BULGARIAN NATIONAL BANK

ANNUAL REPORT • 1997

Published by the Bulgarian National Bank
1, Alexander Battenberg Square, 1000 Sofia
Telephone: 886 1351, 813 171
Telex: 24090, 24091
Fax: (3592) 980 2425, 980 6493
Printed in the BNB Printing Center

Honorable Chairman
of the National Assembly;
Honorable People's Representatives,

Under the provisions of Article 1, paragraph 2, and Article 51 of the Law on the Bulgarian National Bank, I have the honor of submitting the Bank's 1997 Annual Report.

The past year was marked by significant events in the history of the Bulgarian financial system.

The Bulgarian National Bank began operating under currency board rules, and underwent one of the most profound institutional changes since its establishment in 1879. The year was divided into two distinct periods; the vesting of the Currency Board on 1 July was the dividing point. This Annual Report reflects radical changes in the Bank during the second half of the year, as well as institutional continuity.

In 1997 the method of accounting changed and International Accounting Standards were introduced. Since 1 July 1997 the Bulgarian National Bank has published weekly balance sheets for the Issue Department and monthly balance sheets for the Banking Department. This is in line with the requirement for transparency of Currency Board activities. For the first time BNB financial statements, prepared in compliance with International Accounting Standards and certified by the KPMG international auditing company, were recognized as the Bank's formal account.

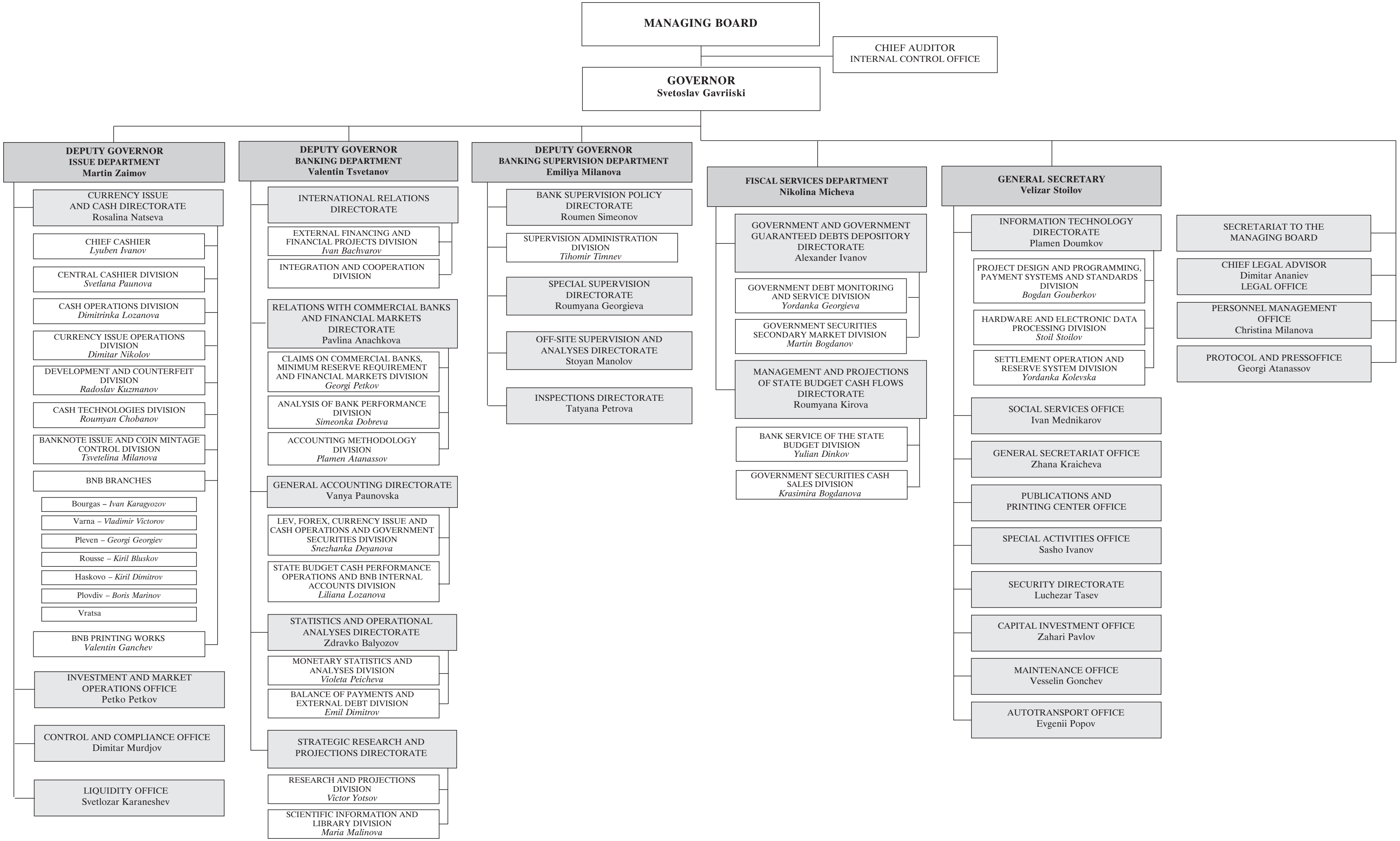
This Bulgarian National Bank Annual Report emphasizes changes in the monetary and banking sectors. The analysis is made against the background of major trends in the world economy, the development of the real sector, fiscal changes and evolving balance of payments and foreign debt dynamics.

The BNB Managing Board adopted the accounts and the Bank's Annual Report at a meeting on 28 April 1998.

Svetoslav Gavriiski
Governor of the Bulgarian
National Bank

Organizational Structure of the BNB

(as of April 1998)



BULGARIAN NATIONAL BANK MANAGEMENT IN 1997

MANAGING BOARD

Svetoslav Gavriiski

Martin Zaimov
Emiliya Milanova
Valentin Tsvetanov
Roumen Avramov
Garabed Minasyan
Georgi Petrov

Bulgarian National Bank Management until 1 July 1997

PLENARY COUNCIL

Lubomir Filipov
Ventseslav Dimitrov
Georgi Petrov
Deyan Popov
Gancho Ganchev
Dimitar Dimitrov
Plamen Ilchev
Evgeni Uzunov
Zdravko Balyozov
Nikolina Micheva
Andrei Nikolov
Lena Rousenova
Dimitar Kostov

MANAGING BOARD

Lubomir Filipov
Dimitar Dimitrov
Plamen Ilchev
Evgeni Uzunov
Zdravko Balyozov
Nikolina Micheva
Andrei Nikolov
Lena Rousenova

Abbreviations

ASBL	Amendment to the State Budget Law
BGL (Lev)	National Currency of the Republic of Bulgaria
BIS	Bank for International Settlements, Basle, Switzerland
BISERA	Banking Integrated System for Electronic Transfer
BNB	Bulgarian National Bank
CEE	Central and Eastern Europe
CEFTA	Central European Free Trade Association
CM	Council of Ministers
CMP of TPK	Committee on Mutual Provision of Craft Cooperatives' members
COMECON	Council for Mutual Economic Assistance
CSB	Consolidated State Budget
EBRD	European Bank for Reconstruction and Development
ECU	European Currency Unit
EFTA	European Free Trade Association
EIB	European Investment Bank
EU	European Union
FESAL	Financial and Enterprise Sectoral Adjustment Loan
FLIRBs	Front-loaded Interest Reduction Bonds
FOB	Free on Board
GDP	Gross Domestic Product
GFD	Gross Foreign Debt
IBID	International Bank for Investment and Development
IBEC	International Bank for Economic Cooperation
IIB	International Investment Bank
IMF	International Monetary Fund
LBNB	Law on the Bulgarian National Bank
LSPDACB	Law on State Protection of Deposits and Accounts with Commercial Banks in respect whereof the Bulgarian National Bank Has Petitioned the Institution of Bankruptcy Proceedings
MF	Ministry of Finance
NSI	National Statistical Institute
OECD	Organization for Economic Cooperation and Development
PRUF	Professional Retraining and Unemployment Fund
SBL	State Budget Law
SDR	Special Drawing Rights
SFRD	State Fund for Reconstruction and Development
SII	State Insurance Institute
SSB	State Savings Bank
VAT	Value Added Tax
WB	World Bank (International Bank for Reconstruction and Development)
ZUNK	Bulgarian Abbreviation of the Law on Settlement of Nonperforming Credits Negotiated prior to 31 December 1990 (LSNC)

Contents

I. From Discretionary Monetary Policy to a Currency Board

1 July 1997 saw the introduction of a new monetary system based on currency board rules. The Bulgarian National Bank underwent one of its most thorough institutional changes since establishment in 1879.

1. Background to the Introduction of a Currency Board Arrangement

At the turn of 1996 Bulgaria's economy experienced an unprecedented financial crisis. This pushed the country to disastrous hyperinflation and a dramatic devaluation of the national currency. In February 1997 alone consumer price inflation reached a record high of 243% and the lev devalued two to three times against the US dollar. The economy was characterized by extensive adoption of the dollar and barter exchange. Bulgaria's foreign exchange reserves fell to the critical level of under USD 400 million (monetary gold excluded). The service of the country's foreign debt was put into jeopardy. Domestic debt was monetized to a great extent. The public was seized by fear about banks' prospects of survival and a quarter of banks were liquidated. Under these conditions the BNB lost what control it had had over money supply and the exchange rate. Major monetary policy tools ceased to have an effect on the banking and monetary systems.

By the end of 1996 the economic crisis became *political*. The political stalemate ended with a Declaration for the Salvation of Bulgaria and an agreement for early parliamentary elections between political parties. This helped melt down exchange rate risk premiums and interest rates. On 12 February the newly elected President appointed a caretaker government which rapidly acted to restore control over exchange rates and inflation, and to provide budget deficit financing. The United Democratic Forces' Coalition won the elections in April and its new Government announced a program of rapid and radical economic reform.

The government's categorical resolve for change was swiftly and significantly backed by the IMF. The new standby agreement concluded with the IMF in April 1997 played the role of a financial anchor for the forthcoming launch of a currency board in Bulgaria. The idea of a currency board and of radical steps to stabilize the financial system had already gained broad public and political support in previous months. This allowed for an introduction of currency board rules in most government institutions, including the BNB *prior to* legislative regulation of the currency board system.

2. Roots of the Financial Collapse

All stabilization measures since early 1991 failed because the *necessity for a radical and consistent structural reform* was ignored. At the turn of 1996 the country reached financial collapse.

The *real sector* suffered chronic losses due to enterprises' poor financial discipline and the predominance of state ownership. Privatization was sluggish and hesitant. The underdeveloped institutional environment compounded low productivity. Lack of clear ownership rights prompted an endless transfer of assets and liabilities at the expense of real economic activity. The grey economy expanded markedly.

The *banking system* was decapitalized. It became a conveyor belt shifting real sector losses to the budget and onto the individual households. Poor banking supervision led to the newly established private banks also accumulating bad loans. Pyramid schemes appeared, acting as financial intermediaries.

The *government budget* was restructuring rather too slowly and continued to perform atypical social functions inherited from the planned economy. It suffered from poor tax collectibility and chronic deficit. The government faced constant difficulties in servicing domestic debt which grew out of control.

BNB policy was subordinated to budget and government priorities and constantly covered fiscal and financial losses (directly or indirectly) by printing money. Commercial banks were systematically refinanced, in the expectation of avoiding the social and political implications of a banking collapse. Monetary policy tools and money supply lost their effect. Foreign exchange policy lacked a clear logic and also proved ineffective, leading to a depletion of foreign exchange reserves. Monetary authorities suffered a chronic lack of *credibility* in all previous years.

The restructuring of Bulgaria's *foreign trade relations* was also sluggish. Despite the accumulated foreign debt no radical measures were taken to open the economy and attract foreign investment. The number of foreign banks in the Bulgarian banking system was insignificant.

The downward trend in the economy had to be reversed. The economy needed a *new start*. This was impossible without radical changes in the stabilization instruments, macroeconomic policy tools, and financial and economic institutions employed hitherto. A currency board arrangement appeared to be most promising as a stabilization tool that had not yet been tried which offers a fixed exchange rate, a new set of tools, and particularly a principally new monetary system.

3. Characteristic Features of a Currency Board

A currency board means the *abandonment of monetary policy*. The central bank may not refinance commercial banks, finance the budget, pursue an exchange rate policy and conduct open market operations. There are no internal sources of increasing reserve money (i.e., loans to the banking system and government). External sector financing becomes the only source of increasing reserve money. Monetary base dynamics is automatically tied to *balance of payments developments*.

The central bank operates under rigid budget constraints. Revenue generated by currency board assets is the only source of income for the central bank. The inflationary component of seignorage is eliminated.

A currency board is a *set of rules* providing for a 100% *cover* of reserve money with highly liquid foreign exchange assets. The exchange rate is *fixed* vis-a-vis a reserve currency. The central bank is committed to exchange unlimited amounts of national currency against the reserve currency at the fixed exchange rate.

The *fiscal sector* assumes a key importance for the balance of the economy. Economic agents operate under rigid budgetary constraints. Given a low inflation rate and a fixed exchange rate, the economy is balanced by the real sector (i.e., the volume of output and employment) and by the free fluctuation of interest rates. Privatization and the opening of the economy become imperative.

Liquidity developments in the economy depend on the state of the *interbank market* and interbank market rates. The development of financial markets is an indispensable condition for the successful functioning of a currency board.

4. Peculiarities of the Currency Board in Bulgaria

Bulgaria has chosen the *Deutschemark* as a reserve currency (and as of 1 January 1999: the *Euro*). This choice is strategic. It reflects Bulgaria's will to converge Europe and facilitates future Bulgarian accession to the European Union and affiliation to the European Monetary Union.

The level of the lev (BGL 1,000 per DEM 1) was adequately determined. It reflected the structure of the Bulgarian economy and helped avoid rapid overvaluation of the national currency.

Institutionally, the BNB was divided into two departments with separate balance sheets: the Issue Department and the Banking Department. The Issue Department takes the function of a currency board and its balance sheet includes the most liquid assets and liabilities, while the Banking Department takes the residual functions of a typical central bank, with the exception of banking supervision.

The link between Issue and Banking Departments is provided by the residual *deposit* (i.e., the excess of foreign exchange reserves over reserve money, and some other Banking Department liabilities with the Issue Department). This deposit represents the net positive value of the currency board and is used by the BNB to intervene as lender of last resort in case of a *systemic financial crisis*. Criteria on the existence of a systemic risk and lending terms are set out in a special BNB regulation. The BNB publishes the balance sheet of the Issue Department weekly and the balance sheet of the Banking Department monthly, thus providing full *transparency* of assets and liabilities movements in both departments. A peculiarity of the Currency Board in Bulgaria is the BNB's right to extend credit to the government solely against purchases of special drawing rights from the IMF (Article 45 of the Law on the BNB).

The BNB set itself the major task of establishing modern banking supervision and exercise strict control over the banking system. The central bank continues to perform the functions of a government *fiscal agent*, servicing the cash execution of the state budget and government securities market.

The BNB Managing Board comprises seven members. Besides the Governor and three Deputy Governors (elected by the National Assembly) it includes three independent experts appointed by the President. The term of office of a BNB Board member is six years and terms are staggered in order to preserve continuity and the independence of BNB management.

5. Initial Results of Stabilization Following the Introduction of a Currency Board

Positive changes in the *monetary sector* occurred immediately after the introduction of the currency board. Confidence in the national currency began returning as a result of control over inflation. Interest rates decreased significantly. The economy was monetized as monetary aggregates grew in real terms. Money supply lev component growth markedly exceeded that of the foreign exchange component. Money multiplier decreased substantially. The weight of the private sector in domestic credit rose. For the first time in recent years households had access to credit.

The *fiscal sector* became a critical factor in determining general economic liquidity. Budget deficit diminished due to lowered interest payments and improved tax collection. For the first time the amount of noninterest expenditures grew significantly. Privatization became an important source of noninflationary budget finance. Positive trends emerged in the structure of deficit financing: government securities maturity increased and securities with fixed yield and those denominated in levs grew also. Hyperinflation prior to the introduction of a currency board had wiped out the lev component of domestic debt. By the time the Currency Board was launched MF debt to the BNB was restructured and relationships between the two were tidied and put on new footing.

Significant changes occurred in the *banking sector* as well. Banks became more prudent and conservative. The first bank privatization transaction was conducted. The presence of foreign banks is highlighted as a priority in lessening systemic risk in the economy.

The *BNB* itself operated under tight budget constraints. Measures intended to reduce BNB expenditure and that of bank personnel were undertaken.

The country's *balance of payments* showed a surplus. Current and capital accounts in 1997 reported positive balances. A certain shift to the Deutschemark occurred in commercial transactions. Bulgaria's forex reserves grew steadily. Bulgaria regularly serviced its foreign debt. Confidence in the country returned which is evident by the rising price of Bulgarian foreign debt bonds.

Financial stabilization during the second half of 1997 is indispensable.

However, financial stabilization is necessary but not sufficient in itself for *economic growth*. Rapid and comprehensive structural reforms are needed to build upon the success of the Currency Board.

II. Developments in the World Economy and Finances

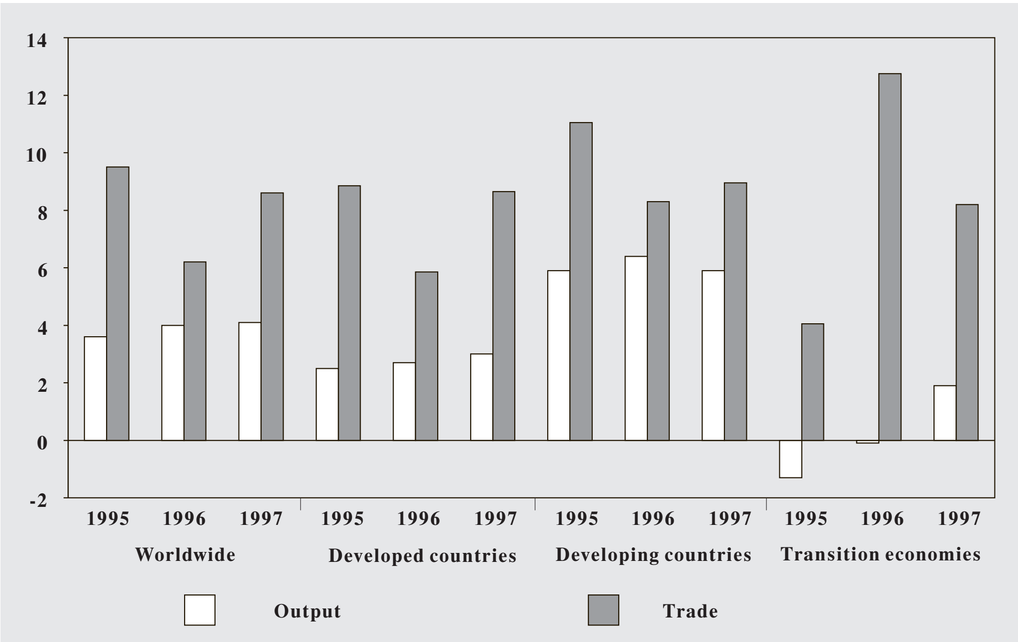
1. An Overview and Major Trends in the Development of the World Economy

According to estimates world economic growth accelerated to 4.1% in 1997. Developed countries' growth is forecast at 3%, in line with trends set over recent years. With growth approaching optimum rates, long-term global trends are evidently restored. Growth rates of newly industrialized Asian economies and economies in transition are still above average. As a result of structural reforms and institutional changes transition economies posted a moderate growth of 1.9% for the first time since 1989. World trade (measured in exports and imports) also grew – by 8.6% – compared with the previous year.

According to international financial institutions' forecasts the world economy in 1998 is to grow at 3.5%: 2.5% in industrialized countries, 4.9% in developing countries and 3.4% in transition economies. World trade growth is expected to moderate to 6.2%. Developed countries are expected to increase exports by 5.8% and imports by 6.1%. For developing countries the figures are 7.7% and 6.7% respectively. The rate of estimated foreign trade growth slowed somewhat due to the currency crisis in southeast Asia and worsened terms of trade.

DEVELOPMENTS IN OUTPUT AND TRADE

(%)



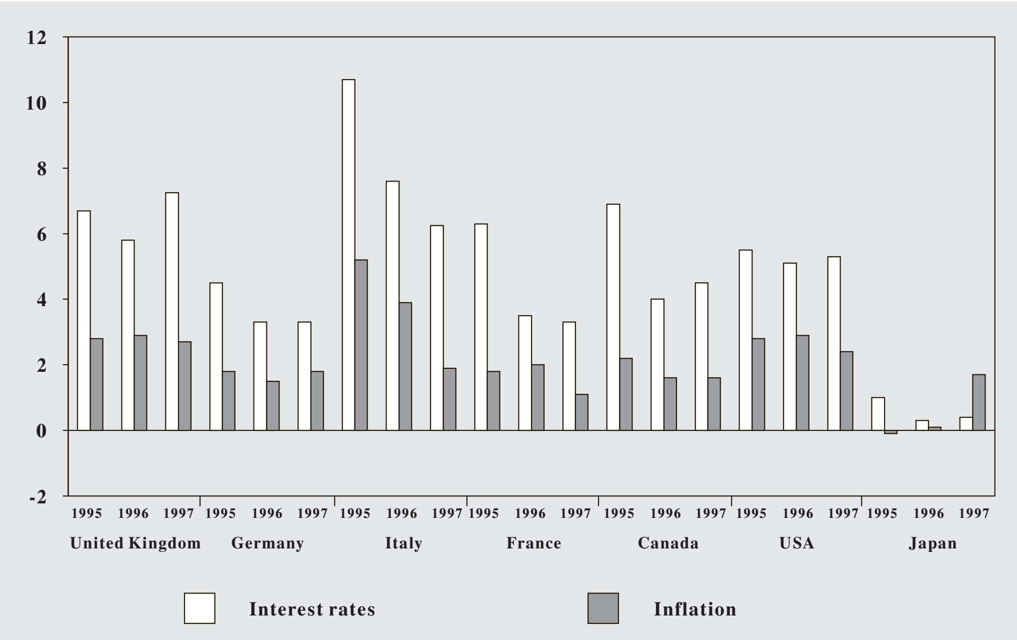
Source: IMF.

2. Developed Countries

In 1997 developed countries experienced accelerated growth with a 3% output growth, or 0.3 percentage points more than in the previous year. Inflation dropped from 2% in 1996 to 1.7% in 1997 reflecting the favorable effect of lower world oil prices. Unemployment also fell, from 7.3% to 7.1%. Forecasts for 1998 are for a slowdown in growth to 2.5%, a decline in unemployment to 7% and a slight rise in inflation to 2.1%. This predetermines expectations for a slight rise in interest rates. Data for 1997 shows a budget deficit reduction of one percentage point on average, which accounts for 1.6% of GDP. Estimates for 1998 point to a 0.2% decrease in this indicator.

INTEREST RATES* AT YEAR-END AND ANNUAL INFLATION IN G-7 COUNTRIES

(%)



* For the United Kingdom, Germany and France – repo-rate, and for Italy, Canada, the USA and Japan – discount rate.

Source: IMF, Deutsche Bundesbank.

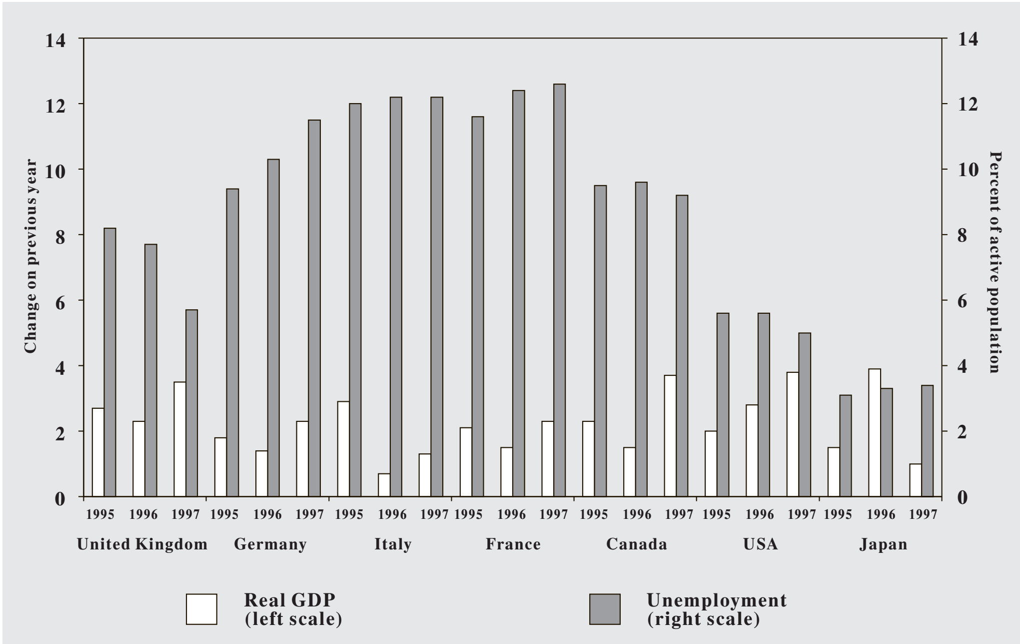
The European Union

In 1997 EU member countries experienced 2.6% growth: a 0.9 percentage point increase on the previous year, but still below the figures for the USA and Canada. The UK reported the higher-than-expected growth of 3.5% despite the summer rise in interest rates and the expensive British pound. The forecast for 1998 for the EU as a whole points to a modest 2.7% growth in output. Inflation fell from 2.5% in 1996 to 1.9% in 1997 and is expected to increase slightly in 1998 to 2.1%. High unemployment remains a major concern among EU countries. In 1997 unemployment fell by 0.3 percentage points to 11.1% on average, rising however in France (by 0.2%), Italy (by 0.1%) and Germany (by 1.2%). In 1998 average unemployment within the EU is estimated to fall to 10.8%. Governments of EU member countries committed themselves to handling unemployment and structural fiscal challenges with a view of achieving sustainable future growth.

With regard to boosting Bulgarian exports, GDP forecasts for the Community as a whole appear favorable. Projected growth of imports to Bulgaria's major trading partners (Germany, France and Italy) is also expected to have a positive impact.

REAL GDP AND UNEMPLOYMENT IN G-7 COUNTRIES

(%)



Source: IMF.

Germany

In 1997 the German economy continued the slow and unsteady growth pattern of the past three years. Based on 1996 constant prices, GDP for 1997 rose 2.5%, matching expectations. Although domestic demand grew below the forecast 2%, at a mere 1%, the growth rate was retained thanks to an 11.3% increase in exports, primarily attributable to the Deutschemark's devaluation against benchmark convertible currencies. This suggests that the German economy is vulnerable to external factors.

Within domestic demand components, consumption rose by 0.5% while investment in new premises fell by 2.5%. Growth occurred only within two indicators: investment in new machines and equipment (4.5%), and government spending (1.3%).

In 1997 Germany experienced the highest unemployment since World War II. Unemployment rose in 1997, hitting 4.5 million persons, or 11.8% of the labor force by the end of the year. This automatically triggered an unprecedented increase in social security compensations, exerting strong pressure on the budget deficit. The unprecedentedly high level of unemployment is a direct result of the restructuring processes in the German economy underway since 1990.

Expected developments in 1998 are for slow export-driven growth at 2.6%.

Exports in 1998 will grow further (to 8%), though expectations for a new serious devaluation of the Deutschemark are absent. Domestic demand is estimated to grow by 1.8%, primarily induced by increased consumption (consistent with increased household real incomes) and an 8% increase in investment in machines and equipment (reflecting a continuous upward trend in profits and better capacity utilization). This growth, however, might be stifled by lack of structural reforms and the traditional investor hesitancy in election years. Inflation is forecast to rise by 2% but the latest 1997 figures show that its momentum is slowing regardless of higher VAT, which might result in a downward revision of the estimate.

Export growth is vulnerable to external shocks, like the southeast Asian crisis. According to forecasts the crisis may cause a 0.2% reduction in estimated GDP under a realistic scenario for its development.

The USA

In 1997 the US economy enjoyed another year of sustainable growth. GDP growth peaked at 3.8%: the highest reported value since the Reagan presidency. Expansion has continued for almost seven successive years. Unemployment is at its lowest for 25 years. Inflation dropped further (to 2.4%) in 1997. Misgivings that the economy is approaching potential and fears about rising inflation forced the Federal Reserve to raise short-term interest rates to 5.5% in March. Forecasts for 1998 envisage further growth, high employment and low inflation. Due to the southeast Asian crisis expansion will be limited to 2%, inflation will remain at 2.4% (or may fall slightly to 2.2%), and in all likelihood there will be no need for a new rise in interest rates to dispel fears over overheating in the economy. Unemployment is set to stay at 4.7%.

As a result of many years' economic expansion the US budget deficit contracted from USD 290 billion in 1992 to USD 22 billion in fiscal[1] 1997. Government budget deficit projections for fiscal 1999 provide for a slight budget surplus for the first time since 1969.

Japan

Since mid-1997 economic conditions in Japan changed dramatically compared with those in other industrialized countries, despite the positive prospect of overcoming the continuous slowdown in growth rates evident from late 1996 and early 1997 figures. In the second quarter of 1997 GDP dropped by 2.8% prompted by weaker domestic demand consistent with higher indirect taxes on consumption introduced in April. During the last months of 1997 domestic demand partly recovered and together with steady external demand contributed to an annual growth of 1%, or 1.7% below forecast. Thus the trend of unsteady growth in Japanese output was preserved. Besides weak domestic demand, other factors adversely affecting future growth are the southeast Asian crisis and growing uncertainty about the stability of the financial system after the latest failures in November. Expectations are that government announced measures designed to boost growth and strengthen the financial system will have a positive effect.

3. The Transition Economies

For the first time since the onset of reforms the countries in this group posted an overall growth of 1.9% in 1997. A number of countries, among them Poland, Estonia, Hungary, Latvia, Lithuania, Slovakia and Croatia, experienced higher growth rates than the average for transition economies. Economic growth rates in the Czech Republic and Slovenia slowed, while Romania and Russia experienced falls of 6.6% and 0.4% respectively.

Central European countries which made significant progress in completing structural reforms continued to advance on the road to sustainable economic growth, combined with moderate inflation and continued swift integration into the global economic system.

Hungary overcame the effects of the 1995 stabilization policy and achieved high export-led growth of 4%. Besides enhanced export activity, Hungary's expansion came as a result of strong investment growth: some 11%. Despite fast nominal wage increases, inflation stayed within projections due to increased labor productivity. Forecasts for 1998 are for 5% growth, falling inflation (to 14.5%) and sustained employment levels.

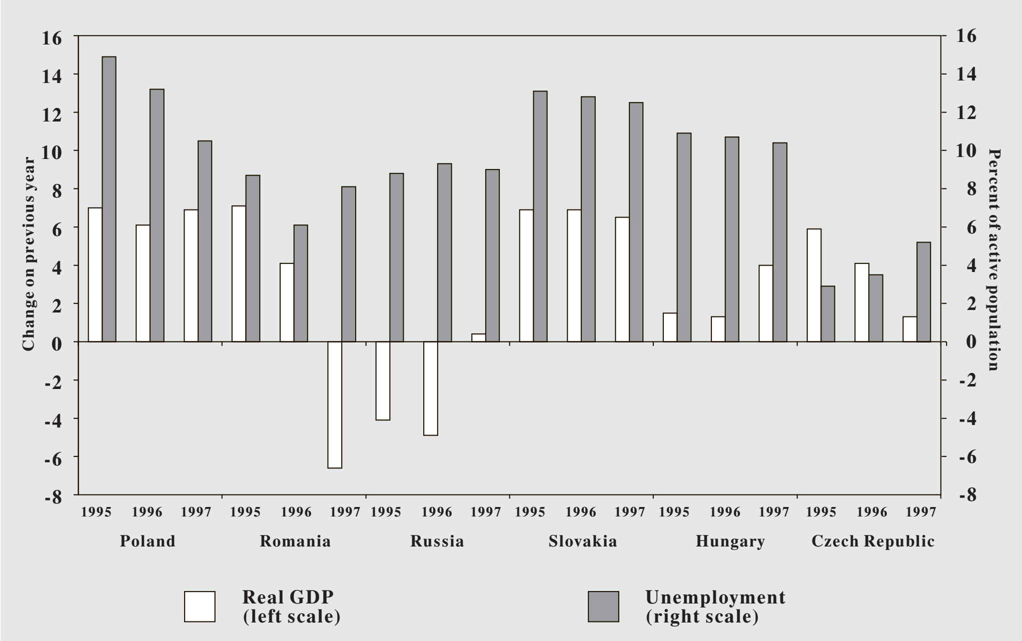
The Czech Republic, until recently cited as an example of a successfully transitioning economy, was hit by a currency crisis, a direct consequence of delayed and inappropriate measures against an ever-increasing deficit on the balance of payments current account. On the other hand, the results of mass privatization proved to be a serious hindrance to industrial restructuring, and binding enterprises to banks did much to increase the share of nonperforming credits at banks. Projec-

[1] The US fiscal year ends in September.

tions for 1998 point to a slow growth rate, reduced current account deficit and rising unemployment.

REAL GDP AND UNEMPLOYMENT IN TRANSITION ECONOMIES

(%)

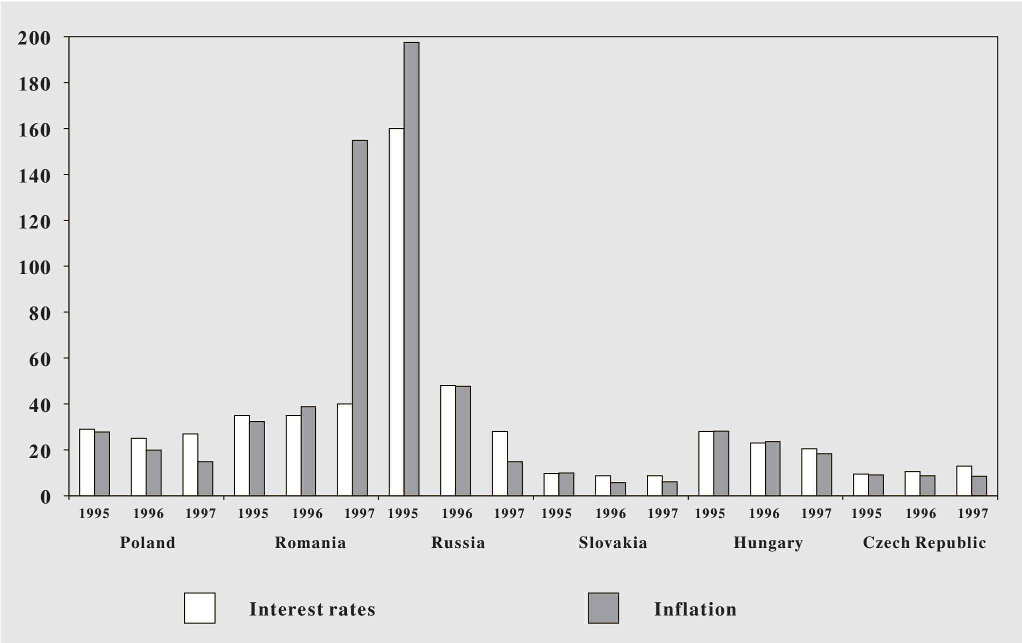


Source: BIS.

Poland enjoyed high growth (6.9%) driven by domestic demand, primarily related to investment growth of more than 25% and a 7% increase in private consumption. Abandoning the fixed exchange rate of the zloty in mid-year and raising the interest rate contributed to a gradual reduction of the current account deficit. The forecast for 1998 is for a slight slowdown in growth rates.

INTEREST RATES* AT YEAR-END AND ANNUAL INFLATION IN TRANSITION ECONOMIES

(%)



* For Poland, Romania, Russia and Hungary – central bank interest rate on commercial bank refinancing, and for the Czech Republic and Slovakia – central bank discount rate.

Source: BIS.

In view of the small share of central European countries in Bulgaria's foreign trade, positive developments in their economic environment could not be fully exploited. It is likely that foreign trade ties with these countries will intensify after Bulgaria joins CEFTA.

In 1997 *Russia* was able to reverse the continued downward trend in GDP of the past seven years and generated an insignificant growth of 0.4%. This was driven by a slight increase in private consumption as a result of growing real incomes. On the other hand, there was a drop in investment and a trade surplus reduction. Furthermore, it should be noted that the Russian government had difficulties in collecting planned tax revenues, which resulted in a high budget deficit (8% of GDP) financed through internal and external borrowing. Under an optimistic scenario for the development of the budget crisis and a fall in interest rates, Russia is estimated to post a moderate growth of 1% in 1998. With regard to Bulgaria's exports, the situation in Russia could be deemed favorable, holding prospects for 4% growth in imports.

4. European Countries with Currency Boards

In 1997 *Estonia* posted a healthy growth of 10% which ranks the country top of all transition economies. Moreover, inflation stood low (11.2%), compared with the average in this group of countries. Employment rose and foreign trade activity intensified. Expansion was driven by strong domestic demand against a background of a negative balance of payments current account. Another favorable factor was the pegging to the Deutschemark. Forecasts for 1998 are for a slowdown in growth rates, sustained inflation and a gradual reduction of market interest rates.

Lithuania posted its highest GDP growth (6%) since the introduction of the Currency Board in 1992. A significant progress in restraining inflation was registered, which dropped to 8.9% from 24.6% in 1996. Only the balance of payments current account recorded a deficit growth. Growth rates in 1998 are expected to slow down. After successful stabilization Lithuania adopted a four-year program for the transition to a cautious monetary policy under a preserved fixed exchange rate of the litas.

III. Developments in the Bulgarian Economy in 1997

1. Gross Domestic Product

During the first half of 1997 the Bulgarian economy experienced a dramatic decline in gross domestic product which had strong implications on the overall performance of the economy for 1997. Nominal gross domestic product totaled BGL 17,103.4 billion in 1997[2]. In real terms it fell by 6.94% compared with 1996. The substantial decline is due to a dramatic fall in the first half of the year: 21%. Following the relative stabilization of the financial system during the second half of 1997, a small growth in the gross domestic product (1.9%) occurred in the third quarter compared with the same period of 1996. Data for 1997 as a whole reinforce the trend toward a slight improvement.

GDP by Component of Final Demand

The share of consumer spending, a key component of final demand, fell from 81.3% in 1996 to 74% in 1997. The currency crisis and high inflation during the first half of the year caused a significant fall in consumers' real incomes thus reducing households' final demand by 30.6% and 26.4% in the first and second quarters respectively, compared with the same quarters of 1996. Given strong fluctuations in real incomes, households' behavior proved sufficiently flexible for households' consumption in the third quarter to post the smallest decline of all components of final consumption. 1997 consumer spending fell by 15.1% from the previous year. Since the incomes crisis started as early as at the end of 1996 the fourth quarter of 1997 is likely to see an increase in consumer spending compared with the same period of 1996.

Government final spending also fell dramatically (11.53%), reflecting a predominance of interest payments in current expenses. However, during the second half of 1997 government final spending was falling at a slower pace.

Investment is the only component of final demand to increase in 1997 (32.8%) compared with 1996. This is due mainly to increased stockbuilding (by 110.4%), while fixed capital formation decreased significantly (by 22.07%). From the beginning of second quarter the downward trend in stockbuilding, evident since 1995, was reversed. The downward trend in inventories reflected producers' expectations of worsening economic conditions and an output slump. The strong boost to exports following a dramatic nominal lev devaluation at the beginning of 1997 created incentives for producers to build sizable reserves of feedstocks and output, given higher external demand and expectations of reviving domestic demand. The rise in raw material feedstocks and intermediate goods was also probably driven by unevenly distributed intercorporate linkages consistent with anticipated restructuring and cessation of intercorporate lending.

The share of individual components of final demand in the structure of gross domestic product varied depending on the way they were affected by unfavorable economic conditions in the first half of the year. The share of final consumption (households and government) decreased by 7.5 percentage points (to 80.4%), while the share of investment rose to 12.2% (against 8.9% in 1996), and that of net exports: to 5.7% (against 3.3% in 1996).

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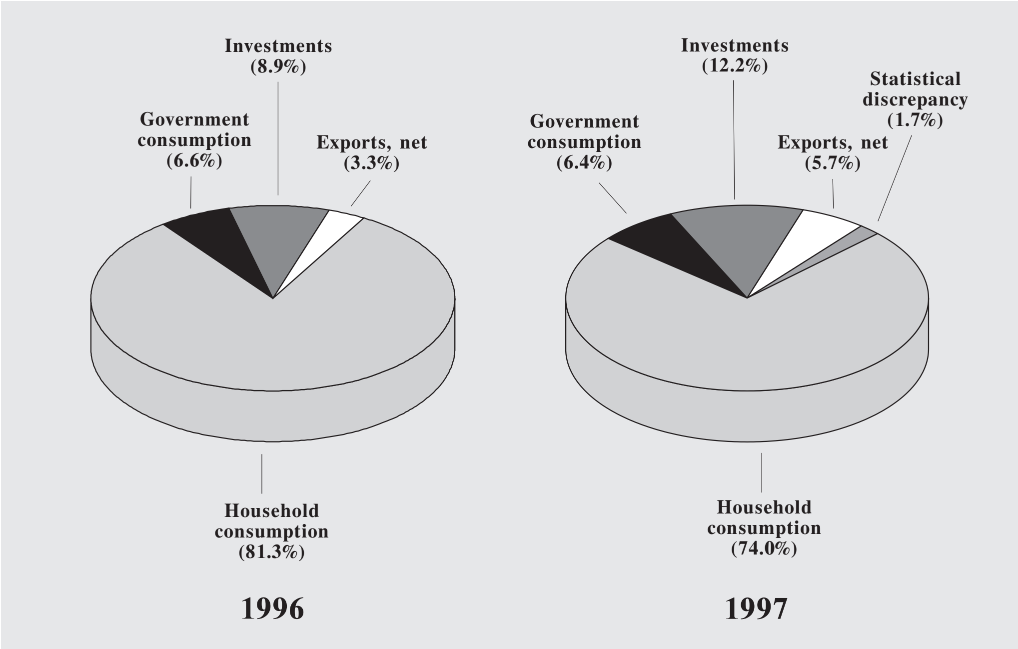
[2] NSI preliminary data.

GDP BY COMPONENT OF FINAL DEMAND



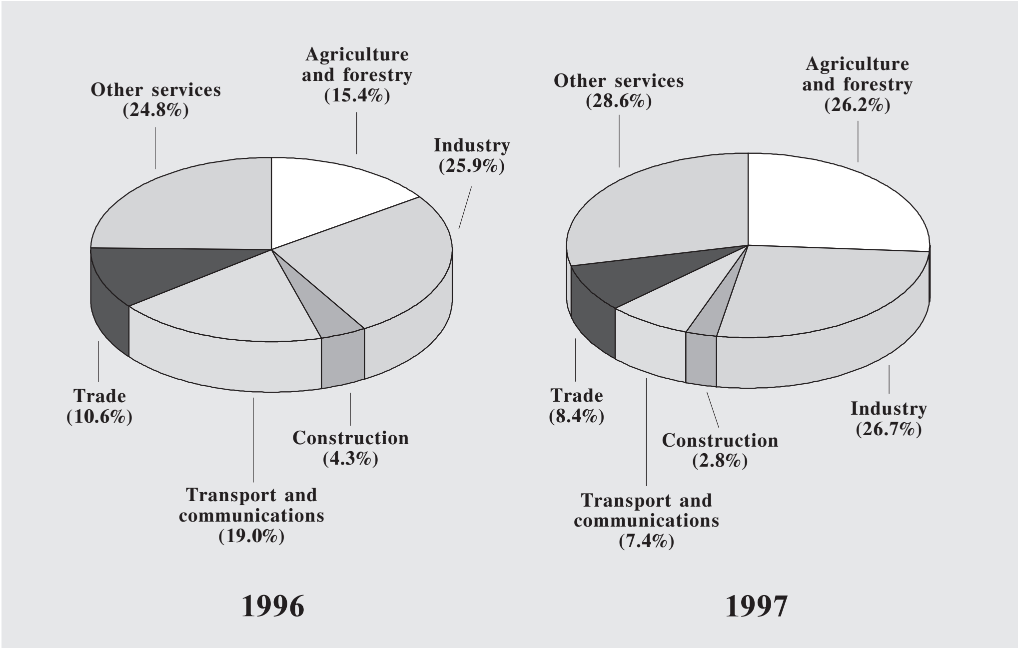
Source: NSI.

Sectoral Structure of GDP

Unstable economic conditions in early 1997 impacted different economic sectors differently. Added value attained by industry in 1997 totaled BGL 4,482.91 billion: a decrease of 13.1% in real terms. The only increase in added value occurred within power generation and distribution, gas and water supply (19%). The drop in industry is due to a credit squeeze with a consequent shortage of working capital for enterprises. Another factor for this drop was the uncertainty attaching to real sector restructuring, as well as reduced gas supplies to a number of manufacturing industry enterprises. The greatest real drop in added value occurred in services (25.6%). This includes an added value drop of 37.1% and 80.7% in trade and the finance, credit and insurance subsectors respectively, which comprise the largest share of total added value in the services sector. Added value in agriculture and forestry recorded a substantial growth (30.3%), reflecting good weather conditions and the policy of incentives through the Agriculture Fund and high repurchase prices.

Significant changes occurred in the breakdown of GDP by economic sector: the share of agriculture and forestry rose by 10.8 percentage points and the share of industry by 0.8 percentage point. The substantial drop in added value in the services sector caused a reduction in its share to 44.4% (against 54.4% in 1996).

SECTORAL STRUCTURE OF GDP
(at current prices)



Source: NSI.

GDP by Origin of Ownership

Final 1997 data indicates that added value in the private sector considerably exceeds added value created in the public sector. At current prices private sector added value amounts to BGL 10,054.4 billion, or 58.8% of whole-economy gross added value. The sizable share of agriculture and forestry (22.7%) is related to the inclusion of smallholdings and garage industries in the methodology of reporting for added value in agriculture, relatively higher repurchase prices and the pursuit of a more active policy by the Agriculture Fund. Favorable weather conditions may have also contributed to such a high share. Thus 97.6% of added value in agriculture and forestry was produced in the private sector.

Privatization of big industrial enterprises in 1997 generated a fast increase in industry added value created in the private sector (from 24.87% in 1996 to 42.68% in 1997). The bankruptcies of the biggest private commercial banks as well as the increased share of state management in gross added value caused a drop in services added value provided in the private sector.

PRIVATE SECTOR SHARE IN GROSS ADDED VALUE

(%)

	1994	1995	1996	1997
Private sector, total	41.6	48.3	51.9	58.8
Agriculture and forestry	10.2	11.1	9.5	22.7
Industry	7.1	9.4	9.1	11.2
Services	24.3	27.8	33.2	24.9

Source: NSI.

2. Prices

The BNB's policy of monetary tightening of late 1996 and early 1997 was not underpinned by fast structural changes in the real and financial sectors and constraints in the fiscal sector. Therefore this policy was doomed to fail. The pursuit of a macroeconomic policy of administration impeded effective allocation of scarce resources through the mechanism of pricing. This reflected on gross demand and supply and fueled inflationary expectations among economic agents. Equilibrium was restored some months later through shock price rises. The shock was further intensified by inadequate monetary policy reactions and the political stalemate in the country.

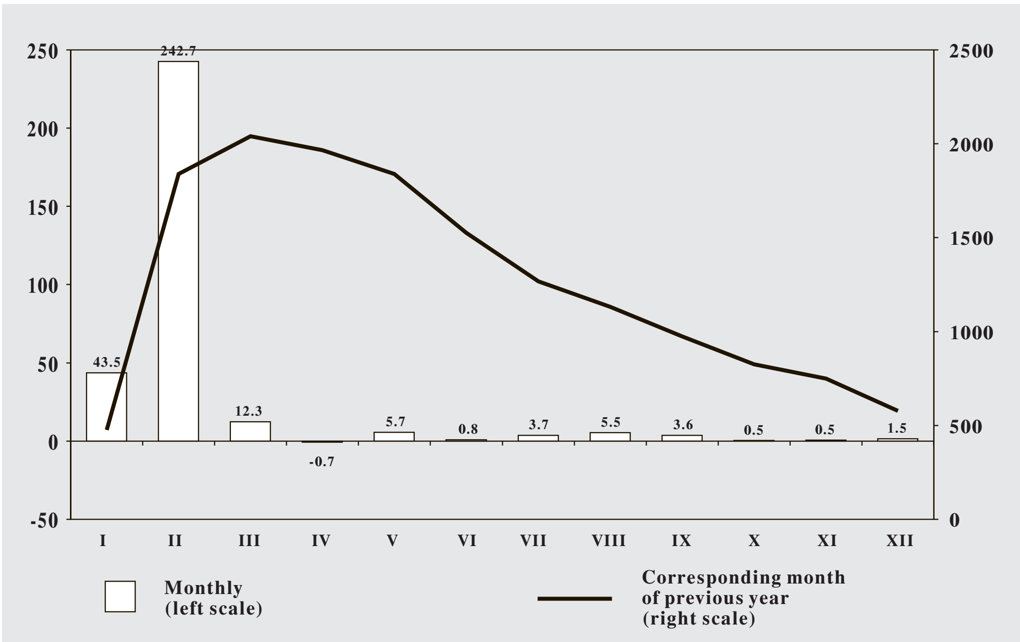
Resolution of the political stalemate and elimination of exchange rate fluctuations achieved macroeconomic stabilization with a subsequent significant fall in monthly inflation. Measures for price liberalization in April helped restore the functions of the price mechanism.

Consumer Prices

In 1997 the economy witnessed the highest annual inflation since the onset of transition to a market economy. Measured by the consumer price index, it reached 578%. Two periods are clearly discernible in price dynamics. *The first period*, marked by hyperinflation, ended in March, and *the second period*, marked by stabilization, lasted from April until the end of the year.

CONSUMER PRICE GROWTH IN 1997

(%)



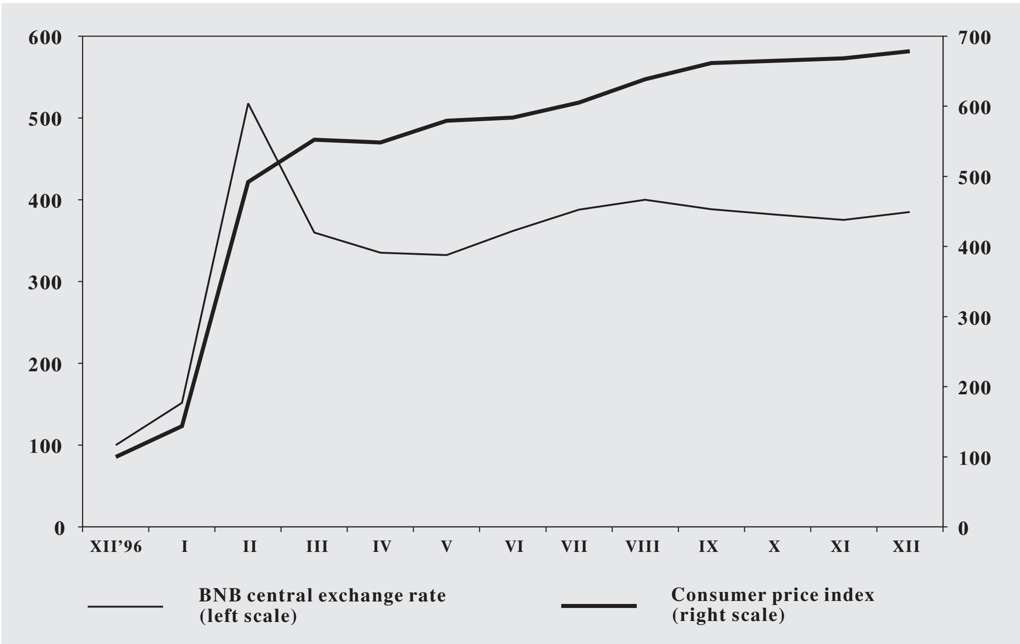
Source: NSI and BNB.

During the first period the trend of the last months of 1996 toward fast price rises was sustained: in January prices rose by 43.5% and in February the country was faced with real danger of hyperinflation. The consumer price index rose by 242.7% over the previous month. This was the highest monthly increase in this indicator since 1990, combined with the most dramatic lev devaluation. In March inflation was curbed and its rate fell to 12.3% as the currency crisis was halted. The hyperinflationary trend was completely reversed in April when a 0.7% price fall was recorded. This helped the Bulgarian economy to benefit from the effects of a stable exchange rate in advance of its being legislatively fixed at the beginning of July. Consequently economic agents' inflationary expectations changed, with a gradual convergence around Deutschemark rates of devaluation.

Consumer price dynamics in 1997 diverged considerably from those displayed in previous years. This was due both to the shocks to which the economy was subjected (including stabilization program implementation) and to delayed effects of certain processes (including ones resulting from previous administrative decisions).

By the end of the first half-year accumulated inflation was 484.2%. After Currency Board introduction monthly inflation rates dropped to 2.5% on average with more dramatic departures in July, August and September related to Deutschemark devaluation against the US dollar. From autumn to year's end inflation fell considerably and average monthly inflation tended to move between 0.9% and 1%. Accumulated inflation for the second half of 1997 was 16.2%.

BNB CENTRAL EXCHANGE RATE AND CONSUMER PRICE DYNAMICS IN 1997
(December 1996 = 100)



Source: NSI and BNB.

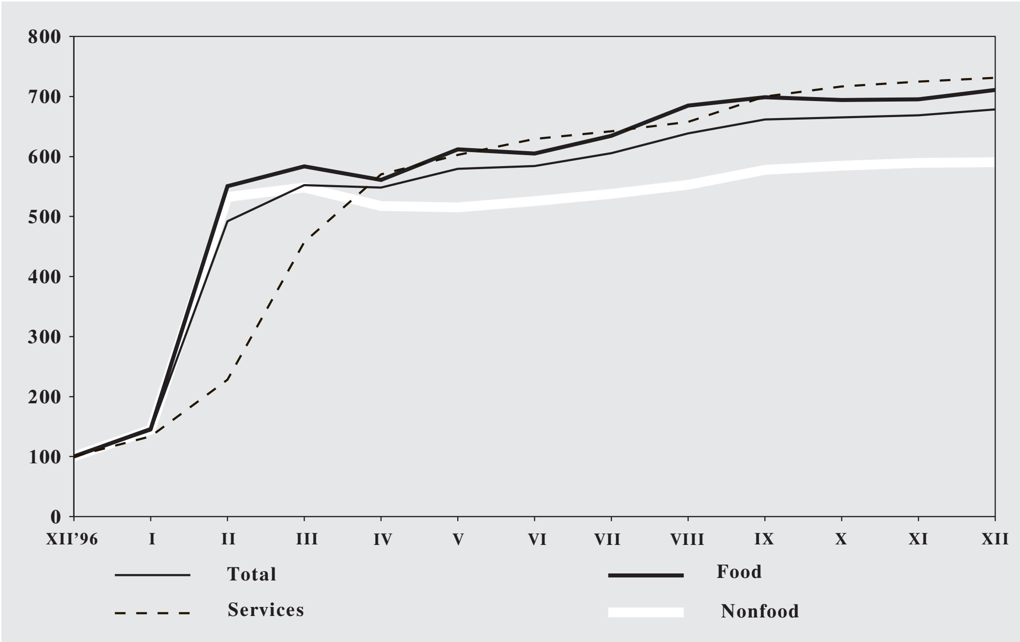
Compared with end-1996, food prices rose by 611%, nonfood prices by 490%, services prices by 631% and catering establishment services prices by 715.3%. Food prices played a key role in consumer price index dynamics since food had the heaviest weight (50.7%) in the consumer price index. Dramatic movements in food prices over the first three months of the year were prompted by changes in the prices of fuel and energy resources, and by the inability of producers to adjust their supply flexibly to the changes in demand. In structural terms, prices of the bulk of foodstuffs (22.5%) rose sixfold, 17% of food prices increased sevenfold, and 12% of food prices grew more than tenfold. More than two-thirds of annual inflation is due to price increases in cereals, meat and meat products, eggs, potatoes and other vegetables, electricity, heating, energy, clothing, footwear, transport, and communications.

Since the share of nonfoods is largest among the group of tradable goods they are most affected by the competition of foreign producers. This accounts for the low relative price increase, particularly after the stabilization of the exchange rate. On the other hand, this group of goods experienced the greatest contraction in spending.

The future inflation levels of tradable goods under a fixed exchange rate will largely depend on the one hand on the USD/DEM exchange rate as export revenues and import expenditures are denominated predominantly in US dollars[3], and on the other, on the ability of economic agents to restructure expenditures by improving their efficiency.

[3] According to NSI data until September 1997 76% of exports, 64.4% of imports and 70.5% of total foreign trade is denominated in US dollars.

CONSUMER PRICE INDICES BY COMMODITY GROUP IN 1997
(December 1996 = 100)



Source: NSI.

Producer Prices

In 1997 monthly industrial producer price indices moved close to the level of consumer price indices. In certain months producer price rises lagged behind consumer price rises (strongly so in February with a lag of more than 100 percentage points). This phenomenon can be explained with inventory turnover whereby increased costs feed through producer prices with a delay. This hypothesis was confirmed by March and April data which indicate a certain compensation for the lag through a greater change in producer prices.

Movements in the exchange rate and external demand were the major factors responsible for industrial output producer price dynamics. Weak domestic demand did not generate significant changes in this index. Movements in the exchange rate affect producer prices on the one hand through production costs (mostly raw materials and energy), and on the other through sales revenue from exports. Data for the first months of the year indicate convergence between exchange rate movements and producer price dynamics, which confirms the hypothesis that inflation is of the cost-push type, an indirect proof of the high degree of dollarization of the economy prior to achieving financial stability. Thus, lev devaluation may have only a short-term effect on export competitiveness and increased costs on import factors of production insofar as they will not immediately feed through producer prices because of the aforementioned lag.

Significant departures of monthly producer price indices of various sectors from the overall price index are due both to NSI methodology[4] and volatile market conditions facing economic agents. Volatile market conditions were provoked to a great extent by exchange rate fluctuations and the lack of long-term contractual relationships. Finally, it should be noted that producers' price policies proved insufficiently flexible to respond adequately to the drop in energy prices in international markets by a reduction of wholesale prices and an increase in output. Instead, they preferred to further improve their profitability, retaining existing sales levels.

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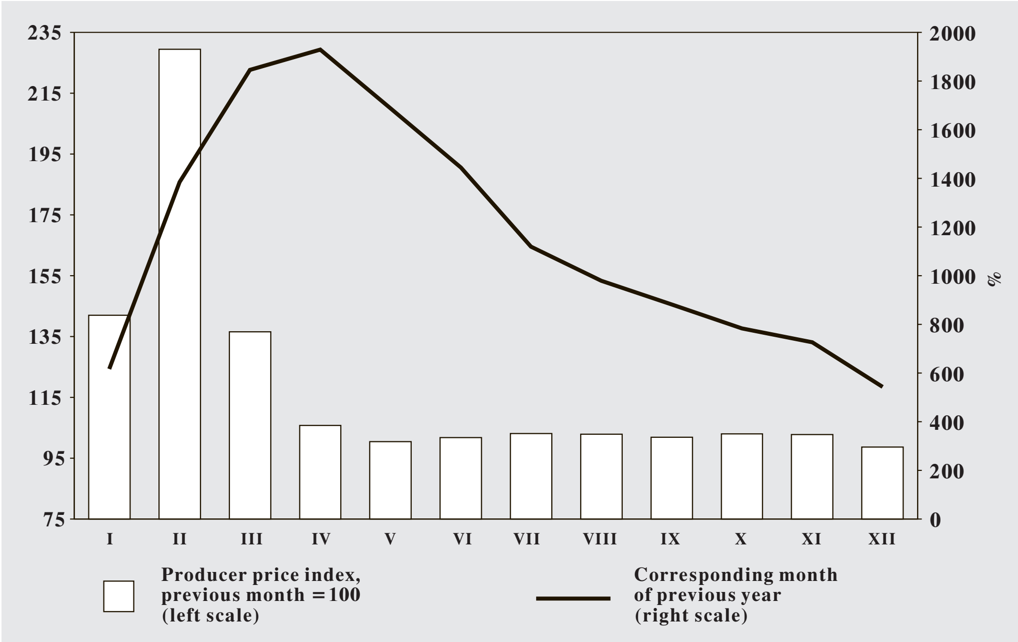
[4] The NSI uses the Paasche index, whereby each subsequent period is measured by sales in the previous period. While this method helps capture changes in realized volumes it impedes comparability with the consumer price index. From early 1998 the index is calculated using constant weights for the various goods and sectors.

PRODUCER PRICE INDICES IN 1997



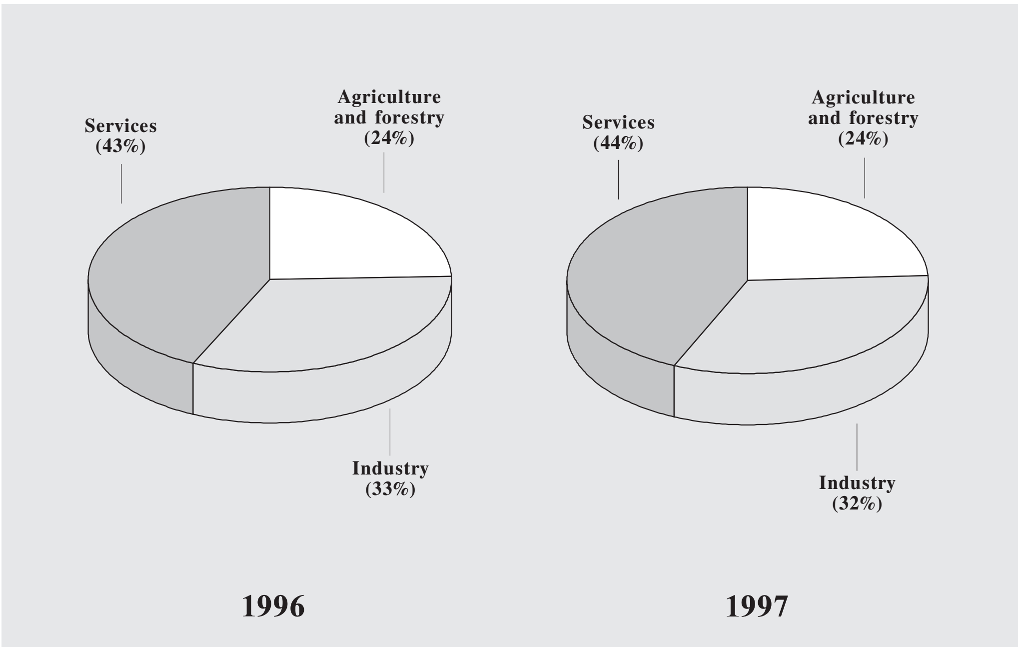
Source: NSI.

3. Employment and Unemployment

Employment

The slump in output was coupled with a fall in employment, particularly in the public sector. According to preliminary data[5] the number of employed in 1997 fell by 87,700 persons (2.7%) from 1996 and a concurrent process of employment restructuring was underway. Redundancies in the public sector were less than increases in private sector employment and unemployment. It would be true to assume

EMPLOYMENT BY SECTOR



Source: NSI.

[5] NSI data, excluding self-employed persons and farmers.

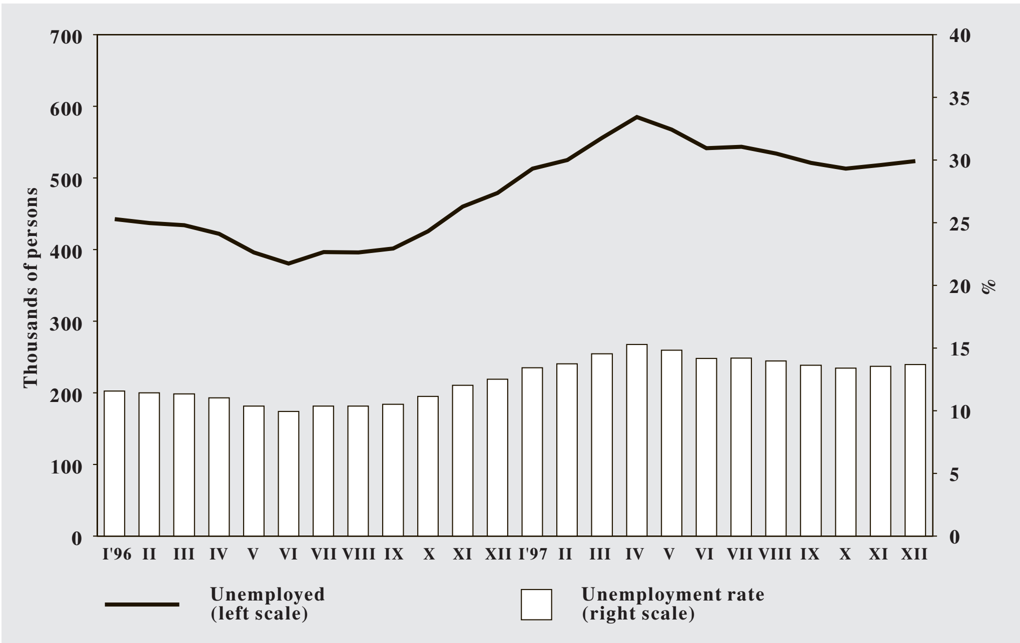
that there was an increase in the labor force with the bulk of it shifting to the private sector. A portion of unregistered unemployed, self-employed and farmers entered this sector. As a result, the share of private sector employment (53%) in total employment now exceeds the share of public sector employment (47%).

Public sector employment fell by 12.3%; public sector employees in 1997 numbered 1,516,600 against 1,728,400 in 1996. The reduction reflects enhanced restructuring of the real sector and closure of a number of jobs in this sector. A great number of public enterprises shifted to the private sector and consequently the number of public sector employees fell. This was coupled with a process of structural reforms in public institutions and a concurrent reduction in jobs.

Unemployment

According to National Labor Office data in 1997 the monthly average number of registered unemployed at labor offices totaled 536,700, or 14% of the labor force. Compared with 1996, the number of unemployed rose by 27%, and unemployment increased by 2.9 percentage points. During the last months of 1997, however, unemployment fell compared with the period prior to Currency Board launch. In December unemployment fell by 3.3% compared with June; and in the second half of the year by 4.1% on average as compared with the first half-year.

UNEMPLOYMENT



Source: National Labor Office.

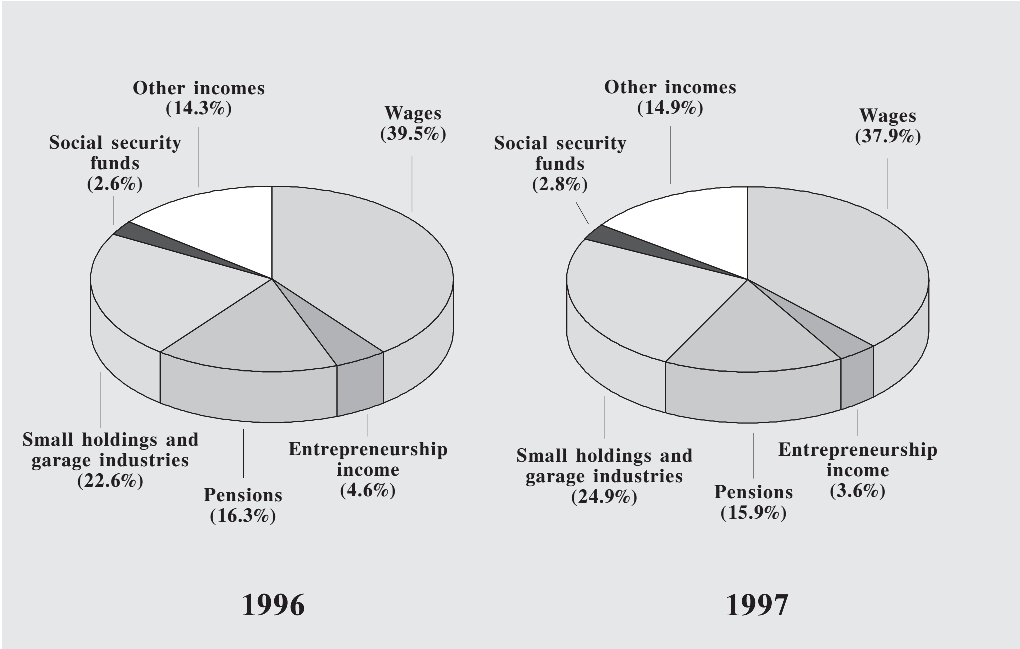
4. Household Income and Expenditure

Income

In 1997 public incomes experienced significant changes. During the whole of 1997 they rose approximately nine times but their purchasing power declined by 14.9%. Nonmonetary incomes made up a significant portion of the cost of living, while the monetary component fell to 71%. This is a result of the naturization of the economy.

