Template for notifying the ESRB of the intended use of a systemic risk buffer (SRB)

1. Notifying national authority (If several designated authorities, please mention all of them)	
1.1 Name of the notifying authority	Bulgarian National Bank
2. Buffer levels and the institutions to which they apply	
2.1 Type of measure intended (also for reviews of existing measures)	Activation of a new systemic risk buffer.
2.2 Buffer level	The systemic risk buffer of CET1 capital is to be set at 3% of total RW exposures located within the country and calculated in accordance to Art. 92 (3) of Regulation 575/2013/EU. The introduction of the buffer follows the notification procedure, suggested by Art. 133 (11) of Directive 36/2013/EU and its intended introduction is before 1/2015.
2.3 Institutions covered by the intended SRB	The intended imposition of a SRB will address all credit institutions authorized in Bulgaria. The buffer is to be applied on individual, consolidated or sub-consolidated level. Furthermore, it will apply only to exposures within the borders of the country.
3. Reasons for the intended SRB	
3.1 Description of the structural systemic risk **(Article 133(1) of the CRD)**	In its essence, the introduction of the CRD/CRR framework in Bulgaria will lead to lower prudential requirements than the ones required by Bulgarian credit institutions until 2014 (previously set at 12%). This, along with the absence of active monetary policy of the Central bank, operating under Currency Board Arrangements ("CBA") and space for fiscal maneuvering calls for tighter rules that will ensure financial stability is preserved. For more comprehensive discussion of these arguments, please see p. 3.2. and the cover letter of this notification.

3.2 Analysis of the potential to have serious negative consequences for the financial system and the real economy in your Member State	The lowering of prudential requirements will inevitably lead to lower capital cushions for the Bulgarian financial sector which is dominated by credit institutions. In addition, political instability combined with very weak and fragile economic recovery in Bulgaria will possibly lead to unfavorable business environment for domestic credit institutions. Correspondingly, deterioration of credit quality and thus rather weak financial outcomes for Bulgarian banks are to be expected which in combination with the already rather low quality of exiting credit portfolios is definitely calling for more conservative acting on the side of the BNB on a system-wide level. Although public debt levels are currently very low, in reality fiscal flexibility is close to non-existent due to the fact that the Bulgarian economy operates under Currency Board Arrangements which predetermines the necessity for a constant fiscal prudence. Otherwise, the credibility of the CBA will be severely damaged with corresponding dire consequences for the financial stability of the country. Therefore, there is a strong need to sterilize all possible influences translating from the financial to the public sector and vice versa well in advance. Paradoxically, the improvement of the economic environment doesn't preclude the introduction and maintenance of higher capital buffers for domestic banks. On the opposite – this case gains even more on importance, because better economic conditions will most likely be strongly correlated with higher capital inflows in the form of FDI, and also with stronger imports, which will lead to very high current account deficits for the country, similar to the ones we experienced several years back. A strong recovery will also mean stronger inflationary pressures which in the absence of a monetary policy tool and in combination with lower nominal interest rates will lead to very low real interest rates, which is unfortunately a very well known recipe for the build-up of financial imbalances and even asset price bubbles. In the presence of a functioning Currency Board Arrangements this means a need for even stricter fiscal policy and surpluses, which on the other hand leads to the conclusion that we are in an even more urgent need for an impeccable and very well capitalized banking sector. Moreover, the introduction of the abovementioned SRB will prove to be more than an adequate measure in light of the recent bank panic and turbulence in the local banking sector. It will allow not only to factually strengthen the capital positions of local institutions, making them more resilient to further crisis events, but to also bring about the much needed recovery of public confidence in the banking sector in Bulgaria. Thus, it is highly desirable to have an additional tool in the hands of the local supervisory authority that will allow to restore depositors' confidence and preserve financial stability.
3.3 Indicators used for activation of the measure	1. Capital adequacy ratios before the introduction of the CRD4 and potential impact on capital positions after the new rules are imposed, including detailed simulations, depicting the expected impact. 2. Size, development and importance of the Bulgarian banking sector for the financial system of the country. 3. NPL ratio dynamics. 4. General macroeconomic indicators – GDP growth projections, trade balances/capital inflows, unemployment and inflation rates.

3.4 Justification of the scope of the SRB	The effects of the introduction of the SRB are expected to be strongly positive. On one hand, a mitigation of the negative impact in terms of capital buffers stemming from the new regime in the EU will take place and part of the already built in capital buffers in the Bulgarian banking system will be preserved, which is crucial for maintaining financial stability in the country, especially in light of recent crisis developments in the Banking system. Moreover, no alternative measures could achieve the targeted impact, especially within a very tight time framework. SIFI buffers are not a possible option as they can be introduced from 2016 onwards. Currently there is also no economic justification for the imposition of a countercyclical capital buffer, which puts capital positions of Bulgarian banks under further pressure and is in general not a structurally oriented instrument. Even in combination with the Capital conservation buffer, which the Bulgarian authorities intend to implement, it will be impossible to achieve the Common Equity capital adequacy levels that were kept within the system prior to the introduction of the new set of prudential requirements since January 2014. Thus, the Bulgarian National Bank firmly believes that a SRB is a highly necessary prerequisite for the preservation of the financial
3.5 Suitability, effectiveness and proportionality of the measure	Since the capital adequacy requirement in Bulgaria has been placed at 12% (6% T1) prior to the introduction of the CRD4/CRR, with the effect that in reality banks kept even higher capital reserves (reaching around 17-19% on average), we consider the effect of the introduction of the SRB mostly neutral. Proportionality and effectiveness of the measure are granted through the scope and the sole choice of the measure.
3.6 Assessment of the likely impact on the internal market	We do not expect any negative impact on the internal market. On the contrary, a more stable Bulgarian banking sector will relieve EU parent institutions from the potential necessity to inject additional capital in the respective Bulgarian subsidiaries in case of negative developments in the local market. The fact, that this measure is only aimed at preserving the already existing capital buffers, makes it completely neutral with respect to the functioning of the internal market. Having said all of the above, one could expect only potential positive spill-over effects for other participants in the common market.
4. Combination of the SRB with other buffers and timing of the measure	
4.1 Combination with G-SII buffers (Article 133(4) and (5) of the CRD)	Since the SRB is imposed only with respect to exposures that are located in Bulgaria, the interaction between SRB and a G-SII buffer will be of cumulative nature. As regarding the comparison between the two buffers with a SRB of 3% it will be higher than a potential G-SII buffer, applicable to certain banking groups with Bulgarian subsidiaries.
4.2 Combination with O-SII buffers (Article 133(4) and (5) of the CRD)	The treatment of O-SII buffers in combination with the newly presented SRB is the same as for G-SII buffer (see above).
4.3 Combined buffer requirement (Article 133(6) and (7) of the CRD)	So far, we do not have any information about any groups with Bulgarian subsidiaries that have set any G-SII or O-SII buffer on a consolidated level.
4.4 Timing of the measure	First to be officially reported as of 31.12.2014
4.5 Review of the measure	The measure will be appropriately amended or cancelled when the reasons for its activation change or cease to exist.

5. Miscellaneous	
5.1 Publication **(Article 133(16) of the CRD)**	It is intended to publish all the details for the SRB on the website of the BNB.
5.2 Contact person(s) at notifying authority	Ms. Nelly Kordovska Acting Deputy Governor Bulgarian National Bank Kordovska.n@bnbank.org
5.3 Any other relevant information	