 that amount was BGN 152,5 million, or by 5,7% lower.



Source: BNB

The first group of banks generated 79,3% of the net profit at the end of Q1 2021, the second group – 17,1%, and the third group – 3,6%. For comparison, as of the end of Q4 2020 the five biggest banks in terms of assets contributed by 88% to the net profit, the banks in the second group – by 8,9%, and the share of the third group was 3,2%.

Net interest income

As of the end of Q1 2021 the total net operating income of the banking system was at the amount of BGN 1,099 billion compared to BGN 949,4 million as of the end of Q1 2020. It increased by 15,7% on an annual basis.



The net interest income of the banks decreased by 2,9% on an annual basis (BGN -20,1 million) to BGN 669 million as of the end of March 2021.

The net interest income is the difference between the interest income and the interest expenses. As of March 31, 2021, the interest income declined by 2,9% Y-o-Y (BGN -22 million) to BGN 743,6 million. The interest expenses were at the amount of BGN 74,57 million, which was by 2,4% lower on an annual basis.

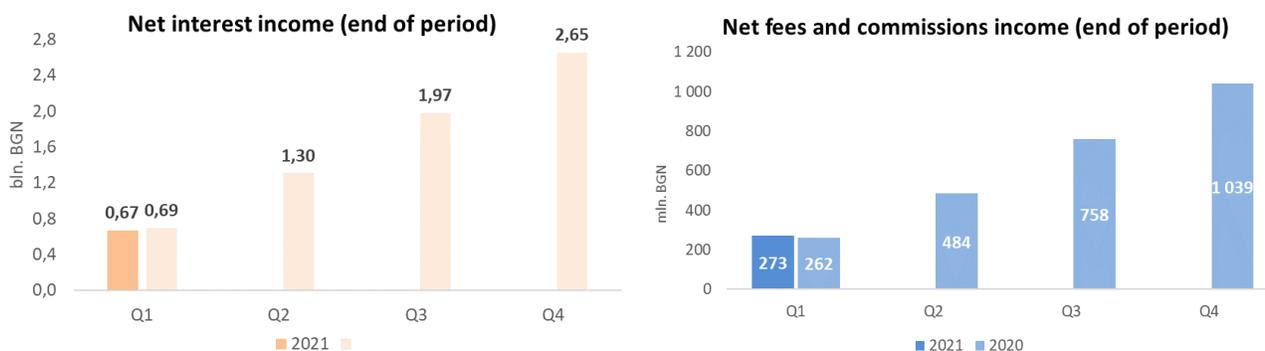
The net interest income comprised 60,9% of the net total operating income of the banking system at the end of Q1 2021. For comparison, in the EU the share of the net interest income was 58,9% of the total operating income, according to the EBA data as of the end of Q4 2020.

Net income from fees and commissions

As of the end of Q1 2021 the net income from fees and commissions decreased by 2,7% on a quarterly basis to BGN 273 million. On annual basis a growth of the net income from fees and commissions of 4,3% was registered from BGN 261,6 million a year ago.

As of the end of March 2021 the income from fees and commissions dropped by 0,8% on an annual basis to BGN 326 million, as the statistics showed an annual increase of 3,7%. The expenses related with fees and commissions increased by 0,8% on a quarterly and by 10,1% on an annual basis to BGN 53 million.

The income from fees and commissions made up 24,9% of the total net operating income of the system as the share of fees was lower than the EU average, which was 30,5%, according to the EBA data for the fourth quarter of 2020.



Source: BNB, own calculations

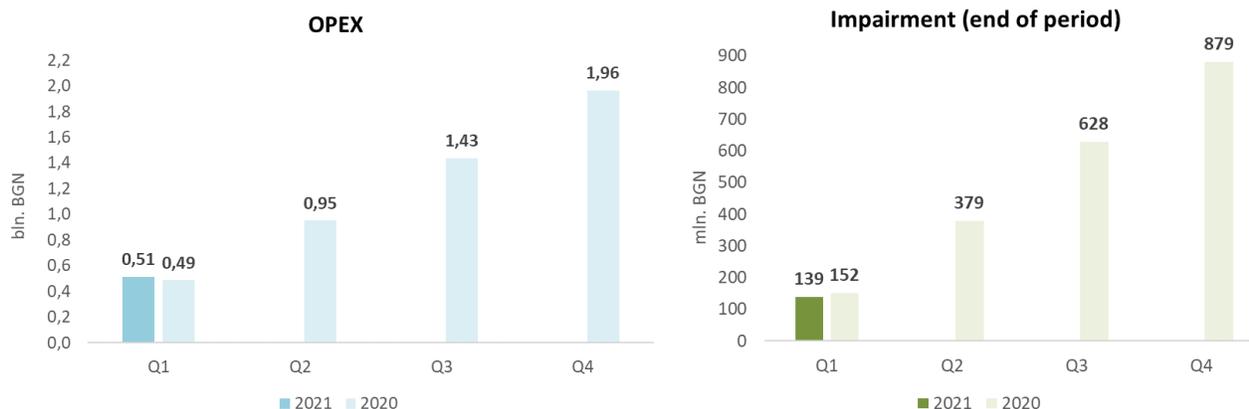
Operating expenses and impairments

As of the end of Q1 2021 the administrative expenses, which include overhead expenses, were by 0,5% lower compared to the same period of 2020 as they reached BGN 415,6 million. The total operating expenses, as a sum of the administrative expenses and depreciation, increased by 5% on an annual basis to BGN 511 million.

