



# THE ECONOMY AND THE BANKING SECTOR IN BULGARIA

THIRD QUARTER OF 2023



SOFIA



## HIGHLIGHTS

- In Q2 2023, the Bulgarian economy grew by 1,9% y-o-y following the formation of positive contribution of private consumption, net exports and gross fixed capital formation.
- The inflation accelerated by 7,2% year-over-year in Q3 2023.
- At the end of September 2023, the unemployment rate in Bulgaria reached 4,5%.
- At the end of September 2023, the budget deficit is 0,5% of the projected GDP.
- At the end of the third quarter of 2023, the total assets of the banking system reached BGN 165,1 billion, growing by 10.9% y-o-y (89,5% of the projected GDP).
- At the end of the third quarter of 2023, the banking sector reported BGN 2,705 million in net profit.
- The financial result of the banking system is influenced by the reduced impairment costs, the rising interest income and the improvement of the quality of the credit portfolios of the banks.
- In Q3 2023 credit growth remains high both for the households and for the non-financial corporations with the share of non-performing housing loans and loans to non-financial corporations continuing to decline.
- As of the end of Q3 2023 an increase in the interest rates on newly contracted loans and deposits to non-financial corporations in BGN and EUR is observed.
- As of the end of September 2023 a decrease in the interest rates on household deposits and increase in the interest rates on newly contracted housing and consumer loans in BGN are reported.



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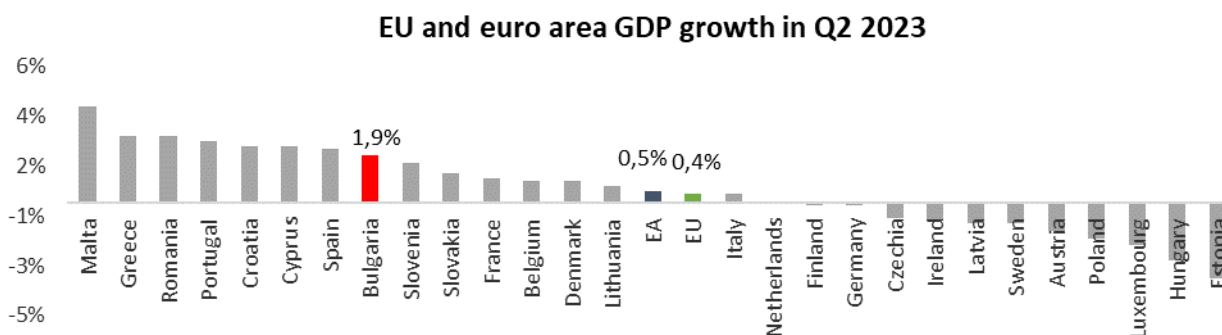
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## I. The Bulgarian economy

### Economic growth

In the second quarter of 2023, Bulgarian gross domestic product (GDP) rose by 1,9% y-o-y, compared to the increase of 2,3% in the previous quarter. According to the preliminary seasonally and calendar-adjusted data of Eurostat, the pace of growth of the Bulgarian economy remained above the EU and euro area average. Real GDP annual growth in the EU and eurozone slowed to 0,4% and 0,5%



Source: Eurostat, Seasonally and calendar adjusted data

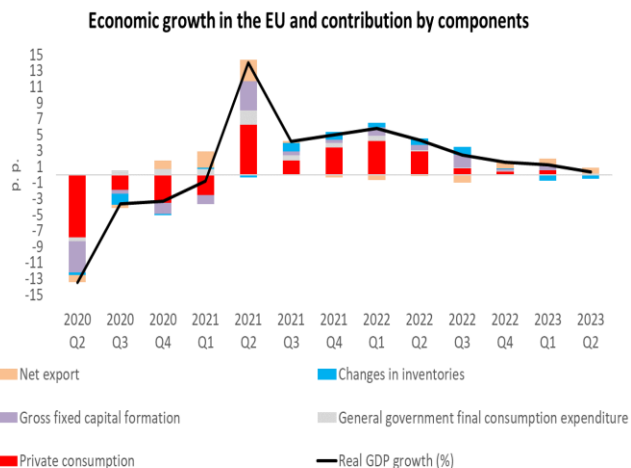
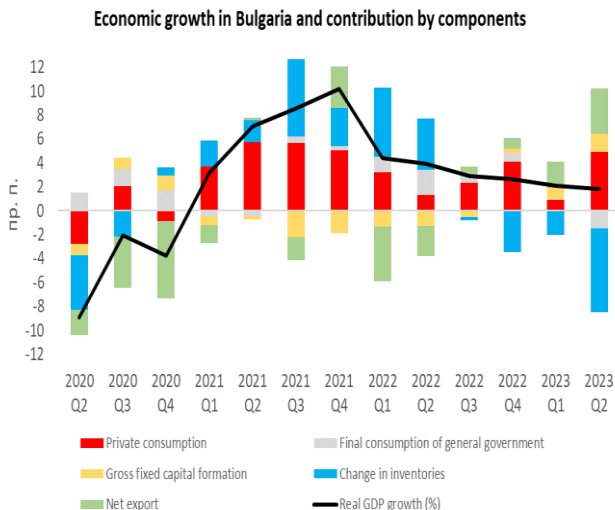
The highest contribution to the economic growth in the second quarter of 2023 according to Eurostat preliminary data is due to the private consumption, net export and gross fixed capital formation.

During the second quarter the government consumption decreased by 8% Y-o-Y.

Private consumption continued to grow in the Q2 of 2023, it reported growth of 8,2% Y-o-Y compared to a rise of 1,5% in the previous quarter.

In Q2 gross capital formation increased by 10,8% Y-o-Y following a 5,4% increase in the previous quarter. In the second quarter the contribution of that component is positive and it equaled to 1,5 pp. The decrease in the inventories led to a negative contribution of -7,0 p.p. in the growth structure in the second quarter of 2023. The net export contributed by 3,9 for the GDP growth in the period April-June 2023.

The export of goods and services decreased in the second quarter of 2023, gaining a decrease of -1,0% Y-o-Y. For comparison, the increase in the Q1 of 2023 was by 2,3% Y-o-Y and 9,4% in Q4 2022. The import continued its deceleration to -6,9% Y-o-Y after a -1,5% decline a quarter earlier. In Q3 the trade deficit remained negative – 2,8% of GDP compared to -1,3% a quarter earlier.



Source: Eurostat, own calculations

Likewise, compared with the Bulgarian economy, the EU economy dampened to 0,4% Y-o-Y in Q2 2023. The highest contribution to the European economy growth had the net export which marked a significant increase on an annual basis in the structure of GDP with a continuing upward trend compared to the previous quarter.

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 slowdown in the export of goods.

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 3,3%.



Key indicators for the Bulgarian economy																						
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23	Q2'23	Q3'23	2023F	2024F	2025F	2026F	
<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	49 351	40 506	42 923	47 733					
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	3,6	2,2	1,9						
																		<b>Real GDP growth (% y-o-y) - Forecasts</b>				
																		MF (Autumn 2023)	1,8	3,2	3	3
																		BNB (June 2023)	1	3,2	4	-
																		IMF (Oct 2023)	1,7	3,2	-	-
																		WB (April 2023)	1,5	2,8	3	-
																		EC (Autumn 2023)	2	1,8	2,6	-
																		EBRD (Sep 2023)	1,6	2,6	-	-
																		OECD (June 2023)	1,9	3,2	-	-
<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	6,3	1,2	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	6,8	1,5	8,2						
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	4,5	0,1	-8,0						
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	2,4	5,4	30,8						
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	9,4	2,3	-1,0						
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	8,5	-1,5	-6,9						
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	-5,9	-0,7	-1,3	-2,8					
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	1 512,3	2 631,1	1 877,8	1 920,6	3 173,4					
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	3,1	2,0	2,0	3,3					
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	13,4	8,8	7,2					

Source: NSI, Eurostat, BNB

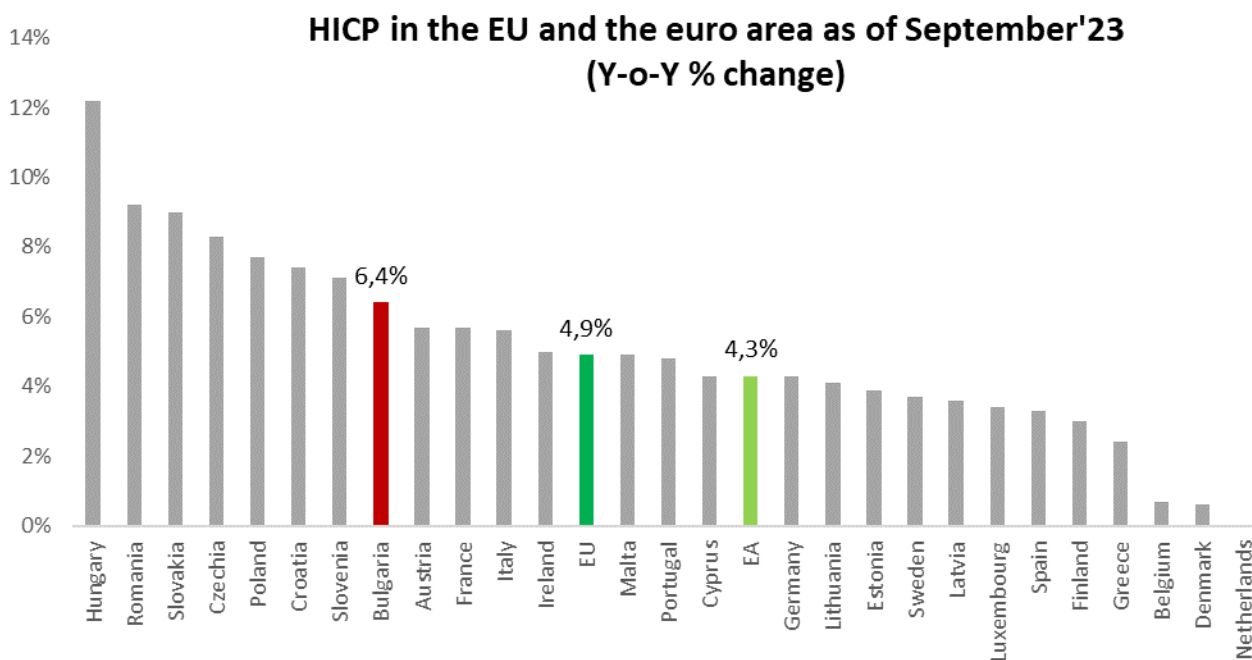
Forecasts: Bulgarian National Bank, Ministry of Finance, International Monetary Fund, World Bank, European Commission, European Bank for Reconstruction and Development, Organization for Economic Co-operation and Development



## Inflation

In the third quarter of 2023, the harmonized index of consumer prices (HICP) recorded a slowdown and averaged 7,23% Y-o-Y for the period, compared to 8,8% reported in the previous quarter. According to the Eurostat data, inflation in Bulgaria reached 6,4% on an annual basis at the end of September 2023, remaining above the average level for the EU of 4,9% and 4,3% for the Eurozone.

