



THE ECONOMY AND THE BANKING SECTOR IN BULGARIA

FOURTH QUARTER OF 2023



SOFIA



HIGHLIGHTS

- In Q3 2023, the Bulgarian economy grew by 1,8% y-o-y following the formation of positive contribution of gross fixed capital formation, private consumption and net exports.
- The inflation accelerated by 5,5% year-over-year in Q4 2023.
- At the end of December 2023, the unemployment rate in Bulgaria reached 4,3%.
- At the end of December 2023, the budget deficit is 2,76% of the projected GDP.
- At the end of the fourth quarter of 2023, the total assets of the banking system reached BGN 172,1 billion, growing by 10.7% y-o-y (90% of the projected GDP).
- At the end of the fourth quarter of 2023, the banking sector reported BGN 3 416,9 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 the fourth quarter of 2023, credit growth remained high for both households and firms, with the share of non-performing housing and consumer loans continuing to decline, as well as loans to firms and non-financial enterprises.
- As of the end of Q4 2023, an increase in interest rates on newly contracted loans for companies in BGN and an increase in the interest rates on deposits in EUR was observed.
- As of the end of December 2023 an increase in the interest rates on household deposits and an increase in the interest rates on newly contracted consumer loans in BGN are reported. A reduction is reported for the newly contracted housing loans in BGN and EUR.



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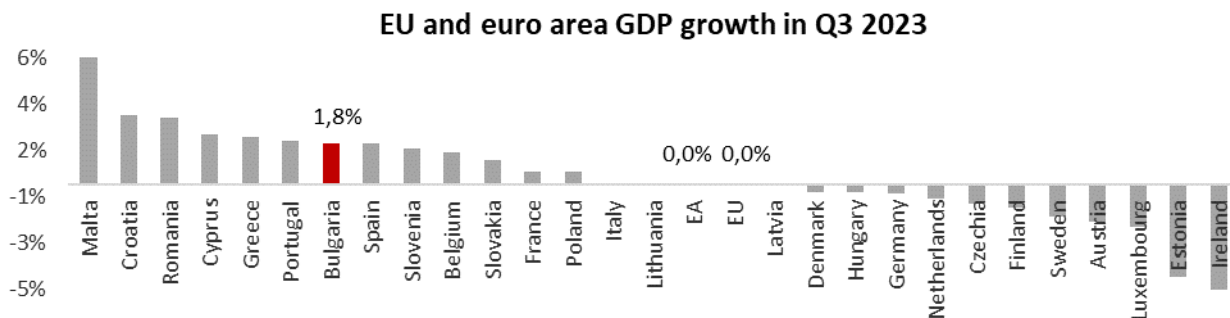
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I. The Bulgarian economy

Economic growth

In the third quarter of 2023, Bulgarian gross domestic product (GDP) rose by 1,8% y-o-y, compared to the increase of 1,9% 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%.



Source: Eurostat, Seasonally and calendar adjusted data

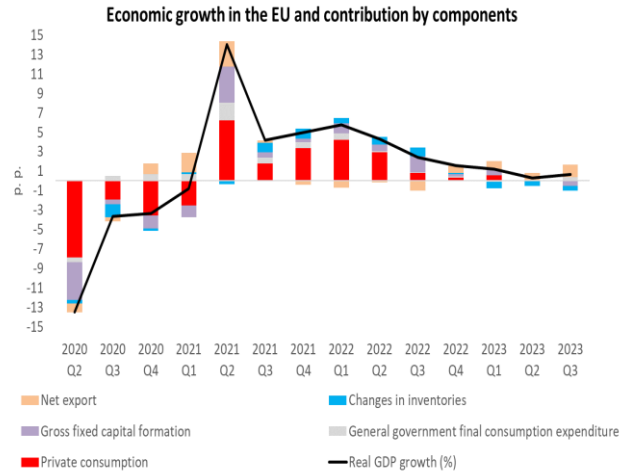
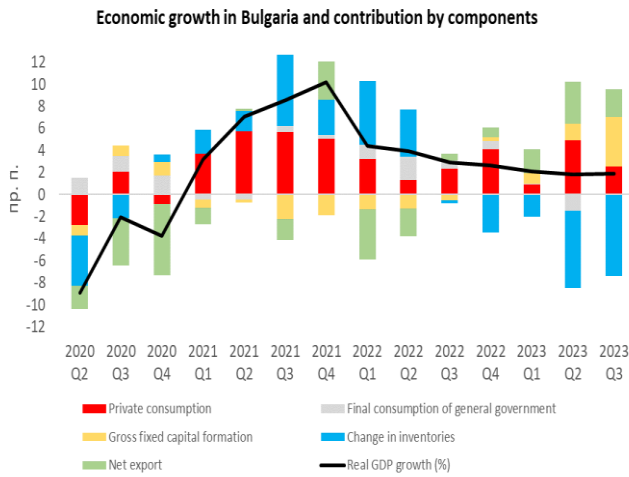
The highest contribution to the economic growth in the third quarter of 2023 according to Eurostat preliminary data is due to the gross fixed capital formation, private consumption and net export.

During the third quarter the government consumption decreased by 1,3% Y-o-Y.

Private consumption continued to grow in the Q3 of 2023, it reported growth of 4,1% Y-o-Y compared to a rise of 8,2% in the previous quarter.

In Q3 gross capital formation increased by 25,4% Y-o-Y following an increase of 10,8% in the previous quarter. In the third quarter the contribution of that component is positive and it equaled to 4,5 pp. The decrease in the inventories led to a negative contribution of -7,4 p.p. in the growth structure in the third quarter of 2023. The net export contributed by 2,5 for the GDP growth in the period July-September 2023.

The export of goods and services increased in the third quarter of 2023, gaining an increase of 0,5% Y-o-Y. For comparison, the decrease in the Q2 of 2023 was by -1,0% Y-o-Y. The import continued its deceleration to -3,6% Y-o-Y after a decline of -6,9% a quarter earlier. In Q4 the trade deficit remained negative – 3,8% of GDP compared to -2,0% a quarter earlier.



Source: Eurostat, own calculations

Likewise, compared with the Bulgarian economy, the EU economy dampened to 0% Y-o-Y in Q3 2023. The highest contribution to the European economy 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 growth of the real GDP in Bulgaria for 2023 is expected to be 1.8%, which will be determined mostly by the growth of private consumption and the positive contribution of net exports, while the change in stocks will have a significant negative contribution to the change in the economic activity. Other factors that the BNB predicts will have an impact on the growth of the economic activity in the country in 2024 are the projected increase in the export of goods against the background of growing external demand, in combination with the exhaustion of the negative influence of specific factors with of a one-time nature, which limited the export of goods. BNB predicts that real GDP growth will reach 2.5% in 2024. and will accelerate to 3.4% in 2025.

With regard to the local and international organizations and institutions forecasts, in 2023, Bulgaria's GDP growth is expected to be between 1,7% and 2,0. The annual GDP growth in 2024 is estimated to attain between 1,9% and 3,2% and between 2,5% and 3,4% in 2025.



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	Q4'23	2023F	2024F	2025F
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	49 351	40 506	42 923	48 466	51 055			
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	1,5				
Real GDP growth (% y-o-y) - Forecasts																					
																			1,8	3,2	3
																			1,8	2,5	3,4
																			1,7	3,2	-
																			1,7	2,4	3,3
																			2	1,9	2,5
																			1,6	2,6	-
																			1,7	2,8	3
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	6,3	4,5	5,5	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	6,8	4,7	9,5	4,8				
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	3,4	-5,8	0,3				
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	-6,5	-1,7	12,6				
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	-0,1	-2,4	-2,8				
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	-3,4	-10,4	-6,8				
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	-1,2	-2,0	-3,8			
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	1 857,7	1 882,5	3 199,4	3 370,5			
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	1,9	2,0	3,3	3,6			
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	5,5			

Source: NSI, Eurostat, BNB

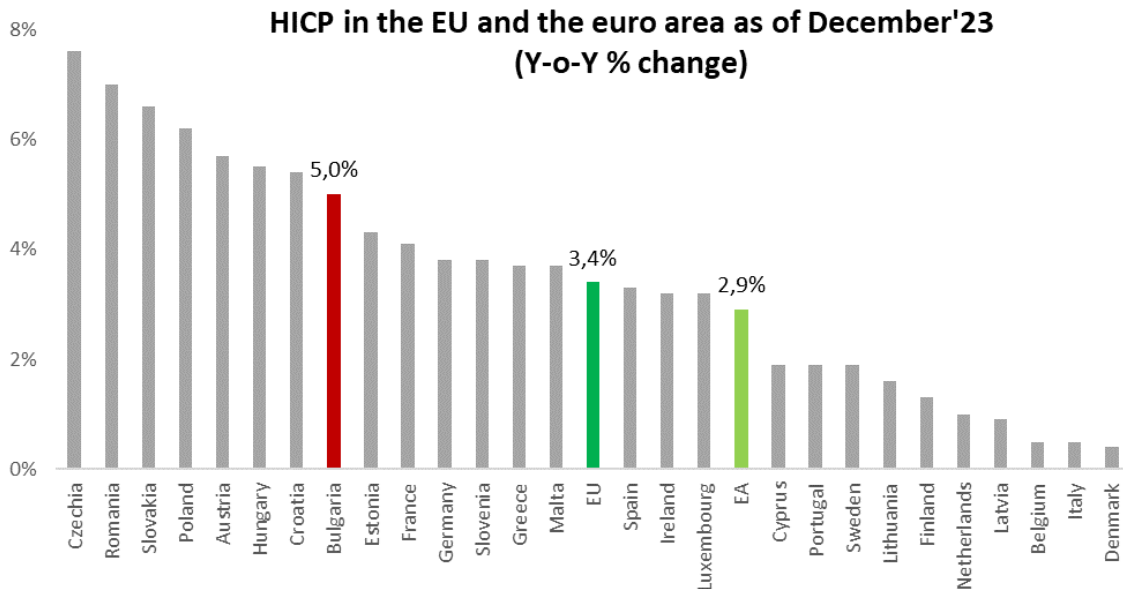
Forecasts: Bulgarian National Bank, Ministry of Finance, International Monetary Fund, World Bank, European Commission, European Bank for Reconstruction and Development, Organization for Economic Co-operation and Development



Inflation

In the fourth quarter of 2023, the harmonized index of consumer prices (HICP) recorded a slowdown and averaged 5,47% Y-o-Y for the period, compared to 7,23% reported in the previous quarter. According to the Eurostat data, inflation in Bulgaria reached 5,0% on an annual basis at the end of December 2023, remaining above the average level for the EU of 3,4% and 2,9% for the Eurozone.

