



THE ECONOMY AND THE BANKING SECTOR IN BULGARIA

SECOND QUARTER OF 2021



SOFIA



HIGHLIGHTS

- In Q1 2021 the Bulgarian economy contracted by 0,5% on an annual basis due to a drop of the net export, while the private consumption and government consumption are with positive contribution
- The inflation grew by 2,2% year-on-year in Q2 2021
- As of the end of June 2021 the unemployment in Bulgaria decreased to 6%
- The budget surplus was 0,1% of the GDP as of the end of Q2 2021
- As of the end of Q2 2021 the total assets of the banking system were at the amount of BGN 128,48 billion (103,2% of the forecasted GDP)
- In Q2 2021 the net profit of the banking sector was BGN 309 million (a drop of 11,5% on a quarterly basis)
- The state of the economic environment continued to affect the activities and the results of the banking sector. The dynamics in lending, net interest income, net income from fees and commissions, the low interest rates, the impairment expenses and accrued provisions, the management of the quality of the credit portfolio influenced the financial result of the sector
- The lower expenses for restructuring funds and the deposit guarantee scheme, as well as some one-off effects observed in the financial statements of some banks, as well as received dividends from subsidiaries, influenced the financial result of the system too
- As of the end of June 2021, the total gross amount of deferred loans under the [Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions](#) was BGN 9,422 billion, BGN 7,348 of which for non-financial corporations and BGN 2,075 for households
- The average interest rates on new loans and on new deposits with agreed maturity retained their low values



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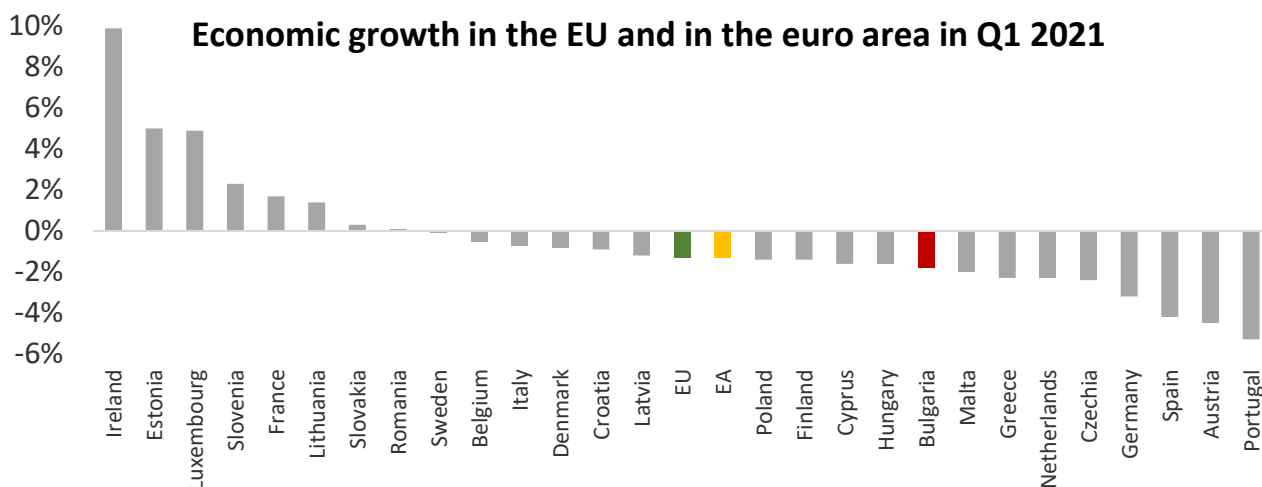
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I. The Bulgarian economy

Economic growth

In Q1 2021 the Bulgarian real gross domestic product (GDP) contracted by 0,5% on an annual basis (after a drop by 4,7 on an annual basis in Q4 2020) and recorded a growth of 2,5% on a quarterly basis, according to the preliminary data of Eurostat. The average drop for the EU and that of the euro area in the period January-March 2021 was by 1,3% year-on-year.



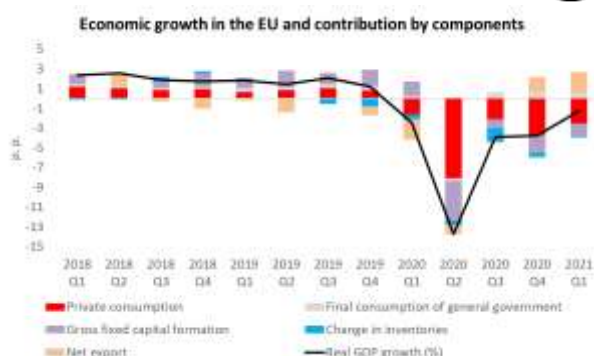
Source: Eurostat (seasonal and calendar adjusted GDP data)

According to the preliminary data of Eurostat, the economic drop in Q1 2021 was driven by a decline of the net export, while the private consumption and the government consumption had a positive contribution.

During the observed period the private consumption, which includes the consumption of the households and non-profit institutions, serving households (NPISH), increased by 2,8% on an annual basis and contributed to the GDP change by 1,6 percentage points (p.p.) compared to the registered negative contribution of 2,6 p.p. in Q4 2020. The consumption of the general government, which increased by 6,7% on an annual basis, contributed by 1,5 p.p. compared to 2 p.p. a quarter earlier.

In Q1 2021 the growth of the gross fixed capital formation accelerated by 2,1% on an annual basis compared to the increase of 0,9% on an annual basis in the fourth quarter of 2020. In Q1 2021 the contribution of the business investments to the GDP was by 0,4 p.p. compared to 0,1 p.p. three months earlier. The contribution of inventories was negative (-0,3 p.p.) after a positive contribution of 0,2 p.p. a quarter earlier.

In Q1 2021 the export of goods and services decreased by 3% on an annual basis after a drop by 9,3% Y-o-Y three months earlier. The import rose by 4% on an annual basis after a dip by 1,2% Y-o-Y in Q4 2020. In Q1 2021 the contribution of the net export was negative (-3,7 p.p.). The trade deficit was 0,8% of GDP compared with the deficit of 3,1% as of the end of the previous quarter.



Source: Eurostat, own calculations

In comparison, the drop of the GDP in the EU in Q1 2021 was due to the registered decline of the private consumption and investments. The government consumption and the net export had a positive contribution for the EU GDP.

In its [Summer 2021 Economic Forecast](#), the European Commission (EC) projects that in 2021-2022 household consumption would continue to expand, in line with the improving situation on the labour market. Exports of goods and services are forecast to follow the favourable developments in external demand and the lifting of containment measures, related to the spread of COVID-19. The EC expects that the start of the implementation of the Recovery and Resilience Plan (the Plan) would support aggregate investment in 2022. The expected distribution of funds from the Plan was among the reasons behind the upward revised forecast for the growth of the Bulgarian economy by the Bulgarian National Bank (BNB) in its latest [Macroeconomic forecast](#).

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

Key indicators for the Bulgarian economy	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 Q1	2021 Q2	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	118 605	27 054	-						
GDP (real Y-o-Y growth, %)	0,4	0,3	1,9	4,0	3,8	3,5	3,1	3,7	-4,2	-0,5	-						
GDP (real Y-o-Y growth, %) - forecasts												MF (April 2021)	2,7	3,6	3,4	2,7	
													BNB (July 2021)	4,1	4,6	3,5	-
													IMF (April 2021)	4,4	4,4	-	-
													WB (January 2021)	3,3	3,7	-	-
													EC (July 2021)	4,6	4,1	-	-
													EBRD (June 2021)	4,5	4	-	-
													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	1,8	3,7	-						
Private consumption (of Households and NPISH)	3,3	-2,6	2,9	3,8	3,5	3,8	4,4	5,5	0,2	2,8	-						
Final consumption of general government	-1,8	0,7	-0,1	1,8	2,2	4,3	5,3	2,0	7,5	6,7	-						
Gross fixed capital formation	1,8	0,5	3,5	2,7	-6,6	3,2	5,4	2,2	-5,1	2,1	-						
Export of goods and services	2,0	9,6	3,1	6,4	8,6	5,8	1,7	3,9	-11,3	-3,0	-						
Import of goods and services	5,6	4,3	5,2	4,8	5,2	7,4	5,7	5,2	-6,6	4,0	-						
Trade balance/GDP (%)	-9,5	-7,0	-6,5	-5,8	-2	-1,5	-4,8	-4,7	-3,1	-0,8	-						
Foreign direct investments in Bulgaria (mln. EUR)	1 320,9	1 383,7	347,4	2 000,9	939,8	1 605,6	967,5	1 538,8	2 123,9	94,1	-						
Foreign direct investments/GDP (%)	3,1	3,3	0,8	4,4	1,9	3,1	1,7	2,5	3,5	0,1	-						
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	1,2	0,2	2,2						

