Report • January – June 2023

BULGARIAN NATIONAL BANK

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Honourable Chairman 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 2023 Report.

Dimitar Radev
Governor
of the Bulgarian National Bank

BNB Governing Council (as of 30 June 2023)
Sitting from left to right: Lyudmila Elkova, Dimitar Radev, Nina Stoyanova.
Standing from left to right: Kalin Hristov, Iliya Lingorski, Radoslav Milenkov, Nikolay Nenovsky.

BNB Governing Council (as of 30 June 2023)

Dimitar Radev
Governor

Kalin Hristov
Deputy Governor
Issue Department

Nina Stoyanova
Deputy Governor
Banking Department

Radoslav Milenkov
Deputy Governor
Banking Supervision Department

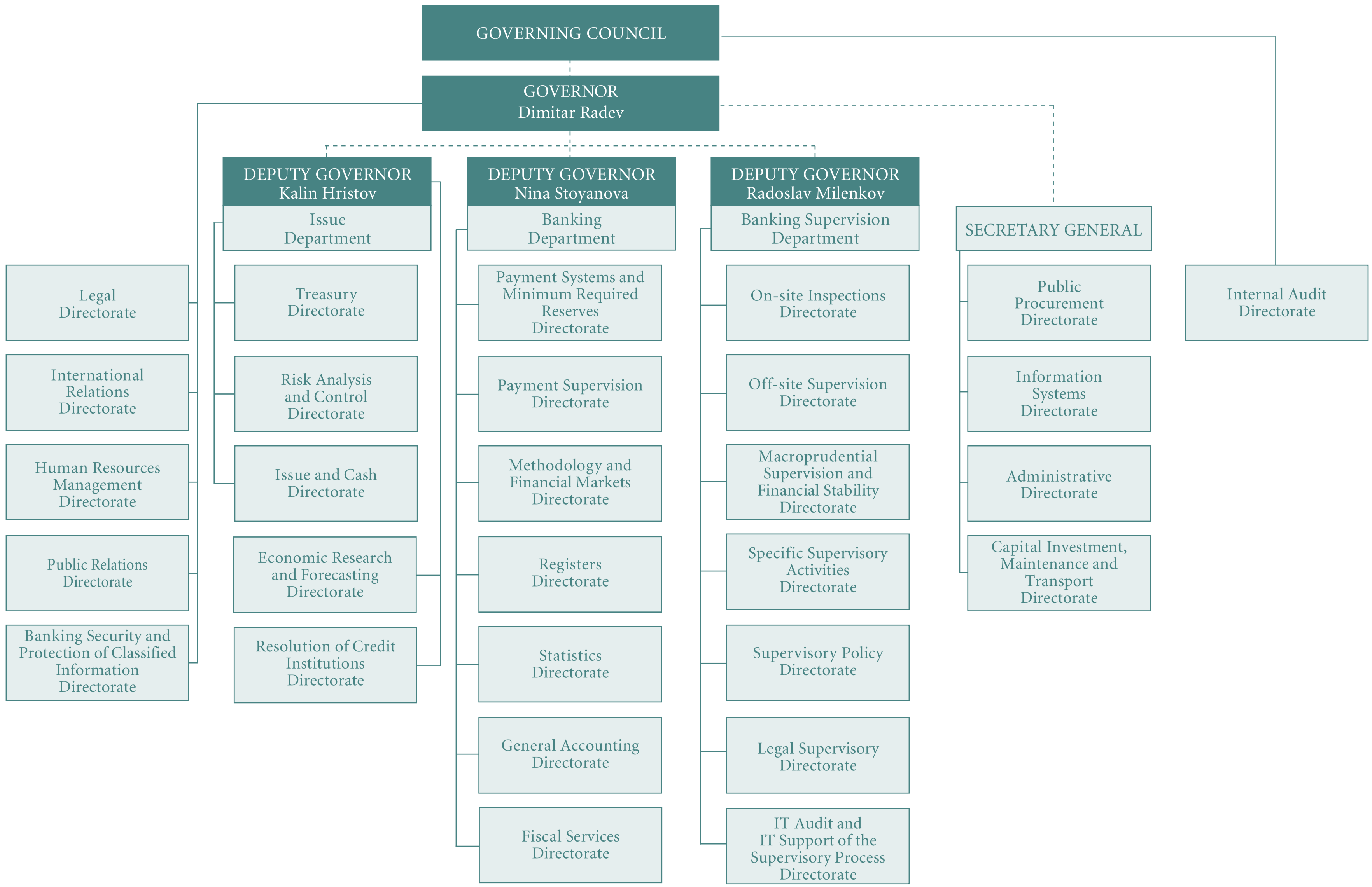
Lyudmila Elkova

Nikolay Nenovsky

Iliya Lingorski

Organisational Structure of the BNB

(as of June 2023)



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Abbreviations

ABSPP	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	Banks 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
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
NPEs	Non-Performing Exposures
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 payments in euro
TARGET2-BNB	Bulgarian system component of TARGET 2
VaR	Value-at-Risk
VAT	Value Added Tax
XAU	Troy ounce gold
XDR	Currency code for Special Drawing Rights

Summary

In the first six months of 2023, global economic activity recorded moderate growth with a trend to slowing. Global economic growth dynamics largely reflected economic developments in China following the lifting of the country's strict containment measures at the end of 2022 and early 2023, sustained growth of the US economy, as well as the effects of the recovery in global supply chains and tightening monetary policy by leading central banks. In the first half of 2023, US GDP growth accelerated, driven by a resilient labour market supporting private consumption. At the same time, the annual growth rate of euro area real GDP moderated as a result of weaker private consumption and lower inventories. In Germany, which is Bulgaria's main trading partner, real GDP contracted over the half year. Despite slowing economic activity, euro area labour market conditions continued to improve over the review period.

Annual global inflation slowed down in the first six months of 2023, with the main contribution of energy and food prices following the effects of the high base in 2022, tight monetary policy stance in major advanced economies, and recovered supply chains of goods and commodities. Headline consumer price inflation in both the United States and the euro area followed a downward path, but core inflation remained more resilient. In order to achieve their price stability objectives, the US and euro area central banks continued tightening their monetary policy in the period under review, slowing the pace of increase in policy rates over the second quarter of 2023. In the United States, the FOMC raised the federal funds rate target corridor by a total of 75 basis points, while the ECB raised the policy rates in the euro area by a total of 150 basis points. The two central banks also reduced the size of their balance sheets by limiting the reinvested proceeds from maturing securities in their portfolios.

In the first half of 2023, Bulgaria's annual real GDP growth slowed to 1.9 per cent, mainly as a result of lower exports growth and a substantial negative contribution from changes in inventories, which was only partly offset by a decline in goods imports. Private consumption rose by 4.9 per cent, supported by increases in employees and social payments, as well as by negative interest rates on deposits and loans in real terms. Growth in compensation *per* employee in nominal terms slowed to 10.4 per cent year on year, reflecting the easing of consumer price pressures and the high base of the previous year. At the same time, factors supporting wage growth included rising economic activity, increasing labour shortages, minimum wage increases and higher public sector wages.

Annual consumer price inflation remained elevated during the first six months of 2023. Inflation stood at 7.5 per cent in June, with a slowdown recorded compared with the end of 2022, under the influence of lower transport fuels and a base effect of high rates of consumer price growth in the first half of 2022. Regarding the domestic macroeconomic environment, upward price pressures continued to reflect sustained robust consumer demand and comparatively high rates of unit labour cost growth. These developments brought about a limited pass-through by firms of declines in international agricultural and energy commodity prices to final consumer prices, especially in the groups of food and core components.

In the context of ample liquidity in the banking sector, the pass-through of the effects of ECB monetary policy tightening on deposit and lending rates in Bulgaria remained weak, particularly in the household sector. At the end of the first half of 2023, the annual growth of credit to non-financial corporations slowed to 8.4 per cent, reflecting the lower rate of increase in overdrafts, owing to lower demand for financing to provide working capital and to build up inventories. In addition, the ongoing increase in interest rates to non-financial corporations as a result of the monetary policy tightening by the ECB was another potential factor dampening corporate credit growth. Growth of credit to households remained strong and stood at 14.0 per cent on an annual basis at the end of June. A slight slowdown was recorded in the growth rate of consumer loans (to 10.9 per cent), while the annual growth rate of housing loans remained very high (18.0 per cent), unchanged from December 2022. The continued strong growth in consumer credit, in particular housing loans, was mainly driven by a slow and modest pass-through of the effects of ECB monetary policy tightening to household interest rates in the context of ample liquidity and strong competition in the banking sector.

Taking into account the limited pass-through of ECB monetary policy changes to interest rates on deposits and loans in Bulgaria, especially in the household sector, persistently high growth of credit to households, strong consumer demand and high inflation, the BNB Governing Council using its monetary policy instruments decided on 26 April 2023 to raise the MRR rate on funds attracted by banks in two steps: as of 1 June 2023, the MRR rate on funds attracted from non-residents was raised from 5 to 10 per cent, and as of 1 July 2023, that on funds attracted from residents and non-residents, from 10 to 12 per cent. The BNB decision aims to tighten monetary conditions in Bulgaria by absorbing part of the current excess liquidity in the banking system, thus reducing banks' free resources and lending capacity and creating incentives for a faster and stronger pass-through of the increased interest rates in the euro area to domestic interest rates. Rising interest rates are expected to dampen households' demand for borrowed resources and to postpone consumption. Curbing credit growth is expected to contribute not only to lower inflation but also to reducing credit risk in the banking system.

By end-June 2023, the budget balance on the consolidated fiscal programme was positive at BGN 178 million. Fiscal reserve deposit funds increased by BGN 372 million from the end of 2022 to reach BGN 12,502 million (7.2 per cent of GDP), of which BGN 11,756 million of deposits with the BNB.

In managing gross international reserves, the BNB continued to pursue a conservative policy to ensure high liquidity and security of the reserves. Due to deterioration of depositors' confidence as a result of temporary turbulences in US and Swiss banking sectors, investments in certain asset classes and towards some BNB counterparties were preventively restricted in the second half of March. Measures taken by US and Swiss regulators to restore the soundness of the banking sector in these countries, as well as the agreement reached on increasing the maximum amount of US public debt have reduced risk in financial markets, and therefore, some of the imposed investment restrictions were lifted in mid-June 2023.

As of the end of June 2023, the balance sheet value of gross international reserves was EUR 35,233.35 million: a decrease of EUR 3190.96 million on end-2022, or a 8.3 per cent fall as a share of BNB foreign currency assets. Foreign currency cash flows, most notably outflows from commercial bank accounts with the BNB, contributed most to the reduction of international reserves during the first half of 2023.

To achieve its main objectives in managing gross international reserves, namely very high liquidity and security, the BNB continued investing the main portion of assets on the Issue Department's balance sheet into government bonds and government guaranteed debt securities with the highest credit rating, and into short-term deposits with first class foreign central and commercial banks. By the end of June 2023, approximately 71 per cent of international reserves were invested into assets with the highest *AAA* long-term credit rating.

Over the review period, there were no significant changes in the composition of gross international reserves by currency compared with 2022. The structure of financial instruments reported a decrease in current account balances by 3.4 per cent and in deposit holdings by 5.6 per cent on account of the increase in BNB's securities exposures. In terms of the maturity structure, almost all BNB investments (99.66 per cent) occupied the shortest maturity sector: from 0 to 1 year.

The net income in the Issue Department balance sheet is the sum of three components: i) income from gross international reserves investment in the original currency; ii) currency imbalance income; and iii) liabilities expenditure/income. BNB income from international reserve investment was positive at EUR 345.35 million, or 1.14 per cent yield for the period. This reflected mainly positive rates on deposits (since early 2023) with first class foreign banks and positive yields of euro-denominated high credit quality bonds in which most BNB international reserves are invested.

Earnings from currency imbalance for the first half of 2023 was positive, standing at EUR 69.93 million (yield of 0.18 per cent). This reflected primarily movements in the market price of monetary gold measured in euro. As a result of the BNB interest rate policy, the net financial result from liabilities led to an expense of EUR 82.18 million, corresponding to -0.26 per cent of return. The above three components brought net return from international reserve management to EUR 333.09 million: a total of 1.06 per cent return for the half year.

Creating and developing efficient and sound payment systems and payment oversight are important central bank functions. Payment systems in Bulgaria operate effectively, ensuring continuity of national and cross-border payment flows; they are largely aligned with the existing payment infrastructure in Europe. In the first half of 2023, RINGS, a real-time gross settlement system operated by the BNB, processed 83.5 per cent of non-cash payments in levs in Bulgaria. RINGS payments numbered 506,001, down 12.06 per cent on the first half of 2022, their value reaching BGN 727,776 million (up 29.4 per cent compared to the first half of 2022). The number and value of transactions *via* BISERA6 (for small customer payments in levs) and BORICA (for card payments) continued to increase in the first half of 2023, with BISERA6 posting a rise in terms of value of more than 10 per cent and BORICA by more than 18 per cent. In the first six months of 2023, 144,559 payments were made *via* TARGET–BNB, the national component of the new consolidated TARGET service platform (up 8.7 per cent on the first half of 2022), totalling EUR 433,208 million (a 0.6 per cent decrease on the first half of 2022).

On 20 March 2023, the new Eurosystem's consolidated TARGET service platform, which brings together the T2 payment system, the securities settlement system TARGET2-Securities and the service for processing instant transfers in euro (TIPS) was launched. The BNB, the banking community in Bulgaria, along with Bulgarian ancillary systems for customer payments in euro and securities settlement successfully migrated to the new TARGET platform on the day of its implementation. The preparatory phase of the project for migration of public sector payments to the Single Euro Payments Area (SEPA) standards, developed by the BNB, the Ministry of Finance, the Association of Banks in Bulgaria, and BORICA AD was completed. In this context, joint instructions were adopted by the BNB and the Ministry of Finance regulating the requirements for the execution of payments in levs from/to budget organisations in line with SEPA standards.

The Bank regulates and oversees payment system operators with settlement finality, payment service providers and electronic money issuers in Bulgaria. One electronic money institution licensing procedure was terminated in the first half of 2023, with five payment institutions and nine electronic money companies conducting activities as of end-June 2023. Two thematic oversight checks were completed, and the relevant payment service providers followed up on their findings. An electronic money institution was issued an administrative infringement notice for a violation of the Law on Anti-Money Laundering Measures. Four inspections of companies were also completed to ascertain whether they are engaged in the provision of payment services and/or issuance of electronic money without authorisation or registration under the Law on Payment Services and Payment Systems. BORICA's license to operate as operator of a payment system with settlement finality in the part concerning the BISERA6 payment system was amended. In the first half of 2023, the BNB enquired into 207 complaints submitted by natural persons and legal entities – payment service users, and on five of them, the Bank issued instructions.

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 and foreign cash; exchanging damaged Bulgarian cash; and destroying unfit Bulgarian cash. The upward trend in currency in circulation on an annual basis was retained, with gradually decelerating growth rates in the first half of 2023. For a year (compared to end-June 2022) it rose by 7.7 per cent.

In late June 2023, 568.0 million banknotes worth BGN 26,585.3 million and 3120.0 million coins worth BGN 567.1 million were in circulation. The BGN 50 led banknote numbers at 40.87 per cent, and BGN 0.01 led coin numbers at 28.40 per cent. The share of retained non-genuine Bulgarian banknotes and coins remained at very low levels: 0.000264 per cent and 0.000004 per cent of the total number of circulating banknotes and coins (legal tender). In compliance with the requirements of Ordinance No 18 on the Control over Quality of Currency in Circulation, between January and June 2023, the BNB carried out 123 introductory and control tests of sorting machines and customer-operated machines used by banks in line with identification and fitness standards.

The BNB regulates and supervises banks in Bulgaria to maintain banking system stability and protect depositors' interests. Banking Supervision focused on analyses and assessments of the financial position of the banking system and individual banks to identify potential risks and initiate remedial measures in due time.

In line with its macroprudential mandate, the BNB supervises the operation of credit institutions and the banking system on the basis of continuous monitoring, identification and assessment of systemic risks. As one of the macroprudential instruments used, the countercyclical capital buffer aims to preserve the banking system's ability to cope with the adverse effects of cyclical developments in the business and financial cycle by strengthening banks' capital positions. As of 1 January 2023, the applicable buffer rate is 1.5 per cent for credit risk exposures in the Republic of Bulgaria, and in view of persistent high rates of credit growth and the uncertainty in the economic environment, the BNB Governing Council decided[1] to raise the countercyclical buffer rate to 2.0 per cent, effective from 1 October 2023. The BNB continued monitoring developments in the economic environment and their impact on the EU financial system, taking into account the possibility of exacerbating and accumulation of risks to financial intermediation, mainly due to the financial position of the borrowers and the ability to service their obligations. Credit institutions should therefore adhere to conservative policies with regard to lending, apply timely and adequate provisioning, and capital planning which duly considers the development of risks in the economic environment. Decisions to raise the countercyclical buffer rates aim to strengthen the resilience of the banking system amid pressures on the profitability and capital position caused by a potential increase in non-performing loans and their impairment. In the first half year, macroprudential priorities included the regular analysis of risks stemming from lending collateralised by residential real estate.

The ongoing monitoring of credit institutions' financial performance and monitoring of trends in their risk profile continued. In line with the provisions of the Law on Credit Institutions (LCI), the Supervisory Review and Evaluation Process (SREP) was conducted. Based on the applied SSM LSI SREP Methodology, the assessments of less significant institutions and certain additional capital requirements and additional own funds recommendations were prepared. When applying the EBA criteria, supervisors carried out a regular annual review of banks' Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidly Adequacy Assessment Process (ILAAP) reports for 2022 and of their funding plans covering the 2023–2025 period. The process of reviewing and assessing the updated versions of the recovery plans of the so-called 'less significant institutions' continued in order to determine their degree of credibility and to implement the recommendations made by the BNB. The implementation of the targets set by banks to reduce NPLs in their strategies and operational plans continued. The state of implementation of the recommendations and the corrective actions taken as a result of the supervisory inspections were followed up.

In line with the adopted annual plan for on-site inspections, supervisory visits which started in the previous year were completed in three banks, including one subject to direct ECB supervision under the established close cooperation arrangements between the ECB and the BNB. The scope and intensity of the on-site inspection carried out by a BNB

[1] BNB Governing Council Decision of 29 September 2022. In line with Article 5, paragraph 5 of BNB Ordinance No 8, the decision to raise the countercyclical buffer is notified not later than 12 months before its entry into force.

team at a significant institution under the direct supervision of the ECB was agreed in a centralised process organised by the ECB and aligned with the priorities for high-risk areas identified by the SSM for 2022–2024.

BNB control activities continued to insure compliance with the requirements of the Law on Anti-Money Laundering Measures and the Law on Anti-Terrorism Financing Measures. Three supervisory inspections at banks, including at two less significant credit institutions and one joint inspection by the BNB and the Directorate Financial Intelligence–SANS of a bank branch, were completed. Four horizontal inspections were launched during the reporting period, with the checks on the adequacy of banks' own money laundering and terrorist financing risk assessment (at 25 banks) and the identification of money laundering and terrorist financing risks in correspondent relationships (at 17 banks) were completed by the end of the first half of the year. The results of the closed inspections did not require the application of supervisory measures. Recommendations on the prevention of money laundering and terrorist financing were issued to improve the performance of credit institutions.

Changes were implemented in the core information system of the Banking Supervision Department to automate the transmission of data on supervisory reporting to regulators. The necessary changes to the information resources brought about by the regulatory reporting requirements have been put in place. The analysis of the necessary changes concerning the introduction of the single European currency in the information resources used in management activities has been finalised. A full-scope supervisory IT exercise was completed in one of the High Impact LSI banks. All recommendations related to the horizontal supervisory review conducted in 2022 on ‘Outsourcing with a focus on managing outsourced IT activities’ were implemented by the banks. Cyber threats were monitored on a daily basis along with cyber incidents at credit institutions. Banks did not observe cyber incidents related to the war in Ukraine during this period.

In January 2023, the BNB Governing Council adopted a decision to apply Guidelines amending Guidelines EBA/GL/2018/10 on disclosure of non-performing and forborne exposures (EBA/GL/2022/13). In April 2023, the BNB Governing Council adopted a decision to apply the EBA Guidelines issued on the basis of Article 84 (6) of Directive 2013/36/EU specifying criteria for the identification, evaluation, management and mitigation of the risks arising from potential changes in interest rates and of the assessment and monitoring of credit spread risk, of institutions’ non-trading book activities (EBA/GL/2022/14). In May 2023, the BNB Governing Council adopted a decision implementing the Guidelines on the use of solutions for remote establishment of business relationships with customers under Article 13(1) of Directive (EU) 2015/849 (EBA/GL/2022/15).

In the first half of 2023, the banking sector in Bulgaria operated in an environment of relatively high inflation and uncertain economic conditions. The sound capital position of the banking sector, as well as current interest rates stimulated the continuation of strong credit market activity, which was also supported by the sustained increase in deposits. Concurrently, non-performing exposure ratios declined in all major segments of the loan portfolio, while continuing the trend towards a reduction in potential residual credit risk on banks’ balance sheets. The increase in loan volumes had a favourable impact on banking system profitability and return on assets and equity indicators compared with those recorded in the first half of 2022, with the rise in net interest income contributing most to this. Notwithstanding the positive effects on profitability, prolonged periods of high credit activity create prerequisites for higher indebtedness and accumulation of credit risk in banks’ balance sheets. In the first half year, global monetary policy tightening was slowly transmitted to the interest rate levels in Bulgaria. Over the period, an increase was recorded in lending rates for non-financial corporations *vis-à-vis* the interest rates on consumer loans and loans to households for house purchase. The sound capital position is of essential importance in maintaining the resilience of the banking sector. Current capital ratios exceeded significantly the minimum regulatory requirements and capital buffer requirements. The liquidity position of the banking system remained sound over the review period, with the levels of liquidity coverage ratio and net stable funding ratio exceeding significantly the regulatory requirements. As a result of the profit increase, banking return on assets and return on equity rose to 2.09 per cent and 18.40 per cent, respectively, at the end of June 2023, against 1.40 per cent and 12.19 per cent by 30 June 2022.

The Law on the Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF) tasks the Bulgarian National Bank with resolution of credit institutions and other legal entities, which are subject to supervision or consolidated supervision by the central bank. The BNB performs the function of a resolution authority within the framework of the Single Supervisory Mechanism (SSM). The BNB as a resolution authority has carried out fully the ongoing management of the Banks Resolution Fund (BRF). In the first half of 2023, the BNB activity as a resolution authority and national resolution authority focused primarily on preparing, reviewing and updating resolution plans of credit institutions and monitoring the implementation of intermediate target levels of minimum requirements for own funds and eligible liabilities (MREL) as set out for credit institutions. In February 2023, the BNB Governing Council adopted a resolution plan and set MREL for a credit institution. As the resolution authority of a credit institution that is part of an EU cross-border group, in the first half of 2023, the BNB and the members of the resolution college reached joint decisions on the 2022 group resolution plan and on the MREL. In the course of reviewing and revising resolution plans of the four credit institutions falling within the SRB direct powers, the BNB Governing Council adopted decision-voting positions of the SRB Extended Executive Session for the final approval of joint decisions on 2022 resolution plans of two cross-border groups with subsidiaries licensed in Bulgaria along with setting MREL for resolution entities and their subsidiary banks. The BNB Governing Council also took a position regarding a draft proposal of the SRB on setting MREL of a subsidiary bank licensed in the Republic of Bulgaria and part of a cross-border group with a parent undertaking outside the SRM. Under the BRF governance function, in the beginning of April 2023, the BNB Governing Council adopted the annual financial statements of the BRF for 2022. It also maintained the investment strategy applied in relation to the BRF resources, and they continued to be held on current accounts with the BNB. In accordance with the allocation of the powers between the SRB and the BNB, in April 2023, the BNB Governing Council determined 2023 annual contributions of branches of third-country credit institutions to the BRF at BGN 92 thousand. As of 30 June 2023, funds collected in the sub-fund established to raise contributions by branches of third-country credit institutions amounted to BGN 882 thousand. In May 2023, the SRB determined the contributions for 2023 to be collected from the credit institutions licensed in the Republic of Bulgaria and transferred from the BNB to the SRF at a total amount of EUR 11,508 thousand, or BGN 22,508 thousand. Given the funds available in the BRF sub-fund and the possibility of using them provided for in the LRRCIIF, the BNB Governing Council decided contributions due by credit institutions to the SRF for 2023 to be deducted from the funds available in the relevant sub-fund. As of 30 June 2023, funds in the earmarked BRF sub-fund established to raise and transfer contributions of credit institutions to the SRF came to BGN 455,595 thousand.

By participating in the committees and working groups to the European System of Central Banks (ESCB), the European Commission, the EU Council, the European Systemic Risk Board, the European Banking Authority, and the Council for European Affairs, the BNB contributed to formulating Bulgarian standpoints in the area of economic governance and the financial sector and discussing other issues falling within the competencies of central banks.

In the first half of 2023, the Bank continued to collect, process, analyse and disseminate the official monetary and interest statistics, external 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 February 2023, the BNB Governing Council adopted amendments to Ordinance No 17 which changed the reporting requirements for lease companies, specialised lenders and securitisation vehicles in accordance with Guideline (EU) 2021/831 of the European Central

Bank of 26 March 2021 on statistical information reported on financial intermediaries other than monetary financial institutions (ECB/2021/12). To this end, the Instructions to Ordinance No 17 on the provision of statistical information by lease companies, specialised lenders and securitisation vehicles were updated and published, with new reporting starting in the first half of 2023.

In the first six months of 2023, work continued on the development of the BNB Integrated Information System, which will ensure optimisation and integration of information flows, and a single data entry point for statistics, reporting with regard to credit institutions' resolution activities, and supervisory reporting.

In the field of statistics, the BNB continued cooperating with the NSI, the Ministry of Finance, national and international statistical authorities and central banks. In March 2023, the BNB also participated in the first mission of the OECD in Bulgaria, introducing OECD representatives to the main sources of information and specificities in compiling data on balance of payments statistics, services and national financial accounts statistics by institutional sector, monetary and interest rate statistics.

Acting as fiscal agent and depository, the BNB maintains, develops and improves electronic systems for budget and fiscal reserve information servicing, auctions, settlement and securities trade servicing and keeps the Register of Special Pledges.

On 1 January 2023, a new joint instruction of the BNB and the MF (DDS No 04/28.3.2022; No BNB-35283/28.3.2022) on the implementation of Article 152 of the Law on Public Finance entered into force to optimise reported information on budget entities' operations and balances and securing of funds from banks.

In line with the implementation of the commitments under the National Plan for the Introduction of the Euro in the Republic of Bulgaria, in May 2023, the Government Securities Depository (GSD) successfully completed certification tests with the Eurosystem TARGET2-Securities (T2S) platform, and in June 2023, the Market Infrastructure Board of the European System of Central Banks (ESCB) approved the detailed self-assessment of the GSD regarding the fulfilment of the eligibility criteria for participation in T2S.

The BNB maintains the Central Credit Register, 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, as well as to investors granting project loans through a crowdfunding service provider, excluding foreign financial institutions conducting activities directly on the territory of Bulgaria (institutions under Article 56, paragraph 1 of the LCI). By 30 June 2023, the CCR listed 6,778,000 loans with a balance sheet exposure of BGN 111,962 million. Borrowers numbered 2559 thousand, of whom 2347 thousand individuals, 108 thousand legal entities, 99 thousand non-residents not registered at Bulgarian addresses or BULSTAT/PIK coded, and 5 thousand self-employed persons practising liberal professions or crafts.

For the same period, statements on 4317 thousand persons were issued in the CCR information system by the institutions and bodies with the right of access under Article 56, paragraph 1 and paragraph 3 of the LCI. The average number of persons checked *per* month was 719 thousand. There were 10,172 paper applications for CCR statements: 9842 by natural persons (of whom 1758 foreign citizens, or 18 per cent of all natural persons), 318 by legal entities, and 12 under Article 21a of Ordinance No 22 on the CCR for obtaining information under Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016. Between January and June 2023, 2299 natural persons obtained electronic CCR statements.

The BNB also maintains a Register of Bank Accounts and Safe Deposit Boxes (RBASDB) with an electronic information system containing bank account numbers, holders and attorneys, data on account preservation orders, bank deposit box holders and attorneys. As of 30 June 2023, the RBASDB logged 14.658 million bank accounts, 871.514 thousand payment accounts, kept by payment institutions and electronic money institutions, and 32.61 thousand safe deposit box hires, including records of 1.416 million of new accounts and 1.268 million of closed accounts.

Bodies and institutions entitled to RBASDB access conducted searches on 393,743 individuals. There were 2388 paper applications for RBASDB statements: 2295 by individuals and 93 by legal entities. Over the reporting period, 231 natural persons obtained electronic statements on RBASDB information.

Economic research and projections support the Bank's management in making decisions and delivering economic policy stance. Implementing the BNB Research Plan for 2023–2024, studies were focused on topics related to the macroeconomic effects of decreasing population, factors behind the dynamics of volumes and interest rates on consumer and housing loans, public debt sustainability, as well as the inertia of inflation in Bulgaria. Honing the basic BNB macroeconometric model for producing forecasts and simulations of the effects of economic shocks continued over the period under review along with developing a risk management methodology for BNB's gross international reserves. The simulation model was further developed by adding new channels necessary to quantify the potential macroeconomic effects of raising banks' minimum required reserves with the BNB.

In the first half of 2023, the main priorities in human resource management at the BNB focused on provision of competitive working conditions and a favourable working environment for the effective implementation of the Bank's objectives, functions and tasks. Over the review period, 37 employees joined the Bank, and 28 left, seven of whom due to retirement. The number of employees at the end of June was 913.

The review period saw audits under the Annual Internal Audit Directorate Programme approved by the BNB Governing Council, reflecting also audit commitments to be implemented under the ESCB Internal Auditors Committee Programme. Audits sought objective assurance of adequate and effective risk management, control and governance inherent in the activities concerned to ensure: effective attainment of objectives and tasks/attainment of strategic objectives of the organisation; 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 ensures the performance of the Bank's functions and tasks. In the first half of 2023, the BNB operating expenditure was BGN 66,569 thousand, or 25.1 per cent of approved annual budget, including cash circulation costs of BGN 13,857 thousand. The Bank invested BGN 4086 thousand, or 4.2 per cent of annual budget under this item. Bank investment programme budgeted funds involved procurement procedures, some in preparation or underway, other terminated and thus not fully utilised by end-June 2023. Consolidated financial statements presented the Bank's financial position as of 30 June 2023.

I. Economic Development in the First Half of 2023

The External Environment

In the first half of 2023, global economic activity recorded moderate growth tending to slow down. The dynamics of global economic growth largely reflected the tightening of monetary policy by leading central banks, economic developments in China following the lifting of country's stringent containment measures in late 2022 and early 2023, as well as sustained growth in US economic activity. The recovery in global supply chains and the easing of inflationary pressure stemming from commodity prices also had a positive impact on global economic development in the first half of 2023. At the same time, the deterioration in financing conditions resulted in a slowdown in private consumption and investment in developed market economies. Over the six-month period, world real GDP grew by 2.5 per cent year on year (0.8 per cent on a quarterly basis in the first quarter and 0.7 per cent in the second quarter).[2] The dynamics of global economic indicator (global PMI) signalled an increase in global economic activity, mainly in services (predominantly in tourism), while manufacturing continued to register a decline. Globally, industrial output and trade recorded an average decrease of -0.2 per cent and -1.3 per cent in the first half of 2023[3], reflecting weaker demand for industrial goods amid tighter financing conditions for firms and households.

In the first half of 2023, US GDP grew by 2.0 per cent year on year in real terms, compared with annual growth of 1.2 per cent in the second half of 2022. The sustainable domestic labour market was a major driver of economic activity growth, which was a prerequisite for private consumption growth in Bulgaria. In China, economic activity also accelerated year on year in the first half of the year. Following the lifting of the containment measures, the activity in services was the main factor behind the recovery in economic activity. At the same time, a substantial slowdown in economic activity was observed in the second quarter of 2023, owing to weakening external demand and lower investment activity in the real estate sector.

In the first half of 2023, euro area annual real GDP growth slowed to 0.7 per cent on an annual basis compared to 1.9 per cent in the second half of 2022. By final consumption expenditure component, weaker private consumption and decline in inventories contributed most to the slowdown in real GDP. Private consumption was affected by high inflation which led to a decline in households' real disposable income, as well as by the deterioration in financing conditions as a result of the ECB's monetary policy tightening. Over the review period, economic indicators for the euro area indicated continued downward trend in manufacturing and increasing economic activity in services. In the first half of the year, in Germany, which is Bulgaria's major trading partner, real GDP contracted by 0.3 per cent year on year, while in Italy, our other main trading partner in the euro area, growth stood at 1.1 per cent. Euro area labour market conditions remained favourable over the reference period, with the unemployment rate declining to 6.5 per cent on average, from 6.7 per cent in the second half of 2022.

[2] Based on World Bank data as of 19 September 2023.
[3] CPB Netherlands Bureau for Economic Policy Analysis data as of 25 September 2023.

Major Macroeconomic Indicators

(per cent, non-seasonally adjusted data)

	Real GDP growth rate				Inflation (end of period)				Unemployment rate (average for period)			
	2021	2022	2023		2021	2022	2023		2021	2022	2023	
			I	II			I	II			I	II
The United States	5.8	1.9	1.7	2.4	6.2	5.4	4.4	3.2	5.4	3.7	3.5	3.6
China	8.1	3.0	4.5	6.3	1.5	1.8	0.7	0.0	5.1	5.1	5.5	5.8
Europe												
EU	5.7	3.4	1.1	0.4	5.3	10.4	8.3	6.4	7.0	6.2	6.1	5.9
Euro area	5.6	3.3	1.1	0.5	5.0	9.2	6.9	5.5	7.7	6.7	6.6	6.5
United Kingdom	7.6	4.1	0.2	0.4	4.8	9.3	8.8	7.4	4.5	3.7	3.9	4.2

Notes: The EU Group consists of 27 Member States of the European Union (EU). Non-seasonally adjusted data on unemployment, except for the United Kingdom. Quarterly unemployment rate data are seasonally adjusted. Inflation in China, EU and the euro area is calculated based on CPIs. US inflation is measured by the personal consumption expenditure price index and that in the United Kingdom by a consumer price index including owner-occupiers' housing costs. Data as of 2 October 2023 are used.

Sources: Eurostat, Bureau of Economic Analysis (the USA), Bureau of Labor Statistics (the USA), Office of National Statistics (the UK), the National Bureau of Statistics of China, BNB computations.

In the first half of the year, the price of Brent oil declined significantly on an annual basis, both in dollars (by -24.6 per cent) and in euro (by -23.9 per cent). The fall in oil prices over this period was driven by market participants' expectations of an impending global economic slowdown as a result of monetary policy tightening by leading central banks. An additional factor behind lower oil prices was the G7's imposition of a cap on Russian oil prices in financing its insurance and transportation. At the same time, over the period OPEC+ took measures to restrict the supply and limit oil price decline. In addition to the already existing quota limits adopted by OPEC+, Saudi Arabia and Russia announced unilateral oil production cuts. During the review period, metal and food prices decreased on an annual basis in dollars and euro. This decline reflected the impact of the base effect after the outbreak of the war in Ukraine in late February 2022, as well as growing expectations among market participants about a deterioration in the outlook for global economic activity and, manufacturing, respectively. At the same time, lower economic growth in China and the decline in activity in the construction sector in the country in the second quarter contributed to the downward pressure on industrial metal prices, of which China is the main consumer globally. The decline in food prices was driven by downward dynamics in fuel prices as well as climate factors specific to different regions of the world.

Annual global inflation moderated in the first six months of 2023, standing at 5.5 per cent in June, compared with 8.8 per cent at the end of 2022. The main contributors to the slowdown in global inflation were energy and food prices as a result of the high base effect in 2022, and the effects of the recovery in global commodity supply chains.

In the first half of 2023, annual US inflation as measured by the price index of personal consumption expenditure continued to moderate in the first half of 2023, remaining, however, above the target of 2.0 per cent set by the Federal Open Market Committee (FOMC). The annual inflation rate slowed down to 3.0 per cent in June (5.3 per cent at the end of 2022). The decrease in inflation was mainly due to falling year-on-year transportation fuel prices and a slowdown in food price inflation. Core inflation in the United States (excluding food and energy products) slowed less in the first half of 2023, to stand at 4.1 per cent in June, down from 4.6 per cent at the end of 2022. Euro area annual consumer price inflation also declined over this period, reaching 5.5 per cent in June, down from 9.2 per cent at the end of 2022. At the same time, core inflation (excluding food, energy products, alcoholic beverages and tobacco) increased to 5.5 per cent in June (from 5.2 per cent in December 2022). Lower gas, electricity and liquid fuel prices, as well as lower food inflation, contributed most significantly to the decline in euro area annual inflation. The increase in core inflation reflected higher accommodation services inflation and combined passenger transport.

In order to achieve the price stability objectives, the US and euro area central banks continued tightening monetary policy in the period under review, with the Federal Reserve and the ECB slowing the pace of the increase in policy rates in the second quarter of 2023. In the United States, the FOMC raised the federal funds rate target corridor by a total of 75 basis points, while the ECB raised the policy rates in the euro area by a total of 150 basis points. The two central banks also reduced the size of their balance sheets by limiting the reinvested proceeds from maturing securities in their portfolios[4].

The Bulgarian Economy

In the first half of 2023, Bulgaria's annual real GDP growth continued its downward trend since early 2022, standing at 1.9 per cent according to non-seasonally adjusted data[5]. By final expenditure component, the slowdown compared to the growth in the second half of 2022 (2.8 per cent) was mainly due to the weakening in export growth and substantial negative contribution of changes in inventories, which was only partly offset by the reported decline in goods imports. At the same time, domestic demand continued to contribute significantly to economic growth. Growth in economic activity in the first half of 2023 was supported by the ongoing environment of strongly negative real interest rates on deposits and loans, which implied a relatively low household propensity to save[6] and growth in final consumption expenditure. Fiscal policy supported economic growth mainly through capital expenditure, wage increases in the budget sector and higher social payments to households, while government consumption in real terms contributed negatively to the annual rate of change of real GDP.

Private consumption rose by 4.9 per cent on an annual basis in the half-year, driven by an increase in the number of employed persons in the economy and the rise in social payments by the government in real terms. Other factors positively affecting private consumption were the year-on-year increase in consumer loans and the improvement in consumer confidence indicator. At the same time, wages had a neutral contribution to private consumption dynamics in the first half of 2023 (compared to a positive contribution in 2022), as average wage *per* employee grew at a rate close to the rate of increase in the Harmonised Index of Consumer Prices (HICP). In terms of household final consumption expenditure structure, growth was recorded for both expenditure on services, non-durable and semi-durable goods, as well as for consumption of durable goods.

After two years of decline, in the first two quarters of 2023, fixed capital investment increased by 8.6 per cent year on year in real terms. According to BNB estimates[7], both private and public investment contributed to the increase in investment in the economy. Growth in private consumption, improved managers' perceptions about the economic situation in Bulgaria and the active supply of credit resources by banks amid persistent negative real interest rates on new loans were the main factors supporting private sector investment activity. Data on the implementation of the Consolidated Fiscal Programme (CFP) for the half-year suggests that general government sector's investment activity was supported by both investment financed by national funds and investment co-financed by EU funds.

In the first half of 2023, government consumption declined by -4.2 per cent in real terms compared with the same period of the previous year, with the decline concentrated in the

[4] For more information, see Central Banks' Policies Section of Chapter II.

[5] The analysis in this Chapter is based on NSI national accounts data available as of 7 September 2023.

[6] To assess the household savings rate, the analysis employs seasonally adjusted data of the BNB obtained from the NSI Household Budget Survey.

[7] Private and government investment is assessed by available national accounts data on overall investment in the economy, quarterly non-financial accounts data on the general government sector and reports on Consolidated Fiscal Programme implementation.

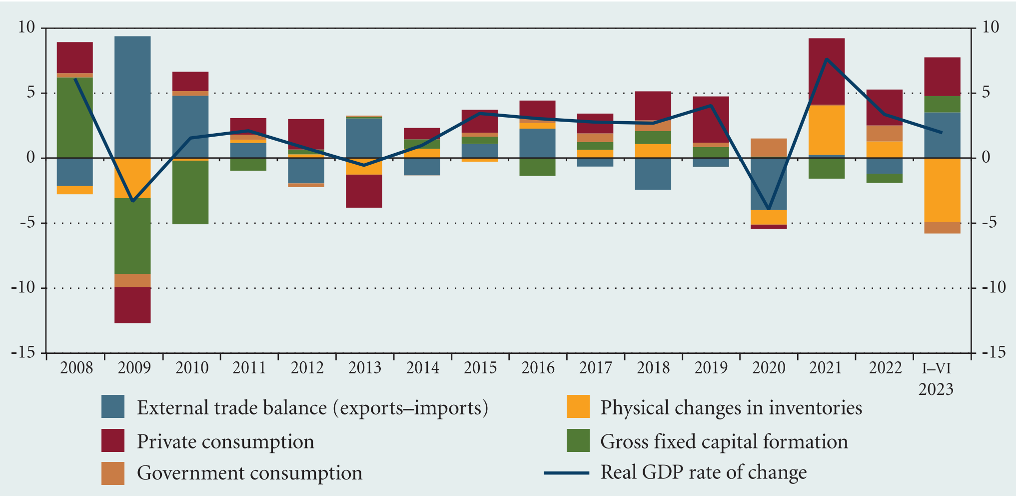
second quarter. Available general government data[8] for the first quarter of 2023, as well as for the implementation of CFP for the second quarter of 2023, signal that part of the decline in government consumption is likely due to a decrease in intermediate consumption expenditure in real terms.

The continuation of firms' policy to maintain lower stocks of commodities, raw materials and finished products led to changes in inventories making a substantial negative contribution to real GDP dynamics between January and June 2023. The decline in inventories in the economy can be explained by falling commodity prices in international markets, the deterioration in the outlook for global economic developments and the improvement in the functioning of global supply chains.

In the first half of 2023, net exports had a significant positive contribution to the change in real GDP, driven by a fall in imports of goods and services (-4.3 per cent), with low export growth (0.5 per cent). The dynamics of total imports was in line with the change in inventories[9], which are characterised by a high import content. The rise in exports of goods and services in the first half was due to the services component, while the exports of goods recorded a slight year-on-year decline (-0.2 per cent). Factors limiting the exports of goods were the weakening of economic activity in Bulgaria's main trading partners, the emergence of unfavourable terms of trade and the occurrence of special factors. The specific factors are mainly related to the entry into force on 5 February 2023 of the ban on exports to countries other than Ukraine of oil and petroleum products produced from Russian oil[10], as well as to repairs in a large company in the manufacturing sector planned for the second quarter of 2023.

GDP Change in Real Terms and Contribution by Component of Final Use

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



Sources: NSI, BNB calculations.

In the first half of 2023, gross value added of the total economy increased by 2.2 per cent in real terms on an annual basis, as growth in economic activity was registered in the agricultural and services sectors (by 3.8 per cent and 3.2 per cent, respectively), while the contribution of manufacturing was negative (a decline of -1.0 per cent). The decline in value added in industry was entirely driven by the industry sub-sector and can be explained by the reported fall in exports of goods and the maintenance of lower stocks of finished products by firms in the country. Following three years of decline in the first half of 2023, value added in the construction sub-sector rose year on year and was supported by growth in

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[8] Data on quarterly non-financial accounts of the general government sector which are available up to the first quarter of 2023 at the time of preparing the analysis are taken into account.

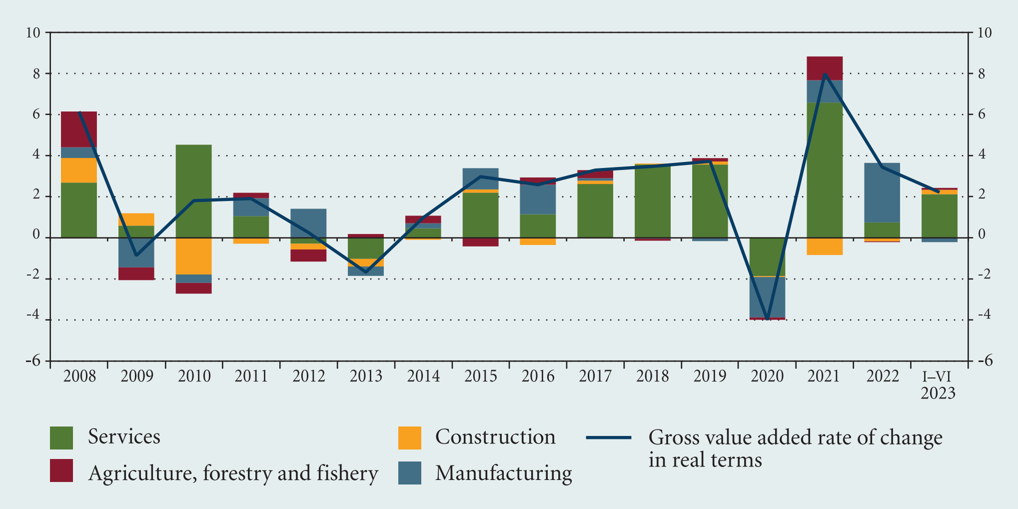
[9] According to BNB estimates based on Supply and Use tables, imported content of 27.3 units corresponds to each 100 units inventories in the economy.

[10] For further details, see Official Journal of the European Union L 322 of 16 December 2022.

building construction[11] in the country. Value added growth in services was registered in all sub-sectors, with services related to trade; transport, accommodation and food service activities[12] having the largest positive contribution.

Gross Value Added Change in Real Terms and Contribution by Industry

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



Sources: NSI, BNB calculations.

The number of persons employed in the economy rose by 0.9 per cent year on year in the first half of 2023 and was supported mainly by the services sector, with the largest contributions from the general government, education, health[13] and information and communication[14] sub-sectors. The construction sector also contributed positively to the increase in the number of persons employed in the economy, while in industry and agriculture there was a reduction in the number of persons employed. The activity rate for the age group 15–64 increased to 73.7 per cent (compared to 72.8 per cent in the first half of 2022), while the unemployment rate[15] stood at 4.6 per cent on average for the first six months of 2023 (4.7 per cent in the corresponding period of 2022). Employment Agency data also showed a similar development, with the registered unemployment rate falling slightly to 5.3 per cent on average in the first half of 2023 (5.4 per cent in the first six months of 2022).[16]

Labour productivity[17] in the total economy increased by 1.0 per cent on an annual basis in the first half of 2023, owing to growth in real productivity in agriculture, construction and the total services sector. At the same time, labour productivity in industry fell as a result of a stronger decline in value added in the sector than in the number of persons employed.

Growth in compensation *per* employee in nominal terms slowed to 10.4 per cent on an annual basis in the first six months of 2023 (against an increase of 17.1 per cent in the first half and 19.5 per cent in the second half of 2022), with the slowdown reflecting both the easing consumer price pressures and the high basis of the previous year. At the same

[11] NSI data on construction production index and the breakdown of investment costs by asset type are used. According to this breakdown, investment activity in the first half of 2023 was supported by higher expenditure on both housing and non-residential buildings and structures.

