IV. Monetary Policy

During the first six months of 1996 significant and unfavorable developments occurred in domestic macroeconomic conditions. Since BNB monetary policy in 1995 was not supported by serious structural changes in the real sector, financial stabilization, achieved mainly through monetary means, was not only fragile but led to a crisis deeper than that of 1994.

Strengthening of the lev and attracting foreign currency to the country during the first half of 1995 was possible through maintaining high real interest rates on lev deposits and a substantial interest rate differential on investments in levs by the BNB. As confidence in the lev eroded following its sharp devaluation in March 1994 and no foreign financing had been provided since early 1995, a conservative policy of high interest rates proved the only possibility of generating noninflationary credit resources both to government and real sectors. This was done by boosting growth in lev domestic savings and attracting foreign currency, primarily on the balance of payments capital account.

Throughout the year, stability, maintained solely through monetary measures, was achieved at the high cost of increasing the heavy burden on the banking system. Given the lack of firm budget constraints on state enterprises and the serious deficiencies in the mechanism for imposing strict financial discipline in the private sector, losses in the real sector started to transfer increasingly to the banking system. Some banks failed to adjust to the new environment and continued their credit expansion despite the high real interest rates. As a result of massive withdrawals of deposits and enhanced expectations of lev devaluation, these banks suffered chronic insolvency, which not only spelled further erosion of lev credibility but did much to undermine credibility in the banking system.

The BNB tried to provide temporary support to the troubled banks through unsecured refinancing in its capacity of lender of last resort, although this role contradicted the generally restrictive nature of a central bank's monetary policy. Amid growing uncertainty both in the real and banking sectors, the BNB was unable to fully sterilize injected liquidity, despite the rise in the basic interest rate. Thereby free funds were channeled to the forex market, prompting further lev devaluation. Even though the extent of insurance for commercial bank deposits was raised, this failed to recover credibility in the banking system and the lev. This relates to the fact that the majority of people, recognizing the country's actual financial state, had no confidence that the budget was capable of fulfilling its commitment, particularly with regard to foreign currency deposits.

In the absence of foreign financing, the central bank's intervention in the forex market in support of the lev, albeit limited, considerably exhausted forex reserves by the end of the first quarter. As this adverse trend continued, a real danger arose that foreign debt service may be halted, which (perceived by economic agents) prompted further speculation against the lev. With BNB's forced withdrawal from the market, lev devaluation accelerated dramatically. This additionally urged savers to make massive withdrawals from both lev and foreign currency deposits and did not permit the BNB to restore the balance in the forex market rapidly by tightening monetary policy. The lev continued to depreciate despite the rise in the basic interest rate to an all-time-high of 108%, and the resolution of the BNB Managing Board to place two large banks (the biggest private bank and one state bank) under conservatorship in respect of which it after applied to court to declare them insolvent. Subsequently, a similar request to court was filed with regard to three small private banks.

Financial destabilization during the first six months of 1996 was so profound that it inevitably led to significant changes in the general economic environment. This clearly illustrates the need for a comprehensive program of restructuring in the real and the banking sectors as the only solution to existing problems. This approach underlies the standby arrangement concluded with the IMF. If consistently applied, it would ensure the foreign exchange needed to service foreign debt payments, help regain confidence in the lev and the banking system, and hence create conditions for a resumption of economic growth in the following year.

1. Money Supply

During the first six months of 1996 money supply (measured through the broadest monetary aggregate, including cash outside banks, and all types of deposits and monetary instruments) rose by BGL 117.6 billion and reached BGL 701.2 billion. In relative terms this marks a nominal growth of 20.1% but if accounting for inflation over the period (47.6%), broad money has contracted by 18.6% in real terms. In annual terms (June 1995 – June 1996), the picture is similar: a 40.6% nominal growth of money, reduced by 70.6% inflation, resulting in a real contraction of 17.3%. Inasmuch as the real change in GDP is minimal (in 1995 GDP rose by 2.6% while in the first half of 1996, based on preliminary estimates, it contracted by 2 – 3%), there are grounds for stating that BNB restrictive monetary policy between January and June 1996 has become even tighter than that pursued over the same period in 1995. Policy tightening reflected a strongly reduced demand for money as a result of the growing loss of confidence in the banking system. At the same time, given the lack of structural changes in real and banking sectors, monetary tightening – severe as it was – was unable to halt the fast depreciation of the lev and the high inflation induced by it.

MONETARY AGGREGATES GROWTH

Monetary aggregates	VI'95 versus XII'94		VI'96 versus XII'95	
	billion BGL	%	billion BGL	%
Broad money	79.9	19.1	117.6	20.1
High-liquid money (M1)	1.0	1.3	4.6	4.2
Currency outside banks	8.1	21.0	8.6	14.0
Demand deposits	-7.1	-19.4	-4.1	-8.8
Quasi-money	76.8	23.0	102.6	22.1
Time deposits	78.0	47.3	13.7	5.4
Savings deposits	-0.7	-1.6	-3.1	-5.4
Deposits in foreign currency	-0.5	-0.4	92.0	61.3

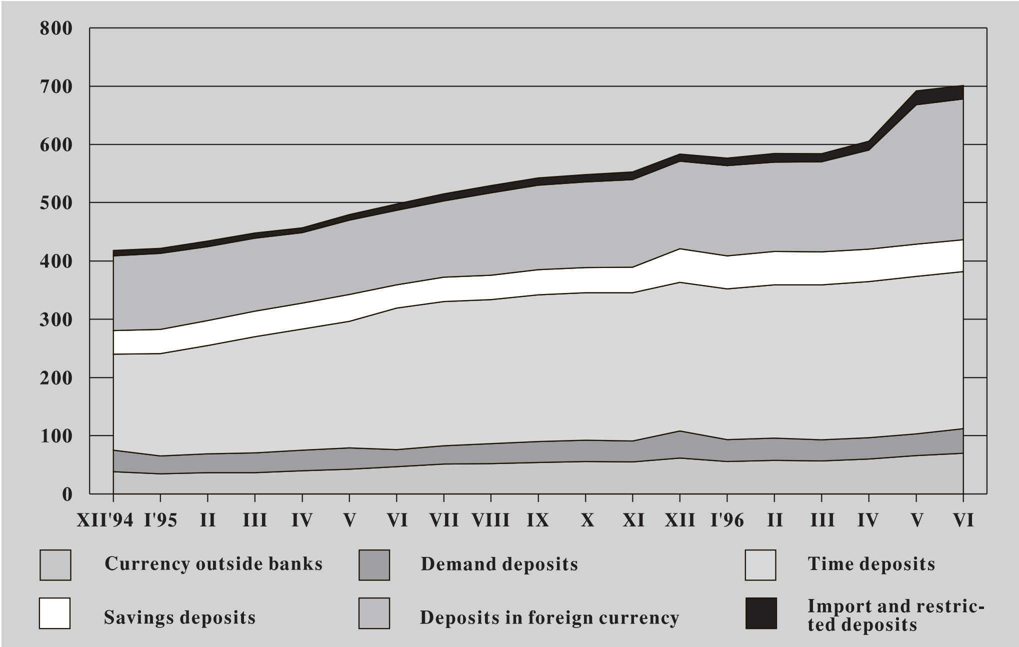
Source: BNB.

Monetary aggregate M1, including highly liquid funds (cash outside banks and demand deposits), displayed a similar growth rate to those displayed by the lev component of money supply and time deposits. Against a background of a slower nominal growth rate of the less liquid components of broad money, the growth in M1, albeit a mere 4.2%, should not be underestimated with regard to inflation. As in the same 1995 period, cash outside banks grew at a faster rate (approximately ten percentage points) than aggregate high-liquid money growth. In the second quarter, due mainly to mounting problems in the interbank settlement system, a significant acceleration in the growth rate of this indicator was recorded: a growth of BGL 13 billion in absolute terms and 22% in relative terms. This trend is alarming because of potential pressures on commodity and forex markets and reserve money, and hence on money supply.

In contrast to 1995, quasi-money, including time, savings and foreign currency deposits, experienced considerably slower growth during the reporting period. The reason for this slowdown is growing distrust in the banking system, which caused massive withdrawal of funds both in levs and foreign currency. Juxtaposition between the nominal growth in time deposits and the amount of interest accrued showed that during the first half of 1996 funds of approximately BGL 38 billion have been withdrawn as against BGL 34 billion deposited during the same 1995 period. The run on foreign currency deposits was even more sizable, resulting in a reduction of USD 565 million.

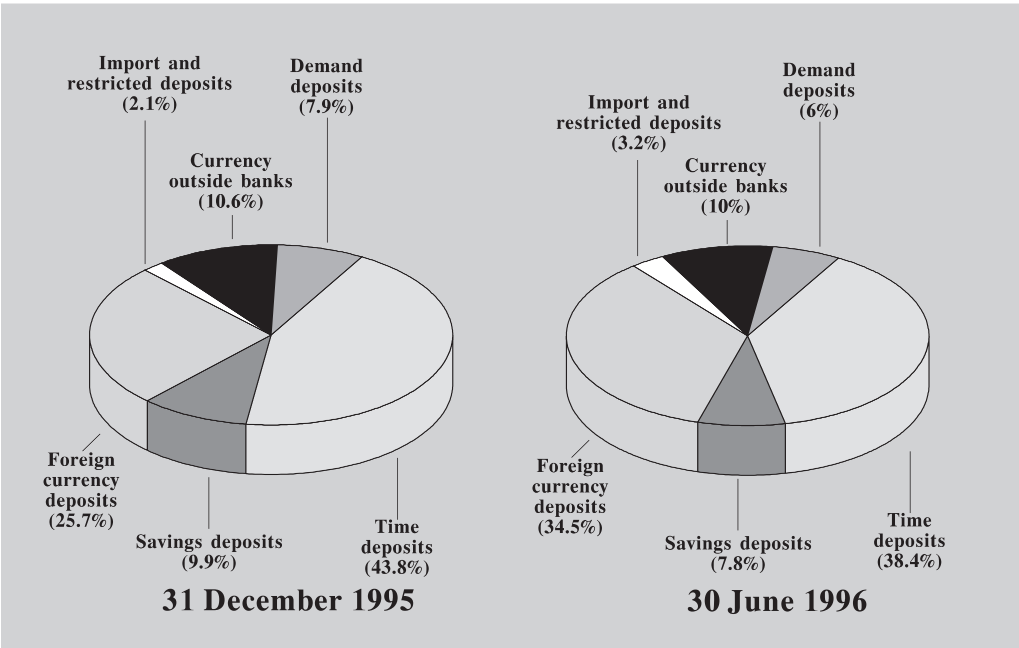
MONETARY AGGREGATES DYNAMICS

(billion BGL)



Source: BNB.

STRUCTURE OF MONETARY AGGREGATES



Source: BNB.

The total reduction in quasi-money in June 1996 compared to December 1995 is estimated at BGL 120 billion and over; this spelled a serious loss of credit resources to both government and nongovernment sectors. Under these conditions of severe shortage of funds, the BNB is increasingly confronted with the classical dilemma: allow hyperinflation or dramatically tighten monetary policy, leaving it to market forces to restore balance in the credit market, despite the onerous effects on the banking system and the national budget. In this complicated environment, only a speedy restructuring and privatization of the real and banking sectors may help in the fulfilment of commitments undertaken under the IMF agreement. This should help gradually revive confidence in banks and the lev and restore real demand for money, thus providing the necessary resources for real and government sectors.

2. Reserve Money and Money Multiplier

During the first half of 1996 reserve money management continued to be instrumental in controlling the money supply, but changes in the level of minimum reserve requirements seriously affected the money multiplier. On the other hand, the deepening crisis in the banking sector often forced the BNB to play the role of lender of last resort. Injected liquidity, despite BNB efforts to sterilize it, led to excessive growth of reserve money.

Reserve money, including cash outside banks and bank reserves, rose by BGL 14.2 billion, or some 11%. This was nine percentage points less than money supply growth; the major factor for this is the reduction in the minimum reserve requirements from 11% at 1995 year-end to 8.5% at the end of the first quarter of 1996. Within the components of reserve money, cash outside banks grew at a faster rate, with the ratio of cash outside banks to deposits increasing from 10.9% in the late first quarter to 11.2% by the end of the second quarter. The latter indicator is almost one percentage point higher than in June 1995 and clearly illustrates a growing lack of confidence in the banking system and economic agents' general preference to make cash transactions owing to problems in the interbank settlement system.

The money multiplier rose by about 0.8, mainly due to the reduced level of minimum reserves. This reflected on the ratio of bank reserves to deposits, which dropped from 12.8% in December to 10.2% in March, and 9.5% in June. Over the same period the level of bank excess reserves fell from 1.8% to 1.5%. Two factors were responsible for this reduction: a growing liquidity squeeze after massive withdrawals from a number of banks, and the newly granted ability of regulating minimum reserves required on a monthly average basis which gave cash rich commercial banks the option of managing their money more flexibly and effectively.

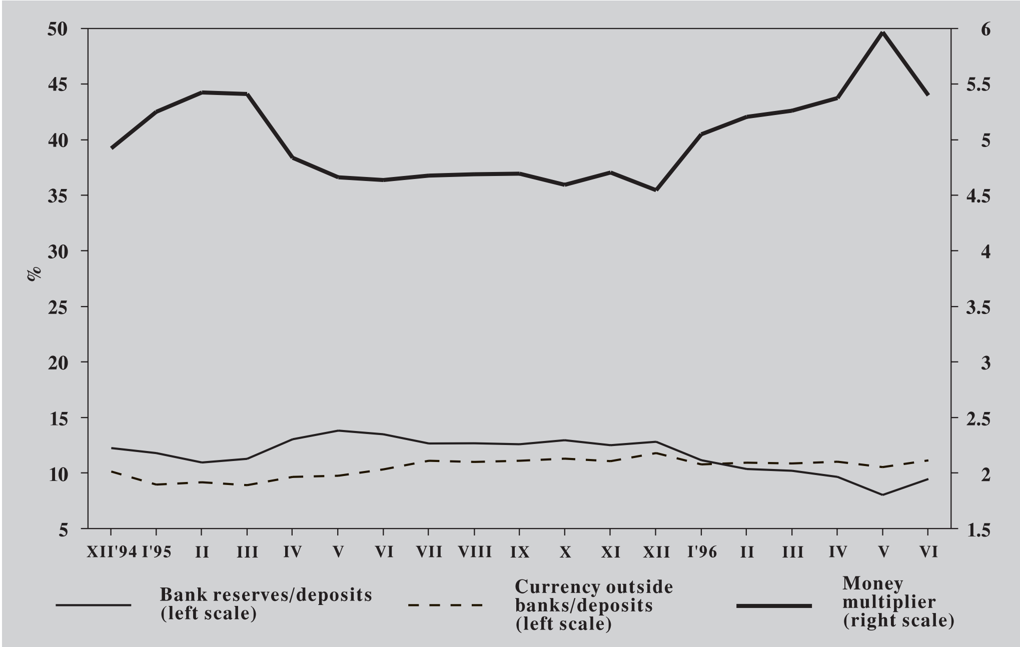
RESERVE MONEY AND MONEY MULTIPLIER

Indicators	XII'95	III'96	VI'96
Broad money (billion BGL)	583.7	584.2	701.2
Reserve money (billion BGL)	128.4	111.1	129.9
Money multiplier	4.55	5.26	5.40
Currency outside banks/deposits (%)	11.8	10.9	11.2
Bank reserves/deposits (%)	12.8	10.2	9.5
Broad money change			
versus December 1995 (billion BGL),		0.5	117.6
including:			
reserve money		-78.6	15.4
money multiplier		91.4	9.9
both factors		-12.3	2.6

Source: BNB.

During the first quarter of 1996 money supply growth was determined entirely by money multiplier growth. The nominal decrease in reserve money in the first quarter helped contain broad money growth. This could not be ascribed to monetary restriction but was a result of declining confidence in the banking system. During the second quarter, reserve money growth was the major factor behind money supply growth; money multiplier growth, albeit insignificant, also played a role. During this period, the banking system crisis deepened and significantly limited the scope for control over reserve money growth.

MONEY MULTIPLIER



Source: BNB.

Analysis of reserve money developments by factor clearly reveals the reasons for the BNB's insufficiently restrictive policy. During the first quarter, the BNB came under heavy pressure both from the government and commercial banks. BNB net claims on the government rose rapidly due entirely to short-term direct credits generated as the BNB was forced to exercise its function of lender of last resort to the government. It was difficult to sterilize injected liquidity through active open market operations despite the rise in interest rates. Under conditions of deficient credit resources owing to the loss of confidence in the banking system, government sector borrowing needs led in practice to an easing of BNB monetary policy and thus exacerbated the financial instability in the country.

During the second quarter government borrowing requirements declined, but the drop in BNB net claims on the government can be ascribed entirely to the revaluation of the government's foreign currency deposit with the State Fund for Reconstruction and Development. During the second quarter the government managed to repay a portion of the short-term credits, resorting to intensive issuing activity which, given the growing shortage of funds in the banking system, led to a considerable expansion of the BNB government securities portfolio.

DEVELOPMENTS IN RESERVE MONEY BY SOURCE FROM PREVIOUS QUARTER

(billion BGL)

Indicators	III'96	VI'96
Sources of reserve money		
claims on government	32.0	-94.0
direct credit	53.4	-40.7
government securities	-8.4	44.1
claims on commercial banks	78.3	264.5
Lombard loans	9.3	4.8
discount loans	-3.8	-4.5
overdraft	1.9	30.6
unsecured loans	64.9	125.0
net foreign assets	-141.3	-55.7
other	-47.7	-15.8

Source: BNB.

The major factor responsible for reserve money growth throughout the first half of 1996 was the ever increasing amount of BNB claims on commercial banks. This growth in claims on commercial banks resulted from the extension of unsecured credits and reflected the fact that the central bank's role as lender of last resort had become increasingly important in respect of several banks with permanent liquidity deficiencies. The BNB continued to play this role, though to a lesser extent, after the Managing Board resolution to place two large banks (one private and one state-owned) under conservatorship and after the revocation of the licenses of three smaller banks[28], which clearly shows that the problem of banking system rehabilitation cannot be solved through closure of these five banks.

During the first half of 1996, the reduction in BNB net foreign assets resulting from net forex sales played a major role in curbing reserve money growth. Thus liquidity once provided by the BNB found its way back to the prime source, albeit at the highest possible cost – the depletion of foreign exchange reserves to a level that threatened foreign debt service.

The above combination of monetary instruments employed in reserve money regulation, and hence money supply, inevitably led to further financial destabilization and loss of confidence in the lev and the banking system. The crisis is so profound that without radical and coordinated rehabilitation of the real and the banking sectors it would not be at all possible to design or employ monetary instruments as a means of restoring financial equilibrium.

3. Domestic Credit

During the first six months of 1996 domestic credit growth considerably exceeded money supply growth. One reason for this is a slowdown in money supply growth reflecting declining confidence in the banking system; another is a further reduction of net foreign assets in the banking system as a result of the heavy losses of foreign exchange reserves sustained by the BNB. In real terms domestic credit has contracted, reflecting on the one hand a relative reduction in the amount of credit resources, which pushed up their price, and on the other hand further crowding out of the real sector from the credit market by the government.

Between January and June 1996 nominal growth of the lev component of domestic credit lagged behind forex component growth by more than 100 percentage points. The nominal lev growth of domestic credit was 60 percentage points lower than inflation. The strong contraction in real terms is less the result of BNB efforts to tighten monetary policy than of increasing shortages of credit resources in the banking system owing to a dramatically contracted deposit base.

The bulk of domestic credit growth was in foreign currency, but this is entirely attributable to the substantial depreciation of the lev. In dollar terms, however, a contraction of USD 50 million occurred, which relates not only to the lack of fresh credit resources but to the poor collection of this type of credit as well. This explains why the withdrawal of foreign currency deposits of approximately USD 570 million during the first half of 1996 led to a loss of USD 690 million in foreign assets to the banking system.

With the forex component growing faster, its percentage share in domestic credit increased significantly – from 34.6% in December 1995 to 50.8% in June 1996. The structure of domestic credit was not significantly different from that of 1994. This, combined with a growing "dollarization" of the money supply, severely tries any anti-inflationary policy.

Lev credit to the government rose by BGL 31.6 billion in the first half of 1996, double compared to the same period of 1995. In the face of a growing lack of credit resources, there was stronger pressure by the time of the 1996 budget for an ease in monetary policy. The prime reasons for the increased borrowing needs of the gov-

[28] Agrobusinessbank Ltd., which had been taken over by the BNB at the end of 1995 and later on, in the first half of 1996, its license for conducting bank activities has been revoked.

ernment sector relate to higher interest rate levels and devaluation of the lev. This reveals that the scope of interest rate policy in tightening monetary restriction is limited and that the most effective way to solve the problem of foreign debt service would be through waging an uncompromising battle against inflation to the effect of significantly reducing interest.

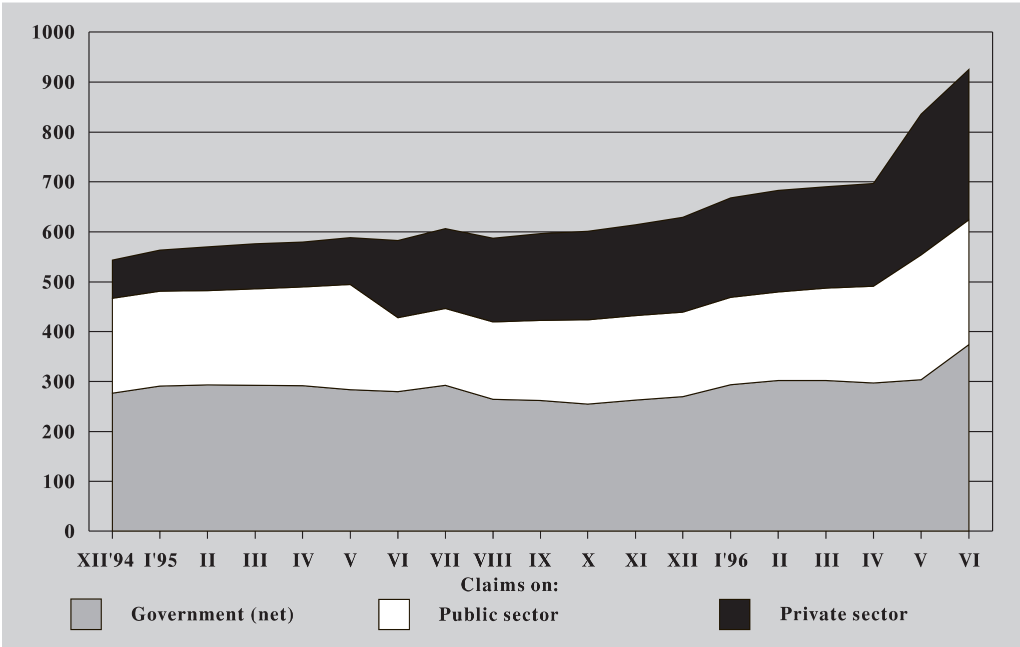
DOMESTIC CREDIT GROWTH

Credit aggregates	VI'95 versus XII'94		VI'96 versus XII'95	
	billion BGL	%	billion BGL	%
Domestic credit	39.9	7.3	297.0	47.3
Government sector	2.5	39.0	104.4	47.5
government budget	17.8	5.5	114.9	33.4
extrabudgetary accounts	-15.3	33.5	-10.5	14.1
Nongovernment sector	37.3	27.7	192.6	122.2
BGL	22.9	15.8	12.6	6.2
foreign currency	14.5	11.8	180.0	116.0

Source: BNB.

DOMESTIC CREDIT DYNAMICS

(billion BGL)

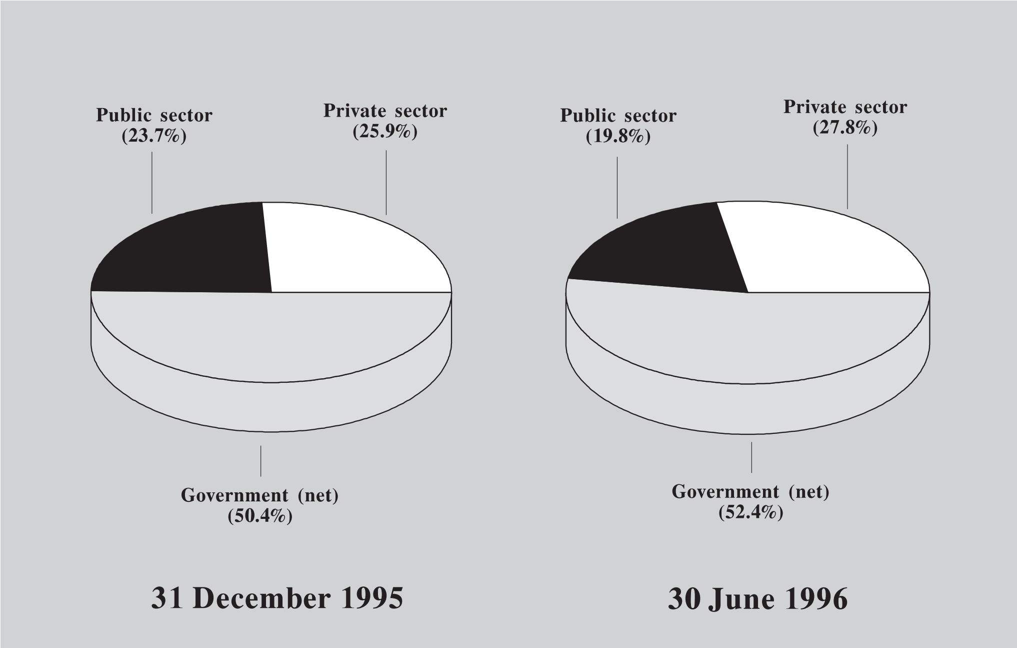


Source: BNB.

Growth in lev credit to the real sector was BGL 19 billion less than that in the government sector, accounting for only 6.2%. A more marked increase occurred in the private sector: approximately BGL 20 billion; while credit to state-owned enterprises declined by 7.4%. It may be assumed that this was due in part to the transformation of lev into forex credits, inasmuch as the latter increased by USD 19 million in dollar terms. Over the period under consideration, forex credits to the private sector fell by USD 58 million, which gives reason to assume that forex credits had been transformed into lev ones.

During the first half of 1996 the amount of credit resources extended to the real sector could not be considered sufficient to preserve the economic growth which had started in 1994. Increasing crowding out of the real sector from the credit market led to an appreciable growth in interest, which, combined with the general macroeconomic and financial destabilization, had an additionally depressive impact on the economic activity in the country.

STRUCTURE OF DOMESTIC CREDIT
(lev component)



Source: BNB.

4. Monetary Instruments and the Money Market

Basic Interest Rate

During the first half of 1996 the basic interest rate continued to play an active role in BNB interest rate policy. In 1995 its level was changed on seven occasions during a period of just over four months (a record number of movements since the introduction of this monetary instrument in the country as a result of which it fell from 72% to 34% per annum) while during the first six months of 1996 it followed the opposite trend. In less than five months, the basic interest rate was raised on four occasions (the last change being extremely sharp) whereby from a historically low 34% it set a record of 108%. The first rise (42% in early February) and the second (49% in early March) were employed as typically restrictive measures of monetary policy to support the seasonally weakened lev. The third rise (67% per annum at end-April) was in response to the dramatic devaluation of the lev but this occurred at an atypically weak period for the national currency: the middle of spring. The last rise over the period (108% since early May) was intended to have a psychological effect of halting the raging forex crisis. However, given the fact that the Bulgarian economy was further depressed, this move would put additional pressure on the real sector and the government budget. In actual fact, it will not prevent a further deepening of the financial crisis and compensate for the delay in structural reforms in the banking system and the real economy.

In addition to changes in the basic interest rate the BNB made changes in other interest rates as well. These movements were carried out through the instruments of commercial bank refinancing and were aimed at monetary restriction in line with the movements in the basic interest rate.

