



THE ECONOMY AND THE BANKING SECTOR IN BULGARIA

FIRST QUARTER OF 2023



SOFIA



HIGHLIGHTS

- In Q4 2022, the Bulgarian economy grew by 2,3% y-o-y following the formation of positive contribution of private consumption and net exports
- The inflation accelerated by 13,4% year-over-year in Q1 2023
- At the end of March 2023, the unemployment rate in Bulgaria remained at 3,7%
- At the end of March 2023, the budget deficit stood at 0,4% of the projected GDP
- At the end of the first quarter of 2023, the total assets of the banking system reached BGN 160,62 billion, growing by 14,3% y-o-y (94,9% of the GDP growth forecast)
- At the end of the first quarter of 2023, the banking sector reported BGN 784,4 million in net profit
- The financial result in the banking system is affected by the continuing growth of loans in all business segments, widening net interest income and still low levels of the interest rates on deposits
- In Q1 2023 credit growth remains high both for the households and for the non-financial corporations as the share of non-performing loans continues to decline
- As of the end of Q1 2023 an increase in the interest rates on newly contracted loans and deposits to non-financial corporations is observed.



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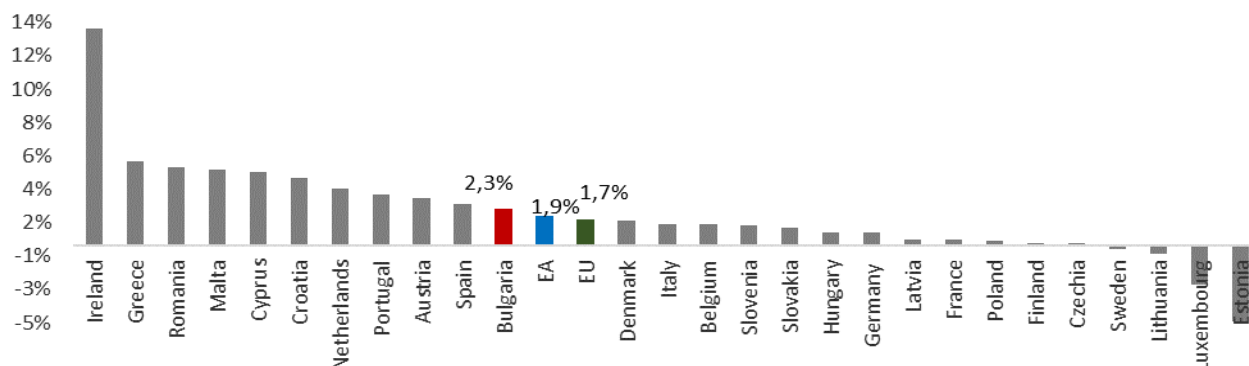


I. The Bulgarian economy

Economic growth

In the fourth quarter of 2022, Bulgarian gross domestic product (GDP) rose by 2,3% y-o-y, compared to the increase of 3,3% in the previous quarter. According to the preliminary seasonally and calendar-adjusted data of Eurostat, the pace of growth of the Bulgarian economy remained slightly above the EU and euro area average. Real GDP annual growth in the EU and eurozone slowed to 1,7% and 1,9%, respectively.

EU and euro area GDP growth in Q4 2022



Source: Eurostat, Seasonally and calendar adjusted data

The highest contribution to the economic growth in the fourth quarter of 2022 according to Eurostat preliminary data is due to private consumption and net export while gross capital formation has a negative contribution.

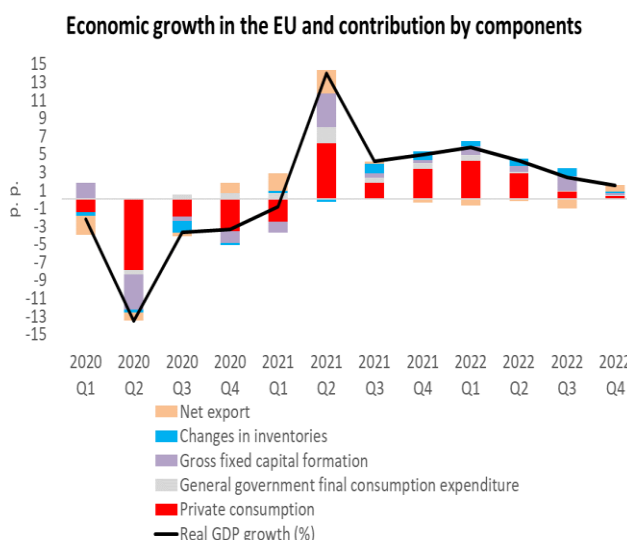
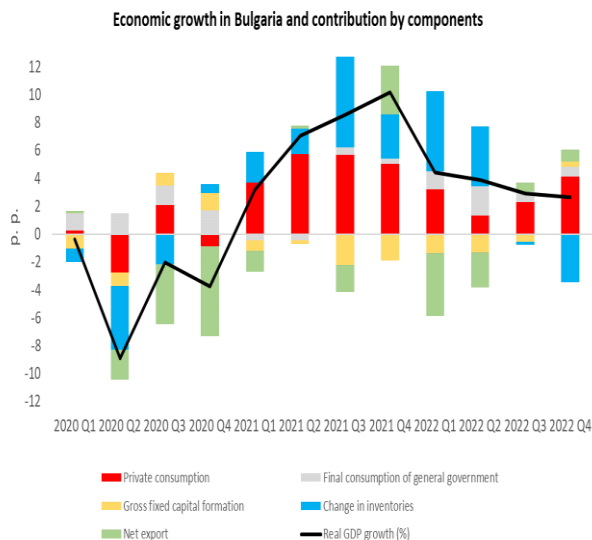
During the fourth quarter government consumption increased by 4,5% Y-o-Y, and contributes by 0,7 p.p. to the GDP growth. Private consumption also continued its growth in Q4 2022 as it grew by 6,8% Y-o-Y compared with an increase by 4,2% a quarter ago.

In Q4 gross capital formation increased by 2,4% Y-o-Y after a decrease of 3,3% a quarter ago. In the fourth quarter the contribution of that component is positive and it equaled to 0,3. The decrease in the inventories led to a negative contribution of -3,4 p.p. in the growth structure in 2022. The net export contributed by 0,9 for the GDP growth in the period October-December 2022.

The export of goods and services increased further in the fourth quarter of 2022, gaining an increase of 9,4% Y-o-Y. In comparison, the increase in the third quarter of 2022 was by 9,7% Y-o-Y. The import slowed down its growth to 8,5% on an annual basis compared to the



increase of 9,2% a quarter earlier. In Q4 the trade deficit widened to - 5,8% of GDP compared to -3,4% a quarter earlier.



Source: Eurostat, own calculations

Likewise, compared with the Bulgarian economy, the EU economy dampened to 1,6% Y-o-Y in Q4 2022. The highest contribution to the European economy growth had the net export which registered a significant growth on an annual basis in the GDP structure.

According to the Bulgarian National Bank's [Macroeconomic forecast](#), the real GDP growth is expected to slow down to 1,0% in 2023, mainly due to transition from positive to negative contribution in the change of inventories. Other factors which according to the BNB are going to restrict the economic activity growth in 2023 are the forecasted decrease in government consumption in real terms as well as the significant slow down in the export of goods and services.

With regard to the local and international organizations and institutions forecasts, in 2023, Bulgaria's GDP growth is expected to be between 1,0% and 1,9. The annual GDP growth in 2024 is estimated to attain between 2,4% and 3,5%.



Key indicators for the Bulgarian economy	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Q1'22	Q2'22	Q3'22	Q4'22	2023F	2024F	2025F	2026F	
Gross domestic product																			
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	47 430					
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	2,3					
															Real GDP growth (% y-o-y) - Forecasts				
															MF (Spring 2023)	1,8	3,3	3,2	3
															BNB (April 2023)	1	3,2	4,1	-
															IMF (April 2023)	1,4	3,5	-	-
															WB (April 2023)	1,5	2,8	-	-
															EC (May 2023)	1,5	2,4	-	-
															EBRD (May 2023)	1,3	2,9	-	-
															OECD (March 2023)	1,9	3,2	-	-
Contribution to GDP growth (% change)																			
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	5,8					
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	5,3					
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	4,7					
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	1,1					
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	9,0					
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	9,3					
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	-5,8					
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	2378,7					
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	2,8					
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	14,5					

