BULGARIAN NATIONAL BANK

ANNUAL REPORT • 1998

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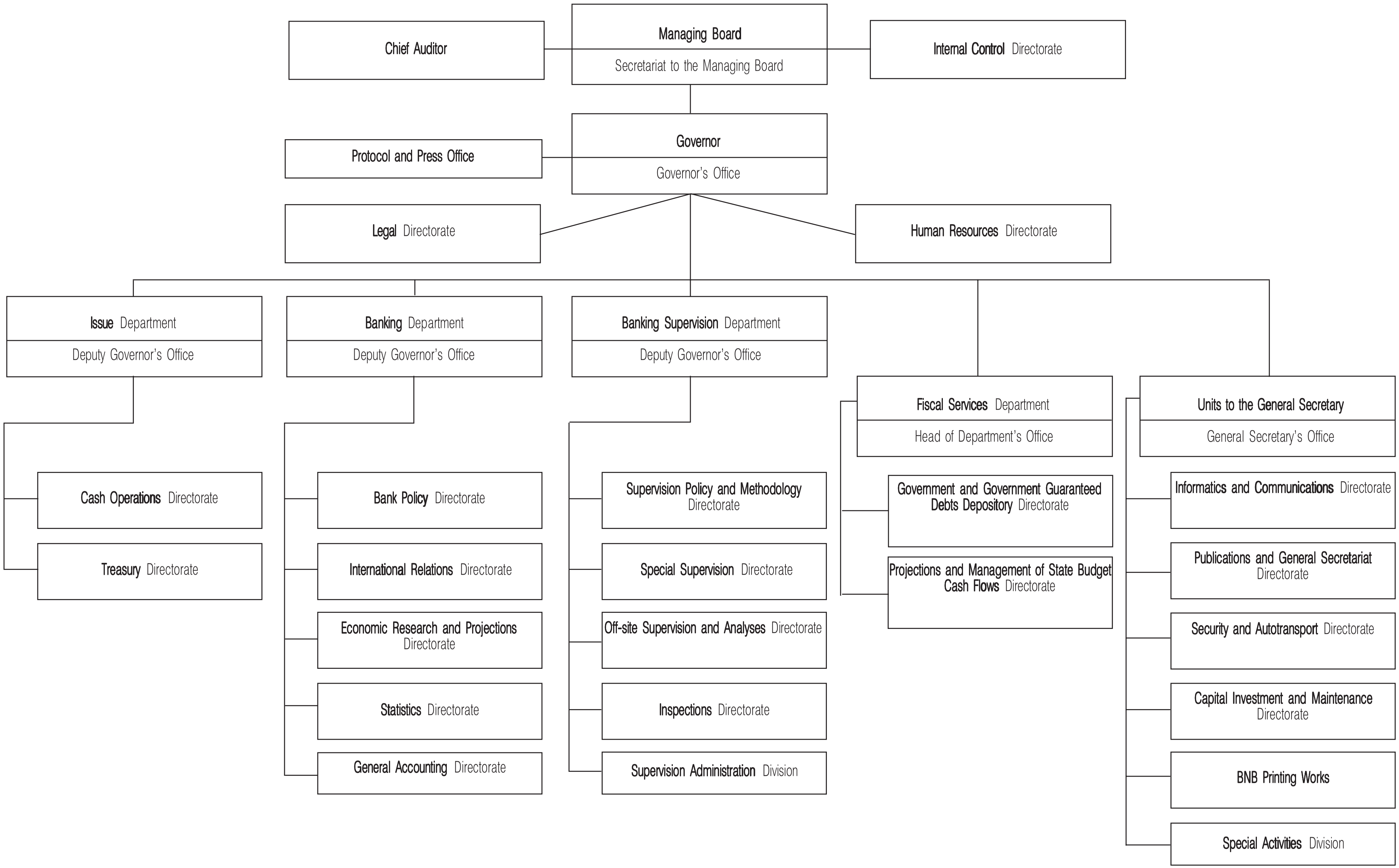
Honorable Chairman
of the National Assembly;
Honorable People's Representatives,

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 1998 Annual Report.

Svetoslav Gavriiski
Governor of the Bulgarian
National Bank

Organizational Structure of the BNB (as of 1 March 1999)



BULGARIAN NATIONAL BANK MANAGEMENT

MANAGING BOARD

Svetoslav Gavriiski
Governor

Martin Zaimov
Deputy Governor

Emiliya Milanova
Deputy Governor

Valentin Tsvetanov
Deputy Governor

Roumen Avramov

Garabed Minassian

Georgi Petrov

Abbreviations

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*
CB	*Commercial Banks*
CEFTA	*Central European Free Trade Association*
CM	*Council of Ministers*
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*
MF	*Ministry of Finance*
NSI	*National Statistical Institute*
OECD	*Organization for Economic Cooperation and Development*
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

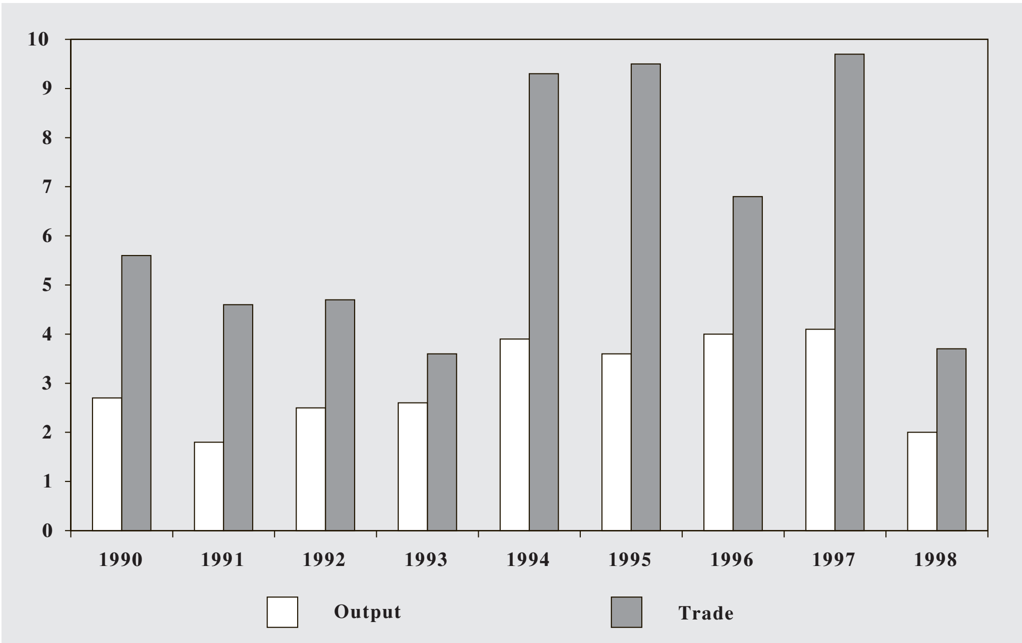
I. Developments in the World Economy and Finances

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

Expectations that the consequences of the financial crisis in Southeast Asia would be localized rather than being global were not fulfilled. Global economic conditions deteriorated in 1998. This was a result of weaker demand in international markets, slow recovery of the Japanese economy and the other economies in the Asian region, as well as Russia's financial crisis. World output growth slowed to 2%[1] in 1998 and world trade growth declined from 10% in 1997 to 3.5% in 1998.

DEVELOPMENTS IN WORLD OUTPUT AND GROWTH

(%)



Source: IMF.

The forecast for 1999 is for a slow recovery (2.2%) of the world economy but the outcome is rather questionable because of the Brazilian financial crisis and the threat of it spilling over to other countries in the region, subsequently adversely affecting the USA. The conflict in Kosovo will have negative effects on Eastern European countries and on Europe as a whole.

Weak demand and the faltering recovery of international energy prices are preconditions for low inflation in global terms. In developed countries inflation will be close to zero, and it will stay modest in developing countries and transition economies. An exception to this trend is expected in countries which in 1998 and early 1999 devalued their currencies.

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[1] IMF estimates.

Globally, low inflation and slow growth will keep the levels of nominal interest rates low. Private investors' low confidence in emerging markets will have a negative effect on investment inflows to other countries in the group. In 1999 emerging market economies' access to private foreign financing is set to be inhibited and will be available only at higher rates.

2. Developed Countries

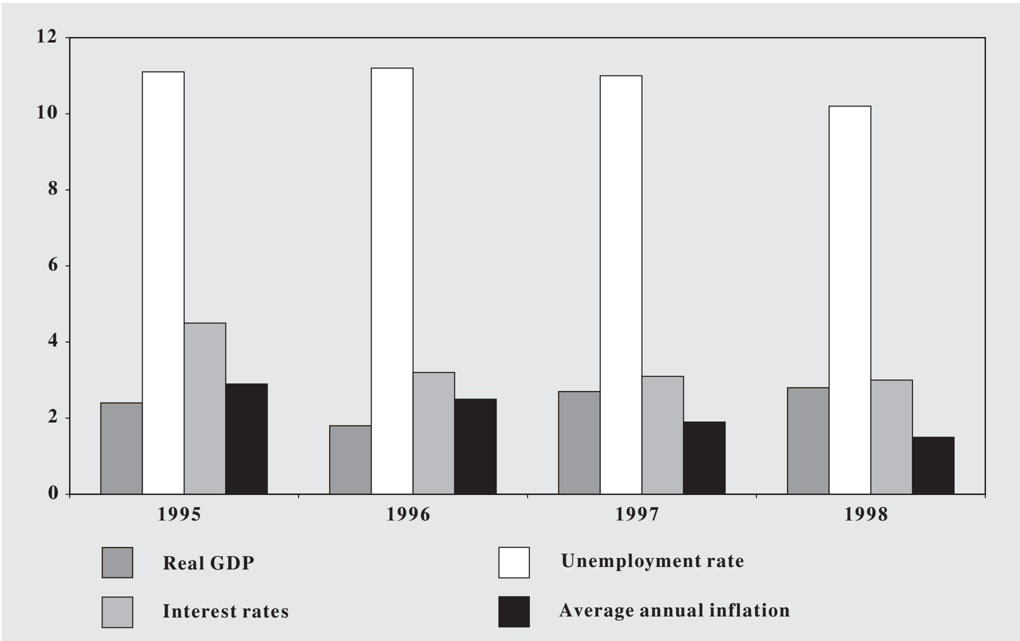
Growth rates in the developed world slowed further. This is due mainly to the Japanese recession, and the slowdown in the economic cycle of European Union member countries. Inflation levels hover well below the average at around 1.7%. Unemployment is estimated to increase slightly. The forecast for the seven major industrial countries is for a budget deficit rise to an average of 1.4% of GDP. This entails steady volumes of government securities issued by these countries, confronted with higher demand as a result of changed risk preferences among investors. These factors will contribute to lower yield on government securities.

The European Union

In 1998 the EU growth rate slowed to 2.4%. The Asian crisis and volatile currencies in the Asian region, which is a traditional trading partner of the EU, precipitated reduced export volumes.

BASIC MACROECONOMIC INDICATORS FOR EUROPEAN UNION MEMBER COUNTRIES

(%)



Source: IMF.

The major event on the European economic scene in 1998 was the introduction of the euro. On 31 December 1998 with the announcement of the exchange rate of the euro, the third stage of the European Monetary Union was launched. It is expected that the common currency will have a positive impact on medium-term growth among all member countries (estimates[2] range from 1.5% to 2%).

In the long run, the launch of the monetary union will boost commercial ties between EU and the countries with exchange rates fixed or pegged to the euro. EMU success will depend on the implementation of consistent economic policies in accordance with the criteria introduced by the Maastricht Treaty.

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[2] According to the Austrian Institute of Economic Research.

Expectations for continued growth in 1999 are associated with the steady growth in consumption and investment within the EU. These are likely to offset the forecast decline in exports due to lower external demand. The forecast for 1999 is for a 2% growth in GDP, 1.6% inflation and a decline in unemployment to 9.9%. The main risk stems from a worsening business climate within the Union, which may adversely impact investment demand and hence undermine conditions for growth.

High unemployment remains a major concern among EU member countries. Its resolution is a matter of pending reforms in labor legislation aimed at improving flexibility in workforce supply: a precondition for effective operation of the monetary union.

Germany. In 1998 the German economy grew by 2%,[3] but the last quarterly figures show a certain slowdown in industrial output: the driving force during the last two years. Other factors are a worsened business climate owing to expectations of a heavier tax burden and lower capacity utilization due to a lack of orders, especially from abroad.

Expectations for a GDP growth in 1999 reflect external factors. Inflation will stay at around 1.2%, and unemployment at around 10.9%. Major threats to achieving these forecast figures are fiscal policy uncertainty and a continued depressed external demand.

The USA

Despite worsened global macroeconomic environment in 1998, the US economy experienced a 4% growth.[4] It was induced by strong domestic demand both from companies and the household sector.

Weak external demand and a lower price competitiveness of exports because of the appreciating dollar through most of the year account for a growing trade deficit.

Fears over higher inflation in 1998 consistent with high growth in the economy were dispelled. The consumer price index posted a growth of 1.5% in 1998 against 2% in 1997. The factors for this favorable development are low raw material and energy prices combined with an increased labor productivity.

The forecast[5] for 1999 GDP is for a moderate growth within 2.5 to 3%, retention of the extremely low levels of unemployment within 4.25 to 4.5%, and inflation at 2 to 2.5%. The great challenge for the American economy in 1999 will be the impact of the Latin American crisis and its duration.

Japan

The Japanese economy is in deep recession. According to estimates, GDP decline in 1998 is 2.6%. Despite hopes of a faster emergence from the crisis associated with a government program providing incentives to domestic demand, the effect may be short-lived. Exports, the major driving force for growth in Japan, are severely depressed due to weak external demand and the appreciation of the yen against the US dollar during the last quarter.

Forecasts[6] for 1999 are based on skepticism about the possibilities of a dramatic change, especially against the backdrop of structural problems in the financial sector. Consequently a slowdown in GDP decline of 0.6% may be expected.

3. The Transition Economies

Although until mid-1998 transition economies did not feel the impact of the events of late 1997, the spread of the financial crisis and the devaluation of the Russian rouble had an extremely negative impact on growth prospects in the region. The inflow of foreign direct and portfolio investment almost halted. This is particu-

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[3] Deutshe Bundesbank, *Monthly Report*, February 1999.

[4] According to estimates of the Department of Commerce published in the *Monetary Policy Report to the Congress Pursuant to the Full Employment and Balanced Growth Act of 1978*; Board of Governors of the Federal Reserve System.

[5] *Op. cit.*

[6] *World Economic Outlook*, December 1998, IMF.

larly true for the countries which maintain intensive trading relationships with Russia.

According to IMF forecast,[7] in 1999 transition economies will experience an estimated decline of 1.9%. Central and East European countries' overall growth is forecast at 2.2%. Major risks about this forecast are associated with the state of external demand in Russia and the European Union, which are major trading partners.

Capital outflow from this group of countries precipitated by changed investor behavior following the Asian, and especially the Russian crisis, caused pressure on their exchange rates and high volatility of real interest rates. These shocks may have a negative impact on economic growth.

Central European Countries

In 1998 *Hungary* achieved 5.2% economic growth driven by strong domestic demand underpinned by a slight growth in exports. However, the country's current account deficit rose to 4.7% of GDP in 1998, combined with a 5% budget deficit of GDP (7% if the costs of rescuing the Hungarian Post Bank are included).

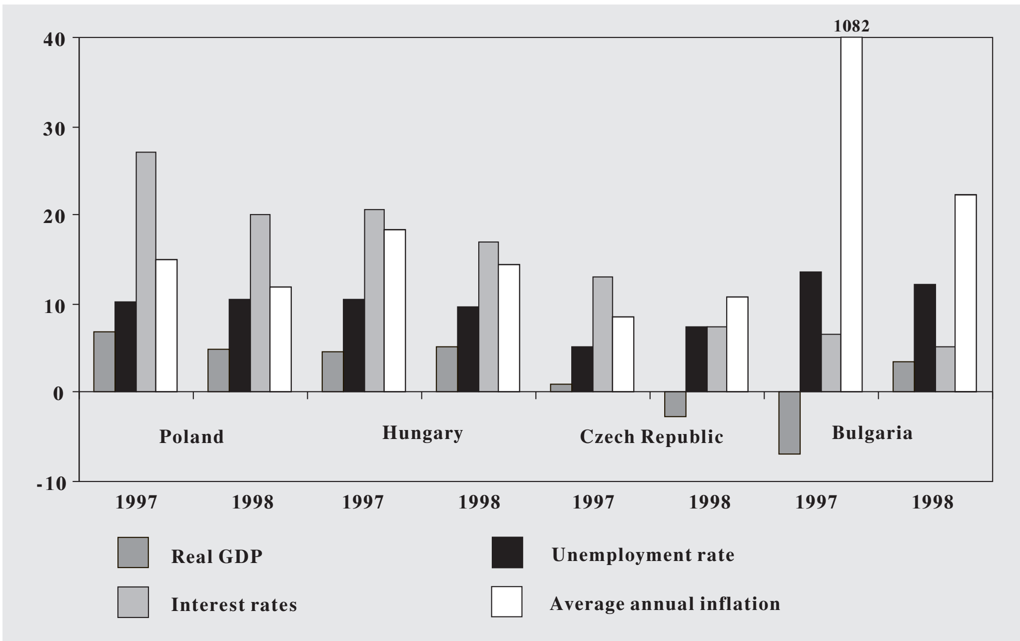
Rigorous measures undertaken to decrease the 'double deficit' contributed to the stable operation of the present exchange rate under a crawling peg regime within the current limits of +/- 2.25%, thus avoiding a possible speculative attack. The forecast[8] economic growth in 1999 is 5%, and a budget deficit of up to 4%. This forecast may be undermined by high real interest rates and further contraction of exports consistent with unfavorable external environment.

In 1998 *Poland* posted a GDP growth[9] of 4.8% coupled with reduced annual inflation at 11.8% and a budget deficit of 2.5% of GDP. At the same time the current account deficit accounted for 4.4% of GDP, mainly due to weaker external demand following the Russian crisis, and increased imports.

Forecasts[10] for 1999 focus on accelerated GDP growth at 5.1%, retention of the current account deficit at 4.9% of GDP, annual inflation of 8.1%, and a budget deficit of 2.2%. Major risks for the development of the Polish economy in 1999 are associated with reduced exports, lower industrial output and a possible monetary policy tightening, which will have negative implications for the projected growth rate.

MAJOR MACROECONOMIC INDICATORS FOR TRANSITION ECONOMIES

(%)



Source: IMF.

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[7] *World Economic Outlook*, October 1998, IMF.
[8] According to the macro framework of the national budget.
[9] Bank for International Settlements, *Economic Indicators for Eastern Europe*.
[10] Polish Ministry of Finance forecast.

In 1998 the *Czech Republic's* economy experienced a 2.7% decline in GDP from the previous year, reflecting depressed domestic demand, reinforced by the negative trend in wholesale trade. The budget deficit accounted for 1.6% of GDP, and the current account deficit fell from 6.1% in 1997 to 1.9% in 1998. A modest improvement of the current account was achieved thanks to the koruna's devaluation. Low demand and favorable conditions in the energy resources markets are the major factors for low inflation (against currency devaluation) at 6.8%.

The forecast[11] for 1999 envisages a slowdown of GDP at -0.8%, annual inflation of 5.8%, an increase in the current account deficit to 2.3%, and a budget deficit[12] of 2.1%.

Russia

During the last several years the Russian economy displayed extremely volatile macroeconomic indicators. Fiscal discipline is weak, reflecting on a continued increase in the budget deficit financed through fast increases in domestic and external debt. The high yield on Russian treasury bills denominated in foreign currencies, combined with modest inflation and a narrow currency band of the rouble, helped attract considerable portfolio investments from abroad, particularly in 1997. Due to delayed privatization and restructuring processes, portfolio investments in Russia dominate the capital account of the balance of payments, which makes the maintained exchange rate increasingly vulnerable to a possible speculative attack.

Although Russia came under pressure as early as late 1997, it managed to refinance maturities on its liabilities, but at yet higher costs. Ultimately, the difficulties of the Russian government with collecting revenues to meet maturities on debt service (cash tax revenues in 1998 fell to 7.7% of GDP) provoked a confidence crisis among investors and an outflow of portfolio investment. The lack of an agreement with international financial institutions and insufficient foreign exchange reserves of the central bank led to a widening of the rouble's fluctuation band to 9.5 roubles per dollar on 17 August; after 1 September, due to unabating pressure, the rouble was left to depreciate freely. This increased the debt burden whereby servicing of a portion of the debt was halted.

GDP[13] for 1998 dropped by 4.6% reflecting reduced industrial output, a contracted trade surplus (due to lower export prices of major raw materials), a collapse of solvent demand due to high inflation and currency devaluation. At the same time the budget deficit[14] at the end of 1998 reached 4.8% of GDP, and inflation: 84.4%.

The outlook for the development of the Russian economy in 1999 is associated with recovery of industrial output and the prices of energy resources: the major item in the country's export list. Petroleum revenues are of key importance for the budget as their share accounts for 8% of total revenues.

Domestic demand will be further depressed because of high inflation, low incomes and efforts aimed at fiscal policy tightening. Due to Russia's sizeable external liabilities, her inability to attract capital flows, the lack of an agreement with the international financial institutions, and growth in monetary aggregates owing to direct financing of the government and low forex reserves, the exchange rate will come under continued pressure which will have an inflationary effect and hence may inhibit imports. The planned tax increase on goods (imposed since early 1999) will have an additional negative effect on imports of alcohol and tobacco products.

Official forecasts[15] for 1999 envisage a decline in GDP within the range of 3 to 5%, up to 30% annual inflation and a 2.5% budget deficit. Developments in the first quarter of 1999 show that these targets will hardly be attained, given the higher than expected devaluation of the rouble and the projected unachievable level of tax revenues.

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[11] Czech Statistical Institute forecast.

[12] Czech Republic's Ministry of Finance forecast.

[13] *Economic Indicators for Eastern Europe,* BIS, Monetary and Economic Department, Basle, January 1999.

[14] If revenues from privatization are taken into account in deficit financing.

[15] Projected in the Draft Budget of the Russian Federation.

Countries with Currency Boards

In 1998 the *Estonian* economy posted another healthy GDP growth of 4.5% for the third successive year. This was a little below forecasts, due to developments in Russia. Nevertheless, the negative impact of the crisis on the Estonian economy was minimal reflecting the considerable share of Estonian trade with the EU (70%). Export growth rates exceeded those of imports thus contributing to lower trade deficit by almost three percentage points relative to GDP, but the current account deficit remains excessively high (21%). The latter was entirely offset by foreign direct investment inflow[16] directed primarily to the banking system (49%) and industry (20%). In 1998 banking sector privatization was completed; the sector is now entirely owned by foreign institutional investors. The great inflow of foreign direct investment *per capita* (approximately USD 1,250) ranks Estonia top among Central and East European countries and contributes to the country's growing forex reserves.

Forecasts[17] for 1999 show a 4% GDP growth, 7.2% inflation and a modest budget surplus. The low share of portfolio investment in total capital inflow demonstrates the stability of the current account deficit financing and reduces the risk for the above forecast.

In 1998 the economy of *Lithuania* posted a growth of 4.4%, driven entirely by higher domestic demand. Inflation stood low at 2.4% and foreign trade deficit rose to 19.5% of GDP. Fiscal policy was in compliance with currency board rules and budget deficit was low at 1.3% of GDP. At the end of the year the balance of payments current account ran a deficit of 12%. The predominant portion of the deficit was offset by foreign direct investment and other investment, the remaining portion being offset by foreign financing.

Forecasts[18] for 1999 are for a 5% growth at 3.9% average annual inflation and a budget deficit of 1.4% of GDP.

[16] According to published balance of payments data (Eesti Pank, Balance of Payments).
[17] According to the adopted 1999 budget.
[18] According to the macro framework of the National Budget adopted by Parliament.

II. Developments in the Bulgarian Economy in 1998

The past year was characterized by macroeconomic stabilization: a result of the introduction of a currency board. A policy aimed at further stabilization and transition to sustainable economic growth resulted in a three-year standby agreement concluded with the IMF. Strict observance of currency board rules helped effectively suppress inflation. Real salary growth enhanced individuals' purchasing power. As a result domestic demand became an essential growth factor. Following years of huge budget deficits, 1998 saw a budget surplus. Tax collection improved significantly while budget expenditures remained within projections. Low and stable interest rates coupled with increased confidence in the national currency helped stop the 'lev avoidance' characteristic of previous years. The banking sector stayed stable with high capital adequacy values resulting from high liquidity and prudent lending policies. The external environment dramatically worsened in 1998. The financial crisis and weakened investor interest brought about a decrease in external demand. Price falls in major commodity groups in the country's export list caused additional problems, resulting in a current account deficit. Despite lower direct and portfolio investments, the current account deficit was entirely offset through the balance of payments support extended by international financial institutions. This helped increase Bulgaria's forex reserves, ensuring the stability of monetary and credit aggregates.

1. Real Sector

Gross Domestic Product

During 1998 developments in the Bulgarian economy were impacted by further stabilization of the monetary sector and the effects of external shocks. Economic developments in 1998 suggest that financial stability is necessary but insufficient for sustainable economic growth. The fixed exchange rate and strong dependence on developments in world economy indicated two divergent trends in economic growth rates.

In 1998[19] nominal gross domestic product reached BGL 21,577 billion. GDP increased by 3.5% on 1997 in real terms. The first half of 1998 saw two-digit growth rates, entirely attributable to the stabilized monetary sector and the recovery of the real sector to pre-crisis levels. During the second half of 1998 income growth was significantly affected by adverse developments in the world economy (the Russian crisis and low growth rates in Europe) and political instability in the Balkans.

Final results indicate that the major factor of economic growth under the conditions of a currency board and a strong dependence on the state of the world economy, is rapid response by the real sector to external shocks. Due to the impossibility of offsetting the adverse effects of international markets through monetary measures, the reaction of the economy depends entirely on real sector and labor market flexibility.

[19] NSI preliminary data.

GDP by Component of Final Demand

The share of consumer spending, the major component of final demand, rose to 88% in 1998 from 74% in 1997. Monetary stabilization and steady inflationary expectations among consumers helped recover households' real incomes. As a result final consumption grew by 22.7% and 6.5% in the first and second quarters respectively compared with last year's corresponding quarters. Household consumption growth rates in the first half of the year stood stable, though high, reflecting less uncertainty in the economy and real incomes growth. As the positive stabilization effects depleted in the first half of the year growth rates in the second half slowed down. Overall 1998 consumer spending grew by 7.6% compared with 1997.

Final government spending also rose considerably (by 7.1%) consistent with budget stabilization reflecting improved tax discipline and a reduced share of interest payments in current expenses.

Gross investment reached BGL 3,181 billion in 1998, accounting for 14.7% of domestic demand. Gross fixed capital formation comprised 11.6% of gross added value, an increase of 16.4% in real terms compared with the previous year.

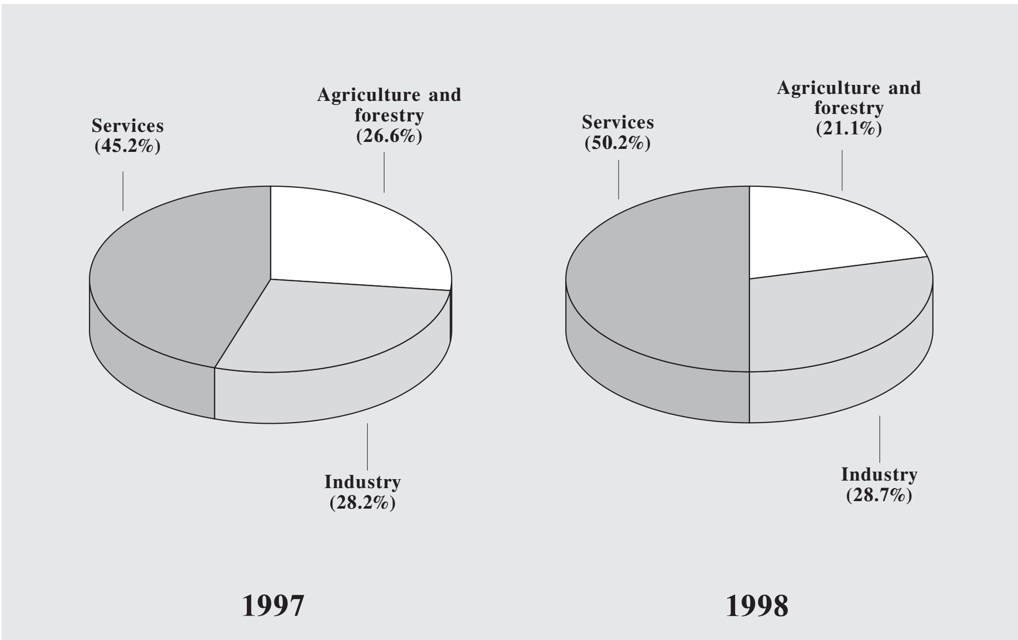
Net exports turned negative in 1998 and accounted for 1.1% of GDP. Exports of goods and services totaled BGL 9,755 billion, or 45.2% of GDP, and imports of goods and services amounted to BGL 9,983 billion, or 46.3% of GDP. Imports of goods and services decreased by 2% in real terms on 1997, and exports: by 15.6%.

Sectoral Structure of GDP

Financial stabilization, a result of the introduction of a currency board in the country, contributed to the real increase in the added value in all economic sectors. Gross added value in industrial sector totaled BGL 5,508 billion, an increase of 4.3% in real terms on 1997. Added value in agriculture and forestry also grew in real terms, by 1.4%, reaching BGL 4,045 billion. Services rose by 0.5% in real terms, to BGL 9,649 billion. The slowdown in growth rates on the previous year is mainly due to the large share of this component in gross added value.

GDP structure by economic sector experienced dramatic changes: the share of agriculture and forestry decreased by 5.5 percentage points and the share of industry increased by 0.5 percentage points. The higher price growth of nontradable goods under a currency board encouraged enhanced supply of these goods and services. This reflects the increased share of added value in services: 50.2% against 45.2% in 1997.

SECTORAL STRUCTURE OF GDP
(gross added value at current prices)



Source: NSI.

GDP by Origin of Ownership

Preliminary 1998 data indicates that added value in the private sector considerably exceeded added value created in the public sector. At current prices private sector gross added value amounted to BGL 12,241 billion, or 63.7% of whole-economy gross added value. The private sector in agriculture and forestry accounted for the largest share: 98.2%. The sizable share of agriculture and forestry (21.1%) is related to the inclusion of smallholdings and garage industries in the methodology of reporting for added value in agriculture.

The private sector insignificant growth rates in industry (0.5 percentage points) reflect slow privatization to a great extent. This pertains to foreign investors' sluggish interest in the ongoing privatization in Bulgaria due to volatile world economy and the effect of the Russian crisis on investors' interest in Bulgaria.

PRIVATE SECTOR SHARE IN GROSS ADDED VALUE BY SECTOR

(%)

	1994	1995	1996	1997	1998
Private sector, total	41.6	48.3	51.9	58.8	63.7
incl.: Agriculture and forestry	10.2	11.1	9.5	22.7	20.7
Industry	7.1	9.4	9.1	11.2	12.7
Services	24.3	27.8	33.2	24.9	30.4

Source: NSI.

Prices

1998 saw the lowest inflation rates since the start of economic reform. This confirms the view that the currency board has effectively repressed sources of inflation in the economy. Inflationary expectations were entirely connected with supply shocks due to an increased number of government regulated prices and the introduction of VAT for some goods which were previously exempt from it.

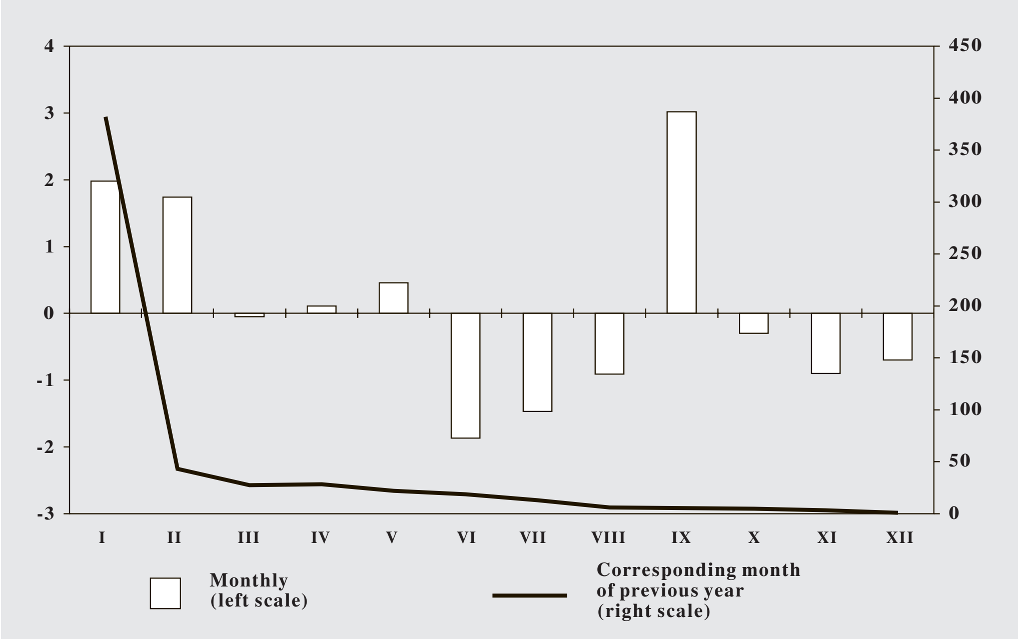
Price developments in 1998 confirm the rule that, the major source of inflation under a fixed exchange rate are nontradable goods, among which most significant are services (in 1998 services prices rose by 22.2%, and those in catering establishments: by 10.3%).

Consumer Prices

Of all transition years, 1998 had the lowest inflation. Inflation measured by the consumer price index was just 1%. Price dynamics clearly indicate three trends. *First*, a sustained price stabilization around a constant level: a result of constraints imposed by currency board rules. *Second*, the strong impact of international prices and demand (internal and external) on prices of tradable goods and services in the country. *Third*, the short-term effect on overall price levels of prices administratively set by the government.

CONSUMER PRICE DYNAMICS IN 1998

(%)



Source: NSI.

The first trend of continuous repression of inflationary sources in the economy was a result of the fixed exchange rate associated with the introduction of a new monetary regime in the country. Money supply growth entirely reflected balance of payments developments and the behavior of individuals and companies. Lack of sizable capital flows into Bulgaria due to worsened international financial markets added to the low growth rate of money supply. The 9.6% nominal money supply growth and decelerated currency circulation created monetary impulses for the higher price level. Money demand growth attributable to monetary stabilization and increased real incomes additionally helped neutralize inflationary impulses caused by particular monetary factors. These were the reasons behind low inflation rates during 1998.

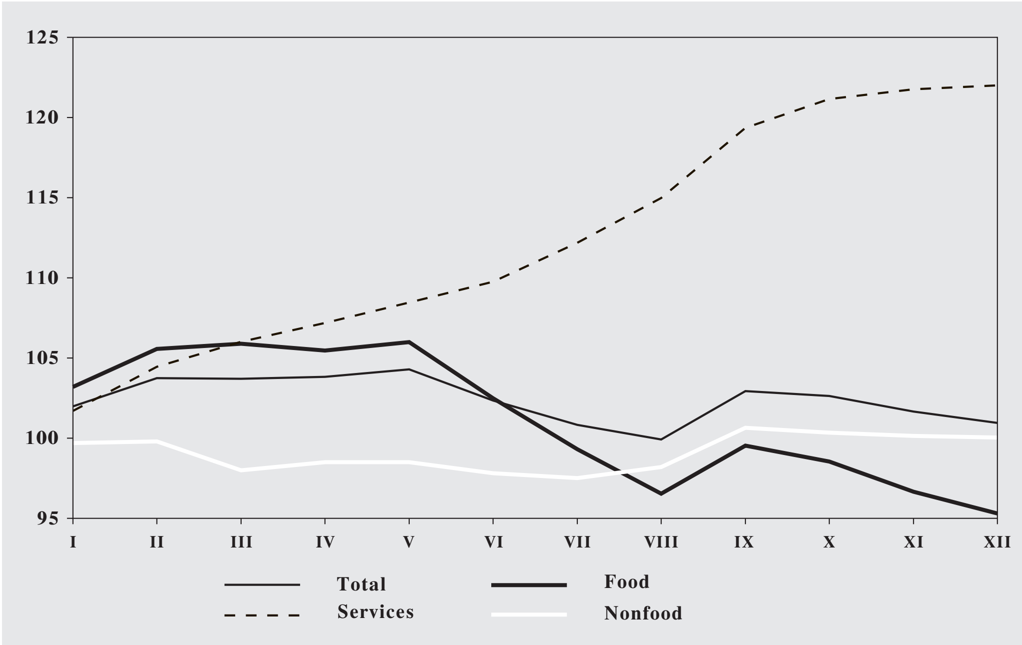
Decreased domestic credit in the economy was the other major monetary factor behind low inflation rates. An 18% fall in credit[20] led to low internal demand and repressed inflationary impulses in the economy caused by shocks in aggregate demand.

Decreased internal and external demand in the economy and international price effects appeared to be the second major reason behind the low inflation rate. Low internal demand, reflecting sluggish lending activity and low incomes, limited price growth. Slow growth rates in the world economy also contributed to the low demand and played the role of an anti-inflationary factor. International demand had the most significant effect on tradable goods. The tradable goods group faces the strongest competition from foreign producers, since nonfoods account for the biggest weight in it. This reflects the small relative price growth, particularly after the stabilization of the exchange rate. Compared with 1997 food prices decreased by 4.8% and nonfood prices by 0.1%. Prices of services increased by 22.2% and these of public catering by 10.3%. Changes in food prices played a key role in consumer price dynamics since foods comprise a significant share (55%) of the consumer price index.

Price falls of raw materials in international markets due to slower growth in the world economy had an additional favorable effect on inflation.

[20] The decrease in domestic credit was entirely due to the decrease of more than BGL 1 trillion (69%) in claims on the government, while credit to real sector increased by 6.3%.

PRODUCER PRICE INDICES BY COMMODITY GROUP IN 1998
(December 1997 = 100)



Source: NSI.

The 1998 inflation rate also suggests that the increase in government regulated prices has an immediate effect on the price index. This is due to the strong sensitivity of public inflationary expectations for changes in government regulated prices and services. Highs in the inflation rate in 1998 were reported in the months when government regulated prices increased. At the same time, the previous year's experience indicates that inflationary impulses caused by increases in administrated prices had a short-term effect due to the immediate absorption of these impulses within the inflationary expectations of the public and companies, and the lack of monetary sources of inflation to multiply inflationary expectations.

Producer Price Index

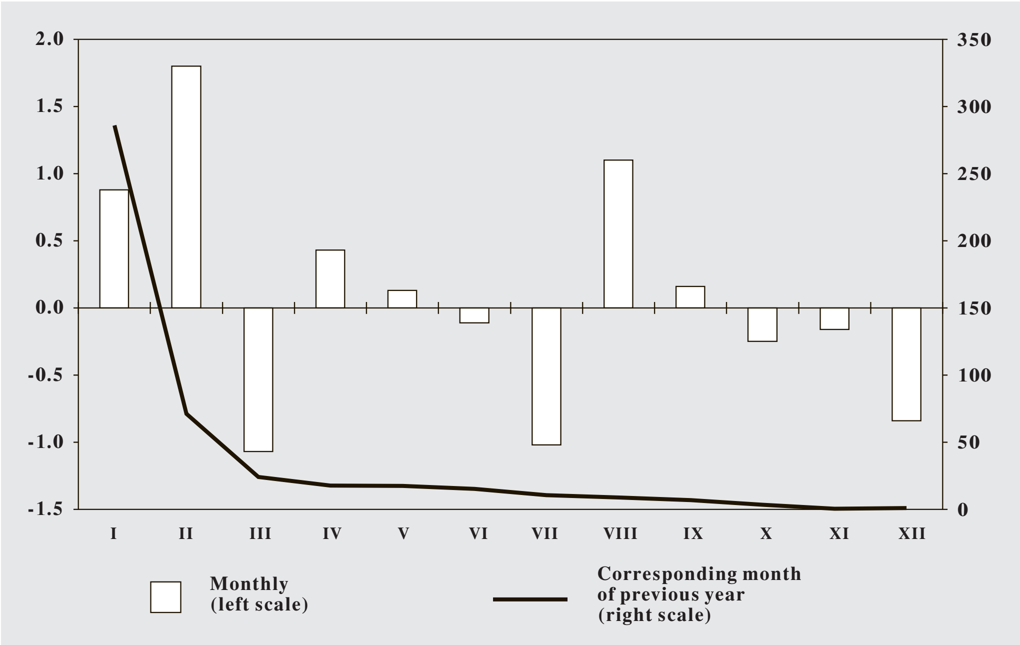
In 1998 monthly producer price index moved close to the level of consumer price index. Producer price index for 1998 is 101.01: almost matching the annual consumer price index.

In the months with increased government regulated prices the consumer price index grew faster than the producer price index. This was also typical of previous years but what was specific to 1998 was that producer prices increased faster in the months prior to any changes in administrated prices. These developments signal a new corporate strategy in price formation, atypical of recent years when the producer price index followed the growth in consumer prices with a certain lag.

Major factors responsible for the movements in industrial producer prices are: USD/BGL exchange rate changes, prices in international markets, internal and external demand. Sluggish external demand due to slower international economic growth did not cause significant changes in the producer price index. Exchange rate movements reflected both on producer prices through production costs (raw materials and energy) and incomes from sale of output abroad. Price falls of major raw materials helped decrease companies' production costs. At the same time this impeded the increase in producer prices of companies producing goods tradable in international markets. These were the two major factors responsible to a great extent for the slow growth rate of the producer price index.

PRODUCER PRICE DYNAMICS IN 1998

(%)



Source: NSI.

Employment and Unemployment

Employment

The monetary stabilization started in mid-1997 and maintained over 1998 impacted economic activity in the country and employment. The recovery in output, associated with the stabilization effect of the currency board, brought about changes in employment. The private sector was more strongly impacted by the positive developments.

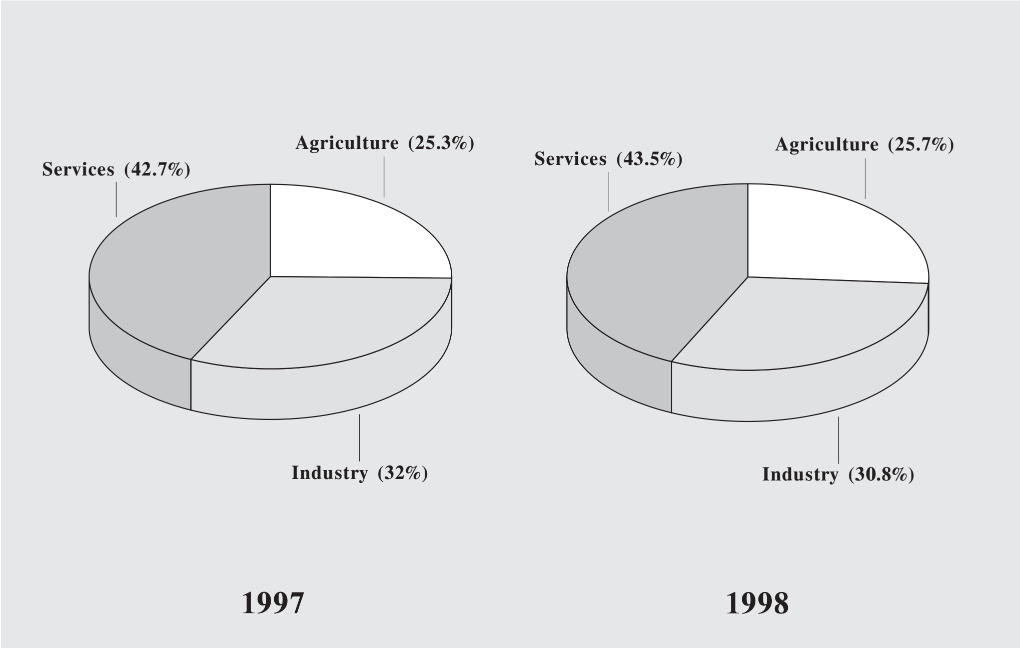
Preliminary data[21] for 1998 indicates that mean annual employment grew by 51,000 (1.6%) compared with 1997. At the same time, restructuring of employment continued.

The number of public sector redundancies is less than the increase in the number of private sector employees. It would be true to assume that there was an increase in the labor force with the bulk of it shifting to the private sector. A portion of unregistered unemployed, farmers, and the self-employed entered this sector. As in the previous year the share of private sector employment continued to increase at the expense of public sector employment.

Public sector employment fell by 9%; public sector employees in 1998 numbered 1,284,900 against 1,412,000 in 1997. This reduction reflects enhanced restructuring of the real sector and the closure of a number of jobs in the public 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.

[21] NSI data does not include information on farmers and self-employed.

EMPLOYMENT BY SECTOR

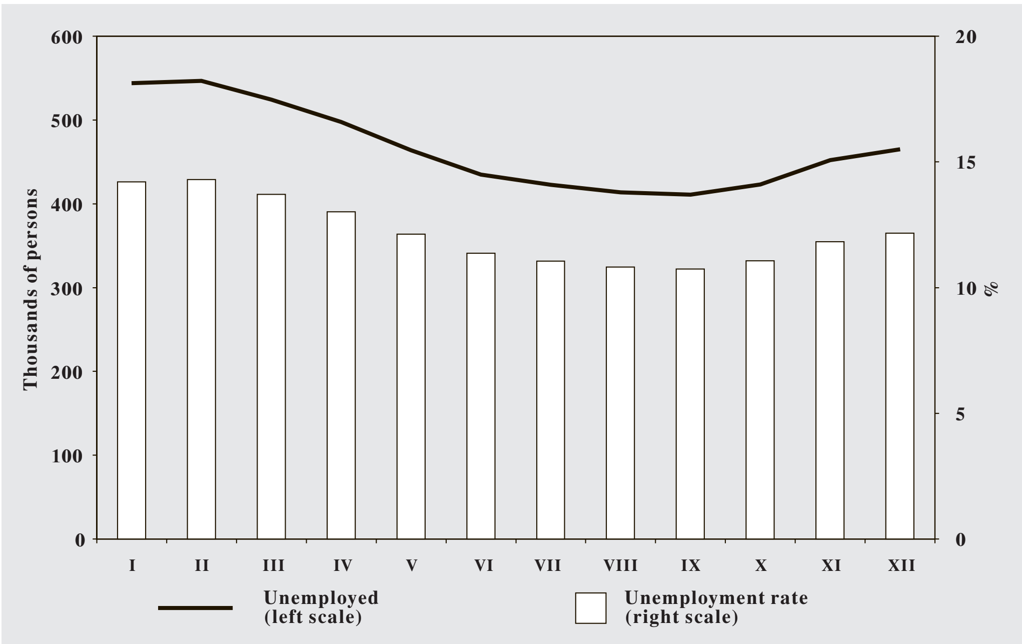


Source: NSI.

Unemployment

According to National Labor Office data, in 1998 the number of registered unemployed at labor offices totaled 465,200 or 12.8% of the labor force. Two periods characterized by divergent trends can be distinguished in unemployment in 1998.

UNEMPLOYMENT IN 1998



Source: National Labor Office.

The *first period* (January to September) is characterized by continuous unemployment decline in absolute terms; the share of the unemployed in total labor force decreased by 133,000 or 3.5%. This reflects the recovery in output in the first half of 1998. Slower income growth during the third quarter was greatly offset by seasonal factors which helped sustain the downward trend in unemployment.

The *second period* (October to December) is characterized by an increase in unemployment. However, by year-end unemployment was lower than in 1997. There are two major factors responsible for the reversal. First, the government initiated real closure of loss-making industrial enterprises. Second, unemployment was seriously affected by the sluggish external demand which prompted a decline in output and employment in export-oriented industries. The impact of the Russian crisis should be also noted, though it had an indirect effect: international trade conditions deteriorated and foreign investors' pessimism increased which additionally worsened Bulgaria's export opportunities, prompting increases in unemployment.

2. External Sector

Foreign Trade

In 1998 Bulgaria's foreign trade developed under the conditions of continuously falling demand, a result of the Asian and Russian financial crises. Prices of major goods from Bulgaria's export list continued to fall in international markets. Internal demand was volatile, tending to decline.[22]

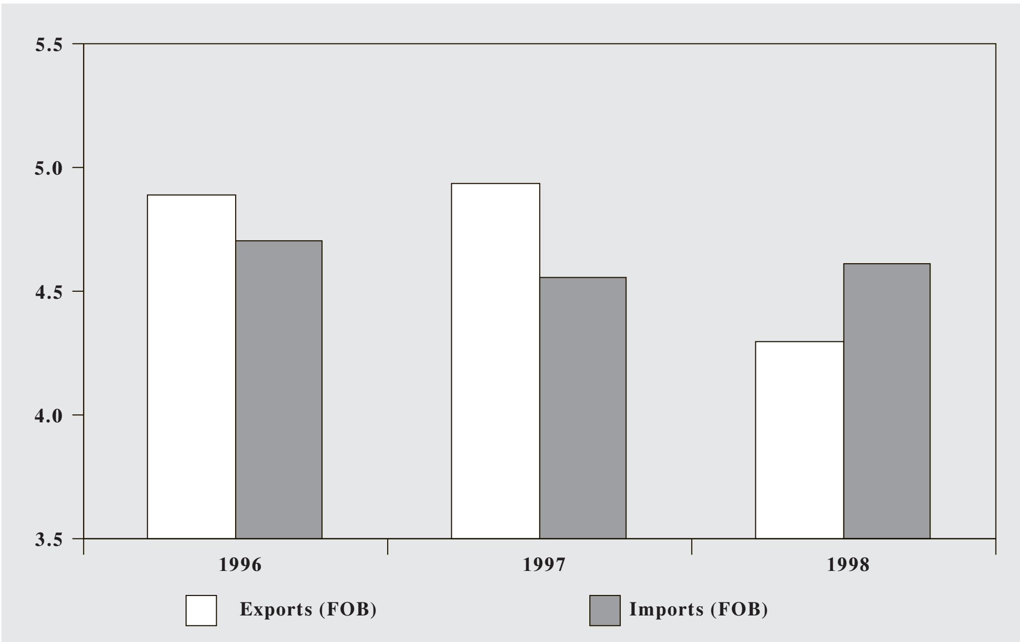
The trade balance in 1998 showed a deficit (USD 315.6 million), a decrease of USD 700 million compared with 1997.

Exports (FOB) decreased by 13% due mostly to unfavorable external conditions and the worsened competitiveness of Bulgaria's exports: a result of the slow pace of structural reform and *de facto* lev appreciation to some extent.

Imports (FOB) increased slightly (by 1%) showing a sustainable downward trend in the second half of 1998.[23] Despite slower growth rates during the last five months of the year, imports of nonenergy goods significantly increased (14.5%) compared with same period of 1997. Such an increase is typical of countries with fixed exchange rates. It may be assumed that credit to the nongovernment sector, though insignificant, contributed to imports of nonenergy goods.

FOREIGN TRADE DYNAMICS

(billion USD)



Source: MF Computing Center and NSI.

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[22] The overall decline in sales of industrial enterprises in 1998 was 9.4% compared with 1997. (Source: NSI). In 1998 retail sales to individuals rose by 5.1% on 1997.

[23] Between January and March 1998 imports grew by 24.9% (USD 219.7 million), while in the last five months of the year a decrease of 9.5% (USD 200.6 million) was reported.

Exports In 1998 prices of raw material feedstocks were falling faster than industrial output. Data suggests that the significant decline in revenue from exports during 1998 is attributable to the big share of exported raw material feedstocks and energy resources requiring insignificant processing (57% of total exports in 1997 against 53% in 1998). Export revenue from raw materials and energy resources declined by 19%. These products contributed most significantly (10.8 percentage points) to the overall decline in exports: 13%.

Commodity price falls in international markets started in 1997 (as a result of the South-Asian financial crisis) affected both developed economies and emerging markets, including Bulgaria. The adverse effect of the Asian crisis was dramatically sharpened by the Russian economic and financial collapse. Prices of most goods reflect low demand, excess supply and accumulation of commodity stocks. In late 1998 prices relatively stabilized showing slower rates of decline.

PRICES IN INTERNATIONAL COMMODITY MARKETS IN 1998

	Average prices (USD/ton)		Change (%)
	1997	1998	1998/1997
Cereals	159.5	126.1	-20.9
Cotton	1748.0	1445.0	-17.3
Wool	4303.0	3363.0	-21.8
Carbamide	146.1	121.2	-17.0
Triple superphosphate	171.9	173.1	0.7
Aluminum	1605.6	1367.3	-14.8
Copper	2276.8	1654.1	-27.3
Lead	624.2	528.6	-15.3
Zink	1316.0	1025.0	-22.1
Hot rolled steel	337.3	279.2	-17.2
Cold rolled steel	448.2	370.8	-17.3
Steel products*	89.1	74.9	-15.9
Crude oil**	18.1	12.1	-33.1

* Index 1990 = 100.
** Brent, USD per barrel.

Source: Commodity price data. The World Bank.

Exports of chemicals, plastics and rubber experienced the most significant drop: 30%. Within this commodity group exports of fertilizers and organic chemical products fell most dramatically: by 53.5% and 44% respectively.

The price slump of petroleum is the major reason behind the fall of 32.5% in exports of the mineral products and fuels aggregate commodity group.

Exports of base metals and their products, which had the biggest share in 1997 export revenues (21.3%), markedly declined in 1998: by approximately 20%. Cast-iron, iron and steel, and copper and its products groups contributed most significantly to this decline (18.3% and 27% respectively). Export falls were attributable to external factors (a drop in demand and increase in general supply of steel in international markets prompting additional price falls) as well as internal factors (financial problems in Kremikovtzi AD and Stomana). Export decrease in the copper and its products group reflects both lower prices and changes in the exported range of products.[24]

Despite a 6% decline in exports of consumer goods in 1998, these goods accounted for one-third in total exports. The increased volume and share of consumer goods are attributable to higher exports in the textile, leather materials, clothing, footwear and other consumer goods group (8%). Major reasons behind this growth are: intensive privatization of enterprises in this branch and low labor costs resulting in increased orders for clothing and footwear made with client-supplied materials.

