

## **Radoslav Milenkov: Second term - priorities and challenges**

Publication by Mr Radoslav Milenkov, Deputy Governor in charge of the Banking Supervision Department, in the Bulletin of the Association of Banks in Bulgaria, issue 81, May 2025.

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During the past first term, one of the most significant successes so far in the history of the BNB and banking supervision was achieved, namely the accession of Bulgaria in 2020 to the European Banking Union.

The development of banking supervision in the country within the next term will certainly follow the framework of the Single Supervisory Mechanism Development Strategy in view of our country's membership in the Banking Union. The long-term goal remains unchanged –maintaining a stable and resilient banking sector with the capacity to absorb shocks, including from emerging risks, and which is capable of supporting the broader economic agenda in Bulgaria.

Banking supervision will continue to monitor, assess and, where necessary, apply proportionate supervisory impacts on banks' capacity to implement an adequate provisioning policy in the context of a conservative capital and liquidity position. The focus will remain on ensuring that identified weaknesses are addressed effectively and in a timely manner, using all supervisory tools to achieve this objective.

The Supervisory Review and Evaluation Process as well as on-site inspections will remain focused on granting and monitoring of loans, and guidance on the management of non-performing and forborne exposures. The capacity for the early identification by banks of potential financial difficulties of borrowers will be assessed, including through a targeted review of corporate credit files, identification of related parties, internal exposures, as well as an assessment of the strategy for reducing acquired assets.

Banking supervision will continue the practice of supervisory dialogue with LSIs directly supervised by the BNB regarding stated intentions to pay dividends and/or buy back shares. As before, these banks will have to demonstrate a sound capital trajectory based on conservative assumptions defined by Banking Supervision and embedded in the bank's business plan, subject to supervisory review.

With regard to its macroprudential mandate, the BNB has defined the level and scope of all capital buffers in a conservative and timely manner. The accumulation of all capital buffers in Bulgaria leads to one of the highest system level of combined buffer requirement in Europe. The active application of macroprudential tools has contributed to preserving banks' resilience and securing their lending capacity as a prerequisite and driver of sustainable economic growth, both during the Covid pandemic and in times of heightened geopolitical uncertainty.

The vector of the future development of macroprudential policy will remain subject to the principles of conservatism, preventive orientation and active application.

The macroprudential approach is defined by the synergy of capital buffer requirements and the requirements introduced for credit standards when granting and renegotiating loans secured by residential immovable property. The purpose of the requirements is to ensure that credit growth is within conservative risk parameters.

Over recent years, one of the focal points of the work of the Banking Supervision Department has been the assessment of risks arising from the digitalisation of the banking sector. A special unit has been set up in the Banking Supervision Department, and it has developed, validated and will further deepen its specific supervisory expertise in the field of banking digitalisation and cybersecurity.

Banks operate in an environment characterised by dynamic structural and long-term trends, including digitalisation. The rapid advances in technology, including the emergence of generative artificial intelligence, and the speed of implementing such technologies are changing the banking sector, accelerating and altering the product and process developments, but also pose new challenges and risks.

The technological advances, and especially digital transformation, are becoming a priority for the future of the banking sector, and it is vital that banks have adequate mechanisms in place to ensure adequate management of risks arising from the implementation of new technologies. Therefore, the complex cyber threat landscape also plays a key role as the progress in digitalisation is creating a new dimension of risks to banks' operational resilience.

Last but not least, the preventive measures against money laundering and terrorist financing are of key importance to the banking sector. The BNB's powers under the national law cover the prevention of money laundering and terrorist financing in the banking sector, while the ECB has no powers in this area, except as part of the assessment of acquisitions of qualifying holdings.

These powers at European level have been assigned to a newly established supervisory authority, the Anti-Money Laundering Authority (AMLA). The Bulgarian National Bank has established full cooperation with this new supervisory authority and works with it in accordance with the relevant European legal framework.

Banking supervision will continue to undertake systematic actions to comply with the regulatory requirements for prevention, as well as to identify and mitigate the related risks in the banking sector by means of regular review and analysis of credit institutions' activities in the field of prevention of money laundering and terrorist financing, and by applying a risk-based approach in line with the European Supervisory Authorities' guidelines and the national legal framework.

In conclusion, supervisory strategies in the context of the priorities set out will increasingly be defined on the basis of banks' risk profiles. The banks with more complex or higher-risk profiles will be subject to even more intense supervision. Emphasis will still be placed on timely intervention in identifying risks, ensuring that the corrective measures are effective, timely and proportionate.