

Bulgaria

Following the weakened economic activity in 2020 (-4.2%), the Bulgarian economy gained momentum and registered an annual growth of 7.6% in 2021. It was predominantly driven by private consumption, the consumption of the general government, and by changes in inventories.

In 2021, the unemployment rate decreased to 4.8% from 6.1% at the end of the previous year. The average annual change of HICP in Bulgaria accelerated to 2.8% from 1.2% in 2020.

In 2021, the banking sector operated in a state of gradual recovery from the COVID-19 pandemic. The substantially lower impairment expenses and accrued provisions, the accelerated lending and business activity, the low interest rates, and the management of the credit portfolio quality impacted the financial result of the banking sector.

The activity of the banking system was further influenced by the membership in the Single Supervisory Mechanism and the Single Resolution Mechanism, the established close cooperation between the BNB and the ECB, and the inclusion of the Bulgarian lev in the Exchange rate mechanism (ERM II). With regards to Bulgaria's commitment to adopt the single European currency, a draft National Plan for the Introduction of the Euro with a target date of January 1, 2024, has been prepared and adopted.

As of December 31, 2021, 25 banks were operating in Bulgaria, including 7 foreign bank branches. The top five banks held approximately 66.9% of all assets. At the end of 2021, the market share of five significant institutions (according to the ECB criteria) comprised 66.6% of banking system assets, less significant banks held 30.4%, and branches of foreign banks 3.0%. In 2021 the consolidation process in the Bulgarian banking sector was marked by the acquisition of Raiffeisen bank Bulgaria by KBC Bank NV.

The COVID-19 pandemic boosted the usage of cashless payment methods. In this respect, the number of card payments initiated through physical POS in Bulgaria grew by 29.5% in 2021 compared to 10.3% in 2020. In addition, the number of card payments initiated remotely (via the Internet) increased by 52% compared to 2,3% in 2020. According to the National Statistical Institute data, the share of people using the Internet for banking grew to 14.9% in 2021 from 12.6% a year ago.

In 2021 the banks' total assets increased by 9.2% year-over-year to €69.2 billion (BGN 135.4 billion). The share of loans and advances slightly decreased to 58.2% compared to 58.9% at the end of 2020. The share of cash declined to 21% from 21.9%, and the share of securities grew to 16.7% from 14.6% a year ago.

The total outstanding amount of loans to the non-government sector (non-financial corporations and households and NPISHs) grew by 8.3% to €33.84 billion (BGN 66.19 billion) from €31.26 billion (BGN 61.13 billion) in 2020, according to the BNB monetary statistics. In 2021 the outstanding amount of loans to non-financial corporations increased by 4,6% (from 3% in 2020), reaching €19.06 billion (BGN 37.28 billion). By sector classification, the highest amount of loans and deposits were reported in the trade and manufacturing sectors.

As of the end of 2021, the amount of non-performing loans (NPLs), excluding central banks and credit institutions, continued to decline, reaching €1.57 billion (BGN 3.07 billion) in absolute terms, or 4.05% as a share of the gross loan portfolio. Concurrently, the provision coverage ratio in the Bulgarian banking system remained higher than the EU average.

Despite the prolonged period of low interest rates, deposits accumulated by the banks increased by 9.1% and reached €52.1 billion (BGN 101.9 billion) in 2021, or 73% of GDP. Approximately two-thirds of the deposits were held by the household sector (65.3%).

According to the BNB interest rate statistics, in 2021 the average interest rates on new deposits and new loans registered a slight decline compared to 2020.

By virtue of the gradual economic recovery and accelerated lending activity in 2021, the net profit of the banking system increased by 73.8% to €724 million (BGN 1,416 billion). The net interest income rose by 4.1% to €1.41 billion (BGN 2.76 billion) after a drop of 3.5% in 2020. The net income from fees and commissions grew by 19.5% to €634 million (BGN 1.24 billion).

In 2021 the Bulgarian banking sector continued to have a solid capital position maintaining capital and leverage ratios well above the regulatory requirements. At the end of 2021, CET 1 of the banking system was 21.66%, and the total capital adequacy was 22.62%. The LCR stood at 274.1%, and the NSFR introduced in June 2021 reached 166.0%, significantly exceeding the regulatory requirements. In 2021, ROA increased to 1.05% from 0.66%, and ROE grew to 8.5% from 5.3% a year ago.

As of the end of 2021, 65,100 people were employed in the financial sector, and approximately half of them were in the banking sector.