The Bulgarian Banking System

BULGARIAN NATIONAL BANK

The Bulgarian Banking System

Sofia, November 1995

Bulgarian National Bank
Economic and Monetary Research Department
1, Alexander Battenberg Square
1000 Sofia
Phone 3592/886 1351; 813 171
Facsimile 3592/880 558; 884 401

Contents

CHAPTER ONE

BULGARIAN BANKING SYSTEM BEFORE 1990

In the pre-World War II period Bulgaria had a banking system that was quite advanced, by the standards of the time.

The Bulgarian National Bank (BNB), the central bank of the country, was founded in 1879. Almost since the beginning of its operations, the BNB has acted as a typical central bank responsible for currency issue and servicing of the state budget. At the same time, it performed some limited commercial banking activities, but gradually these diminished.

From 1926, BNB's functions were restricted to purely central banking operations.

The commercial banking system consisted of a fairly large number of small state-owned, cooperative and private banks. Before the Great Depression in 1929 the number of banks reached a high of 129. In the 1930s this number decreased to 34. Immediately before World War II, Bulgaria was considered to have the most sophisticated and well-functioning banking system in the Balkan region.

The post-war period was marked by a rapid degradation of the financial system. The Banking Law of 1947 introduced "state monopoly over banking activities." Virtually all private banks were nationalized and incorporated into the structure of the BNB, which took over the current accounts of enterprises and the short-term financial facilities related to commercial activity. A new institution, the Bulgarian Investment Bank, was established to accommodate long-term credit. All retail banking was concentrated in the Post Credit Bank, succeeded in 1951 by the State Savings Bank (SSB). The Bulgarian Investment Bank existed only until 1967 when its functions were transferred to the BNB and SSB. The Bulgarian Foreign Trade Bank (BFTB) was established in 1964 and incorporated all foreign exchange operations and transactions abroad.

Thus, a one-tier banking system typical for a centrally-planned economy, was formed . It consisted of three banking institutions: the BNB, which combined the functions of a quasi-central and a commercial bank; the BFTB; and the SSB.

The banking system maintained this configuration until the beginning of the 1980s, when some modest attempts to reform it were initiated. First, a new institution, Mineralbank, was established in 1981 to extend short- and long-term credit to new small- and medium-size enterprises.

The process of decentralization of the banking system continued in 1987 when seven new "sectoral" banks were formed mainly to reallocate long-term financing to enterprises. These sectoral banks were strictly specialized in specific industrial branches.

A further step toward restructuring the Bulgarian banking system was made in 1989. Fifty-nine new commercial banks were created out of the former branches of the BNB. Simultaneously, the requirement that certain banks engage in specialized lending was eliminated. Most of the newly established commercial banks were small and regionally concentrated in their operations.

The Bulgarian banking system of the socialist period was typical for a centrally-planned economy. The establishment of a two-tier system was accompanied by the formation of a large number of small-size, undercapitalized institutions.

Chapter two

Institutional and Regulatory Framework of the Banking Sector

In early 1991 the banking system in Bulgaria included 69 commercial banks established as joint-stock companies and the state-owned BFTB, SSB and BNB.

By end-March 1995, the number of operating commercial banks was 53. This number resulted from two processes: the consolidation of the banks with prevailing state ownership, on the one hand, and the licensing of new private banks on the other. Twenty commercial banks have been granted a full licence (for domestic and international banking activity), 28 banks have a licence for banking operations in Bulgaria only (12 of these, however, have permission to open bank accounts for settlement of payments abroad), 4 are branches of foreign banks in Bulgaria, and the last is the State Savings Bank.

The structure of the financial system also includes nonbank financial institutions – 137 financial brokerage houses, 29 licensed brokers and over 500 foreign exchange bureaus.

Regulatory Framework

The regulatory framework of the Bulgarian financial sector is based on:

- Law on the Bulgarian National Bank, effective as of June 1991;
- Law on Banks and Credit Activity, effective as of March 1992;
- Six Banking Prudential Regulations;
- Regulations of Payments;

- A number of regulations regarding government securities (issue, sale and redemption) and monetary policy tools.

The Bulgarian National Bank

The role of the BNB is limited to central banking and supervisory functions. The BNB was given three mandates.

- The main task of the BNB shall be to contribute to the maintenance of the internal and external stability of the national currency. For this purpose, it shall formulate and implement the national monetary and credit policy and shall contribute to the creation and maintenance of efficient mechanisms of payment.
- The BNB shall have the exclusive right to issue banknotes in this country.
- The BNB shall regulate and supervise commercial banks' activities in this country for the purpose of ensuring the stability of the banking system.

The functions of the BNB are administrated by a Governor, a Managing Board, and a Plenary Council.

The Governor, elected by the National Assembly to no more than two five-year terms, is BNB's chief executive officer, responsible for organizing, directing and supervising the activities of the bank, and representing it at home and abroad. The Governor is the chairman of the Managing Board.

The other members of the Board are appointed by the President of the Republic at the proposal of the Governor for a term of five years. All major policy and regulatory decisions relating to the BNB's three functions must be adopted by this board. Intending to protect the Managing Board from undue political influence, Article 15 of the Law stipulates that "The mandate of the Governor of the Bank, the Deputy Governors and the other members of the Managing Board may be suspended before the term set only if they have been sentenced for committing a crime of general character with malice prepense or prevented from performing their functions for more than a year."

In the Plenary Council, members of the Managing Board are joined by six experts from the financial and scientific community. The functions of the Plenary Council are more global in scope, defining the general direction of monetary and credit policies, rather than their specific implementation. The Council must approve annual reports and the budget of the bank.

The legal basis determining the relationship between institutions in general supports an independent central bank. Article 47 of the Law on the BNB states that the central bank is to perform its functions "independent from the instructions from the Council of Ministers and other state bodies," although Article 1 places it "accountable to the National Assembly for its activity." Twice a year the BNB must report to the Parliament regarding its operations. However, in 1991, 1992 and 1993 the State Budget Law effectively overrode Article 49 which restricts the amount of direct uncollateralized credit the BNB can extend to the government. These actions call into question the BNB's independence at a practical, if not legal, level.

Law on Banks and Credit Activity

The *Law on Banks and Credit Activity* generally regulates the specific status of the bank as an intermediary of a specific type. The law defines the possible legal forms of a bank – a joint-stock company or a cooperative. It provides in detail the range of banking transactions defined as such. A licence issued by the central bank is required for such transactions to be made in the course of business. A licence is also required for carrying out specific transactions and operations by a bank (such as transformations, establishing branches abroad, acquisition of shares in a nonfinancial institution exceeding 10% of the capital of the institution) and for acquiring from local, foreign, and economically related persons more than 5% of the voting shares of a local bank.

A number of stipulations and ratios are provided in the law which guarantee the safety of customers' financial assets entrusted to the banks, and reduce the risks of banking. These are requirements for minimum equity capital, for an 8% ratio of risk assets to equity, the setting-up of special provisions for covering bad and doubtful loans, the amount of the Reserve Fund, the ceiling on big loans, restrictions concerning investment in nonfinancial institutions, etc. The BNB Board will further develop most of these normative ratios and requirements by the issue of particular regulations.

Prudential Regulations

By mid-1993 the regulatory framework was expanded through six prudential regulations adopted by the Managing Board of the BNB:

- *Regulations No. 2 on the Permits (Licences) Granted by the BNB* (11 February 1993);
- *Regulations No. 7 on Big and Internal Loans of Banks* (28 January 1993);
- *Regulations No. 8 on the Capital Adequacy of Banks* (18 March 1993);
- *Regulations No. 9 on the Loan Classification and the Formation of Mandatory Special Reserves (Statutory Provisions) by Banks* (13 May 1993);
- *Regulations No. 10 on Internal Control in Banks* (3 June 1993);
- *Regulations No. 11 on the Liquidity of Banks* (18 June 1993).

We shall comment briefly on three of these regulations – Nos. 8, 9 and 11 – which are probably most important in terms of their impact on banking practice in this country.

The Regulations on the Capital Adequacy of Banks contain several important provisions:

1. A minimum capital-base requirement.

Any bank is required to be in possession of a capital base (defined below) amounting to at least BGL 200 million (roughly USD 7 million at present) to perform banking operations domestically, and at least BGL 500 million (about USD 16 million) to perform banking operations both domestically and abroad.

In 1994, with the depreciation of the lev, these requirements were changed to BGL 450 million for domestic operations licence and BGL 800 million for domestic and foreign operations licence.

2. Rules for defining the value of the capital base.

This part sets strict and unambiguous rules for evaluation of the capital base for the purpose of regulation and control of the capital adequacy of the banks. Primary capital consists of shareholders' equity and general capital reserves. The capital base is defined as the sum of primary capital, current year post-tax profit and other additional reserves.

3. Rules for classifying the bank's assets according to their riskiness.

Four types of assets are introduced with these regulations: (a) risk-free assets; (b) low-risk assets; (c) average-risk assets; and (d) high-risk assets. Guidelines are provided for classifying bank assets into these four categories. The risk component of any bank's assets is calculated as a weighted average of the three latter categories (relevant weights are also provided).

4. Rules regarding the capital adequacy ratios.

Two types of capital adequacy ratios are defined:

(a) primary capital adequacy ratio (the primary capital as a percentage of the risk component of the bank's assets), which should not be less than 4%;

(b) overall capital adequacy ratio (the capital base as a percentage of the risk component of the bank's assets), which should not be less than 8%.

5. Supervision of the capital adequacy of commercial banks.

Commercial banks are required to report their capital adequacy to the central bank on a quarterly and annual basis.

A two-year grace period was granted to commercial banks to adjust the structure of their capital base to conform fully with the general requirements of the Regulations.

The Regulations on the Loan Classification and the Formation of Mandatory Special Reserves (Statutory Provisions) by Banks set rules for classifying the credit portfolio of commercial banks and for providing against substandard and nonperforming loans.

Commercial banks are required to classify their credit portfolio into four main groups:

- regular (standard) loans;
- doubtful (substandard) loans – type A: arrears up to 30 days (or other specified conditions);
- doubtful (substandard) loans – type B: arrears up to 90 days (or other specified conditions);
- uncollectible (nonperforming) loans: arrears over 90 days (or cases of bankruptcy or liquidation of the credit holder).

Banks allocate provisions (out of their pre-tax profit or their general reserves) against substandard and nonperforming loans as follows:

- substandard loans type A: 20% of the principal;

- substandard loans type B: 50% of the principal;
- nonperforming loans: 100% of the principal.

The Regulations also contain rules for capitalization of interest and for restructuring and reduction of substandard and nonperforming loans.