[12] Specifically, the sub-sector of 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.

[13] It should read the sub-sector of general government, education, and human health and social work activities under A10 breakdown of economic activities.

[14] It should read the sub-sector of information and communication sector under A10 breakdown of economic activities.

[15] According to NSI Labour Force Survey data.

[16] Data from the NSI Labour Force Survey and the Employment Agency were calculated on the basis of the economically active population in the age group 15–64, established in the 2021 Census.

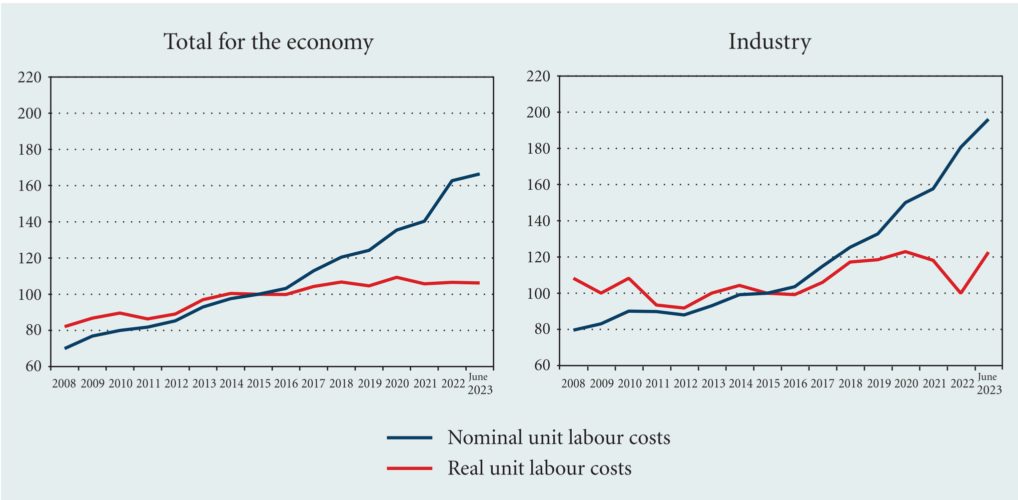
[17] Real GDP measures labour productivity in the total economy. Sector labour productivity is calculated based on sector value added in real terms.

time, factors supporting wage growth included rising economic activity, increasing labour shortages, minimum wage increases and higher public sector wages. An increase in compensation *per* employee that was higher than the average for the economy was recorded in services sub-sectors of information and communication, general government, education, health and professional, scientific and technical activities[18]. Wage growth *per* employee[19] also slowed down in nominal terms to 11.0 per cent year on year in the first half of 2023 (15.2 per cent in the same period of 2022), while in real terms[20] labour remunerations remained at the same level as in the corresponding period of the previous year.

Unit labour cost growth in nominal terms slowed to 9.3 per cent year on year in the first six months of 2023 (compared to 14.2 per cent in the same period of 2022), in line with the lower rate of wage growth. In real terms, unit labour costs for the total economy decreased by -1.2 per cent, influenced by the increase in gross value added in the economy. All the main sectors contributed to the decline, with the exception of manufacturing where value added fell.

Unit Labour Costs

(moving average, 2015 = 100)



Note: Data for June 2023 cover the last four quarters up to the second quarter of 2023 inclusive.

Sources: NSI, BNB calculations.

Gross operating surplus at current prices for the total economy increased by 9.6 per cent year on year in the first six months of the year. Improvements in the financial situation of firms as measured by this indicator were mainly observed in agriculture (a rise in gross operating surplus by 34.7 per cent) and, to a lesser extent, in services (13.5 per cent) and manufacturing (1.6 per cent). Gross operating surplus growth in the manufacturing was only observed in firms in construction, while a decline was recorded for the total industry. The deterioration in the financial performance of industrial firms reflected the significant decline in the nominal turnover of firms in the energy products sub-sectors[21] in the context of declining energy prices and declining sales in real terms, both on the international and domestic markets. Gross operating surplus growth in services was mainly driven by the improvement in the financial performance of firms in the sub-sectors of trade, transport, accommodation and food service activities; financial and insurance activities and real estate activities.

The GDP deflator increased by 10.6 per cent year on year in the first half of 2023. Private consumption deflator grew by 13.4 per cent and was in line with the average consumer price

[18] It should read the sub-sector of professional, scientific and technical activities; administrative and support service activities under A10 breakdown of economic activities.

[19] According to the NSI national account wage bill data.

[20] Wages *per* employee was deflated by the HICP to calculate the indicator in real terms.

[21] NSI non-seasonally adjusted data on nominal turnover in industry by economic sector for the first half of 2023 are used. The sub-sectors related to the production of energy products include extraction of coal, extraction of oil and natural gas, production of coke and refined petroleum products, and production and distribution of electricity, heat and gas.

inflation in the first half of the year as measured by the HICP (11.0 per cent). Fixed capital investment and government consumption deflators also picked up on the corresponding period of the previous year by 13.3 per cent and 9.7 per cent, respectively. The deflator of exports of goods and services decreased by -0.8 per cent year on year, while that of imports rose by 0.9 per cent, which contributed to the emergence of the country's unfavourable terms of trade.

Annual HICP inflation remained high in the first six months of 2023, but followed a downward trend and stood at 7.5 per cent in June 2023 (14.3 per cent in December 2022). The main factors that contributed to the slowdown in inflation were the fall in transportation fuel prices owing to the declining oil price dynamics in international markets and the emergence of a base effect against the high rates of consumer price growth in 2022, which was more pronounced in the food group. In terms of the internal macroeconomic environment, upward price pressures continued to be supported by persistent strong consumer demand, as well as relatively high rates of increase in unit labour costs. These developments brought about a limited pass-through by firms of declines in international agricultural and energy commodity prices to final consumer prices, mainly in the groups of food and core components. Fiscal policy continued to have a divergent impact on inflation. The discretionary fiscal measures in place to mitigate the pro-inflationary impact of the international environment included reduced excise and VAT rates, mostly focused on energy commodities and food, as well as on the programme to provide compensation for electricity prices to non-household final customers of electricity[22]. At the same time, increases in pensions and higher staff expenditure in the public sector supported private consumption growth and were a prerequisite for sustained high inflation in more demand-sensitive HICP components, such as services. Another factor with potentially pro-inflationary effects was monetary conditions in Bulgaria, as strongly negative interest rates on deposits and loans in real terms contributed to continued robust domestic demand. As of June 2023, food, services and industrial goods made the largest contribution to headline consumer price inflation, while the group of energy products (excluding goods with administratively controlled prices) had a negative contribution.

Food inflation stood at 13.8 per cent in June 2023 (25.0 per cent in December 2022), remaining at a higher level than implied by the reported declines in international agricultural and energy commodity prices. Meat and meat products were the main contributor to unprocessed food inflation, reflecting the continued price increases, albeit at slowing rates, of imported meat products into the country, as well as the persistent high prices of feed inputs. Indirect effects of the significant increase in domestic production expenditure[23] recorded in 2022 and the continued high-level price indices of imported food continued to affect processed food inflation[24].

Core inflation[25] remained high in the first six months of 2023, standing at 8.8 per cent in June 2023 (11.9 per cent in December 2022), with both services and industrial goods contributing positively to it. Potential factors that influenced the maintenance of inflation in these high-level groups were continued strong consumer demand and limited pass-through by firms of falling energy prices to final consumer prices amid rising unit labour costs. Catering continued to make a significant positive contribution in the services group, in line with the reported increases in processed food prices and strong consumer demand in the first half of 2023. The persistent year-on-year increase in the prices of industrial goods imported in the country, as well as part of the raw materials used into the production process[26] were factors exerting continued upward pressure on industrial goods prices.

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[22] The compensation amounts to 100 per cent of the difference between the price of electricity on the Bulgarian Independent Energy Exchange and the threshold of BGN 200 and was paid until March 2023 inclusive (as of April 2023, the average electricity price fell below the threshold of BGN 200).

[23] NSI data on price indices of goods and services intended for current consumption in agriculture and producer price index in industry are used.

[24] Monthly frequency data from Eurostat's Food Price Monitoring Tool were used, available until April 2023. As of April 2023, the price index of imported food in Bulgaria rose by 14.0 per cent year-on-year.

[25] Core inflation includes the sub-groups of HICP services and non-food goods and excludes the sub-groups of food, energy products, goods and services with administratively controlled prices, and tobacco products.

[26] BNB calculations for the first quarter of 2023 based on NSI data on import prices by commodity group according to the Standard International Trade Classification (SITC) have been used, with year on year price rises in textiles, timber and paper and certain chemical products.

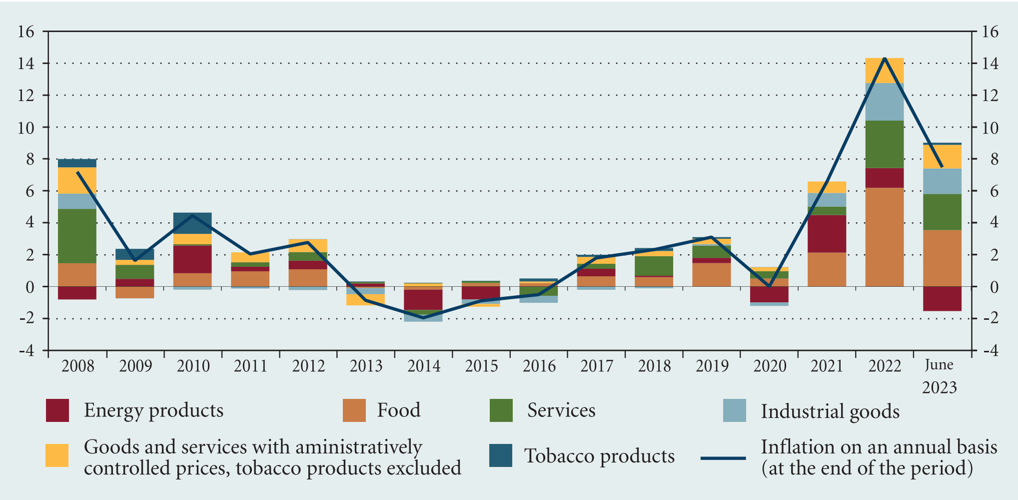
The group of energy products (excluding those with administratively controlled prices) recorded a price decline of 16.0 per cent on an annual basis, driven mainly by decreases in transportation fuels and, to a lesser extent, household gaseous fuels, reflecting the direct effects of downward movements in oil and gas prices on international markets.

Inflation in goods and services with administratively controlled prices and tobacco products accelerated to 7.6 per cent in June 2023 (6.9 per cent in December 2022). The largest positive contribution to inflation in this group continued to come from medicinal products[27], heating, water supply, education and tobacco products sub-groups. Central gas supply services had a negative contribution to inflation in the group of administered prices.

In the first half of 2023, Bulgaria's current and capital account balance in Bulgaria was positive at EUR 1.25 billion, with a negative balance (a deficit of EUR 202 million) in the same period of 2022. This dynamics was driven by capital account flows, which saw a shift from a deficit between January and June 2022 to a surplus in the first half of 2023, mainly driven by the greenhouse gas emission allowances trading. At the same time, the current account surplus increased from EUR 190 million in the first half of 2022 to EUR 723 million in the first half of 2023, as the contraction in the trade deficit contributed most to this growth.

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

(per cent, percentage points)



Note: The index of goods and services with administratively controlled prices is calculated by weighing the relevant elementary aggregates in the consumer basket.

Sources: NSI, BNB calculations.

The narrowing of the negative trade balance resulted from a stronger year-on-year fall in imports of goods in real terms (-4.4 per cent) than goods exports (-0.2 per cent)[28], while country's unfavourable terms of trade[29] partly limited the contraction of the trade deficit. According to detailed data by commodity group in foreign trade statistics, the year-on-year decline in exports of goods in nominal terms was broad-based by commodity group, with the energy product groups (mainly processed oil products and, to a lesser extent, electricity) and non-ferrous metals making the largest negative contribution. Exports decline in these groups was driven by both year-on-year falling prices of these commodities in

[27] Medicines included in the so-called positive drug list posted the strongest price rise. These are medicines whose prices are set administratively by the National Council on Prices and Reimbursement of Medicinal Products on the basis of the lowest producer price in the European Union and a percentage surcharge.

[28] Non-seasonally adjusted national account GDP data.

[29] Unfavourable terms of trade in the first half of the year resulted in a year-on-year fall in the export prices of goods, while maintaining import prices of goods according to non-seasonally adjusted GDP national accounts data.

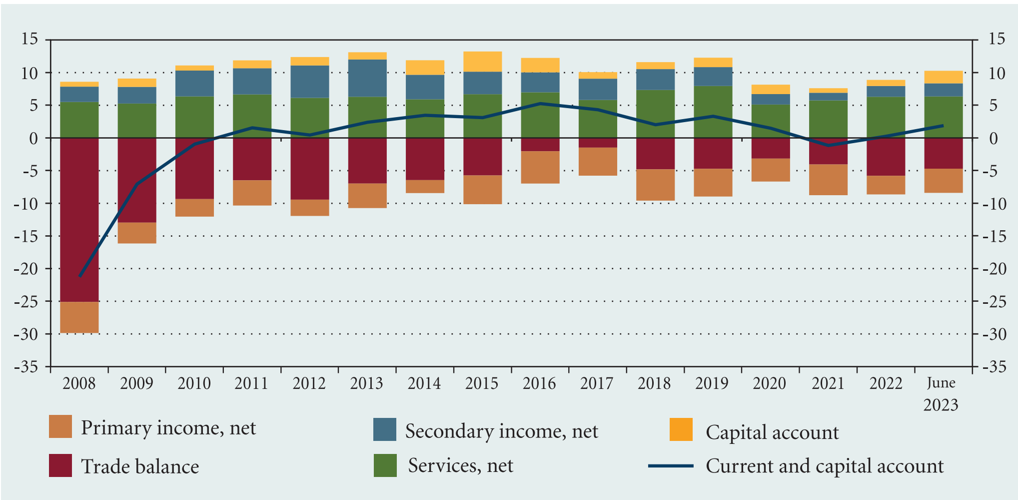
international markets and lower trade volumes due to the entry into force on 5 February 2023 of the ban on exports to countries other than Ukraine of processed crude oil products originating in Russia, and to repairs in a leading manufacturing company[30]. Similar dynamics across product groups was observed in imports of goods in nominal terms. However, the decline in imports of energy products was much larger than that in exports, with significant declines being recorded in both crude oil and gas imports. This can be explained by lower import needs of these products given the significant decline in inventories accumulated in the economy, which was reflected in the national accounts data in the first half of 2023, as well as by the maintenance of a high degree of filling of the Chiren gas storage which did not imply a significant need for additional imports of natural gas[31].

The surplus on net services item increased compared to the same period in 2022, with exports of services growing by 4.2 per cent year on year in nominal terms, while imports of services fell by 3.1 per cent. Similar dynamics was observed in real services trade, while year on year services import prices rose more than those of exports, partly limiting the increase in the surplus item. Revenue from visits of non-residents in nominal terms contributed most to growth in services exports, with the number of visitors from other countries increasing by 26.2 per cent compared to the period January–June 2022. At the same time, imports of services fell year on year in nominal terms, mainly due to a decline in imports of insurance and pension services, while Bulgarian residents' expenditure on travel abroad increased by 19.5 per cent compared to the period January–June 2022.

In the first half of 2023, net primary income deficit increased compared to January–June 2022, due to higher outflows under equity income sub-item related to reinvested earnings on direct investment. At the same time, the surplus on net secondary income increased largely reflecting the decrease in outflows of other sectors[32] of non-life premiums and claims combined with an increase in remittances from workers abroad.

Current and Capital Account Flow Dynamics and Contributions of Individual Components

(per cent of GDP)



Notes: June 2023 data on the current and capital account flows are accumulated for the last 12 months. Nominal GDP data for the last four quarters, including the second quarter of 2023, are used in calculating the GDP ratio for June 2023.

Sources: BNB, NSI, BNB calculations.

[30] In the second quarter of 2023, processed copper volumes are expected to decline in one of the largest metallurgical plants in Bulgaria due to repairs. This resulted in a decrease in the production on an annual basis, as in 2022 the plant operated at full capacity without outage.

[31] As of 30 June 2023 Chiren gas storage facility was filled in at 88 per cent (against 82 per cent as of 31 December 2022), whereas, by comparison, the storage facility was filled to 35 per cent.

[32] 'Other sectors' cover the economic sectors except general government, central bank and other monetary financial institutions'.

Between January and June 2023, a net outflow of funds in the amount of EUR 3.83 billion was recorded in the financial account of the balance of payments, which was driven by a stronger accumulation of foreign assets of Bulgarian residents than that of liabilities to non-residents. The increase in foreign assets was largely driven by the rise in banks' assets and in portfolio investment of other sectors. Liabilities to non-residents during the period from January to June 2023 increased primarily owing to the rise in foreign direct investment in other sectors.

Preliminary balance of payments data put direct investment liabilities (reporting foreign direct investment in Bulgaria) at EUR 2.1 billion in the first six months of 2023, up by 48.5 per cent on the corresponding period of 2022, mainly due to higher reinvested earnings reported by non-resident non-financial corporations in Bulgaria.

As a result of net current, capital and financial account flows, BNB international reserves decreased by EUR 3.23 billion between January and June 2023, according to balance of payments data (valuation adjustments and revaluations excluded). After taking into account changes in international reserves on the BNB Issue Department balance sheet including valuation adjustments and price revaluations, as of June 2023 they fell by EUR 3.19 billion from the end of 2022. The decrease in Issue Department liabilities in the first half of 2023 was largely driven by a reduction of liabilities to banks, entirely due to a decline in bank excess reserves at the BNB.

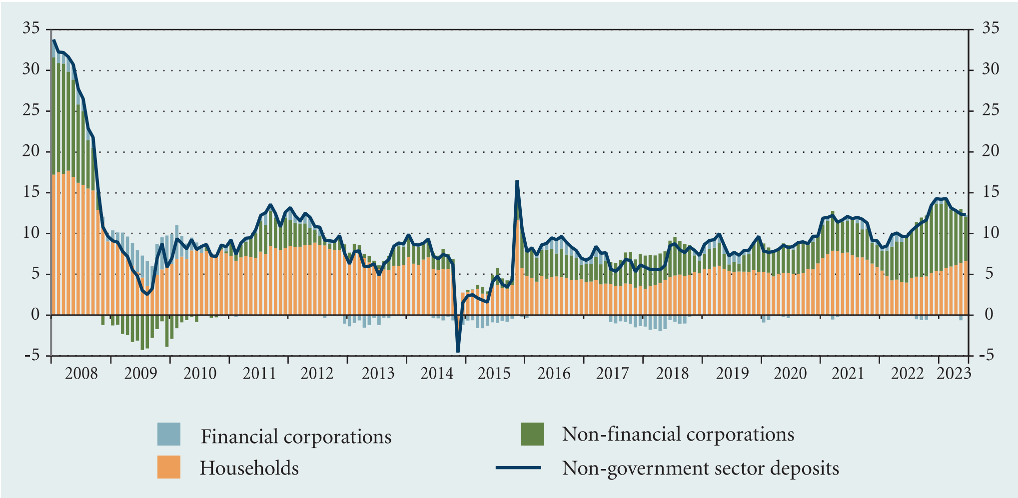
In June 2023, Bulgaria's gross external debt declined by EUR 375.6 million from the end of 2022 to EUR 44.1 billion (49.3 per cent of GDP)[33]. An external debt increase was recorded only in the general government and the banking sectors. The increase in the general government debt reflected government bonds issued on international markets in January 2023 amounting to EUR 1.5 billion, with the effect on the amount of gross external debt being partly offset by a maturing government debt issue in March.

In the first half of 2023, the annual growth of non-government sector deposits in the banking system slowed down but remained high, standing at 12.3 per cent at the end of June (14.3 per cent in December 2022). Since the end of the first quarter of the year, the annual growth of deposits of non-financial corporations decelerated, reaching 16.5 per cent in June (26.6 per cent in December 2022). The main factors affecting the dynamics of corporate deposits were the lower growth rate of nominal turnover in the retail trade, the reported decline in turnover in industry, as well as the base effect of the strong increase in deposits in the sector related to the production and distribution of electricity and heat and gaseous fuels at the end of the first quarter of 2022. In the household sector, annual deposit growth followed an accelerating trend in the first half of 2023, reaching 10.4 per cent at the end of June 2022 (8.3 per cent as of December 2022). The continued growth in labour income, and persistence of household preferences for bank deposits as a form of savings, are the main factors contributing to the upward dynamics of household deposits. In the context of continued high inflows of attracted funds, ample liquidity and strong competition in the banking sector, the pass-through of the effects of ECB monetary policy tightening on new time deposit rates in Bulgaria remained weak, particularly in the household sector.

[33] Nominal GDP data for the last four quarters, through the second quarter of 2023 inclusive, are used in calculating the GDP ratio as of June 2023.

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

(per cent, percentage points)



Note: The annual growth rate of non-government sector deposits in November 2015 reflects the exhausted base effect of KTB removal as a reporting unit from the monetary statistics in November 2014.

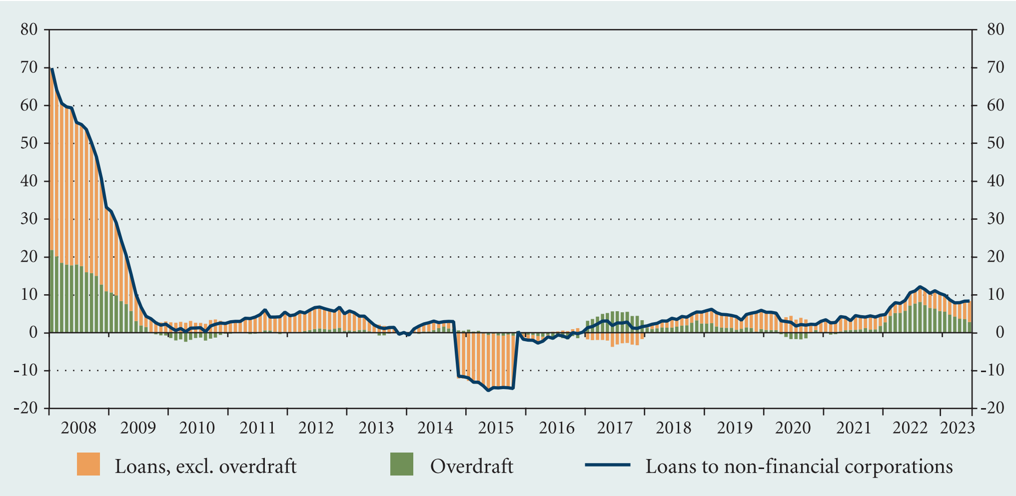
Source: BNB.

The annual growth of credit to non-financial corporations slowed to 8.4 per cent (10.4 per cent in December 2022) in the first half of 2023, which was entirely driven by corporate overdraft. The continued trend towards a decrease in inventories in the economy was a contributor to the weaker demand for financial resources required for working capital and accumulation of inventories by non-financial corporations, which contributed to lower growth of corporate overdraft. In addition, the increase in interest rates to non-financial corporations, which started as a result of monetary policy tightening by the ECB, was another potential factor dampening corporate loan growth. In the household sector, annual credit growth remained high in the first half of 2023, standing at 14.0 per cent at the end of June (14.6 per cent in December 2022). A slight deceleration was observed in the growth of consumer loans to 10.9 per cent (against 12.3 per cent growth at the end of 2022), while housing loan growth remained very strong (18.0 per cent), largely unchanged from December 2022. The main driver of the continued robust growth of consumer loans and, in particular, of housing loans was the slow and muted pass-through of the effects of the tightening of ECB's monetary policy to the interest rates on new loans in the household sector amid ample liquidity and intense competition in the banking sector. In real terms, lending rates on housing loans remained strongly negative throughout the half of the year, while those on consumer loans were negative until April 2023 and slightly positive in May and June 2023.[34] Household preferences for house purchases as a form of savings or investment, as well as rising house prices, were other potential factors for the strong growth of housing loans in the first half of 2023.

[34] Real interest rates are calculated by deflating the relevant nominal interest rate for a given month by the annual HICP inflation for the same month.

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

(per cent, percentage points)

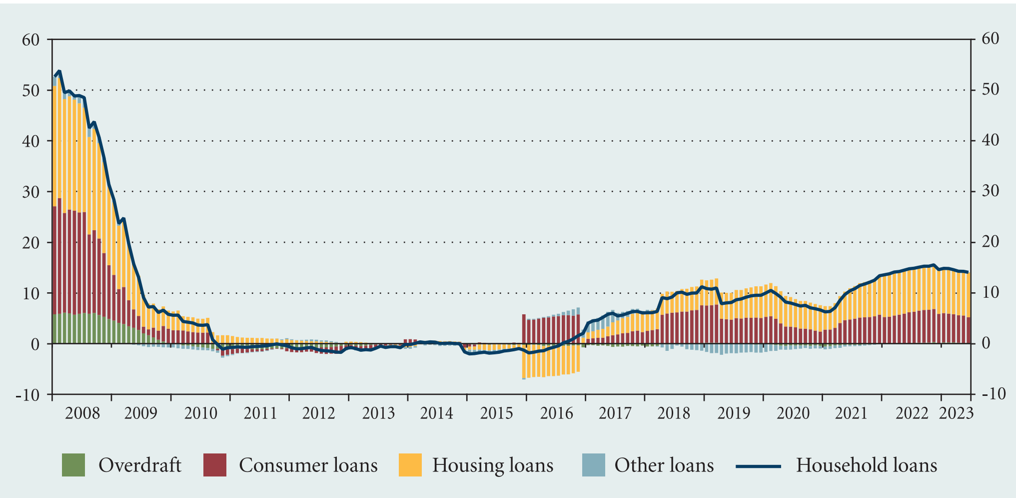


Note: The annual growth rate of loans to non-financial corporations in November 2015 reflects the exhausted base effect of KTB removal as a reporting unit from the monetary statistics in November 2014.

Source: BNB.

Annual Household Credit Growth and Contributions by Individual Loan Type

(per cent, percentage points)

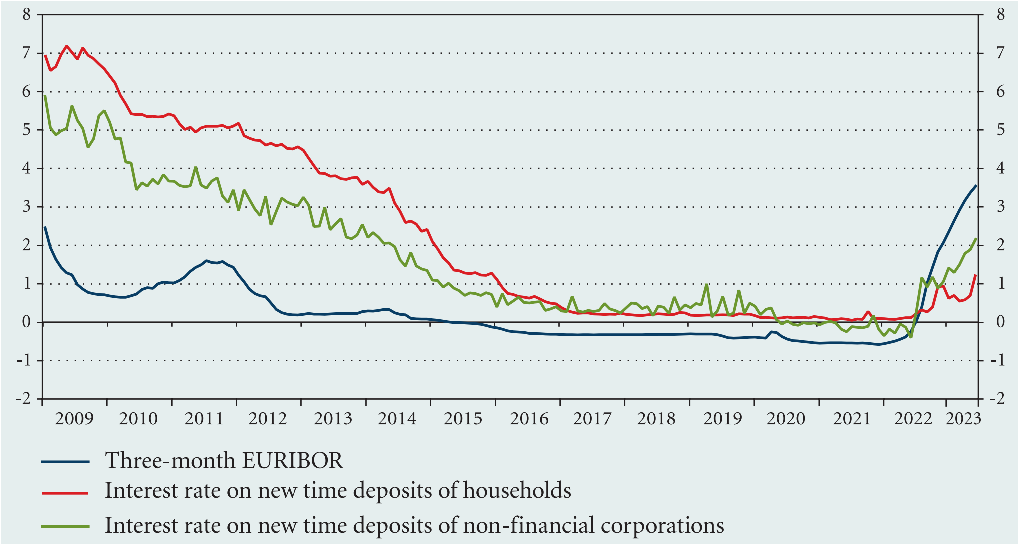


Note: Based on additional information received from reporting units, a revision of household loans was carried out according to their purpose of use in December 2015–August 2019.

Source: BNB.

Interest Rates on New Time Deposits and Three-month EURIBOR

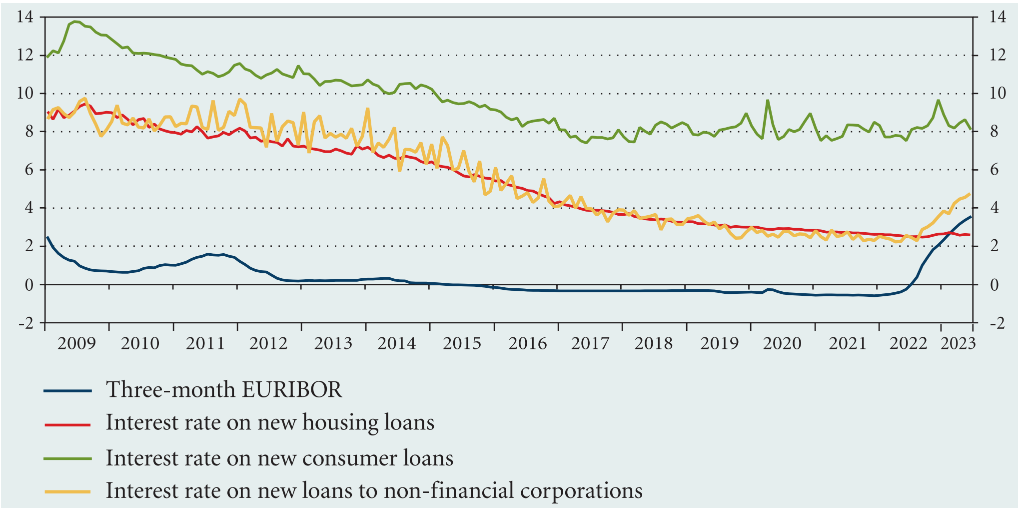
(per cent, percentage points)



Source: BNB.

Interest Rates on New Loans and Three-month EURIBOR

(per cent, percentage points)



Source: BNB.

The results of the Bank Lending Survey conducted by the BNB on a quarterly basis show an increase in demand for consumer loans and a persistent, largely unchanged, household demand for housing loans in the first half of 2023. Firms' demand for credit resources increased in the first quarter of 2023 and fell in the second quarter. The factors that had the strongest increase in demand for consumer loans were the demand for financial resources for purchasing current and durable goods. The surge in demand for housing loans was mainly driven by households' need for purchasing first and additional residence, as well as low interest rates, while housing market prospects and the macroeconomic environment dampened demand.

In the first half of 2023, banks reported a tightening of credit standards of non-financial corporations and households, more pronounced in lending to firms in the second quarter of the year. The main factors affecting the tightening of credit policies on corporate lending were banks' reduced risk appetite, the cost of borrowed funds, as well as improved risk assessment. The overall macroeconomic environment, the decreased borrower solvency assessment along with the business climate in industrial sectors with a high share in credit portfolio were essential for the risk assessment.

Taking into account the slow and low pass-through of ECB monetary policy changes to interest rates on deposits and loans in Bulgaria, especially in the household sector, the persistent high growth of credit to households, the strong consumer demand and high inflation, the Governing Council of the BNB decided on 26 April 2023 to raise the minimum reserve requirements (MRR) rate on funds attracted by banks in two steps. According to the Decision, as of 1 June 2023, the MRR rate on funds attracted from non-residents by banks increased from 5 per cent to 10 per cent, and as of 1 July 2023, the MRR rate on funds attracted by banks from residents and non-residents rose from 10 per cent to 12 per cent. The BNB decision aims at tightening monetary conditions in Bulgaria by the absorption of part of the current excess liquidity in the banking system, thus reducing banks' free resources and lending capacity and creating incentives for a faster and stronger pass-through of the increased interest rates in the euro area to Bulgaria's interest rates. At the same time, as MRR are not remunerated, the increased rate can be expected to implicitly influence banks' overall funding costs and to push up higher lending rates.

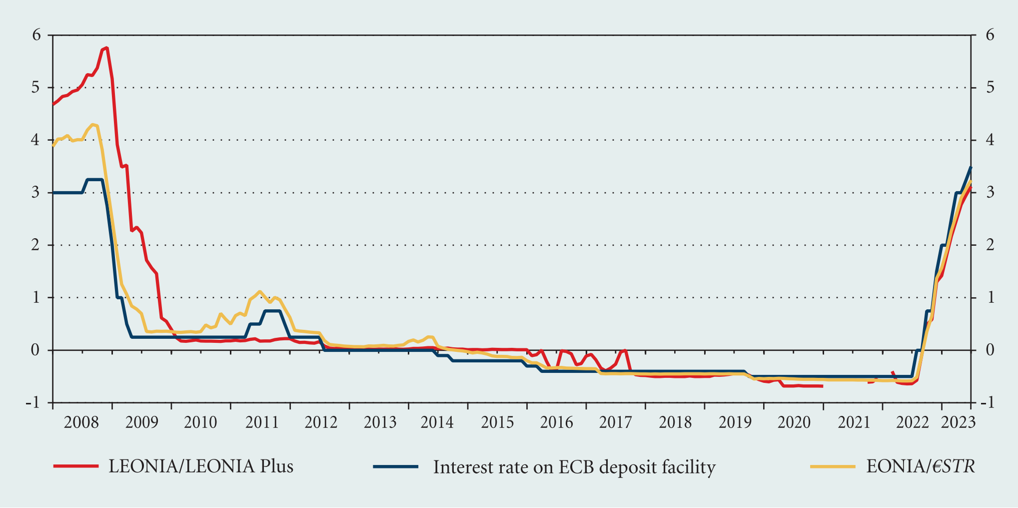
The ample liquidity in the banking system, banks' search for profitable investment opportunities for free liquid resources and the rise in the euro area policy rates are potential factors driving the increase in Bulgaria's foreign assets in the first half of 2023 (by BGN 7.5 billion on end-2022). Banks' claims on the non-government sector increased by BGN 4.6 billion. At the same time, banks' reserves with the BNB and, to a much lesser extent, banks' government bond portfolios declined. The reduction of banks' reserves was driven by the decline in banks' excess reserves, while the increase in MRR rate reflecting the growing reserve base and the increased minimum reserve rate since early June 2023 only partly limited the downward dynamics of bank reserves.

Bank transactions with the BNB in reserve currency (euro) are the main instrument of banks for managing their lev liquidity under the currency board in Bulgaria. 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. In the first half of 2023, the BNB sold net EUR 1.7 billion to commercial banks.

Activity in the interbank lev money market increased significantly between January and June 2023. The widening of the negative spread between the BNB's excess reserves rate (0 per cent) and the ECB's deposit facility rate as a result of the ECB's policy rate increases continued to create incentives for commercial banks to reduce their excess reserves and to trade more actively in the interbank lev money market in case of liquidity needs. Between January and June 2023 interbank lev money market transactions totaled BGN 57.5 billion (against BGN 4.2 billion over the same period of 2022). As of June 2023, the LEONIA Plus index stood at 3.12 per cent and its spread to the *€STR* was negative and stood at -12 basis points.

Overnight Interbank Money Market Rates

(per cent, monthly average amount)



Notes: 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. The EONIA/*€STR* series is composed of: EONIA between 2008 and 14 March 2017; pre-€STR between 15 March 2017 and 30 September 2019; €STR in the period after 30 September 2019.

Sources: BNB, ECB.

At the end of the first six months of 2023, the budget balance on the consolidated fiscal programme[35] was positive at BGN 178 million. Compared with the same period of the previous year, total budget expenditure increased more than total revenue, resulting in a reduction of BGN 1002 million in the budget balance. The deterioration of the fiscal position was also affected by the funds reported as cash expenditure in December 2021, totalling BGN 1.2 billion for paying pension allowances and subsidies to non-financial enterprises in 2022 for the high price of electricity, which were not reflected as a cash expenditure in the first half of 2022.

In the first six months of 2023, total revenues and grants under the CFP grew by 11.2 per cent year on year, with tax revenues contributing most significantly. The increase in tax revenues was driven most by social and health insurance revenues, direct tax revenues and revenues from other taxes[36]. The growth in social and health insurance revenues and revenue from personal income taxes mainly reflected growing labour and employment income, as well as the increase in the minimum wage since the beginning of the year.

At the end of the first half of 2023, the annual growth of total CFP expenditure stood at 15.4 per cent, with social expenditure followed by staff expenditure being the main contributors. Social expenditure growth was driven by increases in pensions paid in the second half of 2022, while the base effect had also an additional impact due to funds for allowances to pensions not reported as cash expenditure in the first half of 2022, which were earmarked for this purpose and accounted for as budgetary expenditure in December 2021. The increase in staff expenditure, which stood at 16.0 per cent year on year as of June 2023, was supported by the remuneration growth of some of the employees in the public sector in the second half of 2022.

At the end of the first half-year, the total amount of the fiscal reserve, including claims on EU funds over certified expenses, advance and other payments was BGN 12,940 million. Fiscal reserve deposit funds rose by BGN 372 million from end-2022 amounting to

[35] Based on monthly reports on cash implementation of the budget, published on the Ministry of Finance website. BNB calculations.

[36] Energy companies' contributions to the Electricity System Security Fund, which are recorded as revenue from other taxes since early 2023, pushed up the increase in revenue from other taxes.

BGN 12,502 million (7.2 per cent of GDP[37]), of which BGN 11,756 million on deposits with the BNB. In the first half of 2023, no auctions of government securities were conducted to finance the budget and no domestic debt repayments were made[38]. Over the review period, the net amount of budget external financing was positive at BGN 527 million, mainly reflecting the proceeds of the eurobond issue, amounting to a nominal amount of EUR 1.5 billion in January 2023 and maturing eurobonds at a nominal amount of EUR 1.144 billion in March 2023.

At the end of the first half of 2023, yields of Bulgarian eurobonds issued on international capital markets showed a divergent dynamics compared to the end of 2022. Significant changes over the period were reported in securities maturing in 2024, 2027 and 2050, where yields increased (by 62 basis points, 23 basis points and 22 basis points, respectively) and those maturing in 2028, whose yields decreased (by 30 basis points). A divergent development during the review period was also reported in the spread between the Bulgarian and German government bond yields. A decrease in the spread was recorded in securities maturing in 2024, owing to a stronger increase in German government bond yields compared to the increase in Bulgarian government bonds[39]. At the same time, spreads were increased in the case of securities maturing in 2034, 2035 and 2050, due to the decline in German government bond yields amid a slight increase in Bulgarian government bond yields.

[37] Nominal GDP data for the last four quarters, including the second quarter of 2023 are used in calculating the GDP ratio.

[38] For more information on domestic government securities market, see Chapter XI.

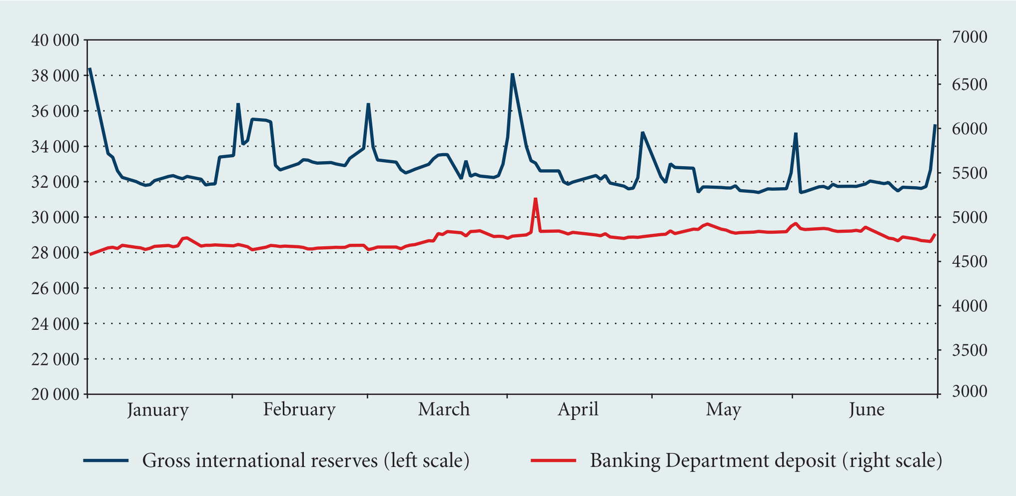
[39] For more information on government securities yields in euro area countries, see Chapter II.

II. Gross International Reserves

The BNB manages its gross international reserves in line with the Law on the Bulgarian National Bank (LBNB)[40], 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[41]. The excess of gross international reserves over monetary liabilities forms the Banking Department Deposit item or the net value of the Issue Department's balance sheet[42].

Gross International Reserves and Banking Department Deposit in the First Six Months of 2023

(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: BNB.

[40] There were no Law on the BNB amendments to the regulatory framework of gross international reserve management over the reporting period.

[41] 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.

[42] The LBNB Article 28, paragraph 1 states that 'the aggregate amount of monetary liabilities of the BNB shall not exceed the lev equivalent of gross international reserves,' with the lev equivalent calculated on the basis of the fixed exchange rate.

The Amount and Structure of Gross International Reserves

As of the end of June 2023, the balance sheet value of gross international reserves was EUR 35,233.35 million: a decrease of EUR 3190.96[43] million on end-2022, or a 8.3 per cent fall as a share of BNB foreign currency assets.

External Cash Flows in Foreign Currency

(EUR million)

	January–June 2022	January–June 2023
I. Euro purchases and sales		
At tills	-261	-253
With banks	-1 110	-1 173
purchases from banks	27 061	38 510
sales to banks	-28 171	-39 682
Subtotal I	**-1 371**	**-1 426**
II. Currency flows with banks, the MF, *etc.*		
Bank reserves (including minimum required reserves)	81	-2 327
Government and other depositors	-166	1 611
Subtotal II	**-85**	**-717**
Total I+II	**-1 456**	**-2 142**

Source: BNB.

External foreign currency flows of EUR 2142 million had the major contribution to the international reserve decrease in the first half of 2023. Of these, external outflows from commercial bank accounts with the BNB which decreased by EUR 2327 million had the largest negative contribution, followed by purchases and sales of reserve currency by commercial banks, with a net negative flow of EUR 1173 million. Over the review period, funds in foreign currency of the government and other depositors at the BNB picked up by EUR 1611 million, with major receipts resulting from new government securities in international capital markets issued in January to the amount of EUR 1467 million and from receipts into EC accounts at the BNB. The largest outflow from the government's account with the BNB relates to the repayment in March of EUR 1245 million of maturing external government debt.

No significant changes in the composition of gross international reserves by currency were observed in the first half of 2023 compared with the previous reporting period. In the structure by financial instrument, current account balances decreased by 3.4 per cent and deposits by 5.6 per cent against an increase in BNB's securities exposures. In terms of the maturity structure, in the first half of 2023, almost all BNB investments (99.66 per cent) occupied the shortest maturity sector: from 0 to 1 year.

Currency Structure of Gross International Reserves

(per cent)

Currency	Issue Department balance sheet assets	
	2022	January–June 2023
EUR	91.63	92.42
USD	0.14	0.03
XAU	7.74	7.12
SDR	0.49	0.42
CHF	0.00	0.00

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

Source: BNB.

[43] Balances in banks' TARGET2 payment system accounts (worth some EUR 516 million at the end of June 2023) were not included in the analysis of changes in BNB gross international reserves. Over the first half year, these balances declined by EUR 1410 million. Tranches of SDR 611 million disbursed in August and September 2009 and around SDR 859 million disbursed in August 2021 upon general SDR allocation by the IMF were also not included in these balances. For further details, see BNB Annual Report, 2009, p 26, and BNB Annual Report, 2021, p 91.

Structure of Gross International Reserves by Financial Instrument

(per cent)

Financial instruments	2022	January–June 2023
Vault cash*	15.10	11.70
Deposits**	34.65	29.02
Securities**	50.25	59.28

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: BNB.

Gross International Reserves by Residual Term to Maturity

(per cent)

Maturity sectors	2022	January–June 2023
Up to a year	94.12	99.66
One to three years	5.48	0.27
Three to five years	0.38	0.06
Five to ten years	0.02	0.01
Over ten years	0.00	0.00

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

Source: BNB.

Gross International Reserves Risk and Return

The Market Environment

Measures taken by large central banks to contain inflation continued to have the major impact on the market environment in the first half of 2023. In the United States and the euro area, consumer price inflation slowed down under the main influence of falling commodity prices. Despite this moderation, inflation remained considerably above the target levels set by major central banks, with the services sector's contribution increasing. Hence, the Federal Reserve System and the ECB continued to tighten their monetary policy by raising policy rates and reducing the size of central bank balance sheets through limiting reinvestments of maturing securities purchased for monetary policy purposes. Over the first half year, the US Federal Open Market Committee (FOMC) raised the federal funds rates corridor by a total of 75 basis points and continued reducing the Federal Reserve's balance sheet. The ECB Governing Council also raised its policy rates by a total of 150 basis points. In March 2023, the ECB started to reduce the size of its balance sheet by limiting reinvestments of maturing securities under the Asset Purchase Programme (APP). Measures taken by the Federal Reserve and the ECB, as well as market participants' expectations of the need for additional restrictive monetary policy measures led to a significant increase in US and euro area government bond yields in short-term maturity sectors. In March, significant tensions were observed in global financial markets after the bankruptcy of several US regional banks and liquidity problems seriously affecting the viability of a global systemically important Swiss bank. This boosted demand for US and German government securities as low-risk assets, and triggered a significant increase in day-to-day volatility in international financial markets. As a result, US and German government bond yields declined. Market participants' concerns that the Federal Reserve's and the ECB's monetary policy measures would cause recession have also contributed to the decline in longer-term maturity yields. Stock indices in the United States and Europe increased during the first six months of 2023, supported by rising stock prices of technology companies. Indicators measuring financial market volatility in the United States and Europe declined compared with 2022, despite a short-lived increase in fluctuations in March.

