BULGARIAN NATIONAL BANK

1879

REPORT · JANUARY – JUNE 2020

Bulgarian National Bank

Report • January – June 2020

Published by the Bulgarian National Bank
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The BNB January–June 2020 Report employs data published prior to 1 October 2020.

ISSN 1313-3454 (print)
ISSN 2367-4946 (online)

Honourable Chair of the National Assembly,
Honourable People's Representatives,

Under the provisions of Article 1, paragraph 2 and Article 50 of the Law on the Bulgarian National Bank, I have the honour of presenting the January–June 2020 Report.

Dimitar Radev
Governor
of the Bulgarian National Bank

BNB Governing Council
Sitting from left to right: Lyudmila Elkova, Dimitar Radev, Elitsa Nikolova.
Standing from left to right: Kalin Hristov, Radoslav Milenkov, Nina Stoyanova, Nikolay Nenovsky.

BNB Governing Council

Dimitar Radev
Governor

Kalin Hristov
Deputy Governor
Issue Department

Nina Stoyanova
Deputy Governor
Banking Department

Radoslav Milenkov
Deputy Governor
Banking Supervision Department

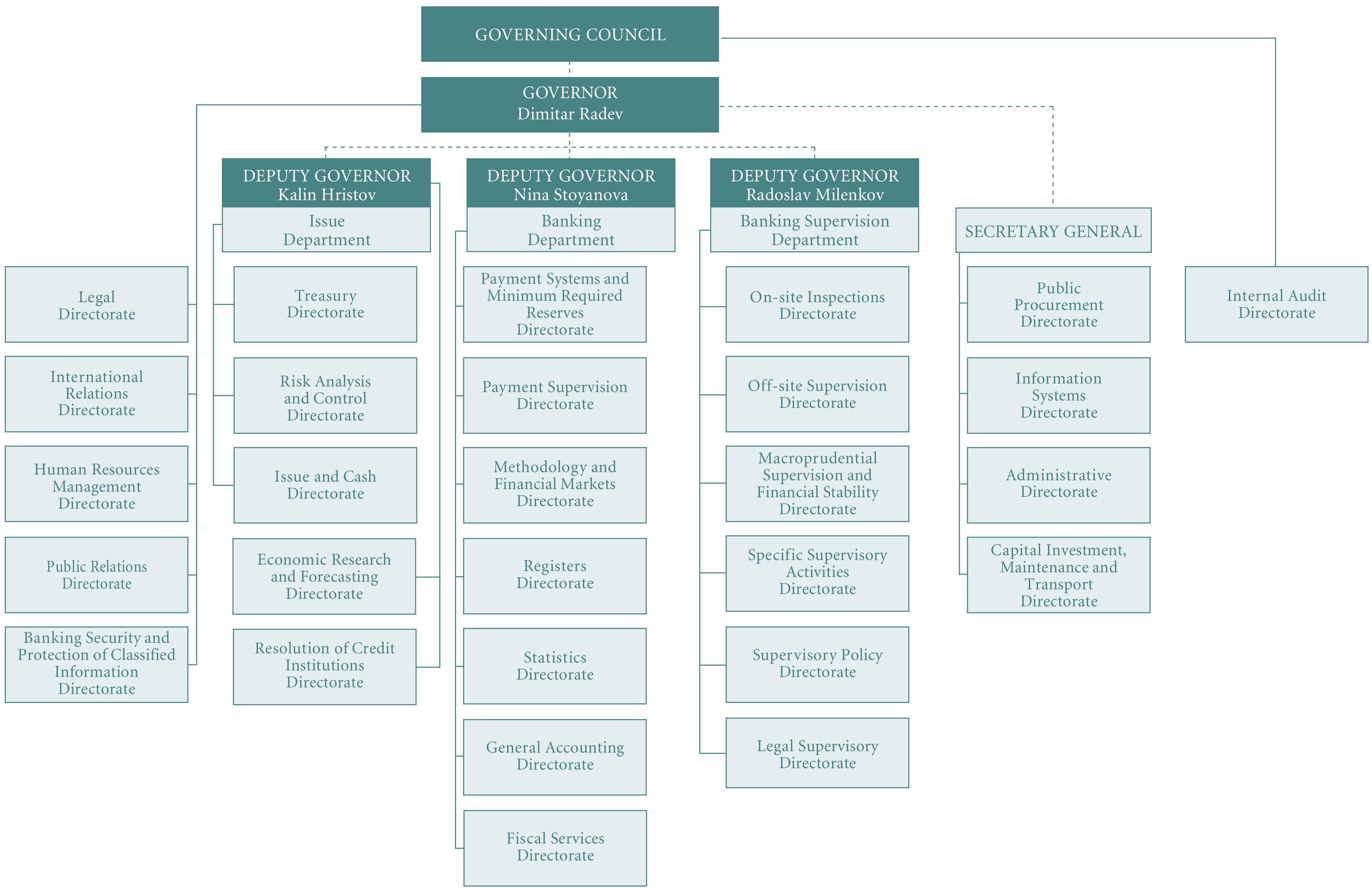
Elitsa Nikolova

Lyudmila Elkova

Nikolay Nenovsky

Organisational Structure of the BNB

(as of June 2020)



Contents

Abbreviations

ABSPP	ECB Asset-backed Securities Purchase Programme
AQR	asset quality review
AS ROAD	Automated System for Registration and Servicing of External Debt
ATM	Automated Teller Machine
BIS	Bank for International Settlements
BISERA	Bank Integrated System for Electronic Payments
BNB	Bulgarian National Bank
BORICA	Bank Organisation for Payments Initiated by Cards
BRF	Bank Resolution Fund
CBPP3	ECB's Third Covered Bond Purchase Programme
CCR	Central Credit Register
CHF	Swiss franc
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
Ecofin	Economic and Financial Affairs Council of the European Union comprising Member State economics and finance ministers
EDIS	European Deposit Insurance Scheme
EONIA	Euro OverNight Index Average (registered trademark of the European Money Market Institute, EMMI)
ESA 2010	European System of National and Regional Accounts
ESCB	European System of Central Banks
ESRB	European Systemic Risk Board
ESROT	Electronic System for Registering and Servicing Government Securities Trading
EU	European Union
EUR	euro
EURIBOR	Euro InterBank Offered Rate (EURIBOR, registered trademark of the European Money Market Institute, EMMI)
GDP	Gross Domestic Product
GSAS	System for Government Securities Sale and Repurchase Auctions
HICP	Harmonized Index of Consumer Prices
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOBFR	System for Budget and Fiscal Reserve Information Servicing
KTB	Corporate Commercial Bank AD
LBNB	Law on the BNB
LCI	Law on Credit Institutions
LEONIA	an interest rate on real transactions in unsecured overnight deposits in BGN offered at the interbank market
LPSPS	Law on Payment Services and Payment Systems
LRRCIIF	Law on the Recovery and Resolution of Credit Institutions and Investment Firms
LTROs	Longer-term refinancing operations
MF	Ministry of Finance
MFI	Monetary Financial Institutions
NPISH	Non-profit Institutions Serving Households
NSI	National Statistical Institute
OPEC	Organization of Petroleum Exporting Countries
POS	Point of sale/point of service: a retail trade terminal for credit and debit card transactions
PSPP	Public Sector Purchase Programme
RINGS	Real-time gross settlement system
ROA	Return on Assets
ROE	Return on Equity
SDR	Special Drawing Rights
SEPA	Single Euro Payments Area
SITC	Standard International Trade Classification
SOFIBID	(Sofia Interbank Bid Rate) is an index calculated as the average of the bid quotes for unsecured BGN deposits
SOFIBOR	(Sofia Interbank Offered Rate) is a fixing of the quotes for unsecured BGN deposits offered in the Bulgarian interbank market
SRB	Single Resolution Board
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TARGET2	Trans-European Automated Real-time Gross settlement Express Transfer system for the euro
TARGET2-BNB	Bulgarian system component of TARGET 2
USD	US dollar
VaR	Value-at-Risk
VAT	Value Added Tax
XAU	troy ounce gold
XDR	currency code for special drawing rights

Summary

The Bulgarian National Bank conducts its policy taking into account the international situation and developments in the national economy. The BNB pursues its primary objective of price stability through maintaining the stability of the national currency by adhering to the Law on the Bulgarian National Bank (LBNB) and applying its potential and capabilities effectively.

The BNB January–June 2020 Report covers the activities relating to the BNB's legal functions and duties, as well as other BNB operations related to or supporting its functions and duties. The Report also includes BNB budget implementation for the first half of 2020 and consolidated financial statements as of 30 June 2020 (unaudited). Under Article 17, paragraph 5 of the Law on the BNB, Governing Council resolutions adopted in January–June 2020 are published in this Report.

The spread of a new variant of coronavirus – COVID-19 – first identified in China and causing a pandemic, triggered containment measures of unprecedented magnitude and stringency which exerted a strong unfavourable effect on economic activity over the first half year. They led to complete disruption of activities in a number of economic sectors, and the services sector was affected most strongly resulting also in a rapidly increased uncertainty about the future economic development and worsened economic agent attitudes. In April global PMI recorded its lowest historical value. With the gradual easing of containment measures and a broad circle of monetary and fiscal policy measures to overcome the economic crisis, by end-June global PMI dynamics signalled a partial recovery in economic activity across the globe. In the first half of 2020 industrial production and world trade volumes posted strong annual declines by 7.7 and 8.8 per cent, respectively. The euro area reported the highest historical decrease in real GDP accounting for 9.0 per cent on an annual basis, and the US economic activity slowed down by 4.3 per cent.

International prices of major commodity groups and raw materials, excluding food prices, dropped on an annual basis. In the context of an essential decline in global demand on average for the first half year, oil prices dropped by 37.7 per cent in US dollars (a 36.2 per cent fall in euro). As of June annual euro area inflation slowed down to 0.3 per cent, from 1.3 at the end of 2019, while US inflation fell to 0.6 per cent, from 2.3 per cent at the end of 2019.

In the context of a strong adverse effect of containment measures on economic activity, leading central banks launched accommodative monetary policy measures to boost liquidity and ensure favourable financing conditions. The main part of ECB's initial measures included improved conditions on targeted longer-term refinancing operations (TLTRO-III) and a temporary envelope of additional net asset purchases under the extended Asset Purchase Programme (APP) to the amount of EUR 120 billion coupled with an activated swap line with the Federal Reserve System for provision of dollar liquidity. Subsequently, a new temporary Pandemic Emergency Purchase Programme (PEPP) was announced with an initial size of purchases at EUR 750 billion, thereafter raised to EUR 1350 billion and its horizon extended from the end of 2020 to at least end-June 2021. In addition, the ECB Governing Council decided on collateral easing packages and introduction of longer-term financing operations called pandemic emergency longer-term refinancing operations (PELTROs). The US Federal Reserve also initiated a number of extraordinary measures and lowered the target range for the federal funds rate by 150 basis points to 0.00–0.25 per cent. In the first half year 11 programmes were announced to include measures applied for the last time during the financial crisis of 2008–2009 and entirely new programmes for

US government securities purchases and mortgage bonds along with more favourable conditions for central banks' access to dollar liquidity.

Strongly increased global uncertainty caused by COVID-19 effects led to a heightened volatility in international financial markets. Mid-March saw very high demand for cash and sales of all kinds of assets, including shares, fixed income securities, precious metals and raw materials. Subsequent large-scale accommodative monetary and fiscal measures worldwide contributed largely to a decline in the uncertainty in financial markets and a partial recovery of financial asset prices.

COVID-19 spread and global containment measures prompted significant negative effects on Bulgaria's economic activity in terms of subdued external demand for Bulgarian goods and services. From 13 March to 13 May 2020, the National Assembly introduced a state of emergency, and a number of measures and actions were launched to contain the coronavirus spread which, in turn, had an additional unfavourable effect on economic activity. The state of emergency was lifted in mid-May, giving rise to stepwise easing of containment measures in the context of an emergency epidemic situation. Over the first quarter of 2020 real GDP grew by 0.3 per cent on a quarterly basis, followed by a strong decline of 10.0 per cent in the second quarter. Overall for the half year, economic activity slowed down by 4.2 per cent annually, driven by a fall in domestic demand, while net exports had a low positive contribution. In the context of a pandemic, the fiscal policy was countercyclical and contributed positively to the economic activity through both higher national and EU co-financed expenditure on government consumption and investment and increased net transfers to households. People employed in the economy fell by 2.4 per cent on an annual basis, with containment measures concentrated in the second quarter pushing down strongly employees (down 3.3 per cent annually for the total economy). Another immediate consequence of containment measures was the reduction of working hours and placing part of employees on unpaid leave, which resulted in significantly declining hours worked *per* person over the second quarter. The unemployment level increased to 5.2 per cent in the first six months, from 4.6 per cent on average a year earlier. Measures undertaken by the government to maintain employment and employees' income mitigated partially the negative effects on the labour market.

By end-June the annual rate of consumer price inflation slowed down significantly from the end of 2019 to reach 0.9 per cent (3.1 per cent in December 2019), driven mainly by decreased prices of energy products and a gradually declining positive contribution of core components.

Non-government sector deposits continued growing at comparatively high rates under the influence of limited consumption and investment opportunities of households and firms due to COVID-19 measures, lack of a safe alternative to bank deposits, as well as increased precautionary savings and postponed consumer expenditure and investment projects. As of June 2020 deposits of the non-government sector rose by 8.3 per cent on an annual basis, from 9.7 per cent by end-2019. Credit to non-financial corporations and households continued to increase, albeit at a slowing rate. More essential slowdown in credit growth was observed in the second quarter, reflecting limited demand. Credit standard tightening by banks, mainly due to their risk aversion, also subdued credit growth. As of June 2020 loans to non-financial corporations increased by 2.8 per cent on an annual basis (5.9 per cent at the end of 2019) and those to households by 8.0 per cent (9.5 per cent by end-2019).

In the first six months of 2020 the budget balance of the consolidated fiscal programme remained positive despite the negative impact of the COVID-19 crisis on Bulgaria's budgetary position related to automatic stabilisers and effects of government discretionary measures. CFP surplus was BGN 1610 million for January–June. Accumulated cash surplus funds coupled with external debt financing were used to boost liquidity buffers of the government and for other financing operations, the bulk of them intended to attenuate negative economic effects from the measures on COVID-19. Between January and June fiscal reserve on deposits rose by BGN 1275 million to BGN 9840 million.

In managing international reserves, the Bank continued conducting its conservative policy by imposing a number of additional investment restrictions early in March already, given the international financial market crisis as a result of significant financial and economic uncertainties stemming from measures imposed to curb the global spread of COVID-19. Introduced investment restrictions aimed to reduce credit and market risks, on the one hand, and to increase international reserves liquidity, on the other. By end-June 2020 the market value of gross international reserves was EUR 28,039.7 million: a total increase of EUR 3204.1 million, or a 12.90 per cent rise on end-2019. The BNB continues investing the main part of assets into euro area government securities of highest credit quality comprising on average 54.95 per cent of total international reserves. Deposits occupied 30.66 per cent and cash increased to 14.39 per cent, from 4.21 per cent by end-2019. Net income from international reserves management was positive at EUR 280.85 million or 1.17 per cent net return for the review period. Broken by component, net income comprised investment income which was negative at EUR -47.02 million, earnings from foreign exchange revaluation at EUR 303.14 million and net financial result of liabilities which was positive at EUR 24.73 million.

Implementing, operating, and overseeing efficient payment systems are important central bank functions. National payment systems functioned effectively and provided payment flow continuity. In the first half of 2020 RINGS, a real-time gross settlement system operated by the BNB, processed 85.2 per cent of payments in Bulgaria. RINGS payments numbered 474,257, down 11.4 per cent on the first half of 2019, their value reaching BGN 521,296 million (up 1 per cent from the same period of 2019). The number and value of payments processed by BORICA and BISERA rose in the first six months of 2020. The national system component of the Trans-European Automated Real-time Gross settlement Express Transfer system for the euro run by the BNB – TARGET2-BNB – processed 111,472 payments (down 19.9 per cent on the first six months of 2019) for EUR 249,640 million (up 7.5 per cent on the first half of 2019). The Bank regulates and oversees payment system operators with settlement finality, payment service providers and electronic money issuers in Bulgaria. In the first six months, the Bank completed two oversight inspections: in a payment service provider and a spot inspection of all payment service providers licensed by the BNB. It also started inspecting a payment service provider. The BNB granted one electronic money institution licence and refused a payment institution licence.

The Bank has a monopoly on banknote and coin issue in Bulgaria. Its currency is mandatorily acceptable as legal tender at face value without restriction. BNB issue and cash operations include: banknote printing, coin minting, accepting, delivering, repaying, processing, authenticity and fitness checking of Bulgarian banknotes and coins and foreign currency, exchanging damaged Bulgarian banknotes and coins, and scrapping unfit Bulgarian banknotes and coins. In the first half year the BNB put into circulation as legal tender banknotes of BGN 10 and 20 nominal value, issue 2020. The upward trend in currency in circulation on an annual basis was sustained, its amount rising by 8.68 per cent. In late June 2020, 489.1 million banknotes were in circulation, amounting to BGN 18,397.1 million (up 5.2 per cent in number and 8.74 per cent in value from June 2019) and 2643.0 million circulating coins, worth BGN 469.1 million (up 5.58 per cent in number and 7.64 per cent in value from June 2019). The BNB conducted a check into a credit institution to ensure compliance with Ordinance No 18 on the Control over Quality of Currency in Circulation and instructions on its implementation.

The Bank regulates and supervises banks in Bulgaria to maintain banking system stability and protect depositors' interests. In the first half of 2020 Bulgaria's banking sector operated in an environment of an abrupt and very strong decline in economic activity. The Bulgarian banking system has met this economic shock in a good condition: solid capital and liquidity positions ensuring business continuity and operational reliability of banks in financial intermediation. Resilience and flexibility of the banking sector in the context of a dramatically worsened macroeconomic environment were underpinned by both recent years' policy toward the build-up of buffers and the package of measures adopted in March 2020 by the BNB Governing Council to further strengthen bank capital and liquidity, including profit capitalisation of credit institutions, annulment of planned increases in the countercyclical capital buffer and reduction of bank foreign exposures. Reflecting the economic shock arisen from the COVID-19 containment measures, recent years' trend to an improving ratio of non-performing loans was reversed in the first six months of 2020. Banks reacted to the increased credit risk mainly through raising impairment charges which, coupled with lower operating income, impacted adversely return on assets in the banking sector. Worsened economic environment effects on banks' credit portfolio quality were limited by the April decision of the BNB Governing Council on compliance with EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02). Despite the strongly worsened macroeconomic environment, the banking system retained its robust liquidity position, with capital ratios remaining at levels significantly higher regulatory requirements.

The process of banking sector consolidation continued during the reporting period, with Expressbank AD being transformed through a merger into DSK Bank EAD.

In the first half of 2020 off-site supervision focused on current monitoring of credit institutions risk profile and assessment of their financial position. Supervisors reviewed and assessed banks' Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reports for 2019. The scope and objectives of on-site inspections involved a review and evaluation of credit risk level and management, supervisory reporting quality check, ICAAP review and assessment. Findings resulted in supervisory recommendations to the managements of inspected banks for improving the organisation and management of credit, operational and liquidity risks and ICAAP. Macroprudential supervisory action was focused on a regular analysis of the banking risk profile covering both key regulatory risks – asset quality, profitability level, capital adequacy and liquidity – and an assessment of cyclical and structural measures of the systemic risk which are the basis of introduced macroprudential instruments. Supervisory information servicing during the review period focused on timely data provision by banks, financial institutions, and credit intermediaries along with a new version of the EBA reporting framework. In terms of specific supervisory action, in early 2020 a National Risk Assessment was adopted to support appropriate measures against money laundering and terrorist financing. Jointly with the State Agency for National Security, a comprehensive assessment of bank systems developed to prevent money laundering and terrorism financing was performed, with findings showing their reliable functioning. Within the regulatory framework, Bank's experts took part in drafting the amendments to the Law on Credit Institutions intended to introduce the requirements of Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures.

Implementation of the tasks in establishing close cooperation between the ECB and the BNB in view of BNB's accession to the SSM continued to be a priority of banking supervision activities over the first half year.

The BNB as the body responsible for resolving credit institutions focused on preparing, reviewing and updating resolution plans. Over that period, the BNB Governing Council adopted 2019 resolution plans of six credit institutions that are not part of a group subject to supervision on a consolidated basis, and a resolution plan of a credit institution subject to supervision on a consolidated basis. In addition, the BNB jointly with the group-level resolution authorities and other resolution authorities of EU subsidiary companies continued to work on reviewing resolution plans of five banking groups and their subsidiaries licensed in Bulgaria. Under the LRRCIIF, in March the Governing Council set the total 2020 amount of annual bank contributions to the Bank Resolution Fund (BRF) at BGN 157,876,000. The BNB, as a resolution authority, continued working jointly with SRB representatives on preparation for joining the SRM and the SRF as a direct consequence of close cooperation with the ECB.

By participating in the committees and working groups of the European System of Central Banks, the European Commission, the EU Council, the European Systemic Risk Board, the European Banking Authority, and the national Council for European Affairs, the BNB contributed to formulating Bulgarian standpoints on key economic governance areas and the financial sector. Transmission channels of the COVID-19 containment measures to the European economy, estimated economic implications and measures to mitigate their effect were the main focus of EU committees and working groups with the participation of BNB representatives. In the first half of 2020 the Bank continued its intensive work on harmonising national legislation with European requirements. The Bank consulted the ECB in writing on the draft Law amending the Law on Credit Institutions introducing provisions related to BNB powers to impose sanctions within the close cooperation and the official exchange rate of the Bulgarian lev. ECB's decision of 24 June 2020 (ECB/2020/30) established close cooperation between the European Central Bank and the Bulgarian National Bank conferring specific tasks on the European Central Bank in conjunction with Council Regulation (EU) No 1024/2013 concerning policies relating to the prudential supervision of credit institutions. This Decision enters into force on the 14th day following its publication in the Official Journal of the European Union.

In the first half of 2020 the BNB continued to collect, process, analyse and disseminate the official monetary and interest statistics, external sector statistics, statistics of quarterly financial accounts of all institutional sectors, statistics of non-bank financial institutions, including leasing companies and investment funds, specialised lenders and insurance and reinsurance undertakings. In line with the instructions on the content and procedure for providing information on monetary and interest rate statistics to BNB Ordinance No 17, in early 2020 the BNB adopted extended reporting requirements to banks for monetary and interest rate statistics. In mid-May 2020 the ECB published annual reports on the quality of statistical data compiled by the BNB on the balance of payments, the international investment position, and quarterly financial accounts. In the context of commitments to the IMF upon accession to the Special Data Dissemination Standard Plus (SDDS Plus), the requirement to include information on the general government total gross debt was also met in the first half year.

The BNB maintains the Central Credit Register (CCR): an information system on customer debt to Bulgarian banks, other financial institutions, and payment and electronic money institutions extending loans under Article 19 of the Law on Payment Services and Payment Systems. Banks, financial institutions, payment institutions, electronic money institutions and government and judicial authorities authorised to electronic access to the CCR conducted 4353 thousand searches on 3804 thousand natural persons and 549 thousand legal entities, their average monthly number reaching 726 thousand. Between 1 January and 30 June 2020, 692 natural persons obtained electronic statements on CCR information. The Bank maintains the Register of Bank Accounts and Safe Deposit Boxes (RBASDB): an electronic information system on bank account numbers, holders and attorneys, data on account preservation orders, bank deposit box holders and attorneys. The RBASDB information system included records of 1.56 million new accounts, 1.53 million closed accounts and 1.43 million account preservation orders. In the first six months of 2020 bodies and institutions entitled to Register's information system access conducted searches on 236,237 individuals. There were 1100 applications for CCR statements: 1051 by individuals and 49 by legal entities. Over the review period, 90 natural persons obtained electronic statements on CCR information.

Acting as fiscal agent and official depository, the BNB maintains, develops and improves electronic systems for budget and fiscal reserve information servicing, auctions, settlement and securities trade servicing, the Register of Special Pledges, and external debt transactions. MF issuing policy involved seven auctions for BGN-denominated government securities *via* the GSAS system, with the total nominal value of government securities offered for sale accounting for BGN 1400 million. The aggregate nominal volume of government securities registered in ESROT was BGN 9244.5 million, down 5.4 per cent on the first half year of 2019. Work started on defining changes to the IOBFR system for budget and fiscal reserve information servicing related to the MF and BNB new instruction on the implementation of Article 152 of the Law on Public Finance.

Economic research and projections support the Bank's management in making decisions and delivering economic policy stance. Research Plan implementation addressed macroeconomic effects of population decline and structural adjustments in the labour market in the long run, factors driving exports dynamics, and links between Bulgaria's wage and inflation dynamics. Honing the basic model for BNB macroeconometric forecasting continued over the half year along with developing a risk management methodology for BNB's gross international reserves.

Over the first half of 2020 main priorities in the field of human resource management related to ensuring and maintaining a safe work environment at the BNB by timely designing and implementing COVID-19 containment measures and providing reorganisation of the working processes necessary for the smooth fulfilment of the BNB objectives, functions and tasks in the context of a pandemic. Since the end of February 2020, the BNB has suspended all in-person workshops and training sessions, and Bank recruitment processes were handled in a virtual environment. Employees attended a number of work training and instructions in order to perform safely their duties during the COVID-19 pandemic. At the end of June employees numbered 889, their total number remaining unchanged from the corresponding period of 2019.

BNB internal audit conforms to the International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of Internal Auditors, ESCB Internal Auditor Committee Rules, and Audit Rules approved by the BNB Governing Council. There were five audits by June 2020. They sought assurance of adequate and effective control, corporate governance, and risk management for effective attainment of objectives and tasks; reliability and integrity of financial and operational information; effective and efficient operations and programmes; asset safeguarding; legal, regulatory, internal rule, policy, procedure and contractual observance.

The BNB budget underpins Bank performance. In the first half of 2020 the BNB spent BGN 56,138 thousand on maintenance, or 47.4 per cent of approved annual budget, including currency circulation costs of BGN 20,686 thousand. The Bank invested BGN 7179 thousand or 18.5 per cent of annual item budget. The major part of the BNB investment programme involved construction activities which were delayed due to the epidemic situation leading to a lower implementation rate of planned resources under this item.

Consolidated financial statements present the Bank's financial position as of 30 June 2020.

I. Economic Development in the First Half of 2020

The External Environment

In the first half of 2020 global economic activity deteriorated significantly as a result of the measures of unprecedented magnitude and stringency to contain the spread of a new variant of coronavirus – COVID-19 – first identified in China and causing a pandemic. They led to complete disruption of activities in a number of economic sectors, and the services sector was affected most strongly resulting also in a rapidly increased uncertainty about the future economic development and worsened economic agent attitudes. In April global PMI recorded its lowest historical value. The services sector had the major contribution, while the decline in manufacturing contributed to a lesser extent. By June global manufacturing and services PMI indicated a partial recovery in economic activity across the globe. Across regions, economic indicator's dynamics mainly reflected the COVID-19 spread period and the efficiency of monetary and fiscal measures initiated to tackle the economic crisis caused by the containment measures. Indicators in China reached their lowest values in February, then recovered and exceeded the pre-pandemic levels. In most of the other countries, including in the euro area and the USA, where the launch of containment measures began in March, the lowest values of economic indicators were recorded at the beginning of the second quarter of 2020. Despite the subsequent increase, by the end of the first half their levels remained lower than those observed in early 2020.

Major Macroeconomic Indicators

(per cent, non-seasonally adjusted data)

	Real GDP Growth Rate				Inflation (end of period)				Unemployment rate (average for period)			
	2018	2019	2020		2018	2019	2020		2018	2019	2020	
			I	II			I	II			I	II
EU	2.1	1.5	-2.5	-14.0	1.6	1.6	1.1	0.7	7.3	6.7	6.8	6.8
Euro area	1.8	1.3	-3.0	-14.9	1.5	1.3	0.7	0.3	8.2	7.5	7.6	7.5
New EU Member States	4.6	3.8	1.1	-9.9	1.7	3.2.	3.4	3.0	3.8	3.3	3.4	3.9
United Kingdom	1.3	1.5	-2.7	-22.8	2.1	1.3	1.5	0.6	4.0	3.7	3.8	3.7
United States	3.0	2.2	0.3	-9.0	1.9	2.3	1.5	0.6	3.9	3.7	4.1	12.9
Japan	0.3	0.7	-1.8	-9.9	0.3	0.8	0.4	0.1	2.4	2.4	2.4	2.8
China	6.7	6.1	-6.8	3.2.	1.9	4.5	4.3	2.5	3.8	3.6	3.7	3.8

Notes: The EU group currently consists of 27 Member States of the European Union, excluding the United Kingdom, which is not part of the EU as of 1 February 2020. New EU Member States are countries joining since 2004 less those now in the euro area. New EU Member States indicators are calculated by weighing time series by country weights in group GDP for growth, in group labour force for unemployment, and the weights of the EU countries in HICP calculated by Eurostat for inflation. Real GDP growth is calculated on an annual basis according to non-seasonally adjusted data, with the exception of the USA, for which seasonally adjusted data are used. Quarterly unemployment data are seasonally adjusted. Unemployment data for the EU, Emro Area and New EU Member States are not published for the second quarter of 2020, and the indicator is therefore calculated based on available monthly data. Data published as of 1 October 2020 are used.

Sources: Eurostat, Bureau of Economic Analysis, Bureau of Labour Statistics, Statistics Bureau of Japan, the National Bureau of Statistics of China, BNB computations.

Global industrial output posted a strong annual decline in the first half of 2020, accounting for 7.7 per cent on average (against growth of 1.3 per cent for the same period of 2019)[1]. The output drop was broad-based across geographical regions, but

[1] Based on CPB data: Netherlands Bureau for Economic Policy Analysis, 25 September 2020.

the recovery in China started earlier than in other countries due to the earlier coronavirus spread and containment. Over the review period the strongest fall in industrial output was reported in the euro area, Latin America and Japan. The world trade volume also posted a significant decline, accounting for 8.8 per cent on an annual basis[2] and affecting all regions, most pronounced in the euro area and the USA. By the end of the half year the annual rate of decline in industrial production and world trade volumes decelerated compared to the strong fall recorded in April and May.

Unprecedented measures to curb the COVID-19 spread have caused the highest historical decrease in real GDP in the euro area in the first half of 2020 accounting for 9.0 per cent on an annual basis. The contraction in economic activity was concentrated mostly in the second quarter of the year when real GDP dropped by 14.9 per cent on the same period of 2019, private consumption and fixed capital investment having the main negative contribution. The decline in real GDP in the first half of 2020 compared to the same period of 2019 was observed in all euro area countries (excluding Ireland), with the strongest fall in economic activity reported in Spain, France and Italy that were most affected by the spread of the virus. In Germany real GDP fell by 6.5 per cent in the first half of 2020. In view of the very large economic shock, data available for the second quarter show a relatively slight increase in the unemployment rate in the euro area[3] (to 7.5 per cent) on the same period last year (7.4 per cent), which may be explained by the large-scale programmes for subsidised employment initiated by the euro area countries.

In the first half of 2020 the US economic activity slowed down by 4.3 per cent on an annual basis[4], mainly driven by the decrease in real GDP in the second quarter accounting for 9.0 per cent on an annual basis. Lower private consumption, as well as the strong decline in private investment had the highest negative contribution to the real GDP fall compared to the first half of 2019. The US unemployment rate rose sharply reaching 8.5 per cent on average in the first six months (3.8 per cent in the same period of 2019).

Prices of major commodity groups and raw materials in international markets excluding food decreased in dollars[5] and euro on an annual basis over the first six months of 2020. Brent crude fell both in US dollars (37.7 per cent) and euro (36.2 per cent). The main factor behind falling oil prices was related to the sudden drop in oil demand after the spread of COVID-19 globally and stringent restrictions imposed on international and domestic travel. The break-up in negotiations among the members of OPEC+ on oil-production cuts and the subsequent 'price war' between Saudi Arabia and Russia exerted additional downward pressure on oil prices in March. The fall in oil prices was partially limited by the historic OPEC+ agreement reached in April 2020 to curb oil output.[6] The global food price index increased by 2.9 per cent on an annual basis in dollars and 5.6 per cent in euro. The dynamics across index subcomponents was divergent. Between January and June 2020 the price of wheat in dollars and euro rose, while the metal price index fell by 8.8 per cent in dollars and by 6.5 per cent in euro on the first half of 2019. Metal price falls reflected the marked decrease in global industrial production. In the beginning of the half year decreased metal prices were mainly driven by the slow recovery of industrial output and construction activities in several regions of China due to the COVID-19 containment

[2] Based on CPB data: Netherlands Bureau for Economic Policy Analysis, 25 September 2020

[3] Unemployment quarterly data for the euro area are available for the second quarter of 2020.

[4] Non-seasonally adjusted data on US real GDP are used.

[5] Hereinafter referred to as the US dollar.

[6] On 12 April 2020 OPEC, Russia and other oil producing countries agreed on decreasing daily oil production to 9.7 million barrels, with effect from 1 May 2020.

measures and the temporary shut-downs of metal production capacities in the rest of the world at a later stage.

In June 2020 global inflation was 1.8 per cent[7] on an annual basis, its rate moderating from the end of 2019 (2.3 per cent).

Euro area annual inflation[8] in June 2020 decreased substantially to 0.3 per cent (1.3 per cent in December 2019), reflecting mainly the significant drop in energy prices. Core inflation (excluding food, energy, alcohol and tobacco products) slightly decelerated to 0.8 per cent (1.3 per cent in December 2019). By the end of the first half of 2020 annual deflation was recorded in nine euro area countries, most pronounced in Cyprus (-2.2 per cent), Greece (-1.9 per cent) and Estonia (-1.6 per cent).

US Consumer Price Index (CPI) inflation[9] fell significantly to 0.6 per cent in June 2020 from 2.3 in December 2019. In the first half year inflation measured by the personal consumption expenditure price index slowed to 1.2 per cent on an annual basis (1.5 per cent in the first half of 2019 and remained under the target set by the Federal Open Market Committee (FOMC).

In the context of the rapid spread of COVID-19 and containment measures adversely affecting economic activity, the ECB Governing Council launched accommodative monetary policy measures between March and June 2020, keeping unchanged the reference interest rates and their forward guidance. Initial measures announced in the 12–15 March period included additional longer-term refinancing operations (LTRO), improved conditions on targeted longer-term refinancing operations (TLTRO-III), and a temporary envelope (until the end of 2020) of additional net asset purchases under the extended Asset Purchase Programme (APP) to the amount of EUR 120 billion coupled with an activated swap line with the Federal Reserve System for provision of dollar liquidity. On 18 March the ECB announced a new temporary Pandemic Emergency Purchase Programme (PEPP) with an initial size of purchases at EUR 750 billion, thereafter raised to EUR 1350 billion and its horizon extended from the end of 2020 to at least end-June 2021. In addition, the ECB Governing Council decided on collateral easing packages, further improvements of the terms and conditions on TLTROIII and introduction of longer-term financing operations called pandemic emergency longer-term refinancing operations (PELTROs).[10]

The US Federal Reserve initiated extraordinary accommodative monetary policy measures intended to attenuate negative economic effects from the measures on COVID-19 and to manage the liquidity and favourable financing conditions for economic agents. At two extraordinary meetings in March, the US Federal Open Market Committee lowered the target range for the federal funds rate by 150 basis points to 0.00–0.25 per cent. The Federal Reserve also initiated a number of extraordinary measures to stabilise and improve the functioning of financial markets. In the first half year 11 programmes were announced to include measures applied for the last time during the financial crisis of 2008–2009 and entirely new programmes for US government securities purchases and mortgage bonds along with more favourable conditions for central banks' access to dollar liquidity.

[7] Based on 1 October 2020 seasonally adjusted World Bank data.

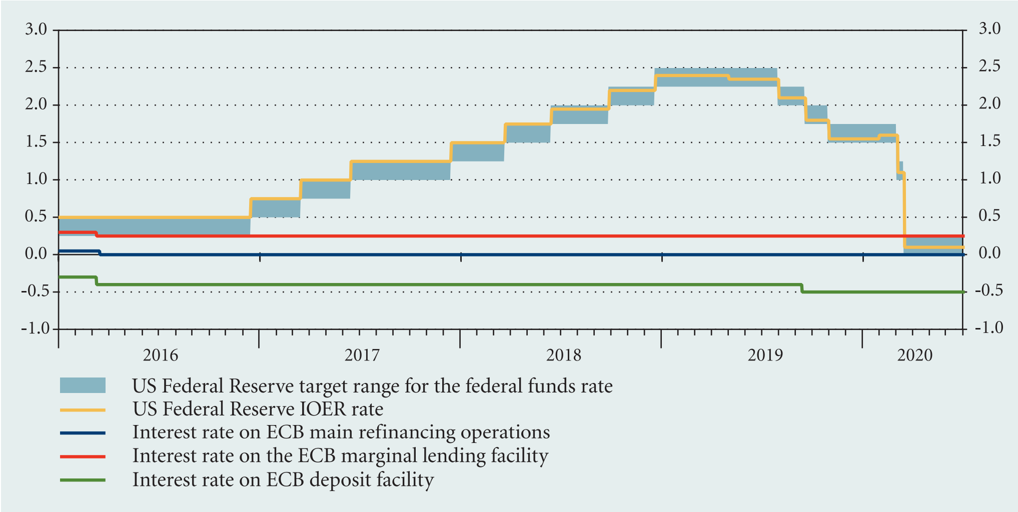
[8] Measured by the HICP.

[9] Non-seasonally adjusted data.

[10] For details on ECB and US Federal Reserve monetary policies, see Chapter Two.

Federal Reserve System and ECB Key Interest Rates

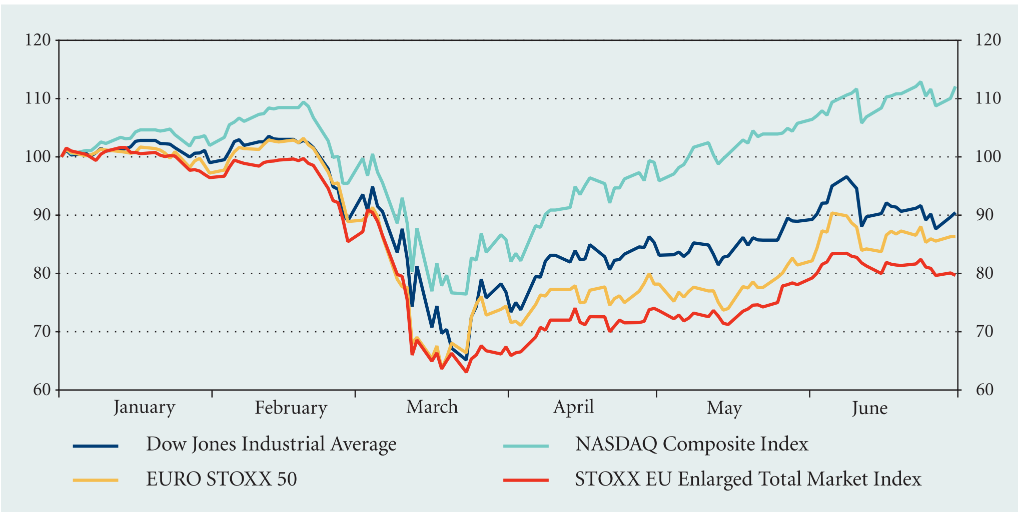
(per cent)



Sources: the ECB; the Federal Reserve System.

Strongly increased global uncertainties caused by COVID-19 effects led to a heightened volatility in international financial markets over the first half of 2020. A strong drop was recorded in stock-exchange indices in March 2020. Accommodative monetary policy measures of the leading central banks and fiscal policy stimuli in a number of countries resulted in indices rises after reaching their historical lows in March. In the second quarter of 2020 US stock exchange indices increased more strongly than European, NASDAQ Composite Index reaching higher levels compared to that prior to the launch of COVID-19 containment measures. EURO STOXX 50 and STOXX EU ENLARGED ended the first six months of 2020 lower than in early 2020 despite the increase recorded between May and June.[11]

Main Stock Exchange Indices in Europe and the USA in the First Half of 2020



Notes: US dollars, 31 December 2019 = 100.
STOXX EU Enlarged Total Market Index is an index of prices of company shares traded on stock markets of 13 Member States which joined the EU on 1 May 2004.

[11] For more information on government bond markets, see Chapter Two.

The Bulgarian Economy

COVID-19 spread and global containment measures prompted significant negative effects on Bulgaria's economic activity in terms of subdued external demand for Bulgarian goods and services. From 13 March to 13 May 2020 the National Assembly introduced a state of emergency, and a number of measures and actions were launched to contain the coronavirus spread which, in turn, had an additional unfavourable effect on economic activity. The state of emergency was lifted in mid-May, giving rise to stepwise easing of containment measures in the context of an emergency epidemic situation.

Over the first quarter of 2020 real GDP grew by 0.3 per cent on a quarterly basis, followed by a strong decline of 10.0 per cent[12] in the second quarter.[13] Overall for the half year, economic activity slowed down by 4.2 per cent annually (against growth of 4.0 per cent in the first half of 2019), driven by a fall in domestic demand, while net exports had a low positive contribution.[14] In the context of a pandemic, the fiscal policy was countercyclical and contributed positively to the economic activity through both higher national and EU co-financed expenditure on government consumption and investment and increased net transfers to households.

In the first half of 2020 private consumption fell by 2.4 per cent in real terms on an annual basis, reflecting worsened labour market conditions and consumer sentiment, as well as lower real disposable income of households[15]. A factor responsible for limited consumption of non-essential goods and services in the second quarter of 2020 was the stringent anti-epidemic measures. The heightened uncertainty surrounding the development of COVID-19 pandemic and economic environment and limited consumption opportunities were a driver for the enhanced household savings rates in the first half year.[16]

Government consumption grew by 1.6 per cent over the first half of the year, mainly reflecting a higher growth rate of staff costs in early 2020. Higher government wage, healthcare and operating expenditure directly related to the COVID-19 pandemic did not contribute significantly to government consumption growth, as it was offset by savings on other expenditure strands.

In the first half of 2020 gross fixed capital formation went down by 8.2 per cent in real terms on an annual basis entirely due to lower private investment according to the BNB estimates[17]. The downward trend in private sector investment activity was driven by deteriorated prospects of demand for Bulgarian goods and services, a heightened uncertainty about macroeconomic environment development, decreased household consumption, low capacity utilisation rates and worsening financial performance of firms. Public investment contributed positively to the change in gross fixed capital formation underpinned by the absorption of EU funds in the 2014–2020 programme period and the implementation of large infrastructure projects financed by the national budget.

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[12] This was the second largest historical fall of Bulgaria's real GDP on a quarterly basis, which was close to the economic downturn reported in the first quarter of 1997 (10.1 per cent).

[13] The analysis employs GDP data published by the NSI on 4 September 2020.

[14] The BNB Economic Review quarterly publishes further information and analyses on major macroeconomic indicators in Bulgaria.

[15] The BNB estimate on household real disposable income is used.

[16] According to the regular NSI Household Budget Survey, in the first and second quarters of the year household savings rates increased to 15.3 and 21.2 per cent of disposable income from 8.8 per cent on average for 2019.

[17] Private and government investment is assessed on the basis of available national accounts data on overall investment, quarterly non-financial accounts data on the general government sector, and consolidated fiscal programme implementation reports.

Over the first half year exports of goods and services fell 9.3 per cent on an annual basis due to tight anti-epidemic measures introduced globally and the reported decline in external demand in the Bulgarian economy. By sub-component of exports, the group of services reported a significantly higher annual rate of decline compared with goods as this sector was stronger affected by the COVID-19 pandemic. Imports of goods and services also fell on an annual basis in real terms over the first half of 2020 (9.6 per cent) reflecting the weaker domestic demand and lower exports of goods and services. This made net exports' contribution to the change in real GDP slightly positive (0.3 percentage points).

In the first half of 2020 the decrease in inventories was another factor contributing negatively to the decline of economic activity in Bulgaria (-1.8 percentage points).

Real GDP Growth Rate and Contribution by Component of Final Use

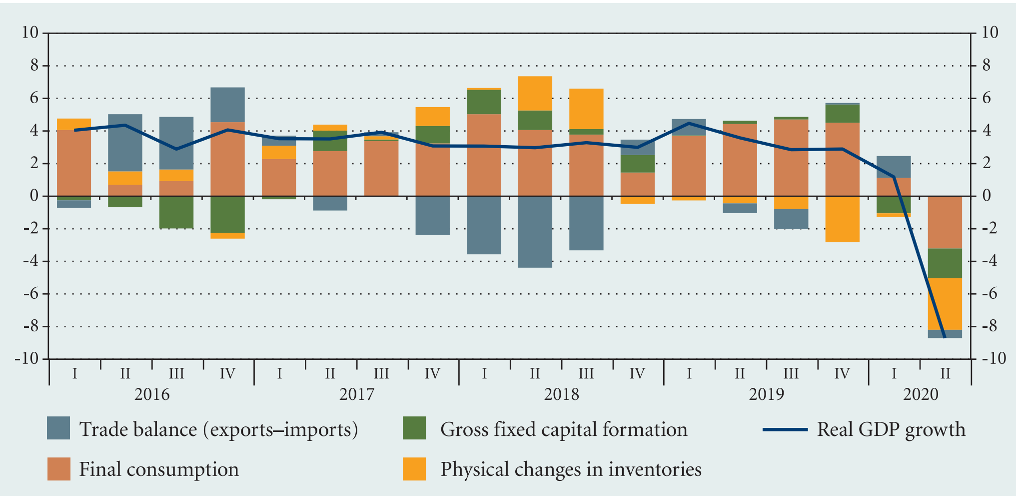
(compared to the same period last year, non-seasonally adjusted data)

	2019				2020	
	January – June		July – December		January – June	
	Change (per cent)	Contribution, percentage points	Change (per cent)	Contribution, percentage points	Change (per cent)	Contribution, percentage points
GDP	**4.0**	-	**2.9**	-	**-4.2**	-
Final consumption	5.2	4.1	6.2	4.6	-1.5	-1.2
Household consumption	5.5	3.3	6.0	3.5	-2.4	-1.5
NPISH consumption	9.5	0.1	10.5	0.1	-1.1	0.0
Final consumption expenditures by general government	2.2	0.2	6.7	0.5	-0.7	0.0
Collective consumption	5.8	0.5	7.1	0.6	3.8	0.4
Gross fixed capital formation	0.7	0.1	3.5	0.6	-8.2	-1.5
Physical changes in inventories	-	-0.4	-	-1.8	-	-1.8
Exports (goods and services), net	-	0.1	-	-0.6	-	0.3
Exports (goods and services)	2.1	1.4	1.8	1.2	-9.3	-6.1
Imports (goods and services)	2.0	-1.3	2.8	-1.7	-9.6	6.4

Sources: the NSI, the BNB.

Real GDP Growth Rate and Contribution by Component of Final Use

(per cent, percentage points on corresponding quarter of previous year, non-seasonally adjusted data)



Sources: the NSI, the BNB.

In the first half year gross value added in the economy decreased by 3.9 per cent in real terms.[18] Services (-2.0 percentage points) and manufacturing (-1.9 percentage points) had a strong negative contribution to the slowdown of economic activity, while agriculture had a neutral contribution. Across services sub-sectors, trade, transport, accommodation and food service activities[19], the real estate activities and arts, entertainment and recreation sub-sectors[20], which were among the sectors stronger affected by the measures against the COVID-19 pandemic, had the largest negative contribution to the value added dynamics.

Gross Value Added Growth Rate in Real Terms and Contributions by Industry

(compared to the same period last year, non-seasonally adjusted data)

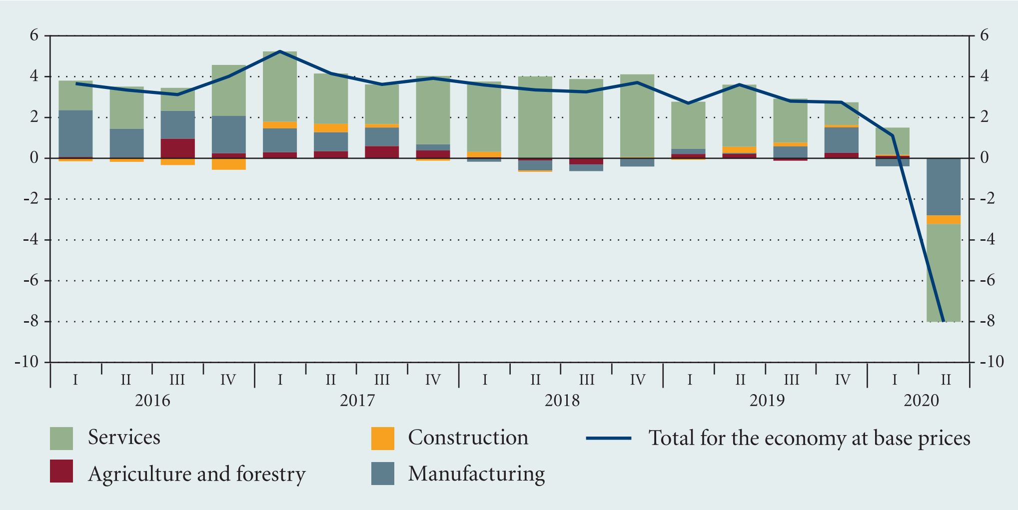
	2019				2020	
	January – June		July – December		January – June	
	Change (per cent)	Contribution, percentage points	Change (per cent)	Contribution, percentage points	Change (per cent)	Contribution, percentage points
Gross value added	**3.2.**	**-**	**2.8**	**-**	**-3.9**	**-**
Agriculture and forestry	2.6	0.2	4.1	0.1	-0.4	0.0
Industry*	1.3	0.3	4.2	1.1	-6.9	-1.9
Services	3.9	2.7	2.3	1.6	-2.9	-2.0

* Manufacturing and construction.