Source: NSI, Eurostat, Bulgarian National Bank

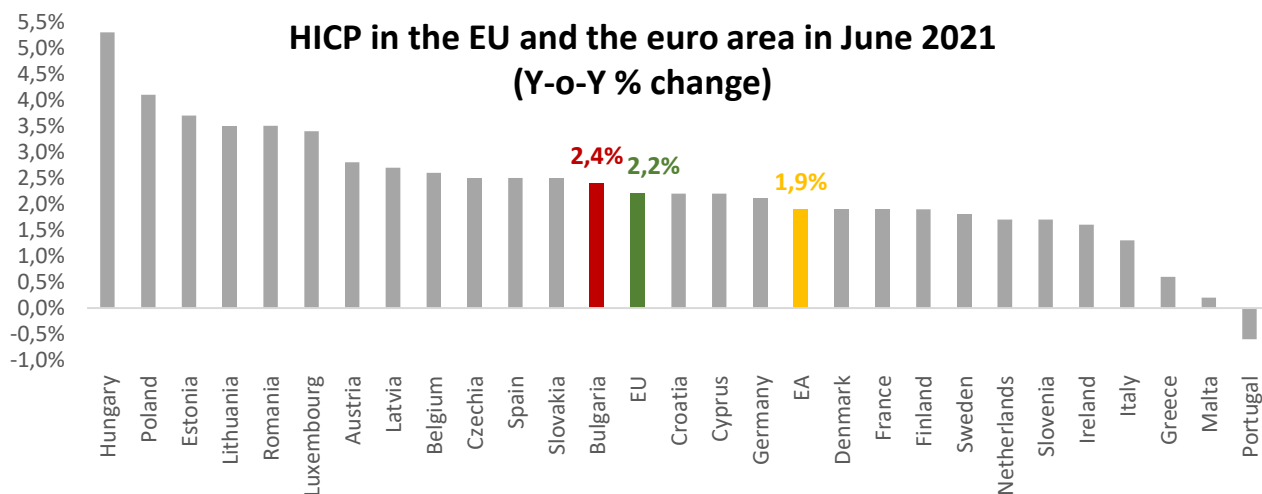
Forecasts: Bulgarian National Bank, Ministry of Finance, International Monetary Fund, World Bank, European Commission, European Bank for Reconstruction and Development, Organisation for Economic Co-operation and Development



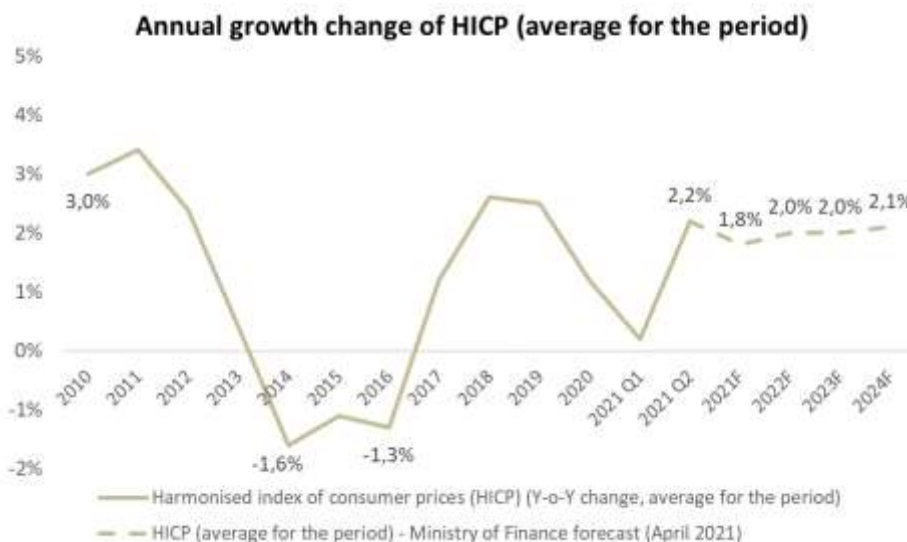
Inflation

In Q2 2021 the growth of the harmonized index of consumer prices (HICP) grew by 2,2% on an annual basis compared to 0,2% Y-o-Y in Q1 2021. In June 2021 the inflation in Bulgaria stood at 2,4% Y-o-Y, which was higher compared to 2,2% in the EU and 1,9% in the euro area.

In its [Summer 2021 Economic Forecast](#), the EC expects inflation in Bulgaria at 1,9% in 2021 due to the higher assumed energy, fuel, processed food and non-energy industrial goods prices. According to the latest [Macroeconomic forecast](#), the BNB points that the higher prices of raw materials in 2021 will largely reflect a projected rebound in the global economic activity and consequent strong demand for raw materials along with the temporary difficulties in the global supply chains and limited supply of some commodities. In 2022, the EC projects HICP inflation to accelerate to 2,5%, supported by aggregate demand.



Source: Eurostat



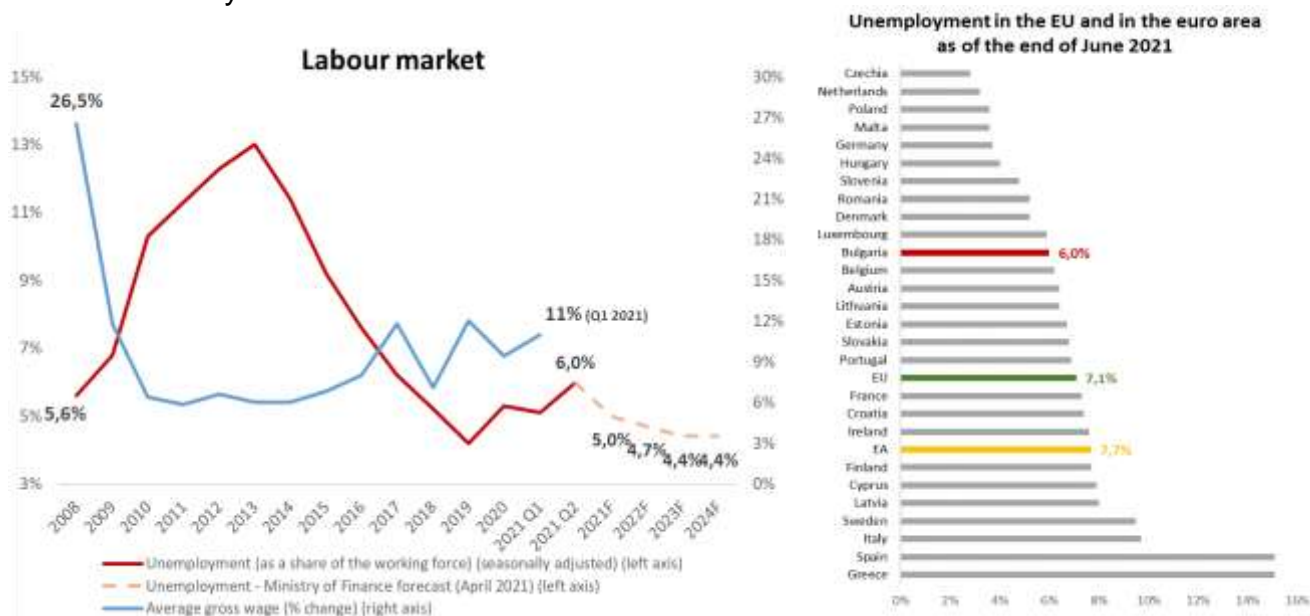
Source: NSI, Eurostat
Forecast: Ministry of Finance



Labour market

In June 2021 the level of unemployment, measured as a share of the working force, decreased to 6% from 6,1% at the end of Q1 2021. The unemployment in the country was lower than the EU average. In the period, Bulgaria ranked 11th amongst the EU Member States with the lowest unemployment rate and fifth amongst the countries in the Central and Eastern European (CEE) region. As of the end of June 2021 the number of unemployed in Bulgaria dropped to 197 thousand from 199 thousand as of the end of Q1 2021, but it was higher than the registered 182 thousand as of the end of Q2 2020.

The level of the unemployed young people (under 25 years) declined to 12,5% at the end of June 2021 compared to 16% at the end of Q1 2021. At the end of June 2021, the average level of the youth unemployment in the EU was 17%, as the largest share is observed in Spain, Greece and Italy.



Source: Eurostat, Ministry of Finance, NSI

Key indicators for the Bulgarian economy	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 Q1	June 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	5,1	6,1	6
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	3 121,7	3 028,7	-
Employed in "Finance and Insurance" sector (thousands), of which:	52,7	51,6	60,5	62,3	58,6	63,7	65,4	67,3	62,4	65,6	-
Employed in the banking sector (thousands)	33,5	32,8	31,7	30,7	30,4	30,1	29,9	28,2	27,4	-	-
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	2 191	2 188	-

Source: Eurostat, Ministry of Finance, NSI, ECB



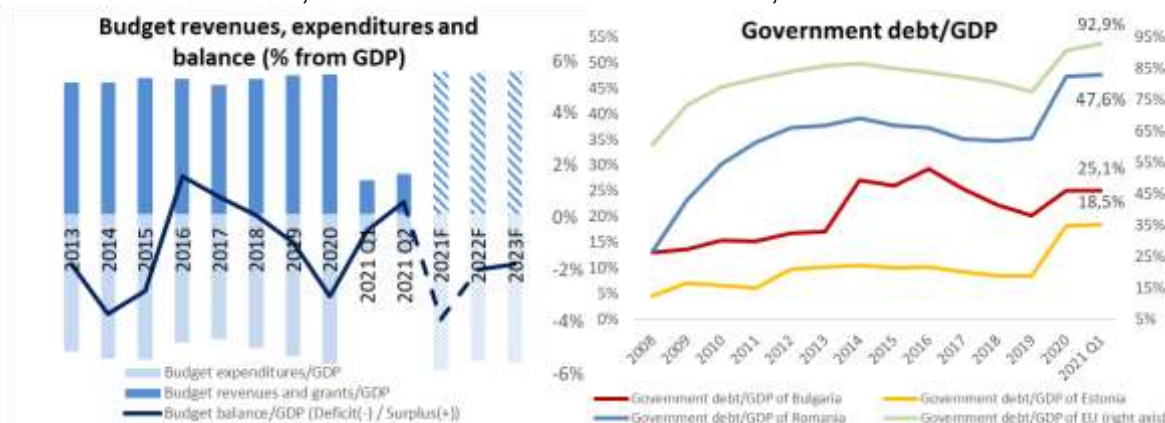
Public sector

According to the Ministry of Finance (MF) preliminary data, as of the end of June 2021 the state budget had a positive balance of BGN 118,2 million (0,1% from the projected GDP). For July 2021 the MF forecasts a surplus of BGN 731 million.

