Bulgarian Banking Barometer

2018 Priorities

Building a better working world

Bulgarian Banking Barometer

The Bulgarian Banking Barometer is an annual survey that aims at identifying the confidence of the banks' senior management in the economy, the banks and the banking system. The survey examines how changes in the economic and social environment in Bulgaria and Europe influence the banks' priorities, strategies and development prospects during the year. The survey was conducted between November and December 2017 and relates to the banks' development in 2018.

63%

of the bank managers expect slight improvement in the Bulgarian economy in the next 12 months.

86%

expect improvement in the financial representation of the bank they manage.

The most promising sectors in Bulgaria

% of the respondents expecting growth in the particular sectors

Despite the continuing positive expectations that bankers have on the Bulgarian sectors of the economy in the next 12 months, there are a few sectors whose growth prospects for the next 12 months are stronger: construction, technology, manufacturing and trade. While construction and technology are among the most prospective economic sectors in Bulgaria for a second consecutive year, trade and manufacturing are now gaining popularity.

Construction	88%
Technology	84%
Manufacturing	76%
Trade	76%

A good year ahead

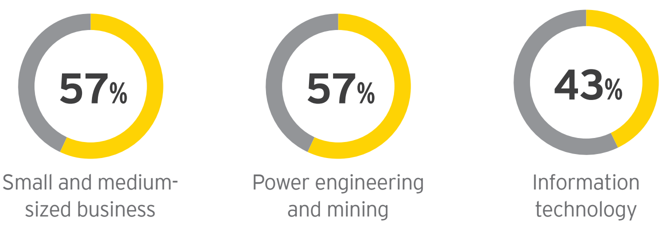
According to the third Bulgarian Banking Barometer, the leaders in the banking sector expect a stronger economy and better financial performance of the banks they manage. The rising levels of lending in the corporate and consumer sectors mean stability in economic life and strong confidence of companies and natural persons alike in their earnings during the year. The expectations are for even lower levels of bad loans and less restrictive credit conditions in some sectors. The prospective sectors are no longer one or two. The stable activity of economic life outside does not shift the banks' attention to the internal processes in their organizations. All of the surveyed banks are planning internal restructuring and optimization of processes in 2018, and many of them will devote considerable resources to investing in customer service technologies.

Lending

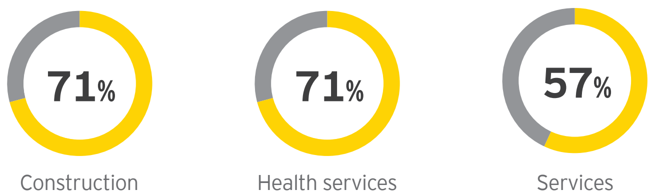
% of bank managers who expect less restrictive credit conditions in specific sectors over the next 12 months

The trends from 2015 and 2016 have been retained and any major changes in the policies for granting credits are not expected in the short run. The bankers forecast less restrictive credit conditions for the following sectors: small and medium business, power engineering and mining, and IT. Over the last couple of years, construction has restored its position as a prospective sector. Unsurprisingly, 71% of the bank managers expect no change in the terms of lending in the construction sector. According to 71% of the respondents in the survey, the sector of health services will also remain unchanged.

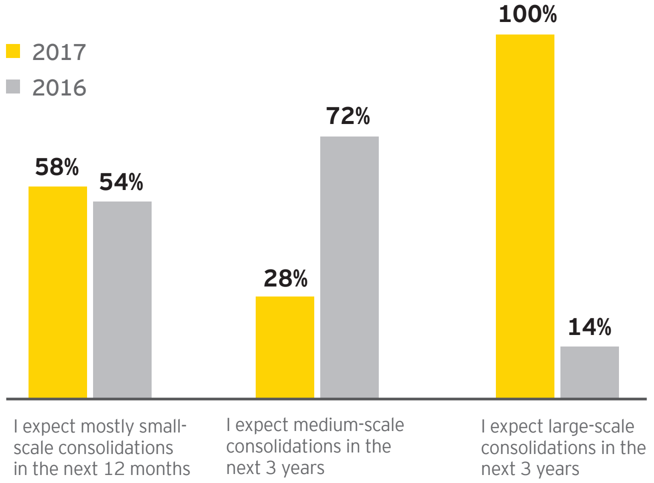
Less restrictive credit conditions are expected in:



No change in the credit conditions is expected in:



To what extent do you expect consolidation of the banking sector business in Bulgaria in the next 12 months and in the next three years?



The new regulations and their impact on the business of banks in Bulgaria

- Bankers do not expect any impact on their activity because of transposing the Anti-money Laundering Directive.
- According to all respondents in the survey, the competition in the sphere of payment services will be heavily impacted by Directive 2 on payment services.
- 83% of the bank managers have foreseen growth in cybersecurity expenses since the entry into force of the new General Data Privacy Regulation (GDPR).

Non-performing loans

86% of the bankers foresee that the relative size of non-performing loans will shrink in the next 12 months and half of them expect a significant decline. None of the respondents foresees an upturn in non-performing loans. What is this due to? Is it possible that the bank regulator's priorities have an effect on improving the management of non-performing loans in the banking portfolios? Is the effect entirely due to the expected economic growth in a short-term period? 71% of the respondents regard crediting growth as a factor mirroring sustainable economic growth in Bulgaria and 29% see the development as cyclical.

Expectations of the non-performing loans' relative size in relation to the total portfolio of loans granted in 2018

43%
Slightly decreased

43%
Significantly decreased

Top 5 bank priorities

100 %
Optimization of processes

100 %
Investing in customer-facing technology

86 %
Cybersecurity

72 %
Capital, liquidity and leverage

57 %
Reputational risk and current regulatory changes (Changes related to financial reporting and Directive 2 on payment services)

Strategies for bank development in 2018

The banks in Bulgaria plan to initiate internal restructuring and optimization of processes in 2018. This is supported by the plans of 29% of the banks to sell portfolios of assets or entire companies.

What is the most likely strategy that the bank you manage would undertake in the next 12 months?

100%	Internal restructuring and optimization of processes
29%	Purchase of assets (acquisition of portfolios, companies, etc.)
29%	Sale of assets (sale of assets, companies, etc.)
29%	Partnerships and joint ventures

The new IFRS 9 standard

Bulgarian banks expect an impact on the size of the accumulated non-performing loans impairment, arising from the IFRS 9.

71% expect a 5% increase in accumulated impairment and 29% - an increase ranging from 10% to 15%.

43% of the respondents hold the opinion that IFRS 9 will have no effect on the capital adequacy of the bank they manage. The expected effects on tier 1 capital are not to be influenced or decreased within 1-2%.

86% of the respondents have concluded that the new standard will not lead to significant changes in the terms of contract on the existing credit products.

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