



# THE ECONOMY AND THE BANKING SECTOR IN BULGARIA

FOURTH QUARTER OF 2022



SOFIA



## HIGHLIGHTS

- In Q3 2022, the Bulgarian economy grew by 3,3% y-o-y following the formation of positive contribution of government and private consumption, and net exports
- The inflation accelerated by 14,5% year-over-year in Q4 2022
- At the end of December 2022, the unemployment rate in Bulgaria remained at 4%
- At the end of December 2022, the budget deficit stood at 0,8% of GDP
- At the end of the fourth quarter of 2022, the total assets of the banking system reached BGN 155,41 billion, growing by 14,8% y-o-y (96,1% of the GDP growth forecast)
- At the end of the fourth quarter of 2022, the banking sector reported BGN 2,079 billion in net profit
- The financial result of the banking system was affected by the double-digit growth in loan portfolio volumes in all business segments. Consequently, it had a positive effect on the net interest income (NII) and the net fee and commission income
- The net profit was further determined by the rising interest rates on some loans and the slower pace of interest rate growth on deposits, and the reported impairment reduction
- In Q4 2022, the household and nonfinancial corporations' credit growth remained at a high level
- In Q4 2022, the interest rates on new loans and deposits with agreed maturity from households and corporations continued their rising



# CONTENTS

<b>I. The Bulgarian economy</b> .....	4
1. Economic growth .....	4
2. Inflation .....	7
3. Labour market .....	9
4. Public sector .....	10
5. Capital market .....	11
<b>II. The banking sector in Bulgaria</b> .....	13
1. Balance sheet statement (Statement of financial position) .....	13
1.1. Assets .....	13
1.2. Liabilities .....	14
1.3. Equity .....	14
2 Statement of profit or loss.....	14
2.1. Net profit.....	14
2.2. Net interest income .....	15
2.3. Net income from fees and commissions.....	16
2.4. Operating expenses and impairments.....	16
3. Financial indicators.....	18
3.1. Liquidity .....	18
3.2. Capital adequacy.....	18
3.3. Profitability.....	20
4. Loans and deposits .....	22
4.1. Loans and deposits to households .....	25
4.2. Loans and deposits of non-financial corporations .....	25
5. Interest rates .....	26
5.1. Interest rates on deposits .....	26
5.2. Interest rates on loans.....	27

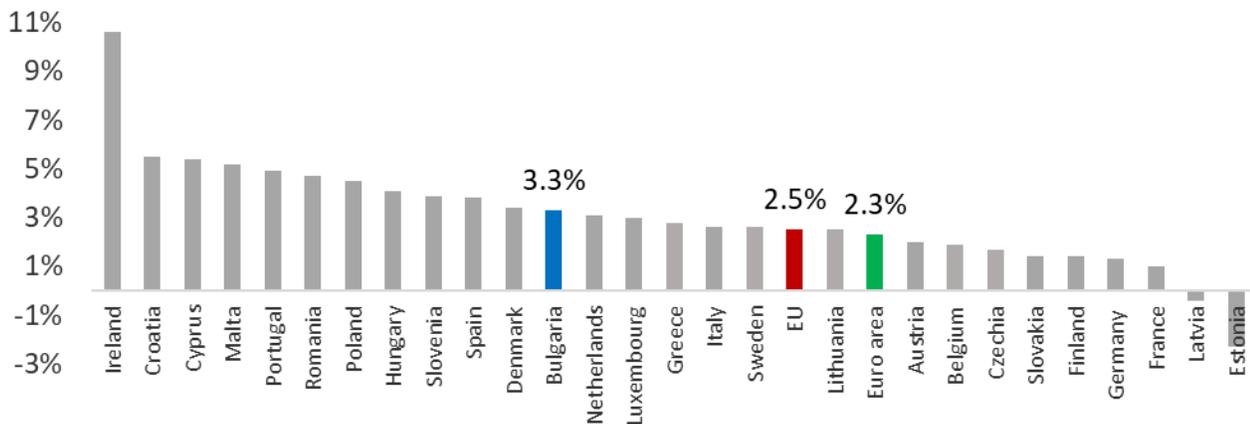


## I. The Bulgarian economy

### Economic growth

In the third quarter of 2022, Bulgarian gross domestic product (GDP) rose by 3,3% y-o-y, decelerating from an annual increase of 4,6% in the previous quarter. According to the preliminary seasonally and calendar-adjusted data of Eurostat, the pace of growth of the Bulgarian economy retained above the EU and euro area average. Real GDP annual growth in the EU and eurozone slowed to 2,5% and 2,3%, respectively.

EU and euro area GDP growth in Q3 2022



Source: Eurostat, Seasonally and calendar adjusted data

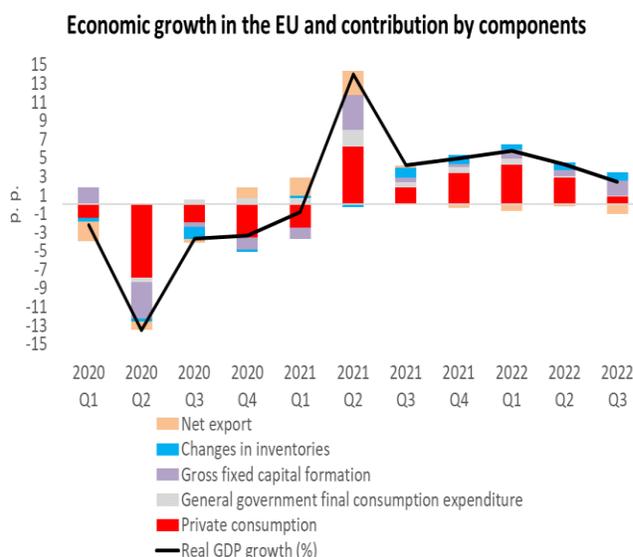
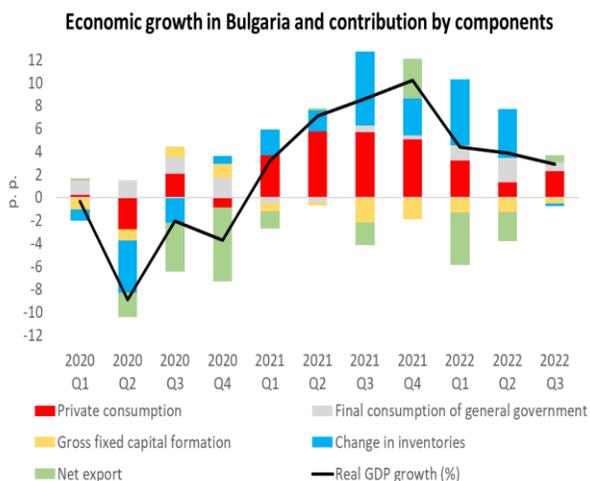
Eurostat's preliminary non-seasonally adjusted data shows that the Bulgarian economy slowed to 2,9% y-o-y compared to an increase of 3,9% in Q2 2022. Government consumption, private consumption, and net exports reflected the highest contribution to the economic growth in the third quarter of 2022, whereas gross fixed capital formation and changes in inventories contributed negatively to the economic development.

Over the review period (July to September 2022), government consumption grew by 3,8% y-o-y. It contributed to the GDP growth by 0,8 percentage points (p.p.) compared to the positive contribution of 2,1 p.p. a quarter earlier. Private consumption was proceeding to increase in the third quarter of 2022, rising by 4,2% on an annual basis after an increase of 2,1% in the second quarter. Households and NPISHs consumption reported a positive contribution of 2,3 p.p. in GDP growth.



In Q3 2022, gross fixed capital formation went down by 3,3% y-o-y, following a decline of 11% in the previous quarter. Over the review period contribution of this component was negative, reaching -0,5 p.p. Deceleration of the inventories produced a negative contribution of -0,2 p.p. in GDP growth, following a positive contribution of 4,3 p.p. in the second quarter of 2022. Net exports contributed positively to GDP growth in the third quarter of 2022 (0,6 p.p.) after a negative contribution of - 2.5 p.p. in the previous quarter.

The export of goods and services increased further for the third consecutive quarter, gaining 9,7% y-o-y. In comparison, it accelerated by 8,9% y-o-y in the second quarter of 2022. Over July-September 2022, the import grew by 9,2%, following a 12,3% increase in the previous quarter. The trade deficit widened to -3,4% of GDP in the third quarter of 2022 compared to the current account deficit of -1,9% reported a quarter earlier.



Source: Eurostat, own calculations

Likewise, compared with the Bulgarian economy, the EU economy dampened to 2,4% y-o-y in Q3 2022. The gross capital formation set out the highest contribution to the EU GDP growth, a 7% increase y-o-y in the third quarter of 2022 (and contributed to the GDP growth by 1,6 p.p.).

According to the Bulgarian National Bank's [Macroeconomic forecast](#), the real GDP growth is expected to grow by 3,4%, mainly driven by the increase in private consumption and accumulated stocks of commodities, raw materials and final products in the economy. The BNB projected that in 2023 the real GDP growth is going to decelerate significantly to 0,4%, reflecting a transition from a positive to a negative contribution of changes in inventories primarily. Other factors that will confine the growth of Bulgarian economic activity in 2023 are the projected substantial slowdown in government consumption growth, and the expected decline in goods exports.

With regard to the local and international organizations and institutions forecasts, in 2022,



Bulgaria's GDP growth is expected to expand between 2,8% and 3,9%. The annual GDP growth in 2023 is estimated to attain between 0,4% to 3%.

