

Dimitar Radev: Review of Bulgaria's economy and banking system

Banker's Day' speech by Mr Dimitar Radev, Governor of the Bulgarian National Bank, to the Association of Banks in Bulgaria, Sofia, 5 December 2017.

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Dear Colleagues,

Dear Members of Parliament,

Dear guests,

First of all, I would like to thank you for the invitation – on my behalf and on behalf of my colleagues in the BNB Governing Council. We are delighted to be with you this evening.

The passing year 2017 was good both for the economy and for the banking system in Bulgaria. Perhaps, this has been the first year for a long time, in which there is more optimism than pessimism.

The economy is developing at better rates than we anticipated early this year. The fiscal position is solid. The banking sector is in a very good state.

Capital adequacy and liquidity ratios are above the average levels for the European Union. For a second consecutive year this sector's profits nearly reach the highest historical levels. Lending continues to increase. We see a long-term downward trend in non-performing loans.

We also have positive results from the accomplishment of the BNB's main priorities. Generally, the measures adopted after the asset quality review and the stress test last year are being implemented successfully. The efficiency of banking supervision is improving and all independent observers of the developments in our banking sector point up this progress. Now we have in place a framework for the recovery and resolution of banks, something that we did not have two years ago. Serious steps forward have been made on all technical issues that are of key importance for the integration into the European financial infrastructure.

I wish to point out something in the BNB's work, something that may be difficult to see – it is the huge amount of experts' work and the intensive technical consultations that we are having about our joining the Exchange Rate Mechanism II and the euro area.

I've already had a suitable occasion to thank my colleagues in the central bank. Now it is a pleasure to thank you, too, for the very good results achieved in this sector.

All the items on our agenda are not yet completed and we still have a lot to do. I will not go into details or numbers, but let me mention some of our today's priorities.

I will begin with the amendments to the Law on Credit Institutions which take effect from today. They create an appropriate legal framework for further consolidation of the BNB's supervision model. You probably know that from today onwards all the most important decisions and administrative acts will have to be approved and issued by the Governing Council.

The second group of most important issues relates to lending to so-called 'related parties'. A legal framework has been created for better definition of this subject and for managing the relevant supervisory practices. You probably remember that last year, when we completed the asset quality review, this was a topical issue. No problems were found in this sphere, but we did know that some issues needed to be resolved. The new legal amendments help us make a step forward in this direction.

A global development that we should mention and that will affect every one of you is the beginning normalisation of the leading central banks' monetary policies. This coincides with a period of economic recovery both nationally and internationally. We will enter a new cycle of increasing interest rates. This is not going to happen overnight. The process is expected to run smoothly and to become more ostensible in 2019. This immediately raises the question of the actions that we all have to take to manage credit risk and regarding expense policies.

Let me briefly outline what we are doing with regard to non-performing loans. Over the last two years the improvement in this area is considerable indeed. At the end of 2014 the portion of these loans was around 17%, now it is around 11%. Only a couple of days ago we sent the banking association a draft of guidelines on the continuation of this trend. We expect to receive your views on these guidelines so that we can finalise them as soon as possible. It is important that we divide the tasks related to non-performing loans into two – reducing the current level of non-performing loans, and preventing new loans of this kind.

As for the preparations for the entry into force of the new International Financial Reporting Standard No. 9, we have just aggregated the data received from you. I think, as a whole, the sector is ready for its implementation, but more work is to be done, especially in some banks. What I am trying to say is that this is not a one-off act; it is rather a process we are going to work on.

And now a few words about the Law on Payment Services and Payment Systems, which will come into effect from the beginning of 2018. It sets higher standards and requirements for banks concerning the security of payment operations, including those made via Internet or through other IT devices. We expect that the new law would reduce the number of disputes between providers and users of payment services, as well as the number of cases where the BNB should get involved directly.

Please allow me to thank you and to once again congratulate you on this year's very good results. I wish you joyful celebrations, a happy Banker's Day, and very happy Christmas and New Year, as well as good health and success in the New Year!

Thank you for your attention.