Central Banks' Policies

In the first half of 2023, the FOMC raised the federal funds rate target by 75 basis points to a range of 5.00 to 5.25 per cent. The increase took place in three steps by 25 basis points each in February, March and May, while at the FOMC meeting in June, the range was kept unchanged. All meetings in the half year confirmed the measures underlying the Federal Reserve's balance sheet reduction plan.[44]

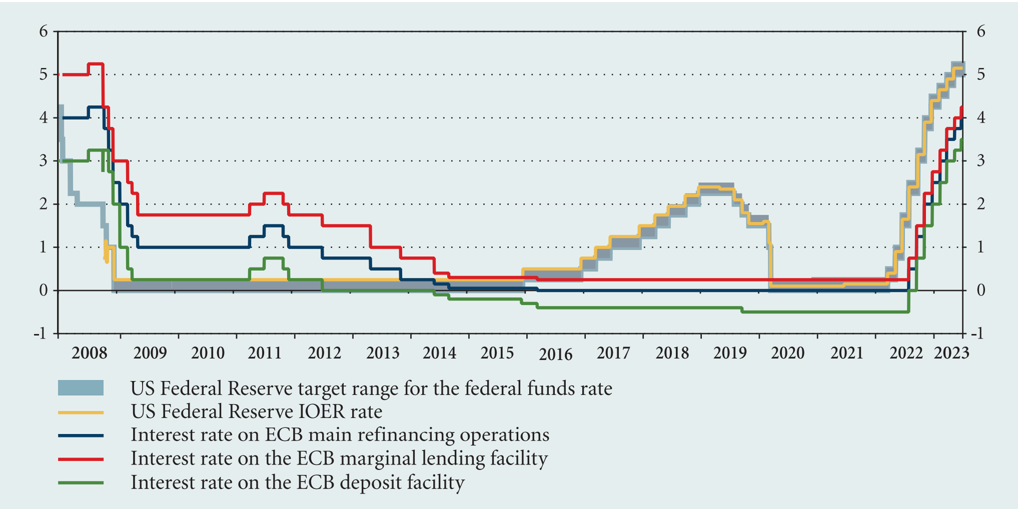
On 12 March 2023, in view of the tensions in the US banking sector, a new Bank Term Funding Program (BTFP) was created, in addition to the traditional method of providing liquidity to the banking sector – the discount window. According to it, US deposit-taking corporations can obtain financing for up to one year at an OIS rate plus 10 basis points against eligible collateral, which will not be valued at market prices but at full nominal value. Furthermore, on 19 March 2023, the Bank of Canada, the Bank of England, the Bank of Japan, the Swiss National Bank, the ECB and the Federal Reserve announced coordinated action to enhance the provision of US dollar liquidity through the standing swap line arrangements. The FOMC's March meeting indicated that problems in the US banking sector would likely be translated into tighter financing conditions for households and firms, exerting unfavourable pressure on economic activity, labour demand and inflation. Guidelines on the course of monetary policy were also changed to more moderate views on its future tightening. In the context of a normalisation of tensions in the US banking sector and taking into account macroeconomic developments, the FOMC interrupted the series of hikes in the reference rate corridor in June, referring to the need for additional time to properly assess incoming economic information. At the same time, in June the median of the FOMC members projections of the federal funds rate at the end of 2023 showed a significant 50 basis point increase compared with the previous projection in March, which corresponds to a target rate corridor of 5.50–5.75 per cent. The estimate of the long-run equilibrium level of the federal funds rate remained at 2.50 per cent.

Rates linked to the federal funds rate were also raised over the half year: the Standing Repo Facility (SRF) minimum bid rate at 5.25 per cent, the Overnight Reverse Repurchase (ON RRP) rate at 5.05 per cent, and the Interest on Reserve Balances (IORB) at 5.15 per cent.

In the first half of 2023, total assets in the US Federal Reserve balance sheet decreased by USD 187 billion to USD 8.6 trillion (33.7 per cent of GDP for 2022 against 34.4 per cent of GDP in 2022).

Key ECB and US Federal Reserve Interest Rates

(per cent)



Sources: ECB; Federal Reserve System.

[44] FOMC Communications Related to Policy Normalization.

In view of the high level of inflation, deviating significantly from the ECB's 2 per cent target, the Governing Council continued to raise reference rates in the first half of 2023, with interest rates on the main refinancing operations, the marginal lending facility and the deposit facility standing at 4.0 per cent, 4.25 per cent and 3.5 per cent, respectively. The overall increase by 150 basis points was implemented through ECB's Governing Council decisions at all meetings held over this period (by 50 basis points each in February and March, and by 25 basis points each in May and June). At its March meeting, the ECB Governing Council stated that future monetary policy decisions would be based on the assessment of financial market developments following the turmoil in the US and Swiss banking sectors and, if necessary, they would be ready to take measures to prevent a deterioration in economic prospects and financial stability in the euro area. In March, the Eurosystem started to reduce the size of its balance sheet by an average of EUR 15 billion *per* month by limiting the reinvestment of the proceeds of maturing securities under the APP, and at the May meeting it was announced that these reinvestments would be discontinued from July 2023. At the same time, it was confirmed that the reinvestments of securities purchased under the Pandemic Emergency Purchase Programme (PEPP) would run until at least the end of 2024.

Eurosystem's balance sheet figure followed a downward trend during the first half of 2023 owing to repayments on targeted longer-term refinancing operations (TLTRO III). As of 30 June 2023, Eurosystem's balance sheet figure declined to EUR 7220 billion, equivalent to 53.8 per cent of euro area's GDP for 2022, down from EUR 7951 billion at the end of 2022, or 59.5 per cent of GDP for the year. Concurrently, excess liquidity in the euro area banking system decreased by EUR 244 billion compared to the end of 2022 to EUR 3586 billion.

The increase in the ECB deposit facility rate and reduced excess liquidity in the euro area banking system were the main factors driving a significant increase in the euro unsecured overnight rate (*€STR*) and euro interbank offered rates (EURIBOR). The average €STR value in the first six months of 2023 increased to 2.66 per cent, from -0.01 per cent in 2022. The trading volume of overnight deposits in the unsecured money market in the euro area rose over this period, with a daily average of EUR 62.2 billion (compared with EUR 55.9 billion in 2022). In the first half of 2023, EURIBOR rates picked up significantly. The average three-month deposit interest rate was 3.00 per cent (from 0.35 per cent in 2022) and average six- and twelve-month deposit rates were 3.38 and 3.69 per cent, respectively (from 0.68 and 1.10 per cent in 2022).

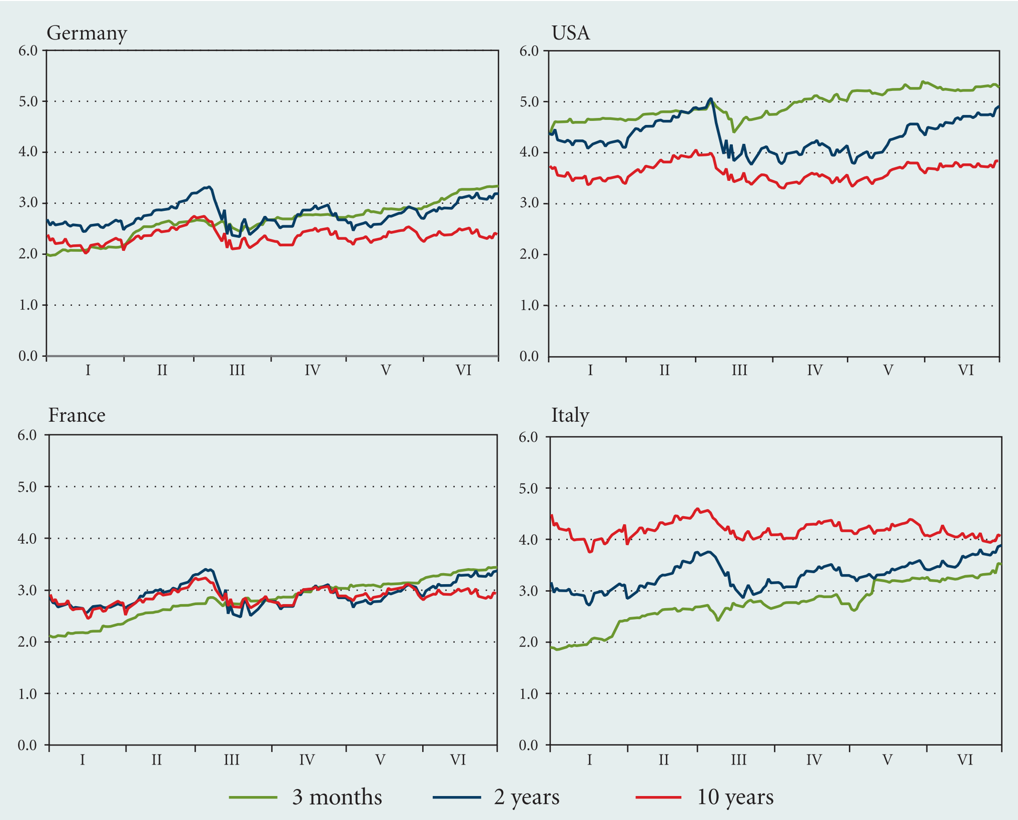
Euro Area and US Sovereign Bond Yield Curve

Over the first half of the year, US government bond yields rose significantly in shorter-term maturities and declined slightly in longer-term maturities. Two-year bond yields grew by 47 basis points to 4.90 per cent, with ten-year yields falling by 4 basis points to 3.84 per cent. This dynamics led to a 51 basis point contraction of the US government bond yield curve slope measured by the ten- and two-year bond yield spread compared to the end of 2022, reaching -106 basis points at the end of June 2023. The main factors behind the upward movement in US government bond yields in the short-term maturity sectors were the Federal Reserve System's decisions to raise the reference rate in response to high domestic inflation. At the same time, tensions in financial markets towards the end of the first quarter after the bankruptcy of several US regional banks and the uncertainty related to the widening limit on the size of US sovereign debt in the second quarter contributed to the decline in long-term bond yields. Fluctuations in yield dynamics over the review period also reflected data releases on the US economy over the period, mainly on inflation and labour market developments, which affected market participants' expectations regarding the length of the cycle of the Federal Reserve rate increases. Additional factors behind the yield dynamics during this period were market estimates of the risk of renewed recession in the United States, as well as decisions of the other major central banks on their inflation response.

In the first half of 2023, German government bond yields also rose in short-term maturities and declined across longer-term sectors. Compared with the end of 2022, German government two-year bond yields increased by 43 basis points to 3.20 per cent, with ten-year yields falling by 18 basis points to 2.39 per cent. The negative slope of the German yield curve, as measured by the spread between the yield on ten-year and two-year government bonds, widened to -80 basis points compared with -19 basis points at the end of 2022. The increase in key ECB interest rates was a major factor behind the increasing German government bond yields in the short-term maturity sectors. In March, Germany's government bond yield developments followed a downward trend, reflecting financial market tensions stemming from the uncertainty about the stability of the banking sector in the US and Switzerland, which boosted demand for German bonds as a low-risk asset. In longer-term maturity sectors, macroeconomic data for the euro area, which were predominantly weaker than expected in the second quarter, contributed to the decline in German government bond yields.

Government Bond Yields in the First Six Months of 2023

(per cent)



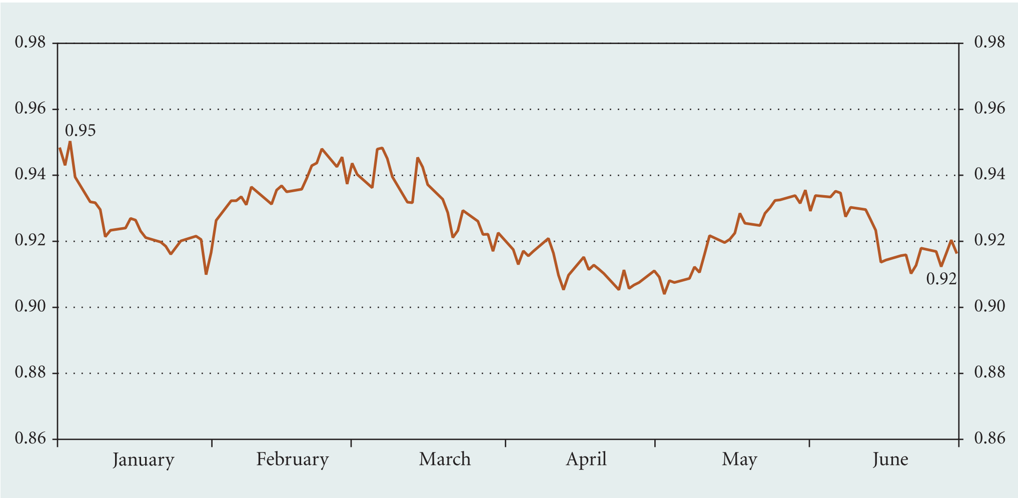
Spreads between euro area and German government bond yields showed divergent dynamics in the first half of 2023. Ten-year government bond spreads of periphery euro area counties *vis-à-vis* the corresponding German government bonds narrowed significantly. Italy's ten-year government bond spread decreased by 46 basis points, that of Spain by 10 basis points, and of Portugal by 28 basis points. This was driven by the slowdown in euro area inflation and market participants' concerns about the prospects for economic growth. In mid-March, spreads widened again for a short time amid concerns that the turbulence in global financial markets related to the US and Swiss banking sectors could spill over to the euro area. These concerns then eased and spreads narrowed again. Portugal's government bond spread was positively affected by a change in the outlook for the sovereign rating by Moody's, from stable to positive. In May, Italy submitted its 2023 Stability Programme to the European Commission, which projects a significantly lower budget deficit for the year of 4.5 per cent of GDP compared to 8.0 per cent of GDP in 2022. Over the reporting period, the change in credit ratings of euro area core countries was largely negative. Following Fitch's downgrade of Belgium's rating outlook from stable to negative in March, the agency downgraded France's rating from AA to AA- in April due to weak fiscal indicators, including high public debt and high budgetary interest expenditure. In June, the S&P rating agency confirmed France's long-term rating at AA with a negative outlook.

Gold and Exchange Rates

In the first half of 2023, the US dollar depreciated by 1.9 per cent against the euro. The USD/EUR exchange rate moved between USD 1.05 and USD 1.11 *per* EUR 1 (from EUR 0.90 to EUR 0.95 *per* USD 1). The depreciation of the dollar against the euro was due to a shift in market participants' expectations regarding the Federal Reserve's future monetary policy. Owing to financial tensions in the United States, in March a marked increase was observed in market participants' expectations that the Federal Reserve could stop its monetary policy tightening process. These expectations weakened in the second quarter as a result of a relatively slow downward trend in US core inflation and signals from the Federal Reserve that further increases in the target rate would be needed.

USD/EUR Exchange Rate in the First Six Months of 2023

(EUR)



The spot gold price increased by 5.2 per cent in the first half of 2023 to USD 1919 *per* troy ounce and by 3.4 per cent to EUR 1761 *per* troy ounce. It moved within the relatively wide range of USD 1811 to USD 2051 *per* troy ounce. In the first quarter of 2023, gold appreciated significantly as the uncertainty about the stability of the US and Switzerland's banking sector boosted the demand for gold in its role as a safe-haven asset. Gold prices declined during the second quarter owing to weakening of these concerns, a shift in market participants' expectations of a prolonged continuation of the Federal Reserve's tight monetary policy, as well as a rise in US government bond yields in real terms.

Troy Ounce Gold Price in US Dollars in the First Six Months of 2023

(USD)

Troy Ounce Gold Price in Euro in the First Six Months of 2023

(EUR)

Major Types of Risk

Net value risk in the Issue Department balance sheet for the first half of 2023, as measured by the standard deviation of net return, was 10.49 per cent on an annual basis.

International reserve **interest risk** in the first half year, measured by reserves' average modified duration, was 0.17 years. The duration maintained was 0.04 years shorter than the average for 2022. The relative interest risk limit of assets was set on the basis of a tracking error at not more than 0.10 per cent standard deviation of relative yield.

Gross international reserve **currency risk** was constrained by the Law on the BNB stipulation that the sum of the absolute values of open foreign currency positions[45] 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. There were minimal open positions in foreign currencies other than euro in the reporting period, with the open position in gold posing the main currency risk.

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

Over the first half year, the BNB continued to pursue a conservative **credit risk** management policy in investments of gross international reserves. Given deteriorated confidence of depositors in US and Swiss banks following temporary turbulences in the banking sectors of both countries, in the second half of March investments in certain asset classes and towards some BNB counterparties were preventively restricted. The measures taken by US and Swiss regulators to restore the soundness of the banking sector in these countries, as well as the agreement reached on increasing the maximum amount of US public debt have reduced risks in financial markets, and therefore, part of imposed investment restrictions were lifted in mid-June 2023.

To achieve its main objectives of very high international reserve security and liquidity, the BNB continued investing the main share of assets into euro area core country government bonds and government guaranteed debt, and into short-term deposits with first class foreign central and commercial banks. By the end of June 2023, the exposure to credit risk remained limited, and approximately 71 per cent of international reserves were invested into assets with the highest AAA long-term credit rating.

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

Return and Efficiency

Net income in the Issue Department balance sheet is the sum of three components: i) income from gross international reserves investment in the original currency; ii) currency imbalance income[46]; and iii) liabilities expenditure/income. BNB income from international reserve investment was positive at EUR 345.35 million, or 1.14 per cent yield for the period.

This mainly reflected positive interest rates on deposits with first class foreign banks in early 2023 and positive yields of euro-denominated high credit quality bonds in which most BNB international reserves are invested.

Earnings from currency imbalance for the first half of 2023 was positive, standing at EUR 69.93 million (yield of 0.18 per cent). This reflected primarily movements in the market price of monetary gold measured in euro. As a result of the BNB interest rate policy, the net financial result from liabilities led to an expense of EUR 82.18 million for the BNB, corresponding to -0.26 per cent of return. The above three components brought net return from international reserve management to EUR 333.09 million: a total of 1.06 per cent return[47] for the half year.

International Reserve Income and Return* in the First Half of 2023

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	263.77	0.84	155.80	0.51	148.26	0.46	-40.29	-0.13
Second quarter	69.32	0.22	189.54	0.63	-78.33	-0.28	-41.90	-0.13
Total	**333.09**	**1.06**	**345.35**	**1.14**	**69.93**	**0.18**	**-82.18**	**-0.26**

* 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: $R(T_0,T_N) = (1+r_1)(1+r_2)\ldots(1+r_N)-1$. This formula for calculating investment returns comply fully with the Global Investment Performance Standards (*GIPS*).

Source: BNB.

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

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

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 2023

Portfolio	Return		Volatility (risk)		Information ratio[3]
	Absolute (per cent)	Relative[1] (basis points)	Absolute (basis points)	Relative[2] (basis points)	
Investment 1, EUR	1.26	11	11	7	2.91
Investment 2, EUR	1.25	10	11	7	2.85
External manager A, EUR	1.18	33	29	11	6.28
External manager B, EUR	0.83	-1	32	16	-0.19
Liquid, EUR	1.32	4	3	3	-
Liquid, XAU	0.02	-	0	0	-
Liquid, USD	2.38	10	2	4	-

[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: BNB.

To diversify management styles and cut operational risk, most euro-denominated assets continued being split into two investment portfolios with identical benchmarks and investment limits, managed by different BNB teams. By end-June 2023, international financial institutions – external managers – managed some 2 per cent of gross international reserves, with the benchmark of the portfolios managed by external managers set by the BNB. 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, and RINGS transaction settlement ancillary systems:

– BISERA6, a system for servicing customer transfers in levs up to BGN 100,000, 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, and BISERA7-EUR, an ancillary system for settlement in the TARGET2-BNB 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, and the book-entry securities registration and servicing system, run by the Central Depository AD.

Lev Payment Systems

In the first half of 2023, the RINGS real-time gross settlement system processed most lev payments in Bulgaria. As of 30 June 2023, the BNB and 24 banks participated in RINGS.

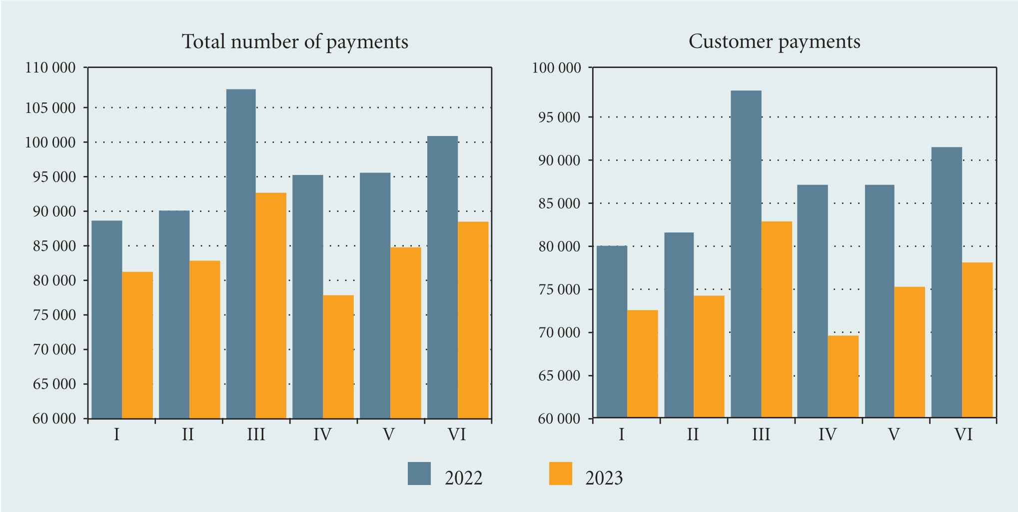
Between January and June 2023, RINGS processed payments worth BGN 727,776 million, up 29.4 per cent on this time last year, their number reaching 506,001 or a 12.06 per cent decline on the first half of 2022. There were 450,657 customer payments or 69 per cent of the total for BGN 184,119 million (25.3 per cent of the total).

The daily average value of payments via the system was BGN 5916 million, and their daily average number was 4114. The daily value peak was BGN 17,523 million, with a daily number peak of 6922.

In the first six months of 2023, 56.4 per cent of payments by value were processed by noon and 83.5 per cent by 2:30 pm. The balance of 16.5 per cent went through by 5:30 pm. As regards system traffic, 83.3 per cent of the number of system payments were effected by 2:30 pm. RINGS offered 99.9 per cent availability[48] in the period under review.

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

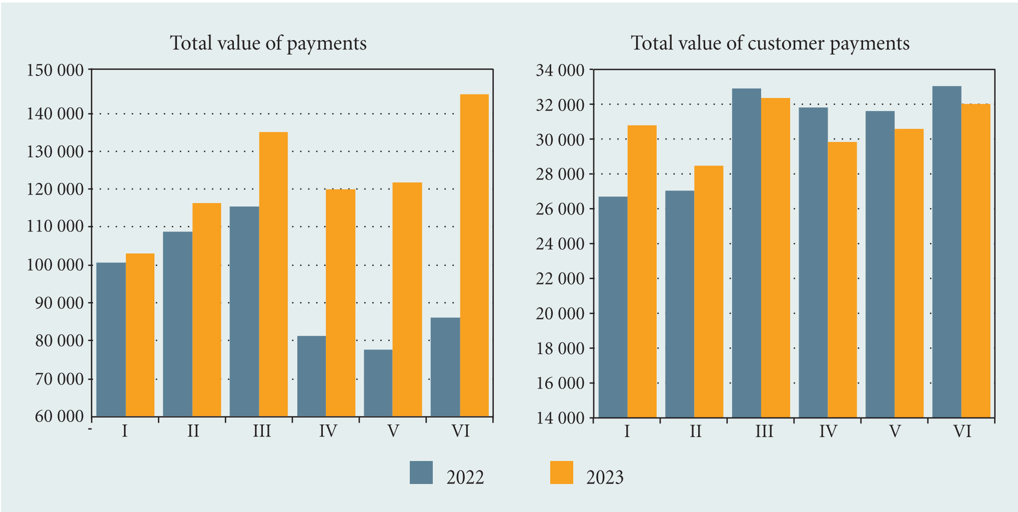
RINGS Payment Number in the First Halves of 2022 and 2023



Source: BNB.

RINGS Payment Value in the First Halves of 2022 and 2023

(BGN million) (BGN million)



Source: BNB.

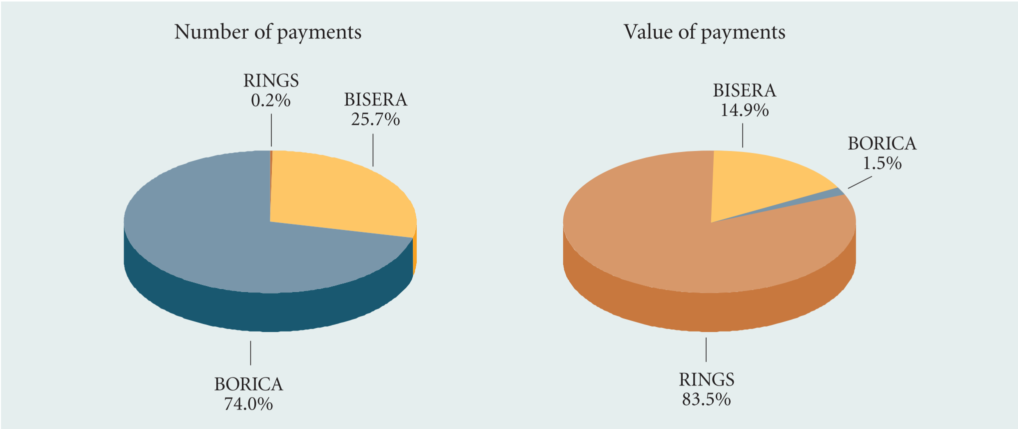
Lev payment distribution in Bulgaria by payment system saw no changes from the first half of 2022. Over the period under review, RINGS processed 83.5 per cent of the payments effected in Bulgaria. Values around 80 per cent are deemed optimal for the operation of real-time gross settlement systems. RINGS also processed 0.2 per cent of the total number of lev non-cash payments in Bulgaria.

In the first half of 2023, BORICA processed 152 million of payments effected via ATM and POS terminals, totalling BGN 13,254.2 million: a rise of 23.4 per cent in number and 18.1 per cent in value.

In the first half of 2023, BISERA6 processed 52.8 million of payments for BGN 130,116.6 million. Compared with the first six months of 2022, processed payments rose by 8.5 per cent in number and 10.4 per cent in value.

The number of instant credit transfers in levs compliant with the SEPA[49] Credit Transfer Instant (SCT Inst) – a scheme for instant credit transfers in the European Payments Council's Single Euro Payments Area was 4.2 million, totalling BGN 6915.8 million for the first six months of 2023.

Distribution of Lev Payments in Bulgaria by Payment System in the First Half of 2023



Note: The sum may differ from 100 per cent due to rounding.
Source: BNB.

Euro Payment Systems

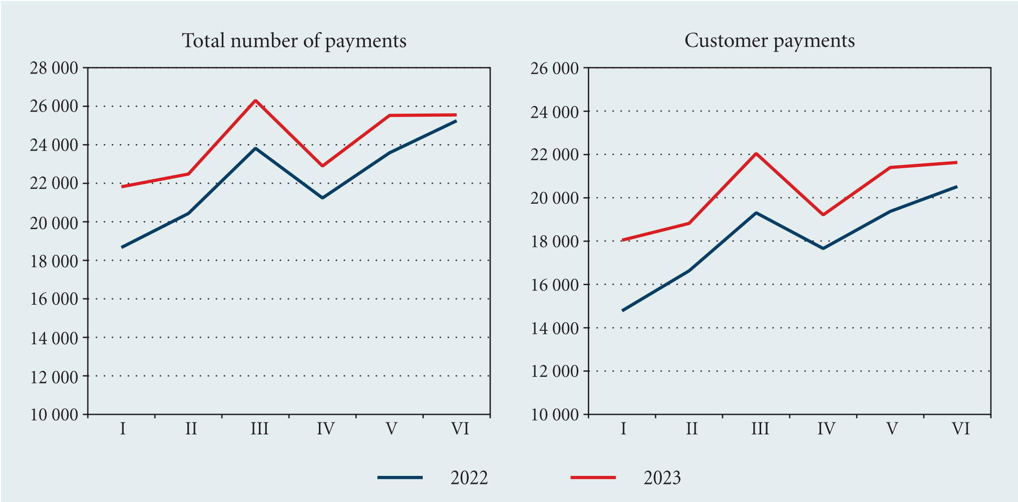
The large-value payment system T2 (former TARGET2) provides real-time gross settlement for payments in euro, with settlement in central bank money. It is part of the new consolidated TARGET Service Platform (TARGET), which brings together the T2 payment system, the TARGET2-Securities settlement system and the TARGET Instant Payment Settlement service (TIPS) at the technical and functional level. Legally, each central bank in TARGET operates its system component. The BNB operates the TARGET-BNB national system component and is responsible for the business relations of its participants and coordination with the ECB and participant central banks.

As of 30 June 2023, TARGET included the BNB, 18 direct participant banks, five addressable BIC holders, and three ancillary systems: the BISERA7-EUR for settling customer transfers in euro at a designated time; the BNBGSSS government securities settlement system operated by the BNB; and the securities settlement system run by the Central Depository AD.

In the first half of 2023, TARGET-BNB processed 144,559 payments worth EUR 433,208 million, including 121,127 customer payments for EUR 11,392 million. Data show a rise of 8.7 per cent in the total number and a 0.6 per cent decrease in the total value of processed payments compared to the first half of 2022.

[49] Single Euro Payment Area (SEPA)

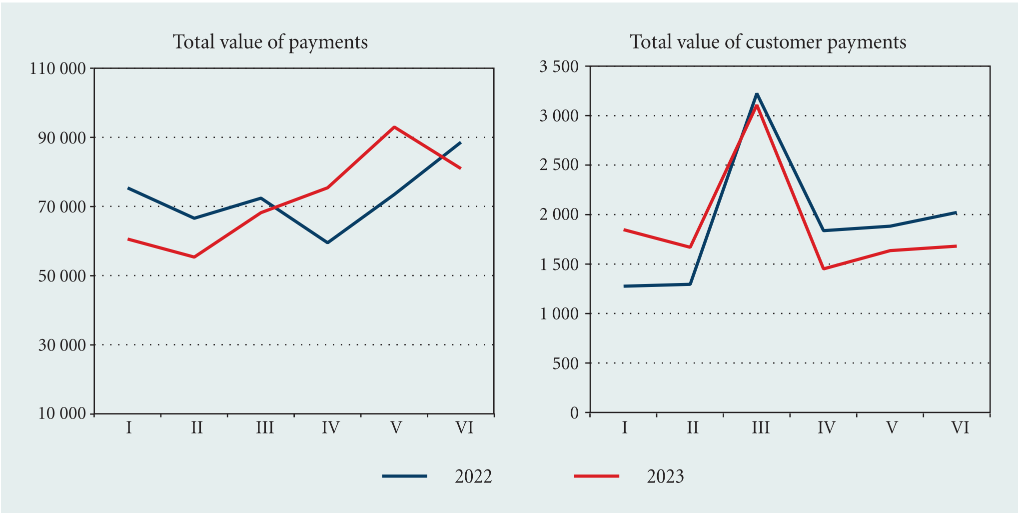
TARGET2-BNB Payment Number in the First Halves of 2022 and 2023



Source: BNB.

TARGET2-BNB Payment Value in the First Halves of 2022 and 2023

(EUR million) (EUR million)



Source: BNB.

The value and number of other system component payments to banks were 69.4 and 88.8 per cent of payments processed through the national component. There were 1131 daily average TARGET2-BNB payments, worth EUR 3326 million. The daily value peak was EUR 12,020 million, with a daily number peak of 2754.

The BISERA7-EUR ancillary system processes designated time customer euro transfers. In the first half of 2023, it processed 18,784 payments for EUR 138.3 million, down 14.2 per cent in value and 5.5 per cent in number compared to the same period of 2022.

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 Euro ELIXIR, allowing SEPA credit transfers between banks in Bulgaria and other EU Member States.

Bulgarian Payment and Settlement System Development

On 20 March 2023, the new Eurosystem's consolidated TARGET Service platform (TARGET) which brings together the T2 payment system, the securities settlement system TARGET2-Securities and the service for processing instant transfers in euro TIPS was launched, and the Eurosystem Collateral Management System (ECMS) is expected to be added as of 2024. The new large-value payment system T2 consists of a real-time gross settlement (RTGS) system and a centralised liquidity management tool. The T2 system replaces TARGET2 with the new RTGS system settling payments related to Eurosystem monetary policy operations, as well as interbank payments and commercial transactions. The BNB and the banking community in Bulgaria, together with Bulgarian ancillary systems for customer payments in euro and securities settlement (BISERA7-EUR, BNBGSSS and Central Depository AD), successfully migrated to the new TARGET service platform on the day of its implementation.

In connection with the project on migration of budget payments in levs to the SEPA standards, on 30 June 2023 the work of the Task Force on Budget Payments was completed[50], with co-chairs – the BNB Deputy Governor heading the Banking Department and the Deputy Minister of Finance, and members – representatives of the BNB, the Ministry of Finance, the Association of Banks in Bulgaria, BORICA AD, the National Revenue Agency, the Customs Agency and Information Services AD. The Task Force worked on a wide range of issues related to migration of budget payments in levs to the SEPA standards, including the definition of the structure of budget payments in ISO 20022 XML, based on SEPA schemes of the European Payments Council with prepaid settlement in BISERA6 payment system, the regulation of the centralisation of budget accounts, the definition of technical and procedural changes to the Electronic Budget Payments System (SEBRA), amendments to the legal framework, as well as other issues related to payments to accounts of administrators of public claims.

In the period under review, BORICA AD's activities were launched with the support of the BNB. It aims to ensure full SEPA reachability for euro payments to banks participating in BISERA7-EUR payment system. To this end, a direct BNB participation in the STEP2 payment system operated by EBA Clearing is planned.

Developing the Payment Services and Payment Systems Regulatory Framework

In the period under review, a Law amending the Law on Markets in Financial Instruments was adopted, whereby amendments to the Law on Payment Services and Payment Systems (LPSE)[51] were made related to the removal of the requirement for payments exceeding BGN 100,000 to be mandatorily executed by banks through the RINGS system, and to the benchmark framework.

In the first half of 2023, the BNB adopted an 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[52]. The amendments to BNB Ordinance No 16 mainly deal with supplementing the required clarifications on main sources of revenue and expenditure, part of the estimated budget for the first three years of activity to be provided upon licensing a payment institution/ electronic money institution and registering an account information service provider, while

[50] Established by joint order of the BNB and MF No BNB–48237/28.04.2022 and No ZMF–302/ 28.04.2022.
[51] Published in the Darjaven Vestnik, issue 8 of 2023.
[52] Published in the Darjaven Vestnik, issue 47 of 2023.

ensuring full transposition of guideline 1.5 of 4.4 set of guidelines of the EBA Guidelines on the information to be provided for the authorisation of payment institutions and e-money institutions and for the registration of account information service providers under Article 5(5) of Directive (EU) 2015/2366 (EBA/GL/2017/09) on the notification requirements for changes in information provided by an applicant, as well as the clarification on the requirements for professional and managerial experience of persons managing and representing a payment institution/electronic money institution and account information service provider as well as members of their management and supervision bodies.

Joint instructions were adopted by the BNB and the Ministry of Finance[53] regulating the requirements for the execution of payments in levs from/to budget organisations in line with SEPA standards, including payments of public receivables, payments in CEBRA, centralisation procedures, and regime for servicing accounts of administrators of public claims, *etc.*

Payment Systems Oversight

In line with the LBNB and the LPSPS, 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 half of 2023, work continued on the inspection of a payment service provider licensed by the BNB to establish whether its payment services and issuance of electronic money comply with the requirements of the LPSPS, its implementing acts, the European legal framework, as well as with the requirements of the Law on Measures against Money Laundering, the Law on Measures against Financing of Terrorism, and Regulation (EU) No 2015/847.

Over the review period, the BNB completed a thematic supervisory inspection to establish compliance by payment service providers in Bulgaria with the requirement to apply strong payer authentication pursuant to Article 100 of the LPSPS and Commission Delegated Regulation (EU) 2018/389[54]. Payment service providers implemented measures to remedy the non-compliances identified in the supervisory review.

In the review period, a thematic supervisory review of payment institutions and electronic money institutions licensed by the BNB was completed to establish compliance with the requirement to prepare own risk assessments of money laundering and terrorist financing under Article 98, paragraph 1 of the LMML. Payment service providers have taken steps to comply with the findings.

During the period, an inspection of an electronic money company was carried out on a complaint that resulted in an administrative infringement of the LMML and subsequently a written warning.

In the first half of 2023, a thematic oversight check was launched to verify the compliance of payment service providers licensed by the BNB with the requirements for reporting significant operational or security-related incidents in relation to the payment services they provide pursuant to Article 99(1) of the LPSPS.

[53] VAT Guideline No 3/3.5.2023; No. BNB-51681/4.5.2023 on the requirements for the structure, form and content of payment documents for the purpose of making transfers from/to accounts of budget organisations in XML format in accordance with ISO 20022 and VAT Guideline No 5/30.6.2023; No BNB-73682/30.6.2023 on servicing accounts and payments to budget organisations–key issues and requirements, centralisation procedures and payment technology through SEBRA.

[54] 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.

During the reporting period, four company inspections were completed in order to ascertain whether they are engaged in the provision of payment services and/or issuance of electronic money without authorisation or registration, and a further eight inspections were initiated and continued after the reporting period.

Over the review period, payment institutions and electronic money institutions licensed elsewhere in the EU and operating on the territory of the Republic of Bulgaria through a branch or an agent, based on the right of establishment, were required to provide information under Commission Delegated Regulation (EU) 2021/1722[55] on their activities on the territory of Bulgaria for supervisory purposes, as well as for the monitoring of compliance with the provisions of national law transposing Titles III and IV of the Directive (EU) 2015/2366[56].

During the reporting period, in line with the requirements of the LPSPS and the EBA Guidelines on the limited network exclusion under Directive (EU) 2015/2366 on payment services in the internal market (EBA/GL/2022/02), one notification was examined submitted by a service provider under Article 2, paragraph 3 of the LPSPS to change the information recorded in the register under Article 19 of the LPSPS concerning the exemption under Article 2, paragraph 1, item 11 of the LPSPS on the basis of which it operates in relation to payment instruments offered by it. At the end of the reporting period, 11 service providers under Article 2, paragraph 3 of the LPSPS were listed in the register kept by the BNB.

In the first half of 2023, the procedure on an application for conducting activity as an electronic money institution, submitted on the basis of Article 37, paragraph 2 in conjunction with Article 10, paragraph 1 of the LPSPS was terminated.

Over the review period, the license for conducting activities as an operator of payment systems with settlement finality to BORICA AD was amended as regards a payment system BISERA, in connection with the removal of the requirement provided for in the LPSPS to process payments exceeding BGN 100,000.

Over the review period, the BNB Governing Council decided on one application filed under Article 14, paragraphs 1 and 2 of the LPSPS for increase in indirectly held qualifying holding in the capital of a payment institution licensed by the BNB.

By the end of the reporting period there were five payment institutions and nine electronic money institutions licensed by the BNB.

In respect of the activities of the payment institutions and electronic money institutions licensed by the BNB, over the reporting period the following entries and deletions were made in the registers kept by the BNB:

– 276 agents were listed in and 130 agents were delisted from the public register of licensed payment institutions and electronic money companies operating in Bulgaria;

– three agents were listed in the public register of licensed payment institutions and electronic money institutions operating elsewhere in the EU;

– one branch was listed in the public register of licensed electronic money institutions operating elsewhere in the EU.

In the review period EU Member State competent authorities notifications of the following payment institutions, electronic money institutions and account information service providers licensed elsewhere in the EU and eligible to operating in the Republic of Bulgaria were received:

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[55] Commission Delegated Regulation (EU) 2021/1722 of 18 June 2021 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards specifying the framework for cooperation and the exchange of information between competent authorities of the home and the host Member States in the context of supervision of payment institutions and electronic money institutions exercising cross-border provision of payment services.

[56] Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market.

– for listing 22 payment institutions and electronic money institutions licensed elsewhere in the EU and eligible to directly operate in Bulgaria and for delisting nine payment institutions, electronic money institutions and account information service providers operating directly on the territory of the Republic of Bulgaria;

– for listing 52 agents and delisting 46 agents of payment institutions and electronic money institutions licensed elsewhere in the EU and eligible to operate in Bulgaria.

In the first half of 2023, the BNB enquired into 207 complaints submitted by natural and legal entities – payment service users; on five of them, the Bank issued instructions. The other cases involved no breaches of the LPSPS and its statutory instruments, or were resolved in favour of payment service users through correspondence.

IV. Banks' Reserves at the BNB

In the first six months of 2023, the average daily value of banks' attracted funds for required minimum reserve calculation purposes (excluding central and local government budget accounts) rose by 14.7 per cent compared to the first half of 2022. The average daily value of funds attracted from residents (excluding central and local government budget funds) grew by 13.5 per cent, and those from non-residents by 29.5 per cent, with funds attracted from non-resident banks increasing by 49.1 per cent. Over the review period, funds attracted from central and local government budgets rose by 17.3 per cent. The effective implicit ratio of minimum required reserves remained unchanged from the first half of 2022 at 9.4 per cent[57]. Reserve assets used by banks to comply with the MRR rate were allocated to funds on banks' accounts at the BNB (8.5 per cent) and half of cash balances designated as reserve assets (0.9 per cent).

Structure of Attracted Funds in the Banking System*

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

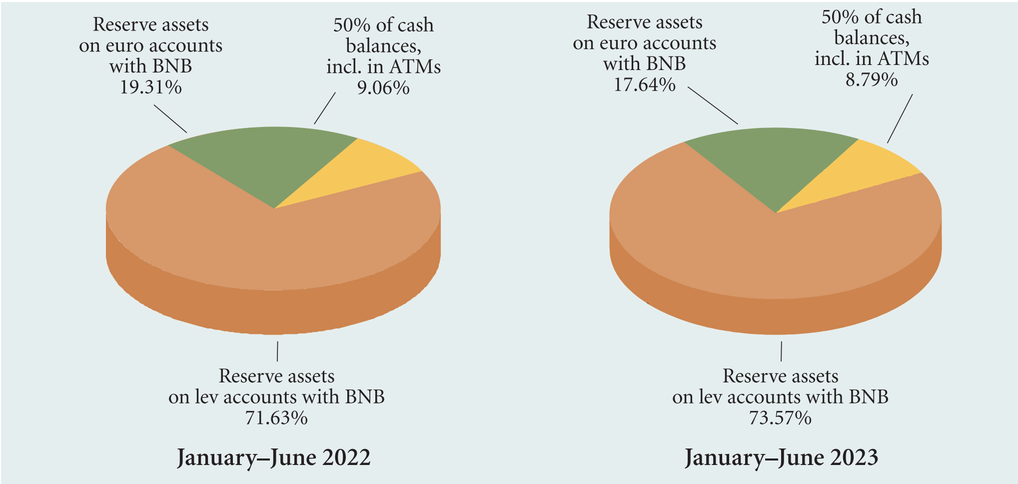
Source: BNB.

Banks keep reserves in their own assets: BNB lev and euro accounts and half their cash balances, including in ATMs.[58] In the first half of 2023, the share of lev-denominated reserve assets was 73.6 per cent on an average daily basis, from 71.6 per cent over the same period of 2022. The share of euro reserve assets fell to 17.6 per cent on an average daily basis, from 19.3 per cent over the same period a year earlier, while the share of cash balances designated as reserve assets, including in ATMs, declined from 9.1 per cent in the first half of 2022 to 8.8 per cent in January–June 2023.

[57] BNB Ordinance No 21 on the Minimum Required Reserves Maintained with the BNB by Banks, effective as from 4 January 2016, sets the minimum required reserve 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. With the amendment of Ordinance No 21 of 1 June 2023, the minimum reserve requirement rate on funds attracted by banks from non-residents was raised from 5 to 10 per cent, and from 1 July 2023, this rate on banks' attracted funds from residents and non-residents was raised from 10 to 12 per cent.

[58] According to Article 4 of Ordinance No 21 of the BNB.

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

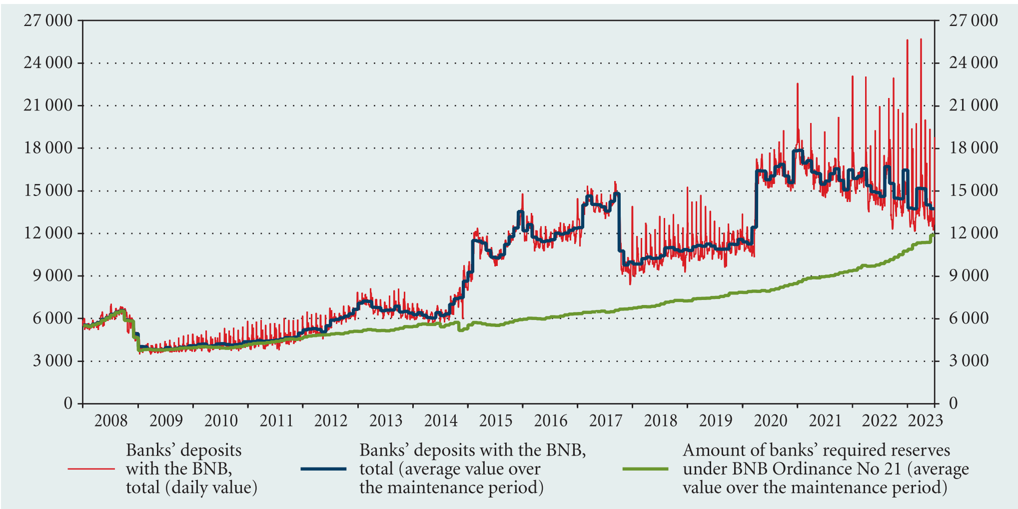


Source: BNB.

Excess reserve interest under BNB Ordinance No 21 was 0.00 per cent[59]. In the first six months of 2023, the average daily amount of banks' excess reserves was BGN 1.8 billion lower than in the same period of 2022. Funds in banks' BNB Ordinance No 21 accounts exceeded minima by 15.2 per cent on an average daily basis, compared to a 36.9 per cent rise a year earlier.

Banks' Reserves at the BNB

(BGN million)



Source: BNB.

[59] Ordinance No 21 Article 5, paragraph 1, in force from 4 January 2016, defines excess reserves as the excess of the holdings in reserve assets by more than 5 per cent over the required amount of minimum required reserves. Amendments to Ordinance No 21, in force from 4 June 2021, provide for excess reserves as the excess of holdings in reserve assets over the minimum reserve requirements.

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.[60]

By Resolution No 40 of 7 February 2023, the BNB Governing Council withdrew from circulation the commemorative coins issued in 2017 which ceased to be legal tender as of 20 February 2023. After this date commemorative coins issued in 2017 are exchangeable at BNB tills at nominal value with no limits to amounts and free of charge until 31 December 2024.

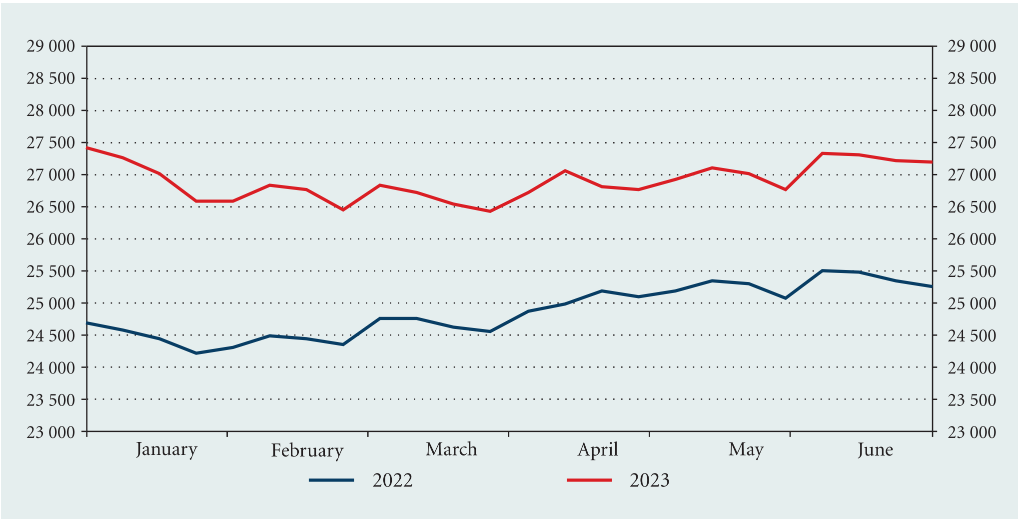
The amendments to Ordinance No 39 on the Nominal Value, Coverage, Form and Design of Banknotes and Coins Put into Circulation, in force as of 1 February 2023, regulated the maximum number of commemorative coins with limited and unlimited mintage, which the Bulgarian National Bank may put into circulation annually.