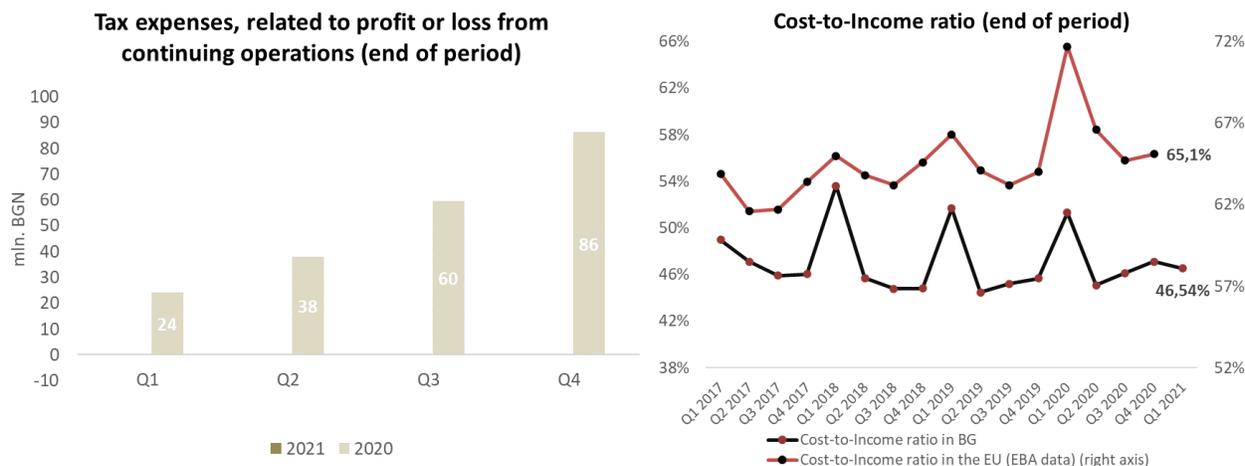


The banking system made more impairments in comparison with the same period in the previous year. The impairments decreased to BGN 139 million from BGN 152 million a year earlier.

As of the end of Q1 2021 Cost-to-Income ratio for the banking system decreased to 46,5% from 47,1% as it was at the end of Q4 2020. According to the EBA data, the average Cost-to-Income ratio in the EU was 65,1% as of the end of Q4 2020.



Source: BNB, own calculations



Source: BNB, EBA, own calculations

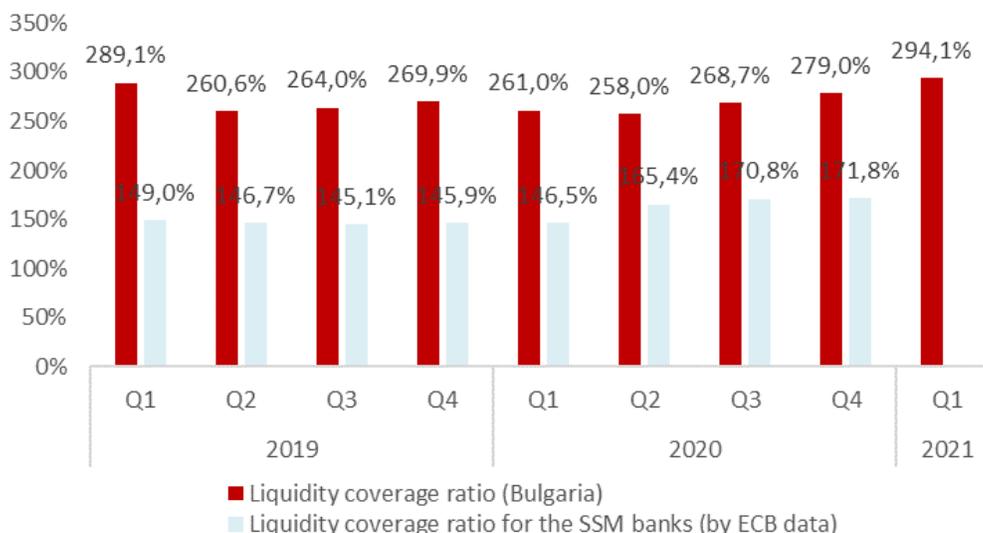


Financial indicators

Liquidity

As of the end of March 2021 the liquidity buffer and the net liquidity outflows were respectively BGN 35 billion and BGN 11,9 billion, according to the BNB data. The liquidity coverage ratio (LCR) was 294,1% compared to 279% as of the end of 2020. According to the ECB data, as of the end of Q4 2020 the LCR for the banks in the Single Supervisory Mechanism was 171,8%.