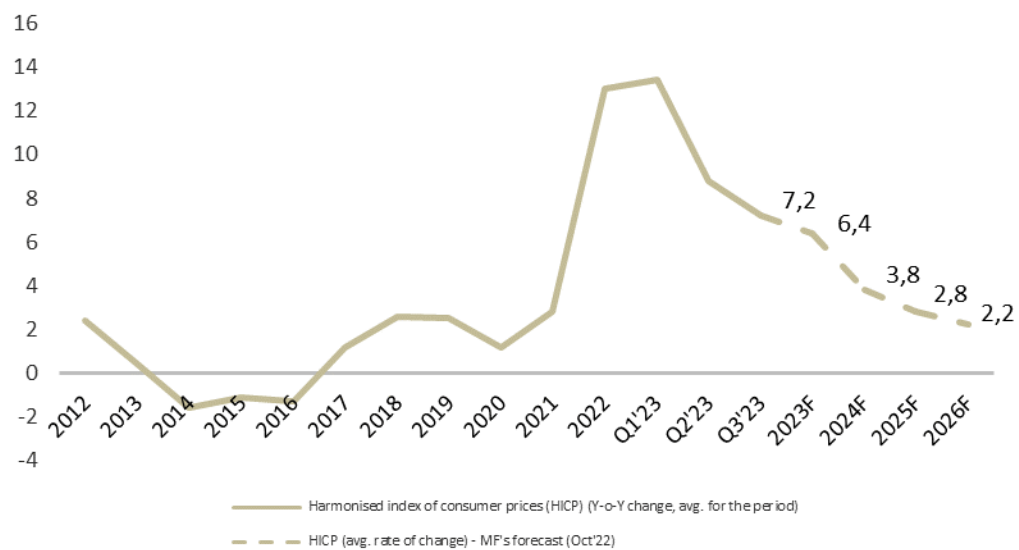
According to the Bulgarian National Bank's [Macroeconomic forecast](#), the annual inflation is going to slow down to 5,7% in 2023 by assuming a decrease in energy products prices and weaker rates of commodity price growth. The BNB forecast shows that the average annual inflation is going to be 8,7%, as an increase for labor costs for a unit of production, labor shortages and strong consumer demand are continuing to be a strong factor for inflation. The BNB expects inflation to slow down to 3,4% at the end of 2024 following low dynamics of the prices of basic raw materials, as well as offsetting the growth of unit labor costs.



Source: Eurostat



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



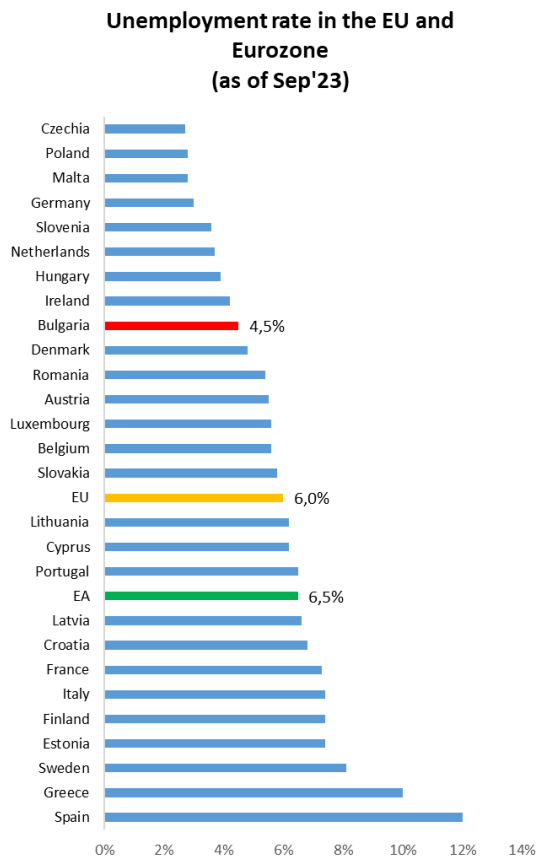
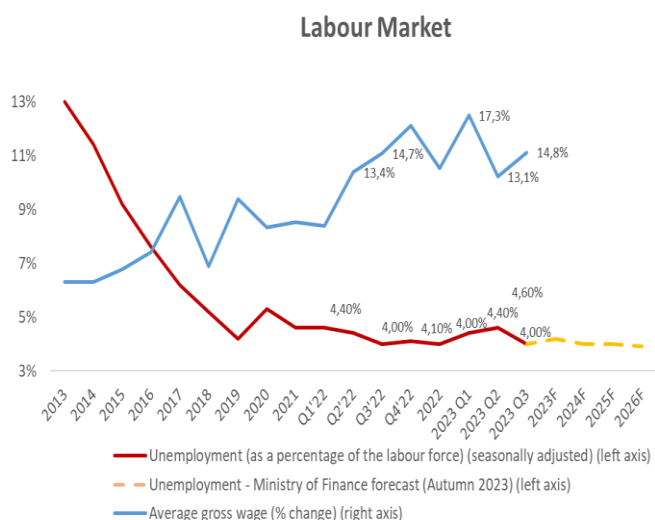
Source: NSI, Eurostat  
Forecast: Ministry of Finance



## Labour market

In September 2023, the unemployment rate in Bulgaria (number of people unemployed as a percentage of the labour force) slightly increased to 4,5%. The unemployment rate in the country remained below the EU average and Bulgaria ranked 9<sup>th</sup> among the EU member states in terms of the lowest unemployment rate in September 2023. As of end-September`23, the number of people unemployed in Bulgaria decreased and reached 125 thousand people compared to the previous quarter, when they were 141 thousand people. Likewise, as of the end of the second quarter of 2022, the number of unemployed people reached 111 thousand.

In September 2023, the youth unemployment rate in Bulgaria (unemployed young people under 25) was 11,4%, decreasing from 11,9% in June 2023. Simultaneously, the youth unemployment rate in the EU was 14,2%, as the highest rates were observed in Spain, Sweden and Italy.



Source: Eurostat, Ministry of Finance, NSI



Key indicators for the Bulgarian economy													
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Q1 2023	Q2 2023	Q3 2023
<b>Labour market</b>													
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	5,3	4,8	4,4	4,6	4
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	3 150,5	2 928,0	2 914,3	2 964,7
Number of employed in Finance and Insurance sector (thousands persons), incl.:	51,6	60,5	62,3	58,6	63,7	65,4	67,3	62,4	65,1	69,1	59,8	61,5	63,9
Number of employed in the banking sector (thousands persons)	32,8	31,7	30,7	30,4	30,1	29,9	28,2	27,4	26,8	26,0	-	-	-
Gross average monthly wage in Finance and Insurance sector	1 508	1 578	1 608	1 709	1 788	1 904	2 074	2 191	2 300	2 666	2 972	2 915	2 894

Source: Eurostat, Ministry of Finance, NSI, ECB



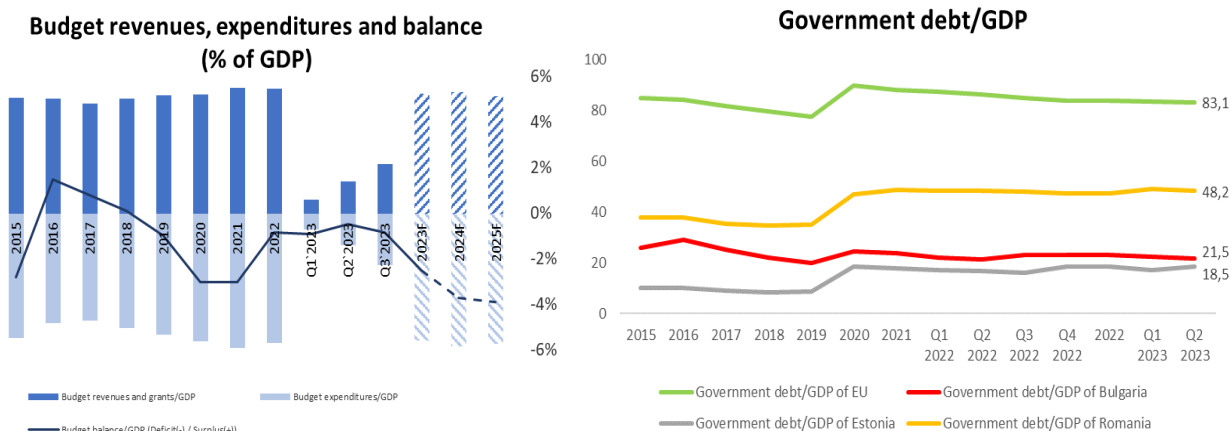
## Public sector

According to the Ministry of Finance (MF) preliminary data as of September 2023, the budget balance was negative and amounted to BGN 0,8 bn. (0,5% of the projected GDP).