The amount of the budget revenues and grants on the Consolidated Fiscal Programme for the period January-June 2021 was BGN 24,76 billion (19,9% from the projected GDP). Compared to the same period of the previous year, proceeds have grown by BGN 3,3 billion. According to the MF data, the growth of 15,5% on an annual basis was due to the higher tax and non-tax revenues, while grant proceeds declined. When comparing non-tax revenues and VAT revenues it is necessary to take into account that in April 2021 there were one-off revenues, which were the initial concession fee from the Sofia Airport concession.

In the first half of 2021 budget expenditures (including the EU budget contribution of Bulgaria) amounted to BGN 24,64 billion (19,8% from the projected GDP). The amount of the expenditures was BGN 19,82 billion compared to the same period of 2020. The considerable growth of expenditures in the first half of 2021, as compared to the same period of the previous year, was related, on the one hand, with the lower base in 2020 when the expenditures for fighting COVID-19 were lower, while as of June 2021 those expenditures were considerable, and, on the other hand, with the income and social policies and the higher administration costs.

As of the end of June 2021, the fiscal reserve totaled BGN 9,3 billion.



Source: Ministry of Finance, Eurostat

The share of the government debt to GDP increased to 25,1% as of the end of Q1 2021 from 25% at the end of 2020. Bulgaria is the second among the countries with the lowest government debt after Estonia (18,5%). The government debt to the GDP ratio for Bulgaria is below the EU average, which rose to 92,98% at the end of Q1 2021.

As of the end of June 2021 the Long-term Interest Rate for Convergence Assessment Purposes (LTIR) remained unchanged at 0,14%, as it was at the 31st of March 2021. For comparison, as of the end of June 2021 the LTIR in Romania was 3,11%, in Poland – 1,78%, in Hungary – 2,85%, in Croatia – 0,49%, and in the Czech Republic – 1,67%. 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 June 2021, the main indices on the Bulgarian Stock Exchange (BSE) rose compared to the end of Q1 2021 as follows: SOFIX by 11%, BGBX40 by 9,3%, BGREIT by 4,5% and BGTR30 by 10,1%.

In Q2 2021 the Bulgarian index SOFIX was with the third largest increase among the major stock market indices in the CEE region and with the largest increase year-to-date.

As of June 30, 2021, the market capitalization on the BSE (main market and alternative market) rose by 0,8% on a quarterly basis to BGN 28,91 billion (23,2% of GDP) from BGN 28,67 billion (23% of GDP).

During the period April-June 2021 the turnover on the stock exchange increased by 51,4% on a quarterly basis to BGN 144,257 million. An increase of 54,6% was registered on an annual basis. In Q2 2021 the number of transactions decreased by 1,6% on a quarterly basis, but there was also an increase by 11,4% on an annual basis, to 17 677.

In Q2 2021 the banks, members of the BSE, performed 11,7% of the turnover and 4,9% of the total transactions on the regulated market (the principle of double reporting). In the previous quarter the banks, members of BSE, concluded 4,4% of all transactions and 3,1% of the total turnover on the regulated market.



Source: BSE, own calculations



No	Country	Index	31 December 2020	31 March 2021	30 June 2021	Change in Q2 2021	Year to date change
1	Poland	WIG	57 025,84	58 081,50	66 067,21	13,75%	15,85%
2	Slovenia	SBITOP	940,92	990,21	1 124,53	13,56%	19,51%
3	Bulgaria	SOFIX	447,53	502,28	557,69	11,03%	24,62%
4	North Macedonia	MBI 10	4 704,85	4 845,05	5 281,14	9,00%	12,25%
5	Russia	MOEX	3 390,76	3 541,72	3 841,85	8,47%	13,30%
6	Hungary	BUX	43 507,13	44 326,18	47 238,09	6,57%	8,58%
7	Romania	BET	9 805,60	11 189,60	11 873,03	6,11%	21,08%
8	Czech Republic	PSE	1 055,77	1 090,50	1 152,85	5,72%	9,20%
9	Serbia	BELEX	1 525,26	1 585,54	1 653,08	4,26%	8,38%
10	Croatia	CROBEX	1 791,94	1 872,22	1 949,30	4,12%	8,78%
11	Greece	ASE	808,99	865,05	884,89	2,29%	9,38%
12	Slovakia	SAX	351,09	363,36	364,84	0,41%	3,92%
13	Turkey	XU 100	1 536,11	1 391,73	1 356,34	-2,54%	-11,70%

Source: BSE, Bloomberg, own calculations

Key indicators for the Bulgarian economy

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 Q1	2021 Q2
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%	23,2%
SOFIX	345,46	491,52	522,1	460,9	586,43	677,45	594,46	568,14	447,53	502,28	557,69
BGBX40	125,11	100	104,61	92,82	111,3	132	115,91	111,83	101,38	113,15	123,71
BGREIT	79,62	88,66	98,75	97,03	108,11	116,1	121,07	130,03	137,69	147,43	154,04
BGTR30	257,87	349,03	407,5	383,82	459,19	555,98	496,14	516,28	499,17	538,57	592,78
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	144 257
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	17 677

Source: BSE, Bloomberg, own calculations



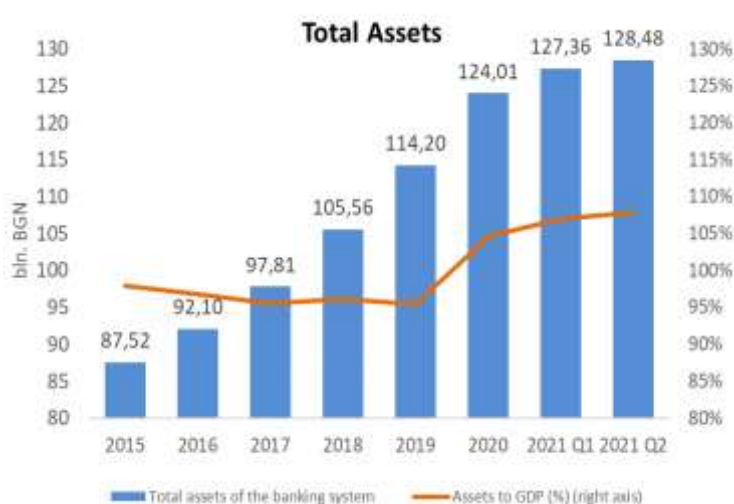
II. The banking sector in Bulgaria

In its quarterly publication [Banks in Bulgaria](#) the BNB pointed out that the continuing recovery of the economic activity created favourable conditions for the banking sector activity despite that the economic activity was lower than that in the previous year. This, coupled with the uncertainty about developments in the economic environment, according to the BNB, could push up the credit risk. Nevertheless, in its [Macroeconomic forecast](#) the BNB expects that the economic activity will reach its average levels observed before the crisis, sparked by the spread of the coronavirus, in 2022.

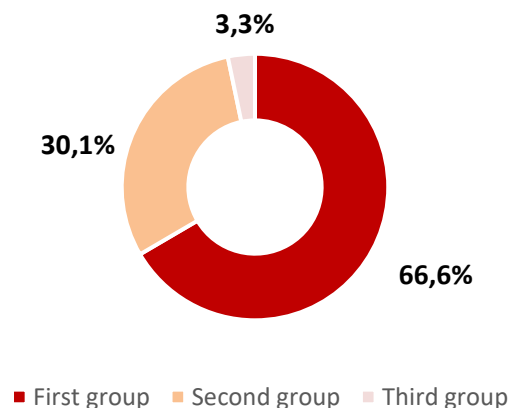
Balance sheet statement (Statement of financial position)

Assets

The growth of assets in the banking sector at the end of Q2 2021 was by 11,4% on an annual basis reaching BGN 128,48 billion (103,2% of the forecasted GDP).



Market share in terms of assets as of the end of Q2 2021



Source: BNB, Ministry of Finance, own calculations

As of the end of Q2 2021 the market share of the five biggest banks in terms of assets increased to 66,6% from 66,5% as it was at the end of Q1 2021. The market share of the banks from the second group remained unchanged at 30,1%. The share of the assets of foreign bank branches decreased to 3,3% from 3,4% registered at the end of Q1 2021.