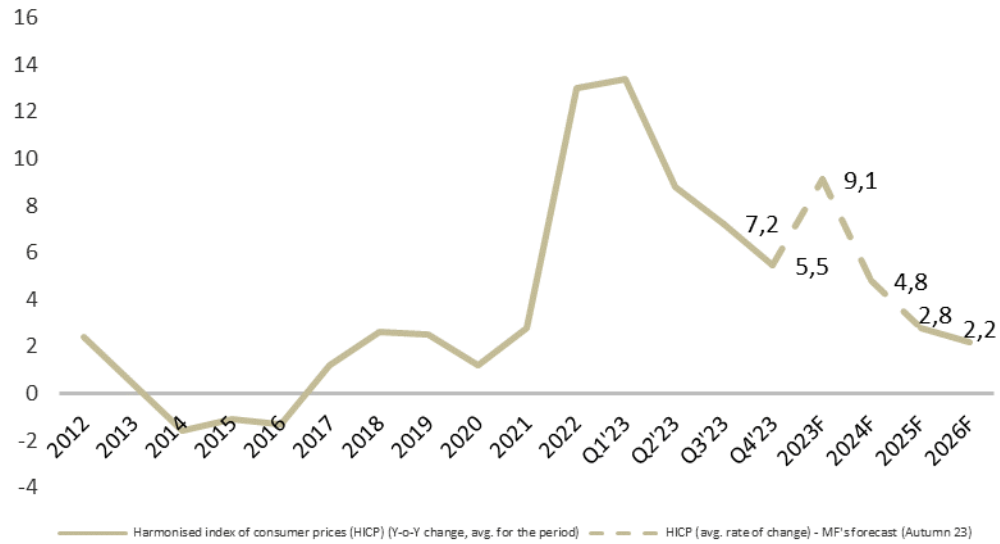
According to the Bulgarian National Bank's [Macroeconomic forecast](#), the annual inflation will slow down to 3.1% in 2024, assuming that food products and oil become cheaper on international markets. The BNB forecast also indicates that average annual inflation is expected to be 4.1%, stating that strong consumer demand, rising unit labor costs and labor shortages will continue to be strong pro-inflationary factors. BNB expects inflation to slow down to 3.1% at the end of 2024 and to remain at the same level of 3.1% at the end of 2025.



Source: Eurostat



Annual inflation rate (HICP on average) (%)



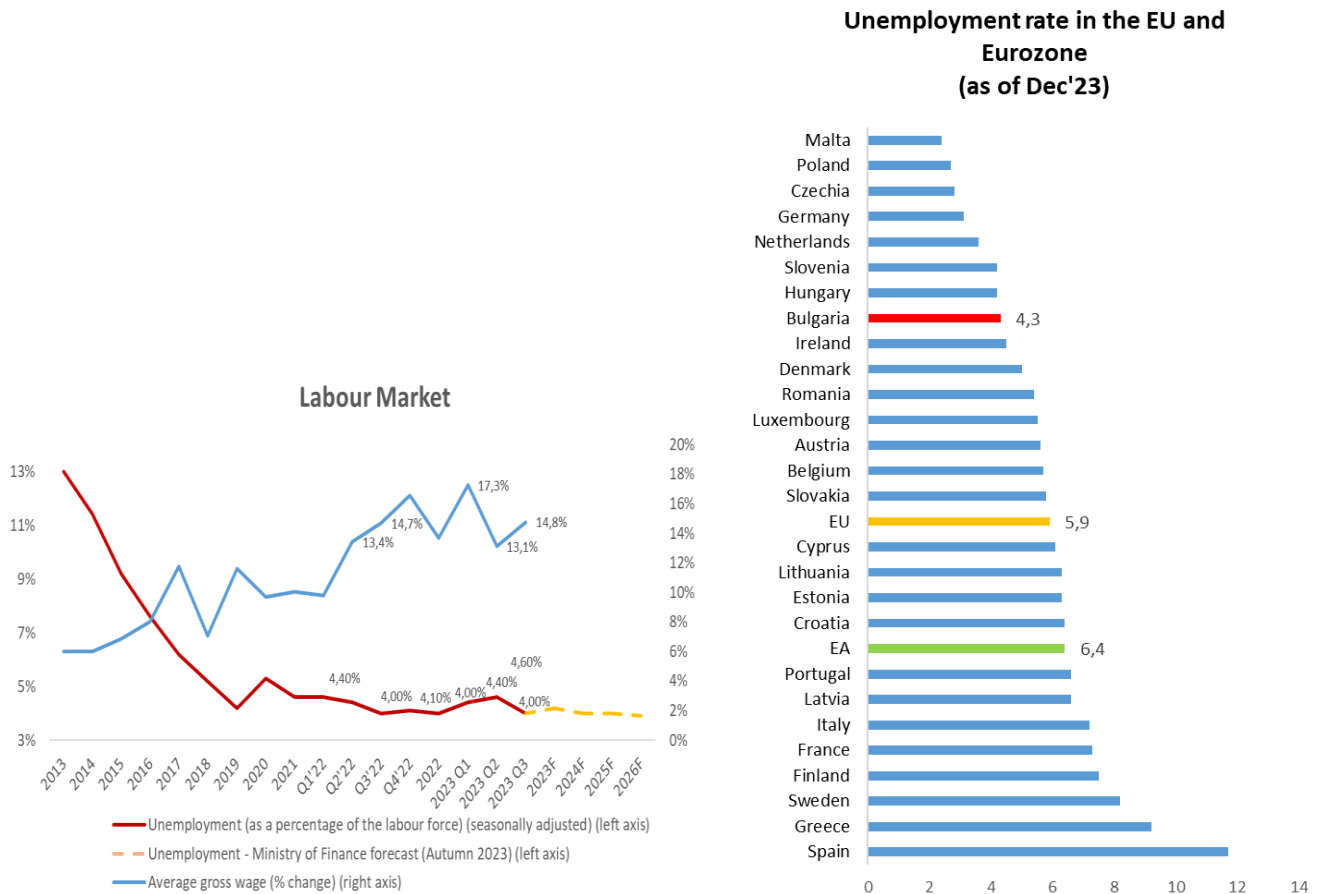
Source: NSI, Eurostat
Forecast: Ministry of Finance



Labour market

In December 2023, the unemployment rate in Bulgaria (number of people unemployed as a percentage of the labour force) slightly decreased to 4,3%. The unemployment rate in the country remained below the EU average and Bulgaria ranked 8th among the EU member states in terms of the lowest unemployment rate in December 2023. As of the end-December`23, the number of people unemployed in Bulgaria increased and reached 128,6 thousand people compared to the previous quarter, when they were 125 thousand people. Likewise, as of the end of the fourth quarter of 2022, the number of unemployed people reached 115,6 thousand.

In December 2023, the youth unemployment rate in Bulgaria (unemployed young people under 25) was 12,5%, decreasing from 12,9% in September 2023. Simultaneously, the youth unemployment rate in the EU was 14,7%, as the highest rates were observed in Spain, Sweden and Portugal.



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	Q4 2023
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	5,3	4,8	4,4	4,6	4,0	4,2
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	2 920,6
Number of employed in Finance and Insurance sector (thousands persons), incl.:														
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	3 086

Source: Eurostat, Ministry of Finance, NSI, ECB



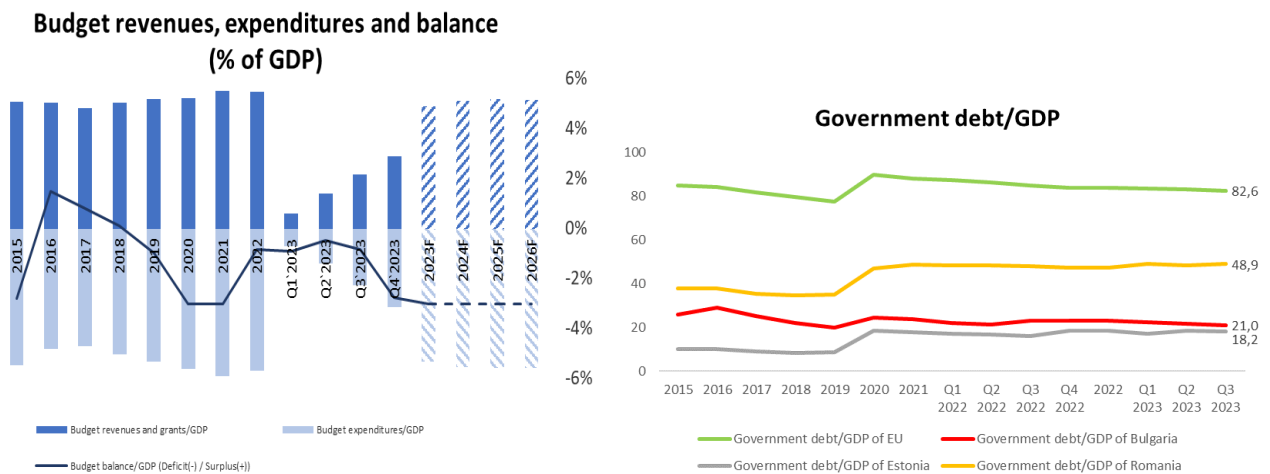
Public sector

According to the Ministry of Finance (MF) preliminary data as of December 2023, the budget balance was negative and amounted to BGN 5,275 bn. (-2,76% of the projected GDP).