Refinancing in National Currency

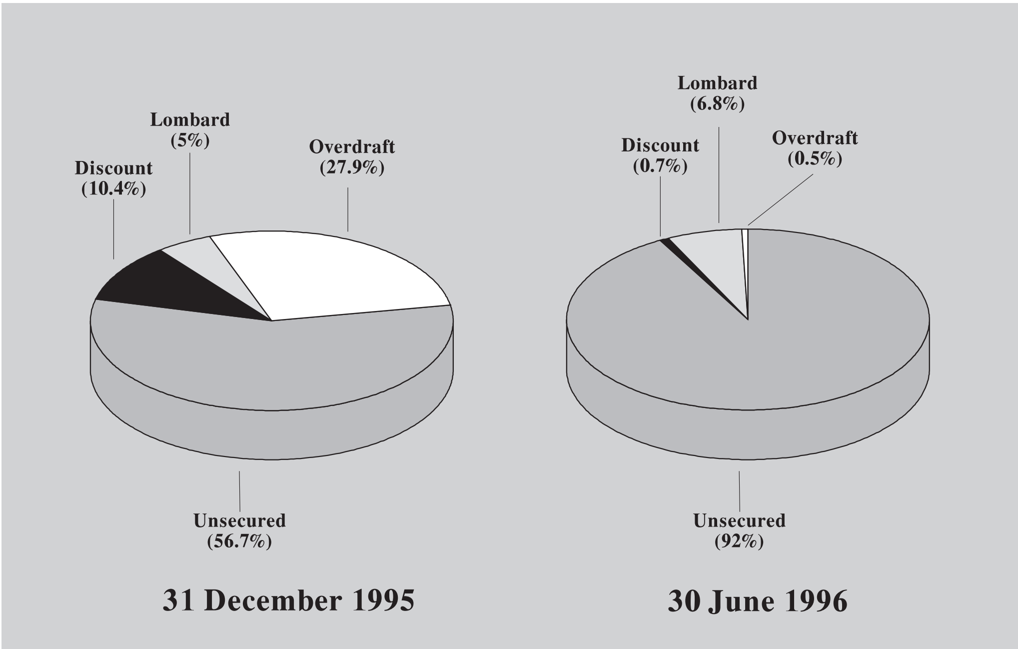
By the end of June 1996 funds extended by the BNB to refinance commercial banks totaled BGL 57,570 million, an increase of 2.85 times compared with end-1995 refinancing which had totaled BGL 20,171 million.

Of the 47 commercial banks, 12 banks (25%) were refinanced in levs by the BNB. Structurally, the share of unsecured loans was the largest (92%), followed by Lombard loans (6.8%) and discount loans (0.7%).

Unsecured Refinancing

The severe liquidity deficiencies which had occurred in several commercial banks in 1995 year-end were not overcome during the first six months of 1996. In fact, they took on an avalanche-like character. The sizable unsecured refinancing of the eight banks experiencing severe liquidity deficiencies did not do much to actually improve their liquidity. This in turn disturbed the balance of market distribution of free monetary flows between commercial banks, thus threatening a disruption in the interbank settlement system. After it had become clear that further extension of unsecured loans under Article 30, para. 3 of the Law on the BNB was inefficient both for banks with severe liquidity problems and for the stabilization of the banking system, in May and June BNB had to declare five commercial banks insolvent. By the end of June 1996 unsecured loans extended to three of the banks declared insolvent amounted to BGL 28,773 million, or 54% of total commercial bank unsecured refinancing (BGL 52,932 million).

ACTUAL OUTSTANDING LOANS OF COMMERCIAL BANKS



Source: BNB.

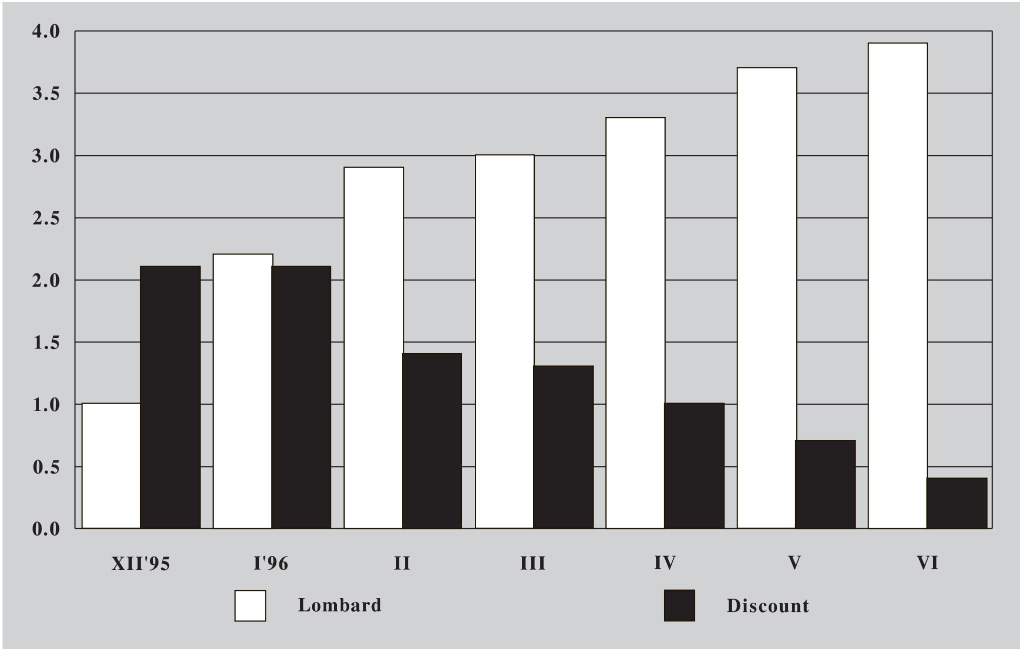
Lombard Loans

Between January and June 1996 the amount of Lombard loans increased compared with 31 December 1995. Lombard loans were disbursed to six commercial banks with temporary liquidity deficiencies. Of all 48 Lombard loans, totaling BGL 7,917 million, 32 loans of BGL 4,972 million were repaid.

As of 30 June 1996 outstanding Lombard loans totaled BGL 3,944 million, and structurally they were allocated as follows: overdue loans against a pledge of commercial paper, 7.6%; loans extended against a pledge of government securities issued under Regulations No. 5, 5.6%; and loans against a pledge of long-term government bonds, 86.8%.

LOMBARD AND DISCOUNT LOAN DYNAMICS

(billion BGL)



Source: BNB.

Discount Loans

Between January and June 1996, 29 promissory notes of BGL 2,584 million were discounted – all of them for purchase of wheat under the procedure and terms of CM Decree No. 140 of 1995.

Thirty-eight discount loans totaling BGL 4,278 million were repaid. Compared with the same period of 1995, the number of discount loans fell by eight amounting to BGL 296 million. The debt on discount loans decreased by BGL 1,694 million from 31 December 1995.

As of 30 June 1996 outstanding discount loans totaled BGL 439 million, including BGL 409 million unpaid at maturity due to lack of funds on the current accounts of two banks.

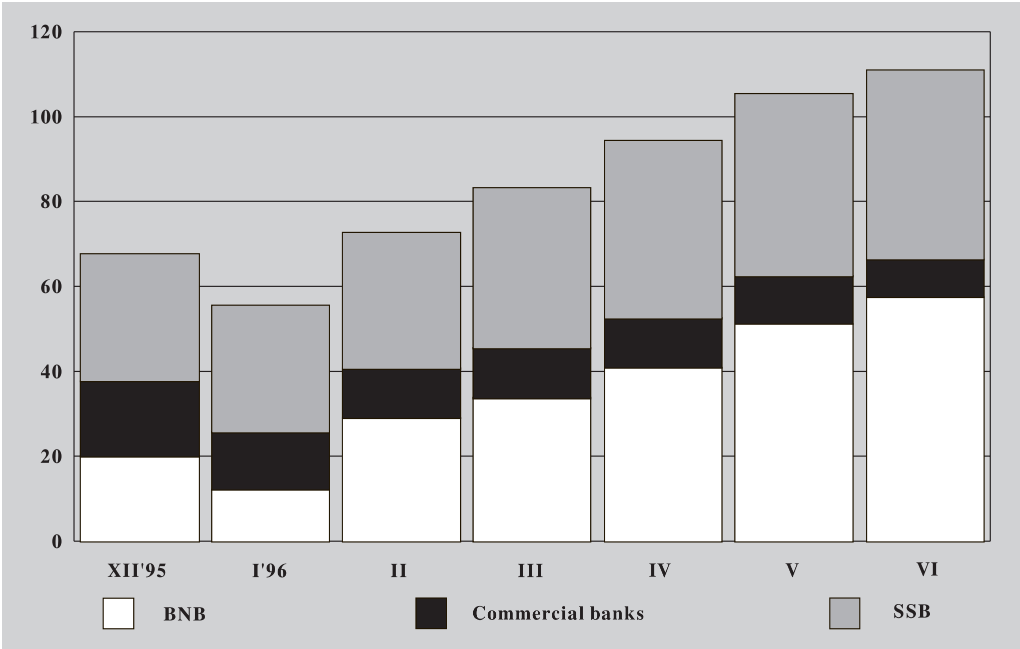
Open Market Operations

During the first half of 1996 open market operations were extensively employed by the BNB as a major monetary policy tool to regulate reserve money and liquidity in the banking system.

By the end of the reporting period, the absolute amount of government securities in the BNB portfolio totaled BGL 74,116 million. Government securities of BGL 14,393 million were acquired at primary auctions. During the period under review, outright sales totaling BGL 23,038 million were effected. Repo-agreements were most extensively employed in the open market, consistent with the BNB's restrictive monetary policy. The employment of three interest rate levels in reverse repurchase agreements with a term of up to six days and introduction of auctions with a term of over six days improved the efficiency of this monetary policy tool in regulating liquidity in the banking system. On the other hand, by mid-April reverse resale agreements were concluded at regular auctions with a term of 14 days. By the end of April, the auctions were stopped, and operations to cover liquidity deficiencies were specified in line with the current state of banks.

VOLUME OF MONEY MARKET

(billion BGL)



Source: BNB.

Minimum Reserve Requirements

During the first half of 1996 minimum reserve requirements continued to be employed by the BNB as a monetary policy tool aimed at ensuring liquidity on attracted funds and regulating the volume of money and credit in the economy. Commercial banks' minimum reserve requirements (SSB excluded) with the BNB were decreased by one percentage point (from 9.5% to 8.5%), provided that the released funds would be entirely transferred to the Bank Deposit Insurance Fund to cover contributions due as per Regulations No. 1 of the BNB, and remaining funds would be used for purchase of government securities by the BNB.

In the period under review, 60% of actual cash holdings of commercial banks and the SSB were again recognized as minimum reserve requirements. As of 15 March 1996, a new system of minimum reserve requirements was introduced, with a view to more efficiently employ this tool in regulating bank liquidity. The BNB principal requirement is to hold minimum reserves required in levs on commercial banks' current accounts with the BNB, and to maintain an average daily amount equal to the minimum reserves required for the month, calculated on the basis of balance-sheet data from the previous month. This enabled commercial banks to use daily a portion of the funds on minimum reserve requirements in settlements. In accordance with the new system, commercial banks are allowed (as per the March regulation) to hold in foreign exchange up to 25% of reserves on attracted funds. In compliance with the July 1996 regulation, the minimum required reserves on all attracted funds (in levs and foreign currency) are to be transferred only in levs. As a result, minimum reserve requirements will play the role of an automatic regulator against dramatic depreciation of the lev.

To go into effect under the March regulation, the BNB abolished the preferential interest rate of 1/2 of the basic interest rate accrued on banks' minimum reserves in levs held with the BNB in an amount equal to the value of the book-entry government securities sold to individuals and legal entities (nonbank enterprises).

The interest rate accrued on minimum reserve requirements held in levs was 10% per annum, and since April 14% per annum (following the merger with the current account in a common account).

The rise of the basic interest rate from 67% to 108% per annum was followed by an increase in interest rates on minimum reserve requirements from 14% to 20% per annum.

As of 28 June 1996, minimum reserve requirements totaled BGL 64,733,099,000, a 24% increase versus the January – June period of 1995.

Refinancing in Foreign Currency

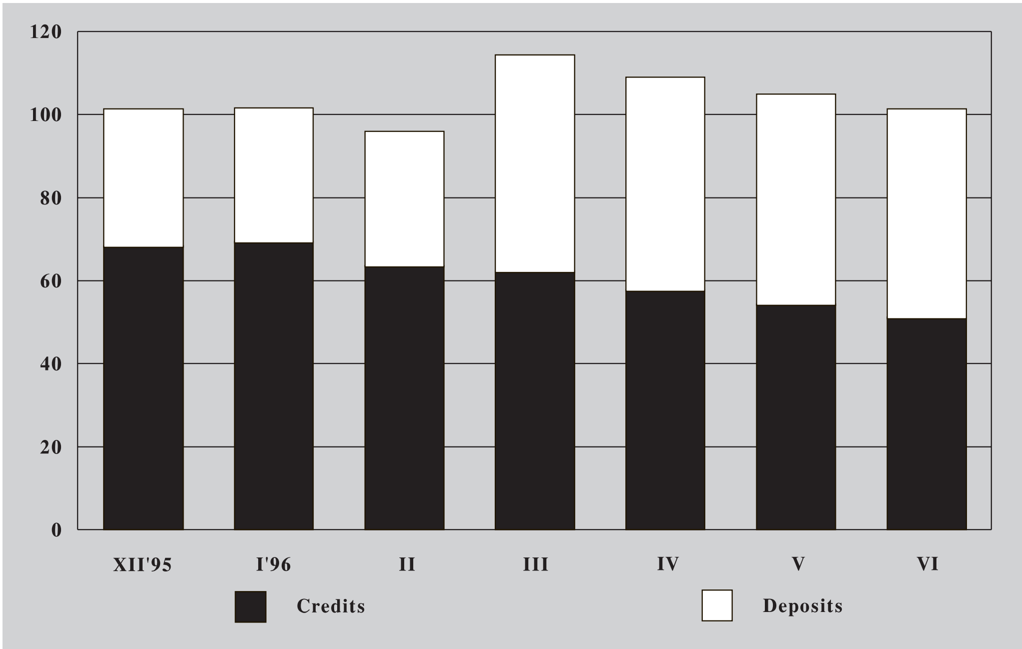
Due to the absence of a special financial institution to fund import/export operations, the BNB failed to significantly reduce refinancing in foreign currency over the first half of 1996.

Foreign Exchange Credits

The BNB continued to extend three-month discount loans to commercial banks against a pledge of commercial paper (promissory notes). However, the volume of foreign exchange credits was gradually decreasing from USD 68.2 million at the end of 1995 to reach USD 51 million by the end of June 1996 (a decrease of USD 17.2 million or 1/4). Forex credits were denominated in US dollars and Deutschemarks, and the interest rates applied on them remained unchanged, at 9% per annum.

REFINANCING OF COMMERCIAL BANKS IN FOREIGN CURRENCY

(million USD)



Source: BNB.

Foreign Exchange Deposits

In addition to forex credits, the BNB continued to extend forex deposits to commercial banks. The volume of BNB forex deposits was relatively smaller in January and February (USD 30 million on average in each month) and bigger in the March – June period (USD 50 million on average in each month). By the end of the period under review forex deposits totaled USD 50.3 million against USD 33.2 million at the end of 1995, an increase of USD 17.2 million or 51.7%. Forex deposits were denominated in US dollars and Deutschemarks. Interest rates on forex deposits matched their level of last year: between 6.5% and 8% per annum on USD-denominated deposits and 7% per annum on DEM-denominated deposits.

Interrelationships between Commercial Banks

Credit Resources

By the end of June 1996 debt on interbank deposits totaled BGL 53,473 million, an increase of BGL 5,944 million (12.5%) from end-1995. Despite the increase, a definite downward trend appeared in the interbank market due to shaken confidence among commercial banks, a result of deteriorated bank liquidity.

Interbank Market Interest Rate

Analysis of interbank market interest rates indicates a sustainable increase by the end of the first half-year. The spread over the basic interest rate on funds exchanged in the interbank market reached 4.6 percentage points, while it moved within the range of 3 to 3.5 percentage points in 1995. This reflects the increasing shortage of funds in the banking system due to eroding confidence in banks. Despite the high cost of resources, ten banks could not receive funds in the interbank market (against four banks in 1995). On the other hand, the number of banks extending funds daily averaged between two and seven, while in 1995 they were 15 – 20. A few banks having free funds opted for investment in repo-agreements with the BNB instead of the risky interbank market.

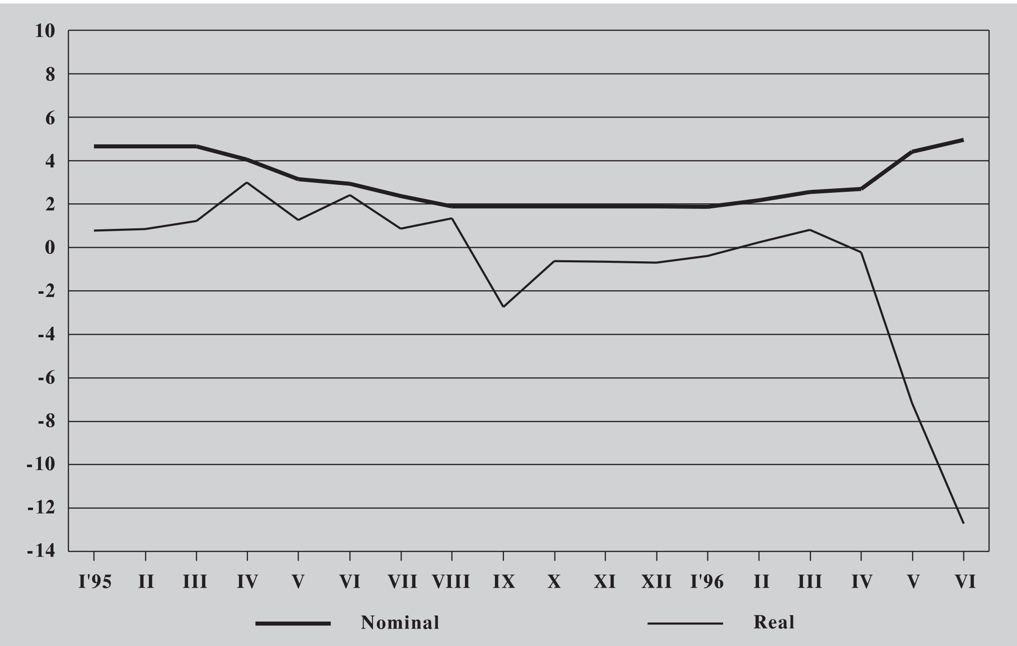
5. Interest Rates on Commercial Bank Operations

During the first half of 1996 commercial bank rates followed the increase in the basic interest rate. The gap between the basic interest rate and commercial rates also increased, which is indicative of a more independent interest rate policy pursued by commercial banks.

Between January and April 1996 the average interest rate on one-month time deposits in levs increased from 1.9% to 2.7%, following the increase in the basic interest rate. In real terms, it stood around nil (slightly positive in February and March and slightly negative in January and April). Over this period, the interest accrued approximated 0.5% which was insufficient to maintain the stability of deposit base, given the eroded confidence in the lev and banking system.

MONTHLY INTEREST RATES ON ONE-MONTH DEPOSITS

(%)

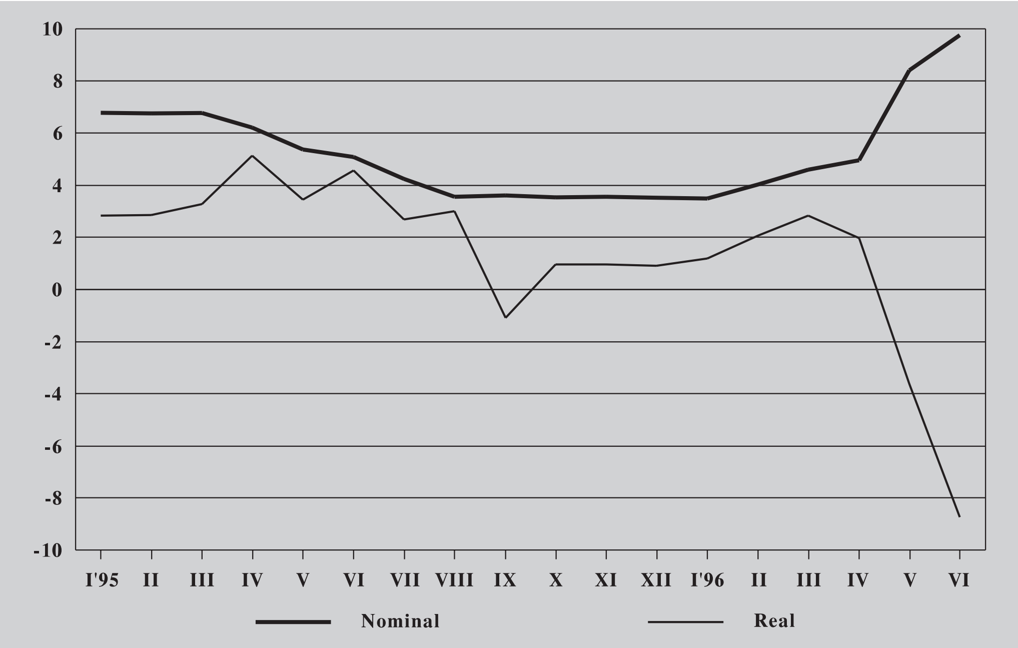


Source: BNB.

In May and June the nominal growth of deposit rates lagged far behind the accelerating inflation growth. As a result, savers lost approximately 19% of their savings in real terms, or two times more than the profit received from interest during the first half of 1995. Negative real interest rates additionally contributed to the enhanced withdrawal of funds from banks, thus further deteriorating the liquidity of a number of banks.

MONTHLY INTEREST RATES ON SHORT-TERM CREDITS

(%)



Source: BNB.

During the first four months of 1996 the monthly interest rate on short-term lev credit rose from 3.5% to approximately 5%. In real terms it stood positive, with the cumulative interest rate reaching 8.4%. The level attained is 6.5 percentage points lower than in 1995 but may be considered high for the possibilities of the real sector.

In May and June lending rates became negative in real terms despite the nominal growth. In real terms the cumulative interest rate was negative, exceeding 12%. Overall for the first half of 1996 it was -4.7%, or 30 percentage points below the extremely high level registered in the first half of 1995. However, this cannot be assumed as a factor encouraging economic activity, given the general macroeconomic and financial instability and dramatic shortage of loanable funds.

Between January and June 1996 the interest rate differential between deposit and lending rates broadly widened, from 1.6 percentage points in January to 4.7 percentage points in June. The difference increased most significantly when the basic interest rate was raised to 108% simple annual rate. The increase in the interest rate differential reflects the deteriorated state of commercial banks which had to cover through it the losses incurred from the increasing number of nonperforming credits due to a new stagnation in the real sector. The increased interest rate differential adds to the growing instability of the banking system, prompting a fast differentiation in the financial state of banks.

6. Issuing Activities

Volume of Issues

By the end of the first half of 1996 currency in circulation, including currency in the vaults of commercial banks and outside them, reached BGL 77.5 billion, an increase of BGL 8.9 billion (13%) compared with end-1995.

Currency in circulation growth lagged behind broad money growth by 7.1 percentage points.

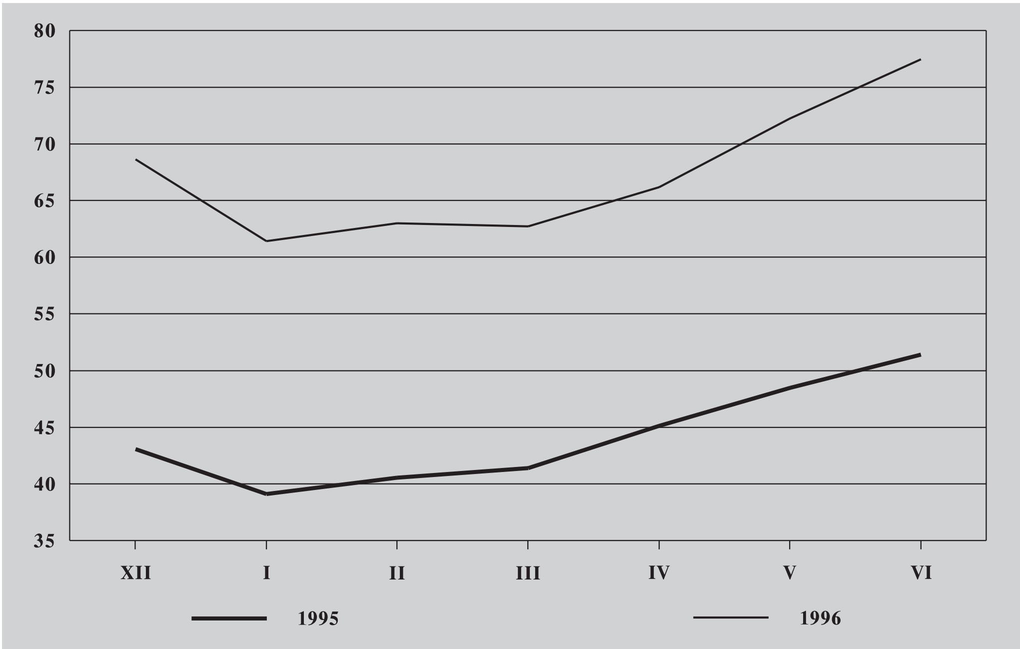
The share of currency in circulation relative to broad money decreased from 11.8% at the end of 1995 to 11.1% by the end of June.

The growth rate of currency in circulation lagged behind consumer price growth by 3.5 times.

The reluctance of individuals to hold cash during the first half-year, as well as the greater BNB activity in issuing currency during the second half-year were as clearly displayed as in the previous years.

CURRENCY IN CIRCULATION
(outside BNB vaults)

(billion BGL)



Source: BNB.

An analysis of developments in currency in circulation indicates a decline from the end of 1995 through January 1996. In February and March, the currency in circulation slightly increased, reaching BGL 62.7 billion by the end of the first quarter, a decrease of BGL 5.9 billion from the end of 1995.

During the second quarter of 1996, the amount of currency in circulation increased by BGL 14.8 billion, indicating a growth of BGL 3.5 billion in April, BGL 6 billion in May, and BGL 5.3 billion in June. This rate of growth reflects basically the increased nominal incomes of individuals as a result of updated salaries and pensions.

Other factors behind the increased currency in circulation were: the insolvency of several banks; delays in the settlement system due to liquidity problems; and the tense forex market in May and June.

Eroded confidence in the banking system coupled with the problems in the settlement system forced companies to service their turnover in cash, which also added to the increased amount of currency in circulation.

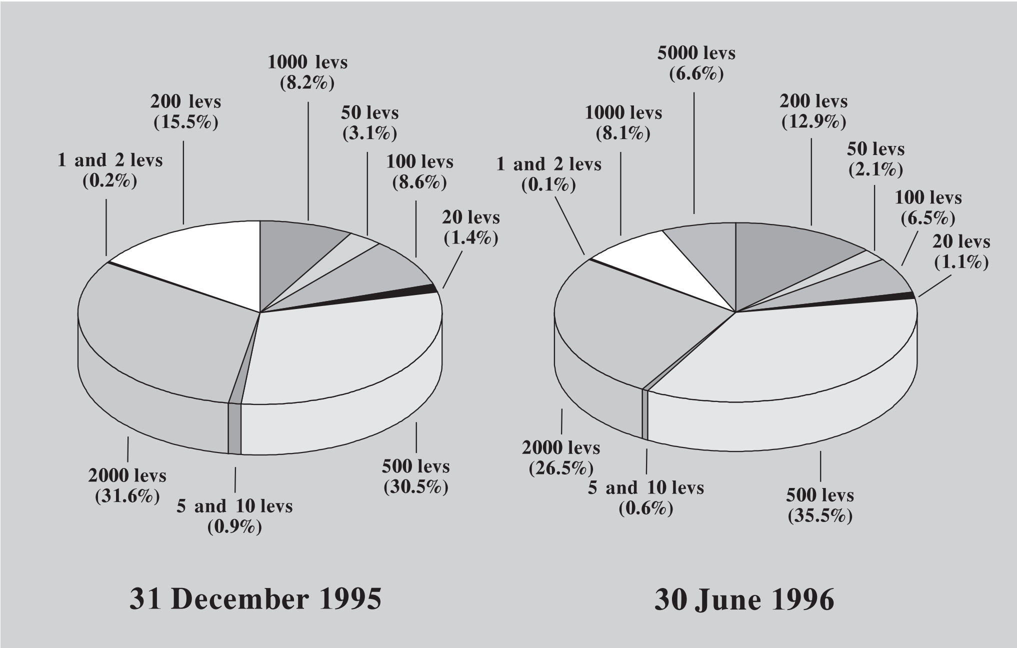
Cash in the vaults of commercial banks totaled BGL 7.2 billion against BGL 7 billion by the end of 1995. Data indicates that commercial banks make efforts to improve the management of cash in their vaults by operating with minimum cash, irrespective of inflationary processes and liquidity squeezes in certain periods of time.

As a result of BNB issuing activities and commercial bank policy concerning cash holdings, currency outside banks reached BGL 70.3 billion by the end of the reporting period, a growth of BGL 8.7 billion from 1995 year-end, or 14.1%.