Source: NSI, Eurostat, BNB

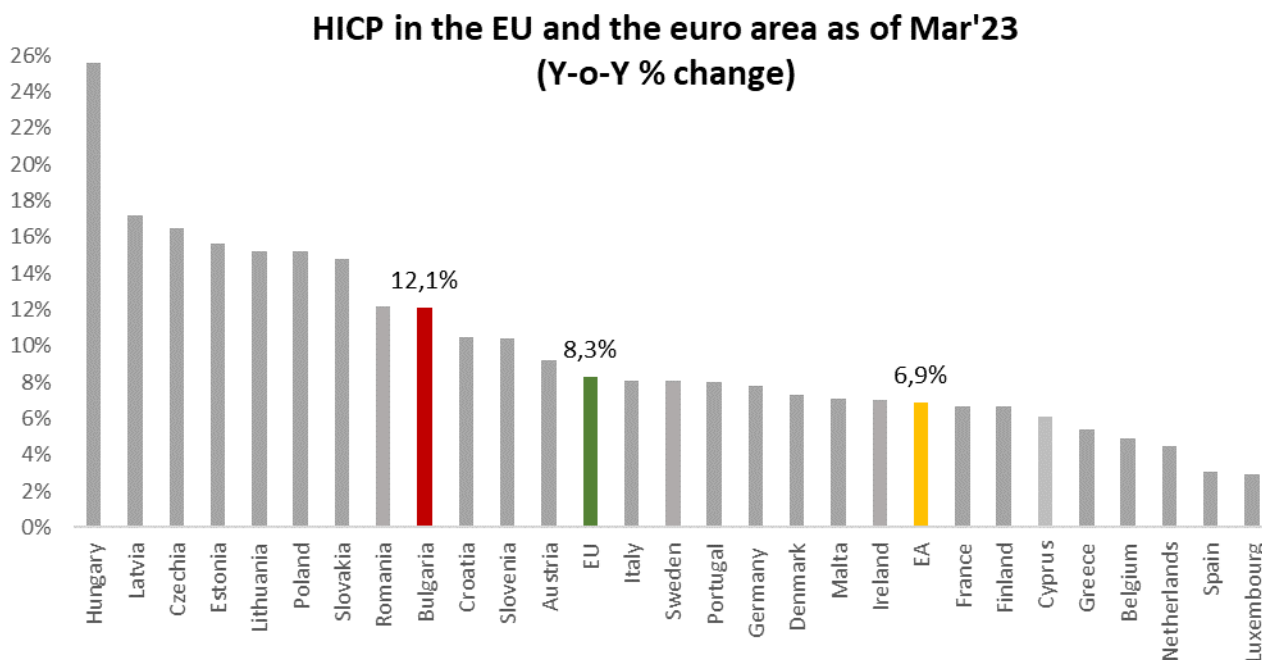
Forecasts: Bulgarian National Bank, Ministry of Finance, International Monetary Fund, World Bank, European Commission, European Bank for Reconstruction and Development, Organization for Economic Co-operation and Development



Inflation

In the first quarter of 2023, the harmonized index of consumer prices (HICP) moderated from 14,5% in the previous quarter to 13,4% on average. According to the Eurostat data, inflation in Bulgaria stood at 12,1% y-o-y in March 2023, remaining above the EU and the euro area average of 8,3% and 6,9% respectively.

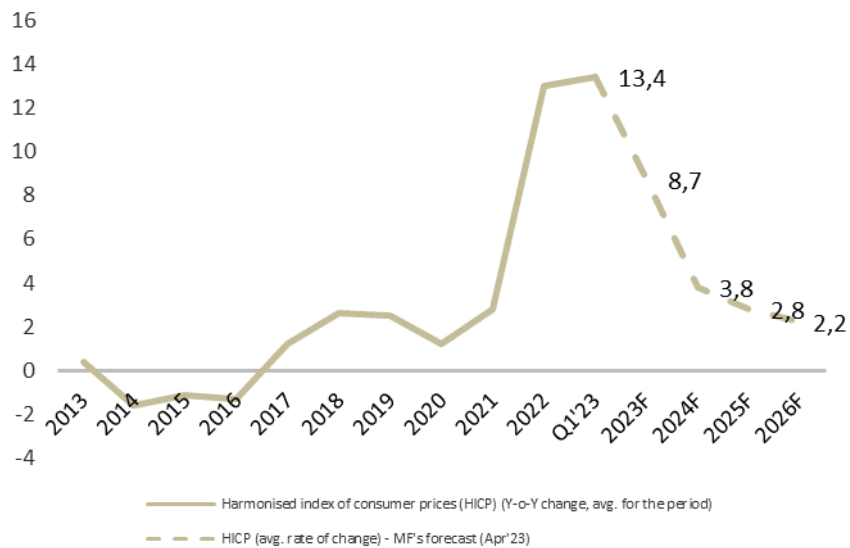
According to the Bulgarian National Bank's [Macroeconomic forecast](#), the annual inflation is going to slow down to 5,6% in 2023 by assuming a decrease in energy products prices. The BNB forecast shows that the average annual inflation is going to be 8,8%, as an increase for labor costs for a unit of production continues to be a strong factor for inflation. The BNB expects inflation to slow down to 3,4% at the end of 2024 following the downward price dynamics of food and energy products.



Source: Eurostat



Annual inflation rate (HICP on average) (%)



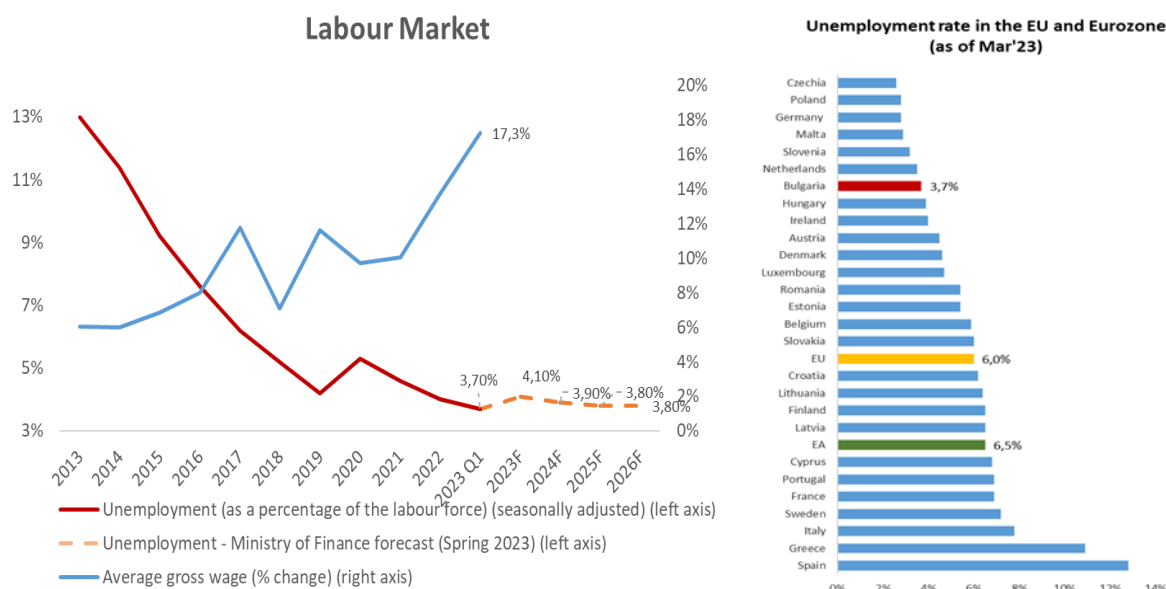
Source: NSI, Eurostat
Forecast: Ministry of Finance



Labour market

In March 2023, the unemployment rate in Bulgaria (number of people unemployed as a percentage of the labour force) declined to 3,7%. The unemployment rate in the country remained below the EU average and Bulgaria ranked 7th among the EU member states in terms of lowest unemployment rate in March 2023. As of end-Mar'23, the number of people unemployed in Bulgaria decreased to 123 thousand. Likewise, as of the end of the first quarter of 2022, the number of unemployed people reached 149 thousand.

In March 2023, the youth unemployment rate in Bulgaria (unemployed young people under 25) was 9,3%, decreasing from 11,2% in December 2022. Simultaneously, the youth unemployment rate in the EU was 14,3%, as the highest rates were observed in Spain, Greece, and Italy.



Source: Eurostat, Ministry of Finance, NSI

Key indicators for the Bulgarian economy											
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Mar'23
Labour market											
Unemployment rate (as % of the labour force) (seasonally adjusted data)	13,9	12,4	10,1	8,6	7,2	6,2	5,2	6,1	4,8	4	3,7
Number of employed (15+ years) (thousands persons)	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	3 197,1	-
Number of employed in Finance and Insurance sector (thousands persons), incl.:											
Number of employed in the banking sector (thousands persons)	51,6	60,5	62,3	58,6	63,7	65,4	67,3	62,4	65,1	66,5	-
Gross average monthly wage in Finance and Insurance sector	32,8	31,7	30,7	30,4	30,1	29,9	28,2	27,4	26,8	-	-
	1 508	1 578	1 608	1 709	1 788	1 904	2 074	2 191	2 300	2 852	2 972

Source: Eurostat, Ministry of Finance, NSI, ECB



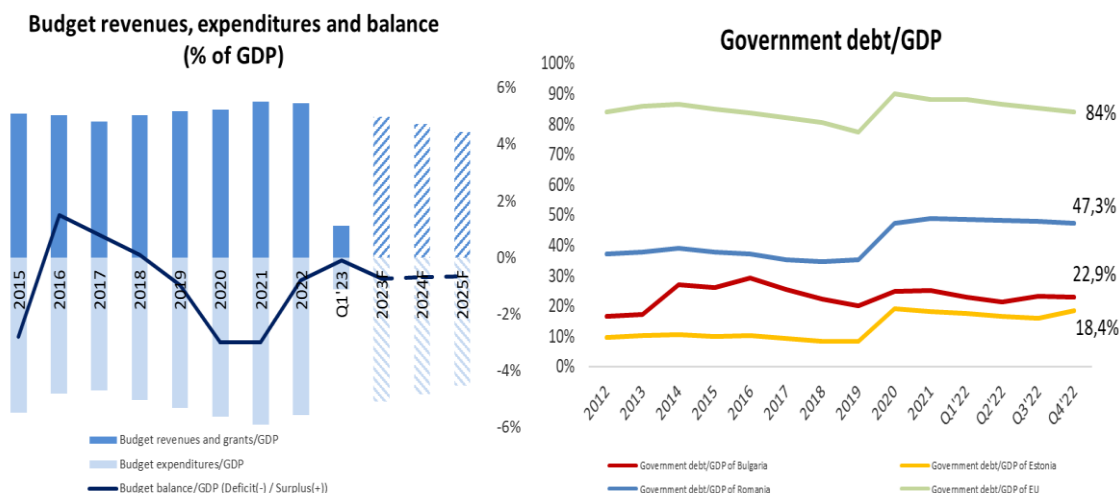
Public sector

According to the Ministry of Finance (MF) preliminary data as of March 2023, the budget balance was negative and amounted to BGN 690 million (0,4% of the projected GDP).