Budget revenues, grants, and donations reported under the Consolidated Fiscal Programme (CFP) over January-September 2023 were equal to BGN 47,6 billion (25,8% of the projected GDP). The revenues increased by BGN 2,6 billion compared with the same period in the previous year.

The CFP budget expenditures (including the Bulgarian contribution to the EU budget) reached BGN 48,5 billion (26,3% of the projected GDP). Compared to the third quarter of 2022, CFP expenditures increased by BGN 4,5 billion i.e. grow nominally by 10,1 percent.

As of September 30, 2023, the fiscal reserve was BGN 11,3 billion.



Source: Ministry of Finance, Eurostat

As of the end of the second quarter of 2023, Bulgarian consolidated debt to GDP was 21,5%. The ratio is significantly below the EU average of 83,1%.

The long-term Interest Rate for Convergence Assessment Purposes (LTIR) in Bulgaria increased to a level at 4,03% as of end- September`23. In comparison with the Bulgarian data, the LTIR in Romania was 7,48%, in Poland – 5,68%, in Hungary – 7,08%, and in the Czech Republic – 4,49%. 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

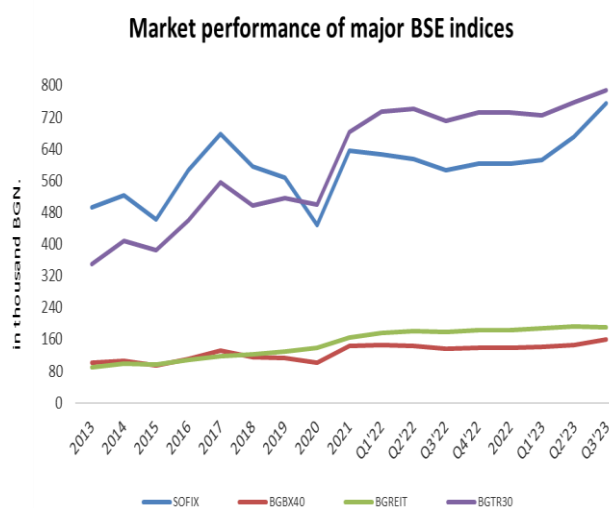
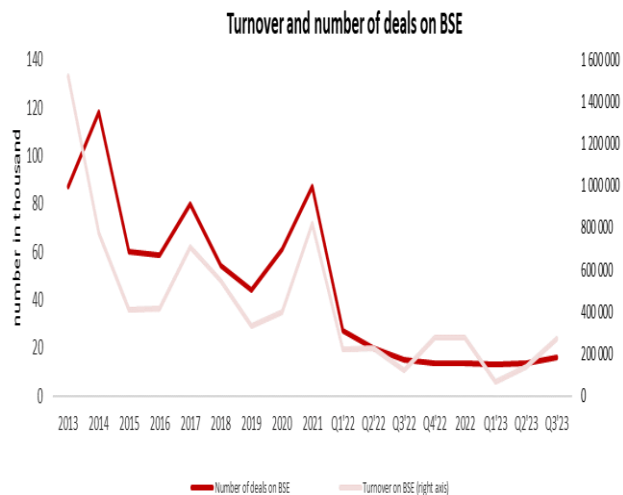
Major indices on Bulgarian Stock Exchange (BSE) closed Q3 2023 as follows: the main index SOFIX recorded a growth of 28,7% compared to the same period of the previous year, the broad-based BGBX40 increased its value by 15,7%, BGTR30 also gained 10,9%, as the BGREIT special purpose vehicle index did as it rose by 6.8%.

In the third quarter of 2023, SOFIX ranked in the top 3 of the CEE region's stock market indices performance with a 12,81% rise on a quarterly basis

As of September 30, 2023, the market capitalization of BSE increased by 3% q-o-q to BGN 30,9 billion (16,8% of the projected GDP).

Over July-September 2023, the turnover of BSE increased by 94,4% q-o-q to BGN 268,224 million. On an annual basis, increased by 122,5% was reported. In the third quarter of 2023 the number of deals (15 825) increased by 17% q-o-q and increased by 4,9% y-o-y.

Over the reviewed period, the banks listed on BSE accounted for 11,33% of the total turnover and 4,42% of all deals executed on the regulated market (as per the double-entry bookkeeping). In the previous quarter, the deals performed by the listed banks on BSE accounted for 3,82%, of all trades and comprised 11,02% of the total turnover.



Source: BSE, own calculations



No	Country	Index	30 June '23	30 September '23	Δ YTD 2023
1	Turkey	XU 100	5 759,11	8 334,94	44,73%
2	Romania	BET	12 483,34	14 337,52	14,85%
3	Bulgaria	SOFIX	669,90	755,73	12,81%
4	Russia	MOEX	2 797,37	3 133,26	12,01%
5	Hungary	BUX	50 505,73	55 838,55	10,56%
6	Czech Republic	PX	1 275,15	1 349,32	5,82%
7	Serbia	BELEX	1 762,55	1 835,02	4,11%
8	Croatia	CROBEX	2 347,61	2 431,12	3,56%
9	Slovakia	SAX	321,55	330,26	2,71%
10	North Macedonia	MBI 10	5 713,34	5 803,06	1,57%
11	Poland	WIG	67 283,22	67 811,46	0,79%
12	Slovenia	SBITOP	1 232,57	1 174,31	-4,73%
13	Greece	ASE	1 278,61	1 209,34	-5,42%

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	2022	Q1'23	Q2'23	Q3'23
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%	20,7%	20,9%	20,1%	18,50%	18,50%	16,22%	16,27%	16,77%
SOFIX	345,46	491,52	522,10	460,90	586,43	677,45	594,46	568,14	447,53	635,68	626,76	613,21	587,15	601,49	601,49	610,79	669,90	755,73
BGBX40	125,11	100,00	104,61	92,82	111,30	132,00	115,91	111,83	101,38	143,68	145,38	144,13	136,97	139,28	139,28	140,23	146,12	158,56
BGREIT	79,62	88,66	98,75	97,03	108,11	116,10	121,07	130,03	137,69	163,98	175,04	181,38	178,28	183,17	183,17	187,97	192,37	190,35
BGTR30	257,87	349,03	407,50	383,82	459,19	555,98	496,14	516,28	499,17	682,96	734,44	740,93	710,57	731,20	731,20	723,66	756,67	787,91
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	233 496	225 707	120 552	273 852	273 852	63 893	137 971	268 224
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	13 564	13 564	13 216	13 529	15 825

Source: BSE, Bloomberg, own calculations



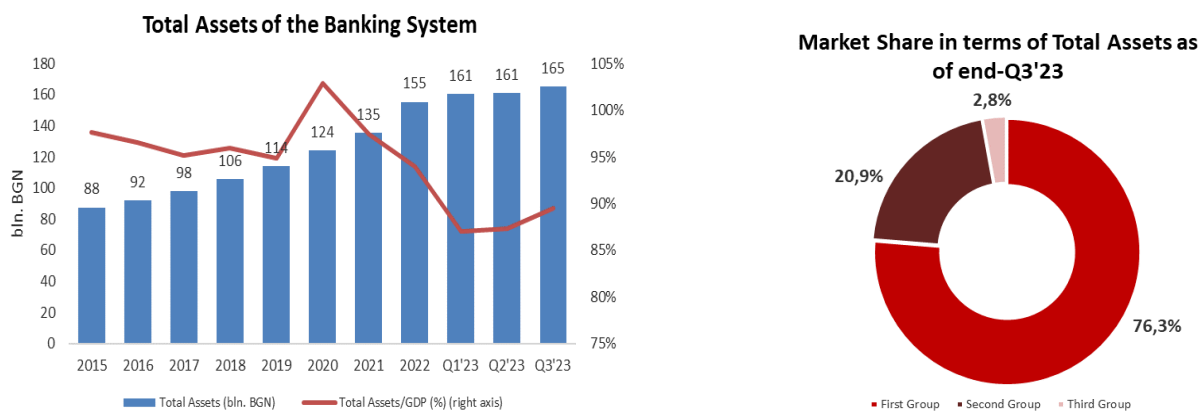
## II. The banking sector in Bulgaria

In [Banks in Bulgaria](#) quarterly report, the BNB states that in the second quarter of 2023, the banking sector continues to perform its activities in a state of relatively high inflation and significant economic uncertainty. In the period April-June 2023 the activity on the credit market remains high, with conditions for the rapid growth of credit volumes having a favorable effect on the interest income of the banking sector. According to the BNB, the tightening of monetary policy at the global level will begin to be transferred more quickly to the cost of financing in Bulgaria in the coming months, which will affect credit activity, including and through the already started process of increasing the minimum required reserves.

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

#### Assets

As of end-September`23, the banking sector total assets reached BGN 165,1 billion (89,5% of the projected GDP), growing by 10,9% y-o-y.



Source: BNB, Ministry of Finance, own calculations

As of the end of the third quarter of 2023, the market share of the five largest banks in terms of total assets slightly increased from 76,2% a quarter earlier to 76,3%. The share of assets of the second group of banks remained at the same level of 20,9%. The market share of the branches of foreign banks was 2,8%.

As of September 30, 2023, the loans and advances accounted for 65,5% of the total assets and were equal to BGN 108 billion. Cash balances amounted to BGN 29,4 billion and comprised 17,8% of the total assets. The securities portfolio comprehended 14,6% of the total assets (BGN 24,2 billion). By comparison, at the end of the second quarter of 2023, loans and advances reported in the previous quarter comprised 65%, cash balances – 15,9%, and securities portfolio – 15,0%.