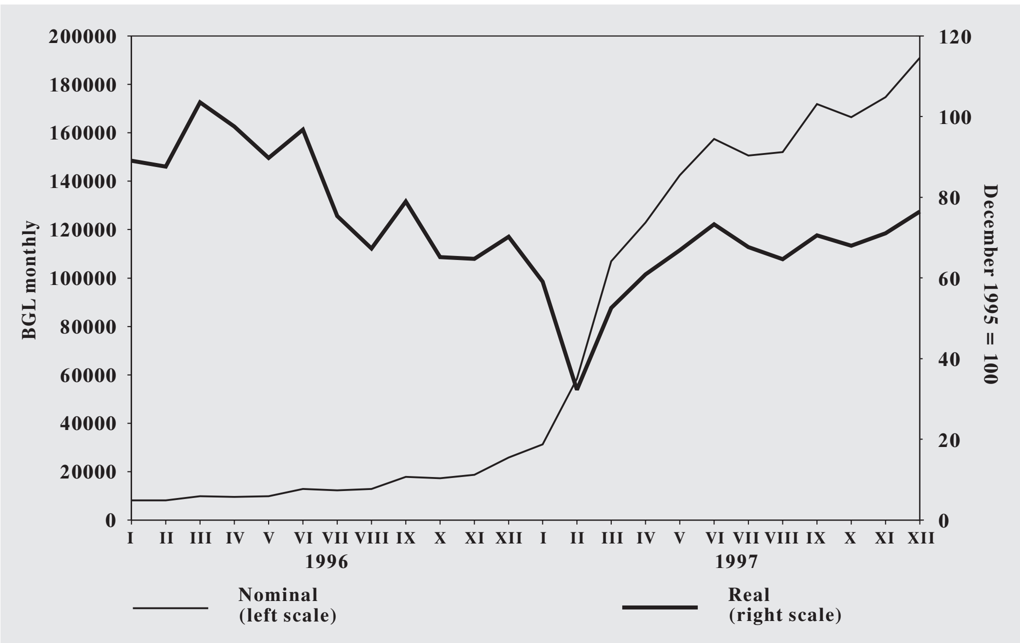
Wages accounted for over 50% of household monetary incomes but their share in gross income was much smaller: about 37.9%. Wages along with pensions, top-up pay, income from entrepreneurship and income from smallholdings and garage industries constituted the bulk of household incomes (about 85.3%). The sizable share of income from smallholdings and garage industries and their stronger resistance to changes in a financial crisis had backed the decline in real incomes. Incomes from smallholdings and garage industries decreased by 6.1% in real terms, while incomes from top-up pay and entrepreneurship fell by 30.1% and 33.4% respectively.

STRUCTURE OF GROSS HOUSEHOLD INCOME



Source: NSI.

AVERAGE PUBLIC SECTOR WAGE



Source: NSI.

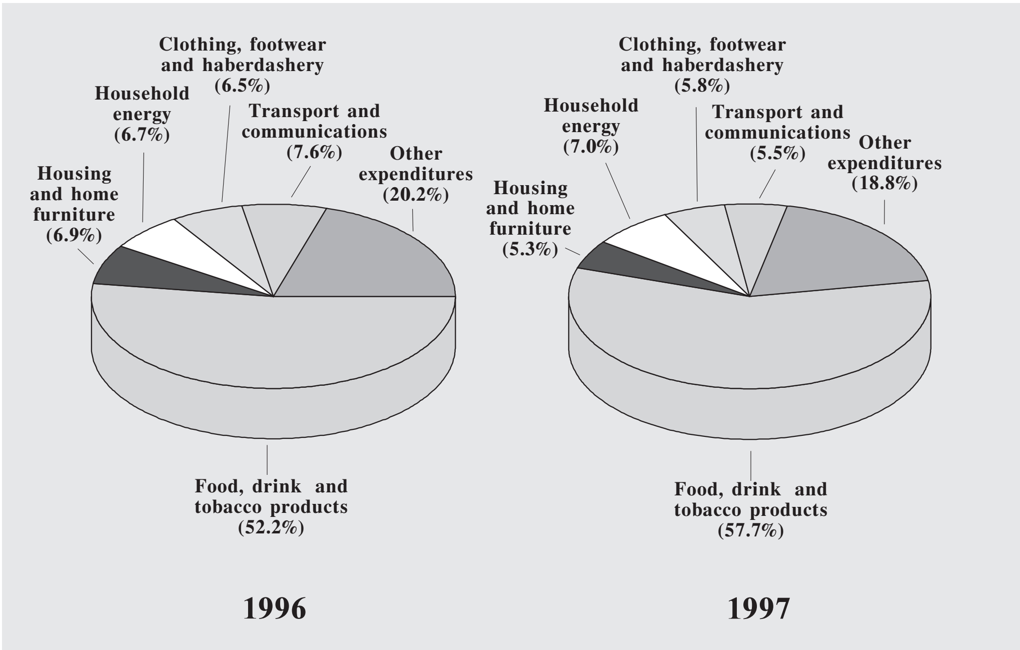
In 1997 the average public sector monthly wage rose approximately nine times to BGL 137,500, experiencing dramatic fluctuations both in nominal and real terms. In February the purchasing power of the average pay was just 32% of its amount at the close of 1995. In June the purchasing power of wages had matched the level of December 1996 but it lagged far behind end-1995 and early 1996 levels.

Compared with incomes from other sources, incomes from social funds fell insignificantly, with unemployment benefits increasing by 2% in real terms. However, social payments comprised a mere 2.8% of gross income. Therefore, the relatively constant purchasing power of such incomes did not significantly impact the overall earnings of households.

Expenditure

1997 gross household expenditure grew slower than incomes and wages. Expenditures declined by 21.2% in real terms. The structure of expenditures remained variable, reflecting impoverishment of the population and deepening income differentiation. The share of low elasticity goods accounted for a significant portion of household expenditures. The share of food exceeded the critical limit of 50% of gross household expenditure. Transport and communications expenditures saw a significant decline although they retained a significant share of gross expenditure and along with food, household energy and clothing made up 72.7% of all expenditures. Households progressively reduced expenditures on durable goods: home furniture (35%), health care (34%), and education and leisure (33%).

STRUCTURE OF GROSS HOUSEHOLD EXPENDITURE



Source: NSI.

Monetary expenditure developments almost repeated those of monetary incomes. The share of monetary expenditures in gross expenditure decreased by 7.2 percentage points. This is indicative of a return of naturization of the economy. Monetary expenses of households comprised just 69% of all food expenditures. As a result, these expenditures did not increase much in monetary spending. Energy spending continued to grow (up to 8.4%) in the structure of monetary expenditures.

5. Privatization and Structural Reform

The introduction of a currency board helped improve financial discipline in most of the real sector and tightened budget constraints[6]. Following the political changes in 1997 the government initiated a program of rapid privatization of state-owned enterprises and banks and profound restructuring of the economy.

[6] The principle of hard budget constraints was ignored in extending government guarantees for the purchase of wheat and the import of soya groats, and in converting Balkan Airlines' obligations into government debt. Intercorporate indebtedness continued to increase, particularly debts to the National Electrical Company Ltd. and Bulgargaz.

During the last seven months of 1997, 3.94% of the value of long-term assets of all state-owned enterprises as at 1995 were sold through cash privatization. Under World Bank methodology, long-term assets of any enterprise are reported as fully privatized when at least 67% of its shares have been privatized. As a result of the first wave of mass privatization more than 10% was privatized. Currently, about 20% of all assets are privatized.

More than half (52.1%) of privatization revenues are in debt instruments: ZUNK and Brady bonds. According to privatization contracts concluded, buyers are committed to repay obligations totaling about BGL 25 billion.

Under the methodology and classification of privatization transactions, concluded deals break down as follows: 275 (74%) resulted from negotiations with a potential buyer (including negotiations with managers of enterprises), 87 (23.3%) resulted from tendering and 10 transactions (2.7%) were by auction.

In 1997 the first wave of mass privatization was finished. The public and privatization funds acquired more than 10% of government assets against investment vouchers. Over the year bans on trade with privatized enterprise and privatization fund shares were lifted, which could be a prerequisite for capital market development.

Privatization through mediators was used as a method for the first time. Privatization of several big enterprises of key significance for the national economy was assigned to international consulting companies. Other state-owned enterprises were grouped according to sector into 'pools', with the sale of each pool assigned to international consultants.

Worker-manager buyouts increased. During the last seven months of 1997, management buyout contracts accounted for 57% of transactions for the sale of whole enterprises. Management buyout was ever more preferred, with 41.4% of all transactions based on rescheduled payments: the major advantage in such transactions.

Bank privatization is of particular importance for the functioning of the currency board. Privatization of the United Bulgarian Bank was finalized with sales to the EBRD, Oppenheimer and Co., and Bulbank. Following a tender, Nomura Securities was determined as a potential buyer for the Bulgarian Post Bank. Privatization procedures for the sale of Hebrosbank and Expressbank are in progress.

Following the first wave of mass privatization, a new type of economic agent concentrating ownership emerged. They are former privatization funds, the bulk of which transformed themselves into holding companies under legal provision.

On 9 October 1997 the Securities and Stock Exchange Commission issued a license to the stock exchange. Until the end of 1997 investment intermediary licenses were issued to 25 banks and 29 nonbank financial institutions.

6. Foreign Trade

According to preliminary data[7] exports (FOB) in 1997 totaled USD 4,913.9 million, up USD 23.7 million (0.5%) on 1996. Imports (FOB) amounted to USD 4,518 million, down USD 184.6 million (3.9%). The trade balance was USD 396 million (3.9% of GDP), an increase of USD 208.4 million (2.1% of GDP) on 1996.

In 1997 imports and exports experienced significant fluctuations due to dramatic changes in macroeconomic conditions throughout the year, and particularly in the first half of 1997. The adverse impact of these changes on Bulgaria's exports was partially offset by enhanced external demand, a result of renewed economic growth in western European countries.

During the first quarter of 1997 the sharp rise in inflation following a dramatic nominal devaluation of the lev did not result in a real lev depreciation. This, combined with political instability, contributed to a significant decline in exports:

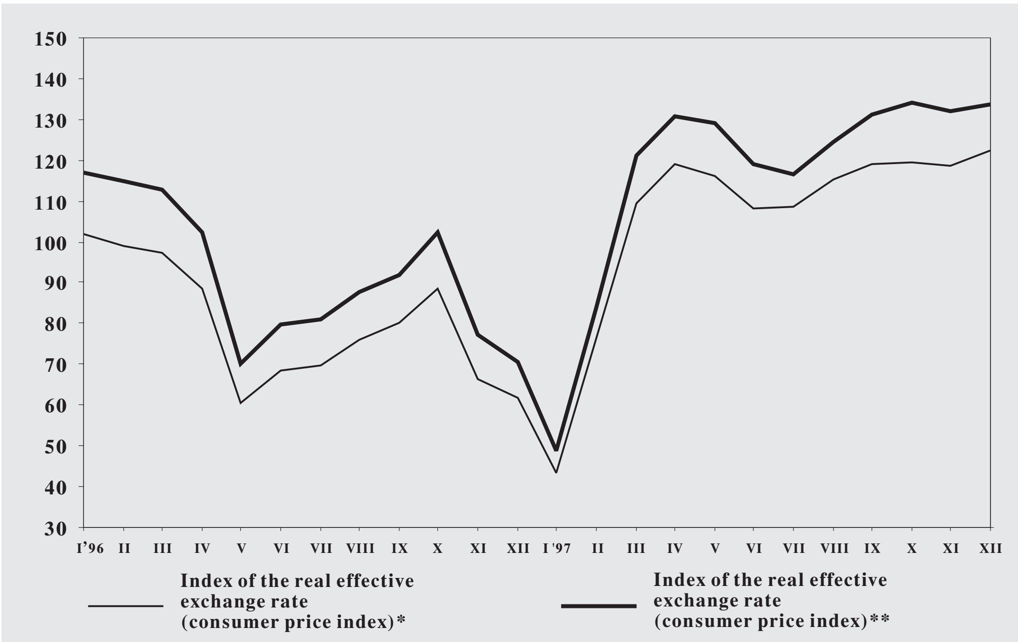
[7] MF Computing Center preliminary data for 1997 (as at 9 March 1998).

USD 9.3 million or 0.8%. Decreased lending to the nonfinancial sector (in real terms) and reduced real incomes coupled with nominally depreciated lev were the major reasons behind the dramatic decline in imports (USD 299.1 million, or 25.4%). Political stabilization, a smoothed exchange rate and enhanced external demand prompted export growth of 0.5% (USD 6.1 million) and import growth of 1.6% (USD 18.5 million) in the second quarter of 1997.

Economic stabilization following the introduction of a currency board, combined with enhanced external demand in the second half of 1997 contributed to an increase of USD 26.9 million (1.1%) in exports. Due to a slow growth in lending to the nonfinancial sector (in real terms) and relatively stable real incomes, an import growth of 4.1% (USD 96 million) was insufficient to offset the first half-year decline.

Real Exchange Rate. Dramatic fluctuations in the nominal exchange rate in the first six months of 1997 and subsequent changes in the inflation rate prompted serious fluctuations in the real exchange rate. The progressive real appreciation of the lev after January 1997 helped increase imports significantly. Reduced lending to nonfinancial enterprises and decreased noninterest budget expenditures (in real terms) over 1997 affected both imports and exports markedly given the strong dependence of Bulgaria's exports on imported raw materials and fuels. Bulgaria's exports remained competitive in the central and eastern European markets as well as in other markets due to low labor costs (in US dollar terms).

REAL EXCHANGE RATE INDICES
(December 1994 = 100)



* Based on countries' weights in exports. The index of the real exchange rate is calculated using a basket of five currencies, distributes as follows: ITL – 23%, RUR – 22%, DEM – 21%, TRL – 18% and GRD – 16%.

** Based on countries' weights in settlements. The index of the real exchange rate is calculated using a basket of three currencies, distributes as follows: USD – 75%, DEM – 20%, CHF – 5%.

Source: BNB.

Commodity Structure[8]

Compared with 1996, the aggregate commodity group of base metals indicated the most significant growth (USD 179 million, 20.6%), a result of increased exports in the cast iron, iron and steel group (USD 138 million, 37.7%).

In 1997 the aggregate commodity group of animal and vegetable products experienced a considerable drop in exports (USD 216.5 million, 23.6%) compared with 1996 due to a significant export decline of tobacco (USD 91.6 million, 35.8%), and drinks (USD 37.6 million, 20.6%). A drop in exports occurred in the chemicals,

[8] See tables in the Appendix.

plastics and rubber aggregate commodity group (USD 64.7 million, 6.6%), attributable to decreased exports of fertilizers (USD 100 million, 36.7%), a result of sluggish demand coupled with lower prices and the increased price of natural gas.

The greatest increase in imports compared with 1996 was in the aggregate commodity group of textile, leather materials, clothing, footwear *et alia* (USD 108.3 million, 18.1%), a result of increased imports of textile for work with materials supplied by clients.

The consumer goods group experienced the strongest changes in the structure of imports by use. Dramatically declined imports in this commodity group during the first half of 1997 (USD 88.5 million, 28.2%) relative to the same 1996 period is ascribable to reduced consumption due to sharply eroded household real incomes. The economic stabilization following the introduction of a currency board boosted a growth in imports of consumer goods during the second half of 1997 (USD 113.5 million, 50.6%), with all subgroups in the structure of this commodity group showing an increase.

In the second half of 1997 imports in the investment goods group increased by USD 44.3 million (10.3%) relative to the same period of 1996. However, this increase proved insufficient to compensate for the dramatic decline of the first half of 1997 (USD 136.2 million, 27.7%) and the overall annual import decrease in this group totaled USD 91.9 million (10%).

Geographic Structure[9]

Compared with 1996 the geographic structure of exports in 1997 exhibited a clear trend toward a shift of exports to western and central Europe, whereby the share of the European Union grew to 43.3% in 1997 from 39.1% in 1996.

Significant changes occurred in the geographic structure of imports. In 1997 imports from former Soviet republics and Balkan countries[10] declined most dramatically: by USD 258.1 million or 13.8% (including from Russia by USD 319.4 million, 18.9%) and USD 68.1 million or 41.7% respectively. Imports from CEFTA countries, other OECD countries and the EU increased by USD 71.7 million (44.9%), USD 68.4 million (24.8%), and USD 42.7 million (2.4%) respectively. By country, imports from the USA increased most significantly (by USD 69.5 million, or 62.2%), followed by the Ukraine (USD 54.2 million, or 44.2%).

7. Balance of Payments

Developments in the 1997 balance of payments reflected contradictory economic processes which held sway at different periods of the year.[11]

Current Account

In 1997 the balance of payments current account reported the biggest surplus since 1991: USD 445.7 million, or 4.4% of GDP. In 1996 the current account totaled USD 81.8 million, or 0.9% of GDP. The major factor behind the current account surplus was the positive trade balance of USD 396 million (3.9% of GDP). In 1997 exports (FOB) totaled USD 4,913.9 million (48.9% of GDP) and imports (FOB) USD 4,518 million (45% of GDP). Compared with 1996, exports grew by USD 23.7 million (0.5%) and imports declined by USD 184.6 million (3.9%).

The *balance on services* ended in deficit (USD -186.9 million). Nevertheless the balance on services improved by USD 89.3 million from 1996. The improvement was attributable to the greater surplus in the Other services item[12] (USD 75.7 million) and lessened deficit on interest (USD -362.4 million).

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[9] See tables in the Appendix.

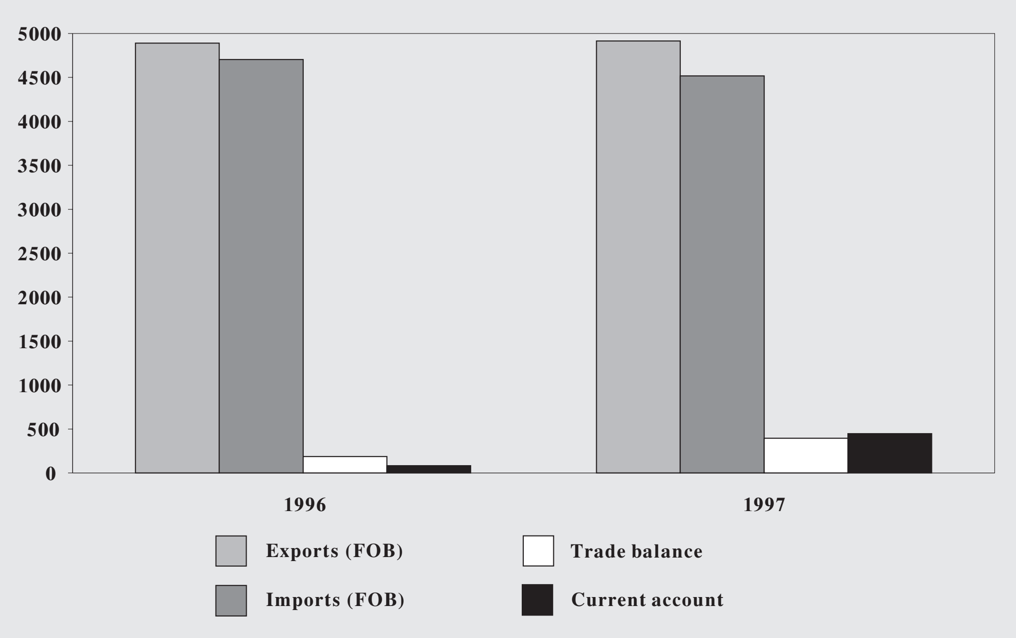
[10] Import drop from Balkan countries and import growth from CEFTA countries pertains essentially to Romania's accession to CEFTA as of 1 July 1997.

[11] In accordance with the balance of payments analytical table (IMF 4th edition of the Balance of Payments Manual).

[12] The Other services item includes communications, construction, financial, insurance, leasing and other services.

CURRENT ACCOUNT AND TRADE BALANCE

(million USD)



Source: BNB.

The balance on *transportation services* totaled USD -53.2 million against USD -46.9 million in 1996. The slightly deteriorated balance on transportation services was due to the greater transportation expenditures over the revenue.

MAJOR CURRENT ACCOUNT COMPONENTS

(million USD)

	1996	1997*
Current account	81.8	445.7
Trade balance	187.6	396.0
Exports (FOB)	4,890.2	4,913.9
Imports (FOB)	4,702.6	4,518.0
Transportation, net	-46.9	-53.2
Travel, net	189.9	147.4
Drawings	388.5	369.0
Repayments	198.6	221.6
Other services, net	-22.9	75.7
Other income, net	4.0	5.9
Interest, net	-400.6	-362.7
Drawings	142.7	158.1
Repayments	543.4	520.8
Current transfers, net	170.4	236.6

* Preliminary data.

The negative *balance on interest* in 1997 (USD -362.7 million) reflected the greater amount of national liabilities over assets. Due to increased interest revenue (attributable to the growth in BNB forex reserves and commercial bank deposits abroad) and lower foreign debt interest payments, the balance on interest improved by USD 37.9 million from 1996 (USD -400.6 million). In 1997 revenue from interest totaled USD 158.1 million (1.6% of GDP) and interest payments USD 520.8 million (5.2% of GDP).

The balance on current transfers was positive: USD 236.6 million (2.4% of GDP).[13]

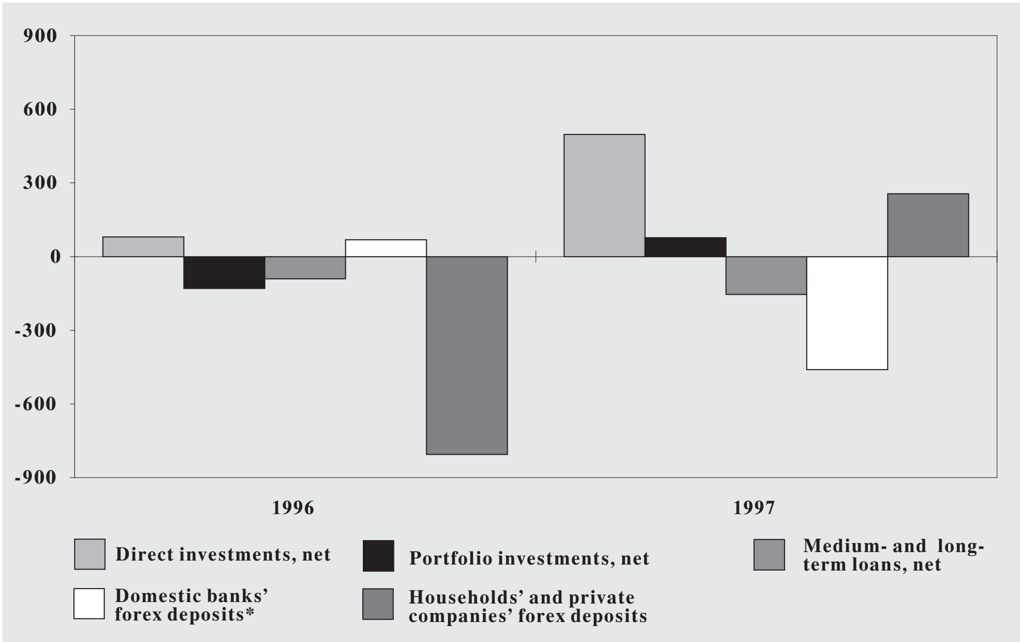
[13] Private and government transfers.

Capital Account

Implementation of the government's stabilization program, supported financially by the IMF and other international financial institutions, combined with gradually returning public and foreign investor confidence resulted in a surplus on the balance of payments capital account in 1997, totaling USD 401.2 million (4% of GDP). In 1996 the capital account reported a huge deficit of USD -715.2 million or 7.7% of GDP.

BALANCE OF PAYMENTS CAPITAL ACCOUNT
(major components)

(million USD)



* For assets a negative sign shows an increase and a positive figure shows a decrease.
Source: BNB.

According to preliminary data, direct investment in Bulgaria during 1997 totaled USD 498 million (5% of GDP). Direct foreign investment (USD 346.4 million) accounted for the bulk (69.6%) of direct investment, resulting from the privatizations of Sodi Devnya, Devnya Ciment, and MDK – Pirdop, as well as equity acquisition in commercial banks and other enterprises. Compared with 1996, direct investment in the country increased by USD 389 million.

Portfolio investment (net) totaled USD 76.6 million (0.8% of GDP). The relatively stable exchange rate combined with high interest rates (after the political stabilization started in March) led to an increase of USD 183.8 million in portfolio investment during the first six months of 1997. The lowered base interest rate and consequently the interest rate differential over the second half of 1997 reflected decreased foreign investors' interest. As a result, government securities held by foreign investors decreased by USD 87.1 million.

Increased deposits of individuals in banks and a drop in securities prices in international markets (due to the crisis in southeast Asia) contributed most significantly to Bulgarian commercial banks' increased foreign securities assets. Throughout 1997 they grew by USD 20.2 million, against USD 7.1 million in 1996.

Long-term credits[14] extended to Bulgaria totaled USD 161.4 million. Given the principal repayments made over 1997 on previously extended loans, Bulgaria's long-term obligations dropped by USD 153.8 million net. Short-term obligations grew by USD 21.7 million net.

Bulgaria's claims on previously extended loans to other countries fell by USD 139 million net, primarily reflecting repayments for natural gas deliveries from

[14] With the exception of credits disbursed by the IMF and credits extended by foreign investors to their enterprises in Bulgaria.

Russia under the Yamburg Agreement.

Commercial banks' deposits abroad increased significantly: by USD 459.8 million (4.6% of GDP), against a decrease of USD 68.2 million (0.7% of GDP) in 1996. Deposits rose most rapidly in the months prior to and immediately after the introduction of a currency board. Between May and August commercial banks' deposits grew by USD 366.7 million (79.8% of the overall 1997 growth).

As a result of political and financial stabilization in 1997, resident capital inflow increased: deposits of individuals and private companies with Bulgarian banks grew. Between March and December these deposits rose by USD 328.4 million and for the whole 1997 by USD 256.1 million (2.6% of GDP). Resident capital flight in 1996 totaled USD 806 million (8.6% of GDP).

The 1997 overall balance ran a significant surplus of USD 1,198.2 million (11.9% of GDP), against a deficit of USD 741.7 million (7.9% of GDP) in 1996. This is attributable to the positive balances on current and capital accounts.

In 1997 BNB forex reserves exhibited the greatest increase since 1991. BNB forex reserves grew by USD 1,690.7 million (16.8% of GDP), while in 1996 they fell by USD 753.1 million (8.1% of GDP). The 1997 growth in forex reserves is ascribable primarily to the sizable surpluses on current and capital accounts, and to IMF credits. During 1997 IMF loans extended to Bulgaria totaled USD 482.1 million (4.8% of GDP). Throughout 1997 Bulgaria's obligations to the IMF rose by USD 394.2 million (3.9% of GDP) net.

8. Foreign Debt and Debt Indicators

Gross Foreign Debt Amount and Structure

According to preliminary data, Bulgaria's gross foreign debt[15] by end-December 1997 totaled USD 9,763.4 million (97.2% of GDP)[16], including long-term obligations of USD 8,409.1 million (86.1% of gross foreign debt) and short-term obligations of USD 1,354.3 million (13.9% of gross foreign debt). Compared with 31 December 1996, gross foreign debt increased by USD 167.7 million (1.7%).

MATURITY STRUCTURE OF GROSS FOREIGN DEBT

	1996		1997	
	million USD	% of GFD	million USD	% of GFD
Long-term foreign debt	8,555.0	89.2	8,409.1	86.1
Short-term foreign debt	1,040.6	10.8	1,354.3	13.9
Gross foreign debt	9,595.6	100.0	9,763.4	100.0

As of *31 December 1997* the country's long-term obligations to official creditors amounted to USD 3,271.8 million, and those to private creditors USD 5,137.2 million. Compared with 31 December 1996, long-term foreign debt decreased by USD 145.9 million (1.7%).

Compared with 31 December 1996, short-term obligations increased by USD 313.7 million (30.1%). This increase is essentially due to the inflow of nonresident investment in government securities denominated in foreign currency.

In terms of debt structure by creditor, Bulgaria's obligations to London Club creditors accounted for the largest share: USD 4,924.4 million[17] (50.4% of gross foreign debt). The country's debt to *official Paris Club creditors and nonrescheduled*

[15] Gross foreign debt includes public, publicly guaranteed and private foreign debt. Public and publicly guaranteed debt comprises debt on the government budget and monetary authorities. Foreign debt on the government budget does not include the country's obligations and receivables in transferable roubles, overdue interest on obligations to former Comecon creditors, as well as domestic debt instruments bought by nonresidents. The amount of gross foreign debt is different from that of the government (See footnote 29).

[16] Estimated 1997 GDP amounts to USD 10,040 million (BGL 17,103,433 million). Actual repayments on gross foreign debt in 1996 totaled USD 1,078.9 million (11.6% of GDP).

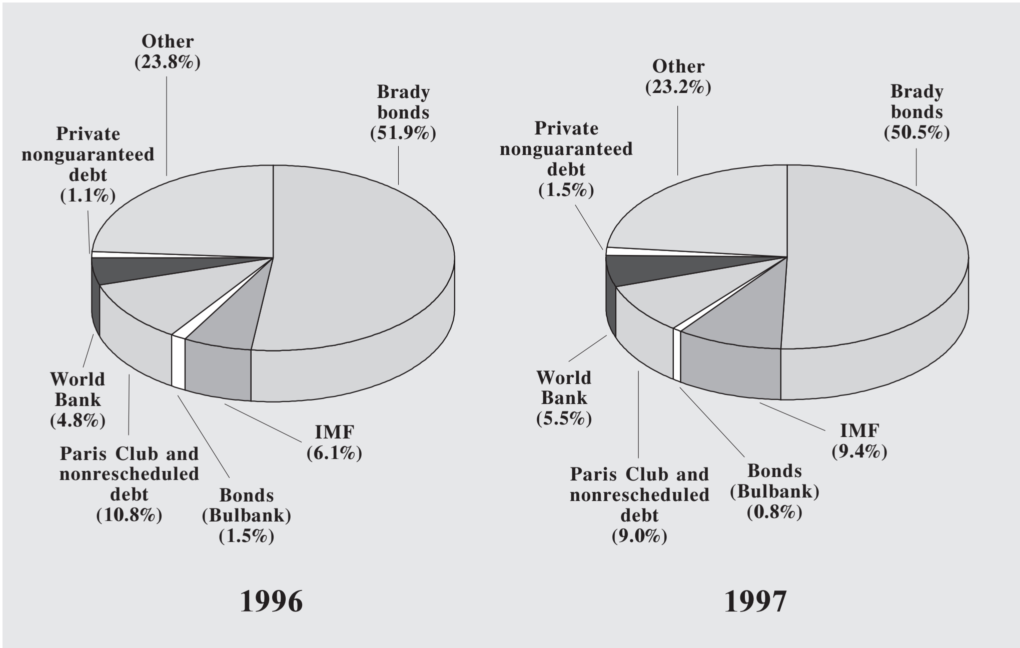
[17] Less Brady bonds held by residents.

debt totaled USD 877.9 million (9% of gross foreign debt) and to the *World Bank*: USD 540.4 million[18] (5.5% of gross foreign debt).

On 11 April 1997 the Executive Board of the IMF approved the Fifth standby agreement totaling SDR 371.9 million and decided to extend another SDR 107.6 million under the cereal element of the Compensatory and Contingency Financing Facility because of increased import costs of cereals. The amount of both credits approved totaled SDR 479.5 million. This evidenced IMF commitment to support the government's economic program for 1997 – 1998 intended to implement structural reform and achieve financial stabilization in the country.

By the end of 1997 Bulgaria received four tranches under the Fifth standby agreement, totaling SDR 247.6 million. As a result, the country's obligations to the IMF as of 31 December 1997 reached SDR 698 million (USD 936.4 million, or 9.6% of gross foreign debt).

GROSS FOREIGN DEBT BY CREDITOR



Source: BNB.

As of *31 December 1997*, 94% of the nations's foreign debt was *public* and *publicly guaranteed*.

Gross Foreign Debt Service

According to preliminary data, payments on *gross foreign debt in 1997* totaled USD 897.1 million (8.9% of GDP), including principal repayments of USD 457.4 million (4.6% of GDP) and interest repayments of USD 439.7 million (4.4% of GDP). Of these, *long-term foreign debt repayments* totaled USD 806.6 million (USD 375.9 million on principals and USD 430.8 million on interest), and repayments on *short-term foreign debt* amounted to USD 90.6 million (USD 81.6 million on principal and USD 9 million on interest).

GROSS FOREIGN DEBT REPAYMENTS

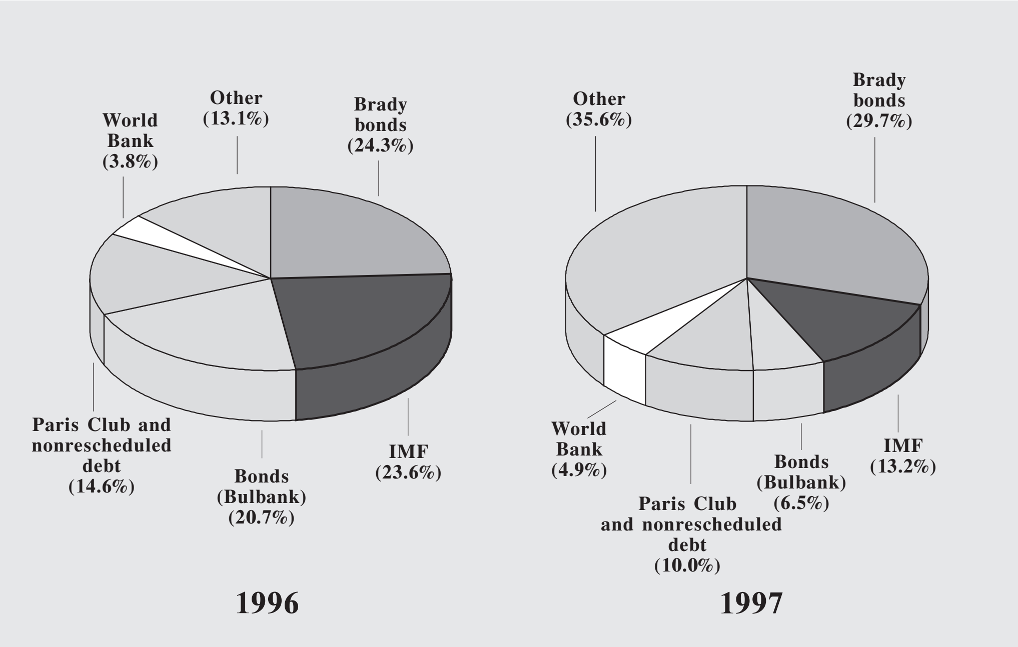
(million USD)

	Quarters				1997, total
	I	II	III	IV	
Principals	97.7	33.3	82.2	244.2	457.4
Interest	193.4	24.5	190.6	31.2	439.7
Total	291.1	57.8	272.8	275.4	897.1

[18] Of this, USD 431.9 million in public debt and USD 108.5 million in publicly guaranteed debt.

As regards creditors, repayments to the *London Club* accounted for the largest portion: 29.7% of payments on gross foreign debt, or USD 266.5 million in interest payments on Bulgaria's Brady bonds. Repayments to the *European Union* amounted to USD 172.5 million (19.2% of repayments on gross foreign debt); of this, USD 154.2 million (ECU 140 million) for the principal repayment on the second tranche of the first EU loan and USD 18.3 million in interest payments. Debt payments to the *International Monetary Fund* totaled USD 118.7 million (USD 87.9 million on principal payments and USD 30.8 million on interest; 13.2% of payments on gross foreign debt); and repayments on the debt to *the Paris Club creditors and unrescheduled debt* amounted to USD 89.6 million (USD 31.7 million on principal payments and USD 57.9 million on interest; 10% of repayment on gross foreign debt).

GROSS FOREIGN DEBT PAYMENTS BY CREDITOR



Source: BNB.

Changes in Debt Indicators

The ratio of *gross foreign debt to gross domestic product*, indicating relative foreign debt burden on GDP, was 97.2% by 31 December 1997, against 102.8% a year earlier. The improvement in this indicator is attributable to the greater increase in GDP in US dollar terms (7.6%) compared with the increase in gross foreign debt (1.7%).

The ratio of *gross foreign debt to exports of goods and services*, indicating the country's ability to service foreign debt from export revenues, worsened slightly. By 31 December 1997 it rose to 156.3% from 153.4% a year ago, ascribable mainly to decreased exports of goods and services (by 0.1%) and increased national gross foreign obligations (by 1.7%).

The ratio of *gross foreign debt service to gross domestic product*, indicating the relative burden of actual payments on gross foreign debt to gross domestic product, was 8.9% by 31 December 1997, against 11.6% by end-1996. The improvement reflects both the decreased principal and interest payments on gross foreign debt in 1997 relative to 1996 (by 16.8%) and increased GDP in US dollar terms (by 7.6%).

The ratio of *gross foreign debt service to exports of goods and services*, reflecting the portion of export revenues earmarked to cover foreign debt service, improved. Given the greater decline (by 16.8%) in the amount of principal and interest repayments than in exports of goods and services (by 0.1%), this ratio fell to 14.4% by 31 December 1997 from 17.2% by end-1996.

9. Fiscal Sector[19]

In an unstable macroeconomic environment, the fiscal policy of the government in 1997 was geared toward curbing the impact of proinflationary factors to the maximum possible extent, and to creating optimal conditions for financial and economic stabilization. In order to minimize budget deficit increases over a period of executive and legislative changes, the Law on the Budget Execution, in force until enactment of the 1997 Law on the State Budget of the Republic of Bulgaria (State Gazette, issue 5 of 5 February 1997), set out a number of restrictions on the amount and structure of expenditures, the cash deficit amount and the increase in borrowing requirements. Besides tight budget constraints, this Law provided for the use of direct long-term credits from the BNB as a source of budget deficit financing, although according to the then effective Law on the BNB the central bank could cover only temporary cash shortages in the budget.[20]

The 1997 State Budget Law of the Republic of Bulgaria, adopted in mid-year (State Gazette, issue 52 of 1 July 1997), is based on actual budget performance and projected changes in major macroeconomic indicators by year-end following the introduction of the Currency Board. The new Law on the BNB discontinued extension of temporary credits of up to three months (advances) for budget deficit financing by the central bank, while an opportunity is provided for the government to draw long-term credits from the BNB only against purchase of SDR from the IMF.

After the introduction of the Currency Board the state budget was set to play a new and more active role. Changes in the macroeconomic environment during the second half of the year had a significant impact on the cash performance of the state budget. Nascent financial stabilization, reviving confidence in the banking system, improved liquidity and lower interest rate levels, as well as the timely preparation of the macroeconomic framework and draft budget for 1998, had beneficial effects on 1997 budget performance. As a result, budget revenues rose and the cash deficit was gradually reduced. Inflow of foreign financing from the IMF in the second half of the year prompted a rise in the country's gross foreign debt. Under these conditions, fiscal policy efforts focused on finding an optimal decision which, on the one hand, would ensure maintenance and development of the government securities market, and on the other, would help attain the required level of government fiscal reserves under the Memorandum with the IMF.

Consolidated State Budget

The consolidated state budget (CSB) includes the government budget, social security and local budgets, and all extrabudgetary funds and accounts which form part of fiscal reserves.[21] The government budget comprises the central government budget, budgets of ministries and government agencies, and the legal system budget (Rules of Procedure of the State Budget, State Gazette, issue 67 of 6 August 1996). Consequently the 1997 State Budget Law of the Republic of Bulgaria adopted the general government budget, legal system and the National Audit Chamber budgets, revenues and expenditures of ministries, government agencies and regional municipal administration budgets, the budget of the Committee on Mutual Provision of TPK members, as well as the relationships between the general government budget and municipal budgets. For the first time the social security budget was detached from the government budget by a special statute: the 1997 Law on the Social Security Fund.

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[19] Information on cash basis reporting of the consolidated state budget is based on BNB data, unconfirmed by the MF, and is preliminary.

[20] All state budget laws until 1996 provided for the extension of direct long-term credits from the BNB as a source of cash deficit financing.

[21] The consolidated state budget includes the following extrabudgetary funds and accounts: State Fund for Reconstruction and Development, State Dividend Fund, Land Improvement Fund, Privatization Fund, Mutual Fund, Professional Retraining and Unemployment Fund, National Environment Protection Fund, National Republican Road System Fund, Forest Fund, National Communications System Fund, Agriculture Fund, Tobacco Fund, State Protection of Deposits and Accounts Fund, Emergency Security Aid under EU Programs, World Bank critical imports loan, World Bank reconstruction loan.

Net revenue in the consolidated state budget (obtained after the deduction of intrabudgetary transfers and funds for budget deficit financing) at the end of 1997 totaled BGL 5,538.15 billion, or 32.4% of reported GDP[22]. In 1996 the proportion of net revenue in the CSB to GDP[23] was 33.1%. The fact that the bulk (about 68%) of 1997 revenue was collected in the second half of the year, despite a sharp fall in the inflation index, reflected the beneficial effect of nascent stabilization processes. During the reporting year net expenditure on the consolidated state budget amounted to BGL 6,073.83 billion, or 35.5% of reported GDP. As of 31 December 1996, the proportion of expenditures on the CSB in reported GDP was 43.7%.

The bulk of revenues (56.9%) and expenditures (53.2%) on the CSB in 1997 was accounted for by revenues and expenditures on the general government budget. Consequently the amount and structure of general government budget revenues and expenditures directly reflected the amount and structure of central government budget revenues and expenditures.

As of 31 December 1997 revenues[24] to the central government budget totaled BGL 2,983.32 billion, or 116.5% of SBL estimates. Although revenues exceeded legal forecast, their share in reported GDP fell from 20% in 1996 to 17.4% in 1997.

Tax revenues were the major source of budget revenues. They accounted for 91.3% of total revenues at BGL 2,724.96 billion, or 120.3% of forecast SBL and 15.9% of GDP. Likewise in 1996 the share of tax revenues in GDP was 16.4%.

During the period under review financial institutions' corporate tax was below SBL projections (71.6%), due mainly to extremely subdued bank lending.

As of 31 December 1997 nontax revenues to the central government budget totaled BGL 255.04 billion, or 86.6% of SBL and 1.5% of reported GDP. As of 31 December 1996 nontax revenues comprised 3.6% of GDP. As in 1996, interest revenues on bank current accounts and time deposits had the largest share in nontax revenues in 1997, 133.3% and 276.1% respectively. In contrast to 1996, however, in 1997 the share of BNB excess of revenue over expenditure (from 35.8% in 1996 to 13.3% in 1997) in the total amount of nontax revenues considerably decreased, related to the modified functions of the central bank under a currency board arrangement.

As of 31 December 1997 central government budget expenditures totaled BGL 3,650 billion, or 104.4% of SBL and 21.3% of GDP. In 1996 these accounted for 95.9% of ASBL and their share in reported GDP was 30.9%. Current expenditures accounted for the largest share in central government budget expenditures. In 1997 the share of current expenditures in total expenditures fell substantially compared with 1996: from 69.2% to 51.9%, a result of dramatically reduced interest payments. During the period under review expenditures on interest payments comprised only 36.4% of total central government budget expenditures, while in 1996 their share was 63.6%. As of 31 December 1997 interest payments accounted for BGL 1,328.2 billion, or 85.8% of SBL estimates and 7.8% of GDP. By comparison, in 1996 interest payments totaled BGL 343.95 billion, or 19.7% of GDP.

Transfers to cover deficits on other budgets and extrabudgetary funds and accounts accounted for a significant share in central government budget expenditures. Their share in total expenditures rose from 30.5% in 1996 to 47.1% in 1997. As of 31 December 1997 these netted a total of BGL 1,717.35 billion, or 10% of GDP, against 9.4% of GDP at end-1996.

Budget Deficit

As a result of positive changes in the amount and structure of central government budget revenues and expenditures, as of 31 December 1997 a primary surplus of BGL 661.52 billion was reported on the central government budget, or 108.3% of SBL estimates and 3.9% of GDP. As of 31 December 1996 the share of primary surplus in GDP was 8.8%.

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[22] The GDP figure for 1997 used in this report is BGL 17,103.4 billion.

[23] The GDP figure for 1996 used in this report is BGL 1,748.7 billion.

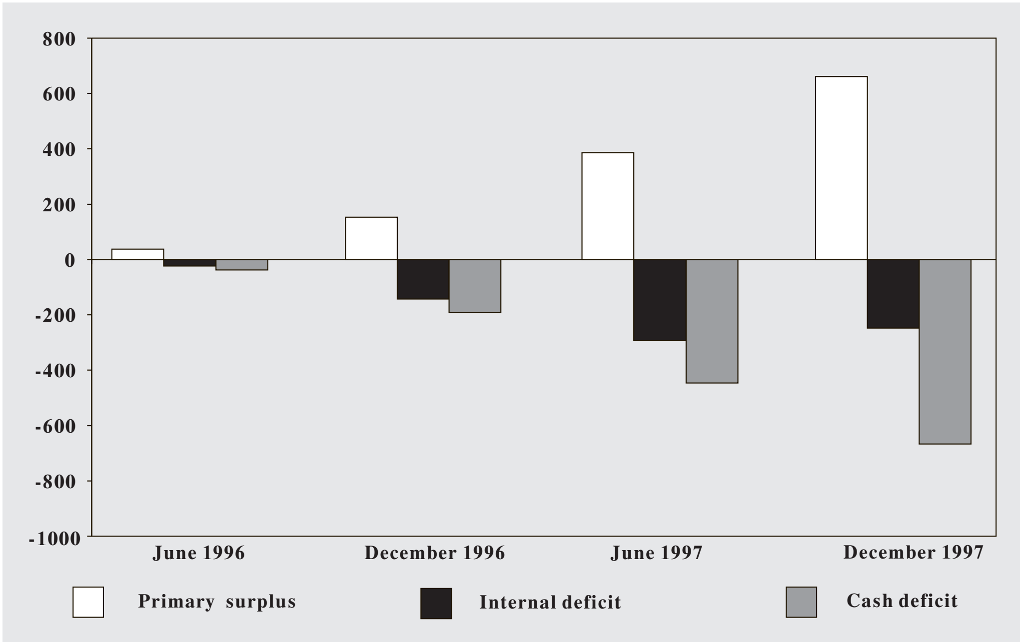
[24] 1997 reported data includes foreign currency accounts of the central government budget.

However, the large primary surplus on the central government budget proved insufficient to cover interest payments on domestic debt service. After taking into account the relationships of the budget and domestic creditors, as of 31 December 1997 an internal deficit of BGL 248.03 billion was reported, or 55.1% of SBL estimates and 1.5% of GDP. At end-1996 the share of internal deficit in GDP was much larger (8.2%).

By end-1997 the cash deficit on the central government budget totaled BGL 666.69 billion, or 71.2% of SBL estimates and 3.9% of GDP. By comparison, in 1996 the cash deficit comprised 10.9% of GDP.

TYPES OF DEFICITS ON THE CENTRAL GOVERNMENT BUDGET

(billion BGL)



Source: BNB.

As of 31 December 1997 the cash deficit on the CSB was BGL 535.68 billion, or 3.1% of GDP. In 1996 the cash deficit on the CSB comprised 10.5% of reported GDP.

General borrowing requirements reached BGL 5,825.59 billion by end-1997. Compared with 1996, their share in GDP fell slightly: from 36.8% to 34.1%. A more significant change occurred in their structure. In 1997 10.3% (BGL 601.63 billion) of general borrowing requirements of the central government budget was accounted for by the budget deposit (in levs and foreign currencies), while in 1996 the share of budget deposit in general borrowing requirements was 3.2% alone. On the one hand, this may be taken to be positive because, in contrast to other components of general borrowing requirements budget deposit can be used as a source of cash deficit financing in the next year. On the other hand, given the fact that a portion of it is comprised of borrowed funds, keeping a sizable budget deposit amount may prove unjustifiable in view of the negative budget interest differential.

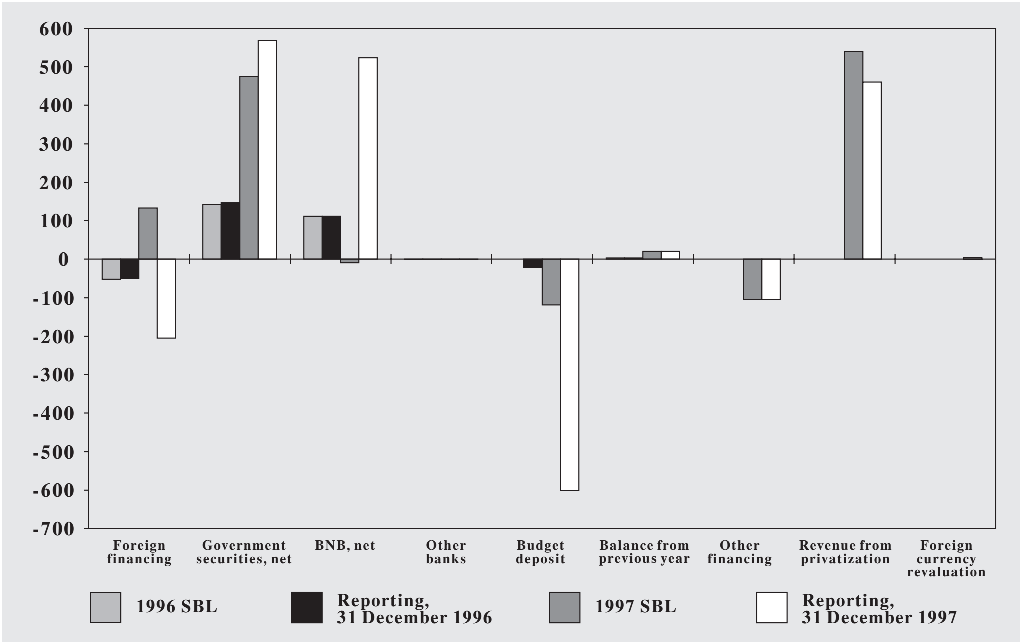
Budget Deficit Financing

As of 31 December 1997 net domestic financing of the central government budget totaled BGL 872.05 billion. Government securities operations were the major source of budget deficit financing. By end-1997 government securities operations netted a total of BGL 568.53 billion, or 119.8% of SBL estimates.

The bulk of government securities sales was realized through auctions. In 1997 the MF offered for sale government securities with a total nominal value of BGL 4,978.27 billion, and financial institutions' bids amounted to BGL 7,278.13 billion (1.46 coverage coefficient). Volatile economic conditions at the beginning of 1997, dramatic exchange rate rise and strong inflationary expectations called for a change in MF issuing policy; as a result, the MF launched daily issue of extra short-term (seven- and 28-day) discount treasury bills. The total nominal value of these government securities amounted to BGL 3,123.94 billion by June, when trade in these securities was discontinued. Where necessary, three-, six-, nine- and twelve-month treasury bills were issued between January and June. As a result of starting financial stabilization following the introduction of the Currency Board, the practice of conducting government securities auctions every Monday (for treasury bills) and every second and fourth Friday of the month (for treasury bonds) was reestablished, while the volume of government securities issues offered for sale was gradually reduced at the expense of longer-term maturities.

CASH DEFICIT FINANCING OF THE CENTRAL GOVERNMENT BUDGET

(billion BGL)



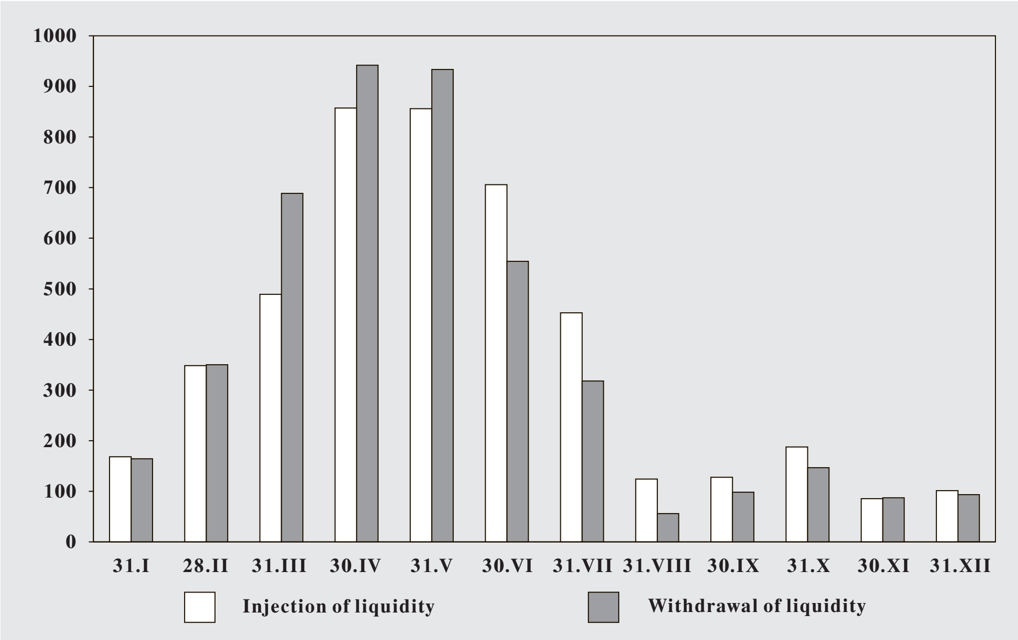
Source: BNB.

In 1997 358 issues of book-entry government securities were sold at auctions for budget deficit financing with a total nominal value of BGL 4,574.19 billion, including 305 issues of treasury bills and 12 issues of treasury bonds. Government securities purchased with noncompetitive bids amounted to BGL 363.96 billion nominal value, or 7.96% of the total amount of government securities purchased at auctions. The average selling prices of the bulk of issues sold under BNB Regulation No. 5 of 1996 ensured yield equal to or higher than the base interest rate operative in the respective period. Following the BNB Managing Board resolution to change the method of setting the base interest rate, from December the base interest rate was set on the basis of the average annual yield attained at the auctions for three-month government securities. Base interest rate becomes effective on the issue date and is valid until the date of the next government securities issue.

From mid-year the volume of government securities offered for sale was gradually reduced, prompting an excess of liquidity injection over liquidity withdrawal from the banking system through government securities maturities and issues. As of 31 December 1997 government securities for budget deficit financing with a total nominal value of BGL 850.19 billion were in circulation, including target issues of BGL 86.63 billion earmarked for sale to individuals and companies.

LIQUIDITY REGULATION THROUGH GOVERNMENT SECURITIES ISSUES AND MATURITIES IN 1997

(billion BGL)



Source: BNB.

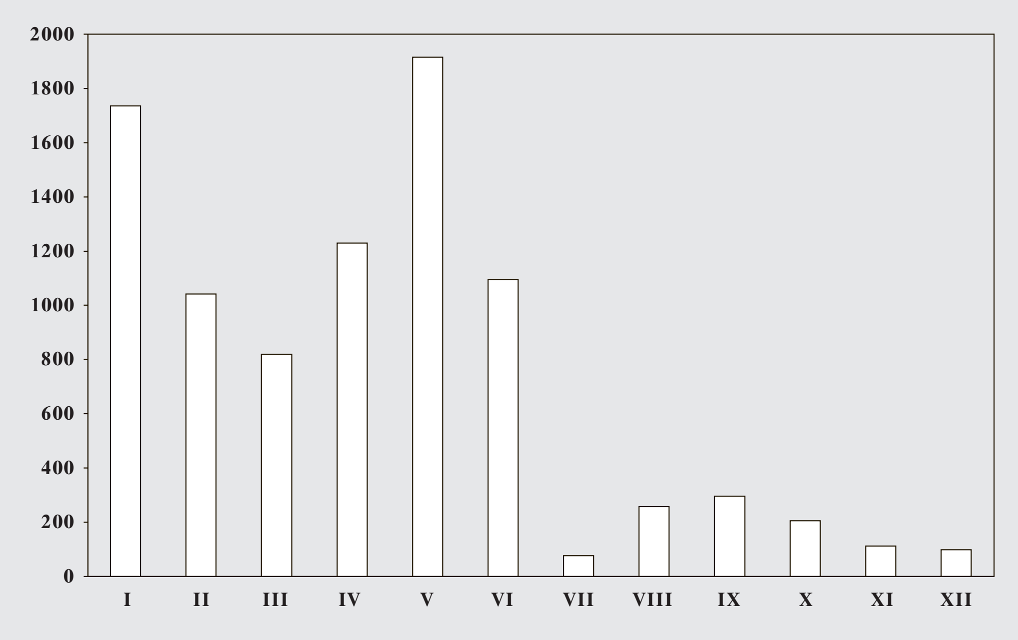
With the introduction of the Currency Board open market operations were discontinued, which increased liquidity in the banking system. Concurrently, regular tax contributions reduced budgetary needs for domestic financing and the MF reduced the volume of new government securities issues. In this setting, and left with no other investment alternative, commercial banks had to keep purchased government securities until maturity, which resulted in a reduced number and volume of government securities transactions in the secondary market. From the beginning of 1997 financial institutions concluded 7,483 secondary market transactions in government securities with a total nominal value of BGL 9,406.8 billion (with BNB participation) and USD 1,401.3 million, including 6,656 transactions in government securities issued for budget deficit financing totaling BGL 8,884.58 billion. A trend evolved within the banking system toward growing volumes of secondary market transactions during periods of liquidity squeezes, related to banks' regulation of minimum reserves required and payment of tax contributions to the budget.

According to the BNB register, as of 30 June 1997 government securities issued for budget deficit financing at nominal value and the target issues by type of holder are as follows: local nonbank financial institutions, companies and individuals, BGL 159.58 billion; foreign investors, BGL 121.96 billion; private banks, BGL 43.65 billion; and state-owned banks, BGL 649.51 billion. As of 31 December 1997 the share of private banks' holdings of government securities (BGL 183.53 billion) tended to increase, while other holders' shares contracted: local nonbank financial institutions, companies and individuals (BGL 69.48 billion), foreign investors (BGL 94.69 billion) and state-owned banks (BGL 502.6 billion).

A similar trend emerged with respect to government securities issued for structural reform: the shares of private banks and local nonbank financial institutions, companies and individuals increased at the expense of state-owned banks. The share of government securities issued for structural reform and purchased by foreign investors remained relatively stable. As of 31 December 1997 foreign investors' portfolio of US dollar-denominated government securities issued under ZUNK totaled USD 194.4 million and government securities issued for structural reform amounted to BGL 4.12 billion. By comparison, as of 30 June 1997 foreign investors' holdings of US dollar-denominated government securities issued under ZUNK totaled 201.4 million and BGL 5.51 billion.

VOLUME OF 1997 TRANSACTIONS IN THE SECONDARY MARKET OF GOVERNMENT SECURITIES ISSUED FOR BUDGET DEFICIT FINANCING

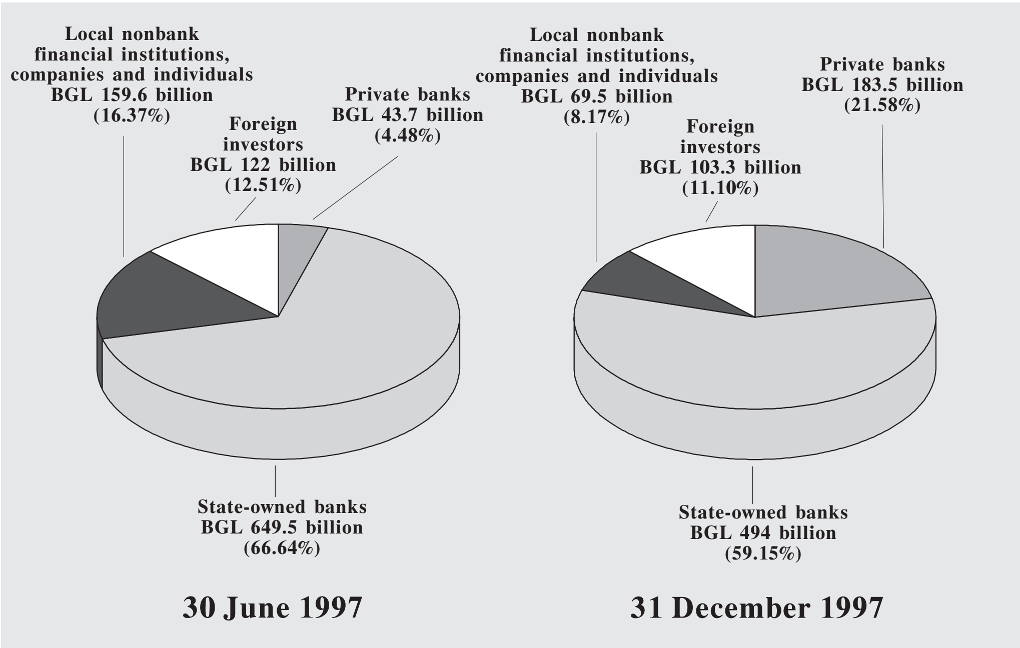
(billion BGL)



Note: On 13 June 1997 the BNB halted open market operations.

Source: BNB.

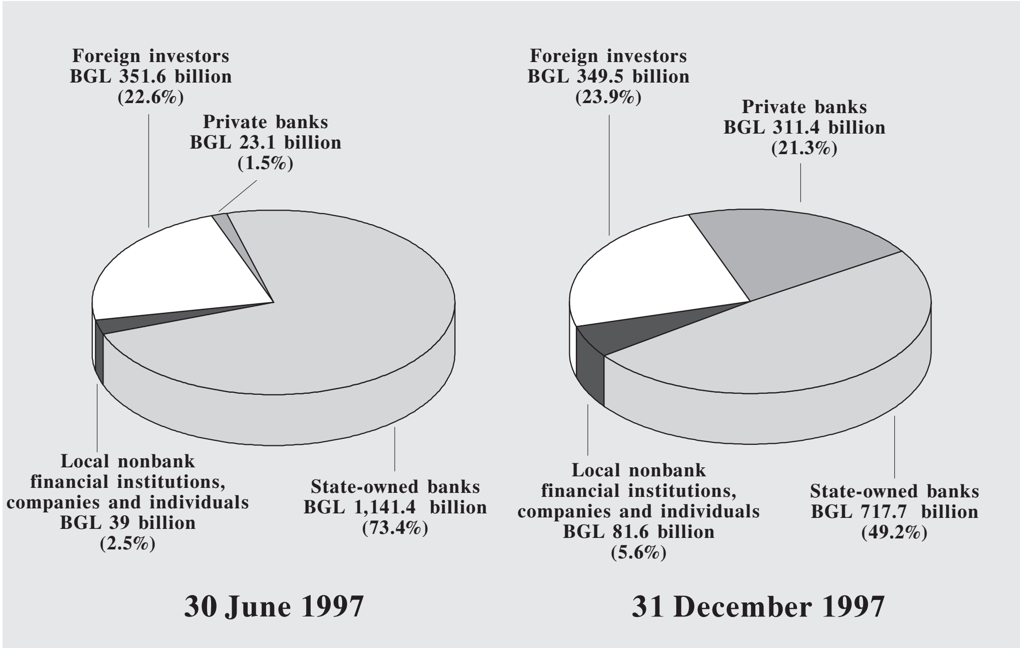
GOVERNMENT SECURITIES ISSUED FOR BUDGET DEFICIT FINANCING AND TARGET ISSUES BY TYPE OF HOLDER



Notes: 1. Including government securities blocked by financial institutions.
2. Excluding guaranty government securities issued under LSPDACB.

Source: BNB.

GOVERNMENT SECURITIES ISSUED FOR STRUCTURAL REFORM DENOMINATED IN BGL AND USD BY TYPE OF HOLDER



Notes: 1. Including government securities blocked by financial institutions.
2. The lev equivalent of USD-denominated government securities is calculated on the basis of USD central exchange rate for 30 June 1997 and 31 December 1997 respectively.
3. Excluding guaranty government securities issued under LSPDACB.

Source: BNB.

In the period under review the MF continued the established practice of weekly issue of government securities targeted at nonfinancial institutions: physical and legal persons (target issues). In the first half of 1997 the MF offered for sale one-month discount target issues and three-, six-, and twelve-month interest-bearing target issues. Because of high inflation during the first months of the year and in order to reduce investors' losses, the MF issued six-month index-linked treasury bills; their yield is tied to the six-month consumer price index for the corresponding months plus two percent interest for the period. From July 1997 the MF commenced issuing only discount target treasury bills.

The total amount of treasury bills issued in 1997, earmarked for direct sale to individuals and nonfinancial institutions, accounted for BGL 205.19 billion nominal value (including BGL 2,097.1 million index-linked bills); of these, treasury bills of BGL 86.63 billion nominal value were in circulation by year-end. Due to reduced volumes of government securities in the second half of the year financial institutions repurchased a portion of these securities in the secondary market, to be held in their portfolios. As a result, target issues held by nonfinancial institutions and individuals fell from BGL 55.12 billion nominal value at end-June to BGL 37.64 billion nominal value by end-December 1997. During the fourth quarter there was a drop in sales of these securities. One reason behind this is lower yield of these securities as compared to their yields during preceding periods of high inflation. Another factor responsible for the drop in sales is the restriction imposed by the MF on their repurchase not earlier than three months from the issue date.

Financial turmoil in the country in the early months of 1997 dictated the need for additional sources to cover temporary budget cash shortages and for budget deficit financing. Temporary bank loans of BGL 60 billion extended under the terms and conditions of Article 46 of the Law on the BNB (in effect until 10 June 1997), repaid by 30 June 1997, proved to be one such source. Moreover, in the first months of the year the MF used long-term 20-year loans totaling BGL 66.8 billion, which added up to the total amount of government debt written off from the BNB balance sheet after the introduction of the Currency Board.

Even though revenues in the second half of 1997 tended to exceed SBL estimates, in compliance with IMF agreement the BNB extended to the MF long-term credits of BGL 535.59 billion under Article 45 of the new Law on the BNB, which prompted increases in balances on fiscal reserve accounts. While these credits are reported as domestic financing of the cash deficit, their origin is the purchase of SDR from the IMF; it is therefore of crucial importance to coordinate the needs of the budget with the schedule for SDR purchases so that the BNB and the government will not incur losses from negative interest differential.

One of the key sources of budget deficit financing during the period under review were privatization revenues. By year-end these reached BGL 460.49 billion. Privatization revenues are greatly preferred as a source of budget deficit financing since they do not exert inflationary pressure and do not involve future expenses on the budget, in contrast to the sources listed above.

Other sources of budget deficit financing employed in 1997 were balances from 1996 on the central government budget accounts totaling BGL 20.68 billion and BGL 4.26 billion of funds from revaluation of forex balances on the central government budget accounts.