As of June 30, 2021, 61,1% of the assets in the banking system were in the form of loans and receivables, totaling BGN 78,46 billion. Cash balances amounted to BGN 23,95 billion and they comprised 18,6% of the assets. The share of investments in financial instruments was 15,8% (BGN 20,29 billion). For comparison, as of the end of Q1 2021 the share of loans and



receivables was 60,2%, the share of the cash balances – 20%, and the investments in financial instruments – 15,3%.

Liabilities

The liabilities in the banking system (excluding equity) were at the amount of BGN 112,43 billion and rose by 11,8% on an annual basis. The banks in the first group comprised 66,2% of the liabilities (BGN 74,43 billion), the second group – 30,2% (BGN 33,94 billion), and branches of foreign banks – 3,6% (BGN 4,06 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 109,42 billion.

The share of the provisions which include unsettled legal issues and lawsuits, credit commitments, guarantees, pensions, etc., accounted for 0,4%, or BGN 447 million in absolute terms. The share of financial liabilities, held for trading and other liabilities were respectively 0,1% and 0,7%. The share of all other remaining liabilities is negligible, complementing the sum up to 100%.

Equity

In Q2 2021 the total equity in the banking system increased by BGN 403 million (2,6% Q-o-Q) and at the end of June 2021 it stood at the amount of BGN 16,04 billion. At the end of March 2021, its amount was BGN 15,64 billion. The equity dynamics was mainly because of the higher profit for the period. In the second quarter of 2021, growth was also registered in “Other reserves” and “Paid up capital”. As of the end of June 2021 the equity increased by 8,8% compared to the same period of the previous year. The equity of the banks in the first group amounted to BGN 11,1 billion, and that of the second group – to BGN 4,79 billion.

Statement of profit or loss

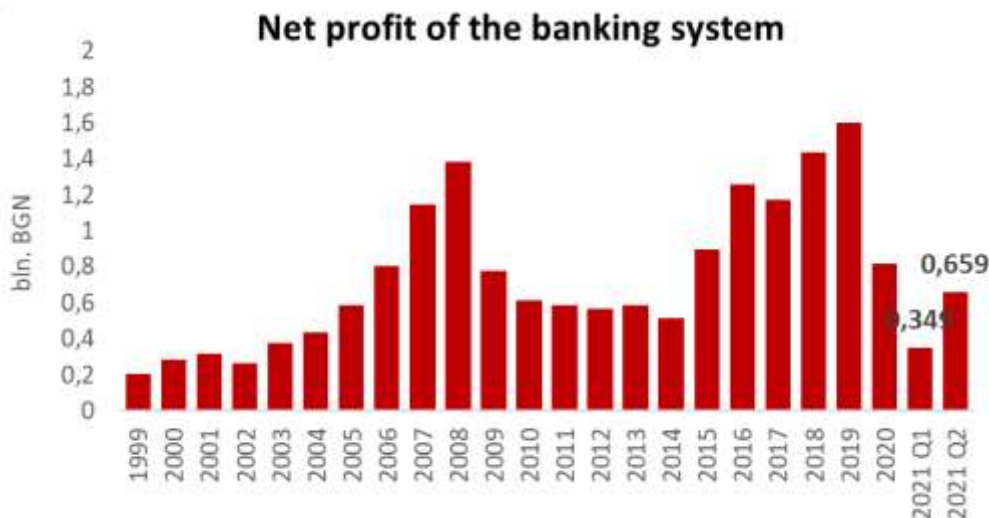
Net profit

In Q2 2021 the banking sector registered a decline in the net profit by 11,5% on a quarterly basis to BGN 309,2 million. For comparison, in Q1 2021 the net profit of the banking sector was at the amount of BGN 349,4 million, while in Q2 2020 the net profit was BGN 219,1 million.

The state of the economy continued to affect the activities and the results of the banking sector. The dynamics in lending, net interest income, net income from fees and commissions, the low interest rates, the impairment expenses and accrued provisions, the management of the quality of the credit portfolio influenced the financial result of the sector. 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.



For the first half of 2021 the net profit of the banking sector grew by 27,8% on an annual basis to BGN 658,6 million.



Source: BNB

The first group of banks generated 90,6% of the net profit at the end of Q2 2021, the second group – 6,2%, and the third group – 3,3%. For comparison, as of the end of Q1 2021 the five biggest banks in terms of assets contributed by 79,3% to the net profit, the banks in the second group – by 17,1%, and the share of the third group was 3,6%.

Net interest income

As of the end of Q2 2021 the total net operating income of the banking system was at the amount of BGN 2,182 billion compared to BGN 2,11 billion as of the end of Q2 2020. It increased by 3,4% on an annual basis.

The net interest income of the banks increased by 3% on an annual basis (BGN 38,6 million) to BGN 1,343 billion as of the end of June 2021.

The net interest income is the difference between the interest income and the interest expenses. As of June 30, 2021, the interest income rose by 1,3% Y-o-Y (BGN 19 million) to BGN 1,49 billion. The interest expenses were at the amount of BGN 147,2 million, which was by 11,7% lower on an annual basis.

The net interest income comprised 61,8% of the net total operating income of the banking system at the end of Q2 2021. For comparison, in the EU the share of the net interest income was 53,9% of the total operating income, according to the EBA data as of the end of Q1 2021.



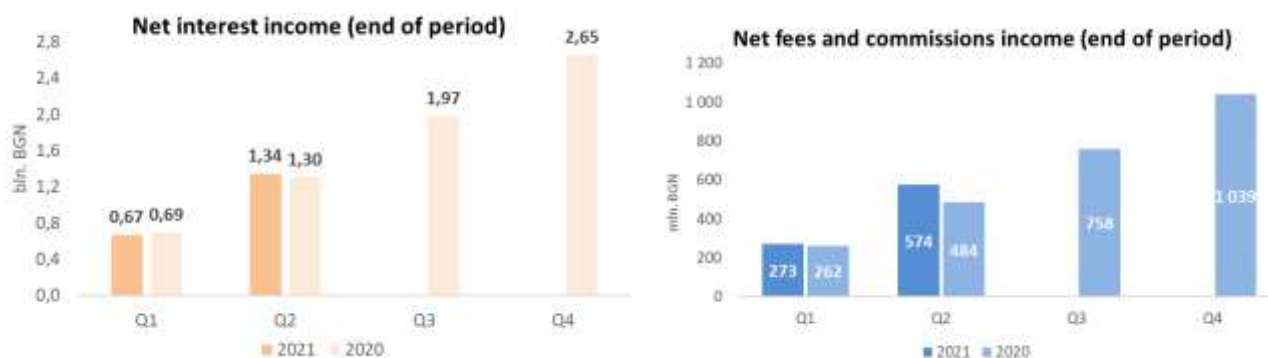
Net income from fees and commissions

Given the recovery of the economic activity, as of the end of Q2 2021 the net income from fees and commissions rose by 18,6% on an annual basis (BGN 89,9 million) to BGN 573,1 million. On a quarterly basis the increase was by 31,3%.

As of the end of June 2021 the income from fees and commissions increased by 17,8% on an annual basis (after an increase by 3,7% on an annual basis at the end of March 2021) to BGN 684,5 million. For the same period the expenses related with fees and commissions increased by 14,1% on an annual basis to BGN 110,4 million (after an increase by 0,8% in Q1 2021). On a quarterly basis the income from fees and commissions rose by 9,9% and that of the expenses related with fees and commissions – by 8%.

The comparison should take into account the sharp declines of the net interest income and net income from fees and commissions in the second quarter of 2020 because of the weakened economic activity as a result of the measures taken to limit the spread of the coronavirus.

The income from fees and commissions made up 26,3% of the total net operating income of the system as the share of fees was lower than the EU average, which was 30,4%, according to the EBA data for the first quarter of 2021.