[24] Following the privatization of MDK Pirdop by the Belgian Union Miniere (October 1997), the plant exports mostly unrefined copper requiring less processing and having a lower price than refined copper which had been exported prior to privatization.

EXPORT DYNAMICS

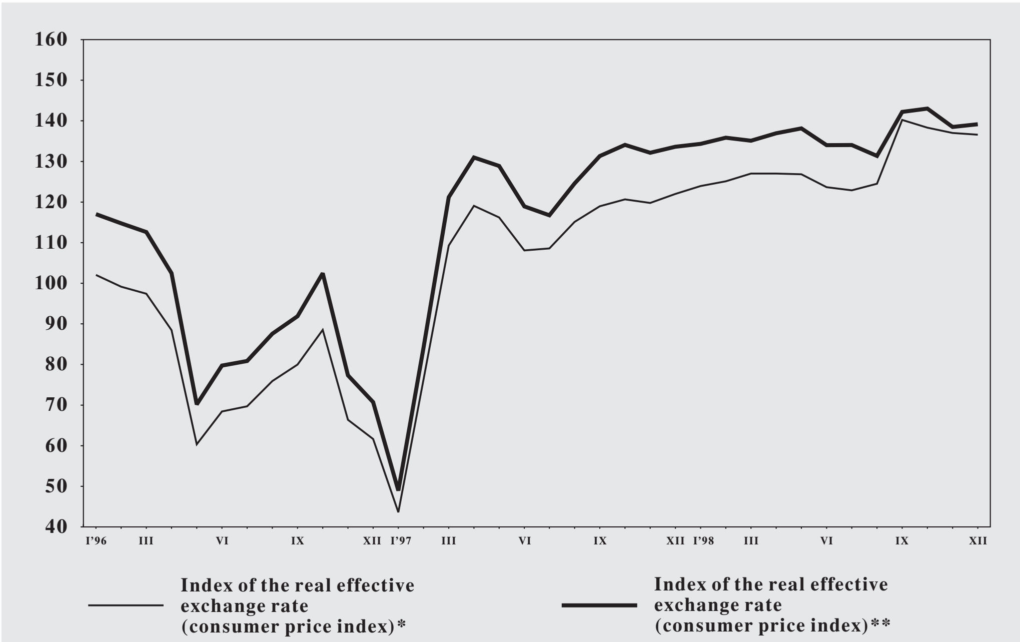
Exports (by use)	Relative share		Contribution to total export change (percentage points)					
	1997 (%)	1998 (%)	1997	1998				
			Total	I quarter	II quarter	III quarter	IV quarter	Total
Consumer goods	28.2	30.5	-0.8	-1.4	0.6	-4.7	-1.2	-1.7
Raw and other materials	49.2	47.0	1.0	-4.7	-5.3	-10.6	-12.6	-8.4
Investment goods	14.7	16.2	-0.6	-0.5	-0.9	-1.8	0.7	-0.7
Energy resources	7.9	6.3	1.3	-0.8	-4.1	-2.2	-2.5	-2.4
EXPORTS, TOTAL (FOB)	100.0	100.0	1.0	-7.4	-9.8	-19.2	-15.6	-13.1

Source: MF Computing Center and NSI.

The smaller decline in exports of investment goods (4%) reflects slower falls in prices of industrial goods than those of raw material feedstocks and energy resources.

Weakened competitiveness is the other reason for the decline in 1998 exports. This is attributable to increased unit labor costs and higher electricity costs rather than to the real overvaluation of the lev following the introduction of the currency board. The increase in unit labor costs is indirectly proved by the difference in growth rates of real salaries and revenues from sale of industrial output[25]. This, combined with the unfavorable situation and ineffective export structure, signal the need for structural reform aimed at increasing profitability and sustaining export competitiveness.

INDICES OF REAL EFFECTIVE EXCHANGE RATE
(December 1994 = 100)



* Based on countries' weight in exports (Italy – 23%, Russia – 22%, Germany – 21%, Turkey – 18%, Greece – 16%).
** Based on countries' weight in settlements (calculated using a basket of three currencies: USA – 75%, Germany – 20%, Switzerland – 5%).

Source: BNB, NSI and International Financial Statistics.

Imports

Expectations for a rapid import growth, typical of countries with a fixed exchange rate, fell short. Major factors behind the slow import growth are: price falls (particularly of petroleum), sluggish external demand for Bulgarian exports (as ex-

[25] In 1998 revenue from sale of industrial output dropped by 9.4% and the real salary increased by 10.8% compared with 1997.

ports have significant import components), and a volatile and low internal demand. Price conditions prompted import restructuring, with imports of nonenergy goods increasing at a fast pace: by 14.5%. During the first quarter of 1998 imports of nonenergy goods dramatically increased (by 41.7% compared with the crisis low reported in the first quarter of 1997), while the significant effect of the above factors coupled with higher base levels resulted in slower growth rates in the remaining months of 1998.

In terms of structure by use, imports of consumer goods increased both by volume (42%) and share (four percentage points). This growth reflects decreased output and sale of Bulgarian consumer goods (particularly industrial ones), a result of foreign trade liberalization and trade agreements concluded and Bulgaria's association to CEFTA. The growth in real salary and consumer loans also contributed to increased imports of consumer goods.

IMPORT DYNAMICS

Imports (by use)	Relative share		Contribution to total import change (percentage points)					
	1997 (%)	1998 (%)	1997	1998				
			Total	I quarter	II quarter	III quarter	IV quarter	Total
Consumer goods	10.4	14.6	0.5	8.5	4.5	2.6	3.0	4.4
Raw and other materials	40.2	40.9	1.8	8.4	1.7	0.5	-3.4	1.2
Investment goods	17.4	21.4	-1.2	9.5	4.8	2.3	2.2	4.3
Energy resources	31.9	23.0	-4.0	-0.4	-11.2	-9.1	-11.3	-8.6
IMPORTS, TOTAL (CIF)	100.0	100.0	-2.8	26.0	-0.1	-3.7	-9.5	1.3

Source: MF Computing Center and NSI.

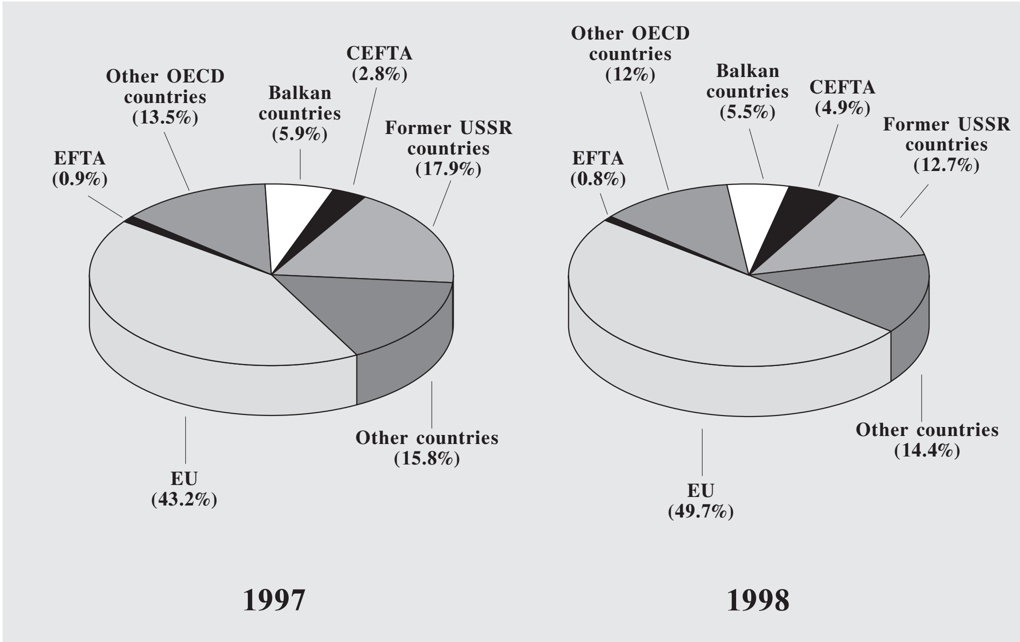
Imports of raw material feedstocks rose by 3%, while imported investment goods increased much faster: by 24.8%. Sizable percentage increases reflect the low comparative base and disturbed import structure, a result of previous years' crises. Imports of vehicles increased most significantly in the group of investment goods (90.3%), reflecting lifted duties on car imports from the EU and the country's general economic stabilization. The electrical machines group showed a 39.2% growth due mostly to investment in privatized enterprises, also contributing significantly to the increase in imports of investment goods.

Imports of mineral fuels, mineral oils and distilled products decreased most dramatically in energy resources (27.4%). Declines in imports of gas (34.2%, USD 165.1 million) and crude oils (34.1%, USD 263.2 million) contributed most markedly to this drop. The decrease in volume of natural gas reflects smaller industrial consumption, associated with reducing and closing of loss-making enterprises which use natural gas as an energy resource and input, and the sizeable indebtedness of a number of enterprises to Bulgargaz AD.

Geographic Structure

The high share of Bulgaria's *exports* in GDP and increased share of exports to the EU (from 43.2% in 1997 to 49.7% in 1998) indicate a growing dependence of export and GDP growth rates on EU growth. In the fourth quarter of 1998 the Russian crisis had a significant impact on EU member countries, prompting a decrease both in external and internal orders and a decline in imports from other countries. In the countries of the Eurozone GDP growth declined from 2.5% in the second quarter of 1998 to 0.5% in the fourth quarter of 1998. This is one of the factors behind the decline in Bulgaria's exports to these countries for the same period.

GEOGRAPHIC STRUCTURE OF EXPORTS



Source: MF Computing Center, NSI and BNB.

Exports to the former USSR countries declined both by volume (38.3%) and share (5.2 percentage points), prompting more than a 50% decrease in overall exports. Exports to Russia were affected most significantly, falling by 40.4%. This reflects high import duties imposed on Bulgarian goods, the severe economic and financial crisis in Russia, and Bulgarian exports' insufficient competitiveness in Russian markets, caused by the real appreciation of the lev against the rouble. Exports to Russia between September and December 1998 (following the decision to devalue the rouble and the announcement of the moratorium on domestic debt payment) fell by two-thirds, accounting for 60% of the 1998 decline. Exports of vegetable and fruit products dropped most dramatically (55.6%) followed by pharmaceuticals (41.6%). The share of Russian markets in total Bulgaria's export volume sharply decreased, reaching 5.5%.

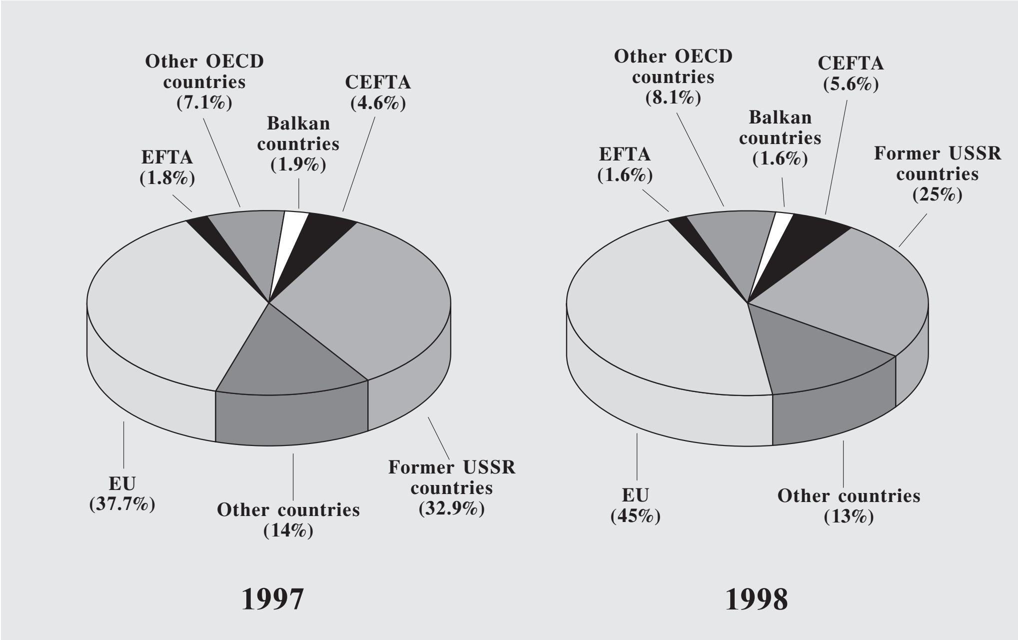
In 1998 the share of exports to other OECD countries also declined (22.6%), resulting in a reduced share of this group in total exports. The economic collapse and reduced internal demand in the countries of Southeast Asia[26] prompted a dramatic drop to these countries: 68.4%.

Only Bulgaria's exports to CEFTA countries indicated a growth (by 50.9%), with the biggest increase in exports being to Poland (86.6%) and Slovenia (105.6%).

Imports from the EU increased in 1998 (20.8%), particularly those from Germany, Greece and France. As a result the share of imports from the European Union reached 45% against 37.7% in 1997. Imports from Germany rose by 18.3% due mainly to imported investment goods, while imports from Greece grew by 42.1% primarily at the expense of imported mineral fuels and oils. The latter import growth reflects the delayed reaction of Neftochim to price falls of petroleum in international markets.

[26] Including Korea, Malaysia, Thailand, the Philippines and Indonesia.

GEOGRAPHIC STRUCTURE OF IMPORTS



Source: MF Computing Center, NSI and BNB.

Imports from Russia dropped dramatically: by 27.4% (USD 379 million). Imports of mineral fuels and oils declined most significantly (35.3%), a result of the drop in prices of crude oil and oil products, the reduced general consumption of natural gas, and increased imports of crude oil and oil products from other countries (Germany and Romania). Reduced imports led to a decrease in the Russia's import share in total imports: from 28% in 1997 to 20.1% in 1998.

Given the dramatically devalued currencies of the Southeast Asian countries and the enhanced competitiveness due to lower unit labor costs, imports from these countries grew significantly: by 94.6%.

Balance of Payments

Developments in the 1998 balance of payments reflected unfavorable external conditions and enhanced support by international financial institutions to economic reform in Bulgaria.

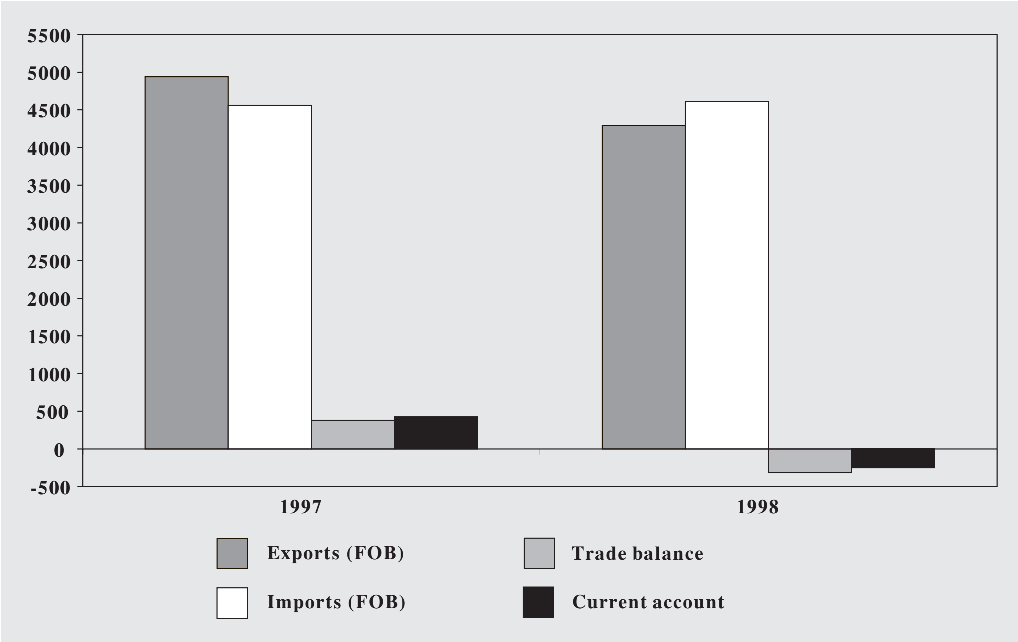
Current Account

The balance of payments current account was seriously impacted by the trade deficit balance ending in deficit of USD 251.1 million (2% of GDP).

Trade Balance. According to preliminary data the 1998 trade balance reported a deficit of USD -315.6 million, a decrease of USD 696 million compared with 1997.

CURRENT ACCOUNT AND TRADE BALANCE

(million USD)



Source: NSI and BNB.

Exports (FOB) declined by 13.1%, reaching USD 4,293 million, a decrease of USD 647 million compared with 1997. Major reasons behind this decrease are: dramatic price falls of major goods and raw materials in international markets, lower external demand, reduced competitiveness of Bulgarian exports, due mainly to slow pace of economic reform started in 1991. *Imports (FOB)* totaled USD 4,608.6 million, indicating an increase of 1.1% (USD 49.3 million) on 1997.

Services. The balance on services ended in surplus (USD 147.9 million) though it worsened by USD 18.4 million (11.1%) from 1997. This is attributable to lower net revenue from transportation and *other services*. Net revenue from *transportation services* is negative (USD 71 million), a decrease of 14.2 million. *Travel* revenue increased (18.5%) and expenditure remained unchanged. As a result net revenue from travel reached USD 215.8 million against USD 147.4 million a year ago.

Income. In 1998 the balance on the Income[27] item improved (by USD 43.4 million, or 12.2%) from 1997. This is mainly a result of increased forex reserves of commercial banks and the BNB which helped increase *revenue* on the Income item to USD 276 million against USD 210.6 million in 1997. At the same time *payments* on this item also increased: USD 589.5 million against USD 567.5 million a year ago. This is due mainly to an improved methodology of reporting direct investment. Net interest revenue indicated a deficit (USD 313.5 million) though it improved from 1997. Sizeable net interest payments on Other investment predetermined the change in net revenue and this is most clearly pronounced in interest payments on Bulgarian Brady bonds in January and July.

Current Transfers. Net revenue from current transfers in 1998 totaled USD 230.1 million against USD 236.8 million in 1997.

[27] The structure of the Income item includes revenue from direct investment, portfolio investment, other investment (loans) and employment emoluments.

MAJOR CURRENT ACCOUNT COMPONENTS

(million USD)

	1997	1998
Current account	426.7	-251.1
Goods: credit (FOB)	4,939.7	4,293.0
Goods: debit (FOB)	-4,559.3	-4,608.6
Trade balance	380.4	-315.6
Services: credit	1,337.5	1,255.0
Transportation	448.9	448.4
Travel	369.0	437.2
Other services	519.6	369.4
Services: debit	-1,171.2	-1,107.1
Transportation	-505.7	-519.4
Travel	-221.6	-221.4
Other services	-443.9	-366.3
Goods and nonfactor services, net	546.7	-167.7
Income: credit	210.6	276.0
Income: debit	-567.5	-589.5
Income, net	-356.8	-313.5
Current transfers, net	236.8	230.1

Source: NSI and BNB.

Financial Account

In 1998 the balance on the financial account was positive (USD 218.6 million), a decrease of USD 380.1 million (63.5%) from a year earlier. This is primarily attributable to lower direct investment, decreased portfolio investment of nonresidents, and an increase in principal payments on the country's foreign debt.

MAJOR FINANCIAL ACCOUNT COMPONENTS

(million USD)

	1997	1998
Direct investment, net	503.1	401.2
in reporting country	504.8	401.3
abroad	1.7	0.1
Portfolio investment, net	160.0	-219.4
in reporting country	146.4	-112.0
abroad	-13.6	-107.4
Other investment, net	-40.8	36.6
assets	-54.0	252.6
liabilities	13.2	-216.0
BNB foreign exchange reserves	-1,640.1	-574.1

Source: BNB.

Direct Investment. Direct investment[28] in Bulgaria during 1998 totaled USD 401.3 million, a decrease of USD 103.5 million (20.5%) compared with 1997 (USD 504.8 million).

Portfolio Investment. In 1998 *portfolio investment of residents abroad* significantly increased: by USD 107.4 million, against USD 13.6 million in 1997. *Portfolio investment in the reporting country* in 1998 decreased by USD 112 million, while in 1997 portfolio investment grew by USD 146.4 million. Significantly reduced investment of nonresidents in government securities reflects dramatically narrowed interest rate differential between the lev and the Deutschemark. The Russian crisis and the concurrent withdrawal of foreign investors from emerging markets also contributed to the decrease in portfolio investment in the country in the third quarter. After government securities and ZUNK bonds had fallen due, foreign investors did not buy new debt securities.

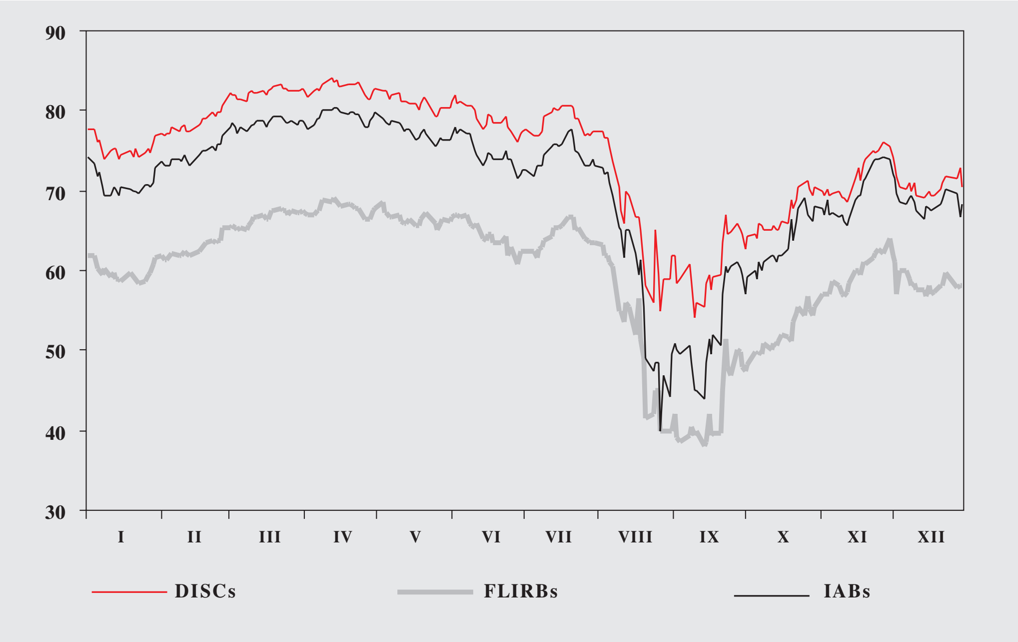
Decreased interest of foreign investors in Bulgarian government securities since early 1998 was partially offset by investment of USD 19.3 million in Bulgarian enterprises through the stock exchange.

[28] Data for 1998 is preliminary. The method of reporting direct foreign investment by the Bulgarian National Bank is described in the BNB Monthly Bulletin, issue 3 of 1999, Methodological Notes.

Reduced portfolio investment in government securities and bonds issued under ZUNK on the one hand, and increased BNB forex reserves on the other hand prompted an improvement in the ratio of the *nominal value of government securities and bonds issued under ZUNK, held by nonresidents* to *BNB forex reserves*. The improved ratio helped strengthen the balance of payments stability. The ratio decreased from 9.9% by the end of December 1997 to 2.6% by the end of 1998.

PRICES OF BULGARIAN BRADY BONDS IN 1998

(cents for USD 1 nominal value)



Source: Reuters.

Other Investment. In 1998 Bulgaria's assets abroad (other investment: assets) declined by USD 252.6 million. Claims on previously extended loans to other countries increased by USD 2.6 million (net) due mainly to interest accrued on these loans. Commercial banks' deposits abroad decreased by USD 69.4 million and total commercial banks' assets abroad (deposits and portfolio investment) grew by USD 38 million. During 1998 foreign currency deposits of individuals and private companies with resident banks increased by USD 155.2 million, reflecting an adequate decrease of their foreign assets.

Bulgaria's obligations (other investment: liabilities) in 1998 decreased by USD 216 million. Loans extended to Bulgaria by nonresidents (loans on the balance of payments support excluded) declined by USD 145.8 million (net). This decrease is attributable to a great extent to renegotiation of Bulgaria's debts of USD 192.8 million (DEM 344.8 million) to the former GDR (including clearing agreements) within the former Comecon.[29] In 1998 deposits of nonresidents with Bulgarian commercial banks fell by USD 79.5 million, reflecting conversion of the deposit of the National Bank of Poland into a long-term debt in October 1998.

Reserves and Other Financing

BNB Forex Reserves. Between January and December 1998 BNB forex reserves grew by USD 574.1 million. In 1997 this growth was USD 1,640.1 million. The lower growth of BNB forex reserves compared with 1997 was a result of the worsened current account.

Use of IMF credits. In 1998 IMF net financing totaled USD 129.2 million,

[29] According to the IMF 5th edition of the *Balance of Payments Manual* (1993) the amount of renegotiated Bulgaria's obligations to the former GDR, worth USD 192.8 million (DEM 344.8 million) are reported on the debit side of the item *Other Investment – Liabilities/Loans* and on the credit side of the item *Exceptional Financing/Rescheduled Obligations.*

including the last tranches of USD 166 million extended in May on the fifth standby agreement and the tranches disbursed in October and November, worth USD 145.8 million, under the extended IMF agreement with Bulgaria.

Exceptional Financing. In 1998 loans in support of Bulgaria's balance of payments (IMF loans excluded) increased by USD 239.1 million (net). This increase reflected primarily the World Bank's FESAL extended in March, in the amount of USD 100 million, and EU loans in support of the balance of payments, worth USD 282.9 million (the net growth of these loans totaled USD 121.3 million).

The *overall balance* for 1998 ran a surplus of USD 36 million, against USD 1,283.3 million in 1997.

Foreign Debt and Debt Indicators

Amount and Structure of Gross Foreign Debt

According to preliminary data, Bulgaria's gross foreign debt (GFD) by *end-December 1998* totaled USD 10,101.2 million, an increase of USD 424.6 million (4.4%) compared with end-1997. This increase reflects the transactions[30] of USD 230.8 million, as well as valuation adjustments in the amount of USD 194.3 million (45.8% of the total increase).

MATURITY STRUCTURE OF GROSS FOREIGN DEBT

Indicators	1997		1998	
	million USD	% of GFD	million USD	% of GFD
Long-term foreign debt	8,560.5	88.5	9,263.8	91.7
Short-term foreign debt	1,116.1	11.5	837.4	8.3
Gross foreign debt	9,676.6	100.0	10,101.2	100.0

Source: BNB.

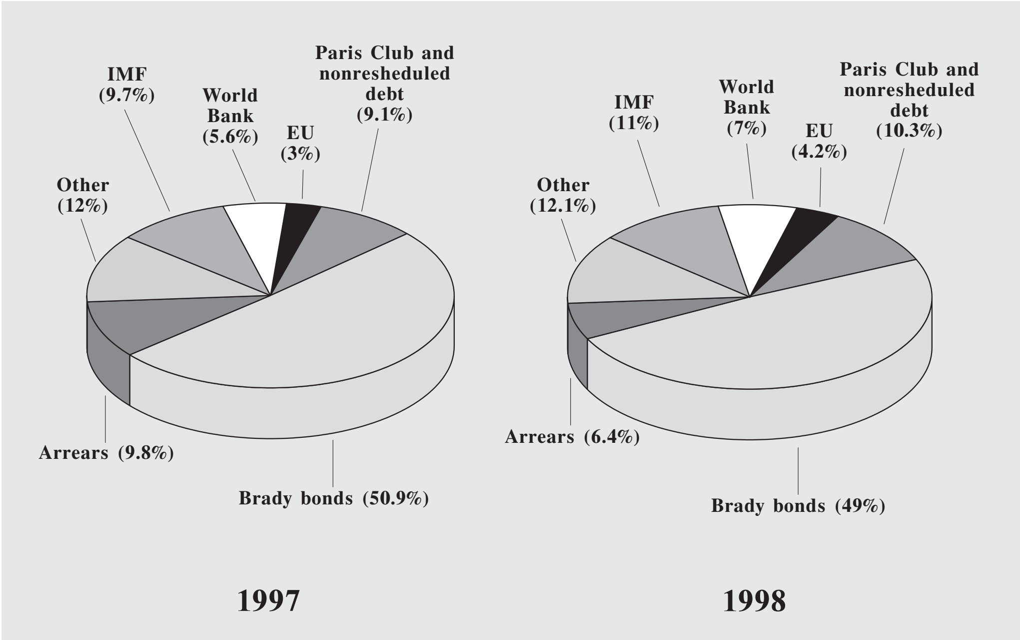
In 1998 Bulgaria's *long-term foreign debt* rose by USD 703.4 million (8.2%). This growth is attributable to the transactions of USD 539.4 million and valuation adjustments in the amount of USD 164 million (23.3% of the total increase). Compared with December 1997 *short-term obligations* decreased by USD 278.7 million (25%), due primarily to transactions made in the amount of USD 309 million. The change in exchange rates prompted an increase in short-term obligations by USD 30.3 million. Major reasons behind the decrease in short-term obligations are: the restructuring of overdue loans to the former GDR in *April*, and the conversion of debts to the National Bank of Poland into a long-term debt in *October* 1998. In addition, Bulgaria's obligations to the International Bank for Economic Cooperation were finally settled in *December* 1998.

By *31 December 1998* Bulgaria's long-term obligations to *official creditors* totaled USD 4,043.4 million, an increase of USD 771.7 million (23.6%) from end-1997. The country's debt to the IMF grew by USD 178.2 million (19%) and to the World Bank by USD 171.2 million (31.7%). Obligations to official Paris Club creditors also rose (by USD 166.7 million, 19%), due primarily to the rescheduled debt to the former GDR. The increase in long-term obligations to official creditors reflects also the conversion of Bulgaria's debt to the National Bank of Poland, worth USD 73.8 million (EUR 63.2 million).

Bulgaria's long-term obligations to *private creditors* totaled USD 5,220.4 million, a decrease of USD 68.4 million compared with end-1997. This is attributable to a withdrawal of investment in Bulgarian government securities (foreign currency-denominated ZUNK bonds). Foreign currency ZUNK bonds are treated as foreign debt if they are held by nonresidents.

[30] Transactions prompting changes in the amount of gross foreign debt include principal repayment, receipt of new loans and restructuring of previously extended loans.

STRUCTURE OF GROSS FOREIGN DEBT BY CREDITOR



Source: BNB.

Gross Foreign Debt Service

According to 1998 preliminary data, the bulk of the country's foreign debt payments (USD 1,105.4 million) are made on principal repayments (57.2%). Compared with 1997, foreign debt payments increased by USD 208.3 million, including principal repayments of USD 175.1 million and interest repayments of USD 33.2 million. The increase in foreign debt payments in 1998 reflects the settlement of Bulgaria's obligations to the International Bank for Economic Cooperation.

GROSS FOREIGN DEBT REPAYMENTS IN 1998

(million USD)

	I quarter	II quarter	III quarter	IV quarter	Total
Principal	253.6	49.7	189.3	139.9	632.5
Interest	198.4	32.6	200.6	41.3	472.9
Total	452.0	82.3	389.9	181.2	1,105.4

Source: BNB.

In 1998 foreign debt payments to official creators totaled USD 718.3 million, including principal repayments of USD 536 million and interest repayments of USD 182.3 million. The bulk of payments were made to the IMF (USD 227.6 million, including principal repayments of USD 182.6 million and interest repayments of USD 45 million); to the European Union (USD 173.3 million, including principal repayments of USD 161.6 million and interest repayments of 11.7 million); to official Paris Club creditors and on nonrescheduled debt (USD 158 million, including principal repayments of USD 98.1 million and interest repayments of USD 59.9 million).

Foreign debt repayments to private creditors both on long-term and short-term loans totaled USD 387.2 million, including principal repayments of USD 96.5 million and interest repayments of 290.6 million.

Change in Debt Indicators

With gross domestic product growth (in dollar terms) exceeding gross foreign debt growth, the ratio of *gross foreign debt to gross domestic product* improved from 95% at the end of 1995 to 82% by the end of 1998.

As a result of the country's growing gross obligations and a significant drop in exports of goods and nonfactor services in 1998 the ratio of *gross foreign debt to* *exports of goods and nonfactor services* deteriorated: from 154% in 1997 to 182% at the end of 1998.

The ratio of *foreign debt service to gross domestic product* remained unchanged at little below 9%.

The ratio of *foreign debt service to exports of goods and nonfactor services* deteriorated: from 14.3% at the end of 1997 to 19.9% in December 1998. This is due to larger debt payments on the foreign debt effected in 1998 (including those related to settlement of Bulgaria's obligations to the International Bank for Economic Cooperation) and lower exports of goods and nonfactor services.

Due to reduced overdue payments consistent with the restructuring of the country's debt to the former GDR and to the National Bank of Poland and the settlement of obligations to the IBEC, the ratio of *short-term debt to gross domestic product* improved considerably: from 11% at the end of 1997 to 6.8% in December 1998.

A growth in BNB forex reserves, combined with decreased nonresidents' deposits and investments in government securities, contributed to a considerable improvement in the ratio of *total nonresidents' deposits and government securities held by nonresidents to BNB forex reserves*. The ratio indicates the degree of cover for these obligations by BNB official forex reserves. It fell from 11.3% in *December 1997* to 5.5% in *December 1998*.

The ratio of *short-term debt to gross foreign debt* improved: from 11.5% in December 1997 it fell to 8.3% in December 1998, mainly due to restructuring of Bulgaria's debt to the former GDR and to the National Bank of Poland and the settlement of obligations to the International Bank for Economic Cooperation.

DEBT INDICATORS

(%)

	1991	1992	1993	1994	1995	1996	1997	1998
Gross foreign debt/GDP	161.1	160.5	130.5	118.1	78.1	101.9	95.1	82.0
Gross foreign debt/exports	296.0	274.7	282.5	218.4	149.8	152.1	154.2	182.1
Gross foreign debt service/GDP	3.2	5.1	4.0	15.1	7.5	11.6	8.8	8.9
Gross foreign debt service/exports	5.8	8.8	8.7	27.9	14.5	17.2	14.3	19.9
Short-term debt/GDP	125.9	123.7	99.8	21.6	10.1	10.1	11.0	6.8
(deposits+government securities)/forex reserves	0.0	149.5	156.9	37.8	13.6	20.3	11.3	5.5
Short-term debt/gross foreign debt	78.1	77.1	76.5	18.3	12.9	9.9	11.5	8.3

Source: BNB.

3. Fiscal Sector

Thanks to the imposition of financial discipline the 1998 fiscal year saw improved conditions compared with previous periods. In technical terms, the year began with a budget which had been duly adopted. This contributed to smooth budget operation, prepared the ground for the conclusion of a three-year agreement with the IMF, and helped outline the country's relationships with other international financial organizations. Once prices stabilized, the budget was adopted, implemented and controlled without any particular problems. The conduct of a balanced budget policy made possible the maintenance of a cash surplus through most of the year, a key factor for the stability of the currency board.

Consolidated State Budget[31]

For the first time since the outset of economic reforms the year ended with a budget surplus. This is attributable both to enhanced tax collection and the policy of constraints in government spending. The bulk of unexpected and one-off revenues were retained, while operating revenues exceeded SBL projections. As planned, a portion of the accumulated surplus in the first three quarters was used for salary and pension supplement payments in the last quarter, and for financing some municipal infrastructure projects. As regards government budget financing, negative bank financing and lower revenues from privatization were completely offset by the stable fiscal position.

On the expenditure side the share of the budget in GDP increased compared with the previous year. However, a comparison of expenditures for a longer term confirms the general trend toward their contraction. From this point of view, and given the adopted macroeconomic strategy and medium-term policy of development, 1998 may be viewed as having launched a process of reducing the economic functions of the budget, limiting the range of public services on offer and quantitatively restructuring.

The level of public service expenditure remained high: education accounted for 10% of total expenditures; health care: 9.3%; and social security and supplementary payments: 29.6%. Insufficient incentives for private enterprise and the slow introduction of market principles kept these expenditures close to their level in the previous year and enhanced to a certain extent the allocating role of the budget. Transfers provided to cover the deficits of individual budgets and to replenish extrabudgetary accounts and funds accounted for a considerably higher share in the structure of total expenditures as compared with 1997: from 47% to 71%.

In structural terms, the current expenditure component continued to prevail. Its high levels restrained capital formation, and hence the possibilities of output quality improvement, and supply and consumption of public goods and services. Cautious use of nonbudgetary sources (extrabudgetary funds, own revenues or foreign financing) additionally inhibited opportunities for restructuring.

Central government budget expenditures comprised 97.6% of SBL and 18.3% of GDP. Due to dramatically reduced interest payments the share of current expenditures in total expenditures decreased considerably compared with the previous year (from 51.9% to 28.1%).

The beginning of the fiscal year saw the introduction of new tax laws on corporate profits and physical persons' incomes and amendments to the Law on the Value Added Tax, whereby tax discipline and revenue collection, especially in the private sector, improved. Reported net revenue on the consolidated state budget at the end of 1998 accounted for 37.5% of GDP, against 32.4% in 1997.

Total revenues to the central government budget accounted for 124.2% against SBL estimates and 19.8% of GDP.

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[31] Information on the cash basis reporting of the consolidated state budget is based on the MF's monthly publication *The Budget*, and is not final.

The analysis of data on the cash basis performance of the central government budget by month shows that, in contrast with the previous year, revenues in 1998 were more evenly distributed and larger in amount. The average monthly amount of revenues in 1998 approximated BGL 354 million, while in 1997 it was BGL 248.6 million.

Tax revenues comprised 94.1% of total revenues. The execution (against SBL estimates) was 119.7% while collected revenues accounted for 18.6% of GDP. The share of Value Added Tax revenues in tax revenues remained the largest (45.9%). Corporate tax revenues had the largest percentage of performance against SBL projections, both from nonfinancial enterprises (144.4%) and financial institutions (130.6%).

CENTRAL GOVERNMENT BUDGET REVENUE BY MONTH

(billion BGL)

Source: MF.

Budget Balance

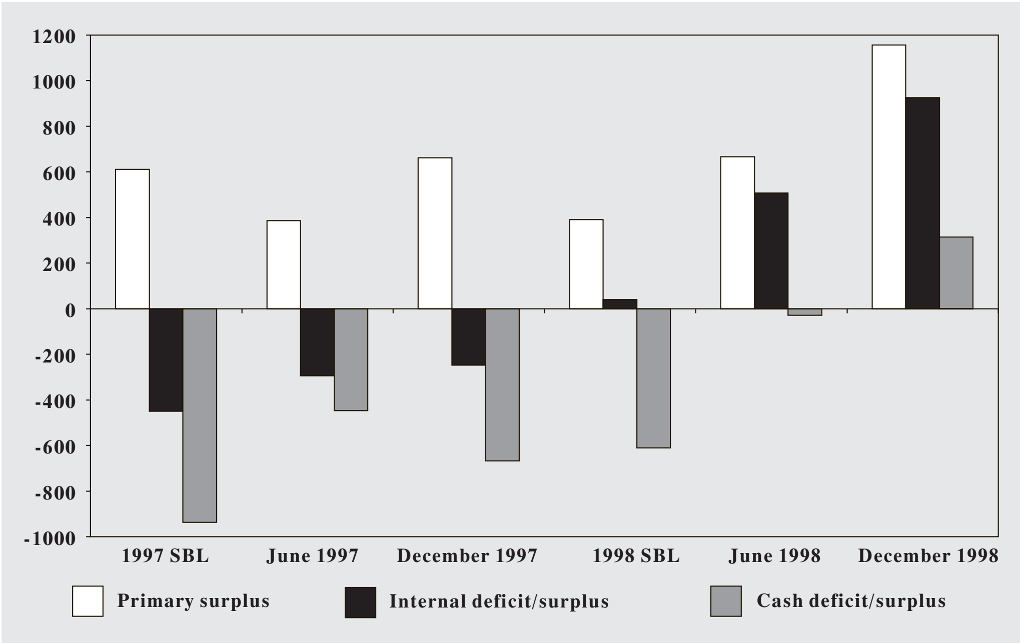
As a result of positive changes in the amount and structure of central government budget revenues and expenditures, as of 31 December 1998 a primary surplus of BGL 1,157.1 billion was reported, or 296% of SBL estimates and 5.4% of GDP.

The generated primary surplus on the central government budget proved sufficient to cover interest payments and as of 31 December 1998 a comparatively large internal surplus of BGL 925.1 billion and a cash surplus of BGL 314.7 billion were reported. For the first time in the last years a cash surplus was reported both on the central government budget and the consolidated state budget.

Positive trends in the cash execution of the central government budget developing during the year led to a significant reduction in general borrowing requirements of the budget.

CENTRAL GOVERNMENT BUDGET BALANCE

(billion BGL)



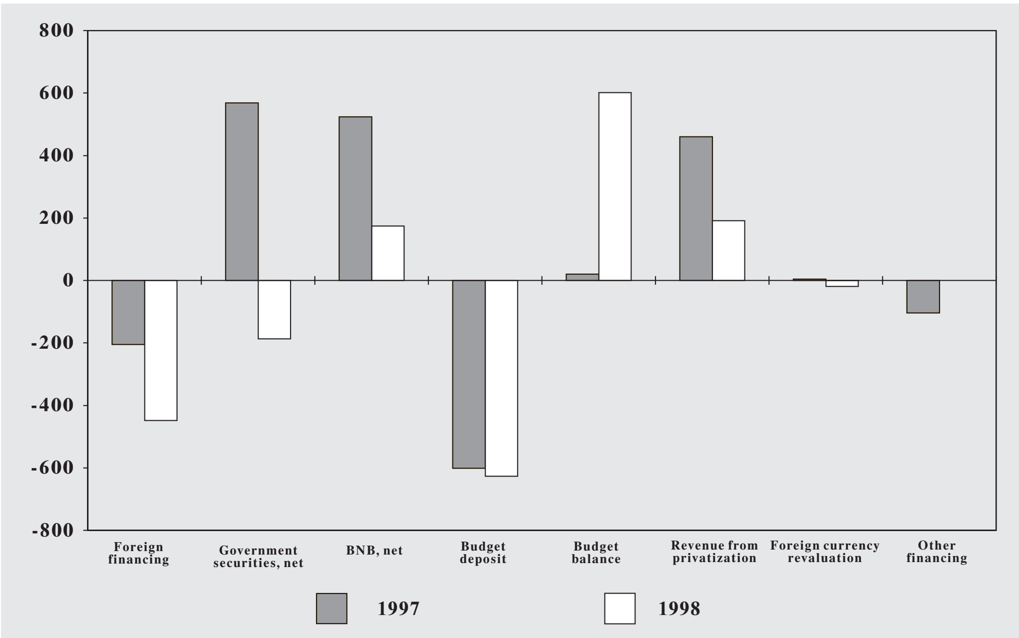
Source: MF.

Budget Financing

Net foreign and domestic financing adopted by the SBL totaled BGL 610.8 billion. In December the government received a loan of BGL 72.8 billion from the World Bank, but as a result of repayments on external loans made during the year a significant negative foreign financing (net) was reported as of 31 December 1998.

CENTRAL GOVERNMENT BUDGET FINANCING

(billion BGL)



Source: MF.

Long-term loans extended to the MF by the central bank pursuant to Article 45 of the Law on the BNB were used as a domestic[32] source of budget financing, split

[32] With regard to the State Budget, IMF tranches are recognized as domestic financing, since these are extended to the BNB which in turn loans them to the government.

by months as follows: August SDR 62.15 million, October SDR 52.3 million, and November SDR 52.3 million. Taking into account the specific nature of this source, it was extremely important to coordinate budget borrowing requirements at any time with the schedule for the purchase of SDR from the IMF. After the Ministry of Finance made regular repayments on the debt to the BNB, a positive net financing from the central bank totaling BGL 174.1 billion was reported.

Fiscal Reserves

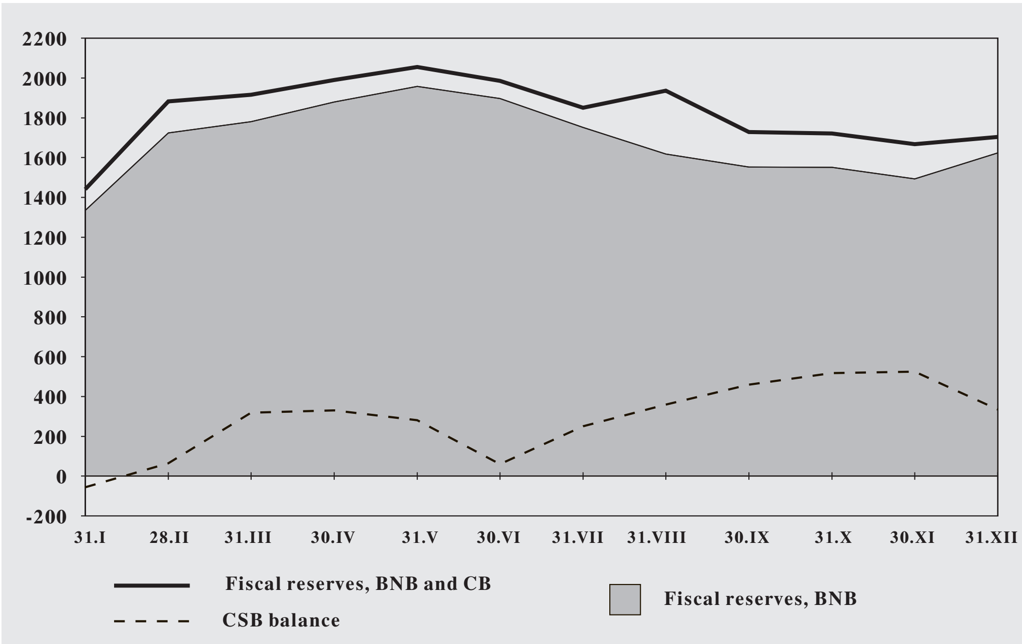
Fiscal reserves are a resultant value and are therefore dependent on budget revenues, the government securities market, foreign and domestic loans, as well as on budget expenditures.

The analysis of data on fiscal reserves dynamics shows that in the first quarter of 1998 the major factors contributing to their growth are the use of foreign loans from the EU and the World Bank. In the second quarter fiscal reserves continued growing gradually. At the end of the July – September period fiscal reserves declined as a result of repayments to foreign creditors. In the last quarter their amount matched that of the previous quarter.

As of 31 December 1998 fiscal reserves totaled BGL 1,702.8 billion: an increase of 21% on end-1997. Deposits of the central government budget had the largest and a relatively constant share in fiscal reserves (41 to 50%). The second component of fiscal reserves are the SFRD funds, which comprised 35% of total fiscal reserves at the end of the reporting year. Funds on extrabudgetary accounts are the third component affecting fiscal reserves. During the year their amount was relatively constant.

DYNAMICS OF FISCAL RESERVES AND CONSOLIDATED STATE BUDGET BALANCE IN 1998

(billion BGL)



Source: BNB and MF.

Amount and Structure of Government Debt

Changes in domestic economic policy and achieved price stability facilitated to a great extent management and service of government debt.[33] As of 31 December 1998 it totaled BGL 18,635.4 billion. Its share in GDP decreased from 106.8% at the end of 1997 to 86.7% at the end of 1998.

[33] Directly serviced by the general government budget and the SFRD.

GOVERNMENT DEBT STRUCTURE

	Amount as of 31 Dec. 1997 (million BGL)	Share to GDP for 1997 (%)	Amount as of 31 Dec. 1998 (million BGL)	Share to GDP for 1998 (%)
Domestic debt	4,399,694.30	25.7	4,767,694.10	22.2
Foreign debt	13,871,190.21	81.1	13,867,679.77	64.5
Debt, total	18,270,884.51	106.8	18,635,373.87	86.7

Source: MF, BNB and NSI.

Government Budget Domestic Debt

Developments in the amount and structure of domestic debt depended on the following factors: imposed higher responsibility in relation to disposition and spending of budgetary funds and improved discipline and control on revenue collection limited the necessity of budget financing through debt issue; definition of the obligations and responsibilities of individual units in the public sector and avoidance of nonmarket approaches to management limited the possibility of quasi budget deficits; achieved general economic stability helped improve the maturity structure of the debt whereby the share of long-term securities rose; and use of debt instruments for payment in privatization deals.

Reported data for 1998 shows an 8.4% increase in government domestic debt compared with 1997. Debt on government securities issued for budget deficit financing (including target issues tailored to physical persons) decreased from BGL 807.7 billion at the end of 1997 to BGL 749.9 billion at the end of 1998, or 7.2%. In structural terms, this debt comprised 19.1% of total debt amount, against 18.4% at the end of 1997.

Direct debt to the BNB rose from BGL 1,620.1 billion at the end of 1997 to BGL 1,665.9 billion as of 31 December 1998, or 2.8%. Neverheless, its share to GDP for 1998 decreased to 7.8% against 9.5% at the end of 1997. Direct debt to the BNB had the largest share in domestic debt structure and accounted for 42.4% of total domestic debt, against 36.8% in 1997.

As of 31 December 1998 the share of 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 38.5% in total domestic debt, against 44.8% in 1997. This debt decreased from BGL 1,971.8 billion at the end of 1997 to BGL 1,512.3 billion at the end of 1998, or 23.3%.

Government securities (denominated in levs and foreign currencies) of BGL 203.2 billion were used as legal tender in privatization deals.[34]

Government Budget Foreign Debt

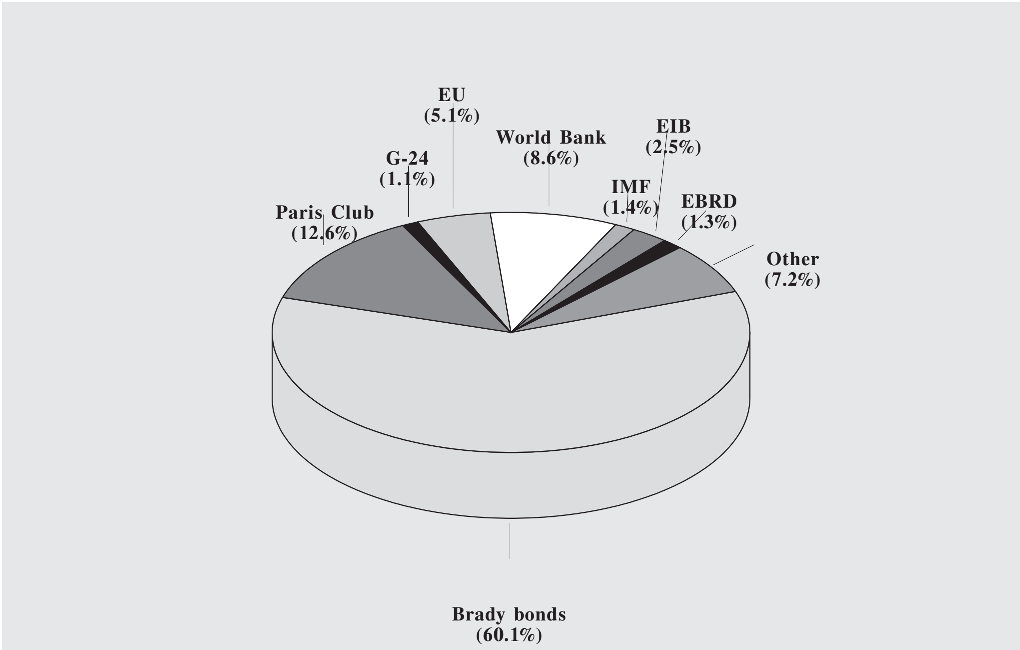
As of 31 December 1998 government foreign debt and government guaranteed debt under loan agreements ratified by the National Assembly, calculated in US dollars, totaled USD 8,278.7 million.[35] The lev equivalent amount of the foreign debt was BGL 13,867.7 billion. The share of foreign debt to GDP was 65.4%. Direct government budget debt totaled USD 7,674.54 million at the end of the year, or 93% of total foreign government debt, and the debt on loans guaranteed by the Bulgarian government was USD 604.2 million, or 7% of total foreign debt.[36]

[34] The equivalent in US dollars is calculated at the BNB central exchange rate of the lev valid for 30 December 1998.

[35] Government budget foreign debt does not include interest arrears to former Comecon creditors. The equivalent in US dollars is calculated at the BNB central exchange rates of respective currencies against the lev valid for 30 December 1998.

[36] 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. Excluded from the above amount is the 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.

STRUCTURE OF FOREIGN GOVERNMENT DEBT BY CREDITOR AS OF 31 DECEMBER 1998



Source: MF.

Between 1 January and 31 December 1998 debt repayments to foreign creditors, including government guaranteed loans, amounted to USD 839.7 million: USD 426.2 million in principal repayments and USD 413.5 million in interest repayments. Repayments made with government budget funds comprised 59% of total repayments, those made with SFRD funds accounted for 34%, and those with final debtors 7%.

The total amount of the newly obtained foreign financing was USD 639.7 million; of this amount, some 68.2% of foreign loans made by international financial institutions were made in support of the balance of payments and for budget-financed programs. During the period under review agreements on the settlement and consolidation of the debts to the former GDR and the National Bank of Poland were signed. As a result of MF negotiations the debt to the IBEC was repaid.

4. Monetary Sector

The year under review, 1998, is the first full calendar year after the introduction of the currency board. This makes it possible to outline its major effects on the development of the monetary sector. Low inflation reported at the end of the year entailed a positive growth in key monetary and credit aggregates, despite their modest nominal increase. In this regard, there are grounds for assuming that in conditions of attained financial stability the national economy was gradually remonetized, though at a slower pace than in the first months following the introducing of the fixed exchange rate.

