



*Bulgarian National Bank*

*Governor*

**ECB-CONFIDENTIAL**

**MR. FRANCESCO MAZZAFERRO  
HEAD OF THE ESRB SECRETARIAT  
EUROPEAN CENTRAL BANK  
SONNEMANNSTRASSE 20  
60314 FRANKFURT AM MAIN, GERMANY**

**21 December 2021**

**RE: ESRB Warning of 2 December 2021 on medium-term vulnerabilities in the residential real estate sector of Bulgaria (ESRB/2021/12)**

**Dear Mr Mazzaferro,**

Herewith, I would like to share with you some considerations with regard to the Warning of the European Systemic Risk Board of 2 December 2021 on medium-term vulnerabilities in the residential real estate sector of Bulgaria (ESRB/2021/12).

First of all I would like to assure you that the Bulgarian National Bank (BNB) welcomes the extensive work and cooperative spirit between the BNB and the ESRB during the current analysis of residential real estate risks.

The BNB agrees with the ESRB assessment of medium-term vulnerabilities stemming from the residential real estate sector and related to elevated house price growth, signs of house prices overvaluation and high mortgage credit growth. Therefore, we do not object to the envisaged publication of the warning.

However, with regard to the ESRB assessment of the current macroprudential policy mix as “partially appropriate and partially sufficient” I would like to emphasize that the BNB has a different approach as to how to address the possible risks stemming from developments in the residential real estate sector. Within its macroprudential mandate the BNB has consistently applied a conservative capital buffer policy which results in one of the highest combined capital buffer requirements in the European Union. This approach contributed to the formation of a substantial capital reserves and high absorption capacity of the banking system to withstand

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significant pressures stemming from the potential deterioration of the entire loan portfolio. In terms of the buildup of cyclical risks, the BNB employs a proactive capital-based approach and has been using the countercyclical capital buffer (CCyB) since 2019. In response to the rising credit growth, and in particular to the elevated lending for house purchase, the BNB has further increased the CCyB to 1.0% in September 2021 with effect from 1 October 2022. The current practice of credit institutions to sustain high lending activity in the segments of residential real estate construction and loans secured by commercial and real estate, although justified in terms of individual credit decisions and covered by the existing liquidity and capital buffers of banks, has implications of systemic nature, which necessitates continuation of the proactive policy strategy to build-up buffer capacity against cyclical risks. In view of the continuing elevated credit growth rates and given the uncertainty in the economic outlook, on 16 December 2021, the BNB Governing Council increased the countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria from 1.0% to 1.5% in effect from 1 January 2023. The increase of the CCyB is aimed at strengthening the resilience of the banking system against the accumulation of cyclical risks and potential pressures from the residential real estate sector on the capital position of banks. The capital buffer framework is further enhanced by the predominant use of the standardized approach for credit risk exposures by Bulgarian banks.

The BNB will continue to closely monitor the developments and vulnerabilities for the banks, stemming from the residential real estate sector. For this purpose, in the course of 2022 the BNB plans to integrate the Pilot real estate survey, conducted in 2021, in the regular reporting for macroprudential purposes. This would enhance the assessment of real estate risks and contribute to the quarterly financial stability analysis of the banking system. In case of observed worsening of the real estate risks accompanied with significant relaxation of lending standards, the BNB has the appropriate measures at its disposal as prescribed by the Law on Credit Institutions.

Please note that the BNB's position on the ESRB Warning has been communicated to the Minister of Finance.

**Yours sincerely,**

A handwritten signature in blue ink, appearing to read 'Dimitar Radev', is written over a horizontal line.

**Dimitar Radev**