Sources: the NSI, the BNB.

Gross Value Added Growth Rate in Real Terms and Contributions by Industry

(per cent, percentage points on corresponding quarter of prior year, non-seasonally adjusted data)



Sources: the NSI, the BNB.

[18] The contribution of adjustments to real GDP growth was -0.9 percentage points.

[19] Specifically, wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities under the economic activities classification at level A10.

[20] It should read culture, sport and entertainment; other activity; activities of households as employers; non-identified activities of households producing goods and services for own use; activities of extraterritorial organisations and bodies under the economic activities classification at level A10.

Containment measures initiated globally and in Bulgaria against COVID-19 pandemic had an unfavourable effect on the labour market: the number of the people employed in the economy fell by 2.4 per cent on an annual basis in the first half of 2020 (from a 0.2 per cent growth in the fist half of 2019). In Bulgaria, containment measures concentrated in the second quarter pushed down strongly employees (down 3.3 per cent annually for the total economy), which was most pronounced in trade, transport and accommodation and food service activities (by 10.0 per cent) and in export-oriented industry (by 4.6 per cent). A fall was reported also in construction, professional activities[21] and culture, sport and entertainment services sub-sectors. Another immediate consequence of containment measures was the reduction of working hours and part of employees placed on unpaid leave, resulting in significantly declining hours worked *per* person over the second quarter of the year. Over the review period the number of worked man-hours reported a three times higher annual rate of decline (by 10.6 per cent) compared to that of the number of employed.

Unemployment, estimated by Employment Agency registrations, rose significantly to 7.6 per cent on average in the first half of 2020 (5.8 per cent in the first half of 2019). Measures undertaken by the government to maintain employment and employees' income mitigated partially the negative effects on the labour market. NSI Labour Force Survey data show unemployment as defined by the International Labour Organization also growing to 5.2 per cent in the half year, from 4.6 per cent on average a year earlier. The economic activity rate of the 15–64 age group fell to 71.5 per cent, from 72.9 per cent in the first half of 2019 due to inactivity of part of employees in the context of a deteriorated macroeconomic activity in the second quarter and containment measures imposed in Bulgaria. By level of education, the strongest decline in economic activity was registered in the traditionally vulnerable group with primary or lower education, while the breakdown by sex posted a slightly stronger fall in the share of women, which may be explained by the care for the family during the school and social institution closures in the second quarter of the year.

In the first half of 2020 labour productivity[22] in the total economy decelerated its growth rate to 1.9 per cent on an annual basis, from 3.8 per cent growth in the corresponding period of 2019 as a result of the strong decrease in real GDP between April and June. Labour productivity fell most strongly in manufacturing and in some services sub-sectors, such as arts, entertainment and recreation, real estate activities and trade, transport and accommodation and food service activities.

Nominal wage *per* employee in the total economy decreased its growth rate in the first half of 2020 to 5.2 per cent (7.3 per cent in the corresponding period of 2019) driven mainly by the decline in hours worked *per* person in the economy, lowered wages in some sectors and part of employees placed on unpaid leave[23]. Wage moderation was concentrated mostly in the second quarter of 2020. Factors limiting the stronger slowdown in wage growth were the increase in the minimum wage and the minimum insurance thresholds from 1 January 2020, the increase in public sector wages projected in the 2020 budgetary framework focused on wages in the sector of education and those of people working at the front line in the fight against the spread of COVID-19. In the first half of 2020 average nominal wage decreased on an annual basis in agriculture, construction and in services sub-sectors, such as real estate activities and arts, entertainment and recreation, while in all other economic sectors wage

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[21] It should read the professional, scientific and technical activities; administrative and support service activities by economic activity groupings (A10).

[22] Real GDP measures labour productivity in the overall economy. Sector labour productivity is calculated based on sector value added in real terms.

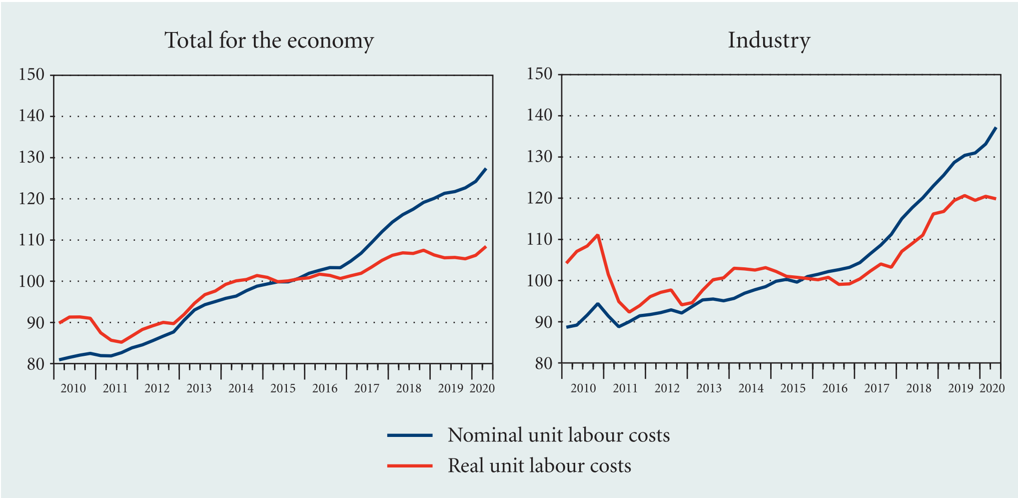
[23] Placement on unpaid leave was reported in the NSI surveys on the effects of the state of emergency on the business.

grew at rates close to the average for the economy. In the first half of 2020 real wage[24] rose 3.2 per cent on an annual basis, its growth decelerating from that reported in the same period of 2019 (4.6 per cent). Compensation *per* employee picked up 5.5 per cent on an annual basis, from 7.5 per cent in the first six months of 2019.

Sub-components developments pushed up nominal unit labour costs, their growth rate rising to 7.5 per cent in the first half of 2020 from a 3.6 per cent in the first half of 2019. Real terms unit labour cost rose 5.7 per cent on an annual basis from a 3.1 per cent drop in the same period last year.

Unit Labour Costs

(moving average, 2010 = 100)



Sources: the NSI, the BNB.

As a result of the strong contraction of economic activity in the first half of the year, total gross operating surplus fell 2.2 per cent year on year from 9.9 per cent growth in the same period of 2019. Downward dynamics in operating surplus was mainly due to the services sector, while industry and agriculture had a positive contribution. Within the services, a worsening financial position of firms was reported in all sub-sectors except information and communication[25], where gross operating surplus increased slightly on the first half of 2019.

The GDP deflator was positive in the first half of 2020 at 1.8 per cent against 6.8 per cent in the same period of 2019. Values of the deflator were positive in agriculture and industry, while prices in the services sector posted a decrease. The deflator reported the most significant annual decline in services sub-sectors of financial and insurance activities; trade, transport and accommodation and food service activities, and professional activities. In the first half of 2020 private and government consumption deflators by GDP final consumption expenditure component grew year on year, while all components deflators posted a decline. The deflator of total imports of goods and services fell stronger than that of exports of goods and services. Consequently, the terms of trade were favourable for the Bulgarian economy. This was mainly attributable to the strong fall in international oil prices, as Bulgaria is a net importer of petroleum products.

By end-June 2020 the annual rate of consumer price inflation slowed down significantly from the end of 2019 to reach 0.9 per cent (3.1 per cent in December 2019).[26]

[24] Real wage deflated by the HICP.

[25] It should read the information and communication sector by economic activity groupings (A10).

[26] The analysis employs HICP data.

The strong negative contribution to overall inflation had the group of energy products (excluding administratively controlled prices), where deflation of -17.2 per cent was recorded in June compared to the same period of 2019. These price developments reflected the sharp fall in the Brent crude oil price on international markets in the context of a contraction in global demand due to the COVID-19 spread and containment measures. The state of emergency decreased further the demand for transport fuels. In the context of the 36.7 per cent year-on-year drop of euro oil prices, transport fuels recorded deflation of -22.0 per cent by June. The slowdown in overall inflation in consumer prices over the first six months of the year was driven by the gradually declining positive contribution of core HIPC components.

In the first half of 2020 there was an uncertainty about the price changes in core inflation (excluding prices of food, energy products, goods and services with administratively controlled prices, and tobacco products), stemming from the effects of COVID-19 spread and the relevant containment measures. During the national state of emergency, the NSI informed about difficulties in statistical collection for the purposes of the consumer price survey. In April the Institute recorded the largest share of missing price observations in the consumer basket over the first half year (32 per cent), with consumer groups of restaurants and hotels and clothing and footwear being affected most strongly.[27]

Core inflation decreased considerably in the first half of 2020 coming to 0.8 per cent on an annual basis in June (1.8 per cent by December 2019). Services inflation slowed down to 1.9 per cent from 2.9 per cent by end-2019, reflecting mainly lower prices of accommodation services, as well as the slower increase in the prices of package holidays. Price dynamics of these components probably reflected the impact of the decrease in household consumption and visits of foreign nationals in Bulgaria. By end-June public catering continued to have the main positive contribution to the inflation in services, its price growth rate reaching 5.9 per cent. Between January and June 2020 deflation was recorded in non-food goods[28], with price index falling 0.6 per cent on an annual basis (against growth of 0.5 per cent in late 2019). Motor vehicles and, to a lesser extent, clothing and footwear had the major negative contribution to the downward price dynamics in the non-food goods group.

In the first half of 2020 the annual rate of food prices growth remained close to the end-2019 levels reaching 6.2 per cent in June. Unprocessed food had the largest positive contribution to the food inflation in June although the inflation rate of this group moderated since February reflecting mainly the significant decline in meat and meat products inflation.[29] The growth rate of processed food prices accelerated due to the meat price rises reported in the last year, with ready-to-eat foods available in food shops and supermarkets contributing most positively to this group's inflation.

Annual inflation in the group of goods and services with administratively controlled prices (including tobacco) slowed down to 1.5 per cent in June 2020, from 2.0 per cent in December 2019 reflecting mainly the decreases in heating and, to a lesser extent, in natural gas prices. Medicines and pharmaceuticals retained their high positive contribution to inflation in goods with administratively controlled prices, their annual growth rate growing faster than at the end of the prior year.

[27] By June 2020 the NSI reported that the share of missing price observations in the consumer basket fell to 2 per cent.

[28] Following the 2019 reversal in non-food deflation observed since 2010, this group's prices have started to decline again since the beginning of 2020.

[29] Since May 2019 an upward trend in meat and meat product prices has been observed due to the spread of African swine fever in Bulgaria, with inflation in this group reaching 19.1 per cent on an annual basis in May 2020. Meat and meat product inflation slowed down gradually from the beginning of the second quarter of 2020, accounting for 10.4 per cent in June.

HICP Inflation Accumulated since the Year's Start and Contributions by Major Goods and Services Groups to It

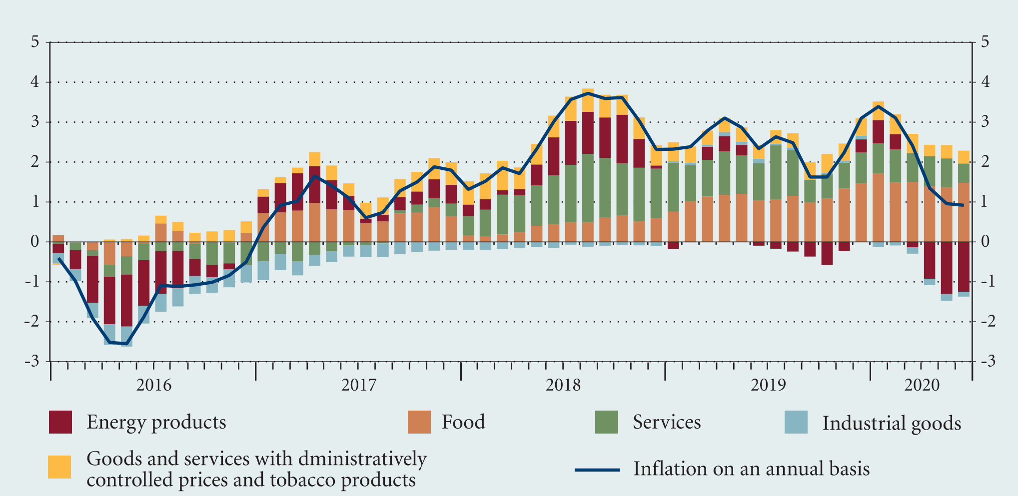
	January–June 2019		January–June 2020	
Inflation (per cent)	1.5		-0.7	
	Rate of inflation by group (per cent)	Contribution (percentage points)	Rate of inflation by group (per cent)	Contribution (percentage points)
Food	**2.9**	**0.70**	**3.0**	**0.74**
Processed food	1.9	0.31	2.4	0.39
Unprocessed food	5.0	0.40	4.1	0.35
Services	**0.9**	**0.24**	**-0.1**	**-0.03**
Catering	2.5	0.14	2.6	0.14
Transport services	0.1	0.00	1.7	0.05
Telecommunication services	-3.3	-0.16	-1.5	-0.07
Other services	2.1	0.27	-1.2	-0.15
Energy products	**4.0**	**0.32**	**-17.3**	**-1.27**
Transport fuels	5.6	0.35	-21.9	-1.25
Industrial goods	**0.6**	**0.12**	**-0.5**	**-0.10**
Goods and services with administratively controlled prices	**0.3**	**0.05**	**-0.2**	**-0.03**
Tobacco products	**0.8**	**0.03**	**0.2**	**0.01**

Notes: This structure corresponds to the Eurostat classification; tobacco products and goods and services with administratively controlled prices are shown separately. The index of goods and services with administratively controlled prices is calculated through the elementary aggregates level in the consumer basket.

Sources: the NSI, the BNB.

Annual Inflation Rate and Contributions by Major Group of Goods and Services

(per cent, on an annual basis; percentage points)



Sources: the NSI, the BNB.

In the first half of 2020 Bulgaria's foreign trade flows on the balance of payments were strongly affected by the global COVID-19 crisis. Declines in trade flows in real terms and in international commodity prices and BNB measures launched in March aiming at further strengthening banks capital and liquidity to limit the negative effects of the pandemic on banking system and economic activity had a decisive influence.[30]

[30] For further details, see Resolution No 87 of the BNB Governing Council of 12 March 2020.

In the first half of 2020 Bulgaria's current account surplus increased to EUR 658.8 million on the first half of 2019. Surplus growth was driven mainly by the lower trade balance deficit and net primary income deficit. The decrease in the trade balance deficit on the corresponding period of 2019 was more pronounced in the second quarter of the year, when a stronger fall in real imports of goods than that in exports was observed. Favourable terms of trade in the second quarter of 2020 reflecting the significant drop in international oil prices was an additional factor, which contributed to the improvement of nominal trade balance. Half year foreign trade figures show nominal goods exports falling 6.9 per cent on an annual basis and nominal imports 12.2 per cent. By sub-group, annual declines in foreign trade flows were most pronounced in energy resources and investment goods. The deficit on the net primary income item decreased between January and June 2020 compared to January–June 2019, which was largely driven by the measures initiated by the BNB for capitalising entire banking system profits. Lower dividend payments and distributed profits to non-residents amid a heightened uncertainty stemming from the coronavirus pandemic and the strong fall in the economic activity in Bulgaria contributed significantly.

The increase in current account surplus in the first half of 2020 was partly limited by the contraction in net secondary income and net services trade compared to the first half of 2019. The lower balance on the net secondary income item was driven mainly by the decline in remittances from non-residents, which was concentrated mostly in the second quarter of 2020 and was consistent with the worsened economic activity in the euro area and globally. The contracted surplus in net services trade in the first half of 2020 compared to the first half of 2019 reflected the stronger decline in nominal exports than that in imports of services.[31] Due to the weaker external demand and limited travel and tourism opportunities, the decline in traditionally positive net inflows on travel (net) and transport (net) contributed most to this. In the first half of 2020 visits of foreign nationals in Bulgaria posted a decrease of 58.2 per cent on an annual basis, which was broad-based across regions. Bulgarian residents' travel abroad decreased in the first half of 2019, its drop accounting for 54.4 per cent.

The capital account surplus on the balance of payments rose slightly in the January–June 2020 period compared to the first half of 2019 due to higher capital transfers received under EU operational programmes and lack of outflows under capital transfers. Concurrently, this effect was almost entirely offset by greenhouse gas emission allowance purchases over the review period.[32]

Between January and June 2020 the balance of payments financial account shifted into deficit of EUR 1145.2 million from a EUR 902.6 million surplus in the corresponding period last year. The negative financial account balance reflected largely the decline in banks' foreign assets as a result of BNB measures announced in March.

Preliminary balance of payments data for the first half year put direct investment liabilities (reporting direct investment into Bulgaria) at EUR 564.8 million, up EUR 50.1 million from the first half of 2019.

In June 2020 Bulgaria's gross external debt fell EUR 705.7 million from the end of 2019 to EUR 34.5 billion or 57.5 per cent of GDP. External debt dynamics was driven mainly by the decreased debt of banks and other sectors[33], and to a much lesser extent by the reduced intercompany debt. Gross external debt increased only in the general government sector mainly as a result of new tranches disbursed in April under loan

[31] These developments resulted in a higher decline in annual imports of services in percentage terms in the January–June 2020 period due to lower flows of imports of services compared to exports of services.

[32] Payments for emission allowance purchases were recorded in gross acquisition /disposal of non-produced non-financial assets, debit of capital account item.

[33] Sectors other than central banks, other monetary financial institutions and general government.

agreements signed with the European Investment Bank and the Council of Europe Development Bank worth EUR 400 million.

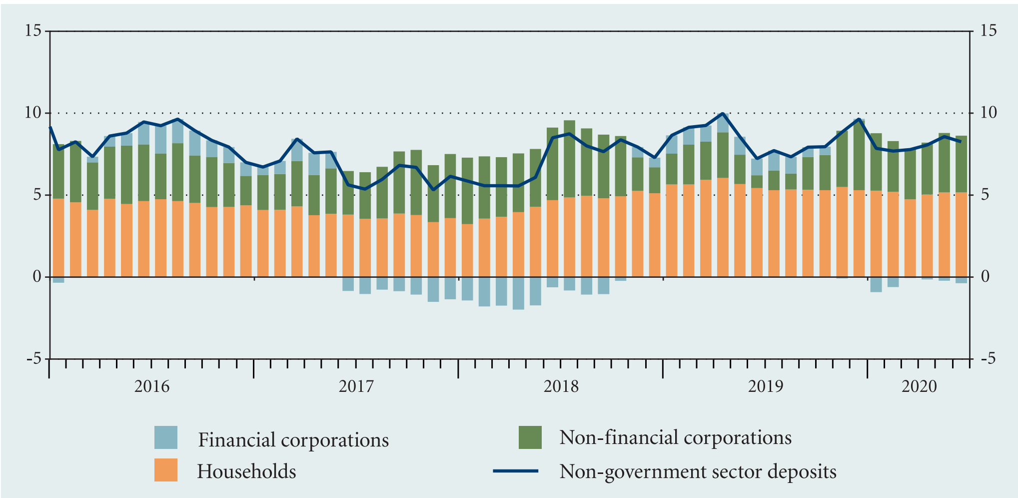
All current, capital, and financial transactions led to an increase in BNB international reserves by EUR 2883.4 million for the January–June 2020, according to balance of payments data (valuation adjustments and price revaluations excluded).

This increase reflected mainly BNB measures aiming at further strengthening banking system liquidity and capital. If changes in international foreign reserves on the BNB Issue Department balance sheet are taken into account, including valuation adjustments and price revaluations, they grew by an estimated EUR 3204.1 million on the end of 2019.

In the first half of 2020 deposits of the non-government sector in the banking system continued growing at comparatively high rates. As of June 2020 they rose by 8.3 per cent on an annual basis, from 9.7 per cent by end-2019, with household deposits contributing most. Despite the unfavourable labour market trend resulting in moderation of nominal wage growth and an increase in employment in the April–June period, at the end of the first half year the annual growth rate of household deposits remained high at 7.8 per cent (8.0 per cent in December 2019). The lower revenue from corporate profits in the second quarter of the year had no significant impact on annual growth of non-financial corporations' deposits in the total economy: 11.9 per cent by June, from 14.3 by end-2019. Limited consumption and investment opportunities of households and firms due to COVID-19 measures, lack of a safe and low-risk alternative to bank deposits, as well as increased precautionary savings and postponed consumer expenditure and investment projects were the main factors behind the retained high deposit rates in the second quarter of the year.

Annual Growth of Non-government Sector Deposits and Contribution by Sector

(per cent, percentage points)

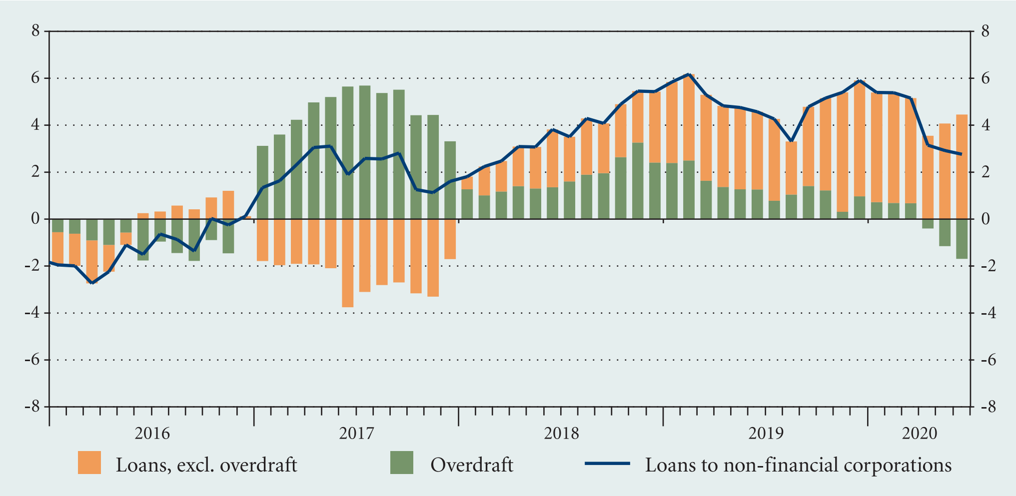


Source: the BNB.

By June the annual growth of broad monetary aggregate M3 accounted for 9.5 per cent (9.9 per cent at the end of 2019). In the context of a worsened economic environment for households and firms and deposit rates close to zero, economic agents preferred to keep their savings in overnight deposits characterised by high liquidity and contributing most to M3 growth. The contribution of money outside MFI to the total growth of broad money aggregate remained relatively stable in the first half of 2020, almost matching the end-2019 level by June.

Annual Non-financial Corporation Credit Growth and Contributions by Loan Type

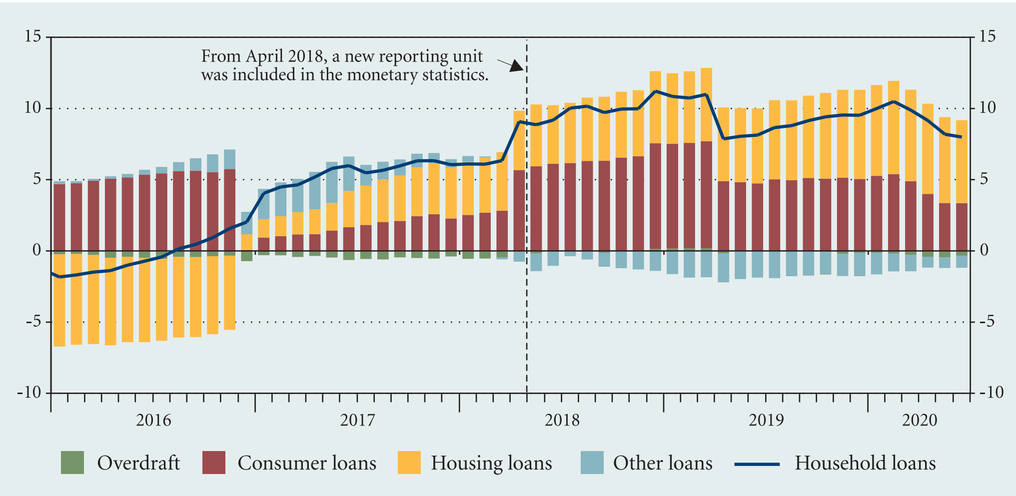
(per cent, percentage points)



Source: the BNB.

Annual Household Credit Growth and Contributions by Individual Loan Type

(per cent, percentage points)



Note: Based on additional information received from reporting units, a revision of household loans was carried out according to their purpose of use in the period December 2015–August 2019.

Source: the BNB.

Credit to non-financial corporations and households in the first half of 2020 continued to increase to 4.9 per cent on an annual basis (7.4 per cent in late 2019), albeit at a slowing rate. More essential slowdown in credit growth was observed in the second quarter, reflecting limited demand for bank funds by the private sector related to the worsened economic situation and the high uncertainty about the duration of the implemented anti-epidemic measures and the spread of COVID-19. Credit standard tightening by banks, mainly due to their lower risk appetite, also subdued growth of credit to non-financial corporations and households. In June 2020 loans to non-financial corporations rose by 2.8 per cent on an annual basis (5.9 per cent in late 2019). In the first quarter of the year their growth rate remained close to the end-2019 level, while in the second quarter it slowed down markedly due to the overdraft negative contribution. Loans to households rose further at rates close to those at the end of 2019, while in the second quarter the annual growth moderated (to 8.0 per cent in June from 9.5 per cent by end-2019). This moderation was driven mainly by the declining positive contribution of consumer loans, which rose by 7.1 per cent on annual basis by June (10.8 per cent by end-2019). Housing loans slowed less markedly to 13.3 per cent in June from 14.5 per cent at the end of 2019. Other credit continued to contribute negatively to the household loan dynamics largely as a result of government repayment of loans extended under the National Programme for Energy Efficiency of Multi-family Residential Buildings which exceeded the volume of new loans under this programme.

According to the summarised results of the BNB quarterly lending survey, demand for bank loans posted a decrease and credit standards tightened significantly over the second quarter of the year. By sector, banks reported a stronger decline in the credit demand by households and the most notably tightening of credit standards for consumer loans. The main factor considered by banks as driver for the lower demand for corporate loans in the second quarter 2020 was reduced demand for bank resources for investment purposes. The level of interest rates and lower need of funds for mergers, acquisitions and restructuring contributed to a lesser extent. According to banks' responses, weaker credit demand by households reflected mainly the deteriorating macroeconomic environment. Between April and June 2020 all credit conditions for loans to corporations and households were tightened, excluding fees and commissions. Stricter credit policy (credit standards and conditions) was mainly driven by the deterioration of the macroeconomic environment and banks' lower risk appetite. Other factors behind credit policy tightening include the unfavourable housing market prospects, the reduced solvency of borrowers, the deteriorated business climate in the sectors with a large share in the credit portfolio and the higher collateral risk. The downward trend in interest rates on new corporate and housing loans was sustained in the first half of 2020, whereas the interest rates on consumer loans rose somewhat.

In the first six months of 2020 the banking system retained its strong liquidity position, with the liquid asset ratio (LCR)[34] accounting for 258.0 per cent (269.9 per cent in December 2019). Over the review period banks reported substantial growth of their deposits with the BNB, while their foreign assets declined. These developments were entirely driven by the BNB package of measures to further strengthening capital and liquidity. Growth was observed in claims on households and on general government sector, while claims on non-financial corporations posted a decrease from end-2019. Reflecting a more substantial fall in banks' foreign assets than foreign liabilities, net foreign assets declined by BGN 2.0 billion in the first half of 2020 to BGN 8.9 billion at the end of June.

Banks' transactions with the BNB in reserve currency (euro) are their main instrument for lev liquidity management under Bulgaria's currency board. This takes advantage of the main currency board function: buying and selling levs for euro at the fixed exchange rate set by the Law on the Bulgarian National Bank[35]. In the first half of 2020 net BNB purchases of euro to banks were EUR 1.0 billion.[36]

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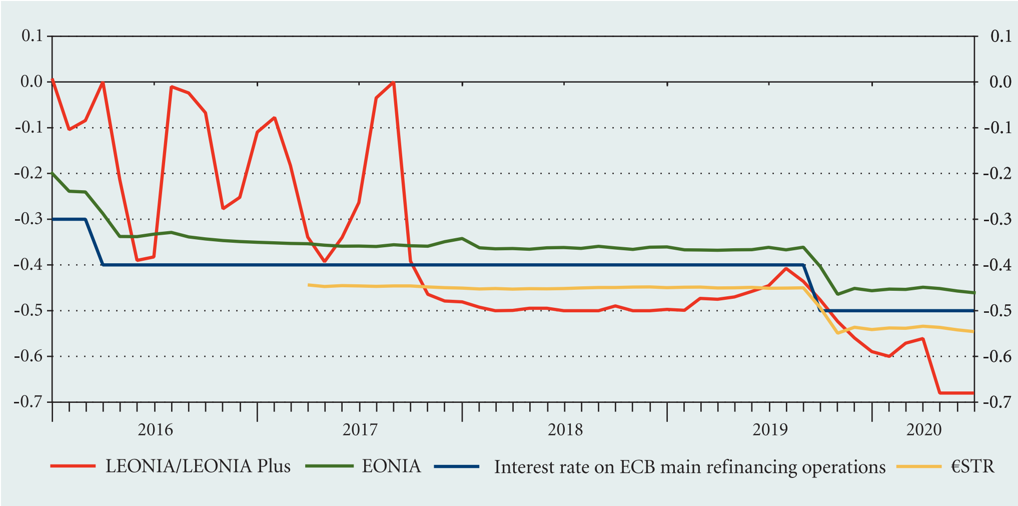
[34] The liquidity coverage ratio for the banking system is calculated as the ratio of liquidity buffer to net liquidity outflows. For further information on liquidity reporting requirements, see the BNB quarterly Banks in Bulgaria.

[35] See Chapter Two.

[36] Data refer to all bank transactions in foreign currency, including liquidity management operations related to the transfer of own funds from lev accounts with the BNB to own accounts in euro with the BNB and *vice versa*.

Overnight Interbank Money Market Rates

(per cent, monthly average amount)



Note: LEONIA Plus replaced LEONIA on 1 July 2017. LEONIA Plus monthly values are calculated as an arithmetic average for days when overnight unsecured lending transactions are concluded in the interbank market in levs. €STR replaced EONIA on 2 October 2019. EONIA (euro overnight index average) will be computed by applying a fixed spread to the €STR and published until the end of 2021.

Sources: the BNB, the ECB.

The BNB measures initiated to enhance banking system liquidity impacted interbank money market trends by the end of March 2020. The significant increase in liquidity maintained as excess reserves with the BNB was the reason behind the lack of an incentive for banks to trade in the interbank money market. Thus, LEONIA Plus index matched the interest rate on banks' excess reserves and traded volumes in the interbank money market decreased markedly in the second quarter of the year. Between April and June 2020 the volume of the interbank money market transactions was BGN 4.3 billion, down 60.3 per cent on the first quarter of the year. Deposits comprised 59.7 per cent of the turnover, with government securities repos at 40.3 per cent. Overnight transactions dominated deposits between banks comprising 93.4 per cent of all deposit transactions. In June LEONIA Plus index accounted for -0.68 per cent, declining by 12 basis points from March. Following the dip in LEONIA Plus and the lack of significant dynamics of €STR, the negative spread between the two indices expanded to -13 basis points by June 2020 (-3 basis points in March 2020).

In the first six months of 2020 the budget balance of the consolidated fiscal programme (CFP)[37] remained positive despite the negative impact of the COVID-19 crisis on Bulgaria's budgetary position related to automatic stabilisers and effects of government discretionary measures. CFP surplus was BGN 1610 million for the January–June 2020 period, falling by BGN 1613 million on the same period last year due to the decreased budget revenue and increased budget expenditure.

Total revenue and grants under the CFP for the first half of 2020 fell by 3.8 per cent, driven mainly by the decreases in both tax and non-tax revenue (3.6 per cent and 18.7 per cent on an annual basis, respectively). Concurrently, revenue from grants increased by 36.4 per cent on the first half of 2019, reflecting continuous absorption of funds under ongoing EU programmes and received advance payments. Downward dynamics in tax revenue between January and June 2020 was mainly driven by the worsened macroeconomic environment. The effects of extending payment deadlines for certain direct taxes to temporarily support liquidity of firms and households were

[37] Based on quarterly reports on the implementation of budget, published on the Ministry of Finance website.

due to a shift of a substantial part of tax revenue from the first to the second quarter, though having a weaker effect on tax revenue dynamics in the half year. Indirect taxes had the major contribution to lower tax revenue between January and June. Subdued domestic consumption, declining foreign trade flows and substantially falling crude oil prices affected VAT revenue, which dropped by 6.2 per cent on an annual basis. The only tax revenue reporting positive, albeit moderating, to a significant extent, cumulative growth for the first half year (4.3 and 4.0 per cent on an annual basis) were revenue from personal income tax and from social security and health insurance contributions. This revenue dynamics was driven largely by labour market conditions, where the deterioration was most pronounced in April and May.

In the first half of 2020 consolidated fiscal programme expenditure grew 4.0 per cent on an annual basis. Both staff costs and social payments contributed to this. Staff costs increased by 10.4 per cent mainly as a result of the changes introduced in government's income policies in force since the beginning of the year[38] and additional expenditure approved for front-line workforce (healthcare professionals and other government employees) in fighting the spread of COVID-19 after the declaration of a national state of emergency. Social payments grew by 6.0 per cent on the first half of the previous year, reflecting primarily pension indexation from 1 July 2019 and, to a lesser extent, unemployment benefits in the second quarter. Subsidy and healthcare payments reported a relatively weaker increase (4.8 and 0.2 per cent, respectively), which implies that subsidised employment payments (the so-called 60/40 measure) and immediate expenses on COVID-19 spread prevention and treatment were largely offset by savings on these expenditure items. Operating expenditure posted a 5.2 per cent decline. A decline was also reported in capital expenditure[39] (8.0 per cent) which was entirely due to lower national investment in the first half year.

In the first half of 2020 accumulated cash surplus funds coupled with external debt financing were used to boost liquidity buffers of the government and in other financing operations, the bulk of them intended to attenuate negative economic effects from the measures on COVID-19.[40] Funds on fiscal reserve deposits rose by BGN 1275 million to BGN 9840 million, with total fiscal reserve, including certified expenditure claims on EU funds, advances, and other payments reaching BGN 9894 million at the end of June. Funds in the State Fund for Guaranteeing the Stability of the State Pension System (the Silver Fund) included in the scope of the fiscal reserve increased by BGN 147 million since the beginning of the year to BGN 3251 million by end-June. In the first half of 2020 the net government securities issue on the domestic market was positive at BGN 477 million against BGN 1200 million issued since the start of the year.[41] Positive external debt financing resulted mainly from new tranches disbursed under loan agreements signed with the European Investment Bank and the Council of Europe Development Bank, worth EUR 400 million.

At the end of June 2020 all Bulgarian Eurobond yields posted a minimal increase on the end of 2019, with medium-term securities ranging from 2–14 basis points to 33 basis points for the securities maturing in 2035. Strongly increased global uncertainty caused by COVID-19 effects led to a heightened volatility in sovereign debt markets, with Bulgarian government securities yields tending upwards in the period between the introduction of the national state of emergency and the last week of

[38] The changes effective as of 1 January 2020 include the increase in the minimum wage and the minimum insurance thresholds and the increase in public sector wages projected in the 2020 budgetary framework focused on wages in the sector of education.

[39] Including government reserve growth.

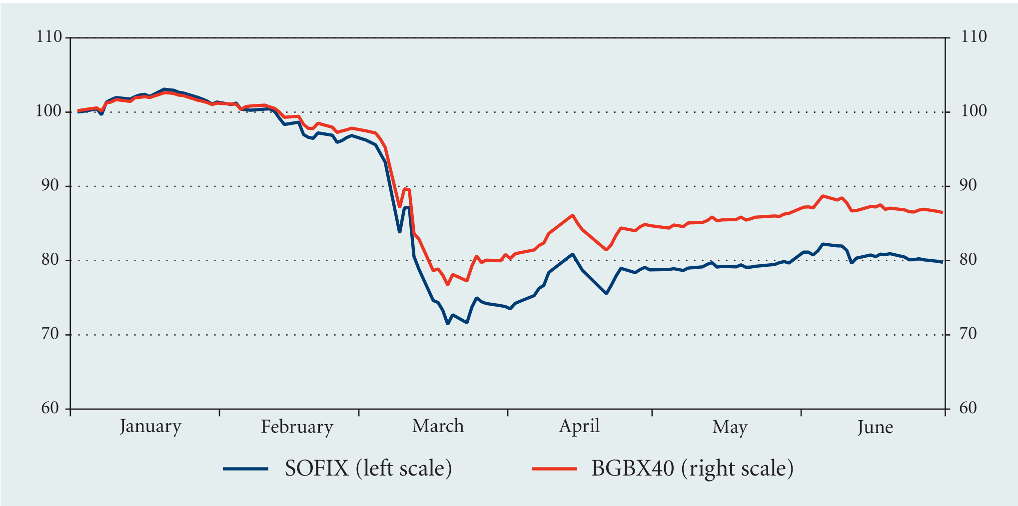
[40] Financing operations included BGN 700 million capital increases of the Bulgarian Development Bank in order to grant loans to individuals and firms guaranteed by the state-owned bank.

[41] For more information on domestic government securities market, see Chapter Twelve.

May. Bulgarian government bond yields were boosted by the significant rise in purchases under the ECB securities purchase programme[42], the BNB measures initiated to enhance banking system liquidity, indications of a partial recovery in economic activity following the easing of containment measures in Bulgaria and in the EU, and proposals for sizeable fiscal stimuli announced at an European level. As a result of these factors, most of the increase in yields on Bulgarian government securities in the March–May period was compensated by the end of the half year.

March 2020 saw a strong decline in the leading Bulgarian Stock Exchange SOFIX and BGBX40 indices. In the April–June period they partially recovered, but still remained significantly lower than in early 2020. By June, SOFIX fell by 20.2 per cent from the end of 2019 and BGBX40 by 13.5 per cent. At the end of the first half of 2020 market capitalisation of the Bulgarian Stock Exchange, Sofia, was BGN 27.7 billion or 23.6 per cent of GDP, from 23.5 per cent of GDP at the close of 2019.

Bulgarian Stock Exchange Indices in the First Half of 2020



Note: 31 December 2019 = 100.

Sources: the BNB, the Bulgarian Stock Exchange.

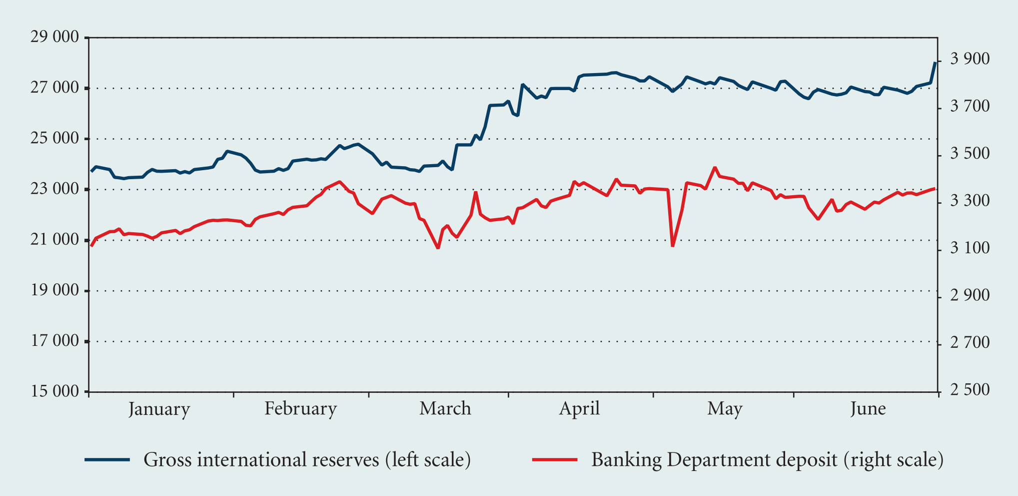
[42] For more information on ECB public and private sector asset purchase programmes, see Chapter Two.

II. Gross International Reserves

The BNB manages its gross international reserves in line with the Law on the Bulgarian National Bank[43], investment constraints, business procedures and methodologies, and opportunities offered by international financial markets. Gross international reserves comprise the assets on the Issue Department's balance sheet. Their role is to provide complete cover for monetary liabilities under the fixed exchange rate of the lev to the euro provided for by the Law on the Bulgarian National Bank[44]. The excess of gross international reserves over monetary liabilities forms the Banking Department Deposit item or the net value in the Issue Department's balance sheet[45].

Gross International Reserves and Banking Department Deposit in the First Six Months of 2020

(EUR million) (EUR million)



Note: The chart shows daily movements of the Issue Department balance sheet figure and the Banking Department deposit in the Issue Department balance sheet.

Source: the BNB.

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[43] There were no Law on the BNB amendments to the framework of gross international reserve management.

[44] The Law on the BNB Article 28, paragraph 2 defines the Bank's monetary obligations as all circulating banknotes and coins issued by the BNB, and all balances of other entities' BNB accounts, except the IMF. Article 28, paragraph 3 defines what assets may comprise gross international reserves: monetary gold; Special Drawing Rights; banknotes and coins in freely convertible foreign currency; funds in freely convertible foreign currency held by the BNB on accounts with foreign central banks or other financial institutions or international financial organisations with one of the two highest ratings by two internationally recognised credit rating agencies; securities issued by foreign countries, central banks, other foreign financial institutions, or international financial organisations assigned one of the two highest ratings by two internationally recognised credit rating agencies; the balance on accounts receivable and payable on BNB forward or repo agreements with (or guaranteed by) foreign central banks, public international financial organisations or other foreign financial institutions with one of the two highest ratings from two internationally recognised credit agencies; and BNB futures and options which bind non-residents and which are payable in freely convertible foreign currency. The Law on the BNB stipulates that these assets are estimated at market value.

[45] According to the Law on the BNB Article 28, paragraph 1, 'the aggregate amount of BNB monetary liabilities shall not exceed the lev equivalent of gross international reserves,' with the lev equivalent determined on the basis of the fixed exchange rate.

The Amount and Structure of Gross International Reserves

By the end of June 2020 the balance sheet value of gross international reserves was EUR 28,039.72 million: a total increase of EUR 3204.13 million on end-2019[46] or 12.90 per cent share of BNB foreign currency assets. Major factors affecting the market value of assets include income from reserve management, income from foreign currency revaluation, and external cash flow effects.

External Cash Flows in Foreign Currency

(EUR million)

	January–June 2019	January–June 2020
I. Euro purchases and sales		
At tills	-51	-178
With banks	-841	1,271
purchases from banks	13,719	8,931
sales to banks	-14,560	-7,661
Subtotal I	**-892**	**1,093**
II. Currency flows with banks, the MF, *etc*.		
Bank reserves (including minimum required reserves)	392	417
Government and other depositors	698	1,365
Subtotal II	**1,090**	**1,781**
Total I+II	**198**	**2,874**

Source: the BNB.

External foreign currency flows of EUR 2874 million made a positive contribution to the international reserve increase in the first half of 2020. Of these, receipts into government and other budget organisations' accounts were EUR 1365 million (mainly as a result of transfers under different EC programmes to Bulgaria, on its account with the BNB). Cash flows from purchases of reserve currency by commercial banks, forming a EUR 1271 million cash inflow, including EUR 417 million cash flows on banks' BNB accounts related to minimum reserve maintenance and reserves and excess reserves had also a positive effect. Reserve currency purchases of EUR 178 million at BNB tills by commercial banks contributed negatively to the net positive effect of the rest external cash flows.

Currency Structure of Gross International Reserves

(per cent)

Currency	Issue Department balance sheet assets	
	2019	January–June 2020
EUR	92.13	91.31
USD	0.21	0.17
XAU	7.11	8.00
XDR	0.54	0.51
CHF	0.00	0.00

Note: Average values calculated on a daily basis for the period.

Source: the BNB.

[46] Balances in banks' TARGET2 national system component accounts (worth some EUR 390.22 million at the end of June 2020), and the two tranches of SDR 611 million disbursed in August and September 2009 upon general SDR allocation by the IMF are not included in the analysis of changes in BNB gross international reserves below. For further details, see BNB Annual Report for 2009, p 26.

Over the first half of 2020 the relative share of gold in gross international reserves grew on 2019 to 8.00 per cent on average, from 7.11 per cent in 2019. This change is mainly due to the gold price increase of 16.14 per cent in euro and the 11,113.6 troy ounces of gold exchange standard acquired by the BNB which was delivered on 6 February 2020 in the BNB's account with the Bank of England. The average share of euro-denominated assets in gross international reserves in the first half of 2020 was 91.31 per cent.

Structure of Gross International Reserves by Financial Instrument

(per cent)

Financial instruments	2019	January–June 2020
Vault cash*	4.21	14.39
Deposits**	34.02	30.66
Securities**	61.77	54.95

Note: Average values calculated on a daily basis for the period.
* Account balances, payments, and monetary gold.
** Including instruments in foreign currency and gold.

Source: the BNB.

Most assets in the structure by financial instruments continued to be invested in securities and deposits, albeit their share declined from 2019 at the expense of a cash increase. The share of securities in gross international reserves amounted to 54.95 per cent on average, that of deposits 30.66 per cent and cash accounted for 14.39 per cent.

Gross International Reserves by Residual Term to Maturity

(per cent)

Maturity sectors	2019	January–June 2020
Up to a year	67.15	71.51
One to three years	25.68	20.46
Three to five years	7.08	6.21
Five to ten years	0.10	1.81
Over ten years	0.00	0.00

Note: Average values calculated on a daily basis for the period.

Source: the BNB.

In the first half of 2020 most assets in the structure of international reserves by residual term to maturity continued to be invested in the maturity sector of up to a year (current accounts, short-term deposits in foreign currency and gold, and short-term securities). Their share averaged 71.51 per cent, increasing on 2019, while investment in the one to three and three to five year maturity sectors declined.

Gross International Reserves Risk and Return

The Market Environment

In the fist six months of 2020 the major factors determining dynamics of global financial markets were the unprecedented measures to curb the rapid spread of COVID-19 and the subsequent massive monetary and fiscal policy measures to mitigate these effects. Leading central banks launched a number of monetary policy measures to enhance liquidity and ensure favourable financing conditions for the government, banks, corporations and households. Most of these measures were adopted at extraordinary meetings of central banks' governing bodies. Over the first half of the year the ECB Governing Council left unchanged the euro area interest rates, albeit increasing significantly the asset purchases under the newly established Pandemic Emergency

Purchase Programme (PEPP) and the Targeted Longer-term Refinancing Operations (TLTRO-III) with considerably improved terms and conditions. In addition, the ECB swap lines established with the US Federal Reserve System were activated in order to ensure US dollar liquidity in the euro area, while launching a number of temporary supervisory measures, which allowed euro area banks to use part of their capital and liquidity buffers. The US Federal Reserve also initiated a number of extraordinary monetary policy measures and lowered the target range for the federal funds rate by 150 basis points to 0.00–0.25 per cent. The extraordinary monetary policy measures included both a resumption of programmes applied during the financial crisis in 2008–2009 and establishment of entirely new programmes to support the corporate debt market.

The trade agreement reached between the USA and China by the end of 2019 boosted the risk appetite of market participants, driving some leading indices to reach historically high levels in the beginning of February 2020. The increased uncertainty surrounding the economic effects of the measures to contain the spread of COVID-19, which were gradually introduced in all leading economies, resulted in a very high volatility in global financial markets. In the period from mid-January to mid-March, the market participants responded to the emerging crisis by higher demand for low-risk assets, such as gold and government securities issued by the highest credit rating countries and sales of shares leading to a significant decline in stock exchange indices globally. Mid-March saw the highest volatility in financial markets when the uncertainty surrounding the effects of the measures taken against COVID-19 on the financial stability worldwide resulted in increased demand for liquidity and sales of all kinds of assets, including shares, fixed income securities and raw materials. Subsequently, the expansionary monetary and fiscal measures launched globally contributed largely to the decline in the uncertainty in financial markets and the partial recovery of financial asset prices. In the second quarter of 2020 stock exchange volatility indices fell significantly. However, by mid-year their levels continued to exceed substantially the average values recorded in the last three years.

Central Banks' Policies

In the period from March to June 2020, in order to mitigate the negative economic effects of COVID-19 containment measures, the ECB Governing Council launched a number of monetary policy measures aimed at maintaining liquidity and financing conditions for banks, governments, corporations and households. Already in early March, the ECB Governing Council decided on additional longer-term refinancing operations (LTRO) to improve the terms and conditions on targeted longer-term refinancing operations (TLTRO-III) and to add a package of additional temporary net asset purchases of EUR 120 billion under APP until the end of 2020. On 15 March the swap line between the ECB and the Federal Reserve System was activated to provide US dollar liquidity. Dynamic expansion of COVID-19 containment measures required new monetary policy measures. After the 18 March extraordinary meeting, the ECB Governing Council announced the launch of a new temporary asset purchase programme of private and public sector securities called Pandemic Emergency Purchase Programme (PEPP) to last until the end of 2020. Purchases under this programme will amount to EUR 750 billion and cover all the assets categories eligible under the asset purchase programme (APP), with allowed temporary fluctuations in the distribution of purchase flows over time, across asset classes and among jurisdictions. Following its extraordinary meetings of 7 and 22 April, the ECB Governing Council decided on easing refinancing operations collateral quality requirements. At its regular meeting of 30 April, the ECB Governing Council improved further the terms and conditions on targeted longer-term refinancing operations (TLTRO-III) and announced the launch of a new series of longer-term financing operations, called pandemic emergency longer-term refinancing operations (PELTROs). At its regular meeting of 4 June, the ECB Governing Council made changes by increasing the PEPP envelope by EUR 600 billion to EUR 1350 billion and extending the horizon for net purchases by six months to at least June 2021. The maturing principal payments from securities purchased under the PEPP will be reinvested until at least the end of 2022.