Liquidity coverage ratio (LCR)



Source: BNB, ECB

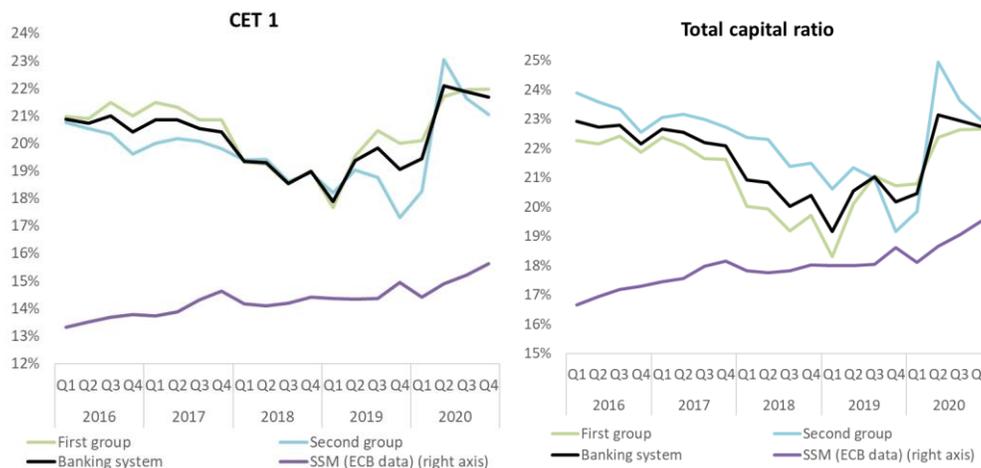
Capital adequacy

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

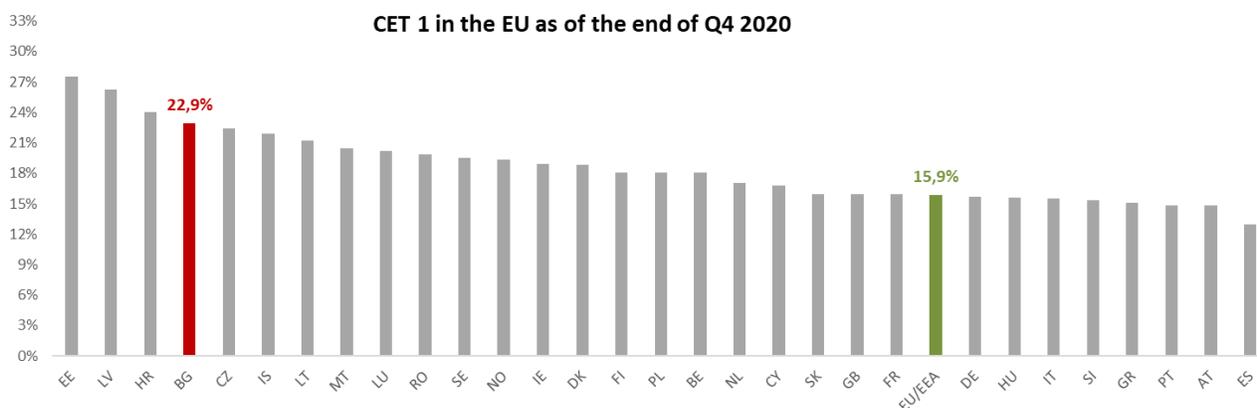
As of the end of Q4 2020 the common equity tier 1 (CET 1) of the whole banking system decreased to 21,69% from 21,86%, as it was at the end of Q3 2020. For the first group of banks the level of the indicator increased to 21,98% from 21,96%, and for the second group it declined to 21,04% from 21,64%.

On a system level the total capital ratio for the Bulgarian banking system dropped to 22,74% from 22,93%. As of the end of December 2020 its level for the banks in the first group was 22,65% and 22,96% for the banks in the second group compared to 22,63% and 23,61%, 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 December 2020 were respectively for CET 1 – 15,62% and for the total capital ratio – 19,51%.



Source: BNB, ECB



Source: EBA, Risk Dashboard, Q4 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 Q4 2020, the total banking system risk exposures increased by BGN 253 million (0,4%) to BGN 64,5 billion. This increase was mainly driven by credit risk exposures, which rose by BGN 351 million (0,6%) to BGN 59 billion, while the credit risk exposures under the standardized approach were by BGN 538 million (1,2%) more compared to the amount as of the end of Q3 2020.

The share of the risk weighted exposures for credit risk in the total risk exposures increased to 91,3% at the end of December 2020 from 91,2% at the end of September 2020. The share of exposures to position, currency, and commodity risk remained unchanged at 0,4%, while the share of risk exposures to operational risk decreased to 8,2% from 8,4% three months earlier, which is evident by the BNB data.

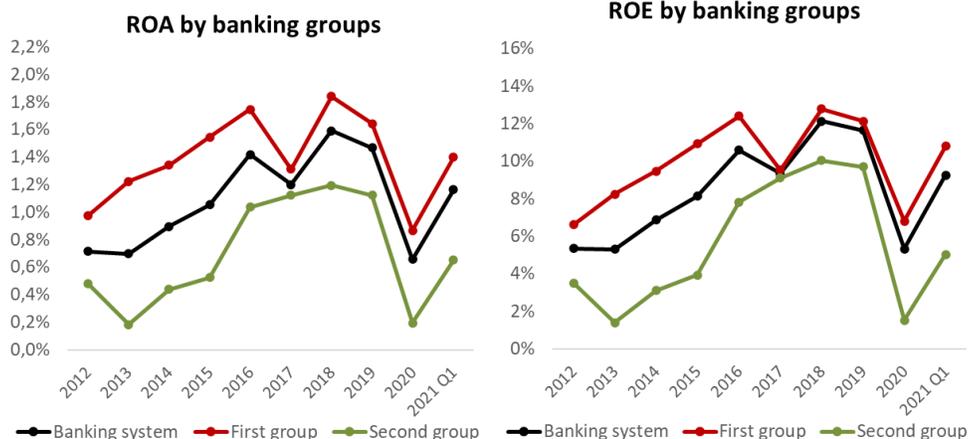
As regards the amount of the capital exceeding the capital requirements and the capital buffers, the BNB registered a level of BGN 4,6 billion compared to BGN 4,7 billion as of the end of September 2020.