Denomination Composition

Changes occurred in the composition of currency denominations compared with end-1995. Banknotes of higher denominations (BGL 500, 1000, 2000 and 5000) proved to be more convenient. By the end of the period under review high denomination banknotes accounted for 76.7% of the total value of denominations against 70.3% in December 1995. The share of these denominations in the total amount of banknotes comprised 19.7% against 14.1% at end-1995.

DENOMINATION COMPOSITION IN BANKNOTE ISSUE*



* Data is based on values.

Source: BNB.

The BNB continued to gradually withdraw old-design banknotes after normal wear. BGL 1, 2, 5 and 10 banknotes (1962 and 1974 issues) were more intensively withdrawn but they will be legal tender until 31 December 1996. These banknotes will be exchanged until the end of 1998 only at BNB tills.

The “average” banknote in circulation by the end of the first half-year had a face value of BGL 148 against BGL 128 at 1995 year-end. The increase in the face value of the “average” banknote in circulation was a result of higher denominations in circulation, on the one hand, and the smaller number of banknotes in circulation on the other. Compared with 1995 year-end, their number fell by some 10 million during the reporting period, due basically to the withdrawal of worn banknotes of lower denominations.

During the first half of 1996 BNB issuing activity was performed in conditions of continuously escalating inflation. To meet the needs of currency in circulation, on 17 June 1996 the BNB put into circulation a banknote of BGL 5000 nominal value.

Coin Issues

In February 1996 the Board of the BNB approved the mintage of four coins with a nominal value of BGL 1,000, issue 1996, in commemoration of Bulgaria’s association with the European Community, the Winter Olympic Games in 1998, 120-th anniversary of the April Uprising and Bulgarian navigation. In accordance with Article 25 of the Law on the BNB, the Council of Ministers approved the nominal value, subject, shape and design of the following silver coins: “Kaliakra,” “St. Ivan of Rila” and “Speed-skating.”

Precious Metals

By the end of June 1996 the BNB gold reserves were 1,031,222 troy ounces.

The BNB purchased precious metals from domestic producers and gold coins from individuals. At the same time, the needs of domestic consumers were met by circulating precious metals in accordance with the established procedure.

PRECIOUS METAL STOCK IN THE BNB

(in troy ounces)[1]

Indicators	31 December 1995	30 June 1996
Gold reserves of the BNB[2]	1 031 222	1 031 222
Circulating precious metals[3]		
Gold	51 000	56 496
Silver	530 548	511 906
Platinum	11 949	12 038

[1] One troy ounce is equal to 31.10348 g.

[2] The gold reserves are in bullions, stock market standard.

[3] The circulating precious metals include gold, silver and platinum of standard type (bullion, strip and officially minted coins).

Source: BNB.

7. Foreign Exchange Policy

During the first half of 1996 BNB foreign exchange policy, an integral part of its monetary policy, was crucial to the selection of monetary instruments. Further weakened confidence in the banking system against a background of continuing delay in restructuring of the real and banking sectors hampered the BNB in its efforts to revive lev credibility by overall monetary policy tightening. At the same time the rapid decline in forex reserves, prompted by large foreign debt payments, capital flight and seasonal factors, gradually prepared the ground for much stronger speculation against the lev. After mid-April, it got out of hand; consequently the lev plunged, although the forex market was significantly narrowed.

The 1996 forex crisis occurred after a relatively favorable year in terms of growth, rate of inflation, degree of stability of the exchange rate, level of unemployment, and the reversal of deterioration in the proportion between final and investment consumption in GDP. The lack of reforms in the real sector, however, did not make exploiting the financial stability provided by monetary tools alone possible. Under these conditions, financial stability was threatened again, giving way to further disequilibrium between demand and supply in the forex market.

Pressure on the lev in the early year was consistent with a seasonally increased demand for foreign currency for import payments. After sizable foreign debt payments in January, the central bank's assets in foreign currency equaled the amount of forthcoming payments on the foreign debt service due by year-end – a formal coincidence of two values of different dynamics which however had the impact of inciting speculation. At the same time the ratio of Bulgarian commercial banks' foreign currency assets to the country's foreign currency deposits dropped below unity which made them more vulnerable to massive withdrawals.

The forex crisis passed through two stages. During the first stage, between January and March, forex reserves were channeled from the central bank to commercial banks. During the first half of January, the lev appeared to be more strongly undervalued based on exchange bureaus' quotations compared with interbank quotations. Exerting serious impact on final investors in foreign currency (the population was slow to succumb to forex psychosis, pointing against its anticipating a forex crisis) could have involved commercial banks in speculative operations on a large scale. Commercial banks, besides setting their expectations about a prospective and profitable use of forex assets in privatization, were faced with the necessity to improve their own positions, given the overall pressure on the banking system, as well as compensate for payments made abroad from their own reserves.

The forex market concern over foreign debt service, combined with fears about the country's balance of payments and the need to maintain a stable foreign currency position, led to enhanced demand for forex assets. Thus in the context of overall decline in foreign currency assets of commercial banks and the BNB, and reduced foreign currency deposits in the country, such an important component of the aggregate foreign currency position of commercial banks (those holding assets abroad) as the ratio between their total reserves in foreign currency and the amount of foreign currency deposits in the country remained relatively stable. The modest reduction of the above ratio in late 1995 and early 1996 was restrained; in the spring of 1996 this coefficient improved and recovered the level attained in the autumn of 1995. Channeling reserves from the central bank to commercial banks at the first stage of the crisis was enough to cover commercial banks' payments abroad and contributed to a relatively modest reduction in foreign currency deposits. In January and March, private companies' deposits even increased; an increase in the state companies' deposits also occurred in January. Withdrawal of foreign currency deposits by individuals as at mid-March did much to offset the growth in commercial banks' foreign currency deposits achieved in the last quarter of 1995 when pressure on the exchange rate boosted demand for foreign currency which, however, was then deposited with Bulgarian banks.

Although the country's international credibility was put on the line on the eve of the EBRD Annual Meeting in Sofia (mid-April), the second stage of the crisis started not before but after the meeting; consequently at end-April the central bank was forced to raise the basic interest rate in support of its considerably depleted forex reserves. Even setting a record high level, however, failed to counterbalance the impact of already starting and anticipated lev devaluation.

During the first quarter, foreign exchange policy moved along the lines of blocking demand against supply; therefore the guarantee of lev stability was no longer seen in the maintenance of forex reserves but rather in their use to ensure it. To prevent a jump in the exchange rate, anticipated for end-1995 but not actualized, during the first several months of 1996 the BNB was selling US dollars. It should be noted, however, that the BNB was an exclusive seller of foreign currency only in times of massive intervention whereas in all of the remaining days it operated in both directions, maintaining an effective interbank market despite reduced exchange of foreign currency among banks and their clients.

Following a relatively modest lev devaluation in the first quarter, the policy pursued went through severe trials at the second stage of the crisis as credibility in the national currency commenced to erode, resulting in a dramatic lev devaluation against foreign currencies. At this point foreign exchange policy had to switch from sliding devaluation to a halt and even reversal of the sharp devaluation against benchmark currencies. At this point the most reliable means to revive confidence in the lev – official forex reserves – were already significantly depleted. Monetary policy in general focused on the issue of preventing inflation from catching up with the rate of lev devaluation against foreign currencies.

The drop in official forex reserves made the country highly dependent on the progress in negotiations with foreign creditors and IMF financing was seen as a key factor for national currency stabilization by national and international financial and nonfinancial enterprises. External financing drawn in the beginning of the second half-year had the effect of halting the dramatic lev devaluation. In monetary terms, there are good reasons to assume that favorable effects will endure, supported on the one hand by the ratio of foreign assets of commercial banks and the country's foreign currency deposits recovering its autumn 1995 level, and the reversal, though insignificant, of the downward trend of the ratio between aggregate foreign assets in the banking system and foreign currency deposits in the country. Another prospect to lev revival is the likelihood that individuals and companies will come back to the market to offer their foreign exchange.

Forex Market

Foreign exchange supplied to the banking system and the market came primarily from metallurgy and the chemical industry (including soda, pharmaceuticals and cosmetics), engineering (ship building and foreign electronics companies), construction, cement, cellulose and paper industries, fur and leather industry, sea and air transport, tourism.

Foreign exchange was bought primarily by oil processing, the energy sector, petrol importers, as well as the electro-technical and printing industries, etc.

Foreign exchange was supplied and demanded by ferrous metallurgy, the tobacco industry, rail transport, petrol companies (including foreign), and leasing houses.

The volume of forex market transactions effected by the central bank (prior to deleting possible double entries) totaled USD 2.3 billion in purchases and USD 2.6 billion in sales. Compared with the first half of 1995 (a period of considerably increased supply of foreign exchange), the volume of purchases has contracted by one third. Reduction in the total volume of purchases led to a decrease in the volume of commercial banks' sales, though to a lesser extent, by one sixth. This, however, does not give ground to assume that the market is "on the decline" because there is a reduction relative to 1995 alone – the year of significant market expansion – whereas comparison between the period under review and each of the relevant periods since 1991 shows a considerable increase. In other words in 1996 the market could not match the unusually high parameters of 1995. Therefore if the reduction versus the pronounced 1995 performance is disregarded, the general trend of market growth for the five-year period is sustained.

FOREIGN EXCHANGE SPOT TRANSACTIONS

(million USD)

Volume	A. Bought	B. Sold	C. Balance
1. BNB with customers	91.4	305.2	-213.8
– domestically licensed commercial banks	46.6	41.9	4.7
– companies	19.7	6.1	13.6
– budget organizations	0.2	25.2	-25.3
– MF for foreign debt	-	231.7	-231.7
– other transactions with MF	24.9	-	24.9
2. Fully licensed commercial banks with customers	1292.7	1365.3	-72.6
3. Interbank, fully licensed commercial banks	432.7	445.5	-[1]
4. Interbank, BNB included (3+6A)	556.6	569.4	-[1]
5. BNB total (1+6)	215.3	678.8	-463.5
6. BNB with fully licensed commercial banks	123.9	373.6	-249.7
7. Intercorporate[2]	2.0	2.0	-
8. Total with customers (1+2+7)	1386.1	1672.5	-286.4

Note: Including today, tom value and spot transactions of commercial banks whose operations are reported for the needs of central exchange rate calculation.

[1] Some imperfections in reporting lead to a minimum difference between purchases and sales which are identical in the interbank market.

[2] The data is for the minimum volume of the market as currently monitored.

Source: BNB.

SHARE OF INTERBANK OPERATIONS AND BNB NET OPERATIONS IN THE FOREIGN EXCHANGE MARKET

(%)

Interbank turnover/forex bought from customers (commercial banks)	34.5
Interbank turnover/forex sold to customers (commercial banks)	32.6
Interbank turnover/forex bought from customers (commercial banks and BNB)	41.1
Interbank turnover/forex sold to customers (commercial banks and BNB)	34.1
Net BNB purchases/total purchases by BNB and commercial banks from customers	27.7
Net BNB purchases/balance of banks with customers	161.8

Source: BNB.

As evident from the data, if transactions are distributed by sector and double accounting of some transactions is eliminated, the overall contraction in the market volume cannot be as much a cause of concern as its uneven distribution. Within the biggest market sector – operations of fully licensed commercial banks with customers – the volume of commercial banks' purchases from their customers has declined by a third, and banks' sales to customers have decreased by a seventh. Both volumes, however, considerably exceed the amount of forex bought and sold in each of the years before 1995 and the difference is all the more significant given the fact that the amount of forex bought by commercial banks from their customers during the first half of 1996 greatly exceeds commercial banks' sales to customers in each of the years before 1995. The amount of foreign currency drawn by banks from their customers during the first half of 1996 was large enough to ensure excess over customers' average consumption of foreign currency, typical of comparable periods in each of the years after 1991 with the exception of 1995. Further, during the first half of 1996 the negative balance of fully licensed banks on their forex spot operations with customers (USD 72.7 million) and their positive balance on forex spot operations with the BNB (USD 249.7 million – negative for BNB) are smaller than the amount to which these banks' sales to customers in the reporting period exceeds sales during the first half in the years before 1995. This suggests that in spite of the reduced volume of forex inflow to banks from customers in the first half of 1996 as compared to 1995 it was still possible to wholly cover forex sales to customers by forex purchases from customers to avoid forex reserve outflow from the BNB to commercial banks (the latter outflow was nonexistent in the turnover between BNB and domestically licensed banks) at least in those cases when there was no need for the commercial banks to buy forex to meet foreign obligations. The opportunity was lost, however, both because the fall in forex sales to customers (i.e. forex purchases by customers) became increasingly inert relative to the level of forex consumption in 1995, and the loss of confidence in the lev and the banking system; this at a time of comparative accessibility to central bank's forex resources.

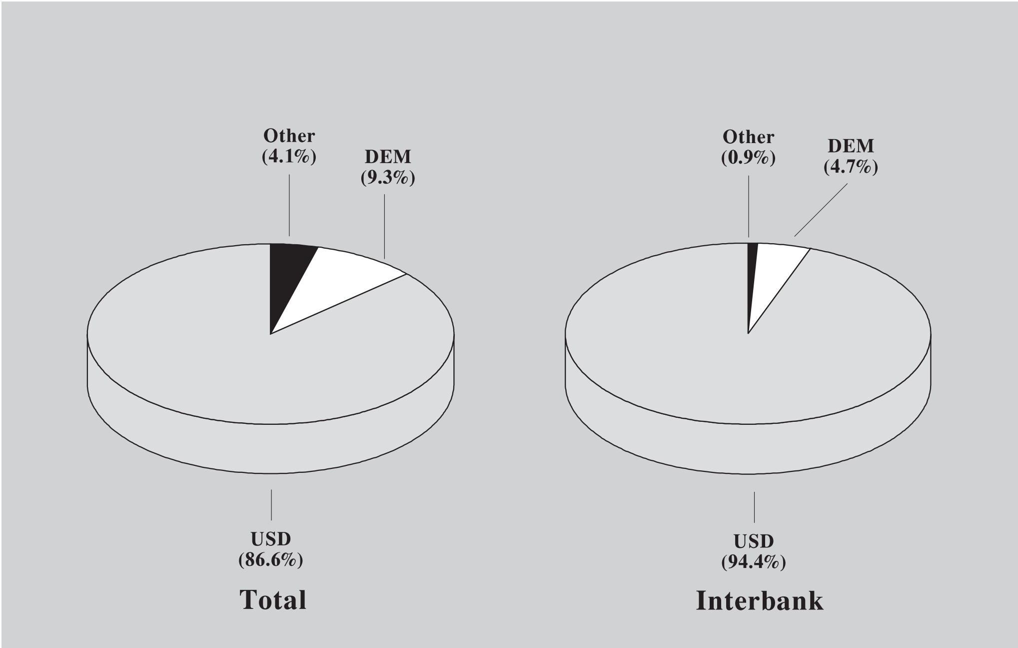
Another aspect of structural problems in the market is that the general decline in the volume of operations with customers should have proportionally pressured the volume of interbank transactions. However, the volume of interbank market (spot transactions between fully licensed banks as well as the two-way exchange of foreign currency exchanged between fully licensed banks and the BNB) matched the level attained in the first half of 1995. Commercial banks could preserve the volume of interbank operations and gain additional profit to offset the fall in profits resulting from the decreased transactions with final customers by a gradual change in the exchange rate, which would explain the increased turnover of similar amounts, without this being linked with endusers. To this end, the increase in amounts included in the interbank turnover by involving a greater portion of central bank reserves, would be efficient. In actual fact, the extent to which BNB purchases from fully licensed banks and BNB sales to them matched totaled USD 123.9 million, an increase of one third compared with the first half of 1995. (The balance of operations amounted to USD 249.7 million in net sales of foreign exchange by the BNB, three fifths less than in the same period of 1995 in absolute terms, when this balance showed net purchases of foreign exchange by the BNB.)

Purchases from fully licensed commercial banks (in the forex market statistics this group includes banks submitting information required for the daily central exchange rate fixing) remained a major source of receipts in the BNB forex reserves). However, both the volume and the share of this source fell from more than nine tenths in the first half of 1995 to less than two thirds in the first half-year of 1996. Purchases from other banks ranked second by significance. The volume of these purchases slightly exceeded that of the first half of 1995, while the share of this source accounted for more than a fifth of total BNB purchases.

In contrast to the previous year, BNB foreign exchange sales to fully licensed commercial banks more than halved all foreign exchange sales, indicating a fourfold increase relative to the first half of 1995. The sales effected to service the foreign debt increased by more than a quarter. They ranked second, accounting for a third of total BNB sales. The amount of sales to exchequer-supported organizations (the section "transactions with budget supported organizations" includes government administration offices, medical, educational and scientific organizations, national electronic media) decreased by approximately a sixth and the share halved. The several-fold decline in the volume of sales to the energy sector was due to decreased direct sales, while the needs for foreign exchange in this sector were met by the central bank's sales to commercial banks. During the first six months of 1996, BNB sales to other commercial banks (except fully licensed banks) almost matched the purchases from these banks in the first half of 1995 but they were less than purchases in the first half of 1996 which reflected the BNB surplus. The net purchases, although insignificant by amount (USD 4.7 million), approximated BNB gross sales of foreign exchange to these banks in the first half of 1995.

The US dollar retained its dominant position in the structure of traded foreign currencies in domestic forex market. The Deutschemark ranked second, with a certain decline in its share in interbank operations. The DEM-shares in purchases from customers and sales to customers matched more closely.

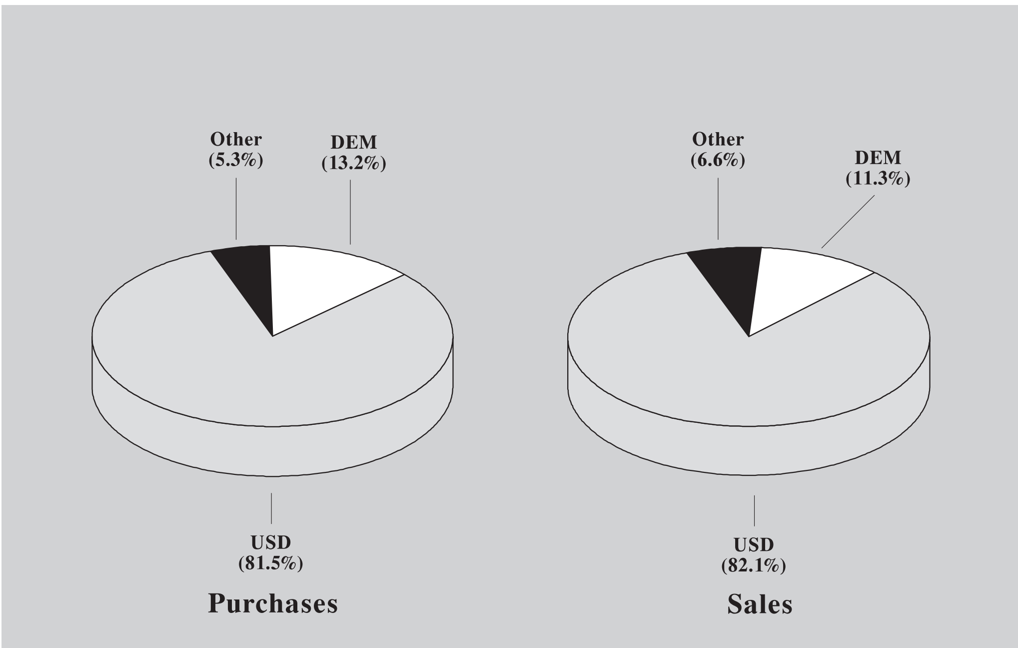
STRUCTURE OF FOREIGN EXCHANGE MARKET IN JANUARY – JUNE 1996



Source: BNB.

The small amount of intercorporate transactions for exchange of foreign currency against levs registered in commercial banks was attributable to deregistration of intercorporate transactions where one of the parties is a financial and brokerage house since early February. By the end of June, registration was restored.

PURCHASES FROM AND SALES TO CUSTOMERS IN JANUARY – JUNE 1996



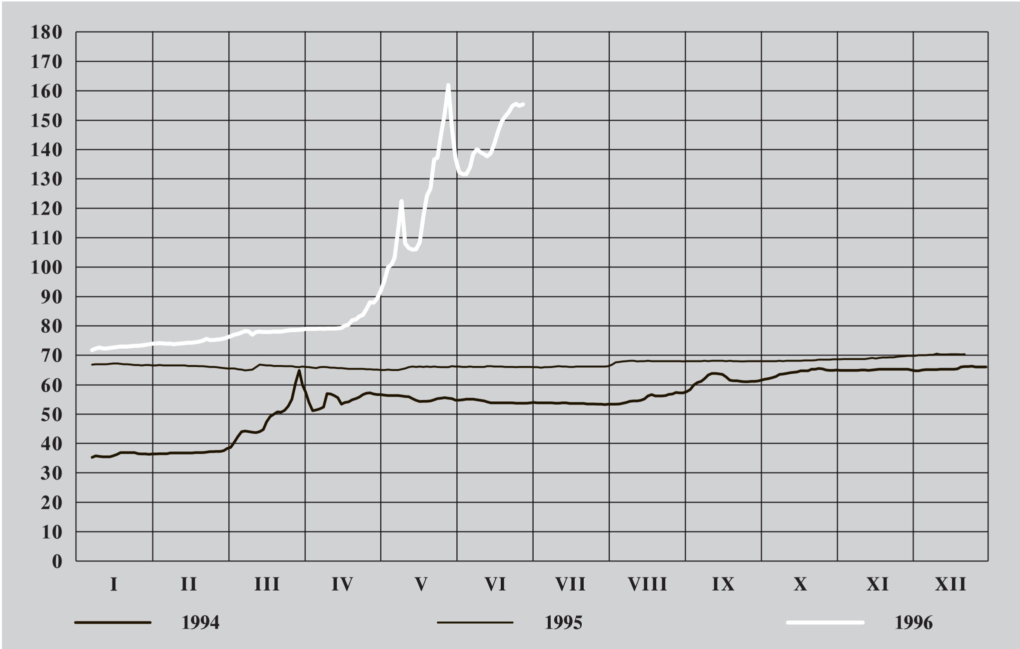
Source: BNB.

Exchange Rate

The estimated nominal effective exchange rate based on the basket of currencies (US dollar, Deutschemark, Japanese yen, French franc and British pound) constituting the special drawing rights (SDR) indicates a double devaluation of the lev against the SDR. The comparison is purely statistical since the lev exchange rate has not been pegged to this or another basket, and the change in the ratios of the lev to this basket is not a direct indication of the movement of effective foreign exchange resources or of monetary policy measures.

CENTRAL EXCHANGE RATE

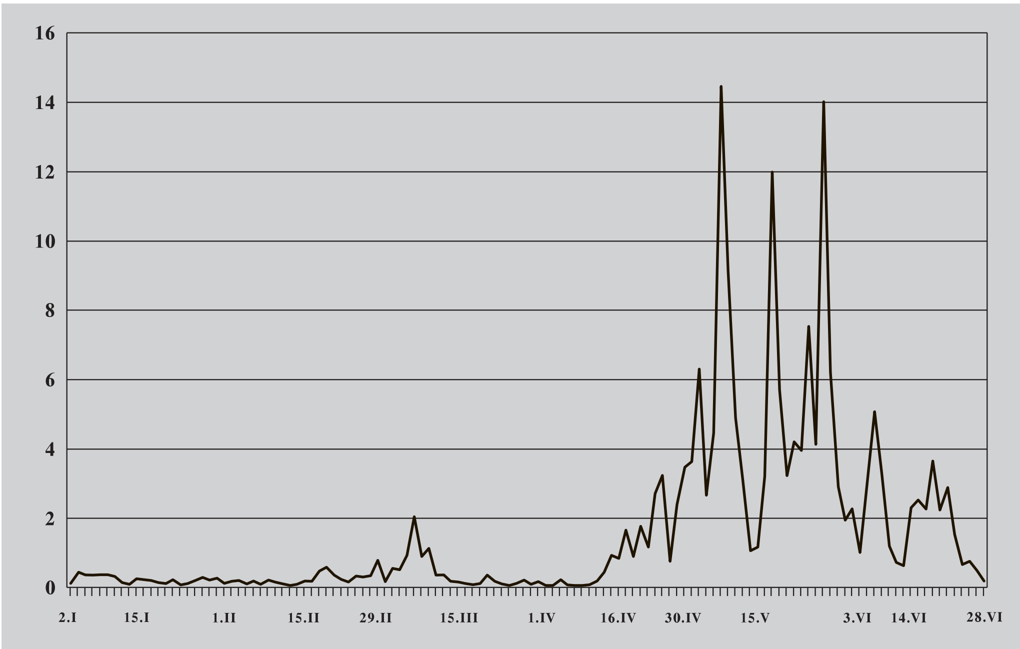
(BGL for 1 USD)



Source: BNB.

VOLATILITY OF THE BGL/USD EXCHANGE RATE IN JANUARY – JUNE 1996

(%)



Source: BNB.

The lev's value halved against the aggregate of foreign currencies, but this depreciation was less than against the basket of reserve currencies composing SDR. In the first half of 1996, weighted by Bulgaria's foreign trade in the first quarter of 1996 the exchange rate of the lev fell by 49.3% against the aggregate of currencies of all Bulgaria's trading partners included in the NSI export/import data and the BNB central exchange rate (59 countries and 57 currencies). The lev devalued by 49% as weighted by Bulgaria's exports and 49.5% as weighted by Bulgaria's imports. Against the currencies of Bulgaria's ten major trading partners, the lev lost 49.3% of its value (49.4% as weighted by volume of Bulgaria's exports and 49.2% as weighted by volume of Bulgaria's imports).

The exchange rate, or bilateral exchange rate, against an individual international currency varied following the changes in the ratios of individual foreign currencies. However in reserve currencies these movements were far less significant than the devaluation of the lev. Therefore, the curves of bilateral exchange rates against the benchmark international currencies and the effective exchange rate curve are similar. In the first six months of 1996, based on the central exchange rate of individual foreign currencies the lev depreciated by 54.5% against the US dollar and British pound, indicating a greater decline than against the SDR. The lev devalued less to the French franc (52.1%), Deutschemark and Japanese yen (51.6%) than against the SDR. The lev depreciated by 50.5% against the Swiss franc, a value close to the lev's overall decline against the aggregate of foreign currencies. Against the currencies of others of Bulgaria's major trading partners (most of which are not reserve currencies but their exchange rates influence bilateral foreign trade and trade with third parties, insofar as they can change relative price levels), the lev devalued by 56% against the Italian lira, 53.8% against the Greek drachma, 51.2% against the Ukrainian karbovanets, 48.2% against the Yugoslav dinar, 47.5% against the Macedonian denar, 45.9% against the Russian rouble, and 38.5% against the Turkish lira.

The volatility of the BGL/USD exchange rate was weak in the first stage of the forex crisis when forex reserves were transferred to commercial banks and BNB interventions in the forex market could not stop the devaluation of the lev but smooth it. In the second stage of the forex crisis, the volatility of the BGL/USD exchange rate increased due to the withdrawal of foreign exchange deposits.

Foreign Exchange Reserves

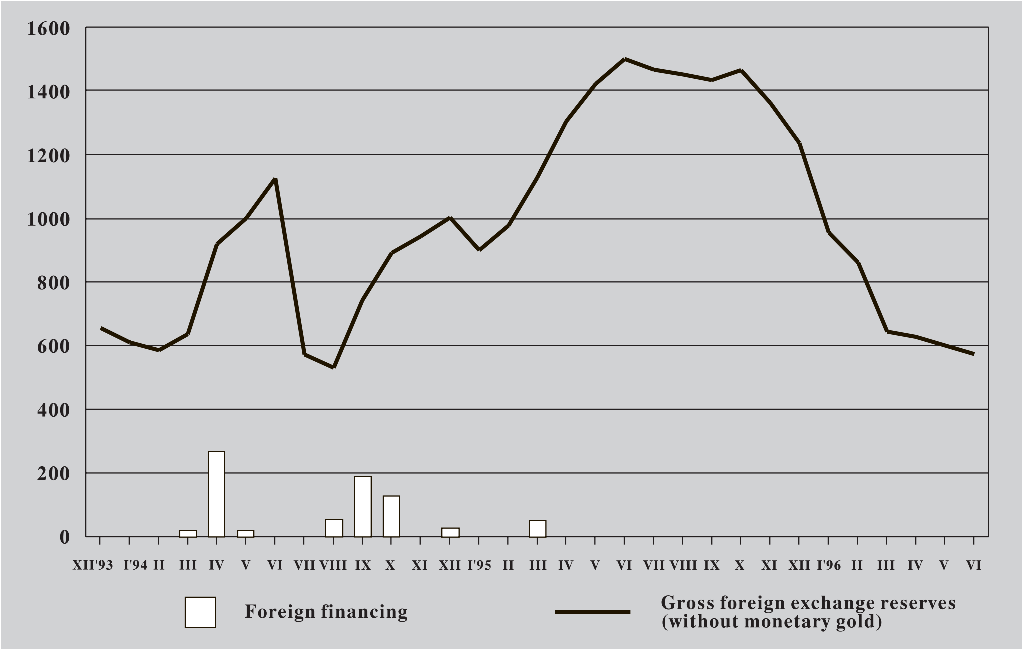
During the first half of 1996, developments in BNB gross foreign exchange reserves displayed the most unfavorable development since the early 90s. In only six months foreign exchange reserves more than halved: from USD 1.2 billion at end-1995 to USD 573.4 million. Since the start of market-oriented reform, Bulgaria's economy has never experienced such a decline: USD 632 million for six months, i.e. more than USD 100 million on average per month, or 53.6% for the six-month period.