Commercial banks are required to disclose their credit portfolio and provisioning policy to the central bank on a monthly and annual basis.

The Regulations on the Liquidity of Banks set rules and guidelines for the control and management of the liquidity position of commercial banks.

According to these regulations banks are required to classify their liquid assets and liabilities (with maturity up to 1 year) into six categories depending on the maturity of the asset (liability). On the basis of this classification banks calculate a number of liquidity and coverage ratios which have to fit the ranges fixed by the central bank.

Commercial banks are also required to adopt internal rules for the management of their liquidity position and to submit them to the central bank. They have to report their liquidity position to the central bank on a quarterly and annual basis.

BNB Supervision Department is authorized to monitor the liquidity position of commercial banks and if necessary to act in accordance with the provisions of the Law on Banks and Credit Activity.

The Regulations contain important restrictions on the banks' policies in case their liquidity positions are weakened. Under certain circumstances the central bank can impose restrictions on nonliquid investments of commercial banks; banks are prohibited to allocate dividends if their liquidity position does not conform with the requirements of these Regulations.

With the adoption of six new regulations of the BNB the regulatory framework for the reform of the Bulgarian banking system is nearly complete. The set of new laws and regulations is (at least theoretically, as practical evidence is still rather limited) to a great extent consistent with the recommendations of the Basle Committee on Banking Regulation and Supervisory Practices and those of the Commission of the EC.

In 1993, new Regulations No. 5 were adopted by the BNB and the Ministry of Finance. It elaborated on the rules and mechanisms to issue, hold and trade in government securities, including long-term government bonds (for more details see section 6).

In 1994, two regulations (Nos. 12 and 14) related to the implementation of the LSNC were adopted (for more details see section 5).

Regulations No. 15 of 4 May 1994 on the Procedure for Auction Sale of Movables Placed as Collateral with a Bank (State Gazette, issue 41 of 1994) were adopted jointly by the BNB and the Ministry of Justice. This law specifies the procedure that banks must follow to undertake involuntary execution of movables placed as collateral in favor of those banks which have extended the loan. The movables are to be sold at an auction with overt or covert bidding, conducted by a commission assigned by the creditor bank in compliance with the terms and procedures set forth in these Regulations. Provision is made for an appeal against possible illegal action by the auction commission.

In 1994, some amendments to Regulations No. 2 on the permits (licences) introduced additional requirements for bank licence applicants. Control on receiving a bank licence was heightened by setting more strict criteria for business plans. The internal control system has been elaborately reworked. Stricter requirements are provided for those who own or intend to acquire over 5% of the voting stock of a bank or the persons who will manage and represent it. Instalments against subscribed shares up to the minimum required capital shall be made only in cash.

Certain requirements and limitations were introduced for nonbank financial institutions, providing for compliance with the country's foreign exchange regulation and protection of the rights and legal interests of their customers. There are new special provisions in the regulations which set forth the terms of business of financial houses. They shall be established as joint-stock companies with a minimum paid-in capital of BGL 10 million. To prevent financial houses from making furtive bank transactions, a special provision is introduced specifying the scope of trust management of others' money and other financial assets. Trust management of foreign assets and funds in levs from banks are not permitted. Bank lending in levs to financial houses was limited.

Chapter three

Monetary Policy and Recent Economic Developments

Monetary Policy in a Market-oriented Transition

As in other central and eastern European countries, monetary policy must be implemented together with a comprehensive reform of the financial sector, aimed at:

- a radically new approach to the formulation of monetary policy needed to transform it into a major instrument for attainment of macroeconomic stability;
- further development of the existing basic infrastructure for conducting monetary policy;
- gradual development of more sophisticated levers of monetary control.

According to the *Law on the Bulgarian National Bank*, the main goal of BNB's monetary policy is to contribute to the maintenance of the stability of the lev – the national currency of Bulgaria – in both internal and external terms. To achieve this goal, the BNB defines an annual target for the lev-denominated money supply. The annual target is being pursued within the framework of a floating exchange rate and liberal foreign trade and foreign exchange regimes. To meet the designed target, the central bank – using its monetary policy instruments – undertakes coordinated actions in the emerging financial markets for domestic and foreign currency. With the floating exchange rate, the BNB implements its monetary policy with a view to controlling the volatility of the exchange rate, despite the low level of its foreign exchange reserves, the insufficient external financing of market-oriented reform, and overall unfavorable external economic environment.

Monetary policy was a key element in the macroeconomic stabilization program supported by the International Monetary Fund (IMF) and the World Bank and initiated in early 1991. It included price and financial, as well as foreign trade and foreign exchange liberalization. Relative stability of the exchange rate, low volatility of the foreign exchange market, and general equilibrium in international payments were to be achieved through an appropriate monetary policy.

The macroeconomic stabilization program followed during 1991 – 1993 was relatively successful, establishing the basis for a functioning market economy. The initial monetary overhang was overcome and the volatility of the exchange rate in the domestic foreign exchange market was reduced. A relative balance on current account transactions was achieved due to the lack of substantive foreign financing.

Nonetheless, a steep decline in production, high unemployment, and relatively high inflation were registered over the reviewed period. The cumulative decline in real GDP in 1991 – 1993 reached almost 25%, mainly due to the drop in domestic demand. Although the economy suffered a series of external shocks which resulted in losses of export markets, the general impact of net exports on real output was weaker due to a commensurate drop in imports. The unemployment rate went up to 16% of the labor force and stabilized around that level. After the initial price shock at the beginning of 1991, the inflation rate steadily declined to 64% in 1993.

The major supply-side factors which led to a decline in output were sharp changes in relative prices and costs, and the drop in imports. Relative price movements are the principal channel through which signals for sectoral restructuring of the economy are transmitted. Following the February 1991 price liberalization relative prices of raw materials and energy rose sharply compared to the prices of consumption and investment goods. These adjustments resulted in dramatic changes in the profitability of certain state-owned enterprises and even the whole industry. However, adjustment of the economy to the already modified domestic and external environment has not been observed yet. Such a conclusion is supported by the available data regarding the structure of industrial output. It has remained relatively constant over recent years and the share of private sector continues to be insignificant. The structure of employment has not substantially changed, either. Convertible currency shortages kept the drop in imports from the central and eastern European partners (mainly former Soviet Union republics) from being compensated by growing imports from other countries. The simultaneous contraction of imports and exports has further depressed local production.

The reasons for the absence of an adequate market response to the abrupt change in relative prices might be sought in several directions. First, the price jump of 1991 as well as continuing two-digit annual inflation throughout the period under review make it difficult to differentiate between the overall growth of the price index and lasting changes in relative prices. Consequently, state-owned enterprises reduced their production in a more or less proportionate way. Second, available production capacities in the sectors whose profitability has grown in the wake of relative price movements form “bottlenecks” and make any output increases in a short-term perspective impossible. Third, state-owned enterprises as a whole (though to a different extent) continue to function within a setting of “soft budget constraints”. This allows them to decrease output and employment to a degree lower than needed, keeps them safe from bankruptcy and creates expectations that, sooner or later, the state will cover their debts. On the macroeconomic level, such behavior generates a substantial quasi-deficit which limits credit resources for viable enterprises. As a result of the implementation of the *Law on the Settlement of Nonperforming Credits Negotiated till 31 December 1990* (*LSNC*), some state-owned commercial banks have practically been forced to finance the larger part of this quasi-deficit. As a result, the absence of adequate structural reforms in the real economy has impeded reforms in the financial sector.

In an environment of deepening real-sector stagnation, low speed of structural reforms (the banking sector included) and inadequate foreign financing, the pressure to ease monetary policy was rising. During the first quarter of 1994, the lack of foreign financing additionally exacerbated the seasonal pressure on the national currency in the domestic foreign exchange market and undermined the confidence in it. The higher rate of change of the foreign currency component in relation to the lev component of the demand for money during this period substantially reduced BNB's ability to control the money supply. Structural problems in the banking system, and especially the considerable mismatch between yields and maturities of the assets and liabilities of some large state-owned banks, also contributed to the relaxation of monetary restriction. This led to a marked acceleration in the inflation rate in 1994, as it almost doubled compared to 1993. BNB measures to restrict the money supply – a gradual raise of the base interest rate, interventions in the domestic foreign exchange market and an increase in the minimum reserve requirements of commercial banks, as well as (during the second half of the year) expansion of open market operations – helped to escape a possible hyperinflation. However, the rate of inflation was reduced not earlier than at the end of the first quarter of 1995.

Relatively weaker (compared with the two previous years) monetary restriction and, especially, the recovery in the world economy (and in Bulgaria's main trading partners) which increased external demand and the incentives to exports (through the depreciated lev), contributed for the modest real growth of output registered in 1994. Compared with 1993, GDP rose by 1.4% and the unemployment rate fell by some three percentage points. However, domestic demand marked another decline in 1994 due to the restrictive stance of both income and fiscal policies and to the high nominal level of interest rates which depressed further investment demand. Delayed adjustment of existing production structures give enough grounds for continuing inflationary pressures which make any substantial recovery – in the very short run – rather risky and fragile. Proposals to encourage domestic demand in an inflationary environment could only lead to the reemergence of macroeconomic disequilibrium and to the loss of opportunities for growth and employment in the long run.

Monetary Policy Instruments

Pursuing its money supply growth targets, the BNB has applied a variety of monetary policy instruments. The major goal is to gradually move out of direct instruments into more indirect, market-based ones to control the monetary base. This process is coupled with measures to accelerate the development of financial markets, particularly the market for interbank deposits. For the five-year period of transition the BNB has made substantial progress in introducing market-based instruments for monetary control. At the beginning of the financial sector reform in 1991, in the setting of huge disequilibria in the national economy, direct credit ceilings were adopted as an intermediate target for money supply control. At that time unsecured lending was predominantly used for commercial bank refinancing. A year later the BNB gradually switched to Lombard and discount loans as major instruments for commercial bank refinancing. At the beginning of 1993, the BNB engaged in open market operations. The year 1994 was crucial in the movement toward indirect instruments for monetary control. In May 1994, the practice of holding auctions at the central bank for short-term deposits with commercial banks was discontinued. A month later credit ceilings as an instrument of monetary policy were abandoned. The BNB started to rely mainly on open market operations to control the liquidity of banks. The monetary base was adopted as a new intermediate target. As a result of the modified instruments and financial markets development, the average term structure of BNB's portfolio improved substantially.