Budget revenues, grants, and donations reported under the Consolidated Fiscal Programme (CFP) over January-March 2023 were equal to BGN 14, 692 billion (8% of the projected GDP). The revenues in the first quarter of 2023 increased by BGN 2,308 billion compared with the same period in the previous year.

The CFP budget expenditures (including the Bulgarian contribution to the EU budget) reached BGN 14,899 billion (8,1% of the projected GDP). Compared to the first quarter of 2021, CFP expenditures increased by BGN 2,810 billion.

As of March 31, 2023, the fiscal reserve was BGN 12,6 billion.



Source: Ministry of Finance, Eurostat

As of the of the fourth quarter of 2022, Bulgarian consolidated debt to GDP was 22,9%. The ratio is below the EU average of 84,0%.

The long-term Interest Rate for Convergence Assessment Purposes (LTIR) in Bulgaria remained unchanged at 1,85% as of end-Dec'22. In comparison with the Bulgarian data, the LTIR in Romania was 7,17%, in Poland – 6,61%, in Hungary – 8,63%, and in the Czech Republic – 4,71%. 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

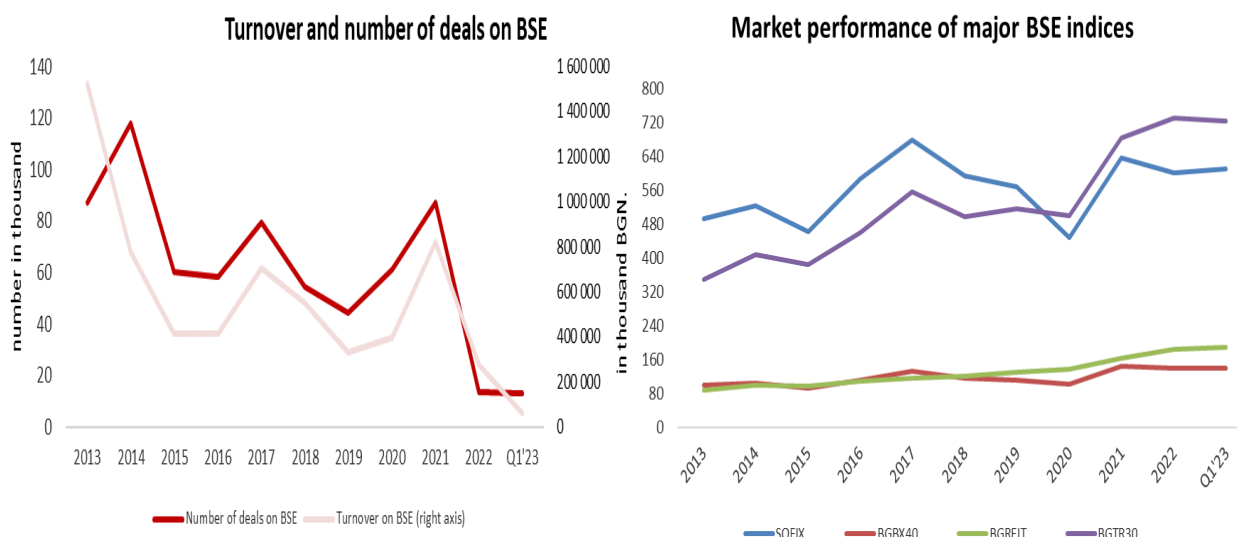
Major indices on Bulgarian Stock Exchange (BSE) closed Q1 2023 as follows: the main index SOFIX fell by 2,5% compared to the same period of the previous year, the broad-based BGBX40 lost 3,5%, BGTR30 also lost 1,5% of its value, whereas the sectoral BGREIT gained 7,4%.

In the first quarter of 2023, SOFIX was one of the weakest performers on the stock markets in the CEE region, increasing by 1,55% quarter over quarter.

As of March 31, 2023, the market capitalization of BSE increased by 0,2% q-o-q to BGN 29,92 billion (16,2% of the projected GDP).

Over January-March 2023, the turnover of BSE decreased by 76,7% q-o-q to BGN 63,893 million. On an annual basis, a decrease by 71% was reported. In the first quarter of 2023 the number of deals (13 216) decreased by 2,6% q-o-q and by 51,2% y-o-y.

Over the reviewed period, the banks listed on BSE accounted for 7,01% of the total turnover and 5,52% 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 4,17%, of all trades and comprised 8,3% of the total turnover.



Source: BSE, own calculations



No	Country	Index	31 Dec'22	31 Mar'23	Δ YTD 2023
1	Slovenia	SBITOP	1 046,13	1 201,12	14,82%
2	Russia	MOEX	2 154,12	2 450,67	13,77%
3	Greece	ASE	929,79	1 054,59	13,42%
4	Croatia	CROBEX	1 979,88	2 237,43	13,01%
5	Czech Republic	PX	1 201,73	1 352,46	12,54%
6	Romania	BET	11 663,53	12 111,50	3,84%
7	North Macedonia	MBI 10	5 652,33	5 843,35	3,38%
8	Serbia	BELEX	1 739,86	1 798,01	3,34%
9	Poland	WIG	57 462,68	58 608,76	1,99%
10	Bulgaria	SOFIX	601,49	610,79	1,55%
11	Hungary	BUX	43 793,76	42 318,34	-3,37%
12	Slovakia	SAX	334,74	317,24	-5,23%
13	Turkey	XU 100	5 509,16	4 812,93	-12,64%

Source: BSE, Bloomberg, own calculations

Key indicators for the Bulgarian economy												
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Q1'23
Capital market												
Market capitalization/GDP	12,0%	12,2%	11,6%	9,6%	10,2%	24,2%	24,3%	23,2%	23,6%	23,2%	18,50%	16,22%
SOFIX	345,46	491,52	522,1	460,9	586,43	677,45	594,46	568,14	447,53	635,68	601,49	610,79
BGBX40	125,11	100	104,61	92,82	111,3	132	115,91	111,83	101,38	143,68	139,28	140,23
BGREIT	79,62	88,66	98,75	97,03	108,11	116,1	121,07	130,03	137,69	163,98	183,17	187,97
BGTR30	257,87	349,03	407,5	383,82	459,19	555,98	496,14	516,28	499,17	682,96	731,2	723,66
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	273852	63893
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	13564	13216

Source: BSE, Bloomberg, own calculations



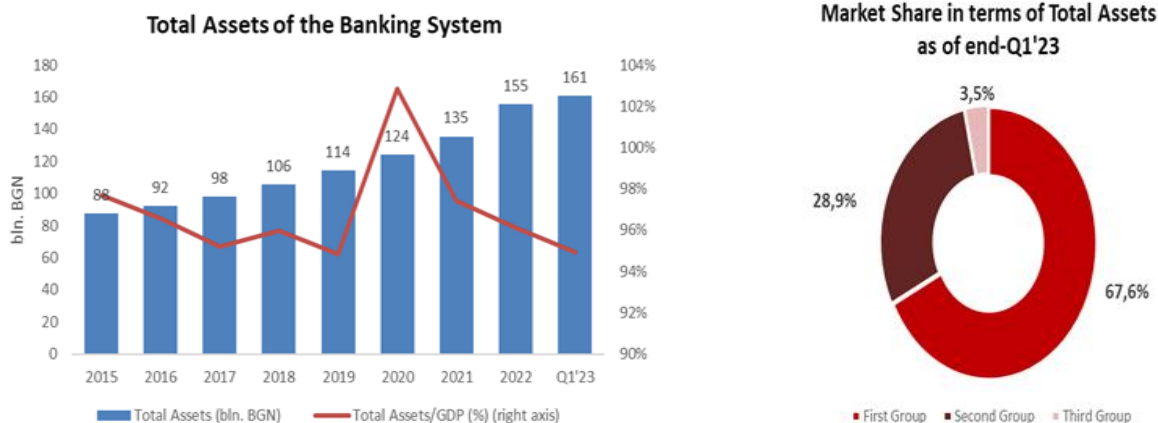
II. The banking sector in Bulgaria

In [Banks in Bulgaria quarterly report](#), the BNB states that in the fourth quarter of 2022, the banking sector continues to perform its activities in a state of high inflation and significant uncertainty. In the period October-December 2022 the activity on the credit market remains high in all its segments. The reasons for that are the highly negative values of the real interest rates during the period as well as the high levels of liquidity and capitalization in the banking system.

Balance sheet statement (Statement of financial position)

Assets

As of end-Mar'23, the banking sector total assets reached BGN 160,62 billion (94,9% of the projected GDP), growing by 14,3% y-o-y.



Source: BNB, Ministry of Finance, own calculations

As of the end of the first quarter of 2023, the market share of the five largest banks in terms of total assets slightly increased slightly from 67,2% a quarter earlier to 67,6%. The second group of banks decreased from 29,4% of the total assets to 28,9%. The market share of the branches of foreign banks was 3,5%.

As of March 31, 2023, the loans and advances accounted for 61,1% of the total assets and were equal to BGN 98,2 billion. Cash balances amounted to BGN 32,7 billion and comprised 20,4% of the total assets. The securities portfolio comprehended 14,4% of the total assets. (BGN 23,1 billion). By comparison with the end of the fourth quarter of 2022, loans and



advances reported in the previous quarter comprised 59,6%, cash balances – 20,9%, and securities portfolio – 15,2%.

Liabilities

The liabilities in the banking system (excluding total equity) amounted to BGN 143,2 billion, increasing by 15,6% 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 40,9 billion), and the third group - 3,8% (BGN 5,4 billion).

Total deposits of the banking system accounted for 96,0% of the liabilities (excluding equity). With regard to the Balance Sheet Statement items, the deposits' volume increased by 14,9% y-o-y to BGN 137,51 billion.