Banknotes and Coins in Circulation (Outside BNB Vaults)

As of 30 June 2023, currency in circulation (outside BNB vaults)[61] reached BGN 27,197.9 million. Between January and June 2023, currency in circulation went down by 0.8 per cent (BGN 227.5 million) compared to an increase of 2.3 per cent (BGN 556.2 million) over the same period of 2022. The slowdown in the annual growth rate of currency in circulation observed since the previous year continued. In a one-year period (compared with the end of June 2022), they grew by 7.7 per cent or BGN 1945.0 million, 5.5 percentage points lower than their increase over the corresponding previous one-year period.

Banknotes and Coins in Circulation (Outside BNB Vaults) in the First Halves of 2022 and 2023

(BGN million)



Source: BNB.

At the end of June 2023, the value of banknotes in circulation was BGN 26,629.3 million, that of circulating coins BGN 567.1 million and the value of commemorative coins BGN 1.5 million, accounting for 97.91, 2.08 and 0.01 per cent, respectively.

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

[61] 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.

Banknotes and Coins in Circulation[62]

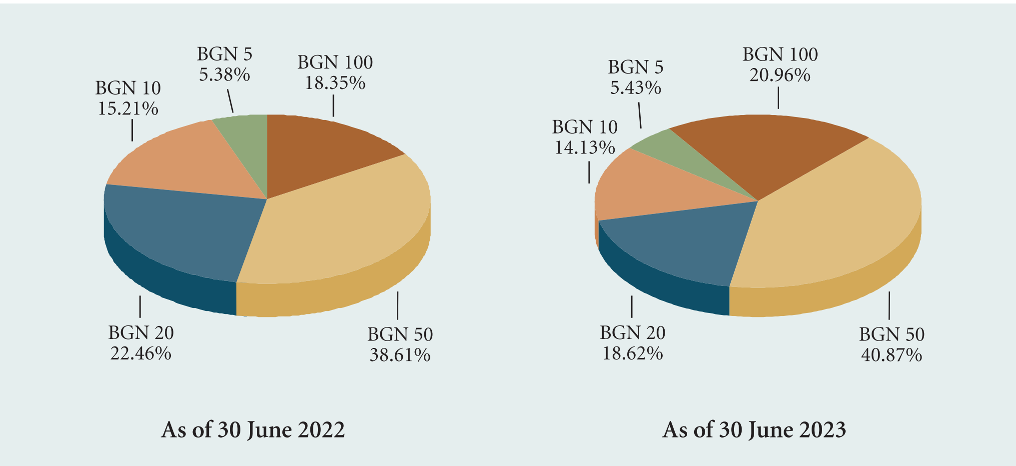
In late June 2023, 568.0 million banknotes were in circulation, amounting to BGN 26,585.3 million. In the first six months of 2023, the number of banknotes decreased by 4.8 per cent and their value by 0.9 per cent, which is the result of the decrease in the number of banknotes of all denominations except for the BGN 100. In a year (compared with end-June 2022) the number of banknotes in circulation rose by 1.1 per cent, and their value by 7.7 per cent compared to the increase in both their number and value by 6.2 and 13.3 per cent over the previous one-year period (June 2021–June 2022). As regards developments in the number of banknotes in circulation, three main trends can be identified:

– the number of BGN 50 and BGN 100 banknotes in circulation continued to increase at high rates, with the increase in the number of BGN 100 banknotes being more pronounced;
– a decrease in the number of BGN 20 and BGN 10 banknotes in circulation, which is more pronounced for BGN 20 banknotes;
– the changes in the dynamics of the number of BGN 5 banknotes in circulation appear to be within a narrow range, with a downward trend in their growth rate.

Compared with the end of 2022, the number of BGN 100 banknotes in circulation grew by 4.5 million or by 4.0 per cent, while BGN 50, BGN 20, BGN 10 and BGN 5 banknotes decreased. The decrease in the number of BGN 20 and BGN 10 banknotes was more notable: down by 14.7 per cent and 11.3 per cent, respectively. BGN 100 and BGN 50 banknotes accounted for the bulk of the overall increase in the number of banknotes in circulation over a one-year period, with a year-on-year increase of 15.5 per cent and 7.0 per cent, respectively. The number of BGN 5 banknotes also posted an annual increase of 2.0 per cent.

On 30 June 2023, the banknotes with the largest number in circulation were the BGN 50. At the end of the first half-year, 232.1 million BGN 50 banknotes were in circulation and their share in the total number of banknotes outside BNB vaults was 40.87 per cent. In the first six months of 2023, their share increased by 1.21 percentage points and within a year by 2.26 percentage points.

Individual Nominal Value Shares in the Total Number of Circulating Banknotes



Note: The sum may differ from 100 per cent due to rounding.

Source: BNB.

[62] Banknotes with nominal values of BGN 5, 10, 20, 50 and 100, issued after 5 July 1999, and circulating coins with nominal value of BGN 0.01, 0.02, 0.05, 0.10, 0.20 and 0.50, and BGN 1 and 2, issued after 5 July 1999, which are legal tender.

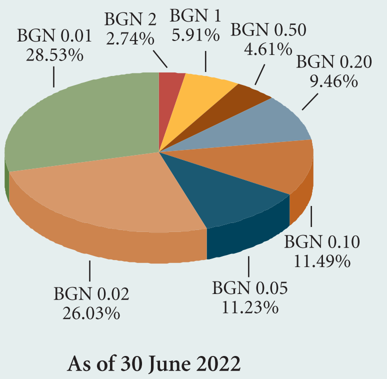
By the end of June 2023 the total value of banknotes outside BNB vaults with a nominal value of BGN 100 was BGN 11,907.6 million, occupying the largest share (44.79 per cent) in the structure of circulating banknotes. BGN 5 banknotes occupied the smallest share (0.58 per cent).

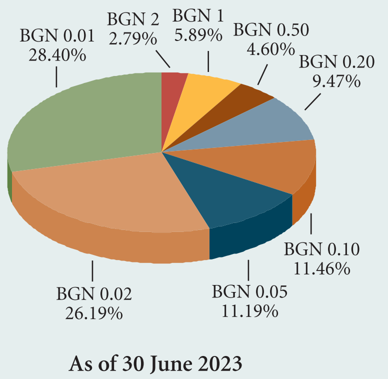
At the end of June 2023, the average circulating coin was BGN 46.80, rising BGN 1.84 on the end of 2022. In a year its value rose by BGN 2.87 or 6.5 per cent, reflecting significantly stronger growth in the number of BGN 50 and BGN 100 banknotes compared with other banknotes and, at the same time, the decrease in the number of BGN 20 and BGN 10 banknotes in circulation.

In late June 2023, 3120.0 million coins circulated, worth BGN 567.1 million. Since the beginning of the year, their number has increased by 2.1 per cent and their value by 1.6 per cent. In a year circulating coins outside BNB vaults grew by 175.2 million (6.0 per cent), their value rising by BGN 33.9 million (6.4 per cent).

The upward trend in the number of circulating coins continued for all nominal values in the first half of 2023, albeit at a slower pace.

Individual Nominal Value Shares in the Total Number of Circulating Coins





Note: The sum may differ from 100 per cent due to rounding.
Source: BNB.

In the first six months of 2023, BGN 0.01, BGN 0.02 and BGN 0.10, as well as BGN 2 circulation coins saw a more sizeable percentage growth: from 2.11 per cent for the BGN 2 coins to 2.57 per cent to the BGN 0.02 coins. On an annual basis, the largest increase in percentage terms was that of BGN 2 coins – up 7.7 per cent. The number of BGN 2 coins outside BNB vaults amounted to 87.0 million. Other coin denominations increased steadily in the currency circulation: with annual growth rates ranging from 5.5 per cent (for BGN 0.01 coins) to 6.1 per cent (for BGN 0.20 coins).

By the end of June 2023, the largest number of coins in circulation (886.2 million) were BGN 0.01 coins, which accounted for the largest share (28.40 per cent) of the total number of coins in circulation. The share of BGN 0.02 coins was also high compared to other denominations. At the end of the first half of 2023, 817.3 million coins of this denomination were in circulation, accounting for 26.19 per cent. BGN 2 coins held the smallest share at 2.79 per cent.

By the end of June 2023, the value of BGN 1 coins was BGN 183.7 million, occupying the largest share (32.39 per cent) of all circulating coins. The share of BGN 2 coins by value was also high at 30.70 per cent. The value of circulating coins of BGN 0.01 and BGN 0.02 held the smallest shares at 1.56 and 2.88 per cent.

At the end of June 2023, the average circulating coin matched its late 2022 and one-year period level at BGN 0.18.

Non-genuine Banknotes and Circulating Coins

In the first half of 2023, the BNB retained 1500 non-genuine Bulgarian banknotes which had entered into circulation. The share of all retained non-genuine banknotes was 0.000264 per cent of total circulating banknotes by end-June 2023.

The BGN 50 banknote accounted for the largest share of retained non-genuine banknotes in the first half of 2023 (90.33 per cent). As compared with the respective number of BGN 50 banknotes in circulation by the end of this period, the share of non-genuine banknotes amounted to 0.000584 per cent. Non-genuine BGN 20 banknotes accounted for 7.13 per cent of retained non-genuine Bulgarian banknotes over the review period. Over the same period retained BGN 10 non-genuine banknotes accounted for 1.87 per cent. Five non-genuine BGN 5 and five non-genuine BGN 100 banknotes were registered with the BNB, representing 0.33 of the total number of non-genuine Bulgarian banknotes retained over the reporting period.

Between January and June 2023, the non-genuine Bulgarian circulating coins retained at the BNB numbered 117. The distribution of retained non-genuine circulating coins by nominal value is as follows: 16 BGN 2, 16 BGN 1, 83 BGN 0.50 and 2 BGN 0.20. The share of retained non-genuine Bulgarian coins in the total number of circulating coins by 30 June 2023 was 0.000004 per cent.

Performing its statutory duty to evaluate foreign banknotes retained in Bulgaria, the Bank registered and retained in the first half of 2023 the following: 330 euro banknotes, 400 US dollar banknotes, and 15 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 2023, 50.8 million newly printed banknotes and 80.8 million newly minted coins worth BGN 2548.4 million were supplied under contracts with producers. The Bank issued three commemorative coins planned in its 2023 minting programme under the LBNB Article 25, paragraph 1[63].

Over the review period Bulgarian banknotes and circulating coins deposited with the BNB came to BGN 15,837.1 million, up 62.3 per cent on the corresponding period of 2022. Between January and June 2023, Bulgarian banknotes and circulating coins worth BGN 15,608.9 million were withdrawn from the BNB: up 51.4 per cent in a year.

Over the first six months of 2023 banknote processing machines tested 490.1 million banknotes and 40.8 million circulating coins. BGN 10, BGN 20 and BGN 50 banknotes and BGN 0.50, BGN 1 and BGN 2 circulating coins were most often processed by nominal value.

Over the review period, processing and fitness testing failed 33.7 million banknotes. In the half year of 2023, BGN 10 and BGN 20 banknotes accounted for the largest share of banknotes retained as unfit for circulation at 31.87 per cent and 29.75 per cent, respectively. Retained unfit coins numbered 0.7 million in the first half of 2023. Unfit coins of BGN 0.10 and BGN 0.20 held the largest share at 19.03 per cent and 19.94 per cent, respectively.

[63] See the BNB website for new banknote and circulating and commemorative coin issues.

Over the January–June 2023 period, the BNB purchased EUR 7.7 million of reserve currency, including EUR 7.6 million from budget organisations and EUR 0.1 million from individuals and legal entities. BNB reserve currency sales were EUR 261.0 million, including EUR 4.3 million to budget organisations and EUR 256.7 million to individuals and legal entities.

In the first half of 2023, to establish the compliance with identification and fitness standards the BNB carried out a total of 123 tests, including one introductory test at a representative of sorting machine producer and 122 control tests of sorting machines and customer-operated machines which were situated in nine credit institutions, three service suppliers and five service operators.

VI. Maintaining Banking System Stability and Protecting Depositor Interests

Assessment of the State of the Banking System[64]

In the first half of 2023, the banking sector in Bulgaria operated in an environment of relatively high inflation and uncertain economic conditions.

The sound capital position of the banking sector, as well as current interest rates stimulated the continuation of strong credit market activity, which was also supported by the sustained increase in deposits. Concurrently, non-performing exposure ratios declined in all major segments of the loan portfolio, while continuing the trend towards a reduction in potential residual credit risk on banks' balance sheets.

The increase in loan volumes had a favourable impact on banking system profitability and return on assets and equity indicators compared with those recorded in the first half of 2022 with the rise in net interest income contributing most to this.

Notwithstanding the positive effects on profitability, prolonged periods of high credit activity create prerequisites for higher indebtedness and accumulation of credit risk in banks' balance sheets. In the first half-year global monetary policy tightening was slowly transmitted to the interest rate levels in Bulgaria. Over the period, an increase was recorded in lending rates non-financial corporations *vis-à-vis* the interest rates on consumer loans and loans to households for house purchase.

The sound capital position is of essential importance in maintaining the resilience of the banking sector. Current capital ratios exceeded significantly the minimum regulatory requirements and capital buffer requirements. From 1 January 2023, the level of the countercyclical buffer applicable to domestic credit risk exposures was increased to 1.5 per cent by a decision of the BNB Governing Council of 2021. In view of persistently high credit growth rates and uncertainty in the economic environment, the countercyclical buffer (CCyB) rate was raised to 2.0 per cent in 2022, effective from 1 October 2023, and in March and June 2023 the BNB Governing Council kept the CCyB rate at 2.0 per cent, applicable in the second and third quarters of 2024.

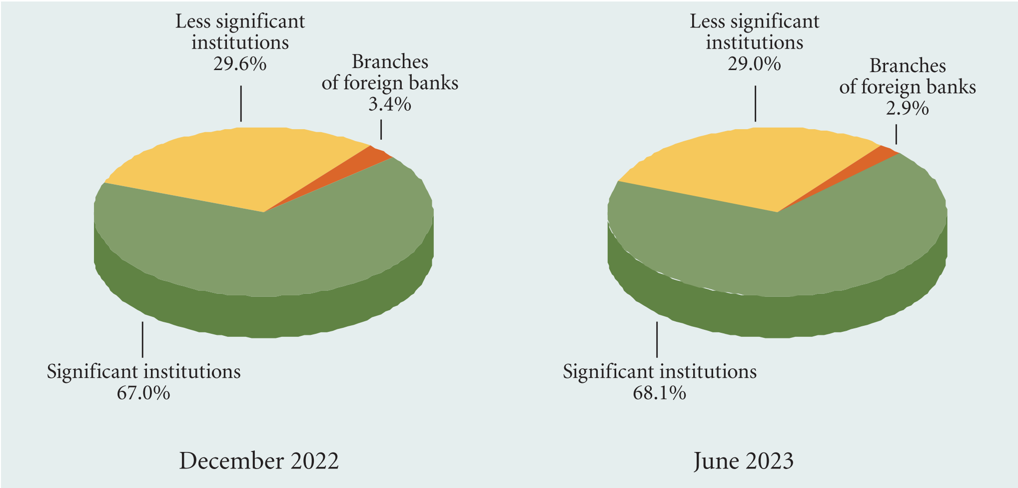
The liquidity position of the banking system remained sound over the review period, with the levels of liquidity coverage ratio and net stable funding ratio exceeding significantly the regulatory requirements.

The banking system's total balance sheet assets in the first half of 2023 grew by BGN 5.7 billion (3.7 per cent) and by the end of June amounted to BGN 161.1 billion, with growth being lower than in the same period of 2022 (5.0 per cent, BGN 6.7 billion). The credit portfolio accounted for the most sizeable share in the balance sheet asset – 54.9 per cent, compared to 53.2 per cent at the end of December 2022, as its net amount increased by BGN 5.8 billion or 7.0 per cent to BGN 88.4 billion. Total loans and advances increased by BGN 12.0 billion (12.9 per cent) and formed 65.0 per cent of the balance sheet figure (59.6 per cent at the end of December 2022). Debt securities held in banks' portfolios picked up by BGN 570 million (2.4 per cent) and their share in assets remained similar to the 15.2 per cent recorded at the end of December 2022 and stood at 15.0 per cent by the end of the review period. Over the first half of the year, the most liquid item cash, cash balances at central banks and other demand deposits, decreased from 20.9 per cent at the end of 2022 to 15.9 per cent as a result of the decline in cash balances at central banks (down BGN 7.2 billion or 27.2 per cent).

[64] Based on supervisory reports on an individual basis, as reflected in quarterly reporting forms and summarised on 22 August 2023 for the current quarter and the four preceding quarters.

Assets of banks which are subject to direct supervision by the ECB[65] accounted for 68.1 per cent of banking system assets by the end of June, while those of less significant institutions comprised 29.0 per cent. Foreign bank branches accounted for 2.9 per cent of the balance sheet figure. The review period saw the merger of KBC Bank Bulgaria EAD with United Bulgarian Bank AD and the acquisition of the business of BNP Paribas Personal Finance S.A. – branch Bulgaria by Eurobank Bulgaria AD.

Banks' Market Shares by Asset Size and ECB's Significance Criteria



Source: BNB.

Based on data from supervisory reports at the end of June, the gross amount of the credit portfolio[66] amounted to BGN 91.7 billion. In the first half of 2023, it rose by BGN 5.7 billion (6.7 per cent), with a growth similar to the one reported for the same period of 2022 (BGN 5.1 billion, or 6.8 per cent). In its structure, growth in absolute terms in the January to June 2023 period was more pronounced for households. The increase in loans to households by BGN 2.4 billion (7.2 per cent) accounted for 42.6 per cent of the increase in the gross credit portfolio over the review period, with their share in its structure reaching 39.7 per cent at the end of the period (against 39.5 per cent at the end of 2022). Loans to non-financial corporations grew by BGN 1.8 billion (4.0 per cent) or 31.3 per cent of the credit portfolio growth in the first half-year, while their share in the credit portfolio fell from 52.1 per cent to 50.8 per cent. Loans collateralised by residential real estate grew by 8.4 per cent (BGN 1.5 billion) or 26.9 per cent of portfolio increase over the first half of 2023. Consumer loans also saw an increase: up by 6.1 per cent (BGN 986 million). Loans to other financial corporations also went up by BGN 1.4 million, or 22.0 per cent, as well as those to the general government sector: up by BGN 108 million, or 11.7 per cent. The period saw an increase in claims on credit institutions of BGN 6.2 billion (61.9 per cent).

At the end of the first half-year, the currency structure of gross loans and advances shows that BGN-denominated items occupied 60.7 per cent and euro-denominated 34.4 per cent (from 63.2 per cent and 33.3 per cent, respectively, at the end of December 2022). Over the same period, the share of claims denominated in other currencies rose from 3.5 to 4.9 per cent. Within the residence structure at end-June 2023 the share of gross loans and advances to residents stood at 82.4 per cent (up from 86.9 per cent at end-2022), while the share of

[65] As part of the close cooperation process between the BNB and the ECB pursuant to Decision (EU) 2020/1015 of the ECB of 24 June 2020 on 11 September 2020 the ECB announced the list of banks in Bulgaria which are subject to direct supervision by the ECB as from 1 October 2020. These credit institutions are UniCredit Bulbank, DSK Bank, United Bulgarian Bank, Eurobank Bulgaria and Raiffeisenbank, determined on the basis of two criteria: the three most significant banks in Bulgaria and banks which are part of significant groups.

[66] Credit portfolio includes the sectors of non-financial corporations, households, other financial corporations and the general government.

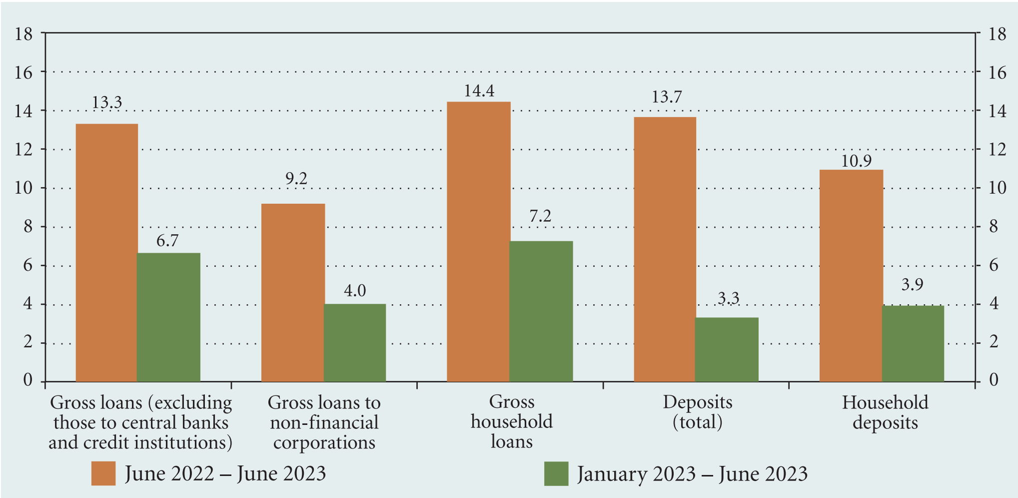
non-residents increased to 17.6 per cent (from 13.1 per cent), driven by increases in claims on credit to credit institutions.

At the end of June 2023, the gross amount of debt securities was BGN 24.2 billion. Government bonds increased by BGN 702 million (3.4 per cent) on the end of December 2022 and reached 88.9 per cent of total securities by the end of the review period. At the same time, debt securities of other financial corporations decreased (by BGN 104 million, or 8.5 per cent). By the end of the first half of 2023 capital instruments in total banking system assets stood at BGN 0.6 billion and their share was negligible.

Dynamics of Selected Balance Sheet Indicators

(annual and semi-annual changes)

(per cent)



Source: BNB.

Over the first half of 2023 total banking balance sheet assets increased by BGN 4.4 billion (3.3 per cent), which was lower compared to the same period of 2022 (BGN 6.4 billion, or 5.5 per cent) and at the end of June their share reached BGN 138.5 billion. More than two thirds of this growth was due to households' deposits, which grew by BGN 2.9 billion (3.9 per cent) and their share in the structure of total deposits stood at 55.7 per cent at the end of June. Deposits of non-financial corporations decreased by BGN 279 million (0.6 per cent), with their share in total deposits coming to 31.0 per cent by the end of June. Deposits of credit institutions grew by BGN 2.1 billion (26.5 per cent) and those of the general government sector by BGN 151 million, 3.7 per cent, while deposits of other financial corporations posted a decline of BGN 479 million, or 10.2 per cent. The deposit currency structure experienced no essential changes over the review period. By end-June the shares of lev-denominated and euro-denominated deposits were 60.2 per cent and 33.2 per cent, respectively, compared to 60.4 and 32.8 per cent at the end of December 2022. By end-June deposits in other currencies occupied 6.6 per cent (from 6.8 per cent as of 31 December 2022). Within the resident structure, deposits attracted from domestic sources reached 90.5 per cent at the end of June 2023 and that from non-residents 9.5 per cent (against 90.6 per cent and 9.4 per cent at end-December 2022).

The gross amount of all non-performing exposures[67] at the end of June 2023 was BGN 4.2 billion compared to BGN 4.5 billion as of 31 December 2022. The ratio of gross non-performing exposures as of 30 June 2023 was 2.7 per cent compared to 3.0 per cent as of 31 December 2022. Gross non-performing loans and advances in the banking system reached BGN 4.1 billion as of 30 June 2023 , which compared to the end of 2022 reported a decrease of 5.8 per cent (BGN 252 million). This shows an acceleration in the rate of decline of non-performing loans in gross value terms compared to the rate recorded in the first half of 2022 (3.0 per cent or BGN 148 million).

[67] Exposures under the EBA methodology include gross loans and advances along with cash balances at central banks and other demand deposits, and debt securities other than those held for trading.

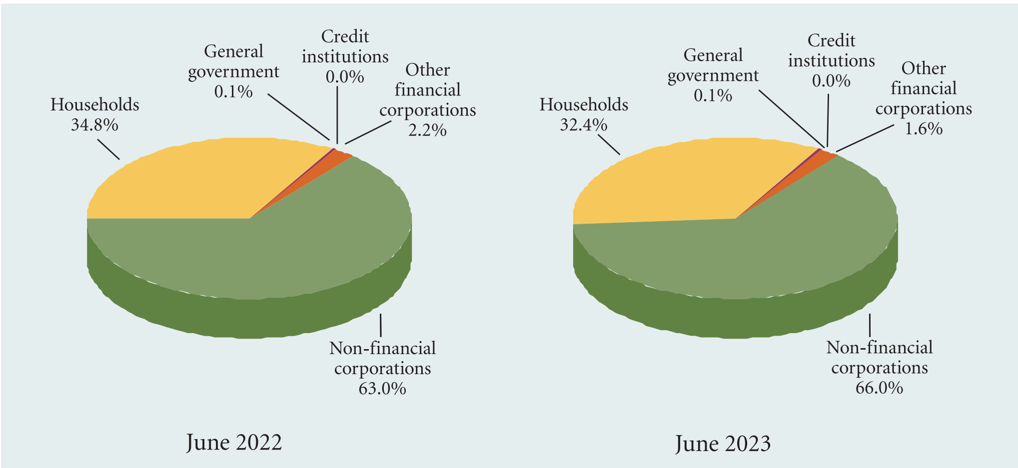
At the end of June 2023 gross loans and advances in the banking system amounted to BGN 108.0 billion, according to the narrowed scope (applied since June 2020 under EU Regulation[68]). In the first half of 2023 it grew by BGN 12.0 billion (12.4 per cent). Accordingly, the ratio of non-performing loans calculated on this basis improved to 3.8 per cent (against 4.5 per cent at the end of 2022). Under the so-called 'broad scope', which also includes cash balances at central banks and other demand deposits, the total amount of gross loans and advances rose by BGN 5.7 billion , or 4.6 per cent, reaching BGN 131.0 billion at the end of June. The ratio of non-performing loans based on the broad scope[69] fell to 3.1 per cent, respectively, by end-June (from 3.5 per cent by end-2022).

Amid growth in banking system's credit portfolio in the first half of 2023 to BGN 91.7 billion (up BGN 5.7 billion, or 6.7 per cent), the non-performing part ratio fell to 4.5 per cent at the end of June (compared to 5.1 per cent at the end of December 2022). The review period saw a decrease in the ratios of non-performing loans across all key segments of banks' credit portfolio. Write-offs and sales of loans, as well as growth in the gross credit portfolio, contributed to this.

Loans to non-financial corporations accounting for 66.0 per cent at the end of June 2023 (against 66.2 per cent at end-December 2022) retained its major share within the structure of total gross non-performing loans. In non-financial corporations, the ratio of non-performing loans fell to 5.8 per cent (6.4 per cent by end-December 2022), and the increase in total loans (by 4.0 per cent) was accompanied by a similar decline in the non-performing portion (by 6.1 per cent). The share of loans to households in total gross non-performing loans rose from 31.4 at the end of 2022 to 32.4 per cent by end-June 2023. The share of non-performing household loans fell to 3.6 per cent (4.0 per cent by end-2022), with an increase recorded in the total volume of loans (by 7.2 per cent) and a simultaneous decrease in the non-performing share (by 2.9 per cent). In the structure of total gross non-performing loans, those past due over a year occupied 40.8 per cent at the end of the first half-year (compared to 41.1 per cent as of 31 December 2022).

Gross non-performing loan and advance impairment coverage ratio rose over the review period and came to 49.6 per cent by end-June (from 48.2 per cent at the end of 2022).

Non-performing Loans and Advances by Sector



Note: The sum may differ from 100 per cent due to rounding.

Source: BNB.

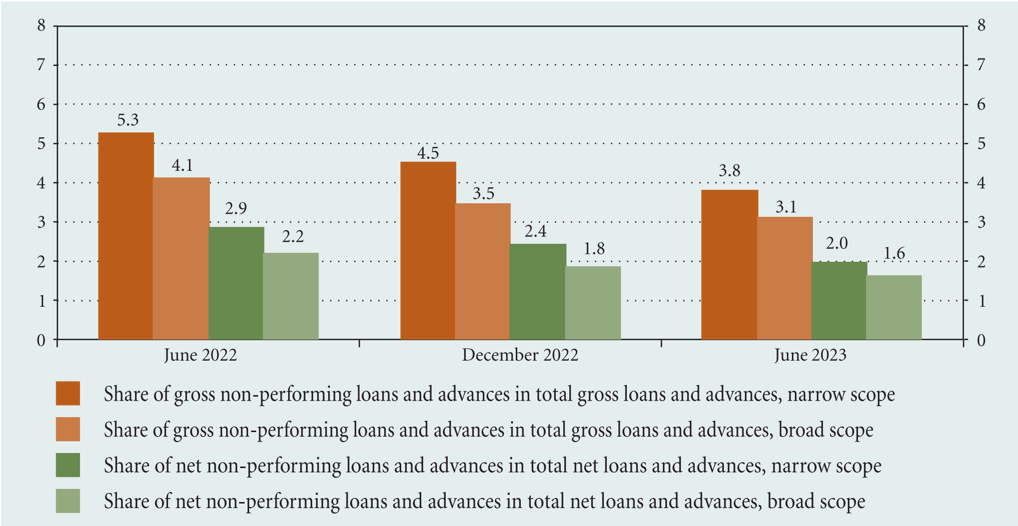
[68] These changes were made in compliance with Commission Implementing Regulation (EU) 2020/429 of 14 February 2020 amending Implementing Regulation (EU) 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions. Unlike the June 2015–March 2020 period, according to the changes, cash, cash balances at central banks and other demand deposits should not be included in the scope of gross loans and advances but reported separately. As of 28 June 2021 Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 shall apply replacing Implementing Regulation (EU) 680/2014.

[69] The AQT 3.2 indicator used by the EBA to measure the share of gross non-performing loans and advances is based on a broad definition encompassing all counterparties on loans and advances, including cash balances at central banks and other demand deposits.

The net value of non-performing loans and advances[70] was BGN 2.1 billion by end-June 2023. It represents the potential residual credit risk in bank balance sheets that remains fully covered by the excess of regulatory capital over capital requirements and applicable capital buffers. In the first half of 2023, the net value of non-performing loans and advances declined by 8.3 per cent (BGN 187 million) more than the decline recorded (by 3.2 per cent, BGN 82 million) over the same period of 2022, while the ratio to net loans and advances in the broad coverage stood at 1.6 per cent at the end of June (compared with 1.8 per cent at the end of 2022). Reported under the narrow scope, the net non-performing loan and advance ratio came to 2.0 per cent at end-June 2023 against 2.4 per cent at the end of 2022.

Non-performing Loans and Advances in Total Loans and Advances

(per cent)



Source: BNB.

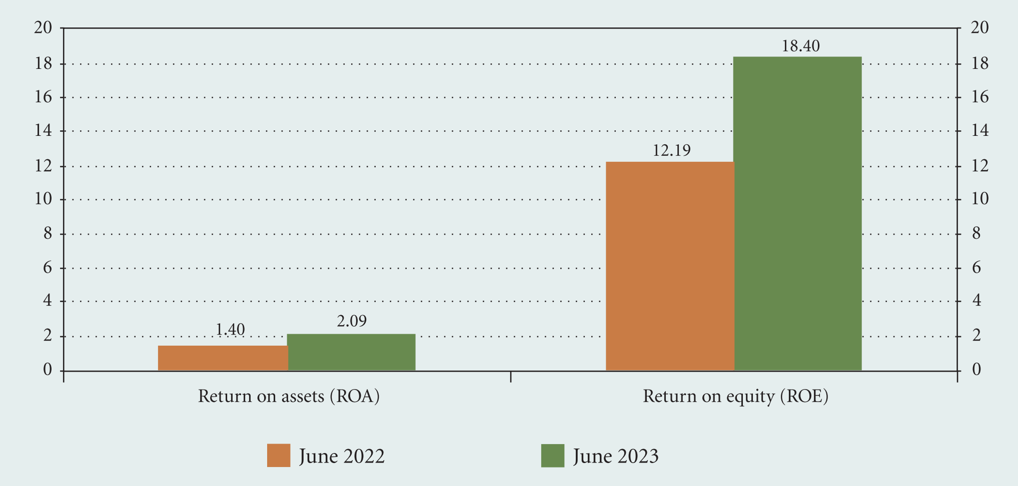
As of end-June 2023 banking system balance sheet equity amounted to BGN 18.3 billion, posting an increase on end-2022 of BGN 1.0 billion (6.1 per cent). Developments in accumulated other comprehensive income, other reserves and retained earnings, had a positive effect.

As of 30 June 2023 the banking system's profit amounted to BGN 1.7 billion, up BGN 694 million (69.9 per cent) from the first half of 2022, with the net interest income growth contributing most to this. As a result of the increased profit, return on assets (ROA) and return on equity (ROE) indicators of the banking system improved. At the end of June 2023, ROA stood at 2.09 per cent and ROE – at 18.40 per cent (against 1.40 per cent and 12.19 per cent, respectively, as of 30 June 2022).

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

Return on Assets and Return on Equity

(per cent)



Source: BNB.

Total net operating income of the banking system rose by BGN 807 million on 30 June 2022 (31.6 per cent) to BGN 3.4 billion at the end of June 2023. In its structure, the share of the most significant component – net interest, income reached 67.5 per cent and its amount increased by BGN 812 million (55.7 per cent) to BGN 2.3 billion. Compared with the first half of 2022, interest income went up BGN 1.1 billion (70.2 per cent) to BGN 2.8 billion as a result of the growth in interest-bearing assets[71], as well as of the higher interest rate levels. Over the same period interest expenses went up by BGN 334 million (190.5 per cent) to BGN 510 million at the end of June 2023. The return on gross interest-bearing assets went up to 4.09 per cent at the end of the first half of 2023 (compared with 2.87 per cent as of 30 June 2022), and the cost of financial liabilities measured at amortised cost went up to 0.39 per cent (compared with 0.10 per cent of 30 June 2022).

By the end of June 2023 net income from fees and commissions reached BGN 729 million, up BGN 32 million (4.6 per cent) more compared to that reported in the first half of 2022. Its share in the net operating income contracted to 21.7 per cent. Net income on financial instruments dropped by BGN 217 million (105.0 per cent), resulting in a negative balance of BGN 10 million by the end of June 2023. Over the first half of 2022 other net income grew by BGN 180 million (93.4 per cent) and by the end of June 2023 came to BGN 373 million, accounting for 11.1 per cent of net operating income.

The banking system cost-to-income ratio[72] improved to 40.3 per cent at the end of the reporting period (49.5 per cent at the end of June 2022) due to the increase in net operating income. Operating expenditure (administrative and depreciation) increased by a total of BGN 78 million (7.1 per cent) to BGN 1.2 billion by 30 June 2023, and the expenses reported under the cash contributions to resolution funds and deposit guarantee schemes balance sheet item increased by BGN 14 million (8.6 per cent) to BGN 175 million.

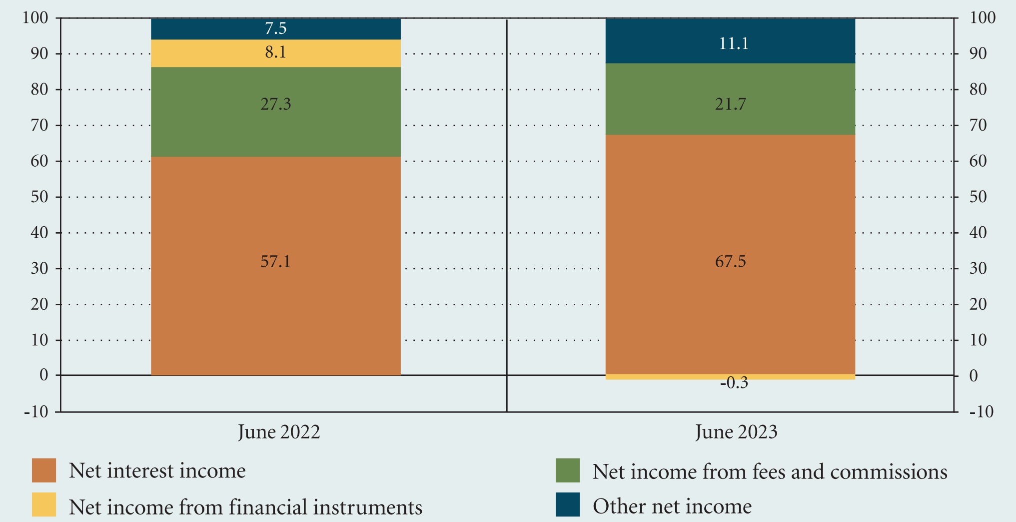
The ratio of impairment charges to total net operating income fell to 5.5 per cent at the end of June 2023 (7.5 per cent as of 30 June 2022). In the first half of 2023, impairment charges of financial assets which are not carried at fair value through profit or loss were BGN 184 million, down BGN 7 million (3.7 per cent) on the same period of 2022.

[71] Interest-bearing assets are the sum of debt securities and gross loans and advances (excluding those to central banks) to which other demand deposits have been added as from 30 June 2020.

[72] The cost-to-income ratio is the sum of administrative expenditure, depreciation costs and (as from June 2020) costs on resolution funds and deposit guarantee scheme to the net operating income.

Net Operating Income Structure

(per cent)



Source: BNB.

Capital indicators of the banking system remained significantly above regulatory requirements. Compared to end-2022, regulatory own funds rose by BGN 1.5 billion (9.8 per cent) and reached BGN 17.2 billion at end-June 2023. Tier one capital and Common Equity Tier 1 were BGN 16.3 billion and BGN 15.9 billion, respectively, at the end of the period.

In the first six months of 2023, the total amount of risk exposures increased by BGN 5.7 million (7.7 per cent) to BGN 80.5 billion. This dynamics reflected the credit activity over this period. Growth was underpinned by risk-weighted exposures for credit risk, which increased by BGN 5.6 billion, or 8.1 per cent, and reached BGN 74.8 billion at the end of the period. Their share in the structure of total risk exposures reached 92.9 per cent at the end of the period (compared to 92.6 per cent at end-2022). Exposures to corporations, retail exposures, and exposures to central government or central banks played a key role for this increase. In 2023, exposures to central governments and central banks of Member States, where such exposures are denominated and funded in the local currency of another Member State, shall cease to be zero-weighted[73]. Risk-weighted exposures for operational risk rose by BGN 165 million (3.1 per cent) and their share in the structure of total risk exposures went down to 6.8 per cent (compared with 7.1 per cent at end-2022). Risk exposures for position, currency and commodity risks decreased by BGN 40 million (20.6 per cent), their share remaining insignificant at 0.2 per cent by end-June 2023.

Against the background of an increase in total risk exposures over the period, capital ratios remained significantly above regulatory requirements. At the end of June 2023 common equity tier 1, tier 1 capital and total capital adequacy ratios were 19.76, 20.23 and 21.42 per cent, respectively (from 20.11, 20.62 and 21.01 per cent at end-December 2022).

As of 1 January 2023, the countercyclical capital buffer rate was raised from 1.0 per cent to 1.5 per cent, which resulted in a substantial increase in the required capital for this buffer[74]. For the banking system as of 30 June 2023 the excess of capital above the Pillar 1 regulatory minimum stood at BGN 10.8 billion, up by BGN 1.1 billion (11.1 per cent) compared to the end of 2022. Capital exceeding Pillar 1 and Pillar 2 capital requirements and applicable buffers increased by BGN 106 million (3.2 per cent) in the first half of 2023 and came to

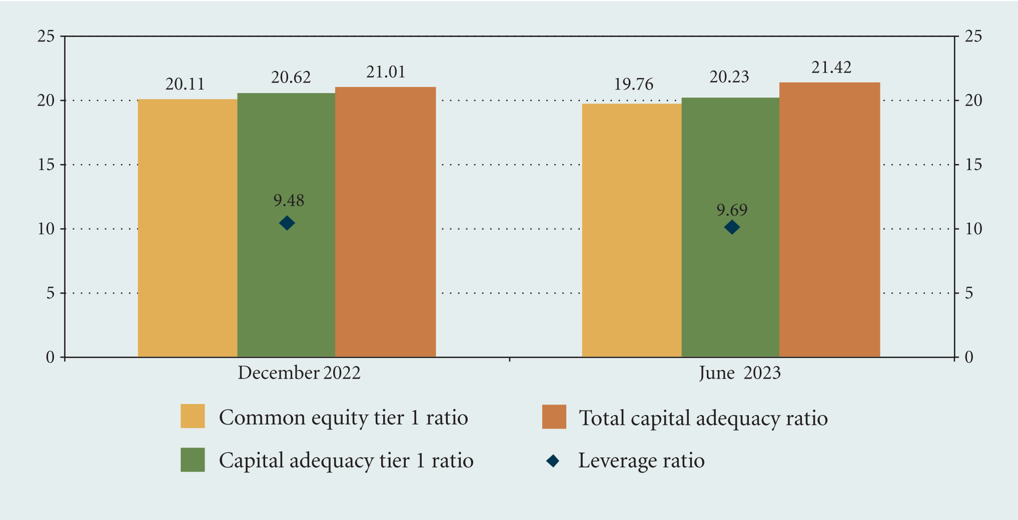
[73] As *per* Article 500a, paragraph 1b of Regulation (EU) 2020/873 of the European Parliament and of the Council on the temporary treatment of public debt issued in the currency of another Member State, in 2023, the risk weight applied to the exposure values shall be 20 per cent of the risk weight assigned to those exposures in accordance with Article 114(2).

[74] For more information on the effective capital buffer rates, see the BNB website: https://www.bnb.bg/BankSupervision/BSCapitalBuffers/index.htm?toLang=_EN.

BGN 3.4 billion (BGN 3.3 billion at the end of 2022). The amount of this capital continued to exceed the volume of net NPEs, thus ensuring additional coverage of the items of banks appearing to be a source of potential residual credit risk on their balance sheets.

Selected Capital Indicators

(per cent)



Source: BNB.

At the end of June 2023, banking system's aggregated leverage ratio (when a fully phased-in definition of tier 1 capital is applied) was 9.69 per cent (9.48 per cent by end-2022) against minimum regulatory requirement of 3.0 per cent. Total risk exposure (formed by bank assets, off-balance sheet items, derivatives, securities financing transactions and standard purchases and sales with pending settlement) increased at a slower pace than Tier 1 capital. The ratio by end-June shows high capital coverage of the total risk exposure and a low level of indebtedness of the banking system. All banks reported a leverage ratio exceeding significantly the minimum regulatory requirement.

Banking system liquidity remained sound, with liquidity coverage ratios (LCR) of all credit institutions exceeding significantly the minimum requirement of 100 per cent. The liquidity coverage ratio of the banking system was 226.1 per cent at end-June 2023 (235.0 per cent by end-2022). In the first half-year the liquidity buffer (ratio numerator) increased by BGN 965 billion (2.1 per cent) reaching BGN 47.0 billion at end-June. The period saw a decline in reserves in the central bank with an option of withdrawal of BGN 5.7 billion (25.5 per cent) to BGN 16.8 billion. As a result, their share of this item in the liquidity buffer structure declined from 49.0 per cent to 35.8 per cent at the end of June 2023. In contrast, assets in the central government grew by BGN 8.3 billion (48.2 per cent) to BGN 25.4 billion and their share in the liquidity buffer reached 54.1 per cent (against 37.3 at the end of 2022). The review period saw a decrease in the size of the coins and banknotes item (down BGN 467 million, or 15.8 per cent) and in the assets with the central bank item (down BGN 1.3 million, or 45.1 per cent) and by the end of June 2023 they came to BGN 2.5 billion and BGN 1.5 billion, respectively. As a result, the share of coins and banknotes in the liquidity buffer contracted to 5.3 per cent and that of assets with the central bank – to 3.3 per cent (against 6.4 and 6.1 per cent, respectively, at the end of December 2022). The liquidity coverage ratio denominator (net liquidity outflows) fell by BGN 1.2 billion (6.1 per cent) to BGN 20.8 billion at the end of the period.

Selected Liquidity Indicators

(per cent)

Source: BNB.

Loan-to-deposit ratio (LTD)[75] for the banking system increased on the end of 2022 from 68.1 per cent to 71.4 per cent, driven by the higher growth rate of the credit portfolio (6.7 per cent) compared to that of deposits (1.8 per cent).

At the end of June 2023, the aggregate net stable funding ratio (NSFR)[76] reached 152.5 per cent (from 162.7 per cent by end-December 2022). All banks in Bulgaria met the minimum regulatory requirement of 100 per cent. Available stable funding (the NSFR nominator) was BGN 124.6 billion and required stable funding (the NSFR denominator) was BGN 81.7 billion (against BGN 119.6 billion and BGN 73.5 billion by end-2022).

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

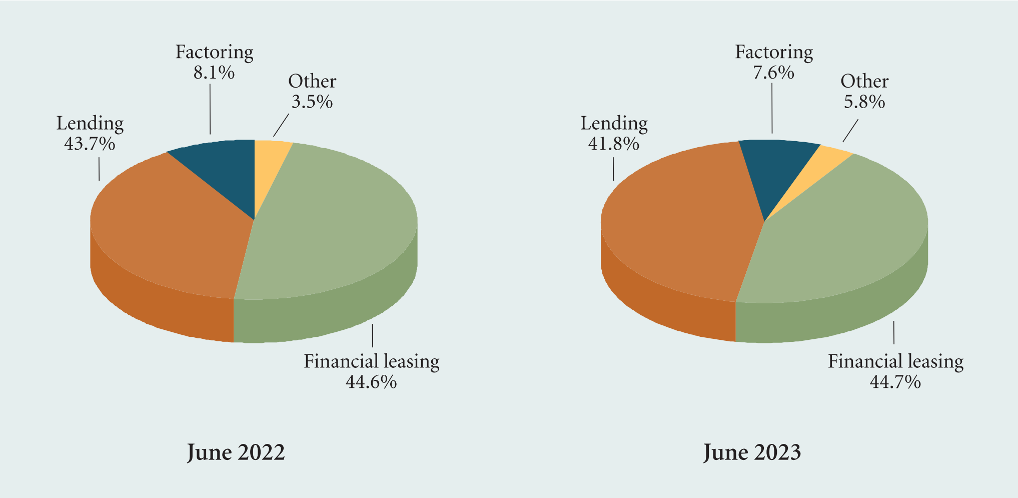
As of 30 June 2023 financial institutions entered in the Register under Article 3a of the LCI numbered 236, including 13 financial institutions from EU Member States conducting activities on the territory of the Republic of Bulgaria *via* a branch or directly (under Articles 24 and 27 of the LCI) and two funds established under the procedure of the Law on the Bulgarian Development Bank.