In the first half of 2020 the ECB Governing Council kept unchanged the reference interest rates and the forward guidance for their future path. The forward guidance of key interest rates implied that they should remain unchanged or decline until the inflation outlook converges in a sustained manner to the target. It was announced that net asset purchases would run for as long as necessary, and end shortly before key interest rates start to rise. Reinvestments of the principal payments from maturing securities purchased under the asset purchase programme are expected to continue, in full, for an extended period of time past the date when the key interest rates start to rise, provided this does not lead to a restrictiveness of monetary policy.

In the first half year the Eurosystem balance sheet figure rose by 33 per cent from the end of 2019 to EUR 6.24 trillion (52.3 per cent of euro area GDP) by the end of June 2020. Compared with the end of 2019, the amount of the four asset purchase programmes of the ECB increased, as follows: by EUR 139 billion under the Public Sector Purchase Programme (PSPP), by EUR 35 billion under the Corporate Sector Purchase Programme (CSPP), by EUR 19 billion under the Covered Bond Purchase Programme (CBPP3), and by EUR 2 billion under the Asset-Backed Securities Purchase Programme (ABSPP). As of the end of the first half year assets purchased under the temporary asset purchase programme of private and public sector securities amounted to EUR 355 billion. As a result of continuing asset purchases and allocation of funds under TLTRO-III as of 30 June, excess liquidity in the euro area banking system increased to EUR 2715 billion from EUR 1712 billion at the end of 2019. The maintenance of a relatively high liquidity in the euro area banking system in the first quarter of the year and its substantial increase in the second quarter helped to hold down the euro unsecured overnight rate €STR and to cut unsecured deposit interest rates in the interbank market. In the first six months the average value of the €STR interest rate was stable at -0.54 per cent against -0.53 per cent at the end of 2019. EURIBOR unsecured deposit rates rose significantly, but subsequently recovered to levels close to those of end-2019. By the end of June the one-month deposit rate was -0.51 per cent (a decline of 7 basis points from 2019) and those with maturities of six and twelve months came to -0.31 per cent and -0.23 per cent (an increase of 2 basis points from end-2019).

In the first six months of 2020 the US Federal Reserved lowered the target range for the federal funds rate by 150 basis points to 0.00–0.25 per cent and initiated a number of extraordinary measures including a resumption of programmes applied during the financial crisis in 2008–2009 and establishment of entirely new programmes to support the corporate debt market. At its extraordinary meetings of 3 and 15 March 2020, the Federal Open Market Committee (FOMC) decided to decrease the target range for the federal funds rate initially from 1.50–1.75 per cent to 1.00–1.25 per cent, and subsequently to 0.00–0.25 per cent. The Federal Reserve took further steps to stabilise and improve the functioning of financial markets. A new programme for purchasing US treasury securities and mortgage bonds with an initial volume of planned purchases of USD 500 billion and USD 200 billion was launched. On 23 March the restrictions on purchases were fully lifted and commercial mortgages-backed mortgage securities were added to eligible assets for purchase. Measures were put in place to stabilise US dollar liquidity supply by activating and improving the terms and extending the access to a large number of swap lines with central banks. Over the period, a total of 11 programmes were announced, including such organised jointly with the US Department of Treasury, aimed at providing liquidity and extending loans to both financial institutions and municipalities, and small, medium and large scale enterprises in the country.

In the first half of 2020 the total assets in the Federal Reserve balance sheet rose by USD 2.92 trillion from USD 4.17 trillion (19.4 per cent of GDP in 2019) as of 25 December 2019 to USD 7.08 trillion (33.0 per cent of GDP in 2019) as of 24 June 2020.

Euro Area and US Sovereign Bond Yield Curve

In the first half year German sovereign bond yields declined significantly across all maturity sectors above two years. Compared to the end of 2019, two-year bond yields dropped by 9 basis points to -0.69 per cent, with ten-year yields falling by 27 basis points to -0.45 per cent. These developments led to a 18 basis point flattening in the German bond yield curve measured by the difference between ten and two-year yields. By half year's end, all German government bonds with under thirty-year maturities traded at negative yields. Over the period from the beginning of January to 9 March yields in all maturity sectors followed a downward trend, mostly in longest term maturities. Bond yield dynamics over that period was mainly driven by the increased demand for low-risk assets due to market participants' concerns of the size of the negative economic effects of COVID-19 spread. Lowered inflation expectations increased the likelihood of ECB launching additional monetary policy measures. After 10 March German government bond yields increased sharply, particularly in long-term maturity sectors. These developments reflected the closure of large positions in German government bonds aimed at ensuring liquidity given the increased uncertainty about the economic and financial consequences of COVID-19 containment measures. Depreciation of euro area government bonds, including German bonds, was driven by prevailing market expectations that fiscal measures initiated by the governments to address pandemic effects coupled with the expected economic recession would impact negatively fiscal indicators. German government bonds depreciated further in mid-March as a result of euro area countries' proposal to issue joint government bonds to deal with COVID-19 aftermath. Developments of German government bond yields over the second quarter largely reflected weaker demand for low-risk assets due to slowed spread of coronavirus in Europe and gradual easing of containment measures. Another factor that pushed down demand for German government bonds in the second quarter was the proposal to establish EU's Economic Recovery Fund. The increase in German government bond yields was limited by ECB accommodative monetary policy measures launched over the quarter. Macroeconomic data released over the period, which were significantly below the consensus forecasts, contributed also to the decline in German government bond yields.

Over the first half of 2020 spreads between yields of euro area government bonds and German government bonds fluctuated significantly, but overall, their levels increased slightly in the period under review. Spreads widened most on Portuguese bonds by 31 basis points, Spanish bonds by 27 basis points and Italian bonds by 12 basis points. Spreads began to widen with the first coronavirus cases in Italy (19–20 February), reaching highest levels by the end of March over the review period. Spreads widening was largely driven by the uncertainty surrounding the economic effects of the containment measures implemented to halt the pandemic in the euro area countries.

Spreads began to narrow gradually after the ECB launched on 18 March its new temporary asset purchase programme of private and public sector securities (PEPP), continuing until the end of the period under review. In mid-April spread narrowing was underpinned by the ECB's temporary reduction in capital requirements for market risk, thus enhancing banks' capacity to buy government debt issued to counter the COVID-19 crisis. The ECB decision of 30 April to reduce the interest rate on TLTRO III operations including the new series of non-targeted pandemic emergency longer-term refinancing operations also contributed to spread narrowing. Over the same period, European leaders initiated discussions on a coordinated fiscal stimulus package to address pandemic's economic impact, which resulted in spread narrowing in May. In mid-May the French and German proposal whereby the EU Recovery Fund should extend grants to the countries most severely hit by the pandemic, while its funding should be provided by the EU budget, had a strong tightening effect on spreads.

Government Bond Yields in the First Six Months of 2020

(per cent)

In the first half year the US government bond yield curve measured by the ten- and two-year bond yield difference rose by 16 basis points from the end of 2019 to 16 basis points at the end of June. This change was due to the decline in two-year US government bond yield by 142 basis points exceeding the fall in ten-year government bond yield by 126 basis points. US government bond yield was affected by the data on COVID-19 development, its economic effects and the fiscal and monetary stimulus launched in the US, Europe and China to contain the aftermath. Dynamics of two-year US government bonds largely reflected the decision to reduce federal funds rate by 150 basis points and FOMC members' statements on the risks to the US economy stemming from COVID-19. A key factor behind the developments in yields on long-term maturity sectors in the first quarter was the geopolitical conflict between Saudi

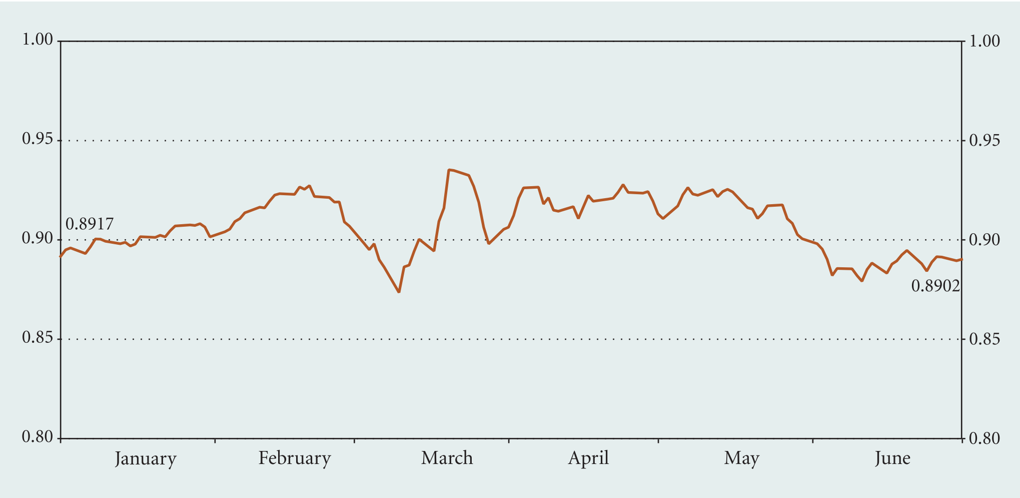
Arabia and Russia, which resulted in a sharp drop in international oil prices. Other factors in this regard included the incoming data releases from the US and China (mainly on retail trade, economic activity and employment) as well as some speculation on development of potential vaccines against COVID-19. In April and early May, investors' fears of possible introduction of negative rates in the US, which FOMC members dispelled but did not exclude completely, also played an important role.

Gold and Exchange Rates

The US dollar appreciated by 0.1 per cent against the euro to USD 1.12 *per* EUR 1, ranging from USD 1.07 to USD 1.15 *per* EUR 1 (from EUR 0.87 to EUR 0.94 *per* USD 1). In the beginning of the reporting period the US dollar appreciated against the euro due to investors' higher demand for low-risk and liquid assets, active closing of investment positions denominated in a currency other than US dollar, and the substantial price appreciation in US treasuries. In the second quarter the US dollar saw the most pronounced depreciation in June against the euro reflecting the consolidated market expectations for a relatively slower than initially projected recovery of the US economy from the crisis resulting from COVID-19 containment measures. Over the same period the spot price of gold increased in both US dollars and euro by 17.1 per cent to USD 1783.7 and by 17.0 per cent to EUR 1586.4 *per* troy ounce. It moved within the relatively wide range of USD 1472 to 1783 and EUR 1337 to 1611 *per* troy ounce. The gold price increase was sustained throughout most of the period under review driven by the increased demand for low-risk assets as a result of the significant uncertainties surrounding global economic prospects, U.S. treasuries' price appreciation and substantial monetary and fiscal stimuli launched by central banks and the governments of leading economies. Another factor that pushed up gold prices in April and early May was investors' concerns of possible introduction of negative interest rates on Federal Reserve's federal funds which, subsequently, were defined as inappropriate by the majority of FOMC members.

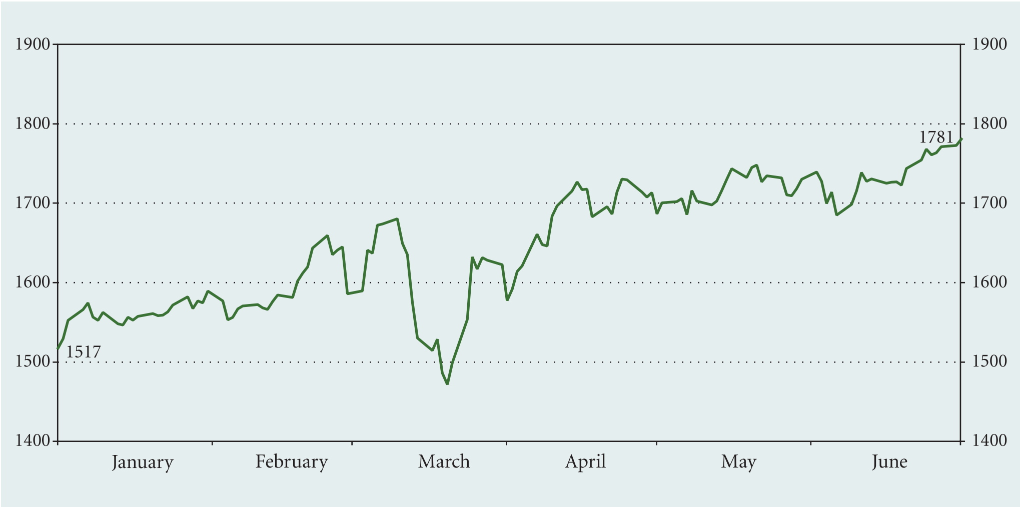
USD/EUR Exchange Rate in the First Six Months of 2020

(EUR)



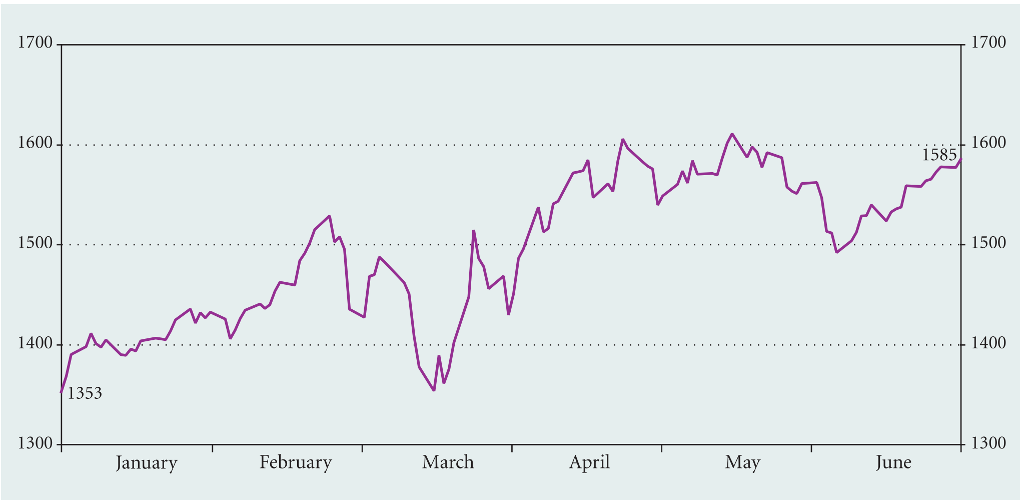
Troy Ounce Gold Price in US Dollars in the First Six Months of 2020

(USD)



Troy Ounce Gold Price in Euro in the First Six Months of 2020

(EUR)



Major Types of Risk

Annual net value risk in the Issue Department balance sheet measured by the standard deviation of net return (volatility) was 14.84 per cent in the first half of 2020.

In the first half year international reserve interest rate risk measured by reserves' average modified duration was 0.84 years. The duration maintained was 0.02 years shorter than the average for 2019. The relative interest risk limit of investment portfolios was set on the basis of not more than 0.25 per cent annual relative yield volatility.

The Law on the BNB stipulation that the sum of the absolute values of open foreign currency positions[47] in currencies other than euro, SDR and monetary gold, should not exceed 2 per cent of the market value of monetary liabilities in these currencies constrained gross international reserve currency risk. There were minimal open positions in foreign currencies other than euro in the reporting period, the open position in monetary gold posing the main currency risk to the BNB.

[47] An open foreign currency position is the difference between the value of assets and liabilities in any currency other than euro.

Over the first six months the Bank continued its conservative credit risk management policy in gross international reserve investment by imposing a number of additional investment restrictions in response to the international financial market crisis as a result of the significant financial and economic uncertainties stemming from measures imposed to curb the spread of COVID-19 globally. In early March, already at the beginning of coronavirus spread in Europe, investment restrictions were introduced to reduce credit and market risk, on the one hand, and, to increase the liquidity of international reserves, on the other. New investments were considerably limited, while maintaining low-risk investments. Later in June, after the gradual normalisation of financial markets, most restrictions previously imposed were lifted to allow the gradual recovery of the investment process in foreign reserve management. Concurrently, credit risk remained significantly lower compared with that prior to the pandemic spread (compared with January 2020). Maximum and minimum credit exposure limits by asset class at balance sheet level and concentration limits to individual issuers and counterparties were modified more moderately. In addition, taking a new credit exposure to issuers from certain countries that were most affected by the coronavirus spread, and counterparties with higher credit risk was not allowed as a result of the very restricted BNB's lists of issuers and counterparties.

To achieve its main investment objective of very high international reserve security and liquidity, the BNB continues investing the main share of assets into euro area core country government bonds and government-guaranteed debt securities, and into short-term deposits with first class foreign central or universal (commercial) banks.

By the end of June 2020 about 69 per cent of international reserves were invested into assets with the highest AAA long-term credit rating.

Operational risk is managed in strict observance and control of investment constraints and the relevant business procedures for international reserve management.

Return and Efficiency

Net income from assets in euro is the sum of three components: 1. income from gross international reserves investment in the original currency; 2. currency imbalance income[48]; and 3. liabilities expenditure/income. BNB income from international reserve investment was negative at EUR -47.02 million: -0.20 per cent yield. This reflected mainly strongly negative interest rates on deposits with first class foreign banks and negative yield of euro-denominated high credit quality bonds in which most BNB international reserves are invested. Earnings from currency imbalance were positive amounting to EUR 303.14 million, largely reflecting movements in the market price of monetary gold in euro and the 11,114 troy ounces of monetary gold exchange standard acquired by the BNB in early February. The October 2015 BNB interest policy made the net financial result from liabilities positive at 0.11 per cent for the first half year, corresponding to a EUR 24.73 million income. The above three components brought negative net returns from international reserve management of EUR 280.85 million: 1.17 per cent half-year return[49].

[48] Currency imbalance income is a result of the effects of exchange rate movements on assets' and liabilities' open foreign currency positions.

[49] Total return is obtained as a product, rather than a sum, of the return of relevant components.

International Reserve Income and Return* in the First Half of 2020

Period	Net income (EUR million)	Net return (per cent)	Income (EUR million)	Return (per cent)	Income (EUR million)	Return (per cent)	Expenditure (EUR million)	Return (per cent)
			on assets		on currency revaluation of assets and liabilities		on liabilities	
	(1)+(2)+(3)		(1)		(2)		(3)	
First quarter	77.18	0.35	-33.11	-0.15	100.17	0.45	10.12	0.05
Second quarter	203.66	0.82	-13.91	-0.06	202.97	0.81	14.61	0.06
Total	**280.85**	**1.17**	**-47.02**	**-0.20**	**303.14**	**1.26**	**24.73**	**0.11**

* Return between time T_0 and time T_N is calculated by chain linked returns for this period. It is calculated using the following formula: $R(T_0,T_N) = (1+r_1)(1+r_2)\dots(1+r_N)-1$. This formula complies with Global Investment Performance Standards (GIPS).

Source: the BNB.

For operational management purposes, gross international reserves are split into portfolios by currency and investment goal, each with a benchmark, investment goals, and investment limits. The table below shows major BNB portfolios and the results from their management.

Portfolio Return and Risk in the First Half of 2020

Portfolio	Return: Absolute (per cent)	Return: Relative[1] (basis points)	Volatility (risk): Absolute (basis points)	Volatility (risk): Relative[2] (basis points)	Information ratio[3]
Investment 1, EUR	-0.23	2	41	16	0.28
Investment 2, EUR	-0.26	-1	38	20	-0.07
External manager A, EUR	0.09	8	133	44	0.38
External manager B, EUR	0.11	10	126	22	0.87
Liquid, EUR	-0.29	3	1	1	-
Liquid, XAU	0.00	-	0	-	-
Liquid, USD	0.44	11	5	3	-

[1] A portfolio's positive relative return is attained profit against benchmark return. Relative returns with a negative sign are interpreted as opportunity cost in portfolio management. Returns for a six-month period.
[2] Relative volatility (relative risk) against benchmark indicates the degree of deviation of portfolio risk characteristics from benchmark through active portfolio management. The risk is on an annual basis.
[3] Information ratio is the ratio between relative portfolio return and relative portfolio risk on an annual basis.

Source: the BNB.

To diversify management styles and cut operational risk, most euro-denominated assets continue to be split into two investment portfolios with identical benchmarks and investment limits, managed by different BNB teams. By the end of the first half of 2020 around 3 per cent of gross international reserves was managed by external managers that were international financial institutions. Beside additional diversification, using external managers helped exchange expertise in international market investment management. Liquid portfolios were intended mainly to assist liquidity management objectives and BNB foreign currency payment needs.

III. Payment Systems and Payment Oversight

The Law on the Bulgarian National Bank tasks the Bank with payment system organisation, support, and development by assisting the implementation, operation, and oversight of efficient payment mechanisms. The Bank's major goals are curbing systemic risk and integrating Bulgarian payment systems into the European payment infrastructure.

Bulgaria's lev payment systems are:

- RINGS, a real-time gross settlement system operated by the BNB;
- RINGS has these transaction settlement ancillary systems:
  - BISERA, for settling customer transfers at a designated time, operated by BORICA AD;
  - BORICA, for servicing bank card payments in Bulgaria, operated by BORICA AD.

Bulgaria's euro payment systems are:

- the TARGET2 national system component, TARGET2-BNB, run by the BNB;
- the TARGET2-BNB settlement ancillary system:
  - BISERA7-EUR, a system for servicing customer transfers to be settled at a designated time, operated by BORICA AD.

Bulgaria's securities settlement systems, where the cash leg is settled in payment systems run by the BNB, are:

- the book-entry government securities settlement system, run by the BNB;
- the book-entry securities registration and servicing system, run by the Central Depository.

Lev Payment Systems

In the first half of 2020 the RINGS real-time gross settlement system processed most lev payments in Bulgaria. On 30 June 2020 the BNB and 24 banks participated in RINGS.

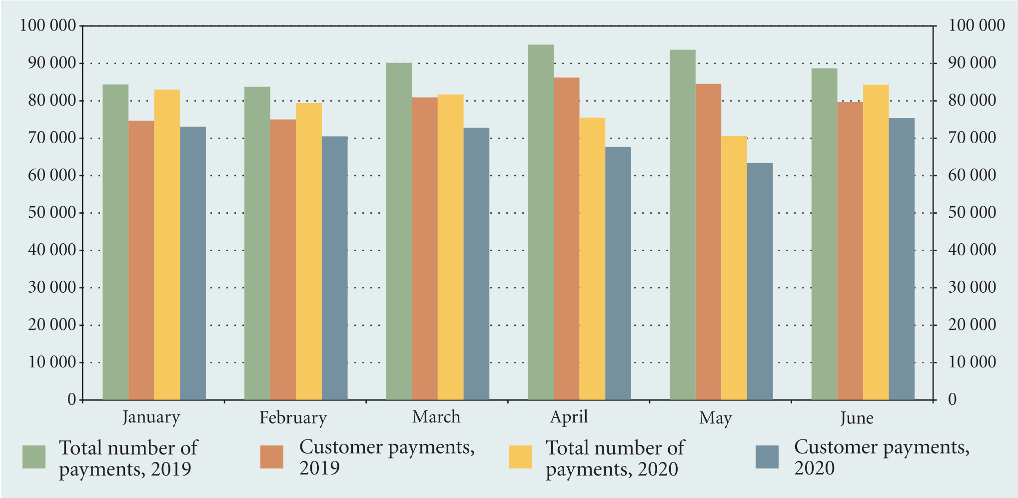
In the first half of 2020 RINGS processed payments worth BGN 521,296 million, up 1 per cent on this time last year, their number reaching 474,257 or an 11.4 per cent fall on the first half of 2019. There were 422,411 customer payments or 89 per cent of the total for BGN 115,883 million (22.4 per cent of total payments).

The daily average value of payments *via* the system was BGN 4233 million, and their daily average number was 3858. The daily value peak was BGN 7785 million, with a daily number peak of 5926.

During the first six months of 2020, 67.5 per cent of payments by value were processed by noon and 87.4 per cent by 2:30 pm. The balance of 12.6 per cent went through by 5:30 pm. As regards system traffic, 82.5 per cent of the number of system payments were effected by 2:30 pm. RINGS offered 100 per cent availability[50] in the period under review.

[50] The ratio of time when the system is operational to scheduled operating time.

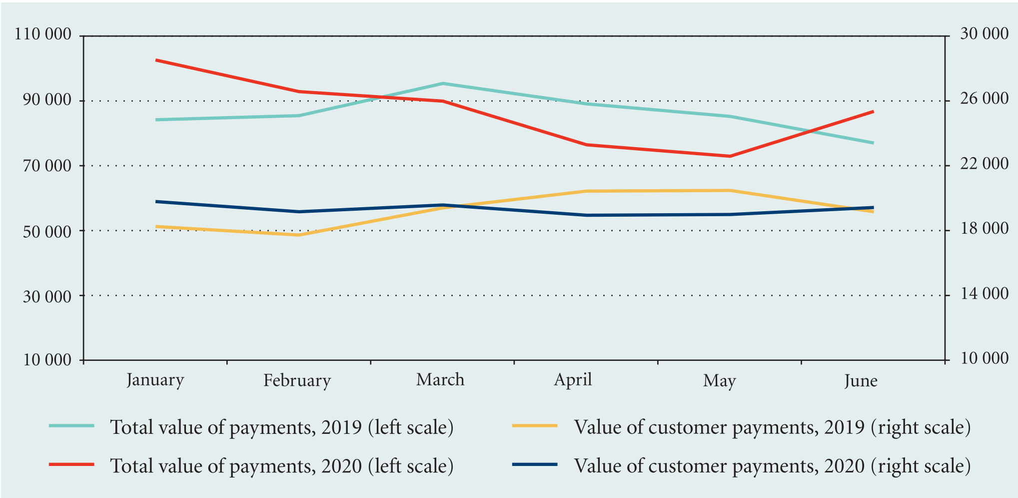
RINGS Payment Number in the First Halves of 2019 and 2020



Source: the BNB.

RINGS Payment Value in the First Halves of 2019 and 2020

(BGN million) (BGN million)



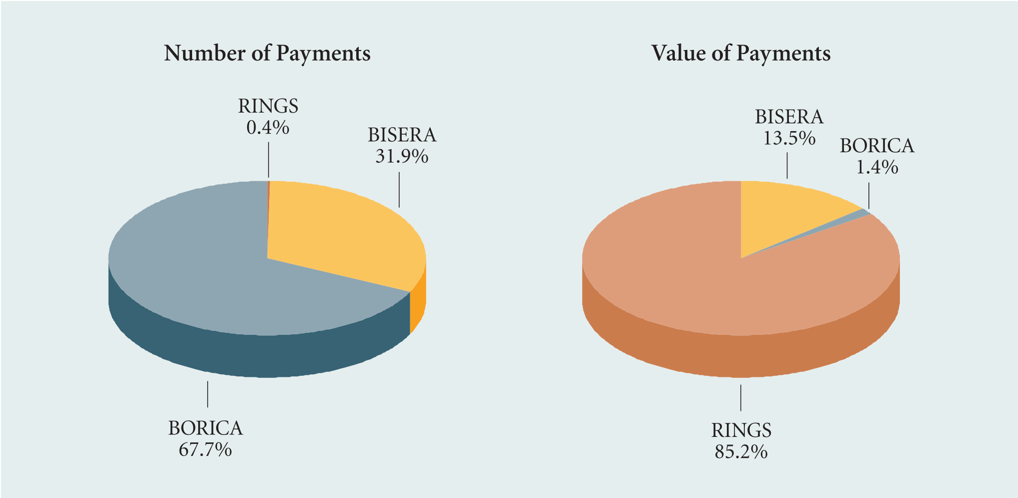
Source: the BNB.

Lev payment distribution in Bulgaria by payment system underwent no changes from the first half of 2019. Over the period under review RINGS processed 85.2 per cent of the payments effected in Bulgaria. Values around 80 per cent are deemed optimal for the operation of real-time gross settlement systems. RINGS also processed 0.4 per cent of the total number of lev non-cash payments in Bulgaria.

In the first half of 2020 BORICA processed 87.9 million of payments effected *via* ATM and POS terminals, totalling BGN 8357.3 million: a rise of 5.3 per cent in number and 5.2 per cent in value on the corresponding period of 2019.

In the first half of 2020 BISERA processed 41.4 million of payments for BGN 82,356.6 million. Compared with the first six months of 2019 processed payments rose by 1.1 per cent in number and 3.3 per cent in value.

Distribution of Lev Payments in Bulgaria by Payment System in the First Half of 2020



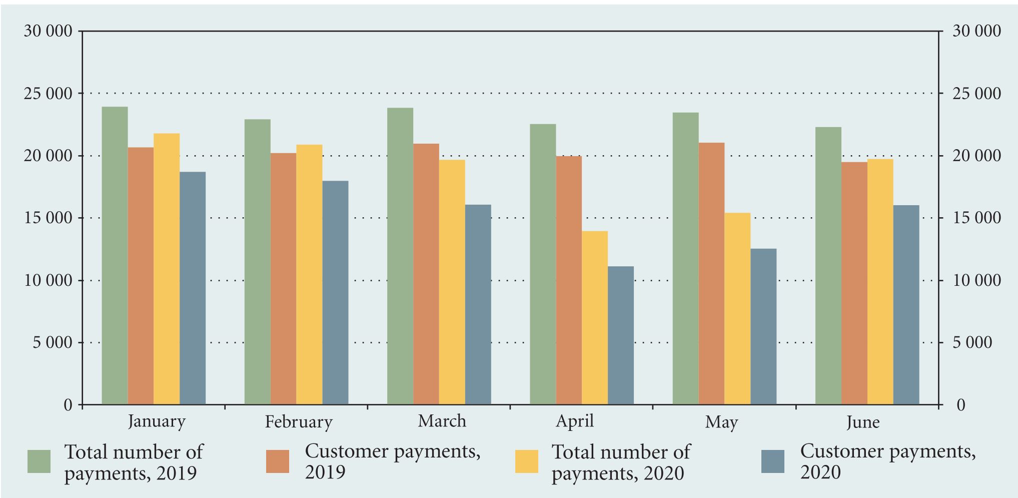
Source: the BNB.

Euro Payment Systems

TARGET2 settles gross euro payments in real time with central bank money. It is a Single Shared Platform (SSP) system, each participating and connected central bank responsible for its system component. The BNB has operated the TARGET2-BNB national system component since 1 February 2010 and has controlled participants' business relations and coordination with the European Central Bank and participant banks.

By 30 June 2020 the system included the BNB, 18 direct participant banks, four addressable BIC holders, and three ancillary systems: the BISSERA7-EUR for settling customer transfers in euro at a designated time, the BNBGSSS for government securities settlement at the BNB, and the securities settlement system run by the Central Depository AD.

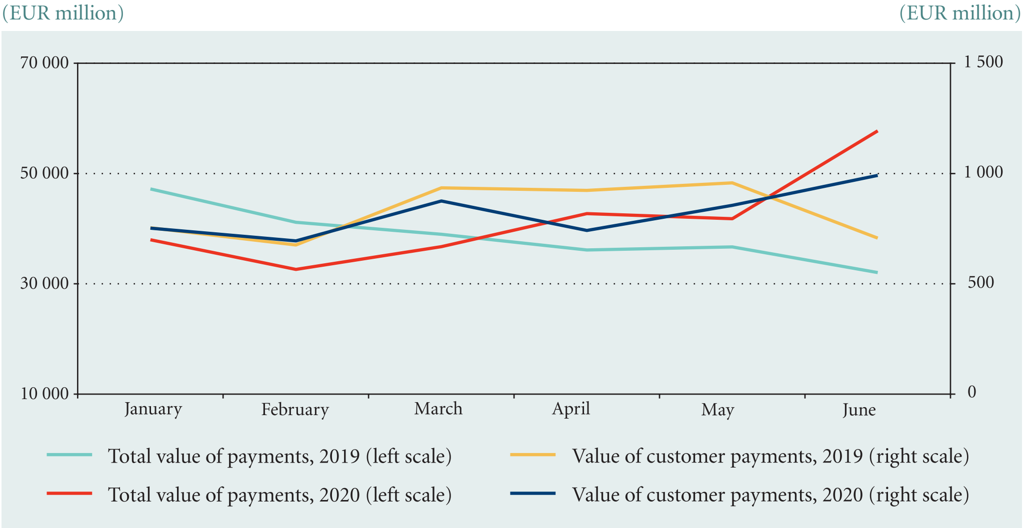
TARGET2-BNB Payment Number in the First Halves of 2019 and 2020



Source: the BNB.

In the first half of 2020 TARGET2-BNB processed 111,472 payments for EUR 249,640 million, including 92,384 customer payments for EUR 4912 million. Data show a rise of 7.5 per cent in total value and a decline of 19.9 per cent in total number of processed payments on the first half of 2019.

TARGET2-BNB Payment Value in the First Halves of 2019 and 2020



Source: the BNB.

The value and number of other system component payments to banks were 77.6 and 93.4 per cent of payments processed through the national component. There were 885 daily average TARGET2-BNB payments, worth EUR 1981 million. The daily value peak was EUR 5400 million, with a daily number peak of 1361.

The BISERA7-EUR ancillary system processes designated time customer euro transfers. In the first half of 2020 it processed 11,241 payments for EUR 95.6 million, up 8.3 per cent in value and 3.9 per cent in number on the first half of 2019.

To meet the requirements of Regulation (EU) No 260/2012 of the European Parliament and of the Council, the BISERA7-EUR payment system for small payments in euro processes SEPA payments and offers interoperability with the SEPA Clearer, Equens and EuroELIXIR, allowing SEPA credit transfers between banks in Bulgaria and other EU Member States.

Developing the Payment Services and Payment Systems Regulatory Framework

Over the review period amendments to the Law on Payment Services and Payment Systems (LPSPS) were adopted.[51] The amendments introduce the requirements of the EU legislation to the payment services regulatory framework arising from Directive (EU) 2015/2366, Regulation (EU) 2019/518, Delegated Regulation (EU) 2018/389 and Guidelines of the European Banking Authority EBA/GL/2018/05 and EBA/GL/2019/02. The legal framework on the effective payment oversight has been also improved and the changes made relate mostly to: authorisation of payment institutions and electronic money institutions and some aspects of the activity of these types of payment service providers; clearing and settlement of card-based payment transactions; an increase in the amount of fines and pecuniary sanctions in case of

[51] Published in the Darjaven Vestnik, issue 13 of 2020.

breaches; a prohibition on an entity conducting operations on providing payment services and/or issuing electronic money to use in its name, in its advertising or other activity words meaning performance of such activity, *etc.*

In the first six months of 2020 the BNB amended Ordinance No 3 of 18 April 2018 on the Terms and Procedure for Opening Payment Accounts, Executing Payment Transactions and Using Payment Instruments, and Ordinance No 16 of 29 March 2018 on Granting Licenses and Approvals, Entry into the Register under Article 19 of the Law on Payment Services and Payment Systems, and Requirements for the Activity of Operators of Payment Systems with Settlement Finality. The amendments to these ordinances include mainly the amendments to the Law on Payment Seervices and Payment Systems. The timescales for submitting a portion of the reporting information by payment service providers have been also updated.

Payment Systems Oversight

In line with the Law on the BNB and the Law on Payment Services and Payment Systems, the Bank regulates and oversees payment system operators with settlement finality, payment service providers and electronic money issuers in Bulgaria. The BNB grants licences and oversees compliance with national and European statutory requirements and relevant international principles, standards, and recommendations.

In the first six months of 2020 the BNB inspected a payment service provider licensed by the BNB to establish whether operations of the payment service provider and issuing electronic money institution comply with the requirements of the Law on Payment Services and Payment Systems, its implementing acts, the European legal framework, as well as with the requirements of the Law on Measures against Money Laundering and the Law on Measures against Financing of Terrorism. The Bank imposed supervisory measures on the provider. Over the review period the Bank started an inspection of a payment service provider to establish compliance of its activity with particular requirements of the Law on Measures against Money Laundering and its implementing acts. The Bank inspected one institution to see whether it had provided payment services and/or had issued electronic money without due licence or registration.

In the first half of 2020 the spot inspection of BNB licensed payment service providers was completed to establish compliance with the provisions of Regulation (EU) 2015/751 on interchange fees for card-based payment transactions. Payment service providers certified the compliance of their operations with the provisions of the Regulation. Therefore, no supervisory measures have been imposed. Over the review period the work on two spot supervisory inspections of payment service providers in Bulgaria continued, intended to establish the compliance with the requirements of Regulation (EU) No 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro and the requirements of EBA Opinion on the deadline for the migration to strong customer authentication for e-commerce card-based payment transactions (EBA-Op-2019-11).

In the first six months of 2020 the BNB Governing Council issued one licence for conducting activity as an electronic money institution and one license for conducting activity as a payment institution in compliance with the requirements of the LPSPS. Over the review period Maifin EAD was licensed to conduct activity as an electronic money institution, providing in addition payment services under Article 4, items 3, 4, 5 (sentence one), 7 and 8 of the LPSPS. The Bank declined one payment institution licence.

By the end of June 2020 five payment institutions and six electronic money institutions were licensed by the BNB.

Over the review period, pursuant to the requirements of the LPSPS, the Governing Council took decisions on two notifications filed by service providers under Article 2, paragraph 3 of the LPSPS regarding offered payment instruments that can only be used in a restricted way.

In compliance with the requirements of Article 33, paragraph 6 of Delegated Regulation (EU) 2018/389[52] after a consultation with the European Banking Authority (EBA) two payment service providers were exempted from the obligation to set up the contingency mechanism to the dedicated interface for access to payment accounts serviced by them, which are accessible online.

The half year saw these entries and deletions in/from registers under the LPSPS and BNB Ordinance No 16 of payment institutions and electronic money institutions licensed by the BNB:

- 167 agents were listed on and 116 agents were delisted from the public register of licensed payment institutions and electronic money institutions operating in Bulgaria;
- two agents were listed on and two agents were delisted from the public register of licensed payment institutions and electronic money institutions operating elsewhere in the EU.

The review period saw EU member competent authorities notifications of the following payment institutions, electronic money institutions and account information service providers licensed elsewhere in the EU and eligible to operate in Bulgaria:

- for listing 68 payment institutions, electronic money institutions and account information service providers licensed elsewhere in the EU and eligible to directly operate in Bulgaria and for delisting eight payment institutions, electronic money institutions and account information service providers operating directly in Bulgaria;
- for listing one branch of an electronic money institution licensed elsewhere in the EU and eligible to operate in Bulgaria;
- for listing 66 agents and delisting 32 agents of payment institutions and electronic money institutions licensed elsewhere in the EU and eligible to operate in Bulgaria.

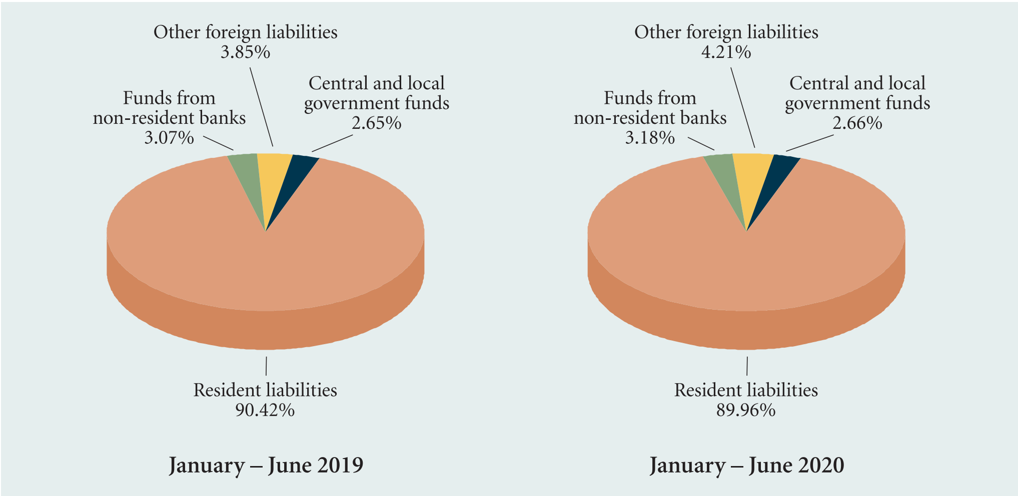
The BNB enquired into 148 complaints submitted by members of the public and corporate payment service users. In eight of them, the Bank issued instructions. The other cases involved no breaches of the Law on Payment Services and Payment Systems and its statutory instruments, or were resolved in favour of payment service users through correspondence.

[52] Commission Delegated Regulation (EU) 2018/389 of 27 November 2017 supplementing Directive (EU) No 2015/2366 of the European Parliament and of the Council on regulatory technical standards for strong customer authentication and common and secure open standards of communication.

IV. Banks' Reserves at the BNB

In the first half of 2020 the average daily value of banks' attracted funds for minimum reserve calculation purposes (excluding central and local government budget accounts) rose 7.8 per cent on a year earlier. The average daily value of funds attracted from residents (excluding central and local government budget funds) rose 7.3 per cent, and those from non-residents 15 per cent, funds attracted from non-resident banks rising 11.4 per cent. Funds attracted by banks from central and local budgets posted 7.9 per cent growth. The effective implicit ratio of minimum required reserves remained unchanged from the first half of 2019 at 9.4 per cent.[53] Reserve assets covering this ratio include funds in banks' BNB accounts (8.3 per cent) and half of cash balances designated as reserves (1.1 per cent).

Structure of Attracted Funds in the Banking System*



* Average daily value of attracted funds for reserve calculation purposes.

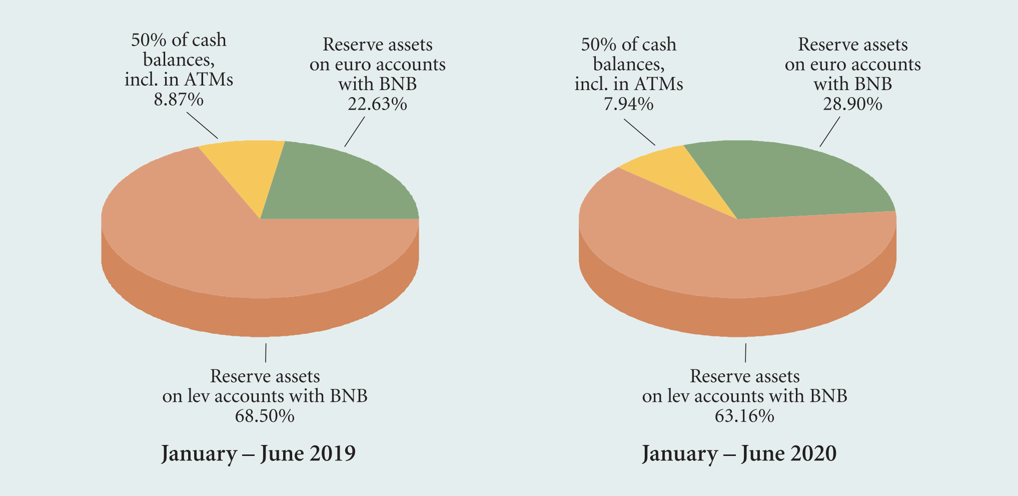
Source: the BNB.

Banks keep reserves in own assets: BNB lev and euro accounts and half their cash balances, including in ATMs.[54] In the half year the share of lev-denominated reserve assets was 63.2 per cent on an average daily basis, from 68.5 per cent a year earlier, while the share of euro reserve assets rose to 28.9 per cent, from 22.6 per cent a year earlier. The share of cash balances designated as reserve assets, including in ATMs, fell from 8.9 per cent in the first half of 2019 to 7.9 per cent in the January–June 2020 period.

[53] BNB Ordinance No 21 on the Minimum Required Reserves Maintained with the BNB by Banks, effective as of 4 January 2016, sets the minimum required reserves rate on funds attracted from residents at 10 per cent of the reserve base, those from non-residents at 5 per cent, and those from central and local government budgets at nil.

[54] Article 4 of Ordinance No 21 of the BNB.

Banks' Reserve Asset Structure under Article 4 of BNB Ordinance No 21

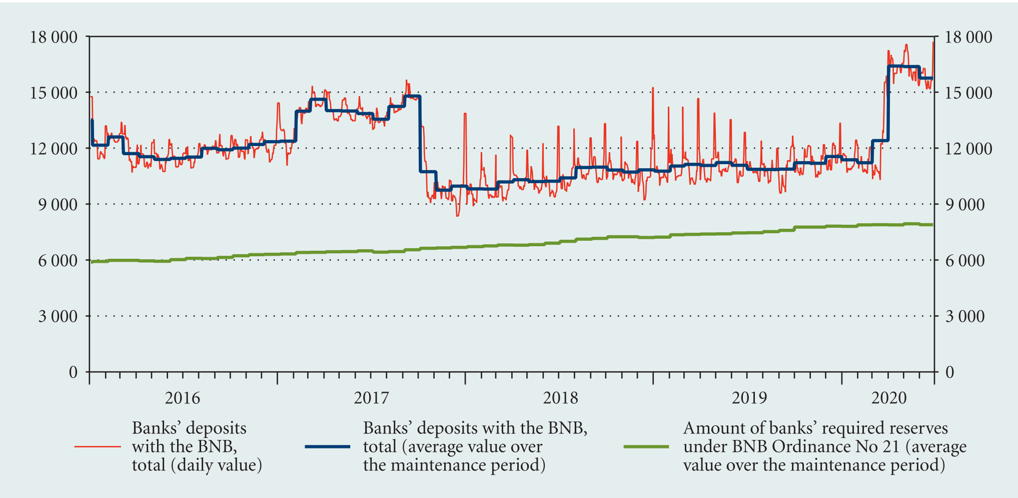


Source: the BNB.

Excess reserve interest[55] under BNB Ordinance No 21 remained at -0.70 per cent[56]. The average daily amount of excess reserves rose by BGN 2.0 billion on the same period of 2019. In the second quarter an upward trend in excess reserves on the BNB accounts was observed as a result of the package of measures introduced by the BNB in the context of the COVID-19 intended to further strengthen bank capital and liquidity. In the first six months of 2020, funds in banks' BNB Ordinance No 21 accounts exceeded minima by 52.7 per cent on an average daily basis, from 28.9 per cent in 2019.

Banks' Reserves at the BNB

(BGN million)



Source: the BNB.

[55] Ordinance No 21, Article 5, paragraph 1 defines excess reserves as funds exceeding the reserve requirement by more than 5 per cent holdings.

[56] According to the interest rate methodology for BNB accounts, effective since 4 October 2017, banks' excess reserves attract the lower of: 0 per cent or the ECB deposit facility rate reduced by 20 basis points.

V. Currency in Circulation

The Bank has a monopoly on banknote and coin issue in Bulgaria. Its currency is mandatorily acceptable as legal tender at face value without restriction. The Bank prints banknotes, mints coins, and keeps and scraps uncirculated or withdrawn currency.[57]

In the first half of 2020 the BNB put into circulation as legal tender banknotes of BGN 10 and 20 nominal value, issue 2020, pursuant to the Law on the BNB Article 25. Its general appearance and main features are almost unchanged from those of the banknotes in circulation. Changes include new security features.

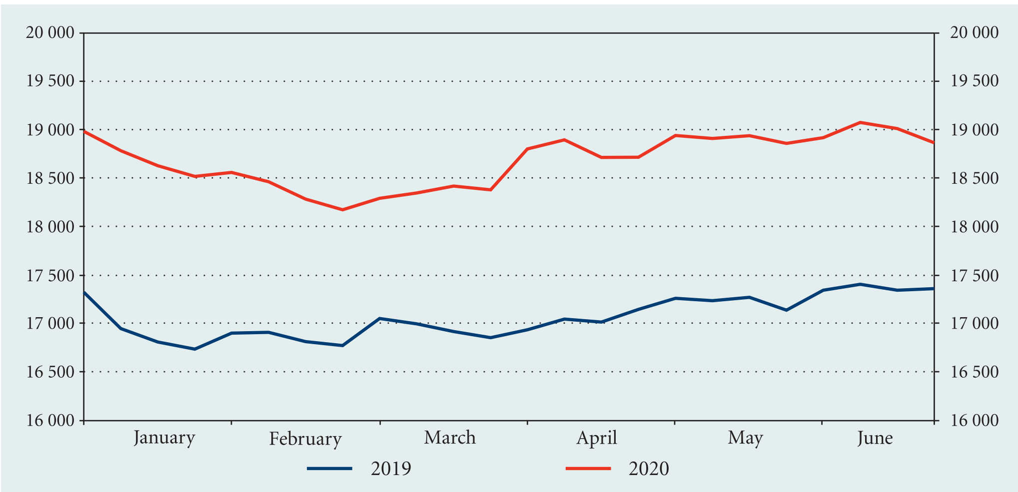
Pursuant to the Law on the BNB Article 26, the BNB Governing Council decided to withdraw from circulation the commemorative coins issued in 2014 which ceased to be legal tender on 10 February 2020. They may be exchanged at BNB tills at face value with no limit to amounts and no charge until 31 December 2021.

Banknotes and Coins in Circulation (Outside BNB Vaults)

As of 30 June 2020 currency in circulation (outside BNB vaults)[58] reached BGN 18,867.7 million. Between January and June 2020 currency in circulation fell 1.24 per cent (BGN 237.2 million) against an increase of 0.21 per cent in the same period of 2019. The upward trend in currency in circulation on an annual basis was sustained showing a rise of 8.68 per cent (BGN 1506.1 million) compared with end-June 2019. Annual growth at the end of June 2020 was lower by 1.42 percentage points compared with annual growth reported at the end of June 2019.

Banknotes and Coins in Circulation (Outside BNB Vaults) in the First Halves of 2019 and 2020

(BGN million)



Source: the BNB.