As a result of comparatively large revenues and the use of a number of sources to finance budget deficit, combined with sparing expenditures and reduced cash deficit, the fiscal year ended with substantial balances on the central government budget accounts (lev and foreign currency) of BGL 601.63 billion. The total amount of balances on consolidated state budget accounts (lev and foreign currency) accounted for BGL 1,378.19 billion[25], including BGL 13.72 billion on local budget accounts.

Fiscal Reserves

In accordance with the agreements with the IMF to guarantee debt payments, since mid-1997 fiscal reserves have been reported and monitored weekly. The scope of accounts included in fiscal reserves, as well as the methods for computing the amount of fiscal reserves have been determined by the Ministry of Finance in accordance with the Memorandum concluded with the IMF. Fiscal reserves include funds on all budget and extrabudgetary accounts (in levs and foreign currency) included in the consolidated state budget with the exception of municipal accounts. In addition, fiscal reserves include funds on the account of the central government budget which reports funds on target social benefits. Unlike the government deposit reported in the Issue Department balance sheet which encompasses funds on all budget entities accounts serviced by the BNB, the accounts included in fiscal reserves are serviced both by the BNB and commercial banks.

As of 30 June 1997 government fiscal reserves totaled BGL 1,115.46 billion[26], and as of 30 September 1997: BGL 1,099.21 billion. Despite sizable principal payments on foreign and domestic debts (the EU and restructured debts) in December, fiscal reserves sustained a relatively high level, reaching BGL 1,405.49 billion as of 31 December 1997.

By the end of 1997 deposits of the central government budget, including government lev and foreign currency funds, accounted for the largest share in fiscal reserves. With a view to more efficient funds management, the MF deposited its temporary free resources on time deposit accounts in the corresponding foreign currency with the BNB. The amount of deposits in US dollars substantially increased in the last quarter of 1997 due to government loans extended by the BNB in compliance with Article 45 of the Law on the BNB and comparatively insignificant debt service payments.

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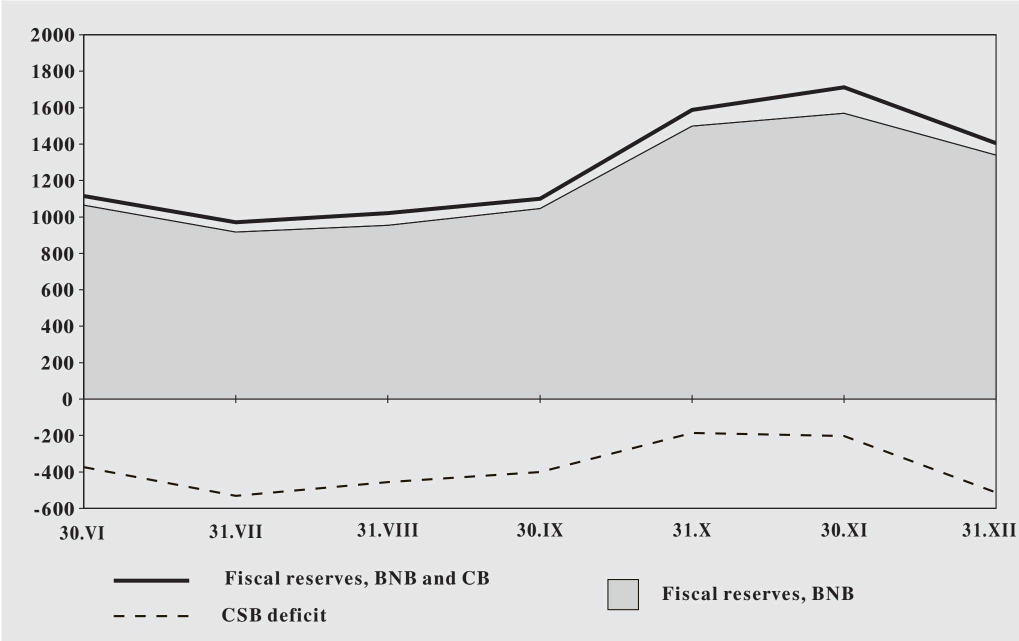
[25] Data on the lev equivalent amount of balances on foreign currency accounts, included in the total amount of balances on accounts, is provided by the MF. It is calculated in compliance with the requirements of National Accounting Standard 14.

[26] Recalculation of the forex component included in fiscal reserves in 1997 was based on cross exchange rates of 25 April 1997 at BGL 1,700 per USD 1. Quoted data on fiscal reserves includes funds on accounts finally determined by the Ministry of Finance until year-end.

DYNAMICS OF FISCAL RESERVES AND CASH DEFICIT OF THE CONSOLIDATED STATE BUDGET IN 1997

(billion BGL)



Source: BNB.

State Fund for Reconstruction and Development (SFRD) monies ranked second in the fiscal reserve structure. Since these resources are mostly borrowings (interest revenue on extended credits comprised an insignificant portion), each loan repayment to foreign creditors with SFRD funds results in a depletion of SFRD resources and a decrease in fiscal reserves correspondingly.

Holdings on extrabudgetary accounts and funds represent another fiscal reserve component. During 1997 the amount of these funds remained relatively unchanged, except for December when it almost doubled.

In December 1997 Social Security deposits tended to increase. These deposits are characterized by accumulation of sizable funds by the end of each month, since the bulk of these resources are used for repayment of pensions between the 5th and the 20th of each month.

Deposits of ministries and government agencies, including deposits of regional municipal councils and legal authorities, comprised the smallest share in the fiscal reserve account. The reason behind the insignificant holdings was in the specific nature of these resources: the bulk of them were subsidies from the central government budget extended by the MF in accordance with the payment schedule. Own funds comprised an insignificant portion of ministries' and government agencies' deposits, which actually form the bulk of holdings by year-end.

As a resultant variable, fiscal reserves depend on budget revenue, the government securities market, foreign loans and aid on the one hand, and budget payments and expenditures associated with government debt service, on the other. The sheer size of fiscal reserves in the reporting period seriously posed the question of their efficient management. The sizable amount of loan funds in the fiscal reserves calls for strict control over both budget expenditures on these loans' repayment and interest revenue received on relevant accounts.

Amount and Structure of Government Debt[27]

Government budget debt in 1997 rose 3.6 times, reaching BGL 18,362.18 billion by end-1997 from BGL 5,056.44 billion at the end of 1996. The share of this debt in GDP fell to 107.3% by end-1997 from 289.2% a year earlier. No essential change occurred in the ratio of two major debt structure components. Domestic debt, totaling BGL 4,384.02 billion, made 24% of total debt, against 21% by end-

[27] Debt serviced directly from the general government budget and the SFRD.

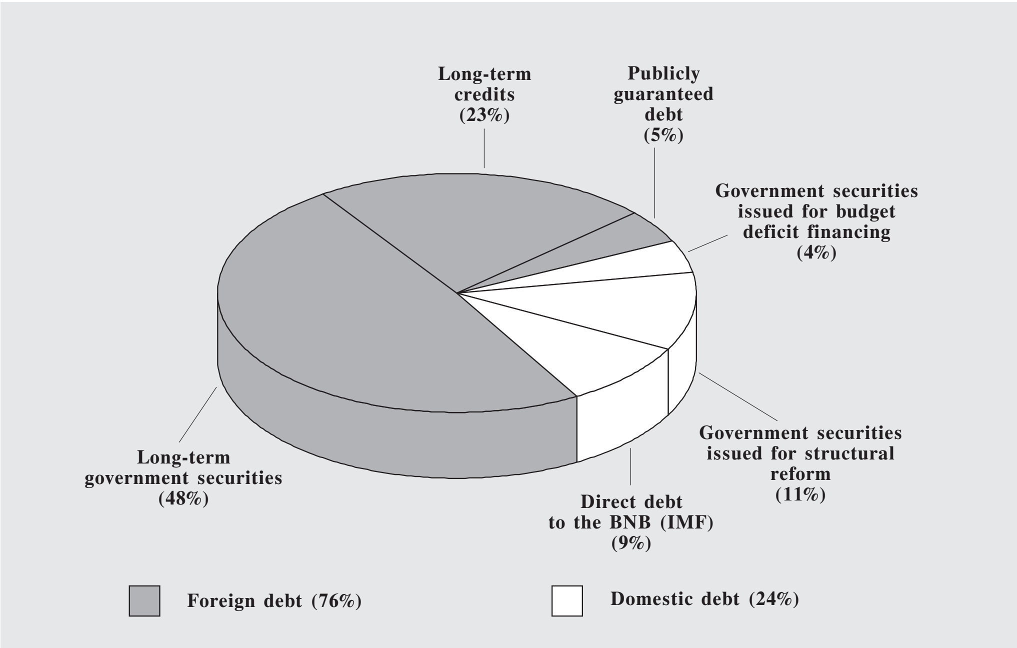
1996; foreign debt on public and publicly guaranteed national obligations, amounting to BGL 13,978.16 billion, comprised 76% of total debt, against 79% a year ago.

Domestic government and foreign government debt both exhibited a growth in absolute terms and a decrease as a percentage of GDP.

Debt foreign exchange components indicate that government obligations in US dollars account for the largest share (72.2%), followed by obligations in SDR (4.93%). Sharp inflation rises in 1996 and in early 1997 prompted a dramatic depreciation of the lev debt component, which accounted for 4.99% of total government debt by end-1997.

In respect of debt structure, obligations to foreign creditors on long-term securities, including Brady bonds, account for the largest share (48%) in government budget debt, followed by obligations on long-term loans to foreign creditors on a bilateral basis (23%), credits guaranteed by the Bulgarian government (5%), direct debt to the BNB (9%), government bonds denominated in levs and foreign currency for structural reform (11%) and government securities for budget deficit financing (4%).

STRUCTURE OF GOVERNMENT DEBT BY DEBT INSTRUMENT AS OF 31 DECEMBER 1997



Source: MF and BNB.

The split between debt instruments with floating and fixed interest rates is 75.98% to 24.02%.

Average residual maturity of government debt is 13.9 years.

Interest expenditures on government debt in 1997 total BGL 1,413.08 billion (8.26% of GDP), including interest repayments of BGL 1,328.2 billion from the general government budget and BGL 84.88 billion from the SFRD.[28]

Government Budget Domestic Debt. Developments and the structure of domestic government debt depended of the following factors: government general borrowing requirement, budget deficit changes in the base interest rate and exchange rate, and debt restructuring pursuant to the Law on the BNB and the SBL due to the introduction of a currency board.

Domestic government debt in 1997 increased 4.2 times, reaching BGL 4,384.02 billion (including credits extended to the MF for purchase of SDR from the IMF as per Article 45 of the Law on the BNB), against BGL 1,052.56 billion by end-1996.

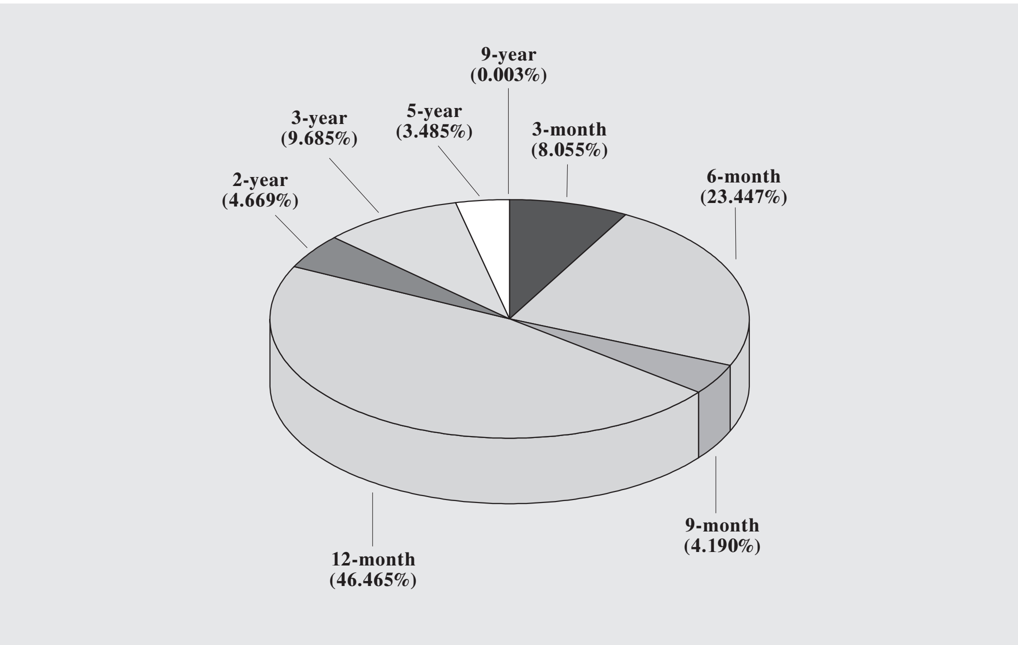
[28] Data on interest repayments from the SFRD has been released from the Fund's administration.

However, as a result of faster GDP growth compared with domestic government debt growth, the domestic debt share to the 1997 projected GDP fell to 25.6%, against 60.2% in 1996. General government budget expenditure on domestic debt servicing totaled BGL 909.55 billion (interest and discount payments), or 5.31% of GDP, against 17% in 1996.

In 1997 debt on government securities issued for budget deficit financing experienced a significant change: it grew from BGL 301.12 billion by end-1996 to BGL 807.72 billion by 31 December 1997, an increase of 2.7 times. The major reason behind the increase in this debt was the Ministry of Finance policy of issuing mostly short-term (up to one year) and extra short-term (one-week and four-week) government securities for budget deficit financing, including target issues and index-linked treasury bills earmarked to individuals and companies in the first half of 1997. Enhanced investor interest in this type of debt instruments was due to the volatile market, a result of dramatic movements in the base interest rate and exchange rate, and attempts to minimize losses incurred by them. Financial stabilization in the second half of 1997 and improved state budget performance entailed changes in MF issuing policy. As of June 1997, debt on government securities issued for budget deficit financing progressively decreased. Structurally, it accounted for 18.4% of total debt, against 28.6% in 1996. The share of this debt to the 1997 GDP fell to 4.72% by year-end from 17.2% in early 1997. As a result, the maturity structure of outstanding government securities issued under Regulation No. 5 and target issues changed as follows: government securities with a term of up to one year, BGL 663.6 billion (82.2%); and government securities with a term of over one year, BGL 144.12 billion (17.8%). By the end of 1996 this ratio was 74.6% to 25.4%.

Direct debt to the BNB increased markedly: from BGL 138.06 billion by the end of 1996 to BGL 1,619.14 billion by 31 December 1997, an increase of 11.7 times. In compliance with the debt restructuring agreement concluded between the MF and the BNB as per § 10 of the Transitional and Final Provisions of the Law on the BNB and § 19 of the 1997 SBL, by end-June 1997 the BNB wrote off its claims on direct credits to the government in the amount of BGL 212.78 billion, and on government securities in its portfolio in the amount of BGL 161.7 billion (including interest accrued by the date of restructuring), and transferred other assets from its balance sheet related to government's obligations to foreign creditors. Against this

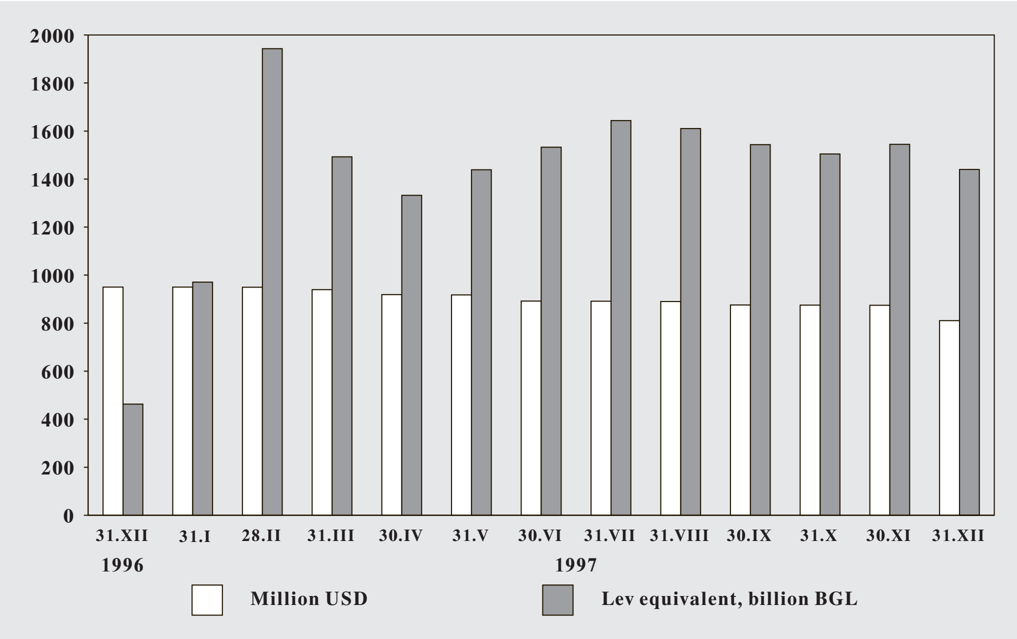
OUTSTANDING GOVERNMENT SECURITIES ISSUED FOR BUDGET DEFICIT FINANCING AS OF 31 DECEMBER 1997



Note: The average weighted maturity of government securities issued for budget deficit financing is one year and two months.
Source: BNB.

write-off the MF issued a new debt of SDR 482.1 million to cover the amount, maturity and interest payments of the BNB to the International Monetary Fund. During the second half of 1997 repayments totaled SDR 31.6 million. At the same time, the government was extended new credits under Article 45 of the Law on the BNB for purchase of SDR 224.4 million from the IMF. Direct debt to the SSB fell to BGL 1,011.9 million by year-end from BGL 1,264.9 million in early 1997, or 20%. The share of direct debt to the BNB increased most significantly in total debt structure: from 13.2% in early 1997 to 37% by year-end. This is the only element in domestic government debt to indicate an increased share to GDP: from 7.9% by end-1996 to 9.46% by end-1997.

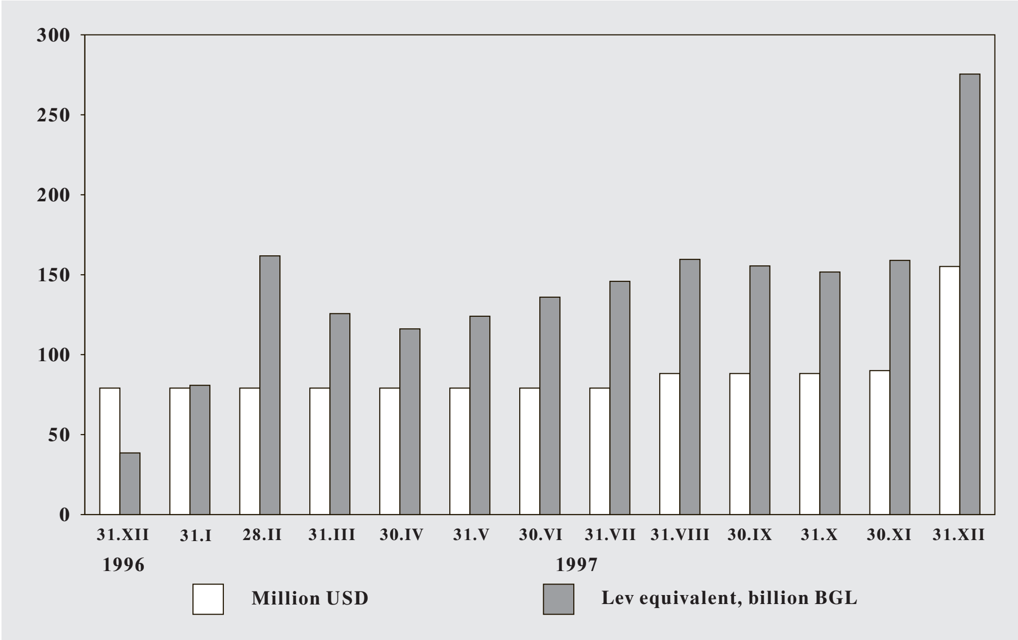
USD-DENOMINATED GOVERNMENT SECURITIES ISSUED UNDER ARTICLE 5 OF ZUNK



Source: BNB.

Debt on long-term government bonds issued to convert the nonperforming debts of state companies to banks into government debt, outstanding debts from municipalities on SSB house-building loans, and outstanding debt on government securities under the Law on State Protection of Deposits and Accounts with Commercial Banks (government securities for structural reform) accounted for the largest share in total domestic debt: 44.6% by year-end, against 58.2% early in the year. The share of this debt indicated a decrease both in total domestic government debt and in the 1997 projected GDP (from 35% in early 1997 to 11.43% by year-end). At the same time, this debt increased 3.2 times in absolute terms: from BGL 612.12 billion in 1996 to BGL 1,956.15 billion by 31 December 1997. This increase is primarily attributable to the forex component, newly issued long-term government bonds of USD 50 million under CM Decree No. 145 of 4 April 1997 for financing the stabilization program of Biochim Commercial Bank in accordance with the agreements with the IMF within the March 1997 Memorandum on the Economic Policy of the Government of the Republic of Bulgaria, and the newly issued government bonds of BGL 68.85 billion and USD 88 million under the Law on State Protection of Deposits and Accounts with Commercial Banks. The decrease by BGL 48.63 billion and USD 139.7 million in this debt was a result of those government securities' use in privatization deals, repayment of nonperforming state-owned enterprises' obligations converted into government debt, MF reverse repurchases of government securities, redemption of long-term bonds under the Law on State Protection of Deposits and Accounts with Commercial Banks, and writing-off government securities from the BNB portfolio under the agreement on debt restructuring.

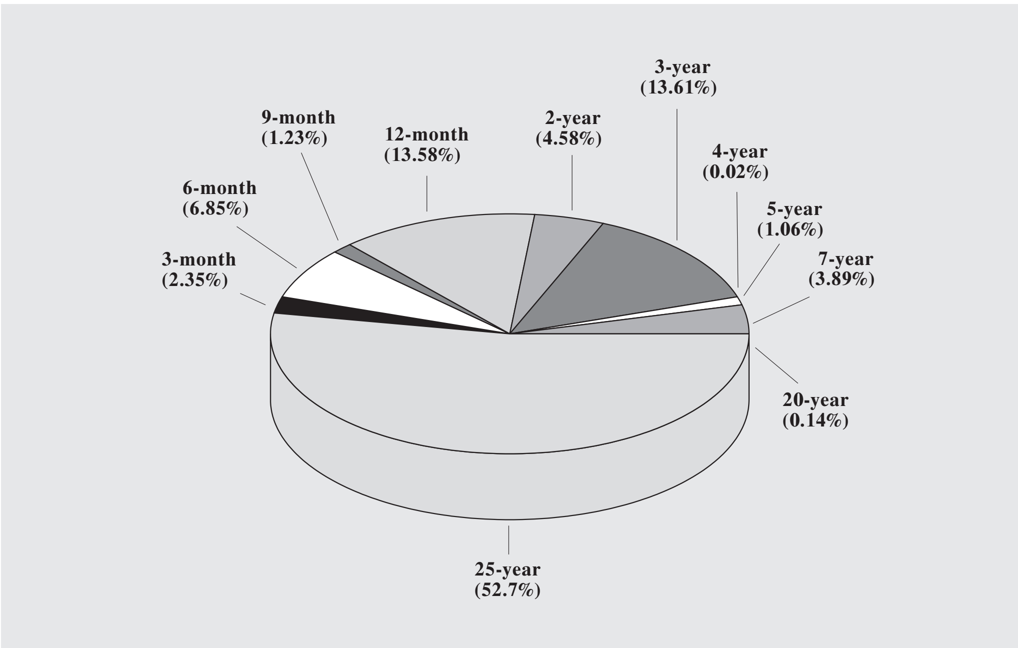
USD-DENOMINATED GUARANTY GOVERNMENT SECURITIES ISSUED UNDER ARTICLE 9, PARA. 1, ITEM 2 OF LSPDACB



Source: BNB.

In 1997 changes occurred in the proportion of debt on government securities denominated in levs and US dollars. As a result of the lev devaluation, the share of USD-denominated government securities reached 66% of total outstanding government securities, against 55% by end-1996.

MATURITY STRUCTURE OF OUTSTANDING GOVERNMENT SECURITIES AS OF 31 DECEMBER 1997



Source: BNB.

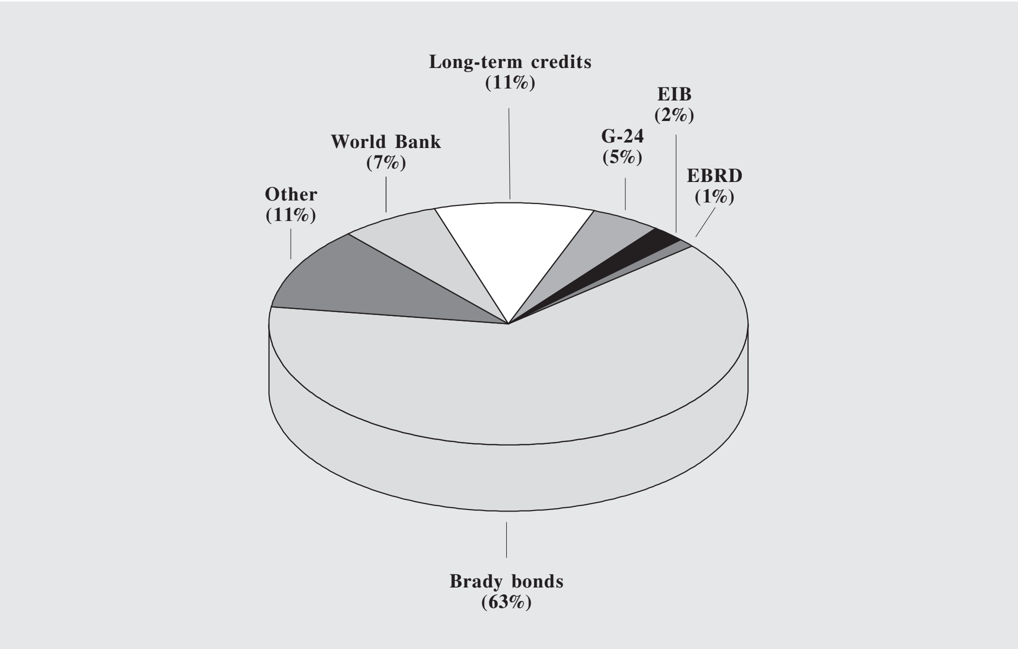
The proportion of debt in government securities with fixed and floating yields also changed. As a result of the financial stabilization following the introduction of a currency board, the share of government securities with fixed yield reached 20.6% of total outstanding government securities, against 0.2% by end-1996.

No significant changes occurred in the term structure of government securities in circulation by 31 December 1997. Long-term government bonds with maturities of up to 25 years, issued under Articles 4 and 5 of the 1993 ZUNK, CM Decree No. 234 of 1992 and CM Decree No. 3 of 1994 had the largest share: 52.7%, against 53.6% in 1996. Government securities with maturities from three months to 20 years accounted for 47.3% of total volume, against 46.4% in 1996. The average weighted residual maturity of domestic government debt on government securities is 12.2 years.

Government Budget Foreign Debt.[29] The introduction of a currency board called for a new approach to the efficient management and analysis of the structure and state of government debt. Creation of an automated register in the BNB to include consolidated information on all government obligations to foreign creditors and international financial institutions is an integral part of the general strategy on government debt management.

STRUCTURE OF GOVERNMENT BUDGET FOREIGN DEBT BY CREDITOR AS OF 31 DECEMBER 1997

(% of foreign debt)



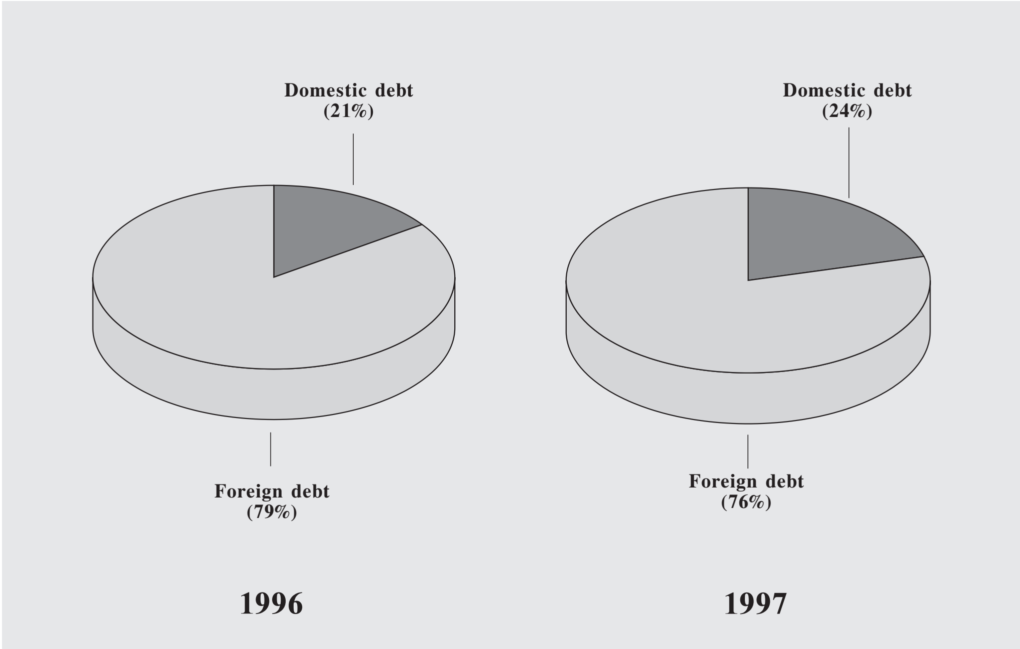
Source: BNB.

The register shows that by 31 December 1997 Bulgaria's foreign government debt totaled USD 7,868.4 million (82.8% of GDP). The amount of foreign debt does not include SDR-denominated debt to the IMF, since direct credits extended by the BNB to the MF (under Article 45 of the Law on the BNB) for SDR purchases have been included in domestic debt. Given that these loans are automatically provided to the MF for budget financing under the agreement with the IMF, they may also be considered as government foreign debt through the BNB as its agent. As a result, government budget foreign debt totals USD 8,779.8 million.

Direct debt of the government budget amounts to USD 7,396.8 million (94% of total government foreign debt), and credits guaranteed by Bulgaria's government total USD 471.6 million (6%). In respect of creditors, debts to private creditors on Bulgaria's Brady bonds accounted for the largest share (63%), followed by long-term obligations to Paris Club official creditors (11%) and debts to the World Bank, including publicly guaranteed credits (7%).

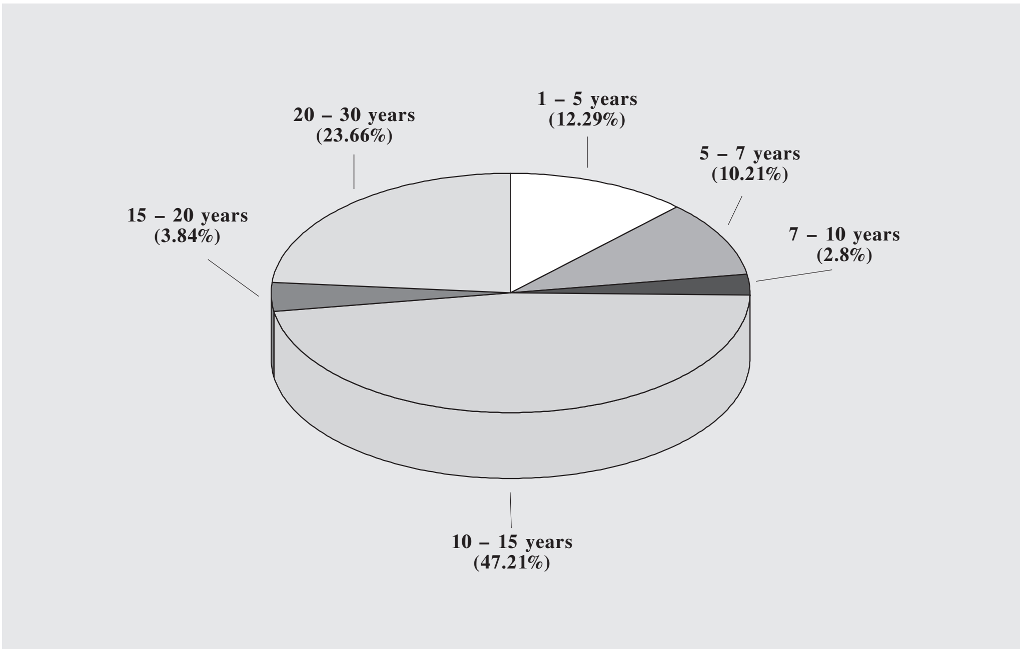
[29] Data complies with the BNB automated register of public and publicly guaranteed debts based on official MF information on loan agreements ratified by the National Assembly. Data on government budget foreign debt is different from the balance of payments gross foreign debt data (see footnote 15).

STRUCTURE OF GOVERNMENT DEBT



Source: BNB.

FOREIGN DEBT STRUCTURE BY RESIDUAL MATURITY AS OF 31 DECEMBER 1997



Note: Obligations to former Comecon creditors excluded.

Source: BNB.

The changes in the structure of foreign debt are attributable to loans extended by the International Monetary Fund, the World Bank and G-24 (to the accounts of the SFRD) on the one hand, and loan repayments to Paris Club creditors, the EU and the World Bank (with SFRD funds) on the other. Interest payments on government foreign debt in 1997 total BGL 503.54 billion (2.94% of GDP), including repayments from the general government budget of BGL 418.66 billion and BGL 84.88 billion from the SFRD.

The term structure of foreign debt indicates that debt instruments maturing in the coming ten to 15 years comprise the largest share. The average weighted residual maturity of government foreign debt is 14.2 years.

It may be concluded that the introduction of the Currency Board brought about positive changes in respect of the amount and structure of government debt. Domestic debt on government securities issued for budget deficit financing and debt on government securities issued under various CM decrees and laws, and correspondingly their shares in total debt and GDP, tended to decrease progressively in 1997. The share of government securities with longer maturities increased in the term structure of debt. On the other hand, foreign debt continued to grow in nominal terms, consistent with currency board principles and government agreements with international financial institutions for new loans. To this end, the improvement of government debt management, intended to cut budget expenses on debt service, requires the pursuit of a more rational and consistent policy in respect of foreign loans.

10. Monetary Sector

During the second half of 1997 the economy was gradually remonetized, a result of returning confidence in banks and the Bulgarian lev. The real growth of major monetary and credit aggregates is the quantity indicator of reviving confidence, particularly in the second half-year following the fixing the exchange rate of the lev to the Deutschemark.

During the first half of 1996, following the political agreement on the introduction of a currency board, the central bank started gradually to adjust its monetary policy to the new monetary system. To this end, the BNB modified and later relinquished employment of a number of monetary policy instruments and subdued significantly its influence on banking liquidity regulation.

Since early July the BNB started functioning as a currency board and money supply was completely based on market principles. There is a ground to assume that under these conditions, money supply growth was a result of increasing money demand. This provides for a significant growth in bank credit resources to be invested in accordance with the principles of prudent banking. Concurrently, strengthening of the government budget revenue side, as well as budget deficit financing mostly by privatization revenue and loans from official international sources create conditions to reduce government borrowing requirements. Consequently, released funds can be channeled to encourage real sector faster recovery. To this end, the existing monetary conditions favored economic growth and they should be considered only as indispensable but not sufficient for economic growth.

Monetary Aggregates

Monetary aggregates dynamics in 1997 completely reflected the dramatic lev devaluation followed by high inflation in early 1997. As a result, real money demand drastically decreased. After February, and particularly in the second half-year, the financial sector was gradually remonetized, although the levels of end-1996 were not matched. Despite the favorable effect of fixing the exchange rate under currency board rules, current developments suggest that as in many other countries real money demand will revive slowly.

In 1997 money supply measured through broad money, including currency outside banks and all types of deposits, rose by BGL 4,708 billion reaching BGL 6,018.6 billion by year-end. Nominally, money supply rose by 359.3%, while in real terms it fell by 32%. Approximately 60% of this growth was attributable to the lev component indicating a nominal increase of 423% and a real decrease of 23%. The foreign exchange component (in lev terms) grew at a slower rate (296.8%) due to the national currency devaluation; at a constant exchange rate this growth is just 8.9%.

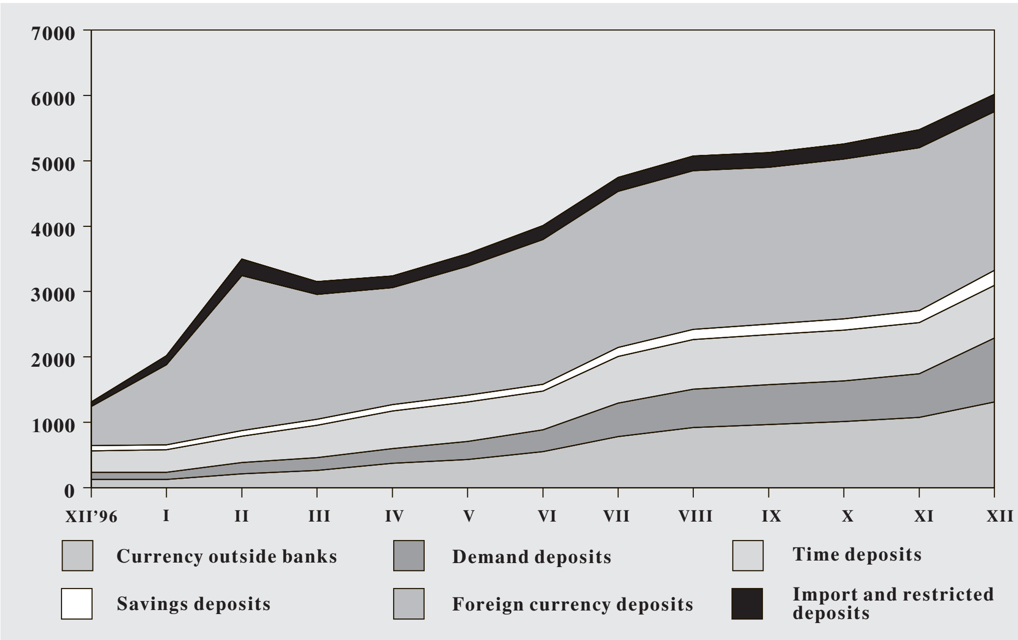
Following the introduction of a currency board real money supply rose by approximately 30%. Returning confidence in the national currency ascribable to the fixed rate of the lev to the Deutschemark resulted in a faster growth of the lev component which comprises almost 90% of the growth, totaling BGL 2,000 billion. Over the first six months the lev component nominal growth was 111.4% and the real growth 82%, while the forex component grew less than 6% at a constant rate. The enhanced demand for levs brought about favorable changes in the structure of broad money. By end-1997 the share of the lev component in broad money exceeded 56%, against 40% in June and 25% in February. The lev component share improved from 1996 when it was 50% but it grew slower than in 1995 (about 73%).

The bulk of the lev component growth is ascribable to the increase in the most liquid monetary aggregate M1, including currency outside banks and demand deposits. Unlike money supply, M1 increased both in nominal and real terms, reflecting trickling back confidence, as well as economic agents' interest in maintaining high liquidity under a currency board arrangement. The latter pertains to relatively low deposit rates which dramatically reduce opportunity costs for holding currency on current accounts or cash. In 1997 monetary aggregate M1 rose over BGL 2,050 billion, reaching BGL 2,290 billion. It increased about 868% in nominal terms and approximately 43% in real terms. Monetary aggregate M1 increased most significantly (123%) in the second half of 1997, following the introduction of a currency board. This led to an increase in the M1 monetary aggregate share in broad money from 18% by the end of 1996 to 38% by the end of 1997.

Currency outside banks increased most markedly among high-liquid funds: more than ten times in nominal terms and over 50% in real terms. The major factor behind this is revived confidence in the national currency, encouraging lev demand for transactions. Discontinued decline in the real sector during the second half of 1997 coupled with the new consumer price level after January – February price rises also added to this effect.

MONETARY AGGREGATES DEVELOPMENTS IN 1997

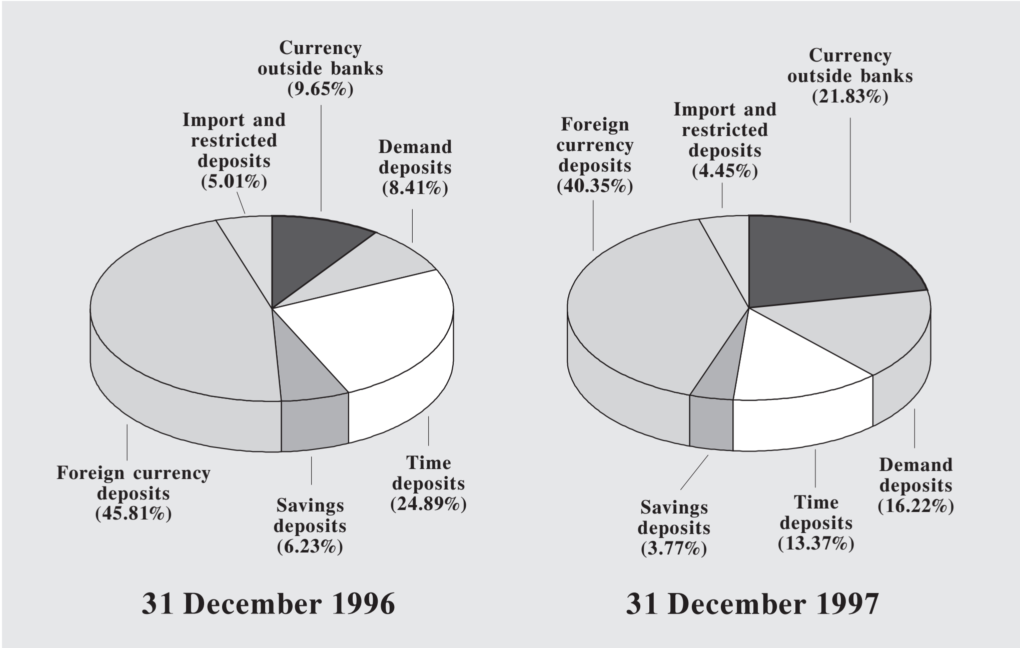
(billion BGL)



Source: BNB.

Demand deposits grew at a fast rate: by 786.1% in nominal terms and over 30% in real terms. During the second half of 1997 demand deposits growth dramatically accelerated: a triple nominal increase and more than a 2.5-fold real increase. The reason behind this is the overcome hyperinflationary shock in the real sector and traditionally increasing current accounts in December to cover seasonally higher tax payments. However, the slower growth in demand deposits compared with currency outside banks is indicative of a sluggish increase in noncash payments and sustained interest of some economic agents in cash payments on transactions aimed at tax evasion.

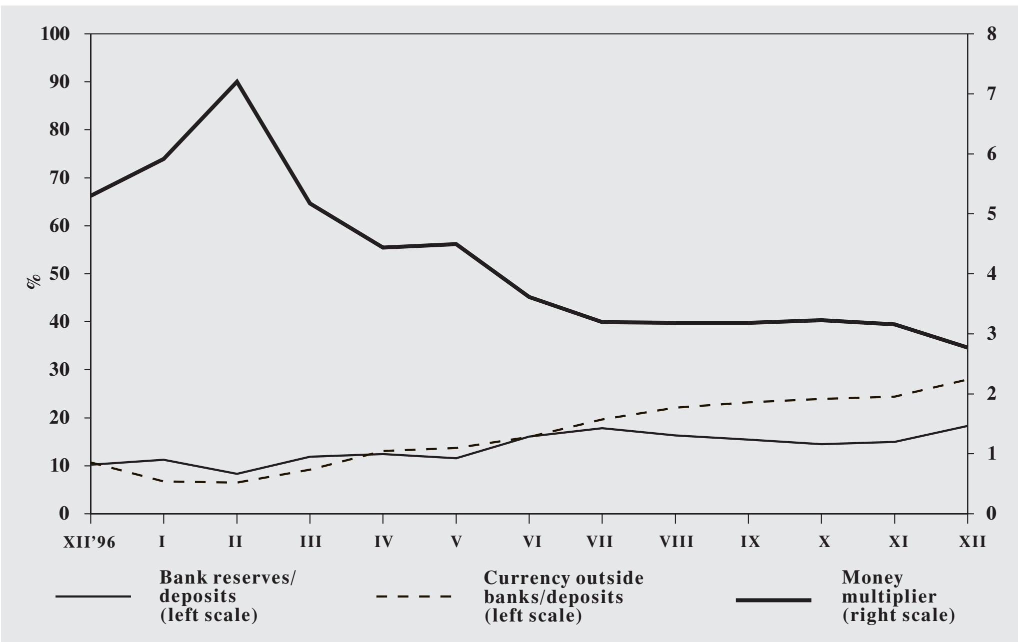
STRUCTURE OF MONETARY AGGREGATES



Source: BNB.

In 1997 quasi-money, including lev time and savings deposits and foreign currency deposits, rose by BGL 2,452.5 billion, or 243.3%. Approximately three-fourths of this growth is attributable to the increase in foreign currency deposits due mostly to lev depreciation. The lev component increased by BGL 624 billion but in real terms it declined significantly: by 63% in time deposits and 59% in savings deposits. During the second half of 1997 time deposits rose by 16.5% in real terms. This is indicative of strengthened confidence in the lev irrespective of dramatically narrowed interest rate differential between lev and foreign currency deposits. The latter fact should not be underestimated, however, since in the future it may erode the lev deposit base and hence threaten the stability of the Currency Board.

MONEY MULTIPLIER IN 1997



Source: BNB.

Reserve money and money multiplier developments and their impact on money supply reflected a sharply devalued lev in early 1997, changes in BNB monetary policy during the first half of 1997 and the introduction of a currency board. Over 1997 broad money growth is completely ascribable to a faster increase in reserve money. At the same time, money multiplier significantly decreased. Reserve money increased by BGL 1,900 billion, or approximately nine times in nominal terms and about 30% in real terms. Under a currency board arrangement reserve money growth depends entirely on money demand by commercial banks, companies and individuals. Over 60% of reserve money growth is attributable to the increase in currency outside banks. Bank reserves increased by more than BGL 700 billion, with bank excess reserves comprising 40% of this growth. Bank reserves rose most markedly in June as a result of BNB discontinued open market operations and in December due to seasonal factors.

RESERVE MONEY AND MONEY MULTIPLIER

Indicators	December 1996	June 1997	December 1997
Broad money, billion BGL	1,310.3	4,011.0	6,018.6
Reserve money, billion BGL	247.3	1,110.1	2,174.2
Money multiplier	5.30	3.61	2.77
Currency outside banks/deposits, %	10.7	16.0	27.9
Bank reserves/deposits, %	10.2	16.1	18.3
Broad money change, billion BGL, including		2,700.7	2,007.6
reserve money		4,571.3	3,844.7
money multiplier		-416.7	-938.0
both factors		-1,453.9	-899.1

If the January – February money multiplier rise due to lev devaluation is disregarded, money multiplier was progressively decreasing: from 5.30 by end-1996 to 3.61 in June and 2.77 by end-1997. This partially repressed broad money growth. Money multiplier decrease is impacted by two essential ratios: currency outside banks/deposits and bank reserves/deposits. Over 1997 these ratios rose from 10.7% to 27.9% and from 10.2% to 18.3% respectively. The first ratio indicates the enhanced interest of individuals and companies in cash, particularly after the introduction of a currency board. The second ratio reflects commercial banks' more conservative lending policy and preference for higher liquidity due to stricter banking supervision and limited function of the BNB as lender of last resort.

DEVELOPMENTS IN MONEY SUPPLY BY RESERVE MONEY SOURCE

(billion BGL)

Indicators	June 1997	December 1997
Developments in money supply by reserve money source	4,571.3	3,844.7
– net foreign assets	7,832.8	4,077.0
– net domestic assets	-3,261.5	-232.3
including:		
claims on government, net	-738.1	-287.2
secured refinancing of commercial banks in levs	-32.8	0.0
other	-2,490.6	54.9

An analysis of reserve money sources reveals the role of monetary instruments employed by the BNB during the first half of 1997 and the mechanism of subsequently introduced currency board. Throughout 1997 net forex reserves, growing faster than broad money, had the most essential effect. During the first half of 1997 increased net forex reserves reflected net purchases in domestic market which in combination with employed lev monetary instruments helped maintain financial stability and repressed a dramatic lev appreciation from its level of early February. During the second half of 1997 BNB forex reserves grew as a result of introduced currency board rules, official foreign financing and privatization revenue.

In most months of 1997 BNB net claims on the government progressively decreased which helped halt reserve money growth, and hence money supply growth. During the first half of 1997 the BNB, through open market operations, partially sterilized injected liquidity, a result of BNB net purchases in the forex market. Following the introduction of a currency board, government deposits with the BNB had a similar effect.

BNB relations with commercial banks contributed most insignificantly to reserve money developments if the effect of the exchange rate is disregarded. Between January and June commercial banks were refinanced only against collateral (Lombard loans). These credits were sharply reduced and banks gradually redeemed their obligations. This helped repress reserve money growth and hence money supply. Since no credits were extended to commercial banks during the second half of 1997, consistent with the provisions of the new Law on the BNB, this indicator's impact on reserve money and money supply growth was neutral.

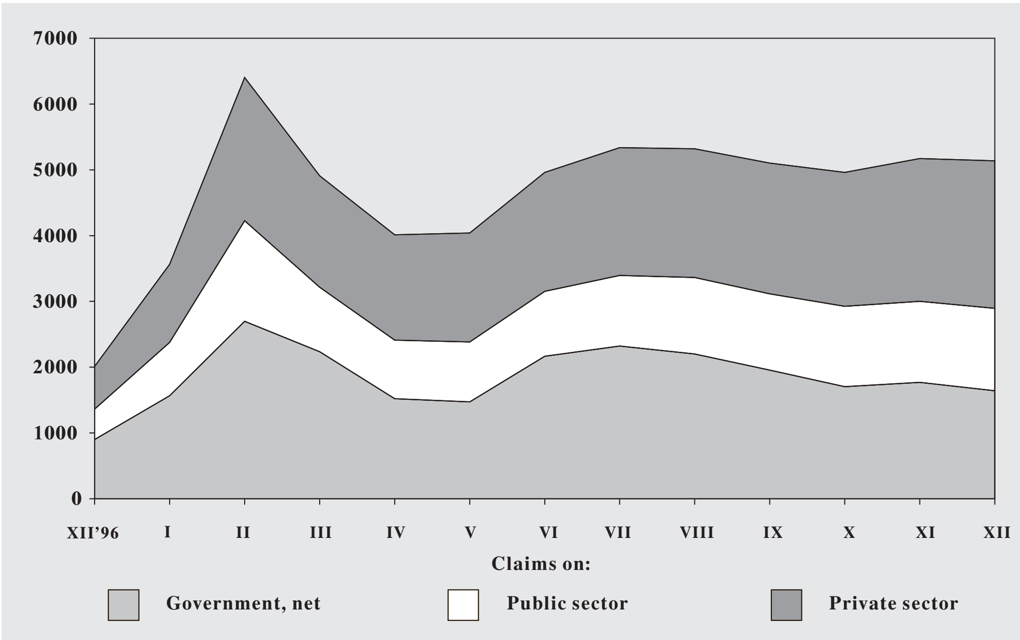
In 1997 the BNB's ability to regulate reserve money, and hence money supply growth, was significantly subdued. Between January and June 1997 the central bank was adjusting to the pending introduction of a currency board and actually stopped employing reserve money as an intermediate target in the pursuit of its monetary policy. During the second half of 1997 monetary aggregates (from monetary base to money supply) were entirely based on market demand and supply principles, consistent with currency board rules. In this setting, the role of fiscal policy enhanced, although it cannot substitute central bank functions abolished by law.

Credit Aggregates

Statistical data on 1997 domestic credit was influenced by the underlying process of lending to government and nongovernment sectors, as well as by changes in claims on government following the introduction of the Currency Board and foreign debt write-off. For the purposes of analyzing particular credit aggregates, it is important to bear in mind the significance of the latter factors.

DEVELOPMENTS IN DOMESTIC CREDIT IN 1997

(billion BGL)



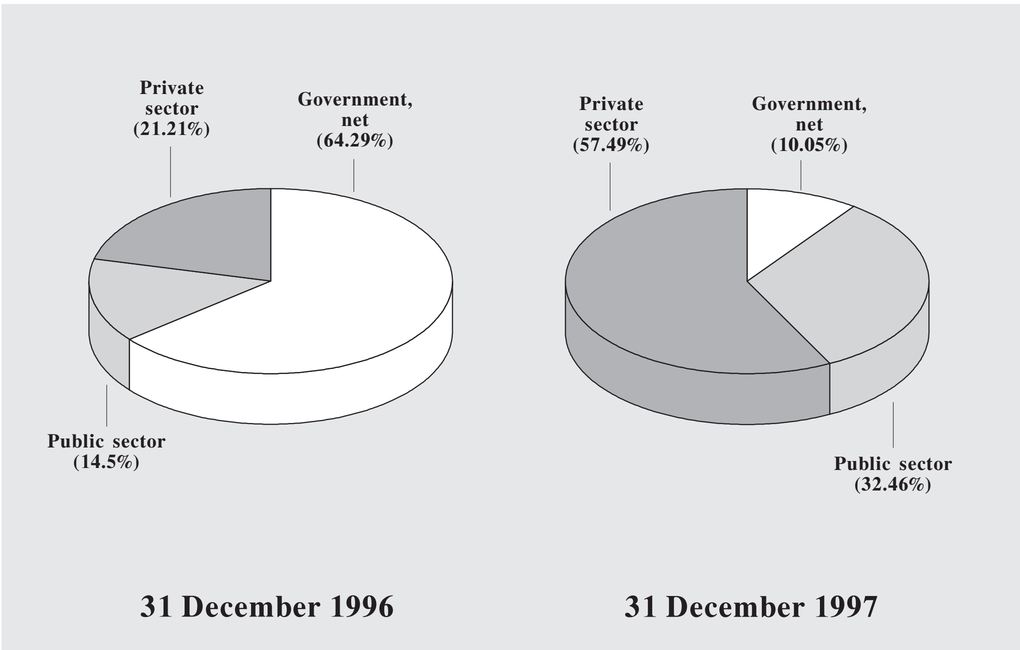
Source: BNB.

In June, in compliance with the newly adopted Law on the BNB, some central bank assets were replaced by others equivalent in value, denomination, maturity and interest rate terms, consistent with the country's commitments to the IMF. This provided for the normal operation under currency board rules of the two relatively autonomous departments within the BNB: the Issue Department and the Banking Department. Owing to these changes domestic credit grew by BGL 553 billion at the end of the first half of 1997, while net foreign assets and the residual item in net domestic assets (other items, net) fell by BGL 378 billion and BGL 175 billion respectively. At the same time the country's obligations to official creditors (excluding the IMF) were written-off from BNB balance sheet, producing a BGL 1,070 billion increase in net foreign assets at the expense of decreased other items, net. After settlement of a foreign debt by one commercial bank in December and its writing-off, net foreign assets rose by BGL 1,430 billion, while domestic credit fell by BGL 666 billion and other items, net: by BGL 764 billion.

Taking into account the above changes, domestic credit in the first half of 1997 fell by BGL 850 billion at a constant exchange rate, while broad money rose by more than BGL 1,000 billion. This resulted in accelerating growth in net foreign assets: more than BGL 2,000 billion. During the first half of 1997 funds started flowing back into the banking system, consistent with reviving confidence in banks and the lev; this inflow was not absorbed domestically and was invested abroad together with free government funds. In the second half of 1997 the situation partially changed. Domestic credit grew at about 40% of money supply growth rate. Nearly half of money supply growth was again invested in foreign assets, whereas the remaining portion produced an increase in other items, net. Whole-year broad money growth was close to net foreign assets growth, while overall domestic credit fell by about BGL 180 billion at the expense of increased other items, net.

Significant changes occurred in domestic credit components in 1997: net claims on government decreased. This facilitated allocation of free funds to the real sector. The process stands in stark contrast to developments in 1996 when the government sector crowded out the real sector from the credit market.

STRUCTURE OF DOMESTIC CREDIT
(lev component)



Source: BNB.

During the first half of 1997 net claims on government fell by BGL 332 billion on account of changes associated with BNB restructured claims on government. The lev component rose by BGL 182 billion, while the forex component fell by BGL 514 billion. Growth in net lev claims reflected sustained high interest rates on domestic debt during the first quarter and expenditures on forex purchases to meet foreign debt payments. The fall in net forex claims was offset by privatization revenue and resulted from depositing foreign currency purchased in the domestic market from the BNB.

In the second half of 1997 net claims on government sector rose by BGL 97 billion. The lev component contracted by BGL 226 billion, while the forex component rose by BGL 323 billion. The lev component fall is due to increased budget revenue and reduced expenditure on domestic debt service against the backdrop of a low base rate. The rise in forex component was driven by the need to use a portion of government forex deposits to cover foreign debt payments as privatization revenue decreased and foreign financing from the World Bank and the European Union was temporarily delayed. In compliance with the new Law on the BNB foreign financing from the IMF did not affect net forex claims since these funds cause a simultaneous rise in government obligations to the BNB and in government deposits at the central bank.

In 1997 credit to the real sector grew faster than domestic credit. This helped increase the share of credit to the real sector in domestic credit: from 62.7% at end-1996 to 69.5% in December 1997. Following the introduction of the Currency Board demand for lev credit accelerated: in the second half of 1997 the share of lev credit to the real sector nearly tripled to 18.5%, while the share of forex credit fell from 60.3% to 51%. No changes occurred in the proportion of allocated credit resources between public and private sectors. The share of credit to the private sector continued to rise, accounting for 44.5% at end-1997, against 36.6% in 1996 and 32% in December 1995. Over the same period credit to state-owned enterprises fell at lower pace – from 28.5% to 26.2% to 24.9% at end-1997.

During the first six months of 1997 the nominal increase in credit to the nongovernment sector was entirely accounted for by the forex component at the expense of a sharp lev devaluation in January and February. Lev credit grew by BGL 30.6 billion alone, or 13.1% in nominal terms, contracting 80.6% in real terms. A significant contraction also occurred in the forex component over this period: by USD 323 million, or 18%. The downward trend was more pronounced with state-owned enterprises which experienced an almost 85% real fall in lev credit and a USD 230 million fall in forex credit: over 30%. Respective private sector figures are 78% and USD 93 million, or 9%. There are two reasons for the sharp fall in credit to the real sector: first, the real sector was in a state of shock at the beginning of the year; second, commercial banks implemented conservative lending policies in the wake of the 1996 banking crisis, and bank legislation changed in preparation for the Currency Board.

During the second half of 1997 credit to the real sector increased albeit slowly. This is entirely accounted for by lev component growth of BGL 667 billion, while the forex component decreased by USD 28 million. Overall, credit to the real sector rose by more than 25% in nominal terms and approximately 8% in real terms. Real lev credit tripled but this was insufficient to offset the fall during the first six months of the year. The trend toward greater supply of lev credit to the private sector continued. During the second half of 1997 lev credit to the private sector grew by BGL 414.5 billion, accounting for almost 60% of the growth in total lev credit to the real sector. Households' consumer credits displayed the fastest growth: over BGL 160 billion. Lev credit to state-owned companies rose by approximately BGL 252 billion, mainly on account of publicly guaranteed cereal credits.

Despite accelerating growth in credit to the real sector during the second half of 1997, there is no sign of a credit expansion yet. Real reduction in banks' claims on nongovernment sector at year-end was over 53%, reflecting overall monetary sector contraction due to eroded confidence in banks and the lev over 1996 and the first two months of 1997. During the following months, particularly after the fixing of the exchange rate, lending to the national economy grew by approximately 10% in real terms. Therefore it may be assumed that monetary prerequisites for economic growth were in place as early as the second half of 1997. But, necessary though they are, they are not in themselves sufficient to induce growth. Under a currency board money growth strictly corresponds to the balance of payments balance and provides lending resources. Under these conditions, the inflow of credit to the real sector to underpin expected economic growth will depend on balance of payments stability and minimum government sector borrowing requirements.

IV. Foreign Exchange Reserve Management and Issuing Activities

1. Structure of Foreign Exchange Reserves and Cover for BNB Monetary Liabilities

Within the new BNB structure, the Issue Department is responsible for managing foreign exchange reserves. The assets of the Issue Department include the following items: monetary gold; banknotes and coins in freely convertible foreign currency; funds in freely convertible foreign currency on accounts with foreign central banks or other foreign financial institutions; special drawing rights of the International Monetary Fund; debt instruments issued by foreign countries, central banks, other foreign financial institutions or international financial organizations; balances on BNB receivables and claims on forward transactions or transactions under reverse repurchase agreements (concluded with or guaranteed by foreign central banks or public international financial organizations).

The liabilities of the Issue Department comprise: BNB monetary liabilities (that is all banknotes and coins in circulation); balances on accounts with the BNB owned by other persons (excluding accounts of the International Monetary Fund); the deposit of the Banking Department with the Issue Department (equal to the difference between the lev equivalent of gross foreign exchange reserves and BNB monetary liabilities).

In 1997 a number of rules and procedures for management of BNB foreign exchange reserves were designed. Most important are those on the selection of financial instruments for reserve management upon approval by the Managing Board of the BNB; on control over compliance with the provisions of Article 31, para. 3 of the Law on the BNB; on the management system of reporting foreign exchange operations; on the general terms for accepting money deposits with the BNB; on the selection of financial institutions with which the BNB may open current accounts.

The monetary liabilities of the Issue Department in local and foreign currency are fully covered by gross foreign exchange reserves in compliance with the Law on the BNB. During the period following the introduction of the Currency Board BNB gross foreign exchange reserves rose by 56.5%, reaching DEM 4,411.9 million by end-1997. Major factors for this are: surpluses on the current and capital accounts and BNB forex purchases from individuals and commercial banks.

Within assets, a sustainable trend developed after 1 July toward an increase in the share of holdings in foreign currency (from 25% in July to 51.3% by year-end), while the share of tradable foreign securities fell (from 52% in July to 34% by year-end). This is prompted by the need to modify the forex structure of assets in compliance with the requirements of the Law on the BNB. The share of monetary gold and accrued interest receivable remained unchanged. Foreign currency holdings rose by 223% between July and December: from DEM 700.9 million in early July to DEM 2,263.7 million at year-end. Tradable foreign securities remained broadly unchanged in absolute terms (DEM 1,466.4 million in July and DEM 1,495.4 million in December), growing by 2% during the period after the Currency Board introduction.

Significant changes occurred in the forex assets structure of the Issue Department between July and December, consistent with adjustment to the new legal provisions. The share of USD-denominated assets fell from 54% at end-June to 29% at year-end, while the share of DEM-denominated assets rose from 13% to 53% respectively.

Within liabilities, the share of banknotes and coins in circulation rose (from 21.2% at end-June to 32.2% at year-end). Likewise the share of government and budget organizations' deposits increased (from 21.2% at end-June to 29% at year-end). At the same time the share of commercial banks' settlement accounts and deposits remained relatively stable (18.8% and 19.4% at end-June and end-December respectively), while the share of the Banking Department deposit fell from 17.5% to 11.5% at year-end.

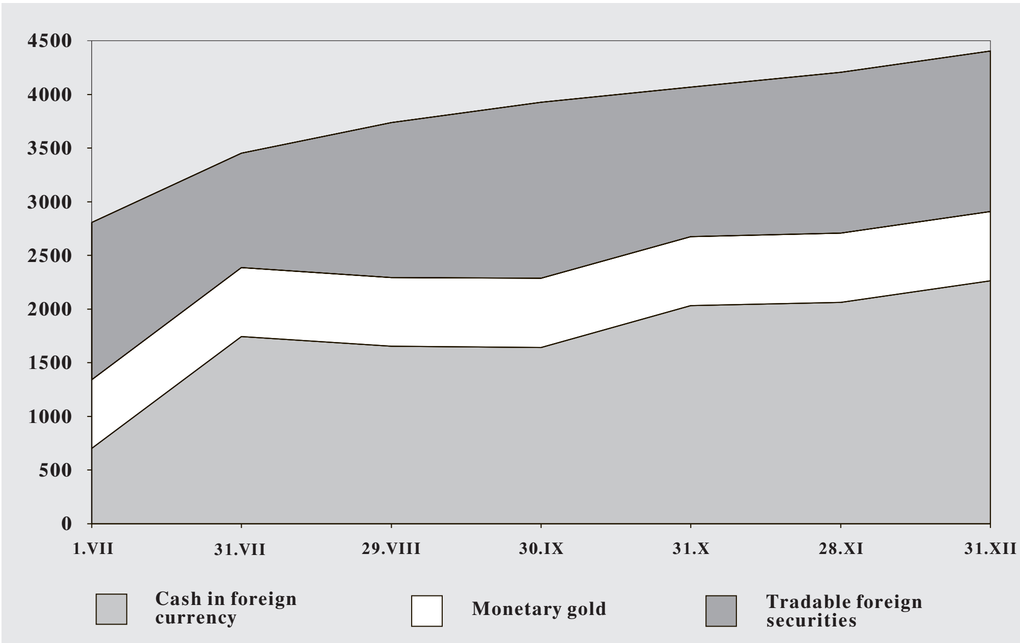
Commercial banks' settlement accounts and deposits rose by 62.1% between July and December (from BGL 529.4 billion at end-June to BGL 857.85 billion at year-end), largely reflecting a trend toward accumulation of excess reserves.

Government and budget organizations' deposits grew by 114% in the second half-year (from BGL 598 billion at end-June to BGL 1,277.35 billion at year-end); this growth is primarily related to drawing new credits from the IMF.

Banking Department deposits remained relatively unchanged between July and December, growing by 2.5% to reach DEM 506.1 million by year-end.

GROSS FOREIGN EXCHANGE RESERVES IN 1997
(assets of the Issue Department)

(million DEM)



Source: BNB.

In managing gross foreign exchange reserves the BNB will be guided by the provisions of the Law on the BNB and the internal control rules and procedures adopted in compliance with this law. Basic principles involved are the *safety* of deposits, investment of funds in *high-liquid* instruments, and attainment of adequate *return*.

To minimize risks the BNB gradually rechanneled foreign exchange funds to banks meeting credit rating criteria provided in law. The number of banks where the BNB has current accounts was reduced. Current BNB efforts are aimed at maintaining current accounts only in benchmark international currencies, i.e. Deutschemarks, US dollars, Swiss francs, Japanese yens, SDR and ECU.

In compliance with a resolution of BNB Board, the central bank will buy mostly foreign securities (sovereign debt) of publicly guaranteed issues and securities of international financial and banking institutions. To minimize interest rate risk, the term of securities portfolio should be no longer than 1.6 years, with securities' residual maturity of up to three years and the volume of issues exceeding DEM 1 billion or USD 1 billion. The BNB may hold no more than 10% of one securities issue in its portfolio. The BNB may not invest funds in derivatives.

Bank risk in investment is reduced by both the credit rating of banks which are BNB counteragents, and the *limits set on BNB total exposure* to particular banks. BNB total exposure to an individual counteragent may not exceed 10% of this bank's capital or 10% of BNB forex reserves.

Foreign exchange risk is reduced by adopting the Deutschemark as a reserve currency. Pursuant to Article 31, para. 3 of the Law on the BNB, the market value of the assets denominated in foreign currency other than the Deutschemark (which is included in the gross international foreign exchange reserves) shall not exceed by more than two percent the total amount of BNB monetary liabilities in the said currency, and shall not be less than two percent of such liabilities. To this end, dramatic changes occurred in the structure of BNB foreign exchange reserves in the second half of 1997.