Key indicators for the Bulgarian economy																		
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Q1'22	Q2'22	Q3'22	2022F	2023F	2024F	2025F	
<b>Gross domestic product</b>																		
GDP (mln. BGN)	82 646	82 242	84 150	89 600	95 391	102 741	109 964	120 395	119 951	132 744	33 733	39 262	44 960					
Real GDP growth (% y-o-y)	0,8	-0,6	1,0	3,4	3	2,8	2,7	4,0	-4	7,6	4,4	3,9	2,9					
														<b>Real GDP growth (% y-o-y) - Forecasts</b>				
														MF (Oct'22)	2,9	1,6	3,4	3,3
														BNB (Jan'23)	3,4	0,4	3,2	-
														IMF (Oct'22)	3,9	3,0	-	-
														WBG (Jan'23)	3,1	1,7	3,3	-
														EC (Nov'22)	3,1	1,1	2,4	-
														EBRD (Sep'22)	3,0	1,5	-	-
														OECD (Dec'22)	2,8	1,7	3,1	-
<b>Contribution to GDP growth (% change)</b>																		
Final consumption expenditure	2,6	-3,0	1,1	2,6	2,2	2,9	4,0	5,1	1,4	6,7	5,8	4,5	4,0					
Household and NPISH final consumption expenditure	3,7	-3,9	1,4	2,8	2,2	2,5	3,7	6,0	-0,6	8,8	5,5	2,1	4,2					
Final consumption expenditure of general government	-1,8	0,7	-0,1	1,8	2,2	4,3	5,3	2,0	8,3	0,4	6,6	11,6	3,8					
Gross fixed capital formation	1,8	0,5	3,5	2,7	-6,6	3,2	5,4	4,5	0,6	-8,3	-7,4	-11,0	-3,3					
Export of goods and services	2,0	9,6	3,1	6,4	8,6	5,8	1,7	4,0	-12,1	9,9	4,8	8,9	9,7					
Import of goods and services	5,6	4,3	5,1	4,7	5,2	7,4	5,8	5,2	-5,4	12,2	14,1	12,3	9,2					
Trade balance/GDP (%)	-9,5	-7,0	-6,5	-5,7	-2	-1,5	-4,8	-4,7	-3,2	-4,9	-1,5	-2,0	-3,4					
Direct foreign investments in Bulgaria (mln. EUR)	1 320,9	1 383,7	347,4	2 000,9	939,8	1 605,6	967,5	1 639,4	2 996,5	1 265,1	883,0	766,4	1512,3					
Direct foreign investments/GDP (%)	3,1	3,3	0,8	4,4	1,9	3,1	1,7	2,7	4,9	1,9	1,2	1,0	1,9					
Harmonised index of consumer prices (HICP) (average rate of change)	2,4	0,4	-1,6	-1,1	-1,3	1,2	2,6	2,5	1,2	2,8	8,9	13,4	15,2					

Source: NSI, Eurostat, BNB

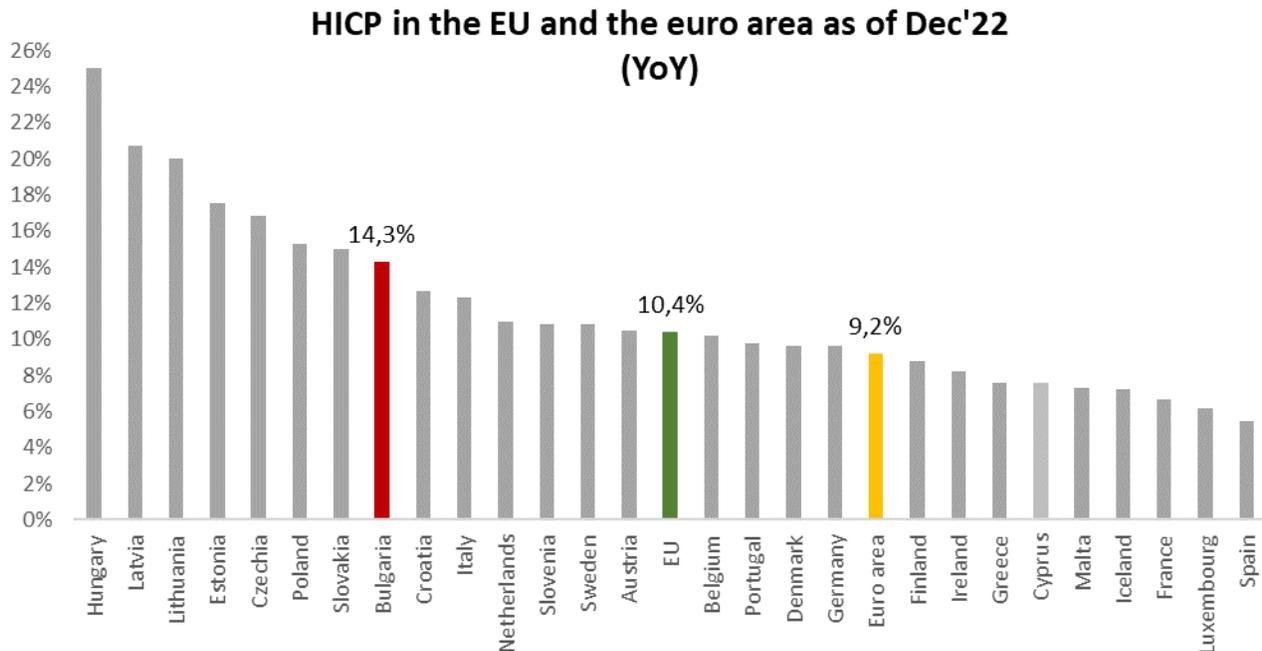
Forecasts: Bulgarian National Bank, Ministry of Finance, International Monetary Fund, World Bank, European Commission, European Bank for Reconstruction and Development, Organization for Economic Co-operation and Development



## Inflation

In the fourth quarter of 2022, the harmonized index of consumer prices (HICP) moderated from 15,2% in the third quarter of 2022 to 14,5% on average. According to the Eurostat data, inflation in Bulgaria stood at 14,3% y-o-y in December 2022, remaining above the EU and the euro area average of 10,4% and 9,2%, respectively.

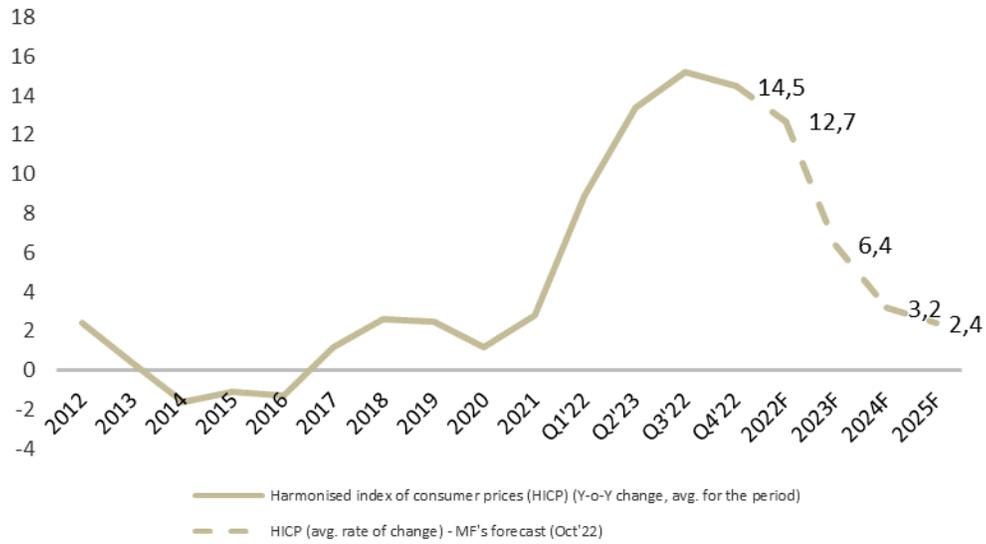
According to the Bulgarian National Bank's [Macroeconomic forecast](#), the annual inflation is projected to decelerate to 4,2% at the end of 2023 under the assumptions for downward dynamics in euro of oil and food prices in international markets. Besides, the BNB forecast indicates that inflation is expected to reach 7,0% on average for the year as the pressure on production prices in the short run stemming from factors such as already increased commodity prices, supply, and labour shortages will have a further impact on consumer prices. Inflation is projected to slow down to 3,3% at the end of 2024, following downward dynamics in international markets in food and energy commodity prices.



Source: Eurostat



### Annual inflation rate (HICP on average) (%)



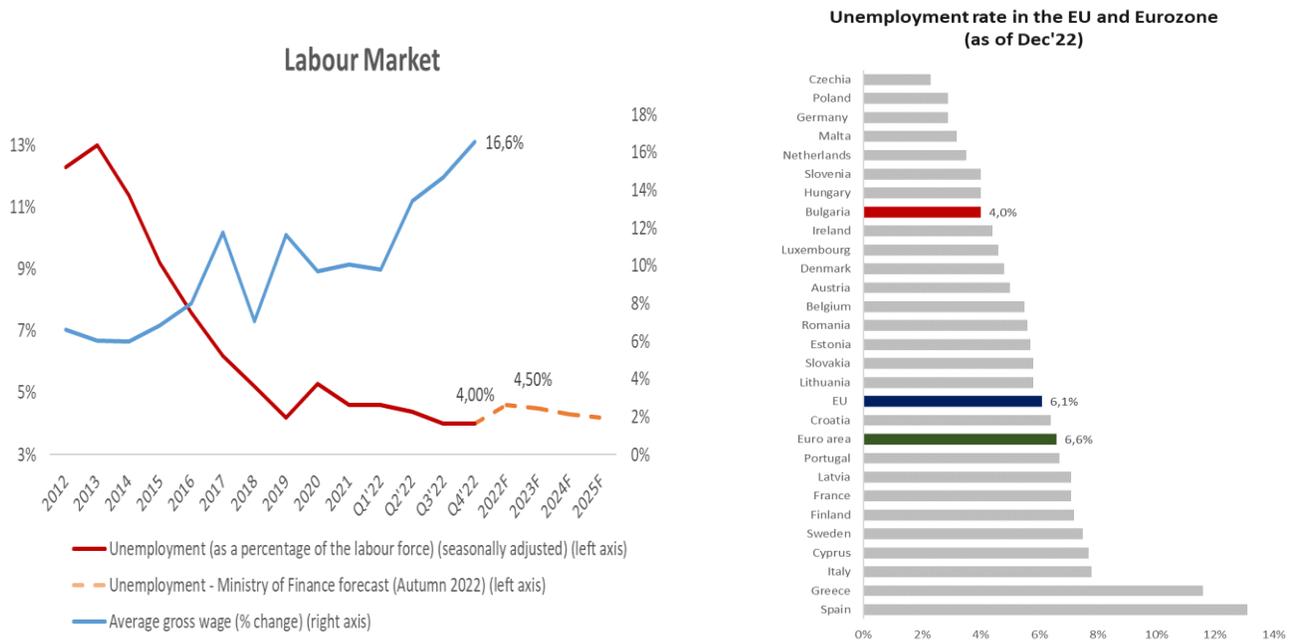
Source: NSI, Eurostat  
Forecast: Ministry of Finance



## Labour market

In December 2022, the unemployment rate in Bulgaria (number of people unemployed as a percentage of the labour force) remained at 4,0%. The unemployment rate in the country remained below the EU average and Bulgaria ranked 8<sup>th</sup> among the EU member states in terms of lowest unemployment rate in December 2022. As of end-Dec'22, the number of people unemployed in Bulgaria remained unchanged and reached 132 thousand. Likewise, as of the end of the fourth quarter of 2021, the number of unemployed people reached 294 thousand.

In December 2022, the youth unemployment rate in Bulgaria (unemployed young people under 25) was 11,2%, up from 10,7% in September 2022. Simultaneously, the youth unemployment rate in the EU was 15%, as the highest rates were observed in Spain, Greece, and Sweden.