Provisions that include unsettled legal issues and lawsuits, credit commitments, guarantees, pensions, etc., accounted for 0,3%, (BGN 414,87 million as an absolute amount). The item financial liabilities held for trading and other liabilities comprised 0,2% and 1%, respectively, of the liabilities.

Equity

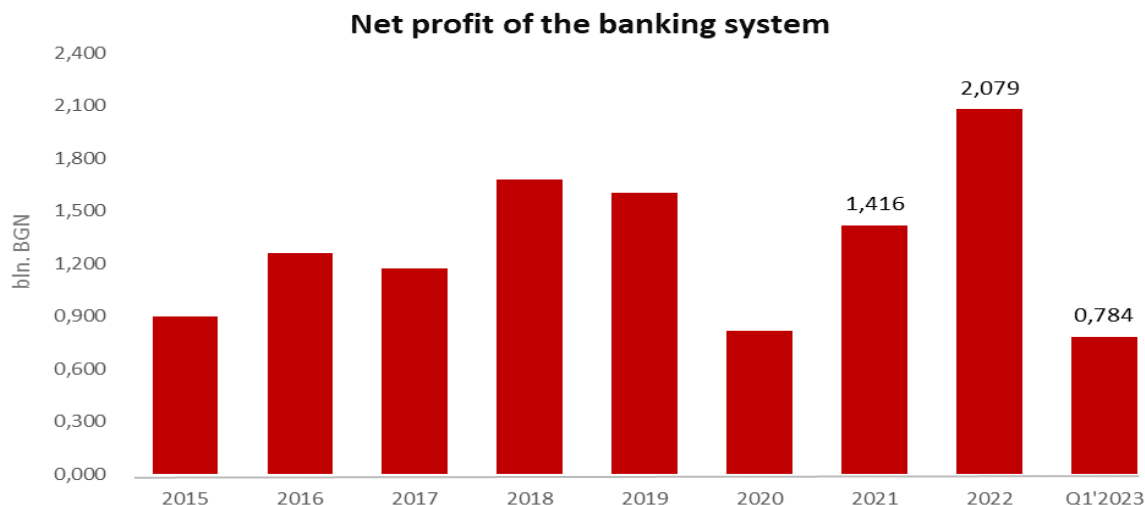
In the first quarter of 2023, the total equity of the banking system increased by BGN 159,04 million or 0,9% on a quarterly basis to BGN 17,44 billion. As of end-Mar'23 the total equity raised by 4,4% compared to the same period of the previous year. The equity of the banks in the first group amounted to BGN 11,69 billion, and in the second group to BGN 5,48 billion.

Statement of profit or loss

Net profit

At the end of the first quarter of 2023, the banking sector reported a net profit of BGN 784,4 million, rising by 37,9% y-o-y. The net profit grew by BGN 663,04 billion as an absolute positive change of 215,5 compared to the same period of the previous year when it amounted to BGN 568,9 million.

The financial result in the banking system is positively affected by the continuing growth of loans in all segments, widening net interest income and still low levels of the interest rates on deposits.



Source: BNB

The first group of banks made up 71,3% of the net profit as of the end of the first quarter of 2023, the second group – 24,8%, and the third group – 3,9%. In comparison with the last quarter of 2022, the five biggest banks in terms of assets made up 70,8% of the net profit in the banking sector, the banks in the second group – 25,7%, and the share of the third group was 3,5%.

Net interest income

As of the end of Q1 2023, the total net operating income of the banking system amounted to BGN 1,662 billion, increasing by 25,5% y-o-y (from BGN 1,324 billion as of the end of March 2022).

The bank's net interest income increased by 47,8% y-o-y (BGN 344,8 million) and as of the end of March 2023 it reached BGN 1,066 billion.

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 March 31, 2023, the interest income grew by 63,0% y-o-y to BGN 1,307 billion. The interest expenses amounted to BGN 240,6 million, rising by 200% on an annual basis.

In [Banks in Bulgaria quarterly report](#), the BNB states that despite the fast increase in loan amounts have a positive effect on the yield generated by the banking system in the short run the continuous periods of high credit growth creates conditions for an increase in indebtedness and accumulation of credit risk in the banks' balances. In Q4 2022 the high volumes of newly contracted mortgage loans are kept. The risk appetite, the level of collateral and the debtor indebtedness remained unchanged as whole despite the slight increase in the



average amount and the maturity of the newly contracted loans.

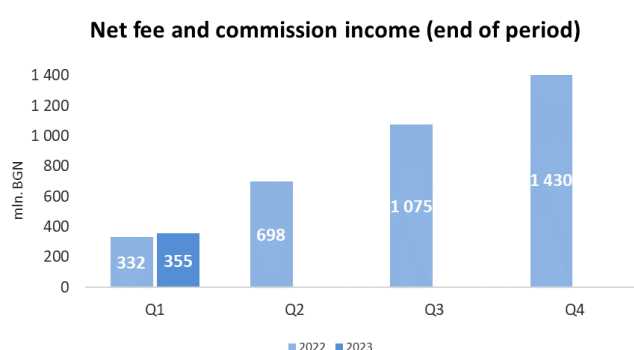
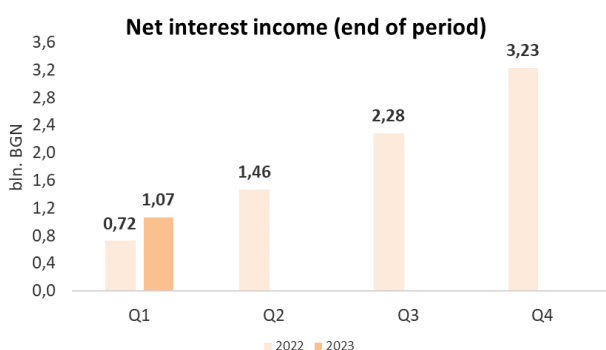
In Q1 2023, the net interest income made up 64,2% of the net total operating income of the banking system. According to the EBA data, as of Q4 2022, the net interest income of banks in EU/EEA accounted for 57,9% of the total operating income.

Net fee and commission income

As of the end of Q1 2023, the net fee and commission (F&C) income increased by 7,1% y-o-y to BGN 355 million.

As of the end of March 2023, the F&C revenues increased by 12,0% on an annual basis to BGN 448,7. F&C expenses increased by 36,2% on an annual basis and by 35,2% on an annual basis, reaching BGN 93,4 million as of the end of the first quarter of 2023.

As of end-March 2023, the net fee and commission income comprised 21,4% 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 30,6% of the total operating income as of the end of Q4 2022.



Source: BNB, own calculations

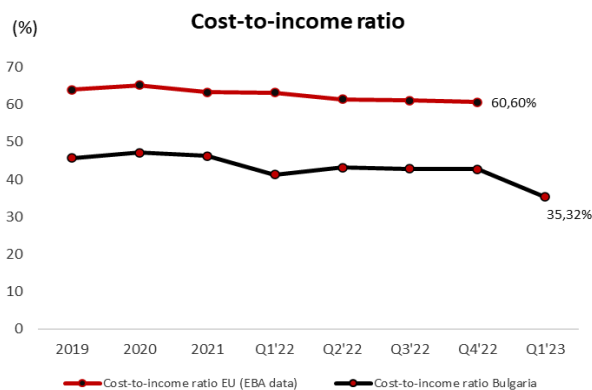
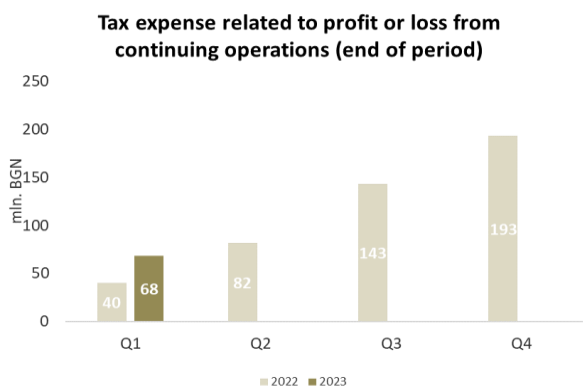
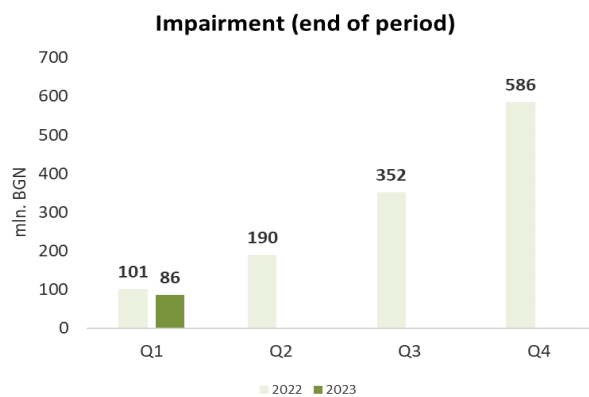
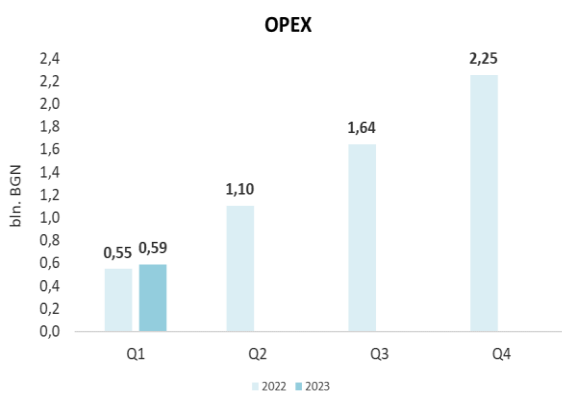
Operating expenses and impairments

As of the end of Q1 2023, the administrative expenses, including overhead costs, increased by 6,3% (BGN 30,2 million in absolute terms) compared to the same period of 2022 as they reached BGN 508,7 million. The total operating expenses (administrative expenses and depreciation) grew by 7,3% y-o-y to BGN 587,1 million. As of end-March 2023, the impairment costs of financial assets not measured at fair value through profit or loss declined by 14,5%, reaching BGN 86,1 million (amount of BGN 100,7 million as of the end of March 2022).