Minimum Reserve Requirements

This monetary instrument was introduced in Bulgaria in 1990 when the reserve requirements were set at 5% of commercial bank primary deposits. At the end of 1990, they were raised to 7%. Until the beginning of 1994, this instrument was not used extensively due to the underdeveloped payments system, which impeded up deposit multiplication. Equivalent minimum reserve ratio applies to all types of deposits, irrespective of their term or currency denomination. The minimum reserve requirements are adjusted on a monthly basis.

After March 1994, the BNB became more active in the use of required reserves as an instrument of monetary policy. The objective was to gain control over the March 1994 crisis in the domestic foreign exchange market, and, later on, to reduce the speed of money multiplication. The BNB began to gradually increase the minimum reserve ratio, and by mid-1995 it reached 12%. To offset the effect of this action, as of 1 August 1994 the BNB started paying interest on the lev component of the minimum reserves of commercial banks deposited at the BNB. This interest is equal to about 1/6 of the base interest rate for the respective period. In order to encourage nonbank financing of the government budget deficit and the development of the secondary market for securities, the BNB also started accruing interest on the amount of the lev component of the required reserves equal to the securities sold by banks to nonfinancial institutions. This rate was set to 1/2 the base interest rate. Some methodological modifications in the procedure for calculating the minimum reserve requirements were introduced too. They aim at reducing the share of minimum reserves deposited at the central bank in foreign currencies. At present, the reserve requirements are mainly used as an instrument of monetary policy rather than for prudential purposes.

Credit Ceilings

In a period of persistent and high inflation characterized by underdeveloped financial markets, credit ceilings were the main instrument used to restrict commercial bank credit expansion and to regulate money supply. The BNB introduced this instrument in the fourth quarter of 1990 for all credits in national currency. The use of credit ceilings underwent important changes during 1992 – 1993. The objective was to mitigate the deficiencies of this instrument. Determination of credit ceilings on a monthly instead of quarterly basis was introduced, and changes in the method of their calculation were made. The allocation of the overall credit ceiling among the banks was also modified. Since early 1993, the weight of the credit market share of each bank gradually diminished. Individual bank credit ceilings depended on both the capital base of each bank and the growth of deposits attracted. The weight of these two latter indicators gradually increased. Penalties were imposed on banks which had exceeded their credit ceilings.

Credit ceilings effectively restrained credit expansion, and thus the growth of the money supply, within rates commensurate with the general anti-inflationary bias of monetary policy until the end of 1993. In early 1994, when demand for convertible currencies sharply increased, more effective measures to control liquidity were needed. Thus, the BNB had to abandon credit ceilings as an instrument for monetary control at the end of June 1994.

Refinancing

Refinancing is the traditional and currently most important type of central bank lending to commercial banks in Bulgaria. Refinancing comprises several facilities:

- Lombard window;
- discount window;
- short-term BNB deposits at commercial banks;
- overdraft facility;
- deposit auctions (until the middle of 1994).

In 1990, commercial banks were refinanced entirely through the provision of unsecured resources. In 1991, the share of such resources was still dominant (92.4%). In 1992 and 1993 it fell substantially to 42% by the end of 1993, and it was further limited in 1994. In the course of reform the role of refinancing as a source of credit funds diminished. While in 1991 some credit resources were already provided by the interbank money market, in the following three years the share of this market became much larger than that of the credit resources provided by the BNB.

Lombard Loans

Refinancing of commercial banks through Lombard loans extended by the BNB against collateral of treasury bills, gold or foreign exchange began in October 1991. Since 1991, loans against collateral have become a major form of commercial bank refinancing. They contribute to the improvement of the quality structure of commercial bank assets by increasing their average liquidity and respectively lowering the credit risk. After introducing the ZUNK bonds in mid-1994, demand for Lombard loans against that instrument used as collateral increased substantially, and a year later its share reached approximately 60% of BNB lev-denominated refinancing. The Lombard interest rate is set by the BNB Board and is maintained at one percentage point below the base interest rate. It plays the role of a reference rate for commercial bank lending operations.

Discount Operations

Refinancing of commercial banks through discount operations began in October 1991, when the BNB initiated its discount policy. Discount operations have become an indispensable indicator of the transaction demand for money balances. By end-May 1995, discount loans accounted for 3% of total refinancing. Despite their limited employment currently, discount operations at the BNB provide a mechanism for monetization of commercial credit. The lower share of these operations in total refinancing is mainly due to the absence of banking products which encourage an extensive use of bills of exchange. It is expected that the near future will see growth in discount operations. The discount rate is also closely tied to the base rate of the central bank.

Short-term Deposits

Along with the introduction of a gross settlement system at the BNB, a scheme for provision of short-term (from 1 day to 1 month) BNB deposits to commercial banks for covering temporary liquidity shortages was also introduced. With the introduction of this type of operations in November 1992, the BNB began to effectively fulfil its function as a lender of last resort. The BNB Board sets the interest rate for this type of refinancing at several percentage points above the interest rate attained at the latest deposit auction. After the discontinuation of deposit auctions in the middle of 1994 this interest was set at 7 percentage points above the base interest rate for the respective period. Since February 1995, the BNB as a lender of last resort, has extended only short-term (3-month) deposits to commercial banks with liquidity shortfalls at an interest rate of 0.5 percentage points above BNB’s base rate.

Overdraft

By a resolution of BNB Board in July 1992 and in connection with the introduction of gross settlement at the BNB, commercial banks were permitted overdrafts up to the amount of their minimum required reserves held with the BNB. Later the ceiling on the overdraft facility was lowered to 50% of the minimum reserves. The interest rate on overdraft is the highest, at present being 18 percentage points above the base interest rate.

Deposit Auctions

The BNB adopted and started applying the system of auctions for short-term deposits with commercial banks on 15 September 1991. Since then auctions have been held twice a month. BNB's *Regulations for Holding Auctions for Interbank Deposits in Levs* enabled commercial banks to purchase and sell deposits at the auctions. Commercial banks preferred to place their free resources in the interbank auction market because in the case of a direct agreement deposits with shorter terms were applied (usually they are due at call) which made them more flexible compared with the one-month term of the auction. The interest rates reached at the auctions influenced the growth of interest rates in the interbank market and, at the same time, contributed to its improvement and stability. The BNB suspended its deposit auctions in the middle of 1994, but at a certain stage in the development of the banking system auctions proved to be a useful means for estimating the demand for, and the market price of, short-term money resources.

Open Market Operations

In early 1993, the BNB started open market operations with commercial banks. These transactions are made mainly in treasury bills. Technically, open market operations are effected through spot transactions or “repurchase agreements.” The average term of a repurchase agreement in 1993 was 18 days. Repurchase agreements thus far were the largest in number because that type of operations guarantees efficient short-term bank liquidity management. At the end of 1993, BNB’s actual government securities portfolio amounted to less than 3% of government securities sold with outstanding maturities. This portfolio was consolidated to meet the growing interest of commercial banks in this type of operations.

At the end of 1994 and in the beginning of 1995, the BNB increased significantly the amount of its actual government securities portfolio (to more than 5% of the government securities sold with outstanding maturities) and the monthly turnover of open market operations, mainly repurchase agreements (5 – 6 times more compared with the corresponding period in 1993). The average term of a repurchase agreement has been reduced significantly, and in May 1995 was 5 days. The BNB also uses in its open market operations ZUNK bonds issued according to the *Law on the Settlement of Nonperforming Credits Negotiated till 31 December 1990*.

Chapter four

Payments System

Payments Settlement in the Bulgarian Banking System

The *Accounting Law* introduced in 1990 established new requirements on the accounting practices at banks, especially governing organization of book-keeping and interbank payments. This law provides for reporting requirements based on the rules of the national accounts, requirements which the banks can fulfil only if they invest heavily in new technology.

A working group consisting of managers from all major banks (the CUBS) has been set up to develop uniform and binding standards for interbank payment services, book-keeping and all relevant banking technologies.

The CUBS has developed so-called Bank Unified Standards (BUS), of which the following are notable:

- *Regulations on Payments* of 1 June 1992, put into effect on 5 October 1992;
- *Settlement at the BNB* (Bank Unified Standard 7092 – BUS 7092);
- *Collection of Payment Vouchers* (BUS 1092);
- *Guidelines on Uniform Payment Forms* (BUS 2092);
- *Structure of the Bank Code Number* (BUS 3092);
- *Structure of the Account Number* (BUS 4092);
- *Payment by Direct Debit* (BUS 5392);

drafts include:

- *Payments by Credit Transfer* (BUS 5192);
- *Bulk Payments* (BUS 5492);
- *Payments by Checks* (BUS 5592).

In keeping with traditional payment habits, payments are predominantly made in cash. Recently there has been a rapid shift toward cashless payments initiated by private firms and enterprises. Settlement is effected via the banking system (the BNB and the commercial banks).

Banking Integrated System for Electronic Transfer (BISERA)

The automated payment system currently used is a further development of the information system established in 1968. The system has been expanded and often adjusted to developments in the Bulgarian banking system. BISERA is operated by Bankservice (BS) public limited company.

Bankservice has its head office in Sofia, and five regional offices (central, north, south, west and east). In addition to the five regional offices, BS maintains so-called “bases” equipped with computers in 28 towns (the former district capitals). These computers are linked to the main computer centre in Sofia either by dedicated or by direct dial-up lines. The bases themselves are not interlinked. The banks are linked to the base responsible for the area in which they operate.

Payment Instruments

The Regulations on Payments provide for four cashless payment instruments. The use of any other instrument is subject to the approval of the BNB.

A *credit transfer* is a payer's payment order (voucher) to his/her bank, which is executed via BISERA. Credit transfers account for 85% of all cashless payments. Because the system file format does not allow the data on a voucher to be recorded, the vouchers are sent to recipients outside the system by mail.

With a *letter of credit*, a payer authorizes his/her bank to pay a certain amount to the payee as soon as specific conditions have been met. Letters of credit comprise 1% of cashless payments.

Payment through *direct debit* presupposes that a payer authorizes his/her bank in writing to debit his/her account upon receipt of a payee's demand for payment. Payment is triggered by the payee submitting a demand for payment to his/her bank for collection from the payer's bank. If the demand for payment is in line with the authorization given, the payer's bank transfers the amount involved to the payee's bank. Approximately 13% – 14% of all cashless payments are direct debits.

Normal checks (unrestricted and without acceptance) may only be made out within the limits of the existing balance or within the scope of a line of credit. Checks can be cashed at any bank. They are retained and stored for five years. Collection of the proceeds is effected in the form of a direct debit. Banks are entitled to accept checks or to issue limited check books. The counter values must be blocked in a separate account. The cashing office collects the amount involved under a bank collection system, i. e. the account carried at the BNB is debited without the drawee bank's authorization. Check payments account for only 1% of all cashless payments.