The sector's assets rose by 17.9 per cent on an annual basis, reaching BGN 14 billion as of 30 June 2023. Assets of the 20 largest financial institutions increased further to reach 76.9 per cent of the sector's total balance sheet figure at the end of the review period.

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

[76] The regulatory requirement is introduced in compliance with Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013. Reporting templates comply with Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 laying down implementing technical standards for Regulation (EU) No 575/2013 and repealing Implementing Regulation (EU) No 680/2014.

Breakdown of Financial Institutions' Assets by Type of Business in the Register under Article 3a of the LCI



Note: The sum may differ from 100 per cent due to rounding.

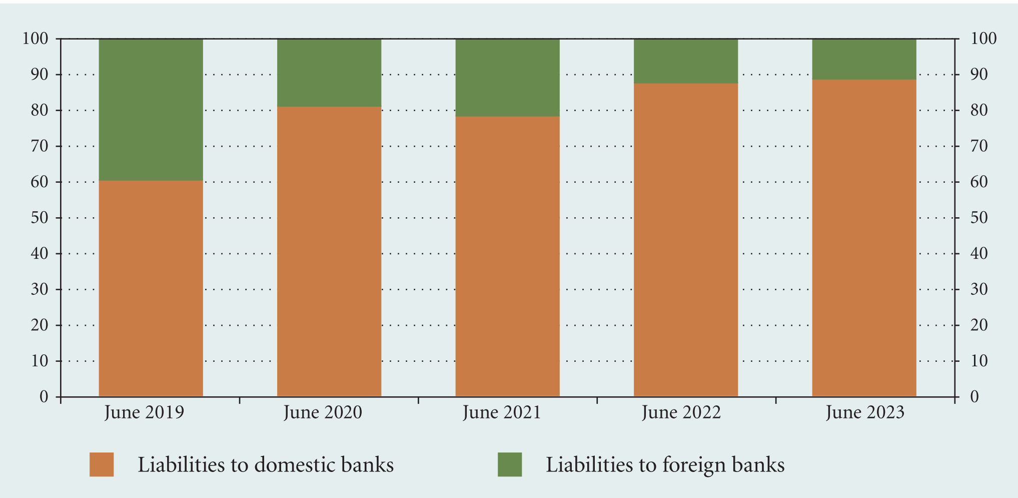
Source: BNB.

Over the review period, as of 30 June 2023, the credit portfolio of financial institutions, comprising credit claims and financial leases, grew by 15.6 per cent to BGN 11.8 billion on an annual basis, with performing loans accounting for 92.5 per cent of the sector's portfolio. Non-performing loans and advances rose by 2.2 per cent on an annual basis, reaching BGN 1.7 billion at the close of the first half-year. The accrued impairment increased by 19 per cent on the corresponding period of the previous year.

Attracted funds in the sector grew by 28.8 per cent on an annual basis, reaching BGN 10.8 billion, of which BGN 7.4 billion came from banks. The steady growth of the share of attracted funds in the sector from domestic banks (88.5 per cent) continued.

Structure of Attracted Funds from Banks

(per cent)



Source: BNB.

In the first half of 2023, the sector's profit amounted to BGN 196 million, of which 43.3 per cent was the profit of the 20 largest companies. At the end of June 2023, the sector's ROA reached 2.8 per cent and ROE amounted to 15.1 per cent. Banking system equity grew by 6 per cent on an annual basis, coming to BGN 2.6 billion. The capital position of the 20 largest financial institutions continued to provide half of sector's required equity (48.2 per cent).

Banking Supervision's Activity

Activities Related to the Cooperation between the BNB and the ECB

Over the period under review, the Banking Supervision Department, in cooperation with the ECB, performed its regular self-assessment related to the analysis of residual risks and the effectiveness of the control mechanisms in place. The survey concerned the on-site inspections process and the analysis of controls related to the risk of leakage of sensitive information and the risk of lack or inadequate/untimely identification and assessment of material risk.

Off-site Supervision

Activities Related to Supervisory Review and Evaluation and Current Monitoring of Credit Institutions' Risk Profile

Off-site supervision continued to focus on the ongoing monitoring of the financial situation of credit institutions. Developments in the risk profile were monitored and assessed through the levels of Key Risk Indicators (KRIs) using a common methodology across the SSM. An on-going quarterly supervisory review of banks and bank branches continued. Communication with credit institutions also continued as part of the supervisory dialogue with the aim of clarifying the dynamics in supervisory data reported on a monthly and quarterly basis, as well as the daily changes in the amount of liquidity buffers and attracted funds.

In line with the annual supervisory programme (Supervisory Examination Programme), meetings with representatives of external audit firms auditing the annual financial statements of banks were held.

When applying the EBA criteria, supervisors carried out a regular annual review of banks' Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reports for 2022 and of their funding plans covering the 2023–2025 period. The process of reviewing and assessing the updated versions of the recovery plans of the so-called 'less significant institutions' continued in order to determine their degree of credibility and to implement the recommendations made by the BNB. The implementation of the targets set by banks to reduce NPLs in their strategies and operational plans continued.

Over the review period reports and draft decisions under the LSI SREP with a reference date of 31 December 2021[77] were finalised, with the SREP assessments of the LSIs, and the determined additional capital requirements and recommendations for additional own funds were adopted by the BNB Governing Council.

Work on Drafting Opinions and Follow-up of Supervisory Measures

Opinions on the inclusion of annual profits as an element of the capital base and on an increase in the Tier 1 capital of several banks were issued between January and June 2023. The state of implementation of the recommendations and the corrective actions taken as a result of the supervisory inspections were followed up.

Opinions were also issued on the assessment of the suitability of management and supervisory board members and key function holders in several banks.

Close Cooperation within the Single Supervisory Mechanism (SSM)

BNB representatives continued to participate in the ECB's Joint Supervisory Teams, with the risk teams holding weekly meetings and working groups to discuss SREP 2023 methodology issues, as well as priorities and risk assessment approaches applicable to European

[77] In line with the SSM LSI SREP Methodology, 2022 edition.

banks and subsidiaries operating in Bulgaria. On this basis, draft reports on the financial situation of Bulgarian subsidiaries were prepared with a reference date of 31 December 2022 and proposals were made for the amount of the additional capital requirements and recommendations to be maintained by these banks in 2024 following the adoption of the joint supervisory decisions. Meetings of supervisory colleges were also held to discuss draft joint decisions on capital and liquidity as of 31 December 2022 and on recovery plans for 2021 of the European banking groups, part of which the four significant institutions (Bulgarian subsidiaries). Opinions were prepared for prior coordination of the selection of external auditors and analyses on outsourcing and changes of fixed to variable remuneration. With regard to the approval procedure for the merger of one significant institution with another, opinions and analyses were prepared on the financial situation and future development strategy of the merged bank. Over the period under review, an opinion was also prepared on the impact of the acquisition of business of one of the branches operating in Bulgaria by a significant institution, which resulted in the cessation of the branch's activities. Participation in the Joint Supervisory Teams also included communication on the approval procedures for members of the Governing Council, Supervisory Boards and key function holders. Supervisory dialogues took place within the Joint Supervisory Teams on credit institutions plans to distribute dividends, which assessed the capital trajectories of banks. Quarterly meetings were also held on a regular basis with the management of significant institutions within the SREP to discussed the financial results and the risk appetite and control framework were discussed. Regular bi-weekly meetings were held between representatives of the BNB and the ECB's unit responsible for the supervision of the so-called less significant institutions in Bulgaria (Country Desk Bulgaria) to discuss issues and topics related to the SREP, including the main risks, trends in banks' financial positions, the current macroeconomic situation, *etc*.

Working formats under the SSM at the ECB

Among the topics discussed in the framework of the SSM Capital Adequacy Expert Group were the platform for capital projections, SREP measures on the minimum requirement for own funds and eligible liabilities (MREL), draft adverse scenarios and an assessment of dividend distribution policies based on underlying profits. Within the framework of the Business Model & Profitability Expert Group discussed topics and projects related to SREP methodology, business model and profitability analysis tools, digitalization assessment, as well as analysis of banks with weaknesses in their business models.

On-site Inspections

In line with the adopted annual plan for on-site inspections, the first half of 2003 saw the completion of supervisory visits started in the previous year to three banks, including one subject to direct ECB supervision under the established close cooperation arrangements between the ECB and the BNB.

The scope and intensity of the on-site inspection carried out by a BNB team at a significant institution under the direct supervision of the ECB was agreed in a centralised process organised by the ECB and aligned with the priorities for high-risk areas identified by the SSM for 2022–2024. The same process has been applied to the SREP results, including consideration of information on findings related to vulnerabilities and deficiencies. Internal governance and risk management in the area of lending activities were examined. The objective of the audit was to determine whether and how the management body fulfils its responsibilities, including the functioning of the internal governance and control mechanisms and the risk management and control functions in the operational activities.

Supervisory findings[78] mainly related to a non-synchronised internal framework and arrangements for its practical implementation, the incorrect allocation of operational roles

[78] A 'finding' in supervisory reports shall be any non-compliance, weakness or omission committed by the bank, as well as violations of applicable regulations.

and responsibilities, as well as technical weaknesses. The findings of the inspection by level of impact, according to a scale approved by the ECB, are evenly distributed between 'high impact', 'moderate impact' and 'low impact'[79].

The scope and topics of supervisory inspections at two less significant banks subject to the direct supervision carried out by the BNB are in the area of credit risk and credit concentration risk. On-site inspections reviewed and assessed the credit process related to the approval of credit transactions, monitoring, assessment and classification of credit exposures, the management of non-performing exposures, and the quality of reporting for regulatory purposes related to the reporting of these risks.

The majority of the weaknesses identified related to incorrect and/or untimely coverage of circumstances affecting the quality of regulatory reporting, methodological and technical deficiencies, as well as unreliable internal control mechanisms. Another category of deficiencies concerns non-synchronised internal rules, undocumented approaches to implement regulatory requirements, inappropriate allocation of operational roles and responsibilities, technical weaknesses relating to data quality, ineffective internal control by management bodies with control functions.

Over the review period, a supervisory team launched an inspection mandated by the ECB, which concerned the assessment of a submitted application for material changes to the internal models applied in a leading bank. The inspection is conducted according to rules and standards, and uses the ECB's information-sharing systems. Documentary checks were carried out on two applications for non-substantial changes to the internal rating models of the Ex-ante notification type.

The internal models team continued to maintain its day-to-day communication with representatives from ECB's Joint Supervisory Teams responsible for domestically inspected banks applying internal models to assess credit risk for regulatory purposes. In addition, with a view to the close cooperation with the ECB, local activities and tasks were carried out, including the review of supervisory duties in relation to joint decisions, the preliminary assessment of documentation on submitted applications, participation in regular meetings, the preparation of draft legal documents, *etc.*

As part of the process of close cooperation between the BNB and the ECB, members of the supervisory teams participated (as representatives of the BNB) in specialised ECB working groups, whose role is to ensure cooperation within the SSM with regard to the implementation and development of work processes and tasks in various areas relevant to internal models (NIME, NIME-R, OSI), on-site inspections and the planning and coordination of supervisory inspections. Other supervisory team members participated in ECB working groups on the development of supervisory methodologies, the assessment of credit risk methodologies, market risk, the application of supervisory measures and sanctions. A supervisory team representative participated in a separate network of the national competent authorities, a forum for presenting information and discussions on the further development of modules and functionalities of the single information system for managing supervisory business processes within the SSM (IMAS) related to the conduct of supervisory inspections, SREP activities, the issuance of licences, approved supervisory sanctions.

Macroprudential Supervision

The BNB exercises its macroprudential mandate by supervising the operation of credit institutions and the banking system on the basis of continuous monitoring, identification and assessment of systemic risks. The analysis focused on both the inherent risks of the banking system and the development of the economic environment in which banks operate. The analysis of the risk profile of the banking system covers both key business lines and key regulatory risks – asset quality, profitability level, capital adequacy and liquidity, and

[79] Written prescriptions are expected to be issued by the ECB's Joint Supervisory Team to the bank's management to address the identified weaknesses.

an assessment of cyclical and structural measures of systemic risk which are the basis for the introduced macroprudential instruments. Up-to-date information on banking system developments is disclosed through monthly press releases and the main analytical conclusions are included in the BNB's quarterly publication Banks in Bulgaria.

As one of the macroprudential instruments used, the countercyclical capital buffer aims to preserve the banking system's ability to cope with the adverse effects of cyclical developments in the business and financial cycle by strengthening banks' capital positions. In the first half of 2023, this buffer rate is 1.5 per cent, applicable to credit risk exposures in the Republic of Bulgaria. Given the persistently high credit growth rates and uncertainty in the economic environment, the CCyB rate was raised to 2.0 per cent in September 2022, effective as of 1 October 2023, taking into account the likelihood of exacerbating and accumulating risks to financial intermediation in view of the economic developments in the EU and their impact on the financial system[80]. The countercyclical capital buffer applicable from the first quarter of 2024 was kept at 2.0 per cent by decisions of the BNB Governing Council of December 2022, March 2023 and June 2023. The decisions aim to strengthen the resilience of the banking system to pressure on the profitability and capital position of the banking sector, driven by a potential increase in non-performing loans (NPLs) and their impairments.

In the first half-year, macroprudential priorities included the regular analysis of risks stemming from lending collateralised by residential real estate. Based on detailed information received by banks through a specialised reporting form[81] on newly granted loans to households collateralised by real estate, key indicators such as the degree of collateralisation and maturity of the claim, the degree of indebtedness and solvency of the debtor were monitored.

Specific Supervisory Activities

Over the reporting period, BNB control activities continued to insure compliance with the requirements of the Law on Anti-Money Laundering Measures and the Law on Anti-Terrorism Financing Measures. Three supervisory inspections at banks, including at two less significant credit institutions and one joint inspection by the BNB and the Directorate Financial Intelligence-SANS of a bank branch, were completed. Checks focused on: the assessment of internal rules; own risk assessment; the procedure for determining the origin of funds; categorisation of customers; the process of identification and implementation of enhanced due diligence measures for high-risk customers, their monitoring and activities identified by the national risk assessment as higher risk; compliance with the European Banking Authority Guidelines.

Four horizontal inspections were launched during the reporting period, with the checks on the adequacy of banks' own money laundering and terrorist financing risk assessment (at 25 banks) and the identification of money laundering and terrorist financing risks in correspondent relationships (at 17 banks) were completed by the end of the first half of the year. Inspections on the implementation of group policies on anti-money laundering and counter-terrorist financing (at 4 banks) and on the implementation of the Law on Measures against Financing of Terrorism test, and on the actions of 25 banks to limit their use for terrorist financing purposes are being finalised. The results of the closed inspections did not require the application of supervisory measures. Recommendations on the prevention of money laundering and terrorist financing were issued to improve the performance of credit institutions.

In the first six months of 2023, thematic checks were also carried out on complaints and alerts by citizens and other bodies on specific issues. In line with the restrictive European

[80] See: 'Warning of the European Systemic Risk Board of 22 September 2022 on vulnerabilities in the Union financial system' (ESRB/2022/7).

[81] The specialised macroprudential reporting form was introduced from the beginning of 2022 in line with the Recommendation of the European Systemic Risk Board on closing real estate data gaps (ESRB/2016/14, amended in 2019 ESRB/2019/3).

policy, information was collected and analysed from all banks and branches of foreign banks in order to assess the risks to banks from customers from the Russian Federation and the Republic of Belarus.

Meetings were held with representatives of the banks to improve the effectiveness of the prevention of money laundering and terrorist financing. Issues related to the implementation of guidelines issued by the BNB on: red flag alerts to monitor transactions, operations and customers; identification of beneficial owners of legal persons and other legal entities; surveillance systems, verification of origin of funds and source of customer assets and targeted financial sanctions related to terrorist financing. A meeting with banks was held to discuss issues related to the joint guidelines of the BNB and the Directorate Financial Intelligence-SANS on preparing risk assessment and applying the requirements of the Law on Measures against Financing of Terrorism *vis-à-vis* customers – PEPs and related persons.

Active participation in the standing joint working group on updating national risk assessments for money laundering and terrorist financing continued. The second national money laundering and terrorist financing risk assessment and the sectoral assessment of money laundering and terrorist financing risks in the virtual asset sector were published in March 2023, and a sectoral assessment of terrorist financing risks in the non-profit legal entity sector was published in June 2023. The banks were informed by letters of the outcome of these assessments, and two meetings were held with representatives of all the banks to discuss the results of the assessments.

BNB representatives continued to participate in the activities of the Committee of Experts on the Evaluation of Measures against Money Laundering (Moneyval), as well as in the inter-service working group on the follow-up to the assessment. An action plan has been drawn up on the recommendations of the 5th Assessment Round on Bulgaria and its implementation. The existing legislation has been reviewed and a package of legislative changes has been proposed to address the weaknesses identified by the Committee in the Bulgarian legal framework (the Law on Measures against Money Laundering, the Law on Measures against Financing of Terrorism, the Law on Credit Institutions and the Law on Payment Services and Payment Systems) and to achieve a higher level of compliance with the recommendations of the Financial Action Task Force (FATF). The action plan activities and proposed legislative changes have been reported to the FATF International Cooperation Review Group (ICRG).

With a view to minimising risks in residential and mortgage lending to individuals, compliance with the requirements of the Law on Consumer Real Estate continued to be monitored. The main points of the inspections were the review of the internal rules adopted by creditors and the practices applied to assess the creditworthiness of consumers, training systems and remuneration policies for personnel engaged in the activities under the Law on Real Estate Loans for Consumers (LRELC). Two inspections of credit institutions under the LRELC and one thematic inspection of a non-bank financial institution were completed over the review period. The results of the examinations at both banks showed that they had adequate internal remuneration rules and policies in place to comply with the law. In one of the banks inspected, there was a need for additional training for some members of staff. The main weaknesses in performing the creditworthiness assessment of both credit institutions relate to shortcomings in their methodologies, which do not include assumptions about future events related to the verification of the consumer's ability to meet contractual obligations. Guidance and deadlines have been given to address the shortcomings identified.

For the strict application of the Law on Bank Deposit Guarantee (LBDG), two targeted checks were carried out in two less significant credit institutions with a view to correctly determining the amount of guaranteed deposits, which serves to calculate the premium contribution to the Bulgarian Deposit Insurance Fund and to prepare the accounting forms correctly. Insignificant discrepancies in determining the amount of the deposit base and guaranteed deposits were established in the inspected credit institutions. The banks took action to address the shortcomings during the inspections.

All complaints, questions and enquiries received from customers of financial institutions and credit intermediaries over the period under review were examined and the persons concerned were informed.

Over the review period ten new Bulgarian and two EU Member State legal entities willing to act as intermediaries under the LRELC were registered. On their own initiative, two local credit intermediaries and one foreign credit intermediary were deleted. The analysis of the reporting information received from the credit intermediaries in the first half of the year shows that they have a well established market presence. Over the same period, 343 entities were inspected and found to act as credit intermediaries without registration.

In the six-month period, six new financial institutions with commercial registration in the Republic of Bulgaria and one foreign financial institution were entered in the register under Article 3a of the LCI. The registration of four financial institutions was deleted. The Central Bank rejected the registration of 5 companies due to unclear origin or lack of evidence of own funds in the formation of capital contributions. At the request of three companies, the document review procedure for an application for registration was terminated.

Regular control over the implementation of the requirements of Ordinance No. 26 of 23 April 2009 on financial institutions continued in the first half of 2023, including verification of the accuracy of data and information in connection with registration and changes in the circumstances of registration, as well as analysis of the financial statements submitted to the BNB to calculate the companies' core activities defining them as financial institutions and the compliance with the capital adequacy requirement.

Over the period under review, signals received from state institutions and citizens regarding financial institution activities by companies of not registered under Article 3a of the LCI and the application of bad practices in the course of their activity were investigated.

Supervisory Information Service and IT Audit

The activities of collecting, processing and storing the information necessary for the BNB's banking supervision were carried out to the required extent and quality. Over the review period, the data required for the analytical needs of the BNB's supervisory activities were provided as scheduled.

Changes were implemented in the core information system of the Banking Supervision Department to automate the transmission of data on supervisory reporting to regulators. The necessary changes to the information resources brought about by the regulatory reporting requirements have been put in place. The analysis of the necessary changes concerning the introduction of the single European currency in the information resources used in management activities was finalised.

A full-scope supervisory IT exercise was completed in one of the High Impact LSI banks. All recommendations related to the horizontal supervisory review conducted in 2022 on 'Outsourcing with a focus on managing outsourced IT activities' were implemented by the banks.

The coordination unit responsible for cyber incidents reported by the supervised institutions monitored the level of cyber threats and tracked cyber incidents in credit institutions on a daily basis, ensuring the timely handling and reporting of incidents to the ECB. Over the reporting period, no cyber incidents were observed across banks related to the war in Ukraine.

Work on Amending the Existing Basel III Regulatory Framework and Participation in Working Groups at European Level

In 2023, BNB representatives actively participated in discussions at European level on the introduction in the Union of the so-called revised Basel III regulatory framework on capital requirements for credit institutions, with the aim of strengthening the regulation, supervision and risk management of the banking sector.

In the area of the European regulatory framework, work continued under the standing sub-structures of the EBA and the ECB, where BNB experts participated in the discussion and development of common supervisory policy and standards, as well as in the exchange, assessment and convergence of national practices on the implementation and enforcement of the EU prudential and supervisory framework.

In line with EBA Decision of 18 February 2021 on information required for the monitoring of Basel supervisory standards (EBA/DC/2021/373)[82] the BNB carried out an exercise to collect and transmit information to the EBA on a sample of credit institutions set out in Article 4 of the Decision. For the second observation exercise with a reference date of 31 December 2022, three Bulgarian banks were included in the sample. In the first half of 2023, the BNB participated actively in the role of mediator between the EBA and designated banks in all stages of the monitoring exercise. Following a quality review of the data submitted by the banks, the EBA included the three banks in the summary results.

Work on Amending the Existing Regulatory Framework at National Level

On 12 January 2023 the BNB Governing Council adopted a decision to apply Guidelines amending Guidelines EBA/GL/2018/10 on disclosure of non-performing and forborne exposures (EBA/GL/2022/13) issued by the EBA and published on its official website. The document only changes the scope of application of the current Guidelines on disclosure of information on non-performing and forborne exposures (EBA/GL/2018/10).

On 26 April 2023, the BNB Governing Council adopted a decision to apply the EBA Guidelines issued on the basis of Article 84(6) of Directive 2013/36/EU specifying criteria for the identification, evaluation, management and mitigation of the risks arising from potential changes in interest rates and of the assessment and monitoring of credit spread risk, of institutions' non-trading book activities (EBA/GL/2022/14), issued by the EBA and published on its official website as of 30 June 2023, with the exception of the sections on credit spread that apply from 31 December 2023.

On 18 May 2023 the BNB Governing Council adopted a decision implementing the Guidelines on the use of solutions for remote establishment of business relationships with customers under Article 13(1) of Directive (EU) 2015/849 (EBA/GL/2022/15). They set out the steps that credit and financial institutions should take when adopting or reviewing decisions to meet their obligations in the context of remote establishment of business relationships with new customers.

Issue of Licences, Permits, and Approvals

In the first half of 2023, no new credit institutions were licensed to carry out banking activities on the territory of the Republic of Bulgaria and no licensing proceedings[83] were initiated.

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[82] See EBA Decision of 18 February 2021 (consolidated version) on the EBA website.

[83] By Decision (EU) 2020/1015 of the ECB of 24 June 2020 on the establishment of close cooperation between the European Central Bank and the Bulgarian National Bank (ECB/2020/30), a close cooperation mechanism was established between the BNB and the ECB and, starting from 1 October 2020 in accordance with Article 4(1)(a) of Regulation (EU) No 1024/2013, the ECB is the competent authority for authorisation of credit institutions, subject to specific rules reflecting the role of the national competent authority.

No applications for the acquisition of qualifying holdings from the capital of credit institutions pursuant to Article 28 of the Law on Credit Institutions were received during the first half of the year.

In February 2023, by decision of the Governing Council of the BNB, the licensing procedure initiated in 2022 on the basis of Article 29, paragraph 1 of the LCI to convert one significant bank into another (KBC Bank Bulgaria EAD into United Bulgarian Bank AD) was completed. In the first half of 2023, a bank was authorised to reduce its capital by a decision of the BNB Governing Council on the basis of Article 29 of the LCI.

In March and April 2023, the BNB Governing Council adopted decisions exempting two parent financial holding companies from the requirement to obtain authorisation under Article 35a(1) of the LCI.

By a decision of the BNB Governing Council a permission was granted for the merger of a significant financial institution with its subsidiary financial institution in the first half of 2023.

In the first half of 2023, the BNB Governing Council approved the permissions related to own funds, as follows:

– to two banks to include issues of shares in the Common Equity Tier 1 (CET 1) capital;

– to one significant bank to include its interim profits as of 31 December 2022 in Common Equity Tier 1 (CET 1) capital;

– to one bank to include its interim profits as of 30 June 2022 on an individual and consolidated basis in the Common Equity Tier 1 (CET 1) capital;

– to one bank to include the amount borrowed in the form of a subordinated fixed-term loan in the Tier 2 (T2) capital.

– to one bank to include its 2022 profits into the Common Equity Tier 1 (CET1) capital;

– to one significant bank to include its interim profits as of 31 March 2023 in the Common Equity Tier 1 (CET 1) capital.

Over the past six months approval under Article 71, paragraph 5 of the LCI of amendments to the Articles of Association of one credit institution has been issued by a decision of the BNB Governing Council.

In the January–June 2023 period, as a result of a fit and proper assessment, 8 approvals for holding positions in the management and supervisory bodies of banks[84] were issued by resolutions of the BNB Governing Council (6 to less significant institutions and 2 to significant institutions following instructions by the ECB) and 8 approvals to assess the suitability of key function holders in banks (5 to less significant institutions and 3 to significant institutions following instructions by the ECB)[85]. Two administrative proceedings for granting approvals to key function holders in significant institutions were terminated.

Between January and June 2023, 10 new EU Member State credit institutions exercised the freedom to provide direct services under the mutual recognition of single European passport through notifications to the BNB from their licensing authorities on their intent to provide bank services in the Republic of Bulgaria, bringing the number of First Time Free Services Notifications received in the BNB to 348.

As a result of the close cooperation between the ECB and the BNB[86], the following procedures for specific instructions from the ECB have been implemented, leading to the

[84] Information on approvals issued pursuant to Article 11, paragraphs 1 and 3 of the Law on Credit Institutions is available on the BNB website: https://www.bnb.bg/BankSupervision/BSCreditInstitution/BSCIRegisters/index.htm?toLang=_EN.

[85] Following the established close cooperation between the BNB and the ECB, in accordance with Article 4(1)(e) of Regulation (EU) No 1024/2013, the ECB is exclusively competent to assess and adopt decisions on the suitability of members of the management bodies and of key function holders in significant banks. The ECB assesses the persons concerned in cooperation with national supervisory authorities.

[86] Decision (EU) 2020/1015 of the ECB, effective as of 27 July 2020.

adoption of national decisions by the BNB Governing Council and the issuance of orders by the Deputy Governor heading the Banking Supervision Department:

– five national decisions on issuing approvals for holding positions in management and supervisory bodies and for holding key positions in three significant credit institutions;

– one national decision on issuing an approval of amendments to the Statute of a significant bank;

– 13 national decisions on invoicing 2022 annual supervisory fees due to the ECB for the supervised entities and supervised groups established in Bulgaria;

– 2 national decisions authorising the merger of a bank with a bank and of a financial institution with a bank – for two significant institutions;

– one national decision amending a decision to periodically provide additional supervisory information (data collection on outsourcing arrangements) to a significant institution;

– one national decision to extend the period of compliance of an obligation set out in a specific ECB instruction and the national decision on internal models adopted pursuant to it for one significant institution;

– 6 national decisions in relation to own funds – of three significant banks;

– two orders to conduct supervisory inspections in two significant banks;

– one national decision related to the approval of one significant institution for the exclusion of exposures where a total internal exposure is established.

In the first half of 2023, the Banking Supervision Department registered and handled 40 complaints from bank customers on specific cases.

VII. BNB Activities as the Resolution Authority for Credit Institutions

The Law on the Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF) tasks the Bulgarian National Bank with resolution of credit institutions and other legal entities, which are subject to supervision or consolidated supervision by the central bank. Following the establishment of close cooperation with the ECB with effect from 1 October 2020, the BNB performs the function of a resolution within the framework of the Single Resolution Mechanism (SRM) and in close cooperation with the Single Resolution Board (SRB).

Credit institutions established in the Republic of Bulgaria in respect of which the ECB exercises all powers under Article 4 of Regulation (EU) No 1024/2013[87] fall under the direct remit of the SRB, which exercises the functions of a resolution authority and takes decisions on all aspects of resolution[88]. As the national resolution authority for credit institutions under the direct remit of the SRB, the BNB participates and is represented in Internal Resolution Teams set up by the SRB[89], which perform tasks on drawing up resolution plans and taking decisions related to resolution. In these cases, the SRB replaces the BNB also when cooperating with resolution authorities of non-participating Member States, including in resolution colleges and European resolution colleges established under Directive 2014/59/EU[90]. Regarding credit institutions, groups respectively, whose resolution authority is the SRB, the BNB participates in the resolution colleges as an observer.

In respect of credit institutions and groups established in the Republic of Bulgaria which do not fall under the direct remit of the SRB, the Bulgarian National Bank adopts decisions on all aspects of resolution, taking into account its cooperation commitments with the SRB and the direct application in the Republic of Bulgaria of Regulation (EU) No 806/2014[91].

As part of the SRM, the Bulgarian National Bank is represented with a voting right in the management bodies of the SRB in the form of the Plenary session[92] and the Extended Executive Session[93] by the Deputy Governor heading the Issue Department.

In its capacity as a resolution authority, the BNB is fully responsible for the administration and management of the Banks Resolution Fund (BRF, the Fund).

In the first half of 2023, the BNB activity as a resolution authority and national resolution authority was focused primarily on preparing, reviewing and updating resolution plans of credit institutions and monitoring the implementation of intermediate target levels of minimum requirements for own funds and eligible liabilities (MREL) as set out for credit institutions. In view of the accession to the SRM, in the first half of 2023 work on updating

[87] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

[88] As of 30 June 2023, these are four credit institutions, namely DSK Bank AD, Eurobank Bulgaria AD, UniCredit Bulbank AD, and United Bulgarian Bank AD.

[89] They include representatives of the SRB and national resolution authorities and are established under Article 83(3) of Regulation (EU) No 806/2014.

[90] Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012 of the European Parliament and of the Council.

[91] 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.

[92] Including permanent members of the SRB and representatives of all national resolution authorities within the SRM.

[93] The Extended Executive Session includes permanent SRB members and representatives of national resolution authorities in whose jurisdiction the entities subject to consideration of issues and adoption of decisions are located.

the BNB internal regulatory framework related to the resolution function continued in the context of the integration of the SRB policies, its relevance, taking into account national specificities. In the reporting period, amendments to the LRRCIIF entered into force as part of the Final Provisions to the Law amending the Law on Markets in Financial Instruments (Darjaven Vestnik, No 8 of 25 January 2023) introducing changes to national legislation resulting from Regulation (EU) 2021/23[94]. These amendments to the LRRCIIF affect the BNB function as a resolution authority and a national authority for the resolution of credit institutions.

In the first half of 2023, work continued on reviewing and updating the resolution plans adopted in late 2021 for credit institutions falling within the direct powers of the BNB.[95] In February 2023, the BNB Governing Council adopted a resolution plan and set MREL for a credit institution.[96] Resolution plans are reviewed annually and include an assessment of resolvability, an assessment and analysis of the business model and critical functions of the institution or group concerned, as well as the preferred resolution strategy and tools. Along with reviewing and revising the resolution plans, a review of the specified level of MREL was carried out. In addition, the progress made by credit institutions towards their defined work priorities in 2022 was also examined and assessed with a view to ensuring resolvability and implementing the preferred resolution strategy.

In the first half of 2023, the BNB continued monitoring and controlling credit institutions' compliance with the MREL. In addition, through the standardised reporting collected from credit institutions for resolution planning purposes[97], the provision of up-to-date information began, as required for the review and update of resolution plans for the next resolution planning period for 2023.

The Bulgarian National Bank in its capacity as a resolution authority of a credit institution, part of a cross-border EU group, participated as a member in the resolution college set up by the group-level resolution authority. In the first half of 2023, within the time period for reaching a joint decision on the group resolution plan for 2022 and on MREL, college members reached a joint decision and adopted the group resolution plan for 2022.

In the course of reviewing and updating the resolution plans of the four credit institutions within the direct remit of the SRB[98], in the first half of 2023 the BNB Governing Council adopted decision-voting positions of the SRB extended Executive Session concerning the final approval of joint decisions on resolution plans for 2022 of two cross-border groups with subsidiaries licensed in the Republic of Bulgaria, and on setting MREL for resolution entities and their subsidiary banks within the remit of the SRB[99]. The BNB Governing Council also took a position regarding the draft proposal of the SRB on setting MREL of subsidiary bank licensed in the Republic of Bulgaria and part of a cross-border group with

[94] Regulation (EU) 2021/23 of the European Parliament and of the Council of 16 December 2020 on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, (EU) No 600/2014, (EU) No 806/2014 and (EU) 2015/2365 and Directives 2002/47/EC, 2004/25/EC, 2007/36/EC, 2014/59/EU and (EU) 2017/1132.

[95] In the context of the allocation of functions and powers between the BNB and the SRB, the Bulgarian National Bank is responsible for the resolution planning of thirteen credit institutions licensed in the Republic of Bulgaria.

[96] Due to the failure to reach an agreement, over the previous resolution planning period the BNB started to review and update an individual resolution plan of the subsidiary credit institution licensed in Bulgaria, part of an EU cross-border group.

[97] Commission Implementing Regulation (EU) 2018/1624 of 23 October 2018 laying down implementing technical standards with regard to procedures and standard forms and templates for the provision of information for the purposes of resolution plans for credit institutions and investment firms pursuant to Directive 2014/59/EU of the European Parliament and of the Council, and repealing Commission Implementing Regulation (EU) 2016/1066.

[98] On 10 April 2023, the process of legal merger of KBC Bulgaria EAD into UBB AD was completed.

[99] Pursuant to Article 54(2)(a) and (c) of Regulation (EU) No 806/2014, the SRB at its Executive Session prepares, assesses and approves resolution plans and determines a MREL for entities and groups falling within the scope of its powers. Decisions of the Executive Session of the SRB are taken by consensus, and if members are not able to reach a joint agreement by consensus, by a simple majority of the votes of permanent SRB members.

parent undertaking outside the SRM for the purposes of its subsequent provision to the group level resolution authority.

The BNB did not support the draft decisions of the SRB's Extended Executive Session on the resolution plan and the resolvability assessment for 2022 and on the determination of MREL for the two cross-border groups with subsidiaries in Bulgaria falling under the direct remit of the SRB, as well as the draft proposal of the SRB to designate the MREL of the subsidiary credit institution with a parent undertaking outside the SRM. The BNB expressed its reasoned disagreement with the resolution plan and resolvability assessment of groups as regards the part relating to the approach for setting MREL for subsidiary banks licensed in the Republic of Bulgaria. For the same reasons, the BNB did not support the draft proposal of the SRB on setting MREL of subsidiary bank with parent undertaking outside the SRM. The BNB's positions as a national resolution authority were expressed in the framework of the Extended Executive Session of the SRB by the Deputy Governor in charge of the Issue Department as a BNB representative. Due to the lack of consensus and in accordance with the applicable legal framework, the SRB's draft decisions, which were not supported by the BNB, were adopted by the Executive Session comprising the permanent members of the SRB.

The resolution plans for 2022 of both groups, the bulk of which are credit institutions established in Bulgaria, on which joint decisions have been reached within resolution colleges organised by the SRB, include an assessment of banking group resolvability, an assessment of significant corporations and an analysis of their legal and financial structure, their business model, critical functions, preferred strategy and resolution tool, MREL calculations and an analysis of the tools serving to implement the MREL. The two subsidiary banks licensed in the Republic of Bulgaria, which are part of the relevant banking groups, were designated as significant and the critical functions they perform were identified. A MREL was set out on a individual or (sub)-consolidated basis in accordance with the approach taken by the SRB for the two subsidiary banks, that are not resolution entities, according to the strategy provided for in resolution plans of the relevant group.

Under the BRF governance function, on 13 April 2023 the BNB Governing Council adopted the annual financial statements of the Banks Resolution Fund for 2022[100], including a Performance report and all components of the BRF financial statements as of 31 December 2022. The audited financial statements were published in the Darjaven Vestnik within the statutory period (until 30 April)[101]. Within the same period, the report presenting the Fund's activities and its assets, financial position, cash flows, financial result and change in net assets, along with the report of the independent auditor[102], was published on the BNB website under the corresponding section.

For the purposes of ongoing management of the BRF's financial means, in January 2023 the BNB Governing Council determined eligible classes of assets and investment restrictions for market and credit risks with regard to the possibility for BRF financial means to be invested through a structured indexed account (SIA) with the BNB. In the first half of 2023, the BNB Governing Council took decisions to leave unchanged the applied investment strategy regarding BRF financial means, which continued to be kept on current accounts with the BNB and were subject to the General Terms and Conditions of the Bulgarian National Bank on Servicing Accounts of Banks, Budget Organisations and Other Customers. When making the decision to invest the BRF's resources, the Governing Council reviewed and took into account the expected returns and risk in the event of a choice of SIA, as well as the market situation at that time.

[100] It includes information and analyses concerning the dynamics and trends in the international environment, economic activity in Bulgaria and the state of the banking system, given their interconnectedness and determining role for BRF management activities, as well as information on the management of the BRF and the main indicators representing its performance in 2022.

[101] Darjaven Vestnik issue 38 of 28 April 2023.

[102] Ernst & Young Audit OOD, appointed by Decision No 371 of the BNB Governing Council of 18 November 2021.

In line with the allocation of powers between the SRB and the BNB, the function of determining and raising contributions by branches of third-country credit institutions for the purposes of resolution financing is exercised entirely by the BNB, and the collected funds are transferred to a separate BRF sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF. In April 2023, the BNB Governing Council set the total amount of annual contributions by branches of third-country credit institutions to the BRF at BGN 92 thousand. Funds were transferred to the account of the respective sub-fund within the time-limit under Article 139, paragraph 5 of the LRRCIIF (30 days from the date of notification). As of 30 June 2023, funds collected in the sub-fund established to raise contributions by branches of third-country credit institutions amounted to BGN 882 thousand.

The contributions of credit institutions licensed in the Republic of Bulgaria for the purposes of resolution financing are due to the SRF and are determined by the SRB. As a national resolution authority, the BNB is responsible for notifying credit institutions about their *ex-ante* annual contributions set by the SRB, for their collecting and transferring to the SRF. To this end, a separate earmarked sub-fund of the BRF is used under Article 134, paragraph 1, item 2 of the LRRCIIF. In May 2023, the SRB determined the contributions for 2023 to be collected from the credit institutions licensed in the Republic of Bulgaria and transferred from the BNB to the SRF at a total amount of EUR 11,508 thousand, or BGN 22,508 thousand.[103] In view of the funds available in the earmarked BRF sub-fund and the possibility of using them provided for in § 56, paragraph 2 of the Transitional and Final Provisions of the Law on the Amendment to the LRRCIIF[104], the BNB Governing Council decided contributions due by credit institutions towards the SRF for 2023 to be deducted from the available funds in the respective sub-fund. Credit institutions were notified of their contributions set by the SRB to the SRF for 2023 and of Governing Council’s decision these contributions to be deducted from the funds available in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF. Upon receipt of the notification, one credit institution chose to make use of the opportunity provided by the SRB for 22.5 per cent of the contribution due to be discharged by making an irrevocable payment commitment under the terms of an agreement concluded with the SRB.[105] On 29 June 2023, upon receipt of a payment notification by the SRB, the BNB made the respective payments[106], decreasing the funds to be deducted from the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF in view of the funds provided by the respective credit institution to collateralise the irrevocable payment commitment to the SRB.

As of 30 June 2023, funds in the earmarked BRF sub-fund established to raise and transfer contributions of credit institutions to the SRF came to BGN 455,595 thousand.

[103] Under the fixed exchange rate of 1.95583 lev *per* 1 euro.

[104] ‘Upon a relevant notification by the Single Resolution Board with regard to an initial contribution, the resolution authority under Article 2, paragraph 1 shall order a transfer to Single Resolution Board of a sum from the sub-fund under Article 134, paragraph 1, item 2 in accordance with Article 8 of the Agreement on the Transfer and Mutualisation of Contributions to the Single Resolution Fund. After the transfer of the funds, the remaining funds generated in the sub-fund under Article 134, paragraph 1, item 2, if any, shall be deducted from the obligations of the entities for future contributions to Single Resolution Fund following a decision of the resolution authority until they are exhausted.’

[105] Irrevocable payment commitment is fully collateralised by credit institution's funds. The LRRCIIF does not provide a possibility for funds in the respective earmarked sub-fund to be used as a collateral for irrevocable commitments for payment.

[106] Transfer of contributions of credit institutions licensed in the Republic of Bulgaria for 2023 to the SRF and the separate transfer of the amount representing the collateral for an irrevocable payment commitment made by a credit institution licensed in the Republic of Bulgaria.

VIII. Participating in the ESCB and EU Bodies

Activities of EU bodies and institutions in the first half of 2023 focused on taking measures to strengthen the Union's capacity, to be ready to act and to manage crises, to reform the economic governance framework and to update prudential requirements for credit institutions. BNB representatives participated in discussions on the amendment of the EU regulatory framework for the banking sector and contributed to the drafting and coordination of national positions on legislative proposals.

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. In the first half of 2023, the two ECB General Council meetings discussed issues related to economic developments and EU financial sector performance, the report on compliance with the ban on monetary financing by central banks and the report on the economic outlook and monetary policies of non-euro area Member States.

BNB representatives sat on 15 ESCB committees[107], 62 working groups, and the Heads of Administration Conference. Bank representatives in 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 took part in coordinating ECB opinions with regard to written consultations between EU Member States and the ECB on legislative bills, as well as proposed EU legislation falling within its field of competence. In the reporting period, Bulgaria consulted the ECB in writing on a draft law amending the Law on Payment Services and Payment Systems, a draft law amending the Law on Credit Institutions and the Law on Payment Services and Payment Systems, and a new Law on the Bulgarian National Bank which will enter into force from the date of Bulgaria's accession to the euro area. The BNB participated in coordinating ECB opinions on these legal acts.

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

The BNB Governor and Deputy Governors are members of the ESRB General Board. At the two meetings held in the first half of 2023, the General Council continued to discuss and update its assessment of the systemic risk in the light of the new risk environment of high inflation, marked increases in interest rates and a heightened uncertainty about the macroeconomic outlook. The following sources of systemic risk to the financial stability in the EU were highlighted: a prolonged period of low growth and high inflation leading to tensions over balance sheets of non-financial enterprises and households; deteriorating asset quality as a result of the unfavorable macroeconomic environment and worsening prospects for the profitability of the banking sector due to increased bank funding costs and a slowdown in bank lending; revaluation and sharp swings in asset prices in response to a continued stress in the financial sector, further escalation of geopolitical tensions and

[107] 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), the Statistics Committee (STC), the Organisational Development Committee (ODC), the Committee on Controlling (COMCO) and Human Resources Committee.

weaker than expected economic growth prospects. The General Council emphasised that sound capital and liquidity positions and stable profitability as a result of monetary policy normalisation would place the EU banking sector in a good position to meet the challenges posed by the new risk environment. At the same time, given the complex macrofinancial environment, it was stressed that financial institutions need to implement appropriate capital and liquidity planning practices and maintain the current levels of resilience to ensure their ability to cope with potentially less favourable conditions.

Over the reporting period, the General Council also discussed the build-up of risks in the real estate sector, given the systemic impact that adverse developments in this sector could have on the real economy and the financial system. In the context of discussions, General Council members reported continued weaknesses in commercial real estate investments on the background of deteriorating business sentiment, an unfavourable outlook for profitability, rising financing costs and tightening credit standards. Members of the General Board agreed on the need to closely monitor existing and emerging vulnerabilities in the commercial real estate sector, given its important role for the financial stability of the EU.

At its meeting in March, the General Council continued to discuss possible systemic implications for developments in crypto-asset markets and policies to mitigate risks to financial stability. The need for authorities to have the capacity to monitor spill-over channels to both the traditional financial sector and the crypto-asset industry was highlighted. This will allow timely action to address potential systemic risks. In the future, efforts should focus on assessing the risks associated with the operation of crypto conglomerates and debt-taking in the use of crypto-assets, as well as monitoring market developments related to decentralised finance, operational resilience and the use of crypto-assets in the validation of operations and lending.

The ESRB continued to contribute to the European supervisory authorities' stress-testing exercises by providing the adverse scenario for the EU-wide banking stress test coordinated by the European Banking Authority (EBA), following endorsement by the General Council.

Over the review period, BNB representatives in the EBA and EC standing committees and working groups participated in discussions on common supervisory policies and standards, as well as in the exchange, assessment and convergence of national practices on introducing and applying the EU prudential and supervisory framework. Topics related to data quality of reporting banks were also discussed along with preparation and conduct of the annual transparency, benchmarking and stress test exercises; results of the checks of funding plans; updating of technical standards regarding the functioning of supervisory colleges; the process of monitoring liquidity and stability of banks' financing, and the role of the Internal Capital Adequacy Assessment Process (ICAAP). Discussions were also held on supervisory priorities for 2024, updates of regulations and technical standards, stress tests, criteria for the independence of competent authorities, and risks and vulnerabilities in Europe's banking sector. The EBA submitted its 2022 report on the convergence of supervisory practices. As part of specific supervisory activities, BNB representatives attended meetings on measures against money laundering and terrorist financing, consumer protection, and innovations in the financial sector.

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

Finance and economy ministers and central bank governors took part in the informal Ecofin Council meeting in April. The BNB Governor attended the meeting. Discussions focused on the role of European financial markets in financing next generation companies that will ensure future economic growth and jobs. In this context, discussions focused on issues related to innovation financing, and the impact of the new economic situation characterised by increased financing costs and risk aversion. Measures needed to strengthen

Europe's capital markets and to continue reforms aimed at building the Capital Markets Union, ensuring access to private capital for less established innovative companies.

A Deputy Governor represents the BNB on the Economic and Financial Committee. In the first half of 2023, the Committee's discussions mainly focused on the effect of sanctions and containment measures imposed against the Russian economy and the importance of their effective implementation, including by preventing circumvention. There was broad support for the need for financial support for Ukraine's recovery. Committee members were made aware of the Commission's positive assessment of the functioning of the Single Supervisory Mechanism and the areas to be addressed, including improved external communication and cooperation, as well as further harmonisation of the legal framework. Support was expressed to advance the completion of the Banking Union as a possible means to address market fragmentation. During the reporting period, Committee members also discussed the European Commission's package of legislative proposals published in April to adapt and further strengthen the existing EU framework for bank crisis management and deposit guarantee schemes. Proposals addressed the hierarchy of receivables in bankruptcy, funding and involvement of deposit guarantee schemes in resolution and calibration of minimum requirements for own funds and eligible liabilities for small and medium-sized banks.