Source: Eurostat, Ministry of Finance, NSI

Key indicators for the Bulgarian economy	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Mar'22	Jun'22	Sep'22
<b>Labour market</b>													
Unemployment rate (as % of the labour force) (seasonally adjusted data)	13,3	13,9	12,4	10,1	8,6	7,2	6,2	5,2	6,1	4,8	4,3	4,5	4,1
Number of employed (15+ years) (thousands persons)	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	3 076,5	3 068,3	3 121,0	3 215,6
Number of employed in Finance and Insurance sector (thousands persons), incl.:													
Number of employed in the banking sector (thousands persons)	52,7	51,6	60,5	62,3	58,6	63,7	65,4	67,3	62,4	65,1	68,0	70,4	71,4
Gross average monthly wage in Finance and Insurance sector	1 459	1 508	1 578	1 608	1 709	1 788	1 904	2 074	2 191	2 300	2 540	2 740	2 533

Source: Eurostat, Ministry of Finance, NSI, ECB



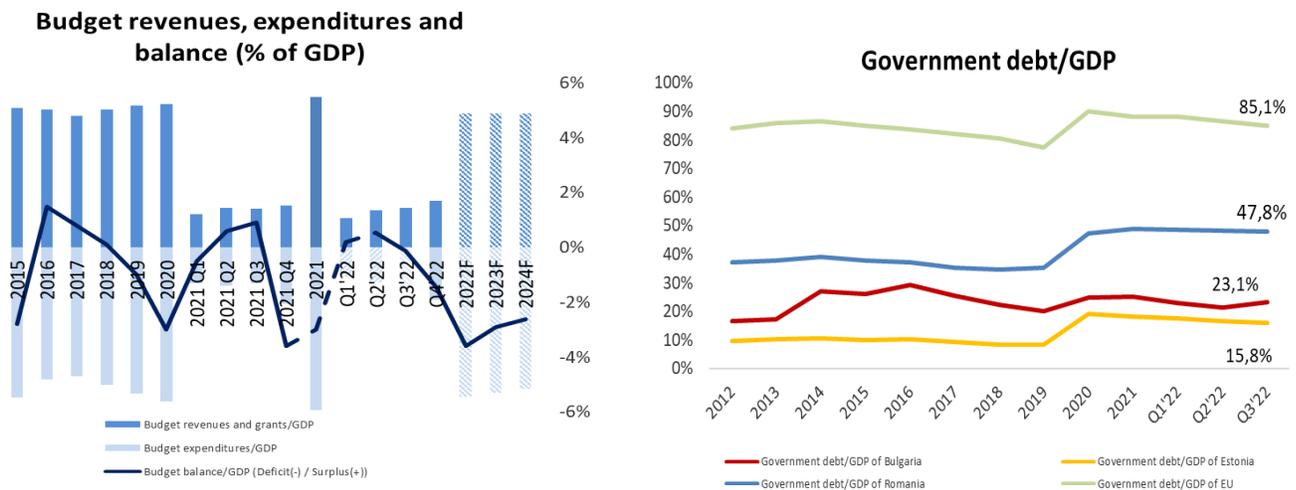
## Public sector

According to the Ministry of Finance (MF) preliminary data as of December 2022, the budget balance was negative and amounted to BGN 1,347 million (0,8% of the projected GDP).

Budget revenues, grants, and donations reported under the Consolidated Fiscal Programme (CFP) over October-December 2022 were equal to BGN 19,77 billion (12,2% of the projected GDP), up by BGN 5,2 billion compared to the same period last year.

The CFP budget expenditures (including the Bulgarian contribution to the EU budget) reached BGN 22,1 billion (13,7% of the projected GDP). Compared to the last quarter of 2021, CFP expenditures increased by BGN 2,6 billion, up from BGN 19,5 billion.

As of September 31, 2022, the fiscal reserve was BGN 13,4 billion.



Source: Ministry of Finance, Eurostat

As of the of the third quarter of 2022, Bulgarian consolidated debt to GDP was 23,1%. The ratio is below the EU average of 85,1%.

The long-term Interest Rate for Convergence Assessment Purposes (LTIR) in Bulgaria remained unchanged at 1,85% as of end-Sep'22. In comparison with the Bulgarian data, the LTIR in Romania was 8,07%, in Poland – 6,28%, in Hungary – 9,23%, and in the Czech Republic – 4,72%. LTIR in Bulgaria resumed being the lowest within the countries in the CEE region, which are EU members but non-euro area member states.



## Capital market

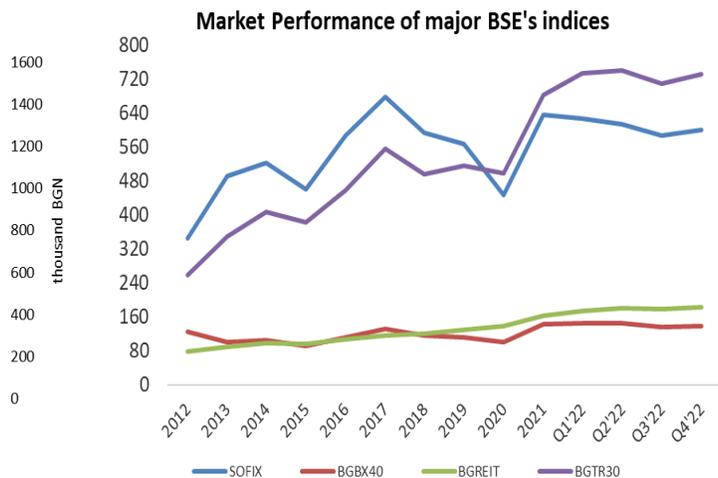
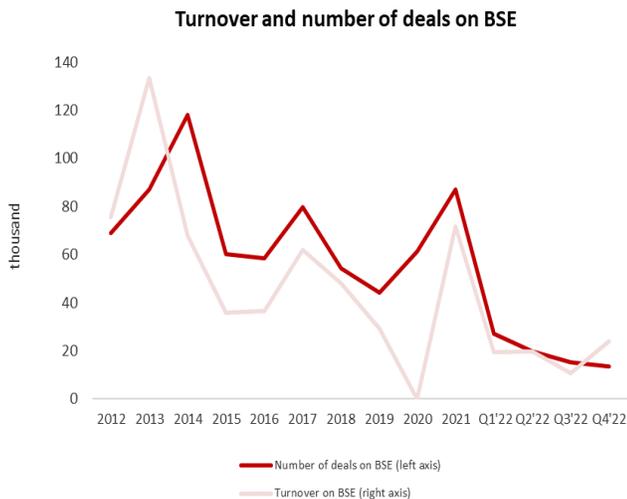
Major indices on Bulgarian Stock Exchange (BSE) closed the year as follows: the main index SOFIX fell by 5,4% compared to the same period of the previous year, the broad-based BGBX40 lost 3,1%, whereas the sectoral BGREIT and the equally weighted BGTR30 gained 11,7% and 7,1%, respectively.

In the fourth quarter of 2022, SOFIX was one of the weakest performers on the stock markets in the CEE region, increasing by 2,44% quarter over quarter.

As of December 31, 2022, the market capitalization of BSE increased by 0,7% q-o-q to BGN 29,85 billion (18,5% of the projected GDP).

Over October-December 2022, the turnover of BSE increased by 127,2% q-o-q to BGN 273,85 million. On an annual basis, a 32,4% decline was reported. In the fourth quarter of 2022 the number of deals (13 564) decreased by 10,1% q-o-q and by 41% y-o-y.

Over the reviewed period, the banks listed on BSE accounted for 8,3% of the total turnover and 4,17% of the all deals executed on the regulated market (as per the double-entry bookkeeping). In the previous quarter, deals done by the listed banks on BSE accounted for 3,08% of all trades and comprised 7,03% of the total turnover.



Source: BSE, own calculations



No	Country	Index	31 Dec'21	30 Jun'22	30 Sep'22	31 Dec'22	Δ Q3 2022	Δ YTD 2022
1	Turkey	XU 100	1 857,65	2 405,36	3 179,99	5 509,16	73,24%	196,57%
2	Poland	WIG	69 296,26	53 573,42	45 970,64	57 462,68	25,00%	-17,08%
3	Greece	ASE	893,34	810,42	792,90	929,79	17,26%	4,08%
4	Hungary	BUX	50 720,71	39 240,53	37 838,30	43 793,76	15,74%	-13,66%
5	Russia	MOEX	3 787,26	2 204,85	1 957,31	2 154,12	10,06%	-43,12%
6	Romania	BET	13 061,32	12 294,26	10 639,41	11 663,53	9,63%	-10,70%
7	Slovenia	SBITOP	1 258,80	1 121,50	963,07	1 046,13	8,62%	-16,89%
8	Czech Republic	PSE	1 426,03	1 251,75	1 123,37	1 201,73	6,98%	-15,73%
9	Croatia	CROBEX	2 079,35	2 012,13	1 906,28	1 979,88	3,86%	-4,78%
10	Bulgaria	SOFIX	635,68	613,21	587,15	601,49	2,44%	-5,38%
11	Serbia	BELEX	1 711,57	1 690,07	1 716,95	1 739,86	1,33%	1,65%
12	North Macedonia	MBI 10	6 153,48	5 787,23	5 586,34	5 652,33	1,18%	-8,14%
13	Slovakia	SAX	397,34	372,58	346,11	334,74	-3,29%	-15,75%

Source: BSE, Bloomberg, own calculations

Key indicators for the Bulgarian economy														
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Q1'22	Q2'22	Q3'22	Q4'22
<b>Capital market</b>														
Market capitalization/GDP	12,0%	12,2%	11,6%	9,6%	10,2%	24,2%	24,3%	23,2%	23,6%	23,2%	20,7%	20,9%	20,1%	18,50%
SOFIX	345,46	491,52	522,1	460,9	586,43	677,45	594,46	568,14	447,53	635,68	626,76	613,21	587,15	601,49
BGBX40	125,11	100	104,61	92,82	111,3	132	115,91	111,83	101,38	143,68	145,38	144,13	136,97	139,28
BGREIT	79,62	88,66	98,75	97,03	108,11	116,1	121,07	130,03	137,69	163,98	175,04	181,38	178,28	183,17
BGTR30	257,87	349,03	407,5	383,82	459,19	555,98	496,14	516,28	499,17	682,96	734,44	740,93	710,57	731,2
Turnover on BSE (thousand BGN)	864 038	1 522 000	774 900	410 800	416 003	705 851	550 041	333 574	397 500	818 964	223 496	225 707	120 552	273852
Number of deals on BSE	68 855	87 069	118 074	60 047	58 442	79 629	54 341	44 167	61 173	86 863	27 088	19 887	15 088	13564

Source: BSE, Bloomberg, own calculations



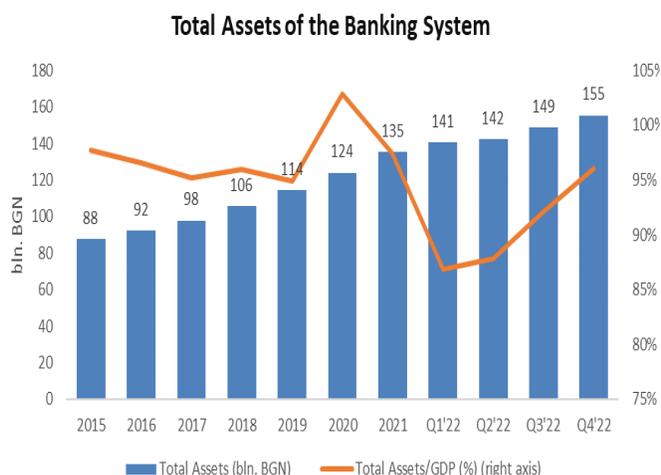
## II. The banking sector in Bulgaria

In Banks in Bulgaria quarterly report, the BNB states that in the third quarter of 2022, the banking sector continued to operate against the background of accelerated inflation and heightened uncertainty in the economic environment. Over the reviewed period (July-September 2022), dynamics of domestic demand and net exports continued to contribute to the economic activity growth, whereas investment in fixed capital reported a decline compared to the previous quarter.