Confidence in the banking system was still fragile and money demand, primarily in the form of savings, was reviving slowly, although real interest rates on deposits, in contrast with previous years, turned positive. Against the background of enhanced liquidity, typical of a currency board, real interest rates on credits stood relatively high. This is mainly attributable to the preserved interest spread of more than ten percentage points, which reflects the still-existing risk in the real sector and low efficiency, combined with commercial banks' highly cautious lending policies. Nevertheless, credit to the real sector posted a moderate growth (6.3%) and was predominantly directed to private companies and individuals. Commercial banks' conservative lending policies, combined with stricter BNB banking supervision, helped avoid fast credit expansion thus limiting the risk of unleashing a new wave of nonperforming credits.

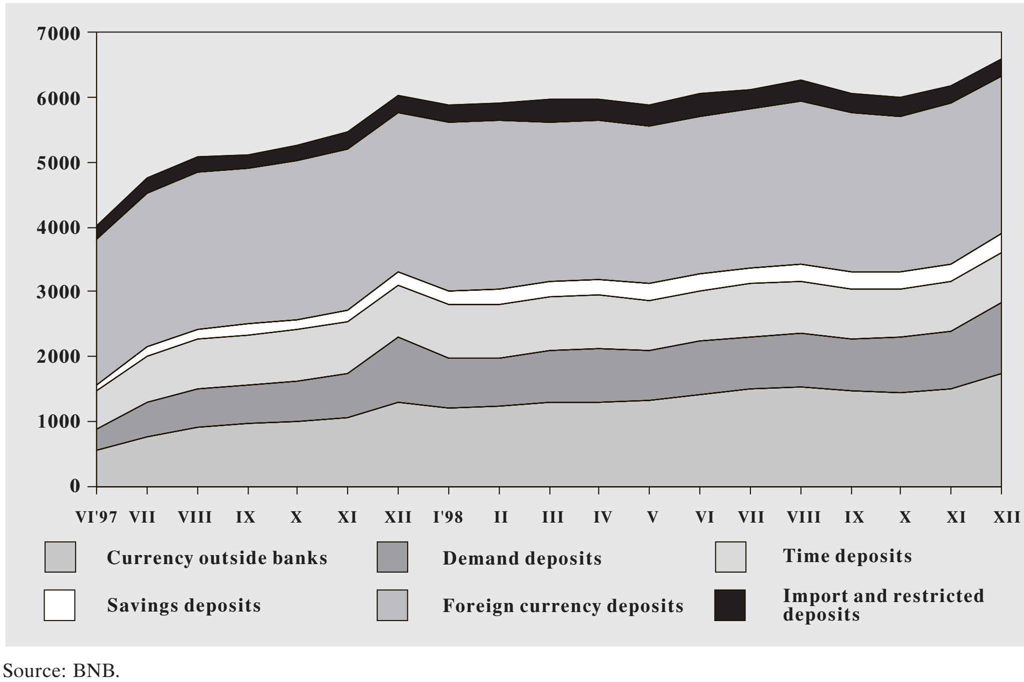
Monetary Aggregates

Under a currency board regime, the BNB could not actively regulate money supply: the percentage of minimum required reserves remained unchanged and there was no need to employ the lender of last resort function to refinance commercial banks. Under these conditions it may be assumed that monetary aggregates dynamics reflected economic agents' demand. In 1998 money supply, measured through the broadest monetary aggregate, including currency outside banks and all types of deposits, rose by BGL 578.6 billion, or 9.6%. For the first time in the last several years a real growth was reported, 8.6%. Confidence in the national currency was reviving: lev component nominal growth was BGL 618.5 billion and 17.1% in real terms. As a result its share in money supply increased: from 56.4% at the end of 1997 to 60.8% a year later (before the introduction of the currency board in mid-1997 this indicator was 40%).

In 1998 broad money grew mainly as a result of the growth in the most liquid components. The M1 monetary aggregate, including currency outside banks and demand deposits, comprised 93% of total money supply growth, and 22% in real terms. Within the components of high liquid money, currency outside banks grew most: by 31% in real terms and accounted for 74% of total money supply growth. Outlined dynamics may be assumed as an indicator of growing confidence in the national currency for transaction purposes. At the same time, however, the increased preference for cash among all economic agents should not be overlooked. It may be indicative both of still low level of noncash payments and of the grey economy's growth. Demand deposits increased by 10% in real terms, completely attributable to private companies and individuals.

MONETARY AGGREGATES DEVELOPMENTS

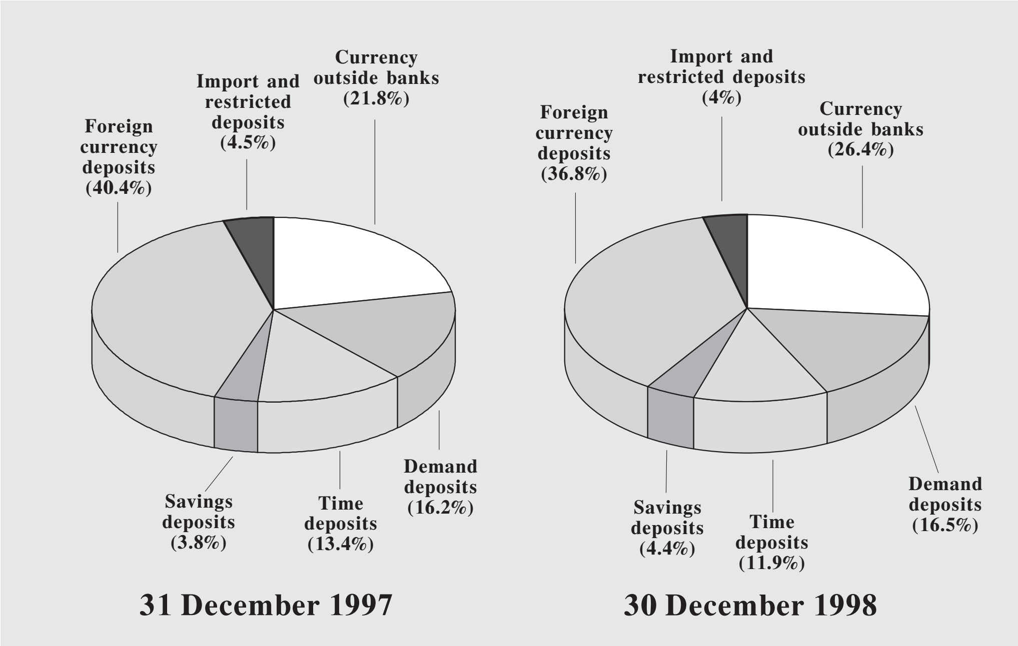
(billion BGL)



Source: BNB.

In 1998 quasi-money, including lev time and savings deposits and foreign currency deposits, grew by BGL 42 billion alone, or 0.3% in real terms. Although the increase is in the lev component, in dollar terms foreign currency deposits also increased by around USD 66 million.

STRUCTURE OF MONETARY AGGREGATES



Source: BNB.

Ongoing preference for foreign currency deposits, especially among the public, clearly shows that reviving confidence in the lev as a store of value would be a slow and difficult process. The low level of savings, particularly in the national currency, severely limits commercial banks' credit resources. In 1998 there was no shortage of credit resources due to government sector repayments and a continuing high level of risk in the real sector. However, accelerated economic growth set to become a steady factor for the improved standard of living of the population will require significant credit resources based on domestic savings growth. The alternative of attracting resources from abroad through higher interest rates is inevitable under a currency board arrangement, but the costs to be paid by the real and the banking sectors will be much higher and probably unbearable for most borrowers, financial intermediaries included.

RESERVE MONEY AND MONEY MULTIPLIER

	VI'97	XII'97	VI'98	XII'98
Broad money, billion BGL	4,011.0	6,018.6	6,045.4	6,597.2
Reserve money, billion BGL	1,110.1	2,174.2	2,074.2	2,387.4
Money multiplier	3.61	2.77	2.91	2.76
Currency outside banks/deposits (%)	16.0	27.9	30.6	35.9
Bank reserves/deposits (%)	6.1	18.3	14.2	13.3

Source: BNB.

In 1998 no significant changes occurred in the scale of money multiplication. Reserve money, which multiply to money supply, rose by 9.8%, a growth rate close to that of broad money. The money multiplier, reflecting the scale of reserve money multiplication, was 2.76 in 1998: nearly matching the figure for 1997 (2.77). In structural terms, however, considerable changes occurred in the major factors impacting the money multiplier, which cancelled each other out. The ratio of currency outside banks to deposits rose from 27.9% to 35.9%, completely attributable to the excessive growth in currency outside banks driven by enhanced demand from individuals and companies. Other conditions being equal, this would cause a reduction in the money multiplier and in the scale of reserve money multiplication. At the same time the ratio of bank reserves to deposits fell from 18.3% to 13.3%. Its dynamics shows a lower level of commercial banks' excess reserves reflecting their efforts at better management of disposable funds, thus offsetting the first factor.

BROAD MONEY CHANGE AFTER CURRENCY BOARD INTRODUCTION

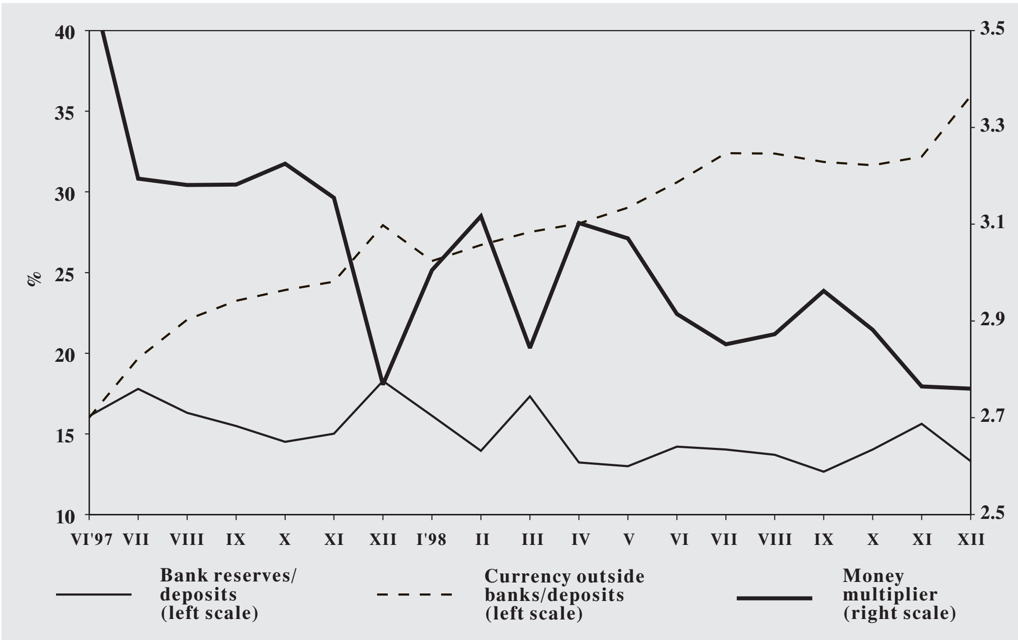
(billion BGL)

	1997	1998		
	July – Dec.	Jan. – June	July – Dec.	Total
Broad money change,	2,007.6	26.8	551.8	578.6
from:				
reserve money	3,844.7	-277.1	912.9	635.9
money multiplier	-1,837.0	303.9	-361.1	-57.3
Developments in money supply				
by reserve money source:	3,844.7	-277.1	912.9	635.9
Net foreign assets	3,680.6	1,361.2	-367.1	994.1
incl. foreign reserves	5,784.6	2,350.4	-364.5	1,985.9
Net domestic assets	164.0	-1,638.3	1,280.0	-358.3
incl.				
net claims on government	-287.2	-1,776.5	1,257.6	-518.9
claims on banks	83.1	-191.4	-26.2	-217.7

Source: BNB.

Throughout 1998 broad money growth was accounted for by reserve money growth. Reserve money contributed to an increase in broad money by BGL 635.9 billion while the impact of the money multiplier was negligible: its decrease by 0.01 led to broad money contracting by BGL 57.3 billion. Under a currency board arrangement, money supply dynamics in terms of reserve money is not determined by the BNB. Changes in reserve money sources (net foreign and domestic assets) reflect preferences of economic agents (banks, individuals, companies, and government) which affect significantly reserve money through their components (currency outside banks and bank reserves).

MONEY MULTIPLIER AND ITS COMPONENTS



Source: BNB.

Growth in net foreign assets exceeded reserve money growth and determined it completely. Within net foreign assets components, forex reserves growth contributed most significantly to reserve money growth, and hence broad money. It was partially offset by foreign liabilities growth resulting from positive net financing from the IMF. The excess of forex reserves growth over reserve money growth and money supply growth results in their increased ‘cover’ by forex reserves: from 202% to 73% respectively at the end of 1997 to 214% and 78%, which strengthens the stability of the currency board.

Throughout 1998 net domestic assets dynamics contributed to a decrease in reserve money, and hence in money supply. The impact was exerted along the two channels of interaction: through BNB net claims on the government sector and BNB claims on commercial banks. In 1998 growth in government deposits with the BNB exceeded BNB claims on government. The net growth in funds was fully sterilized by the rules of the currency board and could not contribute to reserve money and money supply growth. BNB collection of overdue claims on some commercial banks in liquidation had a similar effect: collected funds were automatically sterilized and went out of the process of money multiplication. In this context, government restrictive fiscal policy combined with BNB efforts at collecting old overdue claims helped repress reserve money and money supply growth. This way the two institutions indirectly limited the possibilities of an internal inflationary pressure on the currency board and contributed to its smooth operation from a monetary point of view.

Credit Aggregates

In 1998 dynamics of the broadest monetary and credit aggregates moved in opposite directions: while broad money grew by BGL 578.5 billion, domestic credit declined by BGL 909.5 billion. The main factor for contracted domestic credit was the continuing considerable decline in net claims on government sector due to the strengthened position of the state budget which reported a cash surplus for the first time since the start of transition to a market economy. Funds deposited with banks by individuals, companies and the government could not be fully ‘utilized’ domestically because of the existing high risk in the real sector and commercial banks’ cautious lending policies. A portion of these funds was redeposited abroad, causing net foreign assets to grow. The method of reporting open foreign currency positions of commercial banks also contributed to this, as the reserve currency is exempt from regulation. This situation arose from the rules of the adopted currency board and should not be considered a barrier to a more extensive lending to the real sector and incentives for economic growth. The problem is not related to the monetary regime of a fixed exchange rate but to the real sector restructuring and development of lending skills among commercial banks.

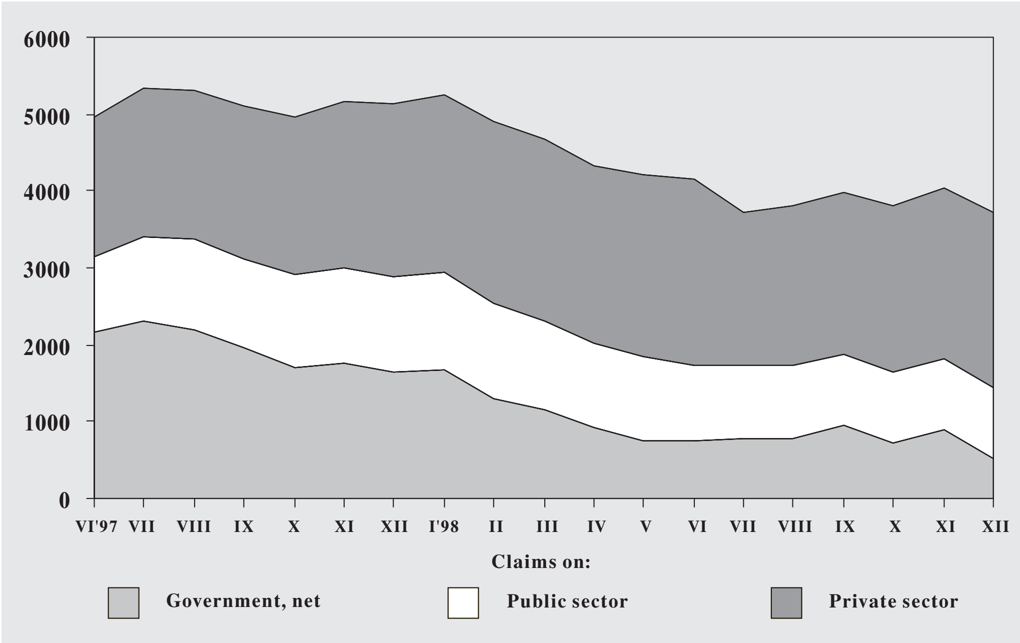
In 1998 net claims on the government sector decreased by BGL 1,132 billion. Approximately BGL 500 billion of this decrease is attributable to the modified methodology of reporting government securities which had to be recorded in commercial bank balance sheets at their market value as of December 1998, instead of at nominal value. The remaining decrease is due to a growth in government deposits, in particular those with the BNB, and the negative net issue of government securities.

Strengthening of the state budget is a key factor for the expansion of credit resources to the real sector, given the relatively slow growth in money supply.

In 1998 claims on the real sector rose by BGL 222.3 billion, or 5.4% in real terms. If the written off bad debts of banks in liquidation are eliminated, operating banks’ credit to the real sector grew by BGL 701.2 billion, or 40.5%. These figures show that commercial banks gradually changed their policies toward enhanced lending activities. In this sense, claims that the real sector is constrained by a lack of credit have ever fewer justifications.

DEVELOPMENTS IN DOMESTIC CREDIT

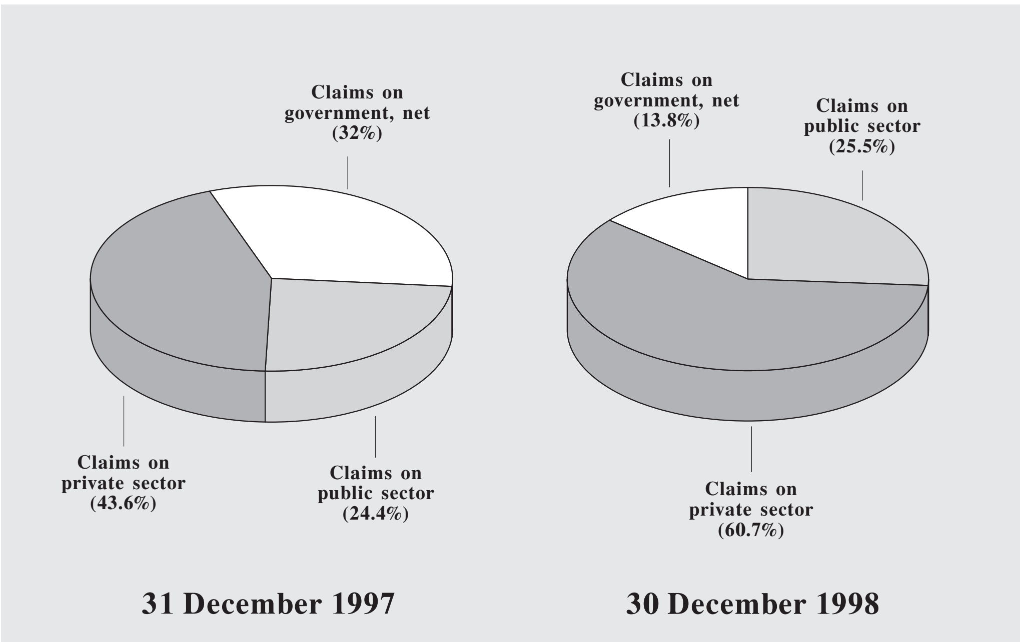
(billion BGL)



Source: BNB.

The bulk of the increase came from the lev component: for the operating banks it was BGL 637.9 billion, or 76.7% in real terms. Lending in foreign currency grew at a much slower pace: USD 67.2 million in dollar terms, or around 14%. As a result, the share of all banks' lev claims on the real sector accounted for 42.5% at the end of 1998, against 26.7% at the end of 1997. For operating banks alone, its growth was 48.6% against 61.1%.

STRUCTURE OF DOMESTIC CREDIT



Source: BNB.

The process of directing credit resources to private companies and individuals continued. Claims of operating banks on state companies decreased by BGL 134.2 billion, while claims on the private sector rose by BGL 835.4 billion, or 83.8% in real terms. The bulk of this increase is due to the lev component: BGL 679 billion, or 132% in real terms. Foreign currency credit grew by USD 109 million in dollar terms, or around 40%. At the end of 1998 the share of operating banks' credit to the private sector was 76.2%, against 58.3% a year ago. Practical isolation of the majority of state companies from new credit left sufficient funds for the private sector and facilitated its accelerated development. At the same time, delayed privatization in the real sector hampered commercial banks and did much to retain the high nominal and real interest spread, which limits the opportunities for accelerated economic growth.

During the year lending to individuals expanded considerably; in operating banks it grew by BGL 316.9 billion, or 186.6% in real terms. The bulk of credits was made by the SSB, which continued to transform its assets from maturing government securities to household credits. In the last quarter of the year the bank changed its lending policy: new credits are made within the amount of repayments, and the total exposure to the sector remained relatively stable. There is no ground to assume that household borrowing requirements were satisfied; rather the bank's free credit resources were exhausted. Expansion of its operations to include deposit-taking in foreign currency may help attract additional resources to provide lending to households and their small businesses.

Scale of Monetization

Financial stability in combination with a stronger banking system may facilitate the ongoing process of remonetization in the national economy in the wake of the deep financial and economic crisis of 1996 and early 1997. Synthetic indicators of the development of this process are the ratio of broad money to GDP and the ratio of credit to the real sector to GDP. Comparison of the data for 1998 with those for 1995 (the last pre-crisis year) indicate both the depth of the collapse and the extent and speed of the subsequent recovery. Concurrently, comparison with similar data for other countries in transition and/or under currency board arrangements makes it possible to outline Bulgaria's place in a broader global aspect.

Data for Bulgaria before the crisis (1995) shows a relatively high scale of monetization of the national economy. It is much higher than in most central and east European countries in transition (*i. e.*, Poland, Hungary, and Romania) and some former Soviet republics (*i. e.*, Estonia and Lithuania). The level attained is even higher than that in Greece, a member of the European Union and a candidate for accession to the European Monetary Union. Of the countries in transition, only the Czech Republic has higher values of these indicators, but the latter is markedly greater than those of other former socialist countries. The cross-country analysis of the data gives ground to assume that the scale of monetization of the national economy in 1995 was atypically high and inconsistent with the low market orientation of the real sector. In this sense, delayed restructuring of the national economy and general weakness of the banking system have predetermined to a great extent the depth of the following financial crisis.

SCALE OF MONETIZATION OF THE NATIONAL ECONOMY

(%)

Country	Year	Broad money/GDP	Credit to real sector/GDP
Argentina	1996	21	18
Bulgaria	1995	66	40
	1998	30	17
Greece	1996	64	26
Estonia	1997	30	34
Lithuania	1997	19	10
Poland	1997	40	25
Romania	1997	25	14
Hungary	1995	42	23
Czech Republic	1997	71	77

Source: International Financial Statistics. IMF.

During the crisis in 1996 and early 1997 the monetary sector contracted sharply, due both to a strong devaluation of the lev, a subsequent (though short-lived) period of hyperinflation, and the closing of a third of operating banks. At the end of 1998, a year and a half after the introduction of a fixed exchange rate under currency board rules (which partially revived confidence in the national currency and banks) major ratios reflecting the scale of monetization are twice less than pre-crisis ones. With regard to the proportion of broad money to GDP, Bulgaria's level is close to that of Estonia, leaving behind Lithuania and Argentina (all three countries have currency boards). Compared with other transition economies, Bulgaria is still ahead of Romania but lags behind Poland and Hungary, and in particular the Czech Republic. The attained level seems more normal than before and a fast change is unlikely, given the currently low level of domestic savings. With regard to the proportion between *credit to the real sector and GDP*, the situation is similar. Among the countries with currency boards, Bulgaria closely approaches Argentina, exceeds Lithuania, but lags far behind Estonia; among former socialist countries, the leaders are again the Czech Republic, Poland and Hungary, and the laggard is Romania. Bulgaria's position in relation to this indicator may be assumed as adequate for the time being. A considerable increase in the ratio of credit to the real sector to gross domestic product would contribute to sustainable economic growth, provided that the risk in the real sector is reduced after its restructuring and efficiency in the banking system improves after its privatization.

III. Foreign Exchange Reserve Management and Issuing Activities

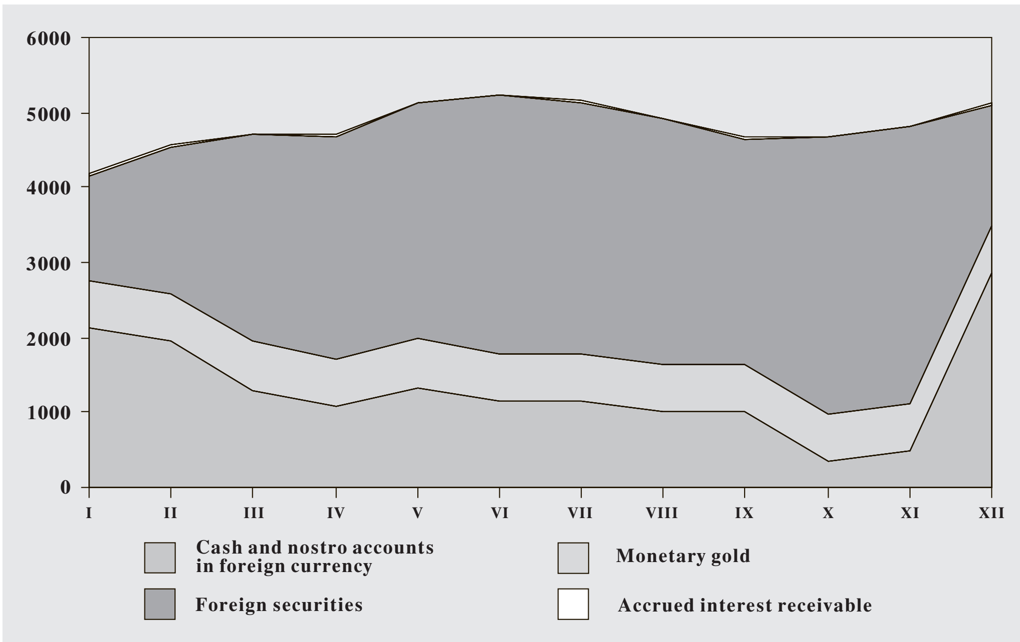
1. Structure and Management of Foreign Exchange Reserves

Gross foreign exchange reserves gradually increased in most months of 1998: with a low reported in early year and a high in the summer, and a modest decrease in the third quarter due to payments on foreign debt service.

Foreign debt payments and foreign loans extended in support of the balance of payments are the major factors responsible for the current changes. Revenue and increased market value of the bulk of assets (government securities) also contributed to the increased gross forex reserves.

GROSS FOREIGN EXCHANGE RESERVES IN 1998
(assets of the Issue Department)

(million DEM)



Source: BNB.

Dynamics of the basic balance sheet items of the Issue Department indicates a close tie between the Cash and Nostro Accounts in Foreign Currency item (the bulk of which includes deposit accounts) and the Foreign Securities item. The BNB's investment strategy to rechannel funds from short-term deposits to securities and *vice versa* brought about changes in the general trend of both items which are almost diametrically opposed.

Monetary gold retained relatively constant values, following the price of gold in international markets. When the gold price in international markets exceeded DEM 500, gold was valued at the price fixed by the Law on the BNB.

In general the Currency in Circulation item indicated a gradual increase during 1998, consistent with the overall increase in gross foreign exchange reserves and money supply. Current changes depend on seasonal fluctuations in the economy and demand for cash by economic agents. To this end, the BNB has limited abilities to directly regulate currency outside the bank.

Within liabilities of the Issue Department balance sheet, changes in the government deposits and accounts item indicate two clear trends. In general government funds gradually increased in the first half of 1998, reaching a high in mid-year, and gradually decreased to the early year's level during the second half of 1998.

The significant deviation from the general trend reflects primarily the different timings of government repayments of the country's foreign debt, and receipt of foreign financing. A decline in gross foreign exchange reserves in the summer was a result of sizable foreign debt repayments (equivalent to approximately USD 500 million) made from BNB accounts and the receipt of significant foreign financing in support of the balance of payments just at the year's end.

Structure of Foreign Exchange Reserves

Structure of Assets by Financial Instrument

In 1998 serious changes were made in the structure of assets by financial instrument, consistent with the need for improving the safety of BNB funds invested with other foreign agents and maintaining a liquidity ensuring particular yield. The BNB duly initiated measures intended to rechannel funds from commercial banks into government securities, with a view to avoiding risks ensuing from financial crises in Asia, Russia and Latin America.

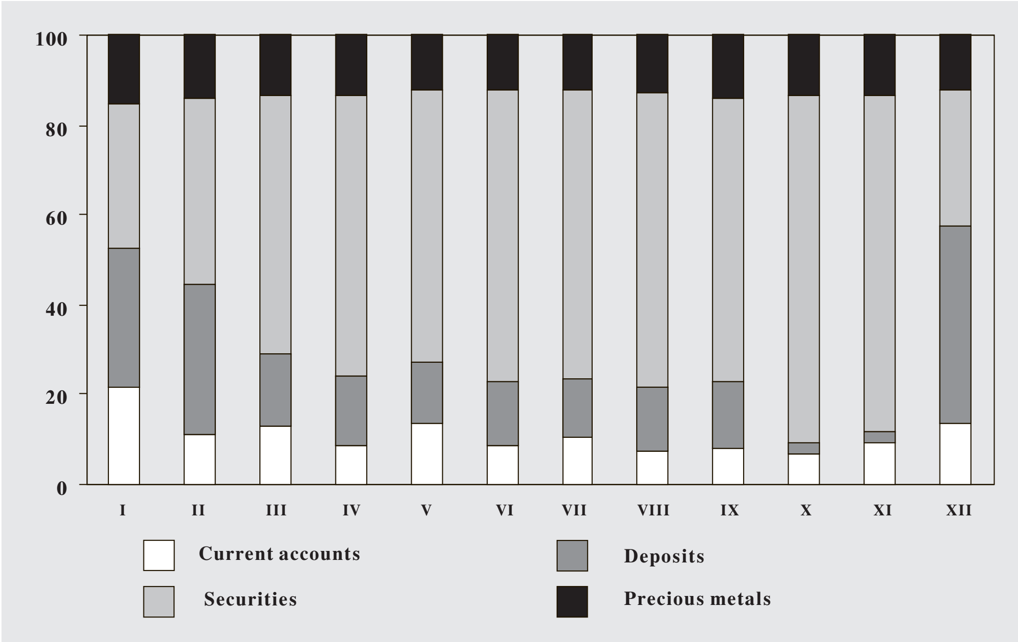
To minimize bank risk the BNB purchased securities. Simultaneously, funds on deposit and current accounts with commercial banks were reduced. By the end of 1998 the share of securities in total assets declined to 30.2%, reflecting increased deposits with central banks. Securities purchased by the BNB comply with the provisions of the Law on the BNB and meet the criteria adopted by the BNB Managing Board and the Bank's Investment Committee.

The share of deposits in total assets decreased between March and September 1998, ranging from 12.6% to 15.6%. At the onset of the Russian crisis in August 1998, and the Brazilian crisis in the third quarter of 1998, the BNB shifted DEM-denominated deposits from commercial into central banks. Therefore, the share of deposits was insignificant in October and November. Minimum funds were maintained to cover liquidity requirements, associated with payments of budget organizations.

The BNB maintained insignificant funds on current accounts with foreign commercial banks. The quantity of monetary gold remained unchanged. Decreased share of monetary gold in total assets in May, June, July, August, and December was due to the lower international price of gold. Following the restructuring of foreign exchange reserves, BNB exposure to foreign commercial banks was significantly reduced, thus decreasing the bank risk for the BNB. The share of funds invested with foreign commercial banks (in current accounts, deposits in foreign currency and precious metals, and portfolio management) was decreased to 6% by end-1998 from 58% early in the year.

STRUCTURE OF ISSUE DEPARTMENT ASSETS BY FINANCIAL INSTRUMENT IN 1998

(%)



Source: BNB.

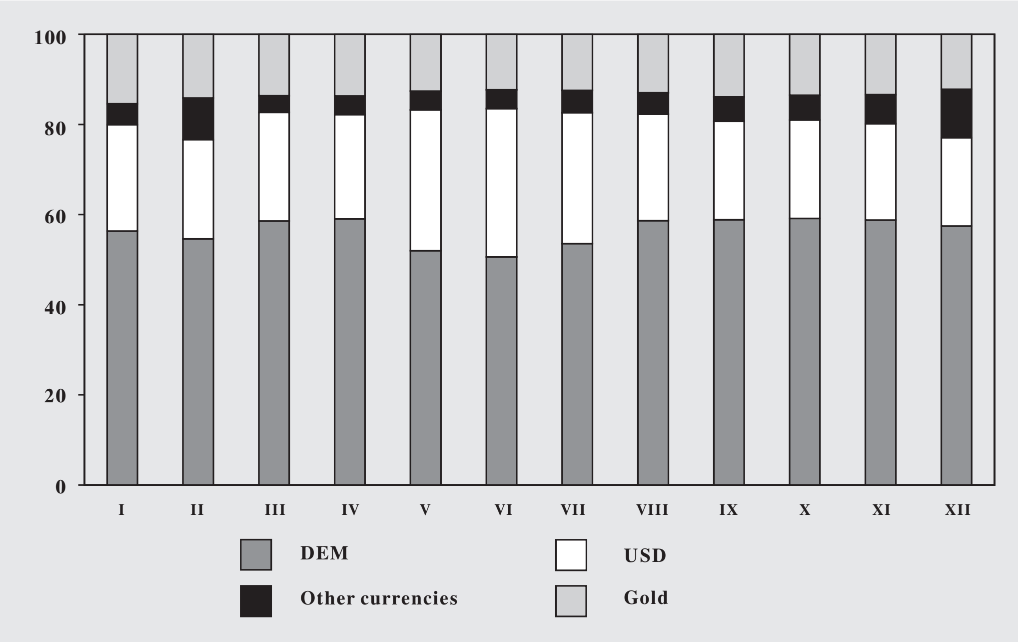
Structure of Assets by Currency

The currency structure of assets is based on the following factors: the purchase and sale of Deutschemarks in the domestic market; foreign currency revenue and expenditure on BNB accounts; foreign currency revenue and expenditure on accounts of the government and budget organizations serviced by the BNB; funds disbursed by international financial and banking institutions and other countries in support of the balance of payments; exchange rate changes of currencies other than the Deutschemark and revaluation of assets and liabilities in these currencies; revaluation of the market value of assets and liabilities; funds received and reimbursed on the minimum required reserves of commercial banks.

Assets in Deutschemarks during 1998 ranged from 50% to 59%. The share of funds in US dollars fluctuated within wider limits than that of other currencies and gold. This reflects both the receipt of foreign loans and foreign and domestic debt repayments by the government.

STRUCTURE OF ISSUE DEPARTMENT ASSETS BY CURRENCY IN 1998

(%)



Source: BNB.

Management of Foreign Exchange Reserves

Investment Committee Policy

Foreign exchange reserves are managed in compliance with the Law on the BNB and strictly following the adopted internal norms. Management strategy for forex reserves in 1998 was determined by the BNB Investment Committee. The strategy pursued involves primarily risk control through the assessment of:

- countries in whose currencies the BNB may invest;
- issuers of instruments in which the BNB may invest;
- BNB counterparties for the conduct of various types of transactions: trade in foreign currency, deposits, current and settlement accounts, transactions in securities and precious metals;
- limits on trade with financial institutions;
- admissible financial instruments in which the BNB may invest;
- a benchmark currency in reserve management, including yield and risk limits;
- a maximum admissible percentage or absolute amounts for investment in a particular instrument within the respective investment portfolio.

The list of countries in whose currencies the BNB may invest was approved by the BNB. The BNB is authorized to invest in the national currencies of approved countries in compliance with Article 31, para. 3 of the Law on the BNB. Pursuant to the provision of this Article "the market value of assets denominated in foreign currencies other than the Deutschemark, included in the gross international foreign exchange reserves, shall not exceed by more than 2% the total amount of monetary liabilities of the BNB denominated in the said currency and shall be not less than 2% of these liabilities as the case may be".

Issuers of instruments the BNB may invest should be selected in accordance with the criteria approved by the BNB Board on creditworthiness of the debt issuer, in conformity with the constraint prescribed by Article 28, para. 3 of the Law on the BNB.

The selection of BNB counterparties should be made in accordance with the principles approved by the BNB Investment Committee. There were two lists of counterparties in the early part of the year: the list of financial institutions with whom the BNB may conduct transactions, various types of transactions and limits for BNB maximum individual exposure to these institutions; the list of financial institutions with whom the BNB may open current accounts.

The increased number of transactions and the need to improve rating control of individual institutions entailed the decision of the BNB Investment Committee on maintaining a common list of counterparties and sublists of institutions for various types of transactions such as: trade in foreign currency, deposits, current settlement accounts, transactions in securities and precious metals. Initially, lists were updated on a quarterly basis and later on a monthly basis at the sessions of the Investment Committee. An individual limit is specified for each counterparty.

The selection of financial instruments is made in accordance with the rules approved by the BNB Board in the following order: 1) The issuer should be among approved countries and currencies; 2) The issuer should be among approved institutions (in cases of investment in an instrument issued by a financial institution); 3) The instrument should be among the approved types of instruments and its residual term to maturity should be in compliance with specified investment limits.

The BNB is authorized to use the following financial instruments:

• banknotes and coins in freely convertible currency;
• deposit instruments:
- current accounts;
- special current accounts (investment accounts);
- time deposits;
• debt instruments:
- bills;
- negotiable certificates of deposits;
- floating rate notes
- fixed rate notes
- bonds;
- jumbo pfandbriefe.

The list of types of deposit and debt instruments is to be approved and updated by the Investment Committee.

Positioning of BNB Foreign Exchange Portfolios

Positioning of BNB foreign exchange portfolios in 1998 was targeted at: providing maximum safety of investment; maintaining high liquidity; realizing revenue from forex reserves management.

Safety and liquidity of investment was a priority during 1998. The BNB met the goals of a central bank which are specified by the Law on the BNB, as well as the principles of judicious international banking practice. To achieve the goals of reserve management, foreign reserves were divided into two parts: liquid and investment. Management of liquidity was extremely conservative intended to meet the requirement for high liquidity. Management of investment was active reflecting expectations for development of international markets.

The BNB had to maintain the bulk of foreign reserves in a liquid portfolio because 1998 was the first calendar year of the currency board and there was no history of demand and supply of reserve currency to be met by the BNB at any time. BNB liabilities included only so-called ‘hot money’ with a maturity of up to 30 days. Management of the investment portfolio was aimed at providing higher yield within the specified limits. Outright purchases and sales of securities were the major tools employed during 1998.

In 1998 the Issue Department conducted transactions in precious metals with foreign counterparties. In early 1998 these transactions were intended mostly to bring BNB foreign currency positions in line with the limits provided in the Law on the BNB and the Investment Committee, and increase the share of actively managed gold reserves.

During 1998 gold market was characterized by dramatic price fluctuations,[37] reflecting the impact of a number of divergent factors, *inter alia*, the Asian crisis, the

[37] The price of gold varied from USD 270.75 to USD 314.50 per troy ounce.

Russian crisis, the Swiss Nazi gold scandal, rumors of gold selling by the IMF. Central banks' sales of gold affected gold prices most significantly.[38] This coupled with the increased liquidity in the market of gold deposits resulted in a continuous decline in interest rates of one-month deposits in gold: from 1.56% in January to 0.5% in December.

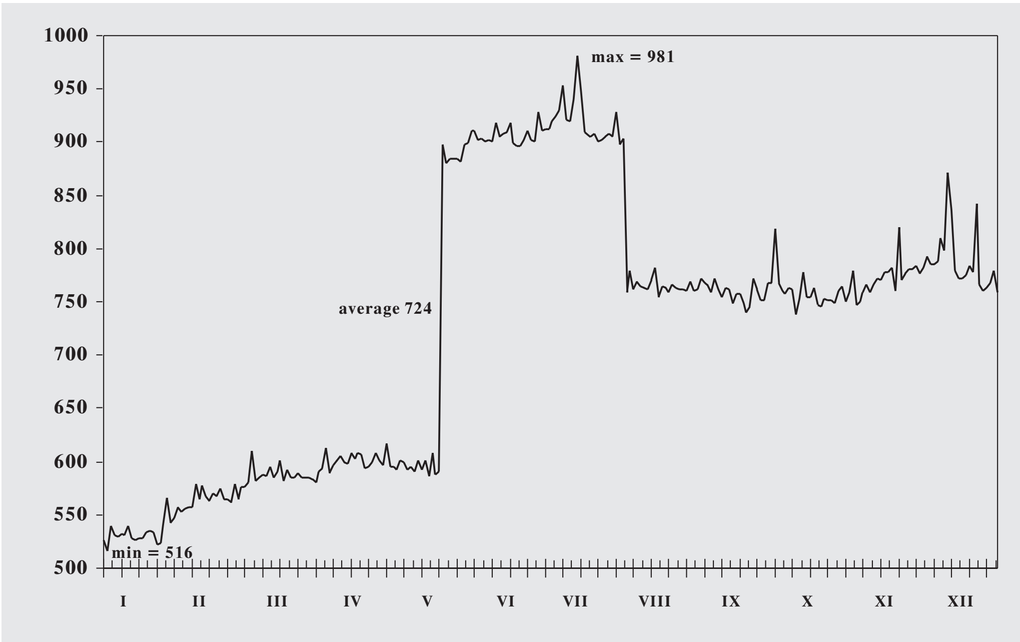
BNB deposit transactions in gold were based on the limits approved in the effective trade rules concerning the counterparty, amount, deposit term and all safety measures in case of a crisis in international markets.

Net Foreign Exchange Reserves and Revenue

In general net foreign exchange reserves gradually increased in 1998, a result of received loans and realized current revenue from foreign exchange reserves management.

DYNAMICS OF BANKING DEPARTMENT DEPOSIT IN THE ISSUE DEPARTMENT IN 1998 (net foreign exchange reserves)

(billion BGL)



Source: BNB.

The dramatic increase in foreign exchange reserves by end-May reflected the USD 166 million loan reported in the assets of the Issue Department. Due to transfer of half the amount to government accounts in early August, foreign exchange reserves halved their previous growth.

The average annual yield of foreign exchange reserves (on a monthly basis) amounted to 3.41%. The yield of the actively managed portion of forex reserves (all assets, excluding monetary gold and BNB foreign currency vault) totaled 3.83% per annum. The yield realized from assets denominated in Deutschemarks was 3.36% per annum. The yield from assets denominated in US dollars amounted to 5.83% per annum.

[38] The bulk of central banks began more active management of their gold reserves (mostly by depositing or swapping gold against US dollars).

NET REVENUE FROM MANAGEMENT OF FOREIGN EXCHANGE RESERVES IN 1998 (by instrument)

(million BGL)

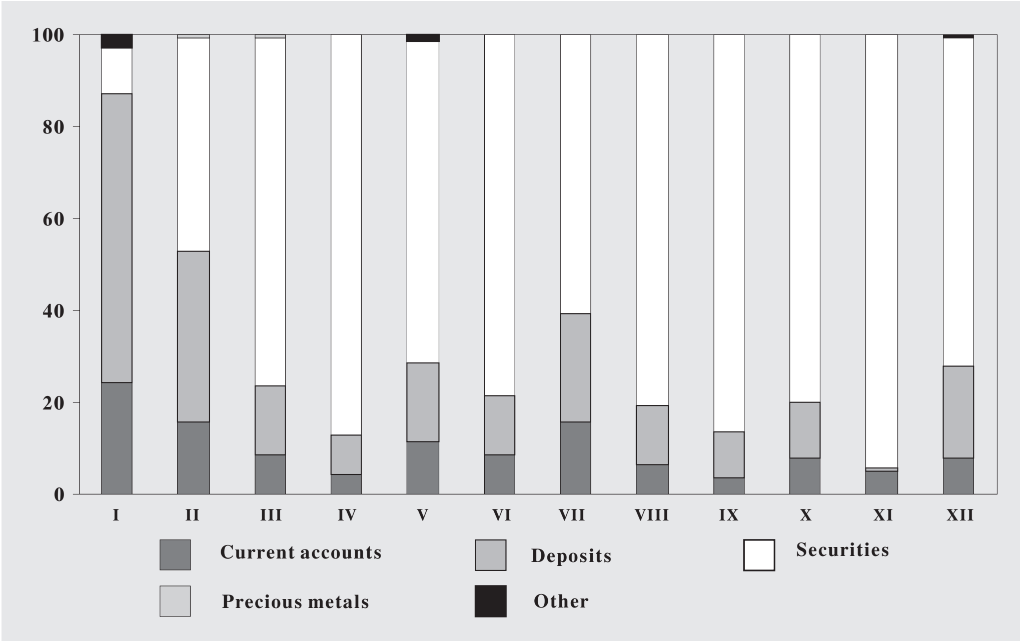
Instrument	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	Total
Current accounts	1,769	1,776	1,222	836	1,382	1,298	1,319	1,071	613	798	633	1,049	13,765
Deposits	4,669	4,219	2,058	1,870	1,989	1,976	1,976	2,184	1,912	1,296	139	2,656	26,944
Securities*	702	5,195	10,356	18,293	8,281	12,022	5,095	13,826	15,839	8,211	12,167	9,596	119,582
Precious metals**	42	82	65	55	20	30	37	34	6	26	24	6	428
Other***	187	4	0	25	158	-7	-9	0	1	0	-1	52	412
Total	7,370	11,275	13,702	21,080	11,830	15,320	8,417	17,115	18,371	10,331	12,962	13,359	161,131

* Including capital gains generated and capital losses incurred.
** Excluding interest revenue paid in US dollars.
*** Including good value revenue and expenditure.

Source: BNB.

STRUCTURE OF NET REVENUE BY INSTRUMENT IN 1998

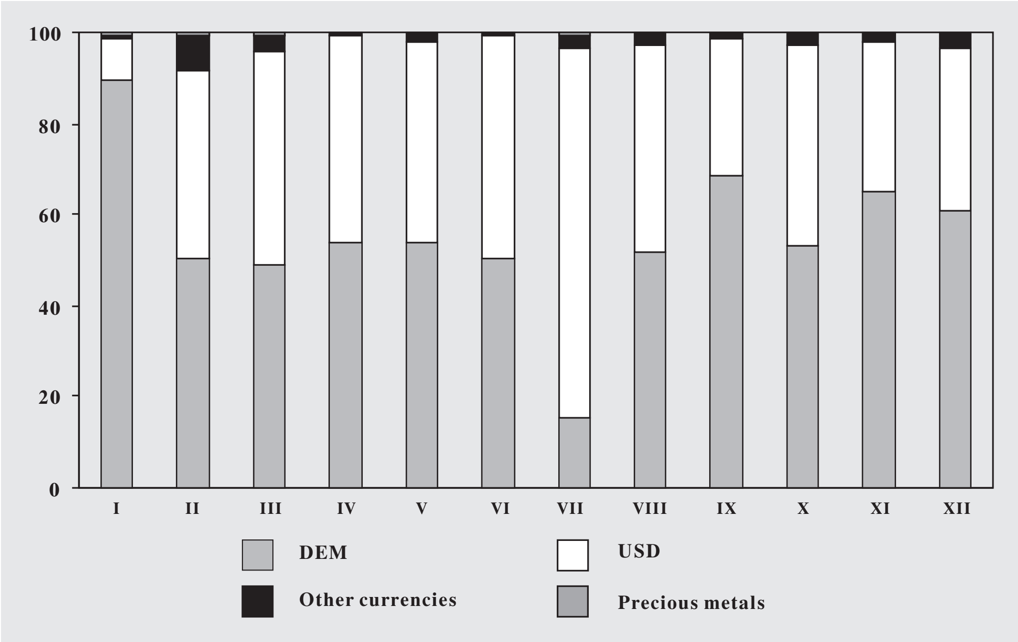
(%)



Source: BNB.

STRUCTURE OF NET REVENUE BY CURRENCY IN 1998

(%)



Source: BNB.

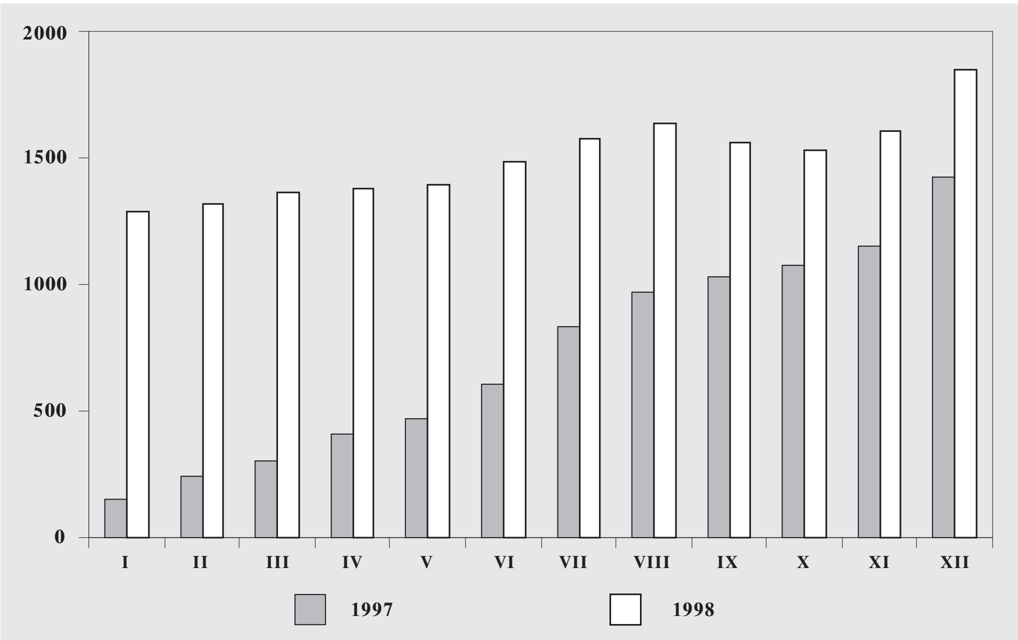
2. Issuing Activity

Currency in Circulation

By the end of 1998 currency in circulation, including currency in vaults of commercial banks and outside them, reached BGL 1,845 billion. It rose by BGL 425.2 billion (29.9%) compared with 1997. During 1998 currency in circulation grew by 20.3 percentage points faster than broad money.

CURRENCY IN CIRCULATION
(outside BNB vaults)

(billion BGL)



Source: BNB.

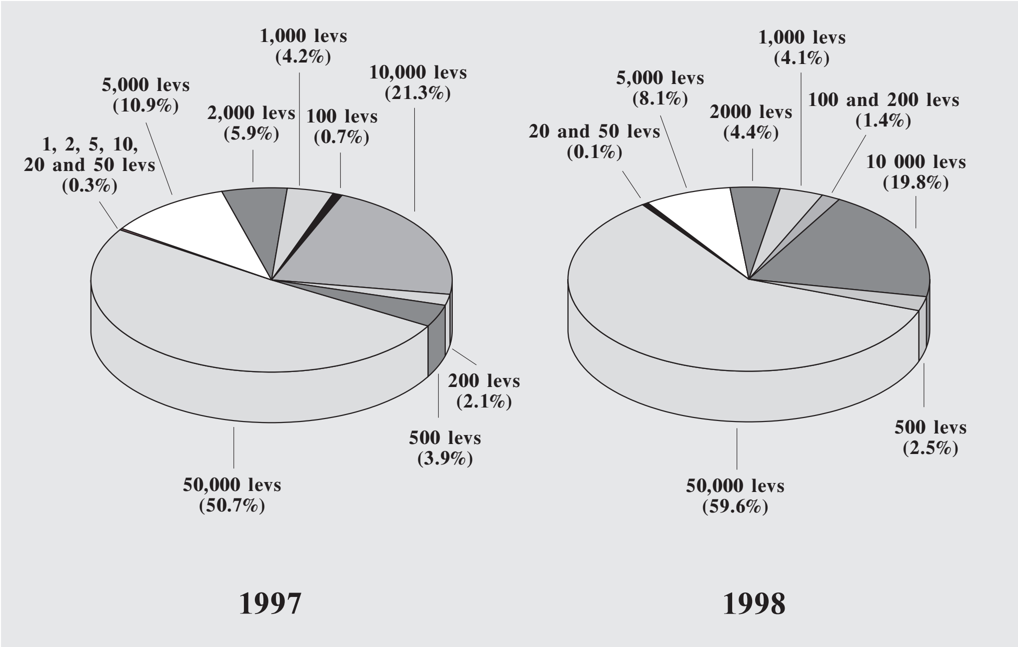
Cash balances in the commercial banks' vaults amounted to BGL 103 billion by end-1998, against BGL 105.7 billion by end-1997.

Denomination Composition

Currency turnover dynamics in 1998 prompted changes in the denomination composition of issues. The 'average' banknote in circulation by the end of 1998 was BGL 4,462 against BGL 1,763 by the end of 1997.

By the end of 1998 the number of banknotes in circulation totaled 412 million against 804 million by the end of 1997.

DENOMINATION COMPOSITION IN THE BANKNOTE ISSUE*



* The share of denominations is based on values.

Source: BNB.

Commemorative Coin Issues

On 9 February 1998 the Bulgarian National Bank put into circulation a silver commemorative coin EURO, *St. Sofia Church*, nominal value BGL 5,000. On 13 February 1998 the BNB put into circulation a CU/Ni commemorative coin, *100 Years Bulgarian Telegraph Agency*, nominal value BGL 1,000, and on 27 February 1998 a silver coin commemorating the 120th anniversary from the Liberation of Bulgaria from the Ottoman Yoke, nominal value BGL 10,000.

On 15 October 1998 the BNB put into circulation a silver commemorative coin, EURO, *Rhyton*, nominal value BGL 10,000, and a gold commemorative coin, *The Tetraevangelia of Ivan Alexander*, nominal value BGL 20,000.

Reserve Currency Bought and Sold at BNB Tills

During 1998, central bank operations in Deutschemarks at its cash tills repeated the 1997 trend of greater purchases by the BNB over sales.