As of the end of Q1 2023, the Cost-to-Income ratio for the banking system slightly was 35,3%, which was serious decrease compared with the level of the previous quarter which was



42,7%. According to the EBA data, as of Q4 2022, the average Cost-to-Income ratio of banks in the EU/EEA was 60,6%.



Source: BNB, EBA, own calculations

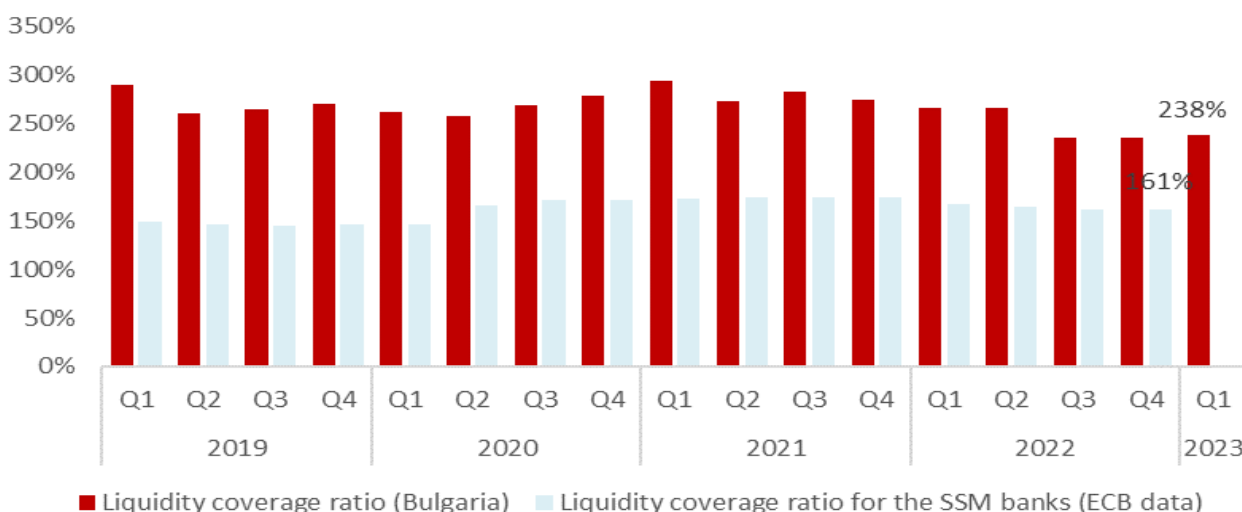


Financial indicators

Liquidity

According to the BNB data, as of end-March 2023, the liquidity buffer and the net liquidity outflows were equal to BGN 49.1 billion and BGN 20.6 billion, respectively. The liquidity coverage ratio (LCR) was 238,2% compared to 235,0% as of December 2022. According to the ECB data, the LCR for the banks participating in the Single Supervisory Mechanism was 161,0% at the end of Q4 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.

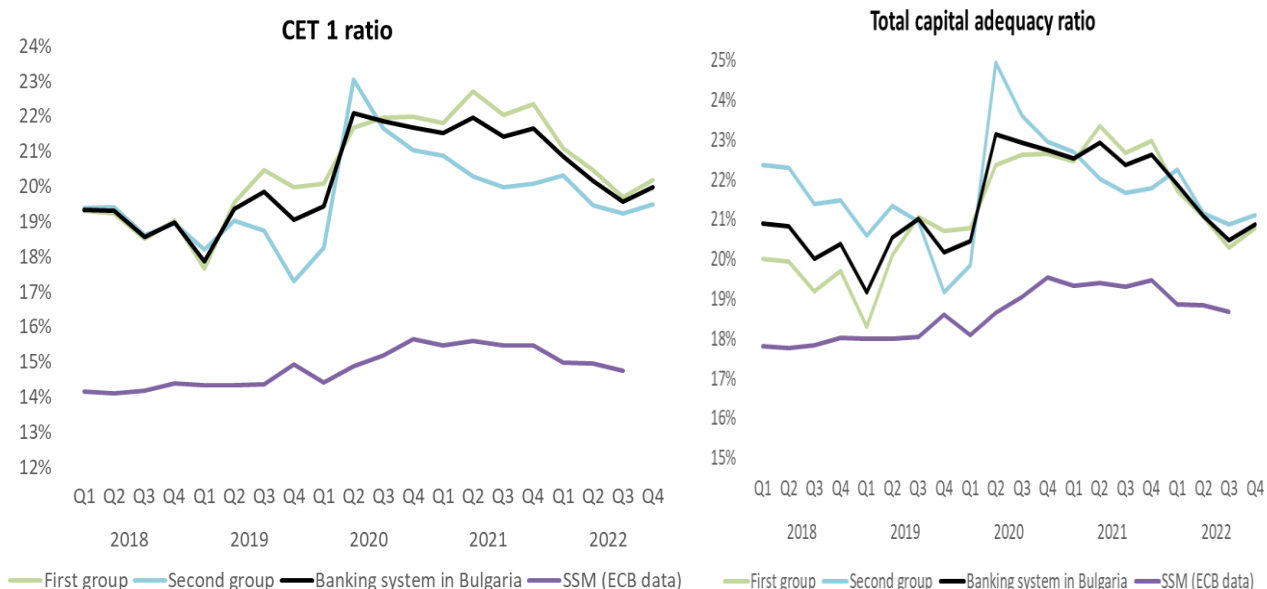
As of the end of Q4 2022, the common equity tier 1 (CET 1) of the entire banking system increased slightly to 19,98%, from 19,56% - a level that was reported as of the end of Q3 2022. The indicator of the first group of banks increased to 20,2% from 19,69% and for the second group to 19,49% from 19,24%.

The total capital adequacy ratio increased to 20,88% from 20,47% at the banking system level from 21,09%. As of the end of December 2022, the CAD ratio of the first group of banks was 20,78% and 21,10% for the second group (20,29% and 20,88%, respectively, a quarter

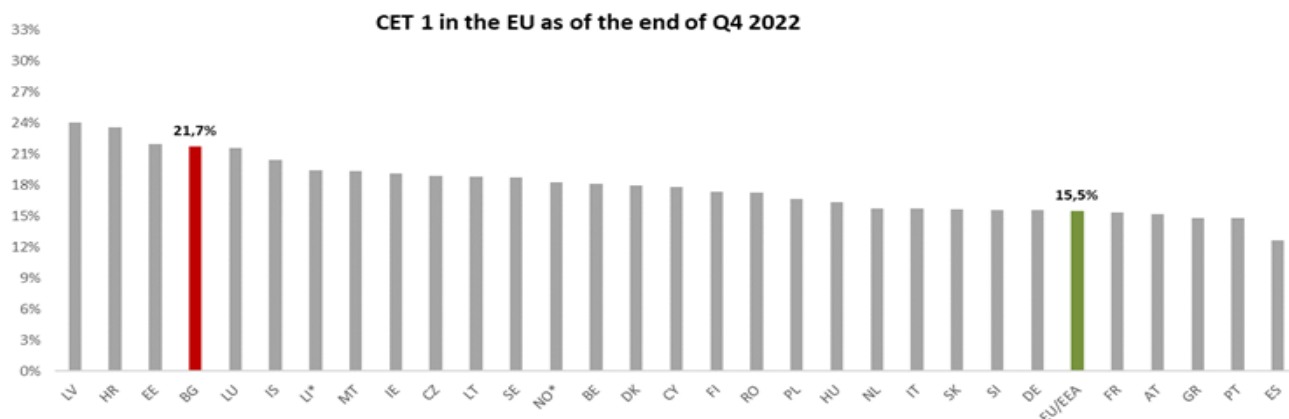


earlier).

The Bulgarian banks' capital adequacy ratios are above the SSM's average. According to the ECB data, as of December 2022, CET 1 and CAD ratios were 15,27%, and 19.26%, 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 in the fourth quarter of 2022 the amount of non-performing loans is decreasing due to households' loans that were written off. According to the BNB's [Banks in Bulgaria](#) given the fluctuations in energy prices, risks of bottlenecks in supply chains and the

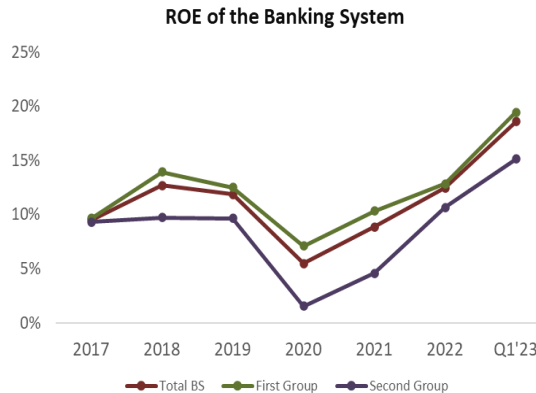
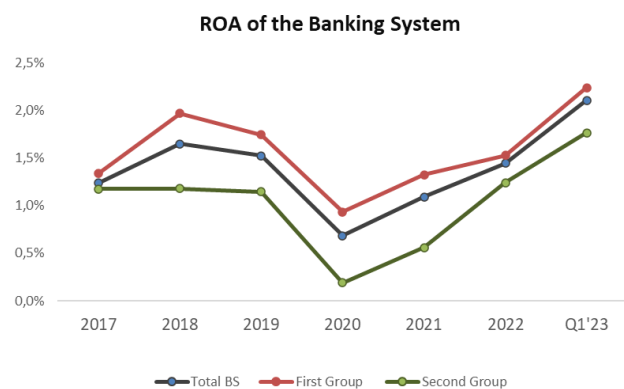


expected decrease in external demand, the capacity to service the debt may weaken, thus resulting in an increase in non-performing loans and impairment costs. In addition, borrowers' financial performance may be impacted by the ongoing global rapid rise in interest rates and the speed of the pass-through effect on interest rate levels in Bulgaria will accelerate in the following months

Profitability

As of March 31, 2023, the Return on Assets (ROA) of the Bulgarian banking system reached 2,1% compared to 1,4% a quarter earlier. The ratios of the first and second groups of banks were 2,2% and 1,8%, respectively. According to the latest ECB data as of the fourth quarter of 2022, the average ROA of the European banks stood at 0,5%.