The number of settlement system inputs continued to increase – from 550 on 1 January 1994 to 746 on 31 December 1994.

By end-1994, there was one input for every 11,300 persons. According to this indicator, Bulgaria lagged far behind developed countries, where one input services 742 persons (Belgium) to 2,330 persons (USA).

During the period under review, 8,471,125 settlements of BGL 1,395 billion, or approximately BGL 5,492 billion a day, were cleared through BISERA – the system for electronic interbank transfer. Despite serious increases in settlement system inputs and the number of interbank transactions, the expected growth in electronic transfers in lev terms is still limited. Whereas in 1993 the settlements made through BISERA exceeded threefold the gross national product, in 1994 this ratio fell to 2.5. By way of comparison, according to data released by the Bank for International Settlements, Basle, this indicator moves within a range of 190 (Switzerland) to 10 (France).

It was decided that the existing BNB settlement system should be replaced by upgraded equipment. By the end of 1995, the old system will be transferred to a new hardware platform.

A tender was held to choose the equipment supplier for the private telecommunications network, BANKNET. The introduction of the latter system is expected to resolve a major problem regarding the establishment of interbank systems – the lack of a reliable and cost-effective communications medium to encompass all banks. Under this project the groundwork for the new modern network X.25 is expected to be laid by mid-1995. It will serve the needs of the payment process as well as promote the establishment of interbank systems.

For the BORICA bank card payments project, a modern system has been established which will be vital to the success of the national card-payment system. The main computer, along with the necessary software and technical equipment, which will be used in the process of authorization with the national card-payment system, has been installed. The legal framework for the system has been developed as well. A laboratory for research and maintenance of ATM and POS terminals was also created. Since early 1994, the authorization center functions on an ongoing basis, allowing the participating banks to test the operation of the ATMs in real conditions.

In 1994, the First Private Bank and Balkanbank announced the establishment of card systems to serve their customers, based on a debit card with magnetic tape and a chipcard, respectively. Balkanbank has introduced chipcard readers in a number of its branches, going through the initial steps of a daring project. A trend has developed in Bulgarian banks toward extensive investment in the new instruments of payment based on magnetic cards, despite absent legal regulation and the high cost incurred by the establishment of incompatible systems.

Chapter five

Bad Loans Problem and Rehabilitation of Banks

Nonperforming loans of Bulgarian commercial banks are a major problem affecting the stability of the banking system. A large portion of banks' claims on the nonfinancial sector are uncollectible or doubtful. This problem arises partly from the legacy of centrally-planned economy practices, but is further aggravated by the poor economy.

The attempt to address the bad loans problem in 1991 by a limited transformation of obligations of state-owned enterprises to banks into public debt was inefficient.

In December 1993, the Parliament passed the *Law on the Settlement on Nonperforming Credits Negotiated till 31 December 1990*. The law states that all loans extended by the state-owned commercial banks to state-owned firms prior to 31 December 1990 in arrears of more than 180 days, including unpaid interest on them up to 30 June 1993, are to be replaced by government securities. The unpaid interest for the period between 1 July 1993 and the date of issue of the long-term government bonds is to be written off the banks' balance sheets against provisions or revenues for future periods.

Existing liabilities of firms to banks are transformed into liabilities to the state, which are then to be restructured in compliance with the financial rehabilitation or restructuring programs approved by the government. Two types of government securities are issued:

- Domestic currency (BGL)-denominated government bonds with a 25-year maturity and a 5-year grace period. These bonds earn reduced interest of 1/3 of the BNB's base interest rate for the initial two years, 1/2 of the base interest rate for years 3 and 4, 2/3 of it for years 5 and 6, and the base interest rate from the seventh year until maturity.

- Foreign currency (USD)-denominated government securities which are to be serviced in domestic currency with a maturity of 25 years and a grace period of 5 years; interest on these bonds is to be paid semiannually (on 1 July and 1 January) and equals 6-month USD LIBOR plus a small spread.

The BNB Board adopted two regulations on enactment of the LSNC.

Regulations No. 12 of 24 March 1994 cover the terms and procedures for commercial bank lending to state-owned enterprises, companies and commercial companies whose liabilities to the state have been written off under the terms of the LSNC (State Gazette, issue 30 of 1994), and prescribes additional, more stringent criteria on the issuance of new loans to these enterprises. Banks shall not extend new credits to enterprises if they have receivables negotiated after 31 December 1990 which can be classified as nonperforming (bad) or doubtful (group B) within the framework of Regulations No. 9 of 1993 of the BNB on the loan classification and the formation of mandatory special reserves (statutory provisions) by banks. Moreover, before allocating credits, banks shall, in addition to assessing credit risk, analyze programs for financial rehabilitation and restructuring of enterprises designed and adopted in compliance with Article 11 of the LSNC, taking into account the criteria set forth in these Regulations. Enterprises and commercial companies shall submit to banks business plans drawn up in compliance with the prescriptions in these Regulations. In general, the new loans must be issued in tranches, be dependent upon the achievement of particular results, and collateralized in real terms. Loans extended are classified as a medium-risk asset within the framework of Regulations No. 8 of 1993 of the BNB on the capital adequacy of banks.

Regulations No. 14 of 12 April 1994 on the sanctions applied to commercial banks incurring losses due to the sale of long-term government bonds below their market value (State Gazette, issue 36 of 1994) refer to commercial banks with a majority state holding. Where the BNB learns out that a commercial bank has sold bonds below their market value (formulated by special methods and applied to these regulations), it may refuse access of this bank to the interbank lev deposit auction, reduce by the amount of losses incurred the bank's limit on the use of deposits for a three-month period, claim additional collateral against secured loans in the amount of the losses incurred, as well as refuse to refinance it through secured loans and rediscounting of securities for a term of up to three months.

Replacement of nonperforming loans by the issue of long-term government bonds pursuant to the LSNC could not solve completely the bad loans problem. It did not speed up the banking sector's rehabilitation due to mismatch between the return and maturity of these bonds and the banks' liabilities. This led to an alarming liquidity drawdown of two big state-owned banks which held the major portion of the LSNC bonds. In spite of generally restrictive and tight monetary policy the BNB had to resort to the systematic refinancing of these two banks, in order to ensure the proper functioning of the payments system.

The central bank's partial purchase of LSNC-bonds from one of the ailing banks, which took place in August 1994, could not resolve the above problem, either. To releave its monetary policy from the burden of undesired and futile refinancing of the two troubled banks the BNB coordinated its activities with the government. The latter decreed the issuance of new long-term government bonds which should replace the LSNC bonds held by the two ailing banks. The new securities have a maturity of 7 years, a 4-year grace period, and carry a yield equal to the BNB central rate. The two state-owned banks will have to repay the amount owed to the BNB and the National Savings Bank by transferring the bonds to them, achieving a significant reduction in the banks' bad assets and liabilities. The central bank intends to cease their refinancing after the rehabilitation operation is over.

CHAPTER SIX

EXCHANGE RATE REGIME AND FOREIGN EXCHANGE POLICY

EXCHANGE RATE REGIME AND CURRENCY CONVERTIBILITY

National Currency

The currency unit of Bulgaria is the lev (BGL). Its exchange rate is subject to independent floating. As a member of the International Monetary Fund (IMF), Bulgaria has accepted Art. XIV status. The lev has full current account convertibility.

Central Exchange Rates

Through weighted aggregation of the daily transactions in the domestic foreign exchange market (set up in February 1991), the BNB quotes daily the "central" exchange rate in terms of the US dollar (USD). This rate indicates the amount of Bulgarian levs equal to one US dollar. Central exchange rates for other currencies are determined by their cross-rate relationships with the US dollar in the international foreign exchange market.

Domestic Foreign Exchange Market

The domestic foreign exchange market comprises several types of participants with different prerogatives. Some twenty commercial banks, two foreign bank branches and one financial institution have been authorized to conduct foreign exchange operations on an international scale. More than a dozen other commercial banks have been permitted to open bank accounts for settlement of payments abroad. A large number of exchange bureaus throughout the country are allowed to conduct foreign exchange transactions in cash only.

There are no taxes or subsidies on purchases or sales of foreign exchange. There are no arrangements for forward cover against exchange rate risk operating in the banking sector.

Administration of Exchange Controls

Exchange controls are administered by the Ministry of Finance (MF) and the BNB. The BNB is responsible for implementing exchange rate policy.

Resident and Nonresident Accounts

Residents may maintain foreign currency deposit accounts which may be credited without restriction and transfers abroad may be made upon authorization by the MF and the BNB. Generally, balances on these accounts earn interest at international market rates.

Nonresidents may maintain accounts in foreign currencies and levs without authorization, limitation, or restrictions for the purposes of making transactions in Bulgaria. Crediting and debiting of these accounts is not subject to any regulation and transfers abroad from such accounts are free.

Foreign Exchange Allowance for Resident Travel

Foreign exchange allowances for resident business travel are free. Allowances for resident tourist travel are limited to the equivalent of USD 2,000 per a person for one year for people without foreign currency deposits. Resident holders of such deposits may use balances on these deposit accounts without restriction.

Precious Metals and Jewellery Products

Acquisition, possession, manufacture and disposal of gold, silver, and platinum is controlled by the MF.

The BNB is the only institution entitled to purchase, sell, hold, import, or export gold for both monetary and nonmonetary purposes. All domestic transactions for industrial purposes must be conducted at current prices and through the central bank. Some commercial banks are also authorized to deal – on their own or on their customers' behalf – in precious metals.

Resident individuals are allowed to hold gold but not to trade or deal in it. The amount of gold and jewellery products they may import is limited.

Nonresidents are permitted to bring in and take out jewellery but not to trade in it. They must have permission from the MF, the BNB, and the Ministry of Industry to buy gold, silver and platinum products.

Bilateral Agreements

Payments to and from countries with which Bulgaria maintains bilateral trade agreements are made in the currencies and in accordance with the procedures set forth in those agreements. Transactions are generally settled through clearing accounts. Balances in these accounts (annual and perennial) must be settled in goods within six months after termination of the agreement; thereafter, they are settled in convertible currencies.

