BULGARIAN NATIONAL BANK

ANNUAL REPORT • 1992

Published by the Bulgarian National Bank
1, Alexander Battenberg Square, 1000 Sofia
Press Office. Telephone: 886 351, 813 171
Telex: 24090, 24091
Fax: (3592) 880558, 884401
Printed in „Bulgarian Philately and Numismatics“

Honourable Mr. Chairman
of the National Assembly!
Honourable members of Parliament!

In accordance with the provisions of the Law on the Bulgarian National Bank, Article 1, paragraph 2, the Bulgarian National Bank reports its activities before the National Assembly. Pursuant to Article 54 of this Law, I have the honour to submit the 1992 annual report of the Bulgarian National Bank.

Prof. Dr. Todor Vulchev
Governor of the Bulgarian
National Bank

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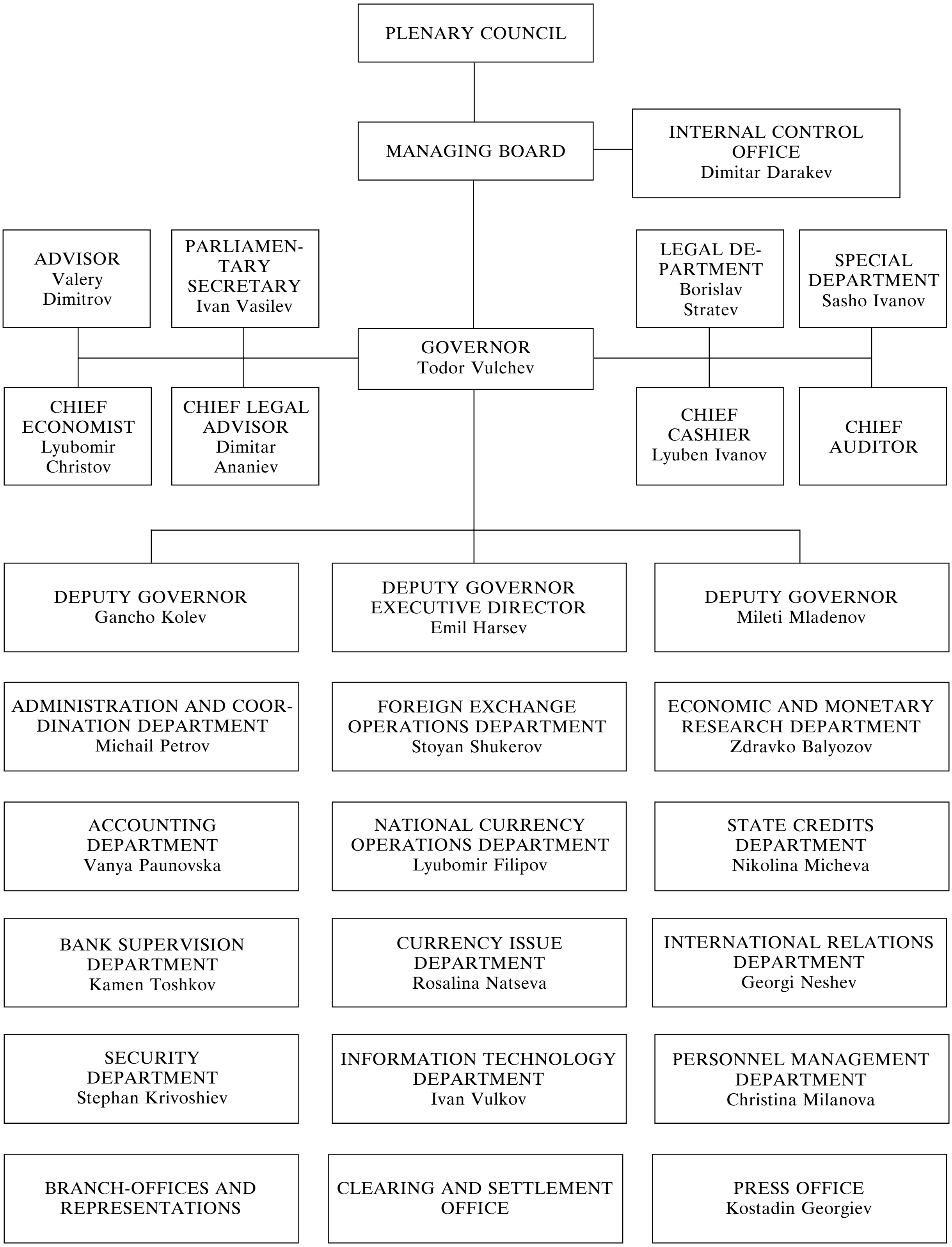
Organizational Structure of the BNB

(as of 31 March 1993)



Contents

Major Economic and Political Events in 1992

12 January The first direct elections for president and vice-president of the Republic of Bulgaria. On 21 January 1992 the Central Election Committee declared Dr. Zhelju Zhelev President and Blaga Dimitrova Vice-president of the country.

16 January The 36th National Assembly passed the Law on Economic Activity of Foreign Persons and Protection of Foreign Investments. It stipulates the legal guarantees on foreign business participation in the economic activities and investment processes in the country; the regime of the former Law, passed by the 7th Grand National Assembly in 1991 was liberalized.

21 January The National Assembly gave the government a mandate to sign agreements on the settlement and rescheduling of the country's foreign debt to the official creditor countries and foreign commercial banks.

5 February The National Assembly adopted the Law on the Restitution of Ownership of Real Estate Expropriated by the State. The restitution set a process of privatization of state-owned property in motion.

26 February The Council of Ministers passed Decree No. 35 on the Adoption of the Tariff Schedule for Taxation of Goods Imported by Legal Persons and Sole Proprietors. On 1 July 1992 the new Tariff Schedule, characterized by enlarged and unified tariff rates and an increase in the average level of tariff taxation, came into effect. Unified customs statistics, similar to that applied by the EEC countries, started functioning.

18 March The National Assembly adopted the Law on Banks and Credit Activity. It set forth the requirements and general regulatory framework governing the banking sector and non-bank financial institutions and determined their relationship to the Bulgarian National Bank in its capacity as a central bank.

20 March The National Assembly passed the Law on the Amendment of the Ownership and Tenure of Agricultural Land Law. This legislative act began the restitution of land to its lawful owners and set up the liquidation councils in existing state-owned pseudo-cooperative structures in agriculture.

9 April The National Assembly passed the 1992 State Budget Law of the Republic of Bulgaria. The deficit of the 1992 central government budget of 9,168.7 million levs is to be covered by credits from the BNB and issues of government securities.

17 April Bulgaria signed the Second Stand-by Agreement with the International Monetary Fund (IMF). The credit amounts to 155 million SDR and is mainly intended to replenish the country's foreign exchange reserves.

17 April The Council of Ministers adopted Decree No. 64 on Determining and Monitoring Prices of Certain Goods. Through it the government determined new fixed prices for electricity and coal, new minimum purchasing prices of agricultural produce, and reduced to 9 the number of monitored basic consumer goods, the prices of which are under control.

23 April The National Assembly adopted the Law on Reincorporation and Privatization of State and Municipal Enterprises. The legislative basis of the privatization process was set up. This Law established the Privatization Agency as the central state authority entrusted with the organization and coordination of the privatization process.

7 May The Republic of Bulgaria acceded to the Council of Europe as a member country. This act is another step in promoting the place of Bulgaria, reforming towards democracy, in the all-European process of integration.

5 June The Council of Ministers adopted Decree No. 94, by which, in pursuance of Resolution No. 757 of the Security Council of the UN, Bulgaria joins the embargo against Serbia and Montenegro. For a second time, following the embargo on Iraq, our country suffers considerable losses from the harsh reduction of our commodity turnover abroad and the suspended payments with the respective country.

25 June The Council of Ministers adopted Decree No. 114 on the Export and Import Regime. The permissive regime in the foreign trade is restricted or completely cut off, and substituted by one that is regulated. Some quotas and ceilings, export duties and fixed minimum prices were set. Import duties are abolished.

10 September The National Assembly passed the Law on the Ratification of Agreements for the Rescheduling of the Foreign Debt of the Republic of Bulgaria to its Official Creditors. On the same date, the National Assembly ratified a financial agreement with the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) for a loan to the Bulgarian energy sector.

25 September The National Assembly adopted the Law on the Amendment of the State Budget Law of the Republic of Bulgaria. The increase in the budget deficit was necessitated by the need to repay part of the interest accrued on loans from private creditor banks (the London Club) for which the government came to an agreement. The whole amount was covered by a credit from the BNB.

28 October The Council of Ministers did not succeed in getting the vote of confidence by the National Assembly and Prime Minister, Filip Dimitrov, resigned. This marked the beginning of a two-month political crisis.

24 November The Council of Ministers adopted Decree No. 234 for the Assumption as State Debt of Uncollectible Credits to Banks of State-owned Sole Proprietor Companies and State-owned Companies and cleaning out credit portfolios of commercial banks with over 50% state participation.

25 November The National Assembly voted for a Law on the Amendment to the Labour Code. The beginning of new labour legislation, corresponding to the transition to a market economy, was set.

4 December A census of the population of the Republic of Bulgaria was taken. The preliminary results, announced by the National Statistical Institute (NSI), show that resident citizens of the country number 8,472,724.

22 December In Brussels the Minister of Trade initialled an Agreement on the Association of Bulgaria into the European Community. It allows for the increased Bulgarian export to the EC countries and, in addition to the most important industries (agriculture, ferrous metals and textiles), it sets forth the prerequisites for the reorientation of traditional exporting industries (mechanical engineering, electronic and chemical industry).

29 December The National Assembly adopted the Law on Collection of Revenue and Making Expenditure in 1993 until the adoption of the new 1993 state budget. Article 3, para. 2 envisages a maximum limit for the net banking credit of 9,050 million levs for the first three months of 1993 and up to one-third of this amount for each month after 31 March 1993.

30 December Using the mandate of the third political power in the Parliament – the Movement for Rights and Freedoms, the National Assembly elected Prof. Lyuben Berov as Prime Minister of the Republic of Bulgaria, thus grasping the last possibility for forming a government within the present National Assembly.

In its Programme Declaration the new cabinet determined as its basic task pursuing reform set forth in the spirit of democracy and market economy .

I. Major Trends in the Development of the World Economy

During the past year the Bulgarian economy functioned in an unfavourable external environment. In addition to domestic economic factors, the recession in the world economy that continued throughout 1992 also hindered the market-oriented reform process underway in this country.

The deepening crisis in the national economies of Bulgaria’s ex-CMEA partners, which for several decades provided a huge and uncritical market for this country’s industrial and agricultural products, reflected most negatively on the Bulgarian economy. The breakdown of traditional relations within this group of countries, as well as the demise of the Soviet Union and Yugoslavia, led to a contraction of external demand to levels untypical of the 80's. The slow process of redirecting Bulgaria’s foreign trade flows to the developed countries and the difficulty of gaining access to their markets despite the EC association agreement signed on 22 December 1992 could not ensure this country’s integration into the international economy. In this critical period Bulgaria had to look after its own economic survival.

1. Central and East European Countries

The development of economic reform in Central and Eastern Europe provokes interest because of Bulgaria's traditional relations with this region. It affords a good opportunity to compare common traits within the transition process, the goals and the systemic economic problems that these countries inherited.

Last year brought successive disappointments in the aspirations of most countries in the region to overcome their internal economic difficulties and increase their share of international trade to have a much wanted stability. Having advanced in building up the foundations of market economies on principles of economic neoconservatism, these countries (with few exceptions) are still far away from the roles they wish to, or could, play in the world economy. Some faint hopes for economic recovery, however, are inspired by certain partial achievements in the national economies of Central European countries – Czecho-Slovakia, Poland and Hungary.

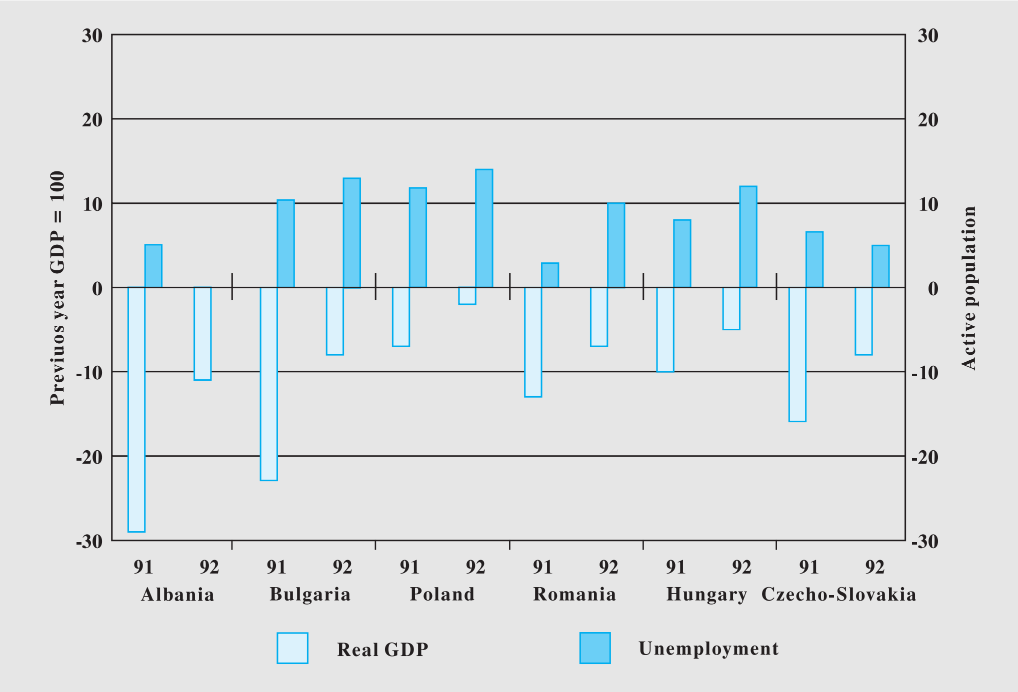
Former Soviet Union Republics

From economic point of view, 1992 was an exceptionally hard period for the newly emerging independent republics of the former USSR. The shock-like liberalisation of prices and foreign exchange market in Russia and most of the remaining former Soviet Union countries carried out under the conditions of deep crisis failure of both the payments mechanism and monetary policy in the rouble zone, and the breakdown of interindustrial and territorial ties had a devastating effect on this immense region economic activity. The average real net material product decline in 1992 for this group of countries has been estimated 20%, versus 10% in 1991. Extremely critical is the situation in countries engaged in military conflicts or stricken by natural disasters (Armenia, Azerbaijan, Georgia, Moldova, Tajikistan), where the decline was almost twice greater.

The average annual inflation in the region, measured by the rise in retail prices, in 1992 exceeded 2,000%, versus some 60% in 1991. Exceptionally high price increases were registered in two countries which in 1992 accounted for about one fourth of Bulgaria’s foreign trade: Russia and the Ukraine (according to prevailing estimates, over 2,500% in 1992 versus 80 – 90% in 1991). Runaway inflation was caused by serious and lasting disequilibrium in domestic market and was accompanied by partial substitution of the rouble with freely convertible currencies due to its sharp devaluation (from some 110 – 120 Russian roubles for 1 US dollar following the opening of the foreign exchange market in Russia in the spring of 1992 to over 400 roubles for 1 US dollar by year-end).

GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT IN CENTRAL AND EAST EUROPEAN COUNTRIES*

(%)



* 1992 data projections.
Source: EBRD, BNB.

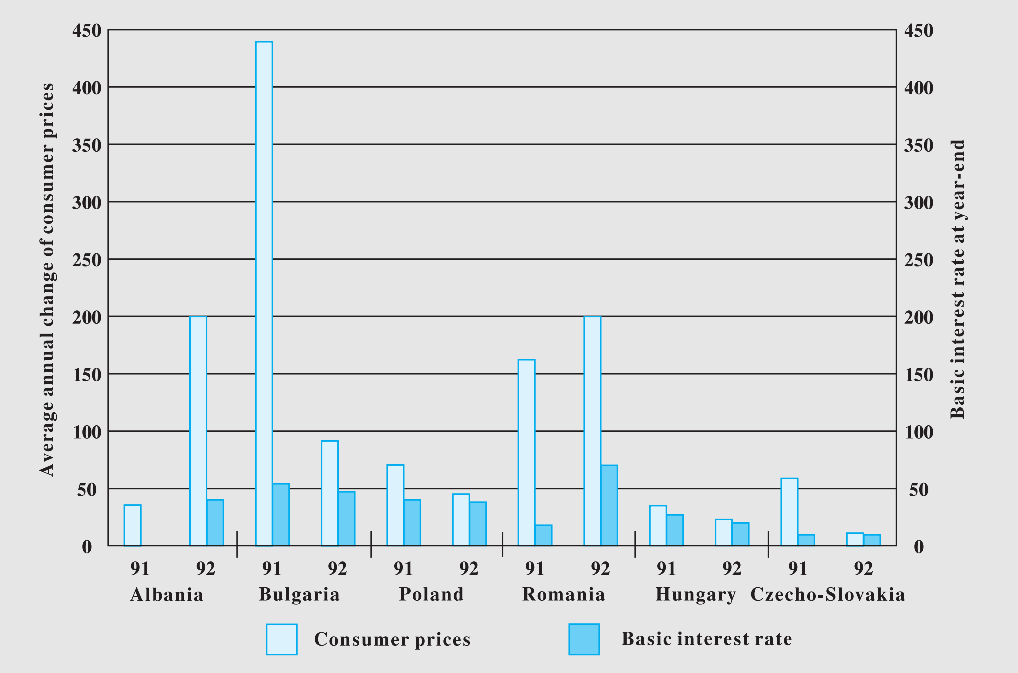
In 1992 investment activity in the region declined by almost half. Exports and imports also marked a considerable shrinkage. The quickly accumulating foreign debt of most countries in the region was another heavy burden upon reform. Given the negative trends in the economies of the former USSR countries mentioned thus far, the 1 – 2% officially registered unemployed for all countries in the region still seems too low. Obviously, despite the start of the reform, state enterprises are not operating under tighter budget constraints, another important reason for continuing high inflation. Probable difficulties of official statistics in registering sharp changes in the economic situation, as well as the growing role of the private and informal economic sectors, should also be taken into account.

East European Countries

As a whole, Central and East European countries (excluding those of the former Yugoslavia) registered better economic performance in 1992 than in 1991. According to estimates, last year’s average real decline in the gross domestic product (GDP) in the region was 5%, which is twice less than the real GDP decline of 11% marked in 1991. There is also some success in the attempts by these countries to curb inflation: while an average annual inflation (measured by retail prices) of 85% was recorded for the total region in 1991, the corresponding figure for 1992 approximated 60%. The increase in foreign trade of this region with the OECD countries is a favourable tendency of great importance for the future success of economic reform. However, from the viewpoint of these countries' macroeconomic characteristics, some differences between Central European and Balkan countries are observed.

INFLATION AND BASIC INTEREST RATE IN CENTRAL AND EAST EUROPEAN COUNTRIES IN 1991 AND 1992*

(%)



* 1992 data projections.
Source: EBRD, Bank for International Settlements (BIS), central banks, BNB.

Market reform has been implemented more successfully in Czecho-Slovakia, Poland and Hungary than in Bulgaria, Romania and Albania. During the past year these three countries considerably improved their trade and current account balances due to growing exports to the developed countries, despite continuing decline in production, employment and personal consumption. This enabled them to reduce inflation, stabilize their currencies and increase the share of private sector in GDP. They achieved some success in the structural reform as well: Czecho-Slovakia in privatization and Hungary in attracting foreign investment.

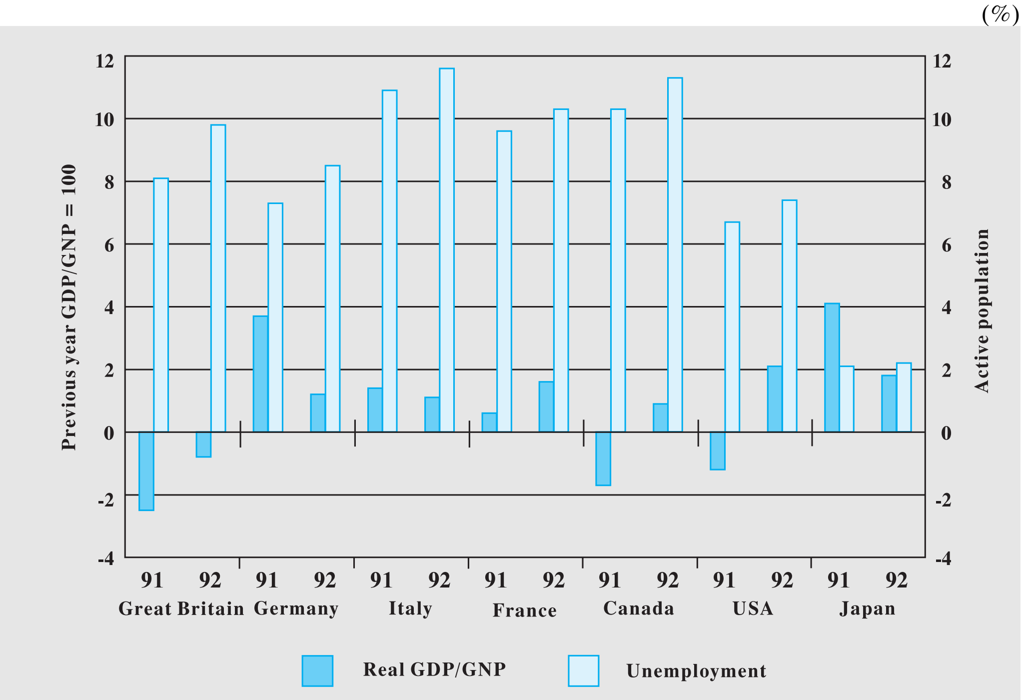
At the same time, Bulgaria, Romania and Albania – although having a moderate decline in their real GDP – showed uneven results in most of the remaining macroeconomic indicators in 1992. In Romania and Albania even inflation measured by retail prices rose compared to 1991. The structural reform in these three countries delayed, and economic problems further aggravated by a fragile political balance. Foreign investment in the Balkans for the present has been insignificant.

2. Developed Countries

In 1992 support from the developed countries for the reforms underway in Central and Eastern Europe once again remained below expectations. The economic difficulties that the West have been experiencing for a third year was the major reason. Although their cyclical decline was not as sharp as in the preceding two recessions (of the mid-70's and the early 80's), it continued to a large extent to cramp the development of the leading world economic powers. Contraction of markets caused by stagnation in the industrialized countries led to a deepening crisis in the former socialist countries, prolongation of the recession in most EC countries and Japan, and a delayed recovery in the United States. All this resulted in growing volatility in international financial markets.

GROSS DOMESTIC/NATIONAL PRODUCT AND UNEMPLOYMENT IN MAJOR DEVELOPED COUNTRIES IN 1991 AND 1992*

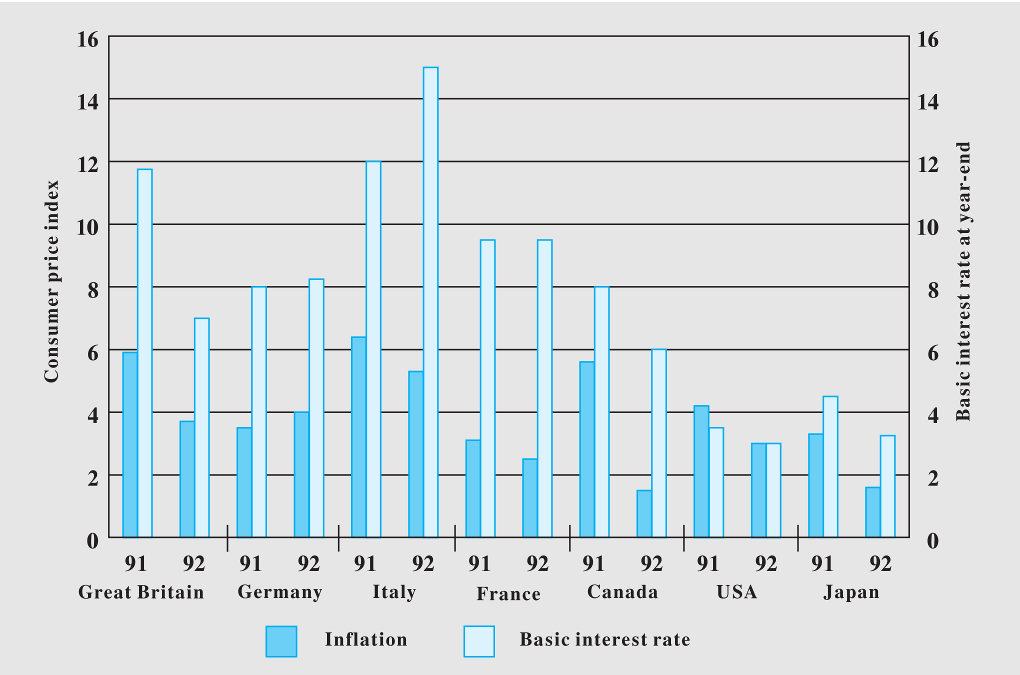
(%)



* 1992 data projections.
Source: IMF, BNB.

INFLATION AND BASIC INTEREST RATE IN MAJOR DEVELOPED COUNTRIES IN 1991 AND 1992*

(%)



* 1992 data projections.
Source: IMF, BNB.

European Community

Western Europe has painstakingly tried to bottom out of its cyclical recession. In 1992 real GDP growth in most developed European countries was between 1 and 2% (in some, like the United Kingdom, even negative growth was registered). Simultaneously, unemployment grew slowly but constantly. As it happened previously, Germany again set the pace for economic development in Western Europe. Interest rates maintained by this country to control inflation, the highest in recent years, were stimulated by integration of its Eastern and Western parts, causing disputes on the forthcoming monetary union within the EC and exerting strong pressure on the exchange rate mechanism of the Community. The resulting disequilibrium had the strongest effect on British pound which devaluated dramatically in the second half of 1992; other weaker currencies in the European Monetary System were heavily affected as well. The Deutsche mark fluctuated during the period under review, yet these fluctuations did not significantly influence its real purchasing power.

Japan

Last year's recession continued to depress the Japanese economy too. Nevertheless, this country marked a real GDP growth of about 2%. Unemployment remained on a traditionally low level for Japan (some 2%). Inflation fell (to 1.6% annually), despite slightly increased interest rates by the end of the year. The real purchasing power of the yen continued to strengthen.

United States

Last year’s real GDP growth in the United States has been estimated at about 2%. This country, seemingly, is recovering from the recession and is entering a cycle of long-expected economic recovery. In order to stimulate the recovery, in 1992 the Federal Reserve System maintained the lowest interest rates in many years. The election of Bill Clinton as President in November 1992 was accompanied by acceleration of the economic recovery and by growing hopes for strenghtening economic growth in 1993. This was also indicated by the appreciation of the US dollar in international foreign exchange markets at the end of 1992.

II. General Characteristics of the Economy

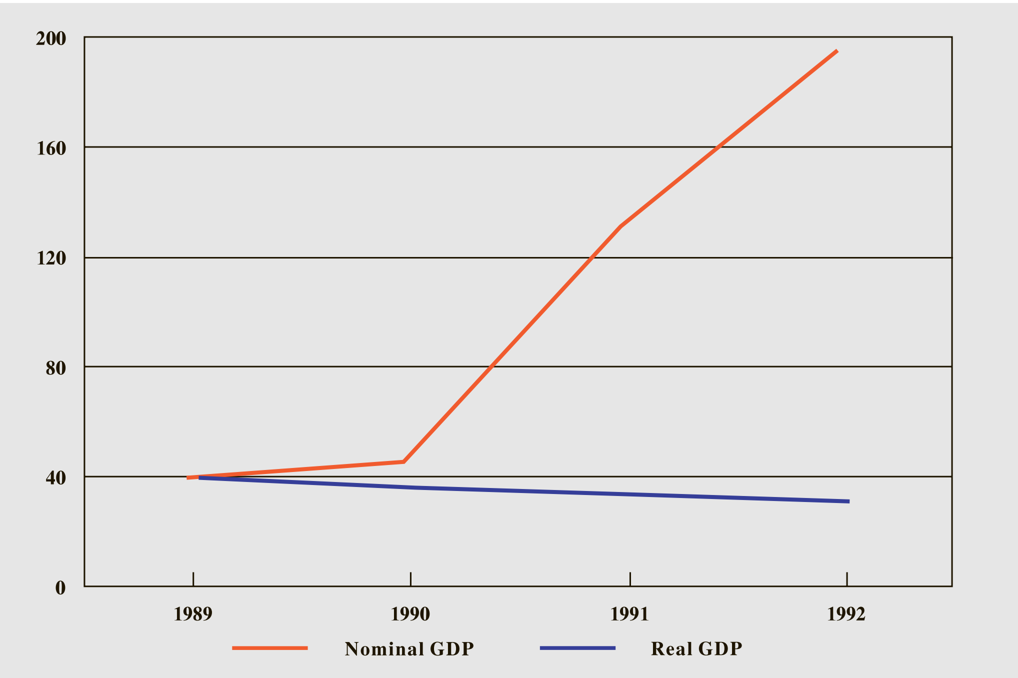
1. Gross Domestic Product

General Growth

In 1992 the nominal GDP produced in the Republic of Bulgaria approximated 195 billion levs[1]. In real terms it was 7.7% less than in the previous year. The tendency of shrinking the gross value added that started as early as in 1989 continued throughout the year under review, although at lower rates. The real GDP decrease in 1992 was 1.4 and 4 percentage points lower than that in 1990 and 1991, respectively[2]. Continuing GDP decline reflected the deep economic depression accompanying the transition from a centrally planned to a market economy which has been carried out in the conditions of slow structural changes on a micro-level, generally unfavourable and getting more and more complicated external economic environment and restricted foreign financing.

GDP GROWTH, 1989 – 1992

(billion levs)



Source: NSI, BNB.

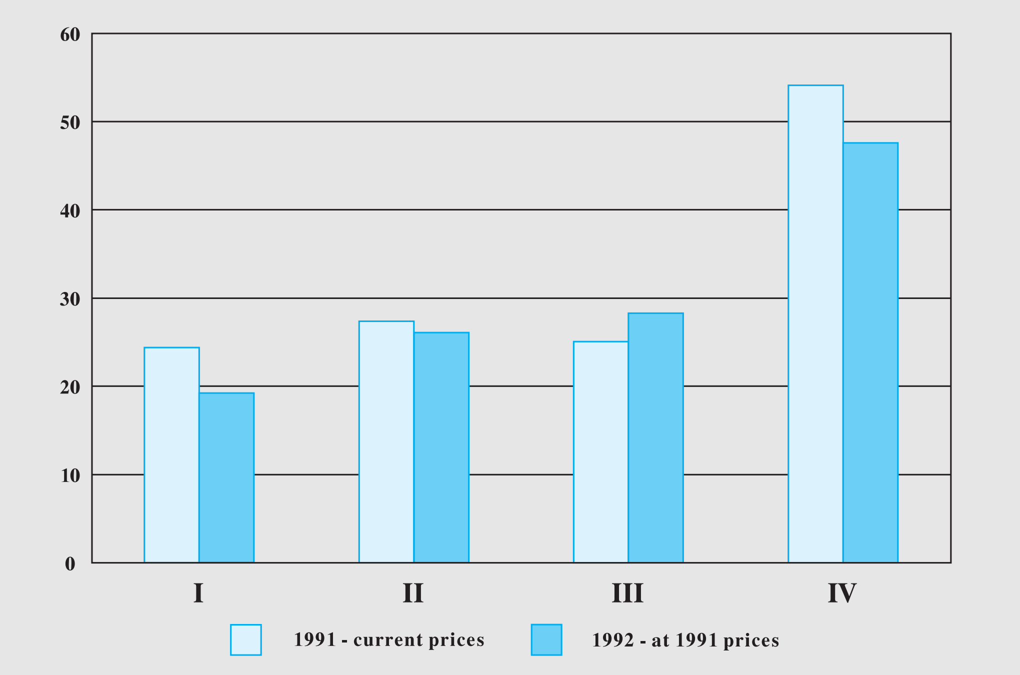
Quarterly data on the growth of GDP produced in 1991 and 1992 indicates that two periods: January – March and July – September, repeatedly demonstrate a more significant decline in this country's economic activity. Total value added in these periods at current prices is approximately equal to the GDP produced during the last quarter of any respective year; this is mainly due to the seasonal up-

[1] According to preliminary data of the NSI.
[2] Rates of change in GDP for each of the three years are calculated using prices of the respective preceding year.

surge of domestic and external consumer demand. In real terms (at 1991 prices), a decline was observed in all quarters of 1992 compared to those of 1991, respectively. Alternating periods of deepening declines, in real terms, and short-lived recoveries, at lower real levels at that, in business activity following them, are another evidence for the aggravating depression the Bulgarian economy is presently experiencing.

GDP PRODUCED IN 1991 AND 1992, QUARTERLY DATA

(billion levs)



Source: NSI, BNB.

Consumption

In 1992, developments in aggregate domestic demand and its structure remained the major factors for the decrease in GDP. The considerable contraction of real income of the population and restrictive fiscal policy of the government in 1991 led to a sharp real drop in consumption (approximately 14.4%). This led to the growth of trade union and social pressure on the government in 1992. The worsening economic situation in this country and failure to establish a constructive dialogue between social partners increased political instability. Eased restriction on individual income in 1992 and high inflation levels under conditions of social uncertainty led to a further real shrinkage in consumption of 7.7%, compared to the preceding year.

Accumulation

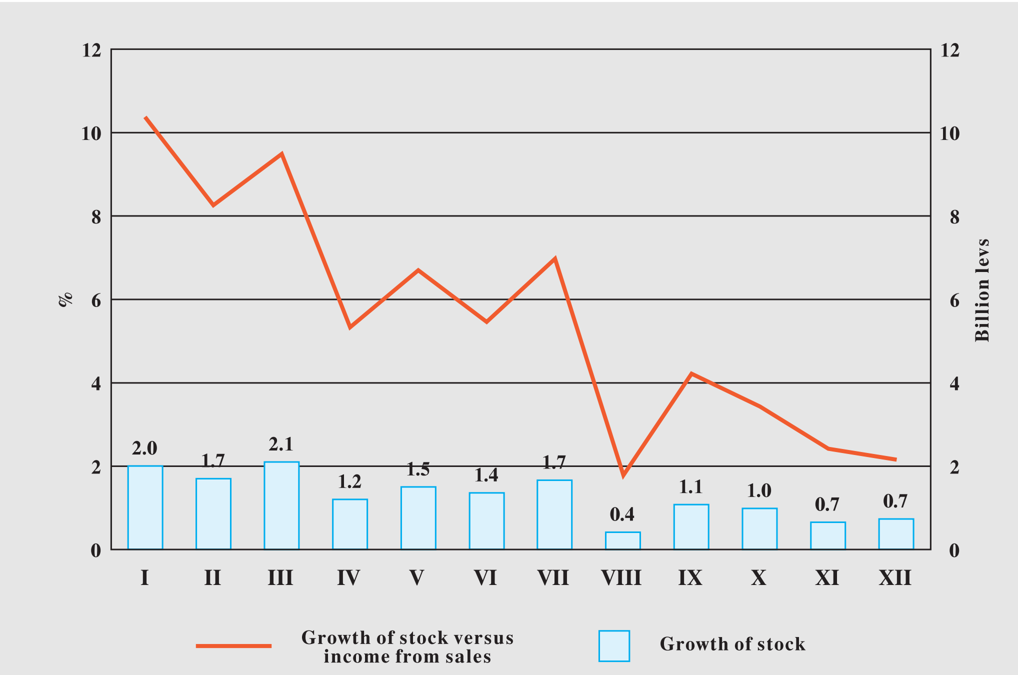
In 1992 fixed capital investment amounted to 39.3 billion levs at current prices; in real terms only 1.5% less than in 1991, with decline in investment activity in real terms during the two preceding years of approximately 35%. 1992 volume of investment still causes concern. Uncertainties in current business conditions, the policy of sharp reduction of budget expenditure on investment, bad debt accumulation in the economy and high nominal bank lending rates were the main reasons for continuing low level of investment demand. The same factors largely explain the weak interest of foreign investors in the Bulgarian economy.

The share of expenditure on machinery and equipment during the year was 34.3% of the total volume of investment, not appreciably different than in 1991. In this way, the unfavourable tendency in recent years of a changing ratio between the active and passive components of capital in favour of the latter, continued in 1992.

Though budget constraints on public sector enterprises were not strict enough (given the lack of a legal framework on insolvency), manufacturing stock decreased during 1992 in absolute terms and reached their lowest level (3.1% of GDP) in the last five years. This is an indication that the high rate of manufacturing stock, typical of centrally planned economies, has been gradually overcome.

The absolute growth in stock of output, which is characteristic of conditions of economic crisis, in 1992 grew to approximately 13 billion levs; at the same time, the ratio between that stock and income from sales reflected the gradual adjustment of producers to the volume and growth of aggregate demand.

GROWTH OF OUTPUT STOCK IN RELATION TO INCOME FROM SALES IN 1992



Source: NSI, BNB.

Net Exports

Liberalization of both the foreign exchange regime and foreign trade in 1991 hindered the GDP decline, as it partially compensated for the weak domestic demand and led to some restructuring of Bulgaria's foreign trade. During the first half of 1992 inflationary processes in this country caused real appreciation of the Bulgarian lev which reduced the competitiveness of Bulgarian producers in international markets. The combination of scarcity of some goods and deepening crisis affecting some of Bulgaria's traditional trading partners, exercised a serious depressive effect on exports and resulted in a considerable decrease in GDP in real terms, compared to corresponding periods of the preceding year. After the introduction of a new customs tariff and the depreciation of the lev during the second half of the year, economic conditions for Bulgarian exports improved. Another frail equilibrium was again achieved in the trade balance[3], which given the small volume of exports and imports, was not that encouraging.

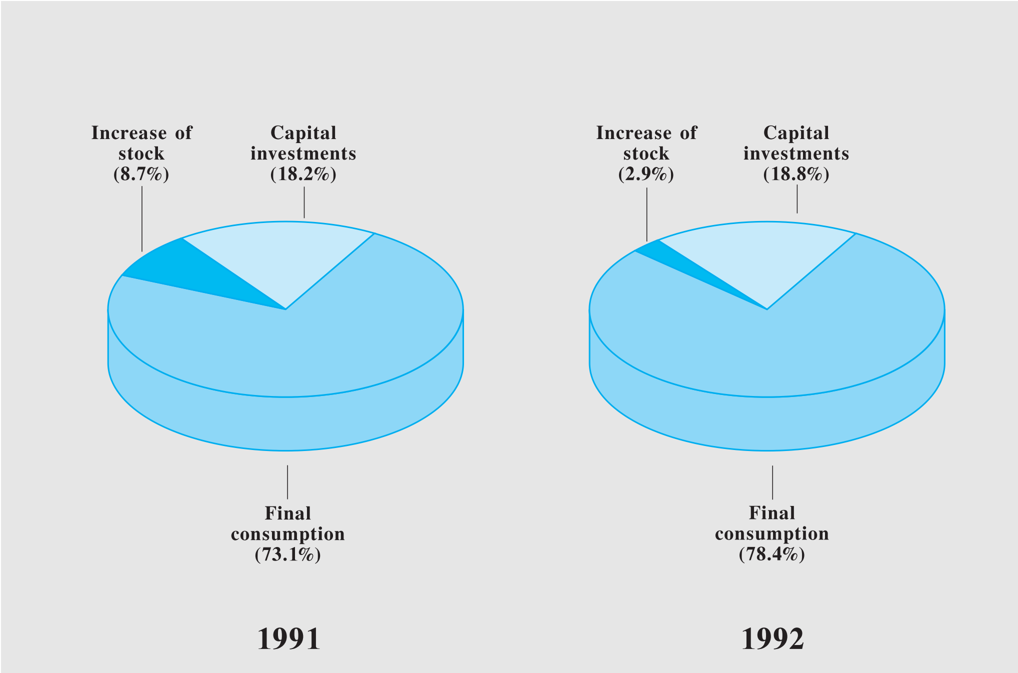
Functional Structure of GDP

Various developments in the components of aggregate demand in 1992 led to some changes in its functional structure. The relative share of consumption in the GDP used, increased again to 78.4%, which is 5.3 and 7.5 percentage points more than those in 1991 and 1990, respectively. The share of investment dropped from 26.9% in 1991 to 21.6% in 1992, mainly due to considerable reduction of stock. Share of the trade balance, following a sensible increase in 1991, returned to its 1990 level of approximately half a percentage point of GDP, indicating that the Bulgarian economy has not achieved stable export orientation yet. The availability of a

[3] According to NSI preliminary data.

huge negative statistical discrepancy in the above-stated data on the use of GDP in 1992 shows that the figures for GDP in this country are probably dramatically underestimated. Reasons for this might be insufficient information on value added in the private sector and inadequate experience in estimating intangible services.

STRUCTURE OF GDP USED



Source: NSI, BNB.

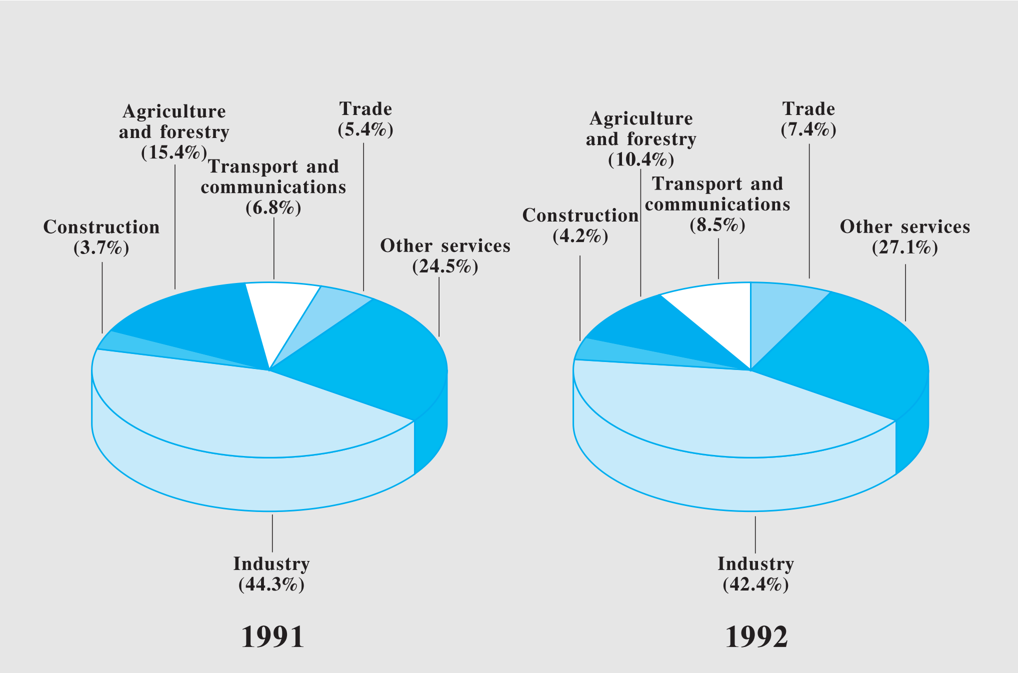
Structure by Branch of Economy

The total effect of changes in domestic and external demand in 1992, did not lead to a considerable contraction of GDP as in preceding years, but further intensified changes in its sectoral structure. The decline in the value added in *industry* – 16.5%, if compared to 1991 (at 1991 prices), and 27.4% (at 1990 prices) total for the two preceding years – largely accounted for the GDP decline. This resulted in a drop of the relative share of industry in GDP from 44.3% in 1991 to 42.4% in 1992. As in the previous year, a considerable contraction of the value added in industry (over 80%) was due to falling industrial output sales by the following industries: food, chemical and oil-processing, electrical and electronic, machine-building and metal processing, and electricity production and thermal power generation. All these industrial branches are either directly linked to household consumption (food industry, electricity production and thermal power generation), to consumption by the state, including state-owned enterprises (electrical and electronic industry, machine-building and metal processing and electricity production and thermal power generation), or are still heavily dependent on the former Soviet Union markets (chemical and oil-processing industry, electrical and electronic industry, machine-building and metal processing). Apart from being an indicator of depressed domestic consumption and the lack of competitiveness of Bulgarian products in foreign markets, the above conclusions pose a relevant question about the speed of withdrawal of the state from economic activity in the transition from planned to a market economy.

A considerable decline of 7.7% from 1991 to 1992 was shown in the value added in *agriculture*. This is largely due to serious structural changes related to farm land ownership transfers currently ongoing in this sector.

A tendency toward increasing the share of services in gross value added produced in the economy, one of the objectives of the economic reform, has occurred throughout the last two years. The specific aspects of the services (e.g. relatively lower investment needed for restructuring compared to other economic branches) and the gradual liberalization of economic policy contribute to these developments in the GDP structure. Compared to 1991, the GDP share in *transport and communications* marked a growth of 1.7 percentage points; and the share of *trade* increased 2 percentage points. The GDP share in the so-called „Other services“[4] has been constantly growing, following the inclusion of imputed rent of owner-occupied homes at market prices. As a result, the share of the *other services* in the structure of GDP produced in 1992 increased to 27.1%.

STRUCTURE OF GDP PRODUCED



Source: NSI, BNB.

Sectoral Structure of GDP

Changes in the GDP sectoral structure, which first appeared right after the start of the economic reform, accelerated further during the past year. The private sector in the Bulgarian economy gradually, though slower than expected, expands with the 1992 GDP amounting to 30.4 billion levs at current prices. As a consequence, its relative share in this country’s GDP increased 3.7 percentage points, reaching 15.6%. The private sector registered the fastest growth in services, with its share doubling over 1991. The share of the private sector continued to grow in industry – from 3.9% in 1991 to 6.1% in 1992, the latter taking the lead in the sectoral structure of GDP. The development of the private sector in agriculture and forestry was relatively slower with its share of GDP falling by one percentage point from 1991.

The absence of thorough regular monitoring of production and employment in the private sector, as well as developments in the structure of household income and expenditure, on the part of the NSI gave additional reasons to conclude that the 1992 share of the private sector in the GDP produced, hence GDP as a whole was underestimated.

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[4] The sector „Other services“ includes the following economic branches: public utilities, science and scientific services, education, culture and arts, public health, social security, sports, recreation and tourism, finance, credit and insurance, management.