Budget revenues, grants, and donations reported under the Consolidated Fiscal Programme (CFP) over January-December 2023 were equal to BGN 39,8 billion (20,8% of the projected GDP). The revenues increased by BGN 4,8 billion compared with the same period in the previous year.

The CFP budget expenditures (including the Bulgarian contribution to the EU budget) reached BGN 45,1 billion (23,6% of the projected GDP). Compared to the fourth quarter of 2022, CFP expenditures increased by BGN 4,5 billion i.e. grow nominally by 9,9 percent.

As of December 31, 2023, the fiscal reserve was BGN 13,4 billion.



Source: Ministry of Finance, Eurostat

As of the end of the third quarter of 2023, Bulgarian consolidated debt to GDP was 21,0%. The ratio is significantly below the EU average of 82,6%.

The Long-term Interest Rate for Convergence Assessment Purposes (LTIR) in Bulgaria decreased to a level at 4,01% as of end-December`23. In comparison with the Bulgarian data, the LTIR in Romania was 6,19%, in Poland – 5,21%, in Hungary – 6,17%, and in the Czech Republic – 3,97%. LTIR in Bulgaria resumed being one of the lowest within the countries in the CEE region, which are EU members but non-euro area member states.



Capital market

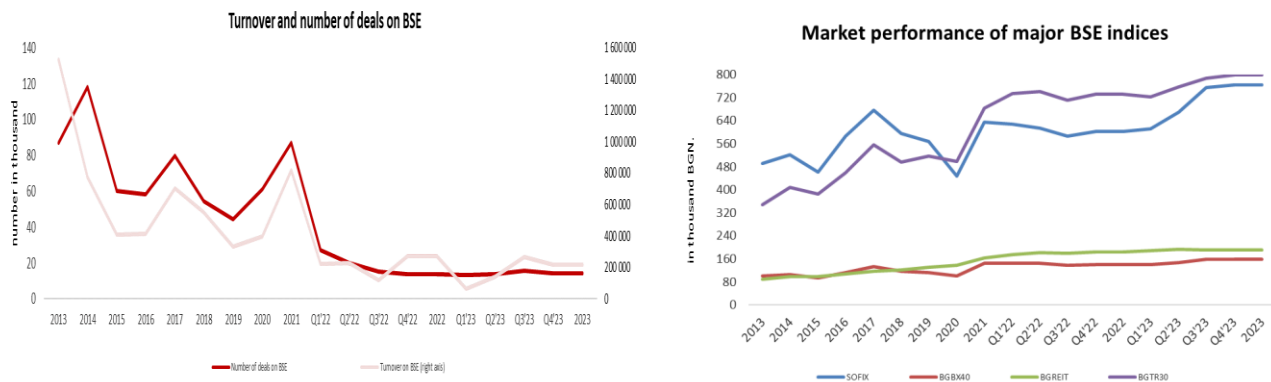
The major indices on Bulgarian Stock Exchange (BSE) closed Q4 2023 as follows: the main index SOFIX recorded a growth of 27,2% compared to the same period of the previous year, the broad-based BGBX40 increased its value by 13,4%, BGTR30 also gained 9,3%, as the BGREIT special purpose vehicle index did as it rose by 3,9%. From the middle of September 2023, the beamX index, which is an index of the beam Growth Market, with an initial value of 100, began to be calculated.

In the fourth quarter of 2023, SOFIX ranked in the 10-th position of the CEE region's stock market indices performance with a 1,24% rise on a quarterly basis

As of December 31, 2023, the market capitalization of BSE decreased by 51% q-o-q to BGN 15,5 billion (8,29% of the projected GDP).

Over October-December 2023, the turnover of BSE decreased by 18,2% q-o-q to BGN 219,224 million. On an annual basis, a decrease by 19,9% was reported. In the fourth quarter of 2023 the number of deals (14 161) decreased by 10,5% q-o-q and increased by 4,4% y-o-y.

Over the reviewed period, the banks listed on BSE accounted for 9.6% of the total turnover and 3,73% 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 4,42%, of all trades and comprised 11,33% of the total turnover.



Source: BSE, own calculations



No	Country	Index	30 September'23	31 December'23	Δ YTD 2023
1	Poland	WIG	67 811,46	81 539,59	20,24%
2	Hungary	BUX	55 838,55	60 620,01	8,56%
3	Romania	BET	14 337,52	15 371,11	7,21%
4	Greece	ASE	1 209,34	1 293,14	6,93%
5	Slovenia	SBITOP	1 174,31	1 249,30	6,39%
6	North Macedonia	MBI 10	5 803,06	6 116,23	5,40%
7	Czech Republic	PX	1 349,32	1 414,02	4,80%
8	Serbia	BELEX	1 835,02	1 914,04	4,31%
9	Croatia	CROBEX	2 431,12	2 533,92	4,23%
10	Bulgaria	SOFIX	755,73	765,12	1,24%
11	Russia	MOEX	3 133,26	3 099,11	-1,09%
12	Slovakia	SAX	330,26	313,30	-5,14%
13	Turkey	XU 100	8 334,94	7 470,18	-10,38%

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	Q4'23	2023
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%	8,17%	8,17%
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	610,79	669,90	755,73	765,12	765,12	765,12
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	157,87	157,87
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	190,30	190,30
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	799,44	799,44
beamX	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	101,85
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	273852	63893	137 971	268 224	219 299	219 299
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	13564	13216	13 529	15 825	14 161	14 161

Source: BSE, Bloomberg, own calculations



II. The banking sector in Bulgaria

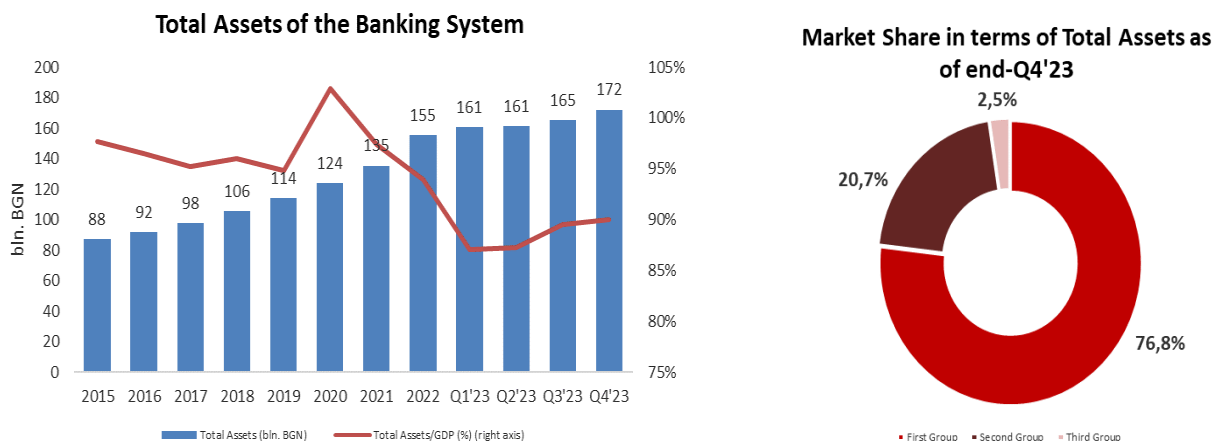
In [Banks in Bulgaria](#) quarterly report, the BNB states that in the third quarter of 2023, the banking sector continues to perform its activities in a state of relatively high inflation and significant economic uncertainty. In the period July-September 2023 the activity on the credit market remains high, with conditions for the rapid growth of credit volumes having a favorable effect on the interest income and net 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 the end-December`23, the banking sector total assets reached BGN 172,1 billion (90% of the projected GDP), growing by 10,7% y-o-y.



Source: BNB, Ministry of Finance, own calculations

As of the end of the fourth quarter of 2023, the market share of the five largest banks in terms of total assets slightly increased from 76,3% a quarter earlier to 76,8%. The share of assets of the second group of banks remained at the same level of 20,7%. The market share of the branches of foreign banks was 2,5%.

As of December 31, 2023, the loans and advances accounted for 59,95% of the total assets and were equal to BGN 103 billion. Cash balances amounted to BGN 36,3 billion and comprised 21,1% of the total assets. The securities portfolio comprehended 15,0% of the total assets (BGN 25,8 billion). By comparison, at the end of the third quarter of 2023, loans and advances reported in the previous quarter comprised 63,4%, cash balances – 17,8%, and



securities portfolio – 14,6%.

Liabilities

The liabilities in the banking system (excluding total equity) amounted to BGN 152,1 billion, increasing by 10,1% y-o-y. The banks in the first group comprised 76,9% of the liabilities (BGN 116,9 billion), the second group – 20,4% (BGN 31,1 billion), and the third group – 2,7% (BGN 4,0 billion).

Total deposits of the banking system accounted for 96,9% of the liabilities (excluding equity). With regard to the Balance Sheet Statement items, the deposits' volume increased by 9,9% y-o-y to BGN 147,3 billion.

Provisions that include unsettled legal issues and lawsuits, credit commitments, guarantees, pensions, etc., accounted for 0,27% (BGN 411,3 million as an absolute amount). The item financial liabilities held for trading and other liabilities comprised 0,2% and 0,6%, respectively, of the liabilities.