The Council of the EU continued to discuss the legislative measures aimed at building the regulatory framework for the completion of the Banking Union. On 18 April 2023, the European Commission tabled a package of proposals to amend the crisis management and deposit insurance (CMDI) framework.[108] The proposed legislative measures are in line with the Eurogroup statement in an inclusive format on the future of the Banking Union of 16 June 2022. Under the statement, measures to complete the Banking Union propose a broader application of resolution tools, including in relation to small and medium-sized banks, where funds are available for the effective use of resolution tools, as well as harmonisation of the use of funds of national deposit guarantee schemes in the resolution and crisis management processes. With its expertise, the BNB assists representatives of the Ministry of Finance in negotiating legislative proposals in the Financial Services Working Group to the Council of the EU on matters falling within the remit of the central bank.

In the first half of 2023, work continued on 2021 legislative amendments to the EU regulatory framework for the banking sector[109] designed to implement the international standards of the Basel Committee on Banking Supervision – Basel III. The proposed amendments are intended to ensure uniform application of regulatory requirements, convergence of supervisory practices and a level playing field within the single market for banking services. BNB representatives participated actively in the negotiations held in the Council's

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[108] The package is comprised of four legislative proposals:
- Proposal for a Regulation (EU) No 806/2014 of the European Parliament and of the Council as regards early intervention measures, conditions for resolution and funding of resolution action, COM (2023) 226 final, 18.4.2023;
- Proposal for a Directive of the European Parliament and of the Council amending Directive 2014/59/EU as regards early intervention measures, conditions for resolution and funding of resolution action, COM/2023/227 final, 18.4.2023;
- Proposal for a Directive of the European Parliament and of the Council amending Directive 2014/49/EU as regards the scope of deposit protection, use of deposit guarantee schemes funds, cross-border cooperation, and transparency, COM/2023/228 final, 18.4.2023;
- Proposal for a Regulation of the European Parliament and of the Council amending Directive 2014/59/EU and Regulation (EU) No 806/2014 as regards certain aspects of the minimum requirement for own funds and eligible liabilities, COM/2023/229 final, 18.4.2023.

[109] The package is comprised of three legislative proposals:
- Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks, and amending Directive 2014/59/EU, COM/2021/663 final, 27.10.2021;
- Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor, COM/2021/664 final, 27.10.2021;
- Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 and Directive 2014/59/EU as regards the prudential treatment of global systemically important institution groups with a multiple point of entry resolution strategy and a methodology for the indirect subscription of instruments eligible for meeting the minimum requirement for own funds and eligible liabilities, COM/2021/665 final, 27.10.2021.

Financial Services Working Group on proposals for amending Capital Requirements Directive and Regulation (CRR/CRD IV). Following tripartite meetings involving the European Parliament, the Council of the EU and the European Commission, a provisional agreement on the legislative proposals was reached in June 2023.

BNB representatives took part in negotiations held within the framework of the Council's Financial Services Working Group on the 2022 proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 260/2012 and (EU) 2021/1230 as regards instant credit transfers in euro[110]. The proposal establishes common rules and requirements for the execution of instant credit transfers in euro in order to make these payments universally accessible, increase confidence in instant payments and create an integrated market for this type of transfers.

Discussions on the legislative package on digital financial services[111] were completed in the first half of 2023, with BNB experts providing expertise and analyses to Ministry of Finance representatives on central banking matters. BNB representatives took part in the technical level discussions and negotiations of the Financial Services and Banking Union Working Group to the Council of the EU on the package of legislative proposals presented in 2021, aimed at strengthening the EU rules in the area of anti-money laundering and countering the financing of terrorism.[112]

In the first half of 2023, the Bank continued helping to harmonise Bulgarian legislation with European requirements. Bank experts took part in the drafting of a Law amending the Law on Payment Services and Payment Systems, stemming from the need to adapt the national legal framework governing payment supervision and provision of payment services to the measures laid down in the National Plan for the Introduction of the Euro in the Republic of Bulgaria. BNB experts also participated in the drafting of the Law amending the Law on the Recovery and Resolution of Credit Institutions and Investment Firms, introducing the requirements of Regulation (EU) 2022/2036[113] amending Directive 2014/59/EU,[114] as well

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[110] Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 260/2012 and (EU) 2021/1230 as regards instant credit transfers in euro, COM/2022/546 final, 26.10.2022.

[111] The package is comprised of the following documents:
- Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on a Digital Finance Strategy for the EU, COM/2020/591 final, 24.9.2020;
- Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on a Retail Payments Strategy for the EU, COM/2020/592 final, 24.9.2020;
- Proposal for a Regulation of the European Parliament and of the Council on Markets in Crypto-assets, and amending Directive (EU) 2019/1937, COM/2020/593 final, 24.9.2020;
- Proposal for a Regulation of the European Parliament and of the Council on a pilot regime for market infrastructures based on distributed ledger technology, COM/2020/594 final, 24.9.2020;
- Proposal for a Regulation of the European Parliament and of the Council on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014 and (EU) No 909/2014, COM/2020/595 final, 24.9.2020;
- Proposal for a Directive of the European Parliament and of the Council amending Directives 2006/43/EC, 2009/65/EC, 2009/138/EU, 2011/61/EU, 2013/36/EU, 2014/65/EU, (EU) 2015/2366 and (EU) 2016/2341, COM/2020/596 final, 24.9.2020.

[112] The package includes the following legislative proposals:
- Proposal for a Regulation of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, COM/2021/420 final, 20.7.2021;
- Proposal for a Regulation of the European Parliament and of the Council establishing the Authority for Anti-Money Laundering and Countering the Financing of Terrorism and amending Regulations (EU) No 1093/2010, (EU) No 1094/2010 and (EU) No 1095/2010, COM/2021/421 final, 20.7.2021;
- Proposal for a Regulation of the European Parliament and of the Council on information accompanying transfers of funds and certain crypto-assets (recast), COM/2021/422 final, 20.7.2021;
- Proposal for a Directive of the European Parliament and of the Council on the mechanisms to be put in place by the Member States for the prevention of the use of the financial system for the purposes of money laundering or terrorist financing and repealing Directive (EU) 2015/849, COM (2021) 423 final, 20.7.2021.

[113] Regulation (EU) 2022/2036 of the European Parliament and of the Council of 19 October 2022 amending Regulation (EU) No 575/2013 and Directive 2014/59/EU as regards the prudential treatment of global systemically important institutions with a multiple-point-of-entry resolution strategy and methods for the indirect subscription of instruments eligible for meeting the minimum requirement for own funds and eligible liabilities (OJ L 275/1 of 25 October 2022).

[114] See footnote 90.

as in other amendments to the legal framework for the resolution of credit institutions and investment firms and to the Law on Bank Bankruptcy.

By participating in the Council for European Affairs to the Council of Ministers, the BNB helped formulate Bulgarian standpoints on key economic governance and financial sector areas.

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 the issues of world economic developments and prospects, and international financial markets. At the Annual General Shareholder Meeting in late June 2023, the BIS Governors decided to pay dividend of special drawing right (SDR) 2.3 million for 2023.

The BNB Governor represents Bulgaria as member on the IMF Board of Governors. Bulgaria's IMF quota is SDR 896.3 million or 10,422 voting shares: 0.21 per cent of IMF members' voting shares.

In May 2023 the BNB contributed USD 10,000 to support the activity of the Group of Thirty.

In the first half of 2023, the BNB continued to participate as a partner national central bank in the three-year programme for further strengthening of the central banks and supervisory authorities in the Western Balkans – candidates and potential candidates for EU membership launched in 2022. The programme is funded by the EU and is run together with the Deutsche Bundesbank and other central banks of the European System of Central Banks. IT training took place in Sofia between 25 and 27 April 2023. Speakers from the BNB with the support of the central banks of France, Spain, Romania, Slovakia, and the ECB delivered presentations and shared their experience with the participants.

In the context of bilateral cooperation, requests were received from other national central banks in the first half of 2003 and information was provided on various central banking topics.

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. In its statistical activities, the Bank applies harmonised European standards based on international statistical methodology 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[115] and interest statistics[116], external sector statistics[117], quarterly financial accounts statistics for all institutional sectors[118], statistics of non-bank financial institutions, including leasing companies and investment funds[119], specialised lenders, insurance and reinsurance undertakings[120] and pension funds[121].

Compiled statistical data are also used for economic research and forecasting, financial stability analyses, other major BNB operations, and a number of foreign publications and reports.

In the first half of 2023, the Bank continued to collect, compile and 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. Over the reporting period all statistical data available on the BNB website were published as scheduled.

In addition to the compilation of statistical data, the BNB continued to actively participate in a number of national, European and international fora in 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 February 2023 the BNB Governing Council adopted an Ordinance on the Amendment of Ordinance No 17 which amended the reporting requirements for lease companies, specialised lenders and securitisation vehicles in accordance with Guideline (EU) 2021/831 of the European Central Bank of 26 March 2021 on statistical information reported on financial intermediaries other than monetary financial institutions (ECB/2021/12). To this end, the Instructions to Ordinance No 17 on the Provision of Statistical Information by Lease Companies, Specialised Lenders and Securitisation Vehicles have been updated and published. In the first half of 2023 lease companies and specialised lenders started to report information in line with the new requirements through the reporting forms developed by the BNB. Along with implementation of the requirements of ECB Regulations on reporting of these financial institutions, new reporting forms provide additional information for the purposes of compiling statistics on quarterly financial accounts, balance of payments and international investment position of Bulgaria.

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[115] Pursuant to Regulation (EU) 2021/379 of the European Central Bank of 22 January 2021 on the balance sheet items of credit institutions and of the monetary financial institutions sector (recast).

[116] 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).

[117] 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 European Central Bank of 9 December 2011 on the statistical reporting requirements of the European Central Bank in the field of external statistics (ECB/2011/23) and the subsequent amendments thereto.

[118] Pursuant to the European System of Accounts (ESA 2010) provided for in Regulation (EU) 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.

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

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

[121] Pursuant to Regulation (EU) 2018/231 of the ECB of 26 January 2018 on statistical reporting requirements for pension funds (ECB/2018/2).

In view of the amendments to the ECB Guidelines on the Register of Institutions and Affiliates Data (RIAD), the BNB statistical databases including individual reference information continued to be developed and improved in the first half of 2023: 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 ESCB in managing the data for Bulgaria in the Register of Institutions and Affiliates Database and the Centralised Securities Database (CSDB)[122].

In the first half of 2023, 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 ESCB AnaCredit project (Analytical credit datasets, AnaCredit)[123] on granular credit and credit risk data. Besides information on credit institutions and other participants in the credit process for the purposes of AnaCredit, the BNB maintains in the RIAD register up-to-date reference information on financial vehicle corporations, investment funds and their management companies, payment service providers and payment system operators, insurance and reinsurance companies, pension funds, as well as holding companies and head offices, and issuers of securities. The BNB actively participated in the ECB Securities Holdings Statistics project (SHS)[124] which is important for both gathering various statistical data and analysing financial stability.

In the first six months of 2023 work continued on the development of the BNB Integrated Information System, which will ensure optimisation and integration of information flows, and a single data entry point for statistics, reporting with regard to credit institutions' resolution activities, and supervisory reporting. The reporting forms and processes for providing information for the Register of Persons, Institutions and Affiliates Data were approved in cooperation with the working group, the Association of Banks in Bulgaria (ABB) and the banks, and test reporting was launched. The BNB continued its work on developing and elaborating the Integrated Statistical Information System (ISIS) and the Information System for Monetary and Interest Rate Statistics (ISMIS). 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.

The BNB 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. Along with regular procedures for data validation, the Bank participated actively in ESCB and European Statistical System reports on data quality assessments 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 2023 the ECB published the annual report[125] on the analysis of the quality of the 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 field of statistics, the BNB continued cooperating with the NSI and the Ministry of Finance, national and international statistical authorities and central banks. In late February 2023, the BNB attended the regular ECB and Eurostat experts’ mission for notification

[122] 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).

[123] Pursuant to Regulation (EU) 2016/867 of the ECB of 18 May 2016 on the collection of granular credit and credit risk data (ECB/2016/13).

[124] 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 its subsequent amendments, ECB Guideline of the European Central Bank of 22 March 2013 concerning statistics on holdings of securities (ECB/2013/7) and the subsequent amendments thereto, Recommendation of the European Central Bank of 2 August 2016 on the data quality management framework for statistics on holdings of securities (ECB/2016/24).

[125] Euro area and national quarterly financial accounts – Quality report 2022 (europa.eu).

tables on the deficit/surplus and general government debt, hosted by the NSI. In March 2023, the BNB also participated in the first mission of the Organisation for Economic Co-operation and Development (OECD) in Bulgaria, introducing OECD representatives to the main sources of information and specificities in compiling data on balance of payments statistics, services and national financial accounts statistics by institutional sector, monetary and interest rate statistics.

XI. 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.

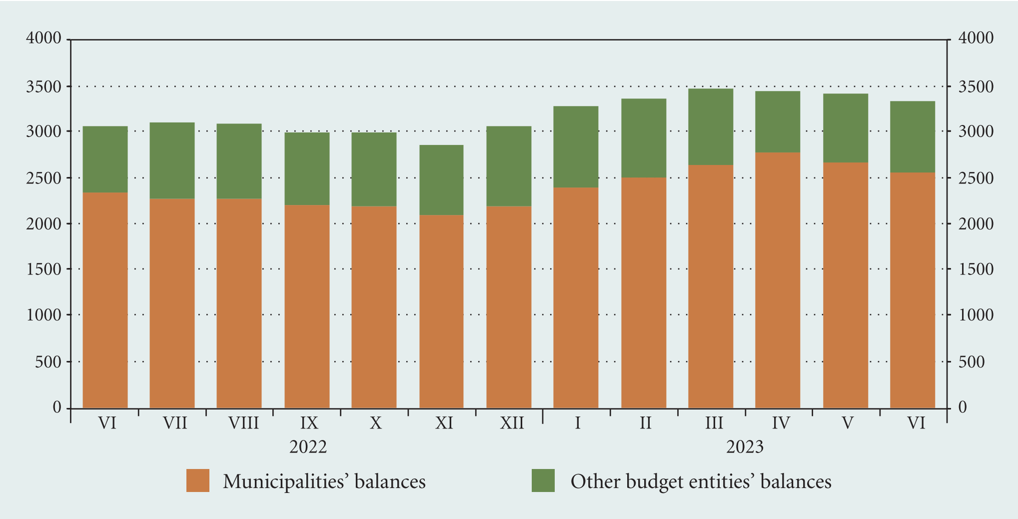
Revenue raised in the first half of 2023 by system participants under the Tariff of Fees and Commissions Charged on Processing Government Securities Transactions and by the MF under Article 43 of the Law of the BNB came to a total of BGN 740,300 against BGN 1,627,800 for the same period of the previous year.

Information Service

Providing state budget information under the MF contract involved issuing 532 statements on budget entity operations and balances at the BNB and Bulgarian banks *via* the IOBFR system. As of 30 June 2023 summarised information sets the overall balance of budget entities' accounts (including municipalities) at BGN 15,088.9 million[126], up 31.2 per cent on 30 June 2022. At the end of the first quarter of 2023, 77.9 per cent (BGN 11,755.7 million) was in BNB accounts and the rest (BGN 3333.1 million) with 15 domestic banks.

Budget Entities' Accounts with Domestic Banks (BNB excluded)

(BGN million)



Source: BNB.

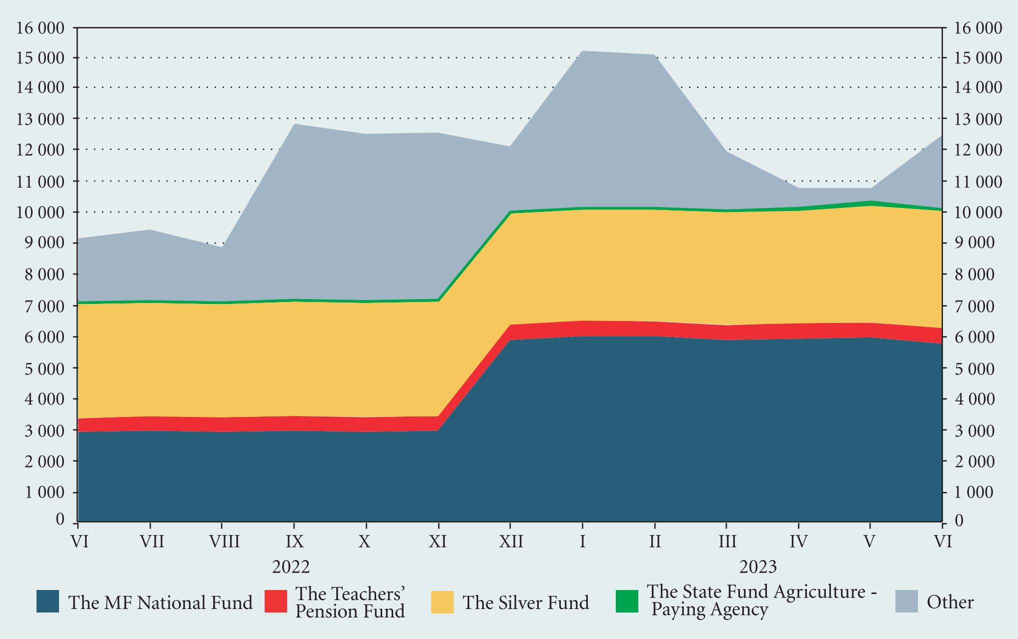
Budget entities' account balances outside the central bank rose by 8.7 per cent on 30 June 2022, of which 72.4 per cent at five banks.

[126]Foreign currency account balances are recalculated in levs at the BNB exchange rate on 30 June 2023.

Approximately 82.7 per cent of total budget funds at the BNB and other domestic banks formed the fiscal reserve's[127] liquidity portion[128]: BGN 12,476.3 million on 30 June 2023. Of this, BGN 10,116.0 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: BNB.

On 1 January 2023 a new joint instruction of the BNB and the MF (DDS No 04/28.03.2022; No BNB-35283/28.03.2022) on the implementation of Article 152 of the Law on Public Finance, entered into force. The instruction optimises the reported information on budget entities' operations and securing of funds from banks.

Servicing Government Securities Trading

In line with the MF issuing policy, no auctions for the sale of government securities were organised and conducted *via* the GSAS system in the first half of 2023.

ESROT registered corporate event payments on behalf and for the account of the issuer to a total amount of BGN 58.5 million,[129] or up BGN 3.2 million (5.8 per cent) compared to the same period of 2022. The 16 circulating MF issues had an overall nominal value of BGN 10,965.4 million [130] as of 30 June 2023: up 5.1 per cent on June 2022. Bond currency structure was retained, with BGN-denominated issues redeemable in levs occupying the largest relative share at 95.8 per cent, followed by EUR-denominated issues redeemable in euro at 4.2 per cent. The maturity structure saw no change compared to end-June 2022, with medium- and long-term government bond issues in circulation comprising 40.4 per cent to 59.6 per cent.

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[127] As per § 1, item 41 of the Additional Provisions of the Law on Public Finance, the fiscal reserve is an indicator comprising both the balances of all budget entities' bank accounts (excluding municipalities and their budget spending units) and other assets and claims on EU funds.

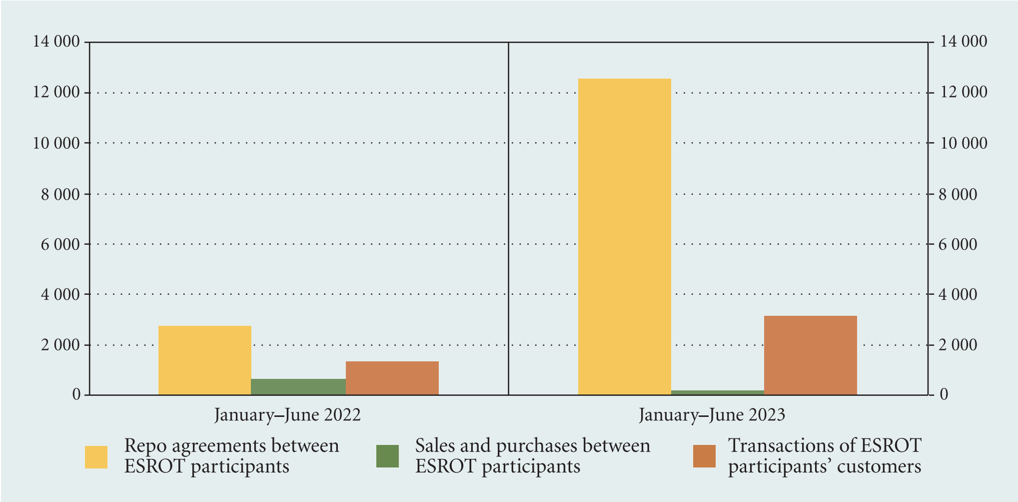
[128] Comprises the balances of all Bulgarian budget entities' bank accounts, excluding municipalities and their budget spending units.

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

[130] The lev equivalence of government securities issues denominated in foreign currency is calculated on the basis of the BNB rate for 30 June 2023.

Volume of Transactions in Tradable Government Securities in the First Six Months of 2022 and 2023

(BGN million)



Source: BNB.

In the first half of 2023 the nominal value of the total volume of transactions in government securities registered in ESROT was BGN 15,754.9 million, up 238.6 per cent on the same period of 2022.

Repurchase agreements continued to occupy the largest share (79.6) per cent, including those concluded for a period of four to seven days (49.7 per cent), mostly in lev-denominated government securities. Bond sales and purchases were BGN 113.3 million. Of this, transactions between ESROT participant banks came to BGN 26.9 million. The volume of transactions between ESROT participants and customers was BGN 2892.2 million, and that between participants' customers[131] reached BGN 211.9 million.

For the first six months secondary market liquidity ratio[132] was 1.5 from 0.5 for the same period of 2022. ESROT participants encountered no problems and provided government bonds and cash in levs and euro for the delivery *versus* payment (DvP) settlement of government securities transactions, the average settlement ratio being 100 per cent.[133]

Over the reporting period, blocking and unblocking operations in domestic government securities registered in ESROT and related to securing funds in budget entities' bank accounts and on registered pledges under the Law on Special Pledges totalled BGN 8108.4 million against BGN 2945.6 million in the same period of 2022.

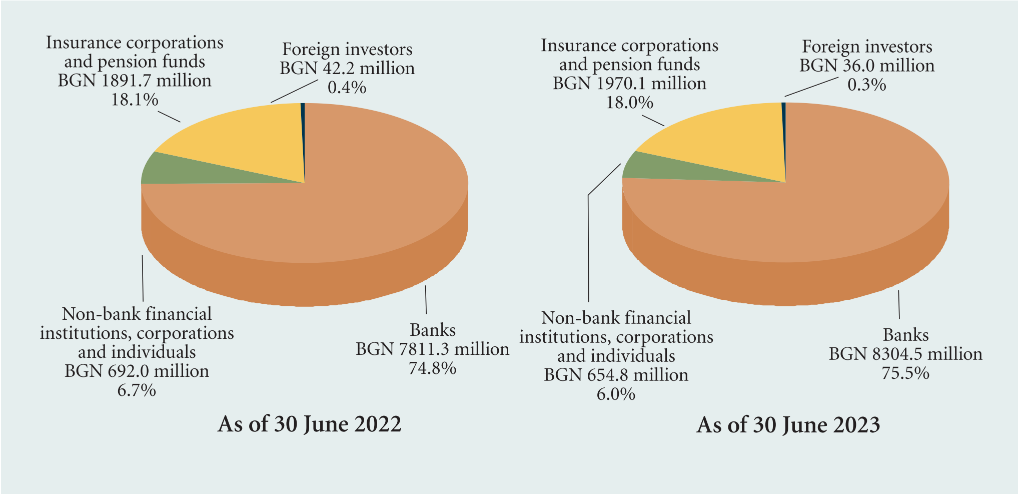
At the end of 2023 investments in government securities increased in bank portfolios *vis-à-vis* the end of 2022 (up BGN 493.2 million) and in insurance corporations and pension funds (up BGN 78.4 million), while government securities investments in portfolios of non-bank financial institutions, corporations and individuals decreased (down BGN 37.2 million) and foreign investors (down BGN 6.2 million). This changed the share of individual government bond holder categories as of 30 June 2023 to: 75.7 per cent with banks; 18.0 per cent with insurance corporations and pension funds, 6.0 per cent with non-bank financial institutions, corporations and individuals, and 0.3 per cent with foreign investors, from 74.8, 18.1, 6.7 and 0.4 per cent as of 30 June 2022.

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

[132] Liquidity ratio is the ratio between the volume of secondary market government bond transactions concluded over the relevant period of a given year and the volume of government securities circulating at the close of the period.

[133] 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.

Holders of Government Securities Issued in the Domestic Market



Notes: According to BNB and ESROT participants data.
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.

Source: BNB.

Over the review period the ESROT offered 100.0 per cent availability,[134] with no call for contingency rules for interaction between systems operated by the BNB.

As of 30 June 2023 there were 570 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), 230 for participants' own government securities portfolios, 137 for encumbered bonds, and 187 for participants' customers. Account nominals tallied with the amount of outstanding issues at BGN 10,965.4 million.[135]

In line with the implementation of the commitments under the National Plan for the Introduction of the Euro in the Republic of Bulgaria, in May 2023 the Government Securities Depository successfully completed certification tests with the Eurosystem TARGET2-Securities (T2S) platform, and in June 2023 the Market Infrastructure Board of the European System of Central Banks (ESCB) approved the detailed self-assessment of the GSD regarding the fulfilment of the eligibility criteria for participation in T2S.

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

[135] The lev equivalent of government securities denominated in foreign currency is calculated on the basis of the BNB exchange rate on 30 June 2023.

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

The Central Credit Register

The BNB keeps an information system (IS) 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, as well as to investors granting project loans through a crowdfunding service provider, excluding foreign financial institutions conducting activities directly on the territory of the Republic of Bulgaria (institutions under Article 56, paragraph 1 of the LCI). BNB Ordinance No 22 regulates the operation, scope, procedure and timeframe of the flow of information to and from the Central Credit Register (CCR). The Register maintains data on all loans (irrespective of their amount) extended by the institutions under Article 56, paragraph 1 of the LCI. The CCR provides information on the credit indebtedness of customers in real-time and includes data on the current loan status, arrears on active and repaid loans for a 5-year retrospective period, on new loans, co-borrowers and loan guarantors.

As of 30 June 2023, 248 institutions under Article 56, paragraph 1 of the LCI submitted information to the CCR, of which 26 banks, 219 financial institutions, two payment institutions and one electronic money institution. In the first half of 2023, 11 new financial institutions were included and four were deleted from the CCR information system.

As of 30 June 2023 the CCR listed 6778 thousand loans from 6316 thousand a year earlier, with a balance sheet exposure of BGN 111,962 million from BGN 99,587 million as of 30 June 2022. Borrowers numbered 2,559,000, of whom 2,347,000 individuals; 108,000 legal entities, 99,000 non-residents not registered at Bulgarian addresses or BULSTAT/PIK coded, foreigners, and 5000 self employed persons in the liberal professions and crafts.

By currency type and balance sheet exposure, as of 30 June 2023 lev-denominated loans accounted for the largest share of loans – 70.8 per cent, followed by euro-denominated loans – 28.3 per cent.

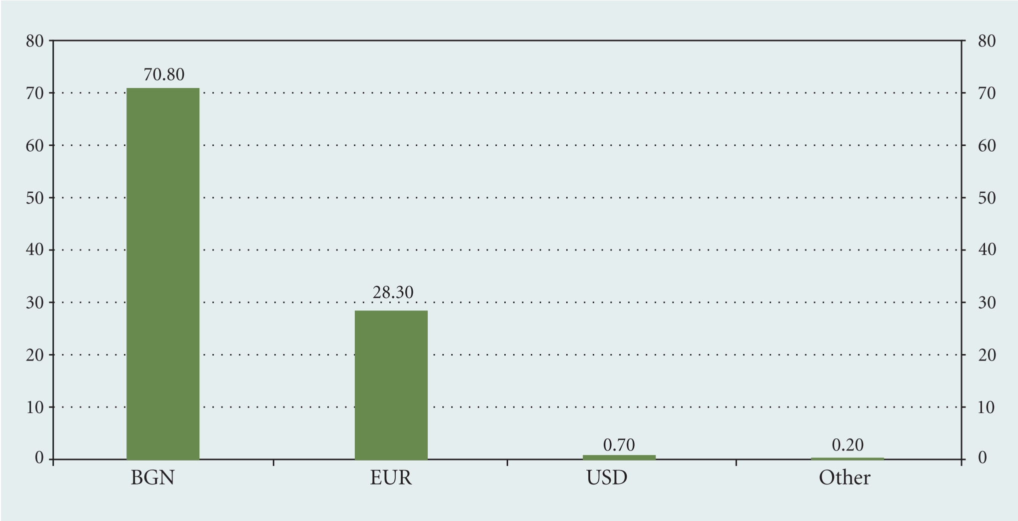
As at 30 June 2023, according to the agreed repayment terms and the balance sheet exposure of credit liabilities, the proportion of debt repayable over 3 years was the highest – 87 per cent.

As of 30 June 2023 residual debt on loans of up to BGN 5 thousand predominated with natural persons (54.3 per cent), while debts of BGN 5 thousand to BGN 50 thousand predominated with legal entities (30.6 per cent).

Article 56, paragraph 3 of the Law on Credit Institutions grants Register information access to judicial authorities (the Prosecutor's Office and criminal investigation authorities), the Ministry of Interior National Police General Directorate, the General Directorate for Combating Organised Crime and Ministry of Interior regional directorates, the State Agency for National Security, the National Revenue Agency, the Committee for Combating Corruption and Withdrawal of Illegally Acquired Property, the Customs Agency, the Financial Supervision Commission and other bodies listed in the Law. Technical conditions necessary for authorised bodies to gain electronic access to the system are available.

Percentage Breakdown of Loan Balance Sheet Exposure by Currency as of 30 June 2023

(per cent)

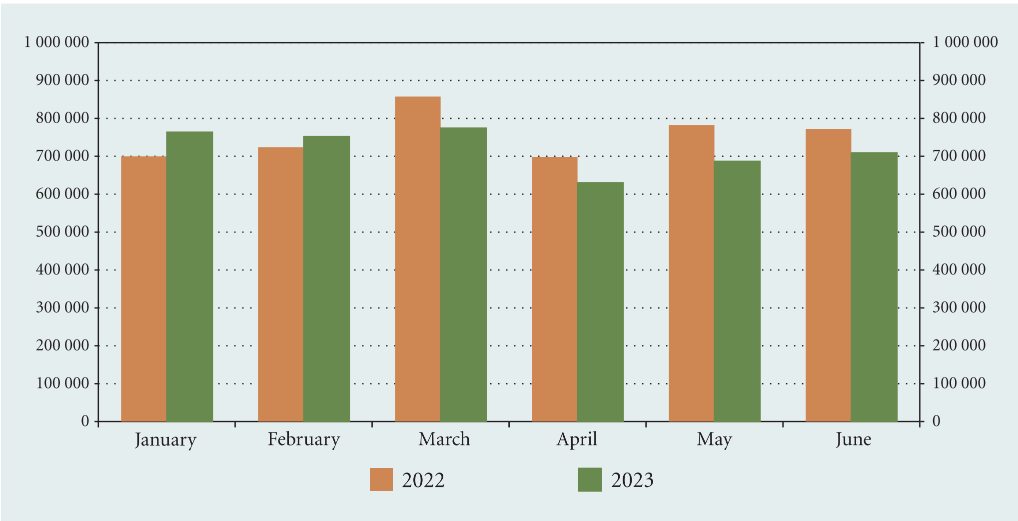


Source: BNB.

Over the same period, institutions and bodies entitled to Register access under Article 56, paragraphs 1 and 3 of the Law on Credit Institutions conducted searches in the CCR IS on 4317 thousand individuals. The average number of searches *per* month was 719 thousand (compared to 4534 thousand as of June 2022 and an average monthly number of 756 thousand).

Monthly CCR Searches by Bodies and Institutions under Article 56, Paragraphs 1 and 3 of the Law on Credit Institutions

(number)

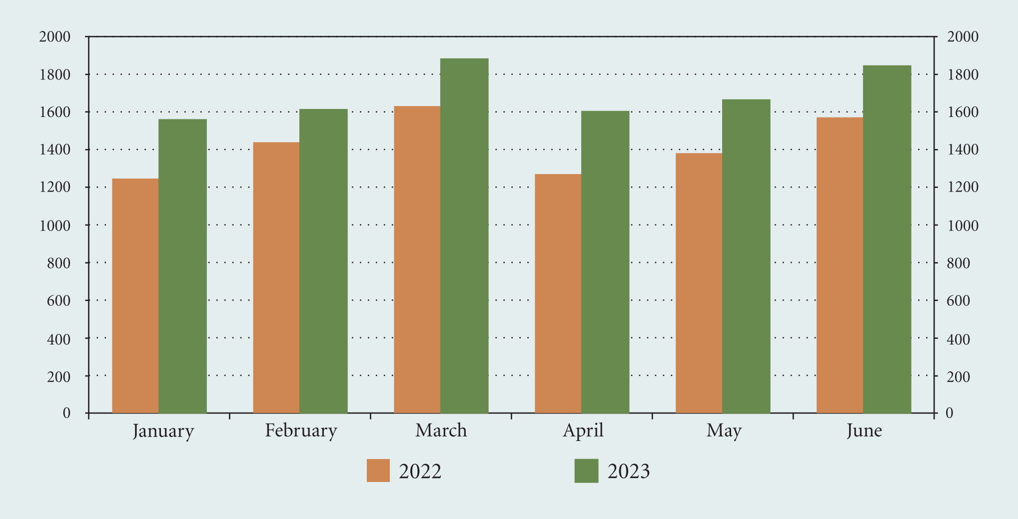


Source: BNB.

BNB Ordinance No 22 on the Central Credit Register grants individuals (including for probate purposes) and legal entities access to debt information. From the beginning of January until the end of June 2023 there were 10,172 paper applications for CCR statements: 9842 by individuals (of which 1758 by non-residents, or 18 per cent by natural persons), 318 by legal entities, and 12 under Article 21a of Ordinance No 22 on the Central Credit Register for obtaining information under Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016.

Monthly CCR Searches Based on Paper Applications by Individuals and Legal Entities

(number)



Source: 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. Fees charged for electronic services account for 50 per cent of those submitted on paper. As of 30 June 2023 there were 2299 electronic applications for CCR statements by individuals (1815 electronic applications as of 30 June 2022).

The CCR continuously develops and improves its activities following regulatory initiatives and improvements to meet changing national and international lending criteria. To boost quality and reliability, data are monitored and supplemented along with ongoing changes and new functionalities in the Register. The specificities of the services are taken into account in accordance with national legislation, standards, regulations of the European Parliament and the Council of the European Union, as well as best international practices in the field of network and information security.

The Register has upgraded its technical architecture, including upgrading the user interface used to a higher version of the software platform and ensuring redundancy to support the continuity of business services from the CCR, hardware consolidation and a single database, and upgraded operating systems. The CCR IS modernisation allows for upgrading, modification, development of the system and integration with other systems, which is a major factor helping to achieve efficiency in the aggregation and provisions of information on credit indebtedness from/to participants and to the BNB. This ensures the smooth functioning of the system, the possibility of expanding the range of services provided by the CCR, enhancing security in terms of participants' access to the information system, as well as with regard to personal data in accordance with the requirements of Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of individuals with regard to the processing of personal data.

In this context, ongoing research and requests are conducted to gain experience from other ESCB credit registers in order to keep CCR policies and practices up to date.

The CCR cooperates with the World Bank, the ECB, the IMF and other international bodies, providing periodical information for research, statistical analyses and annual studies.

The Register of Bank Accounts and Safe Deposit Boxes

BNB maintains an electronic information system on bank and payment account numbers with international bank account numbers (IBAN) maintained by banks, payment institutions and electronic money companies, account holders and persons authorised to dispose of accounts, beneficial owners of account holders, data on account preservation orders, as well as bank deposit box holders and attorneys. BNB Ordinance No 12 on the Register of Bank Accounts and Safe Deposit Boxes (RBASDB) establishes the operation, scope, terms, procedure and timeliness of information flows to and from the Register. The information on bank and payment accounts, preservation orders, account holders and safe deposit box hires is provided in real time, with the institutions specified in Article 3 of Ordinance No 12 on the RBASDB submitting weekly data to the BNB. Information in the RBASDB is kept five years from the date of closure of an account, respectively five years from the date of termination of a safe deposit box contract.

As of 30 June 2023 the RBASDB logged 14.658 million bank accounts (against 14.715 million as of June 2022), 871.514 thousand payment accounts (against 615.310 thousand as of June 2022), kept by payment institutions and electronic money institutions, and 32.61 thousand safe deposit box hires (against 31.67 thousand as of June 2022). As of 30 June 2023, the RBASDB information system maintained records of 1.413 million newly opened bank accounts (compared to 1.319 million as of June 2022), 1.268 million closed bank accounts (compared to 1.399 million as of June 2022), and 2.569 million accounts with liens (compared to 2.263 million as of June 2022).

Pursuant to Article 56a, paragraph 3 of the Law on Credit Institutions the Register is granted information access to judicial authorities (Courts, the Prosecutor's Office, and criminal investigation authorities), the Ministry of Interior National Police General Directorate, the General Directorate for Combating Organised Crime and Ministry of Interior regional directorates, the State Agency for National Security, the National Revenue Agency, the Committee for Combating Corruption and Withdrawal of Illegally Acquired Property, the Customs Agency, the Financial Supervision Commission, as well as to private and state bailiffs in enforcement proceedings, and other bodies listed in the Law. Technical conditions necessary for authorised bodies and institutions to gain electronic access to the system are available.

Between 1 January and 30 June 2023 bodies and institutions entitled to access the RBASDB's information system under Article 56a, paragraph 3 of the Law on Credit Institutions conducted searches on a total of 393,743 individuals. The average number of searches *per* month was 65,624 (compared to 333,417 searches on individuals in June 2022, and an average monthly number of 55,570, of which 3672 for beneficial owners of account holders)[136].

On the basis of Regulation No 12 on the RBASDB, the BNB provides information on the existence of bank and payment accounts and bank safes of natural persons (including heirs of deceased persons) and legal entities. From the beginning of January until the end of June 2023, the BNB received 2388 paper requests for RBASDB statements, of which 2295 were submitted by natural persons and 93 by legal entities.

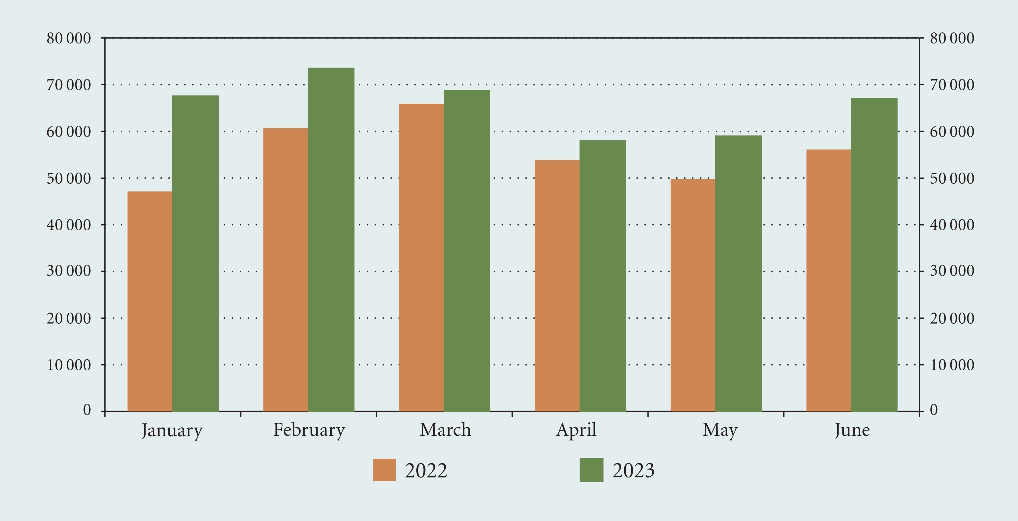
The BNB provides electronic RBASDB services to natural persons holding a qualified certificate for electronic signatures issued by a certification service provider under the Electronic Document and Certification Services Law. Fees charged for electronic services account for 50 per cent of those submitted on paper.

Between 1 January and 30 June 2023, 231 natural persons received the requested statements electronically with the information available about them in the RBASDB. Over the same period of 2022, 157 natural persons received the statements electronically.

[136] Ordinance on Amendment of BNB Ordinance No 12 on the RBASDB; published in the Darjaven Vestnik, issue 61 of 2021, effective as of 1 August 2021.

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

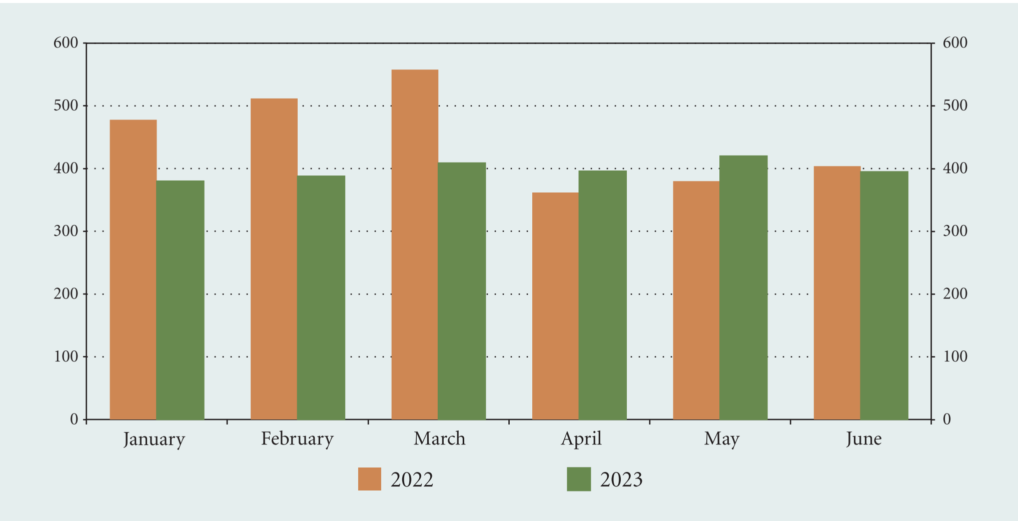
(number)



Source: BNB.

Monthly RBASDB Searches Based on Paper Applications by Individuals and Legal Entities

(number)



Source: BNB.

The work of the RBASDB is constantly evolving and improving to enhance the quality and reliability of the information collected and maintained. The data in the Register's Information System comply with the mandatory set of information set out in Article 32a(3) of Directive (EU) 2015/849, and additional information is collected in accordance with paragraph 4 to enable the timely identification of any natural or legal person. To further develop the RBASDB, best EU practices for setting up and operating bank account registers are used. Statistical information from the RBASDB is produced and made available periodically to inter-ministerial working groups, for the purposes of research, statistical analysis and studies of the ESCB, IMF and other European institutions.

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 BNB Research Plan supported Bank operations by analysing specific economic processes and issues and improving available forecasting and modelling tools.

Implementing the BNB Research Plan for 2023–2024, studies were focused on topics related to the macroeconomic effects of decreasing population, factors behind the dynamics of volumes and interest rates on consumer and housing loans, public debt sustainability, as well as the inertia of inflation in Bulgaria.

Honing the basic model for BNB macroeconometric forecasting and simulating the effects of economic shocks continued over the period under review along with developing a risk management methodology in BNB's gross international reserves. The simulation model was further developed by adding new channels necessary to quantify the potential macroeconomic effects of raising banks' minimum required reserves with the BNB.

Part of the results from BNB analytical and forecasting activities were published in the Bank's quarterly editions Economic Review and Macroeconomic Forecast. The Economic Review presents information about Bulgaria's economic development, 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. External developments directly affecting the Bulgarian economy were also analysed. The publication carries quantitative assessments of anticipated short-term developments in a set of key macroeconomic indicators. It presents the results of BNB analyses of particular economic issues in special highlights and research topics. In the first half of 2023 a research topic entitled 'Transmission of the ECB Monetary Policy to Interest Rates in Bulgaria. Assessment of Potential Effects of the Increase in Minimum Required Reserve Rate on Key Macroeconomic Indicators' was published. The BNB quarterly Macroeconomic Forecast provides annual projections of major macroeconomic indicators for Bulgaria in the current and next two years.

XIV. Human Resource Management

In the first half of 2023, the main priorities in human resource management at the BNB were the provision of competitive working conditions and a favourable working environment for the effective implementation of the Bank's objectives, functions and tasks. Staff management activities focused on attracting and selecting suitable candidates, training and implementing policies to retain staff through providing professional and career development opportunities and applying an incentive pay system.

In view of labour market shortages, especially for highly skilled employees, in the first half of 2023, the active representation and promotion of the BNB as a leading employer for financial and economic careers continued to be among the key priorities. The Bank continued to use a variety of platforms to publish vacancy notices and further develop its cooperation with university career centres to promote job vacancies. Over the first half of 2023, the BNB participated in three career forums for presenting the offered programmes, where visitors were able to familiarise themselves with employee selection processes and working conditions at the Bank, as well as with the programmes for trainees, scholarships and guest researchers.

In the first half of 2023, more than 270 candidates submitted documents for work at the BNB. There were 37 new recruits and 28 staff left, of whom seven due to retirement. At the end of the half year, staff turnover was 3.1 per cent, unchanged compared to the same period of the previous calendar year. The number of employees at the end of June reached 913.

The share of university graduates was 77.7 per cent, and that of employees with secondary education 22.3 per cent. Employees with doctorates were 32.

In the first half of 2023, no significant changes occurred to the structure of staff by category compared to the same period of 2022, with specialists still holding the largest share at 62 per cent, followed by support staff (19.4 per cent) and management (18.6 per cent).

Employees aged above 51 retained the largest share in the age structure, posting a 2.8 percentage point increase on an annual basis. For the same period, the total share of staff in the age groups up to 30 and 31–40 decreased by 2.3 percentage points. The share of employees in the 41–50 group remained almost unchanged.

Gender distribution of staff shows a retained ratio between men and women: women at 63.9 per cent and men at 36.1 per cent at the end of the half year.

The salary setting policy continued to build on ensuring competitive pay levels, providing opportunities to attract and retain highly skilled and motivated employees. During the reporting period, remuneration was based on the established principle of performance linking, taking into account each employee’s contribution to Bank tasks and goals.

In accordance with the approved annual training programme, over the period Bank employees attended specialised courses and seminars both domestically and abroad, remote and certification training programmes, and foreign language courses. Training and qualification opportunities continued to play a very important role in quickly entering staff into the workflow and in integrating them into BNB history, traditions and culture.