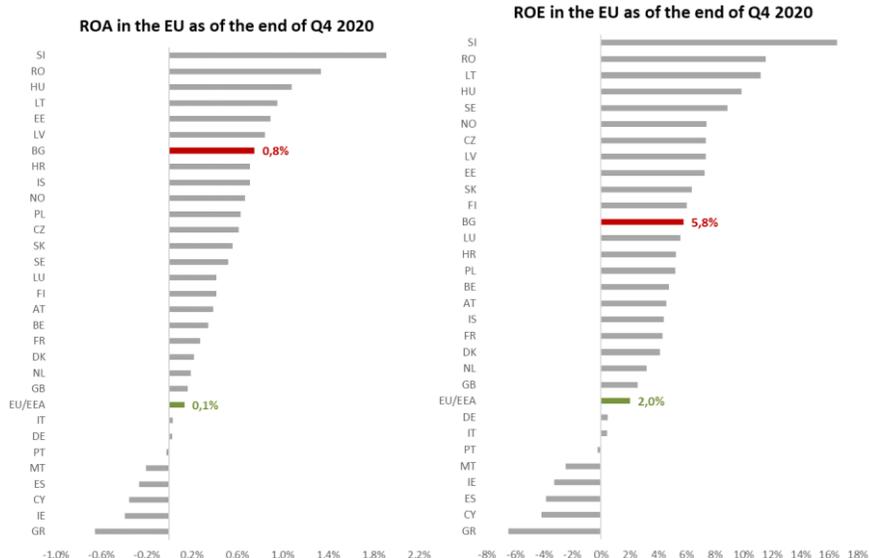
Profitability

As of March 31, 2021, the average Return on Assets (ROA) for the Bulgarian banking system was 1,16% compared to 0,66%, which was recorded as of the end of December 2020 (the average for the European banks was 0,10%, according to the ECB data for Q4 2020). The value of the indicator was 1,40% for the banks in the first group and 0,65% for the banks in the second group as of the end of March 2021.

The average Return on Equity (ROE) for the Bulgarian banking system was 9,25% as of the end of Q1 2021 compared to 5,31% as of the end of the fourth quarter of 2020 (according to the ECB data the average ROE for the European banks was 1,53% as of the end of Q4 2020). For the first group of banks in Bulgaria the ratio was 10,79% and for the second group – 5,03%, as of the end of Q1 2021.



Source: BNB, own calculations



Source: EBA Risk Dashboard, Q4 2020

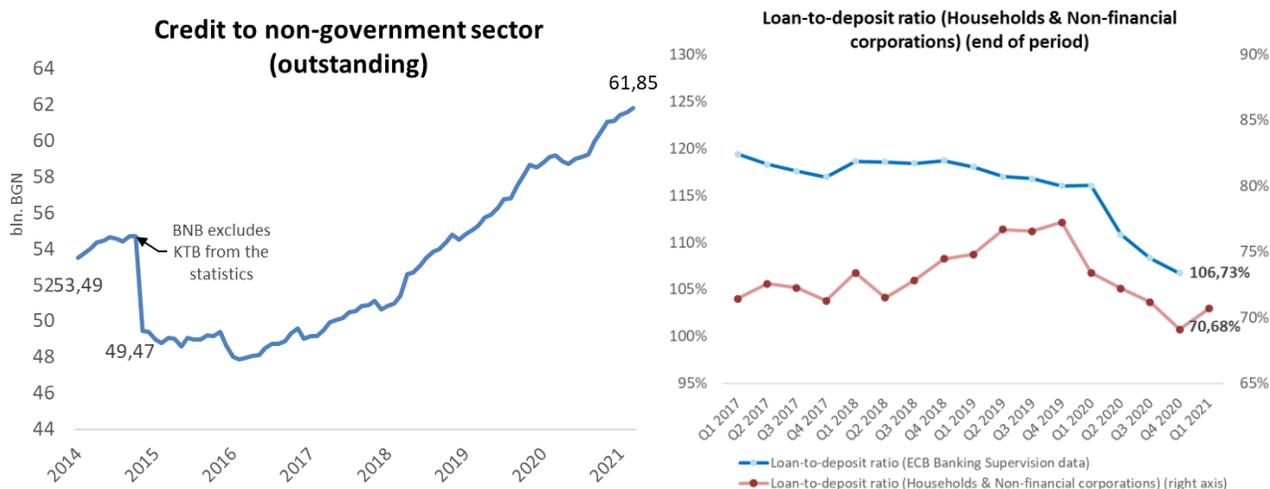
Note: On the graphs, the data for Bulgaria is based on the information submitted to EBA by four banks, and do not refer to the entire banking system



Loans and deposits

In its [Macroeconomic forecast](#) the BNB expects that in 2021 deposits of the non-government sector in the banking system to continue growing at comparatively high rates as a result mainly of continuous maintenance of precautionary savings by economic agents. Assuming that the pandemic will be gradually overcome in the 2022–2023 period, deposit growth is expected to slightly decelerate. For the same period, the BNB projects the growth rate of loans to corporations and households to follow a gradual upward trend in line with the anticipated improvement in macroeconomic activity and the increased private consumption and private investment.