Equity

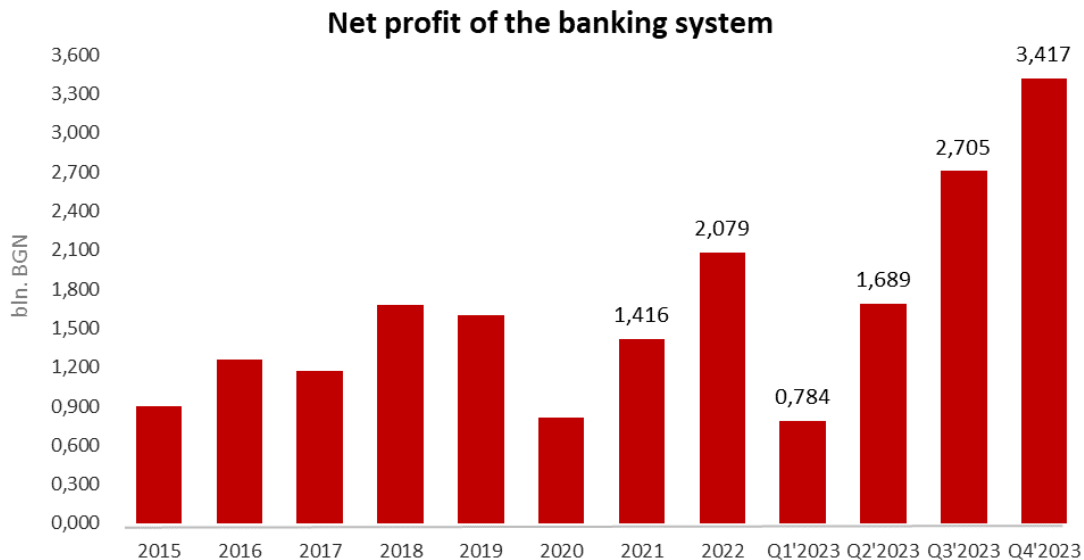
In the fourth quarter of 2023, the total equity of the banking system increased by BGN 686,8 million or 3,6% on a quarterly basis to BGN 20,02 billion. As of the end-December'23 the total equity raised by 15,8% compared to the same period of the previous year. The equity of the banks in the first group amounted to BGN 15,2 billion, and in the second group to BGN 4,6 billion.

Statement of profit or loss

Net profit

At the end of the fourth quarter of 2023, the banking sector reported a net profit of BGN 3 416,9 million, rising by 64,4% y-o-y. The net profit grew by BGN 1 337,9 billion as an absolute positive change compared to the same period of the previous year when it amounted to BGN 2 078,9 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 79,8% of the net profit as of the end of the fourth quarter of 2023, the second group – 17,1%, and the third group – 3,1%. In comparison with the third quarter of 2023, the five biggest banks in terms of assets made up 78,1% of the net profit in the banking sector, the banks in the second group – 16,4%, and the share of the third group was 5,5%.

Net interest income

As of the end of Q4 2023, the total net operating income of the banking system amounted to BGN 6,916 billion, increasing by 31,0% y-o-y (from BGN 5,278 billion as of the end of December 2022).

The bank's net interest income increased by 50,1% y-o-y (BGN 1 618,9 million) and as of the end of December 2023 it reached BGN 4,846 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 December 31, 2023, the interest income grew by 61,9% y-o-y to BGN 5,878 billion. The interest expenses amounted to BGN 1 032,4 million, rising by 155,0% on an annual basis.

In [Banks in Bulgaria](#) quarterly report, the BNB states that the increase in credit volumes has a positive effect on the interest income and net interest income of the banking sector. This dynamic underpins the continued increase in credit institutions' profitability indicators, along with lower impairment charges. Although in the immediate plan the rapid growth of credit



volumes has a positive effect on the profitability of the banking sector, prolonged periods of high credit growth create prerequisites for the accumulation of credit risk in the balance sheet of the banking system. The tightening of monetary policy at the global level 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 mandatory minimum reserves from mid-2023.

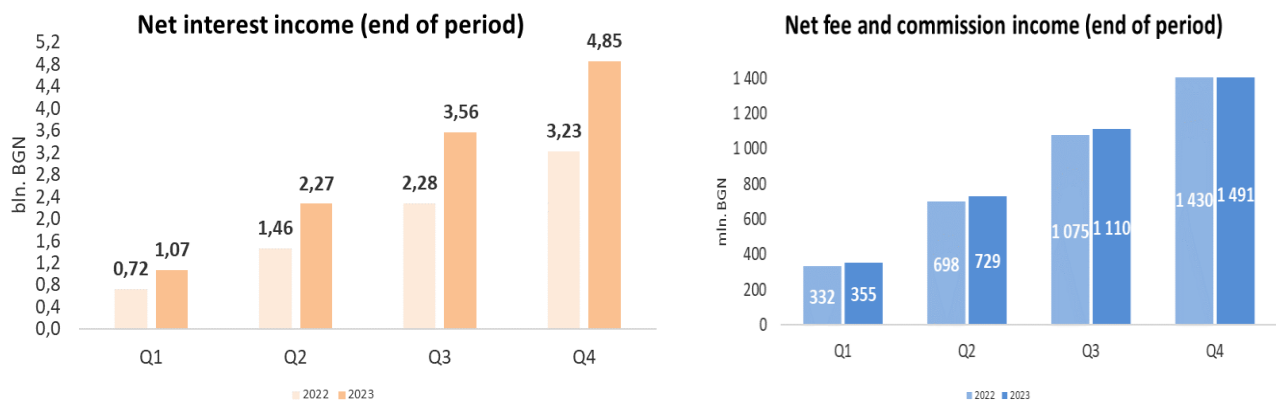
In Q4 2023, the net interest income made up 70,0% of the net total operating income of the banking system. According to the EBA data, as of Q3 2023, the net interest income of banks in the EU/EEA accounted for 61,9% of the total operating income.

Net fee and commission income

As of the end of Q4 2023, the net fee and commission (F&C) income increased by 3,1% y-o-y to BGN 1,474 million.

As of the end of December 2023, the F&C revenues increased by 5,9% on an annual basis to BGN 1,862 million. F&C expenses increased by 17,8% on an annual basis reaching BGN 387,3 million as of the end of the fourth quarter of 2023.

As of end-December 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 27,4% of the total operating income as of the end of Q3 2023.



Source: BNB, own calculations

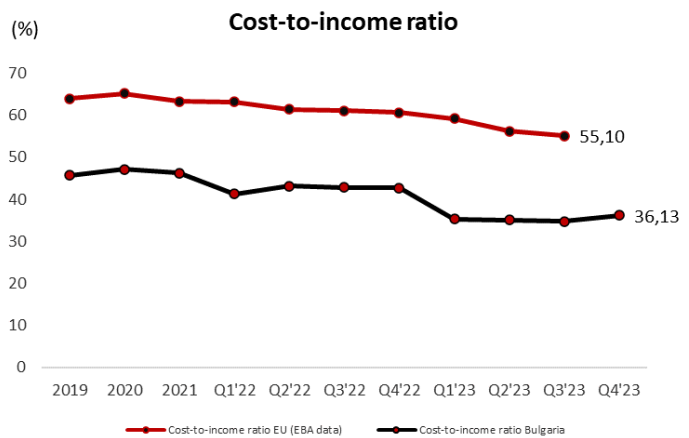
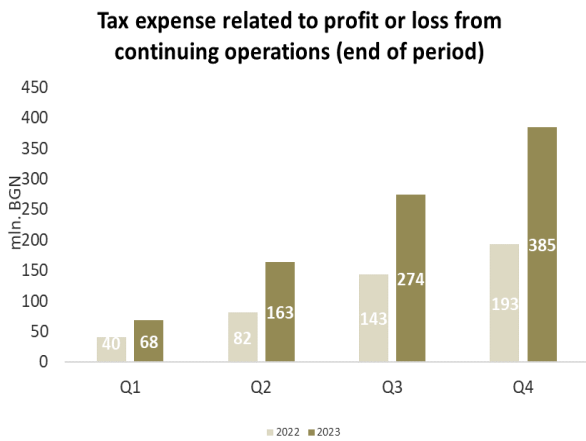
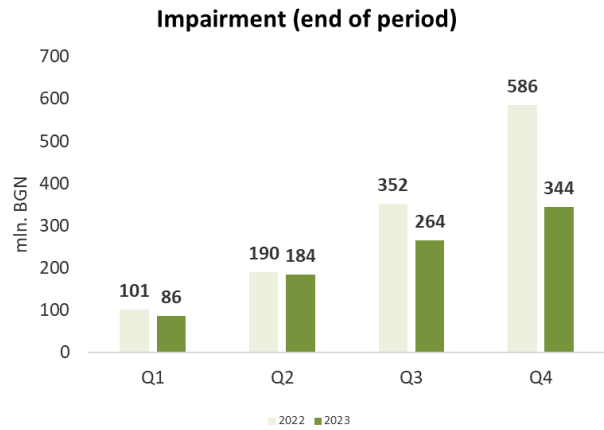
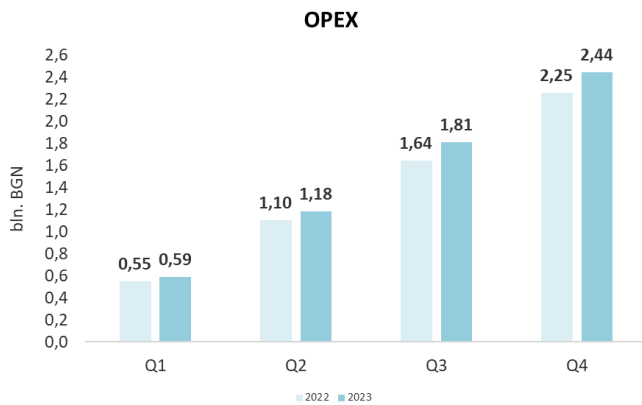
Operating expenses and impairments

As of the end of Q4 2023, the administrative expenses, including overhead costs, increased by 11,5% (BGN 227,7 million in absolute terms) compared to the same period of 2022 as they reached BGN 2 199,6 million. The total operating expenses (administrative expenses and depreciation) grew by 10,9% y-o-y to BGN 2 499,1 million. As of end-December 2023, the



impairment costs of financial assets not measured at fair value through profit or loss declined by 29,8%, reaching BGN 411,3 million (compared to BGN 585,7 million as of the end of December 2022).

