

Bulgaria

By Jacek Kubas, European Bank for Reconstruction and Development

IN A NUTSHELL

- Real GDP and investment rate increased in 2017.
- 2017 was very successful for the Bulgarian Real Estate Market, especially in Sofia.
- Deposit accumulation in the banking system remained stable at high levels as well as funds mortgage loans.

MACROECONOMIC OVERVIEW

In overall terms, Real GDP growth reached a percentage of 3.6% in 2017 driven by strong exports, easier financial conditions and growing confidence. There was also a jump in investment due to the upbeat business sentiment and EU-linked capital spending. It was specifically estimated at 3.8% in 2017 which is impressive considering the -6.6% registered in 2016.

Estimations that the current balance would fall to 2.4% in 2017 and 1.8% in 2018 proved to be close to the actual numbers. Current balance reached approximately 2.5% of GDP in 2017 and 1.9% in 2018(Q1). However, it is expected to fall to 1.3% in 2019.

Headline inflation turned positive in 2017 and inflationary pressure is rising. In fact, it reached 1.2% in 2017. The unemployment rate impressively decreased to 6.2% in 2017(Q1) from 7.7% in 2016 (Q1). This led to strong retail sales and improved consumer sentiment. In 2018, the unemployment rate declined even more to 5.8%, the lowest level recorded since the Global Financial Crisis.¹

Exports of goods and services declined significantly from 8.1% in 2016 to 4% in 2017. There was a slight upgrade to 4.1% in 2018 (Q2), while it is estimated to return to 4.1% in 2019 (Q1).

General government debt reached approximately 25.4% in 2017 and a 23.3% of GDP in the second quarter of 2018. By end-December 2017 central government debt totalled EUR 12,667.1 mn in nominal terms, including domestic debt of EUR 3,468.2 mn and external debt of EUR 9,189.9 mn.

HOUSING AND MORTGAGE MARKETS

HOUSING MARKET

The accelerating GDP, the low unemployment record and 0% interest rates on loans contributed to a significant growth in the Bulgarian Real Estate Market. Especially for Sofia, 2017 was the most successful year in the past decade; property sales increased by a modest 3.75% y-o-y to 6,300 units in Q3 2017. The most purchased apartments in the capital city are located in the districts of Krastova Vada, Manastirski Livadi, Mladost 4, Studentski Grad and Vitosha.

Across the country, home ownership rate increased to 82.9% in 2017 from 82.3% in 2016. In the fourth quarter of 2017 housing starts averaged 779 units but the number decreased to 723 units in the first quarter of 2018. Building permits reached the highest ever number of 3,110 units in the third quarter 2017 but fell to 1296 units in the fourth quarter of 2017.

In addition, EU citizens are now allowed to purchase properties themselves, since the 5-year moratorium on land purchases, set as a condition in the Accession Treaty between Republic of Bulgaria and The European Union, was lifted in January 1, 2012.

According to National Statistical Institute (NSI), the nationwide house price index rose by 8.59% (6.55% inflation-adjusted) in Q2 2017. During the latest quarter, house prices increased 2.41% (2.53% inflation-adjusted) in Q2 2017. In Sofia, the overall house price has seen an increase of 10.6% during the year. Sofia's southern districts are the most preferred location. Prices for new dwellings rose strongly by 13.5% while existing dwellings saw a price increase of 9.4%. In Varna, which is a seaside resort, prices rose significantly to 13.9% during 2017. Foreigners, mostly Russians and British people, were also interested in buying apartments in Varna. Prices of new dwellings had increased by 14.9% and existing properties' prices rose 13.5%. In Plovdiv, prices also rose by 6.7% in Q2 2017. According to specialists in the field, price was the principal consideration in buying a property.

MORTGAGE MARKET DYNAMICS

Bulgaria's mortgage market has seen great variations from 2000 onwards. It reached 11.65% of GDP in 2010, while in October 2017 there were BGN 267.1 mn (EUR 136.6 mn) new housing loans in October 2017, up 39% from the same period last year.

The interest rates of mortgages for properties in Bulgaria vary from 6 to 7% – much higher than those in Spain and France. The maximum term of any mortgage is 25 years. The minimum loan amount is EUR50,000 with no maximum. The maximum LTV ratio for a purchase is 75%. Total outstanding housing loans increased 6.4% to BGN 9.33 bn (EUR 4.77 bn) in October 2017 from the same period last year. Gross residential mortgage loans to individuals reached the number of 8,771,553 in 2016, rose to 9,460,270 in 2017 and slightly dropped to 9,928,714 in 2018(Q1). Non-performing loans in Bulgaria stood at 8.1% in December 2017 but dropped to 7.8% in March 2018.