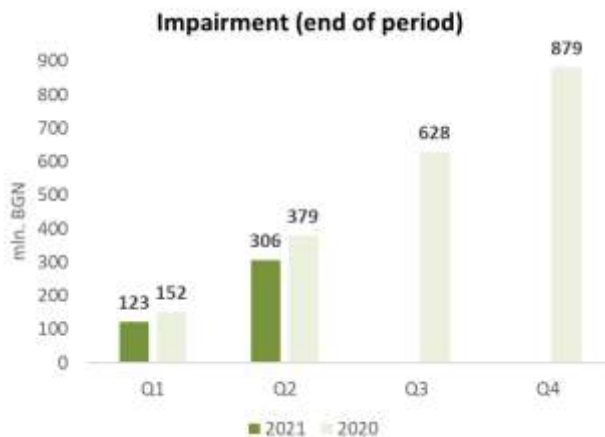
Source: BNB, own calculations

Operating expenses and impairments

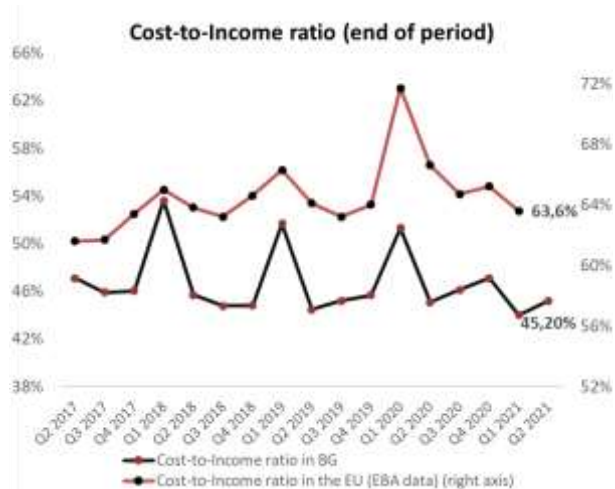
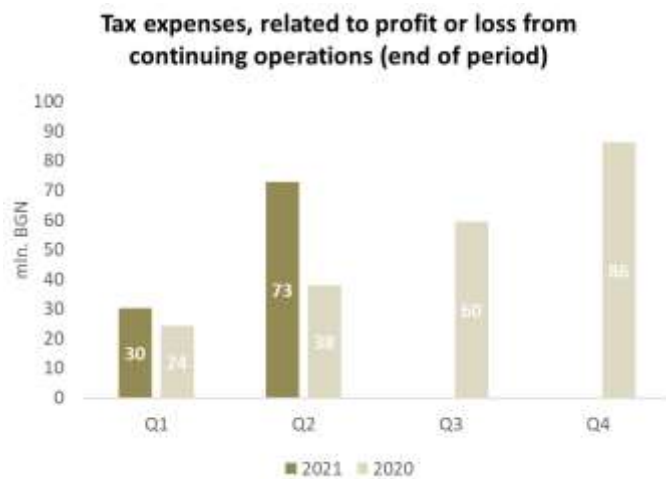
As of the end of Q2 2021 the administrative expenses, which include overhead expenses, were by 4,4% higher (BGN 36 million) compared to the same period of 2020 as they reached BGN 850,4 million. The total operating expenses, as a sum of the administrative expenses and depreciation, increased by 3,7% on an annual basis (BGN 35 million) to BGN 986,2 million.

The banking system made less impairments in comparison with the same period in the previous year. The impairments decreased by 19,2% on an annual basis (BGN – 73 million) to BGN 306 million from BGN 379 million a year earlier.

As of the end of Q2 2021 Cost-to-Income ratio for the banking system increased to 45,2% from 44% as it was at the end of Q1 2021. According to the EBA data, the average Cost-to-Income ratio in the EU dropped to 63,6% as of the end of Q1 2021.



Source: BNB, own calculations



Source: BNB, EBA, own calculations

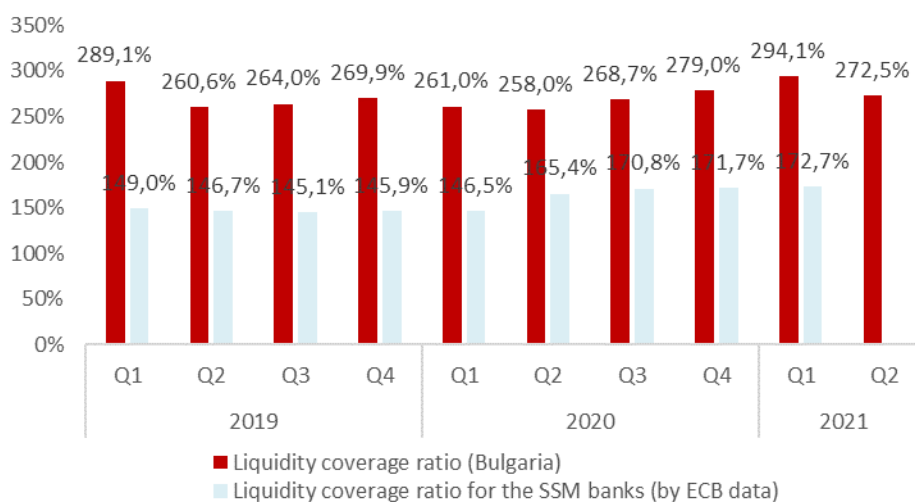


Financial indicators

Liquidity

As of the end of June 2021 the liquidity buffer and the net liquidity outflows were respectively BGN 34,9 billion and BGN 12,8 billion, according to the BNB data. The liquidity coverage ratio (LCR) was 272,5% compared to 294,1% as of the end of March 2021. According to the ECB data, as of the end of Q1 2021 the LCR for the banks in the Single Supervisory Mechanism was 172,73%.

Liquidity coverage ratio (LCR)



Source: BNB, ECB

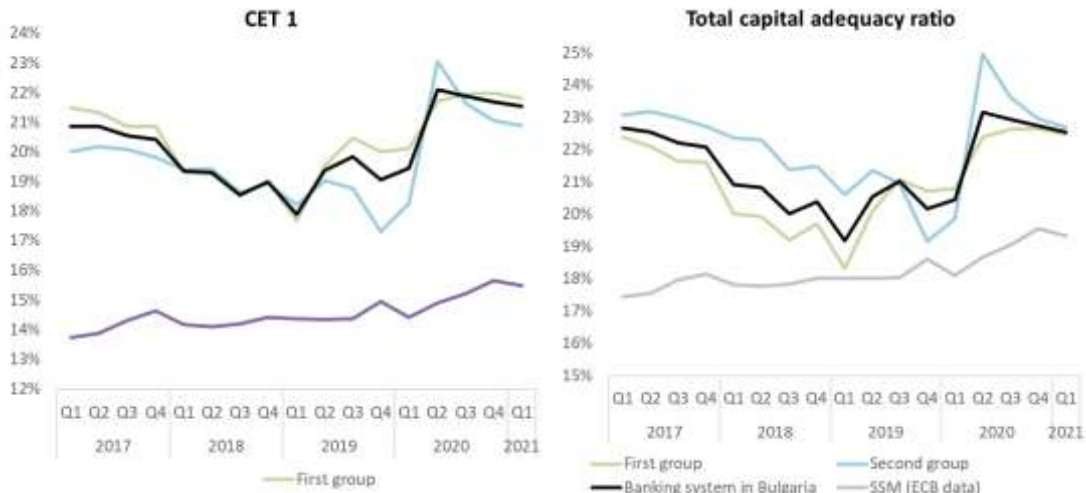
Capital adequacy

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

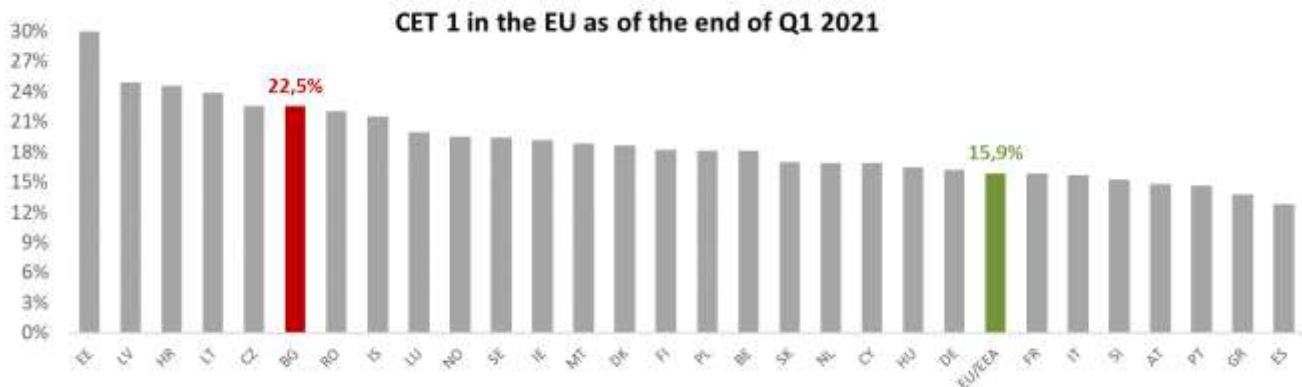
As of the end of Q1 2021 the common equity tier 1 (CET 1) of the whole banking system decreased to 21,53% from 21,69%, as it was at the end of Q4 2020. For the first group of banks the level of the indicator decreased to 21,81% from 21,98%, and for the second group it declined to 20,89% from 21,04%.

On a system level the total capital ratio for the Bulgarian banking system dropped to 22,54% from 22,74%. As of the end of March 2021 its level for the banks in the first group was 22,47% and 22,7% for the banks in the second group compared to 22,65% and 23,96%, 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 March 2021 were respectively for CET 1 – 15,49% and for the total capital ratio – 19,34%.



Source: BNB, ECB



Source: EBA, Risk Dashboard, Q1 2021

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 Q1 2021, the total banking system risk exposures increased by BGN 2,1 billion (3,3%) to BGN 66,6 billion. This increase was mainly driven by credit risk exposures, which rose by BGN 2,07 billion (3,5%) to BGN 61 billion, while the credit risk exposures under the standardized approach were by BGN 1,383 billion (3%) more compared to the amount as of the end of Q4 2020.

The share of the risk weighted exposures for credit risk in the total risk exposures increased to 91,6% at the end of March 2021 from 91,3% at the end of 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% from 8,2% three months earlier, which is evident by the BNB data.