BNB staff training courses in Bulgaria focused mainly on trends in money laundering and terrorist financing risk assessments, implementation of the Act on Protection of Persons, Reporting Information, or Publicly Disclosing Information about Breaches (Whistleblowers Protection Act), the audit of sustainable development elements, auditing the risk related to the health, safety at work and well-being of employees, amendments to legislation on labour relations and social security, personal data protection, and on the procurement process.

International courses and seminars attended by BNB staff during the first half of 2023 involved banking supervision, financial stability, resolution of credit institutions, financial markets and analyses, currency circulation management, payment systems and modern financial technologies, monetary policy, econometrics, statistics, and euro area integration. Bank staff participated in international training on automated database processing, including through the use of artificial intelligence, cybersecurity, operational risk management, internal audit, development of personal skills. The spring semester on foreign language training, as well as annual information security training took place in the first half of 2023. Nine BNB employees took part in university programmes for boosting education without discontinuing work. Of these, two reading for doctor's, five for masters', and two for bachelors' degrees. Seven BNB employees took part in three vocational training and certification programmes focusing on financial analyses, an information systems audit and personal data protection.

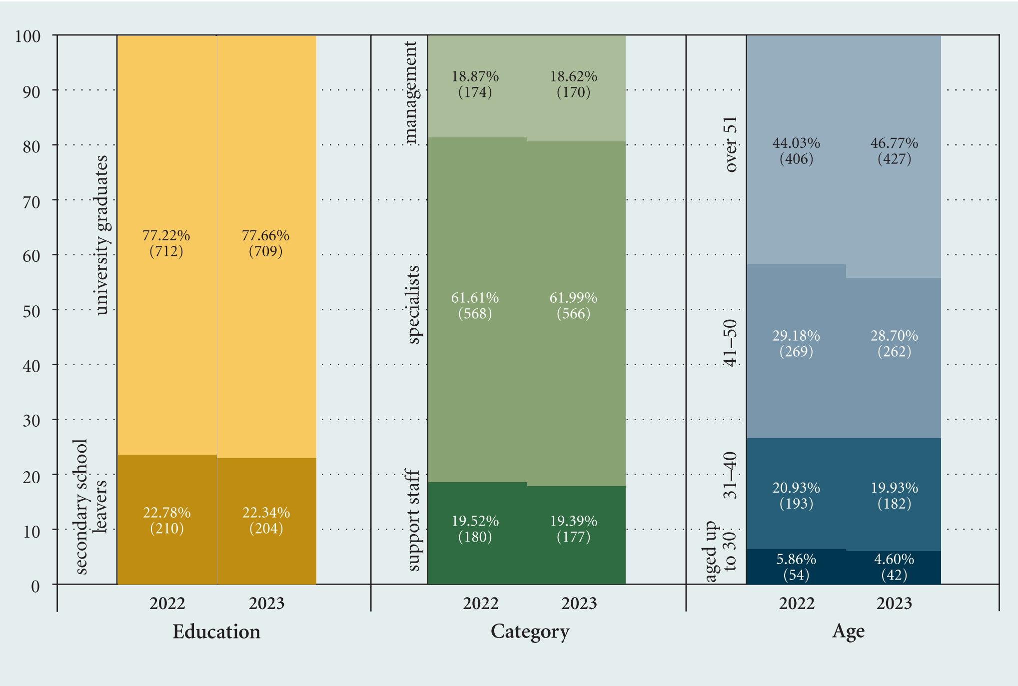
Internal and international mobility forms provided further opportunities for professional training, career development and exchange of expertise. In the first half of 2023, seven staff members moved to other business areas in the Bank. Six BNB employees worked on short-term assignments with European institutions.

Ensuring health and safety at work remained among the priority areas of human resource management. In connection with the putting into service of new machinery and equipment during the reporting period, relevant instructions, orders and programmes for safe operation were prepared, along with a number of briefings and trainings related to the safe performance of staff duties.

Twenty-five applicants enquired into the annual postgraduate scholarship programme: eight for doctors, and 17 for masters degrees. Following a competition, candidates were assessed, on the basis of which the BNB Governing Council decided not to award BNB scholarships in 2023.

Education and Qualification Structure

(per cent, number)



Source: BNB.

XV. BNB Internal Audit

Between January and June 2022, there were audits under the Annual Internal Audit Directorate Programme approved by the BNB Governing Council, reflecting also audit commitments to be implemented under the ESCB Internal Auditors Committee Programme.

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

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

Audits under Annual Internal Audit Directorate Programme

BNB Functions	Audits
Preparation of monetary policy	Economic research and forecasts
Tracking performance	Follow-up on recommendations from past audits under the annual Internal Audit Directorate programme

Source: BNB.

Audits under the ESCB Annual Internal Auditors Committee Programme

BNB Functions	Audits
Tracking performance	Follow-up on recommendations from past audits under the ESCB Annual Internal Auditors Committee Programme

Source: BNB.

In the first half of 2023, the BNB Chief Auditor organised and coordinated Internal Audit Directorate work with that of the BNB external auditor, and also provided assistance to the audit team from the Bulgarian National Audit Office.

BNB Internal Audit continued to submit opinions on draft internal regulations concerning major BNB functions.

XVI. BNB Budget Implementation in the First Half of 2023

The Governing Council adopted the BNB budget for 2023 by Resolution No 461 of 22 December 2022.

The report on the Bank's budget implementation 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. BNB Operating Expenditure

BNB half year operating expenditure was BGN 66,569 thousand, or 25.1 per cent of the approved annual budget.

Currency circulation cost BGN 13,857 thousand, or 11.1 per cent of annual budget and 20.8 per cent of operating expenditure budgeted for the half year. Expenses on new banknote printing occupied the largest share at BGN 7749 thousand. Minting of new coins cost BGN 5946 thousand, of which BGN 5191 thousand on circulation coins. Expenditure on commemorative coins was BGN 755 thousand in line with the BNB Governing Council Commemorative Coin Programme.

Renting premises at the Cash Services Company and the State Mint cost BGN 103 thousand. Expenses on currency processing consumables were BGN 54 thousand and on machine spares and servicing BGN 2 thousand. Nearly BGN 1000 were spent on designs of new banknotes and coins.

Materials, services, and depreciation cost BGN 18,814 thousand, or 28.8 per cent of annual item budget and 28.3 per cent of half year operating expenditure.

Expenses on materials totalled BGN 349 thousand, or 12.3 per cent of approved funds under this item and 0.5 per cent of Bank's operating expenditure. Specialised fleet fuel and spares occupied the largest share in this group at BGN 137 thousand, followed by office consumables at 111,000 and hygiene materials at BGN 53 thousand. Expenses on other materials were BGN 22 thousand. Inventories cost BGN 20 thousand and spare parts for the repair of fixed assets: BGN 6 thousand.

External services costs were BGN 11,303 thousand, or 34.4 per cent of annual item budget and 17.0 per cent of half year operating expenditure. Software maintenance subscriptions at BGN 2650 thousand, spending on security and fire protection at BGN 2068 thousand, and office equipment maintenance at BGN 1219 thousand occupied the largest share in this group. Property and refuse collection levies and other charges were BGN 952 thousand. Bloomberg, Reuters, internet and other systems cost BGN 795 thousand. Major building maintenance cost BGN 722 thousand. Electricity expenditure came to BGN 668 thousand. Mail and telephone expenditure cost BGN 507 thousand, with a trend towards optimising and modernising BNB voice services. Mandatory TARGET2 modules amounted to BGN 500 thousand. Court and legal services expenses were BGN 318 thousand. BORICA AD subscriptions cost BGN 302 thousand. Heating and water bills were BGN 201 thousand. Health and safety at work and special clothing cost BGN 94 thousand and banking and economic periodicals and publication translations – BGN 76 thousand. Consultancy services came to BGN 60 thousand.

Parking bay and freight vehicle garaging cost BGN 47 thousand. External vehicle costs (repair works and spares) were BGN 40 thousand. In the first half of the year, expenses were made on property insurance at BGN 37 thousand. Machines and equipment repair expenditure was BGN 26 thousand. Advertisement spending was BGN 15 thousand and preventive medical examinations – BGN 6 thousand.

Depreciation in the first six months of 2023 cost BGN 7162 thousand, or 24.2 per cent of annual budget, its relative share reaching 10.8 per cent of total BNB operating expenditure for the review period.

Payroll, social, and healthcare cost BGN 30,127 thousand or 48.5 per cent of approved budget and 45.3 per cent of Bank's total operating expenditure for the reporting period. The BNB reported BGN 4538 thousand of current retirement obligations and unused paid leave under IAS 19 Employee Benefits.

Social expenditure was BGN 1854 thousand, or 59.0 per cent of annual budget and 2.8 per cent of Bank half year operating expenditure.

Other administrative spending (inland and foreign business travel, training and representative expenses) was BGN 430 thousand, or 10.9 per cent of budget and 0.6 per cent of total operating expenditure. Training and qualification expenses to the amount of BGN 221 thousand were intended for participation in events, carried out online, and on in-person sessions or in blended formats. Foreign travel unrelated to participation in the ESCB and other EU bodies cost BGN 102 thousand. Inland travel worth BGN 34 thousand involved mainly regional cash centre logistics and checks. The Bank's representative and protocol expenses were BGN 73 thousand.

The BNB spent BGN 1477 thousand on BNB participation in the ESCB, or 24.1 per cent of the annual budget under this item and 2.2 per cent of all operating expenditure. The annual fee for European Banking Authority membership was BGN 1303 thousand. BNB representatives sat on ESCB committees and working groups and other EU bodies, which cost BGN 153 thousand. To organise IT training under the Western Balkans Technical Assistance Programme, BGN 17 thousand were spent. Costs on hiring telecommunication services as determined by the ECB for each central bank were BGN 4 thousand.

II. BNB Investment Programme

The Bank spent BGN 4086 thousand on its investment programme, or 4.2 per cent of annual item budget.

Over the review period, BGN 2746 thousand went to finance new construction, refurbishment and modernisation: 29.1 per cent of approved funds under this item and 67.2 per cent of total investments. These funds were intended for the acquisition of new real estate for the purpose of designing and constructing a new BNB building in Varna.

Machines and equipment, vehicle, and other equipment investment came to BGN 131 thousand, or 0.3 per cent of annual budget and 3.2 per cent of total investments for the half year. These funds were spent on upgrading security systems at the Cash Centre in Sofia and the central building of the BNB at 1, Knyaz Alexander I Square, Sofia (BGN 35 thousand) and on other cash centre equipment in Sofia (BGN 96 thousand).

Funds invested into information systems totalled BGN 1209 thousand, or 2.8 per cent of annual budget and 29.6 per cent of half year investment. Funds under this item went mostly into keeping BNB information and communication technology infrastructure safe and sound and into its development. Software spending of BGN 844 thousand went on developing existing information systems and purchasing programme product licences. Hardware expenditure was BGN 365 thousand and was used to purchase UPS and multifunctional copying devices.

During the first half of 2023, no funds were spent on investments related to BNB participation in the ESCB, as no expenditure was needed for the purchase of hardware, software and new licenses for the ESCB's Documents and Records Web-based Information Network (DARWIN).

Investment programme expenditure involved implementation of interconnected actions depending directly on starting and completing those of the previous period. At the time of preparing this Report, some of the procurement procedures were in preparation, underway or suspended and therefore planned funds were not used. During the first half year, no procurement procedures were completed, and there were suspended procedures for the purchase of equipment for cash operations.

BNB Budget Implementation as of 30 June 2023

Indicators	Report 30 June 2023 (BGN thousand)	Budget 2023 (BGN thousand)		Implementation (per cent)
	Total expenditure	Total expenditure	of which costs arising from the preparation of the adoption of the euro	
Section I. Operating expenditure	**66 569**	**265 727**	**109 673**	**25.1**
Currency circulation expenditure	13 857	125 057	97 272	11.1
Materials, services, and depreciation expenditure	18 814	65 338	8 708	28.8
Staff expenditure	30 127	62 104	2 726	48.5
Social expenditure	1 864	3 159	135	59.0
Other administrative expenditure	430	3 935	565	10.9
BNB expenditure related to ESCB membership	1 477	6 134	267	24.1
Section II. Investment programme	**4 086**	**97 469**	**52 207**	**4.2**
Construction, refurbishment, and modernisation expenditure	2 746	9 426	5 090	29.1
Machines, vehicles, and other equipment	131	45 045	32 626	0.3
BNB information systems expenditure	1 209	42 951	14 475	2.8
BNB expenditure on ESCB membership	0	47	16	0.0

Source: BNB.

The Bulgarian National Bank continues to actively work on issues related to euro adoption as national currency, with this expenditure having an indirect effect on the overall implementation of the 2023 BNB budget.

Due to the changed date of euro adoption as national currency from 1 January 2024 to 1 January 2025, a larger portion of the expenditure planned in the BNB budget for 2023 on circulation costs, acquisition of machinery, equipment, transport vehicles, and other equipment and on IT system development will not be incurred in 2023 and will be included in the BNB budget for 2024.

XVII. BNB Consolidated Financial Statements as of 30 June 2023 (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 the 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, which disclose with reasonable accuracy at any time the financial position of the Bulgarian National Bank. It has 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 2023 (Unaudited)

(BGN'000)

	Note	30 June 2023	30 June 2022
Interest income	7	744,292	88,163
Interest expense	7	(226,423)	(86,342)
Net interest income		**517,869**	**1,821**
Fees and commission income		5,944	6,484
Fee and commission expense		(1,883)	(1,991)
Net fee and commission income		**4,061**	**4,493**
Net gains/(losses) from financial assets and liabilities reported at fair value in the profit or loss or measured at amortised cost, of which	8	103,521	162,266
provisions for expected credit losses under IFRS 9		-	*(1,749)*
Other Operating Income	9	26,850	41,774
Total income from banking operations		**652,301**	**210,355**
Administrative expenses	10	(79,794)	(83,152)
Profit/(loss) for the period		**572,507**	**127,203**
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		*(3,882)*	*(4,779)*
Other comprehensive income, total		**(3,882)**	**(4,779)**
Total comprehensive income for the period		**568,625**	**122,424**
(Loss)/profit attributable to:			
Equity holder of the Bank		572,859	127,363
Non-controlling interest		(352)	(160)
(Loss)/profit for the period		**572,507**	**127,203**
Total comprehensive income attributable to:			
Equity holder of the Bank		568,977	122,584
Non-controlling interest		(352)	(160)
Total comprehensive income for the period		**568,625**	**122,424**

The accompanying notes on pages 112 to 148 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Financial Position for the Period Ended 30 June 2023 (Unaudited)

(BGN'000)

	Note	30 June 2023	31 December 2022
ASSETS			
Cash and deposits in foreign currency	11	35,336,788	58,746,308
Gold, instruments in gold, and other precious metals	12	4,551,07	4,413,760
Financial assets at fair value through profit or loss	13	28,844,993	11,800,033
Financial assets at fair value in other comprehensive income	14	2,218,002	2,249,339
Tangible assets	15	174,244	177,011
Intangible assets	16	8,391	9,415
Other assets	17	81,475	66,659
Total assets		**71,214,970**	**77,462,525**
LIABILITIES			
Banknotes and coins in circulation	18	27,197,885	27,425,373
Liabilities to banks and other financial institutions	19	19,810,824	26,791,395
Liabilities to government institutions and other borrowings	20	12,355,585	11,677,755
Liabilities against Bulgaria's participations in international financial institutions	21	5,452,494	5,551,650
Other liabilities	22	801,282	1,003,955
Total liabilities		**65,618,070**	**72,450,128**
EQUITY			
Capital	23	20,000	20,000
Reserves	23	5,573,704	4,988,849
Non-controlling interest	24	3,196	3,548
Total equity		**5,596,900**	**5,012,397**
Total liabilities and equity		**71,214,970**	**77,462,525**

The accompanying notes on pages 112 to 148 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Cash Flows for the Period Ended 30 June 2023 (Unaudited)

(BGN'000)

	Note	30 June 2023	30 June 2022
OPERATING ACTIVITIES			
Net profit		572,507	127,203
Adjustments			
Dividend income	9	(6,886)	(5,445)
Depreciation	15, 16	9,538	9,188
Loss on disposal of tangible assets		(52)	(190)
(Profit)/loss on financial assets and liabilities arising from market movements		(163,953)	(153,746)
(Profit)/loss of associates		(1,308)	(172)
Other adjustments		87	(1,333)
Net cash flow from operating activities before changes in operating assets and liabilities		**409,933**	**(24,495)**
Change in operating assets			
(Increase) in gold, instruments in gold and other precious metals		(753)	(145)
(Increase)/decrease in financial assets at fair value through profit or loss		(17,072,156)	3,240,560
(Increase)/decrease in other assets		(4,517)	5,278
Change in operating liabilities			
(Decrease)/increase in banknotes and coins in circulation		(227,488)	556,215
(Decrease) in due to banks and other financial institutions		(6,980,571)	(2,202,505)
Increase/(decrease) in due to government institutions and other liabilities		677,830	(796,426)
(Decrease)/increase in liabilities against Bulgaria's participation in international financial institutions		-	-
(Decrease)/increase in other liabilities		(202,673)	9,259
(Net cash outflow)/net cash inflow from operating activities		**(23,400,395)**	**787,741**
INVESTMENT ACTIVITIES			
Acquisition of tangible and intangible assets		(5,712)	(5,548)
Dividends received		6,886	5,445
Net cash inflow/(net cash outflow) from investing activities		**1,174**	**(103)**
FINANCING ACTIVITIES			
Payments to the state budget		-	-
(Net decrease)/net increase in cash and cash equivalents		**(23,399,221)**	**787,638**
Cash and cash equivalents at beginning of period		**58,771,656**	**44,341,020**
Cash and cash equivalents at the end of period	11, 17	**35,372,435**	**45,128,658**

The accompanying notes on pages 112 to 148 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity for the Period Ended 30 June 2023 (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 2022	**20,000**	**141,103**	**4,863,741**	**5,024,844**	**3,581**	**5,028,425**
Profit for the period	-	-	127,363	127,363	(160)	**127,203**
Other comprehensive income:						
other income	-	*(193)*	*(4,586)*	*(4,779)*	-	***(4,779)***
Other comprehensive income, total	-	(193)	(4,586)	(4,779)	-	**(4,779)**
Total comprehensive income for the period	-	(193)	122,777	122,584	(160)	**122,424**
Contributions by and distributions to owners:						
contribution to the budget of the Republic of Bulgaria	-	-	-	-	-	-
dividend paid by subsidiaries to minority shareholders	-	-	*(206)*	*(206)*	-	***(206)***
Transactions with owners, total	-	-	(206)	(206)	-	**(206)**
Balance as at 30 June 2022	**20,000**	**140,910**	**4,986,312**	**5,147,222**	**3,421**	**5,150,643**
Balance as at 1 January 2023	**20,000**	**145,736**	**4,843,113**	**5,008,849**	**3,548**	**5,012,397**
(Loss)/profit for the period	-	-	572,859	572,859	(352)	**572,507**
Other comprehensive income:						
other income	-	*(420)*	*(3,462)*	*(3,882)*	-	***(3,882)***
Other comprehensive income, total	-	(420)	(3,462)	(3,882)	-	**(3,882)**
Total comprehensive income for the period	-	(420)	569,397	568,977	(352)	**568,625**
Contributions by and distributions to owners:						
contribution to the budget of the Republic of Bulgaria	-	-	-	-	-	-
dividend paid by subsidiaries to minority shareholders	-	-	*(150)*	*(150)*	-	***(150)***
Transactions with owners, total	-	-	(150)	(150)	-	**(150)**
Balance as at 30 June 2023	**20,000**	**145,316**	**5,412,360**	**5,577,676**	**3,196**	**5,596,900**

The accompanying notes on pages 112 to 148 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 in Bulgaria;
- 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 services providers and electronic money issuers 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 undertakings in the public sector;
- 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 shall not deal in debt instruments issued by the Bulgarian government and municipalities, as well as by Bulgarian government and municipal institutions, organisations and public sector entities;
- 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 of the state.

With effect from the date on which the ECB decision[1] on establishing close cooperation becomes applicable, *i.e.* 27 July 2020, the Banks Resolution Fund (BRF) is managed by the BNB. The decisions on the BRF management are taken by the BNB Governing Council.

The Governing Council of the BNB approved the Consolidated Financial Statements for the period ending 30 June 2023, set out on pages 106 to 148, on 22 November 2023.

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 lev 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 items, disclosed in the table below, 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

[1] Decision (EU) 2020/1015 of 24 June 2020 of the European Central Bank on the establishment of close cooperation between the European Central Bank and Българска народна банка (Bulgarian National Bank) (ECB/2020/30) within the meaning of Article 2, item 1 of Council Regulation (EU) No 1024/2013.

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; the 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 and available information 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 and 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 true 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, including for future periods.

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 the fair value 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 2022

The following new clarifications and amendments to the existing standards issued by the International Accounting Standard Board (IASB) and adopted by the EU are in force throughout the reporting period. The Bank has not previously applied any standard, clarification or amendment that has been published but has not yet become effective.

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:

1. IFRS 3 Business Combinations: reference to the Conceptual Framework is updated;
2. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.
3. IAS 16 Property, Plant and Equipment: the amendment relates to proceeds 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;
4. IAS 37 Provisions, Contingent Liabilities and Contingent Assets: amendment regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous;
5. Annual improvements 2018–2020: the pronouncement contains amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter, IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities, and IAS 41 Agriculture – Taxation in fair value measurements, as a result of the annual improvements project.

These amendments, effective for annual periods beginning on or after 1 January 2022, were adopted by the EU on 28 June 2021 and published in the Official Journal of the EU on 2 July 2021. The amendments have no material effect on the financial position or performance of the Bank.

Adoption of these new standards and clarifications and amendments to the existing standards did not result in changes in the BNB accounting policy.

New and amended standards and clarifications as of 1 January 2023

IFRS 17: Insurance Contracts (issued on 18 May 2017.); including Amendments to IFRS 17 (issued on 25 June 2020)

In May 2017, the IASB published IFRS 17 Insurance Contracts, a comprehensive new accounting standard on insurance contracts covering recognition and measurement, presentation and disclosure. The standard is effective for annual periods beginning on or after 1 January 2023.

On 25 June 2020, the IASB issued Amendments to IFRS 17 to defer the date of its initial application, and to IFRS 4 to change the extension of the temporary exemption from applying IFRS 9 Financial Instruments. The amendments to IFRS 4 defer the requirement to apply IFRS 9 to annual periods beginning on or after 1 January 2023 with earlier application permitted. Retrospective application is required. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. In December 2021, the IASB issued amendments to IFRS 17 to add a transitional 'classification overlay' option to remove potential mismatches between financial assets and liabilities of insurance contracts in the comparative information presented on initial application of IFRS 17. An entity that applies a classification overlay to a financial asset shall present the comparative information as if the classification and measurement requirements in IFRS 9 had been applied to that financial asset.

IFRS 17, including its amendments adopted by the EU on 19 November 2021 and 8 September 2022 respectively and published in the Official Journal of the EU on 23 November 2021 and 9 September 2022 respectively, with effect from 1 January 2023, are not applicable to the Bank.

Disclosure of Accounting Policies: Amendments to IAS 1: Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies

On 12 February 2021, the IASB issued amendments to IAS 1 Presentation of Financial Statements and updated IFRS 2 Practice Statement: Making Materiality Judgement to help entities improve accounting policy disclosures so that the entities should provide useful disclosures for the investors and the primary users of financial statements, and also to make a distinction between changes in accounting estimates and changes in accounting policy. The key amendments include:

- requirements for entities to disclose their material accounting policies are replaced by a requirement to disclose their significant accounting policies;
- the conception of materiality and guidance on how entities take decisions on disclosure of accounting policies.

The amendments in Practice Statement 2 are consistent with the definition of materiality:

'Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of these financial statements.'

Amendments to IAS 1 and IFRS Practice Statement 2 were adopted by the EU on 2 March 2022 and published in the Official Journal on 3 March 2022. The Amendments are applied prospectively and are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. The amendments have no material effect on the financial position or performance of the Bank.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

On 12 February 2021, the IASB published definition of accounting estimates (amendments to IAS 8), to help entities to distinguish between changes in accounting policies and changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, while changes in accounting policies are generally applied retrospectively to past transactions and other past events. Under the new definition, accounting estimates are 'monetary amounts in financial statements that are subject to measurement uncertainty'. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The Board clarifies that:

- a change in an accounting estimate that results from new information or new events is not a correction of an error;
- the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors;
- the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in these future periods.

The amendments, effective for annual periods beginning on or after 1 January 2023, were adopted by the EU on 2 March 2022 and published in the Official Journal of the EU on 3 March 2022, have no material effect on the financial position or performance of the Bank.

Amendments to IAS 12 Income Taxes: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

On 7 May 2021, the IASB has published 'Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction: Amendments to IAS 12' that clarify how entities account for deferred tax on transactions, such as leases and decommissioning obligations.

The amendments limit the scope of the initial recognition exemption so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. In this case, an entity should recognise deferred tax assets and deferred tax liabilities associated with temporary differences arising from the initial recognition of leases and decommissioning obligations.

The Board expects that the amendments will reduce diversity in the reporting and align the accounting for deferred tax on such transactions with the general principle of IAS 12 recognition of deferred tax in respect of temporary differences. The amendments, effective for annual periods beginning on or after 1 January 2023, were adopted by the EU on 11 August 2022 and published in the Official Journal of the EU on 12 August 2022, have no material effect on the financial position or performance of the Bank.

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, income 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 in the Bank'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 result 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 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, income and expenses, as well as intragroup profits, resulting from intercompany transactions within the group, are eliminated, except where these are immaterial.

5. Significant Accounting Policies

a) Income recognition

Interest income and expenses 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 expenses 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 clients is recognised when the Bank has fulfilled its performance obligations by transferring the promised services to the client. 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 since the entry into force of IFRS 15.

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

Interest income and expenses 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 rate 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 or 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 held 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 to the accounting registers, as well as the relevant recognition records in the reserve 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.

International Financial Reporting Standards do not require presentation of assets in a specified balance sheet format and may be designated as underlying assets (tangible fixed assets, intangible fixed assets, inventories, investment property, asset acquisition loans, and impairment of assets) and assets that are 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 the contractual rights to the financial asset and transfers substantially all the risks and rewards of ownership;
- when the obligation specified in the contract is repaid or cancelled or expires.

i) Classification

The classification is critical to the measurement of financial instruments and how the Bank reflects that measurement in the financial statements.

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 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. The Bank classifies the financial assets depending on the business model for managing a particular class of financial assets and the nature of the contractual cash flows of the financial asset.

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 representing 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, debt instruments and investment. The assets in this group are measured, as follows:

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

The Bank classifies the financial assets on initial recognition depending on the business model for managing a particular class of financial assets and the nature of the contractual cash flows of the financial asset.

Financial liabilities are accounted at fair value or at amortised cost, except for the treatment of differences arising from changes in own credit risk for financial instruments designated to account for fair value in profit or loss. Under 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.

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 and adjusted to expected credit losses for each asset calculated based on the methodology adopted by the BNB Governing Council. Premium/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 in other comprehensive income

The Bank measures its debt instruments at fair value in other comprehensive income where both conditions are satisfied:

- the financial asset is held within a business model for the purposes of collecting contractual cash flows and for its sale; and
- according to the contractual terms of the financial asset, on specified dates they give rise to cash flows representing only payments of principal or interest.

In respect of financial assets accounted for in other comprehensive income, the interest income, foreign exchange revaluations and impairment losses or their recovery are recognised in profit or loss and calculated in a similar manner as financial assets measured at amortised cost. Other changes in the fair value of these financial assets are recognised in other comprehensive income. Upon their derecognition, the cumulative change in the fair value recognised in other comprehensive income is included in profit or loss.

v) Measurement of financial assets designated as such at fair value in other comprehensive income (equity instruments)

The Bank has irrevocably classified in this category its equity investments (not traded on the stock exchange) designated at fair value through other comprehensive income because they qualify as equity under IAS 32 Financial Instruments: *Presentation* and are not held for trading purposes. Classification is determined on an individual instrument basis.

Gains and losses from these financial assets are never recognised in the profit or loss of the Bank. Dividends are recognised as other operating income in the income statement when the right to payment is established.

Equity instruments designated as such at fair value through other comprehensive income are not subject to an impairment test.

vi) 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 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 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 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 life 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. The Bank, on the basis of its net exposure to such risks, measures them 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. Those 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.

vii) 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.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or when the cash flows of financial liability are 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.

viii) 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.

ix) Impairment of assets

At each reporting date the Bank analyses impairment of financial assets classified as Financial assets at fair value in other comprehensive income and Financial assets at amortised cost, using the impairment categories in accordance with IFRS 9:

- The Bank calculates the expected credit losses on the basis of a 12-month probability of default where there is no a significant increase in credit risk compared to the initial recognition. Probability of default is the management's estimate of the likelihood of a debtor/credit borrower defaulting on its financial obligation over a given time period, reflected through the measured/calculated impairment;
- The Bank calculates expected credit losses for the residual lifetime of the financial asset where reasonable and supportable information is available that refers more to future events. The increase in credit risk from initial recognition rises significantly before the financial instrument becomes past due. In the case of a loss expected by the management, the impairment represents the share of exposure/asset lost.

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.

x) 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.

xi) 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 or discount is amortised for each individual item and is recognised in the Bank's statement of comprehensive income. Interest is calculated and recognised on a daily basis in the Bank's statement of comprehensive income.

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, as well as 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 in other comprehensive income.

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

f) Property, plant, equipment and intangible assets

The policy pursued by the Bank is to present land, buildings and other groups of fixed tangible assets in the statements of financial position at 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 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 losses' 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)

Assets	
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

Expenses 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 the 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 currencies are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Outstanding forward contracts in foreign currencies are marked to market. 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 2023 and 31 December 2022 are as follows:

Currency	30 June 2023	31 December 2022
US dollar	1 : BGN 1.79995	1 : BGN 1.83371
Euro	1 : BGN 1.95583	1 : BGN 1.95583
Special Drawing Rights	1 : BGN 2.39406	1 : BGN 2.44037
Gold	1 troy ounce: BGN 3426.24	1 troy ounce: BGN 3323.11

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 of changes in the tax rates on the deferred tax 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, and where a reliable assessment can be made of the amount of the obligation. Provisions are charged only when the Bank is able to reliably determine the size of future outgoing cash flows. Expenses on provisions are presented in the income statement, net of the amount of expenses reimbursed. When the effect of time differences in the value of money is material, provisions are discounted, and the increase in the provision resulting from the passage of time is presented as a financial expense.

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 resolution 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 resolution 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 expenditure 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 basis of which the estimation of the obligation has been made are disclosed in 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 and 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, then they are 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 expected to be paid in exchange for the employee's service for the period completed.

m) Leases

The Bank applies the practical relief as provided for by the standard and has elected to account for short-term leases of plant and equipment (leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and applies the lease of low-value assets recognition exemption to leases of office furniture that is considered to be of low value. Lease payments for short-term leases of low-value assets are recognised as expenses on a linear basis over the term of the lease.

For each new contract, the Bank is required to assess whether the contract is a lease or contains lease components. In the event of a change in the terms and conditions of a lease, the Bank makes a new assessment to establish whether the contract is a lease or contains lease components.

COVID-19-related rent concessions

The Bank is not a party to contracts subject to rent concessions arising directly as a result of the COVID-19 pandemic. In accordance with the practical expedient measure, subsidiaries do not account for lease modifications on COVID-19-related rent concessions contracts that occurred as a direct result of the pandemic and have nothing further to disclose as required by paragraph 28 (f) of IAS 8.

n) **New and amended 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. The Bank intends to apply these new and amended standards and clarifications, if applicable, when they come into force.

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

On 23 January 2020, the IASB published amendments in paragraphs 69–76 of IAS 1 specifically referring to the requirements for the classification of liabilities as current or non-current. They clarify:

- requirements by a right to defer settlement of a liability;
- 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;
- that the classification of liabilities is unaffected by management expectations about whether an entity will exercise its right to early settlement of a liability or to defer settlement of a liability; and
- the situations that are considered settlement of a liability (refers to the transfer to the counterparty of cash, equity instruments, other assets or services).

In July 2021, the IASB adopted a preliminary decision to propose several amendments to the clarifications provided in January 2020. In particular, the IASB decided to propose that if the deferred settlement right for a period of at least twelve months is subject to the entity's compliance with certain conditions after the reporting date, these conditions do not affect whether that right exists as at the reporting date for the purposes of classifying a liability as current or non-current, and in such circumstances there would be additional presentation and disclosure requirements. The Board also took a preliminary decision to postpone the effective date of these amendments (from 1 January 2023) to no earlier than 1 January 2024. The standard has not yet been adopted by the EU. The Bank will analyse and assess the impact of the amendments on its financial position or performance.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

In December 2015, the IASB decided to defer the effective date of the amendments until such a future date by which the IASB has finalised amendments, if any, that arise as a result of the IASB project related to the equity method. The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures when accounting for a loss of control over a subsidiary which is sold or contributed to an associate or a joint venture. The amendments clarify that the full amount of profit or loss is recognised when the transfer to an associate or a joint venture involves business which meets the definition of business in IFRS 3. Any profit or loss resulting from a sale or a contribution of assets that are not a business is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The amendments have not yet been endorsed by the EU. The Bank will analyse and assess the impact of the new amendments on its financial position or performance.

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback Transaction

In September 2022, the IASB issued amendments to IFRS 16 Leases: Lease liability in a sale and leaseback transaction. The amendments are intended to improve the requirements that the seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction under IFRS 16 by not changing the accounting for leases unrelated to this transaction. In particular, the seller-lessee determines the 'lease payments' or 'adjusted lease payments' in such a way that it does not recognise any gain or loss related to the right of use that it retains. The application of these requirements does not prevent the seller-lessee from recognising in profit or loss any gain or loss related to the partial or total termination of the lease. The seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of the initial application that is the beginning of the annual reporting period in which the entity applied IFRS 16 for the first time. The amendments are effective for annual periods beginning on or after 1 January 2024, with earlier application permitted. The amendments have not yet been endorsed by the EU. The Bank will analyse and assess the impact of the new amendments on its financial position or performance.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments – Disclosures: Supplier Finance Arrangements

On 25 May 2023, the IASB published amendments to IAS 7 and IFRS 7, which relate to disclosure requirements for supplier finance arrangements, also known as supply chain finance, trade payables or reverse factoring arrangements.

The new requirements complement those already included in IFRS standards and include disclosures about:

- the terms and conditions of the supplier finance arrangements;
- the carrying amounts of financial liabilities that are part of such arrangements for part of which suppliers have already received payment and where those have been presented in the balance sheet;
- the due dates; and
- the liquidity risk related information.

The amendments, which are all effective for annual periods beginning on or after 1 January 2024, 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.

Amendments to IAS 12 Income Taxes: International Tax Reform – Pillar Two Model Rules

On 23 May 2023, the IASB published the International Tax Reform of IAS 12 – Pillar Two model rules on a mandatory temporary exception to the accounting for deferred taxes arising from the International Tax Reform of the Organisation for Economic Co-operation and Development (OECD).

The amendment includes:

- a temporary exception to the deferred tax accounting arising from the implementation of global tax rules; and
- targeted disclosure requirements to help users of the financial statements to better understand the extent to which an entity will be affected by the minimum tax, particularly before the legislation takes effect.

The amendments effective for annual periods beginning on or after 1 January 2023 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.

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 borrowing/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 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 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).

In the first half year, the BNB continued to pursue a conservative policy in terms of credit risk management in the investment of gross international reserves, ensuring a high degree of safety and liquidity of reserves. The deterioration of depositors' confidence in US and Swiss banks following temporary turbulences in the banking sector of both countries during the second half of March led to a preventive restriction of investment in certain asset classes and towards some BNB counterparties. The measures taken by US and Swiss regulators to restore the soundness of the banking sector in these countries, as well as the agreement reached on increasing the maximum amount of US public debt have reduced risk in the financial markets and, therefore, some of the imposed investment restrictions were lifted in mid-June 2023.

To achieve its main objectives of very high international reserve liquidity, and security, the BNB continues investing the major portion 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 commercial banks.

By the end of June 2023, the exposure to credit risk remained limited and approximately 71 per cent of international reserves were invested into assets with the highest AAA long-term credit rating.

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 the risk for the Bank of being unable to meet its obligations when due, and the second aspect comprises the risk for the BNB of 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 mainly 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. Liquidity limits on BNB's exposures are set for the different types of financial instruments based on the liquidity ranks.

As part of the overall liquidity risk management strategy, the Bank maintains a liquidity portfolio denominated in euro and 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 2023							
Financial assets							
Cash and deposits in foreign currency	35,344,985		-	-	-	(8,197)	35,336,788
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(8,197)*	*(8,197)*
Gold, instruments in gold, and other precious metals	4,552,087	-	-	-	-	(1,010)	4,551,077
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(1,010)*	*(1,010)*
Financial assets at fair value through profit and loss	4,642,247	7,368,573	16,634,591	191,242	8,341	-	28,844,993
Financial assets at fair value in other comprehensive income	234,920	-	-	-	-	1,983,082	2,218,002
Other assets	35,644			-	-	70	35,714
Total financial assets	**44,809,883**	**7,368,573**	**16,634,591**	**191,242**	**8,341**	**1,973,945**	**70,986,574**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	27,197,885	27,197,885
Liabilities to banks and other financial institutions	19,810,824	-	-	-	-	-	19,810,824
Liabilities to government institutions and other borrowings	12,355,585	-	-	-	-	-	12,355,585
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	5,452,494	5,452,494
Total financial liabilities	**32,166,409**	**-**	**-**	**-**	**-**	**32,650,379**	**64,816,788**
Asset–liability maturity mismatch	**12,643,474**	**7,368,573**	**16,634,591**	**191,242**	**8,341**	**(30,676,434)**	**6,169,786**
As of 31 December 2022							
Financial assets							
Cash and deposits in foreign currency	56,356,359	2,403,284	-	-	-	(13,335)	58,746,308
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(13,335)*	*(13,335)*
Gold, instruments in gold, and other precious metals	4,414,858	-	-	-	-	(1,098)	4,413,760
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(1,098)*	*(1,098)*
Financial assets at fair value through profit and loss	1,968,945	4,136,281	5,481,778	204,814	8,215	-	11,800,033
Financial assets at fair value in other comprehensive income	239,464	-	-	-	-	2,009,875	2,249,339
Other assets	25,274	-	-	-	-	70	25,344
Total financial assets	**63,004,900**	**6,539,565**	**5,481,778**	**204,814**	**8,215**	**1,995,512**	**77,234,784**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	27,425,373	27,425,373
Liabilities to banks and other financial institutions	26,791,395	-	-	-	-	-	26,791,395
Liabilities to government institutions and other borrowings	11,677,755	-	-	-	-	-	11,677,755
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	5,551,650	5,551,650
Total financial liabilities	**38,469,150**	**-**	**-**	**-**	**-**	**32,977,023**	**71,446,173**
Asset-liability maturity mismatch	**24,535,750**	**6,539,565**	**5,481,778**	**204,814**	**8,215**	**(30,981,511)**	**5,788,611**

The outstanding contractual undiscounted 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 2023							
Banknotes and coins in circulation	27,197,885	27,197,885	-	-	-	-	27,197,885
Liabilities to banks and other financial institutions	19,810,824	19,810,824	19,810,824	-	-	-	-
Liabilities to government institutions and other borrowings	12,355,585	12,355,585	12,355,585	-	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	5,452,494	5,452,494	-	-	-	-	5,452,494
	64,816,788	**64,816,788**	**32,166,409**	**-**	**-**	**-**	**32,650,379**
As of 31 December 2022							
Banknotes and coins in circulation	27,425,373	27,425,373	-	-	-	-	27,425,373
Liabilities to banks and other financial institutions	26,791,395	26,791,395	26,791,395	-	-	-	-
Liabilities to government institutions and other borrowings	11,677,755	11,677,755	11,677,755	-	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	5,551,650	5,551,650	-	-	-	-	5,551,650
	71,446,173	**71,446,173**	**38,469,150**	**-**	**-**	**-**	**32,977,023**

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 2023	Average	Maximum	Minimum
Currency risk	(53,592)	(50,346)	(68,252)	(23,181)
Interest rate risk	1,476	(652)	(5,213)	2,030
Correlation (per cent)	0.23	0.15	0.8	(0.58)
Overall risk	**(51,646)**	**(47,443)**	**(67,622)**	**(21,877)**

	As of 31 December 2022	Average	Maximum	Minimum
Currency risk	(56,731)	(49,775)	(102,275)	(27,669)
Interest rate risk	369	(6,496)	(14,673)	809
Correlation (per cent)	(0.45)	0.19	0.59	(0.45)
Overall risk	**(52,714)**	**(51,459)**	**(106,823)**	**(25,065)**

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. It measures the effect of the change in the market value of an asset (liability) in percentages 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 duration in fixed points 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 modified duration of the portfolio 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.* the relative yield volatility measure (Tracking Error).

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 2023					
Interest-earning assets					
Cash and deposits in foreign currency	34,907,917	22,222,964	12,684,953	-	-
Gold, instruments in gold, and other precious metals	2,742,138	-	2,742,138	-	-
Financial assets at fair value through profit or loss	28,606,170	-	4,598,578	7,310,445	16,697,147
Financial assets at fair value in other comprehensive income	234,920	-	234,920	-	-
Other interest-earning assets	35,714	26,383	9,261	-	70
Total	**66,526,859**	**22,249,347**	**20,269,850**	**7,310,445**	**16,697,217**
Interest-bearing liabilities					
Liabilities to banks and other financial institutions	19,810,824	-	19,810,824	-	-
Liabilities to government institutions and other borrowings	12,340,587	12,340,587	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	3,519,122	3,519,122	-	-	-
Total	**35,670,533**	**15,859,709**	**19,810,824**	-	-
Interest-bearing asset/liability gap	**30,856,326**	**6,389,638**	**459,026**	**7,310,445**	**16,697,217**
As of 31 December 2022					
Interest-earning assets					
Cash and deposits in foreign currency	56,849,483	47,775,271	6,673,900	2,400,312	-
Gold, instruments in gold, and other precious metals	2,658,850	-	2,658,850	-	-
Financial assets at fair value through profit or loss	11,859,208	260,683	1,982,051	4,149,307	5,467,167
Financial assets at fair value in other comprehensive income	239,464	-	239,464	-	-
Other interest-earning assets	25,344	15,777	9,497	-	70
Total	**71,632,349**	**48,051,731**	**11,563,762**	**6,549,619**	**5,467,237**
Interest-bearing liabilities					
Liabilities to banks and other financial institutions	26,791,395	-	26,791,395	-	-
Liabilities to government institutions and other borrowings	7,230,396	7,230,396	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	3,587,195	3,587,195	-	-	-
Total	**37,608,986**	**10,817,591**	**26,791,395**	-	-
Interest-bearing asset/liability gap	**34,023,363**	**37,234,140**	**(15,227,633)**	**6,549,619**	**5,467,237**

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 basis points intra-day instant parallel increase	100 basis points intra-day instant parallel decrease	50 basis points parallel increase in the beginning of the period	50 basis points parallel decrease in the beginning of the period
As of 30 June 2023	(86,093)	86,093	2,144,533	1,675,593
As of 31 December 2022	(41,330)	41,330	1,500,608	914,397

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 2023	31 December 2022
Assets		
Bulgarian lev and euro	60,952,556	67,171,825
US dollar	9,784	76,473
Japanese yen	3,797	214
Pound sterling	12	150
SDR	5,748,835	5,849,844
Gold	4,499,978	4,363,889
Other	8	130
	71,214,970	**77,462,525**
Liabilities, capital and reserves		
Bulgarian lev and euro	65,574,873	71,659,056
US dollar	9,660	76,958
Japanese yen	3,783	1
Pound sterling	-	-
SDR	5,626,604	5,726,461
Other	50	49
	71,214,970	**77,462,525**
Net position		
Bulgarian lev and euro	(4,622,317)	(4,487,231)
US dollar	124	(485)
Japanese yen	14	213
Pound sterling	12	150
SDR	122,231	123,383
Gold	4,499,978	4,363,889
Other	(42)	81

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 methods and techniques on valuation, control and management of international reserves on international financial markets.

1) Determination of fair values

In note 5(c), item 4, the Bank has disclosed its accounting policy and principles used by it for fair value measurement and disclosure.

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**: a 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 as correctly as possible 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 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 do 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 2023			
Cash and deposits in foreign currency	35,336,788	-	35,336,788
incl. provisions for expected credit losses under IFRS 9	*(8,197)*	-	*(8,197)*
Gold, instruments in gold, and other precious metals	4,551,077	-	4,551,077
incl. provisions for expected credit losses under IFRS 9	*(1,010)*	-	*(1,010)*
Financial assets at fair value through profit or loss	10,742,697	18,102,296	28,844,993
Total	**50,630,562**	**18,102,296**	**68,732,858**
31 December 2022			
Cash and deposits in foreign currency	58,746,308	-	58,746,308
incl. provisions for expected credit losses under IFRS 9	*(13,335)*	-	*(13,335)*
Gold, instruments in gold, and other precious metals	4,413,760	-	4,413,760
incl. provisions for expected credit losses under IFRS 9	*(1,098)*	-	*(1,098)*
Financial assets at fair value through profit or loss	11,165,747	634,286	11,800,033
Total	**74,325,815**	**634,286**	**74,960,101**

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 2023			
Liabilities to banks and other financial institutions	-	19,810,824	19,810,824
Liabilities to government institutions and other borrowings	-	12,355,585	12,355,585
Borrowings against Bulgaria's participation in international financial institutions	-	5,452,494	5,452,494
Total	-	**37,618,903**	**37,618,903**
31 December 2022			
Liabilities to banks and other financial institutions	-	26,791,395	26,791,395
Liabilities to government institutions and other borrowings	-	11,677,755	11,677,755
Borrowings against Bulgaria's participation in international financial institutions	-	5,551,650	5,551,650
Total	-	**44,020,800**	**44,020,800**

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 2023							
Financial assets							
Cash and deposits in foreign currency	35,344,985	-	-	-	-	(8,197)	35,336,788
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(8,197)*	*(8,197)*
Gold, instruments in gold, and other precious metals	4,552,087	-	-	-	-	(1,010)	4,551,077
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(1,010)*	*(1,010)*
Financial assets at fair value through profit and loss	4,642,247	7,368,573	16,634,591	191,242	8,341	-	28,844,993
Financial assets at fair value in other comprehensive income	234,920	-	-	-	-	1,983,082	2,218,002
Tangible assets	-	-	-	-	-	174,244	174.244
Intangible assets	-	-	-	-	-	8,391	8,391
Other assets	35,644	-	-	-	-	45,831	81,475
Total financial assets	**44,809,883**	**7,368,573**	**16,634,591**	**191,242**	**8,341**	**2,202,340**	**71,214,970**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	27,197,885	27,197,885
Liabilities to banks and other financial institutions	19,810,824	-	-	-	-	-	19,810,824
Liabilities to government institutions and other borrowings	12,355,585	-	-	-	-	-	12,355,585
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	5,452,494	5,452,494
Other liabilities	-	-	-	-	-	801,282	801,282
Total financial liabilities	**32,166,409**	-	-	-	-	**33,451,661**	**65,618,070**
Asset–liability maturity mismatch	**12,643,474**	**7,368,573**	**16,634,591**	**191,242**	**8,341**	**(31,249,321)**	**5,596,900**
As of 31 December 2022							
Financial assets							
Cash and deposits in foreign currency	56,356,359	2,403,284	-	-	-	(13,335)	58,746,308
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(13,335)*	*(13,335)*
Gold, instruments in gold, and other precious metals	4,414,858	-	-	-	-	(1,098)	4,413,760
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(1,098)*	*(1,098)*
Financial assets at fair value through profit and loss	1,968,945	4,136,281	5,481,778	204,814	8,215	-	11,800,033
Financial assets at fair value in other comprehensive income	239,464	-	-	-	-	2,009,875	2,249,339
Tangible assets	-	-	-	-	-	177,011	177,011
Intangible assets	-	-	-	-	-	9,415	9,415
Other assets	25,274	-	-	-	-	41,385	66,659
Total financial assets	**63,004,900**	**6,539,565**	**5,481,778**	**204,814**	**8,215**	**2,223,253**	**77,462,525**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	27,425,373	27,425,373
Liabilities to banks and other financial institutions	26,791,395	-	-	-	-	-	26,791,395
Liabilities to government institutions and other borrowings	11,677,755	-	-	-	-	-	11,677,755
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	5,551,650	5,551,650
Other liabilities	-	-	-	-	-	1,003,955	1,003,955
Total financial liabilities	**38,469,150**	-	-	-	-	**33,980,978**	**72,450,128**
Asset–liability maturity mismatch	**24,535,750**	**6,539,565**	**5,481,778**	**204,814**	**8,215**	**(31,757,725)**	**5,012,397**

7. Interest income and expenses

(BGN'000)

	30 June 2023	30 June 2022
Interest income		
– securities	299,276	23,230
– deposits	444,901	64,923
– other	115	10
	744,292	**88,163**
Interest expense		
– deposits	226,423	86,339
– other	-	3
	517,869	**86,342**

In the first half of 2022, the interest rate levels set by the ECB's Governing Council for the Eurosystem deposit facility remained unchanged, with the interest rate remaining fixed at -0.50 per cent over this period. In the second half of 2022, the ECB's Governing Council decided on setting positive deposit facility rates. In line with this policy, the deposit facility rate remained positive in the first half of 2023, and towards the end of the period under review, following a decision of the ECB's Governing Council of 15 June 2023, the deposit facility rate was raised for the eighth consecutive time between June 2022 and June 2023 to 3.5 per cent with effect from 21 June 2023.