## Liabilities

The liabilities in the banking system (excluding total equity) amounted to BGN 145,8 billion, increasing by 10,2% y-o-y. The banks in the first group comprised 76,4% of the liabilities (BGN 111,4 billion), the second group – 20,6% (BGN 30.7 billion), and the third group - 3% (BGN 4,4 billion).

Total deposits of the banking system accounted for 97,0% of the liabilities (excluding equity). With regard to the Balance Sheet Statement items, the deposits' volume increased by 10,2% y-o-y to BGN 141,3 billion.

Provisions that include unsettled legal issues and lawsuits, credit commitments, guarantees, pensions, etc., accounted for 0,24% (BGN 355,17 million as an absolute amount). The item financial liabilities held for trading and other liabilities comprised 0,2% and 0,7%, respectively, of the liabilities.

## Equity

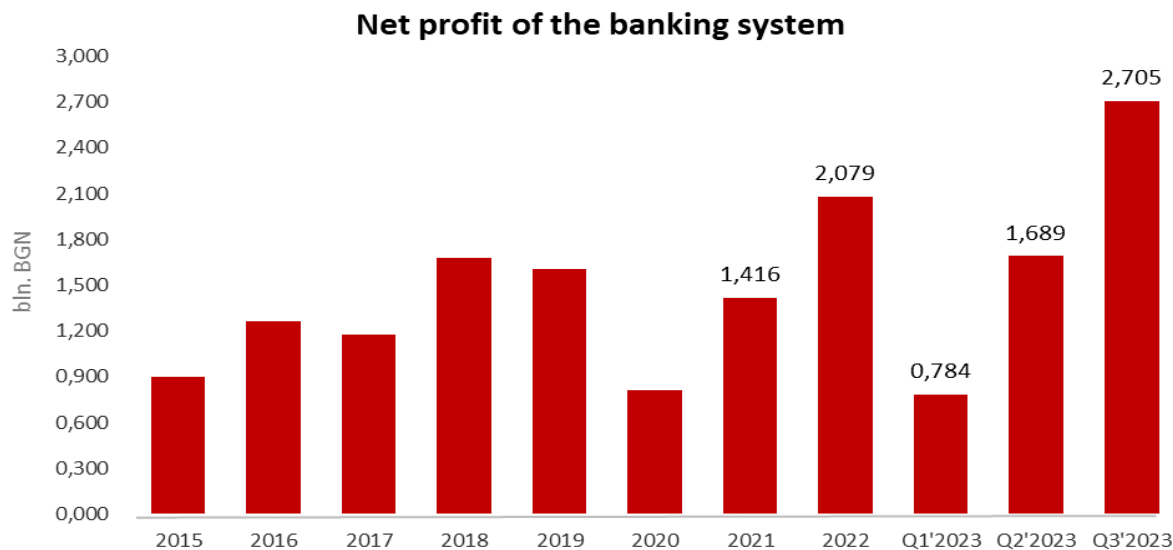
In the third quarter of 2023, the total equity of the banking system increased by BGN 998,66 million or 5,4% on a quarterly basis to BGN 19.33 billion. As of end-September'23 the total equity raised by 16,2% compared to the same period of the previous year. The equity of the banks in the first group amounted to BGN 14,6 billion, and in the second group to BGN 4,46 billion.

## Statement of profit or loss

### Net profit

At the end of the third quarter of 2023, the banking sector reported a net profit of BGN 2 705,7 million, rising by 80,5% y-o-y. The net profit grew by BGN 1 206,5 billion as an absolute positive change compared to the same period of the previous year when it amounted to BGN 1 499,2 million.

The financial result of the banking system is influenced by the reduced impairment costs, the rising interest income and the improvement of the quality of the credit portfolios of the banks.



Source: BNB

The first group of banks made up 78,1% of the net profit as of the end of the third quarter of 2023, the second group – 16,4%, and the third group – 5,5%. In comparison with the second quarter of 2023, the five biggest banks in terms of assets made up 78,7% of the net profit in the banking sector, the banks in the second group – 17,2%, and the share of the third group was 4,1%.

## Net interest income

As of the end of Q3 2023, the total net operating income of the banking system amounted to BGN 5,204 billion, increasing by 35,7% y-o-y (from BGN 3,835 billion as of the end of September 2022).

The bank's net interest income increased by 56,1% y-o-y (BGN 1 280,7 million) and as of the end of September 2023 it reached BGN 3,562 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 September 30, 2023, the interest income grew by 70,1% y-o-y to BGN 4,327 billion. The interest expenses amounted to BGN 764,4 million, rising by 191,2% 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. The tightening of monetary policy in the Eurozone will begin to limit credit activity in the coming months, which



will accelerate interest rates on loans in Bulgaria, including under the influence of the BNB's announced increase in minimum reserve requirements from mid-2023.

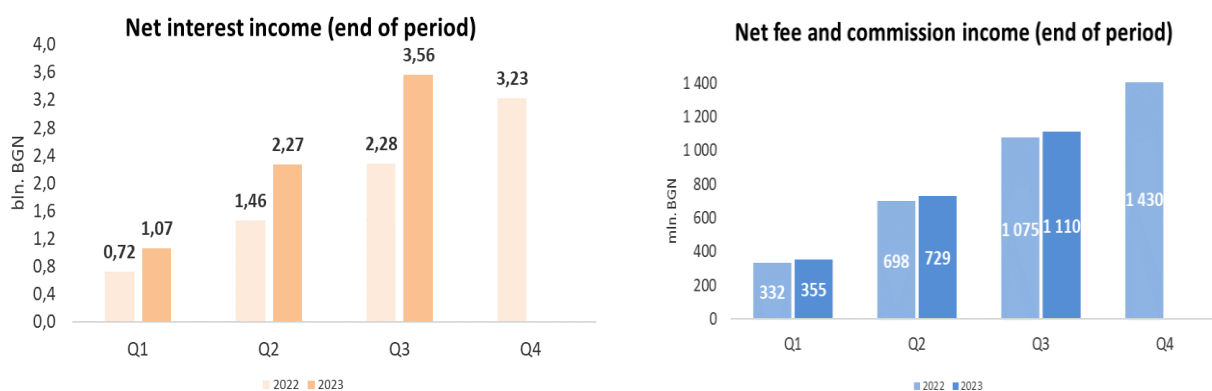
In Q3 2023, the net interest income made up 68,4% of the net total operating income of the banking system. According to the EBA data, as of Q2 2023, the net interest income of banks in EU/EEA accounted for 61,0% of the total operating income.

## Net fee and commission income

As of the end of Q3 2023, the net fee and commission (F&C) income increased by 3,3% y-o-y to BGN 1,110 million.

As of the end of September 2023, the F&C revenues increased by 7,1% on an annual basis to BGN 1,397 million. F&C expenses increased by 24,9% on an annual basis reaching BGN 287,2 million as of the end of the third quarter of 2023.

As of end-September 2023, the net fee and commission income comprised 21,3% 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 27,6% of the total operating income as of the end of Q2 2023.



Source: BNB, own calculations

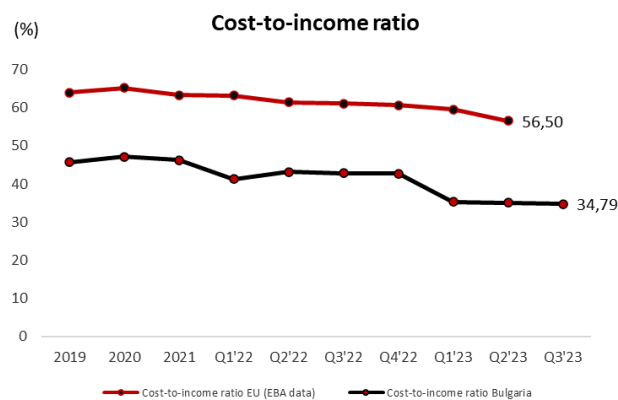
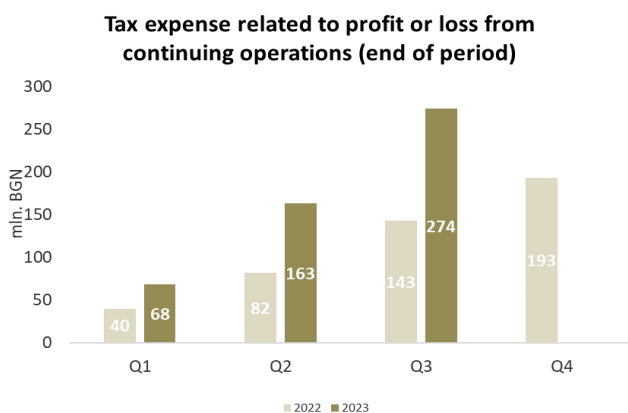
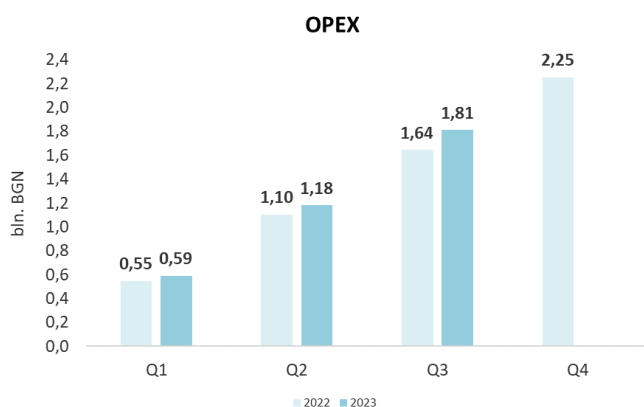
## Operating expenses and impairments

As of the end of Q3 2023, the administrative expenses, including overhead costs, increased by 10,5% (BGN 150,9 million in absolute terms) compared to the same period of 2022 as they reached BGN 1 588,5 million. The total operating expenses (administrative expenses and depreciation) grew by 10,1% y-o-y to BGN 1 810,4 million. As of end-September 2023, the impairment costs of financial assets not measured at fair value through profit or loss declined by 24,9%, reaching BGN 264,1 million (compared to BGN 351,6 million as of the end of September 2022).