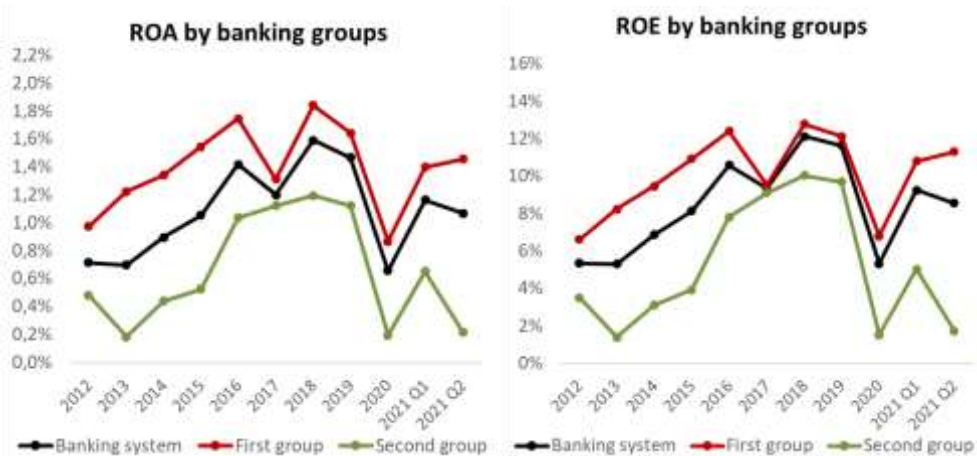
As regards the amount of the capital exceeding the capital requirements and the capital buffers, the BNB registered a level of BGN 4,66 billion compared to BGN 4,694 billion as of the end of December 2020.



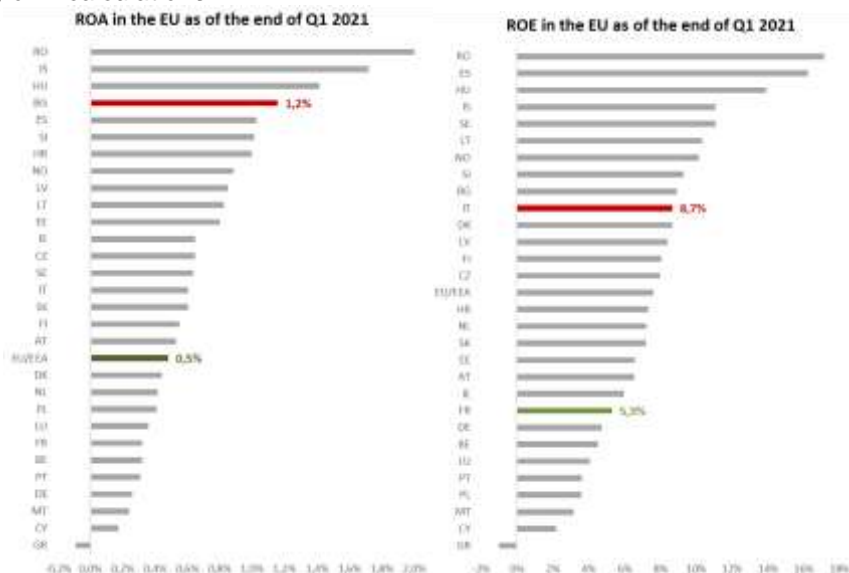
Profitability

As of June 30, 2021, the average Return on Assets (ROA) for the Bulgarian banking system was 1,07% compared to 1,16%, which was recorded as of the end of March 2021 (the average for the European banks was 0,45%, according to the ECB data for Q1 2021). The value of the indicator was 1,45% for the banks in the first group and 0,22% for the banks in the second group as of the end of June 2021.

The average Return on Equity (ROE) for the Bulgarian banking system was 8,55% as of the end of Q2 2021 compared to 9,25% as of the end of the first quarter of 2021 (according to the ECB data the average ROE for the European banks was 7,21% as of the end of Q1 2021). For the first group of banks in Bulgaria the ratio was 11,29% and for the second group – 1,71%, as of the end of Q2 2021.



Source: BNB, own calculations



Source: EBA Risk Dashboard, Q1 2021

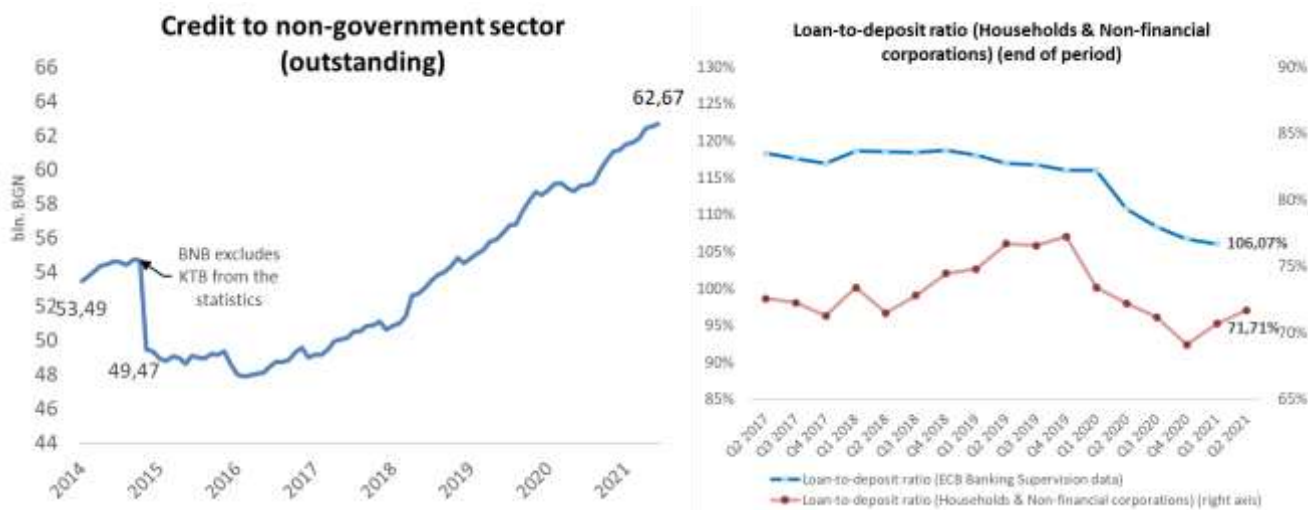
Note: On the graphs, the data for Bulgaria is based on the information submitted to EBA by four banks, and do not refer to the entire banking system



Loans and deposits

In its [Macroeconomic forecast](#) the BNB projects that the loans to non-government sector will grow this year and they are going to follow a tendency for a slight increase in 2022-2023. The BNB expects the deposits in the banking system to continue growing at comparatively high rates amid positive trends in the labour market and the projected growth in wages, but slowing down gradually. Lower uncertainty based on the assumption that the COVID19 pandemic would be overcome, will contribute to limit gradually the precautionary savings.

As of the end of June 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 6,2% on an annual basis to BGN 62,67 billion, compared with BGN 59,02 billion as it was at the end of March 2021.



Source: BNB, Monetary Statistics, ECB, own calculations

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 the end of June 2021, the total gross amount of approved loans and advances under the Procedure for Deferral and Settlement of Liabilities Payable to Banks and Their Subsidiaries – Financial Institutions was BGN 9,422 billion, of which BGN 7,348 billion to corporations and BGN 2,075 billion to households.

As of the end of Q2 2021 the amount of non-performing loans (past due more than 90 days; excluding Central Banks and Credit Institutions) declined to BGN 3,273 billion from BGN 3,322 billion a quarter earlier. The share of non-performing loans in the banking system dropped to 4,58% from 4,71% as of the end of March 2021, according to the calculations based on the data of the BNB Banking Supervision Department.

The share of non-performing loans to non-financial corporations remained unchanged at 5%.