SHARE OF PRIVATE SECTOR IN GDP
(at current prices)

(%)

	1989	1990	1991	1992*
Private sector – total	7.2	9.5	11.9	15.6
Agriculture and forestry	4.6	6.7	5.5	4.5
Industry	1.8	1.7	3.9	6.1
Services	0.8	1.1	2.5	5.0

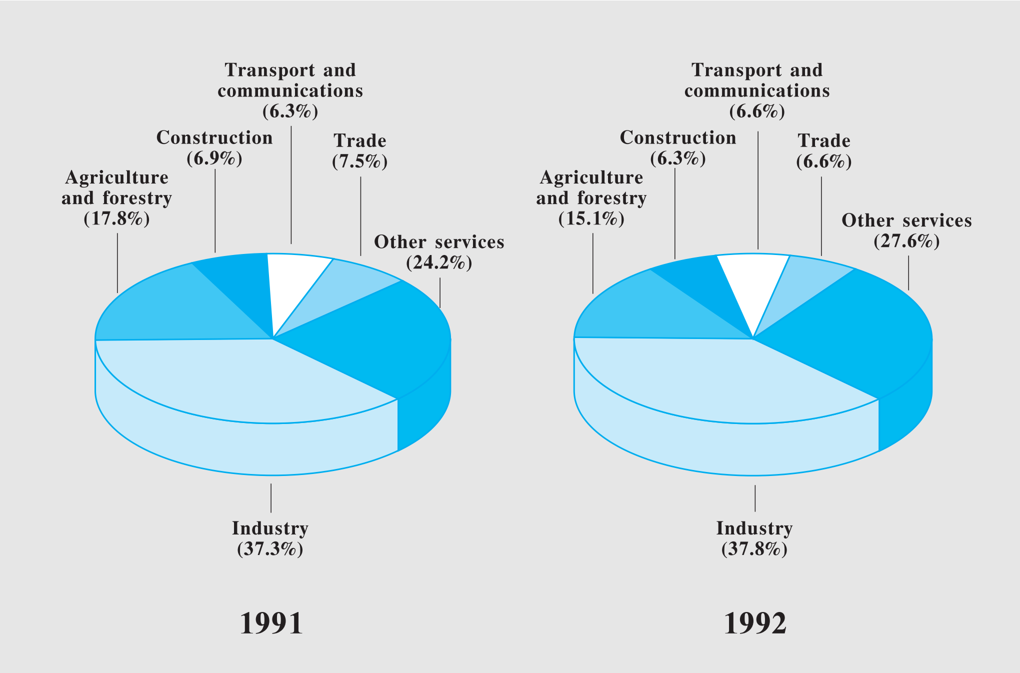
* According to preliminary data.
Source: NSI.

2. Employment

Total Decline

In 1992, the serious economic crisis in this country continued to predetermine a decline in employment. According to NSI data, the number of the employed in the public (state and cooperative) sector for the past year decreased from 3,204,600 to 2,652,600. The average decline in employment compared to 1991 was 17.2%. In the two years following the start of the economic reform, employment in the private sector grew considerably. According to preliminary NSI estimates, private sector employment in 1992 amounted to 434,000 people. In 1992 the average payroll employment approximated 3,086,000 people (including those employed in the private sector). The decline in employment was strongly differentiated by economic sector and industrial branch and depended on the speed of reform and adaptation to the new market conditions in each branch of the economy. A higher decrease was registered in the manufacturing industries (20.6%), at the expense of the slower decline in the services sector (5.5%)[5].

STRUCTURE OF EMPLOYMENT BY ECONOMIC BRANCH



Source: NSI, BNB.

[5] Due to the lack of information on private sector employment by economic branch, the analysis and the conclusions regarding structural changes in employment refer to the public (state and cooperative) sector of the national economy alone.

Industry In 1992 average industrial payroll employment dropped by 191,100 people, which accounted for 34.6% of the total public sector decline. Because of the lack of a legal framework on bankruptcy, the practice of putting workers on forcible leave during temporary breaks or discontinuation of production occurred in many industries in 1992, this further consolidated the tendency already observed of a larger decline in industrial production (24.2%) than in employment (16.0%).

The following industrial branches made the greatest contribution to the drop in employment: electrical and electronic industry (decline of 20.2%), machine-building and metal processing industry (decline of 20.1%), other industrial branches (decline of 29.2%) and food industry (decline of 13.4%). The economic and political changes that occurred during the recent two years in Eastern Europe and the Middle East contributed considerably to the substantial losses of markets for the output of these industries. These industrial branches accounted for over 68% of total lay-offs in industry as a whole. Ferrous metallurgy, marking an increase of 7.9 % in the number of employed, was the other extreme.

Agriculture and Forestry The number of employed in 1992 dropped 168,800 people. Last year this economic branch registered the fastest rate of job reduction (30.5%). Reduced employment was due to a great extent to the amendments to the *Law on the Ownership and Use of Agricultural Lands* adopted in early 1992; an outhgrowth of it being the start of liquidation of the former cooperative farms. The absence of a good reporting system by the liquidation councils on employment in the transitional structures of this branch was an additional reason for this high statistics.

Construction The economic crisis and the sharp contraction of investment reflected strongly on employment in construction. In 1992 this sector lost more than 53,000 jobs, a decrease of 24.2% compared to 1991. This dramatic drop in the number of employed in construction compared to the average drop in the public sector predetermined the decrease of the share of this branch in the structure of total employment for a third year.

Transport The average payroll employment in transport dropped by 27,400 people in 1992. Despite a decline of 13.6%, this sector, due to its infrastructural characteristics, increased its share slightly in total number of employed in the national economy from 6.3% in 1991 to 6.6% in 1992.

Trade According to official data, this sector accounted for the second largest decline in the number of employed (27%), following agriculture. The high relative share of newly created private firms with trade declared as their major business, restitution of large covered city property, as well as gaining momentum in small privatization, gave grounds to claim that the largest part of the people employed in the private sector of the Bulgarian economy are employed in trade. It could be said that the number of employed in trade grew in both relative and absolute terms in 1992.

Other Services The average payroll employment in this economic branch dropped by 39,000 people in 1992. The rate of the reduction was 3.7 times lower in this branch than in the remaining branches of the national economy; this helped preserve the tendency of continuing growth of the relative share of the employed in „Other services“ from 22.2% in 1991 to 25.3% in 1992. From a structural aspect, employment fell most rapidly in science and scientific services (15,100 people or 23.4% in 1992 compared to 1991), public utilities (8,000 people or almost 14%), and in culture and arts (4,900 people or 13.8%). The processes of reducing the number of employed continued at a substantially slower rate (average annual rate of 2.5% in 1992) in education and public health. This considerably influenced the rapid growth of the shares of these branches in total employment by 1.1% and 1.5%, respectively. Reductions in management staff in 1992 slowed down considerably: only 2,400 people, or 5.2%, were discharged. The quick development of banking, a requirement of economic reform, increased by 6,600 people employed in financial, credit and insurance activities.

Unemployment

The stagnation of the national economy which continued in 1992 predetermined growth in unemployment. At the end of the year the number of unemployed reached 576,893, an increase of 157,770 over year-end 1991.

In 1992 as a whole, the share of the unemployed calculated as a ratio between the registered unemployed and total labour force (employed in the public sector plus unemployed) rose from 13% to 19.1%. This was a consequence of both a 37.6% increase in the number of unemployed and a decrease in the number of employed by 352,100 people, or 12.6% during 1992. The data on relative unemployment appears to be overstated; first, the number of people working in the private sector is not included in the total of employed, and second, many of those registered as unemployed have, in fact, some sort of profit-making activity, which remains uncaptured by national statistics. If we assume that approximately 25% of all registered as unemployed are, in practice, employed in the shadow economy and that those employed in the private sector approximated half a million, the actual share of the unemployed in this country's labour resources at the end of 1992 would be 13%.

NUMBER OF UNEMPLOYED AND COMPENSATION, BENEFIT AND RETRAINING EXPENDITURE

	December 1990	December 1991	December 1992
Unemployed (number)	65,079	419,123	576,893
Unemployed receiving compensation (number)	32,307	173,185	198,510
Relative share of unemployed receiving compensation (%)	49.6	41.3	34.4
Compensation and benefit expenditure per one unemployed (levs)	169	486	630
Retraining expenditure per one unemployed (levs)	0.15	2.41	6.05

Source: Ministry of Labour and Social Security, BNB.

Average monthly unemployment grew 2.7% and was unevenly distributed throughout the year. It reached its highs in March – April (3.6%), July – August (5.0%) and October (3.5%). These peaks were caused by large number of young people seasonally passing from the army and the educational system into the group of those looking for a job. A significant growth in the share of unemployed young people under the age of 30 was observed during these periods.

Major Trends

From a structural aspect, the following major trends in unemployment were clearly distinguished in 1992:

• The share of unemployed under the age of 30 remained excessively high, despite the decrease from 48.6% at the end of 1991 to 44.8% at the end of 1992. Shrinking production and reduced demand for labour reflected most strongly on those young people who had not started to work;

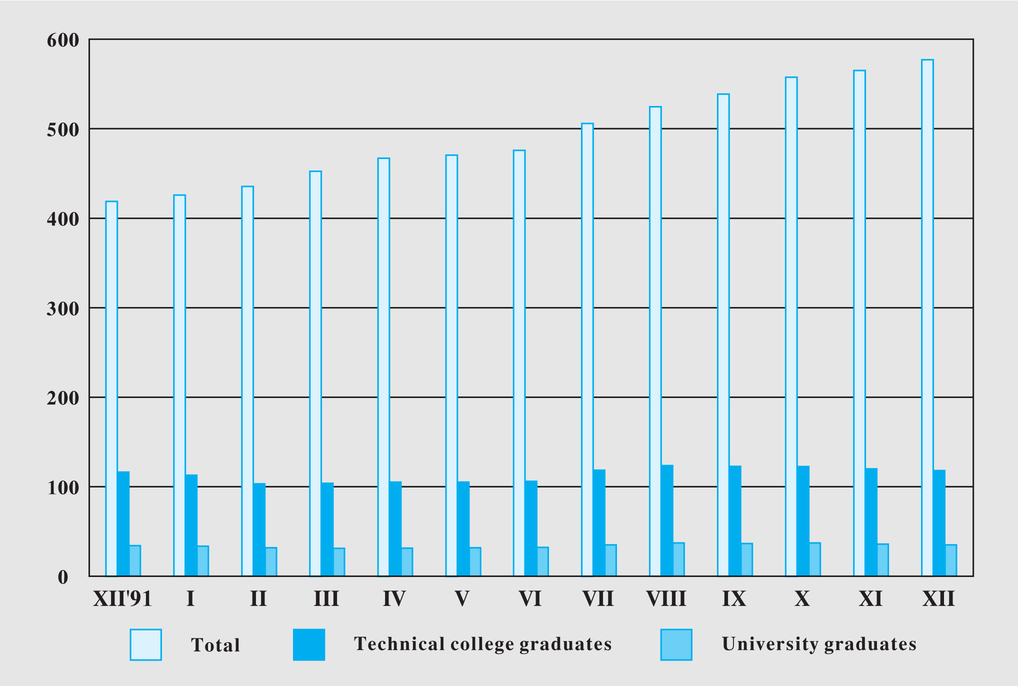
• The number of unemployed specialists grew in 1992 by only 1,499, and their share at the end of the year was 20.4%, against 27.8% at the end of 1991. Among these, the share of engineers and technicians (53.2% in December 1992) was extremely high, over the year they increased 4.1%;

• The level of unemployed with university and other higher education graduates was low and stable. Their number grew in 1992 only 772 people, while their relative share dropped from 9.1% to 6.8%;

• Despite a registered 2% decline, the tendency of higher growth of the share of women compared to men in total unemployment and jobless specialists was again observed in 1992.

NUMBER OF UNEMPLOYED IN 1992

(thousand people)



Source: Ministry of Labour and Social Security.

In 1992 some slowdown in unemployment growth was due to already cut „excess“ employment within the framework of the existing production structure. It should be expected that the forthcoming restructuring of the national economy will be accompanied by a new wave of unemployment growth, until a new, stable employment structure by economic sector and industry is formed.

3. Income and Consumption

In 1992 nominal monetary income of the population[6] grew 85.8% compared to 1991. Real monetary income, however, dropped 2.9%. Within a structural context, significant differentiation in the growth of the different types of monetary incomes was observed. Income from *„Other economic activity“*[7] registered an exceptionally rapid growth of over 6 times. Its share in total monetary income grew from 5.8% in 1991 to 22.9% in 1992 (this increase was also due to deficiencies in their statistical capturing). According to the shares of these incomes, Bulgaria is coming closer to patterns observed in some developed market economies. *Income from interest* also grew faster that the average rate (91.2%), while *income from wages and pensions* was characterized by considerably slower growth (63.9% and 61.7%, respectively). This led to a fall in the share of wages from 45.9% in 1991 to 40.5% in 1992, while for the same period pensions lost almost 2 percentage points of their 15-percentage share in 1991.

The different types of income demonstrate different quarterly dynamics. Nominal income from wages, pensions, scholarships and benefits, which represent the predominant type of individual income in this country, grew gradually throughout the year. Owing to their specific nature, nominal income from both interest and „Other economic activity“ increased at an exceptionally high rate in the last quar-

[6] The data analyzed is derived from quarterly NSI monitoring of the balances on monetary income and expenditure of the population.

[7] Income from „Other economic activity“ includes income from private entrepreneurship, sale of agricultural produce to the population, rent, dividends.

ter of 1992 compared to their growth in the preceding nine months (by 228.6% and 226.2%, respectively). As a result, serious changes occurred in the structure of monetary income in the last three months of 1992: individuals' income from „Other economic activity“ became the most significant, their share (32.3%) exceeding that of wages by 3.3 percentage points. For the same period, interest paid by the banking system accounted for 22.3% of total monetary income of the population.

Wage

The average monthly wage in 1992 reached 1,895 levs. Its real magnitude marked a growth of 3.3% compared to 1991. This growth was due to the exceptionally sharp reduction (of 17.2% compared to the preceding year) in registered employment in 1992.

In 1992 the government applied an improved system of wage bills growth regulation (as one of the key elements of its non-inflationary policy). Ceilings on the increase of wage bills were made dependent on projected inflation. Consequently, public sector wage bills in 1992 (60,307 million levs)[8] compared to 1991 grew 63.5% which is only 85.5% of the level of inflation reached for the same period.

Within a sectoral and industrial context, a substantial differentiation in the amount of the nominal average wage was observed. In 1992 workers employed in electricity production and thermal power generation earned wages which were 92.8% above the average in the country. High wages were also paid in the coal-mining industry (83.5% higher than the average wage), ferrous metallurgy (67.4%) non-ferrous metallurgy (51.7%), chemical industry (54.2%) and finance, credit and insurance services (63.8%). These branches (except for the latter) continued to function under soft financial constraints during the year, i.e. they relied again on state subsidizing, which enabled them, despite the Ordinance on Wage Bills Growth Regulation, draw higher than average wages. The same branches of the economy accounted for the highest increases (from 2.3 to 2.6 times) in nominal average monthly wages in 1992 compared to that in 1991. The economic branches which operated under tighter financial constraints were the sewing industry (having paid wages which were 37.1% below the average wage in the country), agriculture and forestry (26%), fur, leather and footwear (18.8%) or which were directly supported by the budget (culture and arts (21.4%) and education (16.1%) were the other extreme.

Pensions

In 1992 20 billion levs were paid in pensions. The number of pensioners increased 67,166 and further aggravated (from 1.49 in 1991 to 1.28 in 1992) the ratio between the employed in public and private sectors and the pensioners. The rapid growth in total number of pensioners and the lack of any accumulated resources in the Social Security Fund doomed the reform in the pensions area to failure which started with the Amendment to the Law on Pension adopted in 1992. The average monthly pension grew nominally from 430 levs in 1991 to 674 levs in 1992, yet its real magnitude lost 18% of its purchasing power for the same period. This fact, coupled with the low level of pensions, virtually placed more than 2.4 million pensioners in the lowest-income social group.

Due to the falling share of income from wages and pensions within total household income (and for the major part of Bulgarian households these are the only type of income) the income structure of the population grew worse in 1992. Given the existenz-minimum of 1,208 levs calculated for December 1992, 38.5% of Bulgaria’s citizens had a monthly income at this limit or below.

Expenditure

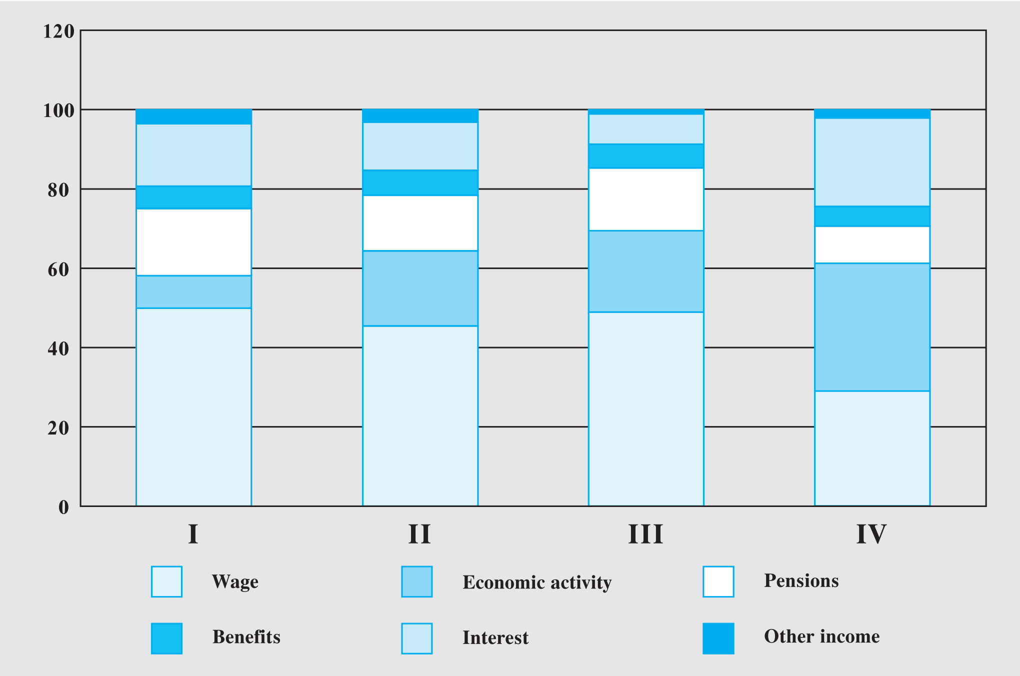
The predominant monetary expenditure of the population in 1992 was again for the *purchase of goods and payment for services*. Compared to the preceding year, these increased by 59.3% and 99.2%, respectively. Their share in total monetary ex-

[8] The NSI does not monitor wages in the private sector; therefore the conclusions from the analysis of the developments and structure of remunerations in 1992 refers to the public (state and cooperative) sector of the national economy alone.

penditure, however, was substantially reduced (from 72.1% in 1991 to 65% in 1992). The sharp *growth of savings* – which throughout 1992 increased more than three times, was quite impressive. Its share in monetary expenditure in the last quarter became the second largest (31.5%). This was a consequence of high interest rates which made holding of free money on bank deposits attractive and negative real interest rates which were indicative of a lack of economic alternatives for more rational investment in the economic turnover.

STRUCTURE OF MONETARY INCOME OF THE POPULATION IN 1992 (QUARTERLY DATA)

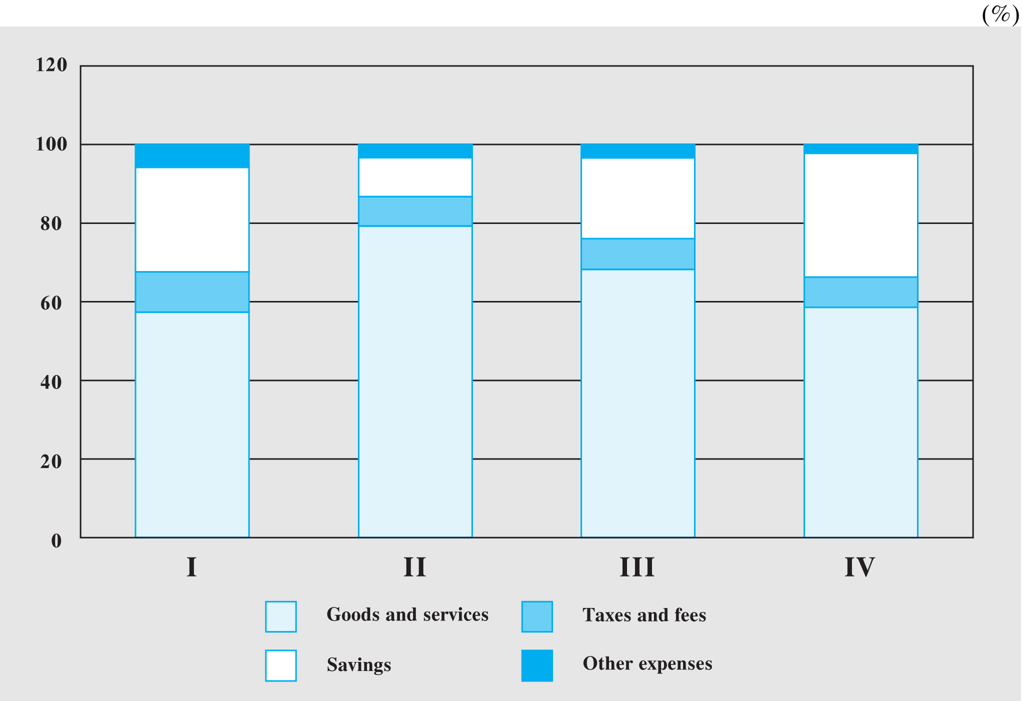
(%)



Source: NSI, BNB.

STRUCTURE OF MONETARY EXPENDITURE OF THE POPULATION IN 1992 (QUARTERLY DATA)

(%)



Source: NSI, BNB.

When compared to the preceding year, *expenditure on loan repayment* registered a considerable drop (-44.4%) in 1992. This was caused by the fact that substantial amount of loans had already been repaid in 1991 under the low annual interest rate of 2%. The share of expenditure on loan repayment in the expenditure of the population decreased from 3.4% to 1% in 1992.

Consumption

Data from household budget monitoring, carried out by the NSI showed some changes in the structure of total consumption expenditure. The traditionally high share of expenditure on *food* (46.8% in 1992) continued, despite the drop of 1% compared to the preceding year. Simultaneously, rapidly growing prices on *transport and communication services* substantially increased the share of such services (from 5.5% in 1991 to 7.1% in 1992). The peak in *housing* loan repayment experienced in 1991, as well as worsening economic conditions in construction and in the housing market reduced the share of this type of expenditures from 6.4% to 3.2%. Expenditure on *housing furniture*, however, marked a considerable growth (from 3% to 4.4% of total consumption expenditure of the population) for the same period.

STRUCTURE OF TOTAL HOUSEHOLD EXPENDITURE

(%)

	1991	1992
Total expenditure	100	100
Foodstuff	47.7	46.8
Liquor products	4.1	3.0
Tobacco products	2.4	1.7
Housing	6.4	3.2
Home furniture	3.0	4.4
Clothing, footwear and haberdashery	7.1	7.6
Personal hygiene and public health	1.4	1.8
Education and leisure	2.5	3.2
Transport and communications	5.5	7.1
Other expenditure	19.9	21.3

Source: NSI.

4. Prices

Measures aimed at further price liberalization were again applied throughout 1992. As a result, prices started to perform their normal functions in a market economy more and more efficiently: informational – to characterize the ratio between demand and supply of the different types of goods, and regulatory – to allocate the resources in the economy. Furthermore, the control over total growth of inflation was a main objective in the implementation of the macroeconomic stabilization and a major indicator of the extent to which the latter was achieved. Coupled with the development of the mentioned processes in the future, price indices will gradually become more definite and objective measurements of inflation.

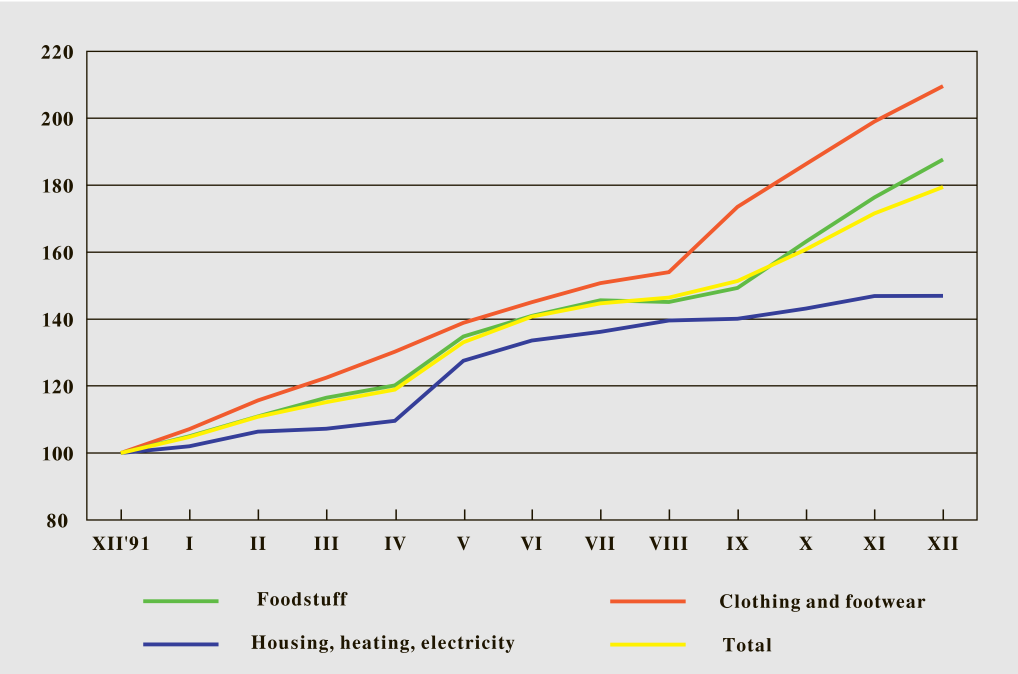
Consumer Prices

The consumer price index (CPI), acknowledged as a measure of inflationary processes in this country, registered in 1992 an average growth of 91.3% compared to 1991, thus exceeding earlier projections underlying the 1992 macroeconomic framework. Experience accumulated during the past two years evidenced that the price jump in February 1991 was just the threshold beyond which true dynamics of the inflationary processes in this country began.

In December 1992, the price of the NSI consumer basket was 79.4% higher than that in December 1991. The growth of the total CPI in each month is indicative of fluctuations in the development of the inflationary processes throughout 1992. In January and February the average index of 5.3% was higher than the average for the year as a whole (5.0%), reflecting the accelerated growth of household income at the end of 1991 which substantially increased demand in the market. The drop in the CPI during the following two months was a consequence of the restrictive effect of tax payments, the seasonal sharp decline in production in early 1992 and the wait-and-see behaviour of trade unions. In May the government fixed higher (between 25% and 60%) prices for electricity and thermal power energy, coal and propane-butane gas. Communication services prices also rose. Thus, the total CPI reached its highest monthly level (11.9%) after the price jump in early 1991. At the end of the first half of the year the price of the consumer basket was 40.8% higher than in December 1991, and the average monthly price appreciation was already 5.86%. A sharp drop in the CPI followed falling 2.8% in July and 1.2% in August. This was mainly due to the seasonal factor, as well as budget expenditure limitations achieved through postponement of payments that fell due and increased rate of registered unemployment. Relief of monetary policy in summer, accumulation of budget arrears and destabilization of the political situation that had begun in Bulgaria led to rapid acceleration of inflation: 3.4% in September and 6.2% in October.

CONSUMER PRICE INDEX IN 1992

(%)



Source: NSI, BNB.

During November – December 1992, under the conditions of a government crisis, escalating trade union pressure and traditional seasonal growth in demand, inflation retained its high level of 6.22% in November and 4.6% in December. The relative slowdown of its accelerated growth in December was possible only because of a postponement of the envisaged increase in energy prices for beginning-1993.

Retail Prices

The growth of retail prices at end-1992 was 77.2%, or 2.2 percentage points lower than that of consumer prices. The price rise was the highest for services (87.5%), lower (yet above average) for foodstuff (82.5%), and lowest for non-foodstuff (71.6%). Monthly changes in the retail price index (RPI) were analogous to those in the CPI. The small discrepancy in their dynamics was a result of structural differences in retail turnover and expenditure of household budgets, which serve to weigh both types of indices. The slight differentiation in the price rises in different groups of goods and services gives grounds to conclude that high inflation was a continuing phenomenon during the past year and that the reasons for its permanent manifestation after the price liberalization in 1991 have not been exhausted only with the jump-like periodical adjustments in energy product prices.

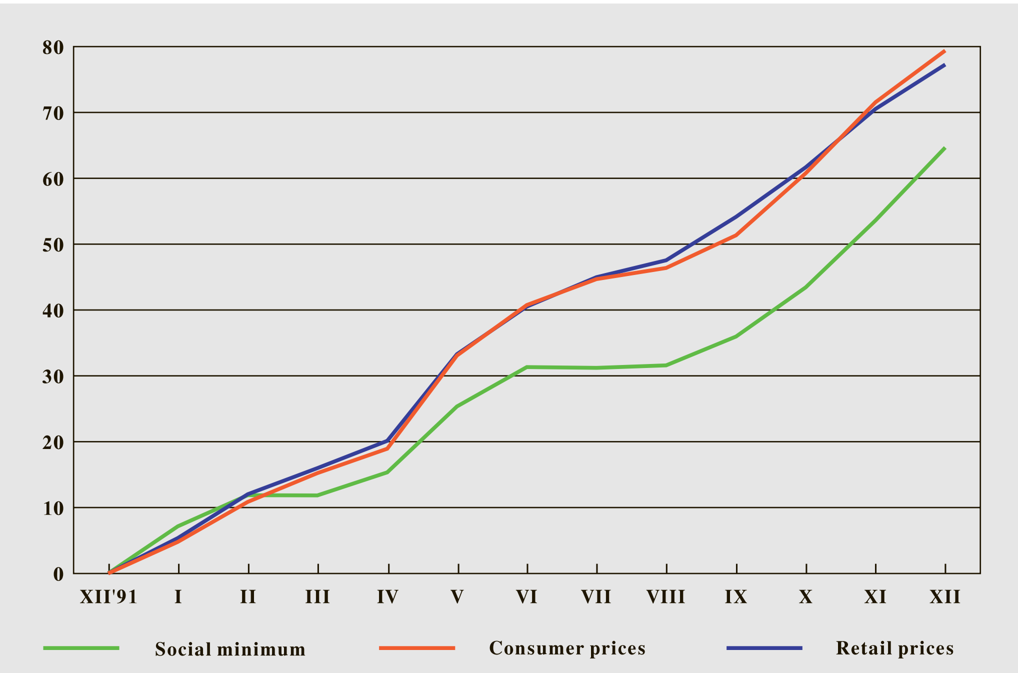
RETAIL PRICE INDEX IN 1992

(%)

Source: NSI, BNB.

SOCIAL MINIMUM GROWTH IN 1992
(minimum cost of living)

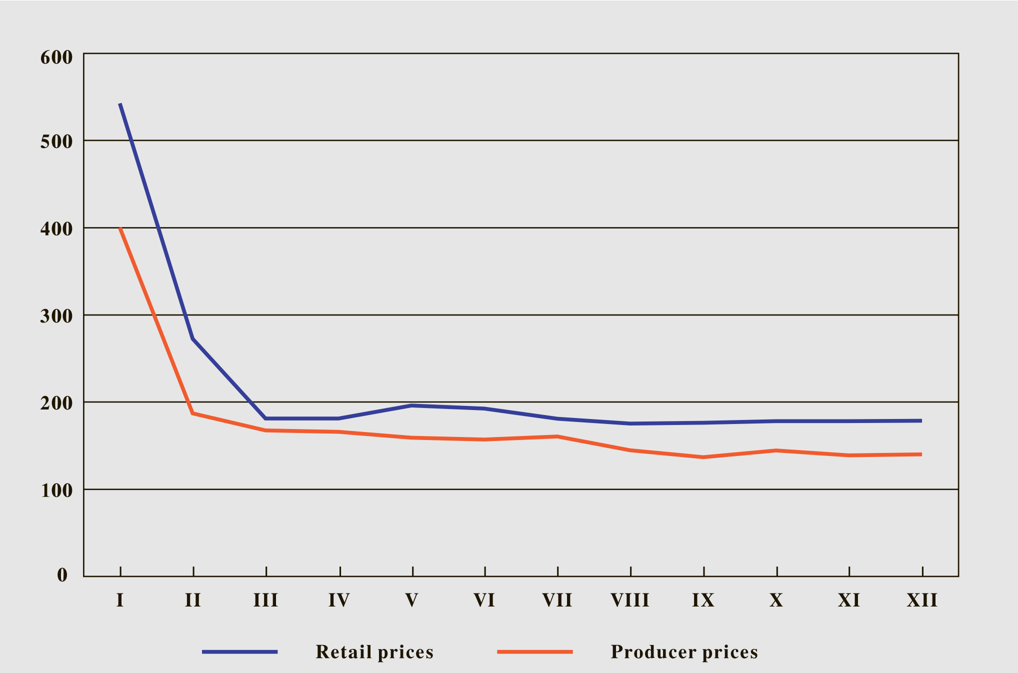
(%)



Source: NSI, BNB.

GROWTH OF RETAIL PRICES AND INDUSTRIAL OUTPUT PRODUCER PRICES
(on corresponding month of preceding year = 100% basis)

(%)



Source: NSI, BNB.

Minimum Cost of Living

In order to follow and analyze the dynamics of the cost of living among different groups of the population, a price index (existenz-minimum) was constructed according to normatively fixed weights and put into effect at the beginning of 1991. Only the most essential goods and services, which form the individual consumption needs sufficient for life-support in the lowest-income groups of the population are included in it. At end-1992 the minimum cost of living increased 64.7%. The slower growth of this index compared to both RPI and CPI was due to the low share of untypical for low-income consumers goods and services with higher and more dynamic prices, as well as to the high share in low-income group consumption of fruits and vegetables, whose prices had negative growth during certain periods of the year.

Prices of Monitored Goods

The number of the essential goods whose prices are subject to control by the government was reduced from 14 to 8 in May 1992. A new, higher level of their forecast prices compared to August 1991 was also announced. In January – April the prices of monitored goods exceeded their forecast values 4.9% (for the same period CPI increased 18.9%), and in May – December 1992 they surpassed that level 47.8% (for the same period CPI grew 50.8%). This is an indication that the prices of monitored goods do not have a considerable influence on the general level and growth of inflation, or on the cost of living owing to their low relative share.

Producer Prices

In 1992 again the monthly statistical data on producer prices published by the NSI remained below the requirements for a reliable estimate of the processes underlying the Bulgarian economy.[9] If one follows the developments of the indus-

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[9] As a first step along the road to constructing such an index, the NSI provided industrial output producer price indices on the basis of a sample of about 600 finished products. These are calculated on corresponding month of preceding year = 100% basis and do not enable their user to follow inflationary developments within the year. Since March 1992, the sample was expanded to 995 finished industrial goods and since May, monthly industrial output producer price indices have also been published, but at current weights. Given the dynamic changes in the volume and structure of industrial output, this index is a measure of structural rather than price changes.

trial output producer price index, one will find that producer prices grow slower than retail prices. Such a conclusion was also confirmed by progressively declining profits of enterprises, as well as by the increase in the relative share of wage bills. The growing number of intermediate trading units along the „producer – final consumer“ chain was the main factor for the substantial margin between industrial output producer prices and retail prices. The weaker dependence of producer prices on import prices contributed to the growth of that margin as well, with the strongest effect exerted by the prices of imported energy products, which are fixed by the government, while imports of other raw materials are restricted. During the past year industrial output producer prices registered their highest increase in some of the smaller industrial branches: oil-extracting (a growth of 122.6%), glass, china and earthernware (81.8%), fur, leather and footwear (80.4%). Higher, but close to average, within a structural context, was the price index in the major industrial branches: machine-building and metal processing, chemical and oil-processing, food industry, electricity production and thermal power generation. The only drop in the price index compared to 1991, was registered in the cellulose and paper industry.

5. Foreign Trade

Following its sharp decline in 1990 and 1991, Bulgaria’s foreign trade gave signs of a slight recovery in 1992. It is too early, however, to consider this revival a reason for some extreme optimism.

A number of domestic and external factors exerted a considerable influence on both geographical and commodity structures of Bulgarian foreign trade. Among domestic factors, changes in the legal framework regulating foreign trade, further developing the process of liberalization started in 1991, played a leading part; among the external, Bulgaria's fulfillment of the UN resolution of a trade embargo on Serbia and Montenegro had the strongest effect.

Developments in Exports and Imports

According to customs data, the country’s foreign trade in 1992 was 162.2 billion levs at current prices. Compared to the respective figure for 1991 (102.5 billion levs), the value of foreign trade registered a 58% nominal growth of over 60 billion levs. Exports at current prices were 81.6 billion levs (versus 57.4 billion levs in 1991), and imports 80.6 billion levs (versus 45.1 billion levs in 1991). The value of exports in 1992 at current prices exceeded 42% that in 1991, and the respective figure for imports was 79%. Thus, a surplus in the amount of more than 1 billion levs[10] in nominal terms was formed in 1992. Comparison with the value of the 1991 trade balance (12.2 billion levs) indicates a contraction of 11.2 billion levs at current prices, or 91%.

Compared to 90’s unusually sharp shrinkage (to 46%) the share of foreign trade in Bulgaria’s GDP (both measured at current prices) recovered quickly to rates typical of the 80's. In contrast to 1991, the exception to the general trend, the almost equal shares of exports (41.9%) and imports (41.3%) in GDP in 1992 were again observed; the share of foreign trade as a whole (83.2%) was evidence for the preservation of the open character of the Bulgarian economy.

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[10] Taking into account that 1992 data reported by the NSI is based on FOB prices for exports, and CIF prices for imports, a conclusion could be drawn that the 1992 value of imports, compared to both its figure for 1991, when the statistical reporting used FOB prices, and the 1992 value of exports, is to some extent exaggerated. Overstated 1992 imports reflect on the trade balance, which could have been higher, if FOB import prices were used in 1992. This statement is also confirmed by the trade balance (484.5 million US dollars) calculated as foreign exchange receipts from exports based on FOB prices less foreign exchange payments for imports based also on FOB prices, as reported in this country’s balance of payments in 1992. The differences of a methodological nature mentioned inject some conditionality in the comparability of the foreign trade data for 1991 and 1992.

FOREIGN TRADE
(GDP = 100%)

(%)

	1989	1990	1991	1992
Exports	34.5	23.3	43.8	41.9
Imports	32.3	22.7	34.4	41.3
Foreign trade	66.9	46.0	78.2	83.2

Source: NSI, BNB.

As in 1991, quarterly foreign trade exports and imports in 1992 were characterized by unevenness and asymmetry. This was primarily due to the continuing processes of reorientation of Bulgarian foreign trade under circumstances of uncertainty in the internal and external economic environment, to the loss of markets with most of Bulgaria's traditional trading partners and the difficult access to markets of the developed countries, and, naturally, to certain seasonal factors.

Data on the physical volume indices of foreign trade, exports and imports in 1992 is lacking, only an approximation of the real growth of Bulgaria's foreign trade in the period under review is possible. If quarterly exports and imports in 1991 and 1992 are converted into US dollars, and if an average inflation of the currencies of Bulgaria's major trading partners for 1992 are factored in, the physical volume growth of foreign trade in 1992 (on 1991 US dollar basis) is estimated at 11 – 15%. Growth for exports is of symbolic significance (between 1% and 3%), while imports grew substantially (24 – 26%)[11]. Slow growth of exports at comparable prices accompanied by a significant increase in imports is a sign of continuing weakness and a growing import dependence of the Bulgarian economy during the past year.

Commodity Structure of Exports and Imports

In the structure of Bulgarian *exports* by commodity section in 1992,[12] the „Base raw and manufactured metals“ section, with over 15% of total exports at current prices, accounted for the largest share. Within this section, the commodities of the „Iron and steel“ item, as well as „unwrought zinc“, are of major importance. The „Plastics and products and rubber and products“ section, with a share of over 12%, was the second by its significance commodity section in Bulgaria's exports. Within it, exports of „Plastics and products“ (11% of total Bulgarian exports) predominated. The „Machines and appliances, electrical equipment, etc.“ section, which in 1992 accounted for more than 12% of total Bulgarian exports, is the third by importance. Within it, work trucks, with exports of almost 3% of total Bulgarian exports, occupied a leading position. In the commodity structure of 1992 exports, exports of cigarettes, raw or unprocessed tobacco and wines, as well as some chemical industry products (disodium carbonate and carbamide) remained substantial.

In the structure of *imports* by commodity section in 1992, imports of fuels and energy, comprise over 37% or the largest share of total Bulgarian imports in 1992. Within this section, crude oil (12% of total 1992 imports), natural gas (over 8%), diesel fuel (over 3.5%) and electricity (over 3%) were the major commodity items.

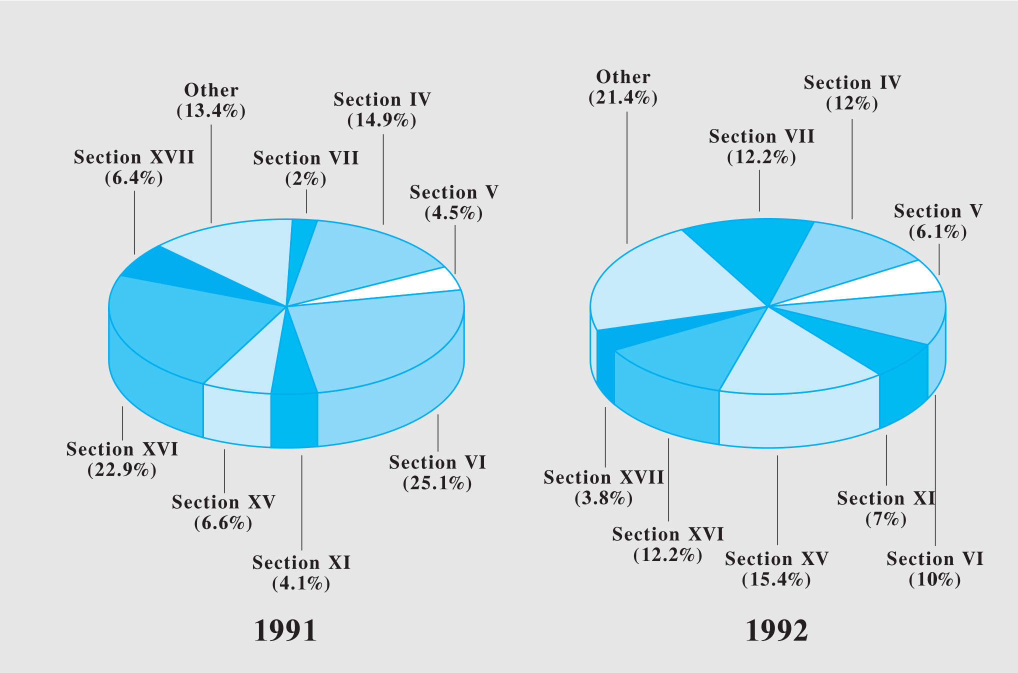
Machines and appliances, electrical equipment, etc. was the second section by importance (16% of total imports); of which nuclear reactors and parts and components for them accounted for more than 10%. Imports of chemical industry products

[11] The estimate for the physical growth of imports is close to the growth of imports as reflected in the 1991 and 1992 balance of payments statements, while the respective discrepancy regarding exports is due to the considerable difference in the trade balances registered by customs and banking trade statistics in 1992.

[12] The recently-introduced Customs Tariff corresponds to the harmonized system of commodity classification of the EC and is radically different from the trade nomenclature of the former CMEA applied in this country for several decades. The transition from the commodity classification used before 1992 to the new system leads to a number of difficulties related to the comparability of the commodity structure of Bulgaria's foreign trade, exports and imports in 1992 with past periods.

(over 8% of total imports in 1992) and transport equipment (approximately 8%) had a considerable significance in Bulgarian imports as well.

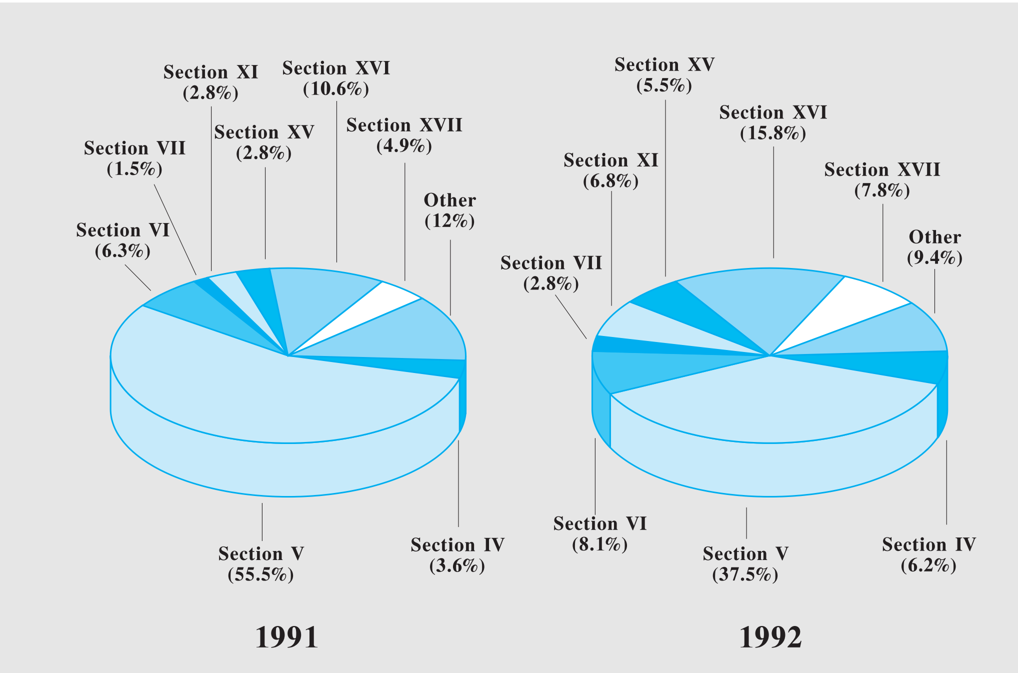
EXPORTS BY COMMODITY SECTION*



* Section IV – Foodstuff, tobacco, etc. products; Section V – Mineral products; Section VI – Chemical industry products, etc.; Section VII – Plastics, rubber and products; Section XI – Textiles and products; Section XV – Base raw and manufactured metals; Section XVI – Machines and appliances, electrical equipment, etc.; Section XVII – Transport equipment.