As of the end of Q3 2023, the Cost-to-Income ratio for the banking system was 34,79%,



which marked a minimal decline compared with the level of the previous quarter which was 35,08%. According to the EBA data, as of Q2 2023, the average Cost-to-Income ratio of banks in the EU/EEA was 56,5%.



Source: BNB, EBA, own calculations

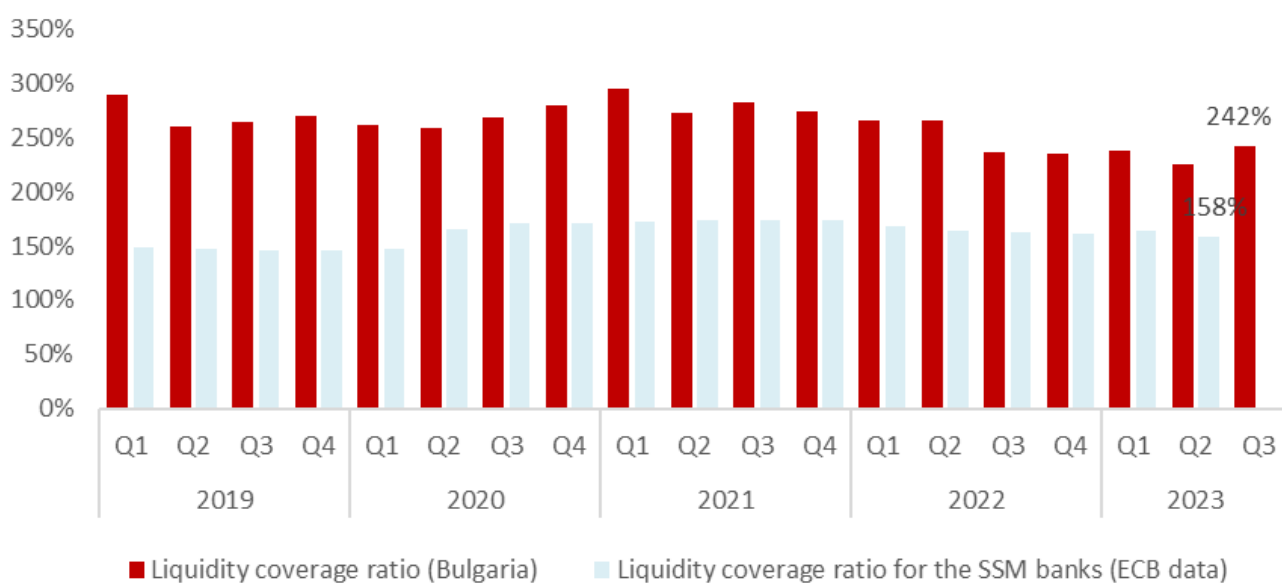


## Financial indicators

### Liquidity

According to the BNB data, as of end-September 2023, the liquidity buffer and the net liquidity outflows were equal to BGN 46,2 billion and BGN 19.1 billion, respectively. The liquidity coverage ratio (LCR) was 241,9% compared to 225,6% as of June 2023. According to the ECB data, the LCR for the banks participating in the Single Supervisory Mechanism was 158,0% at the end of Q2 2023.

#### 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.

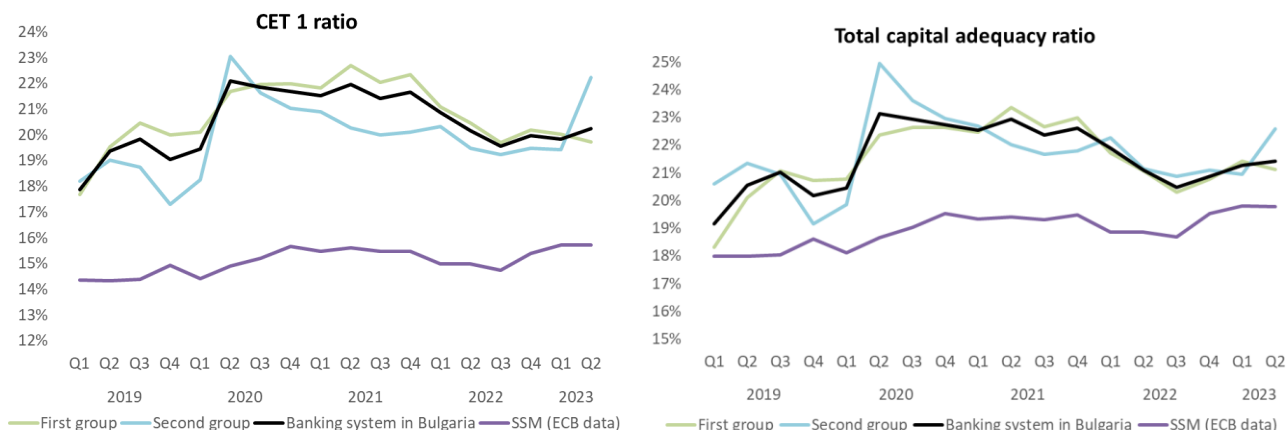
As of the end of Q2 2022, the common equity tier 1 (CET 1) of the entire banking system declined slightly to 19,76%, from 19,84% - a level that was reported as of the end of Q1 2023. The indicator for the first group of banks decreased to 19,14% from 20,03% and for the second group increased to 22,17% from 19,41%.

The total capital adequacy ratio increased to 21,42% from 21,27% at the banking system

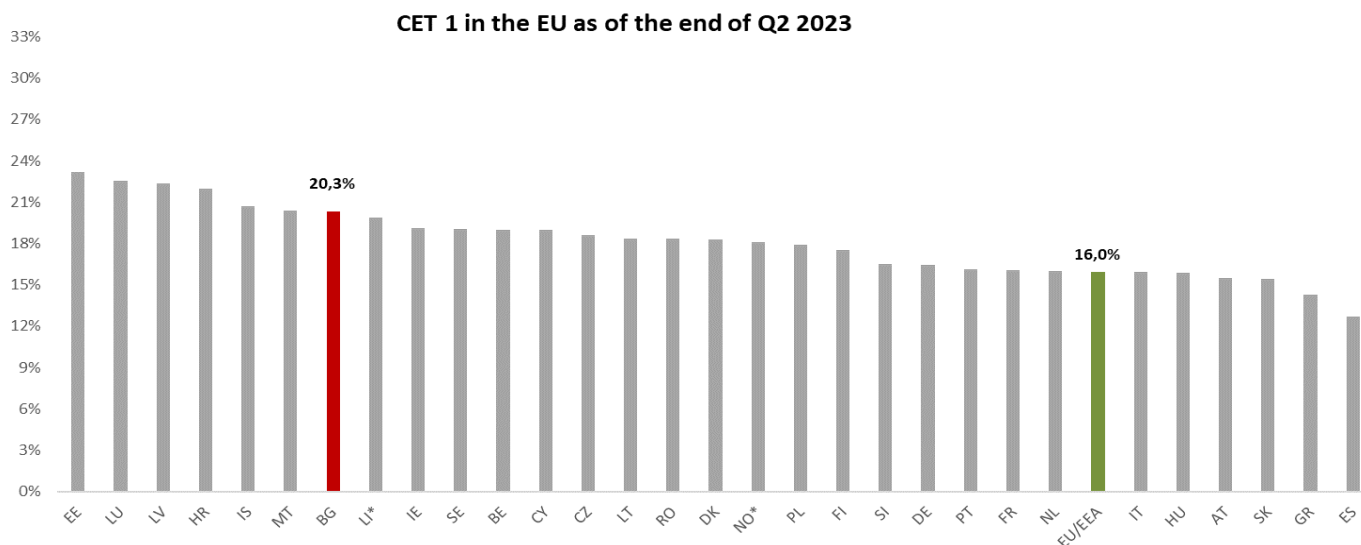


level. As of the end of June 2023, the CAD ratio for the first group of banks was 21,12% and 22,60% for the second group (21,41% and 20,95%, respectively, a quarter earlier).

The Bulgarian banks' capital adequacy ratios are above the SSM's average. According to the ECB data, as of June 2023, CET 1 and CAD ratios were 15,72%, and 20,23 %, respectively.



Source: BNB, ECB



Source: EBA, Risk Dashboard, Q2 2023

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 notes that in the second quarter of 2023, the volume of non-performing exposures slightly decreased as a result of multidirectional changes in the individual segments of the credit portfolio. The publication [Banks in Bulgaria](#) states that given fluctuations in energy prices, risks of problems in supply chains and an expected slowdown in external demand, the ability to service obligations may weaken, leading to an increase in non-performing loans and



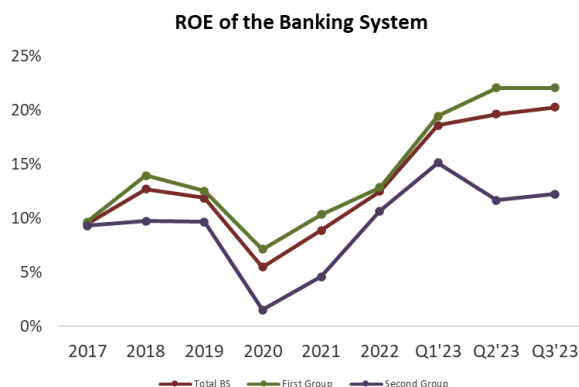
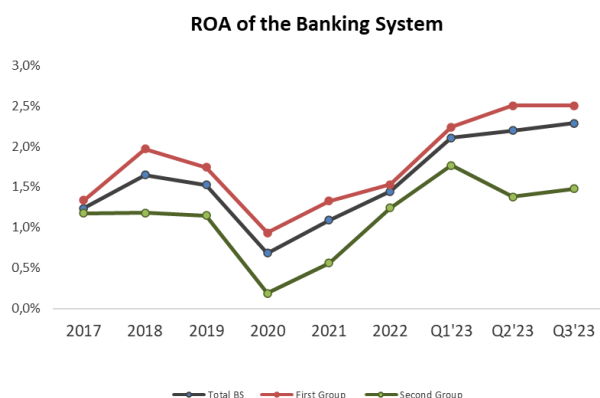
impairment charges . In addition, the ongoing global process of raising interest rates is expected to affect the financial condition of borrowers, the transmission of which to the interest rates in the country will accelerate in the coming months.