MORTGAGE FUNDING

By the end of March 2017 banking system deposits totalled BGN 78.9 bn. The share of Lev-denominated deposits increased to 56.6% at the end of March 2017 (from 55.7% at the end of December 2016), and that of Euro-denominated deposits decreased to 34.6% (from 35.4% in the currency structure). It is expected that deposit accumulation in the banking system will retain its rates

¹ <http://www.imf.org/en/News/Articles/2018/02/21/pr1864-imf-executive-board-concludes-the-2017-article-iv-consultation-with-bulgaria>

due to improvement of the macroeconomic environment and the preference of corporations and households to deposit their free funds in banks rather than in other forms of savings. It is also expected that a future change in the tendency to save and increase in the portion of income used for funding of consumption would have an effect on the banking system balance sheet. Loans to non-financial corporations reached BGN 132 mn and lending to households reached BGN 275 mn.

Mortgage bonds, as a sub-category of corporate bonds, are being traded at the Bulgarian Stock Exchange-Sofia. However, Bulgaria has no active covered bond market yet.

	BULGARIA 2016	BULGARIA 2017	EU 28 2017
Real GDP growth (%) (1)	3.9	3.6	2.4
Unemployment Rate (LSF), annual average (%) (1)	7.6	6.2	7.6
HICP inflation (%) (1)	-1.3	1.2	1.7
Outstanding Residential Loans (mn EUR) (2)	3,700	4,190	7,013,738
Outstanding Residential Loans per capita over 18 (EUR) (2)	620	709	16,872
Outstanding Residential Loans to disposable income ratio (%) (2)	12.2	13.1	73.8*
Gross residential lending, annual growth (%) (2)	18.9	39.9	3.5
Typical mortgage rate, annual average (%) (2)	5.0	4.0	2.4**
Owner occupation rate (%) (1)	82.3	82.9	66.4*
Nominal house price growth (%) (2)	7.0	8.7	6.0

* The aggregate EU figure is from 2016.

** Please note that this value is the simple average of the typical interest rate of the EU 28 countries.

Sources:

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2018, Statistical Tables.

BULGARIA FACT TABLE

Entities which can issue mortgage loans:

There are no specialized mortgage banks in Bulgaria. There are specific Bulgarian banks offering home loans to foreigners, such as Bulbank, DSK Bank, First Investment Bank, Invest Bank (I-Bank) and United Bulgarian Bank (UBB). The Greek bank Piraeus, which has 13 branches in Bulgaria, also offers 'Bulgarian' mortgages. Interest rates are usually around 6.5 to 7.5% and can be fixed or variable.

The market share of the mortgage issuances:

Not available

Proportion of outstanding mortgage loans of the mortgage issuances:

Not available

Typical LTV ratio on residential mortgage loans:

The average LTV ratio is 70% for properties under EUR 100,000, 75% for properties over EUR 100,000 and usually around 60 to 65% for brand new.

Any distinction made between residential and non-residential loans:

Not available

Most common mortgage product(s):

The most widely used mortgage products in Bulgaria are housing loans with variable rates, which are generally defined in the banks own lending policies.

Typical maturity of a mortgage:

The average maturity of mortgage loans in Bulgaria is 18 years with the maximum term of any mortgage being 25 years.

Most common way to fund mortgage lending:

Funding of mortgage loans is based largely on deposits. Mortgage bonds are being issued but they are not the primary source by banks.

Level of costs associated with a house purchase:

A variety of taxes and fees are payable when you buy a property in Bulgaria, most of which vary according to the price, but which may also depend on whether the property has land attached, whether you're buying through an agent (as opposed to buying direct from the vendor), whether you've employed a lawyer and surveyor and whether you employ a translator.

On top of the purchase price, the purchaser should be aware of the following related costs: municipal tax (2% purchase price), property tax (0.15% purchase price), notary (depending on purchase price up to Lev 3,000), selling agent fee (up to 10% of the purchase price), VAT (possible to have this exempt for residential purposes, otherwise it is 20% with the possibility to have a refund for registered entities).

The level (if any) of government subsidies for house purchases:

Not available