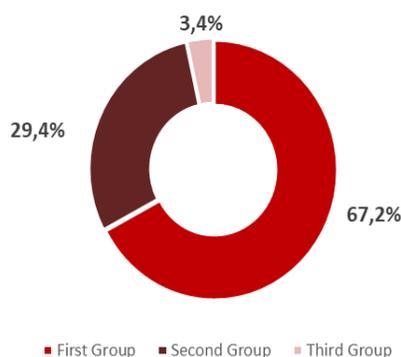
### Balance sheet statement (Statement of financial position)

#### Assets

As of end-Dec'22, the banking sector total assets reached BGN 155,41 billion (96,1% of the projected GDP), growing by 14,8% y-o-y.



**Market Share in terms of Total Assets as of end-Q4'22**



Source: BNB, Ministry of Finance, own calculations

As of the end of the fourth quarter of 2022, the market share of the five largest banks in terms of total assets slightly increased from 67% a quarter earlier to 67,2%. The second group of banks comprised 29,4% of the total assets, down from 29,5% a quarter earlier. The market share of the branches of foreign banks shrank by 0,1 percentage points.

As of December 31, 2022, the loans and advances accounted for 59,6% of the total assets and were equal to BGN 92,7 billion. Cash balances amounted to BGN 32,4 billion and comprised 20,9% of the total assets. The securities portfolio comprehended 15,2% of the total



assets. (BGN 23,6 billion). By comparison with the end of the fourth quarter of 2022, loans and advances reported in the previous quarter comprised 60,1%, cash balances – 20,4%, and securities portfolio – 14,9%.

## Liabilities

The liabilities in the banking system (excluding total equity) amounted to BGN 138,1 billion, increasing by 16,3% y-o-y. The banks in the first group comprised 67,1% of the liabilities (BGN 92,7 billion), the second group – 29,2% (BGN 40,4 billion), and the third group - 3,7% (BGN 5,07 billion).

Total deposits of the banking system accounted for 97,1% of the liabilities (excluding equity). With regard to the Balance Sheet Statement items, the deposits' volume increased by 16,2% y-o-y to BGN 134,1 billion.

Provisions that include unsettled legal issues and lawsuits, credit commitments, guarantees, pensions, etc., accounted for 0,3% (BGN 416,2 million as an absolute change). The item financial liabilities held for trading and other liabilities comprised 0,2% and 0,6%, respectively, of the liabilities.

## Equity

In the fourth quarter of 2022, the total equity of the banking system increased by BGN 643,7 million or 3,9% on a quarterly basis to BGN 17,3 billion. As of end-Dec'22 the total equity raised by 4,1% compared to the same period of the previous year. The equity of the banks in the first group amounted to BGN 11,8 billion, and in the second group to BGN 5,2 billion.

## Statement of profit or loss

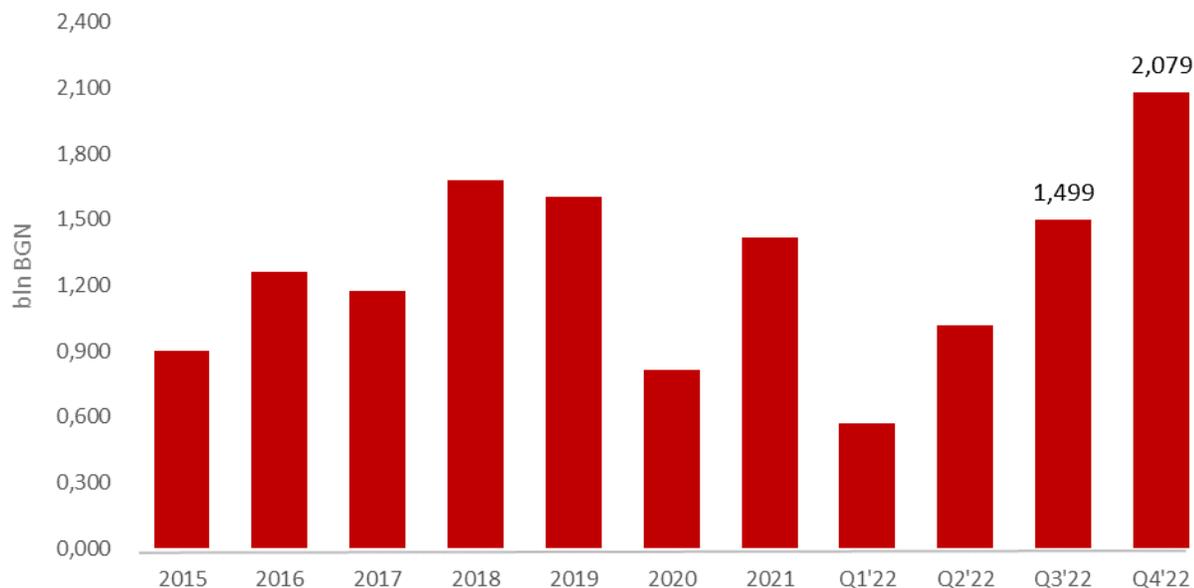
### Net profit

At the end of the fourth quarter of 2022, the banking sector reported a net profit of BGN 2,079 billion, rising by 46,8% y-o-y. The net profit grew by BGN 663,04 billion as an absolute change compared to the same period of the previous year when it amounted to BGN 1,416 billion.

The financial result of the banking system was affected by the double-digit growth in loan portfolio volumes in all business segments. Consequently, it positively affected on net interest income (NII) and net fee and commission income. The net profit was further determined by the rising interest rates on some loans and the slower pace of interest rate growth on deposits, and the reported impairment reduction.



## Net profit of the Banking System



Source: BNB

The first group of banks generated 70,8% of the net profit at the end of the fourth quarter of 2022, the second group – 25,7%, and the third group – 3,5%. In comparison with the last quarter of 2022, the five biggest banks in terms of assets made up 70,5% of the net profit in the banking sector in the third quarter of 2022, the banks in the second group –26,6%, and the share of the third group was 2,8%.

## Net interest income

As of the end of Q4 2022, the total net operating income of the banking system amounted to BGN 5,278 billion, increasing by 18,6% y-o-y. It reached BGN 3,835 billion at the end of Q3 2022.

The bank's net interest income increased by 17,0% y-o-y (by BGN 469,9 million) to BGN 3,227 billion as of December 2022.

The net interest income reflects the difference between the revenue generated from a bank's interest-bearing assets and the expenses associated with paying on its interest-bearing liabilities. As of December 31, 2022, the interest income grew by 19,4% y-o-y to BGN 3,632 billion. The interest expenses amounted to BGN 404,8 million, rising by 21,4% y-o-y.

In Banks in Bulgaria quarterly report, the BNB states that credit market activity remains high in consumer and nonfinancial corporations' segments. The negative actual interest rates affect the increased consumer demand for loans. At the same time, acceleration in credit



growth to nonfinancial corporations is associated with the necessity for working capital and accumulation in inventories amid high uncertainty and rising production costs. The rising deposit base and stable liquidity position further reflect the accelerated credit supply from the banking sector.

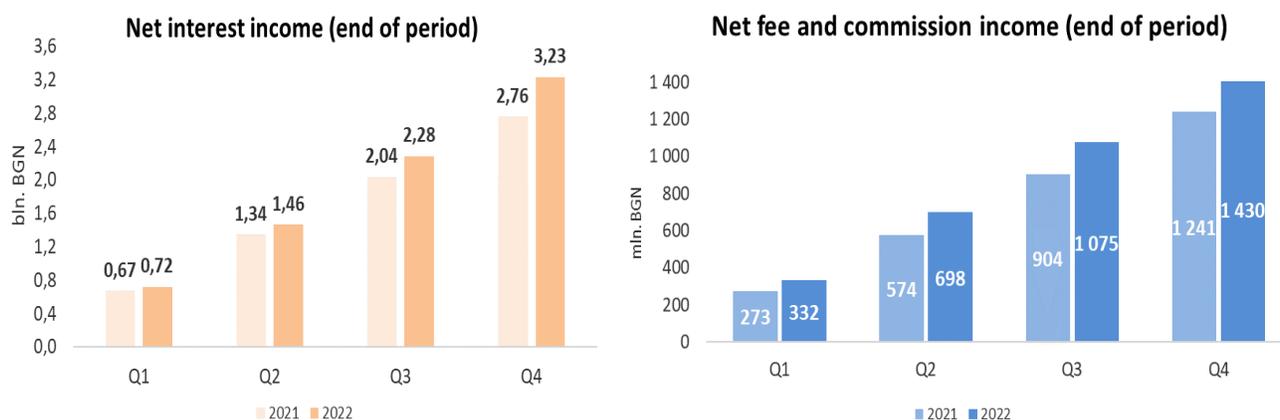
In Q4 2022, the net interest income made up 61,1% of the net total operating income of the banking system. According to the EBA data, as of Q3 2022, the net interest income of banks in EU/EEA accounted for 56,6% of the total operating income.

## Net fee and commission income

As of the end of Q4 2022, the net fee and commission (F&C) income increased by 15,2% y-o-y to BGN 1,430 billion.

As of the end of December 2022, the F&C revenues increased by 34,8% q-o-q to BGN 1,758 billion, whereas the statistics indicated an increase of 18,5% on an annual basis. F&C expenses increased by 42,9% on a quarterly basis and by 35,2% on an annual basis, reaching BGN 328,7 million as of the end-fourth quarter.

As of end-December 2022, the net fee and commission income comprised 27% of the total net operating income of the banking system. According to the EBA data, the indicator of the banks in the EU/EEA accounted for 31,2% of the total operating income.