RESERVE CURRENCY BOUGHT AND SOLD AT BNB TILLS IN 1998

(thousand DEM)

	Bought	Sold
January	648	17,653
February	3,769	1,033
March	6,199	540
April	6,461	595
May	7,551	476
June	9,328	531
July	15,362	486
August	15,870	602
September	2,640	1,854
October	3,522	883
November	1,449	1,093
December	658	5,984
Total for the period	73,457	31,730

Source: BNB.

Precious Metals

By the end of 1998, gold reserves in BNB vaults totaled 1,031,222 troy ounces.

In 1998, gold reserves in the BNB Main Depository continued to increase, due mostly to gold purchased from domestic producers and gold coins from individuals.

By the end of 1998 silver reserves slightly decreased from 1997, a result of transactions in silver made in the country and abroad.

Platinum grew due to contracts concluded with domestic producers.

By Resolution No. 126 of 9 September 1998, the BNB Board decided to stop BNB purchases and sales of silver and platinum from 1999 excepting quantities required for coin minting. The BNB purchased and sold silver during the whole 1998. Purchases of platinum were also effected in 1998. The purchases were insignificant and were to meet the requirements of coin minting.

PRECIOUS METAL STOCK IN THE BNB

(in troy ounces)[1]

Indicators	31 December 1997	31 December 1998
Gold reserves of the BNB[2]	1,031,222	1,031,222
Circulating precious metals[3]		
Gold	94,490	124,395
Silver	1,227,841	828,507
Platinum	12,328	12,572

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

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

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

Source: BNB.

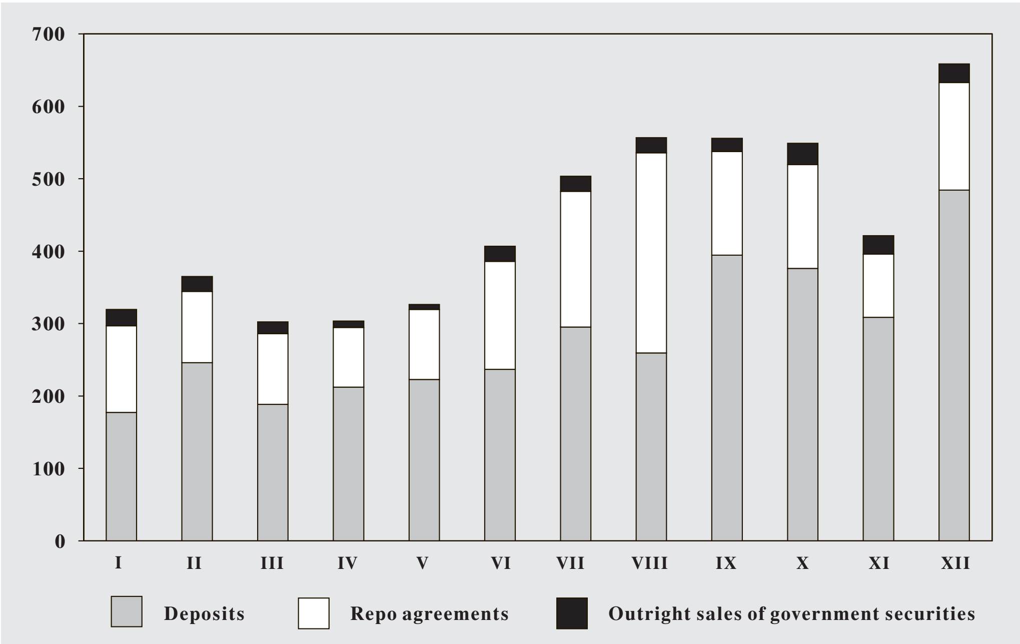
IV. Financial Markets, Liquidity, and Relations with Commercial Banks

1. The Interbank Money Market

The introduction of a currency board created conditions for financial sector stabilization, which had a positive impact on the interbank money market both in respect of traded volumes, and the number of participating financial institutions. Besides the positive effect of currency board adoption on reviving confidence between commercial banks, the interbank market was boosted by the introduction of a new system of maintaining minimum required reserves. The change in required reserves from static into a dynamic value made the interbank money market a major source of commercial bank current liquidity management.

INTERBANK MONEY MARKET TURNOVER IN 1998

(billion BGL)



Source: BNB.

In nominal terms, interbank market turnover rose 3.2-fold compared with 1997 and totaled BGL 5,268.7 billion. The internal market structure was characterized by the prevalence of deposits: 65%; they were followed by repo agreements: 31%; and outright sales of government securities: 4%. The sizeable share of deposits reflected the fact that they were the most preferred type of operation to meet borrowing needs within a business day, accounting for 22% of the total volume of traded funds. Outright sales of government securities were the narrowest segment in the interbank market because of the high liquidity maintained by banks through most of 1998 and the lack of alternative instruments for short-term investment.

2. The Government Securities Market

The government securities secondary market in 1998 was impacted by several major factors.

In general, trade in government securities issued under MF and BNB Regulation No. 5 was dominated by an excess of demand over supply as a result of limited circulation issues, on the one hand; and by a liquidity overhang in the banking system, on the other. These, given insufficient alternative profitable investment instruments, encouraged banks to keep securities in their investment portfolio.

Trade in ZUNK bonds denominated in US dollars was more dynamic. In the first half of 1998, mainly as a result of the financial stabilization following currency board introduction and of Bulgaria's raised credit rating, foreign investor interest in ZUNK bonds increased. By the end of June holdings of these bonds accounted for a third of the value of all circulating bonds. Due to excess of demand over supply, the price of these securities rose considerably: in May and June it exceeded 70 cents per USD 1 nominal value. In the second half of the year, as a result of the Asian crisis, and subsequently the Russian crisis, foreign investors withdrew. Excessive supply caused a drop in prices which stood at levels below 60 cents for USD 1 nominal value in the interbank market, and at 65 cents for smaller transactions with final customers, relating to privatization deals. A serious restructuring among ZUNK bondholders took place, whereby the share of foreign investors considerably declined on the account of Bulgarian banks and legal and physical persons. Domestic demand for these securities remained high due to their relatively high yield and their attractiveness as an instrument of payment in privatization deals.

The volume of outright sales in the interbank market for government securities issued under BNB Regulation No. 5 increased. These securities made up around 20% of bank assets and were one of the major sources of income, where demand exceeded supply.

3. Interest Rates on Commercial Bank Operations

Commercial bank interest rate policy in 1998 continued to be affected by changes in the base interest rate, but it was also impacted by other market factors.

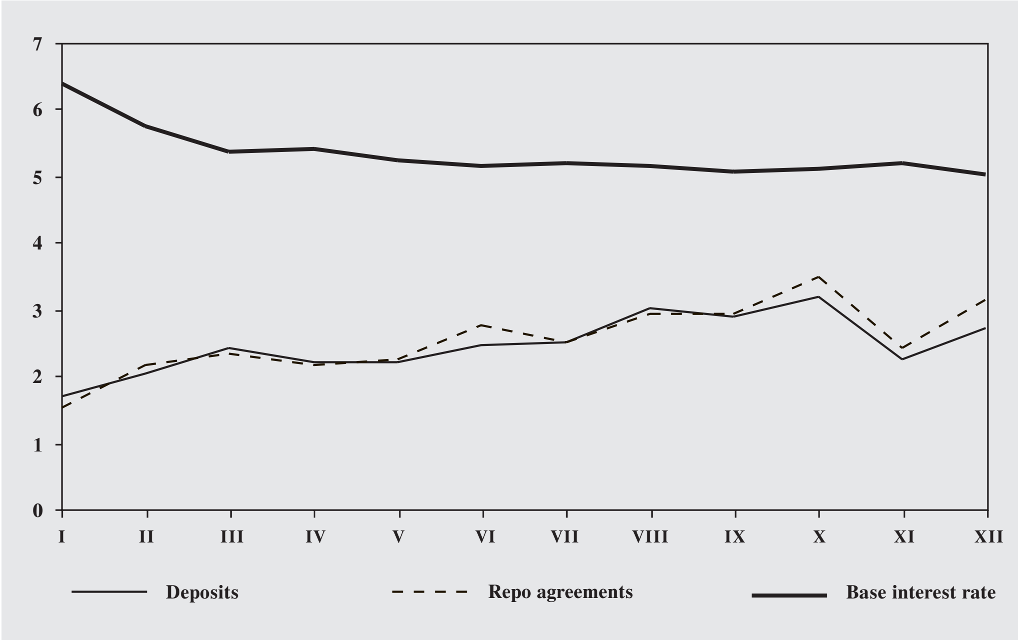
The downward trend in the base interest rate set in the second quarter of 1997 continued throughout 1998: from 6.79% in December 1997 its average value dropped to 5.04% in December 1998.

According to the methodology adopted, the base interest rate depends on the yield attained at primary auctions for three-month discount government securities issues. The general downward trend in the base rate reflected banks' decreasing yields on direct investment in government debt instruments, which in the last two years were banks' main profit-generating investment instrument. The lower yield on government securities, combined with the limited number of issues, posed serious profitability problems which banks sought to resolve through their interest rate policy.

Interest rates on time deposits in the first half of 1998 followed the trend of the base rate, though at slower rates. Their average value on a simple annual basis was 3.04% in December, or 44% of the base rate, falling in June to 2.71%, or over 52% of base. Low interest rates on lev time deposits intensified a shift to foreign currency saving among individuals. This urged banks to reassess their policies and in the second half of the year interest rates rose and stabilized at 3.25%, or 64% of the base interest rate at the end of the year.

INTERBANK INTEREST RATES AND BASE INTEREST RATE IN 1998

(%)



Source: BNB.

Interest rate lending policy was a major tool to improve bank profitability. Average weighted interest rates on newly extended short-term credits were kept at levels close to, but most of the time exceeding, the previous year's level (13.05% in December). The high was hit in May: 14.42% per annum, followed by a fall and then a rise to 12.75% in December. This formed a sizeable positive margin above the base interest rate: through most of the year this margin stood at about (or more than) eight percentage points (the high reported in May was 9.17 percentage points over base, and the December figure was 7.71 percentage points over base, against 6.25 percentage points in December 1997).

Average interest rates on long-term credits remained at a relatively constant level during the first half of the year while in the second half they rose slightly to reach 14.93% in December, against 14.40% in December 1997, resulting in the formation of larger positive interest margins above the base interest rate.

Interest rate movements in the interbank market in 1998 faithfully reflected demand and supply for and of funds. Sizeable excess reserves helped keep interest rate levels in the interbank market well below base rate. Concurrently the dramatically increased volume was coupled with a certain rise in the average interest rates on operations: from 1.61% at the beginning of the year to approximately 3% in December. The trend moved in the opposite direction of base rate movements which led to the narrowing of the difference between base rate and the average interbank interest rate.

4. The Forex Market and the Exchange Rate

Forex Market

An Overview of the Forex Market

The total volume[39] of forex market spot and shorter-term transactions between domestic participants totaled DEM 9.43 billion in bank purchases (USD 5.36 billion) and DEM 9.37 billion in bank sales (USD 5.32 billion), i.e. banking sector (in-

[39] In order to provide a more extensive reporting of the forex market, in the second half of 1998 all banks had to join those of their number which provided data for the purposes of BNB reporting of the market. Statistically the change in the range of such banks was captured in early 1998 which makes impossible the comparison of that information with previous years' reports, including the report for the first half of 1998.

cluding the BNB) purchases and sales to final customers were almost completely balanced. If the difference from the change in the range of observation is eliminated, purchases fell by 8% compared with 1997 and sales rose by 10%. This reflects lower output of some traditional exporters which were the major source of foreign currency inflow into the banking system, combined with larger forex sales by the BNB and the Ministry of Finance on foreign debt service.

Market Sectors

Commercial bank operations with final customers (companies, budget-supported organizations, finance houses, foreign investors, *etc.*) comprised the largest market sector.

SPOT OPERATIONS WITH CUSTOMERS

million DEM (million USD)

Total for the year	Bought		Sold		Balance	
Banks with final customers, including:	4,756.9	(2,702.8)	4,558.2	(2,589.8)	198.7	(113.0)
the BNB	166.1	(94.4)	576.3	(327.4)	-410.2	(-233.0)
commercial banks	4,590.8	(2,608.4)	3,981.9	(2,262.4)	608.9	(346.0)
First half-year (125 days)						
Banks with final customers, including:	2,260.2	(1,284.2)	2,063.0	(1,172.1)	197.3	(112.1)
the BNB	55.0	(31.3)	395.6	(224.8)	-340.6	(-193.5)
commercial banks	2,205.2	(1,252.9)	1,667.3	(947.4)	537.9	(305.6)
Second half-year (129 days)						
Banks with final customers, including:	2,496.7	(1,418.6)	2,495.2	(1,417.7)	1.4	(0.9)
the BNB	111.1	(63.1)	180.7	(102.7)	-69.6	(-39.5)
commercial banks	2,385.6	(1,355.5)	2,314.6	(1,315.0)	71.0	(40.4)

Source: BNB.

The total 1998 volume of bank forex purchases from final customers considerably exceeded forex sales and consequently banks generated a surplus of DEM 608.9 million (USD 346 million). The bulk of this surplus (approximately 90%) was effected in the first half-year. In the second half of the year sales rose by 20% against the first half, while purchases rose 8% alone and consequently the positive difference between purchases and sales decreased considerably.

The volume of the interbank forex market accounted for DEM 3.9 billion (USD 2.2 billion) in 1998. During the year it was determined to a great extent by forex demand and supply by final customers, which explains its relatively smaller volume in the first half of the year (when forex supplied by banks exceeded demand considerably), and respectively its growth in the second half of the year (when the surplus from these operations declined). Likewise, BNB purchases in the interbank market in the first half were much larger than those in the second half, when the BNB participated as a seller, yet with only DEM 18 million.

INTERBANK SPOT MARKET

million DEM (million USD)

Total for the year	Bought		Sold		Balance	
Interbank market (BNB excluded)	3,746.2	(2,128.5)	3,907.6	(2,220.2)	-*	(-*)
BNB with commercial banks	980.9	(557.3)	18.0	(10.2)	962.9	(547.1)
First half-year (125 days)						
Interbank market (BNB excluded)	1,678.6	(953.7)	1,776.8	(1,009.5)	-*	(-*)
BNB with commercial banks	671.9	(381.8)	-	(-)	671.9	(381.8)
Second half-year (129 days)						
Interbank market (BNB excluded)	2,067.6	(1,174.8)	2,130.8	(1,210.7)	-*	(-*)
BNB with commercial banks	309.0	(175.5)	18.0	(10.2)	291.0	(165.3)

* Some imperfections in reporting lead to a minimal difference between the Bought and Sold columns, which are identical for operations between fully licensed banks.

Source: BNB.

BNB Operations

As in the previous year, the interbank market was the major source of forex supply to the BNB, and in amounts exceeding net purchases of commercial banks from final customers.

Within BNB purchases from final customers, operations at its cash tills had the largest share. Book-entry purchases from companies, budget entities and state funds which maintained accounts with the BNB continued, though in limited amounts compared with previous years.

The total volume of BNB purchases in 1998 accounted for DEM 1,147 million, or 2.3 times less than in 1997.

BNB SPOT TRANSACTIONS

million DEM (million USD)

Total for the year	Bought		Sold		Balance	
TOTAL FOR THE YEAR	1,147.0	(651.7)	594.3	(337.7)	552.7	(314.0)
BNB with commercial banks	980.9	(557.3)	18.0	(10.2)	962.9	(547.1)
BNB with customers, including:	166.1	(94.4)	576.3	(327.5)	-410.2	(-233.1)
with companies	33.4	(19.0)	-	(-)	33.4	(19.0)
with budget organizations	29.3	(16.6)	50.6	(28.8)	-21.3	(-12.2)
with MF for foreign debt	-	(-)	458.3	(260.4)	-458.3	(-260.4)
with state funds	28.8	(16.4)	32.8	(18.6)	-4.0	(-2.2)
with Privatization Agency	0.4	(0.2)	0.0	(0.0)	0.4	(0.2)
other	1.1	(0.6)	2.9	(1.6)	-1.8	(-1.0)
cash operations at tills	73.5	(41.8)	31.7	(18.0)	41.8	(23.8)

Source: BNB.

The BNB sold forex predominantly to the Ministry of Finance for foreign debt payments, and in much greater amounts (35%) than in the previous year. BNB forex sales to budget-supported entities and funds also rose from the preceding year, by more than 70%. Compared with 1997, net purchases of banknotes at cash tills declined.

Ultimately, despite considerably lower purchases and higher sales than in 1997, the BNB closed 1998 as a net buyer with DEM 552 million.

Market Structure by Currency

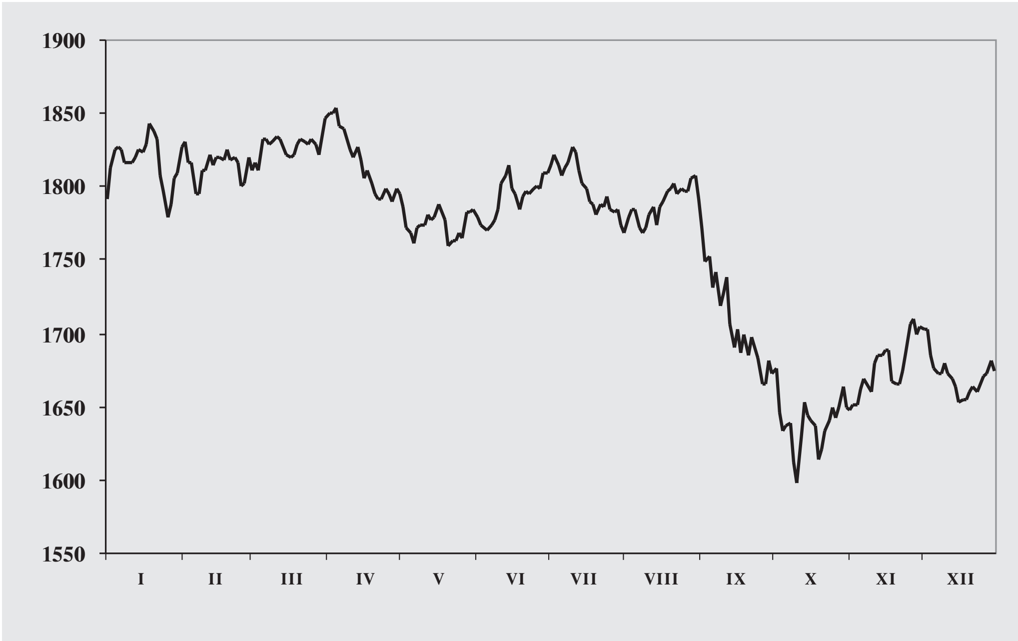
Changes in the market structure of currencies traded against the lev matched those in 1997, consistent with the introduction of the currency board. The share of the US dollar accounted for 52.5%, that of the Deutschemark 42.6%. In the first half of 1997 prior to the introduction of the Deutschemark as a reserve currency, these shares were 81.2% and 14.7% respectively. In commercial bank transactions the share of the US dollar lagged behind the Deutschemark: 48.5% and 49.4% respectively (against 91.2% and 7.6% respectively in the first half of 1997). When commercial bank spot transactions with the BNB are included, the share of the US dollar in the interbank structure breaks down at 38.6% for the US dollar and 59.7% for the Deutschemark (against 79.3% and 19.1% in the first half of 1997). The US dollar occupied a more sizable share in bank transactions (including on accounts and at BNB tills) with customers. However, an overall replacement of the US dollar by the Deutschemark also occurred in this segment of the market: in bank purchases the US dollar accounted for 66.9% and 23.7% for the Deutschemark (against 80% and 12.7% in the first half of 1997), and in bank sales the US dollar accounted for 55% and the Deutschemark: for 38.5% (against 87.3% and 7.7% in the first half of 1997).

Exchange Rate

The policy adopted with the introduction of the currency board had crucial effect in determining market exchange rates: a fixed exchange rate of the lev to the Deutschemark and announcement of reference rates of the lev to other currencies on the basis of their rates to the Deutschemark in international markets. The exchange rate of the lev followed the international markets movements. During the first half of 1998 the BGL/USD exchange rate fell slightly (0.9%), while in the second half of 1998 this trend was reversed and by end-1998 the lev appreciated against the US dollar by 7% compared with end-1997.

BGL/USD CENTRAL EXCHANGE RATE IN 1998

(BGL/1 USD)



Source: BNB.

Under these conditions, in most months of the year market rates hovered around or slightly under officially announced rates. Unlimited BNB participation in the forex market at fixed spot rates of the Deutschemark (bid rate at BGL 995 and offer rate at BGL 1,000) had an additional stabilizing effect. The market was under pressure in January and early February when quotations of noncash spot transactions reached fixed BNB quotations and those of exchange bureaux even exceeded them: the offer rate exceeded BGL 1,000. As a result the BNB appeared to become a more favorable seller rather than Deutschemarks buyer. Later, the former ratios were restored.

5. Commercial Bank Reserves

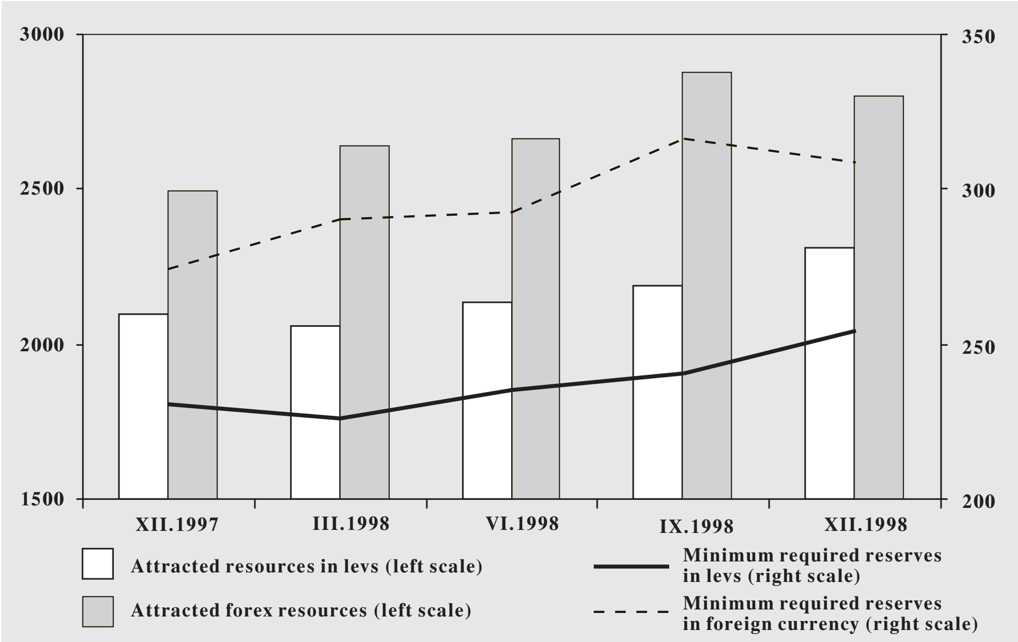
During 1998 two different systems of minimum required reserve setting and accounting were used.

Until March minimum required reserves were regulated on the 15th of each month. The level of required reserves was formed as a static value on the basis of end-of-month balance-sheet data and was obligatory for maintenance by banks on each day of the following month.

This system displayed serious setbacks. *First*, there was a significant gap between the period of setting required reserves and the period of maintaining these reserves. *Second*, the fact that minimum required reserves are set on the basis of the deposit base on particular date (the last date of the month) exposed minimum required reserves not only to occasional factors but also allowed banks to use various methods to decrease their deposit base on this day (by increasing cash balances, and short-term repo agreements with clients) and correspondingly the amount of minimum required reserves. Banks' access to required reserves was limited to 15%, the remaining 85% being blocked in bank current accounts with the BNB. This led to occasional queues in settlement payments, mainly reflecting inadequate liquidity management, delayed payments or unexpected expenses for individual commercial banks.

ATTRACTED RESOURCES FROM COMMERCIAL BANKS AND MINIMUM REQUIRED RESERVES

(billion BGL)



Source: BNB.

In April, Regulation No. 21 introduced a new system of organization for minimum required reserves. Minimum required reserves are set on the basis of the average daily amount of the deposit base for a base period corresponding to one calendar month. Reserve accounting is effected for the reserve maintenance period which begins three days after the beginning of the base period and is of similar duration. As a result the setbacks of the old system were eliminated: the gap between the base period and the reserve maintenance period was decreased to three days and reserve formation on an average daily basis eliminated occasional factors. The reserve percentage was retained at 11% of the deposit base. Some benefits of the old system were preserved: 605 of vault cash and ATM terminals are exempt from the minimum reserve requirement and banks are permitted to maintain up to 100% of required minimum reserves on attracted funds in foreign currency. Banks have unlimited access to current use of reserve accounts with the BNB in levs and foreign currency. Accounting is effected on an average daily basis as a ratio between actually maintained reserves during the maintenance period and calculated required reserves as a percentage of the average daily amount of the deposit base during the base period. This encouraged banks to improve their current and monthly liquidity and favored interbank market development.

The overall change in attracted funds, and hence in minimum required reserves is not significant due to the financial stabilization and lack of dramatic changes in the base interest rate after 1997. Some fluctuation in the maintained reserve assets was evident in the maintenance periods, reflecting banks' liquidity management policies and seasonal factors associated with movements of monetary flows from and to the general government budget. Maximum deviations of these assets within particular reserve maintenance periods varied between 3.08% in May and 11.13% in December, comprising 38.74% for the lev equivalent of foreign currency reserves and 27.16% for lev reserves. Despite relative monthly stability in the lev to foreign currency proportion (on an average daily basis), on particular days banks used foreign currency in financial markets and covered their foreign currency deposits with lev reserves. Effectively deposited foreign currency continued to move between 41.16% and 47.83% of minimum required reserves on attracted funds in foreign currency, and the share of deposited Deutschemarks is the biggest.

Banks are subject to penalties for noncompliance with minimum required reserves at the end of the maintenance period as well as for use of funds on current accounts with the BNB in excess of 50% on each particular day.

Generally banks did not face serious difficulties in maintaining minimum required reserves during 1998. Following the introduction of the new system, only a few banks failed to comply with minimum reserve requirements due mostly to inadequate liquidity planning. In case of serious failures, the Banking Department and Banking Supervision Department undertook joint measures and in most cases these banks returned to normal operation. Noncomplying banks were sanctioned in accordance with Regulation No. 21.

The efficiency of the new system of minimum required reserve accounting and banks' flexible policies found reflection in excess reserves on current accounts with the BNB where a steady downward trend evolved toward negative balances in the middle of the maintenance period, and a maximum level at the end of the maintenance period to attain the level of minimum required reserves when banks intensify their activity. Queues in payments occurred only occasionally during 1998 with the exception of the Credit Bank which experienced a severe liquidity crisis and was later declared insolvent.

6. Payment System and Settlement

In 1998 bankrupt banks continued closing branches directly participating in the payment system. The number of closed input points considerably exceeded the number of newly opened input points; as a result at the end of the first half-year these fell to 744 against 831 at end-1997. During the second half-year bankrupt banks were excluded from the system of interbank settlements by resolution of the BNB Board. As a result the number of active participants in the payment process fell to 621.

During the reporting year 11,951,149 interbank settlements were cleared through the BISERA electronic interbank transfers system, including 5,517,713 in the first half of 1998 and 6,433,436 in its second half. This indicates an increase of 17.4% compared with 1997. The total amount of settlements over the reporting period was BGL 38,587 billion, including BGL 17,766 billion in the first half-year (average daily BGL 132.6 billion) and BGL 20,821 in the second half-year (average daily BGL 162.7 billion). The faster growth of settlements both in number (16.6%) and amount (17.2%) effected through BISERA in the second quarter of 1998 reflected continuous stabilization of the banking sector, resulting in a decrease in cash payments between economic agents, a practice typical of the periods of liquidity crisis. Along with the increased number and amount of settlements effected through BISERA, intrabank transfers between branches of bigger banks increased significantly.

7. Claims on Commercial Banks

In February 1998 the BNB Board adopted *Regulation No. 6 on extending collateralized lev loans to banks*. The Regulation establishes clearly the terms for extending loans to banks by the BNB as lender of last resort. These terms reflected the specificity of the central bank operation under a currency board: the BNB may refinance banks in case of emergence of a liquidity risk for the whole banking system. Generally, the banking system reported a significant excess in liquidity during 1998. Despite the crisis and subsequent insolvency of the Credit Bank, no need for other refinancing occurred over 1998.

Under these conditions BNB efforts were intended to seek possibilities to reduce debts to itself accumulated in previous years. This was complicated by the fact that debts were accumulated by eleven banks, ten of which are in insolvency and one in liquidation, and by a commercial bank consortium, part of which is also in insolvency. The situation was additionally worsened due to the lack of lists of collected claims by assignees in bankruptcy approved by Court under Article 692 of the Law on Commerce, an indispensable condition for the distribution of the mass of insolvency.

In 1998 principal and interest repayments of BGL 27.4 billion were collected on secured loans in accordance with the schemes agreed with the assignees in bankruptcy of debtor banks and approved by Court. As a result by the end of 1998 BNB claims on commercial banks decreased by BGL 22.8 billion from end-1997, reaching BGL 141.1 billion. Of this, lev claims totaled BGL 52.3 billion (37.07%), and the lev equivalent of foreign currency claims amounted to BGL 88.8 billion (62.93%).

The bulk of claims, totaling BGL 108.7 billion (77%) are unsecured. Secured claims totaled BGL 32.4 billion (33%).

Interest accrued by the end of 1998 amounted to BGL 145 billion.

All BNB claims are reported as overdue credits. Foreign currency claims, unsecured lev claims and interest accrued prior to the insolvency of debtor banks are provisioned. Only claims collateralized by government securities and interest accrued on off-balance sheet items after insolvency remained unprovisioned.

V. The Banking Sector and Banking Supervision

1. Banking Sector State, Structure and Major Trends[40]

A key feature of bank activity in 1998 was the pursuit of financial stabilization and improved capital adequacy for commercial banks. Developments in general economic conditions in 1998 caused significant changes in the structure and composition of reported incomes. While in 1997 their magnitude was strongly affected by unpredictable events and extremely volatile financial conditions, in the reporting period the fixed exchange rate of the lev to the Deutschemark precluded formation of large gains on valuation adjustments of an accounting nature.

The stable interest rate level ensured a relatively constant margin on commercial loans, but helped lower yield on government securities, the most commonly used investment instrument over the last two years. Except for the August to October 1998 period, developments in the international markets did not affect dramatically the price of Bulgarian debt, which in turn precluded sizeable income formation from revaluations. Consequently net income from interest, fees and commissions and income from securities trading proved to be the major sources of self-financing and capital formation.

Higher income from financial operations reflects a wider range of bank services offered and improved efficiency of operating bank activities. At the same time financial institutions faced a number of difficulties. The worsened position of a number of enterprises, mainly in the public sector, combined with tentative development of some of the newly privatized companies limited the range of creditworthy customers. An additional problem arose for a part of the banking system from acquisitions of tangible assets and securities serving as collateral on nonperforming credits. Domestic market conditions do not provide for the sale of chattels and real estate at acceptable prices in the short term, while the faltering and rather symbolic development of stock trading forced banks to hold large volumes of low liquid corporate securities in their portfolios for long periods.

During the reporting period the banking system faced two major challenges: the introduction of international accounting standards, and more rigorous supervision and capital requirements. In these conditions banks had to operate under new rules of transparency and publicity and had little room for manipulating their financial position parameters. These changes, underpinned by decisive banking supervision actions, reduced violations to a minimum and created improved conditions for controlling risks in the system.

By operating in a new financial, accounting and supervisory environment and following a pattern of conservative behavior, banks proved quite prepared to face the summer and early autumn crisis in the international financial markets: they had healthy shares of high-liquid assets, good capital positions and a flow of customers. Banks were able to cope with the devaluation of some of their assets thanks to their positive results at the beginning of the year and adequately high capital positions. The system incurred losses of BGL 80 billion in net worth between June and September 1998 but was able to restore its positions in the last quarter of the year. Commercial banks, not without consistent banking supervision actions, took steps to

[40] Data on the banking system, included in the BNB 1998 Annual Report, is not final.

enhance control of credit and currency risks and had to look for solutions to provide additional capital funds. As a result of the scarcity of capital funds, in combination with still insufficient sources of income, some banks will be confronted with the dilemma of whether to retain and restrict activity or to raise capital potential. This choice will determine to a great extent their behavior in 1999 and their ability to retain market share, it may even determine their survival.

At the end of 1998 the Bulgarian banking sector comprised 34 banks. During the reporting period the BTIB merged with Credit Bank and the Turkish bank Ziraat Bank was licensed to conduct inland bank operations.

For the purposes of the Banking Supervision Department, financial institutions are classified into groups according to system significance, asset size and the type of shareholder capital. Based on these criteria banks are divided into the following three major groups:

Group I includes banks of systemic significance, with the largest balance-sheet asset size. It includes seven banks making up 70.4% of total banking system assets. In 1998 the Bulgarian Post Bank was privatized by foreign investors and the United Bulgarian Bank has majority foreign shareholder capital. The legal status of another big bank within the group was modified. The SSB was transformed into a commercial bank and began operating in compliance with the Law on Banks and other regulatory acts on its implementation.

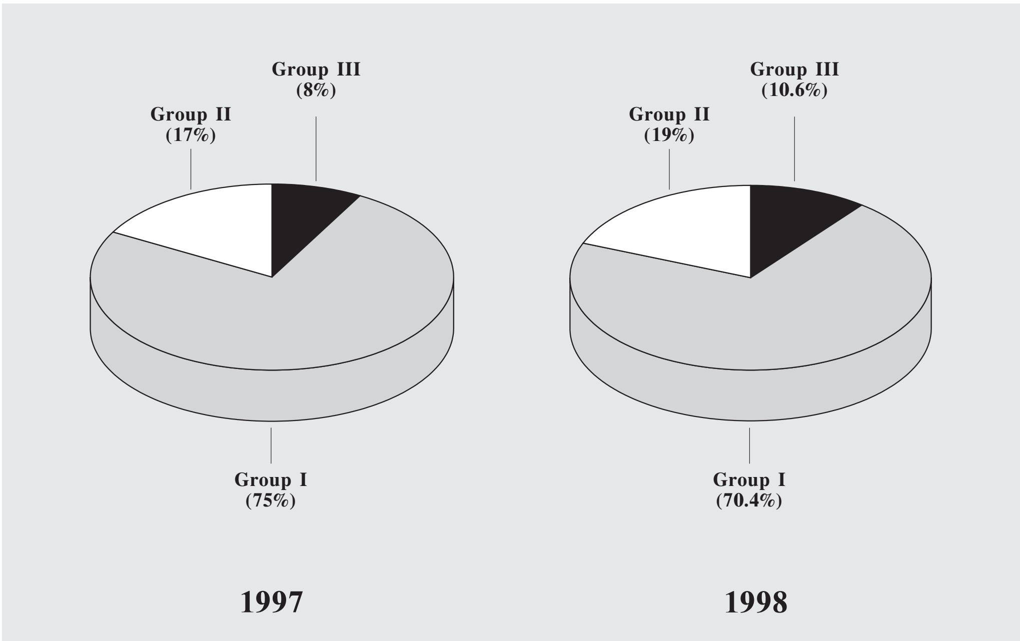
Group II includes 17 small banks with majority private shareholder capital. The Municipal Bank is included in this group. Medium and small-sized banks command 19% of banking system assets.

Group III includes ten subsidiaries and branches of foreign banks. The group makes up 10.6% of banking system assets.

Change in Banking System Structure

During the year Group I and Group II banks continued to maintain large shares in total banking system balance-sheet assets.

ASSETS BY BANK GROUP



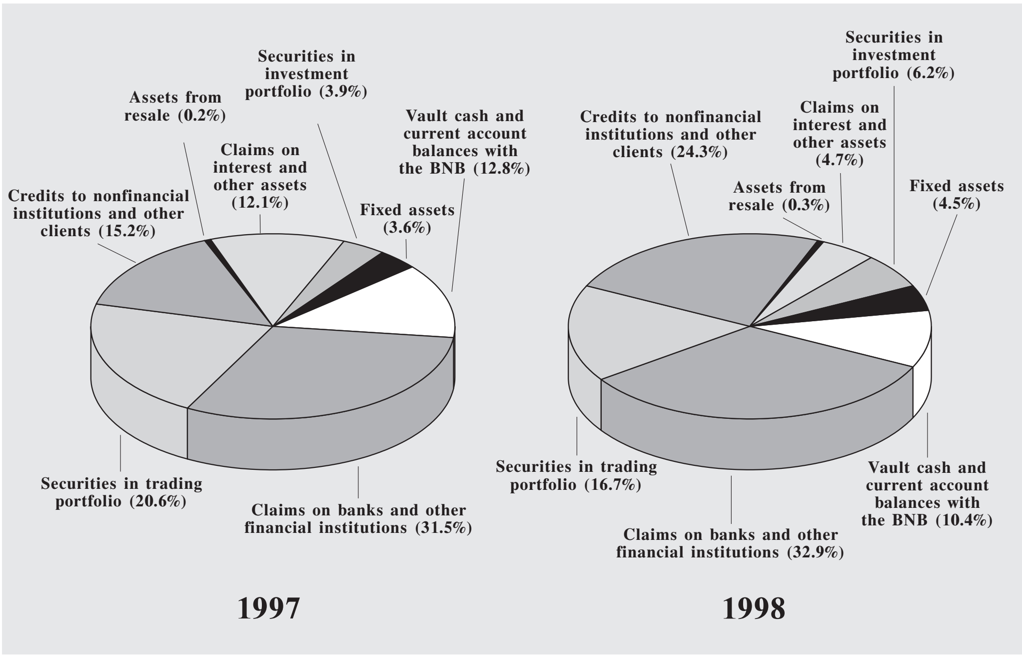
Source: BNB.

Structure of Commercial Bank Assets

The balance-sheet value of the banking system grew by approximately 3.2% and as of 31 December 1998 totaled BGL 7,595 billion. Within the structure of assets, credits to the nonfinancial sector of the economy grew most, by 65%. In 1998 they totaled BGL 724 billion, their share in total assets growing from 15% at end-1997 to 24% in 1998. Claims on banks and other financial institutions retained the highest share in assets. As of end-1998 claims on banks and other financial institutions accounted for 33%, an increase of 2% compared with the previous year. At the same time claims on interest and other assets declined: by 60% (BGL 534 billion), their share contracting from 12% to 5%. A positive change occurred in earning assets which grew by BGL 842 billion to BGL 6,087 billion, their balance-sheet weight growing to 80%.

Total assets of Group I **banks of systemic significance** declined by approximately 4% compared with 1997. The largest decline occurred in the Claims on Interest and Other Assets item: 66%, reflecting settlement and write-off of outstanding amounts on sovereign debt, clearing and intergovernmental agreements from Bulbank balance sheet as negotiated with the Ministry of Finance. Earning assets of Group I banks grew by 8%, and their share in assets rose by nine percentage points to 80%. Credits displayed the strongest dynamics, growing by BGL 450 billion in absolute terms. This is mainly attributable to one bank's lending activity within the group, whose net growth in the portfolio as a result of extended loans, mostly consumer ones, accounted for 42% of overall growth in the group. Other banks within the group contributed to 58% of total growth. Within Group I banks, a trend emerged toward an increase in claims on private companies at the expense of claims on state companies which declined or remained relatively constant. Credits extended to individuals, households and nonprofit organizations increased in absolute terms. The position with regard to private sector credits was similar.

ASSET STRUCTURE



Source: BNB.

The balance-sheet value of **medium and small-sized banks** rose by BGL 238 billion (20%), mainly due to their growing deposit base and equity. All banks which failed to meet the required BGL 10 billion in own funds under the Law on Banks belonged to this group and therefore banking supervision obliged them to take measures to raise their capital by July 1998 in compliance with the requirements of the Law on Banks. Actually paid-up capital grew by approximately BGL 49 billion due to installments made by the shareholders of four banks within the group, and over 70% of combined growth in deposits was reported by one bank: BGL 104 billion, attributable to accumulated funds from international financial institutions and sizeable funds on an extrabudgetary account.

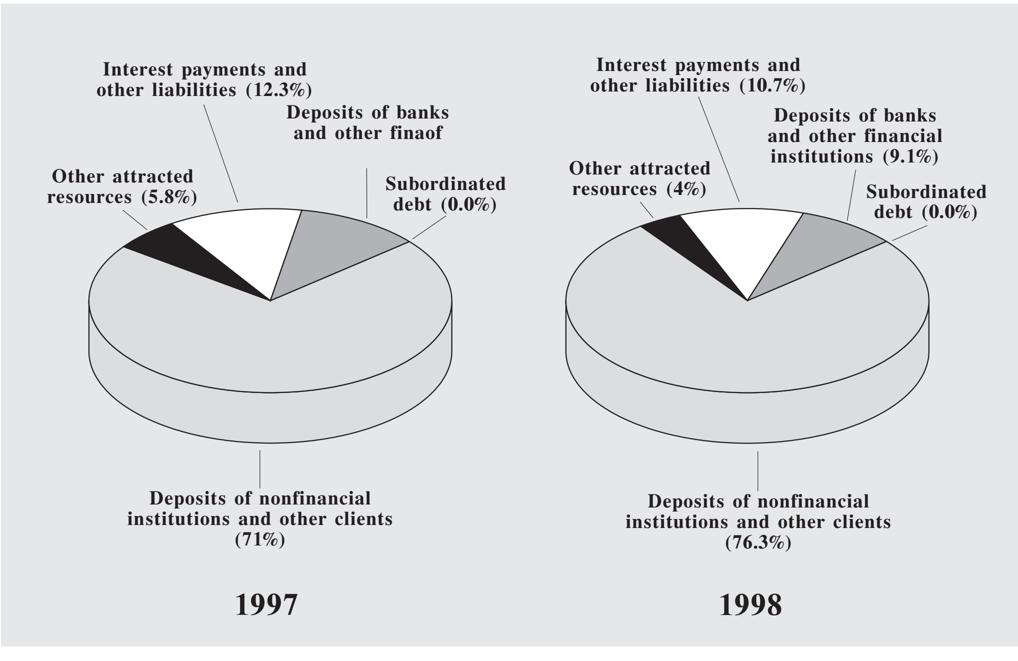
The bulk of attracted funds within the group was invested in earning assets which grew by over BGL 330 billion (38%). Of these, total credits to nonfinancial institutions grew most: by BGL 140 billion (56%). Four banks contributed most significantly to this growth, their overall growth in credits to nonfinancial institutions accounting for 76% of total growth within the group. Extended credits to private enterprises had the largest share. Compared with 1997, these increased by approximately BGL 130 billion (66%). Net growth in credit portfolios is ascribable both to newly extended loans and improved quality of bank claims. The allocation of funds in more lucrative investments caused a 25% decline in cash balances within the group.

The balance-sheet value of **subsidiaries and branches of foreign banks** within Group III grew by 39%: the highest rate among the three groups. This combined with credit growth of over BGL 133 billion (74%), mainly accounted for by three banks within the group (BGL 102 billion). A positive, though less pronounced dynamics developed in claims on banks and other financial institutions, growing by BGL 91 billion or 35%. Decreases occurred in government securities portfolio and cash balances. Overall, earning assets within the group rose by BGL 217 billion to BGL 695 billion, their share in assets growing from 82% in 1997 to 86% in 1998.

Structure of Liabilities

Total banking system liabilities declined by some 0.1% compared with December 1997. The trend is negative only in Group I, consistent with the aforementioned settlements with the Ministry of Finance. In the consolidated balance sheet of Group I banks this effect reflected on the following items: *Deposits from Banks and Other Financial Institutions, Other Attracted Funds* and *Interest Payments and Other Liabilities*. If this effect is disregarded, deposits attracted from financial institutions stood close to 1997 levels, resources from nonfinancial institutions increased and interest payments and other liabilities declined. Trends in the other two groups are positive. Group III attracted resources grew by 34% and Group II ones by 16%. Growth in deposits attracted from nonfinancial institutions was reported in all three groups, the largest growth in Group III banks: 42% (BGL 138 billion). Growth in Group I banks was 5% (BGL 178 billion) and 2% (BGL 18 billion) in Group II banks.

LIABILITY STRUCTURE



Source: BNB.

Consolidated Indicators of Banking System State Based on the Early Warning System

In mid-1998 the Banking Supervision Department designed and applied the *Early Warning System* aimed to identify potential risks to the state of commercial banks. By means of this system a set of parameters is measured in static and dynamic terms to highlight more precisely developing trends in assets and liabilities, risk concentration, and sources of income. A set of CAEL indicators corresponding to assigned ratings to commercial banks under the five-level CAMEL rating scale form an integral part of the system.

On the basis of the *Early Warning System* the following consolidated indicators are given below:

(%)

	XII.1997	XII.1998
Capital/reserves ratio	10.77	12.94
Percentage share of risk-weighted assets	29.16	34.71
Return on assets (ROA)	5.15	5.32
Return on equity (ROE)	47.81	39.59
Net interest margin	3.05	4.48
Net profit/earning assets ratio	-9.72	8.85
Credits/deposits ratio	26.96	34.15

Source: BNB.

2. Banking Supervision

Regulations

Capital Adequacy (Solvency)

As of 31 December 1998 the capital base of commercial banks totaled BGL 1.043 billion, a 65% increase on the previous reporting period. Total capital adequacy grew by over eight percentage points and exceeded considerably the required minimum under *BNB Regulation No. 8.*

CAPITAL RATIOS FOR THE TOTAL BANKING SYSTEM AND BY BANK GROUP

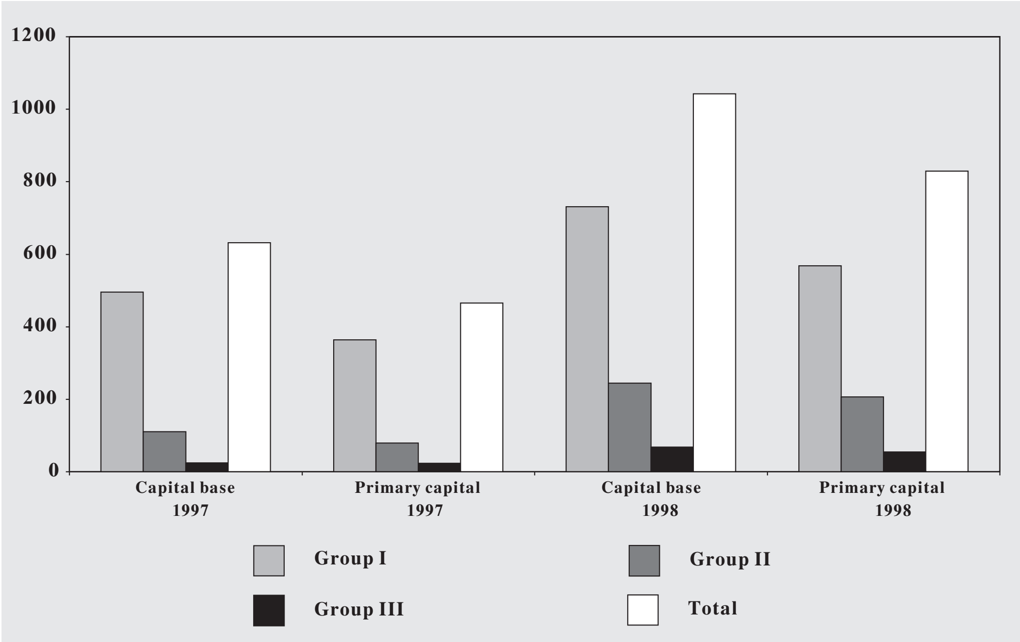
(%)

Commercial banks	Total capital adequacy	Primary capital adequacy	Degree of asset cover
Group I	40.80	31.72	13.24
Group II	32.87	27.76	16.46
Group III	25.46	20.77	11.55
Total	37.25	29.70	13.74

Source: BNB.

CAPITAL BASE AND PRIMARY CAPITAL

(billion BGL)



Note: Data on Group III banks includes only BNP – Dresdnerbank, Raiffeisenbank, Bulgarian-American Credit Bank and T. C. Ziraat Bank which are subsidiaries. All other banks in the group are branches and hence do not form capital.

Source: BNB.

The analysis of capital adequacy as at the year's end indicates that the key factors for improved capital adequacy ratios are the adopted policy of directing financial resources in low-risk investments (claims on the government, fully secured claims against government securities, and deposits abroad), maintaining the high share of cash resources, and retaining credit portfolio quality.

The capital of Group I banks grew most significantly in absolute terms: by BGL 235 billion, attributable both to equity growth of BGL 172 billion and allocated reserves. Retained profits and the revaluation of fixed tangible assets at year-end also contributed to this.

The most significant growth in relative terms was reported by Group II and Group III banks: BGL 120 billion and BGL 172 billion respectively. For medium and small-sized banks this is due to paid-up equity capital by shareholders and a considerable increase in the financial result which grew by approximately BGL 15 billion (129%). Capital base growth in Group III banks is attributable to an over BGL 40 billion increase in equity capital of the four foreign banks operating in Bulgaria.

In all three groups of banks the degree of asset risk tended to increase. This trend reflects a higher share of risk-weighted assets in balance sheets due to larger credit portfolios.

In early 1998 two banks had a capital adequacy ratio below 8% and several others reported capital base below the required BGL 10 billion. Measures and actions imposed by the BNB, combined with bank management and shareholder efforts, made it possible to achieve high capital adequacy ratios in the system. Despite a cautious increase in the risk component of assets and the adopted conservative approach to their management, insufficiency of own funds in some banks may impede expansion of their activities.

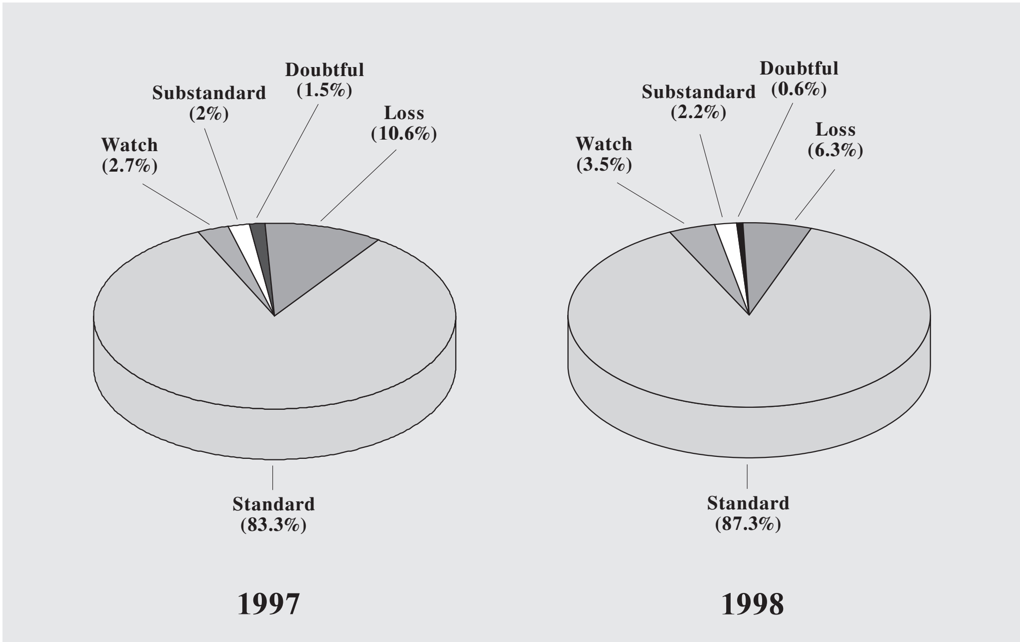
Credit Risk and Provisioning of Risk Assets

Compared with end-1997, reported total risk exposures increased by BGL 650 billion (12.5%). Nevertheless, a trend toward retaining asset quality emerged. Total system standard exposures accounted for 83.3% at the end of 1997, growing to 87.3% at the end of 1998. Concurrently the loss dropped from 10.6% to 6.3%.

During the period under review banks adhered to the practice of a cautious selection of borrowers and imposed strict requirements on their transactions adopted after the crisis. Financial institutions adhered to the principle of prudential banking and in a number of cases reassigned standard exposures to a higher-risk group to avoid potential losses. In 1998 unsecured lending practically stopped and collateral requirements considerably exceeded the amount of extended credits.

Consumer and house-building credits grew most significantly in 1998. In the second half of the year some lending institutions offered new services which marked the beginning of competition, though tentative, in this market segment. There are banks in the system with portfolios unburdened by credits classified as uncollectible. This is consistent with the pursuit of a conservative lending policy oriented at small in number prime rate customers.

STRUCTURE OF RISK EXPOSURES



Source: BNB.

Big Credits

In 1998 stricter compliance with the provisions of *BNB Regulation No. 7* continued. Total banking system big exposures exceeded 1.13 times the capital base in 1998 (1.39 in 1997) and were far below the admissible eight times. Financial institutions in Group III reported the most significant decrease in this indicator: 43%. Nevertheless, the excess in this group of banks remained the highest: 4.81 times. Group II medium and small banks retained the levels of this coefficient at the previous year's levels and within Group I banks there was a slight reduction: 0.28%. As of 31 December 1998 only one bank exceeded the eight-fold limit under Regulation No. 7 on big exposures to capital base by 0.93 percentage points.

Profitability

Risk aversion in 1998 and preference for safer asset operations reduced the potential for income generation. Nevertheless, *net interest margin* (calculated as a proportion between net interest income for the period and average weighted assets) rose from 3.05% in 1997 to 4.48% in 1998. This is attributable to improved quality of interest-bearing assets. However, to avoid potential losses, commercial banks maintained a considerable portion of their assets in safer, low-income assets.

Net income from *earning assets* (the proportion between net profit from earning assets and average weighted assets) also rose: from -9.72% at the end of 1997 to 8.85% as of 31 December 1998.

The trend of covering system operating expenses with *net income from interest, commissions and fees*, continued.

Despite relatively satisfactory 1998 profitability ratios, the system did not take actions to reduce interest spread and operating expenses.

