

## Bulgaria

### The Bulgarian Financial Market during the Crisis

#### Stable banking system

During 2009, the Bulgarian banking system demonstrated a good capitalization rate and stable financial indicators. The reports announced recently show that all the banks made profits in 2009 with some of them even improving their financial results compared to 2008.

In Bulgaria, the banking institutions are perceived to mainly be credit institutions. The pick of the loans taken out in Bulgaria was during the period 2005-2008. Starting in 2009, all banks have gradually turned to a conservative credit policy with the main factor for the tight credit policy being the global crisis which led to:

- an insecure macroeconomic environment,
- increased bank requirements and limitations for the customers with regard to access to credit products,
- a decrease in companies' expenses,
- increased intercompany leverage etc.

Retail customers try to avoid running into debt under conditions of uncertain income and employment.

By the end of 2009, the rate of bad debt had reached 10% of all loans and the share continues to increase. The experts expect that in 2010 there will be a revival of the credit market.

2009 may also be remembered as the year of the "deposit war". At the beginning of the year, the banks were orientated on executing deposit campaigns in order to gather local resources and keep stable liquidity. Almost all banks had intensive advertising for "growing" interest rates. The changed bank policy of "credits vs. deposits" probably influenced customers' attitudes towards banks and their perceptions of stability.

According to the financial analysts, the global financial crisis has affected the real economy in Bulgaria to a greater extent than it has the banking system.

#### "Sense of a crisis" or a real crisis

##### Bulgarians start to worry only when they are affected directly

Up to the end of 2008, almost 50% of Bulgarian citizens had little information about the crisis whilst one year on discussion of the crisis has become part of everyday life. The crisis circle has turned and has already affected households. Whereas in 2009 the crisis had had an influence on personal income for half of the population, by January 2010 a much higher proportion (about 70%) have already experienced its negative effects to a certain extent (i.e. reduced or delayed salaries, lost jobs, a decrease in other income etc.)

On the basis of the GfK Consumer Confidence Barometer data, at the end of 2009 about 65% of the households were managing to make ends meet whilst 9% were running into debt. Half of the population considered that the situation made it a very bad time for saving and the expectations were that the financial situation would get worse in 2010.

However, we can see that the main concerns of the citizens regarding the economic crisis and the unemployment rate have increased significantly in a year. In addition, people are also now concerned about the plans on the part of the government for the retirement system and the higher cost of public health services.

### **Financial behaviour**

#### **Rapid increase in the number of bank customers but the lowest level of banking by the population in the CEE countries**

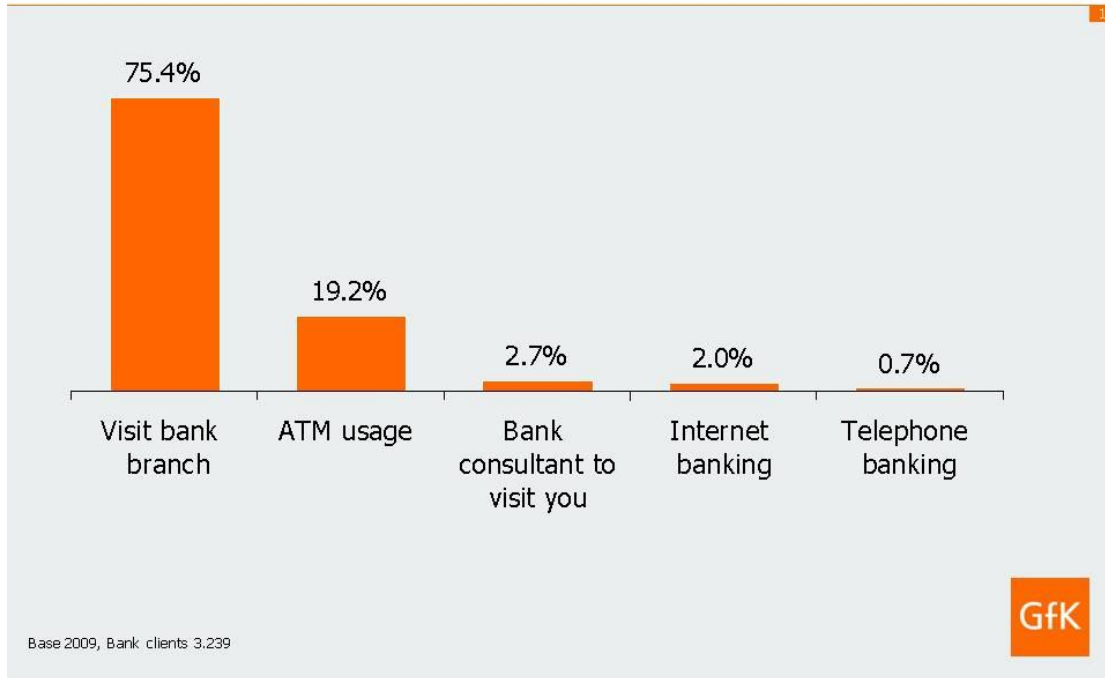
Since 2002 there has been a trend of continuous growth in the share of the population who have banking affiliations. In January 2010, 54% of Bulgarians made use of banking products and services. Those who do not have access to financial services are mainly amongst the retired (aged over 60 years), the less educated, those living without regular income or in receipt of unemployment benefits and the rural population. Students are still not fully integrated as clients of the banks.