## Profitability

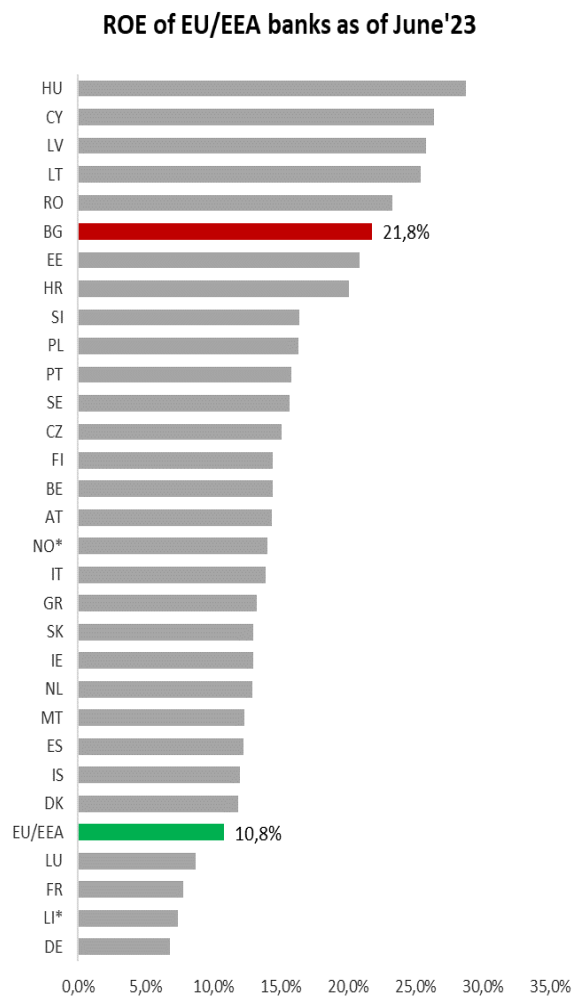
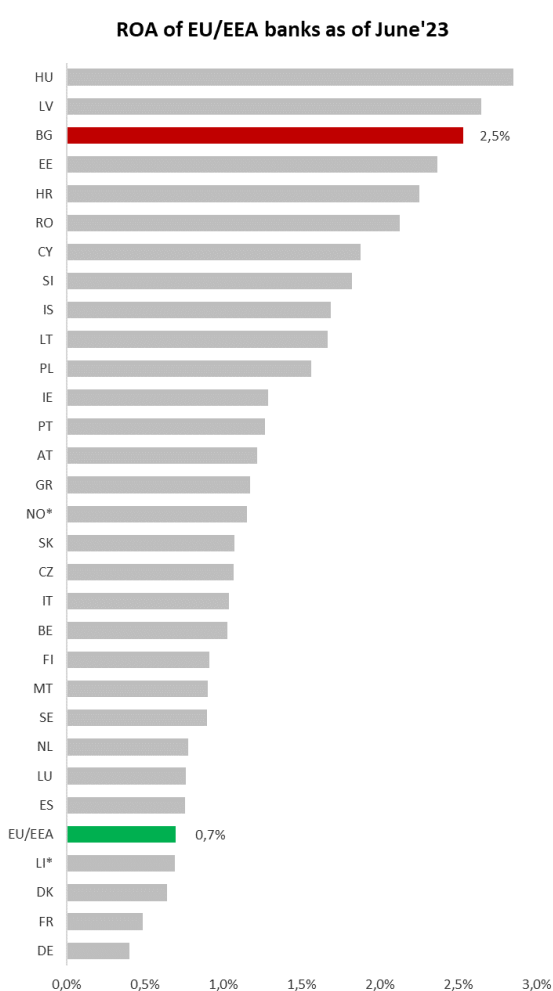
As of September 30, 2023, the Return on Assets (ROA) of the Bulgarian banking system reached 2,3% compared to 2,2% a quarter earlier. The ratios of the first and second groups of banks were 2,5% and 1,5%, respectively. According to the latest ECB data as of the second quarter of 2023, the average ROA of the European banks stood at 0,7%.

The Return on Equity (ROE) of the Bulgarian banking system improved to 20,3% as of the end of Q3 2023 compared to 19,6% a quarter earlier. The ratios of the first and second groups of banks were 22,1% and 12,2%, respectively.

According to the ECB data, the average ROE of the European banks stood at 10,8% as of the end of Q2 2023.



Source: BNB, ECB



Source: BNB, own calculations

Source: EBA Risk Dashboard, Q2 2023

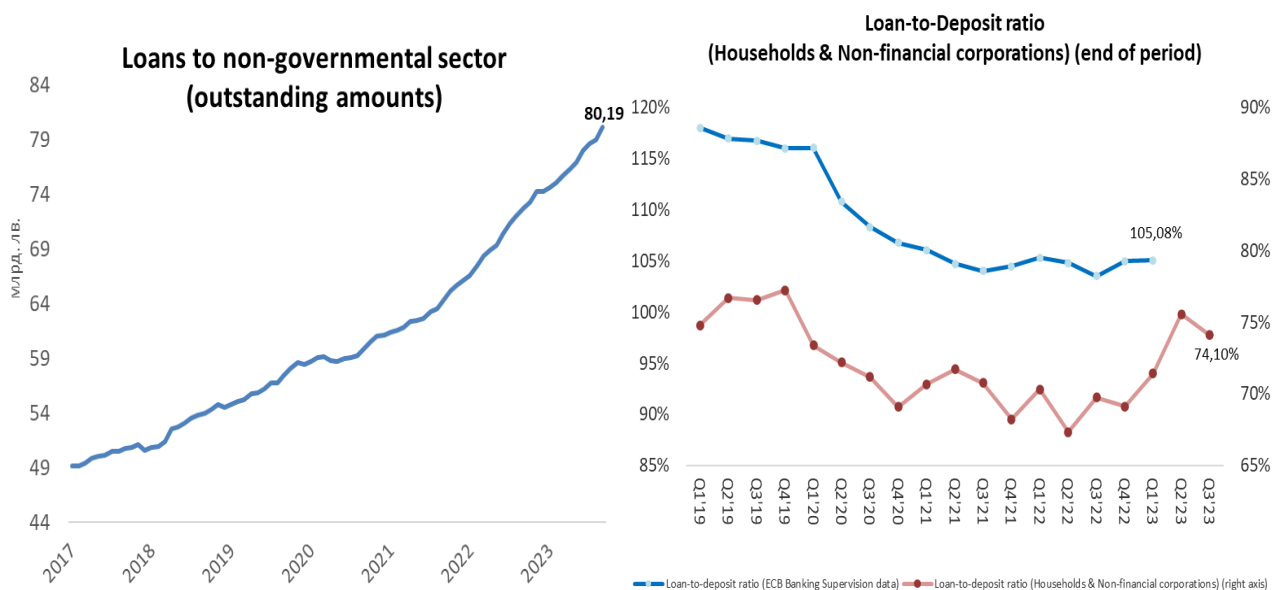
Note: Data for Bulgaria is based on the information submitted to EBA by four banks, and do not refer to the entire banking system;



## Loans and deposits

In its [Economic Review](#), the BNB states that in the household sector, the annual growth of both housing loans and consumer loans remains high. High liquidity and competition for market share in the banking sector continued to limit the pass-through of the effects of the ECB's monetary policy tightening on household lending rates, as a result of the reduced lending capacity of banks following the measure taken to increase the MRR rate, as and the projected higher interest rates on loans, slowing inflation and relatively weak investment activity.