Liquidity

Throughout 1998 primary and secondary liquidity was high. As of 31 December 1998 total system primary liquidity was 17.3% and secondary liquidity 57.4%. The information based on reports under *BNB Regulation No. 11* indicates satisfactory levels of the share of high-liquid assets and net cumulative inflow into the system as a whole. Some banks reported a net cumulative cash outflow but for most financial institutions liquid funds proved sufficient to cover cash outflows. A serious negative mismatch between cash inflows and outflows occurred in the last months of 1998 at Credit Bank. Liquidity deficiencies and limited capital reserves ended with the revocation of this bank's license in early 1999.

Open Foreign Currency Positions

Noncompliances with *Regulation No. 4*, typical of early 1998, diminished in incidence and magnitude at year-end. While at the beginning of the reporting period almost half of the banks in the system violated the prescribed limits, at the end of 1998 deviation from maximum permissible limits was reported by a small number of financial institutions. In order to achieve the prescribed 60% limit of the open foreign currency position to own funds, banks moved to converting USD-denominated assets into DEM-denominated assets. In particular cases compliance with the Regulation was coupled with forex purchases and sales.

Major Supervisory Measures Imposed by the Banking Supervision Department in 1998

Stricter performance requirements from the Banking Supervision Department and the correspondingly greater powers provided by the Law on the BNB led to an extensive use of supervisory measures and actions intended to bring banking activity into line with legislative requirements. The supervisory measures imposed resulted from examinations carried out by the Inspections Directorate, the Special Supervision Directorate, as well as systematic supervision by the Off-site Supervision and Analyses Directorate.

During 1998 the Inspections Directorate conducted 18 full examinations, including four banks of systemic importance, eleven small and medium-scale banks and two branches of foreign banks. In compliance with the newly established supervisory practice, at the end of each examination ratings under the CAMELS system were determined, besides traditional assessments, findings and recommendations.

In addition to full examinations, a number of target examinations were conducted on the compliance of banks' own funds with minimum required capital and other current problems related to commercial bank financial performance.

Major findings of on-site examinations reflect both objective difficulties and subjective errors. Despite compliance by all banks with capital adequacy requirements, a genuine risk of capital inadequacy exists. This may be prompted by the need for additional provisions, and the assets for resale acquired against bad loans in the balance sheets of some banks; the latter do not generate income and are strongly impacted by the existing market risk. Due to the worsened structure of income-generating assets some banks rely only on occasional *ad hoc* revenues which are very often insufficient to cover their current expenditure. These circumstances decrease the role of financial performance as an internal source and reserve for commercial bank capital growth.

Examination results suggest that lending management needs to be improved. The work of lending committees as specialized bodies for inspection, assessment, classification and provisioning of risk exposures is insufficiently efficient. Moreover, some banks have not yet established lending committees. The lack of comprehensive and up-to-date trading information have led to instances where changes in debtors' financial performance and deterioration of their major economic indicators have failed to be taken into account in a timely fashion. As a result, recommendations for credit reclassification have been delayed. There are also cases where securities on credits were wrongly reported as highly liquid, thus decreasing the total amount of risk assets. Omissions in the work of bank managements were also found. There are no clear improvement strategies for the current inefficient organizational structures of banks, and no long-term development business plans. Due to inadequate software used by some banks, the management was not provided with consolidated and reliable information. This disturbs internal communication and impedes the establishment of reliable systems for early forecasting, identification, assessment and management of bank risk. Formal breaches of the legislative framework and supervisory regulations were also found to occur regularly.

Banks' internal control is ineffective, insufficiently independent, and assesses current and potential risk operations inadequately. The need for additional occupational training has not been taken into account, and responsibilities have not been clearly defined at all levels. The reasons for personnel fluctuations have not been analyzed.

In 1998 the Special Supervision Directorate carried out a number of examinations of commercial banks, nonbank financial institutions and banks in bankruptcy.

Target examinations associated with the structure of shareholders' capital, trade in government securities and ZUNK bonds were carried out in 15 commercial banks. Eight examinations were carried out jointly with the Securities and Stock Exchanges Commission concerning the activity of investment intermediaries. Upon request by the Financial Intelligence Service Office at the Ministry of Finance, examinations of four commercial banks were carried out upon information regarding dubious operations, in compliance with the Law on Money Laundering and Prevention of Money Laundering Through the Banking System.

Examination findings included: breaches of provisions of Article 179 of the Law on Commerce on keeping shareholders' registers; violation of § 4 of the Law on Banks; violation of the provisions of Article 3 of the Regulation on terms and procedure for the acquisition and redemption of long-term government bonds issued under structural reform; breaches of the Law on the Accountancy and the Law on Securities, Stock Exchanges and Investment Companies. To remove these violations, meetings with managements were held and warning letters were sent.

On the basis of protocols on joint examinations with the Securities and Stock Exchanges Commission, five financial institutions were sanctioned for improper activity as investment intermediaries.

During 1998 *supervision on nonbank financial institutions* included the following activities: 20 finance houses were granted *licenses* to effect noncash purchase and sale of foreign currency pursuant to § 7 of the Law on Banks. Sixty-seven exchange bureaux were authorized to conduct cash transactions in foreign currency in accordance with Article 18 of the Law on Transactions in Foreign Exchange Valuables and Currency Control. The number of operational finance houses by 31 December 1998 was 36. Exchange bureaux working with customers numbered 1,025.

During 1998 forty-two *examinations* were carried out, mostly of finance houses. Examination findings included, *inter alia*, violations of Article 3 of the Regulation on the export and import of foreign exchange valuables, the conduct of discount and guaranty transactions, trust management of funds; violations of § 7 of the Law on Banks, and breaches of the Law on the Accountancy. The Prosecutor's Office and tax authorities were notified of findings deemed to constitute a chargeable offence.

As a result of on-site target examinations and documentary inspections, the BNB Board revoked the licenses to conduct transactions in foreign instruments of payments of 192 nonbank financial institutions.

Joint examinations of four *insolvent commercial banks* were carried out by the Banking Supervision Department and the Government Financial Control Office. Examinations established violations of Articles 652 and 653 of the Law on Commerce on the inventory of chattels and real estate, cash, valuables, securities and other bank claims on third parties; accountancy was disturbed; assignees in bankruptcy violated Article 660, para. 1 of the Law on Commerce concerning expenditures associated with bank management and the preservation of its property. Examination findings included also violations of Article 84, para. 4 of the Law on Banks on the timely submission of assignees' in bankruptcy reports to the central bank, as well as violations of the Law on Commerce, the Law on the State Protection of Deposits and Accounts with Commercial Banks in Respect Whereof the Bulgarian National Bank Has Petitioned the Institution of Bankruptcy Proceedings and the Law on Banks. The Banking Supervision Department and the Government Control Office jointly prepared recommendations for ending the violations.

Active measures by the Banking Supervision Department helped intensify and diversify the measures used to prevent and eradicate violations of supervisory requirements and overcome their consequences. Informal measures were paid special attention: these included, *inter alia*, meetings and discussions with bank managements and major shareholders, written recommendations, requirements for detailed plans for compliance with banking regulations and the eradication of violations. In the second half of 1998, 13 legal and administrative proceedings for breaches of the Law on Banks and its statutory instruments were instituted against executive directors of commercial banks or against the commercial banks themselves. Some of the proceedings resulted in written warnings pursuant to Article 28 of the Law on Administrative Misdemeanors and Penalties. Verdicts in the remaining proceedings are pending.

Major supervisory measures imposed by the Banking Supervision Department in 1998 are:

1. Following two written warning letters for normalization of banking activity and agreement between major shareholders, conservators were appointed at the St. Nicholas International Orthodox Bank (later renamed Neftinvestbank). Within three months the conservators, assisted by the Banking Supervision Department, had overcome the bank's difficulties, convened a general shareholders' meeting, raised the bank's capital, and eliminated the threat of the bank's financial disruption.

2. Following an analysis of commercial bank capital base and banks' ability to attain compliance with *BNB Regulation No. 8* by 30 June 1998, in April 14 commercial banks were required to prepare plans for the attainment of the minimum required capital of BGL 10 billion. Almost all banks met the requirements within the set term. However, Credit Express Bank (renamed Tokuda Credit Express Bank) failed to meet the requirements. The problem was solved by the inclusion of a foreign investor in the bank. The same problem was found at the Bulgarian Trade and Industrial Bank, which merged into Credit Bank in August 1998.

3. Due to poor financial performance a written warning was sent to the Balkan Universal Bank, calling for an immediate capital increase. After depositing of required amounts by the bank's major shareholder, the bank attained the required capital base.

4. With the enactment of the Law on Transformation of the State Savings Bank into a Commercial Bank, a memorandum of understanding was concluded on 30 July 1998. This included specific supervisory constraints on the transformation term, and additional supervisory measures for this institution. As a result of the memorandum the bank is being transformed smoothly.

5. Credit Express Bank (renamed Tokuda Credit Express Bank) was sent written warnings and sanctioned under Article 13 of *BNB Regulation No. 21* due to noncompliance with bank license regarding the right to open bank accounts abroad, and minimum required reserves with the BNB. Subsequently, the Chief Executive Director was released by a resolution of the bank's Supervisory Board.

6. Due to noncompliance with banking regulations and requirements established by a supervisory examination, a memorandum of understanding was signed between the BNB Banking Supervision Department and the First East International Bank. As a result the bank took active measures to fulfill memorandum commitments and improved its financial performance.

7. During the third quarter of 1998 the financial performance of Credit Bank worsened sharply, due partly to unfavorably acquired Russian debt instruments. A number of meetings with the bank's management were held. The Banking Supervision Department requested a liquidity management plan. However, the plan presented did not include realistic goals and tasks. As a result of the worsening liquidity crisis, by the end of 1998 the bank stopped servicing payments. Following actions under Article 21 of the Law on Banks, Credit Bank was declared insolvent.

It should be noted in conclusion that two registers were opened at the Banking Supervision Department: one for administrative measures, and one for administrative penalty proceedings. This is aimed at improving control over the fulfilment of supervisory measures imposed. These registers will significantly improve coordination between individual structural units of the Banking Supervision Department.

3. Changes in Banking Supervision Regulations

Harmonization of Bulgarian banking regulation with the 25 basic principles of the Basle Committee for Effective Banking Supervision and EU directives entail regular reviews and assessments by the Supervision Policy Directorate on compliance with these documents. It should be noted that the bulk of international supervision standards have already been applied in BNB practice. However, particular issues of banking legislation need further definition and fine tuning. For example, there is no adequate regulation on legal protection for banking supervision inspectors, on the exchange of information between supervisory institutions at national and international levels, on the requirement for evaluation, supervision and control of risks in bank management, on capital requirements for market risk, and on consolidated supervision on the insolvency of bank groups and financial holdings.

During the first half of 1998 *BNB Regulation No. 22 on the Central Credit Register of Banks* was adopted. This Regulation is aimed at maintaining a data base (updated monthly) on the indebtedness of bank clients and related entities. The Register is to become instrumental in adequate and reliable lending decision-making by banks. *Regulation No. 4 on foreign currency positions of banks, Regulation No. 9 on the evaluation of risk exposures of banks and the allocation of provisions to cover the risk related thereto,* and *Regulation No. 11 on liquidity management and supervision of banks,* issued in late 1997 and early 1998, were supplemented by detailed instructions for better identification, evaluation and reporting of the risks they regulate.

Draft *Regulation No. 2 on granting and revoking permits (licenses) to conduct bank transactions and on granting and revoking other permits* under the Law on Banks, and Draft *Regulation No. 7 on banks' major exposures* were prepared in 1998. These regulations will be approved by the BNB Board after the adoption of amendments to the Law on Banks. In 1998 the bulk of work on the Draft Regulation on the consolidated supervision was done. This regulation is to be adopted in 1999.

The Uniform Chart of Accounts of Banks was supplemented by opening new accounts and closing accounts inconsistent with the amendments to the Law on the Accountancy and National Accounting Standards.

Instructions on the enactment of a uniform accounting methodology in respect of government securities transactions were prepared, consistent with the amendments to Article 18, paras. 1 and 5 of the Law on the Accountancy, National Accounting Standard 25 and International Accounting Standard 25 ("Reporting of Investment").

The fourth quarter of 1998 saw the launch of reporting forms and instructions on detailed bank financial reports for public announcement. These are in compliance with National and International Accounting Standards. This is in compliance with the Law on the Accountancy and the Law on Banks under which the BNB determines the form and content of required reports. The instructions for completing additional tables to the annual financial statement reflect detailed accounting principles for preparing financial reports, including consolidated ones.

Due to the great number of risks associated with the year 2000, the Bulgarian National Bank prepared and sent detailed questionnaire to commercial banks. This includes seven major groups of issues: development of a strategy; provision of organizational knowledge; assessment of necessary actions and design of detailed plans; innovation of systems and equipment; testing innovations; introduction of tried and tested systems; planning for extraordinary circumstances.

VI. BNB Financial Statements

1. Annual Financial Statement

The annual financial statement was prepared in accordance with the Law on the BNB and the principles of International Accounting Standards.

The Issue Department balance sheet, whose assets reflect the structure and amount of BNB international foreign exchange reserves, was published weekly. Publicity was in line with the adopted policy of transparency in BNB operations to ensure credibility in the national currency.

International foreign exchange reserves include invested cash in the form of deposits and nostro accounts (current accounts of prime-rate banks); monetary gold in bullions market standard (valued at DEM 500 per one troy ounce, or at market value based on the London Stock Exchange official exchange rate, if lower), cash placed in prime-rate high-liquid foreign government securities (at market value).

The Banking Department balance sheet assets include, *inter alia*, nonmonetary gold and other precious metals; investment portfolio of securities held by the Bank until maturity; loans and advances to banks net of provisions; receivables from government on extended credits; Bulgaria's IMF quota; the deposit with the Issue Department; and fixed assets. The liabilities include all obligations of the country to international financial institutions, BNB equity, and reserves.

BNB major revenue sources are income from interest, fees, commissions and valuation adjustments. Central bank income depends primarily on flexible management of the Bank's international foreign exchange reserves, in compliance with Articles 28 and 31 of the Law on the BNB.

BNB interest income and expenses are recognized on the basis of the accrual method and income and expenses for fees and commissions are recognized at the date of their origination.

In performance of the function of a fiscal agent on the cash basis reporting of the state budget the BNB services free of charge accounts of prime budget entities. As a 'bank of banks' the BNB services commercial bank accounts free of charge.

Prior to the introduction of a currency board the bulk of BNB income comprised net interest income primarily from operations in national currency (credits to the MF and deposits with commercial banks). After currency board introduction interest income is generated almost completely from operations in foreign currency and foreign currency denominated securities. Interest income generated in the reporting period accounted for BGL 121.5 billion, including BGL 121.3 billion (99.8%) from foreign currency operations and BGL 174 million from interest on lev deposits.

Interest expenses in 1998 totaled BGL 63.3 billion, including 92.4% in foreign currency, against 32.4% in 1997. Net interest income amounted to BGL 58.2 billion, a fivefold decrease on the previous year. The main reason for the decrease was discontinued refinancing of commercial banks and rigid rules on lending to the budget (under Article 45 of the Law on the BNB).

In 1998 BNB net income from securities operations totaled BGL 54.4 billion, a threefold decrease on the previous year. This is attributable to discontinued open market operations in mid-1997.

The structure of BNB net financial result prior to allocation of provisions was as follows:

(%)

	1998	1997
Net interest income	69.85	22.28
Income from dividends	3.43	0.34
Net income from fees and commissions	-0.56	0.18
Net income from government securities operations	65.36	12.68
Net profit from valuation adjustments	-43.40	63.78
Other income	5.32	0.75
Total	100.00	100.00

Source: BNB.

In 1998 the BNB continued to pursue a policy of cutting operating expenses. In the reporting year operating expenses declined by approximately BGL 700 million from the previous year, attributable to a significant reduction (30%) of overhead expenses.

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 1998, which are set out on pages 95 to 108.

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.

Comparative figures

In reporting on the financial statements for the year ended 31 December 1997, we qualified our opinion on the basis that they were not prepared in accordance with International Accounting Standard (IAS) 29 'Financial Reporting in Hyperinflationary Economies'.

The impact of applying IAS 29 would have resulted in the 1997 net loss after special transfers to reserves being BGL 137,019 million as compared to the historic cost net income of BGL 264,790 million, and the 1998 opening net assets being BGL 1,626,748 million as compared to the historic cost basis of BGL 843,360 million. The comparative figures in the financial statements may, therefore, not be comparable with the figures for the current year.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bulgarian National Bank as at 31 December 1998 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
29 April 1999

KPMG Bulgaria OOD.

KPMG Bulgaria OOD
Chartered Accountants
Sofia
29 April 1999

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.

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.

29 April 1999

Svetoslav Gavriiski
Governor of the BNB

Balance Sheet
of the Bulgarian National Bank
as of 31 December 1998

	Notes	1998 million BGL	1997 million BGL
ASSETS			
Cash and amounts due from banks	7	2,971,965	2,201,432
Gold and other precious metals	8	697,024	727,071
Securities	9	1,572,435	1,802,318
Loans to banks and other financial institutions	10	1,350	2,370
Interest receivable	12	17,877	10,955
Receivable from Government	13	1,665,949	1,632,128
Equity investments and quota in IMF	14	1,102,701	1,121,867
Property, plant and equipment	15	139,624	132,233
Other assets	16	8,760	5,148
Total assets		8,177,685	7,635,522
LIABILITIES			
Due to banks and other financial institutions	17	551,436	769,308
Government deposits and current accounts	18	1,947,104	1,710,555
Borrowings against Bulgaria's IMF quota	19(a)	1,018,707	1,037,162
Borrowings from general resources of IMF	19(b)	1,866,957	1,674,802
Other borrowings	20	17,944	16,286
Currency in circulation	21	1,845,056	1,419,921
Accruals and other liabilities	22	94,370	164,128
Total liabilities		7,341,574	6,792,162
Shareholders' funds			
Capital	23	20,000	20,000
Reserves	24	816,111	823,360
Total liabilities and shareholders' funds		8,177,685	7,635,522

The accompanying notes on pages 98 to 108 form an integral part of these financial statements.

The BNB Managing Board approved the financial statements on 29 April 1999.

Svetoslav Gavriiski
Governor of the BNB

Income Statement

	Notes	1998 million BGL	1997 million BGL
Interest and similar income	4	121,512	438,702
Interest expense and similar charges	4	(63,341)	(151,277)
Net interest income		58,171	287,425
Dividend income		2,855	4,391
Net fees and commissions		(464)	2,311
Net gains arising from securities		54,427	163,511
Net foreign exchange (losses)/gains	5	(36,145)	822,686
Other operating income		4,434	9,611
Operating expenses	6	(29,026)	(29,719)
Bad debt recoveries	11	27,157	-
Provision for losses	11	(768)	(385,932)
Net income from ordinary activities		80,641	874,284
Transfer from/(to) special reserves	24	42,940	(609,494)
Net income after special reserve transfer		123,581	264,790
Interim contribution to the State Budget		-	(34,000)
Final contribution to the State Budget	22	(91,450)	(161,945)
Transfer to other reserves	24	32,131	68,845

The accompanying notes on pages 98 to 108 form an integral part of these financial statements.

Cash Flow Statement

	Notes	1998 million BGL	1997 million BGL
Net cash flow from operating activities			
Net income from ordinary activities		80,641	874,284
Adjustment for noncash and nonoperating items:			
Dividend income		(2,855)	(4,391)
Provision for loan losses	11	768	385,932
Bad debt recoveries		(3,654)	-
Depreciation	6	5,937	786
Net translation losses/(gains)		42,940	(719,166)
Net cash flow from operating activities before changes in operating assets and liabilities		123,777	537,445
Change in operating assets			
Decrease/(increase) in gold and other precious metals		30,047	(117,717)
Decrease/(increase) in securities		229,883	(1,294,886)
Increase in receivable from Government		(33,821)	(608,583)
Decrease /(increase) in loans to banks and other financial institutions		252	(209,889)
(Increase)/decrease in interest receivable and other assets		(10,534)	25,581
Change in operating liabilities			
(Decrease)/increase in due to banks and other financial institutions		(217,872)	634,501
Increase in Government deposits and current accounts		236,549	1,504,231
Increase in borrowings from IMF		173,700	450,144
Increase in currency in circulation		425,135	1,281,757
Decrease in accruals and other liabilities		(68,100)	(5,540)
Net cash flow from operating activities		889,016	2,197,044
Cash flow from investing activities			
Purchase of fixed assets		(6,552)	(75,597)
Dividends received from associated undertakings		2,855	4,391
Decrease in equity investments and quota in IMF		19,166	2,866
Net cash flow from investing activities		15,469	(68,340)
Cash flow from financing activities			
Payment to Government		(6,238)	(34,000)
(Decrease)/increase in long-term borrowings		-	(214,067)
Other payment from reserves		(46)	
Net cash flow from financing activities		(6,284)	(248,067)
Add (losses)/gains on foreign currency cash		(127,668)	201,505
Net increase in cash and cash equivalents		(770,533)	2,082,142
Cash and cash equivalents at beginning of year		2,201,432	119,290
Cash and cash equivalents at end of year	7	2,971,965	2,201,432

The accompanying notes on pages 98 to 108 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, which has been effective from 10 June 1997.

Under this law, 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 operations as a result of this 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 must prepare its accounts in accordance with International Accounting Standards (IAS).

2. Basis of preparation

The financial statements are prepared in accordance with and comply with International Accounting Standards. The financial statements are prepared under the historical cost convention as modified for by the revaluation of certain assets and liabilities to fair value.

The comparative figures have been prepared in accordance with and comply with International Accounting Standards, except for IAS 29 'Financial Reporting in Hyperinflationary Economies'.

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 income statement 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. These securities are recorded at market value. Movements in the market value of these securities are initially recognized in the income statement 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 income statement 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. Certain 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 near 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) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at their purchase cost as modified by any revaluations, less accumulated depreciation. Revaluations were undertaken at 31 December 1998 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 not exceeding the estimated market value. When as asset's carrying amount is decreased as a result of a 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	4
Equipment, fixtures and fittings	15
Motor vehicles	15
Printing equipment	4 – 16

A valuation was performed by the Managing Board on the fixed assets at 31 December 1998.

Property, plant and equipment in progress are not depreciated until they are completed or ready for use. The asset is then transferred to the relevant asset class and depreciated accordingly.

(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 income statement. Gains and losses are then transferred to or from a special reserve as permitted by the Law on the Bulgarian National Bank. Foreign currency denominated nonmonetary assets and liabilities are valued at the historical rate at acquisition.

Open forward foreign exchange contracts are valued at market value.

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

Currencies	1998	1997
US dollar (USD)	1 : BGL 1,675.1	1 : BGL 1,776.5
Deutschemark (DEM)	1 : BGL 1,000.0	1 : BGL 1,000.0
European Currency Unit (ECU)	1 : BGL 1,962.9	1 : BGL 1,974.9
Special drawing rights (SDR)	1 : BGL 2,356.5	1 : BGL 2,399.4

(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 (SDR). 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 in hand, nostro accounts, current accounts and term deposits with maturities of less than three months.

4. Interest income and expense

	1998 million BGL	1997 million BGL
Interest income		
Banks and financial institutions		
– in BGL	174	268,568
– in foreign currencies	121,338	170,134
	121,512	438,702
Interest expense		
Banks and financial institutions		
– in BGL	4,848	86,860
– in foreign currencies	58,493	64,417
	63,341	151,277

5. Net foreign exchange (losses)/gains

	1998 million BGL	1997 million BGL
Revaluation of gold and precious metals	(27,661)	363,280
Foreign exchange gains	17,763	504,818
Foreign exchange losses	(26,247)	(45,412)
	(36,145)	822,686

6. Operating expenses

	1998 million BGL	1997 million BGL
Personnel	9,222	6,617
Depreciation charge	5,937	786
Administration	13,179	19,011
Other expenses	688	3,305
	29,026	29,719

7. Cash and amounts due from banks

	1998 million BGL	1997 million BGL
Foreign currency cash	17,764	13,508
Nostro and current accounts with other banks	779,372	408,942
Deposits in foreign currency	2,174,829	1,780,486
Provision for credit losses	-	(1,504)
	2,971,965	2,201,432

Interest is earned on foreign currency deposits at rates between 3% and 7% per annum.

8. Gold and other precious metals

	1998 thousand troy ounces	1998 million BGL	1997 thousand troy ounces	1997 million BGL
Gold bullion in standard form	1,293	496,368	1,288	644,111
Gold in other forms	124	126,215	94	12,645
Other precious metals	-	74,441	-	70,315
Total		697,024		727,071

Gold in standard form includes gold held with correspondents. This gold earns interest at 1.5% per annum.

9. Securities

	1998 million BGL	1997 million BGL
Market value of trading securities		
Foreign treasury bills, notes and bonds	1,438,657	1,508,548
Forward foreign exchange contracts	30	-
Total market value of trading securities	1,438,687	1,508,548
Cost of investment securities		
Foreign treasury bills	133,748	293,770
Total	1,572,435	1,802,318

Investment securities are US Treasury bills held with the Federal Reserve Bank of New York. These are held as 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 approximately 4.5%. These securities 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. During 1998, two of these bonds were transferred to the government as part of the payment for the final contribution to the state budget.

10. Loans to banks and other financial institutions

	1998 million BGL	1997 million BGL
Loans to domestic financial institutions:		
- in BGL	144,142	150,710
- in foreign currency	114,601	133,938
Provision for possible credit losses	(257,393)	(282,278)
Written down value of loans to domestic banks	1,350	2,370

During the year no interest has been accrued on these loans and they have a theoretical maturity within one year.

11. Provision for losses

	1998 million BGL	1997 million BGL
Provision against cash and amounts due from banks at 1 January	1,504	659
Provision against equity at 1 January	369	-
Provision against loans to banks and other financial institutions at 1 January	282,278	139,523
Provision at 1 January	284,151	140,182
Add charge for the year	768	385,932
Less recoveries	(27,157)	-
Less provisions on bad debts written off	-	(241,963)
Provision at 31 December	257,762	284,151
The provision may be analyzed as:		
Provision against cash and amounts due from banks	-	1,504
Provision against loans to banks and other financial institutions	257,393	282,278
Provision against equity investments	369	369
	257,762	284,151

12. Interest receivable

	1998 million BGL	1997 million BGL
Interest on investments	15,043	8,334
Interest on cash accounts and loans	2,202	2,129
Other	632	492
Total	17,877	10,955

13. Receivable from the government

	1998 million BGL	1997 million BGL
Receivable from the government	1,665,949	1,632,128

The value of the receivable from the government at 31 December 1998 is SDR 708 million (1997: SDR 680 million), see note 25(a).

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
1999	213,783
2000	234,519
2001	492,789
2002	373,257
2003	123,371
2004	63,905
2005	41,081
2006	41,081
2007	41,081
2008	41,082
Total	1,665,949

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

	1998 million BGL	1997 million BGL
Equity investments in Bulgarian institutions	3,188	2,503
Bulgaria's IMF quota	1,095,611	1,115,462
Equity investments in international financial institutions	4,271	4,271
Provision against investments in Bulgarian institutions	(369)	(369)
Total	1,102,701	1,121,867

None of the equity investments in international financial 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		
BORIKA	100	Management of cash point machines
Bulgarian Mint EOOD	100	Minting coins
Subsidiaries held with a view to disposal		
Bank for Agricultural Credit	52	Banking institution in process of liquidation
Agrobusinessbank	85	Banking institution in process of liquidation
Associated companies		
International Banking Institute	42	Financial training and research
Central Depository AD	20	Agent for financial securities
Associated companies held with a view to disposal		
Bank Consolidation Company	46	Holding company for state-owned commercial banks to facilitate privatization

15. Property, plant and equipment

	Land and buildings mln BGL	Motor vehicles mln BGL	Fixtures and fittings mln BGL	Printing equipment mln BGL	Assets in progress mln BGL	Other mln BGL	Total mln BGL
Cost or valuation							
At 1 January 1998	14,824	2,081	1,618	60,496	55,641	614	135,274
Additions	3,808	7	427	-	5,380	669	10,291
Disposals	(19)	(92)	(12)	(550)	-	(26)	(699)
Transfers	-	-	319	10,171	(10,490)	-	-
Revaluation	1,541	100	65	1,015	1,274	16	4,011
At 31 December 1998	20,154	2,096	2,417	71,132	51,805	1,273	148,877
Depreciation							
At 1 January 1998	(258)	(553)	(489)	(1,699)	-	(42)	(3,041)
Charge for the year	(619)	(640)	(71)	(4,559)	-	(48)	(5,937)
On disposals	-	27	2	44	-	-	73
Revaluation	(136)	(36)	(16)	(159)	-	(1)	(348)
At 31 December 1998	(1,013)	(1,202)	(574)	(6,373)	-	(91)	(9,253)
Net book value at 31 December 1998	**19,141**	**894**	**1,843**	**64,759**	**51,805**	**1,182**	**139,624**
Net book value at 31 December 1997	14,566	1,528	1,129	58,797	55,641	572	132,233

16. Other assets

	1998 million BGL	1997 million BGL
Precious metal commemorative coins for sale	26	113
Spare parts for printing equipment	2,279	2,256
Prepayments	1,200	926
Inventories	4,262	1,205
Accounts receivable	993	648
Total	8,760	5,148

17. Due to banks and other financial institutions

	1998 million BGL	1997 million BGL
Demand deposits from banks and other financial institutions		
- in BGL	388,869	571,660
- in foreign currency	162,567	128,700
Total demand deposits	551,436	700,360
Time deposits from banks and other financial institutions		
- in BGL	-	48,515
- in foreign currency	-	20,433
Total time deposits	-	68,948
Total	551,436	769,308

The Bank does not pay interest on demand deposits from banks and other financial institutions. Included in demand deposits is BGL 495,240 million representing the obligatory reserves which all domestic banks are required to maintain at the Bank as part of their current accounts.

18. Government deposits and current accounts

	1998 million BGL	1997 million BGL
Government deposits and current accounts:		
- in BGL	592,974	475,126
- in foreign currency	779,919	928,813
State Fund for Reconstruction and Development	574,211	306,616
Total	1,947,104	1,710,555

Government deposits and current accounts with the Bank comprise funds held on behalf of government budget organizations and other government organizations. No interest is payable on 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. The interest rate paid at 31 December 1998 was between 3% and 4%.

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

	1998 million BGL	1997 million BGL
Borrowings against Bulgaria's IMF quota	1,095,611	1,115,462
Reserve tranche position	(76,904)	(78,300)
Total	1,018,707	1,037,162

(b) Borrowings from general resources of IMF

	1998 million BGL	1997 million BGL
Compensatory and contingency financing	150,815	258,171
Standby facilities	1,160,764	1 023,096
Extended fund facility	246,488	-
Enlarged access	57,832	114,669
Systemic transformation facility	251,058	278,866
Total	1,866,957	1,674,802
Total (a) and (b)	2,885,664	2,711,964

Borrowings from the IMF are denominated in SDR and amount to SDR 1,225 million at 31 December 1998 (31 December 1997: SDR 1,130 million). 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 rates set by the IMF, between 4% and 5%, and are repayable over a ten-year period.

Borrowings from the IMF are guaranteed by promissory notes which have been cosigned by the government and the Bank. The total promissory notes outstanding as at 31 December 1998 are BGL 2,962,128 million, see note 30.

20. Other borrowings

	1998 million BGL	1997 million BGL
Guarantee funds	17,792	16,174
Promissory notes issued	2	2
Other borrowings	150	110
Total	17,944	16,286

21. Currency in circulation

	1998 million BGL	1997 million BGL
Coins and currency in circulation		
- banknotes	1,839,327	1,418,138
- coins	5,729	1,783
Total	1,845,056	1,419,921

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:

	1998 million BGL	1997 million BGL
Balance at 1 January	1,418,138	137,258
Banknotes issued into circulation	455,406	1,289,317
Banknotes withdrawn from circulation and destroyed	(34,217)	(8,437)
Balance at 31 December	1,839,327	1,418,138

22. Accruals and other liabilities

	1998 million BGL	1997 million BGL
Dividend payable to government	91,450	161,945
Accrued interest payable	2,103	1,336
Salaries and social security payable	28	9
Other payables	789	838
Total	94,370	164,128

23. Capital

	1998 million BGL	1997 million BGL
Balance at 1 January	20,000	200
Capitalization of reserves	-	19,800
Balance at 31 December	20,000	20,000

The total authorized capital of the Bank is BGL 20 billion.

24. Reserves

	Asset revaluation reserve	Foreign exchange reserve	Other reserves	Total
	1998 mln BGL	**1998 mln BGL**	**1998 mln BGL**	**1998 mln BGL**
Balance at 1 January	1998	720,375	64,927	823,360
Net asset revaluation	2,668	-	-	2,668
Transfer of unrealized gold revaluation loss	-	(27,661)	-	(27,661)
Transfer of net foreign exchange loss	-	(15,279)	-	(15,279)
Other transfers	-	938	(46)	892
Profit for the year	-	-	32,131	32,131
Balance at 31 December	40,726	678,373	97,012	816,111
	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 year	-	-	68,845	68,845
Capitalization of reserves	-	-	(19,800)	(19,800)
Balance at 31 December	38,058	720,375	64,927	823,360

25. Related party transactions

(a) Bulgarian Government

International Monetary Fund

All IMF borrowings are undertaken through the Bank. Both the Bank and the government of Bulgaria have borrowings with the IMF. The government's IMF borrowings have been matched by a receivable from the government. In order to eliminate any exchange rate movements, the government receivable is denominated in SDR.

Where the borrowings are on behalf of the government, these borrowings are the liability of the government. The interest on these borrowings is paid by the government. Accordingly no interest revenue is included in these accounts for either the receivable from the government nor is interest expense included on the government's portion of the IMF borrowings, see note 13.

The IMF quota is supported by promissory notes jointly signed by the Bank and the government, see note 19(b).

Government bank accounts

Government budget organizations and other government organizations have current accounts and time deposits with the Bank. No interest is payable on current accounts from government budget organizations, see note 18.

Equity investments

The Bank has participations in various international financial institutions, including the BIS, EBRD and the World Bank, see note 14.

(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, see note 14.

26. Foreign currency positions

The amounts of assets and liabilities held in BGL and in foreign currencies can be analyzed as follows:

	BGL	Foreign currencies	BGL	Foreign currencies
	1998 mln BGL	1998 mln BGL	1997 mln BGL	1997 mln BGL
Assets				
Cash and amounts due from banks	-	2,971,965	-	2,201,432
Gold and other precious metals	-	697,024	-	727,071
Securities	-	1,572,435	-	1,802,318
Loans to banks and other financial institutions	-	1,350	-	2,370
Interest receivable	-	17,877	52	10,903
Receivable from government	-	1,665,949	-	1,632,128
Equity investments and quota in IMF	6,009	1,096,692	2,134	1,119,733
Property, plant and equipment	139,624	-	132,233	-
Other assets	8,760	-	5,148	-
Total assets	154,393	8,023,292	139,567	7,495,955
Liabilities				
Due to banks and other financial institutions	388,869	162,567	620,175	149,133
Government deposits and current accounts	609,271	1,337,833	517,376	1,193,179
Borrowings against Bulgaria's IMF quota	-	1,018,707	-	1,037,162
Borrowings from general resources of IMF	-	1,866,957	-	1,674,802
Other borrowings	17,944	-	16,286	-
Currency in circulation	1,845,056	-	1,419,921	-
Accruals and other liabilities	94,370	-	164,128	-
Total liabilities	2,955,510	4,386,064	2,737,886	4,054,276
Net assets	(2,801,117)	,3,637,228	(2,598,319)	3,441,679

27. Maturity analysis

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

million BGL

	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	2,971,965	-	-	-	-	2,971,965
Gold and other precious metals	200,656	-	-	-	496,368	697,024
Securities	1,438,687	-	-	-	133,748	1,572,435
Loans to banks and other financial institutions	-	-	1 350	-	-	1 350
Interest receivable	3,167	1,548	13,162	-	-	17,877
Receivable from government	22,068	6,087	185,628	1,287,841	164,325	1,665,949
Equity investments and quota in IMF	-	-	-	3,188	1,099,513	1,102,701
Property, plant and equipment	-	-	-	-	139,624	139,624
Other assets	-	-	8,760	-	-	8,760
Total assets	4,636,543	7,635	208,900	1,291,029	2,033,578	8,177,685
Liabilities						
Due to banks and other financial institutions	541,436	-	10,000	-	-	551,436
Government deposits and current accounts	1,940,824	-	-	-	6,280	1,947,104
Borrowings against Bulgaria's IMF quota	183,022	-	-	-	835,685	1,018,707
Borrowings from general resources of IMF	22,068	6,087	185,628	1,488,849	164,325	1,866,957
Other borrowings	17,792	150	-	-	2	17,944
Currency in circulation	-	-	-	3,391	1,841,665	1,845,056
Accruals and other liabilities	2,920	-	91,450	-	-	94,370
Capital	-	-	-	-	20,000	20,000
Reserves	-	-	-	-	816,111	816,111
Total liabilities	2,708,062	6,237	287,078	1,492,240	3,684,068	8,177,685
Maturity surplus / (shortfall)	1,928,481	1,398	(78,108)	(201,211)	(1,650,490)	

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 their 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.

A majority of the 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 their 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 lev to the Deutschemark is fixed in accordance with the Law on the Bulgarian National Bank. At 31 December 1998, the Bank had outstanding forward foreign exchange contracts, see note 9. 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 their 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 values as at the balance sheet date are 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 significant exposure in off-balance-sheet derivative transactions.

29. Financial reporting in hyperinflationary economies

In 1997 the Bulgarian economy was subject to hyperinflation prior to the introduction of the currency board in July 1997. Under IAS 29, Reporting in Hyperinflationary Economies, the financial statements are required to be reported in terms of the measuring unit current at the balance sheet date. In 1997, the Managing Board did not consider the implementation of IAS 29 to be appropriate, as a result the financial statements were qualified.

The economy is now not considered to by hyperinflationary as inflation for the last 12 months has been 1%. The inflation rates published by the National Statistical Institute may be summarized as:

	%
For the year ended 31 December 1998	1
For the six months ended 31 December 1997	16.2
For the year ended 31 December 1997	578.6

Effect on the 1998 financial statements

As the 1997 monetary assets and liabilities were not restated in accordance with IAS 29, the opening net assets in the financial statements do not comply with this standard. The impact on the 1 January 1998 is summarized as:

	Opening balance financial statements million BGL	**Opening balance applying IAS 29 million BGL**
Net assets	843,360	1,626,748

30. Commitments and contingencies

As at 31 December 1998 the Bank had BGL 1 billion of commitments to purchase fixed assets.

The total nominal value of open forward contracts as at 31 December 1998 is BGL 3.4 billion.

The Bank has uncalled capital on its investment in the Bank for International Settlements amounting to 6,000 shares of 2,500 gold francs each.

The Bank received a building valued at BGL 3.7 billion, resulting from the recovery of a bad debt which it has capitalised in its financial statements. However the contract stipulates that a third party creditor may also have a claim to recover the building against a debt owed. The Bank believes the likelihood of such a third party making a claim is remote.

The IMF quota is supported by promissory notes jointly signed by the Bank and the government amounting to BGL 2,962,128 million.

Otherwise, there were no other outstanding guarantees, letters of credit or commitments to purchase or sell either gold, other precious metals or foreign currency.

2. Report on the Execution of BNB Budget

The BNB Budget for 1998 was adopted by BNB Managing Board Resolution No. 535 of 22 December 1997, and was approved by the 38th National Assembly on 15 May 1998 pursuant to Article 86 of the Constitution of the Republic of Bulgaria and Article 48 of the Law on the Bulgarian National Bank. The BNB Budget was based on 1998 macroeconomic estimates used in the agreement with the IMF in October 1997. BNB Budget structure includes two sections and assumes an exchange rate of BGL 1,800 per USD 1 and an expected average annual inflation rate of 37.4% and 16.4% by the year's end.

The BNB Budget contains two autonomous sections: Bank operating expenses including all expenses on the Bank's current activity; and an investment program, including projected investment in long-term tangible and intangible assets.

Operating Expenses

In 1998 projected expenditure on BNB current activity totaled BGL 61,010 million. By the end of 1998 BGL 29,027 million or 47.6% was used. The shortfall in budgeted expenditure is attributable to the lower than projected exchange rate and inflation.

Expenditure made on the currency in circulation accounted for 22.3% of total expenditure and 26.8% of projected budget expenditure for 1998.

Expenses incurred on banknote printing in 1998 included only costs on printing banknotes of BGL 1,000 nominal value, issue 1997. Due to pending redenomination of the lev in 1999, banknotes of BGL 5,000, BGL 10,000, BGL 20,000 and BGL 50,000 nominal value were not printed in 1998. Coins of BGL 100, BGL 200 and BGL 500 were not minted for the same reason. As a result expenditure on currency in circulation decreased.

Expenses on salaries and employee benefits made up 29.4% of total operating expenditure. In accordance with the BNB policy of economizing funds, the BNB management optimized the bank's structure and salary costs were 14% less than projected.

Within operating expenses, those on materials, services and repairs comprised the biggest share: 46% of total operating expenses and 50% of forecast.

Projected funds for materials, heating, power and equipment maintenance and hire charges have not been entirely utilized as BNB's Montana Branch was not opened. To reduce its investment expenses and collect a portion of receivables from commercial banks, the BNB acquired a bank building in the city of Vratza. This building will be used for a BNB branch due to open in 1999.

Other portions of funds remained unused due to the lack of real production in the Banknote Printing Department at the BNB Printing Works. Depreciation expenses were reduced by a more gradual introduction of machines and equipment in the BNB Printing Works. Leaving parts of the Printing Works premises for later completion also contributed to the reduction in expenditure.

Investment Expenses

Budgeted investment expenses totaled BGL 28,503 million. Of this, BGL 6,461 million was spent by the end of 1998. Since the BNB's Montana Branch was not opened, funds amounting to BGL 3,000 million remained unused. Other funds remained unused because the planned refurbishment of the BNB's Plovdiv Branch was cancelled and less than projected costs were incurred for the reconstruction of the BNB's Burgas Branch. Expenses were incurred on the refurbishment of the BNB's main building.

Expenditures on the BNB Printing Works made up the largest share (58.6%) of total investment spending. Equipment for the BNB Printing Works was commissioned in 1998, leaving only contracts on security equipment to be finalized.

During 1998 personal computers and software were purchased, consistent with the bank's equipment rollover program.

Funds of BGL 5,400 million for the introduction of integrated electronic systems in the BNB were not invested in 1998. After consultations with international and Bulgarian experts, it was decided that work on the introduction of these systems should commence in 1999.

EXECUTION OF BNB BUDGET IN 1998

Code	Indicators	Budget forecast for 1998 (million BGL)	Reporting, 31 December 1998 (million BGL)	% of total expenses
SECTION I. BNB OPERATING EXPENSES				
1000	***Currency circulation expenses***	***24,126***	***6,454***	***22.24***
1100	Banknote issue and coin mintage	23,008	6,238	21.50
1500	Fixtures and fittings	342	144	0.50
1600	Banknote destruction	25	0	0.00
1800	Vault costs and other expenses	751	72	0.25
2000	***Salaries and employee benefits***	***9,875***	***8,531***	***29.39***
2100	Pay-roll expenses	8,620	7,362	25.37
2200	Part-time services expenses	1,255	1,169	4.03
3000	***Materials, services, overhauls***	***26,282***	***13,358***	***46.02***
3100	BNB current support expenses	5,405	2,704	9.32
3105	Current support of BNB special vehicles	240	236	0.82
3110	Current expenses on BNB Printing Works	5,259	917	3.16
3600	Security equipment maintenance and hire charges	1,750	526	1.82
3650	Depreciation expenses	8,500	5,937	20.46
3700	Charges paid to Bankservice and BORICA	600	507	1.75
3800	Other expenses	3,175	2,040	7.03
3900	Overhaul expenses	1,353	491	1.70
5000	***BNB social activity expenses***	***727***	***684***	***2.35***
	Total Section I (1000+2000+3000+5000)	**61,010**	**29,027**	**100.00**
SECTION II. INVESTMENT				
4000	***Expenses on fixed assets***	***28,503***	***6,461***	***100.00***
4100	Real estate expenses	10,595	611	9.46
4200	Expenses on currency in circulation equipment	2,172	129	2.00
4300	BNB Printing Works	7,270	3,787	58.62
4310	Expenses on BNB Printing Works reconstruction	3,346	1,910	29.57
4320	Expenses on BNB Printing Works equipment	3,924	1,877	29.06
4400	Expenses on BNB security equipment	250	36	0.56
4500	Expenses on BNB office equipment	1,210	539	8.35
4700	Expenses on BNB computerization	1,606	1,359	21.04
4800	Expenses on BNB integrated systems installation	5,400	0	0.00
	Total Section II	**28,503**	**6,461**	**100.00**

Appendix

Contents

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

GROSS DOMESTIC PRODUCT

Indicators	1996	1997	1998*	1998*	Physical volume index based on 1997	Growth rate on 1997, %
	at current prices, million BGL			at average 1997 prices, million BGL		
Gross added value	1650372	15294482	19203204	15569843	101.8	1.8
By economic sector						
Agriculture	253652	4062698	4045375	4119022	101.4	1.4
Industry	497862	4316306	5508751	4501790	104.3	4.3
Services	898858	6915478	9649078	6949031	100.5	0.5
By type of ownership						
Private		9641477	12241848	10248307	106.3	6.3
Public		5653005	6961356	5321536	94.1	-5.9
Adjustments	98329	1760723	2373816	2087410	118.6	18.6
GDP						
By component of final demand	1748701	17055205	21577020	17657253	103.5	3.5
Final consumption	1547730	14169824	18989004	15235036	107.5	7.5
Individual	1448259	13115372	17227205	14105878	107.6	7.6
Collective	99471	1054452	1761799	1129158	107.1	7.1
Gross capital formation	146863	1941742	3181229	2801509		
In fixed capital	238470	1840974	2495596	2141917	116.4	16.4
Reserve change	-91607	100768	685633	659592		
Balance (exports – imports)	54108	943639	-227979	-428460		
Exports of goods and services	1099950	10555860	9755489	8911042	84.4	-15.6
Imports of goods and services	1045842	9612221	9983468	9339502	97.2	-2.8
Statistical discrepancy			-365234	49168		

*NSI preliminary data for 1998.

Source: NSI.

EMPLOYMENT IN 1997 AND 1998

SECTORS	Year average, persons						Employment, %					
	1997			1998*			1997			1998*		
	Total	Public sector	Private sector	Total	Public sector	Private sector	Total	Public sector	Private sector	Total	Public sector	Private sector
Total	3 157 435	1 412 094	1 745 341	3 106 169	1 284 970	1 821 199	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture, forestry and fishery	800 353	47 180	753 173	796 813	44 972	751 841	25.3	3.3	43.2	25.7	3.5	41.3
Industry	1 010 431	533 860	476 571	957 902	445 208	512 694	32.0	37.8	27.3	30.8	34.6	28.2
Extracting industry	60 540	57 948	2 592	56 188	54 008	2 180	1.9	4.1	0.1	1.8	4.2	0.1
Manufacturing industry	752 401	358 286	394 115	706 470	282 237	424 233	23.8	25.4	22.6	22.7	22	23.3
Electrical energy, gas and water	58 488	58 113	375	58 216	58 061	155	1.9	4.1	0.0	1.9	4.5	0.0
Construction	139 002	59 513	79 489	137 028	50 902	86 126	4.4	4.2	4.6	4.4	4.0	4.7
Services	1 346 651	831 054	515 597	1 351 454	794 790	556 664	42.7	58.9	29.5	43.5	61.9	30.6
Trade and repair	310 369	37 432	272 937	325 984	30 943	295 041	9.8	2.7	15.6	10.5	2.4	16.2
Hotels and public catering	72 136	21 640	50 496	75 825	18 491	57 334	2.3	1.5	2.9	2.4	1.4	3.1
Transport and communications	228 231	161 069	67 162	223 864	151 214	72 650	7.2	11.4	3.8	7.2	11.8	4.0
Finance, credit and insurance	39 968	26 320	13 648	40 808	28 084	12 724	1.3	1.9	0.8	1.3	2.2	0.7
Operations in real estate and business services	98 675	38 797	59 878	96 749	37 456	59 293	3.1	2.7	3.4	3.1	2.9	3.3
State management	78 899	78 899		80 110	80 110		2.5	5.6	0.0	2.6	6.2	0.0
Education	242 605	239 157	3 448	233 049	229 310	3 739	7.7	16.9	0.2	7.5	17.8	0.2
Health care	177 642	176 220	1 422	170 026	168 649	1 377	5.6	12.5	0.1	5.5	13.1	0.1
Other services	98 126	51 520	46 606	105 039	50 533	54 506	3.1	3.6	2.7	3.4	3.9	3.0

* Preliminary data.

Source: NSI.

CONSUMER PRICE INDICES IN 1998
(previous month = 100)

Commodity groups (services)	January	February	March	April	May	June	July	August	September	October	November	December
Consumer price index	102.0	101.7	99.9	100.1	100.5	98.1	98.5	99.1	103.0	99.7	99.1	99.3
Food	103.2	102.3	100.3	99.6	100.5	96.7	96.9	97.2	103.1	99.0	98.1	98.6
Nonfood	99.7	100.1	98.2	100.5	100.0	99.3	99.7	100.7	102.5	99.7	99.8	99.9
Services	101.7	102.7	101.5	101.1	101.2	101.2	102.2	102.5	103.8	101.5	100.5	100.2
Canteens, restaurants and cafes	101.9	102.8	100.9	101.4	100.0	98.5	99.7	100.2	101.0	103.3	99.5	100.8
Food	103.3	102.3	100.3	99.6	100.4	96.7	96.8	97.1	103.1	99.1	98.1	98.6
Alcoholic drinks	99.7	100.8	100.7	103.2	103.4	101.2	102.1	102.4	100.9	100.4	100.5	101.3
Tobacco products	100.6	100.0	100.0	99.7	100.6	100.7	100.0	101.0	101.0	100.2	100.0	100.1
Renting and house maintenance	101.9	108.1	102.7	100.8	100.3	102.0	103.7	110.7	103.5	101.6	100.3	100.5
Lighting, heating and energy	100.2	100.2	99.9	100.0	100.1	100.2	100.3	100.4	108.3	100.2	100.0	100.1
Home furniture	100.7	100.9	100.7	100.1	99.4	99.7	99.8	100.4	99.1	99.8	99.5	100.0
Clothing, footwear and accessories	98.2	99.1	100.7	101.3	100.7	98.9	98.8	100.7	103.1	99.1	99.7	99.2
Hygiene and health care	100.7	101.1	100.4	101.3	99.8	98.9	99.8	101.0	100.5	100.1	101.0	100.5
Education and leisure	104.3	102.2	103.3	99.5	100.6	101.1	101.7	101.8	102.9	101.5	100.2	101.2
Transport and communications	100.7	101.1	93.6	101.5	101.4	100.4	102.3	100.3	99.9	101.8	100.2	99.8
Other	104.4	110.4	101.7	103.4	100.9	107.4	106.6	99.9	99.7	99.8	103.1	101.5

Source: NSI.

CONSUMER PRICE INDICES IN 1998
(December 1997 = 100)

Commodity groups (services)	January	February	March	April	May	June	July	August	September	October	November	December
Consumer price index	102.0	101.7	99.9	100.1	100.5	98.1	98.5	99.1	103.0	99.7	99.1	99.3
Food	103.2	105.5	105.8	105.4	106.0	102.4	99.2	96.4	99.4	98.4	96.5	95.2
Nonfood	99.7	99.8	98.0	98.5	98.4	97.8	97.4	98.1	100.5	100.2	100.0	99.9
Services	101.7	104.4	106.0	107.2	108.5	109.8	112.2	115.1	119.5	121.3	122.0	122.2
Canteens, restaurants and cafes	101.9	104.7	105.6	107.1	107.1	105.5	105.2	105.4	106.5	110.0	109.4	110.3
Food	103.3	102.3	100.3	99.6	100.4	96.7	96.8	97.1	103.1	99.1	98.1	98.6
Alcoholic drinks	99.7	100.8	100.7	103.2	103.4	101.2	102.1	102.4	100.9	100.4	100.5	101.3
Tobacco products	100.6	100.0	100.0	99.7	100.6	100.7	100.0	101.0	101.0	100.2	100.0	100.1
Renting and house maintenance	101.9	108.1	102.7	100.8	100.3	102.0	103.7	110.7	103.5	101.6	100.3	100.5
Lighting, heating and energy	100.2	100.2	99.9	100.0	100.1	100.2	100.3	100.4	108.3	100.2	100.0	100.1
Home furniture	100.7	100.9	100.7	100.1	99.4	99.7	99.8	100.4	99.1	99.8	99.5	100.0
Clothing, footwear and accessories	98.2	99.1	100.7	101.3	100.7	98.9	98.8	100.7	103.1	99.1	99.7	99.2
Hygiene and health care	100.7	101.1	100.4	101.3	99.8	98.9	99.8	101.0	100.5	100.1	101.0	100.5
Education and leisure	104.3	102.2	103.3	99.5	100.6	101.1	101.7	101.8	102.9	101.5	100.2	101.2
Transport and communications	100.7	101.1	93.6	101.5	101.4	100.4	102.3	100.3	99.9	101.8	100.2	99.8
Other	104.4	110.4	101.7	103.4	100.9	107.4	106.6	99.9	99.7	99.8	103.1	101.5

Source: NSI.