STRUCTURE OF BNB GROSS FOREIGN EXCHANGE RESERVES

(%)

	1 July 1997	31 December 1997
DEM	13.04	52.87
USD	53.21	29.05
SDR	3.72	2.25
Monetary gold	22.82	14.72
Other currencies	7.21	1.11
Total	100.00	100.00

Upon the introduction of the Currency Board, funds in US dollars exceeded the maximum admissible amount under Article 31, para. 3 of the Law on the BNB by USD 293.3 million. Excess over the set amount, though insignificant, occurred in funds denominated in British pounds and Swiss francs, while funds denominated in Japanese yens and Austrian shillings were below the set limit. In July 1997 the BNB restructured most of its funds in respective currencies (exceeding two percent of attracted funds) against Deutschemarks and made up the shortfalls in Japanese yens and Austrian shillings at favorable exchange rates.

Since July 1997 the Issue Department has controlled observance of Article 31, para. 3 of the Law on the BNB initially on a weekly basis and now on a daily basis.

2. Issuing Activity

Volume of Issues

By the end of 1997 currency in circulation, including currency in vaults of commercial banks and outside them, reached BGL 1,419.8 billion. It rose by BGL 1,281.6 billion (927.4%) compared with end-1996, growing 568.1 percentage points faster than broad money. The share of currency in circulation relative to broad money rose from 10.5% at the end of 1996 to 23.6% by the end of 1997.

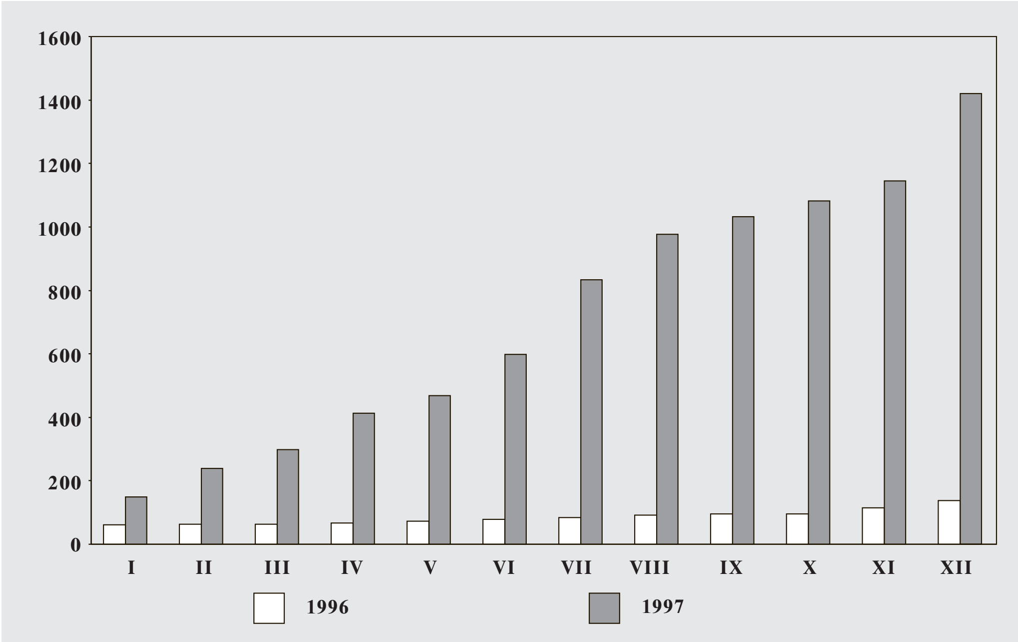
The BNB succeeded in satisfying the needs for currency in circulation in a regular fashion.

In 1997 companies continued to pay for goods and services predominantly in cash. Dramatic price rises and problems in settlements during the first half-year forced the BNB to amend Regulation No. 3 on payments, raising the amount of maximum amount of cash payments to BGL 5 million. This also contributed to the increased amount of currency in circulation.

Due to high inflation and nominally increased commercial bank currency turnover, cash in banks' vaults rose considerably in 1997: from BGL 11.7 billion to BGL 105.7 billion, an increase of BGL 94 billion or 803.4%. Currency outside banks rose by 938.8%, reaching BGL 1,314.1 billion by the end of 1997.

CURRENCY IN CIRCULATION OUTSIDE BNB VAULTS

(billion BGL)



Source: BNB.

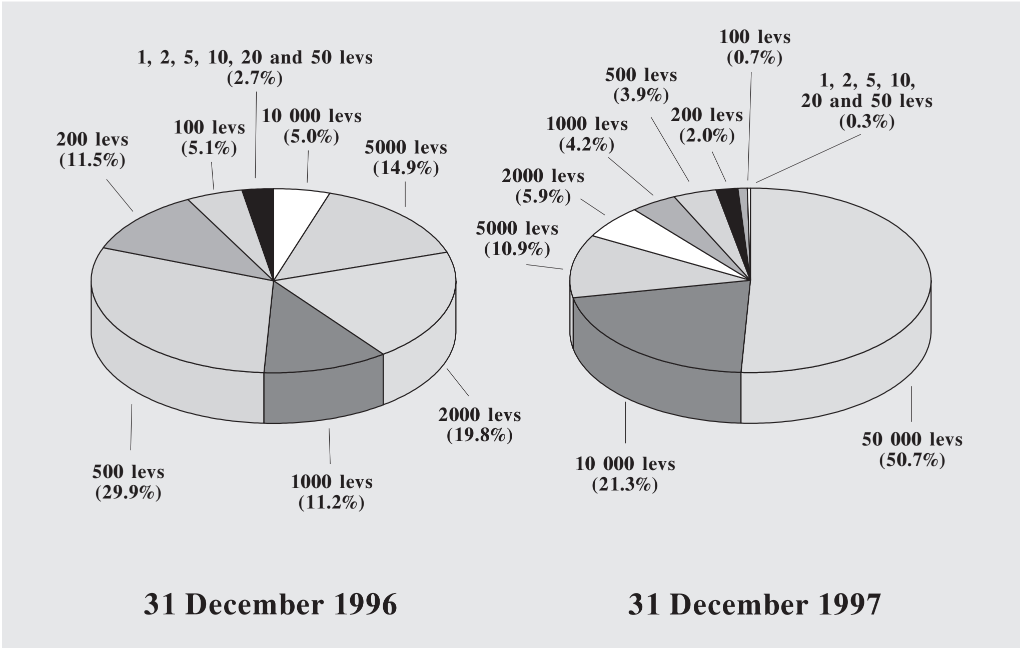
Denomination Composition

Developments in currency turnover over 1997 brought about changes in the composition of currency denominations. The 'average' banknote in circulation by the end of 1997 was BGL 1,763, against BGL 254 at the end of 1996: an almost sevenfold increase. Compared with end-1996, banknotes of higher denominations (BGL 2,000, 5,000, 10,000 and 50,000) proved more convenient. By year-end higher denomination banknotes accounted for 88.9% of the total value of denominations, against 39.7% at 1996 year-end. The share of these denominations in the total amount of banknotes comprised 15.2%, against 3.6% at 1996 year-end.

By the end of 1997 the number of banknotes in circulation totaled 804 million, against 540 million by the end of 1996. The growth in the number of banknotes by 264 million reflected greatly increased cash payments between January and April; the BNB was forced to put into circulation a great volume of banknotes of smaller denominations. By the end of 1997 the number of banknotes of BGL 500 nominal value comprised 75.6% of the total number in circulation.

On 8 May 1997 the BNB put into circulation a small-sized banknote of BGL 50,000 nominal value, and on 27 October a banknote of BGL 10,000 nominal value with a new design and size. On 8 May 1997 the central bank put into circulation a coin of BGL 10, on 1 August 1997 a coin of BGL 50 nominal value, and on 1 October a coin of BGL 20 nominal value.

DENOMINATION COMPOSITION IN THE BANKNOTE ISSUE



Source: BNB.

Commemorative Coin Issues

On 28 February 1997 the Bulgarian National Bank put into circulation a silver commemorative coin, 100 Years of the National Academy of Arts, 1996 issue.

On 1 October 1997 the BNB put into circulation the ‘Singing Bulgarian Child’ silver coin with BGL 1,000 nominal value, commemorating the 50th anniversary of the establishment of UNICEF, the ‘Footballer in Attack’ silver coin with BGL 1,000 nominal value in commemoration of the XVI World Football Cup 1998 in France, and the ‘For Atlantic Solidarity’ coin with BGL 500 nominal value, commemorating Sofia’s hosting of the 43rd General Assembly of the Atlantic Treaty Association in 1997.

Precious Metals

By the end of 1997 gold reserves in BNB vaults totaled 1,031,222 troy ounces.

In compliance with foreign exchange legislation the BNB continued to perform the atypical activity of purchasing precious metals from domestic producers and gold coins from individuals. At the same time the needs of domestic precious metals consumers were met in accordance with the procedure established by a Regulation of the MF and the BNB.

PRECIOUS METAL STOCK IN THE BNB

(in troy ounces)[1]

Indicators	31 December 1996	31 December 1997
Gold reserves of the BNB[2]	1,031,222	1,031,222
Circulating precious metals[3]		
Gold	59,996	94,490
Silver	867,326	1,227,841
Platinum	12,239	12,328

[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).

V. Financial Markets and Liquidity

1. The Interbank Money Market

The interbank money market seriously stagnated due to lack of confidence between banks. Sporadic transactions in the market were mostly to renegotiate maturing credits and deposits. The reluctance of interbank market participants in primary auctions for government securities reflected the eroded confidence in government's ability to service the issued domestic debt. After the closure of banks in respect of which bankruptcy proceedings had been instituted, cash flows were shifted to the remaining banks which additionally impeded banks' current liquidity management. The volume of free funds channeled to the forex market progressively increased, resulting in a rapid devaluation of the national currency against benchmark convertible currencies.

In early 1997 the central bank continued to draw excess liquidity from the banking system by repo-sales and repo-purchases ensuring high yield to banks. The BNB and MF pursued a consistent policy aimed at restructuring banks' assets invested in transactions with the BNB. The MF started issuing short-term government securities with fixed yields and maturities of seven, 14 and 28 days to meet commercial bank needs for short-term liquidity management instruments. Concurrently, the BNB decreased the term of open market operations to one and two business days and significantly cut interest rates on them, which transformed this investment instrument into an instrument for current liquidity management.

On 13 June 1997 BNB open market operations were discontinued. The volume of repo-operations between 1 January and 13 June 1997 totaled BGL 7,917.3 billion.

The coordinated BNB and MF policy enabled the central bank to gradually withdraw from government securities primary auctions and start reducing its portfolio. Between January and June government securities purchased in primary and secondary markets at nominal value totaled BGL 27 billion, while sales of maturing issues amounted to BGL 118.07 billion. The absolute amount of BNB government securities portfolio denominated in national currency was BGL 65.77 billion by 30 June 1997. During the first half of 1997 central bank purchases of USD-denominated long-term bonds from banks totaled USD 25,589,000 nominal value, and sales amounted to USD 19,713,000. As a result, by end-June the BNB government securities portfolio denominated in foreign currency totaled USD 214,684,200.

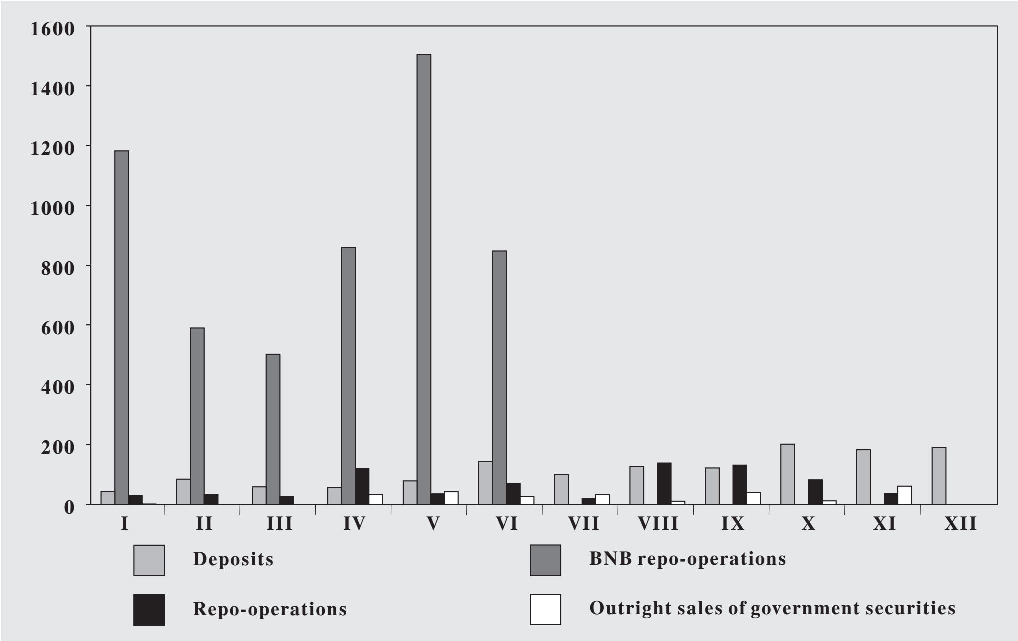
Due to introduction of a currency board the BNB government securities portfolio was entirely restructured in compliance with the agreements with the MF.

Following the introduction of a currency board, initial signs of financial stabilization occurred which fostered development of the interbank money market. Between July and December 1997 funds exchanged in the interbank market totaled BGL 1560.52 billion, an increase of 77.24% from the first half of 1997.

The period following the stoppage of open market operations is characterized by sizable excess reserves in the banking system, reflecting limited commercial bank opportunities to invest resources. This directly affected the transaction terms. The ratio of outstanding debt on extended funds and the total volume of resources indicates a shift of the interbank market toward short-term transactions, prompting changes in term structure. Deposits exchanged for a term of four to seven days accounted for the largest share (34.38%), followed by those for one day (31.46%). This suggests that these funds were mostly used to cover temporary liquidity deficiencies due to incorrect cash flow forecasting, rather than any danger of a systemic risk. Sizable excess reserves are the major reason for the maintenance of interbank rates far below base interest rate.

INTERBANK MONEY MARKET IN 1997

(billion BGL)



Source: BNB.

Recovery of the interbank market along with participation of all banks in it, though with varying degrees of activity, signals a return of participants' confidence. Nevertheless, the interbank market stood sharply segmented with poor links between various segments.

2. The Government Securities Market

The secondary market of USD-denominated long-term government bonds issued under ZUNK exhibited dynamic developments. The removal of the minimum price at which these securities had been traded by state-owned banks (holders of ZUNK bonds denominated in US dollars) in early 1997 ensured enhanced interest from foreign investors. Higher yield and opportunities for speculative gains made these securities very attractive. In early 1997 enhanced demand corresponded to supply, since some of the banks which held these securities provided lev funds to settle liquidity problems by sales of ZUNK bonds. Following the extensive trade and improvement of bank liquidity in the second quarter of the year, supply dramatically decreased in the second six-month period and purchases of ZUNK bonds were mostly used to participate in privatization.

3. The Forex Market

The volume of forex market spot operations between domestic participants registered by the BNB (prior to deleting possible double entries) totaled USD 5.1 billion in purchases and USD 4.2 billion in sales. Compared with 1996, the volume of purchases increased by 17%, while the volume of sales decreased by some 12.5%.

The volume of operations, including foreign financial investors, within various market sectors is as follows:

FOREIGN EXCHANGE SPOT TRANSACTIONS

(million DEM)

SECOND QUARTER, 129 days	Bought	Sold	Balance
BNB with customers	256.9	45.2	211.7
Fully licensed commercial banks with customers	2,343.2	1,622.4	720.8
Interbank, fully licensed commercial banks	1,403.0	1,398.5	-*
Interbank, BNB included	1,405.1	1,400.6	-*
BNB with fully licensed commercial banks	1,092.1	2.1	1,090.0
Intercorporate**	2.2	2.2	-
Total with customers	2,602.3	1,669.8	932.5
Fully licensed commercial banks with foreign investors	80.7	163.9	-83.2
BNB, total	1,349.0	47.3	1,301.7

(million USD)

TOTAL FOR THE YEAR, 254 days	Bought	Sold	Balance
BNB with customers	281.4	232.7	48.7
Fully licensed commercial banks with customers	2,425.4	1,548.8	876.6
Interbank, fully licensed commercial banks	1,176.3	1,177.0	-*
Interbank, BNB included	1,183.6	1,184.3	-*
BNB with fully licensed commercial banks	1,242.6	7.3	1,235.3
Intercorporate**	19.4	19.4	-
Total with customers	2,726.1	1,800.9	925.2
Fully licensed commercial banks with foreign investors	153.8	121.2	32.6
BNB, total	1,524.0	240.0	1,284.0

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

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

** The data is for the minimum volume of the market as currently monitored.

Operations by fully licensed banks with domestic customers comprise the biggest market sector. In 1997 fully licensed banks' purchases exceeded sales by over 50%, indicating a positive balance of USD 876.6 million. The volume of purchases almost matched 1996 levels, while sales dropped by more than one-third from 1996. The prevalence of purchases over sales was particularly pronounced in the first six-month period although it was sustained in the second half of 1997. Thus weaker demand for foreign currency by customers combined with sustained supply proved to be the major factor for the return of foreign exchange which had been withdrawn in the previous year into banks in 1997.

Forex purchases and sales among fully licensed banks totaled USD 1,177 million. During the second half of 1997 the volume of the interbank market doubled that of the first six months of 1997, indicating a considerably faster increase compared with the volume of transactions of banks with customers. This is partially a result of the fixed exchange rate which reduced the income from valuation adjustments and encouraged resale of greater amounts, over USD 100,000 (reduced income per unit of foreign currency is offset by the greater amount of an individual transaction).

BNB participation in the domestic forex market complied with preparations for the introduction of a currency board and foreign debt service. Even in periods of deepened financial crisis during 1997, the BNB was a buyer of foreign currency. As a result, depleted BNB forex reserves were quickly restored.

The bulk of debt payments to foreign creditors were made in early 1997 by loans drawn from the SFRD, and later by privatization revenue and funds extended by the IMF under the Fifth standby agreement. Thus BNB forex sales to the MF were limited to USD 191.5 million (mostly in the first half of 1997).

Central bank operations in Deutschemarks at its cash tills, started on 1 July, totaled DEM 144.6 million (equivalent to USD 80.6 million) in purchases from clients and DEM 2.2 million (equivalent to USD 1.2 million in sales to clients). A half of all purchases were made in August; in subsequent months the volume of purchases progressively declined, while sales increased.

RESERVE CURRENCY (DEUTSCHEMARKS)
BOUGHT AND SOLD AT BNB TILLS IN 1997

(thousands of DEM)

Month	Sold	Bought
July	152	73,997
August	249	29,673
September	429	14,979
October	374	16,698
November	280	5,530
December	697	3,708
Total for the year	2,181	144,585

The US dollar retained its dominant position in the structure of traded foreign currencies in the domestic forex market, while the share of Deutschemark (the currency ranking second by significance) rose. Factors behind this were the introduction of a currency board, the fixing of the lev to the Deutschemark, and BNB forex market operations in Deutschemarks only. The structure of the interbank market experienced the strongest change: prior to the introduction of a currency board the share of Deutschemark was smallest in the interbank market and that of the US dollar, the largest. Despite the decline in the second half of 1997, the share of the US dollar in operations with clients in 1997 remained almost unchanged from previous years.

4. Exchange Rate

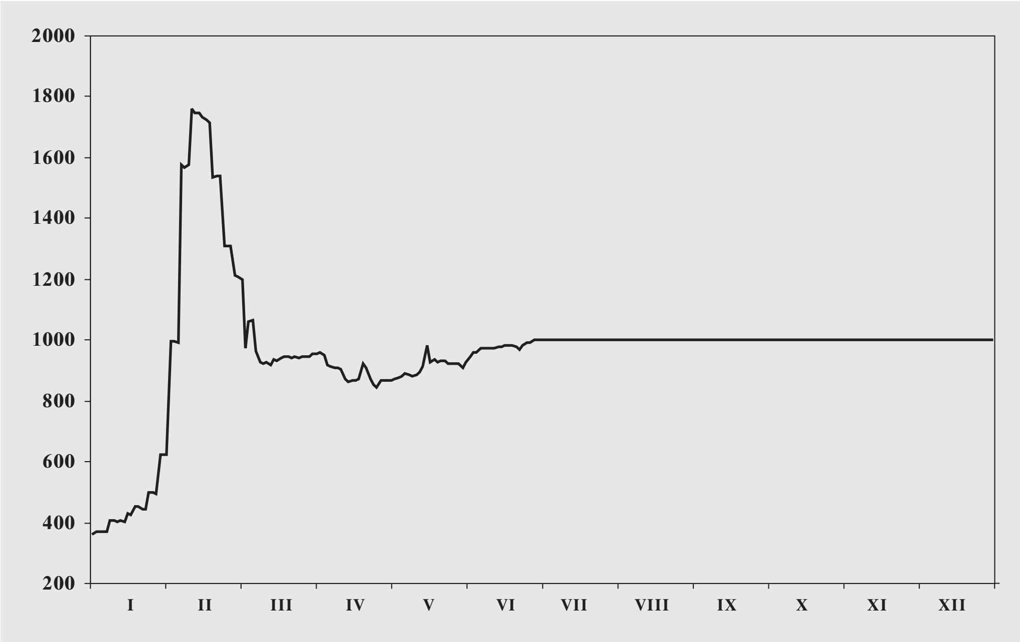
The political crisis of early 1997 prompted a sixfold devaluation of the lev from BGL 500 to BGL 3,000 per one US dollar. After the solution of the political stalemate the exchange rate came back to BGL 1,500 per one US dollar. In the beginning of the second half of 1997 when a currency board was introduced, the lev exchange rate to the US dollar was 3.5 times less than in early 1997. The lev exchange rate to the Deutschemark followed a similar pattern: a depreciation followed by a partial appreciation of the lev. By the time of the introduction of a currency board, the lev exchange rate to the US dollar was 3.1 times less than at the beginning of the year. Particularly after the peak of the crisis exchange rate curves resembled those of 1991 but to a scale of one to one hundred.

Comparison of the curves of the BGL/USD exchange rate and BGL/DEM exchange rate reveals the shift of the reference currency and the reference exchange rate: from BGL 1,500 per one US dollar (corresponding to a little less than BGL 1,000 per one Deutschemark) through the expected rate of about BGL 2,000 per one US dollar by end-May to BGL 1,000 per one Deutschemark (corresponding to slightly more than BGL 1,500 per one US dollar).

Forex market participants continued to freely agree exchange rates on transactions. Only the BNB was bound to exchange on demand at the fixed exchange rate of BGL 1,000 (spot) to only one currency, the Deutschemark, which may not depart by more than 0.5% from the official exchange rate. The BNB exercised this right, concluding transactions in the market at a bid rate of BGL 995 per one DEM and an offer rate of BGL 1,000 per one DEM. The central bank applied these rates both in transactions on account and in cash transactions effected at BNB cash tills at head office and branches.

BGL/DEM CENTRAL EXCHANGE RATE IN 1997

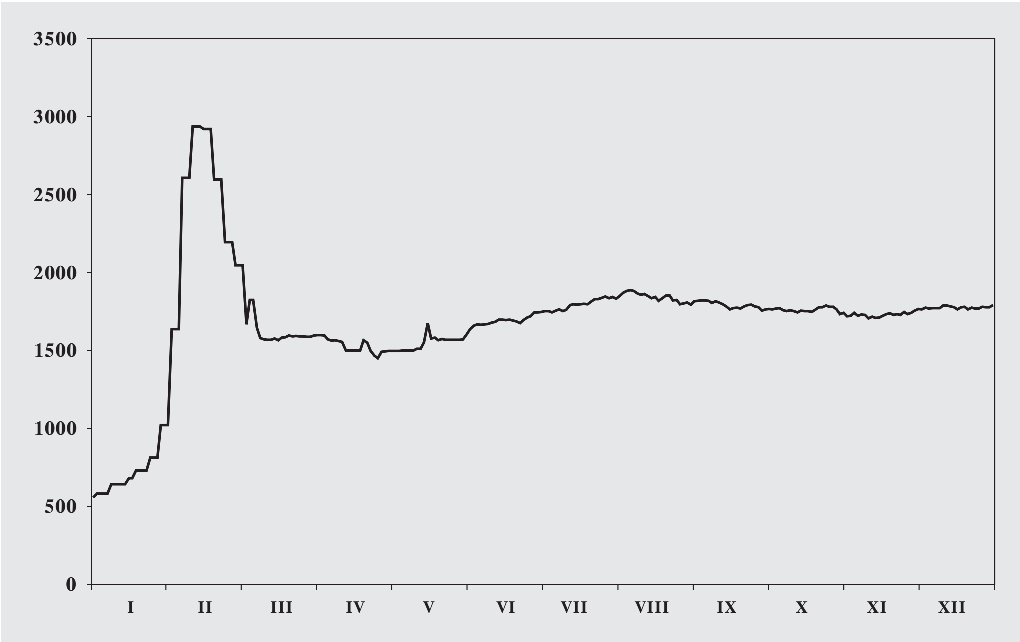
(BGL/1 DEM)



Source: BNB.

BGL/USD CENTRAL EXCHANGE RATE IN 1997

(BGL/1 USD)



Source: BNB.

The announcement of the official exchange rate of BGL 1,000 per one DEM entailed changes in the methods of calculating exchange rates, set daily by the BNB for the purposes of statistics and accountancy. The US dollar was replaced by the Deutschemark as the reference currency. According to the former methods the lev exchange rate to the reference currency was based on rates applied to interbank market transactions (spot transactions and these with shorter value date) by selected bigger market-makers, while the exchange rate stays unchanged under the new methods. The practice of setting the lev exchange rates to other currencies on the basis of their rates to the reference currency in international markets continued. Average market rate through the Deutschemark continued to be calculated to monitor the market.

Extensive sales of foreign currency against levs in the forex market, including exchange bureaux, pushed the lev higher than fixed BNB quotation of the Deutschemark and the rates of other currencies proportional to the Deutschemark. However, this difference was reduced by a five-lev spread between BNB bid and offer rates of the Deutschemark.

The lev exchange rate against the aggregate of trading partners' foreign currencies depreciated between three and 3.6 times compared with 1996. The lev's depreciation to the IMF special drawing rights was 3.4 times against 1996.

The volatility of the BGL/USD exchange rate was particularly strong at the time of the political stalemate in January and February but afterwards decreased. Temporary volatility increases in the BGL/USD exchange rate reflected particular expectations associated with the lev's fixed exchange rate at the introduction of a currency board, the dramatic decrease in the base interest rate, and the announced fixed exchange rate, whereafter it started gradually adjusting thereto. In the second half of the year the volatility of the lev exchange rate primarily reflected movements in the USD/DEM exchange rate which were insignificant.

The curve of the BGL/DEM exchange rate displayed similar volatility but the smaller values in the first half of 1997 are due to comparatively smaller differences between final exchange rates of transactions reflecting a smaller volume of transactions in Deutschemarks as compared with those in US dollars. During the second half of 1997 volatility was insignificant.

5. Interest Rates on Commercial Bank Operations

Commercial bank interest rate policy in 1997 continued to be directly affected by changes in the base interest rate.

At the beginning of 1997 the base interest rate was set by the BNB Managing Board in compliance with monetary policy goals. From mid-February the BNB sought to introduce market principles of setting the base interest rate and its level was tied to the yield attained at primary auctions for discount government securities: initially primary auctions for seven-day and 28-day government securities; subsequently (after seven-day government securities were stopped) only 28-day government securities. Following the introduction of the Currency Board it was decided that the base interest rate would be set entirely on the basis of the yield attained at primary auctions for three-month discount issues. In practice this means that the BNB stopped setting the base interest rate formed in this segment of the money market: it merely announced it. Despite the introduction of a market element for its setting, true market formation of the base interest rate is not in place yet. First, because the primary market for three-month government securities is too thin and by no means the biggest segment in the financial market, and second, because the yield attained at the auctions depends entirely on MF issuing policy and on the restrictive quota principle for participation in these markets. Essentially, setting of the base interest rate was entrusted to the Ministry of Finance in view of its specific goals and interests.

The BNB Managing Board sought opportunities to expand the market basis of setting the base interest rate. The choice of a reliable and adequately representative basis is inhibited by the specific state of domestic financial markets: on the one hand, excess of supply over demand in the interbank market precipitating unreasonably low interest rates on interbank operations, and on the other, large interest spreads on banks' lending and deposit operations with customers.

At the beginning of 1997, amid the severe political, economic and financial crisis expressed in a sharp devaluation of the lev to benchmark convertible currencies, accelerating inflation and eroded confidence in the banking system, the base interest rate stood at high nominal levels. In this setting commercial banks directed their efforts toward maintaining a balance between lending and deposit rates. In order to avoid further difficulties in collecting interest on credits, they maintained moderate lending rates: the average weighted interest rate on long-term credits moved slightly above the base interest rate, hitting a record high in March: 10.5 percentage points above the base interest rate. Slightly higher spreads over the base interest rate were applied on short-term credits with a record high in April: 19.6 percentage points, or about 12% of the base interest rate. Concurrently interest rates on time deposits followed the general trend of the base interest rate, though slower: over the first quarter of 1997 the average monthly rise in the base interest rate was three percentage points (from 15% to 18%), while interest rates on time deposits rose by one percentage point: from 9.9% to 10.9%.

Despite high nominal interest rates on time deposits, with high inflation in the first quarter real interest rates on time deposits turned strongly negative and depositors suffered great losses: more than 75% of savings. But because credibility in the banking system and the lev started to return this did not threaten the deposit base.

After the resolution of the political stalemate and consistently implemented adjustment to the introduction of the Currency Board, a process of financial stabilization occurred. As early as the second half of February the lev recovered part of its value against benchmark convertible currencies (from about BGL 3,000 at beginning of month to about BGL 1,600 at beginning of March), thereafter remaining relatively stable. The base interest rate plunged from 216% in March to 36% in June. In July, the first month of the Currency Board, it fell to 8.17% and continued falling, hitting a monthly low in November: 5.43%. In December it rose slightly (6.79%). With reviving credibility in banks recently withdrawn deposits started to return.

The central bank stopped paying interest on commercial bank settlement accounts, including minimum required reserves maintained at the central bank. The Ministry of Finance commenced gradually reducing government securities issues. As a result, banks' excess reserves, which are nonearning assets, rose noticeably. With the fall in the base interest rate demand for credit rose, but for one reason or another banks were reluctant to make new loans. Exchange rate stabilization reduced the possibilities for speculative profiting from forex purchases and sales. The fall in the base interest rate reflected on narrowing spreads between lending and deposit interest rates. In this setting the issue of preserving profitability ranked high on the agenda of banks' interest rate policy.

Lending interest rates followed the general decline in the base interest rate, displaying a strong tendency to lag behind. Spreads on short-term credits stood at levels close to base interest rate. During the last two months of the year interest rates on long-term credits even exceeded those on short-term credits.

Concurrently interest rates on time deposits fell at increasingly faster rates than base interest rate. At the beginning of 1997 they moved within 65 to 70% of base, while in December they stood at 45% of base. Following positive real interest rates on time deposits over the second quarter, during the second half of the year these turned sustainably negative with overall depositors' real losses approximating 77% for the year as a whole. Token interest rates on demand deposits in 1997 were insufficient to cover even customers' costs on maintaining accounts.[30]

Commercial bank interest rates applied on interbank market transactions over the first half of 1997 were strongly affected by BNB open market operations. In January and February, when the BNB offered longer-term transactions at higher interest rates, interbank interest rates exceeded the base interest rate. From end-February, when the BNB offered only short-term repo-agreements (within two

[30] See tables in the Appendix.

working days) at interest rates well below base, a corresponding fall in interbank interest rates below base occurred. During the reviewed period interest rates displayed a normal upward trend depending on the maturity structure of transactions. April was the only exception with the highest interest rates being applied on one-day and one-week deposits. This is due to a significant reduction in BNB repo-rates, combined with expectations of a subsequent fall in the base interest rate. With discontinued open market operations as of 13 June, liquidity overhang in the banking system and the excess of supply over demand interest rates on interbank operations declined considerably and during the second half of the year stood at a level of one-third below base interest rate, or well below interest rates on time deposits.

Even though banks were able to keep relatively high spreads between lending and deposit rates during the second half of the year, profitability remained a concern. Banks still face great difficulties in collecting interest and repayment of extended credits; likewise they suffer from a lack of profitable alternative investment instruments. Problems will be resolved once the necessary conditions for large-scale lending to the real sector are in place.

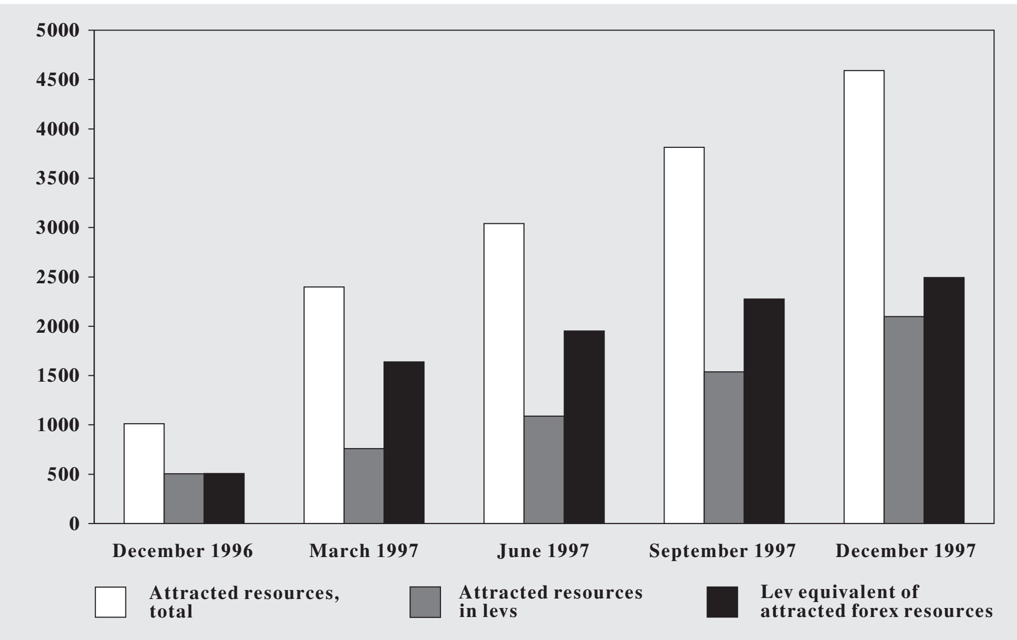
6. Minimum Required Reserves

The percentage of minimum required reserves was maintained at 11% of attracted funds in levs and foreign currency; commercial banks were permitted to hold up to 100% of required reserves on attracted forex funds in the foreign currencies specified in BNB Regulation No. 3. 60% of actual cash holdings in banks' vaults and 100% of those held in ATM terminals were recognized as minimum reserve requirements.

In view of the stability in the legislative basis for calculating minimum required reserves, changes in attracted funds and reserves maintained against these funds are consistent with the state of the financial system and current policies by individual commercial banks over the review period.

ATTRACTED RESOURCES FROM COMMERCIAL BANKS

(billion BGL)



Source: BNB.

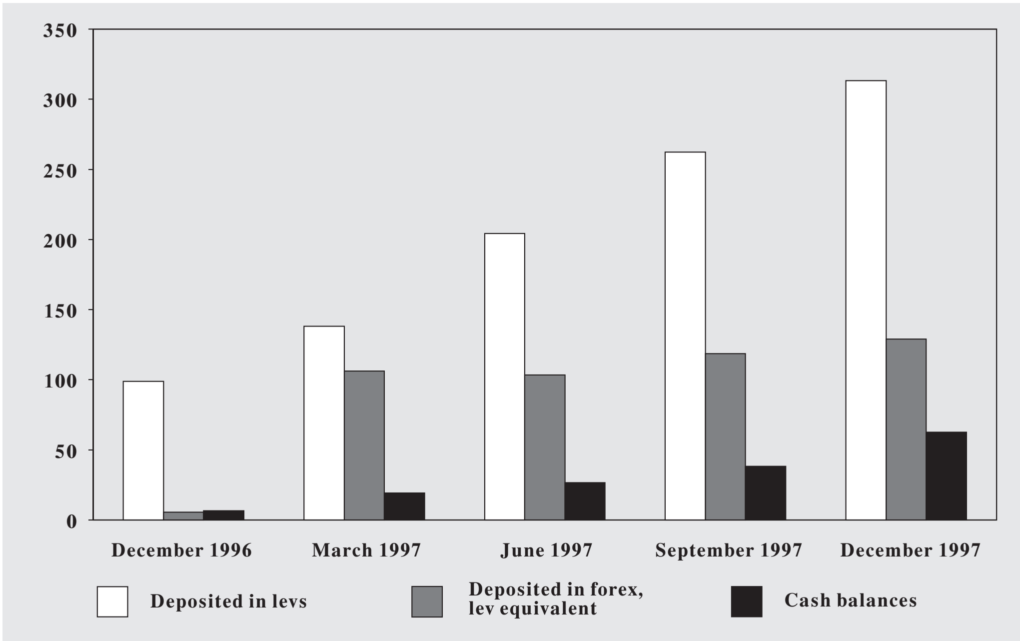
The high base interest rate, dramatic lev devaluation against benchmark convertible currencies and related demonetization of the economy over the first quarter of 1997 prompted a drastic rise in attracted funds eligible for inclusion within the base for minimum reserve calculation. At end-March (against December 1996) these grew by 237.28% in total, including a 323.39% growth in attracted funds in foreign currency. During subsequent quarters, particularly after the Currency Board introduction, these funds continued increasing, though at a slower pace, consistent with the fall in the base interest rate, exchange rate stabilization and the gradual return of confidence in banks. At end-1997 attracted funds by banks rose by 454.27% on December 1996.

The structure of minimum required reserves significantly changed. Between December 1996 and December 1997 the share of reserves held in levs in the total amount of minimum required reserves fell from 89.02% to 62.07% at the expense of increases in reserves held in foreign currency (from 5.07% to 25.54%) and vault cash, including ATM terminals (from 5.91% to 12.39%).

Banks did not make full use of the right to hold minimum required reserves in foreign currency against attracted funds in foreign currency. Only in March did they make more frequent use of this right, with foreign currency deposited in reserve BNB accounts reaching 58.94% of total required reserves against the foreign currency deposit base. Given banks' large excess liquidity in lev terms after discontinuation of open market operations, the required level of minimum reserves was met predominantly in levs. Subsequently the extent to which banks could resort to the above opportunity was reduced until at year-end foreign currency reserves moved within the range of 47% to 48% of required reserves against the deposit base in foreign currency.

STRUCTURE OF MINIMUM REQUIRED RESERVES

(million BGL)

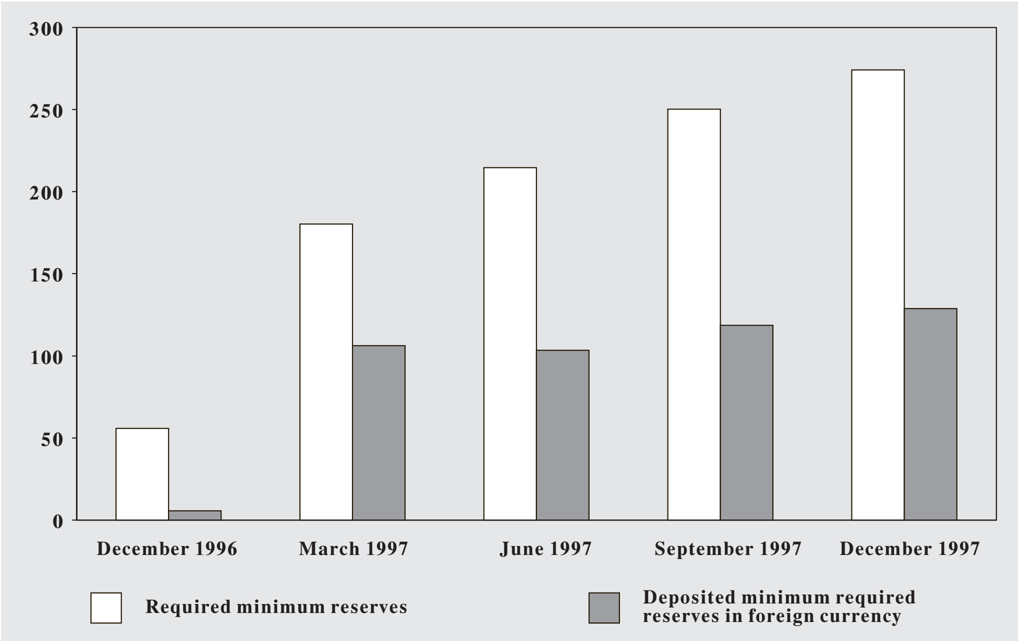


Source: BNB.

Significant changes occurred in the structure of reserves maintained in foreign currency with regard to individual foreign currencies. The Deutschemark was the preferred currency consistent with the decision to fix the lev to the Deutschemark under currency board rules. Compared with December 1996, in March reserves held in Deutschemarks rose 6.5 times and in December 1997: more than ten times. In 1997 their share in the total amount of foreign currency reserves rose from 46.69% to 66.15% in lev equivalent. Over the same period reserves maintained in US dollars, following a substantial initial increase (over five times in March over December 1996), subsequently decreased markedly and by year-end exceeded their 1996 amount by 30% alone, their share decreasing from 53.31% to 10.89% during the whole of 1997. This is understandable since the Deutschemark does not precipitate currency risks, whereas the DEM/USD rate is dynamic. Swiss francs are often opted for, primarily due to unfavorable interest rate terms in the international markets making the Swiss franc an uncomfortable currency for investment. While in December 1996 no reserves were maintained in francs, at end-1997 these comprised 22.96% of total foreign currency reserves.

REQUIRED AND DEPOSITED MINIMUM RESERVES IN FOREIGN CURRENCY (lev equivalent)

(million BGL)



Source: BNB.

During the first half of 1997 banks managed current liquidity by open market operations. Maintained balances on settlement accounts with the BNB were adequate to meet current payments. After discontinuation of open market operations in mid-June banks' excess reserves strongly increased. Their average monthly amount in December was 40 times higher than that of December 1996.

Banks' excess reserves experienced dramatic fluctuations within individual months with budget transactions playing a crucial role. Liquidity improved in times of budget payments: subsidies, pensions and wages of budget-supported employees, and *vice versa* it decreased in periods of tax remittance to the exchequer.

Amid excess liquidity in the banking system, only a few banks experienced accidental liquidity deficiencies, resulting mainly from inadequate cash flow planning. This was not systemic in nature and therefore did not generate risks for the whole system. Delay in settlements did not exceed one day.

7. Commercial Bank Refinancing

From the beginning of 1997 the BNB halted unsecured refinancing of commercial banks in compliance with IMF recommendations and commitments with regard to the pending introduction of a currency board. The last standard Lombard loan was repaid in April 1997 and thereafter the BNB entirely discontinued commercial bank refinancing.

At end-1997 BNB claims on commercial banks amounted to about BGL 163.89 billion, including BGL 53.4 billion (32.6%) in outstanding debt on lev credits, and BGL 110.48 billion (67.4%) on foreign currency credits and deposits (in lev equivalent). These claims arose from 11 banks (ten bankrupt and one in liquidation) and a consortium of banks.

Foreign currency deposits had the largest share in total claims at end-1997: BGL 62.82 billion (37.7%); followed by unsecured lev credits: BGL 51,437 million (31.4%); and foreign currency credits: BGL 48.66 billion (29.7%). Secured claims totaled BGL 1,931 million.

In 1997 BNB lev claims on commercial banks fell by BGL 8,932 million. The fall is primarily related to repayment of all standard Lombard loans: BGL 6,150 million. The other BGL 2,782 million comprised repayments of overdue loans: two banks fully repaid their lev debts to the BNB and two banks partially met their obligations on particular loans.

BNB foreign currency claims also decreased: by about USD 10.5 million (from USD 65,565,211 at end-1996 to USD 55,094,478 as of 31 December 1997) and by DEM 5.5 million (from DEM 18,138,000 to DEM 12,607,918 respectively). At the same time, given the sharp lev devaluation, these claims rose by BGL 72,838 million in lev equivalent terms.

All BNB claims on commercial banks are reported as overdue. Unsecured claims, including interest accrued until the date of declaring debtor banks bankrupt, are recorded in the BNB balance sheet and provisioned. Secured claims and off-balance-sheet interest accrued after the date of bankruptcy are not covered by provisions.

8. Payment System and Settlement

In 1997 bankrupt banks continued closing branches directly participating in the payment system. As a result BISERA input points fell from 962 at end-1996 to 895 in mid-year and 831 at year-end. A great number of bank branches did not participate in settlement as many banks were declared bankrupt, their payment operations being taken over by their head offices.

During the period under review 10,181,529 interbank settlements were cleared through BISERA (electronic interbank transfers system). A slight decline (about 1.5%) occurred compared with 1996, due mainly to the increase in intrabank transfers being effected through the branch network of a number of big banks. The decline was stronger in the first quarter of the year reflecting the prevailing practice of making intercorporate payments in cash due to eroded confidence in banks. After stabilization in the second quarter and particularly after the introduction of the Currency Board the number of electronic settlements rose markedly and recovered to the usual levels.

Even more pronounced were positive developments in the volume of effected payments: BGL 8,306 billion in the first half-year (BGL 66.985 billion on an average daily basis) and BGL 18,162 billion in the second half of the year (BGL 140.790 billion on an average daily basis). During the whole of 1997 the total amount of settlements effected through BISERA accounted for BGL 26,468 billion, and their average daily amount was BGL 104.204 billion.

In 1997 the Central Depository was included in BISERA. This provided opportunities to make on-line transactions in the capital market.

VI. The Banking Sector and Banking Supervision

1. The Banking Sector

As of end-1997 the Bulgarian banking sector comprises 34 operating banks; of these, 33 have full licenses and one has a domestic license.

Structure and Major Trends

During the reviewed period 15 banks were declared bankrupt by courts of law. Within the system, 75% of assets are concentrated in seven of the biggest banks with the largest bank having over 33% market share. For the purposes of supervision commercial banks are classified into groups according to asset size and share in the system[31]. Foreign banks' branches and subsidiaries are included in a separate group.

Group I includes the seven biggest banks by balance-sheet assets (major banks). Six of these have majority state capital and one (UBB) has majority foreign shareholder capital. Bulbank and the SSB are the biggest. The State Savings Bank has a specific legal status. The group makes up 75.35% of the banking system in terms of asset size.

Group II includes 18 small and medium banks with majority private shareholder capital (including Metropolitan Municipal Bank). The group makes up 16.58% of the banking system.

Group III includes subsidiaries and branches of foreign financial institutions. It comprises three banks and six bank branches and makes up 8.07% of the banking system.

In compliance with the Law on Banks the BNB continued to monitor the process of liquidation of the 15 banks declared bankrupt by courts of law. The majority of these banks stopped operating as early as 1996 after being placed under conservatorship.

Changes in Banking System Structure in 1997

As early as the beginning of 1996 the BNB took measures in respect of insolvent banks, and the procedure for their enactment continued in 1997. In 1996 the BNB applied into court to institute bankruptcy proceedings against 13 commercial banks. Early in 1997 the central bank applied into court for the institution of bankruptcy proceedings against three more banks – Elite Bank, Capitalbank, and Bank for Agricultural Credit (placed under conservatorship in 1996). Due to violation of banking regulations and danger of insolvency the BNB put the International Bank for Investments and Development under conservatorship and subsequently petitioned the court to institute bankruptcy proceedings.

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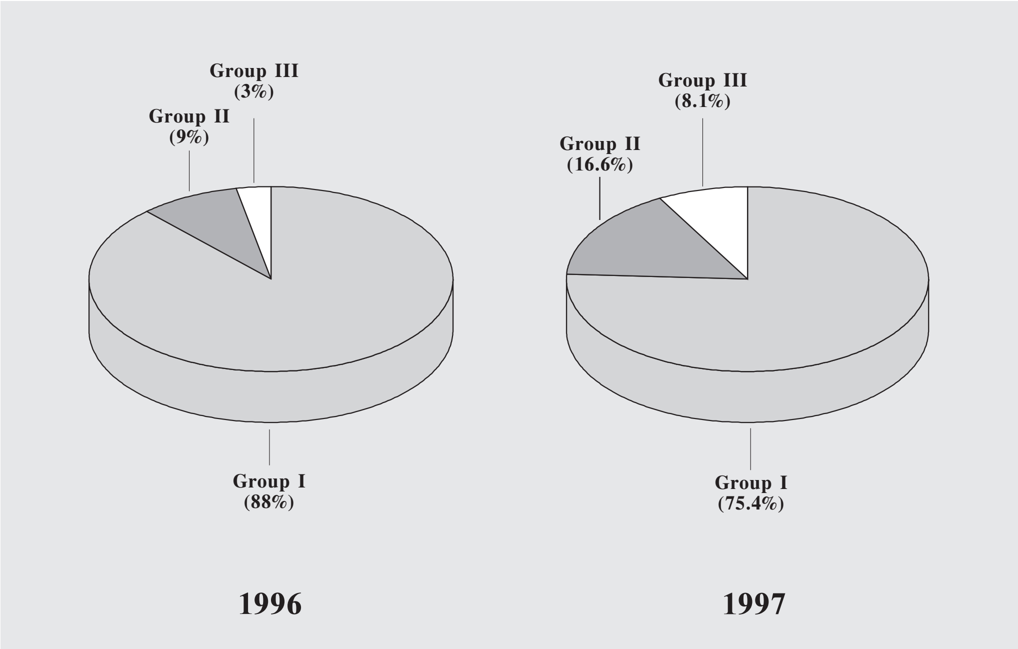
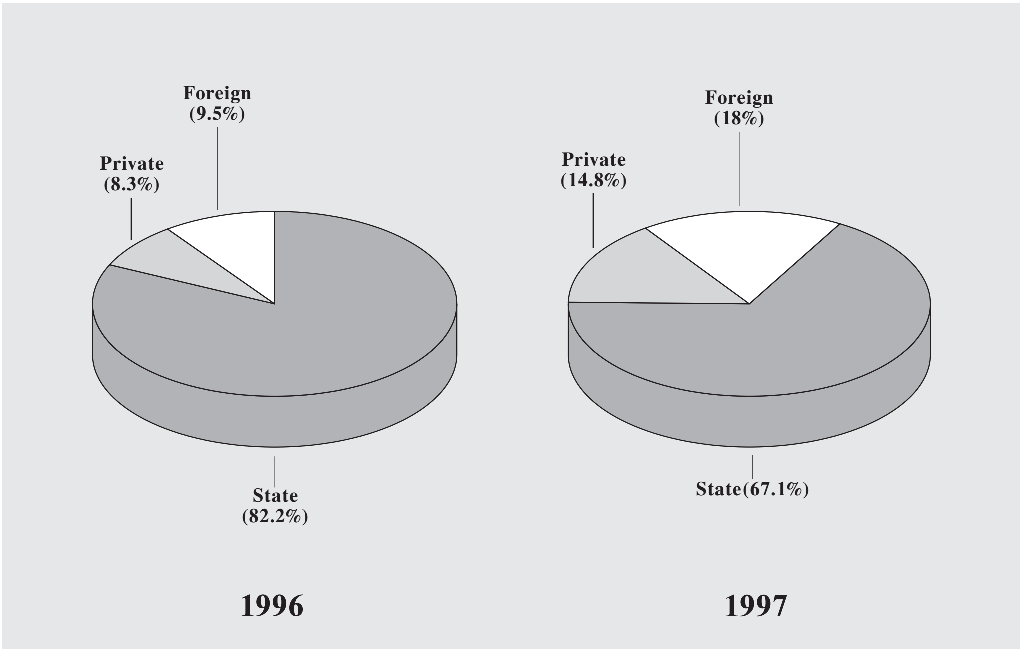
[31] Group I includes the following banks: Bulbank, SSB, UBB, Bulgarian Post Bank, Biochim Commercial Bank, Expressbank and Hebros Bank; Group II includes: Central Cooperative Bank, Bulgarian-Russian Investment Bank, Credit Bank, First Investment Bank, Metropolitan Municipal Bank, First East International Bank, St. Nicholas International Orthodox Bank, Unionbank, International Bank for Trade and Development, Private Entrepreneurial Bank Texim, Eurobank, Creditexpress Commercial Bank, Bulgaria-Invest Commercial Bank, Balkan Universal Bank, Corporate Commercial Bank, Bulgarian Investment Bank, Bulgarian Trade and Industrial Bank and Trakiabank; Group III includes: ING Bank – Sofia Branch, BNP – Dresdnerbank, Raiffeisenbank, Jonian Bank – Sofia Branch, Bayerisch-Bulgarische Handelsbank, Xios Commercial Bank – Sofia Branch, Bulgarian-American Credit Bank, National Bank of Greece and Societe Generale – Sofia Branch.

ASSETS BY GROUP OF BANKS



Source: BNB.

ASSETS BY TYPE OF OWNERSHIP



Source: BNB.

During the period under review 14 banks were declared bankrupt by courts of law and in early 1998 Capitalbank was declared bankrupt.

The BNB did not grant new licenses and investors were provided with the opportunity to acquire and recapitalize some of the closed banks. Thus the former Yambol Commercial Bank was acquired by Bulgaria Holding and renamed Bulgaria-Invest. The former Mollov Commercial Bank was acquired by Istrocapital of Slovakia, and renamed Eurobank.

In 1997 two banks were granted operative licenses (the right to execute already authorized bank transactions in compliance with permits issued in 1996): Societe Generale – Sofia Branch; and the Bulgarian-American Credit Bank Ltd., Sofia, with a domestic license.

As of 31 December 1997 the share of the state as a majority stake-holder is about 67% of bank assets.

In 1997 the banking system gradually recovered from the crisis and in the second half of the year first signs of financial stabilization occurred. These developments reflect both tighter measures involved (closure of insolvent banks and restrictions on banks with worsened indicators) and macroeconomic stabilization in the country after the introduction of the Currency Board. As financial state improved (in terms of liquidity and solvency ratios) restrictions imposed on most commercial banks under the 1996 memoranda of agreement were lifted.

Conditionally processes in the banking system in 1997 could be split into two periods. The first, prior to the introduction of the Currency Board, is characterized by macroeconomic instability: a sharp devaluation of the national currency, hyperinflation and output slump. The second period, after the introduction of the Currency Board, is characterized by a gradual stabilization of monetary indicators of the economy and significantly tightened financial discipline.

During the first period the majority of banks improved their capital adequacy ratios and allocated provisions to cover a considerable portion of their claims. It is important to note that banks were able to increase the level of their provisions for risk exposure as a result of net earnings on valuation adjustments arising from lev devaluation. Tighter lending terms combined with real devaluation of banks' liabilities as a result of hyperinflation at the beginning of the year immediately reflected on banks' improved liquidity in mid-year. High liquidity, coupled with banks' tighter lending terms (a small number of borrowers qualify for bank loans) and rigorous legal provisions (greater responsibility in extending loans and stricter criteria for adequate security) against the backdrop of reduced borrowing requirements of the budget contributed to low interest rates in the second half of 1997. This, combined with the fixing of the lev's exchange rate under currency board rules, will foster increased long-term lending.

Under a fixed exchange rate the possibility of reporting net earnings from valuation adjustments is limited (as a result of long open foreign currency positions) and therefore banks will have to reconsider thoroughly their business strategies in the new environment.

The state of the banking system in 1997 reflects both the stagnation in the real economy resulting from the deep recession, and the banking system crisis: one of the most severe in terms of the share of bankrupt banks' asset portfolio. Customers' credibility in banks, though gradually reviving, remains low. The market of bank services contracted severely. A sizable portion of households' foreign currency funds remained outside the banking system, while a number of economic agents continued to make nonbank payments.

Major trends in the development of the banking sector after the introduction of the Currency Board are: *first*, banks' preference to maintain high liquidity at the expense of low profitability; *second*, a decline in the share of valuation adjustments in total financial revenue as a result of the fixed exchange rate; *third*, limited credit supply; *fourth*, tighter rules of bank supervision regulations.

The above trends strongly affected commercial banks' business behavior. Cash flows within the system shifted to investments in government securities and banks. Within the area of commercial credit, cash flows were allocated to agriculture and households.

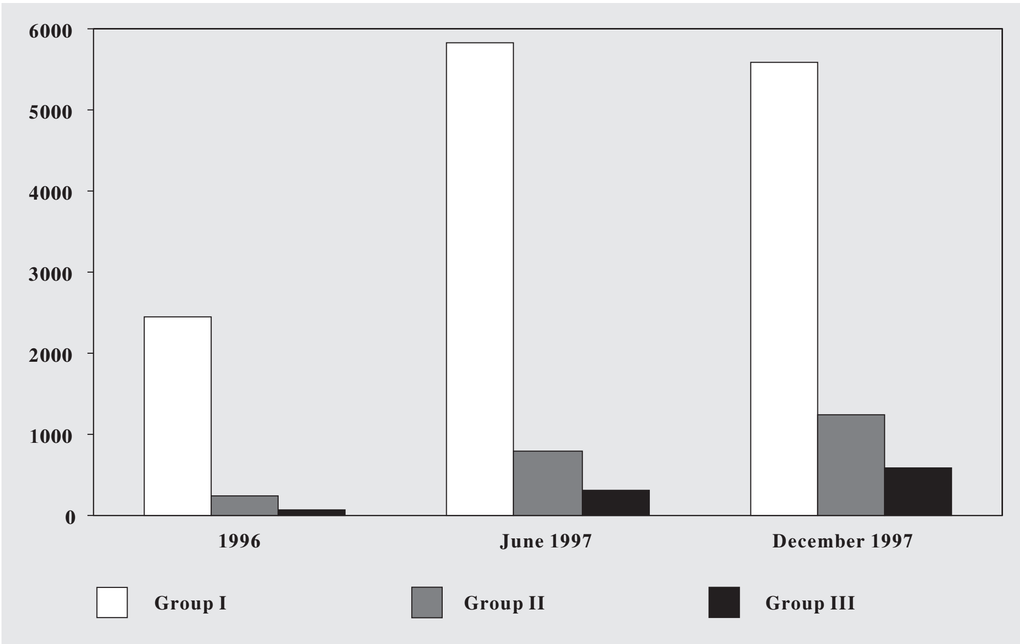
Notwithstanding the initial stabilization and strengthening of the banking sector (reflecting improved liquidity and capital adequacy), the system was affected by several groups of factors: the development of the real sector and anticipated emergence of creditworthy and profitable economic entities; enhanced competition in the banking sector; the development of the stock exchange and over-the-counter trading and the more active participation of investment intermediaries; management of commercial banks.

Consolidated Balance Sheet of Commercial Banks

Consolidated assets (balance sheet value) of the banking system totaled BGL 7.4 trillion by end-December 1997, against BGL 2.8 trillion by end-1996. Assets increased 2.6 times in nominal terms but decreased in real terms. At constant prices (consumer price index 678.5) assets at end-1997 comprised 40% of their value at end-1996. The loss of real value was most dramatic in the first half of 1997 due to hyperinflation. Assets' real value additionally declined (by over 10%) in the second half of 1997. Consolidated assets increased in real terms only in Group III banks, prompting a more than double growth of their share in the banking system.

TOTAL ASSETS

(billion BGL)



Source: BNB.

Decreased banking system real assets affected gross domestic product as well. The *bank assets/GDP* ratio in 1996 was 120%, while it approximated 30% in 1997.

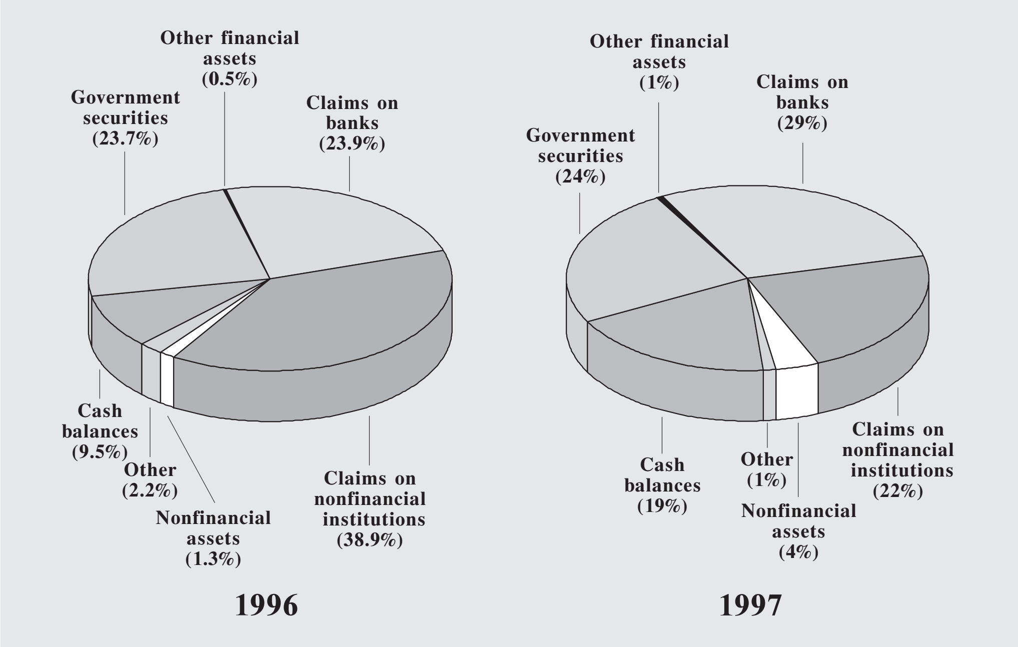
Structure of Assets

Financial assets in the consolidated balance sheet of commercial banks accounted for 95% of total assets. Given the prudent banking activity under a currency board, the structure of assets experienced significant changes.

The need to maintain greater liquidity due to tighter financial discipline (including a ban on central bank refinancing of banks) forced commercial banks to raise their *cash balances*. Banks' cash balances increased about five times, while assets grew 2.6 times. As a result, the share of cash balances more than doubled, comprising 19% of total commercial bank assets by the end of 1997. It is of note that prior to the introduction of the Currency Board foreign exchange accounted for two-thirds of cash balances, while in the second half of 1997 the share of levs increased to one-half. Nominally the share of lev resources displayed a sevenfold growth. The latter reflects the return of confidence in the national currency and subdued dollarization of the Bulgarian economy. The increased share of highest liquidity funds pertains to a decline in the share of loans to nonfinancial enterprises. Since lending funds are in principle the most expensive, this affected commercial banks profitability due to decreased interest revenue.

Cash balances of Group II banks comprised the biggest share: over 28% of their total assets.

STRUCTURE OF ASSETS



Source: BNB.

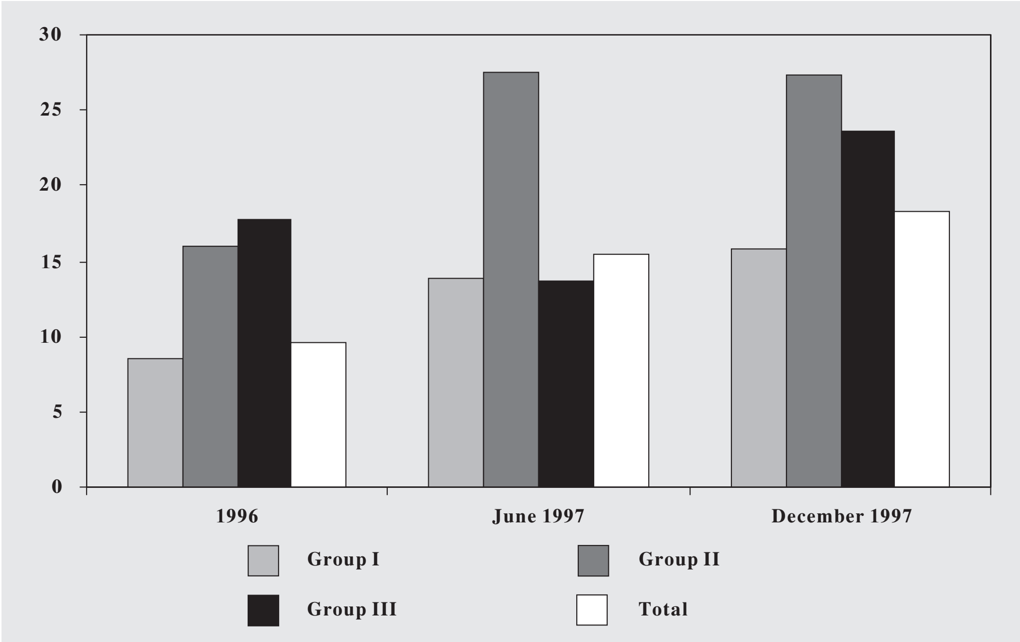
The amount of *government securities* in the consolidated balance sheet of commercial banks totaled BGL 2.168 trillion at carrying value and BGL 1.786 trillion at balance-sheet value. The share of government securities changed insignificantly, comprising 24% of total assets by the end of 1997. The largest portion of government securities were concentrated in Group I banks' portfolios: 85% (91% of lev-denominated ones). Since government securities comprised a sizable share in banks' portfolios, decreased yield of lev-denominated government securities affected the financial performance of banks. The established practice of the bulk of government securities issues being purchased by commercial banks was sustained.

Claims on banks and other financial institutions grew by 204%, reaching BGL 2.1 trillion at balance-sheet value. The forex component was 95%, while the lev component declined by 20%. The share of claims on banks and other financial institutions rose by five percentage points, accounting for 28% of total assets. This reflected increased funds on accounts with nonresident banks affecting placement of lending funds.

Credits extended to nonfinancial institutions rose just 60% in nominal terms, reaching BGL 1.641 trillion at balance-sheet value. The lev component accounted for 64.78%. The share of credits extended to nonfinancial institutions made 22.15% in total assets by end-1997, against 39% by end-1996. Conservative commercial bank lending policy helped improve banking system liquidity. However, this prompted a decline in the share of loans in GDP: from 67% in 1996 to 10% in 1997.

SHARE OF CASH BALANCES IN TOTAL ASSETS OF COMMERCIAL BANKS AND THE SSB

(%)



Source: BNB.

Structure of Liabilities

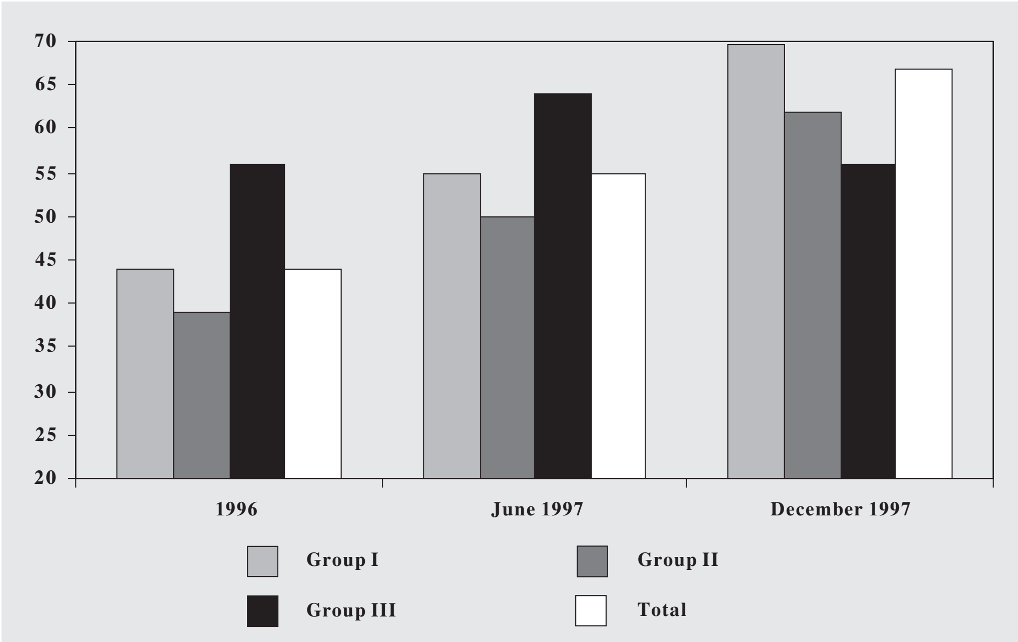
In 1997 *attracted funds from nonfinancial institutions* continued to be the major source for the financing of Bulgarian banks. The share of deposits rose in total liabilities from 54% by end-1996 to 67% by end-1997. Nonfinancial institutions' deposits totaled BGL 5 trillion by year-end, indicating an over fourfold increase. The forex component constituted 61.25% in total attracted funds by the end of 1997, against 57% in the previous year.