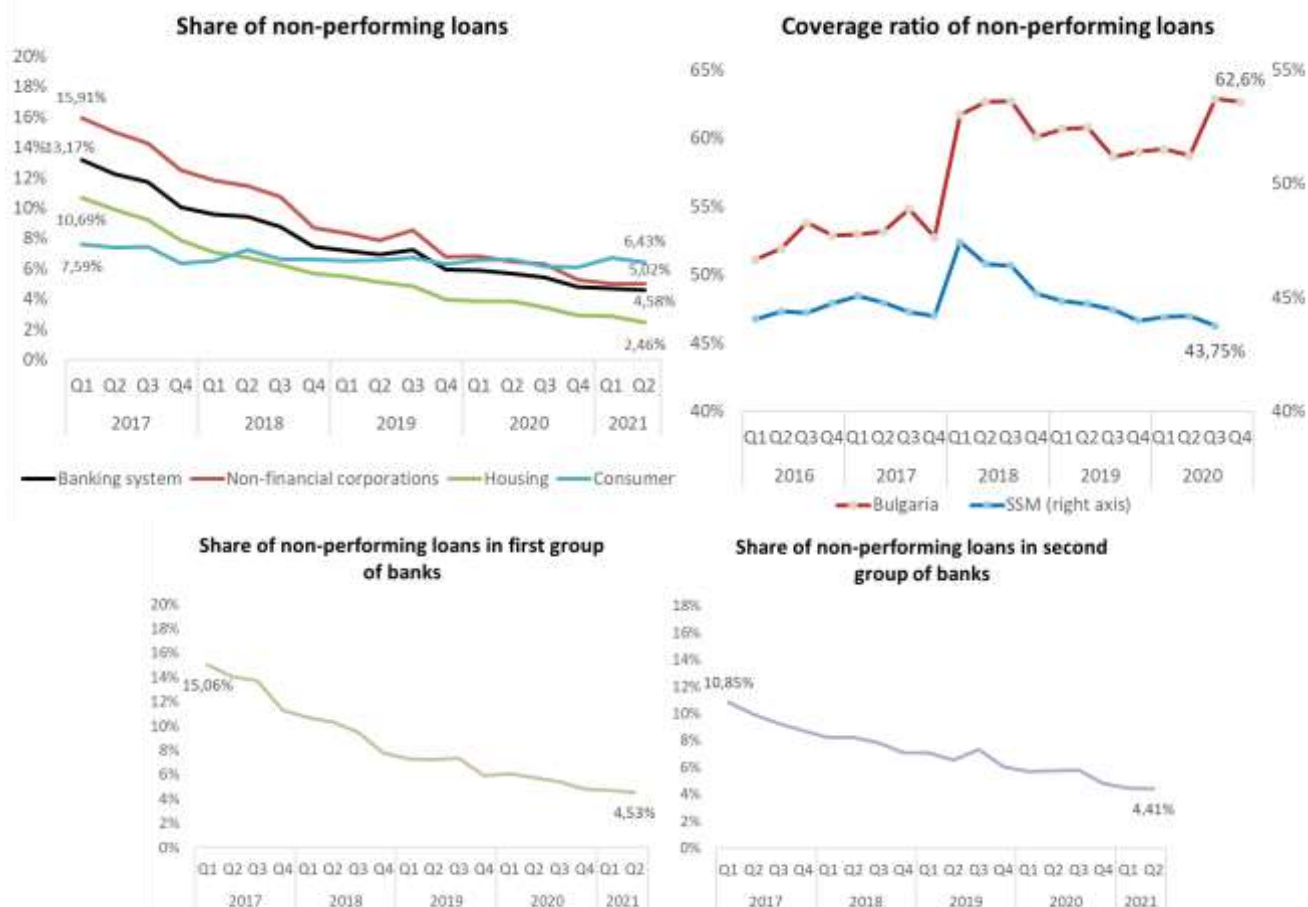
The ratio in the segment of housing loans decreased to 2,46% from 2,87%. The share of non-performing consumer loans dipped to 6,43% from 6,74%.

At the end of June 2021, the amount of non-performing loans to non-financial corporations stood at BGN 1,916 billion. In the segment of housing loans the amount decreased to BGN 360,2 million from BGN 402,4 million. The non-performing consumer loans were at the amount of BGN 876,1 million, compared to BGN 886,7 million a quarter ago.

The level of non-performing gross loans reported by the banks in the first group declined to 4,53% as of the end of the second quarter of 2021 compared to 4,7% as of the end of Q1 2021. For the banks in the second group the level decreased to 4,41% from 4,46%.

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.

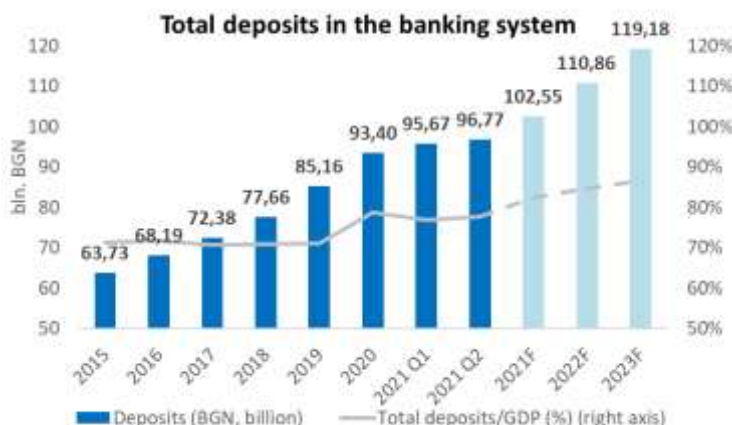
The impairment coverage ratio of gross non-performing loans in the Bulgarian banking system was 65,1% as of the end of Q2 2021 compared to 62,7% a quarter earlier. For comparison, the coverage ratio for the European banks, according to the ECB data for Q1 2021 was 42,97%.



Source: BNB, own calculations



Deposits, attracted by the banks, continued to grow. As of the end of June 2021 the total amount of outstanding deposits in the banking system reached BGN 96,77 billion as an annual growth of 12,1% was recorded due to the formation of precautionary savings, despite the low interest rate levels. The deposits' growth remained almost unchanged compared to the growth of 12,2% which was reported at the end of March 2021.

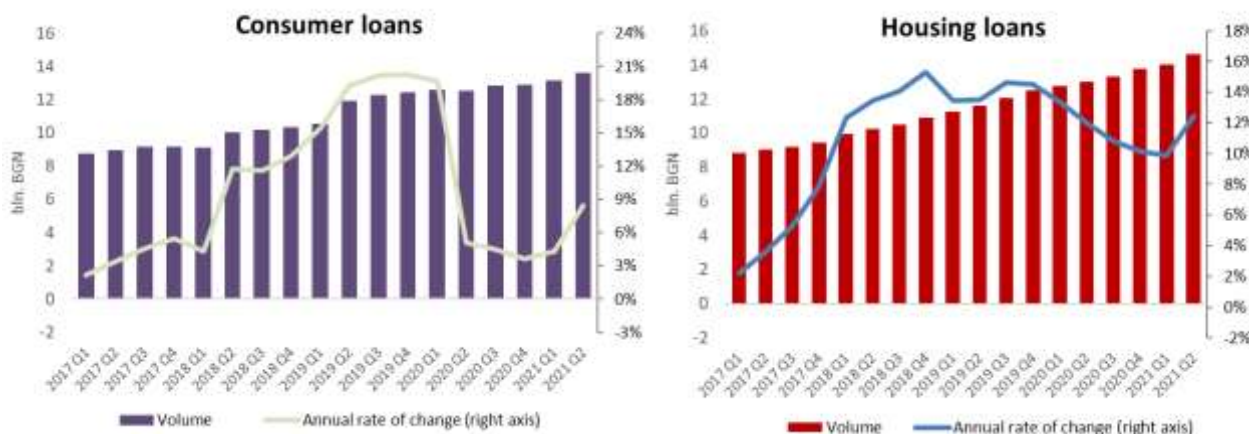


Source: BNB, own calculations
Forecast: BNB, Ministry of Finance

Loans and deposits to households

As of the end of Q2 2021, according to the data of the BNB Banking Supervision Department, the amount of consumer loans was BGN 13,62 billion compared to BGN 13,16 billion a quarter earlier and BGN 12,56 billion a year earlier. In Q2 2021 the amount of consumer loans grew by 8,4% on a quarterly basis and increased by 3,5% on annual basis.

The amount of housing loans, according to the data of the BNB Banking Supervision Department, was BGN 14,62 billion compared to BGN 14,02 billion as of the end of Q1 2020 and BGN 13 billion as of the end of the first quarter in the previous year. The quarterly increase was by 4,3% and by 12,4% on an annual basis, according to the BNB statistics.



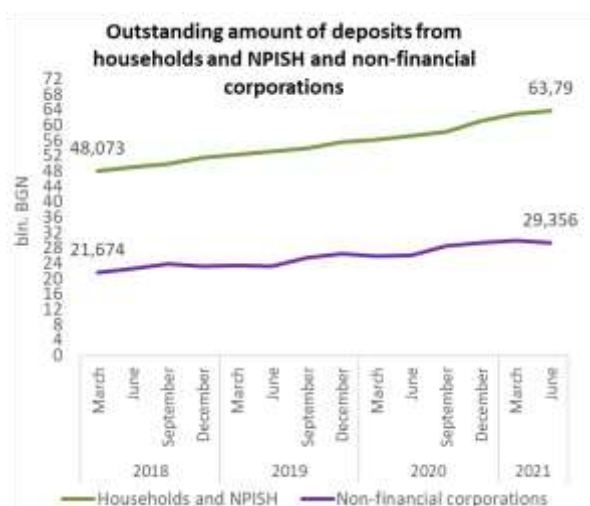
Source: BNB, Banking Supervision Department, own calculations



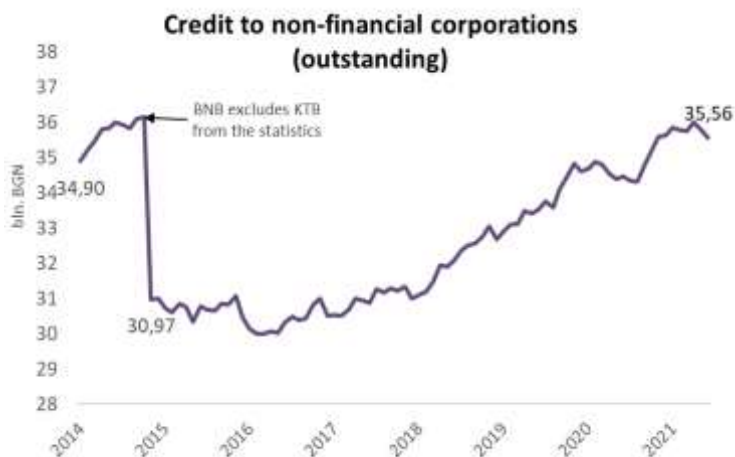
As of the end of Q2 2021 the total amount of deposits to households and NPISH grew by 11,6% on an annual basis after an annual increase by 12% at the end of March 2021. Deposits from households were BGN 63,79 billion. The share of the household sector in the total amount of deposits in the banking system was 65,9%.