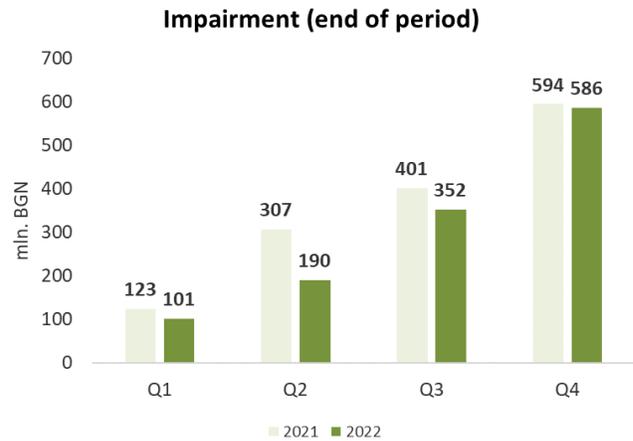
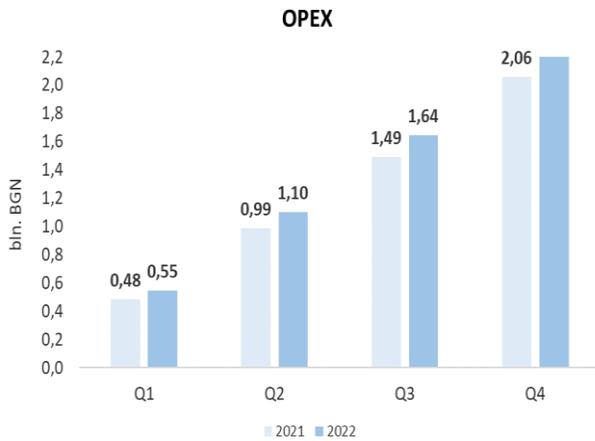
Source: BNB, own calculations

## Operating expenses and impairments

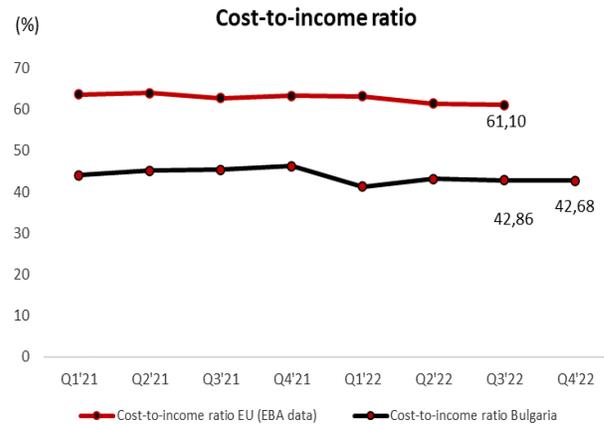
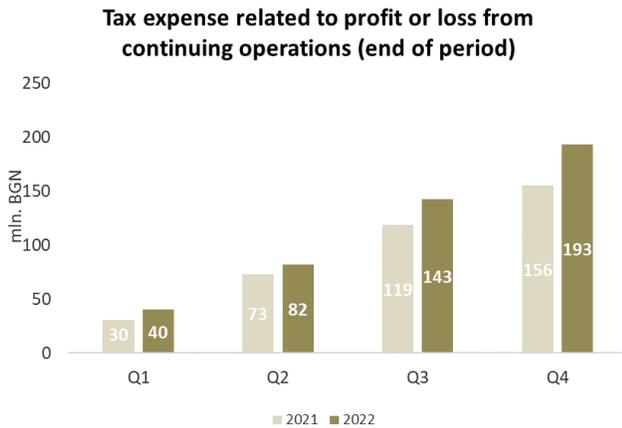
As of the end of Q4 2022, the administrative expenses, including overhead costs, increased by 10,5% (BGN 187,4 million) compared to the same period of 2021 as they reached BGN 1,972 billion. The total operating expenses (administrative expenses and depreciation) grew by 9,5% y-o-y to BGN 2,253 billion. As of end-December 2022, the impairment costs of financial assets not measured at fair value through profit or loss continued to decline, reaching BGN 585,7 billion (amount of BGN 594,2 million as of the end of 2021).



As of the end of Q4 2022, the Cost-to-Income ratio for the banking system slightly lessened to 42,7%, down from 42,9% a quarter earlier). According to the EBA data, as of Q3 2022, the average Cost-to-Income ratio of banks in the EU/EEA was 61,1%.



Source: BNB, own calculations



Source: BNB, EBA, own calculations

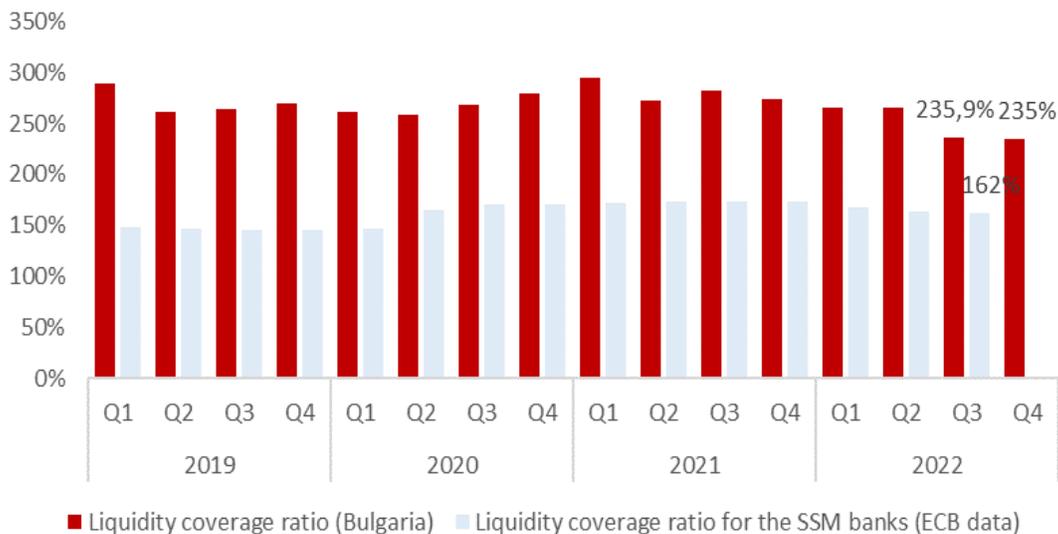


## Financial indicators

### Liquidity

According to the BNB data, as of end-December 2022, the liquidity buffer and the net liquidity outflows were equal to BGN 46,0 billion and BGN 19,6 billion, respectively. The liquidity coverage ratio (LCR) was 235,0% compared to 235,9% as of September 2022. According to the ECB data, the LCR for the banks participating in the Single Supervisory Mechanism was 164,4% at the end of Q3 2022.

#### Liquidity coverage ratio (LCR)



Source: BNB, ECB

### Capital adequacy

The capital position of the banking sector remained robust as the capital adequacy ratios continued to exceed the minimum regulatory requirements significantly.

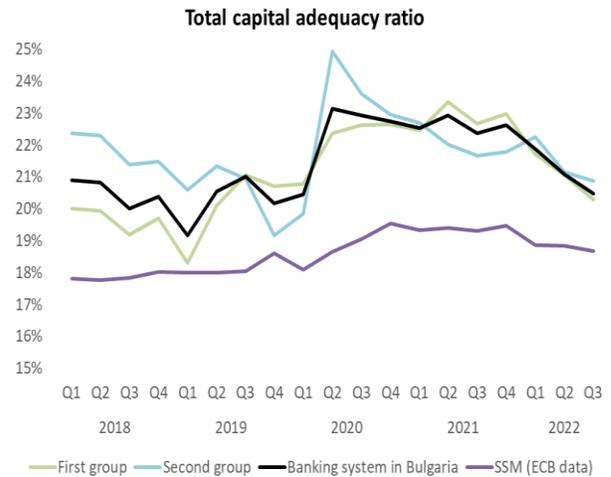
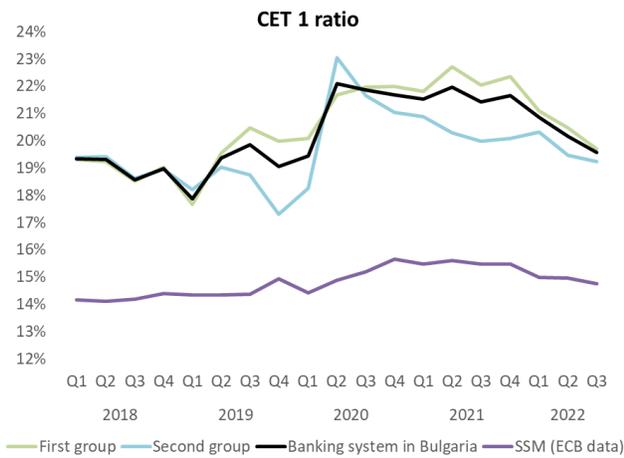
As of the end of Q3 2022, the common equity tier 1 (CET 1) of the entire banking system decreased slightly to 19,56%, down from 20,16% a quarter earlier. The indicator of the first group of banks declined to 19,69% from 20,46%, and of the second group to 19,24% from 19,48%.

The total capital adequacy ratio decreased to 20,47% at the banking system level from

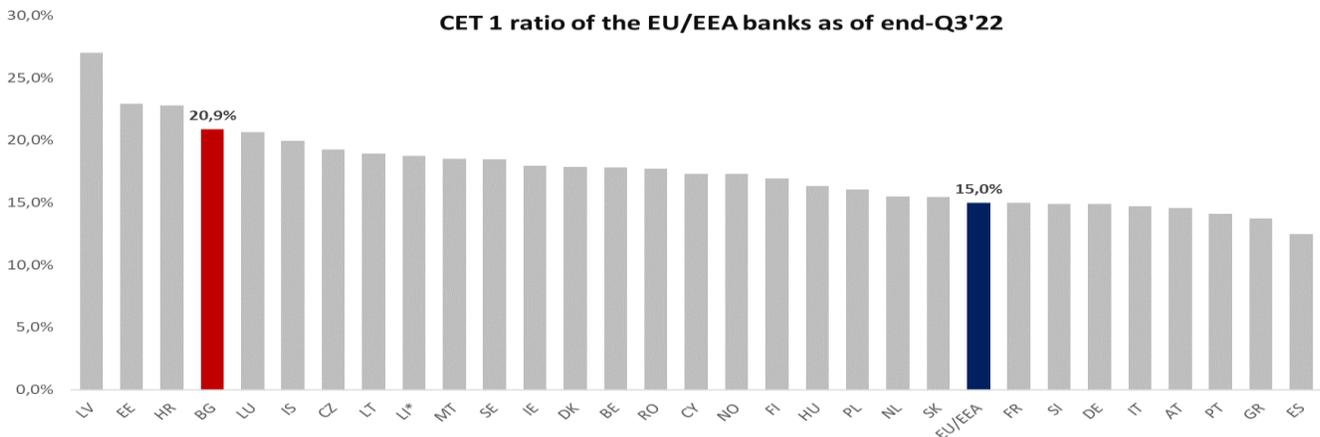


21,09%. As of the end of September 2022, the CAD ratio of the first group of banks was 20,29% and 20,88% of the second group (21,07% and 21,14%, respectively, a quarter earlier).