The dramatic decrease in forex reserves pertains to a great extent to sizable foreign debt payments. To service the foreign debt, the BNB sold USD 231.7 million to the MF which accounted for 36.6% of the absolute decline between January and June 1996. In addition, USD 178 million were repaid to the IMF. At the same time BNB net forex sales to fully licensed banks, totaling USD 249.7 million, also contributed to this effect. This amount made up 39.5% of the decline in reserves. These net sales were made in support of the dramatically depreciating lev. Among the factors behind this decline are also: lack of official foreign financing for 15 months; insufficient receipts from the trade balance and balance of payments current account; intensive capital outflow abroad.

The depletion of central bank forex reserves is the major factor behind the reduced efficiency of BNB foreign exchange and monetary policies. With a view to regularly service the country's foreign debt, the downward trend in foreign exchange reserves needs to be reversed. Restoration and maintenance of official foreign financing, as well as attraction of foreign investment would facilitate the replenishment of reserves. This would enable the central bank to influence the foreign exchange and financial characteristics of Bulgaria's economy.

GROSS FOREIGN EXCHANGE RESERVES AND FOREIGN FINANCING

(million USD)



Source: BNB.

V. Bank Supervision

Unfavorable developments in the economy in the first months of 1996 appeared to be a catalyzer of the processes ongoing in commercial banks. During the first half of 1996, Bulgaria's banking system experienced the most severe crisis since the start of post-1989 reform. The turmoils both in individual banks and in the banking system in general was a result of inadequate management of commercial banks, reflecting a disregard of credit, liquidity and foreign exchange risks, failure to take account of the real situation, violation of the principles of caution, increased exposure to a few sectors of the economy and to specific clients. All these factors deteriorated the structure of the credit portfolio (an increase in the share of nonperforming credits), resulting in negative financial results and further decapitalization of commercial banks.

The ineffective legal framework concerning the collection of claims from unfair borrowers also added to the deteriorated credit portfolio. In addition the underdeveloped market impeded realization of securities.

The high margin between interest rates on extended loans and attracted funds cannot compensate for the losses, thus reducing the opportunities to service debt. Lending is limited while demand for loans is stable due to ongoing privatization.

Given the lack of market conditions it will be very difficult for banks having left regulation to return to it. In this setting, the managing bodies of commercial banks may be required to make changes in the policy being pursued. These changes would be successful only if the managing bodies resolve to encourage the development and implementation of a new strategy consistent with existing conditions. Until early 1996, the central bank was prevented from taking radical measures against insolvent banks or banks with deteriorating finances due to the lack of a legal framework concerning bank bankruptcy and deposit insurance.

1. Financial State of the Banking System

Effective supervision requires a broad information base and unified assessment criteria displaying precise and due information about any deviation from required norms. Accounting statements, reports under the bank regulations and other information about banks' credit portfolios, attracted funds, and off-balance sheet obligations are the basic indicators in bank supervision.

Methods for assessing bank performance based on ratios commonly applied in banking, were used.

Data on balance sheets and reports is summarized in two groups[29]:

• *Group I* includes banks whose balance sheet figure as of 30 June 1996 totals over BGL 45 billion: the big banks. This group is comprised of nine banks and makes up 75% of the banking system. The SSB is excluded.

• *Group II* includes banks whose balance sheet figure as of 30 June 1996 totals less than BGL 45 billion: medium and small banks. They are the remainder of banks in the country.

Group I includes Bulbank. The severalfold higher values of this bank's results in comparison to other commercial banks distort the picture for the entire banking system.

Consolidated Income Statement

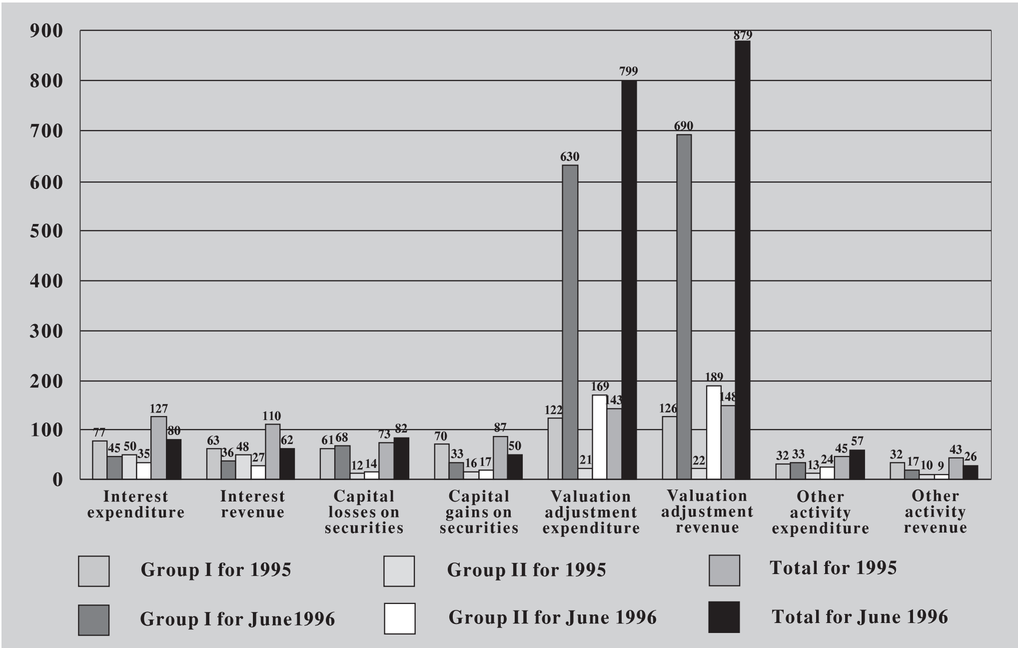
The income statement as of 30 June 1996 displays the following trends: total expenditures increased slower than total revenues resulting in smaller negative performance. Between January and June the cumulative negative financial performance (net) totals BGL 7.6 billion. The revenues and expenditures from valuation adjustments indicate the largest increase due to dramatically devalued national currency

[29] Data from commercial bank balance sheets and reports as of 30 June 1996 is displayed in the Appendix. Data for 1995 is based on final reports which explains the difference with data published in the 1995 annual report of the BNB.

against the US dollar and other convertible currencies. In the first six months of 1996 alone the cumulative revenues and expenditures from valuation adjustments exceeded by over 5.5 times those reported in 1995. Despite high interest rate levels, the valuation adjustments items increased their share to 86% in revenues and 79% in expenditures (against 38% and 37% respectively in 1995). The latter caused a decrease in the share of revenues and expenditures from banks' major activity, to 6% in revenues and 8% in expenditures (against 29% and 33% respectively in 1995).

SELECTED INDICATORS OF THE CONSOLIDATED INCOME STATEMENT OF COMMERCIAL BANKS

(billion BGL)



Source: BNB.

The cumulative surplus between revenues and expenditures from valuation adjustments, worth BGL 80 billion, completely covers the negative balance of BGL -18 billion from banks' major activity, i.e. revenues and expenditures on interest. As a result the positive balance between financial revenues and expenditures totals BGL 32 billion (against BGL 7 billion in 1995). This helped the positive financial performance of a number of banks, thus enabling them to increase allocated provisions, BGL 23 billion in the first half of 1996 against BGL 10 billion in 1995. It should be taken into account that a significant portion of valuation adjustments resulted from revaluation of uncollectable claims which seriously distorted the picture of reported results.

Compared with banks' own capital and assets, the profit of a number of banks was negative.

Consolidated Balance Sheet of Commercial Banks

Total balance sheet figure for all commercial banks as of 30 June 1996 amounted to BGL 1,419 billion, an increase of 58% from 1995. This was due to the dramatic devaluation of the lev. Conditionally, the banks may be divided into two groups:

• *Group I* – balance sheet figure totaled BGL 1,070 billion, an increase of 61% relative to 1995. According to this indicator, this group accounted for 75% of the banking system. The group includes Bulbank whose balance sheet figure as of 30 June 1996 comprises 33% (against 28% in 1995) of the banking system.

• *Group II* – balance sheet figure totaled BGL 350 billion, an increase of 51% relative to 1995.

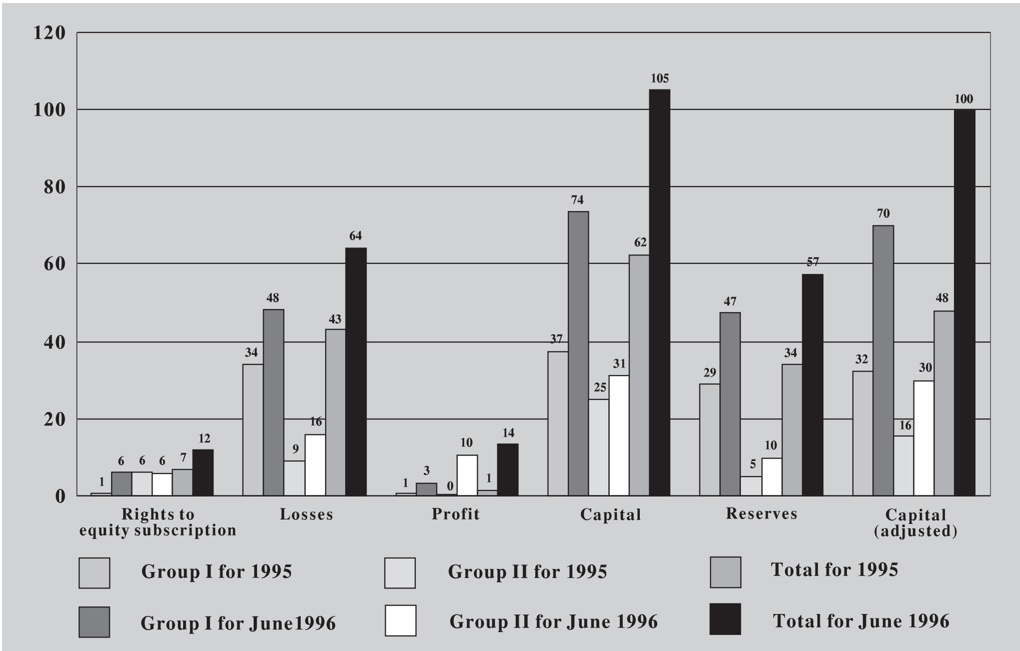
The capital of commercial banks was BGL 105 billion, a 68% increase, reaching 7.4% of the balance sheet figure. The capital of Group I rose by 97%, reaching

BGL 74 billion. The banks included in this group have 70% of total capital. It should be taken into account that Bulbank owns 22% of total capital in the banking system. The capital of Group II increased by 25%, reaching BGL 31 billion. The banks included in this group own 30% of total capital (against 40% at the end of 1995).

The increased claims on rights to equity subscription (71%) resulted in a rise in unpaid capital. Small and medium banks had a bigger share of unpaid capital, with a trend indicating a decrease. On the "Capital of Commercial Banks" Chart the indicator "Capital (adjusted)" is derived by subtracting the loss from and claims on rights to equity subscription from own capital.

CAPITAL OF COMMERCIAL BANKS

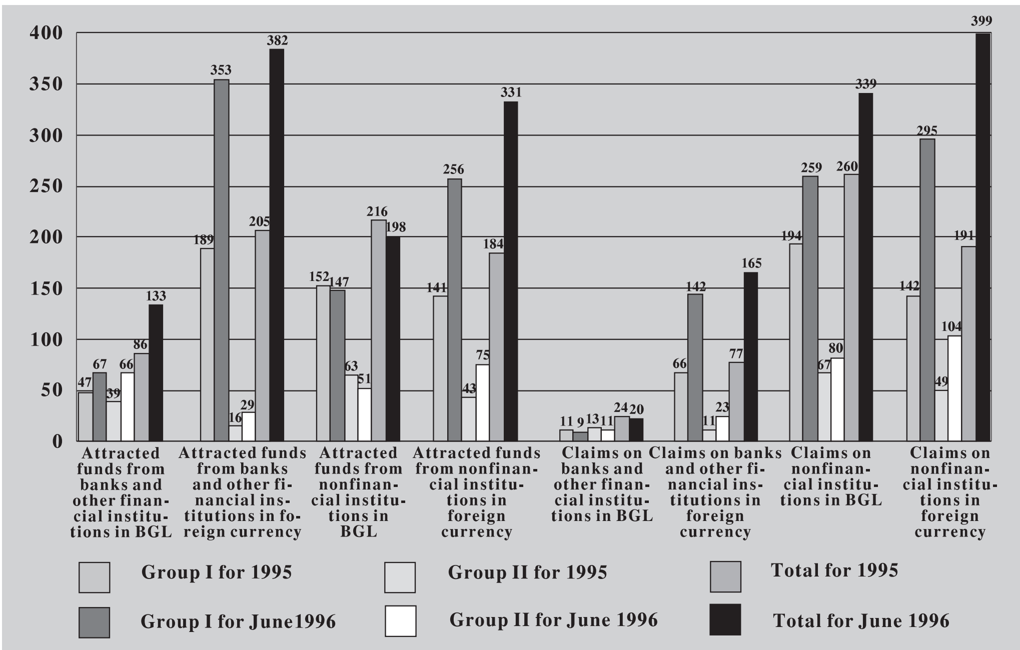
(billion BGL)



Source: BNB.

SELECTED INDICATORS OF THE CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS

(billion BGL)



Source: BNB.

A significant growth occurred in the “Capital (adjusted)” indicator: 109% against an increase in the balance sheet figure of 58%. This is attributable to the greater increase in the own capital rather than to a growth in “Losses” and “Rights to equity subscription.” The growth in own capital was a result of the absolute increase in the fixed capital and reserves, with no writing off of uncollectable credits. The profit accounted for the largest share (950%), although its absolute amount increased by a mere BGL 12 billion, while the growth in losses was BGL 21 billion in the first half of 1996.

If the other components of the capital base (determined as per Regulations No. 8 on the capital adequacy of banks) are taken into account, the process of decapitalization has not stopped yet.

Attracted funds, totaling BGL 1,044 billion, rose by 51%, while their share in liabilities fell to 74% versus 77% in 1995. The increase in attracted funds reflected the revaluation of attracted funds in foreign exchange, accounting for a 92% increase in absolute terms. As a result, attracted funds in foreign exchange made up 68% of all attracted funds by the end of June 1996 (against 56% in 1995). The slower rate of increase in attracted funds in levs, 9.8% (against an inflation rate of 47.5% in the first six months of the year), and enhanced growth in attracted funds in foreign currency, 83% (against a 120% depreciation of the lev against the US dollar) reflected liquidity squeezes in a number of banks, which led to an erosion of confidence in the banking system and withdrawal of sizable amounts of deposits and other accounts by individuals and companies.

Attracted funds from banks and other financial institutions indicated a higher growth (77%) than funds attracted from nonfinancial institutions (32%), reaching 49% of total attracted funds. Both the forex and lev components of attracted funds from banks and other financial institutions showed growth. This suggests that some banks attracted short-term expensive resources from financial institutions to regulate their liquidity (the effective average annual interest rate of funds received in the interbank market exceeded 190% versus 90% on time deposits by the end of the half-year). Funds, totaling BGL 100 billion, extended by the BNB and SSB to refinance commercial banks should be also mentioned.

In banks with liquidity deficiencies, the amount of attracted funds from banks and other financial institutions substantially exceeded those attracted from nonfinancial institutions. This reflects eroded confidence in these banks. The poor financial state of these banks coupled with the huge amount of attracted funds from banks and financial institutions (over BGL 200 billion) threaten the banking system with chain dependence. Attracted funds from nonfinancial institutions in some banks (mostly newly licensed banks) indicated a higher growth (95%) than funds attracted from financial institutions (55%). A shift of clients from banks with liquidity problems to other banks occurred.

Claims totaled BGL 924 billion, increasing by 68%. They made up 65% of the balance sheet figure against 62% in 1995. This adverse trend is attributable to the increased claims on nonfinancial institutions (77% of the total nominal increase); if the effect of Bulbank is neutralized, this share will increase to 93%. This prompted an increase in total risk component (an increase in risk assets).

Claims on banks and other financial institutions grew due to the increased forex component (114%), while the lev component decreased by BGL 3.3 billion, or 14%. The lev and foreign exchange components of claims on nonfinancial institutions rose by 30% and 109% respectively, but compared with end-1995 they fell in real terms.

During the first half of 1996, commercial banks reported an increase in loans later classified as doubtful or uncollectable as per Regulations No. 9 of the BNB. The increase in low-income assets is the major reason for the progressive decapitalization of the banking system.

Investment in long-term financial assets rose by 37%, reaching BGL 17 billion. The bulk of investments are in shares and partnerships. Exchange of stock packages (capital swaps) between banks and other financial institutions have occurred.

Commercial bank investment in nonfinancial assets increased by 5%, reaching

BGL 37 billion. Tangible fixed assets accounted for 94% of investment in non-financial assets.

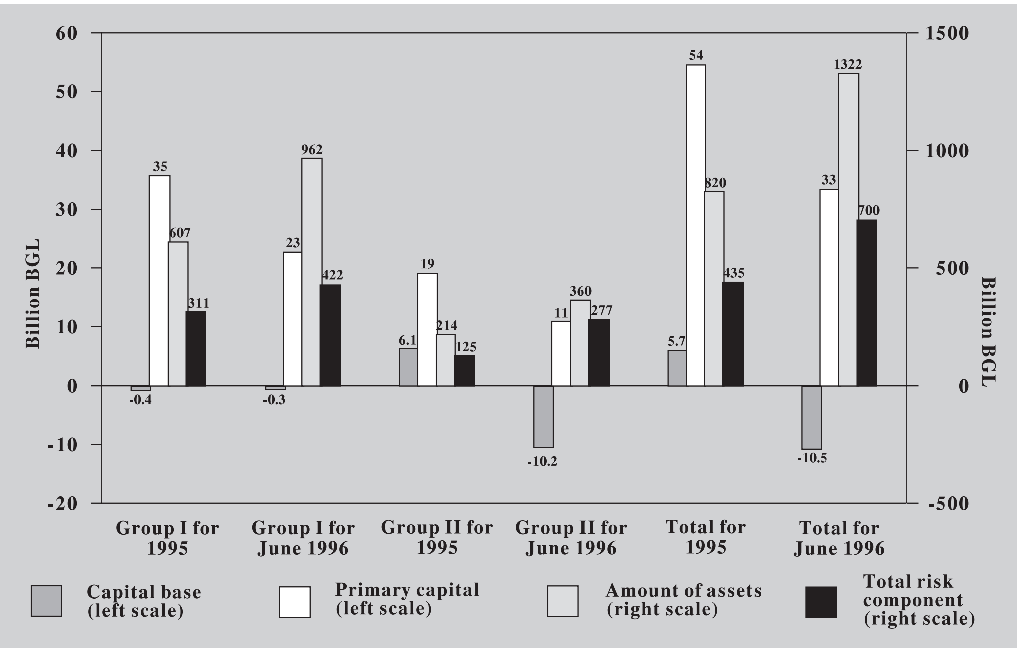
Future revenues rose by 33% to BGL 116 billion. This is mostly a result of the increased bad and doubtful loans, and interest accrued but unpaid on them.

Off-balance sheet commitments increased by 82% to BGL 1,028 billion. This led to increased commercial bank exposure. On-site examinations in commercial banks established a number of violations relating to unaccounted off-balance sheet commitments.

Solvency

Capital adequacy ratios under BNB Regulations No. 8. Total capital adequacy ratio was negative in the reporting period, against 1.3% in 1995. The change in this ratio reflected a reduction in the capital base of BGL 16 billion (to BGL -10.5 billion). Given the negative capital base, assessment of the ratios of total capital adequacy and degree of risk of the assets is irrelevant. Besides losses, reduced capital base may be associated with banks' participation in financial and nonfinancial institutions. Thus primary capital was reduced by 39% to BGL 33 billion. As a result primary capital adequacy fell from 12.5% in 1995 to 4.7% as at June 1996. "Total risk component" also deteriorated, increasing by 61% to BGL 700 billion. The smaller rise in "Total risk component" than that recorded in the "Asset amount" under Regulations No. 8 contributed to an insignificant improvement in the "Degree of asset risk" ratio. The banks with poor financial performance experienced substantial worsening of this ratio, indicating that the structure of commercial bank portfolios has deteriorated. The degree of asset risk in several of these banks was 85% and over.

RATIOS UNDER REGULATIONS NO. 8 ON THE CAPITAL ADEQUACY OF BANKS



Source: BNB.

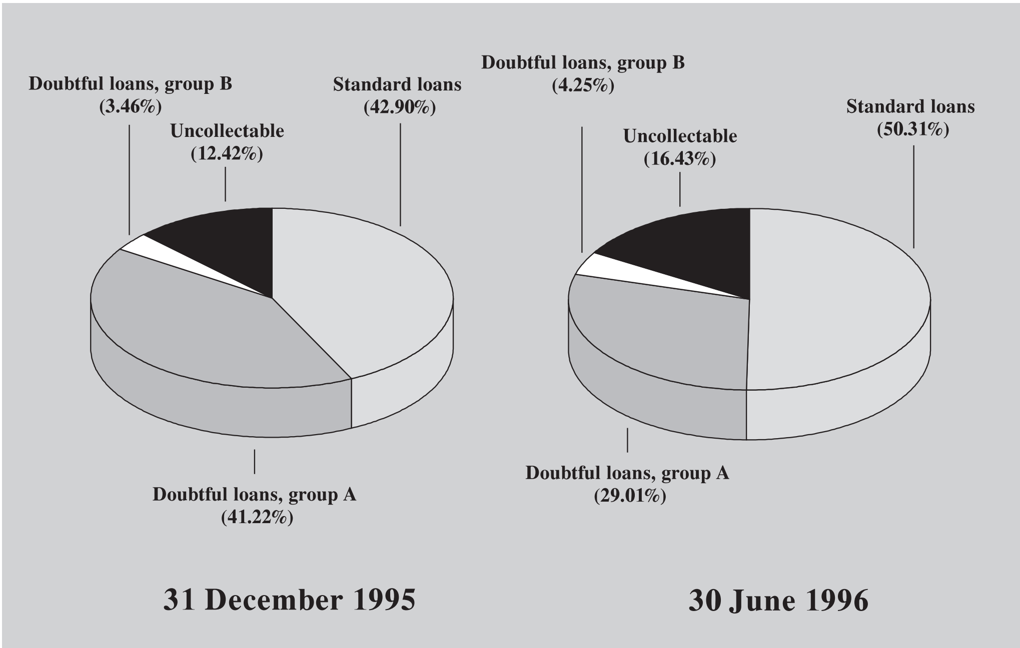
It should be borne in mind that this calculation of the capital base has not been adjusted for shortages in statutory provisions. The inclusion since 1 July 1996 of shortages in mandatory special reserves, which the banks must allocate pursuant to Article 26 of the LBCA and Regulations No. 9 of the BNB, in the calculation of the capital base would additionally worsen total capital adequacy. The deficiency of capital up to an 8% required capital adequacy ratio is BGL 216 billion, at a level of the total risk component as at 30 June 1996. The deficiency of capital in the banks with poor financial performance totaled BGL 223 billion.

Credit Risk

Loan classification and formation of mandatory special reserves under BNB Regulations No. 9. Bank loans rose by 45% to BGL 875 billion. Uncollectable loans increased most significantly (91%), followed by doubtful, Group B (78%), and standard loans (70%). Standard loans had the largest share (50%) in the total amount of loans. One important consideration in this respect is the large amount of renegotiated loans (sometimes repeatedly), which banks incorrectly reported as standard.

Also of note is the huge size of uncollectable loans, BGL 144 billion, and their high share, 16%. The ratio of uncollectable loans to capital (adjusted) fell by 13 percentage points due to an increase in the denominator but still remains high – 144%, that is commercial banks had a deficiency of BGL 40 billion in capital to cover their bad loans.

LOAN CLASSIFICATION UNDER BNB REGULATIONS NO. 9, TOTAL



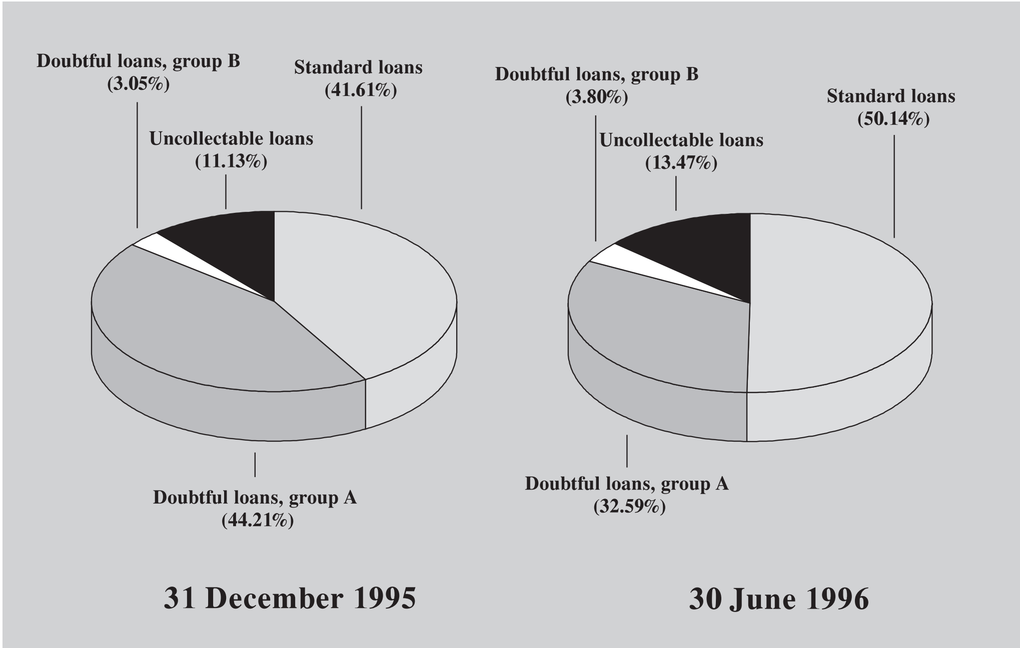
Source: BNB.

The commercial banks against which special supervisory measures have been applied and those that have signed a memorandum of agreement held 94% of doubtful loans (Group B) and 92% of uncollectable loans. Reported provisions on bad loans comprised only 23% of total bad loans in these banks.

The worsened credit portfolio structure led to lower yields on credits and consequently to the formation of losses and reduced capital base. Uncollected interest on bad loans rose and some of the banks reported profits resulting from loans recorded in previous years as bad and not written off from their balance sheets.