Current Account Payments

Proceeds from merchandise exports and from invisibles do not have to be surrendered and may be retained in foreign currencies or sold in the domestic foreign exchange market. Commercial banks may sell foreign exchange freely to resident individuals or legal persons if proper documentation certifies that foreign exchange is needed for:

- imports of goods and services in compliance with the established procedure;
- transportation and other expenses related to the conveyance of goods and passengers carried out by nonresidents;
- interest and amortization with respect to loans endorsed by the BNB;
- business travel in compliance with the established procedures;
- insurance fees;
- bank commissions;
- education and training;
- medical treatment;
- payments authorized by judicial bodies;
- diplomatic, consular, and other government agencies of Bulgaria abroad;
- commercial representative offices of Bulgarian merchants abroad;
- commissions, advertisement fees and other expenses related to economic activities (including fairs and exhibitions);
- membership fees in international organizations;
- participation in international contests and festivals.

Upon presentation of documents certifying that outstanding liabilities have been paid, nonresidents may purchase foreign currency from Bulgarian commercial banks to transfer abroad:

- investment income received in levs;
- compensation received following nationalization of investment enterprises;

- proceeds from liquidation of investment;
- proceeds from sales of investment enterprises received in levs; and
- amounts received in levs under judicial settlement of guaranteed claims.

Remittances of earnings by foreign workers and remittances for family maintenance are implicitly treated as transfers abroad that are not related to merchandise imports and require permission from the BNB. A permission from the BNB is also required for both resident and nonresident transfers in cases of:

- indirect investments;
- official credits extended to and received from abroad;
- investments abroad;
- free transfers in foreign currency not resulting from imports of goods and services.

Domestic and Foreign Banknotes and Coins

Residents and nonresidents may freely take out or bring in Bulgarian banknotes and coins up to BGL 10,000; permission from the BNB is required to import or export amounts exceeding this limit.

Residents may take out foreign currency notes and coins up to the equivalent of USD 1,000 without registration. There is no limit on the foreign currency notes and coins nonresidents may bring into Bulgaria, but the amount must be declared at the customs upon entry. Unspent foreign currency may be taken out upon departure.

International Loans

Commercial banks licensed to operate in international foreign exchange markets may borrow abroad without the authorization of the BNB if they do not request a guarantee from the government of Bulgaria, and if their borrowing complies with BNB regulations. These banks may also extend foreign currency and lev loans to both residents and nonresidents.

Foreign Direct Investment

Foreign direct investments in Bulgaria and changes in their amount must be registered within 30 days after completing them. Registration is fulfiled by declaring the investment at the MF. Authorization is required only in cases of investments in sectors which are considered "sensitive."

Foreign direct investments are guaranteed against expropriation, except for nationalization through legal process. Foreign firms are granted the same status as domestic firms; they may, under certain conditions, benefit from preferential treatment, including reduced taxation and access to judicial appeal outside the system of state arbitration. In general, fully-owned foreign firms are subject to a profit tax of 40%, and joint ventures to a profit tax of 30%. All other firms with foreign participation are subject to the same profit tax treatment as domestic firms (40%).

Repatriation of liquidated capital and post-tax profits is not restricted. Transfers of profits in domestic currency do not require special authorization but only a certificate for paid taxes.

Foreign Exchange Policy

Objectives

According to the *Law on the Bulgarian National Bank* of 1991 the main goal of foreign exchange policy – as an integral part of the central bank's monetary policy – is to maintain the external stability of the national currency. Exchange rate policy in Bulgaria is carried out within the context of the freely floating regime of the Bulgarian lev introduced (mainly due to extremely insufficient official reserves) at the start of reform of the domestic foreign exchange market in February 1991.

The basic objectives of exchange rate policy during the years of market-oriented reform have been:

- to secure relative stability of the nominal exchange rate; with a floating rate and high inflation, the central bank has aimed at supporting the exchange rate of the lev at a level that would not exert inflationary pressure in the country, but at the same time would preserve the competitiveness of Bulgarian producers in international markets;
- to smooth fluctuations in the nominal level of the exchange rate that cause uncertainty in foreign trade and erode confidence in the national currency;
- to increase foreign exchange reserves, providing stability in foreign trade payments, more efficient BNB intervention in the foreign exchange market, and servicing of the foreign debt.

An inevitable trade-off is obvious in the central bank's policy when the priority among these objectives must be established. Stable nominal exchange rate and, hence, domestic prices, is achievable at the expense of a deteriorating balance of payments and declining official reserves. Conversely, the target of reserve accumulation does not coincide with that of exchange rate, and price stability. The BNB has changed the priority of these objectives in different periods of the reform.

Recent Developments

During the first 30 months after the liberalization of the domestic foreign exchange market the exchange rate played the role of a nominal anchor, although it was not preannounced. After its initial substantial depreciation in February 1991, the lev remained stable until midsummer 1993. The nominal stability (and the gradual real appreciation) of the national currency, however, turned out to be unsustainable, as it progressively eroded the performance of Bulgarian exporters and stimulated import demand. The first speculative attacks on the lev coincided with a tendency to change the priorities of the exchange rate policy objectives within a complex economic environment and growing uncertainty. Allowing the lev gradually to depreciate in nominal terms, the exchange rate stability priority was traded off to build up official reserves needed for the forthcoming foreign debt restructuring agreement. Since the autumn, but especially during the winter of 1993, speculative pressures on the national currency had been escalating, culminating in a serious lev crisis in March 1994. Another period of currency stabilization followed. Through the prices of imports, this contributed to a gradual containment of inflationary processes in the Bulgarian economy. In the first half of 1995, the lev appreciated in real terms by about 15% against the US dollar but remained almost unchanged (also in real terms) against the major European currencies. These developments have not exercised pressure on the current account of the balance of payments so far.

Chapter seven

External Debt and International Capital Flows

External Debt Situation

Bulgarian Debt before the Debt and Debt Service Reduction Agreement

Due to its monopoly position governing international payments (under the monobank system typical for central planning), the *Bulgarian Foreign Trade Bank (BFTB)* – recently consolidated into the *Bulbank* – was the obliger on all official and most of the private debt accumulated before the unilateral moratorium on debt service declared by the Bulgarian government at end-March 1990. As of end-1992, the total stock of foreign debt on BFTB's books amounting to USD 11.3 billion was distributed among private and official creditors as follows:

- USD 8,508 million owed to commercial banks (London Club);
- USD 1,217 million owed to official creditors (Paris Club);
- USD 1,250 million owed to the former Council for Mutual Economic Assistance (CMEA) member countries;
- USD 332 million in foreign bonds.

Currency composition of the external debt contracted by the *BFTB* at end-1992 was the following:

- 39% in US dollars;
- 37% in German marks;
- 9% in Swiss francs;
- 8% in Japanese yens;

- 6% in Austrian shillings;
- 1% in other currencies.

According to the contracted maturities, medium- and long-term credits represented more than half of the total stock of BFTB's debt. The remaining portion was distributed among letters of credit, trade financing, and deposits.

According to the final use of the credits received, at end-1992 BFTB's external debt had the following distribution:

- 54% balance of payments financing;
- 29% trade financing;
- 17% investment projects.

Japan, Austria, Germany, Switzerland and France were the principal Paris Club creditors to Bulgaria. Following the first restructuring agreement of April 1991, USD 603 million in Bulgarian official debt was rescheduled. In December 1992, the Bulgarian government and the Paris Club creditors achieved a second restructuring of official obligations (falling due between 31 March 1992 and 1 April 1993). This agreement rescheduled USD 160 million in arrears, interest due and principal over ten years with a six-year grace period.

Bulgaria's biggest private creditors were commercial banks in Germany, Japan, Austria, France and Switzerland. Before concluding the foreign debt restructuring deal with the London Club, these commercial banks had continued to grant quarterly rollovers of amortization due, and past due interest increased.

A framework for Brady-type debt restructuring was agreed with the Bank Advisory Committee in November 1992. As good will to conclude such an agreement, the government resumed partial interest payments in September 1992 amounting to 25% of contractual amounts due. The 1992 budget covered these expenses.

June 1994 Debt and Debt Service Reduction Agreement: Major Parameters

In accordance with the Debt and Debt Service Reduction (DDSR) agreement with commercial banks of the London Club, signed at end-June 1994, Brady bonds amounting to USD 5,137 million were issued. Of these, 36% are discount bonds (Discs), 32% are front-loaded interest reduction bonds (FLIRBs), and the remaining 31% are interest arrears bonds (IABs).

The discount bonds have an exchange ratio of 1:0.5 and a maturity of 30 years. The principal is collateralized by US Treasury bonds and is subject to bullet amortization. Interest is to be paid semiannually and is equal to 6-month LIBOR plus 13/16.

The FLIRBs have a maturity of 18 years and a grace period of 8 years. Interest is to be paid semiannually and amounts to 2% during the first two years following the DDSR, and to 2.25% during the third and fourth years. Its gradual increase continues further until the eighth year. Between the eighth and eighteenth year FLIRB interest equals 6-month LIBOR plus 13/16.

The interest arrears bonds have a maturity of 17 years and a grace period of 7 years. Interest on them is to be paid semiannually and equals 6-month LIBOR plus 13/16.

As a part of the DDSR deal, Bulgaria bought back in cash USD 1,027 million of its foreign debt at a price of 25 and 3/16 cents of principal and adjusted arrears per dollar.

Discs and FLIRBs may be used as means of payment in privatization: Discs at par, FLIRBs at 50% of face value.

Current External Debt Situation

At the end of 1994, total Bulgarian external debt amounts to USD 10,363 million This stock of debt is distributed as follows:

- USD 5,137 million is owed to commercial banks (i.e. to private creditors of the London Club);
- USD 1,825 million is owed to international financial institutions;
- USD 1,591 million is owed to official creditors of the former CMEA;
- USD 1,408 million is owed to other (Paris Club) official creditors;
- USD 402 million (in foreign bonds) is owed to other private creditors.

Despite its reduction after the conclusion of the DDSR agreement with Bulgaria's commercial bank creditors, the external debt remains high. In 1994, the "foreign debt/GDP" ratio is 103.4% (against 144.6% in 1992, and 115.4% in 1993); and the "foreign debt/proceeds from exports of goods and services" ratio is 188.2% (against 234.6% in 1992 and 249.9% in 1993).

The structure of Bulgaria's external debt has also changed. Following the DDSR deal, the share of the obligations to commercial banks (the Brady bonds) dropped from 71.6% in 1993 to 49.6% in 1994. Due to the overall reduction of the external debt and the new net financing received from international financial institutions, these institutions' share in the Bulgarian debt went up from 9.3% in 1993 to 17.6% in 1994.

International Capital Flows during the Transition

Since the start of economic reforms in 1991, Bulgaria has been facing substantial external capital needs. Given the fact that the country's foreign debt situation has only recently been resolved, external financing needs have been covered by a continued borrowing from international financial institutions.