In late June 2020, 489.1 million banknotes were in circulation, amounting to BGN 18,397.1 million. In the first half of 2020, their number fell 15.4 million

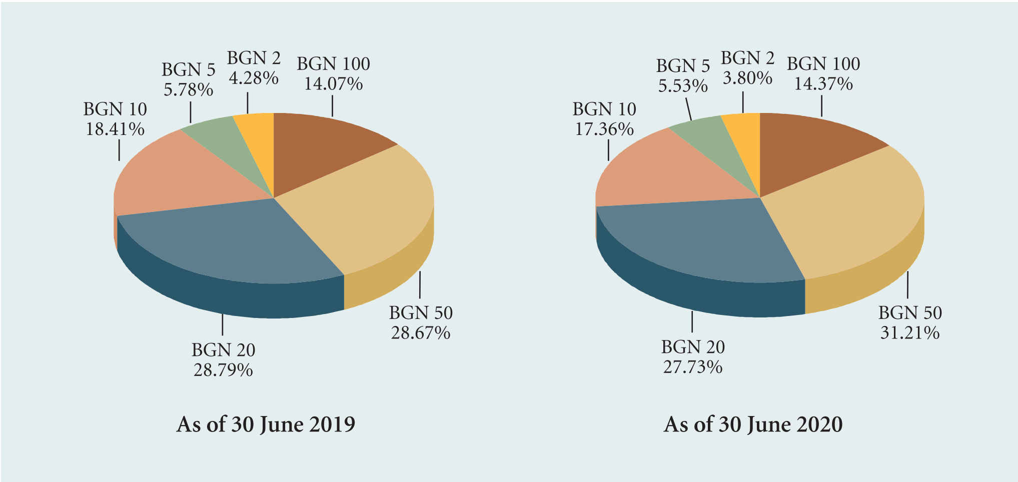
[57] Article 2, paragraph 5 and Article 25 of Law on the BNB.

[58] This included: banknotes and circulating coins issued after 5 July 1999, including those withdrawn from circulation with no time restriction on exchange, and commemorative coins issued after 5 July 1999, including those withdrawn from circulation, whose term of exchange has not expired yet.

(3.05 per cent), and their value BGN 240.2 million (1.29 per cent). The number of circulating banknotes rose 24.2 million or 5.20 per cent and value BGN 1479.2 million or 8.74 per cent in a year. By comparison, in the June 2018 to June 2019 period the rise was BGN 24.5 million in number (5.56 per cent) and BGN 1542.8 million (10.03 per cent) in value.

Banknotes comprised 97.50 per cent of the total value of circulating currency by 30 June 2020, falling 0.05 percentage points in the first half of 2020. The BGN 50 and BGN 20 banknotes were most common. BGN 50 banknotes numbered 152.7 million and BGN 20 banknotes 135.6 million: 31.21 and 27.73 per cent by number of banknotes outside BNB vaults.

Individual Denomination Shares in the Total Number of Circulating Banknotes

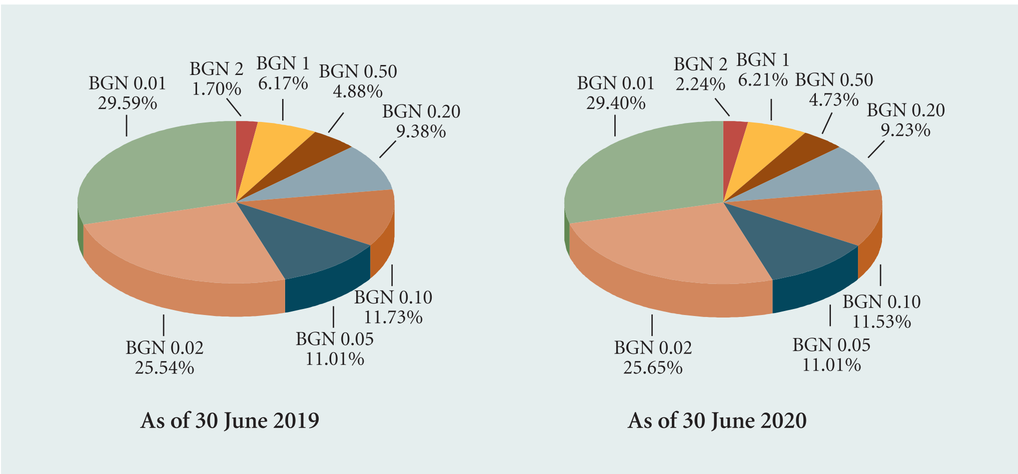


Source: the BNB.

By mid-year the value of BGN 50 banknotes was BGN 7632.9 million, occupying the largest share (41.50 per cent) of circulating banknotes. BGN 100 and BGN 20 banknotes had 38.20 and 14.75 per cent shares.

The average banknote circulating at the end of June 2020 was worth BGN 37.61, up BGN 0.67 on the end of 2019. In a year its value rose BGN 1.23 or 3.37 per cent, reflecting higher growth in the number of high value banknotes (BGN 50 and BGN 100).

Individual Nominal Value Shares in the Total Number of Circulating Coins



Source: the BNB.

In late June 2020, 2643.0 million coins circulated, worth BGN 469.1 million. Since the year's start, their number rose 44.3 million (1.71 per cent), and their value BGN 9.4 million (2.05 per cent). In a year circulating coins outside BNB vaults grew by 139.7 million (5.58 per cent), their value rising BGN 33.3 million (7.64 per cent). Circulating coins comprised 2.49 per cent of the total value of circulating banknotes and coins outside BNB vaults, increasing 0.08 percentage points in the first half of 2020.

The upward trend in the number of circulating coins continued. Both in the first half of 2020 and in a year BGN 2 showed the highest percentage growth of 5.78 and 18.66 per cent, respectively. Compared to the end of 2019 and the end of June 2019, the number of BGN 2 grew by 3.6 million and 10.5 million, amounting to 66.6 million coins outside BNB vaults in late June 2020. The BGN 1 coin posted the lowest growth in number (0.48 per cent) in the January–June 2020 period. Low value coins grew steadily in the currency circulation compared to both the beginning of the corresponding years and on an annual basis. Year on year, their number rose within the range from 3.58 per cent for BGN 0.50 coins to 6.41 per cent for BGN 0.05 coins.

The BGN 0.01 coins had the largest share of 29.20 per cent of total circulating coins at the end of the first half of 2020, with 771.7 million coins of this nominal value outside BNB vaults by 30 June. The BGN 2 coin held the smallest share at 2.52 per cent.

The average coin in circulation matched its level of late 2019 at BGN 0.18, up BGN 0.01 in a year due to the further launch of the BGN 2 coin.

The Bank issued three commemorative coins planned in its 2020 minting programme under the Law on the BNB Article 25 paragraph 1: a copper commemorative coin '125 Years since the Birth of Geo Milev' of the Bulgarian Artists series with a nominal value of BGN 2, a silver commemorative coin 'Kukeri' of the Bulgarian Customs and Traditions series with a nominal value of BGN 10, a partially gold-plated silver commemorative coin '100 Years of University of National and World Economy' with a nominal value of BGN 10. By the end of June 2020 commemorative coins outside BNB vaults were worth BGN 1.5 million, with their share comprising 0.01 per cent of currency in circulation. Compared with the end of 2019, their share fell by 0.04 percentage points, a result of the BNB policy of step-by-step withdrawal from circulation of commemorative coins issued after 5 July 1999.

Non-genuine Banknotes and Circulating Coins

In the first half of 2020 the BNB retained 476 non-genuine Bulgarian banknotes; of these, 475 had entered into circulation. The share of all retained non-genuine banknotes remained very low at 0.000097 per cent of total circulating banknotes by end-June 2020.

The BGN 20 banknote had the largest share of non-genuine banknotes retained in the first half of 2020 (46.64 per cent). As compared with the respective number of banknotes in circulation by the end of this period, the share of non-genuine BGN 20 banknotes amounted to 0.000164 per cent. Non-genuine BGN 50 and BGN 10 banknotes occupied 33.19 and 13.66 per cent of all retained non-genuine banknotes. Non-genuine BGN 100 banknotes accounted for 5.46 per cent of all retained non-genuine Bulgarian banknotes over the review period. The non-genuine BGN 5 and BGN 2 comprised 1.05 per cent of all retained banknotes.

The non-genuine Bulgarian coins retained at the BNB numbered 409; of these, 267 had entered into circulation. The distribution of retained non-genuine coins by nominal value is as follows: 29 BGN 2, 167 BGN 1, 198 BGN 0.50 and 15 BGN 0.20. The share of retained non-genuine Bulgarian coins in the total number of circulating coins by 30 June 2020 was 0.000015 per cent.

Performing its statutory duty of assessing foreign banknotes and coins retained in Bulgaria, in the first half of 2020 the Bank's National Analysis Centre retained: 4022 euro banknotes, 207 US dollar banknotes, and 74 assorted foreign non-genuine banknotes.

BNB Issue and Cash Operations

BNB issue and cash operations include: banknote printing, coin minting, accepting, delivering, repaying, processing, authenticity and fitness checking of Bulgarian banknotes and coins and foreign currency, exchanging damaged Bulgarian banknotes and coins, and scrapping unfit Bulgarian banknotes and coins.

Between January and June 2020, 109.2 million newly printed banknotes and 94.3 million newly minted coins worth BGN 3528.0 million were supplied under contracts with producers.[59]

Over the same period banknotes and circulating coins deposited with the BNB came to BGN 8721.0 million, up 5.10 per cent on this time last year. In the first half of 2020 withdrawals were 8490.5 million, up 1.89 per cent on the corresponding period of 2019.

Between January and June 2020 banknote processing machines tested 392.9 million banknotes and 35.1 million coins. Compared with the same period of 2019, the number of processed banknotes increased by 3.20 per cent, while that of processed coins decreased by 17.10 per cent. BGN 10 and BGN 20 banknotes and BGN 0.20, BGN 0.50 and BGN 1 coins were most often processed by nominal value.

Processing and fitness testing failed 22.2 million banknotes, down 2.20 per cent on the same period of 2019. In the half year BGN 10 and BGN 20 banknotes were most often retained as unfit for circulation at 32.64 and 33.48 per cent. Retained unfit coins numbered 629.0 thousand, up 13.17 per cent on this time last year.

Between January and June the BNB purchased EUR 2.83 million of reserve currency, including EUR 2.80 million from budget organisations and EUR 0.03 million from individuals. BNB reserve currency sales were EUR 197.77 million, including EUR 1.70 million to budget organisations and EUR 179.07 million to individuals and EUR 17.00 million to commercial banks.

The BNB conducted a check into a credit institution to ensure compliance with Ordinance No 18 on the Control over Quality of Currency in Circulation and instructions on its implementation. To establish the compliance with identification and fitness standards, the BNB carried out 67 tests, including two introductory tests at two representatives of sorting machine producers and 65 tests of sorting machines and customer-operated machines which were situated in six credit institutions and four service providers.

[59] See the BNB website for new banknote and circulating and commemorative coin issues: www.bnb.bg/NotesAndCoins/index.htm.

VI. Maintaining Banking System Stability and Protecting Depositor Interests

Assessment of the State of the Banking System[60]

In the first half of 2020 Bulgaria's banking sector operated in an environment of an abrupt and very strong decline in economic activity as a result of COVID-19 containment measures. The banking system in Bulgaria has met this economic shock in a good condition: solid capital and liquidity positions ensuring business continuity and operational reliability of banks in financial intermediation. Resilience and flexibility of the banking sector in the context of a dramatically worsened macroeconomic environment were underpinned by both recent years' policy toward the build-up of buffers and the package of measures adopted on 12 March 2020 by the BNB Governing Council to further strengthen bank capital and liquidity, including profit capitalisation of credit institutions, annulment of planned increases in the countercyclical capital buffer and curbing credit risk and concentration risk in bank balance sheets.

Reflecting the economic shock arisen from the COVID-19 containment measures, in the first six months of 2020 the trend to an improving ratio of non-performing loans was reversed, their level remaining close to that of end-2019. Banks reacted to the increased credit risk mainly through raising impairment charges which coupled with lower operating income as a result of a prolonged period of low interest rates and a deteriorated economic environment exerted an additional pressure on return on assets in the banking sector. Worsened economic environment effects on the credit portfolio quality were limited by the April decision of the BNB Governing Council on compliance with EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02). Implementation of EBA rules on the moratorium on loan repayments gave the credit institutions the possibility to allow borrowers affected by the crisis to defer payments avoiding reductions of obligations and automatic reclassification of loans falling within the moratorium scope of forborne or non-performing loans.

Despite the strongly worsened macroeconomic environment, over the first six months of the year the banking system retained its robust liquidity position, with capital ratios remaining at levels significantly higher regulatory requirements. This reflected available capital buffers raised before the economic shock, the BNB package of measures to further strengthening capital and liquidity and regulatory relief introduced by Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic (so-called CRR – Capital Requirements Regulation – 'quick fix').

Over the first half of 2020 total banking balance sheet assets increased by BGN 0.9 billion (0.8 per cent) to BGN 115.3 billion by end-June. Cash, cash balances at central banks and other demand deposits along with debt securities increased their shares to 19.5 and 14.1 per cent of system assets, while loans and advances and investments in subsidiaries decreased to 61.3 and 0.4 per cent, respectively.

By end-June gross credit portfolio of the banking system was BGN 67.0 billion and included the sectors of non-financial corporations, households, other financial

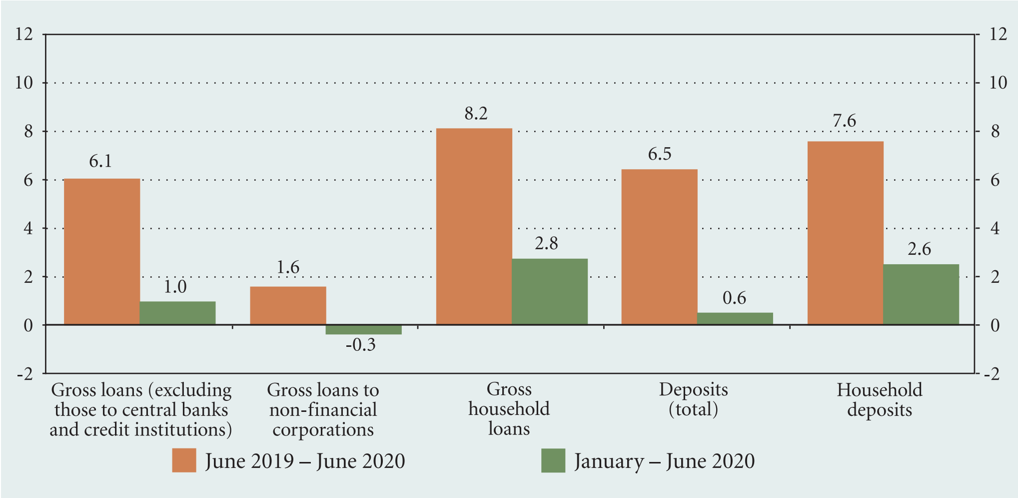
[60] Based on individual supervisory statements as of end-June 2020 and updated data as of end-December 2019 and end-June 2019 submitted by 16 September 2020.

corporations and general government. Gross credit portfolio grew by BGN 0.7 billion (1.0 per cent), significantly lower than its growth of BGN 2.2 billion (3.7 per cent) in the same period of 2019. Over the first six months of 2020 loans to households rose by BGN 0.7 billion along with those to other financial corporations and general government, while credit to non-financial corporations decreased by BGN 0.1 billion.

Dynamics of Selected Balance Sheet Indicators

(annual and semi-annual changes)

(per cent)



Source: the BNB.

Over the reporting period amendments[61] were made to the methodology for calculating gross loans and advances of banks. According to the new reporting methodology involving a narrow scope of gross loans and advances, as of 30 June 2020 their gross amount was BGN 74.2 billion.[62] By end-June the share of lev claims was 59.7 per cent, euro-denominated claims 37.2 per cent and those in other currencies 3.1 per cent. Within the resident structure of gross loans and advances, claims on residents occupied 89.5 per cent and on non-residents 10.5 per cent.

Over the first six months of 2020 gross non-performing loans and advances decreased by BGN 114 million (1.9 per cent) on end-2019 to reach BGN 6.0 billion. By end-June signs of a slowdown were observed in recent years' upward trend of credit portfolio quality, reflecting the effects of the strongly deteriorated economic environment. Over the first half of the year major indicators of the asset quality remained broadly unchanged from the end of 2019. Insignificant dynamics in both total gross exposures and gross non-performing exposures contributed to this. Thus, the ratio of gross non-performing loans and advances to total gross loans and advances remained almost unchanged from the level of end-2019, irrespective of whether a broad or a narrow scope is applied to the indicator of gross loans and advances. According to the broad scope applied thus far, the share of gross loans and advances in total loans and advances (BGN 94.5 billion by end-June 2020) was 6.4 per cent compared to 6.5 per

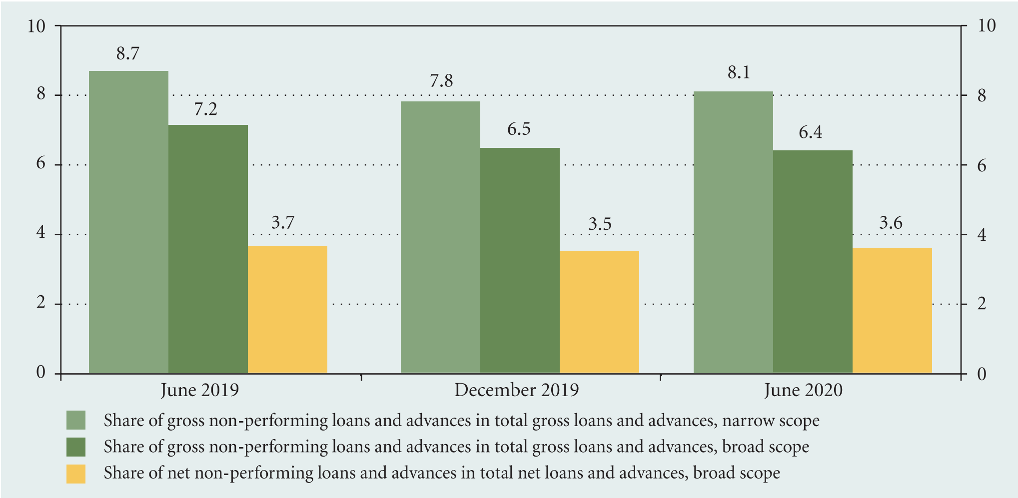
[61] Amendments are made in compliance with Commission Implementing Regulation (EU) 2020/429 of 14 February 2020 amending Implementing Regulation (EU) 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions. Unlike the June 2015–March 2020 period, cash, cash balances with central banks and other demand deposits should not be included in the scope of gross loans and advances but reported separately, according to the changes. By 30 June 2020 their amount in the banking system was BGN 20.3 billion.

[62] Under the methodology employed until March 2020 to report a broad scope of gross loans and advances, by end-June they accounted for BGN 94.5 billion, or an increase of BGN 14 million (0.01 per cent) from the end of 2019.

cent by end-December 2019. If the new methodology of a narrow scope is used, gross loans and advances (BGN 74.2 billion) comprised 8.1 per cent, from 7.8 per cent by end-December 2019.

Non-performing Loans and Advances in Total Loans and Advances

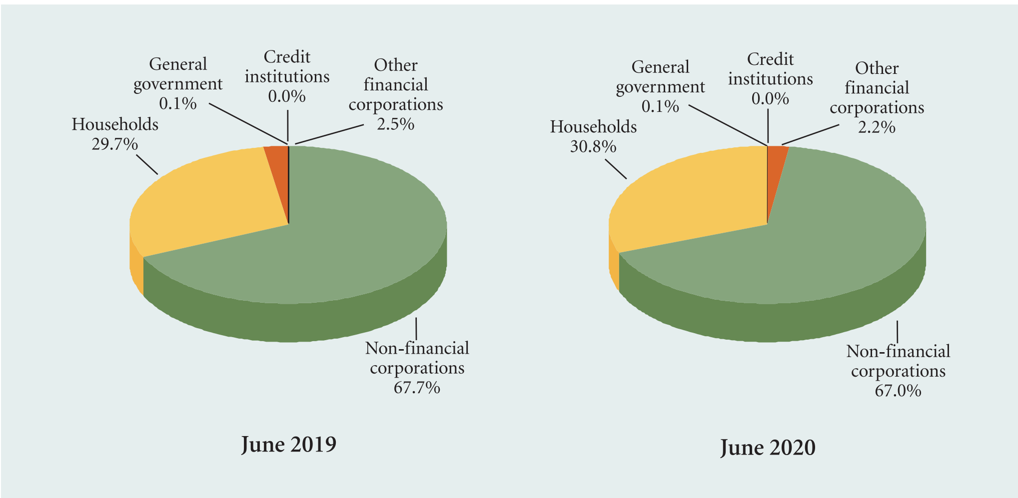
(per cent)



Source: the BNB.

In gross loans to non-financial corporations, the share of non-performing loans dropped to 11.1 per cent (11.5 per cent by end-2019) against the background of a decline in total credit and its non-performing portion. Within gross loans to households, non-performing credit occupied 7.4 per cent (7.3 per cent by end-2019), with an increase recorded in their total volume and the non-performing part. Gross non-performing loans past due over a year retained their share at 47.4 per cent by end-June, with impairment coverage ratio of gross non-performing loans and advances coming to 46.0 per cent (48.6 per cent by end-2019). Within the structure of gross non-performing loans, those to non-financial corporations occupied a prevailing share at 67.0 per cent by end-June (68.3 per cent by end-December 2019).

Non-performing Loans and Advances by Sector



Source: the BNB.

The net value of non-performing loans and advances[63] was BGN 3.2 billion by end-June. It illustrates the potential residual credit risk in bank balance sheets, remaining entirely covered by the excess of capital over capital requirements and applied capital buffers. The net value of non-performing loans and advances increased by 3.1 per cent (BGN 96 million) from the end of 2019, its ratio to net loans and advances by end-June reaching 3.6 per cent against 3.5 per cent by end-December 2019.[64]

Over the first half year deposits in the banking system rose by 0.5 billion (0.6 per cent) to BGN 97.8 billion by end-June. This growth was largely driven by funds attracted from households, which rose by BGN 1.5 billion, their share reaching 60.5 per cent of total deposits by end-June. An increase was also reported in general government sector's deposits (up BGN 0.3 billion), while deposits of credit institutions, non-financial corporations and other financial corporations decreased by BGN 1.0 billion, BGN 0.1 billion and BGN 0.1 billion, respectively. The foreign currency structure shows lev-denominated deposits declining from 60.4 to 57.8 per cent and euro deposits growing from 32.1 to 34.3 per cent. By end-June resident deposits occupied 92.6 per cent (91.5 per cent at end-2019) within the residency structure and non-resident deposits 7.4 per cent (8.5 per cent at end-2019).

Balance sheet equity was BGN 14.7 billion at end-June. Over the first half year this indicator increased by BGN 350 million (2.4 per cent), reflecting mainly paid-in capital and retained profits.

Banking system profit for the first half year was BGN 515 million, down BGN 401 million or 43.8 per cent from the same period a year earlier. Major factors behind this decline were increased impairment charges, persistently low interest rates and decreased fee and commission income as a result of the worsened economic environment in Bulgaria. Lower profits and increased balance sheet assets and capital led to a drop in ROA and ROE ratios of the banking sector to 0.89 and 6.99 per cent by end-June 2020 against 1.69 and 12.97 per cent as of June 2019.[65]

By end-June net interest income posted an annual decline of BGN 75 million (5.4 per cent) to BGN 1.3 billion. Interest revenue decreased by BGN 51 million (3.4 per cent) to BGN 1.5 billion, while interest expenditure rose by BGN 24 million (16.5 per cent) to BGN 167 million. Return on interest bearing assets dropped to 3.26 per cent (3.35 per cent a year earlier), while return on interest bearing liabilities was 0.17 per cent by end-June (0.20 per cent a year earlier). As of 30 June 2020 net income from fees and commissions reached BGN 484 million, down BGN 61 million (11.1 per cent) from the first half of 2019. Banks' impairment charges of financial assets which are not carried at fair value through profit or loss were BGN 380 million, up BGN 197 million from the end of June 2019. The ratio of impairment charges to total operating income was 18.0 per cent (8.6 per cent as of 30 June 2019).

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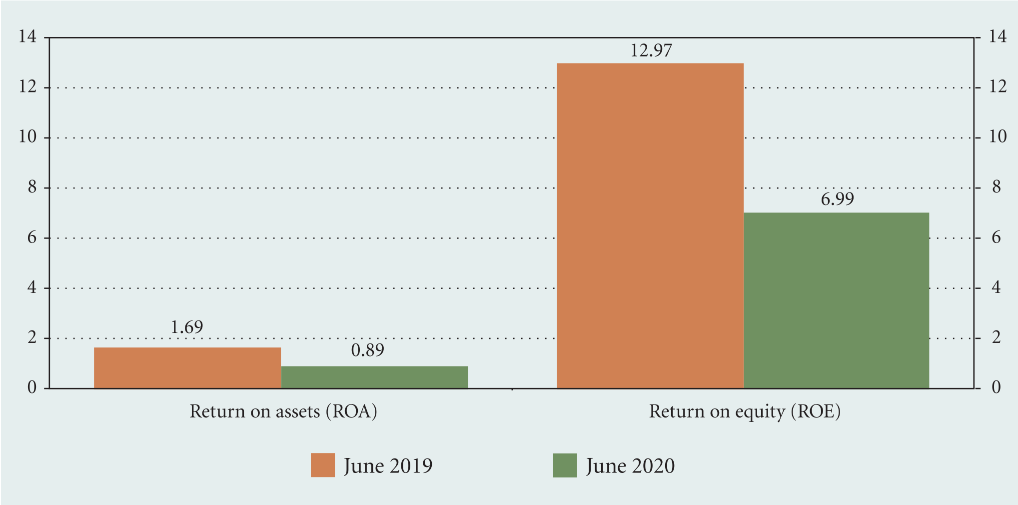
[63] Net non-performing loans and advances are calculated using the EBA methodology: their gross amount less accumulated impairment for this category. In calculating the share of net non-performing loans and advances, their net value is used along with that of total loans and advances.

[64] Comparable ratios under a broad scope of loans and advances, as applied by the EBA. The same trend to a slight change is also observed if the ratio of non-performing loans and advances is calculated for both periods under a narrow scope: by end-June it was 4.6 per cent (against 4.2 per cent by end-December 2019).

[65] According to the EBA publication on major risk indicators in the EU banking system for the second quarter *Risk Dashboard data as of Q2 2020*, the average weighted level of ROA as of 30 June 2020 was 0.03 per cent, and that of ROE 0.5 per cent.

Return on Assets and Return on Equity

(per cent)

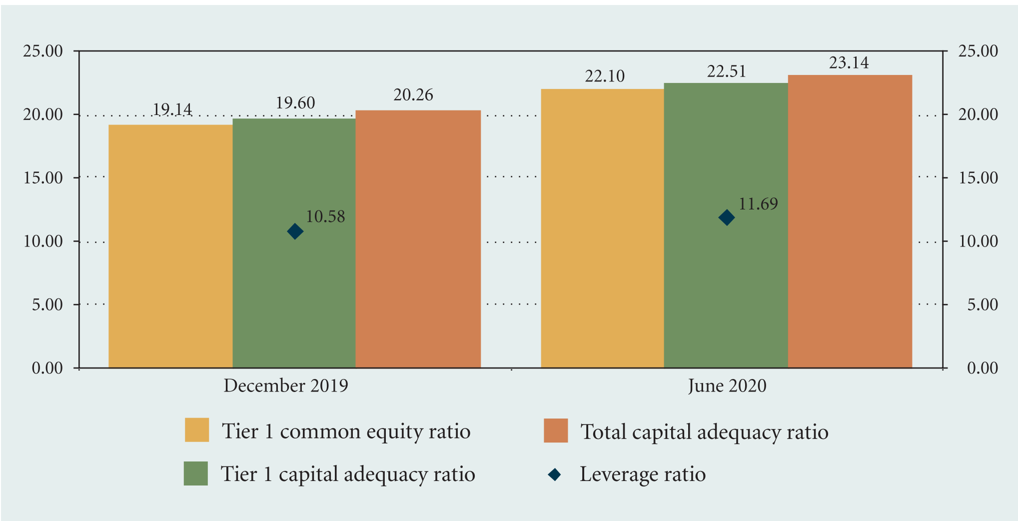


Source: the BNB.

In the first six months the capital position of the banking system remained stable. Over the review period the total amount of risk exposures declined under the influence of regulatory relief introduced by Regulation (EU) 2020/873 by end-June 2020 providing for application of preferential risk weights to bank exposures to central governments and central banks denominated in a currency of another EU Member State. These amendments were reflected in bank balance sheets as of 30 June 2020, with the total amount of risk exposures declining at a banking system level and own funds increasing from the end of December 2019. By 30 June 2020 total risk exposures were BGN 62.8 billion or BGN 2.8 billion (4.3 per cent) lower than those at end-2019. The most pronounced drop was recorded in risk weighted exposures for credit risk for both the quarter when the relief was introduced and totally for the first half year. As a result of BNB measures, regulatory own funds of banks grew by BGN 1.2 billion (9.3 per cent) to BGN 14.5 billion. Tier 1 capital rose by BGN 1.3 billion (9.9 per cent) to BGN 14.1 billion, and common equity tier 1 went up BGN 1.3 billion (10.5 per cent) to BGN 13.9 billion.

Selected Capital Indicators

(per cent) (per cent)



Source: the BNB.

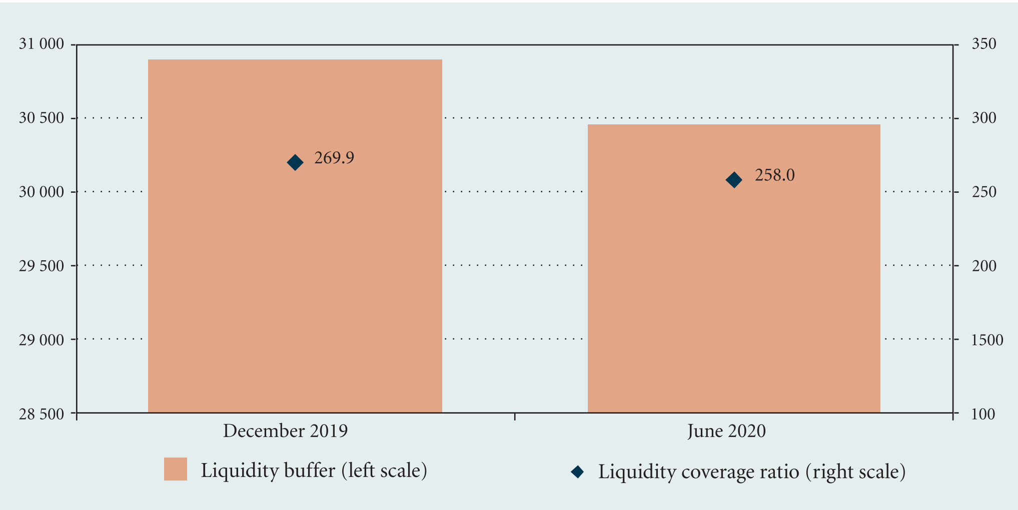
As of 30 June 2020, reflecting the decrease in risk exposures and the increase in bank capital, common equity tier 1, tier 1 capital and total capital adequacy ratios reached 22.10 per cent, 22.51 per cent and 23.14 per cent against 19.14 per cent, 19.60 per cent, and 20.26 per cent at the end of 2019. Banking leverage ratio improved to 11.69 per cent, from 10.58 per cent by end-2019, showing a low degree of indebtedness.[66] The capital above the regulatory minimum under Pillar 1 was BGN 9.5 billion (up BGN 1.5 billion from end-2019). The excess over capital requirements and capital buffers was BGN 4.8 billion (an increase of BGN 1.5 billion on the end of 2019). Faster growth of regulatory capital compared to net non-performing loans and advances over the first half year ensured additional coverage of the items appearing to be a source of a potential residual credit risk in bank balance sheets.

Banking system liquidity remained stable, with liquidity coverage ratios of all credit institutions exceeding the minimum requirement of 100 per cent. The average liquidity coverage ratio for the banking system was 258.0 per cent by end-June (against 269.9 per cent by end-2019).

Between January and June the liquidity buffer (liquidity coverage ratio numerator) decreased by BGN 0.4 billion (1.4 per cent) to BGN 30.5 billion. Reflecting BNB measures to limit foreign exposures of banks, reserves in the central bank with an option for withdrawal within the liquidity buffer structure increased to BGN 15.2 billion, their share rising to 50.0 per cent, from 38.9 per cent by end-2019. The increased amount of reserves in the central bank with an option for withdrawal provided additional resources to the banking system to cope with the effects of COVID-19 containment measures. Assets in the central government dropped to BGN 12.2 billion, their share falling to 40.0 per cent (52.9 per cent by end-2019). The item of coins and banknotes also posted a decline, while assets in the central bank rose over the review period. The liquidity coverage ratio denominator (net liquidity outflows) rose by BGN 354 million (3.1 per cent) to BGN 11.8 billion. By end-June 2020 the loan to deposit ratio of the banking system[67] *(*LTD) was 71.7 per cent (against 72.2 per cent by end-2019).

Selected Liquidity Indicators under Commission Delegated Regulation (EU) 2015/61*

(BGN million) (per cent)



* Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to liquidity coverage requirement for credit institutions.

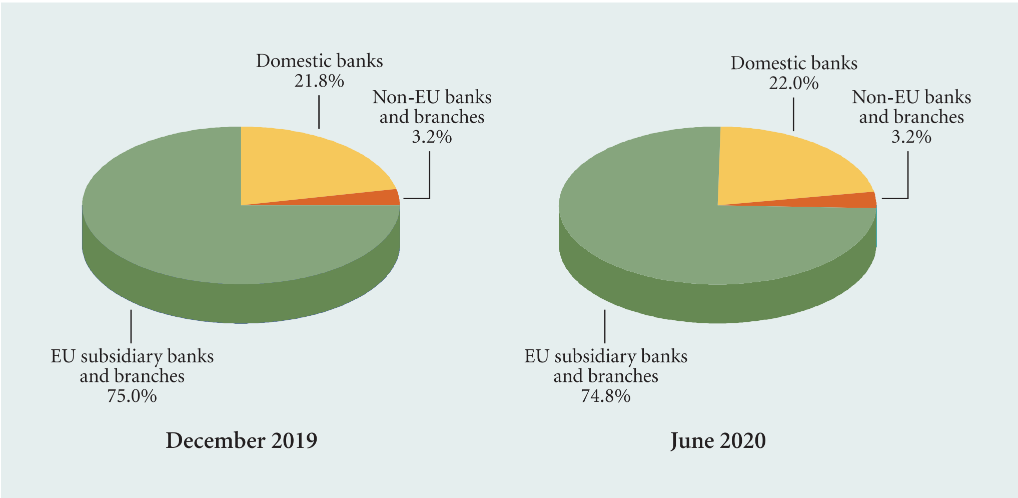
Source: the BNB.

[66] The leverage ratio is calculated using a fully phased-in definition of tier 1 capital.

[67] The ratio is calculated excluding central banks and credit institutions sectors.

The process of banking sector consolidation continued during the reporting period, with Expressbank AD being transformed through a merger into DSK Bank EAD and subsequently deleted from the Commercial Register on 30 April 2020. Reflecting continuing consolidation, the asset share of the five largest banks rose to 66.3 per cent by end-June 2020. Broken by group, bank market shares underwent no significant changes: local equity banks grew to 22.0 per cent, EU subsidiary banks and branches falling to 74.8 per cent and non-EU banks and branches remaining at 3.2 per cent.

Domestic and Foreign Bank Market Shares by Asset Size



Source: the BNB.

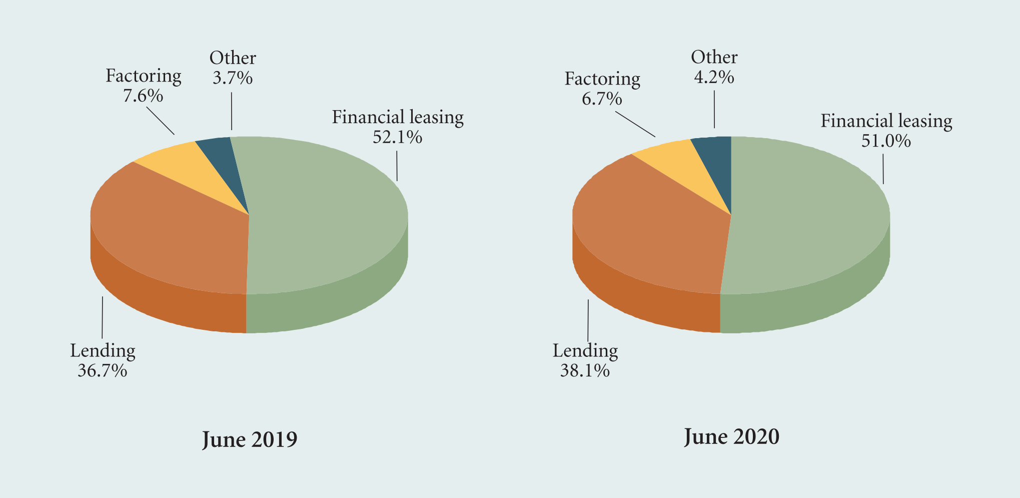
General Overview of the Activities of Financial Institutions Recorded in the BNB Register under Article 3a of the LCI as of 30 June 2020

Over the first half year three new companies were registered to extend loans with funds which are not raised through publicly accepting deposits and other repayable funds and financial leasing. Four institutions filed applications for deletion from the Register on a voluntary basis. The total number of financial institutions fell to 207.[68] By end-June 2020 total assets of financial institutions increased on an annual basis by 6.3 per cent to BGN 9.5 billion, with the outstripping rise in lenders' assets (10.5 per cent) contributing most significantly. On an annual basis, the relative share of this sector in banking system assets was retained at 8.2 per cent.

In the first six months the market share and number of leasing companies continued falling, while the group of lending companies increased its balance sheet figure (BGN 3.6 billion) and number of registered institutions. Assets of the 20 largest financial institutions (BGN 7.2 billion) continued to maintain a high market share (75.8 per cent) in total balance sheet figure of the sector, thus driving trends in financial indicators. The eleven leasing companies with a balance sheet figure of BGN 4.4 billion had an essential contribution to the retained share of the 20 largest institutions.

[68] Including ten financial institutions from EU Member States conducting activities directly on the territory of Bulgaria and a fund established under the procedure of the Law on the Bulgarian Development Bank. Three companies were denied registration, mainly because of insufficient own funds in respect to contributions to the capital, contradictory or incorrect information or unclear capital origins of applicants.

Breakdown of Financial Institutions' Assets by Type of Business

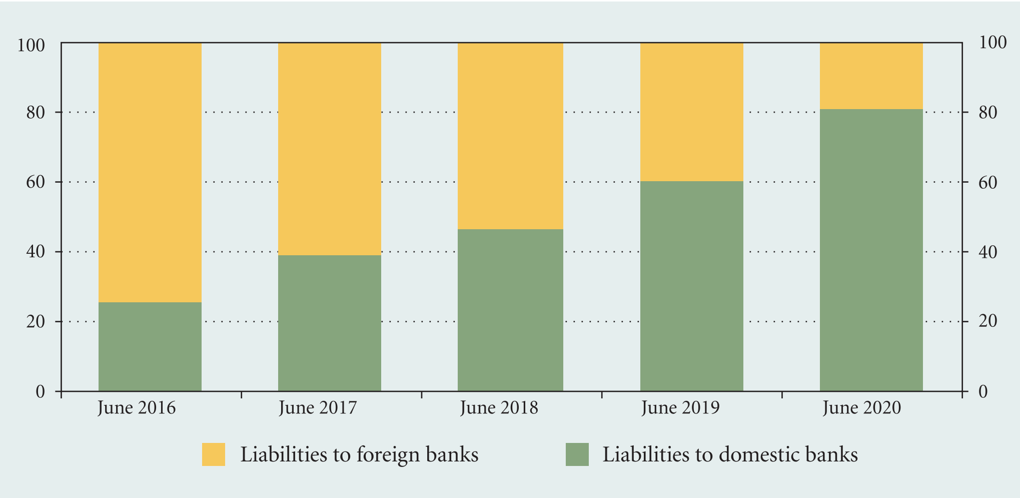


Source: the BNB.

Gross credit portfolio of this sector was BGN 8 billion, up 6.1 per cent on the same period of 2019 (BGN 7.6 billion) retaining the quality of assets. Claims on consumer loans and financial leasing classified as good quality retained their year-on-year high share (82.6 per cent) in total performing unimpaired claims, with 89.6 per cent of them extended by 20 financial institutions. The balance sheet item of loans and advances portfolio, including financial leasing, reached BGN 7.6 billion, with the dominating share of claims on financial leasing remaining at 53.2 per cent by end-period. Business loans increased at the highest rate of 26.9 per cent from the first half of 2019. A slight rise was recorded in consumer loans, lev-denominated prevailing at 98.9 per cent. The amount of housing and mortgage loans continued to decline, reaching 0.4 per cent of total sector portfolio, while retaining a good quality.

Structure of Attracted Funds from Banks

(per cent)



Source: the BNB.

By end-June funds attracted by financial institutions increased by 5.6 per cent to BGN 6.9 billion, with lev resources rising by 9.6 per cent and outstripping the 1.4 per cent growth in foreign currency financing. Bank resources remained the main source of financing for the sector (70.6 per cent), their amount reaching BGN 4.9 billion and funds attracted from local banks retaining a predominant share (81.2 per cent).

As of June 2020 sector's profits declined by BGN 69.2 million, down 35.9 per cent from the same period of 2019 (BGN 192 million). This drop was due to the increased impairment charges of financial assets which are not carried at fair value (up 78.5 per cent) and decreased net interest income (7.9 per cent). Concurrently, net income from fees and commissions rose to BGN 130 million, from BGN 85 million for the same period of 2019. ROA and ROE indicators posted a decrease, given the significant fall in sector's profit.

Own funds of financial institutions grew by 7.4 per cent to BGN 2.1 billion, reflecting mainly increased reserves and retained profits. The capital position of the 20 top companies continued to comprise more than half (55.3 per cent) of sector's equity.

Banking Supervision's Activity

Off-site Supervision

Current monitoring of the risk profile of credit institutions

In the first half of 2020 off-site supervision focused on current monitoring of credit institutions risk profile and assessment of their financial position. Dynamics of key risk indicators was monitored on a quarterly basis along with an analysis of the level and trends of risks assumed by banks and their effect on bank financial position. Within the framework of the supervisory review and evaluation process (SREP), analytical reports were prepared on the degree of risks to the capital: credit and concentration risks, market and operational risks, risks to liquidity and funding. The BNB continued its dialogue with credit institutions on changes in quarterly and annual supervisory data.

Supervisory review and evaluation process (SREP)

The first half year saw the start of drawing up SREP assessments for 2019, and the reference date for part of European banking groups' subsidiaries agreed within a college of supervisors was 30 June 2020. Supervisors reviewed and assessed banks' Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reports for 2019, excluding a bank failing to submit within the schedule required documents. Reliability assessments and conclusions of ICAAP and ILAAP were taken into account in determining capital and liquidity adequacy ratings and the overall assessment of each credit institution. Banks were notified of established weaknesses and shortcomings. A review and assessment of banks' funding plans with a reference date 31 December 2019 covered projections of assets, liabilities and capital dynamics in a three-year horizon (2020–2022). Updated and revised recovery plans of nine banks were reviewed and assessed along with follow-up on recommendations in letters to bank managements after the review of previous plan versions.

Implementation of Resolution No 87 of the BNB Governing Council of 12 March 2020 has been closely monitored in respect of imposed macroprudential measures to domestic credit institutions, reflecting the economic impact of COVID-19 containment measures. Bank reports on the amount of net exposures to certain categories of counterparties to check compliance with limits were reviewed on a weekly basis. Over the whole period only one bank reported an excess of the limits, in the context of which the BNB communicated regularly with it to address the infringement.

Another BNB off-site supervision priority was the review and analysis of bank monthly reports under the Procedure for Deferral and Settlement of Liabilities Payable to Banks and Their Subsidiaries – Financial Institutions in relation to the state of emergency enforced by the National Assembly on 13 March 2020, approved by the BNB Governing Council in line with EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02).

Supervisors also reviewed bank responses related to updating of their contingency plans and measures to minimise COVID-19 effects on bank employees and customers in line with BNB letter (No BNB-28090 of 5 March 2020).

Work on drafting opinions and follow-up of supervisory measures

In the first six months of 2020 opinions were drafted on approvals issued by the BNB to include 2019 annual profits in banks' capital. A request by a bank to distribute profits in the form of dividends was examined; however, in line with BNB Resolution No 87 of 12 March 2020, the bank management was informed that there were no grounds to change the provision under Section I, item 1 of the Resolution. Following up the implementation of imposed supervisory measures and recommendations based on supervisory inspections continued over the period.

On-site Inspections

During the first half of 2020 the BNB continued conducting and completing on-site inspections initiated in the previous year. The national epidemic situation since mid-March made it necessary to continue the operational work *via* remote access which delayed finalisation of conducted inspections and implementation of planned annual on-site checks as a whole.

The scope and objectives of on-site inspections involved a review and evaluation of credit risk level and management, concentration and operational risks, supervisory reporting quality relevant to these risks, ICAAP review and assessment to reflect such risks in terms of their prominence and projections within the time frame to which the internal analysis refers. In part of inspected banks, the liquidity position management was reviewed and assessed in the context of placements in relevant banking/financial groups along with a quality review of the information used to draw up recovery plans.

The review and assessment of relevant risks covered the following main aspects: the quality of the internal framework for their management, including existing processes and systems for managing specific risk categories, internal control mechanisms, reporting for internal/management and regulatory purposes. Inspections analysed the organisation, rules and methodologies for determining needs for internal capital resources of relevant credit institutions within the ICAAP to establish whether bank internal systems were consistent and proportionate to the strategies and processes, taking into account the nature, scale and complexity of institutions' activities.

Inspections established that organisational structures and management information systems corresponded to the nature, volume, risk profile and business model of inspected banks, and risk control functions were independent, ensuring its identification and management. Supervisory assessments show that credit risk was adequately evaluated in most institutions, and impairment coverage corresponded to the risk assumed in credit portfolio. According to inspection findings, concentration risk varied among individual banks: from low concentrations and moderate ones which were close to average values for the relevant group of banks (according to the grouping for supervisory purposes) to single high concentrations to the parent undertaking.

Inspection findings show a different level of operational risk across individual banks. This was also reflected in approaches for its management and reporting. Supervisory assessments show that bank systems and mechanisms for operational risk management and control were effective, with certain exceptional weaknesses detected as a result of insufficient human resources in activities relevant to identification and self-assessment of various aspects of operational risk.

Based on conducted ICAAP reviews on the part of credit, concentration and operational risk reflection, inspection findings show that banks have set up adequate systems for identifying, measuring, monitoring and controlling credit risk, credit concentration risk and operational risk on a consolidated basis. Capital distribution complies with current and potential risks to which institutions are exposed.

In checking the quality of information used to develop recovery plans, no essential deviations were established in quantitative (input/processed/output) data, including measurement of early warning areas and indicator thresholds in which the need for recovery plan activation was examined to apply certain recovery options.

Findings resulted in supervisory recommendations to the managements of inspected banks for improving the organisation and management of credit, operational and liquidity risks and ICAAP. In particular, they involved guidelines for strengthening internal rules, procedures and business practices intended to improve operational control and effectiveness in managing credit and operational risks, as well as allocation of roles and responsibilities among individual business functions/units. Other recommendations referred to improving ICAAP in terms of completing internal legal documentation on measuring risk categories and applied ICAAP methodologies and stress-testing framework reflecting the exposure to credit, operational and liquidity risks.

Breaches of the legal framework related mainly to incorrect treatment of risk exposures for credit risk in regulatory reporting for measuring capital requirements in terms of recognising eligible security, including undrawn amounts under framework contracts (off-balance sheet commitments), determining risk weights in reporting for regulatory purposes. Analyses show that in all cases infringements had no significant effect on bank capital adequacy.

Approvals of changes in internal models to measure regulatory capital for credit risk focused on checks concerning submitted applications for changes in an internal ratings-based (IRB) approach in a bank. In this area, supervisory analyses and assessments were developed in order to obtain a regulatory approval of these changes. Results of internal model investigations were used in joint decisions of supervisory colleges entitling the respective banking group and in particular the domestic subsidiary bank to implement the intended changes for the purposes of Pillar 1. Documentary checks were also performed, and opinions were drafted on notifications of insignificant changes reported prior to and after their introduction in applied internal models for assessing credit risk.

The national epidemic situation since mid-March made it necessary to perform the operational work *via* remote access and temporarily change priorities in relation to on-site inspections. In part of this period, resources were used to draft internal rules and procedures for implementing various operational tasks in the inspection process. Amendments to the EBA methodology of key risk indicators were reviewed and analysed along with moving to new versions of reporting for regulatory purposes developed by the EBA.

Macroprudential Supervision

Macroprudential supervisory action is based on a regular analysis of the risk profile of the banking system. It covers both key regulatory risks – asset quality, profitability level, capital adequacy and liquidity – and an assessment of cyclical and structural measures of systemic risk which are the basis of introduced macroprudential instruments. For the purposes of the analysis, monitoring of developments in main business lines in banking balance sheet is conducted along with factors affecting the economy and their bearing on financial intermediation. Analytical techniques and a broad set of indicators are applied in their monitoring, while taking account of EBA guidelines and ESRB recommendations. Up-to-date information on banking system developments is announced on a monthly basis in BNB press releases, and main analytical conclusions are described in *Banks in Bulgaria* quarterly.

