Bulgaria

Subsidiaries as a funding source for their parents

Bulgaria is well served by foreign and domestic owned banks with notable clustering around Sofia and along the Black Sea coast (Chart 1). When questioned about competitors in SME, large enterprise and retail lending, all responding banks agreed that foreign-owned banks are strong competitors. However, more than half of the banks surveyed also cited private domestic banks as strong competitors, a notably higher share than in the rest of the region. Since 2007 Bulgarian banks have cited insufficient credit demand and a lack of credit worthy customers as the main constraint to SME and large enterprise lending at levels above the regional average.

Foreign-owned banks in Bulgaria in this survey rated their parent bank to be “important” or “very important” with regards to corporate governance and risk management. In addition, all of these banks report their parent banks setting annual targets for credit growth. While almost 90 percent of foreign-owned banks report receiving funding from their parent bank, more than half also reported that they provided funding to their parent between 2007 and 2012, the highest percentage in the region (Chart 2). Clearly, internal capital markets in multinational banks are two-way streets.

Bulgarian banks have participated heavily in foreign currency lending since the mid-2000s and that does not appear to have changed since the financial crisis (Chart 3). Bulgaria has one of the highest percentages of banks reporting that their portion of foreign currency lending did not change from 2007 to 2011, as well as one of the smallest percentages reporting a decrease in this period.

Bulgarian banks view their regulatory environment positively. Bulgaria is one of only two countries in the region where the percentage of banks that agreed or strongly agreed that information on banking laws is consistent and predictable increased from 2007 to 2011. Bulgaria also has some of the highest percentage of banks that agree their banking regulator is fair, impartial, efficient and able to enforce its decisions (Chart 3). A high percentage of Bulgarian banks also “disagree” or “strongly disagree” that uncertainty over future laws disposes their bank towards holding more capital or restricting credit.

Chart 1 Bank localities by ownership

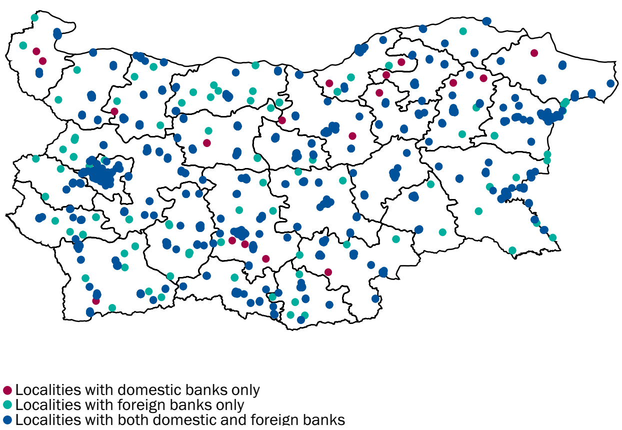

Chart 2 Which way does the funding flow?

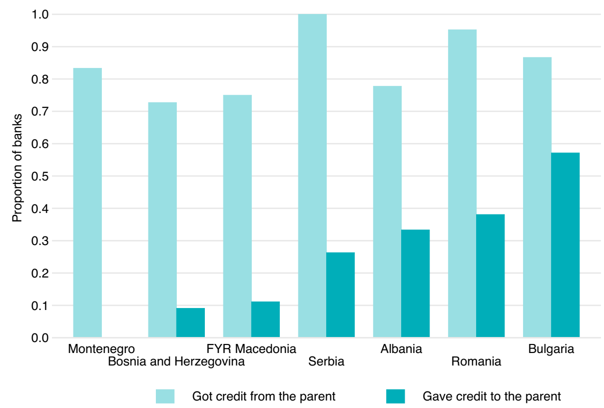

Chart 3 Change in FX lending from 2007 to 2011

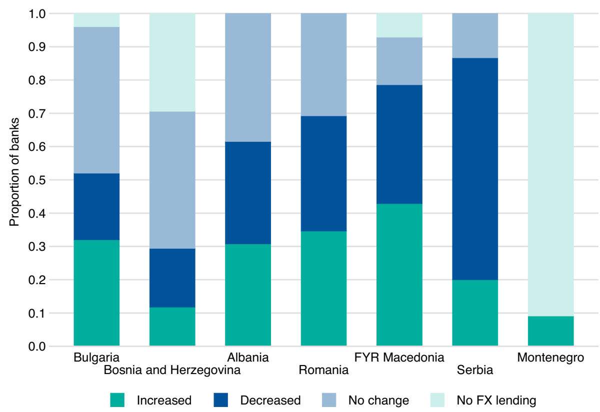

Chart 4 The banking regulator is…