As of the end of March 2021, 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 61,85 billion, compared with BGN 61,14 billion as it was at the end of December 2020.



The deadline for applications to the proposed by the 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, expired at the end of March 2021.

As of 31 March 2021, 131 576 applications were filed consisting total amount of loans of BGN 9,7 billion as 110 849 applications for loans at the amount of BGN 8,983 billion were approved. Corporations submitted 14 408 applications amounting to BGN 7,47 billion, as 13 303 of them amounting to BGN 7,049 billion were approved. Households submitted 117 168 applications for BGN 2,23 billion, of which 97 546 amounting to BGN 1,934 billion were approved.

Compared to the end of December 2020, the total number of approved applications by corporations and households increased by 21 371, 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*), increased by BGN 909,5 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 Q1 2021 the amount of non-performing loans (past due more than 90 days; excluding Central Banks and Credit Institutions) declined to BGN 3,321 billion from BGN 3,322 billion a quarter earlier. The share of non-performing loans in the banking system dropped to 4,71% from 4,78% as of the end of December 2020, according to the calculations based on the data of the BNB Banking Supervision Department.

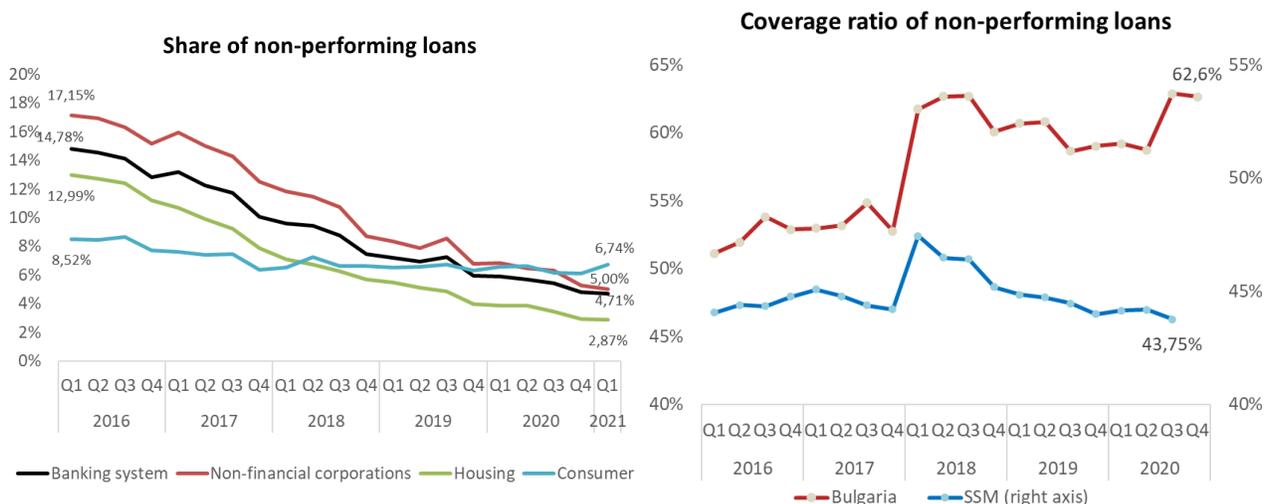
The share of non-performing loans to non-financial corporations declined to 5%, compared to 5,29% at the end of the fourth quarter of 2020. For the same period the ratio in the segment of housing loans decreased to 2,87% from 2,95%. The share of non-performing consumer loans rose to 6,74% from 6,12%.

At the end of March 2021, the amount of non-performing loans to non-financial corporations declined to BGN 1,914 billion from BGN 2,012 billion three months earlier. In the segment of housing loans the amount decreased to BGN 402,36 million from BGN 405,6 million. The non-performing consumer loans were at the amount of BGN 886,7 million, compared to BGN 788,6 million a quarter ago.

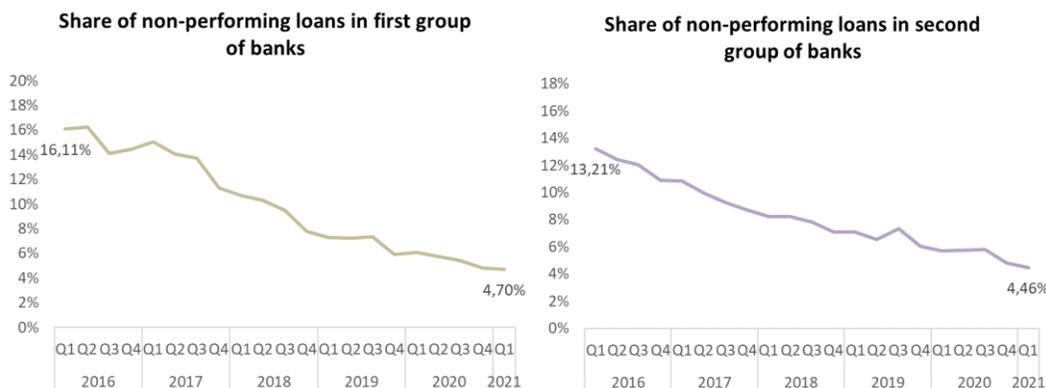
The level of non-performing gross loans reported by the banks in the first group declined to 4,7% as of the end of the first quarter of 2021 compared to 4,81% as of the end of Q4 2020. For the banks in the second group the level decreased to 4,46% from 4,81%.