EXPORTS BY COMMODITY GROUP

Commodity groups*	January – December				Change on the previous year	
	1997		1998			
	million USD	share, %	million USD	share, %	million USD	%
Textile, leather materials, clothing, footwear and other consumer goods including:	800.0	16.2	862.6	20.1	62.6	7.8
Chapter 62. Clothing and accessories to clothing other than knitwear	221.8	4.5	284.7	6.6	62.9	28.4
Chapter 61. Clothing and accessories to clothing from knitwear	128.8	2.6	162.3	3.8	33.4	25.9
Chapter 64. Shoes, gaiters and similar articles; their components	121.3	2.5	112.1	2.6	-9.2	-7.6
Chapter 94. Furniture; medical furniture; sleeping accessories and similar articles	42.6	0.9	49.5	1.2	6.9	16.2
Base metals and their products including:	1050.8	21.3	844.1	19.7	-206.7	-19.7
Chapter 72. Cast-iron, iron and steel	505.6	10.2	413.2	9.6	-92.4	-18.3
Chapter 74. Copper and its products	286.3	5.8	208.9	4.9	-77.4	-27.0
Chapter 73. Cast-iron, iron and steel products	64.0	1.3	72.2	1.7	8.2	12.8
Chapter 79. Zink and its products	80.1	1.6	67.1	1.6	-13.0	-16.2
Animal and vegetable products, food, drink and tobacco including:	701.9	14.2	689.9	16.1	-12.0	-1.7
Chapter 22. Soft and alcoholic drinks and vinegars	145.4	2.9	110.4	2.6	-35.0	-24.1
Chapter 24. Tobacco and processed substitutes	164.8	3.3	90.8	2.1	-74.0	-44.9
Chapter 10. Cereals	14.1	0.3	144.1	3.4	130.0	922.3
Chapter 12. Oil-bearing seeds and fruits; miscellaneous seeds	37.8	0.8	54.8	1.3	16.9	44.8
Machines, transport facilities, appliances, tools and weapons including:	720.4	14.6	686.0	16.0	-34.4	-4.8
Chapter 84. Nuclear reactors, boilers, machines, appliances and machinery; spare parts	262.7	5.3	269.0	6.3	6.3	2.4
Chapter 85. Electrical machines and appliances	179.2	3.6	139.2	3.2	-40.0	-22.3
Chapter 89. Sea and river shipping	75.8	1.5	78.4	1.8	2.6	3.4
Chemical products, plastics and rubber including:	914.0	18.5	640.1	14.9	-273.8	-30.0
Chapter 29. Organic chemical products	185.9	3.8	104.1	2.4	-81.8	-44.0
Chapter 28. Inorganic chemical products	117.7	2.4	103.5	2.4	-14.2	-12.1
Chapter 39. Plastics and plastic products	124.1	2.5	96.9	2.3	-27.2	-21.9
Chapter 33. Essential oils, perfumes and toiletries	94.1	1.9	82.2	1.9	-11.9	-12.7
Chapter 31. Fertilizers	172.9	3.5	80.5	1.9	-92.5	-53.5
Chapter 30. Pharmaceuticals	121.7	2.5	80.3	1.9	-41.4	-34
Chapter 40. Rubber and rubber products	48.2	1.0	50.7	1.2	2.5	5.1
Mineral products and fuels including:	512.5	10.4	345.7	8.1	-166.8	-32.5
Chapter 27. Mineral fuels, mineral oils and distilled products	375.1	7.6	267.8	6.2	-107.3	-28.6
Chapter 25. Salt; sulphur; soil and stones; plaster, lime and cement	75.0	1.5	47.9	1.1	-27.0	-36.0
Wood, paper, earthenware and glass products including:	240.1	4.9	224.5	5.2	-15.6	-6.5
Chapter 44. Wood and wood products; wood coal	82.2	1.7	88.0	2.0	5.8	7.1
EXPORTS, TOTAL (FOB)	4939.7	100.0	4293.0	100.0	-646.7	-13.1

* Commodity groups include chapters from the Harmonized System for Commodity Description and Coding.
Note: Final data for 1997, for 1998 – preliminary data as of 31 March 1999.

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

IMPORTS BY COMMODITY GROUP

Commodity groups*	January – December				Change on the previous year	
	1997		1998			
	million USD	share, %	million USD	share, %	million USD	%
Mineral products and fuels						
including:	1793.4	36.4	1399.2	28.0	-394.2	-22
Chapter 27. Mineral fuels, mineral oils and distilled products	1499.7	30.4	1088.6	21.8	-411.1	-27.4
Chapter 26. Ores, slags and ashes	159.8	3.2	191.3	3.8	31.5	19.7
Machines, transport facilities, appliances, tools and weapons						
including:	892.0	18.1	1160.1	23.2	268.0	30.0
Chapter 84. Nuclear reactors, boilers, machines, appliances and machinery; spare parts	447.2	9.1	490.5	9.8	43.3	9.7
Chapter 85. Electrical machines and appliances	199.8	4.1	264.2	5.3	64.4	32.2
Chapter 87. Automobile transport	126.6	2.6	238.2	4.8	111.6	88.1
Chapter 90. Optical instruments and appliances	78.2	1.6	97.6	2.0	19.5	24.9
Textile, leather materials, clothing, footwear and other consumer goods						
including:	709.3	14.4	765.3	15.3	56.0	7.9
Chapter 52. Cotton	124.5	2.5	118.2	2.4	-6.4	-5.1
Chapter 55. Staple synthetic and artificial fibres	108.9	2.2	103.9	2.1	-4.9	-4.5
Chapter 61. Clothing and accessories to clothing from knitwear	52.9	1.1	84.8	1.7	31.8	60.1
Chapter 54. Synthetic or artificial fibres	51.3	1.0	63.5	1.3	12.1	23.7
Chemical products, plastics and rubber						
including:	601.0	12.2	738.9	14.8	138.0	23.0
Chapter 28. Inorganic chemical products	89.5	1.8	133.6	2.7	44.1	49.3
Chapter 39. Plastics and plastic products	104.4	2.1	127.9	2.6	23.4	22.4
Chapter 30. Pharmaceuticals	82.3	1.7	100.1	2.0	17.7	21.5
Chapter 38. Miscellaneous products of chemical industry	68.8	1.4	82.7	1.7	13.9	20.1
Chapter 29. Organic chemical products	96.7	2.0	76.9	1.5	-19.8	-20.5
Chapter 40. Rubber and rubber products	54.1	1.1	71.4	1.4	17.3	32.0
Animal and vegetable products, food, drink and tobacco						
including:	428.3	8.7	382.5	7.7	-45.8	-10.7
Chapter 17. Sugar and sugar products	107.3	2.2	63.4	1.3	-43.9	-40.9
Base metals and their products						
including:	303.8	6.2	321	6.4	17.3	5.7
Chapter 72. Cast-iron, iron and steel	106.7	2.2	132.1	2.6	25.4	23.8
Chapter 73. Cast-iron, iron and steel products	68.5	1.4	69.2	1.4	0.7	1.0
Chapter 76. Aluminium and aluminium products	68.1	1.4	59.1	1.2	-9.0	-13.2
Wood, paper, earthenware and glass products						
including:	204.2	4.1	228.1	4.6	23.9	11.7
Chapter 48. Paper and cardboard; products of cellulose, paper and cardboard	100.4	2.0	126.7	2.5	26.3	26.2
IMPORTS, TOTAL (CIF)	4932.0	100.0	4995.2	100.0	63.2	1.3
(-) Freight expenditure	372.7		386.6			
IMPORTS, TOTAL (FOB)	4559.3		4608.6		49.3	1.1

* Commodity groups include chapters from the Harmonized System for Commodity Description and Coding.
Note: Final data for 1997, for 1998 – preliminary data as of 31 March 1999.

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

EXPORTS BY USE

Commodity groups	January – December				Change on the previous year	
	1997		1998			
	million USD	share, %	million USD	share, %	million USD	%
Consumer goods	1393.8	28.2	1310.5	30.5	-83.3	-6.0
Food	290.8	5.9	232.2	5.4	-58.6	-20.2
Cigarettes	128.0	2.6	59.7	1.4	-68.4	-53.4
Drink	141.6	2.9	141.9	3.3	0.3	0.2
Clothing and footwear	446.7	9.0	534.9	12.5	88.2	19.8
Medical goods and cosmetics	194.1	3.9	156.9	3.7	-37.2	-19.2
Housing and home furniture	87.2	1.8	90.3	2.1	3.1	3.5
Other	105.4	2.1	94.6	2.2	-10.8	-10.2
Raw and other materials	2429.8	49.2	2016.5	47.0	-413.3	-17.0
Cast-iron, iron and steel	505.6	10.2	413.2	9.6	-92.4	-18.3
Nonferrous metals	426.8	8.6	308.4	7.2	-118.4	-27.8
Chemical products	301.8	6.1	200.4	4.7	-101.4	-33.6
Plastics, rubber	167.6	3.4	142.7	3.3	-24.9	-14.8
Fertilizers	172.9	3.5	80.5	1.9	-92.5	-53.5
Textile materials	226.4	4.6	196.2	4.6	-30.3	-13.4
Food feedstocks	106.5	2.2	157.6	3.7	51.1	48.0
Wood and paper, cardboard	125.5	2.5	130.8	3.0	5.2	4.1
Cement	50.7	1.0	24.5	0.6	-26.2	-51.7
Tobacco	36.8	0.7	50.7	1.2	13.9	37.8
Other	309.0	6.3	311.6	7.3	2.6	0.8
Investment goods	727.5	14.7	695.3	16.2	-32.2	-4.4
Machines, tools and appliances	204.0	4.1	205.2	4.8	1.2	0.6
Electrical machines	83.3	1.7	66.4	1.5	-16.8	-20.2
Transportation facilities	88.8	1.8	96.0	2.2	7.2	8.1
Spare parts and equipment	128.3	2.6	107.5	2.5	-20.8	-16.2
Other	223.2	4.5	220.2	5.1	-2.9	-1.3
Nonenergy goods, total	4551.2	92.1	4022.4	93.7	-528.8	-11.6
Energy resources	388.5	7.9	270.6	6.3	-117.9	-30.3
Oil products	264.7	5.4	148.5	3.5	-116.3	-43.9
Electricity	106.7	2.2	115.8	2.7	9.1	8.5
Other	17.1	0.3	6.4	0.1	-10.7	-62.8
EXPORTS, TOTAL (FOB)	4939.7	100.0	4293.0	100.0	-646.7	-13.1

Note: Final data for 1997, for 1998 – preliminary data as of 31 March 1999.

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

IMPORTS BY USE

Commodity groups	January – December 1997		January – December 1998		Change on the previous year	
	million USD	share, %	million USD	share, %	million USD	%
Consumer goods	514.8	10.4	729.8	14.6	215.0	41.8
Food, drink and cigarettes	139.9	2.8	192.1	3.8	52.2	37.3
Housing and home furniture	67.2	1.4	91.8	1.8	24.7	36.8
Medical goods and cosmetics	95.0	1.9	136.9	2.7	42.0	44.2
Clothing and footwear	105.5	2.1	152.9	3.1	47.4	44.9
Automobiles	27.3	0.6	46.2	0.9	18.9	69.3
Other	79.9	1.6	109.8	2.2	29.9	37.4
Raw and other materials	1984.6	40.2	2044.5	40.9	59.9	3.0
Ores	159.8	3.2	191.3	3.8	31.5	19.7
Cast-iron, iron and steel	106.7	2.2	132.1	2.6	25.4	23.8
Other metals	54.0	1.1	41.6	0.8	-12.3	-22.8
Textile materials	490.5	9.9	499.9	10.0	9.4	1.9
Wood and paper, cardboard	118.6	2.4	139.5	2.8	20.9	17.6
Chemical products	251.0	5.1	289.1	5.8	38.1	15.2
Plastics, rubber	155.8	3.2	193.8	3.9	37.9	24.3
Food feedstocks	240.4	4.9	128.3	2.6	-112.0	-46.6
Leather and furs	60.2	1.2	46.9	0.9	-13.3	-22.0
Tobacco	28.6	0.6	34.4	0.7	5.8	20.2
Other	319.1	6.5	347.6	7.0	28.5	8.9
Investment goods	857.2	17.4	1069.6	21.4	212.3	24.8
Machines, tools and appliances	356.1	7.2	384.5	7.7	28.4	8.0
Electrical machines	116.3	2.4	161.9	3.2	45.6	39.2
Transportation facilities	91.0	1.8	173.2	3.5	82.2	90.3
Spare parts and equipment	143.6	2.9	180.0	3.6	36.4	25.3
Other	150.3	3.0	170.0	3.4	19.8	13.2
Nonenergy goods, total	3356.6	68.1	3844.0	77.0	487.3	14.5
Energy resources	1575.3	31.9	1151.2	23.0	-424.1	-26.9
Fuels	1518.9	30.8	1074.5	21.5	-444.5	-29.3
Crude oil	771.2	15.6	507.6	10.2	-263.6	-34.2
Coal	169.9	3.4	163.6	3.3	-6.3	-3.7
Natural gas	483.1	9.8	318.0	6.4	-165.1	-34.2
Other	94.8	1.9	85.3	1.7	-9.5	-10.0
Other	56.4	1.1	76.7	1.5	20.3	36.0
Oils	56.4	1.1	76.7	1.5	20.3	36.0
IMPORTS, TOTAL (CIF)	4932.0	100.0	4995.2	100.0	63.2	1.3

Note: Final data for 1997, for 1998 – preliminary data as of 31 March 1999.

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

EXPORTS BY MAJOR TRADING PARTNER AND REGION

Countries	January – December				Change on the previous year	
	1997		1998			
	million USD	share, %	million USD	share, %	million USD	%
European Union, incl.:	2135.9	43.2	2135.1	49.7	-0.8	0.0
Italy	577.8	11.7	544.3	12.7	-33.5	-5.8
Germany	469.0	9.5	448.7	10.5	-20.3	-4.3
Greece	407.1	8.2	377.1	8.8	-30.0	-7.4
Belgium	76.4	1.5	152.8	3.6	76.4	100.0
France	133.5	2.7	146.9	3.4	13.4	10.0
Spain	129.2	2.6	121.0	2.8	-8.2	-6.4
United Kingdom	131.0	2.7	108.1	2.5	-23.0	-17.5
Netherlands	75.7	1.5	79.2	1.8	3.5	4.6
Austria	54.2	1.1	71.0	1.7	16.7	30.8
EFTA	44.4	0.9	35.3	0.8	-9.1	-20.5
Other OECD countries, incl.: [1]	666.2	13.5	515.7	12.0	-150.5	-22.6
Turkey	445.2	9.0	341.3	7.9	-104.0	-23.4
USA	129.4	2.6	111.3	2.6	-18.1	-14.0
Japan	39.6	0.8	33.0	0.8	-6.6	-16.8
Balkan Countries, incl.: [2]	292.1	5.9	236.0	5.5	-56.2	-19.2
Macedonia	98.1	2.0	98.0	2.3	-0.1	-0.1
Yugoslavia	124.8	2.5	95.6	2.2	-29.2	-23.4
CEFTA, incl.: [3]	138.0	2.8	208.3	4.9	70.2	50.9
Poland	29.7	0.6	55.3	1.3	25.7	86.6
Romania	37.5	0.8	52.8	1.2	15.3	40.8
Hungary	23.4	0.5	33.3	0.8	10.0	42.7
Slovenia	14.0	0.3	28.7	0.7	14.8	105.6
Slovakia	15.0	0.3	22.1	0.5	7.1	47.4
Czech Republic	18.6	0.4	16.0	0.4	-2.6	-14.0
Former USSR countries, incl.:	882.8	17.9	544.6	12.7	-338.2	-38.3
Russia	392.6	7.9	234.1	5.5	-158.5	-40.4
Ukraine	147.0	3.0	113.6	2.6	-33.4	-22.7
Georgia	123.0	2.5	67.6	1.6	-55.4	-45.0
Other countries, incl.:	780.3	15.8	618.1	14.4	-162.1	-20.8
Southeast Asian countries [4]	97.4	2.0	30.8	0.7	-66.6	-68.4
EXPORTS, TOTAL (FOB)	4939.7	100.0	4293.0	100.0	-646.7	-13.1

[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.
[4] Korea, Malaysia, Thailand, Philippines and Indonesia are included.

Note: Final data for 1997, for 1998 – preliminary data as of 31 March 1999.

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

IMPORTS BY MAJOR TRADING PARTNER AND REGION

Countries	January – December				Change on the previous year	
	1997		1998			
	million USD	share, %	million USD	share, %	million USD	%
European Union, incl.:	1860.6	37.7	2248.4	45.0	387.8	20.8
Germany	580.0	11.8	686.1	13.7	106.1	18.3
Italy	353.9	7.2	385.1	7.7	31.2	8.8
Greece	207.7	4.2	295.1	5.9	87.5	42.1
France	158.2	3.2	227.1	4.5	69.0	43.6
Austria	119.8	2.4	140.8	2.8	21.0	17.5
United Kingdom	128.8	2.6	120.7	2.4	-8.0	-6.2
Netherlands	91.7	1.9	102.3	2.0	10.6	11.5
Belgium	62.0	1.3	88.0	1.8	26.0	41.9
EFTA, incl.:	88.4	1.8	79.6	1.6	-8.8	-10.0
Switzerland	78.9	1.6	71.3	1.4	-7.7	-9.7
Other OECD countries, incl.: [1]	349.2	7.1	407.0	8.1	57.8	16.6
USA	184.9	3.7	197.8	4.0	12.9	7.0
Turkey	102.5	2.1	131.2	2.6	28.7	28.0
Japan	37.2	0.8	41.9	0.8	4.8	12.8
Balkan countries	95.8	1.9	82.3	1.6	-13.5	-14.1
CEFTA, incl.: [3]	224.7	4.6	279.4	5.6	54.8	24.4
Czech Republic	63.5	1.3	96.5	1.9	33.0	51.9
Romania	28.0	0.6	58.2	1.2	30.2	107.9
Poland	57.4	1.2	43.0	0.9	-14.4	-25.2
Hungary	42.9	0.9	37.1	0.7	-5.8	-13.4
Slovakia	21.2	0.4	26.4	0.5	5.3	24.9
Slovenia	11.7	0.2	18.2	0.4	6.5	55.7
Former USSR countries, incl.:	1621.7	32.9	1250.0	25.0	-371.8	-22.9
Russia	1382.2	28.0	1003.2	20.1	-379.0	-27.4
Ukraine	182.0	3.7	193.6	3.9	11.7	6.4
Other countries, incl.:	691.6	14.0	648.5	13.0	-43.1	-6.2
Iraq	43.9	0.9	58.5	1.2	14.6	33.4
Southeast Asian countries [4]	43.7	0.9	85.1	1.7	41.4	94.6
IMPORTS, TOTAL (CIF)	4932.0	100.0	4995.2	100.0	63.2	1.3

[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.
[4] Korea, Malaysia, Thailand, Philippines and Indonesia are included.

Note: Final data for 1997, for 1998 – preliminary data as of 31 March 1999.

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

BALANCE OF PAYMENTS*

(million USD)

	1997 Total	1998 Jan.	Feb.	March	I quarter	Apr.	May	June	II quarter	July	Aug.	Sep.	III quarter	Oct.	Nov.	Dec.	IV quarter	Total
A. Current Account [1]	**426.7**	**-149.5**	**98.8**	**-38.1**	**-88.8**	**62.3**	**-61.4**	**1.1**	**2.0**	**-76.0**	**22.2**	**-14.4**	**-68.2**	**-25.1**	**-48.9**	**-22.1**	**-96.1**	**-251.1**
Goods: credit (FOB)	4939.7	335.4	408.8	359.2	1103.4	361.5	357.7	393.8	1113.0	370.6	346.1	310.7	1027.3	361.0	351.7	336.6	1049.3	4293.0
Goods: debit (FOB)	-4559.3	-374.0	-334.5	-393.3	-1101.8	-339.7	-429.5	-413.4	-1182.6	-416.8	-382.2	-332.2	-1131.2	-384.2	-413.9	-394.8	-1193.0	-4608.6
Trade balance [2]	*380.4*	*-38.7*	*74.3*	*-34.1*	*1.6*	*21.8*	*-71.8*	*-19.5*	*-69.6*	*-46.3*	*-36.1*	*-21.5*	*-103.9*	*-23.3*	*-62.2*	*-58.3*	*-143.7*	*-315.6*
Services: credit	1337.5	95.6	80.3	94.2	270.2	95.4	91.0	111.5	297.9	145.6	151.6	98.4	395.6	97.3	87.6	106.6	291.4	1255.0
Transportation [3]	448.9	28.5	30.7	38.8	98.0	36.5	35.1	40.7	112.4	49.0	48.4	35.4	132.9	37.0	34.3	33.8	105.1	448.4
Travel [4]	369.0	29.3	25.7	28.5	83.5	28.2	31.5	41.5	101.3	64.6	66.3	38.6	169.5	30.9	25.9	26.1	82.9	437.2
Other services	519.6	37.9	23.8	27.0	88.7	30.6	24.4	29.2	84.3	31.9	36.8	24.4	93.2	29.3	27.3	46.7	103.3	369.4
Services: debit	-1171.2	-87.6	-72.1	-101.1	-260.8	-83.2	-96.0	-96.4	-275.6	-96.1	-87.8	-89.1	-272.9	-113.2	-93.8	-90.7	-297.7	-1107.1
Transportation [3]	-505.7	-41.5	-37.7	-44.0	-123.3	-39.5	-48.0	-45.9	-133.5	-47.3	-44.9	-40.1	-132.3	-43.8	-44.4	-42.2	-130.4	-519.4
Travel [4]	-221.6	-15.9	-15.2	-18.6	-49.7	-19.0	-19.6	-18.5	-57.1	-20.2	-21.2	-20.5	-61.8	-19.1	-17.2	-16.4	-52.7	-221.4
Other services	-443.9	-30.2	-19.1	-38.5	-87.8	-24.7	-28.3	-31.9	-85.0	-28.7	-21.6	-28.5	-78.9	-50.3	-32.2	-32.2	-114.7	-366.3
Services, net	*166.3*	*8.0*	*8.2*	*-6.9*	*9.3*	*12.2*	*-4.9*	*15.0*	*22.3*	*49.4*	*63.9*	*9.3*	*122.6*	*-15.9*	*-6.2*	*15.8*	*-6.3*	*147.9*
Goods and nonfactor services, net	*546.7*	*-30.6*	*82.6*	*-41.0*	*10.9*	*33.9*	*-76.7*	*-4.5*	*-47.3*	*3.2*	*27.7*	*-12.2*	*18.7*	*-39.2*	*-68.4*	*-42.5*	*-150.1*	*-167.7*
Income: credit	210.6	41.9	29.7	14.4	86.0	23.8	15.6	15.6	55.0	36.0	18.8	22.6	77.4	16.9	16.7	24.0	57.6	276.0
Income: debit	-567.5	-177.4	-32.3	-35.9	-245.5	-9.5	-17.2	-29.8	-56.5	-141.3	-36.8	-36.8	-214.9	-20.4	-21.1	-31.0	-72.5	-589.5
Income, net	*-356.8*	*-135.5*	*-2.6*	*-21.5*	*-159.5*	*14.3*	*-1.6*	*-14.2*	*-1.5*	*-105.3*	*-18.1*	*-14.1*	*-137.5*	*-3.5*	*-4.4*	*-7.0*	*-14.9*	*-313.5*
Goods, nonfactor services and income, net	*189.9*	*-166.1*	*80.0*	*-62.5*	*-148.7*	*48.2*	*-78.3*	*-18.7*	*-48.8*	*-102.1*	*9.7*	*-26.3*	*-118.7*	*-42.7*	*-72.8*	*-49.5*	*-165.0*	*-481.2*
Current transfers, net [5]	*236.8*	*16.6*	*18.9*	*24.4*	*59.9*	*14.1*	*17.0*	*19.8*	*50.8*	*26.0*	*12.5*	*12.0*	*50.5*	*17.6*	*23.9*	*27.4*	*68.9*	*230.1*
Current transfers, credit	275.5	19.6	20.7	27.4	67.7	17.8	19.9	22.9	60.7	28.5	14.7	15.0	58.2	19.1	25.4	30.5	75.0	261.6
Current transfers, debit	-38.7	-3.0	-1.9	-3.0	-7.9	-3.7	-3.0	-3.2	-9.8	-2.5	-2.2	-3.0	-7.7	-1.6	-1.5	-3.1	-6.1	-31.5
B. Capital Account [1, 6]	**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**	**0.0**
Groups A and B, total	*426.7*	*-149.5*	*98.8*	*-38.1*	*-88.8*	*62.3*	*-61.4*	*1.1*	*2.0*	*-76.0*	*22.2*	*-14.4*	*-68.2*	*-25.1*	*-48.9*	*-22.1*	*-96.1*	*-251.1*
C. Financial account [1]	**598.6**	**53.7**	**-19.7**	**147.3**	**181.2**	**-194.9**	**59.2**	**-2.6**	**-138.3**	**58.9**	**-130.0**	**87.9**	**16.8**	**-8.9**	**25.7**	**142.1**	**158.8**	**218.6**
Direct investment abroad	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.1
Direct investment in Bulgaria [7]	504.8	105.6	35.2	46.0	186.9	12.4	21.3	9.4	43.2	25.5	21.7	13.3	60.6	22.3	49.4	39.1	110.7	401.3
Portfolio investment – assets	-13.6	0.9	-18.0	-15.2	-32.4	-22.6	-7.4	0.8	-29.2	-1.7	-4.1	-4.8	-10.6	-5.6	-7.1	-22.5	-35.2	-107.4
Shares	-8.5	0.9	-9.1	-7.7	-15.9	-0.7	-2.9	4.3	0.7	-0.3	-0.1	1.0	0.6	-0.6	-3.1	7.6	3.9	-10.6
Bonds	-5.1	0.0	-9.0	-7.5	-16.5	-21.9	-4.5	-3.4	-29.9	-1.4	-4.0	-5.9	-11.3	-5.0	-4.0	-30.2	-39.1	-96.8
Portfolio investment – liabilities	146.4	-12.3	-0.8	52.7	39.7	-5.7	-24.7	-29.3	-59.7	-41.3	-48.3	-31.0	-120.6	69.4	-15.9	-24.8	28.7	-112.0
Shares	52.0	10.5	3.5	5.5	19.5	1.3	1.2	4.8	7.2	-4.8	-0.8	0.0	-5.6	0.1	0.1	-2.1	-2.0	19.3
Bonds	94.4	-22.8	-4.3	47.3	20.1	-7.0	-26.0	-34.0	-67.0	-36.5	-47.5	-31.0	-115.1	69.4	-16.0	-22.8	30.6	-131.3

(continued)

(continued) (million USD)

	1997 Total	1998 Jan.	Feb.	March	I quarter	Apr.	May	June	II quarter	July	Aug.	Sep.	III quarter	Oct.	Nov.	Dec.	IV quarter	Total
Other investment – assets	-54.0	-20.1	-28.4	20.3	-28.2	15.0	68.3	10.6	94.0	41.6	-101.5	169.6	109.7	-51.4	0.3	128.3	77.1	252.6
Loans	139.3	-13.6	0.2	0.1	-13.3	0.1	1.1	2.1	3.3	-16.7	-0.4	1.6	-15.5	3.3	13.1	6.3	22.8	-2.6
General government	129.2	-20.7	-3.2	0.0	-23.9	0.0	1.1	0.0	1.1	-16.1	-0.4	0.3	-16.2	-0.1	13.1	6.3	19.3	-19.7
Commercial banks	0.5	0.0	0.8	0.0	0.8	0.0	0.0	2.0	2.0	0.0	0.0	0.1	0.1	3.4	0.0	0.0	3.4	6.3
Other sectors	9.6	7.1	2.7	0.1	9.9	0.1	0.0	0.1	0.2	-0.6	0.0	1.3	0.7	0.0	0.0	0.0	0.0	10.8
Currency and deposits	-421.4	-42.2	-10.4	40.4	-12.2	-0.5	36.6	25.5	61.6	24.9	-123.8	89.2	-9.7	-69.8	2.7	100.1	33.0	72.8
Commercial banks	-435.9	-36.5	-6.1	32.4	-10.2	-0.6	37.5	24.7	61.6	25.0	-128.3	89.3	-14.0	-66.8	-2.4	101.2	32.0	69.4
Other sectors	14.6	-5.7	-4.2	8.0	-2.0	0.1	-1.0	0.9	0.0	-0.1	4.4	-0.1	4.2	-3.0	5.2	-1.1	1.0	3.3
Other currency and deposits[8]	256.1	41.5	-19.1	-12.1	10.4	21.5	24.5	-16.6	29.4	32.1	11.1	50.7	93.9	29.2	-16.3	8.7	21.5	155.2
Other assets	-27.8	-5.8	0.8	-8.1	-13.1	-6.1	6.1	-0.4	-0.4	1.3	11.6	28.1	41.0	-14.1	0.7	13.2	-0.2	27.3
Other investment – liabilities	13.2	-20.5	-7.7	43.5	15.3	-193.9	1.7	5.7	-186.6	34.7	2.2	-59.3	-22.3	-43.7	-0.9	22.1	-22.5	-216.0
Trade credits, net	16.2	0.4	1.8	-1.7	0.5	-0.5	3.5	1.0	4.0	6.6	0.7	-0.5	6.8	0.7	-2.5	-0.3	-2.1	9.3
Loans	-10.2	7.8	-6.3	45.6	47.1	-196.4	0.3	11.4	-184.7	20.2	-10.4	-57.3	-47.5	34.1	0.2	4.9	39.3	-145.8
General government	53.6	5.9	11.9	0.7	18.6	-193.4	3.4	-0.9	-190.8	9.8	0.8	-56.5	-46.0	1.9	1.3	19.8	23.0	-195.1
Commercial banks	-58.5	0.0	0.0	13.5	13.5	0.0	-0.2	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	-0.1	13.1
Other sectors	-5.4	1.8	-18.2	31.4	15.0	-3.0	-2.9	12.3	6.4	10.4	-11.2	-0.8	-1.5	32.2	-1.0	-14.9	16.4	36.2
Deposits	16.3	-28.7	-3.3	-0.4	-32.3	2.9	-2.1	-6.7	-5.9	7.9	12.0	-1.5	18.4	-78.5	1.3	17.5	-59.7	-79.5
Commercial banks	16.3	-28.7	-3.3	-0.4	-32.3	2.9	-2.1	-6.7	-5.9	7.9	12.0	-1.5	18.4	-78.5	1.3	17.5	-59.7	-79.5
Other liabilities	33.3	0.0	0.1	3.0	3.1	11.5	0.2	2.8	14.5	0.0	0.1	3.0	3.2	12.6	0.0	-36.7	-24.1	-3.4
General government	0.0	0.0	0.0	2.5	2.5	11.5	0.0	2.5	14.0	0.0	0.0	2.6	2.6	11.3	0.0	-37.7	-26.4	-7.3
Commercial banks	33.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	0.0	0.0	1.2	1.2
Other sectors	0.0	0.0	0.1	0.5	0.6	0.0	0.2	0.2	0.5	0.0	0.1	0.4	0.6	0.1	0.0	1.0	1.1	2.7
Groups A, B and C, total	*1025.3*	*-95.9*	*79.1*	*109.3*	*92.5*	*-132.6*	*-2.1*	*-1.5*	*-136.2*	*-17.2*	*-107.8*	*73.5*	*-51.5*	*-34.1*	*-23.2*	*120.0*	*62.7*	*-32.6*
D. Errors and omissions	**258.0**	**-53.9**	**-1.9**	**34.2**	**-21.6**	**-17.1**	**97.7**	**37.6**	**118.1**	**37.5**	**27.5**	**-41.0**	**24.0**	**34.1**	**-59.3**	**-26.7**	**-51.9**	**68.6**
OVERALL BALANCE (Groups A, B, C and D)	**1283.3**	**-149.7**	**77.2**	**143.4**	**70.8**	**-149.6**	**95.5**	**36.0**	**-18.1**	**20.3**	**-80.3**	**32.5**	**-27.5**	**0.0**	**-82.5**	**93.3**	**10.8**	**36.0**
E. Reserves and other financing	**-1283.3**	**149.7**	**-77.2**	**-143.4**	**-70.8**	**149.6**	**-95.5**	**-36.0**	**18.1**	**-20.3**	**80.3**	**-32.5**	**27.5**	**0.0**	**82.5**	**-93.3**	**-10.8**	**-36.0**
BNB forex reserves[9]	-1640.1	162.7	-200.1	-68.2	-105.6	-38.5	-261.7	-23.3	-323.4	-7.5	155.9	-18.8	129.6	-55.2	10.3	-229.7	-274.7	-574.1
Use of Fund credits, net	394.2	-12.6	-3.5	-15.6	-31.6	-7.4	166.0	-15.5	143.1	-12.5	-62.0	-15.9	-90.4	52.3	72.2	-16.4	108.1	129.2
Extraordinary financing, net[10]	-37.4	-0.4	126.4	-59.6	66.4	195.5	0.2	2.8	198.4	-0.4	-13.6	2.3	-11.7	3.0	0.0	152.8	155.8	408.9

* Analytical reporting of the balance of payments in accordance with IMF 5th edition of the Balance of Payments Manual.
[1] Preliminary data for 1998 as of 31 March 1999.
[2] Data based on customs declarations. Preliminary data on import and export in 1998 is revised by NSI.
[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 provided by the companies with foreign partnership, MF, Privatization Agency, NSI, Central Depository, specialized ministries and the BNB.
[8] Includes changes in forex deposits of individuals and private companies.
[9] Excludes changes due to valuation adjustments on the *Monetary gold* and *Reserve position with the IMF* items.
[10] Includes loans extended for balance of payments support (incl. EU, the World Bank, etc.), rescheduled payments and arrears.

Source: BNB.

GROSS FOREIGN DEBT

(million USD)

	1991	1992	1993	1994	1995	1996	1997	1998[1]
GROSS FOREIGN DEBT (A + B)[2]	**12247.1**	**13805.7**	**13836.4**	**11338.4**	**10148.0**	**9513.9**	**9676.6**	**10101.2**
A. Long-term debt	2676.0	3167.0	3256.6	9267.9	8841.3	8570.2	8560.5	9263.8
Public and publicly guaranteed	2274.0	2658.0	2740.0	8755.0	8499.7	8335.0	8494.3	9125.5
Nonguaranteed	402.0	509.0	516.6	512.9	341.6	235.2	66.1	138.4
I. Official creditors	***1872.0***	***2256.0***	***2338.0***	***3216.0***	***3084.6***	***3188.5***	***3271.7***	***4043.4***
1. International financial institutions	*744.0*	*1099.0*	*1157.0*	*1825.0*	*1657.1*	*1983.9*	*2241.6*	*2773.9*
IMF	401.0	590.0	632.0	941.0	716.7	584.6	936.3	1114.5
World Bank	142.0	152.0	155.0	396.0	410.6	455.8	540.4	711.6
EU	201.0	357.0	357.0	444.0	460.6	495.5	286.4	421.8
Other international financial institutions	0.0	0.0	13.0	44.0	69.2	448.1	478.6	525.9
incl. EIB	0.0	0.0	7.0	23.0	39.2	118.5	165.3	205.9
EBRD	0.0	0.0	6.0	21.0	30.0	84.3	87.0	109.7
2. Bilateral credits	*1128.0*	*1157.0*	*1181.0*	*1391.0*	*1427.5*	*1204.5*	*1030.1*	*1269.6*
Paris Club and nonrescheduled debt	1128.0	1095.0	1100.0	1240.0	1237.6	1034.5	877.9	1044.6
Other bilateral credits	0.0	62.0	81.0	151.0	189.9	170.0	152.2	225.0
II. Private creditors	***804.0***	***911.0***	***918.6***	***6051.9***	***5756.7***	***5381.7***	***5288.7***	***5220.4***
1. Brady bonds	0.0	0.0	0.0	5137.0	5005.4	4984.0	4924.4	4946.2
2. Other bonds	402.0	402.0	402.0	402.0	409.7	147.2	80.8	34.7
3. Government securities[3]	0.0	0.0	0.0	0.0	0.0	15.4	194.4	78.3
4. Commercial banks	402.0	509.0	511.0	479.0	273.3	155.9	4.4	16.8
5. Other private creditors	-	-	5.6	33.9	68.3	79.3	84.8	144.3
B. Short-term debt[4]	**9571.1**	**10638.7**	**10579.8**	**2070.5**	**1306.7**	**943.7**	**1116.1**	**837.4**
Public and publicly guaranteed	8147.0	9289.9	9550.8	1660.5	915.9	648.0	684.0	363.6
Nonguaranteed	1424.1	1348.7	1029.1	409.9	390.8	295.7	432.1	473.8
I. Official creditors	***1276.0***	***1260.9***	***1235.8***	***1660.5***	***915.9***	***648.0***	***684.0***	***363.6***
II. Private creditors	***8295.1***	***9377.7***	***9344.1***	***409.9***	***390.8***	***295.7***	***432.1***	***473.8***
1. Commercial banks	6871.0	8029.0	8315.0	26.0	201.1	184.6	265.5	281.4
2. Other private creditors[5]	1424.1	1348.7	1029.1	384.0	189.7	111.1	166.6	192.4

[1] Preliminary data as of 31 March 1999.
[2] In convertible currencies.
[3] Government securities denominated in foreign currency and bought by nonresidents.
[4] Including overdue principals and interest.
[5] Including nonresidents' deposits at local commercial banks and credits extended to local physical and legal persons by nonresident private creditors.

Source: BNB, Bulbank, commercial banks, physical and legal persons reporting directly to the BNB.

FOREIGN DEBT SERVICE

(million USD)

	1996	1997	1998[1]
Total (A + B)[2]	**1078.8**	**897.2**	**1105.4**
A. Long-term debt	**1022.0**	**806.6**	**1029.6**
I. Official creditors	***501.8***	***462.6***	***678.0***
1. International financial institutions	326.7	358.1	495.2
IMF	254.0	118.7	227.6
World Bank	41.0	44.0	54.7
EU/EIB/EBRD[3]	31.7	195.4	212.9
2. Bilateral credits	175.2	104.5	182.9
Paris Club and nonrescheduled debt	157.0	89.6	158.0
Other bilateral credits	18.2	14.9	24.8
II. Private creditors	***520.2***	***344.0***	***351.5***
Brady bonds	262.0	266.5	267.0
Other bonds	222.8	58.7	56.9
Commercial banks	27.5	2.5	0.1
Other private creditors	7.9	16.3	27.6
B. Short-term debt[4]	**56.8**	**90.6**	**75.8**

[1] Preliminary data as of 31 March 1999.
[2] Actual payments in convertible currencies.
[3] Payments on the debt to EU, EIB and EBRD.
[4] Including payments on commercial banks' short-term debt, former Comecon creditors and other private creditors.

Source: BNB, Bulbank, commercial banks, physical and legal persons reporting directly to the BNB.

DEBT INDICATORS

(%)

	1991	1992	1993	1994	1995	1996	1997	1998
Gross foreign debt/GDP[1]	161.1	160.5	130.5	118.1	78.1	101.9	95.1	82.0
Gross foreign debt/exports [2]	296.0	274.7	282.5	218.4	149.8	152.1	154.2	182.1
Gross foreign debt service/GDP	3.2	5.1	4.0	15.1	7.5	11.6	8.8	8.9
Gross foreign debt service/exports [2]	5.8	8.8	8.7	27.9	14.5	17.2	14.3	19.9
Short-term debt/GDP	125.9	123.7	99.8	21.6	10.1	10.1	11.0	6.8
(deposits+government securities)/forex reserves	0.0	149.5	156.9	37.8	13.6	20.3	11.3	5.5
Short-term debt/gross foreign debt	78.1	77.1	76.5	18.3	12.9	9.9	11.5	8.3

[1] GDP projections for 1998: USD 12,325 million.
[2] Exports of goods and nonfactor services.

Source: BNB.

CASH BASIS REPORTING OF THE CENTRAL GOVERNMENT BUDGET

Indicators	1997				1998			
	SBL, million BGL	Reporting as of 31 Dec., million BGL	% of SBL	% of GDP	SBL, million BGL	Reporting as of 31 Dec., million BGL	% of SBL	% of GDP
I. Total revenue	**2 560 288.3**	**2 983 320.1**	**116.5**	**17.4**	**3 417 126.9**	**4 245 566.7**	**124.2**	**19.8**
1.1. Current revenues	2 560 288.3	2 979 998.7	116.4	17.4	3 417 126.9	4 245 566.7	124.2	19.8
1.1.1. Tax revenues	2 265 849.2	2 724 962.1	120.3	15.9	3 338 051.5	3 994 010.3	119.7	18.6
corporate tax from financial institutions	108 986.1	78 049.7	71.6	0.5	103 410.3	135 067.7	130.6	0.6
corporate tax from nonfinancial enterprises	343 389.0	531 557.9	154.8	3.1	201 469.6	290 889.4	144.4	1.4
customs duties and fees	344 156.8	357 465.2	103.9	2.1	401 500.0	440 232.6	109.6	2.0
VAT	1 037 400.0	1 048 816.5	101.1	6.1	1 622 200.0	1 832 468.7	113.0	8.5
1.1.2. Nontax revenues	294 439.1	255 036.6	86.6	1.5	79 075.4	251 556.4	318.1	1.2
including:								
BNB – excess of revenue over expenditure	34 000.0	34 000.0	100.0	0.2		6 237.6		0.0
interest revenue	10 720.0	29 597.4	276.1	0.2	4 720.0	31 794.7	673.6	0.1
other nontax revenues					37 326.3	30 313.9		
1.2. Revenue from sale of state property		3 321.2		0.0				0.0
II. Total expenditure	**3 496 873.2**	**3 650 007.7**	**104.4**	**21.3**	**4 027 952.6**	**3 930 834.6**	**97.6**	**18.3**
1. Current expenditures	1 736 877.4	1 895 373.1	109.1	11.1	1 377 781.6	1 102 698.4	80.0	5.1
including:								
other expenditures	55 104.1	95 809.0	173.9	0.6	176 692.0	77 368.7	43.8	0.4
subsidies – total	79 641.0	108 913.9	136.8	0.6	124 716.0	156 739.6	125.7	0.7
interest – total	1 547 320.5	1 328 203.4	85.8	7.8	1 001 746.7	842 348.2	84.1	3.9
interest on external loans	486 456.0	418 656.2	86.1	2.4	650 650.0	610 369.3	93.8	2.8
interest on internal loans	1 060 864.5	909 547.2	85.7	5.3	351 096.7	231 978.9	66.1	1.1
including:								
on government securities issued for deficit financing (interest and discounts)	724 223.8	590 783.7	81.6	3.5	111 856.8	72 372.2	64.7	0.3
on government securities – noncash issues	204 776.0	195 971.0	95.7	1.1	98 497.2	88 997.3	90.4	0.4
on loans from BNB	129 520.0	120 855.8	93.3	0.7	87 386.2	70 525.6	80.7	0.3
2. Capital expenditures and state reserve growth	11 723.0	31 786.0	271.1	0.2	16 802.3	27 362.1	162.8	0.1
3. Structural reform and rehabilitation program	138 900.0	5 500.0	4.0	0.0	275 399.2	0.0	0.0	0.0
4. For elimination of elemental calamities consequences	6 500.0	0.0						
5. Transfers from CGB to other budgets	1 525 316.0	1 595 367.6	104.6	9.3	2 217 228.7	2 666 034.3	120.2	12.4
5.1. Subsidies	1 534 099.4	1 605 155.8	104.6	9.4	2 260 318.2	2 718 134.7	120.3	12.6
5.2. Temporary loans from general government budget to		-434.3		0.0		2 900.0		
municipal councils		-434.3		0.0		2 900.0		
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		
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	-8 783.4	-9 353.9	106.5	0.1	-43 089.5	-55 000.4	127.6	2.6
6. Transfers from CGB to extrabudgetary accounts and funds	77 556.8	121 981.0	157.3	0.7	140 740.8	134 739.8	95.7	0.6
7. Temporary noninterest-bearing loans from extrabudgetary accounts and funds				0.0				0.0
III. Deficit (-) / Surplus (+)								
1. Primary deficit/surplus	610 735.6	661 515.8	108.3	3.9	390 921.0	1 157 080.3	296.0	5.4
Interest paid on internal loans	1 060 864.5	909 547.2	85.7	5.3	351 096.7	231 978.9	66.1	1.1
2. Internal deficit	-450 128.9	-248 031.4	55.1	1.5	39 824.3	925 101.4	2 323.0	4.3
Interest paid on external loans	486 456.0	418 656.2	86.1	2.4	650 650.0	610 369.3	93.8	2.8
3. Cash deficit	-936 585.0	-666 687.7	71.2	3.9	-610 825.7	314 732.1	-51.5	-1.5

(continued)

(continued)

Indicators	1997				1998			
	SBL, million BGL	Reporting as of 31 Dec., million BGL	% of SBL	% of GDP	SBL, million BGL	Reporting as of 31 Dec., million BGL	% of SBL	% of GDP
IV. Cash deficit financing	**936 585.0**	**666 687.7**	**71.2**	**3.9**	**610 825.9**	**-314 732.1**	**-51.5**	**-1.5**
1. Foreign financing (operations abroad)	133 247.8	-205 362.7	154.1	1.2		-448 576.5		2.1
1.1. External loans and Eurobonds	373 660.0	0.0				72 849.8		
1.2. Repayments on credits extended to other countries	14.0	203.3	1 452.1			2 599.8		
1.3. Repayments on external loans	-208 346.2	-181 354.2	87.0			-514 609.1		
1.4. Overdue payments	-16 930.0	-9 133.7	53.9					
1.5. Repayments on trade deficit in transferable roubles with former Comecon countries	-15 000.0	-14 928.1	99.5			-9 117.0		
1.6. Lev bills	-150.0	-150.0	100.0			-300.0		
2. Domestic financing	803 337.2	872 050.4	108.6	5.1		133 844.5		0.6
2.1. Operations in government securities (net)	474 724.4	568 533.3	119.8			-186 584.0		
Issue of government securities in the current year, net		779 259.9				621 768.0		
Issue of treasury bills		4 464 104.0				953 945.2		
Issue of bonds		114 625.3				80 603.0		
Repayment of government securities in the current year – total		-4 010 196.0				-1 221 132.2		
Repayment of government securities issued in the current year		-3 799 469.4				-412 780.2		
Repayment of government securities issued in previous years		-210 726.6				-808 352.0		
2.2. Bank financing, net								
BNB, net	-8 985.5	523 873.8	5 830.2			174 092.8		
Long-term loans	66 800.0	66 800.0						
Repayments on long-term loans	-75 785.5	-78 520.5	103.6			-216 771.0		
Temporary loans		60 000.0						
Repayments on temporary loans		-60 000.0						
Loans from BNB under Article 45 of LBNB		535 594.3				390 863.8		
Repayments on credits from SSB (SII)	-253.0	-253.0				-63.2		
2.3. Deposits, net	-98 368.1	-580 948.7				-25 440.5		
balances from past periods	20 803.5	20 681.8				601 365.8		
balances on accounts by end of period	-119 171.6	-601 630.5				-626 806.3		
budget deposit in levs		-1 062.8				-123 170.3		
time deposit in levs		0.0				0.0		
forex budget deposit (lev equivalent)		-600 567.7				-503 636.0		
2.4. Other financing	-103 922.6	-103 861.1				0.0		
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						
2.5. Foreign currency revaluation		4 257.7				-19 470.1		
2.6. Revenue from privatization	540 142.0	460 448.4	85.2		540 000.0	191 309.5		

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

Source: BNB.

Indicators	Consolidated State Budget				General Government Budget						Legal Institutions					
	31 December 1997		31 December 1998		31 December 1997			31 December 1998			31 December 1997			31 December 1998		
	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	5 538 154.8	32.4	8 062 141.8	37.5	3 148 939.8	56.9	18.4	4 556 491.6	56.5	21.2	17 069.4	0.3	0.1	40 193.3	0.5	0.2
Net expenditure	6 073 833.8	35.5	7 767 368.0	36.1	3 230 020.8	53.2	18.9	3 387 248.4	43.6	15.8	41 537.7	0.7	0.2	63 574.5	0.8	0.3
Transfers from/to general government budget and extrabudgetary accounts, net			59 133.8	0.3				129 189.2		0.0				1 956.1		0.0
Government transfers	0.0		0.0		555 337.1		3.2	763 465.7		3.6	-25 266.0		0.1	-25 256.3		0.1
Budget deficit	-535 679.0	3.1	235 640.2	1.1	-636 418.1		3.7	276 588.3		1.3	797.7		0.0	-81.0		0.0
Financing, net	535 679.0	3.1	-235 640.1	1.1	636 418.1		3.7	-276 588.3		1.3	-797.7		0.0	81.0		0.0
Foreign financing, net	337.3	0.0	-223 543.0	1.0	-205 362.7		1.2	-448 576.6		2.1			0.0			0.0
Domestic financing, net	535 341.7	3.1	-12 097.1	0.1	841 780.8		4.9	171 988.3		0.8	-797.7		0.0	81.0		0.0
Operations in government securities, net	565 833.2		-245 555.7		568 533.2			-186 562.1								
Bank, net	-654 267.3		-50 595.9		-87 728.2			185 323.5			-797.7			289.5		
BNB, net	-193 263.0		-36 783.8		-80 442.4			200 732.7			-852.3			138.5		
Long-term loans	602 394.3		390 863.8		602 394.3			390 863.8			0.0			0.0		
Repayments	-78 520.5		-216 771.0		-78 520.5			-216 771.0			0.0			0.0		
Temporary loans	60 000.0		0.0		60 000.0			0.0			0.0			0.0		
Repayments	-60 000.0		0.0		-60 000.0			0.0			0.0			0.0		
Balances on lev accounts	-138 433.5		-1 121 981.3		-24 430.3			-136 329.1			-976.7			-712.0		
Balances on forex accounts – lev equivalent	-600 567.7		-503 636.0		-600 567.7			-503 636.0			0.0			0.0		
Time deposit in levs	0.0		0.0		0.0			0.0			0.0			0.0		
Balances from past periods	21 864.4		1 414 740.7		20 681.8			666 605.0			124.4			850.5		
Other banks and financial institutions, net	-461 004.3		-13 812.1		-7 285.8			-15 409.2			54.6			151.0		
Credits extended	0.0		22 215.0		0.0			147.5			0.0			0.0		
Repayments	-253.0		-17 714.7		-253.0			-269.6			0.0			0.0		
Resources on accounts, net	-460 751.3		-18 312.4		-7 032.8			-15 287.1			54.6			151.0		
Balances from past periods	178 433.6		21 048.6		73.8			7 106.6			207.9			151.0		
Balances on accounts	-639 184.9		-39 361.0		-7 106.6			-22 393.7			-153.3			0.0		
Other financing	169.7		-8 694.4		-103 730.3			1 986.7			0.0			-207.0		
Other repayments	0.0		-56.0		0.0			0.0								
Temporary noninterest-bearing loans from extrabudgetary accounts			223.5		0.0			223.5								
Revenue from privatization	537 598.4		334 487.5		460 448.4			191 309.5								
Foreign currency revaluation	86 007.7		-41 906.1		4257.7			-20 292.8						-1.5		

(continued)

(continued)

Indicators	Social Security						Municipal Councils						Extrabudgetary Accounts					
	31 December 1997			31 December 1998			31 December 1997			31 December 1998			31 December 1997			31 December 1998		
	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	1 338 329.4	24.2	7.8	1 906 457.3	23.6	8.9	655 016.2	11.8	3.8	1 028 655.7	12.8	4.8	378 800.0	6.8	2.2	530 343.9	6.6	2.5
Net expenditure	1 294 772.3	21.3	7.6	2 113 236.9	27.2	9.8	990 603.0	16.3	5.8	1 639 559.4	21.1	7.6	516 900.0	8.5	3.0	563 748.8	7.3	2.6
Transfers from/to general government budget and extrabudgetary accounts, net				-16 279.6		0.0									0.0	-55 731.9	0.3	
Government transfers	-68 411.2		0.4	-121 165.0		0.6	-348 659.9		2.0	-617 044.4		2.9	-113 000.0		0.7			0.0
Budget deficit	111 968.3		0.7	-69 335.0		0.3	13 073.1		0.1	6 140.8		0.0	-25 100.0		0.1	22 327.0		0.1
Financing, net	-111 968.3		0.7	69 335.0		0.3	-13 073.1		0.1	-6 140.8		0.0	25 100.0		0.1	-22 327.0		1.0
Foreign financing, net			0.0	228.6		0.0			0.0			0.0	205 700.0		1.2	224 805.0		1.0
Domestic financing, net	-111 968.3		0.7	69 106.4		0.3	-13 073.1		0.1	-6 140.8		0.0	-180 600.0		1.1	-247 132.0		1.1
Operations in government securities, net													-2 700.0			-58 993.6		
Bank, net	-111 968.3			52 235.4			-13 073.1			1 446.1			-440 700.0			-289 890.4		
BNB, net	-111 968.3			52 235.4			0.0			0.0			0.0			-289 890.4		
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	-113 026.5			-67 046.6			0.0			0.0						-917 893.6		
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	1 058.2			119 282.0			0.0			0.0						628 003.2		
Other banks and financial institutions, net	0.0			0.0			-13 073.1			1 446.1			-440 700.0			0.0		
Credits extended	0.0			0.0			0.0			22 067.5			0.0			0.0		
Repayments	0.0			0.0			0.0			-17 445.1			0.0			0.0		
Resources on accounts, net	0.0			0.0			-13 073.1			-3 176.3			-440 700.0			0.0		
Balances from past periods	0.0			0.0			651.9			13 791.0			177 500.0					
Balances on accounts	0.0			0.0			-13 725.0			-16 967.3			-618 200.0					
Other financing	0.0			-2 768.8			0.0			-7 590.4			103 900.0			-114.9		
Other repayments							0.0			0.0						-56.0		
Temporary noninterest-bearing loans from extrabudgetary accounts																		
Revenue from privatization				19 790.0									77 150.0			123 388.0		
Foreign currency revaluation				-150.2						3.5			81 750.0			-21 465.1		

Source: BNB and MF preliminary data.