BNB macroprudential policy in the first half year was pursued in the context of a sharp and significant deterioration in the economic environment in Bulgaria, caused by the exceptional measures to contain risks of COVID-19 spread. Bulgaria's banking system faced this change with good liquidity levels and capital ratios which were significantly above regulatory requirements. Solid capital position of the banking sector reflected both recent years' policy of building up capital buffers and the BNB Governing Council decision of March 2020 to capitalise profits of credit institutions. This decision is part of the BNB package of measures to safeguard resilience and flexibility of the banking sector in the context of an economic downturn caused by the pandemic. Within the package, based on estimates of a sharp and strong worsening in economic conditions internationally and in Bulgaria, the BNB decided to repeal 2019 increases[69] of the countercyclical capital buffer and retain its level of 0.5 per cent. The countercyclical capital buffer continued to be part of the comprehensive conservative supervisory policy of the BNB to strengthen the capital position of the banking sector and resilience to system shocks based on combined buffer requirement, including capital conservation buffer, systemic risk buffer and other systemically important institutions buffers, as well as additional capital requirements under Pillar 2.[70] The package of measures takes into account the global nature of COVID-19 spread effects and the strong interconnectivity of the Bulgarian economy and the Bulgarian banking system with foreign trading partners and foreign financial institutions. One of the measures aims to reduce foreign exposures of commercial banks, involving individual and aggregate limits on placements with a potential for worsening of credit ratings.

On 9 April 2020 the BNB Governing Council approved the Association of Banks in Bulgaria draft on a Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions in relation to the state of emergency enforced by the National Assembly on 13 March 2020. Aggregate information on the number and volume of these liabilities collected on the basis of the BNB reporting template is published monthly on the BNB's website.

Supervisory information servicing during the review period focused on timely data provision by credit and financial institutions, and credit intermediaries. The new reporting framework and relevant exits were incorporated into the Single Data Depository/Banking Supervision Reports.

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[69] Countercyclical capital buffer increases projected for 2020 and the first quarter of 2021 to 1 and 1.5 per cent applicable to local credit risk exposures.

[70] For more information on capital buffers, see the BNB website: http://www.bnb.en/BankSupervision/BSCapitalBuffers/index.htm.

Specific Supervisory Activities

In early 2020 a National Risk Assessment was adopted to support appropriate measures against money laundering and terrorist financing.

Following the interaction and cooperation between the BNB and the State Agency for National Security, joint inspections were carried out in eight banks. The applied approach was based on the risk, with seven infringements found, not affecting efficiency of bank systems established to prevent money laundering and terrorist financing. Inspections made 27 recommendations on improvements to control quality in conducting due diligence of customers and administrative capacities of specialised units. The comprehensive assessment of the banking sector based on joint inspections shows that bank systems developed to prevent money laundering and terrorism financing have been functioning reliably. The BNB conducted also nine extraordinary off-site checks into five banks, with results showing that banks complied with the requirements of the Law on Measures against Money Laundering and its implementing rules.

Interaction between EU regulatory authorities continued through participation in a supervisory college to prevent money laundering, organised by Netherlands' central bank. Actions within a banking group to improve the efficiency of risk monitoring and minimising systems were the focus of discussion.

Over the review period BNB control functions for compliance with the Law on Real Estate Loans for Consumers (LRELC) were performed through both on-site and off-site examinations. Borrower creditworthiness rules adopted by creditors, their compliance with the law and EBA guidelines, their enforcement, professional training systems and staff remuneration policies drew the main stress. Over the period under review the BNB conducted one inspection of a bank and two inspections of financial institutions providing mortgage loans. The inspected bank has taken appropriate measures to apply adequate rules and procedures for assessing borrower creditworthiness. Employees' wages were compliant with the requirements laid down in the LRELC and EBA guidelines. Professional training of employees engaged in mortgage lending complied with legal requirements. Some deficiencies were established in inspected financial institutions, and recommendations for removing them made. An administrative infringement notice was issued to one financial institution for non-compliance with the requirements of the LRELC in the previous reporting period, and two financial institutions received financial penalties.

In the first half year 829 entities were inspected for acting as credit intermediaries without registration. In eight of them, there was incorrect information on their websites, with instructions given to remove misstatements.

Over the review period six new Bulgarian and two EU Member State legal entities willing to act as intermediaries under the LRELC were registered. Credit intermediation market developments show an increasing number of consumers using credit intermediaries' services. By end-June mortgage loans extended through credit intermediaries exceeded 14 per cent of all newly extended mortgage loans in the banking system.

In the first six months compliance with legal requirements by financial institutions registered under Article 3a of the LCI continued to be controlled. Two companies were found to act as financial institutions without registration, for which the BNB has initiated administrative action. Supervisory scrutiny resulted in administrative infringement notices to three financial institutions for incorrect reporting data. Cooperation continued with law enforcement authorities, Prosecutor's Office and

Financial Supervision Commission for exchanging information on registered financial institutions or companies operating without registration.

Issue of Licences, Permits, and Approvals

There were no new bank operations licences or bank licensing procedures in the first half of 2020.

The November 2019 application procedure to transform ERB Leasing EAD through merger into Eurobank Bulgaria AD under Article 29b, paragraph 2 of the LCI was concluded in January with Resolution No 11 of the BNB Governing Council of 16 January 2020.

The November 2019 application procedure to extend the scope of the licence to Central Cooperative Bank AD with the activities under Article 2, paragraph 2, item 13 of the LCI was concluded in March with Resolution No 109 of the BNB Governing Council of 19 March 2020.

Following an analysis and evaluation of submitted documents, the December 2019 application procedure to transform Expressbank AD through merger into DSK Bank AD was concluded in February with Resolution No 63 of the BNB Governing Council of 27 February 2020.

The application procedure by the Bulgarian Development Bank to approve acquisition of a qualifying holding of over 20 but no more than 33 per cent of First Investment Bank equity was concluded in May with Resolution No 185 of the BNB Governing Council of 21 May 2020.

In the first six months of 2020 following BNB Governing Council resolutions, five banks were allowed to include 2019 profits into common equity tier 1. Four banks were allowed to include capital instruments into common equity tier 1. Another bank was allowed to include an issue of bonds into additional tier 1 capital.

Four banks obtained approvals by the BNB Governing Council under Article 71, paragraph 3 to amend their statutes. A bank obtained an approval by the BNB Governing Council to make personal changes in its management board.

In the half year the BNB Governing Council imposed supervisory measures on a bank for supervisory framework breaches. Two banks were asked to remove legal framework breaches found during on-site supervisory inspections.

There were management and supervisory board changes at: First Investment Bank AD (two new management board members and executive directors and a new management board member); Raiffeisenbank Bulgaria EAD (four new supervisory board members); United Bulgarian Bank AD (two new supervisory board members and a new management board member and executive director); Eurobank Bulgaria AD (a new management board member); International Asset Bank AD (two new management board members and executive directors, two new management board members and two new supervisory board members); Bulgarian Development Bank AD (two new management board members and executive directors); UniCredit Bulbank AD (two new supervisory board members); Bulgarian American Credit Bank AD (a new supervisory board member); DSK Bank AD (a new management board member and executive director); Allianz Bank Bulgaria AD (a new management board member and executive director, two new management board members and a new procurator).

In the first six months two Bulgarian banks notified the BNB of their intentions to provide services in other EU Member States under the single European passport.

Between January and June seven new EU credit institutions exercised the freedom to provide services in Bulgaria under the mutual recognition of passporting procedures through notices to the BNB from bank operation licensing supervisors. The BNB received 345 such notices.

The BNB Banking Supervision Department also registered and handled 152 complaints from bank customers.

Regulatory Framework Work

Activities on establishing close cooperation between the BNB and the ECB in view of BNB's accession to the Single Supervisory Mechanism (SSM)

Implementation of the tasks in establishing close cooperation between the ECB and the BNB in view of BNB's accession to the SSM continued to be the main priority of banking supervision activities over the first half year. The BNB met Supervisory Teams to the ECB to discuss SREP timelines and approach for 2020. Under the Single Supervisory Mechanism, BNB employees jointly with various ECB structural units took part in training courses to strengthen convergence of supervisory practices between the two supervisory authorities.

Macroprudential measures to address COVID-19 effects on the banking system and Association of Banks in Bulgaria Draft Procedure for Deferral and Settlement of Liabilities Payable to Banks and Their Subsidiaries – Financial Institutions

In the light of macroprudential measures in response to COVID-19 effects on the banking system and approved Association of Banks in Bulgaria Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions in relation to the state of emergency enforced by the National Assembly on 13 March 2020, the BNB developed guidelines and reporting forms to be completed by credit institutions licensed to conduct bank operations in Bulgaria and foreign credit institutions' branches. In the first half year the BNB continued examining bank reports, providing the necessary methodological support to credit institutions and replying to enquiries.

Activities on implementing EBA Guidelines on legislative and non-legislative moratoria (EBA/GL/2020/02) and Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 (EBA/GL/2020/07)

In the first six months of 2020 BNB representatives participated in preparing a number of guidelines issued by the EBA, among which Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02) adopted on 2 April 2020. On 3 April 2020 the BNB Governing Council decided to comply with these Guidelines. They introduce a temporary principle providing that moratoria on loan repayments do not trigger reclassification, restructuring or default if measures are based on applicable national legislation (legislative moratorium) or a private initiative to facilitate payments to an institution as part of an industry or sector-wide private initiative agreed and applied broadly within the banking industry (a private moratorium).

Work on drafting opinions on bank capital

The BNB issued approvals to include 2019 annual profits in bank capital before a decision of the General Shareholder Meeting to First Investment Bank AD and

Investbank AD, stemming from implementation of their capital plans after the asset quality review in 2019.

Evaluation of capital instruments issued by commercial banks

In the first half year the BNB jointly with the EBA reviewed and assessed capital instruments of three Bulgarian banks, which were issued before entry into force of Regulation (EU) No 575/2013 and included in core equity tier 1 (CET1). This assessment was made under Article 80 of above Regulation with the aim to analyse and examine the level of compliance of capital instruments included in CET1 with prudential requirements. Examination comprised both relevant national legislation (the Law on Commerce, the Law on Credit Institutions and the Law on Bank Bankruptcy) and bank statutes. The review established that both national legislation and bank statutes had complied with the requirements of Article 28 of Regulation (EU) No 575/2013, Commission Delegated Regulation (EU) No 241/2014 of 7 January 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for own funds requirements for institutions, the EBA Report on the Monitoring of CET1 instruments and all released EBA enquiries and responses related to CET1 instruments.

VII. BNB Activities on Resolution of Credit Institutions

The Bulgarian National Bank is a resolution authority according to the Law on the Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF).

In the first six months of 2020 the BNB as a resolution authority focused on preparing, reviewing and updating resolution plans. Over that period, the BNB Governing Council adopted 2019 resolution plans of six credit institutions that are not part of a group subject to supervision on a consolidated basis[71], and a resolution plan of a credit institution subject to supervision on a consolidated basis[72]. These resolution plans include the identified critical functions for the relevant credit institution, assessment of the adequacy of liquidation under insolvency proceedings, analysis of the public interest in relation to the chosen resolution tool, *i.e.* bail-in tool and assessment of the resolvability. In addition, in the context of the resolvability assessment, potential areas requiring further consideration have been identified in order to specify potential and/or substantial impediments to resolvability. Liquidation under insolvency proceedings was assessed as not appropriate in all seven credit institutions' resolution plans and therefore an analysis of an appropriate resolution tool was carried out. It was assessed that the application of the bail-in tool would better achieve the resolution objectives under Article 50, paragraph 2, items 1–5 of the LRRCIIF compared to the insolvency proceedings. In this context and in accordance with Article 51, paragraph 7 of the LRRCIIF, it may be concluded that taking resolution actions by applying the approved tool is in the public interest. This tool provides for losses to be absorbed by shareholders and creditors, where implicitly the need of using extraordinary public financial support and its amount are kept to a minimum. Impediments to resolvability were analysed in the adopted resolution plans in terms of the chosen resolution tool, with these impediments being investigated in the following main areas: the structure and operations; financial resources; information; legal matters. All credit institutions were informed on the key elements of their resolution plans.

As a resolution authority of subsidiary banks of parent companies from the EU, the BNB participated in international resolution colleges for EU cross-border banking groups.[73] In the first half year the BNB jointly with the group-level resolution authority and other resolution authorities of EU subsidiary companies continued to work on assessing opportunities for resolution and reviewing resolution plans of five banking groups and their subsidiaries licensed in Bulgaria. In the beginning of 2020 the last of a total of five joint decisions on a resolution plan was adopted, thus putting an end to the resolution planning period for 2018 in all resolution colleges where the BNB is represented. In the meantime, the resolution college organised by the central bank of Hungary continued working on reviewing and updating the group resolution plan for 2019. The updated plan included the group resolvability assessment, significant corporations assessment and analysis of their business model, critical functions of significant corporations, and their preferred resolution strategy and tool. The subsidiary bank licensed in Bulgaria, which is part of the banking group, was designated as significant with critical functions identified. The review and update of the relevant

[71] Article 14, paragraph 1 of the LRRCIIF.

[72] Article 19, paragraph 1 of the LRRCIIF.

[73] The BNB is represented in four resolution colleges organised by the Single Resolution Board (SRB) and in one college organised by the central bank of Hungary as a group-level resolution authority.

group resolution plans for 2020 were launched in the first half of 2020 within the other four colleges organised by the Single Resolution Board.

Regular collection of updated information required for drafting and updating resolution plans was initiated in February 2020 by using standardised reporting.

After the required information was collected based on a consistent approach in preparing resolution plans for 2020 and a critical functions methodology, 19 credit institutions licensed in Bulgaria were assessed during the first six months of the year. Results of implementing the methodology identified less than ten critical functions at eight credit institutions, ten to 20 critical functions at six, and over 20 critical functions at three credit institutions. Two credit institutions did not provide functions that could be reasonably assessed as critical.

Under the LRRCIIF, in March the Governing Council set the total 2020 amount of annual bank contributions to the Bank Resolution Fund (BRF) at BGN 157,876 thousand. In April this sum was apportioned to individual banks according to their risk profile. All banks paid their due contributions into the Fund within the term set in the LRRCIIF, with accumulated funds exceeding BGN 701 million.

In the first half of 2020, BNB experts worked actively on drafting the amendments to the Law on Payment Services and Payment Systems, transposing into Bulgarian legislation the provisions of Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC (OB, L 150, 7.6.2019) (Directive (EU) 2019/879). The Directive is part of the so-called banking package, which makes a comprehensive review of the EU financial legislation aimed at reducing financial sector risks, enhancing its resilience and improving resolution legal framework.

Following the official letter sent on 29 June 2018 by the Minister of Finance and the BNB Governor concerning Bulgaria's participation in the SSM by establishing close cooperation with the ECB, work continued in the first half of 2020 to prepare the BNB for joining the SSM and consequently the Single Resolution Fund (SRF) as a direct consequence of the established close cooperation. Participation in the SSM and the SRF stems from the direct application of Regulation (EU) No 806/2014 in Bulgaria,[74] with effect from the date of establishing close cooperation.

Between January and June 2020 the BNB, as a resolution authority, continued working jointly with SRB representatives on two building blocks of the joint Action Plan with the following timetable: preparations for joining the SRF; preparing the bank resolution planning process after joining the SRM. Work on the first of the initially identified three building blocks in total concerning the drafting and adoption of the required amendments to the legal framework ended in the first half of 2019 with the adoption of the Law on Amendment of the LRRCIIF by the National Assembly (published in the Darjaven Vestnik, issue 37 of 7 May 2019) introducing provisions for implementing Regulation (EU) No 806/2014.

The BNB role in the first of the initiated building blocks of the Action Plan focused on technical and expert support to the SRB in terms of establishing the amount of the first contribution of Bulgaria to the SRF under the agreement ratified by the Republic of Bulgaria on the transfer and mutualisation of contributions to the SRF

[74] Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010.

in establishing close cooperation with the ECB and joining the SRM.[75] In the first half year the BNB contributed actively to the SRB in ensuring the required financial information from credit institutions with a view to setting the first Bulgaria's contribution to the SRF.

Work on the second building block of the Action Plan was intended to encompass joint actions with the SRB for BNB participation in the SRM related to identification of credit institutions falling within the scope of the SRB's direct responsibilities and tasks, familiarising the BNB with SRB procedures and division of responsibilities and tasks between the SRB and national resolution authorities within the SRM.

[75] Law on Ratification of the Agreement on the Transfer and Mutualisation of Contributions to the Single Resolution Fund (adopted on 8 November 2018, published in the Darjaven Vestnik, issue 96 of 2018).

VIII. Participating in the ESCB and EU Bodies

The euro area summit on 13 December 2019 highlighted the need to continue work to deepen the Economic and Monetary Union, including further strengthening of all elements of the regulatory framework for the completion of the Banking Union. The COVID-19 pandemic in early 2020 and the need to mitigate its economic damage have put new priorities on the EU's agenda. In its Communication 'Coordinated Economic Response to the COVID-19 Outbreak' of 13 March, the EC outlined a plan for immediate measures to counter the economic consequences of the coronavirus.[76] In this context, the debates in the various formats of the Council of the European Union focused on the pandemic and the need for urgent and coordinated action by Member States to address its socio-economic consequences.

The European System of Central Banks

The BNB Governor sits on the ECB General Council with EU central bank governors and the ECB President and Vice President, as well as with governors of the national central banks of all EU Member States. In the first half of 2020 the video conference session of the ECB General Council focused on issues related to the economic development and EU financial sector performance, including the report on the economic outlook and monetary policies of non-euro area Member States, and the report on public finances. The ECB General Council also approved the 2020 Convergence Report assessing the degree of economic convergence between Member States which have not adopted the euro and the compliance between their legislations and the Treaties.

BNB representatives sat on 12 ESCB committees[77], 50 working groups, and the Human Resource Conference and Heads of Administration Conference. Bank representatives on ESCB bodies, committees, and working groups helped elaborate ECB legal instruments on monetary and banking policy, payment and settlement systems, statistical reporting and research, and other central banking issues. The Bank also helped coordinate ECB standpoints in written consultations with EU Member States on legislative bills within ECB purview.

During the review period the Bank consulted the ECB in writing on the draft Law amending the Law on Credit Institutions and the Law on the BNB. The amendments introduce provisions related to BNB powers to impose sanctions within the close cooperation and the official exchange rate of the Bulgarian lev.

In April 2020 the BNB Governing Council took note of the ECB proposal for common parameters for a bilateral currency swap line between the BNB and the European Central Bank (ECB) providing euro liquidity in exchange of Bulgarian levs. Negotiations on the terms and conditions of the agreement started.

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[76] EC communication 'Coordinated Economic Response to the COVID-19 Outbreak', COM (2020) 112 final, 13.3.2020.

[77] The Accounting and Monetary Income Committee (AMICO), the Financial Stability Committee (FSC), the Banknotes Committee (BANCO), the Eurosystem/ESCB Communications Committee (ECCO), the Information Technology Committee (ITC), the Internal Auditors' Committee (IAC), the International Relations Committee (IRC), the Legal Committee (LEGCO), the Market Operations Committee (MOC), the Monetary Policy Committee (MPC), the Market Infrastructure and Payments Committee (MIPC), and the Statistics Committee (STC).

The decision of the ECB of 24 June 2020 (ECB/2020/30) established close cooperation between the European Central Bank and Bulgarian National Bank conferring specific supervisory tasks on the European Central Bank in conjunction with Council Regulation (EU) No 1024/2013 conferring specific tasks on the of the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

The European Systemic Risk Board, the European Banking Authority, and Colleges of Supervisors

The BNB Governor and BNB Deputy Governor are members of the ESRB General Board. In the context of the COVID-19 pandemic, the General Board increased the number of its meetings in the first half of 2020 and focused on the effects of the pandemic on the EU economy and financial system. It was highlighted that a timely and coordinated response to the pandemic is decisive in achieving successful synergies between fiscal, monetary and regulatory policies. To this end, the General Board's discussions during the reporting period focused on the following five priority areas, in which coordination between EU bodies is of particular importance for maintaining financial stability: implications for the financial system of guarantee schemes and other fiscal measures to protect the real economy; market illiquidity and implications for asset managers and insurers; impact of pro-cyclical downgrades of corporate bonds on markets and financial entities; system-wide restraints on dividend payments, share buybacks and other pay-outs; liquidity risks arising from margin calls.

At two extraordinary meetings in May, the General Board discussed and took action in the five priority areas to ensure the ability of the European financial system to withstand shocks, as well as to prevent possible further losses of economic capacity and jobs. These included establishment of an EU-wide framework to monitor the financial stability implications as a result of the measures in support of EU economies and adoption of a recommendation introducing minimum requirements for national monitoring of the measures applied by the Member States and establishing a framework for reporting to the ESRB. The recommendation will allow to monitor and regularly assess the financial stability implications of COVID-19 related measures taken by the Member States to protect the real economy. The General Board identified investment funds that have significant exposures to corporate debt and real estate assets as particularly high-priority areas for enhanced scrutiny from a financial stability perspective. Taking into account that the economic disruptions caused by the coronavirus pandemic could trigger credit rating downgrades in the corporate bonds sector due to the increase in credit risk, the General Board decided to coordinate a top-down analysis, with the European Supervisory Agencies and the European Central Bank, to assess the impact of a common scenario of large-scale downgrades across all parts of the financial sector (banks, investment funds, insurers, pension funds and financial markets). As regards the restraints on dividend payments, the General Board supported the actions taken so far by the ECB, the EBA, the European Insurance and Occupational Pensions Authority and national authorities and issued a Recommendation on restriction of distributions during the COVID-19 pandemic. This Recommendation intends to ensure that financial institutions have sufficient capital and capacity to cover losses to soften the impact of the COVID-19 crisis, and thus help the gradual recovery of the European economy.

The General Board discussed the channels through which the COVID-19 pandemic could severely affect the EU financial system and its capacity to provide financial services to the real economy and revised its assessment of systemic risks to take account of the latest changes in the economic environment. The risk of widespread defaults in the real economy, especially among firms and households, was classified as a serious systemic risk to the EU financial stability. The General Board reported as heightened risks related to the difficult macroeconomic environment in which banks, insurers and pension funds operated, risks related to government financing and high debt levels, and those ensuing from instability and lack of financial market liquidity. The General Board also highlighted that all the above sources of systemic risk are interlinked and can become aggravated if there is a second wave of the pandemic or the economic recovery is delayed.

In addition to the ESRB General Board, Bank representatives were active in the Advisory Technical Committee to the ESRB, working group meetings and task forces, and prepared positions on topics discussed at meetings, including on written procedures and consultations.

In the first six months of 2020 BNB experts continued to sit on supervisory colleges of European bank groups and their subsidiaries. Within supervisory colleges, discussions started on the approach and assessment of the supervisory review and evaluation process as of 31 December 2019 in order to reach joint decisions on the capital and liquidity of bank groups with subsidiaries in Bulgaria. Given the spread of the COVID-19 pandemic and the risks that may arise for the banks' operations, the BNB interacted with the representatives of the supervisory colleges on the actions taken by the Bulgarian government, the BNB and banks.

Under the special supervision, BNB representatives continued to participate actively in committees and working groups of the EBA and the EC on anti-money laundering and countering terrorist financing, consumer protection and financial innovation. The topics discussed contributed to updating the methods of supervision in the areas concerned.

With regard to the regulatory framework, standing committees and working groups of the EC and the EBA jointly with BNB experts continued their work on the discussion and elaboration of common oversight policies and standards, the assessment and convergence of national practices on the introduction and implementation of the EU prudential and supervisory framework.

The Ecofin Council and the Economic and Financial Committee (EFC)

On 28 April 2020 the European Commission adopted a banking package[78] aimed at facilitating bank lending to households and businesses in the EU. The proposed changes to the Capital Requirements Regulation[79] introduce targeted 'quick fix' amendments to the EU's banking prudential rules in order to maximise the ability of credit institutions to lend and absorb losses related to the pandemic and to help banks be more resilient and better prepared to deal with potential difficulties. BNB representatives participated actively in the negotiations on the package. The proposals made for the regulatory texts to include relief related to the treatment of banks'

[78] The package is comprised of: Commission Interpretative Communication on the application of the accounting and prudential frameworks to facilitate EU bank lending – Supporting businesses and households amid COVID-19, COM (2020)169 final, 28 April 2020; Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards adjustments in response to the COVID-19 pandemic , COM (2020) 310 final, 28 April 2020.

[79] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176/1 of 27 June 2013).

exposures to government bonds denominated in the currency of another Member State have been taken into account and reflected in the final text of the Regulation.[80]

In the context of the exceptional circumstances, negotiations in the EU Council on the legislative proposal for the establishment of an European Deposit Insurance Scheme (EDIS) as part of the measures for further risk sharing in the banking system and building Banking Union's third pillar in the euro area focused on technical issues perceived as a transitional path to deeper future discussions which will help to make progress in political talks for strengthening the Banking Union. Therefore, an informal videoconference meeting of the High Level Working Group was held in May 2020, at which the technical work done so far was reviewed, focusing on the main features of the proposed EDIS model and the methodology for calculating the risk-based contributions. The BNB provided expertise to the representatives of the Ministry of Finance in the sub-groups to the High Level Working Group.

In the first half of 2020 the Bank continued helping to harmonise Bulgarian legislation with European requirements. Bank's experts took part in drafting the amendments to the Law on Credit Institutions intended to introduce the requirements of Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation, and to make changes aimed at improving the regulatory framework and established supervisory mechanisms. BNB experts participated in drafting the amendments to the Law on Payment Services and Payment Systems, transposing into Bulgarian legislation the requirements in Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC.

A Deputy Governor represents the BNB on the Economic and Financial Committee. In the beginning of the reporting period, the Committee's discussions focused on deepening the Economic and Monetary Union, strengthening the Banking Union and reviewing progress and priorities in building the Capital Markets Union. The topics discussed included the economic and financial aspects of the European Green Deal, the free movement of capital and the factors determining the environment of low interest rates. At the meetings, views continued to be exchanged on the economic challenges and risks to financial stability, focusing on the effects of the low interest rate environment on the EU economy and financial sector. Developments in government debt markets were also discussed, as well as the multilateral action plan proposed by the EC with particular measures to be taken towards better implementation, supervision and coordination of the EU's anti-money laundering and countering the financing of terrorism framework. Following the outbreak of the COVID-19 pandemic, the Committee's discussions focused mainly on its implications for the EU economy and financial stability and the measures taken at European and national level in support of the economic recovery. Committee members shared the view that timely and coordinated policies are crucial to address the economic shocks caused by the crisis and to rein in market fragmentation.

At the Council of Ministers' Council for European Affairs, the BNB helped formulate Bulgarian standpoints on key economic governance areas and the financial sector.

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[80] Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic (OJ L 204/4 of 26 June 2020).

IX. International Relations

The Law on the Bulgarian National Bank entitles the Bank to participate organisationally and contribute financially to international financial organisations furthering currency, monetary, and credit policy cooperation. Where Bulgaria participates in international financial institutions, the BNB acts as government's fiscal agent and depository.

The Bulgarian National Bank holds equity in the Bank for International Settlements (BIS). The BNB Governor sat on BIS central bank governors' regular meetings: a major forum for cooperation and debate on world economic developments and prospects, and international financial markets. At the Annual General Shareholder Meeting in late June 2020, the BIS Governors decided not to pay dividend in 2020 as a result of unfavourable conditions driven by the COVID-19 pandemic.

The Governor represents Bulgaria as member on the IMF Board of Governors. Bulgaria's IMF quota is SDR 896.3 million or 10,428 voting shares: 0.21 per cent of IMF voting shares.

The BNB jointly with other national central banks of the ESCB and the ECB participated in technical cooperation programme with central banks and supervisory authorities of countries in the western Balkans – EU candidates and potential candidates: Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia and Kosovo financed by the EU and managed by the Deutsche Bundesbank. Over the first half of 2020 BNB experts delivered lectures to beneficiaries on financial stability. Consultation and work continued on the implementation of bilateral activities agreed with the central bank of the Republic of Kosovo on preventing money laundering and terrorist financing, which are carried out remotely due to the pandemic.

In April 2020 the BNB contributed USD 10,000 to the Group of Thirty.

Helping step up regional cooperation, the Bank also participated at summit level in the Central Banks Governors' Club of Central Asia, Black Sea Region and Balkan Countries.

X. Statistics

The BNB compiles statistical information under Article 42 of the Law on the Bulgarian National Bank and as ESCB member under Article 5 of the Statute of the ESCB and the ECB. The Bank adheres to harmonised European standards based on an international statistical methodologies of relevant leading institutions (the ECB, Eurostat, the IMF, the BIS, the OECD, the UN, and the World Bank).

The BNB collects, processes, analyses and disseminates official monetary[81] and interest rate statistics[82], external sector statistics[83], quarterly financial account statistics for all institutional sectors[84], statistics on non-bank financial institutions, including leasing companies and investment funds[85], specialised lenders and insurance and reinsurance undertakings[86].

In the first half of 2020 the Bank continued to disseminate up-to-date statistical data on its website and by regular communications with the ECB, Eurostat, the ESRB, the IMF, the BIS, and other national and international institutions.

Compiled statistical data are also used for economic research and forecasting, financial stability analyses, major BNB operations, and a number of foreign publications and reports as the ECB and Eurostat statistical database, the ECB Annual Report, the Convergence Report, and the Macroeconomic Imbalance Procedure Scoreboard. In the first half of 2020 all statistical data were published on the BNB website as scheduled.

In addition to the compilation of statistical data, the BNB was actively involved in a number of national, European and international fora discussing and solving methodological issues in the area of statistics. All statistical data published by the BNB were accompanied by the relevant metadata which were periodically revised, where necessary.

In line with the instructions on the content and procedure for providing information on monetary and interest rate statistics to BNB Ordinance No 17, in early 2020 the BNB adopted extended reporting requirements to banks for monetary and interest rate statistics. In addition to the latest ECB requirements, the need for additional information to be used by national users for analysis purposes was also taken into account in developing the requirements.

In line with ESCB priorities and objectives and amendments to the Register of Institutions and Affiliates Data (RIAD), the statistical database continued to be developed and improved, including individual reference data at the BNB: the Register of Domestic Economic Agents and the Bulgarian securities database. Along with analytical options at the national level, these databases allow the BNB to fulfil its commitments to the

[81] Pursuant to Regulation (EU) No 1071/2013 of the European Central Bank of 24 September 2013 concerning the balance sheet of the monetary financial institutions sector (recast).

[82] Pursuant to Regulation (EU) No 1072/2013 of the European Central Bank of 24 September 2013 concerning statistics on interest rates applied by monetary financial institutions (recast).

[83] Pursuant to Regulation (EC) No 184/2005 of the European Parliament and of the Council of 12 January 2005 on Community statistics concerning balance of payments, international trade in services and foreign direct investment and Guideline of the ECB of 9 December 2011 on the statistical reporting requirements of the European Central Bank in the field of external statistics (ECB/2011/23).

[84] Under the European System of Accounts (ESA 2010) provided for in Regulation (EC) No 549/2013 of the European Parliament and of the Council of 21 May 2013, Guideline of the European Central Bank of 25 July 2013 on the statistical reporting requirements of the European Central Bank in the field of quarterly financial accounts (ECB/2013/24) and subsequent amendments.

[85] Pursuant to Regulation (EU) No 1073/2013 of the ECB of 18 October 2013 concerning statistics on the assets and liabilities of investment funds.

[86] Pursuant to Regulation (EU) No 1374/2014 of the European Central Bank of 28 November 2014 on statistical reporting requirements for insurance corporations (ECB/2014/50).

ESCB in managing the data for Bulgaria in the Register of Institutions and Affiliates Database and the Centralised Securities Database (CSDB)[87]. This contains reference information on credit institutions, money market funds, financial vehicle corporations, investment funds and their management companies, payment service providers and payment system operators, insurance and reinsurance companies, pension funds, and holding companies and head offices. In the first half of the year non-financial corporations, issuers of securities, continued reporting in stages. This allows RIAD issuer reference data to link with CSDB securities data.

In the first half of 2020 the Bank continued volunteering to help ESCB national central banks identify and supplement RIAD reference information on resident institutional unit parties to credit relations as part of the AnaCredit project (analytical credit datasets, AnaCredit)[88] on granular credit and credit risk data. The BNB actively participated in the ECB Securities Holdings Statistics project (SHS)[89] which is important for both gathering various statistical data and analysing financial stability.

In the first six months of 2020 the Bank continued developing and elaborating the Integrated Statistical Information System (ISIS) and the Information System for Monetary and Interest Rate Statistics (ISMIRS). They automate management, improve the reliability and high quality of statistical information the BNB receives, processes and disseminates, and greatly reduce the administrative burden on individuals and legal entities by offering electronic submission of statistical reports and declarations. In line with the new reporting requirements for monetary and interest rate statistics, in early 2020 new reporting forms were introduced in ISIS and a new portal for submission of information to the system was designed for providing, verifying, converting data and communicating the BNB about their quality.

The BNB attaches great importance to the quality of the statistical data compiled by it. It follows the principles of the Public Commitment on European Statistics by the European System of Central Banks, based on the fundamental principles of UN official statistics. The Bank took part in ECB and European Statistical System reports on data quality assessment measuring compliance with these principles of central bank statistical products and national statistical institutes through set indicators: accessibility and clarity, punctuality, reliability, comparability, and coherence. The published reports ensure transparency and allow for a comparative analysis of the quality of these statistical products for all EU Member States.

In mid-May 2020 the ECB published the Annual Reports on the quality of statistical data compiled by the BNB on the balance of payments, the international investment position, and quarterly financial accounts. The BNB as coordinator for Bulgaria also adheres to the requirements of the IMF Data Quality Assessment Framework, part of the Special Data Dissemination Standard Plus (SDDS Plus) which Bulgaria has joined. In the context of the commitments to the IMF upon accession to this standard, in the first half of 2020 the requirement to include information on the general government total gross debt was met.

In the field of statistics, the BNB cooperates with the NSI and the Ministry of Finance, national and international statistical authorities and central banks.

[87] Pursuant to Guideline and Recommendation of the ECB of 26 September 2012 on the data quality management framework for the Centralised Securities Database (ECB/2012/21 and ECB/2012/22).

[88] Pursuant to Regulation (EU) No 2016/867 of the European Central Bank of 18 May 2016 on the collection of granular credit and credit risk data (ECB/2016/13).

[89] Pursuant to Regulation (EU) No 1011/2012 of the European Central Bank of 17 October 2012 concerning statistics on holdings of securities (ECB/2012/24) and subsequent amendments, Guideline of the ECB of 22 March 2013 concerning statistics on holdings of securities (ECB/2013/7) and subsequent amendments, Recommendation of the ECB of 2 August 2016 on the data quality management framework for statistics on holdings of securities (ECB/2016/24).

XI. The Central Credit Register and the Register of Bank Accounts and Safe Deposit Boxes

The Central Credit Register

The Bulgarian National Bank maintains an information system on customer debt to banks, financial institutions, payment institutions and electronic money institutions extending loans under Article 21 of the Law on Payment Services and Payment Systems (reporting units). BNB Ordinance No 22 establishes the operation, scope, terms, procedure and timeliness of information flows to and from the Central Credit Register (CCR). The Register maintains data on all loans extended by reporting units, irrespective of their amount. Real time customer debt information includes loan status and arrears for five years back. CCR maintains information on entities which are co-borrowers or guarantors on loans.

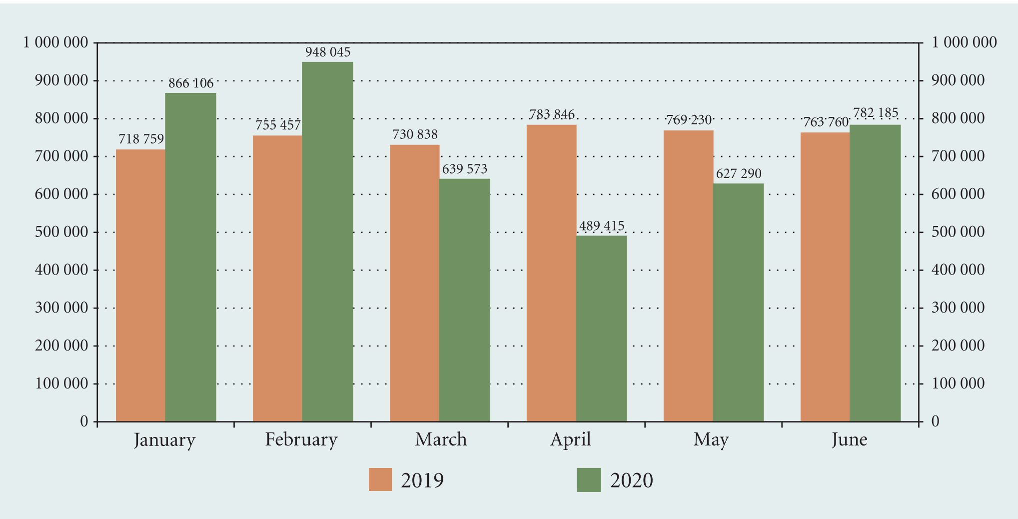
On 30 June 2020 the CCR had 219 participants: 25 banks, 191 financial institutions, two payment institutions and an electronic money institution compared to a total of 214 on 30 June 2019 including 26 banks, 185 financial institutions, two payment institutions and an electronic money institution. In the first half of 2020 seven new financial institutions were included in and four were deleted from the CCR information system.

On 30 June 2020 the CCR listed 5701 thousand loans (against 5622 thousand by end-June 2019) with their balance sheet exposure amounting to BGN 84,776 million (BGN 80,047 million a year earlier). Borrowers numbered 2501 thousand, of whom 2277 thousand natural persons, 100 thousand legal entities, 116 thousand non-residents not registered at Bulgarian addresses or BULSTAT/PIK coded, and 8 thousand self-employed persons practising liberal professions or crafts.

As of 30 June 2020 residual debt of up to BGN 5000 predominated with natural persons (58.6 per cent), while debts of BGN 5000 to 50,000 predominated with legal entities (33.7 per cent).

Electronic Searches by Participants in the CCR Information System (Monthly)

(number)



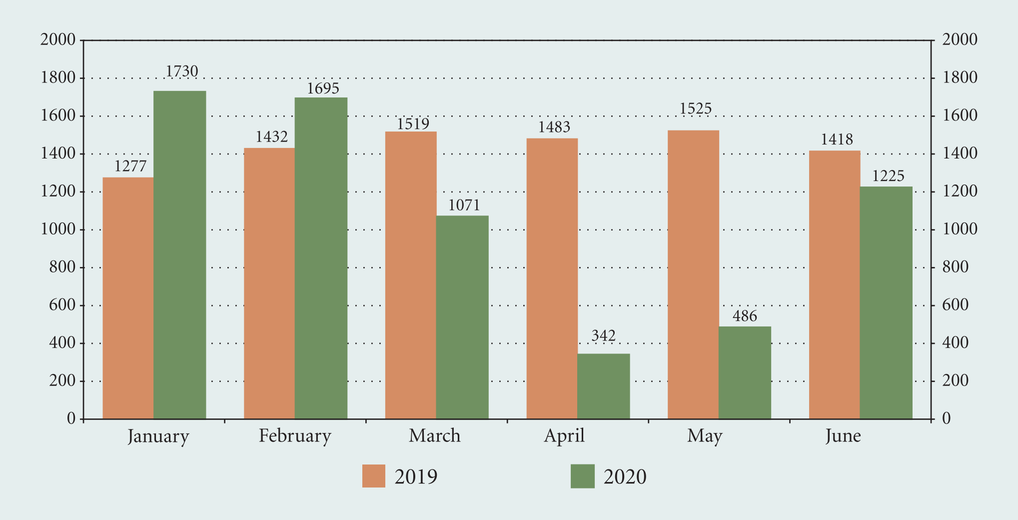
Source: the BNB.

In the first half of 2020 banks, financial institutions, payment institutions, electronic money institutions and government authorities with electronic access to the CCR conducted 4353 thousand searches on 3804 thousand natural persons and 549 thousand legal entities. The average monthly number of searches was 726 thousand.

BNB Ordinance 22 on the Central Credit Register grants individuals (including for probate purposes) and legal entities access to CCR information. From January to the end of June 2020 there were 5217 applications for CCR statements: 5083 by natural persons and 134 by legal entities.

CCR Searches Based on Submitted Applications (Monthly)

(number)



Source: the BNB.

BNB provides CCR electronic services to natural persons holding a qualified certificate for electronic signatures issued by a certification service provider under the Electronic Document and Certification Services Law. Between 1 January and 30 June 2020, 692 natural persons obtained electronic statements on CCR information.

The CCR develops and improves in step with changing international and national criteria for lending developments. To boost quality and reliability of data, incoming information is constantly analysed, and the Register system is regularly upgraded. This offers to reporting units more comprehensive information on existing and potential customer debt and more accurate credit risk assessments.

The Register exchanges information with other ESCB credit registers to improve its technological and methodological performance. CCR information compiling and maintenance follows relevant best practice.

The CCR cooperates with the World Bank under the Doing Business project, with the ECB, ESCB, the IMF under the *Access to and Use of Financial Services* Survey, and with other international bodies for research, statistical analyses and annual surveys.

The Register of Bank Accounts and Safe Deposit Boxes (RBASDB)

The BNB maintains an electronic information system on bank account numbers, holders and attorneys, data on account preservation orders, bank deposit box holders and attorneys. Since September 2020, Article 56a, paragraph 1 of the LCI[90] requires that additional information should be entered in the information system on the beneficial owners of legal persons and other legal entities, including payment accounts kept by payment institutions and electronic money institutions licensed by the BNB. BNB Ordinance No 12 on the Register of Bank Accounts and Safe Deposit Boxes establishes the operation, scope, terms, procedure and timeliness of information flows to and from the CCR. The information on bank accounts and safe deposit box hires is provided in real time, with banks submitting weekly data to the BNB.

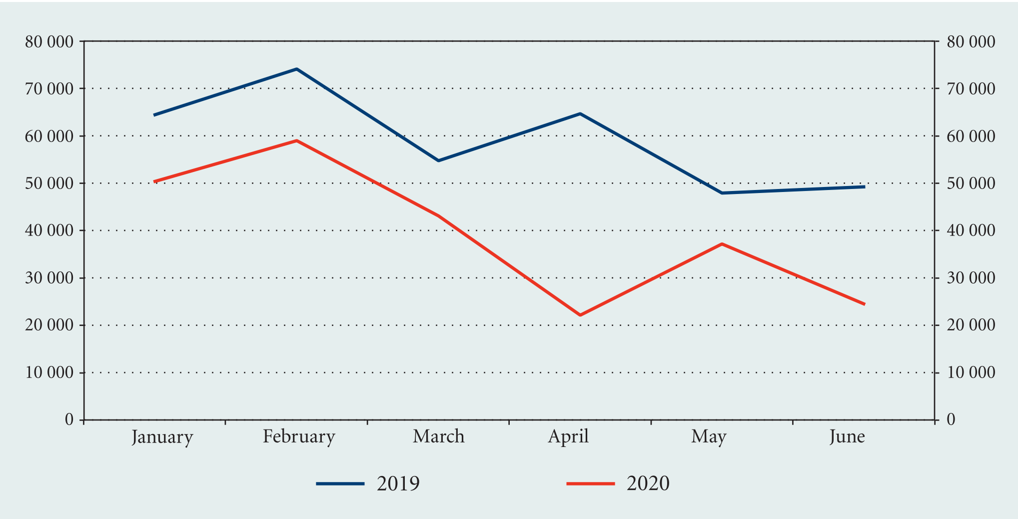
As of 30 June 2020 the Register logged 15.42 million bank accounts and 31.46 thousand safe deposit box hires, from 15.98 million and 33.06 thousand in June 2019. The RBASDB information system included records of 1.56 million new accounts, 1.53 million closed accounts (from 1.51 million and 1.50 million in June 2019) and also of 1.43 million account preservation orders placed as of 30 June 2020.

The Law on Credit Institutions grants Register information access to the bodies and institutions under Article 56a of the LCI with regard to performing their duties, as well as to private and state bailiffs in enforcement proceedings. Facilities offering electronic access of authorised bodies are available. By 30 June 2020 electronic statements accounted for 98.23 per cent of all statements for the year. Their relative share for 2019 was 98.6 per cent.

By June 2020 bodies and institutions entitled to access under Article 56a, paragraph 3 of the LCI conducted searches on 236,237 individuals with average monthly number of searches 39,373. In June 2019 searches were conducted on total 355,040 individuals with average monthly number of searches 59,173.

RBASDB Searches by Bodies and Institutions under Article 56a, Paragraph 3 of the Law on Credit Institutions

(number)



Source: the BNB.

[90] Law on Amendment of the Law on Measures against Money Laundering, § 51 of Transitional and Final Provisions, published in the Darjaven Vestnik, issue 94 of 2019.

BNB Ordinance No 12 on the Register of Bank Accounts and Safe Deposit Boxes grants natural persons (including for probate purposes) and legal entities access to information on available bank accounts and safe deposit boxes. From January to June 2020, 1100 applications in paper form for RBASDB disclosures were filed, of which 1051 by individuals and 49 by legal entities. The BNB provides electronic RBASDB services to natural persons holding a qualified certificate for electronic signatures issued by a certification service provider under the Electronic Document and Certification Services Law. Fees charged for electronic services accounted for 50 per cent of those submitted on paper. From January to June 2020, 90 natural persons obtained electronic statements from the RBASDB.

The RBASDB continuously improves and develops following regulatory initiatives and upgrades to increase the quality and reliability of maintained information using the best EU practices in creating and operating bank account registers. Data entered in the RBASDB are monitored and supplemented, with RBASDB being constantly changed and improved and new functionalities developed to reflect amendments to the European Union law and Bulgarian legislation.

XII. The Fiscal Agent and State Depository Function

In line with the Law on the BNB, the Bank acts as the fiscal agent and official depository pursuant to contracts concluded with the Ministry of Finance (MF). These commitments call for a continuing improvement of the GSAS system for conducting government securities auctions; the ESROT electronic system for registering and servicing government securities trading; the GSSS government securities settlement system; the Register of Special Pledges; and the IOBFR system for budget and fiscal reserve information servicing.

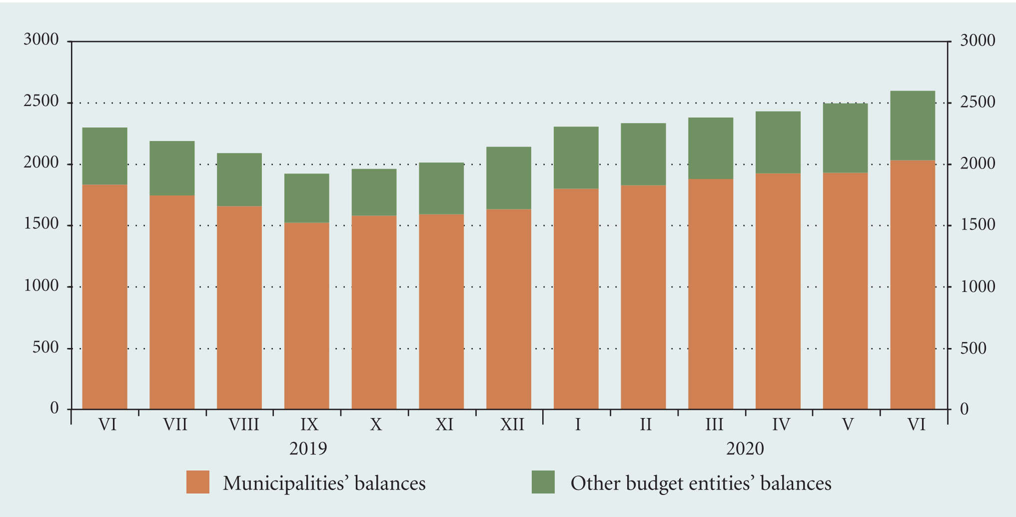
Revenue raised in the first half of 2020 by system participants under the Tariff of Fees and Commissions Charged on Processing Government Securities Transactions and by the MF under Article 43 of the Law on the BNB was BGN 1,464,000 against BGN 1,062,800 a year ago.

Information Service

Providing state budget information under the MF contract involved issuing 484 statements on budget entity operations and balances at the BNB and Bulgarian banks *via* the IOBFR system. Summarised information sets the overall balance of budget entities' accounts (including municipalities) at BGN 11,913.7 million[91], down 9.2 per cent on 30 June 2019. At end-June 2020, 78.2 per cent (BGN 9315.0 million) was in BNB accounts and the rest (BGN 2598.6 million) at 16 domestic banks.

Budget Entities' Accounts with Domestic Banks (BNB Excluded)

(BGN million)



Source: the BNB.

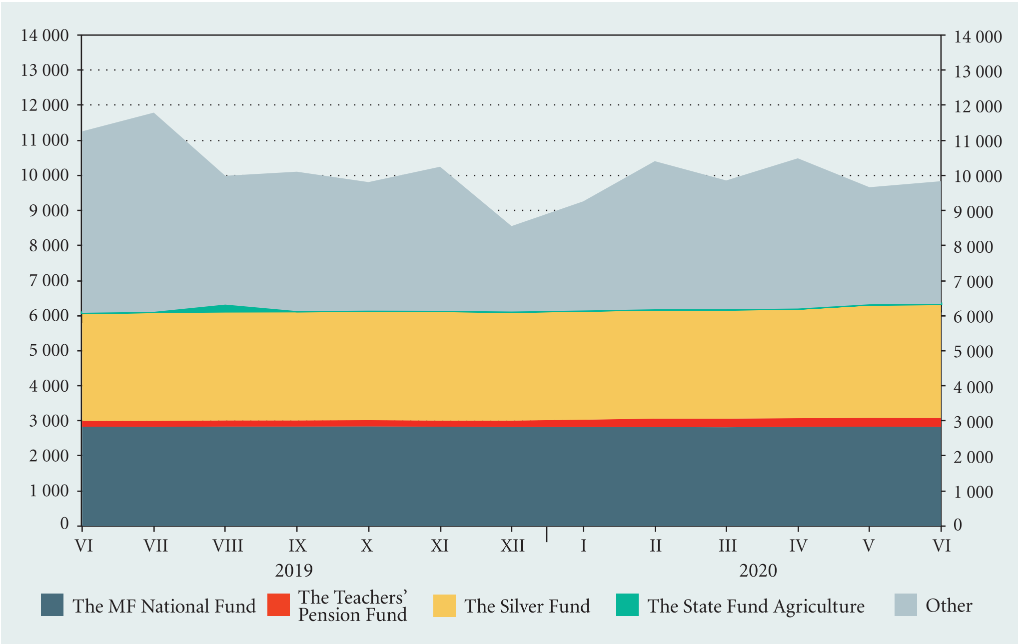
Budget entities' account balances outside the central bank rose by 13.1 per cent compared to 30 June 2019, of which 76.0 per cent at five banks.