Loans and deposits of non-financial corporations

As of June 30, 2021, the outstanding amount of deposits from non-financial corporations increased by 12,9% Y-o-Y, after an annual increase of 16,1% as of the end of March 2021 amounting to BGN 29,36 billion. The outstanding amount on loans to non-financial corporations grew by 3,2% Y-o-Y to BGN 35,56 billion. Except overdrafts, loans to non-financial corporations increased by 3,6% on an annual basis, reaching BGN 24,4 billion in absolute terms.



Source: BNB, Monetary statistics



Interest rates

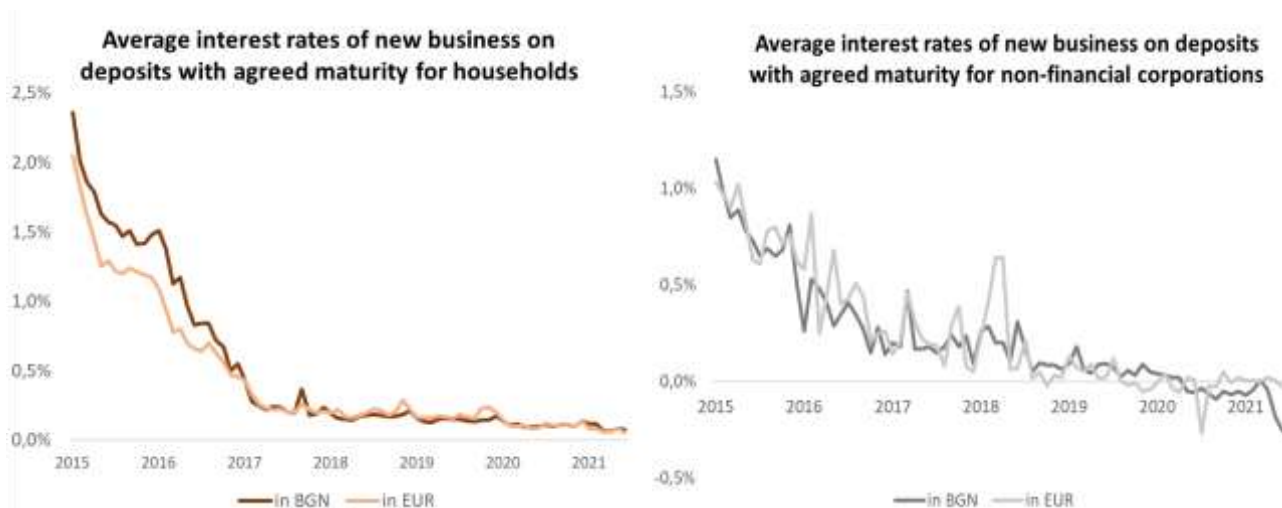
In Q2 2021 the interest rates on new business consumer loans, housing loans and loans to non-financial corporations declined compared to the previous quarter. The interest rates on new deposits for households increased, while the interest rates on deposits for non-financial corporations decreased in comparison with the first three months of 2021.

Interest rates on deposits

As of the end of Q2 2021 the average interest rates on deposits with agreed maturity to non-financial corporations on new business in BGN dropped to -0,25% from 0% as it was at the end of March 2021. The average interest rates on deposits with agreed maturity in EUR was -0,03% compared to 0% at the end of March 2021, according to the monetary statistics of the BNB.



As of the end of June 2021 the average interest rates on deposits with agreed maturity on new business in BGN to households increased on a quarterly basis to 0,08% compared to 0,07% at the end of March 2021. The interest rate levels on deposits with agreed maturity on new business in EUR rose to 0,09% from 0,06% compared to the end of Q1 2021.

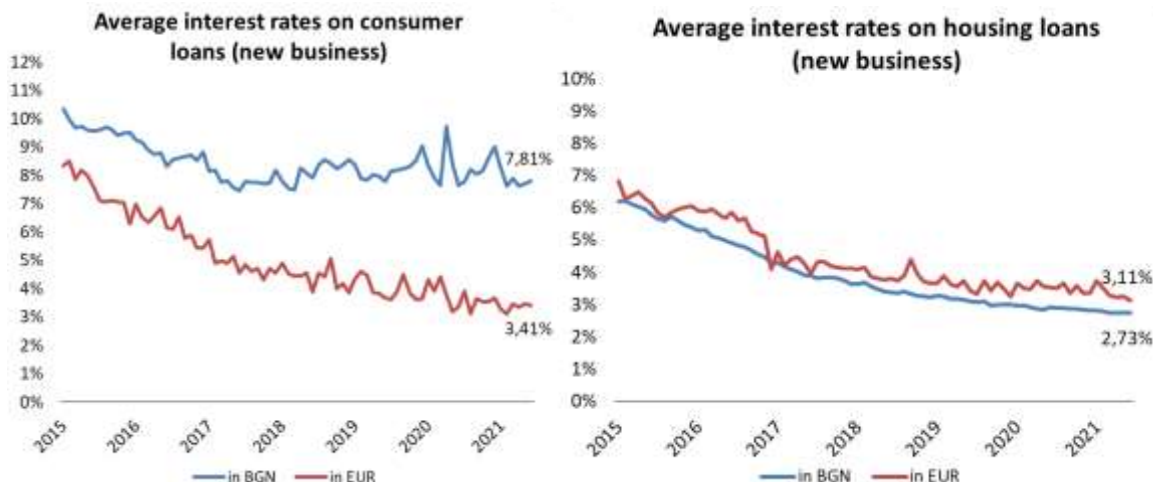


Source: BNB

Interest rates on loans

As of the end of June 2021 the average interest rates on consumer loans agreed in BGN decreased to 7,81%, compared to 7,88% at the end of Q1 2021. The interest rates on consumer loans agreed in EUR dropped to 3,41% as of the end of June 2021 in comparison with 3,45% three months earlier.

As of the end of Q2 2021 the average interest rates on housing loans fell to 2,73% from 2,75% 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 decrease to 3,11% from 3,29%.

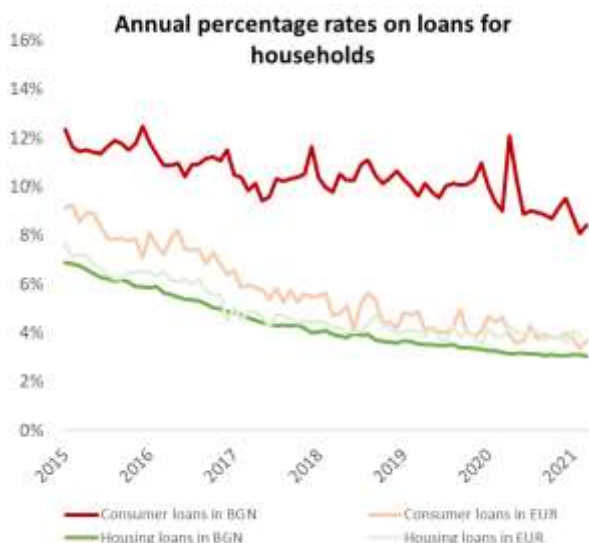


Source: BNB

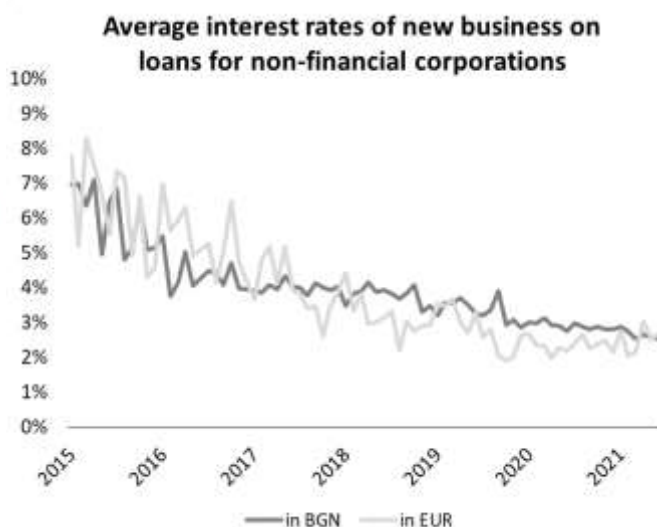


As of the end of June 2021 the annual percentage rate (APR), which includes the interest rate component and the component of all other fees and commissions, dropped to 3,01% from 3,03% for housing loans in BGN and to 3,43% from 3,61% a quarter earlier for housing loans in EUR. The level of the APR on consumer loans was 8,39% and 3,73%, respectively, for loans in BGN and in EUR, compared with 8,42% and 3,68% three months earlier.

Compared to the end of Q1 2021 the average interest rates on new business on loans to non-financial corporations decreased to 2,53% from 2,54% for loans in BGN, while it increased to 2,67% from 2,17% for loans in EUR. The level of the interest rates for the loans to non-financial corporations agreed in US dollars decreased to 1,62% from 3,99% a quarter ago.



Source: BNB





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All historical rates, statistical data and graphs are up to date, up to and including August 6, 2021, unless otherwise stated.

The views provided are those prevailing as of August 6, 2021.