Source: NSI, BNB.

IMPORTS BY COMMODITY SECTION*



* Section IV – Foodstuff, tobacco, etc. products; Section V – Mineral products; Section VI – Chemical industry products, etc.; Section VII – Plastics, rubber and products; Section XI – Textiles and products; Section XV – Base raw and manufactured metals; Section XVI – Machines and appliances, electrical equipment, etc.; Section XVII – Transport equipment.

Source: NSI, BNB.

Foodstuff, tobacco and its processed substitutes, base raw and manufactured metals, plastics and products, and rubber and products also played an important role in Bulgarian imports.

Geographical Structure of Exports and Imports

Reorientation of Bulgarian exports and imports from the former socialist countries to the developed ones, emerged as early as 1990 and 1991 as a result of the economic reforms undertaken in this country. The dissolution of CMEA, which further intensified in 1992, was clearly observed in the geographical structure of Bulgaria's foreign trade. The Arab countries and the other developing countries in total Bulgarian exports have remained almost unchanged, with some fluctuation with respect to imports.

Regarding *exports*, the Central and East European countries including the former Soviet Union republics, and the OECD countries, have retained their special significance. Having been „swallowing" for years approximately 80 – 85% of Bulgarian exports, these two groups accounted for 82% of exports in 1992 as well. In 1992, however, the respective shares in total Bulgarian exports of these two groups indicated substantial change for the first time in several decades and as a result, the role of their markets for Bulgarian exports became already equal. The share of the former European CMEA countries plus Albania and Yugoslavia in total Bulgarian exports, however, dropped sharply from 77.3% in 1990, to 57.8% in 1991, and 41.9% in 1992. The share of the OECD member countries simultaneously registered rapid growth from 11.9% in 1990, to 26.3% in 1991, and 42.3% in 1992.[13]

Considerable expansion of the EC countries share of exports within the structure of total Bulgarian exports (from 7.9% in 1990, to 15.7% in 1991, and 30.8% in 1992) at the expense of the sharp contraction of the share of exports to the former CMEA partners was the most significant transformation in this country's geographical structure of exports. It was mainly due to growth in Bulgaria's foreign trade with the OECD countries. Within the EC, Germany, which in 1992 accounted for almost one third of Bulgarian exports to the Community, remained the biggest importer of Bulgarian goods. The traditional positions of Italy (over 17%) and Greece (approximately 14%) as leading trading partners of Bulgaria within the Community were preserved.

Within the falling share of exports to the former Soviet Union republics and the Central and East European countries in 1992, there occurred a slight recovery of Bulgarian exports to some East European trading partners. The CIS (mainly Russia), with a share of 43% of Bulgarian exports in 1992, remained the biggest importer of Bulgarian goods in this region. The Ukraine was the second with a share of 15%. New Yugoslavia, Macedonia and Romania ranked next.

With a share of 7.9% in total Bulgarian exports in 1992, the Arab countries remained within their traditional 6 – 8% range of recent years. The leading Bulgaria's trading partners within the Arab world until recently, Lybia and Iraq, were removed by Syria, the Lebanon and Egypt. Among the rest of the developing countries (whose share in 1992 Bulgarian exports was approximately 8%), Argentina accounted for the biggest share.

The main tendencies characterizing geographical structure of exports were even more strongly expressed in the geographical structure of *imports*. For several decades the share of the developed countries in Bulgarian imports has been approximately 25%. At the end of the 80's, however, imports from these countries started to gradually grow. And from 1991 onwards, due to the transition to convertible currency settlements at international prices within the former CMEA, dissolution of the trade and economic union of the former socialist bloc countries, and restoration of traditional trade relations between the Eastern and Western parts of Europe influenced by the unification processes on this continent, the share of the OECD coun-

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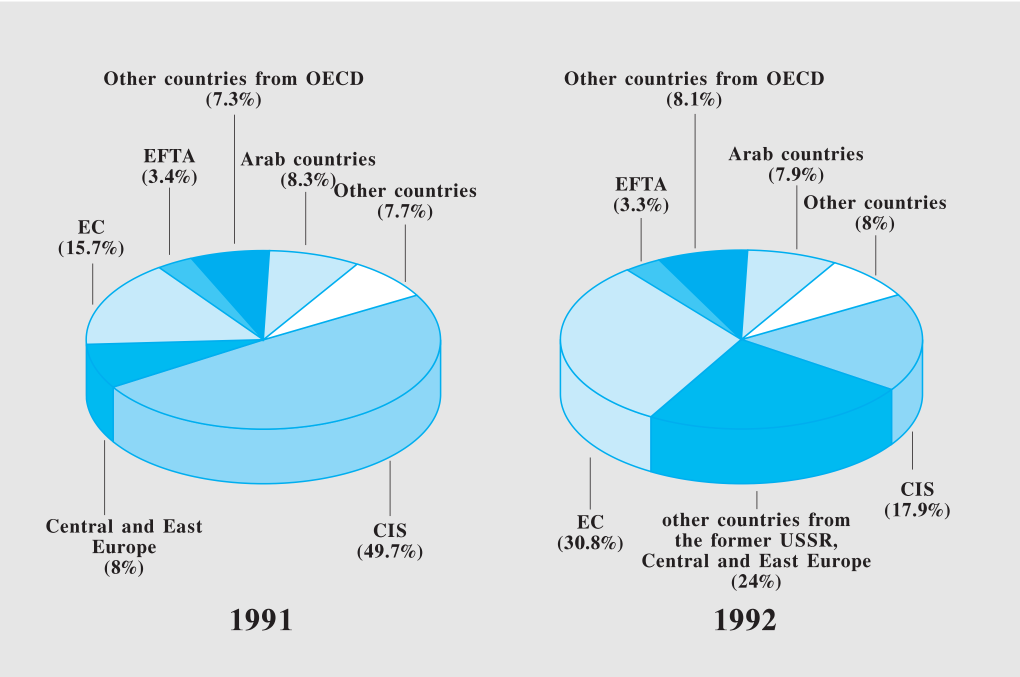
[13] With a view to achieve historical comparability of the shares of the different geographical regions, 1990 data on the former CMEA, Yugoslavia and Albania cited in the above section on the geographical structure of Bulgarian exports and imports does not cover the former GDR which, for the same reason, is included into the OECD area.

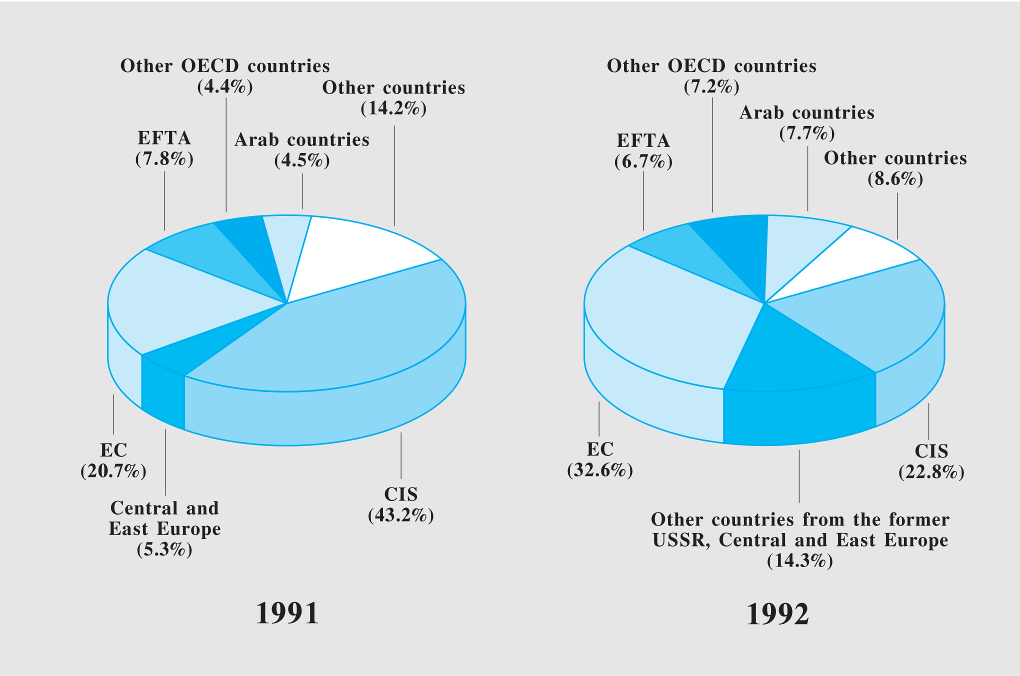
tries in Bulgarian imports sharply rose and even turned into a major one. While in 1990 these countries accounted for 21.6% of Bulgarian imports and in 1991 32.8%, as contrasted with a 69.3- and 48.5-percentage share, respectively, of the former USSR and the countries of Central and Eastern Europe, in 1992 the respective shares were already 46.5% versus 37.2%.

EXPORTS BY GROUP OF COUNTRIES



Source: NSI, BNB.

IMPORTS BY GROUP OF COUNTRIES



Source: NSI, BNB.

In 1992 EC countries accounted for the biggest share (almost one third) of Bulgarian imports. Within the Community, Germany (39.2% of Bulgarian exports to the EC), Greece (18.1%) and Italy (16.2%) remained leading Bulgaria's trading partners. The significance of the EFTA countries diminished accounting for 6.7% of total Bulgarian imports in 1992 versus 7.8% in 1991. At the same time, the importance of some OECD countries which are not members of either the EC or the EFTA (the United States, Japan, Turkey), has grown.

Among the former CMEA countries, imports from the former Soviet Union republics, whose relative share dropped from 43.2% in 1991 to 28.6% in 1992, registered the most substantial contraction. The CIS (mainly Russia) and Ukraine, from which Bulgaria imports primarily energy resources, were again the major trading partners in that region. The share of the countries of Central and Eastern Europe (after a drop to 5.3% in 1991 versus 12.8% in 1990) registered a slight recovery of 8.6% in 1992. Within this group, imports from Romania, Czecho-Slovakia and New Yugoslavia were the largest.

The share of the Arab countries in Bulgarian imports from approximately 4.5% in 1990 and 1991 rose 3.2 percentage points and in 1992 reached 7.7%. The share of the other developing countries in Bulgarian imports, although with some fluctuations, also increased: 4.8% in 1990, 14.2% in 1991, and 8.6% in 1992.

6. Balance of Payments

Bulgaria's 1992 balance of payments statement was compiled on the basis of banking data alone.

BALANCE OF PAYMENTS IN 1991 AND 1992

(million US dollars)

Indicators	1991	1992
Current account	-77.0	451.6
Trade balance	-32.0	484.5
Exports of goods, FOB	3737.0	5093.0
Imports of goods, FOB	3769.0	4608.5
Services, net	-114.0	-75.0
Transfers (private), net	50.1	39.7
Official unrequitted transfers	19.0	3.1
Capital account	115.0	-31.5
Direct investment, net	55.9	41.5
Medium- and long-term loans received, net	-48.1	42.1
Loans extended (net)	294.9	32.5
Short-term debt	-187.7	-147.6
Errors and omissions	6.8	-20.6
Overall balance	44.8	399.5

Source: BNB.

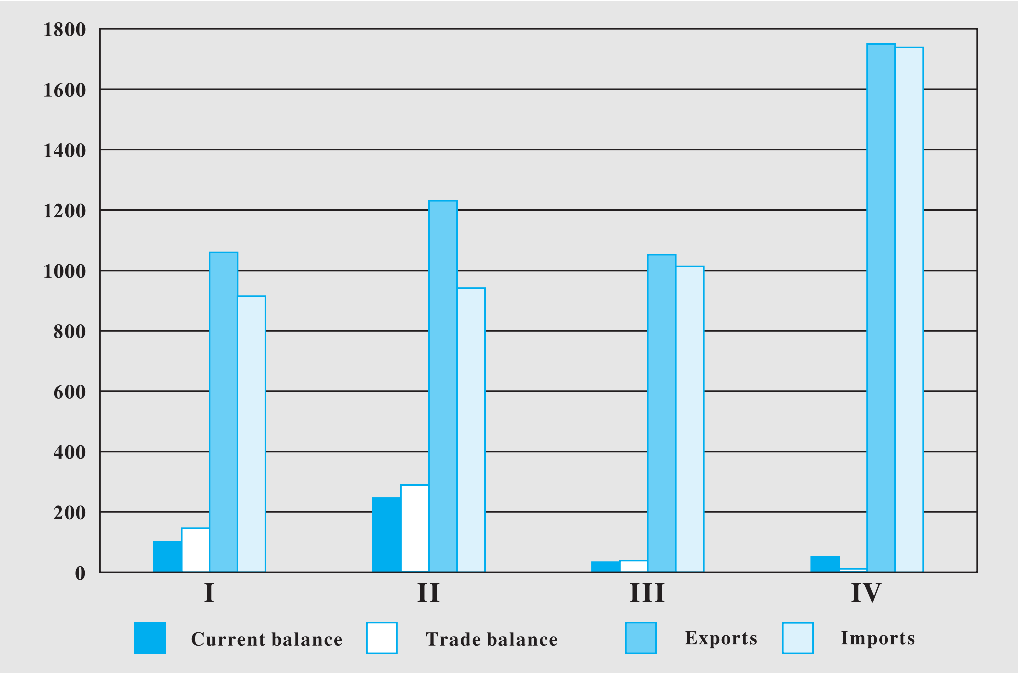
Current Account

In 1992 Bulgaria's current account recorded a surplus of 451.6 million US dollars, which is over half a billion US dollars larger than that registered in 1991. The comparisons in this section of the Annual Report are made with the 1991 balance of payments in convertible currency, where the balance was -77 million US dollars.

The positive current account balance preserved during all quarters was a major feature of 1992 current account dynamics. In the first quarter of 1992, mainly due to the positive trade balance of 145.7 million US dollars in trade, the negative balance in services (approximately 50 million US dollars) was offset and Bulgaria's current account thus recorded a positive balance of 101.6 million US dollars. This surplus grew to 245.8 million US dollars, primarily as a consequence of the increase (nearly two-fold) of the trade balance (which registered its maximum of 288.8 million US dollars for the quarters of 1992). A serious contraction to 33.3 million US dollars of the positive current account balance thus formed followed; it resulted from the analogous shrinkage of the trade balance. During the fourth quarter, the current account balance increased slightly, mainly due to the positive balance of 42.3 million US dollars in services, registered for the first time in recent years; this proved sufficient to offset both the decline in the trade balance and the negative balance on net private transfers, also recorded for the first time in 1992.

BALANCE OF PAYMENTS IN 1992, QUARTERLY DATA

(million US dollars)



Source: BNB.

The *positive trade balance* of 484.5 million US dollars[14] in trade effected in 1992, was the major factor for the positive current account balance. It resulted from the much improved ratio between the foreign currency receipts from merchandise exports (over 5 billion US dollars in 1992 versus approximately 3.7 billion US dollars in 1991, or an increase of 36%) and the foreign currency payments for merchandise imports (approximately 4.6 billion US dollars in 1992 versus 3.8 billion US dollars in 1991, or an increase of 22%).

The positive balance on *net private transfers* of 39.7 million US dollars, although lower than that registered in 1991 (50.1 million US dollars), also contributed to the current account balance growth.

The *balance on services*, however, continued to be a factor acting in the opposite direction. Even though in the fourth quarter of 1992 it recorded a positive sign for the first time in several successive years, its traditional overall negativeness preserved again in 1992 as a whole. The Bulgarian economy had some success in reduc-

[14] For balance of payments purposes, foreign currency receipts from exports and foreign currency payments for imports which form Bulgaria's trade balance are reported on the basis of FOB prices, while in 1992 imports derived from customs trade statistics were reported by the NSI on the basis of CIF prices. This methodological peculiarity, together with some other differences of a methodological character between the NSI and the BNB, explains the larger amount of the trade balance registered in the balance of payments when compared to the trade balance reported by the NSI. The fact that trade data published by the NSI does not include the goods having the so-called „special regime“, as well as the figures in all erroneously filled in customs declarations should be also taken in consideration.

tion (by one third) the negative balance on services: from -114 million US dollars in 1991 to -75.8 million US dollars in 1992. This was mainly due to reversal in trends which occurred in 1992 in the balance on travels. In 1991 receipts from international tourism in this country were 43.7 million US dollars and payments for trips of Bulgarian citizens abroad were 127.9 million US dollars. In 1992 receipts from tourism were already 49.2 million US dollars, the respective payments being only 23.1 million US dollars. The balances on shipments and interest in 1992 remained negative, thus continuing to be the most significant factors for the negative sign of the balance on services.

Capital Account

Bulgaria's capital account in 1992 registered a negative balance: -31.5 million US dollars. Compared to the capital account of this country's balance of payments in 1991 (115 million US dollars), it decreased nominally 146.5 million US dollars in 1992.

The negative capital account balance was primarily the result of 262.4 million US dollars drop in the net amount of credits extended by Bulgaria. Net receipts from repayment of loans extended to developing countries dropped almost four times (from 92.4 million US dollars in 1991 to 23.4 million US dollars in 1992). Receipts from the Yamburg Pipeline project also decreased sharply – from 202.5 million US dollars in 1991 to only 9.1 million US dollars in 1992. A decline was observed as well in the amount of foreign investment in this country, as compared to that in 1991; in 1992 it was only 41.5 million US dollars.

An inflow of resources in the capital account was registered on Bulgaria's net medium- and long-term loans: following the excess of 48.1 million US dollars of Bulgaria's repayments over its drawings in 1991, the foreign loan resources received by Bulgaria exceeded repayments 42.1 million US dollars in 1992. In 1991 net deposits of non-residents amounted to 85.2 million US dollars while in 1992 Bulgarian banks deposited resources abroad in the net amount of 53 million US dollars. During 1992 Bulgaria's claims on intergovernmental agreements with the former USSR and Russia increased 200.6 million US dollars.

Overall Balance

In 1992 Bulgaria recorded a positive overall balance. This reflected the increase of 399.5 million US dollars of its foreign exchange reserves during the period under review. Gross BNB reserves registered a substantial increase (575.1 million US dollars versus 358 million US dollars in 1991), enabling the central bank to pursue its foreign exchange policy more confidently. Though smaller (213.8 million US dollars in 1992 versus 264.9 million US dollars in 1991), the increase in foreign exchange held by commercial banks makes it possible for them to service the financial flows between this country and the rest of the world more efficiently. External resources used throughout 1992 totalled 217.2 million US dollars from the IMF and 172.2 million US dollars from the EC.

7. Foreign Debt

As of 31 December 1992, Bulgaria's foreign debt totalled 12.952 billion US dollars. 90% of this amount are liabilities of the Bulgarian Foreign Trade Bank (BFTB) and other commercial banks, and the foreign financing from the IMF, World Bank, EBRD and G-24. Foreign financing in 1992 was approximately two thirds of that in 1991, totalling 1.268 billion US dollars for the two years.

The BFTB was the debtor on all obligations to Bulgaria's official and private creditors due to the role of a central foreign exchange bank it performed until 1991. The total amount of foreign debt on its books is 11.3 billion US dollars, of which 8.5 billion US dollars, or 75%, are owed to private banks. The debt in convertible currency to the former CMEA member countries is 1.250 billion US dollars.

The debt to Paris Club official creditors is 1.2 billion US dollars. Following the Rescheduling Agreement of 17 April 1991, Bulgaria repaid 53 million US dollars for servicing these obligations.

A second Rescheduling Agreement was concluded on 14 December 1992. Repayments of obligations with maturities falling due between 31 March 1992 and 1 April 1993 were rescheduled.

Foreign bond obligations totalled 347 million US dollars. Their servicing requires 15.2 million US dollars annually.

According to the use of the loans received, the debt to both official and private creditors has the following distribution: 54% for balance of payments financing, 29% for trade financing, and 17% for investment financing.

The foreign debt/GDP ratio dropped from 173% in 1991 to 152% in 1992. Foreign debt equalled 296% of the earnings from exports in 1992.

Following the 29 March 1990 moratorium on debt repayment, Bulgaria has been regulating its relations with commercial creditors on the basis of three-month roll-overs. Taking into consideration the importance of the foreign debt problem, on 23 January 1992 the National Assembly voted to assign the government the task of concluding an agreement with private creditor banks on a final solution to Bulgaria's debt obligations through debt reduction and debt servicing. In conformity with this decision, Bulgaria began partial servicing of current interest; such repayments totalled 30 million US dollars in 1992.

Negotiations with the Creditor Banks Advisory Committee are oriented toward reaching an agreement for a single solution of the London Club foreign debt problem. Use of all possible Brady-type transactions has been agreed upon. Bulgaria's standpoint is based on realistic forecasts for the country's payment capabilities up to the year 2000 and coordination with the IMF and the World Bank.

Foreign liabilities of the other Bulgarian commercial banks at the end of 1992 were 375 million US dollars, or 23% less than their respective amount in 1991.

FOREIGN DEBT OF BULGARIA AS OF 31 DECEMBER 1992

(million US dollars)

Total amount of debt	12 ,952
of which:	
BFTB	11,309
to official creditors	1,205
to commercial banks	8,508
to the former CMEA (in convertible currency)	1,250
Other Bulgarian commercial banks	375
Foreign debt/GDP ratio (%)	152
Foreign debt/exports ratio (%)	296

Source: BNB.

III. Foreign Exchange Policy

1. Goals and Tasks

In 1992 foreign exchange policy continued to be an integral part of the BNB monetary policy, directed at internal and external stability of the national currency. It continued to be carried out under the regime of a freely floating exchange rate of Bulgarian lev vis-a-vis several basic foreign currencies (the US dollar, the Deutsche mark, and the Swiss franc), which was opted for at the very opening of the foreign exchange market in February 1991. During that period the exchange rate performed the role of a nominal „anchor“. Notwithstanding (and maybe because of) its floating nature, throughout 1992 it was basically stable enough and did not add tension to the macroeconomic stabilization taking place in the country.

A basic task of the exchange rate policy was to secure relative *stability in the nominal exchange rate*. With a floating rate and with heightened inflation, the Central Bank aimed at supporting the exchange rate of the lev on a level that would not exert inflationary pressure in the country, but would preserve the competitiveness of Bulgarian producers in international markets. While at end-1991 there was still a large margin between the nominal exchange rate and the purchasing power of the national currency, in 1992 the set goal was achieved regardless of the significant real appreciation of the Bulgarian lev. Proof of this is the positive trade balance in the balance of payments which also indicates that for a second year the real sector was given an opportunity to readjust and adapt its foreign trade relations after the desintegration of economic relations with the countries of the former CMEA.

Another major task of the foreign exchange policy was *to decrease the fluctuations in the nominal level of the exchange rate* that cause uncertainty in foreign trade activity and undermine confidence in the national currency. An important condition to this end was the availability of a sufficient foreign exchange reserve to permit effective interference and thus avert purely speculative tendencies in demand and supply of foreign currency.

A well expressed seasonal factor continued to be observed in the 1992 exchange rate trend, with a relatively higher winter level then subsiding in summer. Nevertheless, the range of the fluctuations was diminished and the Bulgarian lev, even with its floating exchange rate toward basic foreign currencies, displayed significant stability. The stabilization of the lev exchange rate was carried out not only through Central Bank intervention in the foreign exchange market, but also through the skillful use of various monetary instruments regulating commercial bank liquidity and the preference of economic agents to hold their temporarily free financial funds in national or foreign currency.

A third important task was *the increase of the foreign exchange reserves* providing for stability in foreign trade payments, effective interference in the foreign exchange market, the start of partial servicing of the foreign debt as a prerequisite for concluding a deal for its transformation. As a result of the positive trade balance in the balance of payments and of the foreign financing coming from the IMF and the EC, at end-1992 the BNB managed to nearly double its foreign reserves compared to end-1991. Out of the net purchases of foreign currency, it sold over a fourth to the Ministry of Finance to resume partial repayment of interest on the foreign debt.

The success of the foreign exchange policy in 1992 should not detract from the fact that it remains strongly dependent on resolving the foreign debt problem. Only after the parameters of its transformation have been determined and the foreign exchange policy tasks defined will their achievement be possible. Otherwise, the foreign exchange sphere remain vulnerable in the overall process of macroeconomic stabilization. A contingent failure in this domain will frustrate the creation of conditions for economic growth in medium-term prospect.

2. Foreign Exchange Regime

Unlike 1991, when the BNB started conducting an independent foreign exchange policy, building the foundations of the domestic foreign exchange market and formulating the rules for its functioning, in 1992 the BNB already possessed experience in market regulation. To ensure possibilities for further enlargement and development of the foreign exchange market and to improve bank servicing, at end-1991 some alterations in the foreign exchange regime were made to go into effect at the beginning of 1992.

Resident merchants were allowed to effect non-cash purchase and sale of foreign exchange against levs to each other via their individual commercial bank accounts. The reasons for the transaction are certified by the purchaser of foreign exchange to the bank of the vendor. The commercial banks that effect transfer of foreign exchange in these cases, must inform the BNB on a daily basis of the participants the amount and rate of foreign currency sold.

The annual limit for sales of foreign currency to resident physical entities for private travel abroad in US dollar denomination was replaced by a Bulgarian lev denomination. The size of the limit was changed from 50 US dollars to 10,000 levs (this equalled 445 US dollars according to the current central exchange rate for 23 December 1991). The amount of the foreign currency sold and the date of the purchase are recorded on ordinary passport for travel abroad.

Modifications of the foreign exchange regime continued the general *process of liberalisation* of the foreign exchange market. The proposal that the BNB submitted to the Council of Ministers for increasing the limit for purchases of foreign currency by physical persons to 50,000 levs (equal to more than 2,000 US dollars according to the rate at end-1992) and the free (from declaration) export and import of foreign currency up to 500 US dollars indicates the BNB's intention to further liberalize foreign currency trading. At the same time the partial convertibility of the lev is preserved in the circumstances of a strongly restricted inflow of foreign exchange funds due to continuing economic depression and unsettled foreign debt of the country.

3. Monetary Reserves

During the past year the monetary reserves managed by the BNB, including foreign exchange and the country's monetary gold, grew from 683.1 million US dollars to 1,258.1 million US dollars. Almost 57% of this increase was due to foreign financing from the IMF and EC, and the remaining 43% – to the net purchase of foreign currency by the BNB in the foreign exchange market. As a result of that, the net foreign assets of the Central Bank increased over 4.5 times.

Amount of the Reserves

Throughout the year the level of monetary reserves was determined by the dynamics of the BNB's net purchases of foreign currency in the foreign exchange market and by the frequency of incoming funds from the IMF and EC. Primarily as a result of foreign financing obtained in April the country's monetary reserves exceeded 1 billion US dollars. By end-October, after significant purchases of foreign exchange by the BNB and the receipt of consecutive tranches of the IMF Second Stand-by Agreement, monetary reserves reached their 1992 maximum of 1,442.8 million US dollars. By year-end they gradually decreased by 200 million US dollars due to net sales of foreign exchange by the BNB and the deceleration of foreign financing resulting from the country's worsening political and economic situation. The evolution of the net foreign assets of the BNB ran parallel reaching their maximum of 470.4 million US dollars in October, and dropping to 317.3 million US dollars by year-end.

Reserve Management

The BNB aimed at maintaining a reasonable reserve of funds on current accounts to exert stabilising influence on the domestic foreign exchange market. The currency breakdown of invested foreign exchange assets was determined by the prevailing internal needs for US dollars, the seasonal cycle of the foreign exchange market, and the necessity to diversify enough to diminish the risks from fluctuations of the exchange rates of foreign currencies. The choice of monetary instruments was closely related to their profitability and liquidity, and that of particular foreign correspondents to their reliability. At the end of 1992 the country's quota in the IMF was enlarged, and this improved the possibility of receiving credits from that international financial institution.

The level of monetary reserves corresponds to the quarterly imports according to the country's balance of payments data for 1992, and this is still not sufficient. A marginally positive trade balance subsisting is sufficient for maintaining external stability of the national currency in a regime of a floating exchange rate. At the same time, the monetary reserves, even with a moderate increase in the short-term prospect, do not allow financing of a deal for transformation of the foreign debt with London Club creditor banks. In this sense, the level of the monetary reserves continued to be influenced by future foreign debt servicing decisions and the amount of incoming foreign funds to support its financing.

4. Foreign Exchange Market

The foreign exchange market statistics calculated on the basis of total spot operations in the Bulgarian market of the Central Bank and the commercial banks fully licensed for foreign exchange operations in the country and abroad (between themselves and with clients) indicate purchases of 2.8 billion US dollars and sales of 2.5 billion US dollars. Compared to 1991, the foreign exchange market volume increased 2.3 times (calculated for comparable periods after the liberalisation of the market in February 1991). The US dollar had a leading position in the Bulgarian foreign exchange market.

Currency Breakdown of the Market

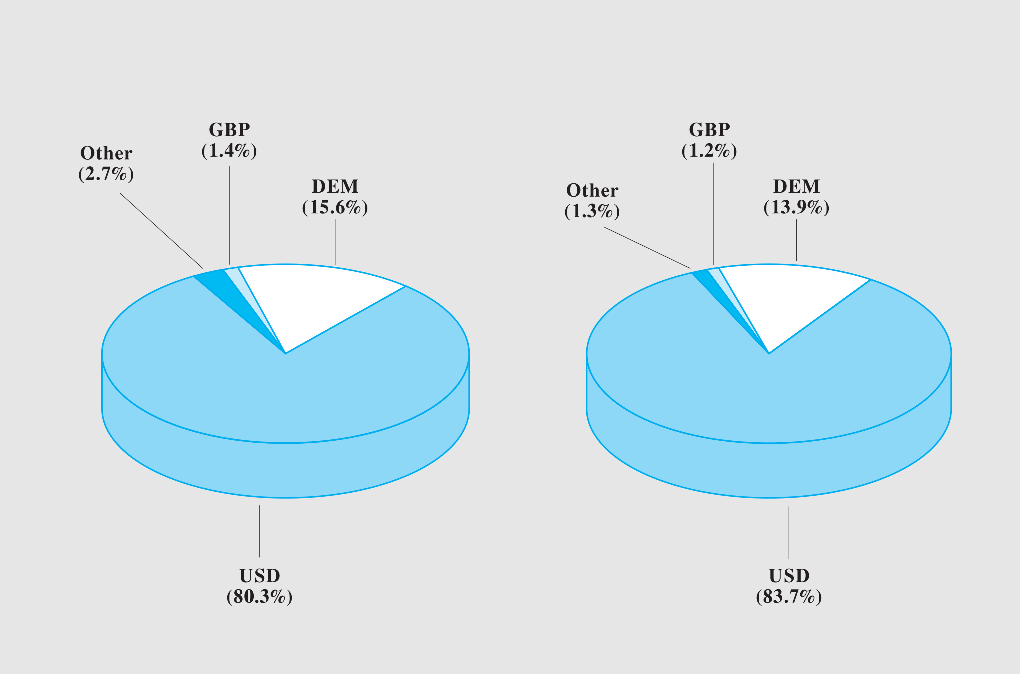
The *US dollar* share in interbank operations was larger than customer operations, displaying a preference for US dollars for currency arbitrage against the national currency, analogous to international markets. The *Deutsche mark* share of customer operations was slightly smaller, demonstrating the importance of the interbank market both as an interface between purchases and sales to customers, and for utilization of the mark in arbitrage against the dollar via the lev. In customer operations, what attracts attention is the mark's larger share among foreign exchange receipts rather than foreign exchange expenses, despite a steady deficit in the trade balance with Germany. This points out business preference for dollar balances and accordingly a more willing sale of mark rather than dollar receipts. It is also characteristic of the structure that there are differences between the prevailing types of the other foreign currencies in purchases and sales.

Quantitative Parameters of the Foreign Exchange Market

Foreign exchange receipts to fully licensed *commercial banks* from Bulgarian customers (companies, other commercial banks, etc.) equalled 1,761.5 million US dollars, and the foreign exchange sold to customers totalled 1,290.5 million US dollars, creating a positive foreign exchange balance of 471 million US dollars. Nearly 80% of this was accumulated into net purchases of the BNB in the interbank market. Together with 27.2 million US dollars in net purchases from other partners, the net Central Bank purchases of foreign exchange totalled 399 million US dollars.

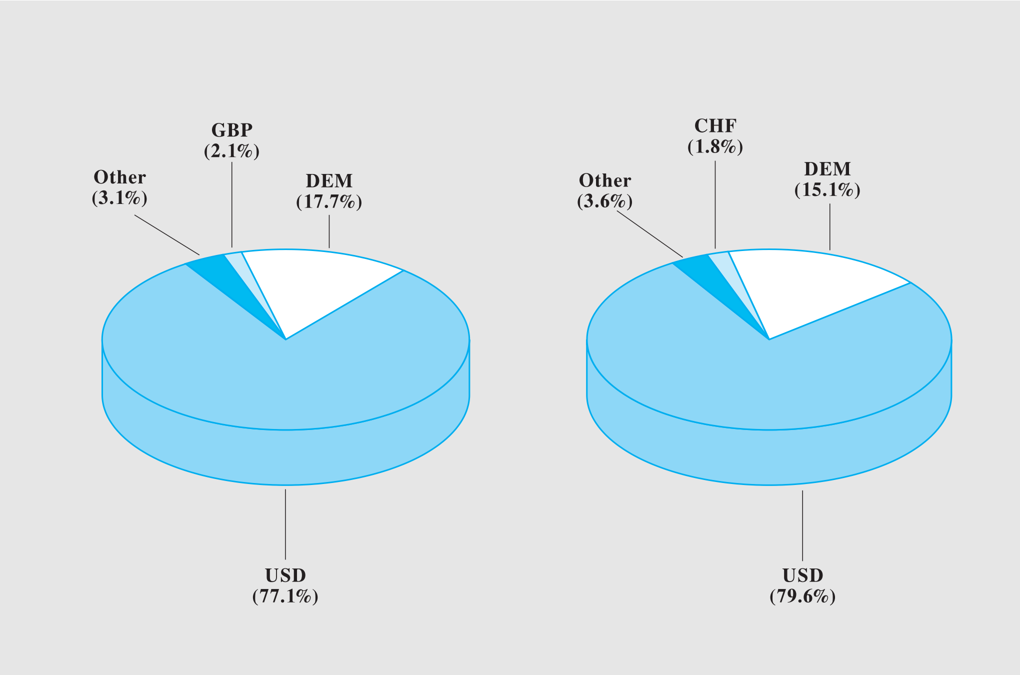
Subtracting net sales of 153.5 million US dollars for agencies and foreign debt servicing financed by the state budget, net BNB purchases in the spot market remained at 245.5 million US dollars. Ultimately, the excess of foreign currency bought from customers over the amount of foreign currency sold to customers was 498.2 million US dollars. This included 471 million US dollars net purchases of fully licensed commercial banks from customers and 27.2 million US dollars net BNB purchases from other market participants.

FOREIGN EXCHANGE MARKET (TOTAL) AND INTERBANK MARKET



Source: BNB.

PURCHASES FROM AND SALES TO CUSTOMERS



Source: BNB.

This foreign currency was distributed as follows: an increase in reserves of fully licensed commercial banks – 99.2 million US dollars, a net increase in Central Bank reserve – 245.5 million US dollars, a sum accumulated by the Ministry of Finance for foreign debt servicing – 88.6 million US dollars, and foreign exchange purchases by budgetary agencies via the Central Bank reserve (in addition to the currency they bought from the commercial banks) – 64.9 million US dollars. Accordingly, the share of commercial banks was 19.9%, the BNB 49.3%, the Ministry of Finance for the foreign debt 17.8%, and budgetary agencies 13%. Consolidated for the core of the banking system (the Central Bank and fully licensed commercial banks), the foreign currency bought from customers was 1,797.8 million US dollars, foreign currency sold was 1,364.6 million US dollars. The balance of 433.3 million US dollars was distributed among the commercial banks (99.2 million US dollars, or 22.9%), the Central Bank (245.5 million US dollars, or 56.7%), and foreign debt servicing by the state budget (88.6 million US dollars, or 20.4%). Chronologically, a consecutive increase in the positive balance of bank purchases and sales characterized the first three quarters of the year, and a decrease in the balance characterized the last quarter.

FOREIGN EXCHANGE MARKET IN 1992

(million US dollars)

	A) bought	B) sold	C) balance
1) BNB with customers	36.3	162.6	-126.3
2) Commercial banks	1,761.5	1,290.5	471.0
3) Interbank (commercial banks only)	596.5 (514.3)[15]	596.5	-
4) Interbank (BNB included)	644.6 (562.4)[15]	644.6	-
5) BNB total	456.3	210.8	245.5
6) BNB with fully licensed commercial banks	420.0	48.2	371.8
7) Intercorporate[16]	50.3	50.3	-
8) Total with customers (1+2+7)	1,848.1	1,503.4	344.7

Source: BNB.

Market Position of the BNB

The net purchase position of the BNB reflected the excess of foreign currency supplied to the market over foreign currency extracted from the market. Taking into consideration the net sale position in 1991 after intervention to stabilize the foreign exchange market and the exchange rate, the real increase in the reserve from the market liberalisation by end-1992 amounted to approximately half the net purchases for 1992. For all that, the accumulated reserve is relatively modest not only with respect to foreign debt but also to the possibility of unprecedented strong depreciation of the lev after the liberalisation. In the first year of the liberalisation net foreign exchange receipts of the Central Bank were negative due to the necessity of stabilizing the exchange rate, while in 1992 the effect of the undervaluation of the lev on the exports and thus on the foreign exchange receipts was better exploited through more active Central Bank purchases.

Interventions for Seasonal Fluctuation Levelling

The BNB operations to accumulate a surplus of foreign currency receipts over expenses were distributed in the course of 1992 taking into account the BNB's policy of maintaining a stable exchange rate. During the first quarter, characterized by a tense foreign exchange market, with seasonal appreciation of the US dollar (and respectively of the other basic currencies) vis-a-vis the lev and with maturities for commercial bank payments abroad, the purchases by the BNB made up a relatively small portion of net receipts of commercial banks, and only offset periods of a

[15] Due to imperfections in reporting, the sums of purchases (3A) and sales (3B) in the interbank market are not equal. To eliminate omissions, the sum for 3B has been used for comparisons both as sales and purchases. The sums reported for purchases are displayed in parenthesis. The derivative line 4 has been treated analogically. The imperfections are partially due to asymmetrical reporting of some transactions with brokerage houses.

[16] The data is for the minimum amount of the market as monitored.

strong excess of foreign exchange supply over demand. Most purchases were made in the second and third quarters when positive foreign exchange balances of commercial banks were the highest and the exchange rate of the dollar to the lev was the lowest. That enabled the Central Bank, while spreading the purchases over a sufficiently long period, ensuring a calm and relatively stable foreign exchange market, to effect an annual accumulation of foreign currency at an average exchange rate lower than the average exchange rate in the foreign exchange market for the year. Thus, with an average non-weighted central exchange rate in the foreign exchange market of 23.338 levs per dollar, the average annual exchange rate of the BNB purchases was 1.5% lower (22.980 levs), while the average exchange rate of the sales was virtually equal to the average central rate (a mere 0.1% lower, at 23.307 levs). This creates a net positive result of 157 million levs for the BNB from the chronological distribution of the purchases and their excess over the sales. A comparison with the weighted average central exchange rate of 23.279 levs per dollar for the year, adds also an account for the market intensity element. With respect to this rate the average annual exchange rate of the BNB purchases was 1.3% lower and of the sales 0.1% higher. This juxtaposition indicates a positive result of 142.5 million levs for the BNB. In both versions the proximity of the average exchange rate of sales to the average central exchange rate, and the average exchange rate of the purchases that was even lower, illustrate the BNB's stabilizing role in the foreign exchange market.

Interbank Market

The interbank market growth rate outran the foreign exchange market, as its volume in the second half of the year exceeded, and for the whole year approximated half the size of the customer operations of the banks. This testifies (bearing in mind, of course, the multiple turnover of certain sums in the market) to the increased redistributive role of the interbank market with respect to foreign currency receipts and expenses in the national economy. With the evolution of interbank market companies buying or selling large amounts of foreign exchange, started referring to the interbank quotations (where the spread is narrower as compared to quotations for customers), thus exerting pressure on the spread in the foreign exchange market.

Intercorporate Market

In addition to the interbank market, the intercorporate market was created by Government Decree No. 240 of 23 December 1991. Its share of foreign currency bought from and sold to bank customers increased from 0.5% in its first quarter to 5% in the fourth quarter, with the average for the year approximating 3%. This added market pressure on the spread between bank bid and offer rates. Simultaneously, the divisibility of the sums was more limited than with bank intermediation, and the set of mutually acceptable currencies was more restricted. Hence, the amount of intercorporate transactions has grown steadily with a volume (after the first quarter, when it was insignificant) only 10 and 15 times smaller than that of the interbank. The US dollar dominated its structure (95.6% on average for the year) followed by the Deutsche mark (3.6%).

SHARE OF INTERBANK MARKET AND NET BNB PURCHASES IN FOREIGN EXCHANGE MARKET IN 1992

(%)

Interbank turnover / forex bought from customers (commercial banks)	33.9
Interbank turnover / forex sold to customers (commercial banks)	46.2
Interbank turnover / forex bought from customers (commercial banks and BNB)	35.9
Interbank turnover / forex sold to customers (commercial banks and BNB)	44.4
Net BNB purchases / total bank purchases	13.7
Net BNB purchases / balance of banks with customers	71.2

Source: BNB.

5. Exchange Rate

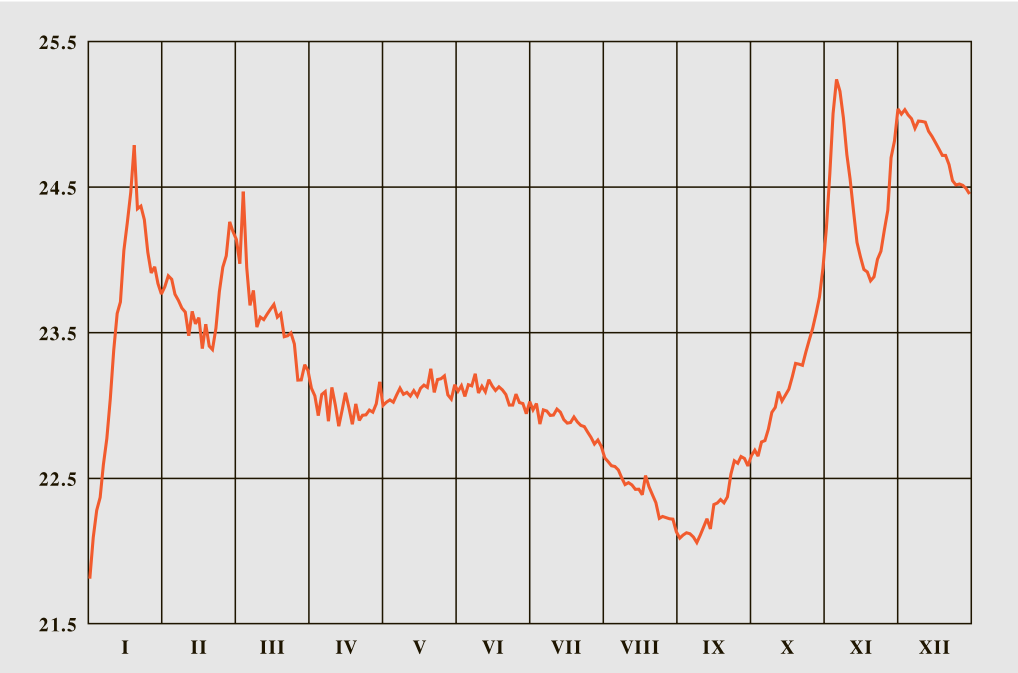
The evolution of the exchange rate demonstrated relative stability of the lev in the domestic foreign exchange market. At end-1992 the central exchange rate of the US dollar vis-a-vis lev was 10% higher than at the beginning of the year. Its exchange rate at the beginning of the year was approximately 5% lower and at the end of the year approximately 5% higher than the year's average.

Exchange Rate Trend

The lev/dollar exchange rate curve duplicated 1991's, displaying a seasonal exchange rate evolution that reflected the prevalence of demand for importations or export receipts. Simultaneously, the oscillation was smoother and the deviations smaller with the 'critical' points being repeated but not as sharply expressed as in the previous year. Even with the exchange rate of the dollar vis-a-vis the lev higher than in 1991, the highest points for 1992 were below their respective 1991 points.

CENTRAL EXCHANGE RATE IN 1992

(lev/US dollars)



Source: BNB.

Factors for Stability

The following were basic factors for the relative stability of the exchange rate of the lev in 1992:

• *The balanced foreign trade.* Even with declining production it proved possible since the production of primary and semi-processed goods shifted from Bulgaria's paralysed industry towards export, which permitted a certain level of activity at least in those branches, and provided foreign exchange receipts that were used to import energy resources and some finished goods. The diminished purchasing power of the population limited imports, the slump in economic activity contracted demand for investment goods, including imports, and an excess of foreign exchange receipts over expenses was provided.

• *The real undervaluation of the lev.* With the price liberalisation in 1991 the lev was left to 'float' and the jump in foreign currency prices was greater than the jump in the price of goods. Subsequently, 1992 included, inflation kept outrunning the slow depreciation of the lev in the foreign exchange market expressed in a rise of the real exchange rate index. The remaining of this index bellow 100%, however, provided for a certain distance from the real 'floor' of the exchange rate and cushioned the impact of the inflationary expectations to which the exchange rate proved to be sensitive at the very liberalisation of the market. Simultaneously, the margin of undervaluation of the Bulgarian lev still existing, though narrowed, afforded financial (in the absence of actions and incentives for real) competitiveness to Bulgarian exporters and to an extent might be a factor in maintaining their productive activity and influencing a favourable balance of payments.

• *The enlargement of the foreign exchange market*. This enlargement was stimulated by the BNB and in particular the development of the credit foreign exchange market. In October 1991 the BNB initiated short-term foreign exchange financing of the commercial banks. The market is still in the process of consolidation and this renders it difficult to quantitatively estimate its influence upon the exchange rate. However, its very existence (materially it requires a certain foreign exchange reserve of the Central Bank) helps remove tension from the foreign exchange market. In the long run it may be expected that the foreign exchange refinancing should neutralize seasonal deflections of the exchange rate curve, with lending in periods of intensive demand decreasing pressure on the exchange rate, and repayment of loans creating additional demand in periods of leading supply.

• *The foreign exchange policy of the BNB.* The above-mentioned chronological distribution of the Central Bank operations in the spot market left the supply of foreign currency be leading in periods of a weak lev, while purchases of foreign exchange in periods of a strong lev offset the market and prevented an abrupt approximation of the nominal and the parity rate that could have amplified the sensitivity and possibly the volatility of the exchange rate.