[91] Foreign currency account balances are recalculated in levs at the BNB exchange rate on 30 June 2020.

Approximately 82.4 per cent of budget funds at the BNB and at other domestic banks were included in the fiscal reserve[92] and formed the liquidity portion[93]: BGN 9821.2 million on 30 June 2020. Of this, BGN 6330.2 million was allocated to earmarked funds: the State Fund for Guaranteeing the Stability of the State Pension System (the Silver Fund), the MF National Fund, the State Fund Agriculture – Paying Agency, and the Teachers' Pension Fund.

Structure of Bank Account Balances within the Fiscal Reserve Scope

(BGN million)



Source: the BNB.

Standing Minister of Finance and BNB Governor joint instructions task the Bank, on behalf of the Ministry of Finance, to monitor security pledged by banks under the Law on Public Finance and tally it with IOBFR balances on budget entities' accounts daily.

Servicing Government Securities Trading

MF issuing policy involved seven auctions for government securities *via* the GSAS system. Two lev-denominated government securities issues were offered: a five-year medium-term issue at 0.01 per cent annual interest rate and a 10.5-year long-term issue at 0.5 per cent annual interest rate. The average residual term to maturity of these issues was seven years four months.

The total nominal value of government securities offered for sale was BGN 1400 million. About 83 per cent of bids were by banks (BGN 2023.1 million) with BGN 416.4 million by non-bank institutions. Government bond sales volume was BGN 1200 million, or 85.7 per cent of scheduled volume[94]. Primary dealer banks[95] bought nearly

[92] According to §1, item 41 of the Additional Provisions of the Law on Public Finance, the fiscal reserve comprises the balances on all budget entities' bank accounts (excluding municipalities and their budget spending units) and other assets and claims on EU funds.

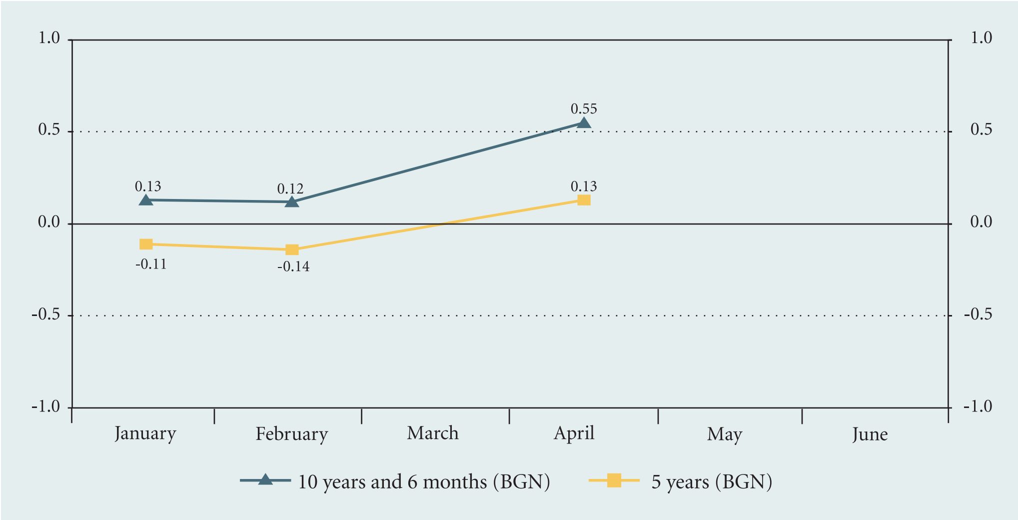
[93] Comprises the balances of all Bulgarian budget entities' bank accounts, excluding municipalities and their budget spending units.

[94] The MF rejected all bids at an auction conducted in April 2020.

[95] Nine primary dealers were selected under MF and BNB Ordinance No 15.

74 per cent of all sold bonds. Average annual yields of 5-year and 10.5-year issues were -0.04 and 0.27 per cent, respectively.

Average Annual Yield Attained at Domestic Government Securities Auctions in the First Half of 2020



Source: the BNB.

ESROT registered corporate event payments on behalf and for the account of the issuer to a total amount of BGN 806.1 million[96] or down BGN 229.1 million (22.1 per cent)on the corresponding period of 2019. The 16 circulating MF issues had an overall nominal value of BGN 5956.8 million[97] or 23.8 per cent more than in June 2020. Bond currency structure did not change, with BGN-denominated issues redeemable in levs with the largest share at 87.6 per cent, followed by EUR-denominated issues redeemable in euro at 12.4 per cent. The maturity structure underwent a little change from end-June 2019, medium and long-term bonds comprising 13.4 and 86.6 per cent.

The nominal value of government securities transactions registered in ESROT was BGN 9244.5 million, down 5.4 per cent on the first half of 2019.

Repos had the largest share at 70.7 per cent, including one-day ones (44.6 per cent), mostly in lev-denominated government securities. Government securities sale and purchase transactions totalled BGN 687.0 million. Of this, transactions between ESROT participants came to BGN 272.2 million, those between participants and customers were BGN 1519.2 million. Transactions between ESROT participants' customers[98] amounted to BGN 501.2 million.

The secondary market liquidity ratio[99] in the first half of 2020 was 1.6 against 2.0 in the first half of 2019. ESROT participants encountered no problems and provided government bonds and cash in levs and euro for the delivery *versus* payment

[96] The lev equivalent of payments on foreign currency denominated government securities issues was calculated at the BNB rate on the date of payment.

[97] The lev equivalence of government securities issues denominated in foreign currency is shown at the BNB rate for 30 June 2020.

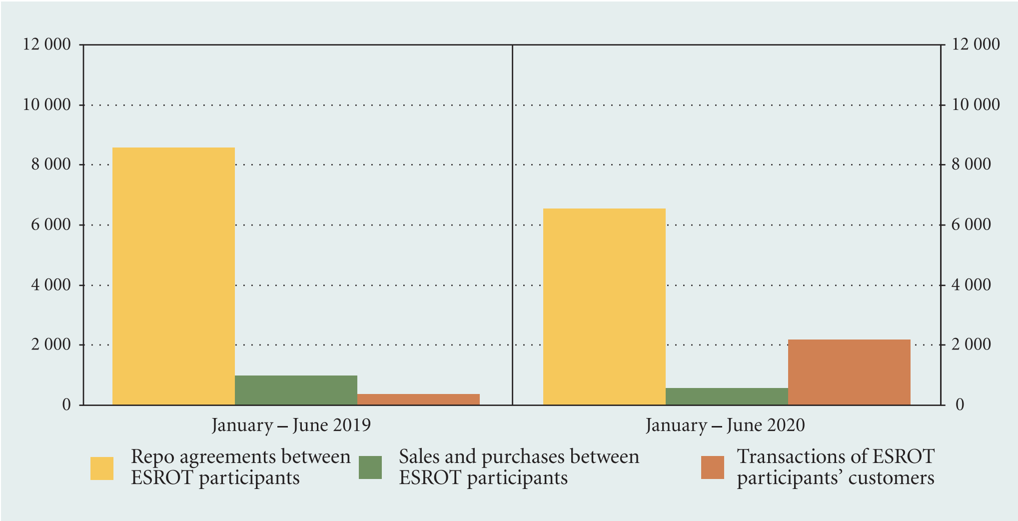
[98] The ESROT system registered no transactions between customers of the same participant.

[99] Liquidity ratio is the ratio between the volume of secondary market government bond transactions concluded over the period and the volume of government securities circulating at the close of the period.

settlement of government securities transactions, the average settlement ratio[100] being 100 per cent.

Volume of Transactions in Tradable Government Securities in the First Six Months

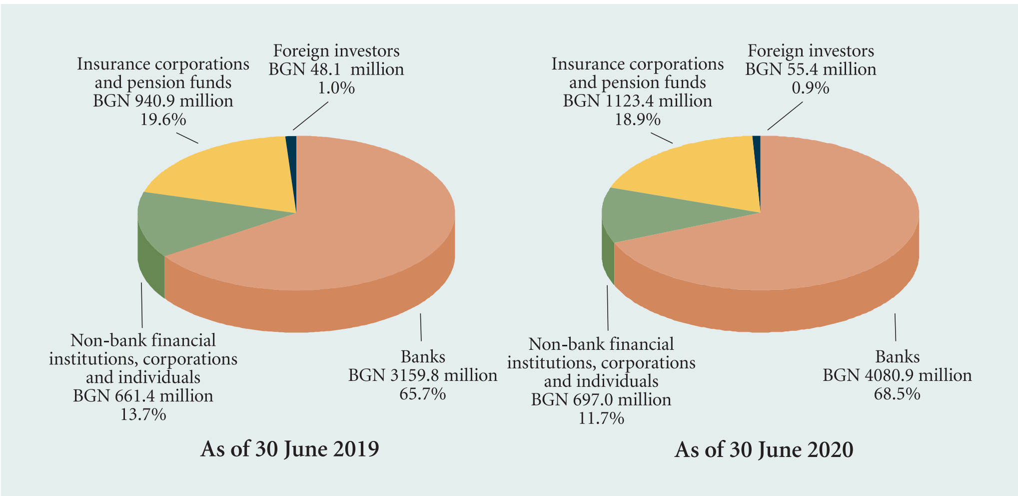
(BGN million)



Source: the BNB.

Between January and June there was BGN 2664.2 million of blocking and unblocking operations in domestic government securities registered in ESROT and related to securing funds in budget entities' bank accounts and registered pledges under the Law on Special Pledges, from BGN 2922.7 million for the same period of 2019.

Holders of Government Securities Issued in the Domestic Market



Notes: The lev equivalence of government securities issues denominated in foreign currency is calculated on the basis of the BNB exchange rate valid for the last business day of the relevant period.
According to BNB and ESROT participants data.

Source: the BNB.

[100] Settlement ratio is the ratio of the number of transactions settled on a specific date to all transactions subject to registration and settlement within the system for the reporting period.

At the end of the first half of 2020 investment in government securities portfolios increased in all bond holder categories: banks (by BGN 921.1 million), insurance corporations and pension funds (by BGN 182.5 million), non-bank financial institutions, corporations and individuals (by BGN 35.6 million) and foreign investors (by BGN 7.3 million). This changed the share of individual government bond holder categories on 30 June 2020 to: 68.5 per cent with banks; 18.9 per cent with insurance corporations and pension funds, 11.7 per cent with non-bank financial institutions, corporations and individuals, and 0.9 per cent with foreign investors, from 65.7, 19.6, 13.7 and 1.0 per cent as of 30 June 2019.

Over the review period the ESROT offered 99.9 per cent availability,[101] with no call for contingency rules for interaction between systems operated by the BNB.

On 30 June 2020 there were 631 accounts in the government securities settlement system under BNB Ordinance No 31 on Government Securities Settlement. Of them, 16 were for government securities of the issuer (the MF), 254 for participants' own government securities portfolios, 144 for encumbered bonds, and 217 held by participants' customers. Account nominals tallied with the amount of outstanding issues at BGN 5956.8 million.[102]

Projects and System Development

Over the review period work started on defining the changes to the IOBFR system for budget and fiscal reserve information servicing, related to the MF and BNB new instruction on the implementation of Article 152 of the Law on Public Finance, to replace the currently effective instruction DDS No 09/31.07.2015 determining the terms and procedure for preparing and providing by banks periodic statements of budget entities' operations and funds and daily securing of funds in these accounts.

To improve the provision of regular information by government securities subdepository banks, in the beginning of the half-year the Minister of Finance and the Governor of the BNB approved 'Instruction on preparing and providing information for regulation and control over registration of secondary market transactions in government securities'.

In line with the Principles for financial market infrastructures issued by the Committee for Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO), and with the Standards for Securities Clearing and Settlement Systems adopted by the ESCB, to ensure a fair, effective and transparent market of government securities, protect investors' interests and reduce to a minimum the risks in registration and settlement of government securities:

- the Rules of procedure of the User Committee of the Government Securities Registration and Settlement System at the BNB were updated[103] to provide the opportunity for the sessions of the Committee to be held both on-site and *via* video conference;

[101] The ratio of time when the system is operational to scheduled operating time.

[102] The lev equivalence of government securities issues denominated in foreign currency is shown at the BNB rate for 30 June 2020.

[103] The User Committee of the Government Securities Registration and Settlement System at the BNB was set up in February 2019 under Article 28 of Regulation (EU) 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

- the work continued on analysing and defining the changes to the Government Securities Registration and Settlement System at the BNB, ensuing from the Project for the BNB and participants of the TARGET2-BNB national system component joining the consolidated platform of TARGET services, as well as from the requirements of Regulation (EU) No 909/2014 and settlement discipline regulatory technical standards;
- with regard to the ECB project for integration of European financial markets through developing harmonised processes for managing collateral, corporate actions and invoicing, a National Group for Bulgaria was formed and work started on informing market participants about the requirements related to the implementation of standards; the institutions determined by the ECB prepared and submitted their adaptation plans.

XIII. Research

Economic research, Bulgarian economic development analyses, and macroeconomic forecasts prepared by BNB experts support the Bank management decisions and economic policy formulation. Specialised research under the 2019–2020 BNB Research Plan supported Bank operations by analysing specific economic processes and issues and improving available forecasting and modelling tools.

In the first half of 2020 Research Plan implementation continued on the following issues: research on macroeconomic effects of the population decline and structural adjustments in the labour market in the long run, development of the factors driving exports and imports dynamics, and links between Bulgaria's wage and inflation dynamics. Research results featured in technical reports and Bank seminars for experts from relevant bodies, academia, and non-governmental organisations.

Honing the basic model for BNB macroeconometric forecasting continued over the half year along with developing a risk management methodology in BNB's gross international reserves.

The global spread of COVID-19 in the first half of 2020 required a development of macroeconomic simulations identifying and assessing the pandemic effects on Bulgaria's economy. Some of these simulation results were published in the BNB quarterly Economic Review research topics. It presents information and Bulgarian economic forecasts, analyses of the balance of payments flow dynamics, monetary aggregates, their link with the development of the real economy, and their bearing on price stability. The Economic Review also analyses external developments directly affecting the Bulgarian economy. It carries quantitative assessments of anticipated short-term developments in a set of key macroeconomic indicators. The Review also carries the results of BNB analyses of particular economic issues as highlights and research topics. The first half year saw publication of research topics on the following items:

- analysis of the financial situation of firms and households in the 2008–2019 period;
- main transmission channels of the COVID-19 pandemic to economic activity in Bulgaria;
- impact of the COVID-19 crisis on public finances.

In the first half of 2020 the BNB continued to encourage the research potential of Bulgarian economic science and practice in the area of macroeconomics and finance through its Discussion Papers research series. The BNB Publications Council reviewed one new submission for publication in its Discussion Papers research series and decided on its allocation for peer review. The first edition of the new annual Yearbook of the Bulgarian National Bank, Vol. I (2019), which contains 2019 BNB Discussion Papers was published in the first half year.

XIV. Human Resource Management

Over the first half of 2020 main priorities in the field of human resource management related to ensuring and maintaining a safe work environment at the BNB by timely designing and implementing the COVID-19 containment measures and providing the reorganisation of the working process necessary for the smooth fulfilment of the BNB objectives, functions and tasks in the context of a pandemic.

In order to achieve these priority objectives, the BNB set up a working group whose main task is to monitor and analyse the information from state institutions and media, as well as to propose measures and actions to the BNB Governor to prevent and curb the possible occurrence and spread of COVID-19 infection cases among Bank employees. The containment measures required for ensuring and maintaining a safe work environment were introduced at the BNB. In compliance with statutory requirements, applicable internal acts on health and safety at work were updated. Instructions were drafted and approved to promote safety at work under existing conditions and to prevent the spread of COVID-19 among BNB employees. Risk assessment at the place of work was also updated. Over the review period, employees attended a number of work training and instructions in order to perform safely their duties during the COVID-19 pandemic.

In line with the implementation of the new legislation resulting from the amendments to the Labour Code introduced by the adopted Law on the Measures and Actions during the State of Emergency declared by the National Assembly on 13 March 2020, BNB applicable internal acts were supplemented and updated. To comply with statutory requirements and recommendations of the health authorities to limit face-to-face contact between people and to ensure the necessary distance, a timely organisation providing remote work opportunities was set up at the BNB, which led to a change in the overall working process. Employees working at the BNB buildings performed their current duties in strict compliance with the containment measures. To ensure business continuity, the BNB established groupings in teams, some of the employees working on site, others performing their duties remotely. Given the emergency epidemic situation, the BNB recruitment processes were handled in a virtual environment.

Over the review period maintaining an attractive working environment and creating adequate conditions to retain well qualified professionals and attract new highly motivated employees, while applying a supportive remuneration system, were again among BNB priorities of human resource management policy.

At the end of the first half of 2020 employees numbered 889, their total number remaining unchanged from the corresponding period of 2019. Staff turnover decreased slightly on this time last year. Twenty-six employees left (32 a year earlier), including eleven retired (10 a year earlier). Twenty-two new employees joined against 38 in the same period of 2019.

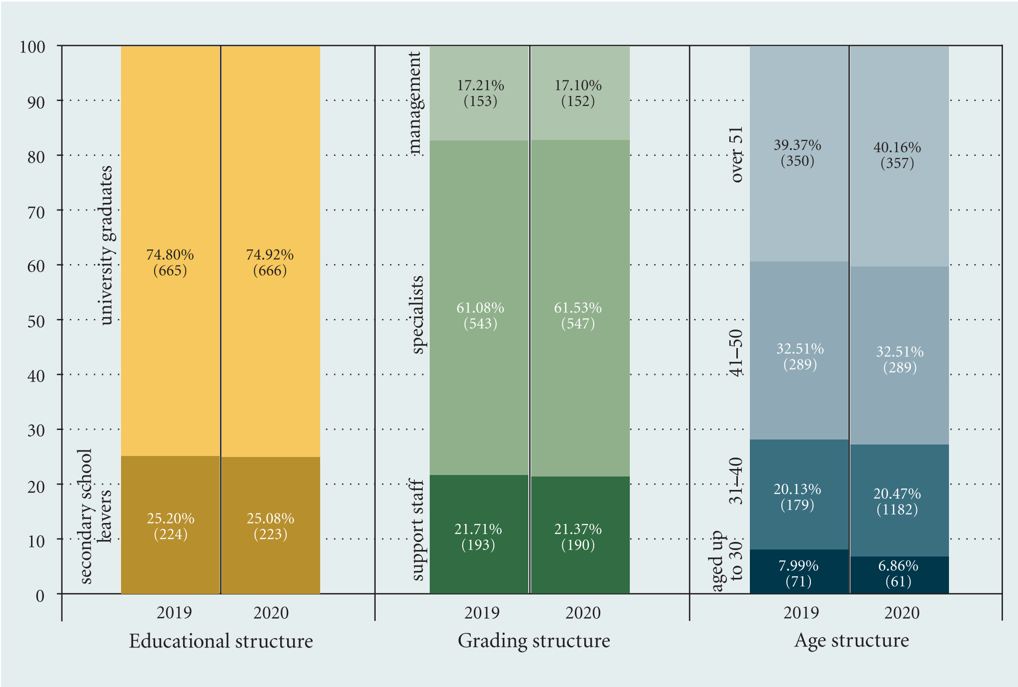
There were no major changes in staff education and qualification structure on this time last year: university graduates remained at 75 per cent, while employees with secondary education stood at 25 per cent. As of 30 June 2020 twenty-nine employees had doctorates (27 as of 30 June 2019).

The staff grading structure remained broadly unchanged, specialists having the largest share at 61.5 per cent, followed by support staff (21.4 per cent) and management (17.1 per cent).

Age structure remained almost unchanged in the first half of 2020, with employees aged over 51 occupying the largest share, followed by the 41–50 group. Over the review period the number of employees of up to 30 rose on an annual basis. By 30 June 2020, women made up 65 per cent of total employees and men 35 per cent, the shares of these groups remaining unchanged from the previous reporting period.

Staff Structure on 30 June

(per cent, number)



Source: the BNB.

To boost professional knowledge and skills and to stimulate experience exchanges across business areas, the Bank promoted staff mobility, 15 employees moving across structural units. Three BNB employees worked on ECB short-term assignments.

The BNB continued its remuneration policy, which relates wages to performance. When determining the remuneration, changes in work organisation and performance of professional duties due to the COVID-19 spread and each employee's individual contributions to Bank targets and tasks were taken into account.

The annual schedule offered BNB's employees plentiful opportunities to take a variety of training and qualification boosting programmes, *i. e.* professional courses, seminars, and other training in Bulgaria and abroad. Prior to the outbreak of the epidemic situation, employees attended inland specialised courses and seminars: training on risk assessment models, requirements for obliged persons when assessing money laundering risk, the use of cloud qualified electronic signature, payment system safety challenges, legislation amendments to employment relations, social and health insurance, public tender procedures, and information technology. Bank employees had the opportunity to take part in specialised courses and seminars abroad organised by the ESCB, international financial institutions, and training centres. Courses and seminars focused on: banking supervision, consumer protection, monetary policy and programming, statistics, financial governance and operational risk management. The emerging epidemic situation, containment measures initiated step by step in the BNB, in Bulgaria and worldwide, and the subsequent declaration of a national state of emergency led to a suspension of organising and conducting all in-person attendance training by end-February 2020. Nevertheless, 14 employees, of whom three reading for doctors', seven for masters', and four for bachelors' degrees, continued boosting their educational attainments without discontinuing work. Five BNB employees took part in two distance learning and certification programmes focusing on financial analyses and internal audit. Over the review period, employees attended a number of work training and instructions in order to perform safely their duties in line with statutory and internal regulations.

With students, the BNB continued providing career opportunities and encouraging knowledge acquisition and research. Twenty-three applicants enquired into the annual postgraduate scholarship programme: seven for doctors' and 16 for masters' degrees. The Bank awarded one doctor's and three master's degree scholarships.

XV. BNB Internal Audit

There were five audits between January and June 2020: three under the BNB Governing Council's annual Internal Audit Programme, and two under the ESCB Internal Auditors Committee Programme.

Audits sought assurance of adequate and effective control, corporate governance, and management of risks inherent in the activities concerned to ensure:

- effective attainment of objectives and tasks;
- reliability and completeness of financial and operational information;
- effective and efficient operations and programmes;
- safeguarding assets;
- legal, regulatory, internal rule, policy, procedure, and contractual observance.

Audits under Annual Internal Audit Directorate Programme

BNB Functions	Audits
Supervision and financial stability	Comprehensive review of adequacy and efficiency of the activity carried out by the Specific Supervisory Activities Directorate
Communication. Services related to organisation of summits and events (Protocol)	Protocol and external communication
Tracking performance	Follow-up on recommendations from past audits under the BNB Internal Audit Directorate Programme

Source: the BNB.

Audits under the ESCB Annual Internal Auditors Committee Programme

The first ESCB Internal Auditors Committee Programme audit was entitled 'IT service functioning and management'. The second was 'Follow-up on recommendations from past audits under the ESCB Annual Internal Auditors Committee Plan'.

XVI. BNB Budget Implementation in the First Half of 2020

The BNB budget for 2020 was adopted by the BNB Governing Council by Resolution No 392 of 29 November 2019.

The report on the Bank's budget comprises two sections pursuant to the Governing Council Internal Rules on Drafting, Implementing, and Reporting the BNB Budget: BNB Operating Expenditure and Investment Programme.

I. Operating Expenditure

BNB half year operating expenditure was BGN 56,138 thousand, or 47.4 per cent of the approved annual budget.

Currency circulation cost BGN 20,686 thousand or 59.5 per cent of annual budget for this item and 36.8 per cent of Bank's operating expenditure budgeted for the reporting period. Costs on banknote printing occupied the largest share at BGN 12,442 thousand. Minting of new coins cost BGN 7976 thousand, of which BGN 7747 thousand on circulation coins. Commemorative coins cost BGN 229 thousand, in line with the BNB Governing Council's programme for 2020. Cash processing consumables cost BGN 50 thousand. Premise rentals for issue and cash operations cost BGN 203 thousand, while cash machine spares and servicing cost BGN 14,000. The design of new banknotes and coins cost BGN 0.3 thousand.

Materials, services, and depreciation cost BGN 13,892 thousand or 35.3 per cent of annual item budget and 24.7 per cent of half year operating expenditure.

Materials totalled BGN 294 thousand or 26.0 per cent of approved funds under this item and 0.5 per cent of Bank's operating expenditure. Major expenditures in this group comprised, *inter alia*, BGN 90 thousand on hygiene materials, and BGN 80 thousand on fuel and spares for the BNB transport fleet.

External services cost BGN 8727 thousand or 37.3 per cent of annual item budget and 15.5 per cent of half year operating expenditure. Software maintenance subscriptions at BGN 2052 thousand, spending on security and fire protection at BGN 1438 thousand, and office equipment maintenance at BGN 965 thousand were notable in this group. Property and refuse collection levies and other charges were BGN 963 thousand. Mandatory TARGET2 modules amounted to BGN 616 thousand. Bloomberg, Reuters, internet, and other system provision cost BGN 608 thousand and electricity BGN 380 thousand. Mail, telephone and telegraph expenditure was BGN 359 thousand, with a trend towards optimising and modernising BNB voice services. BORICA AD subscriptions cost BGN 285 thousand. Major building maintenance cost BGN 241 thousand. Heating and water bills were BGN 146 thousand. Health and safety at work and special clothing cost BGN 133 thousand. Judicial protection and other legal services cost BGN 111 thousand and banking and economic periodicals and economics publication translations BGN 68,000. Parking bay and freight vehicle garaging cost BGN 62 thousand. External vehicle costs on repair works were BGN 52 thousand. Property insurance premia accounted for BGN 51 thousand. Advertisement spending was BGN 10 thousand. Machines and equipment repair expenditure was BGN 7 thousand.

Depreciation cost BGN 4871 thousand or 33.0 per cent of annual budget, its relative share reaching 8.7 per cent of total BNB operating expenditure.

Payroll, social, and healthcare spending was BGN 18,673 thousand or 51.9 per cent of budget funds under this item and 33.3 per cent of Bank's total operating expenditure for the reporting period. The BNB reported BGN 2567 thousand of current retirement obligations and unused paid leave under IAS 19, Income of Hired Persons.

Social expenses were BGN 1497 thousand or 63.3 per cent of annual budget and 2.7 per cent of Bank half year operating expenditure.

Miscellaneous administrative spending (inland and foreign business travel, training and representative expenses) was BGN 125 thousand or 4.7 per cent of budget and 0.2 per cent of BNB's total operating expenditure. The epidemic situation since the end of February, the state of emergency announced in March and the subsequent actions to curb the spread of COVID-19, as well as the step-by-step measures launched at the BNB, in Bulgaria and abroad to limit and stop the physical presence of the planned events led to a low performance rate on the indicator. Foreign travel unrelated to the ESCB and other EU bodies cost BGN 25 thousand. Training and qualification spending in the first three months of the half year was BGN 68 thousand. Inland travel worth BGN 11 thousand involved mainly regional cash centre logistics and checks. The Bank's representative and protocol expenses were BGN 21 thousand.

ESCB participation cost BGN 1265 thousand or 38.6 per cent of annual budget on this item and 2.3 per cent of BNB total operating expenditure. The annual European Banking Authority membership fee was BGN 1178 thousand. Travel costs on participation of BNB representatives in ESCB committees and working groups and other EU bodies amounted to BGN 70 thousand.

II. The Investment Programme

The Bank invested BGN 7179 thousand or 18.5 per cent of annual item budget.

Funds were spent on new construction, refurbishment and modernisation (BGN 2128 thousand), or 16.2 per cent of approved funds and 29.6 per cent of total investment for the review period. Funds were spent on the Plovdiv cash centre investment project, including construction, vault reinforcement, investment designing of general purposes sites, consultancy under Article 66 of the Law on Spatial Planning.

Machine and equipment, vehicle, and other equipment investment came to BGN 54 thousand, or 0.7 per cent of annual budget and 0.8 per cent of total investment for the half year. These funds were spent on upgrading security systems, purchasing cash operations equipment and equipment for the BNB canteen.

Funds invested into information systems totalled BGN 4988 thousand, or 27.3 per cent of annual budget and 69.5 per cent of half year investment. Funds went mostly into keeping BNB information and communication technology infrastructure safe and sound. Software spending of BGN 833 thousand went on developing existing information systems and purchasing programme product licences. Hardware cost BGN 4155 thousand, mainly for printers and other computer equipment.

Investment spending on ESCB membership was BGN 9 thousand for purchasing licences for DARWIN, the ESCB system for document storing and exchange.

Investment programme expenditure involves implementation of interconnected actions depending directly on starting and completing those of the previous period.

At the time of preparing the Report, some of procurement procedures were in preparation, underway or suspended and thus planned funds remained unused.

The state of emergency introduced in Bulgaria due to the spread of COVID-19 was the reason for the delay in construction of the Plovdiv Cash Centre. Therefore, the deadline for finishing the construction works and putting the building into use was postponed from end-June to end-December 2020. In the first half year unused funds remained, including those planned for financing new construction works, refurbishment and modernisation, as well as for public procurement, purchase of machinery and other equipment that are contingent on implementing construction activities.

BNB Budget Implementation as of 30 June 2020

Indicators	Report 30 June 2020 (BGN thousand)	Budget 2020 (BGN thousand)	Implementation (per cent)
Section I. Operating expenditure	**56,138**	**118,375**	**47.4**
Currency circulation expenditure	20,686	34,787	59.5
Materials, services, and depreciation expenditure	13,892	39,313	35.3
Staff expenditure	18,673	35,973	51.9
Social expenditure	1,497	2,364	63.3
Other administrative expenditure	125	2,663	4.7
BNB expenditure on ESCB membership	1,265	3,275	38.6
Section II. Investment programme	**7,179**	**38,889**	**18.5**
Expenditure on construction, refurbishment, and modernisation	2,128	13,105	16.2
Expenditure on machines, equipment, vehicles, and other equipment	54	7,488	0.7
Expenditure on BNB computerisation	4,988	18,287	27.3
Investment related to ESCB membership	9	9	100.0

Source: the BNB.

XVII. BNB Consolidated Financial Statements as of 30 June 2020 (Unaudited)

Statement of Responsibilities of the Governing Council of the Bulgarian National Bank

The Governing Council of the Bulgarian National Bank is responsible for preparing and approving financial statements to present the Bank's financial position and performance for the period.

The financial statements of the Bulgarian National Bank approved by its Governing Council are prepared in accordance with the International Financial Reporting Standards adopted by the European Commission.

The Governing Council of the Bulgarian National Bank is responsible for maintaining proper accounting records to disclose with reasonable accuracy at any time the financial position of the Bulgarian National Bank. It has the overall responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Bulgarian National Bank and to prevent or detect fraud and other irregularities.

Dimitar Radev

Governor of the Bulgarian National Bank

Consolidated Statement of Comprehensive Income for the Period Ended 30 June 2020 (Unaudited)

(BGN'000)

	Note	30 June 2020	30 June 2019
Interest income	7	137,035	127,419
Interest expense	7	(44,760)	(37,056)
Net interest income		**92,275**	**90,363**
Fee and commission income		4,921	4,620
Fees and commission expense		(2,336)	(2,268)
Net fee and commission income		**2,585**	**2,352**
Net (losses)/gains from financial assets and liabilities reported at fair value in the profit or loss or measured at amortised cost	8	399,716	255,021
incl. provisions for expected credit losses		*(624)*	*(506)*
Other operating income	9	29,176	18,379
Total income from banking operations		523,752	366,115
Administrative expenses	10	(68,209)	(57,758)
Profit/(loss) for the period		**455,543**	**308,357**
Other comprehensive income			
Other comprehensive income that can be reclassified into profit or loss at a future point in time		-	-
Other comprehensive income that cannot be reclassified into profit or loss at a future point in time		*23,296*	*(154)*
Other comprehensive income, total		**23,296**	**(154)**
Total comprehensive income for the period		**478,839**	**308,203**
Profit attributable to:			
Equity holder of the Bank		456,702	308,234
Non-controlling interest		(1,159)	123
Profit/(loss) for the period		**455,543**	**308,357**
Total comprehensive income attributable to:			
Equity holder of the Bank		479,998	308,080
Non-controlling interest		(1,159)	123
Total comprehensive income for the period		**478,839**	**308,203**

The accompanying notes on pages 107 to 144 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Financial Position for the Period Ended 30 June 2020 (Unaudited)

(BGN'000)

	Note	30 June 2020	31 December 2019
ASSETS			
Cash and deposits in foreign currency	11	27,478,676	14,546,049
Gold, instruments in gold, and other precious metals	12	4,100,868	3,535,690
Financial assets at fair value through profit or loss	13	23,076,257	30,333,703
Financial assets at fair value in other comprehensive income	14	2,213,448	2,215,901
Tangible assets	15	153,347	150,771
Intangible assets	16	5,928	6,229
Other assets	17	85,153	92,847
Total assets		**57,113,677**	**50,881,190**
LIABILITIES			
Banknotes and coins in circulation	18	18,867,711	19,104,920
Liabilities to banks and other financial institutions	19	19,048,665	14,462,625
Liabilities to government institutions and other borrowings	20	10,347,642	8,853,715
Borrowings against Bulgaria's participation in international financial institutions	21	3,385,948	3,394,229
Other liabilities	22	180,136	265,627
Total liabilities		**51,830,102**	**46,081,116**
EQUITY			
Capital	23	20,000	20,000
Reserves	23	5,259,433	4,774,773
Non-controlling interest	24	4,142	5,301
Total equity		**5,283,575**	**4,800,074**
Total liabilities and equity		**57,113,677**	**50,881,190**

The accompanying notes on pages 107 to 144 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Cash Flows for the Period Ended 30 June 2020 (Unaudited)

(BGN'000)

	Note	30 June 2020	30 June 2019
OPERATING ACTIVITIES			
Net (loss)/profit		455,543	308,357
Adjustments			
Dividend income	9	(10,901)	-
Depreciation	15, 16	6,640	6,981
(Profit)/loss on disposal of tangible assets		131	(30)
(Profit)/loss on financial assets and liabilities arising from market movements		(501,621)	(378,114)
(Profit)/loss of associates		(719)	(1,958)
Other adjustments		(6,646)	1,461
Net cash flow from operating activities before changes in operating assets and liabilities		**(57,573)**	**(63,303)**
Change in operating assets			
(Increase) in gold, instruments in gold and other precious metals		(31,558)	(1,788)
(Increase)/decrease in financial assets at fair value through profit or loss		7,273,701	(782,472)
(Increase)/decrease in other assets		19,948	(3,886)
Change in operating liabilities			
Increase/(decrease) in banknotes and coins in circulation		(237,209)	36,092
Increase/(decrease) in due to banks and other financial institutions		4,586,040	(2,400,552)
Increase/(decrease) in due to government institutions and other liabilities		1,493,927	2,385,992
Increase/(decrease) in other liabilities		(85,491)	(111,913)
Net cash inflow/(net cash outflow) from operating activities		**12,961,785**	**(941,830)**
INVESTMENT ACTIVITIES			
Acquisition of tangible and intangible assets		(9,046)	(2,662)
Dividends received		10,901	-
Net cash inflow/(net cash outflow) from investing activities		**1,855**	**(2,662)**
FINANCING ACTIVITIES			
Payments to the state budget		-	-
(Net cash outflow) used in financing activities		-	-
Net increase/(net decrease) in cash and cash equivalents		**12,963,640**	**(944,492)**
Cash and cash equivalents at beginning of period		**14,600,189**	**19,881,661**
Cash and cash equivalents at end of period	11, 17	**27,563,829**	**18,937,169**

The accompanying notes on pages 107 to 144 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity for the Period Ended 30 June 2020 (Unaudited)

(BGN'000)

	Capital	Revaluation of non-monetary assets	Special and other reserves	Total capital and reserves	Non-controlling interest	Total equity
Balance as at 1 January 2019	**20,000**	**135,282**	**4,147,787**	**4,303,069**	**4,973**	**4,308,042**
Profit/(loss) for the period	-	-	308,357	308,357	-	308,357
Other comprehensive income:						
other income	-	(395)	(154)	(549)	123	(426)
Other comprehensive income, total	-	(395)	(154)	(549)	123	(426)
Total comprehensive income for the period	-	(395)	308,203	307,808	123	307,931
Contributions by and distributions to owners:						
contribution to the budget of the Republic of Bulgaria	-	-	-	-	-	-
dividend paid by subsidiaries to minority shareholders	-	-	(103)	(103)	-	(103)
Transactions with owners, total	-	-	(103)	(103)	-	**(103)**
Balance as at 30 June 2019	**20,000**	**134,887**	**4,455,887**	**4,610,774**	**5,096**	**4,615,870**
Balance as at 1 January 2020	**20,000**	**135,187**	**4,639,586**	**4,794,773**	**5,301**	**4,800,074**
(Loss)/profit for the period	-	-	455,543	455,543	-	455,543
Other comprehensive income:						
other income	-	6,286	23,296	29,582	(1,159)	28,423
Other comprehensive income, total	-	6,286	23,296	29,582	(1,159)	28,423
Total comprehensive income for the period	-	6,286	478,839	485,125	(1,159)	483,966
Contributions by and distributions to owners:						
contribution to the budget of the Republic of Bulgaria	-	-	-	-	-	-
dividend paid by subsidiaries to minority shareholders	-	-	(465)	(465)	-	(465)
Transactions with owners, total	-	-	(465)	(465)	-	(465)
Balance as at 30 June 2020	**20,000**	**141,473**	**5,117,960**	**5,279,433**	**4,142**	**5,283,575**

The accompanying notes on pages 107 to 144 form an integral part of the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. Statute and Principal Activities

The Bulgarian National Bank (the 'Bank, the BNB') is 100 per cent owned by the Bulgarian state and is the central bank of the Republic of Bulgaria. The operation of the Bank is governed by the Law on the Bulgarian National Bank (LBNB), which has been effective since 10 June 1997.

Under this Law, the principal activities of the Bank may be summarised as:

- Maintaining price stability through ensuring national currency stability;
- Exclusive right to issue banknotes and coins;
- Regulation and supervision of other banks' activities in the country with a view to banking system stability maintenance;
- Establishment and operation of efficient payment systems;
- Regulation and supervision of the activity of payment system operators, payment institutions and electronic money institutions in the country;
- The Bank shall not extend credit and guarantees in any form whatsoever, including through purchase of debt instruments, to the Council of Ministers, municipalities, as well as to other government and municipal institutions, organisations and enterprises;
- The Bank may not provide credit to banks except in the case of liquidity risk threatening to affect the stability of the banking system;
- The Bank may not deal in Bulgarian government securities;
- The Bank may not issue Bulgarian levs in excess of the Bulgarian lev equivalent of the gross international reserves;
- The Bank acts as the fiscal agent and depository for the state.

The Governing Council of the BNB approved the Consolidated Financial Statements, set out on pages 101 to 144 on 19 November 2020.

2. Applicable Standards

The consolidated financial statements of the BNB have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Commission.

3. Basis of Preparation

The consolidated financial statements are presented in Bulgarian levs rounded to the nearest thousand (BGN'000), which is the functional currency of the Bank. They are prepared on a historical cost basis, except for the following items, which are measured on an alternative basis as at each reporting date:

Items	Measurement basis
Derivative financial instruments	Fair value
Non-derivative financial instruments at fair value through profit or loss	Fair value
Tangible non-current assets	Revalued amount, which is the asset's fair value at the revaluation date less subsequent depreciation and impairment loss
Defined benefit liability	Present value of the defined benefit liability

Use of estimates and judgements

In preparing these Consolidated Financial Statements, the Bank has made judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, incomes and expenses, and the disclosure of contingent receivables and payables as at the Financial Statements date. These estimates, judgements and assumptions are based on data available as at the date of the Consolidated Financial Statements; therefore, actual future results may differ from these estimates.

The estimates and main assumptions are revised on an ongoing basis and are recognised prospectively.

Judgements

The Bank has estimated and classified cash in circulation as a financial liability (ref. note 18).

Assumptions and estimation uncertainties

Measurements of the present value of long-term obligations to retiring staff (following a defined benefit plan) use certified actuarial calculations based on mortality assumptions, rate of staff turnover, future level of salaries and discount factor. These assumptions may lead to adjustments in the next financial year; management, however, considers them to be reasonable and appropriate for the Bank (ref. note 10).

Bank assumptions and estimates are based on the existing parameters at the time of preparation of the financial statements. Existing circumstances and assumptions about future developments may change due to market changes or circumstances beyond Bank's control. Such changes are reflected in assumptions when they occur.

Determination of expected credit losses on financial assets with a low credit risk

Instruments with a low credit risk are those for which the risk of default is low, the capacity of a counterparty to perform its contract obligations in a short term is stable, long-term negative changes in economic conditions are unlikely to change the capacity to repay obligations. For its short-term receivables from banks and debt instruments reported at amortised value or at fair value in 'other comprehensive income', the Bank accepts at the reporting date that the possibility of default is unlikely, so it determines for them 12-month credit losses. In case that the low credit risk criteria are no longer met in subsequent reporting periods, the Bank conducts an analysis of the changes in credit risk compared to the initial recognition to assess the need for an adjustment instrument on losses over the life of the instrument. Definition of instruments as such with a low credit risk requires judgement. In developing this judgement, the Bank uses all reasonable and supportable information accessible to it.

Determination of expected credit losses on deposit receivables

As reported in ref. note 6(b) Credit risk, the Bank has developed a Policy to Assessing Changes in Credit Quality and Determining Expected Credit Losses on Financial Instruments. The Bank classifies its risky assets into three risk phases depending on changes in credit risk after initial recognition of the asset and, accordingly, assesses the expected credit losses on the basis of a 12-month probability of default if there is no changed credit quality (phase 1) and based on the probability of default for the expected lifetime of the instrument (phase 2 and phase 3) where there is a significant increase in credit risk. When determining how much the credit risk is increased compared to the initial recognition of the asset, the Bank uses all reasonable and supportable information that is available.

Loss on non-performance is a judgement for damages that the Bank would suffer in the event of default. It is based on the difference between the contractual cash flows and the cash flows that the Bank expects to receive. Significant judgement is needed in determining the time and amount of expected cash flows. The management uses judgements based on historical experience of losses on assets with an inherent credit risk and on objective circumstances of impairment similar to those in the portfolio in calculating future cash flows.

In determining the amount of expected credit losses, the Bank uses forward-looking information on expected future changes in certain economic conditions and indicators, as well as assumptions about how changes in these indicators would affect the probability of default.

The 'probability of default' parameter is key for calculating the amount of expected credit losses and reflects the probability that the counterparty will not fulfil its contractual obligations on a certain time horizon. The Bank has developed internal models to determine the probability of default on loans, based mainly on historical information for the period for which such is available. The assessment of correlation between historical indicators of default and projected economic indicators is a significant approximate estimate. Bank's historical experience in credit losses and expectations of economic conditions may also not be representative of real losses in the future.

Fair value of financial instruments

When fair values of financial assets and liabilities in the statement of financial position cannot be obtained from active markets, they are determined by using various valuation methods, which include the use of mathematical models. Basic data for these models are derived from indicators that are observed in financial markets where possible. Otherwise, assumptions about establishing fair values are made. Assumptions take into account factors related to liquidity, volatility of longer-term derivatives and discount rates, early payments and default assumptions related to asset-backed securities.

Some of the Bank's accounting policies and disclosures require fair value measurements of financial and non-financial assets and liabilities. For information on fair value measurements, see note 6(e) and note 15.

New and amended standards and clarifications as of 1 January 2019

The following new clarifications and amendments to the existing standards issued by the International Accounting Standard Board (IASB) and accepted by the EU are in force throughout the reporting period:

IFRS 16 Leases

IFRS 16 Leases issued in January 2016, approved by the EU in October 2017, is effective since 1 January 2019 and replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for recognition, measurement, presentation and disclosure of leases and requires lessees to account all lease contracts based on an uniform balance method, that is similar to accounting treatment of finance lease in accordance with IAS 17. According to the Standard, a lease contract is a contract that conveys the right to control the use of an identified asset for a period of time. The Standard provides two exemptions from recognition of lease contracts – leases of low value assets (*e.g.* laptop computers) and short-term leases (*e.g.* lease with a lease term of 12 months). At the initial date of the lease, the lessee recognises a liability to make lease payments (*i.e.* the lease liability) and an asset representing the right to use the underlying asset during the lease term (*i.e.* the right-of-use asset). The lessees will be required to recognise separately interest expenses on the lease liability and depreciation expense on the right-of-use asset. Adoption of these amendments has no material effect on the financial position or performance of the Bank.

IAS 28 Investments in Associates and Joint Ventures (Amendments): Long-term Interests in Associates and Joint ventures

The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. The amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied. An entity applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. These amendments issued on 12 October 2017, adopted by the EU on 8 February 2019, are published in the Official Journal of the EU on 11 February 2019. These amendments have no material effect on the financial position or performance of the Bank.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation was adopted by the EU on 23 October 2018 and is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. This interpretation addresses income tax accounting where tax treatments relate to an uncertainty surrounding the application of IAS 12. The interpretation provides guidelines on uncertain tax treatments separately or together as a group, examinations by tax authorities, the appropriate method to reflect an uncertainty and accounting for changes in facts and circumstances. The interpretation has no effect on the financial position or performance of the Bank.

IFRS 9 Financial Instruments: Classification and Measurement (Amendments): prepayment features with negative compensation

The amendments were adopted by the EU on 22 March 2018 and are effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. They propose an amendment to IFRS 9 for particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet the eligibility requirement only as a result of prepayment features with negative compensation. Specifically, for a financial asset that contains a prepayment option that may result in the payment of a reasonable negative compensation amount, the amendments require the financial asset to be measured at amortised cost or at fair value through other comprehensive income, subject to the assessment of the business model in which it is held. It is not expected that these amendments would impact the financial position or performance of the Bank.

IAS 19 Employee Benefits (Amendments): plan amendments, curtailments and settlements

The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The purpose of the amendments is to clarify that after an amendment, curtailment or settlement of a defined income plan, the entity should apply the updated assumptions about the net asset or liabilities revaluation under a defined income plan for the remainder of the reporting period. These amendments issued on 7 February 2018, adopted by the EU on 13 March 2019, are published in the Official Journal of the EU on 14 March 2019. The Bank has analysed the process of assessing the impact of these amendments on its financial position or performance and considers that these amendments have no material effect thereon.

Annual Improvements to IFRSs 2015–2018 Cycle

The annual improvements are effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. A summary of amendments to related standards are provided below:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: clarification on the accounting of previously held interests in joint operations;
- IAS 12 Income Taxes: clarification of income tax consequences of payments on instruments classified as equity;
- IAS 23 Borrowing Costs: clarification of borrowing costs eligible for capitalisation.

The Improvements to IFRSs 2015–2018 Cycle issued in December 2017, adopted by the EU on 14 March 2019, are published in the Official Journal of the EU on 15 March 2019. These improvements have no material effect on the financial position or performance of the Bank.

New and amended standards and clarifications as of 1 January 2020

IFRS 3 Business Combinations (Amendments): Definition of a Business

The amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. These amendments issued on 22 October 2018, adopted by the EU on 21 April 2020, are published in the Official Journal of the EU on 22 April 2020. These amendments clarify the minimum requirements for a business and narrow the definition of a business. The amendments also remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive and introduce an optional fair value concentration test. It is not expected that these amendments would have a material effect on the financial position or performance of the Bank.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'Material'

The amendments were adopted by the EU on 29 November 2019 and are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards.

The amendments also specify that materiality will depend on the nature or magnitude of information. The Bank will analyse and assess the impact on its financial position or performance.

The Conceptual Framework for Financial Reporting

IASB published the revised Conceptual Framework for Financial Reporting on 29 March 2018, which is effective for annual periods beginning on or after 1 January 2020. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The mains amendments introduced in the revised Conceptual Framework for Financial Reporting are related to measurement, including factors, which should be considered when choosing the measurement basis, and to the presentation and disclosure conception, including income and expenses which should be classified in other comprehensive income. The Conceptual Framework also provides an updated definition of asset and liability and criteria for their recognition in the financial statements. The Conceptual Framework for Financial Reporting was adopted by the EU on 29 November 2019 and published in the Official Journal of the EU on 6 December 2019. The Bank will analyse and assess the impact of these amendments on its financial position or performance.

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

The amendments are effective for annual periods beginning on or after 1 January 2020 and retroactive application is required, with earlier application permitted. In September 2019, the IASB issued Amendments to IFRS 9, IAS 39 and IFRS 7, thus completing phase 1 to address the effects of the interest rate benchmark reform on financial reporting. Phase 2 will focus on issues which might arise when the interest rate would be replaced by an alternative risk-free rate. These amendments solve problems that arise in the course of replacing the existing interest rate benchmark with an alternative interest rate. Effects on specific hedge accounting requirements in FRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement which require a future-oriented analysis are taken into account. The amendments provide temporary relief from applying specific hedge accounting requirements directly affected by the interest rate benchmark reform. The amendments allow hedge accounting to continue in the uncertainty period until the replacement of existing benchmarks with alternative risk-free rates. Changes have been made to IFRS 7 Financial Instruments: Disclosure, according to which additional information about the uncertainties arising from the reform is required. These amendments were adopted by the EU on 15 January 2020 and published in the Official Journal of the EU on 16 January 2020. The Bank will analyse and assess the impact of these amendments on its financial position or performance.