The Bulgarian banks' capital adequacy ratios are above the SSM's average. According to the ECB data, as of September 2022, CET 1 and CAD ratios were 14,74% and 18,68%, respectively.



Source: BNB, ECB



Source: EBA, Risk Dashboard, Q3 2022

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;

The BNB indicates that the volume of non-performing exposures preserved to follow a downward trend – a dynamic mainly driven by the growth of the loan portfolio. According to the BNB's Banks in Bulgaria report, the prolonged periods of high credit growth might produce prerequisites for credit risk accumulation in the banks' balance sheet and raise the potential



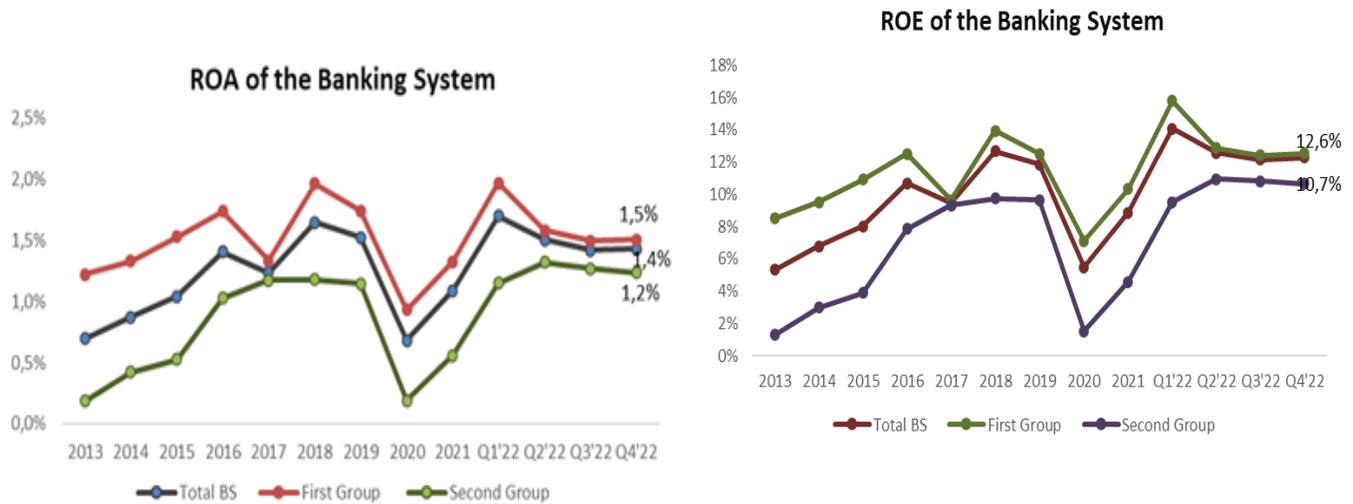
materialization in the event of worsened economic conditions, and a sharp increase of interest rates on loans.

## Profitability

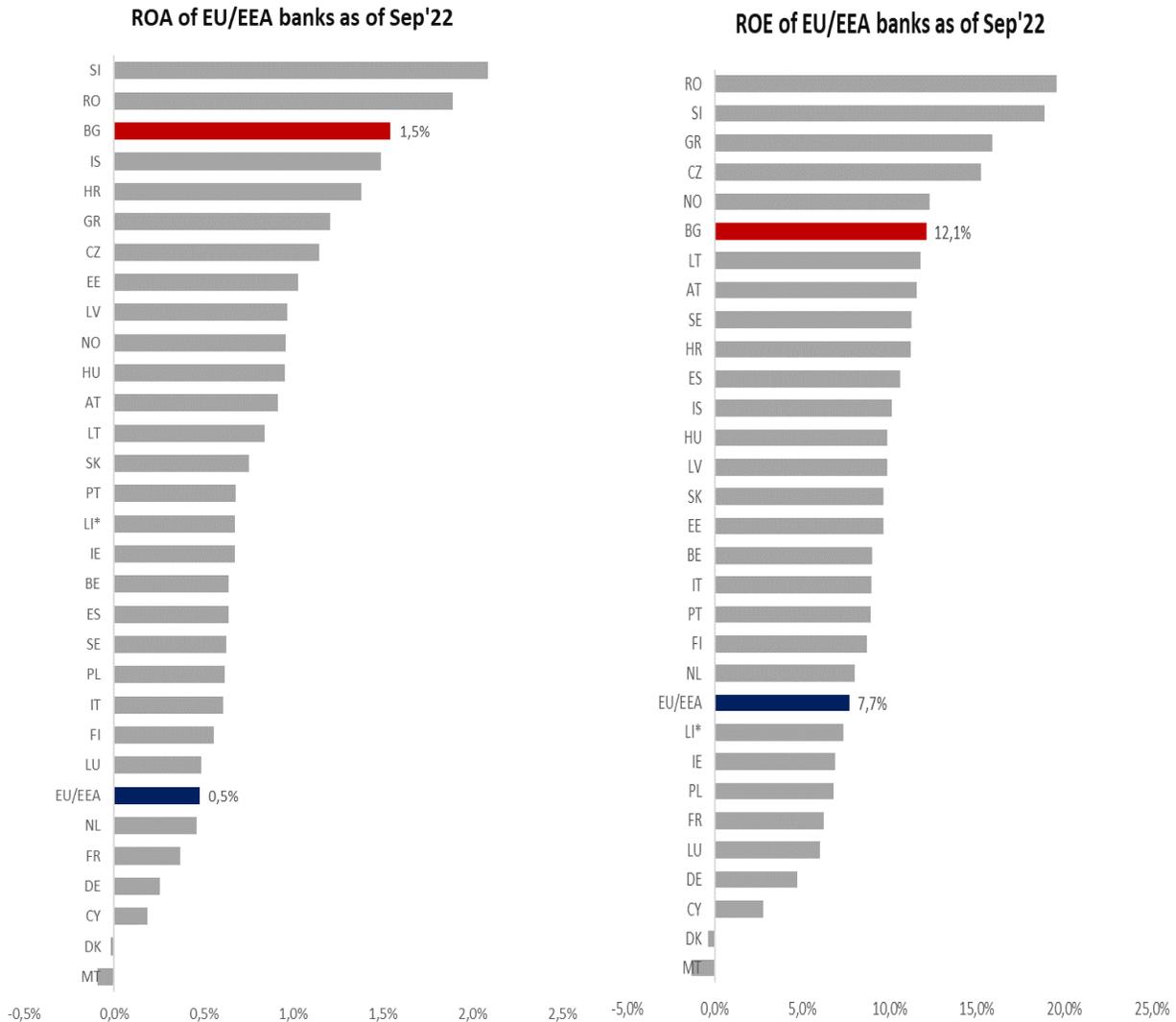
As of December 31, 2022, the Return on Assets (ROA) of the Bulgarian banking system stood at 1,43% compared to 1,42% a quarter earlier. The ratios of the first and second groups of banks were 1,51% and 1,24%, respectively. According to the latest ECB data as of the third quarter of 2022, the average ROA of the European banks stood at 0,44%.

The Return on Equity (ROE) of the Bulgarian banking system was 12,3% as of the end of Q4 2022 compared to 12,1% a quarter earlier. The ratios of the first and second groups of banks were 12,6% and 10,7%, respectively.

According to the ECB data, the average ROE of the European banks stood at 7,7% as of the end of Q3 2022.



Source: BNB, ECB



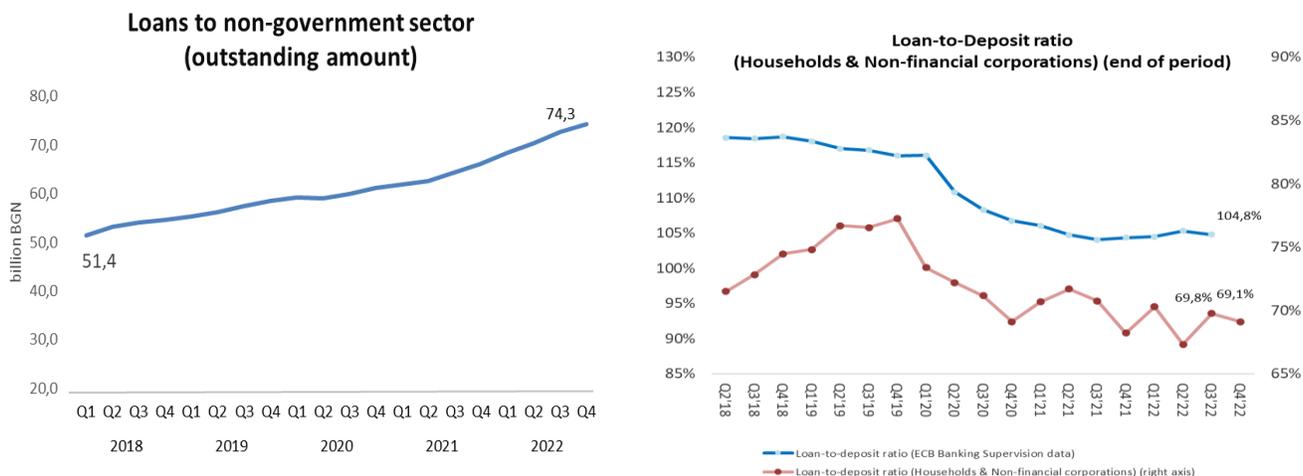
Source: BNB, own calculations  
Source: EBA Risk Dashboard, Q3 2022

Note: 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 light of the [Macroeconomic forecast](#), the BNB forecasts that based on market expectations of further monetary tightening in the euro area, the upward trend in lending and deposit rates is expected to intensify and reach its peak in late 2023 and in early 2024 and then to stabilize at the attained levels. Under the BNB forecast, credit growth for both households and nonfinancial corporations is expected to moderate over the forecast horizon compared with the relatively high rates observed in 2022. The increase in the countercyclical capital buffer to 1.5 per cent, effective from 1 January 2023, and 2.0 per cent, effective as of 1 October 2023, announced by the BNB is expected to have a potential limited effect on lending activity. According to the BNB's experts, the projected growth of households' real disposable income will contribute to the retention of the relatively high growth rate in the banking system's non-government sector deposits.