• *The monetary policy of the BNB.* The stable exchange rate, especially in spring and summer, permitted lowerings of the basic interest rate in early July, August, and September. Due to the sharp seasonal appreciation of the dollar vis-a-vis the lev in early November the Central Bank recurred, as in the previous year, to a tightening of the monetary policy, and raised the discount rate. That led to overcoming the sharp rise in the exchange rate of the dollar to the lev.

Under a regime of a floating exchange rate, the central exchange rate of the lev to the US dollar became a reference rate. Through it the rates vis-a-vis other basic currencies announced every evening by the BNB for the next business day are determined.[17] The method of reflection of the foreign exchange market in the daily central exchange rates was updated in June with the transition from quotation on the basis of all operations of the interbank market participants with value date the day of calculation to quotation on the basis of operations performed on the day of calculation. An indicator of the central exchange rate representativeness was the frequent application of that rate to intercorporate foreign exchange transactions.

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[17] Only for accounting purposes, on a monthly basis the BNB announces the rates of more than 100 other currencies vis-a-vis the lev.

IV. Monetary Policy

1. Goals and Tasks

The goal of the BNB monetary policy has been defined in Article 2, para. 1 of the Law on the BNB in the following way: „...to maintain the external and internal stability of the national currency...“. In contrast to 1991 when this goal had to be achieved under circumstances of excess liquidity and absence of a foreign exchange market, in 1992 the task was to maintain the frail financial equilibrium already reached at a macroeconomic level. In this respect the Central Bank monetary policy played an important role in the ongoing financial stabilization.

During the first six months of 1992 monetary policy restriction was supported by restrictive fiscal and income policies. In the second half of the year, however, the ongoing macroeconomic stabilization faltered which impeded the central bank's attempt to implement a consistent non-inflationary policy.

Foreign Financing and External Stability

Maintaining external stability, a leveled balance of payments and stability of the national currency is a central issue of monetary policy in the transition to a market economy. In restoring its balance of payments equilibrium Bulgaria like the other East European countries, makes use of specialized financing provided by the IMF and the World Bank, as well as credits extended by G-24 governments for balance of payments support. Foreign financing of the balance of payments stabilization played a major role in 1991 (when 203 million US dollars were received from G-24, 150 million US dollars from the World Bank, and 405 million US dollars from the IMF) while in 1992 it dropped considerably (172 million US dollars from G-24 and 278 million US dollars from the IMF). Compared to the minimum amount of foreign financing needed (1.6 billion US dollars in 1991 and 0.9 billion US dollars in 1992), the actual amount was rather modest. Insufficient inflows of foreign resources are an essential reason for the slower development of the transition process in Bulgaria, as well as for the drastic contraction (collapse) of the Bulgarian economy.

Under the conditions of deepening stagnation in the real economy and inadequate foreign financing, BNB's monetary and foreign exchange policies had to offset the negative tendencies of inflation (domestic depreciation) and the devaluation (external depreciation) of the lev. In addition they were aimed at achieving maximum stability of the exchange rate, minimum volatility of the foreign exchange market, and minimum balance of payments disequilibrium. A conclusion could be drawn that these tasks of monetary policy were fulfilled, mostly due to the successfully chosen in 1991 floating exchange rate system, the liberal foreign trade regime, the eased foreign exchange regime, and coordinated actions accomplished by the BNB in respect to both the foreign exchange market and the money supply. Exchange rate movements, thanks to the ensured external stability of the lev, played the role of a nominal „anchor“ of the economy during the two years following the start of economic reform.

Development of Monetary Policy Instruments

Various monetary policy instruments were applied to fulfil BNB's money supply and domestic credit growth regulation goals. The set of financial instruments at the disposal of a central bank predetermines its ability to pursue flexible and coordinated monetary policy. That is why the BNB considers the development of such instruments to be one of its major tasks.

Under conditions of continuing disequilibrium in this country's money markets, credit ceilings remained the main restrictive factor for credit expansion, and in their determination, banks started to be scrutinized for capital adequacy and the quality of attracted resources. The forms of commercial bank refinancing at the BNB underwent substantial development: non-collateralized lending gradually gave way to Lombard and discount credits. The volume of interbank deposit auctions showed a considerable growth. The average term structure of BNB's credit portfolio substantially decreased.

Interest rate policy was also characterized by a clear non-inflationary bias. Throughout 1992 the transition to monetary policy instruments with a more indirect effect continued, and thus the necessary preconditions were created for transition to open market operations in the beginning of 1993.

2. Money Supply

In 1992 money supply measured by the „broad money" monetary aggregate (which includes currency outside banks and all types of bank deposits) increased 50.2% reaching 168.3 billion levs. This growth was quite close to nominal GDP growth; therefore monetary policy conducted throughout the year could be characterized slightly restrictive. Owing to this, there was no substantial change in the ratio between broad money and GDP, which remained at the 85 – 86% level.

GROWTH OF MONETARY AGGREGATES IN 1992

Monetary aggregates	billion levs	December 1991=100 %
Broad money	56.3	50.2
High-powered money (M1)	10.9	40.7
Currency outside banks	6.4	54.0
Demand deposits	4.5	30.2
Quasi-money	45.3	55.6
Time deposits	33.5	129.7
Savings deposits	4.3	26.8
Deposits in foreign currency	7.5	18.9

Source: BNB.

Broad Money

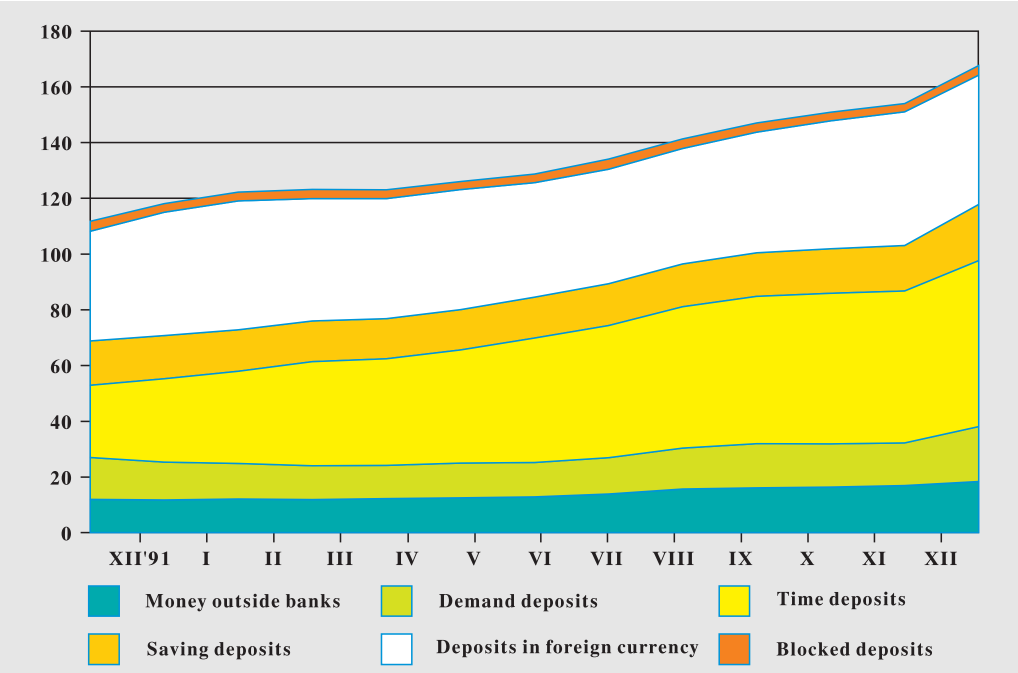
Broad money growth was quite uneven throughout 1992. It was only 15.3% in the first half of the year, and 30.3% or two times higher in the second half of the year. This gives sufficient grounds to state that the restrictive character of monetary policy was stronger in the first half of the year, with some relief of monetary restriction in the third and fourth quarters.

The broad money component of Bulgarian levs was the major factor for the growth of the total broad money aggregate. This component increased 48.9 billion levs, or 71.1%, at end-1992 compared to end-1991. This growth was 8.4 percentage points lower than that of consumer prices for the same period, and therefore unlikely to be pro-inflationary. In the course of the year lev broad money component growth had a similar pattern to the growth of broad money at large: the 22.9% increase in the first half of the year, and 39.3% in the second. Change in the foreign currency broad money component in 1992 was modest, 3.8% if eliminating the exchange rate influence.

The lev broad money component grew faster increasing its share within total broad money from 61.3% at end-1991 to 69.9% one year later. This represented a continuation of a gradual restoration of the lev component of broad money previous position following its sharp drop from 87% in January 1991 to 53.5% in February due to a considerable devaluation of the national currency.

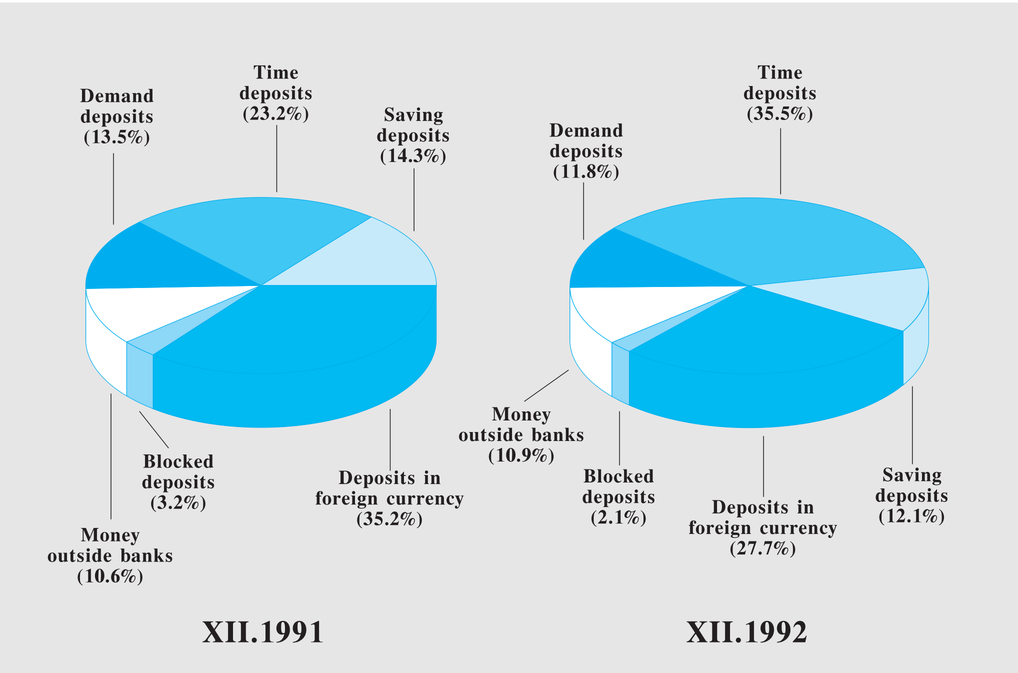
DEVELOPMENTS IN MONETARY AGGREGATES IN 1992

(billion levs)



Source: BNB.

STRUCTURE OF MONEY SUPPLY



Source: BNB.

M1 Monetary Aggregate

In 1992 M1 monetary aggregate (including currency outside banks and current account balances) grew by 10.9 billion levs, but its ratio to broad money dropped from 24% to 22.5%. A large drop (to 19.4%) was registered in the first half of the year, while at year-end, following accounting entries for interest accruals on current accounts, this drop was partially offset. Some changes in the structure of M1 occurred over the course of the year. Currency outside banks continued to increase at a faster rate (54%) and deposits increased 30.2%. This resulted in an increase of the share of currency outside banks in M1 from 44.1% at end-1991 to 48.3% at end-1992. This tendency was observed for a second year and its significance should not be underestimated, since cash exerts direct inflationary pressure. There are several reasons for this tendency to emerge: in an environment of higher inflation, resources on current accounts quickly contract to their reasonable minimum; opportunities for cashless settlements do not substantially expand; frequent insolvency of economic agents make them prefer cash payments; payments of interest due, as well as loan repayments, are avoided; the turnover and excise taxes are circumvented.

Quasi-Money

In 1992 quasi-money (comprising time, savings and foreign currency deposits) recorded a growth of 45.3 billion levs or 55.6%. Time deposits, which increased 33.5 billion levs, or 129.7%, accounted for the largest part of this growth. This led to an increase of their share within quasi-money from 31.7% to 46.8%. Time deposit growth was considerably larger than interest accrued during the year; this indicated that despite the tight restriction on income of the population, new savings were still flowing into the banks. One assumes that growing income from economic activity was the most likely source of such resources.

During 1992 the growth of time deposits slowed considerably: 72.5% in the first half of the year, 33.2% in the second, and only 12.5% in the last quarter of the year. This tendency was closely associated with reductions in the basic interest rate in summer. Following the rise in inflation during the fourth quarter, a serious threat of eroding the deposit base emerged as the negative level of real deposit rates approached its lowest viable limit. Under the circumstances of growing economic and political instability, the Central Bank made the only possible decision: to tighten monetary restriction by raising its basic interest rate at the beginning of 1993.

In 1992 savings deposits grew by 26.8%, a figure close to the amount of the interest accrued; the relative stability of these deposits showed that the process of transferring resources from such deposits to the more profitable time deposits has almost come to an end. The volume of foreign currency deposits also remained relatively constant. Despite substantial differences between income from lev deposits and deposits in foreign currency, inflows of resources from the former to the latter, or vice versa, were not witnessed in 1992. One might suppose that the amount of deposits in foreign currency is close to what is needed for servicing foreign trade; and under conditions of partial convertibility of the lev, economic agents showed little inclination to speculate in the foreign exchange market.

Money Multiplier

The money multiplier characterizes the extent to which reserve money multiplies at commercial banks as it forms part of the aggregate money supply. In the second year of radical economic reform underway this multiplier was much more stable than in 1991, when it grew almost incessantly (from 2.74 in March to 3.77 in December). In 1992 it remained relatively constant and fluctuated within a range of 3.48 – 3.77.

Money multiplier dynamics is determined by changes in two ratios which are basic for the banking sector: between currency outside banks and deposits, and between bank reserves and deposits. The systematic drop of the ratio between bank reserves and deposits from approximately 29% at the start of the reform to 17.8% at the end of the year was the major factor for the money multiplier's rapid increase in 1991. This drop is a clear indication of commercial banks' intention to more efficiently use the attracted resources by expanding their lending activity and limiting their reserves at the Central Bank. In 1992 this ratio's dynamics was much weaker, evidence that the adaptation period is over and that the commercial banks have reached a desired level of liquidity.

MONEY MULTIPLIER

Source: BNB.

The ratio between currency outside banks and deposits characterizes liquidity preferences of both population and companies. In 1991 and 1992 it varied within a 10.3 – 12.3% interval; a weak upward trend, however, was observed as fluctuations were mainly influenced by changes in the basic interest rate and the seasonal factor.

Increased stability of the money multiplier during the past year creates prerequisites for a more efficient control over the money supply through reserve money management by the Central Bank.

3. Domestic Credit

No important changes occurred in this country's net foreign assets in 1992. Expressed in levs, they increased only 13%, reflecting the influence of the exchange rate. For the same period net domestic assets grew 26%. In this setting, domestic credit increased 51%, almost coinciding with the growth of broad money.

DOMESTIC CREDIT GROWTH IN 1992

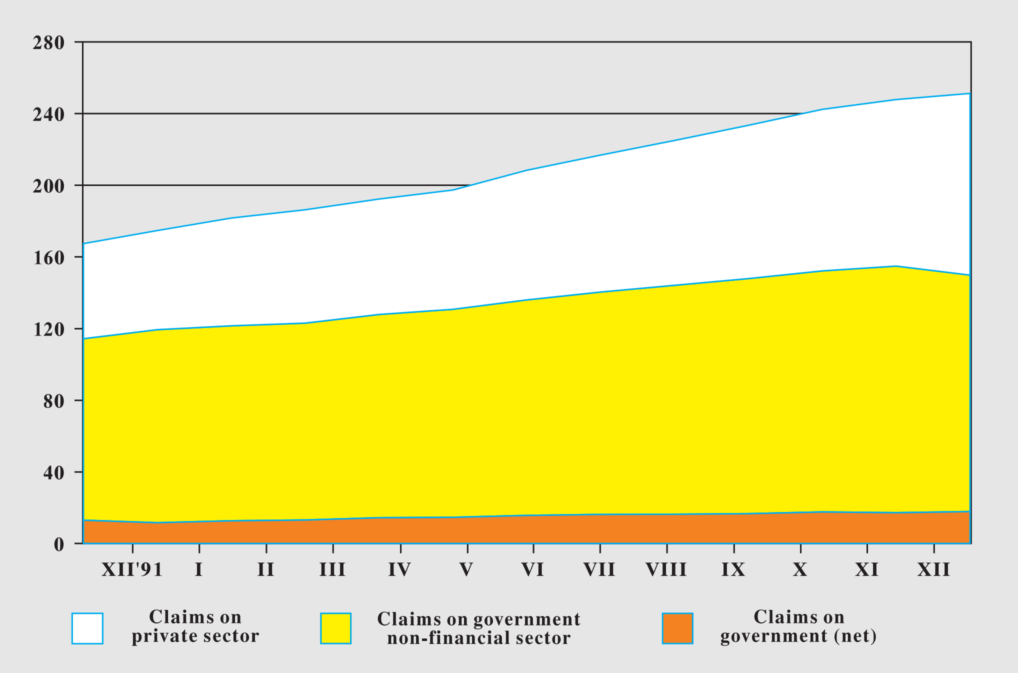
Indicators	billion levs	December 1991 = 100 %
Domestic credit, total	85.3	51.0
levs	40.6	47.6
convertible currency	44.7	54.5
Credit to government	48.4	91.3
levs	18.0	111.0
convertible currency	30.3	82.5
Credit to non-financial public enterprises	32.1	31.7
levs	17.7	31.6
convertible currency	14.4	31.7
Credit to private sector (levs)	4.9	37.4

Source: BNB

Domestic credit growth throughout the year was relatively stable: 24.5% in the first half of the year and 21.3% in the second one.

DEVELOPMENTS IN DOMESTIC CREDIT IN 1992

(billion levs)



Source: BNB

Claims on Government

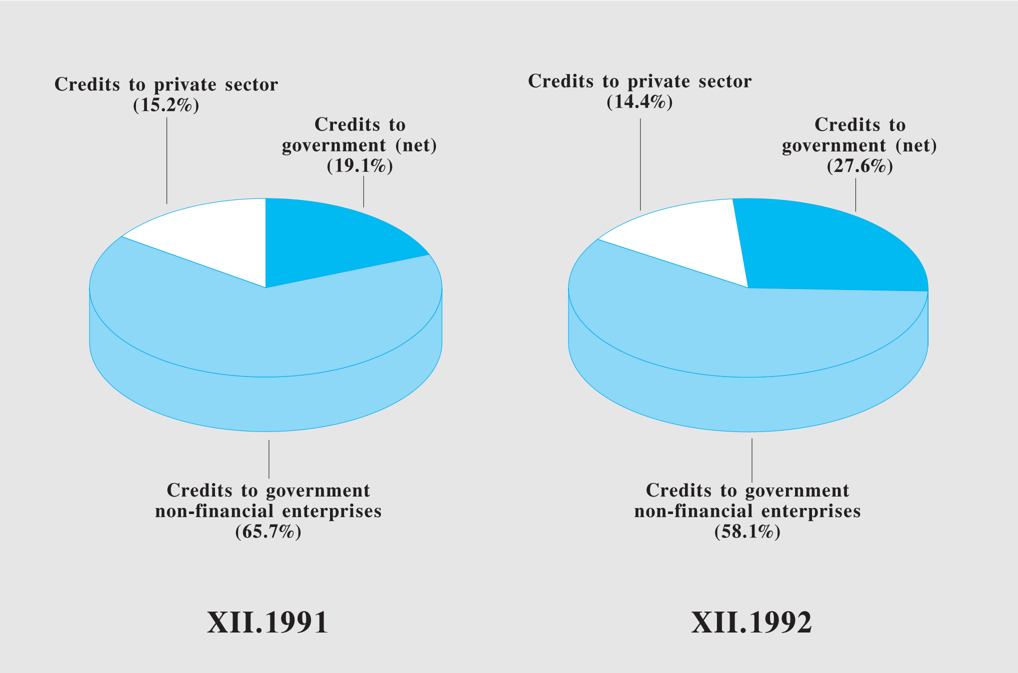
Net claims on the government increased at a faster rate growing 48.4 billion levs, or 91.3% in 1992 and 29 billion levs, or 40%, in the second half of the year alone in 1992. As the availability of foreign financing was limited due to a moratorium on foreign debt repayment imposed by Bulgaria in 1990, credit in national currency, which grew 18 billion levs (111%), was the major source for covering the budget deficit. The need of the government for additional domestic currency resources was quite uneven during the year. In the first half of 1992 net lev claims on the government remained nearly at the level of 1991 year-end (their growth was only 6.3%), while in the second half of the year they „exploded" as they approximately doubled. The main cause for this phenomenon was an attempt of the government to pursue fiscal restriction primarily by postponing payments that fell due during the year rather than by skillful management of differences between revenue and expenditure. The growth of the foreign currency component of the net claims on the central government was relatively more moderate: 82.5% (or 62.6%, if the influence of the exchange rate is eliminated). It resulted from overdue interest and exchange rate valuation adjustments. This increase should not be underestimated, as it exceeded 1 billion US dollars in 1992.

Claims on Non-financial Sector

In the past year net claims on public and private non-financial enterprises increased 37 billion levs, or only 32.3%. If the 1992 annual inflation is taken into consideration, this would mean a contraction of 26.3% in real terms. The lev component growth was 32.7%, partially due to writing-off some 7 billion levs of bad loans to the energy sector against provisions made by the Central Bank. The distribution of credit between the public and the private sectors was close to the proportional one: claims on non-financial public enterprises grew 31.7%, and those on the population 37.4%. Within the claims on the private sector, housing credits continued to decrease, while credits for economic purposes rose 56%.

The foreign currency component of the claims on the public sector registered a growth of 31.7% or 17.3% if the influence of the exchange rate is eliminated. In absolute terms this growth was approximately 360 million US dollars. If the economic depression in the real sector continues, the ability to regularly service these credits remain doubtful. At the same time, under the circumstances of the current moratorium on foreign debt repayment, the inflow of foreign financial resources into the national economy was restricted to loans from international financial institutions. Such resources have, however, gradually decreased compared to 1991.

STRUCTURE OF DOMESTIC CREDIT
(lev component)



Source: BNB.

Crowding-out of the Real Economy

Faster growth rate of net claims on the government placed the financing of the national economy in a difficult situation. Despite a strongly depressed demand for credit, a crowding-out effect of the real sector by the government sector was witnessed in 1992. At end-1991 the government sector share of lev domestic credit was 19.1% and at end-1992, 27.2%. This unfavourable tendency was particularly evident in the second half of the year, when this growth was 10 percentage points.

4. Money Market

Accelerated development of the money market continued in 1992.[18] In contrast to 1991 when more direct monetary instruments dominated in the relationship between the BNB and the commercial banks, and the interbank market was established, in 1992 money market considerably expanded and intensified. Regular issues of securities, including those with longer maturities, created preconditions for their wider use as collateral in Lombard loans, turning into a major form of commercial bank refinancing by the BNB. At the same time, the volume of credit resources in the interbank market surpassed the volume of Central Bank refinancing. Under these circumstances, BNB's ability to conduct a flexible and consistent monetary policy and provide a faster transition to indirect instruments for its implementation substantially increased.

[18] The money market comprises the financial interrelations both between the BNB and commercial banks and among the commercial banks themselves. Insofar a secondary market for securities is still not available, their issue is reviewed in the state budget financing section of the Annual Report.

Interrelations between the BNB and Commercial Banks

The interrelations between the BNB and the commercial banks play a major role in the money market. Through proper selection of monetary instruments, the Central Bank influences the commercial banks' liquidity, as well as their functioning in the transition to a market economy. Simultaneously, it gets information from banks about their preferences regarding volume and price of required credit resources. Such information serves as a feedback in the fine-tuning of monetary policy with a view to achieving its preliminary goals.

Credit Ceilings

In a period of higher inflation, credit ceilings are the main instrument for restricting commercial bank credit expansion and regulating the money supply. Some changes aimed at improving the efficiency of this type of monetary policy instrument were implemented. These changes can be summarized as follows:

- Determination of the credit ceilings on a quarterly basis was introduced as well as changes in their method of calculation.
- The base for credit ceiling calculation used until recently decreased in influence. The influence of the resources attracted by the commercial banks was increased through introduction of a new mathematical formula in July 1992. The new methods resulted in a more even distribution of credit among the commercial banks.
- The penalty incurred when credit ceilings are exceeded, was increased up to 8 percentage points over minimum reserve requirements on resources attracted by the banks.

The maximum commercial bank arrears were determined by decision of the BNB Board in accordance with the government programme coordinated with the IMF. On a 31-December-1991 basis it reached 7% in the first quarter, and 29% for the year as a whole. Fulfillment of the credit ceilings for the banking system in total at end-1992 was 105.36%; the excess during different months varied from 2 to 8 billion levs. This excess was mainly due to covering capitalized but not collected interest on old investment credits and partially to non-compliance with the ratios regulating bank risk and liquidity. Nevertheless, the applied credit ceilings effectively restrained (lev) domestic credit growth, and hence the money supply within rates commensurate with the general non-inflationary bias of monetary policy.

Refinancing

As a consequence of the deep depression in the real sector and insufficient development of the financial sector, refinancing remained the major form of connection between the Central Bank and the commercial banks. Many positive changes occurred, however, in the use of this monetary policy instrument compared to the preceding two years.

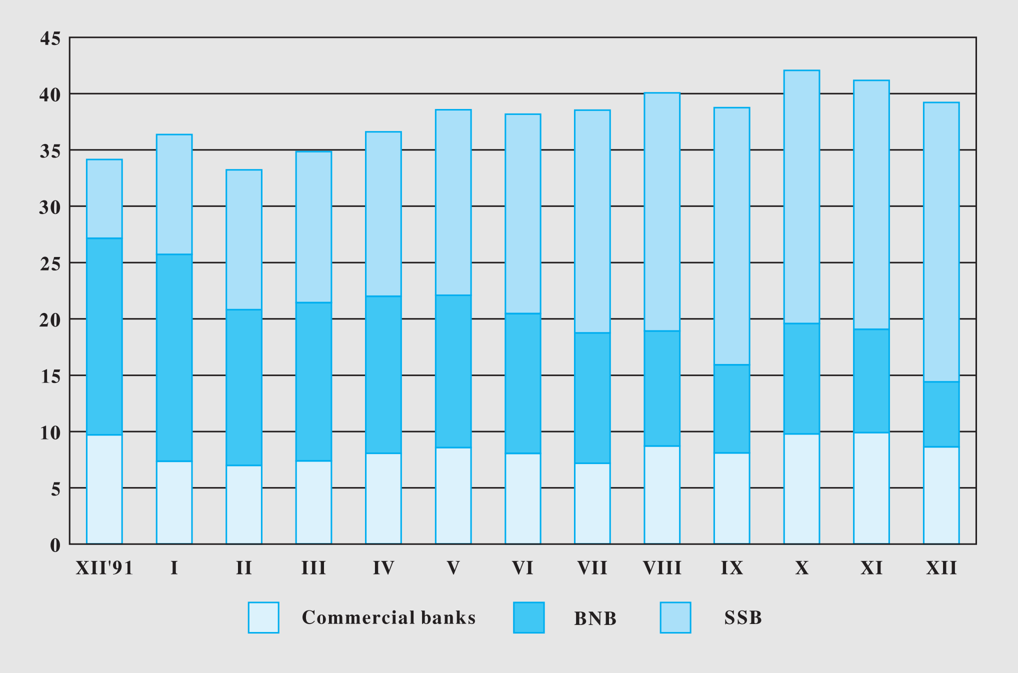
While 1990 commercial bank refinancing was effected entirely through the provision of non-collateralized resources and in 1991 the share of such resources was still dominant (92.4%), in 1992 the share was only 43.8%. Furthermore, the importance of refinancing as a source of credit resources began to diminish during market reform. In 1990 the monopolistic right to distribute credit resources among banks was assigned to the BNB; in 1991 a portion of the needs for credit resources was already ensured by the interbank market, which, had started operation. In 1992 the share of the credit resources provided through this market was larger than that provided by the BNB.

Total resources provided for refinancing of the commercial banks decreased 4,756 million levs (25.2%) compared to December 1991, and 7,071 million levs (33.3%) compared to 31 March 1992. For the periods mentioned, deposits placed according to the moratorium registered the largest drop: 4,453 million levs (64.1%) less compared to 31 December 1991, and 3,023 million levs (54.8%) less compared to 31 March 1992. This drop was caused by a percentage of the loans under the moratorium being transformed as state debt according to Decree No. 244 of the

Council of Ministers of 1991 and the full repayment of loans coming to maturity. This drop compared to November was also a consequence of Resolution No. 361 of the BNB Board of 18 December 1992, by virtue of which Central Bank assumed the responsibility for paying the principal on the debt of the Committee on Energy (transferred in 1987 to the Economic Bank).

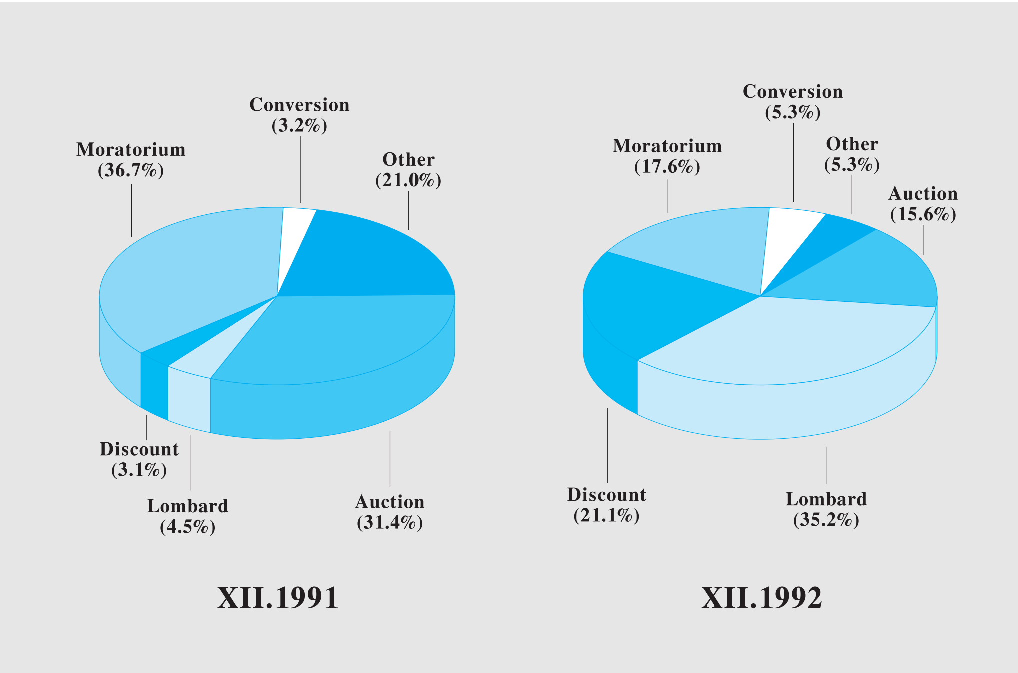
VOLUME OF MONEY MARKET IN 1992
(excluding government securities)

(billion levs)



Source: BNB.

STRUCTURE OF ACTUAL DEPOSIT AND LOAN ARREARS OF COMMERCIAL BANKS



Source: BNB.

Deposit Auctions. In 1992 the BNB held 24 lev interbank deposit auctions in compliance with the terms and conditions set out in the *Regulations for Conducting Lev Interbank Deposit Auctions*. Deposits totalling 57,014 million levs were placed in this way. Besides the BNB, only seven of the other banks offered deposits at the auctions. Obviously, the commercial banks prefer to provide their available resources to the interbank market, and not at the auction. This is mainly due to the opportunity to contract deposits with mutually acceptable terms and interest rates at the interbank market, versus at auction for a fixed one-month term.

The deposits offered were sold for a relatively high price with a 55.08% simple annual interest rate. At the 1992 auctions, 29 commercial banks participated with 53 bids, on average, and deposits were received by 24 commercial banks with 29 bids, on average, which indicates a reduced, but still considerable interest in this system of refinancing.

LEV INTERBANK DEPOSIT AUCTIONS IN 1992

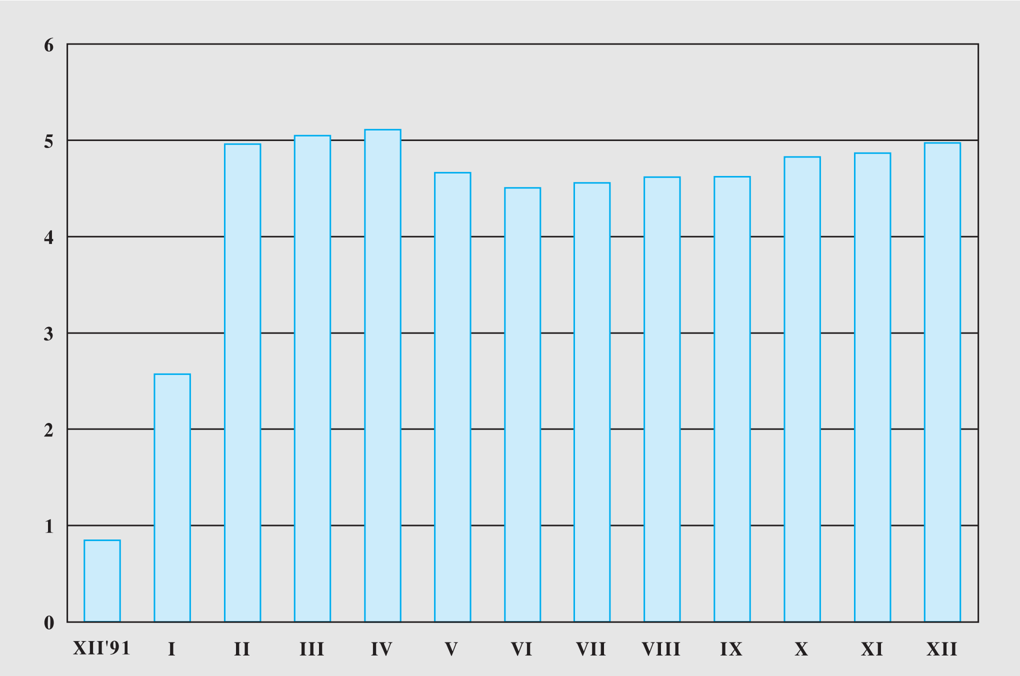
Source: BNB.

Lombard Loans. In 1992 loans against collateral established themselves as a very prospective form of commercial bank refinancing. They provide an opportunity for non-inflationary public debt financing, and additionally contribute to the improvement of the qualitative structure of commercial bank asset side operations by increasing the share of assets with a higher degree of liquidity and, respectively, with a substantially lower degree of credit risk. In 1992, 238 loans against collateral totalling 8,827 million levs were extended, including 3,672 million levs against bonds issued by the Ministry of Finance with respect to the non-performing loans of state companies and sole-proprietor state-owned companies (according to Decree No. 244 of the Council of Ministers of 29 December 1991), 4,271 million levs against government securities issued by the Ministry of Finance, 657 million levs (7 loans) against gold pledged as security, 127 million levs (3 loans) against pledges of foreign currency, and 2 loans against collateral of 50 million levs on a deposit account.

Discount Operations. Compared to 31 December 1991, discount credits grew over five times. For the period January – December 1992, 276 promissory notes were discounted. As of 31 December the debt on discount loans extended was 2,980 million levs. This growth was due to Resolution No. 372 of the BNB Board of 24 December 1992 and the acceptance of the trade bill by the Ministry of Finance, through which the BNB ensured refinancing of the commercial banks that formed the consortium to provide help to the Energy Committee, and permitted discount loans in the amount of 2,208 levs to 13 commercial banks.

LOMBARD CREDIT GROWTH IN 1992

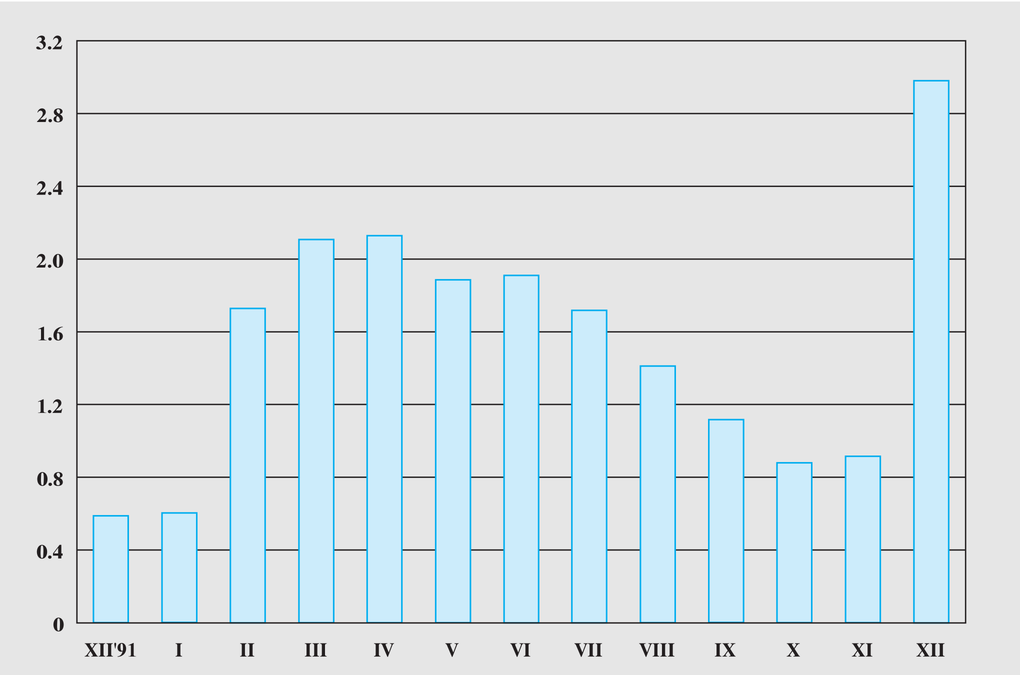
(billion levs)



Source: BNB.

DISCOUNT CREDIT GROWTH IN 1992

(billion levs)



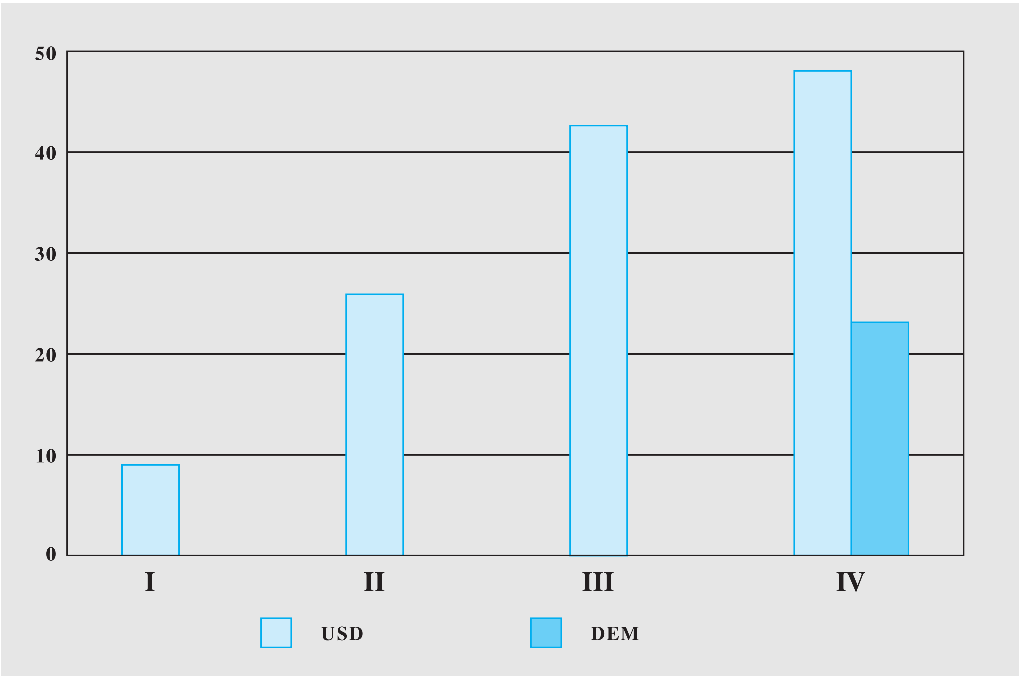
Source: BNB.

Foreign Currency Refinancing

In 1992 the BNB effected foreign currency refinancing of the commercial banks against trade bills (promissory notes) as collateral for a three-month term. Compared to discount loans, these operations were more limited in volume due to normal functioning of the domestic foreign exchange market which represented an alternative for the commercial banks to purchase currency. In the course of the year foreign currency refinancing gradually increased from 9 million US dollars at the end of the first quarter to 48.1 million US dollars and 23.1 million Deutsche marks by the end of the fourth quarter. Coupled with a growing demand, interest rates on US dollar denominated loans, grew from 6.5 to 7.75%. The interest rate on Deutsche mark denominated loans was 9.5%. The opportunity for foreign currency refinancing was utilized by several commercial banks including the Economic Bank, Mineralbank, Balkanbank, First Private Bank, Agro-Cooperative Bank and Bulgarian Post Bank. The loans these banks extended were for importing crude oil, transport facilities and equipment, and green-house project financing.

REFINANCING OF COMMERCIAL BANKS IN FOREIGN CURRENCY IN 1992, QUARTERLY DATA

(million)



Source: BNB.

Short-term Deposits

Simultaneously with the introduction of a settlement system, a system for provision of short-term (1 day to 1 month) deposits to the commercial banks for covering temporary liquidity shortages was also introduced within the BNB; in this way the bank fulfills its function as a lender of last resort. The BNB Board set the interest rate level for this type of refinancing at 0.2 percentage points above the interest rate reached at the latest one-month deposit auction.

33 such short-term deposits totalling 932 million levs and the majority having terms of 1 to 10 days, were placed 5 October – 31 December 1992. As of 31 December 1992 arrears on these deposits were 255 million levs.

Minimum Reserve Requirements

The BNB continued to apply minimum reserve requirements as a major instrument of its monetary policy. Despite the fact that their level was once again kept at 7%, the increase in resources attracted, as well as coverage of newly created banks and to some extent the growth in the nominal exchange rate of the US dollar to the lev (its central rate reached 24.492 levs on 31 December 1992) led to an almost double increase in the level of minimum reserve requirements, compared to 1991. The banks were allowed to transfer in foreign currency their required reserves on the attracted foreign currency resources.

Pursuant to Resolution No. 204 of the BNB Board of 10 July 1992 and in connection with the introduction of settlement in the Central Bank, the commercial banks were permitted overdrafts up to the amount of their reserve requirements held with the BNB (including such in convertible currency); interest accrual was effected in compliance with the Temporary Interest Rate Tariff the BNB applies to its domestic operations. To increase both the liquidity of the banking system and the responsible use of money, the penalty interest in case of an overdraft on the current account and minimum reserve requirements of a particular bank was raised (to equate the basic interest rate plus 18% per annum).

Interrelations between Commercial Banks

Paralelly with the development of the money market, interaction between commercial banks has considerably expanded and intensified. Unlike vertical links with the Central Bank, which ensure overall coordination within the banking sector, horizontal interaction between commercial banks leads to a more rational use of credit resources on a market basis.

Credit Resources in the Interbank Market

In its second year of operation the interbank money market (having started to function in early 1991) turned into a main source for ensuring the credit resources commercial banks needed. While at end-1991 it covered only 30.85% of commercial bank demand for credit resources, with the BNB providing 34.88% of these, the respective shares a year later were 41.70% and 17.84%.

Credit resources totalling 159,551 million levs were placed through the interbank money market in 1992; 28,867 million levs, or 18.09%, of these were credits. At the end of 1992 the debt on deposits and credits placed through the interbank market was 33,037 million levs, a growth of 97.76% compared to 1991 when this debt was 16,706 million levs.

Compared to resources placed in 1991 (82,430 million levs, including 7,819 million levs or 9.49% as credits), an increase of 93.56% was registered in 1992. The number of banks participating in the money market increased as well. Approximately 60 commercial banks or 75% of all banks in this country, took part in the interbank market in 1992.

The tendency toward the biggest share of credit resources with a term of one week to one month within total credit resources placed that took shape in 1991, was again confirmed and even strengthened during the different months of 1992. This share was 75.11% in 1992 (versus 60.69% in 1991); the share of the resources placed with terms of up to one week was the smallest: 12.20% (versus 17.72% in 1991). The share of the resources placed with terms exceeding one month diminished to 12.69% in 1992 (versus 21.59% in 1991). The data on the ratio between the amount of credit resources placed within different time intervals gave grounds to conclude that the commercial banks still do not fully appreciate the need for day-to-day, dynamic credit resources control and management.

The following banks participated most actively in the interbank money market during the past year: the SSB (with a share of 23.98% in total deposits and credits), Sofia Commercial Bank (18.15%), Plovdiv Commercial Bank (8%), and the BFTB (6.2%). It should also be noted that credits, through the interbank market, were placed only by the SSB in 1992. Total resources of 38,267 million levs were placed by the SSB in the past year, 28,868 million levs (75.44%) as one-month credits that were re-negotiated following their expiration.

Interest Rate in the Interbank Market

The average interest rate on credit resources placed through the interbank money market in 1992 was 50.96%, considerably less than the average interest rate reached at lev interbank deposit auctions (55.08%).

The margin over the basic interest rate applied by the commercial banks through the interbank money market during the months of 1992 fluctuated: about 5 percentage points in the first seven months of the year (when the basic interest rate was 54%), and 2 – 3 percentage points in the following five months (when the basic interest rate was 45% and 41%); this is an indication that a lower amount of credit resources was placed in the interbank money market under a higher demand, due to which a higher price was reached, while later on, the bigger amount of resources offered led to a drop in price. One of the aspects of BNB's support for the development of the interbank market was its attempt to maintain the tendency toward a lower price of the resources placed to even with or below the basic interest rate.

5. Interest Rates on Commercial Bank Operations

In 1992 the BNB continued to apply a flexible interest rate policy to support moderate monetary restriction it conducted. The level of the basic interest rate determined by the Central Bank sought a reasonable compromise between the wish to guarantee partial protection of the public deposits from devaluation in real terms and the ability of the national economy, still in a deep depression, to endure high nominal interest rates. At the same time, over the course of the year the bank avoided frequent changes in its interest rate policy in order not to cause additional disturbances in the strongly depressed investment demand.