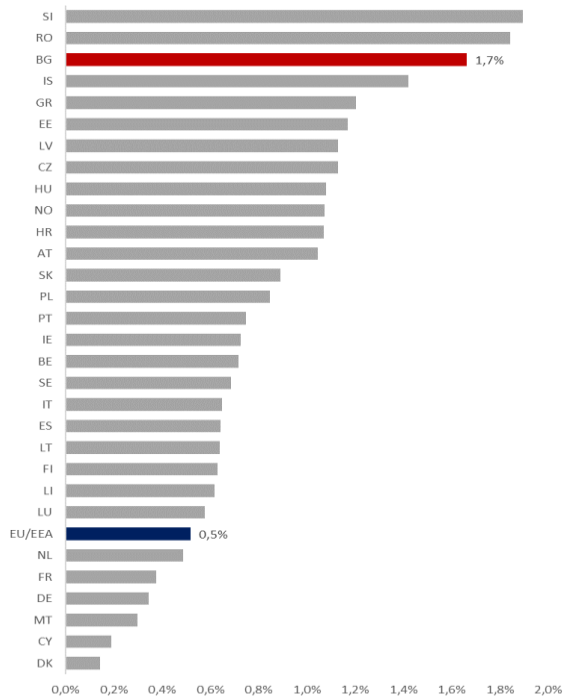
The Return on Equity (ROE) of the Bulgarian banking system improved to 18,6% as of the end of Q1 2023 compared to 12,5% a quarter earlier. The ratios of the first and second groups of banks were 19,4% and 15,1%, respectively. According to the ECB data, the average ROE of the European banks stood at 8,0% as of the end of Q4 2022.



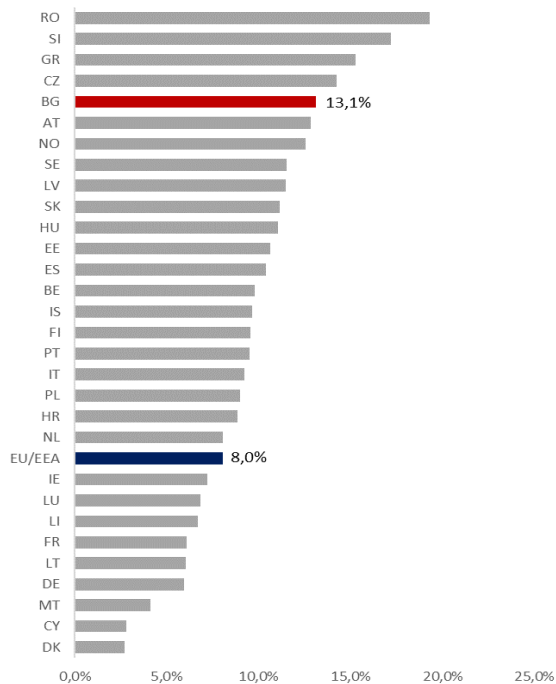
Source: BNB, ECB



ROA of EU/EEA banks as of Dec'22



ROE of EU/EEA banks as of Dec'22



Source: BNB, own calculations

Source: EBA Risk Dashboard, Q4 2022

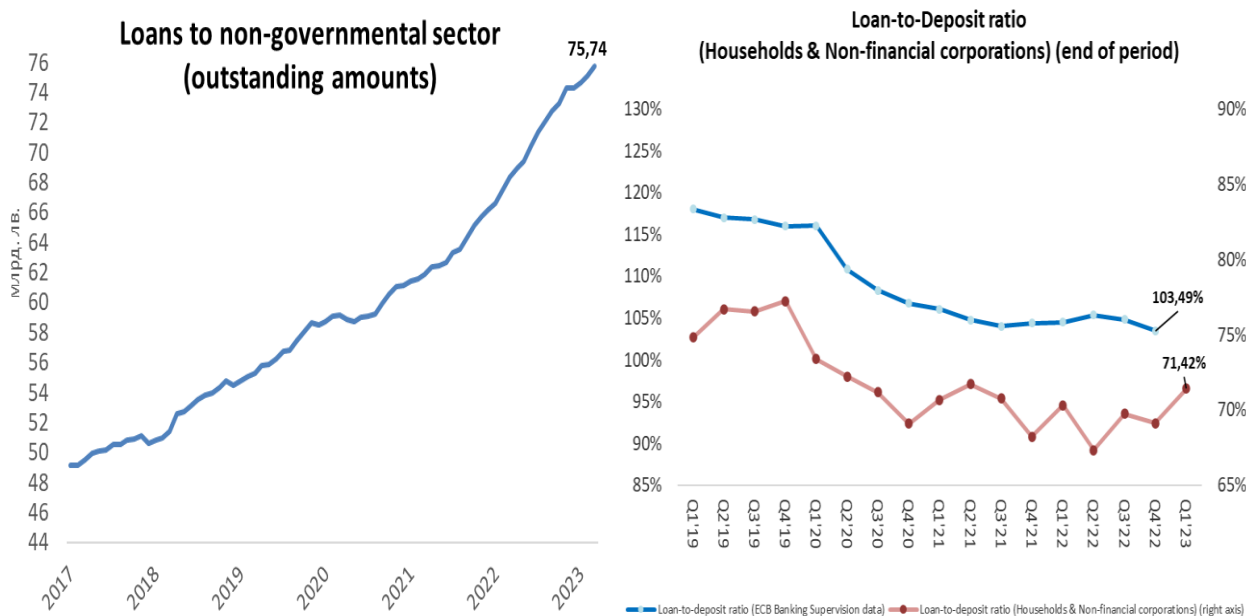
Note: Data for Bulgaria is based on the information submitted to EBA by four banks, and do not refer to the entire banking system;



Loans and deposits

In light of the [Macroeconomic forecast](#), the BNB forecasts that the projected increase in deposit rates and the continued wage growth will contribute to the retention of the relatively high growth rate in non-government sector deposits in the banking system during the forecasted horizon. At the same time, the expected easing in the growth of profits of corporations in sectors related to the production and distribution of energy products will contribute to a slowdown in the growth of deposits of non-financial corporations. Private sector credit growth is expected to slow down, which will be driven by the projected increase in nominal lending rates, combined with the expected gradual weakening of inflationary pressure, firms' weak investment activity that is not linked to co-financing and grants.

As of end-March 2023, according to the BNB Monetary Statistics, total loans to the non-government sector (non-financial corporations and households) picked up by 10,8% y-o-y, reaching BNG 75,74 billion.



Source: BNB, Monetary Statistics, ECB, own calculations

The volume of non-performing loans (past due more than 90 days, excluding items Central Banks and Credit Institutions) declined from BGN 2,733 billion a quarter earlier to BGN 2,543 billion at the end of the first quarter of 2023. The share of non-performing loans to gross loan portfolio in the banking system fell from 3,18% as of Dec'22 to 2,88% as of end-Mar'23, according to the calculations based on the data of the BNB Banking Supervision Department.



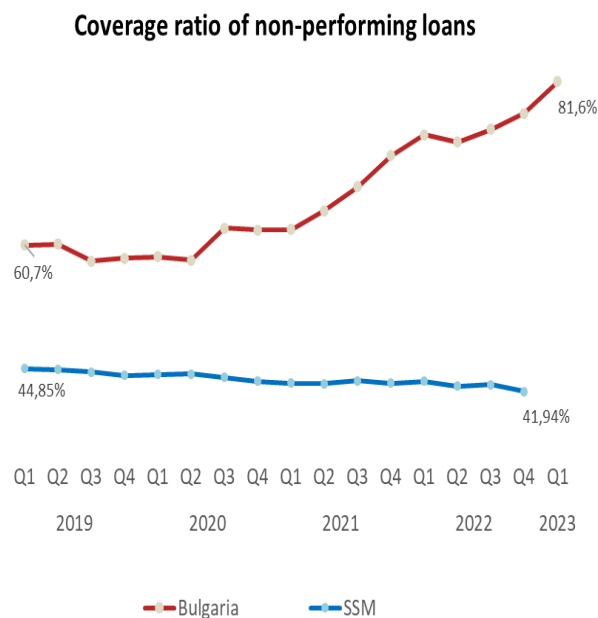
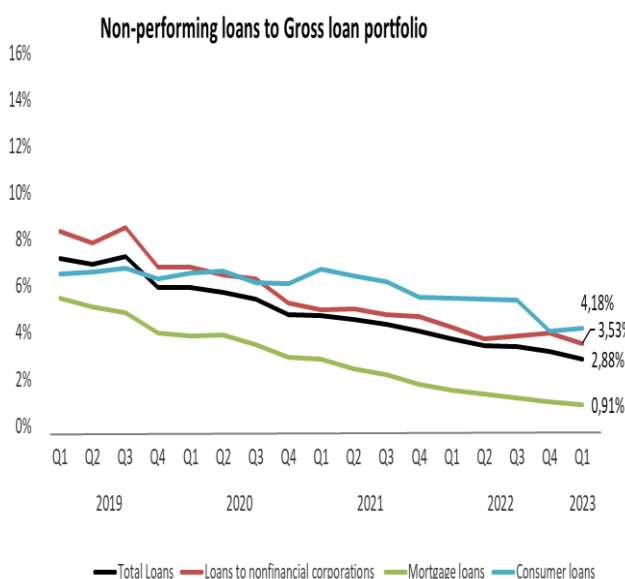
The share of non-performing loans to non-financial corporations slightly decreased from 3,99% as of the end of December 2022 to 3,53% at the end of the March 2023. Over the reviewed period, the ratio of mortgage loans decreased from 1,02% to 0,91%. The share of non-performing consumer loans increased slightly from 4,06% to 4,18% as of the end of Q1 2023.

