

**7-th MEETING OF
THE INTER BALKAN FORUM OF BANKING ASSOCIATIONS**

**Sofia, Bulgaria
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**MAJOR FEATURES OF THE DEVELOPMENT OF THE BULGARIAN
BANKING SYSTEM IN 2006**

The main factor that influenced the course of processes in the social and economic life of the country in 2006 was the large-scale preparation of the country for its membership in the European Union. The full-fledged EU membership of Bulgaria since the beginning of 2007, among many other positive effects, raised new challenges to the real and the financial sectors for which banks need to be adequately informed and prepared to meet.

In 2006 the extremely dynamic and positive development of the banking system in Bulgaria of the recent years continued. This is clearly confirmed by the values of the major financial indicators of the banks, as well as by the positive assessments by reputed international institutions and organizations. The banking sector is one of the most successfully and fastest developing sectors of country's economy, and foreign capital strongly prevails in its ownership structure, including that of large international financial and banking groups.

What is observed in 2006 again is a stable positive development of the key macro-economic indicators. Real growth of the Gross Domestic Product /GDP/ is close to that of the previous year and amounts to 6.1 percent. The inflation rate is higher than that of 2005; the average annual inflation rate for 2006, measured by the harmonized index of consumer prices amounts to 7.4 percent. The unemployment rate dropped down from an average of 10.1 percent in 2005 to 9 percent as an annual average in 2006.

According to preliminary data the balance of payments has a surplus of EUR 1 785.6 million while a deficit is reported on the current account of EUR 3 977.9 million. Direct foreign investments in the country grew to amount to EUR 4 104.5 million in 2006.

The gross foreign state debt has gone down by EUR 663.1 million compared to the previous year to reach EUR 4 685.5 million at the end of 2006. EU countries account for the largest share of exports and imports – 55% and 47%, respectively.

The assets of the Issuing Department of BNB continued to grow in 2006, too, to reach a market value of EUR 8 925.4 million at the end of the year. The Currency Board arrangements were preserved; the Bulgarian lev exchange rate is pegged to the Euro in a rate of BGN 1,95583 = 1 Euro.

The average annual basic interest rate is close to the one of the previous year and in 2006 it was 2.68%. SOFIBOR monthly index which presents a fixing of quotations of

uncollateralized loans in BGN offered on the Bulgarian interbanking market was within the range of 2.61% to 3.74 % in 2006. LEONIA index – interest rate on real overnight transactions on uncollateralized deposits on the interbanking market in Bulgaria varied from 2.13% to 3.58%. The average interest rate spread between interest rates on short-term loans and interest rates on time deposits had a value of about 4.9%.

Banks' balance sheet figure in 2006 grew by about 28%, exceeding the level from the previous year. The growth rate of lending was reduced versus the prior year and in 2006 the reported growth rate of loans is 24%. Most significant is the growth of housing mortgage loans to individuals – 73%. The total amount of bank deposits grew by approximately 31% in 2006 versus 2005 which corresponds to the growth of assets and loans.

The banking sector continues to increase its efficiency and to report high profitability. The profit of the banking system grew by 38% compared to the previous year to arrive to a total of BGN 808 million versus BGN 584 million in 2005.

Return on assets and return on equity in 2006 mark higher values than 2005 to reach system totals of 2.21% and 24.35%, respectively.

Capital adequacy ratio as a total for the banking system reconfirms its stable financial condition and at the end of 2006 reaches 14.5%. Quality of banking portfolios remain high and regular exposures amount to about 96% and those classified as non-collectible are 4%.

What is observed in 2006 again is an increase of non-cash payments and banking cards transactions, as well as of electronic banking as a whole. This has a favorable impact on non-interest revenues of banks and helps for the more comprehensive and higher quality service to customers. In the mid-term, the major challenge facing banks is resolving the issues concerning the development of the national payment system in the context of the preparation for introduction of the Single European Payment Area (SEPA) and the participation of the Bulgarian banking sector in the project.

Banks further expand the range and enhance the quality of offered products and services and they are increasingly involved with non-banking financial intermediation related to the activities of investment funds, issue of securities of public companies, operation of managing companies and other non-banking financial institutions.

The trend to consolidation and concentration of the banking system persists and in 2007 the legal and technical finalization is expected of some of the transactions concluded earlier. Acquisitions and mergers of banks are expected to continue this year and competition to increase in view of the right of credit and other financial institutions licensed in EU Member States to perform banking activities in the country.