Dimitar Radev: Assessment of the banking system in Bulgaria

Statement by Mr Dimitar Radev, Governor of the Bulgarian National Bank, on the occasion of the completion of the asset quality review and stress test of the banks in Bulgaria, 11 August 2016.

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Today the Governing Council of the Bulgarian National Bank adopted the results of the asset quality review and stress test of the banks, as summarized by the international professional services company Deloitte.

The main objective of the review was to present a thorough and independent assessment of the banks and the banking system as a whole. In its scale the exercise was unprecedented in the Bulgarian banking history and engaged more than 900 experts, including experts from the most reputable international audit firms, which acted under the direction of the BNB.

The detailed results for each individual bank and the system as a whole will be announced at 1 PM on Saturday as per the formerly communicated announcement date. Following the announcement, the Bulgarian National Bank will be ready to address any specific questions related to the results.

The asset quality review and stress test were mandated to the Bulgarian National Bank by law and they stem from the Government's National Reform Programme. On that ground, I have presented the report on the outcomes to the Finance Minister and on Monday I will submit it to the National Assembly.

I am pleased to inform the public that based on the outcome of the review and stress test, the Governing Council have concluded the following:

1. *The Bulgarian banking system is stable.* The main indicator of a bank's financial resilience, the ratio of bank common equity tier one capital to its risk-weighted assets, or the CET 1 ratio, remains significantly above the required minimum regulatory requirements on a system level and is above the EU average as announced in the latest European stress test. The CET1 ratio adjusted for the results of the asset quality review is 18.9% on system-wide level compared to the minimum regulatory requirement of 4.5%. The stress test indicated that if the latest 2018 macroeconomic forecasts materialize, the CET1 ratio would increase to 22.2%. In the case of a severe economic crisis, which is very unlikely, the CET1 ratio would decline to 14.4%. For the European banks, the results are significantly lower – 13.9% and 9.4% respectively. Therefore, banks' capital adequacy is strong and banks have the capacity to absorb shocks in unfavorable market conditions.
2. *The capital adequacy of each bank after potential adjustments from the asset quality review remains above the minimum regulatory requirements.* Indeed, the individual results vary across banks. Follow-up plans have been developed in line with individual results and include measures aimed at maintaining existing capital buffers for some banks or increasing capital buffers and decreasing risk-weighted assets for others. The concrete follow-up measures and timeline for their implementation will be announced on Saturday, 1 PM, as part of the published results. Implementation of the measures will begin on Monday, 15 August 2016. They will be incorporated in the individual bank's capital management plans, as well as in the supervisory process conducted by the BNB.
3. *The results do not necessitate any public support to the banks with state budget funds.* The follow-up measures aimed at maintaining or strengthening the capital position of all banks are based entirely on available market solutions and funds from private sources.

In closing, I would like to stress out that the asset quality review and the stress test were not an isolated event but an important step in the 18-month reform plan for the institutional development of the Bulgarian National Bank, which I announced upon my election as a Governor in July 2015. Other key aspects of this plan include significant improvement of the BNB's supervisory process and the development of an institutional framework that is effective in resolving issues in the banking system. The strict execution of the plan to date has strengthened our disciplined approach and contributed to improving financial results in the banking sector. The markedly high half-year results of the banks are a solid platform for implementing the follow-up measures identified as a result of the asset quality review and the stress test.

I would like to assure the public, that we will be consistent in our disciplined approach and we will continue to follow our plan for reforms in the banking sector focusing not on the issues of the past but on addressing effectively the challenges of the future in order to maintain financial stability and integrate successfully in the European financial infrastructure.