Basic Interest Rate

In the first half of 1992 the basic interest rate remained at the relatively high level of 54% annually. Seasonally higher inflation, which exceeded 40% in the first six months of the year (or 96% annually), was the main cause. In summer, when inflation dropped, the Central Bank gradually lowered its basic interest rate to 41% annually. At the end of the year, due to the two-month political crisis, a period of economic destabilization reappeared again and the BNB had to raise its basic interest rate to 47% to prevent deposits from possible erosion.

Deposit Rates

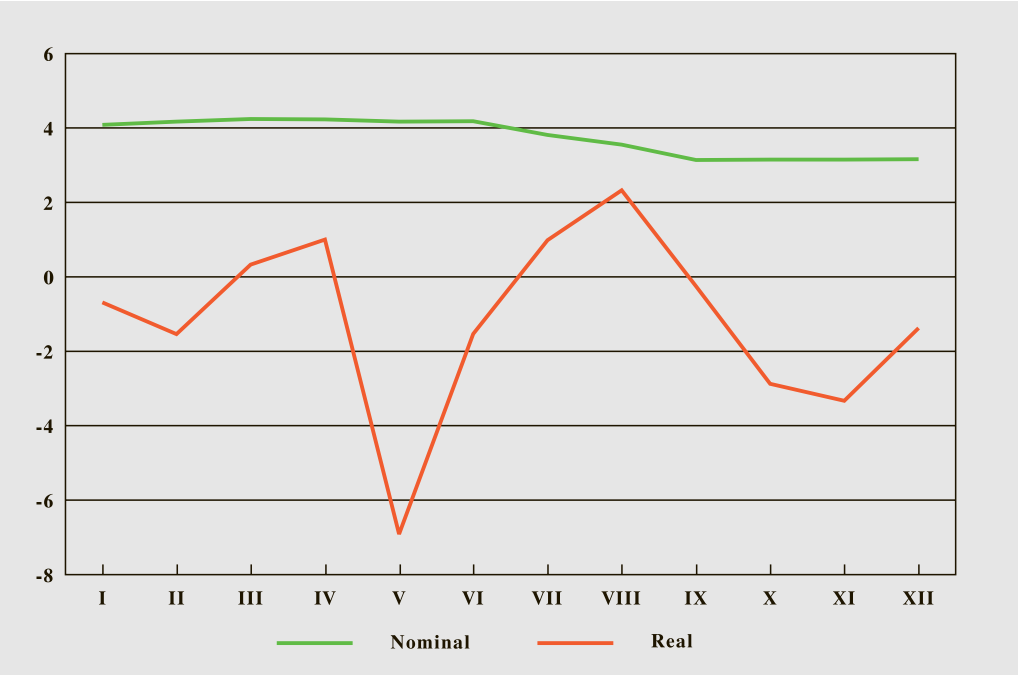
In 1992 deposit rate dynamics repeated the pattern of changes in the basic interest rate. The amount of interest accrued on deposits was strongly dependent on their liquidity. It was the highest on time deposits, and this turned these deposits into the most preferable form of saving among different types of deposits. In the first half of the year the average nominal monthly time deposit rate remained relatively constant (4.1 – 4.2%). Due to the influence of the registered monthly inflation, the real interest rate was characterized by larger fluctuations: in January and February it was moderately negative (-0.7 – -1.5%), in March and April it became positive (0.3 – 1%), in May it recorded its lowest value for the year (-6.9%). The real devaluation of time deposits in the first six months of 1992 was 9.2%. In summer the nominal level of the average monthly deposit rate on time deposits gradually dropped to 3.1% and remained almost unchanged until the end of the year. Under these circumstances, real interest rates turned out to be positive (1 – 2.3%) in July and August, and negative (-0.2 – -3.3%) in the remaining months of 1992. In the second half of the year real savers' losses were lower (approximately 4.6%), but for 1992 as a whole reached 13.4%.

„Interest Rate – Volume of Deposits“ Relationship

Sample data for 24 leading commercial banks in this country (whose share in the credit market is about 80%) indicate that linear interdependence was observed between the real interest rate and the monthly growth of deposits in the first half of 1992: a larger growth was typical for higher interest levels. This is natural, since interest accrued forms part of the monthly increment of deposits; but judgements of savers about the expected yield of their deposits doubtlessly influence it as well. In the second half of 1992, despite the positive values of the real interest rate in July and August, the overall tendency was towards deceleration in the growth of time deposits. This phenomenon gives grounds to consider that at the end of 1992 the socially acceptable limit for the negativeness of the real interest rate was reached and any further reduction would threaten the deposit base.

INTEREST RATES ON ONE-MONTH DEPOSITS IN 1992

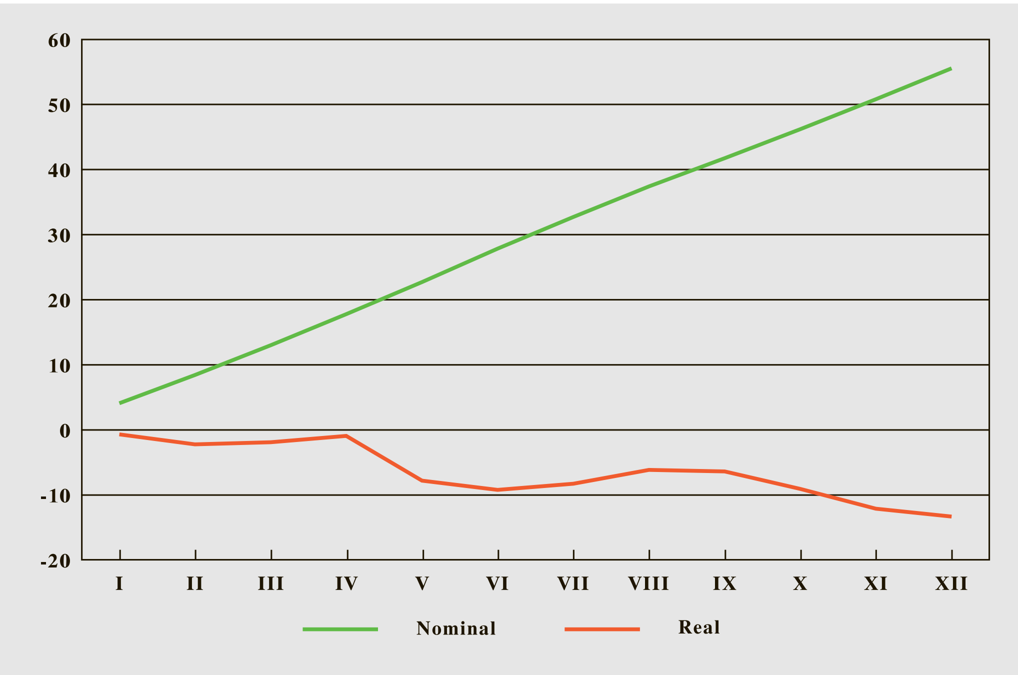
(%)



Source: BNB.

INTEREST RATES ON ONE-MONTH DEPOSITS IN 1992
(cumulative from the beginning of the year)

(%)



Source: BNB.

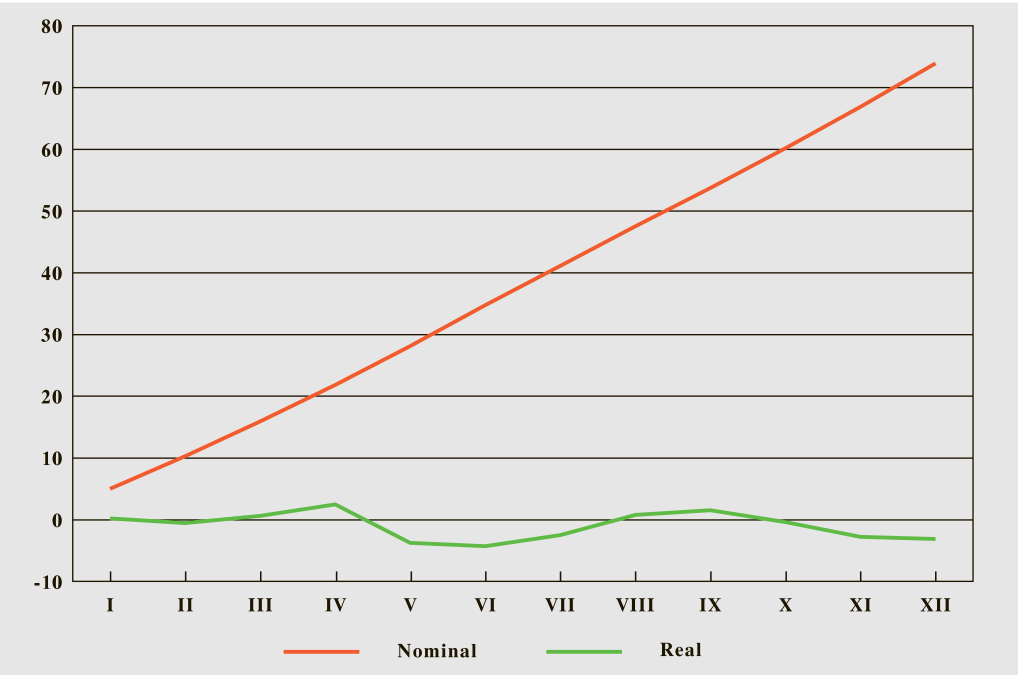
INTEREST RATES ON SHORT-TERM CREDITS IN 1992

(%)

Source: BNB.

INTEREST RATES ON SHORT-TERM CREDITS IN 1992
(cumulative from the beginning of the year)

(%)



Source: BNB.

Lending Rates

Interest rates on new credits were also in close relationship with the basic interest rate and monthly inflation. Nominal changes in interest rates on short-term credits followed mainly the developments in the respective deposit rates: in the first half of the year their level gradually increased from 5% to 5.2%, and in the second one dropped to 4.2%. During six months of the year the real monthly lending rate was positive, reaching a maximum value in July (3.3%). However, for 1992 as a whole, the real lending rate remained negative (-3.1%), especially in the first half of the year (-4.3%). This gives evidence that high nominal interest rates were not the main factor for the deepening depression in the real sector.

A tendency toward a growing margin over the basic interest rate applied by the commercial banks to credits extended was observed at the end of 1992. Both increased bank spending and the need to set aside provisions for growing non-performing loans could be reasonable explanations for such a tendency. From November 1992 the share of that margin in the basic interest rate was 0.25, while being 0.17 in the first half of the year. Some banks admit deviating considerably from the basic interest rate by offering credits with a margin reaching 18 percentage points.

„Interest Rate – Demand for Credit“ Relationship

Sample data for the leading banks in this country on credits extended does not show a statistical relationship between growth of new credits and their real interest rate. This is a reason to assume that the price of credit still has no decisive influence on volume of credit demand; a considerable portion of its increment came from capitalization of overdue interest. Frequent cases of forced crediting clearly show that a number of state enterprises still do not function under hard budget constraints, which strongly distorts the overall credit picture.

Interest Rate Differential

Throughout the year under review the differential between monthly interest rates on deposits and credits remained relatively constant. It varied from 0.84% in March to 1.05% in September, October and December, in nominal terms, and from 0.81% in March to 1.01% in September, in real terms. The effective amount of this differential for 1992 as a whole was 18.3% in nominal terms, and 10.2% in real terms. On the basis of the data indicated one concludes that it is not the contraction of the interest rate differential on credits and deposits but the slowed dynamics of their growth that was the main reason for the fall in commercial bank profits in the past year; in other words, this fall was a consequence of the pursued policy of monetary restriction which, obviously, influenced more readily the financial rather than the real sector of the national economy.

V. Fiscal Policy

1. Budget Deficit

Fiscal policy in 1992 was one of the major levers of financial stabilization. The difficulties in overcoming financial imbalances in a very complex macroeconomic environment determined its restrictive character. As a consequence, at year-end the central government budget realised a positive primary balance of 1,243.3 million levs, against 2,353.2 million levs as envisaged in the Law on Amendment of the 1992 State Budget Law. An unsteady external political environment and the country's socioeconomic development forced implementation of a flexible fiscal policy. This is evidenced by changes in reported quarterly primary balances. At the end of the first and third quarters the central government budget operated at a primary deficit. This was due to the relatively larger ratio of expenditure effected under the Law on Amendment of the State Budget Law compared to revenue collected under provisions of the same Law.

The positive primary balance of the central government budget at the end of 1992 was not sufficient to cover debt service expenditure. After deducting the internal debt, an internal budget deficit of -8,446.2 million levs remained. During the year this deficit did not change systematically due to irregular interest payments on internal credits and changes in the primary deficit.

At year-end the cash deficit of the central government budget reached 11,722.9 million levs[19], or 6% of GDP. The Law on Amendment of the State Budget Law envisaged a cash deficit of 11,018.7 million levs, but the real deficit was 704.1 million levs higher. This was due to a set of factors. The ratio of the revenue envisaged by the Law is less than that of the expenditure. Moreover, expenditure not envisaged by the Law was made throughout the year. The bulk included temporary interest-free credits of 542.3 million levs to Social Security General Department and 744.4 million levs[20] to the municipalities. The internal interest paid was 656.2 million levs more than planned, while at the same time due interest on BNB credits used by the budget, amounting to 2,846.5 million levs was left unpaid.

Throughout the period under review net credit borrowing requirements of the budget were 13,341.8 million levs, or 95.4% of those projected in the Law on Amendment of the State Budget Law, and 6.8% of GDP.

2. Budget Deficit Financing

In accordance with common international practice, which requires full disclosure of government debt management, in planning the 1992 budget all projected credits to the budget were excluded from the revenue side and all liabilities on credits used were excluded from the expenditure side. Monetary operations for budget

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[19] Cash deficit is the difference between budget revenue and the realised expenditure, including internal and external interest paid.

[20] The Ministry of Finance reduced the amount of reported cash deficit on the central government budget as of 31 December 1992 using this amount and reflected it as a source of negative financing, though it was reported as an expenditure throughout the year. Such financing was not provided by the 1992 State Budget Law.

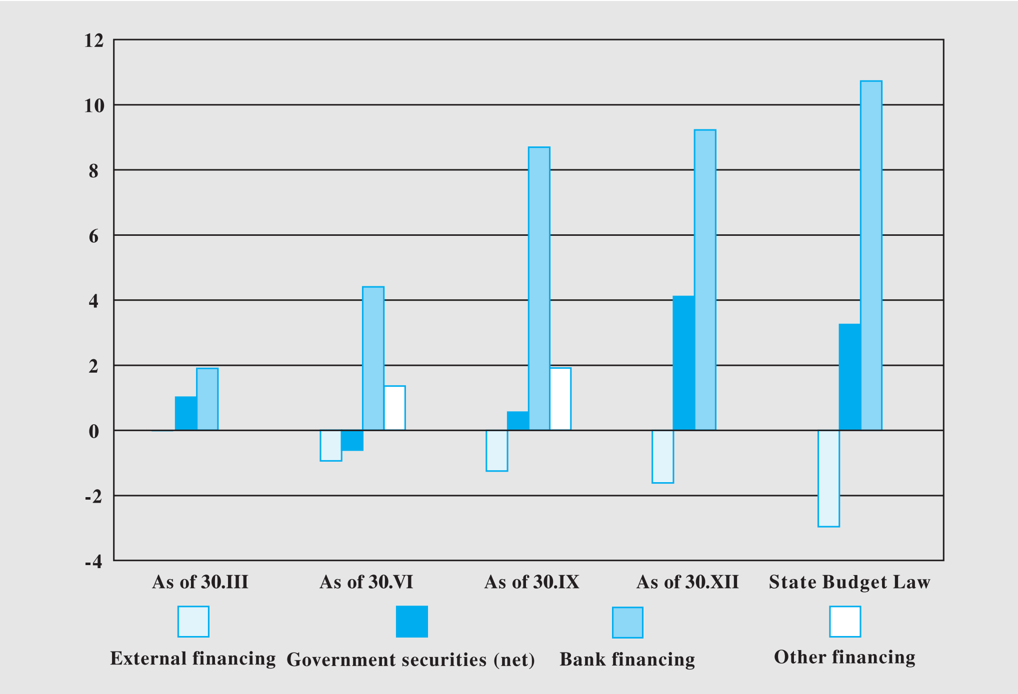
deficit financing were approved in the Law on Amendment of the 1992 State Budget Law and can be divided into two basic groups:

• foreign financing, including transactions from abroad;

• internal financing, including transactions in government securities and credit from the BNB.

NET FINANCING OF THE BUDGET DEFICIT IN 1992

(billion levs)



Source: BNB.

As of 31 December 1992 net foreign financing was negative. It totalled -1,618.9 million levs, which was 1,342.7 million levs less than envisaged by the Law (-2,961.6 million levs). Financing of the clearing operations with the former USSR accounted for the largest amount (-1,640.3 million levs). The foreign debt service of 18.9% or 387.8 million levs was less than projected by the Law on Amendment of the State Budget Law – 2,055.6 million levs.

Savings achieved in foreign debt servicing did not affect internal financing performance. This was due to additional internal expenditure which was not provided in the budget.

The Law on Amendment of 1992 State Budget Law approved internal financing of 13,980.3 million levs. At year-end it totalled 13,341.8 million levs, or 95.4% of the Law projection: 4,116.3 million levs in operation with government securities (net) and 9,225.5 million levs bank financing (net).

In 1992 31 treasury bill issues were effected (thirteen 3-month, seventeen 6-month and one 9-month treasury bill issues) totalling 11,265 million levs. Of these 18 issues of 5,082.5 million levs face value were in circulation as of 31 December 1992. The first two issues were sold on hand by the Ministry of Finance and the remainder – by the BNB. Since February 1992 the BNB sold book-entry treasury bills for the account of the Ministry of Finance through auctions organized pursuant to Ordinance No. 5 of the Ministry of Finance and the BNB on the Issuance, Sale and Redemption of Book-entry Short-term Government Securities of 23 January 1992.

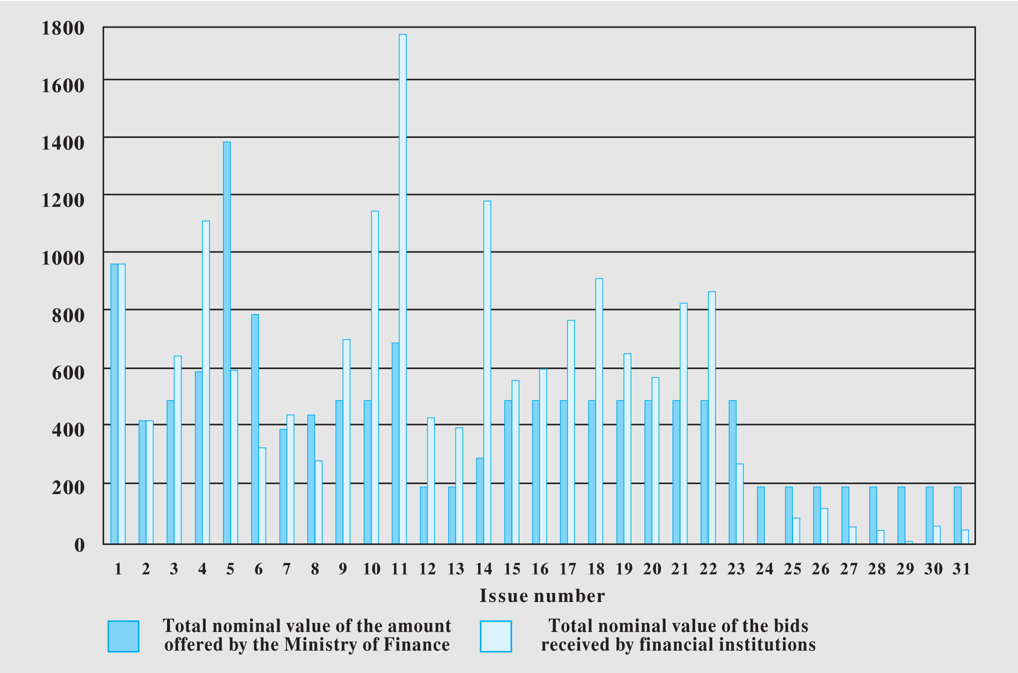
In January – June 1992 the issues of government securities brought 5,471.8 million levs to the state budget. At the same time the budget repaid government securities of 7,026.7 million levs face value, which included 2,166 million levs in treasury bills issued in 1991 and 614.2 million levs in bonds issued in 1990. The lack of an annual time-table of the issues, especially a breakdown by quarters, reflecting current financial needs of the budget and accounting for the maturity dates of the issues in circulation, led to negative net budget financing from government securities operations of -614.3 million levs during the first half of 1992. Nevertheless, the Ministry of Finance, being a prime-rate borrower, regularly repaid the government securities. The negative financing of the budget deficit with government securities was compensated through direct financing by the BNB. This continued until September, when the last 3-month treasury bill issue was redeemed.

In order to reschedule government liabilities for a longer period of time, the Ministry of Finance started issuing book-entry 6-month treasury bills since July 1992, which added 4,143.7 million levs to the state budget revenue. They were effected through the BNB at an average annual yield of 40.94%. In addition the Ministry of Finance sold 9-month definitive treasury bills of 1 billion levs to the State Savings Bank with a floating yield of 1 percentage point above the basic interest rate and 3-year interest-bearing definitive government bonds equal to the basic interest rate plus 1 percentage point which will be payable by coupons at annual intervals. These led to overperformance of 866.2 million levs in net financing through government securities operations at year-end against projected minimum of 3,250 million levs as per the State Budget Law.

In 1992 the interest-bearing treasury bills of 1,700 million levs issued in 1991 for 3, 6, 9 and 12 months by the Ministry of Finance to the BFTB were redeemed. These were against a loan with an interest rate of 1 percentage point above the basic interest rate, which equalled interest payments of 543.7 million levs. 1,135.1 million levs in payment of interest-bearing coupons were also disbursed, represented as an interest rate of 1 percentage point above the basic interest rate, issued under the 20-year state bond loan, pursuant to Decree No. 244 of the Council of Ministers of 29 December 1991. Regardless of their term the yield on government securities in circulation in 1992 is converted to the basic interest rate effective for the corresponding period plus 1 percentage point. If this tendency persists and inflationary expectations increase the government securities yield curve will be negative.

TREASURY BILLS OFFERED AND BIDDED BY ISSUE IN 1992

(million levs)



Source: BNB.

The major participants in the primary government securities market were banking institutions. Just at year-end a revival in the secondary government securities market was observed with the participation of other financial institutions, physical and legal persons. As a result, the non-bank financing of 1992 state budget was 563 million levs, of which 358.3 million levs was from sale of treasury bills and 204.7 million levs from sale of government bonds.

The total face value of treasury bills offered for issuance in 1992 was 14,056 million levs. At the beginning of the year the Ministry of Finance did not take into account the higher demand for government securities from financial institutions and offered for issuance less treasury bills than demanded. At year-end the demand for government securities from financial institutions diminished resulting in large amounts of unsold treasury bills. Moreover, for issue No. 24 no bids were received. While bids of 17,130.5 million levs face value were submitted, treasury bills of only 11,265 million levs face value were sold. Due to such discrepancies between demand and supply the state budget received less income from the sale of government securities to finance the internal state debt.

BASIC INTEREST RATE AND AVERAGE ANNUAL YIELD OF TREASURY BILLS BY ISSUE IN 1992

(%)

Source: BNB.

Comparison of the basic interest rate and the average annual yield of treasury bill issues reveals that for the majority of issues the average annual yield was above the basic interest rate for the period. Although the average annual yield in issues Nos. 12 – 22 was considerably lower than the basic interest rate and the maximum acceptable yield set by the Ministry of Finance as an auction condition, the financial institutions showed an extraordinary interest because a decrease in the basic interest rate was expected. Auction bids amounted to 8,168 million levs face value against 5,200 million levs face value initially offered by the Ministry of Finance. As a result of the weak participation of financial institutions in issues Nos. 25 – 31 the difference between the minimum price set by the Ministry of Finance and the average price reached at the auction was insignificant. As a whole the treasury bills were issued at an average annual yield of 45.59% which was below the initial minimum annual yield of 47.93% offered by the Ministry of Finance. This differential, as well as the fact that they are book-entry government securities resulted in expenditure decrease of internal debt servicing.

Reported net financing from the BNB was 10,277 million levs. In 1992 the BNB extended long-term credits of 9,430 million levs to the budget. At the end of the fiscal year the temporary credit used by the budget pursuant to Article 46 of the Law on the BNB totalling 1,500 million levs was assumed as long-term, resulting in a total of 10,930 million levs in long-term credits. During the reporting period repayments on long-term credits of 653 million levs were disbursed. To meet the borrowing need of the budget the BNB extended another temporary loan of 600 million levs, which was repaid. As a result the total budgetary debt to the BNB at the end of 1992 reached 22,918.9 million levs, including 2,846.5 million levs of unpaid interest.

The total net direct bank lending was 1,504.8 million levs less than the maximum amount of 10,730.3 million levs envisaged by the Law. This was due to repayment of 578.5 million levs to other banks not envisaged in 1992 State Budget Law and undercrediting of the Ministry of Finance by the BNB in the amount of 926.3 million levs at the expense of the larger amount of government securities issued.

Throughout the year temporary non-interest bearing loans from extrabudgetary accounts of the Ministry of Finance were used as an additional source for budget deficit financing. They were not included in the State Budget Law and could be used only within the course of the budgetary year. Simultaneously, at year-end, the Ministry of Finance closed a group of extrabudgetary accounts of 1,971.8 million levs and transferred the funds to the revenue side of the central government budget, labelling the item „Other revenue“. In this way the budget deficit and internal financing were reduced.

Unpaid interest of 2,846.5 million levs by the Ministry of Finance to the BNB (according to the contracts signed on credits used to finance the state budget) appeared as a source of „hidden“ budget financing. Although the Ministry of Finance did not reflect it in the statement on the cash deficit for 1992 (compiled following the criteria coordinated with the IMF in the Letter of Intent of the Stand-by Agreement signed in 1992), unpaid interest on credits for budget deficit financing will be included in the net credit ceiling of the government.

During the period under review, current non-interest bearing budget financing was effected by maintaining a debit balance on the central government budget accounts with the BFTB.

3. Central Government Budget Revenue

The size and structure of central government budget revenue in 1992 reflect peculiarities of the socioeconomic development of the country and the restrictive fiscal policy pursued by the government.

As of 31 December 1992 the revenue of the central government budget was 39,584.5 million levs, or 89.7% of that envisaged by the Law. The greatest portion pertained to tax revenue of 86.1%, against 91.8% as provided by the State Budget Law. The main reason for the lower growth than expected is lack of comprehensive tax reform in line with the changes in the economy. Another crucial problem was tax collection. The analysis of reported data shows that taxes are paid irregularly throughout the quarters. The largest tax inflows were in the second and fourth quarters.

Tax revenue at the end of the fiscal year totalled 34,098.4 million levs. A significant portion of it constituted corporate tax from financial institutions. At year-end it was 22.8%, and for the half-year 31.4%. The large portion of the corporate tax from financial institutions was reported in the second quarter resulting primarily from the advance payment by the BNB of the excess of revenue over expenditure. Collection of corporate tax from financial institutions was 69.7% of that projected by 1992 State Budget Law, while collection of the similar tax from non-financial enterprises was only 51.2% due to the drop in output.

Collection of corporate tax from commercial banks, the BFTB, the SSB and insurance companies was 83.8%, with inflow to the budget of 4,566.2 million levs. This relatively high percentage was due mainly to higher than expected corporate taxes collected from the SSB and BFTB. Corporate tax collection from commercial banks was considerably lower, as a consequence of their financial state. The burden of uncollectible and non-performing credits in their credit portfolios necessitated to set aside large amount of provisions, which decreased the amount of taxable profit. The opportunity provided by the Law to transform uncollectible credits up to 5 billion levs into a state debt and to clean up commercial banks' portfolios was not taken.

Revenue from excise (15% or 5,109.2 million levs) constituted a significant portion in the tax revenue structure. They accounted for 61.3% of those provided by the Law. The turnover tax was 14.3% of the total taxes collected, or 4,889.7 million levs. The ratio of collected to projected taxes was 75%.

The paragraph „Revenue from past years" is of specific interest in classifying budget revenue. It includes tax revenue, economically related to the previous year, which, due to established term, is submitted after closing out of accounts. At the end of the fiscal year the revenue on this paragraph totalled 2,410 million levs, or 7.1% of tax revenue.

The reported non-tax revenue at year-end was 5,486.1 million levs, or 13.9% of total central government budget revenue. This comprised 152.2% of that envisaged by the Law. The main reason was the closing of extrabudgetary group of accounts of the Ministry of Finance and transfer of the funds amounting to 1,971.8 million levs to the „Other revenue" category at the end of 1992.

4. Central Government Budget Expenditure

The restrictive character of the fiscal policy pursued by the government reflected in the amount and structure of budget expenditure.

Budget expenditure during 1992 was 51,307.4 million levs, or 93% of the expenditure adopted by the Law on Amendment of the State Budget Law. Transfers accounted for the highest relative share of their structure – 62.7%. They include funds the central government budget extended to other budgets to cover their negative balances, including the temporary non-interest bearing loans. This could be characterized as a subsidy, granted in cases of temporary deficit. During 1992 temporary loans were considered by the BNB and the Ministry of Finance as expenditure of the central government budget, and were included in the amount of transfers. The amount of transfers increased due to the fact that temporary loans extended to Social Security General Department, municipalities, ministries and civil organizations in the amount of 1,291.7 million levs were not returned to the central government budget by the end of the year. As of 31 December 1992 their performance was 105.6% of the projected amount in the State Budget Law.

Expenditure generated for servicing of state debt occupied an important part in the structure of current expenditure – 68.2%. The amount of internal interest paid was 9,689.5 million levs, or 107.3% of the amount envisaged by the Law. This overperformance was due mainly to excess payment over the envisaged funds of discounts and commissions on treasury bills issued and to a higher basic interest rate during the year caused by the higher rate of inflation.

The amount of 2,488.6 million levs, initially projected by the Law on Amendment of the State Budget Law for foreign debt servicing was increased 1,850 million levs for the purpose of payment of interest due to private creditor banks from the London Club by the BFTB. By year-end 3,276.7 million levs were paid, or 75.5% of the envisaged amount.

Subsidies for production totalling 2,868.4 million levs were granted during the fiscal year which was 78.1% of the funds provided by the Law. 45.7% (1,310 million levs) were for the Energy Committee and 24.5% (702.2 million levs) for Bulgarian State Railways.

The main conclusion after analysing the data on the structure and expenditure made by the central government budget is: in order to provide necessary minimum support for functioning of vital sectors during periods of higher than expected inflation, some of them exceeded the expenditure envisaged by the Law.

5. Consolidated State Budget

At the end of the fiscal year, the preliminary data of the Ministry of Finance shows that after deducting internal budget transfers and funds for budget deficit financing, the revenue on the consolidated state budget was 81,229.3 million levs and expenditure – 92,404.1 million levs. These include revenue and expenditure on extrabudgetary accounts of 2,980.2 million levs and 1,534.9 million levs, respectively. This resulted in a decrease of budget deficit on the consolidated state budget. Pursuant to Article 37 of the Law on the Preparation and Execution of the State Budget extrabudgetary funds cannot be included in the state budget. In the revenue side of the consolidated state budget, revenue of the central government budget made up the main share of 48.8% and Social Security – 28%. The expenditure of the central government budget (42.6%) and municipalities (28.2%) constituted the largest share in the expenditure side of the consolidated state budget.

The Social Security budget and the budgets of municipalities were settled with a deficit amounting to 2,175.8 million levs and 10,849.3 million levs, respectively. The cash deficit of the consolidated state budget reached 10,397.1 million levs.

VI. Other Activities of the BNB

1. Financial Results of the BNB Activities

The annual balance sheet and the closing out of accounts were done after the assets, liabilities and the resultant foreign exchange accounts were transferred into levs at the exchange rate of 31 December 1992. The revaluation of precious metals was done for each 1992 quarter on the basis of the average price of gold for the past period, as announced in the BNB News Bulletin. As at 31 December 1992 precious metals were 9,697 million levs, compared to 8,494 million levs as of 31 December 1991.

Tangible and intangible fixed assets were valuated at their acquisition price. Pursuant to Article 34 of the Law on Accountancy, an inventory of tangible and intangible fixed assets was made at year-end.

As a result of its activities, the BNB revenue was 11,445,956,000 levs and expenditure 9,323,918,000 levs.

The annual surplus of revenue over expenditure of the BNB is as follows:

1992 REVENUE AND EXPENDITURE OF THE BNB

(thousand levs)

I. BNB revenue	11,445,956
II. BNB expenditure	9,323,918
III. Balance (I – II)	2,122,038
Amount to be distributed	2,122,038
1. Reserve fund (25%)	530,510
2. Other reserves (1%)	21,220
3. Balance to be paid in the budget	1,570,308
IV. Taxes paid in the budget as of 31 December 1992	3,751,940
V. Amount overpaid in the budget	2,181,632

Source: BNB.

Financial Revenue

In 1992 revenue from interest was 11,294 million levs, compared to 11,191 million levs in 1991. The 103 million levs increase is mainly due to interest earnings on deposits extended to commercial banks. Revenue from interest would have been greater, if not the remission of 2,610 million levs in interest of the Economic Bank, payable to the BNB on the debt of the Energy Committee, which the BNB undertook to redeem, and if the Ministry of Finance had paid the 2,847 million levs in interest due to the BNB for 1992. 1992 revenue from commissions and charges in in levs and foreign currency was 763,000 levs, or 641,000 levs higher than in 1991. Throughout the year, the BNB effected other financial revenue of 28 million levs, compared to 900,000 levs in 1991.

Financial Expenditure

Expenditure for interest payment on deposits of the SSB and other ministries was 6,635 million levs, compared to 5,776 million levs in 1991, an excess of 859 million levs. The BNB paid interest of 385 million levs on current accounts of the Ministry of Finance, or 310 million levs more than in 1991. Interest paid on commercial banks' current accounts was 612 million levs compared to 197 million levs in 1991.

Balance Sheet of the Bulgarian National Bank

million levs

	1991	**1992**
ASSETS		
Cash in Bulgarian coins	53	**57**
Cash in foreign exchange	1	**3**
Participation in international institutions	862	**2,253**
Cash in foreign securities	1,232	**7,641**
Deposits and loans extended to commercial banks	33,847	**37,966**
Loans extended to the government	9,795	**22,919**
Securities	833	**1,475**
Other assets	12,010	**10,780**
Total	58,633	**83,094**

	1991	**1992**
LIABILITIES		
Statutory fund	200	**200**
Reserve and other funds	13,544	**17,038**
Banknotes in circulation	13,612	**21,341**
Current and deposit accounts	29,875	**39,155**
Other liabilities	1,402	**5,360**
Total	58,633	**83,094**

Reserves

From the annual positive balance of revenue over expenditure (2,122 million levs), the BNB has allocated resources to the Reserve Fund and other reserves totalling 26% (551,730,000 levs) with the remaining 1,570 million levs to be paid in the budget. The Bank has deposited advance payments in the budget revenue of 3,751,940,000 levs, thus overpaying by 2,181,632,000 levs. This amount can be settled either by the Ministry of Finance paying the interest due for 1992, or by subtracting it from funds due under the 1993 budget. Interest due of 2,847 million levs from the Ministry of Finance was labelled as temporary indebtedness to the BNB, until a decision is made by the National Assembly to settle this debt.

In the past year, the BNB has extended to the Ministry of Finance credits of 10,930 million levs. At end-1992 the total indebtedness of the Ministry of Finance to the BNB was 22,919 million levs (20,072 million levs in the form of long-term credit and 2,847 million levs as temporary liability).

The fixed capital of the BNB remained unchanged in 1992 at 200 million levs.

The BNB equity in the Bank Consolidation Company (BCC) and other companies amounted to 1,476 million levs versus 834 million levs in 1991. BNB equity participation in the BCC increased from 749 million levs in 1991 to 1,391 million levs in 1992.

The participation of the Republic of Bulgaria in the international financial institutions totalled 2,253 million levs. Participation in the IMF, the EBRD and the International Financial Corporation is divided evenly between the BNB and Ministry of Finance.

(million levs)

European Bank for Reconstruction and Development	194
BNB	97
Ministry of Finance	97
International Monetary Fund	2018
BNB	1009
Ministry of Finance	1009
International Financial Corporation	32
BNB	16
Ministry of Finance	16
Association of the National Numbering Agencies (ANNA) for Securities	0.04
Multilateral Agency for Investment Guarantees	9
Total	2253.04

Source: BNB.

The Bank's fixed capital and shares are valuated at their nominal value. Claims in levs are valuated at their nominal value, and those in foreign exchange at the exchange rate as of 31 December 1992. The money resources in levs are valuated at their nominal value, and the ones in foreign exchange – at the exchange rate set at 31 December 1992.

Budget of the BNB

By Resolution of the Plenary Council of the BNB of 28 January 1992, the 1992 budget of the BNB of 918.5 million levs for support of current activities and 431.5 million levs for investment in long-term assets, was adopted.

In practice 471.4 million levs (or 51.3% of the amount projected) were spent in 1992 for the support of current operations. Of these 346.7 million levs, or 73.5% are currency circulation costs – production and delivery of banknotes, minting of coins, destruction of banknotes and expenses for supplying banknotes to the banks. The expenditure for labour, securities, social activities, materials, services and overhauls totalled 124.7 million levs and made up 59% of the funds envisaged in the budget.

PERFORMANCE OF THE 1992 BUDGET OF THE BNB

Indicators	Budget (million levs)	Performance (million levs)	(%)
Section I: Expenditure for support of current activities of the BNB	918.5	471.4	51.3
Expenditure for support of currency in circulation	708.1	346.7	49.0
Expenditure for labour and social securities	60.5	52.9	87.5
Expenditure for materials, services and overhauls	129.4	55.8	43.1
Expenditure for social activities in the BNB	20.6	16.0	77.9
Section II: Investment in tangible and intangible assets	431.5	125.1	29.0
Expenditure for acquisition of long-term assets	431.5	125.1	29.0

Source: BNB.

In 1992 investment in long-term assets amounted to 125 million levs and made up 29% of the funds envisaged in the budget. 47.2 million levs were spent on the purchase of special purpose vehicles, 41.4 million levs were spent for the purchase and construction of real estate (for the needs of the BNB branches). Investment in computerization of the BNB totalled 17.6 million levs and in machines and equipment for basic activities of the BNB – 17.2 million levs.

About 110 million levs, envisaged for the acquisition of buildings and training facilities for the BNB branches, were not utilized. Nor were 130 million levs planned for the computerized settlement systems and acquisition of security equipment for the BNB, due to longer preliminary set up periods for these projects.

2. Bank Supervision

With the adoption by the National Assembly of the Law on Banks and Credit Activity of 18 March 1992, the legislative and regulative framework of bank supervision activities was constituted. The major problems in the formation of banking supervision are: the old regulative basis; the expansion of the banking sector, which includes the establishment of new banks and bank branches, new products/facilities for the banking industry; the deterioration in the quality of labour, with the number of banking staff increasing, while the number with proper banking qualification and experience remaining unchanged; the increasing number of malpractices, including data on criminal offenses, and deterioration of the general financial state of the banking sector. The amount of bad loans in banks has increased, and their liquidity has eroded.

Legislative Basis

The major task for 1992 in the area of bank supervision was the adoption of minimum standards for banking practice. Generating legislative acts, ordinances and regulations for banking supervision is a long and complex process, and this work takes considerable time and effort. In general, work is completed on the formulation of the six basic regulations, namely: Regulation on the Licences (Permits) for Banking Activities, Regulation on the Big and Internal Loans of Banks, Regulation on the Capital Adequacy, Regulation on the Asset Classification and Provisioning, Regulation on Liquidity, and Regulation on Internal Control in Banks. The draft regulations were adopted by the BNB Board, then widely discussed in Bulgarian economic publications and now their promulgation is pending. In this regard Bank Supervision Department will begin work on next regulations.

Current Control

Much attention was paid to organizing the collection and processing of data for credit portfolios of commercial banks, non-performing and uncollectible credits and the provisions set for them as of 31 May 1992. A number of consultations with World Bank experts were conducted in preparing this task.

After the adoption of the Law on Banks and Credit Activity, steps were taken to bring the articles of association of the commercial banks in compliance with this Law. In reaction to some banks' requests for an increase in their authorized capital, required studies, analyses and conclusions were made. Information was collected from commercial banks on individual indicators, which were then summarized and analyzed on national level. Parallelly with this, the need for various reviews, investigations and audits in companies, organizations and banks at the request of the court, the prosecutor's office, state authorities, etc., has substantially increased. This unusual activity for the bank supervision functions reduce the abilities to conduct effective bank control.

Throughout the year, information on big loans extended by banks and their collateralization, statements on the financial state of 20 banks in connection with the extension of credits from the State Fund for Reconstruction and Development (SFRD), information on banks' capital (fixed and additional), bad loans, the compound interest, etc. was provided.

Licences

964 licences for purchase and sale of foreign exchange pursuant to Regulations No. 2 of 28 March 1991, have been granted. As of 30 June 1992 detailed information was collected from the exchange bureaus. For the period January – June 1992 4.783 billion levs in foreign exchange were bought, and 4.971 billion levs were sold. The growing business of the exchange bureaus had a positive impact, abolishing the monopoly of commercial banks; it created competition and resulted in the abrupt reduction in the spread of exchange rates. For the purpose of improving the activities of and the control over the exchange bureaus, a special letter was sent to commercial banks, their subsidiaries, the companies holding exchange bureaus, and the tax authorities under the Ministry of Finance.

Auditing

In the reviewed period the audit of Yambol Commercial Bank was concluded and in view of grave violations, the audit report was sent to the prosecutor's office to institute proceedings against the guilty parties. A full audit was done at Bobovdol Commercial Bank. This bank was deprived of the licence for banking operations and required legal actions for liquidation started.

In 1992 the joint BNB and Ministry of Finance examination on spending the Foreign Exchange Reserve Fund, which existed until 1990 with the Bulgarian Foreign Trade Bank continued. A number of examinations were made in Balkanbank Commercial Bank, Stroybank, Mikhailovgrad Commercial Bank, Botevgrad Commercial Bank, Veliko Turnovo Commercial Bank, etc. These examinations were done jointly with experts from the U.S. Federal Reserve in three commercial banks, applying methods for granting credits, mandatory documentation, accounting procedures, determination of bad loans, etc. Such joint activities with the overseas experts are targeted at training Bulgarian auditors using experience, expertise and modern banking supervision methods from the USA.

Experts from the Bank Supervision Department worked out a model (a standard form) for an annual audit report from the audits of commercial banks, which in 1992 was created by certified expert accountants, appointed by the BNB Board.

Qualification

A major prerequisite to accomplish these results was recruitment of young and promising experts in the Bank Supervision Department. Since the beginning of the year many efforts have been made to improve their qualification through various forms of training: short-term courses and workshops abroad, familiarization with current methods, procedures and organization of bank supervision in the USA, and use of consultants provided by the IMF and the U.S. Federal Reserve.

3. Issuing Activities

Volume of the Issue

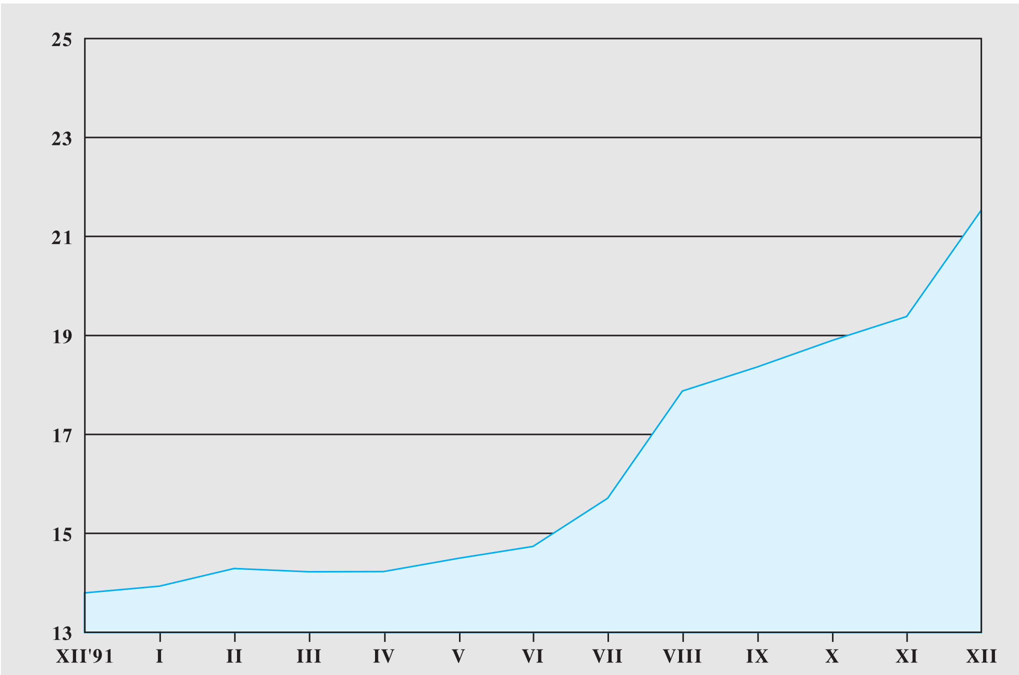
In 1992 *money supply outside BNB vaults* increased 7.7 billion levs or 56.1% compared to the previous year. At the end of the first six-month period, this increase compared with end-1991 was only 0.9 billion levs, or 6.8%, resulting from the considerably slackened monetary restriction in the second half of the year.

Commercial banks responded effectively to the increased demand for cash in the second half of the year by increasing their cash-in-vault money. Compared to end-1991, money in the vaults of the commercial banks grew 1.3 billion levs, or 70.8%, whereas in the first half of the year there was a drop in cash of approximately 5.3%.

As a result of the BNB's issuing activities and commercial banks' policy concerning cash, *money outside banks* reached 18.3 billion levs at end-1992. This was 6.4 billion levs, or 54% more than at end-1991. With a growth of approximately 50.2% in the aggregate money supply (broad money) for the same period, the relative share of money outside banks into total money supply rose 0.2 percentage points and grew from 10.7% at end-1991 to 10.9% at end-1992. In the first six months of 1992 the growth of money outside banks was insignificant – 0.9 billion levs (or 7.6%), and its relative share within the structure of broad money was 0.7 percentage points less than at end-1991.

GROWTH OF MONEY SUPPLY OUTSIDE BNB VAULTS IN 1992

(billion levs)



Source: BNB.