Adoption of the improvements and amendments did not result in changes in the BNB accounting policy. The effect of IFRS 9 Financial instruments is disclosed in note 5(m).

4. Basis of Consolidation

Subsidiaries

Subsidiaries are the entities controlled by the Bank. Control over an entity exists when the Bank is exposed to or has rights over the variable return from its participation in that entity, and is able to influence that return through its powers. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The share in the net assets of the Bank's subsidiaries, which corresponds to the minority shareholders' proportionate share, is disclosed separately from Capital and Reserves under the Non-controlling Interest item.

The Bulgarian National Bank holds a majority of the BNB Printing Works AD and Bulgarian Mint EAD. The accounts prepared for the group contain the accounts of the parent company and subsidiaries. The BNB consolidated report eliminates all receivables and payables, incomes and expenses, as well as intragroup balances and transactions, including sales.

Associates

Associates are those entities in which the Bank has significant influence, but which are neither subsidiary enterprise, nor joint venture. Investments in associates are accounted for in the BNB's Consolidated Financial Statements using the equity method as an amount corresponding to the Bank's share in the associates' own funds as of the end of the reporting period. The Bank's share of associates' net results subsequent to acquisition is disclosed in 'profit or loss' as investment income/expenses and is added to/subtracted from the carrying value of the investment.

The BNB participation in other associated companies is accounted for at the price of acquisition. The Bank consolidates on an annual basis the accounts of associated companies in which its share is 20 per cent or more than 20 per cent on the basis of the equity method.

Transactions eliminated on consolidation

All receivables and payables, incomes and expenses, as well as intragroup profits, resulting from inter-company transactions within the group, are eliminated, except where these are immaterial.

5. Significant Accounting Policies

a) Income recognition

Interest income and expense are recognised on an accrual basis in accordance with the Bank's interest rate policy and in accordance with concluded agreements with international financial institutions and customers of the Bank. Interest income and expense are recognised in the statement of comprehensive income. Interest income and expense also include the amortisation of the discount and premium calculated on the basis of the effective interest rate.

Interest income on foreign securities held in the BNB portfolio includes interest rates on interest coupons of securities issues.

Interest income on deposits includes interest income on deposits in foreign currency and in gold.

Income from and expenses on fees and commissions from financial services of the Bank are recognised in the income statement of the Bank at the moment of provision of the respective service.

In accordance with IFRS 15, revenue from contracts with customers is recognised when the Bank has fulfilled its performance obligations by transferring the promised services to the customer. Revenue is recognised at an amount reflecting the consideration expected to be received in return. No changes in the valuation and recognition of fees and commissions have occurred as a result of the entry of IFRS 15.

Other financial income/expenses include income and expenses from sales and changes in the fair value in the profit or loss.

Interest income and expense are recognised in the 'profit or loss' using the effective interest rate method. The effective interest rate is the rate which precisely discounts the estimated future cash payments and income over the term of the financial asset or liability to the carrying amount of the asset or liability. The effective interest rate is determined on the initial recognition of the financial asset or liability and does not change thereafter.

The calculation of the effective interest rate includes all commissions, received or paid, as well as discounts and premiums that are an integral part of the effective interest rate. Transaction costs include incremental costs directly attributable to the acquisition, issue or derecognition of a financial asset or liability.

Interest income and expense presented in the statement of profit or loss include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on securities reported at fair value through profit or loss calculated on an effective interest basis.

Dividend income is recognised when the Bank establishes the right to receive a dividend.

Fee revenue is deferred and recognised in each of the separate financial periods.

All gains and losses arising from changes in the fair value of financial instruments reported at fair value through profit and loss are recognised in the statement of comprehensive income.

Revenue from a grant related to depreciable assets is recognised as income for future periods upon receipt of the grant and subsequently recognised in the statement of comprehensive income over the relevant periods, systematically over the useful life of assets and proportionate to the depreciation charge for the same assets. Expenses related to depreciable assets incurred during the current period are deferred over the useful life of the assets.

Revenue from a grant related to non-depreciable assets is recognised as income for future periods upon receipt of the grant and is then recognised in the statement of comprehensive income for the periods in which the relevant expenses are accounted for.

Foreign currency differences arising from available-for-sale investments are recognised in profit or loss.

Net gains/losses from financial assets and liabilities at fair value through profit or loss include net gains from operations in securities, net gains from operations in foreign currency, net revaluation gains on securities, net gains from gold revaluation, net gains from revaluation of futures, and net gains from revaluation of assets and liabilities denominated in foreign currencies.

b) Recognition of assets and liabilities

All assets and liabilities of the Bank are measured at the initial acquisition cost or at fair value. Subsequent revaluations are carried out with different types of assets and liabilities being revaluated over different periods to determine their fair value. Adjustments in accounting registers and relevant records for recognition in the asset revaluation surplus are recorded in compliance with the IFRS. Where it is not possible to measure the fair value, the historical acquisition cost is used less impairment losses.

The International Financial Reporting Standards do not require presentation of assets in a clearly specified format of the balance sheet and can be stated as fix assets (tangible fixed assets, intangible fixed assets, inventories, investment property, asset acquisition loans, impaired assets) and assets not classified as financial instruments.

c) Financial instruments

The Bank can recognise a financial asset or liability in its balance sheet only in cases where it becomes a party to the contractual provisions of financial instruments used. The Bank derecognises a financial asset:

- when it loses control over contractual rights to the financial asset;
- when the obligation specified in the contract is repaid or cancelled or expires.

i) Classification

For the purposes of subsequent measuring of financial assets, the BNB uses the following business models:

- financial assets held to collect contractual cash flows;
- financial assets held to collect contractual cash flows and for sale;

The business model of the *financial assets held to collect the contractual cash flows* includes all current accounts of the Bank with foreign correspondents, and the cash flows under the model used for these assets represent only principal and interest payments. These financial assets are measured at amortised cost.

The business model of *financial assets held to collect contractual cash flows and for sale* includes: deposits, securities and investment. The assets in this group are measured as follows:

- deposits – at amortised cost;
- securities – at fair value through profit or loss;
- investment – at fair value in other comprehensive income.

ii) Recognition

The Bank recognises trading financial assets and investments, the Bank's loans and receivables, and financial liabilities at amortised cost on the date at which they are originated. All other financial assets and financial liabilities are recognised when the Bank becomes a party to financial instrument contracts.

Financial assets and liabilities are recognised in off-balance-sheet accounts from the trade date to the date of their settlement and are recorded in the BNB statement of financial position at the settlement date (value date). The initial recognition is at acquisition cost, *i.e.* the fair price paid on acquisition. Transaction costs are included in the acquisition cost of all assets and liabilities. From that moment on, any changes in their fair value are recognised by the Bank as income or expense.

iii) Amortised cost measurement

Assets measured at amortised cost are initially recognised at acquisition cost, then measured at amortised cost, which is the initial measurement of the asset adjusted for the amortised premium or discount using the effective interest rate method. Premium and discount is amortised for each individual item and is recognised in the Bank's income statement. Interest is calculated and recognised on a daily basis in the Bank's statement of comprehensive income.

iv) Fair value measurement and disclosure principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market and, if no such market is available, then in the most advantageous and accessible market on the measurement date. The fair value of a liability reflects the effect of non-performance risk.

Whenever possible, the Bank measures the fair value of an instrument using quoted prices in an active market of that instrument. A market is considered as active if transactions for the asset or liability take place with a sufficient frequency and volume to provide pricing information on an ongoing basis.

If no quoted price in an active market is available, the Bank uses the most relevant observable inputs and makes minimum use of unobservable data. The aim of using a valuation technique is to estimate the price that would be obtained in an orderly transaction between market participants. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in determining a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, *i.e.* the fair value of the consideration given or received. When the Bank finds a difference between the fair value at initial recognition and the transaction price, and the fair value is neither evidenced by a quoted price in an active market for identical assets or liabilities, nor based on a valuation technique based only on data from observable markets, then the financial instrument is initially recognised at fair value adjusted with the difference between the fair value at initial recognition and the transaction price. This difference is subsequently recognised in profit or loss on an appropriate basis over the maturity of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

The Bank recognises assets and long positions at a bid price and liabilities and short positions at an ask price when assets or liabilities measured at fair value have a bid and an ask price.

Where the Bank has positions in a group of financial assets and financial liabilities, it is exposed to market risks and credit risk. On the basis of the net exposure to such risks, the Bank measures them at fair value on the basis of a price that would be received to sell a net long position or paid to transfer a net short position for a particular risk exposure. These portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

Where the Bank has positions with offsetting risks, mid-market prices are used to measure them and a bid or ask price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as: liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

v) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to the receipt of the contractual cash flows from the financial asset in the transaction in which substantially all risks and rewards of ownership of the financial asset are transferred. Any holding in transferred financial assets, which has been originated or kept by the Bank, is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

The Bank enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or the substantial risks and rewards of the transferred assets or a part of them. If a part of or all substantial risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of a part of or all substantial risks and rewards are, for instance, securities lending or repurchase agreements.

In transactions where the Bank neither retains nor transfers all substantial risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain the control of that asset. The rights and obligations retained in the transfer are recognised separately as assets and as liabilities, respectively. In transactions where control of the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which the Bank is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

vi) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when the Bank has a legal right to offset the recognised amounts and intends to settle the asset or the liability on a net basis. Accounting for assets, net of adjustments, is not considered to be offsetting.

Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a group of similar transactions such as in the Bank's trading operations.

vii) Impairment of assets

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses from assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted by the original effective interest rate of the asset. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised through unwinding of the discount, but on the amortised cost. When a subsequent event reduces the impairment loss, the reduction in the impairment loss is reversed through profit or loss.

Impairment losses on held-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in equity to profit or loss. The cumulative loss that is transferred from profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. If, in a subsequent period, the fair value of an impaired debt security increases, and the increase can be objectively linked to an event that occurred after the impairment loss had been recognised in profit and loss, then the impairment loss is reversed and the reversed amount is recognised in profit and loss.

viii) Financial assets and liabilities held to collect contractual cash flows and for sale

Financial assets and liabilities held to collect contractual cash flows and for sale are recognised initially at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in the fair value are recognised as net income from trading operations in profit or loss.

ix) Financial assets held within a business model whose objective is to hold financial assets to collect contractual cash flows

Financial assets held within a business model whose objective is to hold financial assets to collect contractual cash flows are initially recognised at acquisition cost and subsequently are carried at amortised cost which is the initial asset valuation adjusted for the amortised premium or discount using the effective interest rate method. Premium and discount is amortised for each individual item and is recognised in the Bank's statement of comprehensive income. Interest is calculated or recognised on a daily basis in the Bank's statement of comprehensive income.

x) Investments held for sale

Available-for-sale investments are non-derivative assets that cannot be classified in any other category of financial assets. All other available-for-sale investments are carried at fair value. Differences in the fair value are recognised directly in equity until the investment is sold or fully impaired.

d) Gold and other precious metals

The BNB as a central bank maintains particular volumes of gold as part of Bulgaria's international reserves. In compliance with the requirements of the Law on the BNB, the Bank may take any necessary action in connection with the acquisition, possession and sale of gross international reserves, including monetary gold. Consequently, monetary gold as part of international reserves may be immediately used by the BNB without further constraints which determines it as a monetary asset. Pursuant to the requirements of the 'General Provisions for Defining the Valuation Basis in the Financial Statements' to the IFRS and in the absence of a specific IFRS to determine the treatment of such a transaction, the Bank defines the recognition and valuation of the monetary gold as an asset reported at fair value through profit or loss as the most reliable and appropriate base for a subsequent valuation of this financial asset. Gold and other precious metals are measured at market value based on the London Bullion Market fixing in euro at the reporting date.

Monetary gold

Gold in standard form (monetary gold) is initially recognised at acquisition cost. Monetary gold and other gold instruments are valued daily at the latest market value posted on the wholesale gold market in London, the UK. Unrealised gains and losses from revaluation of monetary gold and other gold instruments of the Bank are recognised in the income statement.

e) Equity investments

For the purposes of measuring the equity investments subsequent to initial recognition, they are classified as held-for-trading financial assets and measured at fair value.

Details of investments held by the Bank are set out in note 14.

f) Property, plant, equipment and intangible assets

The Bank presents land, buildings and other groups of fixed tangible assets in the statements of financial position at a revalued amount as per the alternative approach allowed in IAS 16 Property, Plant and Equipment.

The Bank recognises an intangible asset if it meets the criteria for recognition under the International Financial Reporting Standards. Intangible assets are presented in the statement of financial position at acquisition cost, including paid duties, non-recoverable taxes, as well as direct costs of preparing the asset for its intended use, less accumulated amortisation and impairment losses.

Land and buildings are measured at fair value which is regularly assessed by professionally qualified valuers. The revaluation of property is done asset by asset, and any accumulated depreciation at the revaluation date is derecognised against the gross carrying amount of the asset, and the net amount restated to the revalued amount of the asset. When the value of assets increases as a result of revaluation, the increase is reflected directly in other comprehensive income. When the value of assets decreases as a result of revaluation, the decrease is recognised by decreasing the revaluation reserve in equity, and in case of a shortage, the difference is recognised as an expense in the statement of comprehensive income.

i) Subsequent costs

The separately accounted for costs incurred to replace a component of an item of property, plant and equipment are capitalised. All other subsequent costs are capitalised only when future economic benefits embodied in the item of property, plant and equipment will flow to the Bank. All other costs are recognised in profit or loss as incurred.

ii) Depreciation and amortisation

The depreciation/amortisation shall be carried out from the day of initial asset recognition according to the straight-line method for the expected useful life. Land is not depreciated. The Governing Council of the BNB approves the annual depreciation rates presented below:

(per cent)

Buildings	2 – 4
Plant & equipment	3 – 15
Computers	30 – 33.3
Fixtures and fittings	15 – 20
Motor vehicles	8 – 25
Intangible fixed assets	20 – 25

Expenditures incurred for the acquisition of property, plant, equipment and intangible assets are not depreciated until they are brought into use.

iii) Recoverable amount of assets

The recoverable amount of the Bank's fixed assets is the higher of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using the Bank's incremental borrowing rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

iv) Reversals of impairment

Impairment losses of tangible fixed assets are reversed when a change occurs in the estimates used to determine the recoverable amount and may be reversed only up to that carrying amount of the asset at which it would be assessed after deducting any accumulated amortisation if impairment losses were not recognised.

v) Derecognition and sales

An item of property, plant or equipment is derecognised from the Bank's balance sheet at the time of its sale or when the asset is definitively disposed of and no other economic benefits are expected. Gains or losses arising from derecognition or disposal of tangible fixed assets are determined as the difference between the sale proceeds and the carrying amount of the asset and are recognised as income or expense in the statement of comprehensive income. Tangible fixed assets withdrawn from active use and held for sale are reported at their carrying amount at the date when the asset is retired from active use.

vi) Inventories

Inventories are assets held by the Bank that will be used in the core business, in the process of providing services. Inventories are reported in the Bank's balance sheet at a historical price that includes the sum of all purchase costs and costs associated with their delivery to their current location and condition. Purchase costs include a purchase price at invoice, import duties, non-refundable taxes and excise duties. Delivery costs include shipping and handling costs. Write-off of inventories is carried out using the weighted average method.

In the event of a fall in market prices, in the case of physical damage to inventories, when the products are aged, the value of inventories is adjusted, *i.e.* they are valued at the lower net realisable value.

At the end of the reporting period, the net realisable value of inventories is valued, and if it is lower than the supply, the difference is related to current expenses. For each subsequent reporting period, a new estimate of net realisable value is made. If during the relevant reporting period, there are conditions for an increase in the value of the inventory, its recovery is up to the amount that it had before the decrease. This reversal of the book value is accounted for as an increase in inventories and as other current income.

g) Foreign exchange

Gains and losses arising in foreign currencies are translated to BGN at the official rates of exchange on the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the official exchange rate of the Bank on that day. Foreign currency gains and losses resulting from the revaluation of monetary assets and liabilities are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Outstanding forward contracts in foreign currency are marked to market. The gains and losses on revaluation of outstanding forward contacts are recognised in profit or loss.

The exchange rates of the major foreign currencies as of 30 June 2020 and 31 December 2019 are as follows:

Currency	30 June 2020	31 December 2019
US dollar	1 : BGN 1.74659	1 : BGN 1.74099
Euro	1 : BGN 1.95583	1 : BGN 1.95583
Special Drawing Rights	1 : BGN 2.40278	1 : BGN 2.40749
Gold	1 troy ounce: BGN 3084.97	1 troy ounce: BGN 2656.13

h) Taxation

The Bank is not subject to income tax from its core activities. Income tax from subsidiaries for the period comprises current tax and deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the period, using the effective tax rate or the current one at the reporting date. Deferred tax is derived using the balance sheet liability method on all temporary differences between the amounts used for taxation purposes and the carrying amounts of assets and liabilities.

The deferred tax is calculated using tax rates which are expected to be applied for the period of asset realisation or liability settlement. The effect on the deferred tax from changes in the tax rates is recorded in the statement of comprehensive income up to the amount already charged or reported directly as other comprehensive income.

A deferred tax asset is recognised to the extent that is probable that future taxable profits will be available against which the unused tax losses or tax credit can be utilised. The deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

i) Provisions

Provisions related to ongoing legal cases or other obligations are reported when the Bank has assumed a legal or constructive obligation as a result of some past events, the repayment of which is likely to be associated with lost economic benefits. Provisions are charged only when the Bank is able to reliably determine the size of future outgoing cash flows.

j) Profit distribution policy of the Bank

The Bank's policy of distribution of profit from banking operations is defined in the Law on the BNB. Internal rules for preparation of financial statements and accounting policies were adopted upon a decision of the Governing Council effective from 1 January 2007, which are in compliance with Article 36, paragraphs 1 and 2 of the Law on the BNB. According to these rules, the Bank allocates to special reserves unrealised net gains and losses arising from revaluation of assets and liabilities denominated in foreign currency or gold. According to the requirements of Article 8, paragraph 2 of the Law on the BNB, the Bank sets aside 25 per cent of the excess of its annual revenue over its annual expenditure into a Reserve Fund. According to Article 8, paragraph 3 of the Law on the BNB, after the allocation to the Reserve Fund, the Bank may allocate reserves to cover market risk losses and other reserves upon a decision of the Governing Council. Subsequent to the allocation of reserves as required by the Law on the BNB, the Bank stipulates the remainder to be paid into the State Budget. The distribution of excess of revenue over expenditure is set out in note 23.

k) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand, current accounts and time deposits with maturities of less than three months.

l) Employee benefits

The Bank has the obligation to pay certain amounts to each employee who retires in accordance with the requirements of Article 222, § 3 of the Labour Code in Bulgaria. According to these Labour Code requirements, on termination of the employment contract of an employee who has become entitled to retirement, the employer is obliged to pay him/her compensation amounting to twice his/her gross monthly salary. If, at the date of retirement, the employee has been employed by the Bank for ten or more years, the amount of the compensation is six gross monthly salaries. As at the date of the statement of financial position, the Bank's Management estimates the approximate amount of the potential expenditures for all employees based on an actuarial report using the projected unit credit method. The estimated amount of the obligation and the main assumptions, on the base of which the estimation of the obligation has been made, are disclosed in the Financial Statements, note 10.

Termination benefits

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, they are then discounted to their present value.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under a short-term cash bonus or profit-sharing plans if the Bank has a present constructive obligation to pay this amount as a result of past services provided by the employee, and the obligation can be estimated reliably. The Bank recognises as a liability the undiscounted amount of the estimated costs related to annual leave which are expected to be paid in exchange for the employee's service for the period completed.

m) Effect of applying IFRS 9 Financial Instruments

IFRS 9 introduces a new approach to the classification of financial assets based on contractual cash flow characteristics and the Bank's business model for managing them. All recognised financial assets within the IFRS 9 range must be subsequently carried at amortised cost or fair value, depending on the business model and the characteristics of their cash flows. Initially, the Bank recognises financial assets and liabilities at the acquisition price, which is the fair price paid at acquisition. For the purposes of subsequent measuring of financial assets, the BNB uses the following business models:

- financial assets held to collect contractual cash flows;
- financial assets held to collect contractual cash flows and for sale;

The business model is evaluated on the date of initial application of the standard. The evaluation whether cash flows of debt instruments consist only of the principal and interest is based on the facts and circumstances of the initial recognition of assets.

Accounting for financial liabilities remains substantially unchanged compared with that in IAS 39, except for the treatment of differences arising from changes in own credit risk for financial instruments designated to account for at fair value in profit or loss. Under the IFRS 9, these differences are recognised in other comprehensive income without subsequent reclassification in the statement of comprehensive income. As of the date of present statements, the Bank does not account financial liabilities in this category.

Regarding the Bulgarian National Bank, adoption of IFRS 9 requirements with respect to classification and subsequent reporting of its financial instruments did not result in significant changes and therefore had no material impact on the statement of financial position and/or capital.

Financial assets measured at fair value through profit or loss until the implementation of IFRS 9 up to 31 December 2017 continue to be reported in a similar manner. Debt instruments presented as available-for-sale under IAS 39 retain their fair value in other comprehensive income as the business model underlying them aims to provide ongoing liquidity by holding them to collect contractual cash flows and for sale, where necessary.

For equity instruments reported as available-for-sale, the Bank chose the fair value accounting option in other comprehensive income at the initial application of the standard as it intends to hold them in the near future. Equity instruments reported at acquisition cost under IAS 39 were measured at fair value upon initial application of IFRS 9.

Expected credit losses on financial instruments as a result of the application of IFRS 9 are calculated based on the methodology adopted by the BNB Governing Council. The Bank reports a credit loss on financial assets reported in the amortised cost category which as at 30 June 2020 amounted to BGN 6585 thousand.

n) Effect of applying IFRS 16 Leases

IFRS 16 Leases is effective from 1 January 2019. The Bank applies IFRS 16 for the first time. Adoption of IFRS 16 requirements had no material impact on the Bank's financial position or performance.

IFRS 16 Leases was issued in January 2016 and replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to report all leases under the same balance sheet model similar to accounting for financial leasing according to IAS 17.

The Bank has adopted IFRS 16 under the modified retrospective method of application with an effective date of 1 January 2019. According to this method, the standard is applied retrospectively, since the cumulative effect of its initial application is recognised at the date of initial application.

The Bank applies the short-term lease recognition exemption to its short-term leases of plant and equipment (leases that have a lease term of 12 months or less from the start date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment, which is considered to be of low value. Lease payments for short-term leases and leases of low-value assets are recognised as expenses on a linear basis over the term of the lease.

o) New standards and clarifications issued but not yet effective and not early adopted

Already published standards which are not yet in effect or have not been previously applied by the Bank at the date of these financial statements are briefly presented below. It is disclosed how reasonably they are expected to impact disclosures, the financial position or performance when the Bank adopts these standards for the first time. It is expected to happen when they come into force.

IFRS 17: Insurance Contracts, Including Amendments to IFRS 17

On 25 June 2020 the IASB issued Amendments to IFRS 17 together with Amendments to IFRS 4, which allow insurers meeting the requirements to continue applying IFRS 9 along with IFRS 17. The amendments are effective for reporting periods beginning on or after 1 January 2023 with earlier application permitted and should be applied retrospectively. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully reflects these contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of the entities. The standard has not been yet endorsed by the EU. The standard is not applicable to the Bank.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current

The latest amendments to IAS 1: Classification of Liabilities as Current or Non-current, issued by the IASB on 23 January 2020 clarify only the presentation of liabilities in the statement of financial position and not the amount or timing of recognition of any asset, liability income or expenses or the information that entities disclose about these items. They require to:

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period;
- clarify that the classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and

- make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

On 4 May 2020 the IASB published an exposure draft Classification of Liabilities as Current or Non-current – Deferral of Effective Date (Proposed Amendment to IAS 1) proposing to defer the effective date of the amendments to IAS 1 by one year and to apply to annual reporting periods beginning on or after 1 January 2023. The standard has not been yet endorsed by the EU. The Bank will analyse and assess the impact of the amendments on its financial position or performance.

Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; Annual Improvements 2018–2020

On 14 May 2020 the IASB published amendments to:

- IFRS 3 Business Combinations: the reference to the Conceptual Framework is updated;
- IAS 16 Property, Plant and Equipment: the amendment relates to actions before the intended use regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management;
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets: an amendment regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous;
- Annual Improvements to IFRSs 2018–2020 Cycle: the pronouncement contains amendments to four International Financial Reporting Standards (IFRSs) as a result of the annual improvements project.

The amendments, which are all effective for annual periods beginning on or after 1 January 2022, have not yet been endorsed by the EU. The Bank will analyse and assess the impact of the amendments on its financial position or performance.

Amendment to IFRS 16 Leases – COVID-19-Related Rent Concessions

On 28 May 2020 the IASB issued an amendment to IFRS 16 Leases to help lessees accounting for rent concessions arising as a result of the COVID-19 pandemic. The purpose of the amendment is to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendment covers lease payments originally due in 2020 and in the period to June 2021 to capture rent concessions granted now and lasting for 12 months.

The amendment, which is effective for reporting periods beginning on or after 1 June 2020, has not yet been endorsed by the EU. The Bank will analyse and assess the impact of the amendment on its financial position or performance.

Amendments to IFRS 4 Insurance Contracts – Deferral of IFRS 9

On 25 June 2020 the IASB published Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) to defer the fixed expiry date of the amendment to annual periods beginning on or after 1 January 2021.

These amendments have not yet been endorsed by the EU and are not applicable to the Bank.

6. Financial Risk Management Policy Disclosure

a) Introduction and overview

Introduction to the financial risk management policy

The Bank is exposed to the following types of risk in relation to the financial instruments operations:

- credit risk;
- liquidity risk;
- market risk;
- operational risk.

This note provides information on the Bank's goals, exposures to each of the above types of risk and the policies and processes for risk measurement and management.

General provisions of risk management

In the process of management of the gross international reserves, the Bank aims to achieve high security and liquidity of the assets, first, and then to maximise returns in the situation of the current global financial markets. Its investment strategy depends mainly on the specific functions of the Bank operating under a currency board arrangement and in full compliance with the requirements of the Law on the BNB.

The major portion of BNB's international reserves is invested in assets of comparatively low credit risk, such as discount and coupon securities issued by highly rated issuers (governments, government agencies or supranational financial institutions), and short-term foreign currency or gold deposits placed with first-rate foreign banks. The remaining portion is held in SDRs on BNB accounts with the IMF and in monetary gold kept in the Bank's vaults.

A specialised international reserves risk management unit is responsible for preparing and submitting for approval a draft of strategic asset structuring, setting up benchmark for the international reserves and investment management limits. On a quarterly basis, an overall review is made of the changes in the market conditions, the amount and structure of international reserves, and if required, the investment limits and model portfolios (benchmarks) are updated. The monitoring of underlying limits, rules, and procedures is undertaken on a daily basis. Reports are regularly prepared for both the needs of international reserves operating management and providing updated information to the Bank's management.

All approved financial instruments and asset classes, in which the BNB may invest, are specified in internal documents. The documents define the main portfolios and the respective model portfolios (benchmarks), all limits for credit, interest rate, currency and operational risk, and give a list of the foreign financial institutions which are counterparties of the Bank.

The international reserves management is governed by a business procedure and rules of behaviour regulating the performance of the functions and tasks of the main structural units involved in the process.

b) Credit risk

The BNB is exposed to credit risk through its trading operations and investment activities and in cases where it acts as an intermediary on behalf of the government or other public institutions. The Bank assumes credit risk also in operations of purchases and sales of foreign currency with banks. In general, this credit risk is associated with the probability of insolvency of a BNB's counterparty or the insolvency of an issuer, in whose debt instruments the Bank has invested its own funds. The credit risk in managing BNB's gross international reserves is assessed in line with the requirements in Article 28, paragraph 3 of the Law on the BNB. According to these requirements, the BNB may invest international reserves in debt instruments issued by foreign governments, central banks, other foreign financial institutions or international financial organisations whose debts are rated with one of the top two grades by two internationally recognised credit rating agencies and are payable in freely convertible currency in line with an internally developed methodology as per the requirements of Article 28 of the LBNB.

According to these requirements, the approved types of financial instruments for investment of funds in managing the international reserves are as follows:

- investment programmes with central banks;
- automatic borrowings/lending of securities with the main depository;
- tri-party repo agreements with specially designated counterparties of the BNB carried out through the Bank's main depository as a third party;
- deposits in foreign currency (time deposits and funds on current accounts) with BNB counterparties, including central banks or supranational financial institutions;
- deposits in gold (time deposits and funds on current accounts) with BNB counterparties, including central banks or supranational financial institutions;

- commercial securities (of up to one year term to maturity), issued by governments or government guaranteed institutions, supranational financial institutions, specialised financial agencies, banks, and other financial institutions;
- bonds issued by governments or government guaranteed institutions, supranational financial institutions, specialised financial agencies, banks and other financial institutions – issuers of covered bonds. All bonds must be with a one-off payment of their face value on the maturity date and without any embedded option;
- purchases and sales of foreign currency on BNB account with a value date of up to two business days;
- purchases and sales of banknotes in foreign currency (euro) and their subsequent storage with investment goals and for the purposes of performance of the currency board functions.

Two basic types of limits are set which are calculated on the basis of the market value of foreign currency reserves: (i) a maximum or minimum limit on the weight of each asset class in the Issue Department balance sheet, and (ii) an individual maximum acceptable exposure of the BNB to a country, including an individual exposure to an issuer/counterparty (concentration limit).

c) **Liquidity risk**

Liquidity risk arises in the funding of the Bank's core activities and in the management of positions. It is primarily manifested in two aspects: the first aspect is risk for the Bank of being unable to meet its obligations when due and the second aspect comprises the risk of its being unable to sell an asset on international markets at a fair value within an appropriate time frame in compliance with the respective market conventions.

The BNB is striving to maintain a balance between the maturity of attracted funds and that of assets by means of investments in financial instruments of a different maturity structure. The instruments for attracting funds, which are provided to customers on the liability side, are primarily deposit/investment accounts and settlement accounts. The Bank maintains a minimum level of liquidity by type of currency on a daily basis to ensure all BNB payments in foreign currency. To better manage the risk arising from liquidation of positions in financial instruments, the latter are grouped by liquidity rank subject to the level of difficulty (*i.e.* discount from the fair value), at which they could be sold on the market in time of crisis. Limits are set for the different types of financial instruments based on the liquidity ranks.

As part of its overall liquidity risk management strategy, the Bank has defined requirements for the management of a portfolio of liquid assets denominated in euro and for maintaining assets denominated in other currencies for the purposes of meeting its cash inflows and outflows.

The Bank's financial assets and liabilities, analysed by residual term to maturity from the date of the statement of financial position to the date of any subsequent agreement or contractual maturity, are as follows:

(BGN'000)

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity	Total
As of 30 June 2020							
Financial assets							
Cash and deposits in foreign currency	27,485,261	-	-	-	-	(6,585)	27,478,676
incl. effect of applying IFRS 9	-	-	-	-	-	(6,585)	-
Gold, instruments in gold, and other precious metals	4,100,868	-	-	-	-	-	4,100,868
incl. effect of applying IFRS 9	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	3,847,631	3,328,311	7,180,045	7,967,274	752,996	-	23,076,257
Financial assets at fair value in other comprehensive income	235,776	-	-	-	-	1,977,672	2,213,448
Other assets	35,237	1,221	12,140	-	-	-	48,598
Total financial assets	**35,704,773**	**3,329,532**	**7,192,185**	**7,967,274**	**752,996**	**1,971,087**	**56,917,847**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	18,867,711	18,867,711
Liabilities to banks and other financial institutions	19,048,665	-	-	-	-	-	19,048,665
Liabilities to government institutions and other borrowings	10,347,642	-	-	-	-	-	10,347,642
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	3,385,948	3,385,948
Total financial liabilities	**29,396,307**	**-**	**-**	**-**	**-**	**22,253,659**	**51,649,966**
Asset-liability maturity mismatch	**6,308,466**	**3,329,532**	**7,192,185**	**7,967,274**	**752,996**	**(20,282,572)**	**5,267,881**
As of 31 December 2019							
Financial assets							
Cash and deposits in foreign currency	14,551,307	-	-	-	-	(5,258)	14,546,049
incl. effect of applying IFRS 9	-	-	-	-	-	(5,258)	-
Gold, instruments in gold, and other precious metals	3,536,393	-	-	-	-	(703)	3,535,690
incl. effect of applying IFRS 9	-	-	-	-	-	(703)	-
Financial assets at fair value through profit or loss	2,272,836	1,807,443	10,718,201	15,470,000	65,223	-	30,333,703
Financial assets at fair value in other comprehensive income	236,239	-	-	-	-	1,979,662	2,215,901
Other assets	38,428	15,564	128	-	-	-	54,120
Total financial assets	**20,635,203**	**1,823,007**	**10,718,329**	**15,470,000**	**65,223**	**1,973,701**	**50,685,463**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	19,104,920	19,104,920
Liabilities to banks and other financial institutions	14,462,625	-	-	-	-	-	14,462,625
Liabilities to government institutions and other borrowings	8,853,715	-	-	-	-	-	8,853,715
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	3,394,229	3,394,229
Total financial liabilities	**23,316,340**	**-**	**-**	**-**	**-**	**22,499,149**	**45,815,489**
Asset-liability maturity mismatch	**(2,681,137)**	**1,823,007**	**10,718,329**	**15,470,000**	**65,223**	**(20,525,448)**	**4,869,974**

The outstanding contractual maturities of the Bank's financial liabilities are as follows:

(BGN'000)

	Book value	Gross nominal outgoing cash flow	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
As of 30 June 2020							
Banknotes and coins in circulation	18,867,711	18,867,711	-	-	-	-	18,867,711
Liabilities to banks and other financial institutions	19,048,665	19,048,665	19,048,665	-	-	-	-
Liabilities to government institutions and other borrowings	10,347,642	10,347,642	10,347,642	-	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	3,385,948	3,385,948	-	-	-	-	3,385,948
	51,649,966	**51,649,966**	**29,396,307**	-	-	-	**22,253,659**
As of 31 December 2019							
Banknotes and coins in circulation	19,104,920	19,104,920	-	-	-	-	19,104,920
Liabilities to banks and other financial institutions	14,462,625	14,462,625	14,462,625	-	-	-	-
Liabilities to government institutions and other borrowings	8,853,715	8,853,715	8,853,715	-	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	3,394,229	3,394,229	-	-	-	-	3,394,229
	45,815,489	**45,815,489**	**23,316,340**	-	-	-	**22,499,149**

d) Market risk

Market risk

All financial instruments are subject to market risk, *i.e.* the risk of impairment as a result of changes in the market conditions. The instruments are evaluated on a daily basis at fair market value which best reflects current financial market conditions for the respective type of financial instruments. The Bank manages its portfolios in response to changing market conditions and to changes in the liability structure of Issue Department balance sheet. Market risk exposure is managed in accordance with the risk limits specified in the document Investment Limits and Benchmarks for the Management of the Gross International Reserves.

The table below presents one important measure of market risk, *i.e.* Value at Risk (VaR). VaR is an indicator of the maximum loss over a certain period of time (holding period) and with a certain probability (called a confidence level or confidence interval). The VaR used in this report is based on a 95 per cent confidence level and a one-day holding period.

To calculate the total risk, currency risk and interest rate risk, the empiric distributions, derived from time series of 30 daily observations of total income, currency income and interest income of assets, respectively, have been used. The correlation between the currency and interest rate risk is also presented. For each of the parameters, the value as of the last date for the period, the average value for the whole period and the minimum and maximum values have been calculated.

(BGN'000)

	As of 30 June 2020	Average	Maximum	Minimum
Currency risk	(46,845)	(65,872)	(101,969)	(28,928)
Interest rate risk	(4,260)	(12,395)	(32,922)	(2,398)
Correlation (per cent)	0.34	0.12	0.64	(0.39)
Overall risk	**(46,888)**	**(74,105)**	**(130,509)**	**(29,392)**
	As of 31 December 2019	**Average**	**Maximum**	**Minimum**
Currency risk	(23,316)	(24,083)	(39,695)	(6,305)
Interest rate risk	(5,564)	(4,214)	(11,728)	(1,032)
Correlation (per cent)	0.50	0.46	0.87	(0.13)
Overall risk	**(28,656)**	**(26,116)**	**(48,405)**	**(9,029)**

Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations, which impact the prices of interest-earning assets (including investments) and interest-bearing liabilities. Modified duration is used as a key measurement for absolute interest rate risk. Modified duration measures the effect of the change in the market value of an asset (liability) in percentage points in response to a 1 basis point (1/100th of 1 per cent) change in the interest rate levels. In addition, portfolios' technical parameters such as protuberance (convexity), duration in a fixed point of the yield curve, *etc.* are monitored on a daily basis. For each portfolio held by the BNB, the interest rate risk is limited by a model portfolio (benchmark) and by the investment limits for a maximum deviation of the interest rate from that of the respective benchmark. The relative interest risk limit of investment portfolios has been set on the basis of the risk measure *i.e.* relative yield volatility measure.

Assets and liabilities with floating interest rates involve the risk of changes in the base which serves to determine the interest rates.

(BGN'000)

	Total	Floating rate instruments	Fixed rate instruments		
			Up to 1 month	From 1 to 3 months	Over 3 months
As of 30 June 2020					
Interest-earning assets					
Cash and deposits in foreign currency	23,057,921	17,161,216	5,896,705	-	-
Gold, instruments in gold, and other precious metals	-	-	-	-	-
Financial assets at fair value through profit or loss	23,154,274	393,001	3,793,922	3,347,064	15,620,287
Financial assets at fair value in other comprehensive income	235,776	-	235,776	-	-
Other interest-earning assets	48,598	35,237	-	1,221	12,140
Total	**46,496,569**	**17,589,454**	**9,926,403**	**3,348,285**	**15,632,427**
Interest-bearing liabilities					
Liabilities to banks and other financial institutions	19,048,665	-	19,048,665	-	-
Liabilities to government institutions and other borrowings	-	-	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	1,467,800	1,467,800	-	-	-
Total	**20,516,465**	**1,467,800**	**19,048,665**	-	-
Interest-bearing asset/liability gap	**25,980,104**	**16,121,654**	**(9,122,262)**	**3,348,285**	**15,632,427**
As of 31 December 2019					
Interest-earning assets					
Cash and deposits in foreign currency	12,490,270	2,267,045	10,223,225	-	-
Gold, instruments in gold, and other precious metals	2,094,291	-	2,094,291	-	-
Financial assets at fair value through profit or loss	30,502,301	392,770	2,289,696	1,813,407	26,006,428
Financial assets at fair value in other comprehensive income	236,238	-	236,238	-	-
Other interest-earning assets	54,120	38,428	-	15,564	128
Total	**45,377,220**	**2,698,243**	**14,843,450**	**1,828,971**	**26,006,556**
Interest-bearing liabilities					
Liabilities to banks and other financial institutions	14,462,625	-	14,462,625	-	-
Liabilities to government institutions and other borrowings	5,814,041	5,814,041	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	1,470,677	1,470,677	-	-	-
Total	**21,747,343**	**7,284,718**	**14,462,625**	-	-
Interest-bearing asset/liability gap	**23,629,877**	**(4,586,475)**	**380,825**	**1,828,971**	**26,006,556**

For managing interest rate risk and the band of interest rate changes, the sensitivity of financial assets and liabilities to various standard and non-standard interest rate movement scenarios are monitored.

The standard scenarios include the following changes in yield curves: (i) a 100 basis points instant parallel increase; (ii) a 100 basis points instant parallel decrease; (iii) a 50 basis points parallel increase in the yield curves for a period of 12 months; and (iv) a 50 basis points parallel decrease in the yield curves also for a period of 12 months. The second two scenarios assume that the change in yields takes place at the beginning of the period, and over the one-year period the yield curve remains unchanged.

The analysis of the sensitivity of the Bank's assets (to first approximation) to changes in interest rates, assuming a constant spread of assets and liabilities and parallel shifts in the yield curves of the relevant assets, is as follows:

(BGN'000)

	100 b.p. intra-day instant parallel increase	100 b.p. intra-day instant parallel decrease	50 b.p. parallel increase in the beginning of the period	50 b.p. parallel decrease in the beginning of the period
As of 30 June 2020	(274,327)	274,327	(166,147)	(314,621)
As of 31 December 2019	(400,664)	400,664	(207,830)	(201,529)

Currency risk

For the Bank, a currency risk exists where there is a mismatch between the currency structure of assets and that of liabilities. The Bank is exposed to currency risk when entering into transactions in financial instruments denominated in foreign currencies other than the euro.

With the introduction of the currency board arrangement in Bulgaria and the fixing of the Bulgarian currency to the euro, the Bank's financial statements, prepared in Bulgarian levs, are affected by movements in the exchange rate of the lev against the currencies other than the euro.

To minimise currency risk, there is a limit to the mismatches between the currency structure of assets and that of liabilities. According to Article 31, paragraph 3 of the Law on the BNB, the total market value of assets in a foreign currency other than the euro, SDR and monetary gold, may not deviate by more than +/-2 per cent from the market value of the liabilities denominated in these currencies.

(BGN'000)

	30 June 2020	31 December 2019
Assets		
Bulgarian lev and euro	49,329,193	43,683,048
US dollar	81,847	79,635
Japanese yen	251	158
Pound sterling	327	294
SDR	3,651,930	3,660,357
Gold	4,049,588	3,457,041
Other	541	657
	57,113,677	**50,881,190**
Liabilities, capital and reserves		
Bulgarian lev and euro	53,487,650	47,245,649
US dollar	82,760	81,478
Japanese yen	1	1
Pound sterling	-	-
SDR	3,543,217	3,553,285
Other	49	777
	57,113,677	**50,881,190**
Net position		
Bulgarian lev and euro	(4,158,457)	(3,562,601)
US dollar	(913)	(1,843)
Japanese yen	250	157
Pound sterling	327	294
SDR	108,713	107,072
Gold	4,049,588	3,457,041
Other	492	(120)

e) **Using accounting judgements and assumptions**

The Governing Council of the BNB discusses the development, selection and disclosure of critical accounting policies and assumptions, as well as their application.

These disclosures supplement the notes to the financial risk management.

Management's major priorities in the next few years will still be to maintain monetary and financial system stability in the country, keep the Bank's stable liquidity position and improve continuously Bank's valuation methods and techniques, international reserves management and control on international financial markets.

1) Determination of fair values

The determination of fair values of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques described in the accounting policy. For financial instruments that trade infrequently and whose price is not transparent, the fair value is less objective and requires an expert's judgement depending on liquidity, concentration, market factors uncertainty, pricing assumptions, and other risks affecting the particular instrument.

2) Valuation of financial instruments

The Bank measures the fair value of financial instruments using the following hierarchy of methods:

- **Level 1**: quoted market price or closing price for positions for which there is a reliable market;
- **Level 2**: valuation techniques based on observable market information about the yield curve; This category of methods is used to measure debt securities for which there is no reliable market;
- **Level 3**: valuation techniques, where inputs on financial assets and liabilities are not based on observable market data.

The fair values of financial assets and liabilities traded in international financial markets for which there is available market information are based on market quotations or closing market prices. The use of observable market prices and information reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. The availability of actual market prices and information varies depending on products and markets and changes because of specific events and the general conditions of financial markets. The Bank determines the fair values of all other financial instruments for which there are no current market quotes by using a valuation technique based on a net present value. The net present value is computed by means of market yield curves and credit spreads, where necessary, for the relevant instrument. The purpose of the valuation techniques is to determine a fair value which reflects the price of the financial instrument on the reporting date.

The Bank has established a control framework with respect to the measurement of fair values. The fair values of financial instruments controls are set by a specialised risk analysis and control unit. Specific controls include: checking the actual price information; regular reviews of current valuation models, and, if necessary, development, approval and introduction of new valuation models; follow-up verification by means of analysis and comparison of data from various information sources, *etc.*

The table below analyses financial instruments reported at fair value using valuation models. The data does not include equity instruments reported at acquisition cost (note 14).

(BGN'000)

	Level 1 Quoted market prices on active markets	Level 2 Valuation techniques (using market data)	Total
30 June 2020			
Cash and deposits in foreign currency	27,478,676	-	27,478,676
incl. effect of applying IFRS 9	(6,585)	-	(6,585)
Gold, instruments in gold, and other precious metals	4,100,868	-	4,100,868
incl. effect of applying IFRS 9	-	-	-
Financial assets at fair value through profit or loss	21,137,542	1,938,715	23,076,257
Total	**52,717,086**	**1,938,715**	**54,655,801**
31 December 2019			
Cash and deposits in foreign currency	14,546,049	-	14,546,049
incl. effect of applying IFRS 9	(5,258)	-	(5,258)
Gold, instruments in gold, and other precious metals	3,535,690	-	3,535,690
incl. effect of applying IFRS 9	(703)	-	(703)
Financial assets at fair value through profit or loss	28,407,813	1,925,890	30,333,703
Total	**46,489,552**	**1,925,890**	**48,415,442**

Financial instruments not measured at fair value, but by applying a level of the fair value hierarchy where a fair value measurement is categorised, are analysed as follows:

(BGN'000)

	Level 1 Quoted market prices on active markets	Level 2 Observable inputs other than quoted prices	Total
30 June 2020			
Liabilities to banks and other financial institutions	-	19,048,665	19,048,665
Liabilities to government institutions and other borrowings	-	10,347,642	10,347,642
Borrowings against Bulgaria's participation in international financial institutions	-	3,385,948	3,385,948
Total	-	**32,782,255**	**32,782,255**
31 December 2019			
Liabilities to banks and other financial institutions	-	14,462,625	14,462,625
Liabilities to government institutions and other borrowings	-	8,853,715	8,853,715
Borrowings against Bulgaria's participation in international financial institutions	-	3,394,229	3,394,229
Total	-	**26,710,569**	**26,710,569**

The fair value of liabilities to banks and other financial institutions and of liabilities to government institutions is approximately equal to the reporting value as they are short-term.

The fair value of the liabilities for participation in international financial institutions is approximately equal to their reporting value as they are interest-free and of undefined maturity.

f) Maturity structure of assets and liabilities

The Bank's assets and liabilities, analysed by residual term to maturity from the date of the statement of financial position to the date of any subsequent agreement or contractual maturity, are as follows:

(BGN'000)

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity	Total
As of 30 June 2020							
Financial assets							
Cash and deposits in foreign currency	27,485,261	-	-	-	-	(6,585)	27,478,676
incl. effect of applying IFRS 9	-	-	-	-	-	(6,585)	-
Gold, instruments in gold, and other precious metals	4,100,868	-	-	-	-	-	4,100,868
incl. effect of applying IFRS 9	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	3,847,631	3,328,311	7,180,045	7,967,274	752,996	-	23,076,257
Financial assets at fair value in other comprehensive income	235,776	-	-	-	-	1,977,672	2,213,448
Tangible assets	-	-	-	-	-	153,347	153,347
Intangible assets	-	-	-	-	-	5,928	5,928
Other assets	35,237	1,221	12,140	-	-	36,555	85,153
Total financial assets	**35,704,773**	**3,329,532**	**7,192,185**	**7,967,274**	**752,996**	**2,166,917**	**57,113,677**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	18,867,711	18,867,711
Liabilities to banks and other financial institutions	19,048,665	-	-	-	-	-	19,048,665
Liabilities to government institutions and other borrowings	10,347,642	-	-	-	-	-	10,347,642
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	3,385,948	3,385,948
Other liabilities	-	-	-	-	-	180,136	180,136
Total financial liabilities	**29,396,307**	-	-	-	-	**22,433,795**	**51,830,102**
Asset-liability maturity mismatch	**6,308,466**	**3,329,532**	**7,192,185**	**7,967,274**	**752,996**	**(20,266,878)**	**5,283,575**
As of 31 December 2019							
Financial assets							
Cash and deposits in foreign currency	14,551,307	-	-	-	-	(5,258)	14,546,049
incl. effect of applying IFRS 9	-	-	-	-	-	(5,258)	-
Gold, instruments in gold, and other precious metals	3,536,393	-	-	-	-	(703)	3,535,690
incl. effect of applying IFRS 9	-	-	-	-	-	(703)	-
Financial assets at fair value through profit or loss	2,272,836	1,807,443	10,718,201	15,470,000	65,223	-	30,333,703
Financial assets at fair value in other comprehensive income	236,239	-	-	-	-	1,979,662	2,215,901
Tangible assets	-	-	-	-	-	150,771	150,771
Intangible assets	-	-	-	-	-	6,229	6,229
Other assets	38,428	15,564	128	-	-	38,727	92,847
Total financial assets	**20,635,203**	**1,823,007**	**10,718,329**	**15,470,000**	**65,223**	**2,169,428**	**50,881,190**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	19,104,920	19,104,920
Liabilities to banks and other financial institutions	14,462,625	-	-	-	-	-	14,462,625
Liabilities to government institutions and other borrowings	8,853,715	-	-	-	-	-	8,853,715
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	3,394,229	3,394,229
Other liabilities	-	-	-	-	-	265,627	265,627
Total financial liabilities	**23,316,340**	-	-	-	-	**22,764,776**	**46,081,116**
Asset-liability maturity mismatch	**(2,681,137)**	**1,823,007**	**10,718,329**	**15,470,000**	**65,223**	**(20,595,348)**	**4,800,074**

7. Interest Income and Expense

(BGN'000)

	30 June 2020	30 June 2019
Interest income		
– securities	81,722	96,175
– deposits	55,311	31,210
– other	2	34
	137,035	**127,419**
Interest expense		
– deposits	44,760	37,056
– other	-	-
	44,760	**37,056**

Interest income include interest paid of BGN 48,359 thousand on current accounts of BNB customers as a result of using negative reference interest rates (as of 30 June 2019: BGN 18,236 thousand).