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 62,7% as of the end of Q1 2021 compared to 62,6% a quarter earlier. For comparison, the coverage ratio for the European banks, according to the ECB data for Q4 2020 was 43,27%.

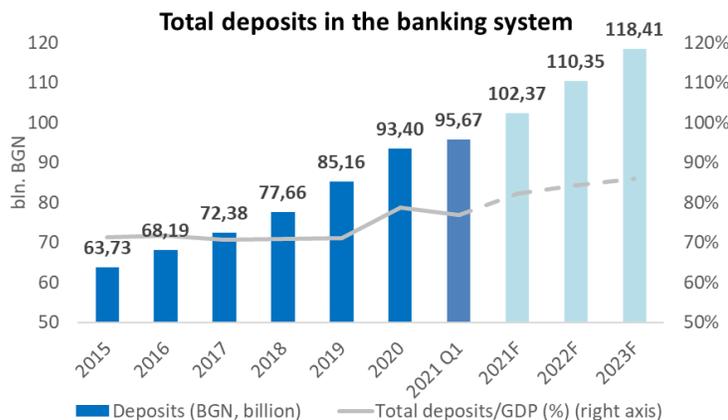


Source: BNB, ECB, own calculations



Source: BNB, own calculations

Deposits, attracted by the banks, continued to grow. As of the end of March 2021 the total amount of outstanding deposits in the banking system reached BGN 95,67 billion as an annual growth of 12,2% was recorded, despite the low interest rate levels and on the back of the formation of precautionary savings. The deposits' growth was faster compared to the growth of 9,7% which was reported at the end of December 2020.

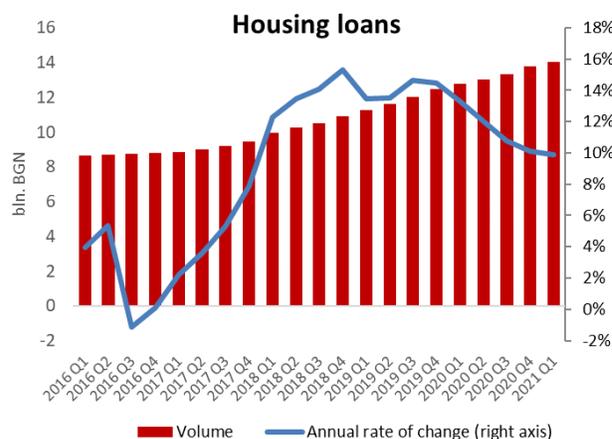
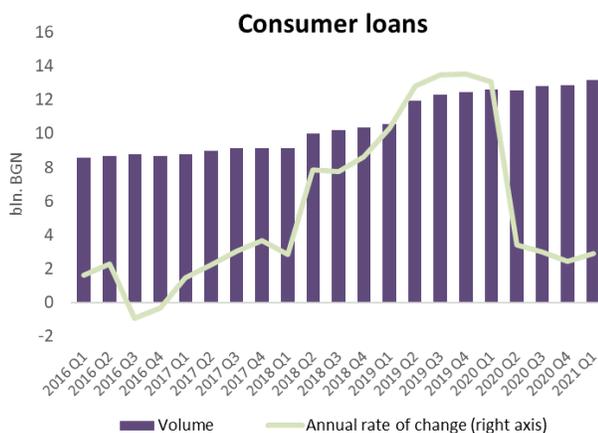


Source: BNB, own calculations
Forecast: BNB, Ministry of Finance

Loans and deposits to households

As of the end of Q1 2021, according to the data of the BNB Banking Supervision Department, the amount of consumer loans was BGN 13,16 billion compared to BGN 12,88 billion a quarter earlier and BGN 12,61 billion a year earlier. In Q1 2021 the amount of consumer loans grew by 2,2% on a quarterly and increased by 4,4% on basis 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 14,02 billion compared to BGN 13,75 billion as of the end of Q4 2020 and BGN 12,76 billion as of the end of the first quarter in the previous year. The quarterly increase was by 2% and by 9,9% on an annual basis, according to the BNB statistics.