DOMESTIC GOVERNMENT DEBT AND GOVERNMENT GUARANTEED DEBT BY DEBT INSTRUMENT

(million BGL)

Structure	Amount as of 31 December 1997	Amount as of 31 December 1998
I. DEBT ON GOVERNMENT SECURITIES ISSUED FOR BUDGET DEFICIT FINANCING		
1. Government securities issued in 1994	1 017.1	1 017.1
5-year	1 017.1	1 017.1
2. Government securities issued in 1995	14 685.9	6 311.6
incl. 3-year	8 374.3	0.0
5-year	6 286.6	6 286.6
9-year*	25.0	25.0
3. Government securities issued in 1996	14 193.6	6 491.5
incl. 2-year	7 702.0	0.0
3-year	5 645.8	5 645.8
5-year	845.8	845.8
4. Government securities issued in 1997	777 820.5	114 221.9
4.1. Short-term	663 598.6	0.0
incl. 3-month	65 057.7	0.0
6-month	189 388.8	0.0
9-month	33 846.4	0.0
12-month	375 305.7	0.0
4.2. Medium-term	114 221.9	114 221.9
incl. 2-year	30010.6	30 010.6
3-year	64 211.3	64 211.3
5-year	20 000.0	20 000.0
5. Government securities issued in 1998	0.0	621 851.9
5.1. Short-term	0.0	541 404.1
incl. 28-day*		0.0
3-month		63 735.0
6-month		168 669.2
12-month		308 999.8
5.2. Medium-term	0.0	80 447.9
incl. 2-year		72 979.3
3-year		3 377.6
5-year		4 090.9
Total (I)	**807 717.0**	**749 893.9**
II. DIRECT DEBT TO FINANCIAL INSTITUTIONS		
1. Bulgarian National Bank	1 619 136.2	1 665 948.7
debt issued in SDR as per § 10 of the Transitional and Final Provisions of LBNB of 1997	450.4	315.8
long-term credits under Article 45 of LBNB of 1997	224.4	391.2
lev equivalent of SDR total (SDR 1 = BGL 2 356.480427)	1 619 136.2	665 948.7
2. State Savings Bank	1011.9	0.0
TOTAL (II)	**1 620 148.1**	**1 665 948.7**
III. DEBT ON OTHER GOVERNMENT SECURITIES ISSUED FOR STRUCTURAL REFORM		
A1. Long-term government bonds issued pursuant to CM Decree No. 244 of 1991	3 852.4	3 577.3
A2. Long-term government bonds issued pursuant to CM Decree No. 234 of 1992	2 802.9	2 429.8
A3. Long-term government bonds issued pursuant to Articles 4 and 5 of ZUNK of 1993		
in BGL	12 920.2	8 786.0
denominated in USD	810.5	669.4
(in BGL at current exchange rate)	1 439 787.2	1 121 291.8
A4. Long-term government bonds issued pursuant to CM Decree No. 3 of 1994	931.3	931.3
Total (A)	**1 460 294.0**	**1 137 016.2**
B1. Government bonds issued pursuant to Article 2 of CM Decree No. 89 of 1995	22320.3	9320.3
Issue No. 200 (7-year)	9 320.3	9 320.3
Issue No. 201 (7-year)	13 000.0	0.0
B2. Government bonds issued pursuant to CM Decree No. 193 of 1995	2 600.0	0.0
Issue No. 202 (5-year)	1 176.0	0.0
Issue No. 203 (3-year)	1 000.0	0.0
Issue No. 204 (4-year)	424.0	0.0
B3. USD-denominated government bonds issued pursuant to CM Decree No. 145 of 1997	88825.0	0.0
Issue No. 300 (18-month)	50.0	0.0
(in BGL at current exchange rate)	88 825.0	0.0
TOTAL (B)	**113 745.3**	**9320.3**

(continued)

(continued) (million BGL)

Structure	Amount as of 31 December 1997	Amount as of 31 December 1998
C. Government bonds issued pursuant to Articles 8 and 9 of Law on State Protection of Deposits and Accounts of 1996		
in BGL	96 425.0	73 901.5
Issue No. 402 (7-year)	5 142.9	4 285.7
Issue No. 403 (7-year)	5 433.2	4 527.6
Issue No. 404 (7-year)	5 137.1	0.0
Issue No. 405 (7-year)	679.8	566.5
Issue No. 406 (7-year)	15.6	0.0
Issue No. 407 (7-year)	26.2	0.0
Issue No. 418 (7-year)	9 931.6	0.0
Issue No. 432 (7-year)	2 668.9	0.0
Issue No. 443 (7-year)	2 9581.8	25 355.8
Issue No. 473 (7-year)	3 262.7	2 796.6
Issue No. 474 (7-year)	9 425.2	8 078.7
Issue No. 475 (7-year)	10 630.4	9111.7
Issue No. 476 (7-year)	14 489.7	12419.7
Issue No. 400 (7-year)		3 425.7
Issue No. 402 (7-year)		3 198.0
Issue No. 403 (7-year)		135.4
denominated in USD	301 364.9	292 048.7
Issue No. 314 (3-year)	50.0	50.0
(in BGL at current exchange rate)	88 825.0	83 755.0
Issue No. 315 (3-year)	28.2	28.2
(in BGL at current exchange rate)	50 010.8	47 156.2
Issue No. 329 (3-year)	1.0	1.0
(in BGL at current exchange rate)	1 694.4	1 597.7
Issue No. 400 (3-year)	8.9	8.9
(in BGL at current exchange rate)	15 733.7	14 835.7
Issue No. 456 (3-year)	2.0	2.0
(in BGL at current exchange rate)	3 630.3	3 423.1
Issue No. 472 (3-year)	48.9	48.9
(in BGL at current exchange rate)	86 806.4	81 851.6
Issue No. 477 (3-year)	23.3	23.3
(in BGL at current exchange rate)	41 439.2	39 073.9
Issue No. 478 (3-year)	5.3	5.3
(in BGL at current exchange rate)	9 491.0	8 949.2
Issue No. 402 (3-year)	1.4	1.4
(in BGL at current exchange rate)	2 562.6	2 416.3
Issue No. 403 (3-year)	0.7	0.7
(in BGL at current exchange rate)	1 171.6	1 104.7
Issue No. 401 (3-year)		0.5
(in BGL at current exchange rate)		857.7
Issue No. 404 (3-year)		3.1
(in BGL at current exchange rate)		5 240.7
Issue No. 405 (3-year)		0.1
(in BGL at current exchange rate)		89.6
Issue No. 406 (3-year)		1.0
(in BGL at current exchange rate)		1 697.2
TOTAL (C)	**397 789.9**	**365 950.2**
TOTAL (III)	**1 971 829.2**	**1 512 286.7**
GOVERNMENT DEBT TOTAL	**4 399 694.3**	**3 928 129.3**
GOVERNMENT GUARANTEED DEBT		
DOMESTIC GOVERNMENT GUARANTEES	**0.0**	**839 564.8**
TOTAL DOMESTIC GOVERNMENT AND GOVERNMENT GUARANTEED DEBT	**4 399 694.3**	**4 767 694.1**

* MF securitized direct debt to the BNB.

Source: BNB and MF.

FOREIGN GOVERNMENT DEBT BY DEBT INSTRUMENT AS OF 31 DECEMBER 1998

(million USD)

I. Government Debt	7 674.54
1. LONG-TERM GOVERNMENT SECURITIES	5 012.14
1.1. Brady bonds	4 977.41
1.2. Other	34.73
2. LONG-TERM CREDITS	2 662.40
2.1. Paris Club	1 044.55
2.2. World Bank	565.30
2.3. G–24	89.53
2.4. EU	421.85
2.5. Other	541.17
II. Government Guaranteed Debt	604.18
incl. IMF	120.00
DEBT, TOTAL	**8 278.72**

Notes: 1. Data is in accordance with the BNB register of government and government guaranteed debts based on MF information on loan agreements ratified by the National Assembly.
2. Excluding overdue interest on obligations to IIB and IBEC creditors, as well as data on domestic debt instruments bought by nonresidents.
3. USD equivalent is based on central exchange rates of the relevant currencies against BGL quoted by the BNB on 30 December 1998.

Source: BNB and MF.

PAYMENTS ON FOREIGN GOVERNMENT DEBT BY SOURCE

(million USD)

	Principal	Interest	Total
1. General government budget	152.2	342.8	495.0
2. SFRD	244.3	43.6	287.9
3. End-borrowers (government guaranteed debt)	29.7	27.1	56.8
Total	**426.2**	**413.5**	**839.7**

Note: USD equivalent of the payments is based on the central exchange rate quoted by the BNB for the relevant foreign currencies valid by the end of each month of the respective payment.

Source: MF and BNB.

PAYMENTS ON FOREIGN GOVERNMENT DEBT BY CREDITOR

(million USD)

GOVERNMENT DEBT STRUCTURE	Principal	Interest	Total
I. Government Debt	**337.9**	**386.4**	**724.3**
1. Long-term government securities	52.9	271.1	324.0
1.1. Brady bonds		267.0	267.0
1.2. Other	52.9	4.1	57.0
2. Long-term credits	285.0	115.3	400.3
2.1. Paris Club	98.1	59.9	158.0
2.2. World Bank	14.1	29.3	43.4
2.3. G–24	3.4	4.7	8.1
2.4. EU	162.4	11.7	174.1
2.5. Other	7.0	9.6	16.6
II. Government Guaranteed Debt	**88.3**	**27.1**	**115.4**
Payments, Total	**426.2**	**413.5**	**839.7**

Note: USD equivalent of the payments is based on the central exchange rate quoted by the BNB for the relevant foreign currencies valid by the end of each month of the respective payment.

Source: MF and BNB.

BALANCE SHEET OF BNB

(million BGL)

ISSUE DEPARTMENT	31.XII'97	30.I'98	27.II'98	31.III'98	30.IV'98	29.V'98	30.VI'98	31.VII'98	31.VIII'98	30.IX'98	30.X'98	30.XI'98	31.XII'98
ASSETS	**4 411 910**	**4 172 053**	**4 558 741**	**4 713 689**	**4 701 067**	**5 130 537**	**5 244 426**	**5 149 887**	**4 922 665**	**4 665 440**	**4 683 471**	**4 821 898**	**5 110 823**
1. Cash and nostro accounts in foreign currency	2 263 682	2 114 891	1 943 808	1 292 388	1 075 272	1 333 205	1 136 562	1 140 032	994 249	995 741	357 030	485 013	2 849 395
2. Monetary gold	644 109	644 122	644 141	644 193	644 248	646 768	646 799	641 825	639 203	648 679	634 333	646 709	622 579
3. Foreign securities	1 495 417	1 405 131	1 955 899	2 759 059	2 968 653	3 141 944	3 452 592	3 358 722	3 278 005	3 010 863	3 680 966	3 677 089	1 622 264
4. Accrued interest receivable	8 702	7 909	14 893	18 049	12 894	8 620	8 473	9 308	11 208	10 157	11 142	13 087	16 585
LIABILITIES	**4 411 910**	**4 172 053**	**4 558 741**	**4 713 689**	**4 701 067**	**5 130 537**	**5 244 426**	**5 149 887**	**4 922 665**	**4 665 440**	**4 683 471**	**4 821 898**	**5 110 823**
1. Currency in circulation	1 419 810	1 290 257	1 323 823	1 360 019	1 379 991	1 393 954	1 490 178	1 578 904	1 630 938	1 557 197	1 527 347	1 598 902	1 845 030
2. Bank deposits and current accounts	857 848	678 822	583 581	746 762	554 889	536 694	580 868	568 055	548 415	487 667	552 079	631 898	578 115
3. Government deposits and accounts	1 601 270	1 634 639	2 056 604	1 997 317	2 152 241	2 283 286	2 240 889	2 079 374	1 962 948	1 833 711	1 825 537	1 790 212	1 900 379
4. Other depositors' accounts	24 929	20 771	16 995	17 829	17 458	17 014	21 078	18 663	18 140	18 093	18 072	18 075	28 111
5. Accrued interest payable	1 926	638	1 552	820	1 022	2 400	983	979	963	770	1 666	944	739
6. Banking Department deposit	506 127	546 926	576 186	590 942	595 466	897 189	910 430	903 912	761 261	768 002	758 770	781 867	758 449

Source: BNB

BANKING DEPARTMENT	31.XII'97	30.I'98	27.II'98	31.III'98	30.IV'98	29.V'98	30.VI'98	31.VII'98	31.VIII'98	30.IX'98	30.X'98	30.XI'98	31.XII'98
ASSETS	**3 671 314**	**3 724 837**	**3 772 730**	**3 785 132**	**3 589 283**	**3 838 973**	**3 854 047**	**3 761 367**	**3 689 541**	**3 567 234**	**3 668 649**	**3 856 949**	**3 805 273**
1. Nonmonetary gold and other precious metals	82 959	86 976	82 220	79 311	82 869	76 847	81 886	83 177	81 298	72 324	78 806	84 259	74 444
2. Investments in securities	282 619	287 821	289 928	292 126	138 786	137 582	141 007	138 469	141 001	132 387	130 999	135 745	134 086
3. Loans and advances to banks, net of provisions	20 314	8 048	10 087	7 740	1 365	1 365	1 368	1 367	1 368	1 363	1 351	1 351	1 350
4. Receivables from government	1 632 128	1 632 915	1 642 442	1 608 840	1 576 684	1 549 889	1 528 491	1 469 379	1 526 723	1 443 612	1 545 961	1 688 595	1 665 949
5. Bulgaria's IMF quota and holdings in other international financial institutions	1 041 430	1 056 415	1 066 644	1 063 329	1 050 912	1 033 124	1 046 182	1 020 901	1 034 174	996 100	1 007 236	1 020 041	1 022 895
6. Accrued interest receivable	389	52	167	32	31	28	30	30	30	29	29	29	9
7. Equity investments in domestic entities	2 134	2 151	2 151	2 152	2 152	2 152	2 152	2 152	2 152	2 819	2 819	2 819	2 819
8. Fixed assets	96 634	97 275	97 407	133 658	133 871	133 117	135 901	135 465	135 242	134 898	134 771	134 549	135 284
9. Other assets	6 580	6 258	5 498	7 002	7 147	7 680	6 600	6 515	6 292	15 700	7 907	7 694	9 988
10. Deposit with Issue Department	506 127	546 926	576 186	590 942	595 466	897 189	910 430	903 912	761 261	768 002	758 770	781 867	758 449
LIABILITIES	**3 671 314**	**3 724 837**	**3 772 730**	**3 785 132**	**3 589 283**	**3 838 973**	**3 854 047**	**3 761 367**	**3 689 541**	**3 567 234**	**3 668 649**	**3 856 949**	**3 805 273**
Obligations	2 718 888	2 741 218	2 754 182	2 717 373	2 675 268	2 924 724	2 936 766	2 846 061	2 771 502	2 643 709	2 758 397	2 916 762	2 888 870
1. Borrowings from IMF	1 674 802	1 676 206	1 686 153	1 652 414	1 619 747	1 888 073	1 884 018	1 816 279	1 729 957	1 639 332	1 743 879	1 889 040	1 866 957
2. Liabilities to other financial institutions	1 033 534	1 048 415	1 058 544	1 055 242	1 045 070	1 027 837	1 042 091	1 016 764	1 029 965	991 993	1 003 093	1 015 862	1 018 859
3. Accrued interest payable	884	1 132	177	395	625	648	2 018	3 426	752	1 432	2 110	560	1 365
4. Other liabilities	9 668	15 465	9 308	9 322	9 826	8 166	8 639	9 592	10 828	10 952	9 315	11 300	1 689
Equity	952 426	983 619	1 018 548	1 067 759	914 015	914 249	917 281	915 306	918 039	923 525	910 252	940 187	916 403
5. Capital	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000
6. Reserves	675 789	686 460	766 952	811 355	833 073	824 389	836 653	830 260	822 322	805 937	784 638	818 345	786 602
7. Retained profit	256 637	277 159	231 596	236 404	60 942	69 860	60 628	65 046	75 717	97 588	105 614	101 842	109 801

Source: BNB.

MONETARY SURVEY

(million BGL)

	XII'97 all banks	XII'97 incl. in liquidation	I'98 all banks	I'98 incl. in liquidation	II'98 all banks	II'98 incl. in liquidation	III'98 all banks	III'98 incl. in liquidation	IV'98 all banks	IV'98 incl. in liquidation	V'98 all banks	V'98 incl. in liquidation	VI'98 all banks	VI'98 incl. in liquidation
Exchange rate: BGL/1 USD	1776.5	1776.5	1809.2	1809.2	1820.2	1820.2	1834.0	1834.0	1798.0	1798.0	1782.4	1782.4	1810.2	1810.2
BGL/1 DEM	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0
FOREIGN ASSETS (net)	4950218	-354711	4865301	-359072	5289002	-359895	5518586	-344621	5374302	-369629	5426207	-371420	5658682	-366786
Foreign assets	7803024	138884	7673946	140799	8160190	141280	8240300	140646	8072461	113800	8400490	110137	8611722	113168
BNB international reserves	4395322	0	4172053	0	4558856	0	4713688	0	4701067	0	5130536	0	5244427	0
Other foreign assets	3407702	138884	3501893	140799	3601334	141280	3526612	140646	3371394	113800	3269954	110137	3367295	113168
Less: foreign liabilities	2852806	493595	2808645	499871	2871188	501175	2721714	485267	2698159	483429	2974283	481557	2953040	479954
NET DOMESTIC ASSETS	1068369	574772	1017632	562533	610382	559417	439289	516670	584713	531694	457966	532958	386713	531240
DOMESTIC CREDIT	5136474	1562848	5262162	1573632	4898765	1528092	4672939	1413353	4339261	1272242	4224532	1252080	4169032	1185447
BGL	1035600	22253	815019	-66643	721695	-76456	665188	-119033	560860	-136460	607792	-137543	728341	-142465
Foreign currencies	4100874	1540595	4447143	1640275	4177070	1604548	4007751	1532386	3778401	1408702	3616740	1389623	3440691	1327912
CLAIMS ON GOVERNMENT SECTOR (net)	1641560	-255616	1671826	-276617	1290354	-277830	1165965	-285472	919156	-287251	740919	-287041	757471	-292119
BGL	104055	-95295	-151306	-183778	-289967	-191496	-372830	-223218	-545963	-226116	-546070	-226457	-420100	-229884
Foreign currencies	1537505	-160321	1823132	-92839	1580321	-86334	1538795	-62254	1465119	-61135	1286989	-60584	1177571	-62235
CLAIMS ON GOVERNMENT (net)	1708950	-254843	1746855	-275839	1358945	-277050	1262254	-284665	1019238	-286451	848570	-286244	867138	-291317
BGL	168713	-94846	-79378	-183329	-224195	-191047	-279741	-222748	-449180	-225646	-441558	-225987	-312478	-229414
Foreign currencies	1540237	-159997	1826233	-92510	1583140	-86003	1541995	-61917	1468418	-60805	1290128	-60257	1179616	-61903
CLAIMS ON STATE BUDGET (net)	2560441	-249502	2325231	-270440	1841209	-271633	1685793	-279194	1503533	-281048	1410862	-280859	1425023	-285901
BGL	489129	-92638	191661	-181121	57397	-188839	-46170	-220535	-127911	-223433	-47551	-223774	61856	-227201
Foreign currencies	2071312	-156864	2133570	-89319	1783812	-82794	1731963	-58659	1631444	-57615	1458413	-57085	1363167	-58700
Claims on government	4142728	119518	4168845	112946	4209668	112710	4061649	113219	4034316	111201	4010916	110265	3980509	111561
BGL	872653	9993	913681	10794	939005	9949	966229	9667	987549	9681	979337	9626	903078	9352
Foreign currencies	3270075	109525	3255164	102152	3270663	102761	3095420	103552	3046767	101520	3031579	100639	3077431	102209
Government securities	2271523	104216	2378586	106809	2397162	107367	2280642	107853	2303949	105889	2310791	104976	2300258	106229
Short-term (up to 12 months)	570509	5334	621609	6135	642102	6115	649895	5833	662682	5842	663630	5784	588616	5513
Medium-term (up to 5 years)	498520	0	526188	0	532038	0	550325	0	557578	0	557482	0	562174	0
BGL	134834	0	143707	0	147232	0	152163	0	161757	0	165332	0	164372	0
Foreign currencies	363686	0	382481	0	384806	0	398162	0	395821	0	392150	0	397802	0
Long-term (over 5 years)	1202494	98882	1230789	100674	1223022	101252	1080422	102020	1083689	100047	1089679	99192	1149468	100716
BGL	90040	1489	125827	1489	118259	1476	120580	1476	123749	1476	117297	1476	114053	1476
Foreign currencies	1112454	97393	1104962	99185	1104763	99776	959842	100544	959940	98571	972382	97716	1035415	99240
Credits	1633140	0	1633906	0	1643412	0	1608840	0	1576684	0	1549889	0	1528491	0
BGL	1012	0	991	0	970	0	0	0	0	0	0	0	0	0
Foreign currencies	1632128	0	1632915	0	1642442	0	1608840	0	1576684	0	1549889	0	1528491	0
Other claims	238065	15302	156353	6137	169094	5343	172167	5366	153683	5312	150236	5289	151760	5332
BGL	76258	3170	21547	3170	30442	2358	43591	2358	39361	2363	33078	2366	36037	2363
Foreign currencies	161807	12132	134806	2967	138652	2985	128576	3008	114322	2949	117158	2923	115723	2969
Less: government deposits	-1582287	-369020	-1843614	-383386	-2368459	-384343	-2375856	-392413	-2530783	-392249	-2600054	-391124	-2555486	-397462
BGL	-383524	-102631	-722020	-191915	-881608	-198788	-1012399	-230202	-1115460	-233114	-1026888	-233400	-841222	-236553
Foreign currencies	-1198763	-266389	-1121594	-191471	-1486851	-185555	-1363457	-162211	-1415323	-159135	-1573166	-157724	-1714264	-160909
CLAIMS ON STATE FUNDS AND EXTRABUDGETARY ACCOUNTS (net)	-851491	-5341	-578376	-5399	-482264	-5417	-423539	-5471	-484295	-5403	-562292	-5385	-557885	-5416
BGL	-320416	-2208	-271039	-2208	-281592	-2208	-233571	-2213	-321269	-2213	-394007	-2213	-374334	-2213
Foreign currencies	-531075	-3133	-307337	-3191	-200672	-3209	-189968	-3258	-163026	-3190	-168285	-3172	-183551	-3203
Claims on state funds and extrabudgetary accounts	11	0	12	0	25	0	29	0	15	0	16	0	16	0
BGL	11	0	12	0	25	0	29	0	15	0	16	0	16	0
Less: deposits of state funds and extrabudgetary accounts	-851502	-5341	-578388	-5399	-482289	-5417	-423568	-5471	-484310	-5403	-562308	-5385	-557901	-5416
BGL	-320427	-2208	-271051	-2208	-281617	-2208	-233600	-2213	-321284	-2213	-394023	-2213	-374350	-2213
Foreign currencies	-531075	-3133	-307337	-3191	-200672	-3209	-189968	-3258	-163026	-3190	-168285	-3172	-183551	-3203
CLAIMS ON LOCAL BUDGETS (net)	-67390	-773	-75029	-778	-68591	-780	-96289	-807	-100082	-800	-107651	-797	-109667	-802
BGL	-64658	-449	-71928	-449	-65772	-449	-93089	-470	-96783	-470	-104512	-470	-107622	-470
Foreign currencies	-2732	-324	-3101	-329	-2819	-331	-3200	-337	-3299	-330	-3139	-327	-2045	-332
Claims on local budgets	3	1	4	1	3	1	4	1	3207	1	3532	1	6940	1
BGL	3	1	4	1	3	1	4	1	3207	1	3532	1	5765	1
Foreign currencies	0	0	0	0	0	0	0	0	0	0	0	0	1175	0
Less: deposits of local budgets	-67393	-774	-75033	-779	-68594	-781	-96293	-808	-103289	-801	-111183	-798	-116607	-803
BGL	-64661	-450	-71932	-450	-65775	-450	-93093	-471	-99990	-471	-108044	-471	-113387	-471
Foreign currencies	-2732	-324	-3101	-329	-2819	-331	-3200	-337	-3299	-330	-3139	-327	-3220	-332

(continued)

(continued) (million BGL)

	XII'97		I'98		II'98		III'98		IV'98		V'98		VI'98	
	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation
CLAIMS ON NONGOVERNMENT SECTOR	3494914	1818464	3590336	1850249	3608411	1805922	3506974	1698825	3420105	1559493	3483613	1539121	3411561	1477566
BGL	931545	117548	966325	117135	1011662	115040	1038018	104185	1106823	89656	1153862	88914	1148441	87419
Foreign currencies	2563369	1700916	2624011	1733114	2596749	1690882	2468956	1594640	2313282	1469837	2329751	1450207	2263120	1390147
Claims on nonfinancial state-owned enterprises	1254051	554420	1276389	563494	1238927	537846	1128083	475457	1107189	454502	1096023	447684	974372	421425
BGL	336204	28566	336883	28368	326411	27358	306286	26681	314968	24530	309399	24391	248865	23516
Foreign currencies	917847	525854	939506	535126	912516	510488	821797	448776	792221	429972	786624	423293	725507	397909
Claims on private enterprises	1982195	1180998	2036633	1202503	2066689	1186767	2056713	1156972	1947343	1042928	1986605	1030350	2000210	994688
BGL	419962	78132	436493	77917	463787	76835	488051	75768	504062	63557	520164	62972	537066	62355
Foreign currencies	1562233	1102866	1600140	1124586	1602902	1109932	1568662	1081204	1443281	979371	1466441	967378	1463144	932333
Claims on the public	169620	2184	186998	2202	215118	2172	247630	2229	292129	2167	328475	2024	364951	967
BGL	163405	221	180812	221	208854	218	241302	160	285725	140	322221	122	359333	119
Foreign currencies	6215	1963	6186	1981	6264	1954	6328	2069	6404	2027	6254	1902	5618	848
Claims on nonbank financial institutions	89048	80862	90316	82050	87677	79137	74548	64167	73444	59896	72510	59063	72028	60486
BGL	11974	10629	12137	10629	12610	10629	2379	1576	2068	1429	2078	1429	3177	1429
Foreign currencies	77074	70233	78179	71421	75067	68508	72169	62591	71376	58467	70432	57634	68851	59057
OTHER ITEMS (net)	-4068105	-988076	-4244530	-1011099	-4288383	-968675	-4233650	-896683	-3754548	-740548	-3766566	-719122	-3782319	-654207
BGL	-3816085	-962252	-4104344	-1058730	-4150034	-1031292	-4096318	-951365	-3623246	-831186	-3606376	-815354	-3609570	-754798
Foreign currencies	-252017	-25817	-140213	47636	-138327	62622	-137310	54676	-131281	90642	-160152	96233	-172712	100606
Own funds	-1268620	488580	-1365782	503379	-1472573	510173	-1623716	518808	-1455884	529161	-1459767	513314	-1151458	914600
Capital and reserves	-1369456	-127680	-1364391	-154472	-1490085	-154600	-1598350	-192911	-1658098	-203763	-1812453	-203583	-2038183	-203516
Financial result	100836	616260	-1391	657851	17512	664773	-25366	711719	202214	732924	352686	716897	886725	1118116
Other assets and liabilities (net)	-2799482	-1476649	-2878775	-1514473	-2815788	-1478843	-2609912	-1415497	-2298643	-1269705	-2306761	-1232435	-2630824	-1568792
BROAD MONEY M3	6018587	220061	5882933	203461	5899384	199522	5957875	172049	5959015	162065	5884173	161538	6045395	164454
BGL	3394500	34668	3096380	57957	3125224	57952	3271642	54953	3285784	77040	3217202	78068	3385976	80279
Foreign currencies	2624087	185393	2786553	145504	2774160	141570	2686233	117096	2673231	85025	2666971	83470	2659419	84175
MONEY M1	2290316	23429	1977498	44277	1985491	44273	2097489	43484	2119751	63252	2082274	67251	2229810	70120
Money outside banks	1314106	0	1203366	0	1243725	0	1285373	0	1305105	0	1323723	0	1416209	0
Demand deposits (in BGL)	976210	23429	774132	44277	741766	44273	812116	43484	814646	63252	758551	67251	813601	70120
State-owned enterprises	451456	8015	340573	25963	346683	25966	376951	25342	391890	42994	359477	44943	359605	47958
Private enterprises	440604	15006	359133	17101	331082	17094	363346	17022	351470	19128	330339	19038	380823	18926
Public	44089	120	42245	899	43893	899	44718	797	44710	794	47677	840	50689	806
Nonbank financial institutions	40061	288	32181	314	20108	314	27101	323	26576	336	21058	2430	22484	2430
MONEY M2 (M1 + quasi-money)	5750728	211954	5622464	195312	5626632	191349	5605593	164405	5635697	154584	5554316	154123	5688708	157093
Quasi-money	3460412	188525	3644966	151035	3641141	147076	3508104	120921	3515946	91332	3472042	86872	3458898	86973
Time deposits (in BGL)	804923	8776	818027	10788	832207	10787	829887	10224	831950	12951	792605	10004	788770	9473
State-owned enterprises	43600	892	35407	894	40213	917	45071	783	61277	614	35995	595	32177	575
Private enterprises	37622	3206	41553	5202	40846	5178	44883	5042	43364	7177	40492	6325	35118	6328
Public	691386	4519	703869	4533	709133	4533	712412	4239	701316	2911	692078	2929	693614	2414
Nonbank financial institutions	32315	159	37198	159	42015	159	27521	160	25993	2249	24040	155	27861	156
Savings deposits (in BGL)	226923	2090	228600	2253	234333	2253	238431	576	241087	202	243673	202	253545	92
Foreign currency deposits	2428566	177659	2598339	137994	2574601	134036	2439786	110121	2442909	78179	2435764	76666	2416583	77408
State-owned enterprises	603207	99625	647079	82913	608600	83561	496093	68334	500346	40244	481145	39019	466619	40575
Private enterprises	469270	28780	519844	24855	482407	21722	462519	19411	478018	18277	511256	18122	482303	18684
Public	1267165	34128	1323657	15107	1337532	13545	1349102	7054	1336685	6970	1331341	6948	1358961	5377
Nonbank financial institutions	88924	15126	107759	15119	146062	15208	132072	15322	127860	12688	112022	12577	108700	12772
MONEY M3 (M2 + Money market instruments and restricted deposits)	6018587	220061	5882933	203461	5899384	199522	5957875	172049	5959015	162065	5884173	161538	6045395	164454
Money market instruments	4476	149	4537	149	4702	149	4661	149	4723	159	4646	159	4527	159
BGL	4446	149	4509	149	4677	149	4638	149	4682	159	4589	159	4421	159
Foreign currencies	30	0	28	0	25	0	23	0	41	0	57	0	106	0
Import and restricted deposits	263383	7958	255932	8000	268050	8024	347621	7495	318595	7322	325211	7256	352160	7202
BGL	67892	224	67746	490	68516	490	101197	520	88314	476	94061	452	109430	435
Foreign currencies	195491	7734	188186	7510	199534	7534	246424	6975	230281	6846	231150	6804	242730	6767

(continued)

(continued) (million BGL)

	VII'98		VIII'98		IX'98		X'98		XI'98		XII'98	
	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation
Exchange rate: BGL/1 USD	1769.0	1769.0	1791.8	1791.8	1673.2	1673.2	1647.5	1647.5	1702.6	1702.6	1675.1	1675.1
BGL/1 DEM	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0
FOREIGN ASSETS (net)	5601891	-368164	5693748	-364223	5124109	-366766	5245757	-376656	5343769	-377811	5498976	-381231
Foreign assets	8489542	111035	8563914	115628	7907627	110369	7974256	104486	8240025	103923	8344235	102188
BNB international reserves	5149886	0	4922665	0	4665441	0	4683472	0	4821899	0	5119371	0
Other foreign assets	3339656	111035	3641249	115628	3242186	110369	3290784	104486	3418126	103923	3224864	102188
Less: foreign liabilities	2887651	479199	2870166	479851	2783518	477135	2728499	481142	2896256	481734	2845259	483419
NET DOMESTIC ASSETS	528981	526395	573286	523929	940134	523040	754223	529225	831089	531953	1098197	532940
DOMESTIC CREDIT	4207370	1153955	4280122	1115031	4481079	1043067	4311175	1031888	4565380	1046099	4227011	997188
BGL	702775	-115586	670954	-118912	837108	-96317	864063	-88930	1048911	-43336	1359358	-84861
Foreign currencies	3504595	1269541	3609168	1233943	3643971	1139384	3447112	1120818	3516469	1089435	2867653	1082049
CLAIMS ON GOVERNMENT SECTOR (net)	771273	-294397	773677	-312300	939683	-305845	730063	-304620	879730	-307728	509786	-342404
BGL	-517366	-209595	-616109	-216427	-585295	-214982	-640770	-214826	-510838	-215634	-221829	-214143
Foreign currencies	1288639	-84802	1389786	-95873	1524978	-90863	1370833	-89794	1390568	-92094	731615	-128261
CLAIMS ON GOVERNMENT (net)	892510	-293602	900921	-311505	1063313	-305071	876604	-303849	1026618	-306948	567249	-341628
BGL	-401031	-209125	-493662	-215966	-466176	-214521	-498984	-214365	-366721	-215173	-165774	-213682
Foreign currencies	1293541	-84477	1394583	-95539	1529489	-90550	1375588	-89484	1393339	-91775	733023	-127946
CLAIMS ON STATE BUDGET (net)	1466117	-288232	1443075	-306100	1565703	-299854	1427095	-298672	1534760	-301681	1150955	-337793
BGL	-1831	-206912	-128451	-213752	-90719	-212307	-113697	-212151	-20311	-212959	228179	-212866
Foreign currencies	1467948	-81320	1571526	-92348	1656422	-87547	1540792	-86521	1555071	-88722	922776	-124927
Claims on government	3876988	109172	4032207	112098	3900993	105289	3747267	103725	3891527	106625	3322729	67564
BGL	883741	9290	893841	10928	909324	10816	886729	10703	880602	10492	838064	10287
Foreign currencies	2993247	99882	3138366	101170	2991669	94473	2860538	93022	3010925	96133	2484665	57277
Government securities	2277872	103914	2365224	106775	2314365	100157	2106643	98632	2105095	101428	1580395	62446
Short-term (up to 12 months)	579505	5457	585900	7122	599195	7006	563723	6890	550343	6665	527620	6494
Medium-term (up to 5 years)	562580	0	569495	0	544750	0	463954	0	474192	0	465302	0
BGL	168203	0	170034	0	171603	0	177416	0	178086	0	178519	0
Foreign currencies	394377	0	399461	0	373147	0	286538	0	296106	0	286783	0
Long-term (over 5 years)	1135787	98457	1209829	99653	1170420	93151	1078966	91742	1080560	94763	587473	55952
BGL	116159	1476	111015	1422	107916	1422	101254	1422	100639	1422	94635	1422
Foreign currencies	1019628	96981	1098814	98231	1062504	91729	977712	90320	979921	93341	492838	54530
Credits	1469379	0	1526724	0	1443612	0	1545961	0	1688595	0	1665949	0
BGL	0	0	0	0	0	0	0	0	0	0	0	0
Foreign currencies	1469379	0	1526724	0	1443612	0	1545961	0	1688595	0	1665949	0
Other claims	129737	5258	140259	5323	143016	5132	94663	5093	97837	5197	76385	5118
BGL	19874	2357	26892	2384	30610	2388	44336	2391	51534	2405	37290	2371
Foreign currencies	109863	2901	113367	2939	112406	2744	50327	2702	46303	2792	39095	2747
Less: government deposits	-2410871	-397404	-2589132	-418198	-2335290	-405143	-2320172	-402397	-2356767	-408306	-2171774	-405357
BGL	-885572	-216202	-1022292	-224680	-1000043	-223123	-1000426	-222854	-900913	-223451	-609885	-223153
Foreign currencies	-1525299	-181202	-1566840	-193518	-1335247	-182020	-1319746	-179543	-1455854	-184855	-1561889	-182204
CLAIMS ON STATE FUNDS AND EXTRABUDGETARY ACCOUNTS (net)	-573607	-5370	-542154	-5405	-502390	-5217	-550491	-5177	-508142	-5267	-583706	-3835
BGL	-399200	-2213	-365211	-2214	-375457	-2214	-385287	-2214	-346410	-2214	-393953	-816
Foreign currencies	-174407	-3157	-176943	-3191	-126933	-3003	-165204	-2963	-161732	-3053	-189753	-3019
Claims on state funds and extrabudgetary accounts	17	0	18	0	15	0	23	0	29	0	81	0
BGL	17	0	18	0	15	0	23	0	29	0	81	0
Less: deposits of state funds and extrabudgetary accounts	-573624	-5370	-542172	-5405	-502405	-5217	-550514	-5177	-508171	-5267	-583787	-3835
BGL	-399217	-2213	-365229	-2214	-375472	-2214	-385310	-2214	-346439	-2214	-394034	-816
Foreign currencies	-174407	-3157	-176943	-3191	-126933	-3003	-165204	-2963	-161732	-3053	-189753	-3019
CLAIMS ON LOCAL BUDGETS (net)	-121237	-795	-127244	-795	-123630	-774	-146541	-771	-146888	-780	-57463	-776
BGL	-116335	-470	-122447	-461	-119119	-461	-141786	-461	-144117	-461	-56055	-461
Foreign currencies	-4902	-325	-4797	-334	-4511	-313	-4755	-310	-2771	-319	-1408	-315
Claims on local budgets	9125	1	10805	1	13049	1	13613	1	17211	1	17052	1
BGL	9125	1	10805	1	13049	1	13613	1	17211	1	17052	1
Foreign currencies	0	0	0	0	0	0	0	0	0	0	0	0
Less: deposits of local budgets	-130362	-796	-138049	-796	-136679	-775	-160154	-772	-164099	-781	-74515	-777
BGL	-125460	-471	-133252	-462	-132168	-462	-155399	-462	-161328	-462	-73107	-462
Foreign currencies	-4902	-325	-4797	-334	-4511	-313	-4755	-310	-2771	-319	-1408	-315

(continued)

(continued) (million BGL)

	VII'98		VIII'98		IX'98		X'98		XI'98		XII'98	
	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation
CLAIMS ON NONGOVERNMENT SECTOR	3436097	1448352	3506445	1427331	3541396	1348912	3581112	1336508	3685650	1353827	3717225	1339592
BGL	1220141	94009	1287063	97515	1422403	118665	1504833	125896	1559749	172298	1581187	129282
Foreign currencies	2215956	1354343	2219382	1329816	2118993	1230247	2076279	1210612	2125901	1181529	2136038	1210310
Claims on nonfinancial state-owned enterprises	951956	413466	968193	431847	930332	389984	922381	378408	940905	385355	945596	380160
BGL	237350	28894	253114	34001	277275	34169	306185	34114	286991	34052	299935	34042
Foreign currencies	714606	384572	715079	397846	653057	355815	616196	344294	653914	351303	645661	346118
Claims on private enterprises	2006125	974833	2058406	965375	2098601	930705	2143470	931891	2224783	941458	2253167	932790
BGL	580516	63575	597631	62020	675319	83003	722893	90290	793560	136757	801681	93613
Foreign currencies	1425609	911258	1460775	903355	1423282	847702	1420577	841601	1431223	804701	1451486	839177
Claims on the public	406819	910	436835	771	473524	736	478474	713	480659	710	480491	600
BGL	398306	111	431910	117	466849	116	472757	115	474879	112	476006	109
Foreign currencies	8513	799	4925	654	6675	620	5717	598	5780	598	4485	491
Claims on nonbank financial institutions	71197	59143	43011	29338	38939	27487	36787	25496	39303	26304	37971	26042
BGL	3969	1429	4408	1377	2960	1377	2998	1377	4319	1377	3565	1518
Foreign currencies	67228	57714	38603	27961	35979	26110	33789	24119	34984	24927	34406	24524
OTHER ITEMS (net)	-3678389	-627560	-3706836	-591102	-3540945	-520027	-3556952	-502663	-3734291	-514146	-3128814	-464248
BGL	-3494093	-683946	-3507155	-659472	-3387780	-583777	-3397055	-567956	-3590774	-580542	-2980225	-530628
Foreign currencies	-184295	56369	-199697	68366	-153149	63744	-159863	65302	-143498	66394	-148550	66393
Own funds	-1118267	930901	-900075	1052698	-884998	1062038	-944419	1064367	-1053085	1002536	-1076050	975025
Capital and reserves	-2041566	-202941	-2031812	-201131	-2015458	-200031	-2000102	-199777	-2034383	-200368	-2015532	-200023
Financial result	923299	1133842	1131737	1253829	1130460	1262069	1055683	1264144	981298	1202904	939482	1175048
Other assets and liabilities (net)	-2560121	-1558478	-2806777	-1643804	-2655931	-1582071	-2612499	-1567021	-2681187	-1516684	-2052725	-1439260
BROAD MONEY M3	6130872	158231	6267034	159706	6064243	156274	5999980	152569	6174858	154142	6597173	151709
BGL	3479249	81421	3516545	82670	3404979	82637	3434597	82678	3525415	82671	4013047	81233
Foreign currencies	2651623	76810	2750489	77036	2659264	73637	2565383	69891	2649443	71471	2584126	70476
MONEY M1	2305328	70630	2358929	70578	2279116	70563	2291438	70592	2399354	70575	2826129	70530
Money outside banks	1498762	0	1531232	0	1463313	0	1440920	0	1501704	0	1742026	0
Demand deposits (in BGL)	806566	70630	827697	70578	815803	70563	850518	70592	897650	70575	1084103	70530
State-owned enterprises	349956	48311	336917	48278	322523	48240	337529	48228	360013	48228	429270	48212
Private enterprises	382810	19088	403817	19068	417227	19091	434241	19133	442586	19116	553866	19085
Public	55770	801	57322	796	56814	796	59238	795	62120	795	68569	795
Nonbank financial institutions	18030	2430	29641	2436	19239	2436	19510	2436	32931	2436	32398	2438
MONEY M2 (M1 + quasi-money)	5806185	151077	5947062	153106	5767638	149741	5697153	149049	5900636	150597	6328788	148198
Quasi-money	3500857	80447	3588133	82528	3488522	79178	3405715	78457	3501282	80022	3502659	77668
Time deposits (in BGL)	810632	10134	798876	10694	772425	10675	763009	10686	762185	10697	786447	10064
State-owned enterprises	43980	581	43568	560	45156	538	44897	538	34155	538	41094	532
Private enterprises	41889	6270	40203	6301	40156	6297	44549	6297	44877	6298	42816	6282
Public	696519	3127	688499	3676	666214	3682	655916	3693	654145	3702	653226	3091
Nonbank financial institutions	28244	156	26606	157	20899	158	17647	158	29008	159	49311	159
Savings deposits (in BGL)	261829	91	264822	826	260089	826	264317	826	269410	826	292379	86
Foreign currency deposits	2428396	70222	2524435	71008	2456008	67677	2378389	66945	2469687	68499	2423833	67518
State-owned enterprises	465976	39191	507664	39637	491721	37715	395227	37312	454973	38181	426732	37600
Private enterprises	486551	18116	510499	18239	515221	17597	533895	17448	518182	17746	492205	17603
Public	1369674	427	1389511	489	1343841	530	1344701	525	1395412	535	1405025	474
Nonbank financial institutions	106195	12488	116761	12643	105225	11835	104566	11660	101120	12037	99871	11841
MONEY M3 (M2 + Money market instruments and restricted deposits)	6130872	158231	6267034	159706	6064243	156274	5999980	152569	6174858	154142	6597173	151709
Money market instruments	5846	159	6625	159	6907	159	7593	159	7821	159	7687	60
BGL	5727	159	6495	159	6778	159	7453	159	7676	159	7639	60
Foreign currencies	119	0	130	0	129	0	140	0	145	0	48	0
Import and restricted deposits	318841	6995	313347	6441	289698	6374	295234	3361	266401	3386	260698	3451
BGL	95733	407	87423	413	86571	414	108380	415	86790	414	100453	493
Foreign currencies	223108	6588	225924	6028	203127	5960	186854	2946	179611	2972	160245	2958

Source: BNB.

ANALYTICAL REPORTING OF THE BNB

(million BGL)

	XII'97	I'98	II'98	III'98	IV'98	V'98	VI'98	VII'98	VIII'98	IX'98	X'98	XI'98	XII'98
FOREIGN ASSETS	4954900	4742290	5128291	5282869	5117139	5536175	5659665	5559317	5335146	5053491	5078569	5229482	5516000
BNB international reserves	4395322	4172053	4558856	4713688	4701067	5130536	5244427	5149886	4922665	4665441	4683472	4821899	5119371
incl. gold – domestic reserves	515611	515611	515611	515611	515611	515611	515611	515611	507945	509178	498044	515611	496368
Other foreign assets	559578	570237	569435	569181	416072	405639	415238	409431	412481	388050	395097	407583	396629
CLAIMS ON GOVERNMENT	1632128	1632915	1642442	1608840	1576684	1549889	1528491	1469379	1526724	1443612	1545961	1688595	1665949
Foreign currencies	1632128	1632915	1642442	1608840	1576684	1549889	1528491	1469379	1526724	1443612	1545961	1688595	1665949
incl. loans	1632128	1632915	1642442	1608840	1576684	1549889	1528491	1469379	1526724	1443612	1545961	1688595	1665949
CLAIMS ON NONFINANCIAL STATE-OWNED ENTERPRISES	643	660	660	661	661	661	661	661	661	1350	1350	1350	1350
BGL	643	660	660	661	661	661	661	661	661	1350	1350	1350	1350
CLAIMS ON NONBANK FINANCIAL INSTITUTIONS	22	22	22	22	22	22	22	22	22	0	0	0	0
BGL	22	22	22	22	22	22	22	22	22	0	0	0	0
CLAIMS ON COMMERCIAL BANKS	334617	287626	283261	283910	271250	267562	265459	263180	264539	257874	253861	257040	256463
BGL	152729	152167	152218	154490	152052	152049	148307	148305	148305	148295	146020	146031	147597
Deposits	20	20	23	23	23	23	25	26	26	27	27	28	28
Credits	53404	53404	53404	53404	53404	53404	53404	53404	53404	53393	52281	52277	52277
Overdue credits	53404	53404	53404	53404	53404	53404	53404	53404	53404	53393	52281	52277	52277
Other claims	99305	98743	98791	101063	98625	98622	94878	94875	94875	94875	93712	93726	95292
Foreign currencies	181888	135459	131043	129420	119198	115513	117152	114875	116234	109579	107841	111009	108866
Deposits	49954	9645	11697	9379	2946	2912	2963	2895	2933	2762	2383	2448	2416
Credits	110483	105953	100680	101201	97777	94138	95410	93525	94568	89143	87968	90488	88818
Overdue credits	110483	105953	100680	101201	97777	94138	95410	93525	94568	89143	87968	90488	88818
Other claims	21451	19861	18666	18840	18475	18463	18779	18455	18733	17674	17490	18073	17632
OTHER ITEMS (net)	-389894	-392284	-382108	-345693	-338364	-329969	-314169	-308760	-314120	-291784	-295971	-303810	-289061
BGL	-191826	-191294	-179216	-143274	-138419	-133252	-129921	-129035	-132026	-116466	-118678	-124252	-108998
Foreign currencies	-198068	-200990	-202892	-202419	-199945	-196717	-184248	-179725	-182094	-175318	-177293	-179558	-180063
RESERVE MONEY	2174241	1957995	1892905	2095001	1920731	1916288	2074151	2147645	2179409	2044877	2079443	2230835	2387369
Currency outside banks	1314106	1203366	1243725	1285373	1305105	1323723	1416209	1498762	1531232	1463313	1440920	1501704	1742026
Bank reserves	852095	750750	648721	808694	615111	592506	654847	648205	648123	581551	638514	729121	645337

(continued)

(continued) (million BGL)

	XII'97	I'98	II'98	III'98	IV'98	V'98	VI'98	VII'98	VIII'98	IX'98	X'98	XI'98	XII'98
BGL	717699	610584	510062	670230	483083	397742	513679	483719	483196	449620	501329	599987	483084
Minimum required reserves	319364	314132	319364	327647	347308	288265	353900	323513	366393	379798	360966	394188	309961
Excess reserves	292631	209561	110600	267937	60888	39246	85809	80065	17097	-24062	53936	108600	70119
Commercial banks' cash	105704	86891	80098	74646	74887	70231	73970	80141	99706	93884	86427	97199	103004
Foreign currencies	134396	140166	138659	138464	132028	194764	141168	164486	164927	131931	137185	129134	162253
Minimum required reserves	124303	130236	132718	132310	125819	188426	133904	158755	159115	131542	136783	128810	162248
Excess reserves	10093	9930	5941	6154	6209	6338	7264	5731	5812	389	402	324	5
Other deposits of nonbank financial institutions in BGL	8040	3879	459	934	515	59	3095	678	54	13	9	10	6
TIME, SAVINGS AND FOREIGN CURRENCY DEPOSITS	715	718	362	338	337	333	335	333	334	329	311	314	10314
MONEY MARKET INSTRUMENTS AND RESTRICTED DEPOSITS	16174	16174	16174	16557	16607	16622	17648	17652	17752	17752	17752	17752	17792
FOREIGN LIABILITIES	1675827	1677479	1686471	1652950	1622701	1891536	1888850	1822520	1733524	1643579	1748805	1892415	1871136
GOVERNMENT DEPOSITS	981551	1186033	1698625	1686645	1781593	1847829	1805121	1645096	1562019	1480480	1453007	1467010	1527141
BGL	236947	455931	602714	679221	719799	630379	455831	507158	620833	595632	562195	449709	303081
Foreign currencies	744604	730102	1095911	1007424	1061794	1217450	1349290	1137938	941186	884848	890812	1017301	1224060
DEPOSITS OF STATE FUNDS AND EXTRABUDGETARY ACCOUNTS	722165	449210	359480	311360	371412	437481	436742	435245	401889	353998	374197	324149	420697
BGL	273548	223523	233428	189836	273146	338087	314901	332033	291267	301435	311719	259873	302535
Foreign currencies	448617	225687	126052	121524	98266	99394	121841	103212	110622	52563	62478	64276	118162
OWN FUNDS	961744	983619	1018547	1067760	914014	914247	917283	915306	918042	923524	910253	940188	916255

Source: BNB.