Balance of payments support committed and coordinated by the G-24 in 1991 amounted to some USD 750 million. By the end of 1993, however, only USD 380 million of the sum mentioned was disbursed. Following a delay of more than a year, another portion from this package approximating USD 160 million has gradually been disbursed.

One of the major institutions providing financial resources to support the market-oriented reforms has been the IMF. The IMF's loans to Bulgaria included three Stand-by Arrangements (SBAs) and System Transformation Facility (STF), as well as extension of one of the SBAs to support Bulgaria's balance of payments following the DDSR.

The World Bank has also supported Bulgaria's transition. It disbursed in two tranches (although the second one was delayed) a Structural Adjustment Loan (SAL) of USD 250 million, as well as some other loans to restructure different sectors of the Bulgarian economy.

Foreign direct investment was another source of external financing. In the initial years of reform it proved to be quite insufficient. There has been, however, a recent revival of foreign investors' interest in Bulgaria, and since 1993 foreign investments have been increasing considerably. From USD 17.7 million to 1991 (inclusive) and USD 58.3 million in 1992, the total annual inflow of foreign direct investments rose to USD 193 million in 1993, and 199 million in 1994. Thus, according to estimates by the Foreign Investment Agency at the

Council of Ministers, direct foreign investment in Bulgaria totaled USD 467 million by the end of 1994, and USD 487 million by end-May 1995. If USD 120 million attracted through privatization projects and USD 150 million of portfolio and other types of indirect investment made by foreigners in Bulgaria are taken into account, total foreign investment in the country by end-May 1995 would amount to about USD 750 million.

Appendix

Capital Market

The transition to a market economy calls for an efficient capital market. However, its development in Bulgaria is lagging behind that of the foreign exchange and money markets.

There is some tradition in that sphere in Bulgaria, dating back to the pre-World War II period. The first law on the commodity and stock exchanges in this country was passed in 1907. The regulation of the structure and activities of the commodity and stock exchanges was later amended and improved with the law of 1912. It was not until after the depression of 1929 – 1933, however, that the securities market substantially deepened. But soon after its short-lived expansion it ceased, as the system of central planning was introduced in Bulgaria.

An effective capital market in Bulgaria will now be reestablished from scratch. An adequate regulatory framework has not been established yet. Furthermore, few financial instruments to spur active trading in the capital market are employed. This is due to only recent expansion of private sector activity and the delay of privatization.

The Commercial Code passed in June 1991 treats securities from the viewpoint of the joint-stock companies' equity. Thus, it regulates the primary securities market only partially.

Due to the inadequate legal and regulatory framework of the capital market, an appropriate authority to supervise both primary and secondary markets has not been established.

Organized trading of securities began in November 1991, following the start of market-oriented economic reform in Bulgaria, when the First Bulgarian Stock Exchange (FSBE) was officially registered as a joint-stock company. Four months later the second stock exchange, the Sofia Stock Exchange (SSE), was established as a limited company. At the end of 1992, a stock exchange subdivision of the Danube Free Stock Exchange (DFSE) in the city of Rousse was founded.

In 1994, the number of stock exchanges and stock exchange subdivisions of commodity exchanges registered throughout the country reached 20. In mid-1995, however, only 9 of them were in operation, and the number of actually-functioning stock exchanges is decreasing.

Each stock exchange in Bulgaria is headed by a Board of Directors. Organization of general activities and control over stock exchange trading is based exclusively on internal regulations.

The FBSE was established with a shareholders' capital of BGL 10 million. Its shareholders are banks, insurance and other state-owned and private companies. Until September 1993, this stock exchange organized only one auction per week. Between September 1993 and February 1994, two auctions per week were held, and since February 1994 auctions have been organized every working day of the week. Shares in financial institutions are the majority of stocks traded on the stock exchange.

The auctions of the exchange are guided by a speaker. The trading procedure corresponds to the traditional open outcry system of trading, which is also supported by a computer system of trading, of a physical settlement of individual trades type. The settlement is carried out by the FBSE's Clearing and Settlement Department (FBSE C & S). Each member is responsible before the FBSE C & S for the transactions fulfiled, for presenting duly the information on traded securities and for the settlement. Each member keeps at the FBSE C & S's Settlement Guarantee Fund an amount equal to 5% of the average size of the total purchases and sales from the previous month, but not less than BGL 100,000 for the exchange shareholders and BGL 200,000 for others. In case a certain member's deposit cannot cover his opened transactions, the difference is covered by the FBSE C & S. The deposit is made in BGL, securities or irrevocable letters of credit adopted by the Board of Directors. Execution of the traded securities at the FBSE C & S is T+2, settlement is for T+4 days.

The exchange is working on a system for clearing computerization.

The characteristics of this settlement system will mostly depend on the establishment of a centralized depository system, and on the book-entry system for storage of book-entry securities.

The second Bulgarian stock exchange, the SSE, established as a limited company, was later restructured and registered as a joint-stock company as well. The principal shareholders of the SSE are several large Bulgarian banks and a private insurance company.

The first auction at the SSE was held in April 1992. Initially, the SSE organized its auctions only once a week, on Wednesdays, now it holds auctions every day.

The SSE has established electronic trading in corporate securities, government securities, bonds and precious metals. Some trading at the interbank money market may be effected via this electronic system.

Trading in securities of a smaller scale is also effected at the stock exchanges in the cities of Plovdiv, Veliko Turnovo, Stara Zagora and Varna.

A certain share in the capital market is taken by the financial houses. They are registered under the Commercial Code. However, since their activity is related to banking transactions under the *Law on Banks and Credit Activity*, financial houses are licensed by the Bulgarian National Bank pursuant to the central bank's *Regulations No. 2 of 11 February 1993*.

In terms of organization and control, members, primary and secondary markets, trade in government securities could be defined as being relatively autonomous, though organized and controlled by the BNB. Its volume has increased significantly during the last two years, in line with the needs of the government to cover its budget deficit.

The issue of, and trade in, government securities are regulated by *Decree No. 215 of 4 November 1991* of the Council of Ministers, which determines the procedure for contracting state loans to finance the budget deficit, with maturity from 3 months to 10 years.

The first government securities were issued in 1991. The tendency of growing budget deficits and increasing government debts outlined the need for the issue of larger quantities of government securities and for improving the trading procedure. In early 1992, *Regulations No. 5 of the BNB and the Ministry of Finance on the Issue, Sales and Purchases of Book-entry Short-term Government Securities* were adopted and published in the *State Gazette*.

In 1993, these regulations were replaced by a new ones which provide opportunities for sales of long-term book-entry government securities, as well as for the participation of nonfinancial institutions in the primary market. As of 30 May 1995, the volume of long-term government securities in circulation was BGL 49,500 million (ZUNK bonds not included). Nowadays commercial banks, the State Insurance Institute (SII), and the SSB are the major participants in the primary market.

In the primary market, government securities are sold on an auction basis. The auctions for short-term government securities are held each Monday. Auctions for long-term securities are held on the second and fourth Friday of the month.

Because of the unattractiveness of government securities due to their nonmarket pricing, the volume of operations in these securities in the secondary market remains insignificant.

Since June 1994, open market operations using all types of issued securities (including those issued to replace nonperforming loans) are conducted by the BNB as a major monetary policy instrument.

Privatization: Legal and Regulatory Framework, Prospects, Investment Opportunities

Privatization Laws and Regulations

Privatization is expected to play an important role in the transition to a market economy. In Bulgaria there is general political and public support for privatization.

The legal and regulatory framework for privatization has recently been completed. Institutions to direct and control privatization are in place. A number of state-owned and municipal firms have been privatized and many other are ready to undergo privatization.

The *Law on Transformation and Privatization of State-owned and Municipal Enterprises* (Law on Privatization) was adopted by the Parliament in April 1992. A set of supplementary regulations was passed by the Council of Ministers at the end of 1992. The most important among these are the respective regulations on auctions, competitive tenders, appraisal of enterprises, preferential acquisitions of state-owned and municipal shares and stock, and on information provided to potential buyers (investors). In June 1994, the Law on Privatization was complemented, and opportunities for mass privatization through vouchers (investment notes) were incorporated into it. The 1994 amendments to the privatization law's legal and regulatory framework pursue a decentralization of the process and support of autonomous decision-making at different levels of administration and management.

Capital privatization, although accompanied by mass privatization, is accepted as a major vehicle of ownership transfer in Bulgaria, unlike some other central and eastern European countries where mass privatization was mainly supported. This decision is motivated by the desire to place the ownership of Bulgarian enterprises in the hands of economic agents potentially capable to ensure prosperity through investments and modern management, as well as by the conviction that this fact alone counts more than the speed of privatization itself.

There are several important aspects of the legal and regulatory framework of privatization in Bulgaria. Among them are those listed below.

- Equal opportunities for Bulgarian and foreign investors.
- Opportunities for employees to acquire shares and stock at preferential terms (a 50% discount) and acquire up to 20% of the property rights on the respective enterprise in this way. Limits exist on the maximum value of the discount, as the latter should not exceed an annual salary – that is why the average value of the preferential shares should amount to less than 20% in general, and even less than 10% for bigger and promising enterprises.
- Opportunities for employees to buy under preferential terms, i.e. without an auction or a tender procedure, production units (with fixed assets up to BGL 10 million) and commercial establishments (with fixed assets up to BGL 5 million).

Institutional Aspects of Privatization

The Bulgarian Privatization Law, as amended in 1994, envisions the concept of multicentrism in the organization and implementation of privatization. The law and the complementary regulations issued by the government extensively define the prerogatives of state and local authorities in privatization, taking into account the specifics of both forms of public property in Bulgaria and the economic sectors supervised by the respective branch ministries.

The institutional scheme for privatization in Bulgaria provides good opportunities for flexibility, application of different techniques and for restricting the danger of bureaucratization. Practically all government institutions are more or less involved in the process of privatization, which motivates them to assist and enhance it, as well as to enrich their experience.

The Role of the Government

The Privatization Agency, a state institution at the Council of Ministers, is the organization in charge of privatization in Bulgaria. Six members of its Supervisory Board are elected by the Parliament and five are appointed by the Council of Ministers for a term of four years, while the Executive Director is appointed by the Board itself.

The Privatization Agency is responsible for:

- general organization and control of privatization of state-owned enterprises;
- design of annual privatization programs comprising the minimal number of state-owned enterprises to be privatized during the respective year, the expected amounts of privatization proceeds and expenses, a list of industries and/or enterprises which should not be privatized, and guidelines for privatization of municipal enterprises;
- privatization of state-owned enterprises whose fixed assets (as shown in their balance sheets) exceed BGL 70 million;
- management of the fund covering the outlays for privatization of state-owned enterprises;
- issue of licences for privatization appraisal experts;
- collection of information on the entire privatization process in the country.