On average, Bulgarians have affiliations with 1.3 banks. "The main bank for me is the bank to which my salary is transferred" - a definition for "main bank" given by one in every two bank customers. As the current account is an important factor for making use of another product, customers prefer to check out the offers at the bank where their salary is paid into an account first as their expectation is that this bank will offer a tailor-made solution for their needs. Almost 80% of bank customers have chosen one of the top five most popular banks to be their main bank.

Bulgarians do not often switch to another bank. Our FMDS tracking data register a low attrition rate due to the steady level of bank customers (only 3% of bank customers have intentions to change their main bank in a one-year period). This may be related to the high overall level of customer satisfaction with the banks they use (average satisfaction index for 2009 - 80).

The preferred means of access to retail financial services is by visiting the bank branch or by using an automatic teller machine (ATM). Customers have many ways of making payments including debit cards, POS machines and bank transfers, although electronic payment is not yet widespread and the market is still developing. A limited number of customers (around 2%) handle their routine banking operations through remote banking such as Internet or Telephone banking.

## Preferred means of communication with the bank



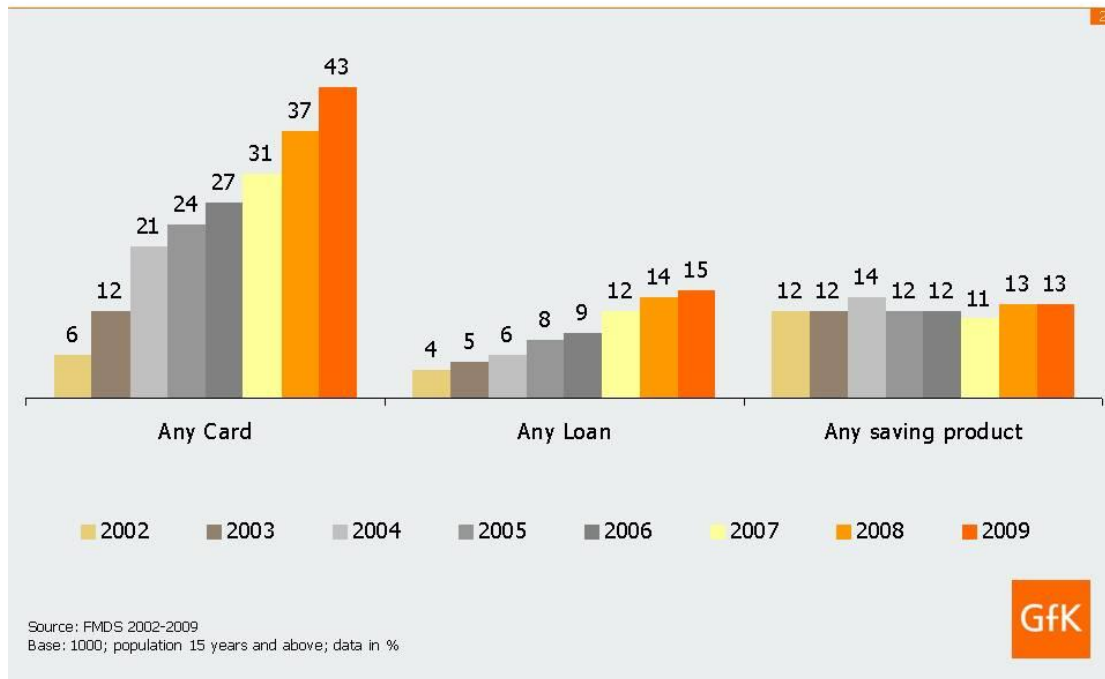
### Debit cards are the most popular product in Bulgaria.

40% of the population over the age of 15 years are card holders. In the last few years there has been a tendency to switch over from using cash to cards when making large purchases or payments. Despite this, payment with cash still dominates.

Only 8% of the population makes use of credit cards. With the appearance of the credit cards on the market, people started using them in the same way as debit cards, for cash withdrawal through ATMs. This product is perceived mainly as a credit alternative (when people do not have money, in cases of emergency), and for making larger purchases.

In 2009, an average of about 15% of the population took out some form of credit product, whilst 13% of the population aged over 15 years used some form of saving product. The penetration of both types of product has not changed significantly compared to one year ago.

## Rapid increase in cards, not so strong in loans, relative stability with savings



The study "Financial Market Data Services: individual clients" (FMDS®) has been carried out by GfK Bulgaria since the beginning of 1998. This project monitors financial market developments and gives up-to-the-moment data for the current market changes as well as the market positions of the banks in Bulgaria. The FMDS survey in Bulgaria is conducted in 6 waves per year, the sample size is 1000 respondents per wave, representative for the Bulgarian population aged 15 years and above and the method of data collection is personal face-to-face interviews.

### **Contact:**

Tanya Tosheva  
Research Consultant  
Financial Research  
**GfK Bulgaria**  
86, Ekzarh Josif Str.  
Sofia, 1527  
Bulgaria  
Tel: +359 2 9038 608  
[tanya.tosheva@gfk.com](mailto:tanya.tosheva@gfk.com)  
[www.gfk.bg](http://www.gfk.bg)