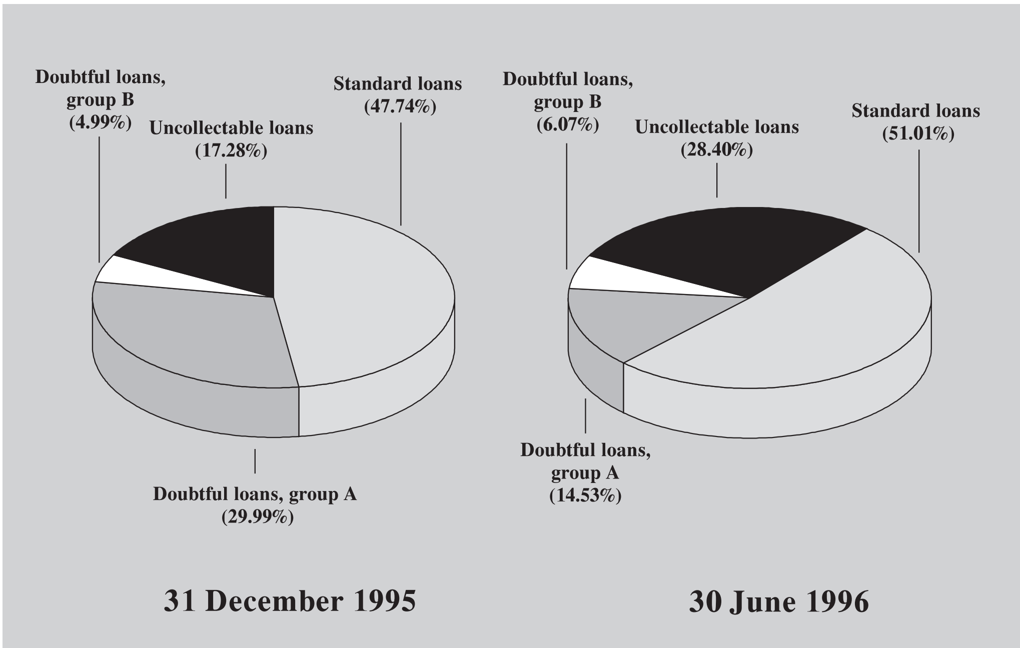
In considering the credit portfolio it is important to note that 52% of the total loans in the banking system belong to Bulbank.

LOAN CLASSIFICATION OF COMMERCIAL BANKS UNDER BNB REGULATIONS NO. 9, GROUP I



Source: BNB.

LOAN CLASSIFICATION OF COMMERCIAL BANKS UNDER BNB REGULATIONS NO. 9, GROUP II

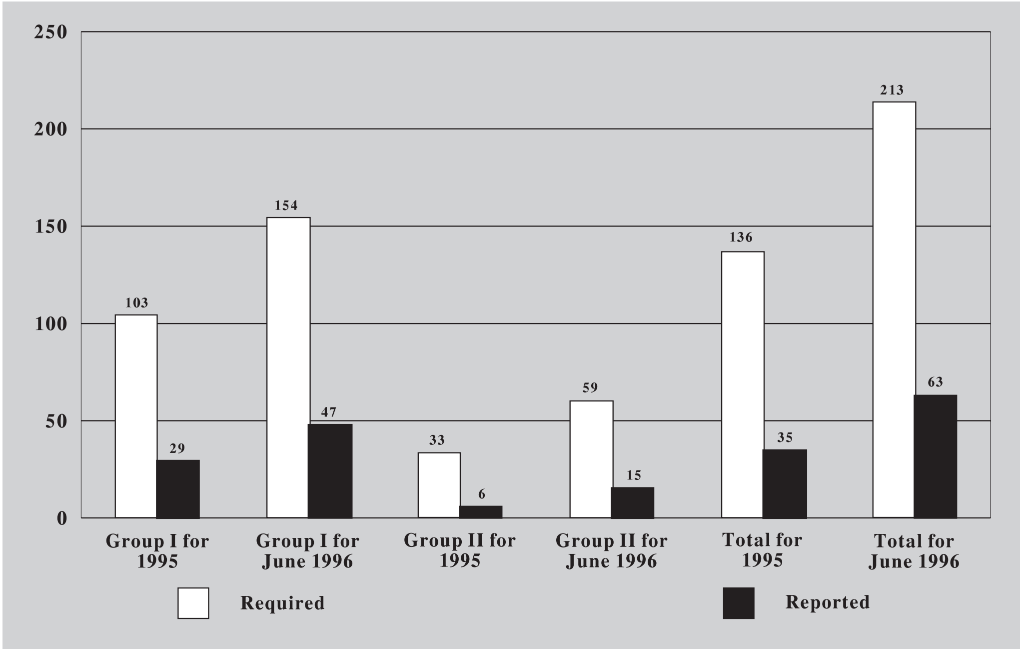


Source: BNB.

Statutory provisions. Reported provisions rose from BGL 35 to BGL 63 billion, and required provisions to BGL 213 billion. The relatively greater increase in reported provisions in comparison to required provisions caused a slight improvement in the “Reported to required provisions” indicator – to 29% (from 25% in 1995).

STATUTORY PROVISIONS OF COMMERCIAL BANKS

(billion BGL)



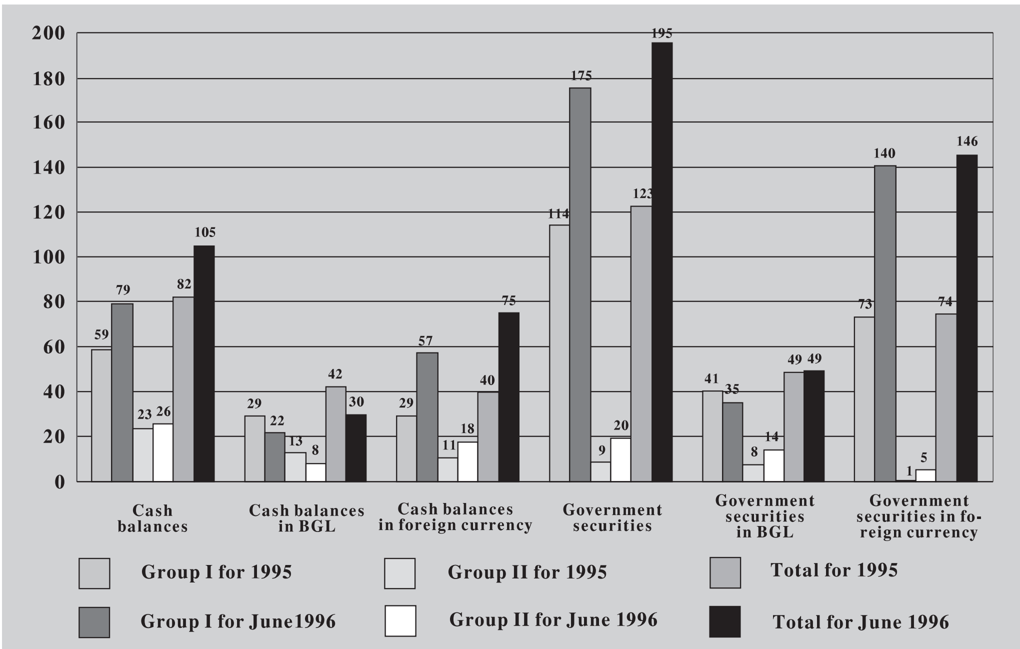
Source: BNB.

Liquidity

Cash balances rose 28% to BGL 104 billion. As they grew faster than the balance sheet figure, their share in total assets fell by two percentage points, to 7%. The lev component of money resources declined by BGL 12 billion (29%) and the forex rose by 87% in lev equivalent terms, a real reduction of 16% in forex terms. This dramatically impaired the liquidity for the entire banking system; consequently, a number of commercial banks failed to meet their current obligations to customers, the interbank settlement system was overloaded, this eroded credibility in the banking system which caused a massive withdrawal of deposits and reluctance to make payments via banks.

LIQUIDITY

(billion BGL)



Source: BNB.

Special supervisory measures have been undertaken against a number of banks facing liquidity crises. In some of the banks a real growth in cash funds occurred (150% and over in nominal terms), prompted by the need to hold more cash funds to meet depositor withdrawals.

Government securities rose by 59% to BGL 195 billion, as consequence of which their share rose insignificantly. This growth is attributable to government securities denominated in foreign currency (accounting for 99% of the increase) due to the devaluation of the national currency. Foreign currency denominated government securities comprised 75% of the total amount of government securities held by commercial banks at the end of the half-year. The larger portion of government securities (65%) is held by banks which have signed a memorandum of agreement – this group includes several large state banks that own a big package of government securities issued under the Law on Settlement of Nonperforming Credits.

The real reduction in the most liquid items in a bank portfolio – cash balances and government securities – is the result of inadequate assessment of liquidity risk by management.

Foreign Exchange Risk

Review of foreign currency positions in a number of banks and nonbank financial institutions revealed that an unfavorable turn in exchange rate movements and interest rates may result in losses in these institutions as they have large open foreign currency positions. A number of violations have been found: attraction of foreign currency for trust management by nonbank financial institutions; conduct of bank operations without a bank license; passing of commercial bank forex funds to brokers for international forex market participation without due grounds.

2. Supervisory Measures

In the environment of economic stagnation and a banking system crisis, the central bank enhanced supervisory measures aimed at stabilization of the banking sector in general and of particular banks in dire financial strait.

The measures intended to stabilize the banking system relate to a higher level of minimum capital required; reduced share of bank investment in intangible fixed assets and financial institutions; limited lending activity and unit costs.

The following measures were undertaken with respect to particular banks and nonbank financial institutions in dire strait: transfer, free of charge, of over 50% of the voting registered shares of shareholders in BAC Vitosha Ltd. to BNB; revocation of the licenses to conduct bank transactions under Article 1, para. 2 of the LBCA of Crystalbank Ltd. and Private Agricultural and Investment Bank Ltd.; final revocation of licenses to conduct bank transactions under Article 1, para. 2, items 3, 4, 6, 7, 9 and 10 of the LBCA of Financial and Commercial Agency Ltd. and Ikaros Ltd.; placement under conservatorship of Mineralbank Ltd. and First Private Bank Ltd.; removal from office of all members of the Managing and Supervisory Boards of Private Agricultural and Investment Bank Ltd. and appointment of Conservators with the powers under Article 58, para. 4 of the LBCA; upon establishing the insolvency of Mineralbank Ltd., First Private Bank Ltd., Private Agricultural and Investment Bank Ltd., Crystalbank Ltd. and Agrobusinessbank Ltd., the BNB Managing Board applied to court with the petition to institute bankruptcy proceedings; in compliance with the fourth standby agreement with the IMF, memorandums of agreement were signed with 18 commercial banks intended to improve their financial state, which established the major milestones to be reached by these banks by the end of this year.

During the first half of 1996, the BNB Managing Board granted a domestic license to the Metropolitan Municipal Bank Ltd.; a limited license to effect bank transactions in the country to the Bulgarian-American Credit Bank Ltd.; and a permit to Societe Generale, Paris, to open a branch and execute bank operations under LBCA Article 1, para. 2 (with the exception of those under items 6 and 9 of the same paragraph). The license of Unionbank Ltd. was amplified with a permit to conduct bank transactions abroad, and the First Investment Bank Ltd. was granted a permit to open a branch in Nicosia, Cyprus. The practice of granting licenses to commercial banks to open correspondent accounts abroad has been temporarily discontinued.

During the reporting period, no licenses were granted to financial houses and brokers. As of 30 June 1996, financial houses licensed to conduct operations numbered 148, and brokers 27. Licensed exchange bureaus total 1,357; of these, 52 were licensed between January and June 1996.

VI. Financial Results of BNB Activities

The BNB fixed capital is BGL 200 million in compliance with Article 7 of the Law on the BNB.

BNB balance sheet assets and liabilities in foreign currency are converted into levs on a daily basis, at the effective central exchange rate of the BNB. Precious metals are revalued on a quarterly basis, pursuant to BNB Board Protocol No. 40 of 24 July 1991.

Between January and June 1996 the BNB extended interim credits to the MF to support government budget spending in the first half of 1996, totaling BGL 34 billion. Of this, BGL 28.5 billion was repaid. On a monthly basis, the MF repaid a portion of the long-term credits drawn, with total repayments amounting to BGL 1.5 billion by 30 June 1996. Outstanding short- and long-term credits totaled BGL 30 billion against BGL 32.9 billion by 30 June 1995.

As of 30 June 1996, current accounts of commercial banks totaled BGL 48.2 billion versus BGL 2.4 billion from one year earlier. This increase was mostly a result of the change in the coverage of the funds kept. By a BNB Board resolution, funds of commercial banks deposited as minimum reserve requirements have been transferred to their current accounts. Commercial banks experienced severe difficulties due to liquidity deficiencies. Unpaid queueing documents often caused difficulties in the banks' settlement system.

BNB financial revenue totaled BGL 80 billion distributed as follows: interest, BGL 28.6 billion; valuation adjustments, BGL 1.1 billion; government securities revenue, 50.2 billion; commissions and fees, BGL 32 million; other financial revenue, BGL 89 million.

In the first half of 1996, interest revenue totaled BGL 28.6 billion as against BGL 19.5 billion in 1995. Since early 1996, the basic interest rate was changed on five occasions: 34%, 42%, 49%, 67% and 108%. Interest revenue on short- and long-term credits to the MF accounted for BGL 6,426 million and comprised 22.4% of total interest revenue. Interest on deposits extended to commercial banks totaled BGL 18,900 million, or 66% of total revenue. Interest earnings from forex operations amounted to BGL 2.7 billion (versus BGL 2.6 billion by end-June 1995), and made up 9.3% of total revenue.

Financial expenditure of the BNB totaled BGL 62,746 million distributed as follows: interest, BGL 5.2 billion; valuation adjustments, BGL 1.2 billion; government securities expenditure, 56.4 billion; commissions and fees, BGL 8 million; other financial expenditure, BGL 1 million.

Expenditure by the BNB for interest payment totaled BGL 5.2 billion and was allocated in the following way: interest on MF current accounts, BGL 0.7 billion (13.8%); interest on commercial banks' deposit accounts, BGL 1.9 billion (36%); interest on forex operations, BGL 0.7 billion (14.4%); interest on commercial banks' current accounts, BGL 0.8 billion (16%), interest on minimum reserve requirements, 17.7%; interest on the State Fund for Reconstruction and Development, 2.1%.

The net result of BNB's government securities operations (repo-operations) was negative, totaling BGL 6.2 billion.

The BNB's expenditures in support of its current activities totaled BGL 1.1 billion, or 1.8% of its total expenditures. Expenditures on currency in circulation in the first six-month period of 1996 amounted to BGL 0.6 billion (1% of total expenditures), comprising 77.76% of adopted budget. Expenditures on labor an social securities made up 0.3% of total BNB expenditure.

Despite the provisions under Article 8, para. 3 of the Law on the BNB, the central bank in compliance with § 4 of the Transitional and Final Provisions of the State Budget Law paid on monthly basis the excess of revenue over expenditure to the state budget. As of 30 June 1996, this excess totaled BGL 12.8 billion, including real contributions of BGL 11.7 billion and overpaid amount to the state budget, worth BGL 1.1 billion.

Balance Sheet of the Bulgarian National Bank

million BGL

	30 June 1995	**30 June 1996**
ASSETS		
Holdings in Bulgarian coins	387	**695**
Holdings in foreign exchange	41	**53**
Participation in international institutions	14,839	**16,238**
Holdings in foreign securities	78,510	**55,475**
Deposits and loans extended to commercial banks	83,094	**209,344**
Loans extended to the government	32,978	**30,056**
Securities	40,026	**59,215**
Other assets	44,822	**79,118**
Total	294,697	**450,194**
LIABILITIES		
Statutory fund	200	**200**
Reserve and other funds	107,164	**183,995**
Banknotes in circulation	50,994	**76,850**
Current and deposit accounts	121,129	**170,013**
Other liabilities	15,210	**19,136**
Total	294,697	**450,194**

VII. Development of the Banking and Settlement Systems

1. Settlement System

During the first six months of 1996, a final preparation for the transition to a comprehensive processing of payment messages on a new hardware platform was done and a separation of the settlement system effected in early June. This was a timely measure, necessitated by the practically exhausted capacity of the old system to process the ever increasing line of payments unserviced within the usual 24-hour time-limit due to shortage of funds on banks' current accounts with the BNB.

During the reporting period, 5,072,375 interbank settlements of BGL 1,102 billion were cleared through BISERA (the system for electronic interbank transfer); of these, 3,761,720 separate settlements totaling BGL 757 billion have been in the line of settlement system awaiting payments for more than one day.

The number of interbank transactions and settlements cleared remained practically at the 1994 level despite a projected increase in the volume of transfers in lev terms.

The dropping of five banks from the settlement system, and the blocking of funds in their customers' accounts for a certain time had an adverse effect on developments in electronic settlements.

2. Legal Regulation of Bank Activities

During the first six months of 1996, important banking laws and regulations were passed, which helped improve the legal framework of banking.

Law on the Bulgarian National Bank

Amendments to the Law on the BNB (State Gazette, issue 32 of 1996) concern the mandate of the members of the BNB Managing Board. Where a member of the Managing Board leaves before his term of office expires, the new member shall be elected, or appointed, for a new five-year term. On the other hand, a legal ground is provided for the mandate of the members of the Managing Board to be suspended before the term set by an act of the body that has elected or appointed them: by a decision of three-fifths of all members of the National Assembly – for Governor and deputy governors, and by decree of the President of the Republic on a motion by the Governor of the BNB – for the other members of the Managing Board.

Law on Banks and Credit Activity

Significant amendments were made to the Law on Banks and Credit Activity (State Gazette, issue 42 of 1996). They give the central bank enhanced powers and responsibilities with respect to the protection of creditors' interests.

A new chapter Fourteen has been added, which regulates bankruptcy of commercial banks, while the provisions of the Law on Commerce will apply subsidiarily. Deviations from the general practice of bankruptcy regulation take account of the specific nature of banks as a specific category of merchant.

According to newly adopted legal regulation, only the BNB may apply to court with the request of instituting bankruptcy proceedings against a bank. The decision establishing a bank's insolvency is taken by the BNB Managing Board on the basis of legally set insolvency criteria. Since rehabilitation measures are excluded within bankruptcy proceedings, by adjudicating on insolvency, which is at the same time a decision to institute bankruptcy proceedings and declare the bank bankrupt, the court decrees commencement of cashing down of property. An assignee in bankruptcy is appointed by the court from the list of assignees in bankruptcy approved by the central bank. The law gives explicit provision for the assignee in bankruptcy to sell the bank as a going concern, entitling him to reduce the amount of its liabilities if this should provide better protection of creditors' interests.

Distribution of a bank's liquidized effects gives priority in claims not only to secured creditors, but also to creditors whose claims have come due after the date of the decision to place the bank under conservatorship and remain unpaid at maturity; claims in respect of which the deposit insurance fund has subrogated itself; claims of depositors, uncovered by the deposit insurance system; and claims of banks.

Rehabilitation measures against a bank which is at risk of insolvency may be applied by the BNB through putting it under conservatorship, whose regulation is set forth in a new chapter Thirteen. By its legal nature conservatorship is a system of forcible administrative measures imposed by the BNB Managing Board, and aimed at preventing a bank from insolvency when certain negative tendencies emerged warning of such danger. In order to protect the interests of a bank's creditors, the law gives significant powers to the central bank: to remove from office the managing body of the bank; to forcibly increase the amount of its capital; to suspend the powers of the shareholders' general meeting. Within the period of conservatorship, which cannot be enforced for more than one year, the bank is managed by Conservators appointed by the BNB. The result from measures applied and the state of the bank's assets will serve as a basis of determining its future fate – either discontinuation of conservatorship or institution of bankruptcy proceedings.

The new chapter Twelve provides for considerably improved legal regulation of the status and powers of Conservators appointed by the BNB in the cases prescribed by law.

Law on State Protection of Deposits and Accounts

The Law on state protection of deposits and accounts with commercial banks in respect of which the BNB has petitioned the institution of bankruptcy proceedings (State Gazette, issue 46 of 1996) comes as a logical consequence of the confidence crisis in the banking system, arising from the insolvency of certain commercial banks. This law provides for a state guarantee on reimbursement of a bank's depositors and other creditors from budgetary funds, in whole or in part, of the liabilities of the bank in respect of which the BNB has petitioned the institution of bankruptcy proceedings. Physical persons are fully covered, including claims in foreign currencies, while the protection of legal entities covers half the amount of their claims payable in levs only. The law does not give protection to financial institutions and persons who have been in a position to influence the policy of the insolvent bank or have managed it. State protection is realized by means of opening new lev accounts, up to the specified amounts, with the SSB and new accounts in US dollars with a bank which has concluded a contract with the BNB and the Ministry of Finance. The Minister of Finance extends guaranty government securities in levs and US dollars to the special fund established to provide state protection of deposits and accounts of the persons encompassed by this law.

Application of this law is temporary until a law on deposit insurance is adopted, based on regulatory decisions generally accepted worldwide.

Regulations No. 4

Regulations No. 4 of the BNB Managing Board on foreign currency positions of banks (State Gazette, issue 9 of 1996) determine the maximum amount of open foreign currency positions of banks with respect to their own funds and the procedure for their formulation and accounting. The maximum ratio of a net foreign currency position to own funds of fully licensed banks is set at 30%, and 15% for domestically licensed banks.

Regulations No. 5

Regulations No. 5 of the BNB and the MF on the terms and procedure for issuance, acquisition and redemption of book-entry government securities were adopted (State Gazette, issue 28 of 1996), superseding Regulations No. 5 of 1993 of the MF and the BNB on the issuance of book-entry government securities and the procedure for their acquisition and redemption. The new regulations improve the terms and procedure for acquisition of government securities in the primary and secondary markets.

Regulations No. 8

Amendments to Regulations No. 8 on the capital adequacy of banks (State Gazette, issues 16, 58 and 71 of 1996) are aimed at increasing the minimum capital requirements for a bank. The new minimum capital requirements of BGL 1,400 million and BGL 2,200 million depending on the scope of the bank permit (license) requested or issued comply with European standards and reflect the specific conditions in the country.

Regulations No. 18

Regulations No. 18 on replacement of damaged Bulgarian coins and banknotes in circulation (State Gazette, issue 29 of 1996) determine the terms and procedure for the exchange at BNB cash-desks of damaged banknotes and coins at their full or partial nominal value.

3. Relations with International Financial Institutions

International Monetary Fund

Negotiations with the IMF continued during the first six months of 1996. Two regular IMF missions visited Bulgaria for negotiations on the standby agreement. Following a number of meetings with the BNB and the government a letter of intent was drawn up (Economic Policy Memorandum). Priorities in IMF financing are the support of the country's balance of payments and assistance to the initiated structural reform.

The need for a new standby agreement is prompted not only by financial reasons but also the credibility Bulgaria could gain before the international financial institutions and foreign investors. The conclusion of a standby agreement is a prerequisite for the receipt of any funds from the World Bank and OECD.

World Bank

The BNB acted as a government agent on the World Bank credit line for small and medium enterprises in agriculture (ADP project), totaling USD 55 million. The loan became effective 14 July 1995 but there have been no projects approved on this loan agreement yet. Two banks have access to funds under this loan agreement: Dobrudza Commercial Bank and Raiffeisenbank – Bulgaria.

Work on the credit line for Private Investment and Export Financing of small and medium enterprises (PIEF), totaling USD 55 million, continued. During the first half-year of 1996, funds extended under this loan agreement totaled USD 56,000. Bank mediators under this agreement are: Reiffeisenbank – Bulgaria and Dobrudza Commercial Bank. Twenty one projects, totaling USD 15.9 million were approved, with USD 14 million actually utilized. The term of the credit line was extended until the end of 1997.

European Bank for Reconstruction and Development

On 15 and 16 April 1996, Bulgaria was the host of the Annual Meeting of the Board of Governors of the European Bank for Reconstruction and Development. Development of transition economies was assessed at the meeting, and opportunities for foreign investment in Bulgaria were presented. The presentation of the country's economic portrait helped participants in the Annual Meeting to obtain detailed economic and business information.

European Investment Bank

In 1996, work on the credit line for small and medium enterprises (APEX project), totaling ECU 30 million (USD 40 million), was confined to searching for new mediator banks. The mediator bank on this credit line is the Bulgarian Investment Bank, and the line is open to other banks as well. No new projects were approved in the first half of 1996.

Technical Assistance for Restructuring of the Banking System

During the first half of 1996 the EU program for technical assistance in restructuring the country's banking system, funded under financial memorandum BG 9102, was completed. Funds amounting to ECU 4.3 million (98%) extended under this memorandum were utilized.

In May a technical assistance program under financial memorandum BG 9306, totaling ECU 3 million, was launched. Under this memorandum two cooperation agreements between Biochim Commercial Bank, Ltd. and ABN – AMRO, and the United Bulgarian Bank and AIB – Ireland, will be financed by the PHARE program in the ensuing two years. One of these agreements includes a long-term bank training project.

During the period under review, the special missions of the IMF Monetary and Foreign Exchange Policy Division rendered technical assistance to the BNB in the fields of rehabilitation of the banking system, monetary policy, and economic and monetary policy analysis.

VIII. Major Trends in Monetary Policy through Year-end

During the first half of 1996 the monetary policy goals determined in the 1995 Annual Report of the BNB were not achieved. The central bank in its capacity of lender of last resort refinanced several commercial banks for a long period of time with a significant amount of unsecured credit. Notwithstanding, five of these banks proved unviable. This held the BNB back from pursuing consistently its anti-inflationary goal. The attempts to tighten monetary restriction by raising the basic interest rate or employment of any other monetary policy instruments had a short-term effect and failed to curb the dramatic devaluation of the lev. There were no adequate and effective actions in privatization and restructuring of the real sector in support of the central bank's attempts to restore the country's credibility with a view to attracting more foreign investors' capitals which would have partly covered the shortage of funds in the banking system. At the same time, changes in the banking system were accompanied by serious difficulties, primarily of a legal nature, which additionally impeded the initial closing of banks and did not allow a restoration of confidence in the banking system.

Conclusion of the fourth standby agreement with the IMF was belated and could hardly compensate the lag in structural reform. Though it is a decisive step to comprehensively resolve the economic and financial crisis in the country, it will be a serious challenge both to the government and the BNB in respect of their capability to coordinate and implement consistently all necessary measures, no matter how painful and radical they will be, and to the various strata of society in respect of the economic and social cost they will be capable and willing to pay.

No immediate changes in the macroeconomic situation occurred after the conclusion of the agreement with the IMF in mid-July. Neither did the inflow of foreign investment increase, nor was confidence in banks restored. At the same time, the government experienced the most serious difficulties in July as the foreign debt payments alone exceeded USD 270 million. Given the continuous contraction in real money demand, reflecting deficient lending funds in the banking system, the BNB had to increase reserve money to finance the budget deficit.

Under the conditions of macroeconomic uncertainty as regard the scale and effect of pending changes, inflationary expectations stayed high and it became more difficult to gain time for the preparation and start of radical reform by monetary tools alone. Therefore devaluation of the lev continued in August and early September in spite of tightened monetary policy, reflecting increased minimum reserve requirements from 8.5% to 10% to be held entirely in national currency, a limited accessibility to these funds from 50% to 10%, and decreased secured and unsecured refinancing of commercial banks with liquidity deficiencies.

BNB interest rate policy will be instrumental in managing monetary restriction. It will be aimed at achieving an adequate interest rate level to balance demand and supply in money and forex markets. However, this will lead to an increase in the budget deficit due both to the significantly rising cost of government debt servicing and a fall in the BNB transfers to the budget, a result of the higher cost of the monetary policy pursued. At the same time, the crowding out of the real sector from the credit market will grow, thus threatening normal operation of major economic sectors such as agriculture, energy, etc.

In the absence of radical measures in restructuring the banking system to the extent that only viable banks can operate, high interest rates will not help restore confidence in banks and the lev. Moreover, instead of the expected repressive effect, high interest rates will generate higher inflationary expectations, stronger demand for foreign exchange and further depreciation of the lev which will plunge the country to hyperinflation.

To restore confidence in the banking system and the lev, in the second half of September BNB approved a package of measures in support of the government program to accelerate structural reform in the real sector through speedy privatization. This package includes: conservatorship of nine banks (seven private and two state-owned) with negative capital adequacy and/or persistent difficulties in payments; an increase in the monthly basic interest rate to 25% (300% simple annual rate); support of viable banks through adequate monetary policy instruments (mostly open market operations and Lombard loans); strengthening confidence in government securities, with BNB participating in the primary market and extensive sale of government securities to commercial banks and individuals. The unprecedented high level of the basic interest rate coupled with the extensive support of viable banks should be considered as a short-term measure aimed at reviving confidence faster. Eventual extension of these measures due to a new delay in structural reform will be unbearable both to the real and government sectors and will undoubtedly result in hyperinflation and further depreciation of the national currency.

It is worth mentioning that financial support from international financial institutions will be of crucial significance for successful reforms in the banking and real sectors at an acceptable economic and social price. Therefore IMF financing under the standby agreement, and immediate conclusion of an agreement with the World Bank, will be decisive factors both for foreign debt servicing and for consistent and comprehensive changes aimed at reviving confidence and creating conditions for sustainable economic growth in the medium term.

It is difficult to precisely assess the results of the initiated radical changes in the banking system, and consequently to determine exactly the parameters of BNB monetary policy through year-end. However the major trends of BNB monetary policy may be drawn up, contingent upon the government's general economic policy for accelerated reform implementation.