The amount of non-performing loans to non-financial corporations decreased to BGN 1,606 billion as of the end-March 2023 from BGN 1,791 billion as of the end-December 2022. The non-performing mortgage loans also decreased to BGN 173,9 million (down from BGN 187,2 million a quarter earlier). The non-performing consumer loans increased to BGN 693,8 million, from BGN 655,4 million a quarter earlier.

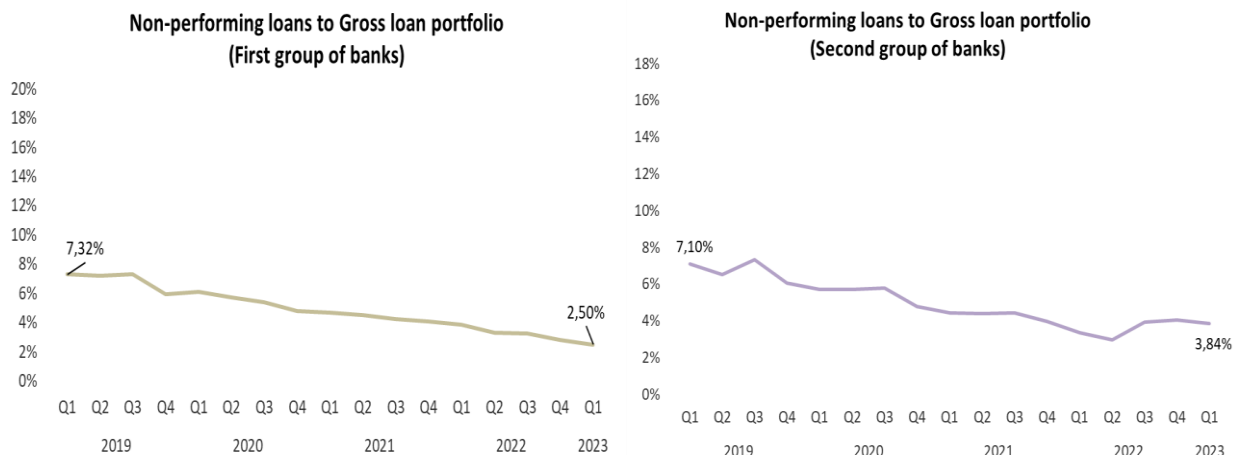
The ratio of non-performing gross loans reported by the banks in the first group declined to 2,50% at the end of the first quarter of 2023 (down from 2,84% a quarter earlier). The ratio reported by the banks in the second group decreased to 3,84% (from 3,92% a quarter earlier).

Nevertheless, the ratio of non-performing loans in Bulgaria remained higher than the EU average, the Bulgarian banking system kept maintaining 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 81,6% at the end of Q1 2023 compared to 77,6% a quarter earlier. According to the latest ECB data as of the fourth quarter of 2022, the coverage ratio of non-performing loans in European banks was 41,94%.



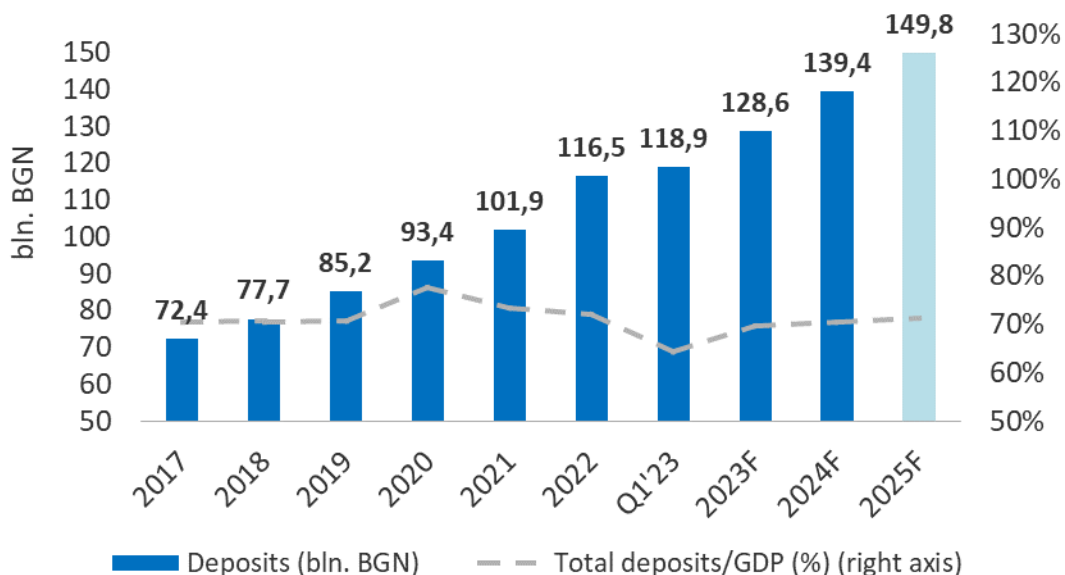
Source: BNB, ECB, own calculations



Source: BNB, own calculations

The total amount of deposits in the banking system continued to rise. As of the end of March 2023, the total deposits of the banking system reached BGN 118,868 billion, picking up by 13,1% y-o-y. The deposits' growth slowed down compared with the reported increase of 14,3% reported at the end-December 2022.

Total deposits in the banking system



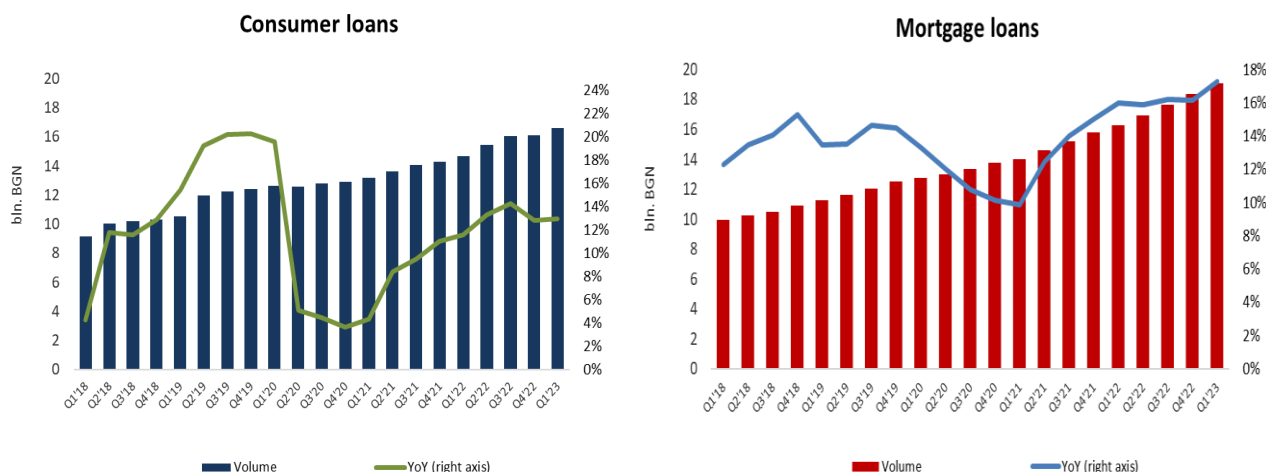
Source: BNB, own calculations
Forecast: BNB, Ministry of Finance



Loans and deposits to households

At the end of Q1 2023, according to the BNB Banking Supervision Department data, the volume of consumer loans was equal to BGN 16,58 billion compared to BGN 16,14 billion a quarter earlier and BGN 14,69 billion a year earlier. In the first quarter of 2023, the volume of consumer loans grew by 2,78% on a quarterly basis and increased by 12,9% on an annual basis.

The volume of housing loans amounted to BGN 19,07 billion compared to BGN 18,4 billion as of end-December 2022 and BGN 16,26 billion as of end-March 2022. It increased by 3,85% on a quarterly basis and by 17,3% on an annual basis.