ANALYTICAL REPORTING OF COMMERCIAL BANKS

(million BGL)

	XII'97		I'98		II'98		III'98		IV'98		V'98		VI'98	
	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation
RESERVES	818446	16349	691982	16022	610373	16174	738462	12379	580365	11316	564240	11296	617378	13303
FOREIGN ASSETS	2848124	138884	2931656	140799	3031899	141280	2957431	140646	2955322	113800	2864315	110137	2952057	113168
CLAIMS ON GOVERNMENT	2510600	119518	2535930	112946	2567226	112710	2452809	113219	2457632	111201	2461027	110265	2452018	111561
BGL	872653	9993	913681	10794	939005	9949	966229	9667	987549	9681	979337	9626	903078	9352
Foreign currencies	1637947	109525	1622249	102152	1628221	102761	1486580	103552	1470083	101520	1481690	100639	1548940	102209
CLAIMS ON STATE FUNDS AND EXTRABUDGETARY ACCOUNTS	11	0	12	0	25	0	29	0	15	0	16	0	16	0
BGL	11	0	12	0	25	0	29	0	15	0	16	0	16	0
CLAIMS ON LOCAL BUDGETS	3	1	4	1	3	1	4	1	3207	1	3532	1	6940	1
BGL	3	1	4	1	3	1	4	1	3207	1	3532	1	5765	1
Foreign currencies	0	0	0	0	0	0	0	0	0	0	0	0	1175	0
CLAIMS ON NONFINANCIAL STATE-OWNED ENTERPRISES	1253408	554420	1275729	563494	1238267	537846	1127422	475457	1106528	454502	1095362	447684	973711	421425
BGL	335561	28566	336223	28368	325751	27358	305625	26681	314307	24530	308738	24391	248204	23516
Foreign currencies	917847	525854	939506	535126	912516	510488	821797	448776	792221	429972	786624	423293	725507	397909
CLAIMS ON PRIVATE ENTERPRISES	1982195	1180998	2036633	1202503	2066689	1186767	2056713	1156972	1947343	1042928	1986605	1030350	2000210	994688
BGL	419962	78132	436493	77917	463787	76835	488051	75768	504062	63557	520164	62972	537066	62355
Foreign currencies	1562233	1102866	1600140	1124586	1602902	1109932	1568662	1081204	1443281	979371	1466441	967378	1463144	932333
CLAIMS ON THE PUBLIC	169620	2184	186998	2202	215118	2172	247630	2229	292129	2167	328475	2024	364951	967
BGL	163405	221	180812	221	208854	218	241302	160	285725	140	322221	122	359333	119
Foreign currencies	6215	1963	6186	1981	6264	1954	6328	2069	6404	2027	6254	1902	5618	848
CLAIMS ON NONBANK FINANCIAL INSTITUTIONS	89026	80862	90294	82050	87655	79137	74526	64167	73422	59896	72488	59063	72006	60486
BGL	11952	10629	12115	10629	12588	10629	2357	1576	2046	1429	2056	1429	3155	1429
Foreign currencies	77074	70233	78179	71421	75067	68508	72169	62591	71376	58467	70432	57634	68851	59057
OTHER ITEMS (net)	-2710556	-1492998	-2715349	-1530495	-2678593	-1495017	-2477897	-1427876	-2196783	-1281021	-2216088	-1243731	-2544645	-1582095
BGL	-2466234	-1465732	-2630187	-1576859	-2600177	-1556205	-2402435	-1481080	-2134535	-1370715	-2123615	-1339023	-2440916	-1680418
Foreign currencies	-244322	-27266	-85162	46364	-78416	61188	-75462	53204	-62248	89694	-92473	95292	-103729	98323
DEMAND DEPOSITS (in BGL)	968170	23429	770253	44277	741307	44273	811182	43484	814131	63252	758492	67251	810506	70120
State-owned enterprises	451456	8015	340573	25963	346683	25966	376951	25342	391890	42994	359477	44943	359605	47958
Private enterprises	440604	15006	359133	17101	331082	17094	363346	17022	351470	19128	330339	19038	380823	18926
Public	44089	120	42245	899	43893	899	44718	797	44710	794	47677	840	50689	806
Nonbank financial institutions	32021	288	28302	314	19649	314	26167	323	26061	336	20999	2430	19389	2430
TIME, SAVINGS AND FOREIGN CURRENCY DEPOSITS	3459697	188525	3644248	151035	3640779	147076	3507766	120921	3515609	91332	3471709	86872	3458563	86973
TIME DEPOSITS (in BGL)	804565	8776	817669	10788	832207	10787	829887	10224	831950	12951	792605	10004	788770	9473
State-owned enterprises	43600	892	35407	894	40213	917	45071	783	61277	614	35995	595	32177	575
Private enterprises	37622	3206	41553	5202	40846	5178	44883	5042	43364	7177	40492	6325	35118	6328
Public	691386	4519	703869	4533	709133	4533	712412	4239	701316	2911	692078	2929	693614	2414
Nonbank financial institutions	31957	159	36840	159	42015	159	27521	160	25993	2249	24040	155	27861	156
SAVINGS DEPOSITS (in BGL)	226923	2090	228600	2253	234333	2253	238431	576	241087	202	243673	202	253545	92
FOREIGN CURRENCY DEPOSITS	2428209	177659	2597979	137994	2574239	134036	2439448	110121	2442572	78179	2435431	76666	2416248	77408
State-owned enterprises	602850	99625	646719	82913	608238	83561	495755	68334	500009	40244	480812	39019	466284	40575
Private enterprises	469270	28780	519844	24855	482407	21722	462519	19411	478018	18277	511256	18122	482303	18684
Public	1267165	34128	1323657	15107	1337532	13545	1349102	7054	1336685	6970	1331341	6948	1358961	5377
Nonbank financial institutions	88924	15126	107759	15119	146062	15208	132072	15322	127860	12688	112022	12577	108700	12772

(continued)

(continued) (million BGL)

	XII'97		I'98		II'98		III'98		IV'98		V'98		VI'98	
	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation
MONEY MARKET INSTRUMENTS AND RESTRICTED DEPOSITS	251685	8107	244295	8149	256578	8173	335725	7644	306711	7481	313235	7415	339039	7361
RECEIVED LOANS AND PARTICIPATIONS	4476	149	4537	149	4702	149	4661	149	4723	159	4646	159	4527	159
BGL	4446	149	4509	149	4677	149	4638	149	4682	159	4589	159	4421	159
State-owned enterprises	4297	0	4360	0	4479	0	4440	0	4476	0	4385	0	4211	0
Private enterprises	99	99	99	99	148	99	148	99	146	99	144	99	150	99
Public	0	0	0	0	0	0	0	0	10	10	10	10	10	10
Nonbank financial institutions	50	50	50	50	50	50	50	50	50	50	50	50	50	50
Foreign currencies	30	0	28	0	25	0	23	0	41	0	57	0	106	0
Private enterprises	30	0	28	0	25	0	23	0	20	0	18	0	52	0
Nonbank financial institutions	0	0	0	0	0	0	0	0	21	0	39	0	54	0
IMPORT AND RESTRICTED DEPOSITS	247209	7958	239758	8000	251876	8024	331064	7495	301988	7322	308589	7256	334512	7202
BGL	51718	224	51572	490	52342	490	84640	520	71707	476	77439	452	91782	435
State-owned enterprises	14710	71	15241	71	14530	71	23539	110	17228	103	18411	79	19002	92
Private enterprises	22201	62	17644	239	17251	239	19295	231	20684	217	25233	217	32392	218
Public	4170	76	7628	165	9059	165	11777	164	7528	152	8218	152	13561	121
Nonbank financial institutions	10637	15	11059	15	11502	15	30029	15	26267	4	25577	4	26827	4
Foreign currencies	195491	7734	188186	7510	199534	7534	246424	6975	230281	6846	231150	6804	242730	6767
State-owned enterprises	147022	5275	132790	5306	133435	5368	152675	5194	148810	5180	139384	5170	138458	5184
Private enterprises	40150	2055	46387	1894	57101	1853	79092	1606	70612	1493	77405	1462	89795	1580
Public	6034	255	5865	158	5426	160	5333	20	5371	21	5467	21	5627	2
Nonbank financial institutions	2285	149	3144	152	3572	153	9324	155	5488	152	8894	151	8850	1
FOREIGN LIABILITIES	1176979	493595	1131166	499871	1184717	501175	1068764	485267	1075458	483429	1082747	481557	1064190	479954
BGL	21988	273	6201	360	6334	360	6589	309	7330	527	7858	677	12941	680
Foreign currencies	1154991	493322	1124965	499511	1178383	500815	1062175	484958	1068128	482902	1074889	480880	1051249	479274
GOVERNMENT DEPOSITS	600736	369020	657581	383386	669834	384343	689211	392413	749190	392249	752225	391124	750365	397462
BGL	146577	102631	266089	191915	278894	198788	333178	230202	395661	233114	396509	233400	385391	236553
Foreign currencies	454159	266389	391492	191471	390940	185555	356033	162211	353529	159135	355716	157724	364974	160909
DEPOSITS OF STATE FUNDS AND EXTRABUDGETARY ACCOUNTS	129337	5341	129178	5399	122809	5417	112208	5471	112898	5403	124827	5385	121159	5416
BGL	46879	2208	47528	2208	48189	2208	43764	2213	48138	2213	55936	2213	59449	2213
Foreign currencies	82458	3133	81650	3191	74620	3209	68444	3258	64760	3190	68891	3172	61710	3203
DEPOSITS OF LOCAL BUDGETS	67393	774	75033	779	68594	781	96293	808	103289	801	111183	798	116607	803
BGL	64661	450	71932	450	65775	450	93093	471	99990	471	108044	471	113387	471
Foreign currencies	2732	324	3101	329	2819	331	3200	337	3299	330	3139	327	3220	332
OWN FUNDS	306876	-488580	382163	-503379	454026	-510173	555956	-518808	541870	-529161	545520	-513314	234175	-914600
Capital and reserves	600875	127680	657931	154472	703133	154600	766995	192911	836385	203763	999423	203583	1181529	203516
Financial result	-293999	-616260	-275768	-657851	-249107	-664773	-211039	-711719	-294515	-732924	-453903	-716897	-947354	-1118116

(continued)

(continued) (million BGL)

	VII'98		VIII'98		IX'98		X'98		XI'98		XII'98	
	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation
RESERVES	624453	13116	604178	12939	554946	12517	617010	8044	680191	6185	651188	5336
FOREIGN ASSETS	2930225	111035	3228768	115628	2854136	110369	2895687	104486	3010543	103923	2828235	102188
CLAIMS ON GOVERNMENT	2407609	109172	2505483	112098	2457381	105289	2201306	103725	2202932	106625	1656780	67564
BGL	883741	9290	893841	10928	909324	10816	886729	10703	880602	10492	838064	10287
Foreign currencies	1523868	99882	1611642	101170	1548057	94473	1314577	93022	1322330	96133	818716	57277
CLAIMS ON STATE FUNDS AND EXTRABUDGETARY ACCOUNTS	17	0	18	0	15	0	23	0	29	0	81	0
BGL	17	0	18	0	15	0	23	0	29	0	81	0
CLAIMS ON LOCAL BUDGETS	9125	1	10805	1	13049	1	13613	1	17211	1	17052	1
BGL	9125	1	10805	1	13049	1	13613	1	17211	1	17052	1
Foreign currencies	0	0	0	0	0	0	0	0	0	0	0	0
CLAIMS ON NONFINANCIAL STATE-OWNED ENTERPRISES	951295	413466	967532	431847	928982	389984	921031	378408	939555	385355	944246	380160
BGL	236689	28894	252453	34001	275925	34169	304835	34114	285641	34052	298585	34042
Foreign currencies	714606	384572	715079	397846	653057	355815	616196	344294	653914	351303	645661	346118
CLAIMS ON PRIVATE ENTERPRISES	2006125	974833	2058406	965375	2098601	930705	2143470	931891	2224783	941458	2253167	932790
BGL	580516	63575	597631	62020	675319	83003	722893	90290	793560	136757	801681	93613
Foreign currencies	1425609	911258	1460775	903355	1423282	847702	1420577	841601	1431223	804701	1451486	839177
CLAIMS ON THE PUBLIC	406819	910	436835	771	473524	736	478474	713	480659	710	480491	600
BGL	398306	111	431910	117	466849	116	472757	115	474879	112	476006	109
Foreign currencies	8513	799	4925	654	6675	620	5717	598	5780	598	4485	491
CLAIMS ON NONBANK FINANCIAL INSTITUTIONS	71175	59143	42989	29338	38939	27487	36787	25496	39303	26304	37971	26042
BGL	3947	1429	4386	1377	2960	1377	2998	1377	4319	1377	3565	1518
Foreign currencies	67228	57714	38603	27961	35979	26110	33789	24119	34984	24927	34406	24524
OTHER ITEMS (net)	-2490789	-1571594	-2713251	-1656743	-2595416	-1594588	-2548885	-1575065	-2585487	-1522869	-2025978	-1444596
BGL	-2373681	-1627126	-2587683	-1724255	-2507013	-1657518	-2457319	-1639546	-2509677	-1588759	-1947256	-1510791
Foreign currencies	-117108	55532	-125568	67512	-88403	62930	-91566	64481	-75810	65890	-78722	66195
DEMAND DEPOSITS (in BGL)	805888	70630	827643	70578	815790	70563	850509	70592	897640	70575	1084097	70530
State-owned enterprises	349956	48311	336917	48278	322523	48240	337529	48228	360013	48228	429270	48212
Private enterprises	382810	19088	403817	19068	417227	19091	434241	19133	442586	19116	553866	19085
Public	55770	801	57322	796	56814	796	59238	795	62120	795	68569	795
Nonbank financial institutions	17352	2430	29587	2436	19226	2436	19501	2436	32921	2436	32392	2438
TIME, SAVINGS AND FOREIGN CURRENCY DEPOSITS	3500524	80447	3587799	82528	3488193	79178	3405404	78457	3500968	80022	3492345	77668
TIME DEPOSITS (in BGL)	810632	10134	798876	10694	772425	10675	763009	10686	762185	10697	776446	10064
State-owned enterprises	43980	581	43568	560	45156	538	44897	538	34155	538	41094	532
Private enterprises	41889	6270	40203	6301	40156	6297	44549	6297	44877	6298	42816	6282
Public	696519	3127	688499	3676	666214	3682	655916	3693	654145	3702	653226	3091
Nonbank financial institutions	28244	156	26606	157	20899	158	17647	158	29008	159	39310	159
SAVINGS DEPOSITS (in BGL)	261829	91	264822	826	260089	826	264317	826	269410	826	292379	86
FOREIGN CURRENCY DEPOSITS	2428063	70222	2524101	71008	2455679	67677	2378078	66945	2469373	68499	2423520	67518
State-owned enterprises	465643	39191	507330	39637	491392	37715	394916	37312	454659	38181	426419	37600
Private enterprises	486551	18116	510499	18239	515221	17597	533895	17448	518182	17746	492205	17603
Public	1369674	427	1389511	489	1343841	530	1344701	525	1395412	535	1405025	474
Nonbank financial institutions	106195	12488	116761	12643	105225	11835	104566	11660	101120	12037	99871	11841

(continued)

(continued) (million BGL)

	VII'98		VIII'98		IX'98		X'98		XI'98		XII'98	
	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation	all banks	incl. in liquidation
MONEY MARKET INSTRUMENTS AND RESTRICTED DEPOSITS	307035	7154	302220	6600	278853	6533	285075	3520	256470	3545	250593	3511
RECEIVED LOANS AND PARTICIPATIONS	5846	159	6625	159	6907	159	7593	159	7821	159	7687	60
BGL	5727	159	6495	159	6778	159	7453	159	7676	159	7639	60
State-owned enterprises	5520	0	6292	0	6577	0	7254	0	7481	0	7470	0
Private enterprises	147	99	143	99	141	99	139	99	135	99	33	0
Public	10	10	10	10	10	10	10	10	10	10	10	10
Nonbank financial institutions	50	50	50	50	50	50	50	50	50	50	126	50
Foreign currencies	119	0	130	0	129	0	140	0	145	0	48	0
Private enterprises	48	0	44	0	39	0	35	0	31	0	27	0
Nonbank financial institutions	71	0	86	0	90	0	105	0	114	0	21	0
IMPORT AND RESTRICTED DEPOSITS	301189	6995	295595	6441	271946	6374	277482	3361	248649	3386	242906	3451
BGL	78081	407	69671	413	68819	414	90628	415	69038	414	82661	493
State-owned enterprises	15355	65	14051	67	14727	55	15607	57	14946	55	34729	51
Private enterprises	27512	218	29698	218	33187	232	53795	247	44068	248	38497	240
Public	9105	121	8540	125	8379	124	8538	108	7388	108	6360	108
Nonbank financial institutions	26109	3	17382	3	12526	3	12688	3	2636	3	3075	94
Foreign currencies	223108	6588	225924	6028	203127	5960	186854	2946	179611	2972	160245	2958
State-owned enterprises	115400	5147	115793	4576	104123	4568	100054	1564	96757	1568	94471	1565
Private enterprises	93431	1437	93939	1448	82962	1389	72550	1378	68029	1400	52428	1389
Public	5383	3	5901	3	5670	2	6223	3	6814	3	5487	3
Nonbank financial institutions	8894	1	10291	1	10372	1	8027	1	8011	1	7859	1
FOREIGN LIABILITIES	1065131	479199	1136642	479851	1139939	477135	979694	481142	1003841	481734	974123	483419
BGL	13294	694	12350	686	13305	686	21962	673	18302	673	13611	674
Foreign currencies	1051837	478505	1124292	479165	1126634	476449	957732	480469	985539	481061	960512	482745
GOVERNMENT DEPOSITS	765775	397404	1027113	418198	854810	405143	867165	402397	889757	408306	644633	405357
BGL	378414	216202	401459	224680	404411	223123	438231	222854	451204	223451	306804	223153
Foreign currencies	387361	181202	625654	193518	450399	182020	428934	179543	438553	184855	337829	182204
DEPOSITS OF STATE FUNDS AND EXTRABUDGETARY ACCOUNTS	138379	5370	140283	5405	148407	5217	176317	5177	184022	5267	163090	3835
BGL	67184	2213	73962	2214	74037	2214	73591	2214	86566	2214	91499	816
Foreign currencies	71195	3157	66321	3191	74370	3003	102726	2963	97456	3053	71591	3019
DEPOSITS OF LOCAL BUDGETS	130362	796	138049	796	136679	775	160154	772	164099	781	74515	777
BGL	125460	471	133252	462	132168	462	155399	462	161328	462	73107	462
Foreign currencies	4902	325	4797	334	4511	313	4755	310	2771	319	1408	315
OWN FUNDS	202961	-930901	-17967	-1052698	-38526	-1062038	34166	-1064367	112897	-1002536	159795	-975025
Capital and reserves	1191305	202941	1189489	201131	1189521	200031	1195463	199777	1196038	200368	1213691	200023
Financial result	-988344	-1133842	-1207456	-1253829	-1228047	-1262069	-1161297	-1264144	-1083141	-1202904	-1053896	-1175048

Source: BNB.

NOMINAL INTEREST RATES ON SHORT-TERM CREDITS IN 1998

Months	January	February	March	April	May	June	July	August	September	October	November	December
January	1.17											
February	2.31	1.13										
March	3.41	2.22	1.08									
April	4.59	3.39	2.24	1.14								
May	5.85	4.63	3.46	2.36	1.20							
June	7.04	5.80	4.62	3.50	2.33	1.12						
July	8.20	6.96	5.76	4.63	3.45	2.22	1.09					
August	9.33	8.07	6.86	5.72	4.53	3.29	2.14	1.04				
September	10.48	9.21	7.99	6.84	5.63	4.38	3.22	2.11	1.06			
October	11.71	10.42	9.19	8.02	6.80	5.53	4.36	3.24	2.17	1.11		
November	12.94	11.64	10.40	9.22	7.98	6.70	5.52	4.38	3.31	2.23	1.11	
December	14.14	12.83	11.57	10.38	9.13	7.84	6.64	5.49	4.40	3.31	2.18	1.06

Source: BNB.

REAL INTEREST RATES ON SHORT-TERM CREDITS IN 1998*

Months	January	February	March	April	May	June	July	August	September	October	November	December
January	-0.80											
February	-1.40	-0.60										
March	-0.28	0.52	1.13									
April	0.75	1.56	2.17	1.03								
May	1.49	2.31	2.93	1.78	0.74							
June	4.58	5.43	6.07	4.88	3.81	3.05						
July	7.30	8.17	8.82	7.60	6.51	5.72	2.60					
August	9.41	10.29	10.96	9.72	8.60	7.80	4.62	1.97				
September	7.33	8.19	8.85	7.63	6.53	5.75	2.62	0.02	-1.91			
October	8.84	9.72	10.38	9.15	8.03	7.24	4.07	1.44	-0.52	1.41		
November	11.09	11.99	12.67	11.40	10.27	9.46	6.22	3.53	1.54	3.51	2.07	
December	13.07	13.97	14.67	13.38	12.22	11.40	8.11	5.37	3.34	5.35	3.88	1.77

* Interest rates are deflated by the consumer price index.

Source: BNB and NSI.

NOMINAL INTEREST RATES ON ONE-MONTH DEPOSITS IN 1998

Months	January	February	March	April	May	June	July	August	September	October	November	December
January	0.25											
February	0.49	0.24										
March	0.72	0.47	0.23									
April	0.95	0.70	0.46	0.23								
May	1.18	0.92	0.68	0.45	0.23							
June	1.40	1.15	0.91	0.68	0.45	0.23						
July	1.65	1.40	1.16	0.93	0.70	0.47	0.24					
August	1.93	1.68	1.43	1.20	0.97	0.74	0.52	0.27				
September	2.21	1.95	1.71	1.48	1.25	1.02	0.79	0.54	0.27			
October	2.48	2.23	1.98	1.75	1.52	1.29	1.06	0.82	0.54	0.27		
November	2.76	2.50	2.26	2.03	1.80	1.57	1.34	1.09	0.82	0.54	0.27	
December	3.04	2.78	2.54	2.30	2.07	1.84	1.61	1.36	1.09	0.81	0.54	0.27

Source: BNB.

REAL INTEREST RATES ON ONE-MONTH DEPOSITS IN 1998*

Months	January	February	March	April	May	June	July	August	September	October	November	December
January	-1.70											
February	-3.15	-1.48										
March	-2.88	-1.20	0.28									
April	-2.76	-1.09	0.40	0.12								
May	-2.99	-1.32	0.16	-0.12	-0.23							
June	-0.92	0.79	2.30	2.02	1.90	2.14						
July	0.81	2.55	4.08	3.79	3.67	3.91	1.74					
August	2.01	3.77	5.32	5.03	4.91	5.15	2.95	1.19				
September	-0.71	1.00	2.51	2.23	2.11	2.35	0.21	-1.51	-2.67			
October	-0.14	1.58	3.10	2.81	2.69	2.93	0.78	-0.94	-2.11	0.57		
November	1.08	2.82	4.36	4.07	3.95	4.19	2.01	0.27	-0.91	1.80	1.22	
December	2.06	3.83	5.38	5.09	4.97	5.21	3.01	1.25	0.05	2.80	2.21	0.98

* Interest rates are deflated by the consumer price index.

Source: BNB and NSI.

COMMERCIAL BANK INTEREST RATES ON NEW LEV CREDITS AND DEPOSITS

			1998											
		XII'97	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Base interest rate	annual effective	7.01	6.58	5.94	5.52	5.53	5.38	5.27	5.33	5.27	5.21	5.26	5.35	5.15
	annual	6.79	6.39	5.78	5.38	5.40	5.25	5.15	5.20	5.15	5.09	5.14	5.22	5.03
	monthly	0.57	0.53	0.48	0.45	0.45	0.44	0.43	0.43	0.43	0.42	0.43	0.44	0.42
Average spread over the interest rate on short-term credits	annual effective	6.85	8.35	8.45	8.27	9.06	10.03	9.03	8.57	7.94	8.22	8.87	8.79	8.37
	annual	6.25	7.61	7.74	7.61	8.30	9.17	8.29	7.89	7.32	7.58	8.15	8.08	7.72
	monthly	0.52	0.63	0.64	0.63	0.69	0.76	0.69	0.66	0.61	0.63	0.68	0.67	0.64
Average weighted interest rate on short-term credits	annual effective	13.85	14.93	14.39	13.79	14.59	15.41	14.30	13.90	13.21	13.44	14.13	14.14	13.52
	annual	13.05	14.00	13.52	12.99	13.70	14.42	13.44	13.09	12.48	12.67	13.29	13.30	12.75
	monthly	1.09	1.17	1.13	1.08	1.14	1.20	1.12	1.09	1.04	1.06	1.11	1.11	1.06
Average weighted interest rate on long-term credits	annual effective	15.39	15.28	15.12	15.07	15.49	15.38	15.36	16.24	16.44	16.09	15.78	16.05	15.99
	annual	14.40	14.30	14.17	14.12	14.49	14.39	14.37	15.14	15.32	15.02	14.74	14.98	14.93
	monthly	1.20	1.19	1.18	1.18	1.21	1.20	1.20	1.26	1.28	1.25	1.23	1.25	1.24
Average weighted interest rate on one-month deposits	annual effective	3.04	3.04	2.91	2.76	2.77	2.75	2.75	2.98	3.31	3.31	3.30	3.30	3.30
	annual	3.00	3.00	2.87	2.73	2.74	2.72	2.71	2.94	3.26	3.26	3.25	3.25	3.25
	monthly	0.25	0.25	0.24	0.23	0.23	0.23	0.23	0.24	0.27	0.27	0.27	0.27	0.27
Average weighted interest rate on demand deposits	annual effective	0.40	0.35	0.31	0.28	0.26	0.24	0.28	0.30	0.30	0.25	0.25	0.24	0.24
	annual	0.40	0.35	0.31	0.28	0.26	0.24	0.28	0.30	0.30	0.25	0.25	0.24	0.24
	monthly	0.03	0.03	0.03	0.02	0.02	0.02	0.02	0.02	0.03	0.02	0.02	0.02	0.02

Source: BNB.

DENOMINATION COMPOSITION IN NOTES AND COINS

(million BGL)

	31 December 1997	30 June 1998	31 December 1998
Notes, total	1 875 722 358 472	1 875 527 815 417	2 515 404 878 102
50 000 levs	951 500 000 000	952 435 000 000	1 499 734 900 000
10 000 levs	399 999 980 000	400 034 985 000	498 584 545 000
5 000 levs	204 994 925 000	204 828 925 000	203 878 757 500
2 000 levs	110 503 471 000	110 059 047 000	109 141 918 000
1 000 levs	78 282 550 500	85 395 780 000	102 795 445 000
500 levs	73 762 730 750	73 041 565 250	63 703 033 500
200 levs	38 083 224 900	33 856 039 900	26 952 849 800
100 levs	12 320 315 250	10 248 469 600	7 335 141 550
50 levs	3 880 878 525	3 385 900 900	2 045 605 225
20 levs	1 852 931 187	1 731 942 407	1 232 682 527
10 levs	240 541 172	223 461 172	-
5 levs	162 200 276	151 250 276	-
2 levs	66 399 089	64 903 089	-
1 lev	72 210 823	70 545 823	-
Coins, total	5 147 623 049	6 818 657 649	8 084 399 417
50 levs	2 540 087 500	3 114 387 500	3 114 387 500
20 levs	491 869 980	1 059 507 780	1 464 167 780
10 levs	750 630 000	1 084 480 000	1 254 789 000
5 levs	332 646 450	332 646 450	332 646 450
2 levs	160 180 000	159 148 000	158 968 000
1 lev	136 608 651	136 273 051	136 273 051
50 stotinkas	42 074 358	41 133 358	41 132 682
20 stotinkas	46 755 061	44 289 861	39 957 608
10 stotinkas	32 955 993	31 692 993	31 492 690
Commemorative	613 815 056	815 098 656	1 510 584 656
Notes and coins, total	1 880 869 981 521	1 882 346 473 066	2 523 489 277 519

Source: BNB.

CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS
(annual closing of accounts)

(thousand BGL)

	Current year	Previous year
ASSETS		
Vault cash and current accounts with the BNB	786 674 579	944 272 812
Claims on banks and other financial institutions	2 498 036 671	2 316 019 454
Securities in trading portfolio	1 270 147 500	1 519 622 721
Credits to nonfinancial institutions and other clients	1 844 459 984	1 120 453 728
Assets from resale	21 843 703	17 993 951
Claims on interest and other assets	355 709 633	889 997 578
Securities in investment portfolio	473 701 418	288 557 630
Fixed assets	344 375 979	264 568 681
ASSETS, TOTAL	**7 594 949 469**	**7 361 486 557**
LIABILITIES		
Deposits of banks and other financial institutions	590 259 215	701 697 449
Deposits of nonfinancial institutions and other clients	4 933 933 909	4 600 451 486
Other attracted resources	255 766 855	377 396 584
Interest payments and other liabilities	689 064 548	795 497 135
Subordinated debt	0	0
LIABILITIES, TOTAL	**6 469 024 527**	**6 475 042 655**
Minority participation	0	0
OWN FUNDS		
Authorized capital	599 843 980	316 971 201
Premium related to own funds	535 424	535 424
Reserves	304 305 965	205 220 123
Historic results	92 179 939	-4 923 029
Current result	129 059 634	368 640 184
OWN FUNDS, TOTAL	**1 125 924 942**	**886 443 903**
LIABILITIES AND OWN FUNDS, TOTAL	**7 594 949 469**	**7 361 486 557**
OFF-BALANCE-SHEET LIABILITIES	**734 696 229**	**706 552 238**

Source: BNB.

CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS
(annual closing of accounts of Group I banks)

(thousand BGL)

	Current year	Previous year
ASSETS		
Vault cash and current accounts with the BNB	551 679 075	650 125 179
Claims on banks and other financial institutions	1 761 372 386	1 753 116 840
Securities in trading portfolio	929 529 967	1 247 105 678
Credits to nonfinancial institutions and other clients	1 142 514 308	691 902 606
Assets from resale	2 247 540	1 196 549
Claims on interest and other assets	260 886 631	762 179 900
Securities in investment portfolio	455 695 886	275 768 096
Fixed assets	238 263 492	191 293 202
ASSETS, TOTAL	**5 342 189 287**	**5 572 688 052**
LIABILITIES		
Deposits of banks and other financial institutions	226 409 028	414 339 332
Deposits of nonfinancial institutions and other clients	3 733 918 803	3 555 825 169
Other attracted resources	155 139 422	301 300 819
Interest payments and other liabilities	451 727 527	647 921 100
Subordinated debt	0	0
LIABILITIES, TOTAL	**4 567 194 780**	**4 919 386 421**
Minority participation	0	0
OWN FUNDS		
Authorized capital	296 086 476	124 562 760
Premium related to own funds	0	0
Reserves	250 825 640	153 927 033
Historic results	120 132 922	-2 715 549
Current result	107 949 469	377 527 388
OWN FUNDS, TOTAL	**774 994 507**	**653 301 632**
LIABILITIES AND OWN FUNDS, TOTAL	**5 342 189 287**	**5 572 688 052**
OFF-BALANCE-SHEET LIABILITIES	**320 845 302**	**237 374 822**

Source: BNB.

CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS
(annual closing of accounts of Group II banks)

(thousand BGL)

	Current year	Previous year
ASSETS		
Vault cash and current accounts with the BNB	156 009 591	207 967 373
Claims on banks and other financial institutions	385 482 407	303 219 807
Securities in trading portfolio	309 511 431	233 738 406
Credits to nonfinancial institutions and other clients	388 808 719	248 766 487
Assets from resale	19 596 163	16 797 402
Claims on interest and other assets	85 397 562	121 246 522
Securities in investment portfolio	17 946 005	12 760 420
Fixed assets	83 065 706	62 872 679
ASSETS, TOTAL	**1 445 817 584**	**1 207 369 096**
LIABILITIES		
Deposits of banks and other financial institutions	209 438 671	113 071 311
Deposits of nonfinancial institutions and other clients	736 293 269	718 740 985
Other attracted resources	67 252 748	66 818 650
Interest payments and other liabilities		
Subordinated debt	0	0
LIABILITIES, TOTAL	**1 146 349 114**	**991 971 690**
Minority participation	0	0
OWN FUNDS		
Authorized capital	248 557 504	178 008 441
Premium related to own funds	0	0
Reserves	47 634 741	48 748 862
Historic results	-9 278 378	-2 098 181
Current result	12 554 603	-9 261 716
OWN FUNDS, TOTAL	**299 468 470**	**215 397 406**
LIABILITIES AND OWN FUNDS, TOTAL	**1 445 817 584**	**1 207 369 096**
OFF-BALANCE-SHEET LIABILITIES	**213 505 190**	**327 726 777**

Source: BNB.

CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS
(annual closing of accounts of Group III banks)

(thousand BGL)

	Current year	Previous year
ASSETS		
Vault cash and current accounts with the BNB	78 985 913	86 180 260
Claims on banks and other financial institutions	351 181 878	259 682 807
Securities in trading portfolio	31 106 102	38 778 637
Credits to nonfinancial institutions and other clients	313 136 957	179 784 635
Assets from resale	0	0
Claims on interest and other assets	9 425 440	6 571 156
Securities in investment portfolio	59 527	29 114
Fixed assets	23 046 781	10 402 800
ASSETS, TOTAL	**806 942 598**	**581 429 409**
LIABILITIES		
Deposits of banks and other financial institutions	154 411 516	174 286 806
Deposits of nonfinancial institutions and other clients	463 721 837	325 885 332
Other attracted resources	33 374 685	9 277 115
Interest payments and other liabilities	103 972 595	54 235 291
Subordinated debt	0	0
LIABILITIES, TOTAL	**755 480 633**	**563 684 544**
Minority participation	0	0
OWN FUNDS		
Authorized capital	55 200 000	14 400 000
Premium related to own funds	535 424	535 424
Reserves	5 845 584	2 544 228
Historic results	-18 674 605	-109 299
Current result	8 555 562	374 512
OWN FUNDS, TOTAL	**51 461 965**	**17 744 865**
LIABILITIES AND OWN FUNDS, TOTAL	**806 942 598**	**581 429 409**
OFF-BALANCE-SHEET LIABILITIES	**200 345 737**	**141 450 639**

Source: BNB.

CONSOLIDATED INCOME STATEMENT OF COMMERCIAL BANKS
(annual closing of accounts)

(thousand BGL)

	Current year	Previous year
Revenue from interest and other related revenue	469 178 675	776 593 151
Expenditure on interest and other related expenditure	143 722 345	547 143 074
REVENUE FROM INTEREST, NET	**325 456 330**	**229 450 077**
Net income/loss from fees and commissions	98 969 521	62 791 682
Net income/loss from operations in securities in trading portfolio	-157 021 577	3 710 842
Net income/loss from valuation adjustments of forex operations	-18 539 198	1 388 401 235
Other income	51 540 830	247 435 947
NET REVENUE FROM OTHER BANKING OPERATIONS, TOTAL	**-25 050 424**	**1 702 339 706**
Operating expenditure	-374 606 135	-266 599 832
Decrease/(increase) of provisions	335 741 532	-1 106 900 878
Expenditure on revaluation of long-term assets and investment	-72 827 483	-124 937
OPERATING EXPENSES, TOTAL	**-111 692 088**	**-1 373 625 647**
PRE-TAX PROFIT/(LOSS) AND EXTRAORDINARY INCOME/(EXPENDITURE)	**188 713 818**	**558 164 132**
Extraordinary income/(expenditure)	17 731 302	6 769 864
PRE-TAX PROFIT/(LOSS) AND AFTER EXTRAORDINARY REVENUE/(EXPENDITURE)	**206 445 120**	**564 933 996**
Taxation	77 385 486	198 939 961
POST-TAX PROFIT/(LOSS)	**129 059 634**	**368 640 184**
Minority participation	0	0
DISTRIBUTABLE PROFIT/(LOSS)	**129 059 634**	**368 640 184**
Dividends	875 698	0
RETAINED EARNINGS FOR THE YEAR	**128 183 936**	**368 640 184**

Source: BNB.

CONSOLIDATED INCOME STATEMENT OF COMMERCIAL BANKS
(annual closing of accounts of Group I banks)

(thousand BGL)

	Current year	Previous year
Revenue from interest and other related revenue	335 758 088	631 377 972
Expenditure on interest and other related expenditure	92 019 404	445 728 078
REVENUE FROM INTEREST, NET	**243 738 684**	**185 649 894**
Net income/loss from fees and commissions	63 903 981	36 091 520
Net income/loss from operations in securities in trading portfolio	-180 541 103	-27 817 638
Net income/loss from valuation adjustments of forex operations	-23 955 481	1 249 397 905
Other income	33 231 871	242 726 820
NET REVENUE FROM OTHER BANKING OPERATIONS, TOTAL	**-107 360 732**	**1 500 398 607**
Operating expenditure	-241 955 764	-185 103 231
Decrease/(increase) of provisions	329 605 026	-944 434 196
Expenditure on revaluation of long-term assets and investment	-63 831 740	0
OPERATING EXPENSES, TOTAL	**23 817 520**	**-1 129 537 427**
PRE-TAX PROFIT/(LOSS) AND EXTRAORDINARY INCOME/(EXPENDITURE)	**160 195 472**	**556 511 074**
Extraordinary income/(expenditure)	12 715 734	3 275 421
PRE-TAX PROFIT/(LOSS) AND AFTER EXTRAORDINARY REVENUE/(EXPENDITURE)	**172 911 206**	**559 786 495**
Taxation	64 961 737	182 259 107
POST-TAX PROFIT/(LOSS)	**107 949 469**	**377 527 388**
Minority participation	0	0
DISTRIBUTABLE PROFIT/(LOSS)	**107 949 469**	**377 527 388**
Dividends	0	0
RETAINED EARNINGS FOR THE YEAR	**107 949 469**	**377 527 388**

Source: BNB.

CONSOLIDATED INCOME STATEMENT OF COMMERCIAL BANKS
(annual closing of accounts of Ggroup II banks)

(thousand BGL)

	Current year	Previous year
Revenue from interest and other related revenue	93 407 906	110 251 408
Expenditure on interest and other related expenditure	36 829 695	83 627 971
REVENUE FROM INTEREST, NET	**56 578 211**	**26 623 437**
Net income/loss from fees and commissions	24 352 151	17 446 587
Net income/loss from operations in securities in trading portfolio	19 970 682	21 846 877
Net income/loss from valuation adjustments of forex operations	-917 541	92 450 600
Other income	15 038 613	4 419 613
NET REVENUE FROM OTHER BANKING OPERATIONS, TOTAL	**58 443 905**	**136 163 677**
Operating expenditure	-90 007 708	-56 443 493
Decrease/(increase) of provisions	-1 375 628	-114 552 159
Expenditure on revaluation of long-term assets and investment	-8 796 808	-124 937
OPERATING EXPENSIS, TOTAL	**-100 180 144**	**-171 120 589**
PRE-TAX PROFIT/(LOSS) AND EXTRAORDINARY INCOME/(EXPENDITURE)	**14 841 972**	**-8 333 475**
Extraordinary income/(expenditure)	6 124 473	3 052 046
PRE-TAX PROFIT/(LOSS) AND AFTER EXTRAORDINARY REVENUE/(EXPENDITURE)	**20 966 445**	**-5 281 429**
Taxation	8 411 842	3 980 287
POST-TAX PROFIT/(LOSS)	**12 554 603**	**-9 261 716**
Minority participation	0	0
DISTRIBUTABLE PROFIT/(LOSS)	**12 554 603**	**-9 261 716**
Dividends	875 698	0
RETAINED EARNINGS FOR THE YEAR	**11 678 905**	**-9 261 716**

Source: BNB.

CONSOLIDATED INCOME STATEMENT OF COMMERCIAL BANKS
(annual closing of accounts of Group III banks)

(thousand BGL)

	Current year	Previous year
Revenue from interest and other related revenue	40 012 681	34 963 771
Expenditure on interest and other related expenditure	14 873 246	17 787 025
REVENUE FROM INTEREST, NET	**25 139 435**	**17 176 746**
Net income/loss from fees and commissions	10 713 389	9 253 575
Net income/loss from operations in securities in trading portfolio	3 548 844	9 681 603
Net income/loss from valuation adjustments of forex operations	6 333 824	46 552 730
Other income	3 270 346	289 514
NET REVENUE FROM OTHER BANKING OPERATIONS, TOTAL	**23 866 403**	**65 777 422**
Operating expenditure	-42 642 663	-25 053 108
Decrease/(increase) of provisions	7 512 134	-47 914 523
Expenditure on revaluation of long-term assets and investment	-198 935	0
OPERATING EXPENSES, TOTAL	**-35 329 464**	**-72 967 631**
PRE-TAX PROFIT/(LOSS) AND EXTRAORDINARY INCOME/(EXPENDITURE)	**13 676 374**	**9 986 533**
Extraordinary income/(expenditure)	-1 108 905	442 397
PRE-TAX PROFIT/(LOSS) AND AFTER EXTRAORDINARY REVENUE/(EXPENDITURE)	**12 567 469**	**10 428 930**
Taxation	4 011 907	12 700 567
POST-TAX PROFIT/(LOSS)	**8 555 562**	**374 512**
Minority participation	0	0
DISTRIBUTABLE PROFIT/(LOSS)	**8 555 562**	**374 512**
Dividends	0	0
RETAINED EARNINGS FOR THE YEAR	**8 555 562**	**374 512**

Source: BNB.

CAPITAL ADEQUACY OF COMMERCIAL BANKS AS OF 31 DECEMBER 1998

GROUP I (MAJOR BANKS)

Indicators	31 December 1998
Capital base [thousand BGL]	731 056 780
Primary capital [thousand BGL]	568 300 009
Assets, total [thousand BGL]	5 521 351 366
Total risk component [thousand BGL]	1 791 844 791
Total capital adequacy (1000/5100) [%]	41
Primary capital adequacy (1100/5100) [%]	32
Degree of asset risk (5100/5000) [%]	32
Degree of asset coverage (1000/5000) [%]	13

GROUP II (SMALL AND MEDIUM-SIZED BANKS)

Indicators	31 December 1998
Capital base [thousand BGL]	243 861 764
Primary capital [thousand BGL]	205 929 057
Assets, total [thousand BGL]	1 481 158 767
Total risk component [thousand BGL]	741 883 458
Total capital adequacy (1000/5100) [%]	33
Primary capital adequacy (1100/5100) [%]	28
Degree of asset risk (5100/5000) [%]	50
Degree of asset coverage (1000/5000) [%]	16

GROUP III (FOREIGN BANKS AND BRANCHES OF FOREIGN BANKS)

Indicators	31 December 1998
Capital base [thousand BGL]	68 004 935
Primary capital [thousand BGL]	55 166 257
Assets, total [thousand BGL]	580 414 244
Total risk component [thousand BGL]	263 243 416
Total capital adequacy (1000/5100) [%]	26
Primary capital adequacy (1100/5100) [%]	21
Degree of asset risk (5100/5000) [%]	45
Degree of asset coverage (1000/5000) [%]	12

BANKING SYSTEM, TOTAL

Indicators	31 December 1998
Capital base [thousand BGL]	1 042 923 479
Primary capital [thousand BGL]	829 395 323
Assets, total [thousand BGL]	7 582 924 377
Total risk component [thousand BGL]	2 796 971 665
Total capital adequacy (1000/5100) [%]	37
Primary capital adequacy (1100/5100) [%]	30
Degree of asset risk (5100/5000) [%]	37
Degree of asset coverage (1000/5000) [%]	14

Source: BNB.

CLASSIFICATION OF COMMERCIAL BANK RISK EXPOSURES AS OF 31 DECEMBER 1998, TOTAL
(under Regulation No. 9 of the BNB)

(thousand BGL)

Group		Carrying value in BGL	%	Carrying value in foreign currency	%	Carrying value, total	%
	Standard exposures	1 950 855 811	33.35	3 156 535 737	53.96	5 107 391 548	87.31
	Watch exposures	68 528 732	1.17	135 781 407	2.32	204 310 139	3.49
	Substandard exposures	24 402 163	0.42	106 394 917	1.82	130 797 080	2.24
	Doubtful exposures	25 282 626	0.43	12 098 586	0.21	37 381 212	0.64
	Loss	48 018 681	0.82	321 601 154	5.50	369 619 835	6.32
TOTAL FOR THE SYSTEM		**2 117 088 013**	**36.19**	**3 732 411 801**	**63.81**	**5 849 499 814**	**100.00**
Group I	Standard exposures	1 509 799 867	36.99	2 064 339 615	50.58	3 574 139 482	87.57
	Watch exposures	39 565 882	0.97	65 635 128	1.61	105 201 010	2.58
	Substandard exposures	19 815 669	0.49	26 424 057	0.65	46 239 726	1.13
	Doubtful exposures	14 403 955	0.35	1 040 346	0.03	15 444 301	0.38
	Loss	41 932 381	1.03	298 689 703	7.32	340 622 084	8.35
Group I, total		**1 625 517 754**	**39.83**	**2 456 128 849**	**60.17**	**4 081 646 603**	**100.00**
Group II	Standard exposures	303 839 587	31.02	513 942 054	52.48	817 781 641	83.5
	Watch exposures	28 168 553	2.88	52 700 321	5.38	80 868 874	8.26
	Substandard exposures	1 822 179	0.19	34 969 993	3.57	36 792 172	3.76
	Doubtful exposures	10 857 552	1.11	9 320 010	0.95	20 177 562	2.06
	Loss	5 987 437	0.61	17 785 601	1.82	23 773 038	2.43
Group II, total		**350 675 308**	**35.81**	**628 717 979**	**64.19**	**979 393 287**	**100.00**
Group III	Standard exposures	137 216 357	17.4	578 254 068	73.34	715 470 425	90.74
	Watch exposures	794 297	0.10	17 445 958	2.21	18 240 255	2.31
	Substandard exposures	2 764 315	0.35	45 000 867	5.71	47 765 182	6.06
	Doubtful exposures	21 119	0.00	1 738 230	0.22	1 759 349	0.22
	Loss	98 863	0.01	5 125 850	0.65	5 224 713	0.66
Group III, total		**140 894 951**	**17.87**	**647 564 973**	**82.13**	**788 459 924**	**100.00**

Source: BNB.

CLASSIFICATION OF COMMERCIAL BANK RISK EXPOSURES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

(thousand BGL)

Group		Carrying value in BGL	%	Carrying value in foreign currency	%	Carrying value, total	%
	Standard exposures	108 396 649	4.44	2 237 411 358	91.57	2 345 808 007	96.00
	Watch exposures	1 481 296	0.06	20 442 053	0.84	21 923 349	0.90
	Substandard exposures		0.00	29 249 389	1.20	29 249 389	1.20
	Doubtful exposures		0.00	5 303 487	0.22	5 303 487	0.22
	Loss	2 371 690	0.10	38 802 618	1.59	41 174 308	1.69
TOTAL FOR THE SYSTEM	**Claims on banks and other financial institutions**	**112 249 635**	**4.59**	**2 331 208 905**	**95.41**	**2 443 458 540**	**10.00**
Group I	Standard exposures	67 257 561	3.71	1 693 937 956	93.56	1 761 195 517	97.28
	Watch exposures	1 480 000	0.08	8 496 399	0.47	9 976 399	0.55
	Substandard exposures		0.00	1 675 100	0.09	1 675 100	0.09
	Doubtful exposures		0.00		0.00		0.00
	Loss	2 129 834	0.12	35 488 723	1.96	37 618 557	2.08
Group I, total	**Claims on banks and other financial institutions**	**70 867 395**	**3.91**	**1 739 598 178**	**96.09**	**1 810 465 573**	**100.00**
Group II	Standard exposures	27 416 693	9.48	213 485 297	73.8	240 901 990	83.28
	Watch exposures		0.00	11 943 044	4.13	11 943 044	4.13
	Substandard exposures		0.00	27 574 289	9.53	27 574 289	9.53
	Doubtful exposures		0.00	5 303 487	1.83	5 303 487	1.83
	Loss	241 856	0.08	3 313 895	1.15	3 555 751	1.23
Group II, total	**Claims on banks and other financial institutions**	**27 658 549**	**9.56**	**261 620 012**	**90.44**	**289 278 561**	**100.00**
Group III	Standard exposures	13 722 395	3.99	329 988 105	96.01	343 710 500	100.00
	Watch exposures	1 296	0.00	2 610	0.00	3 906	0.00
	Substandard exposures		0.00		0.00		0.00
	Doubtful exposures		0.00		0.00		0.00
	Loss		0.00		0.00		0.00
Group III, total	**Claims on banks and other financial institutions**	**13 723 691**	**3.99**	**329 990 715**	**96.01**	**343 714 406**	**100.00**

Source: BNB.

CLASSIFICATION OF COMMERCIAL BANK RISK EXPOSURES TO NONFINANCIAL INSTITUTIONS AND OTHER CLIENTS

(thousand BGL)

Group		Carrying value in BGL	%	Carrying value in foreign currency	%	Carrying value, total	%
	Standard exposures	855 569 241	47.15	396 875 821	21.87	1 252 445 062	69.02
	Watch exposures	67 017 121	3.69	115 329 438	6.36	182 346 559	10.05
	Substandard exposures	24 402 163	1.34	77 145 528	4.25	101 547 691	5.60
	Doubtful exposures	25 277 467	1.39	5 293 857	0.29	30 571 324	1.68
	Loss	36 242 999	2.00	211 375 103	11.65	247 618 102	13.65
TOTAL FOR THE SYSTEM	**Claims on nonfinancial institutions and other clients**	**1 008 508 991**	**55.58**	**806 019 747**	**44.42**	**1 814 528 738**	**100.00**
Group I	Standard exposures	581 527 603	57.09	57 706 396	5.67	639 233 999	62.76
	Watch exposures	38 076 732	3.74	57 138 729	5.61	95 215 461	9.35
	Substandard exposures	19 815 669	1.95	24 748 957	2.43	44 564 626	4.38
	Doubtful exposures	14 399 695	1.41	1 040 346	0.10	15 440 041	1.52
	Loss	31 803 200	3.12	192 269 121	18.88	224 072 321	22.00
Group I, total	**Claims on nonfinancial institutions and other clients**	**685 622 899**	**67.32**	**332 903 549**	**32.68**	**1 018 526 448**	**100.00**
Group II	Standard exposures	186 021 394	41.8	149 028 538	33.48	335 049 932	75.28
	Watch exposures	28 147 599	6.32	40 748 296	9.16	68 895 895	15.48
	Substandard exposures	1 822 179	0.41	7 395 704	1.66	9 217 883	2.07
	Doubtful exposures	10 856 653	2.44	2 515 281	0.57	13 371 934	3.00
	Loss	4 340 936	0.98	14 200 715	3.19	18 541 651	4.17
Group II, total	**Claims on nonfinancial institutions and other clients**	**231 188 761**	**51.94**	**213 888 534**	**48.06**	**445 077 295**	**100.00**
Group III	Standard exposures	88 020 244	25.08	190 140 887	54.18	278 161 131	79.27
	Watch exposures	792 790	0.23	17 442 413	4.97	18 235 203	5.20
	Substandard exposures	2 764 315	0.79	45 000 867	12.82	47 765 182	13.61
	Doubtful exposures	21 119	0.01	1 738 230	0.50	1 759 349	0.50
	Loss	98 863	0.03	4 905 267	1.40	5 004 130	1.43
Group III, total	**Claims on nonfinancial institutions and other clients**	**91 697 331**	**26.13**	**259 227 664**	**73.87**	**350 924 995**	**100.00**

Source: BNB.

Major Resolutions of the Managing Board of the BNB in 1998

29 January As of 9 February 1998 the BNB put into circulation a silver commemorative coin EURO (small) 'St. Sofia Church', issue 1998.

Following a public tender KPMG was selected to audit and verify BNB financial and accounting reports in compliance with International Accounting Standards for the 1997, 1998 and 1999 financial years.

10 February As of 13 February 1998 the BNB put into circulation a Cuprum-Nickel commemorative coin '100 Years Bulgarian Telegraph Agency', issue 1998.

19 February As of 27 February 1998 the BNB put into circulation a silver coin commemorating the 120th anniversary of Bulgaria's Liberation from the Ottoman Rule with a nominal value BGL 10,000, issue 1998.

Regulation No. 21 on the minimum required reserves maintained with the Bulgarian National Bank by banks was adopted.

Regulation No. 6 on extending collateralized lev loans to banks was adopted.

19 March As of 30 March 1998 the BNB put into circulation a banknote of BGL 1,000 nominal value, issue 1997, to be used as legal tender. The banknote is printed in BNB Printing Works.

31 March Pursuant to Article 4, para. 2 of Regulation No. 5 of 1996 and letter No. 17-00-0362 of 27 March 1998 of the Minister of Finance, government securities primary dealers for the period 1 April – 31 December 1998 were approved as follows:

I. For the period 1 April – 30 June 1998
State Insurance Institute
Eurobank
Raiffeisenbank
Societe Generale

II. For the period 1 April – 31 December 1998
Biochim
Bulbank
Bulgaria-Invest
Bulgarian-Russian Investment Bank
Bulgarian Post Bank
Expressbank
First Investment Bank
Hebros
ING Bank
International Bank for Trade and Development
Metropolitan Municipal Bank
State Savings Bank
United Bulgarian Bank
Financial House 'Eurofinance'
Financial House 'Elana'

30 April The following commercial banks were selected, subject to approval by the Ministry of Finance, as correspondents on the cash basis reporting of the government budget until the end of 1998: Biochim, Bulgarian Post Bank, Bulgarian-Russian Investment Bank, Bulgaria-Invest, Bulbank, State Savings Bank, Expressbank, United Bulgarian

Bank, Municipal Bank, First Investment Bank, Hebros Bank. Pursuant to para. 2 of the Transitional and Final Provisions of the State Budget Law for 1998, they meet the adopted system of Criteria on Selection of Banks.

2 July Regulation No. 5 of 1998 on the terms and procedure for issuance, acquisition and redemption of book-entry government securities was adopted.

16 July Regulation No. 22 on the Central Credit Register of banks was adopted.

24 September Amendments to Regulation No. 6 on extending collateralized lev loans to banks were adopted.

Amendments to Regulation No. 21 on the minimum required reserves maintained with the Bulgarian National Bank by banks were adopted.

1 October On 15 October 1998 the Bulgarian National Bank put into circulation a silver commemorative coin EURO 'Rhyton', issue 1998, and a gold commemorative coin 'The Tetraevangelia of Ivan Alexander', issue 1998.

As of 1 November 1998, the following commercial banks were excluded from BISERA: Businessbank AD – insolvent; Bobovdol Commercial Bank – in liquidation; Kristalbank AD – insolvent; Dobrudzha Commercial Bank – insolvent; Bank for Agricultural Credit – insolvent; International Bank for Investments and Development – insolvent; Balkanbank – insolvent; Trade and Savings Bank – insolvent; Mineralbank – insolvent; Bulgarian Agricultural and Industrial Bank – in liquidation; Agrobusinessbank – insolvent; Private Agricultural and Investment Bank – insolvent; Economic Bank – insolvent; First Private Bank – insolvent.

3 December A new BNB branch was opened in Vratza.

3 and 29 December 1. The exchange rate of the Euro to the Bulgarian lev was to be announced on 31 December 1998 according to Article 29, para. 2 of the Law on the BNB. The exchange rate of the Euro to the Bulgarian lev was to be determined by multiplying the exchange rate of the Deutschemark to the lev (BGL 1,000 per DEM 1) by the official exchange rate at which the Deutschemark had been converted to the Euro according to the following formula:

1 EUR = X.XXXXX DEM . 1,000 = XXXX.XX BGL.

The exchange rate determined according to this formula was to be approved by a resolution of the Managing Board of the BNB to be published in the first 1999 issue of the State Gazette. The exchange rate of the Deutschemark to the Euro announced by the European Central Bank (ECB) was to be used.

2.1. The BNB determined convertible to the lev:

– the Euro and all currencies included in the Euro: Austrian schilling, Belgium franc, Deutschemark, Irish punt, Spanish peseta, Italian lira, Portuguese escudo, French franc, Finnish mark, Dutch guilder;

– the currencies for which the European Central Bank sets reference rates: US dollar, Japanese yen, Greek drachma, Danish kroner, Swedish kronor, British pound, Norwegian kroner, Czech koruna, Cyprus lira, Estonian kroon, Hungarian forint, Polish zloty, Slovenian tolar, Swiss franc, Canadian dollar, Australian dollar, New Zealand dollar;

– Turkish lira.

2.2. The lev exchange rates to ECB reference currencies were to be computed on the basis of ECB quotations announced at 14.15 central European time in the ECBO5 Reuters page. The official rates of these currencies to the lev were to be set by dividing the lev equivalent to the Euro by the equivalents of these currencies to the Euro according to the formula:

the rate of the convertible currency to the lev = the exchange rate of the Euro to the lev/the rate of the convertible currency to the Euro. The fixed rates of the

currencies included in the European Monetary Union (EMU) adopt ECB standards and are expressed in six digits. Exchange rates of currencies not included in the EMU will be rounded to the fourth digit after the decimal point.

2.3. The BNB was to use direct quotation in setting the GBP exchange rate, i.e. the Euro was the base currency and the equivalent of British pounds per one Euro was to be computed.

2.4. The BNB was to use the Reuters CBTA page (quotations are announced at 15.00 local time every day) to compute the exchange rate of the Turkish lira.

3. In addition to exchange rates of convertible currencies under item 2 of this Resolution, the BNB was to daily set and publish the exchange rate of monetary gold according to the following formula:

(the exchange rate of monetary gold in Euro) x (the exchange rate of the Euro to the Bulgarian lev).

To compute the exchange rate of gold, the BNB was to use Rothschilds NMRB page in Reuters which is published at 13.00 local time.

4. Exchange rates of the currencies under item 2 and monetary gold under item 3 of this Resolution were to be published in Reuters and BNB Internet pages by 16.00 (local time) on each business day, as well as in mass media. The exchange rates were to be valid for the current business day. If no new exchange rate was announced by the BNB by 16.00, the exchange rate of the previous day was to be deemed valid.

5. The BNB was to set bid rates of the Euro and the Deutschemark equivalent to the fixed exchange rate of the lev and offer rates of the Euro and the currencies included in it equal to the bid rates less 0.5%.

6. For currencies, for which the BNB does not set exchange rates, the Bank recommended to refer to the latest reference exchange rate of the respective currency published in the Financial Times.

31 December Pursuant to Article 29, para. 2 of the Law on the BNB, the Managing Board of the BNB decided: the official exchange rate of the lev to the Euro to be BGL 1,955.83 per one Euro, effective as of 1 January 1999.