As of the end of Q3 2023, the Cost-to-Income ratio for the banking system was 36,13%, which marked a growth compared with the level of the previous quarter which was 34,79%. According to the EBA data, as of Q3 2023, the average Cost-to-Income ratio of banks in the EU/EEA was 55,10%.



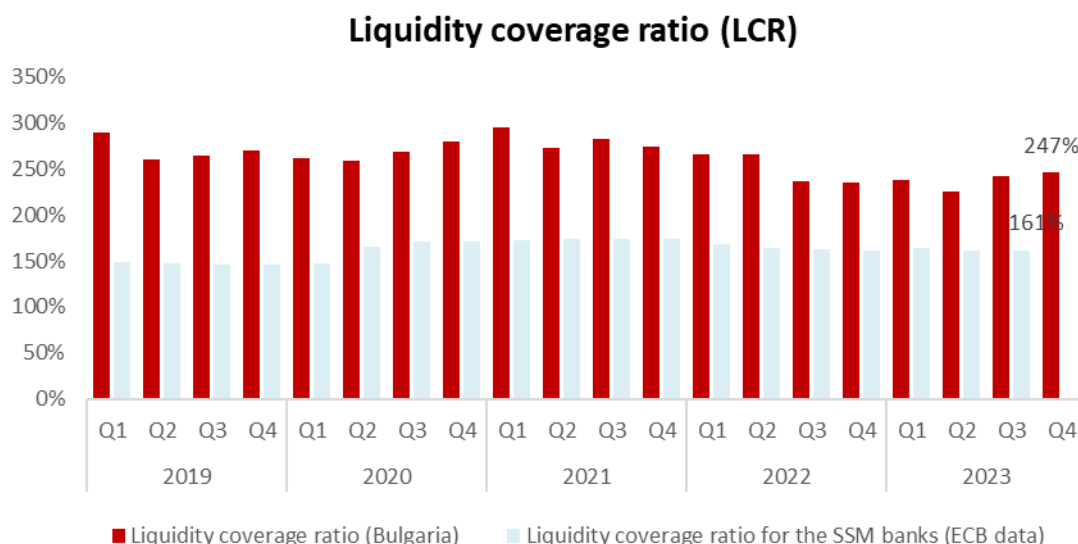
Source: BNB, EBA, own calculations



Financial indicators

Liquidity

According to the BNB data, as of end-December 2023, the liquidity buffer and the net liquidity outflows were equal to BGN 53 billion and BGN 21,5 billion, respectively. The liquidity coverage ratio (LCR) was 246,7% compared to 241,9% as of September 2023. According to the ECB data, the LCR for the banks participating in the Single Supervisory Mechanism was 160,7% at the end of Q3 2023.



Source: BNB, ECB

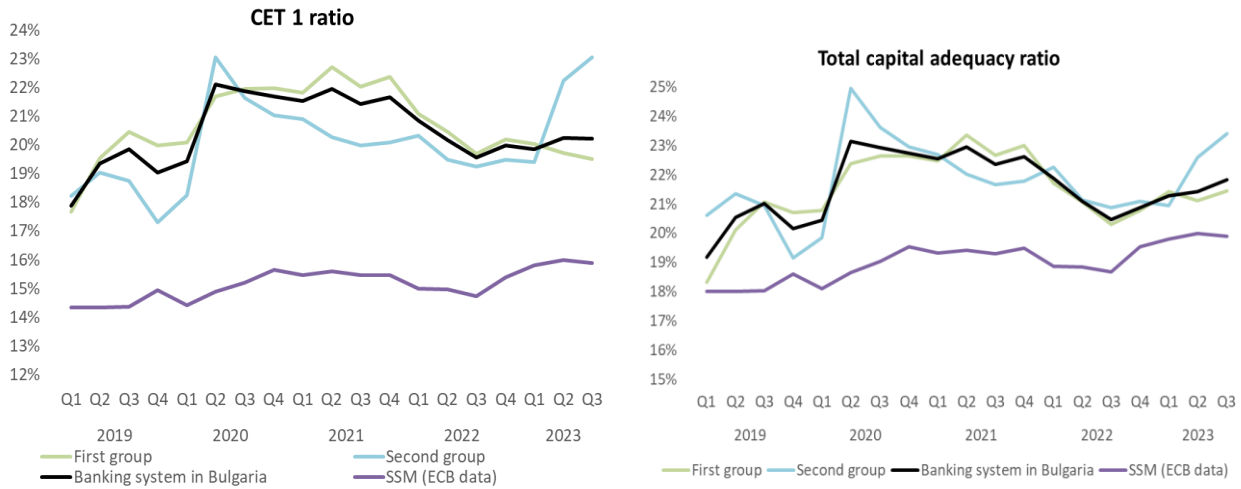
Capital adequacy

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

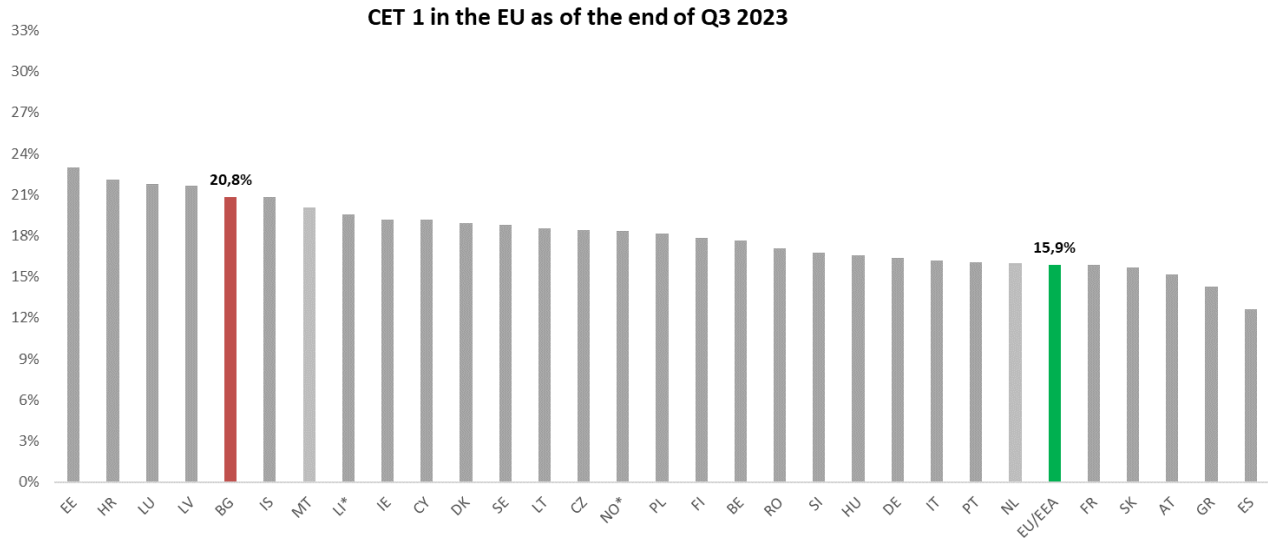
As of the end of Q3 2022, the common equity tier 1 (CET 1) of the entire banking system increased to 20,22%, from 19,76% - a level that was reported as of the end of Q2 2023. The indicator for the first group of banks increased to 19,51% from 19,14% and for the second group increased to 23,04% from 22,17%.

The total capital adequacy ratio increased to 21,84% from 21,42% at the banking system level. As of the end of September 2023, the CAD ratio for the first group of banks was 21,44% and 23,41% for the second group (21,12% and 22,60%, respectively, a quarter earlier).

The Bulgarian banks' capital adequacy ratios are above the SSM's average. According to the ECB data, as of September 2023, CET 1 and CAD ratios were 15,61%, and 19,69%, respectively.



Source: BNB, ECB



Source: EBA, Risk Dashboard, Q3 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 third quarter of 2023, the volume of non-performing exposures slightly increased as a result of multidirectional changes in the individual segments of the credit portfolio. The publication [Banks in Bulgaria](#) states that given the fluctuations in commodity prices, the risks of a slowdown in external demand and the expected increase in interest rates on loans, 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.



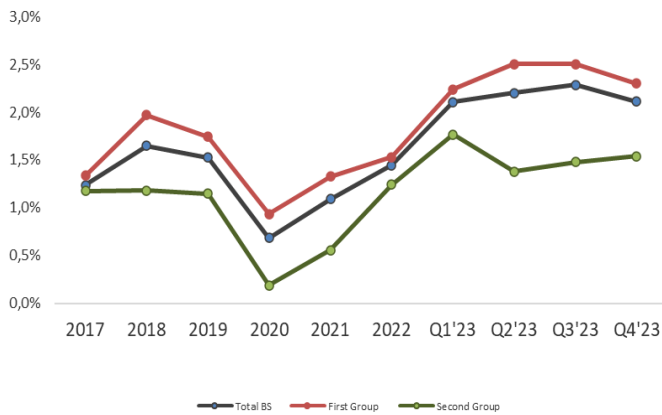
Profitability

As of December 31, 2023, the Return on Assets (ROA) of the Bulgarian banking system reached 2,1% compared to 2,3% a quarter earlier. The ratios of the first and second groups of banks were 2,3% and 1,5%, respectively. According to the latest ECB data as of the third quarter of 2023, the average ROA of the European banks stood at 0,7%.

