

## Dimitar Radev: Recent achievements in resolving Bulgaria's banking sector issues

Address by Mr Dimitar Radev, Governor of the Bulgarian National Bank, at a forum of the Association of Banks in Bulgaria on the occasion of the 25th anniversary of its foundation, Sofia, 24 May 2017.

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Dear colleagues,

First of all, I would like to congratulate you on the occasion of the 25<sup>th</sup> anniversary of your Association. During this, sometimes turbulent, period the Association proved itself not only as a branch organization supporting its members in their banking business, but also as a reliable and reputable partner to public authorities and institutions, including BNB.

We highly appreciate this role. It was also demonstrated in the best of ways in the implementation of the measures in the banking sector after the turmoil in 2014. In the short period after it we went together a long way. As a central bank, we focused on improving supervision and building a reliable institutional framework for resolving banking sector issues. Undoubtedly, however, our most important joint effort was the asset quality review and the stress test conducted last year. An exercise unprecedented in its scale that was a real challenge and a test not only for the central bank, but for our banking system as a whole.

Only two days ago, our achievements in the banking sector were a subject of an objective and independent discussion. This happened at the consideration and approval of our financial system assessment at the highest possible professional forum for such discussions – the Executive Board of the IMF. The conclusions from this discussion are categorical. Progress is achieved in the implementation of all measures we launched in 2015. Supervision is in a better condition. As a result of the asset quality assessment we have a clearer picture and high quality data of bank impairment practices and collateral valuations. Our banking sector is generally stable and with high capital adequacy and liquidity.

Certainly, those things are well known in the banking sector. The discussion two days ago provided a platform so things can be made visible for those outside the banking sector as well. I must immediately stress that the discussion reached yet another important conclusion, which we are well – perhaps even better – aware of than external observers, namely, that we need to consolidate the achieved progress. I would sum this up in the following way: we have made a definite progress; however, even more remains to be done. And this is what we are currently focusing on.

All our actions will be anchored in our legislative mandate which is: price stability, stability of the lev, and stability of our monetary regime. I will say once again what I have stated repeatedly: the only exit from our currency board monetary arrangement is our entry into the euro area and the adoption of the euro. That will happen when all necessary conditions for this are fulfilled. We are not at this stage yet; however we are working hard in this direction.

I should now like to say a few words about our immediate priority tasks.

*First*, we are making sure the measures resulting from the asset quality review are strictly applied with a focus on the capital buffer replenishment plans as prescribed for some of the banks.

*Second*, we are finalising the plan to further enhance the work of the banking supervision. That is a continuation of the plan we have been implementing for the last almost two years now and whose fulfilment has produced good results. The new accents are: internal regulations,

information systems, and increase of resources, including appointment of the additional number of people as provided for in the original plan, which, unfortunately, takes more time than we expected.

*Third*, we adopted a combination of measures to make the already developed system for recovery and resolution of banks fully functioning. In this area we have prioritised two sets of measures: the approval of resolution plans for the systemically important domestic banks (something that we have already done for the subsidiaries of EU banks); and the joint work with the Ministry of Finance of possibilities for the BNB to provide liquidity support.

*Fourth*, we have thoroughly analysed the issue of nonperforming loans (NPL), both at banking system level and at an individual bank level, and we are developing comprehensive measures which would create conditions for reduction of these loans, including strengthened loan-loss provisions, higher NPL write-offs, improved collateral valuations, enhanced disclosure practices, and strengthened data collection.

*Fifth*, we are continuing the efforts to bring the regulatory framework fully in line with the EU law. For example, we are drawing up a completely new law on payment services and payment systems which, inter alia, would strengthen the requirements for security of payments made electronically and via Internet.

I mention all these priority tasks of the BNB because for their performance we would largely rely on our constructive partnership with you, as we have done so far.

Of course, we are well aware of the specific challenges that you too are facing. The strong pressure on profitability with a still weak, though increasing, and demand for loans requires that you keep seeking solutions for greater efficiency. The topics of credit risk management and costs policies would more and more be high on the agenda also because it is likely that we would witness another cycle of rising interest rates, given the worldwide trends and the expectations of such a development in the euro area sooner or later.

These are topics that we will continue to discuss.

Thank you for the good cooperation, and congratulations on the 25<sup>th</sup> anniversary!