The BNB's major objective will be to curb inflation and depreciation of the national currency. BNB monetary policy will be aimed at reducing the monthly inflation rate to single digit by year-end. Lev depreciation will be maintained within a range which may not prompt a real depreciation of the national currency in the second half of 1996. This will help subdue inflationary expectations and will not lead to any dramatic falls in forex reserves which may threaten foreign debt servicing.

BNB interest rate policy will be instrumental in restoring confidence in the lev. Given the negative real interest rates on deposits in recent months, the drastic increase in the basic interest rate is intended to restore the positive real rates on deposits, thus strengthening the deposit base. Employment of unprecedented high interest rates will be short-term and will not compensate depositors' losses incurred during the first eight months of the year. However occurrence of a significant differential between deposits in levs and foreign currency, though temporary, will help revive confidence in the lev.

Freeing interest rates at a level maintaining balanced money and forex markets, and designing a clear mechanism of allocating the interest rates to all market participants, i.e. depositors, creditors and borrowers will be of great importance. Gradually decreasing dependence of market interest rates on the basic interest rate will give impetus to a more extensive employment of market principles in the interest rate policy. Market interest rates should more precisely reflect the demand/supply ratio of a standard money market which may be the primary market of government securities with the shortest maturity.

At the start of radical changes in the banking system, no further tightening of the monetary policy (by an increase in minimum reserve requirements) is needed but rather some relief such as the right to use up to 50% of minimum required reserves and the opportunity to maintain them in foreign currency. To avoid excessive pressure on more viable banks, interest rates on minimum reserve requirements have been raised to two thirds of the basic interest rate. Restored right to hold required reserves in foreign currency may decrease the effect of the already incorporated automatic stabilizer against lev depreciation, but also strengthen banks with better liquidity. At the current level of minimum reserve requirements, faster restoration of confidence in the banking system and the lev will provide more credit resources to the real and government sectors without threatening the general anti-inflationary target of the BNB monetary policy.

In the second half of 1996 BNB will continue to fine-tune its monetary policy through reserve money management. Among factors influencing the change in reserve money, special attention will be paid to BNB net claims on the government. An important factor in reducing the demand for deficient credit resources in the banking system is a significant reduction of government borrowing needs relative to July and August. Maintenance of the cash deficit at the amount projected in the 1996 Revised State Budget Law will be an indispensable condition for the conduct of BNB monetary policy in accordance with parameters agreed with the IMF. Any greater increase in government borrowing needs should be funded through nonbank financing or receipts from privatization.

An important factor to reduce crowding out of the real sector by the government in the credit market will be foreign financing from the World Bank and other official sources, under the Agreement with the IMF, to cover a portion of budget deficit. To this end, structural reform in the real sector, necessary for the conclusion of an agreement with the World Bank, will provide both the basis of economic recovery and additional financial resources to accelerate it.

Restoration of confidence in banks and the national currency through a consistent implementation of a sizable rehabilitation operation will be of crucial importance in overcoming the crisis in the banking system and maintaining financial stability at an acceptable economic and social cost. The second wave of closures of unviable banks should be sufficiently comprehensive and well-grounded, so that it may be considered the last in the medium term, facilitating an inflow of individuals' funds into the remaining banks. Survival of banks will be mainly on a market basis, with the BNB intervening more actively as lender of last resort only in case the whole banking system or bank settlement system is threatened. Forcible refinancing in this case will be carefully measured in order to avoid a faster increase in real demand for money which would have additional proinflationary effect. Bank privatization with the extensive participation of strategic foreign investors will be the major way to recapitalize and strengthen banks.

Reforms in the banking system would succeed, and the BNB would achieve its monetary policy goals only with active and consistent actions by government aimed at accelerating privatization and tightening fiscal and incomes polices. The speed of reform and consequently its economic and social cost will depend on thorough coordination of BNB and government policies.

Provision of a sufficient inflow of foreign exchange both from international financial institutions and direct foreign investment will be of crucial importance for the faster revival of confidence in the banking system and creation of conditions for a sustainable economic growth in the medium term. This will be possible only if the commitments under the standby agreement with the IMF are strictly observed and the loan agreement with the World Bank in support of the structural changes in the real sector and banking system is concluded.

Appendix

Contents

OUTPUT AND RECEIPTS FROM SALES BY BRANCH OF ECONOMY*
(at corresponding 1995 prices)

(billion BGL)

Branches	1995		1996	
	January – March	January – June	January – March	January – June
PRODUCTION	90	223	86	214
including:				
Industry	69	172	66	165
RECEIPTS FROM SALES	91	237	86	227
Industry	62	161	58	156
Construction	2	6	1	6
Transport	9	24	9	22
Trade	13	35	13	34
Other	5	11	5	9

* Only state and cooperative sector (agriculture excluded). Data is obtained before final accounting entries.

Source: NSI.

EMPLOYMENT AND WAGES IN THE PUBLIC SECTOR

Indicators	1995						1996					
	Registered number of employed (persons)*		Wage funds (thousand BGL)		Average monthly wage (BGL)		Registered number of employed (persons)*		Wage funds (thousand BGL)		Average monthly wage (BGL)	
	I – III	I – VI	I – III	I – VI	I – III	I – VI	I – III	I – VI	I – III	I – VI	I – III	I – VI
Total	1851268	1850797	34335423	73941869	6182	6659	1791232	1807939	45560557	102509429	8478	9450
Industry	738813	737054	15417878	33160086	6956	7498	711037	707587	21112926	47848283	9898	11270
Construction	94789	94371	1637930	3718595	5760	6567	84702	85730	2044339	4891902	8045	9510
Agriculture	98885	103990	1231859	2896827	4152	4643	86405	93406	1482923	3652461	5721	6517
Forestry	10263	12494	118089	299856	3835	4000	9430	12947	148855	450555	5262	5800
Other industries	10768	10495	227333	478391	7034	7597	8848	8824	222601	478475	8386	9037
Services	897750	892396	15702334	33388114	6339	6904	890810	899446	20548913	45187753	8514	9378
Transport	138054	134486	3127263	6515120	7551	8074	126594	127652	3842362	8600360	10117	11229
Communications	43439	43500	848510	1928534	6511	7389	44462	44755	1110966	2405066	8329	8956
Trade	98175	97138	1739593	3746539	5906	6428	88434	88286	2275766	5168286	8578	9757
Other services	618082	617273	9986968	21197921	5386	5724	631320	638753	13319819	29014041	7033	7570
Public utilities	49395	51318	927922	2042605	6262	6634	56091	60990	1334151	3114394	7928	8511
Science	26867	26820	488268	1014036	6058	6302	25288	25404	602063	1274687	7936	8363
Education	243718	243469	3401021	7260946	4652	4970	247170	247125	4526274	9937584	6104	6702
Arts	27066	27053	357154	782187	4399	4819	25637	25691	489157	1033209	6360	6703
Health care	183336	182054	2661677	5600579	4839	5127	181812	182964	3398459	7175629	6231	6536
Finance, credit, insurance	29442	28198	1067302	2176023	12084	12862	29946	30096	1399212	3045592	15575	16866
Management	55804	57062	1034141	2268950	6177	6627	65263	66398	1567726	3428025	8007	8605
Other	2454	1300	49483	52595	6721	6743	113	86	2777	4921	8192	9537

* Women on maternity leave excluded.

Source: NSI.

CONSUMER PRICE INDICES
(previous month = 100)

Commodity (services) groups	1995						1996					
	I	II	III	IV	V	VI	I	II	III	IV	V	VI
Consumer price index	103.9	103.8	103.4	101.0	101.9	100.5	102.3	101.9	101.7	102.9	112.5	120.2
Food	103.8	104.3	99.7	99.9	101.4	98.0	103.0	101.0	101.1	101.8	111.1	123.2
Nonfood	103.0	103.3	103.3	102.0	102.7	102.9	100.7	101.3	102.5	102.8	115.7	122.1
Services	105.6	101.9	119.9	101.4	101.0	102.1	103.5	107.0	101.5	107.7	110.2	107.5
Food*	104.2	104.5	99.6	99.8	101.4	97.9	103.1	101.1	101.2	101.6	110.6	121.9
Drink	101.0	103.2	105.7	107.4	101.4	102.4	101.7	100.4	103.0	107.2	115.5	136.0
Tobacco products	107.9	101.8	99.2	101.0	100.9	103.5	100.6	100.1	100.3	102.0	115.9	121.1
Housing	106.2	105.4	106.4	103.4	102.1	103.3	106.0	101.2	101.9	101.7	108.6	112.7
Energy for households	99.9	101.5	134.8	98.4	100.0	100.3	100.4	100.3	100.8	115.4	116.9	103.6
Home furniture	105.1	104.2	105.2	102.8	102.5	101.3	101.0	100.9	102.4	102.2	117.9	120.9
Clothing and footwear	102.7	102.3	103.6	103.5	104.2	103.2	100.8	101.0	101.6	102.3	110.8	109.3
Hygiene and health care	106.7	103.7	104.9	103.6	105.4	103.1	100.9	102.6	102.5	103.2	107.1	122.1
Education and leisure	112.1	104.5	103.7	100.6	101.8	101.4	101.5	103.4	101.7	99.2	118.8	115.2
Transport and communications	99.7	102.5	101.6	101.6	101.6	104.6	101.5	109.1	104.1	104.5	116.9	134.2
Other	99.7	105.4	101.4	100.0	101.5	105.7	105.0	101.2	101.5	100.7	106.4	110.9

CONSUMER PRICE INDICES

Commodity (services) groups	1995 December 1994 = 100						1996 December 1995 = 100					
	I	II	III	IV	V	VI	I	II	III	IV	V	VI
Consumer price index	103.9	107.8	111.4	112.5	114.6	115.2	102.3	104.2	106.0	109.0	122.7	147.5
Food	103.8	108.3	108.0	107.9	109.4	107.2	103.0	104.0	105.1	107.0	118.9	146.5
Nonfood	103.0	106.4	109.9	112.1	115.2	118.5	100.7	102.0	104.6	107.5	124.4	151.8
Services	105.6	107.5	128.9	130.7	132.0	134.7	103.5	110.7	112.4	121.0	133.4	143.4
Food*	104.2	108.8	108.4	108.2	109.7	107.4	103.1	104.2	105.4	107.1	118.5	144.4
Drink	101.0	104.3	110.3	118.4	120.0	122.8	101.7	102.1	105.2	112.8	130.3	177.2
Tobacco products	107.9	109.8	108.9	110.0	111.0	114.9	100.6	100.7	101.0	103.0	119.4	144.6
Housing	106.2	112.0	119.1	123.1	125.7	129.8	106.0	107.3	109.3	111.2	120.8	136.1
Energy for households	99.9	101.4	136.7	134.5	134.6	134.9	100.4	100.7	101.5	117.1	136.9	141.8
Home furniture	105.1	109.5	115.1	118.3	121.3	122.9	101.0	101.9	104.4	106.7	125.8	152.1
Clothing and footwear	102.7	105.1	108.9	112.8	117.5	121.3	100.8	101.8	103.5	105.8	117.2	128.1
Hygiene and health care	106.7	110.7	116.2	120.3	126.7	130.7	100.9	103.5	106.1	109.5	117.3	143.2
Education and leisure	112.1	117.1	121.4	122.2	124.4	126.1	101.5	104.9	106.8	106.0	125.9	145.1
Transport and communications	99.7	102.2	103.9	105.5	107.2	112.1	101.5	110.7	115.3	120.5	140.9	189.2
Other	99.7	105.1	106.6	106.6	108.2	114.4	105.0	106.3	107.9	108.6	115.6	128.2

* Including prices in catering establishments.

Source: NSI.

COMMODITY AND GEOGRAPHIC STRUCTURE OF EXPORTS AND IMPORTS

(thousand USD)

Regions		Wood, paper, earthenware and glass products		Machines and equipment		Mineral products and fuels		Base metals		Vegetable and animal products, food, drink and tobacco		Industrial consumer goods		Chemical products		Total	
		Jan. – June		Jan. – June		Jan. – June		Jan. – June		Jan. – June		Jan. – June		Jan. – June		Jan. – June	
		1995	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996
EU	Exports	62228.7	66242.3	105131.2	103508.7	25237.9	49506.2	264420.3	203552.2	94459.0	88403.4	209437.7	197971.6	182980.6	154373.2	943895.4	863557.6
	Imports	78599.9	69352.7	337253.4	350412.9	19248.5	12174.0	55198.9	73665.6	67831.2	65069.2	209118.6	220381.7	191960.3	207630.0	959210.8	998686.1
EFTA	Exports	747.9	745.4	1700.8	2190.5	4502.9	1.2	25683.4	6459.9	7999.5	7613.2	5224.5	8876.9	533.5	4084.2	46392.5	29971.3
	Imports	21350.5	20515.5	22325.9	25713.5	33.7	34.4	2172.1	1676.4	1016.5	2698.5	3728.2	2618.2	20562.9	21174.6	71189.8	74431.1
Other OECD countries	Exports	6956.2	7926.6	5893.0	9535.1	1403.9	20295.4	81310.1	65668.4	31907.1	37727.3	19407.8	13831.2	49124.8	44121.5	196002.9	199105.5
	Imports	5905.7	6106.0	28966.2	24742.1	5781.1	3578.6	2610.0	3243.2	18264.8	19522.3	10522.9	12556.9	11536.8	13010.0	83587.5	82759.1
OECD, total	Exports	69932.8	74914.3	112725.0	115234.3	31144.7	69802.8	371413.8	275680.5	134365.6	133743.9	234070.0	220679.7	232638.9	202578.9	1186290.8	1092634.4
	Imports	105856.1	95974.2	388545.5	400868.5	25063.3	15787.0	59981.0	78585.2	87112.5	87290.0	223369.7	235556.8	224060.0	241814.6	1113988.1	1155876.3
Former USSR countries	Exports	13209.5	28167.1	70216.2	76872.1	16915.9	13414.6	8386.3	10778.2	181457.9	190555.1	16644.0	17210.9	70157.6	86029.0	376987.4	423027.0
	Imports	32581.5	27100.1	50620.7	48837.4	462789.0	113837.6	57067.3	41287.7	20792.5	14257.6	23222.2	13021.3	80065.7	33439.7	727138.9	291781.4
Balkan countries*	Exports	26914.4	17004.0	27229.0	20561.2	87234.1	49133.0	46256.9	49124.1	75574.8	51803.5	27008.0	12649.8	93200.4	65680.0	383417.6	265955.6
	Imports	13878.4	4646.0	9140.9	6788.5	14661.0	7384.0	55924.1	25766.7	7413.0	18003.9	7863.4	3750.8	17634.2	14885.6	126515.0	81225.5
Visegrad countries	Exports	1098.3	840.8	11795.5	13228.8	638.9	174.9	4280.8	3307.2	7480.0	9438.3	1342.3	3942.8	8694.5	6745.3	35330.3	37678.1
	Imports	6336.8	8840.9	20994.7	25918.7	2817.8	4635.0	9735.8	12841.3	2650.6	4377.7	7973.7	6406.8	22076.0	24435.3	72585.4	87455.7
Central and eastern	Exports	41222.2	46011.9	109240.7	110662.1	104788.9	62722.5	58924.0	63209.5	264512.7	251796.9	44994.3	33803.5	172052.5	158454.3	795735.3	726660.7
European countries, total	Imports	52796.7	40587.0	80756.3	81544.6	480267.8	125856.6	122727.2	79895.7	30856.1	36639.2	39059.3	23178.9	119775.9	72760.6	926239.3	460462.6
Arab countries	Exports	9705.1	7751.3	21053.0	22663.4	41223.7	16314.8	33139.4	28041.3	25936.5	12775.4	3172.6	3596.5	14702.4	29598.2	148932.7	120740.9
	Imports	452.6	513.6	6882.0	4631.2	107908.7	51948.6	1510.3	70.9	4726.1	3627.4	1501.0	1052.2	588.8	837.3	123569.5	62681.2
Other countries	Exports	3947.6	2731.6	37903.6	48894.2	34634.6	28470.6	84784.0	33872.1	31266.4	15261.9	28503.0	19533.7	85252.9	58303.6	306292.1	207067.7
	Imports	6126.4	5176.4	69575.1	63084.3	28800.8	40434.0	6256.0	4362.3	93189.9	65423.4	13228.9	20442.4	23122.5	28917.8	240299.6	227840.6
TOTAL	Exports	124807.7	131409.1	280922.3	297454.0	211791.9	177310.7	548261.2	400803.4	456081.2	413578.1	310739.9	277613.4	504646.7	448935.0	2437250.9	2147103.7
	Imports	165231.8	142251.2	545758.9	550128.6	642040.6	234026.2	190474.5	162914.1	215884.6	192980.0	277158.9	280230.3	367547.2	344330.3	2404096.5	1906860.7

* The group of Balkan countries includes Albania, Bosnia and Herzegovina, Macedonia, Romania, Slovenia, Yugoslavia, and Croatia. Greece is included in the EU countries and Turkey in the OECD countries.

Source: Ministry of Finance Computing Center (based on customs declarations).

COMMODITY AND GEOGRAPHIC STRUCTURE OF EXPORTS AND IMPORTS
(share of commodity groups's exports and imports in group of countries)

(%)

Regions		Wood, paper, earthenware and glass products		Machines and equipment		Mineral products and fuels		Base metals		Vegetable and animal products, food, drink and tobacco		Industrial consumer goods		Chemical products		Total	
		Jan. – June		Jan. – June		Jan. – June		Jan. – June		Jan. – June		Jan. – June		Jan. – June		Jan. – June	
		1995	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996
EU	Exports	6.6	7.7	11.1	12.0	2.7	5.7	28.0	23.6	10.0	10.2	22.2	22.9	19.4	17.9	100.0	100.0
	Imports	8.2	6.9	35.2	35.1	2.0	1.2	5.8	7.4	7.1	6.5	21.8	22.1	20.0	20.8	100.0	100.0
EFTA	Exports	1.6	2.5	3.7	7.3	9.7	0.0	55.4	21.6	17.2	25.4	11.3	29.6	1.1	13.6	100.0	100.0
	Imports	30.0	27.6	31.4	34.5	0.0	0.0	3.1	2.3	1.4	3.6	5.2	3.5	28.9	28.4	100.0	100.0
Other OECD countries	Exports	3.5	4.0	3.0	4.8	0.7	10.2	41.5	33.0	16.3	18.9	9.9	6.9	25.1	22.2	100.0	100.0
	Imports	7.1	7.4	34.7	29.9	6.9	4.3	3.1	3.9	21.9	23.6	12.6	15.2	13.8	15.7	100.0	100.0
OECD, total	Exports	5.9	6.9	9.5	10.5	2.6	6.4	31.3	25.2	11.3	12.2	19.7	20.2	19.6	18.5	100.0	100.0
	Imports	9.5	8.3	34.9	34.7	2.2	1.4	5.4	6.8	7.8	7.6	20.1	20.4	20.1	20.9	100.0	100.0
Former USSR countries	Exports	3.5	6.7	18.6	18.2	4.5	3.2	2.2	2.5	48.1	45.0	4.4	4.1	18.6	20.3	100.0	100.0
	Imports	4.5	9.3	7.0	16.7	63.6	39.0	7.8	14.2	2.9	4.9	3.2	4.5	11.0	11.5	100.0	100.0
Balkan countries*	Exports	7.0	6.4	7.1	7.7	22.8	18.5	12.1	18.5	19.7	19.5	7.0	4.8	24.3	24.7	100.0	100.0
	Imports	11.0	5.7	7.2	8.4	11.6	9.1	44.2	31.7	5.9	22.2	6.2	4.6	13.9	18.3	100.0	100.0
Visegrad countries	Exports	3.1	2.2	33.4	35.1	1.8	0.5	12.1	8.8	21.2	25.0	3.8	10.5	24.6	17.9	100.0	100.0
	Imports	8.7	10.1	28.9	29.6	3.9	5.3	13.4	14.7	3.7	5.0	11.0	7.3	30.4	27.9	100.0	100.0
Central and eastern	Exports	5.2	6.3	13.7	15.2	13.2	8.6	7.4	8.7	33.2	34.7	5.7	4.7	21.6	21.8	100.0	100.0
European countries, total	Imports	5.7	8.8	8.7	17.7	51.9	27.3	13.3	17.4	3.3	8.0	4.2	5.0	12.9	15.8	100.0	100.0
Arab countries	Exports	6.5	6.4	14.1	18.8	27.7	13.5	22.3	23.2	17.4	10.6	2.1	3.0	9.9	24.5	100.0	100.0
	Imports	0.4	0.8	5.6	7.4	87.3	82.9	1.2	0.1	3.8	5.8	1.2	1.7	0.5	1.3	100.0	100.0
Other countries	Exports	1.3	1.3	12.4	23.6	11.3	13.7	27.7	16.4	10.2	7.4	9.3	9.4	27.8	28.2	100.0	100.0
	Imports	2.5	2.3	29.0	27.7	12.0	17.7	2.6	1.9	38.8	28.7	5.5	9.0	9.6	12.7	100.0	100.0
TOTAL	Exports	5.1	6.1	11.5	13.9	8.7	8.3	22.5	18.7	18.7	19.3	12.7	12.9	20.7	20.9	100.0	100.0
	Imports	6.9	7.5	22.7	28.8	26.7	12.3	7.9	8.5	9.0	10.1	11.5	14.7	15.3	18.1	100.0	100.0

* The group of Balkan countries includes Albania, Bosnia and Herzegovina, Macedonia, Romania, Slovenia, Yugoslavia, and Croatia. Greece is included in the EU countries and Turkey in the OECD countries.

Source: Ministry of Finance Computing Center (based on customs declarations).

COMMODITY AND GEOGRAPHIC STRUCTURE OF EXPORTS AND IMPORTS
(share of countries' exports and imports in commodity groups)

(%)

Regions		Wood, paper, earthenware and glass products		Machines and equipment		Mineral products and fuels		Base metals		Vegetable and animal products, food, drink and tobacco		Industrial consumer goods		Chemical products		Total	
		Jan. – June		Jan. – June		Jan. – June		Jan. – June		Jan. – June		Jan. – June		Jan. – June		Jan. – June	
		1995	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996
EU	Exports	49.9	50.4	37.4	34.8	11.9	27.9	48.2	50.8	20.7	21.4	67.4	71.3	36.3	34.4	38.7	40.2
	Imports	47.6	48.8	61.8	63.7	3.0	5.2	29.0	45.2	31.4	33.7	75.5	78.6	52.2	60.3	39.9	52.4
EFTA	Exports	0.6	0.6	0.6	0.7	2.1	0.0	4.7	1.6	1.8	1.8	1.7	3.2	0.1	0.9	1.9	1.4
	Imports	12.9	14.4	4.1	4.7	0.0	0.0	1.1	1.0	0.5	1.4	1.3	0.9	5.6	6.1	3.0	3.9
Other OECD countries	Exports	5.6	6.0	2.1	3.2	0.7	11.4	14.8	16.4	7.0	9.1	6.2	5.0	9.7	9.8	8.0	9.3
	Imports	3.6	4.3	5.3	4.5	0.9	1.5	1.4	2.0	8.5	10.1	3.8	4.5	3.1	3.8	3.5	4.3
OECD, total	Exports	56.0	57.0	40.1	38.7	14.7	39.4	67.7	68.8	29.5	32.3	75.3	79.5	46.1	45.1	48.7	50.9
	Imports	64.1	67.5	71.2	72.9	3.9	6.7	31.5	48.2	40.4	45.2	80.6	84.1	61.0	70.2	46.3	60.6
Former USSR countries	Exports	10.6	21.4	25.0	25.8	8.0	7.6	1.5	2.7	39.8	46.1	5.4	6.2	13.9	19.2	15.5	19.7
	Imports	19.7	19.1	9.3	8.9	72.1	48.6	30.0	25.3	9.6	7.4	8.4	4.6	21.8	9.7	30.2	15.3
Balkan countries*	Exports	21.6	12.9	9.7	6.9	41.2	27.7	8.4	12.3	16.6	12.5	8.7	4.6	18.5	14.6	15.7	12.4
	Imports	8.4	3.3	1.7	1.2	2.3	3.2	29.4	15.8	3.4	9.3	2.8	1.3	4.8	4.3	5.3	4.3
Visegrad countries	Exports	0.9	0.6	4.2	4.4	0.3	0.1	0.8	0.8	1.6	2.3	0.4	1.4	1.7	1.5	1.4	1.8
	Imports	3.8	6.2	3.8	4.7	0.4	2.0	5.1	7.9	1.2	2.3	2.9	2.3	6.0	7.1	3.0	4.6
Central and eastern	Exports	33.0	35.0	38.9	37.2	49.5	35.4	10.7	15.8	58.0	60.9	14.5	12.2	34.1	35.3	32.6	33.8
European countries, total	Imports	32.0	28.5	14.8	14.8	74.8	53.8	64.4	49.0	14.3	19.0	14.1	8.3	32.6	21.1	38.5	24.1
Arab countries	Exports	7.8	5.9	7.5	7.6	19.5	9.2	6.0	7.0	5.7	3.1	1.0	1.3	2.9	6.6	6.1	5.6
	Imports	0.3	0.4	1.3	0.8	16.8	22.2	0.8	0.0	2.2	1.9	0.5	0.4	0.2	0.2	5.1	3.3
Other countries	Exports	3.2	2.1	13.5	16.4	16.4	16.1	15.5	8.5	6.9	3.7	9.2	7.0	16.9	13.0	12.6	9.6
	Imports	3.7	3.6	12.7	11.5	4.5	17.3	3.3	2.7	43.2	33.9	4.8	7.3	6.3	8.4	10.0	11.9
TOTAL	Exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Imports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* The group of Balkan countries includes Albania, Bosnia and Herzegovina, Macedonia, Romania, Slovenia, Yugoslavia, and Croatia. Greece is included in the EU countries and Turkey in the OECD countries.

Source: Ministry of Finance Computing Center (based on customs declarations).