As of end-September 2023, according to the BNB Monetary Statistics, total loans to the non-government sector (non-financial corporations and households) picked up by 10,2% y-o-y, reaching BNG 80,19 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) slightly increased towards the end of September, reaching levels of BGN 2,565 billion compared to the end of June 2023, when they amounted to BGN 2,545 billion. The share of non-performing loans to gross loan portfolio in the banking system fell from 2,77% as of June'23 to 2,71% as of end-September'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 decreased from 3,48% as of



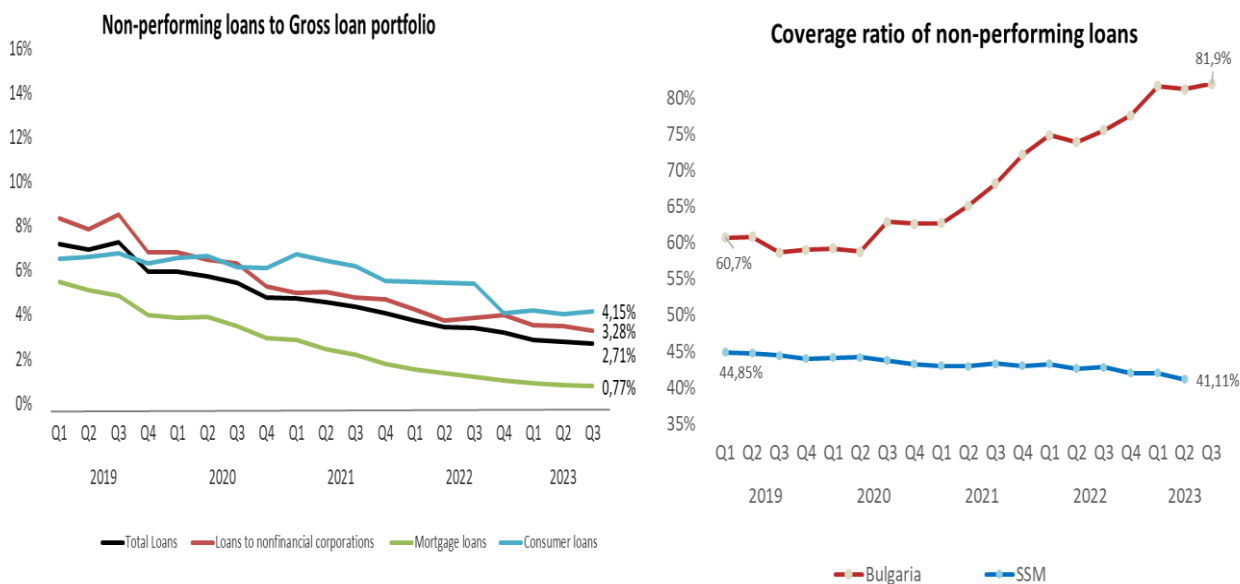
the end of June 2023 to 3,28% at the end of the September 2023. Over the reviewed period, the ratio of mortgage loans decreased from 0,82% to 0,77%. The share of non-performing consumer loans increased from 4,02% to 4,15% as of the end of Q3 2023.

The amount of non-performing loans to non-financial corporations decreased from BGN 1,623 billion as of the end-June 2023 to BGN 1,551 billion as of the end-September 2023. The non-performing mortgage loans decreased to BGN 159,5 million (down from BGN 163,5 million a quarter earlier). The non-performing consumer loans increased to BGN 732,9 million, from BGN 688,7 million a quarter earlier.

The ratio of non-performing gross loans reported by the banks in the first group declined to 2,14% at the end of the third quarter of 2023 (down from 2,24% a quarter earlier). The ratio reported by the banks in the second group increased to 5,29% (from 5,22% 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.

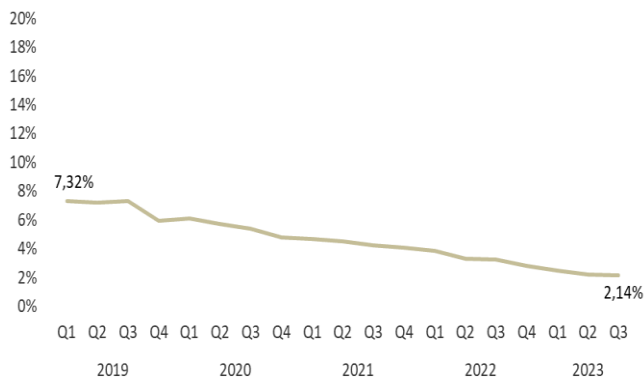
The coverage ratio of non-performing loans in the Bulgarian banking system stood at 81,9% at the end of Q3 2023 compared to 81,2% a quarter earlier. According to the latest ECB data as of the second quarter of 2023, the coverage ratio of non-performing loans in European banks was 41,11%.



Source: BNB, ECB, own calculations



**Non-performing loans to Gross loan portfolio  
(First group of banks)**



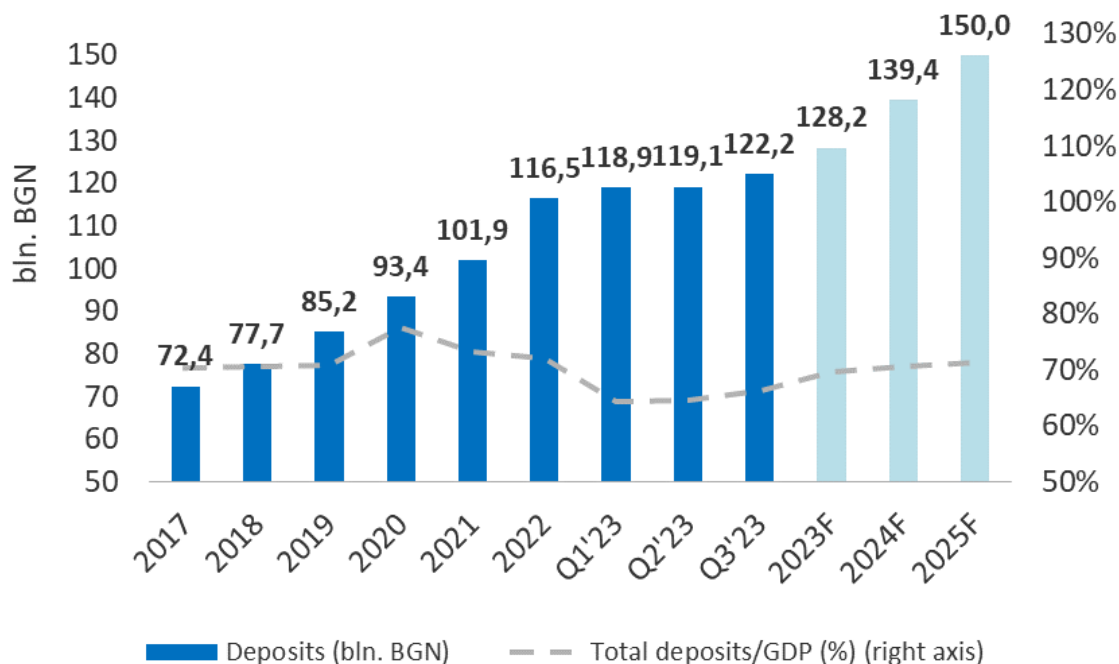
**Non-performing loans to Gross loan portfolio  
(Second group of banks)**



Source: BNB, own calculations

The total amount of deposits in the banking system continued to rise. As of the end of September 2023, the total deposits of the banking system reached BGN 122,170 billion, picking up by 9,4% y-o-y. The deposits' growth slowed down compared with the reported increase of 12,3% reported at the end-June.

### Total deposits in the banking system



Source: BNB, own calculations

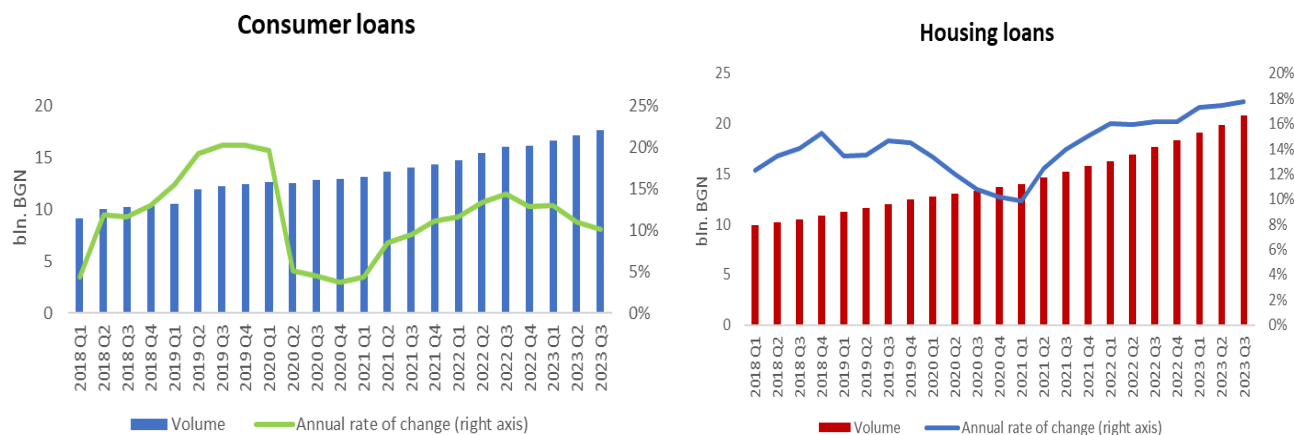


Forecast: BNB, Ministry of Finance

## Loans and deposits to households

At the end of Q3 2023, according to the BNB Banking Supervision Department data, the volume of consumer loans was equal to BGN 17,66 billion compared to BGN 17,12 billion a quarter earlier and BGN 16,05 billion a year earlier. In the third quarter of 2023, the volume of consumer loans grew by 3,16% on a quarterly basis and increased by 10,44% on an annual basis.

The volume of housing loans amounted to BGN 20,79 billion compared to BGN 19,90 billion as of end-June 2023 and BGN 17,65 billion as of end-September 2022. It increased by 4,46% on a quarterly basis and by 17,76% on an annual basis.