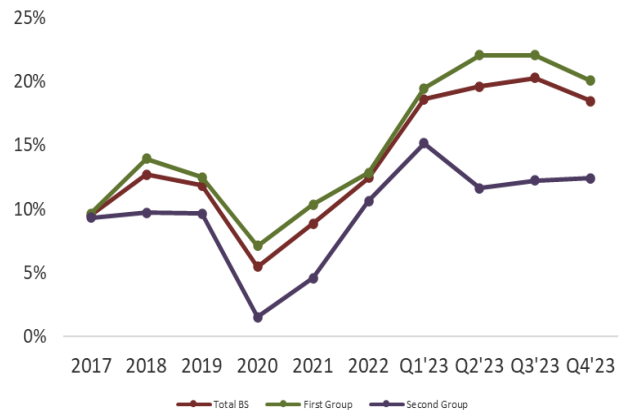
The Return on Equity (ROE) of the Bulgarian banking system decreased to 18,5% as of the end of Q4 2023 compared to 20,3% a quarter earlier. The ratios of the first and second groups of banks were 20,1% and 12,4%, respectively.

According to the ECB data, the average ROE of the European banks stood at 10,9% as of the end of Q3 2023.

ROA of the Banking System



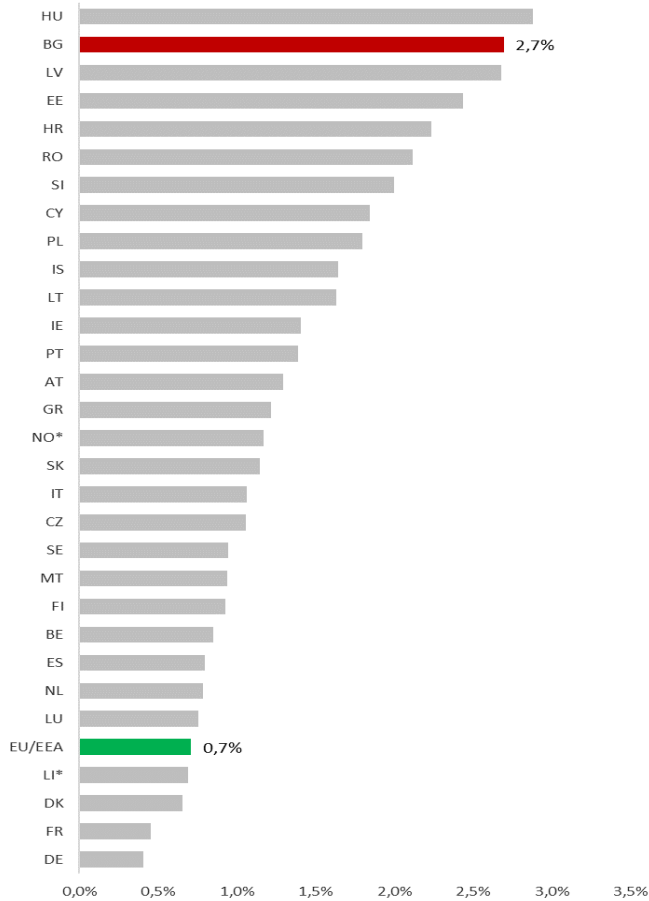
ROE of the Banking System



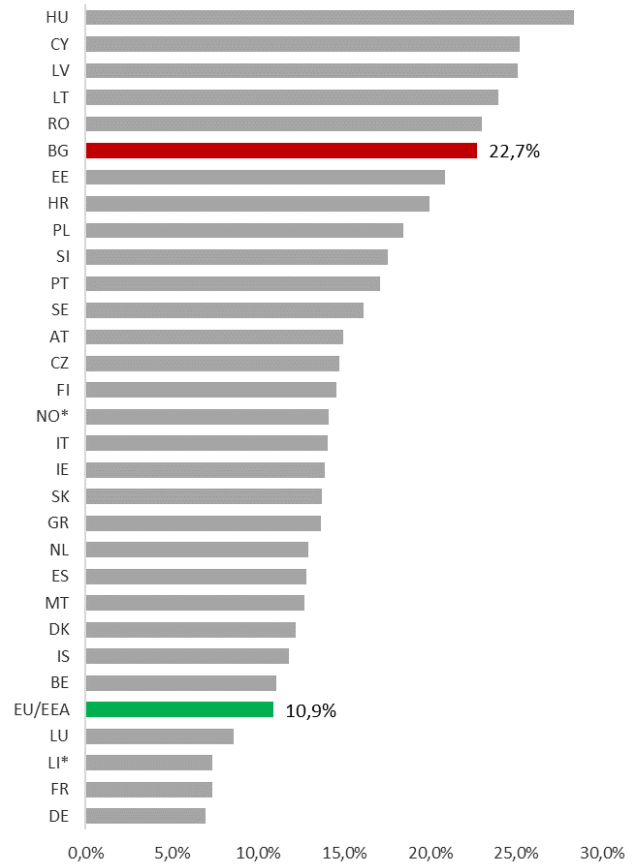
Source: BNB, ECB



ROA of EU/EEA banks as of September'23



ROE of EU/EEA banks as of September'23



Source: BNB, own calculations

Source: EBA Risk Dashboard, Q3 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;

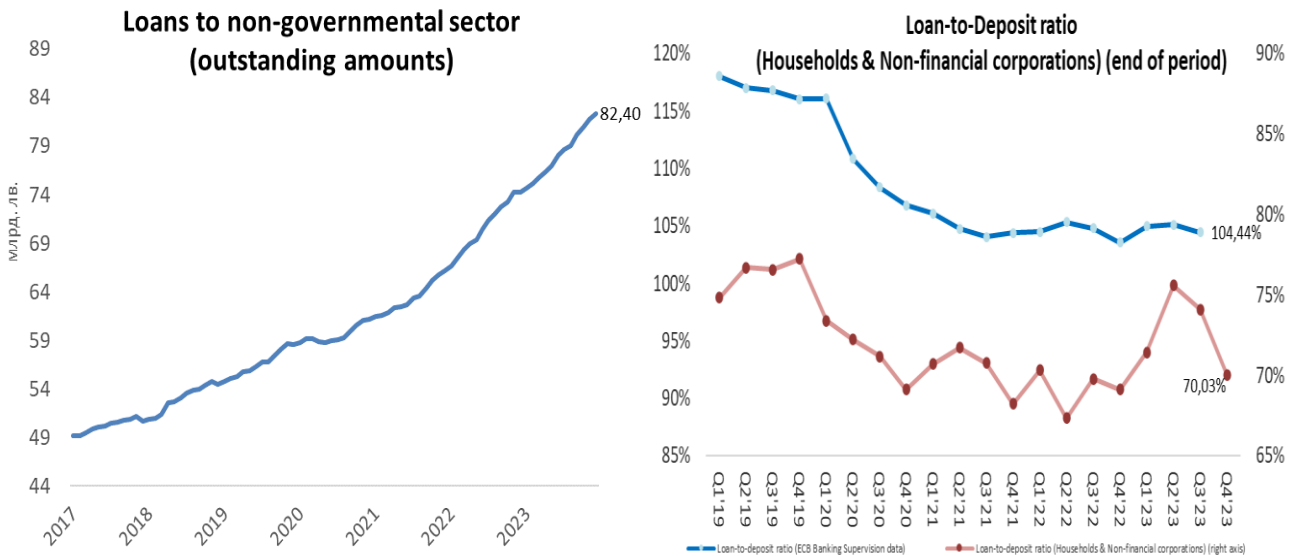


Loans and deposits

According to the Bulgarian National Bank's [Macroeconomic forecast](#), interest rates on deposits and loans in the household sector remained limited to the middle of the fourth quarter of 2023, due to high liquidity, strong competition and the continued inflow of borrowed funds into the banking system, the effects of the tightening of monetary policy in the Eurozone, as well as the increase of the rate of mandatory minimum reserves to 12% by the BNB.

The process of increasing interest rates in the country continues to proceed relatively slowly, with a more substantial increase observed in the sector of non-financial enterprises. The BNB expects that the upward dynamics of interest rates on deposits and loans will be maintained until the beginning of 2025, after which until the end of the forecast horizon, interest rates will remain close to the reached levels.

As of the end-December 2023, according to the BNB Monetary Statistics, total loans to the non-government sector (non-financial corporations and households) picked up by 10,9% y-o-y, reaching BNG 82,40 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 December, reaching levels of BGN 2,210 billion compared to the end of September 2023, when they amounted to BGN 2,565 billion. The share of non-performing loans to gross loan portfolio in the banking system fell from 2,71% as of September'23 to 2,27% as of end-December'23, according to the calculations based on the data of the BNB Banking Supervision Department.



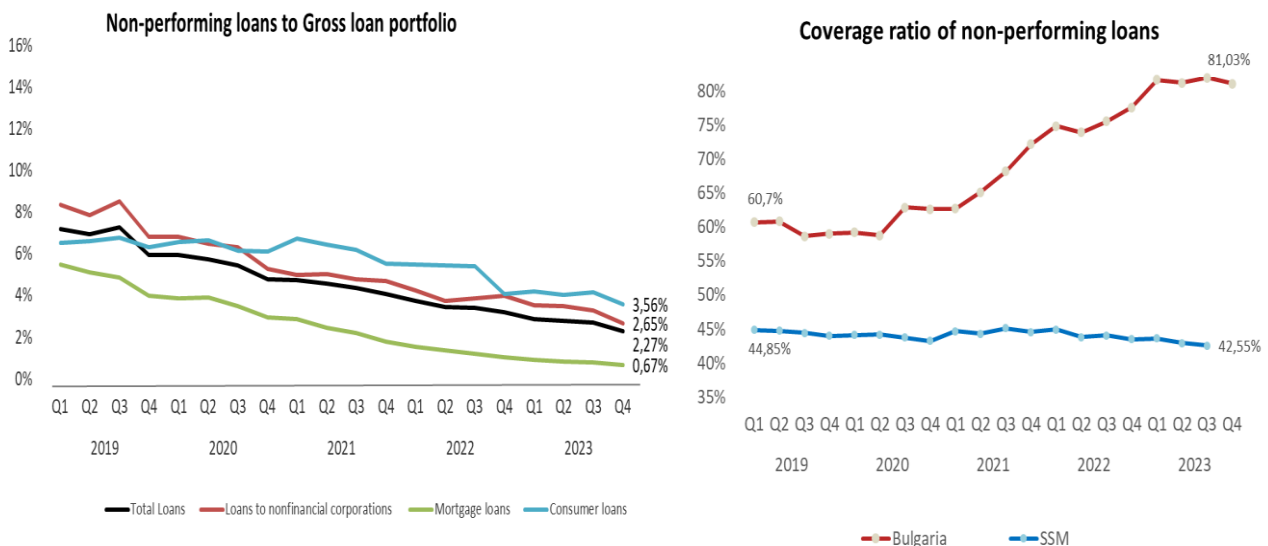
The share of non-performing loans to non-financial corporations decreased from 3,28% as of the end of September 2023 to 2,65% at the end of the December 2023. Over the reviewed period, the ratio of mortgage loans decreased from 0,77% to 0,67%. The share of non-performing consumer loans decreased from 4,15% to 3,56% as of the end of Q4 2023.