Deposits of nonfinancial institutions were distributed relatively proportionally by bank group. Commercial banks' efforts to strengthen their deposit base reflected an improvement in their liquidity. Smaller expenditures on funds attracted from nonfinancial institutions had a positive effect on banks' financial performance. Increased deposit funds directly reflected the stabilization in the financial system and the lack of investment alternatives due to underdeveloped financial markets.

Capital grew nominally over six times reaching BGL 910 billion, an increase of five percentage points in its share. This increase is primarily a result of net profits totaling BGL 369 billion. Profit has been reported by Group I and Group III banks. Group II banks reported a negative total result. Given stricter capital adequacy requirements, the fixed capital indicated a significant increase to BGL 323 billion, against BGL 95 billion by end-1996. Unpaid capital totals BGL 113.5 billion, with BGL 97.2 billion of this in small- and medium-sized banks. Almost half of subscribed capital in this group was to be raised by 31 December 1997.

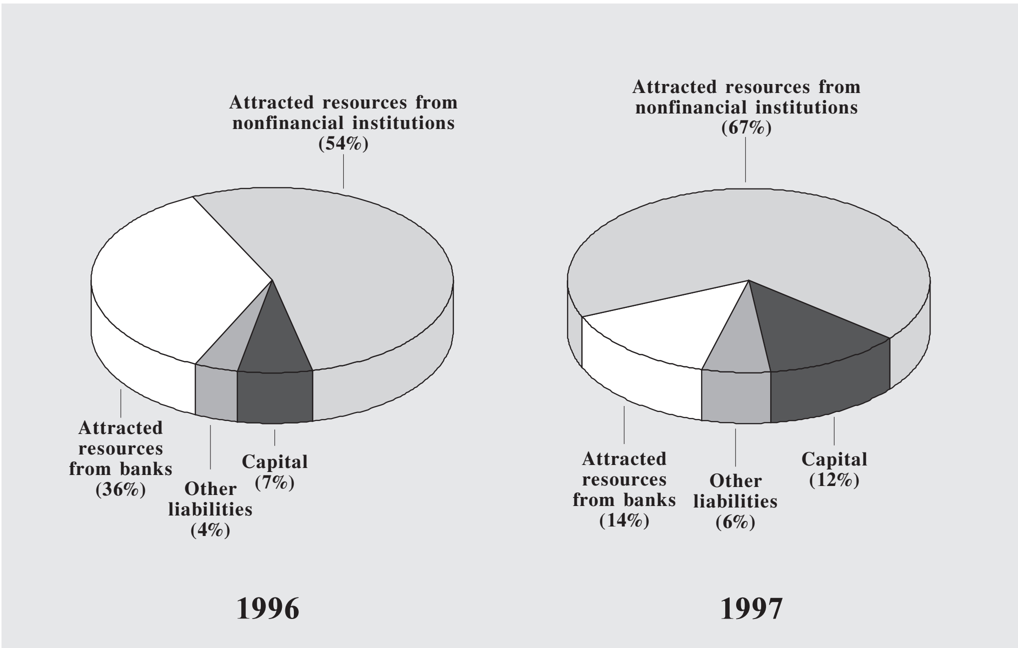
SHARE OF ATTRACTED RESOURCES FROM NONFINANCIAL INSTITUTIONS

(%)



Source: BNB.

STRUCTURE OF LIABILITIES



Source: BNB.

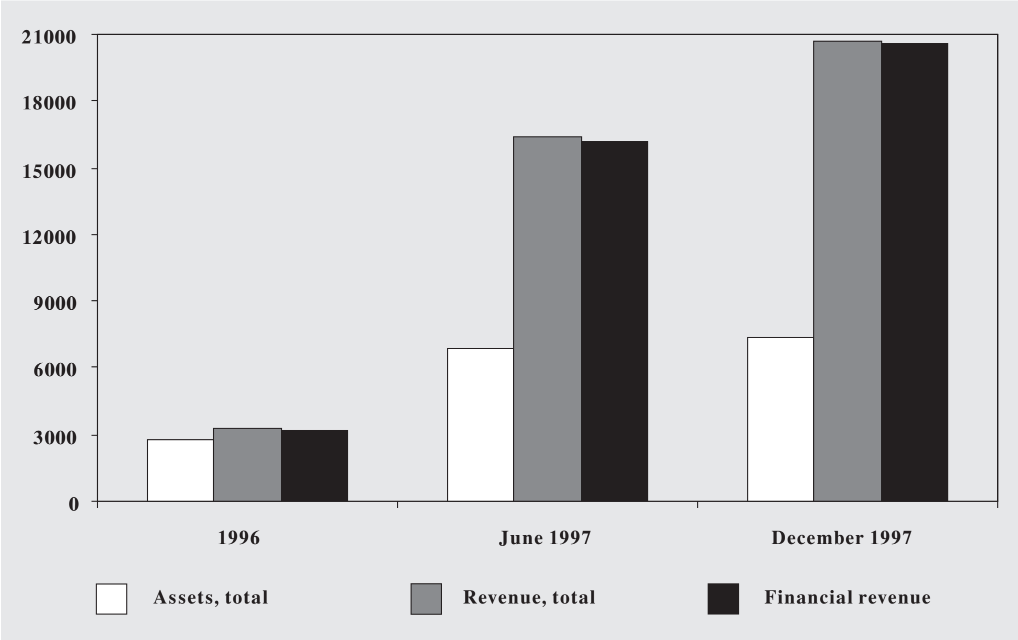
Consolidated Income Statement of Commercial Banks and the SSB

Banking system revenue totals BGL 20.7 trillion, and expenditure: BGL 20.3 trillion. Reported profit is BGL 369 billion. Key factors behind this result were the dramatic devaluation of the national currency and hyperinflation in early 1997. The *revenue/assets* ratio rose to 276%, against 118% by end-1996. Revenue and expenditure from valuation adjustments account for 86% and 80% respectively. Eighty percent of revenue and expenditure were accumulated during the first six months of

1997. Developments in the income statement indicators clearly display a macroeconomic stabilization after the introduction of a currency board.

REVENUE/ASSETS

(billion BGL)



Source: BNB.

Despite the fact that valuation adjustments, which are of an accounting nature, contributed to a great degree to the positive financial result, an analysis of profitability gives grounds for the following conclusions:

- yield structure improved, and consequently net cash inflows have increased;
- attempts to establish a financial buffer against higher risk have occurred;
- a balance has been struck between lowering risk and attaining profitability;
- banks have sought to increase their capital by improving asset quality.

Group I banks are particularly indicative: profit grew by 17.5 times and no loss was reported by any Group member. The bulk of forex-denominated ZUNK bonds and foreign currency securities issued under the Law on the State Protection of Deposits and Accounts with Commercial Banks are concentrated in Group I banks. The *pretax profit/capital base* ratio (at carrying value) was 212% and the *pretax profit/total assets* ratio in 1997 was 8.3%. Profitability of banks in this Group is of key significance for the banking system.

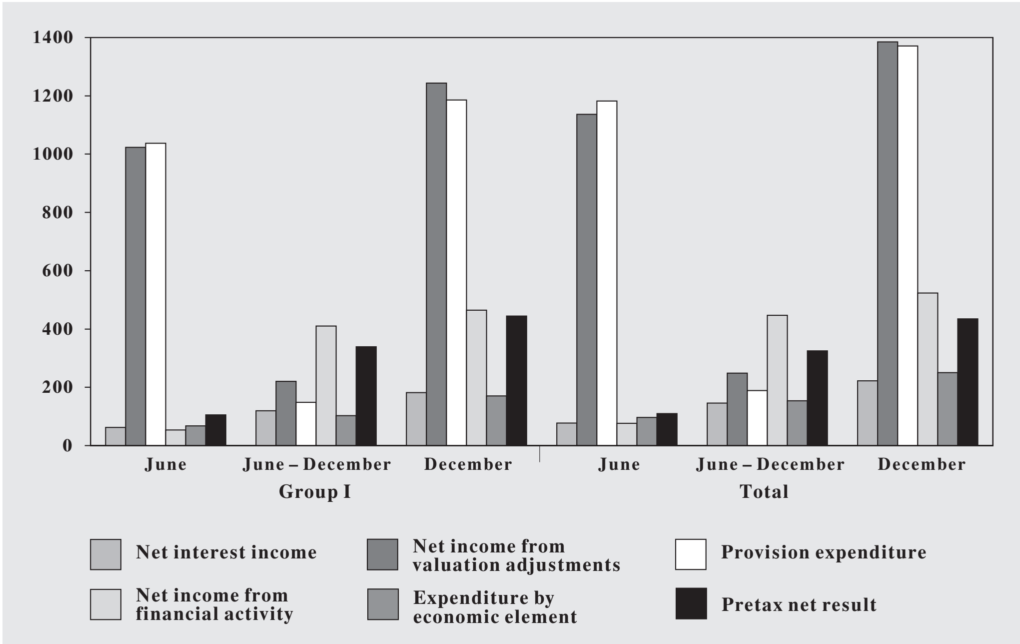
By the end of 1997 *Group II banks* reported a negative pretax financial result of BGL 5.221 billion. Some of the banks reported losses and some reported profits. This is attributable to the sizable funds required on provisions and significant bank expenditures by economic element (operating expenditure on bank maintenance). Net revenue from banks' core activity (interest collection) was BGL 24.1 billion, and net revenue from all financial operations was BGL 42.5 billion, against operating expenditures of BGL 55.5 billion. Expenditures on provisions in Group II banks totaled BGL 122.5 billion.

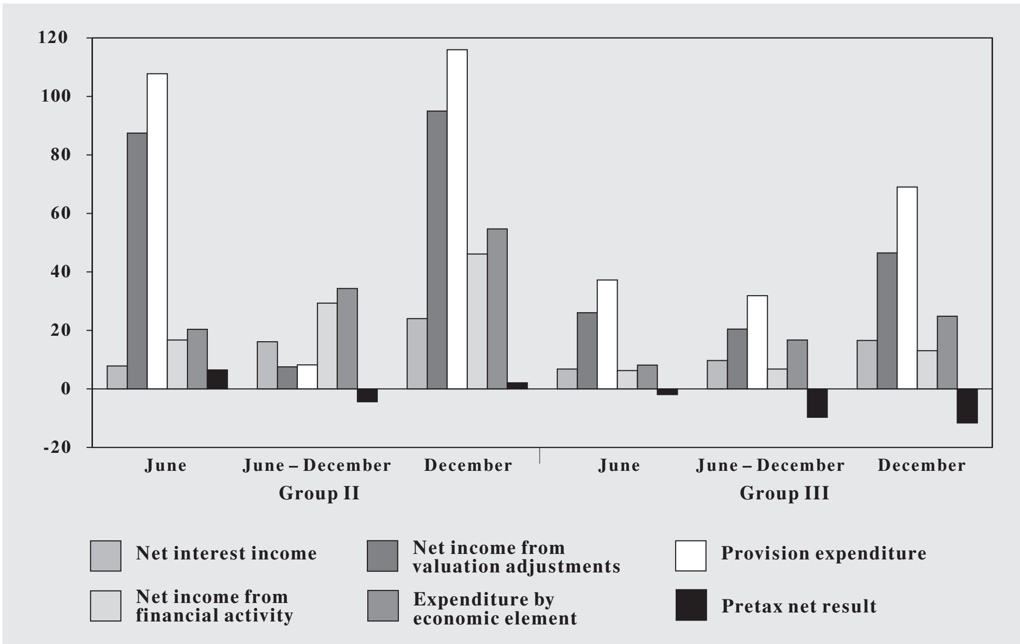
Banks included in *Group III* reported a BGL 374.5 million positive financial result.

Expenditures on economic elements indicated a significant growth in all bank groups during the second half of 1997; in most banks they doubled upon the first half of 1997.

SELECTED INDICATORS FROM THE CONSOLIDATED INCOME STATEMENT OF COMMERCIAL BANKS AND THE SSB IN 1997

(billion BGL)





Source: BNB.

The following indicators illustrate the above conclusions:

(million BGL)

Net interest margin	
Total	225,600
Group I	184,281
Group II	24,142
Group III	17,177
Net margin on fees and commissions	
Total	63,222
Group I	36,092
Group II	17,679
Group III	9,451
Net margin on government securities operations	
Total	6,850
Group I	(27,633)
Group II	24,802
Group III	9,681

Relatively low value of the *Net margin on government securities operations* item is due to the fact that in 1997 Group I banks realized significant sales of forex government securities from their portfolios at market prices. This helped improve liquidity and boosted cash inflow.

(%)

Net margin (interest and on fees and commissions)/operating expenses	
Total	113.71
Group I	127.08
Group II	75.29
Group III	106.31
Return on assets (ROA)	
Total	4.16
Group I	5.51
Group II	(0.68)
Group III	0.06
Return on equity (ROE)	
Total	108.94
Group I	303.08
Group II	(4.99)
Group III	1.29

The coefficient does not refer to foreign bank branches in Bulgaria.

Solvency (Capital Adequacy)

The capital adequacy ratio of the banking system at end-1997 was 28.94%, against 10.8% by the end of the previous year. This is attributable to faster capital base growth compared with the total risk component. Nominally, capital base rose more than five times, totaling BGL 632 billion. Total risk component indicated an approximately threefold growth.

TOTAL CAPITAL ADEQUACY OF COMMERCIAL BANKS

(%)

Group I	31.41
Group II	23.66
Group III	18.55

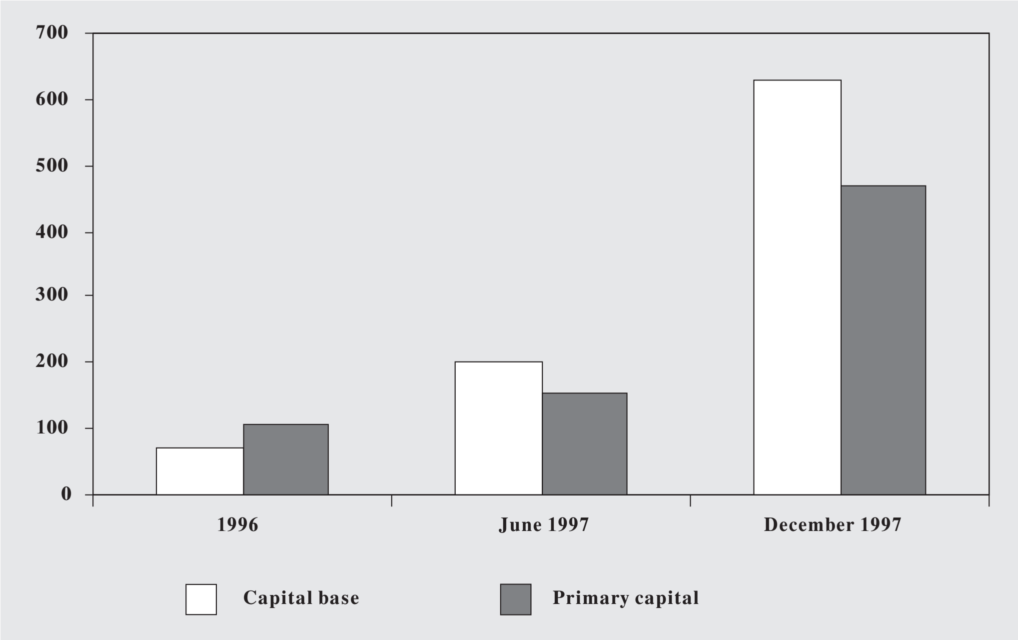
Three of the 34 commercial banks reported a capital adequacy ratio below 8%; their total market share comprises 2% of banking system consolidated assets. Required capital base of BGL 10 billion to be achieved by 30 June 1998 pursuant to BNB Regulation No. 8 on the capital adequacy was met by 18 banks at 31 December 1997.

The rise in total risk component by 221% compared with assets growth of 181% prompted an increase in the *Degree of asset risk* indicator (26% by end-1996, against 30% by end-1997). Group II banks indicated a significant improvement. At the end of the previous year the degree of asset risk was very high (61%), while by end-1997 it fell to 38.5%.

Improved capital adequacy of the banking system proved to be one of the most important factors in banking system stabilization and strengthening public confidence in the system.

CAPITAL BASE AND PRIMARY CAPITAL

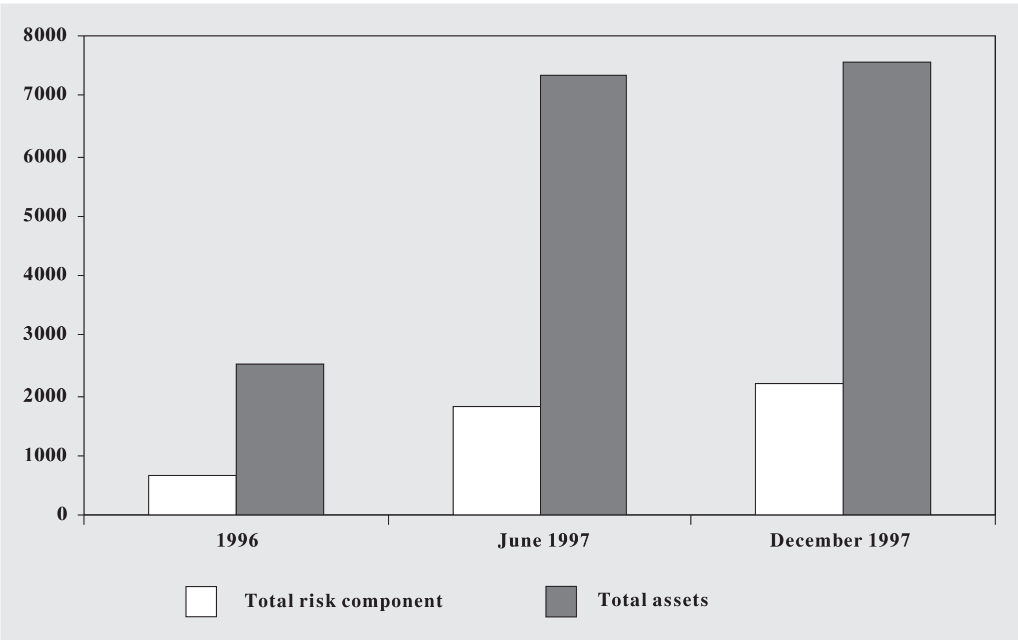
(billion BGL)



Source: BNB.

TOTAL RISK COMPONENT AND TOTAL ASSETS

(billion BGL)



Source: BNB.

Credit Risk

During 1997 banks pursued a conservative lending policy. As a result, the share of credits extended to nonfinancial institutions in banks' consolidated assets significantly dropped from 39% by end-1996 to 24% by end-1997. In general the credit risk of the banking system diminished.

As of 31 December 1997 the total amount of claims on the nongovernment sector increased by 24.61% from June 1997. This signaled the start of *credit flow restructuring*: credit to the public sector rose by 26%. Adjusted by publicly guaranteed agricultural credits this increase was 13.94%; credits to the private sector rose by about 23%, and to individuals: by 1,742%.

Within total credit growth, the share of the private sector is 62.02%, that of the public sector 37.96%, and the share of individuals: 0.02%.

Credit risk under BNB Regulation No. 9 of October 1997 had the following structure by 31 December 1997:

• Total	***BGL 5,208,488 million***
standard exposures	83.28%
watch exposures	2.69%
substandard exposures	1.97%
doubtful exposures	1.49%
loss	10.57%

• Group I	***BGL 3,945,443 million***
standard exposures	82.66%
watch exposures	1.64%
substandard exposures	1.35%
doubtful exposures	1.69%
loss	12.66%

• Group II	***BGL 719,022 million***
standard exposures	83.42%
watch exposures	9.42%
substandard exposures	0.41%
doubtful exposures	0.72%
loss	6.03%

• Group III	***BGL 544,024 million***
standard exposures	87.52%
watch exposures	1.45%
substandard exposures	8.51%
doubtful exposures	1.09%
loss	1.43%

Regulation No. 9 was adopted by the BNB Board in October 1997. It establishes a new classification of banks' balance-sheet risk exposure. For the purpose of comparison with the 1996 data, risk classifications of the balance-sheet item *Claims on nonfinancial institutions and other clients* under Regulation No. 9 have also been presented. By 31 December 1997 risk in this balance-sheet item is as follows:

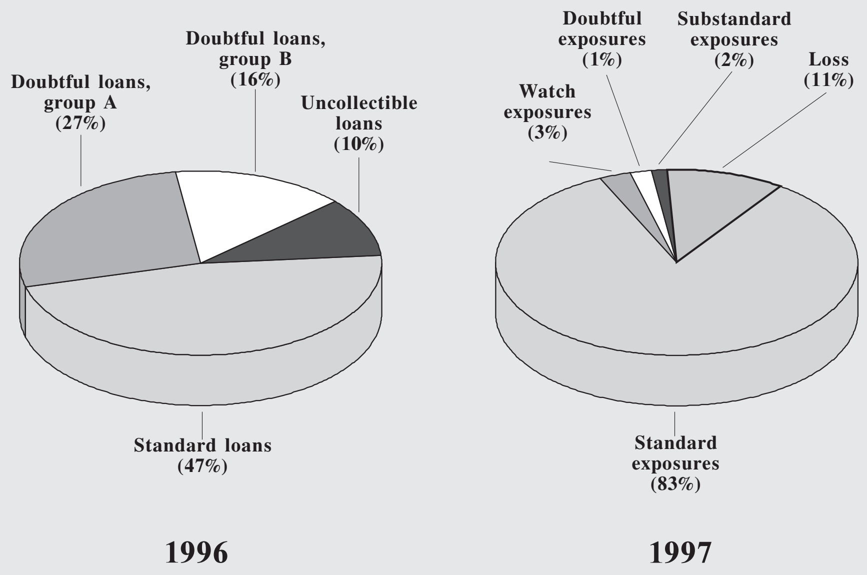
• Total	***BGL 1,540,946 million***
standard exposures	58.24%
watch exposures	8.59%
substandard exposures	5.86%
doubtful exposures	4.66%
loss	22.65%

• Group I	***BGL 1,005,671 million***
standard exposures	53.62%
watch exposures	5.85%
substandard exposures	4.28%
doubtful exposures	6.08%
loss	30.17%

• Group II	***BGL 318,775 million***
standard exposures	65.32%
watch exposures	20.56%
substandard exposures	0.29%
doubtful exposures	1.62%
loss	12.21%

• Group III	***BGL 216,501 million***
standard exposures	69.30%
watch exposures	3.63%
substandard exposures	21.37%
doubtful exposures	2.58%
loss	3.12%

CLASSIFICATION OF LOANS AND RISK EXPOSURES



Source: BNB.

The amended 1997 Regulation No. 9 established an explicit BNB requirement for risk provisioning on claims, classifying expenditures on provisions as accounting expenditures. As a result, banks were obliged to accrue and allocate required provisions. The net positive result from valuation adjustments (revaluation) in the banking system, totaling BGL 1,389 billion, entirely covered the required BGL 1,272 billion for provisions. By commercial bank group, the following results are reported:

NET RESULT FROM VALUATION ADJUSTMENTS/PROVISION EXPENSES

(%)

Total	*109.20*
Group I	*113.62*
Group II	*75.95*
Group III	*92.65*

Open Foreign Currency Positions

Following the introduction of a currency board and the fixing of the national currency to the Deutschemark, foreign exchange risk considerably diminished. This resulted in a certain release in limits of open forex positions of banks. The proportion of aggregate net open forex position of banks to own funds has to be 68%: 93% for banks in Group I, and less than 30% for banks in Groups II and III. Only 14 banks met the requirement for a 60% net open forex position. In many banks net open forex positions exceeded the required rate many times over. This is attributable to forex-denominated ZUNK bonds in some bank portfolios.

Banks' efforts in regulating open forex positions, particularly after the amendment of BNB Regulation No. 4, were aimed at decreasing the general risk by employment of hedging techniques (options and other financial instruments).

Liquidity

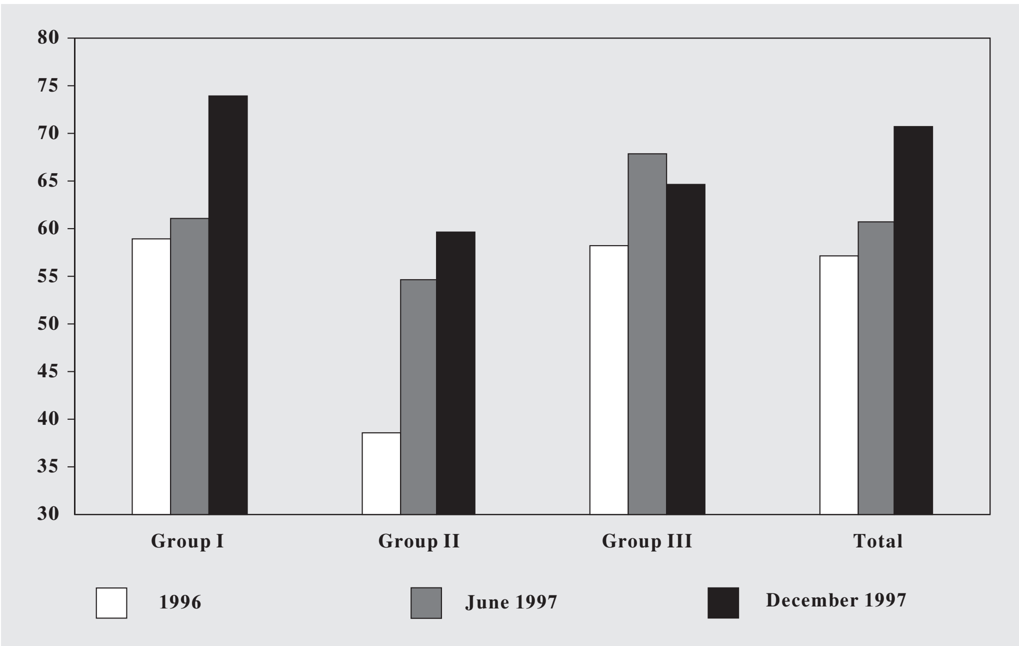
Liquidity in the banking system increased considerably. Moreover, by the end of 1997 excess liquidity occurred in the banking system. This was a two-way process: commercial bank long-term investment diminished, while high-liquid funds grew increasingly.

The share of liquid funds in total assets reached 70% of all balance-sheet assets.

High-liquid coverage of attracted funds was 49% by the end of 1997, against 45% by end-1996. Group II banks indicated the largest share: from 33% by end-1996 to more than 60% by December 1997.

SHARE OF LIQUID FUNDS IN TOTAL ASSETS

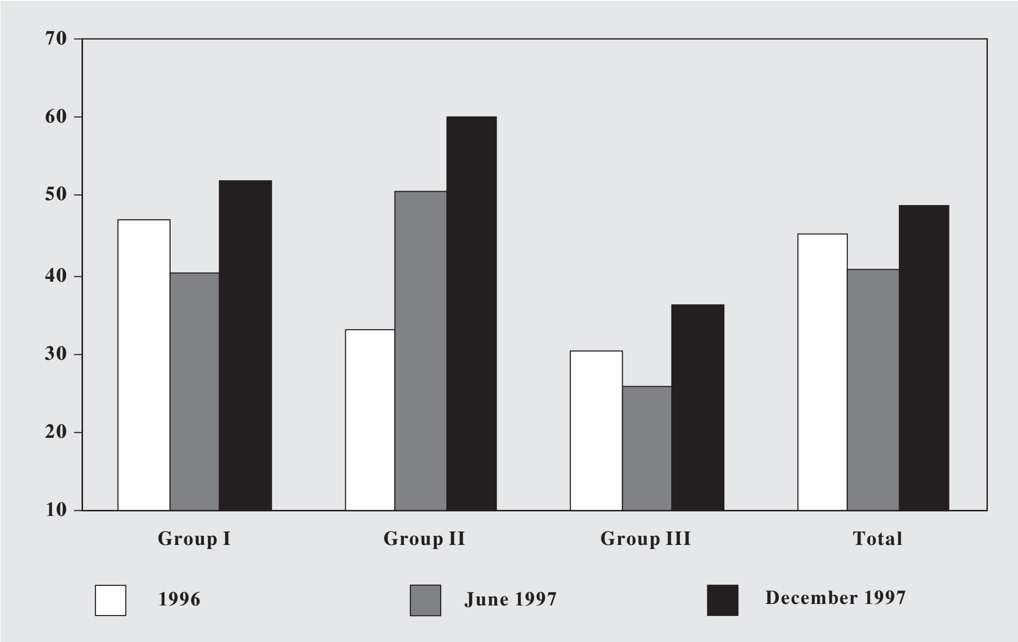
(%)



Source: BNB.

HIGH-LIQUID RESOURCES/ATTRACTED RESOURCES

(%)



Source: BNB.

2. Banking Supervision

Banking Supervision Department work in 1997 was affected by three major factors: the dire financial crisis underway since 1996, the introduction of a currency board and the ensuing changes in the legal framework regulating supervision and bank activity. Banking supervision during 1997 was characterized by consistency.

Functions of Banking Supervision

Off-site Supervision

Having as its major task the early identification of bank risk off-site inspection collects, processes and examines information received by banks (accounting, supervisory and statistical data). An analysis of the financial performance of each bank and its compliance with bank supervision regulations is made. In case of violations the Off-Site Supervision and Analyses Directorate makes recommendations for sanctions to be imposed. The state of each bank and its risk profile is periodically assessed using a set of indicators.

On-site Inspection

The duty of on-site inspection is to analyze commercial bank activity, i.e. to establish the reasons causing problems in a particular bank. Review and valuation of credit portfolio (credit risk), liquidity and solvency, as well as assessment of banks' management and internal controls received special attention.

The annual schedule of regular and specific inspections was based on the nature and importance of concerns in a particular bank. In 1997 20 full examinations were carried out, including ones in seven banks of systemic significance (Group I banks), eleven small- and medium-sized banks and two foreign bank branches. A number of specific examinations of various scope and frequency were carried out, most of them to assess compliance of bank capital with legal requirements.

On-site examination findings highlighted a number of mismatches in reports made under the bank supervision regulations. Risk exposures were incorrectly classified, often being referred to a lower risk group. Some banks reported better financial performance, and a correspondingly improved capital base, by decreasing the amount of required provisions. Securities on big loans were improperly listed as exceptions, and hence diminished total risk exposures.

Weaknesses in documenting credit transactions have not been eradicated. Examinations were often impeded by lack of detailed information about the sufficiency and reliability of securities, lack of assessment of borrowers' creditworthiness and ability to generate income, and economic relatedness. Also of note is weak internal control, very often concerned with petty matters out of scale with the volume of bank operations.

Supervision Policy Directorate

The Supervision Policy Directorate tables drafts for new bank supervision regulations and controls enactment of existing regulations based on experience in the financial sector, review of the latest trends in banking supervision at home and abroad, changes in the legal framework, and international requirements. Insolvent banks were under control. The impact of the real sector and macroeconomic policy on the banking system was studied.

Special Supervision Directorate

In 1997 the Special Supervision Directorate carried out examinations of 526 nonbank financial institutions, including 106 financial brokerage houses and 420 exchange bureaux. Examinations in 15 commercial banks were carried out, associated with capital formation, foreign exchange operations and government securities trade. Examination findings highlighted nonbank institution violations in making free transfers abroad, taking deposits and extending loans in various forms (joint venture contracts, issuing and accepting of promissory notes, etc.), making discount and guarantee transactions, and transactions in foreign payment instruments in violation of § 7 of the Transitional and Final Provisions of the Law on Banks.

Major Supervisory Measures Imposed by the Banking Supervision Department in 1997

As early as the beginning of 1997 banking supervision took serious measures in respect of individual banks and nonbank financial institutions deemed to have seriously violated the Law on Banks and bank regulations. The most significant measure was the placement of 18 banks under conservatorship and a petition into court for the institution of bankruptcy proceedings against these banks.

During 1997 the banking crisis was gradually overcome and the first signs of bank recovery occurred. The Banking Supervision Department removed the constraints on most banks imposed under the 1996 memoranda of agreement. At the same time the Banking Supervision Department continued to impose restrictive measures on banks violating established requirements.

Basic measures involved are:

• a petition into court for the institution of bankruptcy proceedings against three banks: Elite Bank Ltd., Capitalbank Ltd., and Bank for Agricultural Credit;

• placement under conservatorship of the International Bank for Investments and Development Ltd. and a subsequent petition for the institution of bankruptcy proceedings;

• revocation of licenses of 12 financial and brokerage houses and 175 exchange bureaux.

At the same time the Banking Supervision Department removed some constraints, viz.:

• the ban on extension of loans in foreign exchange by commercial banks;

• restrictions imposed on 18 commercial banks under the 1996 memoranda of agreement (constraints still apply to one commercial bank);

• petitions for the institution of bankruptcy proceedings against Eurobank Ltd. (former Mollov Bank Ltd.) and Bulgaria-Invest Commercial Bank Ltd. (former Yambol Commercial Bank) due to recapitalization of these banks by their new proprietors.

3. Changes in Banking Supervision Regulations

New Supervision Regulations on Prudential Banking. The adoption of the new Law on the BNB and the Law on Banks aims to create a new legal environment for bank activities and new legal framework for efficient banking supervision by the BNB. The following regulations are of crucial importance: Regulation No. 8 on the capital adequacy of banks, Regulation No. 9 on the evaluation of risk exposures of banks and the allocation of provisions to cover the risk related thereto, Regulation No. 11 on liquidity management and supervision of banks, and Regulation No. 4 on foreign currency positions of banks. Changes in banking supervision regulations establish more stringent requirements for sound bank activity. This predetermines the main characteristic of BNB policy concerning banking system management under currency board rules: enhanced stability and credibility in the system through strict supervision and compliance with advanced modern standards.

Regulation No. 8

The new Regulation No. 8 on the capital adequacy of banks establishes more stringent requirements for commercial banks. The minimum capital required for a bank is *BGL 10 billion*, which is close to the requirements of the European Union (ECU 5 million) – Directive No. 89/299/EEC on Lenders' Own Capital.

Capital adequacy requirements for banks are raised both in terms of total capital adequacy and primary capital adequacy. A new regulatory indicator was introduced: the *degree of assets coverage (capital base/total balance-sheet assets)* which must not be lower than 6%. These requirements meet the standards of the Basle Committee on Banking Supervision and EU Directive 89/647/EEC on credit institutions' solvency. Banks must fulfil these requirements as follows:

1. by the end of 1997 – not less than 8% total capital adequacy and not less than 4% primary capital adequacy;
2. by the end of 1998 – not less than 10% total capital adequacy and not less than 5% primary capital adequacy;
3. by the end of 1999 – not less than 12% total capital adequacy and not less than 6% primary capital adequacy.

Regulation No. 9

The new Regulation on the evaluation of risk exposures of banks and the allocations of provisions to cover the risk related thereto replaced the Regulation on the classification and the formation of mandatory special reserves (statutory provisions) by banks.

All claims and other risk-free assets of the bank are subject to classification and provisioning. A new element in Regulation No. 9 is the evaluation of risk exposures of a bank's contingent liabilities. Subject to credit risk are those off-balance-sheet items of a bank whose realization may cause an unconditional claim upon the bank. Risk exposures are evaluated and classified into five classification groups according to the period of delay of amounts due on them, assessment of the debtor's financial position, and the main sources for repayment of the debtor's obligations: standard exposures, watch exposures, substandard exposures, doubtful exposures and a loss. Banks are obliged to allocate provisions against the principal of a risk exposure as follows: from 3% to 5% for standard, 25% for watch, 50% for substandard, 75% for doubtful exposures and 100% for loss. A comprehensive scheme for the evaluation of borrowers (counteragents) has been developed. Interest arrears on risk exposures must be fully covered by provisions regardless of the classification of the principal. Banks must suspend balance-sheet accruing of interest where principal or interest payments have been overdue for over 90 days with the latter being written-off at the expense of allocated provisions and carried over onto off-balance-sheet accounts.

Regulation No. 11

The new Regulation No. 11 on liquidity management and supervision of banks is considerably simplified and based entirely on the assessment of short-term liquidity of banks. The new regulation focuses on the management information system for monitoring bank liquidity based on maintenance of a maturity ladder constructed according to selected balance-sheet assets and liabilities of cash inflows and outflows, as well as on maintaining an adequate amount of liquid assets.

The maturity ladder is constructed for lev and foreign currency balance-sheet and off-balance-sheet items of a bank on the basis of the residual term to maturity of each of these items adjusted in an orderly manner. Cash inflows and outflows are formed according to maturity. Banks are obliged to construct separate maturity ladders under two scenarios: 'going concern' and 'liquidity crisis'.

Separate liquidity ratios must be established for each bank. Where necessary the BNB may determine minimum values for these ratios.

Banks without liquidity problems must submit monthly cash flow reports to the BNB on a going concern basis. When a bank has liquidity problem the Deputy Governor heading the Banking Supervision Department shall oblige the bank to submit weekly or daily reports on its liquidity.

Regulation No. 4

The new Regulation No. 4 on foreign currency positions of banks provides for an alleviated regime for banks' foreign currency positions regulation as the currency risk is limited under the fixed exchange rate of the lev to the Deutschemark as a reserve currency and it is therefore not subject to foreign currency positions regulation.

Banks are obliged to maintain maximum permissible ratios (limits) as follows:

1. up to 25% between its open position in any particular currency and the amount of its own funds (against 10% in the previous regulation);

2. up to 60% between its net open foreign currency position and the amount of its own funds (against 30% in the previous regulation).

Banks must reach the maximum permissible ratios (limits) not later than 31 December 1998.

VII. BNB Organizational Structure

The adoption of the new Law on the BNB and the Law on Banks in mid-1997 radically modified the legal framework of banking associated with the introduction of a currency board system.

In conformity with law three basic departments were created within the BNB: an Issue Department, a Banking Department and a Banking Supervision Department, each department directly headed by a Deputy Governor elected by the National Assembly. The Deputy Governors are elected for various terms of office, different from those of people's representatives. This aims to enhance the central bank's political independence.

The Law on the BNB defines the main functions of the three departments. The Issue Department is in charge of maintaining full foreign exchange cover for the total amount of BNB monetary liabilities by efficiently managing the Bank's international foreign exchange reserves; the Banking Department performs the lender of last resort function in case a systemic risk arises in the banking system; the Banking Supervision Department exercises control over banks and grants bank licenses. The BNB continued to act as fiscal agent to the government. This function is performed by the Fiscal Services Department which is directly responsible to the BNB Governor.

1. Organizational Structure of the Issue Department

The BNB Issue Department includes several major units. The Currency Issue and Cash Directorate regulates the money stock in circulation and ensures supply of Bulgarian banknotes and coins and banknotes in the reserve currency, the Deutschemark. The BNB Printing Works is within the structure of this Directorate. The Investment and Market Operations Office performs operational management of BNB foreign currency assets, effecting purchases and sales on accounts (without limitation) of Deutschemarks against levs on the country's territory, assesses international financial markets and stock exchanges, and the types of instruments traded on them, makes market analyses and forecasts and offers appropriate decisions. The Liquidity Office ensures BNB liquidity in foreign currency, analyzes cash inflows and outflows in foreign currency and levs by structure and maturity, manages balances and movements of BNB cash flows on accounts with foreign counterparts, effects settlements and transfers on reserve management, upon government and budget entities orders' of payment. The Control and Compliance Office controls the observance of the requirements of the Law on the BNB, BNB Managing Board resolutions, the Investment Committee, rules and procedures for investment and other rules and procedures concerning foreign exchange reserve management, analyzes bank, credit and market risk and the financial results of the BNB portfolio, makes assessments and analyses of the financial state of BNB counterpart banks, and of the financial instruments employed by the BNB for investment.

By order of the BNB Governor of early October 1997 an *Investment Committee* was established chaired by the BNB Deputy Governor heading the Issue Department. Members of the Committee and its Rules of Procedure have been approved by the BNB Governor.

The Investment Committee develops an investment program for BNB foreign currency assets; sets objectives, priorities, instruments, deadlines and limitations on investment in compliance with the provisions of the Law on the BNB; makes assessment of foreign currency liquidity and whether assets and liabilities of the Issue Department are efficiently managed. The rules and procedures developed by the Committee are subject to approval by the BNB Managing Board or by the Deputy Governor heading the Issue Department.

2. Organizational Structure of the Banking Department

In compliance with the adopted organizational structure of the BNB the Banking Department consists of five directorates. The main task of the International Relations Directorate is to promote international cooperation and integration as well as establish contacts with financial institutions, including the IMF, the World Bank, the EBRD, the EIB and other international organizations in which the BNB has equity participation. The Relations with Commercial Banks and Financial Markets Directorate, besides the function of a lender of last resort, regulates commercial banks' minimum required reserves, provides the methodology of the base interest rate calculation, controls the interbank settlement system and monitors financial market developments. The General Accounting Directorate performs accounting services for the BNB. The Statistics and Operational Analyses Directorate is responsible for the preparation of the monetary survey, Bulgaria's balance of payments and reports in compliance with the requirements of the international financial statistics. The Strategic Research and Projections Directorate provides macroeconomic analyses, surveys, forecasts and prepares a monthly bulletin, and the Annual and Semiannual Reports of the BNB.

3. Organizational Structure of the Banking Supervision Department

In compliance with the Law on Banks, the BNB regulates and exercises control over commercial bank activity with a view to maintaining the stability of the banking system and protecting depositors' interests. The Banking Supervision Department is that integral part of the central bank which performs these functions.

The Deputy Governor in charge of the Banking Supervision Department is delegated powers that significantly simplify procedures and shorten terms for taking action against problem banks which threaten the stability of the banking system and that of depositors. Decision-making responsibility is personal.

Rulings for the enactment of supervisory measures against banks are issued by the Deputy Governor heading the Banking Supervision Department. These measures are not subject to court appeal. Rulings on license issue, refusal or revocation are the prerogative of the BNB Governor pursuant to a motion from the Deputy Governor. By-laws regulating the enactment of the Law on the BNB and the Law on Banks (BNB Regulations) are adopted by the BNB Managing Board.

The Banking Supervision Department has a linear structure: four directorates and one administrative division are directly subordinated to the Deputy Governor heading the Banking Supervision Department.

With a view to strengthening bank supervision function and responsibility, the Banking Supervision Department was restructured and staff increased from 65 to 90 persons. The four directorates are: Bank Supervision Policy Directorate, whose main functions include the granting of banking or similar licenses, the analysis and study of factors affecting the stability of the banking system, the development of bank regulations and methodological instructions, and the conduct of international relations with supervisory institutions and the Bank for International Settlements in Basle; Off-site Supervision and Analyses Directorate, whose main functions include analysis and processing of periodical banking data, monitoring compliance with bank supervision regulations, analysis of banks' financial status; Inspections Directorate which exercises on-site control (supervisory examinations); and the Special Supervision Directorate whose main responsibilities include control over large equity holders in banks and persons related to them, measures against money laundering, control over nonbank financial institutions. The Supervision Administration Division, directly subordinated to the Deputy Governor, is responsible for the maintenance of legal supervisory measures and control over conservators and assignees in bankruptcy.

4. Organizational Structure of the Fiscal Services Department

The Fiscal Services Department acts as a fiscal agent of the Ministry of Finance. It consists of two directorates: the Government and Government Guaranteed Debts Depository and the Management and Projections of State Budget Cash Flows.

The Government and Government Guaranteed Debts Depository Directorate organizes and effects primary sale and registration of government securities; services and records secondary market transactions among government securities primary dealers, as well as among primary dealers and their clients in the Government Securities Depository; repays government securities and interest on them at maturity; provides information on the status and structure of government domestic debt. A new responsibility of the Directorate is the organization and maintenance of a system for registering and monitoring of loans extended to the government by international financial institutions. In accordance with the agreement concluded with the MF, the BNB is paid a commission for this activity.

The Management and Projections of State Budget Cash Flows Directorate organizes cash execution of the government budget through commercial and other banks pursuant to Article 43 of the Law on the BNB. Jointly with the MF it develops criteria for selection of banks to service the budget; prepares instructions for the procedure and terms of reporting the government budget, twice a month collects information from banks, summarizes it and provides the MF with detailed information on the cash execution of the budget; makes short-term projections on cash flow and fiscal reserve developments and tables proposals to improve their management. Information supply and cash execution of the budget are provided by the BNB free of charge.

Besides this the Directorate provides over-the-counter securities sale of MF target issues earmarked for individuals; buys back securities prior to maturity and redeems maturing government securities acquired by customers through the BNB and its branches on behalf and on the account of the MF. In compliance with bilateral agreements with the MF, the BNB is paid a commission for the provision of the above services and the bank service of government securities transactions.

The following BNB structural units are directly subordinated to the Governor: the General Secretary, the Secretariat to the Managing Board, the Chief Legal Advisor, the Personnel Management Office, the Protocol and Press Office. The General Secretary heads the following units: the Information Technology Directorate, the Social Services Office, the General Secretariat Office, the Publications and Printing Center Office, the Special Activities Office, the Security Directorate, the Capital Investment Office, the Maintenance Office and the Motor Transport Office.

VIII. BNB Financial Statements

1. Annual Financial Statement

Pursuant to the new Law in 1997 the BNB started reporting its activity in accordance with International Accounting Standards. This is a result of the new philosophy of transparency and predictability in the BNB actions under a fixed exchange rate. This aims to return confidence of public and international financial institutions in the national currency and in forex reserve management. Therefore, the BNB has published the Issue Department balance sheet weekly and the Banking Department balance sheet monthly.

Due to the full foreign exchange cover required on the monetary base, the BNB balance sheet was entirely restructured in June. It now includes the Issue Department balance sheet and the Banking Department balance sheet on a consolidated basis. The Issue Department balance sheet assets reflect the state of gross foreign exchange reserves, and liabilities: total BNB monetary obligations (monetary base, fiscal reserves and Banking Department deposit). International foreign exchange reserves also include monetary gold (in bullions market standard) at a price of DEM 500 per troy ounce or at market price if the latter is lower.

Besides the deposit the Banking Department balance sheet assets also include: nonmonetary gold, government securities investments to be held until maturity, net claims on bank institutions registered in Bulgaria, claims on the government, and the IMF quota. The liabilities include all obligations to international financial institutions and BNB own funds (including equity raised in 1997 from BGL 200 million to BGL 20 billion entirely at the expense of the Reserve Fund), reserve funds and retained profit. By 30 June all BNB claims on the government were consolidated into a general SDR-denominated debt totaling BGL 1,166,126 million. Maturity structure of SDR-denominated debt coincides with the maturity structure of BNB obligations to the IMF included in the Banking Department balance sheet.

Prior to the introduction of a currency board the bulk of BNB revenue comprised net interest revenue primarily from operations in national currency (short-term and long-term credits extended to the MF and deposits with commercial banks). Net interest revenue made up 84% of BNB positive financial results. During the first six months of 1997 the balance on operations in lev-denominated government securities was negative. This reflected extensive BNB open market operations through reverse repurchase agreements.

Changes in the composition of balance sheet items, legal restrictions on money issuing and rigid rules on lending to the government prompted significant changes in the structure of BNB financial revenue. The discontinuation of commercial bank refinancing and lending to the budget deprived the central bank of its major revenue source. Under the new conditions net revenue is generated from interest on deposits and government securities denominated in reserve currencies. In mid-1997 net interest revenue from forex operations comprised just 9% of total net interest revenue. By year-end net revenue from such operations had increased to approximately 24%. Revenue from government securities operations denominated in foreign currencies also grew in the net financial revenue from less than 1% to 12%.

By the end of 1997 the structure of BNB net financial result prior to allocation of provisions was as follows:

	(%)
Net interest revenue	22.28
Revenue from dividends	0.34
Net revenue from fees and commissions	0.18
Net income from government securities operations	12.68
Net profit from valuation adjustments	63.77
Other revenue	0.75
Total	**100.00**

Limited possibilities of the BNB realizing net financial revenue and comparatively constant operating expenses were the major reasons behind the stopping of interest payments on commercial bank current accounts and minimum required reserves, and on government current accounts. It was decided that interest would be paid only on government time deposits.

Auditors' Report to the Members of the Managing Board of the Bulgarian National Bank

We have audited the financial statements of the Bulgarian National Bank for the year ended 31 December 1997.

Respective responsibilities of directors and auditors

As set out in the Statement of Responsibilities, these financial statements are the responsibility of the Managing Board. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Qualified opinion

The financial statements have been prepared in accordance with the historical cost convention. During the year the Bank operated in a hyperinflationary economy. According to International Accounting Standard IAS 29 ('Financial Reporting in Hyperinflationary Economies') the financial statements should be presented under the current purchasing power convention. As explained in note 30, were the results to be restated in accordance with that Standard, the net loss after special reserve transfer for the year, reported in terms of the current purchasing power in Bulgarian levs, would be BGL 137,019 million and net assets would have been BGL 1,626,748 million.

In our opinion, the financial statements give, under the historical cost convention, a true and fair view of the financial position of the Bulgarian National Bank as at 31 December 1997 and of the results of its operations and its cash flows for the year then ended and, except for the effect on the financial statements of the matter referred to in the preceding paragraph, have been prepared in accordance with International Accounting Standards.

KPMG.

KPMG
Chartered Accountants
London
28 April 1998

KPMG Bulgaria EOOD.

KPMG Bulgaria EOOD
Chartered Accountants
Sofia
28 April 1998

Statement of Responsibilities of the Managing Board of the Bulgarian National Bank

The Law on the Bulgarian National Bank requires the Managing Board of the Bulgarian National Bank to prepare financial statements each year to present the position of the Bulgarian National Bank and the profit or loss for the period.

The financial statements prepared by the Bulgarian National Bank are based on the accounting principles approved by the Managing Board in compliance with International Accounting Standards (IAS), with the exception of IAS 29, ('Financial Reporting in Hyperinflationary Economies'). This is discussed further in note 30.

The Managing Board of the Bulgarian National Bank is responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bulgarian National Bank. It has a general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Bulgarian National Bank and to prevent or detect fraud and other irregularities.

28 April 1998

Svetoslav Gavriiski
Governor of the BNB

Balance Sheet
of the Bulgarian National Bank
as of 31 December 1997

	Notes	1997 million BGL	1996 million BGL
ASSETS			
Cash and amounts due from banks	7	2,201,432	119,290
Gold and other precious metals	8	727,071	246,074
Securities	9	1,802,318	486,372
Loans to banks and other financial institutions	10	2,370	19,962
Interest receivable	12	10,955	41,053
Receivable from Government	13	1,632,128	138,061
Equity investments and quota in IMF	14	1,121,867	336,139
Fixed assets	15	132,233	9,200
Other assets	16	5,148	10,795
Total assets		7,635,522	1,406,946
LIABILITIES			
Due to banks and other financial institutions	17	785,482	135,081
Government deposits and accounts	18	1,710,555	193,390
Borrowings against Bulgaria's IMF quota	19(a)	1,037,162	302,439
Borrowings from general resources of IMF	19(b)	1,674,802	284,934
Other borrowings	20	112	218,252
Currency in circulation	21	1,419,921	138,164
Accruals and other liabilities	22	164,128	7,723
Total liabilities		6,792,162	1,279,983
Shareholders' funds			
Capital	23	20,000	200
Reserves	24	823,360	126,763
Total liabilities and shareholders' funds		**7,635,522**	**1,406,946**

The accompanying notes on pages 122 to 133 form an integral part of these financial statements.

The BNB Managing Board approved the financial statements on 28 April 1998.

Svetoslav Gavriiski
Governor of the BNB

Income Statement

	Notes	1997 million BGL	1996 million BGL
Interest income	4	438,702	160,179
Interest expense	4	(151,277)	(60,738)
Net interest income		287,425	99,441
Dividend income		4,391	-
Net fees and commissions		2,311	(414)
Net gains/(losses) arising from securities		163,511	(48,180)
Net foreign exchange gains	5	822,686	200,678
Other operating income		9,611	947
Operating expenses	6	(29,719)	(3,884)
Provision expense	11	(385,932)	(115,575)
Net income		874,284	133,013
Transfer to/from special reserves	24	(609,494)	(101,196)
Net income after special reserve transfer		264,790	31,817
Interim contribution to the state budget		(34,000)	(23,545)
Final contribution to the state budget		(161,945)	-
Transfer to other reserves		68,845	8,272

The accompanying notes on pages 122 to 133 form an integral part of these financial statements.

Cash Flow Statement

	Notes	1997 million BGL	1996 million BGL
Net cash flow from operating activities			
Net income		874,284	133,013
Adjustment for noncash and nonoperating items:			
Dividend income		(4 391)	-
Write down of investments		-	50,738
Provision for loan losses	11	385,932	115,575
Depreciation	6	786	548
Net translation gains		(719,166)	(184,446)
Net cash flow from operating activities before changes in operating assets and liabilities		537,445	115,428
Change in operating assets			
Increase in gold and other precious metals		(117,717)	(6,061)
Increase in securities		(1,294,886)	(243,664)
Increase in receivable from government		(608,583)	(232,979)
Increase in loans to banks and other financial institutions		(209,889)	(143,647)
Decrease/(increase) in interest receivable and other assets		25,581	(82,632)
Change in operating liabilities			
Increase in due to banks and others		634,501	71,983
Increase/(decrease) in government deposits		1,504,231	(24,894)
Increase/(decrease) in borrowings from IMF		450,144	(70,799)
Increase in currency circulation		1,281,757	144,631
(Decrease)/increase in other liabilities		(5,540)	14,481
Net cash flow from operating activities		2,197,044	(458,153)
Cash flow from investing activities			
Purchase of fixed assets		(75,597)	(9,007)
Dividends received from associated undertakings		4,391	-
Decrease in equity investments		2,866	(245)
Net cash flow from investing activities		(68,340)	(9,252)
Cash flow from financing activities			
Payment to government		(34,000)	(23,545)
(Decrease)/increase in long-term borrowings		(214,067)	229,353
Net cash flow from financing activities		(248,067)	205,808
Add gains on foreign currency cash		201,505	176,756
Net increase/(decrease) in cash and cash equivalents		2,082,142	(84,841)
Cash and cash equivalents at beginning of year		119,290	204,131
Cash and cash equivalents at end of year	7	2,201,432	119,290

The accompanying notes on pages 122 to 133 form an integral part of these financial statements.

Notes to the Financial Statements

1. Organization and operation

The Bulgarian National Bank (the Bank) is 100% owned by the Bulgarian State.

The Bank is the central bank of Bulgaria. The operation of the Bank is governed by the Law on the Bulgarian National Bank. In 1997 the law was repealed and replaced by a new law effective from 1 July 1997.

Under both laws, the primary objectives of the Bank may be summarized as:

- maintaining the stability of the national currency;
- the exclusive right to issue banknotes and coins; and
- regulation and supervision of other banks' activities.

The principal changes in operation as a result of the new law may be summarized as:

- the Bank may only provide funds to the government in accordance with rigid criteria;
- the Bank may only lend to commercial banks in accordance with very stringent terms and conditions;
- the Bank may not deal in Bulgarian government bonds;
- the Bank may not issue Bulgarian levs in excess of the Bulgarian lev equivalent of the gross international foreign currency reserves; and
- the Bank prepares its accounts in accordance with International Accounting Standards (IAS).

At the date of enactment of the new law, the balance sheet of the Bank was restructured. The principal actions undertaken as part of this restructuring include:

- a consolidation of all loans to government and state bodies, including government bonds held; and
- a restatement of the consolidated loan position into an amount denominated in International Monetary Fund (IMF) special drawing rights (SDRs), matching the amount and repayment terms of the IMF borrowings.

2. Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with International Accounting Standards (IAS) using, except for the application of IAS 29, 'Financial Reporting in Hyperinflationary Economies'. The effect of not applying this Standard is referred to in the audit report and set out in detail in note 30.

Certain reclassifications of prior year amounts have been made to conform to the 1997 financial statement presentation. Comparative figures have been restated back to historical cost.

3. Summary of significant accounting policies

(a) Interest income and expense

Interest income and expense is recognized on an accrual basis and is calculated in accordance with Bulgarian law or any agreement between lenders and borrowers. Interest income ceases to be accrued when a loan repayment becomes more than 90 days overdue.

(b) Fee and commission income and expense

Fee and commission income and expense are recognized in the profit and loss account at the date earned or incurred.

(c) Securities

Investment securities are those securities where the intention is to hold them until maturity. These are valued at cost, with any premium or discount on acquisition being recognized on an accrual basis.

Trading securities are those foreign debt securities which form part of the gross international foreign exchange reserves of the Bank. The securities are recorded at market value. Movements in the market value of these securities are initially recognized in the profit and loss account and then transferred to a special reserve in accordance with the Law on the Bulgarian National Bank.

(d) Loans and provisions for possible credit losses

Loans are stated in the balance sheet at the amount of principal outstanding less any provision for bad and doubtful debts. A provision is made for any amounts where recovery is uncertain. The provision is recognized as an expense in the profit and loss account and deducted from the total carrying amount of the loans.

(e) Gold and other precious metals

In accordance with the Law on the Bulgarian National Bank, monetary gold is valued at the lower of DEM 500 per troy ounce or market value based on the official London fixing rate at the balance sheet date. Monetary gold is classified as gold in standard form.

Other precious metals, including nonstandard gold, are valued at market value based on the official London fixing rate as of the balance sheet date.

(f) Investments in other entities

Details of investments held are set out in note 14.

The wholly owned trading subsidiaries are included in the financial statements at the cost of the investment and are not consolidated, as the effect of nonconsolidation of these subsidiaries is not material in the context of the financial statements taken as a whole.

Equity investments are included in the financial statements at the lower of cost and the estimated market value of the investment. Some of these, where the Bank holds more than 20% of the voting rights, are held exclusively with a view to disposing of them in the future. Others which may be regarded as associated companies are included at cost as any adjustment under the equity method is not considered material in the context of the financial statements taken as a whole.

(g) Fixed assets

Fixed assets are stated in the balance sheet at their purchase cost as modified by any revaluations, less accumulated depreciation. Revaluations were undertaken at 31 December 1997 in accordance with indices published by the Bulgarian government. When an asset's carrying amount is increased as a result of revaluation, the increase is credited directly to the reserves, subject to the revalued amount being lower than the estimated market value. When an asset's carrying amount is decreased as a result of revaluation, the decrease is offset against any previous revaluation in the reserves, with any excess being recognized as an expense.

Depreciation is provided on a straight line basis at prescribed rates designed to write-off the cost or valuation of fixed assets over their expected useful lives. The following are approximations of the annual rates used:

	(%)
Buildings	3
Equipment, fixtures and fittings	20
Vehicles	20
Computer equipment	20

A valuation was performed by the Managing Board on the fixed assets at 31 December 1997.

(h) Foreign currencies

Income and expenditure arising in foreign currencies is translated at the official rates of exchange ruling at the transaction date. Assets and liabilities denominated in foreign currencies are translated at the official exchange rate ruling on the last day of the accounting period. Gains and losses are recognized in the profit and loss account. Gains and losses are then transferred to a special reserve as permitted by the Law on the Bulgarian National Bank. Foreign currency denominated nonmonetary assets and liabilities are translated at the historical rate at acquisition.

The exchange rates of major foreign currencies at 31 December were:

Currencies	1997	1996
US dollar (USD)	1 : BGL 1,776.5	1 : BGL 487.4
Deutschemark (DEM)	1 : BGL 1,000.0	1 : BGL 313.8
European Currency Unit (ECU)	1 : BGL 1,974.9	1 : BGL 604.8
Special drawing rights (SDR)	1 : BGL 2,399.4	1 : BGL 699.7

(i) Taxation

The Bank is not subject to income tax on profits. It is required to contribute a portion of its net income to the Bulgarian state as described in note 3(k).

(j) Loans from International Monetary Fund (IMF)

The borrowings from the IMF are denominated in special drawing rights (SDRs). Any unrealized exchange gains or losses are accounted for in accordance with note 3(h).

(k) Share capital and reserves

Share capital represents nondistributable capital of the Bank.

In accordance with the Law on the Bulgarian National Bank, the Bank is required to transfer to reserves 25% of the annual excess of revenue over expenditure. Special funds are established from 1% of the annual excess of income over expenditure, the net gains and losses arising on the translation of assets and liabilities denominated in foreign currencies or gold, or on a decision of the Managing Board.

After transfers to reserves and special funds, the balance of the revenue over expenditure is credited to the account of the state budget.

(l) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, nostro accounts, current accounts and term deposits with maturities less than three months.

4. Interest income and expense

	1997 million BGL	1996 million BGL
Interest income		
Banks and financial institutions		
– in BGL	268,568	143,841
– in foreign currencies	170,134	16,338
	438,702	160,179
Interest expense		
Banks and financial institutions		
– in BGL	86,860	51,020
– in foreign currencies	64,417	9,718
	151,277	60,738

5. Net foreign exchange gains

	1997 million BGL	1996 million BGL
Revaluation of gold and precious metals	363,280	204,334
Foreign exchange gains	504,818	40,492
Foreign exchange losses	(45,412)	(44,148)
	822,686	200,678

6. Operating expenses

	1997 million BGL	1996 million BGL
Personnel	6,617	729
Depreciation charge	786	548
Administration	19,011	2,562
Other expenses	3,305	45
	29,719	3,884

7. Cash and amounts due from banks

	1997 million BGL	1996 million BGL
Foreign currency cash	13,508	190
Nostro and current accounts with other banks	408,942	119,759
Deposits in foreign currency	1,780,486	-
Provision for credit losses	(1,504)	(659)
	2,201,432	119,290

8. Gold and other precious metals

	1997 thousand troy ounces	1997 million BGL	1996 thousand troy ounces	1996 million BGL
Gold bullion in standard form	1,288	644,111	1,239	223,023
Gold in other form	94	12,645	60	10,797
Other precious metals	-	70,315	-	12,254
Total		727,071		246,074

9. Securities

	1997 million BGL	1996 million BGL
Market value of trading securities		
Bulgarian treasury bills, notes and bonds	-	71,923
Foreign treasury bills, notes and bonds	1,508,548	153,328
	1,508,548	225,251
Cost of investment securities		
Bulgarian treasury bills, notes and bonds	-	134,018
Foreign treasury bills, notes and bonds	293,770	127,103
	293,770	261,121
Total	1,802,318	486,372

Investment securities are US Treasury bills held by the Federal Reserve Bank of New York. These are collateral for the annual interest payments under the Front Loaded Interest Rate Bond (FLIRB) portion of the Bulgarian Brady bonds. Interest is earned on these US Treasury bills at around 5%. They have been included as an asset of the Bank as it is not the intention of the government to use these securities in order to extinguish the interest liability.

10. Loans to banks and other financial institutions

	1997 million BGL	1996 million BGL
Loans to domestic financial institutions:		
– in BGL	150,710	64,329
– in foreign currency	133,938	95,156
Provision for possible credit losses	(282,278)	(139,523)
Written down value of loans to domestic banks	2,370	19,962

All of the above loans have a theoretical maturity within one year.

11. Provision for credit losses

	1997 million BGL	1996 million BGL
Provision against cash and amounts due from banks at 1 January	659	-
Provision against loans to banks and other financial institutions at 1 January	139,523	24,607
Provision at 1 January	140,182	24,607
Add charge for the period	385,932	115,575
Less recoveries	(8,120)	-
Less provisions on bad debts written off	(233,843)	-
Provision at 31 December	284,151	140,182
The provision may be analyzed as:		
Provision against cash and amounts due from banks	1,504	659
Provision against loans to banks and other financial institutions	282,278	139,523
Provision against equity investments	369	
	284,151	140,182

12. Interest receivable

	1997 million BGL	1996 million BGL
Interest on investments	8,334	41,007
Interest on cash accounts and loans	2,129	25
Other	492	21
Total	10,955	41,053

13. Receivable from government

During the year the Bank restructured its receivable from the government. This is further discussed in note 25.

	1997 million BGL	1996 million BGL
Receivable from government	1,632,128	138,061

The value of the receivable from the government at 31 December 1997 is SDR 680 million.

The receivable bears interest at the same rates as those incurred on the borrowings from the IMF and is repayable as follows:

Year	million BGL
1998	231,472
1999	217,672
2000	264,938
2001	516,750
2002	331,580
2003	46,478
2004	23,238
Total	1,632,128

The ability of the government to pay according to the repayment schedule will depend on the performance of the Bulgarian economy.

14. Equity investments and quota in IMF

	1997 million BGL	1996 million BGL
Equity investments in Bulgarian institutions	2,503	1,994
Bulgaria's IMF quota	1,115,462	326,498
Equity investments in international lending institutions	4,271	7,647
Provision against investments in Bulgarian institutions	(369)	
Total	1,121,867	336,139

None of the equity investments in international lending institutions exceeds 10% of the issued share capital of those entities. The significant equity investments in Bulgarian institutions may be analyzed as follows:

Name of institution	Holding %	Principal activity
Subsidiaries		
BORICA	100	Management of ATM
Bulgarian Mint EOOD	100	Minting coins
Subsidiaries held with a view to disposal		
Bank for Agricultural Credit	52	Banking institution in process of liquidation
Agrobusiness Bank	85	Banking institution in process of liquidation
Associated companies		
Bankservice	37	Interbank settlements
International Banking Institute	23	Financial training and research
Central Depository	10	Agent for government securities
Associated companies held with a view to disposal		
Bank Consolidation Company	46	Holding company for state-owned commercial banks to facilitate privatization.

15. Fixed assets

	Land and buildings mln BGL	Motor vehicles mln BGL	Fixtures and fittings mln BGL	Computer equipment mln BGL	Fixed assets in progress mln BGL	Equipment mln BGL	Total mln BGL
Cost or valuation							
At 1 January 1997	893	234	810	838	6,830	143	9,748
Additions	6,140	250	1,896	45,812	31,673	3	85,774
Disposals	(7)	-	(3)	(3)	-	-	(13)
Transfers	37	(5)	(1,417)	1,443	-	(58)	-
Revaluation	7,761	1,602	332	12,406	17,138	526	39,765
At 31 December 1997	14,824	2,081	1,618	60,496	55,641	614	135,274
Depreciation							
At 1 January 1997	(47)	(75)	(247)	(165)	-	(14)	(548)
Charge for the year	-	(59)	(190)	(509)	-	(28)	(786)
Revaluation	(211)	(419)	(52)	(1,025)	-	-	(1,707)
At 31 December 1997	(258)	(553)	(489)	(1,699)	-	(42)	3,041
Net book value at 31 December 1997	**14,566**	**1,528**	**1,129**	**58,797**	**55,641**	**572**	**132,233**
Net book value at 31 December 1996	846	159	563	673	6,830	129	9,200

16. Other assets

	1997 million BGL	1996 million BGL
Advances to suppliers for fixed asset purchases	-	10,177
Precious metal commemorative coins for sale	113	264
Spare parts for printing equipment	2,256	-
Prepayments	926	-
Inventories	1,205	270
Accounts receivable	648	83
Other	–	1
Total	5,148	10,795

17. Due to banks and other financial institutions

	1997 million BGL	1996 million BGL
Demand deposits from banks and other financial institutions		
– in BGL	587,834	94,547
– in foreign currency	128,700	18,479
Total demand deposits	716,534	113,026
Term deposits from banks and other financial institutions		
– in BGL	48,515	15
– in foreign currency	20,433	22,040
Total term deposits	68,948	22,055
Total	785,482	135,081

The Bank does not pay interest on demand deposits from banks and other financial institutions. Included in demand deposits is BGL 413 million representing the obligatory reserves which all domestic banks are required to maintain at the Bank as part of their current accounts.