Source: BNB, Monetary Statistics, ECB, own calculations

As of end-December 2022, according to the BNB Monetary Statistics, total loans to the non-government sector (non-financial corporations and households) picked up by 12,2% y-o-y, reaching BNG 74,3 billion.

The volume of non-performing loans (past due more than 90 days, excluding items Central Banks and Credit Institutions) declined from BGN 2,871 billion a quarter earlier to BGN 2,733 billion at the end of the fourth quarter of 2022. The share of non-performing loans to gross loan portfolio in the banking system fell from 3,42% as of Sep'22 to 3,18% as of end-Dec'22, according to the calculations based on the data of the BNB Banking Supervision Department.

The share of non-performing loans to non-financial corporations slightly increased to 3,99% up from 3,84% at the end of the previous quarter. Over the reviewed period, the ratio of mortgage loans slightly decreased from 1,18% to 1,02%. The share of non-performing consumer loans contracted to 4,06%, down from 5,40% a quarter earlier.

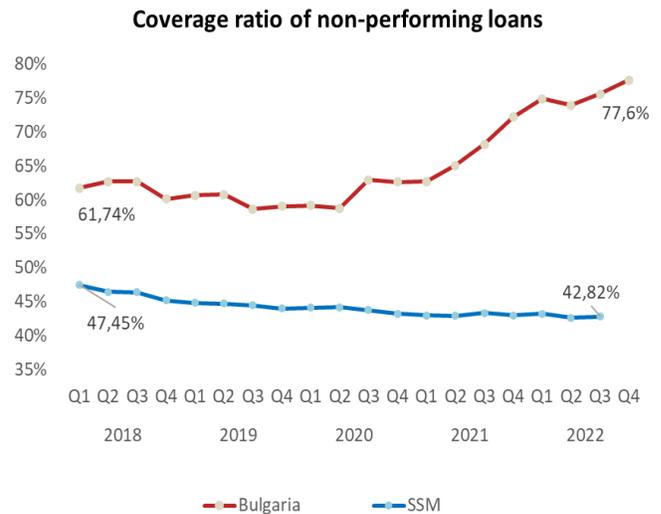
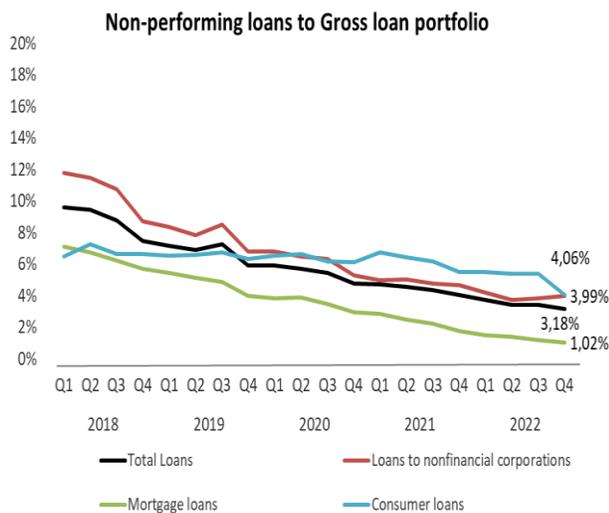


The amount of non-performing loans to non-financial corporations increased from BGN 1,685 billion as of the end-September 2022 to BGN 1,791 billion as of the end-December 2022. The non-performing mortgage loans decreased to BGN 187,2 million (down from BGN 208,8 million a quarter earlier). The non-performing consumer loans contracted to BGN 655,4 million, down from BGN 867,31 million a quarter earlier.

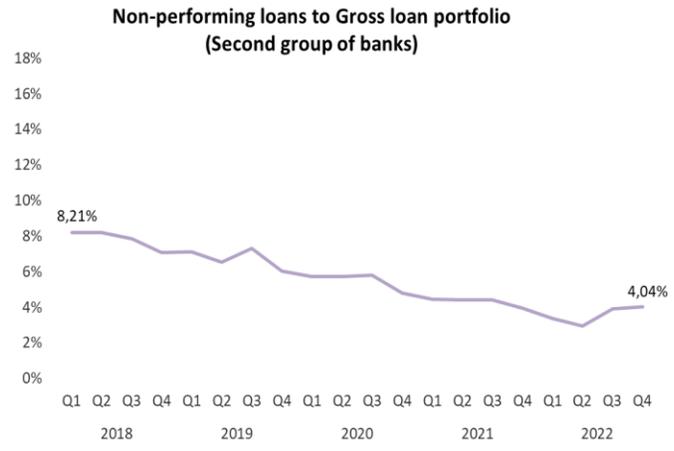
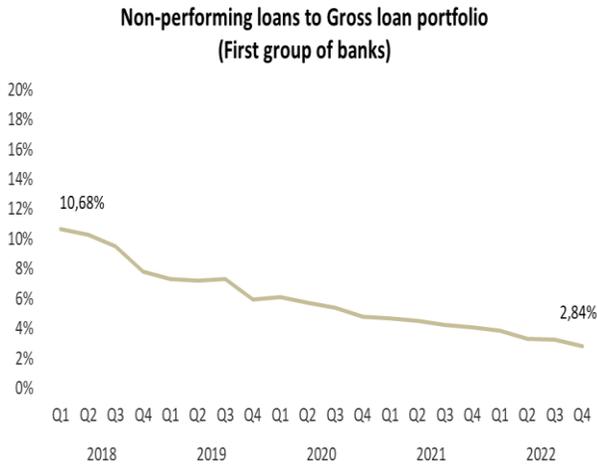
The ratio of non-performing gross loans reported by the banks in the first group lessened to 2,84% at the end of the fourth quarter of 2022 (down from 3,25% a quarter earlier). The ratio reported by the banks in the second group increased to 4,04% (up from 3,92%).

Nevertheless, the ratio of non-performing loans in Bulgaria remained higher than the EU average, the Bulgarian banking system preserved to maintain a coverage ratio of non-performing loans above the EU average.

The coverage ratio of non-performing loans in the Bulgarian banking system stood at 77,6% at the end of Q4 2022 compared to 75,5% a quarter earlier. According to the latest ECB data as of the third quarter of 2022, the coverage ratio of non-performing loans in European banks was 42,82%.

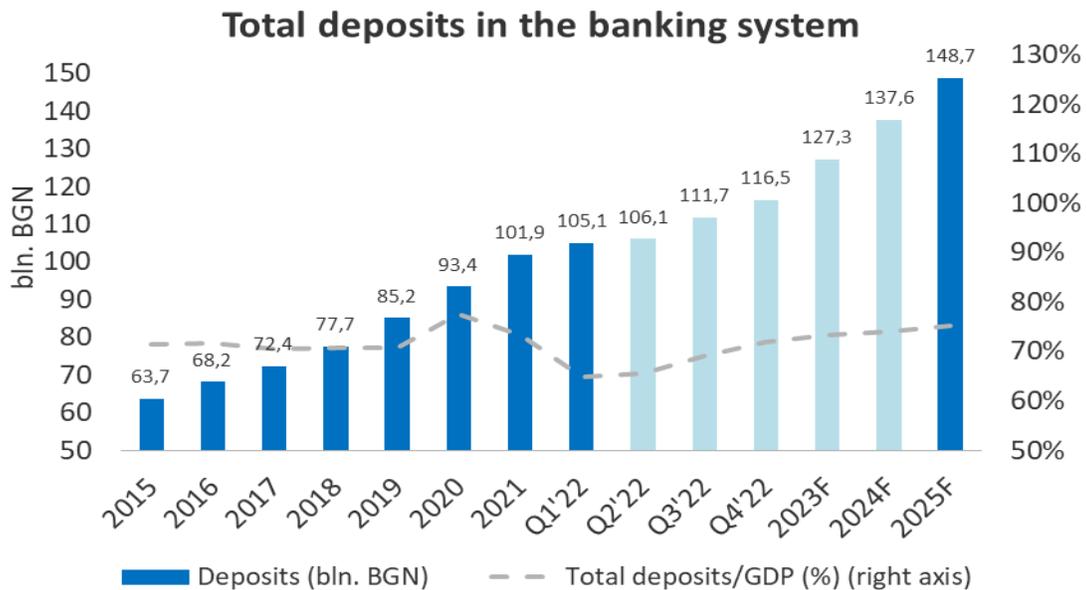


Source: BNB, ECB, own calculations



Source: BNB, own calculations

The total amount of deposits in the banking system continued to rise. As of the end of December 2022, the total deposits of the banking system reached BGN 116,5 billion, picking up by 14,3% y-o-y. The deposits' growth outpaced an 11,3% increase reported at the end-September 2022.



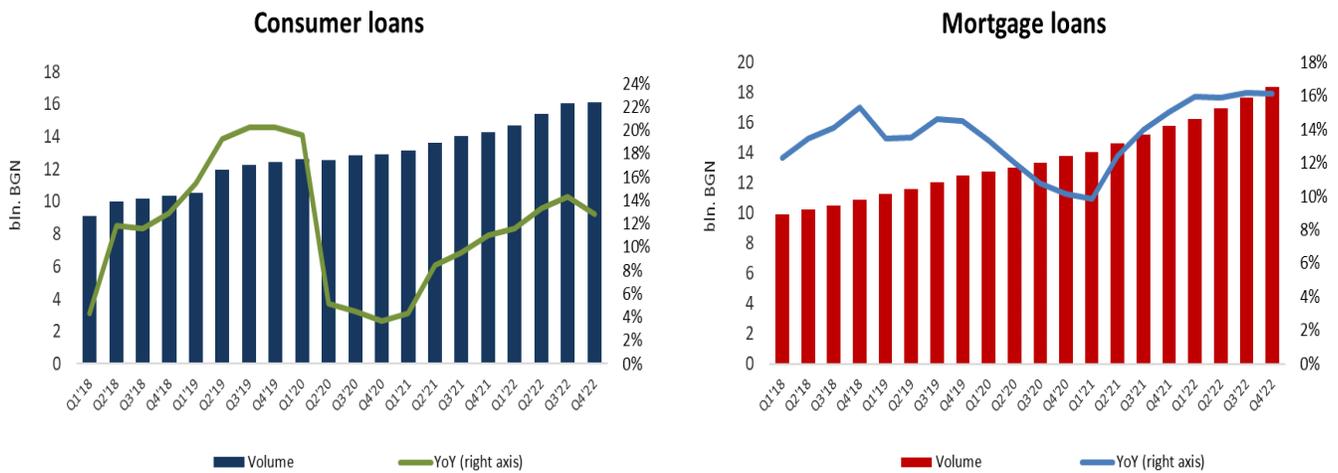
Source: BNB, own calculations  
Forecast: BNB, Ministry of Finance



## Loans and deposits to households

At the end of Q4 2022, according to the BNB Banking Supervision Department data, the volume of consumer loans was equal to BGN 16,14 billion compared to BGN 16,05 billion a quarter earlier and BGN 14,3 billion a year earlier. In the fourth quarter of 2022, the volume of consumer loans grew by 0,6% on a quarterly basis and increased by 12,8% on an annual basis.