As at 30 June 2023, as a result of these changes, interest income on current accounts and deposits includes interest income on deposits and current accounts with foreign correspondent banks resulting from the application of positive reference interest rates, amounting to BGN 444,901 thousand (30 June 2022: no interest). By comparison, as of 30 June 2022 this item reported interest income of BGN 50,923 thousand on customers' current accounts with the BNB due to the application of negative reference interest rates.

Following the adjustment of the ECB monetary policy, the Bulgarian National Bank also raised the interest rates on accounts with the BNB, which gradually moved from negative to positive values. As a result of these amendments, as of 30 June 2023, the BNB reported interest expenses on customers' current accounts in levs of BGN 106,921 thousand (as of 30 June 2022: no interest) and interest expenses on government and other organisations' deposits in foreign currency in the amount of BGN 119,502 thousand (as of 30 June 2022: no interest). By comparison, as of 30 June 2022 interest expenses of BGN 74,430 thousand were reported under this item, comprising interest paid on deposits and current accounts with foreign correspondent banks resulting from the application of negative reference interest rates.

BGN 8700 thousand interest paid on the technical account of the national system component TARGET2-BNB at the ECB (as of 30 June 2022: no interest) are included as a result of using positive reference interest rates. Accordingly, as of 30 June 2022, BGN 5788 thousand interest paid on the technical account of the national system component TARGET2-BNB at the ECB are included as a result of using negative reference interest rates.

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

(BGN'000)

	30 June 2023	30 June 2022
Net (losses) from operations in securities	(4,085)	(111,110)
Net gains from operations in foreign currency	96	75
Net revaluation gains/(losses) on futures	465	(213)
Net revaluation (losses) on securities	(27,196)	(88,720)
Net revaluation gains/(losses) on foreign currency assets and liabilities	(2,323)	3,287
Net revaluation gains on gold	136,564	360,696
Provisions for expected credit losses	-	(1,749)
	103,521	**162,266**

Net gains/(losses) from financial assets and liabilities carried at fair value through profit or loss as at 30 June 2023 were largely attributable to revaluation of gold of BGN 136,564 thousand due to an increase in the market price of gold, from BGN 3323.11 *per* troy ounce as of 31 December 2022 to BGN 3426.24 as of 30 June 2023, or an increase by 3.1 per cent.

Over the review period market yield on securities increased significantly. In the short-term maturity sectors, in which the BNB mainly invests foreign exchange reserves, the yield to maturity of Germany's benchmark two-year government bonds rose by 43 basis points, which was also comparable to the changes in the yields on the securities of other eligible issuers of euro-denominated bonds.

Net losses from operations in securities amounted to BGN 27,196 thousand. The main factor behind this was the rapid and sizeable increase in the yield at which euro-denominated high credit quality bonds traded, which led to a significant negative market revaluation. The coupon yield was relatively low to offset the negative market revaluation of the securities from the time of the purchase to their maturity or sale.

The net effect from revaluation of securities resulting from all market movements was negative: BGN 4085 thousand. It was also driven by the rise in yields to maturity.

9. Other Operating Income

(BGN'000)

	30 June 2023	30 June 2022
Income from subsidiaries	15,788	15,702
Income from associates	1,308	172
Income from sale of coins	1,752	18,709
Dividend income	6,886	5,445
Other income, net	1,116	1,747
	26,850	**41,775**

In the first half of 2023 the BNB received dividend payments from BNB's participation in BORICA AD amounting to BGN 1444 thousand.

For the purposes of the consolidated financial statements, the dividends received from the BNB Printing Works AD and Bulgarian Mint EAD are eliminated.

In the first half of 2023, the BNB received dividend payment of BGN 5442 thousand for its equity stake in the Bank for International Settlements (BIS).

As of 30 June 2023 other net income includes financial income from subsidiaries of BGN 410 thousand and income from reallocated remuneration from the ECB in relation to TARGET2 of BGN 158 thousand.

10. General Administrative Expenses

(BGN'000)

	30 June 2023	30 June 2022
Staff expenditure	36,346	30,687
Administrative expenses	31,599	41,638
Depreciation	9,538	9,188
Other expenses	2,311	1,639
	79,794	**83,152**

The number of employees of the Bank and its subsidiaries is 1155 as of 30 June 2023 (30 June 2022: 1155), including the BNB staff of 913 (30 June 2022: 922).

Staff expenditure include salaries, social and health insurance costs charged under the local legislation provisions as at 30 June 2023, and social activities costs, respectively for the BNB: BGN 31,911 thousand (30 June 2022: BGN 26,994 thousand),for the BNB Printing Works AD: BGN 3107 thousand (30 June 2022: BGN 2753), and for the Bulgarian Mint EAD: BGN 1248 thousand (30 June 2022: BGN 940 thousand).

Staff expenditure include expenses for remunerations paid to the BNB Governing Council members of BGN 832 thousand as of 30 June 2023 (30 June 2022: BGN 722 thousand), presented, as follows:

(BGN'000)

	30 June 2023	30 June 2022
Total gross remuneration expenses*	816	720
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**	204	180
Expenses on BNB Governing Council members' retirement/termination benefits	16	2
Total gross remuneration paid to the BNB Governing Council members	**832**	**722**

* Remunerations are before taxation.
** For more information see the BNB Press Release of 30 July 2015.

With the adoption of the BNB budget for 2023, the amount of monthly remunerations of the Governing Council members is set as follows: Governor – BGN 23,036; Deputy Governors – BGN 19,745; other Governing Council members – BGN 6582.

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

(BGN'000)

	30 June 2023	30 June 2022
Defined benefit liabilities as of 1 January	**5,800**	**5,086**
Plan benefits paid	(119)	(174)
Current service cost	424	351
Interest expenses	47	5
Remeasurements	(2)	-
Actuarial (gain)/loss arising from experience adjustment	780	582
Actuarial (gain)/loss arising from change in demographic assumptions	-	-
Actuarial (gain)/loss arising from change in financial assumptions	(141)	(18)
Actuarial loss recognised in expenses	-	-
Defined benefit liabilities as at 30 June	**6,789**	**5,832**

Costs recognised in profit or loss

(BGN'000)

	30 June 2023	30 June 2022
Current service cost	424	351
Interest expenses	47	5
Actuarial losses	-	-
Remeasurements	(2)	-
Actuarial loss recognised in expenses	-	-
Total	**469**	**356**

Actuarial Assumptions

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

(per cent)

	30 June 2023	30 June 2022
Discount interest rate	4.03	1.62
Future salary growth	9.00	7.00

(BGN'000)

Distribution of BNB staff liabilities (subsidiaries excluded) by residual term	30 June 2023	30 June 2022
Up to 1 year	1,031	784
From 1 to 3 years	765	620
From 3 to 5 years	479	467
From 5 to 10 years	1,227	916
Over 10 years	2,397	2,027
Total	**5,899**	**4,814**

Administrative expenses include the BNB's currency circulation expenses of BGN 13,857 thousand as of 30 June 2023 (30 June 2022: BGN 24,805 thousand).

11. Cash and Deposits in Foreign Currency

(BGN'000)

	30 June 2023	31 December 2022
Cash in foreign currency	384,463	1,857,761
Current accounts in other banks	22,255,945	47,794,839
incl. provisions for expected credit losses under IFRS 9	*(4,027)*	*(9,379)*
Deposits in foreign currency	12,696,380	9,093,708
incl. provisions for expected credit losses under IFRS 9	*(4,170)*	*(3,956)*
	35,336,788	**58,746,308**

Cash and deposits in foreign currencies with correspondents are disclosed, as follows:

(BGN'000)

	30 June 2023	31 December 2022
Euro area residents		
In EUR	25,309,508	49,403,242
incl. provisions for expected credit losses under IFRS 9	*(6,386)*	*(12,194)*
In other currencies	-	-
incl. provisions for expected credit losses under IFRS 9	-	-
	25,309,508	**49,403,242**
Non-euro area residents		
In EUR	6,435,163	5,628,087
incl. provisions for expected credit losses under IFRS 9	*(1,811)*	*(1,110)*
In other currencies	3,592,117	3,714,979
incl. provisions for expected credit losses under IFRS 9	-	*(31)*
	10,027,280	**9,343,066**
	35,336,788	**58,746,308**

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 below:

(BGN'000)

	Counterparty short-term credit rating	30 June 2023	31 December 2022
Investment graded deposits by the counterparty's credit rating	*A-1+*	6,611,184	2,938,166
	incl. provisions for expected credit losses under IFRS 9	*(1,905)*	*(551)*
	A-1	5,743,870	6,135,496
	incl. provisions for expected credit losses under IFRS 9	*(2,265)*	*(3,405)*
		12,355,054	**9,073,662**

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 2023		31 December 2022	
	’000 troy ounces	BGN’000	’000 troy ounces	BGN’000
Gold bullion in standard form	513	1,757,808	513	1,704,898
Gold deposits in standard form	800	2,742,138	800	2,657,893
incl. provisions for expected credit losses under IFRS 9	-	*(1,010)*	-	*(1,098)*
Gold in other form	15	48,947	15	48,435
Other precious metals	-	2,184	-	2,534
		4,551,077		**4,413,760**

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 48,947 thousand.

Other precious metals include silver commemorative coins of BGN 40 thousand and platinum commemorative coins of BGN 2144 thousand.

13. Financial Assets at Fair Value through Profit and Loss

(BGN’000)

Securities at fair value through profit or loss	30 June 2023	31 December 2022
Foreign treasury bills, notes and bonds	28,844,993	11,800,033
	28,844,993	**11,800,033**

Securities comprise of both coupon and discount securities denominated in euro. The coupon interest of the EUR-denominated securities was 0.04 per cent as of 30 June 2023 (31 December 2022: 0.22 per cent).

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 u JCRA - are disclosed as follows:

(BGN’000)

	Issue/issuer credit rating	30 June 2023	31 December 2022
Investment graded securities by the issue/issuer credit rating	*AAA*	22,443,214	10,053,350
	AA+	5,838,350	958,323
	AA	563,429	788,360
		28,844,993	**11,800,033**

14. Financial Assets at Fair Value in Other Comprehensive Income

(BGN’000)

	30 June 2023	31 December 2022
Republic of Bulgaria’s quota in the IMF	2,145,796	2,187,303
Equity investments in international financial institutions	32,246	32,246
Investments in associates	39,960	29,790
	2,218,002	**2,249,339**

The Republic of Bulgaria’s quota in the IMF is SDR 896,300 thousand (31 December 2022: BGN 896,300 thousand). The reserve tranche on the Republic of Bulgaria’s quota in the IMF was BGN 234,920 thousand (31 December 2022: BGN 239,464 thousand). The IMF pays remuneration (interest) to those members who have a remunerated reserve tranche position, at an average rate of 3.52 per cent (31 December 2022: 1.17 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 2023 the current value of 10,000 thousand shares in SDR amounts to BGN 24,404 thousand while as of 31 December 2022 it was BGN 24,404 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 of 30 June 2023 the amount of the BNB paid-up share in the ECB capital is EUR 3991.2 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 of the 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 (eighth) adjustment took place on 1 February 2020 following the withdrawal of the United Kingdom from the EU. As of 30 June 2023, the BNB's capital share in the ECB subscribed capital is 0.9832 per cent, which corresponds 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. From 29 December 2010 this percentage amounts to 3.75 per cent. Unlike euro area NCBs, the BNB is not entitled to the ECB's distributable profit, nor is it 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 investments in domestic companies are, 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

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.

(BGN'000)

	Land and buildings	Plant and equipment	IT equipment	Office equipment	Right of use assets	Other equipment (including motor vehicles)	Assets under construction	Total
As of 1 January 2023	**199,452**	**109,639**	**55,893**	**9,763**	**62**	**8,116**	**15,814**	**398,739**
Additions		12,145	8	2	-	-	3,545	15,700
Disposals	-	-	(5)	(30)	-	-	(10,778)	(10,813)
Transfers	2,746	153	636	24	-	86	(3,645)	-
Revaluation	-	-	-	-	-	-	-	-
As of 30 June 2023	**202,198**	**121,937**	**56,532**	**9,759**	**62**	**8,202**	**4,936**	**403,626**

(BGN'000)

Depreciation and impairment loss								
As of 1 January 2023	(82,057)	(75,394)	(48,580)	(8,645)	(34)	(7,018)	-	(221,728)
Charge for the period	(2,828)	(2,460)	(2,174)	(64)	(6)	(157)	-	(7,689)
On disposals	-	-	5	30	-	-	-	35
Revaluation	-	-	-	-	-	-	-	-
As of 30 June 2023	(84,885)	(77,854)	(50,749)	(8,679)	(40)	(7,175)	-	(229,382)
Net book value as of 30 June 2023	117,313	44,083	5,783	1,080	22	1,027	4,936	174,244
Net book value as of 31 December 2022	117,395	34,245	7,313	1,118	28	1,098	15,814	177,011
As of 1 January 2022	196,235	111,652	57,173	9,862	62	8,111	6,983	390,078
Additions	-	1,239	25	29	-	1	15,925	17,219
Disposals	-	(2,023)	(7,190)	(173)	-	-	(85)	(9,471)
Transfers	-	1,075	5,885	45	-	4	(7,009)	-
Revaluation	3,217	(2,304)	-	-	-	-	-	913
As of 31 December 2022	199,452	109,639	55,893	9,763	62	8,116	15,814	398,739
Depreciation and impairment loss								
As of 1 January 2022	(77,380)	(76,019)	(51,600)	(8,688)	(21)	(6,659)	-	(220,367)
Charge for the period	(5,710)	(4,598)	(4,170)	(130)	(13)	(359)	-	(14,980)
On disposals	-	1,966	7,190	173	-	-	-	9,329
Revaluation	1,033	3,257	-	-	-	-	-	4,290
As of 31 December 2022	(82,057)	(75,394)	(48,580)	(8,645)	(34)	(7,018)	-	(221,728)
Net book value as of 31 December 2022	117,395	34,245	7,313	1,118	28	1,098	15,814	177,011

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 of 30 June 2023, 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 value of land and buildings on the Bank's balance sheet fairly reflects their market value. The fair value of fully amortized tangible fixed assets as of 30 June 2023 was BGN 81,905 thousand (31 December 2022: BGN 80,595 thousand).

16. Intangible Assets

(BGN'000)

	Software	Other intangible assets	Development costs	Total
As of 1 January 2023	64,891	168	1,408	66,467
Additions	-	-	825	825
Disposals	-	-	-	-
Transfers	1,399	-	(1,399)	-
As of 30 June 2023	66,290	168	834	67,292
Depreciation and impairment loss				
As of 1 January 2023	(56,898)	(154)	-	(57,052)
Charge for the period	(1,846)	(3)	-	(1,849)
On disposals	-	-	-	-
As of 30 June 2023	(58,744)	(157)	-	(58,901)
Net book value as of 30 June 2023	7,546	11	834	8,391
Net book value as of 31 December 2022	7,993	14	1,408	9,415

As of 30 June 2023 software includes licenses purchased by the BNB to the total amount of BGN 1246 thousand (31 December 2022: BGN 1048 thousand), and software products to the amount of BGN 153 thousand (BGN 1091 million as of 31 December 2022).

(BGN'000)

	Software	Other intangible assets	Development costs	Total
As of 1 January 2022	**65,205**	**179**	**361**	**65,745**
Additions	19	2	3,186	3,207
Disposals	(2,472)	(13)	-	(2,485)
Transfers	2,139	-	(2,139)	-
As of 31 December 2022	**64,891**	**168**	**1,408**	**66,467**
Depreciation and impairment loss				
As of 1 January 2022	**(55,653)**	**(162)**	**-**	**(55,815)**
Charge for the period	(3,714)	(5)	-	(3,719)
On disposals	2,469	13	-	2,482
As of 31 December 2022	**(56,898)**	**(154)**	**-**	**(57,052)**
Net book value as of 31 December 2022	**7,993**	**14**	**1,408**	**9,415**
Net book value as of 31 December 2021	**9,552**	**17**	**361**	**9,930**

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. As of 30 June 2023 the assets with a right of use were BGN 22 thousand (31 December 2022: BGN 28 thousand) regarding the purchase of a vehicle by the Bulgarian Mint EAD in 2020 under the financial lease conditions.

As of 31 December 2022, software includes licenses purchased by the BNB to the total amount of BGN 1048 thousand (31 December 2021: BGN 4872 thousand), and software products to the amount of BGN 1091 thousand (31 December 2021: BGN 1044 thousand).

17. Other Assets

(BGN'000)

	30 June 2023	31 December 2022
Cash held by subsidiaries with local banks	35,647	25,348
Investments of subsidiary undertakings in joint ventures and associates	11,361	10,701
Commemorative coins for sale	439	499
Inventories	27,854	25,874
Accounts receivable	1,513	1,455
Deferred charges	1,964	1,528
Other claims	2,697	1,254
	81,475	66,659

Cash held by subsidiaries with local banks comprise BGN 24,296 thousand of BNB Printing Works AD and BGN 11,351 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 BNB Printing Works AD has established a joint venture for banknote production.

18. Banknotes and Coins in Circulation

(BGN'000)

	30 June 2023	31 December 2022
Banknotes in circulation	26,629,263	26,865,628
Coins in circulation	568,622	559,745
	27,197,885	**27,425,373**

19. Liabilities to Banks and Other Financial Institutions

(BGN'000)

	30 June 2023	31 December 2022
Demand deposits from banks and other financial institutions		
– in BGN	16,522,072	16,192,314
– in foreign currency	3,288,752	10,559,081
	19,810,824	**26,791,395**

Demand deposits include BGN 11,892,114 thousand representing the required reserves, which all local banks are required to maintain on accounts with the BNB (31 December 2022: BGN 10,773,020 thousand).

The allocation of minimum required reserves of the commercial banks in the BNB is in accordance with the Ordinance on Amendment to Ordinance No 21, effective as of 4 June 2021, and adopted by the BNB Governing Council on 14 May 2021, last amended on 26 April 2023.

Pursuant to Article 46 of BNB Ordinance No 16 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 AD and processing card related payments, amounting to BGN 224,966 thousand (31 December 2022: BGN 203,211 thousand).

20. Liabilities to Government Institutions and Other Borrowings

(BGN'000)

	30 June 2023	31 December 2022
Current accounts		
– in BGN	8,039,181	8,148,860
– in foreign currency	4,316,404	3,528,895
Time deposit accounts	-	-
	12,355,585	**11,677,755**

Government's accounts in national and foreign currency with the Bank comprise funds held on behalf of 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 servicing accounts of banks, budget organisations and other customers adopted by a resolution of the BNB Governing Council of 26 November 2015 and last amended in 2023. 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 organisations and other customers.

As of 30 June 2023 obligations to pay interests of BGN 14,998 thousand on current accounts of customers have been accrued (31 December 2022: BGN 6615 thousand).

21. Borrowings against Bulgaria's Participation in International Financial Institutions

The borrowings against Bulgaria's participation in the IMF as of 30 June 2023 amount to BGN 1,905,511 thousand, or SDR 795,933 thousand (31 December 2022: BGN 1,942,371 thousand, or SDR 795,933).

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 5402 thousand (31 December 2022: BGN 5617 thousand).

The Bank's borrowings from the IMF of the general and special allocation of SDRs amount to SDR 1,333,649,773 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 2023	31 December 2022
Funds of EU institutions and bodies	138,162	305,103
Funds of the Banks Resolution Fund	456,477	472,989
Salaries and social security payable	12,232	8,696
Deferred income	556	1,424
Other liabilities	193,855	215,743
	801,282	**1,003,955**

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 2023 the funds on these accounts were BGN 138,162 thousand (31 December 2022: BGN 305,103 thousand).

As from 27 July 2020 in line with the requirements of § 56, paragraph 1 of the Transitional and Final Provisions of the Amendment of the LRRCIIF, the Bulgarian National Bank as a resolution authority of credit institutions is the holder of the funds available in the Banks Resolution Fund's accounts. As of 30 June 2023 the funds amounted to BGN 456,477 thousand (31 December 2022: BGN 472,989 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 resolution of the BNB Governing Council.

As of 30 June 2023 profit distribution in accordance with the profit distribution policy disclosed in note 5 (k) is, as follows:

(BGN'000)

	30 June 2023	31 December 2022
Profit/(loss) for the period	**572,507**	**(16,070)**
Allocation to special reserve under Article 36 of the LBNB:		
Unrealised (profit) from gold revaluation	(136,564)	(241,929)

(BGN'000)

Unrealised loss from revaluation of financial assets at fair value through profit or loss	27,196	72,707
Unrealised loss from foreign currency valuation	2,323	1,072
Other unrealised loss/(gain)	(465)	(1,432)
Result after allocation to special reserve	**464,997**	**(185,652)**

24. Non-controlling Interest

The BNB Printing Works AD is a joint-stock company with two shareholders: the BNB and the State represented by the Ministry of Finance. The BNB holds 95.6 per cent of the company's capital and the State holds the remaining 4.4 per cent of the company's capital.

25. Monetary Liabilities and Gross International Reserves

(BGN'000)

	30 June 2023	31 December 2022
Gross International Reserves		
Cash and deposits in foreign currencies	35,336,788	58,746,308
Monetary gold and other instruments in gold	4,498,969	4,362,791
Security investments	28,844,993	11,800,033
Equity investments and quota in the IMF	234,920	239,464
	68,915,670	**75,148,596**
Monetary liabilities		
Banknotes and coins in circulation	27,197,885	27,425,373
Liabilities to banks and other financial institutions	18,734,483	25,638,156
Liabilities to government institutions	11,770,598	11,319,236
Other liabilities	1,799,490	1,816,861
	59,502,456	**66,199,626**
Surplus of gross international reserves over monetary liabilities	**9,413,214**	**8,948,970**

Interest receivable and interest payable are carried to the relevant financial 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 2023, the Republic of Bulgaria has not received 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 2023, government budget organisations have 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 agent and central depository services related to the administration and management of government securities issued by the Ministry of Finance. The Bank receives commission 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 2023, the par value of the government securities held in custody was BGN 10,965 million (31 December 2022: BGN 10,965 million).

27. Subsidiaries Included in Consolidated Financial Statements

(per cent)

Ownership interest	30 June 2023	31 December 2022
Bulgarian Mint EAD	100.0	100.0
BNB Printing Works AD (ref. note 24)	95.6	95.6

The net income from subsidiaries for the reporting period comprises net result of BGN 551 thousand from the Bulgarian Mint EAD (31 December 2022: BGN 586 thousand) and BGN 2340 thousand from the BNB Printing Works AD (31 December 2022: BGN 3876 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 the 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 2023 is BGN 73,211 thousand (31 December 2022: BGN 73,211 thousand).

2) IMF quota

The IMF quota and borrowings are supported by promissory notes jointly signed by the Bank and the Government of the Republic of Bulgaria amounting to BGN 1,909,569 thousand.

3) Capital commitments

As of 30 June 2023 the Bank has committed to BGN 14,289 thousand to purchase non-current assets (31 December 2022: BGN 8677 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 60.9 million (31 December 2022: BGN 73.6 million).

Based on the Bank's assessment of the likely outcome of the legal proceedings, in 2023 provisions amounting to BGN 17,510 thousand were made pursuant to IAS 37 (31 December 2022: BGN 29,361 thousand). Assessments are periodically revised in order to reflect developments on all legal disputes and the circumstances related thereto.

In 2022 two identical cases against the BNB before a Federal Court of the State of New York were closed with final decisions of the federal court due to lack of jurisdiction. They were related to alleged compensation of about USD 200 million for each for actions of Corporate Commercial Bank AD (in bankruptcy) conservators appointed in 2014.

29. Events After the Reporting Date

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 LBNB Concerning Resolutions, adopted by the BNB Governing Council in January–June 2023

Reporting and Budget

RESOLUTION No 146 of 13 April

The Report on the Implementation of the Budget of the Bulgarian National Bank for 2022 was approved at first reading.

RESOLUTION No 147 of 13 April

The BNB Annual Report for 2022 was approved at first reading.

RESOLUTION No 164 of 26 April

The BNB Governing Council approved the report on the implementation of the BNB budget for 2022 to be included in the Bank's Annual Report for 2022.

RESOLUTION No 165 of 26 April

The BNB Annual Report for 2022 was approved.

Minimum required reserves

RESOLUTION No 166 of 26 April

Ordinance on Amendment of BNB Ordinance No 21 on the Minimum Required Reserves Maintained by Banks with the Bulgarian National Bank was approved.

Gross International Reserves

RESOLUTION No 5 of 12 January

The BNB Governing Council took note of the selected benchmark for dynamic asset allocation in the first quarter of 2023.

RESOLUTION No 95 of 7 March

The BNB Governing Council took note of the International Reserve Management Report in 2022.

RESOLUTION No 169 of 26 April

The BNB Governing Council took note of the selected benchmark for dynamic asset allocation in the second quarter of 2023.

RESOLUTION No 219 of 18 May

The BNB Governing Council took note of the International Reserve Management Report in the first quarter of 2023.

Payment Systems and Payment Oversight

RESOLUTION No 70 of 23 February

The BNB 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 2022 in relation to Article 120, paragraph 6 of the LPSPS and Article 35, paragraph 2 of Ordinance No 3 of the BNB.

RESOLUTION No 67 of 23 February

The BNB Governing Council took note of the Annual Report of the Conciliation Commission on Payment Disputes for 2022.

The BNB Governing Council took note of the Annual Report of the Sectoral Conciliation Commission on Financial Services for 2022.

RESOLUTION No 226 of 18 May

The Governing Council of the BNB adopted an Ordinance on Amendment of 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 to the Activity of Operators of Payment Systems with Settlement Finality.

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Between January and June 2023, the BNB Governing Council adopted one resolution on application for approval, two resolutions on licence applications/amendments, and six decisions regarding other payment oversight powers.

Cash Circulation

RESOLUTION No 19 of 24 January

The BNB Governing Council took note of the availability and developments in the BNB Strategic Stock of Banknotes for 2022.

RESOLUTION No 20 of 24 January

The BNB Governing Council approved a List of Selling Prices of banknotes and coins sold by the BNB at prices other than their nominal value.

As of 1 February 2023, commemorative banknotes of BGN 20 nominal value, issued in 2005, to be put up for sale for numismatic purposes at a price other than their nominal value.

The price at which commemorative banknotes of BGN 20 nominal value, issue 2005 will be sold at BNB tills at BGN 31.20.

RESOLUTION No 40 of 7 February

The BNB Governing Council decided to withdraw from circulation commemorative coins issued in 2017, which ceased to be legal tender on 20 February 2023.

Commemorative coins issued in 2017 will be exchangeable at BNB tills at nominal value with no limit on the quantity free of charge until 31 December 2024.

RESOLUTION No 41 of 7 February

The price at which the silver commemorative coin '100 Years since the Formation of the Bulgarian Olympic Committee', issue 2023, will be sold to the BNB tills at BGN 132.

RESOLUTION No 121 of 29 March

The BNB Governing Council decided to put into circulation, as of 21 August 2023, a copper commemorative coin '125 Years since the Birth of Dimitar Talev' of the Bulgarian artists series.

RESOLUTION No 249 of 1 June

The price at which the copper commemorative coin '125 years since the birth of Dimitar Talev', issue 2023, will be sold at BNB tills is BGN 54.

RESOLUTION No 250 of 1 June

The BNB Governing Council decided to put into circulation, as of 25 September 2023, a gold commemorative coin '100 Years of the Faculty of Theology'.

RESOLUTION No 266 of 15 June

The Governing Council of the BNB adopted Ordinance on Amendment of Ordinance No 39 of the BNB on the Nominal Value, Coverage, Form and Design of Banknotes and Coins Put into Circulation.

RESOLUTION No 267 of 15 June

The BNB Governing Council adopted the Commemorative Coin and Banknote Production Programme for 2024.

The BNB Governing Council took note of the Preliminary Commemorative Coin and Banknote Production Programme for 2025 and 2026 as a basis for preparing annual programmes.

Maintaining Banking System Stability and Protecting Depositor Interests

RESOLUTION No 7 of 12 January

The BNB complies with the 'Guidelines amending Guidelines EBA/GL/2018/10 on disclosure of non-performing and forborne exposures' (EBA/GL/2022/13) issued by the European Banking Authority and published on its official page.

RESOLUTION No 54 of 14 February

The BNB Governing Council authorised the transformation of KBC Bank Bulgaria EAD, with registered office and head office in Sofia, Losenets district, Expo 2000, 55 Nikola Vaptsarov Blvd., by merger into United Bulgarian Bank AD, with registered office and head office in Sofia, Triaditsa district, No 89B Vitosha Blvd.

RESOLUTION No 108 of 20 March

The BNB Governing Council set the countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria at 2.0 per cent in the second quarter of 2024.

RESOLUTION No 128 of 29 March

The BNB Governing Council took note of the Report on the State of the Banking System (fourth quarter of 2022).

It also took note of the publication of 'Banks in Bulgaria (October-December 2022)'.

RESOLUTION No 175 of 26 April

The Bulgarian National Bank applies as of 30 June 2023 the Guidelines issued on the basis of Article 84(6) of Directive 2013/36/EU specifying criteria for the identification, evaluation, management and mitigation of risks arising from potential changes in interest rates and of the assessment and monitoring of credit spread risk, of institutions' non-trading book activities (EBA/GL/2022/14) issued by the European Banking Authority and published on its official website, except for the sections relating to credit spread that apply at 31 December 2023.

RESOLUTION No 231 of 18 May

The BNB complies, as of 2 October 2023, with the Guidelines on the use of Remote Customer Onboarding Solutions under Article 13(1) of Directive (EU) 2015/849 (EBA/GL/2022/15) issued by the European Banking Authority and published on its official website.

RESOLUTION No 276 of 15 June

The BNB Governing Council took note of the Report on the State of the Banking System (first quarter of 2023).

It also took note of the publication 'Banks in Bulgaria (January – March 2023)'.

RESOLUTION No 293 of 15 June

The BNB Governing Council set the countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria at 2.0 per cent in the third quarter of 2024.

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In the January to June 2023 period, the Governing Council of BNB adopted:

- 18 resolutions pursuant to Article 11, paragraphs 1 and 3 of the LCI regarding approval for holding a position of a member of a management body and Article 11a of the LCI for holding key positions and relevant administrative proceedings related to them;
- 29 resolutions related to the supervisory review and evaluation process pursuant to Article 79c of the LCI;
- eight resolutions under Article 76, paragraph 4 of the LCI on coordinating the choice of an auditor of a credit institution;
- 29 resolutions on performed supervisory inspections and other approvals, authorisations and actions on administrative procedures;
- 20 resolutions related to own funds;
- six resolutions under Article 71, paragraph 5 of the LCI on the approval of amendments to the Articles of Association of a credit institution.

BNB Activities on Resolution of Credit Institutions

RESOLUTION No 74 of 23 February

The BNB Governing Council approved the resolution plan of ProCredit Bank (Bulgaria) EAD for 2021 on an individual basis.

RESOLUTION No 78 of 23 February

The Bulgarian National Bank, as the resolution authority for credit institutions, will comply with the Guidelines for institutions and resolution authorities to complement the resolvability assessment in the transfer strategies (Transferability guidelines) (EBA/GL/2022/11) adopted by the European Banking Authority (EBA) and published on the official EBA page, as of 1 January 2024.

RESOLUTION No 86 of 28 February

The BNB Governing Council agreed with the draft decision of the Single Resolution Board granting prior authorisations for the reduction of eligible liabilities instruments under Article 78a(1)(a) of Regulation (EU) No 575/2013 in relation to a written application from KBC Group N.V. regarding KBC Group N.V. and KBC Bank N.V.

RESOLUTION No 110 of 21 March

The BNB Governing Council agreed with the draft decision of the Single Resolution Board granting prior authorisation for the reduction without replacement of eligible liabilities instruments under Article 78a(1)(b) of Regulation (EU) No 575/2013, in relation to a written application from KBC Ireland Plc.

RESOLUTION No 111 of 24 March

The BNB Governing Council disagreed with the draft proposal of the Single Resolution Board to determine on a preliminary basis a minimum requirement for own funds and eligible liabilities on an individual basis for Bank DSK AD.

RESOLUTION No 112 of 28 March

The BNB Governing Council disagreed with the draft decision of the Single Resolution Board on the approval of a joint decision on a group resolution plan for 2022 and assessment of KBC Group N.V. and its subsidiaries' resolvability and on setting the minimum requirement for own funds and eligible liabilities of the resolution entity KBC Group N.V. and its subsidiaries, including OBB AD.

RESOLUTION No 138 of 5 April

The BNB Governing Council approved a joint decision on the resolution plan of ProCredit Holding AG & Co. KgaA and its subsidiaries for 2022 and on setting a minimum requirement for own funds and eligible liabilities for ProCredit Bank (Bulgaria) EAD as a resolution entity on an individual basis.

RESOLUTION No 140 of 10 April

The BNB Governing Council disagreed with the draft decision of the Single Resolution Board to approve a joint decision on a group resolution plan for 2022 and an assessment of the resolvability of UniCredit S.p.A. and its subsidiaries and on setting the minimum requirement for own funds and eligible liabilities of UniCredit S.p.A. and its subsidiaries, including UniCredit Bulbank AD as a resolution entity.

RESOLUTION No 149 of 13 April

The BNB Governing Council adopted the Annual Report of the Banks Resolution Fund for 2022.

RESOLUTION No 150 of 13 April

The BNB Governing Council determined the annual contributions of branches of third country credit institutions to the Banks Resolution Fund for 2023 in the amount of BGN 92,162.08.

RESOLUTION No 172 of 26 April

The BNB Governing Council, to implement SRB decision SRB/EES/2022/205 setting a minimum requirement for own funds and eligible liabilities with regard to United Bulgarian Bank AD on an individual basis, in line with the relevant provisions of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms.

RESOLUTION No 221 of 18 May

The BNB Governing Council pursuant to § 56, paragraph 2 of the Transitional and Final Provisions of the Law on Amendment of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF) and notification by the Single Resolution Board (SRB) on the SRB Decision of 2 May 2023 on the determination of the annual *ex-ante* contributions of credit institutions to the Single Resolution Fund 2023 (SRB/ES/2023/23), decided to deduct funds available in the sub-fund referred to in Article 134, paragraph 1, item 2 of the LRRCIIF, from the obligations of credit institutions to pay *ex-ante* contributions to the Single Resolution Fund for 2023.

RESOLUTION No 223 of 18 May

The BNB Governing Council decided to implement SRB decision SRB/EES/2022/209 on setting a minimum requirement for own funds and eligible liabilities with regard to UniCredit Bulbank AD, in line with the relevant provisions of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms.

RESOLUTION No 240 of 19 May

The Bulgarian National Bank refrains from approving SRB draft decisions to grant a general prior authorisation for the reduction of eligible liabilities instruments pursuant to Article 78a(1), second sub-paragraph of Regulation (EU) No 575/2013 in connection with a written application by Eurobank S.A.

RESOLUTION No 248 of 1 June

The Bulgarian National Bank, as a resolution authority of credit institutions, intends to comply with the Guidelines to resolution authorities on the publication of the write-down and conversion and bail-in exchange mechanic (EBA/GL/2023/01) adopted by the European Banking Authority (EBA) and published on its official site, as of 1 January 2025.

RESOLUTION No 299 of 26 June

The BNB Governing Council agreed with the SRB draft decision to grant prior authorisation for the reduction without replacement of eligible liabilities instruments under Article 78a(1)(b) of Regulation (EU) No 575/2013, in relation to a written application by KBC Ireland Plc.

Research

RESOLUTION No 18 of 24 January

The BNB Governing Council took note of BNB forecast of key macroeconomic indicators for 2022-2024 (prepared on the basis of information as of 30 December 2022) to be published in the Macroeconomic Forecast (December 2022).

RESOLUTION No 42 of 7 February

The BNB Governing Council decided not to award master's degree scholarships in 2023.

The BNB Governing Council decided not to award doctor's degree scholarships in 2023.

RESOLUTION No 73 of 23 February

The BNB Governing Council took note of the assessments of developments in major macroeconomic indicators in the first and second quarters of 2023 to be published in the Economic Review, issue 4 of 2022.

RESOLUTION No 118 of 29 March

The Governing Council of the BNB took note of the BNB Research Plan for 2021-2022 and the BNB Research Plan for 2023-2024.

RESOLUTION No 167 of 26 April

The Governing Council of the BNB took note of BNB forecast of key macroeconomic indicators for 2023-2025 (based on data as of 31 March 2023) to be published in the Macroeconomic Forecast (March 2023).

RESOLUTION No 220 of 18 May

The BNB Governing Council took note of the assessments of developments in major macroeconomic indicators in the second and third quarters of 2023, to be published in the Economic Review quarterly, issue 1 of 2023.

BNB Internal Audit

RESOLUTION No 26 of 24 January

The BNB Governing Council adopted the Annual Activity Programme of the Internal Audit Directorate for 2023 and an updated strategy on the activities of the Directorate for the period up to 2025.

RESOLUTION No 273 of 15 June

The BNB Governing Council approved Chief Auditor’s Report on the activity of the BNB Internal Audit Directorate for 2022.

General Meetings

RESOLUTION No 21 of 24 January

The BNB Governing Council decided to terminate the office of Elitsa Nikolova as a member of the Board of Directors of Bulgarian Mint EAD and to elect Lyudmila Elkova as a member of the Board of Directors of Bulgarian Mint EAD for a term of office until the expiration of the term of office of the members of the Board of Directors appointed by Decision No 104 of 15 April 2022 of the BNB Governing Council, the sole owner of the capital of Bulgarian Mint EAD.

RESOLUTION No 109 of 20 March

The BNB Governing Council gave its consent to the Executive Director of the BNB Printing Works AD to vote at the Annual General Meeting of Shareholders of Oberthur Fiduciaire AD on: the adoption of the Report of the Board of Directors on the activities of the company in 2022, certified by the registered auditor Ernst & Yang Audit OOD and the auditor's report; the allocation of the profit for 2022 of BGN 1,392,111, as follows: 1/10 of the profit to be allocated to the company's Reserve Fund, while the remaining part, including BGN 120,680 of retained profit from past years, to be distributed as a dividend to the shareholders at a dividend rate of BGN 1.50 *per* share, in proportion to their shares in company's capital; granting discharge to the members of the Board of Directors of the entity for their activities in 2022; termination of office of Kalin Dobrev as member of the Board of Directors and his discharge for the period during which he held office; election of Velizar Stoyanov Valchev as member of the Board of Directors on a proposal from the shareholder Oberthur Fiduciaire SAS.

RESOLUTION No 217 of 18 May

The BNB Governing Council approved the audited and certified annual financial statements of Bulgarian Mint EAD for 2022 and the Report of Bulgarian Mint EAD for 2022. The BNB Governing Council approved the independent auditor report of the AFA OOD on the audit of the annual financial statements of Bulgarian Mint EAD for 2022. The BNB Governing Council decided that the net profit of Bulgarian Mint EAD for 2022 in the amount of BGN 586 thousand should be allocated as retained earnings of Bulgarian Mint EAD, with no dividend being distributed to the sole owner of the capital. The BNB Governing Council granted discharge to the members of the Board of Directors of Bulgarian Mint EAD Elitsa Nikolova, Stefan Tsvetkov and Alexander Chobanov for their activities in 2022 and discharged Elitsa Nikolova for her activities in 2023.

RESOLUTION No 218 of 18 May

The BNB Governing Council gave its consent to the BNB Governor to authorise a representative of the BNB to vote at the ordinary General Meeting of Shareholders of BORICA AD on: the adoption of the Report of BORICA AD on the activities for 2022 and the approval of the annual financial statements of BORICA AD for 2022; the approval of auditor's Report on the audit of the annual financial statements of BORICA AD for 2022 and the adoption of the BORICA AD Audit Committee Report for 2022; the distribution of BORICA AD's profit for 2022 as follows: BGN 4,000,241.44 should be paid from the net profit of BGN 7,422,108.51 for 2022, in the form of a dividend to shareholders in proportion to their shares and the remainder of their net profit for 2022 to be allocated to 'Additional general reserves'; discharge of the members of the Board of directors of the company: Kalin Hristov, Tsvetanka Mincheva, Tamas Hak-Kovacs, Tatyana Ivanova, Nikola Bakalov, Georgi Konstantinov, Peter Slavov, Nikolay Spassov and Miroslav Vichev for their activities in 2022, as well as discharge of former members of the Board of Directors Yuri Genov, Petya Dimitrova, Nedelcho Nedelchev and Georgi Zamanov for their activities in 2022; terminated the term of office of Georgi Konstantinov from the Board of Directors of the company and elected Nikola Kedev as member of the Board of Directors of the company with a term of office of 21.06.2025; the selection of company's auditor–the specialised auditing company AFA OOD to audit and certify the annual financial statements of BORICA AD for 2023.

RESOLUTION No 246 of 1 June

The BNB Governing Council gave its consent to the Governor to authorise a representative of the BNB to vote at the Annual General Meeting of Shareholders of the BNB Printing Works AD on: adoption of the Report of the Board of Directors on the activities of the company for 2022; the approval of the annual financial statements of BNB Printing Works AD for 2022, certified by the specialised audit company HLB Bulgaria OOD; discharge of the members of the Board of Directors of the company for their activities in 2022; distribution of the profit for 2022 in the amount of BGN 3,875,586.47, as follows: 1/10 of the profit to be allocated to the Reserve Fund, while the remaining part of BGN 3,488,027.82 of the profit for 2022 to be distributed as a dividend to shareholders in proportion to the shares of company's capital; re-election of the members of the company's Board of Directors: Radoslav Milenkov, Tania Georgieva and Krasimir Mihov for a term of office of three years from the date of expiry of the term of office of the current Board of Directors; determination of the monthly remuneration for the members of the Board of Directors who will not be entrusted with the management of the company.

RESOLUTION No 264 of 15 June

The BNB Governing Council gave its consent to the Governor to authorise a representative of the BNB to vote at the Annual General Meeting of Shareholders of the Cash Services Company AD on: the adoption of the Report of the Board of Directors on the activities of the Cash Services Company AD for 2022; the approval of the 2022 annual financial statements of the Cash Services Company AD; the adoption of the Report of the independent auditor – Grant Thornton OOD, on the audit of the annual financial statements of the Company for 2022; adoption of the Board of Directors' proposal on the distribution of the Company's profit for 2022 in the amount of BGN 1,682,280.84 as follows: 10 per cent of the profit to be allocated to the Reserve Fund and the remaining amount of BGN 1,514,052.76 to be allocated as retained earnings of the Cash Services Company AD, with no dividend being distributed to shareholders; discharge of the members of the Board of Directors of the company: Kalin Hristov, Emil Hristov, Tatyana Ivanova, Ivailo Glavchovski, Irina Martseva, Anna Manolova and Vladimír Vlaev for their activities in 2022, as well as the former member of the Board of Directors Ivaylo Mateev for his activities in 2022; adopted a resolution to transform Cash Services Company - Incasso EAD through merger into Cash Services Company AD with the Cash Services Company AD becoming the general legal successor of Cash Services Company - Incasso EAD and Cash Services Company - Incasso EAD is dissolved without liquidation; approved the Agreement for transformation of Cash Services Company - Incasso EAD through merger into Cash Services Company AD.

RESOLUTION No 265 of 15 June

The BNB Governing Council decided to increase the capital of Bulgarian Mint EAD through own funds (funds from Reserve Fund and Other Reserves Fund) and a monetary contribution of the Bulgarian National Bank, the sole proprietor of company's capital, from BGN 1,260,000 to BGN 20,000,000 by issuing new 18,740 ordinary, registered physical shares with voting rights, with a nominal value of BGN 1000 (thousand) which are subscribed and acquired by the BNB at nominal value; adopted amendments to the Statute of the Bulgarian Mint EAD.

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Between January and June 2023, the BNB Governing Council adopted resolutions on approval of internal rules of the Bank (six resolutions), public procurement and contracts[138] (ten resolutions) and organisation of the Bank's activities (104 resolutions including 13 resolutions on banking supervision's activities, 17 resolutions on the organisation

[138] Detailed information on procurement procedures is available on the BNB website, Public Procurement in Centralised Automated Electronic Public Procurement Information System (CAIS EOP), www.eop.bg.

of credit institution resolution activities, three resolutions on the organisation of payment supervision activities, and 34 resolutions adopting information on the implementation of the National Plan on Euro Introduction within the competence of the BNB).

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The sculptural composition by Kiril Shivarov depicting Hermes and Demeter on the southern façade of the Bulgarian National Bank building is used in cover design.