

Bulgaria's Biggest Banks Raise Loan Interest Rates

Bulgaria's five biggest banks have raised interest rates in recent weeks, with the sixth-largest poised to follow suit, after the country's central bank BNB raised its reserves requirement.

BNB said in July it would raise the mandatory reserves requirement for commercial banks, which is the amount of cash banks have to put aside to cover the risks of bad loans, to 12% from 8%, starting from September.

The central bank said its decision was caused by the strong growth of lending since the start of the year, when BNB lifted restrictions that made it expensive for banks to expand their credit portfolios faster than 6% quarterly.

Consequently, credit growth on a yearly basis accelerated to 47,4% in June, compared to 24,6% in December 2006.

It appears that the BNB achieved its goal, with the country's biggest five banks, who hold around 55% of the banking system's credit portfolio, have moved to raise the interest rates on outstanding loans.

UniCredit Bulbank, DSK Bank, United Bulgarian Bank, Raiffeisen Bank and First Investment Bank all announced increases of around half a percentage point in the past weeks.

Even though the global trend for the near future will be for interest rates to fall, it appears unlikely that the BNB will lower its reserves requirement until credit growth slows down to an acceptable level.

Bulgarian banks have progressively eased lending requirements since 2001, having recovered from the 1997 economic crisis, generating a credit boom.

The credit portfolio of local banks grew by more than five times in the last five years, raising concerns over the long-term stability of the banking system in the country.