

TO:

Mrs. Christine Lagarde

President of the European Central Bank

CC:

Mr. Andrea Enria

Chair of the Supervisory Board

European Central Bank

Mr. Valdis Dombrovskis

Executive Vice-President of the European Commission

Sofia, 27 July 2020

Dear President Lagarde,

I would like to congratulate you personally and the European Central Bank, which you represent, for your commitment toward integration of Bulgaria and Croatia in the Single Supervisory Mechanism and the critical support for the acceptance of Bulgaria in the Second Stage of the European Exchange Rate Mechanism.

As you probably are aware, there is currently a wave of protests in Bulgaria over governmental corruption and abuses of power amounting to suspending the rule of law. Key aspects of the Bulgarian model of systemic corruption are exemplified by the case of the Bulgarian Development Bank (BDB). It is becoming the focus of media investigations

showing how public funds are channeled towards companies, linked to politically connected people.

BDB is owned by the state. It's charter goal is to support small and medium enterprises, innovative businesses and export-oriented production. The Bank is governed by a Supervisory Board, with its members being appointed by the Minister of Economy and by an Executive Board, the members of which are appointed by the Supervisory Board. The Bank's balance sheet is not that large to be among the three largest institutions that are to become directly supervised by the ECB since October 1, 2020.

However, according to persistent media investigations it appears that this institution and particularly its lending portfolio to non-financial companies (above 750 mln. euro at the end of 2019) is being used as a source for cheap public funding provided to politically connected companies under soft lending standards.

Let me provide some examples:

1. **Financing to companies related to Mr. Delyan Peevski** - a member of the Parliament from the Movement for Rights and Freedoms, who is shown by media publications to be linked or in control of Bulgartabac Holding, Technomarket, Yuri Gagarin, Vodstroy-98, PTS Holding etc. The amount of loans outstanding, approved by the BDB to this group is about 120 mln. Euro or close to 31% of the capital base of the bank at the end of 2019. This is a breach of Regulation 575/2013.
2. **Financing for companies linked to people associated with Mr. Ahmed Dogan**-Honorary Chair of the Movement for Rights and Freedoms currently - the third largest parliamentary party. These companies are connected to Mr. Rumen Gaytansky, whose association with Mr. Dogan is a matter of public knowledge and is exemplified by other joint businesses ventures by the two of them. The estimated total loan exposure of the Bulgarian Development Bank to this group of companies is about 80 mln. euro or 20% of the capital base of the bank at the end of 2019.
3. **Financing to companies related to Mr. Georgi Gergov**-Regional Chair of Bulgarian Socialist Party (BSP) in Plovdiv and the region. Currently, BSP is the second largest parliamentary party. Mr. Gergov controls International Plovdiv Fair, which in 2016 borrowed 31.6 mln.euro or about 8.3% of the capital base of the bank at the time. In 2019 the Council of Ministers approved a special central budget transfer of about 20 mln. Euro public funds to buy-back land owned by International Plovdiv Fair in the city

center of Varna (third largest city) without fair valuation of the land. Due to archeological findings this land had restrictions and its market value was much smaller than paid. But Mr. Gergov managed to extract a much higher price due to his public support to the Government, in spite being a member of the main “opposition” party.

These examples give rise to widely shared suspicions that the lending policy of Bulgarian Development Bank is not serving to provide support to small and medium enterprises on objective and rule based basis, but to ensure political influence and support for politically connected persons from “opposition” parties to the government in exchange to access to large loans on soft standards.

The examples are based on investigations by some of the most reputable bulgarian journalists and often rest on circumstantial evidence. What lends particular credibility to them, however, is the fact that instead of swift and conclusive investigations and regulatory interventions, Bulgarian authorities have been deaf and blind; instead of increasing transparency and tightening standards, we have seen tightening of opacity and relaxing lending requirements, including the narrowing of the prohibition for BDB to extend credit to politically connected individuals; instead of political accountability, we have seen promotion of those responsible: the hereto President of the Supervisory Board of BDB was made minister of economy, exercising the rights of the state in the Bank.

Therefore, we call the European Central Bank to use all its available instruments under the Agreement for Close Cooperation with Bulgarian National Bank and based on Regulation 1024/2013 to impose the highest possible regulatory and supervisory standards for all Bulgarian banks and Bulgarian Development Bank in particular.

The measures that we are proposing with respect to BDB are as follows:

1. Conduct an external Asset Quality Review and AML review of the BDB activities.
2. Nominate external members from the ECB to participate in the supervisory team responsible to BDB direct supervision conducted by BNB.
3. Conduct critical review of the Law of BDB and Article of Agreement with a view of proposing changes to forbid lending to companies related to

politically exposed persons (PEPs) and limit the upper amount of exposure only to small and medium sized enterprises (SMEs).

4. Propose new corporate governance standards to ensure that lending policy and lending standards applied by the BDB are in line with the best European practices.
5. Assume direct supervision of BDB as a measure of last resort.

We remain available to share additional information and provide further detail to our policy proposals. We call the ECB and other European institutions to continue to put consistent pressure on Bulgarian authorities to impose sound corporate governance standards, follow strictly the rule of law and limit all political pressure on supervisory institutions in order to ensure full benefits to the society from the BDB lending policies.

Looking forward to your urgent actions,

Sincerely yours,

Hristo Ivanov