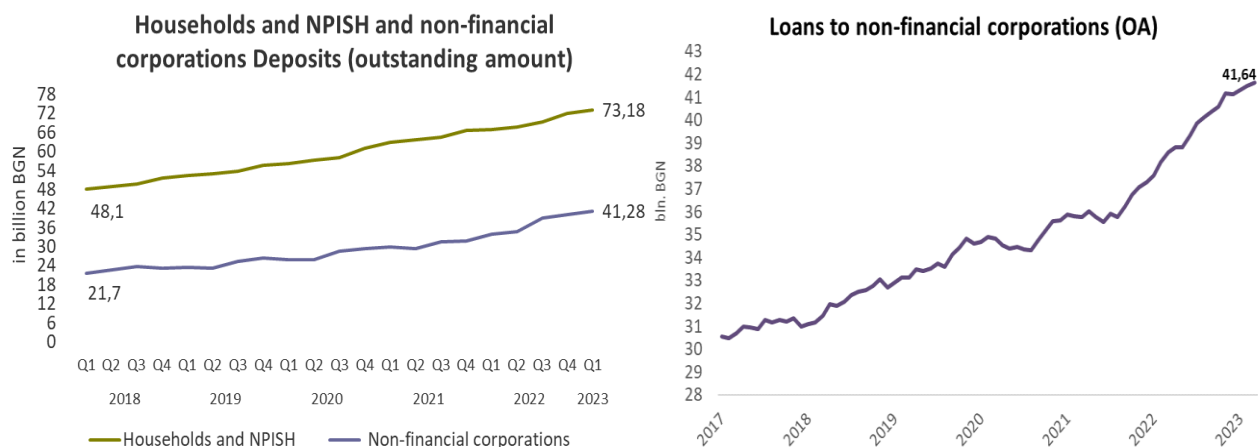


Source: BNB, Banking Supervision Department, own calculations

At the end of Q1 2023, the total amount of deposits from households and NPISH grew by 9,4% y-o-y (up from 8,3% reported at the end-December 2022). Deposits from households reached BGN 73,18 billion (43,3% of the projected GDP) which composed 61,6% of the deposits in the banking system.

Loans and deposits of non-financial corporations

As of March 31, 2023, the total amount of deposits from non-financial corporations increased by 21,6% y-o-y (up from a 26,6% increase a quarter earlier), reaching BGN 41,2 billion. According to the BNB's monetary statistics, the loans outstanding amount to non-financial corporations grew by 7,2% y-o-y to BGN 41,64 billion at the end of Q1 2023. The quarterly increase of loans to non-financial corporations is 1,2%.



Source: BNB, Monetary statistics

Interest rates

As of the end of the first quarter of 2023 there is an increase in the interest rates on the newly contracted loans and deposits to non-financial corporations in BGN and EUR.

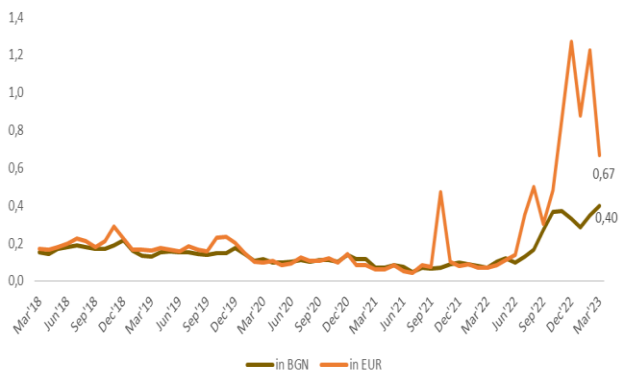
Interest rates on deposits

As of the end of March 2023, the average interest rate on deposits with agreed maturity in BGN to households (new business) continued to rise and stood at 0,4% (up from 0,33% a quarter earlier). The average interest rate on deposits in EUR significantly decreased and they reached 0,67% (from 1,27% a quarter earlier) returning to their normal levels.

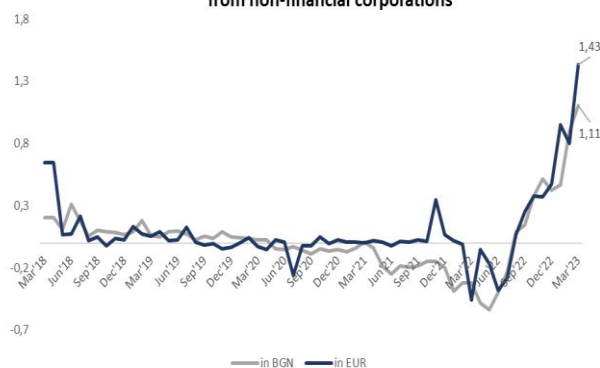
As of the end of Q1 2023, the average interest rate on deposits with agreed maturity to non-financial corporations (new business) in BGN increased from 0,43% to 1,11%. The average interest rate on deposits in EUR picked up from 0,47% to 1,43%.



Average IRs on new business on deposits with agreed maturity from households



Average IRs on new business on deposits with agreed maturity from non-financial corporations

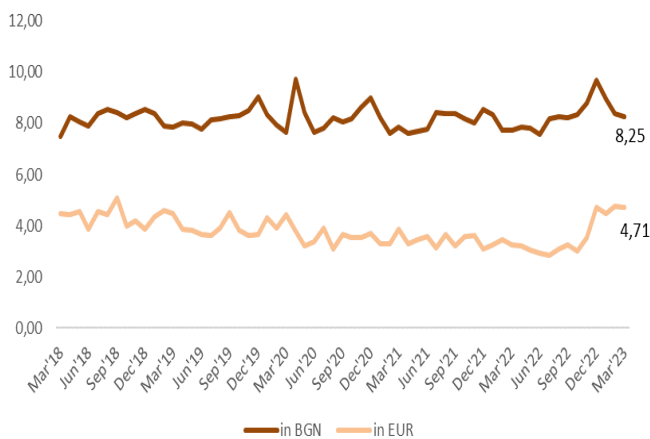


Source: BNB

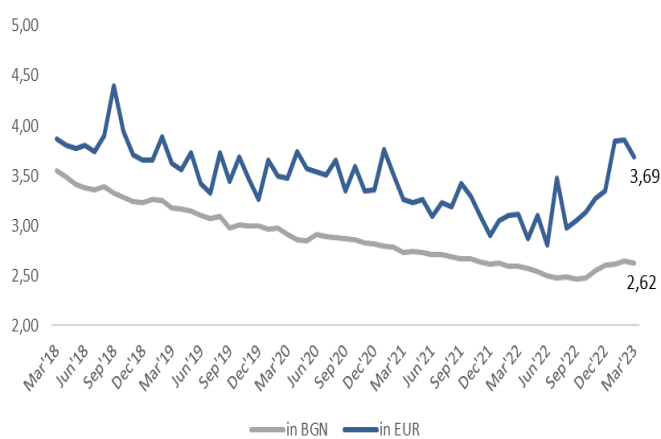
Interest rates on loans

At the end of Q1 2023, the average interest rate on mortgage loans in BGN slightly increased to 2,62% (up from 2,60% a quarter earlier). The average interest rate on mortgage loans in EUR rose from 3,35% as of end-Dec'22 to 3,69% as of end-Mar'23.

Average IRs on consumer loans (new business)



Average IRs on housing loans (new business)



Source: BNB

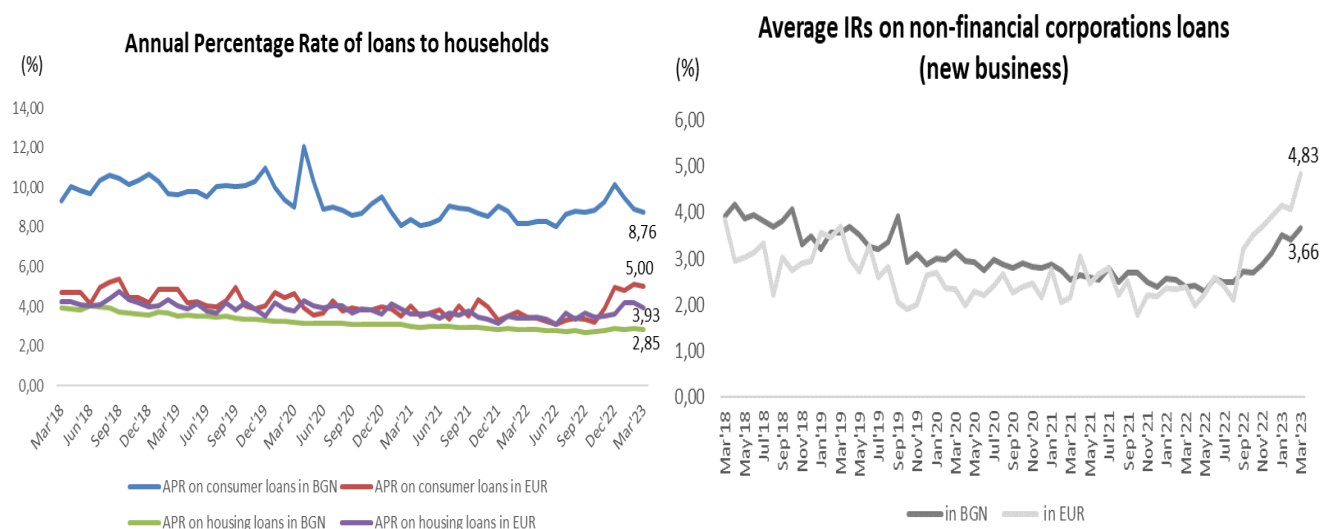
As of the end of March 2023, the average interest rate on consumer loans in BGN decreased to 8,25% % (up from 9,65% a quarter earlier). Concurrently, the average interest rate on consumer loans in EUR slightly rose to 4,71%, (up from 4,70% at the end-Dec'22).

The annual percentage rate (APR), reflecting the interest plus other charges, on mortgage



loans in BGN decreased slightly to 2,85% as of the end-Mar'23 from 2,87% as of end-Dec'22. APR on mortgage loans in EUR increased from 3,61% to 3,93%. The APR on consumer loans in BGN decreased from 10,2% to 8,76%, and for loans in EUR there was an increase from 4,94% to 5,00%.

The average interest rate on loans to non-financial corporations (new business) in BGN increased from 3,12% as of the end-Dec'22 to 3,66% as of end-Mar'23. The average IR on loans agreed in EUR rose from 3,92% to 4,83%. For loans agreed in USD the interest rate decrease from 8,01% as of the end-Dec'22 to 4,29% as of end-Mar'23.



Source: BNB



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All historical rates, statistical data and graphs are up to date, up to and including May 22, 2023, unless otherwise stated.

The views provided are those prevailing as of May 22, 2023.