The **branch ministries** are in charge of privatization of state-owned enterprises whose fixed assets do not exceed BGL 70 million

The **Ministry of Finance** also has some special responsibilities with respect to the privatization process:

- to assist in the preparation of the financial section of the annual privatization program;
- to permit Bulgarian citizens to buy shares or stock by installments.

The **Center for Mass Privatization** at the Council of Ministers is responsible for the design and implementation of the privatization through vouchers.

The **Commission for Protection of Competition** is to play a specific role in privatization as well. The law authorizes it to react to government institution activities which lead to the establishment of firms with dominant position in the market and, eventually, to bring about cancellation of privatization decisions.

Municipal councils are in charge of privatizing enterprises owned by the respective municipalities.

The Role of Enterprises

The Privatization Law provides the opportunity for managing bodies of enterprises and/or employees to submit proposals for privatization of the respective enterprise. Actually, for most enterprises offers for privatization have been received by the enterprises' managers and employees.

Stages of Privatization

There are several successive stages in the procedure for privatizing a state-owned or municipal firm:

- a ***privatization project*** may be designed by the Privatization Agency or state or municipal bodies (where state-owned and municipal firms are concerned), by the management and/or employees of the respective enterprise, or by prospective buyers (investors);

any of these parties may initiate a privatization transaction through submission of a privatization offer and subsequently receiving an official answer;

- the ***decision for privatization*** is made by the Privatization Agency, the branch ministries or the municipal councils, and is based on the projects they have elaborated or the proposals of the firms themselves; the latter case envisages a decision to be made within one month, as a possible rejection to the proposal has to be motivated;
- the Privatization Law obligates the state and municipal institutions ***to publicize*** the decision for privatization;
- the Law defines the procedure for an ***official appraisal*** of the enterprise subject to privatization: such valuation should be made by independent valuation appraisers licensed by the Privatization Agency and selected on a competitive basis;
- ***pre-sale activities*** involve the procedures envisaged by the Privatization Law on determining the natural and legal persons who may participate in privatization under preferential terms; organization and duration of this stage largely depend on the type of the respective ownership transfer method – an open sale (for shares and stock only), an auction, a competitive tender, or direct negotiations with potential buyers (investors);
- in certain cases, where big state-owned enterprises are concerned, privatization transactions should be ***approved*** by the Council of Ministers;
- the experience gained so far has shown that it takes about 6 – 8 months to prepare and ***complete*** a privatization transaction (the time spent on the preliminary design of privatization projects is not included in this time period).

The Process of Privatization in Bulgaria

Recent Developments

An active process of commercialization (corporatization) of state-owned and municipal enterprises was ongoing in Bulgaria before the conclusion of the first privatization transactions. It was intended to rationalize the behavior of Bulgarian companies in the context of the transition from central planning and administrative pricing to the emerging markets and institutions of a liberalized open economy.

Actual privatization in Bulgaria started with some delay and uncertainty regarding future developments, compared to other transition economies in central and eastern Europe. Gradually, however, the process of ownership transfer evolved and quickened. Statistics on the number of concluded privatization transactions involving formerly state-owned enterprises has indicated an acceleration of the privatization process in Bulgaria. In 1993, 63 such transactions were concluded, while in 1994 their number is 171. For the first five months of 1995, 97 privatization transactions were accomplished.

Privatization of state-owned enterprises has so far been effected mostly in industry, trade, agriculture, tourism and construction, and mainly with small- and medium-sized firms and establishments (with fixed assets up to BGL 70 million). Bigger enterprises have been privatized often by foreign investors. As of May 1995, 12 big privatization transactions amounting to USD 300 million have been concluded between the Privatization Agency and foreign investors, largely in the food-and-beverage industry.

Privatization of municipal enterprises is also developing. Being relatively small in size, municipal firms are more easily accessible to investors.

Another vehicle of privatization, especially for smaller-scale establishments, is restitution. Since the adoption of the restitution laws in

February 1992 and until the end of 1994, 45,906 establishments (shops, restaurants, hotels, warehouses, workshops, etc.) have been restituted.

The 1995 privatization program envisions the start-up of privatization procedures for some 480 state-owned enterprises, 100 of which fall within the prerogatives of the Privatization Agency. About 600 privatization transactions amounting to BGL 20 billion are to be concluded throughout the year, 170 of which are within the jurisdiction of the Privatization Agency. The implementation of the program would lead to the transformation of some 20% of Bulgarian state-owned enterprises into private, thus enlarging substantially the share of the private sector in the national economy.

The 1995 priority privatization industry sectors are: engineering, tourism, food-and-beverage industry, agriculture, and transport. These priority industries do not preclude privatization of companies in other sectors or industries.

Among enterprises excluded from the privatization list for 1995 are those in the defence industry, mining, electric power generation and transfer, oil-processing, railway transport, water supply and sewerage, and telecommunications, as well as the duty free zones. Such bans on privatization are, however, not absolute, but temporary, i.e. for the current year (privatization program) and account for an insignificant share of total ownership eligible for privatization.

Investment Opportunities

General Advantages

Some major advantages of investing in Bulgaria include:

- strategic location of the country on the road connecting Europe and Asia;

- relatively well-developed economy with a substantial export potential;
- favorable natural and climatic conditions for promoting tourism, agriculture and food-and-beverage industry;
- well-developed and balanced transport infrastructure.

Foreign investors in Bulgaria may also benefit from:

- the presence of a considerable number of enterprises on a high technological level;
- the traditionally high educational level, the large number of qualified and skilled specialists in the technical field, and the substantially lower labor costs, when compared with west European countries;
- well-established relationships with the underdeveloped but promising markets of the countries of the Commonwealth of Independent States (CIS) and eastern Europe, and with markets in the middle East;
- the stable political situation.

Presently, investments are facilitated by the relative macroeconomic stability and the liberal foreign trade and foreign exchange regimes.

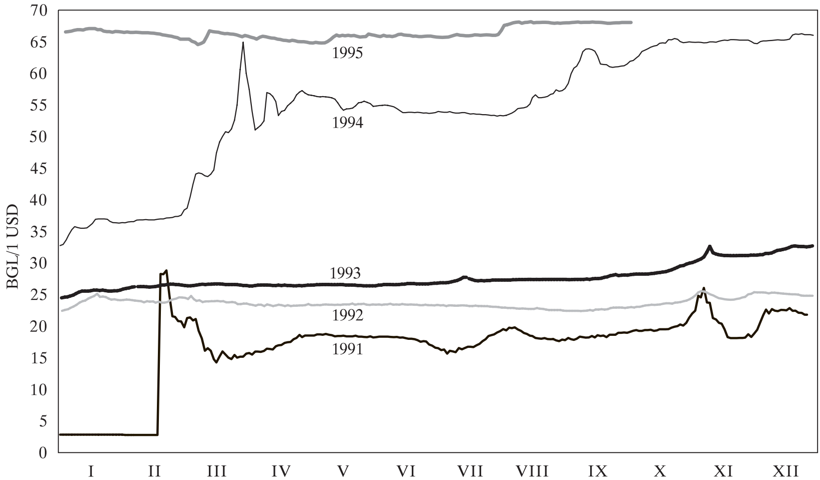
Investment through Privatization

The legal and regulatory framework for privatization and foreign investment in Bulgaria provides various opportunities to accomplish foreign investments, such as privatization, green field development, different forms of cooperation, partnerships for joint activities, portfolio investment.

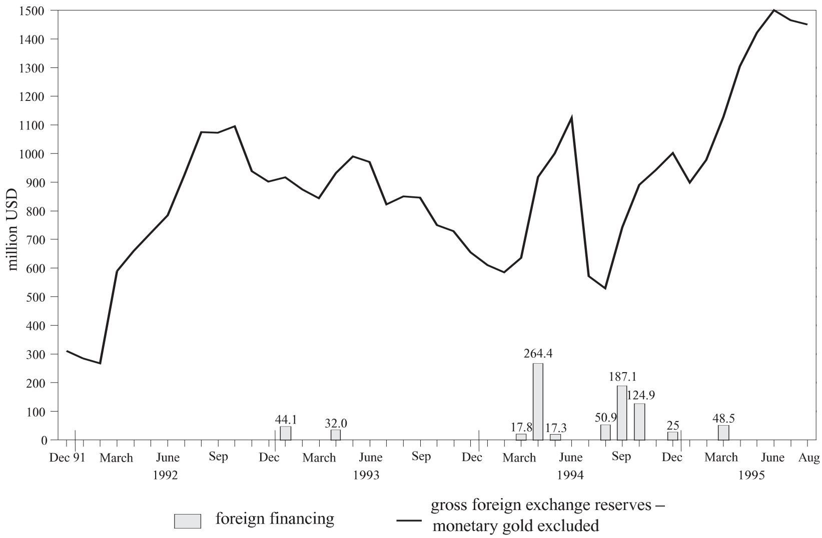
The government, and especially the Privatization Agency, view privatization transactions within a set of priorities, foremost among which is the potential investor's willingness to take a long-term perspective of the firm's future by transferring modern know-how, maintaining and increasing the number of employees and promoting new products and services in the Bulgarian market.

The Privatization Agency pursues a policy of creating favorable public opinion regarding foreign participation in privatization. Comprehensive programs are being designed to familiarize potential investors with the opportunities for direct and unlimited participation in privatization of promising enterprises. This, along with the favorable system of taxation, the current account convertibility of Bulgarian currency, and the lack of restrictions on the repatriation of profits, adds up to the attractiveness of investment through privatization.