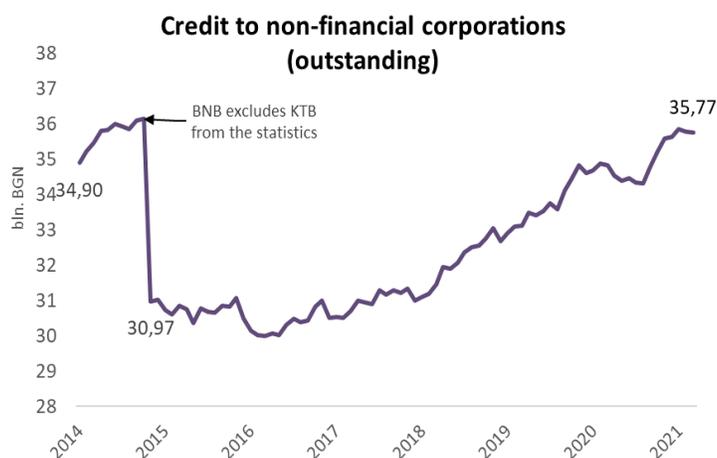
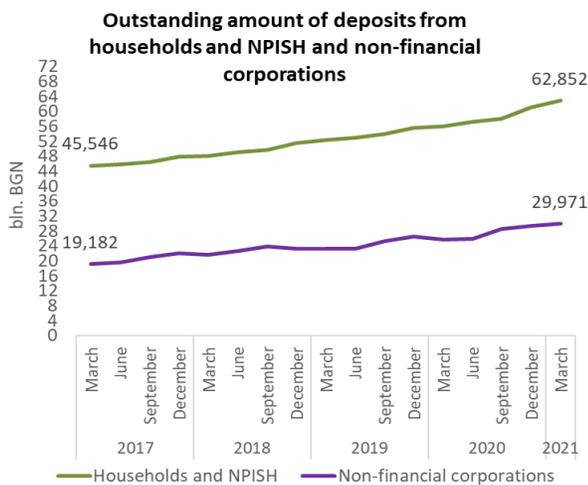


Source: BNB, Banking Supervision Department, own calculations

As of the end of Q1 2021 the total amount of deposits to households and NPISH grew by 12% on an annual basis after an annual increase by 9,7% at the end of December 2020. Deposits from households were BGN 62,852 billion (50,5% of the forecasted GDP). The share of the household sector in the total amount of deposits in the banking system was 65,7%.

Loans and deposits of non-financial corporations

As of March 31, 2021, the outstanding amount of deposits from non-financial corporations increased by 16,1% Y-o-Y, after an annual increase of 10,5% as of the end of December 2020 amounting to BGN 29,97 billion (24,1% of the forecasted GDP). The outstanding amount on loans to non-financial corporations grew by 2,7% Y-o-Y to BGN 35,77 billion. Except overdrafts, loans to non-financial corporations increased by 4,6% on an annual basis, reaching BGN 24,33 billion in absolute terms (after growth of 4,2% on an annual basis at the end of December 2020).



Source: BNB, Monetary statistics



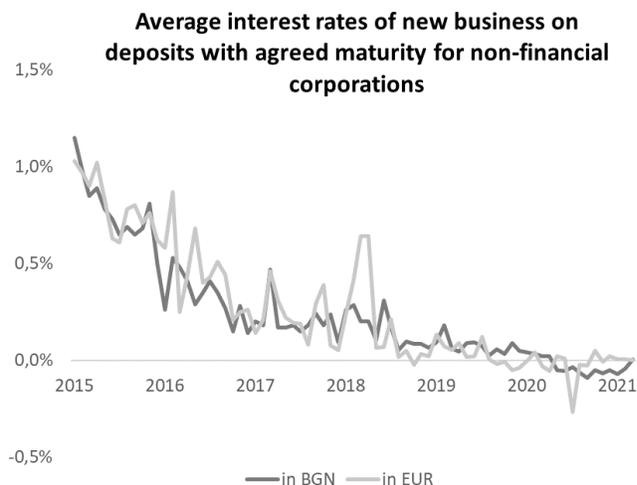
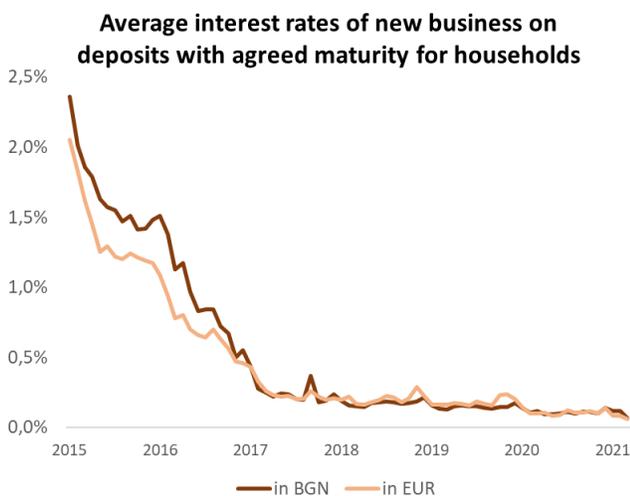
Interest rates

In Q1 2021 the interest rates on new business loans and deposits decreased slightly in comparison with the previous quarter.

Interest rates on deposits

As of the end of March 2021 the average interest rates on deposits with agreed maturity on new business in BGN to households decreased on a quarterly basis to 0,07% compared to 0,14% at the end of December 2020. The interest rate levels on deposits with agreed maturity on new business in EUR declined to 0,06% from 0,14% compared to the end of Q4 2020.

As of the end of Q1 2021 the average interest rates on deposits with agreed maturity to non-financial corporations on new business in BGN and in EUR was 0,00% compared to -0,05% and 0,02% as they were at the end of December 2020.