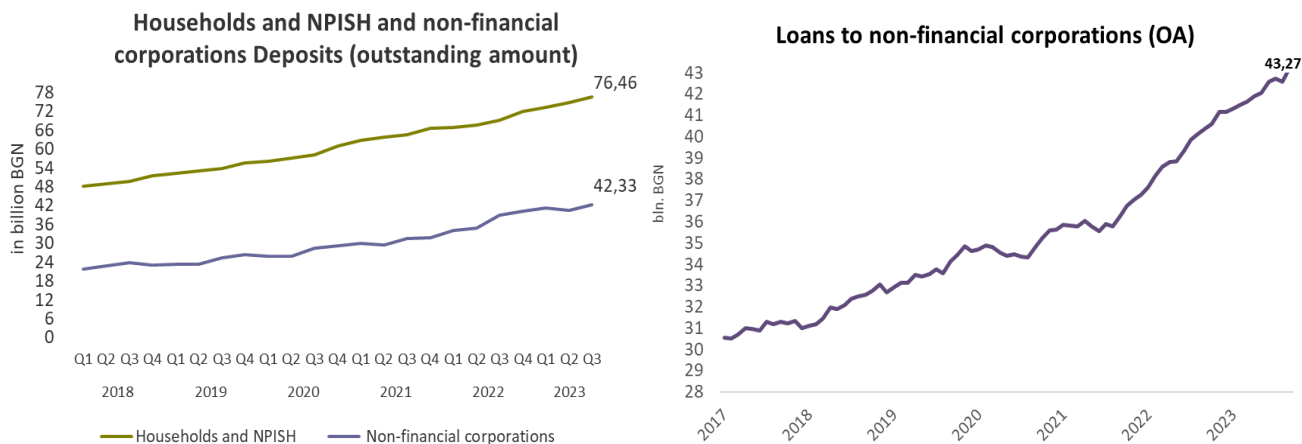


Source: BNB, Banking Supervision Department, own calculations

At the end of Q3 2023, the total amount of deposits from households and NPISH grew by 10,5% y-o-y (up from 10,4% reported at the end-June 2023). Deposits from households reached BGN 76,46 billion (41,1% of the projected GDP) which composed 62,6% of the deposits in the banking system.

## Loans and deposits of non-financial corporations

As of September 30, 2023, the total amount of deposits to non-financial corporations increased by 8,8% y-o-y (up from a 4,4% increase a quarter earlier), reaching BGN 42,33 billion. According to the BNB's monetary statistics, the loans outstanding amount to non-financial corporations grew by 7,1% y-o-y to BGN 43,27 billion at the end of Q3 2023. The quarterly increase of loans to non-financial corporations is 1,7%.



Source: BNB, Monetary statistics

## Interest rates

As of the end of the third quarter of 2023, an increase in the interest rates on the newly contracted loans and deposits for companies in BGN and in EUR was observed. In the same period, a decrease in interest rates on household deposits and an increase in interest rates on newly contracted housing and consumer loans in BGN were reported.

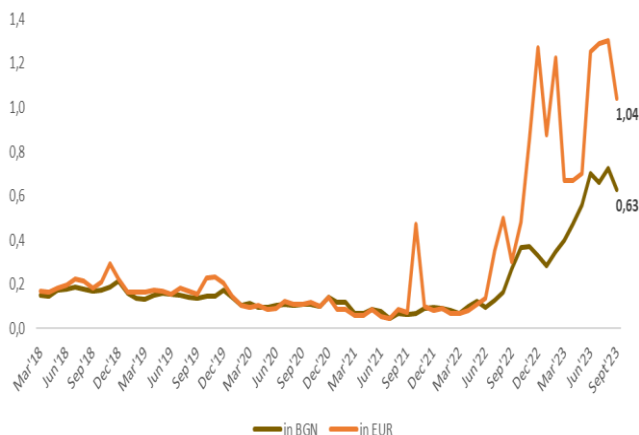
### Interest rates on deposits

As of the end of September 2023, the average interest rate on deposits with agreed maturity in BGN to households (new business) decreased to 0,63% (from 0,7% a quarter earlier). The average interest rate on deposits in EUR decreased and they reached 1,04% (from 1,25% a quarter earlier).

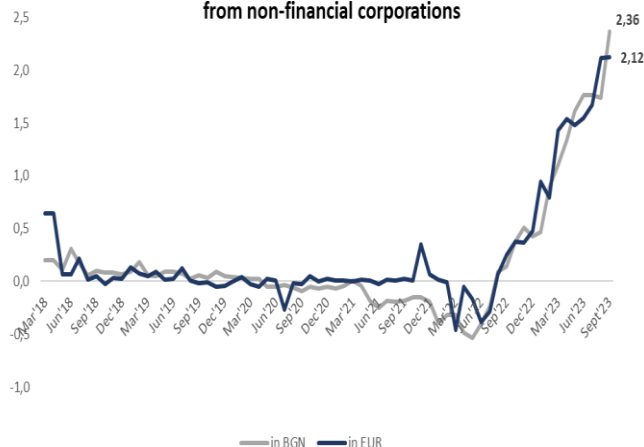
As of the end of Q3 2023, the average interest rate on deposits with agreed maturity to non-financial corporations (new business) in BGN increased from 1,76% to 2,36%. The average interest rate on deposits in EUR picked up from 1,55% to 2,12%.



**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**

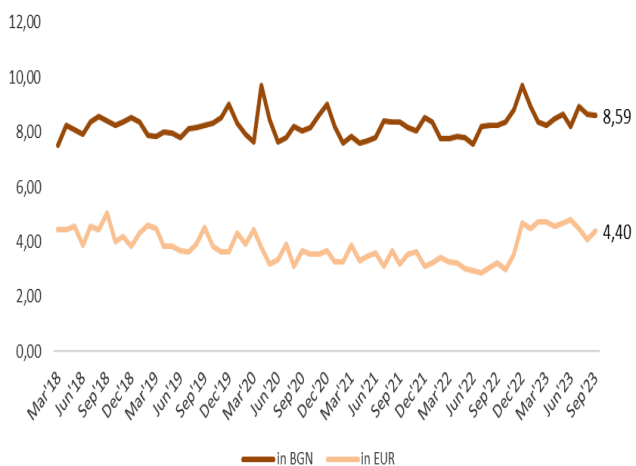


Source: BNB

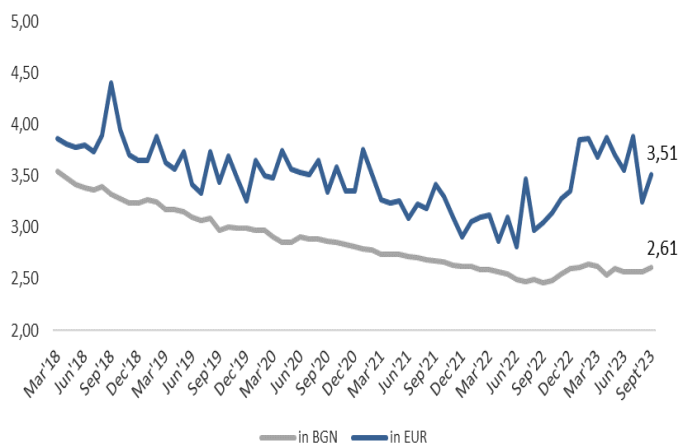
## Interest rates on loans

At the end of Q3 2023, the average interest rate on mortgage loans in BGN slightly increased to 2,61% (from 2,57% a quarter earlier). The average interest rate on mortgage loans in EUR decreased from 3,56% as of end-June`23 to 3,51% as of end-September`23.

**Average IRs on consumer loans (new business)**



**Average IRs on housing loans (new business)**



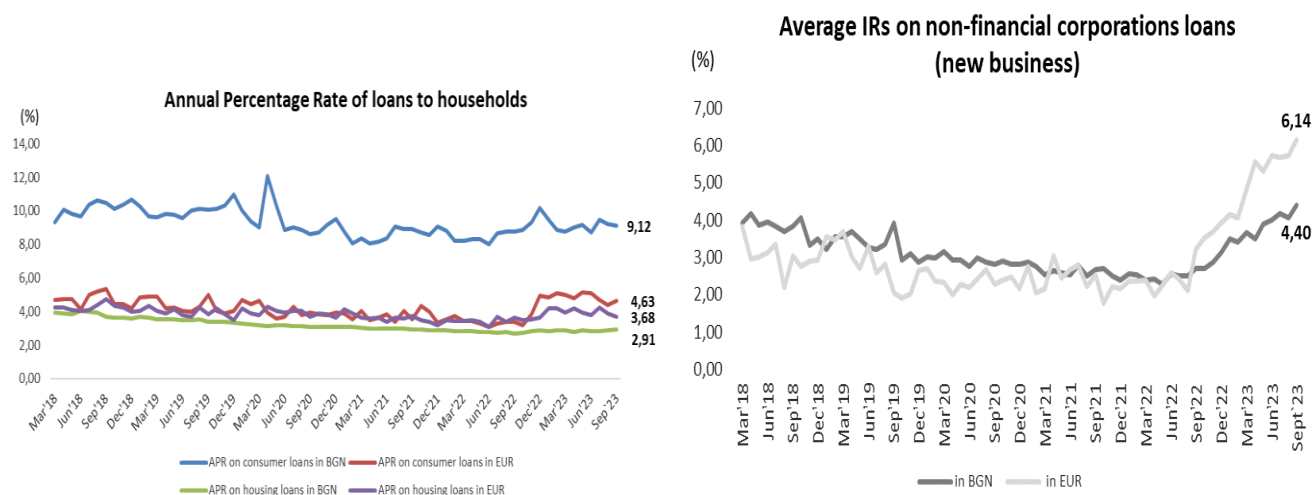
Source: BNB



As of the end of September 2023, the average interest rate on consumer loans in BGN increased from 8,19% % in Q2 to 8,59% in Q3 2023. Concurrently, the average interest rate on consumer loans in EUR decreased to 4,40%, (up from 4,80% at the end-June`23).

The annual percentage rate (APR), which, in addition to the interest, also includes all fees and commissions related to the loan, as of September 2023. increases, reaching 2,91% for housing loans in BGN. The APR on housing loans in EUR decreased from 3,76% at the end of June 2023 to 3,68% at the end of September 2023. The APR level for consumer loans in BGN increased from 8,69% to 9,12%, and for those in EUR, a decrease was observed from 5,09% to 4,63% as of September 2023.

The average interest rate on loans to non-financial corporations (new business) in BGN increased from 4,01% as of the end-June`23 to 4,40% as of end-September`23. The average IR on loans agreed in EUR rose from 5,71% to 6,14%. For loans agreed in USD the interest rate increased from 4,60% as of the end-June`23 to 6,70% as of end-September`23.



Source: BNB



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