Central Exchange Rate

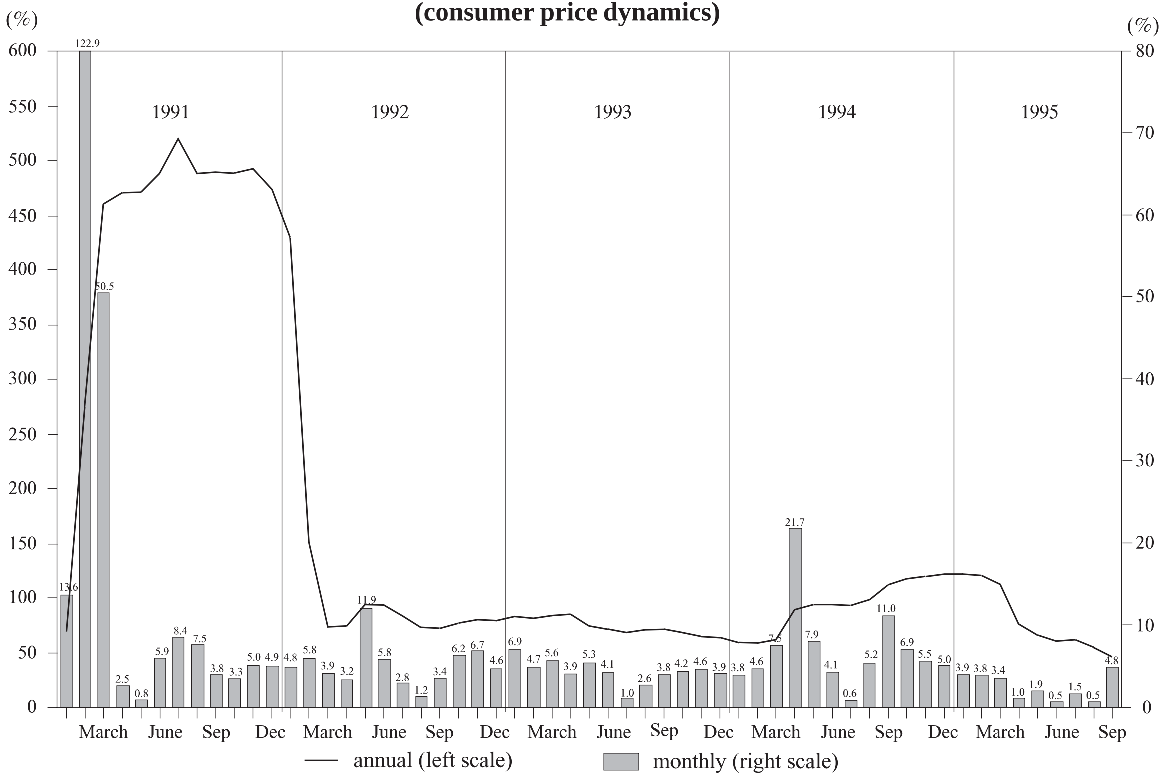


Gross Foreign Exchange Reserves and Foreign Financing



Inflation

(consumer price dynamics)



Bulgaria: Monetary Survey

(million BGL)

Indicators	12'89	12'90	12'91	12'92	12'93	03'94	06'94	09'94	12'94	03'95	4'95	5'95	6'95	7'95	8'95
exchange rate: BGL/USD 1	0.821	2.842	21.881	24.492	32.711	64.942	53.658	61.201	66.015	66.156	65.237	65.953	66.06	66.224	67.979
FOREIGN ASSETS (NET)	-6057	-27274	-206668	-239583	-340089	-701165	-580345	-692686	-131606	-140067	-134235	-114033	-81345	-76073	-27585
Foreign Assets	2822	5678	46978	71218	77458	149074	164335	180250	208595	221165	224671	229365	251240	251626	261824
Less: Foreign Liabilities	8879	32952	253645	310802	417547	850239	744680	872936	340201	361232	358906	343398	332585	327699	289409
NET DOMESTIC ASSETS	49904	76418	309877	398150	574161	1001119	895549	1068669	549615	587831	591020	593848	579194	591330	557161
DOMESTIC CREDIT	53536	67459	160839	254022	396278	621041	555851	665365	543224	576262	579714	588847	583094	605908	587528
BGL	50214	57158	82744	125923	204227	222185	225898	250428	269213	294121	298023	325176	349964	361440	362950
convertible currencies	3322	10301	78095	128099	192051	398856	329953	414937	274011	282141	281691	263671	233130	244468	224578
CENTRAL GOVERNMENT, NET	4936	13657	101688	101354	193579	296843	291295	429194	276727	292329	291377	283657	279269	292235	264307
BGL	3803	9821	68929	34250	103137	111356	110044	114894	119963	134860	134015	135196	182653	189381	183263
convertible currencies	1133	3836	32350	67104	90442	185487	181251	314300	156764	157469	157362	148461	96616	102854	81044
CLAIMS ON NON-GOVERNMENT SECTORS	48600	53802	114674	152668	202699	324198	264556	234798	248506	283933	288337	305190	303825	313673	323221
CLAIMS ON NONFINANCIAL PUBLIC ENTERPRISES	48600	53802	101688	134827	166735	276757	208860	163886	171893	193078	198168	210534	148974	154487	154985
BGL	46411	47337	55943	73832	75682	82441	85112	95222	96105	113942	118244	143368	84303	88025	89967
convertible currencies	2189	6465	45745	60995	91053	194316	123748	68664	75788	79136	79924	67166	64671	66462	65018
CLAIMS ON PRIVATE SECTOR	n.a.	n.a.	12986	17841	35964	47441	55696	70912	76613	90855	90169	94656	154851	159186	168236
BGL	n.a.	n.a.	12986	17841	25408	28388	30742	39064	37525	45319	45764	46607	83008	84034	89720
convertible currencies	n.a.	n.a.	n.a.	n.a.	10556	19053	24954	31848	39088	45536	44405	48049	71843	75152	78516
OTHER ITEMS (NET)	-3632	8959	149038	144128	177883	380078	339698	403304	6391	11569	11306	5001	-3900	-14578	-30367
capital and reserves	-4983	-6769	-28760	-39188	-66664	-103997	-114141	-142678	-171532	-178256	-179822	-182396	-178077	-180403	-184067
valuation ajustments	28	17572	181063	200574	251796	486588	420016	492121	111242	122483	125837	120296	1802	1278	-355
other	1323	-1844	-3265	-17258	-7249	-2513	33823	53861	66681	67342	65291	67101	172375	164547	154055

(continued)

(continued)

Indicators	12'89	12'90	12'91	12'92	12'93	03'94	06'94	09'94	12'94	03'95	4'95	5'95	6'95	7'95	8'95
BROAD MONEY	43847	49144	103209	158567	234072	299954	315204	375983	418009	447764	456785	479815	497849	515257	529576
BGL	40354	43248	68705	117585	186468	199402	221409	242900	281612	313834	327836	343135	362070	375266	378459
convertible currencies	3493	5896	34504	40982	47604	100552	93795	133083	136397	133930	128949	136680	135779	139991	151117
MONEY (M1)	19207	21100	26890	37833	48303	50148	54995	63688	75131	70949	74867	79208	76078	82885	86651
Currency Outside Banks	5969	7110	11866	18268	25151	26801	30259	33260	38498	36487	40094	42633	46589	51454	52470
Demand Deposits	13238	13990	15024	19565	23152	23347	24736	30428	36633	34462	34773	36575	29489	31431	34181
QUASI-MONEY	24222	27387	72730	117149	181619	241675	254733	303041	333978	368328	373789	390919	410789	420459	430486
Time deposits	3561	4221	25867	59409	109966	120807	136025	147748	164954	199048	208273	216842	242922	247482	246514
Saving deposits	17576	17916	15945	20217	28049	28132	29970	31220	40851	43455	44347	46482	40190	41814	42114
Foreign currency deposits	3085	5250	30918	37523	43604	92736	88738	124073	128173	125825	121169	127595	127677	131163	141858
IMPORT AND RESTRICTED DEPOSITS	418	657	3589	3585	4150	8131	5476	9254	8900	8487	8129	9688	10982	11913	12439
BGL	10	11	3	126	150	315	312	244	676	382	349	603	2880	3085	3180
convertible currencies	408	646	3586	3459	4000	7816	5164	9010	8224	8105	7780	9085	8102	8828	9259

Bulgaria: Selected Economic and Monetary Indicators

Indicators		1989	1990	1991	1992	1993	1994	1995 Q1	1995 Q2
GDP	value, bln BGL, current prices	39.6	45.4	131.1	200.8	298.9	543.5	146.9	184.0
	real growth rate, % change [3]	-1.9	-9.1	-11.7	-7.3	-2.4	1.4	2.0	2.8
Consumer Prices	% change [2, 3]	6.4	21.6	333.9	91.3	72.8	96.0	-	-
	% change [4, 1]	10.0	49.8	339.3	79.4	63.9	121.9	11.4	3.4
Unemployment [4]	thousand	-	65.1	419.1	576.9	600.8	488.4	476.1	408.4
	rate, percentage of labour force	-	4.6	11.1	15.2	15.8	12.8	12.5	10.7
Consolidated State Budget	Cash Deficit, bln BGL	-3.0	-2.2	-5.0	-10.5	-32.5	-35.6	-17.8	-31.5
	% of GDP	7.6	4.9	3.8	5.2	10.9	6.6	1.9	3.4
Foreign Trade [5]	Exports, mln USD	3138.0	2615.0	3737.0	3956.4	3726.5	4159.2	888.9	903.0
	Imports, mln USD	4337.0	3372.0	3769.0	4168.8	4611.9	4007.6	761.9	735.2
	Balance, mln USD	-1199.0	-757.0	-32.0	-212.4	-885.4	151.6	127.0	167.8
Current Account [5]	Balance in convertible currencies, mln USD	-1306.0	-860.0	-76.9	-360.5	-1098.0	145.7	11.2	95.1
Gross Official Reserves [6]	Bulgarian National Bank (BNB), mln USD [4]	1076.0	0.0	310.6	902.0	655.3	1001.8	1127.4	1499.5
	BNB, months of conv. currency imports [2]	3.5	0.7	0.7	2.2	2.2	2.4	-	-
Gross External Debt [4]	bln USD	9.2	10.0	11.4	12.1	12.5	10.4	-	-
Exchange Rate [2]									
	BGL for 1 USD	0.84	0.79	16.678	23.339	27.630	54.247	66.390	65.814
	BGL for 1 DEM	-	-	9.963	15.492	16.720	33.800	44.892	47.116
Broad Money	% change [1]	10.1	12.2	115.2	52.7	48.4	78.6	11.1	11.2
BGL Claims on Non-									
Government Sector	% change [1]	6.5	2.0	45.6	33.0	47.3	32.2	19.2	7.0
Demand Deposits	% change [1]	9.0	5.7	7.4	30.2	17.5	52.8	-2.6	16.9
Time and Savings Deposits	% change [1]	6.1	4.7	88.9	90.4	73.7	44.1	21.9	16.7
Lombard Rate [4]	%, effective, annual	-	-	63.05	47.75	63.05	93.88	93.88	42.08

[1] Over preceding period.
[2] Period average.
[3] Over (corresponding period of) preceding year.
[4] End of period.
[5] Merchandise exports and imports based on balance of payments statistics (settlement data for 1991, customs data for 1992, 1993 and 1994).
[6] Monetary gold not included; SDRs and nondollar currencies converted into USD at their respective end-of-period exchange rates.