In addition, BGN 3331 thousand interest received on the BNB account at the ECB in relation to TARGET2 are included (as of 30 June 2019: BGN 2121 thousand).

As of 30 June 2020 there are no interest expenses paid on government deposits in foreign currency (as of 30 June 2019: no interest expenses).

Interest expenses paid on deposits include interest paid of BGN 31,689 thousand on deposits and current accounts with foreign correspondent banks as a result of using negative reference interest rates (as of 30 June 2019: BGN 5441 thousand).

In addition, BGN 3223 thousand interest paid on the technical account of the national system component TARGET2-BNB at the ECB are included (as of 30 June 2019: BGN 1947 thousand).

Over the review period the interest rate on the Eurosystem's deposit facility set by the ECB Governing Council remained unchanged. The interest rate remained fixed at -0.50 per cent over the reporting period.

8. Net Gains/(Losses) from Financial Assets and Liabilities at Fair Value through Profit or Loss

(BGN'000)

	30 June 2020	30 June 2019
Net (losses) from operations in securities	(101,043)	(128,502)
Net (losses)/gains from operations in foreign currency	(470)	202
Net revaluation (losses) on futures	63	8
Net revaluation (losses)/gains on securities	(31,585)	80,233
Net revaluation gains on foreign currency assets and liabilities	(245)	362
Net revaluation gains on gold	533,620	303,224
Provisions for expected credit losses	(624)	(506)
	399,716	**255,021**

Net gains/(losses) from financial assets and liabilities carried at fair value through profit or loss as at 30 June 2020 were largely attributable to revaluation of gold of BGN 533,620 thousand due to an increase in the market price of gold from BGN 2656.13 *per* troy ounce as of 31 December 2019 to BGN 3084.97 as of 30 June 2020, or an increase by 16.14 per cent.

Net losses from operations in securities amounted to BGN 101,043 thousand. The main factor for net losses was the negative yields at which euro-denominated high credit quality bonds were traded, and the fact that usually these securities are purchased at premium above their face value, with the coupon yield being relatively low to offset the negative market revaluation of the securities.

During the reporting period the market yield on the securities remained at very low negative levels, and investment in securities and holding them to maturity presumed negative returns. In the short-term maturity sectors, into which the BNB primarily invested international reserves, represented by the German benchmark two-year bonds, market yields decreased by about 9 basis points which was relevant to a large extent to yields on securities of other issuers. The net effect from revaluation of securities resulting from all market movements was negative: BGN 31,585 thousand.

9. Other Operating Income

(BGN'000)

	30 June 2020	30 June 2019
Income from subsidiaries	15,141	15,051
Income from associates	719	1,958
Income from sale of coins	578	553
Dividend income	10,901	-
Other income, net	1,837	817
	29,176	**18,379**

In 2020 the BNB received dividend payments of BGN 77 thousand from its participation in Bulgarian Mint EAD and BGN 10,346 thousand from the BNB Printing Works AD which are eliminated for the purpose of the consolidated financial statement.

The other net income includes income from subsidiaries of BGN 15 thousand and income from reallocated remuneration from the ECB in relation to TARGET2 of BGN 443 thousand.

10. General Administrative Expenses

(BGN'000)

	30 June 2020	30 June 2019
Staff expenditure	23,892	23,205
Administrative expenses	35,175	25,091
Depreciation	6,640	6,981
Other expenses	2,502	2,481
	68,209	**57,758**

The number of employees of the Bank and its subsidiaries was 1140 as of 30 June 2020 (30 June 2019: 1151), including the BNB staff of 889 (30 June 2019: 887).

Staff expenditure includes salaries, social and health insurance costs charged under the local legislation provisions as of 30 June 2020, and social activities costs, respectively, for the BNB: BGN 20,170 thousand (30 June 2019: BGN 19,473 thousand), for the BNB Printing Works AD: BGN 2407 thousand (30 June 2019: BGN 2310 thousand), and for the Bulgarian Mint EAD: BGN 1315 thousand (30 June 2019: BGN 1422 thousand).

Staff expenditure includes remunerations paid to the BNB Governing Council members of BGN 655 thousand as of 30 June 2020 (30 June 2019: BGN 691 thousand), presented, as follows:

(BGN'000)

	30 June 2020	30 June 2019
Total gross remuneration expenses*	634	630
including bonuses up to established threshold in accordance with Article 23, paragraph 3 of the LBNB by BNB Governing Council's resolution of 30 July 2015**	158	186
Expenses on BNB Governing Council members' retirement/ termination benefits	21	61
Total gross remuneration paid to the BNB Governing Council members	**655**	**691**

* Remunerations are before taxation.
** http://www.bnb.bg/PressOffice/POPressReleases/POPRDate/PR_20150730_1_EN

With the adoption of the BNB budget for 2020, the amount of monthly remunerations of the Governing Council members was determined as follows: Governor: BGN 17,888; Deputy Governors: BGN 15,332; other Governing Council members: BGN 5111.

Based on actuarial calculations, the Bank accrued compensation liabilities for personnel on retirement and for unused paid annual leave at BGN 2567 thousand by the end of the current half year (30 June 2019: BGN 2257 thousand). The retirement and unused paid annual leave compensation for the Bank's subsidiaries as of 30 June 2020 was BGN 210 thousand (30 June 2019: BGN 200 thousand).

Staff retirement liabilities calculated on the basis of actuarial valuation and pursuant to IAS 19 'Employee Benefits' are presented as follows:

(BGN'000)

	30 June 2020	30 June 2019
Defined benefit liabilities as of 1 January	**3,684**	**3,311**
Plan benefits paid	(125)	(196)
Current service cost	231	220
Interest expense	5	8
Remeasurements	-	-
Actuarial (gain)/loss arising from experience adjustment	211	203
Actuarial (gain) arising from change in demographic assumptions	-	-
Actuarial loss arising from change in financial assumptions	(1)	63
Actuarial loss recognised in expenses	1	-
Defined benefit liabilities as at 30 June	**4,006**	**3,609**

Costs recognised in profit or loss

(BGN'000)

	30 June 2020	30 June 2019
Current service costs	231	220
Interest costs	5	8
Actuarial loss	-	-
Remeasurements	1	-
Total	**237**	**228**

Actuarial assumptions

The key actuarial assumptions as at the Financial Statements date are the following (weighted average values):

(per cent)

	30 June 2020	30 June 2019
Discount interest rate as at 30 June	0.23	0.22
Future salary growth	4.50	4.50

Distribution of BNB staff liabilities (subsidiaries excluded) by residual term	30 June 2020	30 June 2019
Up to 1 year	555	519
From 1 to 3 years	445	431
From 3 to 5 years	384	291
From 5 to 10 years	600	525
Over ten years	1,162	940
Total	**3,146**	**2,706**

Administrative expenses include the BNB's currency circulation expenses of BGN 20,686 thousand as of 30 June 2020 (30 June 2019: BGN 9013 thousand).

11. Cash and Deposits in Foreign Currency

(BGN'000)

	30 June 2020	31 December 2019
Cash in foreign currency	4,434,123	2,077,206
Current accounts in other banks	17,133,246	2,267,233
incl. effect of applying IFRS 9	(3,513)	(34)
Deposits in foreign currency	5,911,307	10,201,610
incl. effect of applying IFRS 9	(3,072)	(5,224)
	27,478,676	**14,546,049**

Cash and deposits in foreign currency with correspondents are disclosed as follows:

(BGN'000)

	30 June 2020	31 December 2019
Euro area residents		
In EUR	18,605,593	7,095,125
incl. effect of applying IFRS 9	(4,820)	(3,390)
In other currencies	1	-
incl. effect of applying IFRS 9	-	-
	18,605,594	**7,095,125**
Non-euro area residents		
In EUR	7,385,849	5,891,877
incl. effect of applying IFRS 9	(1,763)	(1,838)
In other currencies	1,487,233	1,559,047
incl. effect of applying IFRS 9	(2)	(30)
	8,873,082	**7,450,924**
	27,478,676	**14,546,049**

Time deposits in foreign currency with correspondents with counterparty's credit rating graded by at least two of the six internationally recognised credit rating agencies – Standard&Poor's, Fitch Ratings, Moody's, DBRS, R&I and JCRA – are disclosed as follows:

(BGN'000)

	Counterparty short-term credit rating	30 June 2020	31 December 2019
Investment graded deposits by the counterparty's credit rating	*A-1+*	4,335,478	1,172,338
	incl. effect of applying IFRS 9	(2,593)	(252)
	A-1	1,556,655	9,028,464
	incl. effect of applying IFRS 9	(479)	(4,972)
		5,892,133	**10,200,802**

The disclosure by credit rating does not include demand deposits with external managers.

The BNB maximum exposure to credit risk is equivalent to the book value of cash on current accounts and deposits.

12. Gold, Instruments in Gold, and Other Precious Metals

	30 June 2020		31 December 2019	
	'000 troy ounces	BGN'000	'000 troy ounces	BGN'000
Gold bullion in standard form	513	1,582,722	513	1,362,709
Gold deposits in standard form	800	2,466,866	788	2,093,588
incl. effect of applying IFRS 9		-		(703)
Gold in other form	16	48,734	16	41,959
Other precious metals		2,546		37,434
		4,100,868		**3,535,690**

Gold in standard form includes gold held for safekeeping with a depository and deposits. Deposits in gold are held with banks whose liabilities are rated with one of the two highest ratings given by two internationally recognised rating agencies.

Gold in other form includes commemorative gold coins of BGN 48,734 thousand.

Other precious metals include silver commemorative coins of BGN 411 thousand and platinum commemorative coins of BGN 2135 thousand.

As a result of the completion of a financial swap transaction with the Bank for International Settlements, Basel, the gold deposits in standard form item increased by 11,113.6 troy ounces and the other precious metals items decreased by the revaluation of scrap silver coins at market prices amounting to BGN 34,459 thousand, allocated in a revaluation reserve.

13. Financial Assets at Fair Value through Profit and Loss

(BGN'000)

Securities at fair value through profit or loss	30 June 2020	31 December 2019
Foreign treasury bills, notes and bonds	23,076,257	30,333,703
	23,076,257	**30,333,703**

Securities comprise both coupon and discount securities denominated in EUR. The coupon interest of the EUR-denominated securities was 0.97 per cent as at 30 June 2020 (31 December 2019: 0.74 per cent).

Similar to 31 December 2019, as at 30 June 2020 there were no securities pledged as collateral on futures transactions.

The securities issued by foreign governments and other issuers or relevant issuers with credit rating graded by at least two of the six internationally recognised credit rating agencies – Standard&Poor's, Fitch Ratings, Moody's, DBRS, R&I and JCRA – are disclosed as follows:

(BGN'000)

	Issue/issuer credit rating	30 June 2020	31 December 2019
Investment graded securities by the issue/issuer credit rating	*AAA*	20,556,761	28,013,765
	AA+	1,524,751	224,223
	AA	994,745	2,033,570
	AA-	-	4,091
	A+	-	54,499
	A	-	3,555
		23,076,257	**30,333,703**

14. Financial Assets at Fair Value in Other Comprehensive Income

(BGN'000)

	30 June 2020	31 December 2019
Republic of Bulgaria's quota in the IMF	2,153,612	2,157,833
Equity investments in international financial institutions	31,917	30,868
Investments in associates	27,919	27,200
	2,213,448	**2,215,901**

The Republic of Bulgaria's quota in the IMF is SDR 896,300 thousand (31 December 2019: SDR 896,300 thousand). BGN 235,776 thousand of the Republic of Bulgaria's quota in the IMF represents the reserve tranche held with the IMF (31 December 2019: BGN 236,238 thousand). The IMF pays remuneration (interest) to those members who have a remunerated reserve tranche position, at an average rate of 0.31 per cent (31 December 2019: 0.99 per cent); the lowest interest rate is 0.047 per cent and the highest is 0.748 per cent.

Equity investments in international financial institutions include the equity investment in the Bank for International Settlements (BIS), and 25 per cent of the equity investment in the BIS is paid up. As of 30 June 2020 the current value of SDR 10,000 thousand shares amounted to BGN 24,075 thousand as of 31 December 2019 it was BGN 24,075 thousand (ref. note 28). The capital subscribed, but not paid-in has an option to be paid in within three months upon a decision of the BIS Board of Governors.

Equity investments in international financial institutions do not exceed 10 per cent of the subscribed share capital of the respective institution.

Investments in international financial institutions also include BNB's participation in the ECB. As of 1 January 2007 (when the Republic of Bulgaria joined the EU), the Bulgarian National Bank has a share in the ECB capital. As at 30 June 2020 the amount of the BNB paid-up share in the ECB capital is EUR 3991 thousand or BGN 7806 thousand.

Pursuant to Article 28 of the Statute of the ESCB and the ECB, only ESCB NCBs are entitled to participate in the ECB capital. Capital subscription follows the requirements and the key set forth in Article 29 of the Statute of the ESCB and ECB, *i.e.* the share of each NCB in the ECB capital is determined in percentage and corresponds to the share of the respective Member State in the EU's total population and GDP (in equal proportions). The percentage is adjusted every five years and whenever a new Member State joins the EU. The latest adjustment (eighth) was on 1 February 2020 and related to Brexit. As of 30 June 2020, the BNB's capital share in the ECB subscribed capital was 0.9832 per cent, which corresponded to EUR 106,431.5 thousand.

As a non-euro area NCB, the BNB is required to pay up the minimum percentage of its subscribed capital in the ECB, which is pursuant to Article 47 of the Statute of the ESCB and of the ECB (as set out by the ECB General Council) and represents the BNB contribution to the ECB operational costs. As of 29 December 2010 this percentage amounted to 3.75 per cent. Unlike euro area NCBs, the BNB is not entitled to the ECB's distributable profit, nor is required to fund any loss of the ECB. Upon joining the euro area, the BNB will be required to pay up the remaining 96.25 per cent of its capital subscription to the ECB, which is EUR 102,440.3 thousand.

The Bank exercises substantial influence on the financial and operational policies of the associated companies listed below, and its equity investments in domestic companies are analysed as follows:

Associates	Shareholding, per cent	Principal activity
BORICA AD	36.11	Interbank card payments
Cash Services Company AD	25.00	Handling of sealed parcels of Bulgarian coins and banknotes transferred from the BNB and the banks

In 2019 BNB's shareholding in Cash Services Company AD increased from 20 per cent to 25 per cent after the withdrawal of Raiffesien Bank (Bulgaria) EAD from the company.

15. Tangible Assets

The fair value of land and buildings is categorised as Level-3 fair value based on the input data for the given assessment technique.

For the remaining asset classes – Plant and Machinery, Equipment, Vehicles, Fixtures and Fittings, the fair value is considered to be their present value on the Bank's balance sheet as most of them were bought in the last four years and their book value is close to their fair value.

When revaluating tangible fixed assets, the Bank derecognises the accrued depreciation at the expense of the gross book value of the assets, and their net value is recalculated against the revalued amount.

(BGN'000)

	Land and buildings	Plant and equip-ment	IT equip-ment	Office equip-ment	Other equip-ment (including motor vehicles)	Assets under construc-tion	Total
As of 1 January 2020	**184,211**	**93,129**	**50,824**	**9,934**	**9,359**	**6,560**	**354,017**
Additions	-	254	8	11	72	7,808	8,153
Disposals	-	(46)	(1)	(4)	-	(130)	(181)
Transfers	-	1,680	3,787	4	-	(5,471)	-
Revaluation	-	-	-	-	-	-	-
As of 30 June 2020	**184,211**	**95,017**	**54,618**	**9,945**	**9,431**	**8,767**	**361,989**
Depreciation and impairment loss							
As of 1 January 2020	**(66,760)**	**(72,776)**	**(47,603)**	**(8,849)**	**(7,258)**	**-**	**(203,246)**
Charge for the period	(2,600)	(1,542)	(957)	(65)	(282)	-	(5,446)
On disposals	-	45	1	4	-	-	50
Revaluation	-	-	-	-	-	-	-
As of 30 June 2020	**(69,360)**	**(74,273)**	**(48,559)**	**(8,910)**	**(7,540)**	**-**	**(208,642)**
Net book value as of 30 June 2020	**114,851**	**20,744**	**6,059**	**1,035**	**1,891**	**8,767**	**153,347**
Net book value as of 31 December 2019	**117,451**	**20,353**	**3,221**	**1,085**	**2,101**	**6,560**	**150,771**
As of 1 January 2019	**184,096**	**92,828**	**49,982**	**10,047**	**8,754**	**2,591**	**348,298**
Additions	42	1,329	20	17	6	6,996	8,410
Disposals	-	(1,424)	(993)	(205)	(38)	-	(2,660)
Transfers	73	396	1,815	75	637	(3,027)	(31)
Revaluation	-	-	-	-	-	-	-
As of 31 December 2019	**184,211**	**93,129**	**50,824**	**9,934**	**9,359**	**6,560**	**354,017**
Depreciation and impairment loss							
As of 1 January 2019	**(61,537)**	**(71,030)**	**(45,982)**	**(8,892)**	**(6,792)**	**-**	**(194,233)**
Charge for the period	(5,223)	(3,170)	(2,614)	(162)	(503)	-	(11,672)
On disposals	-	1,424	993	205	37	-	2,659
Revaluation	-	-	-	-	-	-	-
As of 31 December 2019	**(66,760)**	**(72,776)**	**(47,603)**	**(8,849)**	**(7,258)**	**-**	**(203,246)**
Net book value as of 31 December 2019	**117,451**	**20,353**	**3,221**	**1,085**	**2,101**	**6,560**	**150,771**
Net book value as of 31 December 2018	**122,559**	**21,798**	**4,000**	**1,155**	**1,962**	**2,591**	**154,065**

In applying IAS 16 Property, Plant and Equipment and BNB's Internal Rules for Financial Statements and Accounting Policy, as of December 2013 a review was made of the book value of tangible fixed assets stated in the Bank's balance sheet. The fair value of land and buildings was determined by an external, independent and licensed assessor of recognised professional qualification and experience in assessing property of location and category similar to the assessed ones. As at 30 June 2020, the fair value of land and buildings did not differ materially from their book value as at the same date; therefore, it is considered that the present book value of land and buildings on the Bank's balance sheet fairly reflects their market value. The fair value of fully amortised tangible fixed assets as of 30 June 2020 was BGN 87,309 thousand (31 December 2019: BGN 86,189 thousand).

16. Intangible Assets

(BGN'000)

	Software	Other intangible assets	Development costs	Total
As of 1 January 2020	**56,975**	**180**	**481**	**57,636**
Additions	50	-	843	893
Disposals	-	-	-	-
Transfers	830	-	(830)	-
As of 30 June 2020	**57,855**	**180**	**494**	**58,529**
Depreciation and impairment loss				
As of 1 January 2020	**(51,239)**	**(168)**	**-**	**(51,407)**
Charge for the period	(1,191)	(3)	-	(1,194)
On disposals	-	-	-	-
As of 30 June 2020	**(52,430)**	**(171)**	**-**	**(52,601)**
Net book value as of 30 June 2020	**5,425**	**9**	**494**	**5,928**
Net book value as of 31 December 2019	**5,736**	**12**	**481**	**6,229**

As of 30 June 2020 software includesd licenses purchased by the BNB to the total amount of BGN 137 thousand (31 December 2019: BGN 1027 thousand), and software products to the amount of BGN 743 thousand (31 December 2019: BGN 925 thousand).

(BGN'000)

	Software	Other intangible assets	Development costs	Total
As of 1 January 2019	**54,732**	**174**	**272**	**55,178**
Additions	1,037	6	2,161	3,204
Disposals	(746)	-	-	(746)
Transfers	1,952	-	(1,952)	-
As of 31 December 2019	**56,975**	**180**	**481**	**57,636**
Depreciation and impairment loss				
As of 1 January 2019	**(49,691)**	**(164)**	**-**	**(49,855)**
Charge for the period	(2,294)	(4)	-	(2,298)
On disposals	746	-	-	746
As of 31 December 2019	**(51,239)**	**(168)**	**-**	**(51,407)**
Net book value as of 31 December 2019	**5,736**	**12**	**481**	**6,229**
Net book value as of 31 December 2018	**5,041**	**10**	**272**	**5,323**

As of 31 December 2019 software included licenses purchased by the BNB to the total amount of BGN 1027 thousand (31 December 2018: BGN 1303 thousand), and software products to the amount of BGN 925 thousand (31 December 2018: BGN 1365 thousand).

17. Other Assets

(BGN'000)

	30 June 2020	31 December 2019
Cash held by subsidiaries with local banks	48,481	54,140
Investments of subsidiary undertakings in joint ventures and associates	10,973	11,077
Commemorative coins for sale	366	388
Inventories	21,116	23,127
Accounts receivable	1,415	1,553
Deferred charges	1,297	1,135
Other receivables	1,505	1,427
	85,153	**92,847**

Cash held by subsidiaries with local banks comprise BGN 42,504 thousand of the BNB Printing Works AD and BGN 5977 thousand of Bulgarian Mint EAD.

Investments of subsidiary undertakings in joint ventures and associates include a non-monetary contribution in the form of banknote production equipment to the capital of François-Charles Oberthur Group with which the BNB Printing Works AD has established a joint venture for banknote production.

18. Banknotes and Coins in Circulation

(BGN'000)

	30 June 2020	31 December 2019
Banknotes in circulation	18,397,103	18,637,279
Coins in circulation	470,608	467,641
	18,867,711	**19,104,920**

19. Liabilities to Banks and Other Financial Institutions

(BGN'000)

	30 June 2020	31 December 2019
Demand deposits from banks and other financial institutions		
– in BGN	17,024,985	13,434,604
– in foreign currency	2,023,680	1,028,021
	19,048,665	14,462,625

Demand deposits include BGN 7,905,565 thousand representing the required reserves, which all local banks are required to maintain on accounts with the BNB (31 December 2019: BGN 7,816,332 thousand).

On 26 November 2015 the Governing Council of the Bulgarian National Bank adopted a new Ordinance No 21 on Minimum Required Reserves Maintained with the Bulgarian National Bank by Banks which came into force as of 4 January 2016. It removed the recognition of banks' funds in the TARGET2-BNB national system component as a component of reserve assets.

Pursuant to Article 46 of BNB Ordinance No 16, as of 29 March 2018 this position includes also the banks' participation in the Guarantee Mechanism for Settlement of Payments of the participants in the system operated by BORICA and processing card related payments, amounting to BGN 132,930 thousand (31 December 2019: BGN 166,848 thousand).

20. Liabilities to Government Institutions and Other Borrowings

(BGN'000)

	30 June 2020	31 December 2019
Current accounts		
– in BGN	7,499,592	6,451,412
– in foreign currency	2,848,050	2,402,303
Time deposit accounts	-	-
	10,347,642	**8,853,715**

Government's accounts in national and foreign currency with the Bank comprise funds held on behalf of the state budget and other government organisations. The Bank applies interest rates in line with the General Terms and Conditions of the Bulgarian National Bank on accepting cash deposits and servicing accounts of banks, budget organisations and other customers adopted by a resolution of the BNB Governing Council of 26 November 2015 and amended by a resolution of the BNB Governing Council of 14 November 2019. As from 18 November 2019, the Bank does not open and service time deposit accounts of the government and other government institutions in accordance with the General Terms and Conditions of the Bulgarian National Bank on servicing accounts of banks, budget organisa-tions and other customers.

21. Borrowings against Bulgaria's Participation in International Financial Institutions

The borrowings against Bulgaria's participation in the IMF as of 30 June 2020 amount to BGN 1,912,452 thousand, or SDR 795,933 thousand (31 December 2019: BGN 1,916,201 thousand, or SDR 795,933 thousand).

Borrowings from the IMF are denominated in SDRs. Borrowings related to Bulgaria's quota in the IMF are non-interest bearing with no stated maturity. This note includes account No 1 and account No 2 of the IMF in levs amounting to BGN 5533 thousand (31 December 2019: BGN 5440 thousand).

The Bank's borrowings from the IMF of the general and special allocation of SDRs amount to SDR 474,586,534 and SDR 136,289,102, respectively. Repayment will take place on IMF's demand. Under Article XX of IMF Statute, the Bank receives interest on the existing SDRs and pays a fee on its borrowings from the general and special allocation at the same interest rate.

22. Other Liabilities

(BGN'000)

	30 June 2020	31 December 2019
Funds of EU institutions and bodies	2,797	2,656
Salaries and social security payable	7,371	5,199
Deferred income	547	1,330
Other liabilities	169,421	256,442
	180,136	**265,627**

Funds of EU institutions and bodies include European Commission's funds and European Investment Bank's funds. Pursuant to Article 9 of Council Regulation No 1150 of 2000 and Bulgaria's participation in the funding of the EU budget, the Bank opened accounts of the European Commission. As at 30 June 2020 the funds on these accounts were BGN 2797 thousand (31 December 2019: BGN 2656 thousand).

23. Capital and Reserves

The capital of the Bank is determined by the Law on the BNB and amounts to BGN 20,000 thousand.

Non-monetary asset revaluation reserves comprise the net change in fair value of property, equity investments and other non-monetary assets.

Pursuant to Article 36 of the Law on the Bulgarian National Bank, unrealised gains/losses arising from the revaluation of assets and liabilities denominated in foreign currencies or gold are transferred to a special reserve account and form special reserves.

Other reserves include 25 per cent of the annual excess of revenue over expenditure after the allocation to special reserves and reserves established upon a decision of the BNB Governing Council.

As of 30 June 2020 profit distribution in accordance with the profit distribution policy disclosed in note 5 (j) is as follows:

(BGN'000)

	30 June 2020	30 June 2019
Profit/(loss) for the period	**455,543**	**308,357**
Allocation to special reserve under Article 36 of the Law on the BNB:		
Unrealised (profit)/loss from gold revaluation	(533,620)	(303,224)
Unrealised (profit)/loss from revaluation of financial assets at fair value through profit or loss	31,585	(80,233)
Unrealised (profit)/loss from foreign currency valuation	245	(362)
Other unrealised (profit)/loss	551	498
Result after allocation to special reserve	**(45,696)**	**(74,964)**

24. Non-controlling Interest

The BNB Printing Works AD is a joint-stock company with two shareholders: the BNB and the government represented by the Ministry of Finance. The BNB holds 95.6 per cent of the company's capital and the government holds the remaining 4.4 per cent of the company's capital.

25. Monetary Liabilities and Gross International Reserves

(BGN'000)

	30 June 2020	31 December 2019
Gross international reserves		
Cash and foreign currency denominated deposits	27,478,676	14,546,049
Monetary gold and other instruments in gold	4,049,587	3,456,338
Security investments	23,076,257	30,333,703
Equity investments and quota in the IMF	235,776	236,238
	54,840,296	**48,572,328**
Monetary liabilities		
Banknotes and coins in circulation	18,867,711	19,104,920
Liabilities to banks and other financial institutions	17,689,145	13,372,652
Liabilities to government institutions	9,311,073	8,101,121
Other liabilities	2,398,886	1,845,223
	48,266,815	**42,423,916**
Surplus of gross international reserves over monetary liabilities	**6,573,481**	**6,148,412**

Interest receivable and interest payable are carried to the relevant assets and liabilities.

Monetary gold and other instruments in gold are revalued on a daily basis based on the euro fixing of the London Bullion Market closing price.

26. Related Party Transactions

Bulgarian Government

International Monetary Fund

As of 30 June 2020, the Republic of Bulgaria did not receive funds under IMF agreements.

The Republic of Bulgaria's quota in the IMF is secured by promissory notes jointly signed by the Bank and the government (ref. note 21).

Government bank accounts

As of 30 June 2020 government budget organisations had bank accounts with the Bank (ref. note 20).

Fiduciary activities

In accordance with the Law on the BNB and under the terms agreed upon with the Minister of Finance, the BNB acts as an agent in government or government-guaranteed debts. With regard to this role, the BNB performs depository and agent services related to the administration and management of government securities issued by the Ministry of Finance. The Bank receives commissions for providing these services. These government securities are not assets or liabilities of the BNB and are not recognised in its consolidated statement of financial position. The Bank is not exposed to any credit risk relating to government securities as it does not guarantee them. As of 30 June 2020, the par value of the government securities held in custody was BGN 5957 million (31 December 2019: BGN 5479 million).

27. Subsidiaries Included in Consolidated Financial Statements

(per cent)

Ownership interest	30 June 2020	31 December 2019
Bulgarian Mint EAD	100	100
BNB Printing Works AD (ref. note 24)	95.6	95.6

The net income from subsidiaries for the reporting period comprises net profit of BGN 434 thousand from the Bulgarian Mint EAD (31 December 2019: BGN 77 thousand) and BGN 4142 thousand from the BNB Printing Works AD (31 December 2019: BGN 7444 thousand).

28. Commitments and Contingencies

1) Participation in the Bank for International Settlements

The Bank holds 8000 shares of the capital of the BIS, each amounting to SDR 5000. Twenty-five per cent of the equity investment in BIS is paid up. The capital subscribed but not paid in is with an option to be paid in within three months following a decision of the BIS Board of Governors. The contingent amount as of 30 June 2020 was BGN 72,225 thousand (31 December 2019: BGN 72,225 thousand).

2) IMF quota and borrowings

The IMF quota is secured by promissory notes jointly signed by the Bank and the Government of the Republic of Bulgaria amounting to BGN 1,955,768 thousand.

3) Capital commitments

As of 30 June 2020 the Bank committed to BGN 18,421 thousand to purchase non-current assets (31 December 2019: BGN 13,274 thousand).

4) Other commitments and liabilities

There are no other outstanding guarantees, letters of credit or commitments to purchase or sell either gold, other precious metals or foreign currency.

5) Other contingent liabilities

The BNB is being sued in relation to alleged compensation for delayed payment of deposits above the guaranteed amount or for challenging money transfers by customers of Corporate Commercial Bank AD (in bankruptcy) to a total amount of around BGN 115 million (31 December 2019: BGN 108 million). Currently, in Bulgaria there is no settled case-law on similar issues. Court proceedings are at an early stage and most of them have been stayed pending until Bulgarian courts hear and determine questions referred for a preliminary ruling.

Two court proceedings have been instituted against the BNB before a Federal Court of the State of New York in relation to alleged compensation of USD 400 million for actions of Corporate Commercial Bank AD (in bankruptcy) conservators appointed in 2014. Both cases are at an early stage, and the question of the federal court's jurisdiction is still pending.

Therefore and based on available information on both cases, the Bank's management considers that no reliable assessment of the likely outcome of legal proceedings could be made and, consequently, no provisions for these contingent liabilities should be made.

29. Events Occurred after the Reporting Date

In March 2020 the World Health Organisation declared the spread of the COVID-19 virus a global pandemic. The pandemic poses serious challenges to both human health and the global economy, including international financial markets.

The Bank's management assessed the effect of events related to COVID-19 as a non-adjusting event as regards the consolidated financial statements (unaudited) as of 30 June 2020.

As of the date of approving the statements: 1) there are no events related to COVID-19; 2) there are no direct short-terms effects to the Bank's financial statements due to timely measures taken by the BNB to curb market (interest rate) risk associated with managing gross international reserves and maintaining continuously an extremely high liquidity of foreign currency reserves; and 3) no changes to the BNB budget for 2020 are initiated on COVID-19 related events and measures. At this stage, it is impossible to determine the medium-term and long-term financial consequences from the pandemic. Over the reporting period there was a need to adjust the planned funds on the 2020 Bank's budget items and the adjustments were made in compliance with the budgetary procedure.

There are no events after the reporting date that require additional disclosure or adjustments to the Bank's Financial Statements.

Information under Article 17, Paragraph 5 of the Law on the BNB Concerning Resolutions Adopted by the BNB Governing Council in January–June 2020

Reporting and Budget

RESOLUTION No 36 of 31 January

The BNB Governing Council took note of the Decision of the European Central Bank on the national central banks' percentage shares in the key for subscription to the European Central Bank's capital and repealing Decision (EU) 2019/43.

RESOLUTION No 128 of 7 April

The BNB Governing Council approved the report on the implementation of the BNB budget for 2019.

RESOLUTION No 137 of 9 April

The BNB Governing Council approved the BNB Annual Report for 2019 on first reading.

RESOLUTION No 153 of 27 April

The BNB Governing Council approved the BNB Annual Report for 2019.

RESOLUTION No 206 of 11 June

The BNB Governing Council adopted amendments to the General Terms and Conditions of the Bulgarian National Bank on accepting cash deposits and servicing bank accounts, budget organisations and other customers, effective from 1 July 2020.

Gross International Reserves

RESOLUTION No 9 of 16 January

The BNB Governing Council took note of the selected benchmark for dynamic asset allocation in the first quarter of 2020.

RESOLUTION No 74 of 27 February

The BNB Governing Council took note of the International Reserve Management Report in 2019.

RESOLUTION No 138 of 9 April

The BNB Governing Council took note of the selected benchmark for dynamic asset allocation in the second quarter of 2020.

RESOLUTION No 152 of 23 April

The BNB Governing Council took note of the common parameters for a bilateral currency swap line between the BNB and the European Central Bank (ECB) as proposed by the ECB and gave its consent for conducting negotiations with the ECB on the terms and conditions of a bilateral currency swap line agreement.

RESOLUTION No 189 of 28 May

The BNB Governing Council took note of the International Reserve Management Report in the first quarter of 2020.

Payment Systems and Payment Oversight

RESOLUTION No 3 of 15 January

The Governing Council decided that OMV Bulgaria OOD should be entered in the Register under Article 9 of the LPSPS as a service provider under Article 2, paragraph 3 of the LPSPS.

RESOLUTION No 43 of 7 February

The Governing Council decided that Petrol AD should be entered in the Register under Article 19 of the LPSPS as a service provider under Article 2, paragraph 3 of the LPSPS.

RESOLUTION No 44 of 13 February

The Governing Council took note of the Annual Report of the Conciliation Committee for 2019.

The Governing Council took note of the Annual Report of the Sectoral Conciliation Commission on Financial Services for 2019.

RESOLUTION No 70 of 27 February

The Governing Council took note of the calculated average amount of fees charged by banks on services under Appendix 1 to Article 34 of Ordinance No 3 of the BNB on current accounts as of 31 December 2019 in relation to Article 120, paragraph 6 of the Law on Payment Services and Payment Systems and Article 35, paragraph 2 of Ordinance No 3 of the BNB.

RESOLUTION No 71 of 27 February

The Governing Council licensed Myfin EAD (under incorporation) to operate as an electronic money institution.

RESOLUTION No 119 of 24 March

The Governing Council suggests that the BNB starts applying Guidelines amending Guidelines EBA/GL/2018/05 on fraud reporting under the Payment Services Directive (PSD2) (EBA/GL/2020/01 of 22 January 2020), issued by the EBA and published on its webside, to reporting of payment transactions initiated and executed from 1 July 2020.

RESOLUTION No 129 of 7 April

The Governing Council of the BNB adopted Ordinance on Amendment of Ordinance No 16 of the BNB of 29 March 2018 on Granting Licenses and Approvals, Entry into the Register under Article 19 of the Law on Payment Services and Payment Systems, and Requirements to the Activity of Operators of Payment Systems with Settlement Finality.

RESOLUTION No 130 of 7 April

The Governing Council of the BNB adopted Ordinance on Amendment of Ordinance No 3 of 18 April 2018 on the Terms and Procedure for Opening Payment Accounts, Executing Payment Transactions and Using Payment Instruments.

RESOLUTION No 210 of 12 June

The Governing Council suggests that the BNB starts implementing as of 30 June 2020 EBA Guidelines on ICT and security risk management (EBA/GL/2019/04 of 28 November 2019) issued by the EBA and published on its official website.

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Between January and June 2020 the Governing Council of the BNB took one resolution to refuse the granting of payment institution license and seven resolutions related to the imposition of supervisory measures, performed supervisory inspections and other approvals, authorisations and actions on administrative procedures.

Circulation of Banknotes and Coins

RESOLUTION No 10 of 16 January

The Governing Council set the price at which the silver commemorative coin 'Kukeri' of the Bulgarian Customs and Traditions series, issue 2020, will be sold at BNB tills.

RESOLUTION No 26 of 31 January

The Governing Council approved a List of selling prices of banknotes and coins sold by the BNB at prices other than their nominal value.

RESOLUTION No 27 of 31 January

Pursuant to LBNB Article 26, the BNB Governing Council withdrew from circulation commemorative coins issued in 2014 which ceased to be legal tender as of 10 February 2020. They may be exchanged at BNB tills at face value with no limit and no charge until 31 December 2021.

RESOLUTION No 91 of 12 March

The BNB Governing Council decided to put into circulation as of 11 May 2020 a partially gold-plated silver commemorative coin '100 Years of University of National and World Economy'.

RESOLUTION No 92 of 12 March

The BNB Governing Council decided to put into circulation as of 12 June 2020 as legal tender a banknote of BGN 10 nominal value, issue 2020.

RESOLUTION No 118 of 24 March

The BNB Governing Council decided to put into circulation as of 4 September 2020 as legal tender a banknote of BGN 5 nominal value, issue 2020.

RESOLUTION No 122 of 26 March

The Governing Council set the price at which the partially gold-plated silver commemorative coin '100 Years of University of National and World Economy', issue 2020, will be sold at BNB tills.

RESOLUTION No 223 of 23 June

The BNB Governing Council adopted the Commemorative Coin and Banknote Production Programme for 2021.

The BNB Governing Council took note of the Preliminary Commemorative Coin and Banknote Production Programme for 2022 and 2023 as a basis for preparing annual programmes.

Maintaining Banking System Stability and Protecting Depositor Interests

RESOLUTION No 12 of 16 January

The Governing Council approved the Draft Joint Decision of the BNB, the ECB, the central banks of Romania, the Czech Republic and Hungary supervising Raiffeisen Bank International AG (RBI) and its subsidiaries.

RESOLUTION No 13 of 16 January

The Governing Council approved the Draft Joint Decision of the BNB, the central banks of Hungary, Romania, Croatia and Slovakia on determining the adequacy of liquidity of OTP Bank Nyrt. and its subsidiaries.

The Governing Council approved the Joint Decision of the BNB, the central banks of Hungary, Romania, Croatia and Slovakia on determining the adequacy of own funds and the required own funds to be maintained by OTP Bank Nyrt. and its subsidiaries.

RESOLUTION No 32 of 31 January

The BNB Governing Council took note of the Supervisory Review of Banks Report as of 30 June 2019.

RESOLUTION No 33 of 31 January

The Governing Council approved the Draft Joint Decision of the BNB, the ECB, the central banks of Romania, the Czech Republic and Hungary supervising Raiffeisen Bank International AG (RBI) and its subsidiaries.

RESOLUTION No 34 of 31 January

The Governing Council approved the Draft Joint Decision of the German Federal Financial Supervisory Authority, the central banks of Hungary and Romania, and the BNB on determining the adequacy of liquidity of ProCredit Holding Group and its subsidiaries.

The Governing Council approved the Joint Decision of the German Federal Financial Supervisory Authority, the central banks of Germany and Romania, and the BNB on determining the adequacy of own funds and the required own funds to be maintained by ProCredit Holding Group and its subsidiaries.

RESOLUTION No 53 of 13 February

The Governing Council approved the Draft Joint Decision of the BNB, the central banks of Hungary, Romania, Croatia and Slovakia on an assessment of OTP Bank Plc. and its subsidiaries group recovery plan (June 2019).

RESOLUTION No 63 of 27 February

The Governing Council decided to authorise the transformation through merger of Expressbank AD into the DSK Bank EAD pursuant to Article 262 of the Law on Commerce.

RESOLUTION No 67 of 27 February

The Governing Council approved the Draft Joint Decision of the ECB, the BNB, the central banks of the Czech Republic, Romania, Croatia and Hungary on an assessment of UniCredit Group and its subsidiaries group recovery plan (30 September 2019).

RESOLUTION No 68 of 27 February

The Governing Council approved the list of persons eligible to be appointed assignees in bankruptcy of a bank under Article 44, paragraph 2 of the Law on Bank Bankruptcy.

RESOLUTION No 87 of 12 March

The Governing Council ordered the credit institutions licensed to conduct bank activities in the country, and foreign credit institutions' branches operating in the country not to distribute the profit for 2019; not to distribute the elements of own funds as defined in Part Two, Title I of Regulation (EU) No 575/2013, based on financial result from previous years; not to exceed the set limits on net exposures to certain categories of counterparties; to bring down their exposures to certain categories of counterparties to the set limits within specific time limits.

RESOLUTION No 104 of 13 March

The Governing Council approved the Draft Joint Decision of the ECB, the BNB, the central banks of the Czech Republic and Hungary, on an assessment of KBC Group and its subsidiaries group recovery plan (30 September 2019).

RESOLUTION No 107 of 17 March

The Governing Council approved the Draft Joint Decision of the BNB and the ECB on determining the adequacy of liquidity and the adequacy of own funds, and the required own funds to be maintained by Eurobank S.A. and its subsidiaries.

RESOLUTION No 108 of 17 March

The Governing Council approved the Draft Joint Decision of the BNB and the ECB on an assessment of Eurobank Ergasias S.A. group recovery plan submitted in September 2019.

RESOLUTION No 112 of 19 March

The Governing Council approved the Draft Joint Decision of the ECB, the BNB, the central banks of the Czech Republic, Romania, Croatia and Hungary on an assessment of Raiffeisen Bank International Group and its subsidiaries group recovery plan for 2019.

RESOLUTION No 115 of 19 March

The Governing Council repealed Decision No 104 of 28 March 2019 and Decision No 438 of 20 December 2019 and kept the countercyclical buffer rate at 0.5 per cent effective from 1 October as set by BNB Resolution No 236 of 25 September 2019.

RESOLUTION No 127 of 3 April

The Governing Council suggests that the BNB complies with EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02).

RESOLUTION No 132 of 7 April

The BNB Governing Council took note of the Report on the State of the Banking System (fourth quarter of 2019).

The BNB Governing Council took note of the publication of Banks in Bulgaria (October–December 2019).

RESOLUTION No 143 of 9 April

The BNB Governing Council approved the Association of Banks in Bulgaria draft on the Procedure for Deferral and Settlement of Liabilities Payable to Banks and Their Subsidiaries – Financial Institutions in relation to the state of emergency as a result of the COVID-19 pandemic enforced by the National Assembly on 13 March 2020, representing a non-legislative moratorium within the meaning of EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020 of 2 April 2020).

RESOLUTION No 154 of 27 April

The Governing Council suggests that the BNB starts implementing as of 25 May 2020 Joint guidelines on cooperation and information exchange for the purpose of Directive (EU) 2015/849 between competent authorities supervising credit and financial institutions (JC/2019/81 of 16 December 2019), issued by the European Supervisory Authorities.

RESOLUTION No 210 of 12 June

The Governing Council suggests that the BNB starts implementing as of 30 June 2020 EBA Guidelines on ICT and security risk management (EBA/GL/2019/04 of 28 November 2019) issued by the EBA and published on its official website.

RESOLUTION No 217 of 23 June

The Governing Council decided to set the countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria at 0.5 per cent for the third quarter of 2020.

RESOLUTION No 218 of 23 June

The BNB Governing Council approved the draft Law on Amendment of the Law on Credit Institutions.

RESOLUTION No 225 of 23 June

The Governing Council approved the Draft Joint Decision of the BNB, the ECB, the central banks of the Czech Republic, Hungary and Romania supervising Raiffeisen Bank International AG (RBI) and its subsidiaries on granting an authorisation at individual and group level to make significant changes to the internal ratings-based models.

RESOLUTION No 228 of 25 June

The Governing Council suggests that the BNB starts applying Guidelines amending Recommendations EBA/REC/2015/01 on the equivalence of confidentiality regimes (EBA/GL/2020/03 of 15 April 2020).

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Over the January to June 2020 period the Governing Council of the BNB adopted:

- 29 resolutions pursuant to Article 11, paragraphs 1 and 3 of the Law on Credit Institutions on approval for holding a position of a member of management body of a credit institution;
- 12 resolutions pursuant to Article 76, paragraph 4 of the Law on Credit Institutions on coordinating the choice of an auditor of a credit institution;
- 23 resolutions related to the imposition of supervisory measures, performed supervisory inspections and other approvals, authorisations and actions on administrative procedures.

– 11 resolutions pursuant to Article 26(2), in conjunction with Article 26(1)(c) of Regulation (EU) No 575/2013 concerning inclusion of credit institution's net profit in Common Equity Tier 1 capital;
– 4 resolutions under Article 71, paragraph 3 in conjunction with paragraph 1, item 6 of the Law on Credit Institutions on an approval of amendments to the Articles of Association of a credit institution.

BNB Activities on Resolution of Credit Institutions

RESOLUTION No 6 of 16 January

The BNB Governing Council approved the resolution plan of First Investment Bank AD for 2019.

RESOLUTION No 7 of 16 January

The BNB Governing Council approved the resolution plan of Municipal Bank AD for 2019.

RESOLUTION No 8 of 16 January

The BNB Governing Council approved the resolution plan of Investbank AD for 2019.

RESOLUTION No 25 of 31 January

The BNB Governing Council took note of the 'Summarised information and analysis on the final draft resolution plans of Raiffeisen Bank International AG and on the work of resolution colleges in the process of planning the resolution in 2018.'

The BNB Governing Council approved a 'Joint decision on a resolution plan and assessment of the resolvability of Raiffeisen Bank International AG for 2018'.

The BNB Governing Council adopted a joint decision on minimum requirements for own funds and eligible liabilities for 2018 of Raiffeisen Bank International AG at group-level resolution, on a subconsolidated basis for Tatra banka, a.s., Raiffeisenbank, a.s., Prague, and Raiffeisen Bank S.A., Bucharest, on an individualised basis for Raiffeisen Bank Zrt., Budapest, Raiffeisen Bausparkasse Gesellschaft m.b.H. and Raiffeisen stavební spořitelna, a.s.".

RESOLUTION No 47 of 13 February

The BNB Governing Council approved the resolution plan of Bulgarian-American Credit Bank AD for 2019.

RESOLUTION No 48 of 13 February

The BNB Governing Council approved the resolution plan of Central Cooperative Bank AD for 2019.

RESOLUTION No 90 of 12 March

The Governing Council of the BNB set the annual banking system contribution to the Bank Resolution Fund for 2020 at BGN 157,876,116.

RESOLUTION No 117 of 24 March

The BNB Governing Council amended the methodology setting the total amount of individual annual contributions by third country banks and branches to the Bank Resolution Fund.

RESOLUTION No 139 of 9 April

The BNB Governing Council took note of the information provided by the Bulgarian Deposit Insurance Fund on the annual accounts of the Bank Resolution Fund for the year ending 31 December 2019.

RESOLUTION No 149 of 22 April

The BNB set the individual annual contributions of credit institutions and branches of third country credit institutions to the Bank Resolution Fund for 2020.

RESOLUTION No 219 of 23 June

The BNB Governing Council approved the draft Law amending the LRRCIIF.

RESOLUTION No 220 of 23 June

The BNB Governing Council approved the results from applying a methodology setting out critical functions of credit institutions and branches for which the BNB is the resolution authority in 2020.

RESOLUTION No 221 of 23 June

The BNB Governing Council approved the resolution plan of International Asset Bank AD for 2019.

RESOLUTION No 222 of 23 June

The BNB Governing Council approved the resolution plan of TBI Bank EAD for 2019.

Statistics

RESOLUTION No 69 of 27 February

On the grounds of Article 42 of the Law on the BNB, the BNB Governing Council adopted Ordinance on Amendment of BNB Ordinance No 17 of 29 March 2018 on the Monetary and Interest Rate Statistics and Financial Accounts Statistics.

The Central Credit Register and the Register of Bank Accounts and Safe Deposit Boxes

RESOLUTION No 40 of 6 February

The BNB Governing Council took note of the draft Law amending Article 56a of the LCI.

RESOLUTION No 51 of 13 February

On the grounds of Article 56a, paragraph 8 of the LCI, the BNB Governing Council adopted Ordinance on Amendment of Ordinance No 12 of 29 September 2016 on the Register of Bank Accounts and Safe Deposit Boxes.

RESOLUTION No 52 of 13 February

On the grounds of Article 56a, paragraph 4 of the LCI, the BNB Governing Council adopted Ordinance on Amendment of Ordinance No 22 of 16 July 2009 on the Central Credit Register.

RESOLUTION No 176 of 14 May

The BNB Governing Council adopted Ordinance on Amendment of Ordinance No 12 of 29 September 2016 on the Register of Bank Accounts and Safe Deposit Boxes.

Research

RESOLUTION No 54 of 13 February

The BNB Governing Council took note of the assessments of developments in major macroeconomic indicators in the first and second quarters of 2020 along with BNB forecasts of major macroeconomic indicators for 2019–2021 (based on data as at 20 December 2019) to be published in the Economic Review quarterly, issue 4 of 2019.

RESOLUTION No 75 of 27 February

The BNB awarded three master's degree scholarships in 2020.

The BNB awarded one doctor's degree scholarship in 2020.

RESOLUTION No 204 of 11 June

The BNB Governing Council took note of the assessments of developments in major macroeconomic indicators in the second and third quarters of 2020 to be published in the Economic Review quarterly, issue 1 of 2020.

BNB Internal Audit

RESOLUTION No 177 of 14 May

The Governing Council of the BNB approved Chief Auditor's Report on the activity of the BNB Internal Audit for 2019 with annotations made.

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In the January–June 2020 period the Governing Council of the BNB adopted resolutions on internal rules of the Bank (3 resolutions), representation in general meetings of companies in which the BNB holds participation (4 resolutions), public procurements and contracts[104] (11 resolutions) and organisation of the Bank activities (52 resolutions).

[104] Detailed information on procurement procedures is available on the BNB website, Public Procurement.

ISSN 2367–4946
ELEMENTS OF THE 50 LEV BANKNOTE, ISSUES 1999 AND 2006, ARE USED IN COVER DESIGN.