In 1992 the dynamics of money outside banks showed that issuing activities of the BNB were more active in the second half of the year. In July and August, money outside BNB vaults grew over 3 billion levs. This growth was mainly due to a 26% increase in wages, pursuant to Decree No. 133 of the Council of Ministers of 1992, as well as to the seasonal rise in demand for cash, related to summer holidays. A second jump of 2.4 billion levs in the growth of the currency in circulation, was manifested in December as a result of the increased demand for cash by the population for Christmas and New Years purchases, payment of additional remuneration, advance payments of salaries, cash transactions by companies, as well as the increasing cash in commercial banks' vaults. This increase in money outside BNB vaults does not differ greatly from 1991 increase of approximately 2.3 billion levs.

Denomination Composition

1992 saw changes in the denominations issued. Denominations of higher nominal value (50, 100 and 200 levs) proved to be more convenient for normal servicing of cash circulation. At end-1992 they made up 60.4% of the total value of denominations, compared to 36.4% at end-1991. In November 1992 the BNB put banknotes of 200 levs denomination in circulation. For only two months at the end of 1992, the 200 lev denomination banknotes were circulated and at the end of the year comprised 14.6% of the value of the issue.

From 1 November 1992, the BNB put into circulation banknotes of 20 and 50 levs denomination with new symbols. At end-1992 the issue of the new 20 lev banknotes was 3%, and the issue of the new 50 lev banknotes was 35.1% of total volume of these banknotes. The issues of 20, 50, 100 and 200 levs banknotes with new design and improved security were well accepted by the population and facilitate the normal servicing of cash payments.

In 1992 printing of banknotes of 1, 2, 5 and 10 levs denominations (issue 1974) and 50 levs denomination (issue 1989) stopped, and the replacement of the four smaller denominations of 1, 2, 5 and 10 levs by coins is pending. A portion of these issues was withdrawn from circulation to maintain the currency in circulation clean. Thus their relative share within the total issue decreased from 37% at end-1991 to 23.5% at end-1992. Pursuant to Article 26 of the Law on the Bulgarian National Bank, the BNB Board decided to gradually withdraw some of the banknote and coin issues from circulation. Banknotes of 1, 2, 5 and 10 levs denominations (issues 1962 and 1974) will stay in circulation and be legal tender until 31 December 1996. Following this date and through 31 December 1998, banknotes of 1, 2, 5 and 10 levs denominations of the above issues will be accepted at the BNB teller's desks for exchange. Comparatively long terms have been set for these withdrawals which instill confidence in the population that there will be no currency reform, and also allow not to withdraw fit banknotes from circulation. The procedure and time limits for this gradual withdrawal comply with generally accepted practices within developed European countries.

The „average banknote“ put into circulation at the end of 1992 is approximately 19 levs versus 12 levs at the end of 1991. The denomination composition of banknotes in circulation, however, is not optimum. So, by Resolution of the BNB Board of 26 November 1992 a new issue of banknotes with nominal values of 1000, 2000, 5000 and 10000 levs will be effected in accordance with established procedures. The issuing of the new set of banknotes should facilitate more efficient issuing operations and currency circulation.

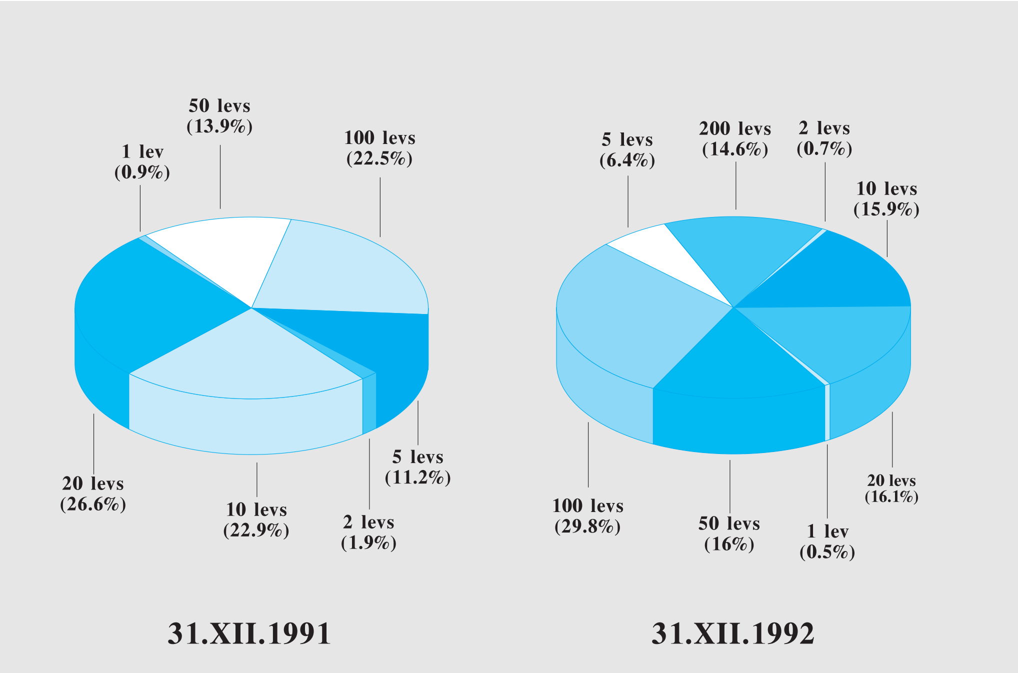
In the first six months of 1992, due to structural changes in retail prices, an excess of coins of 1, 2 and 5 stotinkas accumulated in BNB vaults, and at the same time, circulation coins of 20, 50 stotinkas and 1 lev were lacking. The insufficient supply of these circulation coins was intensified by the delayed graphic and plastic design of the national emblem, and by the increased demand for cash as a result of inflationary process in the economy. To overcome this shortage, the BNB had to mint a certain quantity of coins with the old symbols.

Coin Issues

The design of the *new issue of circulation coins* was developed through an anonymous contest in 1992. After the design was approved by the Council of Ministers, the BNB assigned the Bulgarian Mint to mint the coins, which will be put into circulation in 1993.

In 1992 the BNB continued with its successful work of issuing *memorial (commemorative) coins*. Bulgarian commemorative coins have been among the top fifteen in quality and design in the world classifications for years. Following the best traditions of Bulgarian minting and keeping its international position, in March 1992, by a resolution of the BNB Board an agreement was concluded with the German company MDM for cooperation in developing a programme for minting marketing and selling of Bulgarian coins produced of precious and base metals and other numismatic valuables. In compliance with this Agreement, the BNB proposed, and the Council of Ministers approved by Protocol No. 58 of 2 July 1992, the form, design and nominal value plus the thematic content of three commemorative coins on Olympic, ecological and historical subjects, and a new 1992 issue of Bulgarian circulation coins. By the same Protocol the Council of Ministers approved the circulation of coins of the Olympic, ecological and football programmes, issue 1989 – 1990. The coins of the above issues were minted under international coin programmes until 1990 (made of foreign client's metal and primarily for export). The quantities envisaged in the contracts for distribution in the country were not minted in most cases because of unsettled issues on importing precious metal for this purpose.

DENOMINATION COMPOSITION OF THE BANKNOTE ISSUE*



* The relative share of denominations was based on values.
Source: BNB.

By Resolution No. 274 of 1 October 1992, the BNB Board approved minting of three coins denomination of 500, 5000 and 10000 levs commemorating the association of Bulgaria to the European Community. The same Resolution approved minting in 1993 of silver alloy coins on Olympic, football, ecological and historical subjects which will participate in international coin programmes.

Changes in the status and practices of the BNB allowed minting of commemorative coins for distribution within the country. Coins are now traded according to the principles of free trade at market numismatic prices. In 1992 the existing preferential regime for certain categories of citizens and officials to purchase such coins was abolished. Prices in the domestic numismatic market are now based on prices of Bulgarian coins in the European numismatic markets and the central bank exchange rate of the lev to foreign currencies.

Precious Metals

In 1992 the trend towards an increased *turnover availability of precious metals* in the BNB Main Depository continued. As in 1991, growth was primarily based on amounts bought from domestic producers and on gold coins bought from individuals.

The BNB buys all types of gold coins of state issues. The value of the coins is determined by the pure gold (999 fine gold) weight and BNB daily offer price. Sales by domestic producers are symbolic, due to the shrinkage of production using precious metals. As the accumulation of larger amounts of precious metals blocks BNB funds and is not economically justified, the BNB in the future will take steps toward more flexible operations and management of its foreign exchange stocks in precious metals including operations abroad.

PRECIOUS METAL STOCK IN THE BNB

(in troy ounces)[1]

Indicators	31 December 1991	31 December 1992
Gold reserves of the BNB[2]	1,017,041	1,017,041
Circulating precious metals[3]		
Gold	108,884	147,013
Silver	596,018	1,768,120
Platinum	6,301	7,039

[1] One troy ounce is equal to 31.10348 g.
[2] The gold reserves are in bullions, stock market standard.
[3] The circulating precious metals include gold, silver and platinum of standard type (bullion, strip and officially minted coins).

4. Information Technologies

The BNB made significant changes in their information technologies during 1992. By a 1991 decision of the BNB Board all banks and bank branches were included in the *Banking Integrated System for Electronic tRAnsfer* (BISERA). This transfer system serviced direct transfer forms of payment and accepted cash collection. Bank liquidity was controlled by means of the transfer accounts from their balance sheets, with this mechanism depending to a great extent on their good will. This mechanism did not guarantee thorough and timely information about the financial state of the banks. Disadvantages of the direct transfer payment system, made it necessary for the Commission on Unification and Banking Standards (CUBS – formed as a consultative body of Bulgarian banks) to work out standardized rules for future steps to be implemented in the banking system.

In early 1992 CUBS presented to the BNB Board a draft of a new Ordinance of Payments, the result of more than 8-month work. This Ordinance gave our banking system its first unified banking standards, describing in detail concrete banking technologies, developed in the CUBS and adopted by banks after BNB Board approval. Ordinance of Payments was adopted on 10 July 1992, and is effective from 5 October 1992.

A decisive modernization of the payment instruments was accomplished by the new Ordinance of Payments. The fundamental principles of the payment process and the banking service, were revaluated as well as their compliance with requirements of a modern market economy and the world standards. The Ordinance introduced the main requirements for intermediary services in the payment process – rules for cash payments, rules for opening, keeping and closing bank accounts, order of the payments, and basic forms of non-cash payments. Work on the organizational and technological supply of all requirements provided in the Ordinance of Payments will continue in 1993.

Settlement

An important change in interbank relations (between participants in the payment system) was the introduction of the settlement in the BNB on 5 October 1992. The rules and major requirements were developed by the CUBS and the leading experts in Bankservice Ltd., after a detailed study of world practices and consideration of the technological possibilities of available hardware and software. A BNB team explored the Bulgarian banks capabilities for change and the results were also used to develop software. Specific requirements and rules to reflect payment operations, to implement the settlement mechanism, as well as for the participation of the BNB and its branches in the payment process were developed by CUBS experts jointly with BNB Accountancy Methodology Division and Accounting Department. The introduction of a settlement of payments guaranteed that all interbank payment operations would be carried out in strict synchronization and consistency of money transfer between the payer, the payee and the servicing banks – intermediaries in the payment process. The principle of initiating payment only by the payer-party (the so-called credit transfer) was introduced. Payment is carried out only if the necessary amount is available in the payer's account and in the account of the payer's bank. Short-time usage of the minimum reserve requirements on payment is allowed, but the bank is to pay penalty interest. In case of money insufficiency, payments fall into queues where they wait while the payer's bank secures the necessary amount of money to its current account in the BNB. This mechanism is applied to all interbank payments.

The first conclusions which were made after the establishing of the settlement allow us to summarize that all Bulgarian banks managed in comparatively short time to obtain more flexible control on liquidity of their current accounts in the BNB. They also gained a thorough option for more dynamic management of their resources.

It is worth mentioning the excellent organization done by the BNB and Bankservice Ltd. in the process of implementing settlement payments. As a result, the number of delays in fulfillment of payment operations decreased from 2.7% in 1991 to 0.8%.

In 1992 work creating legislative and methodological documents, bringing bank accountancy in line with the provisions of the *Law on Accountancy* and the Unified National Chart of Accounts, continued.

A National Accountancy Standard for Bank Accounting was created. To facilitate its introduction CUBS took a decision to compile a *Reference Book on Bank Accounting,* with thorough explanations on interpretation and use of all accounts. Tables for the correspondence of the accounts used now and the new Chart of Accounts is currently being developed.

PERFORMANCE OF INTERBANK PAYMENTS
(October – December 1992)

Interbank payments	Quantity	Relative share (%)
Performed in a 48-hour period	1,236,438	99.21
Performed with 1-day delay	9,453	0.76
Performed with more than 1-day delay	421	0.03
Total	1,246,312	

Source: Bankservice Ltd.

5. Relations with International Financial Organizations

In 1992 the BNB continued to develop relations with international financial institutions in close cooperation with the Government of the Republic Bulgaria. Priority aspects were the attraction of funds to support of structural reform and technical assistance to modernize the central banking sector.

International Monetary Fund

On 17 April the IMF Executive Board authorized a second one-year Stand-by Agreement with Bulgaria for 155 million SDR (50% of the quota of the country). These funds were extended to financing the balance of payments deficit, to support the government economic stabilization programme and to enhance structural reform. Following the terms of the Agreement, the credit was extended in 5 tranches of 31 million SDR each (approximately 44.6 million US dollars). By end-January 1993 Bulgaria received four IMF tranches: on 11 March, 2 July, 18 August 1992 and 4 January 1993. Thus the total amount of credits received by the IMF reached 459.9 million SDR (approximately 632 million US dollars)[21]. Repayment of credit principal will start in 1994 and continue until the year 2000. Interest on the debt to the IMF should be paid quarterly. By the end of January 1993, Bulgaria paid interest and charges of 37,191,601 SDR (approximately 51.2 million US dollars) for using IMF resources.

On 24 November 1992 Bulgaria paid the reserve asset portion of 38,725,000 SDR thereby increasing its quota in the IMF to 464.9 million SDR. This increased Bulgaria's access to the IMF resources.

At end-1992 net budget crediting by banks exceeded the upper limit agreed on with the IMF in the Stand-by Agreement. The main reason for that is the unpaid interest on internal state debt. As a result, the country failed to receive IMF fifth tranche of the second one-year Agreement. A new round of talks with the IMF about next one-year Stand-by Agreement is underway.

In addition the IMF provided valuable technical assistance to help the establishment of a modern banking system. Consultant services by IMF experts and experts from other financial institutions covered the following BNB activities: accountancy and internal control, payment system, economic and monetary analysis, lev operations, bank supervision, foreign exchange operations, information technologies, securities operations.

World Bank

In August 1991, an agreement between the Bulgarian government and the World Bank was signed for a Structural Adjustment Loan (SAL) amounting to 250 million US dollars. Following a government decision, 150 million US dollars from the first tranche were used for the purchase of crude oil and fuel oil to satisfy the energy needs of the country. The cost of these deliveries approximated 148 million US dollars.

The delay in structural reform and the corresponding failure to meet some of the requirements of SAL (mainly the lack of progress in privatization and land reform) caused postponement in disbursement of the second SAL tranche of 100 million US dollars. One of the most important and yet unfulfilled requirements for disbursement of this tranche is development and adoption of basic regulations and standards which will bring bank supervision in line with international standards adopted by the Basle Committee.

In compliance with the loan agreement at end-June 1992, an audit of all documents concerning oil-product deliveries was made by the independent auditing firm „Coopers & Lybrand“. The audit report clearly states that the deliveries, the money spent and the preparation of necessary documents were made according to SAL conditions and World Bank General Conditions applicable to credit and guarantee

[21] 1 SDR = 1.3766747 US dollars as of 19 January 1993 exchange rate.

agreements.

At the beginning of 1992 a new Financial and Enterprise Sectoral Adjustment Loan (FESAL) was offered to Bulgaria. During visits of the World Bank missions questions about the amount and terms of the loan were discussed and a programme was created for further action. This programme outlined necessary political and institutional measures which are to be taken to continue and enhance the initial steps of the structural reform, supported by the Structural Adjustment Loan (SAL). It should be pointed out that the very detailed preliminary conditions of FESAL which press Bulgarian authorities to take hasty actions in order to meet them, caused a delay in negotiations about signing FESAL.

The World Bank offered the Private Investment and Export Finance project (PIEF) as a bridge towards negotiation and making FESAL effective. It is a more specialized version of the initially proposed Industrial Development Project (IDP).

On 20 March 1992 a contract between the BNB and DFC Ltd., a consultancy company was signed for Study on Structural Issues of the Banking System. This study is one of the components financed through Technical Assistance Loan (TAL) extended by the World Bank. By end-November 1992, DFC Ltd. presented its final report including detailed recommendations and an action plan concerning bank consolidation and future privatization, which was approved by the BNB.

European Bank for Reconstruction and Development

At end-1991 when the EBRD Board of Directors approved the document „Strategy for Bulgaria“, the bank initiated joint work with Bulgarian institutions to start operations in Bulgaria's real sector. On 24 March 1992 the EBRD Board of Directors approved a loan of 114 million ECU for technical reconstruction and expansion of the „Maritsa Iztok II“ electric power station. The EBRD participated in the loan with 40 million ECU, the European Investment Bank lent 45 million ECU and the National Electric Company extended 29 million ECU.

In 1992 a project for reconstruction and expansion of the Bulgarian telecommunication network in cooperation with the EBRD, was put into the pipeline. The bank will participate in the project with 32 million ECU, while EIB will extend 70 million ECU. Participation of the World Bank is also envisaged. A project appraisal was initiated for cofinancing and construction of 32 km of the Trans-European Highway (Plovdiv – Orisovo) and repair of 800 km of other roads in the country. Work also continues on extending a credit line for small and medium-size enterprises.

In the financial sector a project is being developed for EBRD participation in the capitalization of some Bulgarian banks, which will be accompanied by technical assistance. A project is underway for a specialised investment bank with EBRD participation. The possibilities for cooperation in the financial sector increase proportionally to the progress in bank consolidation in Bulgaria.

At the end of July 1992 the EBRD President Jacques Attali visited Bulgaria and summit meetings were held.

The period under review is characterised by formation of a broad basis for the interaction of Bulgarian institutions with the EBRD. In parallel with the active work on projects their start and implementation is delayed.

Group of 24

Within the framework of G-24 programme for support to the process of structural adjustment and transition to a market economy, in August 1991 Bulgaria signed a credit agreement with the European Economic Community in the amount of 290 million ECU, receiving the first tranche of 150 million ECU. On 12 March 1992 the second tranche of 140 million ECU was disbursed. The conditions for the credit are directly linked to fulfillment the economic programme coordinated between the government and the IMF. In this way the EC fulfilled its commitments for initial financial support of the reform in this country, while the other 12 countries retained or decreased their support.

In 1992 bilateral agreements were signed with Norway, Finland, Sweden and Austria for extending credits to support balance of payment needs (Norway – 13 million US dollars, Finland – 10 million US dollars, Sweden – 14.5 million ECU and

Austria – 210 million ATS).

PHARE Programme

In November 1992 a „Project Management Unit“ of PHARE programme for reconstruction and development of the banking sector started work at the BNB. The unit schedules 6-month working programmes which are developed by the BNB and other financial institutions. The programmes are subject to approval by the PHARE General Directorate I in Brussels.

In December 1992 the first working project of a 6-month programme for January – June 1993 was completed and sent for approval. This programme groups together projects for technical assistance to the BNB and the banking sector, specifically Personnel Management Department, Scientific Information and Library in the BNB, BORICA Ltd. (the Bank Organisation for Credit Card Payments), Bulgarian Association of Commercial Banks, the International Banking Institute and the State Savings Bank. Following the recommendation of the Bank Consolidation Company the audit of two commercial banks is envisaged. A study of the government securities market, specifically the secondary market, will also be financed.

The value of these projects, according to preliminary evaluations, is 1,721,500 ECU, of which 916,500 ECU will be disbursed in the first half of 1993.

European Investment Bank

In 1992 a feasibility study of the APEX project for extension of a credit line to Bulgarian commercial banks for investment in medium and small-scale enterprises continued in cooperation with the European Investment Bank. The final talks on signing a credit agreement are expected to be held before mid-1993.

6. Personnel and Qualification

The total number of BNB personnel at the end of 1992 was 825. Their recruitment and appointment is based on application. Throughout the year 112 people were appointed, of which 78 were experts and specialized management staff. 53 employees left the Bank.

PERSONNEL OF THE BULGARIAN NATIONAL BANK

(people)

BNB	479
Branches:	
Sofia	81
Plovdiv	39
Varna	31
Bourgas	58
Pleven	53
Resort centres	84
Total	825

Source: BNB.

Remuneration of the bank staff and their social benefits were in compliance with the Collective Labour Agreement and other legislation specific to this area.

In 1992 a considerable part of the bank staff participated in various forms of training and qualification improvement. 35 employees graduated full English courses and 70 speed-up courses on the WORD 5.5 and QPRO software products. Many bank employees attended courses and workshops, organized by the International Banking Institute and using both Bulgarian and foreign lecturers.

In the past year technical assistance for training, extended to the BNB by other central banks and the international financial institutions, increased considerably. 52 employees of the BNB staff participated in seminars on central banking and in other courses abroad.

7. Publishing Activities

In 1992, the line taken by the BNB management for timely and broad information for the general public of decisions taken in the sphere of the banking and crediting system, was further developed. The main target – total transparency of the actions of the BNB Board in the area of monetary policy, was achieved through reaching the mass media with detailed information via press releases, briefings and official statements by BNB management.

An important role in this process is played by the BNB publications – a news bulletin, a magazine, leaflets, books, catalogues, etc. During the reviewed period the BNB publications were recognized among business and financial institutions in this country and abroad as a reliable source of topical information on monetary and crediting policy, financial state and the basic macroeconomic indicators of the country.

VII. Development of the Banking System

1. Legal Framework

Law on Banks and Credit Activity

Adoption of the Law on Banks and Credit Activity (effective from 31 March 1992) was a significant legal event. It reinstated legal grounds for the commercial banking in this country. The two most outstanding points of this law are: it reflects the achievements of the banking legislation of developed European countries which makes it a modern legal act, and it is based on the banking tradition of this country. On its turn, this determines, though inessentially, some deviations of the legislator from the rules established in the guidelines of the European Community.

The Law on Banks and Credit Activity is a general banking law which regulates the specific status of the bank as a trader of a special type. This specific nature is so essential, that it necessitates legal regulations of its activities and the introduction of a licensing regime for banking operations, unlike registration established by the Law on Commerce for the other traders. The special feature of the bank is that it operates exclusively with the funds of the depositors, which makes the risk of its operations higher. This requires specific banking regulations and continuous control of banks' operations by the Bulgarian National Bank as a bank supervision institution.

The Law defines the possible legal forms of the bank – a joint-stock company and a cooperative. It stipulates in detail the range of banking transactions defined as banking ones. 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 the banks (such as transformations, establishing of branches abroad, acquisition of shares in a non-financial 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 security of other persons' property entrusted to the banks and reduce the risks of their operations. These are the requirements for the minimum equity capital, for an 8% ratio between risk assets and the equity capital, setting up special provisions for covering bad and doubtful debts, the amount of the Reserve Fund, the ceiling of the big loans, restrictions concerning investment in non-financial institutions, etc. The BNB Board will further detail most of these normative ratios and requirements by regulations.

Provisions concerning conditions for accepting deposits and granting loans, which the banks should provide to their clients in advance, are of significant importance. The Law makes it mandatory for banks to participate in a deposit insurance system (the development of which is forthcoming), which is a prerequisite enabling them to attract deposits, i.e. to perform one of the essential banking functions.

The central bank's right to exercise bank supervision, including revocation of the licence (permit) for making banking transactions is subject to specific regulation.

As a rule, the Law regulates only the most essential relationship of commercial banking. Many of its provisions require by-law regulation. For this purpose, the legislator has assigned code and requirements-giving authority to the BNB Board.

By-law Regulation

Most essential among the legislative acts approved by the BNB Board in 1992, are the Ordinance No. 3 of Payments, Ordinance No. 5 on Issuance, Sale, and Redemption of Book-entry Short-term Government Securities (jointly issued with the Ministry of Finance) and Ordinance No. 6 on Refinancing against Collateral and through Rediscounting (Discounting) of Marketable Securities. The new Ordinance of Payments specifies the form, procedures, and time limits for effecting payments in the country, establishes mandatory participation of all banks in the BISERA, established by the BNB, and using payment documents in accordance with set standards. The use of other forms of non-cash payments by banks is done only with prior consent of the BNB.

Approval and promulgation of the regulations, issued by the BNB, on bank licensing, capital adequacy, banks liquidity, big loans and the reporting of big and internal loans, internal control in banks, classifying of loans and establishing of statutory provisions are forthcoming. The draft of the deposit insurance system is underway.

Working out of the above regulations is a complex and continuous process, as far as ratios and regulations, unfamiliar to the Bulgarian banking, are introduced.

The legal regulations of banking are not exhausted with the legislative acts approved and prepared for approval. There are a number of regulatory gaps which will be gradually filled. The process of revoking the obsolete regulations will run in parallel. The legal system is still expecting a new law on foreign exchange valuables, a law on securities, and a law on the stock exchange. A number of legal provisions still need improvement and detailing.

Regardless of all that, 1992 was an exclusively important year for the development of banking law in Bulgaria and the foundation of commercial banking was laid.

2. Organizational Changes in the Banking System

In 1992 two opposing trends could be clearly identified in the organizational structure of the banking system. The first was related to banking sector liberalization and entry of new participants. Compared to 1991, it was less pronounced and most of the newly licensed banks were financed predominantly with private capital. The second trend related to the plans for the banks to merge into big bank groups, as a result of the bank consolidation process which has started.

New Banks

In 1992 licences for banking activity were issued to: Private Agricultural and Investment Bank, Ltd., Private Entrepreneurship Texim Bank, Ltd., United Bulgarian Bank, Ltd. (established by a merger of 22 commercial banks from all over the country and consolidation of their assets and liabilities), Agricultural Credit Bank, Ltd., licensed to provide loans to other persons in levs and in foreign exchange in accordance with Article 1, para. 2, item 2 and to perform guarantee transactions in accordance with Article 1, para. 1, item 7 of the Law on Banks and Credit Activity.

The studies on the applications for banking licences by Slaviani Bank, Ltd., Xiosbank – Athens, Capital Bank, Ltd., etc. went on throughout the year.

Consolidation of the Banking Sector

1992 coincided with the one-year operation of the Bank Consolidation Company, which was set up in January and registered in the Court on 18 February 1992. The main objectives and tasks of the Bank Consolidation Company (BCC) in accordance with their Articles of Association include: assuming the state participation in the capital of commercial banks; consolidation of commercial banks with over 50% state participation in accordance with the established criteria and principles; achievement of maximum efficiency of financial and credit activities of the new bank groups and adequate banking services; preparation and implementation of the privatization process in some commercial banks.

In April 1992 the project to consolidate 9 banks started to be discussed and till July the number of banks reached 23. The United Bulgarian Bank, comprising 22 banks, was licensed by the BNB and incorporated in the Court on 24 December 1992. The projects of merging 12 commercial banks into Express Bank, with headquarters in Varna, and 9 commercial banks into Agrobank with headquarters in Plovdiv, were studied and approved.

The proposals to merge Sofia Commercial Bank and Hemus Commercial Bank and to establish a new bank using Vazrazhdane Commercial Bank as a nucleus, were not accepted. By end-1992, the projects for the merger of Electronica, Kazanlak, Hemus and Sofia commercial banks, and the merger of commercial banks around Biochim, were under discussion, but not given carte blanche. The projects for the consolidation of Crystalbank, Post Bank, Economic Bank, Mineralbank, Bulgarian Foreign Trade Bank and Cirbank are still being studied.

Following the incorporation of the newly consolidated commercial banks (a process, which is expected to end by mid-1993) the following issues were highlighted: formation and practical implementation of internal banking regulations; accounting data, needed for operations and accounting; setting up a branch network.

3. Balance Sheet Results of Commercial Banks Operations

Under conditions of a continuing economic recession and a comparatively high inflation reflected in the 1992 consolidated balance sheets of the banks, the efforts of commercial banks were directed to effective management of their assets and liabilities through instruments consistent with the character and content of the moderately restrictive monetary policy, pursued by the BNB in 1992.[22]

Primary Liquidity

On the credit side of the balance sheet, the largest growth is in the reserves of the commercial banks. Currency in vaults increased 70.8% and funds on current accounts with the BNB 231.5% compared to 1991. The growth of currency in vaults is evidence of an increasing trend towards effecting payments without the mediation of the banking system. This accounted for two reasons: due to the insufficient services and facilities (settlement and interest) offered by the commercial banks, smaller private companies prefer cash payments between each other. This type of payment is also preferred because of unsecured solvency of the payers.

Fixed Tangible Assets

The lack of new forms of servicing is offset, to a certain extent, by territorial expansion of the commercial banks. More than 70 branches and two new banks were established in 1992. Bank properties have increased over six times as a result of opening new branches and offices, and revaluation of fixed assets by some existing banks.

Credits

As a result of a restrictive policy and the restraints forced by the credit ceilings, credits increased 34.8% compared to 1991.

Consistent with this tendency, the relative share of risk assets in banks' credit portfolios is high. Prevailing bad loans are the ones extended to state-owned enterprises before 1990.

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[22] The balance sheet of the SSB was not included in the consolidated balance. This balance sheet is preliminary. It was prepared on the basis of a methodology not allowing detailed consideration of data, and therefore, some of the conclusions were based on operative data.

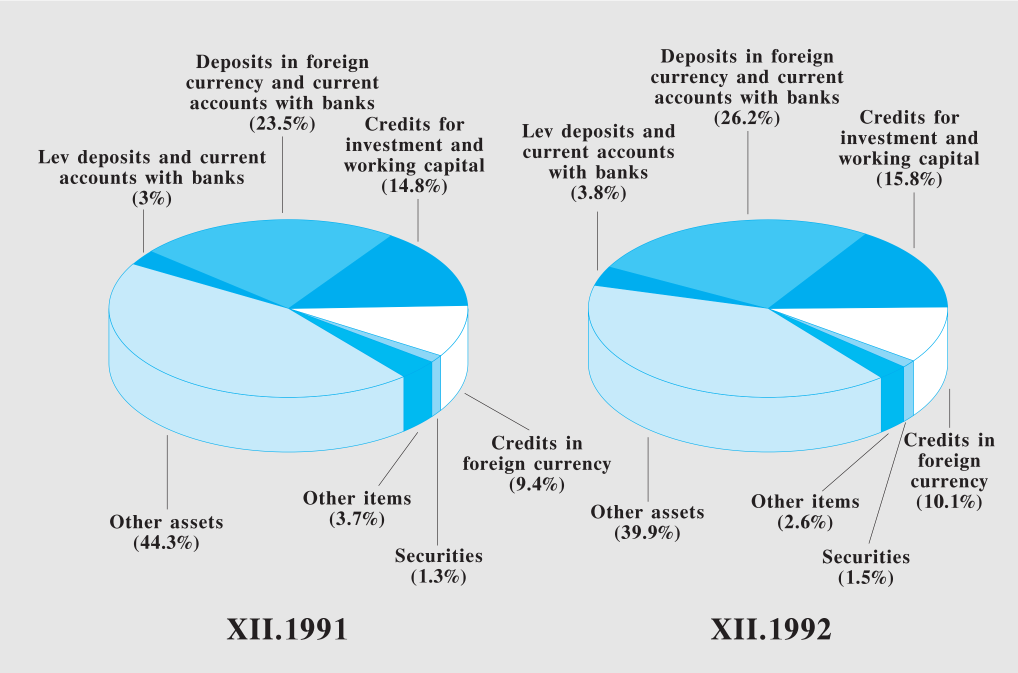
CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS

(million levs)

	31.XII.1991	**31.XII.1992**
ASSETS		
Cash funds	1,896	**3,239**
Precious metals	2,118	**2,238**
Stock and shares in affiliates	1,544	**1,682**
Deposits and current accounts in levs with banks	12,024	**19,262**
Deposits and current accounts in foreign currency with banks	95,329	**133,688**
Investment and working capital loans	60,077	**80,582**
Loans in forex	37,994	**51,572**
Loans from the Government Lending Fund	7,955	**1**
Loans from the State Fund for Reconstruction and Development	0	**0**
Tangible assets of banks	328	**2,324**
Securities	5,374	**7,542**
Funds on current accounts held with the BNB	1,197	**3,968**
Other assets	179,692	**203,597**
Total	405,529	**509,695**

	31.XII.1991	**31.XII.1992**
LIABILITIES		
Fixed capital and funds of banks	13,725	**20,692**
Savings and demand deposits of individuals	12,228	**29,052**
Accounts of companies and organizations in levs	25,616	**37,880**
Loans obtained from other banks	34,152	**47,402**
Accounts of companies and organizations in foreign currency	50,257	**61,068**
Loans from abroad	250,985	**292,091**
Forex loans obtained from banks	4,241	**4,557**
Funds from the Government Lending Fund	7,892	**100**
Funds from the State Fund for Reconstruction and Development	0	**0**
Stock and shares in affiliates	725	**73**
Other liabilities	5,708	**16,780**
Total	405,529	**509,695**

STRUCTURE OF COMMERCIAL BANKS ASSETS



Source: BNB.

Statutory Provisions

After 1990 banks started allocating provisions for covering bad loans. Though the legal basis for this existed before, the practice was not established. As a result of the transitory mechanism for statutory provisions formation, adopted by Order No. 26 of the Ministry of Finance of 21 January 1992 and Resolution No. 32 of the BNB Board of 21 March 1992, some risk provisions have been formed. The amount of bad loans, based on preliminary assessment as of 31 December 1992, exceeded 41 billion levs, or approximately doubled the amount of the previous year.

A depressed economy, relatively high inflation, and the often changing market situation, brought about insolvency of new companies. This had its impact on the financial state of the commercial banks. Coupled with inadequate qualification of the banking staff and lack of a system for information about the creditworthiness of borrowers accounted for the already „polluted“ credit portfolios of new banks with minimum state participation.

In 1992 the share of other assets on the credit side of the balance sheet of the commercial banks remained large. Over 200 billion levs of the total are on the balance sheet of the Bulgarian Foreign Trade Bank and the largest part of those come from exchange rate adjustments and devaluation of the Bulgarian lev in February 1991.

Deposits

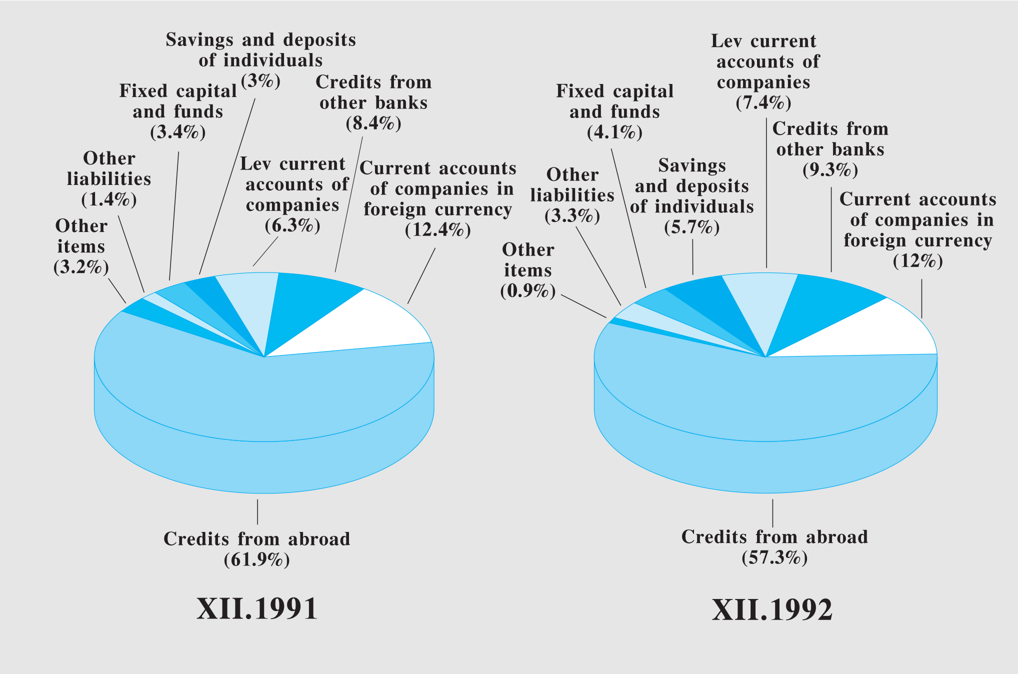
On the debit side of the balance sheet the most rapidly increasing are deposits of individuals (137.6%). This implies the increased role commercial banks play in servicing the population, though the SSB still maintains its priority in this area.

The nominal amount of deposits increased through both new savings and capitalized interest. Taking into account the dynamics of the monthly interest levels, the effective interest rate for 1992 was 55.57%.

Capital

The capital of the banks increased 50.8% as a consequence of the rise in the minimum required fixed capital and the increase in the additional capital. The growth of fixed assets almost doubled compared to 1991, while the rise of additional capital, to form provisions for covering bad loans, was insignificant.

STRUCTURE OF COMMERCIAL BANKS LIABILITIES



Source: BNB.

Forex Component in the Liabilities

A comparison of forex components in the liabilities at a constant exchange rate showed a minimum increase. This is the result of the continuing downswing in production and the lack of foreign capital inflow, but at the same time, it indicates the success of the monetary policy to keep down and stop the process of substitution of the national currency (the so-called dollarization). Despite the small increase in the forex components, their relative share continues to prevail – 67.8% of the total amount. The high extent of the forex component is due to the large and even expanding after the 29 March 1990 moratorium foreign indebtedness and to the undervaluation of the lev as well.

In general commercial banks' balance sheets showed relative success in managing their own attracted funds in an environment of economic recession and high inflation, and under the burden of a substantial domestic and foreign indebtedness. Banks made efforts to enter the process of consolidation of the banking system on a more steady base doing it by increase in their capital and reserves.

VIII. Major Trends of Monetary Policy in 1993

The main goal of monetary policy in 1993 will be again maintenance of internal and external stability of the national currency. In view of the initial conditions for the year, the goal could be adjustment of monetary policy instruments in such a way as to limit money supply growth, and consequently to keep inflation at a lower level than in 1992. The BNB will participate in consultations with the government on economic policy matters to exert its influence most effectively upon the economy.

Major Monetary Policy Problems in 1993

In 1993, monetary policy will continue to play the major role in the stabilization process of the national economy. It will be put under pressure and will meet additional problems due to:

• vigorous inflation expectations which will instigate the necessity of changing a number of monitored prices during the year;

• promises to support the level of real income of different categories of workers with a probability to ease income policy throughout the year;

• delay in passing the State Budget Law, the expected deficit and especially, its profile during the year;

• continuing pressure exerted by separate state monopolies to cover their financial losses by credits from the banking system with the participation of the BNB;

• Parliament and government acts, i.e. the Law on Financial Support for Agriculture in 1993, which may undermine the monetary policy pursued by the BNB and the efforts to maintain stability within the financial system;

• considerable depletion of levs undervaluation „reserve“ which will make the pressure over the dollar exchange rate equal to the inflation and the expectations about it.

After two years of macroeconomic stabilization the level of inflation by end-1992 and the first quarter of 1993 is considered unsatisfactory. Under the conditions of a free floating exchange rate and expected easing of income policy as a result of resuming the negotiations between government, employers and syndicates about salaries in the public sector, monetary policy will continue to play a decisive role in controlling inflation. To help the government decrease inflation during 1993, the Central Bank will maintain moderate restriction which will oppose inflationary pressure generated by the budget deficit and the increases in income of the population. In addition, the restrictive character of monetary policy will be measured in a way that will not deteriorate the situation in real sector which moreover is in a state of deep depression.

Money Supply Dynamics

The growth of money supply measured through the volume of broad money will continue to lag behind inflation and in the cases of increased inflation the difference will grow larger. Based on the hypothesis for stability of the macroeconomic function of money demand, it is possible to reduce the growth of money supply within the limits of expected GDP growth. If real inflation figures do not surpass those expected, the dynamics of money supply will not bring real changes in the rate of money circulation.

The presumption could be made that the expectations for a more obvious lev depreciation trend in 1993 will bring increases in foreign currency deposits. The BNB would take steps to counterbalance this tendency but its total elimination has never been an objective.

There exists uncertainty about parameters and time necessary to reach an agreement with private banks from the London Club concerning settlement of foreign debt problem. Coupled with the unfavourable prospects for allocation resources by the international financial organizations during 1993 it is very difficult to determine the changes in *net foreign assets* of the banking system and in the foreign currency reserves of the Central Bank. To strengthen the basis of foreign exchange policy and stabilize the financial system, the BNB should maintain gross foreign exchange reserves equal to the volume of 2.5 – 3 month period imports without changing the level of net foreign assets of the commercial banks.

In 1993 changes in *domestic credit* are expected to be close to changes in money supply. Projections of a moderate budget deficit (approximately 6% of GDP) will allow the credit to real sector to slightly surpass the increase in credit to the government. This will partially offset the effect of crowding out the real sector, a typical phenomenon in 1992. A possible higher state budget deficit will further reduce credit to state-owned and private non-financial enterprises in real terms or increase money supply to a volume much larger than what is compatible with government objectives of keeping inflation lower than in 1992.

More intensive allocation of credits for the private sector will help the real sector growth and will increase its contribution to GDP. This will counterbalance the continuing overall decline in the public sector and will make possible the real reduction of 1993 GDP to 4%, which in fact is the intention of the government.

Foreign Exchange Policy

In 1993 the BNB will play an active role in the forex market. BNB foreign exchange policy goal remains the same as last year: to prevent abrupt fluctuations in the exchange rate, causing speculation and depression of the entrepreneur spirit of private companies, the only ones working under strict budget constraints. Since the difference, initially implied in the radical economic reform between purchasing power of the national currency and the nominal exchange rate, shrank considerably in 1992, there is a ground to expect that real appreciation of the lev in 1993 will be less than in 1992. The BNB has already accumulated sufficient foreign currency reserve to intervene in the forex market. In case of emergency it may also use other monetary policy instruments to keep fluctuations of the exchange rate caused by speculative actions under control. At the same time the BNB has no intention of intervening to neutralize the factors which determine developments and level of exchange rate. This is the way to maintain the competitiveness of Bulgarian exports in international markets and sufficiently high prices of imported products, to put limits on displacement of national producers by foreign ones in the domestic market. This also will continue to create economic prerequisites for increase of the exports and reinforcement of balance of payments, as well as limit decline in production. The increased positive balance on the current balance of payments compared to 1992, will ensure resources for servicing foreign debt without using BNB foreign currency reserves.

Special attention should be paid to the necessity of increasing BNB deposits in foreign currency in 1993, to provide reserves for the future payments on foreign debt.

Credit Ceilings

In 1993 credit ceilings will play an important role in implementation of the monetary policy because of high inflation rates and the necessity for strict control over credit increases and liquidity in the economy. In determination of credit ceilings, banks' capital adequacy, quality and quantity of attracted funds will be taken into account.

Refinancing of Commercial Banks

In the area of refinancing, the BNB will develop Lombard and discount operations which will replace the direct extension of unsecured credits to the commercial banks.

In 1993 the existing variety of monetary policy instruments will increase because of the new *open market of government securities*. This instrument used in all countries with developed market economies, allows more precise adjustment of monetary policy. This will promote the process of replacing direct methods for regulation of liquidity in the banking system with indirect methods. Its successful adoption and implementation by the BNB will depend on the Ministry of Finance's policy for securitization of the budget deficit and the offered prices which should meet the necessity of minimizing the budget expenses for servicing internal debt, as well as the quasi-market level of interest rates. In creating better conditions for medium-term budget deficit financing, the second condition is more significant.

Interest Rate Policy

Since change began in this country's economic structure, the BNB has acquired considerable experience in the field of interest rate policy. In 1993 this policy will serve as a powerful instrument for monetary restriction regulation based on the rate of inflation. Although the Central Bank is aware of the fact that the real positive interest rate is an important condition for a rational choice in the field of investment, it cannot keep it on such level as it is a heavy burden for the depressed economy. In this respect the real interest rate on deposits during most months of this year will remain negative, and on credits it will be zero. Interest rate policy will be flexible to avoid erosion of the deposit base (in case the rate drops below the lowest socially acceptable limit for changes of interest rate on deposits) and additional price increases through too high interest on credits. When determining the basic interest rate, the BNB will show moderate conservatism and react only to major and permanent changes in the level of inflation. Any failures in this fine adjustment of the basic interest rate can have an irreversible negative impact on the exchange rate. To implement the targeted interest rate policy, restriction of the budget deficit within reasonable limits allowing sufficient credit resource for non-government sector will be of primary importance.

Inflation tension within the economy remains the main challenge for monetary policy in 1993. Their successful control over it and establishment of a more stable economic environment, favourable for the rapid implementation of structural reform will also depend on the coordination of monetary policy and components of the economic policy in addition to good cooperation between Parliament, the government and the BNB.

Appendix

Contents

GROSS DOMESTIC PRODUCT

Indicators	1989	1990 (million levs – current prices)	1991	1992[1]	1990 (million levs – previous year prices)	1991	1992[1]	1990 (rate of change[2], %)	1991	1992[1]
GDP produced	39579	45390	131058	195000	35970	42253	120980	90.9	88.3	92.3
Industry and construction	23507	23273	62843	90800	20559	18947	55900	87.5	81.4	89.0
Agriculture	4331	8055	20139	20200	4170	8675	18580	96.3	107.7	92.3
Services	11742	14062	48076	84000	11241	14631	46500	95.7	88.7	96.7
GDP used	41103	47385	135916	209480	37979	42429	118050	90.9	88.3	92.3
Final consumption	27999	33585	99305	164170	28167	30788	91650	100.6	85.6	92.3
Population	25180	30298	78759	130640	21128	27758	72960	98.5	84.3	92.6
Government expenditure	2819	3286	20546	33530	7039	3030	18690	108.6	89.8	90.9
Gross accumulation	13105	13800	36611	45310	9812	11641	26400	74.9	84.4	72.1
Capital investment	10328	9652	24777	39310	8415	7728	24400	81.5	80.1	98.5
Changes in inventory	2776	4148	11834	6000	1397	3913	2000	50.3	94.3	16.9
Foreign trade balance, losses and statistical discrepancy	-1524	-1995	-4858	-14480	-2009	-176	2930			

[1] Preliminary data.
[2] Rates are calculated at constant prices.