Interest is paid by the Bank on term deposits from banks and other financial institutions. The interest payable on these deposits is at market rates of between 2% and 6%.

18. Government deposits and current accounts

	1997 million BGL	1996 million BGL
Government deposits and current accounts:		
– in BGL	475,126	62,339
– in foreign currency	928,813	11,335
State Fund for Reconstruction and Development	306,616	119,716
Total	1,710,555	193,390

Government deposits and current accounts with the Bank comprise funds held on behalf of government budget organizations and other government organizations. After 1 July 1997, no interest is payable on the current accounts. Government deposit accounts with the Bank earn interest at or close to market rates in accordance with the Law on the Bulgarian National Bank.

19. (a) Borrowings against Bulgaria's IMF quota

	1997 million BGL	1996 million BGL
Borrowings against Bulgaria's IMF quota	1,115,462	325,290
Reserve tranche position	(78,300)	(22,851)
Total	1,037,162	302,439

(b) Borrowings from general resources of IMF

	1997 million BGL	1996 million BGL
Compensatory and contingency financing	258,171	4,976
Standby facilities	1,023,096	148,936
Extended fund facility	114,669	49,705
Systemic transformation facility	278,866	81,317
Total	1,674,802	284,934
Total (a) and (b)	2,711,964	587,373

Borrowings from the IMF are denominated in SDRs and amount to SDR 1,130 million at 31 December 1997. Borrowings related to Bulgaria's IMF quota are noninterest-bearing with no stated maturity, while borrowings from the general resources of IMF bear interest at market rates, between 4.4% and 5.0%, and are repayable over a six-year period.

20. Other borrowings

	1997 million BGL	1996 million BGL
Promissory notes issued	2	46,828
Liabilities under repurchase agreements	-	83,701
Loans payable	-	87,723
Other borrowings	110	-
Total	112	218,252

21. Currency in circulation

	1997 million BGL	1996 million BGL
Coins and currency in circulation		
– banknotes	1,418,138	137,258
– coins	1,783	906
Total	1,419,921	138,164

The above balances represent the amount of BGL coins and banknotes issued by the Bank other than that held by the Bank itself. The movement of banknotes in circulation is as follows:

	1997 million BGL	1996 million BGL
Balance at 1 January	137,258	68,128
Banknotes issued into circulation	1,289,317	84,280
Banknotes destroyed and withdrawn from circulation	(8,437)	(15,150)
Balance at 31 December	1,418,138	137,258

22. Accruals and other liabilities

	1997 million BGL	1996 million BGL
Dividend payable to government	161,945	-
Accrued interest payable	1,336	6,958
Salaries and social security payable	9	2
Other payables	838	763
Total	164,128	7,723

23. Movements in share capital

	1997 million BGL	1996 million BGL
Balance at 1 January	200	200
Capitalization of reserves	19,800	-
Balance at 31 December	20,000	200

The total authorized share capital of the Bank is BGL 20 billion. The capital is not represented by shares but is wholly owned by the government.

24. Reserves

	Asset revaluation reserve	Foreign exchange reserve	Other reserves	Total
	1997 mln BGL	1997 mln BGL	1997 mln BGL	1997 mln BGL
Balance at 1 January	-	110,881	15,882	126,763
Fixed asset revaluation	38,058	-	-	38,058
Transfer of unrealized gold revaluations	-	362,378	-	362,378
Transfer of net foreign exchange gains	-	356,788	-	356,788
Transfer of gain on loan restructuring	-	77,509	-	77,509
Transfer of loss on loan restructuring	-	(187,181)	-	(187,181)
Profit for the period	-	-	68,845	68,845
Capitalization of reserves	-	-	(19,800)	(19,800)
Balance at 31 December	38,058	720,375	64,927	823,360

	Asset revaluation reserve	Foreign exchange reserve	Other reserves	Total
	1996 mln BGL	1996 mln BGL	1996 mln BGL	1996 mln BGL
Balance at 1 January	-	9,685	7,610	17,295
Increase in reserves	-	101,196	8,272	109,468
Decrease in reserves	-	-	-	-
Balance at 31 December	-	110,881	15,882	126,763

25. Related party transactions

(a) Bulgarian government

Restructuring of receivable from government

In accordance with an agreement signed with the Ministry of Finance dated 30 June 1997, the Bank restructured its receivable due from the government. The aggregate amount of the following assets were consolidated into a single loan to the government denominated in SDR's:

- loans granted to the government;
- government treasury bonds held;

• borrowings from the IMF under Compensatory and Contingency Financing; and
• US Treasury Bond Strips, pledged as collateral as part of Bulgaria's Brady Bond refinancing.

The amount, maturity, terms and currency of the government receivable matches the borrowings from the IMF. The value of this receivable after the restructuring was SDR 482 million. The value of the receivable at 31 December 1997 was SDR 680 million. The increase is due to further drawdowns on the IMF facilities since 30 June 1997.

The Bank transferred the US Treasury Bonds Strips to the government at the estimated market value at 30 June 1997. The recognition of the excess of market value over amortized cost resulted in an unrealized gain to the Bank of BGL 80 billion.

In 1997, as part of the restructuring of loss loans granted by state banks to commercial enterprises, the Bank wrote off an exposure to one bank to reserves in the amount of BGL 187,181 million.

The IMF borrowings are the liability of the government of Bulgaria. The IMF quota is supported by promissory notes jointly signed by the Bank and the government. The interest due to the IMF is paid directly by the government. Accordingly no interest is included in these accounts for either the loan to the government, or the IMF borrowings.

Government bank accounts

Government budget organizations and other government organizations have current accounts and time deposits with the Bank. After 1 July 1997, no interest was payable on current accounts from government budget organizations.

Participations in international financial institutions

The Bank has participations in various international financial institutions, including the EBRD and the World Bank.

(b) Domestic equity participations

Bank accounts

The Bank holds deposits from its investments in local entities in accordance with the Law on the Bulgarian National Bank.

26. Foreign currency positions

Amounts of assets and liabilities held in levs and in foreign currencies are analyzed as follows:

	BGL	Foreign currencies (lev equivalent)	BGL	Foreign currencies (lev equivalent)
	1997 mln BGL	1997 mln BGL	1996 mln BGL	1996 mln BGL
Assets				
Cash and amounts due from banks	-	2,201,432	48,304	70,986
Gold and other precious metals	-	727,071	-	246,074
Securities	-	1,802,318	152,539	333,833
Loans to banks and other financial institutions	-	2,370	5,280	14,682
Interest receivable	52	10,903	40,333	720
Receivable from government	-	1,632,128	138,061	-
Equity investments and quota in IMF	2,134	1,119,733	10,641	325,498
Fixed assets	132,233	-	9,200	-
Other assets	5,148	-	10,712	83
Total assets	139,567	7,495,955	415,070	991,876
Liabilities				
Due to banks and other financial institutions	635,985	149,497	94,743	40,338
Government deposits and accounts	517,376	1,193,179	70,494	122,896
Borrowings against Bulgaria's IMF quota	-	1,037,162	-	302,439
Borrowings from general resources of IMF	-	1,674,802	-	284,934
Other borrowings	110	2	83,701	134,551
Currency in circulation	1,419,921	-	138,164	-
Accruals and other liabilities	164,128	-	7,723	-
Total liabilities	2,737,520	4,054,642	394,825	885,158
Net assets	(2,597,953)	3,441,313	20,245	106,718

27. Maturity analysis

The assets and liabilities of the Bank analyzed over the remaining period from the balance sheet date to contractual or intended maturity is as follows:

	Up to 1 month	From 1 to 2 months	From 2 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and amounts due from banks	2,201,432	-	-	-	-	2,201,432
Gold and other precious metals	141,147	-	-	-	585,924	727,071
Securities	767,794	292,219	326,888	383,797	31,620	1,802,318
Loans to banks and other financial institutions	-	-	2,370	-	-	2,370
Interest receivable	5,364	1,468	4,123	-	-	10,955
Receivable from government	35,467	47,259	148,746	1,330,940	69,716	1,632,128
Equity investments and quota in IMF	-	-	-	2,134	1,119,733	1,121,867
Fixed assets	-	-	-	-	132,233	132,233
Other assets	-	-	5,148	-	-	5,148
Total assets	3,151,204	340,946	487,275	1,716,871	1,939,226	7,635,522
Liabilities						
Due to banks and other financial institutions	749,234	-	20,074	-	16,174	785,482
Government deposits and accounts	1,696,845	-	7,259	-	6,451	1,710,555
Borrowings against Bulgaria's IMF quota	187,362	-	-	-	849,800	1,037,162
Borrowings from general resources of IMF	22,469	47,259	148,746	1,386,612	69,716	1,674,802
Other borrowings	110	-	-	2	-	112
Currency in circulation	-	-	-	151	1,419,770	1,419,921
Accruals and other liabilities	2,183	-	161,945	-	-	164,128
Share capital	-	-	-	-	20,000	20,000
Reserves	-	-	-	-	823,360	823,360
Total liabilities	2,658,203	47,259	338,024	1,386,765	3,205,271	7,635,522
Maturity surplus / (shortfall)	493,001	293,687	149,251	330,106	(1,266,045)	-

28. Financial instruments

A financial instrument is defined by IAS 32 as any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

The balance sheet of the Bank is largely comprised of financial instruments. These instruments expose the Bank to many risks, including interest rate risk, foreign exchange risk and credit risk.

Interest rate risk

Interest rate risk may be defined as the risk that the Bank is exposed to changes in the value of its financial assets and liabilities due to changes in interest rates. The size of this risk is a function of:

- the relevant financial asset or liability's underlying interest rate; and
- the maturity structure of the Bank's portfolio of financial instruments.

Substantially all financial assets of the Bank are interest-bearing. The financial liabilities of the Bank include liabilities which are both noninterest-bearing and interest bearing. These have been disclosed in notes 17 to 22. Those assets and liabilities of the Bank which are interest-bearing are based on rates which have been set at or close to market levels.

The maturity structure of the Bank's financial assets and liabilities is disclosed in Note 27.

Foreign exchange risk

Foreign exchange risk may be defined as the risk that the Bank is exposed to changes in the value of its financial assets and liabilities due to changes in exchange rates. The size of this risk is a function of:

- the mismatch in the Bank's foreign currency assets and liabilities; and
- the underlying contract rate of outstanding foreign exchange transactions at year-end.

The exchange rate of the Bulgarian levs to the Deutschemark is fixed in accordance with the Law on the Bulgarian National Bank. At 31 December 1997, the Bank had no outstanding forward foreign exchange contracts. In accordance with the Law on the Bulgarian National Bank, the Bank is required to match foreign currency assets and liabilities other than Deutschemarks, to within 2%. Accordingly, foreign exchange exposure is limited.

Credit risk

Credit risk is defined by IAS 32 as the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a loss. Disclosure of credit risk enables the user of financial statements to assess the extent to which failures by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date.

The size and concentration of the Bank's exposure to credit risk can be obtained directly from the balance sheet and notes 7 to 14 of the financial statements which describe the size and composition of the Bank's financial assets. The Bank has not entered into collateral agreements in relation to its credit exposure.

Fair value

Fair value information is widely used in determining an enterprise's overall financial position and in making decisions about individual financial instruments. It is also relevant to users of financial statements since, in many circumstances, it reflects the judgment of the financial markets as to the present value of expected future cash flows.

The principal determinants of fair value for the Bank's assets and liabilities are commodity prices, interest rates, exchange rates and credit risk. In the case of marketable assets such as precious metals and foreign debt securities full fair value as at the balance sheet date is directly reflected in the balance sheet. In other cases the exchange rate element is specifically allowed for in the determination of carrying value. The fair values of loans and deposits, insofar as this is determinable by interest rates, are not considered to be materially different from their carrying values. Where significant credit risk is considered to be present, it is allowed for in the provision for bad and doubtful debts.

As at the balance date the Bank did not have any exposure in off-balance-sheet derivative transactions.

29. Commitments and contingencies

As at 31 December 1997 the Bank had BGL 3,031 million of commitments to purchase fixed assets. Otherwise, there were no outstanding guarantees, letters of credit or commitments to purchase or sell either gold, other precious metals or foreign currency.

30. IAS 29 Financial Reporting in Hyperinflationary Economies

IAS 29 requires that the financial statements of any enterprise that reports in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. This is to enable the rate at which money, in a hyperinflationary environment, loses purchasing power to be recognized in the financial statements.

The Managing Board does not consider the implementation of IAS 29 to be appropriate. This is largely based on the fact that the hyperinflation occurred in the first part of the year, has since declined dramatically and the Managing Board is confident of further decreases. Accordingly, when looking forward, the economy is no longer hyperinflationary. While there has been a loss of purchasing power for opening net assets and on profits earned in the first part of the year, the purpose of the recapitalization on 1 July was, in part, to rectify this capital erosion.

Although the monthly inflation rate had stabilized at around 18% per annum by the end of 1997, there was significant hyperinflation in the first half of the year.

The inflation rates published by the National Statistical Institute may be summarized as:

	(%)
For the year ended 31 December 1996	310.8
For the six months ended 31 December 1997	16.2
For the year ended 31 December 1997	578.6

Effect on the financial statements of the Bulgarian National Bank.

In the balance sheet, under IAS 29, monetary assets and liabilities are not restated, since these are already expressed in terms of the monetary unit current at the balance sheet date. The largest difference usually arises through the 'loss on net monetary position' in the profit and loss account. This represents the effective erosion of the opening share capital and reserves as a result of hyperinflation.

The effect of restatement on the accounts may be summarized as:

	Historical cost	Applying IAS 29	Historical cost	Applying IAS 29
	million BGL	million BGL	million BGL	million BGL
Net loss on monetary position	-	(487,503)	-	(192,342)
Net income after special reserve transfer	264,790	(137,019)	31,817	142,963
Net assets	843,360	1,626,748	126,963	222,324

2. Report on the Execution of BNB Budget

BNB budget for 1997 was adopted by Resolution No. 799 of 28 December 1996 of the Managing Board of the BNB and by BNB Plenary Council on 10 January 1997. Exchange rate volatility and hyperinflation at the beginning of 1997 as well as drastic rises in energy prices and communication services prices gave grounds to extend a proposition to the Managing Board and the Plenary Council on an update of the 1997 budget. The updated budget was drawn up at exchange rate of BGL 2,000 per 1 USD and BGL 1,170 per DEM 1 and was adopted by the Managing Board and later by the Plenary Council of the BNB on 20 March 1997.

Within operating expenses, the biggest item of expenditure was the currency in circulation: 53.8% of total operating expenses and 75.6% of forecast. High inflation and the bank crisis of early 1997 caused an increase in cash payments. High price levels brought about changes in currency denominations and banknotes of higher denominations were issued. Expenses were made related to the printing of the banknotes in Germany. As developments in the monetary base (whose main component is currency in circulation) assume a greater importance under a currency board, the monetary base sets the range of expenses to be made on serving currency in circulation.

Expenses on salaries and employee benefits make up 22.5% of total operating expenses (16.8% for salaries) and their reduction is related to optimizing the Bank's staff in compliance with currency board principles and stopping increases in salaries. At the beginning of October there was a reduction in the number of jobs and 111 employees were laid off (19% of those employed in early 1997).

Expenses on materials, services and overhauls comprise 19.6% of total operating expenses and 34% of planned expenses. Their reduction is associated with hard budget constraints imposed by the Currency Board.

In 1997 the BNB started accumulating depreciation. Expenses charged for depreciation comprise 2.7% of total operating costs. Concurrently, these make up only 9% of forecast, since the equipment of the BNB Printing Works is not put into operation and its construction is not completed yet.

In the capital expenditure section, estimated funds amount to BGL 88,976 million; of this, BGL 76,583 million was spent by year-end. Expenditures on BNB Printing Works make up the largest share, 80.2% of total capital expenditure.

EXECUTION OF BNB BUDGET IN 1997

Code	Indicators	Budget forecast for 1997 (million BGL)	Reporting, 30 December 1997 (million BGL)	% of total expenses
SECTION I. BNB OPERATING EXPENSES				
1000	***Currency circulation expenses***	***20,926***	***15,820***	***53.8***
1100	Banknote issue and coin mintage	18,859	15,603	53.0
1500	Fixtures and fittings	299	78	0.3
1600	Banknote destruction	144	0	0
1800	Vault costs and other expenses	1,624	139	0.5
2000	***Salaries and employee benefits***	***13,556***	***6,617***	***22.5***
2100	Pay-roll expenses	12,700	5,818	19.8
2200	Part-time services expenses	856	799	2.7
3000	***Materials, services, overhauls and depreciation expenses***	***25,306***	***6,553***	***22.3***
3100	BNB current support expenses	5,982	2,619	9.0
3105	Current support of BNB special vehicles	664	224	0.7
3600	Security equipment maintenance and hire charges	574	865	2.9
3650	Depreciation expenses	8,723	789	2.7
3700	Charges paid to Bankservice and BORICA	541	307	1.1
3800	Other expenses	7,406	1,655	5.6
3900	Overhaul expenses	1,416	94	0.3
5000	***BNB social activity expenses***	***978***	***421***	***1.4***
	Total Section I (1000+2000+3000+5000)	**60,766**	**29,411**	**100**
SECTION II. INVESTMENT				
4000	***Expenses on fixed assets***	***88,124***	***76,583***	***100***
4100	Real estate expenses	24,697	6,379	8.3
4200	Expenses on currency in circulation equipment	3,744	954	1.3
4300	BNB Printing Works	47,496	61,350	80.2
4310	Expenses on BNB Printing Works reconstruction	40,629	25,774	33.7
4320	Expenses on BNB Printing Works equipment	6,867	35,576	46.5
4400	Expenses on BNB security equipment	3,200	2,090	2.7
4500	Expenses on BNB office equipment	3,434	516	0.6
4600	Expenses on special and other vehicles	73	273	0.3
4700	Expenses on BNB computerization	5,480	5,021	6.6
6000	***National and banking system projects***	***852***	***0***	***0***
	Total Section II (4000+6000)	**88,976**	**76,583**	**100**

Appendix

Contents

The methodology and scope of the respective indicators are comprehensively presented in BNB 1998 Monthly Bulletin issues.

GROSS DOMESTIC PRODUCT

Indicators	1995	1996	1997[1]	1997[1]	Growth rate on 1996, %
	at current prices, million BGL			at 1996 prices, million BGL	
GDP	880322	1748701	17103433	1627323	-6.94
Agriculture and forestry	111416	253652	3987312	320113	26.20
Industry	272721	497862	4482908	432493	-13.13
Services	450239	898858	6765982	686905	-23.58
Sectors at base prices, total	834376	1650372	15236202	1439511	-12.78
Adjustments[2]	45946	98329	1867231	187812	
FINAL DEMAND	880322	1748701	17103433	1627323	-6.94
Final consumption	756547	1547730	14389824	1314000	-15.10
Household final consumption	618827	1334051	12208663	1124967	-15.67
Final consumption of nontrade organizations serving households	3312	6183	65422	5470	-11.53
Government final consumption	66321	108025	1067713	92712	-14.18
Gross capital formation	137807	146863	2025004	195031	32.80
Gross formation of fixed capital	134269	238470	1931561	185833	-22.07
Physical inventory change	3538	-91607	93443	9198	110.04
Foreign trade balance[3]	-14032	54108	948814	18786	-65.28
Statistical discrepancy	0	0	-260209	-	-

[1] NSI preliminary data.
[2] Including excises, value added tax, import duties and financial intermediaries' services indirectly measured.
[3] Net exports of goods and services, travel services excluded.

Source: NSI.

EMPLOYMENT BY SECTOR

SECTORS	Year average, persons						Employment, %					
	1996			1997*			1996			1997*		
	Total	Public sector	Private sector	Total	Public sector	Private sector	Total	Public sector	Private sector	Total	Public sector	Private sector
Total	3285877	1728375	1557502	3198134	1516605	1681529	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture and forestry	800290	55714	744576	776822	52115	724707	24.4	3.2	47.8	24.3	3.4	43.1
Industry	1070558	773697	296861	1031307	607119	424188	32.6	44.8	19.1	32.2	40.0	25.2
Extracting industry	64995	64028	967	60463	58809	1654	2.0	3.7	0.1	1.9	3.9	0.1
Manufacturing industry	782292	571461	210831	755647	427930	327717	23.8	33.1	13.5	23.6	28.2	19.5
Production and distribution of electrical energy, gas and water	57196	56900	296	57906	57751	155	1.7	3.3	0.0	1.8	3.8	0.0
Construction	166075	81308	84767	157291	62629	94662	5.1	4.7	5.4	4.9	4.1	5.6
Services	1415029	898964	516065	1390005	857371	532634	43.1	52.0	33.1	43.5	56.5	31.7
Trade, repair of automobiles and home appliances	321377	50475	270902	319435	41077	278358	9.8	2.9	17.4	10.0	2.7	16.6
Hotels, hostels and catering establishments	76455	28988	47467	76255	25271	50984	2.3	1.7	3.0	2.4	1.7	3.0
Transport and communications, travel and tourism agencies	252076	175002	77074	245972	166835	79137	7.7	10.1	4.9	7.7	11.0	4.7
Finance, credit and insurance	42881	29504	13377	40055	28718	11337	1.3	1.7	0.9	1.3	1.9	0.7
Operations in real estate, renting of immovables	10058	5909	4149	9769	5121	4648	0.3	0.3	0.3	0.3	0.3	0.3
Management	73211	73211	0	77139	77139	0	2.2	4.2	0.0	2.4	5.1	0.0
Education	255820	252577	3243	247551	244176	3375	7.8	14.6	0.2	7.7	16.1	0.2
Health care and veterinary medicine	187204	183872	3332	183787	180527	3260	5.7	10.6	0.2	5.7	11.9	0.2
Other services and nongovernment organizations' activity	195947	99426	96521	190042	88507	101535	6.0	5.8	6.2	5.9	5.8	6.0

* Preliminary data.

Source: NSI.

CONSUMER PRICE INDICES IN 1997
(previous month = 100)

Commodity (services) groups	January	February	March	April	May	June	July	August	September	October	November	December
Consumer price index	143.50	342.70	112.30	99.30	105.60	100.80	103.70	105.50	103.60	100.50	100.50	101.50
Food	145.90	377.30	106.00	96.10	109.10	98.80	104.90	107.90	102.00	99.40	100.10	102.30
Nonfood	144.90	367.50	102.90	94.40	99.60	102.00	102.30	102.80	104.50	101.20	100.80	100.20
Services	133.50	170.90	200.40	124.70	105.70	104.40	102.00	102.50	106.40	102.40	101.10	100.90
Food*	145.80	371.30	107.20	96.60	109.30	99.00	104.80	107.90	102.40	99.60	100.20	102.30
Drink	136.50	413.60	111.40	96.20	104.60	109.80	105.20	100.60	101.50	100.80	102.20	101.20
Tobacco products	152.40	423.80	102.00	86.50	97.70	103.90	98.20	100.80	101.30	99.10	99.20	96.80
Housing	154.50	345.00	112.10	101.20	99.50	104.80	104.10	100.70	101.80	101.60	100.70	100.40
Household energy	131.10	132.10	254.40	133.60	103.90	102.00	100.50	102.50	104.50	100.40	100.70	100.10
Home furniture	152.70	391.00	84.80	94.30	96.30	102.30	102.80	103.20	100.50	100.10	100.10	101.00
Clothing and footwear	143.60	388.90	90.90	94.30	99.70	102.40	102.70	105.10	106.80	102.50	101.70	101.30
Hygiene and health care	140.40	431.10	102.90	96.20	102.70	103.10	104.20	103.50	102.00	103.30	100.60	100.20
Education and leisure	140.00	233.00	100.80	120.30	109.10	105.30	109.40	103.50	123.00	104.70	102.90	100.90
Transport and communications	136.10	255.90	158.00	96.30	101.60	101.80	101.10	101.60	105.90	101.60	100.30	100.30
Other	131.10	206.70	126.40	165.90	120.60	109.80	95.90	100.70	104.40	104.20	108.30	110.30

Source: NSI.

CONSUMER PRICE INDICES IN 1997
(December 1996 = 100)

Commodity (services) groups	January	February	March	April	May	June	July	August	September	October	November	December
Consumer price index	143.50	491.77	552.26	548.40	579.11	583.74	605.34	638.63	661.62	664.93	668.26	678.28
Food	145.90	550.48	583.51	560.75	611.78	604.44	634.06	684.15	697.83	693.64	694.34	710.31
Nonfood	144.90	532.51	547.95	517.27	515.20	525.50	537.59	552.64	577.51	584.44	589.11	590.29
Services	133.50	228.15	457.22	570.15	602.65	629.16	641.75	657.79	699.89	716.69	724.57	731.09
Food*	145.80	541.36	580.33	560.60	612.74	606.61	635.73	685.95	702.41	699.60	701.00	717.13
Drink	136.50	564.56	628.92	605.03	632.86	694.88	731.01	735.40	746.43	752.40	768.95	778.18
Tobacco products	152.40	645.87	658.79	569.85	556.75	578.46	568.05	572.59	580.03	574.81	570.22	551.97
Housing	154.50	533.03	597.52	604.69	601.67	630.55	656.40	661.00	672.89	683.66	688.44	691.20
Household energy	131.10	173.18	440.58	588.61	611.57	623.80	626.92	642.59	671.51	674.19	678.91	679.59
Home furniture	152.70	597.06	506.30	477.44	459.78	470.35	483.52	499.00	501.49	501.99	502.50	507.52
Clothing and footwear	143.60	558.46	507.64	478.70	477.27	488.72	501.92	527.52	563.39	577.47	587.29	594.92
Hygiene and health care	140.40	605.26	622.82	599.15	615.33	634.40	661.05	684.18	697.87	720.90	725.22	726.67
Education and leisure	140.00	326.20	328.81	395.56	431.55	454.43	497.14	514.54	632.89	662.63	681.85	687.99
Transport and communications	136.10	348.28	550.28	529.92	538.40	548.09	554.12	562.99	596.20	605.74	607.56	609.38
Other	131.10	270.98	342.52	568.25	685.31	752.46	721.61	726.67	758.64	790.50	856.11	944.29

* Including prices in catering establishments.

Source: NSI.

EXPORTS BY COMMODITY GROUP

No.	Commodity groups*	Total				Change on the previous year	
		1996		1997			
		million USD	share, %	million USD	share, %	million USD	%
I.	Base metals and their products	867.3	17.7	1046.2	21.3	179.0	20.6
	including:						
	Chapter 72. Cast-iron, iron and steel	365.7	7.5	503.7	10.3	138.0	37.7
	Chapter 74. Copper and its products	262.8	5.4	284.1	5.8	21.4	8.1
	Chapter 79. Zinc and its products	65.8	1.3	79.6	1.6	13.8	21.0
	Chapter 73. Cast-iron, iron and steel products	73.9	1.5	63.9	1.3	-10.0	-13.5
II.	Chemical products, plastics and rubber	976.2	20.0	911.4	18.5	-64.7	-6.6
	including:						
	Chapter 29. Organic chemical products	145.0	3.0	185.7	3.8	40.7	28.1
	Chapter 31. Fertilizers	272.4	5.6	172.3	3.5	-100.0	-36.7
	Chapter 39. Plastics and plastic products	123.3	2.5	123.9	2.5	0.7	0.5
	Chapter 30. Pharmaceutic products	99.7	2.0	120.9	2.5	21.2	21.3
	Chapter 28. Inorganic chemical products	128.9	2.6	117.2	2.4	-11.7	-9.1
	Chapter 33. Essential oils, perfumes and toiletries	93.4	1.9	94.1	1.9	0.7	0.7
III.	Textile, leather materials, clothing, footwear and other consumer goods	720.3	14.7	797.8	16.2	77.5	10.8
	including:						
	Chapter 62. Clothing and accessories to clothing other than knitwear	174.5	3.6	221.2	4.5	46.6	26.7
	Chapter 61. Clothing and accessories to clothing from knitwear	104.4	2.1	128.6	2.6	24.3	23.2
	Chapter 64. Shoes, gaiters and similar articles; their components	111.8	2.3	120.7	2.5	8.9	8.0
	Chapter 55. Staple synthetic and artificial fibres	48.6	1.0	54.6	1.1	6.0	12.3
IV.	Machines, transport facilities, appliances, tools and weapons	742.1	15.2	718.7	14.6	-23.4	-3.2
	including:						
	Chapter 84. Nuclear reactors, boilers, machines, appliances and machinery; spare parts	296.4	6.1	262.0	5.3	-34.4	-11.6
	Chapter 85. Electrical machines and appliances	190.3	3.9	178.7	3.6	-11.6	-6.1
	Chapter 89. Sea and river shipping	81.7	1.7	75.8	1.5	-5.9	-7.2
V.	Animal and vegetable products, food, drink and tobacco	915.7	18.7	699.3	14.2	-216.4	-23.6
	including:						
	Chapter 24. Tobacco and processed substitutes	256.2	5.2	164.6	3.3	-91.6	-35.8
	Chapter 22. Soft and alcoholic drinks and vinegars	182.6	3.7	145.0	3.0	-37.6	-20.6
	Chapter 20. Vegetable, fruit and other plant products	72.8	1.5	67.1	1.4	-5.7	-7.9
VI.	Mineral products and fuels	442.0	9.0	501.2	10.2	59.2	13.4
	including:						
	Chapter 27. Mineral fuels, mineral oils and distilled products	318.1	6.5	374.7	7.6	56.6	17.8
	Chapter 25. Salt; sulphur; soil and stones; plaster, lime and cement	73.5	1.5	74.9	1.5	1.5	2.0
VII.	Wood, paper, earthenware and glass products	226.6	4.6	239.2	4.9	12.6	5.6
	including:						
	Chapter 44. Wood and wood products; wood coal	77.6	1.6	81.2	1.7	3.6	4.6
	EXPORTS, TOTAL (FOB)	4890.2	100.0	4913.9	100.0	23.7	0.5

* Commodity groups include chapters from the Harmonized System for Commodity Description and Coding.
Note: For 1997 – preliminary data as of 9 March 1998.

Sources: Customs declarations data received from the MF Computing Center and NSI and adjusted by the BNB.

IMPORTS BY COMMODITY GROUP

No.	Commodity groups*	Total				Change on the previous year	
		1996		1997			
		million USD	share, %	million USD	share, %	million USD	%
I.	Mineral products and fuels	1945.8	38.3	1797.1	36.8	-148.7	-7.6
	including:						
	Chapter 27. Mineral fuels, mineral oils and distilled products	1711.3	33.7	1492.3	30.5	-219.0	-12.8
	Chapter 26. Ores, slags and ashes	115.4	2.3	156.2	3.2	40.7	35.3
II.	Machines, transport facilities, appliances, tools and weapons	991.7	19.5	859.3	17.6	-132.4	-13.3
	including:						
	Chapter 84. Nuclear reactors, boilers, machines, appliances and machinery; spare parts	414.1	8.2	439.7	9.0	25.6	6.2
	Chapter 85. Electrical machines and appliances	208.8	4.1	181.6	3.7	-27.2	-13.0
	Chapter 87. Automobile transport	159.0	3.1	120.5	2.5	-38.5	-24.2
	Chapter 90. Optical instruments and appliances	90.0	1.8	77.3	1.6	-12.8	-14.2
III.	Textile, leather materials, clothing, footwear and other consumer goods	598.0	11.8	706.3	14.5	108.3	18.1
	including:						
	Chapter 52. Cotton	93.5	1.8	124.0	2.5	30.5	32.7
	Chapter 55. Staple synthetic and artificial fibres	103.9	2.0	108.6	2.2	4.6	4.4
IV.	Chemical products, plastics and rubber	637.1	12.6	593.3	12.1	-43.8	-6.9
	including:						
	Chapter 39. Plastics and plastic products	115.2	2.3	103.4	2.1	-11.8	-10.2
	Chapter 29. Organic chemical products	100.2	2.0	95.8	2.0	-4.4	-4.4
	Chapter 28. Inorganic chemical products	80.2	1.6	89.1	1.8	8.9	11.1
	Chapter 30. Pharmaceutic products	73.2	1.4	79.1	1.6	5.9	8.0
	Chapter 38. Miscellaneous products of chemical industry	86.2	1.7	68.3	1.4	-17.9	-20.8
V.	Animal and vegetable products, food, drink and tobacco	402.8	7.9	428.5	8.8	25.7	6.4
	including:						
	Chapter 17. Sugar and sugar products	100.0	2.0	100.9	2.1	0.9	0.9
	Chapter 10. Cereals	87.9	1.7	88.4	1.8	0.5	0.6
VI.	Base metals and their products	272.8	5.4	299.2	6.1	26.4	9.7
	including:						
	Chapter 72. Cast-iron, iron and steel	97.8	1.9	103.7	2.1	5.9	6.0
	Chapter 73. Cast-iron, iron and steel products	53.8	1.1	68.0	1.4	14.2	26.5
	Chapter 76. Aluminium and aluminium products	63.4	1.2	67.6	1.4	4.2	6.6
VII.	Wood, paper, earthenware and glass products	225.8	4.4	202.0	4.1	-23.7	-10.5
	including:						
	Chapter 48. Paper and cardboard; products of cellulose, paper and cardboard	120.6	2.4	99.6	2.0	-20.9	-17.4
	IMPORTS, TOTAL (CIF)	5074.0	100.0	4885.8	100.0	-188.2	-3.7
	(-) Freight expenditure	371.4		367.8			
	IMPORTS, TOTAL (FOB)	4702.6		4518.0		-184.6	-3.9

* Commodity groups include chapters from the Harmonized System for Commodity Description and Coding.
Note: For 1997 – preliminary data as of 9 March 1998.

Sources: Customs declarations data received from the MF Computing Center and NSI and adjusted by the BNB.

IMPORTS BY USE

No.	Commodity groups	Total				Change on the previous year	
		1996		1997			
		million USD	share, %	million USD	share, %	million USD	%
I.	Consumer goods	538.1	10.6	563.1	11.5	25.0	4.6
	1. Food	74.1	1.5	116.5	2.4	42.4	57.1
	2. Clothing and footwear	116.2	2.3	143.9	2.9	27.7	23.9
	3. Machines, tools and appliances	54.9	1.1	42.2	0.9	-12.6	-23.0
	4. Automobiles	33.3	0.7	26.9	0.6	-6.4	-19.1
	5. Other	259.6	5.1	233.5	4.8	-26.1	-10.1
II.	Raw and other materials	1818.0	35.8	1890.9	38.7	72.9	4.0
	1. Ores	115.4	2.3	156.2	3.2	40.7	35.3
	2. Cast-iron, iron and steel	97.8	1.9	103.7	2.1	5.9	6.0
	3. Other metals	43.4	0.9	53.8	1.1	10.4	23.9
	4. Chemical products	257.9	5.1	249.2	5.1	-8.7	-3.4
	5. Plastics	102.7	2.0	92.2	1.9	-10.5	-10.3
	6. Paper and cardboard	108.7	2.1	88.6	1.8	-20.1	-18.5
	7. Cereals	87.9	1.7	88.4	1.8	0.5	0.6
	8. Textile materials	358.3	7.1	425.8	8.7	67.5	18.8
	9. Other	645.8	12.7	633.1	13.0	-12.7	-2.0
III.	Investment goods	922.4	18.2	830.6	17.0	-91.9	-10.0
	1. Machines, tools and appliances	307.9	6.1	347.0	7.1	39.1	12.7
	2. Electrical machines	94.7	1.9	76.0	1.6	-18.7	-19.7
	3. Transport facilities	104.8	2.1	85.4	1.7	-19.4	-18.5
	4. Other	415.0	8.2	322.1	6.6	-92.9	-22.4
IV.	Energy resources	1795.5	35.4	1601.2	32.8	-194.2	-10.8
	Fuels	1749.0	34.5	1545.4	31.6	-203.6	-11.6
	1. Crude oil	917.7	18.1	765.8	15.7	-151.9	-16.5
	2. Coal	181.0	3.6	169.2	3.5	-11.8	-6.5
	3. Natural gas	545.7	10.8	483.1	9.9	-62.6	-11.5
	4. Other	104.6	2.1	127.3	2.6	22.8	21.8
	Other	46.4	0.9	55.8	1.1	9.4	20.2
	1. Oils	36.6	0.7	55.8	1.1	19.2	52.5
	2. Electricity	9.8	0.2	0.0	0.0	-9.8	-100.0
IMPORTS, TOTAL (CIF)		5074.0	100.0	4885.8	100.0	-188.2	-3.7

Note: For 1997 – preliminary data as of 9 March 1998.

Sources: Customs declarations data received from the MF Computing Center and NSI and adjusted by the BNB.

EXPORTS BY MAJOR TRADING PARTNER AND REGION

No.	Countries	Total				Change on the previous year	
		1996		1997			
		million USD	share, %	million USD	share, %	million USD	%
I.	EUROPEAN UNION	1912.5	39.1	2128.7	43.3	216.2	11.3
	including:						
	Italy	493.1	10.1	575.1	11.7	81.9	16.6
	Germany	442.1	9.0	468.1	9.5	26.0	5.9
	Greece	347.6	7.1	405.9	8.3	58.2	16.8
	France	127.0	2.6	132.3	2.7	5.3	4.1
	United Kingdom	140.9	2.9	130.6	2.7	-10.3	-7.3
	Spain	111.3	2.3	129.4	2.6	18.1	16.3
	Belgium	72.8	1.5	76.2	1.6	3.4	4.6
	Netherlands	77.8	1.6	75.4	1.5	-2.4	-3.1
	Austria	50.3	1.0	54.0	1.1	3.7	7.4
II.	EFTA	49.5	1.0	44.3	0.9	-5.2	-10.5
III.	OTHER OECD COUNTRIES[1]	554.0	11.3	661.7	13.5	107.7	19.5
	including:						
	Turkey	384.3	7.9	442.3	9.0	57.9	15.1
	USA	113.1	2.3	128.8	2.6	15.7	13.9
	Canada	27.3	0.6	46.2	0.9	18.9	69.4
IV.	BALKAN COUNTRIES[2]	514.2	10.5	291.9	5.9	-222.3	-43.2
	including:						
	Yugoslavia	231.5	4.7	124.6	2.5	-106.9	-46.2
	Macedonia	148.6	3.0	98.2	2.0	-50.5	-34.0
	Romania	75.4	1.5	28.5	0.6	-46.9	-62.2
V.	CEFTA[3]	94.8	1.9	137.1	2.8	42.3	44.6
	including:						
	Romania	0.0	0.0	37.4	0.8	37.4	100.0
VI.	FORMER USSR COUNTRIES	949.7	19.4	880.9	17.9	-68.8	-7.2
	including:						
	Russia	480.1	9.8	391.8	8.0	-88.3	-18.4
	Ukraine	166.3	3.4	146.5	3.0	-19.8	-11.9
	Georgia	68.3	1.4	122.7	2.5	54.4	79.8
	Moldova	101.1	2.1	99.9	2.0	-1.2	-1.2
VII.	OTHER COUNTRIES	815.4	16.7	769.2	15.7	-46.3	-5.7
	EXPORTS, TOTAL (FOB)	4890.2	100.0	4913.9	100.0	23.7	0.5

[1] Australia, Canada, New Zealand, USA, Turkey and Japan are included.
[2] Albania, Bosnia and Herzegovina, Macedonia, Croatia and Yugoslavia are included.
[3] As of 1 July 1997 Romania is included. For that reason CEFTA and Balkan countries groups could not be directly compared. Exports to Romania totaled USD 75.4 million in 1996 and USD 65.9 million in 1997.

Note: For 1997 – preliminary data as of 9 March 1998.

Sources: Customs declarations data received from the MF Computing Center and NSI and adjusted by the BNB.

IMPORTS BY MAJOR TRADING PARTNER AND REGION

No.	Countries	Total 1996 million USD	Total 1996 share, %	Total 1997 million USD	Total 1997 share, %	Change on the previous year million USD	Change on the previous year %
I.	EUROPEAN UNION	1780.3	35.1	1823.1	37.3	42.7	2.4
	including:						
	Germany	575.1	11.3	563.2	11.5	-12.0	-2.1
	Italy	318.7	6.3	347.1	7.1	28.3	8.9
	Greece	196.1	3.9	206.4	4.2	10.3	5.3
	France	162.7	3.2	156.5	3.2	-6.2	-3.8
	United Kingdom	105.1	2.1	126.9	2.6	21.8	20.8
	Austria	123.2	2.4	118.0	2.4	-5.2	-4.2
	Netherlands	91.4	1.8	91.0	1.9	-0.4	-0.4
	Belgium	59.3	1.2	60.5	1.2	1.2	2.1
II.	EFTA	86.4	1.7	86.8	1.8	0.4	0.4
	including:						
	Switzerland	79.0	1.6	77.5	1.6	-1.5	-2.0
III.	OTHER OECD COUNTRIES[1]	275.4	5.4	343.8	7.0	68.4	24.8
	including:						
	USA	111.7	2.2	181.2	3.7	69.5	62.2
	Turkey	96.0	1.9	101.6	2.1	5.6	5.9
IV.	BALKAN COUNTRIES[2]	163.3	3.2	95.2	1.9	-68.1	-41.7
V.	CEFTA[3]	159.9	3.2	231.7	4.7	71.7	44.9
	including:						
	Czech Republic	65.9	1.3	63.0	1.3	-3.0	-4.7
VI.	FORMER USSR COUNTRIES	1866.3	36.8	1608.2	32.9	-258.1	-13.8
	including:						
	Russia	1694.2	33.4	1374.8	28.1	-319.4	-18.9
	Ukraine	122.4	2.4	176.6	3.6	54.2	44.2
VII.	OTHER COUNTRIES	742.3	14.6	697.1	14.3	-45.2	-6.1
	including:						
	Brasil	34.4	0.7	65.5	1.3	31.1	90.5
	IMPORTS, TOTAL (CIF)	5074.0	100.0	4885.8	100.0	-188.2	-3.7

[1] Australia, Canada, New Zealand, USA, Turkey and Japan are included.
[2] Albania, Bosnia and Herzegovina, Macedonia, Croatia and Yugoslavia are included.
[3] As of 1 July 1997 Romania is included. For that reason CEFTA and Balkan countries groups could not be directly compared. Imports from Romania totaled USD 70.5 million in 1996 and USD 57.7 million in 1997.

Note: For 1997 – preliminary data as of 9 March 1998.

Sources: Customs declarations data received from the MF Computing Center and NSI and adjusted by the BNB.

BALANCE OF PAYMENTS FOR 1997*

(million USD)

	Jan.	Feb.	March	I quarter	Apr.	May	June	II quarter	July	Aug.	Sep.	III quarter	Oct.	Nov.	Dec.	IV quarter	Total
CURRENT ACCOUNT[1]	-9.2	79.8	81.1	151.8	81.0	58.8	-55.7	84.1	3.0	60.5	79.5	143.0	51.6	-16.1	31.2	66.8	445.7
Trade balance[2, 12]	97.9	110.9	96.9	305.7	63.7	53.8	-71.5	46.1	70.2	0.8	27.9	98.8	4.3	-45.4	-13.5	-54.6	396.0
Exports, FOB	400.2	380.7	403.5	1184.3	411.2	438.8	381.5	1231.5	452.4	405.2	407.9	1265.5	417.1	403.0	412.4	1232.6	4913.9
Imports, FOB	302.3	269.7	306.6	878.6	347.5	385.0	452.9	1185.5	382.2	404.3	380.1	1166.6	412.8	448.5	425.9	1287.2	4518.0
Services, net	-113.2	-35.1	-48.1	-196.4	-2.1	-8.9	2.3	-8.7	-84.8	45.0	9.4	-30.5	25.2	8.1	15.4	48.7	-186.9
Receipts	118.8	82.8	97.6	299.2	108.0	115.5	112.6	336.1	165.2	187.0	142.5	494.7	136.0	137.9	142.9	416.8	1546.8
transport[3]	31.3	27.3	30.2	88.8	30.5	33.5	31.0	95.0	51.0	54.2	43.8	149.0	39.1	37.2	38.5	114.8	447.6
travel[4]	16.5	10.9	12.5	40.0	13.1	17.4	18.3	48.8	61.2	74.1	47.3	182.7	33.9	30.3	33.4	97.6	369.0
interest[5]	29.2	6.3	7.9	43.4	7.1	5.0	26.6	38.6	4.4	10.0	12.1	26.5	17.5	11.4	20.5	49.5	158.1
other income	8.2	5.0	9.4	22.5	3.2	3.6	3.1	9.9	3.3	2.6	3.2	9.1	3.5	3.3	4.2	11.0	52.6
other services	33.7	33.2	37.5	104.4	54.0	56.1	33.6	143.7	45.3	46.1	36.2	127.5	42.0	55.7	46.3	144.0	519.6
Payments	232.0	117.9	145.7	495.6	110.1	124.5	110.3	344.9	250.0	142.0	133.1	525.2	110.8	129.8	127.6	368.1	1733.7
transport[3]	32.1	32.9	33.2	98.2	32.7	38.7	46.1	117.5	46.3	47.5	47.1	141.0	48.2	49.0	47.0	144.1	500.8
travel[4]	15.8	21.3	17.0	54.1	9.4	12.7	13.0	35.1	23.9	23.0	25.8	72.7	22.5	18.6	18.5	59.7	221.6
interest[5]	145.2	22.8	44.8	212.8	18.1	16.5	23.9	58.5	150.3	26.7	33.4	210.4	6.9	14.8	17.4	39.1	520.8
other income	3.8	4.1	2.4	10.2	0.6	3.9	5.0	9.5	2.4	0.9	1.4	4.6	0.6	19.8	2.0	22.4	46.7
other services	35.2	36.8	48.4	120.4	49.2	52.7	22.3	124.2	27.1	44.0	25.3	96.4	32.6	27.5	42.6	102.8	443.8
Transfers (private), net	-0.9	2.2	4.4	5.6	11.5	10.9	10.5	32.9	11.1	9.1	10.5	30.8	10.8	14.6	13.2	38.6	107.8
Unrequited transfers (net)[6]	7.1	1.8	28.0	36.9	7.9	3.0	3.0	13.9	6.6	5.5	31.7	43.8	11.3	6.7	16.2	34.2	128.8
CAPITAL ACCOUNT[1, 7]	-48.8	-20.8	2.0	-67.7	278.3	87.7	12.7	378.7	109.4	-9.1	-0.5	99.8	69.3	-17.5	-61.5	-9.7	401.2
Direct investment in Bulgaria[8]	14.3	5.4	21.2	41.0	152.3	63.0	57.5	272.9	48.1	21.9	18.2	88.3	54.8	6.9	34.2	95.9	498.0
Direct investment abroad	-0.2	0.2	-0.1	0.0	3.2	0.0	0.0	3.3	-4.2	0.0	0.3	-3.8	0.1	0.2	1.2	1.5	0.9
Portfolio investment (net)	3.9	10.4	14.8	29.2	82.7	19.1	46.9	148.7	48.1	-25.5	-13.3	9.3	-13.3	-48.6	-48.8	-110.7	76.6
Assets	2.4	1.1	-8.4	-4.8	-0.7	-0.4	0.1	-1.1	-0.8	-2.5	-0.1	-3.3	-12.3	2.5	-1.1	-10.9	-20.2
Liabilities	1.5	9.3	23.2	34.0	83.4	19.6	46.8	149.8	48.9	-23.0	-13.2	12.7	-1.0	-51.0	-47.7	-99.7	96.7
Medium- and long-term loans (net)	-16.7	-7.9	-10.6	-35.2	-8.3	1.4	6.5	-0.4	2.0	43.5	-3.1	42.4	-10.7	11.0	-160.9	-160.6	-153.8
Drawings	5.1	1.9	7.2	14.2	6.6	10.9	11.3	28.8	7.4	56.1	9.3	72.8	5.9	15.1	24.6	45.6	161.4
Official	5.1	1.7	4.4	11.1	6.6	10.9	11.1	28.7	7.1	53.7	9.2	70.0	5.9	15.1	24.6	45.6	155.4
Private	0.0	0.2	2.9	3.1	0.0	0.0	0.1	0.1	0.3	2.3	0.1	2.7	0.0	0.0	0.0	0.1	6.0
Repayments	21.8	9.8	17.8	49.5	14.9	9.5	4.8	29.2	5.4	12.6	12.4	30.4	16.6	4.1	185.5	206.2	315.2
Balance of payments support	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EU loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans extended (net)	29.7	26.7	34.0	90.4	15.0	24.3	-0.2	39.2	0.8	0.2	3.0	4.0	2.6	1.4	1.5	5.5	139.0
Drawings	0.1	0.0	0.0	0.1	9.5	0.0	0.3	9.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.9
Repayments[9]	29.8	26.7	34.0	90.5	24.6	24.3	0.1	48.9	0.8	0.2	3.0	4.0	2.6	1.4	1.5	5.5	148.9

(continued)

(continued) (million USD)

	Jan.	Feb.	March	I quarter	Apr.	May	June	II quarter	July	Aug.	Sep.	III quarter	Oct.	Nov.	Dec.	IV quarter	Total
Short-term debt (net)	-4.2	-6.0	-1.2	-11.4	26.3	2.9	-11.4	17.8	11.0	0.4	-8.4	3.0	1.4	-11.2	22.1	12.3	21.7
Trade credits (net)	1.3	-0.9	3.0	3.4	11.7	1.9	0.8	14.3	1.3	0.9	-1.2	1.0	-0.2	-1.0	-1.2	-2.4	16.2
Short-term loans (net)	-5.2	-4.8	-4.0	-14.1	14.7	1.2	-12.2	3.7	10.0	-0.4	-5.9	3.7	4.5	-10.2	-6.7	-12.4	-19.0
Drawings	16.0	15.9	18.9	50.8	29.2	29.5	10.5	69.2	30.0	30.5	28.3	88.8	27.3	19.1	16.7	63.2	271.9
Repayments	21.2	20.7	23.0	64.9	14.5	28.3	22.6	65.5	20.0	30.9	34.2	85.1	22.8	29.3	23.4	75.5	290.9
Clearing accounts	-0.3	-0.2	-0.1	-0.6	-0.1	-0.2	0.0	-0.2	-0.3	-0.1	-1.4	-1.8	-2.9	0.0	29.9	27.1	24.5
Other capital	-40.3	-46.4	-59.4	-146.1	-2.4	-34.0	-88.9	-125.3	1.3	-49.2	-1.3	-49.3	16.8	30.4	84.4	131.6	-189.0
Domestic banks forex deposits	-15.4	-3.4	-79.8	-98.6	-9.6	-81.6	-129.6	-220.9	-62.7	-92.8	-28.3	-183.7	-24.5	26.4	41.7	43.5	-459.8
Corporate forex deposits	6.0	-1.7	-1.7	2.7	1.1	0.3	3.4	4.8	-3.7	0.4	3.2	-0.2	-0.9	3.8	4.4	7.3	14.6
Other short-term capital (net)	-30.9	-41.3	22.2	-50.1	6.1	47.3	37.4	90.8	67.7	43.2	23.8	134.6	42.2	0.2	38.4	80.8	256.1
Other forex deposits[10]	-30.9	-41.3	22.2	-50.1	6.1	47.3	37.4	90.8	67.7	43.2	23.8	134.6	42.2	0.2	38.4	80.8	256.1
Other capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	-35.4	-3.3	3.2	-35.5	9.4	10.9	2.2	22.6	2.3	-0.4	4.1	6.0	17.6	-7.5	4.8	14.8	7.8
Other assets	-36.4	0.6	0.0	-35.8	8.9	12.0	-1.1	19.9	7.9	-0.8	-1.7	5.5	10.7	-9.0	-1.3	0.4	-10.1
Other liabilities	1.0	-3.9	3.2	0.3	0.5	-1.1	3.3	2.7	-5.7	0.4	5.8	0.5	6.9	1.5	6.1	14.4	17.9
Errors and omissions	-45.0	-26.6	20.9	-50.7	33.9	-19.9	138.5	152.4	12.9	63.3	75.3	151.4	17.1	47.2	34.0	98.3	351.3
OVERALL BALANCE	-103.0	32.4	104.0	33.4	393.2	126.6	95.5	615.3	125.3	114.6	154.3	394.2	138.1	13.6	3.7	155.4	1198.2
Financing[11]	103.0	-32.4	-104.0	-33.4	-393.2	-126.6	-95.5	-615.3	-125.3	-114.6	-154.3	-394.2	-138.1	-13.6	-3.7	-155.4	-1198.2
BNB reserves (increase:-)	102.8	-27.0	-109.4	-33.5	-588.7	-135.0	-103.7	-827.3	-225.6	-194.5	-159.2	-579.3	-139.8	-13.8	-96.9	-250.5	-1690.7
Monetary gold	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-38.1	-6.7	-11.1	-55.9	-9.3	8.9	3.1	2.7	-53.2
Holdings in SDR	-2.4	6.4	-2.2	1.8	8.9	1.0	-15.3	-5.4	15.0	-0.7	0.3	14.7	-0.7	1.5	-10.8	-10.0	1.1
Reserve position with the IMF	1.3	0.4	-0.1	1.6	0.8	-0.9	0.1	0.0	1.0	-0.2	-0.1	0.7	-0.6	0.9	0.0	0.3	2.6
Use of Fund credit (net)	-12.6	-5.4	-18.6	-36.6	171.3	-1.8	0.0	169.5	121.4	79.2	0.0	200.6	-7.6	0.0	68.2	60.6	394.2

* Analytical reporting of the balance of payments in accordance with IMF 4th edition of the Balance of Payments Manual.
[1] Data for 1997 is preliminary.
[2] Preliminary data on imports and exports for 1997 is revised. Data is provided by the MF Computing Center and is adjusted by the BNB.
[3] BNB estimates.
[4] NSI data and BNB estimates.
[5] Interest due.
[6] Including data provided by the Agency for Foreign Aid and the Bulgarian Red Cross.
[7] A minus sign denotes flight of capital (increase in assets or decrease in liabilities).
[8] Data is provided by the MF, Privatization Agency, NSI, Central Depository, specialized ministries and the BNB.
[9] Includes gas deliveries under the Yamburg Agreement.
[10] Includes change in forex deposits of individuals and private companies.
[11] Includes rescheduled payments and arrears.
[12] Settlement data received from commercial banks:

	Jan.	Feb.	March	I quarter	Apr.	May	June	II quarter	July	Aug.	Sep.	III quarter	Oct.	Nov.	Dec.	IV quarter	Total
Trade balance	35.2	65.7	50.8	151.7	52.7	25.7	59.1	137.5	18.1	46.4	-25.5	38.9	-64.2	42.3	-6.7	-28.6	299.5
Exports, FOB	272.8	274.4	318.9	866.1	317.7	347.7	338.8	1004.1	356.9	305.0	313.3	975.2	315.1	344.5	359.0	1018.5	3864.0
Imports, FOB	237.6	208.7	268.2	714.5	265.0	321.9	279.6	866.6	338.8	258.7	338.8	936.3	379.3	302.1	365.7	1047.1	3564.5

Source: BNB.

BALANCE OF PAYMENTS FOR 1997*

(million USD)

	Jan.	Feb.	March	I quarter	Apr.	May	June	II quarter	July	Aug.	Sep.	III quarter	Oct.	Nov.	Dec.	IV quarter	Total
Current account[1]	-9.2	79.8	81.1	151.8	81.0	58.8	-55.7	84.1	3.0	60.5	79.5	143.0	51.6	-16.1	31.2	66.8	445.7
Goods, services and income, net	-15.4	75.8	48.8	109.3	61.6	44.9	-69.2	37.3	-14.7	45.8	37.3	68.4	29.5	-37.3	1.8	-6.0	209.1
credit	519.0	463.4	501.1	1483.5	519.2	554.4	494.1	1567.7	617.6	592.2	550.4	1760.2	553.2	540.9	555.3	1649.4	6460.7
debit	-534.3	-387.6	-452.2	-1374.2	-457.6	-509.5	-563.2	-1530.3	-632.3	-546.4	-513.2	-1691.8	-523.6	-578.2	-553.5	-1655.3	-6251.7
Goods, net[2, 11]	97.9	110.9	96.9	305.7	63.7	53.8	-71.5	46.1	70.2	0.8	27.9	98.8	4.3	-45.4	-13.5	-54.6	396.0
credit	400.2	380.7	403.5	1184.3	411.2	438.8	381.5	1231.5	452.4	405.2	407.9	1265.5	417.1	403.0	412.4	1232.6	4913.9
debit	-302.3	-269.7	-306.6	-878.6	-347.5	-385.0	-452.9	-1185.5	-382.2	-404.3	-380.1	-1166.6	-412.8	-448.5	-425.9	-1287.2	-4518.0
Services, net	-1.6	-19.5	-18.3	-39.4	6.3	2.9	1.5	10.7	60.1	59.9	28.9	148.9	11.7	28.0	10.0	49.7	170.0
credit	81.5	71.5	80.3	233.2	97.7	107.0	82.9	287.6	157.5	174.4	127.2	459.1	115.0	123.1	118.2	356.3	1336.2
Transportation[3]	31.3	27.3	30.2	88.8	30.5	33.5	31.0	95.0	51.0	54.2	43.8	149.0	39.1	37.2	38.5	114.8	447.6
Travel[4]	16.5	10.9	12.5	40.0	13.1	17.4	18.3	48.8	61.2	74.1	47.3	182.7	33.9	30.3	33.4	97.6	369.0
Other services	33.7	33.2	37.5	104.4	54.0	56.1	33.6	143.7	45.3	46.1	36.2	127.5	42.0	55.7	46.3	144.0	519.6
debit	-83.1	-91.0	-98.5	-272.6	-91.3	-104.1	-81.4	-276.8	-97.4	-114.5	-98.3	-310.2	-103.3	-95.1	-108.1	-306.6	-1166.2
Transportation[3]	-32.1	-32.9	-33.2	-98.2	-32.7	-38.7	-46.1	-117.5	-46.3	-47.5	-47.1	-141.0	-48.2	-49.0	-47.0	-144.1	-500.8
Travel[4]	-15.8	-21.3	-17.0	-54.1	-9.4	-12.7	-13.0	-35.1	-23.9	-23.0	-25.8	-72.7	-22.5	-18.6	-18.5	-59.7	-221.6
Other services	-35.2	-36.8	-48.4	-120.4	-49.2	-52.7	-22.3	-124.2	-27.1	-44.0	-25.3	-96.4	-32.6	-27.5	-42.6	-102.8	-443.8
Income, net	-111.6	-15.5	-29.8	-157.0	-8.4	-11.8	0.8	-19.4	-145.0	-14.9	-19.5	-179.4	13.5	-19.9	5.3	-1.1	-356.8
credit	37.3	11.3	17.3	66.0	10.3	8.5	29.7	48.6	7.7	12.6	15.3	35.6	21.0	14.7	24.8	60.5	210.6
Monetary authorities	3.7	3.9	5.0	12.6	3.9	1.1	14.5	19.5	0.9	5.1	6.2	12.3	9.6	5.8	1.7	17.1	61.5
General government	22.7	0.0	0.0	22.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.7
Banks	2.8	2.4	2.9	8.1	3.2	3.9	12.0	19.2	3.6	4.9	5.8	14.3	7.8	5.6	18.8	32.3	73.9
Other sectors	8.2	5.0	9.4	22.5	3.2	3.6	3.1	9.9	3.3	2.6	3.2	9.1	3.5	3.3	4.2	11.0	52.6
debit	-149.0	-26.8	-47.1	-222.9	-18.8	-20.4	-28.9	-68.0	-152.7	-27.6	-34.8	-215.0	-7.5	-34.6	-19.4	-61.5	-567.5
Monetary authorities	0.0	-6.3	0.0	-6.3	0.0	-6.1	0.0	-6.1	0.0	-8.0	0.0	-8.0	0.0	-10.2	0.0	-10.2	-30.6
General government	-142.1	-16.3	-42.9	-201.2	-16.8	-10.2	-23.0	-50.0	-138.1	-18.4	-31.5	-188.0	-6.1	-4.1	-17.2	-27.3	-466.5
Banks	-3.1	-0.3	-1.9	-5.2	-1.3	-0.3	-0.9	-2.5	-12.2	-0.2	-1.9	-14.4	-0.8	-0.5	-0.3	-1.5	-23.7
Other sectors	-3.8	-4.1	-2.4	-10.2	-0.6	-3.9	-5.0	-9.5	-2.4	-0.9	-1.4	-4.6	-0.6	-19.8	-2.0	-22.4	-46.7
Current transfers, net	6.1	4.0	32.3	42.5	19.4	13.9	13.5	46.8	17.7	14.6	42.2	74.6	22.1	21.3	29.4	72.8	236.6
credit	16.0	8.5	36.4	61.0	20.8	15.9	15.0	51.6	19.6	16.1	44.2	80.0	25.0	25.3	32.4	82.7	275.3
General government[5]	7.1	1.9	28.0	36.9	7.9	3.5	3.0	14.4	6.6	5.5	31.7	43.8	11.3	6.7	16.2	34.2	129.4
Other sectors	9.0	6.7	8.4	24.0	12.9	12.4	11.9	37.2	13.0	10.6	12.5	36.1	13.7	18.6	16.2	48.6	145.9
debit	-9.9	-4.5	-4.1	-18.5	-1.4	-2.0	-1.4	-4.8	-1.9	-1.5	-2.0	-5.4	-2.9	-4.0	-3.0	-10.0	-38.7
General government	0.0	0.0	0.0	-0.1	0.0	-0.5	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.6
Other sectors	-9.9	-4.5	-4.0	-18.4	-1.4	-1.5	-1.4	-4.3	-1.9	-1.5	-2.0	-5.4	-2.9	-4.0	-3.0	-10.0	-38.1
Capital and financial account[1, 6]	52.9	-53.5	-101.9	-102.6	-115.6	-38.0	-82.9	-236.5	21.3	-116.9	-143.6	-239.2	-58.8	-40.9	-68.3	-168.1	-746.4
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital transfers, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

(continued)

(continued) (million USD)

	Jan.	Feb.	March	I quarter	Apr.	May	June	II quarter	July	Aug.	Sep.	III quarter	Oct.	Nov.	Dec.	IV quarter	Total
Financial account	52.9	-53.5	-101.9	-102.6	-115.6	-38.0	-82.9	-236.5	21.3	-116.9	-143.6	-239.2	-58.8	-40.9	-68.3	-168.1	-746.4
Direct investment	14.1	5.7	21.1	41.0	155.6	63.0	57.5	276.1	44.0	21.9	18.5	84.4	54.9	7.1	35.5	97.4	499.0
Abroad	-0.2	0.2	-0.1	0.0	3.2	0.0	0.0	3.3	-4.2	0.0	0.3	-3.8	0.1	0.2	1.2	1.5	0.9
In reporting country[7]	14.3	5.4	21.2	41.0	152.3	63.0	57.5	272.9	48.1	21.9	18.2	88.3	54.8	6.9	34.2	95.9	498.0
Portfolio investment	3.9	10.4	14.8	29.2	82.7	19.1	46.9	148.7	48.1	-25.5	-13.3	9.3	-13.3	-48.6	-48.8	-110.7	76.6
Assets	*2.4*	*1.1*	*-8.4*	*-4.8*	*-0.7*	*-0.4*	*0.1*	*-1.1*	*-0.8*	*-2.5*	*-0.1*	-3.3	*-12.3*	*2.5*	*-1.1*	-10.9	-20.2
Liabilities	*1.5*	*9.3*	*23.2*	*34.0*	*83.4*	*19.6*	*46.8*	*149.8*	*48.9*	*-23.0*	*-13.2*	12.7	*-1.0*	*-51.0*	*-47.7*	-99.7	96.7
Other investments	-66.7	-42.3	-28.6	-137.6	235.6	13.9	-83.6	165.9	117.6	74.4	-0.9	191.2	29.5	24.2	45.0	98.7	318.1
Assets	*-47.1*	*-19.1*	*-25.4*	*-91.5*	*21.6*	*2.3*	*-90.2*	*-66.3*	*10.0*	*-49.8*	*0.0*	-39.8	*30.1*	*22.8*	*84.6*	137.5	-60.1
Trade credits, net	-0.1	0.0	0.0	*-0.1*	-9.5	9.6	0.1	0.2	-0.3	0.2	0.0	-0.2	-0.1	0.0	0.0	-0.1	-0.2
Loans	29.8	26.7	34.0	90.5	24.6	14.7	-0.3	39.0	1.1	0.0	3.0	4.2	2.7	1.4	1.5	5.6	139.3
General government[8]	29.6	26.7	33.8	90.1	24.5	14.6	0.0	39.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	129.2
Long-term	29.6	26.7	33.8	90.1	24.5	14.6	0.0	39.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	129.2
Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.5
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.5
Other sectors	0.2	0.0	0.2	0.4	0.0	0.1	-0.3	-0.1	0.7	0.0	3.0	3.8	2.7	1.4	1.5	5.6	9.6
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5	1.6	0.2	0.1	1.3	1.5	3.1
Short-term	0.2	0.0	0.2	0.4	0.0	0.1	-0.3	-0.1	0.7	0.0	1.5	2.2	2.5	1.3	0.3	4.1	6.5
Currency and deposits	-9.4	-5.1	-81.5	-96.0	-8.5	-81.3	-126.2	-216.1	-66.4	-92.4	-25.1	-183.9	-25.4	30.2	46.0	50.8	-445.2
Banks	-15.4	-3.4	-79.8	-98.6	-9.6	-81.6	-129.6	-220.9	-62.7	-92.8	-28.3	-183.7	-24.5	26.4	41.7	43.5	-459.8
Other sectors	6.0	-1.7	-1.7	2.7	1.1	0.3	3.4	4.8	-3.7	0.4	3.2	-0.2	-0.9	3.8	4.4	7.3	14.6
Other assets	-36.4	0.6	0.0	-35.8	8.9	12.0	-1.1	19.9	7.9	-0.8	-1.7	5.5	10.7	-9.0	-1.3	0.4	-10.1
General government	-22.7	0.0	0.0	-22.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-22.7
Banks	-13.7	0.6	0.0	-13.1	8.9	12.0	-1.1	19.9	7.9	-0.8	-1.7	5.5	10.7	-9.0	-1.3	0.4	12.6
Short-term	-13.7	0.6	0.0	-13.1	8.9	12.0	-1.1	19.9	7.9	-0.8	-1.7	5.5	10.7	-9.0	-1.3	0.4	12.6
Other	-30.9	-41.3	22.2	-50.1	6.1	47.3	37.4	90.8	67.7	43.2	23.8	134.6	42.2	0.2	38.4	80.8	256.1
Other currency and deposits[9]	-30.9	-41.3	22.2	-50.1	6.1	47.3	37.4	90.8	67.7	43.2	23.8	134.6	42.2	0.2	38.4	80.8	256.1
Other capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	*-19.7*	*-23.2*	*-3.3*	*-46.1*	*214.0*	*11.6*	*6.6*	*232.2*	*107.7*	*124.2*	*-0.9*	231.0	*-0.6*	*1.5*	*-39.6*	-38.8	378.3
Trade credits, net	1.3	-0.9	3.0	*3.4*	11.7	1.9	0.8	14.3	1.3	0.9	-1.2	1.0	-0.2	-1.0	-1.2	-2.4	16.2
Loans	-33.9	-18.3	-32.7	-85.0	177.7	1.4	-5.7	173.4	133.8	122.2	-9.9	246.1	-16.7	0.8	-69.5	-85.4	249.1
Monetary authorities	-12.6	-5.4	-18.6	-36.6	171.3	-1.8	0.0	169.5	121.4	79.2	0.0	200.6	-7.6	0.0	68.2	60.6	394.2
Use of IMF credits	-12.6	-5.4	-18.6	-36.6	171.3	-1.8	0.0	169.5	121.4	79.2	0.0	200.6	-7.6	0.0	68.2	60.6	394.2
Drawings	0.0	0.0	0.0	0.0	178.4	0.0	0.0	178.4	135.9	84.5	0.0	220.4	0.0	0.0	83.3	83.3	482.1
Repayments	-12.6	-5.4	-18.6	-36.6	-7.0	-1.8	0.0	-8.8	-14.5	-5.3	0.0	-19.7	-7.6	0.0	-15.2	-22.8	-87.9
General government	-3.8	-8.3	-11.7	-23.8	-7.8	2.8	7.9	2.9	2.0	41.7	-3.3	40.3	-12.2	11.5	-102.9	-103.6	-84.1
Long-term loans	-3.8	-8.3	-11.7	-23.8	-7.8	2.8	7.9	2.9	2.0	41.7	-3.3	40.3	-12.2	11.5	-102.9	-103.6	-84.1
Drawings	5.1	1.7	4.4	11.1	6.6	10.9	11.1	28.7	7.1	53.7	9.2	70.0	5.9	15.1	24.6	45.6	155.4
Repayments	-8.9	-10.0	-16.0	-34.9	-14.5	-8.1	-3.2	-25.8	-5.1	-12.1	-12.5	-29.7	-18.0	-3.6	-127.5	-149.1	-239.5
Banks	-12.3	0.0	-2.2	-14.5	-0.9	-3.8	-1.5	-6.2	-1.8	-0.7	-1.4	-3.8	-1.4	-1.8	-27.6	-30.9	-55.5
Long-term loans	-12.3	0.0	-1.9	-14.2	0.0	-1.5	-1.5	-3.0	-0.5	-0.7	-1.2	-2.4	-0.5	0.0	-27.5	-28.0	-47.6
Drawings[10]	0.9	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Repayments	-13.2	0.0	-1.9	-15.1	0.0	-1.5	-1.5	-3.0	-0.6	-0.7	-1.2	-2.4	-0.5	0.0	-27.5	-28.0	-48.5
Short-term loans, net	0.0	0.0	-0.3	-0.3	-0.9	-2.3	0.0	-3.2	-1.2	0.0	-0.2	-1.5	-0.9	-1.8	-0.1	-2.9	-7.9

(continued)

(continued) (million USD)

	Jan.	Feb.	March	I quarter	Apr.	May	June	II quarter	July	Aug.	Sep.	III quarter	Oct.	Nov.	Dec.	IV quarter	Total
Drawings	0.9	0.0	0.7	1.6	0.0	0.8	0.0	0.8	0.7	0.0	0.4	1.1	0.0	0.1	0.1	0.3	3.7
Repayments	-1.0	0.0	-1.0	-1.9	-0.9	-3.1	0.0	-3.9	-2.0	0.0	-0.6	-2.6	-0.9	-2.0	-0.3	-3.2	-11.6
Other sectors, net	-5.2	-4.6	-0.3	-10.1	15.0	4.2	-12.1	7.2	12.2	2.0	-5.2	9.0	4.5	-8.9	-7.1	-11.5	-5.4
Long-term loans	0.0	0.2	2.9	3.1	-0.5	0.0	0.1	-0.5	0.2	2.3	0.1	2.7	-0.9	-0.5	-0.6	-2.0	3.3
Drawings	0.0	0.2	2.9	3.1	0.0	0.0	0.1	0.1	0.3	2.3	0.1	2.7	0.0	0.0	0.0	0.1	5.9
Repayments	0.0	0.0	0.0	0.0	-0.5	0.0	0.0	-0.6	0.0	0.0	0.0	0.0	-0.9	-0.5	-0.6	-2.0	-2.6
Short-term loans	-5.2	-4.8	-3.1	-13.2	15.6	4.2	-12.2	7.7	12.0	-0.4	-5.3	6.3	5.4	-8.4	-6.5	-9.5	-8.7
Drawings	15.0	15.9	18.9	49.8	29.2	29.5	10.5	69.2	30.0	30.5	28.3	88.8	27.3	18.9	16.6	62.9	270.6
Repayments	-20.2	-20.7	-22.0	-62.9	-13.6	-25.3	-22.6	-61.5	-18.0	-30.9	-33.6	-82.5	-21.9	-27.3	-23.1	-72.4	-279.3
Currency and deposits	1.0	-3.9	2.9	0.0	0.5	-1.1	3.3	2.7	-5.7	0.4	5.8	0.5	6.9	1.5	6.1	14.4	17.7
Banks	1.0	-3.9	2.9	0.0	0.5	-1.1	3.3	2.7	-5.7	0.4	5.8	0.5	6.9	1.5	6.1	14.4	17.7
Other liabilities	11.9	0.0	23.6	35.5	24.1	9.4	8.2	41.8	-21.8	0.7	4.5	-16.6	9.4	0.2	25.0	34.6	95.2
General government	0.0	0.0	21.1	21.1	23.2	10.1	5.9	39.2	-23.3	0.0	2.5	-20.8	11.8	0.0	2.5	14.3	53.8
Banks	11.9	0.0	2.5	14.4	0.9	-0.7	2.3	2.5	1.5	0.7	2.0	4.2	-2.4	0.2	22.5	20.3	41.4
Short-term[10]	11.9	0.0	2.5	14.4	0.9	-0.7	2.3	2.5	1.5	0.7	2.0	4.2	-2.4	0.2	22.5	20.3	41.4
BNB reserves (increase:-)	101.5	-27.4	-109.3	-35.1	-589.4	-134.1	-103.8	-827.3	-188.5	-187.6	-148.0	-524.1	-129.9	-23.7	-100.0	-253.6	-1640.1
Special drawing rights	-2.4	6.4	-2.2	1.8	8.9	1.0	-15.3	-5.4	15.0	-0.7	0.3	14.7	-0.7	1.5	-10.8	-10.0	1.1
Foreign exchange reserves	103.9	-33.8	-107.1	-36.9	-598.3	-135.1	-88.5	-821.9	-203.5	-186.9	-148.3	-538.8	-129.2	-25.1	-89.3	-243.6	-1641.2
Errors and omissions	-43.7	-26.3	20.8	-49.1	34.6	-20.8	138.6	152.3	-24.3	56.4	64.1	96.2	7.2	57.0	37.1	101.3	300.7

* Standard reporting of the balance of payments in accordance with IMF 5th edition of the Balance of Payments Manual.
[1] Data for 1997 is preliminary.
[2] Preliminary data on imports and exports for 1997 is revised. Data is provided by the MF Computing Center and NSI and is adjusted by the BNB.
[3] BNB estimates.
[4] NSI data and BNB estimates.
[5] Including data provided by the Agency for Foreign Aid and the Bulgarian Red Cross.
[6] A minus sign denotes flight of capital (increase in assets or decrease in liabilities).
[7] Data is provided by the MF, Privatization Agency, NSI, Central Depository, specialized ministries and the BNB
[8] Includes gas deliveries under the Yamburg Agreement.
[9] Includes change in forex deposits of individuals and private companies.
[10] Includes rescheduled payments and arrears of commercial banks to nonresidents.
[11] Settlement data received from commercial banks:

	Jan.	Feb.	March	I quarter	Apr.	May	June	II quarter	July	Aug.	Sep.	III quarter	Oct.	Nov.	Dec.	IV quarter	Total
Goods, net	35.2	65.7	50.8	151.7	52.7	25.7	59.1	137.5	18.1	46.4	-25.5	38.9	-64.2	42.3	-6.7	-28.6	299.5
Credit	272.8	274.4	318.9	866.1	317.7	347.7	338.8	1004.1	356.9	305.0	313.3	975.2	315.1	344.5	359.0	1018.5	3864.0
Debit	-237.6	-208.7	-268.2	-714.5	-265.0	-321.9	-279.6	-866.6	-338.8	-258.7	-338.8	-936.3	-379.3	-302.1	-365.7	-1047.1	-3564.5

Source: BNB.