BALANCE OF PAYMENTS*

(million USD)

Indicators	1995 I quarter	II quarter	Jan – June	III quarter	IV quarter	Total	1996 January	February	March	I quarter	April	May	June	II quarter	Jan – June
Current account[1]	**-123.4**	**16.8**	**-106.7**	**217.4**	**-154.0**	**-43.3**	**-112.8**	**62.2**	**48.4**	**-2.2**	**-60.6**	**8.0**	**70.1**	**17.5**	**15.3**
Goods, services, and income, net	-157.1	-3.5	-160.7	170.2	-184.8	-175.3	-130.4	45.5	35.5	-49.3	-72.3	-2.5	63.3	-11.5	-60.8
credit	1573.2	1665.5	3238.7	1957.4	1777.3	6973.4	452.3	507.1	521.6	1481.0	453.3	393.9	446.7	1294.0	2775.0
debit	-1730.4	-1669.0	-3399.4	-1787.2	-1962.1	-7148.7	-582.7	-461.6	-486.0	-1530.3	-525.6	-396.4	-383.4	-1305.4	-2835.8
Goods, net [2, 14]	10.7	29.5	40.2	215.6	-124.2	131.6	16.1	52.1	63.7	131.8	-49.8	1.5	72.3	24.0	155.8
credit	1178.6	1342.6	2521.2	1470.0	1398.7	5389.9	355.0	401.1	413.4	1169.5	355.9	298.6	319.1	973.6	2143.1
debit	-1167.9	-1313.1	-2481.0	-1254.4	-1522.9	-5258.3	-338.9	-349.0	-349.7	-1037.7	-405.7	-297.0	-246.8	-949.6	-1987.3
Services, net	24.1	-7.8	16.3	153.6	-21.8	148.1	-5.5	14.5	-4.6	4.5	-9.0	7.8	11.0	9.8	14.2
credit	350.5	289.0	639.4	450.6	343.7	1433.7	89.1	92.4	98.9	280.4	88.5	85.4	119.6	293.5	573.9
Transportation[3]	101.0	116.9	217.9	154.5	123.6	496.0	29.8	40.5	34.2	104.5	31.5	33.3	52.1	117.0	221.5
Travel[4]	85.0	102.5	187.5	179.5	105.9	472.9	21.8	21.6	12.4	55.8	12.8	19.4	41.6	73.8	129.6
Other services	164.4	69.5	233.9	116.7	114.2	464.8	37.6	30.2	52.4	120.2	44.2	32.7	25.9	102.7	222.9
debit	-326.4	-296.8	-623.1	-297.0	-365.5	-1285.6	-94.6	-77.9	-103.5	-276.0	-97.5	-77.6	-108.5	-283.7	-559.7
Transportation[3]	-124.7	-136.2	-261.0	-128.5	-149.2	-538.7	-35.1	-33.7	-35.9	-104.6	-42.9	-31.4	-27.5	-101.8	-206.4
Travel[4]	-52.4	-51.9	-104.3	-47.5	-43.3	-195.1	-14.2	-10.1	-13.9	-38.2	-17.5	-14.1	-14.9	-46.5	-84.6
Other services	-149.3	-108.6	-257.9	-121.0	-173.0	-551.9	-45.4	-34.1	-53.7	-133.2	-37.2	-32.2	-66.1	-135.5	-268.7
Income, net [5]	-191.9	-25.2	-217.2	-199.0	-38.8	-455.0	-141.0	-21.1	-23.5	-185.6	-13.4	-11.8	-20.0	-45.2	-230.8
credit	44.2	33.9	78.1	36.8	34.9	149.8	8.2	13.7	9.3	31.1	8.9	10.0	8.0	26.9	58.0
Monetary authorities	15.6	20.2	35.8	23.2	19.0	78.0	4.7	0.7	6.3	11.7	4.0	4.3	4.2	12.5	24.2
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	28.5	13.7	42.3	13.6	15.9	71.8	3.5	13.0	3.0	19.4	4.9	5.7	3.9	14.5	33.9
debit	-236.1	-59.2	-295.2	-235.8	-73.7	-604.7	-149.1	-34.7	-32.8	-216.7	-22.3	-21.8	-28.0	-72.2	-288.8
Monetary authorities	-32.7	-31.0	-63.7	-37.7	-24.3	-125.7	-1.2	-21.0	-5.9	-28.1	0.0	-7.3	-12.0	-19.4	-47.5
General government	-192.6	-18.4	-211.0	-189.3	-47.1	-447.4	-136.6	-4.9	-24.3	-165.8	-20.2	-10.0	-15.5	-45.7	-211.5
Banks	-10.8	-9.8	-20.5	-8.8	-2.3	-31.7	-11.4	-8.8	-2.6	-22.8	-2.1	-4.4	-0.5	-7.1	-29.9
Current transfers, net	33.7	20.3	54.0	47.1	30.8	132.0	17.6	16.7	12.9	47.1	11.7	10.5	6.8	28.9	76.1
credit	68.0	50.6	118.6	85.9	52.3	256.9	24.9	26.1	22.3	73.2	21.6	16.5	16.5	54.6	127.8
General government [6]	7.9	0.0	7.9	1.4	5.6	15.0	1.2	1.3	1.0	3.5	0.0	0.0	0.0	0.0	3.5
Other sectors	60.1	50.6	110.7	84.5	46.7	241.9	23.7	24.8	21.3	69.7	21.6	16.5	16.5	54.6	124.3
debit	-34.3	-30.3	-64.6	-38.8	-21.5	-124.9	-7.3	-9.4	-9.4	-26.1	-10.0	-6.0	-9.7	-25.7	-51.7
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	-34.3	-30.3	-64.6	-38.8	-21.5	-124.9	-7.3	-9.4	-9.4	-26.1	-10.0	-6.0	-9.7	-25.7	-51.7
Capital and financial account[1, 7]	**65.3**	**-87.5**	**-22.3**	**-316.7**	**210.5**	**-128.4**	**171.3**	**-0.9**	**-98.0**	**72.4**	**3.6**	**-129.2**	**-18.8**	**-144.3**	**-71.9**
Capital account	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
Capital transfers, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

(continued)

(continued) (million USD)

Indicators	1995 I quarter	1995 II quarter	1995 Jan – June	1995 III quarter	1995 IV quarter	1995 Total	1996 January	1996 February	1996 March	1996 I quarter	1996 April	1996 May	1996 June	1996 II quarter	1996 Jan – June
Financial account	***65.3***	***-87.5***	***-22.3***	***-316.7***	***210.5***	***-128.4***	***171.3***	***-0.9***	***-98.0***	***72.4***	***3.6***	***-129.2***	***-18.8***	***-144.3***	***-71.9***
Direct investment	66.6	10.0	76.6	12.9	8.9	98.4	32.8	6.4	18.1	57.3	2.2	9.2	1.1	12.5	69.8
Abroad	0.0	0.0	0.0	4.1	3.9	8.0	21.0	-0.1	0.8	21.7	-0.2	-0.7	-0.1	-0.9	20.8
In reporting country [8]	66.6	10.0	76.6	8.8	5.0	90.4	11.8	6.5	17.3	35.6	2.4	9.8	1.2	13.4	49.0
Portfolio investment	-13.4	-17.0	-30.4	-5.9	-5.0	-41.4	0.1	12.0	-22.9	-10.8	-11.5	-8.1	-0.2	-19.8	-30.6
Assets	*0.0*	*0.0*	*0.0*	*-3.6*	*13.3*	*9.7*	*-0.3*	*7.0*	*-19.1*	*-12.4*	*-7.6*	*-17.6*	*-6.5*	*-31.7*	*-44.1*
Liabilities	*-13.4*	*-17.0*	*-30.4*	*-2.3*	*-18.3*	*-51.0*	*0.3*	*5.0*	*-3.7*	*1.7*	*-4.0*	*9.5*	*6.3*	*11.9*	*13.5*
Other investment	134.4	291.3	425.6	-387.3	9.9	48.3	-141.0	-115.7	-309.4	-566.1	-2.5	-157.6	-46.6	-206.6	-772.8
Assets	*75.8*	*223.6*	*299.4*	*-64.5*	*169.2*	*404.2*	*-144.8*	*-138.2*	*-206.0*	*-489.0*	*-3.0*	*-169.9*	*-4.8*	*-177.7*	*-666.6*
Loans	63.9	72.0	135.9	76.4	80.3	292.6	34.3	39.9	24.1	98.4	25.5	24.3	26.8	76.6	174.9
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government [9]	63.9	72.0	135.9	76.4	80.3	292.6	24.1	39.9	24.1	88.2	25.6	24.3	26.8	76.7	164.9
Long-term	63.9	72.0	135.9	76.4	80.3	292.6	24.1	39.9	24.1	88.2	25.6	24.3	26.8	76.7	164.9
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	0.0	0.0	0.0	0.0	0.0	0.0	10.2	0.0	0.0	10.2	-0.1	0.0	0.0	-0.1	10.1
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	10.2	0.0	0.0	10.2	-0.1	0.0	0.0	-0.1	10.1
Currency and deposits	11.9	151.6	163.5	-136.1	144.0	171.4	45.7	22.5	-49.3	18.9	27.8	79.0	31.6	138.3	157.2
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	11.9	151.6	163.5	-136.1	144.0	171.4	45.7	22.5	-49.3	18.9	27.8	79.0	31.6	138.3	157.2
Other assets	0.0	0.0	0.0	-4.7	-55.1	-59.9	-49.1	18.3	-25.4	-56.2	-12.3	-8.6	-5.2	-26.2	-82.4
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	0.0	0.0	0.0	-4.7	-55.1	-59.9	-49.1	18.3	-25.4	-56.2	-12.3	-8.6	-5.2	-26.2	-82.4
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term	0.0	0.0	0.0	-4.7	-55.1	-59.9	-49.1	18.3	-25.4	-56.2	-12.3	-8.6	-5.2	-26.2	-82.4
Other [10]							-175.6	-218.9	-155.5	-550.0	-43.9	-264.6	-57.9	-366.4	-916.4
Liabilities	*58.5*	*67.7*	*126.2*	*-322.8*	*-159.3*	*-355.9*	*3.7*	*22.5*	*-103.4*	*-77.2*	*0.5*	*12.4*	*-41.8*	*-28.9*	*-106.1*
Loans	-31.4	-90.0	-121.4	-102.9	-127.1	-351.4	-25.9	-22.6	-120.2	-168.7	-21.0	-22.3	-100.5	-143.8	-312.5
Monetary authorities	9.9	-52.7	-42.8	-61.2	-71.7	-175.8	-7.5	-16.4	-61.4	-85.3	-7.5	-1.9	-46.6	-55.9	-141.3
Use of Fund credit	-42.0	-60.8	-102.8	-65.3	-72.1	-240.1	-7.5	-5.7	-61.4	-74.6	-7.5	-1.9	-46.6	-55.9	-130.5
Drawings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	42.0	60.8	102.8	65.3	72.1	240.1	7.5	5.7	61.4	74.6	7.5	1.9	46.6	55.9	130.5
Other long-term	51.9	8.1	60.0	4.1	0.3	64.4	0.0	-10.7	0.0	-10.7	0.0	0.0	0.0	0.0	-10.7
Drawings	51.9	8.1	60.0	4.1	0.3	64.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.7	0.0	10.7	0.0	0.0	0.0	0.0	10.7
General government	-18.2	-10.5	-28.7	-25.5	-38.8	-92.9	-11.9	-0.6	-51.8	-64.3	-6.0	-4.4	-3.0	-13.4	-77.7
Long-term	-18.2	-10.5	-28.7	-25.5	-38.8	-92.9	-11.9	-0.6	-51.8	-64.3	-6.0	-4.4	-3.0	-13.4	-77.7
Drawings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	18.2	10.5	28.7	25.5	38.8	92.9	11.9	0.6	51.8	64.3	6.0	4.4	3.0	13.4	77.7
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	-23.1	-26.8	-49.9	-16.2	-16.6	-82.7	-6.5	-5.5	-7.0	-19.0	-7.5	-16.1	-50.9	-74.5	-93.5
Long-term	-16.8	-19.8	-36.6	-9.4	-8.0	-53.9	10.3	13.4	10.7	34.3	4.1	-5.6	3.6	2.2	36.5

(continued)

(continued) (million USD)

Indicators	1995 I quarter	1995 II quarter	1995 Jan – June	1995 III quarter	1995 IV quarter	1995 Total	1996 January	1996 February	1996 March	1996 I quarter	1996 April	1996 May	1996 June	1996 II quarter	1996 Jan – June
Drawings[12]	0.0	0.4	0.4	2.3	10.9	13.6	17.1	15.7	13.1	45.8	12.4	4.8	4.5	21.6	67.4
Repayments	16.8	20.2	37.0	11.7	18.9	67.5	6.8	2.3	2.4	11.5	8.3	10.3	0.9	19.4	30.9
Short-term	-6.3	-7.0	-13.3	-6.9	-8.6	-28.8	-16.7	-18.9	-17.7	-53.3	-11.6	-10.5	-54.5	-76.6	-130.0
Currency and deposits	-10.1	14.1	3.9	-43.0	9.2	-29.8	9.9	7.0	-6.3	10.5	6.4	12.9	1.8	21.1	31.6
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks[11]	-10.1	14.1	3.9	-43.0	9.2	-29.8	9.9	7.0	-6.3	10.5	6.4	12.9	1.8	21.1	31.6
Other liabilities	16.2	13.1	29.3	13.9	8.7	51.8	19.8	38.1	23.1	81.0	15.0	21.8	56.9	93.7	174.8
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	16.2	13.1	29.3	13.9	8.7	51.8	19.8	38.1	23.1	81.0	15.0	21.8	56.9	93.7	174.8
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term[12]	16.2	13.1	29.3	13.9	8.7	51.8	19.8	38.1	23.1	81.0	15.0	21.8	56.9	93.7	174.8
Other[13]	83.9	130.4	214.3	-190.7	-50.1	-26.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserves (increase:-)	-122.3	-371.8	-494.1	63.6	196.8	-233.7	279.4	96.4	216.2	592.0	15.4	27.3	26.9	69.6	661.6
Monetary gold	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Special drawing rights	11.2	-0.4	10.8	-3.0	-22.5	-14.7	8.2	13.2	2.9	24.3	-7.0	8.3	-9.6	-8.3	16.0
Reserve position in the Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign exchange reserves	-133.5	-371.4	-504.9	66.6	219.3	-219.0	271.2	83.2	213.3	567.7	22.4	19.0	36.5	77.9	645.6
Net errors and ommissions	58.2	70.7	128.9	99.3	-56.5	171.7	-58.5	-61.3	49.6	-70.2	56.9	121.2	-51.3	126.8	56.6

* In accordance with IMF 5-th edition of the "Balance of Payments Manual."

[1] Preliminary data.

[2] Customs data is provided by the MF Computing Center and adjusted by the BNB.
Data for 1995 is provided on 19 August 1996, data for the first quarter of 1996 – on 14 August 1996, and for the second quarter – on 22 August 1996.

[3] Includes passenger transport estimated by the BNB.

[4] Data is provided by the NSI and estimated by the BNB.

[5] The data is on a cash basis. Since 1995, interest payments are on a due basis.

[6] Based on data provided by the Agency for Foreign Aid.

[7] For assets, a negative sign shows an increase and a positive figure shows a decrease.
For liabilities, a positive sign shows an increase and a negative figure shows a decrease.

[8] Ministry of Finance data.

[9] Includes repayments (gas deliveries) from Russia under the Yamburg Agreement.

[10] Includes change of foreign exchange deposits of population and private companies.

[11] Includes clearing account changes to former COMECON countries.

[12] Includes rescheduled payments and arrears of commercial banks to nonresidents.

[13] Includes unclassified capital and other short-term capital.

[14] The differences between the NSI data and settlement data are due to different principle of reporting. The NSI trade data is based on the customs declarations and includes goods that have physically crossed the border while commercial banks report only trade related incoming and outgoing payments. Probably there are problems with the accurate reporting of trade flows.
Settlement data reported by the commercial banks:

Trade balance, million USD	78.8	82.7	161.5	140.4	-119.8	182.1	-116.1	-47.3	-8.7	-172.2	61.9	14.4	-76.4	-0.1	-172.2
Exports, FOB	2022.2	2238.8	4261.0	2127.9	2102.5	8491.5	467.2	464.0	502.4	1433.6	541.2	416.2	343.7	1301.1	2734.7
Imports, FOB	-1943.4	-2156.1	-4099.5	-1987.5	-2222.3	-8309.4	-583.3	-511.3	-511.1	-1605.8	-479.3	-401.8	-420.1	-1301.2	-2907.0

CASH BASIS REPORTING OF THE GENERAL GOVERNMENT BUDGET

(million BGL)

Indicators	1995				1996			
	State Budget Law	Reporting 30 June	% of the Law	% of GDP	State Budget Law	Reporting 30 June	% of the Law	% of GDP
I. Total revenue	215491.3	82288.0	38.2	9.4	250149.6	105767.5	42.3	9.2
1. Tax revenues	170698.7	65091.5	38.1	7.5	212236.4	82926.2	39.1	7.2
corporate tax from financial institutions	1063.2	398.7	37.5	0.0	5900.0	3687.1	62.5	0.3
corporate tax from nonfinancial institutions	18105.6	8014.7	44.3	0.9	26050.0	9140.2	35.1	0.8
customs duties and fees	23554.9	8554.1	36.3	1.0	25900.0	10385.0	40.1	0.9
VAT	77009.0	24817.2	32.2	2.8	83000.0	32006.4	38.6	2.8
2. Nontax revenues	44792.6	17196.5	38.4	2.0	37913.2	22841.3	60.2	2.0
including:								
BNB – excess of revenue over expenditure	25000.0	9567.7	38.3	1.1	9800.0	11686.7	119.3	1.0
interest revenue	1830.0	1109.1	60.6	0.1	2300.0	379.0	16.5	0.0
other nontax revenues	10791.1	3157.0	29.3	0.4	15667.8	5496.4	35.1	0.5
II. Total expenditure	273442.0	113810.1	41.6	13.1	308462.4	142922.1	46.3	12.4
1. Current expenditures	148807.6	63760.9	42.8	7.3	156539.7	85335.9	54.5	7.4
including:								
other expenditures	6852.6	1007.5	14.7	0.1	10765.8	1947.7	18.1	0.2
subsidies – total	8464.1	3450.4	40.8	0.4	10164.4	4514.4	44.4	0.4
interest – total	122765.8	57310.6	46.7	6.6	121803.2	75252.8	61.8	6.5
interest on external loans	27356.0	11193.7	40.9	1.3	33184.0	13388.6	40.3	1.2
interest on internal loans	95409.8	46116.9	48.3	5.3	88619.2	61864.2	69.8	5.4
including:								
discounts, interest and commissions on government treasury bills	25914.5	15265.5	58.9	1.8	32796.9	20131.8	61.4	1.8
government bonds issued to assume companies' debt to banks	16947.2	8273.1	48.8	0.9	10342.0	5254.9	50.8	0.5
on government treasury bonds	28035.3	9460.9	33.7	1.1	38559.5	29345.5	76.1	2.6
on loans from BNB	21210.4	12137.3	57.2	1.4	6087.4	6425.5	105.6	0.6
2. Capital investments	915.0	282.1	30.8	0.0	2191.0	527.5	24.1	0.0
3. Transfers – total	123719.4	49767.1	40.2	5.7	149731.7	57058.8	38.1	5.0
3.1. Subsidies	123977.5	49659.5	40.1	5.7	150247.1	59522.1	39.6	5.2
3.2. Temporary loans from general government budget to		233.2		0.0		191.5		0.0
municipal councils		0.0		0.0		126.5		0.0
regional municipal councils		0.0		0.0		0.0		0.0
ministries and other government institutions		0.0		0.0		0.0		0.0
Social Security		0.0		0.0		0.0		0.0
legal authorities		233.2		0.0		0.0		0.0
3.3. General government budget contributions	-258.1	-125.6	48.7	0.0	-515.4	-204.9	-204.9	0.0
3.4. Temporary noninterest loans of the general government budget from other extrabudgetary funds and accounts				0.0		-2450.0		0.2
III. Deficit(-) / Surplus(+)								
1. Primary deficit/surplus	64815.1	25788.4	39.8	3.0	63490.4	38098.2	60.0	3.3
Interest paid on internal loans	95409.8	46116.9	48.3	5.3	88619.2	61864.2	69.8	5.4
2. Internal deficit	-30594.7	-20328.5	66.4	2.3	-25128.8	-23766.0	94.6	2.1
Interest paid on external loans	27356.0	11193.7	40.9	1.3	33184.0	13388.6	40.3	1.2
3. Cash deficit	-57950.7	-31522.2	54.4	3.6	-58312.8	-37154.7	63.7	3.2
IV. Cash deficit financing	57950.7	31522.2	54.4	3.6	58312.8	37154.7	63.7	3.2
1. Foreign financing (operations abroad)	-11628.3	-4778.0	41.1	0.5	-29460.2	-6858.5	23.3	0.6
1.1. Repayments from extended credits to other countries	133.0	3.2	2.4	0.0	30.7	59.8	194.8	0.0
1.2. Repayments from Russia				0.0	3700.0			0.0
1.3. Repayments on external loans	-7400.7	-2207.2	29.8	0.3	-28234.9	-5910.6	20.9	0.5
1.4. Repayments of trade deficit in transferable roubles with the former COMECON countries	-1590.8	-56.5	3.6	0.0	-2524.0	-131.2	5.2	0.0
1.5. Overdue payments	-2769.8	-2517.4	90.9	0.3	-2432.0	-876.5	36.0	0.1
2. Domestic financing	69579.0	36300.2	52.2	4.2	87773.0	44013.2	50.1	3.8
2.1. Operations in government securities (net)	66310.5	38073.4	57.4	4.4	91236.7	42464.8	46.5	3.7
2.1.1. Issue of government securities in the current year	121076.4	68872.0	56.9	7.9	184448.7	102900.0	55.8	8.9
issue of treasury bills		47927.3		5.5		96813.0		8.4
issue of treasury bonds		25917.3		3.0		13754.0		1.2
Repayment of government securities in the current year – total		-35771.2		4.1		-68102.2		5.9
repayment of government securities issued in the current year		-4972.6		0.6		-7667.0		0.7
repayment of government securities issued in previous years	-54765.9	-20798.6	38.0	2.4	-93212.0	-60435.2	64.8	5.3

(continued)

(continued) (million BGL)

Indicators	1995				1996			
	State Budget Law	Reporting 30 June	% of the Law	% of GDP	State Budget Law	Reporting 30 June	% of the Law	% of GDP
2.2. Bank financing (net)	-4486.3	-2345.4	52.3	0.3	-3463.7	3768.2	-108.8	0.3
2.2.1. BNB	-4013.3	-2108.9	52.5	0.2	-2990.7	4004.7	-133.9	0.3
long-term loans		0.0		0.0		0.0		0.0
repayments on long-term loans	-4013.3	-2108.9	52.5	0.2	-2990.7	-1495.3	50.0	0.1
temporary loans		6000.0		0.7		34000.0		3.0
repayments on temporary loans		-6000.0		0.7		-28500.0		2.5
2.2.2. Other banks and financial institutions (SSB and State Insurance Institute)	-473.0	-236.5	50.0	0.0	-473.0	-236.5	50.0	0.0
repayments on SSB credits		-126.5		0.0		-126.5		0.0
repayments on SII credits		-110.0		0.0		-110.0		0.0
2.3. Loans repaid by municipal councils from previous years		20.8		0.0		35.2		0.0
2.4. Government deposit		-500.0		0.1				0.0
2.5. Budget deposit		-6703.5		0.8		-5967.7		0.5
2.6. Budget balance from the previous year	7754.8	7754.8	100.0	0.9		3712.7		0.3
2.7. Temporary noninterest loans of the general government budget from other extrabudgetary resources	0.0	0.0	0.0	0.0		0.0		0.0

Notes: 1. The information on cash basis reporting of the general government budget is based on the cable accountancy received by commercial banks and is classified according to the method applied by the MF.

2. Allocation of expenditures projected by the Law is based on MF data.

Source: BNB.

CONSOLIDATED STATE BUDGET

(million BGL)

Indicators	Consolidated State Budget				General Government Budget						Legal Institutions					
	30 June 1995		30 June 1996		30 June 1995			30 June 1996			30 June 1995			30 June 1996		
	Reporting	% of GDP	Reporting	% of GDP	Reporting	Perc. share	% or GDP	Reporting	Perc. share	% of GDP	Reporting	Perc. share	% or GDP	Reporting	Perc. share	% of GDP
Net revenue	141471.8	16.2	183813.8	16.0	82301.5	58.2	9.4	105767.5	57.5	9.2	928.4	0.7	0.1	1484.5	0.8	0.1
Net expenditure	165481.1	19.0	223496.1	19.4	95235.8	57.6	10.9	128169.6	57.3	11.1	910.3	0.6	0.1	1438.6	0.6	0.1
Loans extended from PRUF			0.0													
Government transfers	0.0	0.0	0.0	0.0	17350.1		2.0	13905.9		1.2	-233.2		0.0	-165.0		0.0
Budget deficit	-24009.3	2.8	-39682.4	3.5	-30284.4		3.5	-36308.0		3.2	251.3		0.0	210.9		0.0
Financing, net	24009.3	2.8	39682.4	3.5	30284.4		3.5	36308.0		3.2	-251.3		0.0	-210.9		0.0
Foreign financing, net	-4778.0	0.5	-6858.5	0.6	-4778.0		0.5	-6858.5		0.6			0.0			0.0
Domestic financing, net	28787.3	3.3	46540.9	4.0	35062.4		4.0	43166.5		3.8	-251.3		0.0	-210.9		0.0
Operations in government securities, net	38073.4		42464.8		38073.4			42464.8								
Direct financing from financial institutions, net	-9476.5		2824.5		-3100.5			222.4			-251.3			-210.9		
BNB, net	-2621.3		-1767.7		-2082.3			443.7			-83.6			-210.9		
Long-term loans	0.0		0.0		0.0			0.0			0.0			0.0		
Repayments	-2108.9		-1495.3		-2108.9			-1495.3			0.0			0.0		
Temporary loans	6000.0		34000.0		6000.0			34000.0			0.0			0.0		
Repayments	-6000.0		-28500.0		-6000.0			-28500.0			0.0			0.0		
Balances on accounts	-8052.7		-14672.2		-7228.2			-7273.7			-83.6			-395.0		
Balances on deposit accounts	-500.0		0.0		-500.0			0.0			0.0			0.0		
Balances from past periods	8040.3		8899.8		7754.8			3712.7			0.0			184.1		
Other banks and financial institutions, net	-6855.2		4592.2		-1018.2			-221.3			-167.7			0.0		
Credits extended	0.4		0.0		0.0			0.0			0.0			0.0		
Repayments	-542.4		-414.1		-240.0			-236.5			0.0			0.0		
Loans repaid from regional municipal councils	0.0		35.2		20.8			35.2			0.0			0.0		
Resources on accounts, net	-6313.2		4971.1		-799.0			-20.0			-167.7			0.0		
Balances from past periods	6996.2		10467.9		0.0			0.0			0.0			0.0		
Balances on accounts	-13309.4		-5496.8		-799.0			-20.0			-167.7			0.0		
Other financing	188.9		1250.5		89.5			479.3			0.0			0.0		
Issue of municipal bonds	1.5		1.1		0.0			0.0			0.0			0.0		

(continued)

(continued)

(million BGL)

Indicators	Social Security						Municipal Councils						Extrabudgetary Accounts					
	30 June 1995			30 June 1996			30 June 1995			30 June 1996			30 June 1995			30 June 1996		
	Reporting	Perc. share	% of GDP	Reporting	Perc. share	% of GDP	Reporting	Perc. share	% of GDP	Reporting	Perc. share	% of GDP	Reporting	Perc. share	% of GDP	Reporting	Perc. share	% of GDP
Net revenue	31482.6	22.3	3.6	43678.2	23.8	3.8	18663.7	13.2	2.1	24279.4	13.2	2.1	8095.6	5.7	0.9	8604.2	4.7	0.7
Net expenditure	36691.7	22.2	4.2	51587.0	23.1	4.5	29458.3	17.8	3.4	37616.0	16.8	3.3	3185.0	1.9	0.4	4684.9	2.1	0.4
Loans extended from PRUF				-7361.0												7361.0		
Government transfers	-5666.5		0.7	-2303.6		0.2	-12371.4		1.4	-13887.2		1.2	921.0		0.1	2450.0		0.2
Budget deficit	457.4		0.1	1755.8		0.2	1576.8		0.2	550.6		0.0	3989.6		0.5	-5891.7		0.5
Financing, net	-457.4		0.1	-1755.8		0.2	-1576.8		0.2	-550.6		0.0	-3989.6		0.5	5891.7		0.5
Foreign financing, net			0.0			0.0			0.0			0.0			0.0			0.0
Domestic financing, net	-457.4		0.1	-1755.8		0.2	-1576.8		0.2	-550.6		0.0	-3989.6		0.5	5891.7		0.5
Operations in government securities, net																		
Direct financing from financial institutions, net	-457.4			-2240.8			-1677.7			-837.9			-3989.6			5891.7		
BNB, net	-455.4			-2240.8			0.0			0.0			0.0			240.3		
Long-term loans	0.0			0.0			0.0			0.0			0.0			0.0		
Repayments	0.0			0.0			0.0			0.0			0.0			0.0		
Temporary loans	0.0			0.0			0.0			0.0			0.0			0.0		
Repayments	0.0			0.0			0.0			0.0			0.0			0.0		
Balances on accounts	-740.9			-3277.3			0.0			0.0			0.0			-3726.2		
Balances on deposit accounts	0.0			0.0			0.0			0.0			0.0			0.0		
Balances from past periods	285.5			1036.5			0.0			0.0			0.0			3966.5		
Other banks and financial institutions, net	-2.0			0.0			-1677.7			-837.9			-3989.6			5651.4		
Credits extended	0.0			0.0			0.4			0.0			0.0			0.0		
Repayments	0.0			0.0			-302.4			-177.6			0.0			0.0		
Loans repaid from regional municipal councils	0.0			0.0			-20.8			0.0			0.0			0.0		
Resources on accounts, net	-2.0			0.0			-1354.9			-660.3			-3989.6			5651.4		
Balances from past periods	0.0			0.0			168.2			321.0			6828.0			10146.9		
Balances on accounts	-2.0			0.0			-1523.1			-981.3			-10817.6			-4495.5		
Other financing	0.0			485.0			99.4			286.2								
Issue of municipal bonds	0.0			0.0			1.5			1.1			0.0			0.0		

Notes:
1. GDP for 1995 used in the table is BGL 871.4 billion, and GDP for 1996 is BGL 1,150 billion.
2. General government budget includes central government budget, budgets of ministries and agencies, budgets of regional municipal councils, and the budget of the National Audit Chamber.
3. PRUF – Professional Retraining and Unemployment Fund.

Source: BNB.