Source: NSI.

PRODUCTION BY ECONOMIC BRANCH[1]
(at 1990 prices)

Branch	1989	1990	1991 (million levs)	1992[3]	1990	1991 (1989 = 100, %)	1992
Industry	59625	52747	39957	31709	88.5	67.0	53.2
Construction	6038	6158	5983	4748	102.0	99.1	78.6
Agriculture[2]	14852	13815	14434	13560	93.0	97.2	91.3
Transport	5067	4578	4481	3885	90.3	88.4	76.7
Trade	4155	4445	5370	3666	107.0	129.2	88.2
Communications	757	840	910	1230	111.0	120.2	162.5
Other	1258	1198	1388	442	95.2	110.3	35.1

[1] State and cooperative sectors only. Data is received before the final accounting entries have been made.
[2] From all categories of farms.
[3] Preliminary data.

Source: NSI.

EMPLOYMENT BY ECONOMIC BRANCH

Indicators	1989	1990 (thousand of people)	1991	1992	Indices, 1989 = 100			Relative share of employed			
					1990	1991 (%)	1992	1989	1990 (%)	1991	1992
Total	4365	3824	3205	2653	87.6	73.4	60.8	100.0	100.0	100.0	100.0
Industry	1646	1457	1195	1004	88.5	72.6	61.0	37.7	38.1	37.3	37.8
Agriculture and forestry	814	672	570	401	82.6	70.0	49.3	18.6	17.6	17.8	15.1
Construction	361	312	222	168	86.4	61.5	46.5	8.3	8.2	6.9	6.3
Services	1544	1383	1218	1080	89.6	78.9	69.9	35.4	36.2	38.0	40.7
Transport	247	231	201	174	93.5	81.4	70.4	5.7	6.0	6.3	6.6
Trade	395	311	240	175	78.7	60.8	44.3	9.0	8.1	7.5	6.6
Communications	44	45	45	43	102.3	102.3	97.7	1.0	1.2	1.4	1.6
Other services	858	796	732	688	92.8	85.3	80.2	19.7	20.8	22.8	25.9
Public utilities	97	58	57	49	59.8	58.8	50.5	2.2	1.5	1.8	1.8
Science	97	88	65	49	90.7	67.0	50.5	2.2	2.3	2.0	1.8
Education	277	276	270	263	99.6	97.5	94.9	6.3	7.2	8.4	9.9
Art, culture	46	44	36	31	95.7	78.3	67.4	1.1	1.2	1.1	1.2
Public health	215	215	204	199	100.0	94.9	92.6	4.9	5.6	6.4	7.5
Finance, credit, insurance	26	25	25	32	96.2	96.2	123.1	0.6	0.7	0.8	1.2
Management	61	51	47	45	83.6	77.0	73.8	1.4	1.3	1.5	1.7
Other	39	39	28	20	100.0	71.8	51.3	0.9	1.0	0.9	0.8

Source: NSI, BNB.

BALANCE OF MONETARY INCOME AND EXPENDITURE OF THE POPULATION

(million levs)

Indicators	1991	January – March'92	January – June'92	January – Sep.'92	1992	1992 to 1991 (%)
Income	82363	24395	56089	92507	153018	85.8
Wage	37822	12186	26598	44429	62000	63.9
Income received from other economic activity	4808	2002	8000	15472	35000	628.0
Pensions	12373	4132	8572	14344	20010	61.7
Benefits	6363	1369	3367	5528	8500	33.6
Scholarships	298	140	377	434	600	101.3
Insurance indemnifications	402	391	533	690	800	99.0
Loans	986	223	442	510	608	-38.3
Interest	12552	3842	7700	10500	24000	91.2
Other income	6759	110	500	600	1500	-77.8
Expenditure	82363	24395	56089	92507	153018	85.8
Purchase of goods	47360	11000	33576	53000	75450	59.3
Payment for services	12051	3000	5550	10984	24000	99.2
Taxes and fees	5360	2502	4878	7737	12400	131.3
Insurance and security contributions	937	544	754	1108	1560	66.5
Membership fees and equity contributions	126	40	70	100	170	34.9
Repayment of loans	2803	360	680	1113	1558	-44.4
Interest and fines	705	171	351	473	567	-19.6
Other expenditure	1174	300	620	912	1198	2.0
Savings	11847	6478	9610	17080	36115	204.8

Source: NSI.

STRUCTURE OF MONETARY INCOME AND EXPENDITURE OF THE POPULATION

(%)

Indicators	1991	January – March'92	January – June'92	January – Sep.'92	1992
Income	100.0	100.0	100.0	100.0	100.0
Wage	45.9	50.0	47.4	48.0	40.5
Income received from other economic activity	5.8	8.2	14.3	16.7	22.9
Pensions	15.0	16.9	15.3	15.5	13.1
Benefits	7.7	5.6	6.0	6.0	5.6
Scholarships	0.4	0.6	0.7	0.5	0.4
Insurance indemnifications	0.5	1.6	1.0	0.7	0.5
Loans	1.2	0.9	0.8	0.6	0.4
Interest	15.2	15.7	13.7	11.4	15.7
Other income	8.2	0.5	0.9	0.6	1.0
Expenditure	100.0	100.0	100.0	100.0	100.0
Purchase of goods	57.5	45.1	59.9	57.3	49.3
Payment for services	14.6	12.3	9.9	11.9	15.7
Taxes and fees	6.5	10.3	8.7	8.4	8.1
Insurance and security contributions	1.1	2.2	1.3	1.2	1.0
Membership fees and equity contributions	0.2	0.2	0.1	0.1	0.1
Repayment of loans	3.4	1.5	1.2	1.2	1.0
Interest and fines	0.9	0.7	0.6	0.5	0.4
Other expenditure	1.4	1.2	1.1	1.0	0.8
Savings	14.4	26.6	17.1	18.5	23.6

STRUCTURE OF THE POPULATION ACCORDING TO GROSS MONTHLY INCOME IN 1992

(%)

Groups	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
to 339 levs	11.2	5.6	7.2	6.4	5.4	3.5	4.4	5.2	7.6	7.1	6.1	1.7
from 400 to 599 levs	25.3	19.5	20.5	18.8	16.9	14.2	14.8	14.1	18.0	17.0	16.2	5.5
from 600 to 799 levs	23.6	24.1	22.7	22.6	21.7	21.0	20.2	18.4	20.4	19.6	19.8	11.8
from 800 to 999 levs	16.6	19.4	18.6	18.2	18.4	19.6	18.1	17.0	16.9	16.7	17.1	15.6
from 1000 to 1199 levs	10.3	13.1	12.5	13.3	13.7	15.0	14.7	14.1	12.8	13.0	13.4	16.6
from 1200 to 1399 levs	5.9	8.1	7.9	8.4	9.5	10.7	10.3	10.5	9.1	9.7	9.8	14.2
from 1400 to 1599 levs	3.3	4.9	4.7	5.5	6.1	6.8	7.2	7.9	6.2	6.6	6.9	12.3
from 1600 to 1799 levs	1.9	2.8	3.0	3.4	4.0	4.6	4.9	5.5	4.2	4.6	4.8	9.5
from 1800 to 1999 levs	1.1	1.6	1.7	2.1	2.5	2.8	3.3	4.1	2.8	3.3	3.3	7.3
above 2000 levs	0.7	1.0	1.1	1.4	1.7	1.9	2.2	3.0	2.0	2.4	2.5	5.6

Source: BNB.

WAGES AND EXISTENZ-MINIMUM IN 1992

(levs)

Indicators	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	1992
Minimum wage	620	620	620	620	620	620	850	850	850	850	850	850	735
Average wage	1424	1454	1625	1635	1632	1930	1902	1905	2230	2114	2188	2887	1895
Existenz-minimum (average)	746	788	828	854	936	966	950	968	984	1050	1129	1208	951
Children	744	784	820	844	909	936	924	911	933	988	1058	1124	915
Employed	793	839	885	916	1011	1045	1027	1013	1037	1110	1197	1286	1013
Pensioners	639	671	702	722	791	813	801	925	918	980	1050	1119	844

Source: NSI, BNB.

EMPLOYMENT AND WAGES IN 1992, QUARTERLY DATA

Branches	Registered number of employed (people)				Wage funds (thousand levs)				Average monthly wage* (levs)				
	I	II	III	IV	I	II	III	IV	I	II	III	IV	1992
Total	2755610	2723792	2627206	2503600	12115585	14110409	15988606	18093535	1466	1727	2029	2409	1895
Manufacturing industry	2075408	2048728	1958863	1841456	9194764	11000661	12421606	13498981	1477	1790	2114	2444	1956
Industry	1050305	1021607	986992	957191	5022276	5896399	6607006	7349304	1594	1924	2231	2559	2077
Electricity and thermal power generation	35059	35285	35695	36300	284144	343819	497003	434928	2702	3248	4641	3994	3646
Coal-mining	38627	38671	38743	38600	326230	347770	455317	483237	2815	2998	3917	4173	3476
Oil and natural gas	369	377	384	390	2139	2869	3072	3617	1932	2537	2667	3091	2557
Iron and steel (incl. ore mining)	27077	26717	26583	26100	192737	211140	277178	332073	2373	2634	3476	4241	3181
Non-ferrous metallurgy (incl. ore mining)	36478	35462	35089	34400	250522	277066	322876	368904	2289	2604	3067	3575	2884
Machine-building and metal processing	213031	214295	201573	194700	1016971	1214990	1277994	1413748	1591	1890	2113	2420	2004
Electrical and electronic industry	130035	119495	112754	106400	498700	581740	573150	632154	1278	1623	1694	1980	1644
Chemical and oil processing	90801	84281	85390	83700	618020	729419	773510	895950	2269	2885	3020	3568	2935
Construction materials	34928	36516	34595	32600	158133	215446	235891	255144	1509	1967	2273	2609	2089
Wood and woodworking	50989	50101	48917	48200	200345	234754	264864	305812	1310	1562	1805	2115	1698
Cellulose and paper	13851	13381	13100	12600	51897	61878	73166	78437	1249	1541	1862	2075	1682
Glass, china and earthenware	18703	18625	18062	17900	78488	89428	96835	123725	1399	1601	1787	2304	1773
Textile and knitted goods	78237	76141	74225	71800	285497	318984	345783	401199	1216	1396	1553	1863	1507
Sewing industry	56561	55605	53492	51500	158943	188256	207277	221899	937	1129	1292	1436	1198
Leather, fur, footwear	24849	24669	23851	23700	91821	101945	115375	139137	1232	1378	1612	1957	1545
Printing and publishing	6816	6654	5541	5500	37329	44198	31484	49685	1826	2214	1894	3011	2236
Foodstuff	128389	124017	121398	119000	602974	751606	873727	1007114	1565	2020	2399	2821	2201
Other industries	65505	61315	57600	53801	167386	181091	182504	202541	852	984	1056	1255	1037
Construction	180379	171847	163964	156102	868403	1068116	1171700	1311597	1605	2072	2382	2801	2215
Agriculture	395257	418317	392100	330143	1261129	1549867	1889500	1778876	1064	1235	1606	1796	1425
Forestry	14655	21467	17046	15494	49737	74972	73600	90058	1131	1164	1439	1937	1418
Transport	181578	176164	171034	166789	951114	1124452	1292300	1445818	1746	2128	2519	2890	2320
Communications	43320	42968	43353	43548	174598	280263	290600	326926	1343	2174	2234	2502	2064
Trade, machinary and equipment and purchase	192661	180431	169111	157591	775277	902248	976000	1066183	1341	1667	1924	2255	1797
Other manufacturing industries	17253	15927	15263	14598	92230	104344	120900	130219	1782	2184	2640	2973	2395
Other services	680202	675064	668343	662145	2920821	3109748	3567000	4594554	1431	1536	1779	2313	1765
Public utilities	51102	47918	51228	47563	216607	265863	339400	346295	1413	1849	2208	2427	1974
Science	54783	50089	47711	45127	255075	259278	277200	315324	1552	1725	1937	2329	1886
Education	265495	265867	260755	260953	1071188	1100207	1228900	1618881	1345	1379	1571	2068	1591
Culture, art	31916	31428	30036	29360	118780	122093	137200	170618	1241	1295	1523	1937	1499
Public health, social security, sports and tourism	198991	199135	199179	198476	833682	860736	994900	1285920	1397	1441	1665	2160	1665
Finance, credit and insurance	29581	32967	32296	32668	198647	265577	303300	419496	2238	2685	3130	4280	3084
Management	44591	44511	44034	45161	208700	218700	268200	417893	1560	1638	2030	3084	2078
Other sectors in services	3743	3149	3104	2837	18142	17294	17900	20127	1616	1831	1922	2365	1933

* Preliminary data.

Source: NSI.

CONSUMER PRICE INDEX IN 1992
(previous month = 100)

(%)

Commodity (services) groups	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Foodstuff	105.0	105.6	105.0	103.2	112.2	104.6	103.3	99.6	102.9	109.2	108.1	106.4
Liquor products	99.1	100.6	102.3	98.4	100.5	101.0	102.6	101.5	100.7	101.2	104.8	102.8
Tobacco products	101.1	106.6	97.2	99.0	102.4	115.1	99.5	103.7	98.4	101.5	101.8	99.4
Clothing and footwear	107.1	108.0	105.9	106.4	106.6	104.4	104.0	102.2	112.6	107.4	106.8	105.3
Housing, heating, electricity	102.0	104.3	100.8	102.2	116.4	104.8	101.9	102.5	100.4	102.2	102.6	100.0
Home furniture	105.5	109.9	105.0	105.5	105.0	106.5	105.1	104.1	104.1	101.2	104.1	102.5
Social and cultural life	114.8	104.0	105.2	104.6	106.2	104.5	103.1	101.7	108.2	98.8	104.4	101.2
Hygiene and public health	109.4	104.9	105.7	108.1	104.8	105.4	105.2	113.2	101.4	104.9	103.2	111.3
Postal and transportation services	102.3	106.1	99.2	100.5	124.1	106.0	102.5	100.0	98.7	101.8	103.4	101.2
Taxes and fees	103.2	104.7	106.8	103.7	111.9	113.3	99.4	102.7	102.8	105.9	114.0	104.6
Other	105.6	106.6	103.1	103.9	110.7	106.1	102.7	102.7	106.0	104.0	104.3	103.6
Consumer price index	104.8	105.8	103.9	103.2	111.9	105.8	102.8	101.2	103.4	106.2	106.7	104.6

CONSUMER PRICE INDEX IN 1992
(December 1991 = 100)

(%)

Commodity (services) groups	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Foodstuff	105.0	110.9	116.5	120.2	134.8	141.0	145.6	145.1	149.3	163.1	176.3	187.7
Liquor products	99.1	99.8	102.0	100.4	100.8	101.9	104.5	106.0	106.8	108.1	113.3	116.5
Tobacco products	101.1	107.7	104.7	103.6	106.1	122.1	121.5	126.0	124.0	125.8	128.1	127.3
Clothing and footwear	107.1	115.7	122.5	130.3	138.9	145.0	150.7	154.0	173.5	186.3	199.0	209.6
Housing, heating, electricity	102.0	106.4	107.2	109.6	127.6	133.6	136.2	139.6	140.1	143.2	146.9	146.9
Home furniture	105.5	116.0	121.8	128.4	134.8	143.5	150.9	157.0	163.4	165.4	172.0	176.4
Social and cultural life	114.8	119.3	125.5	131.3	139.3	145.6	150.0	152.6	165.2	163.2	170.3	172.3
Hygiene and public health	109.4	114.8	121.4	131.2	137.5	144.9	152.5	172.7	175.0	183.7	189.5	211.0
Postal and transportation services	102.3	108.5	107.6	108.1	134.1	142.2	145.8	145.8	143.9	146.5	151.5	153.4
Taxes and fees	103.2	108.1	115.5	119.7	133.9	151.7	150.7	154.7	159.1	168.5	192.1	201.0
Other	105.6	112.6	116.1	120.6	133.6	141.7	145.5	149.4	158.4	164.8	171.9	178.1
Consumer price index	104.8	110.8	115.2	118.9	133.1	140.8	144.7	146.4	151.4	160.8	171.6	179.4

Source: NSI.

RETAIL PRICE INDEX IN 1992
(previous month = 100)

(%)

Indicators	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Foodstuff	104.6	105.5	104.9	102.6	111.7	104.2	103.4	99.7	102.8	108.9	108.0	106.2
Non-foodstuff	106.2	107.0	103.4	104.0	105.4	105.6	103.5	102.3	106.0	104.0	104.3	103.6
Services	103.8	105.2	102.1	103.6	128.5	106.5	102.0	103.1	101.5	102.2	105.7	101.9
Retail prices	105.4	106.4	103.5	103.6	110.9	105.4	103.8	101.8	104.8	104.9	105.5	103.9

RETAIL PRICE INDEX IN 1992
(December 1991 = 100)

(%)

Indicators	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Foodstuff	104.6	110.2	115.6	118.5	132.4	138.0	142.6	142.1	146.1	159.1	171.9	182.5
Non-foodstuff	106.2	113.6	117.5	122.2	128.8	136.1	140.8	144.0	152.7	158.8	165.7	171.6
Services	103.8	109.3	111.6	115.5	148.4	158.0	161.2	166.2	168.7	172.4	182.3	185.7
Retail prices	105.4	112.1	116.1	120.2	133.4	140.6	145.9	148.5	155.6	163.2	172.1	178.9

Source: NSI.

STRUCTURE OF EXPORTS AND IMPORTS BY COMMODITY SECTION IN 1991*

Commodity sections	Exports (million levs – current prices)	Imports (million levs – current prices)	Turnover (million levs – current prices)	Exports (%)	Imports (%)	Turnover (%)
Total	57368.3	45132.4	102500.7	100.0	100.0	100.0
Not included in the sections below	7671.3	5407.0	13078.3	13.4	12.0	12.8
Included in the sections below	49697.0	39725.4	89422.4	86.6	88.0	87.2
Foodstuff, tobacco, etc. products (section IV)	8558.7	1633.6	10192.3	14.9	3.6	9.9
Mineral products (section V)	2591.9	25044.1	27636.0	4.5	55.5	27.0
Chemical products (section VI)	14406.7	2842.7	17249.4	25.1	6.3	16.8
Plastic, rubber and their products (section VII)	1161.9	676.5	1838.4	2.0	1.5	1.8
Textile materials and their products (section XI)	2368.4	1246.4	3614.8	4.1	2.8	3.5
Base metals and their products (section XV)	3806.0	1281.5	5087.5	6.6	2.8	5.0
Technical and electric equipment, etc. (section XVI)	13158.1	4784.3	17942.4	22.9	10.6	17.5
Transport facilities (section XVII)	3645.3	2216.3	5861.6	6.4	4.9	5.7

* Based on the sections from the Customs' Tariff in compliance with EC harmonized system.

Source: NSI, BNB.

STRUCTURE OF EXPORTS AND IMPORTS BY COMMODITY SECTION IN 1992*

Commodity sections	Exports (million levs – current prices)	Imports (million levs – current prices)	Turnover (million levs – current prices)	Exports (%)	Imports (%)	Turnover (%)
Total	81644.8	80595.7	162240.5	100.0	100.0	100.0
Not included in the sections below	17471.7	7566.7	25038.4	21.4	9.4	15.4
Included in the sections below	64173.1	73029.0	137202.1	78.6	90.6	84.6
Foodstuff, tobacco, etc. products products (section IV)	9765.8	4975.6	14741.4	12.0	6.2	9.1
Mineral products (section V)	4942.2	30231.4	35173.6	6.1	37.5	21.7
Chemical products (section VI)	8193.8	6541.4	14735.2	10.0	8.1	9.1
Plastic, rubber and their products (section VII)	9962.4	2277.3	12239.7	12.2	2.8	7.5
Textile materials and their products (section XI)	5741.9	5489.3	11231.2	7.0	6.8	6.9
Base metals and their products (section XV)	12566.0	4471.7	17037.7	15.4	5.5	10.5
Technical and electric equipment, etc. (section XVI)	9928.6	12729.3	22657.9	12.2	15.8	14.0
Transport facilities (section XVII)	3072.4	6313.0	9385.4	3.8	7.8	5.8

* Based on the sections from the Customs' Tariff in compliance with EC harmonized system

Source: NSI, BNB.

EXPORTS BY GROUP OF COUNTRIES

Countries	1989	1990	1991	1992	1989	1990	1991	1992
	(million levs – current prices)				(%)			
Total	13672.9	10559.5	57368.3	81644.8	100.0	100.0	100.0	100.0
Countries from the former CMEA[1]	11484.1	8495.2	31637.1	26743.1	84.0	80.5	55.1	32.8
Countries from the former USSR	8917.9	6762.9	28552.4	20585.9	65.2	64.0	49.8	25.2
Central and East European countries and other former CMEA countries[1]	2566.3	1732.4	3084.7	6157.2	18.8	16.4	5.4	7.5
Countries from former Yugoslavia	135.0	104.3	1585.3	7481.8	1.0	1.0	2.8	9.2
OECD countries[2]	1105.3	948.5	15078.9	34504.3	8.1	9.0	26.3	42.3
EC countries[2]	758.4	525.7	8981.3	25180.7	5.5	5.0	15.7	30.8
EFTA countries	207.7	163.0	1936.2	2691.3	1.5	1.5	3.4	3.3
Other OECD countries	139.2	259.8	4161.4	6632.3	1.0	2.5	7.3	8.1
Arab countries	571.1	643.4	4746.3	6409.4	4.2	6.1	8.3	7.9
Other countries	377.4	368.1	4320.7	6506.2	2.8	3.5	7.5	8.0

[1] 1989 and 1990 data include exports to the former GDR (respectively 752.4 million levs, or 5.5%, and 304.6 million levs, or 2.9%).
[2] 1989 and 1990 data don't include exports to the former GDR (respectively 752.4 million levs, or 5.5%, and 304.6 million levs, or 2.9%).

Source: NSI, BNB.

IMPORTS BY GROUP OF COUNTRIES

Countries	1989	1990	1991	1992	1989	1990	1991	1992
	(million levs – current prices)				(%)			
Total	12795.8	10314.9	45132.4	80595.7	100.0	100.0	100.0	100.0
Countries from the former CMEA[1]	9424.3	7878.3	21135.1	28437.0	73.7	76.4	46.8	35.3
Countries from the former USSR	6767.0	5826.7	19508.5	23081.3	52.9	56.5	43.2	28.6
Central and East European countries and other former CMEA countries[1]	2657.3	2051.6	1626.6	5355.7	20.8	19.9	3.6	6.6
Countries from former Yugoslavia	112.4	87.8	880.3	1993.3	0.9	0.9	2.0	2.5
OECD countries[2]	2206.1	1538.8	14812.0	37491.8	17.2	14.9	32.8	46.5
EC countries[2]	1323.7	993.6	9322.6	26254.0	10.3	9.6	20.7	32.6
EFTA countries	495.6	333.3	3523.8	5410.3	3.9	3.2	7.8	6.7
Other OECD countries	386.8	211.9	1965.6	5827.5	3.0	2.1	4.4	7.2
Arab countries	616.2	439.7	2048.1	6221.7	4.8	4.3	4.5	7.7
Other countries	436.8	370.3	6256.9	6451.9	3.4	3.6	13.9	8.0

[1] 1989 and 1990 data include imports from the former GDR (respectively 738 million levs, or 5.8%, and 686 million levs, or 6.7%).
[2] 1989 and 1990 data don't include imports from the former GDR (respectively 738 million levs, or 5.8%, and 686 million levs, or 6.7%).

Source: NSI, BNB.

MAJOR BULGARIAN TRADE PARTNERS

Country	Exports						Imports						Trade					
	1991			1992			1991			1992			1991			1992		
	mill.levs	% in total exports	ranking	mill.levs	% in total exports	ranking	mill.levs	% in total exports	ranking	mill.levs	% in total imports	ranking	mill.levs	% in total trade	ranking	mill.levs	% in total trade	ranking
Total	57368.3	100.0	-	81644.8	100.0	-	45132.4	100.0	-	80595.7	100.0	-	102500.7	100.0	-	162240.5	100.0	-
CIS[1]	28552.4	49.8	1	14626.9	17.9	1	19508.5	43.2	1	18411.4	22.8	1	48060.9	46.9	1	33038.3	20.4	1
Germany	2728.7	4.8	2	8143.3	10.0	2	3146.3	7.0	2	10297.3	12.8	2	5875.0	5.7	2	18440.6	11.4	2
Ukraine[2]	-	-	-	5249.6	6.4	3	-	-	-	4095.4	5.1	5	-	-	-	9345.0	5.8	3
Italy	1549.2	2.7	6	4321.6	5.3	5	1882.5	4.2	4	4251.2	5.3	4	3431.7	3.3	3	8572.8	5.3	4
Greece	1248.8	2.2	7	3478.4	4.3	7	401.9	0.9	16	4749.8	5.9	3	1650.7	1.6	14	8228.2	5.1	5
Turkey	1717.8	3.0	4	4659.2	5.7	4	391.2	0.9	18	1419.0	1.8	16	2109.0	2.1	9	6078.2	3.7	6
New Yugoslavia[3]	-	-	-	3866.7	4.7	6	-	-	-	1381.8	1.7	17	-	-	-	5248.5	3.2	7
France	827.4	1.4	14	1950.4	2.4	12	958.7	2.1	9	2287.5	2.8	9	1786.1	1.7	11	4237.9	2.6	8
Romania	1050.3	1.8	12	2090.1	2.6	11	195.1	0.4	26	2138.6	2.7	10	1245.4	1.2	17	4228.7	2.6	9
Great Britain	1112.7	1.9	11	2416.1	3.0	9	1630.9	3.6	5	1504.5	1.9	15	2743.6	2.7	5	3920.6	2.4	10

[1] 1991 data for CIS doesn't include the newly emerged independent republics of the former USSR.

[2] 1991 data for Ukraine is included in the data for the CIS.

[3] 1991 data for the New Yugoslavia (Serbia and Montenegro) is included in the data for former Yugoslavia, taking respectively 7th (2,465.6 million levs, or 2.4%), 5th (1,585.3 million levs, or 2.8%) and 11th (880.3 million levs, or 2%) place in Bulgarian trade, exports and imports in 1991.

Source: NSI, BNB.

BALANCE OF PAYMENTS

(million US dollars)

Indicators	1991	1992
Current account[1]	-77.0	451.6
Trade balance	-32.0	484.5
Exports of goods, FOB	3737.0	5093.0
Imports of goods, FOB	3769.0	4608.5
Services, net	-114.0	-75.8
Receipts, of which:	455.5	883.4
Shipments	199.4	361.3
Travel	43.7	49.2
Interest	55.6	125.1
Other	156.8	347.8
Payments, of which:	569.5	959.2
Shipments	213.2	393.0
Travel	127.9	23.1
Interest paid[2]	83.7	201.2
by BFTB	35.9	135.8
by commercial banks	47.8	65.4
Other	144.7	342.0
Transfers, net (private)	50.1	39.7
Receipts	104.4	111.0
Payments	54.3	71.2
Interofficial unrequited transfers	19.0	3.1
Capital account	115.0	-31.5
Direct investment in Bulgaria, net	55.9	41.5
Medium- and long-term loans received, net	-48.1	42.1
Drawings	108.0	232.4
Repayments	156.1	190.3
Loans extended, net of which:	294.9	32.5
Developing countries, net	92.4	23.4
Drawings	12.1	3.7
Repayments	104.5	27.1
Yamburg pipeline[3]	202.5	9.1
Short-term debt of which:	-187.7	-147.6
Deposits and loans	-85.2	53.0
Clearing account with the former USSR	-102.5	-197.5
Clearing account with Russia[4]	-	-3.1
Errors and Omissions	6.8	-20.6
Overall balance	44.8	399.5
Change in reserves (increment:-), of which:	-44.8	-399.5
Gross BNB reserves	-358.0	-575.1
BNB gold (300 US dollar per oz)	0.0	0.0
Foreign exchange of BFTB	-51.5	-128.4
Foreign exchange of commercial banks	-213.4	-85.4
Use of IMF credit	385.6	217.2
EC loan	192.5	172.2

[1] Transactions in convertible currencies with the former CMEA countries included.

[2] Interest paid is on cash base.

[3] Repayments in gas from the former USSR included.

[4] Clearing account balance included.

Source: BNB.

CENTRAL EXCHANGE RATE AND VOLUME OF THE FOREX MARKET IN 1992

Indicators	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Average monthly exchange rate US dollar/lev	23.627	23.737	23.617	23.002	23.107	23.100	22.907	22.449	22.289	23.089	24.372	24.800
Exchange rate lev/US dollar*	23.816	24.141	23.281	23.013	23.204	23.021	22.763	22.223	22.636	23.746	24.702	24.492
Exchange rate Deutsche mark/lev*	14.854	14.727	14.149	13.915	14.227	15.150	15.305	15.795	15.854	15.393	15.410	15.170
Exchange rate Swiss franc/lev*	16.686	16.218	15.518	15.145	15.669	16.822	17.165	17.646	18.160	17.282	17.086	16.789
Monthly volume of forex bought (million US dollars)	130.1	121.8	155.1	165.7	225.3	260.0	352.9	357.4	250.0	276.4	225.7	260.3
Monthly volume of forex sold (million US dollars)	79.7	94.1	122.3	114.4	158.0	196.9	290.2	281.2	299.9	280.9	274.1	262.1

* End of month values.

Source: BNB.

MONEY SUPPLY IN 1992

(million levs)

Indicators	XII'91	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Exchange rate lev/US dollar	21.811	23.816	24.141	23.175	23.013	23.204	23.021	22.763	22.223	22.636	23.746	24.702	24.492
Broad money	112021	118395	122570	123527	123443	126414	129192	134563	142041	147529	151622	154776	168284
levs	68705	70636	72708	75868	76723	79948	84429	89222	96274	100337	101767	102880	117585
convertible currency	43123	47583	49644	47445	46537	46243	44569	45056	45490	46950	49441	51448	50259
non-convertible currency	193	176	218	214	183	223	194	285	277	242	414	448	440
Money (M2)	108432	115332	119403	120240	120280	123518	126111	130881	138573	144253	148498	151619	164699
High-powered money (M1)	26890	25244	24785	23902	24072	24878	25097	26798	30269	31836	31758	32006	37833
Money outside banks	11866	11662	11990	11798	12123	12413	12757	13786	15590	15984	16314	16821	18268
Demand deposits	15024	13582	12795	12104	11949	12465	12340	13012	14679	15852	15444	15185	19565
Potencial (quasi) money	81542	90088	94618	96338	96208	98640	101014	104083	108304	112417	116740	119613	126866
Time deposits	25867	29858	33004	37333	38219	40607	44614	47415	50655	52815	54018	54416	59409
Savings deposits	15945	15532	14918	14632	14430	14461	14715	14997	15370	15675	15973	16300	20217
Deposits in foreign currency	39730	44698	46696	44373	43559	43572	41685	41671	42279	43927	46749	48897	47240
Import and restricted deposits	3589	3063	3167	3287	3163	2896	3081	3682	3468	3276	3124	3157	3585
levs	3	2	1	1	2	2	3	12	-20	11	18	158	126
convertible currency	3583	3056	3161	3282	3157	2890	3077	3669	3488	3265	3106	2999	3458
non-convertible currency	3	5	5	4	4	4	1	1	0	0	0	0	1

Source: BNB.

DOMESTIC CREDIT IN 1992

(million levs)

Indicators	XII'91	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Exchange rate levs/US dollar	21.811	23.816	24.141	23.175	23.013	23.204	23.021	22.763	22.223	22.636	23.746	24.702	24.492
Net domestic credit	167271	174538	181521	186165	192179	197173	208285	216695	224860	233268	242204	247684	252560
levs	85160	86291	91420	92724	94319	96748	100163	104981	110268	115099	121513	124037	125731
convertible currency	82111	88247	90101	93441	97860	100425	108122	111714	114592	118169	120691	123647	126829
Claims on government (net)	52994	55258	60087	63227	64394	66523	72414	76358	80791	85456	90142	92852	101354
levs	16232	15596	17915	17063	15908	15995	17257	19480	22363	24407	26943	27678	34250
convertible currency	36762	39662	42172	46164	48486	50528	55157	56878	58428	61049	63199	65174	67104
State budget (net)	51177	53625	57785	61406	62397	64537	70416	74477	78808	83618	88273	90979	101757
levs	14415	13963	15613	15242	13911	14009	15259	17599	20380	22569	25074	25805	34653
convertible currency	36762	39662	42172	46164	48486	50528	55157	56878	58428	61049	63199	65174	67104
Extrabudgetary accounts (levs)	1817	1633	2302	1821	1997	1986	1998	1881	1983	1838	1869	1873	-403
Claims on non-government sector	114277	119280	121434	122938	127785	130650	135871	140337	144069	147812	152062	154832	151206
levs	68928	70695	73505	75661	78411	80753	82906	85501	87905	90692	94570	96359	91481
convertible currency	45349	48585	47929	47277	49374	49897	52965	54836	56164	57120	57492	58473	59725
Claims on non-financial public enterprises	101291	107701	108788	109815	113417	116030	120217	124110	127772	131139	134427	137611	133365
levs	55942	59116	60859	62538	64043	66133	67252	69274	71608	74019	76935	79138	73640
convertible currency	45349	48585	47929	47277	49374	49897	52965	54836	56164	57120	57492	58473	59725
Claims on private sector (levs)	12986	11579	12646	13123	14368	14620	15654	16227	16297	16673	17635	17221	17841

Source: BNB.

NOMINAL INTEREST RATES ON ONE-MONTH DEPOSITS IN 1992

Months	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
January	4.08											
February	8.42	4.17										
March	13.02	8.59	4.24									
April	17.80	13.18	8.65	4.23								
May	22.71	17.90	13.18	8.58	4.17							
June	27.84	22.83	17.91	13.11	8.52	4.18						
July	32.71	27.51	22.40	17.42	12.66	8.15	3.81					
August	37.42	32.03	26.75	21.59	16.66	11.99	7.50	3.55				
September	41.74	36.18	30.73	25.41	20.32	15.50	10.87	6.80	3.14			
October	46.20	40.47	34.85	29.36	24.11	19.14	14.36	10.17	6.39	3.15		
November	50.81	44.89	39.09	33.44	28.02	22.90	17.97	13.64	9.74	6.40	3.15	
December	55.57	49.47	43.49	37.65	32.07	26.78	21.69	17.23	13.21	9.76	6.41	3.16

Source: BNB.

REAL INTEREST RATES ON ONE-MONTH DEPOSITS IN 1992*

Months	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
January	-0.69											
February	-2.24	-1.54										
March	-1.89	-1.19	0.33									
April	-0.93	-0.19	1.35	1.00								
May	-7.81	-7.09	-5.68	-5.99	-6.91							
June	-9.21	-8.47	-7.08	-7.43	-8.34	-1.53						
July	-8.29	-7.60	-6.20	-6.51	-7.43	-0.51	0.98					
August	-6.13	-5.42	-3.98	-4.33	-5.23	1.81	3.36	2.32				
September	-6.38	-5.63	-4.23	-4.56	-5.48	1.59	3.14	2.10	-0.25			
October	-9.08	-8.37	-7.00	-7.27	-8.20	-1.37	0.14	-0.84	-3.11	-2.87		
November	-12.12	-11.43	-10.09	-10.39	-11.28	-4.66	-3.23	-4.19	-6.37	-6.17	-3.33	
December	-13.33	-12.64	-11.32	-11.59	-12.48	-5.95	-4.55	-5.46	-7.66	-7.37	-4.65	-1.38

* Inflation rate is measured by consumer price index.

Source: BNB.

NOMINAL INTEREST RATES ON SHORT-TERM DEPOSITS IN 1992

Months	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
January	5.02											
February	10.31	5.04										
March	15.92	10.38	5.08									
April	21.83	16.01	10.44	5.10								
May	28.12	21.99	16.14	10.52	5.16							
June	34.76	28.32	22.17	16.26	10.62	5.19						
July	41.11	34.37	27.92	21.74	15.83	10.14	4.71					
August	47.52	40.47	33.73	27.26	21.09	15.15	9.46	4.54				
September	53.70	46.35	39.33	32.59	26.16	19.97	14.05	8.92	4.19			
October	60.15	52.50	45.18	38.16	31.46	25.01	18.84	13.49	8.57	4.20		
November	66.85	58.87	51.25	43.94	36.95	30.23	23.81	18.24	13.10	8.56	4.18	
December	73.87	65.56	57.62	50.00	42.72	35.72	29.02	23.22	17.87	13.13	8.57	4.21

Source: BNB.

REAL INTEREST RATES ON SHORT-TERM DEPOSITS IN 1992*

Months	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
January	0.21											
February	-0.53	-0.72										
March	0.62	0.43	1.14									
April	2.46	2.30	3.02	1.84								
May	-3.75	-3.87	-3.22	-4.31	-6.02							
June	-4.29	-4.38	-3.73	-4.86	-6.57	-0.58						
July	-2.48	-2.63	-1.98	-3.08	-4.83	1.33	1.86					
August	0.76	0.62	1.31	0.13	-1.64	4.68	5.25	3.30				
September	1.52	1.42	2.07	0.91	-0.90	5.51	6.09	4.13	0.76			
October	-0.40	-0.52	0.13	-0.96	-2.77	3.48	4.06	2.16	-1.12	-1.88		
November	-2.77	-2.89	-2.23	-3.33	-5.09	1.03	1.57	-0.30	-3.49	-4.27	-2.36	
December	-3.13	-3.24	-2.58	-3.66	-5.42	0.68	1.19	-0.63	-3.86	-4.54	-2.72	-0.37

* Inflation rate is measured by retail price index of NSI.

Source: BNB.

CASH BASIS REPORTING OF THE STATE BUDGET IN 1992

(million levs)

Indicators	Law*	I quarter	% of law	II quarter	January – June	% of law	III quarter	January – September	% of law	IV quarter	January – December	% of law
I. Total revenue	44124.3	6001.8	13.6	12167.4	18169.2	41.2	7634.3	25803.5	58.5	13781.0	39584.5	89.7
1. Tax revenue	40520.2	5704.9	14.1	11072.1	16777.0	41.4	7109.4	23886.4	58.9	10212.0	34098.4	84.2
including:												
Corporate tax from financial institutions	11176.6	1275.4	11.4	3988.8	5264.2	47.1	887.6	6151.8	55.0	1865.3	8017.1	71.7
BNB	5728.8	0.0	0.0	3220.0	3220.0	56.2		3220.0	56.2	0.0	3220.0	56.2
Commercial banks, BFTB, SSB and Insurance institutions	5447.8	1275.4	23.4	768.8	2044.2	37.5	887.6	2931.8	53.8	1865.3	4797.1	88.1
Corporate tax from non-financial institutions	11154.8	973.9	8.7	1590.8	2564.7	23.0	1348.4	3913.1	35.1	1563.8	5476.9	49.1
2. Non-tax revenue	3604.1	296.9	8.2	1095.3	1392.2	38.6	524.9	1917.1	53.2	3569.0	5486.1	152.2
including:												
Interest revenue	815.4	391.6	48.0	3.6	395.2	48.5	168.8	564.0	69.2	177.2	741.2	90.9
II. Total expenditure	55143.0	8601.6	15.6	13232.2	21833.8	39.6	14226.9	36060.7	65.4	15246.7	51307.4	93.0
1. Current expenditure	24475.2	2462.2	10.1	5835.0	8297.2	33.9	4973.3	13270.5	54.2	5745.0	19015.5	77.7
including:												
Other expenditure	2214.4	180.4	8.1	298.4	478.8	21.6	388.7	867.5	39.2	769.2	1636.7	73.9
Subsidies – total	3673.6	-183.8	-5.0	2056.9	1873.1	51.0	652.6	2525.7	68.8	342.7	2868.4	78.1
Interest – total	13371.9	1126.5	8.4	4012.2	5138.7	38.4	3394.1	8532.8	63.8	4433.4	12966.2	97.0
Interest on external loans	4338.6	221.5	5.1	193.0	414.5	9.6	1089.0	1503.5	34.7	1773.2	3276.7	75.5
Interest on internal loans	9033.3	905.0	10.0	3819.2	4724.2	52.3	2305.1	7029.3	77.8	2660.2	9689.5	107.3
2. Capital investmens	166.1	42.5	25.6	0.6	43.1	25.9	23.4	66.5	40.0	30.1	96.6	58.2
3. Transfers – total	30501.7	6096.9	20.0	7396.6	13493.5	44.2	9230.2	22723.7	74.5	9471.6	32195.3	105.6
3.1. Subsidies	30501.7	3609.2	11.8	8289.6	11898.8	39.0	7630.5	19529.3	64.0	11728.5	31257.8	102.5
3.2. Loans	0.0	2514.0		-837.6	1676.4	0.0	1610.0	3286.4	0.0	-1994.7	1291.7	
including:												
to municipal councils		837.6		-837.6	0.0		0.0	0.0		744.4	744.4	
to ministries and other institutions		0.0		0.0	0.0		0.0	0.0		5.0	5.0	
to social security		1676.4		0.0	1676.4		1610.0	3286.4		-2744.1	542.3	
3.3. Central government budget contributions	0.0	-26.3		-55.4	-81.7		-10.3	-92.0		-262.2	-354.2	
III. Deficit (–) / Surplus(+)												
1. Primary deficit/surplus	2353.2	-1473.3	-62.6	2947.4	1474.1	62.6	-3198.5	-1724.4	-73.3	2967.7	1243.3	52.8
Interest paid on internal loans	9033.3	905.0	10.0	3819.2	4724.2	52.3	2305.1	7029.3	77.8	2660.2	9689.5	107.3
2. Internal deficit	-6680.1	-2378.3	35.6	-871.8	-3250.1	48.7	-5503.6	-8753.7	131.0	307.5	-8446.2	126.4
Interest paid on external loans	4338.6	221.5	5.1	193	414.5	9.6	1089	1503.5	34.7	1773.2	3276.7	75.5
3. Cash deficit	-11018.7	-2599.8	23.6	-1064.8	-3664.6	33.3	-6592.6	-10257.2	93.1	-1465.7	-11722.9	106.4

(continued)

Indicators	Law*	I quarter	% of law	II quarter	January–June	% of law	III quarter	January–September	% of law	IV quarter	January–December	% of law
IV. Cash deficit financing	11018.7	2599.8	23.6	1064.8	3664.6	33.3	6592.6	10257.2	93.1	1465.7	11722.9	106.4
1. Internal financing	-2961.6	11.5	-0.4	-952.6	-941.1	31.8	-310.9	-1252.0	42.3	-366.9	-1618.9	54.7
1.1. Repayment on credits extended	1890.0	41.6	2.2	-18.1	23.5	1.2	52.5	76.0	4.0	560.6	636.6	33.7
1.2. Repayment on 1991 clearing agreement surpluses	850.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.3. Financing of the clearing agreement with the former USSR	0.0	0.0	0.0	-857.5	-857.5	0.0	-254.0	-1111.5	0.0	-528.8	-1640.3	
1.4. Credits extended to other countries	-396.0	0.0	0.0	-58.2	-58.2	14.7	-0.4	-58.6	14.8	-35.1	-93.7	23.7
1.5. Repayment on foreign loans	-2055.6	-4.0	0.2	-1.1	-5.1	0.2	-16.3	-21.4	1.0	-366.4	-387.8	18.9
1.6. Valuation adjustment expenses on foreign trade deficit in transferrable roubles with East European countries	-3250.0	-26.1	0.8	-17.7	-43.8	1.3	-92.7	-136.5	4.2	2.8	-133.7	4.1
2. Internal financing	13980.3	2588.3	18.5	2017.4	4605.7	32.9	6903.5	11509.2	82.3	1832.6	13341.8	95.4
2.1. Operations in government securities	3250.0	1014.2	31.2	-1628.5	-614.3	-18.9	1166.6	552.3	17.0	3564.0	4116.3	126.7
2.1.1. Issue of government securities in 1992, net	7257.7	3365.2	46.4	-1260.9	2104.3	29.0	1666.6	3770.9	52.0	4370.4	8141.3	112.2
2.1.1.1. Issue of government securities in 1992	0.0	3365.2		2106.6	5471.8		3773.1	9244.9		4370.5	13615.4	
2.1.1.2. Repayment of government securities, 1992	0.0	0.0		-3367.5	-3367.5		-2106.5	-5474.0		-0.1	-5474.1	
2.1.2. Repayment of government securities, issues 1990 and 1991	-4007.7	-2351.0	58.7	-367.6	-2718.6	67.8	-500.0	-3218.6	80.3	-806.4	-4025.0	100.4
bonds, 1990	0.0	-427.1		0.0	-427.1		0.0	-427.1		-6.5	-433.6	
treasury bills	0.0	-1923.9		32.4	-1891.5		0.0	-1891.5		0.1	-1891.4	
government securities – BFTB	0.0	0.0		-400.0	-400.0		-500.0	-900.0		-800.0	-1700.0	
2.2. Bank financing	10730.3	1901.1	17.7	2509.8	4410.9	41.1	4283.5	8694.4	81.0	531.1	9225.5	86.0
2.2.1. BNB	11203.3	1980.0	17.7	2627.9	4607.9	41.1	4741.2	9349.1	83.4	927.9	10277.0	91.7
long-term loans	11856.3	1980.0	16.7	2900.0	4880.0	41.2	3350.0	8230.0	69.4	2700.0	10930.0	92.2
repayment on long-term loans	-653.0	0.0	0.0	-272.1	-272.1	41.7	-108.8	-380.9	58.3	-272.1	-653.0	100.0
temporary loans	0.0	0.0		600.0	600.0		1500.0	2100.0		-1500.0	600.0	
repayment on temporary loans	0.0	0.0		-600.0	-600.0		0.0	-600.0		0.0	-600.0	
2.2.2. Other banks	-473.0	-78.9	16.7	-118.1	-197.0	41.6	-457.7	-654.7	138.4	-396.8	-1051.5	222.3
loans	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0	
repayments	-473.0	-78.9	16.7	-118.1	-197.0	41.6	-457.7	-654.7	138.4	-396.8	-1051.5	222.3
2.3. Other financing	0.0	0.0		1360.0	1360.0		548.0	1908.0		-1908.0		
2.4. Budget deposit of central government budget	0.0	-327.0		-223.9	-550.9		905.4	354.5		-354.5		

* Disbursement of expenditure adopted by the Law is based on data received from the Ministry of Finance.

Source: Ministry of Finance, BNB.