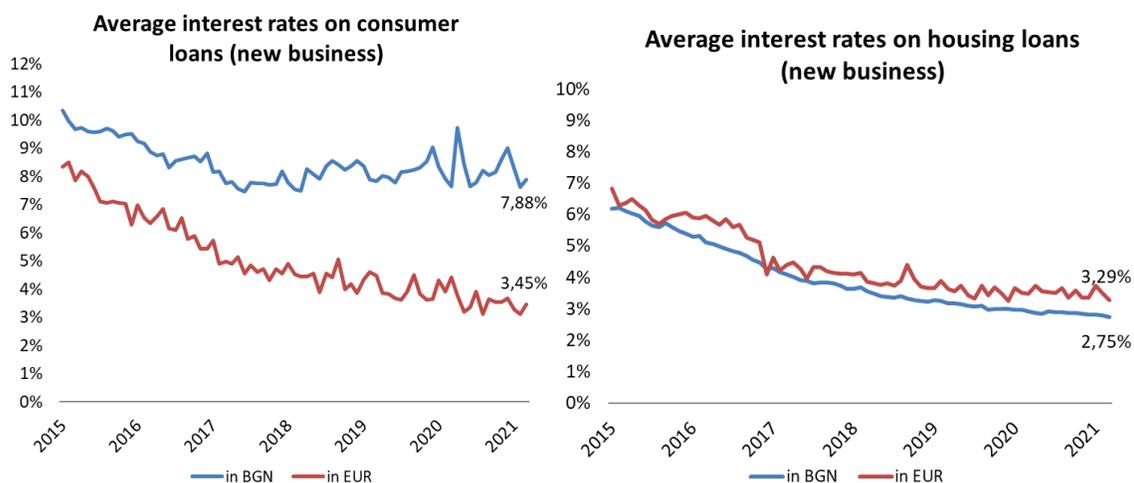


Source: BNB

Interest rates on loans

As of the end of Q1 2021 the average interest rates on housing loans fell to 2,75% from 2,81% 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 decrease to 3,29% from 3,36%.

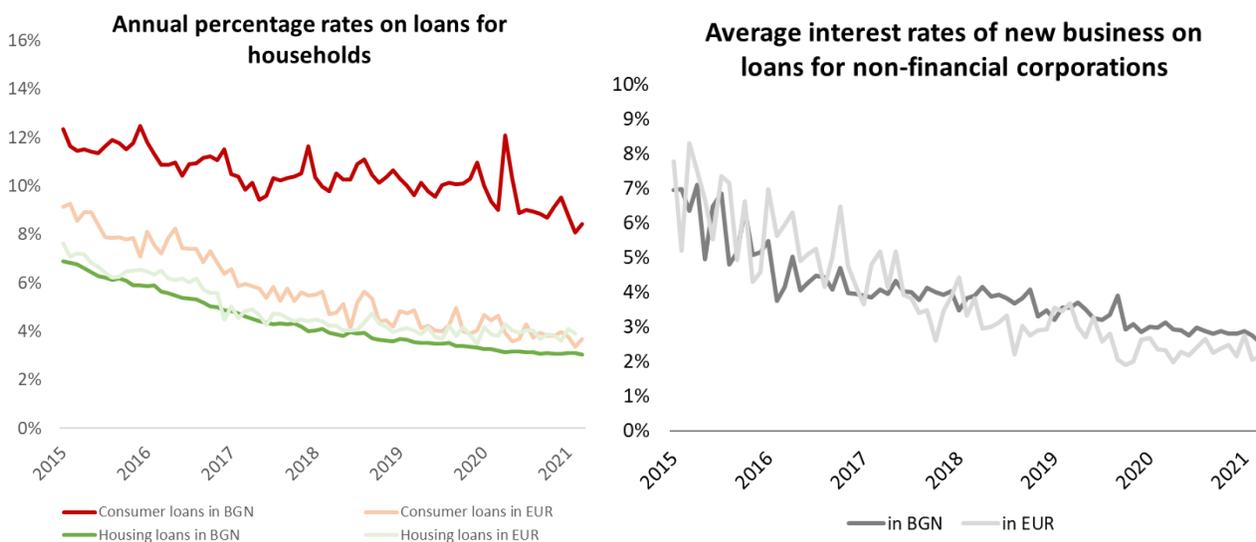
As of the end of March 2021 the average interest rates on consumer loans agreed in BGN decreased to 7,88%, compared to 9% at the end of 2020. The interest rates on consumer loans agreed in EUR dropped to 3,45% as of the end of March 2021 in comparison with 3,68% three months earlier.



Source: BNB

As of the end of March 2021 the annual percentage rate (APR), which includes the interest rate component and the component of all other fees and commissions, dropped to 3,03% from 3,07% for housing loans in BGN and remained unchanged at 3,61% for housing loans in EUR compared to a quarter earlier. The level of the APR on consumer loans was 8,42% and 3,68%, respectively, for loans in BGN and in EUR, compared with 9,53% and 3,96% three months earlier.

Compared to the end of 2020 the average interest rates on new business on loans to non-financial corporations decreased to 2,54% from 2,80% for loans in BGN, while it increased to 2,17% from 2,15% for loans in EUR. The level of the interest rates for the loans to non-financial corporations agreed in US dollars increased to 3,99% from 3,38% a quarter ago.



Source: BNB



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All historical rates, statistical data and graphs are up to date, up to and including May 11, 2021, unless otherwise stated.

The views provided are those prevailing as of May 11, 2021.