MONEY SUPPLY

(million BGL)

Indicators	XII'94	III'95	VI'95	IX'95	XII'95	I'96	II'96	III'96	IV'96	V'96	VI'96
Exchange rate, BGL/1 USD	66.015	66.156	66.060	68.019	70.704	73.878	76.069	78.828	89.418	147.04	155.46
Broad money	418009	447764	497874	542901	583663	576149	584941	584179	605596	691909	701215
BGL	281612	313834	362093	388728	424899	413257	422642	419999	425148	435930	440613
foreign currencies	136397	133930	135781	154173	158764	162892	162299	164180	180448	255979	260602
Money (M2)	409109	439277	486889	530064	571305	563674	569963	570067	590320	667840	678423
High-liquid money (M1)	75131	70949	76099	89767	107886	93418	95781	93011	96278	103293	112436
Money outside banks	38498	36487	46589	54256	61615	56038	57723	57262	60175	65799	70257
Demand deposits	36633	34462	29510	35511	46271	37380	38058	35749	36103	37494	42179
Quasi-money	333978	368328	410790	440297	463419	470256	474182	477056	494042	564547	565987
Time deposits	164954	199048	242922	252101	255570	258534	263625	266137	268171	270424	269307
Savings deposits	40851	43455	40190	42894	57819	57000	56968	56205	55928	55217	54677
Foreign currency deposits	128173	125825	127678	145302	150030	154722	153589	154714	169943	238906	242003
Import and restricted deposits	8900	8487	10985	12837	12358	12475	14978	14112	15276	24069	22792
BGL	676	382	2882	3966	3624	4305	6268	4646	4771	6996	4193
foreign currencies	8224	8105	8103	8871	8734	8170	8710	9466	10505	17073	18599

Source: BNB.

DOMESTIC CREDIT

(million BGL)

Indicators	XII'94	III'95	VI'95	IX'95	XII'95	I'96	II'96	III'96	IV'96	V'96	VI'96
Exchange rate, BGL/1 USD	66.015	66.156	66.060	68.019	70.704	73.878	76.069	78.828	89.418	147.04	155.46
Domestic credit	543224	576262	583091	596741	628485	667733	683027	690128	707668	835868	925471
BGL	264400	288458	361578	385059	411077	434601	438586	437531	425437	439745	455322
foreign currencies	278824	287804	221513	211682	217408	233132	244441	252597	282231	396123	470149
Claims on government, net	276727	292329	279269	262002	269378	293621	302238	301869	296537	303267	373760
BGL	119963	134860	194271	197914	207108	230187	233389	233075	223394	229081	238757
foreign currencies	156764	157469	84998	64088	62270	63434	68849	68794	73143	74186	135003
State budget, net	322417	343376	340263	327588	344174	364606	371972	375862	373082	387116	459103
BGL	130470	146006	215416	225198	239461	253260	255706	257933	244888	249256	258861
foreign currencies	191947	197370	124847	102390	104713	107606	113170	114433	123971	133057	196004
Extrabudgetary accounts, net	-45690	-51047	-60994	-65586	-74796	-70985	-69734	-73993	-76545	-83849	-85343
Claims on nonfinancial public enterprises	189884	193078	148974	160269	169023	175050	177699	185512	194610	250924	250295
BGL	111725	113942	84303	93118	97576	98023	98417	97663	95992	92926	90185
foreign currencies	78159	79136	64671	67151	71447	77027	79282	87849	98618	157998	160110
Claims on private sector	76613	90855	154851	174470	190084	199062	203090	202747	216521	281677	301416
BGL	37525	45319	83008	94027	106393	106391	106780	106793	106051	117738	126380
foreign currencies	39088	45536	71843	80443	83691	92671	96310	95954	110470	163939	175039

Source: BNB.

INTEREST RATES ON ONE-MONTH DEPOSITS IN 1996

Months	Nominal						Real*					
	I	II	III	IV	V	VI	I	II	III	IV	V	VI
January	1.88						-0.38					
February	4.08	2.17					-0.12	0.25				
March	6.74	4.77	2.55				0.70	1.08	0.82			
April	9.62	7.61	5.32	2.70			0.49	0.87	0.61	-0.21		
May	14.46	12.35	9.96	7.23	4.41		-6.71	-6.35	-6.59	-7.35	-7.16	
June	20.14	17.92	15.42	12.55	9.59	4.96	-18.57	-18.26	-18.47	-19.13	-18.96	-12.71

INTEREST RATES ON SHORT-TERM CREDITS IN 1996

Months	Nominal						Real*					
	I	II	III	IV	V	VI	I	II	III	IV	V	VI
January	3.49						1.20					
February	7.66	4.02					3.30	2.07				
March	12.60	8.81	4.61				6.24	4.98	2.84			
April	18.20	14.21	9.79	4.96			8.35	7.06	4.88	1.98		
May	28.13	23.81	19.02	13.78	8.40		4.44	3.20	1.10	-1.71	-3.61	
June	40.63	35.89	30.63	24.88	18.98	9.75	-4.67	-5.81	-7.72	-10.27	-12.02	-8.73

* Interest rates are deflated by the consumer price index for the corresponding period.

Source: BNB.

DENOMINATION COMPOSITION IN NOTES AND COINS

(BGL)

Denomination	30 June 1995	31 December 1995	30 June 1996
Notes, total	74 401 546 724	125 995 004 860	150 563 319 390
5000 levs			10 000 000 000
2000 levs	3 460 000 000	39 868 000 000	39 856 000 000
1000 levs	5 280 000 000	10 279 995 500	12 256 995 500
500 levs	30 480 787 500	38 447 263 250	53 390 248 500
200 levs	16 773 009 300	19 539 929 900	19 399 148 300
100 levs	11 170 463 500	10 893 743 800	9 767 542 400
50 levs	3 728 645 600	3 912 655 350	3 213 405 875
20 levs	1 823 887 552	1 743 930 052	1 691 135 322
10 levs	1 011 046 547	755 250 442	562 993 842
5 levs	500 265 374	387 026 302	266 799 536
2 levs	87 217 219	82 931 159	77 051 093
1 lev	86 224 132	84 279 105	81 999 022
Coins, total	784 160 317	1 162 066 417	1 317 602 317
50 levs	11 260 000	11 260 000	11 260 000
20 levs	4 714 960	4 714 960	4 714 960
10 levs	25 500 000	171 465 000	171 465 000
5 levs	124 720 000	198 660 000	198 660 000
2 levs	41 330 000	100 525 000	160 545 000
1 lev	67 069 651	67 072 651	130 492 651
50 stotinkas	55 588 358	55 588 358	55 588 358
20 stotinkas	47 632 861	47 632 861	47 632 861
10 stotinkas	33 336 493	33 336 493	33 336 493
5 stotinkas	12 083 009	12 083 009	12 083 009
2 stotinkas	10 862 659	10 862 659	10 862 659
1 stotinka	8 644 520	8 644 520	8 644 520
Jubilee	341 417 806	440 220 906	472 316 806
Notes and coins, total	75 185 707 041	127 157 071 277	151 880 921 707

Source: BNB.

CENTRAL EXCHANGE RATE, VOLUME OF THE INTERBANK FOREIGN EXCHANGE MARKET AND GROSS FOREIGN EXCHANGE RESERVES

Indicators	XII'95	1996					
		I	II	III	IV	V	VI
Average monthly exchange rate							
BGL/1 USD	70.263	72.532	74.590	77.943	81.546	119.53	143.10
BGL/1 DEM	48.870	49.817	50.926	52.793	54.394	77.987	93.731
BGL/1 CHF	60.365	61.691	62.421	65.167	67.177	95.330	113.87
End of month exchange rate							
BGL/1 USD	70.704	73.878	76.069	78.828	89.418	147.04	155.46
BGL/1 DEM	49.354	49.709	52.407	53.317	58.948	96.200	102.15
BGL/1 CHF	61.290	61.092	64.177	66.020	72.941	117.31	124.25
Monthly volume of forex bought (million USD)	535.1	526.7	403.9	487.5	332.9	271.9	290.6
Monthly volume of forex sold (million USD)	569.4	765.0	451.1	584.0	314.5	246.5	254.3
Gross foreign exchange reserves (million USD)*	1236.4	955.6	860.0	643.5	627.7	600.2	573.4

* Gross foreign exchange reserves include holdings in SDR, BNB foreign exchange assets on current accounts and deposits with banks abroad, and Bulgaria's reserve position in the IMF.

Source: BNB.

CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS (SSB EXCLUDED) AS OF 30 JUNE 1996

(billion BGL)

Indicators	Group I		Group II		Total for the banking system	
	1995	VI'96	1995	VI'96	1995	VI'96
ASSETS						
FINANCIAL ASSETS	592.9	973.9	183.8	277.6	776.7	1251.4
Reserves	58.7	79.0	23.5	25.8	82.1	104.8
BGL	29.3	21.8	12.7	8.1	42.1	29.9
foreign currency	29.3	57.2	10.7	17.6	40.0	74.8
Government securities	114.1	175.5	8.8	19.6	122.9	195.0
BGL	40.6	35.0	7.9	14.3	48.5	49.3
foreign currency	73.5	140.5	0.9	5.2	74.3	145.7
Claims on banks and other financial institutions	77.4	151.7	23.2	34.0	100.7	185.7
BGL	11.1	9.3	12.7	11.1	23.8	20.5
foreign currency	66.3	142.4	10.6	22.9	76.9	165.3
Claims on nonfinancial institutions and other clients	335.3	554.4	115.7	183.9	451.0	738.3
BGL	193.6	259.2	66.7	80.2	260.2	339.4
foreign currency	141.7	295.3	49.0	103.6	190.7	398.9
Shares and other securities with fixed yield in trading portfolio	3.0	4.8	4.1	5.5	7.1	10.3
BGL	1.4	1.5	2.3	1.4	3.7	2.9
foreign currency	1.5	3.3	1.8	4.1	3.3	7.4
Bonds and other securities with variable yield in trading portfolio	0.2	0.2	0.6	0.3	0.8	0.5
BGL	0.2	0.2	0.1	0.2	0.3	0.3
foreign currency	0.0	0.0	0.5	0.2	0.5	0.2
Long-term financial assets	4.3	8.3	8.0	8.5	12.3	16.8
Partnerships	1.4	1.6	3.4	2.8	4.8	4.3
Equity	1.3	1.6	0.6	0.2	1.9	1.8
Shares	1.6	1.6	3.9	5.6	5.4	7.2
Bonds	0.1	3.5	0.0	0.0	0.1	3.5
NONFINANCIAL ASSETS	19.6	20.9	16.1	16.6	35.7	37.5
Short-term nonfinancial assets	0.4	1.2	0.1	0.1	0.6	1.3
Long-term nonfinancial assets	19.2	19.7	15.9	16.4	35.1	36.2
Intangible	0.3	0.5	0.5	0.5	0.8	1.0
Tangible	18.9	19.3	15.5	15.9	34.3	35.2
FUTURE EXPENDITURE	6.3	4.4	5.8	9.7	12.2	14.1
RIGHTS TO EQUITY SUBSCRIPTION	0.8	6.1	6.2	5.9	7.0	12.0
OTHER ASSETS	9.8	16.2	11.4	24.0	21.2	40.2
LOSSES	34.2	48.1	9.0	16.1	43.1	64.2
TOTAL ASSETS	663.6	1069.6	232.2	349.8	895.9	1419.4
OFF-BALANCE ASSETS	434.1	766.6	130.9	261.4	565.1	1028.1
LIABILITIES						
ATTRACTED RESOURCES	528.9	822.2	161.5	222.2	690.4	1044.4
Attracted resources from banks and other financial institutions	235.7	419.8	55.3	95.3	291.0	515.2
BGL	46.5	66.5	39.3	66.5	85.8	133.0
foreign currency	189.1	353.3	16.0	28.8	205.2	382.1
Attracted resources from nonfinancial institutions and other clients	293.2	402.4	106.2	126.9	399.5	529.3
BGL	152.4	146.6	63.4	51.4	215.8	198.0
foreign currency	140.8	255.8	42.9	75.5	183.7	331.3
FUTURE REVENUE	62.0	81.7	25.5	34.5	87.5	116.2
OTHER LIABILITIES	5.5	41.3	14.5	41.6	20.0	82.8
FIXED CAPITAL	67.2	124.3	30.8	51.6	98.0	175.9
Profit	0.8	3.2	0.5	10.4	1.3	13.6
Retained earnings from previous years	0.0	0.0	0.1	0.0	0.1	0.0
Profit for the current year	0.8	3.2	0.4	10.4	1.2	13.5
Capital	37.4	73.7	25.1	31.3	62.4	105.0
Fixed	12.4	42.7	23.6	29.9	36.0	72.6
Supplementary	24.9	30.9	1.5	1.4	26.4	32.4
Reserves	29.1	47.5	5.2	9.9	34.3	57.4
TOTAL LIABILITIES	663.6	1069.6	232.2	349.8	895.9	1419.4
OFF-BALANCE LIABILITIES	434.1	766.6	130.9	261.4	565.1	1028.1

Source: BNB.

CONSOLIDATED INCOME STATEMENT OF COMMERCIAL BANKS (SSB EXCLUDED) AS OF 30 JUNE 1996

(billion BGL)

Indicators	Group I		Group II		Total for the banking system	
	1995	VI'96	1995	VI'96	1995	VI'96
I. FINANCIAL EXPENDITURE	260.0	742.9	84.3	218.9	344.3	961.8
Interest on lev operations	64.8	37.4	44.9	30.9	109.6	68.3
Interest on foreign exchange operations	12.1	7.5	5.6	4.2	17.7	11.7
Capital losses on securities	60.8	67.6	12.2	14.3	73.0	81.9
Valuation adjustments	122.0	630.1	20.7	169.1	142.7	799.2
Commissions and fees	0.3	0.2	1.0	0.5	1.3	0.7
Other financial expenditure	0.0	0.0	0.0	0.0	0.0	0.0
II. EXTRA EXPENDITURE	7.8	0.5	0.3	0.5	8.1	1.0
III. EXPENDITURE BY ECONOMIC ELEMENT	12.8	10.7	9.0	7.5	21.9	18.3
Equipment	0.8	0.6	0.5	0.4	1.3	0.9
External services	4.8	3.0	3.6	2.9	8.5	5.9
Salaries and other remuneration	3.3	2.2	2.0	1.4	5.3	3.6
Social security and benefits	1.4	0.9	0.8	0.6	2.2	1.5
Depreciation	0.9	0.9	0.9	0.6	1.8	1.5
Other expenditure	1.6	3.1	1.2	1.6	2.8	4.7
IV. STATUTORY PROVISIONS	8.2	18.5	1.8	4.6	10.0	23.1
Statutory provisions in levs	8.2	18.5	1.5	4.6	9.7	23.1
Statutory provisions in foreign currency	0.0	0.0	0.2	0.0	0.2	0.0
V. TAXES	1.9	0.2	0.2	0.0	2.1	0.3
Profit tax	1.2	0.1	0.2	0.0	1.4	0.1
Other taxes	0.7	0.2	0.0	0.0	0.7	0.2
TOTAL EXPENDITURE (I+II+III+IV+V)	290.8	772.8	95.6	231.6	386.5	1004.4
VI. RESULT FROM THE REPORTING PERIOD (PROFIT)	0.8	3.2	0.4	10.4	1.2	13.5
TOTAL EXPENDITURE (I+II+III+IV+V+VI)	291.6	775.9	96.1	242.0	387.7	1018.0
I. FINANCIAL REVENUE	262.6	761.3	88.4	233.8	350.9	995.2
Interest on lev operations	49.4	22.8	38.3	20.1	87.7	42.9
Interest on foreign exchange operations	13.4	12.7	9.3	6.6	22.7	19.3
Income from partnerships and equity	0.2	0.1	0.1	0.0	0.3	0.1
Capital gains on securities	70.5	33.1	16.2	17.2	86.6	50.3
Valuation adjustments	126.0	690.3	22.0	188.7	148.0	879.1
Commissions and fees	3.0	2.3	2.3	1.3	5.4	3.5
Other financial revenue	0.0	0.0	0.2	0.0	0.2	0.0
II. EXTRA REVENUE	2.4	0.4	1.0	0.9	3.5	1.4
III. REVENUE FROM NONFINANCIAL SERVICES	0.2	0.1	0.3	0.1	0.5	0.3
TOTAL REVENUE (I+II+III)	265.2	728.3	89.8	234.9	354.9	963.1
IV. RESULT FROM THE REPORTING PERIOD (LOSSES)	26.5	14.0	6.3	7.1	32.8	21.1
TOTAL REVENUE (I+II+III+IV)	291.6	775.9	96.1	242.0	387.7	1018.0

Source: BNB.

CAPITAL ADEQUACY OF COMMERCIAL BANKS
(as per Regulations No. 8 of the BNB)

Indicators	Code	Group I		Group II		Total for the banking system	
		1995	VI'96	1995	VI'96	1995	VI'96
Capital base [million BGL]	1000	-397	-280	6146	-10177	5749	-10458
Primary capital [million BGL]	1100	35498	22505	18889	10731	54387	33236
Total assets [million BGL]	5000	606866	961613	213511	359892	820377	1321504
Total risk component [million BGL]	5100	310625	422384	124505	277455	435131	699838
Total capital adequacy (1000/5100) [%]	5200	-0.13	-0.07	4.94	-3.67	1.32	-1.49
Primary capital adequacy (1100/5100) [%]	5210	11.43	5.33	15.17	3.87	12.50	4.75
Degree of asset risk (5100/5000) [%]	5300	51.19	43.92	58.31	77.09	53.04	52.96
Degree of asset coverage (1000/5000) [%]	5400	-0.07	-0.03	2.88	-2.83	0.70	-0.79

LOAN CLASSIFICATION
(as per Regulations No. 9 of the BNB)

(billion BGL)

Indicators	Group I		Group II		Total for the banking system	
	1995	VI'96	1995	VI'96	1995	VI'96
Standard loans	199	352	61	88	259	440
Doubtful loans – group A	211	229	38	25	249	254
Loans and cash holdings in foreign currency unprovisioned in another manner	162	182	21	6	182	188
Doubtful loans – group B	15	27	6	11	21	37
Uncollectable loans	53	95	22	49	75	144
Total required statutory provisions	103	154	33	59	136	213
Total reported statutory provisions	29	47	6	15	35	63
Reported/required provisions ratio, %	28.10	30.90	16.91	25.37	25.41	29.36

TRANSFERS IN THE BANKING SYSTEM IN 1996

Month	Transfers			
	Effected		Queueing	
	Number	Amount (BGL)	Number	Amount (BGL)
January	770 267	174 452 234 206	236 262	61 252 535 418
February	817 279	161 301 956 046	670 206	116 917 888 048
March	858 952	173 545 961 446	474 755	93 684 995 250
April	930 866	200 957 002 806	557 940	114 428 296 992
May	898 173	198 925 436 541	826 085	147 712 450 723
June	796 838	193 061 968 852	996 472	223 362 479 565
First half, total	5 072 375	1 102 244 559 897	3 761 720	757 358 645 996

Source: BNB.

Major Resolutions of the Managing Board of the Bulgarian National Bank

4 January Regulations No. 8 on the capital adequacy of banks were amended and supplemented.

15 January Regulations No. 4 on foreign currency positions of banks were adopted, to go into effect on 1 April 1996.

18 January Regulations No. 3 on payments were amended.

22 January To go into effect under the end-1995 regulation of minimum reserve requirements, commercial banks' minimum reserve requirements (excluding the SSB) were decreased by 1.5 percentage points (from 11% to 9.5%), provided that released funds would be used for the outright purchase of short- or medium-term government securities offered by the BNB.

1 February As of 5 February 1996, the basic interest rate was set at 42% per annum.

Regulations No. 5 of 1996 on the terms and procedure for issuance, acquisition and redemption of book-entry government securities and the criteria for valuation and selection of primary dealers in government securities were adopted.

8 February An amendment to Regulations No. 8 on the capital adequacy of banks was adopted, whereby the minimum capital required for making bank transactions was determined as follows: BGL 800 million for making bank operations domestically, and BGL 1,200 million for making bank operations domestically and abroad. Persons who had applied for a bank license by 8 February 1996 may be granted licenses under the prior requirements: BGL 450 million for a domestic license and BGL 800 million for a full license. All banks must attain the new capital levels by 31 March 1997.

For the January – December 1996 period, cash holdings of commercial banks and the SSB in levs qualify as minimum reserve requirements with up to 60% of the actual amount in cash holdings.

To ensure timely and unimpeded payment by banks of initial (affiliation) contributions and annual premium contributions as provided for in Articles 10 and 11 of Regulations No. 1 on bank deposit insurance, to go into effect under the January 1996 regulation, the minimum reserve requirements of banks held with the BNB (excluding the SSB) were reduced by one percentage point (from 9.5% to 8.5%), provided that released funds would be used entirely for payment of due contributions to the Fund as well as to purchase government securities on outright agreements with the BNB if there would remain any balances after the contributions had been paid.

28 February The proposed agreement to transfer, against no payment, more than 50% of the voting registered shares in Vitosha Bank for Agricultural Credit Ltd., Sofia, to the BNB, which, together with the shares owned by the Bank Consolidation Company, ensured majority in decision-making at the General Meeting of shareholders in Vitosha Bank for Agricultural Credit Ltd., Sofia.

29 February The interest rate on funds raised for bank deposit insurance was set at 9% (the same rate was applied on banks' special current accounts). The interest was to accrue on a monthly basis and compounded.

4 March As of 6 March, the basic interest rate was set at 49% per annum.

The interest rate on commercial banks' current accounts with the BNB was set at 10% per annum.

Pursuant to Article 9, para. 1 of the LBCA, the Metropolitan Municipal Bank Ltd., headquartered in Sofia, with capital of BGL 450 million, was authorized to make bank transactions in the country under Article 1, para. 2, items 1, 2, 3, 4, 5, 7, 8 and 10 of the LBCA. The total amount of credits extended to the Sofia Great Municipality and to firms with over 50% municipal stake, including acquisition of government securities issued by the Sofia Great Municipality and the latter firms, was not to exceed 20% of the paid-in capital.

7 March Regulations No. 1 on bank deposit insurance were amended, providing for the guaranteed reimbursement of an individual depositor's funds (physical person) held on account with a bank, through a specifically established for that purpose fund, irrespective of the currency in which these accounts are kept, of their number or amount, up to BGL 250,000 in total.

Pursuant to Article 56, para. 1, item 7 in connection with Article 19, para. 1, item 4, paras. 2 and 3 of the LBCA, the BNB revoked the permit of Crystalbank Ltd. to conduct bank transactions under Article 1, para. 2 of the LBCA.

Pursuant to Article 56, para. 1, item 7 in connection with Article 19, para. 1, item 4, paras. 2 and 3 of the LBCA, the BNB revoked the permit of Private Agricultural and Investment Bank Ltd. to conduct bank transactions under Article 1, para. 2 of the LBCA.

12 March As of 13 March 1996, an interest rate of 70% per annum was set for overdraft on current accounts of up to three days and over three days.

Pursuant to Article 46 of the Law on the BNB, an interim loan, totaling BGL 4 billion, repayable within 3 months from the value date, was to be extended to the MF. The loan was to be made between 13 March and 19 March 1996. Interest accrued on the loan is equal to the basic interest rate operative in the respective period.

14 March Regulations No. 18 on replacement of damaged banknotes and coins in circulation were adopted.

29 March Pursuant to Article 46 of the Law on the BNB, an interim loan, totaling BGL 6.5 billion, value date 29 March 1996, repayable within three months, was to be extended to the MF. Interest accrued on the loan is equal to the basic interest rate operative throughout the respective period.

25 April As of 26 April 1996, the basic interest rate was set at 67% per annum.

The interest rate on commercial banks' current accounts with the BNB was set at 14% per annum.

Regulations No. 1 of 1995 of the BNB on deposit insurance were amended.

Pursuant to Article 46 of the Law on the Bulgarian National Bank, a credit line in the amount of up to BGL 5 billion was to be extended to the MF. Interest accrued on the loan is equal to the basic interest rate operative throughout the respective period.

2 May The license of Financial and Commercial Agency Ltd., Sofia, to conduct bank transactions under Article 1, para. 2, items 3, 4, 6, 7, 9 (including trust management of other persons' funds) and 10 of the LBCA was revoked.

“Societe Generale,” headquartered in Paris, was authorized to open a branch in Sofia through which to conduct bank transactions under Article 1, para. 2 (excluding items 6 and 9 of that paragraph) of the LBCA.

9 May As of 10 May 1996, the basic interest rate was set at 108% per annum.

The amount of minimum required reserves of commercial banks was raised by 1.5 percentage points, to be applied to balances for the May 1996 regulation.

17 May Pursuant to Article 65, paras. 1 and 2 of the LBCA, Mineralbank Ltd. was placed under conservatorship; all members of the Managing and Supervisory Boards were removed from office; Conservators were appointed with the power provided for by Article 58, para. 4 of the LBCA; bank’s activities are restricted and the bank is banned to conduct transactions under Article 1, para. 2, items 2 – 10 of the LBCA; to accept money on deposit from physical persons as well as to dispose with its property.

Pursuant to Article 65, paras. 1 and 2 of the LBCA, First Private Bank Ltd. was placed under conservatorship; all members of the Board of Directors were removed from office; Conservators were appointed with the power provided for by Article 58, para. 4 of the LBCA; bank’s activities are restricted and the bank is banned to conduct transactions under Article 1, para. 2, items 2 – 10 of the LBCA; to accept money on deposit from physical persons as well as to pay dividends and to dispose with its property.

21 May Pursuant to Article 56, para. 1, item 7, paras. 3 and 4, Article 58, para. 4 of the LBCA and Article 16 of the Administrative Procedure Law, all members of the Managing and Supervisory Boards of Private Agricultural and Investment Bank Ltd. were removed from office and Conservators were appointed with the power provided for by Article 58, para. 4 of the LBCA.

23 May Pursuant to Article 46 of the Law on the BNB, the Bulgarian National Bank decided to increase the amount of the credit line extended to the Ministry of Finance by the Resolution of 25 April 1996 of the BNB Managing Board up to BGL 10 billion, i.e. to the maximum admissible amount for unserviced temporary credits. Interest accrued on the loan is equal to the basic interest rate effective in the respective period.

29 May Extension of new and unutilized unsecured credits to all banks was discontinued. The BNB stopped extending Lombard and discount loans and stopped refinancing in foreign currency.

As of 30 May 1996, auctions for outright sale of government securities from the BNB portfolio was introduced.

30 May Pursuant to Article 70, paras. 2 and 3 in connection with para. 4 of this Article and Article 71 of the LBCA, the BNB Managing Board ascertained the insolvency of Mineralbank Ltd., Sofia, and applied to the Sofia City Court to institute bankruptcy proceedings against Mineralbank Ltd.

Pursuant to Article 70, paras. 2 and 3 in connection with para. 4 of this Article and Article 71 of the LBCA, the BNB Managing Board ascertained the insolvency of First Private Bank Ltd. and applied to the Sofia City Court to institute bankruptcy proceedings against First Private Bank Ltd.

6 June On 17 June 1996 the BNB Managing Board put into circulation a new banknote, with BGL 5,000 face value, 1996 issue, to be used as legal tender.

12 June Under the June 1996 regulation, commercial bank minimum reserve requirements were set at 9% on funds attracted, 9.5% and 10% for July and August respectively.

13 June As of 14 June, the interest on commercial banks' current accounts with the BNB was set at 36% per annum.

17 June Pursuant to Article 70, paras. 2 and 3 in connection with para. 4 and Article 71 of the LBCA, the BNB Managing Board ascertained the insolvency of Private Agricultural and Investment Bank Ltd., Sofia, and filed a petition to the Sofia City Court to institute bankruptcy proceedings against the bank.

Pursuant to Article 56, para. 1, item 7 and paras. 3, 4 and 5 of the LBCA and Article 16 of the Administrative Procedure Law, the BNB Managing Board removed from office all managing bodies at Crystalbank Ltd., Madan, as per Article 219, item 2 of the Law on Commerce, and appointed Conservators with the powers to fully manage and represent the bank for a six-month term.

Pursuant to Article 70, paras. 2 and 3 in connection with para. 4 and Article 71 of the LBCA, the BNB Managing Board ascertained the insolvency of Crystalbank Ltd., Madan, and filed a petition to the Smolyan District Court to institute bankruptcy proceedings against the bank.

Pursuant to Article 70, paras. 2 and 3 in connection with para. 4 and Article 71 of the LBCA, the BNB Managing Board ascertained the insolvency of Agrobusinessbank Ltd., Plovdiv, and filed a petition to the Plovdiv District Court to institute bankruptcy proceedings against the bank.

20 June Pursuant to Article 46 of the Law on the BNB, the MF was to receive a credit line of up to BGL 10 billion. The basic interest rate is to accrue on the loan.

Regulations No. 9 on the loan classification and the formation of mandatory special reserves (statutory provisions) by banks were amended and supplemented.

27 June Regulations No. 8 on the capital adequacy of banks were amended and supplemented.

Pursuant to Article 5 of the Law on the State Savings Bank in connection with Article 3 of the LBCA, bank requirements and regulation were enforced to the State Savings Bank (SSB), taking account of the specific nature of this institution.