The amount of non-performing loans to non-financial corporations decreased from BGN 1,552 billion as of the end-September 2023 to BGN 1,286 billion as of the end-December 2023. The non-performing mortgage loans decreased to BGN 147,6 million (down from BGN 159,5 million a quarter earlier). The non-performing consumer loans decreased to BGN 642,7 million, from BGN 732,9 million a quarter earlier.

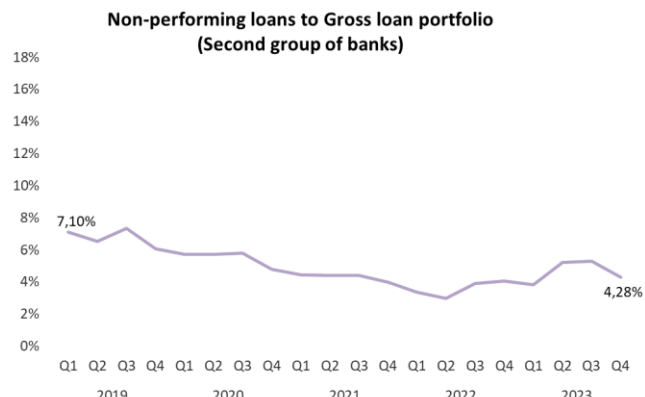
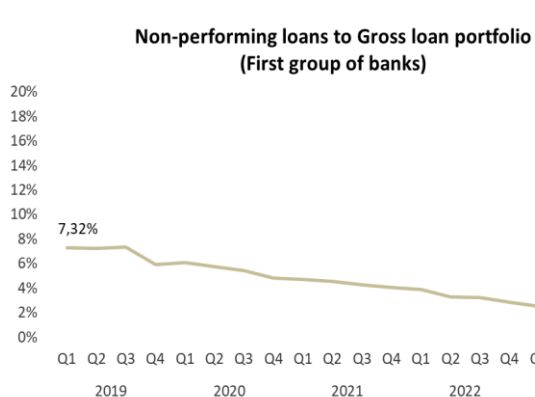
The ratio of non-performing gross loans reported by the banks in the first group declined to 1,84% at the end of the fourth quarter of 2023 (down from 2,14% a quarter earlier). The ratio reported by the banks in the second group decreased to 4,28% (from 5,29% a quarter earlier).

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 81,03% at the end of Q4 2023 compared to 81,9% 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 42,55%.



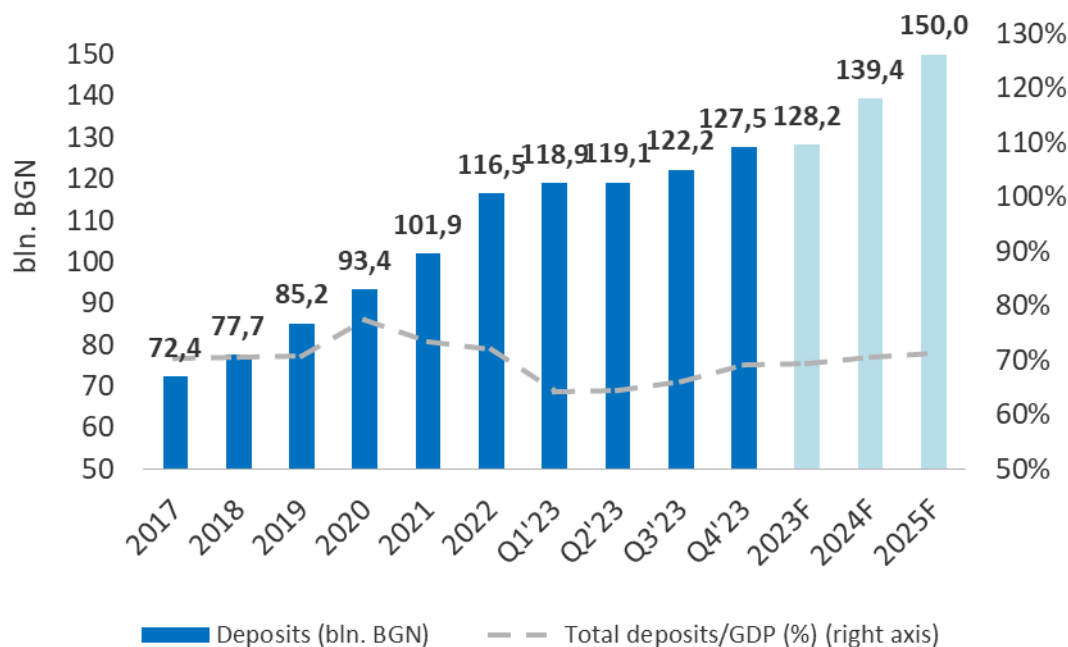
Source: BNB, ECB, own calculations



Source: BNB, own calculations

The total amount of deposits in the banking system continued to rise. As of the end of December 2023, the total deposits of the banking system reached BGN 127,583 billion, picking up by 9,5% y-o-y. The deposits' growth slowed down compared with the reported increase of 9,4% reported at the end-September.

Total deposits in the banking system



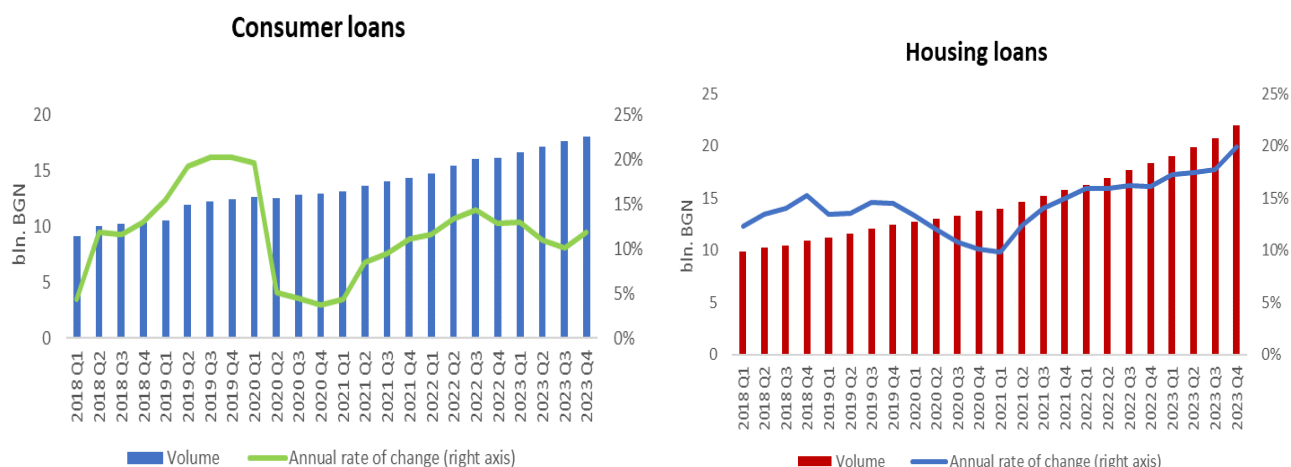
Source: BNB, own calculations
Forecast: BNB, Ministry of Finance



Loans and deposits to households

At the end of Q4 2023, according to the BNB Banking Supervision Department data, the volume of consumer loans was equal to BGN 18,04 billion compared to BGN 17,66 billion a quarter earlier and BGN 16,14 billion a year earlier. In the fourth quarter of 2023, the volume of consumer loans grew by 2,1% on a quarterly basis and increased by 10,8% on an annual basis.

The volume of housing loans amounted to BGN 22,03 billion compared to BGN 20,79 billion as of end-September 2023 and BGN 18,36 billion as of end-December 2022. It increased by 6,0% on a quarterly basis and by 19,9% on an annual basis.