GROSS FOREIGN DEBT

(million USD)

Creditors	1991	1992	1993	1994	1995	1996	1997[1]
GROSS FOREIGN DEBT (A + B)[2]	12301.1	13857.7	13889.4	11411.4	10229.2	9595.6	9763.3
A. Long-term debt	2676.0	3167.0	3256.6	9267.9	8841.3	8555.0	8409.1
Public and publicly guaranteed	2274.0	2658.0	2740.0	8755.0	8499.7	8319.7	8300.1
Nonguaranteed	402.0	509.0	516.6	512.9	341.6	235.2	109.0
I. Official creditors	1872.0	2256.0	2338.0	3216.0	3084.6	3188.5	3271.8
1. International financial institutions	744.0	1099.0	1151.0	1804.0	1627.1	1983.9	2241.8
IMF	401.0	590.0	632.0	941.0	716.7	584.6	936.4
World Bank	142.0	152.0	155.0	396.0	410.6	455.8	540.4
EU	201.0	357.0	357.0	444.0	460.6	495.5	286.4
Other international financial institutions	0.0	0.0	13.0	44.0	69.2	448.1	487.6
incl. EIB	0.0	0.0	7.0	23.0	39.2	118.5	165.3
EBRD	0.0	0.0	6.0	21.0	30.0	84.3	87.0
2. Bilateral credits	1128.0	1157.0	1181.0	1391.0	1427.5	1204.5	1030.1
Paris Club and nonrescheduled debt	1128.0	1095.0	1100.0	1240.0	1237.6	1034.5	877.9
Other bilateral credits	0.0	62.0	81.0	151.0	189.9	170.0	152.2
II. Private creditors	804.0	911.0	918.6	6051.9	5756.7	5366.4	5137.2
Brady bonds	0.0	0.0	0.0	5137.0	5005.4	4984.0	4924.4
Bulbank bonds	402.0	402.0	402.0	402.0	409.7	147.2	80.8
Commercial banks	402.0	509.0	511.0	479.0	273.3	155.9	47.3
Other private creditors	-	-	5.6	33.9	68.3	79.3	84.8
B. Short-term debt[3]	9625.1	10690.7	10632.8	2143.5	1387.9	1040.6	1354.3
Public and publicly guaranteed	8147.0	9289.9	9550.8	1660.5	915.9	663.3	878.4
Nonguaranteed	1478.1	1400.7	1082.1	482.9	472.0	377.3	475.8
I. *Former Comecon creditors*	1276.0	1260.9	1235.8	1660.5	915.9	648.0	684.0
II. *Commercial banks*	6871.0	8029.0	8315.0	26.0	201.1	184.6	229.3
III. *Other private creditors*[4]	1478.1	1400.7	1082.1	457.0	270.9	208.1	441.0

Debt indicators, %	1991	1992	1993	1994	1995	1996	1997[1]
Short-term debt/gross foreign debt	78.2	77.1	76.6	18.8	13.6	10.8	13.9
Gross foreign debt/GDP	161.9	161.1	131.0	118.9	78.7	102.8	97.0
Short-term debt/GDP	126.6	124.3	100.3	22.3	10.7	11.1	13.5
Gross foreign debt/exports[5]	297.4	275.7	283.6	219.8	151.0	153.4	155.9
Foreign debt service/GDP[6]	3.2	5.1	4.0	15.1	7.3	11.6	8.9
Foreign debt service/exports[5, 6]	5.8	8.8	8.7	27.9	13.9	17.2	14.4

[1] Preliminary data.
[2] In convertible currencies. Data is provided by the BNB, MF and Bulbank.
[3] Including overdue principals and interest.
[4] Including nonresidents' deposits at local commercial banks, nonresidents' purchases of government securities denominated in foreign currency and credits extended to local physical and legal persons by nonresident private creditors.
[5] Exports of goods and services.
[6] Actually paid principals and interest.

Source: BNB.

FOREIGN DEBT SERVICE

(million USD)

Creditors	1996	1997[1]
GROSS FOREIGN DEBT (A + B)[2]	1078.9	897.1
A. Long-term debt	1022.0	806.6
I. Official creditors	501.8	462.6
1. International financial institutions	326.7	358.1
IMF	254.0	118.7
World Bank	41.0	44.0
EU/EIB/EBRD[3]	31.7	195.4
2. Bilateral credits	175.2	104.5
Paris Club and nonrescheduled debt	157.0	89.6
Other bilateral credits	18.2	14.9
II. Private creditors	520.2	344.0
Brady bonds	262.0	266.5
Bulbank bonds	222.8	58.7
Commercial banks	27.5	2.5
Other private creditors	7.9	16.3
B. Short-term debt[4]	56.8	90.6

[1] Preliminary data.
[2] In convertible currencies. Data is provided by the BNB, MF and Bulbank.
[3] Debt to the EU, EIB and EBRD.
[4] Including payments on commercial banks' short-term debt, former Comecon creditors and other private creditors.

Source: BNB.

CASH BASIS REPORTING OF THE CENTRAL GOVERNMENT BUDGET

Indicators	1996				1997			
	SBL, million BGL	Reporting as of 31 Dec., million BGL	% of the SBL	% of GDP	SBL, million BGL	Reporting as of 31 Dec., million BGL	% of the SBL	% of GDP
I. Total revenue	358 216.9	349 979.4	97.7	20.0	2 560 288.3	2 983 320.1	116.5	17.4
1.1. Current revenues	358 216.9	349 979.4			2 560 288.3	2 979 998.7	116.4	17.4
1.1.1. Tax revenues	302 533.6	287 279.3	95.0	16.4	2 265 849.2	2 724 962.1	120.3	15.9
corporate tax from financial institutions	20 600.0	11 984.7	58.2	0.7	108 986.1	78 049.7	71.6	0.5
corporate tax from nonfinancial enterprises	29 628.9	45 947.0	155.1	2.6	343 389.0	531 557.9	154.8	3.1
customs duties and fees	46 000.0	38 153.5	82.9	2.2	344 156.8	357 465.2	103.9	2.1
VAT	113 300.0	116 932.7	103.2	6.7	1 037 400.0	1 048 816.5	101.1	6.1
1.1.2. Nontax revenues	55 683.3	62 700.1	112.6	3.6	294 439.1	255 036.6	86.6	1.5
including:								
BNB – excess of revenue over expenditure	17 000.0	22 435.6	132.0	1.3	34 000.0	34 000.0	100.0	0.2
interest revenue	3 164.8	4 218.9	133.3	0.2	10 720.0	29 597.4	276.1	0.2
1.2. Revenue from sale of state property						3 321.2		0.0
II. Total expenditure	564 238.0	540 848.1	95.9	30.9	3 496 873.2	3 650 007.7	104.4	21.3
1. Current expenditures	397 294.7	374 235.3	94.2	21.4	1 736 877.4	1 895 373.1	109.1	11.1
including:								
other expenditures	9 866.3	7 839.0	79.5	0.4	55 104.1	95 809.0	173.9	0.6
subsidies	10 495.8	10 316.1	98.3	0.6	79 641.0	108 913.9	136.8	0.6
interest – total	356 308.7	343 958.7	96.5	19.7	1 547 320.5	1 328 203.4	85.8	7.8
interest on external loans	47 843.5	47 476.5	99.2	2.7	486 456.0	418 656.2	86.1	2.4
interest on internal loans	308 465.2	296 482.2	96.1	17.0	1 060 864.5	909 547.2	85.7	5.3
including:								
on government securities issued for deficit financing (interest and discounts)	131 706.8	133 290.6	101.2	7.6	724 223.8	590 783.7	81.6	3.5
on government securities – noncash issues	94 569.9	94 216.7	99.6	5.4	204 776.0	195 971.0	95.7	1.1
on loans from BNB	62 282.3	48 603.0	78.0	2.8	129 520.0	120 855.8	93.3	0.7
2. Capital expenditures and state reserve growth	2 166.5	1 692.9	78.1		11 723.0	31 786.0	271.1	0.2
3. Structural reform and rehabilitation program				0.0	138 900.0	5 500.0	4.0	0.0
4. For elimination of elemental calamities consequences					6 500.0	0.0	0.0	
5. Transfers from CGB to other budgets	164 776.8	164 919.9	100.1	9.4	1 525 316.0	1 595 367.6	104.6	9.3
5.1. Subsidies	165 550.8	165 078.8	99.7	9.4	1 534 099.4	1 605 155.8	104.6	9.4
5.2. Temporary loans from general government budget to		434.3		0.0		-434.3		
municipal councils		434.3		0.0		-434.3		
regional municipal councils		0.0		0.0		0.0		
ministries and other government institutions		0.0		0.0		0.0		
Social Security		0.0		0.0		0.0		
extrabudgetary accounts and funds		0.0				0.0		
legal authorities		0.0		0.0		0.0		
special agencies		0.0				0.0		
state higher schools		0.0				0.0		
5.3. General government budget contributions	-774.0	-593.2	76.6	0.0	-8 783.4	-9 353.9	106.5	0.5
6. Transfers from CGB to extrabudgetary accounts					77 556.8	121 981.0	157.3	0.7

(continued)

(continued)

Indicators	1996 SBL, million BGL	1996 Reporting as of 31 Dec., million BGL	1996 % of the SBL	1996 % of GDP	1997 SBL, million BGL	1997 Reporting as of 31 Dec., million BGL	1997 % of the SBL	1997 % of GDP
III. Deficit (-) / Surplus (+)								
1. Primary deficit/surplus	150 287.6	153 090.0	101.9	8.8	610 735.6	661 515.8	108.3	3.9
Interest paid on internal loans	308 465.2	296 482.2	96.1	17.0	1 060 864.5	909 547.2	85.7	5.3
2. Internal deficit	-158 177.6	-143 392.2	90.7	8.2	-450 128.9	-248 031.4	55.1	1.5
Interest paid on external loans	47 843.5	47 476.5	99.2	2.7	486 456.0	418 656.2	86.1	2.4
3. Cash deficit	-206 021.1	-190 868.7	92.6	10.9	-936 585.0	-666 687.7	71.2	3.9
IV. Cash deficit financing	206 021.1	190 868.7	92.6	10.9	936 585.0	666 687.7	71.2	3.9
1. Foreign financing (operations abroad)	-51 891.3	-50 108.4	96.6	2.9	133 247.8	-205 362.7	154.1	1.2
1.1. External loans					373 660.0	0.0		
1.2. Repayments on credits extended to other countries	79.9	85.4	106.9		14.0	203.3	1 452.1	
1.3. Repayments on external loans	-47 931.6	-48 121.0	100.4		-208 346.2	-181 354.2	87.0	
1.4. Overdue payments	-3 915.5	-3 192.4	81.5		-16 930.0	-9 133.7	53.9	
1.5. Repayments on trade deficit in transferable roubles with former Comecon countries	-2 524.0	-580.4	23.0		-15 000.0	-14 928.1	99.5	
1.6. Lev bills					-150.0	-150.0	100.0	
1.7. Claims	2 400.0	1 700.0						
2. Domestic financing	257 912.4	240 977.0	93.4	13.8	803 337.2	872 050.4	108.6	5.1
2.1. Operations in government securities (net)	142 663.4	146 409.1	102.6		474 724.4	568 533.3	119.8	
Issue of government securities in the current year, net	248 127.9	251 778.9	101.5			779 259.9		
Issue of treasury bills		377 027.8				4 464 104.0		
Issue of bonds		27 085.6				114 625.3		
Repayment of government securities in the current year – total		-257 704.3				-4 010 196.0		
Repayment of government securities issued in the current year		-152 334.5				-3 799 469.4		
Repayment of government securities issued in previous years	-105 464.5	-105 369.8	99.9			-210 726.6		
2.2. Bank financing, net	111 536.3	111 536.3	100.0					
BNB, net	112 009.3	112 009.3	100.0		-8 985.5	523 873.8	5 830.2	
Long-term loans	115 000.0	115 000.0			66 800.0	66 800.0		
Repayments on long-term loans	-2 990.7	-2 990.7	100.0		-75 785.5	-78 520.5	103.6	
Temporary loans		118 089.0				60 000.0		
Repayments on temporary loans		-118 089.0				-60 000.0		
Loans from BNB under Article 45 of LBNB						535 594.3		
Repayments on credits from SSB (SII)	-473.0	-473.0	100.0		-253.0	-253.0		
2.3. Deposits, net	3 712.7	-17 017.0			-98 368.1	-580 948.7		
balances from past periods	3 712.7	3 712.7			20 803.5	20 681.8		
balances on accounts by end of period		-20 729.7			-119 171.6	-601 630.5		
budget deposit in levs		-20 729.7				-1 062.8		
time deposit in levs						0.0		
forex budget deposit (lev equivalent)						-600 567.7		
2.4. Other financing		48.6			-103 922.6	-103 861.1		
Loans to budget from SFRD, net						-103 861.1		
Loans to budget from SFRD						98 877.4		
Repayments on loans from SFRD						-202 738.6		
Loans repaid by municipal councils from previous years		48.6						
2.5. Foreign currency revaluation						4 257.7		
2.6. Revenue from privatization			0.0		540 142.0	460 448.4	85.2	

Notes: 1. The information on cash basis reporting of the central government budget is based on the cable accountancy received by commercial banks and is classified according to the method applied by the MF.
2. Allocation of expenditure projected by the Law is based on MF data.

Source: BNB.

CONSOLIDATED STATE BUDGET

Indicators	Consolidated State Budget				General Government Budget						Legal Institutions					
	31 December 1996		31 December 1997		31 December 1996			31 December 1997			31 December 1996			31 December 1997		
	Reporting, million BGL	% of GDP	Reporting, million BGL	% of GDP	Reporting, million BGL	Share	% of GDP	Reporting, million BGL	Share	% of GDP	Reporting, million BGL	Share	% of GDP	Reporting, million BGL	Share	% of GDP
Net revenue	579 493.4	33.1	5 538 154.8	32.4	349 979.4	60.4	20.0	3 148 939.8	56.9	18.4	3 902.2	0.7	0.2	17 069.4	0.3	0.1
Net expenditure	763 379.2	43.7	6 073 833.8	35.5	497 641.3	65.2	28.5	3 230 020.8	53.2	18.9	4 119.0	0.5	0.2	41 537.7	0.7	0.2
Government transfers	0.0		0.0		44 083.0		2.5	555 337.1		3.2	-365.0		0.0	-25 266.0		0.1
Budget deficit	-183 885.8	10.5	-535 679.0	3.1	-191 744.9		11.0	-636 418.1		3.7	148.2		0.0	797.7		0.0
Financing, net	183 885.8	10.5	535 679.0	3.1	191 744.9		11.0	636 418.1		3.7	-148.2		0.0	-797.7		0.0
Foreign financing, net	-50 108.3	2.9	337.3	0.0	-50 108.3		2.9	-205 362.7		1.2			0.0			0.0
Domestic financing, net	233 994.1	13.4	535 341.7	3.1	241 853.2		13.8	841 780.8		4.9	-148.2		0.0	-797.7		0.0
Operations in government securities, net	146 409.1		565 833.2		146 409.1			568 533.2								
Bank, net	86 687.5		-654 267.3		94 498.0			-87 728.2			-148.2			-797.7		
BNB, net	77 573.1		-193 263.0		94 992.3			-80 442.4			59.7			-852.3		
Long-term loans	115 000.0		602 394.3		115 000.0			602 394.3			0.0			0.0		
Repayments	-2 990.7		-78 520.5		-2 990.7			-78 520.5			0.0			0.0		
Temporary loans	118 089.0		60 000.0		118 089.0			60 000.0			0.0			0.0		
Repayments	-118 089.0		-60 000.0		-118 089.0			-60 000.0			0.0			0.0		
Balances on lev accounts	-43 336.0		-138 433.5		-20 729.7			-24 430.3			-124.4			-976.7		
Balances on forex accounts – lev equivalent	0.0		-600 567.7					-600 567.7			0.0			0.0		
Time deposit in levs	0.0		0.0					0.0			0.0			0.0		
Balances from past periods	8 899.8		21 864.4		3 712.7			20 681.8			184.1			124.4		
Other banks and financial institutions, net	9 114.4		-461 004.3		-494.3			-7 285.8			-207.9			54.6		
Credits extended	0.0		0.0					0.0			0.0			0.0		
Repayments	-473.0		-253.0		-473.0			-253.0			0.0			0.0		
Loans repaid from regional municipal councils	48.6				48.6						0.0					
Resources on accounts, net	9 538.8		-460 751.3		-69.9			-7 032.8			-207.9			54.6		
Balances from past periods	10 468.6		178 433.6		0.0			73.8			0.0			207.9		
Balances on accounts	-929.8		-639 184.9		-69.9			-7 106.6			-207.9			-153.3		
Other financing	897.5		169.7		946.1			-103 730.3			0.0			0.0		
Temporary noninterest-bearing loans								130.8								
Loans to budget from SFRD, net	0.0		-103 861.1					-103 861.1								
Revenue from privatization	0.0		537 598.4					460 448.4								
Foreign currency revaluation	0.0		86 007.7					4 257.7								
Issue of municipal bonds	1.1		0.0													

(continued)

(continued)

Indicators	Social Security						Municipal Councils						Extrabudgetary Accounts					
	31 December 1996			31 December 1997			31 December 1996			31 December 1997			31 December 1996			31 December 1997		
	Reporting, million BGL	Share	% of GDP	Reporting, million BGL	Share	% of GDP	Reporting, million BGL	Share	% of GDP	Reporting, million BGL	Share	% of GDP	Reporting, million BGL	Share	% of GDP	Reporting, million BGL	Share	% of GDP
Net revenue	131 249.8	22.6	7.5	1 338 329.4	24.2	7.8	74 221.9	12.8	4.2	655 016.2	11.8	3.8	20 140.1	3.5	1.2	378 800.0	6.8	2.2
Net expenditure	138 005.8	18.1	7.9	1 294 772.3	21.3	7.6	110 783.3	14.5	6.3	990 603.0	16.3	5.8	12 829.8	1.7	0.7	516 900.0	8.5	3.0
Government transfers	-6 777.7		0.4	-68 411.2		0.4	-36 940.3		2.1	-348 659.9		2.0	0.0		0.0	-113 000.0		0.7
Budget deficit	21.7		0.0	111 968.3		0.7	378.9		0.0	13 073.1		0.1	7 310.3		-0.4	-25 100.0		-0.1
Financing, net	-21.7		0.0	-111 968.3		0.7	-378.9		0.0	-13 073.1		0.1	-7 310.3		-0.4	25 100.0		-1.5
Foreign financing, net			0.0						0.0			0.0			0.0	205 700.0		1.2
Domestic financing, net	-21.7		0.0	-111 968.3		0.7	-378.9		0.0	-13 073.1		0.1	-7 310.3		-0.4	-180 600.0		1.1
Operations in government securities, net																-2 700.0		
Bank, net	-21.7			-111 968.3			-330.3			-13 073.1			-7 310.3			-440 700.0		
BNB, net	-21.7			-111 968.3			0.0			0.0			-17 457.2			0.0		
Long-term loans	0.0			0.0			0.0			0.0			0.0			0.0		
Repayments	0.0			0.0			0.0			0.0			0.0			0.0		
Temporary loans	0.0			0.0			0.0			0.0			0.0			0.0		
Repayments	0.0			0.0			0.0			0.0			0.0			0.0		
Balances on lev accounts	-1058.2			-113 026.5			0.0			0.0			-21 423.7					
Balances on forex accounts – lev equivalent	0.0			0.0			0.0			0.0			0.0			0.0		
Time deposit in levs	0.0			0.0			0.0			0.0			0.0			0.0		
Balances from past periods	1 036.5			1 058.2			0.0			0.0			3 966.5					
Other banks and financial institutions, net	0.0			0.0			-330.3			-13 073.1			10 146.9			-440 700.0		
Credits extended	0.0			0.0			0.0			0.0			0.0			0.0		
Repayments	0.0			0.0			0.0			0.0			0.0			0.0		
Loans repaid from regional municipal councils	0.0			0.0			0.0			0.0			0.0			0.0		
Resources on accounts, net	0.0			0.0			-330.3			-13 073.1			10 146.9			-440 700.0		
Balances from past periods	0.0			0.0			321.7			651.9			10 146.9			177 500.0		
Balances on accounts	0.0			0.0			-652.0			-13 725.0			0.0			-618 200.0		
Other financing	0.0			0.0			-48.6			0.0						103 900.0		
Temporary noninterest-bearing loans	0.0															0.0		
Loans to budget from SFRD, net	0.0									0.0						0.0		
Revenue from privatization	0.0															77 150.0		
Foreign currency revaluation	0.0															81 750.0		
Issue of municipal bonds							1.1											

Notes: 1. GDP for 1996 used in the table is BGL 1,748.7 billion.
2. GDP for 1997 used in the table is BGL 17,103 billion.
3. General government budget includes central government budget, budgets of ministries and agencies, budgets of regional municipal councils, and the budget of the National Audit Chamber.

Source: BNB and MF preliminary data.

DOMESTIC GOVERNMENT DEBT BY DEBT INSTRUMENT

(million BGL)

Structure	Amount as of 31 December 1996	Change in 1997		Amount as of 31 December 1997	Debt growth, times
		increase	decrease		
I. DEBT ON GOVERNMENT SECURITIES ISSUED FOR BUDGET DEFICIT FINANCING					
1. Government securities issued in 1994	6200.0		5182.9	1017.1	
incl. 3-year	3945.4		3945.4	0.0	
5-year	1017.1			1017.1	
8-year*	1237.5		1237.5	0.0	
2. Government securities issued in 1995	43097.5		28411.6	14685.9	
incl. 2-year	10790.9		10790.9	0.0	
3-year	8379.2		4.9	8374.3	
5-year	13905.4		7618.8	6286.6	
9-year*	10022.0		9997.0	25.0	
3. Government securities issued in 1996	251820.1		237626.5	14193.6	
3.1. Short-term	224734.5		224734.5	0.0	
incl. 3-month	70142.0		70142.0	0.0	
6-month	49249.9		49249.9	0.0	
9-month	49650.7		49650.7	0.0	
12-month	55691.8		55691.8	0.0	
3.2. Medium-term	27085.6		12892.0	14193.6	
incl. 2-year	14594.1		6892.0	7702.0	
3-year	11645.8		6000.0	5645.8	
5-year	845.8			845.8	
4. Government securities issued in 1997		4498543.9	3720723.5	777820.5	
4.1. Short-term		4384322.1	3720723.5	663598.6	
incl. 1-week		1129178.9	1129178.9	0.0	
4-week		1928364.2	1928364.2	0.0	
3-month		570585.7	505528.1	65057.7	
6-month		346199.9	156811.0	189388.8	
9-month		33846.4		33846.4	
12-month		376146.9	841.2	375305.7	
4.2. Medium-term		114221.9		114221.9	
incl. 2-year		30010.6		30010.6	
3-year		64211.3		64211.3	
5-year		20000.0		20000.0	
TOTAL (I)	301117.6	4498543.9	3991944.5	807717.0	2.7
II. DIRECT DEBT TO FINANCIAL INSTITUTIONS					
1. Bulgarian National Bank	138060.8	126800.0	264860.8	1619136.2	
on long-term credits until 30 June 1997	138060.8	66800.0	204860.8	0.0	
on short-term credits until 30 June 1997		60000.0	60000.0	0.0	
debt issued in SDR as per § 10 of the Transitional and Final Provisions of LBNB of 1997		482.1	31.6	450.4	
long-term credits under Article 45 of LBNB of 1997		224.4		224.4	
lev equivalent of SDR, total (SDR 1 = BGL 2,399.35866)				1619136.2	
2. State Savings Bank	1264.9		253.0	1011.9	
TOTAL (II)	139325.8	126800.0	265113.8	1620148.1	11.6
III. DEBT ON OTHER GOVERNMENT SECURITIES ISSUED FOR STRUCTURAL REFORM					
A1. Long-term government bonds issued pursuant to CM Decree No. 244 of 1991	4127.6		275.2	3852.4	
A2. Long-term government bonds issued pursuant to CM Decree No. 234 of 1992	4797.9		1995.0	2802.9	
A3. Long-term government bonds issued pursuant to Articles 4 and 5 of ZUNK of 1993					
in BGL	20048.5		7128.3	12920.2	
denominated in USD	950.2		139.7	810.5	
(in BGL at current exchange rate)	463070.8			1439787.2	
A4. Long-term government bonds issued pursuant to CM Decree No. 3 of 1994	1431.2		499.9	931.3	
TOTAL (A)	493476.0	0.0	9898.4	1460294.0	

(continued)

(continued)

Structure	Amount as of 31 December 1996	Change in 1997		Amount as of 31 December 1997	Debt growth, times
		increase	decrease		
B1. Government bonds issued pursuant to Article 2 of CM Decree No. 89 of 1995	58314.8		35994.5	22320.3	
Issue No. 200 (7-year)	22051.2		12730.9	9320.3	
Issue No. 201 (7-year)	36263.5		23263.5	13000.0	
B2. Government bonds issued pursuant to CM Decree No. 193 of 1995	2600.0			2600.0	
Issue No. 202 (5-year)	1176.0			1176.0	
Issue No. 203 (3-year)	1000.0			1000.0	
Issue No. 204 (4-year)	424.0			424.0	
B3. USD-denominated government bonds issued pursuant to CM Decree No. 145 of 1997				88825.0	
Issue No. 300 (18-month)		50.0		50.0	
(in BGL at the current exchange rate)				88825.0	
TOTAL (B)	60914.7	0.0	35994.5	113745.3	
C. Government bonds issued pursuant to Articles 8 and 9 of Law on State Protection of Deposits and Accounts of 1996					
in BGL	19173.8	68848.9	2739.1	85283.6	
Issue No. 402 (7-year)	6000.0		857.1	5142.9	
Issue No. 403 (7-year)	6338.7		905.5	5433.2	
Issue No. 404 (7-year)	5993.3		856.2	5137.1	
Issue No. 405 (7-year)	793.1		113.3	679.8	
Issue No. 406 (7-year)	18.2		2.6	15.6	
Issue No. 407 (7-year)	30.6		4.4	26.2	
Issue No. 418 (7-year)		9929.6		9929.6	
Issue No. 432 (7-year)		2668.7		2668.7	
Issue No. 443 (7-year)		29576.1		29576.1	
Issue No. 473 (7-year)		3261.4		3261.4	
Issue No. 474 (7-year)		7699.8		7699.8	
Issue No. 475 (7-year)		1223.8		1223.8	
Issue No. 476 (7-year)		14489.6		14489.6	
denominated in USD	38551.9			296831.3	
Issue No. 314 (3-year)	50.0			50.0	
(in BGL at current exchange rate)	24367.5			88825.0	
Issue No. 315 (3-year)	28.2			28.2	
(in BGL at current exchange rate)	13719.5			50010.8	
Issue No. 329 (3-year)	1.0			1.0	
(in BGL at current exchange rate)	464.8			1694.4	
Issue No. 400 (3-year)		8.9		8.9	
(in BGL at current exchange rate)				15733.7	
Issue No. 456 (3-year)		2.0		2.0	
(in BGL at current exchange rate)				3570.6	
Issue No. 472 (3-year)		48.8		48.8	
(in BGL at current exchange rate)				86717.0	
Issue No. 477 (3-year)		23.0		23.0	
(in BGL at current exchange rate)				40788.8	
Issue No. 478 (3-year)		5.3		5.3	
(in BGL at current exchange rate)				9491.0	
TOTAL (C)	57725.7	68848.9	2739.1	382114.9	
TOTAL (III)	612116.5	68848.9	48632.0	1956154.2	3.2
DOMESTIC GOVERNMENT DEBT, TOTAL	1052559.8	4694192.9	4305690.3	4384019.3	4.2

* MF securitized direct debt to the BNB.

Notes:

1. Debt on government securities does not include government securities on the MF account.
2. BNB exchange rate on 30 December 1997: BGL 1,776.5 = 1 USD.
3. A debt fall at 31 December 1997 is due to the issues maturing on 31 December 1997 of BGL 33.5 billion and accounted for in the general government budget on 5 January 1998.

Source: BNB and MF.

DOMESTIC GOVERNMENT DEBT SHARE IN GDP BY DEBT INSTRUMENT

DEBT STRUCTURE	Amount of debt as of 31 Dec. 1996 (million BGL)	% of GDP for 1996	Amount of debt as of 30 June 1997 before restructuring (million BGL)	Amount of debt as of 30 June 1997 after restructuring (million BGL)	Amount of debt as of 31 July 1997 (million BGL)	Amount of debt as of 31 August 1997 (million BGL)	Amount of debt as of 30 September 1997 (million BGL)	Amount of debt as of 31 October 1997 (million BGL)	Amount of debt as of 30 November 1997 (million BGL)	Amount of debt as of 31 December 1997 (million BGL)	% of GDP projections for 1997
I. Debt on government securities issued for budget deficit financing	301 117.6	17.2	896 668.2	865 052.5	857 345.0	841 168.0	838 810.2	814 239.9	838 541.1	807 717.0	4.7
II. Direct debt to BNB (under Article 45 of LBNB of 1997) and SSB	139 325.8	8.0	204 503.9	1 144 436.6	1 182 007.2	1 154 369.4	1 126 238.3	1 337 844.2	1 496 696.5	1 620 148.1	9.5
III. Debt on other government securities issued under CM decrees and laws	612 116.4	35.0	1 889 160.5	1 803 977.0	1 928 852.3	1 891 730.4	1 860 342.1	1 838 687.3	1 889 903.6	1 956 154.2	11.4
DOMESTIC GOVERNMENT DEBT, TOTAL	1 052 559.8	60.2	2 990 332.6	3 813 466.1	3 968 204.5	3 887 267.8	3 825 390.6	3 990 771.4	4 225 141.2	4 384 019.3	25.6

* GDP projections for 1997: BGL 17,103 billion.

Source: BNB and MF.

FOREIGN GOVERNMENT DEBT BY DEBT INSTRUMENT AS OF 31 DECEMBER 1997

(USD)

I. GOVERNMENT DEBT	
1. Long-term government securities	5 058 165 188.50
1.1. Brady bonds*	4 977 410 052.00
1.2. Other	80 755 136.50
2. Long-term credits	2 338 639 994.70
2.1. Paris Club	877 880 318.77
2.2. World Bank	431 887 625.82
2.3. G–24	379 429 257.10
2.4. Other	649 442 793.01
II. PUBLICLY GUARANTEED DEBT**	471 566 231.40
DEBT, TOTAL	7 868 371 414.60

Notes:
1. Excluding Bulgaria's obligations and receivables in transferable roubles; overdue interest on obligations to the former Comecon creditors; domestic debt instruments bought by nonresidents.
2. Differences between individual debt components and gross foreign debt are due to the fact that some IMF credits are reported as domestic debt.
* The effect of foreign debt instruments bought by residents is not recorded.
** Some of the credits included in this group are used partially.

Source: BNB and MF.

GOVERNMENT DEBT STRUCTURE

Structure	Amount of debt as of 31 Dec. 1996 (million BGL)	% of GDP for 1996	Amount of debt as of 31 Dec. 1997 (million BGL)	% of GDP for 1997
I. Domestic debt	1 052 559.80	60.2	4 384 019.30	25.6
II. Foreign debt	4 003 882.41	229.0	13 978 159.31	81.7
Debt, total	5 056 442.21	289.2	18 362 178.61	107.4

Notes:
1. GDP for 1996 is BGL 1,748.7 billion.
2. GDP for 1997 is BGL 17,103 billion.
3. Lev equivalent of the foreign debt for 1996 is calculated on the basis of BGL/USD central exchange rate quoted by the BNB on 31 December 1996.
4. Lev equivalent of the foreign debt for 1997 is calculated on the basis of BGL/USD central exchange rate quoted by the BNB on 31 December 1997.

Source: BNB and MF.

FISCAL RESERVES AS OF 31 DECEMBER 1997

(million BGL)

1. Central government budget	774 585.2
Central government budget – budget accounts	591 657.0
World Bank critical imports loan	24 595.0
Emergency Security Aid under EU Programs	13 927.8
Target social aid	67 038.9
State Protection of Deposits and Accounts Fund	49 230.6
World Bank unemployment compensation loan	28 135.9
2. Ministries and agencies	31 604.1
Ministries and agencies	30 398.5
Regional municipal councils	75.6
Legal authorities	1 130.0
3. Social security	113 026.5
State social security	111 963.5
CMP of Craft Cooperatives' members	1 063.0
4. SFRD	321 230.0
5. Extrabudgetary accounts	165 041.0
State Dividend Fund	46 919.8
Land Improvement Fund	10 497.0
Privatization Fund	30 578.6
Mutual Fund	0.0
Professional Retraining and Unemployment Fund	36 428.1
National Environment Protection Fund	8 527.2
National Republican Road System Fund	4 054.1
Forest Fund	1 348.9
National Communication System Fund	2441.1
Agriculture Fund	13 122.1
Tobacco Fund	11 124.1
FISCAL RESERVES, TOTAL	1 405 486.8

Note: Forex accounts are stated in lev equivalent at the cross exchange rates of the US dollar on 25 April 1997 and USD 1 = BGL 1,700.

Source: BNB.

MONETARY SURVEY

(million BGL)

	XII'96	I'97	II'97	III'97	IV'97	V'97	VI'97	VII'97	VIII'97	IX'97	X'97	XI'97	XII'97 all banks	XII'97 incl. banks in liquidation
Exchange rate: BGL/1 USD	487.35	1021.9	2045.5	1588.7	1467.8	1568.1	1718.6	1843.8	1809.0	1762.8	1719.0	1767.0	1776.5	1776.5
BGL/1 DEM	313.79	622.92	1211.80	947.63	854.20	921.50	992.66	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0
FOREIGN ASSETS (net)	-111630	-229801	-304057	170952	827995	1262316	2430469	2922440	3246770	3464264	3602061	3795399	4950218	-354711
Foreign assets	1318702	2627874	5307573	4469525	4991148	5663642	6134743	6991749	7374751	7532477	7646540	7821016	7803024	138884
BNB international reserves	386371	705060	1466521	1312822	2076952	2430586	2794294	3460731	3751501	3936242	4078822	4217154	4395322	0
Other foreign assets	932331	1922814	3841052	3156702	2914196	3233056	3340449	3531018	3623250	3596235	3567718	3603862	3407702	138884
Less: foreign liabilities	1430333	2857675	5611631	4298573	4163153	4401326	3704274	4069309	4127981	4068213	4044479	4025617	2852806	493595
NET DOMESTIC ASSETS	1421908	2246986	3801576	2978938	2411870	2313911	1580498	1824615	1829067	1659893	1653198	1682234	1068369	574772
DOMESTIC CREDIT	2010510	3562119	6404756	4908431	4011975	4040340	4960650	5337410	5320383	5101699	4962426	5171782	5136474	1562848
BGL	656809	721022	804959	869439	925264	947746	595325	592903	714795	693989	615479	702048	1035600	22253
Foreign currencies	1353701	2841097	5599796	4038992	3086712	3092594	4365325	4744507	4605588	4407710	4346947	4469734	4100874	1540595
CLAIMS ON GOVERNMENT SECTOR (net)	901345	1565038	2698926	2235716	1521855	1471787	2167599	2321983	2200887	1955763	1705416	1768175	1641560	-255616
BGL	422263	476195	544061	634750	701743	730791	330131	205859	192147	56979	-142850	-137861	104055	-95295
Foreign currencies	479082	1088843	2154865	1600966	820112	740996	1837467	2116124	2008740	1898784	1848266	1906036	1537505	-160321
CLAIMS ON STATE BUDGET (net)	1084427	1717123	2944339	2396367	2126631	2108341	2831935	3090294	2994435	2790295	2562425	2669480	2493051	-250275
BGL	479319	512655	592295	701587	785080	820446	423913	331923	347815	240384	72452	96173	424471	-93087
Foreign currencies	605108	1204468	2352044	1694779	1341551	1287895	2408021	2758371	2646620	2549911	2489973	2573307	2068580	-157188
CLAIMS ON GOVERNMENT (net)	1091186	1724642	2956657	2413024	2156297	2145818	2868079	3134907	3055188	2850810	2627071	2751029	2560441	-249502
BGL	485652	519291	602823	716844	813475	856520	458364	374669	406057	298381	134791	175042	489129	-92638
Foreign currencies	605534	1205351	2353834	1696180	1342822	1289298	2409715	2760238	2649131	2552429	2492280	2575987	2071312	-156864
Claims on government	1274128	2488550	4590669	4887661	6000897	7661285	9590523	10831229	11480763	12136551	13092554	14312564	4142728	119518
BGL	541306	992891	1656537	2701932	3988665	5586883	6320371	7342653	8077099	8788328	9593000	10551462	872653	9993
Foreign currencies	732822	1495659	2934132	2185729	2012232	2074402	3270152	3488576	3403664	3348223	3499554	3761102	3270075	109525
Government securities	886678	1466158	2489188	2133622	2110809	2202203	2016785	2137748	2125845	2099238	2069013	2126399	2271523	104216
Short-term (up to 12 months)	202594	262057	324956	510461	595027	645457	528449	478211	487130	475564	485641	557374	570509	5334
Medium-term (up to 5 years)	0	97959	128465	122247	141930	193405	279139	365161	377185	372812	369641	378734	498406	0
BGL	0	64327	60640	60019	71491	117212	96654	127854	127854	129849	133178	132111	134834	0
Foreign currencies	0	33632	67825	62228	70439	76193	182485	237307	249331	242963	236463	246623	363572	0
Long-term (over 5 years)	684084	1106142	2035767	1500914	1373852	1363341	1209197	1294376	1261530	1250862	1213731	1190291	1202608	98882
BGL	185616	117197	115855	113714	103033	93196	52302	49906	59605	60299	86168	88426	90040	1489
Foreign currencies	498468	988945	1919912	1387200	1270819	1270145	1156895	1244470	1201925	1190563	1127563	1101865	1112568	97393
Credits	139326	151056	138785	138515	140745	204774	1167264	1195570	1167725	1139269	1350722	1509670	1633140	0
BGL	139326	151056	138785	138515	140745	204774	1138	1117	1096	1075	1054	1033	1012	0
Foreign currencies	0	0	0	0	0	0	1166126	1194453	1166629	1138194	1349668	1508637	1632128	0
Other claims	248124	871336	1962696	2615524	3749343	5254308	6406474	7497911	8187193	8898044	9672819	10676495	238065	15302
BGL	13770	398254	1016301	1879223	3078369	4526244	5641828	6685565	7401414	8121541	8886959	9772518	76258	3170
Foreign currencies	234354	473082	946395	736301	670974	728064	764646	812346	785779	776503	785860	903977	161807	12132

(continued)

(continued) (million BGL)

	XII'96	I'97	II'97	III'97	IV'97	V'97	VI'97	VII'97	VIII'97	IX'97	X'97	XI'97	XII'97 all banks	XII'97 incl. banks in liquidation
Less: government deposits	-182942	-763908	-1634012	-2474637	-3844599	-5515467	-6722444	-7696322	-8425575	-9285741	-10465483	-11561535	-1582287	-369020
BGL	-55654	-473600	-1053713	-1985088	-3175190	-4730363	-5862007	-6967984	-7671042	-8489947	-9458209	-10376420	-383524	-102631
Foreign currencies	-127288	-290308	-580299	-489549	-669409	-785104	-860437	-728338	-754533	-795794	-1007274	-1185115	-1198763	-266389
CLAIMS ON LOCAL BUDGETS (net)	-6759	-7519	-12319	-16657	-29667	-37477	-36144	-44613	-60753	-60515	-64646	-81549	-67390	-773
BGL	-6333	-6636	-10529	-15257	-28395	-36074	-34451	-42746	-58242	-57997	-62339	-78869	-64658	-449
Foreign currencies	-426	-883	-1790	-1400	-1271	-1403	-1693	-1867	-2511	-2518	-2307	-2680	-2732	-324
Claims on local budgets	390	14725	42226	85871	165680	253289	339872	444966	548711	649670	775321	909974	32	30
BGL	389	14725	42173	85793	165605	253185	339849	444952	548706	649670	775321	909974	32	30
Foreign currencies	1	0	53	78	75	104	23	14	5	0	0	0	0	0
Less: deposits of local budgets	-7149	-22244	-54545	-102528	-195346	-290766	-376016	-489579	-609464	-710185	-839967	-991523	-67422	-803
BGL	-6722	-21361	-52701	-101050	-194000	-289259	-374300	-487698	-606948	-707667	-837660	-988843	-64690	-479
Foreign currencies	-427	-883	-1843	-1478	-1347	-1507	-1716	-1881	-2516	-2518	-2307	-2680	-2732	-324
CLAIMS ON STATE FUNDS AND EXTRABUDGETARY ACCOUNTS (net)	-183082	-152085	-245412	-160651	-604775	-636554	-664336	-768311	-793548	-834532	-857009	-901305	-851491	-5341
BGL	-57056	-36460	-48234	-66837	-83336	-89655	-93782	-126064	-155668	-183405	-215302	-234034	-320416	-2208
Foreign currencies	-126026	-115625	-197179	-93814	-521439	-546898	-570554	-642247	-637880	-651127	-641707	-667271	-531075	-3133
Claims on state funds and extrabudgetary accounts	8	16035	56028	90062	147335	233039	318703	386427	475337	567466	630489	695960	52	6
BGL	8	16035	56028	90062	147335	233039	318703	386427	475337	567466	630489	695960	52	6
Foreign currencies	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Less: deposits of state funds and extrabudgetary accounts	-183090	-168120	-301440	-250713	-752110	-869593	-983039	-1154738	-1268885	-1401998	-1487498	-1597265	-851543	-5347
BGL	-57064	-52495	-104262	-156899	-230671	-322694	-412485	-512491	-631005	-750871	-845791	-929994	-320468	-2214
Foreign currencies	-126026	-115625	-197179	-93814	-521439	-546898	-570554	-642247	-637880	-651127	-641707	-667271	-531075	-3133
CLAIMS ON NONGOVERNMENT SECTOR	1109165	1997081	3705830	2672715	2490120	2568553	2793052	3015427	3119496	3145936	3257010	3403607	3494914	1818464
BGL	234546	244827	260898	234689	223520	216955	265194	387044	522648	637010	758329	839909	931545	117548
Foreign currencies	874619	1752254	3444931	2438026	2266600	2351598	2527858	2628383	2596848	2508926	2498681	2563698	2563369	1700916
Claims on nonfinancial state-owned enterprises	462880	811059	1526870	978764	888234	911201	985389	1073348	1162209	1158408	1218481	1234161	1254051	554420
BGL	95221	88054	91521	75835	74410	63381	84309	156601	239369	284385	317694	331367	336204	28566
Foreign currencies	367659	723005	1435350	902929	813823	847820	901080	916747	922840	874023	900787	902794	917847	525854
Claims on private enterprises	617878	1131699	2076557	1621446	1534789	1584889	1721263	1833925	1827521	1825714	1834490	1928788	1982195	1180998
BGL	134271	151617	163816	153700	144613	148469	166907	207723	242867	277905	322253	357289	419962	78132
Foreign currencies	483607	980082	1912741	1467746	1390176	1436421	1554357	1626202	1584654	1547809	1512237	1571499	1562233	1102866
Claims on the public	4198	5617	8108	6823	7672	8535	8312	17041	34382	68045	111629	145161	169620	2184
BGL	2823	2800	2904	2694	2569	2978	3326	11984	29023	62825	106515	138618	163405	221
Foreign currencies	1375	2817	5204	4128	5103	5557	4986	5057	5359	5220	5114	6543	6215	1963
Claims on nonbank financial institutions	24209	48706	94294	65683	59425	63929	78088	91113	95384	93769	92410	95497	89048	80862
BGL	2231	2356	2658	2460	1928	2128	10652	10736	11389	11895	11867	12635	11974	10629
Foreign currencies	21978	46350	91636	63223	57497	61801	67436	80377	83995	81874	80543	82862	77074	70233
OTHER ITEMS (net)	-588602	-1315133	-2603179	-1929493	-1600105	-1726429	-3380153	-3512795	-3491316	-3441806	-3309228	-3489548	-4068105	-988076
BGL	-684243	-1440464	-2606699	-2643301	-2230288	-2501409	-2869477	-2941918	-2937673	-2966860	-2861880	-3028887	-3763347	-943024
Foreign currencies	95650	125331	3527	713823	630188	774985	-510657	-570864	-553628	-474919	-447321	-460635	-304755	-45045

(continued)

(continued) (million BGL)

	XII'96	I'97	II'97	III'97	IV'97	V'97	VI'97	VII'97	VIII'97	IX'97	X'97	XI'97	XII'97 all banks	XII'97 incl. banks in liquidation
Capital and reserves	-1108753	-1184155	-1358748	-1407560	-1070335	-1250325	-1246288	-1071203	-1070022	-1074629	-1052688	-1059562	-1270530	484816
Net income	29781	-504608	-1185486	-15486	194930	155926	-88603	-128442	-52174	12858	-3551	-46714	1910	3764
Other assets and liabilities (net)	490379	373630	-58937	-506432	-724694	-632025	-2045243	-2313137	-2369105	-2380008	-2252962	-2383246	-2799482	-1476649
BROAD MONEY M3	1310278	2017185	3497519	3149890	3239865	3576228	4010967	4747055	5075837	5124157	5255259	5477633	6018587	220061
BGL	648987	669786	885147	1060700	1300473	1439883	1605984	2183160	2470937	2545101	2629439	2769181	3394500	34668
Foreign currencies	661291	1347399	2612372	2089191	1939392	2136345	2404983	2563895	2604900	2579056	2625820	2708452	2624087	185393
MONEY M1	236627	236751	384112	462938	596451	709208	884416	1291449	1507823	1573833	1631035	1742096	2290316	23429
Money outside banks	126462	127776	213367	265586	374105	431098	553211	780576	917886	966832	1014208	1075614	1314106	0
Demand deposits (in BGL)	110165	108975	170745	197352	222346	278110	331205	510873	589937	607001	616827	666482	976210	23429
State-owned enterprises	55831	59299	88065	96019	114554	142302	160268	201805	234850	245126	241090	253924	451456	8015
Private enterprises	43529	40090	70285	86477	90974	117794	144271	266788	309835	319245	330630	356407	440604	15006
Public	6565	5696	7845	9561	11864	12228	15341	23963	29221	31117	34199	37382	44089	120
Nonbank financial institutions	4240	3890	4550	5295	4954	5787	11325	18317	16031	11513	10908	18769	40061	288
MONEY M2 (M1 + quasi-money)	1244569	1878541	3246862	2954500	3061071	3389427	3796921	4530557	4847084	4899113	5027868	5200945	5750728	211954
Quasi-money	1007942	1641790	2862750	2491562	2464619	2680219	2912505	3239108	3339261	3325280	3396833	3458849	3460412	188525
Time deposits (in BGL)	326152	342821	403808	491532	577246	600889	594903	718260	759557	769331	781549	785626	804923	8776
State-owned enterprises	12692	13287	16282	18095	27405	31590	33156	27318	32872	36444	37571	36329	43600	892
Private enterprises	15461	17107	18820	24089	29976	27374	26913	27483	33580	29787	30914	32629	37622	3206
Public	295965	308483	365958	446185	514829	537717	530447	652003	679063	690882	696107	698470	691386	4519
Nonbank financial institutions	2034	3944	2749	3164	5037	4208	4387	11456	14042	12218	16957	18198	32315	159
Savings deposits (in BGL)	81606	76764	83730	91161	100332	103244	99915	137343	154328	161517	169569	179751	226923	2090
Foreign currency deposits	600184	1222205	2375211	1908869	1787041	1976086	2217687	2383505	2425376	2394432	2445715	2493472	2428566	177659
State-owned enterprises	221392	455951	928199	730116	688128	729037	789529	770730	769620	740565	755045	749041	603207	99625
Private enterprises	103786	205113	403533	323652	301811	353982	417510	475412	495066	474612	473334	455203	469270	28780
Public	253164	512802	948146	766015	713958	804139	906092	1056148	1087694	1110525	1143743	1210236	1267165	34128
Nonbank financial institutions	21842	48339	95333	89086	83144	88928	104556	81215	72996	68730	73593	78992	88924	15126
MONEY M3 (M2 + Money market instruments and restricted deposits)	1310278	2017185	3497519	3149890	3239865	3576228	4010967	4747055	5075837	5124157	5255259	5477633	6018587	220061
Money market instruments	310	563	1135	942	908	965	1211	2710	2190	1888	2254	2232	4476	149
BGL	80	79	167	191	215	225	399	1815	1859	1867	2235	2216	4446	149
Foreign currencies	230	484	968	751	693	740	812	895	331	21	19	16	30	0
Import and restricted deposits	65399	138081	249522	194448	177887	185835	212835	213788	226563	223156	225137	274456	263383	7958
BGL	4522	13371	13330	14878	26228	26316	26351	34293	47370	38553	45051	59492	67892	224
Foreign currencies	60877	124710	236193	179570	151658	159519	186484	179495	179193	184603	180086	214964	195491	7734

Source: BNB.

(million BGL)

	XII'96	I'97	II'97	III'97	IV'97	V'97	VI'97	VII'97	VIII'97	IX'97	X'97	XI'97	XII'97
FOREIGN ASSETS	710570	1357069	2760929	2337581	3019089	3440353	3474722	4041637	4322979	4498636	4624451	4770622	4954900
BNB international reserves	386371	705060	1466521	1312822	2076952	2430586	2794294	3460731	3751501	3936242	4078822	4217154	4395322
incl. gold	185574	185574	185574	572587	515390	557886	515611	515611	515611	515611	515611	515611	515611
Other foreign assets	324199	652009	1294408	1024759	942137	1009767	680428	580906	571478	562394	545629	553468	559578
CLAIMS ON GOVERNMENT	339596	869465	1651701	2326054	3319348	4632790	6119364	6973787	7450011	7898766	8665860	9442599	1632128
BGL	224675	642390	1169609	1942091	2964604	4253805	4953238	5779334	6283382	6760572	7316192	7933962	0
incl. loans	138061	149812	137562	137313	139564	203615	0	0	0	0	0	0	0
Foreign currencies	114921	227075	482092	383963	354744	378985	1166126	1194453	1166629	1138194	1349668	1508637	1632128
incl. loans	0	0	0	0	0	0	1166126	1194453	1166629	1138194	1349668	1508637	1632128
CLAIMS ON STATE FUNDS AND EXTRABUDGETARY ACCOUNTS	0	8421	35447	43528	67596	99554	141025	164466	204971	253643	298176	345892	0
BGL	0	8421	35447	43528	67596	99554	141025	164466	204971	253643	298176	345892	0
Foreign currencies	0	0	0	0	0	0	0	0	0	0	0	0	0
CLAIMS ON NONFINANCIAL STATE-OWNED ENTERPRISES	512	512	643	643	643	643	643	643	643	643	643	643	643
BGL	512	512	643	643	643	643	643	643	643	643	643	643	643
Foreign currencies	0	0	0	0	0	0	0	0	0	0	0	0	0
CLAIMS ON NONBANK FINANCIAL INSTITUTIONS	13	13	13	22	22	22	22	22	22	22	22	22	22
BGL	13	13	13	22	22	22	22	22	22	22	22	22	22
Foreign currencies	0	0	0	0	0	0	0	0	0	0	0	0	0
CLAIMS ON COMMERCIAL BANKS	238758	360851	580640	487317	273595	277894	311604	307449	308016	315059	312224	305894	334617
BGL	125370	125881	128988	139085	150884	151453	152547	153788	154803	155437	156099	156480	152729
Deposits	12	12	12	12	12	12	12	12	12	18	19	19	20
Credits	123387	123772	56203	56172	55170	54924	53827	53827	53783	53757	53748	53744	53404
Secured credits	6150	3437	1000	1000	0	0	0	0	0	0	0	0	0
Overdraft	61147	64248	366	374	372	376	378	379	379	353	344	340	0
Other credits	0	0	0	0	0	0	0	0	0	0	0	0	0
Overdue credits	56090	56087	54837	54798	54798	54548	53449	53448	53404	53404	53404	53404	53404
Other claims	1971	2097	72773	82901	95702	96517	98708	99949	101008	101662	102332	102717	99305
Foreign currencies	113388	234970	451652	348232	122711	126441	159057	153661	153213	159622	156125	149414	181888
Deposits	72896	145928	290579	226561	16421	16441	24562	16017	16646	24856	23080	12659	49954
Credits	40492	89042	159989	120718	105386	108954	114652	115990	113881	111150	108561	111205	110483
Secured credits	4479	8131	13510	7361	587	627	0	0	0	0	0	0	0
Overdraft	3219	7428	0	0	0	0	0	0	0	0	0	0	0
Other credits	0	0	0	0	0	0	0	0	0	0	0	0	0
Overdue credits	32794	73483	146479	113357	104799	108327	114652	115990	113881	111150	108561	111205	110483
Other claims	0	0	1084	953	904	1046	19843	21654	22686	23616	24484	25550	21451
OTHER ITEMS (net)	82335	86681	-27188	423080	560643	607579	-554074	-679718	-681680	-685616	-685422	-693251	-389894
BGL	-101417	-114534	-145900	-177218	-162336	-190301	-356841	-475300	-480522	-487108	-489429	-495520	-191826
Foreign currencies	183752	201215	118712	600298	722979	797880	-197233	-204418	-201158	-198508	-195993	-197731	-198068

(continued)

(continued) (million BGL)

	XII'96	I'97	II'97	III'97	IV'97	V'97	VI'97	VII'97	VIII'97	IX'97	X'97	XI'97	XII'97
RESERVE MONEY	247311	341025	485612	608602	730387	795457	1110135	1486248	1595740	1610451	1629592	1736439	2174241
Currency outside banks	126462	127776	213367	265586	374105	431098	553211	780576	917886	966832	1014208	1075614	1314106
Bank reserves	120718	213168	272060	342865	356002	364126	553281	696612	670864	642321	614031	659393	852095
BGL	106237	153619	166009	203626	245453	252271	395273	571533	538490	504699	485479	527047	717699
Minimum required reserves	110481	110481	124434	130524	149532	165278	191782	215641	250915	273469	273828	281526	319364
Excess reserves	-15958	22442	15748	39756	56660	48939	157715	302449	229325	165567	143044	175801	292631
Commercial banks' cash	11714	20696	25827	33346	39261	38054	45776	53443	58250	65663	68607	69720	105704
Foreign currencies	14481	59549	106051	139239	110549	111855	158008	125079	132374	137622	128552	132346	134396
Minimum required reserves	96	11460	92522	112681	97715	98009	104270	107956	115456	122744	119449	123354	124303
Excess reserves	14385	48089	13529	26558	12834	13846	53738	17123	16918	14878	9103	8992	10093
Other deposits of nonbank financial institutions in BGL	131	81	185	151	280	233	3643	9060	6990	1298	1353	1432	8040
TIME, SAVINGS AND FOREIGN CURRENCY DEPOSITS	3639	7434	18939	14765	15094	16313	24527	716	714	712	710	714	715
MONEY MARKET INSTRUMENTS AND RESTRICTED DEPOSITS	54	4303	2	137	45	14	75	2123	12653	12653	16174	16174	16174
FOREIGN LIABILITIES	621050	1247625	2446099	1879186	1960060	2119564	1214353	1490435	1611526	1572265	1545098	1552842	1675827
GOVERNMENT DEPOSITS	29079	444598	1014747	1840799	3093085	4524711	5494352	6235994	6739965	7368554	8276550	9014562	981551
BGL	27685	417702	942615	1783132	2835743	4181618	5112826	6011779	6496985	7062241	7783732	8409070	236947
Foreign currencies	1394	26896	72132	57667	257342	343093	381526	224215	242980	306313	492818	605492	744604
DEPOSITS OF STATE FUNDS AND EXTRABUDGETARY ACCOUNTS	163298	120152	219916	163267	638047	700539	758123	874107	936981	1019707	1068945	1159800	722165
BGL	48261	35208	68902	86857	129733	167913	205699	248229	315508	392238	463712	531800	273548
Foreign currencies	115037	84944	151014	76410	508314	532626	552424	625878	621473	627469	605233	628000	448617
CAPITAL AND RESERVES	307346	517876	816868	1111463	804214	902232	891743	718661	707381	696809	678879	691889	961744

Source: BNB.