The volume of housing loans amounted to BGN 18,4 billion compared to BGN 17,7 billion as of end-September 2022 and BGN 15,8 billion as of end-September 2021. It increased by 4,1% on a quarterly basis and by 16% on an annual basis.

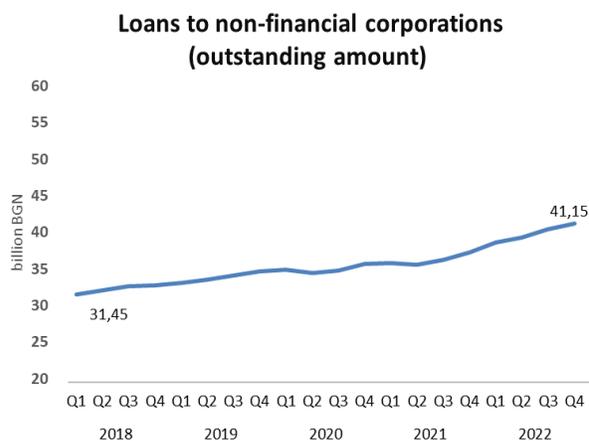
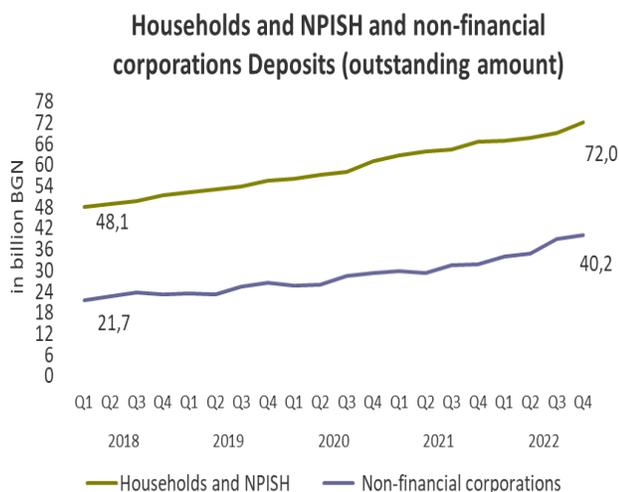


Source: BNB, Banking Supervision Department, own calculations

At the end of Q4 2022, the total amount of deposits from households and NPISH grew by 8,3% y-o-y (up from 7,3% reported at the end-September 2022). Deposits from households reached BGN 72,03 billion (44,5% of the projected GDP) which composed 62% of the deposits in the banking system.

## Loans and deposits of non-financial corporations

As of December 31, 2022, the total amount of deposits from non-financial corporations increased by 26,6% y-o-y (up from a 23,1% increase a quarter earlier), reaching BGN 40,2 billion (24,9% of the projected GDP). According to the BNB's monetary statistics, the loans outstanding amount to non-financial corporations grew by 10,4% y-o-y and 2,7% q-o-q to BGN 41,1 billion at the end of Q4 2022.



Source: BNB, Monetary statistics

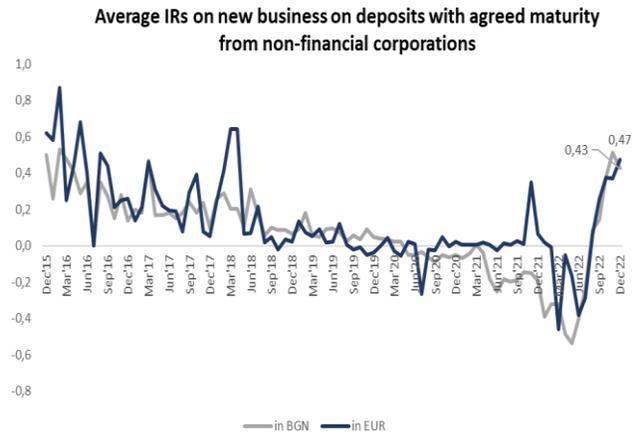
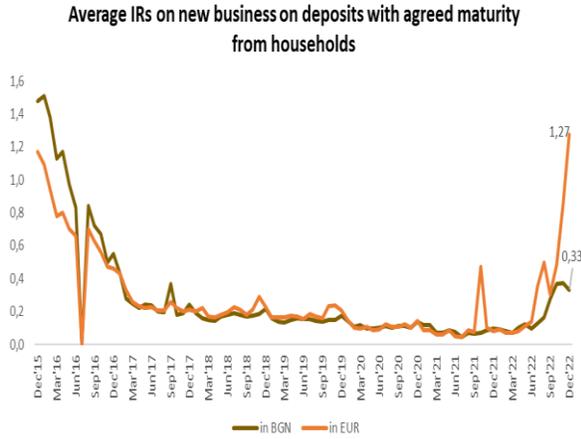
## Interest rates

As of the end of Q4 2022, interest rates on new loans and deposits with agreed maturity in BGN and EUR from households and corporations resumed trending up.

### Interest rates on deposits

As of the end of December 2022, the average interest rate on deposits with agreed maturity in BGN from households (new business) continued to rise and stood at 0,33% (up from 0,27% a quarter earlier). The average interest rate on deposits in EUR significantly increased and stood at 1,27% (up from 0,30% a quarter earlier).

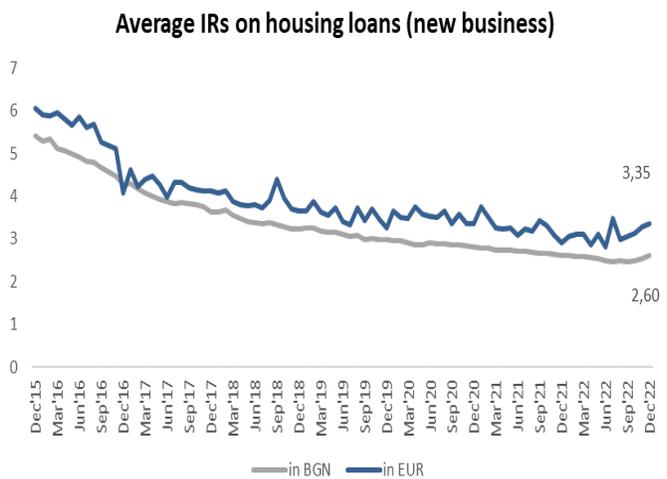
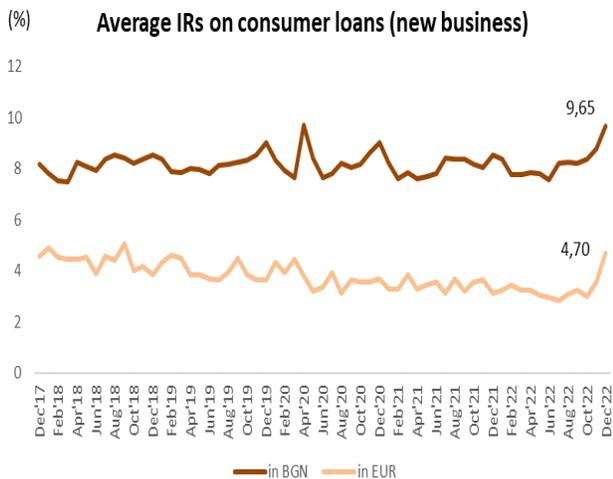
As of the end of Q4 2022, the average interest rate on deposits with agreed maturity from non-financial corporations (new business) in BGN increased from 0,14% to 0,43%. The average interest rate on deposits in EUR picked up from 0,25% to 0,47%.



Source: BNB

## Interest rates on loans

At the end of Q4 2022, the average interest rate on mortgage loans in BGN slightly increased to 2,60% (up from 2,46% a quarter earlier). The average interest rate on mortgage loans in EUR rose from 3,05% as of end-Sep'22 to 3,35% as of end-Dec'22.



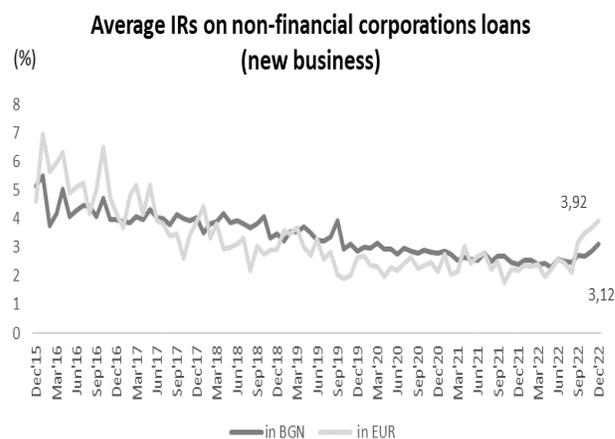
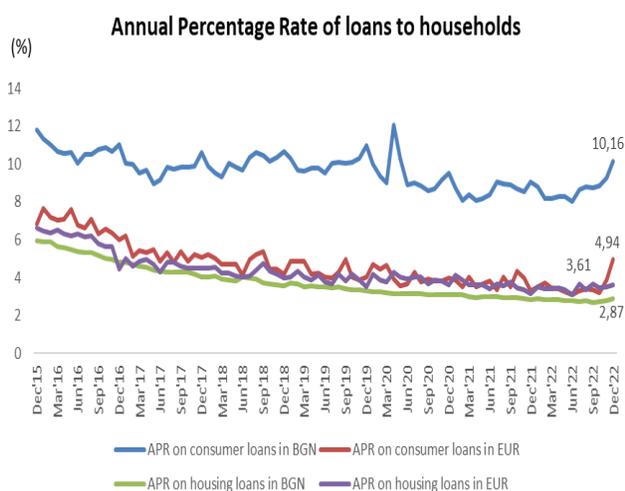
Source: BNB

As of the end of December 2022, the average interest rate on consumer loans in BGN increased to 9,65% (up from 8,23% a quarter earlier). Concurrently, the average interest rate on consumer loans in EUR rose to 4,70% (up from 3,24% at the end-Sep'22).



The annual percentage rate (APR), reflecting the interest plus other charges, on mortgage loans in BGN increased from 2,66% as of the end-Sep'22 to 2,87% as of end-Dec'22. APR on mortgage loans in EUR decreased from 3,65% to 3,61%. The APR on consumer loans in BGN increased from 8,76% to 10,2% and in EUR from 3,36% to 4,94% on consumer loans.

The average interest rate on loans to non-financial corporations (new business) in BGN increased from 2,71% as of the end-Sep'22 to 3,12% as of end-Dec'22. The average IR on loans agreed in EUR rose from 3,20% to 3,92%, and loans approved in USD picked up from 4,64% as of the end-Sep'22 to 8,01% as of end-Dec'22.



Source: BNB



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