CONSOLIDATED STATE BUDGET PERFORMANCE IN 1992

(million levs)

Budgets, included in consolidated state budget	I quarter	% of GDP	II quarter	January– June	% oт GDP	III quarter	January– September	% of GDP	IV quarter	January– December	% of GDP
State budget											
Revenue	6005.2	3.1	12181.6	18186.8	9.3	7628.2	25815.0	13.2	13827.6	39642.6	20.3
Expenditure	5786.4	3.0	10287.3	16073.7	8.2	9922.5	25996.2	13.3	13325.4	39321.6	20.2
Balance	218.8	0.1	1894.3	2113.1	1.1	-2294.3	-181.2	-0.1	502.2	321.0	0.2
Social security budget											
Revenue	4753.4	2.4	5009.8	9763.2	5.0	5872.2	15635.4	8.0	7116.6	22752.0	11.7
Expenditure	6324.6	3.2	4997.7	11322.3	5.8	7440.7	18763.0	9.6	6164.8	24927.8	12.8
Balance	-1571.2	-0.8	12.1	-1559.1	-0.8	-1568.5	-3127.6	-1.6	951.8	-2175.8	-1.1
Legal institutions											
Revenue	114.0	0.1	138.6	252.6	0.1	158.5	411.1	0.2	227.6	638.7	0.3
Expenditure	58.7	0.0	116.9	175.6	0.1	127.6	303.2	0.2	251.5	554.7	0.3
Balance	55.3	0.0	21.7	77.0	0.0	30.9	107.9	0.1	-23.9	84.0	0.0
Municipal councils' budgets											
Revenue	3791.3	1.9	3132.2	6923.5	3.6	3699.4	10622.9	5.4	4592.9	15215.8	7.8
Expenditure	4230.4	2.2	6009.0	10239.4	5.3	6341.9	16581.3	8.5	9483.8	26065.1	13.4
Balance	-439.1	-0.2	-2876.8	-3315.9	-1.7	-2642.5	-5958.4	-3.1	-4890.9	-10849.3	-5.6
Extrabudgetary accounts											
Revenue										2980.2	
Expenditure										1534.9	
Consolidated state budget											
Revenue – total	14663.9	7.5	20462.2	35126.1	18.0	17358.3	52484.4	26.9	25764.7	81229.3	41.7
Expenditure – total	16400.1	8.4	21410.9	37811	19.4	23832.7	61643.7	31.6	29225.5	92404.1	47.4
Changes in cash on extrabudgetary accounts										777.7	
Cash deficit	-1736.2	-0.9	-948.7	-2684.9	-1.4	-6474.4	-9159.3	-4.7	-3460.8	-10397.1	-5.3

Note: Performance of the consolidated state budget as of 31 December 1992 is based on preliminary data of the Ministry of Finance.
Source: Ministry of Finance, BNB.

REVENUE AND EXPENDITURE OF THE BULGARIAN NATIONAL BANK AS OF 31 DECEMBER 1992

(million levs)

Expenditure		Revenue	
I. Financial expenditures	8811	I. Financial revenues	11446
1. Interest	8765	1. Interest received from:	11294
on the accounts of the Ministry of Finance	386	short- and long-term credits extended to the Ministry of Finance	4424
on deposits	6635	commercial bank deposits	6211
on foreign exchange operations	876	untimely transfer of minimum non-interest reserve	2
on current accounts	612	Interests received from foreign exchange transactions	657
on the SFRD	256	2. Valuation adjustments from foreign exchange transactions	99
2. Commissions and fees	34	3. Revenue from government securities transactions	24
levs	0	levs	23
foreign currency	34	foreign currency	0
3. Valuation adjustments	4	4. Commissions and fees	1
4. Other financial expenditure	8	levs	0
II. Administrative expenditurs	513	foreign currency	1
1. Currency circulation costs	347	5. Other financial revenue	28
2. Expenditure for labour and insurance	53		
3. Expenditure for materials, services and overhauls	113		
Expenditure – total	9324	Revenue – total	11446
Surplus of the revenue over expenditure	2122		

Source: BNB.

OUTSTANDING CREDITS TO COMMERCIAL BANKS AS OF 30 MAY 1992

(million levs)

Section	Amount of outstanding credit	Amount of outstanding repayment installments in time									Allocated reserves	
		Total (4+6+8+10)	from 30 to 90 days		from 90 days to 1 year		from 1 to 3 years		over 3 years			
			total	incl. compound interest	total	incl. compound interest	total	incl. compound interest	total	incl. compound interest	total	incl. compound interest
1	2	3	4	5	6	7	8	9	10	11	12	13
A. levs	34742	11904	2528	661	3023	1278	5722	1788	631	322	1551	1145
B. levs	37793	9512	4580	662	4298	799	626	150	8	2	1096	652
A. foreign currency	34428	12665	913	232	3963	755	4475	1087	3314	1278	2731	1794
B. foreign currency	4171	575	316	32	233	6	27	5	0	0	13	10
Total	111134	34656	8337	1587	11517	2839	10850	3030	3952	1602	5391	3601

Note:
A – extended to 31 December 1990 in levs and foreign currencies;
B – extended from 1 January 1991 to 30 May 1992 in levs and foreign currencies.

Source: BNB.

Major Resolutions of the Managing Board of the Bulgarian National Bank

9 January Ordinance No. 5 on Issuance, Sale and Redemption of Book-entry Short-term Government Securities, issued jointly with the Ministry of Finance, is approved.

13 January Pursuant to Article 46 of the Law on the BNB, a temporary loan is made to the Ministry of Finance in the amount of 1.5 billion levs with redemption of three months.

16 January The Exchange Rate and Purchase and Sale of Foreign Exchange Commission is assigned the task of determining a daily internal price of precious metals in levs both at bid and offer price.

17 January A project of a new 50 levs banknote, issue 1991 is approved.

23 January Consent is given to the Vienna Reiffeisen Zentralbank to buy shares in the Bank for Agricultural Credit in the amount of 7 million levs, or 5% of that bank's capital. Thus Reiffeisen Zentralbank's partnership in the Bank for Agricultural Credit reached 15%.

28 January Pursuant to item 2 of the Resolution of the National Assembly of 15 January 1992, a loan of 480 million levs is made, so each pensioner can be paid a lump sum of 200 levs in addition to his pension or sum total of his pensions payable in February 1992.

For the bonds received from the Ministry of Finance under the terms and procedures of Decree No. 244 of the Council of Ministers of 29 December 1991, the BNB is to make roll over loans against collateral (Lombard loans) to banks in 1992 for up to 90% of their nominal value, and for the following years in smaller amount established by the BNB Board. The loan may be made on the basis of contracts concluded with the Ministry of Finance before printing the bonds.

An amendment to the resolution of the BNB Board on item 2 of Protocol No. 47 of 2 November 1990 is made. In case commercial banks exceed the established standard of reducing working capital loans, a minimum non-interest bearing reserve is set aside to the amount of 10% of their attracted funds, the amount above the standards of 7% being not larger than the amount of the actual excess over the ceilings.

13 February To restrict the unsecured financing of commercial banks, the decision on item 1.2 of Protocol No. 51 of 1991 of the BNB Board is repealed, and after agreements between the BNB and commercial banks expire (20 February 1992), the BNB will discontinue extensions of direct deposits in the amount of 10% of the authorized credit ceilings of commercial banks.

To assist the government securities market, the amount of the loan against collateralized three-month treasury bills is increased from 70 to 80% of the face value. The

BNB begins buying treasury bills from commercial banks on the open market.

17 February A fine of 20,000 levs is imposed on the Bobovdol Commercial Bank Ltd. for non-compliance with credit ceilings and other regulators, pursuant to Article 55, para. 1 of the Law on the BNB.

20 February The Currency Issue Department, complying with established procedure, proceeds to design, make, and release into circulation a new issue of circulation coins at face values of 10, 20 and 50 stotinkas, and 1, 2, 5 and 10 levs.
The BNB begins to gradually withdraw from circulation the circulation coins of 1, 2 and 5 stotinkas (1962, 1974, 1981, 1988, 1989, 1990 issues). These coins will be in circulation, and legal tender until 31 December 1995. From that date until 31 December 1997 the coins of 1, 2 and 5 stotinkas from the above mentioned issues will be accepted only by the BNB cash-desks for exchange.
The BNB begins to gradually withdraw the banknotes of 1, 2, 5 and 10 levs (1962 and 1974 issues) from circulation. These banknotes will be in circulation and legal tender until 31 December 1996. From that date until 31 December 1998 the banknotes of 1, 2, 5 and 10 levs from the above mentioned issues will be accepted only by the BNB cash-desks for exchange.

The announced credit ceilings for economic activities allowed by commercial banks at the end of the first 1992 quarter are reduced from 110% to 107% compared to the ceilings determined at the end of 1991.

29 February As of 1 April 1991, credit ceilings are determined for the newly formed commercial banks on the basis of average data for their 1991 operations. As of 1 April 1992, a mandatory penalty is placed on banks exceeding their individual credit ceilings. They are required to set aside, as a non-interest bearing reserve requirement, the amount by which they have exceeded their credit ceiling but not more than 8 percentage points above effective standard for the minimum reserve requirements of their attracted funds.
As of 1 April 1992, monthly reporting of the credit ceilings is introduced.

12 March Pursuant to Article 6, para. 4 of Regulations No. 2 of the BNB of 28 March 1991, the licences of 13 companies for buying and selling foreign exchange were revoked for not submitting the required 1991 information to the BNB, and of other two companies due to inadequacy of the premises.

19 March The Vienna Reiffeisen Zentralbank is allowed to buy additional shares in the Bank for Agricultural Credit in the amount of 22 million levs, or 16.3% of the capital of the Bank for Agricultural Credit, in compliance with the corresponding legislation. Thus Reiffeisen Zentralbank's partnership in the Bank for Agricultural Credit reached 31.5%.

31 March Pursuant to Regulations No. 6 of 11 February 1992 on refinancing banks against collateral and rediscounting of commercial securities, the BNB makes loans to banks against collateralized gold, silver, and foreign exchange to the amount of 85% of the lev equivalent of that collateral by the date the loan was made.

A schedule is adopted for the fees the BNB collects in connection with the transportation of valuable packages containing cash; maintenance and protective services such as vaults, depositories and locks; for renting safe deposit boxes and vaults to individuals and companies; for safe-keeping of valuables; for checking banknotes and other instruments of payment.

22 April Consent is given for minting of four coins on Olympic, ecological and historical subjects in 1992.

4 May Credit ceilings are determined to establish the largest permissible growth of the total debt on the loans in levs made by the commercial banks as of 30 April 1992 to the amount of 108.5%, by 30 May 1992 – 110%, and a preliminary ceiling by 30 June 1992 – 112% compared to the adjusted ceiling by 31 December 1991.

7 May A minimum amount of the owners' equity (paid-in capital and reserves) of the commercial banks is determined as follows: for a commercial bank which has been granted a permit to make banking transactions in the country and abroad – 500 million levs; for a commercial bank which has been granted a permit to make banking transactions in the country only – 200 million levs.
Banks which have been granted a permit to make banking transactions shall bring the amount of their owners' equity in line with these requirements by 31 May 1993.

18 May Pursuant to Article 46 of the Law on the BNB, the Ministry of Finance has been extended a temporary credit (advance) in the amount of 600 million levs, to pay for the maturity of the fourth issue of treasury bills. The credit is to be redeemed by the Ministry of Finance within one day, beginning 18 May 1992, and basic interest rate is to be accrued.

21 May Pursuant to Article 1, para. 4, item 3.1. of the State Budget Law, the BNB extends a long-term loan to the Ministry of Finance in the amount of 800 million levs with a value date 22 May 1992. The period of repayment is 10 years, pursuant to § 7 of the Transitional and Final Provisions of the State Budget Law, and will be repaid by equal installments starting 1 January 1993.

The BNB pays 1,185,000 ECU, constituting 50% of the second membership contribution of the Republic of Bulgaria in the European Bank for Reconstruction and Development, part payable in effective currency.

28 May Consent is given to the First Private Bank Ltd., Sofia to open a representative office in Izmyr, Turkey.

11 June Pursuant to Article 1, para. 4, item 3.1. of the 1992 State Budget Law, the BNB extends a loan in the amount of 800 million levs to the Ministry of Finance with a value date 12 June 1992, for financing the annual budget deficit. The period of repayment is 10 years, starting 1 January 1993. The basic interest rate effective for the relevant period will be accrued on this loan.

24 June Pursuant to Article 1, para. 4, item 3.1. of the 1992 State Budget Law, the BNB has extended a loan to the Ministry of Finance in the amount of 1,300 million levs with a value date 25 June 1992, for financing the budget deficit. The period of repayment is 10 years, beginning 1 January 1993. The basic interest rate effective for the relevant period will be accrued on this loan.

30 June The BNB sets the basic interest rate (as of 6 July 1992) on the loans in levs for refinancing the commercial banks at 49% annually.

The BNB sets 13 July 1992 for an open auction for the commercial banks to buy 50% of the free credit ceilings reported by the commercial banks as of 31 May 1992. The credit ceilings sold at the auction are included and reported in the base of the credit ceilings of the commercial banks which have won them.

1 July Pursuant to Article 1, para. 4, item 3.1 of the 1992 State Budget Law, the BNB has extended to the Ministry of Finance a loan in the amount of 2,500 million levs with a value date 1 July 1992 to finance this year's budget deficit. The redemption period is 10 years, beginning 1 January 1993. The loan shall be subject to interest accrual dependent upon the basic interest rate in effect for any respective period.

7 July Pursuant to Article 34, para. 4, item 4 of the Law on Banks and Credit Activity, the BNB Board has provided for that banks shall have the obligation to announce publicity and in advance, at least once a year in case of a change in the terms and conditions, as well as following the end, of any of their operations, an effective rate, i.e. the amount of interests, commission fees, charges, and any other possible payments contracted and actually paid, as simple annual interest rate postnumerando on the basis of the actual annual chronological mean remaining after the respective operation.

The BNB announces the commemorative coins of Olympic, ecological and football programme, issue 1989 – 1990 as legal tender. The coins will be put into circulation from 17 July 1992.

Starting from 15 July 1992, the sale of coins of numismatic value issued by the BNB will be effected on a commission basis by specialised firms and commercial banks. Numismatic prices shall be determined on the basis of international primary market prices in Deutsche marks, precious metal prices and the lev/Deutsche mark exchange rate.
Such prices shall be changed any time when any movement in the international market price greater than 5% occurs, and recalculation of the exchange rate of the lev against the Deutsche mark shall be done once a month.

10 July The BNB Board has approved credit ceiling increases for lev business loans as follows: for July 1992 – 115% of the base (i.e. the credit ceilings fixed for the end of 1991), for August 1992 – 118%, and for September 1992 – 121%.

In connection with the introduction of a settlement system at the BNB, commercial banks are allowed to use overdraft up to the amount of the interest-free minimum reserve requirements (including such held in foreign currencies) with the BNB in effecting payments from their respective current accounts with the BNB.
Interest should be accrued in compliance with the Temporary Tariff on Interest Rates Applied by the BNB to its Domestic Operations.

The BNB Board has approved Ordinance of Payments together with the banking unified standards (BUS) annexed to it:
BUS 1092, Payment Document Forms;
BUS 2092, Compilation of Payment Documents;
BUS 3092, Bank Code Structure;
BUS 4092, Numbering Bank Accounts
The BNB Board has also approved a standard for settlement in the BNB (BUS 7092) and for payments through immediate cash collection (BUS 5392).

23 July The BNB Board fixed the amount of the loans against collateral of six-month treasury bills to 70% of the nominal value.

27 July A consent for issuing a licence for conducting banking activity in the country to the Private Agricultural and Investment Bank Ltd., Sofia is given.

30 July The Central Bank extended to the Ministry of Finance a temporary loan in the amount of 1,500 million levs with a value date 31 July 1992 and redemption period up to 3 months. The loan shall be subject to interest accrual dependent upon the basic interest rate in effect for any respective period.

The BNB Board fixed a 45% basic interest rate per annum, beginning 3 August 1992.

6 August The BNB determined that in the cases a commercial bank with state participation has applied for a permission to increase its equity capital at the expense of its previous year's after-tax profit, the prerequisites for the permission by the BNB are available. In all other cases, where banks with state participation have applied for an increase of their equity capital by means of issuance of new stock, until 31 December 1993 it will be considered possible only following a revaluation of the bank's assets.

13 August Pursuant to Article 17, para. 2, item 4, of the Law on Banks and Credit Activity, the BNB Board grants its permission for the foundation of United Bulgarian Bank, Ltd., Sofia through the merger of 22 commercial banks, provided the newly founded company will assume in full the assets and liabilities of all its founder-members.

21 August Beginning 1 January 1992 the non-paid interest will not be reported to the loss and profit accounts and, respectively, they will not be included in the financial results of the banks. Commercial banks will not allot formal statutory provisions and the ones already formed on this basis will be cancelled. Non-paid interest is to be reported as expected income and only after they have been collected they will be referred to the financial results and levied in compliance with the general rules.

28 August Pursuant to Article 5 of the Law on the BNB the Central Bank will apply to become a member of the Association of the National Numbering Agencies (ANNA). In respect with the BNB membership in the ANNA the necessary legal actions will be undertaken.

4 September A licence is issued to TEXIM Private Entrepreneurial Bank, Ltd.

The BNB Board fixed the amount of 3-month loans extended against collateral of 6-month and 9-month treasury bills according to their term to maturity, as follows: over 180 days – up to 65% of the nominal value; from 91 to 180 days – up to 70% of the nominal value; up to 90 days – up to 80% of the nominal value.

10 September The basic interest rate was fixed to 41% per annum, beginning 15 September 1992.

17 September Pursuant to the 1992 State Budget Law (Article 1, para. 4, item 3.1), the BNB extended to the Ministry of Finance a long-term credit amounting to 850 million levs, value date 18 September 1992. The credit will be repaid within ten-year period, beginning 1 January 1993 and the basic interest rate actual for the period will be applied.

1 October The ceilings on lev credits for economic activity as of 31 December 1992 have been determined in the amount of 129% compared to those of 31 December 1991. Their increase by months is as follows: in October – 124%, in November – 127% and in December – 129%. Monthly enlargement of the credit ceilings extended to the commercial banks will be based on new principles: an increase of 1% will be given to the commercial banks which have constantly reported a surplus of credit ceilings (and in fact, have not contributed much to form this ceiling) since the beginning of the year; the surplus of the credit ceiling should be evenly distributed by the Lev Operations Department to the commercial banks which repeatedly suffer shortage of credit ceilings due to some objective reasons (mainly caused by the drawbacks in defining the ground for the credit ceiling formation) and each month have to buy ceilings from one and the same banks at a very high price which influences their profitability.

Bank branches will be opened and new bank codes will be issued with the permit of Information Technology Department only. Bankservice Ltd. in collaboration with the newly established branch will provide data transmission from/to the BISERA. Data transmission from the branch to the BISERA and vice versa will be organized on regional basis. Information Technology Department will issue a new bank code only at presentation of a certificate issued by Bankservice Ltd., declaring that all technological requirements have been met and the regional principle for introduction of interbank settlements in the BISERA inputs has been followed.

14 October Banknotes with a face value of 20, 50 and 200 levs, issue 1991, 1992 will be put into circulation from 1 November 1992. The BNB will start withdrawing from circulation the banknotes with a face value of 20 levs (issues 1962, 1974) and 50 levs (issue

1989). The banknotes will be in circulation and legal tender until 31 December 1997. After this date the banknotes will be exchanged at the BNB cash-desks until 31 December 1999.

22 October The Agricultural Credit Central, Ltd., with a capital of 107.3 million levs is given a licence for the following activities: to extend loans in levs and foreign currency (in compliance with Article 1, para. 2, item 2 of the Law on Banks and Credit Activity); to guarantee transactions in accordance with Article 1, para. 2, item 7 of the Law on Banks and Credit Activity.

In compliance with the provisions of Article 1, para. 4, item 3.1 of the State Budget Law, amended by the Law on the Amendment of the State Budget Law of 25 September 1992, the BNB extended to the Ministry of Finance 1,200 million levs long-term loan, value date 23 October 1992. The term of repayment is 10 years, beginning 1 January 1993 with the current basic exchange rate applied.

26 October The BNB shall refund to Economic Bank the interest payments received from 1 January 1992 up to now on credits the bank took over from the BNB in 1987. The interest payments refunded to the Economic Bank shall be compounded as a debt to the BNB.
The resources thus made available shall be used to repay the debt of the Economic Bank to the BNB and other banks.

26 November BNB's open market operations shall begin as of 1 January 1993. The BNB can only carry out open market transactions with financial institutions that are registered on the respective government securities records maintained by the State Credits Department of the BNB. Initially, the open market operations shall be conducted using three-month and six-month treasury bills.

18 December The BNB will write off the arrears from its reserve fund on the investment loans extended by the BNB to Energy Committee and then transferred to the Economic Bank in the amount of 7,043 million levs.

As of 1 January 1993 a new system for determining the credit ceilings of commercial banks and the basic parameters for their calculation will be introduced. In the process of cleaning banks' loan portfolios, in pursuance of Decree No. 234 of the Council of Ministers of 1992, the credits that have been assumed as state debt and charged at the expense of provisions, will be deducted from the credit ceilings of the respective banks. Credits covered by the general reserves of the banks will not be deducted.

24 December The BNB determined an annual basic interest rate of 47% beginning 1 January 1993.

The general rate of increase of credit ceilings for January 1993 is fixed at 2%, as compared to the ones at the end of 1992.

30 December Pursuant to Article 1, para. 3 of the Law on Settlement of Old Arrears on Bank Credits (published in the State Gazette, issue 21 of 1991), the basic annual interest rate on the outstanding credits, specified in Article 1, para. 1, item 1 of the same Law is determined of 25% beginning 1 May 1993.

Pursuant to Article 46 of the Law on the BNB, a three-month credit in the amount of 1.8 billion levs and value date 4 January 1993 is extended to the Ministry of Finance and the basic interest rate effective in the respective period will be applied.

Legislative Framework of the Legal Status and the Activities of the Bulgarian National Bank 1879 – 1992

The history of the Bulgarian National Bank is complex and contradictory, being an integral part of the alternating periods of growth and decline of the Bulgarian state and its economy. The evolution of banking legislation during the 114 years since the establishment of the Central Bank to a great extent reflects this process. The laws regulating the legal status and activities of the BNB loom large among the multitude of legislative acts on banks. These laws with their inevitable amendments and addenda widely in normative content, period of enforcement, legal technique and style, but undoubtedly each marks a distinct period in the development of central banking.

The Law on the BNB of 1885 (published in the State Gazette, issue 11 of 5 February 1885) „established the BNB as a state lending institution with headquarters in the capital of the Bulgarian Principality...“ (Article 1). In this way the shareholding principle embodied in the Articles of Association of Banks of 1883, was repealed. It is characteristic of the Bulgarian banking legislation that it preserved and reinforced the principle of the BNB as a state agency (institution) in the legislative framework throughout the XIX-th and XX-th century.

The capital stock of the BNB totalled 10 million gold levs, paid in by the state and constituting property of the Bank. It could not be reduced and was to be replenished by the Treasury, if necessary (Article 2). The BNB formed reserve capital as well at the expense of part of its profits up to one-third of the capital stock (Article 3). The Law also expressly regulated the „exclusive privilege to issue banknotes which are to be accepted as payment by all treasurers of the state and by all government institutions“ which is traditional for a Central Bank. One-third of the banknotes issued had gold coverage and were freely convertible in gold at call (cf. Article 4).

Operations of the BNB, enumerated exhaustively under Article 5, para. 1, sub-paragraphs 1 – 14 of the Law, combined issuing functions, lending to the state, safekeeping of cash funds, and cash servicing of the state budget, with making deposits and credit transactions typical of commercial banks (cf. sub-paragraphs 1, 2, 4, 5, 7, 14). This „syncretism“, i.e. combining direct banking services for the national economy and individuals with central banking activities was a distinctive feature which continued several decades after the BNB was established.

For example, the Bank granted loans „secured by collateral of real estate against notes signed by the pledgers (sole bills) with a term of not longer than a year“ (sub-paragraph 4). Loans for a term not longer than six months were granted against collateral of „a) commodities; b) interest-bearing effects, securities, bills of lading; and c) precious metals in bullion or coins, and other valuables“ (sub-paragraph 5). Current accounts were opened for traders and industrialists „to an amount of not more than 50,000 levs against a note guaranteed by at least two other signatures of traders and industrialists of substance“ (sub-paragraph 7).

„Bills, notes, and other term debts provided with at least two signatures, up to the payment of which there are no more than 3 months“ were discounted (sub-paragraph 6).

The 1885 Law envisaged the establishment and functioning of discount committees and valuation commissions. Discount committees were formed at headquarters of the Bank and at each of its branches. They were chaired by the Governor (at the headquarters) or locally by the director of the branch, and were composed of outstanding representatives of trading and industrial circles, elected by their respective town and district councils (Article 16). Real estate valuation commissions were formed in the counties. Each commission included a representative of the Bank, cashier of the agricultural savings bank, and three more members elected by the local town council (Article 17). The discount committees and the valuation commissions evaluated and informed the Bank of the creditworthiness of private individuals (cf. Article 17, para. 2).

The Bulgarian legislature established normative restrictions on lending to the government. The BNB discounted treasury bills and made loans against such bills in an amount not to exceed one-fifth of its capital (sub-paragraph 8 in relation to Article 70 of the Articles of Association of the BNB of 1885). The „Bulgarian Government Funds" purchased could not exceed the amount of the capital stock of the Bank.

The BNB was emphatically prohibited from making transactions which were not provided by the Law, and from „play on the stock exchange". It was prohibited from lending against industrial shares, as well as directly or indirectly participating in industrial or trade enterprises (cf. Article 7).

The Central Bank was managed by a Governor and a Board. The Governor was appointed by the Prince. The Governor and four more department heads at the BNB, also appointed by the Prince, formed the Board of the Bank (Article 13). The rights of the Board were outlined in detail in the Articles of Association of the BNB. Pursuant to Article 83, that body „guides and supervises the management of the Bank. It specifies, in conformity with the Articles of Association, the main terms and conditions of its actions", particularly the form, time, and manner of issuing banknotes, as well as their amount; the interest and the discount rates, the amount of treasury bills which could be discounted or collateralized; it approved loans against mortgage on real estate; it compiled a list of the commodities and interest-bearing effects which could be accepted as collateral; it made decisions on opening and closing Bank branches and on choosing correspondents of the BNB; it approved the Bank and branch budgets; it offered opinions on the persons to be hired and to those to be appointed members of the discount committees, etc.

The Governor of the BNB chaired the Board, put its decisions into effect, managed the Bank, „supervises the compliance with the Articles of Association and the other rules, signs the agreements, institutes legal proceedings on behalf of the Bank pursuant to the Law, and represents the Bank in its relations with the government and with third persons" (cf. Article 81 of the BNB Articles of Association).

The Governor and the other members of the Board could not be dismissed without the permission of the National Assembly (Article 13 of the Law). The purpose of the legislature was to ensure stability of the legal status of the BNB managers. This requirement for stability was consistently followed with regard to other categories of Bank officials. Branch directors were proposed by the Minister of Finance with the consent of the Board and appointed by the Prince (Article 14 of the Law); the same procedure was followed in the appointment of department heads in the Bank branches (Article 15).

The government supervised the Central Bank in compliance with the Law and had the right to revoke its operations which were in violation of the Law (Article 18).

An overview of the major normative solutions contained in the Law on the Establishment of the BNB justifies the conclusion that a sound foundation for a modern legal bank regulation was laid, and that Bulgarian legislators had a clear concept of the enormous significance of the Central Bank in the socioeconomic life of the country which had to make up for a centuries-long lag behind contemporary European civilization.

The efforts to build an effective system also were evidenced in the Law on the BNB of 1906 (published in the State Gazette, issue 32 of 10 February 1906). This second systems law on the Central Bank reaffirmed the majority of normative solutions in the 1885 Law. Obviously the decades which had passed, periods of development for Bulgaria, proved their viability. At the same time, the legislative framework was further developed and rendered concrete, accounting for the changes in socioeconomic conditions. Compared to the 1885 Law, the new Law evinced a higher level of legal technique. Normative matter was structured by chapters. Chapter One contained norms as to the „character, capital, and privilege of the Bank" (to issue banknotes in circulation as legal tender). Chapter Two concerned management of the BNB, Chapter Three – operations and Chapter Four regulated BNB relations with the state. Chapter Five, the final chapter, contained norms as to the budget and accountability of the Bank, as well as a few transitional and final provisions. The legislative parlance was much more precise clear, and flexible.

The second banking law in general preserved the framework of the legal status and capital, and issuing activities instituted by the 1885 Law. The Central Bank retained its character as a state lending institution (Article 1). Capital stock was once again fixed at 10 million gold levs. The amount of reserve capital, however, was increased considerably. It totalled 10 million levs, in the form of government securities approved by the Minister of Finance (cf. Articles 3 – 5). A new part of the Law was a provision for coverage of banknotes in circulation by silver as well – to the amount of half of their value (Article 7, para. 2). The possibility was provided for the Minister of Finance, with the consent of the Council of Ministers, to prohibit the issuance of silver-covered banknotes in circulation, as well as to request the Bank to redeem, in part or in full, such banknotes already issued (Article 8).

Free convertibility of banknotes into gold was preserved (Article 9). It was envisaged that when banknotes were replaced, the difference between banknotes not returned to the Bank was to be profit for the state, paid as revenue to the treasury.

Regulation of the BNB managerial bodies also contained some new elements. The Governor-Board model remained but with an altered relationship. Unlike the 1885 Law which assigned management of the BNB to its Governor on principle (Article 13), the 1906 Law entrusted „the general management of the Bank" to the Board as a collective and collegiate body, consisting of the Governor and four administrators (Article 12). The Governor was assigned to represent the BNB before „all institutions and authorities" (Article 15).

A new figure in the BNB was the government delegate who with the legal advisor took part in Board meetings in advisory capacity. Their participation, however, did not relieve the Board of responsibility (cf. Article 14).

The range of BNB officials appointed by decree of the Prince became wider. It had once included the legal advisor, inspectors, comptrollers, secretaries, cashiers, accountants, and lawyers (Article 25, para. 3).

The requirements to become discount committee members were made more specific. Committee members were traders and industrialists who had registered companies and paid an annual business tax of at least 100 levs (cf. Article 17). The respective Chambers of Commerce and Industry also took part in electing members of these committees (ibid.). An obligation of the discount committees to review the amount of the outstanding loans at the beginning of the year was envisaged (Article 20).

Article 24 of the Law provided an express prohibition on BNB making personal loans to its staff, as well as on accepting them as surety.

Legislative requirements for BNB operations became stricter. All prohibitions and restrictions of the 1885 Law remained valid (on participation in industrial and trading enterprises, on playing on the stock exchange, etc. – cf. Article 47). Additional conditions were introduced for some transactions. For instance, there was already a requirement for the signatures of three „persons of substance“ to discount commercial effect. The BNB was to grant three-month loans „against two joint sureties of substance in amounts of 1,000 – 50,000 levs. For larger amounts the permission of the Board is required.“ (cf. Article 28). There was no provision (unlike in the 1885 Law) for lending „under a collateral of real estate against notes signed by the pledgers (sole bills) with a tenor of not more than a year“ (Article 5, sub-paragraph 4 of the 1885 Law). The 1906 Law, however, provided instead that up to „the passage of a special law on the mortgage lending, the Bank grants loans against a collateral of real estate for a term of up to thirty years with the approval of the Board“ (Article 42). These loans were to be granted only on condition that the mortgage was first in the sequence and that the real estate was insured. The amount of the loan could not exceed half the value of the mortgaged property, nor could it exceed 100,000 levs for each individual property (Article 43).

A new element in the BNB operations was provided by Article 34: the possibility to „open current accounts against the collateral of the portfolios of the Agricultural Bank and its branches. These portfolios have a maturity not longer than 4 months, and must have bank endorsement (without the right to return on the part of the depositor)“. This is already a transaction typical of the relationship between a Central Bank and commercial banks and the circumstance that the legislator regulated it points out that regulatory functions with regard to the operations of the other banks acquired substantial importance among the BNB activities.

The 1906 Law also restricted lending to the state. Here again the purchase of „government funds“ was limited to the amount of the capital stock of the Bank (Article 46). The BNB could discount treasury bills, as well as assume „unprotested, accepted and subject to repayment cash receivables from the state“ (Article 27). However, an important restriction contained in the 1885 legislation was repealed: that a loan being discounted or secured by treasury bills was not to exceed one-fifth the capital of the Bank. Instead, the 1906 Law imposed on the BNB a general blanket prohibition that lending to the state should not „impair availability necessary for its circulation“ (Article 50). The participation of the BNB in government loans occurred with the permission of the Board and approval of the Minister of Finance (Article 51).

The Bank also granted loans to local authorities – districts and municipalities – against collateral of their expected revenue (Article 39).

The Law rendered concrete the regulation of control over the BNB and its reporting. The Bank was placed under „the supreme supervision of the Minister of Finance. The Minister of Finance, as well as the government delegate, monitor the proper enforcement of the Law and the other regulations of the Bank. The Minister stops operations which he finds to contravene the Law and the rules“ (Article 48). A report on the budget, supported by the proper evidence (Article 54) was submitted to the Supreme Audit Office. In addition, the BNB sent a weekly balance sheet to the Minister of Finance that was published in the State Gazette. An annual report on operations was presented for examination to a special commission formed by representatives of the Ministry of Finance and the Supreme Audit Office (Article 56 – 57).

Considerable changes were made in the Central Bank regime by the 1926 Law, amended in 1928 to conform with recommendations contained in the Protocol signed between Bulgaria and the League of Nations as to the patronage of a government stabilization loan (published in the State Gazette, issue 189 of 20 November 1926, amended in the State Gazette, issue 151 of 4 October 1928).*

The change involved the BNB withdrawing from direct banking services to the economy and individuals and turning into a true Central Bank with issuing and regulatory functions. (It became evident in the provisions of Article 2.) The BNB was assigned the main task of maintaining, by all disposable means, the stability of the gold value of the banknotes by regulating the currency circulation of the kingdom within the framework of the Law.

The Central Bank was an autonomous lending institution and a legal entity (Article 1), with an obvious influence of the normative tradition established by the preceding banking laws. The Bulgarian legislature preserved the character of the BNB as a state lending institution. Recommendations contained in Appendix II to the Geneva Protocol to reorganize the BNB on a shareholding principle were rejected.

Instead of free convertibility of banknotes into gold, the 1926 – 1928 Law established that each person had the right to sell or buy „foreign currency issued in a legal coin of the foreign country on a gold standard, whose coin, by the Law and in practice, is convertible into gold at sight in these foreign countries as listed in the State Gazette“ (Article 3, para. 1). The amount offered for exchange could not be less than 50,000 levs and was to be exchanged at a rate set in Article 3, paras. 2 and 3.

The regulation of capital and reserves of the BNB and the distribution of profits was detailed and comprehensive. The capital of the BNB covered capital stock and reserves. Capital stock totalled 500 million levs and reserve funds included the ordinary reserve fund and special funds formed upon a decision of the Board of the Bank (Article 4). The mechanism to form and utilize the ordinary reserve fund was standard and basically corresponded to the regime established by the preceding legislation (cf. Article 5 – 6).

It was envisaged to form pension funds for the BNB staff, allocating 5% of the net profit of the Bank to that fund. The fund was formed as a separate legal entity, managed by the Board with Bank staff participation. The funds could be invested in government securities (Article 7, 56, and 57).

The remainder of the net profit, after allocating amounts to reserve and pension funds, was paid in as revenue of the treasury (Article 8, sentence 1). This, however, was done on condition that the government debt to the BNB was fully repaid. If the debt was not repaid, „the part of the BNB profit due to the government was withheld and later used for that purpose. In addition, each year the Minister of Finance allocated 100 million levs in the state expenditure budget, and all profits of the state from subsidiary mintage to be used for this purpose“ (cf. Article 8). These provisions for the permanent rather than temporary regulation of the relations between the Central Bank and the government is of extraordinary importance.

The 1926 – 1928 Law also successfully regulated the regime of gold and foreign exchange reserves covering banknotes in circulation (Article 9 – 12). The reserves covered 33.3% of the banknotes in circulation.

Special provisions protected the exclusive right of the BNB to issue banknotes, prohibited the government from issuing banknotes and other instruments of payment, with the exception of mintage at a face value not exceeding 100 levs, upon the request of the Bank (Article 13 in relation to Article 73).

Regulation of the management of the Central Bank was comprehensive. Management was entrusted to the Board, consisting of a Governor, two deputy governors, four directors of the headquarters of the Bank, and four additionally elected

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* The Protocol was signed in Geneva on 10 March by the Bulgarian Minister of Finance and was published in the State Gazette, issue 32 of 12 May 1932.

members. The four elected members, together with their alternates ensured representation from the Bulgarian business circles in the supreme managerial body of the BNB. They were elected by bureaus of the chambers of commerce, the Board of Sofia Stock Exchange, and the chairmen of the district councils (cf. Article 14, paras. 1 and 5).

The principle of stability in the status of the BNB officials thus evolved and improved. The Governor and the deputy governors were appointed by decree of the Tsar, upon their nomination of the Minister of Finance (the Governor – for 7, and the deputy governors – for 5 years, and their term of office could be renewed). The Governor and the deputy governors formed the Managerial Committee which appointed members of the Board from among the directors of the headquarters. A governor, deputy governor, or director who was a member of the Board could only be dismissed from office if they were guilty of „offending against the provisions of this statute or abuse of their official position for personal or commercial interests". This was done by resolution of the National Assembly based on a substantiated report presented by the Minister of Finance accompanied by statements from the accused person (cf. Article 14, paras. 2 – 4).

The Board „manages the affairs of the Bank and defines the general policy". More particularly, it sets the interest and discount rates; which securities and commodities can be accepted as collateral; the maximum amount of all loans; the subscriptions to which public issues can be sold through the Bank; how the foreign loans and assets can be handled; it determines which foreign correspondent banks can be used; it litigates settlements, as well as the accounting for doubtful and bad loans; it specifies the conditions and the qualifications of individual branches and agencies; the form of banknotes, and the denominations, as well as dealing with their issuance, withdrawal, and invalidation; solves the problems of appointing and dismissing Bank staff, opening and closing Bank branches and agencies, electing and approving the members of the discount committees, drawing up the annual report and balance sheet of the Bank, etc. (cf. Article 18, para. 2).

The Governor also had managerial functions: he determined compliance with the laws and regulations, represented the Bank before the authorities and private individuals, convened and chaired the Board (Article 19).

The operative body was the Board (including the Governor and the deputy governors) which was entitled to make decisions on all issues and submit them at the next subsequent meeting of the Board for confirmation. In case of emergency it could change the discount rate, with the approval of 100% of its members (Article 20).

The Law also regulated in general terms the management of the BNB branches and agencies, the structure and the activities of the discount committees. Unlike the preceding laws, there were strict requirements which the discount committee members had to adhere to; an obligation to maintain confidentiality; procedures for decision-making and disputes settlement (cf. Article 26 – 34).

The operations of the Bank were comprehensively enumerated in Article 35, sub-paragraphs 1 – 19. Their analysis shows that the BNB was already evolving into a true central „Bank of banks" with issuing and regulating functions. The characteristic short-term discount and Lombard lending transactions were in the forefront of its activities (cf. Article 35, sub-paragraphs 6 – 10, 14). More transactions and actions were expressly prohibited. For instance, it was prohibited to make loans to the government, as well as to make transactions on its account beyond expressly enumerated cases under Article 35 of the Law, to make advances to districts, municipalities and other such organizations; to carry out trade and in general „to take direct interest in trading and industrial enterprises"; to grant loans or advances without a guarantee; to make cash advances against a mortgage or other long-term loans; to purchase shares in banks and companies; to acquire real estate through foreclosure; to pay interest „on the amounts placed with it on deposit or current account“ with the exception of deposits and accounts of other banks where the annual interest rate was a maximum of 1%; to withdraw or accept effects which were not payable at sight; to renew overdue loans bought or discounted by the BNB; to discount obligations and accept as a guarantee from one person obligations exceeding one-tenth of the paid-in capital of the Bank (the prohibition did not apply to loans to the government under the terms and conditions of Article 35 or in the case of special decisions made by 3/4 majority of the Board.

The Central Bank could only lend to the government under conditions expressly provided in the Law. For temporary needs of the government, treasury bills were discounted with a maturity not longer than 3 months, up to 400 million levs, on condition that the total amount was to be repaid not later than the end of the quarter following the completion of the financial exercise (Article 35, sub-paragraph 9). The principle was that short-term (three-month) treasury bills and government bonds were discounted and accepted as collateral (Article 35, sub-paragraphs 7, 9, 10, 14, b. „c“). The exception applied to government bonds and bonds guaranteed by the government which might not be short-term but had to be quoted at Sofia Stock Exchange (cf. Article 35, sub-paragraphs 14, b. „b“, and sub-paragraph 17). Advances against such bonds could not exceed 80% of market rate and no loans were to exceed 20% of the paid-in capital and reserves.

The 1926 – 1928 Law substantially increased the autonomy of the BNB, and broadened the functions assigned to it in its role of regulating currency circulation. In addition to strictly comprehensive forms which allowed lending to the government, restrictions were imposed on the BNB in guaranteeing treasury bills or other debts of the government, of state-owned enterprises or public authorities, as well as making payments on their account. The Bank could not conclude agreements in its name on the government's account (cf. Article 65). It was prohibited on principle for the Central Bank to pay interest on the government accounts (Article 61).

The strengthened autonomy of the BNB was evident in the provisions of the Law regulating the government control of its activities. There was a noticeable trend for this control to be „pluralized“, not to be entirely entrusted to the government and the Minister of Finance, respectively. A characteristic feature of that control was compliance control on particular issues, without a possibility for broader interpretation and application of the rights of the bodies exercising it. Special proceedings and bodies to settle disputes arising during this control process were envisaged.

Thus the budget expenditures of the BNB were examined by a special commission composed of: an advisor from the Supreme Audit Office appointed by the chairman of the Office, an accountant appointed by Sofia Chamber of Commerce, and a representative of the Ministry of Finance. The commission submitted a special report to the Supreme Audit Office (Article 50). The Bank submitted its weekly sheets and an annual balance sheet to the Minister of Finance, also publishing them in the State Gazette (Article 66). Together with the annual balance sheet, the BNB submitted to the Minister of Finance a report on its activities during the past year. All issues which could not be clarified in consultations between the Minister of Finance and the Bank were referred to the Supreme Audit Office which gave a ruling within six months (cf. Article 67). Control over banking operations was also exercised through the government delegate who had the right to attend the meetings of the Board and the Managerial Committee. He had no direct vote but the right to protest against illegal decisions of those bodies, his protest having the force of a discontinuation veto. The point of dispute was settled by a special arbitration commission consisting of a member approved by the BNB, a member approved by the government, and a chairman elected by both sides in the dispute. In case no agreement was reached, the commission chairman by right became the chairman of the Supreme Administrative Court (cf. Article 69 – 70).

The BNB „is not subject to ordinances of the government or of government agencies, except insofar as provided by these statutes“ (Article 72, sentence 1), and the internal regulations of the Bank, adopted by the Board were expressly recognized as part of the legislation (sentence 2).

The 1926 – 1928 Law was an achievement for the Bulgarian legislature. It made a clear distinction between central and commercial banking, conceded autonomy to the BNB, regulated in a modern way its interrelations with the government, and in the last analysis played an important part in elevating Bulgaria to the level of countries with advanced banking systems.

An abrupt change in the ascending development and improvement of Bulgarian banking and legislation was made by the Banks Law of 1947 (published in the State Gazette, issue 302 of 27 December 1947). This Law laid the foundation for restructuring the banking system based on a model imported from the USSR, in conformity with the requirements of the centrally planned economy. A new legal and economic phenomenon was established – the government monopoly over banking (cf. the title of Chapter One of the Law). Pursuant to Article 1, banking and all banking operations – deposit, lending, commission, and commercial – were an exclusive (monopoly) right of the government (paragraph 1). This monopoly right was exercised by the Bulgarian National Bank, and in the area of long-term lending – by the Bulgarian Investment Bank (para. 2).

The government banking monopoly radically changed the legal status and activities of the BNB. The most significant consequences were the virtual liquidation of commercial banking and full-fledged central banking through the deliberate merger of the issuing and regulatory operations and direct lending services to the economy (Article 10, sub-paragraphs 1,2, and 5). Banks turned into part of the state apparatus, being assigned power to exercise administrative control over financial and economic operations of the enterprises and the foreign exchange processes (Article 10, sub-paragraphs 3 and 5). The banks and institutions carrying out trading activities (joint-stock Bulgarian and foreign banks, Bulgarian Agricultural and Cooperative Bank, Capital City Municipal Bank, the construction and savings societies) discontinued their autonomous existences, their assets and liabilities being reassigned to the Bulgarian National Bank and the Bulgarian Investment Bank (BIB) (cf. Article 2, 5, 7, and 8). The 1947 Law preserved the popular banks briefly but subjected them to the total control of the BNB. The General Union of Popular Banks was abolished and their membership in the Central Cooperative Union was banned. Directors and accountants of those banks had to be approved by the BNB and acquired the rights and duties of government employees (cf. Article 28 – 34). The practical meaning of the above-mentioned provisions was a governmentalization of the popular banks, although officially they retained their cooperative form.

Provisions of the Law referring to the extremely important matter of regulation of the Central Bank capital and lending to the government epitomized government monopoly. Pursuant to Article 11, the BNB capital was unlimited. And the lending to the government was regulated rather superficially, by only one short provision, pursuant to which banks (the BNB and the BIB) could grant loans upon the decision of their managements, under terms and conditions, maturities and amounts as specified by the managements (Article 41).

The model of a banking system based on government monopoly serviced the centrally planned economy effectively but was absolutely inapplicable for a market economy. In 1987 the process of gradually abolishing the government monopoly and reforming of the banking system began. The Law on the BNB of 1991 and the Law on Banks and Credit Activity of 1992 were of extraordinary significance in this banking reform and in restoring a true banking system to Bulgaria. On the strength of its new systems law, the Bulgarian National Bank was granted the status and functions of a modern Central Bank with a considerable degree of autonomy and independence. The two banking laws ensured legislative restoration (together with the Law on Commerce passed in 1991) of the full-fledged and autonomous existence and functioning of commercial and central banking as distinct tiers within the banking system. Proceeding from the traditions of the old legislative framework of the BNB and taking into account achievements of modern European banking legislation, the 1991 Law gave permanent regulation to the legal status of the BNB, its financial rights, its management, operations and interrelations with the other banks and financial institutions, and its relations with the government. In this way a satisfactory legal foundation has been laid for ongoing economic reform, and more particularly for development and improvement of banking in Bulgaria.