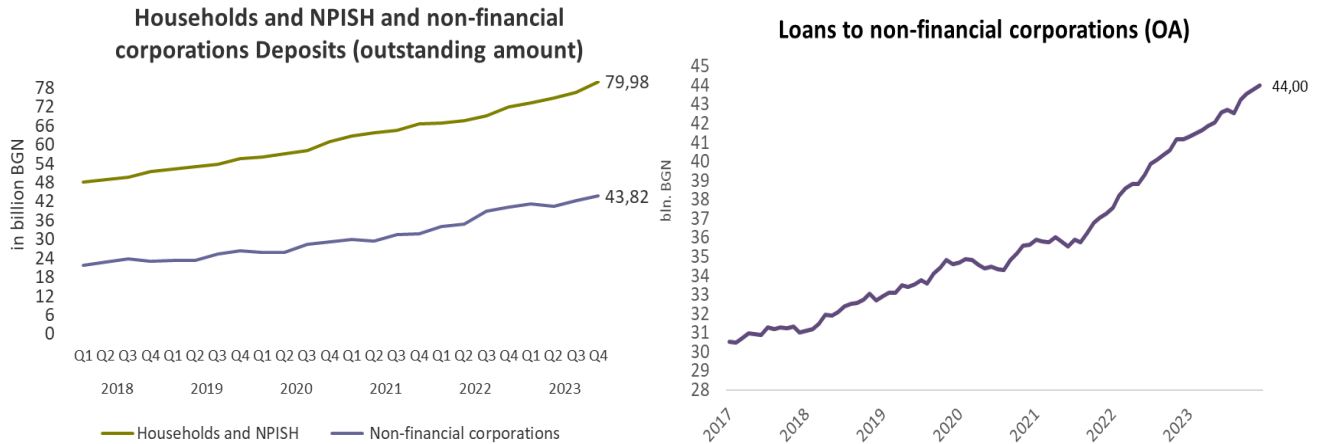


Source: BNB, Banking Supervision Department, own calculations

At the end of Q4 2023, the total amount of deposits from households and NPISH grew by 11,03% y-o-y (up from 10,47% reported at the end-September 2023). Deposits from households reached BGN 79,98 billion (41,8% of the projected GDP) which composed 62,7% of the deposits in the banking system.

Loans and deposits of non-financial corporations

As of December 31, 2023, the total amount of deposits to non-financial corporations increased by 9,0% y-o-y (up from a 3,5% increase a quarter earlier), reaching BGN 43,82 billion. According to the BNB's monetary statistics, the loans outstanding amount to non-financial corporations grew by 6,9% y-o-y to BGN 44,00 billion at the end of Q4 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 fourth quarter of 2023, an increase in interest rates on newly contracted loans in BGN and an increase in deposits for companies in EUR was observed. In the same period, an increase in interest rates on deposits in EUR and BGN for households was reported, as well as an increase in interest rates on newly contracted consumer loans in BGN. On the newly agreed housing loans in BGN and EUR, a decrease in interest rates is reported compared to a quarter earlier.

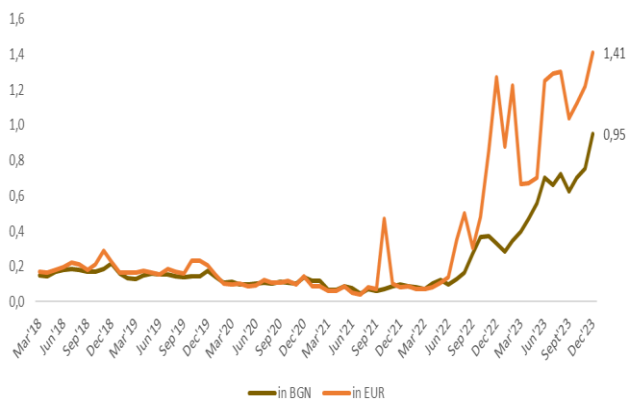
Interest rates on deposits

As of the end of December 2023, the average interest rate on deposits with agreed maturity in BGN to households (new business) increased to 0,95% (from 0,63% a quarter earlier). The average interest rate on deposits in EUR increased and they reached 1,41% (from 1,04% a quarter earlier).

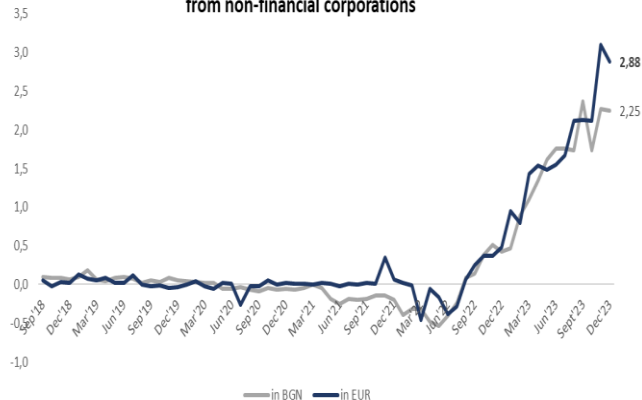
As of the end of Q4 2023, the average interest rate on deposits with agreed maturity to non-financial corporations (new business) in BGN decreased from 2,36% to 2,25%. The average interest rate on deposits in EUR picked up from 2,12% to 2,88%.



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

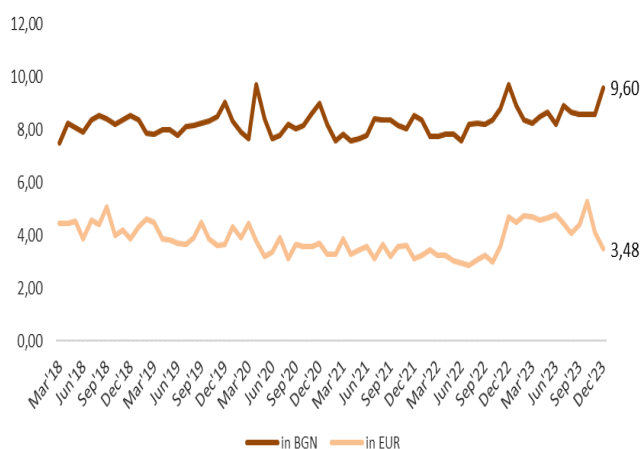


Source: BNB

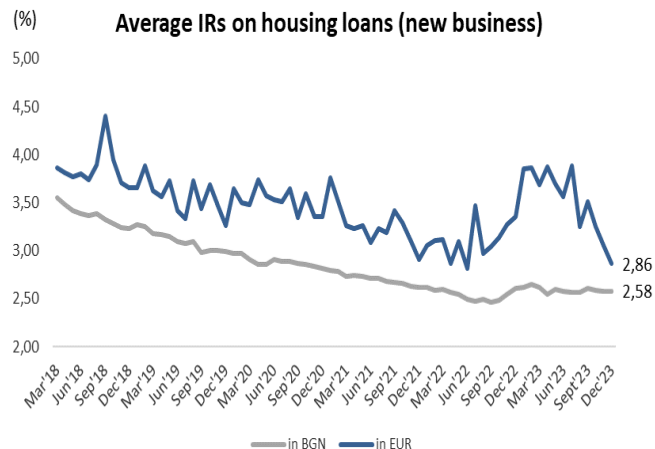
Interest rates on loans

At the end of Q4 2023, the average interest rate on mortgage loans in BGN slightly decreased to 2,58% (from 2,61% a quarter earlier). The average interest rate on mortgage loans in EUR decreased from 3,51% as of end-September`23 to 2,86% as of end-December`23.

Average IRs on consumer loans (new business)



Average IRs on housing loans (new business)



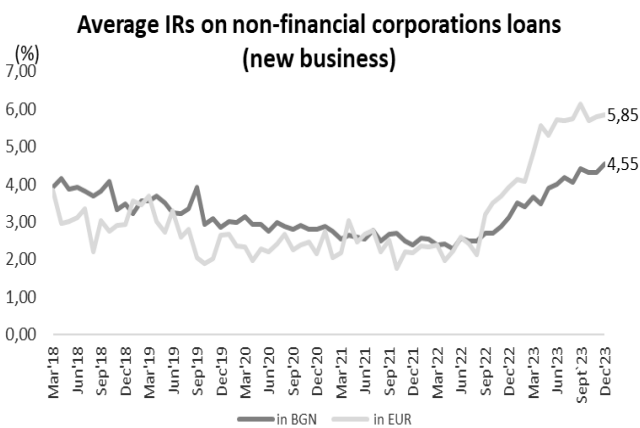
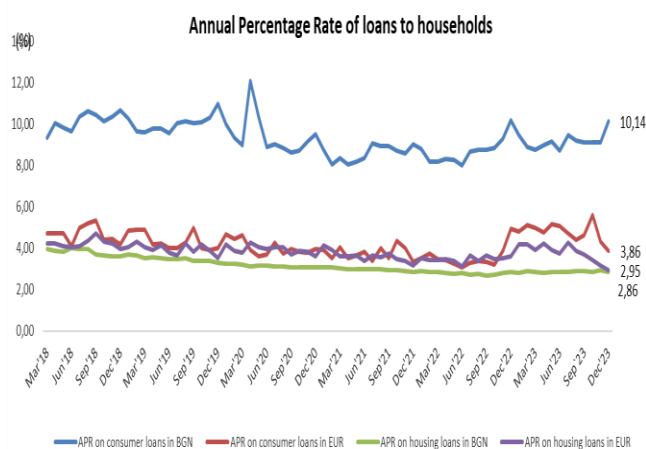
Source: BNB



As of the end of December 2023, the average interest rate on consumer loans in BGN increased from 8,59% % in Q3 to 9,60% in Q4 2023. Concurrently, the average interest rate on consumer loans in EUR decreased to 3,48%, (down from 4,40% at the end-September`23).

The annual percentage rate (APR), which, in addition to the interest, also includes all fees and commissions related to the loan, as of December 2023 decreases, reaching 2,86% for housing loans in BGN. The APR on housing loans in EUR decreased from 3,68% at the end of September 2023 to 2,95% at the end of December 2023. The APR level for consumer loans in BGN increased from 9,12% to 10,14%, and for those in EUR, a decrease was observed from 4,63% to 3,86% as of December 2023.

The average interest rate on loans to non-financial corporations (new business) in BGN increased from 4,40% as of the end-September`23 to 4,55% as of end-December`23. The average IR on loans agreed in EUR decreased from 6,14% to 5,85%. For loans agreed in USD the interest rate decreased from 6,70% as of the end-September`23 to 5,47% as of end-December`23.



Source: BNB



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All historical rates, statistical data and graphs are up to date, up to and including February 21, 2024, unless otherwise stated.

The views provided are those prevailing as of February 21, 2024.