ANALYTICAL REPORTING OF COMMERCIAL BANKS AND THE SSB

(million BGL)

	XII'96	I'97	II'97	III'97	IV'97	V'97	VI'97	VII'97	VIII'97	IX'97	X'97	XI'97	XII'97 all banks	XII'97 incl. banks in liquidation
RESERVES	118643	209489	284912	332447	355082	352340	508270	683526	648381	611817	549191	560212	818446	16349
FOREIGN ASSETS	608132	1270805	2546644	2131943	1972059	2223289	2660021	2950112	3051772	3033841	3022089	3050394	2848124	138884
CLAIMS ON GOVERNMENT	934532	1619085	2938968	2561607	2681549	3028495	3471159	3857442	4030752	4237785	4426694	4869965	2510600	119518
BGL	316631	350501	486928	759841	1024061	1333078	1367133	1563319	1793717	2027756	2276808	2617500	872653	9993
Foreign currencies	617901	1268584	2452040	1801766	1657488	1695417	2104026	2294123	2237035	2210029	2149886	2252465	1637947	109525
CLAIMS ON STATE FUNDS AND EXTRABUDGETARY ACCOUNTS	8	7614	20581	46534	79739	133485	177678	221961	270366	313823	332313	350068	52	6
BGL	8	7614	20581	46534	79739	133485	177678	221961	270366	313823	332313	350068	52	6
Foreign currencies	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CLAIMS ON LOCAL BUDGETS	390	14725	42226	85871	165680	253289	339872	444966	548711	649670	775321	909974	32	30
BGL	389	14725	42173	85793	165605	253185	339849	444952	548706	649670	775321	909974	32	30
Foreign currencies	1	0	53	78	75	104	23	14	5	0	0	0	0	0
CLAIMS ON NONFINANCIAL STATE-OWNED ENTERPRISES	462368	810547	1526227	978121	887591	910558	984746	1072705	1161566	1157765	1217838	1233518	1253408	554420
BGL	94709	87542	90878	75192	73767	62738	83666	155958	238726	283742	317051	330724	335561	28566
Foreign currencies	367659	723005	1435350	902929	813823	847820	901080	916747	922840	874023	900787	902794	917847	525854
CLAIMS ON PRIVATE ENTERPRISES	617878	1131699	2076557	1621446	1534789	1584889	1721263	1833925	1827521	1825714	1834490	1928788	1982195	1180998
BGL	134271	151617	163816	153700	144613	148469	166907	207723	242867	277905	322253	357289	419962	78132
Foreign currencies	483607	980082	1912741	1467746	1390176	1436421	1554357	1626202	1584654	1547809	1512237	1571499	1562233	1102866
CLAIMS ON THE PUBLIC	4198	5617	8108	6823	7672	8535	8312	17041	34382	68045	111629	145161	169620	2184
BGL	2823	2800	2904	2694	2569	2978	3326	11984	29023	62825	106515	138618	163405	221
Foreign currencies	1375	2817	5204	4128	5103	5557	4986	5057	5359	5220	5114	6543	6215	1963
CLAIMS ON NONBANK FINANCIAL INSTITUTIONS	24196	48693	94281	65661	59403	63907	78066	91091	95362	93747	92388	95475	89026	80862
BGL	2218	2343	2645	2438	1906	2106	10630	10714	11367	11873	11845	12613	11952	10629
Foreign currencies	21978	46350	91636	63223	57497	61801	67436	80377	83995	81874	80543	82862	77074	70233
OTHER ITEMS (net)	201142	-574831	-1810728	-1421897	-1363082	-1349786	-1846365	-2056224	-2025132	-1966089	-1818475	-1943422	-2708646	-1489234
BGL	310852	-355473	-1338150	-1243351	-1193843	-1247018	-1460522	-1584434	-1567078	-1575344	-1456584	-1576967	-2464324	-1461968
Foreign currencies	-109710	-219358	-472578	-178547	-169239	-102768	-385843	-471790	-458054	-390745	-361891	-366455	-244322	-27266
DEMAND DEPOSITS (in BGL)	110034	108894	170560	197201	222066	277877	327562	501813	582947	605703	615474	665050	968170	23429
State-owned enterprises	55831	59299	88065	96019	114554	142302	160268	201805	234850	245126	241090	253924	451456	8015
Private enterprises	43529	40090	70285	86477	90974	117794	144271	266788	309835	319245	330630	356407	440604	15006
Public	6461	5617	7727	9413	11585	12005	15341	23963	29221	31117	34199	37382	44089	120

(continued)

(continued) (million BGL)

	XII'96	I'97	II'97	III'97	IV'97	V'97	VI'97	VII'97	VIII'97	IX'97	X'97	XI'97	XII'97 all banks	XII'97 incl. banks in liquidation
Nonbank financial institutions	4213	3888	4483	5292	4953	5777	7682	9257	9041	10215	9555	17337	32021	288
TIME, SAVINGS AND FOREIGN CURRENCY DEPOSITS	1004303	1634356	2843811	2476797	2449525	2663906	2887978	3238392	3338547	3324568	3396123	3458135	3459697	188525
TIME DEPOSITS (in BGL)	326135	342803	403688	491404	577077	600556	594545	717902	759199	768973	781191	785268	804565	8776
State-owned enterprises	12692	13287	16282	18095	27405	31590	33156	27318	32872	36444	37571	36329	43600	892
Private enterprises	15459	17105	18818	24087	29974	27372	26913	27483	33580	29787	30914	32629	37622	3206
Public	295965	308483	365958	446185	514829	537717	530447	652003	679063	690882	696107	698470	691386	4519
Nonbank financial institutions	2019	3928	2631	3038	4870	3877	4029	11098	13684	11860	16599	17840	31957	159
SAVINGS DEPOSITS (in BGL)	81606	76764	83730	91161	100332	103244	99915	137343	154328	161517	169569	179751	226923	2090
FOREIGN CURRENCY DEPOSITS	596562	1214789	2356392	1894232	1772116	1960106	2193518	2383147	2425020	2394078	2445363	2493116	2428209	177659
State-owned enterprises	221211	455692	927735	729753	687831	728717	789182	770372	769264	740211	754693	748685	602850	99625
Private enterprises	103786	205113	403533	323652	301811	353982	417510	475412	495066	474612	473334	455203	469270	28780
Public	253162	512798	948138	766009	713952	804132	906092	1056148	1087694	1110525	1143743	1210236	1267165	34128
Nonbank financial institutions	18403	41186	76986	74818	68522	73275	80734	81215	72996	68730	73593	78992	88924	15126
MONEY MARKET INSTRUMENTS AND RESTRICTED DEPOSITS	65656	134342	250656	195253	178750	186786	213971	214375	216100	212391	211217	260514	251685	8107
RECEIVED LOANS AND PARTICIPATIONS	310	563	1135	942	908	965	1211	2710	2190	1888	2254	2232	4476	149
BGL	80	79	167	191	215	225	399	1815	1859	1867	2235	2216	4446	149
State-owned enterprises	19	19	105	128	151	161	240	1649	1682	1672	2078	2067	4297	0
Private enterprises	1	0	4	5	6	6	101	108	119	137	99	99	99	99
Public	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Nonbank financial institutions	60	60	58	58	58	58	58	58	58	58	58	50	50	50
Foreign currencies	230	484	968	751	693	740	812	895	331	21	19	16	30	0
State-owned enterprises	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Private enterprises	230	484	968	751	693	740	809	895	331	21	19	16	30	0
Public	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Nonbank financial institutions	0	0	0	0	0	0	3	0	0	0	0	0	0	0
IMPORT AND RESTRICTED DEPOSITS	65346	133779	249521	194311	177842	185821	212760	211665	213910	210503	208963	258282	247209	7958
BGL	4469	9069	13329	14741	26183	26302	26310	32170	34717	25900	28877	43318	51718	224
State-owned enterprises	1752	2152	4042	5144	6142	6297	10903	23455	22167	14793	14097	17450	14710	71
Private enterprises	776	1996	1134	1853	2184	2676	2923	5729	5539	6931	10711	13161	22201	62
Public	1693	4709	8116	7701	17815	17233	12234	2755	6758	3491	2747	11955	4170	76
Nonbank financial institutions	248	212	37	43	42	96	250	231	253	685	1322	752	10637	15
Foreign currencies	60877	124710	236193	179570	151658	159519	186450	179495	179193	184603	180086	214964	195491	7734
State-owned enterprises	50859	103148	191378	152358	125746	131043	151083	149756	149074	153374	145160	168498	147022	5275
Private enterprises	8768	18847	38225	21770	20626	21619	28556	22958	23058	24186	27733	38003	40150	2055
Public	956	2066	5461	4531	4653	4971	6059	6334	6607	6424	6519	6407	6034	255

(continued)

(continued) (million BGL)

	XII'96	I'97	II'97	III'97	IV'97	V'97	VI'97	VII'97	VIII'97	IX'97	X'97	XI'97	XII'97 all banks	XII'97 incl. banks in liquidation
Nonbank financial institutions	294	649	1129	911	634	1885	752	447	454	619	674	2056	2285	149
FOREIGN LIABILITIES	809283	1610050	3165532	2419387	2203093	2281762	2489921	2578874	2516455	2495948	2499381	2472775	1176979	493595
BGL	2722	2833	4019	4147	4688	5934	4117	7444	6141	6715	5836	5942	21988	273
Foreign currencies	806561	1607217	3161513	2415240	2198404	2275828	2485804	2571430	2510314	2489233	2493545	2466833	1154991	493322
GOVERNMENT DEPOSITS	153863	319310	619265	633838	751514	990756	1228092	1460328	1685610	1917187	2188933	2546973	600736	369020
BGL	27969	55898	111098	201956	339447	548745	749181	956205	1174057	1427706	1674477	1967350	146577	102631
Foreign currencies	125894	263412	508167	431882	412067	442011	478911	504123	511553	489481	514456	579623	454159	266389
DEPOSITS OF STATE FUNDS AND EXTRABUDGETARY ACCOUNTS	19792	47968	81524	87446	114063	169054	224916	280631	331904	382291	418553	437465	129378	5347
BGL	8803	17287	35360	70042	100938	154781	206786	264262	315497	358633	382079	398194	46920	2214
Foreign currencies	10989	30681	46165	17404	13125	14272	18130	16369	16407	23658	36474	39271	82458	3133
DEPOSITS OF LOCAL BUDGETS	7149	22244	54545	102528	195346	290766	376016	489579	609464	710185	839967	991523	67422	803
BGL	6722	21361	52701	101050	194000	289259	374300	487698	606948	707667	837660	988843	64690	479
Foreign currencies	427	883	1843	1478	1347	1507	1716	1881	2516	2518	2307	2680	2732	324
CAPITAL AND RESERVES	801407	666279	541880	296097	266121	348093	354545	352542	362641	377820	373809	367673	308786	-484816
BGL	704407	562596	425977	238861	212290	294433	302696	299238	310148	325492	321217	315223	256485	-504027
Foreign currencies	97000	103683	115903	57236	53831	53660	51849	53304	52493	52328	52592	52450	52301	19211

Source: BNB.

NOMINAL INTEREST RATES ON SHORT-TERM CREDITS IN 1997

Months	January	February	March	April	May	June	July	August	September	October	November	December
January	16.14											
February	36.94	17.91										
March	63.29	40.60	19.25									
April	87.83	61.74	37.17	15.03								
May	98.86	71.23	45.22	21.78	5.87							
June	106.42	77.74	50.74	26.41	9.89	3.80						
July	108.74	79.74	52.44	27.83	11.13	4.97	1.13					
August	110.57	81.31	53.77	28.95	12.10	5.89	2.01	0.87				
September	112.68	83.13	55.31	30.24	13.23	6.95	3.03	1.89	1.00			
October	114.56	84.75	56.69	31.40	14.23	7.90	3.95	2.79	1.90	0.89		
November	116.67	86.57	58.23	32.69	15.35	8.96	4.97	3.80	2.90	1.88	0.99	
December	119.03	88.60	59.95	34.13	16.61	10.14	6.11	4.93	4.02	2.99	2.08	1.09

Source: BNB.

REAL INTEREST RATES ON SHORT-TERM CREDITS IN 1997*

Months	January	February	March	April	May	June	July	August	September	October	November	December
January	-19.09											
February	-72.16	-65.59										
March	-70.43	-63.46	6.21									
April	-65.75	-57.67	23.04	15.84								
May	-65.68	-57.58	23.30	16.08	0.21							
June	-64.66	-56.33	26.94	19.51	3.17	2.95						
July	-65.53	-57.39	23.84	16.59	0.65	0.44	-2.44					
August	-67.04	-59.27	18.40	11.47	-3.77	-3.97	-6.73	-4.39				
September	-67.86	-60.28	15.45	8.70	-6.17	-6.36	-9.05	-6.77	-2.49			
October	-67.74	-60.13	15.88	9.10	-5.82	-6.01	-8.71	-6.42	-2.12	0.37		
November	-67.60	-59.95	16.41	9.60	-5.39	-5.59	-8.30	-6.00	-1.68	0.83	0.45	
December	-67.72	-60.10	15.97	9.18	-5.75	-5.94	-8.64	-6.36	-2.05	0.45	0.07	-0.38

* Interest rates are deflated by the consumer price index.

Source: BNB and NSI.

NOMINAL INTEREST RATES ON ONE-MONTH DEPOSITS IN 1997

Months	January	February	March	April	May	June	July	August	September	October	November	December
January	10.49											
February	22.58	10.94										
March	35.99	23.07	10.94									
April	47.33	33.34	20.20	8.34								
May	51.79	37.38	23.84	11.62	3.03							
June	54.09	39.46	25.71	13.31	4.59	1.51						
July	54.62	39.94	26.14	13.70	4.95	1.86	0.35					
August	54.98	40.26	26.43	13.97	5.19	2.10	0.58	0.23				
September	55.36	40.61	26.75	14.25	5.45	2.35	0.83	0.48	0.25			
October	55.75	40.96	27.07	14.53	5.71	2.61	1.08	0.73	0.50	0.25		
November	56.14	41.31	27.38	14.82	5.98	2.86	1.33	0.98	0.75	0.50	0.25	
December	56.53	41.67	27.70	15.11	6.24	3.12	1.58	1.23	1.00	0.75	0.50	0.25

Source: BNB.

REAL INTEREST RATES ON ONE-MONTH DEPOSITS IN 1997*

Months	January	February	March	April	May	June	July	August	September	October	November	December
January	-23.02											
February	-75.08	-67.63										
March	-75.38	-68.01	-1.18									
April	-73.13	-65.10	7.82	9.11								
May	-73.80	-65.97	5.14	6.40	-2.48							
June	-73.62	-65.73	5.86	7.13	-1.81	0.69						
July	-74.47	-66.83	2.48	3.70	-4.95	-2.53	-3.20					
August	-75.74	-68.49	-2.65	-1.49	-9.71	-7.41	-8.04	-5.00				
September	-76.52	-69.50	-5.78	-4.65	-12.61	-10.39	-11.00	-8.06	-3.22			
October	-76.58	-69.58	-6.03	-4.90	-12.84	-10.62	-11.23	-8.30	-3.47	-0.26		
November	-76.65	-69.67	-6.29	-5.17	-13.08	-10.87	-11.48	-8.55	-3.74	-0.54	-0.28	
December	-76.93	-70.03	-7.41	-6.31	-14.13	-11.94	-12.54	-9.65	-4.89	-1.73	-1.48	-1.20

* Interest rates are deflated by the consumer price index.

Source: BNB and NSI.

COMMERCIAL BANK INTEREST RATES ON NEW LEV CREDITS AND DEPOSITS

			1997											
		XII'96	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Base interest rate	annual effective	435.0	443.5	525.0	628.8	352.0	81.4	42.7	8.48	5.79	6.32	5.61	5.56	7.01
	annual	180.0	181.8	198.0	216.0	160.7	61.0	36.1	8.17	5.64	6.15	5.47	5.43	6.79
	monthly	15.0	15.2	16.5	18.0	13.4	5.1	3.0	0.68	0.47	0.51	0.46	0.45	0.57
Average spread over the interest rate on short-term credits	annual effective	46.1	58.5	97.1	98.0	84.7	16.9	13.8	5.91	5.22	6.41	5.55	6.92	6.85
	annual	9.5	11.8	16.9	15.0	19.6	9.4	9.5	5.35	4.85	5.90	5.15	6.39	6.25
	monthly	0.8	1.0	1.4	1.2	1.6	0.8	0.8	0.45	0.40	0.49	0.43	0.53	0.52
Average weighted interest rate on short-term credits	annual effective	481.1	502.0	622.2	726.7	436.7	98.3	56.4	14.40	11.00	12.73	11.15	12.48	13.85
	annual	189.5	193.6	214.9	231.0	180.4	70.5	45.6	13.53	10.49	12.04	10.62	11.82	13.05
	monthly	15.8	16.1	17.9	19.2	15.0	5.9	3.8	1.13	0.87	1.00	0.89	0.99	1.09
Average weighted interest rate on long-term credits	annual effective	454.1	458.9	553.8	512.0	353.2	89.2	51.2	12.10	10.08	10.31	11.03	13.96	15.39
	annual	184.0	185.0	203.3	195.5	161.0	65.5	42.1	11.47	9.64	9.85	10.51	13.14	14.40
	monthly	15.3	15.4	16.9	16.3	13.4	5.5	3.5	0.96	0.80	0.82	0.88	1.09	1.20
Average weighted interest rate on time deposits	annual effective	211.9	231.1	247.4	247.6	161.6	43.0	19.7	4.23	2.80	3.01	3.05	3.04	3.04
	annual	119.3	125.9	131.2	131.3	100.1	36.3	18.1	4.15	2.76	2.97	3.01	3.00	3.00
	monthly	9.9	10.5	10.9	10.9	8.3	3.0	1.5	0.35	0.23	0.25	0.25	0.25	0.25
Average weighted interest rate on demand deposits	annual effective	75.1	77.4	84.0	79.4	56.0	19.2	6.9	1.63	0.67	0.66	0.50	0.40	0.40
	annual	57.3	58.7	62.6	59.9	45.3	17.7	6.7	1.62	0.66	0.66	0.50	0.40	0.40
	monthly	4.8	4.9	5.2	5.0	3.8	1.5	0.6	0.13	0.06	0.06	0.04	0.03	0.03

Source: BNB.

DENOMINATION COMPOSITION IN NOTES AND COINS

(million BGL)

	31 December 1996	30 June 1997	31 December 1997
Notes, total	201 238	896 662	1 875 722
50 000 levs		351 500	951 500
10 000 levs	10 000	100 000	400 000
5 000 levs	30 000	120 100	204 995
2 000 levs	39 775	110 749	110 503
1 000 levs	22 550	78 467	78 283
500 levs	60 262	74 245	73 763
200 levs	23 044	39 969	38 083
100 levs	10 217	14 550	12 320
50 levs	2 915	4 361	3 881
20 levs	1 697	1 992	1 853
10 levs	404	372	241
5 levs	221	207	162
2 levs	73	72	66
1 lev	79	78	72
Coins, total	1 728	2 007	5 148
50 levs	11	11	2 540
20 levs	5	5	492
10 levs	473	637	750
5 levs	273	333	333
2 levs	160	161	160
1 lev	137	137	137
50 stotinkas	55	55	42
20 stotinkas	48	47	47
10 stotinkas	33	33	33
5 stotinkas	12	12	-
2 stotinkas	11	11	-
1 stotinka	9	9	-
Commemorative	501	556	614
Notes and coins, total	202 966	898 669	1 880 870

Source: BNB.

CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS AND THE SSB FOR 1997

(thousand BGL)

Code	Groups, items	Carrying value	Adjustment	Balance-sheet value
10001	A. FINANCIAL ASSETS	8 299 088 696	1 373 432 604	6 925 656 092
10000	I. CASH BALANCES	1 408 519 191	54 098 541	1 354 420 650
10100	1. Cash balances in BGL	664 784 471	7 339 824	657 444 647
10200	2. Cash balances in foreign currencies	743 734 720	46 758 717	696 976 003
11000	II. GOVERNMENT SECURITIES	2 168 653 471	382 552 262	1 786 101 209
11100	1. Government securities in BGL	788 409 078	11 549 776	776 859 302
11200	2. Government securities in foreign currencies	1 380 244 393	371 002 486	1 009 241 907
12000	III. CLAIMS ON BANKS AND OTHER FINANCIAL INSTITUTIONS	2 510 118 953	407 410 106	2 102 708 847
12100	1. Claims on banks and other financial institutions in BGL	162 563 132	69 481 234	93 081 898
12200	2. Claims on banks and other financial institutions in foreign currencies	2 347 555 821	337 928 872	2 009 626 949
13000	IV. CLAIMS ON NONFINANCIAL INSTITUTIONS AND OTHER CLIENTS	2 137 651 123	496 377 905	1 641 273 218
13100	1. Claims on nonfinancial institutions and other clients in BGL	1 145 504 079	82 056 018	1 063 448 061
13200	2. Claims on nonfinancial institutions and other clients in foreign currencies	992 147 044	414 321 887	577 825 157
14000	V. BONDS AND OTHER SECURITIES WITH FIXED YIELD IN TRADING PORTFOLIO	5 266 818	513 766	4 753 052
14100	1. Bonds and other securities with fixed yield in trading portfolio in BGL	119 769	0	119 769
14200	2. Bonds and other securities with fixed yield in trading portfolio in foreign currencies	5 147 049	513 766	4 633 283
15000	VI. SHARES AND OTHER SECURITIES WITH VARIABLE YIELD IN TRADING PORTFOLIO	28 810 140	4 509 307	24 300 833
15100	1. Shares and other securities with variable yield in trading portfolio in BGL	27 447 108	4 509 307	22 937 801
15200	2. Shares and other securities with variable yield in trading portfolio in foreign currencies	1 363 032	0	1 363 032
16000	VII. LONG-TERM FINANCIAL ASSETS	40 069 000	27 970 717	12 098 283
16100	1. Partnerships	137 549	122 799	14 750
16200	2. Equity	2 585 950	509 512	2 076 438
16300	3. Shares	31 989 239	27 338 292	4 650 947
16400	4. Bonds	5 356 262	114	5 356 148
17000	B. NONFINANCIAL ASSETS	357 099 060	68 210 827	288 888 233
17100	I. SHORT-TERM NONFINANCIAL ASSETS	5 197 326	0	5 197 326
17200	II. LONG-TERM NONFINANCIAL ASSETS	351 901 734	68 210 827	283 690 907
17210	1. Intangible long-term nonfinancial assets	4 949 582	862 610	4 086 972
17250	2. Tangible long-term nonfinancial assets	346 952 152	67 348 217	279 603 935
18000	C. FUTURE EXPENDITURE	10 627 419	0	10 627 419
19000	D. RIGHTS TO EQUITY SUBSCRIPTION	113 576 347	0	113 576 347
20000	E. OTHER ASSETS	88 735 860	17 764 959	70 970 901
91000	ASSETS, TOTAL	8 869 127 382	1 459 408 390	7 409 718 992
93000	F. OFF-BALANCE ASSETS	10 512 764 250	0	10 512 764 250
30001	A. ATTRACTED RESOURCES	6 041 499 433	0	6 041 499 433
30000	I. ATTRACTED RESOURCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS	1 070 080 620	0	1 070 080 620
30100	1. Attracted resources from banks and other financial institutions in BGL	151 760 272	0	151 760 272
30200	2. Attracted resources from banks and other financial institutions in foreign currencies	918 320 348	0	918 320 348
31000	II. ATTRACTED RESOURCES FROM NONFINANCIAL INSTITUTIONS AND OTHER CLIENTS	4 971 418 813	0	4 971 418 813
31100	1. Attracted resources from nonfinancial institutions and other clients in BGL	2 189 234 711	0	2 189 234 711
31200	2. Attracted resources from nonfinancial institutions and other clients in foreign currencies	2 782 184 102	0	2 782 184 102
32000	B. FUTURE REVENUE	180 744 544	0	180 744 544
33000	C. OTHER LIABILITIES	277 061 226	0	277 061 226
37000	D. OWN FUNDS	910 413 789	0	910 413 789
34000	I. FINANCIAL RESULT	363 747 003	0	363 747 003
34100	1. Retained earnings from previous years	315 765	0	315 765
34200	2. Profit for the current year	405 573 925	0	405 573 925
34300	3. Uncovered losses from past periods	-5 238 793	0	-5 238 793
34400	4. Losses in the current year	-36 903 894	0	-36 903 894
35000	II. CAPITAL	345 413 134	0	345 413 134
35100	1. Fixed capital	338 407 655	0	338 407 655
35200	2. Supplementary capital	7 005 479	0	7 005 479
36000	III. RESERVES	201 253 652	0	201 253 652
92000	LIABILITIES, TOTAL	7 409 718 992	0	7 409 718 992
94000	E. OFF-BALANCE LIABILITIES	6 943 850 801	0	6 943 850 801

Source: BNB.

CONSOLIDATED INCOME STATEMENT OF COMMERCIAL BANKS AND THE SSB FOR 1997

(thousand BGL)

Code	Groups, items	Carrying value	Adjustment	Balance-sheet value
50000	I. FINANCIAL EXPENDITURE	19 797 348 427	0	19 797 348 427
50100	1. Interest on lev operations	368 295 367	0	368 295 367
50200	2. Interest on foreign exchange operations	95 469 999	0	95 469 999
50300	3. Capital losses on securities	1 623 826 389	0	1 623 826 389
50400	4. Valuation adjustments	16 381 246 358	0	16 381 246 358
50500	5. Commissions and fees	53 884 300	0	53 884 300
50600	6. Expenditure for provisioning of risk exposures	1 272 295 552	0	1 272 295 552
50700	7. Other financial expenditure	2 330 462	0	2 330 462
51000	II. EXTRA EXPENDITURE	59 526 470	0	59 526 470
52000	III. EXPENDITURE BY ECONOMIC ELEMENT	254 007 889	0	254 007 889
52100	1. Equipment	23 463 410	0	23 463 410
52200	2. External services	78 958 264	0	78 958 264
52300	3. Salaries and other remuneration	81 475 199	0	81 475 199
52400	4. Social securities and benefits	30 303 726	0	30 303 726
52500	5. Depreciations	6 635 072	0	6 635 072
52600	6. Other expenditures	33 172 218	0	33 172 218
54000	IV. TAXES	196 324 257	0	196 324 257
54100	1. Profit tax	162 328 865	0	162 328 865
54200	2. Other taxes	33 995 392	0	33 995 392
55000	TOTAL EXPENDITURE	20 307 207 043	0	20 307 207 043
56000	V. RESULT FROM THE REPORTING PERIOD (PROFIT)	405 573 925	0	405 573 925
58000	TOTAL	20 712 780 968	0	20 712 780 968
60000	I. FINANCIAL REVENUE	20 558 417 507	0	20 558 417 507
60100	1. Interest on lev operations	411 608 150	0	411 608 150
60200	2. Interest on foreign exchange operations	277 756 956	0	277 756 956
60300	3. Income from partnerships and equity	1 429 094	0	1 429 094
60400	4. Capital gains on securities	1 630 676 834	0	1 630 676 834
60500	5. Valuation adjustments	17 770 171 300	0	17 770 171 300
60600	6. Commissions and fees	117 106 055	0	117 106 055
60700	7. Other financial revenue	349 669 118	0	349 669 118
61000	II. EXTRA REVENUE	112 021 876	0	112 021 876
62000	III. REVENUE FROM NONFINANCIAL SERVICES	5 437 690	0	5 437 690
63000	TOTAL REVENUE	20 675 877 073	0	20 675 877 073
64000	IV. RESULT FROM THE REPORTING PERIOD (LOSSES)	36 903 895	0	36 903 895
65000	TOTAL	20 712 780 968	0	20 712 780 968

Source: BNB.

CONSOLIDATED BALANCE SHEET OF GROUP I COMMERCIAL BANKS (SSB INCLUDED) FOR 1997

(thousand BGL)

Code	Groups, items	Carrying value	Adjustment	Balance-sheet value
10001	FINANCIAL ASSETS	6 534 179 421	1 200 903 377	5 333 276 044
10000	CASH BALANCES	916 179 171	38 328 613	877 850 558
10100	Cash balances in BGL	436 974 170	6 590 992	430 383 178
10200	Cash balances in foreign currencies	479 205 001	31 737 621	447 467 380
11000	GOVERNMENT SECURITIES	1 875 895 241	344 828 161	1 531 067 080
11100	Government securities in BGL	722 363 339	10 051 034	712 312 305
11200	Government securities in foreign currencies	1 153 531 902	334 777 127	818 754 775
12000	CLAIMS ON BANKS AND OTHER FINANCIAL INSTITUTIONS	2 112 151 825	395 766 245	1 716 385 580
12100	Claims on banks and other financial institutions in BGL	138 891 285	68 197 789	70 693 496
12200	Claims on banks and other financial institutions in foreign currencies	1 973 260 540	327 568 456	1 645 692 084
13000	CLAIMS ON NONFINANCIAL INSTITUTIONS AND OTHER CLIENTS	1 599 781 452	397 665 187	1 202 116 265
13100	Claims on nonfinancial institutions and other clients in BGL	934 019 765	53 797 879	880 221 886
13200	Claims on nonfinancial institutions and other clients in foreign currencies	665 761 687	343 867 308	321 894 379
14000	BONDS AND OTHER SECURITIES WITH FIXED YIELD IN TRADING PORTFOLIO	0	0	0
14100	Bonds and other securities with fixed yield in trading portfolio in BGL	0	0	0
14200	Bonds and other securities with fixed yield in trading portfolio in foreign currencies	0	0	0
15000	SHARES AND OTHER SECURITIES WITH VARIABLE YIELD IN TRADING PORTFOLIO	423	423	0
15100	Shares and other securities with variable yield in trading portfolio in BGL	423	423	0
15200	Shares and other securities with variable yield in trading portfolio in foreign currencies	0	0	0
16000	LONG-TERM FINANCIAL ASSETS	30 171 309	24 314 748	5 856 561
16100	Partnerships	12 575	12 475	100
16200	Equity	507 555	507 215	340
16300	Shares	24 294 917	23 794 944	499 973
16400	Bonds	5 356 262	114	5 356 148
17000	NONFINANCIAL ASSETS	245 922 648	50 746 095	195 176 553
17100	SHORT-TERM NONFINANCIAL ASSETS	2 686 804	0	2 686 804
17200	LONG-TERM NONFINANCIAL ASSETS	243 235 844	50 746 095	192 489 749
17210	Intangible long-term nonfinancial assets	2 213 027	452 664	1 760 363
17250	Tangible long-term nonfinancial assets	241 022 817	50 293 431	190 729 386
18000	FUTURE EXPENDITURE	4 727 916	0	4 727 916
19000	RIGHTS TO EQUITY SUBSCRIPTION	1 846 500	0	1 846 500
20000	OTHER ASSETS	64 839 661	16 336 774	48 502 887
91000	ASSETS, TOTAL	6 851 516 146	1 267 986 246	5 583 529 900
93000	OFF-BALANCE ASSETS	8 354 531 005	0	8 354 531 005
30001	ATTRACTED RESOURCES	4 617 809 258	0	4 617 809 258
30000	ATTRACTED RESOURCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS	740 059 092	0	740 059 092
30100	Attracted resources from banks and other financial institutions in BGL	58 302 495	0	58 302 495
30200	Attracted resources from banks and other financial institutions in foreign currencies	681 756 597	0	681 756 597
31000	ATTRACTED RESOURCES FROM NONFINANCIAL INSTITUTIONS AND OTHER CLIENTS	3 877 750 166	0	3 877 750 166
31100	Attracted resources from nonfinancial institutions and other clients in BGL	1 802 507 466	0	1 802 507 466
31200	Attracted resources from nonfinancial institutions and other clients in foreign currencies	2 075 242 700	0	2 075 242 700
32000	FUTURE REVENUE	150 800 863	0	150 800 863
33000	OTHER LIABILITIES	161 618 149	0	161 618 149
37000	OWN FUNDS	653 301 630	0	653 301 630
34000	FINANCIAL RESULT	374 811 839	0	374 811 839
34100	Retained earnings from previous years	0	0	0
34200	Profit for the current year	377 527 388	0	377 527 388
34300	Uncovered losses from past periods	-2 715 549	0	-2 715 549
34400	Losses in the current year	0	0	0
35000	CAPITAL	124 780 553	0	124 780 553
35100	Fixed capital	124 562 760	0	124 562 760
35200	Supplementary capital	217 793	0	217 793
36000	RESERVES	153 709 238	0	153 709 238
92000	LIABILITIES, TOTAL	5 583 529 900	0	5 583 529 900
94000	OFF-BALANCE LIABILITIES	5 393 255 604	0	5 393 255 604

Source: BNB.

CONSOLIDATED INCOME STATEMENT OF GROUP I COMMERCIAL BANKS (SSB INCLUDED) FOR 1997

(thousand BGL)

Code	Groups, items	Carrying value	Adjustment	Balance-sheet value
50000	FINANCIAL EXPENDITURE	16 576 618 480	0	16 576 618 480
50100	Interest on lev operations	297 436 557	0	297 436 557
50200	Interest on foreign exchange operations	64 157 030	0	64 157 030
50300	Capital losses on securities	1 141 577 112	0	1 141 577 112
50400	Valuation adjustments	13 931 908 567	0	13 931 908 567
50500	Commissions and fees	39 706 082	0	39 706 082
50600	Expenditure for provisioning of risk exposures	1 099 627 784	0	1 099 627 784
50700	Other financial expenditure	2 205 348	0	2 205 348
51000	EXTRA EXPENDITURE	46 068 422	0	46 068 422
52000	EXPENDITURE BY ECONOMIC ELEMENT	173 416 581	0	173 416 581
52100	Equipment	17 450 515	0	17 450 515
52200	External services	45 808 398	0	45 808 398
52300	Salaries and other remuneration	60 551 779	0	60 551 779
52400	Social securities and benefits	23 200 276	0	23 200 276
52500	Depreciations	4 256 576	0	4 256 576
52600	Other expenditures	22 149 037	0	22 149 037
54000	TAXES	182 259 107	0	182 259 107
54100	Profit tax	150 447 285	0	150 447 285
54200	Other taxes	31 811 822	0	31 811 822
55000	TOTAL EXPENDITURE	16 978 362 590	0	16 978 362 590
56000	RESULT FROM THE REPORTING PERIOD (PROFIT)	377 527 388	0	377 527 388
58000	TOTAL	17 355 889 978	0	17 355 889 978
60000	FINANCIAL REVENUE	17 260 176 710	0	17 260 176 710
60100	Interest on lev operations	345 297 344	0	345 297 344
60200	Interest on foreign exchange operations	200 577 639	0	200 577 639
60300	Income from partnerships and equity	1 072 153	0	1 072 153
60400	Capital gains on securities	1 113 944 133	0	1 113 944 133
60500	Valuation adjustments	15 181 306 472	0	15 181 306 472
60600	Commissions and fees	75 797 602	0	75 797 602
60700	Other financial revenue	342 181 367	0	342 181 367
61000	EXTRA REVENUE	91 080 948	0	91 080 948
62000	REVENUE FROM NONFINANCIAL SERVICES	4 632 320	0	4 632 320
63000	TOTAL REVENUE	17 355 889 978	0	17 355 889 978
64000	RESULT FROM THE REPORTING PERIOD (LOSSES)	0	0	0
65000	TOTAL	17 355 889 978	0	17 355 889 978

Source: BNB.

CONSOLIDATED BALANCE SHEET OF GROUP II COMMERCIAL BANKS FOR 1997

(thousand BGL)

Code	Groups, items	Carrying value	Adjustment	Balance-sheet value
10001	FINANCIAL ASSETS	1 147 822 147	117 901 312	1 029 920 835
10000	CASH BALANCES	347 989 736	12 907 618	335 082 118
10100	Cash balances in BGL	179 807 012	450 912	179 356 100
10200	Cash balances in foreign currencies	168 182 724	12 456 647	155 726 077
11000	GOVERNMENT SECURITIES	244 266 123	30 295 698	213 970 425
11100	Government securities in BGL	40 472 614	1 468 842	39 003 772
11200	Government securities in foreign currencies	203 793 509	28 826 856	174 966 653
12000	CLAIMS ON BANKS AND OTHER FINANCIAL INSTITUTIONS	190 850 767	8 933 428	181 917 339
12100	Claims on banks and other financial institutions in BGL	14 623 885	644 027	13 979 858
12200	Claims on banks and other financial institutions in foreign currencies	176 226 882	8 289 398	167 937 484
13000	CLAIMS ON NONFINANCIAL INSTITUTIONS AND OTHER CLIENTS	320 860 643	61 488 337	259 372 306
13100	Claims on nonfinancial institutions and other clients in BGL	176 764 514	27 200 121	149 564 393
13200	Claims on nonfinancial institutions and other clients in foreign currencies	144 096 129	34 288 205	109 807 924
14000	BONDS AND OTHER SECURITIES WITH FIXED YIELD IN TRADING PORTFOLIO	5 213 780	460 728	4 753 052
14100	Bonds and other securities with fixed yield in trading portfolio in BGL	119 769	0	119 769
14200	Bonds and other securities with fixed yield in trading portfolio in foreign currencies	5 094 011	460 728	4 633 283
15000	SHARES AND OTHER SECURITIES WITH VARIABLE YIELD IN TRADING PORTFOLIO	28 809 717	4 508 884	24 300 833
15100	Shares and other securities with variable yield in trading portfolio in BGL	27 446 685	4 508 884	22 937 801
15200	Shares and other securities with variable yield in trading portfolio in foreign currencies	1 363 032	0	1 363 032
16000	LONG-TERM FINANCIAL ASSETS	9 831 381	3 618 773	6 212 608
16100	Partnerships	124 974	110 324	14 650
16200	Equity	2 078 395	2 297	2 076 098
16300	Shares	7 628 012	3 506 152	4 121 860
16400	Bonds	0	0	0
17000	NONFINANCIAL ASSETS	98 215 212	14 906 372	83 308 840
17100	SHORT-TERM NONFINANCIAL ASSETS	2 501 981	0	2 501 981
17200	LONG-TERM NONFINANCIAL ASSETS	95 704 731	14 845 567	80 859 164
17210	Intangible long-term nonfinancial assets	1 090 140	213 472	876 668
17250	Tangible long-term nonfinancial assets	94 614 591	14 692 900	79 921 691
18000	FUTURE EXPENDITURE	5 533 197	0	5 533 197
19000	RIGHTS TO EQUITY SUBSCRIPTION	97 229 847	0	97 229 847
20000	OTHER ASSETS	17 149 820	817 426	16 332 394
91000	ASSETS, TOTAL	1 365 950 223	137 937 194	1 228 013 029
93000	OFF-BALANCE ASSETS	1 410 094 176	0	1 410 094 176
30001	ATTRACTED RESOURCES	914 130 092	0	914 130 092
30000	ATTRACTED RESOURCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS	155 304 660	0	155 304 660
30100	Attracted resources from banks and other financial institutions in BGL	50 418 922	0	50 418 922
30200	Attracted resources from banks and other financial institutions in foreign currencies	104 885 738	0	104 885 738
31000	ATTRACTED RESOURCES FROM NONFINANCIAL INSTITUTIONS AND OTHER CLIENTS	758 825 432	0	758 825 432
31100	Attracted resources from nonfinancial institutions and other clients in BGL	336 696 079	0	336 696 079
31200	Attracted resources from nonfinancial institutions and other clients in foreign currencies	422 129 353	0	422 129 353
32000	FUTURE REVENUE	23 858 637	0	23 858 637
33000	OTHER LIABILITIES	65 157 006	0	65 157 006
37000	OWN FUNDS	224 867 294	0	224 867 294
34000	FINANCIAL RESULT	-11 330 049	0	-11 330 049
34100	Retained earnings from previous years	45	0	45
34200	Profit for the current year	9 464 657	0	9 464 657
34300	Uncovered losses from past periods	-2 098 225	0	-2 098 225
34400	Losses in the current year	-18 696 526	0	-18 696 526
35000	CAPITAL	191 066 086	0	191 066 086
35100	Fixed capital	184 944 895	0	184 944 895
35200	Supplementary capital	6 121 191	0	6 121 191
36000	RESERVES	45 131 257	0	45 131 257
92000	LIABILITIES, TOTAL	1 228 013 029	0	1 228 013 029
94000	OFF-BALANCE LIABILITIES	1 090 110 058	0	1 090 110 058

Source: BNB.

CONSOLIDATED INCOME STATEMENT OF GROUP II COMMERCIAL BANKS FOR 1997

(thousand BGL)

Code	Groups, items	Carrying value	Adjustment	Balance-sheet value
50000	FINANCIAL EXPENDITURE	2 933 412 498	0	2 933 412 498
50100	Interest on lev operations	57 832 819	0	57 832 819
50200	Interest on foreign exchange operations	26 551 936	0	26 551 936
50300	Capital losses on securities	479 368 140	0	479 368 140
50400	Valuation adjustments	2 234 563 161	0	2 234 563 161
50500	Commissions and fees	12 477 928	0	12 477 928
50600	Expenditure for provisioning of risk exposures	122 505 998	0	122 505 998
50700	Other financial expenditure	112 516	0	112 516
51000	EXTRA EXPENDITURE	13 064 538	0	13 064 538
52000	EXPENDITURE BY ECONOMIC ELEMENT	55 544 435	0	55 544 435
52100	Equipment	5 020 762	0	5 020 762
52200	External services	21 127 289	0	21 127 289
52300	Salaries and other remuneration	16 229 701	0	16 229 701
52400	Social securities and benefits	5 402 855	0	5 402 855
52500	Depreciations	1 731 594	0	1 731 594
52600	Other expenditures	6 032 234	0	6 032 234
54000	TAXES	4 010 730	0	4 010 730
54100	Profit tax	3 324 229	0	3 324 229
54200	Other taxes	686 501	0	686 501
55000	TOTAL EXPENDITURE	3 006 032 201	0	3 006 032 201
56000	RESULT FROM THE REPORTING PERIOD (PROFIT)	9 464 657	0	9 464 657
58000	TOTAL	3 015 496 858	0	3 015 496 858
60000	FINANCIAL REVENUE	2 975 901 688	0	2 975 901 688
60100	Interest on lev operations	51 925 189	0	51 925 189
60200	Interest on foreign exchange operations	56 601 163	0	56 601 163
60300	Income from partnerships and equity	356 941	0	356 941
60400	Capital gains on securities	504 169 961	0	504 169 961
60500	Valuation adjustments	2 327 614 569	0	2 327 614 569
60600	Commissions and fees	30 157 548	0	30 157 548
60700	Other financial revenue	5 076 317	0	5 076 317
61000	EXTRA REVENUE	20 104 203	0	20 104 203
62000	REVENUE FROM NONFINANCIAL SERVICES	794 440	0	794 440
63000	TOTAL REVENUE	2 996 800 331	0	2 996 800 331
64000	RESULT FROM THE REPORTING PERIOD (LOSSES)	18 696 527	0	18 696 527
65000	TOTAL	3 015 496 858	0	3 015 496 858

Source: BNB.

CONSOLIDATED BALANCE SHEET OF GROUP III COMMERCIAL BANKS FOR 1997

(thousand BGL)

Code	Groups, items	Carrying value	Adjustment	Balance-sheet value
10001	FINANCIAL ASSETS	617 087 128	49 830 619	567 256 509
10000	CASH BALANCES	144 350 284	2 862 369	141 487 915
10100	Cash balances in BGL	48 003 289	292 084	47 711 205
10200	Cash balances in foreign currencies	96 346 995	2 570 285	93 776 710
11000	GOVERNMENT SECURITIES	48 492 107	7 428 403	41 063 704
11100	Government securities in BGL	25 573 125	29 900	25 543 225
11200	Government securities in foreign currencies	22 918 982	6 398 503	16 520 479
12000	CLAIMS ON BANKS AND OTHER FINANCIAL INSTITUTIONS	207 116 361	2 710 433	204 405 928
12100	Claims on banks and other financial institutions in BGL	9 047 962	639 418	8 408 544
12200	Claims on banks and other financial institutions in foreign currencies	198 068 399	2 071 015	195 997 384
13000	CLAIMS ON NONFINANCIAL INSTITUTIONS AND OTHER CLIENTS	217 009 028	37 224 392	179 784 636
13100	Claims on nonfinancial institutions and other clients in BGL	34 719 800	1 058 018	33 661 782
13200	Claims on nonfinancial institutions and other clients in foreign currencies	182 289 228	36 166 374	146 122 854
14000	BONDS AND OTHER SECURITIES WITH FIXED YIELD IN TRADING PORTFOLIO	53 038	53 038	0
14100	Bonds and other securities with fixed yield in trading portfolio in BGL	0	0	0
14200	Bonds and other securities with fixed yield in trading portfolio in foreign currencies	53 038	53 038	0
15000	SHARES AND OTHER SECURITIES WITH VARIABLE YIELD IN TRADING PORTFOLIO	0	0	0
15100	Shares and other securities with variable yield in trading portfolio in BGL	0	0	0
15200	Shares and other securities with variable yield in trading portfolio in foreign currencies	0	0	0
16000	LONG-TERM FINANCIAL ASSETS	66 310	37 196	29 114
16100	Partnerships	0	0	0
16200	Equity	0	0	0
16300	Shares	66 310	37 196	29 114
16400	Bonds	0	0	0
17000	NONFINANCIAL ASSETS	12 961 200	2 558 360	10 402 840
17100	SHORT-TERM NONFINANCIAL ASSETS	41	0	41
17200	LONG-TERM NONFINANCIAL ASSETS	12 961 159	2 558 360	10 402 799
17210	Intangible long-term nonfinancial assets	1 646 415	196 474	1 449 941
17250	Tangible long-term nonfinancial assets	11 314 744	2 361 886	8 952 858
18000	FUTURE EXPENDITURE	366 306	0	366 306
19000	RIGHTS TO EQUITY SUBSCRIPTION	14 500 000	0	14 500 000
20000	OTHER ASSETS	6 746 379	610 759	6 135 620
91000	ASSETS, TOTAL	651 661 013	53 484 950	598 176 063
93000	OFF-BALANCE ASSETS	748 139 069	0	748 139 069
30001	ATTRACTED RESOURCES	509 560 083	0	509 560 083
30000	ATTRACTED RESOURCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS	174 716 868	0	174 716 868
30100	Attracted resources from banks and other financial institutions in BGL	43 038 855	0	43 038 855
30200	Attracted resources from banks and other financial institutions in foreign currencies	131 678 013	0	131 678 013
31000	ATTRACTED RESOURCES FROM NONFINANCIAL INSTITUTIONS AND OTHER CLIENTS	334 843 215	0	334 843 215
31100	Attracted resources from nonfinancial institutions and other clients in BGL	50 031 166	0	50 031 166
31200	Attracted resources from nonfinancial institutions and other clients in foreign currencies	284 812 049	0	284 812 049
32000	FUTURE REVENUE	6 085 044	0	6 085 044
33000	OTHER LIABILITIES	50 286 071	0	50 286 071
37000	OWN FUNDS	32 244 865	0	32 244 865
34000	FINANCIAL RESULT	-8 734 787	0	-8 734 787
34100	Retained earnings from previous years	315 720	0	315 720
34200	Profit for the current year	18 581 880	0	18 581 880
34300	Uncovered losses from past periods	-425 019	0	-425 019
34400	Losses in the current year	-18 207 368	0	-18 207 368
35000	CAPITAL	29 566 495	0	29 566 495
35100	Fixed capital	28 900 000	0	28 900 000
35200	Supplementary capital	666 495	0	666 495
36000	RESERVES	2 413 157	0	2 413 157
92000	LIABILITIES, TOTAL	598 176 063	0	598 176 063
94000	OFF-BALANCE LIABILITIES	460 485 139	0	460 485 139

Source: BNB.

CONSOLIDATED INCOME STATEMENT OF GROUP III COMMERCIAL BANKS FOR 1997

(thousand BGL)

Code	Groups, items	Carrying value	Adjustment	Balance-sheet value
50000	FINANCIAL EXPENDITURE	287 317 449	0	287 317 449
50100	Interest on lev operations	13 025 991	0	13 025 991
50200	Interest on foreign exchange operations	4 761 033	0	4 761 033
50300	Capital losses on securities	2 881 137	0	2 881 137
50400	Valuation adjustments	214 774 630	0	214 774 630
50500	Commissions and fees	1 700 290	0	1 700 290
50600	Expenditure for provisioning of risk exposures	50 161 770	0	50 161 770
50700	Other financial expenditure	12 598	0	12 598
51000	EXTRA EXPENDITURE	393 510	0	393 510
52000	EXPENDITURE BY ECONOMIC ELEMENT	25 046 873	0	25 046 873
52100	Equipment	992 133	0	992 133
52200	External services	12 022 577	0	12 022 577
52300	Salaries and other remuneration	4 693 719	0	4 693 719
52400	Social securities and benefits	1 700 595	0	1 700 595
52500	Depreciations	646 902	0	646 902
52600	Other expenditures	4 990 947	0	4 990 947
54000	TAXES	10 054 420	0	10 054 420
54100	Profit tax	8 557 351	0	8 557 351
54200	Other taxes	1 497 069	0	1 497 069
55000	TOTAL EXPENDITURE	322 812 252	0	322 812 252
56000	RESULT FROM THE REPORTING PERIOD (PROFIT)	18 581 880	0	18 581 880
58000	TOTAL	340 854 132	0	340 854 132
60000	FINANCIAL REVENUE	322 339 109	0	322 339 109
60100	Interest on lev operations	14 385 617	0	14 385 617
60200	Interest on foreign exchange operations	20 578 154	0	20 578 154
60300	Income from partnerships and equity	0	0	0
60400	Capital gains on securities	12 562 740	0	12 562 740
60500	Valuation adjustments	261 250 259	0	261 250 259
60600	Commissions and fees	11 150 905	0	11 150 905
60700	Other financial revenue	2 411 434	0	2 411 434
61000	EXTRA REVENUE	836 725	0	836 725
62000	REVENUE FROM NONFINANCIAL SERVICES	10 930	0	10 930
63000	TOTAL REVENUE	323 186 764	0	323 186 764
64000	RESULT FROM THE REPORTING PERIOD (LOSSES)	18 207 368	0	18 207 368
65000	TOTAL	341 394 132	0	341 394 132

Source: BNB.

CAPITAL ADEQUACY OF COMMERCIAL BANKS AS OF 31 DECEMBER 1997

GROUP I (MAJOR BANKS)

Indicators	Code	December 1997
Capital base [thousand BGL]	1000	495 652 810
Primary capital [thousand BGL]	1100	364 143 133
Assets, total (2000.2) [thousand BGL]	5000	6 076 768 190
Total risk component (2000.2+3000.2+4000.2) [thousand BGL]	5100	1 578 208 830
Total capital adequacy (1000/5100) [%]	5200	31.41
Primary capital adequacy (1100/5100) [%]	5210	23.07
Degree of asset risk (5100/5000) [%]	5300	25.97
Degree of asset coverage (1000/5000) [%]	5400	8.16

GROUP II (SMALL AND MEDIUM-SIZED BANKS)

Indicators	Code	December 1997
Capital base [thousand BGL]	1000	110 643 840
Primary capital [thousand BGL]	1100	79 356 376
Assets, total (2000.2) [thousand BGL]	5000	1 191 470 640
Total risk component (2000.2+3000.2+4000.2) [thousand BGL]	5100	467 593 301
Total capital adequacy (1000/5100) [%]	5200	23.66
Primary capital adequacy (1100/5100) [%]	5210	16.97
Degree of asset risk (5100/5000) [%]	5300	39.25
Degree of asset coverage (1000/5000) [%]	5400	9.29

GROUP III

Indicators	Code	December 1997
Capital base [thousand BGL]	1000	25 281 363
Primary capital [thousand BGL]	1100	23 062 853
Assets, total (2000.2) [thousand BGL]	5000	297 091 245
Total risk component (2000.2+3000.2+4000.2) [thousand BGL]	5100	136 297 005
Total capital adequacy (1000/5100) [%]	5200	18.55
Primary capital adequacy (1100/5100) [%]	5210	16.92
Degree of asset risk (5100/5000) [%]	5300	45.88
Degree of asset coverage (1000/5000) [%]	5400	8.51

TOTAL

Indicators	Code	December 1997
Capital base [thousand BGL]	1000	631 578 013
Primary capital [thousand BGL]	1100	466 562 362
Assets, total (2000.2) [thousand BGL]	5000	7 565 330 075
Total risk component (2000.2+3000.2+4000.2) [thousand BGL]	5100	2 182 099 136
Total capital adequacy (1000/5100) [%]	5200	28.94
Primary capital adequacy (1100/5100) [%]	5210	21.38
Degree of asset risk (5100/5000) [%]	5300	28.84
Degree of asset coverage (1000/5000) [%]	5400	8.35

Source: BNB.

LOAN CLASSIFICATION UNDER REGULATION NO. 9 AS OF 31 DECEMBER 1997*

(thousand BGL)

Group	Code	Indicators	Carrying value	%	Carrying value in foreign currency	%	Carrying value, total	%
TOTAL	3000	Claims on nonfinancial institutions	676 935 364	43.93	864 011 092	56.07	1 540 946 456	100.00
for the system	3100	Standard exposures	572 401 237	37.15	325 094 143	21.10	897 495 380	58.24
	3200	Watch exposures	34 637 886	2.25	97 658 090	6.34	132 295 976	8.59
	3300	Substandard exposures	32 405 300	2.10	57 833 117	3.75	90 238 417	5.86
	3400	Doubtful exposures	6 738 121	0.44	65 121 013	4.23	71 859 134	4.66
	3500	Loss	30 752 819	2.00	318 304 728	20.66	349 057 547	22.65
Group I	3000	Claims on nonfinancial institutions	466 504 467	46.39	539 166 333	53.61	1 005 670 800	100.00
	3100	Standard exposures	408 464 133	40.62	130 769 769	13.00	539 233 902	53.62
	3200	Watch exposures	8 536 841	0.85	50 341 676	5.01	58 878 517	5.85
	3300	Substandard exposures	32 254 676	3.21	10 802 135	1.07	43 056 811	4.28
	3400	Doubtful exposures	6 578 975	0.65	54 525 797	5.42	61 104 772	6.08
	3500	Loss	10 669 841	1.06	292 726 955	29.11	303 396 796	30.17
Group II	3000	Claims on nonfinancial institutions	175 572 983	55.08	143 201 973	44.92	318 774 956	100.00
	3100	Standard exposures	129 270 935	40.55	78 945 873	24.77	208 216 808	65.32
	3200	Watch exposures	26 098 817	8.19	39 455 931	12.38	65 554 748	20.56
	3300	Substandard exposures	150 624	0.05	757 917	0.24	908 541	0.29
	3400	Doubtful exposures	23 909	0.01	5 146 840	1.61	5 170 749	1.62
	3500	Loss	20 028 698	6.28	18 895 412	5.93	38 924 110	12.21
Group III	3000	Claims on nonfinancial institutions	34 857 914	16.10	181 642 786	83.90	216 500 700	100.00
	3100	Standard exposures	34 666 169	16.01	115 378 501	53.29	150 044 670	69.30
	3200	Watch exposures	2 228	0.00	7 860 483	3.63	7 862 711	3.63
	3300	Substandard exposures	0	0.00	46 273 065	21.37	46 273 065	21.37
	3400	Doubtful exposures	135 237	0.06	5 448 376	2.52	5 583 613	2.58
	3500	Loss	54 280	0.03	6 682 361	3.09	6 736 641	3.11

* The classification of code 3000 'Claims on nonfinancial institutions' is part of the general classification made in the 'Asset Classification under Regulation No. 9 as of 31 December 1997' table.

Source: BNB.

ASSET CLASSIFICATION UNDER REGULATION NO. 9 AS OF 31 DECEMBER 1997

(thousand BGL)

Group	Code	Indicators	Carrying value	%	Carrying value in foreign currency	%	Carrying value, total	%
	9100	Standard exposures	1 330 694 221	25.55	3 006 692 402	57.73	4 337 386 623	83.28
	9200	Watch exposures	36 969 072	0.71	103 389 415	1.99	140 358 487	2.69
	9300	Substandard exposures	39 543 257	0.76	63 099 570	1.21	102 642 827	1.97
	9400	Doubtful exposures	7 083 115	0.14	70 576 467	1.36	77 659 582	1.49
	9500	Loss	120 880 523	2.32	429 560 330	8.25	550 440 853	10.57
TOTAL FOR THE SYSTEM			1 535 170 188	29.47	3 673 318 184	70.53	5 208 488 372	100.00
Group I	9100	Standard exposures	1 030 256 708	26.11	2 231 189 510	56.55	3 261 446 218	82.66
	9200	Watch exposures	10 442 338	0.26	54 324 272	1.38	64 766 610	1.64
	9300	Substandard exposures	39 147 176	0.99	14 302 135	0.36	53 449 311	1.35
	9400	Doubtful exposures	6 578 975	0.17	59 981 251	1.52	66 560 226	1.69
	9500	Loss	100 581 946	2.55	398 638 288	10.10	499 220 234	12.65
Group I, total			1 187 007 143	30.09	2 758 435 456	69.91	3 945 442 599	100.00
Group II	9100	Standard exposures	201 653 191	28.05	398 172 161	55.38	599 825 352	83.42
	9200	Watch exposures	26 521 847	3.69	41 199 973	5.73	67 721 820	9.42
	9300	Substandard exposures	396 081	0.06	2 524 370	0.35	2 920 451	0.41
	9400	Doubtful exposures	23 909	0.00	5 146 840	0.72	5 170 749	0.72
	9500	Loss	20 244 297	2.82	23 138 896	3.22	43 383 193	6.03
Group II, total			248 839 325	34.61	470 182 240	65.39	719 021 565	100.00
Group III	9100	Standard exposures	98 784 322	18.16	377 330 731	69.36	476 115 053	87.52
	9200	Watch exposures	4 887	0.00	7 865 170	1.45	7 870 057	1.45
	9300	Substandard exposures	0	0.00	46 273 065	8.51	46 273 065	8.51
	9400	Doubtful exposures	480 231	0.09	5 448 376	1.00	5 928 607	1.09
	9500	Loss	54 280	0.01	7 783 146	1.43	7 837 426	1.44
Group III, total			99 323 720	18.26	444 700 488	81.74	544 024 208	100.00

Source: BNB.

BALANCE SHEET OF BNB ISSUE DEPARTMENT

(million BGL)

	1 July 1997 (opening)	31 July 1997	29 Aug. 1997	30 Sep. 1997	31 Oct. 1997	28 Nov. 1997	31 Dec. 1997
ASSETS	2 819 959	3 460 731	3 751 501	3 936 241	4 078 821	4 217 154	4 411 910
1. Cash and nostro accounts in foreign currency	700 980	1 745 215	1 653 402	1 642 738	2 031 761	2 061 676	2 263 682
2. Monetary gold	640 701	640 727	640 779	643 968	644 021	646 220	644 109
3. Foreign securities	1 466 409	1 066 572	1 444 268	1 639 835	1 392 658	1 496 997	1 495 417
4. Accrued interest receivable	11 869	8 217	13 052	9 700	10 381	12 261	8 702
LIABILITIES	2 819 959	3 460 731	3 751 501	3 936 241	4 078 821	4 217 154	4 411 910
1. Currency in circulation	598 987	834 019	976 136	1 032 495	1 082 815	1 145 334	1 419 810
2. Bank deposits and current accounts	529 368	655 711	624 812	591 291	559 675	604 135	857 848
3. Government deposits and accounts	1 153 824	1 166 109	1 188 552	1 373 696	1 728 770	1 891 998	1 601 270
4. Other depositors' accounts	33 717	12 687	21 140	15 442	19 021	19 108	24 929
5. Accrued interest payable	10 243	190	60	350	2 377	2 715	1 926
6. Banking Department deposit	493 820	792 015	940 801	922 967	686 163	553 864	506 127

Source: BNB.

BALANCE SHEET OF BNB BANKING DEPARTMENT

(million BGL)

	31 July 1997	29 Aug. 1997	30 Sep. 1997	31 Oct. 1997	28 Nov. 1997	31 Dec. 1997
ASSETS	3 560 262	3 661 899	3 593 142	3 543 128	3 574 715	3 671 314
1. Nonmonetary gold and other precious metals	74 215	75 567	77 497	72 549	74 298	82 959
2. Investments in securities	293 326	287 790	280 440	273 472	281 108	282 619
3. Loans and advances to banks, net of provisions	17 895	16 691	25 048	23 328	12 717	20 314
4. Receivables from government	1 194 453	1 166 629	1 138 194	1 349 668	1 508 637	1 632 128
5. Bulgaria's IMF quota and holdings in other international financial institutions	1 087 118	1 070 546	1 044 557	1 032 388	1 039 960	1 041 430
6. Accrued interest receivable	928	832	904	891	333	389
7. Equity investments in domestic entities	2 134	2 503	2 503	2 134	2 134	2 134
8. Fixed assets	79 006	83 269	85 415	89 999	91 685	96 634
9. Other assets	19 172	17 271	15 617	12 536	9 979	6 580
10. Deposit with Issue Department	792 015	940 801	922 967	686 163	553 864	506 127
LIABILITIES	3 560 262	3 661 899	3 593 142	3 543 128	3 574 715	3 671 314
Obligations	2 576 286	2 680 666	2 618 410	2 580 597	2 593 397	2 718 888
1. Borrowings from IMF	1 489 509	1 610 602	1 571 345	1 539 909	1 551 250	1 674 802
2. Liabilities to other financial institutions	1 078 984	1 062 437	1 036 539	1 024 417	1 032 110	1 033 534
3. Accrued interest payable				4 264	663	884
4. Other liabilities	7 793	7 627	10 526	12 007	9 374	9 668
Equity	983 976	981 233	974 732	962 531	981 318	952 426
5. Capital	20 000	20 000	20 000	20 000	20 000	20 000
6. Reserves	698 293	687 381	676 809	658 879	671 889	675 789
7. Retained profit	265 683	273 852	277 923	283 652	289 429	256 637

Source: BNB.

Major Resolutions of the Managing Board of the BNB in 1997

6 January Effective 6 January 1997, the BNB set the central exchange rates of the Bulgarian lev to major convertible currencies on the basis of the daily volumes traded in the interbank forex market on condition these exceed USD 10 million in purchases and USD 10 million in sales. Provided forex purchases and sales remained below stated amounts, the BNB announced the central exchange rate for the next day based on the last daily volumes exceeding USD 10 million in purchases and USD 10 million in sales.

The amount of commercial banks' minimum required reserves at the BNB was raised from 10% to 11% on attracted funds in levs and foreign currency, to be applied to the 1996 minimum required reserves regulation on the basis of annual statement of balances.

9 January Regulation No. 5 of the MF and the BNB on the terms and procedure for issuance, acquisition and redemption of book-entry government securities was amended.

16 January With respect to the MF resolution on daily issuance of short-term government securities with a seven-day maturity, daily auctions for repo-agreements (sell/buy) were phased out as of 20 January 1997. To go into effect on the same date, only agreements with maturity of two business days and fixed yield may be concluded.

24 January Effective 27 January 1997, the BNB set a market-determined base interest rate based on the average weighted compound monthly yield obtained at the primary auctions for short-term government securities held by the MF.

Commercial banks were allowed to hold up to 100% of minimum required reserves in foreign currency on funds attracted in foreign currency and were obliged to buy government securities from the BNB portfolio with maturity of up to one month, provided that lev funds were released.

The BNB Board ascertained the insolvency of the Bank for Agricultural Credit Ltd., and filed a petition to the Sofia City Court to institute bankruptcy proceedings against the bank.

The BNB Board ascertained the insolvency of Elite Commercial Bank Ltd., and filed a petition to the Sofia City Court to institute bankruptcy proceedings against the bank.

27 January The BNB set the base interest rate on the basis of the average weighted compound monthly yield obtained at the primary auctions for seven-day government securities, the best developed market to date, taking into account the impact of the yield obtained on 28-day government securities. A change in the base interest rate was to be made in case strong aberrations from market terms of short-term government securities occurred.

29 January Effective 30 January 1997, commercial banks were temporarily forbidden access to their minimum reserve requirements.

30 January Amendments to Regulation No. 9 on the Government Securities Central Depository were adopted.

6 February Amendments to Regulation No. 3 on payments were adopted.

Amendments to Regulation No. 9 of 1993 on the loan classification and the formation of mandatory special reserves (statutory provisions) by banks were adopted.

13 February Effective January 1997, the BNB set the admissible amount of minimum required reserves of commercial banks in levs at 10% of minimum reserve requirements.

28 February As of 17 March 1997, the BNB Board put into circulation a silver commemorative coin '100 Years National Academy of Arts' with nominal value of BGL 500, issue 1996, in commemoration of the centenary of the National Academy of Arts.

13 March Effective February 1997 regulation, the BNB set the admissible amount of minimum required reserves of commercial banks in levs at 15% of minimum reserve requirements.

18 March As of 18 March 1997, the BNB set daily central exchange rates of convertible currencies to the Bulgarian lev on the basis of the daily volumes of forex bought and sold in the interbank market under 'spot' value date terms.

25 March The BNB Board canceled the conservatorship (set on 23 September 1996) of Mollov Bank Ltd., renamed Eurobank Ltd., and withdrew the petition to the Sofia City Court to institute bankruptcy proceedings against the bank.

27 March The BNB Board ascertained the insolvency of Capitalbank Ltd., Sofia, and filed a petition to the Sofia City Court to institute bankruptcy proceedings against the bank.

Amendments to Regulation No. 9 of 1993 on the loan classification and the formation of mandatory special reserves (statutory provisions) by banks were adopted.

11 April The base interest rate was to be changed weekly.

The BNB Board extended the license granted to Teximbank Ltd., authorizing it to make bank transactions abroad.

The BNB Board extended the license granted to Metropolitan Municipal Bank Ltd., authorizing it to make bank transactions abroad.

24 April The BNB Board ascertained the danger of insolvency of the International Bank for Investments and Development Ltd. The bank was placed under conservatorship pursuant to Article 88, para. 1 in connection with Article 64, item 1 and Article 65 of the LBCA and Article 16 of the Administrative Procedure Law. All members who managed and represented the bank and the members of the Board of Directors were removed from office and conservators were appointed with the powers provided for by Article 58, para. 4 of the LBCA. The bank was banned from servicing its obligations and conducting transactions under Article 1, para. 2, items 1, 2, 3, 4, 7, 8, 9 and 10 and its activity was circumscribed.

2 May On 8 May 1997, the Bulgarian National Bank put into circulation as legal tender banknotes of BGL 50,000 and BGL 5,000 nominal value and a circulating coin of BGL 10 nominal value, issue 1997.

15 May The BNB renewed the practice of determining the base interest rate on an annual basis, announcing first 'effective annual interest rate with monthly capitalization' and in brackets 'simple annual interest rate'.

The BNB Board revoked the license of the First Private Bank Ltd. to make bank transactions under Article 1, para. 2 of the Law on Banks and Credit Activity. Conservators having powers under Article 58, para. 1 of the Law on Banks and Credit Activity were appointed for a term of three months. The decision was subject to preliminary execution under Article 16 of the Administrative Procedure Law.

The BNB Board circumscribed the activity of Capitalbank Ltd., putting a ban on making transactions under Article 1, para. 2, items 1 – 5, 7, 8 and 10 of the Law on Banks and Credit Activity. A conservator with powers under Article 58, para. 2 in connection with para. 1, items 1 and 2 of the same Law was appointed.

22 May Effective 2 June 1997, the base interest rate was set on the basis of the average weighted yield attained at five consecutive auctions for 28-day government securities.

The European Bank for Reconstruction and Development, London, was authorized to acquire up to 20% of the voting registered shares, and up to 20% of the preference bearer shares in the First Investment Bank Ltd.

3 June Bulgaria Holding Ltd., Energy Insurance Joint-Stock Company and Bulgaria Insurance and Reinsurance Joint-Stock Company were permitted to acquire up to 80%, 10% and 10% respectively of the voting shares in Yambol Commercial Bank Ltd.

Yambol Commercial Bank Ltd. was renamed Bulgaria-Invest Commercial Bank Ltd.

5 June As of 13 June 1997, the BNB discontinued its open market operations in government securities.

The resolution of 17 October 1996 of the BNB Managing Board providing for commercial banks' cash holdings in levs to qualify as minimum required reserves was canceled.

Banks were allowed to transfer minimum reserve requirements in foreign currency up to 100% on attracted funds in foreign currency.

20 June The base interest rate was set on the basis of the yield attained at the auctions for three-month government securities.

26 June As of 1 July 1997, BNB selling exchange rate was set at BGL 1,000 per DEM 1 and the buying exchange rate at BGL 995 per DEM 1.

The BNB quoted daily central exchange rates of the Bulgarian lev to foreign currencies for the next working day based on the fixing of the Deutschemark exchange rate to the other currencies set on the Frankfurt Exchange by 3 p.m., and the official rate of BGL 1,000 per DEM 1.

3 July As of 14 July 1997, the BNB stopped accruing interest on commercial banks' current accounts with the BNB as well as on their minimum reserve requirements in levs and foreign currency.

9 July The BNB withdrew from circulation the banknotes of BGL 20 and 50, 1991 and 1992 issues, which stopped being legal tender as of 31 July 1998. These banknotes will be exchanged until 31 July 2000 only at BNB tills.

As of 1 August 1997, the BNB put into circulation a coin with a nominal value of BGL 50, 1997 issue.

15 July Regulation No. 8 on the capital adequacy of banks and Regulation No. 9 on the evaluation of risk exposures of banks and the allocation of provisions to cover the risk related thereto were adopted.

24 July Regulation No. 14 of 12 April 1994 on the sanctions imposed on commercial banks for losses arising from the sale of long-term government bonds below their market value was repealed.

BUS 8097 'Numbering Securities Issues in Bulgaria' was adopted.

11 September As of 1 October 1997, the BNB put into circulation three commemorative coins, issue 1997: the 'Footballer in Attack' silver coin, the 'Singing Bulgarian Child' silver coin and the 'For Atlantic Solidarity' commemorative coin.

18 September As of 1 October 1997, the BNB put into circulation a coin with a nominal value of BGL 20, issue 1997.

2 October Draft Regulation on the terms and procedure for acquisition and redemption of government securities issued as a result of structural reform was adopted. The Regulation was adopted by CM Decree No. 413 of 4 November 1997.

16 October As of 27 October 1997, the BNB put into circulation as legal tender a banknote of BGL 10,000 nominal value, issue 1997.

13 November Bankrupt banks were released from the obligation to hold minimum required reserves at the BNB, to go into effect as of the date of the court ruling on their insolvency. Funds on these banks' accounts at the BNB may be disposed with at the request of the assignee in bankruptcy, accompanied by documents certifying their powers. Bankrupt banks' accounts at the BNB may be closed by the written order of the assignee in bankruptcy.

27 November The base interest rate (simple annual interest) was set on the basis of the average annual yield on three-month government securities attained at each primary auction. Thus established base interest rate entered into force automatically on the day of these government securities' issue (Wednesday) and was valid until the next date of three-month government securities issue.

Regulation No. 4 on foreign currency positions of banks was adopted.

Regulation No. 9 on the evaluation of risk exposures of banks and the allocation of provisions to cover the risk related thereto was amended.

Regulation No. 11 on bank liquidity management and supervision was adopted.